
ANNEX II

Ontario's Finances

Introduction

One year ago, former provincial auditor Erik Peters was asked by the Premier-designate to undertake an independent review of the Province's finances. The review concluded that the Province faced a potentially large deficit for 2003-04, now confirmed to be \$5.5 billion. This deficit was not a one-year anomaly in an otherwise healthy fiscal situation. It was a structural deficit caused by several years of much faster growth in program spending than in government tax revenues. The structural deficit also raised significant accountability and transparency issues.

The 2004 Ontario Budget set out a four-year plan to improve accountability and transparency, and restore fiscal balance. The cornerstone of this plan is the proposed Fiscal Transparency and Accountability Act (FTAA), introduced in the legislature last May. Key elements of the proposed Act include requirements for a multi-year fiscal plan, a discussion of risks in the budget and mid-year report, as well as a pre-election report on the Province's finances that would be reviewed by the Provincial Auditor.

The 2004 Budget laid out the government's four-year plan to achieve a balanced budget through a mix of revenue generation, cost-containment measures and economic growth initiatives. The structural deficit inherited from the previous government is being dealt with by taking a balanced and responsible approach to deficit reduction over the medium term, while providing funding for necessary programs and services to the public. The government is on track to achieve its multi-year fiscal plan. The \$5.5 billion deficit in 2003-04 will be reduced to \$2.2 billion in 2004-05, \$2.1 billion in 2005-06 and \$1.5 billion in 2006-07. Ontario's books will be balanced by 2007-08.

This paper will provide an overview on:

- **Section I:** 2004-05 Second Quarter Fiscal Update;
- **Section II:** Medium-Term Fiscal Plan and Outlook; and
- **Section III:** Potential Risks, Cost Drivers and Contingent Liabilities.

Section I: 2004-05 Second Quarter Fiscal Update

2004-05 FISCAL SUMMARY

As at September 30, a deficit of \$2,168 million is projected in 2004-05, an in-year improvement of \$71 million from the deficit projected in the 2004 Budget and an improvement of \$67 million from the outlook presented in the First Quarter Ontario Finances. The current 2004-05 fiscal outlook reflects the projected fiscal impact of the recent First Ministers' health agreement, which will increase Ontario's revenue and health spending by \$824 million. The majority of these investments will be used to reduce wait times and improve access to primary care, home care, and community mental health care services.

2004-05 Fiscal Outlook (\$ Millions)				
	Actual 2003-04	Budget Plan 2004-05	Outlook* 2004-05	In-Year Change
Revenue**	68,400	78,360	79,041	681
Expense				
Programs	62,104	66,695	67,520	825
Capital	2,175	2,575	2,575	--
Interest on Debt	9,604	10,329	10,114	(215)
Total Expense	73,883	79,599	80,209	610
Reserve	--	1,000	1,000	--
Surplus / (Deficit)	(5,483)	(2,239)	(2,168)	71

* Second-quarter fiscal forecast as at September 30.

** Includes one-time revenue gain of \$3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

Source: Ontario Ministry of Finance.

- Total revenue is projected at \$79.0 billion, a net increase of \$0.7 billion from the 2004-05 Budget Plan. This increase is primarily due to the First Ministers' health agreement, which increases federal payments to Ontario by \$824 million.
- Total expense is projected to increase to \$80.2 billion, up a net \$0.6 billion from the Budget Plan. As a result of the recent First Ministers' health agreement, the Ministry of Health and Long-Term Care will receive an additional \$824 million that will be spent on health care for Ontarians. This increase is partially offset by interest on debt savings of \$215 million.
- The reserve, included to protect the fiscal plan against unexpected and adverse changes in the economic and fiscal outlook, is unchanged at \$1 billion. Any portion of the reserve not required at year-end will be used to reduce the deficit.

IN-YEAR REVENUE PERFORMANCE

Total revenue in 2004-05 is projected at \$79,041 million, a net increase of \$681 million from the 2004-05 Budget Plan and \$677 million over the First Quarter Ontario Finances, mainly due to new revenues provided under the First Ministers' health agreement.

Summary of 2004-05 In-Year Revenue Changes Since Budget (\$ Millions)

Revenue Changes This Quarter:*

Taxation Revenue

Personal Income Tax	130	
Retail Sales Tax	(160)	
Gasoline Tax	(65)	
Land Transfer Tax	50	
		(45)

Government of Canada

Canada Health Transfer	388	
Medical Equipment	194	
Wait Times Reduction Fund	242	
		824

Income from Government Enterprises

Ontario Lottery and Gaming Corporation	(102)	
Liquor Control Board of Ontario	(9)	
		(111)

Other Non-Tax Revenue

Liquor Licence Revenue	8	
Miscellaneous Other Non-Tax Revenue	1	
		9

Total Revenue Changes This Quarter	677
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Net Revenue Changes Reported in First Quarter Ontario Finances	4
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Total In-Year Revenue Changes	681
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* Second-quarter fiscal forecast as at September 30.
Source: Ontario Ministry of Finance.

Changes to the revenue forecast this quarter include:

- Personal Income Tax revenue increasing by \$130 million primarily due to higher 2003 tax assessments.
- Retail Sales Tax revenue decreasing by \$160 million primarily due to weaker consumer durable goods expenditures, notably low levels of vehicle sales to date this year.
- Gasoline Tax revenue decreasing by \$65 million due to reduced consumption corresponding to higher pump prices for gasoline.
- Land Transfer Tax revenue increasing by \$50 million due to continued high levels of housing resales.
- Federal Payments increasing by \$824 million based on the First Ministers' health agreement. This amount includes increases in the Canada Health Transfer (\$388 million), Medical Equipment revenue (\$194 million) and new revenue (\$242 million) for the Wait Times Reduction Fund.
- Ontario Lottery and Gaming Corporation (OLGC) net income decreasing by \$102 million largely due to lower earnings from the border casinos. Business at border casinos continues to be adversely affected by the decreasing value of the U.S. dollar and perceived border-crossing slowdowns. Lower Pro-Line lottery profits attributable to the National Hockey League labour dispute also lowered the OLGC net income outlook.
- Market developments in the brewing industry have led to a move of warehousing and shipping functions for some products from the Liquor Control Board of Ontario (LCBO) to the brewing industry. This results in a \$9 million reduction in LCBO net income through lower mark-up revenue (\$8 million) and lower out-of-store cost of service fees (\$1 million). The lower LCBO mark-up revenue is fully offset by increased Alcohol and Gaming Commission of Ontario fees, resulting in increased Liquor Licence Revenue of \$8 million.
- Miscellaneous Other Non-Tax Revenue increasing by \$1 million from the Proceeds of Crime and Civil Remedies Special Purpose Accounts to offset the cost of managing forfeited assets as a result of combatting indoor marijuana grow operations in 2004-05.

IN-YEAR EXPENSE PERFORMANCE

As at September 30, total expense for 2004-05 is projected at \$80,209 million, up a net \$610 million from the 2004-05 Budget Plan and First Quarter Ontario Finances. This increase is largely due to increased health spending of \$824 million, equal to Ontario's entitlement based on the First Ministers' health agreement. This increase is partially offset by interest on debt savings of \$215 million.

Summary of 2004-05 In-Year Expense Changes Since Budget (\$ Millions)

Operating Expense Changes This Quarter:*

Health Spending—increase reflects First Ministers' health agreement	824	
Justice Technology Service—transfer to Ministry of the Attorney General	8	
Fully offset from Ministry of Community Safety and Correctional Services	(8)	
Peterborough flood disaster assistance	5	
Fully offset from the Contingency Fund	(5)	
Integrated Financial Information System—implementation	3	
Fully offset from the Contingency Fund	(3)	
Managing forfeited assets—combatting indoor marijuana grow operations	1	
Interest on debt savings	(215)	
Total Operating Expense Changes This Quarter		610

Capital Expense Changes This Quarter:*

Ontario Research Fund	13	
Fully offset from the Capital Contingency Fund	(13)	
Peterborough flood disaster assistance	3	
Fully offset from the Capital Contingency Fund	(3)	
Total Capital Expense Changes This Quarter		--

Net Expense Changes Reported in First Quarter Ontario Finances	--
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Total In-Year Expense Changes	610
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* Second-quarter fiscal forecast as at September 30.

Sources: Ontario Ministry of Finance and Ontario Ministry of Public Infrastructure Renewal.

Operating Expense Changes

- As a result of the recent First Ministers' health agreement, the Ministry of Health and Long-Term Care will receive an additional \$824 million that will be spent on health care for Ontarians. Of the additional \$824 million, \$194 million has been allocated for the purchase of medical equipment. The remaining \$630 million will be used for investments to reduce wait times and improve access to primary care, home care and community mental health care services.
- An additional \$8 million was provided in-year to the Ministry of the Attorney General as a result of the transfer of Justice Technology Services from the Ministry of Community Safety and Correctional Services.
- An in-year expense increase of \$5 million in the Ministry of Municipal Affairs and Housing, fully offset from the Contingency Fund, was provided for disaster relief assistance due to the flooding in Peterborough in July 2004. This funding supported emergency costs incurred by individuals and small businesses, as well as public emergency response costs for the municipality.
- An additional \$3 million was provided in-year for the continued implementation of the Integrated Financial Information System, fully offset from the Contingency Fund. The Ministry of the Attorney General, Ministry of Community Safety and Correctional Services and Management Board Secretariat each received \$1 million.
- An additional \$1 million was provided in-year to the Ministry of the Attorney General for the costs of managing forfeited assets as a result of combatting indoor marijuana grow operations in 2004-05, fully offset by revenue.
- Savings of \$215 million on interest on debt are attributable to lower-than-planned interest rates and cost-effective debt management.

