Update on the Fiscal Outlook

MPC July 27, 2017

Preliminary Draft – All Numbers Subject to Change

Draft – July 24, 2017 5:30 PM

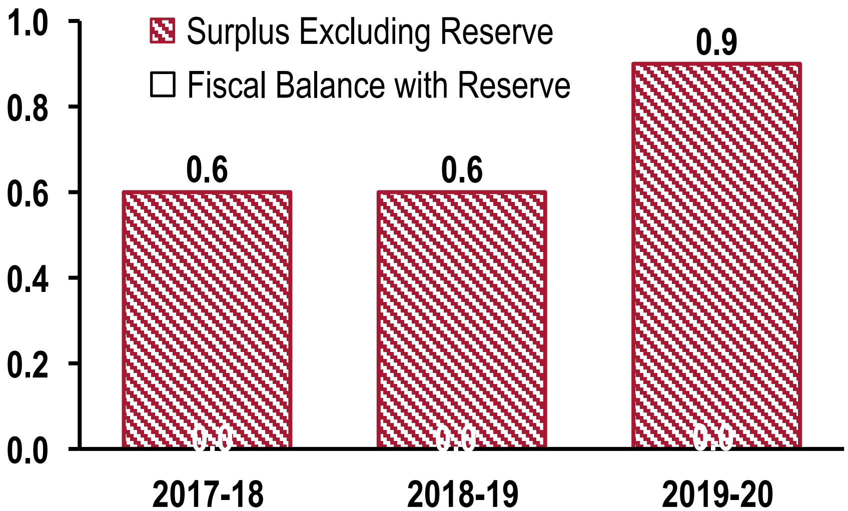
Purpose

- Recap 2017 Budget fiscal architecture and present an update on the fiscal outlook, including the latest revenue updates, expense approvals and Q1 ministry risks
- Review key decisions and milestones required in the coming months in the lead up to the release of preliminary allocations, PRRT process, FES and the 2018 Budget.

Recapping the 2017 Budget Fiscal Architecture

2017 Budget Fiscal Targets

Fiscal Balance
($ Billions)



Net Debt-to-GDP

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

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

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

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

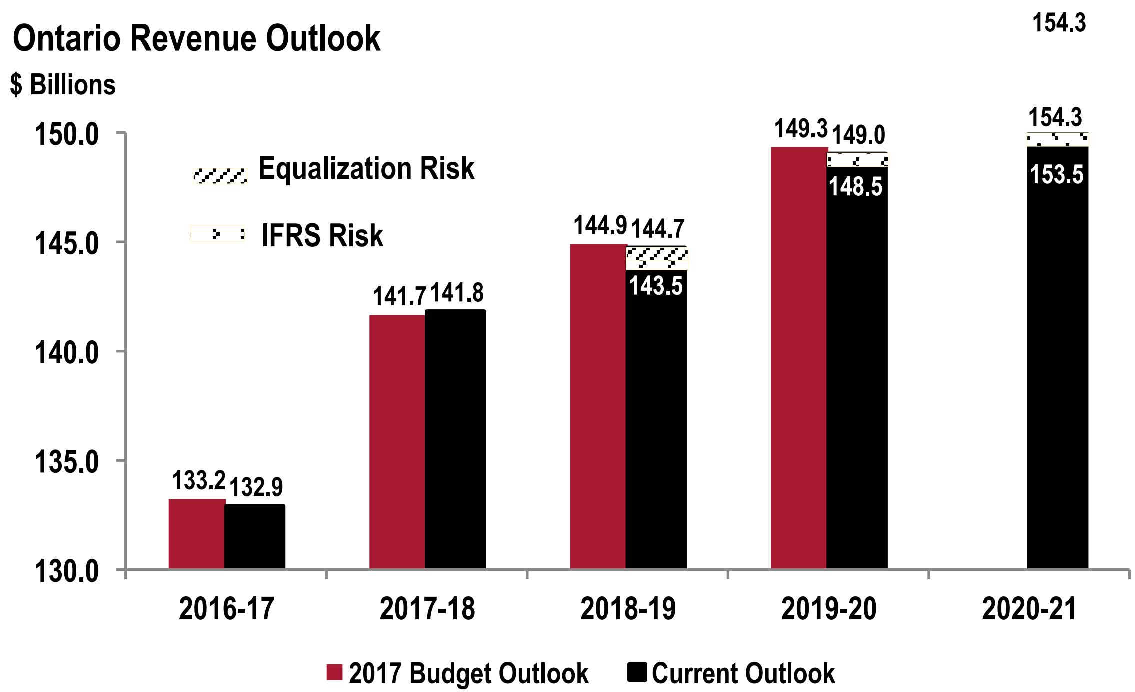
- The forecast assumes **revenue growth continues at a stronger pace than would normally be forecast given the economic outlook** and removes prudence from the nominal GDP forecast as well as assumes a modest slowing of the housing market.
- Assumes **High-Yield Tax assumptions** of $1.3 billion in 2017–18, $1.8 billion in 2018–19, and $2.2 billion in 2019–20, and zero PIT tax planning.
- Includes **Revenue Integrity Targets** of $0.1 billion in 2017–18, $0.2 billion in 2018–19, and $0.4 billion in 2019–20.
- Assumes no year-over-year decline in **Equalization Payments in 2018-19 (flat-lined at $1.4 billion)**.
- Potential accounting impacts that amount to $(0.5) billion in 2018–19 and 2019–20 not built into plan.

