

**CHAPTER I: RESTORING BALANCE –
ONTARIO’S ECONOMIC AND FISCAL STRENGTH**

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ONTARIO ECONOMIC PERFORMANCE AND OUTLOOK

ISSUE

How has Ontario's economy performed recently and what is the outlook for the economy?

References: Chapters 1 & 6B

KEY FACTS

- Ontario's economy continues to grow in an uncertain global environment.
- Over the 2014–16 period, Ontario's real GDP growth has outpaced that of Canada and all other G7 countries.
- Jobs continue to be created and the unemployment rate has been trending down.
 - Ontario's unemployment rate was 6.4% as of March 2017, below the national average for the 24th consecutive month.
- Ontario has been one of the fastest growing provinces over the last three years and private-sector economists expect that will continue until at least 2018.
- Ontario continues to benefit from stronger economic growth in the United States, low oil prices and a competitive Canadian dollar.
- The Ministry of Finance is forecasting growth in Ontario real GDP of 2.3 per cent in 2017 and 1.9 per cent on average over the 2018-20 period.
 - For prudent fiscal planning, these real GDP growth projections are slightly below the average of private-sector forecasts.
- Employment is forecast to rise by 1.3 per cent or 94,000 net new jobs in 2017 and then average gains of 1.1 per cent annually over the 2018-20 period.

BACKGROUND

Ontario's Recent Economic Performance

GDP

Ontario's real Gross Domestic Product (GDP) advanced 0.5% in the fourth quarter of 2016, after rising 0.7% in the third quarter. The fourth quarter advance was driven by gains in household spending and residential investment.

In 2016, Ontario's real GDP increased 2.7%, accelerating from a 2.5% gain in 2015.

Employment

Ontario employment advanced by 36,400 in the first quarter of 2017, following an annual gain of 76,400 in 2016.

Ontario's unemployment rate has improved considerably. As of March 2017, Ontario's unemployment rate was 6.4%, below the national average for the 24th consecutive month.

As of March 2017, employment was 6.3% (+418,500 jobs) above the pre-recession peak and 10.8% (+691,000 jobs) above the recessionary low, with the majority of jobs created in full-time positions, in the private sector and in industries paying above-average wages.

Households

Ontario retail sales advanced 1.7% in January, the fourth increase in five months. Compared to a year earlier, retail sales advanced 2.1% in January.

Ontario new motor vehicle sales rose 2.8% in February, the sixth increase in seven months. On a year-to-date basis, new motor vehicle sales advanced 5.6% in February.

Ontario housing starts increased 5.0% in March, following a 13.3% decline in February. On a year-to-date basis, Ontario housing starts increased 18.5% over the first three months of 2017, compared to the same period in 2016.

Sales of existing Ontario homes rose 1.5% in March, following a strong 7.3% increase in February. On a year-to-date basis, home resales in Ontario increased 14.8% over the first three months of 2017, compared to the same period in 2016.

In March, the average resale price of an Ontario home increased 4.1% to \$644,508, following a 6.2% increase in February. Compared to a year ago, average resale prices have increased by 29.5%.

The average price of a resale home in the GTA was \$916,567 in March, up 33.2% from a year earlier.

Business

The value of Ontario manufacturing sales declined 1.1% in February, following three consecutive monthly increases. On a year-to-date basis, manufacturing sales edged down 0.2% over the first two months of 2017, compared to the same period in 2016.

In February, Ontario's international merchandise exports declined 0.5%, while imports decreased 0.4% (Ontario Finance estimates on a seasonally adjusted customs basis).

Ontario wholesale trade increased 6.0% (m/m) in January, recording the largest monthly dollar gain since September 2003. Compared to a year earlier, wholesale trade advanced 9.9% in January.

Outlook for Ontario's Economic Growth

The Ministry of Finance is forecasting growth in Ontario real GDP of 2.3 per cent in 2017 and 1.9 per cent on average over the 2018-20 period. Ontario's economy is benefiting from solid economic growth in the United States and supportive external factors, such as low oil prices, a competitive Canadian dollar and low interest rates. Exports and business investment are expected to be key drivers of Ontario's economic growth over the forecast period.

Ontario Economic Outlook (Per Cent)							
	2014	2015	2016	2017p	2018p	2019p	2020p
Real GDP Growth	2.7	2.5	2.7	2.3	2.1	2.0	1.7
Nominal GDP Growth	4.7	4.9	4.6	4.3	4.1	4.2	3.9
Employment Growth	0.8	0.7	1.1	1.3	1.2	1.1	0.9
CPI Inflation	2.4	1.2	1.8	2.0	2.0	2.0	2.0
Housing Starts (000s)	59.1	70.2	75.0	72.0	68.5	71.0	72.0
Home Resales	3.8	9.5	9.7	4.3	2.8	3.2	3.4
Home Resale Prices	7.0	7.8	15.3	7.4	5.4	5.2	5.0

p = Ontario Ministry of Finance planning projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

The Ministry of Finance projected Ontario employment to advance by 94,000 (+1.3%) in 2017. Steady employment gains of 1.1 per cent annually, on average, are expected over the 2018-20 period. This would result in 900,000 net new jobs created between 2010 and 2020. Ontario's unemployment rate is projected to improve to 6.4 per cent in 2017 and steadily decline to 6.2 per cent by 2020.

The Ontario housing market advanced in 2016, with both resale activity and housing starts exceeding expectations. Home price appreciation is forecast to moderate as rising interest rates, historically high valuations and mortgage debt temper healthy demographic-related demand, as well as recently introduced policy measures by the Ontario government.

Risks to Ontario's Economic Outlook

There are risks around the outlook. The most significant immediate risks to the economic growth outlook are uncertainty around the future path of U.S. economic policy and the pace and extent of rising interest rates.

- Uncertainty around U.S. economic policy, as well as potential restrictions on global trade and migration could diminish productivity and dampen business sentiment.

- Although mortgage rates remain historically low, rising rates along with high levels of debt leave some Ontario households potentially vulnerable in the event of an adverse economic shock.

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MAINTAINING TAX COMPETITIVENESS

ISSUE

Business tax reforms implemented by the government have lowered taxes and compliance costs, significantly enhancing Ontario's tax competitiveness.

Reference: Chapter I: Restoring Balance, Ontario's Economic Performance, "Maintaining Tax Competitiveness"

KEY FACTS

- Experts have recently noted that Ontario enjoys a competitive advantage over a number of American states because of provincial and federal policy action on corporate income taxes over the past two decades.
- Ontario has introduced a number of reforms that have significantly enhanced Ontario's tax competitiveness and business investment climate, saving businesses more than \$10 billion per year, including:
 - Implementing the Harmonized Sales Tax (HST);
 - Maintaining low Corporate Income Taxes (CIT) rates;
 - Eliminating the Capital Tax; and
 - Cutting Business Education Tax (BET) rates.
- Ontario's general CIT rate was reduced in stages from 14 per cent in 2009 to the current 11.5 per cent, and from 12 per cent to 10 per cent for resources, manufacturers and processors.
- The province's combined federal–Ontario general CIT rate of 26.5 per cent is competitive within Canada and internationally. Ontario's combined rate is lower than the comparable rate in any of the U.S. states and is lower than the average of Canadian provinces and the average of G7 member countries.
- With the decrease in the general CIT rate and other tax reductions, Ontario's marginal effective tax rate (METR) on new business investment has been cut significantly over the past seven years.
- Ontario's METR fell from 33.0 per cent in 2009 to 16.9 per cent in 2016 and will drop further as input tax credit restrictions associated with the HST are phased out. It is now lower than the average U.S. METR of 34.0 per cent and is one of the lowest in the G7.

BACKGROUND

Recent Tax Reforms

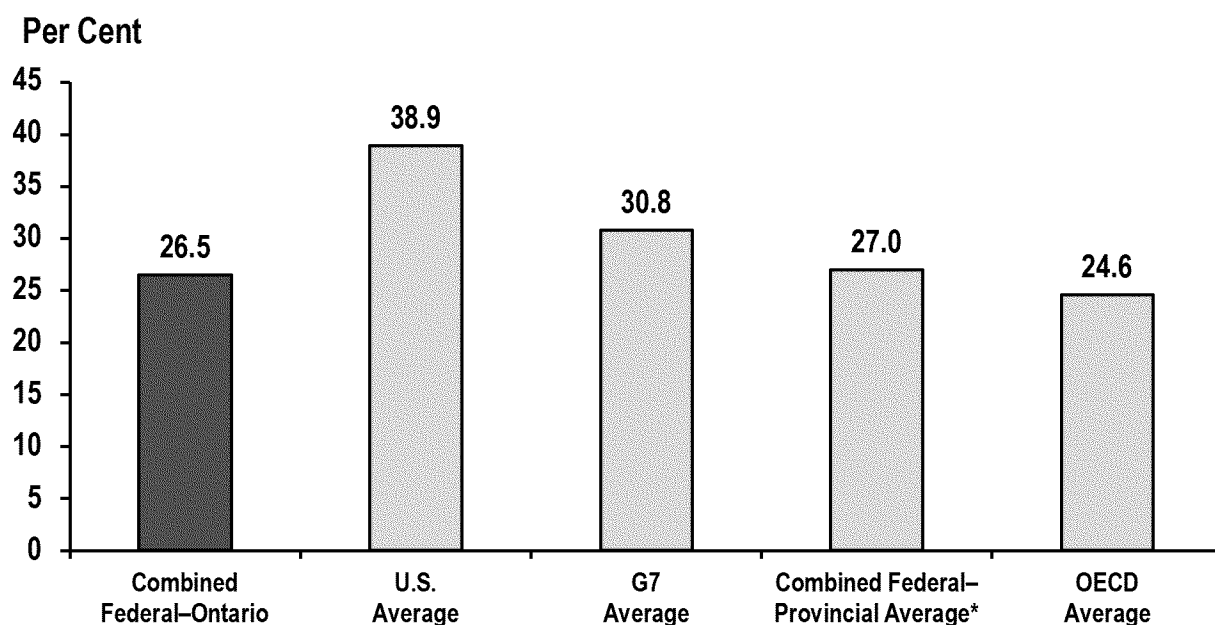
Business tax reforms implemented by the government have lowered taxes and compliance costs, saving businesses more than \$10 billion per year.

- Implementing the HST
 - Effective July 1, 2010, Ontario moved from the Retail Sales (RST) to the federally administered Harmonized Sales Tax, a value-added tax.
- Maintaining low CIT rates
 - The general CIT rate was reduced in stages from 14.0 per cent in 2009 to 11.5 per cent in 2011. (Note that the 2012 Budget announced that the general CIT rate would be frozen at 11.5 per cent until the budget is balanced in 2017-18.)
 - The manufacturing CIT rate on income from manufacturing and processing, mining, logging, farming and fishing was reduced from 12 per cent in 2009 to 10 per cent in 2010.
 - The small business CIT rate was reduced from 5.5 per cent in 2009 to 4.5 per cent in 2010.
- Eliminating the Capital Tax
 - Capital tax was a fixed tax (i.e., payable regardless of profit level) that was levied on a corporation's taxable paid-up capital (including capital stock, retained earnings, and debt). It was widely recognized as a barrier to attracting new investment.
 - The capital tax was eliminated for corporation primarily engaged in manufacturing and resource activities effective January 1, 2007, and for all corporations effective July 1, 2010.
- Cutting Business Education Tax (BET) Rates
 - Ontario has taken significant steps to address the property tax burden on Ontario businesses and significantly reduce the wide variation in BET rates.
 - BET reductions were accelerated and fully implemented for northern Ontario businesses in 2010.
 - BET reductions have also been fully implemented for eligible new construction which has levelled the playing field for businesses facing decisions about where to build new facilities.
 - BET reductions were scheduled to be fully implemented by 2014. However, as announced in the 2012 Budget, the BET reduction plan was temporarily frozen in 2013.

Competitive Combined Federal-Ontario General CIT Rate

- Ontario's general CIT rate of 11.5 per cent is the second lowest in Canada, after British Columbia with a general CIT rate of 11.0 per cent.
- Ontario's combined federal–Ontario general CIT rate of 26.5 per cent is competitive within Canada and internationally.
- Ontario's combined rate is lower than:
 - The U.S. average combined federal–state CIT rate of 38.9 percent;
 - The comparable rate in any of the U.S. states;
 - The average of Canadian provinces' federal–provincial rates at 27.0 per cent; and
 - The average of G7 member countries at 30.8 per cent. G7 countries include Canada, France, Germany, Italy, Japan, United Kingdom and the United States.

Ontario's Internationally Competitive Corporate Income Tax Rate



Notes: The combined federal–provincial rates are based on the statutory provincial and federal general CIT rates, and where applicable, exclude Ontario. The United States Average, G7 Average and OECD Average rates are legislated corporate tax rates in 2016, and where applicable, exclude Canada. Rates are based on legislation and information available as of March 30, 2017.

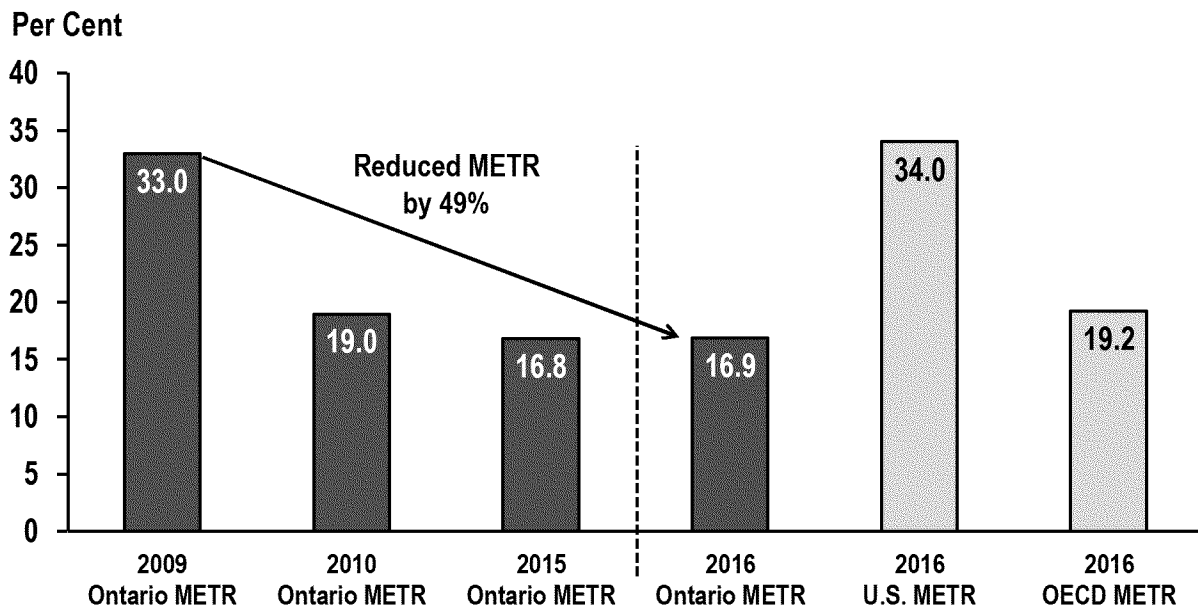
Sources: Federal and provincial governments, Statistics Canada and Organization for Economic Co-operation and Development (OECD)

* All provinces excluding Ontario.

Marginal Effective Tax Rate (METR)

- The METR provides a comprehensive measure of the tax burden on new business investment by taking into account federal and provincial/state CIT, capital taxes and sales taxes.
- With the decrease in the general CIT rate and other tax reductions, Ontario's METR on new business investment has been cut significantly over the past seven years.
 - Ontario's METR fell from 33.0 per cent in 2009 to 16.9 per cent in 2016 and will drop further as input tax credit restrictions associated with the HST are phased out.
 - Ontario's METR is now lower than the average U.S. METR of 34.0 per cent and is one of the lowest in the G7.

Ontario's Marginal Effective Tax Rate on New Business Investment Cut Substantially Since 2009



Notes: The marginal effective tax rate (METR) provides a comprehensive measure of the tax burden on new business investment. It takes into account federal and provincial/state corporate income taxes, capital taxes and sales taxes. It excludes resource and financial sectors and tax provisions related to research and development. The OECD METR is the average for respective member countries excluding Canada. The METRs for the United States and OECD include measures announced as of January 1, 2016.

Sources: Finance Canada and Ontario Ministry of Finance (Revised August, 2016).

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INFRASTRUCTURE INVESTMENTS

ISSUE

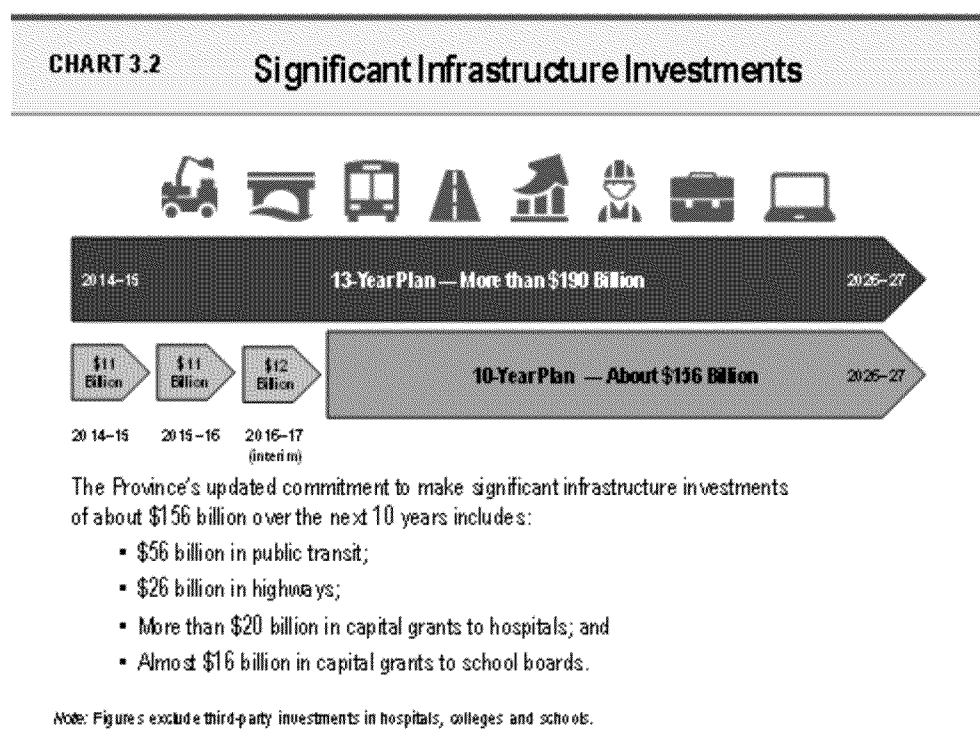
What infrastructure investments is the Province making in the *2017 Budget*?

Reference: Chapter 1, Chapter 2, Chapter 4A, Chapter 4B, Chapter 4C, Chapter 4D, Chapter 5 and Chapter 6B.

KEY FACTS

- The Province is making public infrastructure investments of more than \$190 billion over 13 years, starting in 2014-15.
- Planned investments are expected to support 125,000 jobs on average, per year.
- The Centre for Spatial Economics (C4SE) finds that, over the long term, the real GDP in Ontario rises up to \$6 on average per dollar of public infrastructure spending
- Examples of new infrastructure investments include:
 - Approximately \$9 billion to support the construction of new major hospitals.
 - An additional \$1.2 billion funding for repairs and renewal over the next two school years, building on the 2016 provincial commitment.
 - Renewed funding for child care to support access to licensed child care for 100,000 more children.
 - Rehabilitating stretches of Highway 400 and 401.
 - \$100 million for the new Natural Gas Grant Program to support building of infrastructure to expand access to natural gas.

BACKGROUNDER



Ongoing Investments in Transportation

Over the next 10 years, Ontario plans to invest about \$84 billion in the transportation sector, including \$56 billion for public transit and \$26 billion for highways.

The government continues to move forward with GO Regional Express Rail (RER) to provide faster and more frequent service on the GO rail network. For example, the Province is advancing infrastructure works on a number of projects on the Barrie, Stouffville, Lakeshore East, Lakeshore West and Kitchener rail corridors, including station upgrades, grade separations and track work, and laying the groundwork for future electrification.

Ontario will continue to seek partnership with the federal government to advance transit and transportation projects across the province including welcoming the federal government's investment of about \$1.9 billion in portions of the GO RER project.

The Province is also making new investments in highway infrastructure, including:

- Rehabilitation of highway 400 from 16th Sideroad to Lloydtown Aurora Road in York Region.
- Replacement of the bridges over the Grand River on Highway 401 in the City of Kitchener.

Other key initiatives being supported by the Province include:

- Increasing the share of revenue municipalities receive from the provincial gas tax from \$334 million in 2016–17 to an estimated \$642 million by 2021–22 to improve and expand their local transit systems.
- Moving forward with rapid transit projects in the GTHA such as Rapid Transit in Hamilton, the Hurontario LRT in Mississauga and south Brampton and the Eglinton Crosstown LRT in Toronto.
- Supporting municipal transit projects such as ION Stage 1 in Waterloo and the Ottawa LRT in Ottawa.
- Investing in cycling infrastructure such as the new 17-kilometre multi-use trail in Windsor.

Child Care and Education Infrastructure

The Province is providing almost \$16 billion in capital grants over 10 years to help build new schools in areas of high growth, improve the condition of existing schools and invest in projects to reduce surplus space. Building on the 2016 commitment, the government will provide an additional \$1.2 billion funding for repairs and renewal over the next two school years. Investments in school renewal will also be part of Ontario's Climate Change Action Plan, to improve energy efficiency and install renewable energy technologies. This investment is supporting the creation of 95 new schools and expansion and renovation of 54 existing ones.

Ontario is also supporting families by helping 100,000 more children access affordable, quality licensed child care. This new investment will support access to licensed child care for 24,000 more children up to four years old through new fee subsidies and support for new licensed child care spaces in schools by 2017-18.

Postsecondary Education Infrastructure

The government also collaborated with the federal government, colleges, universities and Aboriginal Institutes to implement the Post-Secondary Institutions Strategic Investment Fund in Ontario. This shared investment of more than \$1.9 billion will enhance and modernize research facilities at post-secondary institutions across Ontario.

Health Infrastructure

The Province plans to provide more than \$20 billion in capital grants over the next 10 years. This includes a new commitment of approximately \$9 billion to support the construction of new major hospital projects across the province including:

- Hamilton Health Sciences — Hamilton Redevelopment Project.
- The Niagara Health System — New South Niagara Hospital Capital Project.
- Trillium Health Partners — Hamilton Redevelopment Project.
- Windsor Regional Health Centre — New Greenfield Hospital Project.
- Weeneebayko Area Health Authority — Replacement Hospital Project.

Across Ontario, there are currently 18 hospital projects under construction and 16 in planning stages. These transformational investments will support access to the right care, in the right place, at the right time.

Social Infrastructure

The Province is investing \$100 million in the new Natural Gas Grant Program. The program will support the building of infrastructure to expand access to natural gas to areas that do not currently have service.

Justice Infrastructure

Ontario is continuing to make investments in justice facilities that support the long-term transformation of the justice system. For example:

- Work is underway to open the first phase of dedicated mental health units for female adult inmates at the site of the Roy McMurtry Youth Centre by 2018.
- The second phase of modernizing OPP facilities across the province is underway, with the construction of several new OPP detachments.
- Construction of a policing detachment is planned for the Weagamow Lake First Nation community, in a funding partnership with the government of Canada.

Planned Infrastructure Investments

In 2017-18, the government plans to spend more than \$20 billion (including third-party investments) in public infrastructure. This is part of the government's plan to invest more than \$190 billion over 13 years, starting in 2014-15.

TABLE X.XX 2017-18 Infrastructure Expenditures
(\$ Millions)

Sector	Total Infrastructure expenditures 2016-17 Interim ¹	2017-18 Plan		
		Investment in Capital Assets ²	Transfers and Other Infrastructure Expenditures ³	Total Infrastructure Expenditures ⁴
Transportation				
Transit	3,806	5,440	1,736	7,176
Provincial Highways	2,137	2,900	120	3,020
Other Transportation, Property and Planning	642	172	180	352
Health				
Hospitals	2,297	2,588	295	2,883
Other Health	262	81	261	342
Education	2,000	2,636	53	2,689
Postsecondary				
Colleges & Other	721	976	13	989
Universities	318	-	399	399
Social	749	20	454	474
Justice	243	107	227	334
Other sectors ⁵	1,135	646	973	1,620
Total Infrastructure Expenditures	14,311	15,566	4,711	20,277

¹ Includes provincial investment in capital assets of \$8.9 billion.

² Includes \$292 million in interest capitalized during construction.

³ Includes transfers to municipalities, universities and non-consolidated agencies.

⁴ Includes third party investments in hospitals, colleges and schools; and federal contributions to provincial infrastructure investments.

⁵ Includes government administration, natural resources, culture and tourism sectors.

Note: Numbers may not add due to rounding.

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CHAPTER II: HELPING YOU AND YOUR FAMILY

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FAIR HYDRO PLAN AND ELECTRICITY PRICE MITIGATION

ISSUE

Starting this summer, Ontario's proposed Fair Hydro Plan (OFHP, or the Plan) would reduce electricity bills by 25 per cent on average for eligible households. Approximately 500,000 eligible small businesses and farms would also benefit from this reduction

Low-income Ontarians and those living in eligible rural, remote or on-reserve First Nation communities would receive even greater reductions to their electricity bills.

Reference: Chapter II, Reducing Electricity Rates by 25 Per Cent

KEY FACTS

- Ontario's Fair Hydro Plan represents a significant system restructuring that will address long-standing policy challenges, ensure greater fairness.
- The proposed Plan takes actions to lower electricity bills by 25 per cent on average for a typical residential customer.
 - This includes the impact of the 8% rebate equivalent to the amount of the Provincial portion of the HST, that was in effect as of January 1, 2017.
- A number of important electricity support programs will now be funded by the Province rather than by ratepayers, which would reduce electricity costs for all consumers.
 - As part of these initiatives, people with low incomes and those living in rural communities would benefit from additional reductions to their electricity bills:
 - Enhancing the Ontario Electricity Support Program for low-income and vulnerable customers.
 - Enhancing the Rural or Remote Rate protection program to provide distribution charge relief to additional customers.
 - Establishing an Affordability Fund provides Local Distribution Companies (LDCs) with an additional tool to help vulnerable customers who do not qualify for low-income conservation programs. LDCs would use the Fund to provide support to customers for energy efficiency improvements to help reduce their future electricity bills.
 - The Province is also moving forward in having the First Nations On-Reserve Delivery Credit funded by provincial revenues.
 - These new measures will cost up to \$2.5 billion over the next three years.
- Ontario is further expanding the Industrial Conservation Initiative (ICI) program by reducing the eligibility threshold from one megawatt (MW) to 500 kilowatts (kW) for targeted manufacturing and industrial sectors, including greenhouses.

BACKGROUND

Significant investments in generation and conservation, including to support the decision to eliminate Ontario's use of coal, to build cleaner and renewable supply, are being funded in part through the Global Adjustment (GA). Between 2005 and 2015, Ontario invested more than \$50 billion in the electricity system, including more than \$35 billion in electricity generation, to ensure the system is clean and reliable.

On March 2, 2017, as part of the government's commitment to take action to reduce electricity bills for eligible families, farms and businesses, and ensure a clean, reliable and affordable electricity system for all Ontarians, the Province announced the proposed Ontario's Fair Hydro Plan, which would lower electricity bills by 25 per cent on average for residential consumers in the province. Many small businesses and farms would also benefit from the initiative, with additional relief for people with low incomes and those living in eligible rural communities.

If approved, the proposal will smooth the impacts of the GA, help the most vulnerable Ontarians through enhancements to electricity support programs through tax-based funding and work to bend the future cost curve of electricity.

GA Smoothing (or Deferring and Financing) Proposal

The government intends to introduce legislation that would, if passed, enable the Independent Electricity System Operator (IESO) and Ontario Power Generation (OPG) to work together to refinance the GA over a longer period of time. The legislation would also outline the role for the Ontario Energy Board (OEB).

The majority of the province's electricity generators have 20-year contracts.

Many of these generators will be able to operate past their contract term, meaning they would still be available to generate electricity after the upfront capital costs have been paid for by the current generation of ratepayers. Recovering the GA costs over a longer period would provide significant and immediate rate relief to ratepayers by spreading the cost of electricity investments to better reflect the expected lifecycle of the infrastructure that has been built.

In the early years, a portion of the costs recovered through the GA would be deferred, reducing pressure on today's electricity ratepayers. In later years, the deferred costs would be recovered from ratepayers.

Enhancing Social and Conservation Programs

To help Ontario's most vulnerable electricity consumers, the government intends to introduce legislation to enhance existing programs or introduce new initiatives. They will also become government-funded programs. The cost is estimated to be about \$2.5 billion over the next 3 years.

Ontario Electricity Support Program

On April 23, 2014, the Minister of Energy requested that the Ontario Energy Board (OEB) provide options for the design, development and implementation of a long-term, rate-payer funded program, which is intended to provide qualifying low-income electricity consumers with a credit on their electricity bills. On March 26, 2015, the Ministry of Energy announced that it was proposing to launch the Ontario Electricity Support Program (OESP), which would provide an ongoing credit directly on the bills of eligible low-income customers. In late October 2015, the OESP began accepting applications.

On March 2, 2017, the Ministry of Energy announced that the government is proposing to increase the available credits under the OESP by 50 per cent. It was also announced that OESP would now be funded by the government instead of by ratepayers.

Proposed Credit

Ontario is proposing increasing the OESP by 50 per cent, meaning that single, low-income consumers who receive the lowest credit amount would get an increase from \$30 to \$45 per month (\$540 per year, an increase of \$180), and the lowest credit for the enhanced scale would increase from \$45 to \$68 (\$816 per year, an increase of \$276).

The higher credits resulting from the announced 50 per cent increase would be refined in consultation with the Ontario Energy Board. The tables below show the proposed increased monthly credits. The household income amounts listed in the tables below are after tax, or net income.

Proposed OESP Monthly Credit Amounts								
Stepped Sliding Scale - Benefit Level		Household Size						
		1 Person	2 Persons	3 Persons	4 Persons	5 Persons	6 Persons	7+ Persons
Income Bracket	< \$28,000	\$45	\$45	\$51	\$57	\$63	\$75	\$75
	\$28,001 - \$39,000	-	\$40	\$45	\$51	\$57	\$63	\$75
	\$39,001 - \$48,000	-	-	\$35	\$40	\$45	\$51	\$57
	\$48,001 - \$52,000	-	-	-	-	\$35	\$40	\$45

The OESP offers a larger credit to consumers whose homes are electrically heated, and those who rely on certain medical devices. Eligible First Nation and Métis households also qualify for a larger credit.

Proposed OESP Monthly Credit Amounts – Energy Intensive								
Stepped Sliding Scale - Benefit Level		Household Size						
		1 Person	2 Persons	3 Persons	4 Persons	5 Persons	6 Persons	7+ Persons
Income Bracket	< \$28,000	\$68	\$68	\$75	\$83	\$90	\$113	\$113
	\$28,001 - \$39,000	-	\$60	\$68	\$75	\$83	\$90	\$113
	\$39,001 - \$48,000	-	-	\$52	\$60	\$68	\$75	\$83
	\$48,001 - \$52,000	-	-	-	-	\$52	\$60	\$68

The program is available to low-income customers who have accounts with electric utilities, unit sub-meter providers and retail energy companies.

Customers must apply to the program online or through a designated intake agency. Ontarians requiring assistance with the application process would be supported by local social agency partners. A tailored communications and application process has been developed to support First Nation communities.

- The Province is exploring automatic qualification for customers who are enrolled in other provincial low-income social programs

Most eligible customers need to re-apply every two years or whenever their personal circumstances change. For example, eligible customers would need to re-apply if they move or experience a change in income level. An extended program eligibility period of five years is applicable for any account holder aged 65 and over, or those receiving a Canada Pension Plan disability pension.

Ontario's Fair Hydro Plan announced that starting this summer, OESP will be funded by the government instead of ratepayers.

- Currently, OESP is ratepayer funded through a per kilowatt hour charge on electricity bills. The charge is currently set at \$0.0011 per kilowatt hour.

Rural or Remote Rate Protection

Rural or Remote Rate Protection (RRRP) is a rate subsidy provided to rural or remote residential customers because the cost of distributing power to rural and remote areas is much higher than for urban areas.

The RRRP is currently provided to approximately 350,000 rural residential customers in Ontario.

- On January 1, 2017, the annual funding cap for RRRP was increased from \$127 million to \$243.4 million. This increase was announced in September 2016.

- Currently, the RRRP program cost is recovered from all electricity customers in the province through a volumetric charge as required by O. Reg. 442/01, under the Ontario Energy Board Act, 1998.
- The RRRP charge for 2017 is 0.21 cents per kilowatt hour, increasing from the 2016 charge of 0.13 cents per kilowatt hour.

Ontario's Fair Hydro Plan announced that starting this summer, the Province would move to fund RRRP costs through the tax base.

As part of the Fair Hydro Plan, the Province announced that it will also expand the RRRP to provide distribution charge relief to additional customers served by LDCs with the highest rates. About 800,000 customers in total would benefit from the enhanced RRRP program.

- LDCs that could benefit from the expanded RRRP include Hydro One R2 and R1 rate classes (residential low and medium density areas, respectively), Northern Ontario Wires Inc., Lakeland Power Distribution Ltd. (Parry Sound service territory), Chapleau Public Utilities Corporation, Sioux Lookout Hydro Inc., InnPower Corporation, Atikokan Hydro Inc. and Algoma Power Inc. . The benefits would differ from LDC to LDC. Credit amounts would be set using the lowest cost distribution LDC from the group, as set by the Ontario Energy Board (OEB).

Affordability Fund

As part of the Fair Hydro Plan, the Province also announced that it will launch a new Affordability Fund. The Affordability Fund will assist electricity customers who cannot qualify for low-income conservation programs.

- The Affordability Fund provides LDCs with an additional tool to help customers in need. LDCs would use the Fund to provide support to customers for energy efficiency improvements to help reduce their future electricity bills.

The Province has established a Trust, with Hydro One and other electricity distributors administering the Affordability Fund.

The Province will pay for the Affordability Fund through provincial revenues. No legislative amendments are required for this fund.

First Nations On-Reserve Delivery Credit

In 2016, the Ontario Energy Board (OEB) engaged with First Nations, including remote communities, the distributors serving them, and consumer groups such as the Low Income Energy Network.

Following the engagement process the OEB recommended:

- Eliminating the delivery charge for all on-reserve First Nations residential customers and removing the monthly service charge for customers of licensed distributors which charge a bundled rate. The OEB estimates this would provide residential customers an average monthly benefit of \$85 (i.e., \$1,020 annually).

- Automatically qualifying on-reserve First Nations residential customers (approximately 21,500 customers).
- Enabling greater information sharing between distributors and Band Councils to identify all on-reserve First Nations customers.

The Province is also moving forward in having the First Nations On-Reserve Delivery Credit funded by provincial revenues.

Expanding the Industrial Conservation Initiative (ICI)

Expanding the eligibility threshold for the ICI would provide small manufacturers and industrials the opportunity to save on their electricity costs, while reducing the province's peak demand.

Under the expanded ICI, small manufacturers and industrials whose electricity demand is currently too low to qualify for ICI, would now be eligible for the expanded ICI if they wish to participate.

- Extending eligibility to small manufacturers and industrials with average monthly peak demand over 500 kilowatts.
- Targeting manufacturing sectors with NAICS codes commencing with the digits "31", "32", and "33", as well as NAICS code 1114, which includes greenhouses

Existing Electricity Price Mitigation Measures: Households

Ontario Rebate for Electricity Consumers

On October 19, 2016, Ontario passed legislation that will rebate an amount equal to the provincial portion of the HST from electricity bills for about five million electricity consumers, including:

- Residential consumers
- Multi-unit residential buildings and other facilities used as residential rental units such as long-term care homes and school residences
- Small businesses
- Farms

This eight per cent saving went into effect as of January 1, 2017 and is resulting in savings of about \$130 a year or \$11 per month for a typical Ontario residential consumer.

Rural or Remote Electricity Rate Protection program

The Rural or Remote Electricity Rate Protection (RRRP) program is designed to provide assistance to eligible customers located in rural or remote areas where the costs of providing electricity service to these customers greatly exceeds the costs of providing electricity to customers located elsewhere in the province of Ontario. The RRRP amount is a source of revenue for identified rural and remote electricity distributors to allow them

to reduce the amount they would otherwise have to charge some of their customers to distribute electricity.

Each year, the Board has approved a RRRP benefit amount to be collected from electricity distributors by the Independent Electricity System Operator (IESO). Electricity distributors in turn have a Board-approved retail RRRP charge to recover the RRRP amount paid to the IESO from their respective customers. Going forward, this charge would be eliminated, as the RRRP would be funded by the Province.

In September 2016, Ontario announced increased funding to the RRRP, which will reduce electricity delivery costs for approximately 330,000 eligible rural customers located in rural areas .

Together, the 8 per cent rebate and the enhanced RRRP announced in September 2016 is providing eligible rural customers with a monthly savings of about 20 per cent, or \$45 per month, or \$540 a year.

End of the DRC

The *Electricity Act, 1998*, previously allowed for the debt retirement charge (DRC) to be paid until the Minister of Finance determines that the residual stranded debt is retired. The DRC has been set at 0.7 cents per kilowatt-hour on most electricity consumed in Ontario.

As part of its commitment to reduce electricity cost pressures, the government has removed the DRC cost from residential users' electricity bills as of January 1, 2016. This would save a typical residential user about \$70 per year and mean ending the DRC earlier for these users than otherwise provided for in the *Electricity Act, 1998*.

Previously, the DRC end date was uncertain, as the estimated timing for residual stranded debt retirement is subject to uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, which depend on the financial performance of OPG, Hydro One, and municipal electricity utilities (MEUs), as well as other factors such as interest rates and electricity consumption.

Existing Electricity Price Mitigation Measures: Businesses

Ontario Rebate for Electricity Consumers

On October 19, 2016, Ontario passed legislation that is rebating the amount equal to the provincial portion of the HST from electricity bills as of January 1, 2017 for about five million residential consumers, farms and small businesses. The amount of the rebate will not affect the amount of the input tax credits that small businesses and firms can claim.

A small business using 20,000 kilowatt-hours (kWh) per month could save an estimated \$270 per month, or about \$3,200 a year.

Industrial Conservation Initiative (ICI)

The Province implemented the ICI program in 2011. Initially, the ICI program has charged consumers with an average monthly peak demand greater than five megawatt (MW) a global adjustment rate proportional to their share of peak demand measured during the five highest-peak hours over a year-long period between May 1 and April 30. These consumers are defined as Class A consumers.

In 2015, Ontario expanded the ICI program to include consumers with average monthly peak demand greater than 3 MW in the manufacturing, mining, quarrying, oil/gas extraction, greenhouse, refrigerated warehousing or data processing sectors. The new Class A entrants had the opportunity to opt-in to the ICI program at their discretion and began receiving billing as Class A customers starting July 1, 2015.

There are about 300 participating consumers as of September 2016, who collectively reduced Ontario's peak demand by an estimated 1,000 MW in 2015.

Ontario has expanded the ICI program – with billing beginning July 1, 2017 – to include more than 1,000 newly eligible customers with monthly peak demand greater than 1 MW, down from the current threshold of 3 MW. In addition, sector restrictions would be removed and smaller institutional and commercial businesses would be eligible to participate.

ICI expansion supports both increased business competitiveness as well as the government's conservation goals by:

- Enhancing the efficiency and competitiveness of a larger number of industrial firms;
- Helping reduce emissions by promoting energy conservation during peak demand periods;
- Improving the reliability of the electricity system, especially during critical peak demand periods;
- Reducing the need for and costs associated with the building of new electricity power plants in the future to cope with periods of high demand;
- Reduce cost pressures on the electricity system by empowering more consumers to lower their electricity demand during peak periods; and
- Reduce electricity bills for new ICI participants who are able to reduce their electricity demand during peak demand periods.

End of the DRC

The *Electricity Act, 1998*, previously allowed for the debt retirement charge (DRC) to be paid until the Minister of Finance determines that the residual stranded debt is retired. The DRC has been set at 0.7 cents per kilowatt-hour on most electricity consumed in Ontario.

As part of its commitment to reduce electricity cost pressures, the government has removed the DRC cost from residential users' electricity bills as January 1, 2016.

As a further step to mitigate electricity cost pressures for commercial, industrial and all other electricity users, the government introduced legislation, the *Budget Measures Act, 2015*, passed in December 2015, and the DRC for all other users will end on April 1, 2018, nine months earlier than previously estimated.

Ending the DRC on a legislated fixed date provides certainty to commercial, industrial and other users such as institutions and not-for-profits, and helps them plan their investment decisions more effectively.

Previously, the DRC end date was uncertain, as the estimated timing for residual stranded debt retirement is subject to uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, which depend on the financial performance of OPG, Hydro One, and municipal electricity utilities (MEUs), as well as other factors such as interest rates and electricity consumption.

Northern Industrial Electricity Rate (NIER) Program

In *Budget 2015*, the government committed to ongoing support of northern industrial facilities beyond March 2016, with continued investment of up to \$120 million per year.

- This will support and retain large electricity users, as well as promote competitiveness and jobs in northern Ontario for the benefit of all Ontarians.

The NIER program was first announced in March 2010 for a three-year period, and in 2012 for an additional three-year term, to expire on March 31, 2016. The government has extended the existing NIER Program for one additional year (April 1, 2016 – March 31, 2017) to allow for additional time to thoroughly develop the ongoing program.

- Each of the participant's individual facility must consume a minimum of 50,000 MWh of electricity annually from the grid controlled by the Independent Electricity System Operator or a local distribution company.

- Companies eligible to participate in the NIER program must be classified as being within one of the following North American Industry Classification System industry sectors:
 - Mining and Oil and Gas Extraction, and
 - Manufacturing, with the exception of facilities that are designated as Sawmills and Wood Preservation which would not be eligible for the NIER program.
- Participants are required to develop and implement an energy management plan to manage their energy usage and reduce costs.
- Companies currently participating in the program in good standing would continue to participate in the extended program.
- New applicants would be accepted if funds are available up to the program cap of \$120 million per year on a first come, first serve basis.

Industrial Electricity Incentive (IEI)

In 2012, at the time of the government's decision to implement the IEI program, it was noted that since 2007, industrial electricity use in Ontario had decreased by approximately five terawatt-hours (TWh), primarily due to the world-wide economic downturn. As a result of the continued low electricity demand levels and increased generation capacity, Ontario has experienced intermittent periods of surplus generation since 2009. The intent of the IEI program is to assist in the management of electricity demand by encouraging increased industrial production. This is to be achieved through electricity-based price adjustments for eligible electricity consumption.

On November 1, 2012, the Minister of Energy directed the former Ontario Power Authority (OPA), now merged into the expanded Independent Electricity System Operator (IESO), to implement the IEI program. The IEI program was originally offered in two distinct streams:

- Stream 1, for up to 3 TWh, for industrial consumers willing to operate an industrial facility and undertake a large capital investment in technologies, products or processes that are not currently being used or produced in Ontario.
 - The application window closed on February 15, 2013.
- Stream 2, for up to 2 TWh, for existing industrial consumers in Ontario that will expand their existing, or build a new, industrial facility.
 - The application period for Stream 2 ended on June 10, 2013.
 - Stream 2 projects must consume at least 7,000 MWh of incremental electricity per year. The contracts end on December 31, 2019.

