

Latest Updates

1. On September 14, 2017, the FAO sent a joint Formal Information Request letter (FA1714-01) on its **Assessment of the Fiscal Impact of Ontario Lottery and Gaming Corporation's Sale of the GTA Gaming Bundle** addressed to DM MOF and the President/CEO of OLGC. The FAO is requesting information by October 5, 2017.
2. On September 13, 2017, the FAO released a news alert regarding its decision to postpone the release of their **Long-Term Budget Outlook** planned for Thursday September 14, 2017. A new release date for the report will be announced as soon as possible.
3. On September 12th, 2017, the FAO sent two joint Formal Information Request letters (FA1715-01) on its **Follow-up analysis of the Financial Impact of the Partial Sale of Hydro One** addressed to MOF, TBS, OFA, ENERGY and IESO. The FAO is requesting information by September 26, 2017.
4. On September 12th, 2017, the FAO released their commentary entitled "**Assessing the Economic Impact of Ontario's Proposed Minimum Wage Increase**". The commentary discussed the benefits to workers from the proposal and the impact to businesses and employment.

Status on Information Requests

FAO Information Requests – Pending OPS Response				
Date received	Information Request	Ministry(s)	Due date	Notes
September 14, 2017	An Assessment of the Fiscal Impact of Ontario Lottery and Gaming Corporation's Sale of the GTA Gaming Bundle (FA1714-01)	MOF, OLGC	October 5, 2017	Research will focus on the impact of Ontario Lottery and Gaming Corporation's sale of the GTA Gaming Bundle on the Province's fiscal position.
September 12, 2017	Follow-up analysis of the Financial Impact of the Partial Sale of Hydro One (FA1715-01)	MOF, TBS, ENERGY, OFA, IESO	September 26, 2017	Research will focus on the impact of the sale of Hydro One on the Province's fiscal position and electricity rates in Ontario.

FAO Information Requests – Pending OPS Response				
Date received	Information Request	Ministry(s)	Due date	Notes
August 30, 2017	Analysis of the Ontario-Quebec Electricity Trade Agreement (FA1713-01)	ENERGY	September 15, 2017	Research will focus on the Electricity Trade Agreement that was finalized between Ontario and Quebec in November, 2016
August 10, 2017	Ontario Service Fees in 2017-18 (FA1703-01)	TBS	TBD	TBS requested an extension to the September 8, 2017 deadline until the 2016-17 Public Accounts are publicly released
March 15, 2017	Ontario Personal Tax Expenditure (FA1608)	MOF	FAO indicated they were no longer proceeding forward with this report	
March 10, 2017	Provincial Highways Cost Analysis (1701)	MTO	No response date set	FAO requested information of appropriate contact, no additional information was requested

Responded FAO Information Requests – Pending Next Steps				
Date Received	Information Request	Ministry	Date Responded	Notes
August 16, 2017	Ontario Health Sector Medium-Term Outlook Follow-up (FA1712-01)	MOHLTC, TBS, MOF	September 8, 2017	Awaiting FAO Next Steps
June 14, 2017	Infrastructure Plan (FA1504)	TBS	June 26, 2017	Awaiting FAO Next Steps
June 5, 2017	Business Support Programs (FA1613-03a,d,f,h)	MOF, MAESD, MEDG/MRIS, MNM	June 23, 2017	Awaiting FAO Next Steps
March 17, 2017	Ontario's Correctional Service System (FA1707)	MCSCS	March 31, 2017	Awaiting FAO Next Steps
April 6, 2016	Market Value of Provincial Assets (FA1508)	EDU, MEDEI, METROLINX, MGCS, MNM, MOF, MOHLTC, MTO, TCU	August 3, 2016	Awaiting FAO Next Steps
July 4, 2016	Refurbishing Nuclear Reactors in Ontario (FA1612)	ENERGY, IESO, OPG, OEB	March 28, 2017	Awaiting FAO Next Steps
November 17, 2015	Fiscal Impact of PRRT	TBS & MOF	July 14, 2016	Awaiting FAO Next Steps

Status on Publications yet to be made public

Publication Type	Topic	Lead Ministry	Date Draft was Shared for Review	Deadline for Review of Draft	Expected Release Date	Main Findings
Report	Long-Term Report	MOF	June 27, 2017	July 14, 2017	TBD	The FAO's analysis concludes that if fiscal policies remain largely the same, demographic changes will combine to lower tax revenue growth and raise spending, leading to high and rising budget deficits.

