Office of the Budget
MINISTRY of FINANCE

Financial Accountability Officer – Progress Summary

April 12, 2018

Latest Updates

- April 11, 2018: Peter Weltman announced as the new Financial Accountability Officer starting May 7, 2018 for a 5 year term.
- April 13, 2018: FAO announced they would release their report on the Ontario-Quebec Electricity Trade Agreement on Wednesday, April 18.

Status on Information Requests

FAO Information Requests – Pending OPS Response				
Date Received	**Information Request**	**Ministry**	**Due Date**	**Notes**
N/A (There are currently no pending responses)				

Responded FAO Information Requests – Pending Next Steps				
Date Received	**Information Request**	**Ministry**	**Date Responded**	**Notes**
March 5, 2018	Spring 2018 Economic and Budget Outlook (EFO – Spring 2018)	TBS, MOF	Tranche #1: Provided March 16, 2018 Tranche #2: Provided March 28, 2018 2018 Budget Follow-up #1: Provided April 6, 2018 2018 Budget Follow-up #2 Provided April 11, 2018	The FAO is requesting information to support its bi-annual Economic and Budget Outlook (previously Economic and Fiscal Outlook). It also requested information relating to tax and spending measures within two days following the release of the 2018 Budget.
Original: September 14, 2017 Follow-up #1 March 2, 2018	Assessing the Fiscal Impact of OLGC's Sale of the GTA Gaming Bundle (FA1714-02)	OLGC, MOF	March 23, 2018	This is a follow-up information request from September 2017.

Responded FAO Information Requests – Pending Next Steps				
Date Received	**Information Request**	**Ministry**	**Date Responded**	**Notes**
November 22, 2017	Cap and Trade Update (FA1716-01)	MOECC	December 22, 2017	FAO request ongoing
October 25, 2017	Assessing the Fiscal Impact of the Ontario Child Care Expansion Plan (FA1704-01)	EDU	December 20, 2017	FAO request ongoing
Original: August 24, 2016 Follow-up #1: February 23, 2017 Follow-up #2: June 5, 2017	Business Support Programs (FA1613)	TBS, MOF, MAESD, MEDG, MRIS, MIRR, MIT, MNDM, MNFR, MTCS, OMAFRA	Original: Sept 2, 2016 Follow-up #1: March 17, 2017 Follow-up #2: June 23, 2017 Follow-up #3: October 11, 2017	FAO request ongoing
August 30, 2017	Analysis of the Ontario-Quebec Electricity Trade Agreement (FA1713-01)	ENERGY/IESO	September 15, 2017	Expected to be released April 18, 2018
March 17, 2017	Ontario's Correctional Service System (FA1707)	MCSCS	March 31, 2017	FAO request on hold
April 6, 2016	Market Value of Provincial Assets (FA1508)	EDU, MEDEI, METROLINX, MGCS, MNDM, MOF, MOHLTC, MTO, TCU	August 3, 2016	FAO request on hold
March 15, 2017	Ontario Personal Tax Expenditure (FA1608)	MOF	No response date set	FAO request on hold
March 10, 2017	Provincial Highways Cost Analysis (FA1701)	MTO	No response date set	FAO request on hold

Status on Completed Publications

- To date, the FAO has completed and released **13 Formal Reports**, including:
    1. Ontario Health Sector – An Updated Assessment of Ontario Health Spending (March 2018); ✓
    2. Updated Financial Analysis of the Partial Sale of Hydro One (February 2018);✓
    3. Economic and Fiscal Outlook – Assessing Ontario's Medium-term Prospects (December 2017); ✓