The new IEI stream 3 builds on the previous successful intakes. Eligibility was extended to other energy intensive sectors, such as greenhouses, data processing and refrigerated warehousing. Previously, eligibility was limited to the manufacturing and resource extraction (mining, quarrying, oil and gas) sectors. The requirement to bring incremental load online was extended from 2 to 3 years from contract signing.

Provided they achieve contract requirements, participants under Stream 2 and 3 pay the marginal cost of electricity (market price plus uplifts) on incremental electricity load as the IESO provides an offsetting payment related to the following eligible charges on the participant's electricity bill:

- Global Adjustment; transmission network charges; Debt Retirement Charge; Independent Electricity System Operator (IESO); other charges, such as the Rural and Remote Electricity Rate Protection charge and the Renewable Generation Connection Rate Protection charge
- Participants would continue to pay transmission connection charges and local distribution costs

The table below shows a selection of the successful IEI Stream 2 and 3 applicants.

Industrial Electricity Incentive Program – Examples of Successes

Stream	Applicant Name	Sector	Estimated New Jobs*	Location
Stream 2	Pembroke MDF	Pulp and Paper	140	Pembroke
Stream 2	ASW Steel	Steel	45	Welland
Stream 2	Atlantic Packaging Products	Pulp and Paper	80	Whitby
Stream 2	Resolute Forest Products	Pulp and Paper	78	Atikokan
Stream 3	White River Forest Product	Saw Mill	-	White River
Stream 3	FNX Mining Company	Copper and Nickel Or Mining	-	Whitefish
Stream 3	1382311 Ontario Ltd	Greenhouse	-	Leamington
Stream 3	Tweed Inc.	Pharmaceutical and medicine manufacturing	-	Smith Falls

*Note: Stream 3 does not have an employment requirement for program participation.

Industrial Accelerator Program (IAP)

The Industrial Accelerator Program (IAP) was designed to provide financial incentives to encourage investment in innovative process changes and equipment retrofits to reduce electricity consumption and help companies become more competitive. The IAP has been recently extended to December 31, 2020.

There are now four initiatives under the Industrial Accelerator Program:

1. Retrofit – Provides incentives for energy saving equipment such as lighting, motors, pumps, compressed air, unitary air conditioning, variable frequency drives, and control systems.
2. Process & Systems, including Small Capital Projects - provides financial incentives to encourage investment in innovative process changes and equipment retrofits. In exchange, participants will commit to deliver specific conservation targets within a specific time period and maintain these savings over the expected life of the project.
3. High Performance New Construction - provides design assistance and financial incentives for facilities that exceed typical electricity efficiency standards.
4. Energy Managers – a new initiative where facilities can gain access to experienced Energy Managers on a full-time basis. Energy Managers can help your facility develop an energy management strategy, identify and implement energy efficiency projects, and facilitate the Industrial Accelerator incentives application process.

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GLOBAL ADJUSTMENT

ISSUE

What is the Global Adjustment (GA) portion of the electricity bill?

Reference: Chapter II, Reducing Electricity Rates by 25 Per Cent

KEY FACTS

- The global adjustment component of the electricity bill covers part of the cost of the electricity commodity.
- The global adjustment is set monthly to reflect
 - The differences between the wholesale market price for electricity, known as Hourly Ontario Energy Price (HOEP) and:
 - Regulated rates for Ontario Power Generation's nuclear and hydroelectric generating stations
 - Payments for contracted rates paid to a number of generators across the province that have built or refurbished and operate electricity generation infrastructure such as gas-fired and renewable facilities (e.g., hydro, wind, solar) and nuclear.
 - The cost of delivering conservation programs
- The GA varies from month to month, responding to changes in the HOEP compared to contract prices. Generally speaking, when the HOEP is lower, the GA is higher to cover additional costs for the items referenced above. The GA rate is also impacted when new projects come into service, contract payments take effect or as a result of changes in Ontario electricity demand.
- To relieve the current burden on ratepayers and allocate costs more fairly, a portion of the GA is proposed to be refinanced under the Fair Hydro Plan.
- Refinancing the GA would provide significant and immediate rate relief by spreading the cost of electricity investments over 30 years to better reflect the expected lifecycle of infrastructure that has been built.
 - In the early years, a portion of the costs covered by the GA would be refinanced to reduce pressure on today's electricity ratepayers
 - In later years, the cost of refinancing would be recovered from ratepayers.
 - Under current forecasts, the immediate reduction in the GA would be about \$2.5 billion per year on average over the first 10 years.

BACKGROUND

GA Refinancing

The majority of the province's electricity generators have 20-year contracts.

Many of these generators will be able to operate past their contract term, meaning they would still be available to generate electricity after the upfront capital costs have been paid for by the current generation of ratepayers. Recovering the GA costs over a longer period would provide significant and immediate rate relief to ratepayers by spreading the cost of electricity investments to better reflect the expected lifecycle of the infrastructure that has been built.

In the early years, a portion of the costs recovered through the GA would be deferred, reducing pressure on today's electricity ratepayers. In later years, the deferred costs would be recovered from ratepayers.

Under forecasts provided at the time of the March 2nd announcement, the immediate reduction in the GA would be about \$2.5 billion per year on average over the first 10 years, with annual interest costs rising over the period as the deferred amount of GA accumulates, but annual interest costs not exceeding \$1.4 billion. Interest costs are estimates, subject to actual interest rates and GA deferral amounts.

Global Adjustment

The Global Adjustment (GA) is in place to recover the full supply cost of the electricity commodity and conservation and demand management programs, and it covers the difference between the hourly Ontario electricity price (HOEP) and the rates paid to regulated and contracted generators and for conservation and demand management programs.

The GA varies from month to month, responding to changes in both the HOEP and contract terms. Generally speaking, when the HOEP is lower, then the GA is higher in order to cover the full commodity and conservation and demand management costs mentioned above. The GA also changes when new projects come into service, contract payments take effect or as a result of changes in demand.

There are two classes of consumers defined by regulation. Class A is comprised of consumers eligible for the Industrial Conservation Initiative Program.

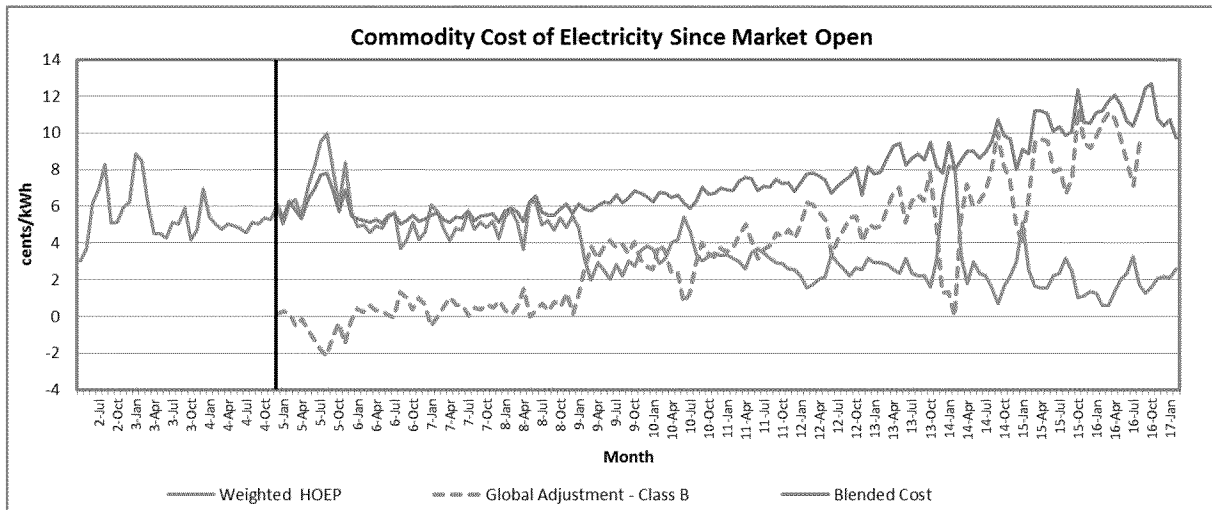
These Class A consumers have an average monthly hourly demand peak of:

- at least 5 MW and do not opt-out of the ICI program,
- at least 1 MW for customers in all industries and opt-in to the ICI program, or
- at least 0.5 MW for customers in certain industries and opt-in to the ICI program, based on the recent expansion of the ICI program.

Class B consumers comprise of all other consumers, including RPP consumers.

All customers pay the GA. As described above, Class A customers pay based on contribution to peak demand, and Class B customers pay based on a flat volumetric rate applied to their consumption.

The following chart provides a breakdown of the commodity cost of electricity into the HOEP and GA components for Class B consumer.



The following table provides the historical annual average HOEP vs. the GA, including the Class A GA expressed on a \$/MWh basis to illustrate the savings provided by the ICI for Class A consumers.

Year	Average Weighted HOEP (\$/MWh)	Global Adjustment (Classes A & B) (\$/MWh)	Class A - Global Adjustment (\$/MWh)
2016	16.62	87.81	52.53
2015	23.58	74.04	41.61
2014	36.00	49.54	26.77
2013	26.50	54.49	32.97
2012	24.10	45.87	27.83
2011	31.50	37.56	24.26
2010	37.90	27.18	-
2009	31.60	30.55	-
2008	51.70	6.12	-
2007	50.50	3.94	-
2006	48.80	4.36	-
2005	72.10	(7.44)	-
2004	52.20	-	-
2003	57.60	-	-
2002	55.90	-	-

2011 – 2015 *Class A Global Adjustment* calculated based on estimated Class A consumption and total Global Adjustment applied to Class A consumers.

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REGULATED PRICE PLAN (RPP)

ISSUE

The Regulated Price Plan (RPP) was developed by the Ontario Energy Board to provide stable and predictable electricity pricing, encourage conservation and ensure the price paid by consumers for electricity better reflects the price paid to generators.

Reference: Chapter II, Reducing Electricity Rates by 25 Per Cent

KEY FACTS

- The OEB reviews commodity prices for Ontario's residential and eligible small business customers on the Regulated Price Plan (RPP) twice each year and resets prices as of May 1 and Nov. 1. These prices are shown in the electricity line of the bill as Time-of-Use pricing.
 - The electricity prices that the OEB sets are only paid by households and eligible small businesses who buy their electricity from their local utility.
 - Electricity commodity costs make up more than half the total of a typical household bill. Electricity prices are shown on one of the four line items on bills – the Electricity line.
 - The other lines of the bill are Delivery, Regulatory Charges and the Debt Retirement Charge (for non-residential consumers).
- Reviewing and setting prices every six months protects consumers from fluctuating commodity prices and provides stability and predictability on the electricity line of their bills. It also ensures supply costs are fully recovered so that the system continues to operate effectively.
- Nearly all of Ontario's almost 5 million residential and small business customers pay electricity prices established through the RPP.
- There are two RPP price structures:
 - one for consumers with eligible time-of-use (or "smart") meters who pay time-of-use (TOU) prices, who make up the majority of RPP consumers, and
 - one for consumers with conventional meters (Tiered Pricing).

BACKGROUND

Regulated Price Plan Eligibility

The Ontario Energy Board (OEB) has administered the Regulated Price Plan (RPP) to provide stable and predictable electricity pricing, encourage conservation and ensure the price consumers pay for electricity better reflects the price paid to generators.

Nearly five million residential and low-volume business consumers are eligible for the RPP.

According to the OEB, a small number of electricity customers – fewer than 1 in 10 – get their power from an electricity retailer rather than their local utility. Those customers pay the prices stated in their contract, regardless of adjustments to RPP prices.

Regulated Price Plan eligible consumers are outlined in O.Reg 95/05 of the *Ontario Energy Board Act, 1998*:

1. Low-volume consumers.*
2. A consumer who has a demand of 50 kilowatts or less.
3. A consumer who has an account with a distributor, if the account relates to,
 - I. a dwelling,
 - II. a property as defined in the Condominium Act, 1998,
 - III. a residential complex as defined in the Residential Tenancies Act, 2006, or
 - IV. a property that includes one or more dwellings and that is owned or leased by a co-operative as defined in the Co-operative Corporations Act.
4. A consumer who annually uses at least 150,000 but not more than 250,000 kilowatt hours of electricity.
5. A consumer who has an account with a distributor if the consumer,
 - i. carries on a business that is a farming business for the purposes of the Farm Registration and Farm Organizations Funding Act, 1993, and
 - ii. holds a valid registration number assigned under that Act or the consumer's obligation to file a farming business registration form was waived pursuant to an order made under subsection 22 (6) of that Act. O. Reg. 58/08, s. 1; O. Reg. 115/09, s. 1 (2); O. Reg. 494/10, s. 2 (2, 3).

* "low-volume consumer" means a consumer who annually uses less than 150,000 kilowatt hours of electricity or such other amount of electricity as is prescribed by the regulations

DISCLAIMER: This preliminary analysis and interpretation of legislation/regulation was carried forth by CEFD staff without the input from legal staff. Legal staff would need to be involved to ensure complete accuracy.

Almost all RPP-eligible consumers have smart meters, and most under the time-of-use (TOU) structure in the RPP. The remaining RPP-eligible consumers are billed under the RPP's tiered pricing structure or opt-out of the Regulated Price Plan and sign a contract with a retailer.

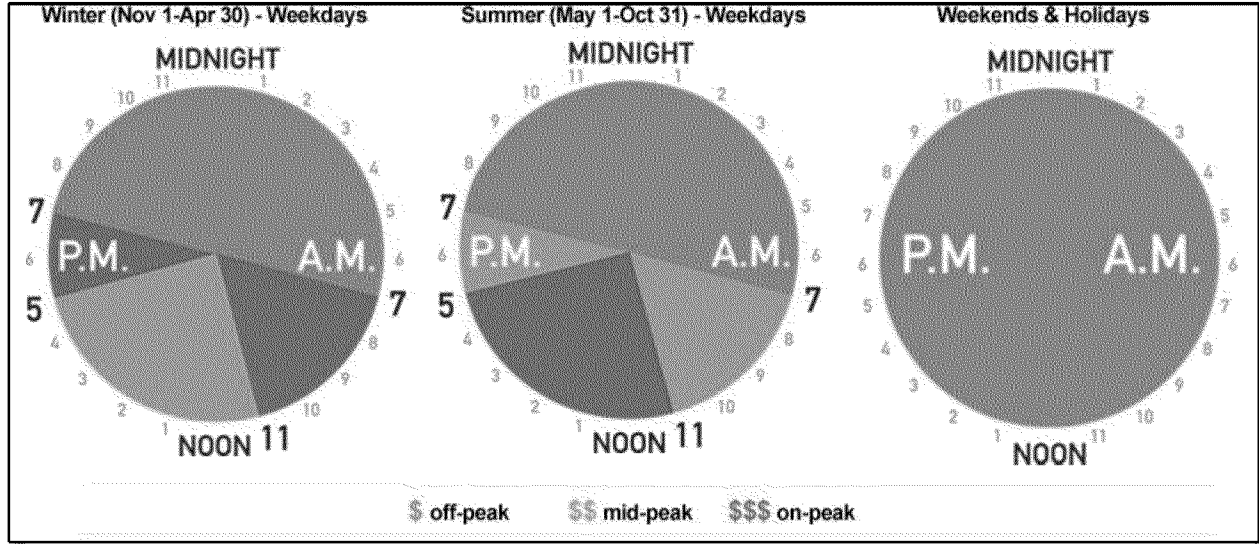
Time-of-use Pricing

Customers pay different prices depending on what time of day they use electricity.

There are three time-of-use periods – on-peak (the most costly), mid-peak (the middle range of the three prices) and off-peak (the least costly).

The table below outlines historical RPP Prices:

Time-of-Use (TOU) Prices (¢/kWh)			
	Off-Peak	Mid-Peak	On-Peak
May 1, 2017	7.7	9.1	8.7
November 1, 2016	8.7	13.2	18
May 1, 2016	8.7	13.2	18
November 1, 2015	8.3	12.8	17.5
May 1, 2015	8	12.2	16.1
November 1, 2014	7.7	11.4	14
May 1, 2014	7.5	11.2	13.5
November 1, 2013	7.2	10.9	12.9
May 1, 2013	6.7	10.4	12.4
November 1, 2012	6.3	9.9	11.8
May 1, 2012	6.5	10	11.7
November 1, 2011	6.2	9.2	10.8
May 1, 2011	5.9	8.9	10.7
November 1, 2010	5.1	8.1	9.9
May 1, 2010	5.3	8	9.9
November 1, 2009	4.4	8	9.3
May 1, 2009	4.2	7.6	9.1
November 1, 2008	4	7.2	8.8
May 1, 2008	2.7	7.3	9.3
November 1, 2007	3	7	8.7
May 1, 2007	3.2	7.2	9.2
November 1, 2006	3.4	7.1	9.7
May 1, 2006	3.5	7.5	10.5



Time-of-use prices are designed to encourage households and small businesses to use electricity during lower-cost time periods. This can in turn ease pressure on the provincial power system. It can also benefit the environment.

Ninety-seven per cent of customers on the Regulated Price Plan pay time-of-use prices.

The TOU prices in each period are set in combination to recover the actual costs of electricity.

Tiered Pricing

A small number of customers – fewer than 1 in 10 – are still on the old, tiered pricing system, known as tiered pricing.

Under tiered pricing, customers are charged two rates for electricity: a lower rate for electricity used up to a threshold amount and a second, higher rate for all additional use. These thresholds vary based on the rate setting period.

The following table outlines historical Tiered Prices:

Tiered Prices (¢/kWh)			
Effective Date	Lower Tier Price (¢ per kWh)	Residential Threshold for Lower Tier Price (kWh per month)	Higher Tier Price (¢ per kWh)
May 1, 2017	9.1	600	10.6
November 1, 2016	10.3	1,000	12.1
May 1, 2016	10.3	600	12.1
November 1, 2015	9.9	1,000	11.6
May 1, 2015	9.4	600	11
November 1, 2014	8.8	1,000	10.3
May 1, 2014	8.6	600	10.1
November 1, 2013	8.3	1,000	9.7
May 1, 2013	7.8	600	9.1
November 1, 2012	7.4	1,000	8.7
May 1, 2012	7.5	600	8.8
November 1, 2011	7.1	1,000	8.3
May 1, 2011	6.8	600	7.9
November 1, 2010	6.4	1,000	7.4
May 1, 2010	6.5	600	7.5
November 1, 2009	5.8	1,000	6.7
May 1, 2009	5.7	600	6.6
November 1, 2008	5.6	1,000	6.5
May 1, 2008	5	600	5.9
November 1, 2007	5	1,000	5.9
May 1, 2007	5.3	600	6.2
November 1, 2006	5.5	1,000	6.4
May 1, 2006	5.8	600	6.7
November 1, 2005	5	1,000	5.8
April 1, 2005	5	750	5.8

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**Branch: Electricity Finance Branch
Corporate and Electricity Finance Division
Ontario Financing Authority**

INDUSTRIAL CONSERVATION INITIATIVE

ISSUE

The Industrial Conservation Initiative (ICI) provides an incentive for electricity consumers to reduce electricity consumption during peak hours in order to reduce their bills thereby improving reliability and lowering total system costs.

Ontario's Fair Hydro Plan includes a further eligibility expansion of the ICI by lowering the threshold for participation by eligible firms to 500 kW from 1 MW for targeted manufacturing and industrial sectors, including greenhouses.

Reference: Chapter 2, Reducing Electricity Costs for Businesses Chapter 3, Supporting Ontario's Manufacturing Sector

KEY FACTS

- The Industrial Conservation Initiative (ICI) was announced by the Government of Ontario in 2010 to apply to customers with a peak demand greater than 5 megawatts (MW), effective January 1, 2011.
- The government subsequently expanded the Industrial Conservation Initiative (ICI) by lowering the threshold for participation from five MW to three MW, effective July 2015, thereby increasing the number of Ontario businesses eligible to participate in the ICI.
 - The ICI encourages large electricity users, including those in northern Ontario, to reduce electricity costs by lowering electricity consumption during peak hours.
 - Under the 3 MW threshold, there were about 300 participating consumers that collectively reduced Ontario's peak demand by an estimated 1,000 MW in 2015
- In September 2016, the government announced a proposal to expand ICI eligibility to customers with monthly peak demand greater than one MW and drop sectoral restrictions to allow a further 1,000 industrial and commercial businesses and institutions to participate in the ICI.
 - The regulation to expand the eligibility was in effect starting January 1, 2017 with billing beginning July 1, 2017, for those that opt-in by June 15, 2017.
- On March 2, 2017, the government announced the proposed Fair Hydro Plan, which includes a targeted further expansion of the eligibility for the ICI to more small and medium manufacturing consumers (i.e., in sectors with NAICS codes commencing with the digits "31", "32", and "33" covering manufacturing sectors, as well as NAICS code 1114, which includes greenhouses), by lowering the demand threshold to 500 kW.
 - The regulation to expand the eligibility was in effect starting April 13, 2017, with the expanded eligible entities required to choose whether to opt-in by June 15, 2017, for billing to begin for the period on or after July 1, 2017.

BACKGROUND

Customers who participate in the Industrial Conservation Initiative (ICI), referred to as Class A, are charged Global Adjustment on the basis of their share of the total system demand during the highest five peak hours of the year.

Customers with an average peak demand of above 1 MW and up to and including 5 MW will be informed by their distributor, or the IESO if they are transmission-connected, before May 31 each year if they are eligible. These customers must opt in by June 15 of each year to participate in ICI. They will then be charged as Class A customers for the adjustment period starting on July 1.

Customers with an average peak demand above 5 MW automatically qualify as Class A customers. These customers must opt out by June 15 of each year if they choose not to participate in ICI.

The ICI provides a strong incentive for large electricity consumers to shift their electricity consumption to off-peak hours to reduce their bills by about one-third. By reducing the province's peak demand, ICI has the added benefit of deferring the need to build peaking generation.

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DEVELOPMENT CHARGE REBATE

ISSUE

The government is proposing a new program to rebate development charges for new multi-residential rental apartment buildings.

Reference: Chapter II, Housing Affordability

KEY FACTS

- Ontario is taking action to make housing more affordable for homebuyers and renters.
- The government is introducing the Fair Housing Plan – a comprehensive set of measures that would, if passed, help more people find an affordable place to call home, while bringing stability to the real estate market.
- An important component of this Plan is to encourage the development of new purpose-built multi-residential rental apartment buildings.
- In support of this plan, the government is proposing a new targeted, \$125 million, five-year program to rebate a portion of development charges for new multi-residential rental apartment buildings.
- The new program would be scoped to target projects in those communities that are most in need of new purpose-built rental housing and that would not have proceeded in the absence of this incentive.

BACKGROUND

Context

- Development charges are upfront fees levied by municipalities and school boards that can represent a significant portion of construction costs.
 - Some developers have suggested that these charges can be a barrier to the development of new purpose-built multi-residential rental housing.
- In the 2016 Economic Outlook and Fiscal Review, the Province announced a review of the property taxation of multi-residential apartment buildings to improve housing affordability in the rental market. The proposed development charge rebate program is an early outcome from that review.

Proposal

- To encourage the development of new purpose-built multi-residential rental apartment buildings, the government is proposing a new targeted, \$125 million,

five-year program to rebate a portion of development charges for new multi-residential rental apartment buildings.

- The new program would be scoped to target projects in those communities that are most in need of new purpose-built rental housing and that would not have proceeded in the absence of this incentive.
- This program would be provided as an optional tool for municipalities to encourage new multi-residential development in their communities.
 - Municipalities who opt to participate would help tailor the design of the program to meet the needs of their communities.
 - For example, eligible projects could include those that meet key criteria such as affordability and providing an appropriate mix of unit types.
- The rebate program would not reduce this important source of revenue for funding infrastructure. Municipalities and school boards will still collect the development charges and set those amounts aside for infrastructure.
 - For eligible properties, participating municipalities may be able to draw from the proposed provincial funding to reimburse eligible developers for a portion of that amount.

Current Treatment

- Development charges are discretionary fees levied by municipalities and school boards on new development to help pay for the infrastructure required to service new growth.
- There are three types of development charges in Ontario:
 - **Municipal** – municipalities may levy charges on new development to help finance the growth-related capital costs for municipal services;
 - **Education** – school boards may levy a charge on new development to finance the acquisition of land to build schools required as a result of new growth;
 - **GO Transit** – York, Durham, Halton and Peel regions also use development charges to help pay for the growth-related capital costs of GO Transit.
- Both upper-tier and lower-tier municipalities may levy development charges.
- Municipalities may also provide some discretionary exemptions to development charges, such as affordable housing and brownfields redevelopments.

Implementation

- The proposed program would be implemented during 2017.
- The Province will work with municipalities and other stakeholders to finalize program details in the coming months.

Prepared by: Leigh Boynton 416-327-0476 / Michael Ptolemy 416-212-1450

Branch: Assessment Policy & Legislation Branch, Provincial Local Finance Division

VACANT HOMES PROPERTY TAX

ISSUE

The province is empowering Toronto and potentially other interested municipalities to introduce a tax on vacant homes as one of a suite of measures designed to increase supply and address demand, making housing more affordable for people across Ontario.

Reference: Chapter II, Housing Affordability

KEY FACTS

- Ontario is taking action to make housing more affordable for homebuyers and renters.
- The government is introducing the Fair Housing Plan – a comprehensive set of measures that would, if passed, help more people find an affordable place to call home, while bringing stability to the real estate market.
- As an important component of this Plan, the government is proposing a Vacant Homes Property Tax power for the City of Toronto.
- Ontario is empowering Toronto and potentially other interested municipalities to introduce a tax on vacant homes as one of a suite of measures designed to increase supply and address demand, making housing more affordable for people across Ontario.
- The government understands the concerns that have been raised about residences potentially being left vacant by speculators, while many people are looking for housing they can afford.
- The Mayor of Toronto has expressed concerns about reports that speculators are leaving a significant number of homes vacant in Toronto. The Mayor has also identified a tax on vacant homes as a tool that should be considered in order to address this concern.
- Such a tax could help encourage property owners to sell unoccupied units or make them available to be rented. This could, in turn, increase housing supply and help promote affordability.
- For this reason, the government is proposing amendments to legislation that would grant Toronto broad authority to levy an additional property tax on vacant homes. If the City decides to proceed with this tax, it would be responsible for its detailed design, implementation, and administration.
- The government will also work with other interested municipalities that are experiencing issues with homes being left vacant as a result of speculation.

BACKGROUND

Vancouver recently introduced an Empty Homes Tax, which is a property tax of 1 per cent on unoccupied residences, defined as property that is not occupied as a principal residence or rented to a long-term tenant for at least six months of the current year. :

Legislative Amendments

Amendments will be proposed to both the City of Toronto Act and the Municipal Act.

These amendments would enable Toronto to levy a Vacant Homes Property Tax, and also allow the Minister of Finance to extend this authority to other interested municipalities.

The Vacant Homes Tax would be collected through the existing property tax system and would have the same legal status as property taxes.

Implementation

If the City decides to proceed with this tax, it might do so as early as 2018.

Prepared by: Aidan Carter 416-212-3012

Branch: Municipal Funding Policy Branch, Provincial Local Finance Division

PROPERTY TAXATION OF VACANT LAND

ISSUE

The Province will work with municipalities to ensure they have the flexibility through the property tax system to help unlock development and encourage the supply of new housing, which would in turn help to promote affordability.

The Province is introducing a legislative framework that would permit municipalities to impose a higher tax rate on vacant residential land that has been approved and serviced for new housing.

Reference: Chapter II, Housing Affordability

KEY FACTS

- Currently, vacant land that is zoned for residential development is taxed at the same municipal and education tax rates as land that is developed with a residential dwelling.
- Concerns have been expressed that land which has been approved and serviced for housing is being left undeveloped and held for speculative purposes.
- The government will work with municipalities to ensure they have the tools they need to help encourage the supply of new housing.
 - This could include providing municipalities with the flexibility to use property tax tools to assist with unlocking development opportunities.
 - For example, municipalities could be permitted to impose a higher tax rate on vacant land that has been approved and serviced for new housing.
- The government is proposing a legislative framework to ensure that municipalities have the flexibility to use property tax tools to help unlock development opportunities.
- Permitting municipalities to apply a higher tax rate to vacant land that has been approved and serviced for housing could help unlock development opportunities.
 - A higher tax on vacant land would complement provincial efforts to streamline the development approvals process and help bring new housing to market more rapidly.

BACKGROUND

- Currently, vacant land that is zoned for residential development is taxed at the same municipal and education tax rates as land that is developed with a residential dwelling.
- Concerns have been expressed that land which has been approved and serviced for housing is being left undeveloped and held for speculative purposes.
- Upon the enactment of legislation, amendments would be made to the *Assessment Act*, *Municipal Act*, and *City of Toronto Act* to provide more flexible property tax tools for municipalities.
 - These amendments would provide greater flexibility for the design of property classes and sub-classes, and would ensure that municipalities have the option to impose a higher tax rate on vacant land that has been approved and serviced for residential development.
- The Province will be working with municipalities to develop key parameters for these new tools that would best address their local circumstances.
- Subject to the passage of legislation, it is anticipated that regulations to support these new flexible tools would be in place later in 2017. However, the implementation of any new measures will be dependent on municipal decisions.

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Branch: Assessment Policy & Legislation Branch, Provincial Local Finance Division

FINANCIAL SERVICES REGULATORY AUTHORITY OF ONTARIO

ISSUE

What is the status of the government's initiative to create the Financial Services Regulatory Authority of Ontario (FSRA)?

Reference: Chapter II, Consumer Protection

KEY FACTS

- The government is committed to establishing a new flexible and innovative financial services and pension regulator that will strengthen consumer, investor and pension plan beneficiary protection, and is taking key steps to begin the transition to FSRA.
- The government expects to appoint a board of directors in spring 2017 to oversee the management of FSRA's affairs as it builds its regulatory capacity
- The government will also continue to consult with stakeholders and review the Expert Advisory Panel's recommendations
 - This work will inform the development of FSRA's mandate and governance structure and the structure and powers of the Financial Services Tribunal (FST).
 - Legislative amendments regarding these priorities are expected to be introduced by the end of 2017.

BACKGROUND

The *2014 Ontario Economic Outlook and Fiscal Review* announced that the government would be undertaking mandate reviews of the Financial Services Commission of Ontario (FSCO), the Financial Services Tribunal (FST) and the Deposit Insurance Corporation of Ontario (DICO).

- FSCO is responsible for regulating Ontario's insurance sector, pension plans, loan and trust corporations, credit unions, the mortgage broker sector, co-operative corporations and service providers who invoice auto insurers for statutory accident benefit claims.
- The FST adjudicates cases involving compliance issues in the regulated sectors.
- DICO provides deposit insurance for members of Ontario's credit unions and is also responsible for prudential oversight and solvency regulation of the sector.

Expert Advisory Panel

In March 2015 the government announced the appointment of an Expert Advisory Panel to review the mandates of FSCO, the FST and DICO.

The Panel conducted extensive consultations through two separate consultation reports and roundtable consultation sessions and submitted a Final Report to the Minister of Finance on March 31, 2016. The report included 44 recommendations for modernizing the regulation of financial services and pensions. It was made publicly available on the Ministry of Finance's website on June 20, 2016

The Panel's key recommendation was for government to wind down FSCO and replace it with FSRA, a new integrated, operationally independent, self-funded and board-governed regulator.

Government Response

In the *2016 Budget*, the government committed to modernizing and strengthening the regulation of financial services and pensions, and to improving consumer, investor and pension plan beneficiary protection. Subsequently, the government released the Panel's final report on June 20, 2016.

On September 23, 2016 the Minister of Finance received a new mandate letter setting out the Premier's instructions to the Minister on priorities. The letter noted that the Minister's specific priorities included developing the government's response to the Panel's final report and implementing any changes that result, ensuring strong regulation of financial services and pensions and improved consumer, investor and pension plan beneficiary protection. The Minister's December 30, 2016 mandate letter to Yvan Baker, his Parliamentary Assistant, included the same priority.

After considering the Panel's recommendations, on November 14, 2016 the government announced in the *2016 Ontario Economic Outlook and Fiscal Review* that it would introduce legislation that, if passed, would establish the initial parameters of FSRA.

The *Financial Services Regulatory Authority of Ontario Act, 2016* (FSRA Act) was introduced as Schedule 8 of Bill 70, the *Building Ontario Up for Everyone Act (Budget Measures)*, 2016. Bill 70 was introduced on November 16, 2016 and received Royal Assent on December 8, 2016. The FSRA Act will come into force upon proclamation by the Lieutenant Governor.

The government's next step will be appointing a board of directors to oversee the management of FSRA's affairs. It is anticipated that the board will be appointed in spring 2017.

The government will also continue to consult with stakeholders and review recommendations from the Panel to inform the development of FSRA's mandate and governance structure, as well as the structure and powers of the FST. Legislative amendments regarding these priorities are expected to be introduced by the end of 2017.

Prepared by: Mary Rollinson-Lorimer/ Stuart Wilkinson

Branch: Financial Services Regulation Modernization Secretariat, Financial Services Policy Division

REGULATION OF FINANCIAL PLANNING

ISSUE

Currently in Ontario, no general framework exists to regulate the activities of individuals who offer financial planning and financial advisory services. This potential regulatory gap leaves consumers vulnerable when seeking assistance to meet their financial goals.

Accordingly, the government appointed an independent Expert Committee to review regulatory policy alternatives relating to financial planning and advisory services. The final report of the Expert Committee was released in March 2017.

The government is considering the report's recommendations in the context of the ongoing transformation of Ontario's financial services regulatory system.

Reference: Chapter II: Strengthening Consumer and Investor Protection

KEY FACTS

- The Expert Committee made a number of important recommendations, including:
 - Closing the regulatory gap that currently allows financial planners to perform their work without regulatory oversight or specified proficiency requirements.
 - Curbing consumer confusion by restricting the use of titles.
 - Adopting a universal statutory best interest duty.
 - Strengthening the regulation of referral arrangements.
 - Creating a single, free and comprehensive central registry.
 - Supporting financial literacy.
- Over the coming year, the government intends to work with its regulatory partners to close the regulatory gap, restrict the use of titles related to financial planning, and respond to the report's recommendations regarding referral arrangements and the creation of a central registry.
- Informed by consultations led by the Ontario Securities Commission (OSC) and in close conjunction with its regulatory partners, the government intends to examine the feasibility of a universal statutory best interest duty in Ontario.
- The government's actions in each of these areas will be informed by input from relevant stakeholders and Ontario's financial services regulators

BACKGROUND

- The Expert Committee consisted of:
 - Malcolm Heins (Chair);
 - Anita Anand;
 - Paul Bates; and,
 - Lawrence Haber.
- Through 2015 and 2016, the Expert Committee conducted an extensive stakeholder consultation process, including the release of an initial consultation document and a preliminary policy recommendations paper.
- The Expert Committee received hundreds of written submissions from interested parties, and conducted in-person consultation sessions in Toronto; Ottawa; Windsor; Hamilton; and Thunder Bay.
- The Expert Committee submitted its final report to the Minister of Finance in November 2016.
- The final report of the Expert Committee was released in March 2017.

Prepared by: Salman Sadruddin

Branch: Financial Services Policy Division

REGULATION OF SYNDICATED MORTGAGES IN ONTARIO

ISSUE

Syndicated mortgage investments (SMIs) can be complex, high-risk products and are being increasingly marketed towards retail investors. Given the current low-interest rate environment, the high returns advertised by those offering syndicated mortgage investments may prove tempting to less sophisticated investors.

Reference: Chapter II, Section 4: Strengthening Consumer and Investor Protection

KEY FACTS

- A syndicated mortgage is a mortgage loan in which two or more persons participate, directly or indirectly, as a lender in the debt obligation secured by a mortgage.
 - A syndicated mortgage can be as simple as two people jointly loaning a third person money secured by a mortgage on that person's home, or as complex as a group of investors providing a subordinated loan as part of a major development proposal.
- Ontario's syndicated mortgage market has grown rapidly in recent years.
- \$6.6 billion – the total value of all 2016 SMIs, compared to \$3B in 2012*
- 4% of all mortgages by value, and 2% by number*
- Syndicated mortgage investments are generally subject to the regulatory framework of the *Mortgage Brokerages, Lenders and Administrators Act, 2006* (MBLAA), overseen by the Financial Services Commission of Ontario (FSCO).
- The government is taking steps to ensure that the regulatory framework for these products provides strong investor protections.
 - In the coming years, the government plans to transfer regulatory authority for SMIs from FSCO to the securities regulator.
- In advance of the transfer, the government is taking action to strengthen protections for investors by establishing investment limits for these products and requiring mortgage brokerages to document their assessments of the suitability of such products for their clients.
- Additionally, FSCO would expand disclosure requirements relating to these products to ensure that investors are aware of the potential risks associated with these types of investments.
- The government will consult on proposed changes to regulations under the MBLAA relating to SMIs, in the coming months.

*figures based on data collected by FSCO from the mortgage broker sector's Annual Information Return

BACKGROUND

- Although syndicated mortgage investments are considered to be securities, investments in syndicated mortgages are generally regulated by FSCO under the MBLAA, rather than by the Ontario Securities Commission (OSC), as a result of dealer registration and prospectus exemptions in the *Securities Act* (Ontario).
- The expert panel that reviewed FSCO's mandate and the material published by the Co-operative Capital Markets Regulatory System (CCMR) participating jurisdictions in August 2015 both contemplate that those offering syndicated mortgage investments should be subject to the same level of regulation that the securities regulator applies to other offering documents used to raise capital in Ontario.
- In fall 2016, the government announced the creation of a working group, composed of members from the Ministry of Finance, FSCO and the OSC. The working group provided analysis and recommendations to the Minister of Finance on ways to improve investor protections related to these products.

Prepared by: Gina Stephens / Graham Smith / Daniel Padro

Branch: Financial Institutions Policy Branch / Financial Services Policy Division

IMPROVING AUTO INSURANCE

ISSUE

The government continues to make auto insurance more efficient and affordable for Ontario drivers and remains committed to finding ways to reduce auto insurance rates while improving health outcomes for accident victims.

Reference: Chapter II: Helping You and Your Family

KEY FACTS

- The 2017 Budget announced electronic proof of insurance will be an option available to drivers this year, providing drivers with the choice and convenience of using their mobile device to confirm proof of insurance instead of the current “pink slips” The Budget also announced the government’s intention to introduce an industry-wide discount for policyholder who receive documents electronically, including proof of insurance and other documents.
- Ontario’s advisor on auto insurance, David Marshall, has recommended a wide-scale transformation of the auto insurance system to improve health outcomes, lower costs and make auto insurance more affordable.
- To ensure that Ontarians are adequately protected when participating in the ride-sharing activities of companies like Uber, RideCo and Turo, the government has taken steps to enable auto insurance coverage for ride-sharing drivers and passengers.
- In recent years, the government has introduced a number of important and necessary measures to reduce costs and lower rates in Ontario’s auto insurance system.

BACKGROUND

Marshall Report

David Marshall, former President and CEO of the Workplace Safety and Insurance Board, was appointed as Advisor on auto insurance in February 2016. Mr. Marshall examined records and conducted research and interviews, including interviews and discussion with officials within the Financial Services Commission of Ontario (FSCO), the Ministry of Finance (MOF) and representatives of insurance companies and associations in Ontario and other jurisdictions.

The report, titled *Fair Benefits Fairly Delivered: A Review of the Auto Insurance System in Ontario*, was posted on the MOF website on April 11, 2017. Mr. Marshall recommends transformative steps to improve health outcomes for those injured in collisions and reduce insurance costs, including:

- Prohibiting cash settlements for most accident victims;
- Implementing evidence-based mandatory programs of care to treat most common injuries;
- Introducing independent hospital-based examination centres to provide single medical assessments; and
- Increasing the financial services regulator's role in monitoring and investigating practices in the auto insurance system.

The recommendations provided by Mr. Marshall are complex. The government is reviewing his recommendations, and will be hosting consultations in the coming months.

Ride-Sharing

In the 2016 Ontario Budget, the government committed to ensuring the Province's auto insurance system can help provide peace of mind to drivers and passengers using private vehicles for hire.

Regulatory changes enabled the Financial Services Commission of Ontario (FSCO) to approve an interim fleet insurance policy in 2016 to help close the gap in auto insurance coverage. This is a quick and flexible response that puts the protection of Ontarians first.

A working group that includes members from FSCO and the insurance industry is exploring a number of topics related to ride-sharing in order to provide advice to government.

Past Auto Insurance Reforms

Since 2013, the government has implemented a series of reforms as part of its cost-reduction strategies. The reforms included measures to protect consumers, as well as changes to the auto insurance system while still maintaining generous coverage.

Consumer protection measures included:

- Implementing a new auto insurance dispute resolution system housed within the Ministry of the Attorney General's Licence Appeal Tribunal (LAT) to help injured Ontario drivers settle disputed claims faster. The Automobile Accident Benefits Service at the LAT started accepting applications on April 1, 2016.
- Lowering the maximum interest rate charged on monthly auto insurance premium payments from 3% to 1.3% (effective June 1, 2016).
- Prohibiting premium increases for minor at-fault accidents that meet certain criteria (effective June 1, 2016).

Next Steps

- The government will be consulting on Mr. Marshall's report in the coming months.
- More changes will be necessary to fully integrate sharing economy business models into Ontario's auto insurance system. The government looks forward to receiving the working group's advice.

Prepared by: Amanda Lloyd, 416-326-0759

Date Prepared: April 21, 2017

**Approved by: Maria Cece, Manager, 416-326-9086
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Financial Services Policy Division**

FAIR HOUSING PLAN – MOF INITIATIVES

ISSUE

Budget 2017 highlights Ontario's Fair Housing Plan, which was announced on April 20, 2017.

Reference: Chapter II, "Helping You and Your Family"

KEY FACTS

- Ontario's Fair Housing Plan announced on April 20, 2017, includes a number of measures that involve several ministries. Initiatives managed by the Ministry of Finance include:
- A new 15 per cent Non-Resident Speculation Tax (NRST) on the price of homes in the Greater Golden Horseshoe (GGH) purchased by individuals who are not citizens or permanent residents of Canada or by foreign corporations.
- Legislation that would empower Toronto and potentially other interested municipalities to introduce a vacant homes property tax to encourage property owners to sell unoccupied units or rent them out.
- Ensuring that property tax for new multi-residential apartment buildings is charged at a similar rate as other residential properties. This will encourage developers to build more new purpose-built rental housing and will apply to the entire province.
- Introducing a targeted \$125-million, five-year program to further encourage the construction of new rental apartment buildings by rebating a portion of development charges.
- Providing municipalities with the flexibility to use property tax tools to help unlock development opportunities. For example, municipalities could be permitted to impose a higher tax on vacant land that has been approved for new housing.
- Working to understand and tackle practices that may be contributing to tax avoidance and excessive speculation in the housing market. This includes "paper flipping," a practice that includes entering into a contractual agreement to buy a residential unit and assigning it to another person prior to closing.
- Partnering with the Canada Revenue Agency to explore more comprehensive reporting requirements so that correct federal and provincial taxes, including income and sales taxes, are paid on purchases and sales of real estate in Ontario.

