

Fiscal Summary
(\$ Millions)

	Actual 1997-98	1998-99		
		Budget Plan	Current Outlook	In-year Change
Revenue	52,488	53,390	54,500	1,110
Expense				
Programs	43,607	45,219	46,190	971
Restructuring and Other Charges	1,595	194	561	367
Total Programs Expense	45,202	45,413	46,751	1,338
Capital	2,523	2,337	2,179	(158)
Public Debt Interest	8,729	9,214	9,132	(82)
Total Expense	56,454	56,964	58,062	1,098
Reserve	--	650	--	(650)
DEFICIT	3,966	4,224	3,562	(662)

HIGHLIGHTS**1998-99 IN-YEAR PERFORMANCE****DEFICIT OUTLOOK AT \$3.6 BILLION**

- ◆ The 1998-99 deficit is projected at \$3,562 million, down \$662 million from the 1998 Budget Plan and down \$1 million from the Second Quarter Ontario Finances.

REVENUE AT \$54.5 BILLION

- ◆ The revenue outlook, at \$54,500 million, is up \$1,110 million from the Budget Plan and up \$286 million from the Second Quarter Ontario Finances, mainly due to higher Retail Sales Tax and Employer Health Tax revenues, which reflects the strength of the Ontario economy.

EXPENSE AT \$58.1 BILLION

- ◆ Total expense, at \$58,062 million, is up \$1,098 million from the Budget Plan and up \$285 million from the Second Quarter Ontario Finances, largely due to additional expense of \$200 million for compensation for individuals who contracted Hepatitis C through the blood system prior to 1986 and after 1990; an additional \$100 million for the Hospital System Transition Fund; and a \$114 million increase in school board operating grants, partially offset by savings, including \$85 million in social assistance.

RESERVE APPLIED TO DEFICIT REDUCTION

- ◆ The \$650 million reserve, designed to protect the fiscal plan against unforeseen risks, such as adverse changes in the economic outlook, and its impact on revenues and public debt interest costs was not needed. Based on the improved revenue outlook for 1998-99, the reserve was applied to deficit reduction in the Second Quarter Ontario Finances.

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Ce rapport est disponible en français.
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ONTARIO FINANCES

DETAILS OF IN-YEAR CHANGES

FISCAL PERFORMANCE

REVENUE

The current revenue outlook of \$54,500 million is \$1,110 million above the \$53,390 million projected in the 1998 Budget Plan and \$286 million above the projection in the Second Quarter Ontario Finances. The increase in the revenue outlook is largely due to higher tax revenues, which reflects the strength of the Ontario economy. Major changes this quarter are:

- ◆ The Retail Sales Tax outlook is increased by \$90 million as a result of the strength of consumer spending in Ontario. The Employer Health Tax projection is increased by \$120 million due to the strength of employment and income growth in 1998. The gasoline tax outlook is \$20 million higher, and the tobacco tax forecast is increased by \$10 million.
- ◆ Local Services Realignment revenue is down by a net \$14 million as a result of reductions in spending, and corresponding reductions in reimbursements to the Province by municipalities, on Social Assistance and Non-Profit Housing, partially offset by an increase in funding (and reimbursements) for GO Transit. During implementation of the *Greater Toronto Services Board Act*, the Province is continuing to provide funding for GO Transit and recover the amount spent from municipalities.
- ◆ Revenue from the Government of Canada is increased by \$60 million under the Canada Study Grants program to support provincial funding for post-secondary students with permanent disabilities, and students with dependants.

