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December 14, 2016

VIA RESS AND COURIER

Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

RE: EB-2016-0160 Hydro One Networks Inc. ("Hydro One") Transmission Rates Application – Response to Undertaking J11.2

Hydro One's response to Undertaking J11.2 is enclosed.

Yours truly,

McCarthy Tétrault LLP
Per:

for: Gordon M. Nettleton
GMN

UNDERTAKING – J11.2

Undertaking

To provide documentation regarding transactions involving the Trillium Trust.

Response

Please see the following attached reports:

1. Attachment 1 – The Honourable Charles Sousa, Minister of Finance, *Jobs for Today and Tomorrow: 2016 Ontario Budget* (2016);
2. Attachment 2 – Financial Accountability Office of Ontario, *An Assessment of the Financial Impact of the Partial Sale of Hydro One* (October 2015); and
3. Attachment 3 – Treasury Board Secretariat Public Accounts of Ontario, *Annual Report and Consolidated Financial Statements 2015-2016* (October 2016).

JOBS FOR TODAY AND TOMORROW

2016 ONTARIO BUDGET

Ontario

The Honourable

CHARLES SOUSA

Minister of Finance

Budget Papers

JOBS FOR TODAY AND TOMORROW

Ontario

2016 ONTARIO BUDGET

The Honourable

CHARLES SOUSA

Minister of Finance

Budget Papers

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Foreword

Jobs for Today and Tomorrow

The *2016 Budget* is the product of open and extensive consultations. Our pre-Budget consultations, including Budget Talks online, collected input from tens of thousands of people and many of their ideas are contained in this plan.

The global economic downturn that began in 2008 hit Ontario hard. People worked together to confront the challenges that came with the recession. The government put a plan in place to protect and create jobs. Today, Ontario is a leader in growth and job creation. For the last two years, Ontario attracted more foreign direct investment than any other province or U.S. state.

Economic uncertainty is once again facing much of the world. The price of oil and the Canadian dollar have fallen considerably — two factors that affect different parts of Canada in different ways. These, combined with Ontario's underlying economic strength, provide our manufacturers, exporters and services sector with opportunities for growth and job creation.

While Ontario's economy is projected to be one of the fastest growing in Canada, the government continues to plan for future prosperity. We are balancing optimism about Ontario's economy with the uncertainty around us. To grow the economy and create more jobs, the government is building new partnerships and making key strategic investments.

Building Prosperity

Ontario's economic growth is outpacing Canada's, and our businesses will secure future success through ongoing innovation, which will help them develop new products and services. They also need markets for these products. Modern, well-planned infrastructure that is built with long-term vision will support the economy and also help people in their everyday lives.

A solid long-term economic plan, combined with strong fiscal management, will further build investor confidence. The government's plan lays out a clear roadmap for economic growth and job creation for today and tomorrow.

Fostering a More Innovative and Dynamic Business Environment

Ontario is fostering a more innovative and dynamic business environment. We have cut the marginal effective tax rate on new business investment in half since 2009. We have reduced the cost of doing business by eliminating regulatory requirements and duplication. Business owners know they will find highly skilled, highly educated workers in Ontario to deliver their products and services.

The Province’s economic plan supports good jobs today in communities across Ontario by investing in infrastructure and in a low-carbon economy driven by innovative, high-growth, export-oriented businesses. The plan invests in people’s talents and skills and their ability to get and create the jobs of the future, by expanding access to high-quality college and university education. The plan also helps all Ontarians achieve a more secure retirement.

More than 600,000 net new jobs have been created since the depths of the recession. The government is projecting the creation of an additional 323,000 jobs between 2016 and 2019. That would bring the total number of jobs created to more than 900,000 over 10 years. Ontario’s unemployment rate of 6.7 per cent is below the national average.

The Business Growth Initiative is Ontario’s new strategy to increase the province’s global competitiveness. It builds on existing strengths and is based on creating an innovation-driven economy, catapulting more Ontario firms into global leadership, modernizing the regulatory system and continuing the reduction of red tape.

Investing in a Low-Carbon Economy

The global fight against climate change presents new opportunities for driving Ontario’s economic growth. Ontarians have the skills, talent and innovation to become a model for sustainable growth and prosperity. Ontario has already taken strong measures to end smog days, cut pollution and fight climate change. In 2014, we eliminated coal-fired electricity generation, the single largest greenhouse gas reduction initiative of its kind in North America. Ontario’s proposed cap-and-trade program — in addition to reducing emissions — will direct resources and investment to encourage companies to be more innovative and ensure households thrive during the transition to a low-carbon economy.

Building Tomorrow's Infrastructure Now

Infrastructure investments stimulate economic growth and create jobs today, while supporting future jobs and helping people in their everyday lives. Infrastructure moves goods more competitively, attracts private investment and expands opportunities for suppliers, buyers and skilled workers. We are making the largest investment in infrastructure in Ontario's history by investing about $160 billion over a 12-year period, starting in 2014–15. While we are investing in short-term projects that create jobs now, we are also putting long-term projects into place that will yield dividends for generations to come.

The *2016 Budget* invests in new highway projects and expands the Ontario Community Infrastructure Fund and the Connecting Links program to support local communities. This *Budget* is also increasing investments in health care infrastructure to maintain hospitals in good repair.

Ontario is maximizing the value of its assets so we can build the infrastructure we need for today and tomorrow.

Investing in People's Talents and Skills

Ontario's greatest strength is its people. We are making investments that build on Ontario's highly skilled workforce. We are transforming financial assistance so that, starting in the 2017–18 school year, average tuition will be free for students, with need, from families who earn a household income of $50,000 or less. More than 50 per cent of students from families with incomes of $83,000 or less will have grants in excess of average tuition. No Ontario student will receive less than they are currently eligible for through the 30% Off Ontario Tuition grant. Overall, tuition will be less of a barrier to entry and students will graduate with less debt. The end result will be more young people who are better educated and better prepared to enter the workforce — a competitive advantage for Ontario.

Strengthening Retirement Security

Ontario's plan for jobs and the economy also strengthens retirement security. The Ontario Retirement Pension Plan would narrow the savings gap for millions of people who lack the security of a workplace pension plan. More people will enter their retirement with confidence.

Fair Society

Ontario continues to build a fair society. Ontario is improving the supports necessary to lift people out of poverty and help them live a meaningful life to the benefit of Ontario's economy and society. Social assistance rates will increase by 1.5 per cent, while a further top-up will be provided to those with the lowest social assistance rates. Progress on the goal to end chronic homelessness is accelerating through further support for families in need of housing units, counselling and addictions treatment.

The government is making it easier for a greater number of children and youth with autism to receive critical interventions sooner and will ensure services are better matched to meet their needs. Through such initiatives as the Long-Term Strategy to End Violence against Indigenous Women and acting on the recommendations of the Truth and Reconciliation Commission of Canada, we are improving social conditions and economic opportunities for Indigenous peoples. In implementing the Commission's Calls to Action, we are working with First Nation, Inuit and Métis peoples to acknowledge and teach the history and legacy of residential schools, take action to close gaps in outcomes, and develop culturally sensitive and community-based services. This will help Indigenous peoples and their communities succeed economically.

Investing in Health Care

Ontario's economy supports strong public services. Health care is one of the most important provincial services that Ontarians rely on. The *2016 Budget* supports continued commitments to increase patients' access to primary care, to provide more care for people at or close to home, and to help all Ontario families continue to receive quality health care. In public consultations, there were repeated calls for the expansion of hospice care. The government plans to increase its investments in residential hospice and palliative care.

Making Everyday Life Easier

The *2016 Budget* also contains several measures to make everyday life easier, and to maintain the high quality of life that Ontarians rightfully expect. We are using technology to make it easier to use public services. Steps have been taken to lower everyday costs for things like hospital parking fees and auto insurance. We are eliminating the Drive Clean emissions test fee. Home energy-efficiency incentives are being enhanced to help homeowners reduce their energy bills. We have increased choice and convenience by expanding beer sales to grocery stores and are now expanding wine sales to grocery stores.

A Stronger Ontario and Stronger Canada

For years, Ontario has called on the federal government to be a willing partner. Ontarians are net contributors to Canada's finances and Ontario is sensitive to the needs of other provinces. Canada's new government in Ottawa has shown itself willing to work with Ontario to continue growing the economy and creating jobs, and we look forward to further collaboration.

Strong Fiscal Management on the Path to Balance

We are on track to balance the budget in 2017–18. While we continue to invest in the key public services relied on by families, Ontario provides value for tax dollars spent by focusing on outcomes through Program Review, Renewal and Transformation — and by retaining the lowest per capita program spending in Canada. This has helped us beat our fiscal targets and we are on track to do this for the seventh year in a row. For 2015–16, the deficit is forecast to be $5.7 billion, which is $2.8 billion lower than projected in the *2015 Budget*. The government is projecting a deficit of $4.3 billion in 2016–17, and balanced budgets in 2017–18 and 2018–19. A key indication of fiscal sustainability is the Province's management of its debt. Net debt-to-GDP is expected to peak at 39.6 per cent in 2015–16, remain level in 2016–17 and begin to decline in 2017–18.

Conclusion

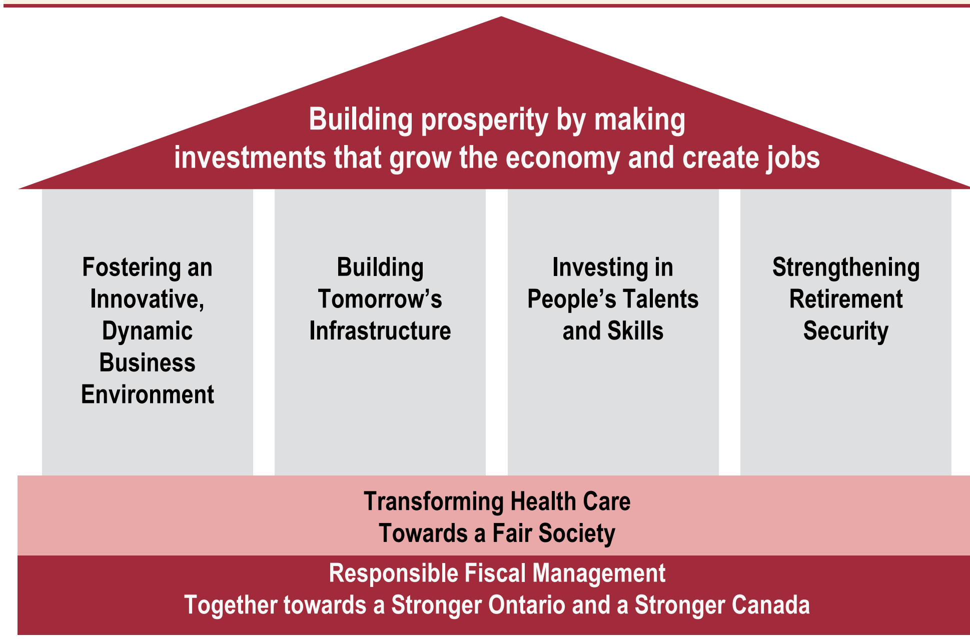
People from all corners of the world choose Ontario, knowing it is a great place to live, work and raise a family. We have a strong, diversified economy that is creating good jobs and will provide retirement security. Our current strong economic performance shows that our plan is working. We will continue to focus on our number-one priority — creating economic growth and more jobs. The people of Ontario are looking past economic cycles, election cycles, and even life cycles to do what is right for our children and grandchildren. These are not easy choices but they are the right ones — an economic plan that is creating jobs for today and tomorrow.

The Honourable Charles Sousa
Minister of Finance

Ontario's Plan for Economic Growth and Job Creation

The Province's economic plan supports good jobs today in communities across Ontario by investing in infrastructure and in a low-carbon economy driven by innovative, high-growth, export-oriented businesses. The plan invests in people's talent and skills and their ability to get and create the jobs of the future, by expanding access to high-quality college and university education. The plan also helps all Ontarians achieve a more secure retirement.

Strategic Plan for the *2016 Budget*



Path to Balance

Plan to Eliminate the Deficit

- **Responsibly Managing Spending**
- **Transforming and Modernizing Government**
- **Addressing the Underground Economy and Tax Compliance**
- **Investing Strategically to Grow the Economy**

Engaging Ontarians

How You Helped Build this *Budget*

For decades, legislators have invited people from across the province to participate in shaping public finances. In fact, the time-honoured tradition of a legislative finance committee travelling across the province to meet with Ontarians face to face is almost as old as the *Budget* itself.

Over the years, these consultations have evolved to better meet the changing world around us. New technologies have paved the way for people to connect in new, more innovative ways. Telephone town halls delivered the dialogue directly into our homes. Email gave us the power to make submissions at our fingertips. And now, in this digital age, we can connect to discussions — anywhere, anytime and on any device.

With more and more people preferring to interact online, the Province launched Ontario's first digital town hall in 2015. Budget Talks — an interactive, real-time platform — brought new voices to the conversation, with 931 ideas and comments shared.

This year, the government unveiled an improved platform for participation — with more ways to exchange and discuss ideas on topics that matter to you. In just eight weeks, you shared 1,732 ideas, cast 53,402 votes and wrote 4,340 comments.

As part of these consultations, Ontarians will not always agree with each other or with government. However, it is our hope that through these discussions, people can participate in the Budget process in ever more meaningful ways.

As you will see throughout this *Budget*, we have listened to what Ontarians had to say and used your feedback to inform government decisions. You have told us you want transportation to be faster and easier, to keep electricity rates affordable, to continue the fight against climate change and to provide top-quality education and health care services.

Your government will continue to adopt innovative ways to engage Ontarians to work together as we build Ontario up.

A Modern Digital Government

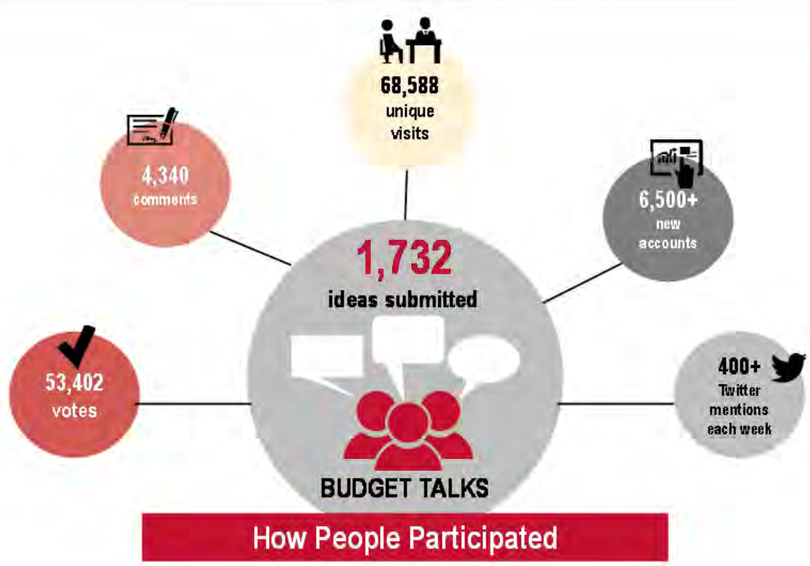
Budget Talks — Giving People a Voice in Government

Budget Talks is part of Ontario's commitment to be an open, responsive and people-driven government. Through this interactive Budget Talks platform, all Ontarians were empowered to submit, vote and comment on ideas in real time, making it easier for people to provide their feedback on priorities during this year's pre-Budget consultations.

From early December to the end of January, Ontarians sprang into action — seizing the opportunity to engage and collaborate on the issues that matter most to them. Through social media, more voices were heard in this one-of-a-kind digital town hall.

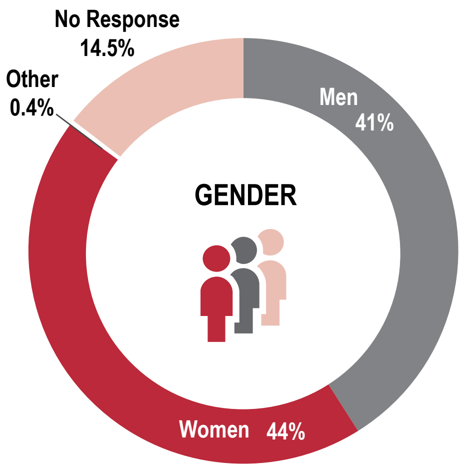
The following data represent a summary of what we heard and learned from the people who participated this year. Their voices are reflected throughout our fiscal plan.

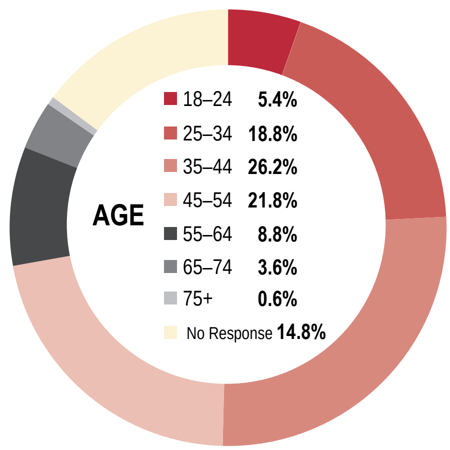
2016 Budget Talks



Source: www.ontario.ca/page/pre-budget-consultations

Who Participated

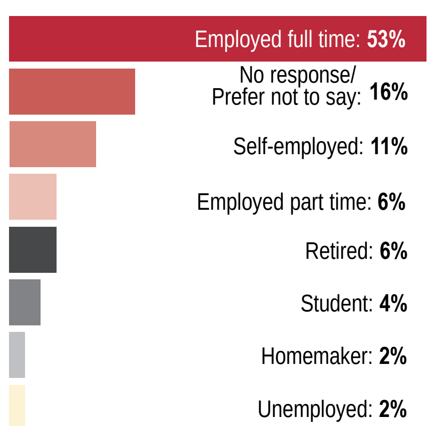




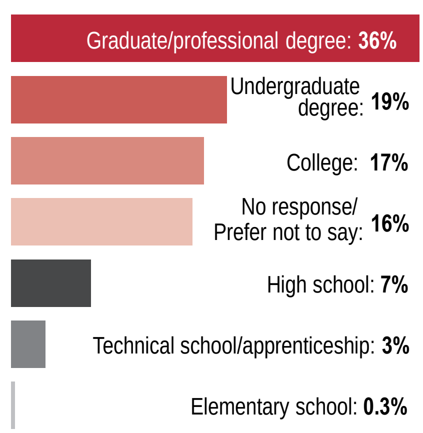
Source: www.ontario.ca/page/pre-budget-consultations

User Demographics

EMPLOYMENT STATUS



EDUCATION



Source: www.ontario.ca/page/pre-budget-consultations

What You Told Us

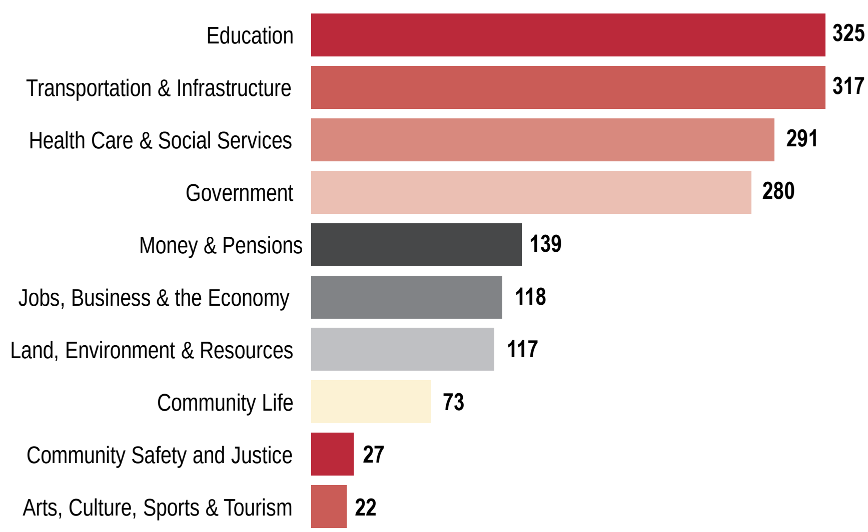
People from across the province shared personal stories, thoughtful ideas and proposals. There were strong views, passionate voices and very real perspectives gained through lived experience with government programs and services. We heard it all.

LED Light Pilot Project

Through Budget Talks, Ontarians told us that the Province should start replacing traditional lighting with energy-saving LED lights on provincial highway corridors. While the Province currently uses LED lights on all new conventional lighting, the government is launching a high mast lighting LED pilot project, starting at Renforth Drive and running west along Highway 401 for 1.1 kilometres. The pilot project will ensure that all safety conditions are met before full implementation.

Budget Talks also demonstrated how an online community can come together to collaborate on ideas — through their comments and votes.

Themes by Number of Ideas



Source: www.ontario.ca/page/pre-budget-consultations

Budget Talks Ideas

Education
325

"Ensure that teachers are prepared to teach with confidence and efficiency, right from the start."

Transportation & Infrastructure
317

"For Ontario to succeed and grow, we need to invest in our future, take risks and be innovative."

Health Care & Social Services
291

"Consult with the entire health care community to determine the best long-term cost and savings solutions."

Government
280

"The public needs to see and experience a provincial government that reflects and responds to a radically changing economy, environment and population."

Money & Pensions
139

"The cumulative result of the underground economy is that we all pay more in taxes to make up for those who do not share the load."

Jobs, Business & the Economy
118

"People who have secure, full-time employment tend to be healthier, happier and more productive. This is ultimately good for business, the public and the Province."

Land, Environment & Resources
117

"The revenue collected from cap and trade should be used to further reduce emissions through investment in things like transportation, alternative energy, research, etc."

Community Safety & Justice
27

"Restorative justice should be implemented in our schools, workplaces and used more in our justice system.... It makes individuals, businesses and communities stronger, healthier and more integrated."

Community Life
73

"One of Canada's greatest assets is its international reputation as one of the best countries in the world in which to live."

Arts, Culture, Sports & Tourism
22

"In small communities in Ontario, particularly northern Ontario, the public library serves as a gateway to connecting with our world.... I consider a vibrant public library system an integral and vital part of this province's infrastructure."

Source: www.ontario.ca/page/pre-budget-consultations

Ideas in Action

Not every idea can be realized in a single *Budget*, but ideas can spark new dialogue on topics that deserve further exploration.

Read the full post-Budget Talks report at Ontario.ca/BudgetTalks.

Contents

Section D: Transforming Health Care

Chapter II: A Balanced Path to a Balanced Budget

Section A: Ontario's Path to Balance

Section B: Transforming Government and Managing Costs

Section C: Addressing the Underground Economy and Maintaining Tax Fairness

Chapter III: Economic and Fiscal Outlook

Section A: Economic Outlook

Section B: Fiscal Outlook

Chapter V: A Fair and Sustainable Tax System

Section A: Tax Measures

Section B: Strengthening Ontario's Property Tax and Assessment System

List of Tables

Chapter I: Building Prosperity and Creating Jobs

Chapter II: A Balanced Path to a Balanced Budget

Chapter III: Economic and Fiscal Outlook

Chapter V: A Fair and Sustainable Tax System

List of Charts

Chapter I: Building Prosperity and Creating Jobs

Chapter II: A Balanced Path to a Balanced Budget

Chapter III: Economic and Fiscal Outlook

Chapter IV: Together Towards a Stronger Ontario and a Stronger Canada

CHAPTER I

BUILDING PROSPERITY AND CREATING JOBS

Section A: Fostering a More Innovative and Dynamic Business Environment

Introduction

Economic uncertainty is again challenging much of the world. The price of oil has fallen considerably, along with the Canadian dollar. While these developments pose considerable challenges for many other parts of Canada, when combined with the factors underlying the province's economic strengths, they provide Ontario manufacturers, exporters and the services sector with opportunities to grow their businesses and create jobs.

When the global recession began to hurt the Ontario economy and employment in 2008, the government put a plan in place to protect and create jobs. The marginal effective tax rate on new business investment was cut in half (see Chart 1.6) and the costs of doing business, including red tape, were lowered. Thousands of Ontarians who had been laid off were retrained with new skills. Investments were made to retain thousands of jobs threatened by the global recession and financial crisis, particularly in the auto sector. The plan is working. Since the low point of the recession, Ontario has more than recovered all of the jobs lost and the province has become one of the leaders driving Canada's economic growth. By 2019, Ontario is on track to create more than 900,000 net new jobs since the depths of the recession. The province's unemployment rate has declined from 9.6 per cent at the depth of the global recession to 6.7 per cent currently, which is below the national average.

The province continues to be an attractive environment for business investment. In 2015, for the second year in row, Ontario was ranked first in North America for foreign direct capital investment by fDi Intelligence, the research division of the Financial Times Ltd. International companies choose to invest more in Ontario than in any other place in North America. Leading global companies prefer to do business in Ontario because of its competitive tax system, highly skilled and trained workforce, and stable financial markets. These investments propel economic growth and job creation in the provincial economy.

In 2015, Toyota invested $421 million to upgrade and expand capacity at its motor vehicle assembly plants in Cambridge and Woodstock, creating and retaining more than 8,000 jobs.

To ensure continued economic growth and job creation, Ontario must accelerate the transition to a knowledge-based economy, where it will compete and succeed based on its skilled workforce, innovative businesses and higher value-added activities.

Ontario's Competitive Business Environment Is Attracting Knowledge-Based Companies

In 2015:

- Google Canada announced an expansion of its workforce in Waterloo to 400 workers, up from four workers 10 years ago. Its new Waterloo facility has the capacity for 1,000 employees.
- Microsoft Canada announced the opening of a new data centre in Toronto.
- Ottawa-based Shopify, a leading e-commerce platform, announced the opening of a new office in Waterloo that will employ 300 workers.
- DataWind, a developer of wireless web-access products and services headquartered in Mississauga, announced a new Netbook for the Indian market designed in Ontario.

To build on these strong fundamentals in Ontario's business environment, the government continues to take positive steps to further support economic growth and job creation. That is why the Province is fostering a more innovative and dynamic business environment — to establish the conditions for a growing economy, well-paying jobs, a higher standard of living and sustainable public services.

The Province is building on its economic plan by:

- Moving forward with the Business Growth Initiative;
- Investing in a growing low-carbon economy and becoming a global leader;
- Building strategic partnerships;
- Reducing business costs and burdens while maintaining a competitive tax environment;
- Supporting the sharing economy;
- Promoting social enterprises; and
- Implementing a modern and flexible approach to financial services regulation.

Business Growth Initiative

Creating a more innovative economy is part of the government's economic plan. The government has made significant investments to create a more highly skilled workforce, supported world-class research at Ontario's postsecondary institutions, provided significant support for research and development (R&D) and other innovation-related activities, and encouraged the founding of more startups and innovative small and medium-sized enterprises (SMEs). Together, these investments have resulted in the emergence of many exciting companies across the province that are poised to become global leaders.

The Business Growth Initiative is the government's new strategy to increase the province's global competitiveness. It will build on Ontario's existing strengths and oversee the province's shift towards new areas of economic growth in the knowledge economy. The strategy will commit $400 million over the next five years and leverage Ontario's highly skilled workforce to compete through innovation. It includes the following elements:

- **Creating an Innovation-Driven Economy —** The Province will help to accelerate Ontario's transition to the 21st century, innovation-driven economy that thrives on the initiative, creativity, education and skills of its people. The government will make significant investments in innovation and R&D, including the commercialization and adoption of new disruptive technologies.
- **The Need to Scale Up: Catapulting More Ontario Firms into Global Leadership** — The Mowat Centre has found that 20 per cent of the Canada–U.S. productivity gap can be explained by the Canadian economy's composition of many more small firms than large ones.[1] Helping Ontario's small and medium-sized firms get access to the capital, resources and expertise they need to grow will help turn more of Ontario's small and medium-sized businesses into larger, globally competitive exporters.
- **Modernizing the Regulatory System and Lowering the Cost of Doing Business** — Ontario is establishing new tools to build a smarter regulatory environment that will remove unnecessary red tape and make government rules easier to follow.

[1] Mowat Centre, "Ontario Made: Rethinking Manufacturing in the 21st Century," (February 2014).

Creating an Innovation-Driven Economy

The government has undertaken critical investments to support innovation in Ontario. This includes support for the Ontario Network of Entrepreneurs and other programs to increase industry–academic collaboration, to which the government has already committed more than $260 million of continued funding over the next five years. Support for the Ontario Research Fund has also helped strengthen research excellence at the province's world-class postsecondary institutions and research hospitals.

> Through Budget Talks, a recurring theme was building a more innovative economy. The Province is moving forward, through its Business Growth Initiative, with new programs aimed at furthering R&D, commercialization and the adoption of disruptive technologies to help Ontario-based firms.

These investments have helped Ontario prepare for and contribute to a rapidly growing tide of disruptive technological innovations that are quickly displacing established business models and bringing significant and permanent change to the global economy. In Ontario, and elsewhere around the world, these new technologies are already disrupting the status quo by altering the way people live and work.

A recent study by Deloitte found that more than one-third of Canadian firms are wholly unprepared for disruption to their industries and 43 per cent of firms believe they are better prepared than they actually are.[2] Ontario firms must be prepared to adapt and thrive in an era of disruptive innovation.

[2] Deloitte, "The Age of Disruption: Are Canadian Firms Prepared?" (April 2015).

That is why Ontario, through its Business Growth Initiative, will focus on fostering the development and commercialization of disruptive technologies and their adoption throughout its key economic sectors.

The Province is currently undertaking a comprehensive review to determine its areas of strength in the development and adoption of disruptive technologies and their potential impact on improving Ontario's workforce and productivity. While work continues on the review, there are strong indications that Ontario has the potential to bolster its leadership in the fields of artificial intelligence, quantum computing and regenerative medicine.

Ontario is taking steps in this *Budget* to build upon its R&D capacity in innovative technologies by:

- Investing $50 million at the Perimeter Institute, a world-leading research centre for theoretical physics, to provide funding through 2020–21. Its research will help foster the next generation of information technology advancements in areas such as quantum computing.
- Investing $35 million over the next five years to establish a $50 million partnership in the Advanced Manufacturing Consortium. The Consortium will include three Ontario universities — McMaster, Waterloo and Western. This industry–academic collaboration will focus on long-term industrial innovation projects to make Ontario a leader in fields such as additive manufacturing and digital components and devices.
- Supporting competitiveness and job creation in key industry sectors by partnering with colleges to establish a $20 million fund to be invested over three years. This fund will better connect colleges and Ontario companies on applied research projects that result in breakthrough products and services for sale at home and abroad.

The Province's Business Growth Initiative will also enhance the development, commercialization and adoption capacity of key sectors through new programs and initiatives.

Clean Tech

The government is exploring ways to leverage investment in the clean tech sector to mobilize private capital, decrease greenhouse gas (GHG) emissions and grow the sector to create jobs in Ontario.

Ontario will commit $55 million to develop new approaches to make investments in exchange for equity in clean tech firms. This approach is a means to share in the increased value of companies as they grow and succeed.

Through its recently announced Green Investment Fund, Ontario will also spur investment and innovation in clean tech solutions by committing $74 million to develop and demonstrate solutions to large emitters that face barriers in reducing GHG emissions. (See later in this chapter for details on the *Green Investment Fund*.)

Automotive

Ontario's knowledge-intensive auto sector is well placed to take advantage of new technologies and trends. The Province has significant R&D resources, with over 24 auto-focused public research facilities. To capitalize on this potential, Ontario recently became the first Canadian jurisdiction to allow the on-road testing of automated vehicles.

Ontario is already investing $20 million to build more public charging stations for electric vehicles. The government has also introduced a new Electric Vehicle Incentive Program that will reduce GHG emissions and make it easier for Ontarians to switch to electric vehicles.

Through the Business Growth Initiative, Ontario will invest $15 million over four years to boost the competitiveness of the sector by:

- Investing $5 million over two years to establish an Automotive Supplier Competitiveness Program to strengthen the technological capabilities of small and medium-sized auto parts firms; and
- Committing $10 million over four years to the Canadian Urban Transit Research and Innovation Consortium to support R&D and commercialization of technologies such as lightweighting and autonomous software, in partnership with the federal and Quebec governments.

Industrial Biotechnology

Ontario has a diverse biotechnology sector, with strengths in agricultural, medical and biochemical technologies. Biotechnology firms rely upon living materials for the creation of different products and services, whether food, medicines or chemicals.

Ontario will invest $3 million over four years in Bioindustrial Innovation Canada to accelerate the growth of southwestern Ontario's bioeconomy and biochemical sector. This funding will support the commercialization of industrial biotechnologies and will leverage federal funding.

Supporting Ontario's Innovation SuperCorridor

Ontario's Innovation SuperCorridor extends from London and Waterloo region in the west through Toronto to Ottawa in the east. Together, the corridor represents Canada's most innovative region, with dense pockets of startups, research institutions and world-class talent. To ensure its continued success, Ontario will work with partners to enhance the connectivity of the corridor, enabling it to compete fully against the world's biggest technology hubs. For example, this includes working with Metrolinx and freight partners to explore potential improvements to GO rail services along the Toronto–Kitchener corridor.

The government recently appointed the Honourable David Collenette, former federal transport minister, as a special adviser to assist in bringing high-speed rail to the Toronto, Kitchener–Waterloo, London and Windsor corridor as part of the Province's Moving Ontario Forward plan. To inform his advice, Mr. Collenette is working with private-sector stakeholders, municipalities and First Nations and Métis partners. Consultation sessions started in February 2016 and Mr. Collenette will provide his advice to the Province in fall 2016.

Ontario continues to invest along the SuperCorridor to enhance its innovative capacity, including new funding as outlined above for the Perimeter Institute, and establishing the Advanced Manufacturing Consortium. The government is also focused on the role of postsecondary education as a key driver of economic growth and jobs in the new economy. To continue strengthening the innovation SuperCorridor, the Province will invest $15 million in the University of Toronto towards the Centre for Engineering Innovation and Entrepreneurship. This support will help the expansion of experiential learning opportunities for engineering students, including cooperative learning.

Industry-Led Partnerships

Through the Strategic Partnerships Stream of the Jobs and Prosperity Fund (JPF), the government will accelerate the development, commercialization and widespread adoption of made-in-Ontario disruptive technologies. The Strategic Partnerships Stream will explore funding industry-led partnerships and consortia focused on spurring the adoption of these technologies and the development of next-generation products and services, including:

- The development and testing of connected vehicles — cars that drive themselves and communicate with each other and their surroundings, requiring intensive computing power;
- Supporting the development and testing of fifth-generation (5G) wireless technologies; and
- Increasing Ontario's capacity for smart manufacturing through better integration of information and communications technologies.

Helping Ontario Businesses Scale Up

While Ontario is home to dynamic entrepreneurs and many cutting-edge companies, the province lags the U.S. and many other advanced economies in its share of medium-sized and large firms that comprise the economy. This is important because larger firms tend to be more productive, export-oriented and pay higher wages, on average. For this reason, the Province is taking action to help scale up more Ontario firms by enhancing access to capital and establishing new programs that will focus on fostering accelerated growth — concentrating resources on young companies that have demonstrated success and have great potential.

Closing the Productivity Gap

Research from Statistics Canada suggests that the concentration of small firms in Canada contributes to the productivity gap between Canada and the United States. The share of small firms is larger in Canada than in the United States, and productivity differences between small and large firms are greater in Canada than south of the border.

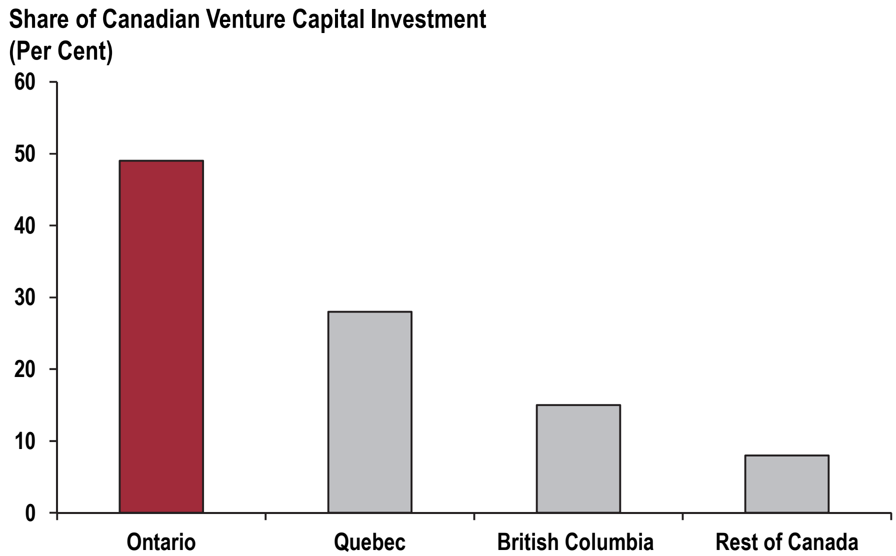
Source: Statistics Canada, "Canada–United States Labour Productivity Gap across Firm Size Classes," (2014).

Access to Capital

Access to capital plays a key role in scaling up entrepreneurial firms, which helps them grow into medium-sized and large companies, and results in more employment for Ontarians. For this reason, the government has strategically partnered with others to improve businesses' access to capital. In January 2014, Ontario launched the Northleaf Venture Catalyst Fund in partnership with the federal government and the private sector. To date, the fund has made 14 investments in companies and venture capital funds. The fund builds upon the success of the Ontario Venture Capital Fund, which has supported 50 Ontario-based companies to date. The Province also continues to provide funding to the Investment Accelerator Fund (IAF) and the Youth IAF, which have invested in more than 110 companies.

Ontario's investments to improve access to capital are paying off. According to Thomson Reuters, venture capital investment by all investors in Ontario-based companies was over $1.2 billion in 2015 — the most since 2001. Ontario accounted for almost half of all venture capital investment in Canada in 2015. As well, venture capital for seed and early-stage companies has been increasing in recent years. Moving forward, Ontario will work with the financial services sector, including the Toronto Financial Services Alliance, to identify ways of mobilizing private-sector capital to provide innovative, high-potential firms with the financing they need to successfully grow more rapidly and compete globally. This will include options for seed and later-stage investments, and opportunities to partner with institutional, corporate and individual investors, including pension funds.

CHART 1.1 **Ontario Accounted for Almost Half of Venture Capital Investment in Canada in 2015**



Sources: Thomson Reuters and Ontario Ministry of Finance.

The government continues to foster a regulatory environment that accommodates newer and more innovative ways for businesses to raise capital while maintaining appropriate investor protection. The Province recently approved several new prospectus exemptions proposed by the Ontario Securities Commission that are designed to facilitate capital formation and job creation. These include a new crowdfunding exemption regime that allows businesses, particularly those in the early stages of development, to raise up to $1.5 million annually by distributing securities on a prospectus-exempt basis through a registered Internet funding portal.

Vouchers for Leading High-Growth Firms

New and emerging firms often face unique challenges in accessing the expertise and assistance they need to grow. To assist them in overcoming these challenges, the Province will create a program targeting growth-oriented firms. Modelled after the successful U.K. program that concentrated supports towards firms with the highest potential to scale into larger employers, the program will provide vouchers to leading high-growth firms to help get their products to the global marketplace. These vouchers may be used for activities such as market research, proof-of-concept testing and securing new export customers.

Government as an Early Adopter of Innovation

Firms also face barriers to growth due to the uncertainty associated with their disruptive technologies or the lack of familiarity with their brand. For this reason, the Province will create a pilot program through which the government will identify needs and purchase successful new technologies from emerging companies to support innovation. Provincial support will enhance the government's role as an early adopter of innovations from SMEs, and give participating SMEs an opportunity to demonstrate their solutions and improve their profile in domestic and global markets. Similar programs in the United States and other advanced economies have played an important role in their innovation ecosystems.

This pilot project would complement Ontario's adoption last year of all six recommendations from the Ontario Health Innovation Council, including the establishment of a $20 million Health Technology Innovation Evaluation Fund to support made-in-Ontario technologies, improve patient care and spur economic growth.

Strategic Investments Office

To build upon the government's strategic partnerships with the private sector, the Province will create a Strategic Investments Office to serve as a one-window point of entry to provide improved investment attraction services for major investment projects, licensing and permit coordination, facilitation of workforce training and site-selection supports. The new office will allow the government to provide a more coordinated response to the various needs of businesses. The Province will also launch an online portal to help firms easily find and navigate the programs and initiatives it provides across government.

Helping Businesses Go Global

The global economy offers Ontario companies the chance to seize business opportunities by gaining market intelligence and positioning themselves for growth. Ontario's quality agri-food, resource and high-value manufactured products, as well as environmental, business, financial and infrastructure services, continue to experience international demand.

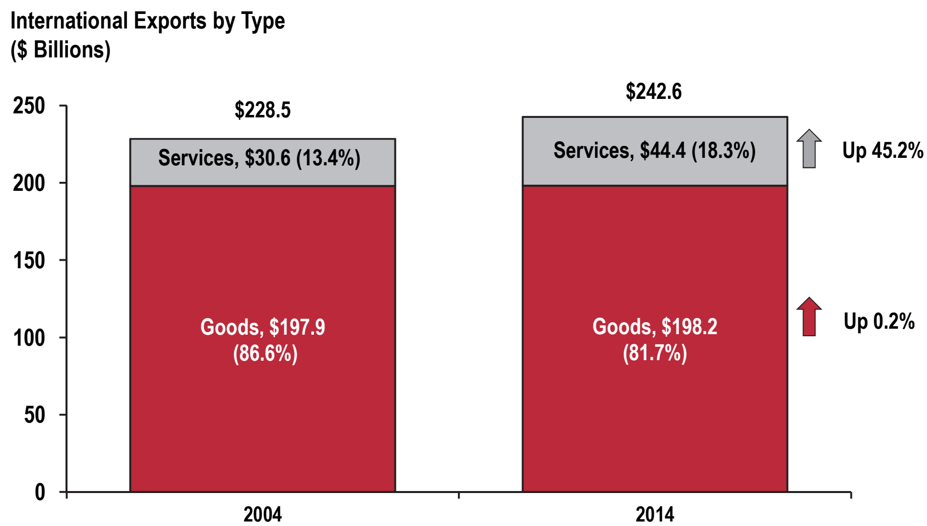
Economic opportunities for Ontario firms to capitalize on their strengths and increase their global market orientation remain strong. The timing is ripe for Ontario's exports' continued growth as the U.S. economy expands, emerging market economies lead global growth and the Canadian dollar remains competitive.

- China and India are the largest and third-largest economies in the world, respectively, after accounting for price levels (purchasing power parity), and are expected to be the fastest-growing consumer markets over the next several years. According to the International Monetary Fund (IMF), these countries will lead global economic growth in 2016–17, with gross domestic product (GDP) growth around seven per cent. By comparison, most developed economies' GDP will grow about two per cent, on average, in this period.[3]
- In the global knowledge-based economy, services are becoming a growing part of international trade. There are diverse needs for expertise and advice, digitization of services content and electronic online delivery contributing to this global trend.

[3] International Monetary Fund, "World Economic Outlook," (January 2016).

Service exports have increased significantly, by 45.2 per cent, since 2004, while Ontario's international exports of goods are only slightly higher, by 0.2 per cent.

CHART 1.2 Changing Composition of International Exports



Sources: Statistics Canada and Ontario Ministry of Finance.

Going Global Export Strategy

The government's Going Global Export Strategy is helping Ontario firms, including SMEs, to start exporting, expand exports and become more productive. To this end, the government is investing an initial $30 million over the next three years to further implement the export strategy. Components of the export strategy include deploying key trade missions, a range of advisory services and programs for new and existing exporters, outreach to attract foreign buyers, and collaboration with strategic partners such as industry associations and the federal government.

The government will increase Ontario's exports by increasing the number of exporters, diversifying export markets and scaling up Ontario SME exports to create jobs. Key components of this plan include:

- Driving SME exports;
- Scaling up programs;

- Leveraging partners; and
- Expanding Ontario's global profile.

The government continues to implement its Going Global Export Strategy through various trade missions:

- In September 2015, Minister of Finance Charles Sousa travelled to China and Japan to meet with leaders in the financial services, banking and manufacturing sectors to promote Ontario as a favourable investment destination. China and Japan have markets with tremendous potential for Ontario businesses looking to tap into these new markets.
- Premier Kathleen Wynne led a successful trade mission to California in November 2015, showcasing Ontario's leadership in information and communications technology (ICT), film production, clean tech, advanced manufacturing and tackling climate change.
- In November 2015, the Premier conducted a second trade mission to China with business delegates to highlight Ontario's expertise in the science and technology, clean tech and agriculture sectors, and to promote partnership opportunities in health care and education. Premier Wynne and delegates signed more than 100 agreements and memoranda of understanding, with an estimated total value of $2.5 billion. The agreements are expected to create 1,700 jobs in Ontario.
- Premier Wynne led a trade mission to India in early 2016 during which new agreements were announced between businesses and institutions from Ontario and India. These agreements, valued at over $240 million, will create 150 high-value jobs in Ontario. The government signed new memoranda of understanding with Indian states that will focus on strengthening connections in key commercial areas, including urban infrastructure, ICT, advanced manufacturing, agriculture and education. Later in 2016, a government delegation will undertake a trip to India to strengthen ties in agriculture and food processing.
- The Premier will lead a business delegation to Israel in spring 2016 to build on Ontario's existing relationships, create new partnerships and promote investment in the province.

Ontario is working with the federal government to negotiate and implement important new trade agreements, while addressing the sensitivities of key Ontario sectors, such as agriculture and auto, and ensuring access to global markets in an increasingly competitive environment.

Modernizing Regulations

Ontario is also renewing its efforts to further improve the province's competitive business environment by introducing new tools that will help reduce unclear, outdated or unnecessarily costly regulatory requirements on businesses, and accelerate the modernization of old service delivery processes.

Red Tape Challenge

The Red Tape Challenge, to be launched this spring, is an online consultation tool designed to identify and eliminate duplication, lessen compliance burdens, shorten response times and make it easier for businesses to interact with the government. It will engage with the public, businesses and stakeholders in addressing regulatory challenges and identifying opportunities to reshape Ontario's economy. The Red Tape Challenge is also part of the Province's Open Government commitment to create a more transparent, accessible and collaborative government. The Province will work with six sectors over the next two years, starting with auto parts manufacturing and food processing, and continuing with other sectors including financial services, mining, chemical manufacturing and forestry.

Regulatory Modernization Committee

The government is creating a new Regulatory Modernization Committee. It will act as an advisory body to oversee and enhance the regulatory challenge function.

Centre of Excellence

A new Centre of Excellence will champion international best practices for regulatory quality, simplicity, alternatives to regulation and cost-benefit analysis. The centre will create a network of experts and strengthen Ontario's knowledge and research base on modern regulatory practices as drivers of economic growth.