BACKGROUND

Non-Resident Speculation Tax (NRST)

The non-resident speculation tax (NRST) is a 15% tax on the purchase or acquisition of an interest in residential property located in the Greater Golden Horseshoe (GGH) by individuals who are not citizens or permanent residents of Canada or by foreign corporations and taxable trustees.

The GGH includes the following geographic areas: Brant, Dufferin, Durham, Haldimand, Halton, Hamilton, Kawartha Lakes, Niagara, Northumberland, Peel, Peterborough, Simcoe, Toronto, Waterloo, Wellington and York.

The NRST applies in addition to the general land transfer tax in Ontario.

Upon the enactment of legislation, the NRST will be effective as of April 21, 2017.

Binding agreements of purchase and sale signed on or before April 20, 2017 are not subject to the NRST.

The NRST applies to the transfer of land which contains at least one and not more than six single family residences. Examples of land containing one single family residence include detached and semi-detached houses, townhouses and condominium units. In a situation involving the purchase of multiple condominium units, each unit is considered land containing one single family residence. Examples of land containing more than one single family residence that are subject to the tax include duplexes, triplexes, fourplexes, fiveplexes and sixplexes.

The NRST does not apply to other types of land such as multi-residential rental apartment buildings with more than six units, agricultural land, commercial land or industrial land.

Teranet will require some time to update their systems in order to be able to collect the NRST. During this interim period, to ensure compliance with the legislation, affected purchasers/transferees should pre-pay both the Land Transfer Tax and the NRST directly to the MoF's office in Oshawa. Further details are available on the Ministry of Finance website.

Vacant Homes Property Tax

Vancouver recently introduced an Empty Homes Tax, which is a property tax of 1 per cent on unoccupied residences, defined as property that is not occupied as a principal residence or rented to a long-term tenant for at least six months of the current year.

If Toronto decides to proceed with this tax, it would be expected to undertake consultations and analysis to determine an appropriate tax rate.

The objective of this tax is not to generate additional revenues but rather to encourage property owners to sell unoccupied units or make them available to be rented.

If the City decides to proceed with this tax, it would be responsible for detailed design, implementation and administration of a vacant homes tax.

- For context, we understand that the City of Vancouver's Empty Homes Tax relies on self-declaration, and an audits and complaint system to determine whether properties are vacant.

Multi-Residential Property Taxation

While the Province applies the same education property tax rate to multi-residential and residential properties, multi-residential properties are typically subject to a significantly higher municipal property tax rate than other residential properties.

On average, municipalities currently tax multi-residential buildings at twice the rate of other residential properties. In fact, many multi-residential properties are taxed by municipalities at nearly three times the rate of residential properties. Since property taxes for multi-residential apartment buildings are generally reflected in the rents paid by tenants, the higher property tax burden is concerning given the lower average incomes of tenants in multi-residential apartment buildings.

Therefore, in the 2016 Economic Outlook and Fiscal Review, the Province announced a review of the property taxation of multi-residential apartment buildings to improve housing affordability in the rental market.

Based on early feedback during the review and as a part of the Fair Housing Plan, the Province will implement a mandatory new multi-residential property class. This will ensure that municipalities tax new multi-residential buildings at a similar rate as other residential properties.

The lower tax level for new multi-residential buildings will not result in any loss of existing municipal tax revenues, as it will apply only to newly constructed apartments. Moreover, municipalities will levy property taxes on these properties using the same tax rate that would have applied had they been developed as condominiums.

This measure will be applied consistently across the province to all new multi-residential properties where applications for building permits are received and approved on or after April 20, 2017. Eligibility for the new multi-residential class will be determined by the date of the first building permit issued for the property.

The mandatory new multi-residential property class will support and encourage the development of new purpose-built rental units and help improve housing affordability in the rental market.

Development Charges

Development charges are upfront fees levied by municipalities and school boards on new development to help pay for the infrastructure required to service new growth.

- Some developers have suggested that these charges can be a barrier to the development of new purpose-built multi-residential rental housing.

To encourage the development of new purpose built multi-residential rental apartment buildings, the government is proposing a new targeted, \$125 million, five-year program to rebate a portion of development charges for new multi-residential rental apartment buildings.

The new rebate program would be scoped to target projects in those communities that are most in need of new purpose-built rental housing and that would not have proceeded in the absence of this incentive.

This program would be provided as an optional tool for municipalities to encourage new multi-residential development in their communities.

- Municipalities who opt to participate would help tailor the design of the program to meet the needs of their communities.
- For example, eligible projects could include those that meet key criteria such as affordability and providing an appropriate mix of unit types.

In the 2016 Economic Outlook and Fiscal Review, the Province announced a review of the property taxation of multi-residential apartment buildings to improve housing affordability in the rental market. The proposed development charge rebate program is an early outcome from that review.

This proposed rebate program would not reduce this important source of revenue for funding infrastructure. Municipalities and school boards will still collect the development charges and set those amounts aside for infrastructure, but will be able to draw from the proposed provincial funds to reimburse the developer for a portion of that amount.

There are three types of development charges in Ontario.

- Municipal – municipalities may levy charges on new development to help finance the growth-related capital costs for municipal services;
- Education – school boards may levy a charge on new development to finance the acquisition of land to build schools required as a result of new growth;
- GO Transit – York, Durham, Halton and Peel regions also use development charges to help pay for the growth-related capital costs of GO Transit.

Both upper-tier and lower-tier municipalities may levy development charges.

Municipalities may also provide some discretionary exemptions to development charges, such as affordable housing and brownfields redevelopments.

The proposed program would be implemented during 2017.

The Province will work with municipalities and other stakeholders to finalize program details in the coming months.

Property Taxation on Vacant Land

Currently, vacant land that is zoned for residential development is taxed at the same municipal and education tax rates as land that is developed with a residential dwelling.

The Province has heard concerns that serviced land that has been approved for residential development is being held by developers for speculation purposes.

- We are working with municipalities to determine the extent to which this is taking place.

The government is proposing to provide municipalities with the flexibility to use property tax tools, such as imposing a higher tax rate on vacant land that has been serviced and approved for new housing, to help unlock development opportunities, which would in turn, increase the supply of new housing and promote affordability.

Providing municipalities with tools to help encourage the supply of new housing would also complement provincial efforts to streamline the development approvals process and help bring new housing to market more rapidly.

The Province will work with municipalities to determine the flexibility they require to address local concerns, including how best to structure property tax tools to encourage vacant residential land to be brought more quickly into the development process.

The proposed higher tax rate on vacant land would be a municipal option.

Upon enactment of the legislation, it is anticipated that regulations to support these new flexible tools would be in place later in 2017.

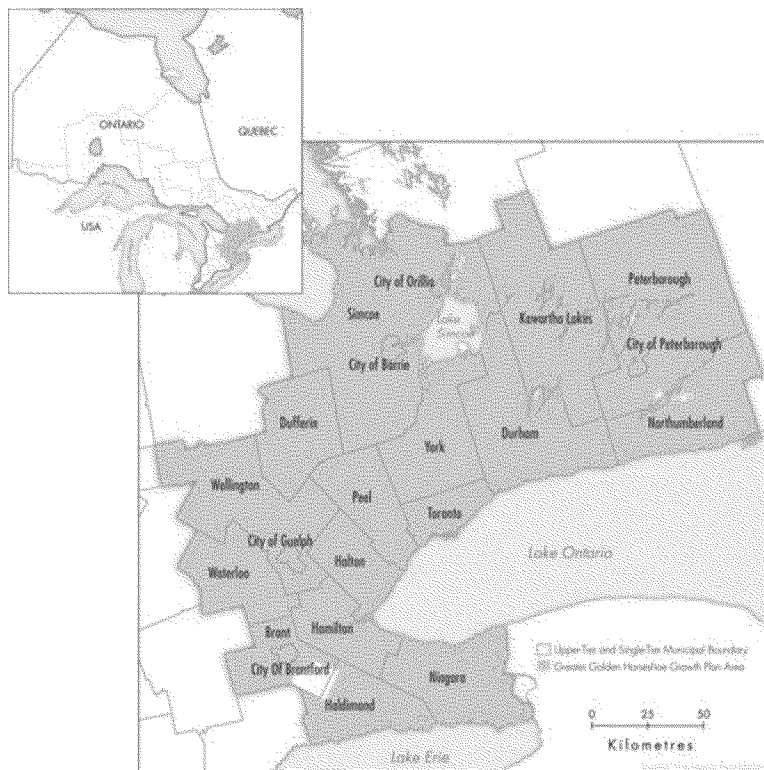
However, the implementation of any new measures will be dependent on municipal decisions.

Fair Housing Plan – Non-MOF Initiatives

Ontario's Fair Housing Plan introduces a comprehensive package of measures to help more people find affordable homes, increase supply, protect buyers and renters and bring stability to the real estate market. In addition to the measures mentioned above, the plan includes:

- Introducing legislation at the first possible opportunity that would expand rent control to all private rental units in Ontario, including those built after 1991.
- Strengthening the Residential Tenancies Act to further protect tenants and ensure predictability for landlords, e.g., developing a standard lease, tightening provisions for "landlord's own use" evictions, etc

- Establishing a program to leverage the value of surplus provincial land assets across the province to develop a mix of market housing and new, permanent, sustainable and affordable housing supply.
- Creating a new Housing Supply Team with dedicated provincial employees to identify barriers to specific housing development projects and work with developers and municipalities to find solutions.
- Working with the real estate profession and consumers, the province is committing to review the rules real estate agents are required to follow to ensure that consumers are fairly represented in real estate transactions.
- Establishing an ad hoc housing advisory group, which will meet quarterly, to provide government with ongoing advice about the state of the housing market, and discuss the impact of the measures in the Fair Housing Plan and any additional steps that are needed.
- Educating consumers on their rights, particularly on the issue of one real estate professional representing more than one party in a real estate transaction.
- Making a number of additional reforms to the land-use planning system so that it is more efficient, transparent and easier to build needed housing, including some long overdue reforms that will be proposed for the Ontario Municipal Board.
- Working with municipalities to better reflect the needs of a growing Greater Golden Horseshoe through an updated Growth Plan. New provisions will require municipalities to consider the appropriate range of unit sizes in higher density residential buildings to accommodate a diverse range of household sizes and incomes.



Prepared by: Cheryl Whittam

Branch: Corporate and Commodity Taxation Branch, Taxation Policy Division

ESTABLISHMENT OF ONTARIO SENIORS PUBLIC TRANSIT TAX CREDIT

ISSUE

The Province has committed to making public transportation more affordable for seniors through the establishment of the Ontario Seniors Public Transit Tax Credit.

Reference: Chapter II

KEY FACTS

- To help Ontario's seniors participate in community life, the Province is committed to making public transportation more affordable for seniors.
- The government is proposing a new Ontario Seniors Public Transit Tax Credit for all Ontarians aged 65 or older, covering eligible public transit costs as of July 1, 2017.
- It would provide a 15 per cent refundable benefit of 15 per cent of eligible public transit costs, providing an average annual benefit of \$130.

BACKGROUND

The 2017 Federal budget announced the elimination of the federal Public Transit Tax Credit as of July 1, 2017. The federal Public Transit Tax Credit was designed to target relief to commuters who regularly use public transit and provided a 15 per cent non-refundable tax credit for the cost of eligible public transit passes to all Canadians.

Implementation of the Ontario Seniors Public Transit Tax Credit, which would go into effect July 1, 2017, would provide continued coverage to seniors currently eligible for the federal tax credit.

Further details regarding program delivery will be announced in time for the July 1 implementation date.

Prepared by: Yeetak Lam (416-327-2023) / Felix Fung

Branch: General Government, Planning and Resources Branch/PEMD (TBS)

ONTARIO'S HOUSING MARKET

ISSUE

What is the government doing to help reduce the cost of home ownership?

References: Chapters 2 and 6B

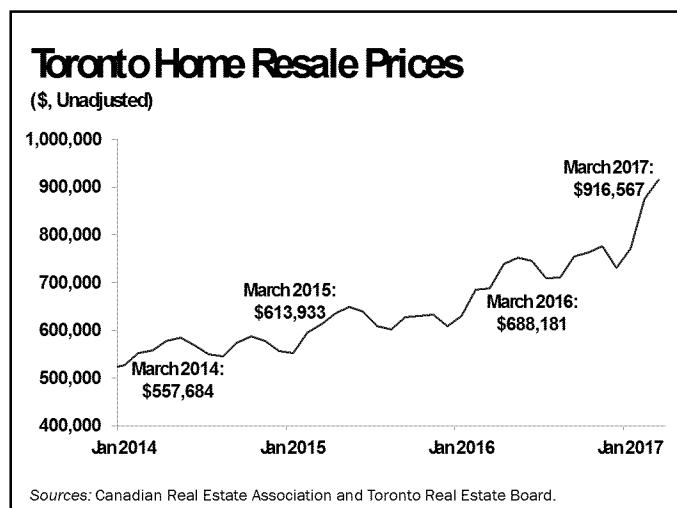
KEY FACTS

- The Ontario government is taking action to make housing more affordable for homebuyers and renters by introducing the Fair Housing Plan. The plan outlines a set of 16 comprehensive measures that will help more people find an affordable place to call home, while bringing stability to the real estate market and protecting the investment of homeowners.
- Growth in Ontario resale home prices have accelerated sharply. The gains reflect solid economic fundamentals, but other factors – such as non-resident speculation – are likely playing a role. While home price gains have been strong in the GTA, surrounding regions in the GGH have also recorded rapid price increases recently.
- Ontario household debt has continued to rise fueled by mortgage debt accumulation. High levels of debt combined with elevated resale prices leave Ontario households potentially vulnerable to an adverse economic shock.
- Despite historically low mortgage rates, mortgage carrying costs of a newly purchased home are elevated relative to their long-term average. As of 2016, this deterioration in affordability is most acute in the GTA.

BACKGROUND

Housing Market Conditions

Ontario's housing market has been robust in recent years, supported by solid economic fundamentals, including a growing population, rising employment, higher incomes and very low borrowing costs. The influence of other factors, such as non-resident demand and speculation, are thought by many economists to be playing a role.

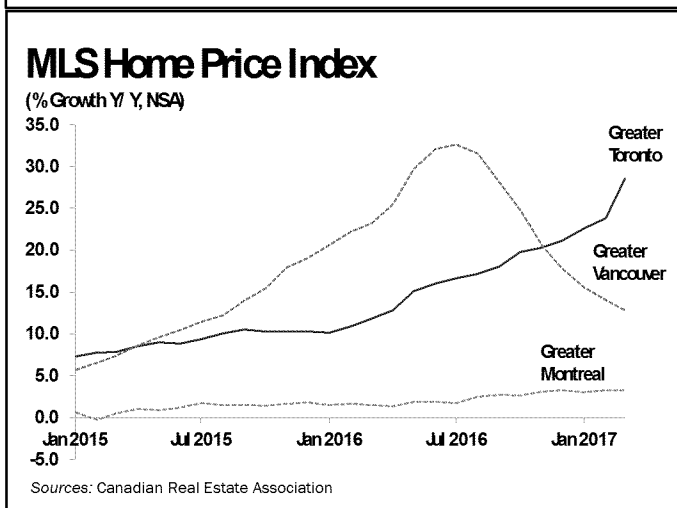
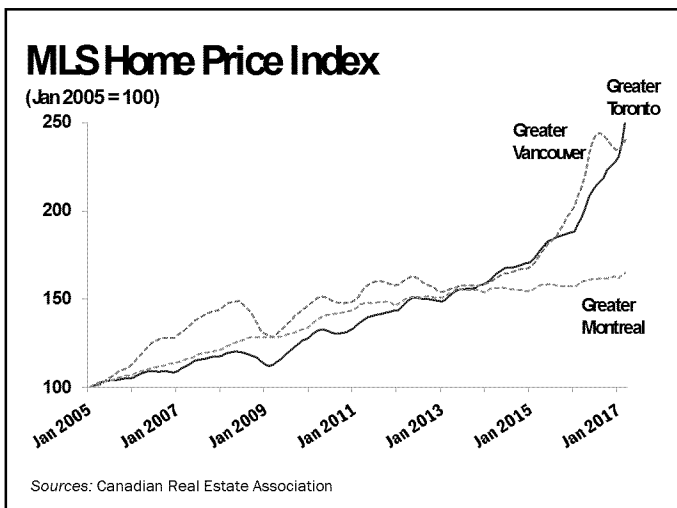
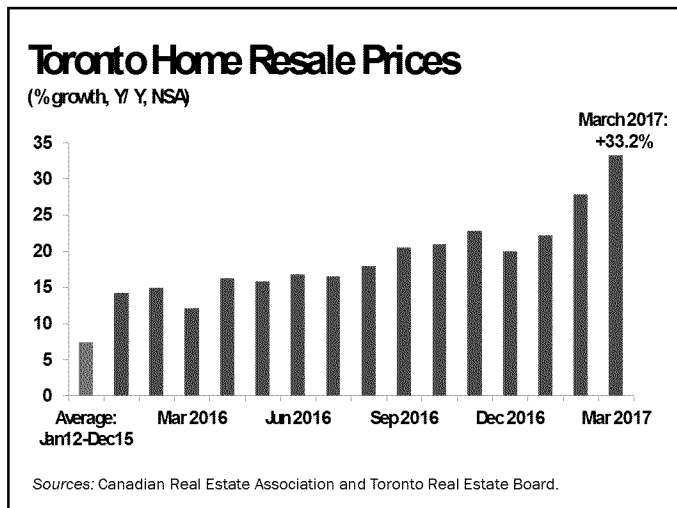


- House price increases have been particularly significant in the Greater Toronto Area. After two consecutive years of double-digit gains, average house prices in the Toronto region reached almost \$916,567 in March 2017, up 33.2 per cent from a year earlier. Many areas in the Greater Golden Horseshoe (GGH) outside of the GTA are also experiencing rapid house price increases including Barrie, Kitchener-Waterloo and St. Catharines.
- Regardless of the underlying cause, house prices are growing well beyond a pace indicated by underlying economic fundamentals eroding housing affordability.

House price increases have significantly exceeded household income gains, diminishing affordability and raising mortgage debt accumulation. RBC Economics recently highlighted that its measure of housing affordability in the Toronto area for the fourth quarter of 2016 was its second-worst level on record since the mid-1980s.

A number of public and private institutions have noted that foreign purchases and speculative activity are likely contributing to the strength in the GTA housing market.

- In its April 2017 Monetary Policy Report, the Bank of Canada noted that “price growth in the GTA has accelerated and seems to have entered a phase in which speculation is playing a larger role ”

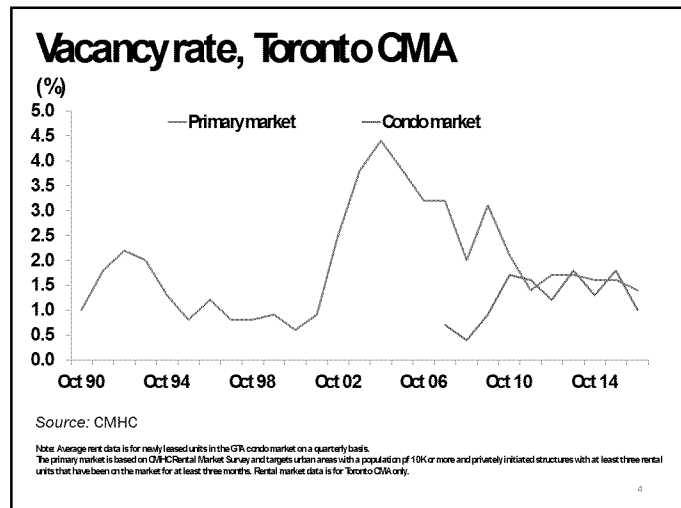
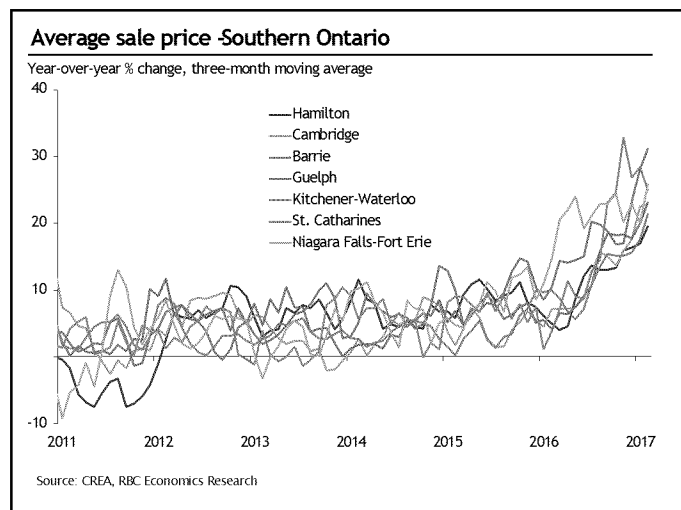
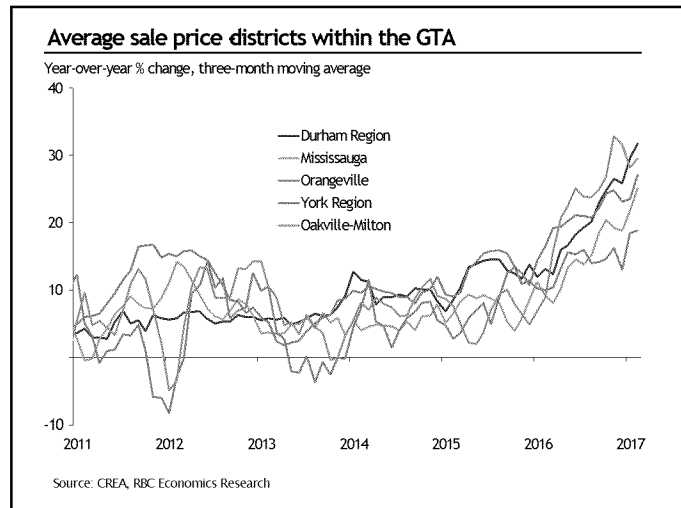


- In a recent economic commentary, TD Economics stated that the acceleration in resale house prices is at least partially attributable to speculative activity. TD Economics has also noted that there is evidence that foreign demand in the GTA has picked up since 2013.
- A November 2016 report from the CMHC highlighted that foreign ownership of condos in the Toronto CMA moved lower to 2.3% in 2016, compared to 3.3% in 2015 and 2.4% in 2014. The report noted that the share of foreign ownership of newer condos (defined as buildings completed since 2010) is higher in the Toronto CMA at 3.9% in 2016, down from 7.4% in 2015 and 5.5% in 2014.

Some private sector economists have suggested that slow supply growth may also be contributing to the rapid house price gains. In its December 2016 Financial System Review, the Bank of Canada also highlighted that supply constraints have supported continued price gains in the GTA.

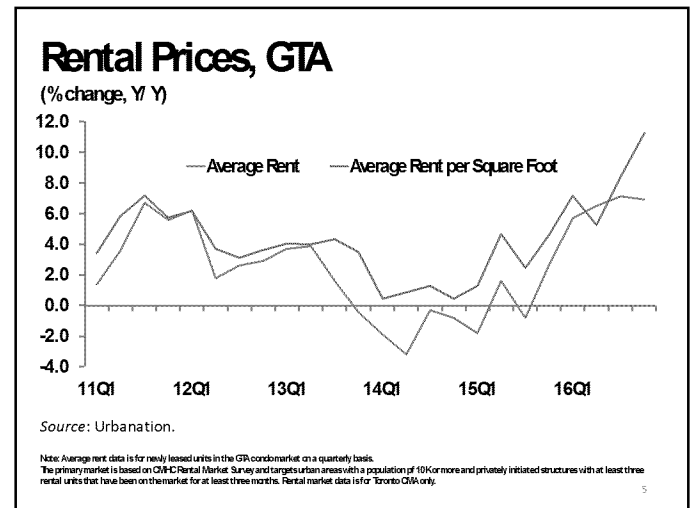
Ontario's has started to experience declining vacancy rates and increases in rents, reducing housing affordability for renters.

- According to Urbanation, the average rent per square foot for newly leased units in the GTA condo market rose 8.3% in the first quarter of 2017 compared to a year earlier. While this marks a slight deceleration from the 11.6% (Y/Y) increase recorded in the fourth quarter of 2016, it is well ahead of income gains.
- CMHC's rental market survey reported Ontario's vacancy rate at 2.2% in October 2016, down from 2.5% in October 2015 and the lowest reading in five years.



Ontario household debt loads are elevated as resale price appreciation has outpaced income gains in recent years, fueling mortgage debt accumulation. High levels of debt combined with elevated resale prices leave Ontario households potentially vulnerable in the event of an adverse economic shock.

- Recent research from the Bank of Canada highlights that the share of household debt held by highly indebted households has increased across major CMAs in Ontario. In the December 2016 Financial System Review, the Bank noted that the proportion of high-ratio mortgage originations with high loan-to-income (LTI) ratios (greater than 450%) has increased. In the Toronto CMA, the share increased from 32% in 2014Q3 to 49% in 2016Q3. Further, the Bank finds that the incidence of high LTI mortgages is spreading to the surrounding areas of Toronto such as Oshawa and Hamilton.



New Government Measures Targeting the Housing Market

On April 20, 2017 the Ontario government introduced Ontario's Fair Housing Plan – a comprehensive package of measures to help more people find affordable homes, increase supply, protect buyers and renters and bring stability to the real estate market.

- <https://news.ontario.ca/mof/en/2017/04/ontarios-fair-housing-plan.html>

Ontario Housing Market Outlook (Per Cent)					
	2014	2015	2016	2017p	2018p
Average Resale Home Price	7.0	7.8	15.3		
PS Average				6.7	0.9
MOF				7.4	5.4
Home Resales	3.8	9.5	9.7		
PS Average				-3.6	-4.0
MOF				4.3	2.8
Housing Starts (000s)*	59.1	70.2	75.0		
PS Average				74.4	69.7
MOF				72.0	68.5

- *Most forecasters estimate housing starts as such the sample size for the resales forecast is small.
- PS average represents average across all forecasters.
- p = projection.
- Sources: Canada Mortgage and Housing Corporation, Canadian Real Estate Association, Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasters (April 2017).

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INVESTING IN PEOPLE'S EDUCATION AND SKILLS

ISSUE

The government is making significant investments in postsecondary education, adult skills and training to help Ontarians succeed in the modern, knowledge-based economy.

Reference: Chapter 2 and Chapter 3

KEY SPEAKING POINTS

- Starting this fall, Ontario is rolling out the redesigned Ontario Student Assistance Program, which means free average tuition for more than 210,000 students and reduced costs for many more.
- The Province is also increasing opportunities for hands-on learning and on-the-job training for students and recent graduates through the new Career Kick-Start Strategy, to prepare students and graduates for successful careers.
- Ontario is also providing easier access to skills training and upgrading for adults through the new Ontario Lifelong Learning and Skills Plan.

KEY CONTENT LOCATIONS

- OSAP transformation - Chapter 2: Helping You and Your Family, Helping Students, Making Postsecondary Education More Affordable
- Highly Skilled Workforce Strategy - Chapter 3: Creating Opportunities and Security, Investing in People Today

Also see:

- Investing in Education - Chapter 4, Section B: Public Services You Can Count On, Achieving Excellence & Ensuring a High Quality, Accessible Postsecondary Education System

KEY ADDITIONAL INFORMATION

Under the new OSAP:

- Previously announced initiatives:
 - Eligible students, including mature students and adult learners with annual family incomes of \$50,000 or less, will receive enough in OSAP grants to cover average tuition costs;
 - 80 per cent of students with annual family incomes below \$90,000 will receive grants that equal or exceed the average cost of tuition and will not need to be repaid;

- About 230,000 students will have less debt than they would have had under previous OSAP rules; and
- No Ontario student will receive less than they are currently eligible for through the 30% Off Ontario Tuition Grant.
- Newly announced initiatives:
 - Ensuring savings from Registered Education Savings Plans (RESPs) will not reduce the amount of financial assistance provided to students through OSAP;
 - Working with Indigenous partners to identify additional targeted OSAP supports that will address economic barriers and improve access to postsecondary education for Indigenous students; and
 - Increasing the minimum salary an individual needs to earn from \$25,000 to \$35,000 before they start repaying the provincial portion of OSAP loans.

As part of the Highly Skilled Workforce Strategy, newly announced initiatives:

- The Province is investing nearly \$190 million over three years through the new Career Kick-Start Strategy to help 40,000 students and recent graduates gain hands-on learning and develop on-the-job skills.
- Ontario is also introducing the Ontario Lifelong Learning and Skills Plan. Under the Plan:
 - The government will provide around 90,000 more adults with easier access to skills training and upgrading. The new Ontario Lifelong Learning and Skills Plan will include an expansion and improvement of the Literacy and Basic Skills program, enhance dual credit opportunities for adults, fund technical and workplace-based skills training pilots, and support Ontario Bridge Training for internationally trained immigrants.
 - As part of Employment and Training Services Transformation, over the next year, the Province will be modernizing key employment and training programs, such as Second Career and the Canada–Ontario Job Grant, which support unemployed or employed workers who want to build on their skills, as well as employers with training needs.

BACKGROUND

Ontario Student Assistance Program

OSAP is an integrated student financial aid program funded by both the federal and provincial government. OSAP provides needs-based assistance through loans and grants to help qualified students and families with the cost of postsecondary studies.

- OSAP is available to adult students, married students, students with children, dependent students and single independent students. Students with children may also be eligible to receive funding for child care costs.
- More than 380,000 students per year benefit from OSAP, representing almost 60% of full-time Ontario university students and almost 70% of full-time Ontario college students.
- Ontario has been accepting applications for the new Ontario Student Assistance Program since March 2017.
- Students and their families can use the new online calculator to determine how much financial assistance they are eligible for.
- For instance, the OSAP calculator shows that a single parent who has three children and earns \$60,000 would be eligible for grants totaling more than \$16,000.
- (Source: Ontario Press Release “Free Tuition For Hundreds of Thousands of Ontario Students”, dated March 29, 2017)

Highly Skilled Workforce Strategy

- In 2015, the Premier’s Highly Skilled Workforce Expert Panel was appointed to develop a strategy to help the province’s current and future workforce adapt to the demands of a technology-driven knowledge economy. In 2016, the Premier’s Highly Skilled Workforce Expert Panel released its final report.
- (Source: Ontario Press Release “Premier’s Highly Skilled Workforce Expert Panel Releases Final Report”, dated June 23, 2016)
- The government and its partners are now implementing a Highly Skilled Workforce Strategy in order to better align education, training and skills development with the demands of a changing global economy. This strategy is focused on making progress in key areas, including expanding experiential learning and boosting investment in workers’ skills
- (Source: Ontario’s 2017 Long-Term Report on the Economy, p. 69).
- The new Career Kick-Start Strategy will create more opportunities for high school and postsecondary students and recent graduates, to develop job relevant skills and to build their resumes. The initiative includes:

- Introducing 17,000 more Grade 11 and 12 students to career options while obtaining their high school diploma by expanding the Specialist High Skills Major Program over the next three years.
- (Source: Ontario Press Release “Ontario Boosting On-the-Job Learning Opportunities for Students”, dated April 19, 2017)

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CHAPTER III: CREATING OPPORTUNITIES AND SECURITY

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EMPOWERING NEWCOMERS' FINANCIAL LITERACY

ISSUE

The government will partner with Credit Canada to provide financial literacy training and tools to newcomers across Ontario.

Reference: Chapter III, Creating Opportunities and Security, Investing in People Today, Inclusive Skills Development

KEY FACTS

- The government is providing funding to Credit Canada for *Newcomers & Money 101*, a new initiative that will provide newcomers with the financial literacy training and tools they need to navigate the Canadian banking system, understand budgeting and money management, handle credit and protect themselves from fraud.

BACKGROUND

- Through the Ministry of Citizenship and Immigration (MCI), the government is providing funding to Credit Canada for *Newcomers and Money 101* to build on the work of settlement agencies to support newcomers' financial literacy. Over \$215,000 will be provided over two years, for up to 250 financial literacy workshops.
- MCI provides support for newcomers in part through its Newcomer Settlement Program, helping ensure that new immigrants and refugees can settle in their community, find housing, register their children in school, find employment and enhance their language skills.

Credit Canada Debt Solutions

Credit Canada Debt Solutions is a non-profit agency specializing in credit counseling and consolidating debt. Credit Canada is funded through lender donations.

Budget 2016

Budget 2016 announced funding for two financial empowerment initiatives:

- Funded up to \$1M annually over five years to partner with Prosper Canada to provide a range of financial empowerment tools and services to more communities across Ontario.
- Provided \$650,000 in matching funding to the Ontario Chamber of Commerce to support *Funny Money*, a program which uses humour to educate youth about money management, credit, debt and savings.

These initiatives did not focus on financial literacy and training for newcomers.

Note: *Budget 2017* includes other financial literacy initiatives such as:

- Investor Office Fact Cards, recently introduced by the OSC's Investor Office, to share information about investing (Chapter II, *Helping You and Your Family*),
- A partnership with educators on 29 pilot projects across the province to revise the current high school career studies course and help students develop skills relating to financial literacy (Chapter IV: *Investing in Education*); and
- The introduction of a financial literacy strategy for Grade 4 to 12 classrooms (Chapter IV: *Investing in Education*).

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INVESTING IN JOBS FOR TODAY AND TOMORROW

ISSUE

The government has taken steps to support the transition to a low-carbon economy, invest in new technology, and promote the economic development of all of Ontario's regions and communities.

Reference: Chapter III: Investing in Jobs for Today and Tomorrow

KEY SPEAKING POINTS

- As part of the 2017 Budget, Ontario is announcing several investments through the Business Growth Initiative in transformative technologies that will allow the province to remain globally competitive, and create opportunities for new businesses and jobs
- The Ontario government is actively supporting Ontario small and medium enterprises to become successful global exporters by promoting Ontario's international business profile, strengthening businesses ties with global markets through new trade agreements, and maintaining a strong and balanced economic relationship with the U.S.
- Ontario continues to make investments through the Jobs and Prosperity Fund, which is helping support a dynamic and innovative business climate, improving productivity and market access for Ontario companies and sectors.
- Ontario's economy benefits from the strength of its regions and the government is committed to developing regional economic development plans that will help build on each region's strengths. This will build on top of the already existing regional development funds that support job creation and investment across Ontario.
- Under the *Climate Change Mitigation and Low-carbon Economy Act, 2016*, Ontario is making clear progress on tackling climate change. Its 5-year Climate Change Action Plan guides climate change action and boosts low-carbon innovation in the economy. Such actions will create jobs and help people and businesses transition to a low-carbon economy. Ontario's cap-and-trade program is already generating proceeds, which by law, are being invested responsibly and transparently into actions that reduce emissions.

KEY CONTENT LOCATIONS

- Business Growth Initiative – Chapter 3, Investing in Jobs for Today and Tomorrow, Business Growth Initiative
- New BGI Investments – Chapter 3, Investing in Jobs for Today and Tomorrow, Business Growth Initiative, Table 3.2 – New Investments through the Business Growth Initiative

- Trade – Chapter 3, Investing in Jobs for Today and Tomorrow, Promoting and Diversifying Trade
- Strategic Partnerships – Chapter 3, Investing in Jobs for Today and Tomorrow, Strategic Partnerships, Supporting Businesses through the Jobs and Prosperity Fund
- Regional Economic Development – Chapter 3, Investing in Jobs for Today and Tomorrow, Promoting Regional Economic Development
- Social Enterprises – Chapter 3, Investing in Jobs for Today and Tomorrow, Social Enterprises
- Low-Carbon Economy – Chapter 3, Investing in Jobs for Today and Tomorrow, Transitioning to a Low-Carbon Economy

KEY ADDITIONAL INFORMATION

- The 5G testing facilities that are part of the new BGI initiative and associated with the ENCQOR and CENGON projects noted in the Document will be located across the province, including in Ottawa, Toronto, Waterloo, and London;
- The Advanced Computing initiative, part of BGI, includes new research projects: investing \$12 million through the Ontario Research Fund-Research Data Infrastructure initiative that will bring together groups of researchers to develop tailored, shared and integrated data resources capable of data analytics and large scale computational modelling; and; \$8.5 million for Compute Ontario coordinating advanced research computing
- The Quantum Valley Ideas Lab, part of BGI, will support the development of quantum information science in the Waterloo area and builds on past investments in the Perimeter Institute and the Institute for Quantum Computing.
- The government is investing almost \$50 million over three years to expand Ontario's footprint in key international markets and grow the province's capacity to help businesses expand globally. With more Ontario representation in strategic locations across the world, Ontario companies can better access just-in-time market intelligence and fully leverage existing partnership. New investments will also expand the continuum of programs offered to SMEs here at home to help more companies become exporters and assist existing ones to reach new global market and diversify their revenue source
- On October 30, 2016, the Canada-EU Comprehensive Economic Trade Agreement (CETA) was signed formally – beginning the process ratification process in Canada and the EU. All significant parts of the agreement will come into force by spring of 2017.
- Some key changes that the new Canadian Free Trade Agreement (CFTA) will introduce to Canada's internal trade framework include addressing regulatory burdens, expanding scope of the agreement to all sectors of the Canadian economy, strengthening government procurement commitments, and aligning with international agreements.

BACKGROUND

BUSINESS GROWTH INITIATIVE

Ontario's Business Growth Initiative has three elements:

- Creating an Innovation-Driven Economy;
- Helping Businesses Scale Up
- Modernizing the Regulatory System and Lowering the Cost of Doing Business.

The Business Growth Initiative builds upon the government's long-term commitment to create a more innovative economy. As part of this commitment, the government has:

- Made significant investments to create a more highly-skilled workforce;
- Supported world-class research at Ontario's postsecondary institutions;
- Provided significant support for research and development (R&D) and other innovation-related activities; and
- Encouraged more knowledge-based startups and innovative small and medium-sized enterprises (SMEs).

MODERNIZING REGULATIONS

The government has already surpassed its 2014 goal of achieving \$100 million in savings for businesses by the end of 2017. An additional \$22 million in savings were achieved two-years ahead of schedule. The government is committed to delivering annual reports that will identify further savings that have been achieved for businesses. The 2017 report will be published this spring.

The government has also committed to introducing annual burden reduction bills. Work is underway on a bill to be introduced later this year that will further reduce duplication and unnecessary red tape.

And, going forward the following six principals formulated by the Province's Regulatory Modernization Committee will serve as a lens through which to view burden reduction activities:

- **Focus on the user** by writing regulations in plain language and creating a single point of contact for business to access information or government services.
- **Use international industry standards** (e.g. ISO) where available/appropriate to eliminate redundant reporting requirements.
- **Move to risk-based inspections** to reduce the enforcement burden on businesses with a strong safety and compliance record, using accreditation to distinguish good actors from high-risk targets; better coordinate inspections among ministries and agencies.

- **Create a “Tell Us Once” culture** where all ministries that interact with business use the Business Number so businesses do not provide the same information to government repeatedly.
- **Apply a small business lens** by setting different compliance paths to achieve desired outcomes, rather than using a one-size-fits-all approach.

Go digital and reduce paper-based transactions by delivering simple and straightforward digital services and products that will modernize public service delivery and make government work better for businesses.

TRADE

In 2013, as a part of Ontario’s plan for jobs and growth, the Going Global Trade Strategy was developed to help companies, especially small businesses, export more to global markets, helping Ontario to create jobs through trade missions, advisory services, outreach to attract foreign buyers and strategic partnerships.

The strategy allowed industry partners, business organizations and other levels of government to coordinate resources and services to provide Ontario firms with access to right type of support for different stages of export development. Services offered include one-on-one consultation, seminars and workshops, outbound missions, and business exhibitions.

To further enhance the export strategy, the government in 2016 allocated additional \$30 million over three years to expand the program and drive SME exports by scaling up and leveraging existing partnerships in strategic locations. The program is currently undergoing a phase of expansion and development.

STRATEGIC PARTNERSHIPS – JOBS AND PROSPERITY FUND

The 10-year, \$2.5 billion Jobs and Prosperity Fund (JPF) was announced in the 2014 Ontario Budget, which passed in the Legislature on July 24, 2014.

- As per the 2015 Ontario Budget, the government enhanced the Jobs and Prosperity Fund by a total of \$200 million, increasing the total value to \$2.7 billion.
- The fund is comprised of 4 separate streams, each with a distinct focus area and program objectives:
 - **The New Economy Stream (NES)** — to build R&D capacity, improve private-sector productivity, performance and competitiveness, and support innovative businesses in expanding their market;
 - **The Strategic Partnerships Stream (SPS)** — to help entrepreneurs, companies, research institutions, customers and investors work together to strengthen Ontario firms and our ability to compete globally;
 - **Food and Beverage Growth Fund (FBGF)** — to support food, beverage and bioproduct manufacturing projects that will help create and retain jobs,

strengthen supply chains, increase market access, and enhance innovation and productivity; and,

- **Forestry Growth Fund (FGF)** — to help value-added and bio-product forestry projects improve productivity and innovation, enhance competitiveness, support new market access, strengthen supply chains and provide socio-economic benefits.
- A portion of funding under the JPF has been allocated to support 5 projects, totaling approximately \$680M, that were approved previous to the launched of the Jobs and Prosperity Fund.
 - Since January 2013, the Ministry has announced 23 projects that are now administered under JPF, with government commitment totaling approximately \$830 million, and leveraging over \$7.4 billion in private sector investment (or over \$8.2 billion in total eligible investment). This is helping to create and retain over 37,600 jobs. (Note: This includes several projects signed under previous programs that are now funded through the JPF.)

REGIONAL ECONOMIC DEVELOPMENT AND PLANS

To date, two growth plans have been released — the Growth Plan for the Greater Golden Horseshoe in 2006 and the Growth Plan for Northern Ontario in 2011, which have helped guide the Province's investments and actions in these regions.

Investing in regional development is a vital part of the government's plan to create a dynamic business environment in the province. For example:

- Since October 2003, the Northern Ontario Heritage Fund Corporation has approved over \$1.2 billion, leveraging over \$4.4 billion toward 8,043 projects in Northern Ontario. Through this 29,814 jobs have been created or retained (including internships and co-op placements).
- Since January 2013, Eastern Ontario Development Fund has committed Ontario support of over \$42 million toward 63 projects, leveraging private investment of over \$430 million and helping to create or retain 7,500 jobs.
- Since January 2013, Southwestern Ontario Development Fund has committed Ontario support of approximately \$110 million toward 150 projects, leveraging private investment of over \$1.3 billion and helping to create and retain 29,000 jobs.
- Since 2003, more than \$189 million has been committed to more than 610 Rural Economic Development (RED) projects, generating more than \$1.2 billion in new economic activity and creating and supporting more than 37,000 jobs.

SOCIAL ENTERPRISES

On June 20th, the Ministry launched Ontario's Social Enterprise Strategy: 2016-2021, aimed at accelerating the growth of the province's social enterprise sector through significant commitments in three key areas: 1) Equipping social enterprises with strong business fundamentals, 2) Connecting social enterprises to markets and capital to grow and scale, and 3) Demonstrating the value of social enterprise and social finance.

