Update on the Fiscal Outlook

Presentation to MMMP on September 28, 2017

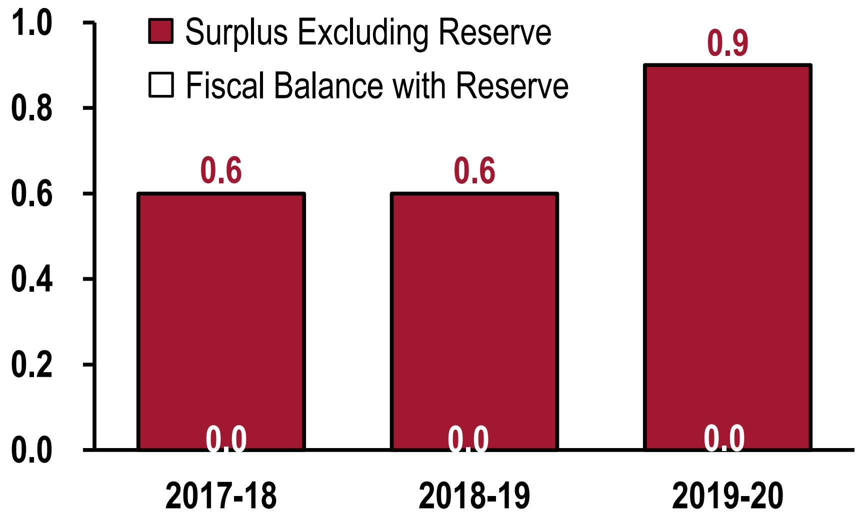
Purpose

- Provide a status update on the fiscal outlook for 2017-18 to 2020-21, based on latest forecasts and assessment of risks as compared to the 2017 Budget.
- Provide context for key fiscal decisions that will need to be addressed in the coming months.

Recapping the 2017 Budget Fiscal Architecture

2017 Budget Fiscal Targets

Fiscal Balance
($ Billions)



Net Debt-to-GDP

	2016-17	2017-18	2018-19	2019-20
Outlook	37.8%	37.5%	37.3%	37.2%
Targets	▪ 35% in 2023-24 ▪ 27% in 2029-30			

- Ratio peaked in 2014-15 at 39.1%
- 1% change in the GDP would impact ratio by ~0.5 percentage points.

Historically low reserve of $0.6 billion in 2017–18 and 2018–19, $0.9 billion in 2019–20.

Key Revenue Assumptions (2017–18 to 2019–20)

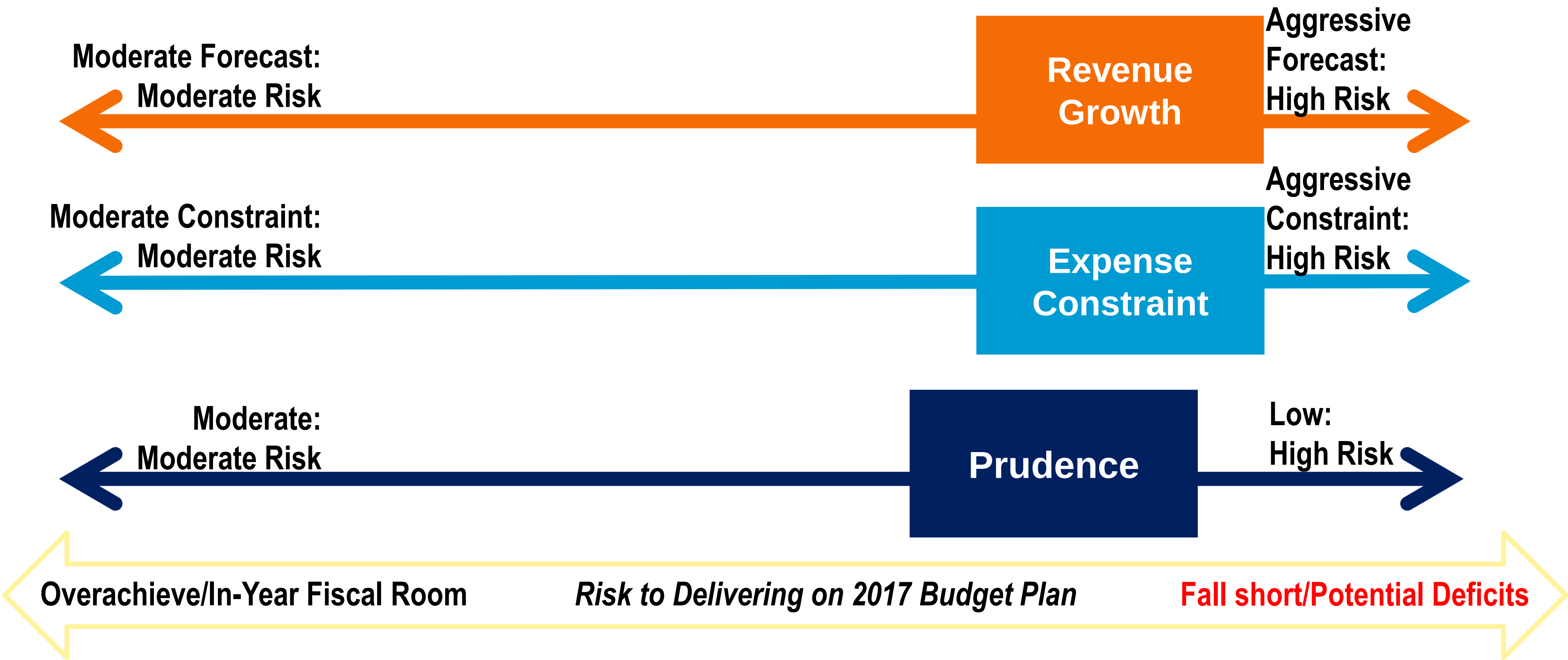
- The forecast assumes **revenue growth continues at a stronger pace than would normally be forecast given the economic outlook** and removes prudence from the nominal GDP forecast as well as assumes a modest slowing of the housing market.
- Assumes **High-Yield Tax assumptions** of $1.3 billion in 2017–18, $1.8 billion in 2018–19, and $2.2 billion in 2019–20, and zero PIT tax planning.
- Includes **Revenue Integrity Targets** of $0.1 billion in 2017–18, $0.2 billion in 2018–19, and $0.4 billion in 2019–20.
- Assumes no year-over-year decline in **Equalization Payments in 2018-19 (flat-lined at $1.4 billion)**.
- Potential accounting impacts that amount to $0.5 billion in 2018–19 and 2019–20.

