# 2017 Document:
# Fiscal Update and Key Decisions

OFFICE OF ECONOMIC POLICY

MINISTRY OF FINANCE

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# Purpose

- To outline the frame, priorities, and approach to the 2017 Document.
  - Determine the fiscal anchors that will set the foundation and framework.
  - Determine the intersection point between key investments and the government's fiscal objectives, and the potential tools that could support this intersection point.
- Discuss next steps and key choices to be made as part of the planning process.

# 2017 Document – Framing and Anchoring

# Framing the Balance of Choices for the 2017 Document

### Build on Government's Plan, Demonstrate Progress, and Provide a Vision for Tomorrow

- Show progress on the government's plan to **invest in the economy and build Ontario up for everyone**.
- Demonstrate **responsible fiscal management**.
- Continue to **transform** and protect public services for longer term sustainability.

### Confirm Recent Investments, Launch New Supporting Priority Investments

- Point to **2016 Budget investments**, as well as important **additional commitments** made in the 2016-17 year that demonstrate progress.
- Launch **select new priority investments** that create jobs and grow the economy of tomorrow.

### Maintaining Fiscal Credibility

- Continue to beat **deficit targets** and return the Province to **balanced budgets**.
- Moving forward, ensuring a **fiscally sustainable** and credible plan.

### Reconciling and Balancing the Approach

- **Reconciling the government's fiscal anchors**, such as balancing the budget in 2017-18 and ongoing, **with the commitment to invest in priorities,** such as additional electricity relief, will require **trade-offs**.
- This means the scope, size and roll-out of new priority investments **may require the consideration of all viable revenue tools and other measures** in the lead-up to the 2017 Document.
- Need to maintain a longer-term view to the **2018 Document, Pre-Election Report** and beyond.

# 2017 Document: Determining Fiscal Anchors

- The 2014, 2015 and 2016 Budgets consistently laid out plans that balanced the government's plan to invest in the Ontario economy and public services, while also balancing the budget.
- As a continuation and culmination of these plans, the 2017 Document will need to be able to demonstrate progress on the government's plan to invest in today's jobs and tomorrow's economy, ensure Ontarians can count on key public services, and make Ontario an affordable place to live, while delivering on the **commitment to balance the budget in 2017-18**.
- As part of the planning for the 2017 Document, the government must confirm its **fiscal objectives and anchors – for the upcoming year (2017-18), as well as the two subsequent years –** in order to provide the right overall financial framing and envelope that will support new investments.

| **Potential Fiscal Anchors** | **2017-18** | **2018-19** | **2019-20** | **Net debt-to-GDP target:** |
|---|---|---|---|---|
| | Balance | Balance | Balance? | Flat-lined or continued progress towards 27% |

- With fiscal anchors and overarching objectives in place, the government will be in a position to determine the fiscal envelope available for new investments.
  - The fiscal envelope can also be augmented through additional tools and levers, as well as trade-offs between investments (including delaying some investments for the 2018 Document).
  - Revenue and expense information will continue to come in as part of the lead-up to the 2017 Document (e.g. Federal Budget) that could impact the fiscal envelope.