Capital Expense Changes

- An additional \$13 million was provided to the Ministry of Economic Development and Trade for the Ontario Research Fund, fully offset from the Capital Contingency Fund, to match the federal government's Canada Foundation for Innovation (CFI) grants. This funding will enable Ontario researchers to acquire and upgrade equipment and infrastructure to enhance research.
- An in-year expense increase of \$3 million in the Ministry of Municipal Affairs and Housing, fully offset from the Capital Contingency Fund, was provided for disaster relief assistance due to the flooding in Peterborough in July 2004. This funding is supporting the repair of public infrastructure in the Peterborough area.

ONTARIO STRATEGIC INFRASTRUCTURE FINANCING AUTHORITY

In the 2004 Ontario Budget, the government created the Ontario Strategic Infrastructure Financing Authority (OSIFA) as an innovative financing vehicle that can be used by the broader public sector to renew and build critical public infrastructure assets. Renewing Ontario's public infrastructure improves the quality of public services and helps build a strong and prosperous economy. This financing vehicle also provides the federal government with an opportunity to partner with Ontario. We continue to encourage the federal government to participate in renewing Ontario's infrastructure.

OSIFA Infrastructure Renewal Loan Program

OSIFA will continue to develop and implement an infrastructure renewal loan program that provides efficient and affordable financing to meet critical municipal, health and housing infrastructure priorities. OSIFA is based on a proven "pooled financing" concept that aggregates the infrastructure investment needs of many borrowers into one borrowing pool. OSIFA offers low-cost and longer-term financing to assist borrowers in renewing their infrastructure. The loans provided by OSIFA will be a key vehicle to achieving critical infrastructure objectives, particularly for many small municipal and other broader public-sector borrowers. Larger borrowers can benefit from significant savings on transaction costs.

OSIFA's 2004-05 infrastructure renewal loan program, announced in the 2004 Ontario Budget, is focusing on Ontario's municipalities, offering affordable infrastructure financing for key municipal priorities: clean water infrastructure, sewage and waste management infrastructure, municipal roads and bridges, public transit, municipal long-term care facilities and renewal of municipal social housing. OSIFA is assisting 170 Ontario municipalities in communities across the province. Over \$2 billion in OSIFA financing is helping these municipalities with infrastructure investments for over 1,000 local projects.

Infrastructure Renewal Bonds

Funding for the Authority's infrastructure renewal loan program will come from the proceeds of the sale of Infrastructure Renewal Bonds (IRBs). These bonds will be available to institutional and individual investors. They will offer an investment that is backed by the credit strength of the broader public sector. As promised in the 2004 Ontario Budget, the first issue of IRBs will take place later this fiscal year. IRBs will provide local investors with a solid investment for their families and an opportunity to invest in Ontario's local infrastructure.

Ontario Strategic Infrastructure Financing Authority Loans/Commitments

Category	Category Commitments	Total Loans/ Commitments	
		(\$ Millions)	%
Clean Water Infrastructure	126	599	28
Sewage Infrastructure	83	641	30
Waste Management Infrastructure	17	67	3
Municipal Roads	70	434	20
Municipal Bridges	41	83	4
Public Transit	13	161	7
Municipal Long-Term Care	10	181	8
Total		2,166	100

Note: Numbers may not add due to rounding.

Source: Ontario Strategic Infrastructure Financing Authority.

Some examples of OSIFA's low-cost loans include over \$5 million for sewage infrastructure in St. Clair Township; \$0.9 million for clean water in Killarney; \$0.3 million for bridges in Thames Centre; and \$6.7 million for roads in the County of Dufferin.

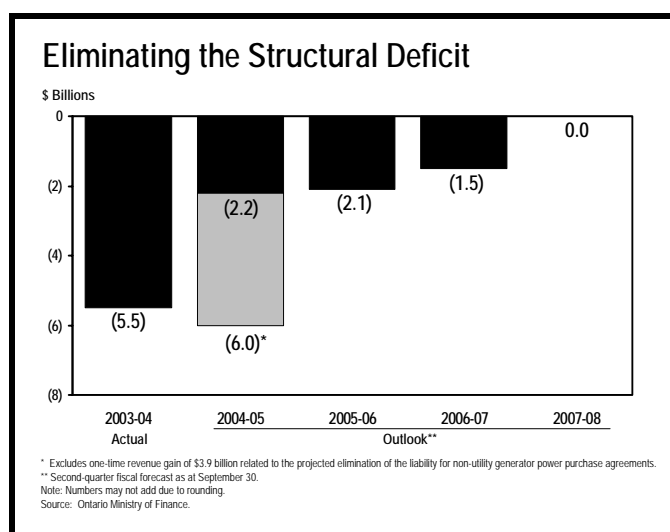
Round 2 of OSIFA's 2004 loan program closed on October 29, 2004. An announcement indicating the approved municipal applications will be made shortly. For more information on OSIFA's loan program, please visit www.osifa.on.ca.

Section II: Medium-Term Fiscal Plan and Outlook

MEDIUM-TERM FISCAL PLAN

In 2000-01, program spending by the previous government began to grow significantly faster than the rate of growth in taxation revenues, gradually creating the conditions for the fiscal imbalance or structural deficit that persists today. The current government's plan to eliminate the structural deficit will be achieved by transforming and modernizing government, and by holding program spending growth to less than the rate of growth in taxation revenues over the medium term.

The 2004 Budget laid out a clear four-year strategy to eliminate the structural deficit and achieve a balanced budget through a mix of revenue generation, cost-containment measures and economic growth initiatives. The government's medium-term fiscal plan includes steadily declining deficit targets of \$2.2 billion in 2004-05, \$2.1 billion in 2005-06, \$1.5 billion in 2006-07 and a balanced budget by 2007-08.



The government is on track to meet these targets. As at September 30, the projected fiscal outlook is a deficit of \$2,168 million in 2004-05, an improvement of \$71 million from the target set out in the 2004 Budget. The deficit target of \$2.2 billion includes a one-time revenue gain of \$3.9 billion related to the projected elimination of the above-market liability for power purchase agreements with non-utility generators, if the proposed new legislation is passed, and the electricity market structure is in place this fiscal year.

MEDIUM-TERM FISCAL OUTLOOK

The government's medium-term fiscal outlook originally outlined in the 2004 Budget has been updated to reflect the impact of the recent First Ministers' health agreement. As a result of the agreement, Provincial revenues and Ministry of Health and Long-Term Care spending have both increased by \$0.8 billion in 2004-05, \$1.2 billion in 2005-06, and \$1.3 billion in 2006-07 and 2007-08. The government's deficit targets for the medium term are unchanged, culminating in a balanced budget in 2007-08.

The following table outlines the current medium-term fiscal plan and outlook for the Province, including details of key revenue sources and planned spending for key sectors through to 2007-08.

Medium-Term Fiscal Outlook* (\$ Billions)				
	2004-05	2005-06	2006-07	2007-08
Revenue				
Taxation Revenue	54.0	57.7	60.6	63.5
Government of Canada	11.6	12.9	12.7	13.1
Income from Government Enterprises	3.5	4.1	4.0	4.1
Other Non-Tax Revenue**	10.0	6.4	6.5	6.6
Total Revenue	79.0	81.1	83.9	87.3
Expense				
Programs				
Health Care	30.5	32.1	33.2	34.1
Change Fund - Health Care***	0.6			
Education	10.6	11.3	11.7	12.0
Training, Colleges and Universities	4.2	4.3	4.3	4.4
Social Services	9.1	9.4	9.6	9.7
Justice	2.9	2.9	2.8	2.8
Other Programs	9.6	8.5	8.6	8.9
Total Programs	67.5	68.4	70.2	71.9
Capital	2.6	2.5	2.5	2.5
Interest on Debt	10.1	10.8	11.1	11.5
Total Expense	80.2	81.7	83.9	85.8
Reserve	1.0	1.5	1.5	1.5
Surplus / (Deficit)	(2.2)	(2.1)	(1.5)	0.0

* Second-quarter fiscal forecast as at September 30.

** Includes one-time revenue gain of \$3.9 billion related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

*** Expense outlook for 2004-05 includes a one-time Change Fund of \$1.0 billion, including \$0.6 billion to assist with the transformation of the health care sector.

Note: Numbers may not add due to rounding.

Source: Ontario Ministry of Finance.

Revenue

The medium-term revenue outlook from 2005-06 to 2007-08 is unchanged from the 2004 Budget, except for the additional revenues provided as a result of the First Ministers' health agreement. While there have been a number of changes in the composition of the revenue outlook in the current year, it is expected that these changes will largely offset each other over the medium term.

Total revenue in 2007-08 is projected at \$87.3 billion, an increase of \$8.3 billion or 10.5 per cent over the 2004-05 forecast of \$79.0 billion. Apart from \$3.9 billion in one-time revenues arising in 2004-05 from the projected elimination of the liability associated with power purchase agreements with non-utility generators, the forecast growth of revenue between 2004-05 and 2007-08 is 16.2 per cent.

- Taxation Revenue is forecast to increase by \$9.5 billion between 2004-05 and 2007-08, at an average annual growth rate of 5.6 per cent. The average annual growth rate of nominal gross domestic product over the 2005 to 2007 period is 5.1 per cent. The maturation of measures announced in the 2004 Budget, particularly the proposed Ontario Health Premium that will be fully implemented in 2005-06, boosts the growth of Provincial tax revenues above what would normally be expected given the economic outlook.
- Federal Payments to Ontario are forecast to increase by \$1.5 billion between 2004-05 and 2007-08, with an average annual growth rate of 4.1 per cent. The projection is consistent with the current federal- provincial transfer arrangements and funding formula, and includes the new funding provided under the First Ministers' health agreement of \$824 million in 2004-05, \$1.2 billion in 2005-06, and \$1.3 billion in 2006-07 and 2007-08.
- Income from Government Enterprises is forecast to rise by \$0.6 billion between 2004-05 and 2007-08, with an average annual growth rate of 5.8 per cent.
- Other Non-Tax Revenue is forecast to increase by \$0.5 billion between 2004-05 and 2007-08, at an average annual growth rate of 2.6 per cent, excluding \$3.9 billion in one-time revenues arising in 2004-05 from the projected elimination of the liability associated with power purchase agreements with non-utility generators.