In the *2015 Ontario Economic Outlook and Fiscal Review,* the government committed to enacting the following regulatory measures on an expedited basis:

- Seeking advice, through the Ministry of Labour, from the Special Advisers on the Changing Workplaces Review to resolve concerns raised by business regarding the application of the emergency leave provisions of the *Employment Standards Act*. The advice is to be received in spring 2016, and the resolution is to be implemented later this year.
- Improving the environmental compliance approvals process by:
  - Reducing, by fall 2017, the amount of ministry time taken to review air and noise environmental compliance approvals by at least 50 per cent;
  - Implementing a one-year service standard for higher-risk environmental compliance approval requests received after 2017, including an appropriate performance measure for meeting that service standard that recognizes the complexities of some approvals; and
  - Introducing a transparent means for applicants and the public to track applications and overall performance.
- Streamlining Superload permits by amending the *Highway Traffic Act* to provide more options for escorts of loads, and consulting with affected parties to develop a streamlined and more efficient approval process, including exploring enhanced permitting options, a coordinated permitting service and creating Superload corridors.
- Removing the "30 per cent rule" for Ontario pension plans.
- Through a proposed legislative amendment, modernizing the *Mining Act* to implement province-wide online registration of mining claims and administration of mining lands.
- Permanently maintaining the industrial exception in the *Professional Engineers Act,* which provides flexibility to industry.

Legislation will be introduced in the spring that, if passed, will further assist with reducing administrative burdens and lowering costs for businesses.

Investing in a Low-Carbon Economy

Climate change is not a distant threat: it is already costing the people of Ontario. It has devastated communities, damaged homes, businesses and crops, and increased insurance rates. The rate of global warming over the last 50 years is almost double the rate of warming over the last 100 years. Worldwide, 14 of the last 15 years have been the warmest on record.

> Through Ontario's Budget Talks website, a number of Ontarians gave their thoughts on how the government could support the transition to a low-carbon economy. Ideas ranged from support for home-energy audits to support for improved cycling infrastructure.

The effects of climate change have already had an impact on Ontario. In July 2013, a monumental rainstorm dropped 125 millimetres of rain in just a few hours over some parts of Ontario, leading to flooding and property damage estimated at $940 million in Toronto alone — the most expensive natural disaster in the province's history. In December of that same year, a severe ice storm resulted in $200 million of property damage. In 2012, Ontario experienced a March so warm it led to early blooming of apple trees, followed by a severe frost in May that caused the loss of 80 per cent of the apple crop.

The effects on infrastructure are equally apparent and costly: roads that buckle in severe heat, water mains that overflow in severe rain, hydro lines coated with heavy ice that snap and leave tens of thousands of Ontario families and businesses without power.

In short, there is growing consensus that climate change, if left unchecked, will create significant economic damage, as well as negative environmental impacts. According to the Organisation for Economic Co-operation and Development (OECD), global annual GDP will suffer 1.0 to 3.3 per cent by 2060 if no further climate actions are taken.[4] Early and ambitious actions can prevent half of that damage.

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4 Henrik Braconier, Giuseppe Nicoletti and Ben Westmore, "Policy Challenges for the Next 50 Years: OECD Economic Policy Paper," no. 9, (July 2014).

The costs of doing nothing to tackle climate change are clear, and so are the benefits of acting. Taking action to reduce greenhouse gas (GHG) emissions means cleaner air, less time spent in traffic, more comfortable homes and offices, and more convenient, livable cities.

Continuing to transition to a low-carbon economy also means more efficient and productive businesses. Ontario can harness the economic potential of the rapidly growing global clean technology industry. The clean technology industry in Canada is currently worth $12 billion, and directly employs 50,000 people. If it were to grow comparable to Canada's overall share of global trade, it would be worth $50 billion in 2022. In late 2015, in Paris, global leaders pledged to take serious action to reduce GHG emissions, which will further accelerate the growth of the clean tech industry worldwide.

Ontario is already on a path to a low-carbon economy. The elimination of coal-fired electricity and investment in clean, renewable energy has allowed the Province to meet its goal to reduce GHG emissions in 2014 and to make it the Canadian leader in clean tech. The Toronto Stock Exchange (TSX) and TSX Venture Exchange list 116 clean technology companies, valued at $27 billion. Ontario's clean water technologies sector attracts innovative businesses due to its key advantages, including world-class research institutes, supportive government programs, generous R&D tax credits, a highly educated labour force and a streamlined commercialization process.

By protecting the environment today, the government is positioning Ontario as an active player in future sustainable economic growth and job creation. This approach recognizes that the global fight against climate change presents new types of economic opportunities where Ontario can lead.

Cap-and-Trade Program

In November 2015, Ontario released its Climate Change Strategy and is currently developing an action plan to deliver on that strategy. A key component of that action plan is to implement a cap-and-trade program on GHG emissions with its Western Climate Initiative (WCI) partners, California and Quebec. To facilitate the implementation of a well-designed cap-and-trade program, the government is introducing legislation that, if passed, will set out upcoming emissions reduction targets for Ontario, require the publication of a climate change action plan, and impose criteria and rules for governing the cap-and-trade carbon market and for the use of proceeds that the new system generates. See Chapter III, Section B: *Fiscal Outlook* for details regarding cap-and-trade proceeds.

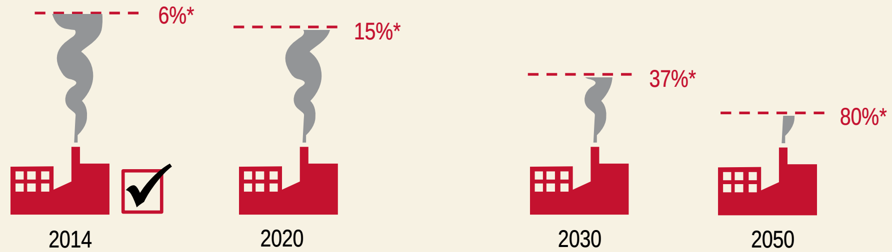
TABLE 1.1 Dispelling Myths about Cap and Trade

Myth	Fact
We do not need cap and trade to fight climate change.	There is broad consensus that carbon pricing is the best tool for reducing greenhouse gas emissions and driving a prosperous low-carbon, high-productivity economy. Following Ontario's introduction of a cap-and-trade system, more than 75 per cent of Canadians would live in a province with some form of carbon pricing.
Cap and trade will lead to job losses and harm the economy.	Addressing climate change now allows Ontario to take advantage of the enormous economic opportunities that have emerged for clean technologies. Ontario is a leader in environmental and clean tech sectors; for the second consecutive year, the province is the leading jurisdiction in North America for green investment. Economic growth has continued in other North American jurisdictions that have implemented cap and trade.
The government needs cap and trade to balance the books.	Legislation would require all cap-and-trade proceeds to be invested in key green initiatives that lower greenhouse gas emissions. The path to a balanced budget is premised on growing the economy, transforming and modernizing government and managing costs, as well as addressing the underground economy and maintaining tax fairness.

Ontario's cap-and-trade program would cover industries, institutions, electricity generators, and suppliers and distributors of heating fuels that emit 25,000 tonnes of GHG emissions per year or more, as well as suppliers and distributors of transportation fuels that distribute 200 litres of fuel per year or more. The program would also cover entities that import electricity and fuels into Ontario. With this broad, economy-wide approach, 82 per cent of the province's total GHG emissions would be covered under the program.

CHART 1.3 Ontario's Cap-and-Trade Program

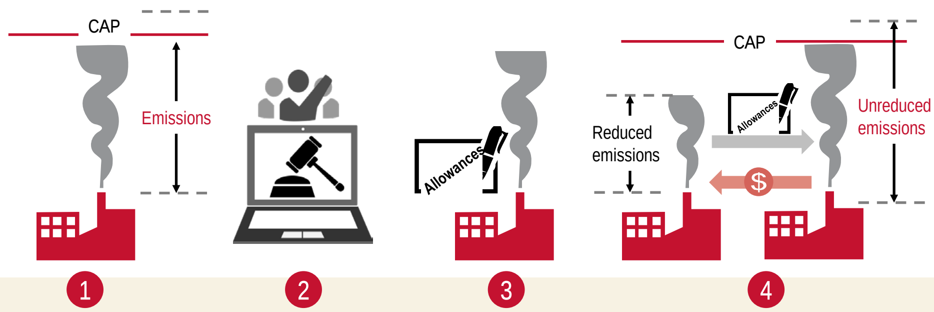
Ontario's Greenhouse Gas Reduction Targets



* Below 1990 greenhouse gas emission levels.

How Does Cap and Trade Work?

Ontario's cap-and-trade program would place a cap on greenhouse gas emissions, create limited tradable emissions allowances for a given period and require covered emitters to hold allowances equal to their emissions in that period. The program would reward those that reduce their emissions by enabling them to sell their excess allowances in the carbon market. Ontario's cap-and-trade program would take effect on January 1, 2017.

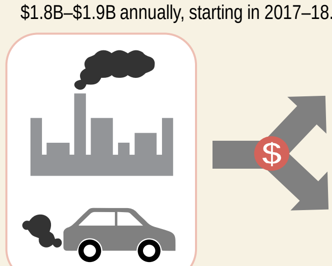


1. Starting in 2017, a province-wide cap on greenhouse gases would be in place. Through 2020, the cap will decline each year.
2. The Province would distribute allowances through auctioning and free-of-charge allocation to industry.
3. Emitters covered under the program must hold an allowance for every tonne of greenhouse gas emissions they release into the air.
4. As the cap declines each year, emitters would need to hold a sufficient number of allowances to cover their annual emissions. To comply, emitters could reduce their emissions or purchase allowances in the carbon market.

Use of Cap-and-Trade Proceeds

Proceeds from Auction

Projected to be $478M in 2016–17 and $1.8B–$1.9B annually, starting in 2017–18.



Priority Investments to Support Greenhouse Gas Reduction Initiatives, such as:

- Home & Business Energy Efficiency
- Innovation Funding
- Public Transit & Transportation Infrastructure
- Clean Technology

The Province would set a cap on emissions for each year of the first compliance period that will start in 2017 and last through 2020; the cap would be set based on the emissions that are forecast for each of those four years. The cap would translate into the total number of emissions allowances — where one allowance covers one tonne of GHG emissions — that would be made available for the covered sectors through auctioning and free-of-charge allocation. Carbon emitters in sectors covered under the program would be required to hold a sufficient number of allowances to cover their annual emissions.

Between 2017 and 2020, the economy-wide cap is expected to decline at a rate of 4.17 per cent each year to meet Ontario's 2020 emissions-reduction target. This means there would be fewer allowances made available each year to incentivize carbon emitters in covered sectors to reduce emissions. The heating and transportation fuel sector and industries would face cap declines. However, the sector-specific cap for the electricity generation sector would remain unchanged from year to year. This recognizes the significant emissions reduction that the sector has already undertaken with the closure of coal-fired power plants.

Ontario's leadership will extend to working together with the growing number of like-minded jurisdictions that are pricing carbon in their economies, including other provinces and U.S. states. However, the government recognizes that in the short term there may be a risk for industries that have high emissions and face international competition. To help maintain competitiveness, Ontario would allocate emissions allowances free of charge to a broad range of industries such as cement, lime and steel, as a transitional measure. Under established cap-and-trade programs in California and Quebec, free-of-charge allowances have been effective at reducing the risk of "carbon leakage," or the relocation of local industries to other jurisdictions with lax environmental standards or no carbon pricing policy. Ontario will review the allocation of allowances at the end of the first compliance period, in 2020.

The coverage of electricity and fuel imports in the program would provide a level playing field for Ontario's electricity generation and fuels sectors. The government would also consider additional actions to prevent carbon leakage, including border carbon adjustments, and would consult and seek to collaborate with the federal government on such potential measures.

To facilitate compliance, covered sectors would also have the option of funding emissions reductions in non-covered sectors, such as agriculture, through the purchase of offset credits. The government would establish the criteria for creating offset credits that are real, permanent and quantifiable. Furthermore, emitters that have voluntarily taken early and verifiable action to reduce GHG emissions would be rewarded through one-time early reduction credits. Smaller emitters with annual emissions of between 10,000 and 25,000 tonnes would have the choice of opting into the cap-and-trade program and access to free allocation of allowances.

Cap-and-Trade Green Investments

The auctioning of allowances under the cap-and-trade program would generate proceeds that would provide essential support towards achieving Ontario's emissions reduction and economic objectives, in particular because all proceeds would be used to fund emissions-reduction initiatives. This would help Ontario meet its 2020 and 2030 emissions-reduction targets and establish the foundation for low-carbon prosperity for households and businesses.

Accordingly, cap-and-trade legislation, if passed, would dedicate cap-and-trade proceeds to the reduction of GHG emissions and ensure public reporting on that commitment.

Ontario's approach to the investment of cap-and-trade proceeds would be both balanced and strategic, focusing on initiatives where the opportunity for emissions reduction and sustainable economic growth is greatest. Potential investments could include assistance for Ontarians and businesses to reduce their energy uses and costs such as:

- Production and use of renewable, low-carbon, carbon-free and net-zero alternative energy;
- Energy management technologies to support load-shifting and energy storage;
- Geothermal solutions, insulation and other technologies to eliminate or reduce GHG emissions from buildings and neighbourhoods;
- Infrastructure to support adoption and use of zero-emission and plug-in hybrid vehicles, and low-carbon alternative fuels;

- Active transportation infrastructure that will eliminate or reduce GHG emissions;
- Emissions reductions from the transportation sector through measures such as investments in public transit and transportation infrastructure;
- Initiatives relating to the reduction of GHG emissions from industry;
- Support for practices in agriculture, soil, and forestry and natural systems that reduce emissions;
- Reduction and management of waste that produces GHG emissions; and
- Support for organizations that develop and deliver financing tools, project aggregation and professional services for GHG emissions-reduction initiatives.

The government is currently developing specific emission-reduction initiatives that will be laid out in the upcoming Climate Action Plan. As part of the action plan, the Province will look for ways to use government procurement to support the transition to a low-carbon economy in government operations.

Independent economic analysis demonstrates that a targeted and balanced approach to investing proceeds will mitigate the risk of carbon leakage, help stimulate Ontario's economy and create jobs.

To be part of a low-carbon and competitive economy, it is important for Ontario's sectors to reduce their reliance on fossil fuels. The Province's strategic investments of cap-and-trade proceeds would help sectors achieve this goal by increasing productivity and efficiency, making them more competitive. The Province would work with business to encourage the uptake of lower carbon technologies by providing timely regulatory review and approval of proposals that could help GHG emissions, such as the use of alternative fuels for the production of cement.

Cap and Trade — Cost to Energy Consumers

The government's action plan to fight climate change will include initiatives that help Ontarians in their everyday lives. These initiatives will both help mitigate the direct price increases that are anticipated as a result of cap and trade, and provide a range of options for households to reduce GHG emissions.

TABLE 1.2 Cap and Trade — Cost to Energy Consumers

Electricity Costs[1]	
Commercial and Industrial	$0/month
Residential	– $2/month
Transportation	
Gasoline Prices	+ 4.3 cents/litre
Home Heating	
Natural Gas Prices	+ 3.3 cents/cubic metre
Natural Gas Costs[1]	+ $5/month

[1] Based on average cost per household or facility.

Sources: Ontario Ministry of Energy, Ontario Ministry of the Environment and Climate Change, and Ontario Ministry of Finance.

Based on the current forecast for the price of carbon, the pump price of a litre of gasoline would increase 4.3 cents and the cost of a cubic metre of natural gas would rise by 3.3 cents as a result of cap and trade. These price increases are very small compared to the larger decreases that have occurred as a result of lower global prices for oil and natural gas. Ontario gasoline pump prices in January 2016 were, on average, 34.4 cents per litre lower than in 2014. Likewise, average natural gas prices in Ontario in January 2016 were 7.7 cents per cubic metre below where they had been in 2014. The government will also take steps to ensure that the net impact of cap and trade would not result in an overall increase in electricity costs for commercial and industrial consumers, and that there would be a modest benefit of up to $2 per month, on average, to residential consumers.

The Province currently provides a wide range of incentives that households can use to reduce their energy consumption and lower their costs. For example, the recently announced cash rebate of up to $14,000 for the purchase of an electric vehicle or plug-in hybrid electric vehicle could save a household up to $1,400 per year in gasoline costs. Building on existing programs to support home energy efficiency (see box below), the Ontario Energy Board recently approved annual budgets and demand side management (DSM) programs. A typical residential customer who participates in the new DSM programs could save up to $11 per month. Future programs supported by cap-and-trade proceeds are expected to result in substantially larger savings to households.

Examples of Programs Supporting Home Energy Efficiency

Enbridge Gas Distribution (Enbridge) and Union Gas currently offer a variety of programs and incentives, funded through natural gas rates, to help homeowners reduce their natural gas consumption, including:

- Home Audit and Retrofit programs that provide homeowners with incentives to make energy efficiency upgrades. Under the programs, homeowners can receive incentive levels that typically range between $1,000 and $2,500 for energy audits and retrofits such as furnace and water heating systems replacement and insulation.
- Home Winterproofing and Weatherization programs that provide eligible low-income households with a free home assessment, water conservation measures, programmable thermostat and weatherization services (e.g., insulation and air sealing).
- Adaptive Thermostat program for Enbridge customers that offers participants a $75 incentive for the installation of an adaptive thermostat.

As outlined below, the government will be investing $100 million from the Green Investment Fund to help homeowners reduce their energy bills and reduce GHG emissions.

The conclusion that a cap-and-trade program is beneficial to households is supported by the experience of the Regional Greenhouse Gas Initiative (RGGI), a cap-and-trade program for greenhouse gas emissions from power plants in the northeastern United States.[5] Research commissioned by RGGI concludes that "in the end, consumers gain because their overall electricity bills go down as a result of state RGGI allowance revenue investments, primarily in energy efficiency but also renewable energy-focused programs."[6]

Green Investment Fund

The Province has already taken important steps towards investing cap-and-trade proceeds in ways that support its environmental and economic objectives. In the *2015 Ontario Economic Outlook and Fiscal Review*, the Province announced that it will invest $325 million in 2015–16 through a new Green Investment Fund, which is a down payment on the province's cap-and-trade program.

The deployment of these funds is already underway. In December 2015, the Province announced that $20 million from the Green Investment Fund will be used to begin building a network of fast-charging electric vehicle public charging stations in cities, along highways and at workplaces, apartments, condominiums, and public places.

More recently, in February 2016, the government announced that it is investing $100 million to help homeowners reduce their energy bills and cut GHG emissions. In partnership with Enbridge Gas Distribution and Union Gas, the program will help about 37,000 homeowners conduct audits to identify energy-saving opportunities and then take actions, such as replacing furnaces or water heaters and upgrading insulation. This will also help spur innovation and create jobs in clean energy industries.

5 RGGI is a cooperative effort among the states of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island and Vermont.
6 Analysis Group, "The Economic Impacts of the Regional Greenhouse Gas Initiative on Nine Northeast and Mid-Atlantic States," July 2015.

Additionally, the government is investing $26 million to support energy-efficiency initiatives for SMEs, $74 million for new technology innovation initiatives for large industrial emitters, and a further $92 million in social housing energy retrofit initiatives. The government is also investing $5 million to support climate change adaptation and mitigation activities in First Nation communities. The Province is also investing $8 million for microgrids in remote First Nation communities to replace the use of diesel fuel with alternatives.

TABLE 1.3 Detailed Breakdown of Supports through Green Investment Fund

($ Millions)

Initiative	2015–16
Business	
Energy-efficiency/emissions-reduction support for small and medium-sized manufacturers	25
Energy-efficiency investments in small businesses	1
Technology innovation initiatives for large industrial emitters	74
Residential	
Social housing electricity efficiency program	10
Social housing retrofit program	82
Audits and energy-efficiency retrofits for single family homes	100
First Nations	
Support for climate change adaptation and mitigation activities for First Nation communities	5
Development of renewable power and energy storage to reduce costly and emission-intensive diesel fuel use in First Nation communities	8
Electric Vehicles	
Electric vehicle public charging infrastructure	20
Total	**325**

In addition to the Green Investment Fund, the Province will provide a new $17 million endowment to support the Toronto Atmospheric Fund (TAF). The TAF is a non-profit corporation, created in 1991, with a $23 million financial endowment from the City of Toronto. Its mandate is to innovate, promote and invest in opportunities to reduce GHG emissions and improve air quality in Toronto.

The corporation has reported cost savings of over $60 million in the last 25 years through energy conservation, by investing nearly three times the original endowment, and mobilizing $160 million in public and private contributions to low-carbon solutions. Ontario's new endowment will enable TAF to expand its work to the broader GTHA to help the Province achieve its climate goals by working on innovative solutions across the region.

Taken together, these investments reflect the Province's commitment to devote the financial resources necessary to secure a low-carbon future by transforming the way Ontarians live, move, work and adapt to the environment, while ensuring strong, sustainable communities.

Green Bonds

Ontario has developed a robust green bond framework that aligns with its environmental policies and climate objectives. There are five categories in the framework:

- Clean transportation;
- Energy efficiency and conservation;
- Clean energy and technology;
- Forestry, agriculture and land management; and
- Climate adaptation and resilience.

On January 22, 2016, Ontario successfully launched its second Green Bond of $750 million. The issue was also made available to retail investors through Canadian financial institutions. Proceeds from the bond will help fund environmentally friendly infrastructure projects that improve transit, education and health care across the province.

To date, total Green Bond financing amounts to $1.25 billion. As the first Canadian province to issue Green Bonds, Ontario is leading the way in establishing and developing a Canadian-dollar Green Bond market with global investor participation.

Strategic Partnerships

Jobs and Prosperity Fund

The $2.7 billion Jobs and Prosperity Fund (JPF) allows the government to partner with businesses to enhance productivity, innovation and exports in the Ontario economy. Project commitments by the JPF to date will support the creation and retention of more than 16,000 jobs, attracting investment of over $1 billion.

TABLE 1.4 Recent Strategic Investments through the Jobs and Prosperity Fund

Company	Description
Linamar (January 2015)	An investment of over $50 million to leverage a total investment of over $500 million by Linamar. The investment will enable the company to develop and produce components for the next generation of fuel-efficient cars in Guelph, while creating 1,200 jobs and retaining more than 6,800 jobs.
JLABS @ Toronto (September 2015)	An investment of over $19 million to launch JLABS @ Toronto, a new life sciences incubator created as a collaboration between Johnson & Johnson, the University of Toronto, and MaRS Discovery District. The incubator will support the growth of up to 50 promising young life sciences companies.
P&H Milling Group (December 2015)	An investment of $5 million to leverage a total investment of $40 million by P&H Milling Group. The project will build a new flour mill in Hamilton, along with investments in state-of-the-art grain and flour storage equipment. The project will create 16 jobs while retaining 200 jobs.
IBM Canada — Ontario Centres of Excellence Project (February 2016)	An investment of over $22 million to leverage a total investment of almost $55 million by the Ontario Centres of Excellence and IBM Canada. The investment will provide up to 500 Ontario startups and other early-stage companies with access to technologies, working space and expertise.

Creating New Business Opportunities through Strategic Partnerships

The Province's success in creating new business opportunities is exemplified in the following quotation from Dr. Paul Stoffels, Chief Scientific Officer and Worldwide Chairman, Pharmaceuticals, Johnson & Johnson:

"We are pleased to be collaborating with the Ontario government on this exciting initiative to support scientists and entrepreneurs who are working on new frontiers in science and medicine to transform health care. With a Johnson & Johnson Innovation, [the] JLABS site in Toronto, we deepen our relationship with the region's world-class health care and life sciences community and support startup companies that will produce new treatments and new economic opportunities."

Supporting Agriculture, Regional Communities and Partnerships

Investing in regional economic development is a vital part of the government's plan to build Ontario up and create a dynamic innovative environment where private businesses thrive. Ontario's regional and community development funds can help local firms transform into innovative, productivity-focused, export-oriented businesses.

Regional and community development funds include the:

- Eastern Ontario Development Fund (EODF);
- Southwestern Ontario Development Fund (SWODF);
- Northern Ontario Heritage Fund Corporation (NOHFC);
- Rural Economic Development (RED) program; and
- Aboriginal Economic Development Fund (AEDF).

TABLE 1.5 Recent Regional Development Investments

Company	Description
Hammond Manufacturing (SWODF)	Hammond Manufacturing Company, a Guelph manufacturer of a broad range of products for the electronic and electrical products industry, received $1.5 million over six years to upgrade its manufacturing process and make it more environmentally friendly. This investment will help create 55 new jobs, increase exports and leverage more than $15 million in private investment.
3M Canada (EODF)	3M Canada, located in Brockville, received a $549,000 grant to develop and commercialize a new disruptive carbon-filled cartridge technology to manufacture products for global application in health care, highway safety, office products and optical films. This support will help create 10 new highly skilled jobs.
Wahgoshig First Nation (AEDF)	The Wahgoshig First Nation received $247,341 for a training initiative delivered in partnership with Northern College and Primero Mining Corporation. Twelve students will receive training to obtain the skills necessary to work in the mining industry.
Envirotek (NOHFC)	Envirotek Sealing and Fiberglassing Inc., located in Sault Ste. Marie, has received a $1 million grant for a $2 million facility expansion for its line of HVAC products and custom design metal products. This project is creating seven new jobs.

The Province remains committed to supporting Ontario's agricultural sector and fostering its growth through its continued support for Business Risk Management programs. Ontario's Risk Management Program helps producers manage risks beyond their control, such as fluctuating costs and market prices.

Lowering Business Costs

The government is committed to lowering the costs of doing business by maintaining a competitive tax system and reducing electricity costs for business. Potential reductions in workplace safety insurance premiums would further lower business costs.

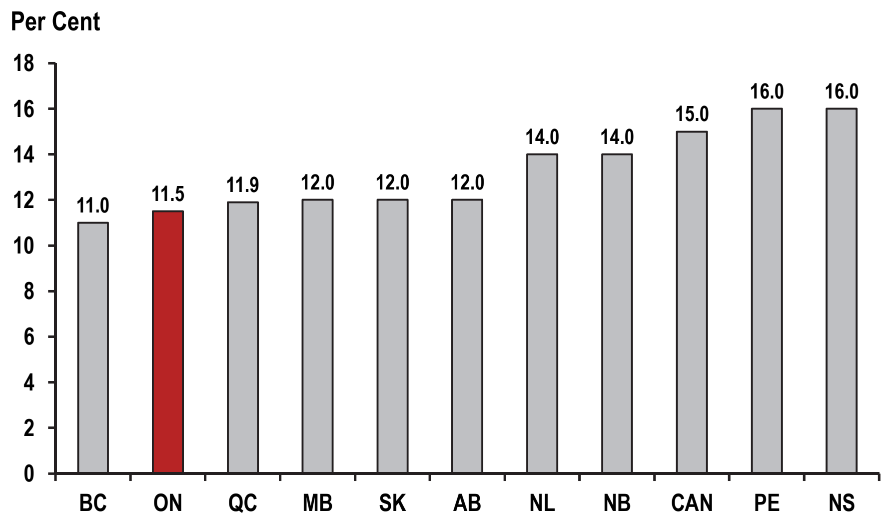
Maintaining a Competitive Tax Environment

The government's recent business tax reforms have cut taxes and lowered compliance costs to improve Ontario's tax competitiveness and encourage investment and job creation, including:

- Sales tax harmonization and corporate tax cuts totalling about $9.6 billion per year:
    - The Harmonized Sales Tax (HST) will remove $4.8 billion a year in embedded sales taxes paid by businesses;
    - Cuts to Corporate Income Tax (CIT) rates for businesses are providing $2.5 billion of tax relief per year; and
    - Elimination of the Capital Tax, which corporations paid whether or not they had a profit, is providing $2.3 billion of tax relief per year.
- Significant cuts to high Business Education Tax rates, resulting in ongoing savings of over $200 million per year for Ontario businesses.
- An accelerated depreciation rate for manufacturing and processing machinery and equipment from 2016 to the end of 2025, paralleling the federal budget measure. This provides a benefit of approximately $330 million from 2016–17 to 2019–20.
- Greater tax relief to small employers by increasing the Employer Health Tax (EHT) exemption threshold from $400,000 to $450,000 of annual payroll, beginning in 2014. This increase provides additional EHT relief of up to $975 per eligible employer.

Ontario's general CIT rate was reduced in stages from 14 per cent to 11.5 per cent, making it the second lowest in Canada.

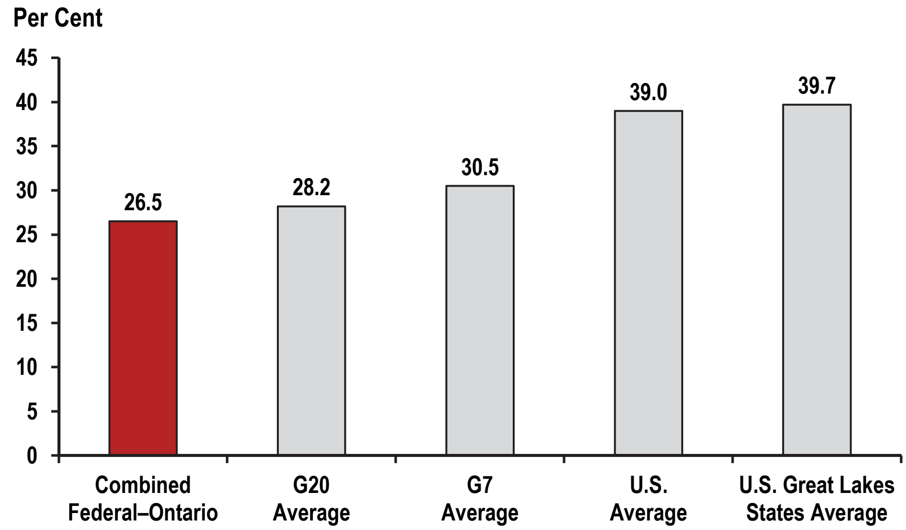
CHART 1.4 **Corporate Income Tax Rates in Canada**



Notes: Rates are the statutory provincial or federal general CIT rates based on legislation and information available as of February 5, 2016. The 2016 New Brunswick Budget announced that it would increase the general CIT rate from 12 to 14 per cent on April 1, 2016.
Sources: Canada Revenue Agency, Revenu Québec, Alberta Treasury Board and Finance, and 2016 New Brunswick Budget.

Ontario's combined federal–provincial general CIT rate of 26.5 per cent is lower than the comparable rate in any of the U.S. states. In addition, Ontario's combined rate is lower than the average CIT rate of G7 and G20 member countries.

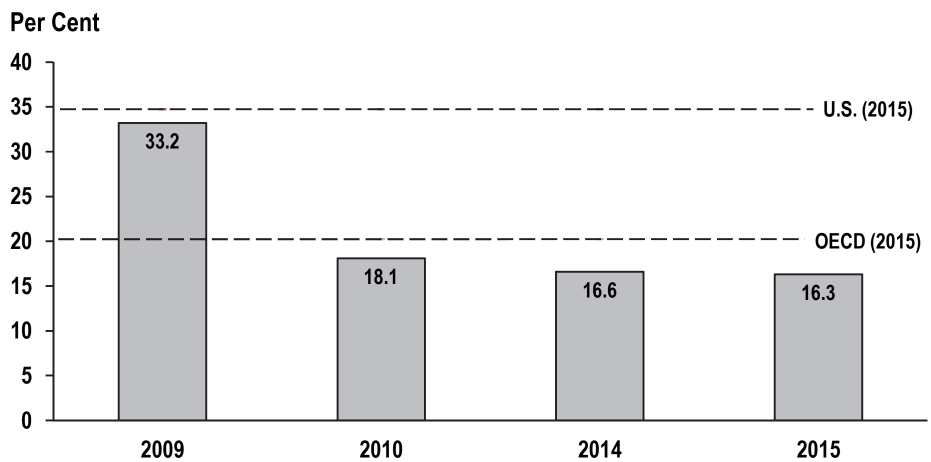
CHART 1.5 **Ontario's Internationally Competitive Corporate Income Tax Rate**



Notes: The Ontario rate is the combined federal–provincial general CIT rate. Average rates are legislated corporate tax rates based on information available as of February 5, 2016 and, where applicable, exclude Canada. CIT rates are legislated rates in 2016 for Ontario and U.S., and legislated rates in 2015 for G7 and G20 countries. U.S. rates reflect the deductibility of state CIT for federal tax purposes.
Sources: PwC Worldwide Tax Summaries, OECD, Federation of Tax Administrators, Bureau of Economic Analysis and Ontario Ministry of Finance.

The decrease in the general CIT rate, along with other tax reductions, has cut Ontario's marginal effective tax rate on new business investment in half since 2009, making the province a significantly more attractive location for business investment.

CHART 1.6 **Ontario's Marginal Effective Tax Rate[1] on New Business Investment Has Been Cut in Half**



[1] The marginal effective tax rate (METR) takes into account federal and provincial/state corporate income taxes, capital taxes and sales taxes. It excludes the resource and financial sectors and tax provisions related to research and development. The OECD METR is the average for OECD member countries, excluding Canada. The METR for the U.S. and OECD countries includes measures announced as of January 1, 2015.

Sources: Finance Canada and Ontario Ministry of Finance.

Reducing Electricity Costs for Business

Debt Retirement Charge

The government modernized Ontario's electricity system to ensure businesses have the power they need, when they need it. Prudent management of the electricity sector debt has allowed the government to follow through on its commitment to reduce electricity cost pressures for businesses and industrial users, introducing legislation to end the debt retirement charge (DRC) as of April 1, 2018. This is nine months earlier than previously estimated, providing certainty to commercial, industrial and other users, and helping them more effectively plan their business and investment decisions.

Electricity Cost Savings to Business from Ending the Debt Retirement Charge

- A large industrial using 3,000 megawatt-hours (MWh) per month could save $21,000 per month, or about seven per cent off their electricity bills.
- For a large northern industrial in the Northern Industrial Electricity Rate Program, this could be more than an eight per cent savings.
- A small business using 20,000 kilowatt-hours (kWh) per month could save $140 per month, or about four per cent.

Industrial Electricity Incentive Program

In 2015, the government expanded the Industrial Electricity Incentive (IEI) program with contracts up to the end of 2024 for 14 industrial companies, helping these large businesses manage their electricity costs and assisting them in creating hundreds of new jobs. This is achieved through electricity-based price adjustments for eligible electricity consumption.

Supporting Business Expansion through the Industrial Electricity Incentive Program

- Detour Gold saved $20 million in 2014 while expanding its gold mine northeast of Cochrane, which, when completed, will be one of the largest gold mines in Canada.
- ASW Steel Inc. expanded its specialty steel-making facility in Welland and created 45 new jobs.

  "Through the IEI program, ASW welcomes access to competitively priced power for eligible electricity consumed as a result of our expansion in Welland, creating good jobs and wealth for Ontarians."

  ASW Steel Inc.

- Atlantic Packaging updated its Whitby mill to manufacture 100 per cent recycled paper products, and create 80 new jobs.

  "Atlantic competes in a North American and sometimes global marketplace. Our IEI contract reduced risk in the investment required at our Whitby facility that allowed for the creation of jobs and helps the facility be more competitive with other jurisdictions in North America."

  Atlantic Packaging

Industrial Conservation Initiative

The government expanded the Industrial Conservation Initiative (ICI), encouraging more of Ontario's largest energy users to reduce their electricity use during peak periods. Doing so not only saves them money, but also lowers overall costs and improves reliability for the electricity system as a whole. Since July 1, 2015, the expanded ICI program has helped more than 280 of Ontario's largest energy consumers save an average of about 25 per cent on their electricity bills.

Industrial Accelerator Program

The Industrial Accelerator Program (IAP) has been extended for an additional five-year period from 2015 to 2020. The IAP is designed to assist eligible transmission-connected companies to fast-track capital investments in major energy conservation projects. The IAP provides financial incentives to encourage investment in innovative process improvements and equipment retrofits to reduce electricity consumption and help companies become more competitive.

Promoting Conservation and Cost Savings through the Industrial Accelerator Program

The Industrial Accelerator Program helped ArcelorMittal Dofasco's (AMD) Hamilton steel plant minimize capital investment in many energy-efficiency projects at the facility, while saving millions of dollars on electricity costs. A long-time participant in the Industrial Accelerator Program, AMD has committed to 125 GWh in recurring annual energy savings and reduced electricity costs by more than $10 million annually. Currently, AMD is developing projects to create an additional 33 MW of demand savings by 2020. The projects include installation of high-efficiency compressors, variable frequency drives and a new turbine generator using excess by-product fuels.

There are additional programs and incentives available to help industrial consumers manage their energy costs, such as demand response programs, which are administered by the Independent Electricity System Operator.

Workplace Safety Insurance Premiums

Future reductions in Workplace Safety and Insurance Board (WSIB) premiums would significantly lower business costs in Ontario.

In 2009, the Auditor General warned that the WSIB's costs had begun to significantly outstrip its revenues, putting at risk the WSIB's capacity to meet its obligations to injured workers. Following a funding review, legislation was passed in 2012 requiring the WSIB to eliminate its unfunded liability by 2027, with interim funding targets in 2017 and 2022.

The WSIB has taken significant steps to reduce costs, and its finances have been improved by growth in investment returns and insurable payrolls. After hitting a high of $14.2 billion in 2011, the unfunded liability was $6.8 billion as of the WSIB's 2015 third quarter that ended September 30, 2015. At the end of its 2015 third quarter, WSIB was close to 78 per cent funded on a sufficiency basis, approaching the 2022 requirement of 80 per cent. The WSIB is now projecting the possibility of reaching full funding by 2022 — five years ahead of the legislated timeline.

A more solid financial footing for the WSIB protects worker benefits and supports employers. Due to progress made to date, employer premiums have not been increased for three years. In its "2015 Economic Statement," the WSIB estimated that when the unfunded liability component is removed from the premium rate, it will be able to deliver $2.4 billion annually in premium reductions. This would represent an average premium rate reduction of about 40 per cent, with the average premium rate declining from $2.46 per $100 of payroll to $1.40 to $1.50 in 2015 dollars. It would also make Ontario one of the most competitive provinces in terms of workplace insurance costs, while it remains the province with the lowest allowed lost-time injury rates.

TABLE 1.6 Opportunity for WSIB Rate Reductions[1]

Time Period	Average Premium Rate[2]	Resulting Annual Savings[3]	Sufficiency Ratio
2015–16	$2.46	0	80.1%
2017–22	$2.12 by 2022	$742 million	100.0%
2023–27	$1.75 by 2027	$1.6 billion	110.7%
2028–32	$1.40 to $1.50	$2.4 billion	117.4%

1 Subject to the assumptions underlying the long-term funding targets presented in the WSIB's "2015 Economic Statement."
2 In 2015 dollars per hundred dollars of payroll.
3 By the final year in the time period, in 2015 dollars (dollar value of savings will grow with the economy).
Note: The WSIB is an independent trust agency that is responsible for administering compensation and no-fault insurance for Ontario workplaces. The WSIB's Board of Directors has exclusive authority in setting premium rates.
Source: WSIB, "2015 Economic Statement," (November 2015).

Beverage Alcohol

The Province continues to modernize policies to reduce regulatory barriers for Ontario's beverage alcohol manufacturing industry. This includes:

- Reducing the administrative burden on businesses involved in liquor manufacturing and distribution;
- Allowing the sale of certain non-liquor products, such as artisanal foods, at manufacturers' on-site retail stores, which will enhance the cultural and culinary experience at these stores; and
- Removing local grape content requirements for wineries located outside Ontario's three designated viticultural areas to level the playing field for all wine manufacturers in Ontario.

In addition, the government will support Ontario's growing craft spirits industry by allowing direct delivery to bars and restaurants, and for on-site distillery stores, reducing charges and allowing an exemption for promotional distribution.

To encourage the continued success of Ontario's growing craft cider industry, the government will introduce the sale of cider alongside beer in grocery stores and permit Ontario craft cider to be sold at farmers' markets.

The government will continue to support Ontario's dynamic craft beer industry by extending funding for the Ontario Microbrewery Strategy. This strategy will provide $1.4 million over two years in marketing support to complement the brewers' successful launch in grocery stores.

These changes support new investment and innovation, while ensuring the continued responsible sale of alcohol.

Ontario Lottery and Gaming Corporation Modernization

Ontario Lottery and Gaming Corporation (OLG) modernization is designed to maintain and grow the gaming industry in a socially responsible manner. Ontario's gaming industry employs thousands of Ontarians and contributes to local economic development across the province. Modernizing the OLG will enhance the funding available to pay for important public services such as health care and education by broadening the role of the private sector in OLG day-to-day lottery and gaming site operations and encouraging capital investments and job creation.

The OLG recently hired a private operator to run two gaming sites in eastern Ontario and develop a new gaming site in Belleville. It is estimated that this new site will create more than 300 jobs in the Belleville community. For 2016, additional large-scale procurements are underway for the Greater Toronto Area, northern and southwestern Ontario gaming sites, as well as for OLG's lottery business.

Technological advances continue to drive changes in OLG customer preferences and product offerings, which in turn will drive government policy considerations in the near future related to provincial delivery of charitable bingo games and new commercial gaming products.

The OLG Internet offering, PlayOLG.ca, recently celebrated the one-year anniversary of its launch. However, there continues to be ongoing grey-market competition. Ontario will continue to work and consult with other provinces and the federal government in 2016 to determine how best to meet market demand and encourage responsible gambling.

The OLG also continues to integrate horse racing into its gaming strategy. In fiscal 2016–17, OLG will begin to fund the horse racing industry through a provincial transfer payment program, formerly the Horse Racing Partnership Funding Program, while continuing to provide marketing and responsible gambling support to the industry.

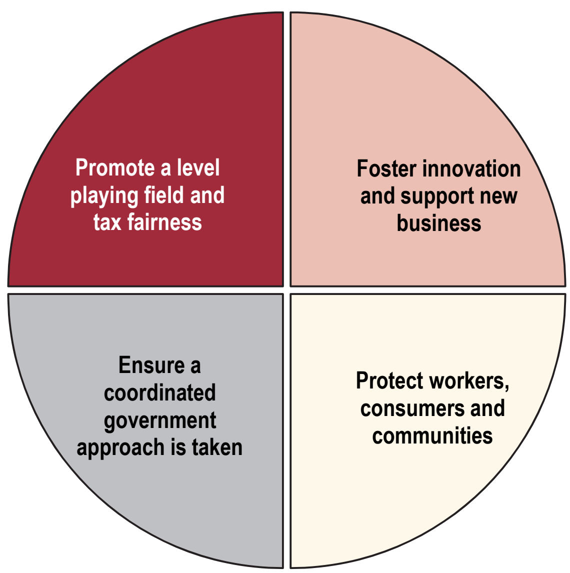
The program will now be extended for two additional years, beyond March 2019, to March 2021. This extension will give confidence to the industry to make investments and business decisions for the coming years. It will also contribute to the continued support of rural jobs and economic development in the agricultural sector, particularly as they relate to the horse breeding sector.

Beyond this time, the intention would be for OLG to establish a future, longer-term funding arrangement with the industry. The arrangement would be subject to government approvals, and further integrate gaming with horse racing to support industry sustainability.

Supporting the Sharing Economy

The sharing economy has significant potential to drive economic growth, productivity and innovation. Sharing economy platforms grow more quickly than traditional businesses due to the rapidly evolving technology that typically enables them. According to an estimate by PricewaterhouseCoopers, revenues from five of the key sharing economy sectors (accommodation, transportation, finance, services and labour, and music/video streaming) are projected to grow from $15 billion US today to $335 billion US by 2025.[7] Moreover, research by the University of California, Berkley, and the Wharton School of the University of Pennsylvania concludes that the benefits of the sharing economy extend to cost savings for consumers, flexible employment opportunities, greater supply and choice of services across sectors, and increased access to capital for small startups.[8]

CHART 1.7 **Development of an Integrated Strategy to Support the Sharing Economy**



Source: Ontario Ministry of Finance.

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7 PricewaterhouseCoopers, "Consumer Intelligence Series: The Sharing Economy," (April 2015).

8 Bryant Cannon and Hanna Chung, "A Framework for Designing Co-Regulation Models Well-Adapted to Technology-Facilitated Sharing Economies," *Santa Clara & High Technology Law Journal* 31, no. 1 (2015), 22–96.

Adapting Ontario's economy to accommodate new business models requires careful consideration and consultations with key stakeholders, including municipalities, the public, industry and other interested parties, to ensure rules and regulations reflect an appropriate balance between the four principles guiding the Province's strategy.

In the coming months, the Province will launch a more targeted consultation to help determine the best approach for Ontario moving forward, including exploring ways to further enable home-sharing and allow greater flexibility for ride-sharing. Ontario will also explore sharing economy platforms and other new business models, to understand whether they could enhance the way the government does business.

Based on early analysis, there are a number of key challenges that must be addressed. That is why Ontario is moving forward with early action by:

- Ensuring that the Province's auto insurance system can help provide peace of mind to those offering and using new types of transportation services through the sharing economy;

Auto Insurance in the Sharing Economy

The sharing economy is changing the way transportation services are provided in Ontario. Ontario's competitive market for auto insurance is beginning to respond and adapt to the sharing economy. Insurance companies are competing to develop new and innovative insurance products that provide for ride-sharing services.

The Financial Services Commission of Ontario (FSCO) has received filings from different companies proposing new auto insurance products tailored to the sharing economy. In January, FSCO approved an insurance product allowing individual drivers to purchase coverage for ride-sharing activity in Ontario.

Other insurance product proposals are currently being reviewed by FSCO to assess how they can work within Ontario's existing regulatory framework. While this review work is proceeding, the reality is that there continues to be a significant insurance coverage gap for thousands of Ontarians driving and using ride-sharing services every day.

The protection of these Ontario drivers and consumers is a critical government public policy objective and FSCO is aware of the importance to the government of achieving this objective as quickly as possible.

Towards that end, the government and FSCO are exploring how Ontario's flexible insurance regulatory system can quickly approve new insurance products, which could include the possibility of interim approvals. Using such flexible responses would allow new products to be introduced in the market while the government, working with the regulator and the insurance industry, develops over the coming months, the legislative and regulatory changes necessary to fully integrate the sharing economy into Ontario's auto insurance system.

This flexible response to auto insurance issues created by sharing economy business models will protect drivers and consumers with the coverage they need. It will also help foster innovation by allowing companies offering different types of transportation services to operate in Ontario with proper insurance coverage. It will also help promote a more level playing field by initiating a comprehensive review to identify changes required to modernize Ontario's legislative and regulatory framework for auto insurance to better serve all stakeholders in the system.