# Evolution of the Fiscal Plan Since 2016 Budget

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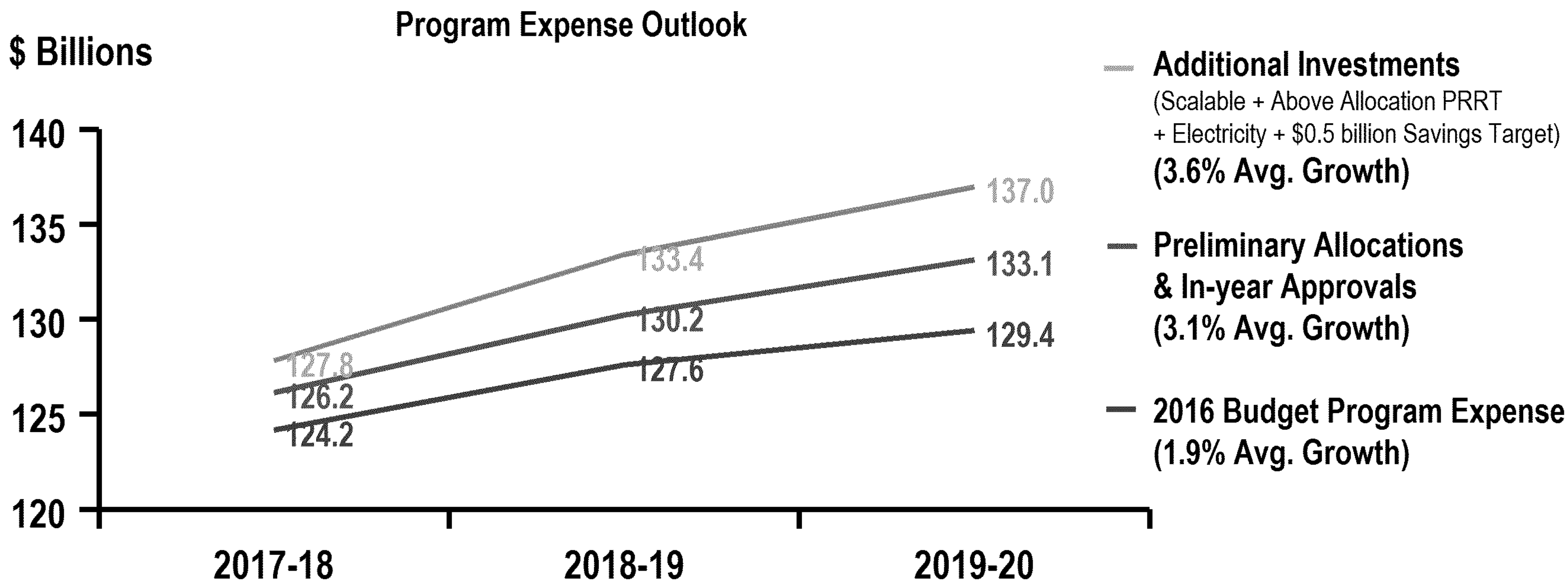
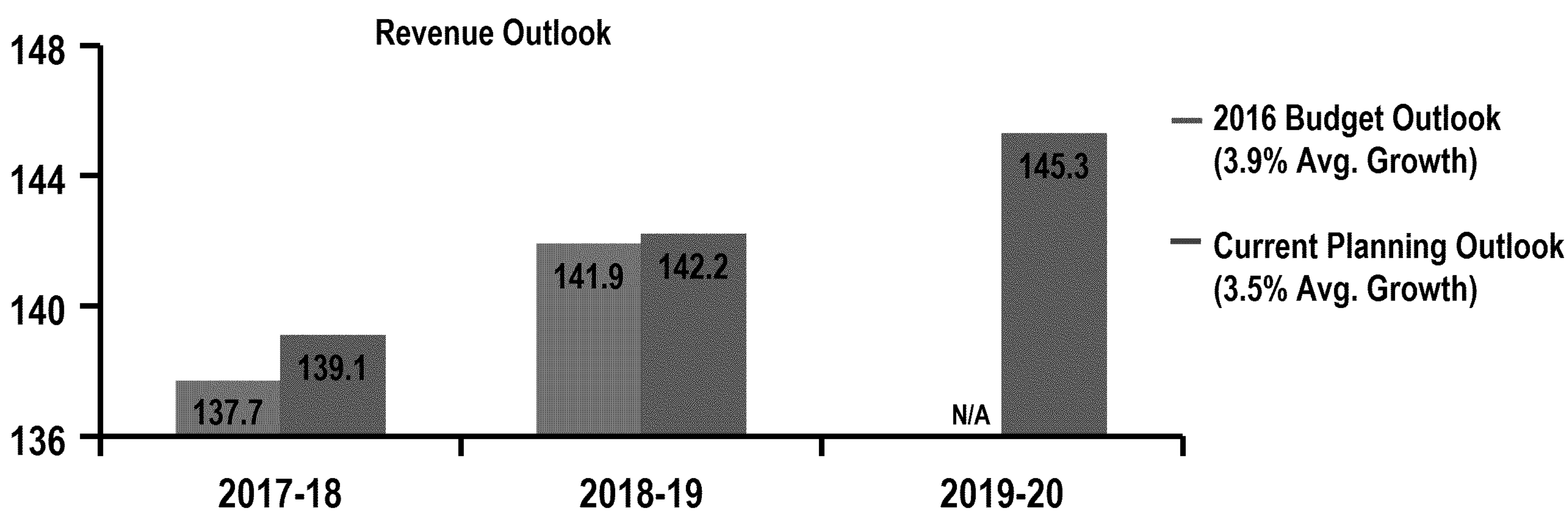