- The Ministry launched the ONE Social Enterprise Partnerships initiative which will fund four regional consortia to build capacity across existing Ontario Network of Entrepreneurs (ONE) business support programs and provide specialized supports to social entrepreneurs. The initiative will strengthen the business and entrepreneurial skills of social enterprises by providing comprehensive access to mainstream business supports and social enterprise-specific services. Applications closed on November 4, 2016 and successful applicants will be announced in Spring 2017.
- The Ministry launched a second round of the Social Enterprise Demonstration Fund, directing \$2M to non-profit organizations that provide Ontario-based social enterprises with support and access to capital in the form of a grant, loan, or other investment. Applications closed on November 4, 2016 and successful applicants will be announced in Spring 2017.
- Through the Ontario Social Impact Voucher Program, administered by Ontario Centres of Excellence (OCE), 200 vouchers worth up to \$3,000 are available to social enterprises and entrepreneurs. Vouchers are redeemed by social enterprises for value-added supports and services. The application deadline to receive a voucher is July 31, 2017.
- The Ministry launched the Centre of Excellence in Social Enterprise and Social Finance. In its first six months, it has partnered with more than five ministries to design and deliver pilot projects, including an accelerator for social enterprises focused on reducing greenhouse gas emissions and a boot camp to help community hubs developers access social finance.
- In October 2016, the Ministry launched the Impact Measurement Task Force. The Impact Measurement Task Force brings sector leaders together to explore shared impact measurement standards for social enterprises in Ontario.
- The Ministry launched the Social Enterprise Procurement Action Plan, aimed at increasing purchasing from social enterprises.

TRANSITION TO THE LOW-CARBON ECONOMY

Since announcing in April 2015 that it would place a limit on greenhouse gas emissions through a carbon price, Ontario is making consistent progress. Following the release of a broad Climate Change Strategy (November 2015), Ontario passed the *Climate Change Mitigation and Low-carbon Economy Act, 2016* (May 2016) and introduced its 5-year Climate Change Action Plan (June 2016). The Province's market-based carbon pricing program is now in its first compliance period which began on January 1, 2017

and will run through December 31, 2020. Continuing its collaborative approach, the government will continue to consult with a variety of stakeholders as it determines its climate policy beyond 2020.

All proceeds from the program will be tracked through the Greenhouse Gas Reduction Account (GGRA). Recognizing that actual proceeds may vary from the projections, the government will make annual decisions on priority initiatives that will receive funding through the GGRA. Initiatives will also be evaluated by the Ministry of Environment and Climate Change, who will also provide annual progress reports on the status of the initiatives.

The Province previously committed \$325 million through the Green Investment Fund to support climate change actions. These initiatives are already under way and include a \$20 million investment to build a network of electric vehicle public charging stations and \$100 million investment in partnership with Enbridge Gas Distribution and Union Gas to help homeowners in improving energy efficiency. Additional initiatives that reduce or support the reduction of GHG emissions are highlighted in *Document 2017*. These must be funded using cap-and-trade proceeds and include the Green Ontario Fund and social housing retrofits.

APPENDIX

1. New Initiative Details (key information from Ministry News Releases) :

Advanced Research Computing and Big Data Strategy (January 27, 2017 Ontario Newsroom):

Ontario has launched a new strategy that will support leading researchers and help transform their discoveries into innovations that companies and entrepreneurs can bring to global markets.

The Advanced Research Computing and Big Data Strategy will support researchers by providing the technology to analyze data more comprehensively, which would help accelerate the process of discovery. Interpreting big data using advanced computing capabilities can help researchers determine a person's risk for developing certain diseases, improve healthcare outcomes for premature babies and boost farm operations to create positive environmental impacts.

The strategy will focus on:

- Upgrading infrastructure at Ontario's advanced research computing sites and increasing system-wide coordination
- Developing a pool of new talent in advanced research computing and big data by helping support the development and retention of experts in this field in Ontario
- Building on the province's work to help investigate causes and treatments for cerebral palsy, depression, epilepsy and autism

- Sparking new business growth and scale-up opportunities by helping businesses access advanced computing platforms

Supporting research and innovation is part of our plan to create jobs, grow our economy and help people in their everyday lives.

Artificial Intelligence and the Vector Institute (March 30, 2017, Ontario Newsroom):

Artificial intelligence (AI) allows computers to perform complex physical and intellectual tasks that mimic human intelligence, but without human supervision or intervention. The potential application of AI is vast, including self-driving cars, analyzing large datasets (“big data”), and supporting medical diagnostic imaging

Ontario is ensuring businesses in the province continue to stay ahead in the innovation economy, and attract investment and top talent, by supporting a new institute for artificial intelligence (AI) with a specific focus on deep learning and machine learning.

Ontario's highly skilled workforce, competitive business climate and recognized culture of innovation make the province an ideal home for the Vector Institute for artificial intelligence. The institute will work to produce, retain and attract top talent in the field and generate further investment from companies looking to hire experts and expand their AI divisions.

Collaborating with established businesses, start-ups and academic institutions, the institute's work holds great promise for solving some of the biggest health, social and economic challenges of our time. Artificial intelligence can deliver improvements as diverse as accurately diagnosing an illness earlier, to protecting people against consumer fraud.

Ontario's investment in the Vector Institute will help:

- Encourage more investment, research and development, and create jobs;
- Retain, train and attract talent, with the aim of producing the most masters, applied masters, PhDs and post-doctoral graduates in deep learning and machine learning AI;
- Provide businesses with made-in-Ontario AI tools, talent and research; and,
- Promote exports of homegrown products and services enabled through AI.

Staying on the cutting edge of technology and leading global innovation is part of Ontario's plan to create jobs, grow our economy and help people in their everyday lives.

2. Information on Previously Announced BGI Initiatives:

Since being launched as part of the 2016 Budget, the Province has made progress in implementing the Business Growth Initiative, including:

- Ontario's Cleantech Equity Fund is designed to respond to the challenges faced in raising capital by innovative, high-potential clean tech companies. It will also help create jobs in Ontario and decrease greenhouse gas emissions to support Ontario's commitment to a cleaner, healthier environment through the Climate Change Action Plan. (January 17, 2017, Ontario Newsroom)
- Announced in the 2016 Fall Economic Statement, the Scale-Up Voucher program will invest \$32.4 million over four years to provide high-growth companies with immediate access to specific resources they need at pivotal moments in their development. Vouchers will be used by companies to fund activities such as specialized talent development and recruitment, accessing new markets and intellectual property protection services. The program will be delivered by the Ontario Centres of Excellence. (November 16, 2016, Ontario Newsroom)
- Announced as part of the 2016 Fall Economic Statement, the Small Business Innovation Challenge Pilot is a \$28.8 million pilot will provide small- and medium-sized businesses with opportunities to develop and implement innovative technology solutions to public sector challenges. Through real-world testing of products and solutions, companies will be better positioned to market their new ideas to the world and help foster long-term economic growth. The program was officially launched in March 2017 with two challenges (March 1, 2017, Ontario Newsroom):
 - Allowing people to prove who they are when they interact with government, such as applying for social assistance or OSAP via a common, secure, and user-friendly method, so people can easily and privately connect to a wide range of government programs and services on any device at any time.
 - Developing an automated way to detect how many people are in vehicles using high occupancy toll (HOT) lanes to ensure that vehicles with more than one occupant are not mistakenly billed or fined.
 - The program is delivered by the Ontario Centres of Excellence
- Announced in the 2016 Budget, the College Applied Research and Development Fund is a three-year, \$20 million fund to support industry-academic collaboration between Ontario businesses and colleges. The fund will:
 - Allow students to work on applied research and development projects at Ontario companies and gain hands-on work experience in their field
 - Connect colleges with businesses, industry associations and organizations to develop new partnerships and solve real-world R&D challenges, such as adapting new technologies
 - Create opportunities for students to act as consultants to companies, while receiving faculty mentorship and integrating these projects with their academic courses.
 - The fund was launched in January 2017 and is delivered by the Ontario Centres of Excellence. (January 24, 2017 Ontario Newsroom)

- Investing \$5 million over two years to establish an Automotive Supplier Competitiveness Improvement Program (ASCIP). Targeted to small and medium-sized automotive suppliers, ASCIP launched in October 2016 to support the automotive parts sector in adopting industry leading software and hardware and to provide related training to increase the competitiveness of the industry. Up to March 31, 2017, ASCIP has provided funding to 22 industry projects. The program is delivered by the Ontario Centres of Excellence.
- The Ontario Investment Office was established to provide a one-window concierge service for businesses looking to invest and expand in the province. It will provide a seamless range of services, such as helping to select suitable sites, facilitating the training of workers and fast-tracking provincial and municipal permits and licenses (2016 FES).

Prepared by: John Tsialtas (5-0923) / Sumon Mukherjee (416-325-4637) / Saadia Hussain (416-325-0932) / Jacky King (416-326-1809) / Sukhvinder Singh (416-325-0907)

Branch: Industrial Economics Branch / Office of Economic Policy

GREENHOUSE GAS REDUCTION ACCOUNT

ISSUE

What is the Greenhouse Gas Reduction Account and how will proceeds from the market-based carbon pricing program be invested?

Reference: Chapter III

KEY FACTS

- Ontario's market-based carbon pricing program came into effect January 1, 2017.
- The program will generate revenues through the auction and sale of emissions allowances.
- The first auction took place March 22, 2017, and generated revenues of \$472 million. These funds will be invested in programs that will reduce greenhouse gas pollution and help families and businesses reduce their own emissions through the Climate Change Action Plan.

BACKGROUND

Ontario's market-based carbon-pricing program will generate proceeds through the auction and sale of emissions allowances. As set out in the *Climate Change Mitigation and Low-carbon Economy Act, 2016*, these proceeds can only be invested in initiatives that are reasonably likely to reduce, or support the reduction of, greenhouse gases.

The Greenhouse Gas Reduction Account is a designated purpose account that will track the revenues and commitments related to proceeds generated through the market-based carbon pricing program. The expected revenue total in 2017–18 is estimated to be \$1.8 billion and the first auction took place March 22, 2017, and generated revenues of \$472 million.

The Province's Climate Change Action Plan identifies key actions that will support the government's Climate Change Strategy, including initiatives that are intended to be funded from carbon allowance proceeds.

Initiatives to be supported by carbon allowance proceeds in 2017–18 include:

- **Approximately \$800 million for Supporting Homes and Businesses** to help households and companies adopt low carbon technologies. Examples of programs include:
 - Social Housing Retrofits
 - Exchange program for inefficient wood-heating appliances
 -

- **Approximately \$90 million for Promoting Electric Vehicles** to address barriers to improve the uptake of electric vehicles. Examples of programs include:
 - Electric Vehicle Incentive Program
 - Electric Vehicle Charging Infrastructure
- **Approximately \$55 million for Engaging Governments and Strengthening Partnerships** to collaborate with partners to achieve emission reduction targets. Examples of programs include:
 - Municipal GHG Challenge Fund
 - Supports for municipal energy or climate change plans
- **Approximately \$20 million for Enhancing Research and Development** to support innovation in low-carbon clean technology. Examples of programs include:
 - Cleantech development and deployment
 - Climate Change Building Research
- Approximately \$5 million for Implementing Green Investment Fund Initiatives and Other Investments to provide support for other greenhouse gas reducing programs.

Prepared by: Chris Skubel (416-327-2151) / Felix Fung

Branch: General Government, Planning and Resources Branch/PEMD (TBS)

GREEN INVESTMENT FUND

ISSUE

Ontario has already committed \$325 million to the Green Investment Fund to kick-start climate change actions.

Reference: Chapter III

KEY FACTS

- The Green Investment Fund was announced as part of the 2015 Fall Economic Outlook and Fiscal Review and commits \$325 million to projects that will fight climate change, boost the economy, and create jobs.
- The Green Investment Fund is an initial investment in Ontario's Cap and Trade program which is a fundamental component for the Province's Climate Change Strategy released in November 2015. These investments are part of Ontario's plan to secure a healthy, clean and prosperous low-carbon future.

BACKGROUND

Fighting climate change while supporting economic growth, efficiency and productivity is part of the government's plan to build Ontario up and deliver on its number-one priority to grow the economy and create jobs. The Green Investment Fund (GIF) is a unique, one-time investment for activities that reduce greenhouse gases (GHG) and support the transition to a low-carbon economy. The funding categories under the GIF are intended to align with the Province's Climate Change Strategy and five-year action plan.

The GIF, announced as part of the 2015 Fall Economic Outlook and Fiscal Review, will invest:

- **\$100 million** to take advantage of the economic and job opportunities in clean technologies and to help homeowners reduce their energy bills and cut greenhouse gas emissions. In partnership with Enbridge Gas Distribution and Union Gas, the program will help about 37,000 homeowners conduct audits to identify energy-saving opportunities and then complete retrofits, such as replacing furnaces, water heaters and upgrading insulation (announced February 4, 2016)
- **\$99 million** to reduce greenhouse gas emissions and increase energy efficiency in businesses while supporting cleantech innovation and jobs (announced February 17, 2016).
 - \$74 million for a cleantech innovation initiative, which will help reduce greenhouse gas pollution by encouraging large industrial plants to adopt leading-edge technologies, while supporting entrepreneurs in developing creative solutions. For this initiative, the government is partnering with the Ontario Centres of Excellence, which drive the development of Ontario's

economy by helping create new jobs, products, services, technologies and businesses.

- \$25 million for a Green Smart energy efficiency program to help small and medium-sized businesses reduce emissions and become more energy efficient. The program will be delivered by Canadian Manufacturers & Exporters, Canada's largest trade and industry association.
- **\$92 million** to take advantage of the economic opportunities in clean technologies improve energy efficiency and reduce greenhouse gas emissions in social housing (announced February 12, 2016).
 - \$82 million towards energy retrofits for high-rise social housing towers of 150 units or more. The program will be delivered by eligible social housing service managers and the retrofits will include installing energy-efficient boilers, insulating outer walls and mechanical systems, and installing more energy-efficient windows and lighting.
 - \$10 million to help improve electricity in approximately 1,300 single social housing homes, which are often found in smaller and rural communities. The program will be delivered by eligible social housing service managers and the Ontario Aboriginal Housing Services Corporation.
- **\$20 million** to build more public charging stations for electric vehicles. The Province will work with public and private sector partners to create a network of fast-charging electric vehicle stations in cities, along highways and at workplaces, apartments, condominiums and public places across Ontario (announced December 8, 2015).
- **\$13 million** to improve capacity, develop adaptation plans and reduce emissions in Aboriginal communities.
 - \$8 million to demonstrate and deploy microgrid and energy storage technology and infrastructure, with a focus on reducing diesel use in First Nations communities through Ontario's Smart Grid Fund.
 - \$5 million to improve capacity for First Nations to inform development of and participate in economic opportunities associated with greenhouse gas mitigation activities, and develop adaptation plans in partnership with the Ontario Centre for Climate Impacts and Adaptation Resources and the Ontario First Nations Technical Services Committee.
- **\$1 million** to the Sustainability CoLab to support small businesses reduce their greenhouse gas emissions through energy-efficiency investments.

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Branch: General Government, Planning and Resources Branch/PEMD (TBS)

2017 BUDGET TALKS

ISSUE

To outline the three initiatives selected to receive funding as part of the government's 2017 Budget Talks initiative.

Reference: Chapter III, Chapter IV: Section A, and Chapter IV: Section B

KEY FACTS

- The three initiatives selected for 2017 Budget Talks funding include:
 - 1) Reducing and preventing food waste through a Supermarket Recovery Program (MOECC) – \$600,000
 - 2) Improving digital services for libraries serving rural, remote and First Nation communities (MTCS) – \$1,000,000
 - 3) Accessing health data online securely and easily (MOHLTC) – \$1,000,000

BACKGROUND

In 2015, the government first created a public online discussion with Budget Talks, a pre-budget consultation tool.

As part of *the 2016 Fall Economic Statement* (FES), the government announced a new participatory element for 2017 Budget Talks where individuals, organizations, and community groups were invited to submit budget initiative proposals focused on “helping people in their everyday lives and improving the delivery of government services.”

Through the 2017 Budget Talks, the government could select up to eight initiatives to fund as part of the 2017 Document. Total costs for the 2017 Budget Talks was capped at one-time funding of up to \$3 million, in 2017-18 only, with no single initiative costing more than \$1 million.

A total of 396 proposals were submitted that address 1 of 8 focus areas that align with an Ontario government commitment.

Following the submission period, all projects were reviewed to ensure they were within the Province's scope and to determine if each proposal was relevant, duplicative, feasible, and timely.

Public voting then took place on a short list of 13 proposals.

Following the public voting process, the top three initiatives were selected to receive 2017 Budget Talks funding. They include:

1. Reducing and Preventing Food Waste – MOECC

Initiative	Lead Ministry	Funding (2017-18)
Reducing and preventing food waste through a Supermarket Recovery Program	MOECC	\$600,000
Improving digital services for libraries serving rural, remote and First Nation communities	MTCS	\$1,000,000
Accessing health data online securely and easily	MOHLTC	\$1,000,000
Total		\$2,600,000

This pilot introduces a Supermarket Recovery Program to help keep edible food from ending up in the green bin or garbage bin. This program will make grants available to food banks and food rescue organizations to expand their capacity to transport and store surplus perishable and prepared foods.

2. Improving Digital Services for Libraries – MTCS

This initiative improves digital services for the 45 provincially funded First Nation Public Libraries (FNPLS), 82 remote public libraries and 165 rural libraries. Depending on local needs, a suite of digital service options would be made available to choose from. This includes Wi-Fi hotspot lending programs to enable remote internet access, digital services/resources and technology-based training.

3. Accessing Digitized Health Data – MOHLTC

This pilot develops a proof-of-concept digital registration and public authentication service that will allow parents and/or guardians to securely and easily access their child's "Yellow Card" immunization records electronically, using banking credentials.

This digital process may be expanded to test a Patients' First Access Channel where patients can find their health data (e.g. lab records, current medications, hospital visits) regardless of where the digital record actually resides.

Throughout the year, updates on these three initiatives will be posted on ontario.ca/BudgetTalks to track implementation progress.

Prepared by: Paul Ternamian/Daniel Tiburcio

Branch: Fiscal Policy Coordination Unit/Office of the Budget

EXPANDING THE FRAMEWORK FOR DEFINED CONTRIBUTION PENSION PLANS

ISSUE

The government is taking steps to expand and modernize the legislative and regulatory framework related to defined contribution (DC) pension plans, and considering innovative options for payouts in retirement.

Reference: Chapter III: Creating Opportunities and Security

KEY FACTS

- DC pension plans are an important component of retirement security for Ontarians, since they represent a growing share of workplace pension plans.
- As part of the government's commitment to expand and modernize the legislative and regulatory framework related to DC plans, the government is introducing amendments to facilitate the implementation of variable benefits, and intends to develop regulations later this spring (see **Variable Benefits Briefing Note**).
- The government will also engage DC plan sponsors, the financial services industry and pension experts on potential changes to the annual statements members receive that could help DC plan members prepare more effectively for retirement, and explore other options to enhance transparency, modernize member communications and create regulatory efficiencies.
- In addition, the government intends to examine new approaches to managing the "decumulation" phase of retirement, i.e. when retirees are drawing down their savings in order to produce retirement income.
- The Province will engage the federal government, the financial services industry and pension experts to explore new avenues for Ontarians to manage investment and longevity risk.
 - This would include new tools for Ontarians to draw down their savings in an efficient and cost-effective manner during the decumulation phase of their retirement.
- The government is also committed to exploring other options to strengthen DC participation and performance.

BACKGROUND

- The focus of government pension policy has traditionally been on strengthening and modernizing defined benefit (DB) plans.
- However, due to changes in the labour market, as well as a trend of private sector employers moving away from DB pensions, DC plans now account for a much larger share of workplace pension plans in Ontario.
- That is why the *2016 Economic Outlook and Fiscal Review* announced that the government would consider the strengths and weaknesses of Ontario's DC policy and legislative framework.
- The focus of DC plans to date has largely been on the accumulation of benefits. With the number of individuals retiring with DC pension plans expected to increase significantly over the next decade, the decumulation of benefits (i.e. when retirees are drawing down their savings in order to produce retirement income) will take on greater importance.
 - The decisions facing individuals during this phase are much more complex than those in the accumulation phase, and are critical to an individual's retirement security.
 - Research has shown that 60 cents of every retirement dollar is funded by returns after retirement.
- Most retired Canadians transfer their DC pension plans into individually registered decumulation products such as Life Income Funds ("LIFs") and Registered Retirement Income Funds ("RRIFs"). However, these funds present the following challenges for retirees:
 - They do not pool investment and longevity risk
 - They do not realize economies of scale to reduce administrative and investment costs, and
 - They do not offer simple investment menus with limited choice and appropriate defaults.
- To address these challenges, the government will examine options to increase the efficiency and cost-effectiveness of the decumulation phase.
- To assist in the development of potential options, the government will seek a broad array of stakeholder perspectives, including the federal government, the financial services industry, and pension experts.

Prepared by: Kevin Curtin / Susanne Coles

Branch: Pension Policy Branch, Income Security and Pension Policy Division

TARGET BENEFIT MULTI-EMPLOYER PENSION PLANS

ISSUE

In the summer of 2015, the government released a consultation paper seeking input on a proposed regulatory framework for target benefit multi-employer pension plans (MEPPs), including a permanent exemption from solvency funding requirements.

The government intends to announce its proposed target benefit MEPP framework later this spring.

Reference: Chapter III: Creating Opportunities and Security

KEY FACTS

- An essential aspect of the government's commitment to improving retirement security is Ontario's development of a framework for target benefit pension plans.
- Target benefit pension plans combine features of defined benefit (DB) pension plans and defined contribution (DC) pension plans. While they "target" a specified retirement pension funded by fixed contributions, unlike DB plans, target benefit pension plans may reduce accrued benefits to address funding shortfalls.
- In summer 2015, the government released a consultation paper on a proposed regulatory framework for target benefit MEPPs.
- The government remains committed to developing a new regulatory framework for target benefit MEPPs. This framework would replace the time-limited funding regulations that are currently in place for certain MEPPs, known as specified Ontario multi-employer pension plans (SOMEPPs).
 - Temporary solvency funding relief was first provided to SOMEPPs in 2007. The exemption was extended several times and is now set to expire on August 31, 2017.
- In developing the framework, the government is taking into consideration feedback received from stakeholders in response to the consultation paper.
- The government intends to announce its proposed target benefit MEPP framework later this spring and release draft regulations for public consultation in fall 2017. The new framework will provide a transition period for plans to make necessary adjustments.
- The government will also continue to explore options for a target benefit MEPP framework for plans that do not currently meet the SOMEPP criteria.

BACKGROUND

- Target benefit pension plans combine features of DB pension plans and DC pension plans. While they “target” a specific pension benefit level funded by fixed contributions, accrued benefits, including pensions in pay to retirees, may be reduced to address funding shortfalls.
- Currently, the *Pension Benefits Act* (PBA) generally prohibits single-employer DB plans from reducing accrued benefits.
- While numerous target benefit MEPPs exist in Ontario, there is no specific regulatory framework for target benefit pension plans in the PBA. For the purposes of the PBA, they are classified as defined benefit plans.

Consultation Paper on Target Benefit Pension Plans

- The *2015 Budget* announced that the government would soon be releasing a consultation paper on a proposed regulatory framework for target benefit MEPPs. This paper was released in July 2015.
 - The general consensus among TB MEPP stakeholders, including participating employers, unions, and administrators, is that TB MEPPs should not be subject to solvency requirements for various reasons, including:
- The ability of these plans to adjust benefits to address funding deficits;
- The low likelihood of wind-up of a TB MEPP since multiple employers participate in the plan; and
- MEPPs have a governance structure which requires not less than 50% member representation.

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VARIABLE BENEFITS

ISSUE

The *2017 Budget Bill* proposes amendments to certain unproclaimed provisions in the *Pension Benefits Act* (PBA) that deal with variable benefits, repeal some unproclaimed subsections and add new provisions, ensuring completeness of the variable benefit regime.

Reference: Chapter III: Creating Opportunities and Security

KEY FACTS

- Ontario is working to expand and modernize the framework for DC pension plans.
- Currently, individuals with retirement savings in a DC plan must transfer their money to a financial institution in order to receive retirement income.
- The variable benefits provisions in the PBA, if proclaimed, would allow DC plans to pay benefits directly without requiring retired members to transfer their money to a financial institution.
- The proposed amendments made by the *2017 Budget Bill* would, if passed, amend certain unproclaimed provisions, repeal other unproclaimed subsections and add new provisions related to variable benefits.
- DC plans that wish to offer variable benefits would be required to amend their plan terms to permit them.
- Retired members who wish to receive variable benefits could elect, on an annual basis, the amount of retirement income they wish to receive, similar to payments made from a LIF, subject to a maximum amount.
- Retired members who elect to receive variable benefits would continue to benefit from the investment expertise of pension fund managers and from cost efficiencies due to scale.
- Regulations are required to implement the new and unproclaimed variable benefits provisions in the PBA.

BACKGROUND

The *2010 Budget Bill* amended the *Pension Benefits Act* (PBA) to add section 39.1, which allowed plans that provided defined contribution (DC) benefits to pay pension benefits in any manner authorized by the *Income Tax Act* (Canada).

In the spring of 2014, a description of proposed regulations was posted to Ontario's Regulatory Registry seeking input from stakeholders to comment on whether unlocking and portability of DC accounts would be desirable options. Feedback was received from a variety of stakeholders who were generally in favour of having portability and

withdrawal options that were more consistent with what is permissible for Life Income Fund (LIFs). As a result, further amendments to the PBA were contemplated.

The *2015 Budget Bill* amended the 2010 PBA variable benefits provision, adding details in connection with increased portability options. The amendments made by the *2015 Budget Bill* would allow:

- Payment of variable benefits directly from a DC plan;
- A retired member to elect to transfer any or all of the assets in a variable benefit account to another DC plan (if the other plan agrees to accept the transfer) or to a prescribed retirement savings arrangement or to use the assets to purchase a life annuity; and
- The ability to transfer assets into a retired member's variable benefit account from another DC plan or from a prescribed retirement savings arrangement.
- The new provisions proposed in *the 2017 Budget Bill* would address:
- The payment of a death benefit from a variable benefit account, including continuation of payments to a spouse who is designated as a specified beneficiary by the retired member, as defined in section 8506 (8) of the Income Tax Regulations (Canada);
- The valuation and division of a variable benefit account upon relationship breakdown; and
- The transfer of a lump sum from a variable benefit account for family law purposes.

The *2017 Budget Bill* would also make amendments to the unproclaimed provisions in the PBA, including:

- Adding pooled registered pension plans as a vehicle from which funds may be transferred into a variable benefit account; and
- Repealing certain subsections related to limitations on transfer out of a variable benefit account.
- The PBA amendments made in 2015 and 2017 would come into force once supporting regulations have been developed. Regulations are currently being drafted to support the unproclaimed and proposed new provisions and are required to bring the provisions into force. A description of the proposed regulations will be posted to Ontario's Regulatory Registry in late spring of 2017.

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Branch: Pension Policy Branch, Income Security and Pension Policy Division

REVIEWING THE SOLVENCY FUNDING FRAMEWORK

ISSUE

The 2015 *Ontario Economic Outlook and Fiscal Review* announced a review of the current solvency funding framework. Following a review process that included extensive stakeholder engagement, the government intends to announce the guiding principles of a new funding framework this spring. Measures to support transition to the new framework will also be implemented this spring.

Reference: Chapter III: Creating Opportunities and Security, Improving Retirement Security

KEY FACTS

- As part of the solvency funding review, there has been extensive stakeholder engagement, including in-person consultations facilitated through a Stakeholder Reference Group (SRG); roundtable discussions with representatives from labour, employers, retirees, and plan administrators, including those of jointly sponsored pension plans in the broader public sector; and individual stakeholder meetings.
- In July 2016, the government released a consultation paper seeking written feedback from all interested parties on how best to revise the funding framework for DB pension plans in Ontario.
 - Over 90 submissions were received from individuals and stakeholder groups.
- Also in July 2016, temporary solvency funding relief measures introduced in 2009 and 2012 were extended. For the first valuation report filed in the three-year period starting on December 31, 2015, a plan administrator may choose one or both of the following:
 - Consolidate existing solvency payment schedules into a new 5-year payment schedule; and
 - Extend the solvency special payment schedule to up to 10 years for a new solvency deficiency, with the consent of members and retirees.
- The government intends to announce the guiding principles of a new funding framework this spring. Measures to support transition to the new framework will also be implemented this spring

BACKGROUND

Over the last several years, sponsors of DB single employer pension plans (SEPPs) have faced funding pressures associated with persistently low interest rates.

- In its *2015 Ontario Economic Outlook and Fiscal Review*, the government made a commitment to undertake "...a review of the current solvency funding framework with a view to developing a balanced set of reforms that would focus on plan sustainability, affordability and benefit security, and take into account the interests of pension stakeholders – including sponsors, unions, members and retirees."
- The *2016 Ontario Budget* announced further details of the solvency funding review, including the appointment of David Marshall, former president and CEO of the Workplace Safety and Insurance Board (WSIB), to lead the solvency funding review, as well as the government's intention to establish the SRG.

Funding of Defined Benefit Pension Plans in Ontario

Generally, sponsors of DB plans in Ontario are required to prepare both going concern and solvency valuations.

- A going concern valuation assumes that the pension plan will continue indefinitely and uses assumptions based on an actuary's best estimate of expected future experience.
- A solvency valuation assumes the plan's immediate wind up with assumptions mostly prescribed by actuarial standards.

The current solvency valuation requirements were introduced to set a goal of fully funding the plan's accrued benefits if the plan were to wind up, e.g., if a sponsor became insolvent.

- In recent years, many plan sponsors have found solvency funding requirements onerous compared to what was previously required when equity returns were stronger and long term interest rates were higher.
 - In response, many Canadian jurisdictions have revised their solvency funding rules to assist plan sponsors facing large solvency deficits. However, with the exception of Quebec, all jurisdictions continue to require some form of solvency funding.
 - Ontario provided sponsors of DB single employer pension plans with temporary solvency funding relief in 2009 and 2012. In the fall of 2015, the government announced they would provide solvency relief to private sector sponsors for an additional three years commencing December 31, 2015. These temporary measures were effective as of July 1, 2016.

Consultation Paper: Review of Ontario's Solvency Funding Framework for Defined Benefit Pension Plans

The government released a consultation paper in July 2016 seeking feedback on the review of the funding framework for DB pension plans in Ontario. The consultation paper presented options for solvency funding reform consolidated into two general approaches:

- **Approach A:** Maintaining the requirement to fund on both going concern and solvency bases, while modifying solvency funding requirements.
- **Approach B:** Enhancing going concern funding requirements while reducing or eliminating current solvency funding requirements.
- The consultation paper also considered additional reform measures that could be put in place in conjunction with any of the funding reforms outlined in the paper to enhance benefit security. In particular, the paper discussed the possibility of reforming the Pension Benefits Guarantee Fund (PBGF) to ensure that a minimum pension benefit level will be paid to members in the event of employer insolvency. With a few exceptions, members of DB SEPPs are covered by the PBGF, which protects the first \$1,000 of a plan beneficiary's monthly pension.
- The paper did not indicate a preferred approach by the government.

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Branch: Pension Policy Branch, Income Security and Pension Policy Division

MISSING BENEFICIARY

ISSUE

The government is proposing an amendment to the *Pension Benefits Act* (PBA) that would help address issues arising as a result of missing pension plan beneficiaries.

The government will also be considering further initiatives that would help plan administrators to deal with missing beneficiaries.

Reference: Chapter III: Creating Opportunities and Security, Improving Retirement Security

KEY FACTS

- Currently there are no guidelines for locating missing pension plan beneficiaries and no way to deal with monies owed to plan beneficiaries if they do not come forward to claim their benefits. To address these issues, the government will:
 - Instruct the Superintendent to develop a policy to provide direction to pension plan administrators on steps they should take to locate beneficiaries;
 - Propose amendments to the PBA to provide the Superintendent with legislative authority to waive the requirement to provide statements in situations where a plan administrator can demonstrate that the beneficiary is missing;
 - Consider a registry where employers or administrators could post information regarding missing beneficiaries and where individuals could search for missing benefits; and
 - Explore options to allow the wind up of pension plans in cases where missing beneficiaries remain, while continuing to protect the benefits of those who are missing.

BACKGROUND

Pension plan administrators and employers have expressed concerns that they are often unable to locate plan beneficiaries, but are still required to fulfill their legislative responsibilities, which include issuing periodic pension statements to members. Ongoing plans also face administrative challenges when deferred members cannot be found once their pensions come due.

Effective July 1, 2017, new disclosure obligations require plan administrators to send statements every two years to former and retired members. Previously there was no requirement to do so until the pension was payable.

When an individual is presumed missing, the responsibility is on the plan administrator to conduct a search in order to locate the individual and pay any entitlements. The extent of the search is dependent on the plan administrator as there are no guidelines.

The proposed amendments to the PBA would address concerns raised by plan administrators by providing the Superintendent with the authority to waive the requirements for plan administrators to provide former members and retired members with periodic pension statement in situations where a plan administrator can demonstrate that the former member or retired member is missing.

The Superintendent will be asked to develop a policy that sets out processes that a plan administrator would need to follow before the Superintendent determines that it is reasonable to believe that a beneficiary is missing.

When pension plans are wound up, plan administrators are responsible for notifying all beneficiaries under the plan and making arrangements to pay all entitlements. Plan administrators cannot be discharged from their obligations until all money is distributed. When beneficiaries are not located, their entitlements cannot be paid out, the wind up cannot be completed, and the management and reporting duties of administrators continue indefinitely. Most often this occurs in the case of deferred members, but similar issues can also arise when trying to locate spouses or other beneficiaries under a given plan.

The government will explore potential solutions that would aim to balance the interests of beneficiaries, plan administrators and employers. These changes might include, for example, development of a registry where employers or administrators could post information regarding missing beneficiaries and individuals could search for missing benefits. The government will also explore options allowing the wind-up of pension plans in cases where missing beneficiaries remain, while continuing to protect the benefits of those who are missing.

Prepared by: Vinod Armoogum

Branch: Income Security and Pension Policy Division

CHAPTER IV: PUBLIC SERVICES YOU CAN COUNT ON

Section C: Building Transit and Transportation

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TRILLIUM TRUST UPDATE

ISSUE

Update on the status of the Trillium Trust.

Reference: Chapter IV, Section C: Building Transit and Transportation

KEY FACTS

- The *Trillium Trust Act, 2014* provides for the dedication of net revenue gains associated with the sale of designated assets to the Trust to support the Province's key infrastructure priorities, such as roads, bridges and public transit.
- Designated assets under the Act include the Province's shares in Hydro One and Hydro One Brampton, as well as the Liquor Control Board of Ontario (LCBO) head office lands, the Ontario Power Generation (OPG) head office building and the Lakeview lands.
 - The Act also provides for regulations to designate additional assets, such as the Seaton lands.
- In March 2017, the government credited the Trillium Trust with additional \$538 million in net revenue gains from the sale of Hydro One shares in 2016, bringing the total amount credited to the Trillium Trust to \$5.3 billion.
- The government previously credited the Trillium Trust with net revenue gains from the sale of the Province's shares in GM, the initial sale of Hydro One shares in 2015 and the sale of the LCBO head office lands.
 - In August 2016, the Province dedicated \$3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust. This follows on the government's commitment to dedicate all net revenue gains from the sale of Hydro One shares to the Trillium Trust.
 - The Province also credited the Trillium Trust in October 2016 with \$246 million from the sale of the LCBO head office lands, and the Province previously credited the Trillium Trust with \$1.35 billion in net proceeds from the sale of the Province's shares in General Motors.
- As stated in the *2016 Budget* and *2016 Ontario Economic Outlook and Fiscal Review*, the government has begun drawing down funds from the Trillium Trust in 2016-17.
 - Based on planned expenditures, the Trillium Trust is projected to be drawn down by about \$250 million in 2016-17 and about \$400 million in 2017-18 to help support initiatives such as Go Regional Express Rail (RER), the Hurontario Light Rail Transit (LRT), and Ontario Community Infrastructure Fund (OCIF).

BACKGROUND

Trillium Trust Act, 2014

The 2014 Budget introduced the *Trillium Trust Act, 2014*, which established the Trillium Trust to provide for the dedication of net proceeds from the sale of qualifying assets to support the Province's key infrastructure priorities, such as roads, bridges and public transit.

The Act was amended in 2015 to designate Hydro One, Hydro One Brampton, the LCBO head office lands, the OPG head office building and the Lakeview lands as qualifying assets under the Act, and to ensure that all net revenue gains from qualifying asset sales could be credited to the Trillium Trust for infrastructure investments under Moving Ontario Forward.

The Act requires regulations to:

- Designate the proceeds to be dedicated to the trust from the disposition of a qualifying asset.
- Dedicate the amount of non-cash fiscal benefits that result from a disposition of a qualifying asset to the trust.
- Prescribe any costs and/or other obligations, other than the book value of the qualifying asset, for the purposes of finding the net gain from a disposition.

Net Revenue Gains Credited to the Trillium Trust

As at March 31, 2017, the Trillium Trust has been credited with about \$5.3 billion as explained below.

In March, 2017, the government filed a regulation to credit the Trillium Trust with an additional \$538 million in net revenue gains from the sale of Hydro One shares in 2016.

- The Province completed a secondary offering of Hydro One common shares in April 2016. The Province sold 83.3 million shares, of which OPG purchased 9 million.
 - OPG independently purchased these shares to satisfy its future share delivery obligations to the Power Workers' Union (PWU) and Society of Energy Professionals (SEP), as negotiated in 2015 collective agreements with these unions.
- The regulation prescribes the \$538 million as designated proceeds from the secondary offering, which is determined as a result of the following:
 - Gross proceeds from the sale of Hydro One shares, less the gross proceeds from the shares purchased by OPG, were \$1.76 billion.
 - Deductions totalled \$1.22 billion, which included \$1.18 billion for book value and about \$40 million in prescribed costs.

- The above does not include the net proceeds from the shares purchased by OPG in the offering.
- The government is also committed to crediting the Trillium Trust with the net proceeds from the shares purchased by OPG.

In October 2016, the Province filed a regulation to dedicate the net gain of about \$246 million from the sale of the LCBO head office lands to the Trillium Trust. This amount represents the gross proceeds of \$260 million less the book value of the lands and transaction costs.

In August, 2016, the government filed a regulation under the Act to prescribe net revenue gains from the Hydro One IPO and certain related share sales in November 2015, including the non-cash benefits from the deferred tax benefit recorded by Hydro One. The total amount dedicated to the Trust was \$3.2 billion.

- The designated proceeds of disposition totalled about \$0.8 billion.
- The gain to the Province from Hydro One's deferred tax benefit was about \$2.4 billion.

The \$3.2 billion credited to the Trust does not include a deferred gain of \$48 million associated with shares purchased by trusts of the PWU and the SEP using loans provided by the Province. The amounts from those share sales will be credited to the Trillium Trust over time as the loans are repaid and the gains are recognized as revenue.

The government had previously credited \$1.35 billion to the Trillium Trust from the sale of the Province's General Motors common shares and the redemption of preferred shares.

Trillium Trust Reporting

The 2015-16 Ontario Public Accounts included an update on the Trillium Trust in Volume 1, showing the \$1.35 billion balance of the Trillium Trust as of March 31, 2016 (reflecting the sale / redemption of the Province's General Motors shares).

- Information was also provided in the Financial Statement Discussion and Analysis section and in Vol. 1 of the 2015-16 Public Accounts, noting the filing of the regulation in August crediting the Trillium Trust with the \$3.2B in net revenue gains associated with broadening Hydro One ownership in 2015-16. Vol. 1 also noted that the balance of the Trillium Trust as at September 30, 2016 was approximately \$4.5 billion.
- The 2015-16 Public Accounts did not mention the LCBO head office lands regulation as that transaction occurred in 2016-17. Reporting on the dedication of the \$246 million of net revenue gains from the LCBO head office lands sale and the \$538 million of net revenue gains from the sale of Hydro One shares in 2016 will be in the 2016-17 Public Accounts.

As Trillium Trust drawdown amounts are confirmed, beginning with amounts for 2016-17, these will also be reported in Public Accounts.

Prepared by: Sarah McGowan

Branch: Strategic Investment & Finance Branch, Corporate & Electricity Finance Division

HYDRO ONE / HYDRO ONE BRAMPTON

ISSUE

The Province continues to move forward with its Asset Optimization strategy, including broadening Hydro One ownership and the recent sale of Hydro One Brampton to Alectra Utilities.

Reference: Chapter IV, Section C: Building Transit and Transportation

KEY FACTS

- The Province now holds approximately 70 per cent of Hydro One common shares following the initial public offering in November 2015 and a secondary offering in April 2016.
- The Province will remain the largest shareholder, while reducing its stake to no less than 40 per cent over time to help support the largest investment in public infrastructure in Ontario's history.
- Through the broadening of Hydro One ownership, the Province remains on track to generate \$4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and \$5 billion to reduce debt.
- In July 2016, the Province and the First Nations in Ontario, as represented by the Chiefs-in-Assembly, announced an agreement-in-principle for the Province to sell to First Nations, for their collective benefit, up to 2.5 per cent of total current outstanding Hydro One shares, at a price of \$18 per share.
 - The agreement remains subject to ratification by the First Nations.
- In February 2017, the Province successfully completed the sale of Hydro One Brampton to Alectra Utilities, a newly merged entity consisting of three former local distribution companies (Enersource, Horizon Utilities and PowerStream), creating the second largest local distribution company (LDC) in Ontario.
 - This represents a major step forward in LDC consolidation and will allow for more efficient services and continued provision of safe, reliable electricity.
 - The government will credit the net proceeds from the sale to the Trillium Trust.

BACKGROUND

Premier's Advisory Council on Government Assets

- In April 2015, the Premier's Advisory Council on Government Assets delivered its final recommendations to the Province in order to unlock the value of key Provincial assets to create lasting benefits for the people of Ontario.
- This included recommendations for the Province to proceed with a Hydro One IPO of approximately 15 per cent of its common shares, with subsequent share sales over time, totalling up to 60 per cent.
- The council also recommended for the Province to proceed immediately with a sale, or merger, of its interest in Hydro One Brampton Networks Inc. to, or with, Enersource Corporation, PowerStream Holdings Inc. and Horizon Holdings Inc., intended to catalyze consolidation in the Greater Toronto and Hamilton Area.

Government Actions to Support the broadening of Hydro One Ownership

Maintaining Significant Government Ownership

Legislation has passed that

- restricts the Province from selling down to less than 40 per cent of the voting securities in Hydro One;
- requires the government, in the case where it owns less than 40 per cent, to take steps, subject to approval, to acquire as many voting securities necessary to increase the Province's ownership to not less than 40 per cent and;
- ensures that the rest of Hydro One shares would be widely held, with no other shareholder or group of shareholders acting jointly allowed to hold more than 10 per cent of the voting shares.

Regulating Electricity Rates

- The ability to set rates will continue to be the responsibility of the independent regulator, the Ontario Energy Board (OEB) — not Hydro One.
- The government has also passed legislation that strengthens the regulatory powers of the OEB to further enhance its ability to protect electricity ratepayers with respect to cost, consumer protection and service reliability.