Expense

Over the medium term, total expense will rise from \$80.2 billion this year to \$85.8 billion in 2007-08, an increase of \$5.6 billion. Annual growth in total expense will average 2.3 per cent over this period, down from the 8.6 per cent rate of growth projected for 2004-05, a transition year as the Province moves to results-based fiscal planning and budgeting.

This slowing of Provincial spending growth over the medium term reflects:

- the maturing of the results-based planning process with improved accountability in Provincial spending; and
- a greater realignment of fiscal planning and budgeting to focus on the government's priorities and results.

In order to address the structural deficit inherited from the previous government and ensure a sustainable fiscal policy, program spending growth over the medium term will be held to a rate well below the rate of growth in taxation revenue.

To modernize and transform public services, a comprehensive review of programs the government delivers is underway. The composition of ministries' multi-year results-based planning numbers could vary significantly. These numbers will be reported in the 2005 Ontario Budget.

Reserve

Reserves of \$1.0 billion in 2004-05, growing to \$1.5 billion in subsequent years, have been included in the medium-term fiscal outlook to protect against unexpected and adverse changes in the economic and fiscal outlook.

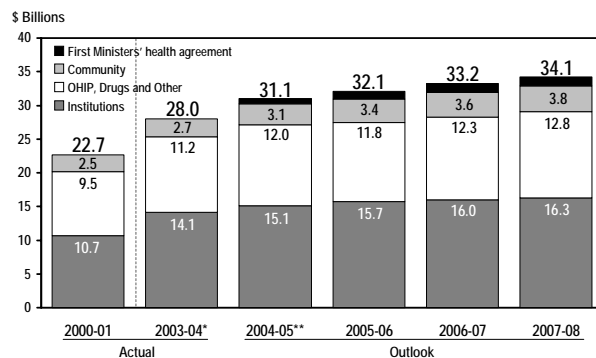
SECTOR OUTLOOK

Health Care

In September 2004, the Ontario Government, along with the other provinces and the federal government, signed a national health care agreement (First Ministers' health agreement) that will provide additional funds for health care including funding to help shorten wait times. As a result of the First Ministers' health agreement, spending in health care services is projected to increase by \$824 million in 2004-05, \$1.2 billion in 2005-06, and \$1.3 billion in 2006-07 and 2007-08 above otherwise planned levels as noted in the 2004 Budget.

Including this additional new federal funding, health care base program funding over the medium term will rise by more than \$3.0 billion from \$31.1 billion in 2004-05 to \$34.1 billion in 2007-08. Excluding the additional funds from the First Ministers' health agreement, major areas of health care spending in 2004-05 include \$11.3 billion in operating support to Ontario's 152 hospitals and \$7.1 billion in OHIP payments to physicians and other service providers. The remainder of more than \$11.8 billion in health care spending supports a wide range of services, including funding for drug

Health Operating Spending



* Excludes SARS-related health costs of \$0.6 billion and major one-time costs of \$0.2 billion.
** Includes \$0.6 billion for initiatives funded through the Change Fund in 2004-05.
Note: Numbers may not add due to rounding. 2000-01 has been restated. See Tables and Graphs section for more details.
Source: Ontario Ministry of Finance.

programs, long-term care facilities, home care and other community services.

The results expected in this sector, as highlighted in the government's *Progress Report 2004*, are:

Shorter waiting times for key services

- Reduce waiting times for MRIs and CT scans, cancer care, cataract and cardiac procedures, and hip and knee joint replacements

More families with access to primary health care

- Establish 150 Family Health Teams to provide comprehensive primary care

Preventing illness, promoting wellness

- Reduce illnesses from smoking, obesity and environmental pollution

Education

Ministry of Education operating spending is projected to increase from \$10.6 billion in 2004-05 to \$12.0 billion in 2007-08. On a school-year basis, funding to school boards through the Grants for Student Needs (GSN) will increase by \$2.1 billion in 2007-08 over the 2003-04 level. Per-student funding over the same period will increase by more than 14 per cent to nearly \$9,100 in 2007-08, or over \$1,100 per student.

The results expected in this sector, as highlighted in the government's *Progress Report 2004*, are:

Higher literacy and math achievement

- Increase the percentage of Grade 6 students performing at or above the standard on the Provincial reading and math tests to 75%
- Improve the performance of those schools where 2/3 or more of the students do not meet the Provincial standard in Grade 3 reading tests

Lower high school drop-out rate

- Reduce the number of students who leave high school without a diploma

To support a better learning environment, the medium-term plan includes enhancements such as \$90 million in 2004-05 to begin to cap class sizes at 20 students for junior kindergarten to Grade 3 and \$200 million annually, starting in 2005-06, for an infrastructure fund to repair crumbling schools. Additional enhancements include \$133 million in 2004-05, annualizing to \$250 million in 2005-06, primarily to provide resources to teachers to help every child progress towards achieving the provincial standard in literacy and math and turnaround

teams of experts working with poor-performing schools to improve student performance.

Training, Colleges and Universities

To support post-secondary education, student financial assistance, and apprenticeship and training programs, the operating spending of the Ministry of Training, Colleges and Universities is projected to increase by \$0.5 billion between 2003-04 and 2007-08. Post-secondary funding in 2004-05 includes \$3.0 billion to support the basic operating costs of colleges and universities and to assist in increasing enrolment in post-secondary education by 50,000 students. Student financial assistance of \$0.4 billion in 2004-05 will be provided for the Ontario Student Assistance Program, scholarships and bursaries. The Province has launched a Post-secondary Review, headed by former premier Bob Rae, to provide advice about the design and funding of Ontario's post-secondary education system.

The results expected in this sector, as highlighted in the government's *Progress Report 2004*, are:

A skilled workforce

- Increase participation in post-secondary education and skills training
- Increase the percentage of internationally trained people becoming qualified to work in Ontario

In addition, Ministry spending over four years on training and apprenticeship program activities, set at \$0.3 billion in 2004-05, will increase the number of apprenticeship registrations by 7,000 annually. This spending will also support the integration of internationally trained professionals into Ontario, including

bridging training programs that provide Canadian work experience.

Social Services

Funding for the social services sector, which includes the Ministries of Community and Social Services, and Children and Youth Services, is projected to increase \$0.6 billion by 2007-08 from the 2004-05 level. In 2004-05, operating expense in the Ministry of Community and Social Services includes \$4.6 billion to provide assistance to individuals and families through Ontario Works, Ontario Disability Support and the Ontario Drug Benefit Plan. In addition, \$1.0 billion is provided this year for support services for people with developmental disabilities, including community living, respite care and specialized community supports.

The major components of spending in the Ministry of Children and Youth Services include \$1.1 billion in 2004-05 for child welfare services and \$0.6 billion for child care supports, including child care fee subsidies to help make the system more affordable.

Justice Sector

The justice sector, comprising the Ministry of the Attorney General and Ministry of Community Safety and Correctional Services, will spend \$2.9 billion in 2004-05 to support justice programs and build stronger, safer communities. This funding will support the operation of 40 Provincial jails and detention centres, housing an average of about 7,700 offenders each day, and the supervision of another 80,000 offenders serving sentences in the community. Other key justice sector programs and services include legal aid and victims' services, the funding of about 5,000 Ontario Provincial Police officers across the province and the operation of over 250 courts, prosecuting about 500,000 charges a year.

Other Program Spending

Funding for all other Provincial programs in 2004-05 is \$9.6 billion. Spending in this sector focuses on such varied areas as ensuring that Ontario has a clean environment, competitive business climate, efficient government services and a reliable supply of energy.

The results expected in this sector, as highlighted in the government's *Progress Report 2004*, are:

Competitive business environment

- Ensure a competitive business environment that will attract jobs to, and investment in, Ontario's economy
- Ensure a reliable energy supply

Modern, efficient public services

- Deliver timely, cost-effective and accountable public services

This funding also supports the Ontario Automotive Investment Strategy, a \$500 million multi-year funding commitment, that will increase investment in new innovative technologies and enhanced skills training to ensure Ontario maintains its competitive advantages in automobile and parts production.

To modernize and transform public services, a comprehensive review of programs the government delivers is underway. The composition of ministries' multi-year results-based planning numbers could vary significantly. These numbers will be reported in the 2005 Ontario Budget.

INFRASTRUCTURE INVESTMENT

Investments for Economic Growth and Quality of Life

Modernizing Ontario's Transportation Infrastructure

- Two cents of the gas tax for municipal transit systems, started with the first cent this October.
- New Canada-Ontario Municipal Rural Infrastructure Fund for rural roads and bridges and water and waste water management projects.
- Projects underway to improve the Windsor, Niagara and Sarnia border crossings, including improvements to the Windsor-Detroit Tunnel Plaza and to the Queenston-Lewiston Bridge. Planning for potential new or expanded border crossings in Windsor and Niagara is proceeding through two bi-national processes.
- First phase of cross-GTA Bus Rapid Transit system under construction in Mississauga.
- Investments to make GO Transit more convenient and attractive, including brand-new stations in Brampton and Newmarket and expanded parking lots at the Whitby, Ajax and Clarkson stations.
- An environmental assessment is underway relating to the extension of the Spadina subway line.
- Environmental assessments for the new Waterloo LRT and expansion of the Ottawa O-Train.
- Long-term program to rebuild Highway 401 through Toronto is well underway, improving safety and relieving congestion.
- Highway 69 safety initiative between Sudbury and Parry Sound to add paved shoulders, truck lay-by stations and electronic signs with traffic and weather condition updates.