✓ Denotes an FAO publication preceded by a formal information request to the OPS

4. An Assessment of the Financial Risks of the Nuclear Refurbishment Plan (November 2017); ✓
5. Long Term Budget Outlook – Fiscal Implications of the Coming Demographic and Economic Changes in Ontario (October 2017);
6. Economic and Fiscal Outlook – Assessing Ontario's Medium-term Prospects (based on the 2017 Budget) (May 2017);
7. Fair Hydro Plan (May 2017); ✓
8. Health Care Sector Expense Trends (January 2017); ✓
9. Impact of Cap and Trade on Government's Finances (November 2016); ✓
10. Economic and Fiscal Outlook – Assessing Ontario's Medium-term Prospects (based on the 2016 budget) (November 2016);
11. Economic and Fiscal Outlook – Assessing Ontario's Medium-term Prospects (based on the 2016 Budget) (May 2016);
12. An Assessment of the Financial Impact of the Partial Sale of Hydro One (October 2015); and, ✓
13. An Assessment of Ontario's Medium-term Economic and Fiscal Outlook (based on the 2015 Budget) (October 2015)

- **20 Commentaries** on various topics, including:
  1. Ontario Records Strong Labour Market Performance in 2017 (February 2018)
  2. Assessing Ontario Households' Debt Burden and Financial Vulnerability (January 2018);
  3. Assessing the Economic Impact of Ontario's Proposed Minimum Wage Increase (September 2017); ✓
  4. Ontario's Debt Reduction Commitment Based on Unlikely Assumptions (September 2017); ✓
  5. Optimistic Revenue Projection Underpins Government's Balanced Budget Plan (August 2017);
  6. The Impact of a Housing Market Correction on Ontario's Fiscal Position (February 2017);
  7. Ontario Posts Solid 2016 Job Gains as the Labour Market Continues to Evolve (January 2017);
  8. Understanding Provincial Cash Flows (January 2017);
  9. Assessing Ontario's Fiscal Outlook (November 2016);
  10. Home Energy Spending in Ontario: Regional and Income Distribution Perspectives (September 2016);
  11. Funding of Postsecondary Education in Ontario (September 2016);
  12. Credit Rating Agencies Satisfied with Ontario's Progress to Fiscal Balance (August 2016);
  13. Home Energy Costs in Ontario (August 2016);
  14. Ontario's Provincial Debt (July 2016);
  15. Comparing Ontario's Fiscal Performance to other Provinces (June 2016);
  16. Ontario Business Investments (May 2016);
  17. Assessing Budget 2016's Fiscal Plan (March 2016);
  18. Ontario Export Performance (February 2016);
  19. Ontario Economic Growth (January 2016); and,
  20. Ontario Labour Market Performance (January 2016)

- And **3 Backgrounders**:
  1. Ontario Service Fees 2017-18; ✓
  2. Credit Rating Agencies Satisfied with Ontario's Progress to Fiscal Balance (August 2016); and
  3. Ontario Service Fees in 2016-17 (June 2016) ✓

✓ Denotes an FAO publication preceded by a formal information request to the OPS

Status on Administrative Publications

- The FAO is mandated to report annually on the work of his or her office to the Speaker of the Assembly. To date, the FAO has released **2 Annual Reports**:
    1. 2016-17 Annual Report (July, 2017); and,
    2. 2015-16 Annual Report (July 2016)

✓ Denotes an FAO publication preceded by a formal information request to the OPS

Completed Reports – Summary		
Report	**Scope**	**Key Findings**
An Updated Assessment of Ontario Health Spending *Released March 14, 2018*	The following key questions were used as a guide while undertaking research for this report: • How will the additional $7 billion investment in health sector expense affect health sector program area growth rate? ○ What are the medium-term growth rates of health sector expense by program area? ○ What program changes will result in the increased funding? ○ How has the Canada Health Transfer affect health sector funding? ○ How do the planning program changes resulting from the increased funding compared to the FAO's projections of long-term health spending drivers?	<u>New Health Spending in the 2017 Budget</u> • In the 2017 Ontario Budget, the Province announced $6.9 billion in new funding for the health sector for 2017-18, 2018-19 and 2019-20. ○ $5.7 billion of this new funding will be allocated to increase spending on health care services, while the remaining $1.2 billion reflects an accounting adjustment to the Healthcare of Ontario Pension Plan, and does not involve any additional cash spending ○ Based on the FAO's review of the $5.7 billion in new health services spending, $4.2 billion is additional funding for existing programs, while $1.5 billion is funding for new programs (mainly the introduction of OHIP+) <u>Health care Cost Drivers and Health Sector Spending</u> • Population growth, ageing and price inflation are three core drivers of health care costs. ○ From 2011-12 to 2016-17 health sector spending growth was consistently slower than the growth in its core cost drivers. ○ Even with the additional health care funding in the 2017 budget, health sector spending is only projected to out-pace the growth of health care cost drivers in a single year – 2018-19. • Since 2012, the Province has restrained the growth of health sector spending by imposing a four-year freeze in base operating funding to hospitals, increasing hospital efficiency, and restraining wage growth in the health sector. ○ Going forward, it is not clear to what extent the Province can continue to reply on temporary measures to limit health sector spending growth to below the growth in its core cost drivers. ○ Unless the Province can continue to find significant efficiencies, there is a risk that additional spending will be required to avoid reductions in health care access or quality in the coming years. <u>Federal Support for Ontario Health Spending</u> • In 2017-18, the Canada Health Transfer funding formula was changed, reducing the growth of federal health transfers going forward. • The revenue from the federal health transfers will