Hydro One Governance and Oversight

- The Province has put in place a governance agreement with Hydro One which outlines the process through which the Province nominates 40 per cent of the board of directors and clarifies the Province's role as an investor, not as a manager.
- The Province has also introduced a registration rights agreement to which clarifies the rights related to future share sales by the Province or Hydro One.

- Hydro One will continue to be subject to requirements of the Business Corporations Act (Ontario) and the Securities Act (Ontario) and has created a dedicated Ombudsperson to receive and investigate customer complaints.

Hydro One Share Sales in 2015

- The Province completed the Hydro One IPO in November 2015 and raised approximately \$1.83 billion in gross proceeds and about \$116 million from related share sales to trusts of the Power Workers' Union (PWU) and Society of Energy Professionals (SEP).
- A summary of the key, direct components of the sale of Hydro One shares in 2015 are provided in Note 11 to the of the Province's 2015-16 Public Accounts replicated below, including the gain on the sale of shares of about \$0.8 billion and the positive impact to the Province's income from Hydro One of about \$2.4 billion as a result of the deferred tax benefit recorded by Hydro One.

(\$ Millions)	
Total proceeds from the sale of shares	\$1,945
Deferred gain on sale of shares to electricity union trusts	(\$48)
Transaction costs	(\$43)
Net Proceeds from sale of Hydro One shares (Net of transaction cost and gain on sale of shares to electricity union trusts)	\$1,854
Book value of shares sold (Schedule 9)	(\$1,071)
Gain on sale of shares recognized in 2015-16	\$783
Electricity PILs Revenue (Schedule 1)	\$2,791
Hydro One departure tax expense and one-time PILs payment (offset to PILs Revenue) reflected in Income from GBEs	(\$2,791)
Portion of Hydro One deferred tax benefit recorded by the Province through HOL consolidation, reflected in Income from GBEs	\$2,392
Net impact on annual deficit	\$3,175

Hydro One Share Sales in 2016

- The Province successfully completed a secondary offering of 14 per cent of Hydro One common shares in April 2016 and raised approximately \$2.0 billion in total gross proceeds.
- The Province sold 83.3 million shares, of which OPG purchased 9 million.
 - OPG independently purchased these shares to satisfy its future share delivery obligations to the Power Workers' Union (PWU) and Society of Energy Professionals (SEP), as negotiated in 2015 collective agreements with these unions.

Agreement in Principle with First Nations

- The Province has entered an agreement-in-principle to sell to First Nations, up to approximately 15 million shares of Hydro One Limited (2.5% of the total current outstanding common shares), depending on the level of First Nations participation. The agreement remains subject to ratification by the First Nations.

- A minimum threshold of 80% of First Nation participation by the end of 2017 is required for the transaction to close.
- The purchase would be financed with a 25- year loan from the Province of up to approximately \$268 million, depending on the level of First Nation participation.
- Ontario would also provide seed capital to a new First Nations investment fund of up to \$45 million in cash, depending on the level of First Nation participation.

Sale of Hydro One Brampton to Alectra Utilities

- Prior to August 31, 2015, Hydro One Brampton was a subsidiary of Hydro One.
- To facilitate the proposed merger of Hydro One Brampton with Enersource, Horizon Utilities, and PowerStream, on August 31, 2015, Hydro One declared a dividend in kind to the Province of all the issued and outstanding common shares of Hydro One Brampton Networks Inc.
- An application to support the merger was submitted to the OEB on April 15, 2016. On December 8, 2016, the OEB issued a decision an order approving the meger.
- On January 31, 2017, Enersource, Horizon Utilities and PowerStream announced that the entities had merged under Alectra Inc., with the entities serving the Province under the name Alectra Utilities.
- The sale of Hydro One Brampton to Alectra Utilities closed on February 28, 2017, creating the second largest LDC in Ontario.
- The government will credit the net proceeds from the sale of Hydro One Brampton to the Trillium Trust.

Trillium Trust

- The Province's shares in Hydro One and Hydro One Brampton are designated assets under the *Trillium Trust Act, 2014*.
- In August 2016, the government dedicated \$3.2 billion from the sale of Hydro One shares in 2015 to the Trillium Trust. This included the non-cash fiscal benefit from the deferred tax benefit recorded by Hydro One.
 - The \$3.2 billion credited to the Trust does not include a deferred gain \$48 million in associated with shares purchased by trusts of the PWU and SEP using loans provided by the Province. The amounts from those share sales will be credited to the Trillium Trust over time as the loans are repaid and the gains are recognized as revenue.
- On March 30, 2017, the government filed a regulation to credit the Trillium Trust with an additional \$538 million in net revenue gains from the sale of Hydro One shares in 2016.
 - The regulation prescribes the amount of designated proceeds from the secondary offering, not including the net proceeds from the shares purchased by OPG in the offering. The government is also committed to crediting the Trillium Trust with the net proceeds from the shares purchased by OPG.

Associated Transactions

OEFC Debt Pay Down

- The government is making progress on its commitment to using proceeds from broadening ownership in Hydro One to pay down a targeted \$5 billion in debt.
- The commitment includes using the pre-IPO special dividend paid by Hydro One to the Province and using proceeds related to the book value of the Hydro One shares sold to pay down the Province's debt and other payables with the Ontario Electricity Financial Corporation (OEFC).
- The Province has now paid the OEFC approximately \$3.2 billion related to the book value of Hydro One shares sold in 2015 and 2016 and the pre-IPO special dividend.
- As the government continues to broaden Hydro One ownership, the Province will direct additional proceeds to pay down debt and other payables with OEFC.

Benefit to OEFC under s. 50.3 of the *Electricity Act, 1998*

- Section 50.3 of the *Electricity Act, 1998*, requires that an amount equal to the proceeds from a sale of Hydro One equity, less transaction costs and other obligations, costs and amounts determined by the Minister of Finance in connection with the Province's ownership stake in Hydro One, are to be paid to OEFC.
- Section 50.3 allows the Province to meet its obligations to OEFC by, for example, relieving OEFC of certain debt obligations that it currently owes to the Province. This means that the cash will go to infrastructure as indicated, while also allowing for a reduction in stranded debt.
- In accordance with section 50.3, the Province paid the OEFC a financial benefit of about \$172 million in connection with the Province's sale of Hydro One common shares in 2015. This payment was made by remitting debt that OEFC owed to the Province.
- OEFC will also receive a subsequent financial benefit related to the April 2016 secondary offering of Hydro One shares. The Province is also committed to providing OEFC with a financial benefit as provided under Section 50.3 from the sale of Hydro One Brampton.

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Branch: Strategic Investment & Finance Branch, Corporate & Electricity Finance Division

REAL ESTATE UPDATE

ISSUE

Update on the asset optimization strategy of specified real estate assets: the LCBO head office lands, the OPG head office building and associated parking structure, the Lakeview lands and the Seaton lands.

Reference: Chapter IV, Section C: Building Transit and Transportation

KEY FACTS

- The Province is executing its asset optimization strategy with respect to real estate assets, including the recent completion of the sale of the OPG head office properties.
 - The transaction between OPG and KingSett Canadian Real Estate Income Fund LP is estimated to result in net proceeds of over \$200 million, which will be credited to the Trillium Trust.
- The Province is moving forward with the sale of the Seaton lands.
 - The lands will be marketed to prospective purchasers and to support a new urban development in the City of Pickering.
 - By selling approximately 830 acres of employment lands and 370 acres of residential and mixed-use lands, upon completion Seaton is expected to be home to 61,000 residents and support direct employment of 30,500.
- The former Lakeview generating station property in south Mississauga continues to be reviewed under a longer-term revitalization plan for the property and adjacent lands.
 - The Province is focused on realizing the potential of the Lakeview lands, with an opportunity to create a new and sustainable, mixed-use community along Mississauga's eastern waterfront, with arts and culture districts, housing, employment, and retail and recreational uses.
 - The Province intends to strategically proceed with a staged sale process, beginning with lands envisioned for residential mixed-use development in keeping with anticipated proposals for amendments to the City of Mississauga's official plan.
- The government will be dedicating the net proceeds generated from these sales to the Trillium Trust.

BACKGROUND

LCBO Head Office Lands

In October 2016, the Province credited \$246 million in net revenue gains from the sale of the LCBO head office lands to the Trillium Trust.

Plans for the development of the lands will include new LCBO head office facilities and a flagship retail store.

- The office tower housing the new LCBO offices and store will be a green space, built to a minimum LEED Gold standard and will strive for LEED Platinum certification. This aligns with the government's commitment to move towards a low-carbon economy.

The proposal to sell and relocate the LCBO headquarters and warehouse/retail location was first announced by the government in early 2012, and also appeared in the 2012 Ontario Budget.

- On May 5, 2016 the government announced that it had secured \$260 million, subject to closing agreements, from the sale of the LCBO head office lands to Menkes Developments Ltd.

OPG Head Office Building

OPG formerly owned and leased its downtown Toronto head office building at 700 University Avenue (113,898 sq. metres in 20 floors including 2 basement floors).

- The building was initially built for the old Ontario Hydro in 1975.
- The proposal to sell the OPG Head Office location in downtown Toronto was first announced in the 2013 Ontario Economic Outlook and Fiscal Review.
- The sale also included the associated parking structure at 40 Murray Street.

On December 18, 2015, the Minister of Energy issued a shareholder Declaration and Resolution to OPG's Board (publicly posted) to enable the transaction and payment of net proceeds to the Province.

The sale of the OPG head office properties received an exemption from the *Environmental Assessment Act*, through an amendment to Reg. 334 in December 2015.

In October 2016, OPG, through IO, initiated a commercial process to market the sale of OPG's head office building and associated parking lot.

On January 9, 2017, OPG released a news release confirming that it had reached an agreement to sell the properties to KingSett Canadian Real Estate Income Fund LP, with the transaction expected to closed in early April 2017.

- The transaction closed on April 5, 2017.

Seaton Lands

The Seaton Lands have been provincially owned since the 1970s. Upon completion, Seaton will be a mixed use, sustainable community, which will be home to 61,000 people and support 30,500 jobs.

- The provincial sale includes approximately 830 acres of employment lands and 370 acres of residential and mixed use lands.

The Seaton Lands are not currently named as a designated asset under the *Trillium Trust Act, 2014*, but the Province is able to designate the Lands through a regulation under the Act.

- [Note to reader: this is not because of a policy decision but rather that it would have required several pages to list all the lots that make up the Seaton Lands]

Lakeview Lands

The Province continues its review of the former Lakeview generating station property in south Mississauga under a longer-term revitalization plan for the property and adjacent lands.

- A Memorandum of Understanding was approved in June 2011 for the Province and OPG to work with the City of Mississauga to develop a shared vision and action plan for the redevelopment of the lands.
- In 2014, the City developed a master plan for the area titled Inspiration Lakeview.
- The plan proposes long-term, phased-in development of six sustainable neighbourhoods along the waterfront. Each neighbourhood will offer a variety of uses including residential housing; vibrant, public open spaces; cultural and recreational amenities; various community services and employment opportunities. Inspiration Lakeview is a vision for the future.
- The Master Plan was developed in consultation with the OPG, the Province, community members and City staff.
- In June 2014, the Inspiration Lakeview Master Plan was submitted to the Mississauga City Council's Planning and Development Committee.
- On June 9, 2016, the Minister of Energy issued a shareholder Declaration and Resolution to OPG's Board (publicly posted) to enable the transaction and payment of net proceeds to the Province.
- In September 2016, Mississauga's Planning and Development Committee received a staff report on the proposed Official Plan policies to support the implementation of the Inspiration Lakeview Master Plan.
- On September 24, 2016 officials from the City of Mississauga and the Province announced the beginning of construction of waterfront green space.

Prepared by: Sarah McGowan

Branch: Strategic Investment & Finance Branch, Corporate & Electricity Finance Division

CHAPTER IV: PUBLIC SERVICES YOU CAN COUNT ON

Section D: Building Inclusive Communities and Improving the Justice System

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SOCIAL ASSISTANCE CHANGES

ISSUE

The 2017 Budget announced that Ontario will increase asset limits, the exemption on cash gifts, and rates in both Ontario Works and Ontario Disability Support Program.

Reference: Chapter IV, Section D: Public Services You Can Count On, Building Inclusive Communities and Improving the Justice System

KEY FACTS

Social Assistance Asset Limit Changes

- The government will be increasing limits on cash and other liquid assets in both Ontario Works and the Ontario Disability Support Program (ODSP).
- For Ontario Works, asset limits will be increased from \$2,500 to \$10,000 for singles, and from \$5,000 to \$15,000 for couples.
- For ODSP, asset limits will be increased from \$5,000 to \$40,000 for singles and from \$7,500 to \$50,000 for couples.
- Increases to asset limits will take effect by January 2018.

Social Assistance Rate Increase

- Social assistance rates will be increased by 2 per cent, across the board, for Ontario Works and ODSP.
- The rate increase will take effect in September 2017 for ODSP and October 2017 for Ontario Works.

The Remote Communities Allowance

- The Remote Community Allowance will be increased by \$50 per month for the first person and \$25 for each additional family member.

Increases in Other Allowances

- In addition, MOHLTC's Comfort Allowance and other SA allowances, including Temporary Care Assistance, Guide Dog Allowance, Personal Needs Allowance, Special Boarder Allowance and Dependents with dependents rates, will be increased by 2 per cent.

BACKGROUND

Changes to Asset and Gift Limits

Previous Changes

In 2012, the Commission for the Review of Social Assistance in Ontario had recommended simplifying asset rules in order to help social assistance recipients become more financially secure and to streamline the delivery of social assistance.

Acting on this advice, in 2013, the government had:

- Increased liquid asset limits, including cash, for single adults receiving Ontario Works from \$606 to \$2,500 and from \$1,043 to \$5,000 for couples;
- Removed the restriction on the value of primary vehicles so that Ontario Works recipients could retain a vehicle they may have needed for employment;
- Provided First Nation and northern communities administering Ontario Works greater flexibility to determine which assets recipients should be able to keep; and
- Allowed Ontario Works recipients to receive gifts of up to \$6,000 per year without reducing their social assistance benefits.

Changes Announced in the 2017 Budget

The 2017 Budget announced that the asset limits for:

- Ontario Works would increase from \$2,500 to \$10,000 for singles, and from \$5,000 to \$15,000 for couples; and
- ODSP asset limits would increase from \$5,000 to \$40,000 for singles and from \$7,500 to \$50,000 for couples.

Increases to asset limits will take effect by January 2018.

Also, the 2017 Budget announced changes to the treatment of cash gifts for the purpose of determining social assistance benefits as follows:

- An increase to the income exemption for gifts and voluntary payments up to \$10,000 per 12-month period for each member of the benefit unit for both ODSP and Ontario Works; and
- A full exemption for cash gifts in any amount if they are applied to the first and last month's rent, to the purchase of a principal residence or a vehicle.

These changes are expected to take effect in September 2017.

Social Assistance Rate Increases

Previous Changes

Social assistance (SA) rates have been increased 12 times since 2004.

Based on recommendations from the Lankin-Sheikh report, social assistance for those with the lowest social assistance rates, singles without children receiving Ontario Works, was increased by a total of \$100 per month phased in over 2013, 2014, 2015 and 2016, representing an increase of 16.5 per cent compared to 2012.

During this period rates for other social assistance recipients were increased by a total of about 4.5 per cent.

Changes Announced in the 2017 Budget

The 2017 Budget announced a 2 per cent across the board increase to both Ontario Works and ODSP rates. The rate increases will take effect in October 2017 for Ontario Works and September 2017 for ODSP.

In addition, MOHLTC's Comfort Allowance and other SA allowances will be increased by 2 per cent. These other SA allowances include:

- Assistance for Children with Severe Disabilities;
- Temporary Care Assistance;
- Personal Needs Allowance;
- Special Boarder Allowance;
- Advanced Age Allowance;
- Dependents with dependents rates;
- Guide Dog Benefit;
- Institutional amounts;
- First Nations emergency hostel services per diem (board and lodge, and personal needs allowance); and
- Budgetary requirements for residents of interval and transition homes.

People living in remote northern communities, particularly First Nations people, can face disproportionately high cost for basic necessities like groceries and transportation. To help address this situation, the 2017 Document announced that the level of support provided to people in remote northern communities will be enhanced through the Remote Communities Allowance.

The 2017 Budget announced that the government will increase the Remote Communities Allowance (RCA) by providing an additional \$50 per month for the first person and \$25 for each additional family member, above the amount currently provided. With this increase, the RCA will be \$267 per month for the primary recipient (up from \$217). The last such increase to the RCA was in 2014.

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Branch: Income Security Policy Branch, Income Security and Pension Policy Division

BASIC INCOME PILOT

ISSUE

The government is introducing a Basic Income Pilot in three communities across the province – Hamilton, Thunder Bay and Lindsay.

Reference: Chapter IV, Section D: Building Inclusive Communities and Improving the Justice System

KEY FACTS

- The Basic Income Pilot will test the idea that a basic income could be a simpler and more effective way to ensure security and opportunity in a changing labour market, support people living on low incomes and reduce poverty.
- The pilot will last for three years and three communities – Hamilton, Thunder Bay and Lindsay – will be eligible for participants aged 18 to 64.
- Through this pilot, people earning below a specified amount will receive regular payments that will help them better afford basic needs like housing or food, and participate in the community.
- Enrollment will be voluntary and based on informed consent.
- Work will continue with experts and communities to ensure delivery of a Basic Income Pilot that is fair, effective and based on a representative sample.
- In addition, through a separate but parallel process, a basic income pilot for First Nations is being co-created and designed.

BACKGROUND

The *2016 Budget* announced the government's intention to work with communities, researchers and other stakeholders to determine how best to design and implement a Basic Income Pilot in Ontario.

In summer 2016, the government appointed the Honourable Hugh Segal to provide advice on the design and implementation of the pilot.

- In fall 2016, Mr. Segal's discussion paper, *Finding a Better Way: A Basic Income Pilot Project for Ontario*, was released.

Guided, in part, by Mr. Segal's paper, the government consulted with Ontarians on key questions, such as eligibility for the pilot, where the pilot should take place, what the basic income level should be and how best to evaluate it.

- These consultations took place from November 2016 to January 2017, with more than 35,000 people and a number of organizations participating.

In March 2017, the government released a report summarizing the feedback from the consultations.

- Many participants voiced support for a basic income pilot that includes a representative sample of Ontarians, lifts people out of poverty, reflects the province's diversity, runs efficiently and measures specific outcomes.

The Premier's Basic Income Pilot Announcement

On April 24, 2017, the Premier announced details on the design of Ontario's Basic Income Pilot. Details on the First Nations pilot will be announced at a later date.

This announcement and the related communications materials note the following:

The Objective of the Pilot

- Ontario is launching a pilot project to assess whether a basic income can better support vulnerable workers, improve health and education outcomes for people on low incomes, and help ensure that everyone shares in Ontario's economic growth.

Locations

- The pilot will take place in Hamilton, including Brantford and Brant County, Thunder Bay and the surrounding area, and Lindsay.
- The pilots will be launched in late spring in the Hamilton and Thunder Bay regions, with payments expected to begin in the summer. The third pilot in Lindsay will be launched by the fall.

Sample Size and Eligibility Requirements

- Up to 4,000 participants across the three locations will be randomly selected to receive basic income payments by full implementation.
- Participants must be between the ages of 18 and 64, have lived in one of the pilot sites for at least 12 months and have income below a certain level.
- Individuals will participate on a voluntary basis, be provided with information about their participation, provide consent and be able to opt out of the pilot at any time.

Benefit Amount

- Aligning with the advice of the Province's Special Advisor on the pilot, the Honourable Hugh Segal, participants will receive up to \$16,989 if they are single and up to \$24,027 if they are in a couple, less 50 per cent on any earned income.
- Individuals with disabilities will receive an additional benefit of up to \$6,000 per year.
- The pilot will be responsive to changes in a participant's circumstances, such as a significant decrease in earnings, a change in family composition or a change in disability status.

Interactions with Existing Programs

- Children's benefits, such as the Canada Child Benefit and the Ontario Child Benefit, will not affect how much participants receive from the basic income.
 - However, although not noted in the communications materials, the amount of children's benefits and income-tested tax credits and benefits that participants receive could be reduced due to the additional income from the pilot.
- Basic income payments will be reduced dollar for dollar for any Employment Insurance or Canada Pension Plan benefits participants receive.
- Ontario Works recipients who participate in the pilot will continue to receive the Ontario Drug Benefit (ODB), and Ontario Disability Support Program recipients who participate in the pilot will continue to receive ODB and dental benefits.

Evaluation

- The pilot will be evaluated by a third-party research consortium, which will be announced shortly. The Province will also form an advisory group with research and evaluation experts to ensure that the pilot is conducted with the utmost integrity, rigour and ethical standards.

Costs

- Ontario will invest \$50 million per year for each of the three years of the pilot.

Basic Income in Other Jurisdictions

Other jurisdictions are also examining projects that test the idea of a basic income or a guaranteed annual income.

Canada

In June 2016, the Quebec government established an expert committee on guaranteed minimum income, which will make recommendations for improving the Quebec income-support system with a view to introducing a guaranteed minimum income. Quebec's 2017 Budget notes that the expert committee will provide recommendations in the coming months.

In December 2016, Prince Edward Island's Legislative Assembly passed a motion to develop a universal basic income pilot project, in partnership with the federal government.

International Projects

Finland launched a two-year basic income experiment in January 2017 through Kela, the Social Insurance Institution of Finland. Only those that are unemployed are eligible to participate in the experiment, and the evaluation will focus on employment outcomes.

In the Netherlands, some municipalities, such as the City of Utrecht, are testing projects that evaluate the outcomes of social assistance programs with fewer rules, rather than a pure basic income. The evaluations will, for example, assess the impact of providing different levels of benefits, and whether employment participation requirements are more effective compared to those receiving the benefit without an employment requirement.

News articles have reported that government officials in Scotland have indicated interest in testing a basic income. In February 2017, Glasgow's City Council agreed to begin research in the spring on the design of a basic income pilot study, in partnership with the Royal Society of Arts.

In Kenya, the nonprofit organization GiveDirectly is raising funds to implement and evaluate a basic income experiment in several villages. GiveDirectly is still accepting funding, and it is unclear whether the project has started.

Prepared by: Samantha DiBellonia (7-0138) and Garima Talwar (7-0130)

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CHAPTER V: WORKING WITH OUR PARTNERS

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WHAT IS THE PROVINCE DOING TO HELP MUNICIPALITIES

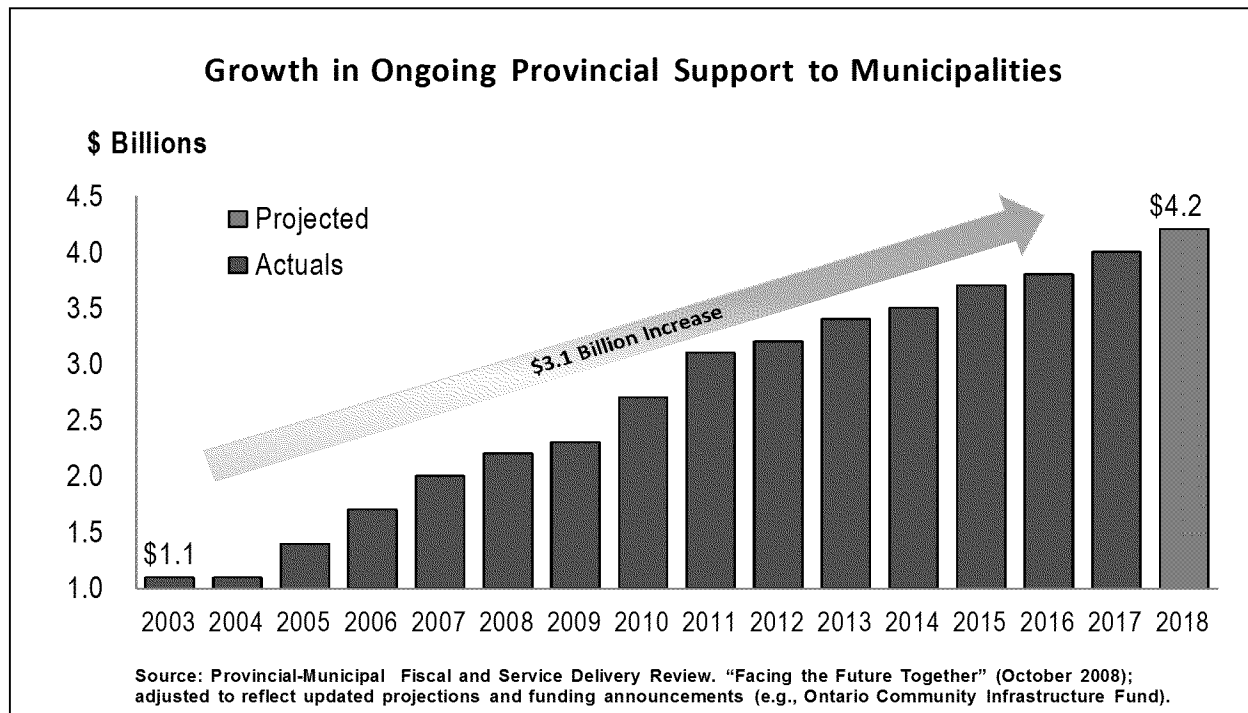
Reference: Chapter V: Working in Partnership with Municipalities

KEY FACTS

- The Province has a very strong record of supporting and working in partnership with municipalities.
- Ontario continues to increase support for municipalities, fostering a mature and sustainable provincial-municipal financial relationship. In 2017 alone, the Province is providing municipalities with ongoing support of more than \$4 billion.
 - This funding will grow to approximately \$4.2 billion by 2018 – an increase of \$3.1 billion above the 2003 level.
- This support includes more than \$1.9 billion as a result of provincial uploads of social assistance benefit costs, as well as court security and prisoner transportation costs (up to \$125 million annually by 2018).
 - Ontario is fulfilling its commitment to municipalities to fully implement these uploads by 2018.
 - This represents a significant milestone in the provincial-municipal relationship, and has helped put municipalities on a financially sustainable footing.
- Ongoing support also includes unconditional funding under the Ontario Municipal Partnership Fund (OMPF).
 - The Province is maintaining the OMPF at \$505 million annually, which provides support to 388 municipalities across the province.
 - The Province is working with municipalities to ensure this funding is targeted to northern and rural municipalities with the most challenging fiscal circumstances.
- Going forward, the Province will focus on investing in the infrastructure that is vital to the health, prosperity and quality of life of Ontarians.
- In partnership with communities, Ontario is making significant investments to revitalize infrastructure, connect people and grow the economy.

BACKGROUND

In 2017, municipalities are benefitting from more than \$4 billion in ongoing support — an increase of \$2.9 billion above the 2003 level.



For 2017 this ongoing support includes:

- \$505 million in unconditional funding provided through the OMPF in 2017.
- Over \$1.9 billion through the upload of municipal costs in accordance with the 2008 Provincial Municipal Fiscal and Service Delivery Review (PMFSDR) agreement, which includes:
 - uploading the municipal share of ODB in 2008;
 - uploading the municipal share of ODSP administration in 2009;
 - uploading the municipal share of ODSP benefits, completed in 2011;
 - uploading the municipal share of OW benefits over nine years, beginning in 2010;
 - uploading the cost of court security and prisoner transportation over seven years, to a maximum of \$125 million annually at maturity, beginning in 2012; and
 - additional support for municipal OW administration costs.
- \$546 million in funding to support 50:50 cost sharing of land ambulance costs;

- \$568 million in public health funding for mandatory programs and the vector-borne diseases program, which includes the upload of public health costs from 50 per cent in 2004 to 75 per cent in 2007. This funding is part of the total \$701 million in public health funding the Province provides for these programs and related support;
- \$332 million in provincial gas tax funding for the 2015–16 program year; and
- Funding to small, northern and rural municipalities through the permanent Ontario Community Infrastructure Fund (OCIF), including:
 - About \$95 million in OCIF formula funding in 2017; and
 - An intake of \$100 million under the OCIF top-up application component in 2017.

Provincial Uploads

As a result of the uploads, municipalities are benefitting from more than \$1.9 billion in reduced costs in 2017 alone.

It is important to recognize that there is only one taxpayer. Therefore the removal of these costs off the local property tax base benefits all local taxpayers, including those residing in lower-tier municipalities. The government continues to encourage upper-tier municipalities to work with their lower-tier partners to ensure that the savings resulting from the uploads benefit their shared taxpayers in the most effective way possible.

2017 Upload Benefit to Municipalities	
Program	2017
ODB Upload	\$251 million
ODSP Administration	\$85 million
ODSP Benefits	\$884 million
OW Benefits (86% uploaded in 2017)	\$408 million
Court Security and Prisoner Transportation (86% uploaded in 2017)	\$107 million
OW Administration additional support	\$219 million
Total Upload Benefit	\$1.9 billion

These uploads have ensured that more property tax dollars are available for important municipal priorities, including investments in infrastructure.

2017 OMPF

The 2017 OMPF provides \$505 million through the following four core grant components and Transitional Assistance:

2017 Grant Allocations (\$ Millions)	
Assessment Equalization	149
Northern Communities	84
Rural Communities	148
Northern and Rural Fiscal Circumstances	82
Transitional Assistance	41
Total OMPF	505

- The OMPF provides over 90 per cent of its funding to northern and rural municipalities, compared to 70 per cent in 2008.
- The 2017 program further targets support to municipalities with more challenging fiscal circumstances by increasing the Northern and Rural Fiscal Circumstances Grant to \$82 million in 2017 from \$67 million in 2016.
 - This is an increase of over 20 per cent to this grant component.
 - This means that municipalities with challenging fiscal circumstances are seeing their funding through this component of the grant increase in 2017.
- The 2017 program also further targets support to municipalities across the province with the highest levels of farm land by increasing the Rural Communities Grant to \$148 million in 2017 from \$143 million in 2016.
- In order to help municipalities adjust to the redesigned program, the Province is continuing to provide a guaranteed minimum level of funding. The 2017 minimum funding guarantees are 85 per cent of 2016 allocations for southern Ontario and 90 per cent in northern Ontario.
 - These minimum levels of support are further enhanced up to 100 per cent for municipalities with more challenging fiscal circumstances.

Transportation and Infrastructure Investments

- As part of the Moving Ontario Forward plan, the OCIF provides steady funding to support small, rural and northern communities to address critical infrastructure projects. In 2016, the government tripled funding under the program to reach \$300 million per year by 2018-19.
- The government has also announced increased funding for Ontario's Connecting Links program to help municipalities repair roads and bridges connecting two ends of a provincial highway through a community or to a border crossing. In 2017-18, Ontario will provide \$25 million, and funding for the Connecting Links program will increase to \$30 million per year by 2018-19.

- In fall 2016, the Province announced a bilateral agreement with the federal government that will make available more than \$1.1 billion under the Clean Water and Wastewater Fund (CWWF). Under the agreement with the federal government, the Province has submitted over 1,300 projects for federal approval. Forty-one initial projects were approved under the CWWF for federal and provincial funding.
- In addition, as announced earlier this year, Ontario will increase gas tax funding starting in 2019, doubling the municipal share from two to four cents per liter by 2021 with an estimated funding of \$642 million in 2021-22, with no added tax at the gas pump.
 - This program provides eligible municipalities with a guaranteed source of funding to address priorities, such as building capacity, and improving and expanding transit services.

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SUPPORT TO TORONTO

ISSUE

The 2017 Document builds on the government's strong record of supporting Toronto.

KEY FACTS

- The Province remains committed to maintaining a strong partnership with the City, and to continuing to make progress in areas of shared interest.
- The Province's commitment to building a strong partnership with the City is demonstrated by the fact that provincial support to Toronto has increased significantly in recent years.
- This increased support includes the benefit of the provincial uploads of Ontario Drug Benefits, Ontario Disability Support Program, Ontario Works Benefits and Court Security and Prisoner Transportation costs.
 - The benefit to the City of these uploads is almost \$530 million for Toronto in 2017, or approximately 14 per cent of its property tax revenues.
 - Toronto is also benefitting from the Province's increased share of public health and land ambulance funding, as well as the provincial Gas Tax Program.
- Since 2003, the government has committed more than \$4.7 billion to the City of Toronto to help improve and expand transit services. The Province has also committed over \$9 billion in funding for regional transit projects in Toronto and York Region.
- Since 2003, Ontario's funding commitment of over \$5 billion is the largest affordable housing investment in the province's history. Almost \$1.4 billion in federal and provincial funding has been committed to affordable housing in Toronto.
- Highlights of new initiatives announced in the 2017 Document that will benefit Toronto include:
 - Proposing to allow Toronto and other municipalities impose a hotel tax – identified by the City as a critical, time-sensitive ask.
 - The government's Fair Housing Plan, which includes a proposal to empower Toronto and potentially other municipalities to introduce a tax on vacant homes.
 - Investments in Child Care expansion as well as in Affordable Housing.

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PARTNERSHIPS WITH FIRST NATIONS

ISSUE

Measures related to First Nations engagement on tobacco and gasoline to be included in the 2017 Budget.

Reference: Chapter V: Working with Our Partners

KEY FACTS

- The government is committed to a dialogue with First Nation communities and leaders on tobacco and gasoline, including through:
 - Supporting two First Nation pilot projects on the self-regulation of tobacco on-reserve and revenue-sharing;
 - Working with the Anishinabek Nation to develop a framework for tobacco and gasoline sales on-reserve;
- Working together with First Nations on tobacco provides a basis for mutually beneficial solutions, supports economic development and diversification for communities, and is aligned with the commitments set out in the Political Accord.
- As part of these discussions on tobacco, the province is proposing to share a portion of provincial tobacco tax revenues with communities that agree to regulate tobacco sales on-reserve.
- As progress is made on these discussions, the government will work collaboratively with First Nations to consider amendments to the Tobacco Tax Act in the future to support effective coordination and integration of provincial legislation with First Nation laws.

BACKGROUND

The government is committed to an ongoing dialogue with First Nation communities and leaders on tobacco. This includes discussions on self-regulation of tobacco on-reserve and revenue-sharing.

First Nation Engagement on Tobacco and Gasoline

Since 2012, the province has been working with two tobacco pilot projects with the Mohawk Council of Akwesasne and the Chippewas of the Thames First Nation, to explore self-regulation of tobacco on-reserve, and revenue sharing.

Both pilots have made good progress and have developed tobacco laws to govern the sale of tobacco in their communities. Many aspects of these laws align with Ontario's objectives (e.g. licensing, health, etc.). The government continues to work with the pilot communities towards agreements on how First Nation and provincial tobacco laws

would interact, including with respect to taxation and regulatory measures, prior to these laws being implemented.

The Province is also continuing to working with the Anishinabek Nation, which represents 40 First Nation communities across Ontario, to develop a framework for tobacco and gasoline sales on-reserve. The framework would support revenue generation for Anishinabek Nation communities from community-regulated tobacco and gasoline sales.

As part of this engagement with communities on tobacco, Ontario is proposing sharing a portion of provincial tobacco tax revenues with First Nation communities that regulate tobacco, including applying a tobacco levy comparable to Ontario's tobacco tax.

Where further progress is made, the government will work collaboratively with First Nation communities on exploring amendments to the TTA and other Acts to support effective coordination and integration of provincial legislation with First Nation tobacco laws.

Modernizing Ontario Gas Card

In summer 2016, the Province launched an engagement process to seek advice, from First Nation communities and industry stakeholders representing gasoline wholesalers and collectors, on modernizing the Ontario Gas Card Program. The objective of the Province's modernization efforts is to make it easier for First Nation individuals to purchase tax-exempt gasoline, and for on-reserve gasoline retailers to receive refunds from the province.

Based on an analysis of the feedback received through the engagement process, the existing Ontario Gas Card will be replaced with a more secure card beginning in 2017-18, and the province is committed to continuing to work with First Nations and industry to identify and implement the best technological solution to support a modernized Ontario Gas Card program.

Protecting Sensitive and Confidential Information

The Province has proposed amendments to the *Freedom of Information and Protection of Privacy Act*, and the *Municipal Freedom of Information and Protection of Privacy Act*, to improve the ability of the province and municipalities to protect sensitive information received from or relating to Indigenous communities when a Freedom of Information (FOI) request is made.

There is currently no legislative mechanism to protect information from Indigenous communities when a FOI request is made, and Indigenous communities are reluctant to share information in light of the absence of a specific exemption.

The proposed amendments are one step toward addressing the recommendations of the Truth and Reconciliation Commission, and enabling Indigenous communities to be full partners in discussions with the province and municipalities.

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WORKING WITH OUR PARTNERS

ISSUE

Ontario has embraced a collaborative approach with its partners to address the increasingly complex challenges facing the federation — driven by shared values and a shared sense of responsibility to address the needs of all Ontarians and Canadians equally. Along with its partners, the Province is making the investments necessary to help Ontarians adapt and excel in the changing global economy.

Reference: Chapter V: Working with Our Partners

KEY FACTS

- The provinces and territories as a whole are in a fiscally unsustainable position over the long term. At the same time the federal government, though it is currently in a deficit position, has a greater ability to raise revenue relative to the services it delivers and is projected to be fiscally sustainable.
- Ontario recognizes its long-standing role as a net contributor to the Canadian federation. As the Province's economic growth strengthens relative to the national average, Ontario's contribution to the federation will continue to grow.
 - For instance, in 2017-18, Ontarians are estimated to contribute \$7.1 billion to Equalization, while the Province will only receive about \$1.4 billion in return.
- With this Budget, Ontario is investing an additional \$7 billion over the next three years to strengthen the health system.. This includes increased funding for home and community care and mental health and addiction services.
 - In March, the Province and the federal government agreed to new federal funding of \$4.2 billion over 10 years in support of home care and mental health initiatives in Ontario, which builds on investments the Province is already making in these health priorities.
- Federal funding is an important component of Ontario's long-term capital plan, which includes investments of more than \$190 billion over 13 years, starting in 2014-15.
 - To maximize the benefits of federal investments, a more flexible approach to investments provided in a timely manner will allow Ontario to build more infrastructure.
- Ontario has already embarked on multifaceted, long-term transformation of employment and training programs and services that aim to support a highly skilled and inclusive workforce in the province.
 - The federal government's commitment to significantly reform labour market transfer agreements in collaboration with provinces and territories presents an opportunity to align federal support with the needs of Ontario's labour market.

BACKGROUND

1) Fiscal Sustainability

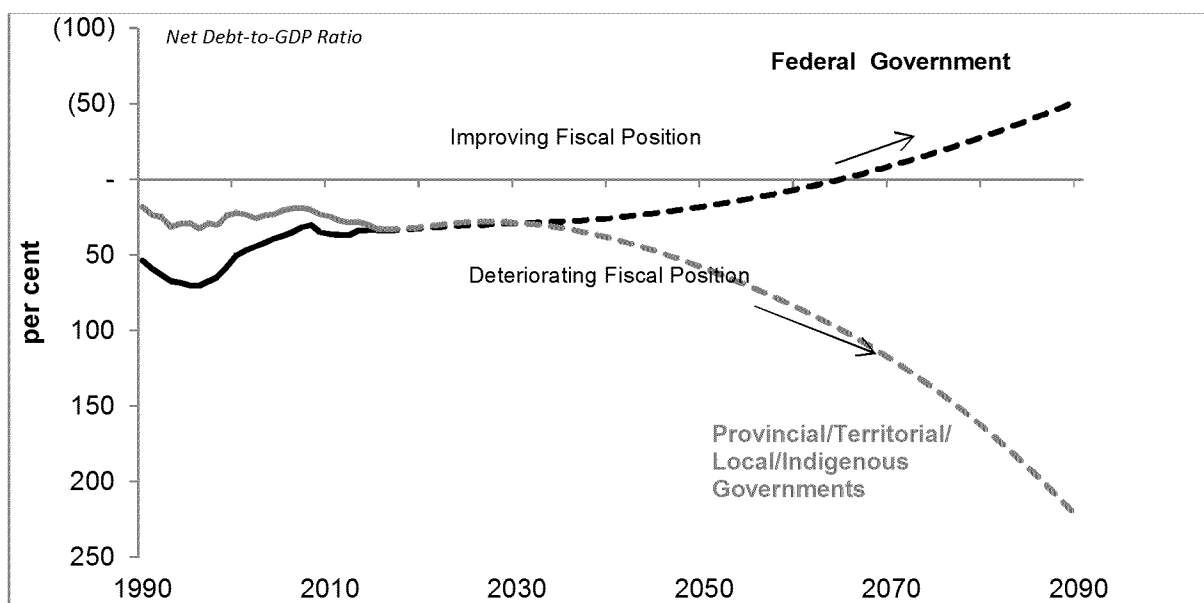
The provinces and territories as a whole are in a fiscally unsustainable position over the long term. At the same time the federal government, though it is currently in a deficit position, has a greater ability to raise revenue relative to the services it delivers and is projected to be fiscally sustainable. This has been shown by a number of studies.

Parliamentary Budget Officer (PBO): 2016 Fiscal Sustainability Report

- Including the impact of measures introduced in the 2016 federal budget, the PBO's 2016 Fiscal Sustainability report concluded that the federal government continues to be on a fiscally sustainable path over the long run (Figure 1).
 - Subnational governments, however, remain in a fiscally unsustainable position.
 - For the purposes of the PBO report, fiscal sustainability means that government debt (net debt as a share of GDP) does not grow continuously as a share of the economy over the long-term. The report uses a forecast horizon out to 2090.
- The federal government continues to have fiscal room to either increase spending or reduce taxes while maintaining its fiscally sustainable position.
 - PBO estimates that the federal government has fiscal room equal to 0.9 per cent of GDP (or \$19.2 billion), which is slightly lower compared to the 1.4 per cent of GDP reported in the 2015 PBO Fiscal Sustainability Report. This is due to measures in the 2016 federal budget, including:
 - reversing the increase in the age of eligibility for the Old Age Security (OAS);
 - removing existing children's benefits and introducing the Canada Child Benefit; and
 - other 2016 federal budget spending measures including, Phase 1 and Phase 2 of Canada's New Infrastructure Plan.
 - Under the PBO's long term projections, it is estimated that the federal government net debt will be eliminated in 50 years.
- On the other hand, subnational governments have a fiscal gap equal to 1.5 per cent of GDP (or \$30.2 billion) — a slight increase from the 1.4 per cent reported in the 2015 Fiscal Sustainability Report. This is resulting from:
 - higher-than-projected program spending in 2015;

- an increase in the PBO's projection for excess cost growth in health care (the increase in health care spending that cannot be accounted for by general inflation, real per capita income growth, population growth and ageing), resulting primarily from health care spending outpacing nominal GDP growth in 2015.
- Under the PBO's long term projections, it is estimated that subnational net debt will continue to rise over the forecast horizon to over 200 per cent of GDP after 75 years.
- The report highlights that population ageing continues to be a challenge for subnational governments.
 - As a share of GDP, the PBO identifies health care spending as the primary driver of growth in subnational spending, which is largely due to ageing demographics and excess cost growth.
 - The PBO projects health care spending to increase from 7.3 per cent of GDP in 2015 to 12.5 per cent of GDP in 2085, the end of the projection period.
- The PBO's 2017 fiscal sustainability report – which will include the impacts of 2017 FPT budgets – is expected to be released in summer 2017.