Infrastructure is fundamental to a prosperous economy, modern and efficient public services, and Ontario's high quality of life. Its impact on productivity is profound. Every additional \$1 million invested in public infrastructure reduces Ontario business costs by \$200,000 annually.

Ontario's gross capital investment of \$3.3 billion in 2004-05 will help improve the transportation networks vital to the economy, help reduce wait times for health services, improve learning environments for students, and contribute to a cleaner environment.

This investment is being used to keep our current assets in good working order, to upgrade them to meet new standards or provide better services, and to build new infrastructure to accommodate economic and population growth.

Transforming Ontario's Health Infrastructure

- New and expanded regional cancer centres to reduce wait times and provide treatment closer to home: Lakeridge Health in Oshawa, Credit Valley Hospital, the Hamilton Health Sciences Centre and the Grand River Hospital in Kitchener.
- Modernization and expansion projects worth over \$25 million each are in progress at nearly 40 hospitals in communities across the province including Toronto, Brampton, Mississauga, Hamilton, London, Windsor, Orillia, Ottawa and Parry Sound.
- Upgrading children's treatment centres in North Bay, London, Windsor and Thunder Bay.

The government is also planning for the long term. For the first time, the Province is developing a Ten-Year Infrastructure Plan. The new growth management plan for the Greater Golden Horseshoe Area will help guide future infrastructure investments in ways that accommodate growth while preserving green space and valuable agricultural land.

Investing in Ontario's Education & Research Infrastructure

- More than 21,000 new spaces over three years at 13 colleges and universities.
- A new \$2 billion investment to repair crumbling schools across the province.
- \$25 million for research infrastructure.

The government has established a Water Expert Panel to provide advice on the future organization, governance, investment, financing and pricing of Ontario's water and wastewater systems (www.waterpanel.ontario.ca).

The Province will soon be launching, with the federal government and the Association of Municipalities of Ontario, the \$900 million Canada-Ontario Municipal Rural Infrastructure Fund (COMRIF) for small and rural municipalities to improve water and wastewater treatment systems, waste management and to fix local roads and bridges.

Ontario's global competitive position depends upon leading-edge research. The Province will create a new Ontario research fund that will provide \$300 million over four years for research infrastructure in hospitals, post-secondary institutions and other research institutes, including \$25 million this year.

MODERNIZING GOVERNMENT

The 2004 Ontario Budget included a commitment to undertake a comprehensive review of the programs the government delivers, in order to ensure the long-term fiscal viability of the programs that matter most to Ontarians.

This review process, co-ordinated through the Ministry of Finance, is a systematic effort to align long-term budgeting with priorities and results. The government's focus is on modernizing and transforming public services to achieve long-term, cost-effective results.

The first measures in this review include:

- Identifying opportunities for federal-provincial streamlining.
- Modernizing inter-ministry service delivery and transactions, including:
 - reviewing Ontario's annual expenses on information technology, which exceed \$0.9 billion;
 - reviewing Ontario's internal purchasing and business transactions;
 - supporting the OntarioBuys Working Group in work underway to identify and expand best practices in supply chain management in Ontario's broader public sector, with a focus on Ontario's hospitals; and
 - finalizing the implementation of the government-wide Integrated Financial Information System (IFIS).

The results of these and other modernizing government initiatives will be reported on in the coming weeks and months, in keeping with the government's commitment to open, accountable public-sector management.

MAINTAINING A PRUDENT DEBT-TO-GDP RATIO

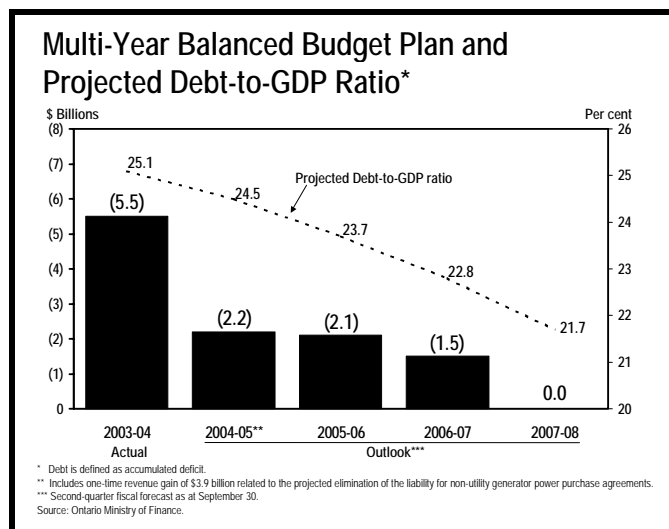
As part of the government's plan to eliminate the structural deficit and ensure that the Province lives within its means, the government is committed to maintaining a prudent level of Provincial debt relative to the size of Ontario's economy or Gross Domestic Product (GDP). This objective is consistent with the reforms identified in the 2004 Budget and outlined in the government's proposed Fiscal Transparency and Accountability Act (FTAA).

Ongoing debt accumulation can significantly limit the extent to which vital public services can be funded, as increasing interest on debt charges "crowd out" funds available for spending on other government priorities. In fact, over the past 25 years, the share of total expense devoted to paying interest on Ontario's debt has more than doubled: from about 6 per cent of total expense in 1978-79 to 13 per cent in 2003-04.

High debt levels can also incur intergenerational costs, where the current consumption of Ontario's services is paid for by future generations. Should legitimate circumstances arise wherein the government determines that deficits are necessary in order to respond effectively to short-term economic and fiscal considerations and priorities, the FTAA would require the government to indicate how it plans to return the Province's books to balance.

It is important to note that the performance of the debt-to-GDP ratio is heavily dependent upon a range of factors—including, for example, variations in the economic and fiscal outlook. For example, assuming all fiscal targets are met, a sustained one percentage point change in nominal GDP growth over the medium term could affect the debt-to-GDP ratio by +/- 0.8 percentage points by 2007-08. There are other risks as well, like changing the composition of the Province's reporting entity to reflect the financial position of school boards and school authorities, community colleges and hospitals.

Consistent with its plan to balance the budget, the government is committed to improving the Province's debt-to-GDP ratio by three percentage points from 25.1 per cent in 2003-04 to no more than 22 per cent by 2007-08. By achieving this target, the government will have reduced the Province's debt-to-GDP ratio to its lowest level in 15 years.



Section III: Potential Risks, Cost Drivers and Contingent Liabilities

This section highlights some of the key sensitivities and risks to the fiscal plan that could follow from unexpected changes in economic conditions or program demand. It should be cautioned that these sensitivities and risks are only useful guidelines and can vary, depending on the nature and composition of potential risk.

THE ONTARIO ECONOMY AND PROVINCIAL REVENUES

A growing economy with rising incomes and consumer spending generates higher revenues to pay for public services. Taxation revenues comprise the largest category of revenue for the Provincial government. Of the \$79 billion forecast as Provincial revenue for 2004-05, \$54 billion or about 68 per cent is expected to come from taxation revenue. Three revenue sources within this category—Personal Income Tax, Retail Sales Tax and Corporations Tax—account for 53 per cent of total revenue. Inherent in any multi-year revenue forecast is uncertainty about the future.

Selected Economic and Revenue Risks and Sensitivities

Item/Key Components	2004-05 Assumption	Sensitivities
Total Taxation Revenues		
- Revenue Base ¹	3.9 per cent growth	\$505 million change in revenues per percentage point change in nominal GDP growth. Can vary significantly depending on composition and source of changes in GDP growth.
- Real GDP	2.3 per cent growth in 2004	
- Nominal GDP	4.4 per cent growth in 2004	
- GDP Deflator	2.0 per cent growth in 2004	
Personal Income Tax Revenues		
Tax Assessments		
- Revenue Base	\$18.3 billion in 2003 4.2 per cent growth in 2004-05	\$365 million change in 2004-05 revenues for each percentage point change in 2003 tax assessments. ^{2,4}
Key Economic Assumptions		
- Employment	1.7 per cent growth in 2004	\$220 million change in 2004-05 revenues for each percentage point change in wages and salaries growth.
- Wages and Salaries	3.3 per cent growth in 2004	
- Unincorporated Business Income	5.1 per cent growth in 2004	
Key Revenue Assumptions		
- Net Capital Gains Income	4.4 per cent growth in 2004	\$5 million change in revenue per one percentage point change in net capital gains income growth.
- RRSP Deductions	4.9 per cent growth in 2004	
		\$10 million change in revenue per one percentage point change in RRSP deductions growth.
Retail Sales Tax Revenues		
- Revenue Base	4.0 per cent growth	\$90 million change in revenue per percentage point change in nominal consumption expenditure growth.
Includes:		
- Taxable Consumer Spending	2.0 per cent growth	
- Other Taxable Spending	6.4 per cent growth	
Key Economic Assumptions		
- Retail Sales	2.9 per cent growth in 2004	
- Nominal Consumption Expenditure	3.7 per cent growth in 2004	