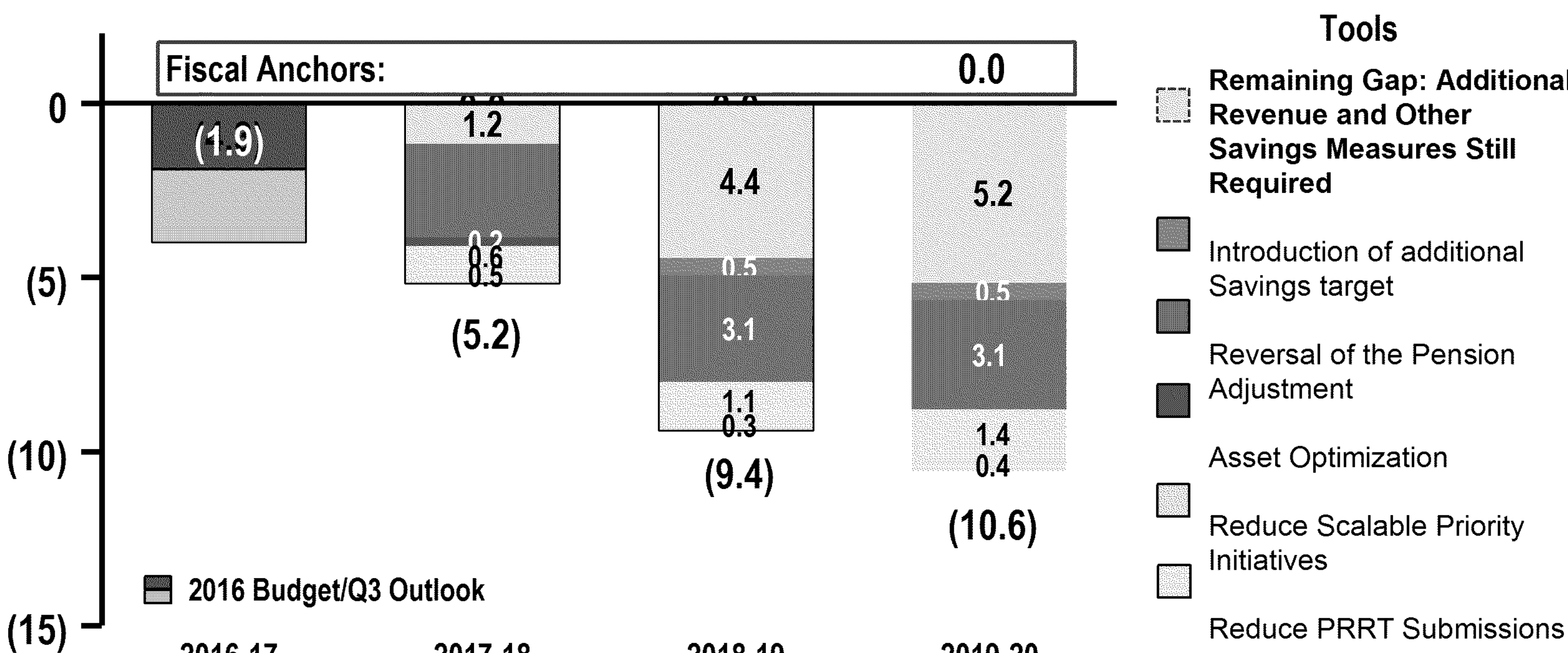
# Assessing the Fiscal Challenge

While the 2016 Budget outlined a plan to balance the budget in 2017-18 and remain balanced in 2018-19, **changes since the Budget have created a gap compared to the government's fiscal targets.**

- A stronger outlook for revenue and lower interest on debt expense are currently tracking against the Budget forecast – **however, spending pressures, new strategic investments, and the pension adjustment have also materialized** – together creating a fiscal gap.

**Some measures have already been identified** to help close the gap – including reversal of the pension adjustment, scaling back PRRT requests and scalable initiatives, and higher savings targets.

However, **continuing to assume fiscal anchors of balanced budgets** over the forecast horizon **means a limited envelope for new investments, and the need to identify additional tools and levers.**




Note: Due to the asset optimization tool assumed in 2017-18, the 2018-19 gap increases from $9.1 billion to $9.4 billion

# Potential Tools to Achieve Fiscal Targets

There are a number of revenue and expense measures that could be considered to achieve fiscal targets.

| Additional Revenue Measures | Federal Revenue Strategy |
|---|---|
| • Determine the scope for revenue tools, including:<br>  • Targeted Tax Changes<br>  • Non-tax revenue<br>  • Federal tax measures | • Engagement strategy with the federal government to maximize new federal funding, including:<br>  • Equalization Protection<br>  • Funding for climate change initiatives<br>  • Infrastructure<br>  • Health funding |
| **Additional Expense Measures** | **Prudence** |
| • Determine the scope for expense measures, including:<br>  • Undertaking additional transformative initiatives<br>  • Revisiting in year approvals<br>  • Timing/scaling mandate letter commitments<br>  • Additional savings targets<br>  • Program Review<br><br>• Further Interest on Debt Savings | • What is the appropriate level of prudence to build into the fiscal plan?<br>  • Further reductions to the reserve or Contingency Fund, or<br>  • Pushing the revenue forecast or interest on debt expense beyond current expectations, increases vulnerability to future downward forecast revisions |

# Potential Revenue Tools

A number of revenue tools could be considered as part of the strategy required to close the fiscal gap.

## Potential 2017 Document Revenue Measures

- Increases to **tobacco and beer** tax revenue of up to $0.1 billion each year between 2017-18 and 2019-20
- Increasing the **insurance premium tax** by 1 percentage point, which could generate up to $0.3 billion in 2017-18, and up to $0.4 billion by 2019-20
- Increase planned **education property tax** adjustment from 1% to 2% annually, which could generate up to $0.1 billion in 2017-18. If this was extended to 2019-20, it could generate up to $0.3 billion
- Use a greater proportion of **Cap and Trade proceeds** against in-plan GHG reduction expenditures (e.g., revisit $0.6 billion for in-plan initiatives in 2018-19 and 2019-20)
- Lobby the federal government to **remove preferential tax treatment for businesses** that benefit from a 50% income tax deduction on expenses related to meals and entertainment. This could generate $0.2 billion in 2017-18, and up to $0.3 billion by 2019-20
- Approach other provinces to create consensus for **pressing the federal government on sharing tax revenue** from certain income tax measures that have a substantial provincial connection (e.g. tax on disposition of certain properties by a non-resident)

# Summary of Potential Revenue and Other Tools

| $ Millions | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|
| ***Increases to Tobacco and Alcohol Taxes*** | | | |
| Tobacco Tax | 5 - 40 | 10 - 50 | 15 - 55 |
| Alcohol Tax | 11 - 25 | 15 - 56 | 15 - 74 |
| **Total Tobacco/Alcohol Tax** | **16 - 65** | **25 - 106** | **30 - 129** |
| Increases to the Insurance Premium Tax | 270 | 380 | 395 |
| Increase Planned Education Property Tax | 85 | 180 | 310 |
| **Total Potential Tax Tools** | **371 - 420** | **585 - 666** | **735 - 834** |
| ***Other Potential Tax Tools*** | | | |
| Lobby for Federal Reform of Corporate Meals and Entertainment Tax Allowances | **170** | **250** | **340** |

# Federal Revenue Strategy

- The current revenue outlook continues to assume additional revenue for home care, labour market, and infrastructure - - that will be unconditional in nature (i.e. support in-plan spending, no incrementality).
- While Ontario and the federal government have signed agreements in a number of areas, there are additional opportunities to maximize new federal funding, minimize the negative impact of conditions on new programs, and leverage federal investment to support provincially-planned programs.
- The lead-up and delivery of the 2017 Federal Budget, expected in the coming weeks, provides an important opportunity to assert Ontario's expectations around federal revenue.