Figure 1: Projections of Canada's Fiscal Imbalance



Source: Ontario Ministry of Finance calculations based on data from the Parliamentary Budget Officer's 2016 Fiscal Sustainability Report.

Note: Negative figures indicate net financial assets.

Department of Finance Canada: 2016 Federal Long-Term Report

- In December 2016, the Department of Finance Canada released an update to its long-term economic and fiscal projections. Projections extend out to 2055-56 and are a set of scenarios based on reasonable assumptions of current trends continuing.
- Slower economic growth will reduce the growth in government revenues, limiting the ability of governments to continue to grow public expenditures at historic rates. At the same time, an older population will put upward pressure on public expenditures such as elderly benefits. The baseline projection shows the federal government running deficits until at least 2050-51.
- In terms of debt as a share of the economy, however, the Department of Finance Canada projects that, starting in 2021-22, the federal debt-to-GDP ratio will remain slightly below current levels of roughly 30 per cent until the early 2030s, at which point it is projected to start trending downward (as population aging pressures ease) reaching 17.3 per cent in 2055-56.
- Although the federal long-term report shows federal deficits until 2050-51, the report's conclusions with respect to the long term fiscal sustainability of the federal government are not inconsistent with reports from independent organizations such as the PBO demonstrating that the federal government has fiscal room, which would allow it to increase spending, reduce taxes, or both.

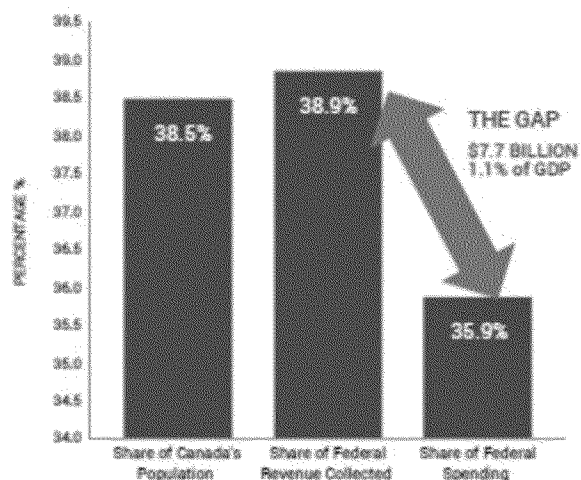
2a) Net Contribution to the Federation

Ontario recognizes its long-standing role as a net contributor to the Canadian federation. As the Province's economic growth strengthens relative to the national average, Ontario's contribution to the federation will continue to grow. For instance, in 2017-18, Ontarians are estimated to contribute about \$7.1 billion to Equalization, while the Province will only receive about \$1.4 billion in return.

Mowat Centre Research

- Following the release of new and reconfigured Statistics Canada data, the Mowat Centre finds that Ontario made a net contribution of \$7.7 billion to the federation in 2014-15, equivalent to 1.1 per cent of provincial GDP.
 - Ontarians accounted for 38.9 per cent of total federal revenue, and received 35.9 per cent of federal spending in return.
 - Ontario's population share was 38.5 per cent.

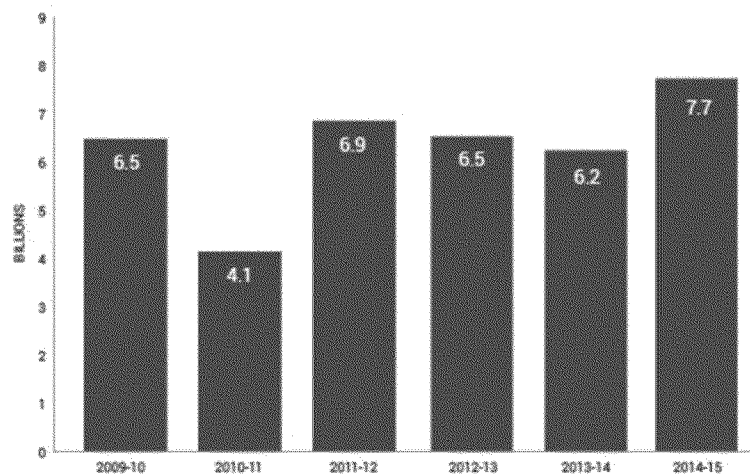
Figure 2: Ontario's Share of Federal Revenue and spending, 2014-15



Source: Mowat Centre, "Mind the Gap (2017)"

- A previous Mowat report from 2013, based on data from 2009-10, had estimated that Ontario's net contribution to the federation was \$11 billion.
 - However, the 2017 Mowat report, using the new Statistics Canada data, re-calculated Ontario's net contribution for past years and found that the gap in 2009-10 had been \$6.5 billion — not the \$11 billion published in the 2013 report.
 - Moreover, the new data used in the 2017 report also indicated that the gap in 2009-10 had been narrower than previously calculated.
 - This conclusion suggests that the gap has been widened since 2009-10 (see Figure 3)
 - According to Mowat new calculations, Ontarians' net contribution increased from \$6.5 billion in 2009-10 to \$7.7 billion in 2014-15 (see Figure 3).

Figure 3: The Evolution of Ontarians' Net Contribution to the Federation, 2009-10 to 2014-15



Source: Mowat Centre, "Mind the Gap (2017)"

- The report further finds that only roughly 10 per cent of Ontario's \$7.7 billion gap can be explained by the fact that Ontarians contribute more than their per capita share of federal revenues.
 - The other 90 per cent of the gap comes from the fact that federal spending in Ontario is well below the province's share of the population.
- The report acknowledges changes in the Canadian economic landscape and the major transfers since 2009-10 (e.g. Ontario receiving Equalization, and the federal shift to strictly per capita allocations of the Canada Health Transfer).

2b) Net Contribution to the Equalization program

Ontario has historically been a net contributor to the Equalization program.

- In 2017-18, Ontarians will contribute approximately \$7.1 billion to Equalization while the Province will only receive about \$1.4 billion in return — representing a net contribution of \$ 5.7 billion (Table 1).
- Ontario is the largest net contributor to the program, ahead of other provinces including those with resource-based economies, and the only Equalization-receiving province whose residents are net contributors to the program (Table 2).

Table 1: Ontarians' Net Contribution to Equalization (\$ Million)

	Total Equalization	Federal Revenues from Ontarians	Ontarians' Contribution to Equalization	Entitlements to Ontario	ON Net Contribution
2017–18	18,254	38.8%	7,086	1,424	5,663
2016–17	17,880	38.8%	6,938	2,304	4,634
2015–16	17,341	38.8%	6,731	2,363	4,368
2014–15	16,669	38.8%	6,473	1,988	4,485
2013–14	16,105	38.8%	6,254	3,169	3,085
2012–13	15,423	38.8%	5,988	3,261	2,727
2011–12	14,659	38.9%	5,697	2,200	3,497
2010–11	14,372	38.9%	5,589	972	4,617
2009–10	14,185	38.9%	5,523	347	5,176
2008–09	13,462	39.1%	5,269		5,269
Total	158,350		61,548	18,028	43,521

Table 2: 2017-18 Net Contribution to /(Benefit from) Equalization (\$ Billion)

	ON	AB	BC	SK	NL	PE	MB	NS	NB	QC
Gross Contribution	7.1	3.1	2.3	0.6	0.3	0.1	0.5	0.4	0.3	3.5
Equalization Payment	1.4	0.0	0.0	0.0	0.0	0.4	1.8	1.8	1.8	11.1
Net Contribution / (Benefit)	5.7	3.1	2.3	0.6	0.3	(0.3)	(1.3)	(1.4)	(1.5)	(7.6)

Ontario's Relative Economic Outlook

Ontario's economy continues to perform well.

- After being below the national average in GDP per capita following the global recession, the province's economy is projected to exceed the average in the near term.
- Starting in 2016, Ontario's per capita GDP will surpass that of Canada (Table 3)

Table 3 Ontario and Canada per capita GDP

	2012	2013	2014	2015	2016
Ontario Nominal GDP (\$M)	680,084	695,349	727,962	763,276	798,218
Ontario Population (\$000)	13,414	13,556	13,685	13,797	13,983
ON per capita GDP	50,700	51,295	53,194	55,322	57,085
Canada Nominal GDP (\$M)	1,822,808	1,897,531	1,983,117	1,986,193	2,026,833
Canada Population (\$000)	34,751	35,155	35,545	35,849	36,286
Canada per capita GDP	52,453	53,976	55,792	55,404	55,857
ON-Canada per capita GDP ratio	0.967	0.950	0.953	0.999	1.022

- As Ontario's economic growth strengthens relative to the national average, Ontario's contribution to the federation will continue to grow.

3) Federal-Provincial Collaboration

Health Care

With this Budget, Ontario is investing an additional \$7 billion over the next three years to strengthen the health system. This includes increased funding for home and community care and mental health and addiction services.

In March, the Province and the federal government agreed to new federal funding of \$4.2 billion over 10 years in support of home care and mental health initiatives in Ontario, which builds on investments the Province is already making in these health priorities.

a. Canada Health Transfer

The Canada Health Transfer (CHT) is largely an unconditional block transfer with funding spent according to provincial/territorial (PT) priorities.

- To qualify for full funding, PTs must meet the criteria and conditions of the Canada Health Act.
- The CHT will total \$37.1 billion nationally in 2017-18.
- Ontario will receive \$14.3 billion in CHT payments in 2017-18.
 - This represents a growth rate of 3.1 per cent over the \$13.9 billion Ontario received in 2016-17.
 - CHT transfer payments are allocated to provinces and territories on an equal per capita cash basis.
 - Ontario's share of total CHT is approximately 38.6 per cent in 2017-18.

Table 4. CHT Entitlements

	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC	ALL
2017-18											
\$ Millions	539	152	967	768	8,491	14,331	1,355	1,182	4,376	4,865	37,028
<i>per capita</i>	<i>1,013</i>	<i>1,013</i>	<i>1,013</i>	<i>1,013</i>	<i>1,013</i>	<i>1,013</i>	<i>1,013</i>	<i>1,013</i>	<i>1,013</i>	<i>1,013</i>	<i>1,013</i>
2016-17											
\$ Millions	528	148	944	753	8,278	13,897	1,310	1,143	4,226	4,723	36,068
<i>per capita</i>	<i>995</i>	<i>995</i>	<i>995</i>	<i>995</i>	<i>995</i>	<i>995</i>	<i>995</i>	<i>995</i>	<i>995</i>	<i>995</i>	<i>995</i>
2015-16											
\$ Millions	502	139	896	717	7,841	13,095	1,229	1,075	3,965	4,455	34,026
<i>per capita</i>	<i>950</i>	<i>950</i>	<i>950</i>	<i>950</i>	<i>950</i>	<i>950</i>	<i>950</i>	<i>950</i>	<i>950</i>	<i>950</i>	<i>950</i>

Note: Numbers may not add due to rounding. Canada total includes transfers to the territories. Figures are presented on an entitlement basis and may vary from those presented on a PSAB basis, such as in the Ontario budgets and updates.

b. New Targeted Funding Agreements

In December 2016, the federal government offered \$11 billion over 10 years in new targeted funding for health to PTs, to be directed towards priority areas:

- \$5 billion for home and palliative care;
- \$1 billion for home care infrastructure; and
- \$5 billion for mental health and addictions.

Table 5. New Targeted Funding Profile (\$ Millions, over ten years)

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	Total
Home Care	200	400	400	400	600	600	600	600	600	600	5,000
Home Care Infrastructure	-	200	250	250	300	-	-	-	-	-	1,000
Mental Health	100	250	450	600	600	600	600	600	600	600	5,000
Total	300	850	1,100	1,250	1,500	1,200	1,200	1,200	1,200	1,200	11,000

Source: Health Canada, Finance Canada, and MOF estimates.

Since that time, nine provinces (NB, NS, NL, SK, PEI, BC, ON, QC, AB) and the three territories have made bi-lateral agreements with the federal government to secure their share of this funding.

Note: The federal offer also included \$544 million over five years for federal and pan-Canadian health organizations to support FPT initiatives on prescription drugs and health innovation; however this funding is not expected to flow to PTs.

Table 6. New Targeted Funding by PT (\$ Millions, over ten years)

	NL	PE	NS	NB	QC*	ON	MB**	SK	AB	BC	Terr.
Home Care	88	25	157	125	1,377	2,312	218	190	703	786	20
Mental Health	73	20	131	104	1,147	1,926	182	159	586	655	16
Total	161	45	288	229	2,524	4,239	400	349	1289	1440	36
<i>Share (%)</i>	<i>1.46</i>	<i>0.41</i>	<i>2.62</i>	<i>2.09</i>	<i>22.95</i>	<i>38.54</i>	<i>3.63</i>	<i>3.17</i>	<i>11.72</i>	<i>13.09</i>	<i>0.32</i>

Source: Health Canada, Finance Canada, and MOF estimates (QC, MB).

Note: *Estimate by MOF, as QC entitlement available only in total \$ billions. **These figures are MOF estimates of MB would be entitled to, as MB has not signed a bi-lateral agreement.

- In advance of the 2016 federal decision on targeted funding, PT finance and health developed a report that found that PTs face long-term cost pressures in health that would require 5.2 per cent annual average spending growth to address.
- If PT spending were to grow at this projected rate, federal funding as a share of overall PT expenditure will decline in the future.
 - The federal share of PT health spending is currently approximately 23 per cent and this share is expected to drop to nearly 20 per cent in ten years.
 - Due to different provincial spending growth rates, the federal share of individual PT health spending will differ from the national figure.
 - For Ontario, owing to restrained growth in health expenditures, this share is likely to be larger than 23 per cent.
- A recent report *CHT and the Federation – Past, Present, Future* by IFSD also in line with this projection. The IFSD states that the federal share of health funding will fall below its 2015 level by 2026, and this will force the provinces and territories disproportionately bear the burden of the cost of meeting the health care needs of their populations, inhibiting their ability to offer the services their citizens need.

Table 7. Federal funding as a share of PT health spending (\$Billions)

	Actual		Projection								
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
CHT Total Funding	36.1	37.2	38.4	40.0	41.6	43.2	44.9	46.6	48.3	50.1	51.9
<i>Growth Rate</i>		3.0%	3.5%	4.2%	3.9%	3.8%	3.8%	3.8%	3.8%	3.7%	3.7%
Share of PT Health Spending (%)											
CHT only	23.3	22.8	22.5	22.2	21.9	21.6	21.3	21.1	20.7	20.4	20.1
CHT + targeted funds	23.3	23.0	22.9	22.8	22.6	22.4	21.9	21.6	21.3	20.9	20.6

Source: Finance Canada and CBoC (2016).

Notes: Assumes PT health spending grows at an average rate of 5.2 per cent.

Infrastructure Partnership

Federal funding is an important component of Ontario's long-term capital plan, which includes investments of more than \$190 billion over 13 years, starting in 2014-15. To maximize the benefits of federal investments, a more flexible approach to investments provided in a timely manner will allow Ontario to build more infrastructure.

Overall, the total federal infrastructure commitment is more than \$180 billion over 12 years (2016-17 to 2027-28) nationally (see below).

Table 8. Federal Infrastructure Investments Overview

Funding Announcements	Components	Funding Total – 12 years 2016-17 to 2027-28	
Previous Programs & Federal Infrastructure Spending			
Previous Infrastructure Programs	Building Canada Fund, Small Communities Fund, etc.	\$60 billion	
Federal Infrastructure Spending	INAC, CMHC, Public Safety Canada, etc.	\$30 billion	
2016-17 Federal Budget			
Phase One - \$11.9 billion	Public Transit, Green, Social	\$14 billion	
Other - \$2.5 billion	PSE, Broadband		
2016-17 Federal Fall Economic Statement			
Previous “Phase 2 “Funding	Public Transit, Green, Social	\$48 billion	
Additional Funding for Transit, Green and Social Infrastructure		• \$21 billion*	Up to \$33 billion (newly announced funding)**
Trade and Transportation		• \$10 billion**	
Rural and Northern Communities		\$2 billion	
Sub Total – Fall Statement		\$81 billion	
TOTAL FEDERAL FUNDING		\$186 billion	

Source: 2016 federal Fall Economic Statement.

Notes: *\$15 billion of Phase 2 funding will be used to capitalize the new Federal Infrastructure Bank;

**Infrastructure Canada has confirmed that a component of the \$10 billion in Trade and Transportation funding is a result of re-profiling funding from previous federal infrastructure programs (e.g., National Infrastructure Component).

The 2017 federal budget provides more detailed allocations building off the \$81 billion of funding announced in the 2016 Federal Fall Economic Statement.

Table 9. Detailed 11 Year – Fiscal Profile

2017 Federal Budget: Updated Profiles of new Infrastructure Funding announced at Fall Economic Statement												
(In \$Millions)	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Public Transit	164	1,100	1,100	1,200	1,400	2,520	2,804	3,189	3,748	3,996	4,078	25,300
Green Infrastructure	21	999	1,199	1,400	1,731	2,200	2,498	2,794	3,000	3,028	3,030	21,900
Social Infrastructure		1,183	1,688	1,850	1,968	2,072	2,405	2,545	2,643	2,781	2,766	21,900
Trade and Transportation ¹	461	617	700	800	884	920	978	1,036	1,091	1,077	1,083	10,100
Rural And Northern		150	150	150	200	200	200	200	250	250	250	2,000
Subtotal	646	4,049	4,837	5,400	6,183	7,912	8,885	9,764	10,732	11,132	11,207	81,200

**Numbers may not add due to rounding*

1. Total trade and transportation funding totals to \$10,100 million. Within the 11 year period, total funding is \$9,647 million with \$453 million residing beyond 2027-28 associated with Connecting Communities by Rail and Water and the Oceans Protection Plan include funding to support capital projects where costs are amortized over the useful life of the asset.

Specific details of funding allocations include:

- \$33 billion through bi-lateral agreements with provinces and territories for public transit (\$20.1 billion), green infrastructure (\$9.2 billion), cultural and recreation (\$1.3 billion), and rural and northern infrastructure (\$2 billion).
 - Funding for provinces and territories through bilateral agreements for infrastructure will involve cost-sharing for agreed-to projects, with the proportions determined based on the recipient of the funds (see fiscal impact sub-section below).
- At least \$15 billion through the Canada Infrastructure Bank split evenly between public transit, green, and trade and transportation infrastructure.
- \$10.8 billion through competitive national funds for housing (\$5 billion), trade corridors (\$2 billion), cultural spaces (\$300 million) and various green initiatives (\$3.5 billion), \$10.2 billion through multi-lateral frameworks for housing (\$3.2 billion) and early childhood education (\$7 billion).
- In addition \$12 billion has been allocated to a variety of infrastructure related initiatives under federal responsibility including investments in Indigenous Communities.
- The 2017 federal budget reiterated its commitment to establishing a Canada Infrastructure Bank, including a process to identify the bank's executives with the goal of having the bank operational in late 2017.
- Funding provided through bi-lateral agreements will be allocated to provinces and territories using a base-plus per-capita model, with the exception of public transit which will be allocated using a formula based 70 per cent on transit ridership and 30 per cent population. This formula is consistent with Ontario's Gas Tax Program.

- It is estimated that Ontario and its municipalities could expect up to \$12 billion in guaranteed funding. This estimate continues to be refined and will ultimately be determined based on bilateral agreements with the federal government, including whether incrementality requirements are imposed:
 - Federal officials had initially indicated that Ontario would receive approximately \$10 billion in guaranteed funding.
 - In addition to the guaranteed allocation, the province could receive additional funding through competitive funds and multi-lateral frameworks. Ontario's participation in these funds could result in a corresponding fiscal impact.
- While specific provincial funding amounts are not outlined, the 2017 federal budget indicates that funding through bi-lateral agreements will be cost-shared.
- Maximum federal contributions are 40 per cent for projects with municipal and not for profit partners, 50 per cent for projects with provinces, and 75 per cent for projects with indigenous partners and territories.
 - Note: the federal government will contribute up to 50 per cent for public transit rehabilitation projects (with funding for rehabilitation projects capped at 15 per cent of total public transit funding).
- While the 2017 federal budget contains no references to any "incrementality" provisions for federal infrastructure funding, these conditions are unlikely to be known until federal program design has been finalized.

Fiscal Impact

- The updated funding profile of new infrastructure initiatives (*\$81 Billion*) over the 11 year period continues to be primarily back-end loaded.
- In contrast, Ontario's infrastructure expenditures over 10 years peak in 2019-20 and drop off significantly in the latter years of the plan as more assets come into service and more time-limited transfer payment programs end. Given the profile of Ontario's current investments, it may be difficult to leverage federal funding using in-plan projects.
- Further analysis is required to quantify the potential risks to Ontario's fiscal plan associated with the program requirements of the federal infrastructure investments:

Labour Market Transfers Agreements

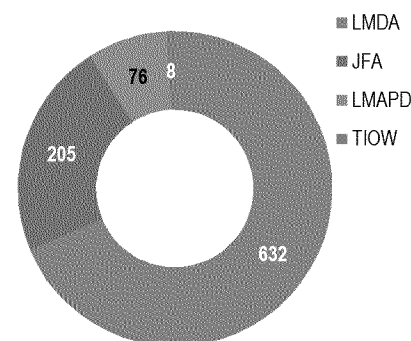
Ontario has already embarked on multifaceted, long-term transformation of employment and training programs and services that aim to support a highly skilled and inclusive workforce in the province.

The federal government's commitment to significantly reform labour market transfer agreements in collaboration with provinces and territories presents an opportunity to align federal support with the needs of Ontario's labour market.

Federal Labour Market Funding

- There are currently four Canada-Ontario labour market agreements under which the federal government provides Ontario with funding for employment and skills training programs and services.
- In 2015-16, Ontario received roughly \$900 million from these agreements, including:
 - \$632 million from the Labour Market Development Agreement (LMDA), including administration funding.
 - \$205 million from the Canada-Ontario Job Fund Agreement (JFA), including with carry-forward from previous years.
 - \$76 million from the Labour Market Agreement for Persons with Disabilities (LMAPD)
 - \$8 million from the Targeted Initiative for Older Workers (TIOW).

2015-16 Labour Market Funding
(\$ Million)



- Federal Budget 2016 committed additional one-time funding of \$125M nationally through the LMDAs and \$50M through the JFAs to provinces and territories in 2016-17.
- In addition to the 2016-17 investments, the 2016 Budget also committed to broad-based consultations to identify ways improve agreements and guide future investments to strengthen labour market programming.

The 2017 Federal Budget Announcements

- The federal government announced that it intends to undertake a significant reform of the labour market transfer agreements, in collaboration with provinces and territories.
-
- The budget boosts federal support through the labour market transfer agreements by \$2.7 billion over six years.
 - The budget proposes to invest an additional \$1.8 billion over six years, starting in 2017–18, to expand the Labour Market Development Agreements.
 - The budget proposes to amend the *Employment Insurance Act* to broaden worker eligibility for programs and services under the Labour Market Development Agreements (LMDAs).
 - The budget further proposes an additional \$900 million over six years, starting in 2017–18, for new Workforce Development Agreements (WDAs).
 - New WDAs will consolidate the existing Canada Job Fund Agreements, the Labour Market Agreements for Persons with Disabilities, and the Targeted Initiative for Older Workers

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CHAPTER VI: RESPONSIBLE FISCAL MANAGEMENT

**Section A: Transforming Government for
Sustainability and Fairness**

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ADDRESSING UNREGULATED TOBACCO

ISSUE

Measures to address unregulated tobacco and other legislative amendments to be included in the 2017 Budget.

Reference: Chapter VI, Section A

KEY FACTS

- Ontario's tobacco strategy consists of a balanced approach of partnerships with First Nations and compliance activities to address the issue of unregulated tobacco.
- Ontario has made progress over the past year in addressing unregulated tobacco, including the establishment of the Contraband Tobacco Enforcement Team (CTET), the launching of cross-designation pilot projects with four public health units, and the continued enhancement of provincial oversight of raw leaf tobacco.
- The 2017 Budget will announce the government's plan to further address the issue of unregulated tobacco by amending the Tobacco Tax Act to:
 - Enable the forfeiture of items acquired from, or used to, engage in offences under the Act;
 - Restrict the importation and possession of cigarette filter components, such as acetate tow, to registered manufacturers;
 - Further enhance Ontario's oversight of raw leaf tobacco, including increasing penalties and fines for non-compliance;
 - Require that tobacco retailers in Ontario who currently hold a permit under the Retail Sales Tax Act transition to the Tobacco Retail Dealer's Permit, effective July 1, 2018; and
 - Publish convictions under the Act, and other Acts in the future, to promote compliance.

BACKGROUND

The presence of low-cost, unregulated tobacco undermines the province's public health initiatives under the Smoke-Free Ontario Strategy, results in less revenue for public services, and compromises public safety through links to organized crime.

Unregulated sales refer to any tobacco products manufactured, distributed, or sold in Ontario that are not in accordance with the provincial Tobacco Tax Act or the federal Excise Act, 2001.

Various estimates suggest the unregulated tobacco market in Ontario is between 20%-40% of the total market, representing up to \$500 million in tax loss annually.

Asset Forfeiture

The government plans to amend the *Tobacco Tax Act* (TTA) to enable the forfeiture of items seized for as evidence of contraventions under the Act. Examples of items include cash seized as evidence of resale of unregulated tobacco and in some cases the vehicles used to transport it.

The enhancement of asset forfeiture provisions will create greater deterrents for individuals involved in large-scale distribution and sale of unregulated, untaxed tobacco. It also supports enhanced TTA compliance by removing the instruments used by individuals to engage in contraventions under the Act and the proceeds obtained from it.

Regulation of Cigarette Filter Components

Provincial oversight of cigarette filter components, such as acetate tow and cigarette filter rods, is intended to place controls on these essential inputs throughout the supply chain with the goal of reducing access by unregulated tobacco producers.

Proposed amendments to the TTA would restrict the importation and possession of cigarette filter components, such as acetate tow and cigarette filter rods to registered manufacturers, effective Jan 1, 2018.

The government will engage stakeholders during summer 2017 to develop a regulation to support legislative amendments and outline circumstances that exempt persons or businesses from these new requirements.

Raw Leaf Tobacco Oversight

Since January 1, 2015, the Ministry of Finance has provided oversight of all raw leaf tobacco (RLT) in the province including flue-cured, dark-fired and burley tobacco. RLT oversight requires that anyone who deals with RLT in Ontario register and report activities to the ministry.

The government, after consultation with industry and key stakeholders, developed and implemented regulatory and administrative measures required for RLT baling or packaging, and labelling and other requirements for the 2016 harvest season.

To further enhance its RLT oversight regime, the government plans to amend the TTA to strengthen compliance and enforcement provisions related to non-compliance with RLT requirements.

Tobacco Retail Dealer's Permit

Currently under the TTA, retailers are required to hold a Tobacco Retail Dealer's Permit (TRDP). Retailers who previously held a permit issued under the Retail Sales Tax Act are also deemed to hold a TRDP.

The Ministry of Finance will be requiring all Retail Sales Tax Act Vendor Permit holders to move to the TRDP, effective July 1, 2018.

The Ministry of Finance will be working with stakeholders and businesses to support affected retailers in making this transition to the TRDP.

Publication of Convictions Information

Research has demonstrated that communicating about enforcement actions can be a powerful tool in promoting compliance and increasing awareness about regulatory laws.

Currently, the Ministry of Finance does not have legislative authority to publish information on convictions under its tax statutes including the TTA, which limits its ability of using communication about enforcement actions as an effective tool to encourage compliance.

The Ministry of Finance is proposing to amend the TTA to give legal authority to the Minister of Finance to publish information on tobacco convictions.

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CHAPTER VI: RESPONSIBLE FISCAL MANAGEMENT

Section B: Details On Ontario's Finances and Economic Outlook

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ONTARIO REVENUE PERFORMANCE AND OUTLOOK

ISSUE

How are Ontario's revenues performing? What is Ontario's revenue outlook?

Reference: Chapter VI, Section B: Details of Ontario's Finances and Economic Outlook

KEY SPEAKING POINTS

- The revenue forecast reflects current information available at the time of the 2017 Budget, including the Ministry of Finance's economic outlook and the estimated impact of Government policy decisions. Revenue in 2016–17 is estimated to be \$133.2 billion. This is \$2.6 billion, or 2.0 per cent, above the amount projected in the *2016 Budget*.
- Revenue is projected to increase from \$133.2 billion in 2016–17 to \$149.3 billion in 2019–20 or at an average annual rate of 3.9 per cent, largely reflecting the Ministry of Finance's outlook for economic growth.
- Compared to the *2016 Budget*, total revenues are higher in each year from 2016–17 to 2018–19, mainly due to higher taxation revenues resulting from stronger economic growth, higher-than-expected revenues from processing past years tax returns and recent strength in the housing market.

BACKGROUND

REVENUE INTEGRITY TARGETS

The government is taking action to strengthen the integrity of the tax system and ensure that everyone pays their fair share by conducting a policy, legislative and administrative review of all taxes. A review of revenues generated from Government Business Enterprises will also be undertaken. See Chapter VII: *A Fair and Sustainable Tax System*, Section A: Taxation, Subsection: *Strengthening Ontario's Tax System, Income Tax Avoidance, Employer Health Tax Avoidance*.

No amounts are explicitly provided in the 2017 *Document* for the expected revenue that would be generated from this review. The table below shows how **internal** revenue integrity targets have been allocated across taxes and is currently included in the Fiscal Plan.

Revenue Integrity Targets			
	(\$ Millions)		
	2017-18	2018-19	2019-20
Personal Income Tax	46	51	58
Sales Tax	36	118	138
Corporations Tax	10	29	67
Employer Health Tax	1	3	33
Beer and Wine Tax	0	30	50
Total	92	231	346
<i>Note: Numbers may not add due to rounding.</i>			

KEY REVENUE ASSUMPTIONS

While the 2017 Budget fiscal plan delivers on a balanced budget, the plan is in part based on a number of revenue assumptions.

Key Revenue Assumptions		(\$Billions)		
		2017-18	2018-19	2019-20
Stronger Housing Market Assumptions	Assumes modest slowing of housing market	0.7	1.0	1.1
Remove Nominal GDP Prudence	Removes prudence from the nominal GDP forecast	0.1	0.2	0.3
High-Yield CIT and HST assumptions	Forecast assumes revenue growth continues at a healthy pace	0.8	1.1	1.4
Revenue Integrity Targets	Assumes a successful revenue integrity strategy including additional revenue from GBEs and introduction of Beer Tax	0.1	0.2	0.4
Asset Optimization - Additional \$1/share	Assumes Hydro One shares sell at an additional \$1/share	0.1	-	-
Hold Equalization at 2017-18 level	Assumes equalization payments remain at 2017-18 (\$1.4 billion) level in 2018-19	-	0.7	-
PIT: Assume Zero Tax Planning	Assumes 2015 increase in PIT revenues will carry forward	0.4	0.4	0.4
IFRS Accounting Impact for OPG/H1	Excludes significant IFRS accounting impacts for OPG/Hydro One beyond 2017-18	-	0.5	0.5

- The revenue forecast will be subject to scrutiny by external stakeholders (e.g., FAO, credit rating agencies, private sector economists).
- Overall uncertainty in the U.S. and global economic outlook could impact the revenue outlook.
- Assumes there is no IFRS Accounting Impact for OPG/Hydro One beyond 2017-18 – which current estimates assume will not be able to be sustained over time.
- Actual results compared to the 2018-19 Equalization outlook will depend on Ontario's economic performance relative to all other provinces, which is difficult to forecast and presents a risk. However, there is some potential that this could be offset by other new federal funding.
- Approach to PIT contains extra risk related to potential tax planning that occurred in 2015 and could result in significant downside revenue in 2016-17 Public Accounts and over the forecast period.

RISKS TO THE REVENUE OUTLOOK

The table below shows detailed estimates of the impacts that could arise from unexpected changes in economic conditions for each of the revenue sources and its underlying economic driver.

Selected Economic and Revenue Risks and Sensitivities

Item/Key Components	2017–18 Assumption	2017–18 Sensitivities
Total Revenues		
Nominal GDP	4.3 per cent growth in 2017	\$965 million revenue change for each percentage point change in nominal GDP growth. Can vary significantly, depending on composition and source of changes in GDP growth.
Total Taxation Revenues		
Revenue Base ¹	5.7 per cent growth in 2017–18	
Nominal GDP	4.3 per cent growth in 2017	\$690 million revenue change for each percentage point change in nominal GDP growth. Can vary significantly, depending on composition and source of changes in GDP growth.
Personal Income Tax (PIT) Revenues		
Revenue Base	5.4 per cent growth in 2017–8	
Compensation of Employees	4.1 per cent growth in 2017	\$336 million revenue change for each percentage point change in compensation of employees growth.
2016 Tax-Year Assessments ²	\$31.2 billion	\$312 million revenue change for each percentage point change in 2016 PIT assessments. ²
2015 Tax-Year and Prior Assessments	\$1.6 billion	\$16 million revenue change for each percentage point change in 2015 and prior-year PIT assessments. ²

Selected Economic and Revenue Risks and Sensitivities (cont'd)

Item/Key Components	2017–18 Assumption	2017–18 Sensitivities
Sales Tax Revenues		
Revenue Base	6.9 per cent growth in 2017–18	
Nominal Household Consumption	4.3 per cent growth in 2017	\$190 million revenue change for each percentage point change in nominal household consumption growth.
2015 Gross Revenue Pool ³	\$26.1 billion	\$261 million revenue change for each percentage point change in 2015 gross revenue pool.
2016 Gross Revenue Pool ³	\$27.4 billion	\$274 million revenue change for each percentage point change in 2016 gross revenue pool.
2017 Gross Revenue Pool ³	\$28.4 billion	\$284 million revenue change for each percentage point change in 2017 gross revenue pool.
Corporations Tax Revenues		
Revenue Base	7.4 per cent growth in 2017–18	
Net Operating Surplus — Corporations	6.8 per cent growth in 2017	\$145 million change in revenue for each percentage point change in 2017 net operating surplus — corporations growth.
2016 Tax Assessments ²	\$10.6 billion	\$106 million change in revenue for each percentage point change in 2016 Tax Assessments.
2017 Canada Corporate Taxable Income	\$125.6 billion	\$144 million change in revenue for each percentage point change in the federal estimate of 2017 Ontario Corporate Taxable Income.
2018 Canada Corporate Taxable Income	\$134.9 billion	\$52 million change in revenue for each percentage point change in 2017 Ontario Corporate Taxable Income.

Selected Economic and Revenue Risks and Sensitivities (cont'd)		
Item/Key Components	2017–18 Assumption	2017–18 Sensitivities
Employer Health Tax Revenues		
Revenue Base	4.0 per cent growth in 2017–18	
Compensation of Employees	4.1 per cent growth in 2017	\$61 million revenue change for each percentage point change in compensation of employees growth.
Ontario Health Premium (OHP) Revenues		
Revenue Base	4.5 per cent growth in 2017–18	
Compensation of Employees	4.1 per cent growth in 2017	\$26 million revenue change for each percentage point change in compensation of employees growth.
2016 Tax-Year Assessments	\$3.4 billion	\$34 million revenue change for each percentage point change in 2016 OHP assessments.

Selected Economic and Revenue Risks and Sensitivities (cont'd)

Item/Key Components	2017–18 Assumption	2017–18 Sensitivities
Gasoline Tax Revenues		
Revenue Base	1.6 per cent growth in 2017–18	
Gasoline Pump Prices	108.4 cents per litre in 2017	\$3 million revenue decrease (increase) for each cent per litre increase (decrease) in gasoline pump prices.
Fuel Tax Revenues		
Revenue Base	1.6 per cent growth in 2017–18	
Real GDP	2.3 per cent growth in 2017	\$11 million revenue change for each percentage point change in real GDP growth.
Land Transfer Tax Revenues		
Revenue Base	16.8 per cent increase in 2017–18	
Housing Resales	4.3 per cent decline in 2017–18	\$26 million revenue change for each percentage point change in both the number and prices of housing resales.
Resale Prices	7.4 per cent increase in 2017–18	
Canada Health Transfer		
Ontario Population Share	38.6 per cent in 2017–18	\$37 million revenue change for each tenth of a percentage point change in Ontario's population share.
Canada Social Transfer		
Ontario Population Share	38.6 per cent in 2017–18	\$14 million revenue change for each tenth of a percentage point change in Ontario's population share.

¹ Revenue Base is revenue excluding the impact of measures, adjustments for past Public Accounts estimate variances and other one-time factors.

² Ontario 2016 Personal Income Tax and Corporations Tax are estimates because 2016 tax returns are yet to be assessed by the Canada Revenue Agency.

³ The Gross Revenue Pool is a federal Department of Finance estimate and excludes the impact of Ontario measures.

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FISCAL IMPACT OF THE ELECTRICITY SECTOR

ISSUE

The electricity sector has a fiscal impact on the Province's revenues and expenses. The government dedicates the revenues it receives from the electricity sector to Ontario Electricity Financial Corporation (OEFC) towards the debt and other liabilities of the former Ontario Hydro.

**Reference: Chapter 6B, Medium-Term Fiscal Outlook
Chapter 6C, Reducing Ontario's Electricity Sector Stranded Debt**

KEY FACTS

- The interim combined net incomes of Ontario Power Generation (OPG), Hydro One Ltd. and Brampton Distribution Holdco Inc. are currently projected at \$842 million in 2016-17, \$207 million lower than the Budget 2016 forecast of \$1,049 million. The decrease since Budget 2016 is largely due to lower HOL net income shown as consolidated by the Province, including reflecting the fiscally-neutral re-categorization of impacts of broadening Hydro One ownership that were previously reflected under Sales and Rentals. Lower than projected OPG net income is mainly due to a variance from gross margins assumed in the 2016 Budget [and a downward adjustment reflecting the estimated IFRS 2016-17 risk].
- Electricity payments-in-lieu of taxes (PILs) are estimated to be \$373 million in 2016-17, \$280 million lower than projected in Budget 2016.
 - The decrease in PILs is largely related to the lower than assumed OPG gross margins discussed above.
- The potential impacts of additional future share offerings of Hydro One common shares, are not reflected in projected Hydro One net income, but included as part of the projected net impacts of the Province's asset optimization strategy in Sales and Rental under Other Non-Tax Revenue.
 - Hydro One Ltd. is now a publicly-traded company and any information related to the assumptions on timing and amount of additional share offerings could be considered market-sensitive, securities information. Capturing the amount in the Sales and Rental line along with other asset optimization is a prudent approach to market-sensitive information. Note that the assumed timing may also differ from the actual timing.
- Debt Retirement Charge (DRC) revenue is currently estimated to be \$625 million in 2016-17, unchanged from the Budget 2016 projection
 - The DRC for residential users ended as of January 1, 2016.
 - DRC is legislated to end for all remaining users on April 1, 2018.

- Projected revenues under Power Supply Contract Recoveries are \$739 million for 2016-17, \$96 million higher than projected in Budget 2016, primarily due to the result of a court decision on how to calculate some contracts' escalation rates.
- Any change in "Power Supply Contract Recoveries" revenues is fully offset by an equal change in expense under Power Supply Contract Costs.
- Power supply contracts are contracts of the Ontario Electricity Financial Corporation comprised of non-utility generator (NUG) contracts signed by the old Ontario Hydro in the late 1980s and early 1990s.

BACKGROUND

The following table shows the actual and projected net incomes of OPG and Hydro One, and total PILs from OPG, Hydro One and MEUs.

	Actual									Interim	Plan
(\$million)	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18
Income from Investment in Government Business Enterprises											
OPG Net Income	807	183	391	414	256	136	809	1,056	463		
HOI Net Income	<u>407</u>	<u>530</u>	<u>463</u>	<u>634</u>	<u>616</u>	<u>796</u>	<u>796</u>	<u>733</u>	<u>236</u>		
Total OPG and HOI Income	1,214	713	854	1,048	872	932	1,605	1,789	719	842	617
Payments in Lieu of Taxes	546	830	516	321	367	324	543	180	3,247	373	405
Debt Retirement Charge (DRC)	982	970	907	944	952	939	954	956	859	625	623
Total (Net Income, PILS and DRC)	2,742	2,513	2,277	2,313	2,191	2,195	3,102	2,925	4,825	1,841	1,645

Note: Totals may not add up due to rounding. The Province's reported net income from OPG includes provincial consolidation adjustments for OPG's nuclear funds on a realized gains and losses basis, and downward adjustment reflecting the estimated IFRS risks. Figures shown under HOI net income also includes Brampton Holdco Inc. contribution in 2015-16 and 2016-17 (note that Brampton Holdco Inc. was owned by the Province for the period from August 2015 to February 2017).

Impacts of Broadening Ownership of Hydro One

As a result of Hydro One's completed secondary offering in April 2016, the interim 2016-17 results reflect the estimated impacts of the broadening of Hydro One ownership, including the following:

- Hydro One has exited the payments-in-lieu of taxes regime and is liable for federal and provincial corporate income taxes.

- The projected net income from Hydro One going forward will reflect the Province's proportionate ownership share of Hydro One, which is currently based on 70% share ownership following the April 2016 secondary offering.

Change from 2015-16 to 2016-17

The interim combined net incomes of OPG, Hydro One Ltd. and Brampton Distribution Holdco Inc. are projected to be \$842 million in 2016-17, up \$123 million from \$719 million in 2015-16.

The increase is largely due to lower Hydro One net income in 2015-16 reflecting the net impacts of the IPO including \$2.8 billion in PILs expenses which were only partially offset by the \$2.3 billion share of the Hydro One deferred tax benefit reflected in the Province's income from Hydro One.

Electricity PILs are projected to be \$373 million in 2016-17, down \$2,854 million from \$3,228 million in 2015-16. The decrease is primarily due to significant one-time PILs related to Hydro One's November 15, 2015 IPO, i.e., the \$2.6 billion departure tax and \$0.2 billion in additional PILs.

DRC revenue is projected to be \$625 million in 2016-17, down \$234 million from \$859 million in 2015-16, primarily due to the removal of the DRC from residential electricity users on January 1, 2016.

Revenues projected under Power Supply Contract Recoveries are \$739 million in 2015-16, \$136 million below \$875 million in 2015-16. The decrease is primarily due to the expiration of NUG contracts and early termination or suspension of some NUG contracts as a result of the IESO curtailment initiative, partially offset by (add wording on the court decision). The amounts are projected to generally decline over time primarily due to the expiration of NUGs contracts. Any change in "Power Supply Contract Recoveries" is fully offset by an equal change in expense under Power Supply Contract Costs.

The decrease in overall electricity sector revenues in 2016-17 was mainly due to the impacts of Hydro One's IPO in 2015-16, following large, one-time, upfront positive impacts in 2015-16.

Change from Interim 2016-17 to Plan 2017-18

Electricity sector revenues from OPG, Hydro One Ltd. and Brampton Distribution Holdco Inc. net incomes, and from PILs from OPG, Brampton Distribution Holdco Inc. and MEUs, are projected to be \$194 million lower in 2017-18 compared to 2016-17 primarily due to lower OPG net income reflecting the estimated risk in 2017-18 of a switch to IFRS accounting standards from US GAAP.