Selected Economic and Revenue Risks and Sensitivities

Item/Key Components	2004-05 Assumption	Sensitivities
Corporations Tax Revenues		
- Revenue Base	5.8 per cent growth	\$50 million change in revenue per percentage point change in pre-tax corporate profit growth.
- Corporate Profits	8.6 per cent growth in 2004	
- 2003-04 tax assessment refunds ³	\$1.7 billion payable	
		\$34 million change in the opposite direction in revenue per one percentage point change in 2003-04 refunds. ⁴
Employer Health Tax Revenues		
- Revenue Base	3.1 per cent growth	\$30 million change in revenue per percentage point change in wages and salaries growth.
- Wages and Salaries	3.3 per cent growth in 2004	
Ontario Health Premium Revenues		
- Revenue Base	4.3 per cent growth	\$20 million change in revenue per percentage point change in personal income growth.
- Personal Income	3.5 per cent growth in 2004	
Gasoline Tax Revenues		
- Revenue Base	0.0 per cent growth	\$8 million change in the opposite direction in revenue per one cent per litre change in gasoline prices.
- Gasoline pump prices	80 cents per litre	
Fuel Tax Revenues		
- Revenue Base	6.3 per cent growth	\$10 million change in revenue per percentage point change in real GDP growth.
- Real GDP	2.3 per cent growth in 2004	
Land Transfer Tax Revenues		
- Revenue Base	9.0 per cent growth	\$10 million change in revenue per percentage point change in both the number and prices of housing resales.
- Housing Resales	6.1 per cent growth in 2004	
- Resale Prices	7.2 per cent growth in 2004	

Selected Economic and Revenue Risks and Sensitivities

Item/Key Components	2004-05 Assumption	Sensitivities
Health and Social Transfers		
- Canada-wide Revenue Base	\$21.6 billion	\$30 million change in revenue per one-tenth percentage point change in population share.
- Ontario Population Share	38.8 per cent	
- Ontario PIT Base Share	44.0 per cent	\$10 million change in the opposite direction in revenue per one-tenth percentage point change in PIT base share.
- Ontario Revenue Share	37.1 per cent	

1. Revenue base is revenue excluding the impact of measures, adjustments for past Public Accounts estimate variances and other one-time factors.
2. Ontario 2003 Personal Income Tax (PIT) revenue is currently an estimate because 2003 tax returns are currently being assessed by Canada Revenue Agency.
3. Corporations Tax refunds arising during 2003-04 are still an estimate because tax returns for corporate fiscal years ending in Ontario's 2003-04 fiscal year are still being assessed by the Tax Revenue Division of the Ontario Ministry of Finance.
4. Now that 2003-2004 Public Accounts of Ontario have been finalized, any change in 2003 PIT assessments or 2003-04 Corporations Tax revenues will have a dual effect on 2004-05 revenues through a) a change in the revenue base upon which this year's growth is applied, and b) a revenue adjustment applied against the current year in respect of any variance from the estimate included in the 2003-2004 Public Accounts.

EXPENSE RISKS AND SENSITIVITIES

Many programs delivered by the Province are subject to potential risks and cost drivers such as utilization growth or enrolment and caseload changes. The following sensitivities are based on averages for program areas and might change, depending on the nature and composition of the potential risk.

Selected Expense Risks and Sensitivities		
Program	2004-05 Assumption	Sensitivities
Hospitals	Annual growth of 4.4 per cent	One per cent change in hospital funding: \$113 million.
Drug Programs	Annual growth of 8.3 per cent (in health/seniors)	One per cent change in utilization of all drug programs: \$31 million (seniors and social assistance recipients).
Home Care/Community Services	Over 15.6 million hours of homemaking and support services	One per cent change in hours of homemaking and support services: \$4 million.
	7.9 million nursing and professional visits	One per cent change in nursing and professional visits: \$5 million.
Long-Term Care Facilities	Approximately 74,400 long-term care facility beds	Annual average Provincial operating cost per bed, after resident co-payment revenue, in a long-term care facility is over \$33,000. One per cent change in number of beds: \$25 million.
Elementary and Secondary Schools	Almost 2 million average daily pupil enrolment	One per cent enrolment change: \$160 million.
College Students	151,000 full-time students	One per cent enrolment change: \$6 million.
University Students	295,000 full-time students	One per cent enrolment change: \$20 million.
Ontario Works	196,000 average annual caseload	One per cent caseload change: \$15 million.
Ontario Disability Support Program	225,000 average annual caseload	One per cent caseload change: \$22 million.

Selected Expense Risks and Sensitivities

Program	2004-05 Assumption	Sensitivities
Judicial System	2.8 million adult inmate days per year	Average cost \$155 per inmate per day. One per cent change in inmate days: \$4 million.
Interest on Debt	Average cost of borrowing at the time of the 2004 Budget was expected to be approximately 4.9 per cent.	The impact of a 100 basis-point change in borrowing rates is expected to be approximately \$150 million.

COMPENSATION COSTS

Compensation costs and wage settlements are key cost drivers and have a substantial impact on both the finances of broader public-sector partners and the Province.

Sector	Cost of 1% salary increase	Size of Sector
OHIP Payments to Physicians	\$58 million*	Over 21,000 physicians in Ontario, comprising 10,000 family doctors and 11,000 specialists.
Hospital Nurses	\$34 million*	Over 40,000 nurses in hospitals.
Elementary and Secondary School Staff	\$119 million**	Over 180,000 staff including teachers, principals, administrators, support and maintenance staff.
Ontario Public Service	\$45 million*	Over 60,000 public servants.

* Based on 2003-04.

** One per cent increase to salary benchmarks in Grants for Student Needs based on 2004-05 school year.

CONTINGENT LIABILITIES

Consistent with the recommendations of the proposed Fiscal Transparency and Accountability Act (FTAA), the following is a disclosure of the contingent liabilities of the Province. It is reproduced from the 2003-2004 Annual Report and Consolidated Financial Statements of the 2003-2004 Public Accounts of Ontario, released in September 2004.

Obligations Guaranteed by the Province

The authorized limit for loans guaranteed by the Province as at March 31, 2004 was \$4.4 billion (March 31, 2003, \$5.2 billion). The outstanding loans guaranteed and other contingencies amounted to \$3.4 billion at March 31, 2004 (March 31, 2003, \$4.1 billion). A provision of \$397 million (March 31, 2003, \$391 million) based on an estimate of the likely loss arising from guarantees under the Student Support Programs has been expensed and is reflected in the 2003-2004 Annual Report and Consolidated Financial Statements of the Province.

Ontario Nuclear Funds Agreement

The Province, Ontario Power Generation Inc. (OPG, a wholly owned subsidiary) and certain subsidiaries of OPG, are parties to the Ontario Nuclear Funds Agreement (ONFA), to establish, fund and manage segregated funds to ensure sufficient funds are available to pay the costs of nuclear station decommissioning and nuclear used fuel waste management. Under ONFA, the Province is liable to make payments should the cost estimate for nuclear used fuel waste management rise above specified thresholds, for a fixed volume of used fuel. The likelihood and amount by which the cost estimate could rise above these thresholds cannot be determined at this time. The cost estimate will be updated periodically, to reflect new developments in the management of nuclear used fuel waste.

As well, under ONFA, the Province guarantees a return of 3.25 per cent over the Ontario Consumer Price Index for the nuclear used fuel waste management fund. If the earnings on assets in that fund exceed the guaranteed rate, the Province is entitled to the excess.

On July 31, 2003, two agreements came into effect to satisfy the Canadian Nuclear Safety Commission (CNSC) licensing requirements for financial guarantees in respect of OPG's nuclear station decommissioning and nuclear waste management obligations. One agreement, between the Province, OPG and the CNSC, gives CNSC access to the segregated funds established under ONFA. The other agreement, between the Province and CNSC, provides a direct provincial guarantee to CNSC on behalf of OPG. This guarantee, for up to \$1.5 billion, relates to the portion of the decommissioning and waste management obligations not funded by the segregated funds. In return, the Province will receive from OPG an annual fee equal to 0.5 per cent of the value of the direct provincial guarantee.

Social Housing—Loan Insurance Agreements

For all non-profit housing projects in the Provincial portfolio, the Province is liable to indemnify and reimburse the Canada Mortgage and Housing Corporation (CMHC) for any net costs, including any environmental liabilities, incurred as a result of project defaults, directly or indirectly, through the Ministry of Municipal Affairs and Housing or Ontario Housing Corporation.

At March 31, 2004, there were \$9.0 billion (March 31, 2003, \$9.3 billion) of mortgage loans outstanding. As operating subsidies provided are sufficient to ensure that all mortgage payments can be made when due, default is unlikely. To date, there have been no claims for defaults on insured mortgage loans.

Claims Against the Crown

At March 31, 2004, there were claims outstanding against the Crown of which 80 (March 31, 2003, 77) are for amounts over \$50 million. These claims arise from legal action, either in progress or threatened, in respect of aboriginal land claims, breach of contract, damages to persons and property and like items, and are listed in Volume 1, 2003-2004 Public Accounts of Ontario, Section 3. The cost to the Province, if any, cannot be determined because the outcome of these actions is uncertain.

Conclusion

Upon assuming office, the government inherited a structural deficit. This imbalance between revenues and expense did not happen overnight, but was several years in the making. Unless addressed, this fiscal imbalance would lead to continued chronic and unacceptable deficits through the medium term.

The 2004 Ontario Budget laid out a four-year strategy to eliminate this structural deficit and achieve a balanced budget. The government's medium-term plan achieves this through a mix of revenue generation, cost-containment measures and economic growth initiatives. At the same time, the government's plan takes a balanced and responsible approach to deficit reduction by providing funding for necessary public services and programs.

While the recent provision of additional funding from the federal government for health care was welcome, the fiscal challenges facing the Province are significant. Addressing these challenges will require ongoing vigilance and a commitment to the government's medium-term fiscal plan.