| Program Area | Example |
|---|---|
| **Federal health funding** | • Continue to work on adequate, sustainable and principled health funding, or use approach to federal offer as leverage for success in other areas. |
| **Equalization program** | • Defensive tactic: ensure GDP constraint acts as a 'top-up' as currently described in legislation<br>• Offensive tactic: push for 'protection' from year-over-year declines in transfer entitlements. |
| **Climate change funding** | • With the release of the Pan-Canadian Framework on Climate Change, the federal government will likely begin funding through new environmental programs, including the Low Carbon Economy Fund. |
| **Early learning and child care** | • Work to ensure National Framework and bilateral agreements provide Ontario flexibility to direct federal funding to in-plan expenditures and support Provincial priority areas. |
| **Infrastructure** | • Ontario continues to work with the federal government on the next phase of its infrastructure plan, including limiting the federal government's use of incrementality provisions. |
| **Indigenous files** | • Maximize opportunities to leverage historic \$8.4B planned federal spending, both to make ON's planned investments (health, TRC response, anti-violence) go further and reduce downstream costs associated with inaction/failure to address root causes. |
| **Innovation Agenda** | • Ontario will likely have a number of programs that are aligned with the Innovation Agenda, and should look for opportunities to leverage funding to provincial priorities. |

# Potential Expense Tools

Placeholder for TBS slide

[Program Review]

# Key Decisions

# Key Decisions

A number of framing and anchoring decisions are required in order to firm up the overall approach to the 2017 Document.

- What fiscal anchors does the government want to set for 2017-18 to 2019-20?
- What balance of revenue and expense measures to set in order to meet fiscal anchors?
- Are other tools to be considered in order to create room for additional investments?
- How does the 2017 Document fiscal and investment narrative hold together?
- What signature investments/initiatives should be considered priority for 2017 Document?

# Appendix

# Economic Outlook

| Percent Change | 2015 | | 2016 | | 2017 | | 2018 | | 2019 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Budget | Current | Budget | Current | Budget | Current | Budget | Current | Budget | Current |
| Real GDP | 2.5 | 2.5 | 2.2 | 2.6 | 2.4 | 2.2 | 2.2 | 2.1 | 2.0 | 2.0 |
| Nominal GDP ($billions) | 748.2 | 763.3 | 778.4 | 797.4 | 813.9 | 830.1 | 848.2 | 863.9 | 882.1 | 899.5 |
| (percent change) | 3.6 | 4.9 | 4.0 | 4.5 | 4.6 | 4.1 | 4.2 | 4.1 | 4.0 | 4.1 |
| Compensation of Employees | 3.3 | 4.2 | 4.4 | 4.1 | 4.5 | 4.0 | 4.5 | 4.5 | 4.4 | 4.6 |
| Corporate Net Operating Surplus | 2.1 | 9.1 | 3.7 | 8.5 | 8.5 | 6.2 | 5.7 | 7.1 | 3.9 | 5.3 |
| Nominal Household Consumption | 4.1 | 3.9 | 4.4 | 4.2 | 4.1 | 4.1 | 3.5 | 4.2 | 3.6 | 4.0 |
| Home Resales | 9.6 | 9.6 | (2.9) | 8.7 | (5.8) | (4.3) | 2.0 | 0.7 | 3.8 | 3.0 |
| Home Resale Prices | 7.8 | 7.8 | 3.1 | 14.4 | 0.6 | 5.2 | 2.9 | 1.0 | 1.8 | 1.3 |

*Note: Current projection is a draft and is subject to change in coming weeks as new information is released and pre-Budget private-sector consultations are conducted.*

# Revenue Outlook Variances

| | 2016 Budget | | | | | Change Since 2016 Budget | | | | Current Outlook* | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **$ Billions** | **2015-16** | **2016-17** | **2017-18** | **2018-19** | **Avg. Growth** | **2015-16** | **2016-17** | **2017-18** | **2018-19** | **2015-16** | **2016-17** | **2017-18** | **2018-19** | **2019-20** | **Avg. Growth** |
| Total Taxation Revenues | 90.8 | 91.8 | 95.9 | 100.2 | *3.4%* | 1.1 | 3.0 | 2.3 | 2.9 | 91.8 | 94.8 | 98.3 | 103.1 | 107.1 | *3.9%* |
| Gov't of Canada Transfers | 22.9 | 24.6 | 25.8 | 26.6 | *5.1%* | 0.0 | -0.2 | -0.7 | -1.3 | 22.9 | 24.5 | 25.1 | 25.3 | 24.6 | *1.8%* |
| Gov't Business Enterprises | 4.3 | 5.0 | 5.3 | 5.7 | *9.5%* | 0.6 | 0.2 | -0.2 | -0.3 | 4.9 | 5.2 | 5.1 | 5.4 | 5.7 | *3.7%* |
| Other Non-Tax Revenue | 8.6 | 9.1 | 10.6 | 9.4 | *3.3%* | 0.2 | -0.5 | -0.1 | -1.0 | 8.8 | 8.6 | 10.5 | 8.4 | 8.0 | *-2.2%* |
| **Total Revenues** | **126.5** | **130.6** | **137.7** | **141.9** | ***3.9%*** | **1.8** | **2.5** | **1.3** | **0.2** | **128.4** | **133.1** | **139.1** | **142.2** | **145.3** | ***3.5*** |