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<tr><td></td><td></td><td>continue to grow faster than Ontario's planned health sector spending, with the result that federal transfers will continue to fund an increasing share of the Province's health sector spending from 2017-18 and 2019-20</td></tr>
<tr><td>Updated Financial Analysis of the Partial Sale of Hydro One

Released February 12, 2018</td><td>This report is a follow up to the FAO's previous report called, An Assessment of the Financial Impact of the Partial Sale of Hydro One. This report:
Provides an updated estimate of the fiscal impact of the sale, analyze how much capital the Province raised, and how the sale proceeds are being allocated;
Outlines how changes in Hydro One resulting from the initial public offering could affect electricity ratepayers in Ontario; and,
Reviews key considerations surrounding Hydro One's proposed purchase of Arista Corporation.</td><td><u>Fiscal Impact of Sale</u>
As a result of the partial sale of Hydro One, the FAO estimates that the Province's annual surplus / (deficit) will improve by $3.8 billion over the fiscal years 2015-16 to 2017-18; deteriorate by $1.1 billion in 2018-19; and is forecasted to deteriorate by an average of $264 million each year from 2019-20 to 2024-25.
<u>Alternative Debt Financing for Infrastructure Projects</u>
The FAO developed an alternative financing scenario in which the Province issues traditional debt to fund an identical amount of infrastructure investment, rather than selling 53 per cent of Hydro One. Starting in 2028-29 and extending over the long-term, the FAO estimates that Provincial net debt will be higher as a result of the partial sale of Hydro One, when compared to the alternative financing scenario.
In addition, the FAO estimates that the partial sale of Hydro One will cost the Province $1.8 billion on a discounted cash flow basis, when compared to the alternative of financing an equivalent amount of infrastructure investment by issuing provincial debt.
<u>Sale Proceeds and Allocations</u>
The Province generated a total of $9.2 billion in sale proceeds from the 53 per cent sale of Hydro One, which consists of $6.8 billion in cash and $2.4 billion in non-cash proceeds. The $9.2 billion in sale proceeds will be allocated to the Ontario Electricity Financial Corporation (OEFC) ($4.6 billion) and the Trillium Trust ($4.6 billion).
<u>Effect of the Sale on Ratepayers</u>
The FAO identified three main areas where ratepayers may be affected as a result of the partial sale of Hydro One, including 1) The allocation of the $2.8 billion deferred tax asset benefit between Hydro One shareholders and ratepayers; 2) Hydro One achieving operating efficiencies; and 3) Changes to Hydro One's long-term financing costs.
<u>Hydro One's Purchase of Arista</u>
Following Hydro One's acquisition of Arista, the FAO estimates that the Province's ownership share in Hydro</td></tr>
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		One will decline by 5 percentage points (from 47 per cent to 42 per cent) and the Province's annual surplus / (deficit) will deteriorate by about $5 million in 2019-20. • Going forward, the impact to the Province's annual surplus / (deficit) may improve, depending on the future profitability of Arista.
Fall 2017 Economic and Fiscal Outlook *Released December 11, 2017*	<u>The report is divided into two main chapters:</u> **1)** The **Economic Outlook** chapter presents the FAO forecasts for Ontario's economy out to 2021, and includes a discussion on the drivers of future growth; and **2)** The **Fiscal Outlook** chapter presents the FAO forecast for revenue, expense and the surplus/deficit between 2017-18 and 2021-22.	<u>Economic Outlook</u> • The FAO has **raised its forecast for Ontario economic growth in 2017** from its spring outlook report. However, despite this upward revision, the FAO forecast is at the bottom of the current range of the MOF survey of private sector forecasts for both real and nominal GDP growth in 2017. • Beyond 2017, the FAO forecast anticipates growth to moderate as the housing market and consumer spending cool alongside gradually rising interest rates, in line with the FES forecast. • Over the 2017 to 2020 period**, the FAO's forecast for average annual real GDP growth of 2.2 per cent** is the same as the 2017 FES outlook**.** • However, for nominal GDP growth, the FAO's **average annual forecast of 4.2 per cent over the 2017 to 2020** period is slower than the FES projection of 4.4 per cent growth. <u>Fiscal Outlook</u> • The FAO is projecting a budget deficit of $4.0 billion in 2017–18 using the **Auditor General's recommended accounting treatment for both the Fair Hydro Plan and the net pension assets of jointly sponsored pension plans.** In the absence of any fiscal policy changes the deficit grows steadily to $9.8 billion in 2021-22. • Under the **government's accounting presentation (excluding the AG's recommendations)**, the FAO projects a small surplus for 2017–18 of $0.2 billion (excluding the reserve) and a return to deficits beyond 2017–18 driven by revenue factors - loss of temporary revenues combined with more moderate tax revenue growth. • The FAO is projecting **average annual revenue growth of 3.2 per cent from 2016-17 to 2019-20** as compared with the government's projections of 4.0 per cent. • The FAO notes that in 2018-19 and 2019-20, increases in **program spending will be restrained to an average of 2.4 percent**, below the growth in underlying spending pressures. Beyond 2019–20 the FAO projects program spending will grow faster -- at an average annual rate of 4.2 per cent – due to population