Key Expense Assumptions (2017–18 to 2019–20)

- **Net increase in program expense of $16.4 billion over three years** compared to the *2016 Budget* to invest in every sector and increase overall average spending growth from **1.9% to 2.9%** -- with a particular focus on **health and education.**
- However, overall program spending **remains constrained** – continues to decline as a share of GDP; overall growth slower than inflation+population.
- **Contingency Funds** at $0.6 billion in 2017–18; grows to $1.8 billion in 2019–20 (including set aside for MoFwd Outside the GTHA of $0.7 billion)
- **Year–end Savings** targets of $1.2 billion in 2017–18 and 2018–19, and $1.1 billion in 2019–20.
- **Program Review Savings** targets of $750 million in 2018–19 and 2019–20.
- Limited **Interest-on-Debt** prudence over the outlook.

2017 Budget: Underlying Fiscal Architecture

- While the 2017 Budget fiscal plan projected a balanced budget, the underlying fiscal architecture and assumptions are strained – making the plan vulnerable to critique and risk.
- The published fiscal architecture limits the ability **to adjust to adverse events and** provides limited room for error, reduced flexibility for downside risks and additional investments.



Impact of Revenue Information Received to Date

Change from 2017 Budget ($ Billions)	2016-17	2017-18	2018-19	2019-20
2016-17 Public Accounts	(0.6)	(0.5)	(0.5)	(0.5)
Revised Economic Growth Outlook	–	0.6	0.5	0.4
Housing Market	–	(0.6)	TBD	TBD
Post Public Accounts Revenue Information	–	(0.7)	(0.3)	(0.3)
Subtotal	**(0.6)**	**(1.2)**	**(0.3)**	**(0.4)**
Hard Risks: Equalization and IFRS	–	–	(1.2)	(0.5)
Total Change [Excluding Fiscally-Neutral Items]	**(0.6)**	**(1.2)**	**(1.5)**	**(0.9)**

- Significant risks remain regarding the revenue outlook, with information that could have a significant impact arriving after FES. Key risks include:
  - Potential revisions to the economic growth outlook
  - Evolution and outlook for the housing market
  - Finalization of 2016 tax assessments
  - Updated HST and Equalization entitlements
  - Revised Government Business Enterprise net income projections

Impact of Expense Information Received to Date

- Since the 2017 Budget, **select** TB/MBC board **approvals have been offset** from contingency funds, new revenue sources, or transfers between ministries.
- Ministries preliminary allocations for the 2018-19 PRRT include TB/MBC Board approvals with out-year impacts which **add $0.1 billion in pressure to the fiscal plan** in each year over the outlook.
- Other out-year impacts will be **addressed through the PRRT process**.
- In addition, ministry identified **high-likelihood risks** amounting $3.4 billion by 2020- 21 **will need to be managed**.

Preliminary Allocations

In-year approvals with multi-year impacts.

Examples Include:

- Rural and Northern Education Fund
- Nishnawbe Aski Nation Education Funding
- GO-TTC Discounted Double-Fare Initiative

2018-19: $0.1B **2019-20**:$0.1B **2020-21**:$0.1B

Out-Year Impacts to be Addressed through PRRT

In-year approvals with multi-year impacts, where scale and timing are to be confirmed will be assessed through the PRRT.

Include:

- OHIP (OMA 2.6% mandate)
- Child Care (operating for 100k spaces)
- Achieving Excellence/Whole Child

2018-19: $0.7B **2019-20**:$1.0B **2020-21**:$1.2B

High-Likelihood Risks Continue to be Monitored

Pressures that are likely to materialize, but continue to evolve amount to $1.7B in 2018-19; $3.2B in 2019-20; and $3.4B in 2020-21.

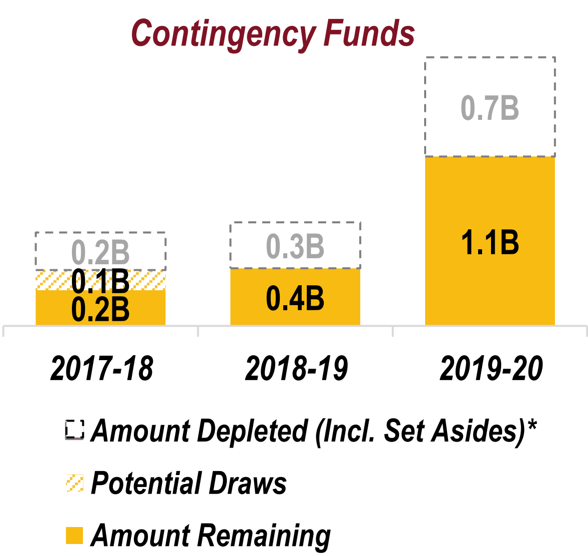
Examples Include: Compensation Risks, Capital Risks, and Aboriginal Issues and Land Claims