OPERATING EXPENSE

- ◆ Net operating expense, at \$55,883 million, is up \$1,256 million from the Budget Plan. Major changes totalling \$450 million this quarter are as follows:
 - ◆ Ministry of Agriculture, Food and Rural Affairs: An additional \$40 million for the Whole Farm Income Assistance program, and \$3 million, fully offset from the Contingency Fund, for necessary Year 2000 computer system changes.
 - ◆ Ministry of the Attorney General: An additional \$5 million for the Family Responsibility Office for enhanced enforcement and customer service, and an additional \$4 million for the Office of the Public Guardian and Trustee to improve service levels to meet current demand and to review ongoing system requirements, both fully offset from the Contingency Fund.
 - ◆ Ministry of Citizenship, Culture and Recreation: An additional \$3 million, fully offset from the Contingency Fund, for necessary Year 2000 computer system changes.
 - ◆ Ministry of Community and Social Services: An additional \$19 million to reinstate Provincial funding for domiciliary hostels as a result of recent Local Services Realignment decisions; an increase of \$9 million, transferred from the Ministry of Municipal Affairs and Housing, for municipal consolidation of social service delivery; an additional \$1 million, fully offset from the Contingency Fund, for necessary Year 2000 computer system changes; savings of \$85 million in social assistance spending due to lower-than-forecast caseloads; and savings of \$2 million as a result of lower-than-anticipated workload increases related to the new Federal Child Support Guidelines.
 - ◆ Ministry of Consumer and Commercial Relations: An additional \$1 million, fully offset from the Contingency Fund, for necessary Year 2000 computer system changes.

ONTARIO FINANCES

DETAILS OF IN-YEAR CHANGES

OPERATING EXPENSE CONT'D

- ◆ Ministry of Education and Training: An additional \$114 million for School Board Operating Grants for increased costs, including additional funding for secondary school credits, special education, and teachers' retirement gratuities; an increase of \$43 million over the \$17 million included in the 1998 Budget, for a total of \$60 million, for Canada Study Grants for post-secondary students with permanent disabilities and students with dependants, fully offset by revenue from the federal government; and an additional \$9 million, fully offset from the Contingency Fund, for necessary Year 2000 computer system changes.
- ◆ Ministry of Finance: An additional \$45 million, partially offset by \$5 million from the Contingency Fund, for the Ontario Child Care Supplement for Working Families; an additional \$7 million, fully offset from the Contingency Fund, transferred to the Ontario Property Assessment Corporation for necessary Year 2000 computer system changes; and an additional \$2 million, fully offset from the Contingency Fund, for costs associated with implementation of 1998 Budget initiatives, including the Tax Integrity Program.
- ◆ Ministry of Health: An additional \$200 million to compensate individuals who contracted Hepatitis C through the blood system prior to 1986 and after 1990; an additional \$100 million for the Hospital System Transition Fund; an additional \$75 million for the Ontario Drug Programs due to increased utilization, offset from underspending within the ministry; and an additional \$6 million, fully offset from the Contingency Fund, for necessary Year 2000 computer system changes.
- ◆ Ministry of Labour: Savings of \$1 million in the Employee Wage Protection Program, and \$1 million in the Older Worker Adjustment Program, as a result of the planned phasing out of both programs.
- ◆ Management Board Secretariat: An increase of \$30 million for payments-in-lieu of municipal taxes to address immediate cash flow needs and provide municipalities with a more stable and predictable environment for 1999 budget planning; an additional \$5 million, fully offset from the Contingency Fund, for necessary Year 2000 computer system changes; and \$18 million in savings in a number of areas, including the Employee Transition Support Fund, Gaming Secretariat, and the Human Resource Management Information System.
- ◆ Ministry of Municipal Affairs and Housing: An additional expense of \$21 million to reflect the interest concession on a \$100 million interest-free loan to the City of Toronto; an additional \$2 million, fully offset from the Contingency Fund, for necessary Year 2000 computer system changes; savings of \$21 million in Non-Profit Housing operations; and a reduction of \$9 million due to the transfer of funding to the Ministry of Community and Social Services for municipal consolidation of social service delivery.
- ◆ Ministry of Natural Resources: An additional \$3 million, fully offset from the Contingency Fund, for necessary Year 2000 computer system changes; savings of \$3 million on CL-415 water bomber leases; and savings of \$1 million due to lower forest fire-fighting costs.
- ◆ Ministry of the Solicitor General and Correctional Services: An additional \$11 million, fully offset from the Contingency Fund, for necessary Year 2000 computer system changes, and savings of \$5 million due to a slower-than-anticipated process of evaluating municipal proposals and entering into Community Policing Partnership agreements for police services across Ontario.
- ◆ Ministry of Transportation: An increase of \$14 million in operating funding for GO Transit as a result of continued provincial funding during implementation of the *Greater Toronto Services Board Act*, fully recovered from municipalities; an additional \$2 million, fully offset from the Contingency Fund, for necessary Year 2000 computer system changes; and an additional \$1 million, fully offset from the Contingency Fund for the Motor Vehicle Impoundment Program.