		pressures. • Using the **government's accounting presentation** net debt-to-GDP is expected to reach 38.5 per cent by 2019–20 and 38.7 per cent by 2021–22. This increases to 41.4 per cent by 2021–22 **under the AG's accounting presentation for jointly sponsored pension plans and the Fair Hydro Plan**.
Financial Risks of the Nuclear Refurbishment Plan *Released November 21, 2017*	• The report reviews how the Nuclear Refurbishment Plan will impact ratepayers and the Province and identifies how financial risk is allocated among ratepayers, the Province, OPG and Bruce Power.	<u>Ratepayer Impact of the Nuclear Refurbishment Plan</u> The FAO report concludes that the Nuclear Refurbishment Plan will increase the average Nuclear Price paid by ratepayers during the refurbishment from 2016 to 2033 but would then decrease to below average price after refurbishment is complete. The report highlights that ratepayers will benefit from: • 50% of any refurbishment cost savings made by Bruce Power • 100% of any refurbishment costs savings made by OPG The FAO also notes in its analysis that there is currently no portfolio of alternative low-emissions electricity generation at a comparable price to the Nuclear Refurbishment Plan. <u>Provincial Impact of the Nuclear Refurbishment Plan</u> The report highlights that OPG's income or loss from nuclear generation will be reflected in the Province's fiscal position through its direct ownership and operation of Darlington and Pickering Nuclear Generating Stations (DNGS and PNGS). The report notes that there is will be no significant fiscal impact to the Province from the refurbishment of reactors at the Bruce Nuclear Generating Station as it is operated by Bruce Power, a private sector organization. <u>Allocating Financial Risk</u> The FAO identified four factors to the Nuclear Refurbishment Plan that present financial risks to ratepayers, the Province and Bruce Power, including: 1) Risk of higher or lower Refurbishment costs; 2) Risk of station operation cost being higher or lower than planned; 3) Electricity grid demand risk; and, 4) Opportunity Cost of alterative low cost grid-scale generating options.