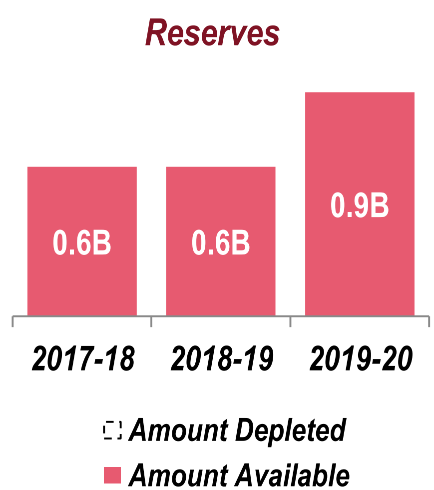
* The above does not include the impact of potential new/emerging policies or a FES/Document initiatives envelope.

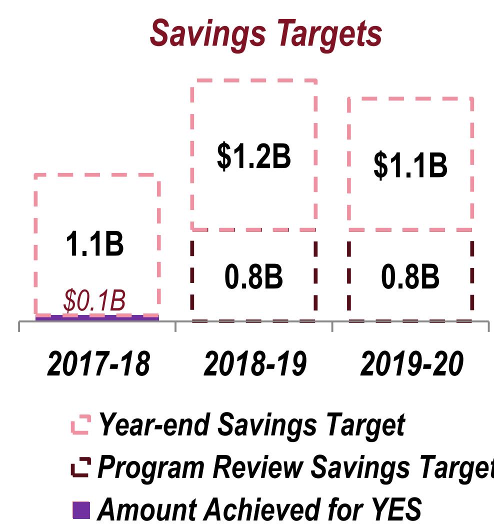
Updates to Prudence

- There is currently $**0.2 billion remaining in the contingency fund in 2017-18** after accounting for amounts that have been set aside or drawn down (or potential draws) to fund in-year expense approvals.
- The **reserve** is unchanged and remains at historically low levels.
- To date, $50 million of the $1.2 billion 2017-18 Year-End Savings (YES) target has been achieved.
  - YES targets as well as the Program Review Savings Targets that are built into the plan beginning next year will need to be met in all years in order to maintain balance over the outlook.
- **Additional savings** – beyond the year-end and program review savings target – (e.g., boulder targets) **have been assumed in the fiscal plan** and may be challenging to achieve.