- Commencing consultation with industry and communities in spring 2016 on options to facilitate new and innovative choices for intercity passenger travel. The government will consult on a new regulatory regime to ensure safe and sustainable intercity passenger travel services; and
- Piloting a program with Airbnb, a key sharing economy platform, to educate Ontarians who engage in home-sharing about their consumer rights and responsibilities, and raise awareness of tax obligations.

Promoting Social Enterprises

In Ontario, the social enterprise sector contributes to economic and social development by creating jobs, increasing entrepreneurship and addressing society's most pressing social and environmental issues. It also helps and empowers the province's most vulnerable people.

On average, each social enterprise employs 38 people and generates $1.2 million in revenue. There are an estimated 10,000 social enterprises in the province. The government continues to invest in programs that support social entrepreneurs and the growth of social enterprises.

- In 2013, the government launched the three-year, $25 million Social Enterprise Strategy to position Ontario as a leading jurisdiction to start, grow and invest in social enterprises.
- Ontario's $4 million Social Enterprise Demonstration Fund supports innovative social finance pilot projects across the province. The initiative created over 50 jobs during its first six months.
- Through the Ontario Catapult Microloan Fund, Ontario social enterprises may qualify for a loan of up to $25,000, as well as support services such as business mentorship.
- In June 2015, a $4 million Community Loans Fund was launched to provide low-interest commercial loans to businesses that commit to hiring people with disabilities. It is expected that up to 1,100 jobs will be created through 550 loans.
- Launched in May 2015, the Ontario Social Impact Vouchers Pilot Program provides vouchers worth up to $3,000 to eligible social entrepreneurs to access training specific to their needs. Currently, 125 vouchers have been issued.
- The government is dedicated to developing new and innovative social finance tools, including committing to pilot one or more Social Impact Bonds (SIBs) in the province.

TABLE 1.7 Recent Social Enterprise Support through the Social Enterprise Demonstration Fund

Enterprise	Description
Community Foundations of Canada (CFC), Ottawa	Community Foundations of Canada's Fund is an innovative social finance approach that brings together partners from the philanthropic, government and private sectors to support social enterprises across the province. Community of Foundations of Canada's capital will be focused on social enterprises that create jobs, especially for young people. Community of Foundations Canada's objective is to build pathways to career success for young people facing disadvantages and barriers. The project helps provide debt and equity financing, as well as grant capital, to up to 15 early-stage social enterprises identified through the community foundation network.
PARO Centre for Women's Enterprise, Thunder Bay	Social Enterprise for Northern Ontario (SENO) CoStarter for Change supports the development of early-stage, high-growth social enterprises in northern Ontario by offering social entrepreneurs access to capital, educational and support programs, workspace, and other services to help launch and grow their not-for-profit and for-profit ventures. Led by PARO ("I am ready" in Latin), the SENO CoStarter for Change project aims to be a dynamic collaboration that includes representatives from organizations, First Nations, communities and businesses committed to igniting innovation, securing investment, providing education for and financing social enterprises and social entrepreneurship. The project will bring together intermediary organizations to support the development of early-stage, high-growth social enterprises.

Ontario is developing a renewed Social Enterprise Strategy for the province. The strategy will lead to the development of sustainable and scalable social enterprises, and will continue to position Ontario as a leading jurisdiction for social enterprises.

Strengthening the Financial Services Sector

The financial services sector is critical to Ontario's economic prosperity. In 2015, it accounted for 390,000 jobs across the province, generating almost 10 per cent of Ontario's GDP. The sector helps finance new investment and economic activity across other sectors of Ontario's economy. In 2016, the government is continuing to support the growth of the financial services sector by:

- Advancing a modern and flexible approach to regulation;
- Strengthening consumer and investor protection; and
- Promoting Toronto as a global financial hub.

Progress on the Establishment of the Cooperative Capital Markets Regulatory System

The government is playing a leadership role towards the establishment of the Cooperative Capital Markets Regulatory System (CCMR). The CCMR, once implemented, would enhance Canada's stature and competitiveness in global capital markets, which would in turn promote economic activity in all provinces and territories. The CCMR would also lead to more effective regulation and enforcement through a stronger and more competitive regulatory structure that would help grow business investment. Going forward, the government plans to introduce the Capital Markets Act and related CCMR legislation, following work with other participating jurisdictions to finalize the proposed CCMR legislative framework.

Modernizing Capital Markets Regulation

The government plans to propose changes to update securities laws and continue to strengthen the financial services sector, protecting consumers and investors and bolstering the stability and efficiency of financial markets. These changes would:

- Strengthen enforcement provisions;
- Create additional tools to provide protection for whistleblowers; and
- Update the *Securities Act* related to the use of information obtained in investigations to allow such information to be used in a broader array of proceedings under the *Securities Act.*

Review of the *Credit Unions and Caisses Populaires Act, 1994*

"…Credit unions play a vital part in Ontario's economy, often being the only financial services institution in smaller communities, and align with the government's vision to invest in people and support a dynamic business climate in the province. Credit unions strengthen the health of our economy, in particular small and community-based businesses, by financing innovation and growth…. Our goal is to improve the financial well-being of families, local businesses and community organizations in the areas that we serve."

Alterna Savings and Credit Union Ltd., pre-Budget presentation to the Standing Committee on Finance and Economic Affairs, January 22, 2016.

There are 110 credit unions and caisses populaires across Ontario that serve almost 1.6 million members and employ approximately 6,800 staff.

In November 2015, Parliamentary Assistant Laura Albanese submitted her report to the Minister of Finance on the review of the *Credit Unions and Caisses Populaires Act, 1994* (CUCPA). The report contains recommendations that were based on extensive consultations. They aim to ensure that the legislative framework continues to protect consumers, is aligned with international best practices and enables credit unions to meet the evolving needs of their members.

Ms. Albanese's recommendations include:

- Setting the deposit insurance coverage limit at $250,000, including $250,000 coverage for deposits held in each type of registered account (such as Registered Retirement Savings Plans or Tax-Free Savings Accounts).
- Harmonizing subsidiary ownership rules with those in place for banks and permitting credit unions to wholly own insurance brokerage subsidiaries.
- Working with relevant ministries to remove legislative barriers that impede the ability of credit unions to do business with municipalities, universities, school boards and hospitals ("the MUSH sector") and other sectors. This includes considering changes to the investment rules for municipalities, as well as leading an initiative to address provisions in regulations under various statutes that do not include credit unions as permissible financial institutions.

- Permitting credit unions to enter into loan syndication agreements with credit unions in other provinces and removing differentiated rules for small credit unions.
- Strengthening Ontario's credit union consumer protection framework, as well as working with credit unions to explore voluntary commitments to provide notices of branch closures, and options for providing consumers with alternatives to high-cost payday loans.

The government intends to implement Ms. Albanese's recommendations. These changes would improve the legislative framework for credit unions so they can continue to attract new members and grow, create jobs, contribute to Ontario's economy, and ensure that consumers and deposits are well protected.

The Province intends to propose legislation to modernize and replace the existing CUCPA. The new statute would improve the clarity of the framework governing credit unions and caisses populaires and result in improved efficiency for the sector. However, as a first step, the government intends to implement the recommendations relating to deposit insurance limits, subsidiary ownership rules, MUSH sector business, loan syndications and the removal of differentiated rules for small credit unions.

Modernizing the Regulation and Oversight of Financial Services and Pensions

Over the past year, an expert advisory panel has been reviewing the mandates of the Financial Services Commission of Ontario (FSCO), the Financial Services Tribunal (FST) and the Deposit Insurance Corporation of Ontario (DICO), with the goal of modernizing the regulation of financial services and pension plans, and increasing agency accountability.

In November 2015, the panel released a preliminary position paper to provide insight into their initial views and to solicit feedback from the public.

In this paper, the panel proposed significant reforms to the regulatory landscape, including the establishment of a new, independent and flexible regulator with a modernized governance and accountability framework.

The government is committed to modernizing and strengthening the regulation of financial services and pensions, and to improving consumer, investor and pension plan beneficiary protection. Necessary legislative or regulatory changes will be identified and pursued as early as possible.

The panel's final report will be released this spring.

Toronto as a Global Financial Hub

Toronto is the financial capital of Canada and a global financial centre — home to many leading banks, securities dealers, insurers and pension funds. As an internationally recognized financial hub, Toronto ranks as one of the best in the world — seventh on the U.K.'s *The Banker* magazine's ranking and eighth on the U.K.-based Global Financial Centres Index. The government works with public–private partnerships, such as the Toronto Financial Services Alliance (TFSA), to successfully position Toronto as a global leader in financial services.

- Ontario is an excellent investment destination for international financial firms. Toronto is ranked fifth among North American cities for inward financial services foreign direct investment (FDI). Furthermore, the province continues to attract international capital investment from top financial firms, such as the announcement in 2015 by Nasdaq to invest in Ontario.[9]
- Ontario is internationally recognized for its outward-oriented Canadian banks and life insurers, as shown by Toronto's top performance in outward financial services FDI in North America, second only to New York City.[10]

In 2016, to advance the success of the financial services sector, the government continues to:

- Fund the TFSA, in partnership with the private sector, to help increase jobs and investment in the financial services sector. The support for this critical economic engine for Ontario will build on the Toronto region's strong international reputation as a global financial centre, while enhancing its competitiveness and growth prospects.
- Promote the creation of an Ontario "fintech" cluster of companies whose technologies support the financial services sector by promoting initiatives that support the development of highly educated high-tech talent and an innovative business environment in Toronto.

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[9] Silvia Pavoni, "New York Leads, Toronto Gains," *The Banker,* (December 2015).
[10] Ibid.

- Foster the growth of the first North American Chinese currency trading hub, established in March 2015 in Toronto. This hub enables investors to access renminbi-denominated securities and foreign exchange services, and also lowers transaction costs for local importers and exporters when conducting business.

Section B: Building Tomorrow's Infrastructure Now

Introduction

Infrastructure is a key component of the economy. Investing today helps stimulate economic growth and create jobs. These investments also build the infrastructure needed for the future to move people and goods quickly and efficiently, attract private investment, expand opportunities for suppliers, buyers and skilled workers, and help people in their everyday lives.

Research Demonstrates How Infrastructure Investment Benefits the Economy

- An October 2015 report by the Canadian Centre for Economic Analysis (CANCEA) found that the Province's 10-year infrastructure plan supports approximately 11 per cent of Ontario's economic growth over the next 30 years.[1]
- A September 2015 report by the Broadbent Institute and the Centre for Spatial Economics showed that, on average, investing a dollar in public infrastructure in Canada raises gross domestic product (GDP) by $1.43 in the short term and up to $3.83 in the long term.[2]
- The Province estimates planned infrastructure investments would support over 110,000 jobs, on average, each year.

The Province is building modern and efficient infrastructure that benefits people and the economy, both today and in the future. In June 2015, Ontario passed the *Infrastructure for Jobs and Prosperity Act, 2015,* which will come into force on May 1, 2016. This Act will align infrastructure investments with Ontario's economic development priorities through long-term planning, while strengthening the province's competitive edge globally. When fully implemented, the legislation will support the evaluation and prioritization of infrastructure investments.

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[1] P. Smetanin and D. Stiff, "Investing in Ontario's Public Infrastructure: A Prosperity at Risk Perspective, with an Analysis of the Greater Toronto and Hamilton Area," Canadian Centre for Economic Analysis, (2015).

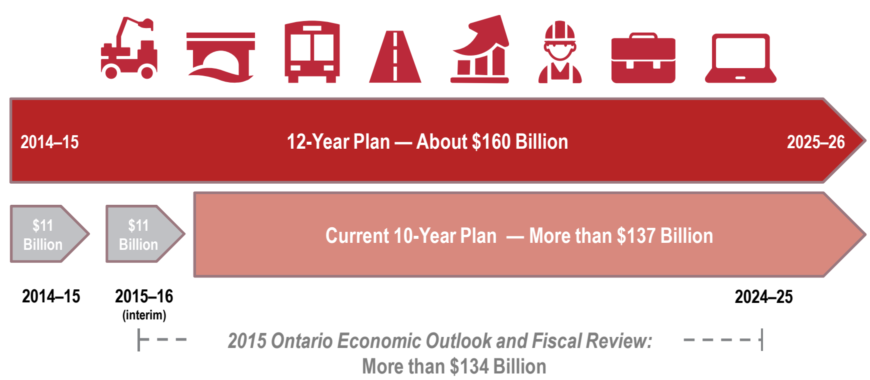
[2] The Centre for Spatial Economics, "The Economic Benefits of Public Infrastructure Spending in Canada," The Broadbent Institute, (2015).

A major component of the Act is the requirement that Ontario publish a long-term infrastructure plan within three years. Subsequent plans will be tabled at least once every five years. This plan will describe the Province's infrastructure portfolio, outline anticipated needs of the portfolio and propose strategies to meet these needs.

Updates on Infrastructure Development

In this *Budget*, the Province is making public infrastructure investments of more than $137 billion over the next 10 years — over $3 billion more than announced in the *2015 Ontario Economic Outlook and Fiscal Review*. This builds on the *2014 Budget* commitment to invest in infrastructure — resulting in about $160 billion over 12 years, starting in 2014–15. This represents the largest investment in public infrastructure in the province's history. Planned investments would support over 110,000 jobs, on average, each year.

CHART 1.8 Significant Infrastructure Investments



Note: Figures exclude third-party investments in hospitals, colleges and schools.

Examples of new infrastructure investments include expanding the Ontario Community Infrastructure Fund (OCIF) to support local communities, investing in new highway projects across the province and increasing investments in health care infrastructure to maintain hospitals in good repair.

Moving Ontario Forward

In the *2014 Budget*, the Province announced that nearly $29 billion would be made available for investment in its Moving Ontario Forward plan for public transit, transportation, and other priority infrastructure projects, of which $3.1 billion represented dedicated funds projected to be provided as part of the government's asset optimization strategy. In the *2015 Budget*, the government announced it was moving forward with broadening the ownership of Hydro One as part of its asset optimization strategy, and increased its asset optimization target by $2.6 billion. Investments in Moving Ontario Forward increased by an equivalent amount, from nearly $29 billion to $31.5 billion. In fall 2015, the government moved forward with the first phase in broadening ownership of Hydro One, and the Province remains on track to generate net revenue gains of $5.7 billion from asset optimization over time.

To build Ontario up across the province in a way that is fair, total dedicated funds for Moving Ontario Forward are allocated using census data from Statistics Canada, with about $15 billion available outside the Greater Toronto and Hamilton Area (GTHA) and about $16 billion available within the GTHA.

The plan will support the development of an integrated transportation network across the province, manage congestion, connect people, and improve the economy and quality of life.

Outside the GTHA

Following the *2015 Budget*, the government launched consultations to seek input on the design of new infrastructure programs and a framework to prioritize investments outside the GTHA.

Ontarians offered their perspectives on the infrastructure priorities of communities across the province, and this input will continue to be an important guide in making targeted next steps when selecting infrastructure investments.

Supporting Local Communities

Through the OCIF, the Province is providing small, rural and northern municipalities with access to $100 million per year to build and repair critical infrastructure and create jobs across Ontario. To date, the $50 million application-based component of the fund has supported over 135 water, sewer, road and bridge projects in communities across the province.

Ontario Community Infrastructure Fund (OCIF) Recipients

- In southwestern Ontario, the Municipality of Chatham-Kent will receive $2 million in funding to rehabilitate the Parry Bridge. The Town of Petrolia will also receive $2 million to upgrade water mains and replace storm sewers.
- In northeastern Ontario, the City of Temiskaming Shores will receive about $1.5 million to integrate two water systems into one supply source and build a treatment facility.
- In south central Ontario, the Township of Havelock-Belmont-Methuen will receive about $1.7 million to improve its water system and ensure sufficient water for fire protection. The Town of Cobourg will receive $675,000 to upgrade roads and improve pedestrian and cycling infrastructure.

Reflecting consultation feedback and the progress municipalities have made on their asset management plans, the OCIF will be expanded to $300 million per year by 2018–19. This increased funding will help municipalities invest even more in the critical infrastructure they need to thrive, while also creating jobs across the province. The expanded fund will be relaunched in late spring 2016.

Additionally, through the Small Communities Fund, the Province and the federal government are each providing $272 million to support projects in communities with populations of less than 100,000. To date, 75 diverse projects have been approved that will help address local priorities and support economic growth.

The Province is also developing programs to help communities partner with utilities to extend access to natural gas supplies. Ontario will introduce a loan program to support access to natural gas in 2016. Access to natural gas can help stimulate the economy, particularly in smaller communities, by attracting new industry, making commercial transportation more affordable, benefiting agricultural producers and providing consumers with more energy choices.

The Province is investing in a number of ongoing and additional transportation projects, including:

Southwestern Ontario:

- Advance work to facilitate construction of the new four-lane alignment on Highway 7 between Kitchener and Guelph.

- In partnership with the City of London, work on the final design to upgrade the existing interchange at Highway 401 and Highbury Avenue. Construction will begin in 2017.
- Expansion of Highway 401 from six to 10 lanes from Hespeler Road easterly to Townline Road in Cambridge, including high-occupancy vehicle (HOV) lanes. Construction is anticipated to start in 2018.

Eastern Ontario:

- Improving the Highway 417 corridor in Ottawa, including noise barriers, with construction beginning in 2016, and additional improvements at the Bronson Avenue interchange beginning in 2018.
- Widening of the Highway 417 Ottawa Queensway corridor, including the section from Maitland Avenue to Island Park Drive, and the section from Highway 416 to Maitland Avenue. Construction on these sections is anticipated to start in 2016 and 2019, respectively.
- Widening nine kilometres of County Road 17 in the United Counties of Prescott and Russell, beginning in 2019.

Northern Ontario:

- Continued design work for four-laning 12 kilometres of Highway 11/17, from Highway 587 to Pearl Creek, and four kilometres from Black Sturgeon River Bridge to Red Rock Road No. 9.
- Continuing construction of a four-lane divided Highway 11/17 between Thunder Bay and Nipigon to support a strategic link in the Trans-Canada Highway system. Additional work will include the section starting west of the CPR Overhead at Ouimet easterly for 8.6 kilometres, and the section from Black Sturgeon River westerly to Highway 582 for 6.5 kilometres. Construction is anticipated to start in 2018.
- Capital improvements to northern airports to support remote and Indigenous communities and promote economic development.

The Province is also increasing funding, beginning in 2018–19, for capital improvements to roads and bridges in First Nation communities to maintain a safe and sustainable road network.

The Connecting Links program will provide $20 million in 2016–17, up from $15 million announced in the *2015 Budget*, to help municipalities pay the construction and repair costs for municipal roads that connect two ends of a provincial highway through a community or to a border crossing. This new program was launched in November 2015, and applications were received in early 2016. Successful applicants will receive funding starting in spring 2016. Funding for this program will increase to $30 million per year by 2018–19.

Ring of Fire

Ontario has also committed up to $1 billion for strategic transportation infrastructure development in the Ring of Fire region, located about 540 kilometres northeast of Thunder Bay. The Ring of Fire Infrastructure Development Corporation has been established to support smart, sustainable and collaborative development in the Ring of Fire region, and has completed a number of studies to help inform infrastructure planning.

The Province also continues infrastructure planning with First Nations. Ontario and the federal government jointly funded a community-based study of all-season access roads and the Province is also providing funding to First Nation communities for capacity building and social supports. For example, approximately 2,000 clients from Matawa First Nations communities have participated in education and skills training programs. The Province also continues to work actively with industry partners on development opportunities. The Ring of Fire project will support economic development in northern Ontario and provide benefits for Indigenous communities, Ontario and Canada as a whole.

CHART 1.9 **Moving Ontario Forward — Outside the GTHA**

Note: Project timing is subject to outcome of consultations, planning, design and environmental assessment approvals.

Inside the GTHA

Regional Express Rail

Through Moving Ontario Forward, the Province continues to build priority transit projects to increase ridership and reduce travel times. The government will invest $13.5 billion to implement GO Regional Express Rail (RER), which will quadruple the number of weekly trips from about 1,500 to nearly 6,000 trips.

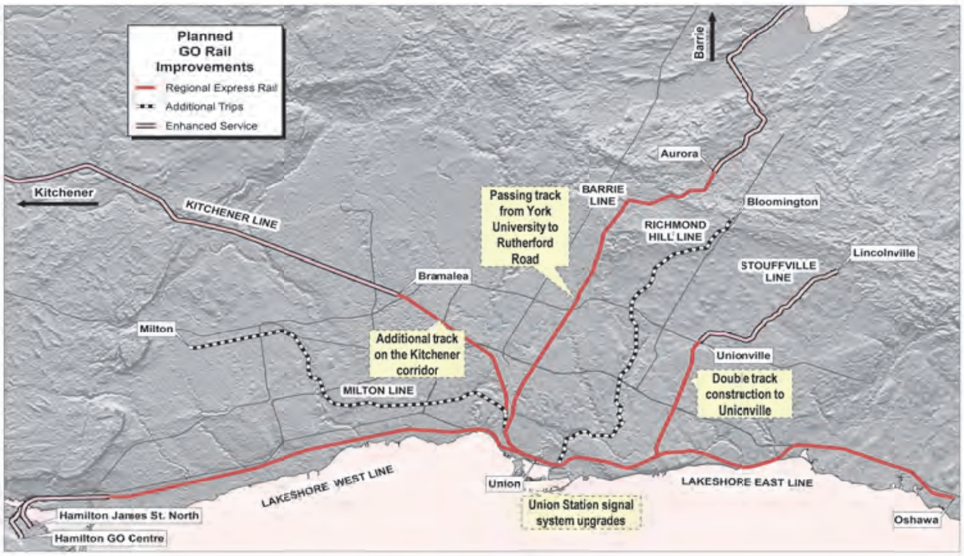
Regional Express Rail (RER) will create substantial benefits for the Province and the Greater Toronto and Hamilton Area (GTHA) by providing new travel options that will transform the regional transportation system across the region. GO RER will provide service with 15-minute frequencies and in both directions during weekdays, evenings and on weekends, with electrification on rail corridors located in core areas.

A portion of the funding for GO RER will support planning, design and early construction on GO rail corridors, including the following projects that are currently underway:

- Environmental assessment for system-wide electrification on GO RER;
- Additional track on the Kitchener corridor;
- Double track to Unionville on the Stouffville corridor;
- Passing track from York University to Rutherford Road on the Barrie corridor; and
- Union Station signal system upgrades.

The Province and Metrolinx have been working closely with the City of Toronto to provide input into, and ensure coordination between, the City's SmartTrack plan and how it fits with the implementation of Regional Express Rail. These discussions also include the consideration of the City's proposed Eglinton East Light Rail Transit and new Scarborough subway alignment. The SmartTrack funding proposal entails substantial contributions in new capital and operating funding from partners, including the City of Toronto and the federal government.

CHART 1.10 Updates on Regional Express Rail



Sources: Ontario Treasury Board Secretariat and Ontario Ministry of Transportation.

As a first step to phasing in GO RER, Metrolinx is continuing to implement short-term service improvements that will result in new travel options across the seven corridors of the GO rail network. In 2016–17, planned network-wide GO rail service improvements include the addition of up to:

- Six new trips during the morning/afternoon commutes (i.e., peak trips) on the Milton, Richmond Hill and Stouffville corridors;
- 10 new trips during the midday/evening (i.e., off-peak trips) on the Kitchener corridor to/from the City of Brampton; and
- 52 new trips on each weekend day (i.e., a typical Saturday) on the Kitchener corridor to/from the City of Brampton and the Barrie corridor to/from Aurora.

The additional service is dependent on a number of factors, including negotiations with freight rail companies, the implementation of infrastructure and the delivery of new rail equipment.

By 2020, rail service on the GO Transit network will increase by approximately 50 per cent over 2014–15 levels. Additional services will increase opportunities for commuters to choose transit not just for getting to work, but also for getting around.

To also manage congestion, Metrolinx will continue to make strategic parking investments and expansions to support future service improvement.

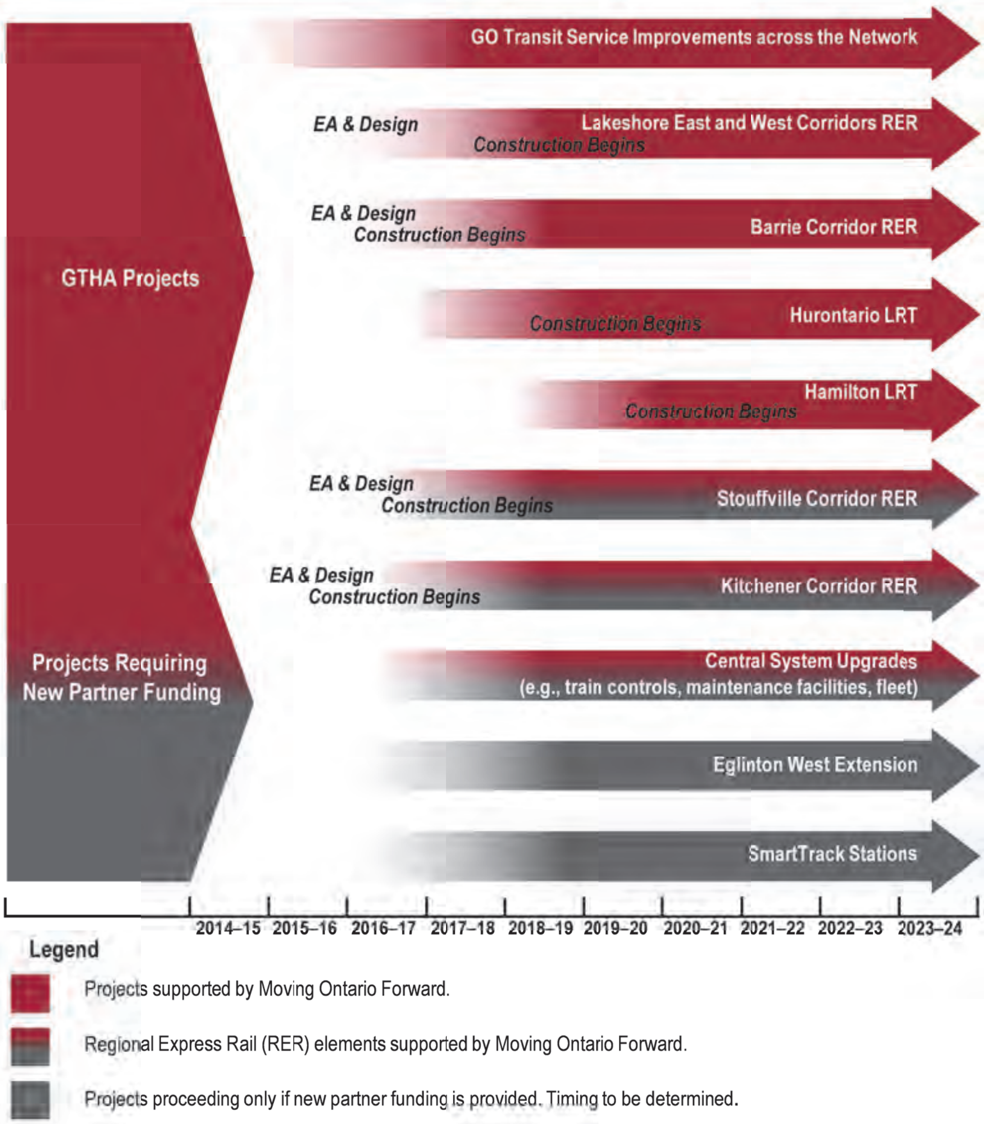
In addition, planned GO bus service improvements will complement the addition of new GO train trips, and will also help to address new demand areas, overcrowding and reliability. In 2016–17, planned GO bus service improvements will increase the number of bus trips by 130 per week.

Other Transit Projects

Ontario is also investing in the following projects inside the GTHA:

- **Hurontario LRT** — The Province will invest $1.4 billion to cover the capital construction costs of this light rail transit (LRT) line in Peel Region that will bring approximately 20 kilometres of new, modern, reliable rapid transit to Mississauga and southern Brampton. It is expected that construction will start in 2018 and the LRT will be in service in 2022.
- **Hamilton LRT** — The Province will cover the capital costs of building the LRT, up to $1 billion. New, modern light rail vehicles on tracks separated from regular traffic will offer speedy service from McMaster University through downtown Hamilton to Queenston Traffic Circle. The environmental assessment process is expected to be completed in early 2017, construction will start in 2019, and the LRT will be in service by 2024.
- Planning and design work for other priority projects included in Metrolinx's regional transportation plan — The Big Move — to support ongoing transit planning in the region, including:
  - Dundas Street Bus Rapid Transit, linking Toronto, Mississauga, Oakville and Burlington;
  - Durham–Scarborough Bus Rapid Transit;
  - Brampton Queen Street Rapid Transit;
  - Toronto Relief Line; and
  - Yonge North Subway Extension.

CHART 1.11 Moving Ontario Forward — GTHA



Note: Construction timing is subject to planning, design and environmental assessment approvals.

The Province will continue working with regions, communities, other levels of government, and private partners to design and select the next generation of infrastructure investments that will improve the competitiveness of Ontario's communities, enhance productivity, promote innovation and develop new economic opportunities, such as:

- Subject to agreement with freight rail partners, two-way, all-day rail services on the Kitchener and Milton GO corridors, and extension of GO rail service to Niagara and Bowmanville;
- New and improved GO bus connections to the GO rail network for communities such as Brantford and Cambridge; and
- Cost-sharing the capital costs of municipal transit projects such as London rapid transit and Phase 2 of the Ottawa LRT project.

Ongoing Investments in Transportation

The Province is moving ahead with creating a reliable and sustainable transportation system in Ontario. Transit investments and major highway infrastructure projects are underway to improve mobility and connectivity across the province.

Highways

Investments in Ontario's transportation system help reduce congestion and move people and goods faster. The Province is investing in a number of major highway projects to support economic growth and improve mobility.

- As the first step in Ontario's plan to implement high-occupancy toll lanes, a 16.5-kilometre pilot project initiative will begin on a section of the Queen Elizabeth Way between Trafalgar Road in Oakville and Guelph Line in Burlington in summer 2016 to help manage congestion and add choice for travellers. In spring 2016, Ontario will announce details on pricing and availability of HOT lanes. Information collected through the pilot will be used to support long-term planning for future HOT lanes, including new, dedicated HOT lanes with electronic tolling on Highway 427, from south of Highway 409 to north of Rutherford Road, which will open by 2021.

> High-occupancy toll (HOT) lanes allow carpooling drivers to continue driving for free, but other drivers could choose to drive in the lane and pay a toll.

- The Province will widen Highway 400 from eight to 10 lanes to add a new HOV lane in each direction between Major Mackenzie Drive and King Road. This project is scheduled for completion in 2018–19.
- The 407 East project will help relieve congestion and support the efficient movement of people and goods through the eastern Greater Toronto Area and beyond. Phase 1, from Brock Road in Pickering to Harmony Road in Oshawa and Highway 412, will open in spring 2016. The initial portion of Phase 2 will extend the highway from Harmony Road in Oshawa to the new Highway 418 in Clarington by late 2017. By 2020, the final portion of Phase 2 will complete the extension to Highway 35/115 in Clarington and complete Highway 418 from Taunton Road to Highway 401.

- The Province is widening 12 kilometres of Highway 410 from Highway 401 to Queen Street in Brampton. When completed in 2018, Highway 410 will be widened from six lanes to 10 lanes and will provide HOV lanes to help improve traffic flow and commuter traveller choices.
- Through the Northern Highways Program, the Province is investing $550 million in northern infrastructure. Capital improvements made through this program include new passing lanes and the rehabilitation and replacement of bridges, in addition to a four-lane expansion of Highway 69 south of Sudbury and Highway 11/17 east of Thunder Bay. Other projects benefiting from this program include continuing rehabilitation of the Noden Causeway near Fort Frances, resurfacing of 36 kilometres of Highway 144, and replacement of the Valentine River Bridge west of Hearst.
- The government will continue to enhance winter highway maintenance delivery to keep Ontario's highways as safe as possible during the winter, improve awareness for drivers, and verify contractors are meeting ministry maintenance standards. Planned enhancements in 2016–17 include improved road weather information system stations, increased service by contractors through more frequent road patrolling, more reliable equipment, and expansion of the "Track My Plow" website to enable more Ontarians to plan their trips by tracking the location of snowplows and viewing roadside camera images in their communities in real time.

Track My Plow Program

This initiative allows the public to track snowplows on provincial highways in their area. This initiative is part of a response to the Office of the Auditor General's report on Winter Highway Maintenance released in April 2015. For winter 2015–16, this program started in two contract areas, and now covers seven of the 20 contract areas in the province.

Transit

In addition to Moving Ontario Forward investments, the Province is supporting major transit projects that are planned and underway, including:

- **Eglinton Crosstown Light Rail Transit (LRT)** — Progress continues on building the east and west tunnels. The station construction and maintenance contract for the LRT has been awarded to Crosslinx, which will complete design submissions before construction begins in spring 2016. The Eglinton Crosstown LRT has been selected as a green project that continues to receive funding from Ontario's Green Bonds. The line is expected to be in service by fall 2021.
- **Finch West LRT** — Eleven kilometres of new, dedicated light rail transit between Humber College and the new Finch West Subway Station on the Toronto–York Spadina Subway Extension. The project is now in procurement. Preliminary design and engineering work is underway. The start of major construction is expected in 2017.
- **Mississauga Transitway** — The 18-kilometre bus transit corridor is expected to be completed in 2017. Construction of the west side transit system has begun, with two transitway stations and a corridor linking Winston Churchill Boulevard and Erin Mills Parkway. On the east side of the transitway, the City of Mississauga is building four stations, scheduled to open in 2016.

PRESTO — More than 1.8 million PRESTO cards are being used for travel throughout the 11 transit systems in the Greater Toronto and Hamilton area and Ottawa area. By the end of 2016, Toronto transit riders will be able to use the PRESTO fare card at all TTC subway stations, and on all streetcars and buses. When PRESTO is fully deployed on the TTC, there will be more than 10,000 PRESTO devices in streetcars, buses, subway stations and para-transit vehicles for the 1.7 million customers who ride the TTC daily. The Province is working with municipalities to ensure a fair allocation of operating costs for the program.

All levels of government have a role in supporting transit investments in Ontario. As the Province continues to provide significant contributions towards new rapid transit projects and services in the GTHA, which will replace or supplement local transit services, the Province will be seeking ongoing municipal support for operating and maintenance costs.

Supporting Municipal Transportation Systems

The Province is supporting key municipal transit projects.

- In 2015, Ontario provided over $330 million in gas tax funding to 95 municipalities to help expand and improve public transit. Since 2004, Ontario has allocated more than $3.4 billion in gas tax funding to communities across the province. Municipalities use the funding to enhance accessibility, purchase additional transit vehicles, add more routes and extend hours of service — making it easier for people to use public transit. The program also helps ease traffic congestion and reduce air pollution.
- Work is underway for ION, the Region of Waterloo's 36-kilometre rapid transit project, with about 5.3 kilometres of LRT track in place in Kitchener and Waterloo. The Province will continue to have discussions with the Region on other transit priorities such as a proposed transit hub that could connect ION, Grand River Transit, GO Transit and other intercity bus carriers.
- Progress continues along Ottawa's 12.5-kilometre LRT project, the Confederation Line. As of January 2016, over 75 per cent of the tunnelling had been completed.

Cycling infrastructure is part of the government's plan to build up Ontario communities. The Province recognizes the importance of helping communities become more sustainable by building off-road bike paths and large-scale recreational trails through the #CycleON initiative. To continue promoting a healthy Ontario, the Province has created a new streamlined process for municipalities to submit proposals for environmental assessment on trails and paths. Reducing carbon footprints is one of the many benefits of investing in cycling infrastructure.

Ferries

- The Province will invest $20 million to purchase a new ferry for the Eastern Region that will be put into service at Amherst Island as early as 2018. This new vessel will ensure there is a backup vessel at all times for Eastern Region's ferry services.
- The Owen Sound Transportation Company operates the MS Chi-Cheemaun ferry between the Bruce Peninsula and Manitoulin Island, and the MV Niska 1 ferry between Moosonee and Moose Factory Island for seasonal passenger and vehicle services. To support these essential services for northern communities, the Province will invest in upgrades to the MS Chi-Cheemaun ferry and river dredging for MV Niska 1 navigation routes.

Child Care and Education Infrastructure

Investing in schools is part of the government’s plan to build Ontario up. The funding responds to local needs while creating contemporary learning environments for students.

Over 10 years, the Province plans to provide more than $11 billion in capital grants to school boards. These funds will help build new schools in areas of high growth, improve the condition of existing facilities and invest in projects to reduce surplus space through school consolidations.

Ontario is also investing in child care by creating approximately 4,000 new licensed child care spaces in local schools to give children the opportunity to transition more easily into full-day kindergarten. These new spaces will be built in areas of high demand and will enhance access to quality child care options for families across the province. This investment is another step towards a modern child care and early years system that will enhance programs and supports for children in Ontario.

As of winter 2016, approximately 200 major capital school projects are either being planned or underway across Ontario, including projects that incorporate a community hub model. Examples of projects include:

- $8 million to retrofit Alexander Henry High School in Sault Ste. Marie into a new JK–8 school that will accommodate local enrolment pressures and partner with the municipality to include a public library to create a community hub;
- $9 million to consolidate two schools into a new Greensville Public School in Hamilton that will partner with the municipality to include community space, a public library and 39 child care spaces;
- $13 million to construct a new École Secondaire Gaétan-Gervais in Oakville, creating a recreation hub in partnership with the Town of Oakville and the neighbouring English public school board;
- $12 million to build a new JK–8 school in Windfields Farm in Oshawa to address accommodation pressure in nearby schools, and to include 73 new child care spaces;
- $15 million to rebuild Davisville Junior Public School in Toronto, with plans to partner with the City to create a community hub;
- $21 million to replace two schools in Cambridge and Ayr, including 176 new child care spaces;
- $2 million to create over 70 new child care spaces at Centennial Hylands Elementary School in Shelburne; and
- $52 million to build two new schools and four retrofits/additions in Ottawa, including 78 new child care spaces.

Postsecondary Education Infrastructure

Ontario is committed to developing a sustainable, transparent, student-centred postsecondary sector, where students have access to high-quality programs closer to home and where Ontario's investments contribute to building a strong economy. As part of the Major Capacity Expansion Policy Framework, the government announced plans in May 2015 for a new postsecondary campus in Markham for about 4,000 students. The project will be a partnership between York University and Seneca College. In 2016, Ontario will issue a second targeted call for proposals under the framework to serve the growing demand in Peel and Halton Regions and support creating good jobs and building the Ontario economy. After York, Peel and Halton are the fastest-growing areas of the province.

In addition to the new campus in York and any future campus in Halton/Peel, the Province is funding new capital projects such as:

- **Confederation College in Thunder Bay** — A new technology, education and collaboration hub will bring together preparatory, apprenticeship, training, trades and technology programs, providing an array of instruction, innovation and incubation facilities.
- **La Cité collégiale in Ottawa** — New interdisciplinary creativity incubators will create experiential learning space and help build a culture of innovation for francophones to meet the emerging needs of the labour market.

These projects are part of the Province's plan to provide $3 billion in capital grants to postsecondary institutions over 10 years.

Ontario will be working with the postsecondary sector on a capital strategy, recognizing that capital investment must look to the future of a growing connected world where investments in technology are critical to jobs and the economy.

Health and Community Infrastructure

Health capital projects are part of the government's infrastructure investment plan to improve access to high-quality, reliable, specialized health care services and facilities for Ontarians. The Province plans to provide $12 billion over 10 years in capital grants to hospitals to continue building essential infrastructure.

Health care infrastructure investments help ensure patients continue to receive high-quality care in a safe and healthy environment. Across the province, approximately 35 major hospital projects are under construction or in various stages of planning.

In addition, the Province is providing new annual funding of $50 million to assist hospitals in maintaining their facilities in good repair. This investment will build on increases announced in the *2014 Budget,* to more than triple investments in the Health Infrastructure Renewal Fund from pre-2014 levels.

Examples of Hospital Projects in Planning or Underway

The new Mackenzie Vaughan Hospital project will improve access to hospital services for York Region. The new hospital will have a state-of-the-art emergency department, modern surgical services, specialized ambulatory clinics and advanced diagnostic imaging. The hospital will have integrated smart digital technology systems to enhance the patient care experience.

The new Providence Care Hospital in Kingston will consolidate services currently provided at St. Mary's of the Lake Hospital and Mental Health Services into a 270-bed state-of-the-art facility. The new hospital will include single-occupancy patient rooms with adjacent therapy and treatment spaces to allow patients to receive care closer to their rooms, and will maximize the use of technology to enhance care and improve operating efficiency.

A renovation of acute and long-term care beds at the Atikokan General Hospital will help better coordinate provision of care across levels of service delivery.

The expansion and redevelopment at Cambridge Memorial Hospital will improve access to health care services for patients in Cambridge by increasing the number of beds, doubling the size of the emergency department to better meet the needs of patients in the region, expanding laboratory and diagnostic imaging services to help patients receive their results on-site sooner, and improving the hospital's medical training facilities.

Ontario is also investing in community health infrastructure projects to expand local service capacity and address emerging needs in the community. The government has released a redesigned Community Health Capital Programs Policy that provides for expanded eligibility and a streamlined approval process for community health care infrastructure projects in Ontario. The Province continues to work closely with the Special Adviser on Community Hubs to advance the recommendations contained in the recently released "Community Hubs in Ontario: A Strategic Framework and Action Plan."

The Province is investing $3.3 million to support the reconstruction of the Blyth performing arts facility as a cultural hub in southwestern Ontario. The facility hosts an annual arts festival, showcases professional exhibits and community shows, and supports rural economic creativity.

The Legacy of the 2015 Pan/Parapan American Games

The Province, working with its partners, helped to deliver the 2015 Pan/Parapan American Games within projected budgets. Ontario's support to host the world's third largest international multi-sports event triggered major capital investments, which benefit present and future generations of Ontarians. Major investments included:

- 10 new internationally certified sports venues and 15 upgraded venues.
- The Athletes' Village in Toronto, which has been transformed into the Canary District, a mixed-used community with:
    - 810 townhomes and condominiums, with up to 100 affordable home ownership units;
    - 253 affordable rental units;
    - an 82,000-square-foot YMCA;
    - a 500-bed student residence; and
    - an 18-acre Corktown Common park.

Ontarians are already benefiting from this infrastructure investment:

- The Toronto Pan Am Sports Centre had over 100,000 visits by sport and recreation users in its first three and a half months of post-Games operations. As of December 31, 2015, there were 2,300 registered fitness members and over 30 high-performance and community sport groups training at the facility on a regular basis.
- In 2015, over 20,000 sport enthusiasts participated in cycling sessions at the Mattamy National Cycling Centre (velodrome) in Milton, with more than 8,600 registrants for cycling programs.
- The Athletics Stadium at York University will expand its high-performance programs to support Athletics Canada.
- Over 1,000 new jobs have been created for full-time, part-time and seasonal workers.

Energy Infrastructure

Smart Investments in Energy Infrastructure for Today and Tomorrow

A clean, reliable and affordable supply of electricity is a critical element for sustainable job creation and economic development.

The government continues to make significant progress in transforming the electricity system into one that Ontarians can count on for reliability and leadership in clean energy. More than $34 billion has been invested in cleaner generation since 2003, and Hydro One alone has invested about $15 billion in modern transmission and distribution infrastructure. Over 16,000 megawatts (MW) of new and refurbished capacity have come online, including more than 7,000 MW of wind, solar and other renewable energy supply, and an additional 2,400 MW in renewable capacity contracted for and under development.

Ontario remains committed to building a cleaner and more sustainable energy system. The first phase of the Independent Electricity System Operator's (IESO) competitive Large Renewable Procurement (LRP I), where large is generally over 500 kilowatts (kW), is targeted to procure up to 300 MW of wind, 140 MW of solar, 50 MW of bioenergy and 75 MW of water power.

The recent round of the Feed-In Tariff 4 (FIT4) application window closed in October 2015, with over 1,968 applications received, representing a total of 582 MW. Contracts for the FIT4 program will be awarded, up to the procurement target of about 241 MW.

In November 2015, the IESO completed its plan to secure a total of 50 MW of energy storage in Ontario. The IESO offered contracts to five companies for nine separate energy storage projects totalling 16.75 MW. This is in addition to the approximately 34 MW in storage capacity previously secured.

Ontario is moving forward with refurbishment of the four units at the Darlington Nuclear Generating Station, and has updated its contract with Bruce Power to provide for the refurbishment of six nuclear units, in addition to the two units at the Bruce A Nuclear Generating Station that have already been refurbished. Together, this secures over 9,800 MW of affordable, reliable and emission-free power.

Ontario Power Generation (OPG) is on track to begin refurbishment of the first unit at Darlington in October 2016. The budget for the project is $12.8 billion, about $1.2 billion less than originally projected by OPG, and all four units are scheduled for completion by 2026. The Conference Board of Canada has estimated that nuclear refurbishment at Darlington will contribute an estimated $14.9 billion to Ontario's gross domestic product (GDP) and the boost to jobs is estimated to average 11,800 over the peak 10 years of the refurbishment project.

Ontario Power Generation is also pursuing continued operation of the Pickering Generating Station beyond 2020 up to 2024, which would protect 4,500 jobs across the Durham region, avoid eight million tonnes of greenhouse gas (GHG) emissions, and save Ontario electricity consumers up to $600 million. Ontario Power Generation will engage with the Canadian Nuclear Safety Commission and the Ontario Energy Board to seek approvals required for the continued operation of the Pickering Generating Station.

Bruce Power will invest approximately $13 billion in refurbishments of the six nuclear units. An economic impact analysis by industry and unions estimates that the Bruce Power refurbishment will create about 5,000 jobs and generate an estimated $1.7 billion to $2.3 billion in annual economic benefits in communities throughout the province. Average prices over the life of the contract are within the range assumed in the 2013 Long-Term Energy Plan (LTEP) for refurbished nuclear energy and are lower than the average price of electricity generation in Ontario.

In 2015, OPG and Coral Rapids Power Corporation (CRP), a company wholly owned by Taykwa Tagamou Nation (TTN), began the construction of the Peter Sutherland Sr. Generating Station, a new 28 MW hydroelectric station on the Abitibi River near New Post Creek. The $300 million project is expected to employ 220 workers at its peak and be completed in 2018.

The government considers reducing diesel use in the 25 remote First Nation communities in northwestern Ontario an important social, economic and environmental priority. The 2013 LTEP highlighted a strong economic case for connecting up to 21 First Nation communities, currently supplied by diesel generation, to Ontario's electricity grid. The Province encourages all interested transmission line proponents to work collaboratively in their efforts to connect remote communities in northwestern Ontario.