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

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

Recap: Revenue Update

No Material Change to the Revenue Outlook



- Information available to date does not indicate a material change from the 2017 Budget.
- The impact of stronger economic growth, higher-than-expected net income from GBEs, carbon allowance auction results and federal government flow-throughs have essentially offset lower tax revenue collections to date and projected PIT revenue, resulting in revenue growth of 3.8% from 2016-17 to 2020-21.
- Current outlook maintains 2017 Budget high yield assumptions, including equalization and the impact of IFRS accounting on the OPG net income outlook.

RISKS

- It is early in the fiscal year and there is a **broad range of risks** around the economic and revenue outlook – information that arrives in December/January could materially change the outlook
- There are **downside** risks related to: federal equalization payments reflecting Ontario's relatively stronger economic growth compared to the rest of Canada; impact of IFRS accounting in 2017-18; and 2016 PIT assessments, cooling of the housing market and OEB rate decisions/ OPG net income
- There are **upside** risks related to Corporate Income Tax assessment, carbon allowance proceeds, OLG and LCBO net income, and **balanced** risks related to economic growth and HST

Recap: Expense Update

Approvals-to-date/ Contingency Fund Outlook

$ Millions	2017-18	2018-19	2019-20	2020-21
Opening contingency fund balance	615.0	682.0	1,768.1	2,035.7
Less: In-Year Impact of Treasury Board Orders to Date	20.0	-	-	-
Less: Grassy Narrows Set Aside	85.0	-	-	-
Proposed Contingency Fund to Report in Q1	***510.0***	-	-	-
Less: Moving Ontario F'wd and Ring of Fire Set Asides	74.9	302.4	653.0	856.6
Contingency fund balance less 17-18 TBOs & set-asides	**435.1**	**379.6**	**1,115.1**	**1,179.1**
Less: Out-Year Impact of In-Year Approvals	-	8.7	0.3	0.3
Less: Approvals with Direction to Manage from Within	101.3	151.7	240.8	334.7
Less: Potential Upcoming Draws (July 25th)	5.7	13.8	19.4	18.6
Potential Contingency fund balance	**328.1**	**205.3**	**854.7**	**825.5**

Ring of Fire ($75M) and Grassy Narrows ($85M) set asides $160M

Treasury Board Orders to Date $20M

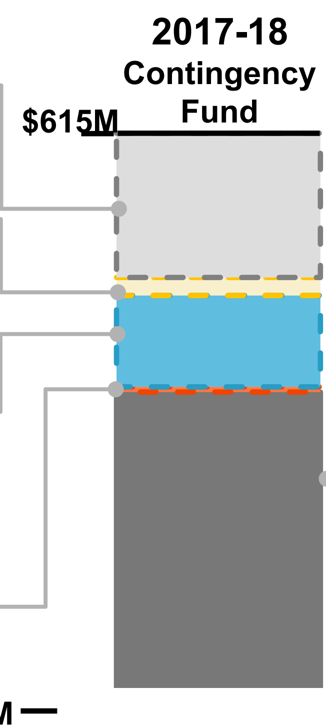
Includes Lac des Mille Lacs flooding ($15M) and famine relief in Middle East & Africa ($3M)