Long-Term Budget Outlook *Released October 19, 2017*	• This report describes projections of Ontario's fiscal position to 2050 that reveals substantial long-term budgetary challenges for the Province. • This report assesses the budget implications of maintaining Ontario's current fiscal structure (including program spending and tax system) through this period of demographic transition. • The FAO's first report on the long-term budget outlook attempts to lay out the basic framework and approach, while identifying a range of issues that could be explored in future reports.	• Ontario's population will grow more slowly than in the past, and Ontarians aged sixty-five and over will comprise a much larger share of the population. As they continue to age, they will require more resources from Ontario's health care system, **increasing pressure on government spending.** • If current trends in fiscal policies continue, these demographic changes will combine to lower tax revenue growth and raise spending, leading to large and **raising budget deficits.** • According to the FAO, these budget deficits would lead to **higher provincial debt**. Ontario's net debt-to-GDP ratio would rise to 63 per cent by 2050-51, significantly above today's ratio of around 40 per cent. • The FAO's projection for Ontario's fiscal position to 2050 reveals **substantial long-term budgetary challenges** facing the Province as illustrated by their projections for Ontario's net debt-to-GDP, which increases unless the government takes strong fiscal adjustments (i.e., posts surpluses for the next 15 years). • The Ontario government has committed to lowering the Province's net debt-to-GDP ratio to 27 per cent by 2029-30. To achieve this target in the face of Ontario's coming demographic transition, the government would **need to permanently raise revenue or lower spending** by at least 0.75 per cent of GDP, beginning in 2018-19. This amounts to a \$6.5 billion fiscal adjustment in 2018-19. • An important conclusion of the FAO's long-term projection is that **simply balancing the Provincial budget will not be sufficient** to achieve a net debt-to-GDP ratio of 27 per cent by 2029-30. If the Province delays raising revenue or reducing spending, Ontario's net debt will continue to accumulate, making it costlier to meet the Province's future fiscal targets.

Completed Reports – Summary		
Report	**Scope**	**Key Findings**
Spring 2017 Economic and Fiscal Outlook *Released May 31, 2017*	<u>The report is divided into two main chapters:</u> **1)** The **Economic Outlook** chapter presents the FAO forecasts for Ontario's economy out to 2021, and includes a discussion of potential risks; and **2)** The **Fiscal Outlook** chapter presents the FAO forecast for revenue, expense and the surplus/deficit between 2016-17 and 2021-22	<u>Economic Outlook</u> • The FAO has left its forecast for Ontario real GDP growth little changed, on average, over the 2017 to 2020 period relative to its fall forecast, though it included a modest downward revision in 2017 and upward revision in 2019. • The FAO forecast is **broadly consistent with the private sector economists' view** that stronger international exports and business investment will be key drivers of Ontario's overall economic growth over the next several years. • The FAO believes the balance of the **risks to the economic outlook is tilted to the downside,** particularly risks associated with a correction in Ontario's housing market. <u>Fiscal Outlook</u> • **Using the government's accounting treatment of net pension assets** the FAO is projecting budget deficits of $2.8 billion in 2016–17, $0.5 billion in 2017–18, $2.2 billion in 2018–19, and $2.6 billion by 2019–20 (excluding the reserve). • The FAO suggests that a balanced budget is "within the government's reach in 2017–18" when using the government's accounting method, however "**staying in balance after 2017-18 will likely require additional fiscal policy measures".** • The FAO's forecast, **based on the Auditor General's recommended accounting treatment of jointly-sponsored pension plans**, projects deficits of $5.0 billion in 2016–17, $2.9 billion in 2017–18, $4.9 billion in 2018–19, and $5.5 billion by 2019–20 (excluding the reserve). • **Average annual growth in program expense of 3.3 per cent between 2016–17 and 2021–22** – slightly below the growth in underlying cost and demographic pressure, which is estimated to be 3.6 per cent on average. • According to the FAO, interest on debt is expected to increase from 8.1per cent of revenues in 2017–18 to 8.9 per cent by 2021–22