Ontario is working with the federal government on the connection of remote communities, as the federal government will benefit from the cost savings associated with reduced diesel use and whose commitment and cooperation are required to make this project a reality. The 2013 LTEP also stated that it was a priority to reduce diesel use in the remaining four communities.

Ontario will continue to explore innovative solutions for supplying electricity, including consideration for on-site renewables, microgrids and conservation in First Nation communities.

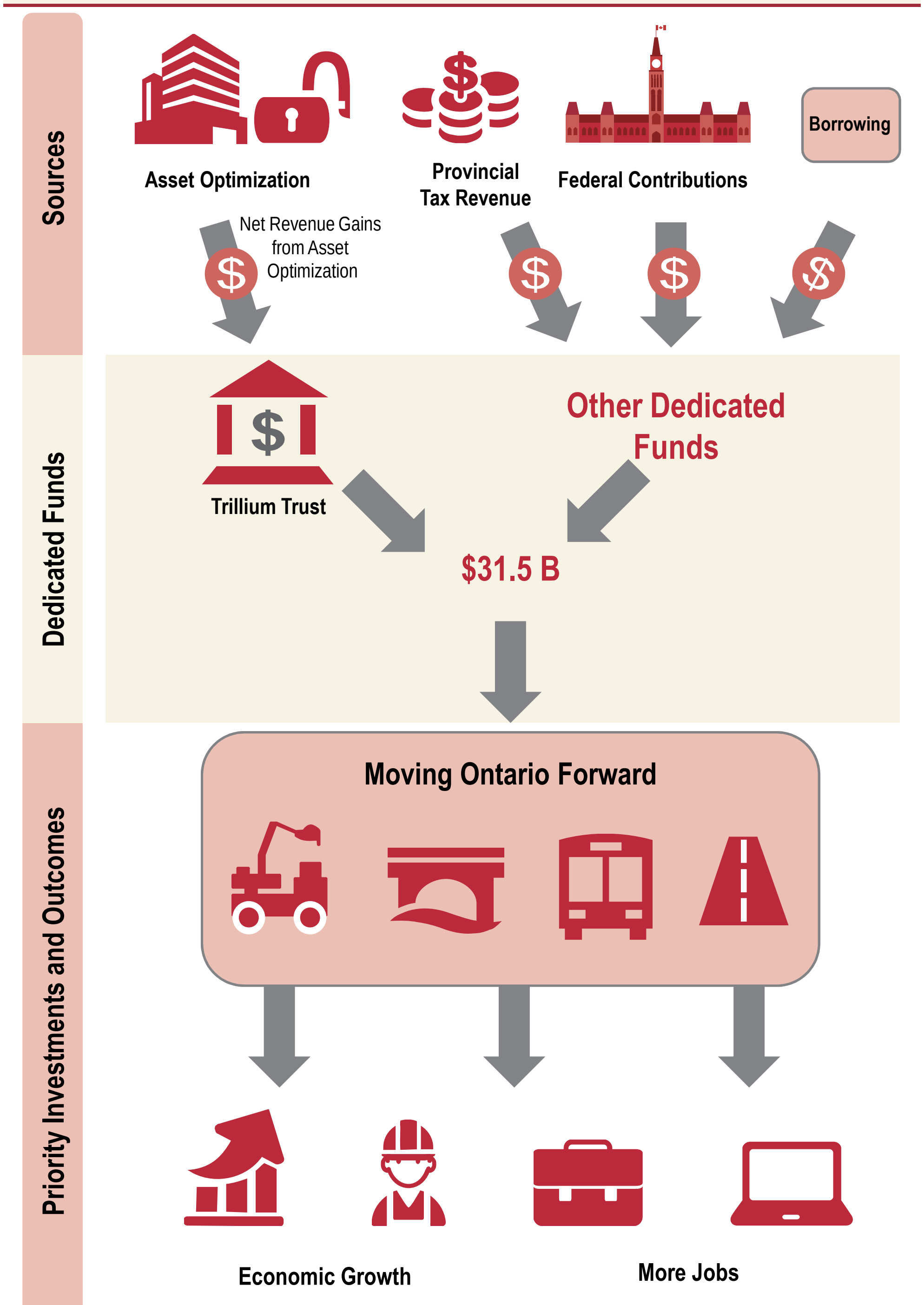
Reducing or eliminating high-cost diesel use would lessen harmful emissions, strengthen local economies, create well-paying jobs and bring lasting socioeconomic benefits for generations to come.

Asset Optimization

The Province is making significant progress on its asset optimization strategy. The sale of General Motors shares was completed in February 2015 and the initial public offering (IPO) of Hydro One was finalized in November 2015, with strong retail and institutional investor demand. The Province is also moving forward with its plans to unlock value from its real estate assets, including the Liquor Control Board of Ontario (LCBO) head office lands, OPG's head office building, and the Seaton and Lakeview lands. The Province remains on track in its multi-year asset optimization initiative to generate $5.7 billion over time. All net revenue gains from the sale of qualifying assets will be dedicated to the Trillium Trust to help fund further investments in transit, transportation and other priority infrastructure as part of the Moving Ontario Forward initiative.

This asset optimization target, as announced in the *2015 Budget*, will help support the single largest infrastructure investment program in the province's history.

CHART 1.12 **Moving Ontario Forward**



Hydro One Update

As announced in the *2015 Ontario Economic Outlook and Fiscal Review*, the Province completed the Hydro One Ltd. IPO in November 2015 and raised approximately $1.83 billion in gross proceeds and about $116 million from related share sales. By broadening the ownership of Hydro One, the Province will recognize a net gain from the IPO and related share sales, and a further fiscal benefit due to a Hydro One deferred tax benefit impact on its net income.

The IPO was the first phase in broadening the ownership of Hydro One. The Province will proceed with future offerings in a staged and prudent manner, over time reducing its stake to 40 per cent while remaining the largest shareholder. Through this initiative, the Province expects to generate $4 billion in net revenue gains that, through the Trillium Trust, will be reinvested in infrastructure under Moving Ontario Forward, and $5 billion to reduce debt.

Recycling Value from Ontario's Real Estate Assets into Infrastructure

The Province is executing its strategy to optimize its real estate assets and is in the final stages of the process to sell the LCBO's head office lands. Proponents were invited to submit development plans and a purchase price in the second stage of the Request for Proposal process, which closed in September 2015. Negotiations with a potential purchaser are ongoing, with the transaction expected to close in spring 2016. Net revenue gains from the LCBO head office sale will be directed to the Trillium Trust to support building transit, transportation and other priority infrastructure to grow the economy, create jobs and enhance quality of life for Ontarians.

As announced in January 2016, the Province is moving forward with the sale of the Seaton lands. The lands will be marketed to prospective purchasers and are being sold on the open market to support a new urban development in the City of Pickering. By selling approximately 800 acres of employment lands and 269 acres of residential and mixed-use lands, upon completion Seaton will be a sustainable community that will be home to 70,000 people and support 35,000 jobs.

The Province also continues to move forward with the sale of OPG's head office building, and the former Lakeview generating station lands in south Mississauga continue to be reviewed under a longer-term revitalization plan for the property and adjacent lands. The Province is focused on realizing the potential of the Lakeview lands, with an opportunity to create a new and sustainable mixed-use community along Mississauga's eastern waterfront, with arts and culture districts, housing, employment, and retail and recreational uses. The Province intends to strategically proceed with a staged sale process, beginning with lands envisioned for residential mixed-use development, in keeping with anticipated proposals for amendments to the City of Mississauga's official plan.

The government remains committed to dedicating the net revenue gains generated from these sales to the Trillium Trust.

Trillium Trust Update

Under the *Trillium Trust Act, 2014,* all net revenue gains associated with the sale of designated assets are to be credited to the Trust to support the Province's key infrastructure priorities, such as roads, bridges and public transit. Designated assets under the Act include the Province's shares in Hydro One and Hydro One Brampton, as well as the LCBO head office lands, the OPG head office building and the Lakeview lands. The Act also provides for regulations to designate additional assets, such as the Seaton lands.

The government is moving forward with proposed regulations under the Act to prescribe net revenue gains from the Hydro One IPO, as well as the non-cash fiscal benefits from the deferred tax benefit recorded by Hydro One. These regulations would ensure that all the fiscal benefits associated with broadening Hydro One's ownership are credited to the Trust for infrastructure investments under Moving Ontario Forward.

The Province estimates that a total of more than $4 billion will have been credited to the Trillium Trust from the broadening of Hydro One ownership in 2015–16 and from the sale of the Province's shares in General Motors in prior years.

The government plans to begin drawing down on the balance in the Trillium Trust in 2016–17 to support the largest investment in public infrastructure in Ontario's history. Based on planned expenditures, in 2016–17 the Trillium Trust would support Moving Ontario Forward initiatives, such as:

- Regional Express Rail (RER);
- Hurontario Light Rail Transit (LRT); and
- Ontario Community Infrastructure Fund.

Encouraging the Consolidation of Local Distribution Companies

The *2015 Budget* proposed time-limited tax relief measures to help encourage the consolidation of local distribution companies in Ontario. Mergers among these entities would generate greater efficiencies and economies of scale, creating more cost-effective organizations from which ratepayers will benefit.

The regulations to support these measures will soon be in place. Any merger or acquisition is subject to Ontario Energy Board (OEB) review for approval.

The proposed merger of Hydro One Brampton with PowerStream, Enersource and Horizon Utilities continues to move forward. Commercial closing of the transaction would be subject to certain closing conditions, including OEB approval.

Alternative Financing and Procurement

Ontario is a leading jurisdiction for procuring infrastructure projects through alternative means, with over a decade of experience using the recognized Alternative Financing and Procurement (AFP) model to deliver some of the province’s largest and most complex infrastructure projects.

Through its agency, Infrastructure Ontario (IO), the Province continues to have a solid track record in delivering high-quality infrastructure projects using the AFP model. Almost all AFP projects (44 of 45) have been delivered on budget. Going forward, all major public infrastructure projects valued at $100 million will be assessed for delivery under the AFP model.

In 2014, the Auditor General of Ontario completed an assessment of the AFP model. The report acknowledged IO’s strong record of delivering infrastructure projects on time and on budget, and confirmed that, through AFP projects, IO is transferring risks to the private sector that could otherwise result in higher costs and delays.

The Province continues to refine the AFP model in line with the Auditor General’s recommendations. Ontario introduced changes to the model in 2015, in an effort to create a more streamlined and consistent approach to evaluating projects for potential delivery while reducing long-term financing costs. Recent refinements include enhanced local knowledge, stronger health and safety requirements, and a pilot project to encourage apprentices on projects. In addition, IO released a new Value for Money guide that reflects best practices in evaluating the business case for AFP project delivery. As well, IO will make prudent adjustments to reduce long-term financing costs without reducing the transfer of risks to the private sector.

The AFP model is a homegrown success. Ontario companies are well positioned to compete for business in other countries and export their expertise. Over 40 jurisdictions have visited Ontario to understand the AFP approach and how Ontario infrastructure companies can export their know-how.

Section C: Investing in People's Talents and Skills

Introduction

High-quality child care and a world-class primary and secondary education enrich the lives of children and their families. They also foster communities of engaged and caring participants. Moreover, high-quality education and training — starting from the earliest years and continuing throughout a person's working life — enable Ontarians to acquire and retain good jobs, while adapting and thriving in today's demanding and competitive global environment.

Transforming Child Care and Early Learning

Ontario is moving towards an accessible, high-quality child care system that meets local demand and increasingly provides integrated early years programs and services for children and their families. It also supports healthy child development today and a stronger future tomorrow.

The government's efforts to modernize child care are transforming the way programs and services are delivered, leading to better outcomes for children and a more seamless experience for families. Actions taken to date include:

- Modernizing the legislative and regulatory framework for child care;
- Enhancing program quality, consistency and access in child care and early years programs to reflect a focus on safe and healthy child development and improved supports for parents and families; and
- Making full-day kindergarten (FDK) available to every four- and five-year-old in Ontario since September 2014.

Legislative and Regulatory Framework

Through the introduction of the *Child Care and Early Years Act, 2014,* which came into effect in August 2015, the government is modernizing the legislative and regulatory framework for child care, including strengthening oversight of the unlicensed child care sector, increasing capacity in the licensed child care sector, and improving data and information available to parents and the public.

The government is also taking steps to more quickly address urgent issues in support of quality, health and safety in a licensed child care environment, and is setting higher standards for the health and safety of children.

Ontario is committed to the continued improvement of the child care and early years regulatory framework that will maintain momentum for positive change and continue to enable the modernization and transformation of the child care sector.

Together, these changes will update Ontario's child care and early years system, better support parents across the province, and ensure that children have the best possible start in life.

Investing in Results, Improving Access

Since 2004, the government has made significant investments in child care, doubling funding to more than $1 billion annually. This funding supports an estimated 447,472 children who benefit from Ontario’s child care investments. In 2015, the Province allocated an additional $44.5 million in child care funding through the funding formula, which helped avoid sudden and rapid fluctuations in fees, improved the reliability of child care, and better met the needs of child care operators and parents — protecting the gains made through previously announced investments.

Ontario continues to improve access to child care. In 2015, the government implemented a wage increase of $1 per hour for eligible child care workers in the licensed sector. Another wage increase will be implemented this year, increasing wages by up to $2 per hour to support recruiting and retaining qualified educators and helping child care operators stabilize their labour force.

The government continues to build on its commitment through the Ontario Early Years Policy Framework to integrate child and family support services into Ontario Early Years Child and Family Centres, to ensure accessibility, consistency and quality of service levels across the province to support parents, caregivers and children. Integrating family support programs is the next step in building a high-quality, seamless and accessible system for children and their families. It removes barriers to accessing programs and makes them easier to navigate and more convenient for families to use.

How Early Years Child and Family Centres Will Help Improve Service Experience

Amanda is a single parent from Brantford, with a new baby. She opens her welcome home kit from the hospital and finds information on the Ontario Early Years Child and Family Centres, including a link to a provincial early years website. She visits the website and finds useful resources on early childhood development, postnatal care and a number of program offerings in her community.

The next week, Amanda attends a drop-in program in her neighbourhood and is warmly welcomed by the Early Years Child and Family Centre staff and other new parents. The centre staff provides Amanda with information on a support group so that she is supported and connected to her community.

Full-Day Kindergarten

With the province-wide implementation of FDK, Ontario became a leader in early learning, and the first jurisdiction in North America to implement this leading program. With more than $1.5 billion in funding, FDK is one of the most significant investments Ontario has made in education in a generation.

The program supports over 260,000 children in approximately 3,600 schools across the province. It saves families up to $6,500 a year per child on child care costs. Studies show that it better prepares students to enter Grade 1 and to be more successful in school compared with those in half-day programs.

"Children's early experiences have profound and long-lasting influences on their development and on the kind of learner they become."[1]

[1] "A Meta-Perspective on the Evaluation of Full-Day Kindergarten during the First Two Years of Implementation," (October 2013). Report informed by the Social Program Evaluation Group – Queen's University, "Final Report: Evaluation of the Implementation of the Ontario Full-Day Early Learning Kindergarten Program," (Fall 2012); the Offord Centre for Child Studies – McMaster University, "The Full Day Kindergarten Early Learning Program Final Report," (October 2012); and the Ontario Ministry of Education.

Supporting Every Child, Reaching Every Student

Achieving Excellence

The government continues to move forward along the path to excellence in education from early years to adulthood.

That is why the Province is continuing to implement “Achieving Excellence: A Renewed Vision for Education in Ontario,” a new vision for education with a focus on achieving excellence, ensuring equity, promoting well-being and enhancing confidence in the publicly funded education system.

The government is meeting its *2015 Budget* commitment to continually improve its world-class education system by building on the progress of successive investments in education. In 2014, 84 per cent of students graduated from high school, up from 68 per cent in 2004.

Since the *2015 Budget*, the government has introduced a number of initiatives in furthering the implementation of “Achieving Excellence,” including:

- Expanding the Specialist High Skills Major and Dual Credit Programs to enhance 21st century learning; and
- Launching Experience Ontario, an investment in early career experience.

High Skills Learning — Expanding Specialist High Skills Major

The Specialist High Skills Major program offers high school students the opportunity to match their skills and interests with a career path while earning their high school diploma.

Ontario expanded the Specialist High Skills Major and Dual Credit Programs, helping an additional 2,000 and 600 students, respectively, turn their passions into career opportunities.

As announced in the *2015 Budget*, a Specialist High Skills Major pilot program is also being expanded to train 8,500 students in skills that are valuable in today's economy, including innovative thinking, problem solving, creativity and entrepreneurship.

In March 2015, 24 manufacturing Specialist High Skills Major (SHSM) candidates from Listowel District Secondary School participated in an innovation, creativity and entrepreneurship (ICE) training day in the City of Stratford.

The ICE training of the SHSM program encourages the application of key skills to a unique experience solving real-world, sector-relevant challenges, developed in consultation with employers and sector partners. It equips students with the skills that employers are looking for.[2]

The Dual Credit Program helps students who face barriers to graduating high school to earn credits that count towards their high school diploma and a postsecondary certificate, college diploma, degree or apprenticeship certification. In 2015, the program was expanded to include an additional 600 students across the province.

Experience Ontario

Experience Ontario is a two-year, $20 million pilot program that was launched in 2015. The program will give up to 600 students across the province valuable work experience, career coaching and mentorship in its first year. It will encourage graduating high school students to choose the appropriate postsecondary educational path for them, and help them succeed once they enrol.

The Path Forward

Ontario is a welcoming and inclusive society. The government is working to ensure seamless, coordinated and appropriate support for the children of refugees who are arriving in Ontario, to ensure that these new students will be set up to succeed.

Over the next year, the Province will be welcoming about 4,000 school-aged Syrian refugees in Ontario school boards, as part of efforts to support refugees starting a new life in the province. See Chapter I, Section E: *Towards a Fair Society* for more details on supporting the settlement of refugees in Ontario.

2 Avon Maitland District School Board, "Innovation, Creativity and Entrepreneurship Training in High Gear," (March 2015), http://yourschools.ca/beyond-the-classroom/innovation-creativity-and-entrepreneurship-training-in-high-gear/.

Responding to Recommendations of the Truth and Reconciliation Commission of Canada

The government has made it a priority to acknowledge and teach the history and legacy of residential schools in response to the Truth and Reconciliation Commission of Canada's (TRC) recommendations, from a three-year annual investment of $5 million in the education sector from 2016–17 to 2018–19.

This funding will be used to help develop resources on the history and legacy of treaties, residential schools and Indigenous peoples in Ontario. This will help enhance teaching resources, build capacity and provide learning opportunities to build skills among Ontario educators to encourage critical thinking and deepen the understanding of Canadian treaties. See Chapter I, Section E: *Towards a Fair Society* for more details on the Commission's report.

Broadband Services across Ontario School Boards

To support the learning and teaching requirements of the 21st century, the government is ensuring that Ontario's publicly funded school boards have equitable and affordable access to high-speed broadband services.

Ontario will help school boards, especially those in northern and remote communities, gain access to high-speed connectivity, to support stronger 21st century competencies and learning needs.

Investing in Tomorrow's Workforce

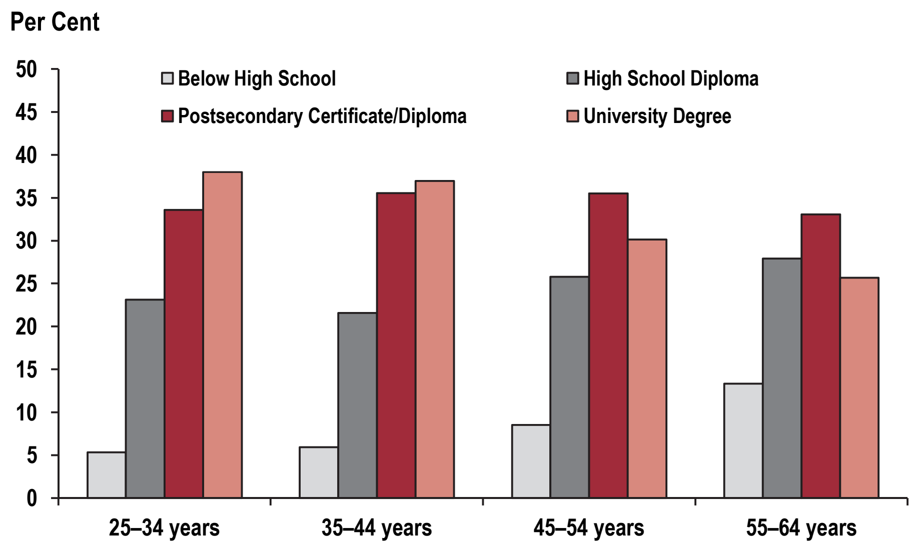
The government's investments in postsecondary education and training play a critical role in preparing people for the workforce. This will be increasingly important as Ontario continues to transition towards a more knowledge-based economy, where workers need higher education or specialized skills for good job opportunities. Seven out of 10 new jobs in Canada will be in high-skilled or management occupations.[3] Overall, Ontarians with higher levels of education and skills have better employment prospects, earn higher wages, and have improved health and longevity. The Premier's Highly Skilled Workforce Strategy Expert Panel has been appointed to build on the strength of Ontario's current education system. See *Employment and Training Services* later in this section for further details.

Ontario's highly educated workforce is one of its greatest strengths. In 2014, 66 per cent of adults in Ontario had a postsecondary credential, up from 56 per cent in 2002 — higher than the rates for any country in the Organisation for Economic Co-operation and Development — positioning Ontario well to meet or exceed its 70 per cent target by 2020.

[3] Canadian Occupational Projection System, "Job Openings 2013–2022," Employment and Social Development Canada, http://occupations.esdc.gc.ca/sppc-cops/l.3bd.2t.1ilshtml@-eng.jsp?lid=22&fid=1&lang=en.

CHART 1.13

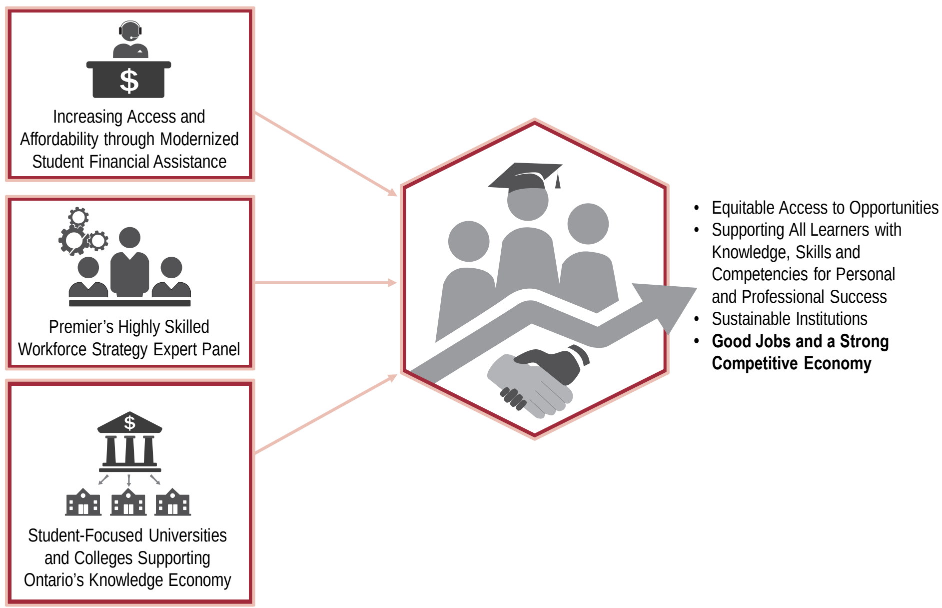
Highest Level of Education Achieved by Age — Ontario, 2015



Source: Statistics Canada Labour Force Survey (2015).

Despite important gains in recent years, the government recognizes that further improvements to its education and skills training systems are needed to ensure Ontario's workforce continues to be among the most skilled in the world and well equipped to adjust to a changing labour market.

CHART 1.14 **Shared Goals for a Stronger Workforce**



Improving Access to Postsecondary Education

The government is building on previous successes to make postsecondary education more accessible and affordable. Ontario has incorporated feedback from students to ensure financial assistance has evolved to meet their changing needs. The Province has introduced a suite of changes in recent years to make the Ontario Student Assistance Program (OSAP) simpler and more fair for students.

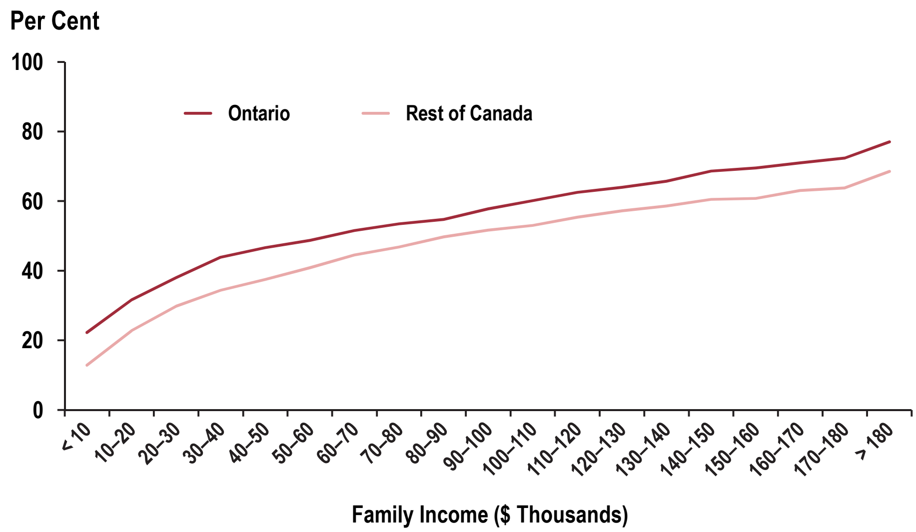
Investments in student financial aid over the past 12 years have also resulted in a more than 150 per cent increase in the number of students qualifying for aid, an increase of 230,000. During this time, enrolment in postsecondary education increased by 38 per cent, or an additional 176,000 students.

Frances is from a family earning $30,000 per year — she has a 38 per cent likelihood of attending college or university.

Rahul is from a family earning $110,000 per year — he has a 63 per cent likelihood of attending college or university.

Rates of participation in postsecondary education by Ontario youth are higher than for the rest of Canada. This is the case across all income bands. However, despite the strong outcomes that Ontario has achieved, students from lower-income families continue to participate in postsecondary education at much lower rates than those from higher-income families.

CHART 1.15 **Postsecondary Participation Rates of 18- to 21-Year-Olds Living at Home, by Parental Income, 2013**



Note: Percentage of families with at least one child in full-time postsecondary education, of couple and lone-parent families with one or more children aged 18 to 21 residing at home.
Source: Statistics Canada — custom data prepared using tax data, 2013.

For Ontario to thrive in the knowledge-based economy, the government needs to ensure all members of society are given the opportunities, as well as the tools, they need to succeed. This is why Ontario is moving forward with modernizing student financial assistance by introducing a system that is more progressive, effective and transparent for students and their families. These changes will provide students who have the greatest need for financial assistance with better access to grants upfront, when they need them.

Ontario's universities, colleges, school boards and communities are already doing important work to address non-financial barriers for underrepresented groups, including Indigenous students, low-income students, students with disabilities and mature students, using early outreach programs. Building on this work, Ontario will engage with postsecondary institutions, education leaders, students, parents and researchers to evaluate existing pilot projects and practices. They will provide advice to government about best practices for early outreach to address the complex non-financial barriers to postsecondary education.

Currently, government support for students' educational costs is largely provided through a combination of grants and loans through OSAP and tax credits through the Personal Income Tax system. To help more students qualify for grants and access the student loan system, the government will create a single major upfront grant — the Ontario Student Grant (OSG), starting in the 2017–18 school year. This will be done by redirecting 100 per cent of the funding from the 30% Off Ontario Tuition grant, Ontario Student Opportunity Grant, Ontario Access Grants and other grants offered by OSAP. These changes will ensure that financial support is transparent, timely and targeted to those students with the greatest financial need.

The government proposes to discontinue the tuition and education tax credits. This reform is in line with recommendations by stakeholders, including student groups. All of the additional revenue from eliminating these tax credits would be reinvested to support the new OSG or other postsecondary, education, training and youth jobs programs. The government will announce details of the new program later this year. See Chapter V, Section A: *Tax Measures* for more details.

Making Tuition More Affordable

Ontario's student aid transformation will make average tuition free for students with financial need from families with incomes of $50,000 or lower, and will make tuition more affordable for middle-class families. Under the new Ontario Student Grant (OSG):

- More than 50 per cent of students from families with incomes of $83,000[4] or less will have non-repayable grants in excess of average tuition;
- No Ontario student will receive less than they are currently eligible for through the 30% Off Ontario Tuition grant; and
- Students from families with incomes of less than $50,000 will have no provincial student debt.

> Through Budget Talks, one of the most popular topics was student financial assistance. The government is making the system more accessible and offering more support to those who need it most.

In addition, the Province will:

- Expand financial support for mature and married students. Eligibility for grant support will no longer be tied to the number of years a student has been out of high school, and the Province is reducing the amount a student's spouse is expected to contribute;
- Raise the Ontario weekly assistance maximum levels for individuals, and married and sole-support parents; and
- Increase access to interest-free and low-cost loans for middle- and upper-income families by reducing their expected parental contributions.

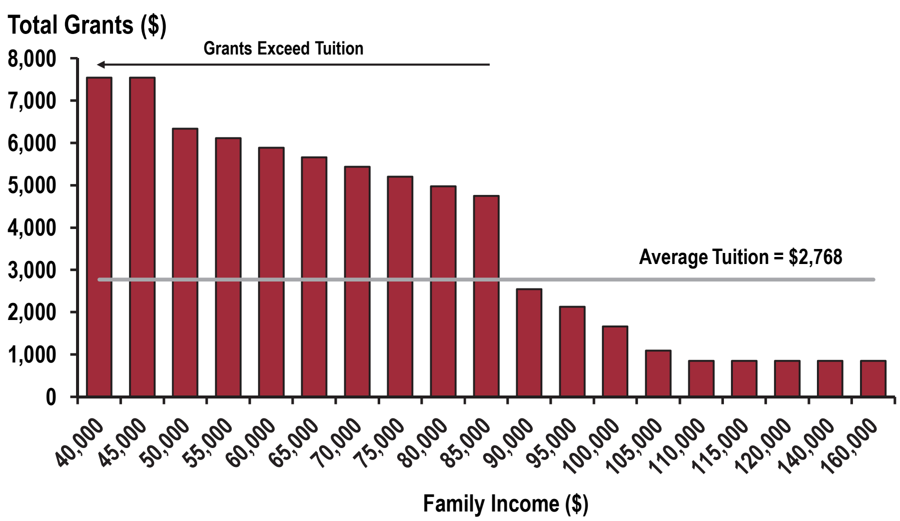
> Under the proposed new Ontario Student Grant:
>
> - 90 per cent of dependent college students from families with incomes less than $50,000 would have total grants greater than an average college tuition.
> - 70 per cent of dependent university students from families with incomes less than $50,000 would have total grants greater than an average university tuition.

[4] Statistics Canada: Canadian Income Survey, 2013. The figure is the Ontario median total economic family income before taxes and after government transfers.

Most students will have less debt than they would under the current system, and the maximum OSAP debt level will be capped at $10,000 annually for higher-income families. Ontario will continue to offer financial assistance for students who have difficulties repaying their student loans.

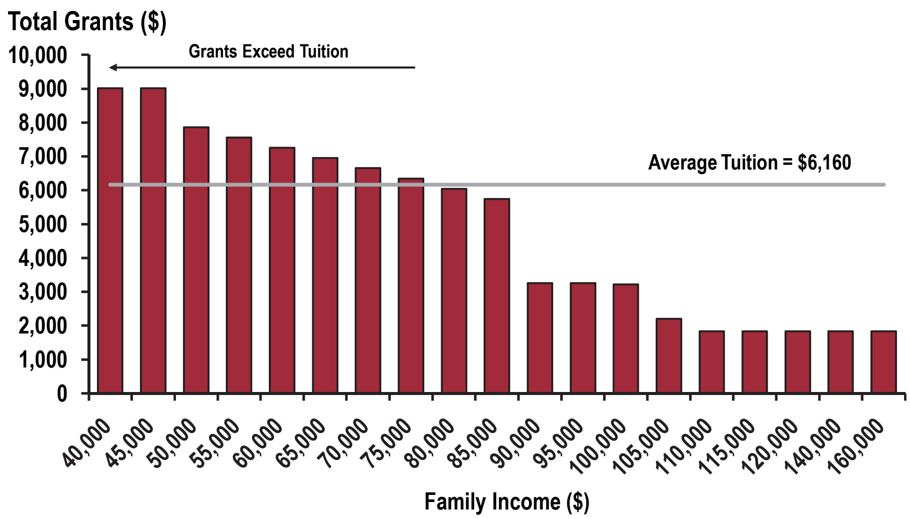
The simpler, integrated, upfront grant will benefit all eligible students. Ontario families will be better able to plan their education. They will know the total amount of support they are eligible for when they apply and will be aware of the actual cost of their education well before the start of the school year. To help families better understand how grants reduce their costs, the government will work with the postsecondary sector to develop tools to more accurately calculate actual tuition costs, after deducting institutional and OSAP grants, and better communicate them to families. The government will also work with universities and colleges to implement net tuition billing by 2018–19.

CHART 1.16 **Illustrative Scenario: OSAP Grants for Dependent College Students Living Away from Home**



Notes: Total costs: $14,300; average college tuition: $2,768. Assumes student is from a family of four with no scholarships or assets. Amount of funding assumes full rollout of OSAP transformation and fulfilment of Liberal Party of Canada platform commitments for Canada Student Grants.
Source: Ontario Ministry of Training, Colleges and Universities.

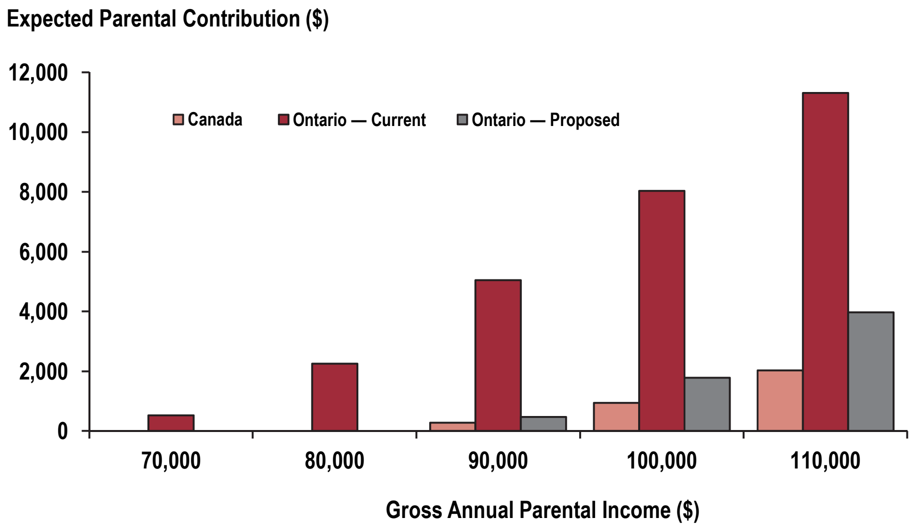
CHART 1.17 **Illustrative Scenario: OSAP Grants for Dependent Arts and Science University Students Living Away from Home**



Notes: Total costs: $18,000; average Arts and Science tuition: $6,160. Assumes student is from a family of four with no scholarships or assets. Amount of funding assumes full rollout of OSAP transformation and fulfilment of Liberal Party of Canada platform commitments for Canada Student Grants.
Source: Ontario Ministry of Training, Colleges and Universities.

As part of the changes to student financial assistance, Ontario will also reduce the threshold for expected parental contributions, providing increased financial support to middle- and upper-income families. Currently, Ontario has higher expected parental contributions than any other jurisdiction in Canada, which reduces the amount of assistance available to students. This change will better align Ontario and federal thresholds.

CHART 1.18 **Illustrative Scenario: Lower Expected Parental Contributions**



Note: Assumes family of four, with two parents earning equal income and paying standard taxes and deductions.
Source: Ontario Ministry of Training, Colleges and Universities.

The OSAP transformation will make Ontario's postsecondary system more accessible to low-income families, who are underrepresented due to the perceived high cost of tuition, and it will expand timely assistance to middle- and upper-income families to more closely align with their needs.

Strengthening the Postsecondary Education System

The government is taking a leadership role in putting student success and experience at the centre of the postsecondary education transformation agenda. This will ensure that Ontario's colleges and universities continue to prepare students to take advantage of rapidly developing opportunities in the knowledge-driven economy and provide the best value for tuition paid.

In addition to funding access, Ontario will be focusing on quality outcomes in the university sector as it takes the next step in reforming the university funding model. Ontario is moving forward with the report from former Deputy Minister Sue Herbert, following six months of extensive consultations, which recommended that the university funding model focus on student success and outcomes. The government will work on the details of implementation with sector partners in the coming months, with the following key objectives:

- Improve student outcomes;
- Promote differentiation by linking funding to Strategic Mandate Agreements; and
- Provide additional stability to institutions through enrolment planning and predictable funding.

The Province is focused on improving access and success for Indigenous learners. Ontario is providing stable funding of $97 million over the next three years to support key initiatives that will help more First Nation, Métis and Inuit learners access high-quality postsecondary and training opportunities. Of this investment, $5 million is to ensure that high-quality postsecondary education and training remain accessible to Indigenous learners through the Province's nine Aboriginal Institutes. The government will be engaging this spring with Indigenous and postsecondary education partners to create a policy for Aboriginal Institutes and better define their place within the postsecondary education sector.

Next year is the 50th anniversary of Ontario's Colleges of Applied Arts and Technology. Ontario's colleges are globally recognized as leaders in technical and vocational training, with more than 3,000 programs in diverse areas including health care and business, biotechnology, engineering, aviation, animation and apprenticeship training. It is important that colleges remain strong and continue to serve the needs of their students and local communities. In the coming year, the Province will be launching consultations on options to modernize the college funding model to ensure the long-term financial sustainability of colleges, while also fostering positive outcomes for students.

To provide more flexibility and choice to students, the government is continuing to expand access to high-quality online learning opportunities for students through eCampus Ontario. The first phase of eCampusOntario.ca is providing students across the province with one-window access to more than 13,000 online courses and over 600 programs offered by Ontario colleges and universities. There are also more credit transfer opportunities and new tools available to help students navigate the postsecondary education system. Students now have access to 120,000 course equivalencies and about 1,300 pathways on ONtransfer.ca, an online database of courses that allows students to know how many credits they can expect to receive before transferring institutions.

The government is engaging with the postsecondary education sector and the broader community to develop a comprehensive postsecondary international education strategy that will seek a balanced approach for attracting international students and new partnerships, and promoting international experience opportunities for Ontario students.

Employment and Training Services

Building Ontario's Integrated Employment and Training System

Ontario invests over $1 billion annually in employment, training and labour market programs and services through Employment Ontario, which serves more than one million Ontarians. The Province is continuing to modernize and transform employment and training programs and services. Progress includes:

- Piloting Local Employment Planning Councils in eight communities (Durham, London–Middlesex–Oxford–Elgin, Ottawa, Peel–Halton, Peterborough, Thunder Bay, Timmins and Windsor), to bring together employers, governments, employment service providers, trainers and others to improve employment and training service planning and meet local labour needs;
- Implementing the Canada–Ontario Job Grant, supporting more than 46,000 training opportunities for over 35,000 employees in Ontario as of January 31, 2016; and
- Launching the new Ontario Centre for Workforce Innovation, to provide leadership and support research and innovation in the employment and training system.

The government is also proceeding with implementation of the Labour Market Information Strategy to improve access to credible, high-quality labour market information that will help job seekers, students and their families make informed decisions about their education, training and careers. The Province is also working to improve the quality and scope of existing labour market information and expand its understanding of current and emerging labour market conditions.

Implementation of the Renewed Ontario Youth Jobs Strategy

Helping youth find employment and keep jobs is a key part of the government's plan to invest in people's talents and skills. In the *2015 Budget*, the Province committed to renewing the Ontario Youth Jobs Strategy by investing an additional $250 million over two years to provide employment and skills development opportunities for up to 150,000 youth.

As part of the renewed Ontario Youth Jobs Strategy, the government launched Youth Job Connection in October 2015. The Province is investing more than $160 million over two years to provide intensive support and training to more than 27,000 young people with multiple barriers to employment. The program is being delivered through Employment Ontario and consists of two components:

- Pre-employment training, job opportunities and mentorship to youth aged 15 to 29 who are not currently working, in school or enrolled in a training program; and
- Summer, part-time and after-school job opportunities for high school students between the ages of 15 and 18 who are facing challenging life circumstances and who may need support between school and work. This component will be launched in spring 2016.

All youth, including students, can access Youth Job Link, starting in spring 2016. This program will help them access job search resources and information to assist in transitioning to the labour market, including summer employment opportunities.

Supporting Ontario's Skilled Tradespeople

The government is committed to building a high-quality apprenticeship system that protects public and workplace safety and ensures skilled tradespeople are ready to meet labour market demands. In 2015–16, the government is investing approximately $176 million to offer a range of programs that support apprentices, employers and training delivery agents.

Ontario College of Trades

The government is strengthening the Ontario College of Trades, the industry-driven governing body responsible for promoting and modernizing skilled trades. The Province and the Ontario College of Trades have received a report from former Secretary of Cabinet Tony Dean. Ontario will bring forward proposed legislative changes and work closely with the College of Trades to implement Mr. Dean's recommendations.

These recommendations would help improve the College's processes and clarify its mandate by:

- Supporting the existing trade boards to update and bring consistency to all trades' scopes of practice;
- Reviewing how trades are classified through the establishment of an independent and evidence-based process that will use risk of harm as a key criterion;
- Establishing clearer and more concise criteria on how journeyperson-to-apprentice ratios are determined; and
- Developing an enforcement and compliance committee and appeal process to resolve potential conflicts earlier, as well as ensure enforcement activities are consistently carried out with safety and the public interest in mind.

A Highly Skilled Workforce Strategy

To further improve Ontario's world-class education and skills training system, the government established the Premier's Highly Skilled Workforce Strategy Expert Panel in December 2015 to develop an integrated Highly Skilled Workforce Strategy.

A Skilled Labour Force Is Critically Important for the Province's Business Climate

Availability of skilled labour is the number one site selection factor, cited as important by 95.1 per cent of company executives in a recent *Area Development* survey.

KPMG, "Competitive Alternatives," (2014).

The panel will assess how well the workforce is positioned to meet the needs of Ontario's economy and will recommend an integrated approach for the government to bridge education, training and skills development with the demands of an evolving economy. A final report is due to the government in fall 2016.

The strategy will be informed by industry, employers, students, youth, members of the primary, secondary and postsecondary education and training system, and other key stakeholders and experts.

Ontario's 2016 Summit on Talent and Skills in the New Economy

To support the development of the strategy, on January 20, 2016, the government brought together thought leaders and decision-makers from across the education, training and employment spectrum at the second annual Ontario Talent and Skills Summit.

Delegates were asked to come up with "big" ideas for the development of a highly skilled workforce, provide their thoughts on breaking down barriers, and work together on creative, collaborative solutions for the Province.

Input from the summit, along with feedback from other stakeholders, will help shape the strategy.

Section D: Transforming Health Care

Focusing Health Care on the Patient — Meeting Current and Emerging Challenges

Ontario faces increasing demands due to an aging and growing population. These demographics, along with advances in pharmaceuticals and technology, are driving demand for more health care services, such as for cancer care, hepatitis C drugs and cardiac care, at higher costs. The "Patients First: Action Plan for Health Care" is a comprehensive plan for addressing the province's health care challenges.

Through recent actions to transform health care, the Province has increased patients' access to primary care, provided more care for people at home, and reduced wait times for surgeries, diagnostic procedures and emergency department care. The government has invested almost $2 billion to significantly reduce wait times since 2003–04.

The government has also succeeded in bringing down annual spending growth on health from about seven per cent to about two per cent — while continuing to improve access to care.

Transformation Continues — Patient-Centred Health Care

Ontario has made significant gains by focusing on health care access, quality and efficiency. However, more can be done to integrate health care, particularly primary, home and community care, and to foster a closer collaboration with public health.

To help ensure seamless, consistent, high-quality health care for Ontario patients, in December 2015 the Province released a discussion paper, "Patients First: A Proposal to Strengthen Patient-Centred Health Care in Ontario." A central focus of the paper is to improve health equity across the province. This means more integration with other social services to allow for a "health in all policies" approach.

The government proposes to expand the mandate of Local Health Integration Networks (LHINs) so they are accountable for the planning and performance of primary care and the delivery of home and community care. This proposed change will create an integrated system that works efficiently to support patients and caregivers with better access to the care they need — no matter where they live — and smoother transitions between health services. The paper also proposes a more formal relationship between public health units and LHINs. The government is currently consulting with health care providers, patients and caregivers around the province to address these systemic challenges.

Faster Access to Health Care

Primary Care

To help Ontarians get the right care as quickly as possible, the government has improved patients' access to primary care. Since 2003, over two million more Ontarians have a primary care provider, and even with population growth, 94 per cent of Ontarians now have a primary care provider. Nearly four million Ontarians receive care through primary health care teams of family physicians, nurse practitioners and other providers.

For patients with multiple conditions and the most complex care needs, the government has expanded its community Health Links —local, interdisciplinary care teams — from 69 to 82 across the province. As of September 2015, nearly 24,000 patients received coordinated care through Health Links. This has provided patients with regular, timely access to a primary care provider, and a coordinated care plan, leading to fewer hospital readmissions and better quality of life.

To further reduce wait times for key health services, the Province has also expanded scopes of practice of some health professionals. Nurse practitioners can now refer patients directly to specialists. The government is also planning to expand the scope of practice of registered nurses to allow them to prescribe some medications directly to patients.

Aiming to give Ontarians more options for care closer to home, while also working to ensure that health care professionals can fully use their skills and knowledge, the government is working towards allowing Ontarians to receive travel vaccines in their local pharmacies. The government will also explore the benefits of further expanding pharmacists' scope of practice.

Community Health Centres, Nurse Practitioner-Led Clinics, Family Health Teams, Aboriginal Health Access Centres and nursing stations provide Ontarians access to high-quality primary care. Interprofessional primary care teams are an important partner in helping the government achieve its guarantee that every Ontarian has access to a primary care provider. To ensure these clinics can effectively recruit and retain qualified interprofessional staff in primary care settings, Ontario will invest an additional $85 million over three years. These investments will help clinics continue to provide services across the province, including northern, rural and fast-growing communities.