Approvals to Date $101M

Several items, including OPSEU & AMAPCEO agreements ($33M), Rural Education ($13M), Softwood Lumber ($20M) and Changing Workplaces ($5M)

July 25th TB/MBC Potential Draws $6M

Climate Resilience Institute ($3M), Fair Housing ($2M) and OFA Community grants ($1M)



Remaining Contingency Fund $328M*

* An additional $184M is encumbered primarily as a result of the Childcare Bi-Lateral Agreement and the MOF Restructuring item. Taking these into account, the projected available appropriations are $144M

Summary of Tier 1 Program Expense Risks

$ Millions	2017-18	2018-19	2019-20	2020-21
Demand Driven/ Forecast Risk	185	511	909	521
Emerging/New Policy Risks	56	131	261	273
Implementation Risks	231	362	493	637
Compensation Risks	475	875	1,513	2,337
Total Tier 1 Risks	**946**	**1,879**	**3,176**	**3,767**

Implementation Risks

Key Risks Include:

- Opioid Strategy Initiatives
- Child Care (100K Spaces)
- Service Ontario Boulder Pressures
- Clean Water and Wastewater Fund

Compensation Risks

Key Risks Include:

- OHIP - Cancel Savings Target
- Physician Services Neg. Mandate
- Attorney Compensation
- Judiciary Compensation
- EDU next round of agreements (2019 onward)

Risks to Federal Assumptions

Key Risks Include:

- Incrementality associated with Phase 2 Infrastructure agreements*

Emerging/New Policy Risks

Key Risks Include:

- Income Security Reform
- Corrections Reform*
- Police Oversight Implementation
- Strategy for a Safer Ontario
- Resource Revenue Sharing
- Investments to Support Small Businesses*
- Ontario Seniors Strategy*

Demand Driven/Forecast Risks

Key Risks Include:

- Increased OSAP Uptake
- Social Assistance Forecast Risk
- Emergency Fire Fighting
- Land Claims Settlement Funding
- Drive Clean Fee Elimination