Tables and Graphs

Statement of Financial Transactions
(\$ Millions)

Table 1

	2000-01	2001-02	2002-03	Actual 2003-04	Outlook* 2004-05
Revenue**	66,294	66,534	68,891	68,400	79,041
Expense					
Programs	51,396	53,932	57,204	62,104	67,520
Capital***	2,123	1,890	1,876	2,175	2,575
Interest on Debt	10,873	10,337	9,694	9,604	10,114
Total Expense	64,392	66,159	68,774	73,883	80,209
Reserve	-	-	-	-	1,000
Surplus / (Deficit)	1,902	375	117	(5,483)	(2,168)
Net Debt†	132,496	132,121	132,647	138,557	141,493
Accumulated Deficit†	132,496	132,121	118,705	124,188	126,356

Note 2000-01 to 2002-03 have been restated to reflect the reclassification of adjustments related to recovery of prior years' expenses from expense to revenue consistent with the 2003-2004 Public Accounts of Ontario. This change has no impact on the Surplus/Deficit.

* Second-quarter fiscal forecast as at September 30.

** Includes one-time revenue gain of \$3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

*** Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

† Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit plus the change in tangible capital assets. Accumulated Deficit is calculated as the difference between liabilities and financial and tangible capital assets. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit.

Revenue (\$ Millions)						Table 2
	2000-01	2001-02	2002-03	Actual 2003-04	Outlook* 2004-05	
Taxation Revenue						
Personal Income Tax	17,911	19,097	18,195	18,301	19,050	
Retail Sales Tax	13,735	13,803	14,183	14,258	14,876	
Corporations Tax	9,200	6,646	7,459	6,658	8,250	
Employer Health Tax	3,424	3,502	3,589	3,753	3,862	
Gasoline Tax	2,172	2,192	2,306	2,264	2,263	
Fuel Tax	648	659	682	681	716	
Ontario Health Premium	-	-	-	-	1,622	
Tobacco Tax	504	703	1,183	1,350	1,452	
Land Transfer Tax	642	665	814	909	977	
Electricity Payments-In-Lieu of Taxes	907	387	711	627	630	
Other Taxes	333	371	429	347	259	
	49,476	48,025	49,551	49,148	53,957	
Government of Canada						
Canada Health and Social Transfer (CHST)	4,138	5,831	7,346	6,958	-	
Canada Health Transfer (CHT)	-	-	-	-	5,065	
Canada Social Transfer (CST)	-	-	-	-	2,924	
CHST Supplements	757	380	191	577	775	
Social Housing	541	524	525	528	521	
Health Reform Fund	-	-	-	387	582	
Medical Equipment	190	190	-	192	387	
Wait Times Reduction Fund	-	-	-	-	242	
Infrastructure	2	-	97	150	267	
Other Government of Canada	501	829	735	1,101	859	
	6,129	7,754	8,894	9,893	11,622	
Income from Investment in Government Business Enterprises						
Ontario Lottery and Gaming Corporation	2,181	2,255	2,288	2,106	2,015	
Liquor Control Board of Ontario	877	904	939	1,045	1,108	
Ontario Power Generation Inc. and Hydro One Inc.	783	179	717	(17)	335	
Other Government Enterprises	14	7	(2)	(64)	(5)	
	3,855	3,345	3,942	3,070	3,453	
Other Non-Tax Revenue						
Net Reduction of Power Purchase Contract Liability**	-	-	161	104	4,024	
Reimbursements	1,809	1,592	1,111	1,206	1,252	
Electricity Debt Retirement Charge	-	-	889	1,000	1,009	
Vehicle and Driver Registration Fees	929	941	982	985	987	
Power Sales	695	815	635	510	675	
Other Fees and Licences	503	474	606	594	536	
Liquor Licence Revenue	525	530	530	488	507	
Sales and Rentals	637	344	560	532	403	
Royalties	235	224	304	248	239	
Miscellaneous Other Non-Tax Revenue†	1,501	2,490	726	622	377	
	6,834	7,410	6,504	6,289	10,009	
Total Revenue†	66,294	66,534	68,891	68,400	79,041	

* Second-quarter fiscal forecast as at September 30.

** Includes one-time revenue gain of \$3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

† 2000-01 to 2002-03 have been restated to reflect the reclassification of adjustments related to recovery of prior years' expenses from expense to revenue consistent with the 2003-2004 Public Accounts of Ontario. This change has no impact on the Surplus/Deficit.

Operating Expense (\$ Millions)					Table 3
Ministry	2000-01	2001-02	2002-03	Actual 2003-04	Outlook* 2004-05
Agriculture and Food [†]	635	775	616	673	549
Attorney General	969	995	1,052	1,199	1,172
Board of Internal Economy	116	124	146	196	149
Children and Youth Services	2,070	2,244	2,431	2,640	2,832
Citizenship and Immigration [†]	66	59	53	52	62
Community and Social Services [†]	5,800	5,807	5,842	5,995	6,317
Community Safety and Correctional Services [†]	1,419	1,513	1,656	1,666	1,738
Consumer and Business Services	155	172	178	182	213
Culture	236	279	331	303	277
Democratic Renewal Secretariat	-	-	-	-	4
Economic Development and Trade [†]	200	221	242	253	414
Education [†]	7,963	8,354	8,998	9,665	10,623
Teachers' Pension Plan (TPP)	(402)	42	238	235	359
Energy	344	367	144	116	137
Environment	190	265	237	261	304
Executive Offices	21	19	20	24	19
Finance - Own Account [†]	1,147	1,197	1,092	1,255	1,184
Interest on Debt	10,873	10,337	9,694	9,604	10,114
Change Fund	-	-	-	-	328
Community Reinvestment Fund	561	557	622	651	656
Electricity Consumer Price Protection Fund	-	-	665	253	-
Power Purchases	695	815	786	797	946
Health and Long-Term Care [†]	22,701	23,923	25,800	28,036	30,476
Change Fund	-	-	-	-	609
SARS-related and Major One-Time Health Costs	-	-	-	824	-
Intergovernmental Affairs	6	6	9	6	9
Labour	104	110	123	117	133
Management Board Secretariat [†]	144	246	186	214	356
Retirement Benefits	(33)	63	102	309	433
Contingency Fund	-	-	-	-	957
Municipal Affairs and Housing [†]	1,792	1,136	636	662	697
Native Affairs Secretariat [†]	17	13	16	15	14
Natural Resources	417	438	454	516	505
Northern Development and Mines	69	75	73	76	73
Office of Francophone Affairs	4	5	3	3	4
Public Infrastructure Renewal	9	15	33	18	31
Tourism and Recreation	124	143	135	209	184
Training, Colleges and Universities [†]	3,264	3,290	3,471	3,883	4,194
Transportation [†]	593	664	814	800	862
Year-End Savings	-	-	-	-	(300)
Total Operating Expense[†]	62,269	64,269	66,898	71,708	77,634

* Second-quarter fiscal forecast as at September 30.

† 2000-01 to 2002-03 have been restated to reflect the reclassification of adjustments related to recovery of prior years' expenses from expense to revenue consistent with the 2003-2004 Public Accounts of Ontario. This change has no impact on the Surplus/Deficit.

Capital Expense [†]
(\$ Millions)

Table 4

Ministry	2000-01	2001-02	2002-03	Actual 2003-04	Outlook* 2004-05
Agriculture and Food	1	29	68	1	7
Attorney General	42	46	43	24	55
Children and Youth Services	10	6	7	-	9
Community and Social Services	4	25	16	10	21
Community Safety and Correctional Services	99	88	66	47	42
Consumer and Business Services	-	-	1	1	2
Culture	18	14	42	24	70
Economic Development and Trade	-	19	21	31	52
Education	4	17	10	15	27
Energy	86	50	46	53	52
Environment	22	20	13	4	13
Finance	7	11	8	5	4
Health and Long-Term Care	322	205	339	358	346
Management Board Secretariat**	24	28	3	(33)	(13)
Municipal Affairs and Housing	-	12	20	206	237
Native Affairs Secretariat	5	3	2	-	2
Natural Resources	65	70	72	111	85
Northern Development and Mines	356	371	391	332	447
Public Infrastructure Renewal	4	-	4	18	168
Capital Contingency Fund	-	-	-	-	134
Tourism and Recreation	14	9	55	51	65
Training, Colleges and Universities	204	49	71	120	171
Transportation	836	818	578	797	679
Year-End Savings	-	-	-	-	(100)
Total Capital Expense [†]	2,123	1,890	1,876	2,175	2,575

[†] Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

* Second-quarter fiscal forecast as at September 30.

** Ministries' contributions for investments in Provincially owned land and buildings are recorded as an expense by the contributing ministries. Starting in 2002-03, any resulting adjustment to expense from the capitalization and amortization of most of these Provincially owned land and buildings is recorded in Management Board Secretariat.

Sources: Ontario Ministry of Finance and Ontario Ministry of Public Infrastructure Renewal.

2004-05 Fiscal Outlook: Summary of In-Year Changes
(\$ Millions)

Table 5

	Actual 2003-04	Budget Plan 2004-05	Outlook* 2004-05	In-Year Change
Revenue**	68,400	78,360	79,041	681
Expense				
Programs	62,104	66,695	67,520	825
Capital	2,175	2,575	2,575	--
Interest on Debt	9,604	10,329	10,114	(215)
Total Expense	73,883	79,599	80,209	610
Reserve	--	1,000	1,000	--
Surplus / (Deficit)	(5,483)	(2,239)	(2,168)	71

* Second-quarter fiscal forecast as at September 30.

** Includes one-time revenue gain of \$3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

Source: Ontario Ministry of Finance.