Ontario's Aboriginal Health Access Centres

Ontario is investing an additional $1.3 million annually in Ontario's Aboriginal Health Access Centres (AHACs) to support the expansion of information management systems. With this investment, AHACs will better enable access to culturally appropriate primary health care.

Better Access to Specialized Care

To accelerate patient access to medical specialists, the government has streamlined intake for some orthopedic procedures, including hip and knee replacements and treatment for low-back pain.

The Province is also expanding access to treatment for Ontarians with all forms of infertility, making fertility services more equitable and accessible. The government is contributing to the cost of one in vitro fertilization (IVF) cycle per eligible patient, at more than 50 clinics across the province. Funding will help support over 5,000 Ontarians per year who are trying to start or expand their families.

In 2016–17, the government will provide about $1 million to fund support services for those affected by pregnancy and infant loss, including resources to train volunteers and support parents and families who have experienced loss.

New Funding for Shingles Immunization

The government aims to make the shingles vaccine available to Ontario seniors between the ages of 65 and 70, free of charge. The investment will save eligible seniors about $170 in out-of-pocket expenses for the vaccine, and reduce emergency room visits and hospitalizations for vaccinated seniors.

Investments in High-Quality Hospital Care

Ontario hospitals have demonstrated leadership in their efforts to help transform the province’s health system. They have maintained and increased services over the past four years in the absence of an increase to base operating costs. In response to the growing demand for highly specialized and complex services and the need to expand access in growing communities across the province, in 2016–17 the government is increasing its base funding for hospitals by one per cent. This investment will help hospitals expand access to complex hospital clinical services, keep wait times low, maintain access to elective surgery and ensure that important health service programs are maintained.

The province’s hospitals remain leaders in providing highly specialized programs and technologies, including cardiac and neurological services and organ transplantation. Hospital facilities are being renewed, expanded or rebuilt, with approximately 35 major hospital projects planned or underway. For more information on capital investments in hospitals, see Chapter I, Section B: *Building Tomorrow’s Infrastructure Now*, which also outlines investments in community capital to support health care.

Expanding Services in Cancer Care

Over the next three years, the government is investing an additional $130 million in cancer care services. Demand for cancer care services continues to grow, in part because of better diagnosis and screening. The government's investment will allow for the delivery of more cancer care services and preventive programs. The new investments continue to support reduced wait times for cancer surgeries. In 2014–15, 87 per cent of cancer surgeries were completed within the targets for priority wait times, up from 79 per cent in 2011–12.

The government is also investing in infrastructure to improve access to highly specialized stem cell transplantation programs in Ontario. Stem cell transplantation is an essential component of treatment for people with lymphoma, leukemia, myeloma and other blood disorders. This investment will create highly specialized rooms to enhance the life-saving services provided at University Health Network, Hamilton Health Sciences Centre and The Ottawa Hospital.

Mental Health and Addictions

To help improve access to services and outcomes for people with mental illness or addictions, and to reduce homelessness, Phase Two of the Province's 10-year Mental Health and Addictions Strategy includes investing $16 million over three years, commencing in 2014–15, to create 1,000 new housing spaces for people with mental health or addictions issues, including $4 million for 248 supportive housing units in 2016–17.

Ontario is also providing $1.5 million to the Dave Smith Youth Treatment Centre in Ottawa to support the construction of a new 30-bed youth residential treatment facility that will increase capacity, improve efficiency, and ensure client needs are met in a safe and comfortable environment.

Ontario is also providing $2 million to 10 Indigenous organizations to engage with their communities and make recommendations on unique mental health and addictions issues facing Indigenous peoples across the province. A dedicated Indigenous engagement process, launched with First Nation, Métis and urban Indigenous partners, will continue to inform the mental health and addictions strategy.

Sustaining the Ontario Drug Benefit Program

Ontario continues to pursue affordable drug access for patients, in partnership with federal, provincial and territorial governments. This includes a coordinated process for approving new and expensive drugs for people who need life-saving medications. For additional information on the federal government's decision to join the pan-Canadian Pharmaceutical Alliance, see Chapter IV: *Together Towards a Stronger Ontario and a Stronger Canada*.

As part of Ontario's "Patients First: Action Plan for Health Care," the government will introduce a redesigned public drug program by 2019. The new program will improve long-term sustainability while ensuring access to drugs for people who need them. It will be simpler and easier to use, and increase fairness and equity among beneficiaries. For additional information on the changes to Ontario's Public Drug Programs, see Chapter II, Section B: *Transforming Government and Managing Costs*.

Connecting Services and Providing More Coordinated Care in the Community

Investing in Home and Community Care

As Ontario's population ages, patients prefer to receive care at or close to home, so they can continue to live independently. Ontario has extended its commitment to increase funding by $250 million to expand capacity to deliver high-quality home and community care. Care at home or in the community is often less costly than hospital or long-term care and can be just as effective, particularly when interdisciplinary health care teams ensure patients get the care they need. The government plans to continue to fund growth in community-based care at about five per cent per year to 2017–18, as committed to in previous *Budgets*.

A Roadmap to Strengthen Home and Community Care

In May 2015, the government released a 10-step, three-year plan entitled "Patients First: A Roadmap to Strengthen Home and Community Care." Ontario has further invested in home and community care, enabling 80,000 more home nursing hours for the most acute patients. The Province has also initiated six interdisciplinary bundled-care teams in communities across the province, with incentives for efficient, effective care, to help patients transition more smoothly out of hospital and into their home.

Ontario has established a patient and caregiver advisory table on home and community care design and delivery. The government has already begun consulting on a statement of values and a levels-of-care framework. The Province appointed Dr. Gail Donner as the external adviser on the roadmap. Dr. Donner chaired Ontario's Expert Group on Home and Community Care, whose 2015 report, "Bringing Care Home," led to the development of the roadmap.

Safeguarding Personal Support Services

To help ensure the Province can meet long-term needs for publicly funded personal support services in the home and community care sector, the government further increased the minimum base wage for eligible personal support workers to $15.50 per hour, rising to $16.50 per hour in April 2016.

More Choice and Supports for Palliative Care

The Province's "Patients First: A Roadmap to Strengthen Home and Community Care" report committed to provide Ontarians with greater choice, access and equity, and clear accountability with respect to palliative and end-of-life care, along with more supports for caregivers. John Fraser, Parliamentary Assistant to the Minister of Health and Long-Term Care, has been meeting with patients, families and stakeholders across Ontario towards developing a comprehensive provincial palliative and end-of-life care strategy.

New Funding for Hospice Services

Over the next three years, the government plans to invest an additional $75 million in community-based residential hospice and palliative care, for a total investment of about $155 million. This will bring the government's funding of residential hospices to more than $55 million annually at maturity, to help fulfil its commitment to fund 20 more hospices, almost doubling the number of people who will have access to quality end-of-life care, including in rural areas.

> Through Budget Talks and pre-Budget consultations, the government heard that it was important to increase funding for hospice care in communities to support those in need and their families.

Long-Term Care

The Province is continuing to improve the long-term care homes sector to focus on resident-centred care that is responsive to behavioural and ethno-cultural needs. To support this, the government will increase its investment in resident care needs by two per cent a year over the next three years.

Beginning in 2016–17, the government will invest an additional $10 million annually in Behavioural Supports Ontario, for initiatives to help residents with dementia and other complex behaviours and neurological conditions.

Keeping Ontarians Healthy

Healthy Choices

To help Ontarians make more informed decisions about healthier food choices, the Ontario legislature passed the *Healthy Menu Choices Act, 2015,* which comes into force in January 2017. The Act will require food premises with 20 or more locations to post calorie information for food and beverage items. To further help consumers, the government is proposing to amend the Act to require that the necessary caloric and related information on menus and menu boards appears close to the listing or picture of food items.

Healthy Kids

To further encourage children's physical activity and healthy eating, Ontario's Healthy Kids Ministers' Working Group continues to build on the Healthy Kids Strategy. The government is exploring new initiatives, while continuing to implement existing projects, such as the Healthy Kids Community Challenge in 45 communities across Ontario.

Immunization 2020

Launched in 2015, the Immunization 2020 strategy is a first-of-its-kind plan to modernize Ontario's immunization system. The government is developing amendments to the *Immunization of School Pupils Act* that, if passed, would protect students and communities by including stronger requirements for school vaccine exemptions.

Building on Immunization 2020, Ontario proposes to authorize pharmacists to administer a wider range of vaccines, such as travel vaccines. This would be in addition to the flu vaccines they can already administer and will increase immunization efficiency and convenience for Ontarians.

Smoke-Free Ontario

The government is committed to a smoke-free Ontario that helps smokers quit, protects people from exposure to secondhand smoke and protects young people from taking up smoking. As of January 2016, new regulations prohibit the smoking and sale of tobacco on certain public properties, ban the sale of flavoured tobacco (which is more appealing to youth), and prohibit the sale of electronic or e-cigarettes to youth under age 19.

In the 10 years since the passing of the *Smoke-Free Ontario Act*, tobacco use and health risks for Ontarians have been greatly reduced. Smoking rates declined from 24.5 per cent in 2000 to 17.4 per cent in 2014, representing about 408,000 fewer smokers. In 2014, Ontario's smoking rate was the third lowest among the provinces.

Since its renewal in 2011, the Smoke-Free Ontario Strategy has helped large numbers of Ontarians in their efforts to quit smoking; over 94,600 smokers received direct or telephone cessation support and over 26,900 smokers accessed cessation resources online.

However, despite significant progress in curbing the use of tobacco products, smoking is the number-one cause of death and disease in Ontario; 13,000 Ontarians die each year as a result of tobacco-related diseases. The government will continue to build on the strategy's progress with further action to achieve the lowest smoking rate in Canada.

This is why the Province is taking immediate action by increasing the tobacco tax rate by $3 per carton of 200 cigarettes. Tobacco taxes are a proven method of supporting smoking cessation and prevention efforts, as reported by experts such as the World Health Organization. To further support the Smoke-Free Ontario Strategy, the Province will use $5 million of increased revenues from the tobacco tax to support a new investment for this year that will enhance priority populations' access to smoking cessation services, no matter where they live in Ontario.

In addition, by increasing tobacco taxes annually at the rate of inflation, beginning in 2017, the Province will continue to support the objectives of the strategy, while also enabling government efforts to address the underground economy and prevent expansion of the contraband tobacco market.

Protecting Ontario's Health Care System

To further improve health care quality and transparency, following broad public consultations, the Province is providing patients, long-term care home residents and their caregivers the opportunity to get help with unresolved complaints about home care, and health care in hospitals and long-term care homes. Starting in July 2016, Christine Elliott, Ontario's first Patient Ombudsman, will be able to investigate issues, make recommendations and report publicly to LHINs and the Minister of Health and Long-Term Care.

Section E: Towards a Fair Society

All Ontarians should have the opportunity to realize their full potential. Building on the existing strong foundation of public services, Ontario is improving the supports necessary to lift people out of poverty and help them live a meaningful life to the benefit of Ontario's economy and society.

Long-Term Affordable Housing Strategy

Every person in Ontario should have access to adequate and affordable housing. When people have a stable place to call home, they are healthier and better positioned to work and contribute to their community and the economy.

Since 2003, the government has committed over $4 billion to affordable housing. This includes initiatives such as the Investment in Affordable Housing Program, which supports low-income households to access new affordable housing, receive down-payment assistance to purchase an affordable home, and repair and modify their homes, as well as dedicated funding assistance for the housing needs of off-reserve Indigenous households.

Ontario's Long-Term Affordable Housing Strategy (LTAHS), launched in 2010, sets out a roadmap for addressing Ontario's housing needs. In keeping with a commitment made under the Poverty Reduction Strategy, the government is updating the LTAHS to continue the transformation of Ontario's housing and homelessness system, with a focus on flexible and portable benefits that respond to individuals' changing housing needs.

The updated LTAHS will also incorporate findings and recommendations from the Expert Advisory Panel's report on homelessness, "A Place to Call Home." In October 2015, in response to the panel's report, the government committed to a number of immediate and long-term actions, including setting a target to end chronic homelessness in Ontario in 10 years.

As part of the update of LTAHS, the government is announcing that it will:

- Bring forward proposed legislative and regulatory changes to increase the supply and sustainability of affordable housing;
- Develop a framework for a portable housing benefit and transformation of social and supportive housing programs/systems to ensure that people get the help they need, where and how they need it;
- Adopt key steps to end chronic homelessness, including planning to require enumeration at the local level to gather data about homelessness; and
- Develop a housing strategy specific to Indigenous peoples.

> Through Budget Talks, the government heard that Ontarians were interested in creating a portable housing subsidy that would be a cost-effective way to help address the province's affordable housing challenge. This *Budget* sets out a pilot program to test this initiative.

In the *2016 Budget*, the government will invest a total of $178 million over three years to provide housing subsidies and benefits to additional households, including support for the construction of up to 1,500 new supportive housing units over the long term. This funding will help accelerate the goal to end chronic homelessness, and it will include:

- $45 million over three years to enhance flexible local funding for the Community Homelessness Prevention Initiative (CHPI). Every $15 million invested in CHPI supports approximately 2,600 households experiencing homelessness to obtain housing, or prevents approximately 14,200 households from becoming homeless; and
- $2.4 million in 2016–17 to pilot a new portable housing benefit that would offer more options for those fleeing domestic violence, benefiting approximately 500 households.

While these investments and measures are very important, the Province recognizes that it cannot address Ontario's housing needs alone. As such, the government looks forward to working with its federal counterpart to fund critical affordable housing infrastructure moving forward.

Supporting Vulnerable Populations

Vulnerable Ontarians need support to help ensure their financial stability and well-being and to fully participate in their communities.

Developmental Services

Since 2004, the government has been committed to transforming Ontario's developmental services system with the goal of supporting people to live as independently as possible in inclusive communities across Ontario.

In the *2014 Budget*, the government committed to investing $810 million in the community and developmental services system over three years. This investment will help people to be fully included in the fabric of communities and live as independently as possible.

Significant progress has already been made towards achieving these goals through this new investment. For example, since August 2014, the government has:

- Approved new direct funding through the Passport and Special Services at Home programs for more than 14,000 children and adults. This means completely eliminating the 2014 Special Services at Home program waitlist;
- Approved new residential supports for over 500 adults in urgent need;
- Approved 12 creative housing initiatives recommended by the Housing Task Force, for a total investment of $3.5 million over two years;
- Approved 38 projects under the Employment and Modernization Fund, including a new Centre for Excellence for Employment Services to improve employment services and build community and employer networks to share best practices and research about employment;
- Provided grants totalling over $600,000 to six research projects from academic and community-based organizations from the Developmental Services Research Grant Fund; and
- Launched the Independent Facilitation Demonstration Project to provide independent facilitation and planning to 1,100 adults. The effectiveness of this service — in improving people's lives and supporting planning towards long-term goals — will be evaluated.

Looking ahead, the Province remains committed to addressing growth in demand. The government will also be approving projects in 2016–17 from a second call for proposals for the Employment and Modernization Fund and the Housing Task Force.

Special Needs Strategy

Ontario is committed to providing comprehensive resources and support for children and youth with special and complex needs.

With this in mind, the Province is continuing to move ahead with its Special Needs Strategy to help children and youth receive timely and effective services at home, at school, in the community and as they transition to adulthood.

Under the Special Needs Strategy, Ontario has made progress in three key areas:

- Getting children the right help sooner — Trained providers will have a new developmental screen for children in the preschool years, allowing enhanced screening for potential risks to the child's development as early as possible;
- Coordinating service planning — New service planning coordinators for children and youth with multiple or complex special needs will connect families to the right services and supports; and
- Making supports and service delivery seamless — Integrating the delivery of rehabilitation services, such as speech-language therapy, occupational therapy and physiotherapy, to make services easier to access and seamless from birth through the school years.

Moving forward, the government is investing $17.8 million over the next three years to support:

- Enhanced complex special needs services transition and integrated delivery of rehabilitation services by hiring 68 more service planning coordinators; and
- Establishing up to seven more Regional Service Resolution Agencies to review and allocate funding for children with multiple and/or complex special needs.

Autism Services

The government is investing $333 million over five years to redesign and consolidate autism services in Ontario so that more children and youth receive critical interventions sooner and achieve improved outcomes through services that are better matched to their needs. Towards this end, the government will:

- Implement consistent clinical decision-making criteria to narrow the focus of Intensive Behavioural Intervention (IBI) so that it is delivered to more children and in the appropriate developmental window;
- Transition older children currently waiting for and receiving IBI to a more appropriate and individualized service, based on research evidence;
- Expand Applied Behaviour Analysis (ABA) services by increasing the intensity and duration of ABA, to provide more children and youth at all developmental stages with services that are more responsive to their individual needs; and
- Expand early intervention services to complement the redesign of IBI and ABA, and ensure young children receive support as early as possible.

It's Never Okay: An Action Plan to Stop Sexual Violence and Harassment

In March 2015, Ontario released "It's Never Okay: An Action Plan to Stop Sexual Violence and Harassment," which outlined the government's approach to combat sexual violence and harassment and improve support for survivors. At that time, the Province further committed to work with Indigenous partners to develop a separate specific strategy on the issue of violence against Indigenous women, which was released in February 2016.

"It's Never Okay" outlines concrete steps to help change attitudes, provide more supports for survivors, and make workplaces and campuses safer and more responsive to complaints about sexual violence and harassment. Steps taken to date include:

- Introducing legislation related to "It's Never Okay: An Action Plan to Stop Sexual Violence and Harassment," to build a province where everyone is free from the threat of sexual violence and harassment. For further details, see *Prevention of Violence against Indigenous Women* later in this section.

- Investing over $1.1 million each year for the next three years to enhance specialized counselling services and community outreach support for survivors of sexual assault and domestic violence; and
- Enhancing awareness through a public education campaign that includes multilingual television and print ads and a successful social media campaign around #WhoWillYouHelp and #ItsNeverOkay.

Drug Benefits for Low-Income Seniors

The government is making changes to the Ontario Drug Benefit Program to raise the income threshold for low-income seniors, allowing a greater number of seniors to qualify for reduced fees, resulting in lower costs for medications. Co-payments and deductibles will be adjusted for other seniors. Other changes to Ontario's Public Drug Programs are highlighted in this chapter and in Chapter II, Section B: *Transforming Government and Managing Costs*.

Social Assistance

The Province's social assistance programs provide supports for Ontarians in need of help.

As Ontario's economy grows, the government remains committed to leaving no one behind. Maintaining an effective social safety net is one part of the government's broader efforts to reduce poverty and ensure inclusion in communities and the economy.

In 2016, the government will build on its previous investments in social assistance by:

- Increasing social assistance rates by 1.5 per cent for adults receiving Ontario Works and people with disabilities relying on the Ontario Disability Support Program (ODSP); and
- Providing a further top-up to those with the lowest social assistance rates — singles without children receiving Ontario Works — bringing their total increase to $25 per month, which is $100 more per month than they received in 2012.

These rate increases will take effect in September 2016 for ODSP and in October 2016 for Ontario Works. Municipalities will not be required to share the cost of the Ontario Works rate increase until January 2017.

Ontario will also take steps to help increase the incomes of single-parent families who receive both social assistance and child support payments. Currently, families receiving child support have their social assistance benefits reduced by the full amount of child support they receive. This means that families receiving social assistance are no better off when they receive child support, and the parent responsible for making child support payments may feel little incentive to do so.

Over the next year, the government will introduce changes to social assistance rules so that families receiving social assistance who receive child support payments can benefit from more of this income.

Ontario will continue to work with people with lived experience and delivery partners to modernize the delivery of social assistance, better integrate services and reduce unnecessary intrusion into clients' lives.

For example, the Province will:

- Introduce a reloadable payment card for ODSP clients who are unable to open or maintain bank accounts and to reduce the use of paper-based practices;
- Build on pilots launched in 2015–16 to provide more self-service options for clients;
- Introduce improvements to the ODSP adjudication and medical review process; and
- Remove the current requirement for persons already determined to be eligible for adult developmental services to be re-adjudicated for eligibility under ODSP.

In the *2015 Budget*, Ontario introduced a consultation on social assistance rate restructuring. Through ongoing discussions, there emerged a clear consensus on the need to move policy considerations beyond social assistance rates to include aspects of the broader income security system.

As a result, this year, the government will continue to engage with delivery partners, clients and sector advocates to chart the path to comprehensive reform that effectively reduces poverty, supports people in their efforts to participate in the economy, and provides human services in a way that makes sense to the people who need them. This process will look across government and at the broader income security landscape to ensure that various existing and future programs work together to help Ontarians. The government will also engage with First Nation, Inuit and Metis communities to ensure that the path forward recognizes unique challenges on- and off-reserve and helps all Ontarians live a better life.

One area of research that will inform the path to comprehensive reform will be the evaluation of a Basic Income pilot. The pilot project will test a growing view at home and abroad that a basic income could build on the success of minimum wage policies and increases in child benefits by providing more consistent and predictable support in the context of today's dynamic labour market. The pilot would also test whether a basic income would provide a more efficient way of delivering income support, strengthen the attachment to the labour force, and achieve savings in other areas, such as health care and housing supports. The government will work with communities, researchers and other stakeholders in 2016 to determine how best to design and implement a Basic Income pilot.

Supporting Workers and Families in a Changing Labour Market

> Through Budget Talks, Ontarians increasingly called on government to respond to issues surrounding precarious employment. Ontario is taking a number of steps in this *Budget* to address these concerns.

The modern labour market has experienced an increase in non-standard employment, some of which is considered "precarious." This includes temporary workers, part-time workers who want full-time work and low-wage workers who juggle multiple jobs. Between 1997 and 2015, non-standard employment grew at an average annual rate of 2.3 per cent, nearly double the rate of standard employment.

While non-standard employment in the right circumstances can provide people with greater flexibility, it can also mean lower and unpredictable earnings and limited access to employer-sponsored health benefits, and can put strain on workers and their families.

Ontario is taking steps to ensure fairness in the labour market and more secure wages to help people maximize their potential.

Changing Workplaces Review

Ontario is moving to ensure that labour and employment laws reflect the realities of the modern workplace to provide security to workers, while also providing businesses the support they need.

In 2015, the government initiated the Changing Workplaces Review and appointed two Special Advisers to lead the consultations on Ontario's labour and employment laws, including the *Labour Relations Act, 1995*, and the *Employment Standards Act, 2000*.

The Special Advisers are now considering input from the public consultations and commissioned research. It is expected that an interim report will be released in early 2016. The final report and recommendations are expected to be released in summer 2016.

Gender Wage Gap Strategy

The Gender Wage Gap Strategy builds on progress made by the government to strengthen women's economic opportunities and address barriers preventing women's full participation in the labour force.

To support the development of the strategy, the government has established a Gender Wage Gap Steering Committee to begin effectively addressing the many factors that contribute to Ontario's gender wage gap. The committee, which was appointed in April 2015, is concluding its regional public consultations, stakeholder meetings and online survey, and is anticipated to make recommendations in May 2016 that will help shape the implementation of the Province's Gender Wage Gap Strategy. The broad consultation approach will support recommended actions for business, government, labour and all Ontarians to address the impacts of the gender wage gap on women at work, in their families and in their communities.

Increasing Children's Benefits and the Minimum Wage

Ontario provides support for low- to moderate-income families through the Ontario Child Benefit (OCB). This benefit, along with other provincial and federal tax and benefit programs, enhances the incomes of low- to moderate-income families, helps reduce child poverty and provides a more stable income base for those who may experience uncertain earnings. The OCB, which supports about one million children in over 500,000 families, helped recipients weather the effects of the recent economic downturn. Through indexing, the government is also ensuring that the OCB helps protect families from increases in the cost of living.

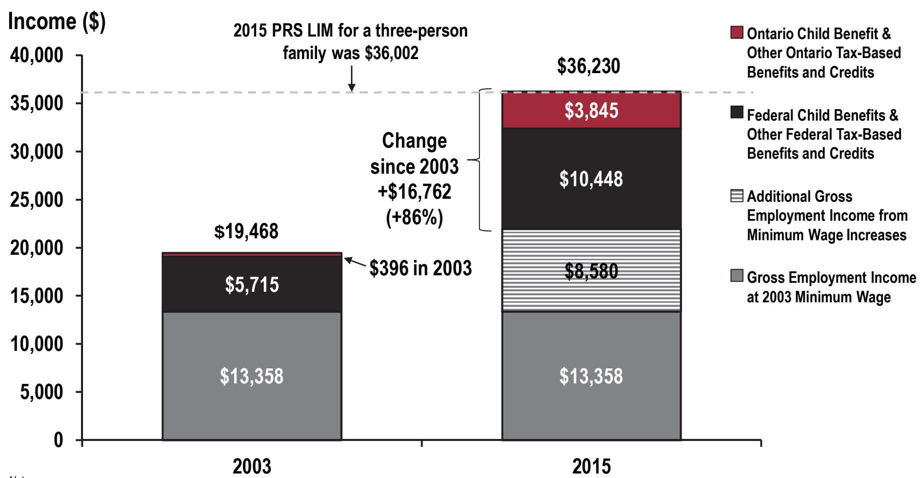
The government has also helped low-income workers and families by raising the minimum wage by 64 per cent since 2003. Most recently, in October 2015, it was raised to $11.25 per hour to adjust to inflation.

Enhancements to the OCB, federal children's benefits and increases in the minimum wage have significantly increased the total incomes of working families with children.

As shown in Chart 1.19, a single parent with two children, ages 9 and 10, working full time at minimum wage experienced a total income of $36,230 by the end of 2015, which represents an 86 per cent increase compared to 2003. This family's total income was higher than the 2015 Poverty Reduction Strategy Low-Income Measure (PRS LIM).

CHART 1.19 **Supporting Working Families**

Total Annualized Income for a Single Parent with Two Children (Ages 9 and 10)



Notes:
1) The Poverty Reduction Strategy Low-Income Measure (PRS LIM) is half of median household income adjusted for size and fixed to a base year of 2008 and adjusted for inflation for subsequent years.
2) Other Ontario Tax-Based Benefits and Credits consist of Ontario Property and Sales Tax Credits in 2003, and Ontario Energy and Property Tax Credit and Ontario Sales Tax Credit in 2015.
3) Federal Child Benefits and Other Federal Tax-Based Benefits and Credits consist of Canada Child Tax Benefit, National Child Benefit Supplement, Universal Child Care Benefit, Goods and Services Tax Credit and Working Income Tax Benefit.
4) Gross Employment Income calculated for parent earning $6.85/hour in 2003 and $11.25/hour in 2015, working for 37.5 hours per week for 52 weeks.
5) The Ontario Child Benefit (OCB) monthly payments began in 2008. The maximum OCB per child is $1,336 as of July 2015.
6) Incomes, rents, credits and benefits are annualized as of the end of the calendar year. All benefits and credit amounts reflect any enhancements that occurred within the calendar year.
7) In 2015, the family in this example would receive $2,549 in Ontario Child Benefit and $1,296 in Other Ontario Tax-Based Benefits and Credits.

Source: Ontario Ministry of Finance.

Healthy Smiles Ontario Program

The Healthy Smiles Ontario program enables more children and youth aged 17 and under from low-income families to receive free dental care. It also ensures that children continue to receive dental care when their families transition from social assistance. The government has improved access to children's dental services by integrating a number of publicly funded dental programs and creating a one-window application process.

Economic Empowerment

Economic empowerment takes different forms for different people. For example, Ontarians with limited resources need better tools to achieve financial stability; youth and people with disabilities need better training and access to employment. The government is committed to improving the tools and opportunities necessary to support the economic and social inclusion of all Ontarians.

Financial Empowerment

Financial empowerment helps low-income individuals and families improve their credit scores, increase savings and develop long-term financial management plans.

The government is already engaged in programs that support these important goals. For example, financial literacy is integrated in the Ontario curriculum for students in Grades 4 to 12, so they have the knowledge and skills to take responsibility for managing their personal financial well-being with confidence and competence. In addition, the Province funds the Financial Empowerment and Problem Solving (FEPS) program, a pilot project offered through three community agencies. The program provides low-income people with individualized counselling and hands-on help to those in financial crisis to obtain banking services, apply for benefits such as Canada Learning Bonds to save for their children’s education, manage debt and enable participants to move from crisis to longer-term financial planning.

The Province is taking further steps to increase support for financial empowerment initiatives.

The government will invest up to $1 million annually over five years to partner with Prosper Canada to provide a range of financial empowerment tools and services to more communities across Ontario. The initiative will be evaluated to determine the effectiveness of the tools and services on enhancing the financial stability and empowerment of participants.

The government will also provide up to $650,000 in matching funding to the Ontario Chamber of Commerce to support Funny Money, an innovative program for high school students that complements the approach to financial literacy education in the school curriculum. Funny Money uses humour to educate youth about money management, credit, debt and savings to empower students with the knowledge they need to make good financial choices.

> Through Budget Talks, the government heard from Ontarians a desire for increased financial education opportunities for youth.

Employment Strategy for People with Disabilities

The Province has taken a number of steps to better support people with disabilities by helping them connect to the labour market and engaging and supporting employers.

One of these steps includes the creation of the Partnership Council on Employment Opportunities for People with Disabilities, to work with and encourage employers in hiring people with disabilities.

Over the next year, the government will develop a provincial employment strategy for people with disabilities that will:

- Establish a cohesive made-in-Ontario vision with goals, priorities and desired outcomes to ensure Ontarians have access to a continuum of employment and training services;
- Provide a better service experience through streamlined access to employment and training services that recognize the varied needs and employment goals of individual clients; and
- Engage employers as active partners in breaking down employment barriers for people with disabilities and promoting inclusive workplaces.

This strategy will build on the Province's significant progress towards its objective of an accessible Ontario by 2025. In support of The Path to 2025: Ontario's Accessibility Action Plan, and as part of ongoing efforts to make it easier for people with disabilities to participate in their workplaces and communities, the Province will introduce amendments to 11 statutes, targeting areas that represent barriers to accessibility. These amendments modernize procedures related to service, timelines and notice requirements, and include amendments to:

- The *Accessibility for Ontarians with Disabilities Act, 2005*, providing extensions to legislated timelines to accommodate people with disabilities, and permitting people with disabilities to submit documents to government in accessible formats;
- The *Homemakers and Nurses Services Act* and the *Public Vehicles Act*, replacing outdated terminology; and
- The *Public Hospitals Act* and the *Substitute Decisions Act, 1992,* requiring notices to be communicated by more accessible methods.

As well, Ontario's Accessible Employment Standard requires businesses with 50 or more employees to make employment practices accessible to meet the needs of employees and job applicants with disabilities, as of January 1, 2016.

Building Inclusive Communities

Ensuring that all Ontarians have the opportunity to overcome barriers to social and economic inclusion contributes to the strength of Ontario's communities.

Local Poverty Reduction Fund

The Local Poverty Reduction Fund is a $50 million, six-year program designed to evaluate community-driven interventions that prevent or lift people out of poverty. From the 2015 Call for Proposals, Ontario is now supporting 41 projects in over 20 communities across the province to improve the lives of people living in poverty and build evidence about programs that work.

Projects Financed through the Local Poverty Reduction Fund:

- The City of Greater Sudbury will introduce two client navigators (one Indigenous and the other bilingual) to the Out of the Cold emergency shelter program to assist participants to move from street to home, and evaluate the impact.
- Tungasuvvingat Inuit, based in Ottawa, is collaborating with community partners to develop, implement and evaluate an Urban Inuit Employment Strategy to facilitate the development of training and workforce experiences for Ontario's growing urban Inuit population to help their clients find stable employment and build a more secure future.
- Woodgreen Community Services, based in Toronto, will evaluate its Transition to Success (TTS) program that helps female single-parent families who have experienced poverty and homelessness transition into employment. The program is holistic and provides wrap-around services to single women with children.

The next call for proposals for the Local Poverty Reduction Fund will be launched in spring 2016. Over the course of 2016 and 2017, a total of $10 million will be targeted for projects related to homelessness.

Addressing Racism in Ontario

The government recognizes and values diversity in all Ontarians and Ontario communities, and is committed to actively promoting and pursuing racial equity in provincial policy development, implementation and evaluation. To this end, the Province is moving forward with a plan to address racism in all forms, including individual, systemic and cultural, and to advance equality for all Ontarians regardless of race, ethnicity, creed or cultural background.

This plan will include the creation of a new Directorate that will work with key partners such as business and community organizations, educational institutions and the Ontario Human Rights Commission.

Through this plan, the Directorate will:

- Increase public education and awareness of racism to create a more inclusive province; and
- Apply an anti-racism lens in developing, implementing and evaluating government policies, programs and services.

Ontario recently passed legislation to formally recognize February as Black History Month on an annual basis. This legislation recognizes the significant contributions Black Canadians have made to the development and betterment of Ontario throughout its long history.

The government will also introduce mandatory Indigenous cultural competency and anti-racism training for all employees across the Ontario Public Service.

Social Support and Integration

Ontario is promoting integration by eliminating barriers and implementing change to reflect the province’s diverse communities. The government plans to build on its inclusive approach by proposing legislative amendments to enable people from traditional cultures who have a single naming practice to have that name reflected in vital events, such as birth certificates and change of name certifications.

Ontario is also committed to providing settlement and integration supports targeted for newcomers and refugees, while ensuring the broader pursuit of racial equity in provincial policy.

Ontario's efforts towards integration also include new support for the Muslim Resource Centre for Social Support and Integration (MRCSSI) to expand the organization's work to help clients overcome challenges that affect their family safety. The MRCSSI is a not-for-profit organization whose goal is to help families and individuals overcome the challenge of pre- and post-migration stressors, cultural differences, poverty and loss of social status. Annual funding of $200,000 will allow the MRCSSI to provide more efficient services and build on its Culturally Integrative Family Safety Response Model. The funding will also support MRCSSI to collaborate with other agencies to provide culturally integrated individual intervention, case coordination, staff training and community capacity building.

Supporting the Settlement of Refugees in Ontario

Helping newcomers integrate successfully into communities and workplaces helps support Ontario's economic prosperity. The government is committing additional funding of $2 million in 2016–17 to ensure the continuation of important coordination efforts that provide support to welcome and settle refugees in Ontario. Since December 2015, Ontario has welcomed more than 8,000 Syrian refugees, and anticipates up to another 2,000 by the end of February.

This will bring the government's total commitment to $12.5 million for international relief efforts, direct supports for refugees, as well as for organizations and groups that are privately sponsoring refugees.

In November 2015, the government announced the appointment of a dedicated Executive Lead to ensure seamless, coordinated and appropriate support for the refugees who arrive in Ontario. This coincided with the establishment of a Ministers' Ad Hoc Committee on Refugees to support the provincial commitment to help settle thousands of Syrian refugees. The committee is co-chaired by the Minister of Citizenship, Immigration and International Trade and the Minister of Health and Long-Term Care.

The committee is tasked with overseeing and coordinating a cross-government response to prepare for incoming refugees and helping them settle and integrate once they arrive. It is working closely with the federal government to determine how Ontario can best support a national plan for refugee settlement. Work to date has included providing incoming refugees with health services and emergency medical assistance, and collaborating with the Canadian Red Cross to ensure that additional emergency social services are available as needed.

Supporting Opportunities for Indigenous Peoples

It is critical that the government move forward on a number of fronts to improve economic opportunities and support sustainable opportunities for Indigenous peoples in Ontario.

Aboriginal Healing and Wellness Strategy

In November 2014, the government announced an investment of over $10 million in the Aboriginal Healing and Wellness Strategy (AHWS) to help reduce family violence and violence against Indigenous women, and improve Indigenous health, healing and wellness.

The government will invest in the AHWS annually to continue to support over 450 Indigenous health and healing projects, including:

- Ongoing funding for Talk4Healing, a helpline for Indigenous women in the north who have limited access to services;
- Establishing new healing-lodge sites to provide residential programs that address the underlying impacts of sexual assault, family dysfunction and physical, mental and emotional abuse;
- Training for front-line workers in areas such as mental health and addictions, traditional healing practices, crisis intervention, grief counselling and family violence; and
- Funding to address the high costs of delivering programs in northern, remote and fly-in communities.

Mental Health and Addictions Strategy

Ontario is providing $2 million to 10 Indigenous organizations to engage with their communities and make recommendations on unique mental health and addictions issues facing Indigenous peoples across the province. A dedicated Indigenous engagement process, launched with First Nation, Métis and urban Indigenous partners, will continue to inform the Province's 10-year Mental Health and Addictions Strategy.

Prevention of Violence against Indigenous Women

Following the release of "It's Never Okay: An Action Plan to Stop Sexual Violence and Harassment," the Province further committed to work with Indigenous partners to develop a separate specific strategy on the issue of violence against Indigenous women.

Ontario is committed to a Long-Term Strategy to End Violence against Indigenous Women, promoting wellness and family supports to address the impacts of violence on Indigenous families. The strategy will include an investment of $100 million over three years to support a number of initiatives such as:

- Working together with Indigenous partners to design and deliver culturally appropriate interventions that address the root causes of violence, trauma and overrepresentation of First Nations, Métis and Inuit children in the child welfare and youth justice systems;
- Supporting the "Kizhaay Anishinaabe Niin — I Am a Kind Man" program that supports healing and violence prevention for Indigenous men, including offenders;
- Hosting the fifth National Aboriginal Women's Summit in 2016; and
- Developing new missing persons legislation and reviewing missing persons guidelines.

In recognizing the increased likelihood of Indigenous women victimized through the human trafficking trade, Ontario is also moving forward with the development of a strategy to stop human trafficking, which will include supports targeted for Indigenous and non-Indigenous women.

Truth and Reconciliation Commission of Canada Report

Ontario is making it a priority to act on the Calls to Action released by the Truth and Reconciliation Commission of Canada in June 2015 by working in partnership with First Nation, Inuit and Métis peoples to acknowledge and teach the history and legacy of residential schools, take action to close gaps in outcomes, and build culturally sensitive and community-based services. That is why the government is working with First Nation, Métis and Inuit partners in revising the curriculum to include greater requirements for students to learn about Indigenous perspectives, cultures, histories and contributions, including treaties and the residential school experience. As part of a broader awareness campaign, the Province is also supporting two public service announcements: one will tell the truth about Canada's residential schools, and one will advocate a deeper understanding of treaties.

The government will continue to engage Indigenous partners on policies and programs that respond to the report's recommendations. Ontario will continue to take steps, in partnership with Indigenous communities, to ensure that Indigenous voices are heard within government, including in policy- and decision-making.

Section F: Strengthening Retirement Security

Many Ontarians are not saving enough for retirement. Two-thirds of Ontario's workers do not participate in a workplace pension plan. Moreover, about three-quarters of younger workers — aged 25 to 34 — do not participate in a workplace pension plan. Without action, many of today's workers will not be able to maintain their current living standards in retirement and this would place pressure on government programs.

The government's goal is to strengthen retirement security for all Ontarians. The Province is actively participating in national discussions to enhance the Canada Pension Plan (CPP), while implementing the Ontario Retirement Pension Plan (ORPP).

The ORPP is a made-in-Ontario solution to support current and future generations of Ontarians in retirement. The Conference Board of Canada's recent cost–benefit analysis of the ORPP confirms that both the economy and Ontarians would be better off with the ORPP.[1] In the long term, it is expected to add billions of dollars to the economy, while providing a cost-effective means of helping individuals save for retirement. The cost–benefit analysis also estimated that the impact on employer payroll costs from the ORPP would be, in total, almost entirely offset by expected reductions to Employment Insurance (EI) and Workplace Safety and Insurance Board (WSIB) premium rates.

The government is also helping to strengthen and modernize workplace pension plans with several measures, including:

- Reviewing the current solvency funding framework for single-employer defined benefit pension plans; and
- Consulting on a proposed regulatory framework for target-benefit multi-employer pension plans.

[1] Conference Board of Canada, "A Cost–Benefit Analysis of the Ontario Retirement Pension Plan," (2015), http://www.fin.gov.on.ca/en/pension/orpp/orpp-cb-analysis.html.

Progress on the Ontario Retirement Pension Plan

The government is on track to ensure that, by 2020, all eligible Ontario workers would be covered by a comparable workplace plan or the ORPP. The ORPP Administration Corporation is now established and the process to register the plan with the Canada Revenue Agency is well underway. Final elements of plan design were announced in January 2016 and would be outlined in legislation to be introduced in spring 2016. The legislation would focus on employer eligibility, benefit calculations, and the compliance and enforcement regime.

The government has engaged Ontarians, including businesses, associations, labour groups and pension experts, throughout the design of the ORPP. Based on this feedback and to ensure a successful and smooth implementation, the ORPP Administration Corporation would launch the employer verification and enrolment process in 2017, with employer and employee contribution collection beginning in 2018. This decision supports national discussions on a CPP enhancement and facilitates transition to the ORPP.

The ORPP Administration Corporation

The ORPP Administration Corporation is responsible for administering the ORPP and managing and investing ORPP contributions. It is an independent entity with a professional board and robust governance structure modelled on the best practices of leading public-sector pension plans.

In November 2015, the government appointed the initial board of directors to oversee the ORPP. Susan Wolburgh Jenah was named the Chair, along with Murray Gold and Richard Nesbitt as Directors. The initial board members bring a diversity of experience in key areas, including investment and asset management, pension administration, legal and regulatory compliance, and financial operations and management. The government intends to appoint the full board of directors later this year.

In January 2016, the board recruited Saäd Rafi as the first CEO of the Administration Corporation. Mr. Rafi and the board are building the capacity of the Administration Corporation to deliver a member-focused, cost-effective and world-class pension plan. Immediate priorities include engaging employers on the verification and enrolment processes to ensure a seamless transition, and overseeing the set-up of infrastructure and technology requirements to administer the plan.

The government also intends to introduce an amendment to the *ORPP Administration Corporation Act, 2015,* that, if passed, would enable the Administration Corporation to adopt any pre-incorporation contracts made on its behalf within one year of its establishment.

Accountability and transparency are critical features of the Administration Corporation's governance model. Through a strong accountability and transparency framework, the board of directors and management team will be fully accountable to plan members.

Specific measures to support accountability and transparency include the development of a Memorandum of Understanding between the Minister of Finance and the Administration Corporation, an annual report, an annual meeting for beneficiaries, external auditing and strong financial controls. The Administration Corporation would also work closely with a proposed Office of the Chief Actuary.

Plan Administration

The Administration Corporation is committed to efficient and cost-effective administration of the ORPP. It continues to engage and evaluate options for administration, including working with the federal government, leveraging existing infrastructure within the broader public sector and using third-party delivery partners.

To support the launch of the ORPP in 2017, with collections beginning in 2018, the Administration Corporation would proceed with the following updated implementation timelines.

TABLE 1.8 ORPP Phase-In and Contribution Schedule
(Employer contribution rates below would be matched by eligible employees)
Enrolment of employers in the ORPP would begin on January 1, 2017

Type of Employer	Jan. 1, 2018	Jan. 1, 2019	Jan. 1, 2020	Jan. 1, 2021
Wave 1: Large employers without registered workplace pension plans	0.8%	1.6%	1.9%	1.9%
Wave 2: Medium employers without registered workplace pension plans	0.8%	1.6%	1.9%	1.9%
Wave 3: Small employers without registered workplace pension plans	0%	0.8%	1.6%	1.9%
Wave 4: Employers with registered pension plans that either do not meet the comparability test or do not cover all classes of employees	0%	0%	1.9%	1.9%

The Province heard from the business community that it needed additional time. The government has responded to this and will provide employers affected by the ORPP with more time to make the technical changes required. The Province is committed to supporting a smooth and successful implementation of the ORPP. The additional time will also enable national discussions on CPP enhancement to proceed.

A Sustainable Plan

The government is creating a sustainable plan that builds on the foundation of the CPP. This would help ensure that Ontarians retire with improved savings and security. In spring 2016, the government intends to introduce proposed legislation setting out the requirements of ORPP, rules relating to plan funding, and the compliance and enforcement regime.

Mirroring the strengths of the CPP, the ORPP would:

- Aim to replace 15 per cent of an individual's pre-retirement earnings, up to a maximum earnings threshold of $90,000 (proposed in 2017 dollars), based on 40 years of participation;
- Require equal contributions from employers and employees, with a maximum combined rate of 3.8 per cent;
- Require benefits to be earned as contributions are made to ensure plan sustainability and intergenerational equity;
- Establish a minimum earnings threshold of $3,500 for eligible employees between the ages of 18 and 70;
- Provide a survivor benefit to beneficiaries or surviving spouses;
- Exempt those subsets of members of comparable workplace pension plans with benefit accruals or contribution levels that meet the appropriate thresholds; and
- Phase in implementation for employers between 2017 and 2020, with collections beginning in 2018.

Detailed features of the proposed plan design are available at Ontario.ca/orpp.

Responsible Funding of the ORPP

The financial viability of the ORPP is imperative. Through extensive modelling and consultations with experts, the ORPP has been designed to be sustainable over the long term. A formal funding policy would guide timely actions by the Administration Corporation and the government, in the event of funding excess or shortfall.

To evaluate and report on plan sustainability and prepare funding valuations, the government is proposing to establish an independent provincial Office of the Chief Actuary (OCA) by legislation in 2016. Modelled on the Office of the Chief Actuary of Canada, Ontario's Chief Actuary would provide the Province and the Administration Corporation with impartial and expert actuarial advice and guidance. All valuations would be peer-reviewed and made public.

Moving Forward

The Province and the ORPP Administration Corporation will continue to seek advice through ongoing discussions with stakeholders such as the Business Advisory Group on ORPP Implementation.

Collaboration on a National Pension Solution

The Province has long been a champion of strengthening the retirement income security system and is pleased that the federal government shares this commitment and has renewed national discussions to enhance the CPP. Ontario will work collaboratively and intensively with the federal government, provinces and territories to make progress on a CPP enhancement that addresses the needs of future retirees.

The Province's extensive consultations in developing the ORPP have helped to inform Ontario's view that a CPP enhancement must be timely and provide a level of adequacy and targeted coverage that is consistent with the ORPP. The government looks forward to collaboration on a CPP enhancement and other innovative approaches at the Federal–Provincial–Territorial Finance Ministers meeting in June 2016.

Strengthening and Modernizing Workplace Pension Plans

Workplace pension plans are an integral part of Ontario's retirement income system. They provide employers with a tool to attract and retain talent, while giving employees a valuable source of retirement income. The 2008 recession and subsequent economic challenges have highlighted the need for regulatory reform. The government continues to pursue reforms to the pension regulatory landscape to encourage innovative and flexible retirement savings tools and to ensure pension plans continue to be a viable retirement savings tool in different economic conditions. At the same time, the government is committed to ensuring that the Pension Benefits Guarantee Fund remains a sustainable source of protection for covered plans.