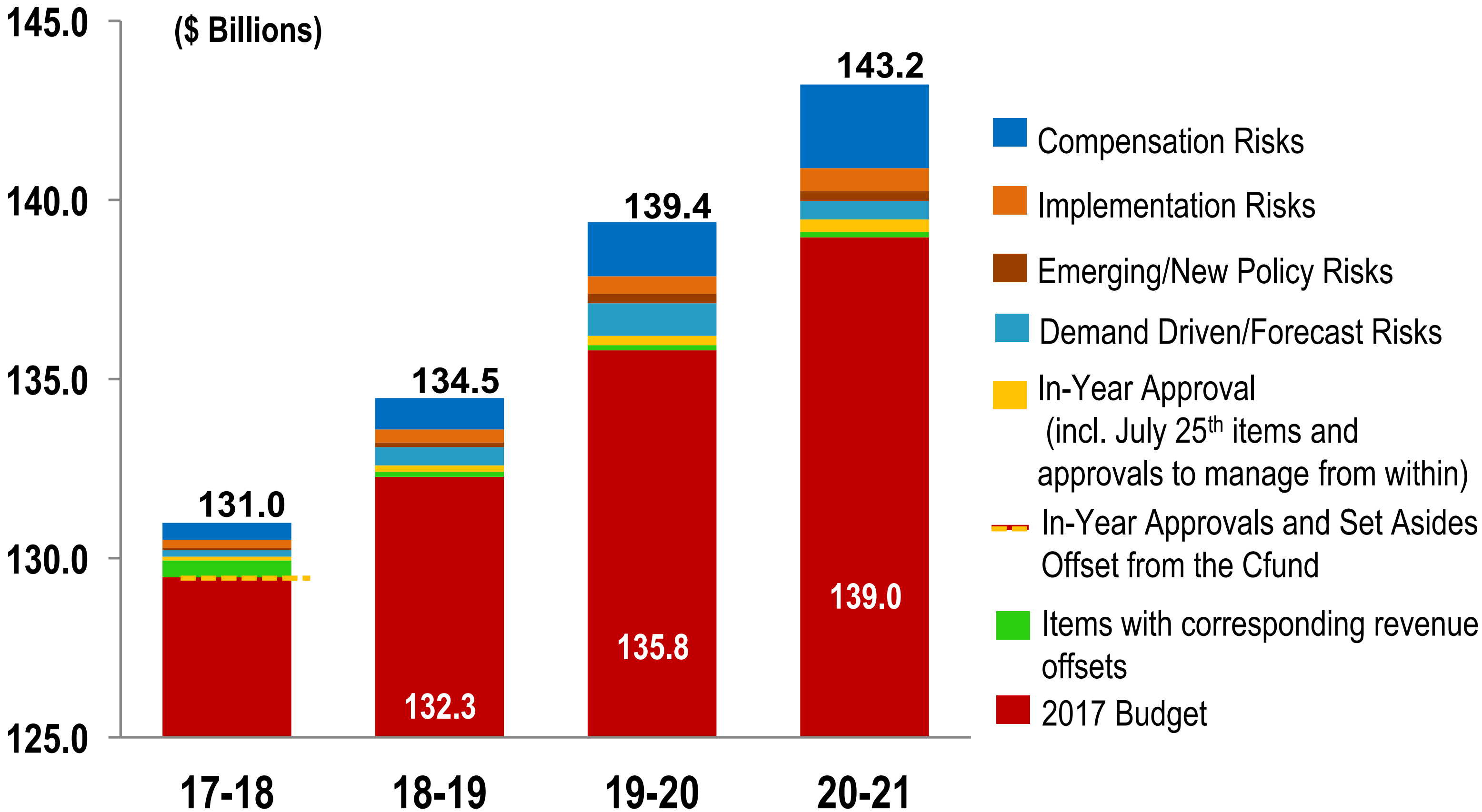
Accounting Risks

- Accounting for the Ontario Fair Hydro Plan*

*Costs of these risks have not been provided and would be over-and-above the total Tier 1 Risks estimate above.

Program Expense Outlook

- Based on in-year TB/MBC approvals to date, and a current assessment of risks and potential unfunded initiatives, the program expense outlook is projected to **grow at an average annual rate of 3.2%** between 2016-17 and 2020-21. The 2017 Budget projected program expense growth of 2.9% from 2015-16 to 2019 -20.
- This outlook assumes that all Year-End Savings targets of $1.2 billion in 2017–18 and 2018–19, and $1.1 billion in 2019–20 and Program Review targets of $0.8 billion in 2018-19 and 2019-20 are met.



Note:

- Remaining contingency funds after set-asides and 2017-18 draws are $435.1M in 2017-18, $379.6M in 2018-19, $1,115.1M in 2019-20, and $1,179.1M in 2020-21.
- The fiscal plan includes a Program Review savings target of $750M in 2018-19 and $750M in 2019-20 along with a year-end savings target of $1,200M in 2017-18, $1,225M in 2018-19, $1,075M in 2019-20, and $1,150M in 2020-21.
- $262 million in additional Cap and Trade expense is included in 2017-18 to offset additional revenues from first two auctions (to be fiscally neutral).