ONTARIO FINANCES

DETAILS OF IN-YEAR CHANGES

PUBLIC DEBT INTEREST

- ◆ Public Debt Interest is projected at \$9,132 million, down \$82 million from the Budget forecast, and down \$29 million from the Second Quarter Ontario Finances. Interest cost savings are the result of lower-than-budgeted interest rates.

CAPITAL EXPENSE

- ◆ Capital expense at \$2,179 million is down \$158 million from the Budget Plan and down \$165 million from the Second Quarter Ontario Finances. Changes this quarter include:
 - ◆ Ministry of the Attorney General: Savings of \$9 million in courts capital projects.
 - ◆ Ministry of Health: Savings of \$131 million due to slower than originally projected implementation of Health Services Restructuring Commission directions.
 - ◆ Ministry of the Solicitor General and Correctional Services: Savings of \$37 million due to slower-than-anticipated construction in Adult Infrastructure Renewal Projects.
 - ◆ Ministry of Transportation: An increase of \$12 million for GO Transit capital requirements as a result of continued provincial funding during implementation of the *Greater Toronto Services Board Act*, fully recovered from municipalities.

ONTARIO FINANCES

ECONOMIC PERFORMANCE

EMPLOYMENT SURGES IN FOURTH QUARTER OF 1998

- ◆ Ontario employment rose sharply by 82,000 in the fourth calendar quarter of 1998 (October - December), one of the strongest quarters of job creation in Ontario's history.

RECORD JOB GROWTH IN 1998

- ◆ For the year 1998, Ontario employment increased by a record 200,000 net new jobs, almost double the 102,000 job growth in 1997.
- ◆ For 1998, Ontario's unemployment rate was 7.2%, down substantially from the 8.5% rate in 1997.

STRONG JOB GROWTH CONTINUES IN JANUARY 1999

- ◆ In January 1999, employment in Ontario rose 37,200 while the unemployment rate fell to 6.6%, compared to 7.9% in the same month a year earlier.

ECONOMY EXPANDS AT MODERATE PACE IN THE THIRD QUARTER OF 1998

- ◆ In the third calendar quarter of 1998 (July-September), Ontario real Gross Domestic Product (GDP) rose 1.1% at annual rates, as labour disputes in several sectors constrained output.
- ◆ Ontario real GDP rose 3.9% in the first three quarters of 1998, compared to the same period a year ago.

STRONG CONSUMER SPENDING GROWTH IN 1998

- ◆ Over the first eleven months of 1998, Ontario retail sales are up 8.4% from a year earlier.
- ◆ Unit auto sales in Ontario rose 3.8% in 1998.

MANUFACTURING SHIPMENTS GROWING

- ◆ Ontario manufacturing shipments (January to November 1998) rose 4.5%, compared to the same period a year earlier.

ONTARIO EXPORTS RISING IN 1998

- ◆ From January to November 1998, Ontario international merchandise exports increased 10.7% compared to the same period a year earlier.

ONTARIO INFLATION REMAINS LOW IN 1998

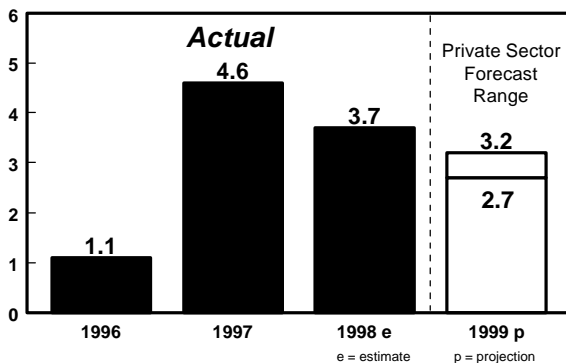
- ◆ Ontario's inflation rate as measured by the Consumer Price Index (CPI) was 0.9% in 1998.