Solvency Funding Review and Temporary Solvency Funding Relief

In recent years, low long-term interest rates have placed funding pressures on pension plan sponsors of single-employer defined benefit (DB) pension plans. To assist sponsors in these challenging circumstances, the government has initiated a review of the current solvency funding framework.

The government has appointed David Marshall, former president and CEO of the WSIB, to lead the solvency funding review. He will provide advice and recommendations to the Minister, with a view to assisting the Ministry of Finance in developing a balanced set of solvency funding reforms that would focus on plan sustainability, affordability and benefit security, and take into account the interests of pension stakeholders — including sponsors, unions, members and retirees.

A stakeholder reference group is being established to ensure that reforms to the existing solvency funding framework are informed by a broad range of stakeholder opinions. A consultation paper, outlining possible reform measures, will be released in spring 2016.

To provide plan sponsors with more immediate assistance, the government plans to extend temporary solvency funding relief measures introduced in 2009 and 2012 for private-sector plan sponsors. Draft regulations will be posted for consultation in spring 2016.

Target Benefit Multi-Employer Pension Plans

In summer 2015, Ontario released a consultation paper seeking input from affected stakeholders on a proposed regulatory framework for target benefit multi-employer pension plans (MEPPs), including a permanent exemption from solvency funding requirements. The consultation paper also proposed a transition period of three years for eligible MEPPs to allow such plans to make necessary adjustments to comply with any new target benefit MEPP framework. Feedback was received from a variety of stakeholders, including actuarial firms, professional associations, MEPPs and labour unions.

While submissions were supportive of a new framework, including a solvency funding exemption, some concerns were raised that certain MEPPs may face challenges transitioning to a new framework and implementing changes in funding rules.

The government will continue to consult with affected stakeholders on all aspects of a target benefit MEPP framework, including funding rules, and is committed to providing a transition period that allows sufficient time and ensures minimal disruption to the collective bargaining process.

Additional Legislative Measures

Minor adjustments to legislation are being pursued in the following areas:

- **Pension advisory committees (PACs):** Draft regulations under the *Pension Benefits Act* intended to facilitate the establishment of PACs were posted for public consultation in fall 2015. The role of PACs would be to monitor plan administration, make recommendations to the administrator regarding the pension plan, and promote awareness and understanding of the pension plan. The government is proposing additional legislative changes to enable implementation of PACs. Regulations incorporating stakeholder feedback will be finalized later this year.
- **Pooled registered pension plans (PRPPs):** The government is introducing amendments to the *Pooled Registered Pension Plans Act, 2015,* to further facilitate harmonization with other jurisdictions and ensure the efficient operation of PRPPs. Regulations to support the implementation of PRPPs in the province are under development. The government will also be developing an appropriate test to determine comparability for the purposes of the ORPP.
- ***Teachers' Pension Act*:** Since its inception, the Ontario Teachers' Pension Plan has contained provisions that limit the amount of education-related work that can be pursued by retired teachers who are collecting a pension. This has been an important parameter that helps facilitate opportunities for newer teachers. Amendments to the *Teachers' Pension Act* are being proposed that ensure these re-employment rules would prevail over the *Pension Benefits Act* to the extent of any conflict.

Section G: Making Everyday Life Easier

The government has introduced many initiatives to help make everyday life easier for Ontarians. These include taking steps to help auto insurance rates go down, not up, helping with electricity and energy costs, and lowering hospital parking fees for frequent users. Consistent with its commitment to ensuring safety, security and fairness, the government continues to strengthen consumer protection.

To make public services more accessible and convenient, Ontario is supporting the development of community hubs. The Province is also increasing choice and convenience for Ontarians by making changes to alcohol retailing and moving government services online.

Ontario is committed to enhancing the delivery of public services through the use of technology, to ensure greater availability and better value for money. Significant progress was made in 2015 through the introduction of services such as online filing for Small Claims Court and eCampus Ontario.

Reducing the Cost of Living

Hospital Parking Fees

The Province is making hospital parking more affordable for patients and visitors. As of January 2016, the government is directing hospitals not to raise their daily parking rates for the next three years. Starting October 1, 2016, hospitals that charge more than $10 a day for parking fees will be required to offer 50 per cent discounts on multiple-use passes to frequent hospital users. In addition, transferable passes that are valid for a year with in-and-out privileges will be offered to frequent users.

Approximately 900,000 patients and visitors — including 135,000 seniors — are expected to benefit from reduced parking fees each year. Ontario will require hospitals that do not own their own lots to make their best efforts to cap or cut parking fees for those who must visit the hospital frequently.

Energy-Saving Home Retrofits

As part of the Province's climate change strategy, the government is dedicating $100 million of its $325 million Green Investment Fund to help about 37,000 homeowners conduct audits to reduce their energy bills by identifying energy-saving opportunities and completing retrofits, such as replacing furnaces and water heaters and upgrading insulation. Ontario is also dedicating an additional $92 million to social housing energy retrofit initiatives, which will encourage the replacement of older, less efficient boilers, windows and insulation, and the installation of LED lighting.

Electricity Price Relief for Ontarians

The government continues to make Ontario's electricity system clean and reliable, and deliver price relief as committed to in the *2014 Budget*.

Removing the Debt Retirement Charge

Ontario has removed the debt retirement charge (DRC) for residential consumers, as of January 1, 2016, saving a typical residential user about $70 each year. In addition, the government introduced legislation, passed in December 2015, that will end the DRC for all other electricity users as of April 1, 2018 — nine months earlier than previously estimated. The fixed end date will provide certainty to business and industrial electricity users and help them plan their business and investment decisions more effectively.

Large industrials using 3,000 megawatt-hours (MWh) per month could save $21,000 per month, while a small business using 20,000 kilowatt-hours (kWh) per month could save $140 per month. For more information, see Chapter I, Section A: *Fostering a More Innovative and Dynamic Business Environment.*

Ontario Electricity Support Program

The Ontario Electricity Support Program (OESP) is available to provide an ongoing credit directly on the electricity bills of eligible low-income households, as of January 1, 2016. Qualifying low-income Ontarians are eligible to apply for and receive a monthly credit of $30 to $50, for a total of $360 to $600 per year. For example, a family of three earning a total household income of $30,000 may receive an on-bill credit of $30 per month.

The OESP offers a larger credit to low-income consumers whose homes are electrically heated, and those who rely on certain medical devices. Eligible First Nation and Métis households also qualify for a larger credit. The credit for those receiving a larger reduction is $45 to $75 per month, for a total of $540 to $900 per year.

Applicants can visit OntarioElectricitySupport.ca to apply for the program online. More than 100 community groups at over 150 locations across the province are ready to help consumers apply.

Drive Clean

The government is making everyday life easier for Ontarians by eliminating the $30 fee that drivers pay for their Drive Clean emissions tests. Drive Clean is Ontario's mandatory vehicle emissions inspection and maintenance program, which tests over two million vehicles annually.

Since the program's introduction in 1999, Drive Clean has kept more than 335,000 tonnes of smog-causing pollutants from entering the air. While the program will continue to protect air quality, eliminating the emissions test fee will help reduce costs for Ontario drivers.

As cleaner fuels are introduced and emissions technology is improved, the program will be reviewed to ensure emissions tests continue to achieve the government's air quality objectives.

Full-Day Kindergarten

Ontario has fully rolled out its full-day kindergarten (FDK) program, making it available to over 260,000 four- and five-year-olds in approximately 3,600 schools across the province. Ontario families can save up to $6,500 per year in child care costs by enrolling their child in full-day kindergarten.

With more than $1.5 billion in funding to date, FDK is one of the most significant investments Ontario has made in education in a generation. This investment has helped create approximately 3,500 new kindergarten classrooms, about 3,800 additional teaching positions and more than 10,000 early childhood educator positions.

Protecting Consumers

Investor Protection

As more Ontarians assume primary responsibility for their retirement security, good financial advice and strong investor protection are increasingly important.

Currently, in Ontario, no general framework exists to regulate the activities of individuals who offer financial advisory and financial planning services. Last year, the government appointed an independent expert committee to review the regulatory framework relating to financial advisory and financial planning services. The expert committee is finalizing its preliminary policy recommendations and will soon begin further consultation to solicit stakeholder feedback. The committee's final report is expected to be delivered to the government in fall 2016.

The government intends to propose changes to the *Securities Act* to improve protections for investors and potential whistleblowers. These changes include broadening insider trading offences to prohibit recommending or encouraging the purchase or sale of securities with knowledge of material undisclosed information. New provisions would be introduced to protect from reprisals an individual who comes forward as a whistleblower.

Improving Auto Insurance

The government is committed to lowering the cost of auto insurance for Ontario's over 9.5 million drivers and ensuring that individuals injured in motor vehicle collisions get the treatment they need.

Delivering Rate Reductions

In recent years, the government has introduced a number of important and necessary reforms to reduce costs and lower auto insurance rates. Since August 2013, rates have decreased by over seven per cent on average.

The Province has also taken steps to help safe drivers save more on auto insurance. On January 1, 2016, all insurance companies in Ontario were required to provide a discount for drivers who buy and install winter tires.

The government announced additional significant reforms in the *2015 Budget.* In the coming months, these changes will work through the system to deliver further rate reductions. As always, consumers are encouraged to take advantage of Ontario's highly competitive market for auto insurance by shopping around for the best possible rates and for the coverage that best meets their needs.

Protecting Consumers and Claimants

The government has developed a new auto insurance dispute resolution system that will help Ontario drivers get faster access to the benefits they need. It will begin accepting dispute applications on April 1, 2016. Measures to protect consumers, by prohibiting rate increases for minor at-fault accidents and lowering the maximum interest rate for monthly premium payment plans, will also become effective on June 1, 2016.

The government is continuing to protect consumers and claimants by fighting auto insurance fraud. The government will establish a serious fraud office with a special focus on auto insurance fraud.

The Province has also appointed David Marshall as an adviser on auto insurance and pensions. As the former president and CEO of the Workplace Safety and Insurance Board, Mr. Marshall has the experience necessary to help identify new opportunities for auto insurance reform, and will work to improve health outcomes, lower costs and achieve more affordable auto insurance for Ontarians.

To protect Ontario consumers, the government is also prepared to amend the *Insurance Act* to ensure that consumers are provided with complete information about the history of used vehicles. Amendments are proposed to the *Insurance Act* to allow for regulations to be made to require insurers to provide claims and repair history information to motor vehicle dealers for disclosure to prospective used vehicle purchasers.

Increasing Convenience and Choice

Community Hubs

The government is supporting the development of community hubs. These hubs make public services more convenient and accessible by using a public space for many community purposes. Examples of community hubs include:

- Providing child care in schools;
- Sharing recreational facilities between municipalities and school boards; and
- Offering social, medical and legal services in one public building.

Examples of Community Hubs

- The Town of Petawawa in eastern Ontario is entering an agreement with the Renfrew County District School Board to share community recreation facilities. With this agreement, students will have access to curling and hockey rinks, while the town's residents will be able to access gym facilities within the school.
- The Bathurst–Finch Hub houses a community health centre, a dental clinic, mental health programs, settlement services for newcomers, employment support, and help with legal matters. Moreover, it includes community space, free to the public, where local residents can meet and connect.

The Province has accepted all the recommendations contained in Community Hubs: A Strategic Framework and Action Plan and is moving forward with new key initiatives on a priority basis. These include:

- Building local capacity by investing in a resource network for community partners, including an interactive and online resource centre to provide access to information, best practices and data for community organizations; and
- Continuing to advance the plan's recommendations regarding school properties to support continued community use, including introducing changes that would allow greater opportunity to parties interested in acquiring or leasing surplus schools.

To guide the implementation of key initiatives of the action plan, the Province will extend the mandate of the Special Adviser and the Advisory Group to the Premier on community hubs through 2016–17.

Beverage Alcohol

The government has delivered on its promise to introduce the sale of beer in grocery stores. Sixty locations across Ontario are now authorized to sell beer. Up to 150 stores will be authorized to sell beer by May 1, 2017, and up to 450 stores could eventually be approved to do so.

Building on that progress, the Province is moving forward with expanding wine sales to further improve consumer choice and convenience. By fall 2016, up to 70 grocery stores across Ontario will be authorized to sell wine and beer together through newly allocated authorizations. Eventually, up to 150 grocery stores will be approved to sell wine from Ontario, across Canada and around the world.

In addition, up to 150 of the province's private winery retail outlets now located at grocery stores will have the opportunity to operate their store inside the grocery space, enabling customers to buy wine with their groceries. In total, up to 300 grocery stores — both large chains and independents — will sell wine inside their stores.

The government also continues to carefully regulate the sale of alcohol. The same requirements for safe and responsible retailing of beer in grocery stores will apply to wine. This includes designated sales areas, restricted hours of sale and rigorous training for grocery store staff.

The Alcohol and Gaming Commission of Ontario will be responsible for the authorization and ongoing regulatory oversight of grocery store operators selling beer and wine.

The government will also make it easier for consumers to discover products in their local community. Vintners Quality Alliance (VQA) wine is available at farmers' markets and Ontario craft cider and fruit wine will be included. Cider and fruit wine will also be sold in grocery stores.

The Liquor Control Board of Ontario (LCBO) will continue to be a modern, efficient and innovative organization that consistently strives to reach consumers in new ways.

The LCBO has already made significant progress in modernizing its operations by:

- Launching a pilot program to sell 12-packs of beer at 10 LCBO stores;
- Introducing specialty stores that feature beverage alcohol products from around the world; and
- Rolling out new Craft Beer Zones to 25 LCBO locations across the province.

The LCBO has also been working to build an e-commerce platform and enhance its current retail and wholesale functions, with further details expected in the coming months.

LCBO E-Commerce Platform

The LCBO is moving forward by creating a best-in-class e-commerce open marketplace to enhance the consumer experience and provide more opportunities for suppliers.

This platform will enable beverage alcohol producers, suppliers and agents from across Canada and around the world to list their products for sale on the LCBO's website, providing broader market access.

It will provide consumers with access to a wider variety of products, as well as the flexibility to order online and pick up products in store or have them delivered to their home.

This new platform will be operational by mid-2016.

In addition, the government is committed to ensuring its efforts to reform beverage alcohol retailing and distribution in Ontario are aligned with the Province's social responsibility goals and priorities. These include the development of a comprehensive alcohol policy framework to support the safe and responsible consumption of alcohol.

The Ministry of Health and Long-Term Care is currently leading consultations with key stakeholders, including health professionals, addiction treatment providers, beverage alcohol industry stakeholders and law enforcement to inform the policy's development. Pending the results of these consultations, including advice already received on the Fetal Alcohol Spectrum Disorder strategy, the government expects to dedicate a portion of alcohol revenue to support resulting programs.

Easy-to-Use Public Services Online

Ontario is enhancing the delivery of public services through the use of technology. Nearly 90 per cent of Ontarians use the Internet regularly to make purchases, find information, learn new skills and interact. In this digital age, users of government online services — people, businesses, communities and partners — deserve simple and straightforward programs and services that are intuitive and easy to use.

The Province will take further steps to enhance access to public services in 2016, including the following strategies:

- Digital Government;
- Open Government;
- ServiceOntario modernization; and
- Building on recent successes.

Digital Government

In the last decade, the explosion of digital technology has revolutionized entire industries, from transportation to retail sales. People expect to connect with their government anytime, anywhere, on any device.

To meet the expectations of the public, government digital services must mirror the simplicity and effectiveness Ontarians have experienced using private-sector digital services. This does not simply mean putting existing processes online; it means fundamentally rethinking how government programs and services are delivered in Ontario.

In 2016, Ontario will release a Digital Government Action Plan that unveils a vision for transforming government online, including creating a new digital service office, led by a chief digital officer, to drive change across government. The action plan will serve as a public roadmap for Ontario's digital transformation — setting new organizational standards, empowering the next generation of digital talent and shifting government culture to deliver the best possible customer experience.

The action plan will outline key initiatives such as identifying high-impact digital projects and services to be transformed; adopting a "digital-by-default" approach focused on making online services so easy to use that Ontarians prefer to use them over traditional methods of service delivery; a digital talent strategy to attract in-demand skills; and online information and engagement initiatives to make it easier for people to participate in government decision-making.

Open Government

People want to be involved in government decision-making in new ways. The Province's new online consultations directory will provide one location for Ontarians to find and participate in government consultations. This allows a broader, more diverse range of Ontarians to inform the policies, programs and services that affect their daily lives. Ontario's innovative online Budget Talks platform is a primary example of a new approach to engagement. For more information, see the section *Engaging Ontarians* at the beginning of the *Budget*.

Ontario is sharing government and provincial agency data online and taking an open-by-default approach. This enables more businesses, not-for-profits and public-sector partners to use high-value data and develop customer-centric tools.

ServiceOntario Modernization

ServiceOntario provides Ontarians access to a wide range of services, including driver and vehicle registration and issuance of health cards and birth certificates. As part of its modernization initiatives, ServiceOntario plans to develop a new online option for health card renewals by 2018. It will also align how Ontarians change their address for their health cards and driver's licences, simplifying the transaction and improving the integrity of customer information.

ServiceOntario will also redesign and enhance key existing online services, including the used vehicle information package and its Service Finder.

Recent Successes

In 2015, Ontario made significant progress towards digital government through the introduction of the following key services:

Small Claims Online

In April 2015, after a successful seven-month pilot project, the Province launched an online filing service for Small Claims Court. This new service, which focuses on certain types of claims, is more accessible and makes the process faster and more convenient for all Ontarians. As of January 2016, over 16,000 claims have been filed electronically, of which 15 per cent were filed outside regular business hours. The service will be expanded to include all types of small claims, effective April 2016.

eCampus Ontario

To provide more flexibility and choice to students, the government continues to expand access to high-quality online learning opportunities for students through eCampus Ontario. The first phase of eCampusOntario.ca provides students across the province with one-window access to more than 13,000 online courses and over 600 programs offered by Ontario colleges and universities.

The government will continue to learn from these successes as it develops its Digital Government Action Plan.

CHAPTER II

A BALANCED PATH TO A BALANCED BUDGET

Section A: Ontario’s Path to Balance

The government is dedicated to a fiscally sound approach to managing the Province’s finances, which will provide the foundation for the long-term well-being and prosperity of Ontarians. An important aspect of this fiscal approach is its continued commitment to balance the budget by 2017–18. The government is taking deliberate and responsible steps to achieve that goal.

Through strong fiscal management, the Province is achieving its targets while continuing to invest in the economy, its people and a healthy, clean and prosperous low-carbon future. These investments will help enhance the public services that Ontarians rely on, as well as stimulate growth. A growing economy and new jobs are the best way to support Ontario families and generate revenues on the path to balance and long-term prosperity.

Ontario’s Plan to Eliminate the Deficit

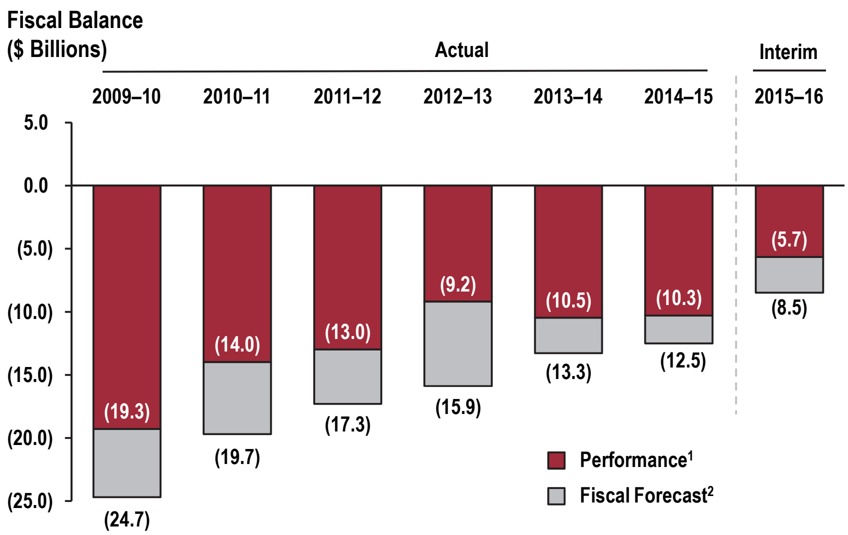
Ontario’s plan to eliminate the deficit includes:

- Transforming government and responsibly managing spending; and
- Ensuring revenue integrity and addressing the underground economy.

The government is projecting a deficit of $5.7 billion in 2015–16 — an improvement of $2.8 billion compared with the 2015 Budget forecast and $1.8 billion compared with the projection laid out in the *2015 Ontario Economic Outlook and Fiscal Review.* It is also a $4.6 billion improvement compared with the 2014–15 deficit of $10.3 billion. This represents the Province's largest year-over-year reduction in the deficit in the last five years.

Ontario is on track to beat its deficit target for the seventh year in a row. By continuing to beat its fiscal targets, the government's accumulated deficit is $30 billion lower than it otherwise would have been.

CHART 2.1 Ontario's Record against Deficit Targets



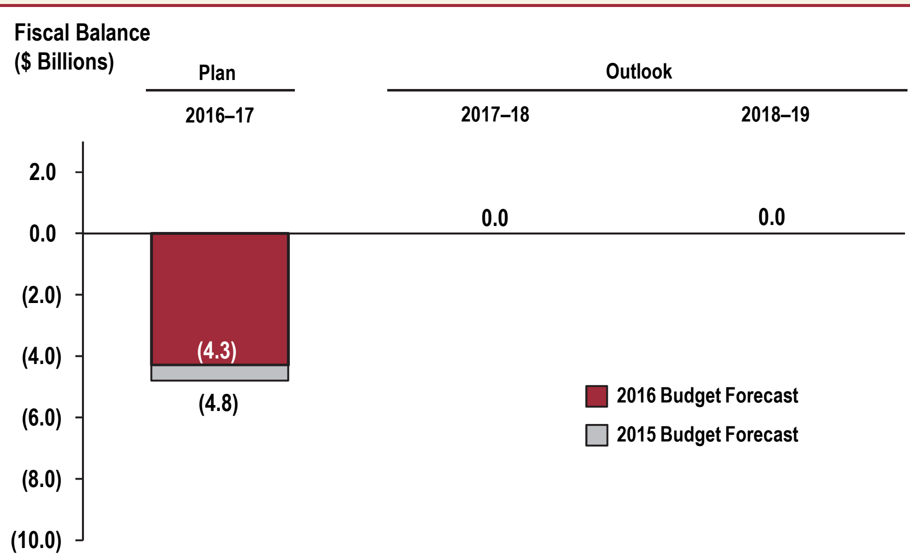
[1] Represents current forecast for 2015–16. For 2009–10 to 2014–15, actual results are presented.
[2] Forecast for 2009–10 is based on the *2009 Ontario Economic Outlook and Fiscal Review,* 2010–11 to 2013–14 is based on the *2010 Budget*; 2014–15 is based on the *2014 Budget*; and 2015–16 is based on the *2015 Budget*.
Source: Ontario Ministry of Finance.

The government is projecting a deficit of $4.3 billion in 2016–17, which reflects an improvement of $0.5 billion compared with the 2015 Budget forecast.

Ontario is also projecting it will meet its commitment to return to balance in 2017–18 — the result of a plan to eliminate the deficit that was first laid out in the *2010 Budget*. Achieving balance will put net debt-to-GDP on a declining track.

With the economy expected to continue to grow, and the Province's ongoing commitment to transform government programs and services, Ontario is well positioned for long-term sustainability and is projecting to remain balanced in 2018–19.

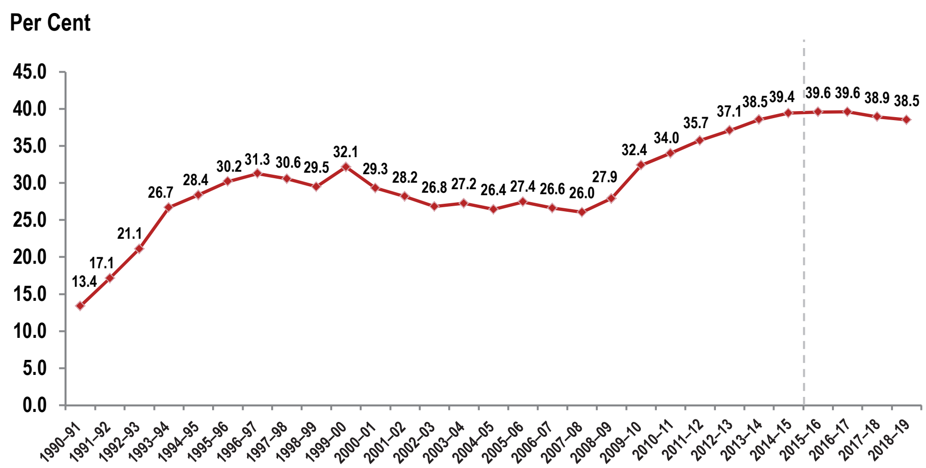
CHART 2.2 Ontario's Plan to Eliminate the Deficit



Source: Ontario Ministry of Finance.

As an indication of greater sustainability in the Province's management of its debt, net debt-to-GDP is expected to peak at 39.6 per cent in 2015–16, remain level in 2016–17 and begin to decline in 2017–18.

CHART 2.3 **Net Debt-to-GDP, 1990–91 to 2018–19**



Notes: Net Debt has been restated to include Broader Public Sector Net Debt, starting in 2005–06. Historical Net Debt-to-GDP has been revised to reflect historical GDP released by Statistics Canada in November 2015.
Sources: Statistics Canada and Ontario Ministry of Finance.

Responsible Fiscal Management

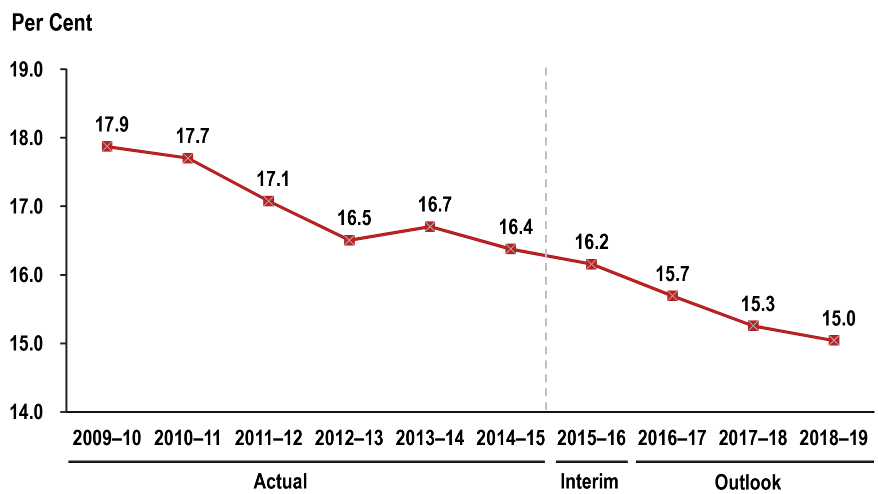
Ontario will continue to build on its proven track record of responsible fiscal management.

Supported by the outlook for continued economic growth, revenue is projected to grow by an average annual rate of 4.6 per cent between 2014–15 and 2018–19. An increasingly competitive global economic environment and ongoing uncertainty pose risks to these projections.

The program expense outlook over the medium term is projected to be higher in each fiscal year than forecast in the *2015 Budget*, growing at an average annual rate of 1.9 per cent over the 2014–15 to 2018–19 period. This reflects the government's commitment to invest in priority areas to enhance public services, support economic growth and a low-carbon economy, and create jobs.

As the Commission on the Reform of Ontario's Public Services indicated, slowing the rate of growth in program spending is essential for balancing the budget by 2017–18. The Commission indicated that, in the absence of measures to slow growth in spending, program expense would grow at an average annual rate of 3.5 per cent. Between 2010–11 and 2014–15, responsible fiscal management resulted in the Province's total expense growth being held to an average annual rate of 1.5 per cent — in line with the Commission's recommended growth rate of 1.4 per cent. In addition, program spending has fallen to 16.4 per cent of GDP in 2014–15, lower than the 17.9 per cent reached in 2009–10. Even with the government's planned investments, program expense-to-GDP is expected to fall to 15.0 per cent by 2018–19. Ontario was the leanest government in Canada, with the lowest per-capita program spending of any province in 2014–15, and is projected to remain so in 2015–16.

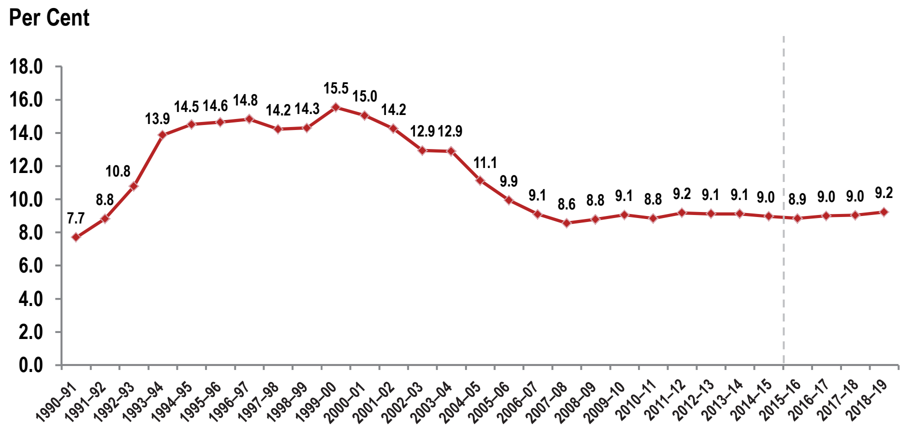
CHART 2.4 **Ratio of Program Expense to GDP, 2009–10 to 2018–19**



Sources: Statistics Canada and Ontario Ministry of Finance.

The Province is projected to spend nine cents of every revenue dollar received on interest in 2016–17. Ontario's ratio of interest on debt-to-revenue continues to be stable. This ratio is lower than in the 1990s and 2000s, and is forecast to remain lower through the outlook period in 2018–19.

CHART 2.5 **Interest on Debt as a Per Cent of Revenue, 1990–91 to 2018–19**



Source: Ontario Ministry of Finance.

The following sections of this chapter outline measures the government is taking to achieve a balanced budget by 2017–18 and secure the Province's long-term fiscal sustainability.

Section B: Transforming Government and Managing Costs

Program Review, Renewal and Transformation

Launched in 2014, Program Review, Renewal and Transformation (PRRT) introduced a new approach to planning and budgeting. Led by the President of the Treasury Board/Deputy Premier and supported by a sub-committee of Treasury Board/Management Board of Cabinet, PRRT is both the government's ongoing fiscal planning and expenditure management approach and a continuous review of programs, including public services and internal administration. It is designed around four key principles:

- Examining how every government dollar is spent;
- Using evidence to inform better choices and improve outcomes;
- Looking across government to find the best way to deliver services; and
- Taking a multi-year approach to find opportunities to transform programs and achieve savings.

Program Review, Renewal and Transformation is about more than saving money — it is a continuous planning approach focused on improving outcomes for government programs and services to ensure they are effective, efficient and sustainable.

An important success factor of PRRT is increasing the government's capacity for evidence-based decision-making. At its core, this is about identifying the outcomes government wants to achieve, ensuring the best available evidence and analysis informs the government's decisions, and tracking the performance of public services to make sure Ontarians get the best results and value for money.

The Province is building this capacity in a number of ways. The new Centre of Excellence for Evidence-Based Decision-Making, launched in the *2015 Budget*, is setting standards for the use of evidence and tracking of performance across government, and equipping public service staff with the necessary tools and training. Through PRRT, key performance indicators are being identified for major programs, and performance measurement data will be monitored to track whether the government is achieving success on its priorities — and where more work is needed.

What Does Success Look Like?

The government is already using key performance indicators to report on priorities, such as the Poverty Reduction Strategy, to track progress and demonstrate the impact of public investments. Education is key to breaking the cycle of poverty — high school graduation has increased from 68 per cent in 2004 to 84 per cent in 2014. Ongoing monitoring of key indicators is helping to better understand which investments are working and where additional efforts are needed to target the root causes of poverty.

By identifying desired outcomes, and tracking progress towards these outcomes, the government and Ontarians can better assess whether a program has worked as it should, was effective, and investments were worthwhile and efficient.

The government will leverage its relationships with experts across Ontario to build an external network that supports evidence-based policy making. This will include academic research and other types of organizations that can guide efforts to improve decision-making. It will also include the new academic Centre for Evidence in Health in All Policies and a new Institute for Fiscal Studies and Democracy Canada affiliated with the University of Ottawa.

The Behavioural Insights Unit (BIU) is helping ministries apply insights from the behavioural sciences to design and implement policies and programs that are more effective, efficient and human-centric, in alignment with PRRT goals. Building on recent successes, in 2016 the BIU will focus on supporting initiatives that:

- Optimize digital services;
- Advance the goals of the Poverty Reduction Strategy;
- Improve the health and well-being of Ontarians; and
- Promote regulatory approaches that are less burdensome to businesses.

Progress through Program Review, Renewal and Transformation

Program Review, Renewal and Transformation is helping the government achieve better outcomes while also lowering costs. The primary focus of this transformation is on ensuring that services are delivered efficiently and in a way that effectively meets Ontarians' needs.

Achieving Savings Targets

The government continues to have a strong track record in managing spending. Prior to the development of PRRT, the *2014 Budget* announced that the government was implementing a program review savings target, set at $250 million for 2014–15 and $500 million for 2015–16.

The government met its $250 million savings target for 2014–15.

In the *2015 Budget*, the government identified a number of major initiatives to modernize public services, improve outcomes for Ontarians and support the Province's fiscal objectives.

As a result of these initiatives and other opportunities identified through PRRT to manage expenditures and improve program effectiveness, efficiency and sustainability, the government will meet the $500 million target for 2015–16.

Achieving the 2015–16 Program Review Savings Target

The government will meet its $500 million program review savings target through such initiatives as:

- Negotiating lower prices for goods and services, achieving savings of approximately $7 million from contracts related to government cellular phone plans and toll-free lines.
- Achieving approximately $56 million in savings, through the consolidation of data centres, early vendor payments and lower contract costs, including for software and IT consulting services, laboratory supplies and security services.
- Ensuring the sustainability of the Ontario Drug Benefit Program and patients' access to drugs by continuing to make the program more efficient and effective. The changes enable the government to achieve savings of $106 million in 2015–16 and will enable over $200 million in savings annually when fully implemented, including optimizing the quantities of medication dispensed, adjusting some dispensing payments and practices, and maximizing the use of generic drugs.
- Making changes to the Second Career program by removing client targets for service providers, while ensuring that funding supports all eligible clients. These changes are generating approximately $40 million per year in ongoing savings and will enable the government to invest in the Canada–Ontario Job Grant and the renewed Ontario Youth Jobs Strategy.
- Reducing employee benefits costs by approximately $207 million.
- Reducing the government's office footprint. As of January 2016, the government had reduced its office footprint by approximately 820,000 rentable square feet. That is over 60 per cent of the Province's target, with estimated savings of $24 million in 2015–16.
- Achieving approximately $30 million in savings by leveraging and reusing existing assets and other one-time savings opportunities.
- Effective contract management and operational efficiencies in business support programs, resulting in approximately $22 million in savings. Future savings may be realized through an ongoing review of business support programs.
- Modernizing the delivery of programs in the Ministry of Natural Resources and Forestry, and the Ministry of Northern Development and Mines, saving $19 million.

Moving Forward with Program Review, Renewal and Transformation

Program Review, Renewal and Transformation will remain focused on improving outcomes for government programs and services to ensure they are effective, efficient and sustainable.

This may mean redesigning policies to support greater cooperation within government, modernizing program delivery, and changing or ending programs that do not meet people's needs.

Through cross-ministry horizontal collaboration, the government is taking focused action on major transformation and efficiency initiatives that will improve outcomes for Ontarians while helping to free up resources to reinvest in key priorities, such as health care and education.

TABLE 2.1 Major Transformation and Efficiency Initiatives, 2016–17 to 2018–19 ($ Millions)[1]

Initiatives		Expected Outcomes
Government Modernization		
Digital Action Plan		Transforming government service design and delivery, including creating Ontario's first-ever digital service to drive change across government.
Modernizing Information & Information Technology (IT)		High-performing IT solutions that provide greater value for money, lower delivery risks and enable effective transformation of public services.
Transfer Payment Administration Modernization		An easier process for recipient organizations to work with government so they can focus on their core business, and enabling government to maximize outcomes by allocating resources based on evidence.
ServiceOntario Modernization		Improved digital service design and delivery for a better and more convenient service experience.
Annual Fiscal Impact, Subtotal	15–130	
Sector Transformation		
Managing Health Care Spending and Growth		Improved patient experience and more equitable access to better integrated health services. Progress towards a redesigned public drug program that will be sustainable over the long term, simpler and easier to use, with a vision of increased fairness and equity among beneficiaries.
Benefits Transformation		Shifting from a program-by-program to a citizen-focused approach to benefits delivery will make it easier for people to access income-based benefits, while ensuring programs are administered efficiently.
Justice Sector Transformation		A more modern justice system that is client-centred, community-based and focused on prevention.
Annual Fiscal Impact, Subtotal	155–705	
Program Effectiveness and Sustainability		
More Effective Business Supports		Business support programs that more effectively support economic growth, innovation and expanding exports.
Simpler, Better-Targeted Postsecondary Student Financial Assistance[2]		Reduced complexity and more timely and better-targeted student financial aid to those who need it most.
Service Fees and Non-Tax Revenue[3]		A consistent, well-managed fee system that balances end-user needs with the objective of sustaining public services.
Tax Expenditures		Ending tax credits that have low take-up or do not effectively achieve desired outcomes and overlap with support provided through other provincial programs.
Annual Fiscal Impact, Subtotal	375–690	
Subtotal	**545–1,525**	
Annual Year-End Savings Target	800–1,000	As in past years, the Year-End Savings provision reflects efficiencies through in-year expenditure management and underspending due to factors such as program management, and changes in project startups and implementation plans.
Total	**1,345–2,525**	

1 Annual impact. Fiscal impact increases over time as initiatives mature. Savings estimates will be refined through implementation.
2 Fiscal impact is generated through eliminating tax credits.
3 Fiscal impact is generated through additional revenue.
Note: Numbers may not add due to rounding.

Government Modernization

Digital Action Plan

In today's digital age, people expect to be able to connect with their government anytime, anywhere, on any device. The Ontario Digital Government Action Plan will serve as a public roadmap for Ontario's digital transformation — setting new organizational standards, identifying key projects to drive change, empowering the next generation of digital talent and shifting government culture to deliver the best possible customer experience. See Chapter I, Section G: *Making Everyday Life Easier* for more information.

Modernizing Information and Information Technology

The government's information and information technology (IT) systems are the backbone of many public services. Every year, the government processes 185 million OHIP medical claims, more than 14 million mobile Ontario Student Assistance Program (OSAP) views, and over 200,000 online driver's licence renewals. While investment in government information technology has remained relatively stable at over $1 billion annually, the Province has made steady progress in improving IT operations while managing significantly increased demand for more and new services over the past decade. It has found efficiencies through negotiating better contract pricing, better management of fee-for-service consulting costs, consolidating data hosting operations, and more efficiently designed and delivered IT systems.

In the *2015 Budget*, Ontario announced a benchmarking review of its IT capability, led by an independent third party. Based on the evidence and findings of this review, the government is undertaking a series of initiatives to further lower IT costs and improve how technology supports the delivery of government programs and services. Through the first phase, the government will improve IT productivity and cost efficiency to achieve $100 million in annual savings by 2020. The second phase will focus on modernizing how IT supports government business and citizen-centred service delivery, including management and oversight of projects, more agile technology development, risk management and procurement.

Transfer Payment Administration Modernization

There are thousands of transfer payment recipient organizations across Ontario, which provide a range of vital public services on behalf of the government. These include health services, social services, employment and cultural programs, to name a few.

The Province is modernizing the processes and rules for administering transfer payments so that delivery partners can spend more time planning, coordinating and enabling the outcomes they have committed to deliver.

The government is introducing a registration process through a one-window, online system. Recipient organizations will register once to create an online profile. They will be able to submit information and related documents online and easily update information on the system as required. This modernized approach will create administrative efficiencies and savings for recipients and for government.

In addition, requiring transfer payment recipients to provide their Canada Revenue Agency business number will allow a better view of the financial relationship between the government and recipient organizations. Recipient organizations will have much easier access to complete and accurate account information, and the government will have easy access to information that supports improved risk management and evidence-based decision-making.

"A single registration platform for all non-profits that receive provincial transfer payments will reduce the administration burden and ensure more efficient use of our resources. Simpler and more transparent for all of us!"

Cathy Taylor, executive director, Ontario Nonprofit Network.

ServiceOntario Modernization

ServiceOntario delivers efficient, high-quality services to people, businesses and other clients. As part of its modernization plan, ServiceOntario will apply customer-centric "digital-by-default" principles to redesign key online services, making them simpler and more convenient while ensuring the integrity of customer information. These design principles will help direct clients to more convenient service delivery channels, as recommended by the Commission on the Reform of Ontario's Public Services.

At the same time, ServiceOntario will ensure high-quality service through its in-person and other delivery channels for those who cannot access services online. See Chapter I, Section G: *Making Everyday Life Easier* for more on ServiceOntario modernization.

Sector Transformation

Managing Health Care Spending and Growth

The government continues to work towards implementing system reforms that place patients at the centre of the health care system, while delivering services in a fiscally sustainable manner. Ontario has made significant progress in reducing annual growth in health care spending from about seven per cent to about two per cent.

To deliver a patient-centred health care system, the government must pursue systemic change to modernize health care and maximize the value of investments. For example, changes are underway to better integrate primary care with home and community care under Local Health Integration Networks (LHINs). Integration of the health system will improve patient care while achieving efficiencies in the overall health sector.

Ensuring the Sustainability of the Ontario Drug Benefit Program

Advances in pharmaceuticals and the increasing complexity of drug regimens are driving up the cost of drugs. To help ensure that Ontario's public drug program benefits are sustainable over the long term, it will be important to target benefits to those most in need. Ontario's six public drug programs have varying eligibility rules and co-payment arrangements that have not been revised for two decades.

As part of Ontario's Patients First: Action Plan for Health Care, the government will introduce a redesigned public drug program by 2019. The new program will improve long-term sustainability while ensuring access to prescription drugs for people who need them. It will be simpler and easier, and increase fairness and equity among beneficiaries. The redesigned drug program would effectively coordinate with individuals' private insurance benefits and increase equitable access to medications. The government will release a vision paper and launch public consultations in spring 2016 to inform the design of the new Patients First Drug Program.

Before transitioning to the Patients First Drug Program, the government will take steps to update the current Ontario Drug Benefit (ODB) Program for seniors by increasing the income-eligibility thresholds for the low-income seniors' benefit and making changes to co-payments and deductibles for other seniors. With these changes to the ODB, seniors in Ontario will continue to have among the lowest out-of-pocket expenditures for prescription drugs in Canada.

Starting August 1, 2016, the income thresholds to qualify for the low-income seniors' benefit will be increased from $16,018 to $19,300 for single seniors and from $24,175 to $32,300 for senior couples. Low-income seniors who receive public drug benefits will continue to pay up to a $2 co-payment per prescription with no annual deductible.

To help ensure Ontario's public drug programs are sustainable, seniors with incomes at or above the updated income thresholds will see adjustments to their ODB contributions for their prescription drugs. Starting August 1, 2016, the annual deductible under the ODB for seniors will be increased from $100 to $170 and the co-payment per prescription will be increased from $6.11 to $7.11 per prescription.

Current cost-sharing arrangements will be maintained for people, including seniors, who receive their public drug benefits through Social Assistance, Long-Term Care Homes, Homes for Special Care, Home Care and the Trillium Drug Program.

Income Testing

Income testing helps target benefits to those most in need while helping to ensure that programs are sustainable over the long term. Over the next year, the government will continue to review programs to determine where benefits could be better targeted.

Assistive Devices and Supplies Program

The government will target benefits for its Assistive Devices and Supplies Program (ADSP) as program costs are projected to rise in the near future. The growth is primarily attributed to Ontario's aging population and the increasing number of individuals requiring assistive devices. As a first step, the Province will examine funding criteria for the continuous positive airway pressure (CPAP) machines used for sleep apnea to ensure the benefit is targeted to individuals who need it.

Benefits Transformation

The Province provides a wide range of direct and in-kind benefits across a spectrum of needs including health, dental, housing and child care. To streamline access, Ontario is exploring initiatives that include online applications for multiple benefit programs and increased automation of back-office functions.

To support these initiatives and build on the positive steps taken to improve the way benefit programs are delivered, the government is proposing new legislation that would enable integrated program administration with broadened information sharing and modernized privacy frameworks.

Justice Sector Transformation

The justice sector is undergoing long-term transformation to create a justice system that is more modern, client-centred, community-based and focused on prevention. The government has successfully transformed Ontario's youth justice system to fully align with the principles and provisions of the federal *Youth Criminal Justice Act.* Transformation has created a continuum of community-based and custodial programs and services to improve outcomes for youth, successfully transition them out of custody and create opportunities for youth at risk. The overall youth crime rate in Ontario has been reduced by 46 per cent since the introduction of the Act in 2003.

In line with youth justice transformation, the Province is repurposing the Roy McMurtry Youth Centre, an underused youth justice facility, to meet the unique environmental and programming needs of adult female offenders, including those who require specialized mental health services.

The government will be constructing smaller, strategically located and program-appropriate facilities to effectively and efficiently support the programming needs of the youth justice system.

The ministries will continue to work together on cross-sector transformation opportunities to ensure Ontario's justice system provides programs and services that produce positive outcomes for individuals, local communities and public safety.

Program Effectiveness and Sustainability

More Effective Business Supports

The government is undertaking an ongoing review of business support programs through PRRT, building on the recommendations of both the Commission on the Reform of Ontario's Public Services and the Ontario Auditor General, including an enhanced focus on measuring program performance, increasing transparency about how funding decisions are made, and improving coordination across the government's business support programs. For example, moving forward, the Eastern Ontario Development Fund, the Southwestern Ontario Development Fund and the Rural Economic Development Program will be better integrated with the Jobs and Prosperity Fund to help improve the coordination of regional support programs.

The review has assessed programs for effectiveness, efficiency, relevance, sustainability and alignment with the objectives of the Business Growth Initiative announced in the *2015 Ontario Economic Outlook and Fiscal Review*, with the goal of promoting a highly productive, innovation-based and export-focused economy. Based on these assessments, opportunities are being acted on to reduce spending in programs that are lower-performing or less aligned with government priorities.