Current Balance of Unallocated Fiscal Prudence



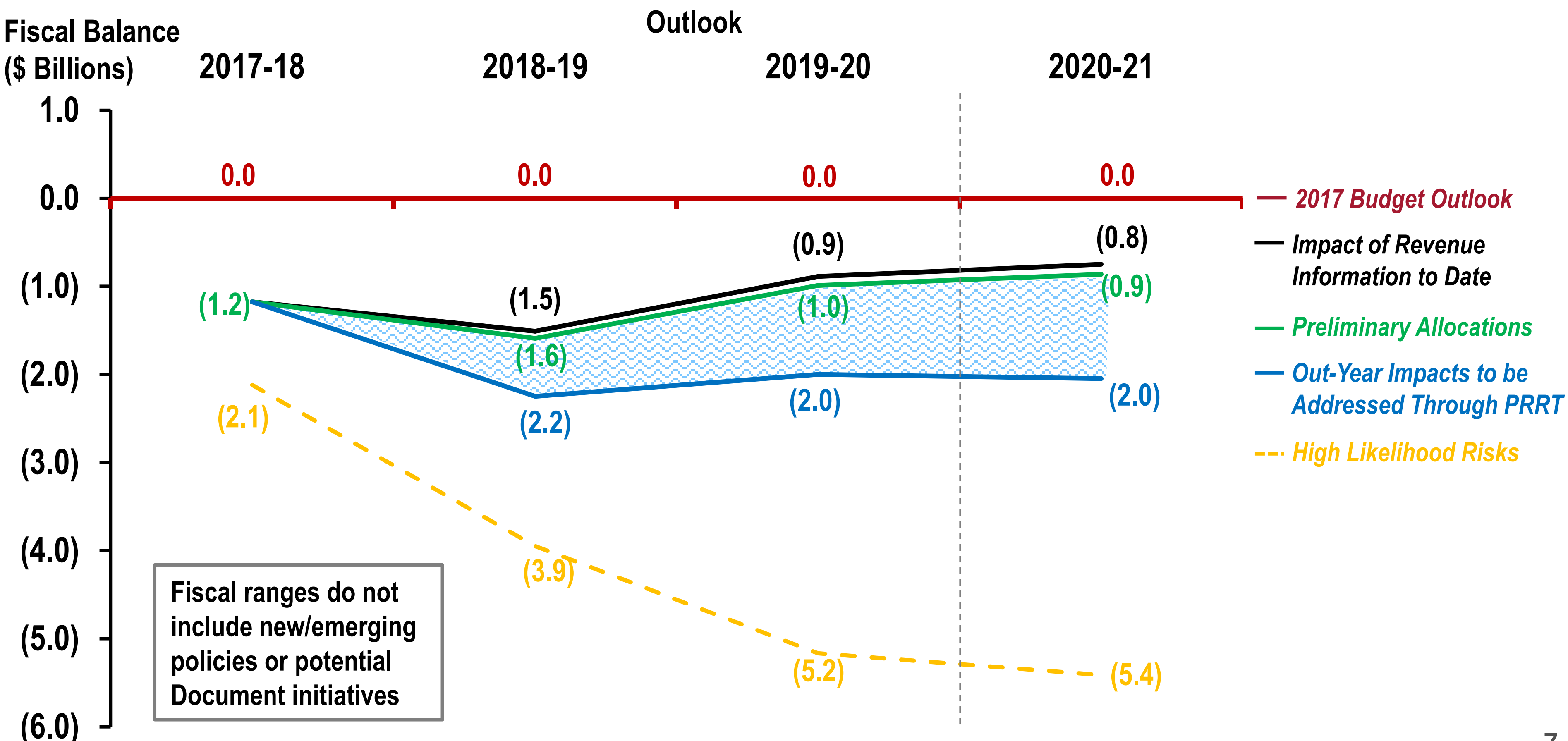




*Set asides are:
Ring of Fire - $0.1B in 2017-18, $0.2B for 2018-19 and $0.2 for 2019-20.
Moving Ontario Forward - $0.1B for 2018-19 and $0.5B for 2019-20.

Impact of the Revenue and Expense Updates

- Revenue forecast updates and hard revenue risks result in a gap relative to the governments fiscal targets (black line).
- Layering on preliminary allocations adds approximately $0.1 billion to the current outlook in each year (green line). Incorporating approvals with unconfirmed out-year impacts (blue) further deteriorates the outlook. However, the gap remains constrained relative to funding all major ministry identified risks (yellow line).
- Assumes unchanged reserves and c-funds, and the achievement of savings targets. The impact of new/emerging policies or potential FES/Document initiatives has not been included.



Unique Considerations for this Fiscal Cycle

There are a number of unique considerations for this fiscal cycle that impact the context of fiscal planning.

General Factors

- **Pre-Election Report**: The 2018 Document may also inform a Pre-Election Report that would be reviewed by the Auditor General (AG) who will scrutinize the reasonableness of the government's fiscal projections.
  - The AG would expect a signed management representation letter from the Deputy Ministers of MOF, TBS and the Provincial Controller confirming the accounting policies used in preparing the projections follow the generally accepted accounting principles (e.g., average or cautious yield revenue forecast assumptions).
  - In addition, the AG is expected to continue to criticize the government over its accounting treatment of net pension assets and the electricity cost refinancing component of the Fair Hydro Plan.
- **FAO Reports**: The FAO's 2017 Spring Outlook continued to suggest that, while balance in 2017-18 may be within reach, the province will likely return to, and remain in, deficits over the outlook. The FAO's August 2017 commentary on the province's revenue forecast echoed the same sentiment, adding that there appears to be significant downside risk to the government's revenue forecast.

New Fiscal Targets for this Cycle

- **Revenue integrity**: A revenue integrity target has been set in each year over the outlook ($0.1 billion in 2017-18, $0.2 billion in 2018-19, and $0.4 billion in 2019-20) that will need to be solved through measures such as combatting the underground economy and closing tax loopholes.
- **Program review savings target (PRST)**: A $750 million PRST has been set in both 2018-19 and 2019-20. In order to achieve these savings, the government is initiating a multi-year enhanced approach to a line-by-line review, integrated into the PRRT process, with pilots being launched in the fall and results feeding into the 2018 Document.

Key Considerations and Next Steps

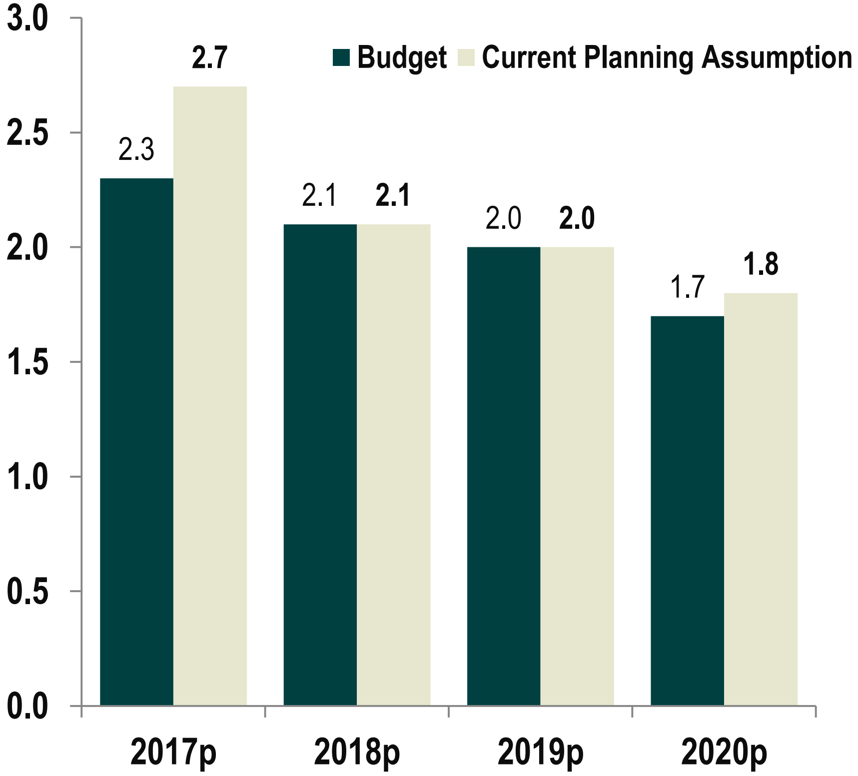
- Development of the 2017 Fall Economic Statement is underway. The FES provides an opportunity to report on progress against the Budget, and either confirm, or pivot the government's fiscal and policy priorities to set the stage for the upcoming Budget.
- The impact of the revenue and expense updates result in a fiscal deterioration compared to the 2017 Budget. However, there is uncertainty in the fiscal plan and a significant amount of information will not be available until later in the year.
  - The Fall Economic Statement may foreshadow risks to the plan rather than build downside revenue into the outlook at this point in the fiscal year
- The development of Ministry PRRTs process will run parallel to the development of the FES. It is important that Ministries stay within their allocations and limit additional pressure on the fiscal plan in order to support balanced budgets.
  - 2018 Document will be released in the Spring and reflect the fiscal impact of allocations and outcomes from the review of PRRT plans. Should the government choose to publish a PER, Ministry spending plans will need to withstand the test of reasonableness by the Auditor General.