ONTARIO FINANCES

SELECTED FISCAL INDICATORS

Continued Strong Growth Projected

Real GDP growth, average annual per cent

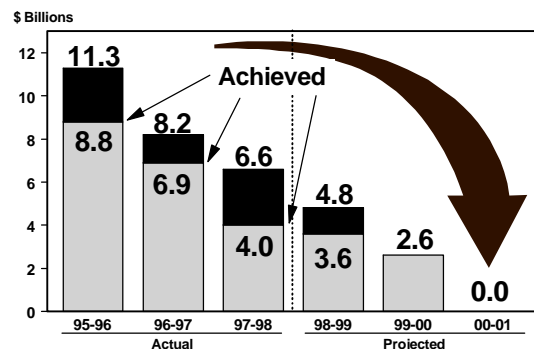


Sources: Statistics Canada, Ontario Ministry of Finance, Survey of Private-Sector Forecasts (January 1999)

The Ontario economy has continued to grow at a healthy pace. Consumer spending, business investment, housing and exports are all contributing to economic growth. Tax cuts, solid job creation and income gains are providing the basis for a sustained expansion. For 1998, the estimate for real GDP growth is 3.7 per cent. Private-sector forecasters expect the Ontario economy to grow faster than the Canadian economy as a whole or any of the G-7 economies over the next three years.

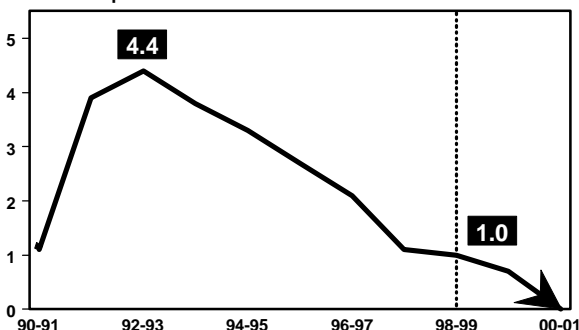
In the fall of 1995 the Government set out its Balanced Budget Plan to eliminate the deficit by the year 2000-01. Ontario remains on track to meet the declining annual deficit targets outlined in the Plan. Based on actual results, 1997-98 was the third year in a row that the deficit reduction target has been overachieved. The 1998-99 Balanced Budget Plan deficit target of \$4.8 billion has been cut by \$1.2 billion. With a deficit forecast at \$3.6 billion, Ontario is on track to overachieve for the fourth consecutive year.

Ontario's Balanced Budget Plan on Track



Deficit Falls to 1.0% of GDP in 1998-99

Deficit as a per cent of GDP



A further indicator of fiscal improvement in Ontario is the declining deficit as a share of the economy. Ontario's deficit will fall to 1.0 per cent of provincial GDP in 1998-99. In the early 1990s, Ontario's deficit rose sharply, reaching a peak of 4.4 per cent of provincial GDP in 1992-93. Under the Balanced Budget Plan, the deficit will be reduced to 1.0 per cent this year, and fall to zero in 2000-01 when the deficit is eliminated.

ONTARIO FINANCES

RECENT ECONOMIC DEVELOPMENTS

KEY ECONOMIC INDICATORS								
(% Change from previous period, unless indicated otherwise)								
		Annual	Quarterly					
		1997	97:2	97:3	97:4	98:1	98:2	98:3
Output (Seasonally Adjusted Annual Rate)								
Real GDP	Ontario	4.6	6.7	6.8	2.0	5.7	1.3	1.1
Nominal GDP	Ontario	5.3	5.8	6.3	1.9	5.1	1.4	(0.9)
		Annual	Annual	Monthly 1998				
		1997	1998	Sept	Oct	Nov	Dec	Jan
Other Indicators (Seasonally Adjusted)								
Labour Markets								
Labour Force (Change in 000s)	Ontario	76	135	60	24	11	20	19
Employment (Change in 000s)	Ontario	102	200	58	34	13	20	37
Private Sector	Ontario	125	154	53	48	38	13	48
Public Sector	Ontario	(23)	46	5	(14)	(25)	7	(11)
Unemployment Rate (%)	Ontario	8.5	7.2	7.1	7.0	6.9	6.9	6.6
Household Sector								
Retail Sales	Ontario	7.8	N/A	1.0	(1.4)	1.2	N/A	N/A
Urban Housing Starts (000s)	Ontario	50.0	50.1	48.0	53.5	49.4	54.5	54.1
New Home Sales*	Toronto	30.6	4.6	(8.4)	1.1	(5.3)	18.7	N/A
MLS Home Sales*	Ontario	1.9	(1.5)	3.8	(6.5)	(1.5)	5.3	N/A
Manufacturing Shipments	Ontario	8.1	N/A	0.0	3.2	1.6	N/A	N/A
Transportation Equipment	Ontario	12.7	N/A	1.1	9.6	3.0	N/A	N/A
Consumer Price Index: All Items	Ontario	1.9	0.9	0.8	1.0	1.2	0.9	N/A

Sources: Statistics Canada, Ontario Ministry of Finance, Canada Mortgage and Housing Corporation, Toronto Real Estate Board, Canadian Real Estate Association, Ward's Automotive.