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<tr><th colspan="3">Completed Reports – Summary</th></tr>
<tr><th>Report</th><th>Scope</th><th>Key Findings</th></tr>
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<td>Fair Hydro Plan

Released May 24, 2017</td>
<td><u>The report was guided by the following questions:</u>
1) What is the fiscal impact of the FHP on the Province's long-term finances over 30 years?
2) What is the impact on electricity costs and electricity ratepayers over 30 years?
3) A review of the financing structure of the FHP, including the electricity cost (global adjustment) refinancing.</td>
<td>
The report provides a brief overview of the FHP, which includes the following initiatives:
Harmonized Sales Tax (HST) Rebate;
Electricity Cost Refinancing;
Adjusting Electricity Relief Programs.
The FAO estimates that the FHP will have a total net cost of $21B over a 29-year time period (2017-2045), based on the following:
Total cost to the Province of approximately $45B;
Net saving to eligible electricity ratepayers of $24B
The FAO states that if the Province funds the cost of the FHP through debt, the total cost to the taxpayer could increase to between $69B and $93B.
The FAO flagged risks related to the proposed accounting treatment of the electricity cost refinancing component that could result in additional costs to the Province of $26B between 2017-18 and 2027-28
The FAO projects that the FHP will result in a total net saving to ratepayers of $24B over 29 years.
The FAO is uncertain as to whether the creation and recording of the regulatory/investment asset, as proposed under the electricity cost refinancing initiative is consistent with PSAS.
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<td>Health Care Sector Expense Trends and Medium – Term Outlook Analysis:

Released January 10, 2017</td>
<td><u>The report will answer the following key questions:</u>
1) How does the Province plan to achieve the health sector medium-term expense outlook included in the 2015 Ontario Budget?
2) On what basis was the 2015 Ontario Budget's Health sector medium-term expense outlook calculated?
3) What plans are in place to achieve the projected health sector growth rate from 2016-16 to 2017-18?
4) What plans are in place to achieve the projected health sector growth rate from 2015-16 to 2017-18? What program changes were implemented?
5) How sustainable are the implemented and planned program changes? What is the expected health sector growth rate after 2017-18?</td>
<td>
If health care spending restrictions continue to 2018-19, the MOHLTC will have experienced seven (7) consecutive years of low growth, and the only time since 1997-98 that health sector spending increased by less than 2%.
The slower growth in spending for Hospitals and OHIP program areas account for nearly 73% of the change in overall health sector expense growth rate.
The FAO estimates a gap between the status quo and the expense targets of approximately $0.4B in 2016-17, $0.9B in 2017-18, and $1.5B in 2018-19.
The estimated expense gap means that program changes to date will be insufficient to meet the health sector expense targets from 2016-17 to 2018-19.
The FAO estimates that cost drivers will increase expense growth by 5.3% annually over the next five years
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Completed Reports – Summary		
Report	**Scope**	**Key Findings**

Impact of Cap and Trade on Government's Finances:
 	
Released 23 November 2016
	<u>The report will answer the following key questions:</u>
	1) How will cap and trade impact the Province's Finance?
	2) What is the impact of the cap and trade program on revenue?
	3) How much will be generated from the proceeds of cap and trade allowance auctions?
	4) What impact will cap and trade have on existing revenue sources (e.g., corporate income tax)?
	5) What expenses will the Province incur as a result of cap and trade?
	6) How much will cap and trade cost the government to administer and enforce?
	7) How is spending of cap and trade revenue going to be prioritized?
	8) How does the Province plan to measure the benefits of the spending?
	9) How much does the Province plan to spend to support GHG reduction, mitigate carbon leakage and support other goals of the program during the initial phase of the program?
		• The FAO report concludes that the cap and trade program will **likely have an impact on the Province's surplus/deficit position for a number of reasons,** primarily due to:
		  ○ Spending cap and trade proceeds on capital projects or already planned programs;
		  ○ Committing cap and trade proceeds to programs that are difficult to scale-down or stop; and,
		  ○ Not spending all of the cap and trade proceeds in the same year that they are received.
		• The report highlights that **the fiscal impact of cap and trade boils down to the province being able to match cap and trade revenues and associated expenses in any given year** and outlines various revenue and expense uncertainties that could lead to a fiscal impact.
		• Given the above uncertainty**, the FAO highlights that it cannot forecast with any precision the actual fiscal impact of the cap and trade program in any given year.**