Interest on Debt and Net-Debt to GDP

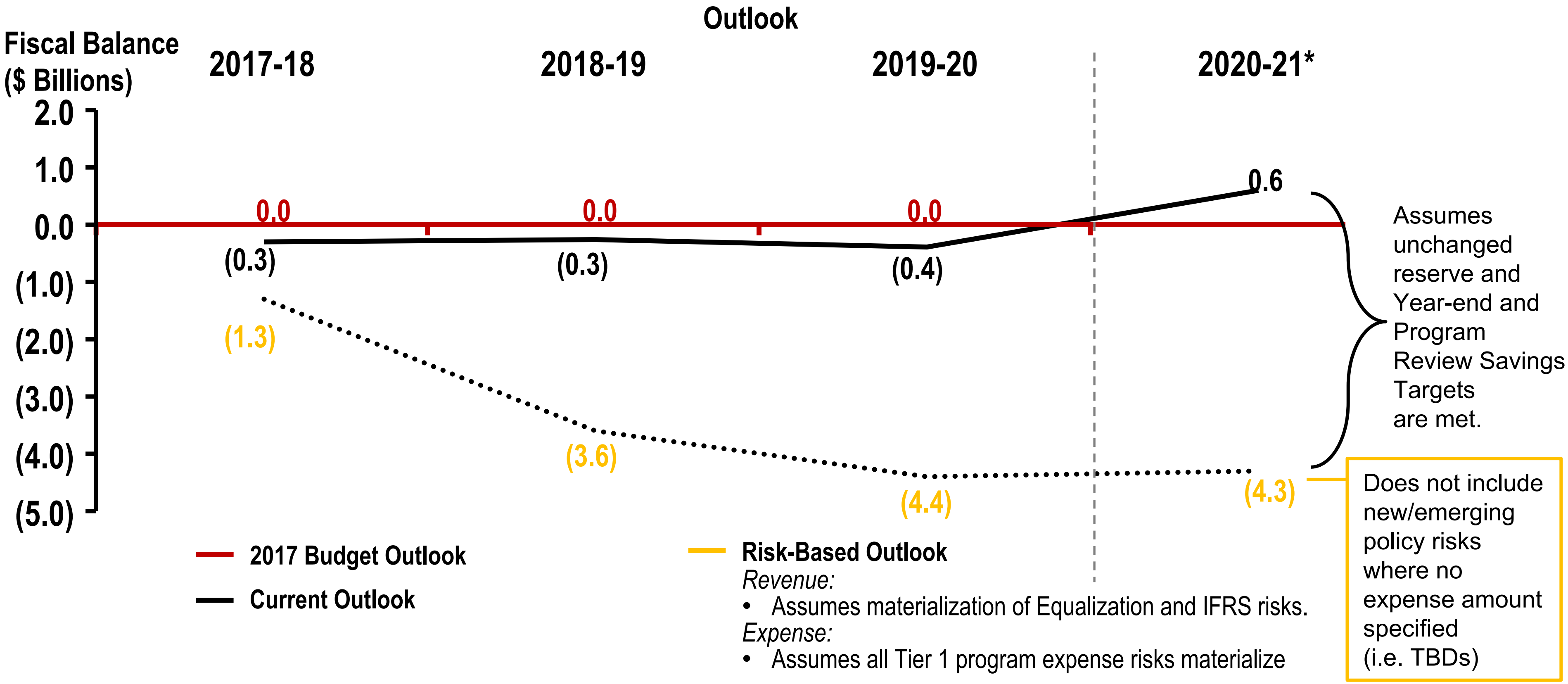
- The IOD and Net Debt-to-GDP forecasts are currently unchanged from the 2017 Budget.
  - Significant IOD savings were taken on at the time of the Budget, leaving little prudence in the IOD forecast.
  - Net Debt-to-GDP is forecast to be 37.5 per cent in 2017-18 37.3% in 2018-19 and 37.2% in 2019-20.

Risks

- The Bank of Canada recently raised interest rates. IOD expense could exceed the forecast if rates are higher than the interest rate forecast used in the Budget.
- For every $1 billion increase in borrowing, IOD could increase by $30 million.
- Every 1 per cent change in GDP impacts the net debt-to-GDP ratio by ~0.5 per cent.

Current Outlook and Next Steps

Range of Potential Fiscal Trajectories Based on Current Information

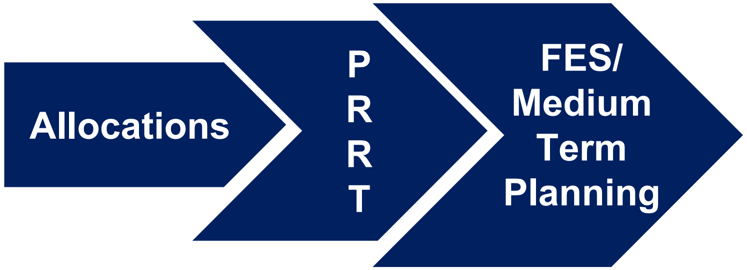


Revenue Forecast Update ($ Billions)	2017-18	2018-19	2019-20	2020-21
Revenue Deterioration since 2017 Budget	*(0.3)*	*(0.3)*	*(0.4)*	*n/a*
Range of Risks				
Revenue (Equalization)	-	*(0.7)*	-	-
Revenue (IFRS)	-	*(0.5)*	*(0.5)*	*(0.8)*
Program Expense (All Q1 Tier 1 Risks)	*0.9*	*1.9*	*3.2*	*3.8*
Program Expense (Manage from Within and Potential July 25th Draws)	*0.1*	*0.2*	*0.3*	*0.4*
Total Range of Risks	***(1.0)***	***(3.3)***	***(3.9)***	***(4.9)***
Total Potential Gap	***(1.3)***	***(3.6)***	***(4.4)***	***(4.3)***

** 2020-21 projections were not published in the 2017 Budget and include a reserve of $1.2 billion.*
Note: $262 million in additional Cap and Trade expense is included in 2017-18 to offset additional revenues from first two auctions (to be fiscally neutral).
Remaining contingency funds (after set-asides and 2017-18 in-year approvals) of $0.4B in 2017-18, $0.4B in 2018-19, $1.0 B in 2019-20, and $1.2B in 2020-21.