Spending reductions will be reinvested in priority economic development opportunities, including the Business Growth Initiative outlined in Chapter I, Section A: *Fostering a More Innovative and Dynamic Business Environment.* The Province remains committed to delivering effective and targeted financial support through programs such as the Jobs and Prosperity Fund, marketing services, and collaboration with domestic and international partners. It also continues to foster the stability and development of Indigenous, rural and northern communities across the province.

Simpler, Better Targeted Postsecondary Student Financial Assistance

Ontario has made significant changes in recent years to enhance the Ontario Student Assistance Program (OSAP) to provide students with the financial support they need to get an education. Nevertheless, Ontario's student financial assistance programs are complex, often do not provide support when students need it, and do not help many disadvantaged students who cannot overcome financial barriers to access postsecondary education.

To address these gaps, the government will introduce a redesigned student financial assistance program that will be easier for students and their families to understand and access, and will shift the financial support upfront to reduce the "sticker shock" that limits access for many. It will improve access for students from lower-income families who truly need help in accessing postsecondary education. This simplified system will include one single major upfront grant for OSAP — the Ontario Student Grant (OSG), starting in September 2017. The OSG will replace the 30% Off Ontario Tuition grant, Ontario Student Opportunity Grant, Ontario Access Grants, and other grants offered by OSAP. Ontario proposes to discontinue the tuition and education tax credits. This reform is in line with recommendations by stakeholders, including student groups and the Commission on the Reform of Ontario's Public Services. All of the additional revenue from eliminating these tax credits would be reinvested to support the new OSG or other postsecondary, education, training and youth jobs programs. See Chapter V, Section A: *Tax Measures* for more information on the tax changes.

Further details will be available during 2016, with the redesigned OSAP program to be introduced for the 2017–18 school year. See Chapter I, Section C: *Investing in People's Talents and Skills* for more information.

Service Fees and Non-Tax Revenue

Service fees provide a means of ensuring that the costs of providing a program or service that has an individual benefit are paid by the beneficiary of that program or service, rather than by taxpayers in general. Examples of service fees charged in Ontario include fees charged for driver and vehicle licensing, camping in Ontario parks, fishing and hunting licences, court applications, liquor licences and event permits.

As noted by the Auditor General in 2009, Ontario's service fees, per capita, are among the lowest in Canada. Ontario is also one of the only jurisdictions in the country that does not regularly review service fees or index them to inflation. As a result, in most cases, service-fee revenue recovers only a portion of the associated expense, which results in the government having to subsidize a portion of the service from tax revenue. Managing service fees in a way that is fair, reasonable and balanced would ensure that fees are applied consistently and that the costs for providing these services are borne by those who use and benefit from them.

Service Fees and Non-Tax Revenue in Other Jurisdictions

The federal government, the provinces of Quebec and Nova Scotia, and the Northwest Territories have policies in place to permit indexation of service fees, where appropriate, to the rate of inflation. Saskatchewan and Newfoundland and Labrador have established processes to regularly review fee rates. In 2012, Quebec began to systematically review the costs of services to which existing or potential service fees apply, determine self-financing targets for each fee-based service, and index increases in fees annually at the same rate as any increase to the personal taxation system. In 2015, Alberta announced government-wide fee increases, including vehicle and driver licences, and introduced new court fees.

In the *2015 Budget*, the government announced that it would move forward with a multi-year strategy of managing fees while balancing end-user needs, consistent with Commission on the Reform of Ontario's Public Services' recommendations. The government will continue to move ahead in a strategic and measured way, just as it has over the last several years. The Province will review all fees in a way that is fair, reasonable and balanced, while eliminating certain fees that do not align with government priorities. Starting in 2017–18, fees will be adjusted annually to keep up with inflation, ensuring both the sustainability and quality of public services. This is consistent with what many other jurisdictions already do. As part of the government's ongoing review, all fees will be examined to ensure that broad objectives, such as ensuring services for vulnerable Ontarians, are not affected.

With the *2016 Budget*, some other important changes are being made. A review of court services produced a revised fee schedule and expanded access to mediation in family courts, while increasing the fee-waiver threshold to better ensure access to courts without impediment.

To support provincial roads and highways, the government will continue to update its licensing and vehicle validation fees. Other fees may be increased annually at the rate of inflation to keep up with the increasing costs of service delivery.

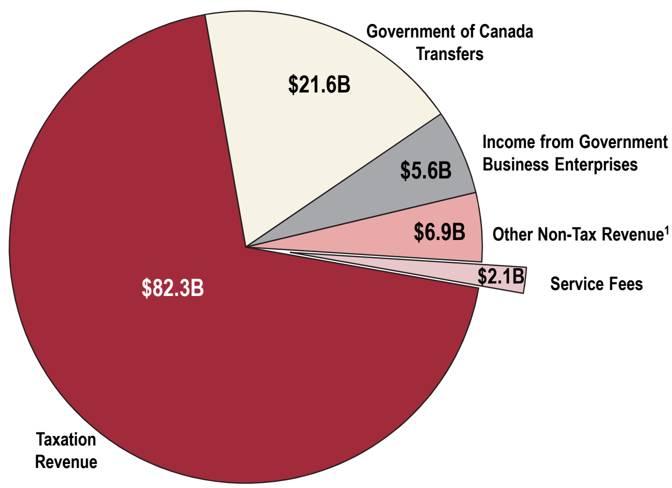
The government will be eliminating some fees, starting with licensing fees for adoption agencies or individuals to place children for adoption or to facilitate an intercountry adoption, and the Drive Clean emissions test fee.

As the review proceeds, the government will continue to identify additional opportunities to update fees to remove hidden subsidies while ensuring potential impacts on vulnerable Ontarians are considered. This responsible approach to managing service fees will help ensure that the costs for providing these services are paid by those who use and benefit from them, leaving more funding for government priorities such as health care and education.

In 2014–15, approximately $2.1 billion of provincial revenue, or 1.8 per cent, was derived from service fees. Chart 2.6 provides a detailed breakdown of all provincial revenue sources.

CHART 2.6 Sources of Provincial Revenue, 2014–15

Provincial Revenue: All Sources — Total $118.5 Billion



[1] Other Non-Tax Revenue includes revenue from royalties, fines and penalties, prior years' expenditures, reimbursement of expenditures, and other miscellaneous non-tax revenue sources.

Source: Public Accounts of Ontario 2014–2015.

Tax Expenditures

The government is proposing to end tax credits that do not effectively achieve desired outcomes and overlap with support provided through other provincial programs. See Chapter V, Section A: *Tax Measures* for further details.

- The Healthy Homes Renovation Tax Credit has had lower take-up than expected. The government provides other programs to help people with mobility-related disabilities or impairments live safely in their homes.
- The Children's Activity Tax Credit primarily benefits higher-income families who are less likely to need it to pay for their children's activities. Other existing programs support the objective of providing more opportunities for children and youth to stay healthy, such as the Healthy Kids Strategy.

Improving Outcomes and Evidence-Based Decision-Making

To improve programs, Ontario is moving towards a focus on evidence-based decision-making — gathering and analyzing the best available information to improve how outcomes are identified and achieved across government. Examples include:

- The government plans to continue to fund growth in community-based care of about five per cent per year to 2017–18, so patients receive care at or close to home and to avoid unnecessary and costlier stays in the hospital. In recent years, hospitals have introduced evidence-based funding that has supported shorter patient stays and more outpatient care, while maintaining excellent patient outcomes.
- Over the next three years, the government plans to invest an additional $75 million in community-based, residential hospice and palliative care, for a total investment of about $155 million over three years. This will bring the government's commitment to residential hospices to almost $55 million annually at maturity. This investment, while supporting the government's commitment for greater choice and access with respect to palliative and end-of-life care, funds a more cost-effective alternative than new hospital palliative-care beds.

- The government is investing $333 million over five years, to support redesigning and consolidating autism services in Ontario, so that more children and youth receive critical interventions sooner and achieve improved outcomes through services that are better matched to their needs. This includes transitioning older children currently waiting for and receiving more costly Intensive Behavioural Interventions to more appropriate services, based on research evidence.
- A shifting of resources from enforcement-driven to early, community-based interventions that implement programs and services to keep people out of the justice system and produce positive outcomes for individuals and local communities. This will, in turn, shift the focus from reactive policing to multi-sector initiatives involving both police and other local partners working together to reduce crime and help build safer, healthier communities.

Collective Impact for At-Risk Youth

The government is also exploring new ways to address complex social problems by piloting a Collective Impact (CI) approach to improve outcomes for youth not in employment, education or training.

Collective Impact is an innovative, outcomes-driven approach to making collaboration work between government, business, the philanthropic and not-for-profit sectors, and people to achieve significant and lasting social change. It is also a service delivery transformation approach that emphasizes integration across sectors, as well as within sectors for improved outcomes.

A number of jurisdictions are using CI to tackle complex social, economic and environmental issues that cannot be addressed by a single sector or program. One notable example of CI in Canada is Calgary's Plan to End Homelessness, which has led to a coordinated system of care. Since 2008, the plan has successfully delivered a 15 per cent reduction in homelessness in Calgary.

The Province is currently assessing CI pilot communities and determining how it can best partner with and support others to improve outcomes for local youth not in employment, education or training.

Strategic Plan for Public Service Renewal

The government is working to strengthen its public service to meet the needs of Ontarians.

A Talented, Motivated and Equipped Workforce

Ontario has a strong, proud track record as a top employer. In the last five years, the Ontario Public Service (OPS) has been named one of Canada's Top 100 Employers, one of Canada's Top Family-Friendly Employers, one of Canada's Best Diversity Employers and one of Canada's Greenest Employers.

With over 60,000 employees, continued workforce planning and engagement of employees is essential to organizational success and leadership into the future. The question of how to enable and sustain the development of a modern and inclusive OPS is one with which the government is actively engaged.

To ensure the OPS is the talented, inclusive, empowered and equipped workforce the Ontario government needs to deliver a high level of performance for Ontarians, the Province will be developing a strategic plan for public service renewal to ensure the public service has the diversity, skills and leadership capacity required to support innovation in the OPS. This plan will build on:

- The OPS HR Plan 2015–20: Building on our Strengths — Leading Change for the Future;
- The OPS Sexual Harassment Prevention Action Plan;
- The first-ever OPS Anti-Racism Action Plan;
- Recommendations to be made by the Advisory Panel on Management and Non-Bargaining Staff Recruitment and Retention, chaired by Don Drummond; and
- Digital, open government and evidence-based policy development approaches aimed at building capacity and skills and nurturing a positive, proactive and innovative culture in the organization.

Managing Compensation

Overview

The government remains committed to balancing the budget by 2017–18, and managing compensation costs remains a key element of achieving this goal. All public-sector partners must continue to work together to control current and future compensation costs.

Collective Agreements

The *2015 Budget* required any modest negotiated wage increases to be offset by other measures to create a net-zero outcome. Since then, net-zero outcomes have been reached in a number of key sectors, including the education sector, Ontario Public Service (OPS) and provincial energy corporations. These results are the product of hard work by all parties, and support the government's ongoing efforts to eliminate the deficit while protecting the valued public services on which Ontarians rely.

- The first round of education sector central collective bargaining under the *School Boards Collective Bargaining Act, 2014,* concluded with the successful negotiation of nine three-year agreements. The agreements support the government's net-zero compensation framework for the education sector.
- On October 30, 2015, the government and the Ontario Public Service Employees Union (OPSEU) ratified a three-year, net-zero collective agreement applicable to most of the union's OPS members. The agreement includes modest wage enhancements that are offset through changes to employee benefits and entitlements over the three-year term of the contract, including a freeze on salary progression in 2016 and 2017, and capping of termination payments.
- In the electricity sector, the Power Workers' Union ratified agreements with Ontario Power Generation in May 2015 and Hydro One in July 2015. Both three-year agreements will achieve a net-zero increase in total labour compensation cost over their term, largely through adjustments to workforce flexibility. The Society of Energy Professionals also ratified net-zero agreements with Hydro One in September 2015, and with Ontario Power Generation in November 2015.

On January 9, 2016, the government and OPSEU reached an agreement applicable to the union's OPS correctional members. The outcome is consistent with the fiscal plan as outlined in the *2015 Budget*. The agreement refers outstanding monetary issues to expedited mediation–arbitration. It also recognizes the critical work of correctional bargaining unit employees by providing a stand-alone collective agreement for future rounds of collective bargaining. Interest arbitration will be provided going forward as a dispute resolution mechanism, rather than the right to strike.

The government continues to work to improve the quality of care in the Ontario health system. In November 2014, the Honourable Warren Winkler was jointly appointed as a conciliator to assist the government and the Ontario Medical Association (OMA) in reaching a Physician Services Agreement. While an agreement was not reached, the conciliator urged the OMA to reconsider its rejection of the government's proposal.

While negotiations with the OMA have not yet resulted in a new Physician Services Agreement, the government has taken steps to implement its plan for the responsible management of physician service payments, achieving the Province's goal of staying within its fiscal framework. The government respects the OMA's right to represent all of Ontario's physicians and will continue to actively consult them on physician compensation. Responsible management of the health care system requires a predictable physician services budget so that the government can continue to make investments in other necessary services such as home and community care.

A significant achievement of the education sector agreements is that they build on the work of the Technical Working Group on Benefits led by Tony Dean, former Secretary of Cabinet, which brought key stakeholders together to establish a common understanding of the potential areas for benefits transformation. Included in these new three-year agreements is the realization of this transformation, through the streamlining of health, life and dental benefit plans in Ontario's education sector. This will result in one of Canada's largest consolidation and rationalization efforts to improve the cost-efficiency and delivery of benefits. Currently, there are more than 1,000 different benefit plans for teachers and education workers throughout Ontario's 72 school boards.

The cost, inconsistency and inefficiency of maintaining such a high number of plans presented the Province, school boards and federations/unions with an opportunity to unlock long-term savings through a modernization of benefits management and delivery.

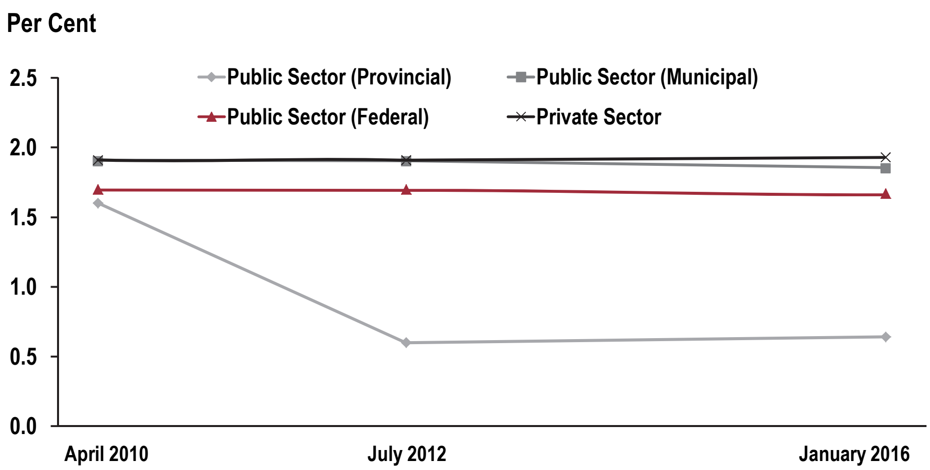
As a result, all individual benefit plans will be consolidated into a handful of provincial trusts, resulting in improved purchasing power and cost management. The goal of the trusts is to establish a harmonization of benefits throughout the education sector, eliminating the disparity that characterizes the current system and ensuring access to comparable benefits within the trusts.

To support this transformation of benefits in Ontario's education sector, the government is providing upfront investments, as committed in the *2013 Budget,* which will result in long-term efficiencies that extend well beyond these three-year agreements.

Ongoing Efforts

The government acknowledges the work of its public-sector partners to bargain responsibly and reach agreements that are consistent with the fiscal plan. This work has resulted in provincial public-sector average annual wage increases continuing to track below the municipal, federal and private sectors in Ontario since 2012.

CHART 2.7 **Ontario Public/Private Wage Settlement Trends**



Notes: Based on agreements with over 150 employees, ratified between April 1, 2010, and January 13, 2016. April 2010 represents the start of the government's compensation restraint mandate. The period from July 2012 to January 2016 represents the most complete picture of a full bargaining cycle across the public sector.
Sources: Ontario Treasury Board Secretariat and Ontario Ministry of Labour.

Specifically, from July 2012 to the present, the provincial public-sector annual wage increases have averaged 0.6 per cent, compared to the municipal sector at 1.8 per cent, the private sector at 1.9 per cent and the federal public sector in Ontario at 1.7 per cent.

Over the coming year, the government will continue to work with sector-level partners to assist in identifying possible opportunities to support mutually beneficial bargaining outcomes that are consistent with the government's Program Review, Renewal and Transformation priorities and the Province's fiscal plan.

Executive and Management Compensation

The government has taken a number of steps to manage executive and management compensation in both the OPS and the broader public sector.

Ontario Public Service

A balanced compensation approach recognizes the need to attract and retain talented leaders and individuals to ensure a modern, sustainable and inclusive OPS, while also remaining competitive with other public-sector peers.

In December 2015, the government created the external Advisory Panel on Management and Non-Bargaining Staff Recruitment and Retention, led by Don Drummond. The panel has been tasked with providing advice to ensure the OPS remains a modern and inclusive organization that continues to deliver high-quality public services.

As part of this, the panel will provide advice regarding a fair and sustainable compensation structure for OPS management and non-bargaining employees, including a performance incentive program linked to delivering on government priorities to reward those who exceed performance expectations.

The panel's advice will also inform an appropriate long-term compensation strategy to address retention, recruitment and succession planning.

Broader Public Sector Executive Compensation

In keeping with its commitment to manage executive compensation in the broader public sector, the government is developing sector-specific executive compensation frameworks.

Compensation information has been collected from all colleges and universities. Consultation, along with research on executive compensation at postsecondary institutions across Canada, is informing college and university frameworks that balance sector-specific considerations with the need to prudently manage public funds.

The government will continue to work with its partners in the broader public sector to collect compensation information and engage in consultation with affected sectors over the coming months.

Government Transparency, Financial Management and Fiscal Accountability

Ontario continues to act on opportunities to further strengthen government transparency, financial management and fiscal accountability, to help realize its fiscal plan and deliver government programs and services through enhanced stewardship of public funds.

Government Transparency

Continuing to Improve Agency Accountability, Transparency and Effectiveness

Effective agency management contributes to the efficient use of public funds and public confidence in agency service delivery. In 2015–16, the government introduced new measures to further strengthen its oversight of Provincial agencies and increase transparency and accountability across agencies.

Over the coming year, the Province will be taking steps to ensure that provincial agencies remain aligned with the expectations of the government and Ontarians. For example, the government plans to introduce “mandate letters” for every board-governed provincial agency, and make those mandate letters publicly available. By taking this step, Ontarians will be able to clearly understand the service and performance expectations their government has for Ontario agencies that provide goods or services to the people of the province.

In addition, all provincial agencies are now required to undergo a review of their mandate on a regular basis. By the end of 2015–16, mandate reviews for 57 provincial agencies will have been completed. By 2020–21, all provincial agencies will have undergone at least one mandate review.

In response to recommendations by the Auditor General in December 2015, the government is committed to making provincial agency annual reports publicly accessible in a more timely, streamlined and consistent fashion to enhance transparency and accountability.

Effective this year, the Integrity Commissioner has expanded authority to review the expenses of designated persons at all provincial agencies. These expenses are also required to be posted publicly on agencies’ websites.

To further support accountability to the public on agencies' use of powers and public resources, the government has implemented the requirement, announced in the *2015 Budget,* for board-governed agency Chairs and CEOs to attest to the integrity and reliability of their financial reports and their organization's compliance with legislation, regulations and directives. These attestations form part of activities underway to continually enhance existing government-wide accountability, internal control and assurance frameworks.

Other Accountability Measures

Changes to the *Lobbyists Registration Act, 1998,* are anticipated to be proclaimed into force in summer 2016. This will bring in new investigative powers for the Integrity Commissioner as Lobbyist Registrar, and new rules for lobbyists to add to the existing accountability and transparency measures already in place.

Recent Developments in Public Sector Accounting Standards

The government continues to work with the Public Sector Accounting Board (PSAB) on a number of initiatives, including PSAB's review of its standards on financial instruments and foreign currency translation. In 2015, PSAB extended the effective date for implementation of these new standards for senior governments by three more years to April 1, 2019.

The financial results of the Province's rate-regulated Government Business Enterprises (Ontario Power Generation Inc. and Hydro One Ltd.) are included in the Province's consolidated financial reports. The government is seeking clarification from PSAB as to whether, under its standards, the results of the entities under modified equity accounting can continue to be reflected on the same basis as they are prepared and filed for external reporting purposes to support consistency, transparency and accountability.

Financial Management

Interim Appropriation Act

The *Interim Appropriation for 2016–2017 Act, 2015,* received Royal Assent in December 2015 and will come into force on April 1, 2016, to provide interim legal spending authority for anticipated 2016–17 spending. All spending under this Act must be charged to the proper appropriation following the voting of supply for the 2016–17 fiscal year. This is expected to enable the government to continue operations until the Legislative Assembly has approved the 2016–17 Expenditure Estimates and a Supply Act is enacted.

Fiscal Accountability

Reporting and Designated Purpose Tracking

The government plans to propose amendments to the *Financial Administration Act* to support its financial reporting activities. This will include amendments developed as the government completes the appropriation accountability framework that supports tracking and reporting of cumulative revenue for designated-purpose commitments. This framework will provide assurance to the public that the government is delivering on its commitments to spend at least as much on identified purposes as it takes in through identified revenue streams.

Section C: Addressing the Underground Economy and Maintaining Tax Fairness

Underground Economy

Participation in the underground economy creates an unfair advantage for illegitimate businesses. When businesses fail to report their income for tax purposes or avoid meeting other regulatory obligations, consumer and worker safety is put at risk.

Since 2013–14, the government has made progress in fighting underground economic activities:

- The Province held consultations with high-risk sectors, with a view to partnering with industry and gaining insight into how best to tackle the underground economy.
- Through ongoing enhanced compliance-focused measures, including those that address underground economy activity in high-risk sectors, Ontario has generated over $930 million to date — a $330 million increase over the amount reported in the *2015 Budget*.

> The Tax Verification Program has been successful in verifying compliance with tax obligations for corporations seeking to do business with the provincial government. The government was able to work with non-compliant businesses to help them satisfy their tax obligations before starting work.

- The Province requires corporations to demonstrate compliance with federal and provincial taxes before receiving government procurement contracts. Since February 2014, the government has verified compliance for more than 2,200 contracts.
- The *Taxation Act, 2007,* was amended to make the sale, use or distribution of electronic sales suppression devices an offence.

The Province is continuing to focus on underground economy activities in all high-risk sectors, and will continue to take concrete action to better support consumer and worker safety, as well as provide a level playing field for legitimate businesses.

Going Forward

As committed to in the *2015 Ontario Economic Outlook and Fiscal Review*, Parliamentary Assistant Laura Albanese has been holding consultations with the residential construction industry on issues related to the underground economy. Ontario remains committed to continuing the conversation with this important sector with a view to supporting legitimate contractors and uncovering illegitimate activity.

Stemming from these consultations, Parliamentary Assistant Albanese has submitted a draft interim report to the Minister of Finance, “Addressing Ontario’s Underground Economy in the Residential Construction Sector,” recommending actions the Province could take to achieve a level playing field where all businesses play by the rules.

In line with these recommendations, the Province is prepared to move forward with:

- Extending its residential roofing pilot project for an additional two years and examining opportunities to expand its scope beyond roofing to other areas of residential construction. The residential construction sector has taken note of the pilot’s efficacy in delivering an integrated government approach.
- Developing a public awareness campaign that will seek to educate the public on the risks and potential liabilities associated with participation in the underground economy.
- Launching specialized audit teams to focus on sectors that are at high risk of underground economic activity, in partnership with the Canada Revenue Agency. These teams will consist of specialized auditors who will use advanced analytics and innovative enforcement tools to ensure everyone plays by the rules.

- Strengthening its ability to identify and address the underground economy by proposing legislation that would:
  - Enhance the way government gathers and uses information to target illicit activities typically associated with the underground economy;
  - Expand enforcement capabilities to ensure businesses have the proper permits, licences and other required documentation to be considered legitimate; and
  - Propose additional penalties to level the playing field for legitimate businesses.
- Enable partnering with natural gas utilities to help homeowners work with certified energy auditors and reputable contractors as part of the government's investment in home energy audits and retrofits under the Green Investment Fund.

Since 2014, the Province has undertaken a successful underground economy-focused pilot project in the residential roofing sector.

This pilot project included multiple ministries and resulted in significant action to address unsafe activities typically associated with the underground economy, including:

- Over 1,700 orders for compliance;
- Nearly 250 prosecutions initiated; and
- Over 550 information packages sent to homeowners and employers.

This pilot project also included a series of parallel, targeted inspections with the Canada Revenue Agency in summer 2015. In addition to the significant health and safety actions taken above, the pilot was successful in identifying instances of non-compliance with tax obligations.

Electronic Sales Suppression

In the *2015 Budget*, the Province made the use, possession and distribution of electronic sales suppression technologies an offence. Since then, further progress has been made. The government has concluded consultations with industry and other stakeholders on preventing electronic sales suppression and identified possible actions the Province can take to address this concern without being overly burdensome to legitimate businesses.

Ontario remains committed to working with industry and other interested parties over the coming months as it considers solutions, including software-based approaches that ensure sales integrity without the need for a physical device at the point of sale.

Collaborating with the New Federal Government

Ontario recognizes that a strong partnership in addressing the underground economy is critical to the success of initiatives at both the provincial and federal levels. To this end, the Province will continue to seek opportunities to partner with the new federal government to further ensure legitimate businesses in Ontario continue to thrive.

Contraband Tobacco

Low-cost contraband tobacco undermines the health objectives of the Province's Smoke-Free Ontario Strategy, results in less tobacco tax revenues for critical public services, and compromises public safety through links with organized crime.

The government remains committed to addressing contraband tobacco through a balanced approach of partnerships and compliance activities. The Smoke-Free Ontario Strategy is a central component of the Province's approach to tobacco.

Ontario has successfully delivered on a number of key initiatives outlined in the *2015 Budget*, and is building on these measures to take further action to address contraband tobacco.

- The government successfully implemented raw leaf tobacco oversight during the 2015 growing year. To date in 2015–16, approximately $19 million in raw leaf tobacco sales was reported by registered producers, accounting for approximately 20 million kilograms of raw leaf tobacco. To further enhance its oversight, the Province amended the *Tobacco Tax Act* in December 2015 to:
  - Require tracking labels to be affixed to bales and packages of raw leaf tobacco;
  - Include fines and penalties related to non-compliance with these tracking provisions and raw leaf tobacco registration requirements; and
  - Strengthen record-keeping and reporting requirements, and enhance information-sharing.
- A regulation prescribing labelling requirements for bales and packages of raw leaf tobacco and other requirements will be filed in time for the harvest season. The government will continue to monitor the results of its raw leaf tobacco oversight and propose future enhancements and amendments under the *Tobacco Tax Act*.
- A dedicated contraband tobacco enforcement team has been established by the Ontario Provincial Police. The team will be focused on addressing the links between organized crime and tobacco and will seek to combat and eliminate sophisticated contraband tobacco networks across Ontario. Links have been made between organizations involved in tobacco smuggling and more serious illegal activity, such as drug and weapons trafficking. The government may build on this initiative in the future, based on results.

- The government is also enhancing tobacco retail inspections by launching pilot projects with four public health units that will focus on seizing contraband tobacco and flavoured tobacco products. Working with select public health units, the Ministry of Finance and public health unit inspectors will be cross-designated under sections of the *Smoke-Free Ontario Act* and the *Tobacco Tax Act,* respectively, to identify and seize these products during retail inspections. The pilot projects will be operational in April 2016. Based on the results, future opportunities for cross-designation and additional locations will be considered.
- To build on its commitment to reduce the supply of key tobacco product components to unlicensed manufacturers, the government is seeking opportunities to work with its federal and provincial counterparts to regulate key components such as acetate tow, which is used to create cigarette filters.

Next Steps

In addition to building on compliance measures outlined in 2015, the government is taking further action on the distribution and purchase of contraband tobacco within the province. Ontario is proposing immediate legislative amendments that, if passed, would allow for the forfeiture of raw leaf tobacco. This initiative would create new deterrents to engaging in contraband tobacco distribution. In addition, the Province will examine the potential expansion of forfeiture provisions within the *Tobacco Tax Act.*

CHAPTER III

ECONOMIC AND FISCAL OUTLOOK

Section A: Economic Outlook

The Ministry of Finance is forecasting growth in Ontario real gross domestic product (GDP) of 2.2 per cent on average over the 2016–19 period. For prudent fiscal planning, these real GDP growth projections are slightly below the average of private-sector forecasts.[1]

TABLE 3.1 Ontario Economic Outlook
(Per Cent)

	2013	2014	2015p	2016p	2017p	2018p	2019p
Real GDP Growth	1.3	2.7	2.5	2.2	2.4	2.2	2.0
Nominal GDP Growth	1.9	4.1	3.6	4.0	4.6	4.2	4.0
Employment Growth	1.8	0.8	0.7	1.1	1.2	1.2	1.1
CPI Inflation	1.0	2.4	1.2	1.8	2.0	2.0	2.0

p = Ontario Ministry of Finance planning projection.
Note: Employment growth and CPI inflation are actuals in 2015.
Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario's economy is benefiting from solid economic growth in the United States and significant shifts in key external factors, such as reduced oil prices, a more competitive Canadian dollar and low interest rates. However, slower growth among emerging economies and plunging commodity prices have led to increased volatility in global financial and currency markets, and weakened confidence in the overall Canadian economy.

[1] Based on information available as of February 2, 2016.

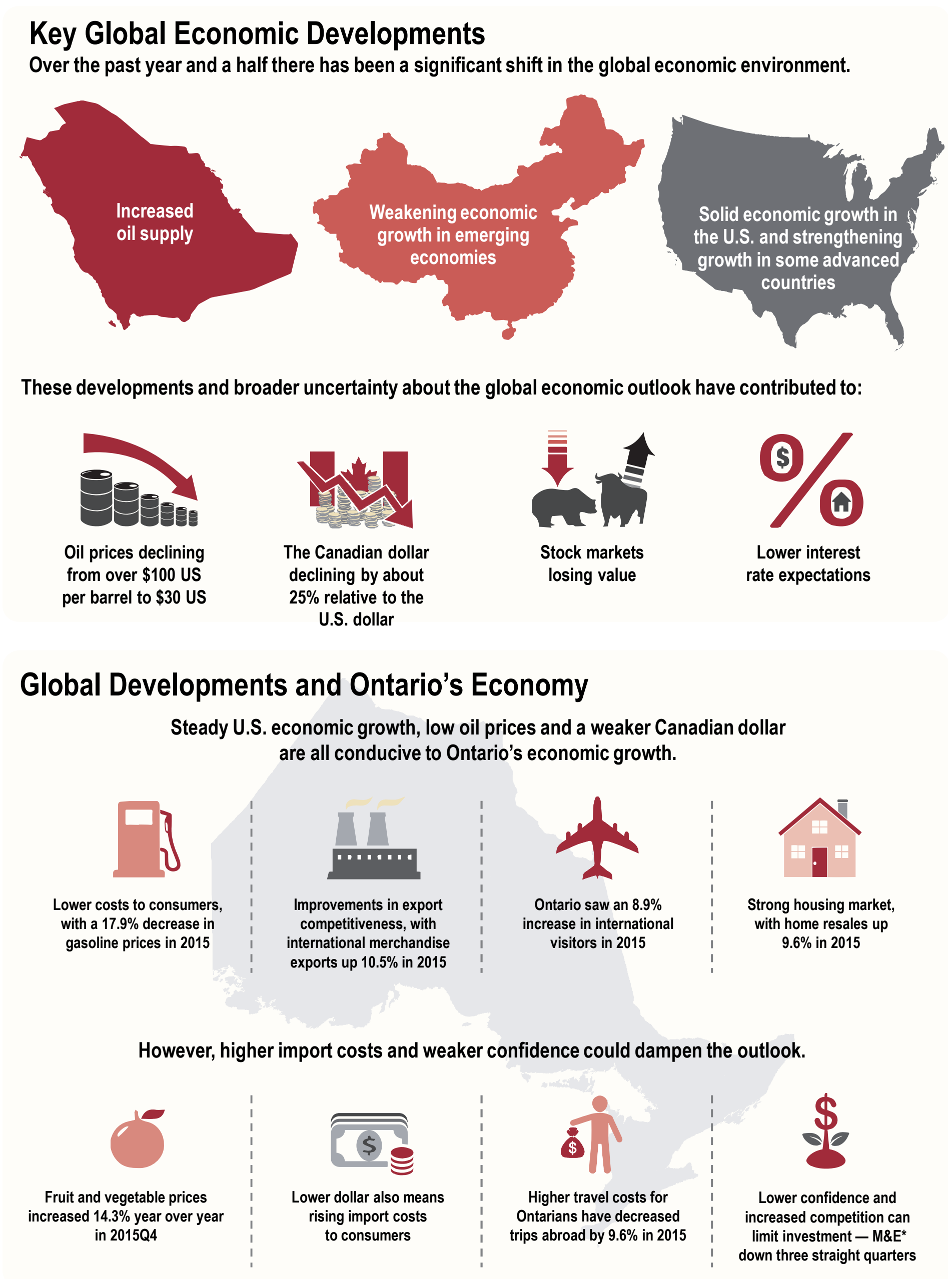
Shifting Global Economic Environment

Over the past year and a half, there has been a significant shift in the global economic environment. Growth in emerging and developing economies — notably China — has slowed, while economic growth in some advanced economies — particularly the United States — remains solid.

These developments, together with uncertainty about the global economic outlook, have contributed to dramatically lower commodity prices, notably for crude oil, with increasing supply adding to the downward pressure. In tandem with the drop in oil prices, the Canadian dollar has fallen against its U.S. counterpart, interest rates have declined and stock markets have lost value. This has shaken business confidence and left Ontario households unsure about the ultimate impact on their budgets and spending plans.

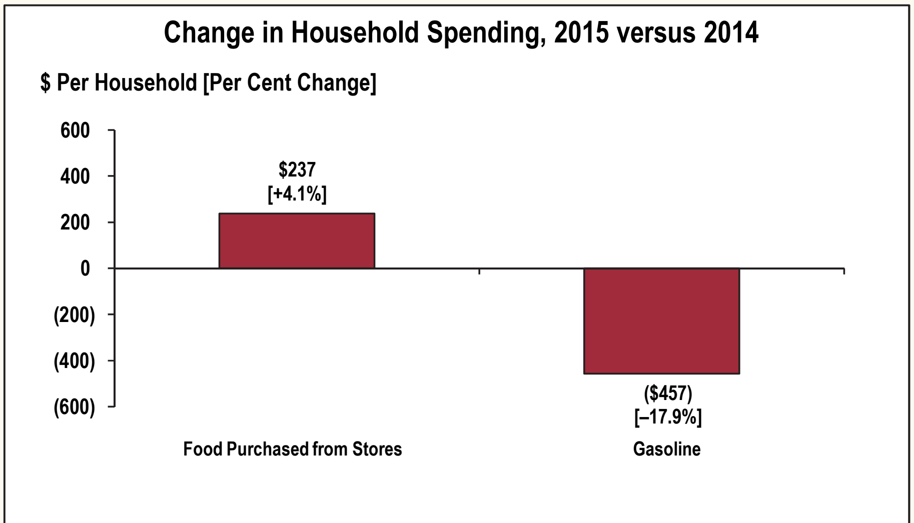
For example, while lower fuel prices have benefited households, the drop in the Canadian dollar has boosted the cost of imported food and other goods. Overall, the Ontario economy is expected to benefit from the shifting global economic environment as businesses capitalize on improving competitiveness. Households will also find firm support from an improving labour market, but there may be challenges related to the transitioning underway in the global economy.

CHART 3.1 **Shifting Global Economic Environment**



* M&E = Machinery and Equipment.
Sources: Statistics Canada, Ontario Ministry of Finance, IMF World Economic Outlook (January 2016), Bank of Canada, U.S. Energy Information Administration, *Blue Chip Economic Indicators* (February 2016), MarketWatch, Canadian Real Estate Association and Ontario Ministry of Finance Survey of Forecasters (February 2016).

Impact of Consumer Price Movements on Ontario Household Expenditures



Note: Incomes and spending patterns are held constant at 2014 levels.
Sources: Statistics Canada and Ontario Ministry of Finance calculations.

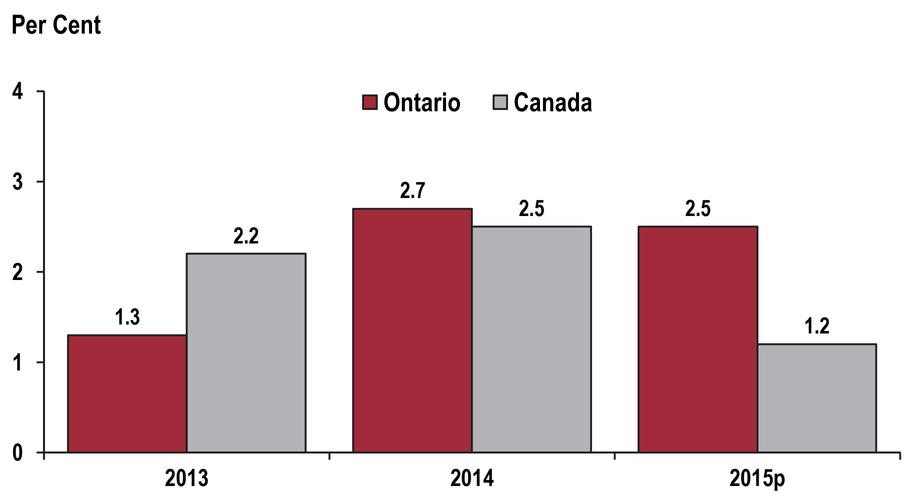
Changing economic factors are having different impacts on the prices of various categories of household spending. For example, a lower Canadian dollar has generally resulted in higher prices for food and other imports, while lower global oil prices have reduced the price of gasoline. Based on spending patterns in 2014 and movements in consumer prices over the last year, Ontario households would have, on average, paid $237 more for food bought in stores and saved $457 on gasoline.

Ontario's Recent Economic Performance

Despite the challenges stemming from an uncertain global economic setting, Ontario's economy continues to grow.

Ontario's real GDP increased by 2.7 per cent in 2014, strengthening from growth of 1.3 per cent in 2013 and outpacing the national average for the first time since 2002.

CHART 3.2 Ontario Real GDP Growth Outpacing Canada



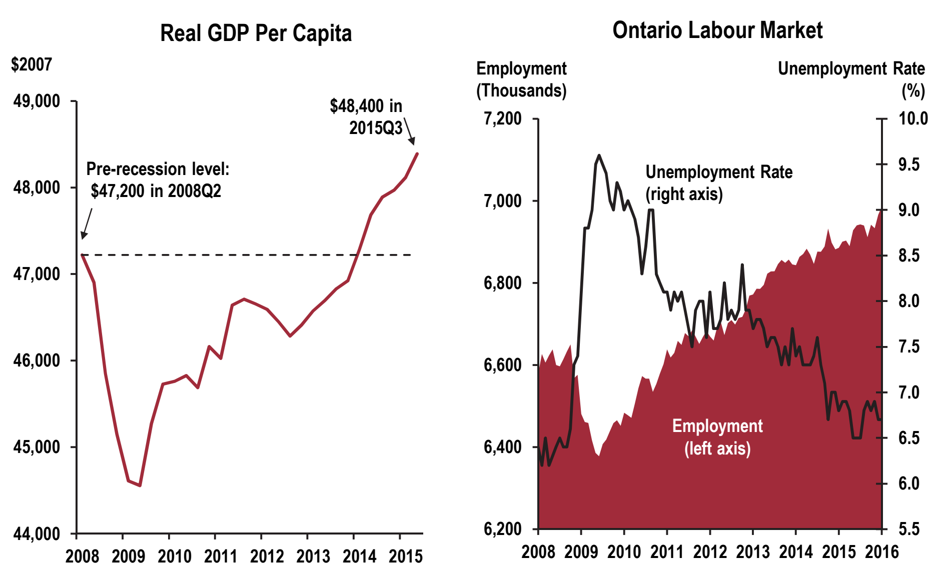
p = Ontario Ministry of Finance planning projection.
Note: Canadian growth in 2015 is based on the Ontario Ministry of Finance Survey of Forecasters.
Sources: Statistics Canada and Ontario Ministry of Finance.

After a slow start to 2015, when the economy was affected by a number of temporary factors, including unusually harsh winter weather, closures at auto plants for retooling, and a west-coast port strike affecting exports, Ontario's economic growth gained pace in the second and third quarters of 2015, with real GDP advancing 0.4 per cent and 0.9 per cent, respectively. The acceleration in growth was driven by a boost from exports and sustained growth in household spending.

Ontario's economy has fully recovered from the 2008–09 global recession. As of the third quarter of 2015, real GDP was 15.5 per cent above the recessionary low and 10.1 per cent above its pre-recession peak. When adjusting for population, real GDP also has posted solid gains, rising 8.5 per cent above the recessionary low and 2.5 per cent above its pre-recession peak.

Employment in Ontario was hit hard during the recession but has since recovered at a healthy pace. Over 600,000 net new jobs have been added since the recessionary low in 2009, with the majority in the private sector and in industries that pay above-average wages.

CHART 3.3 **Ontario's Strong Recovery from the Recession**



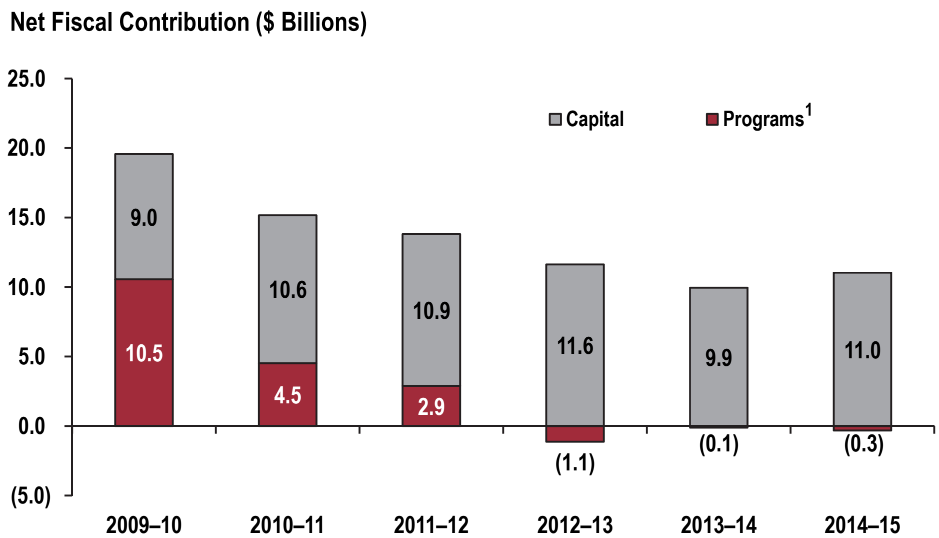
Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario's recovery from the global recession was driven by solid economic fundamentals, supported by long-term job recovery efforts by the government that included:

- Ontario's Tax Plan for Jobs and Growth, which helps build a more innovative and dynamic business environment;
- Supporting tomorrow's workforce through the modernization and transformation of the employment and training system, the Ontario Youth Jobs Strategy and investments in postsecondary education; and
- Significant infrastructure investments that bolster Ontario's long-term economic capacity and competitiveness.

These measures not only provided support for jobs and the economy, both during and immediately after the global recession, but also created a stronger foundation for future growth in Ontario.

CHART 3.4 **Ontario Government's Net Fiscal Contribution**



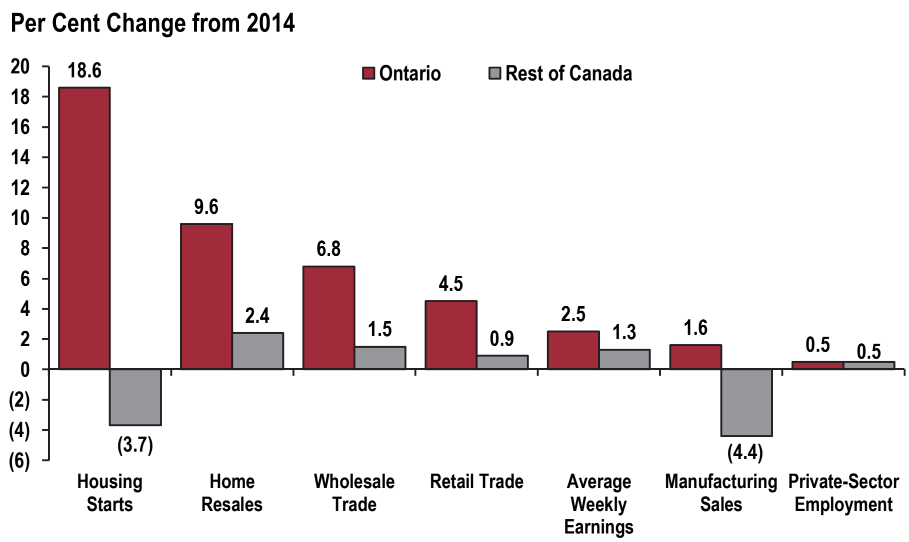
[1] Fiscal deficit minus interest on debt and the non-cash adjustment.
Sources: Ontario Ministry of Finance and Public Accounts of Ontario.

The Ontario government's plan for jobs and the economy, in response to the most severe global economic downturn since the Great Depression, included fiscal deficits and borrowing for capital. To help stimulate the economy and counter the effects of the recession, the government increased its net fiscal contribution both for capital and program spending, totalling $19.5 billion in 2009–10. As the recession eased, the government responsibly managed program spending while continuing supportive outlays on capital to improve the long-term competitiveness of the Ontario economy.

Ontario's Economy Outpacing Canada

Major economic indicators have shown stronger gains in Ontario compared to the rest of Canada in 2015. For example, indicators of business-sector activity, such as manufacturing sales and wholesale trade, have advanced more strongly than the average of the other provinces. On the consumer side, there have been stronger-than-average gains in retail sales and housing market activity.