Appendix

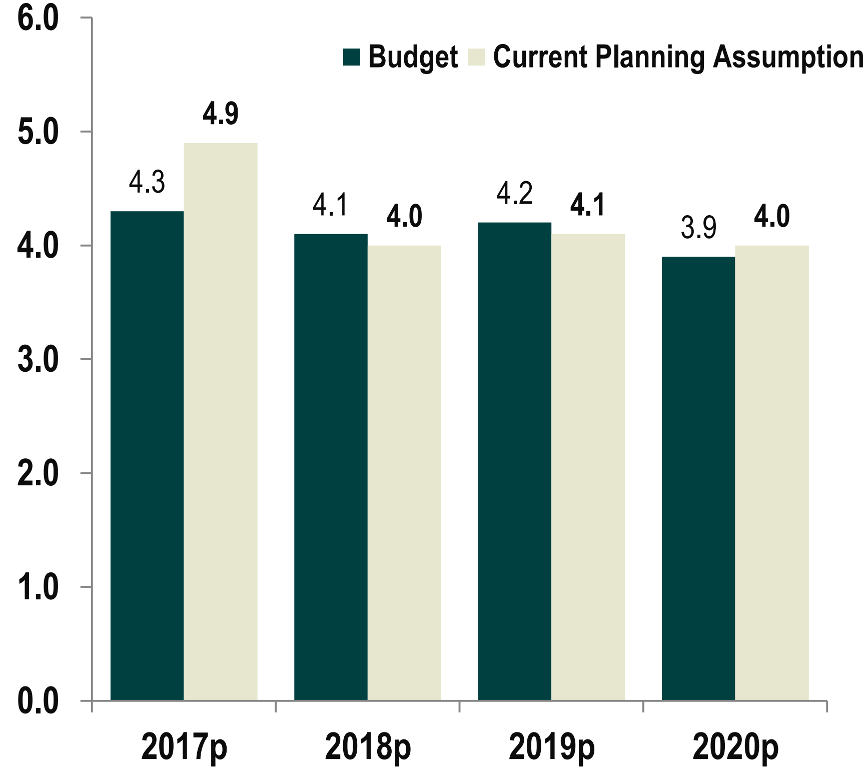
Stronger 2017 GDP Growth since Budget

- Average private sector forecast for 2017 nominal GDP growth has increased 0.7 percentage points based mainly on strong performance in the January to March quarter.

Ontario Real GDP Growth (Percent)