Fiscal Architecture Choices and Considerations

- The preliminary range of potential fiscal trajectories points to a gap in the fiscal plan.
- Despite a stronger economy, the revenue forecast has deteriorated since the 2017 Budget. In addition, the 2017 Budget contained significant revenue assumptions that have not yet materialized.
- Moreover, there is still information to be received and decisions that could significantly impact the fiscal plan, including the level that Ministries' preliminary allocations are set at.
- Decision making for setting allocations will inform the PRRT process, which will guide the fiscal planning process for the upcoming 2017 Fall Economic Statement and the outlook published in the 2018 Budget.

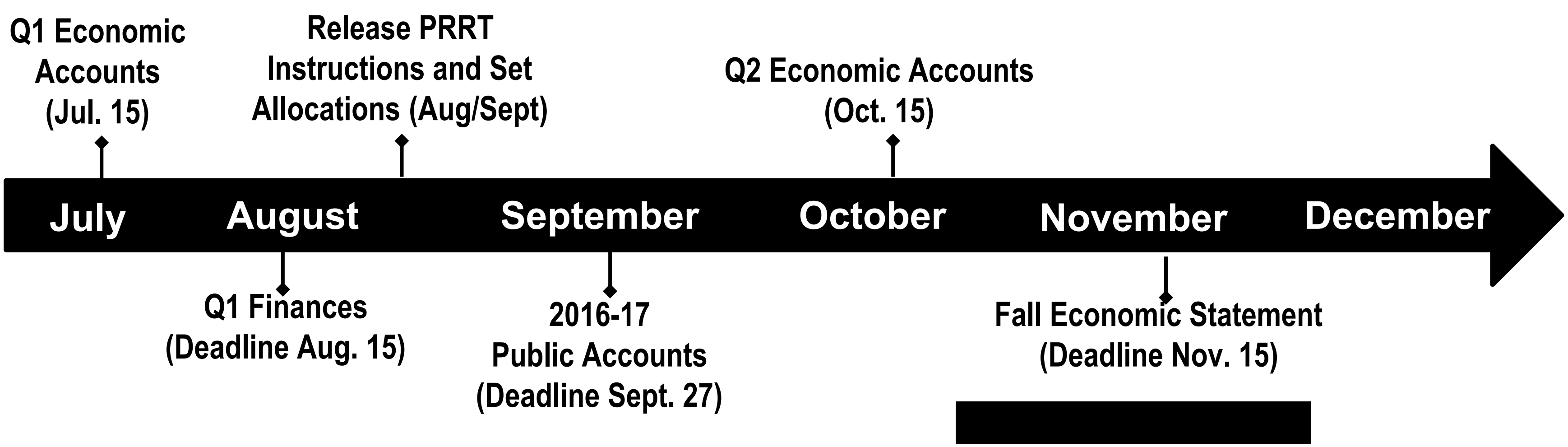


- There are several considerations as PRRT/FES planning gets underway:
  - How should allocations be structured to continue to project balance over the outlook?
  - How can fiscal flexibility be created to make room for new investments and FES/Document initiatives?
  - What is the level of prudence that will be required?
  - Need to present a credible plan to withstand the scrutiny of the FAO and Auditor General
  - How should sector growth rates be adjusted as a result of line by line consolidations?
  - What remaining tools can be used to close a potential fiscal gap?

Next Steps

Key deliverables over the coming weeks:

- Release 2017-18 First Quarter Finances (Aug 11 - TBC)
- Develop PRRT instructions and issue ministries' preliminary allocations (Late Aug/Early Sept)
- Finalize/Release 2016-17 Public Accounts (Late August – TBC)
- Develop FES strategy, including key themes & priorities and fiscal outlook (Sept)



Appendix

2016-17 Public Accounts – Preliminary Actuals

- The 2016-17 preliminary actuals suggest the 2016-17 total expense will be lower than the interim forecast driven by 0.8 billion underspending from Ministries and an additional 0.2 billion IOD savings.