Provincial Consolidation Adjustments for the Ontario Nuclear Funds

On consolidation into Public Accounts, the Province makes an adjustment to OPG net income to reflect only the realized portion of gains and losses of OPG's nuclear funds. This adjustment is reflected in Income from Investment in Government Business Enterprises.

Unrealized gains and losses of OPG's nuclear funds are recorded as an increase or decrease in the Province's investment in OPG, which affects the Province's net debt and accumulated deficit.

Ontario Energy Board Rate Applications

A key determinant of OPG and Hydro One's financial performance are the decisions made by the Ontario Energy Board (OEB) with respect to the regulated rates charged by these companies.

Power Supply Contract Recoveries and Power Supply Contract Costs

The decrease in the Power Supply Contract Costs from 2016-17 to 2017-18 is largely due to the suspension and termination of several NUGs which entered into Enhanced Dispatch Agreements with IESO.

The decrease in the Power Supply Contract Costs is offset by a decrease in Power Supply Contract Recoveries revenue recovered by OEFC from electricity ratepayers, with no net fiscal impact.

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ONTARIO'S FISCAL OUTLOOK

ISSUE

What is the fiscal outlook presented in the 2017 Budget?

Reference: Chapter VI, Section B: Responsible Fiscal Management,

KEY FACTS

- The government is projecting a return to balance in 2017–18, and continued balance in 2018–19 and 2019–20.
- The government is projecting a deficit of \$1.5 billion in 2016–17, an improvement of \$2.8 billion compared to the 2016 Budget forecast. It is also a \$2.0 billion improvement compared with the 2015–16 deficit of \$3.5 billion.
- The government is projecting a net debt-to-GDP ratio of 37.8 per cent for 2016-17, an improvement compared to the 2016 Budget projection of 39.6 per cent.
- Over the medium term, revenue is forecast to increase from \$133.2 billion in 2016–17 to \$149.3 billion in 2019–20, while total expense is projected to increase from \$134.8 billion to \$148.4 billion over the same period.
- The Province's program expense outlook is projected to grow at an average annual rate of 2.9 per cent between 2015–16 and 2019–20. This reflects the government's commitment to invest in priority areas such as health care, education, child care expansion and electricity cost relief programs.
- The reserve included in the fiscal plan has been set at \$0.6 billion in 2017–18 and 2018–19 and \$0.9 billion in 2019–20, reflecting continued prudence while recognizing the confidence arising from a strengthening Ontario economy and a restoring of fiscal balance in Ontario.

BACKGROUND

The government is projecting a return to balance in 2017–18, and continued balance in 2018–19 and 2019–20.

TABLE 6.1 Ontario's Fiscal Plan and Outlook

(\$ Billions)

	Actual 2015–16	Interim 2016–17	Plan 2017–18	Outlook	
				2018–19	2019–20
Revenue	128.4	133.2	141.7	144.9	149.3
Expense					
Programs	120.9	123.5	129.5	132.3	135.8
Interest on Debt	11.0	11.3	11.6	12.0	12.6
Total Expense	131.9	134.8	141.1	144.3	148.4
Surplus/(Deficit) Before Reserve	(3.5)	(1.5)	0.6	0.6	0.9
Reserve	–	–	0.6	0.6	0.9
Surplus/(Deficit)	(3.5)	(1.5)	0.0	0.0	0.0
Net Debt as a Per Cent of GDP	38.6	37.8	37.5	37.3	37.2
Accumulated Deficit as a Per Cent of GDP	25.2	24.2	23.2	22.3	21.4

Note: Numbers may not add due to rounding.

2016-17 Interim Fiscal Outlook

Ontario's deficit for 2016–17 is projected to be \$1.5 billion — an improvement of \$2.8 billion compared with the 2016 Budget forecast. It is also a \$2.0 billion improvement compared with the 2015–16 deficit of \$3.5 billion.

Total revenue in 2016–17 is projected to be \$2.6 billion above the *2016 Budget Plan* largely due to higher taxation revenues and stronger total net incomes from Government Business Enterprises (GBEs), partially offset by lower other revenues.

Total expense in 2016–17 is projected to be \$0.9 billion higher than forecast in the *2016 Budget*, as a result of higher program expense and lower interest on debt. This includes the impact of \$0.5 billion in lower interest on debt expense for 2016–17 than the forecast in the 2016 Budget, due to lower interest rates and cost-effective debt management.

The fiscal plan outlined in the *2016 Budget* included a \$1.0 billion reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense forecasts in 2016–17. With a higher than expected revenue forecast exceeding higher projected expense, it is anticipated that the reserve will not be required by year-end and has been drawn down.

TABLE 6.2 2016–17 In-Year Fiscal Performance (\$ Millions)			
	Budget Plan	Current Outlook	In-Year Change
Revenue	130,589	133,228	2,639
Expense			
Programs	122,139	123,502	1,362
Interest on Debt	11,756	11,250	(506)
Total Expense	133,895	134,752	856
Reserve	1,000	–	(1,000)
Surplus/(Deficit)	(4,306)	(1,524)	2,783
<i>Note:</i> Numbers may not add due to rounding.			

2016–17 Revenue Changes since the 2016 Budget

The 2016–17 revenue outlook, at \$133.2 billion, is \$2.6 billion, or 2.0 per cent, above the *2016 Budget Plan*. This increase is largely due to higher taxation revenues and stronger total net incomes from Government Business Enterprises (GBEs), partially offset by lower other revenues.

Details of 2016–17 In-Year Revenue Changes

Highlights of key 2016–17 revenue changes from the 2016 Budget forecast are as follows:

- **Corporations Tax (CT)** revenue is \$1,296 million higher, mainly due to higher revenue in 2015 and prior years from tax returns processed and a stronger corporate profits outlook relative to the 2016 Budget.
- **Personal Income Tax (PIT)** revenue is \$717 million higher than the *2016 Budget* forecast, primarily due to higher 2015 revenue from tax returns processed.
- **Sales Tax** revenues are estimated to be \$714 million higher, largely reflecting an increase to Harmonized Sales Tax (HST) revenues due to higher Ontario share of the overall HST/ GST revenue pool as the provincial economy has performed better than the rest of Canada in 2015 and 2016.
- **Land Transfer Tax (LTT) revenues** are estimated to be \$637 million higher, due to higher Ontario housing resale prices.
- **All Other Tax** revenues combined are estimated to be \$120 million lower, mainly due to lower revenues from electricity payments in lieu (PIL) of taxes and Employer Health Tax, partially offset by higher revenues from Education Property Tax, Gasoline Tax, Tobacco Tax and Ontario Health Premium.

- **Government of Canada** transfers are estimated to be \$249 million lower than the 2016 Budget forecast, largely reflecting lower transfers for infrastructure projects, mainly due to revised timelines for the Building Canada Fund and the absence of anticipated federal health funding for home care.
- Net income from the **Liquor Control Board of Ontario (LCBO)** is projected to be \$296 million higher than projected in the 2016 Budget, primarily due to the recategorization from Sales and Rentals of the impact of the sale of its head office lands as part of the Province's asset optimization strategy.
- Net income from the **Ontario Lottery and Gaming Corporation (OLG)** is estimated to be \$181 million higher than projected in the 2016 Budget, due to higher than projected revenues in OLG's lottery, slots and casinos, and resort casinos business lines.
- The combined net incomes of **Ontario Power Generation Inc. (OPG), Hydro One Limited (HOL) and Brampton Distribution Holdco Inc.** are projected to be \$207 million below the 2016 Budget forecast. Lower HOL net income shown as consolidated by the Province mainly reflects the recategorization of impacts of broadening Hydro One ownership that were previously reflected under Sales and Rentals. Lower than projected OPG net income is mainly due to a variance from gross margins assumed in the 2016 Budget.
- **Other Non-Tax Revenue** is projected to be \$626 million lower, mainly due to reprofiling of carbon allowance proceeds from 2016–17 to 2017–18, and lower revenue under Sales and Rentals which mainly reflects the recategorization of revenues related to the Province's asset optimization strategy.

2016–17 Expense Changes since the 2016 Budget

The 2016–17 total expense outlook is \$134.8 billion, \$0.9 billion higher than the 2016 Budget forecast. This growth is primarily due to additional investments in hospitals, Green Investment Fund initiatives, and additional investments in the Ontario Disability Support Program and the Ontario Rebate for Electricity Consumers, which are partially offset by lower-than-projected interest on debt expense.

Details of 2016–17 In-Year Expense Changes

The following expense changes have occurred since the 2016 Budget:

- **Health sector** expense is projected to increase by \$483 million, primarily due to additional investments in hospitals to support the needs of patients and reduce wait times, and funding to support additional stem cell transplants in Ontario.
- **Education sector** expense is projected to be \$105 million higher than forecast, primarily due to higher-than-projected enrolment.

- **Postsecondary and training sector** is projected to be \$69 million lower than anticipated, mainly as result of lower-than-forecasted demand in Employment and Training programs and student financial assistance programs.
- **Children's and social services sector** expense is projected to increase by \$287 million, primarily due to additional investments to address demand for the Ontario Disability Support Program and increased funding for autism services.
- **Justice sector** expense is expected to increase by \$115 million, primarily due to settlements under the *Proceedings Against the Crown Act*, reforms to the corrections system and ensuring wage parity for First Nation police officers.
- **Other programs** expense is expected to increase by \$441 million, mainly due to the Green Investment Fund initiatives, the Ontario Rebate for Electricity Consumers, investments in social and affordable housing and the Clean Water and Wastewater Fund.

Interest on debt expense is projected to be \$506 million lower than forecast in the *2016 Budget*, primarily due to lower-than-forecast interest rates, the lower forecasted deficit and cost-effective debt management.

Fiscal Prudence

The fiscal plan outlined in the *2016 Budget* included a \$1.0 billion reserve to protect the fiscal outlook against unforeseen adverse changes in the Province's revenue and expense forecasts in 2016–17. With a higher than expected revenue forecast exceeding higher projected expense, it is anticipated that the reserve will not be required by year-end and has been drawn down.

The 2016-17 interim expense projection maintains a contingency fund of \$30 million in recognition of expense changes that could materialize as the Public Accounts of Ontario for 2016-17 are finalized.

Medium-Term Fiscal Outlook

The government is projecting a balanced budget in 2017–18, consistent with the plan first laid out in the 2010 Budget. The Province is also projecting continued balance in 2018–19 and 2019–20.

The medium-term revenue outlook is above the 2016 Budget Plan largely because of strong performance in taxation revenues driven by a growing economy. Personal Income Tax and Corporations Tax revenues are boosted by stronger-than-expected assessments for 2015 and prior years. Higher HST revenues reflect upward federal revision to Ontario entitlements due to an increase in Ontario's share of the overall revenue pool and lower housing rebates. Land Transfer Tax (LTT) revenues have been boosted by higher than expected increases in housing prices.

Total expense over the medium-term is projected to be higher than forecast at the time of the 2016 Budget as a result of the investments the government is making in health, education, electricity cost relief, and other public services that matter to Ontario families, partially offset by lower interest on debt expense. Ontario's medium-term outlook for interest on debt expense is currently below the 2016 Budget estimate, primarily as a result of lower-than-forecast interest rates, along with effective and efficient debt management.

TABLE 6.5 Change in Medium-Term Fiscal Outlook since the 2016 Budget
(\$ Billions)

	2016–17	2017–18	2018–19
Surplus/(Deficit) from the 2016 Budget	(4.3)	0.0	0.0
Total Revenue Changes	2.6	3.9	3.0
Expense Changes			
Net Program Expense Changes	1.4	5.3	4.7
Interest on Debt	(0.5)	(0.9)	(1.1)
Total Expense Changes	0.9	4.4	3.6
Change in Reserve	(1.0)	(0.5)	(0.6)
Fiscal Improvement/(Deterioration)	2.8	0.0	0.0
2017 [Document] Surplus/(Deficit)	(1.5)	0.0	0.0
<i>Note: Numbers may not add due to rounding.</i>			

Medium-Term Revenue Outlook

Total revenue is projected to increase from \$133.2 billion to \$149.3 billion between 2016–17 and 2019–20, or at an average annual rate of 3.9 per cent. Revenue growth largely reflects the Ministry of Finance's outlook for economic growth. The medium-term revenue outlook includes revised estimates related to the current federal government's commitments for additional health funding for home care and mental health. It also includes projected carbon allowance proceeds and net revenues from the Province's asset optimization strategy.

Building on existing initiatives, including actions to address the underground economy, the government is taking action to strengthen the integrity of the tax system and ensure that everyone pays their fair share. A review of revenues generated from Government Business Enterprises will also be undertaken. This integrated approach will help promote greater fairness and efficiency, and ensure the ongoing integrity of the tax system (see Chapter VII: A Fair and Sustainable Tax System).

Compared with the 2016 Budget forecast, the outlook for revenues are higher over the 2016–17 to 2018–19 period:

Taxation revenues are higher, largely due to stronger economic growth and higher-than-expected revenues from processing past years tax returns. Stronger estimates of economic growth for 2014 to 2016 have increased Ontario's 2016 nominal GDP by \$19.8 billion above the level expected in the 2016 Budget.

Lower **Government of Canada Transfers** in 2016–17 largely reflects lower-than-projected funding for infrastructure projects and the absence of funding for home care as anticipated in the 2016 Budget. The decline in the plan year and the medium term mainly reflects lower projected Equalization payments, partially offset in 2017–18 by higher federal transfer for public transit projects.

Income from Government Business Enterprises is projected to be higher in 2016–17 reflecting stronger overall performance from OLG and LCBO, including the recategorization from Sales and Rentals of the impact of the sale of LCBO's head office lands as part of the Province's asset optimization strategy.

The revenue outlook also includes projected proceeds from the auctioning of carbon allowances beginning in 2016–17. Lower proceeds in 2016–17 reflect revenue from the first auction in March 2017 being certified and settled in fiscal year 2017–18. A lower medium-term outlook also reflects revised projections using more cautious assumptions.

The decrease in **Other Non-Tax Revenue** in 2016–17 is largely due to lower Sales and Rentals revenue recategorized under LCBO net income as indicated above; partially offset by higher revenue from power supply contract recoveries that are fiscally neutral and other miscellaneous revenue sources.

Medium-Term Expense Outlook

The Province's program expense outlook is projected to grow at an average annual rate of 2.9 per cent between 2015–16 and 2019–20. This reflects the government's commitment to invest in priority areas such as health care, education, child care expansion and electricity cost relief programs.

The government has a strong track record in meeting its fiscal targets, and is building on the success of recent initiatives to support the Province's fiscal objectives. The government will expand the review of current programs to identify opportunities for modernization and to ensure that expense growth is managed within the plan laid out in this Budget (see Chapter VI: Section A: Transforming Government for Sustainability and Fairness).

Highlights of the program expense outlook over the medium term include the following:

- **Health sector** expense is projected to grow on average by 3.3 per cent per year between 2015–16 and 2019–20 as a result of targeted funding for hospital services, reduced wait times, new children and youth pharmacare, investments to increase access to primary care, home care and community care, and increased supports for people requiring mental health and addictions services.
- **Education sector** expense is projected to grow on average by 2.8 per cent per year between 2015–16 and 2019–20, mainly due to increased funding to school boards to support enrolment growth and new investments in child care.
- **Postsecondary and training sector** expense is projected to grow on average by 2.5 per cent per year between 2015–16 and 2019–20, mainly due to investments in the Highly Skilled Workforce initiatives and postsecondary infrastructure investments.
- **Children’s and social services sector** expense is projected to grow on average by 2.7 per cent per year between 2015–16 and 2019–20, primarily reflecting investments in social assistance and developmental services, as well as funding to support transformation of autism and child welfare services.
- **Justice sector** expense is projected to grow on average by 1.2 per cent per year between 2015–16 and 2019–20, mainly due to reforms to the corrections system, the continuing upload of court security costs from municipalities, the expansion of access to legal aid for low-income Ontarians, appointing more judges, initiatives to support more timely resolution of cases and planned capital investments.
- **Other programs** expense is projected to grow on average by 2.9 per cent per year between 2015–16 and 2019–20, mainly due to electricity cost relief programs under the Fair Hydro Plan, initiatives under the Climate Change Action Plan, and investments in transit and transportation.

The total expense outlook includes interest on debt expense, which is projected to increase on average by 3.6 per cent per year between 2015–16 and 2019–20. This increase is mainly due to borrowing for investment in capital assets.

Fiscal Prudence

As required by the Fiscal Transparency and Accountability Act, 2004 (FTAA), Ontario’s fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against unforeseen adverse changes in the Province’s revenue and expense. The reserve has been set at \$0.6 billion in 2017–18, \$0.6 billion in 2018–19, and \$0.9 billion in 2019–20.

The fiscal plan also includes contingency funds (both operating and capital) to help mitigate expense risks — particularly in cases where health and safety may be compromised or services to the most vulnerable are jeopardized — that may otherwise adversely affect Ontario’s fiscal performance.

Prepared by: Ian Lippert Branch: Fiscal Framework, Office of the Budget

COLLEGES OF APPLIED ARTS AND TECHNOLOGY PENSION PLAN (CAATPP)

ISSUE

The Colleges of Applied Arts and Technology Pension Plan (CAATPP) expected 2016-17 expense of \$202M represents an increase of \$15M from the projected 2016-17 expense of \$187M included in the 2016 Budget.

The expected 2016-17 CAATPP expense of \$202M is an increase of \$12M from the \$190M actual expense reported for 2015-16.

Reference: Chapter VI, Section B, Table 6.15 Total Expense

KEY FACTS

2016-17 Interim Budget to Budget

- The \$15M increase in the interim 2016-17 CAATPP expense (\$202M) compared to the 2016-17 expense projected in the 2016 Budget (\$187M) is primarily due to a valuation allowance taken for accounting purposes to write-off plan surpluses, reflecting the recommendations of the Expert Advisory Panel on Pensions.

Year-over-Year

- The \$12M increase in the interim 2016-17 CAATPP expense (\$202M) compared to the reported 2015-16 actual expense (\$190M) is mainly due the \$14M write-off of plan surpluses forecasted in 2016-17, offset by a \$2M decrease in plan expenses. The 2015-16 results do not include a valuation allowance. Excluding the increase in expense due to the valuation allowance of \$14M, 2016-17 forecast CAATPP expenses would have been \$188M, a \$2M decrease from 2015-16.

2017-18 Plan Budget to Budget

- A \$60M increase in the forecasted 2017-18 CAATPP expense (\$232M) compared to the expense projected in the 2016 Budget (\$172M) is mainly due to an increase in current service cost as a result of an increase in the salary growth assumption and increase in interest expense on plan obligations as a result of a reduction in the discount rate. Forecasted expense is further increased over 2016 Budget due to a \$25M valuation allowance taken for accounting purposes to write-off plan surpluses forecasted in 2017-18 reflecting the recommendations of the Expert Advisory Panel on Pensions.

Year-over-Year

- The \$30M increase in the forecasted 2017-18 CAATPP expense (\$232M) compared to the expected expense for 2016-17 (\$202M) is mainly due to an increase in the salary growth rate assumption in 2017-18 and forecasted increases in active membership. 2017-18 expense is further increased due to an \$11M increase in the valuation allowance taken for accounting purposes to write-off plan surpluses forecasted in 2017-18.

BACKGROUND

CAATPP Expense	Table 1 (\$ Millions)			
	Actual 2014-15	Actual 2015-16	Interim 2016-17	Plan 2017-18
2017 Budget	209	190	202	232
2016 Budget			187	172
Increase (Decrease) in Fiscal Plan			15	60

Pension expense reported in both the Province's consolidated financial statements and the Budget are determined in accordance with recommendations of the Public Sector Accounting Standards (PSAS) of the Chartered Professional Accountants of Canada (CPA Canada).

PSAS based calculations of pension expense reflect the government's share of the annual cost of pension benefits earned by employees during the year with adjustments for the government's share of gains or losses experienced by the plan, interest on the net pension liability or surplus, one-time cost of plan amendments made during the year and other applicable adjustments.

The employer's cash contribution to a pension plan in a particular period does not represent pension expense for financial reporting purposes which are calculated on a PSAS basis. Rather, contributions are calculated based on actuarial valuations conducted for funding purposes which are intended to ensure that a pension plan has sufficient money to pay for its obligations when they become due.

Under the Province's accounting policies, any actuarial gains or losses in a given calendar year are reflected in pension expense over the expected average remaining service life of the employees (12.9 years for CAATPP), starting in the subsequent fiscal year.

During 2016-17, the Province engaged an Expert Advisory Panel on Pensions to review the Province's accounting treatment for CAATPP. The Panel concluded that the existing governance structure related to the CAATPP, a multi-employer plan, does not allow the government to have a reasonable expectation of benefitting from net asset surpluses through future contribution reductions. The government accepted the Panel's recommendations and starting with the 2016-17 Public Accounts will be reflecting a reduction in pension related balance reported on the Province's books. This change will impact the Province's annual surplus/deficit results.

Prepared by: Patricia Ma, Senior Analyst

Reviewed by: Alicia Sun, Manager, and Nadine Petsche, Director

Branch: Accounting Policy and Financial Reporting, Office of the Provincial Controller Division

HEALTHCARE OF ONTARIO PENSION PLAN (HOOPP)

ISSUE

The Healthcare of Ontario Pension Plan (HOOPP) estimated 2016-17 expense of \$628M represents a decrease of \$3M from the projected 2016-17 expense of \$631 in the 2016 Budget.

The interim 2016-17 HOOPP expense of \$628M is a decrease of \$119M from the \$747M actual expense reported for 2015-16.

Reference: Chapter VI, Section B, Table 6.15 Total Expense

KEY FACTS

2016-17 INTERIM

Budget to Budget

- The \$3M decrease in the interim 2016-17 HOOPP expense (\$628M) compared to the 2016-17 expense projected in the 2016 Budget (\$631M) is mainly due to a lower than projected current service cost over the prior year forecast.

Year-over-Year

- The \$119M decrease in the interim 2016-17 HOOPP expense (\$628M) compared to the reported 2015-16 actual expense (\$747) is mainly due to an increase in recognition of prior years' experience gains and higher interest earnings as a result of an increase in the plan asset base. Decreases in year-over-year expenses are partially offset by higher current service costs as a result of an expected increase in active membership in 2016-17.

2017-18 PLAN

Budget to Budget

- 2017-18 HOOPP expense (\$554M) increased by \$6M compared to the expense projected in the 2016 Budget (\$548M). The increase is primarily due to a valuation allowance of \$102M taken for accounting purposes to write-off plan surpluses forecasted in 2017-18, reflecting the recommendations of the Expert Advisory Panel on Pensions. Excluding the increase due to the valuation allowance of \$102M, 2017-18 HOOPP expenses would have been forecasted at \$452M, a \$96M decrease from 2016 Budget. The decrease is mainly due to lower service costs as a result of reducing the salary growth assumption in the 2017 Budget, and higher than expected returns on assets forecasted over the 2016 Budget.

Year-over-Year

- The \$74M decrease in the forecasted 2017-18 HOOPP expense (\$554M) compared to the expected expense for 2016-17 (\$628M) is primarily due to higher than expected investment returns in the prior years and dropping off of amortization of prior year experience losses, and higher interest earned on increasing pension plan assets. Decreases in year over year expenses are partially offset by higher current service costs as a result of an expected increase in active membership and salary growth in 2017-18 and the \$102M valuation allowance taken for accounting purposes to write-off plan surpluses forecasted in 2017-18, reflecting the recommendations of the Expert Advisory Panel on Pensions.

BACKGROUND

HOOPP Expense	Table 1 (\$ Millions)			
	Actual 2014-15	Actual 2015-16	Interim 2016-17	Plan 2017-18
2017 Budget	843	747	628	554
2016 Budget			631	548
Increase (Decrease) in Fiscal Plan			(3)	6

Pension expense reported in both the Province's consolidated financial statements and the Budget is determined in accordance with recommendations of the Public Sector Accounting Standards (PSAS) of the Chartered Professional Accountants of Canada (CPA Canada).

PSAS based calculations of pension expense reflects the government's share of the annual cost of pension benefits earned by employees during the year with adjustments for the government's share of gains or losses experienced by the plan, interest on the net pension liability or surplus, one-time cost of plan amendments made during the year and other applicable adjustments.

The employer's cash contribution to a pension plan in a particular period does not represent pension expense for financial reporting purposes which are calculated on a PSAS basis. Rather, contributions are calculated based on actuarial valuations conducted for funding purposes which are intended to ensure that a pension plan has sufficient money to pay for its obligations when they become due.

Under the Province's accounting policies, any actuarial gains or losses in a given calendar year are reflected in pension expense over the expected average remaining service life of the employees (12.8 years for HOOPP), starting in the subsequent fiscal year.

During 2016-17, the Province engaged an Expert Advisory Panel on Pensions to review the Province's accounting treatment for HOOPP. The Panel concluded that the existing governance structure related to the HOOPP, a multi-employer plan, does not allow the government to have a reasonable expectation of benefitting from net asset surpluses through future contribution reductions. The government accepted the Panel's recommendations and has reflected a reduction in the pension related balance beginning in fiscal 2017-18, the first year of forecasted net asset surpluses for the HOOPP. This change will impact the Province's annual surplus/deficit results.

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OPS EMPLOYEE AND PENSIONER BENEFITS

ISSUE

The OPS Employee and Pensioner Benefits expense of \$1,163M for 2016-17 is expected to be line with what was projected in 2016 budget. The OPS Employee and Pensioner Benefits expense forecast of \$1,208M for 2017-18 is projected to increase by \$148M compared to the \$1,060M that was forecasted in the 2016 Budget.

The 2017-18 OPS Employee and Pensioner Benefits expense of \$1,208M is expected to increase by \$45M compared to the 2016-17 expense forecast of \$1,163M.

Compared to the 2015-16 actual expense of \$987M, the OPS Employee and Pensioner Benefits expense is expected to increase by \$176M to \$1,163M in 2016-17.

Reference: Chapter VI, Section B, Table 6.15 Total Expense

KEY FACTS

- The OPS Employee and Pensioner Benefits expense is primarily comprised of the annual expenses associated with the Public Service Pension Plan, OPSEU Pension Plan, non-pension retirement benefits, post-employment benefits and other benefits. The overall change in the total expense is attributed to the following components:
 - Public Service Pension Plan (PSPP)
 - 2016-17 interim expense forecast is higher than the 2016 Budget mainly as a result of higher than expected salary increases for some members of the PSPP resulting in higher than expected costs through the supplementary pension plan.
 - The 2017-18 expense forecast is higher than forecasted in the 2016 Budget mainly as a result of a reduction in the discount rate and higher interest expense on the resulting plan obligations. Other contributing factors to higher forecasted expenses for 2017-18 were lower than expected employee contributions due to lower increase in active members in 2016 -17 than forecasted. Increases in forecasted expenses were partially off-set by a reduction in service costs due to the lower than expected increases in active members to the plan and a reduction in the plan's long-term salary growth assumption.
 - OPSEU Pension Plan
 - The 2016-17 interim pension expense is in line with the 2016 Budget forecast.
 - Both a reduction in the discount rate and lower than expected actual 2016 investment returns on plan asset contributed to 2017-18 expense forecast being higher than forecasted in 2016 budget. In addition this also contributed to the increase in forecasted expense by \$15M from 2016-17 to 2017-18.
 - The forecasted 2016-17 interim expense is expected to decrease by \$46M from 2015-16 actuals, as a result of the amortization of previously unrecognized investment gains.
 - Non-Pension Retirement Benefits, Post-Employment Benefits and Other Benefits
 - Updated benefit claim assumptions for employees currently on Long-Term Income Protection (LTIP), and revised calculations of pension liability of the small pension plans held in the consolidated revenue fund both contributed to higher expense for Post-Employment and Other Benefits for the interim and plan years compared to 2016 Budget.
 - The Other Retirement benefits expense for the interim and plan years have been updated for the most recent Ontario Provincial Police Association (OPPA) funding agreement. This resulted in the 2017 Budget forecast to be lower than 2016 Budget forecast.

2015-16 Actuals include one time savings from plan change for OPSEU employees to cap termination pay accrued up to December 31, 2016 and changes to the OPSEU LTIP benefits.

FISCAL IMPLICATIONs

Employee and Pensioner Benefits				
	(\$ Millions)			
	Actual 2014-15	Actual 2015-16	Interim 2016-17	Plan 2017-18
2017 Public Service Pension Plan	568	519	545	581
2017 OPSEU Pension Plan	219	177	131	146
2017 Other Non-Pension Retirement Benefits	319	393	283	312
2017 Post-Employment and Other Benefits	80	(102)	204	169
2017 Budget	1,186	987	1,163	1,208
2016 Public Service Pension Plan			517	440
2016 OPSEU Pension Plan			135	98
2016 Other Non-Pension Retirement Benefits			350	358
2016 Post-Employment and Other Benefits			151	164
2016 Budget			1,153	1,060
Increase in Public Service Pension Plan			28	141
(Decrease)/Increase in OPSEU Pension Plan			(4)	48
Decrease Other Non-Pension Retirement Benefits			(67)	(46)
Increase in Post-Employment Benefits			53	5
Increase in Fiscal Plan			10	148

BACKGROUND

The OPS Employee and Pensioner Benefits expense includes Public Service Pension Plan (PSPP) expense, OPSEU Pension Plan expense, and other non-pension retirement benefits expense (dental, basic life insurance, supplementary health and hospital benefits for retired employees), post-employment benefits (LTIP, WSIB, Legislated Severances) and other benefits (i.e. small pension plans held in consolidated revenue fund).

Expenses reported in both the Province's Consolidated Financial Statements and the Budget are determined consistently in accordance with recommendations of the Public Sector Accounting Standards (PSAS) of the Chartered Professional Accountants of Canada (CPA).

The PSAS basis for calculating pension and non-pension retirement benefits expense reflects the government's share of the cost of retirement benefits earned by employees during the year with adjustments to reflect the government's share of gains or losses experienced by the plan, interest on the net retirement benefits liability or surplus, one-time cost of plan amendments made during the year and other applicable adjustments.

The employer's cash contribution to a retirement benefit plan (i.e. pension and non-pension retirement plan) in a particular period does not represent retirement benefits expense on a PSAS basis. This contribution is calculated through an actuarial valuation for funding purposes and ensures that a retirement benefits plan has sufficient money to pay for its obligations when they become due.

Under the Province's accounting policies, any actuarial gains or losses in a given calendar year are reflected in pension expense over the expected average remaining service life of the employees (10.8 years for PSPP and 12.5 years for OPSEU) starting in the subsequent fiscal year.

OPSEU Pension Plan is currently reporting a net pension asset position (i.e. since 2001-02). A net pension asset arises when the government's total contributions to a plan, including income earned thereon, are greater than the cumulative retirement benefit expense recognized since the start of the plan. The government records the pension net asset to the extent the government expects to benefit from the asset through future reductions in contributions to the plan.

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TEACHERS' PENSION PLAN (TPP)

ISSUE

The Teachers' Pension Plan (TPP) income (i.e. negative expense) is expected to increase by \$29M from forecasted \$502M in 2016-17 to \$531M in 2017-18.

The TPP income forecast of \$531M in 2017-18 is projected to decrease by \$289M compared to the \$820M income forecasted in 2016 Budget.

TPP income for 2016-17 of \$502M is expected to increase by \$50M compared to \$452M forecasted of in the 2016 Budget.

TPP is expected to report net income of \$502M (i.e. negative expense) in 2016-17, compared to the actual 2015-16 TPP expense of \$110M, a change of \$612M year over year.

Reference: Chapter VI, Section B, Table 6.15 Total Expense

KEY FACTS

- The Teachers' Pension Plan (TPP) has experienced favourable investment returns in the past several years (i.e. 2009 to 2015).
- The expected income on the excess of the assets in the plan over the present value of the obligations to the employees, and the cumulative effect of the investment gains earned from prior years (i.e. 2009-2015) is more than sufficient to offset the Province's share of the cost of pension benefits that were earned by Plan members in 2017-18. This has resulted in income (i.e. negative pension expense) forecasted for 2017-18.
- The TPP income forecast for 2017-18 has decreased compared to what was initially forecast in the 2016 Budget. This is primarily due reduction in the discount rate, and lower than expected market returns on pension fund assets in calendar 2016. The decrease is partially offset by lower salary escalation expectation, as well as lower than expected inflation.
- The TPP income forecast for 2016-17 has increased by \$50M compared to the income forecast in the 2016 Budget due to a lower than expected rate of growth in active members.
- The projected change of \$612M, from 2015-16 actual expense of \$110M compared to 2016-17 projected income of \$502M is due to increased recognition of investment gains on fund assets earned from 2009 to 2015.

BACKGROUND

Teachers' Pension Plan Expense/(Income)				
	(\$ Millions)			
	Actual 2014-15	Actual 2015-16	Interim 2016-17	Plan 2017-18
2016 Budget	564	110	(502)	(531)
2015 Budget			(452)	(820)
Increase/(Decrease) in Fiscal Plan			(50)	289

Pension expenses reported in both the Province's consolidated financial statements and the Budget are determined in accordance with the Public Sector Accounting Standards (PSAS) of the Chartered Professional Accountants of Canada (CPA).

PSAS based calculations of pension expense reflects the government's share of the annual cost of pension benefits earned by employees during the year with adjustments for the government's share of gains or losses experienced by the plan, interest on the net pension liability or surplus, one-time cost of plan amendments made during the year and other applicable adjustments.

The employer's cash contribution to a pension plan in a particular period does not represent pension expense for financial reporting purposes. Rather, contributions are calculated based on actuarial valuations conducted for funding purposes which are intended to ensure that a pension plan has sufficient money to pay for its obligations when they become due.

Under the Province's accounting policies, any actuarial gains or losses in a given calendar year are reflected in pension expense over the expected average remaining service life of the employees (15.2 years) starting in the subsequent fiscal year.

Teachers' Pension Plan (TPP) is currently reporting in a net pension asset position (i.e. since 2001-02). A net pension asset arises when the government's total contributions to a plan, including income earned thereon, are greater than the cumulative retirement benefit expense recognized since the start of the plan. The government records the pension net asset to the extent the government expects to benefit from the asset through future reductions in contributions to the plan.

Year-over-Year Increases Over Outlook Period

TPP expense decreased by \$454M from \$564M in 2014-15 to \$110M in 2015-16 mainly due to increased recognition of investment gains earned on the fund assets from 2009 to 2014.

The projected change of \$612M, from 2015-16 actual expense of \$110M compared to 2016-17 projected income of \$502M is mainly due to greater recognition of investment gains earned from 2009 to 2015, a revised lower salary escalation expectation, as well as lower than expected inflation. This decrease is partially offset by reduction in discount rate in 2015-16.

The 2017-18 TPP income is projected to further increase compared to 2016-17 projected income. This is mainly due to greater recognition of investment gains earned from 2009 to 2015, lower salary escalation expectation and lower than expected inflation. The increases is partially offset by impacts of a further reduction in discount rate for 2016-17 and lower than expected market returns on plan assets in 2016.

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Reviewed by: Bharat Patel, Manager, and Nadine Petsche, Director

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CHAPTER VI: RESPONSIBLE FISCAL MANAGEMENT

Section C: Strengthening Ontario's Property Tax and Assessment System

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BORROWING AND DEBT MANAGEMENT

ISSUE

Ontario's borrowing program and debt forecast.

Reference: Chapter VI, Section C, Borrowing and Debt Management

KEY FACTS

- Long-term public borrowing for 2017–18 is projected to be \$26.4 billion, a decrease of \$0.6 billion from the \$27.0 billion borrowing requirement for 2016–17.
- Ontario remains committed to the Green Bond market, and expects to continue to access it on an annual basis. The Province issued its third Green Bond in January 2017.
- Net debt is projected to be \$301.9 billion in 2016–17, \$6.4 billion lower than the forecast in the 2016 Budget.
- Ontario's net debt-to-GDP ratio peaked in 2014–15 at 39.1 per cent and has trended downwards since then, now forecast at 37.8 per cent in 2016–17. This ratio is forecast to continue to decline to 37.5 per cent in 2017–18, 37.3 per cent in 2018–19 and 37.2 per cent in 2019–20.
- The government is projecting an interim net debt-to-GDP ratio target of 35 per cent by 2023–24 and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.
- The interest on debt (IOD) expense for 2016–17 is forecast to be \$11,250 million, \$506 million lower-than-forecast in the 2016 Budget, primarily as a result of lower-than-forecast interest rates and effective debt management.

BACKGROUND

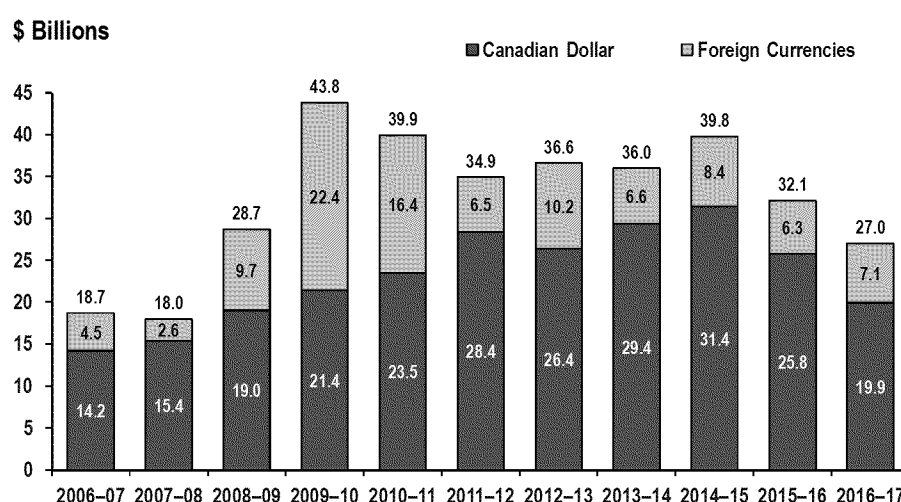
Long-Term Public Borrowing

The Province's total long-term borrowing in 2017–18 is forecast to be \$26.4 billion, \$0.6 billion lower than the amount borrowed in 2016–17.

The Province successfully completed its annual borrowing program in 2016–17, borrowing \$27.0 billion. This is up from the \$26.4 billion forecast in the *2016 Budget*, as the Province capitalized on the continuing low interest rate environment and strong demand for Ontario bonds to prefund \$3.2 billion of the 2017–18 requirement.

Approximately 74 per cent or \$19.9 billion of 2016–17's borrowing was completed in Canadian dollars. While this percentage is lower than the 81 per cent of 2015–16's borrowing in Canadian dollars, it remains roughly in line with the target to complete at least 75 per cent in the Canadian dollar market. Given the strength of demand Ontario has continued to experience in the Canadian-dollar market, the Province will maintain its Canadian-dollar borrowing target of at least 75 per cent in 2017–18.

Canadian Dollar and Foreign Currency Borrowing

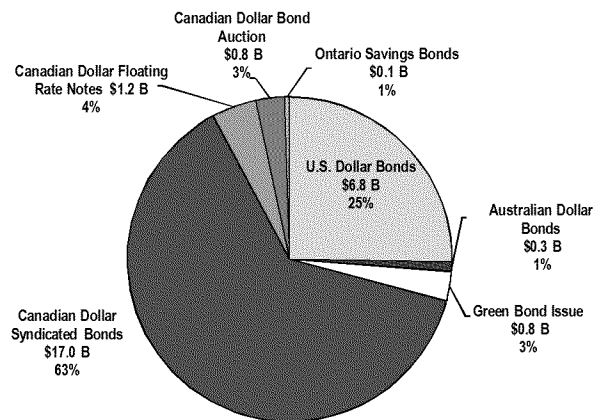


Note: Numbers may not add due to rounding.
Source: Ontario Financing Authority.

Canadian-dollar borrowing was completed primarily through syndicated issues, but also included floating rate notes, a bond auction, Ontario Savings Bonds and an \$800 million Green Bond issue. Foreign currency borrowing was completed through issues in U.S. dollars, Euros and Australian dollars.

2016–17 Borrowing

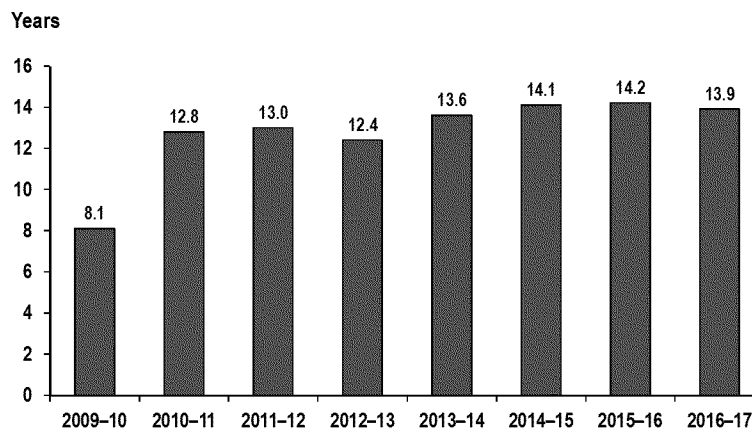
\$27.0 Billion Issued



Note: Numbers may not add due to rounding.
Source: Ontario Financing Authority.

Since the beginning of fiscal year 2010–11, Ontario has issued \$63.0 billion of bonds with terms of longer than 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term Provincial debt issued has been extended significantly, from 8.1 years in 2009–10 to 13.9 years in 2016–17.

Weighted-Average Term of Borrowing in Years



Source: Ontario Financing Authority.