*Note: average growth rates are calculated from 2015-16*

**Key Features of the Revenue Outlook**

| | 2016 Budget 2015-16 | 2016-17 | 2017-18 | 2018-19 | Change 2015-16 | 2016-17 | 2017-18 | 2018-19 | Current 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2015 PIT (potential tax planning risk) | – | – | – | – | | 0.7 | 0.7 | 0.7 | | 0.7 | 0.7 | 0.7 | 0.7 |
| Stronger 2015 HST | – | – | – | – | | 0.8 | 0.5 | 0.5 | | 0.8 | 0.5 | 0.5 | 0.5 |
| Assumed Higher Corporations Tax Yield | – | – | – | – | – | 0.3 | 0.5 | 0.7 | – | 0.3 | 0.5 | 0.7 | 0.7 |
| Unconditional Federal Transfers | | | | | | | | | | | | | |
| - Infrastructure, Homecare, Training | – | 0.7 | 1.3 | 1.3 | – | -0.7 | -0.5 | -0.5 | – | 0.1 | 0.8 | 1.3 | 0.0 |
| IFRS for HOL and OPG | – | – | – | – | – | -0.1 | -0.4 | -0.5 | – | -0.1 | -0.4 | -0.5 | -0.7 |
| Equalization Forecast | 2.4 | 2.3 | 2.3 | 2.2 | 0.0 | 0.0 | -0.9 | -1.5 | 2.4 | 2.3 | 1.4 | 0.7 | 0.7 |
| Debt Retirement Charge ends 2018-19 | 0.9 | 0.6 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.9 | 0.6 | 0.6 | 0.0 | 0.0 |
| Cap and Trade Proceeds Assumptions | 0.0 | 0.5 | 1.9 | 1.8 | 0.0 | -0.5 | -0.1 | -0.5 | 0.0 | 0.0 | 1.8 | 1.4 | 1.4 |
| Asset Optimization (Net Impact) | 0.9 | 1.1 | 1.1 | 0.6 | 0.0 | -0.1 | -0.1 | -0.7 | 0.9 | 1.0 | 1.0 | -0.1 | -0.4 |

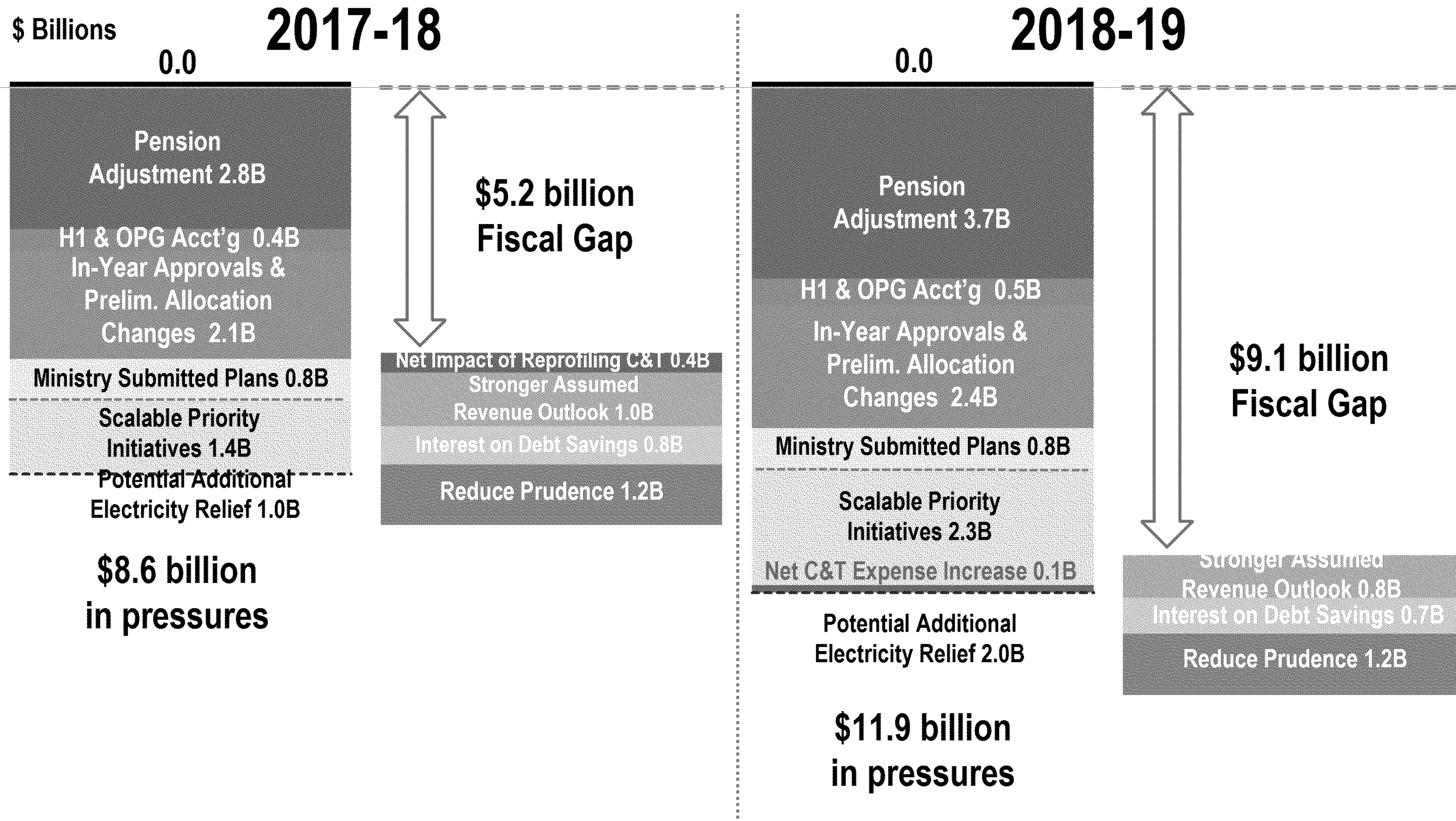
Information still to come:

- 2016Q4 economic results
- Document economic outlook update
- Ongoing provincially-administered tax receipts
- PRRT revenue updates for ministries, agencies and government business enterprises
- PRRT revenue decisions
- Document Initiative decisions

# The Fiscal Challenge

In order to accommodate fiscal pressures in 2017-18 and 2018-19, tools were taken on in the 2016 FES and the 2016 Budget.

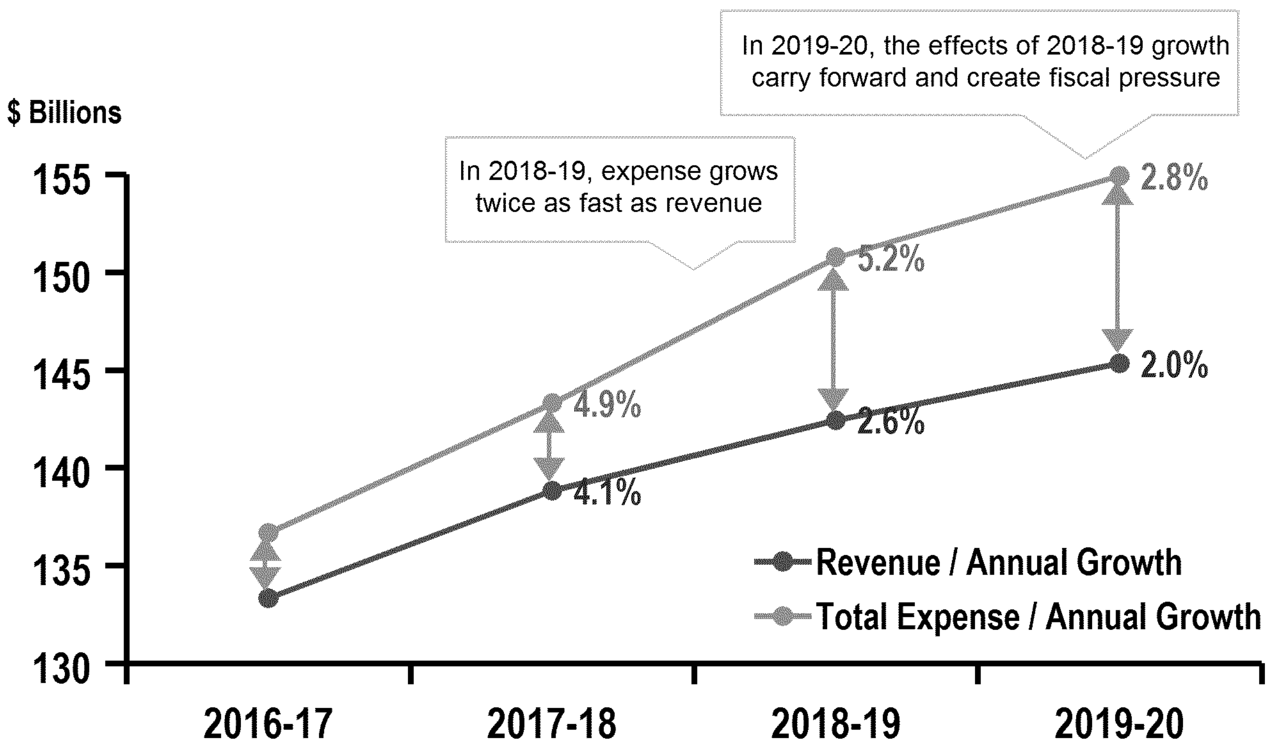
The remaining fiscal gap will need to be addressed through additional tools.



# 2019-20 Outlook Impacted by 2018-19 Trends

Over the outlook, **total expense growth outpaces revenue growth**.

Substantial growth in expense in 2017-18 and 2018-19 results in higher levels of program expense, which **carry forward into 2019-20**.