2016-17 Preliminary Results

$ Billions	2015-16 Restated Actual[1]	2016-17 Restated Budget[2]	2016-17 Interim	2016-17 Preliminary Actuals	Change From: 2015-16 Restated Actuals	Change From: 2016-17 Restated Budget
Revenue	**136.2**	**138.4**	**TBD**	**TBD**	**TBD**	**TBD**
Expense						
Program Expense	128.1	129.4	130.9	130.1	2.0	0.7
Interest on Debt	11.6	12.3	11.9	11.7	0.1	(0.6)
Total Expenses	**139.7**	**141.7**	**142.9**	**141.8**	**2.1**	**0.1**
Reserve	-	1.0		-	-	(1.0)
Surplus/(Deficit)	**(3.5)**	**(4.3)**		**TBD**	**TBD**	**TBD**

Numbers may not add due to rounding

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

[2] *Presentation of amounts reported as `Plan` in the 2016 approved Budget have been restated to reflect a presentationchange for hospitals, school boards and colleges which are now consolidated on a line-by-line basis.*

- The 2016-17 Public Accounts is the first public document to report revenue, program expense and interest on debt on a line-by-line consolidation basis. This fiscally neutral accounting change incorporates hospital, schoolboards and college third party revenue (e.g. tuition, hospital parking fees), and **results in approximately $8.4 billion increase to both revenue and total expense in 2017-18, growing to $8.9 billion by 2019-20.**

Summary of Approvals to Date

$ Millions	2017–18	2018–19	2019–20	2020-21	Multi-Year Total
Set Asides with Contingency Fund Offset					
MTO: Moving Ontario Forward	-	21.0	61.7	57.7	140.4
MOI: Moving Ontario Forward (SCIF)	-	61.9	393.1	676.7	1,131.7
MNDM: Ring of Fire	74.9	219.5	198.2	122.2	614.8
MOECC: Grassy Narrows potential clean-up	85.0	-	-	-	85.0
Sub-total: Set Asides	**159.9**	**302.4**	**653.0**	**856.6**	**1,971.9**
TBO With Contingency Fund Offset*					
CO: Famine Relief in Middle East and Africa	2.5	-	-	-	2.5
MOECC: Grassy Narrows research	2.7	8.4	-	-	11.1
MIRR: Lac des Mille Lacs Flooding Claim Settlement	14.8	-	-	-	14.8
MOF: Restructuring Plan	-	0.3	0.3	0.3	0.9
Sub-total: TBO With Contingency Fund Offset	**20.0**	**8.7**	**0.3**	**0.3**	**29.3**
Items w/ corresponding revenue increases					
EDU: Early Learning and Childcare Bi-Lateral Agreement	145.0	144.8	144.8	144.8	579.5
MOL: Grievance Settlement Board Reform	0.7	-	-	-	0.7
MNRF: Bad Debt Expense - Resolute FP Canada Inc	22.5	-	-	-	22.5
Sub-total: Items w/ corresponding revenue increases	**168.1**	**144.8**	**144.8**	**144.8**	**602.7**

*Out-year impacts are not currently tracking against the Cfund.

Summary of Approvals to Date Cont'd

$ Millions	2017–18	2018–19	2019–20	2020-21	Multi-Year Total
Approvals to Date – Proceed Fund from Within					
EDU: Rural Education	12.6	20.0	20.0	20.0	72.6
MAG: 2nd Case Management Masters Remuneration	0.6	0.6	0.6	0.6	2.4
MAG: Local Planning Appeal Support Centre	1.1	2.1	1.7	1.8	6.7
MAG: Far North Electoral Boundaries Commission	1.5	-	-	-	1.5
MCSCS: OPSEU Corrections	22.4	31.4	43.0	56.2	153.0
MCSCS: Chief Coroner Inquest Legal Fee Reimbursement	1.0	1.3	1.3	1.3	4.8
MOL: Changing Workplace	4.9	24.8	31.6	25.9	87.2
MOI: Waterfront Toronto - Port Lands Flood Protection	-	-	-	-	-
MHO: Provincial Affordable Housing Lands Program	-	-	-	-	-
MNRF: Experimental Lakes Area	-	2.5	2.5	2.5	7.5
MNRF: Softwood Lumber	20.0	-	-	-	20.0
MTCS: Ontario Arts Council	-	5.0	10.0	15.0	30.0
Various: AMAPCEO extension	9.1	17.2	35.2	59.0	120.5
Various: OPSEU excluding corrections	21.3	33.3	67.4	106.1	228.1
Various: Management compensation	6.8	13.6	27.5	46.3	94.2
Sub-total: Approvals to Date – Proceed Fund from Within	**101.3**	**151.7**	**240.8**	**334.7**	**828.5**