Summary of In-Year Revenue Changes Since Budget (\$ Millions)	Table 6
	In-Year Change
Revenue Changes This Quarter:*	
Personal Income Tax – an additional \$130 million primarily due to higher 2003 tax assessments.	130
Retail Sales Tax – a decline of \$160 million primarily due to weaker consumer durable goods expenditures, notably low levels of vehicle sales to date this year.	(160)
Gasoline Tax – a decline of \$65 million due to reduced consumption corresponding to higher pump prices for gasoline.	(65)
Land Transfer Tax – an additional \$50 million due to continued high levels of housing resales.	50
Federal Payments – an additional \$824 million based on the First Ministers' health agreement. This amount includes increases in Canada Health Transfer (\$388 million) and Medical Equipment revenues (\$194 million) and new revenues (\$242 million) for Wait Times Reduction Fund.	824
Ontario Lottery and Gaming Corporation – a decline of \$102 million largely due to lower earnings from the border casinos and lower Pro-Line lottery profits attributable to the National Hockey League labour dispute.	(102)
Liquor Control Board of Ontario – a decline of \$9 million due to lower mark-up revenues (\$8 million) and lower warehousing revenues (\$1 million) related to a move of warehousing and shipping functions for some products from the LCBO to the brewing industry. The decreased LCBO mark-up is fully offset by higher Liquor Licence Revenues.	(9)
Liquor Licence Revenue – an additional \$8 million due to an increase in fees collected by the Alcohol and Gaming Commission of Ontario related to a move of warehousing and shipping functions for some products from the LCBO to the brewing industry.	8
Miscellaneous Other Non-Tax Revenue – an additional \$1 million from the Proceeds of Crime and Civil Remedies Special Purpose Accounts to offset the cost of managing forfeited assets as a result of combatting indoor marijuana grow operations in 2004-05.	1
Total Revenue Changes This Quarter	677
Net Revenue Changes Reported in First Quarter Ontario Finances	4
Total Revenue Changes Since Budget	681

* Second-quarter fiscal forecast as at September 30.

Summary of In-Year Operating Expense Changes Since Budget (\$ Millions)	Table 7
	In-Year Change
Operating Expense Changes This Quarter:*	
Ministry of the Attorney General – An additional \$1 million for implementation of the Integrated Financial Information System, fully offset from the Contingency Fund; \$8 million for the transfer of Justice Technology Services from the Ministry of Community Safety and Correctional Services; and \$1 million for the cost of managing forfeited assets as a result of combatting indoor marijuana grow operations in 2004-05, fully offset by revenue.	10
Ministry of Community Safety and Correctional Services – An additional \$1 million for implementation of the Integrated Financial Information System, fully offset from the Contingency Fund; and a decline of \$8 million for the transfer of Justice Technology Services to the Ministry of the Attorney General.	(7)
Ministry of Health and Long-Term Care – Spending to reflect First Ministers' health agreement, including \$194 million for purchases of medical equipment and \$630 million for investments to reduce wait times and improve access to primary care, home care and community mental health services.	824
Management Board Secretariat – An additional \$1 million for implementation of the Integrated Financial Information System, fully offset from the Contingency Fund.	1
Management Board Secretariat Contingency Fund – Total offsets.	(8)
Ministry of Municipal Affairs and Housing – An additional \$5 million for disaster relief assistance due to the flooding in Peterborough in July 2004 to support costs incurred by individuals, small businesses, and municipalities, fully offset from the Contingency Fund.	5
Interest on Debt – \$215 million in savings attributable to lower-than-planned interest rates and cost-effective debt management.	(215)
Total Operating Expense Changes This Quarter	610
Net Operating Expense Changes Reported in First Quarter Ontario Finances	--
Total Operating Expense Changes Since Budget	610

* Second-quarter fiscal forecast as at September 30.

Summary of In-Year Capital Expense Changes Since Budget (\$ Millions)	Table 8
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	In-year Change
Capital Expense Changes This Quarter:*	
Ministry of Economic Development and Trade – An additional \$13 million for Ontario Research Fund to enable Ontario researchers to acquire and upgrade equipment and facilities to enhance research, fully offset from the Capital Contingency Fund.	13
Ministry of Municipal Affairs and Housing – An additional \$3 million for disaster relief assistance due to the flooding in Peterborough in July 2004 to support repair of public infrastructure, fully offset from the Capital Contingency Fund.	3
Public Infrastructure Renewal Capital Contingency Fund – Total Offsets	(16)
Total Capital Expense Changes This Quarter	--
Net Capital Expense Changes Reported in First Quarter Ontario Finances	--
Total Capital Expense Changes Since Budget	--

* Second-quarter fiscal forecast as at September 30.

Schedule of Net Investment in Capital Assets
(\$ Millions)

Table 9

	2004-05 Outlook*			Total
	Land and Buildings	Transportation Infrastructure	Government Organizations' Capital Assets	
Acquisition/Construction of Major Tangible Capital Assets	135	998	432	1,565
Amortization of Provincially Owned Major Tangible Capital Assets	(78)	(524)	(195)	(797)
Net Investment in Capital Assets**	57	474	237	768

* Second-quarter fiscal forecast as at September 30.

** Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

Source: Ontario Ministry of Public Infrastructure Renewal.

Ten-Year Review of Selected Financial and Economic Statistics
(\$ Millions)

	1995-96	1996-97	1997-98
Financial Transactions			
Revenue**	49,737	49,714	52,782
Expense			
Programs	46,427	45,400	45,568
Capital***	3,635	2,612	2,451
Interest on Debt	8,475	8,607	8,729
Total Expense	58,537	56,619	56,748
Reserve	-	-	-
Surplus / (Deficit)	(8,800)	(6,905)	(3,966)
Net Debt†	101,864	108,769	112,735
Accumulated Deficit†	101,864	108,769	112,735
Gross Domestic Product (GDP) at Market Prices	329,317	338,173	359,353
Personal Income	271,397	276,303	289,537
Population—July (000s)	10,950	11,083	11,228
Net Debt per Capita (dollars)	9,303	9,814	10,041
Personal Income per Capita (dollars)	24,785	24,930	25,787
Total Expense as a per cent of GDP	17.8	16.7	15.8
Interest on Debt as a per cent of Revenue	17.0	17.3	16.5
Net Debt as a per cent of GDP	30.9	32.2	31.4
Accumulated Deficit as a per cent of GDP	30.9	32.2	31.4

Note 1995-96 to 2002-03 have been restated to reflect the reclassification of adjustments related to recovery of prior years' expenses from expense to revenue consistent with the 2003-2004 Public Accounts of Ontario. This change has no impact on the Surplus/Deficit.

* Second-quarter fiscal forecast as at September 30.

** Includes one-time revenue gain of \$3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

*** Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

† Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit plus the change in tangible capital assets. Accumulated Deficit is calculated as the difference between liabilities and financial and tangible capital assets. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit.

Sources: Ontario Ministry of Finance and Statistics Canada.

Table 10

1998-99	1999-00	2000-01	2001-02	2002-03	Actual 2003-04	Outlook * 2004-05
56,050	65,042	66,294	66,534	68,891	68,400	79,041
46,821	48,460	51,396	53,932	57,204	62,104	67,520
2,215	4,887	2,123	1,890	1,876	2,175	2,575
9,016	11,027	10,873	10,337	9,694	9,604	10,114
58,052	64,374	64,392	66,159	68,774	73,883	80,209
-	-	-	-	-	-	1,000
(2,002)	668	1,902	375	117	(5,483)	(2,168)
114,737	134,398	132,496	132,121	132,647	138,557	141,493
114,737	134,398	132,496	132,121	118,705	124,188	126,356
377,897	409,020	441,204	453,384	479,122	494,229	516,069
304,652	321,702	347,592	360,209	370,340	379,737	393,084
11,367	11,506	11,685	11,898	12,102	12,257	12,393
10,094	11,681	11,339	11,104	10,961	11,304	11,417
26,801	27,959	29,747	30,275	30,602	30,981	31,718
15.4	15.7	14.6	14.6	14.4	14.9	15.5
16.1	17.0	16.4	15.5	14.1	14.0	12.8
30.4	32.9	30.0	29.1	27.7	28.0	27.4
30.4	32.9	30.0	29.1	24.8	25.1	24.5

**Multi-Year Balanced Budget Plan
(\$ Billions)**

Table 11

	Actual 2003-04	Outlook*			
		2004-05	2005-06	2006-07	2007-08
Revenue**	68.4	79.0	81.1	83.9	87.3
Expense					
Programs	62.1	67.5	68.4	70.2	71.9
Capital	2.2	2.6	2.5	2.5	2.5
Interest on Debt	9.6	10.1	10.8	11.1	11.5
Total Expense	73.9	80.2	81.7	83.9	85.8
Reserve	-	1.0	1.5	1.5	1.5
Surplus/(Deficit)	(5.5)	(2.2)	(2.1)	(1.5)	0.0
Net Debt†	138.6	141.5	144.5	147.0	147.8
Accumulated Deficit†	124.2	126.4	128.4	129.9	129.9
Gross Domestic Product (GDP) at Market Prices	494.2	516.1	542.3	569.8	599.3
Net Debt as a per cent of GDP	28.0	27.4	26.6	25.8	24.7
Accumulated Deficit as a per cent of GDP	25.1	24.5	23.7	22.8	21.7

* Second-quarter fiscal forecast as at September 30.