**2019-20 Expense Consists of:**

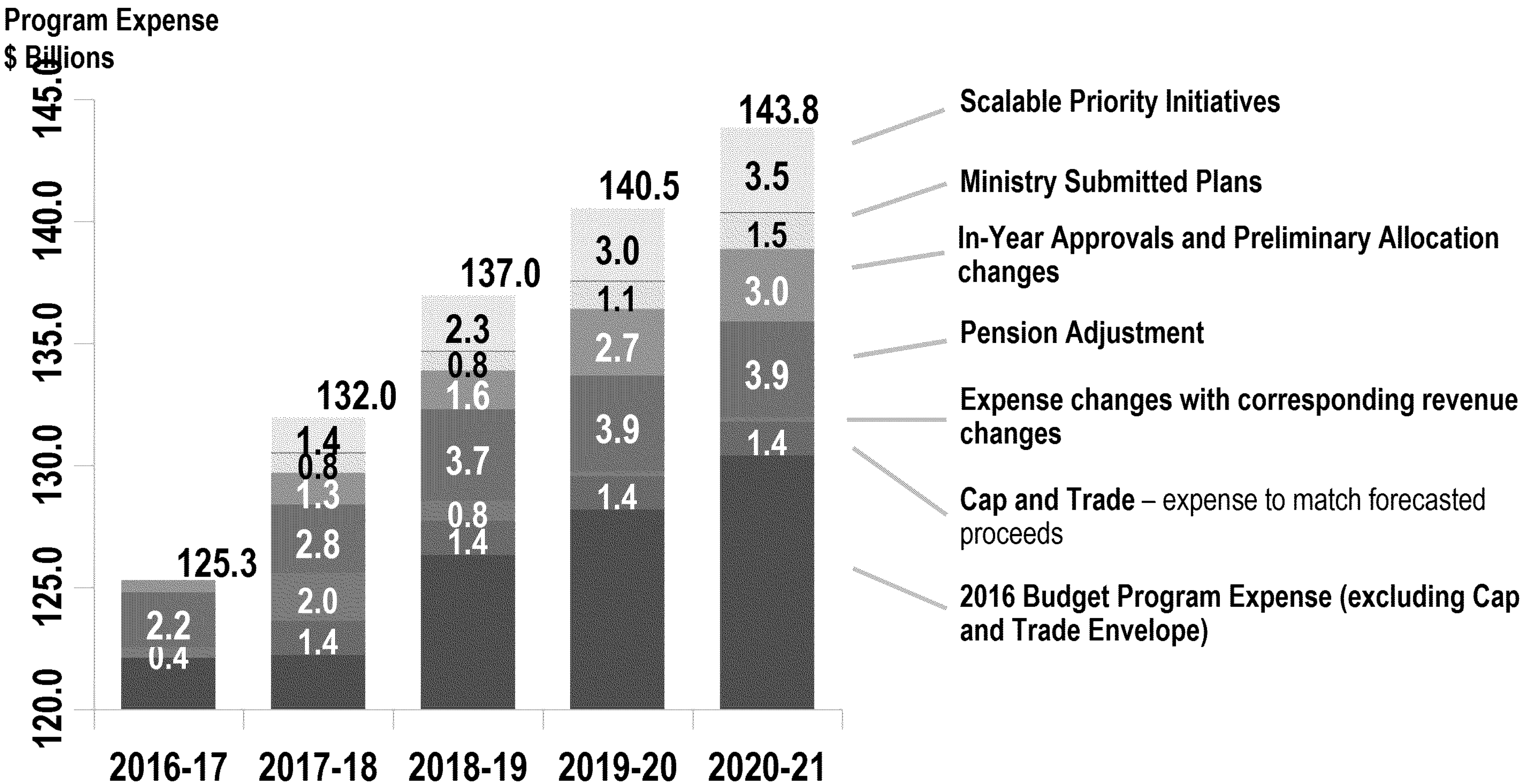
- Pension Adjustment of 3.9 billion
- In-year approvals of 2.7 billion
- Additional Electricity Cost Relief of 2.0 billion
- PRRT Submissions and Scalable Priority Initiatives of 4.1 billion
- Lower proceeds of 0.5 billion and the reversal of 0.6 billion in-plan expense results in an increase of 0.1 billion to expense for new climate change initiatives

**2019-20 Revenue Growth Slowed by:**

- Reduced federal funding
- No one-time asset sales following sale of final H1 tranche in 2018-19
- Projected taxation revenue growth of 3.9 billion in 2019-20, consistent with current private sector forecasts for Ontario economic growth.

*Note: The increase to the municipal share of gas tax is not included. Expense growth rate with the reversal of the pension adjustment is 4.6% in 2017-18 and 5.0% in 2018-19. Remains unchanged in 2019-20.*