* % change from a year earlier

ONTARIO FINANCES

FINANCIAL TABLES

REVENUE

(\$ Millions)	Actual 1997-98	1998-99		
		Budget Plan	Current Outlook	In-Year Change
TAXATION REVENUE				
Personal Income Tax	16,293	14,635	16,085	1,450
Retail Sales Tax	10,843	11,435	11,525	90
Corporations Tax	7,456	7,600	7,600	--
Employer Health Tax	2,851	2,780	2,900	120
Gasoline Tax	2,028	2,045	2,065	20
Fuel Tax	563	600	600	--
Tobacco Tax	425	470	480	10
Land Transfer Tax	565	580	580	--
Mining Profits Tax	40	50	50	--
Race Tracks Tax	4	6	6	--
Preferred Share Dividends Tax	60	55	55	--
Other Taxation	73	190	190	--
	41,201	40,446	42,136	1,690
GOVERNMENT OF CANADA				
Canada Health and Social Transfer	3,970	3,950	3,480	(470)
Bilingualism Development	49	40	40	--
Young Offenders Act	59	59	59	--
Vocational Rehabilitation	53	46	46	--
Canada-Ontario Infrastructure Works	116	92	92	--
Social Housing	387	353	353	--
Other	464	388	325	(63)
	5,098	4,928	4,395	(533)
INCOME FROM GOVERNMENT ENTERPRISES				
Ontario Lottery Corporation	714	840	840	--
Liquor Control Board of Ontario	745	760	760	--
Ontario Casino Corporation	771	915	915	--
Other	61	(77)	(77)	--
	2,291	2,438	2,438	--
OTHER REVENUE				
Vehicle/Driver Registration Fees	820	915	915	--
Other Fees and Licences	616	570	574	4
Liquor Licence Board of Ontario Revenues	506	510	510	--
Royalties	286	265	265	--
Sales and Rentals	582	480	470	(10)
Fines and Penalties	174	40	40	--
Local Services Realignment -				
Reimbursement of Expenditure	519	2,261	2,247	(14)
Miscellaneous	395	537	510	(27)
	3,898	5,578	5,531	(47)
TOTAL REVENUE	52,488	53,390	54,500	1,110

OPERATING EXPENSE

(\$ Millions)		1998-99		
		Budget Plan	Current Outlook	In-Year Change
MINISTRY	Actual 1997-98			
Agriculture, Food and Rural Affairs	306	340	386	46
Farm Tax Rebate	158	--	--	--
Attorney General	680	733	744	11
Board of Internal Economy	113	121	121	--
Citizenship, Culture and Recreation	280	307	319	12
Community and Social Services	7,989	7,848	7,776	(72)
Consumer and Commercial Relations	92	133	137	4
Economic Development, Trade and Tourism	194	170	203	33
Education and Training	7,700	10,204	10,676	472
Teachers' Pension Plan	1,443	61	61	--
School Board Transition	224	117	161	44
Energy, Science and Technology	69	161	142	(19)
Environment	142	143	156	13
Executive Offices	14	19	19	--
Finance - Own Account	690	691	756	65
Public Debt Interest	8,729	9,214	9,132	(82)
Community Reinvestment Fund	169	677	677	--
Restructuring and Other Charges - Unallocated	--	--	400	400
Health	18,208	18,682	18,731	49
Health Care Restructuring	532	--	--	--
Hepatitis C Compensation	113	--	200	200
Canadian Blood Services Start-up	--	--	220	220
Hospital System Transition Fund	--	--	100	100
Intergovernmental Affairs	5	4	4	--
Labour	87	111	74	(37)
Management Board Secretariat	352	348	380	32
Public Service/OPSEU Pension Plan	(86)	(100)	(100)	--
Contingency Fund	--	830	610	(220)
OPS Employee Severance	(159)	--	--	--
Retroactive Pay Equity Payments	140	--	--	--
Special Circumstances Fund	--	77	77	--
Municipal Affairs and Housing	2,395	1,728	1,600	(128)
Municipal Capital and Operating Restructuring Fund	23	--	--	--
Municipal Restructuring Fund	71	--	--	--
Native Affairs Secretariat	10	9	10	1
Natural Resources	405	388	455	67
Northern Development and Mines	62	100	100	--
Office of Francophone Affairs	2	3	3	--
Office Responsible for Women's Issues	18	21	21	--
Solicitor General and Correctional Services	1,173	1,188	1,215	27
Transportation	709	499	517	18
Restructuring	50	--	--	--
TTC Five Year Capital Transfer	829	--	--	--
Year-end Savings	--	(200)	(200)	--
TOTAL OPERATING EXPENSE	53,931	54,627	55,883	1,256