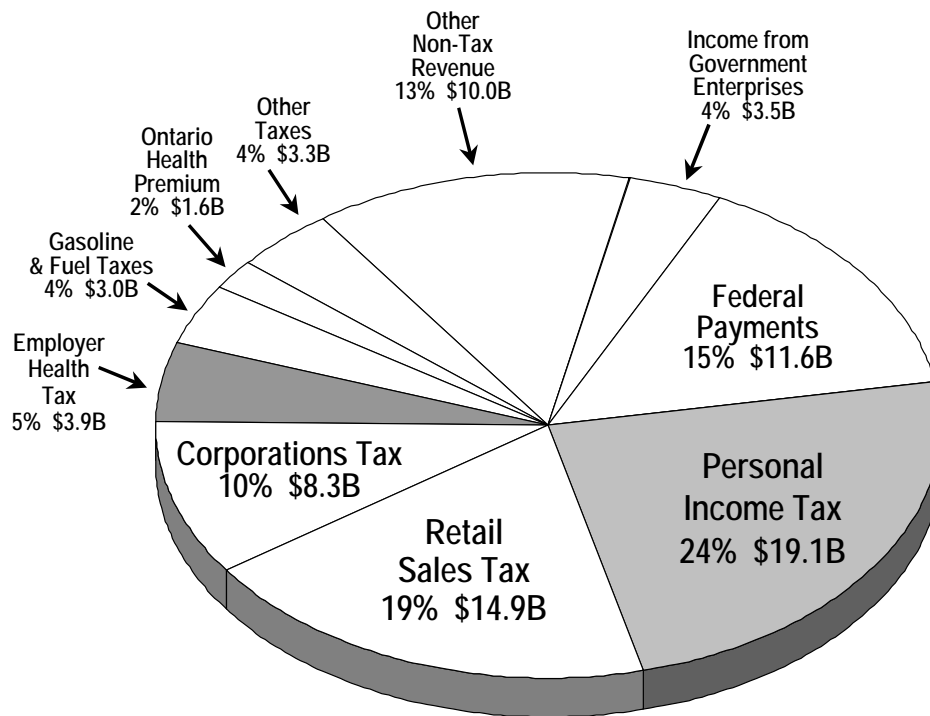
** Includes one-time revenue gain of \$3.9 billion related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

† Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the Surplus/Deficit plus the change in tangible capital assets. Accumulated Deficit is calculated as the difference between liabilities and financial and tangible capital assets. The annual change in the Accumulated Deficit is equal to the Surplus/Deficit.

Numbers may not add due to rounding.

Composition of Revenue

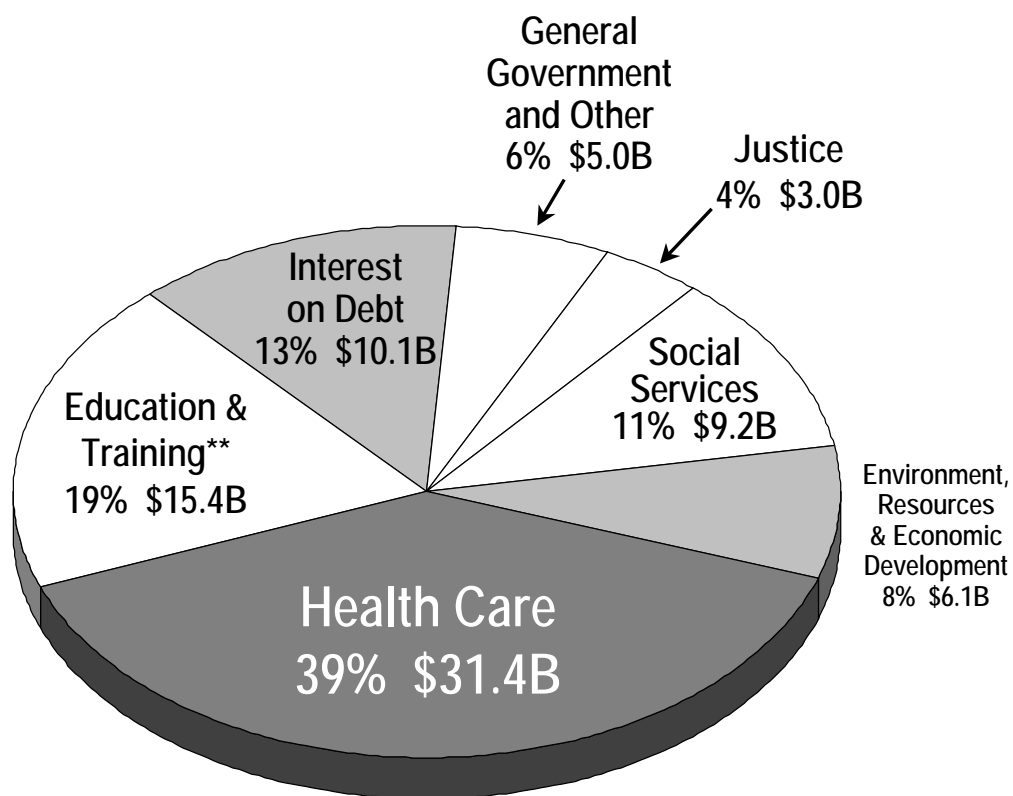
2004-05*



* As at September 30.

Note: Numbers may not add due to rounding.

Composition of Total Expense 2004-05*

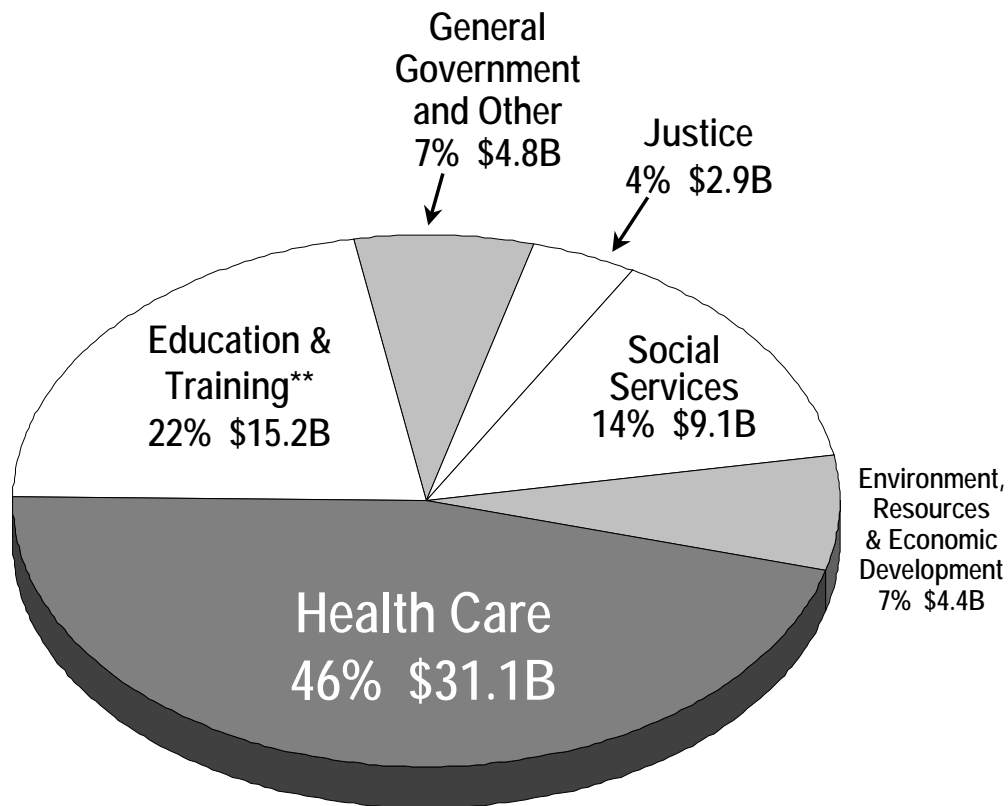


* As at September 30.

** Includes Teachers' Pension Plan.

Note: Numbers may not add due to rounding.

Composition of Program Expense 2004-05*

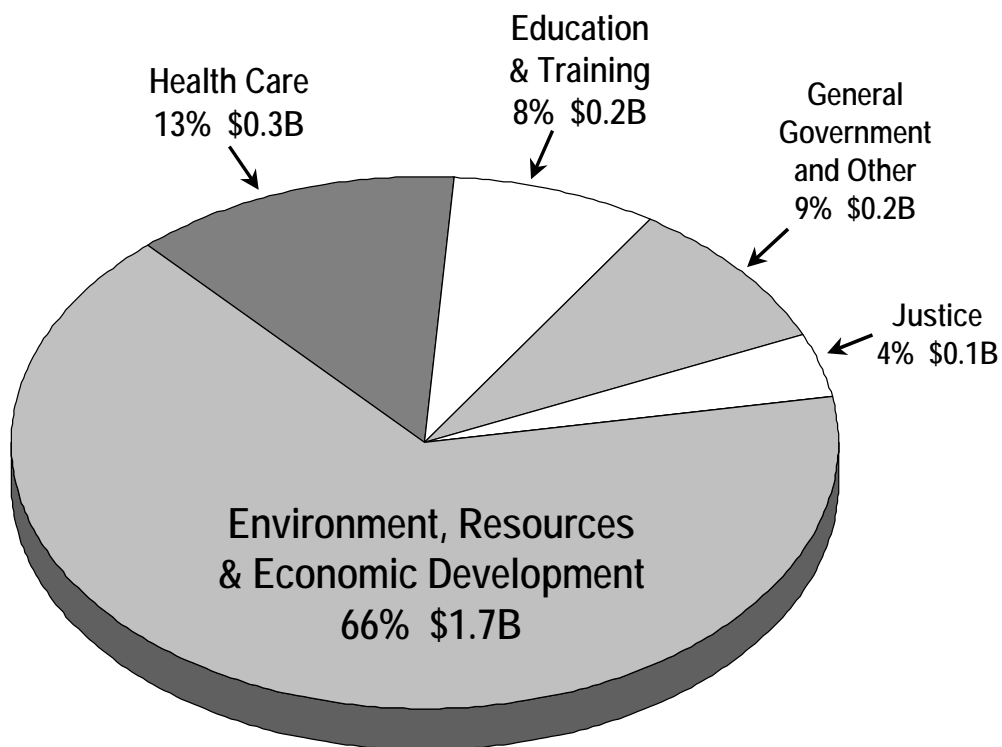


* As at September 30.

** Includes Teachers' Pension Plan.

Note: Numbers may not add due to rounding.

Composition of Capital Expense 2004-05*



* As at September 30.

Note: Numbers may not add due to rounding.