Summary of Approvals to Date Cont'd

$ Millions	2017–18	2018–19	2019–20	2020-21	Multi-Year Total
Transfers					
MAESD/EDU/MCYS: Equitable Access to Postsec. Educ.	-	-	-	-	-
CO/MIRR: Truth and Reconciliation	-	-	-	-	-
Ontario 150 TBO Transfers to Partner Ministries	-	-	-	-	-
MTCS: Budget Initiative/Talks Holdback Release	-	-	-	-	-
Sub-total: Transfers	**-**	**-**	**-**	**-**	**-**
July 25th TB/MBC Potential Draws					
MOHLTC: Opioid Strategy	-	-	-	-	-
MOECC: Climate Change Modelling Consortium	3.0	9.0	15.0	15.0	42.0
OFA: Francophone Community Grants	1.2	1.3	1.3	1.3	5.1
MMA/MHO: Fair Housing Plan Reportback	1.5	3.5	3.1	2.3	10.4
Sub-total: July 25th TB/MBC Potential Draws	**5.7**	**13.8**	**19.4**	**18.6**	**57.5**
Total Change in Program Expense	**168.1**	**144.8**	**144.8**	**144.8**	**602.7**

Unconditional Federal Revenue Assumptions: Update

- The Ontario 2016 budget assumed $3.4 billion in new federal revenue over three years that would flow through unconditional block transfers. Leading up to the 2017 budget, there were several updates to these assumptions:
  - Assumptions about **infrastructure funding were removed** to reflect new expectations for federal cost-matching requirements;
  - **Health funding** (formerly 'home care') **updated** to reflect new expectations about Ontario's allocation for targeted funding;
  - Assumptions about **jobs and training funding remained**; and
  - $30 million in 2017-18 added based on a federal commitment to provide funding, notionally for Ontario's **social housing** priorities.

Federal Revenue Assumptions in 2017 Budget
($ Billions)

	2017-18	2018-19	2019-20
Jobs and Training	0.1	0.1	-
Health	0.1	0.3	0.4
Social Housing	0.0	-	-
Total	**0.2**	**0.4**	**0.4**

Note: Numbers may not add due to rounding.

- Ontario is currently in discussions with the federal government on renewed labour market agreements, which should provide some flexibility to allocate funding to in-plan projects.
- A draft multilateral statement of principles on health funding is expected to provide Ontario flexibility to allocate funds to several broad areas in 2017-18. While negotiations for later-year funding parameters have not yet begun, Ontario expects more strict federal conditions to be applied, which will likely include developing a more detailed spending plan.

New Federal Agreements: Opportunities and Risks

- In addition to areas with revenue assumptions built into the fiscal plan, Ontario has been working with the federal government on a number of multilateral and bilateral agreements in other areas.
  - The overall fiscal impact will depend on the final design parameters of each program.

Federal Agreements	Description
Early Learning and Child Care	EDU signed a multilateral framework for ELCC funding on June 12th, with bilateral signed on 16th. Ontario's allocation is $145M annually for three years, beginning in 2017-18. • Funding is a flow through, with no net fiscal impact.
Infrastructure	Allocations provided to provinces – Ontario guaranteed $11.8 billion across four categories: public transit ($8.3B/11yrs), green ($2.8B/11yrs), culture/recreation ($0.4B/11yrs) and rural/northern ($0.3B/11yrs). • Funding subject to incrementality and cost-matching; TBS and MOI reviewing to forecast overall fiscal impact.
National Housing Strategy	The 2017 federal budget committed to a National Housing Strategy, including $3.2 billion to PTs to replace the Investment in Affordable Housing (IAH) with a new program. • Currently the IAH is equally cost-matched; this is also expected for the new program.
Low Carbon Economy Fund	$2B/5yrs, starting 2017-18, to support incremental PT actions that reduce GHGs. Further detail expected through Pan Canadian Framework multilateral discussions. • 70 per cent will be available to PTs through a 'leadership fund' – with federal approval of PT project eligibility. • 30 per cent will be available based on applications by PTs and other stakeholders through a 'challenge fund.'