CAPITAL EXPENSE

(\$ Millions)		1998-99		
MINISTRY	Actual 1997-98	Budget Plan	Current Outlook	In-Year Change
Agriculture, Food and Rural Affairs	1	3	3	--
Attorney General	47	91	83	(8)
Citizenship, Culture and Recreation	7	5	5	--
Community and Social Services	51	20	23	3
Economic Development, Trade and Tourism	3	--	--	--
Education and Training	380	379	379	--
Energy, Science and Technology	--	45	45	--
Environment	98	51	51	--
Municipal Capital and Operating Restructuring Fund	--	29	29	--
Finance	7	1	1	--
Health	106	471	340	(131)
Management Board Secretariat	80	10	10	--
Municipal Affairs and Housing	152	91	58	(33)
Native Affairs Secretariat	11	12	12	--
Natural Resources	209	29	29	--
Northern Development and Mines	173	179	179	--
Solicitor General and Correctional Services	12	72	36	(36)
Transportation	1,186	849	896	47
TOTAL CAPITAL EXPENSE	2,523	2,337	2,179	(158)

RESTRUCTURING AND OTHER CHARGES

(\$ Millions)	1998-99
1998-99 Budget Provision	194
Changes in Second Quarter	
Special Circumstances Fund: Reallocated to Programs	(77)
Increase in School Board Transition Costs	<u>44</u>
Net Changes	(33)
Increased Provision in Second Quarter	<u>400</u>
Total Restructuring and Other Charges	561
Allocation:	
School Board Transition Costs	161
Unallocated / Still to be Distributed	<u>400</u>
TOTAL	561

STATEMENT OF FINANCIAL TRANSACTIONS

(\$ Millions)	Actual 1997-98	1998-99		
		Budget Plan	Current Outlook	In-Year Change
Deficit	3,966	4,224	3,562	(662)
Cash Timing Adjustments	197	3,804	3,537	(267)
Net Cash Requirements	4,163	8,028	7,099	(929)
Maturing Debt	5,792	5,820	6,380	560
Borrowing on Behalf of Agencies	(128)	286	130	(156)
Total Financing Requirements	9,827	14,134	13,609	(525)
Financed by:				
Decrease in Liquid Reserves	267	3,040	3,040	--
Other Sources	(375)	(66)	--	66
Increase in Short-term Borrowing	(1,340)	1,984	1,393	(591)
Long-term Borrowing*	11,275	9,176	9,176	--
TOTAL FINANCING	9,827	14,134	13,609	(525)

* Including Ontario Savings Bonds

1998-99 FINANCING ACTIVITIES TO DATE

(\$ Millions)	Issued		
	(as of December 31)	Remaining	% Completed
LONG TERM FINANCING	8,212	964	89.5%

◆ Long-term financing undertaken in this quarter totalled \$1,491 million as follows:

	(\$ Million)
Canadian Domestic Market	898
U.S. Market	386
New Zealand Market	207
	1,491

- ◆ Maturing debt was revised upward to reflect redemptions of Ontario Savings Bonds.
- ◆ Borrowing on behalf of agencies was revised downward from the Budget forecast to reflect lower loan requirements and principal repayments by government agencies.
- ◆ The Province's total direct debt is forecast to be \$109.7 billion at March 31, 1999, up from \$105.5 billion at March 31, 1998.