Fall 2016 Economic and Fiscal Outlook *Released November 3, 2016*	<u>The report is divided into two main chapters:</u> **1)** The **Economic Outlook** chapter presents the FAO forecasts for Ontario's economy out to 2020, and includes a discussion of potential risks; and **2)** The **Fiscal Outlook** chapter presents the FAO forecasts for revenue, expense and the surplus/deficit between 2016-17 and 2020-21	• The FAO has **modestly revised down its forecast for Ontario real GDP growth**, on average, over the 2016 to 2020 period relative to its spring forecast. The nominal GDP growth forecast for 2016 and 2017 was revised down, but modest upward revisions were made to 2018-2020. • The FAO is currently projecting Ontario **budget deficits of $3.7 billion in 2016-17 and $1.1 billion in 2017-18** (excluding the reserve) • Beginning in 2018-19, the FAO projects that the **deficit will gradually deteriorate** as a result of increases in program spending and interest on debt payments that exceed revenue growth – similar to the spring report. • The FAO also projects **that program spending will increase by an average of 3.4% per year** between 2018-19 and 2020-21, which the FAO argues is in line with population growth and price inflation. • That FAO believes that "achieving and maintaining budget balance will likely require additional measures to raise revenue or reduce expense."

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<tr><th colspan="3">Completed Reports – Summary</th></tr>
<tr><th>Report</th><th>Scope</th><th>Key Findings</th></tr>
<tr><td>Spring 2016 Fiscal and Economic Outlook

Released May 18, 2016</td><td><u>Report addresses the following subjects:</u>
1) Economic Outlook
2) Ontario Fiscal Outlook
3) Ontario Debt Outlook</td><td>• The FAO expects Ontario's economy to outperform the rest of Canada in 2016, as Ontario's exports benefit from solid growth in the U.S. and a low Canadian dollar. Over the next several years, the FAO expects the Ontario economy to grow at a solid pace, supported by gains in international exports and business investment
• The FAO notes that a "balanced budget [is] achievable in 2017-18, but maintaining balance will be challenging", citing that the government has flexibility built into its fiscal projections and can use available policy options to achieve its fiscal targets
• The FAO forecasts deficits in each year between 2015-16 and 2020-21, excluding the reserve. Deficits improve from $5.7 billion in 2015-16 to $0.6 billion in 2017-18, and then begin to deteriorate in 2018-19, reaching $1.7 billion in 2020-21</td></tr>
<tr><td>Hydro One (H1):

Released October 29, 2015</td><td><u>Report addresses the following subjects:</u>
1) How much can the Province expect in proceeds from the partial sale of Hydro One?
2) What is the impact of the partial sale on the DRC?
3) What is the impact on the Province's budget balance (surplus/deficit)?</td><td>• The FAO estimates that the government will see an improvement in its budget balance in the first three years of sale under the high valuation scenario but only an improvement in the first year of sale under the low valuation scenario.
• It also estimates there would be a cumulative net debt reduction for the Province from the sale in both valuation scenarios; however, it indicates this effect will reverse in the low scenario by 2016-17 and in the high scenario by 2019-20 due to the foregone revenues.
• As long as the Province is in a deficit position, its net debt would eventually begin to increase as the forgone revenues including PILs, a reduced Hydro One net income, and elimination of the DRC begin to exceed the savings from lower interest on debt
• Since the FAO estimated the residual stranded debt is retired in 2015-16 and the DRC ends; therefore, the FAO report shows a fiscal plan revenue loss of $600M in each fiscal year from 2015-16 to 2018-19.
• As of September 2015, the FAO estimates the fair market value of Hydro One to be $10.6 - $15.1B, which excludes the estimated value of Hydro One Brampton of approximately $0.6B.
    o This would generate the Province approximately $6.4-9.1B in proceeds under a 60% sale.</td></tr>
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