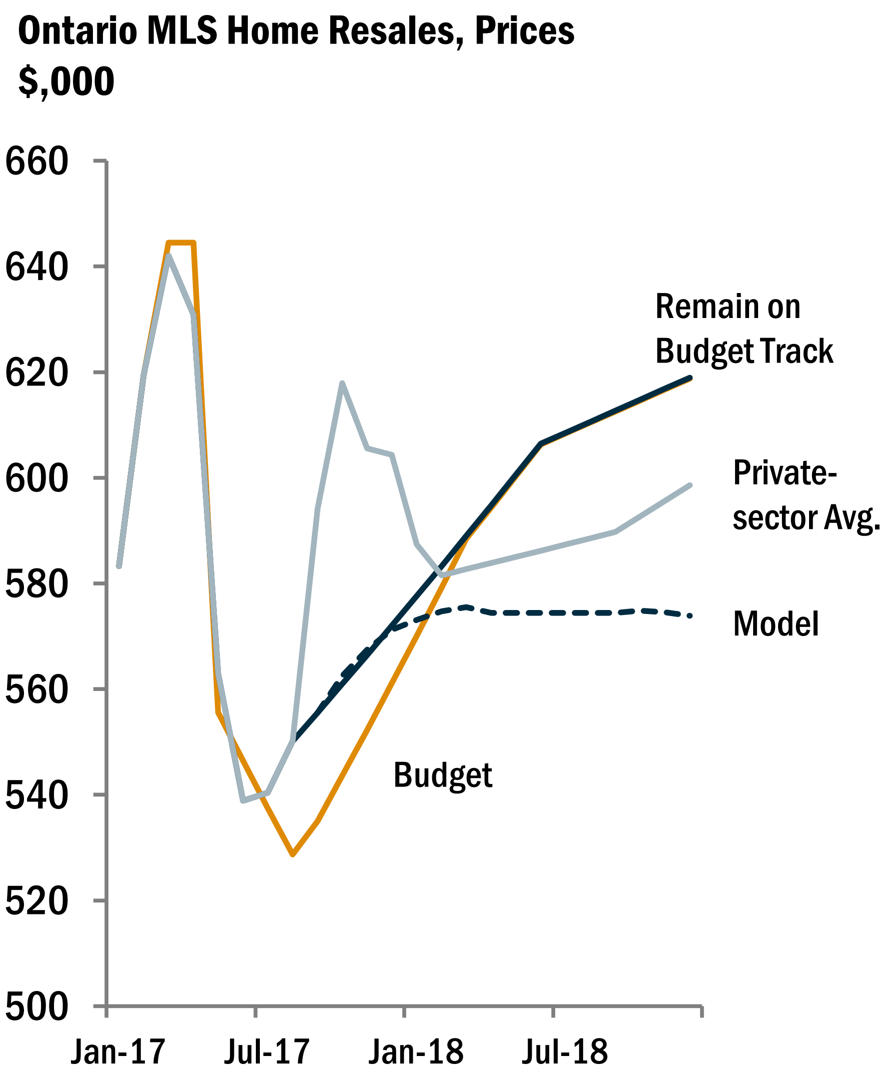


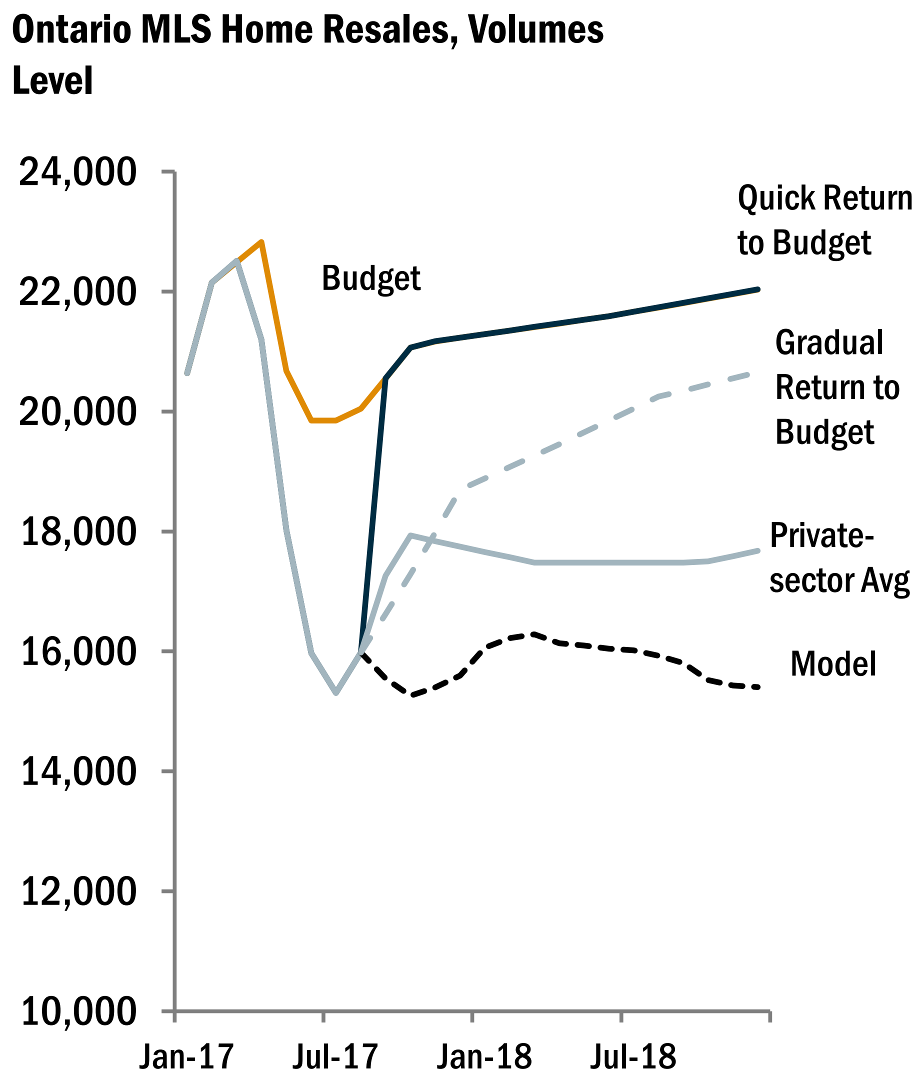
Ontario Nominal GDP Growth (Percent)



Budget projection: real GDP -0.1 ppts below PSA, nominal GDP equal to PSA
Current planning assumption: real and nominal GDP both 0.1 ppts below PSA
Source: Ontario Ministry of Finance.