Borrowing Program and Medium-Term Outlook (\$ Billions)

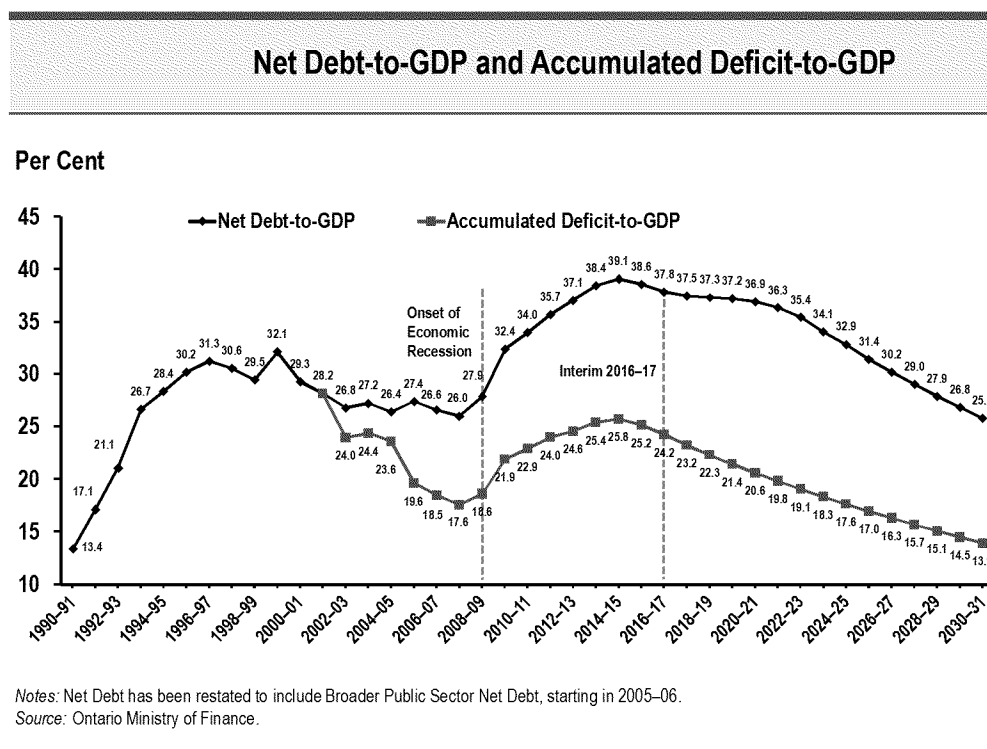
	2016–17			2017–18	2018–19	2019–20
	<i>2016 Budget</i>	Interim	In-Year Change			
Deficit/(Surplus)	4.3	1.5	(2.8)	0.0	0.0	0.0
Investment in Capital Assets	11.2	8.9	(2.2)	13.1	15.4	17.1
Non-Cash Adjustments	(5.8)	(4.8)	1.0	(6.7)	(6.9)	(7.1)
Loans to Infrastructure Ontario	–	–	–	0.4	0.5	0.6
Other Net Loans/Investments	(0.9)	(1.0)	(0.1)	(0.8)	1.4	0.6
Debt Maturities	21.5	20.9	(0.5)	17.5	21.8	27.4
Debt Redemptions	0.1	0.1	0.0	0.1	0.1	0.1
Total Funding Requirement	30.3	25.6	(4.6)	23.7	32.3	38.7
Canada Pension Plan Borrowing	(0.1)	(0.1)	–	–	–	(0.9)
Decrease/(Increase) in Short-Term Borrowing	(1.0)	–	1.0	–	–	–
Increase/(Decrease) in Cash and Cash Equivalents	(2.7)	0.3	3.0	6.0	–	–
Preborrowing from 2015–16	–	(2.0)	(2.0)	–	–	–
Preborrowing in 2016–17 for 2017–18	–	3.2	3.2	(3.2)	–	–
Total Long-Term Public Borrowing	26.4	27.0	0.6	26.4	32.2	37.8
<i>Note: Numbers may not add due to rounding.</i>						

The Province plans to borrow \$96.5 billion over the three-year period in the medium-term borrowing outlook, up from the forecast \$78.5 billion over the three-year period contained in the *2016 Budget*. This \$18.1 billion increase in borrowing reflects the impact of the higher debt maturities, higher investments in capital assets and the need for higher cash reserves.

Net Debt-to-GDP

Ontario's net debt is the difference between total liabilities and total financial assets. It is projected to be \$301.9 billion as at March 31, 2017, down from the net debt projection of \$308.3 billion forecast in the *2016 Budget*. Accumulated deficit is projected to be \$193.5 billion as at March 31, 2017, compared to \$197.8 billion forecast in the *2016 Budget*. The projected difference of \$108.4 billion between net debt and accumulated deficit is due to the Province's consistent level of investment in infrastructure, as shown by the increase in tangible capital assets.

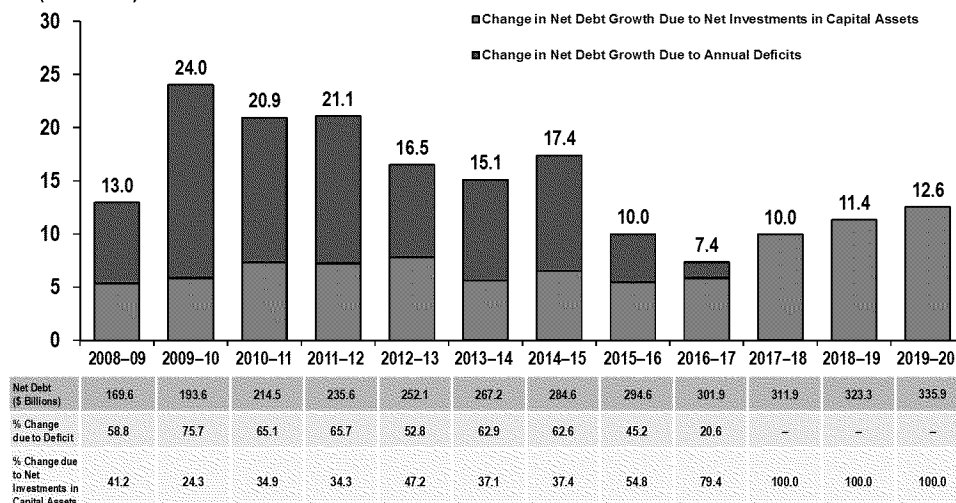
Ontario's net debt-to-GDP ratio peaked in 2014–15 at 39.1 per cent and has trended downwards since then, now forecast at 37.8 per cent in 2016–17, well below the forecast of 39.6 per cent for 2016–17 contained in the 2016 Budget. This ratio is forecast to continue to decline to 37.5 per cent in 2017–18, 37.3 per cent in 2018–19 and 37.2 per cent in 2019–20. The government is projecting an interim net debt-to-GDP ratio target of 35 per cent by 2023–24 and continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent, currently projected to be achieved by 2029–30.



About 61 per cent of the increase in net debt from 2008–09 to 2016–17 is due to the deficit, with net investments in capital assets responsible for the balance. The balanced budget from 2017–18 onwards will ensure that the increase in net debt is limited to the difference between investments in capital assets less amortization which is a non-cash expense and as such does not represent cash outflows.

Factors for Growth in Net Debt

Change in Net Debt from Previous Year
(\$ Billions)



Source: Ontario Financing Authority.

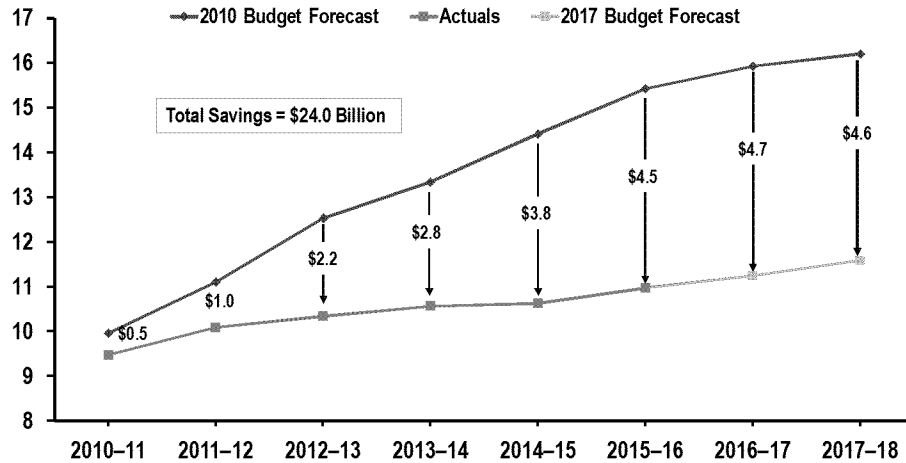
Interest on Debt Savings and Affordability

Interest on debt (IOD) expense is projected to be \$11,250 million for 2016–17, which is \$506 million lower than forecast in the *2016 Budget*, reflecting lower-than-forecast interest rates, the lower forecast deficit for 2016–17 and cost-effective debt management. IOD expense is forecast to be \$11,581 million in 2017–18 and \$12,035 million in 2018–19, \$872 million and \$1,072 million lower than forecast in the *2016 Budget*, respectively.

These savings continue a trend that has been in place since 2010, through a combination of lower deficits and borrowing requirements, and lower-than-forecast interest rates. Interest on debt savings over the period to balance now total \$24.0 billion relative to the *2010 Budget* forecast.

Interest on Debt: Budget Forecast versus Actual

\$ Billions



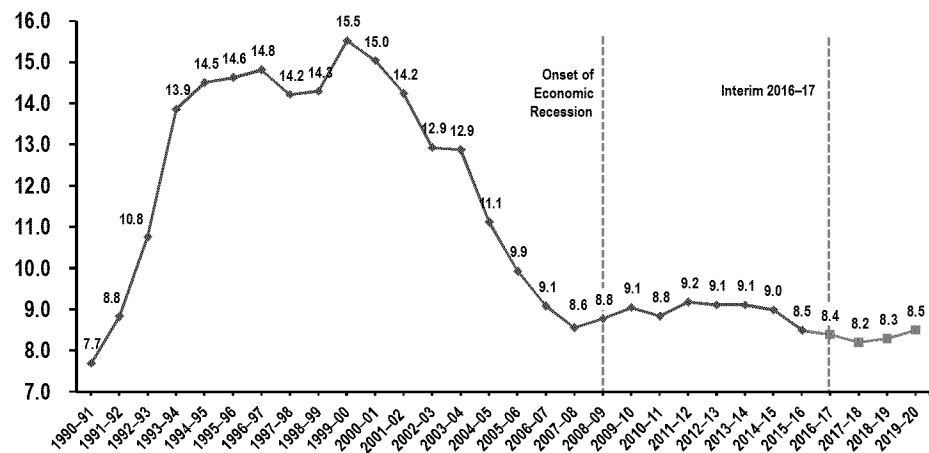
Note: Numbers may not add due to rounding.

Source: Ontario Financing Authority.

The 2010 Budget forecasted that, by 2017–18, the Province would have to spend 11.3 cents of every revenue dollar received on interest. The current forecast is 3.1 cents lower, at 8.2 cents of interest costs for every dollar of revenue. This ratio is lower than it has been for the past 25 years, and is forecast to remain low through the outlook period to 2019–20.

Interest on Debt-to-Revenue Ratio

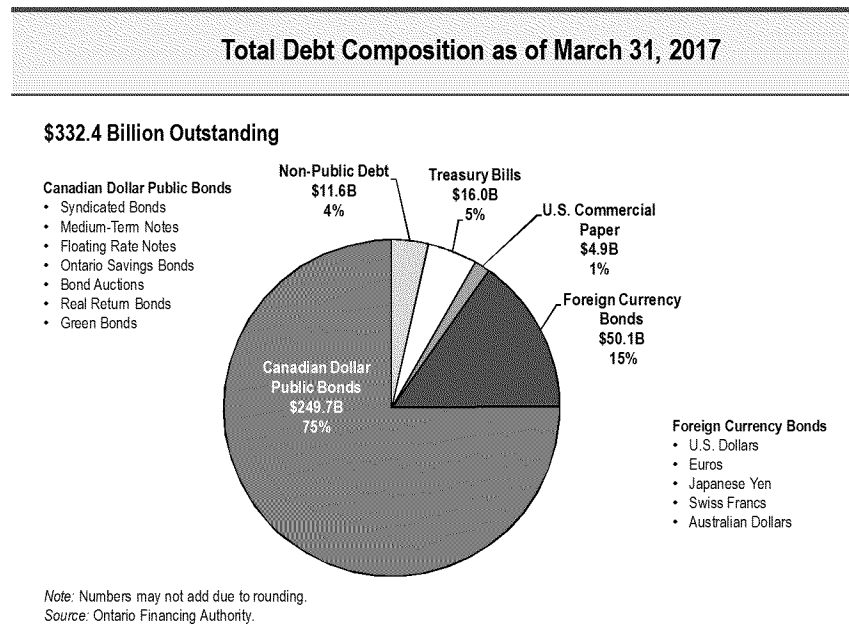
Per Cent



Source: Ontario Financing Authority.

Total Debt

Total debt, which represents all borrowing without offsetting financial assets, is projected to be \$332.4 billion as at March 31, 2017, compared to \$327.4 billion as at March 31, 2016.



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ONTARIO'S CREDIT RATINGS

ISSUE

Status of Ontario's credit ratings

Reference: Chapter VI, Section C, Borrowing and Debt Management

KEY FACTS

- Ontario's long-term credit ratings are:
 - Moody's: Aa2, negative outlook removed on April 26, 2016
 - Standard & Poor's: A+, confirmed on June 1, 2016
 - DBRS: AA (low), confirmed on May 20, 2016
 - Fitch: AA-, confirmed on June 22, 2016

BACKGROUND

The OFA maintains close relationships and ongoing dialogue with credit rating agencies throughout the year to keep them apprised of the government's financial status, policies and initiatives, and to ensure these are accurately reflected in the agencies' ratings and reports. Ontario maintains a double A rating with three of the four agencies. Moody's upgrade of Ontario's credit rating outlook last April reflects their confidence in our government's fiscal plan.

Moody's notes that Ontario's debt burden and debt service costs will remain manageable due to low interest rates, as well as the province's improving fiscal position and conservative debt management policy. The decision to borrow for infrastructure at a time of historically low interest rates has helped to support the province's Aa2 rating.

S&P believes that Ontario's credit profile is strengthening however, they will need to see a track record of consistent operating surpluses and balanced or near-balanced after-capital results coupled with continuing declines in direct and tax-supported debt burdens before they consider a positive rating action on the province.

DBRS believes that continued progress towards restoring fiscal balance and a large, well-diversified economy with an improving, growth outlook support a stable outlook.

Fitch notes that the province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes as necessary to achieve its deficit reduction objectives. Ontario's 'AA-' rating is supported by its wealthy, diversified economy and generally sound financial management.

Ontario's Long-Term Credit Rating History 1990 - Present

Year	S&P	Moody's	DBRS	Fitch
2016	A+	Aa2	AA (low)	AA-
2015	A+	Aa2 (N)	AA (low)	AA-
2014	AA- (N)	Aa2 (N)	AA(low)	AA-
2013	AA- (N)	Aa2	AA(low)	AA (N)
2012	AA- (N)	Aa2	AA (low)	AA (N)
2011	AA-	Aa1 (N)	AA (low)	AA (N)
2010	AA-	Aa1	AA (low)	AA
2009	AA-	Aa1	AA (low)	AA
2008	AA	Aa1	AA	AA
2007	AA	Aa1	AA	AA
2006	AA	Aa1	AA	
2005	AA	Aa2	AA	
2004	AA	Aa2	AA (N)	
2003	AA	Aa2	AA	
2002	AA	Aa2	AA	
2001	AA	Aa3 (P)	AA	
2000	AA- (P)	Aa3	AA(low) (P)	
1999	AA-	Aa3	AA(low)	
1998	AA-	Aa3	A(high)	
1997	AA-	Aa3	A(high)	
1996	AA-	Aa3	A(high)	
1995	AA-	Aa3	A(high)	
1994	AA-	Aa3	A(high)	
1993	AA-	Aa2	A(high)	
1992	AA (N)	Aa2	AA(low) (CW-N)	
1991	AA+ (N)	Aa2	AA(low)	
1990	AAA	Aaa	AA	

Prepared by: David Cross (5-8126) / Bonnie Lemcke (5-8170)
Branch: Ontario Financing Authority, Risk Control Division

ELECTRICITY SECTOR UNFUNDED LIABILITY/ STRANDED DEBT

ISSUE

The preliminary estimates for the *Ontario Electricity Financial Corporation* (OEFC) is a revenue over expense of \$0.9 billion in 2016-17, reducing the OEFC's unfunded liability from \$4.4 billion as at March 31, 2016, to an estimate of approximately \$3.5 billion as of March 31, 2017.

Reference: Chapter VI, Section C: Reducing Ontario's Electricity Sector Stranded Debt

KEY FACTS

- The electricity sector reforms in the *Electricity Restructuring Act, 2004*, and others, have put the unfunded liability recovery plan back on track.
- The unfunded liability is projected at \$3.5 billion as at March 31, 2017, a decrease of about \$0.9 billion from March 31, 2016. This would be the thirteenth consecutive annual decline in the unfunded liability and \$16 billion below the \$19.4 billion level as at April 1, 1999, based on interim estimates.
- The larger than usual decline in the unfunded liability in the previous year, 2015-16, of \$3.7 billion, was mainly due to the impact on OEFC of the broadening of ownership of Hydro One:
 - This resulted in Hydro One paying a departure tax of \$2.6 billion to OEFC as a consequence of leaving the PILs regime. Hydro One also paid one-time additional PILs of \$191 million associated with the transaction. These payments were fully offset as they were Hydro One expenses and therefore, reduced Hydro One net income. The Province's revenue from Hydro One net income was, however, boosted by a deferred tax benefit impact on the Province of \$2.4 billion.
- As a result of the Hydro One IPO, Hydro One and all its subsidiaries are subject to corporate income taxes (CIT). Under the amendments made to the *Electricity Act, 1998* in the fall *Budget Measures Act, 2015*, the Minister of Finance must pay the OEFC an amount equal to provincial tax payable under the *Taxation Act, 2007* by Hydro One Inc., to continue to help service and pay down the electricity sector unfunded liability.
 - This Hydro One CIT amount was \$3 million in 2015-16.
- In accordance with section 50.3 of the *Electricity Act, 1998*, OEFC also recognized a financial benefit from the Province of \$172 million in connection with the Province's disposition of Hydro One common shares in the year ended March 31, 2016.

- In addition, OEFC will receive a financial benefit related to the secondary offering of Hydro One shares in accordance with section 50.3 of the Electricity Act, 1998. This financial benefit will contribute to paying down stranded debt.
- Electricity Sector Dedicated Income (ESDI) is an OEFC revenue reflecting the Province's share of the combined net incomes from OPG and Hydro One in excess of the Province's interest cost in the investment in the two companies. ESDI will decline insofar as the Province broadens ownership of Hydro One and, thereby, receives a reduced share of Hydro One net income. This will be partially offset as the Province's interest cost in the investment also declines with the reduced investment in Hydro One.
- The government expects that the unfunded liability will continue to decline following the broadening of ownership of Hydro One, as well as the end of the Debt Retirement Charge.

BACKGROUND

OEFC Unfunded Liability / Stranded Debt

The Ontario Electricity Financial Corporation (OEFC) is one of five entities established by the *Electricity Act, 1998*, as part of the restructuring of the former Ontario Hydro (Ontario Power Generation (OPG), Hydro One, Independent Electricity System Operator (IESO), Electrical Safety Authority, and OEFC). OEFC's mandate includes servicing and retiring the debt and other liabilities of the former Ontario Hydro.

OEFC inherited \$38.1 billion in total debt and other liabilities from the former Ontario Hydro when the Ontario electricity sector was restructured on April 1, 1999. A portion of the \$38.1 billion was supported by the value of the assets of Ontario Hydro successor companies, leaving \$20.9 billion of stranded debt not supported by those assets.

The following table shows the unfunded liability (or "stranded debt") of OEFC since the opening amount of \$19.4 billion on April 1, 1999. OEFC's initial unfunded liability of \$19.4 billion as at April 1, 1999, was the stranded debt adjusted for \$1.5 billion of additional assets, including primarily an accounting asset for deferred debt charges.

The increase in stranded debt up to 2004 was primarily a result of the 4.3 cents per kilowatt-hour (¢/kWh) electricity price freeze, which cost about \$900 million in total over 2002-03 and 2003-04.

At March 31 (\$M unless noted)	Apr 1, 1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Unfunded Liability	\$19,433	\$20,034	\$20,016	\$20,085	\$20,183	\$20,550	\$20,363	\$19,293	\$18,289	\$17,225
Increase / (Decrease)		\$601	(\$18)	\$69	\$98	\$367	(\$187)	(\$1,070)	(\$1,004)	(\$1,064)
At March 31 (\$M unless noted)	2009	2010	2011	2012	2013	2014 Restated	2015 Restated	2016	2017 Interim	
Unfunded Liability	\$16,182	\$14,810	\$13,448	\$12,321	\$11,257	\$9,706	\$8,098	\$4,393	\$3.5B	
Increase / (Decrease)	(\$1,043)	(\$1,372)	(\$1,362)	(\$1,127)	(\$1,064)	(\$1,551)	(\$1,608)	(\$3,705)	(\$0.9B)*	

* In addition, OEFC will receive a financial benefit related to the secondary offering of Hydro One shares in accordance with section 50.3 of the *Electricity Act, 1998*. This financial benefit will contribute to paying down stranded debt.

Prudent Management of Electricity Sector Debt

Prior to the amendments in the fall 2015 *Budget Measures Act*, under the *Electricity Act*, the residual stranded debt was defined as the stranded debt minus the present value of projected future payments in-lieu of taxes (PILs), Gross Revenue Charge (GRC) and electricity sector dedicated income to be paid to OEFC.

On May 15, 2012, the government filed Ontario Regulation 89/12, as provided for at the time under the *Electricity Act, 1998* on the determination of the residual stranded debt, consistent with the recommendations of the Auditor General in his 2011 Annual Report that the residual stranded debt be determined in the near future.

The *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* and effective December 10, 2015, all reference to the “stranded debt” and “residual stranded debt”, including regulation-making authority of Ontario Regulation 89/12, were repealed. This included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete. On February 11, 2016, the government filed Ontario Regulation 20/16 revoking Ontario Regulation 89/12.

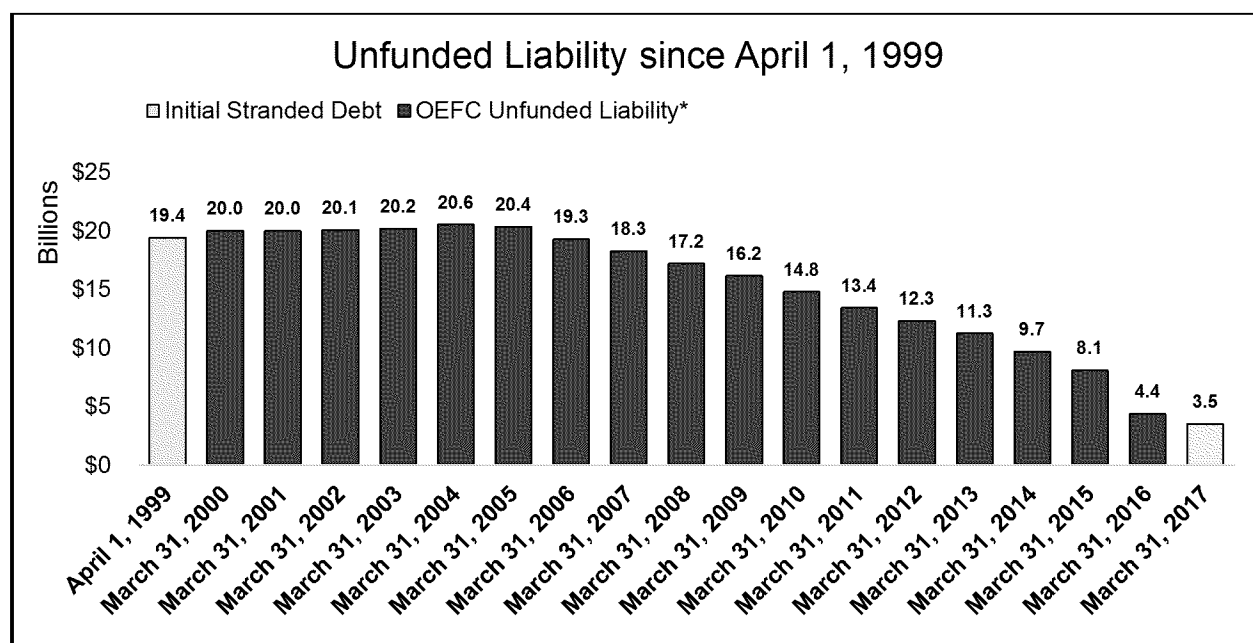
As reported in the *2015 Ontario Economic Outlook and Fiscal Review*, the residual stranded debt has been estimated to be \$2.2 billion as at March 31, 2015. This is a decrease of about \$0.4 billion compared to residual stranded debt of \$2.6 billion as at March 31, 2014, and is also a total estimated decrease of \$9.7 billion from an estimated peak of residual stranded debt of \$11.9 billion as at March 31, 2004. Residual stranded debt was originally reported as \$7.8 billion as at April 1, 1999.

Residual stranded debt is estimated to have increased to a peak of \$11.9 billion as at March 31, 2004, primarily due to the impact on stranded debt of the electricity price freeze, the downward revision in 2004 of the previous overestimation of future financial performance of OPG which lowered the estimated future dedicated revenues to OEFC

from the sector, and lower tax rates. OPG had significantly underperformed compared to its plans over the previous period of 1999 to 2004.

The Auditor General's 2012 and 2013 Annual Reports noted that the Auditor was pleased to see an increased level of transparency with respect to public reporting on the residual stranded debt. The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999-2000 financial statements.

The following chart illustrates the path of the unfunded liability from April 1, 1999, to March 31, 2017:



*OEFC's unfunded liability as at April 1, 1999, was \$19.4 billion, which is the initial stranded debt of \$20.9 adjusted for \$1.5 billion of additional OEFC assets as of that date, including primarily an accounting asset for deferred debt charges. March 31, 2017 unfunded liability is an interim estimate.

End of the DRC

As originally enacted, the *Electricity Act, 1998*, previously allowed for the Debt Retirement Charge (DRC) to be paid until the Minister of Finance determines that the residual stranded debt is retired.

The residual stranded debt determination was not a one-time determination. It was based on actual financial performance to-date and forecasting future OEFC results and future dedicated revenues to OEFC, which was subject to uncertainty and depended on the future financial performance of Ontario Power Generation, Hydro One and municipal

electricity utilities, as well as other factors such as interest rates and electricity consumption.

As part of its commitment to reduce electricity cost pressures, the government has removed the DRC cost from residential users' electricity bills as January 1, 2016. This would save a typical residential user about \$70 per year and would mean ending the DRC earlier for these users than otherwise provided for in the *Electricity Act, 1988*.

As a further step to mitigate electricity cost pressures for non-residential users, the government introduced legislation, the *Budget Measures Act, 2015*, passed in December 2015, and the DRC for all other users will end on April 1, 2018, nine months earlier than previously estimated. Ending the DRC on a legislated fixed date will provide certainty to commercial, industrial and other users, and helps them plan their investment decisions more effectively. The estimated timing for stranded debt retirement is subject to uncertainty in forecasting future OEFC results and dedicated revenues to OEFC, which depend on the financial performance of OPG, Hydro One, and municipal electricity utilities (MEUs), as well as other factors such as interest rates and electricity consumption.

Impact of Broadening of Hydro One Ownership on Stranded Debt

The government recognizes its commitment to electricity ratepayers under section 50.3 of the *Electricity Act, 1998*, and has taken steps to clarify and ensure that the benefits of selling shares in Hydro One are recognized by OEFC to contribute to the continuing reduction of its unfunded liability.

- Under section 50.3 of the *Electricity Act*, OEFC recognized a financial benefit of \$172 million, in 2015-16, equivalent to the proceeds of sale net of the acquisition cost of the shares, transactions costs, other obligations of the Crown, and amounts in respect of Hydro One already dedicated to OEFC.
- On December 10, 2015, the *Budget Measures Act, 2015*, was passed, directing to OEFC Hydro One Inc.'s provincial corporate income taxes under the *Taxation Act, 2007*.

Broadening Hydro One ownership could affect the future changes in stranded debt through the impact of 1) the upfront net proceeds to OEFC resulting from the sale and 2) the subsequent loss of future dedicated revenues, which include corporate income taxes from Hydro One and in respect of a portion of Hydro One's net income.

- The government expects that the stranded debt will continue to decline following the broadening of ownership of Hydro One, as well as the end of the DRC.

OEFC Dedicated Revenues

OEFC is the legal continuation of the former Ontario Hydro with a mandate to service and retire the former Ontario Hydro's debt and certain other liabilities. The government

has a long-term plan in place to retire OEFC's obligation from sources within the electricity sector, including the following:

Notes Receivable: OEFC receives principal and interest payments on notes from OPG, the Independent Electricity System Operator (IESO), and the Province. (Hydro One no longer owes any notes to OEFC.)

PILs: OEFC receives PILs from OPG, Hydro One and MEUs.

On December 10, 2015, the *Budget Measures Act, 2015*, was passed, which direct Hydro One Inc.'s provincial corporate income taxes payable under the *Taxation Act, 2007* to OEFC to continue to service and pay down the stranded debt.

GRC: OEFC receives a portion of the GRC that replaced property tax PILs on hydroelectric generating stations that are or were owned by OPG or MEUs. The GRC replaced existing property tax PILs for these facilities effective January 1, 2001.

DRC: OEFC receives revenue from the DRC of 0.7 ¢/kWh levied on the consumption of electricity.

Electricity Sector Dedicated Income: The Province has committed to direct the income it earns from OPG and Hydro One, on a total cumulative basis, in excess of the interest cost of its investment in those companies (approximately \$520 million annually, prior to the Hydro One Initial Public Offering and secondary offering) to managing and retiring OEFC's debt and other liabilities.

OEFC's results are fully consolidated on a line-by-line basis into the Province's accounts.

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CHAPTER VII: FAIR AND SUSTAINABLE TAX SYSTEM

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SUPPORTING SMOKE-FREE ONTARIO

ISSUE

Increases to tobacco tax rates as part of the 2017 Budget.

Reference: Chapter VII, Section B

KEY FACTS

- Budget 2017 will announce that tobacco taxes will increase by \$10 per carton of cigarettes over the course of three years, beginning with a \$2 per carton increase effective 12:01am, April 28, 2017.
 - Equivalent tax rate increases will be made to fine cut tobacco and other tobacco products.
- This rate change is equal to an increase of one cent per cigarette or gram of tobacco products, from 15.475 cents to 16.475 cents.
 - In 2018, tobacco tax rates will be increased by an additional two cents (or \$4 per carton), effective the day after the Budget. In 2019, the same will occur.
- The current tax rate on cigars will not change.
- By 2019, tobacco taxes in Ontario will then be \$40.95 per carton of 200 cigarettes, which will be closer to, but will remain below the current national average provincial tobacco tax rate of \$48.81 per carton.
- This approach will replace the inflation-based tax increases that were announced in the 2016 Budget.

BACKGROUND

Tobacco taxes are a proven method of supporting smoking cessation and prevention efforts, and are a key tool that supports the Smoke-Free Ontario Strategy, and its goal of reducing the incidence of smoking in the province.

Tobacco Tax Rate Increases

To support the Smoke-Free Ontario Strategy, effective 12:01 a.m. on April 28, 2017, Ontario's tobacco tax will increase from 15.475 cents to 16.475 cents per cigarette and per gram of tobacco product other than cigarettes and cigars. This change is equal to a \$2.00 increase per carton of 200 cigarettes.

This increase will be followed by further tobacco tax increases of \$4.00 per carton of 200 cigarettes in 2018, and another \$4.00 per carton of 200 cigarettes in 2019.

These increases will help support smoking cessation efforts under the strategy, leading towards meeting the Province's goal of having the lowest smoking rate in Canada, as generally, higher cigarette prices discourage smoking.

Ontario's tobacco tax rate on cigarettes is currently the second lowest provincial rate in Canada. Despite these tax increases Ontario's rate will remain the second lowest (See Appendix A).

Wholesalers currently not designated as collectors for the Ministry will be required to take an inventory of their existing tax-paid stock, and remit to the Ministry the additional amount reflective of the new tobacco tax rate.

- Wholesalers designated as tax collectors for the Ministry are not required to take an inventory of their stock, as the old tax rate will not have been previously paid, and therefore the new tax rate will be collected on this inventory when sold.

Retailers are also not required to take an inventory of their existing tax paid product.

These tax increases will replace the previously planned inflation-based tax increases as announced in the 2016 Budget.

Revenue Estimations

It is estimated that the rate increases will generate the following incremental new revenues:

- 2017/18: \$40M
- 2018/19: \$135M
- 2019/20: \$215M

MOF will closely monitor the actual revenue impacts of the rate increases, given the challenging factors of the large contraband tobacco market in Ontario, as well as consumer switching to other products such as e-cigarettes.

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Appendix A: Tobacco Tax Rates in Canada

	Cigarettes (per 200)	Fine-cut (per gram)	Cigars (per cigar)
Federal excise duty	\$21.56	13.475¢	The greater of: \$0.08434 per cigar and 84% of the sale price
North West Territories	\$60.80	27.200¢	75% of retail price
Nunavut	\$60.00	40.000¢	75% of retail price
Manitoba	\$59.00	28.500¢	75% retail selling price to \$5.00 max
Nova Scotia	\$55.04	26.000¢	60% of suggested retail price
Saskatchewan	\$54.00	27.000¢	100% of taxable value to \$5.00 max
Alberta	\$50.00	37.500¢	129% taxable price to \$7.83 max
Prince Edward Island	\$50.00	25.000¢	71.6% of retail price
British Columbia	\$49.40	23.900¢	90.5% of the taxable price, to \$7.00 max
Newfoundland & Labrador	\$49.00	40.000¢	125% of purchase price
New Brunswick	\$44.52	22.260¢	75% of retail price
Yukon	\$42.00	21.000¢	130% of taxable price
Ontario	\$32.95	16.475¢	56.6% of retail price
Quebec	\$29.80	14.900¢	80% of taxable price

MPAC GOVERNANCE CHANGES

ISSUE

Ontario is continuing to improve board governance for the Municipal Property Assessment Corporation (MPAC) to support excellence in the delivery of assessment services as well as strong accountability to stakeholders.

Reference: Chapter VII, Section C

KEY FACTS

- Building upon the 2016 Budget announcements and the changes to director term length, the government has been continuing its review of MPAC governance.
- The government proposes to broaden eligibility for members of the MPAC board of directors by including former municipal officials.
- The Province is also proposing to adjust the size of the MPAC board of directors from 15 to 13 members to be consistent with best practices.
- We will continue our commitment to consult on additional opportunities to improve MPAC governance.

BACKGROUND

Municipal Property Assessment Corporation

- MPAC is a not-for-profit corporation established under the *MPAC Act, 1997*, to deliver assessment services on behalf of municipalities.
- MPAC's corporate office is located in Pickering with 27 field offices and more than 1,700 staff across Ontario.
- Each year, MPAC assesses over five million properties with an estimated total value of \$2.3 trillion on a four year cycle.
- MPAC is governed by a maximum 15-member board of directors and currently has 13 individuals. The Minister of Finance appoints all members of the Board.
- Under the *MPAC Act*, the Association of Municipalities of Ontario (AMO) may provide a list of nominees to the Minister from which he may choose for appointment to the MPAC board.
- The role of the board of directors is to ensure overall direction, effectiveness, supervision and accountability for staff and MPAC's operation.
- The 2016 Budget announced changes to enhance the governance structure of the MPAC board by extending director term limits from two to a maximum of three terms of up to three years each.

Legislative Amendments

- The government proposes amendments to the *MPAC Act* to allow former elected officials and former officers and municipal employees to be eligible for nomination and appointment/reappointment to the MPAC board.
- The amendments would also include reducing the size of the MPAC board from a maximum of 15 to 13 members by removing one municipal representative and one taxpayer representative from the board composition.

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RAILWAY RIGHTS-OF-WAY PROPERTY TAXATION REVIEW

ISSUE

The government is introducing changes to the municipal property tax rates of the railway rights-of-way.

Reference: Chapter VII, Section C

KEY FACTS

- The *2016 Ontario Economic Outlook and Fiscal Review* announced the Province had initiated a review of the property taxation of railway rights-of-way in response to municipal requests.
- As part of the review, the Province has held consultations with municipalities and representatives of the railway industry. Based on these consultations, the Province is taking action on three issues to address concerns related to indexation of rates, variation in rates and implications for shortline railways.
 - Municipalities have expressed concerns that property tax rates on railway rights-of-way have not been updated since the late 1990s.
 - Beginning in 2017, property tax rates on railway rights-of-way will be updated to reflect the average annual percentage change in taxes on commercial properties. This means that municipal property tax rates will increase by approximately \$6 per acre for 2017.
 - Municipalities have also expressed concerns about the significant variation in railway rights-of-way property tax rates across the province.
 - The Province will begin to address rate inequities by adjusting the lowest property tax rates on railway rights-of-way to a minimum of \$80 per acre in 2017. Currently, the lowest rate is approximately \$35 per acre.
 - The railway industry expressed concerns about the impacts of potential property tax increases on shortline railways.
 - The Province recognizes the challenges faced by shortline railways and will take this concern into account when setting rates.
- For 2018 and future years, the government will continue to adjust rates to address these key issues. The Province is committed to modernizing the property taxation of railway rights-of-way and remains open to further stakeholder input.

BACKGROUND

Property Tax Treatment of Railway Rights-of-Way

In Ontario, the property taxation of railway rights-of-way is based on a fixed rate per acre system.

The province is divided into nine regions, and the municipal and education property tax rates in each region are regulated by the province and set by the Minister of Finance.

- These rates had not been updated since 1998
- Other types of property owned by railway companies, such as warehouses and offices, are assessed at their current value and pay property tax at the local municipal and education rates.

Railway rights-of-way property tax rates vary widely across the province – from a low of \$50 (combined municipal and education tax) in one Northern Ontario region, to more than \$1,400 in the Greater Toronto Area.

- The lowest municipal property tax rate is about one-twentieth of the highest rate.

Annually, railway companies pay approximately \$16 million in property taxes related to railway rights-of-way in Ontario.

- \$7.9M in municipal property tax; and
- \$8.1M in education property tax.
- This represents less than 0.1 per cent of Ontario's total property tax base (\$26 billion).

Canadian National and Canadian Pacific are the largest owners of railway rights-of-way and pay almost 75 per cent of the total railway rights-of-way property taxes.

Compared to 2016, with the announced changes, the overall municipal property tax revenue would increase by approximately \$1M in 2017.

Stakeholder Feedback

The *2016 Ontario Economic Outlook and Fiscal Review* announced the Province had initiated a review of the property taxation of railway rights-of-way in response to municipal requests.

As part of the review, the Province has held consultations with municipalities and representatives of the railway industry. Based on these consultations, the Province heard three issues to address: indexation of rates, variation in rates and implications for shortline railways.

A number of municipalities have expressed concerns with property tax treatment of railway ROW.

- The Northwestern Ontario Municipal Association (NOMA) first raised the issue with the province during their multi-ministry delegation meeting at the 2015 Association of Municipalities of Ontario (AMO) conference.
- NOMA notes that levels of taxation in the north are lower than elsewhere in the province.

Ministry officials held a staff-level consultation with municipalities in July 2016 and January 2017 to discuss their specific concerns in greater detail.

The Parliamentary Assistant to the Minister of Finance also met with individual municipal delegations (NOMA, City of Thunder Bay and the Township of Hornepayne) at the 2016 AMO Conference and (Fort Frances and FONOM) 2017 ROMA Conference, to discuss the issues.

In addition, the Province has also met with representatives of the Railway Association of Canada (RAC), Canadian Pacific (CP), and Canadian National (CN) Railways to hear their perspectives on railway ROW property taxation.

The Railway Association of Canada notes that shortline railways have low profitability, weakening infrastructure, and cannot afford to make necessary investments in track upkeep.

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SMALL-SCALE AGRI-FOOD BUSINESS ON FARMS

ISSUE

The 2017 Budget announces proposed changes with respect to the property tax treatment of small-scale value-added and commercial activities on farm properties.

Reference: Chapter VII, Section C

KEY FACTS

- As part of Ontario's efforts to encourage job growth in the agriculture sector and support rural economies, a review has been undertaken on the property tax treatment of small-scale agricultural processing and commercial activities on farms.
- Based on the feedback received from municipal representatives and agricultural organizations, the government is introducing a legislative framework that would provide municipalities with flexibility to reduce property tax rates for eligible small-scale value-added and commercial activities on farms.
 - Currently, these operations are taxed at industrial or commercial rates.
- The proposed legislative framework would allow municipalities to tax a portion of the assessment attributable to on-farm value-added or commercial activity at a reduced rate.
 - The proposed approach will maintain a level playing field, ensuring an appropriate balance of fair and sustainable tax treatment for small-scale value added on-farm activities while avoiding incentives for large off-farm industries to re-locate onto farms to benefit from lower taxes.
- This measure is intended to provide sustainable property tax treatment to farmers who diversify their operations by engaging in small-scale processing or retail activities as a direct extension of their farming business, which in turn will support growth in rural economies.

BACKGROUND

Consultations

- The 2016 Budget announced that the Province would work with the farming community and the municipal sector to provide sustainable property tax treatment to farmers who engage in small-scale, value-added or commercial activities as part of their farming business, while maintaining a level playing field for large processors.
- Over the past year, the government consulted with representatives from the agricultural and municipal sectors to discuss property tax options that would encourage the growth of small-scale value-added operations on farms.

- Discussions focused on developing a balanced approach that would provide enough incentive for small-scale operators to grow, while ensuring that larger operators would not reap too significant a benefit that could create an unlevel playing field between similar off-farm businesses.

Proposed Approach

- Based on feedback received during the consultations, the government is proposing to provide municipalities with the option of applying a lower tax rate to a portion of the assessed value of on-farm value-added processing or commercial operations.
- To support this measure, amendments are being introduced to the *Municipal Act*, *City of Toronto Act*, *Assessment Act* and the *Education Act*.

Current Property Tax Treatment

- Currently, land and buildings on a farm are classified and taxed according to their use, based on the activity taking place on the applicable portion of the property, as summarized in the table below.

Activity	Example	Tax Classification
Primary Agriculture	Growing crops, raising livestock	Farm
Residential	Farmhouse, bunkhouse	Residential
Selling Farm Produce	Store	Commercial
Processing / Manufacturing	Making jam, wine, or cheese	Industrial

- The agriculture sector and some municipalities have requested changes to the property tax treatment of value-added activities on farms for a number of years.
 - Concerns have been expressed that property tax increases related to the industrial tax rate of on-farm agricultural processing can be a disincentive for farmers to expand and diversify their operations.
- Proponents of on-farm food processing believe that addressing these concerns would encourage on-farm innovation, improve farm viability and create jobs.

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AMENDMENTS TO SECTION 28 OF THE FINANCIAL ADMINISTRATION ACT

ISSUE

Proposed amendments to the *Financial Administration Act* (FAA) to improve the administration of section 28 of the Act, including providing for potential changes to the application of the section.

Reference: Chapter 7, Technical Amendments

KEY FACTS

- Subsection 28(1) of the Financial Administration Act (FAA) requires ministries and public entities to seek the written approval of the Minister of Finance prior to entering into financial arrangements, financial commitments, guarantees, indemnities or similar transactions that would increase, directly or indirectly, the indebtedness or contingent liabilities of the Province.
- Amendments are being proposed that would clarify and add certainty to the application of Section 28 to Ontario public entities and enable regulations to be made defining terms.
- Transitional provisions would provide that the current section continues to apply until the amendment is proclaimed in force.

BACKGROUND

- Section 28 of the FAA requires that a public entity shall obtain written approval of the Minister of Finance prior to entering into "...any financial arrangement, financial commitment, guarantee, indemnity or similar transaction that would increase, directly or indirectly, the indebtedness or contingent liabilities of Ontario..."
- Section 28 was originally enacted in 1991 to require Ministries, Crown Agencies, and other organizations that form part of the Crown to request prior written approval of the Minister of Finance for any agreement/transaction that could directly, or indirectly, increase the indebtedness or contingent liabilities of Ontario.
- The intent of the Section is to help the government monitor and manage potential risks to the fiscal plan.
- Under Order in Council 216/2015 as amended by 223/2016, the President of Treasury Board currently shares all powers/duties of the Minister of Finance relating to Section 28.
- Section 28 approvals tend to be one of two types:

- Requests related to the borrowing of money, the provision of loan guarantees and the financing of projects by capital lease or Alternative Financing Proposal (“AFP”), which are reviewed by the Ontario Financing Authority.
- Requests related to contingent liabilities that are not connected to borrowing or financing, which are reviewed by the Office of the Treasury Board.

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