# Program Requests

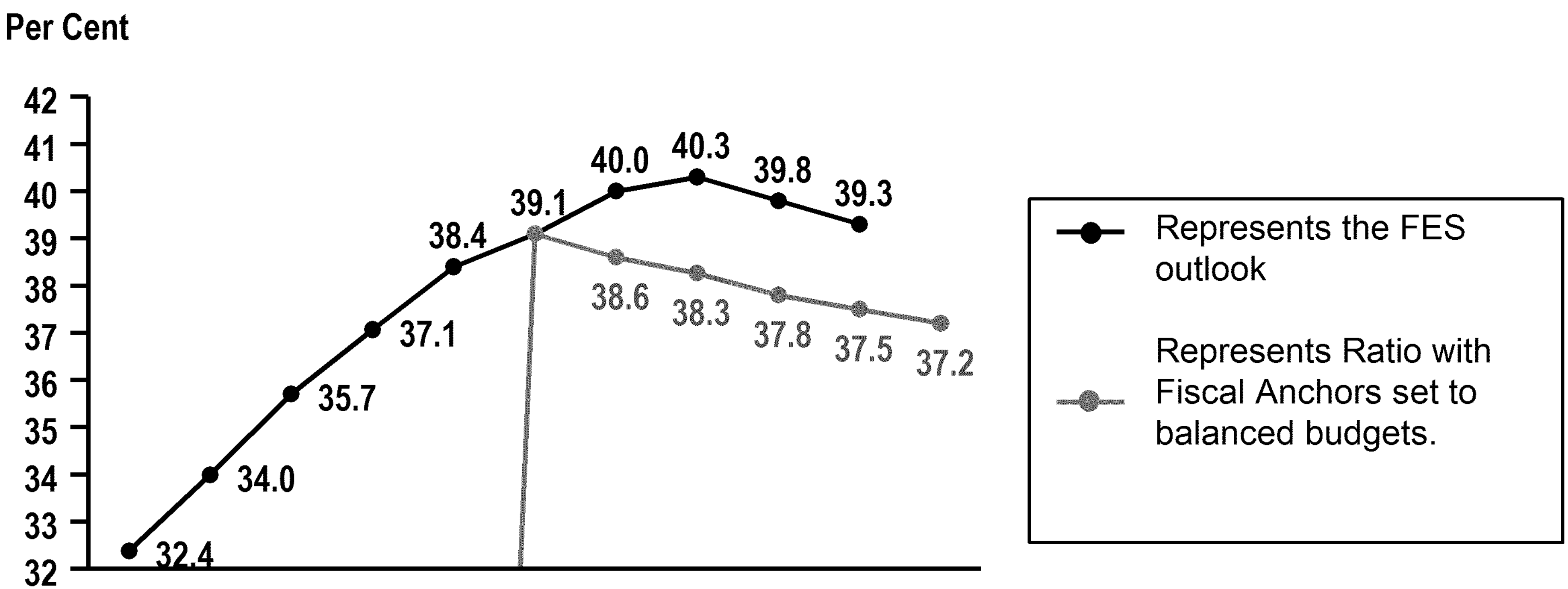



- Program Expense growth at 2016 Budget averaged 1.9% per year between 2014-15 and 2018-19.
- Including ministry requests, average program expense growth is 3.3% between 2014-15 and 2020-21. Adding in interest on debt, the total expense grows at 3.3% over the same period.
- Additional electricity relief could increase the program expense growth rate to 3.6% between 2014-15 and 2020-21.

*Note that the increase to the municipal share of gas tax and the additional electricity cost relief is not included*

# Net Debt-to-GDP With Balanced Budgets

- Depending on the fiscal anchors chosen for the government's fiscal plan, as well as any changes made to the borrowing (e.g. electricity relief, changes in capital spending), net debt to GDP could be in decline.



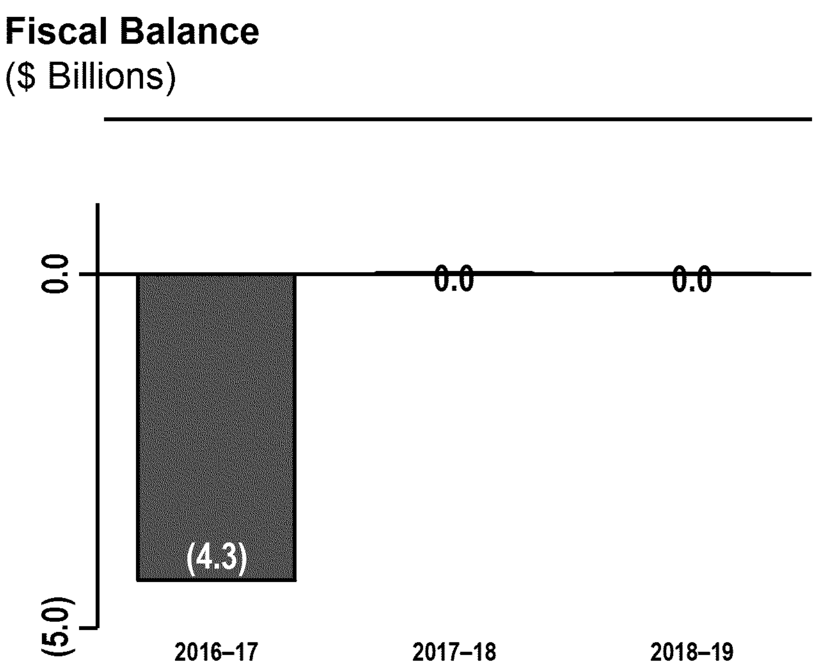
# Evolution of the Reserve over Planning Horizons

| $ Billions | Plan year | Out-Year 1 | Out-Year 2 |
|---|---|---|---|
| **2014 Budget** | 1.0 | 1.2 | 1.2 |
| **2014 Fall Economic Statement** | 0.7 | 1.2 | 1.2 |
| **2015 Budget** | 1.0 | 1.2 | 1.2 |
| **2015 Fall Economic Statement** | 1.0 | 1.2 | 1.2 |
| **2016 Budget** | 1.0 | 1.1 | 1.2 |
| **2016 Fall Economic Statement** | 0.4 | 0.7 | 0.8 |

# 2016 FES Recap

In the 2016 FES, the government continued to forecast deficits of $4.3 billion in 2016-17, a return to balance in 2017-18, and continued balance in 2018-19.

## 2016 FES Fiscal Targets




## Revenue Plan (2016-17 to 2018-19)

- **$2.1 to $3.0 billion** per year increased revenue compared to the 2016 Budget, resulting from higher taxation revenues and a stronger housing market.

## Expense Plan (2016-17 to 2018-19)

- **$3.1 billion to $4.1 billion** per year increase compared to the 2016 Budget, as a result of the Pension Adjustment, and to support strategic initiatives in new child care spaces, hospitals and electricity cost relief for consumers.
- **Contingency Funds** of $0.7 billion in 2016-17, growing to $2.9 billion in 2018-19.
- **Year-end Savings Targets** of $0.8 billion in 2016-17, growing to $1.2 billion in 2018-19.

**Reserve of** $0.4 billion in 2016–17, $0.7 billion in 2017–18, $0.8 billion in 2018–19