Uncertainty Surrounds the Housing Resale Market

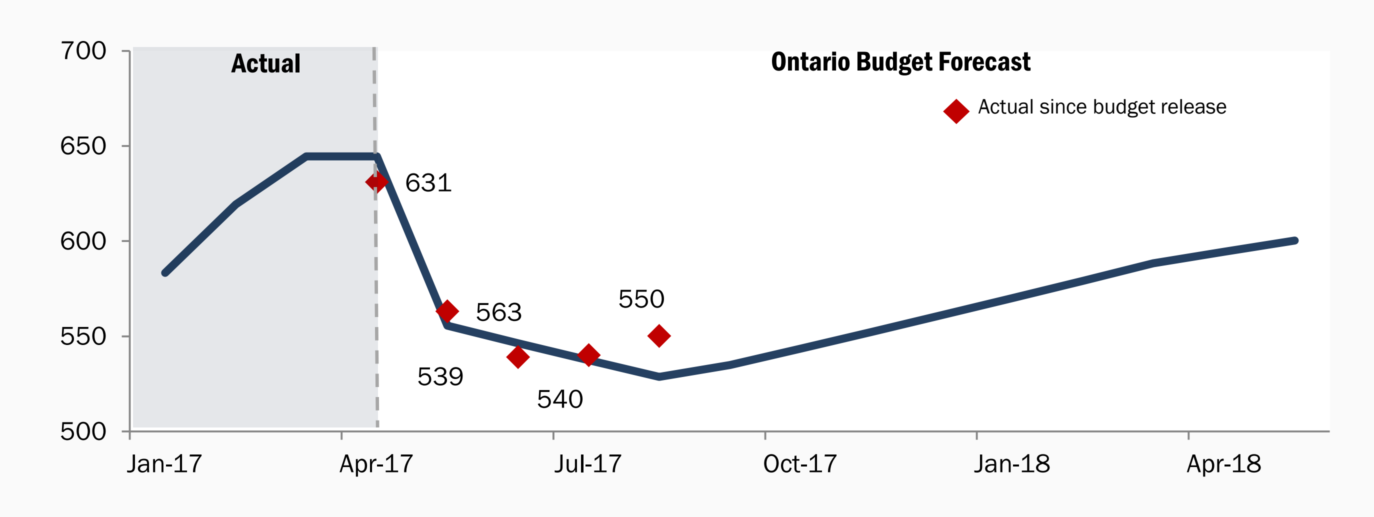




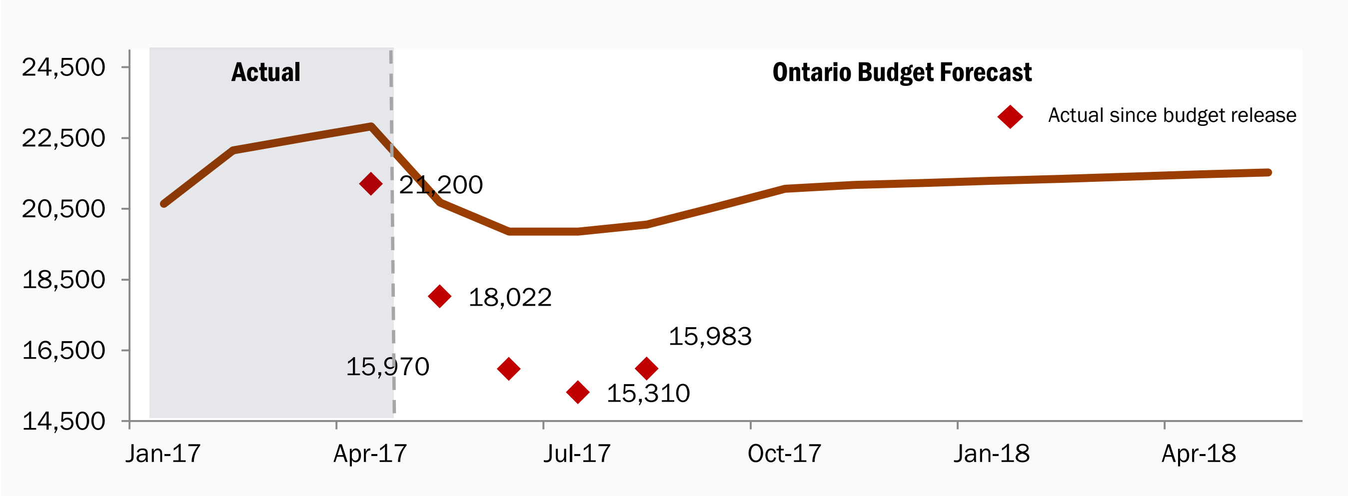
Sources: CREA and Ontario Ministry of Finance

Softer Housing Resale Market

Ontario average resale price, $000s, SA



Ontario resales, units, SA



Source: CREA and Ontario Ministry of Finance.

Forecast Implications of Finalized 2016-17 Revenues

- The 2016-17 Public Accounts published a deteriorated revenue forecast relative to what was projected in the 2017 Budget, reflecting a mix of upside and downside risks.
- The broad range of risks will persist until November/ December when additional updates are received

$ Billions	Interim	Public Accounts	Change	Implications for Forecast for 2017-18 and Beyond
Total Revenues*	**141.3**	**140.7**	**(0.6)**	**Largely carries forward**
Taxation Revenues	95.1	94.3	(0.7)	Carries forward. Lower PIT largely offset by higher CIT and other taxes.
Government of Canada Transfers*	24.8	24.5	(0.3)	Fiscally neutral. No material carry forward.
Government Business Enterprises	5.3	5.6	0.3	Expected to carry forward. Discussion with GBEs occurring.
Other Non-Tax*	16.2	16.3	0.1	No material impact going forward.

** Interim numbers are restated to include the revenue impact of the line-by-line consolidation of the Broader Public Service (BPS) organizations.*

Impact of Revenue Information Received to Date

$ Billions	2016-17	2017-18	2018-19	2019-20
Change from 2017 Budget				
2016-17 Public Accounts				
Taxation Revenue	(0.7)	(0.7)	(0.7)	(0.7)
Government Business Enterprise Net Income	0.3	0.2	0.2	0.2
Other	(0.2)	–	–	–
Subtotal	**(0.6)**	**(0.5)**	**(0.5)**	**(0.5)**
Revised Economic Growth Outlook				
Stronger 2017 GDP Growth	–	0.7	0.7	0.7
GDP Prudence Achieved	–	(0.1)	(0.2)	(0.3)
Subtotal	**–**	**0.6**	**0.5**	**0.4**
Housing Market*	–	**(0.6)**	**TBD**	**TBD**
Post Public Accounts Revenue Information	–	**(0.7)**	**(0.3)**	**(0.3)**
Total Changes Above	**(0.6)**	**(1.2)**	**(0.3)**	**(0.4)**
Hard Risks: Equalization and IFRS	–	–	(1.2)	(0.5)
Total Change including Hard Risks	**(0.6)**	**(1.2)**	**(1.5)**	**(0.9)**
Carbon Allowance Proceeds (Fiscally-Neutral once MOECC spending proposal is approved)	–	0.4	–	–
Government of Canada Transfers and Other NTR (Fiscally Neutral)	–	0.2	0.1	0.1
Total Change including Fiscally-neutral items and Hard Risks	**(0.6)**	**(0.6)**	**(1.4)**	**(0.8)**