Status on Completed Publications

- To date, the FAO has completed and released **8 Formal Reports**, including:
 - Economic and Fiscal Outlook – Assessing Ontario's Medium-term Prospects (based on the 2017 Budget) (May 2017);
 - Fair Hydro Plan (May 2017) ✓
 - Health Care Sector Expense Trends (January 2017) ✓
 - Impact of Cap and Trade on Government's Finances (November 2016) ✓
 - Economic and Fiscal Outlook – Assessing Ontario's Medium-term Prospects (based on the 2016 budget) (November 2016)
 - Economic and Fiscal Outlook – Assessing Ontario's Medium-term Prospects (based on the 2016 Budget) (May 2016);
 - An Assessment of the Financial Impact of the Partial Sale of Hydro One (October 2015); and, ✓
 - An Assessment of Ontario's Medium-term Economic and Fiscal Outlook (based on the 2015 Budget) (October 2015)
- 18 Commentaries** on various topics, including:
 - Assessing the Economic Impact of Ontario's Proposed Minimum Wage Increase (September 2017) ✓
 - Ontario's Debt Reduction Commitment Based on Unlikely Assumptions (September 2017) ✓
 - Optimistic Revenue Projection Underpins Government's Balanced Budget Plan (August 2017)
 - The Impact of a Housing Market Correction on Ontario's Fiscal Position (February 2017)
 - Ontario Posts Solid 2016 Job Gains as the Labour Market Continues to Evolve (January 2017)

✓ Denotes when the FAO issued a Formal Information Request to the OPS

6. Understanding Provincial Cash Flows (January 2017)
7. Assessing Ontario's Fiscal Outlook (November 2016)
8. Home Energy Spending in Ontario: Regional and Income Distribution Perspectives (September 2016)
9. Funding of Postsecondary Education in Ontario (September 2016)
10. Credit Rating Agencies Satisfied with Ontario's Progress to Fiscal Balance (August 2016)
11. Home Energy Costs in Ontario (August 2016)
12. Ontario's Provincial Debt (July 2016)
13. Comparing Ontario's Fiscal Performance to other Provinces (June 2016);
14. Ontario Business Investments (May 2016);
15. Assessing Budget 2016's Fiscal Plan (March 2016);
16. Ontario Export Performance (February 2016);
17. Ontario Economic Growth (January 2016); and
18. Ontario Labour Market Performance (January 2016)

- **And 2 Backgrounders:**

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

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).

Completed Reports – Summary		
Report	Scope	Key Findings
Spring 2017 Economic and Fiscal Outlook <i>Released May 31, 2017</i>	The report is divided into two main chapters: 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

Fair Hydro Plan <i>Released May 24, 2017</i>	<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.	• 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.
Health Care Sector Expense Trends: <i>Released January 10, 2017</i>	<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?	• 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

Impact of Cap and Trade on Government's Finances: <i>Released 23 November 2016</i>	<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. • The FAO outlines three factors that will impact how much revenue the Province can raise, compared to its plan, from the cap and trade program • The FAO also outlines four factors that could cause expenses to differ from revenues, resulting in 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 <i>Released November 3, 2016</i>	The report is divided into two main chapters: 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.”

Spring 2016 Fiscal and Economic Outlook <i>Released May 18, 2016</i>	<u>Report addresses the following subjects:</u> 1) Economic Outlook 2) Ontario Fiscal Outlook 3) Ontario Debt Outlook	• 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
Hydro One (H1): <i>Released October 29, 2015</i>	4) How much can the Province expect in proceeds from the partial sale of Hydro One? 5) What is the impact of the partial sale on the DRC? 6) What is the impact on the Province's budget balance (surplus/deficit)?	• 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. ○ This would generate the Province approximately \$6.4-9.1B in proceeds under a 60% sale.

Medium-term Outlook: <i>“An Assessment of Ontario’s Medium-term Economic and Fiscal Outlook”</i> (Released November 4, 2015)	1) Overview of economic trends over past 15 years. 2) Recent economic developments and the short-term economic outlook. 3) Assessment of Province’s fiscal plan, relative to the <i>2015 Budget</i> outlook and in light of the 2014-15 Public Accounts Presentation of alternative revenue and spending scenarios to highlight key risks to the fiscal plan.	• Based on current economic indicators and consistent with the current private sector forecast consensus, economic growth in 2015 is expected to significantly slower than projected at the time of the 2015 budget • Based on current data and reasonable assumptions, nominal GDP growth in 2015 could be as low as 3.0 per cent, below the current private sector average of 3.4 per cent. • Based on current forecast of weaker nominal GDP growth, total revenue would be expected to be \$0.7 billion to \$1.0 billion lower in 2015-2016 than projected in the 2015 budget. • The FAO developed alternative scenarios to assess the risk of the government not achieving its fiscal targets. Specifically the scenarios assess the impact on the budget balance if revenue growth was to be slightly more moderate or if program spending was to be slightly higher.
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