*Note: *If 2017-18 LTT downside carries forward into the out-years, it could result in additional -0.9 billion in 2018-19 and -1.1 billion in 2019-20. Numbers may not add to totals due to rounding.*

Preliminary Allocations

PRELIMINARY ALLOCATIONS

$ Millions	2018-19	2019-20	2020-21
Financials Confirmed			
EDU: Rural and Northern Education Fund	20	20	20
EDU: Nishnawbe Aski Nation (NAN) Education Funding	13	13	13
CO: Washington Office	1	-	-
MIT: US Engagement Team Continuation of Funding	4	-	-
MOECC: Grassy Narrows Remediation Plan Development	8	-	-
MFA: Francophone Community Grants Program	1	1	-
MIRR/MNRF/MAG: Three Priority Claims	2	2	-
MTCS Ontario Arts Council Funding	5	10	15
MTO: Highway Maintenance Services Procurement and Report	7	37	48
MTO: GO-TTC Discounted Double Fare Initiative	18	18	18
TOTAL: PRELIMINARY ALLOCATIONS	**80**	**102**	**114**

Out-Year Impacts to be Addressed through PRRT

OUT-YEAR IMPACTS TO BE ADDRESSED THROUGH PRRT

$ Millions	2018-19	2019-20	2020-21
Consider Including			
MOHLTC: OHIP (OMA 2.6% mandate)	125	109	28
EDU: Child Care (operating for 100K spaces)	210	380	520
EDU: Achieving Excellence/Whole Child	33	14	6
MAESD - French-language University/ College Boreal	20	20	20
MCSS: Nellies Violence Against Women Shelter	5	-	-
MAG: Police Oversight Reform Initiative	18	23	23
MAG: Local Planning Appeal Support Centre (TBC)	2	2	2
MCSCS: Strategy for a Safer Ontario (incl. First Nations Capital)	32	64	61
MCSCS: Chief Coroner - Inquest Legal Fee Reimbursement (TBC)	1	1	1
MCSCS: OPSEU - Corrections Compensation	34	65	99
MAG/MCSCS: Attorney, judicial and police compensation	16	41	71
Other Sector: Recent Agreements (OPSEU/AMAPCEO/Mgmt)	64	130	211
ENE: Smart Grid Fund	20	18	15
MOECC: Organization to Advance Science on Climate Change	9	15	15
MMA/MHO: National Housing Strategy - Provincial Sharing	-	85	85
MOECC: Randle Reef	(14)	(14)	(11)
MOL: Changing Workplaces Review	17	24	26
MNDM: Matawa Broadband	7	13	10
MTO: Ottawa Phase II LRT	-	20	-
MTO: Waterloo Rapid Transit Project	59	-	-
TOTAL: CONSIDER TO INCLUDE THROUGH PRRT	**657**	**1,010**	**1,182**

Major Risks

MAJOR RISKS

$ Millions	2018-19	2019-20	2020-21
Aboriginal Issues and Land Claims			
MCYS: Child Welfare (designating 5 Indigenous agencies)	20	20	20
MIRR: Non-Williams Treaties Land Claims Settlement Funding	181	335	43
MIRR: Williams Treaties Land Claim Settlement	-	450	-
Total Aboriginal Issues and Land Claims	201	805	63
Compensation Risks			
MOHLTC: OMA (1.4% above mandate)	359	556	766
MOHLTC: increases for other non-physicians, primarily hospital	200	350	500
MOHLTC: Minimum Wage - Direct (TBC)	45	70	70
MOHLTC: Minimum Wage - Indirect (TBC)	30	36	36
EDU: Next Round of Collective Agreements (2019 ongoing)	-	260	680
EDU: Minimum Wage - Direct (TBC)	44	166	166
EDU: Minimum Wage - Indirect (TBC)	40	88	88
MCYS/MCSS: Minimum Wage - Direct (TBC)	11	14	14
MCYS/MCSS: Minimum Wage - Indirect (TBC)	11	15	15
Other Sector: Minimum Wage - Direct (TBC)	8	12	12
Other Sector: Minimum Wage - Indirect (TBC)	3	9	9
Total Compensation	750	1,575	2,355
Fed-Prov Related			
MOI: Clean Water and Wastewater Fund	92	-	-
MOI: Building Canada Fund revised project timelines	21	-	-
Total Fed-Prove Related	113	-	-

Major Risks Cont'd

MAJOR RISKS

$ Millions	2018-19	2019-20	2020-21
Capital			
MAESD: Capital (University expansion lever/PSE retrofits)	38	12	14
MCYS: Grandview CTC	8	8	8
MCYS: Partner Facility Renewal	10	10	10
MCSS: Partner Facility Renewal	10	10	10
MTO: Highway Amortization	22	38	55
Total Capital	88	78	96
Other			
MOHLTC: Opioid Strategy Initiatives	101	99	99
MAESD: Increased OSAP Uptake	160	160	160
MCYS: Administrative Compensating Leave	6	6	6
MCSS: Additional funding for Asylum Seekers	TBD	TBD	TBD
MCSS: SA Forecast (partial funding)	41	69	82
MAG/MCSCS: Boulder Savings at risk	55	80	105
Other sector: Boulder Savings at risk (TPAM, Benf. Trans., other)	153	245	348
MOECC: Drive Clean	29	39	39
MTO: Metrolinx Agency Growth	3	11	13
Total Other	548	708	852
TOTAL MAJOR RISKS	**1,700**	**3,165**	**3,366**