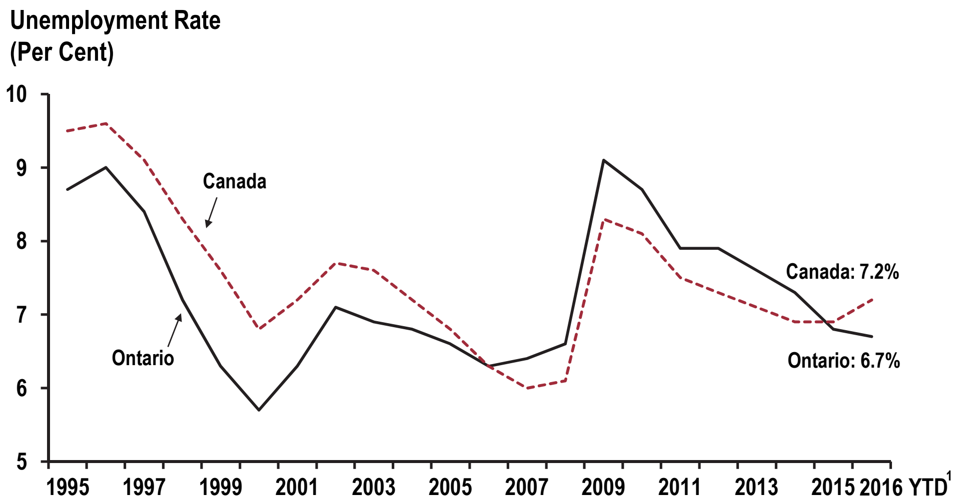
CHART 3.5 **Key Ontario Economic Indicators Outpacing Canada in 2015**



Notes: Figures for housing starts, home resales and employment are based on annual data. All other figures are year to date, compared to the same period in 2014.
Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Canadian Real Estate Association.

Ontario's unemployment rate continues to improve as the economy creates jobs. The unemployment rate declined from 7.3 per cent in 2014 to 6.8 per cent in 2015, a greater rate of improvement than any other province. As a result, Ontario's unemployment rate in 2015 moved below the national average for the first time since 2005.

CHART 3.6 Unemployment Rate Declining in Ontario

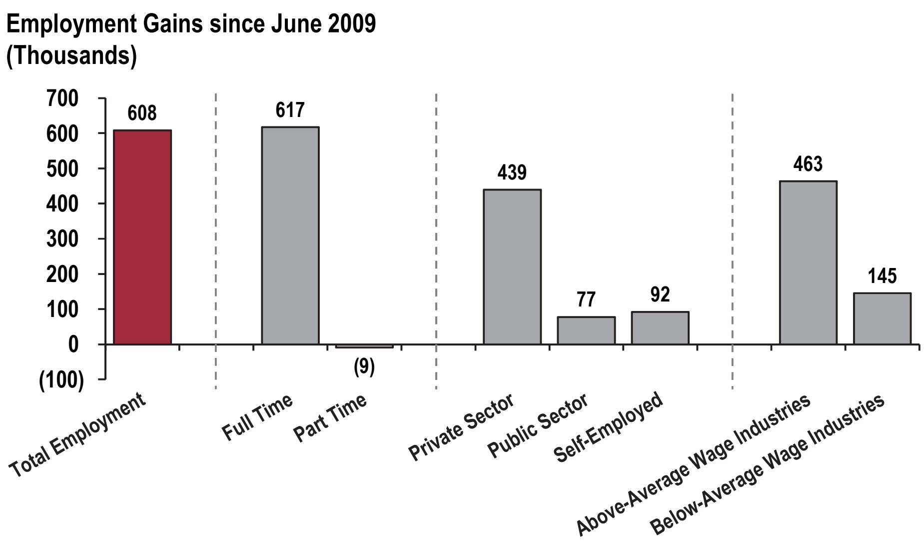


[1] January 2016.
Source: Statistics Canada.

Ontario Creating High-Quality Jobs

Ontario's employment gains since the recession have been concentrated in industries that pay above-average wages. In addition, most of the net new jobs were in the private sector and all in full-time positions.

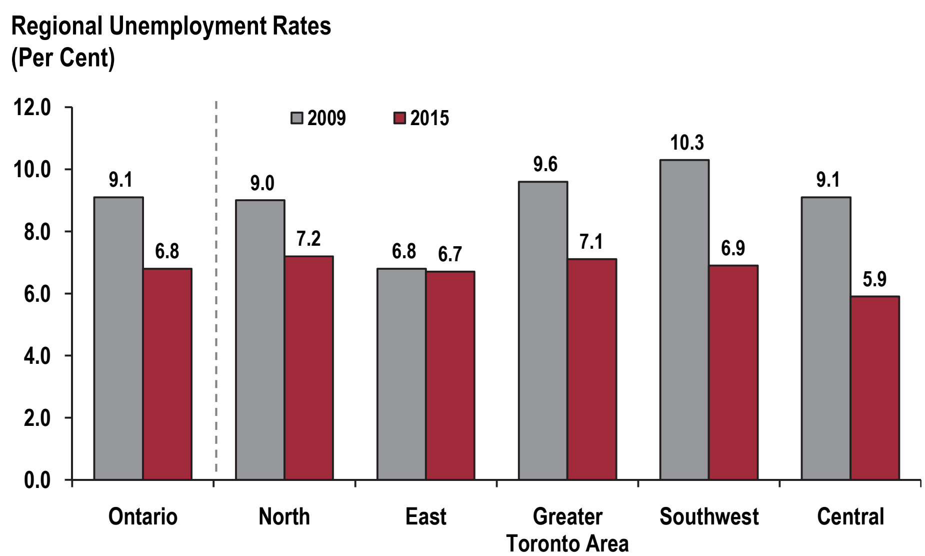
CHART 3.7 **Employment Gains Concentrated in Full-Time, Private-Sector, Above-Average Wage Industries**



Note: Above-average wage industries are defined as those with earnings above the average hourly earnings of all industries in 2015.
Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario's unemployment rate averaged 6.8 per cent in 2015, down from 9.1 per cent in 2009. All regions of the province have seen a decline in the unemployment rate over this period, though in differing degrees.

CHART 3.8 **Unemployment Rates Down in All Ontario Regions**

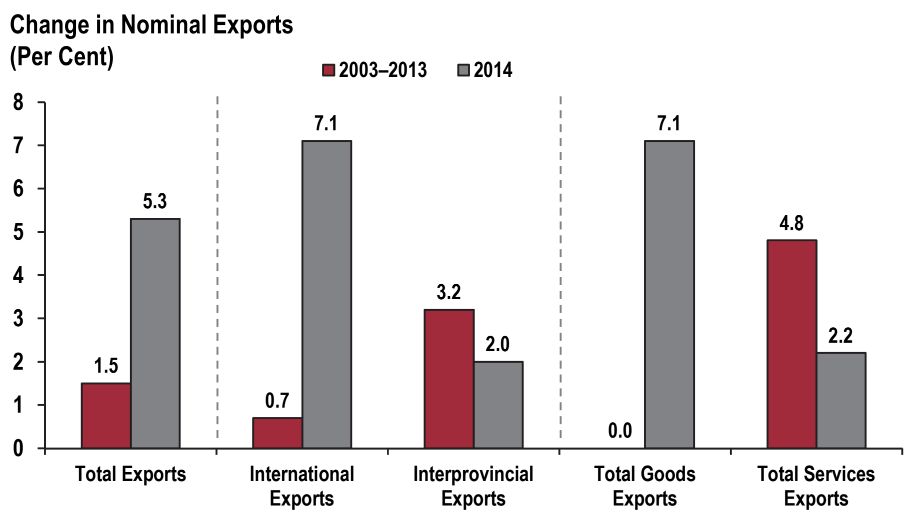


Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario Exports Up Strongly

The decline in the Canadian dollar has helped improve the competitiveness of Ontario's export sector. This, along with solid U.S. demand, has supported Ontario's trade performance. International exports increased by a strong 7.1 per cent in 2014, the fastest gain since 2011. Export gains were broadly based, with solid advances in consumer goods, industrial machinery and equipment, and automotive products.

CHART 3.9 **Ontario Exports Up Strongly**

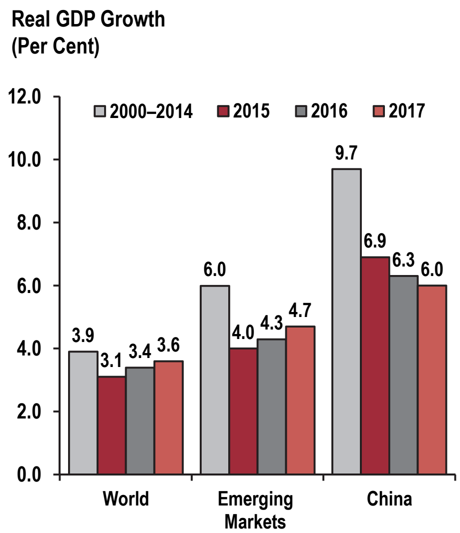


Note: Average annual growth rate for 2003–2013.
Sources: Statistics Canada and Ontario Ministry of Finance.

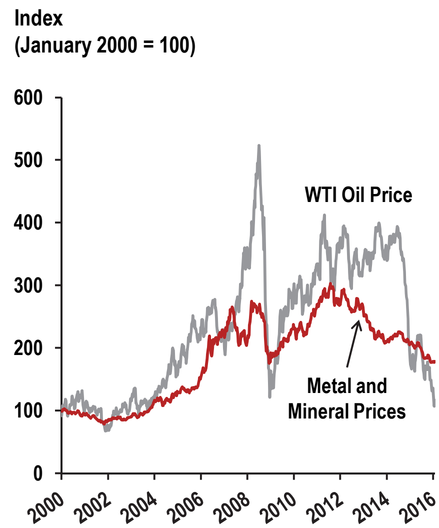
External Economic Environment

Global economic growth has softened, largely due to the deceleration in economic activity in emerging markets, particularly in China. In 2015, real GDP growth in emerging markets is estimated to have decelerated to 4.0 per cent, after averaging 6.0 per cent over the 2000–2014 period.

CHART 3.10 Emerging Markets Weighing on Global Growth



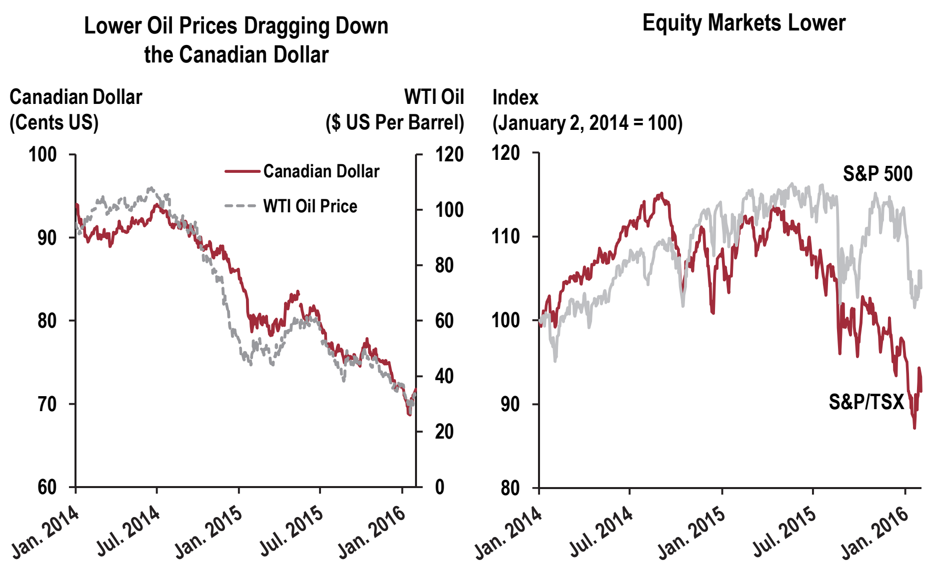
Source: IMF World Economic Outlook (October 2015 and January 2016).



Sources: Bank of Canada and the U.S. Energy Information Administration.

The repercussions of slower emerging market growth are being felt widely through lower commodity prices and increased volatility in financial markets. Equity markets have declined in many countries. Currencies of large commodity exporters, such as Canada, have also recorded significant depreciations relative to the U.S. dollar.

CHART 3.11 **Volatility in Commodity and Financial Markets**



Sources: Bank of Canada and U.S. Energy Information Administration.

On the other hand, economic growth in advanced non-commodity–based economies accelerated moderately in 2015. The eurozone has emerged from an uneven and prolonged downturn, while the U.S. economy continues to grow at a solid pace.

Global growth is projected to improve modestly in 2016 as advanced economies benefit from low interest rates and fuel prices. China's economic performance is expected to moderate further as it continues to struggle with financial instability and economic rebalancing. Commodity prices are expected to rise modestly, but remain well below recent peaks and weigh on economic growth in regions reliant on commodity exports.

Oil Prices

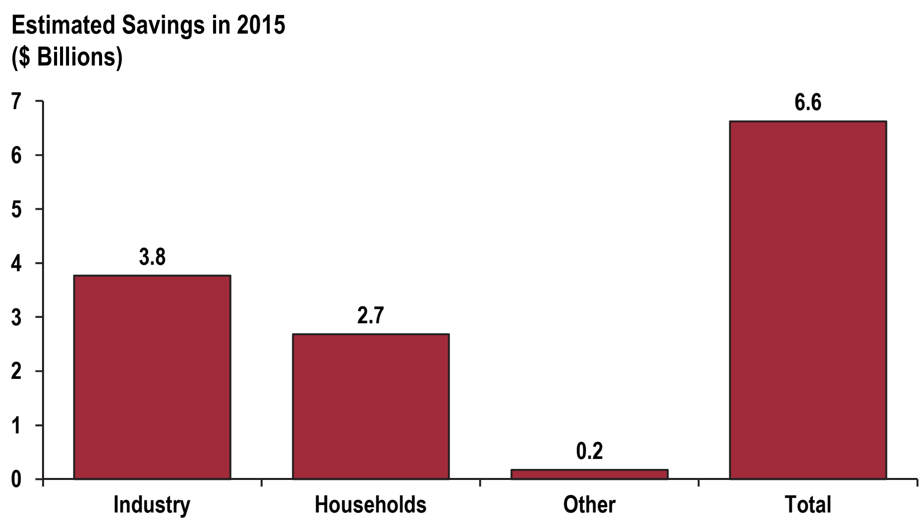
The price of West Texas Intermediate (WTI) crude oil declined by over 70 per cent from its June 2014 peak of $108 US per barrel to below $30 US per barrel in early 2016. Oil production in the United States has surged to its highest level in almost three decades, with significant new output from shale formations. Output from the Organization of the Petroleum Exporting Countries has also risen. At the same time, global commodity demand has softened, largely reflecting an economic slowdown in China.

Private-sector forecasts for the price of WTI oil are ranging from $37 US to $48 US per barrel in 2016, or an average of $42 US per barrel. Forecasters expect the price of oil to gradually increase over the medium term, reaching $67 US by 2019.

Lower oil prices translated into lower retail prices for gasoline, diesel and other refined products in 2015, benefiting consumers and businesses in Ontario. Assuming stable demand for gasoline and other oil products, and taking into account the depreciation of the Canadian dollar, Ontario consumers and businesses saved an estimated $6.6 billion in 2015. Of this, about $3.8 billion would accrue to firms and $2.7 billion to households,[2] which amounts to approximately $500 in savings for the average Ontario household.

In addition to spending on goods and services, consumers typically put a portion of their fuel cost savings towards paying down debt, and the rest they save.
At the same time, savings accruing to Ontario businesses lower costs and increase cash flow, which helps support stronger investment spending.

CHART 3.12 **Lower Oil Prices Providing Savings in Ontario**



Notes: Savings compare average prices in 2015 to 2014, adjusted for the exchange rate.
A small share of savings also accrued to government and the non-profit sector (“Other”).
Numbers may not add due to rounding.
Source: Ontario Ministry of Finance.

[2] These shares are based on Statistics Canada’s 2011 Ontario Input–Output Tables.

Financial Markets

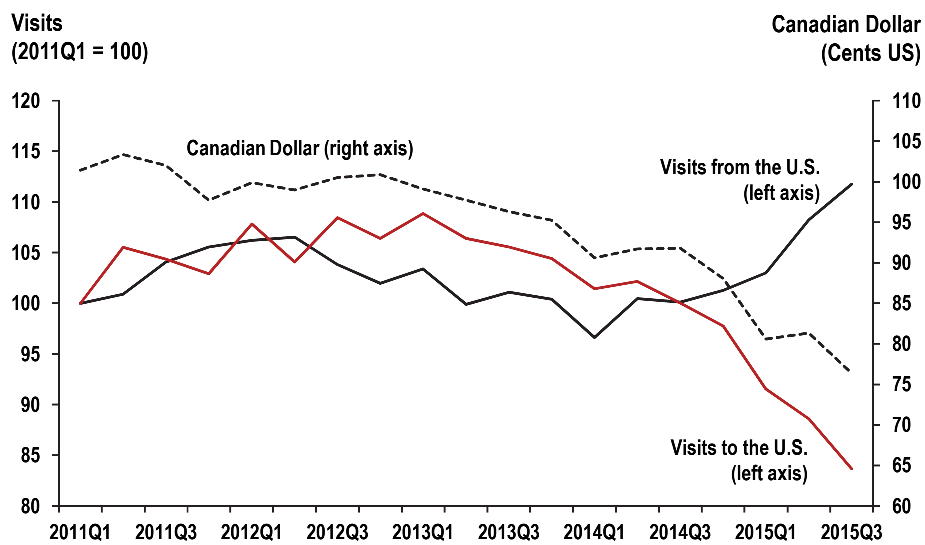
Internationally, many central banks have been moving towards more stimulative monetary policy as countries struggle with low inflation and slow economic growth. The Bank of Canada cut interest rates twice in 2015 as the economy adjusted to low oil prices. The European Central Bank implemented a number of new stimulus measures late last year, including an extension of its quantitative easing program introduced in January 2015. On the other hand, the U.S. Federal Reserve deemed economic growth to be strong enough to begin lifting interest rates in late 2015, though the pace of tightening is expected to be gradual.

In Canada, interest rates are expected to stabilize in 2016. The yield on a three-month Canadian treasury bill is expected to remain at 0.5 per cent in 2016, after declining from 0.9 per cent to 0.5 per cent in 2015. By 2019, yields are forecast to reach 2.8 per cent. The yield on 10-year Government of Canada bonds also fell in 2015, from 2.2 per cent to 1.5 per cent. Long-term Government of Canada bond yields are expected to rise steadily and reach 3.6 per cent in 2019.

Sharply lower oil prices and diverging monetary policy between Canada and the United States have contributed to a depreciation of the Canadian dollar to an average of 78.2 cents US in 2015, down from 90.5 cents US in 2014. Compared to the recent peak in mid-2014, the dollar has declined by approximately 25 per cent to below 70 cents US in January 2016. The Canadian dollar is expected to rise over the second half of the year and average 72 cents US in 2016, then appreciate gradually, reaching 83 cents US by 2019.

Lower interest rates have spurred an increase in consumer spending, including big-ticket items such as automobiles. The lower Canadian dollar has attracted more Americans to visit Ontario, while also encouraging more Ontarians to spend within the province. Ontario's businesses are also benefiting from the lower Canadian dollar through improved competitiveness and strengthening export growth, especially in sectors with exchange-rate-sensitive exports. However, the lower value of the Canadian dollar will also raise prices for imported goods, affecting both businesses and consumers.

CHART 3.13 Lower Canadian Dollar Having an Impact



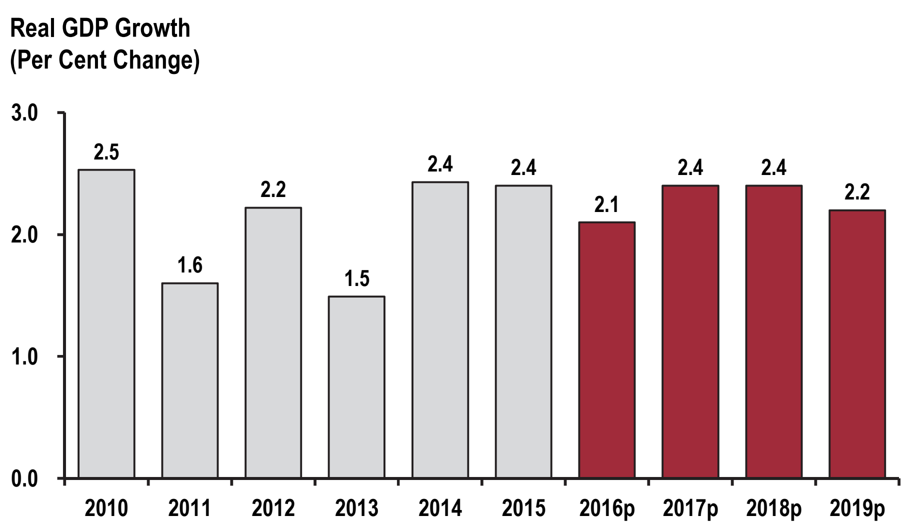
Sources: Bank of Canada and Statistics Canada.

U.S. Economy

The United States remains Ontario's largest trading partner: it is the destination for nearly 80 per cent of the province's exports. The U.S. market is particularly important for many Ontario industries, including motor vehicles, mechanical equipment, plastics, steel and pharmaceuticals.

U.S. real GDP expanded a solid 2.4 per cent in 2015. Job creation remains robust, accelerating in the fourth quarter of 2015, while the unemployment rate has moved steadily lower. A strong labour market is expected to continue to propel domestic demand over the near term. In contrast, net exports are forecast to act as a drag on the U.S. economy, reflecting weaker global demand and a higher U.S. dollar. All told, U.S. real GDP is projected to grow by 2.1 per cent in 2016 and 2.4 per cent in 2017. The U.S. unemployment rate is expected to move lower, from 5.3 per cent in 2015 to 4.8 per cent by 2016 and 4.5 per cent in 2017.

CHART 3.14 **Solid U.S. GDP Growth to Continue**



p = projection.
Sources: U.S. Bureau of Economic Analysis and *Blue Chip Economic Indicators* (October 2015 and February 2016).

Key Forecast Assumptions

Forecasts for key external factors are summarized in the table below. These are used as the basis for the Ministry of Finance's forecast for Ontario's economic growth.

TABLE 3.2 Outlook for External Factors

	2013	2014	2015	2016p	2017p	2018p	2019p
World Real GDP Growth (Per Cent)	3.3	3.4	3.1e	3.4	3.6	3.9	4.0
U.S. Real GDP Growth (Per Cent)	1.5	2.4	2.4	2.1	2.4	2.4	2.2
West Texas Intermediate Crude Oil ($US/bbl.)	98	93	49	42	53	60	67
Canadian Dollar (Cents US)	97.1	90.5	78.2	72.0	75.5	81.0	83.0
Three-Month Treasury Bill Rate[1] (Per Cent)	1.0	0.9	0.5	0.5	0.8	2.2	2.8
10-Year Government Bond Rate[1] (Per Cent)	2.3	2.2	1.5	1.6	2.3	3.3	3.6

e = estimate.

p = Ontario Ministry of Finance planning projection based on external sources.

[1] Government of Canada interest rates.

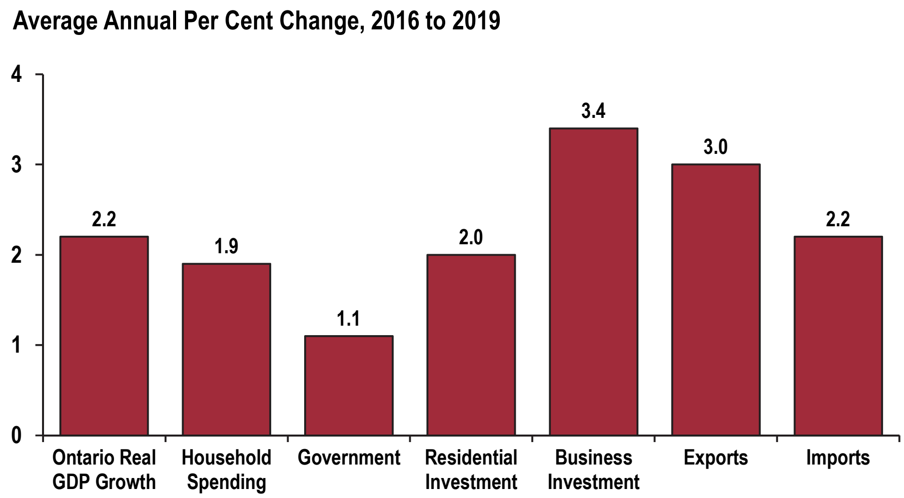
Sources: IMF World Economic Outlook (October 2015 and January 2016), U.S. Bureau of Economic Analysis, *Blue Chip Economic Indicators* (October 2015 and February 2016), U.S. Energy Information Administration, Bank of Canada, Ontario Ministry of Finance Survey of Forecasters (January 2016) and Ontario Ministry of Finance.

Outlook for Ontario's Economic Growth

The Province is forecasting continued growth in Ontario's economy, with real GDP projected to rise by 2.2 per cent annually, on average, over the 2016 to 2019 period.

Lower oil prices, a more competitive Canadian dollar and a healthy U.S. economy are projected to lead to a broadening of economic growth in Ontario as exporters invest to meet ongoing demand.

CHART 3.15 **Ontario Economic Growth Expected to Broaden**

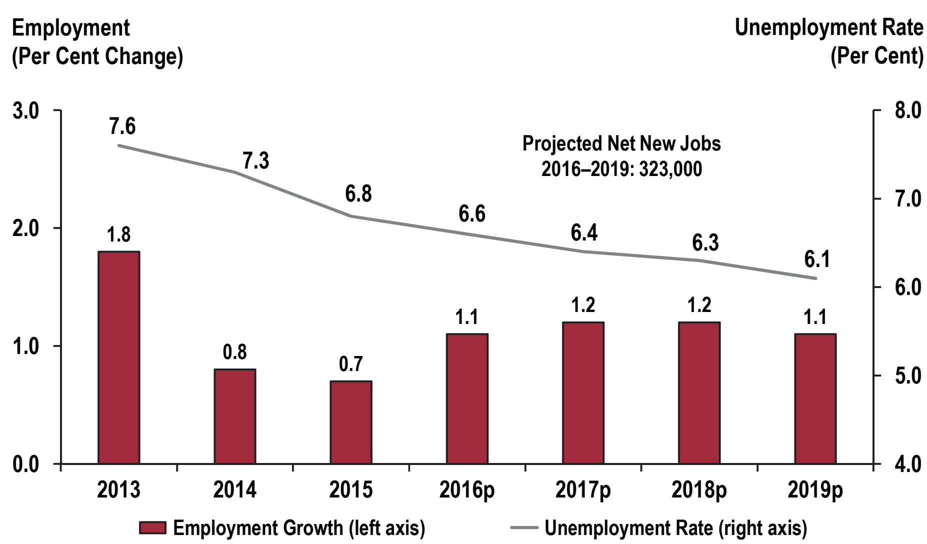


Notes: Government includes investment and consumption expenditure. Business Investment includes investment in plant, equipment and intellectual property products.
Source: Ontario Ministry of Finance.

Exports and business investment are expected to be key drivers of Ontario's economic growth over the forecast period. Ontario's exports are expected to rise by 3.0 per cent annually, on average, over the 2016 to 2019 period. While interprovincial exports are projected to remain steady over the near term, reflecting challenges in resource-based provinces, international exports are expected to continue to benefit from a lower Canadian dollar and strong U.S. demand. In addition, the government's Going Global Trade Strategy will continue to help Ontario firms compete and become more productive by learning about global opportunities and changing markets.

Employment is forecast to increase by 1.1 per cent, or 78,000 net new jobs in 2016, up from growth of 0.7 per cent in 2015. Steady employment gains of 1.2 per cent annually, on average, are expected over the 2017 to 2019 period. Ontario's unemployment rate is projected to improve to 6.6 per cent this year, down from 6.8 per cent in 2015. The unemployment rate is forecast to steadily decline to 6.1 per cent by 2019.

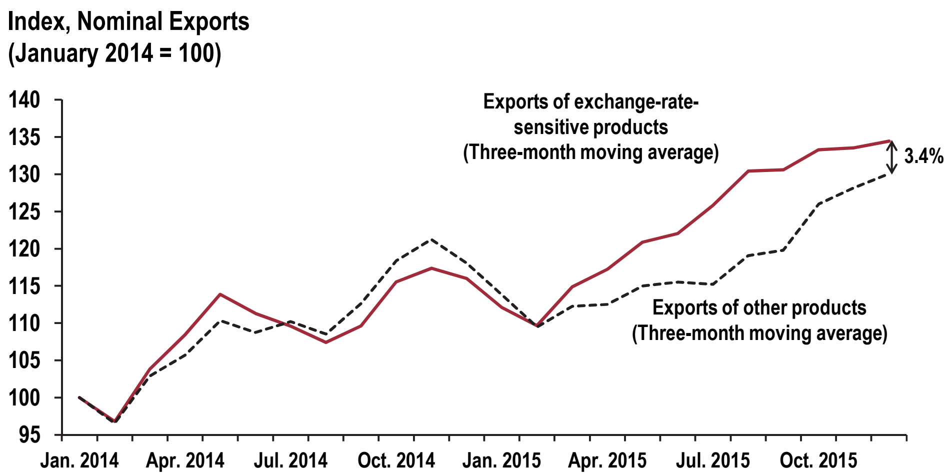
CHART 3.16 Ontario's Labour Market Expected to Improve



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

The composition of U.S. real GDP growth, driven by healthy consumer demand and strong business investment, is projected to stimulate demand for Ontario exchange-rate-sensitive exports. Those exchange-rate-sensitive sectors[3] are already benefiting from strong U.S. demand and the lower exchange rate. On a trend basis, exports from these sectors are outperforming other Ontario export categories since early 2015.

CHART 3.17 **Exchange-Rate-Sensitive Exports Already Benefiting from Lower Canadian Dollar**



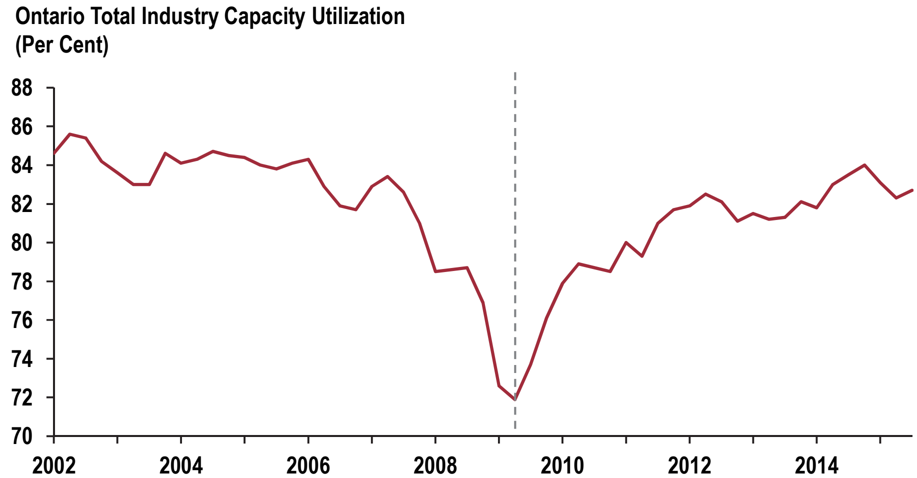
Note: Exchange-rate-sensitive goods are fabricated metal products; non-metallic mineral products; plastic and rubber products; building and packaging materials; industrial and electronic machinery, equipment and parts; communication and audio/video equipment; medium and heavy trucks, buses and other motor vehicles; motor vehicle engines and parts; aircrafts, aircraft and other transportation equipment and parts; clothing, footwear and textile products; paper and published products; pharmaceutical products; furniture; and cleaning products and appliances. Data expressed in nominal terms.
Sources: Statistics Canada, Bank of Canada and Ontario Ministry of Finance.

[3] André Binette, Daniel de Munnik and Julie Melanson, "An Update — Canadian Non-Energy Exports: Past Performance and Future Prospects," Bank of Canada Discussion Paper 2015–10 (October 2015).

Rising exports, reflecting solid U.S. demand and a lower Canadian dollar, will provide an increasingly compelling case for increased investment, especially now that Ontario's businesses are operating closer to full capacity. Business investment will also continue to be supported by Ontario's competitive tax structure.

CHART 3.18 **Industry Operating Close to Full Capacity, Expected to Trigger Increased Investment Activity**

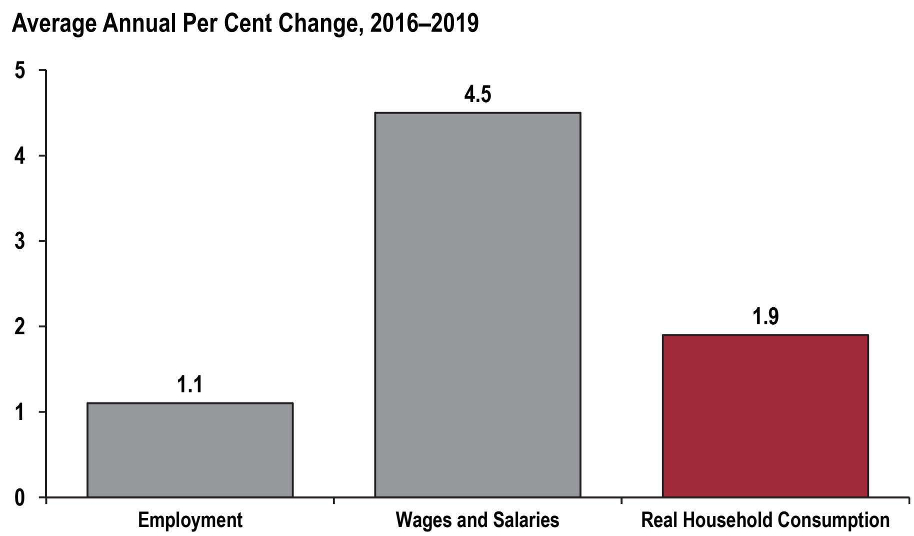
Businesses were left with underused facilities following the recession, lowering investment needs.
With demand now rising and facilities operating close to full capacity, more investment is expected to follow.



Sources: Statistics Canada and Ontario Ministry of Finance.

Growth in incomes, buoyed by continued job growth and rising wages along with low interest rates, is projected to support consumer spending in Ontario. Recently, consumer spending has been lifted by positive wealth effects from increasing resale home prices that have likely offset the negative impact from declines in equity markets.[4] Following estimated growth of 3.0 per cent in 2015, real household consumption is forecast to moderate to 1.9 per cent annually, on average, over the 2016 to 2019 period.

CHART 3.19 **Consumer Spending Expected to Be Supported by Gains in Employment and Wages**

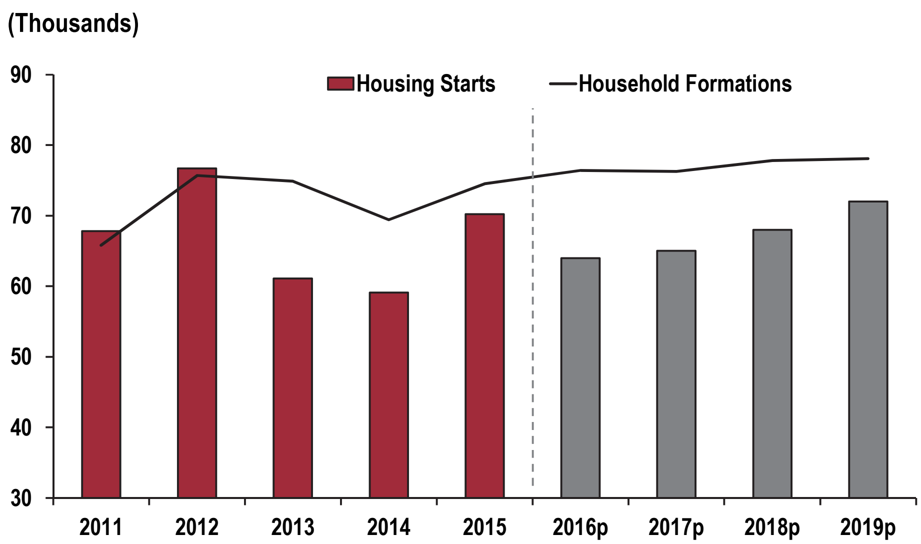


Source: Ontario Ministry of Finance.

[4] Lise Pichette, "Are Wealth Effects Important for Canada?", Bank of Canada Review, Spring 2004. The report highlights that consumer spending responds very little to changes in equity wealth, but is sensitive to changes in housing wealth.

The Ontario housing market strengthened in 2015, with both resale activity and housing starts moving higher. The pickup in activity can be tied to lower borrowing rates, steady employment gains and growth in the number of households. Home resales are projected to move lower over the next few years, while price appreciation is forecast to moderate as rising interest rates, historically high valuations and mortgage debt temper healthy demographic-related demand. Growth in real residential construction is expected to decelerate from 5.5 per cent in 2015 to 1.9 per cent in 2016, before gradually rising to 2.5 per cent in 2019.

CHART 3.20 **Demographic Fundamentals to Support Housing Starts over the Medium Term**



p = projection.
Sources: Canada Mortgage and Housing Corporation and Ontario Ministry of Finance.

Risks to Ontario's Economic Outlook

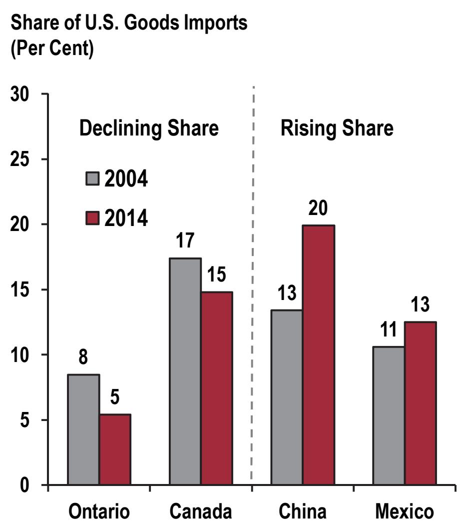
There are upside and downside risks to Ontario's economic outlook.
Taken together, risks surrounding the outlook appear to remain evenly balanced.

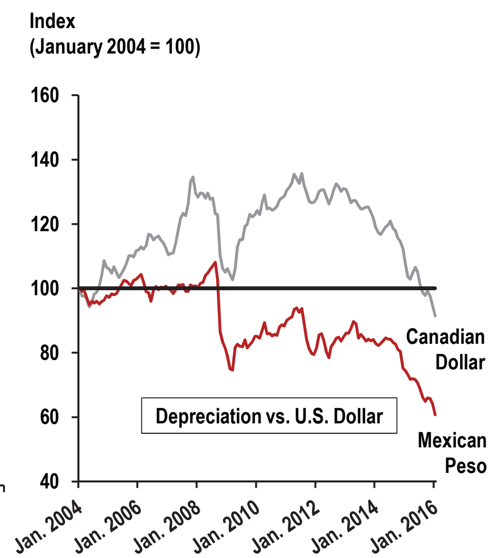
Sustained lower oil prices could provide a greater-than-expected boost to the Ontario economy through lower costs for businesses and households.

On the downside, uneven and uncertain global growth could further exacerbate volatility in the financial markets. This could dampen global investor sentiment and hinder investment activity in the province.

Despite a more favourable external environment, challenges remain for Ontario's export sector. This partly reflects the loss of U.S. market share to Mexico and China, suggesting Ontario export growth to the United States may be less robust than experienced during past periods of currency depreciation. Furthermore, the U.S. dollar has appreciated against most currencies, limiting the competitive advantage Ontario has gained.

CHART 3.21 Increasing Competition May Limit Growth Prospects





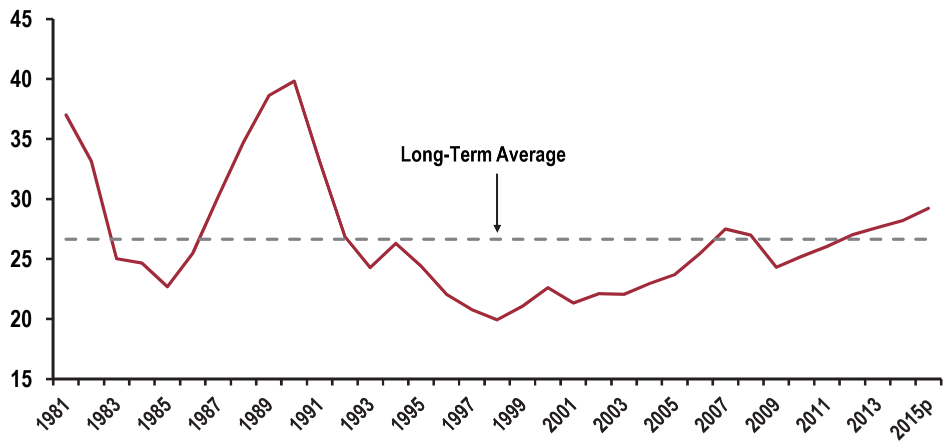
Sources: Statistics Canada and U.S. Bureau of Economic Analysis. *Source:* OANDA.

Ontario's housing market also represents a risk to the economic outlook. In general, housing market corrections are triggered by a spike in interest rates or the unemployment rate. In the current outlook, interest rates are expected to increase moderately, while the unemployment rate is projected to continue improving steadily. As a result, Ontario's average house-price appreciation is expected to slow.

Resale home-price appreciation has outstripped income gains in recent years, fuelling mortgage debt accumulation. As well, despite historically low mortgage rates, monthly carrying costs are modestly elevated relative to long-term trends. High levels of debt, combined with elevated resale prices, leave Ontario households potentially more vulnerable in the event of an economic downturn. Recent research from the Bank of Canada also highlights that the share of Canadian household debt held by highly indebted households has increased. These households are generally younger and have lower incomes, which make them more susceptible to an adverse economic shock.[5]

CHART 3.22 **Mortgage Carrying Costs Modestly Elevated Relative to Long-Term Trends**

Mortgage Carrying Cost as a Share of Disposable Income per Household (Per Cent)



p = Ontario Ministry of Finance planning projection.
Note: Carrying cost is based on the average five-year mortgage rate, a 25-year amortization and a 25 per cent down payment.
Sources: Statistics Canada, Bank of Canada, Canadian Real Estate Association and Ontario Ministry of Finance.

[5] Bank of Canada, "Financial System Review," December 2015. A highly indebted household is defined as a household with a total debt-to-gross-household-income ratio of 350 per cent or higher.

Table 3.3 provides current estimates of the impact of sustained changes in key external factors on the growth of Ontario's real GDP, assuming other external factors are unchanged. The relatively wide range for the impacts reflects uncertainty regarding how the economy would be expected to respond to these changes in external conditions.

TABLE 3.3 Impacts of Sustained Changes in Key External Factors on Ontario's Real GDP Growth

(Percentage Point Change)

	First Year	Second Year
Canadian Dollar Depreciates by Five Cents US	+0.1 to +0.7	+0.2 to +0.8
Crude Oil Prices Decrease by $10 US per Barrel	+0.1 to +0.3	+0.1 to +0.3
U.S. Real GDP Growth Increases by One Percentage Point	+0.2 to +0.6	+0.3 to +0.7
Canadian Interest Rates Increase by One Percentage Point	–0.1 to –0.5	–0.2 to –0.6

Source: Ontario Ministry of Finance.

Details of the Ontario Economic Outlook

The following table provides details of the Ministry of Finance's economic outlook for 2015 to 2019.

TABLE 3.4 The Ontario Economy, 2014 to 2019
(Per Cent Change)

	Actual	Projection				
	2014	2015	2016	2017	2018	2019
Real Gross Domestic Product	**2.7**	**2.5**	**2.2**	**2.4**	**2.2**	**2.0**
Household Consumption	2.5	3.0	2.4	2.2	1.5	1.6
Residential Construction	0.4	5.5	1.9	1.4	2.1	2.5
Non-residential Construction	1.6	8.4	2.0	5.0	3.6	2.4
Machinery and Equipment	6.9	7.7	0.5	4.6	4.9	5.0
Exports	1.9	0.7	2.8	3.3	3.0	2.8
Imports	1.1	1.1	1.1	2.8	2.5	2.3
Nominal Gross Domestic Product	**4.1**	**3.6**	**4.0**	**4.6**	**4.2**	**4.0**
Primary Household Income	3.5	3.3	4.5	4.4	4.2	4.2
Compensation of Employees	3.4	3.3	4.4	4.5	4.5	4.4
Net Operating Surplus — Corporations	12.7	2.1	3.7	8.5	5.7	3.9
Other Economic Indicators[1]						
Retail Sales	5.0	4.7	4.8	3.7	3.4	3.2
Housing Starts (000s)	59.1	70.2	64.0	65.0	68.0	72.0
Home Resales	3.7	9.6	(2.9)	(5.8)	2.0	3.8
Consumer Price Index	2.4	1.2	1.8	2.0	2.0	2.0
Employment	0.8	0.7	1.1	1.2	1.2	1.1
Job Creation (000s)	55	45	78	85	82	79
Unemployment Rate (Per Cent)	7.3	6.8	6.6	6.4	6.3	6.1
Key External Variables[1]						
U.S. Real Gross Domestic Product	2.4	2.4	2.1	2.4	2.4	2.2
WTI Crude Oil ($ US/bbl.)	93	49	42	53	60	67
Canadian Dollar (Cents US)	90.5	78.2	72.0	75.5	81.0	83.0
Three-month Treasury Bill Rate[2]	0.9	0.5	0.5	0.8	2.2	2.8
10-year Government Bond Rate[2]	2.2	1.5	1.6	2.3	3.3	3.6

1 2015 are actuals except retail sales.
2 Government of Canada interest rates (per cent).
Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Canadian Real Estate Association, Bank of Canada, U.S. Bureau of Economic Analysis, *Blue Chip Economic Indicators* (October 2015 and February 2016), U.S. Energy Information Administration and Ontario Ministry of Finance.

Private-Sector Forecasts

The Ministry of Finance consults with private-sector economists and tracks their forecasts to inform the government's planning assumptions. In the process of preparing the *2016 Budget*, the Minister of Finance met with private-sector economists to discuss their views on the economy. As well, three economic experts reviewed the Ministry of Finance's economic assumptions in February 2016 and found the assumptions to be reasonable. The three experts are from the Policy and Economic Analysis Program at the Rotman Institute for International Business, Rotman School of Management, University of Toronto; the Centre for Spatial Economics; and the Conference Board of Canada.

Private-sector economists are projecting continued growth for Ontario over the forecast horizon. On average, private-sector economists are calling for real GDP growth of 2.3 per cent in 2016, 2.5 per cent in 2017, 2.3 per cent in 2018 and 2.1 per cent in 2019. For prudent fiscal planning, the Ministry of Finance's real GDP growth projections are slightly below the average private-sector forecast.

TABLE 3.5 Private-Sector Forecasts for Ontario Real GDP Growth
(Per Cent)

	2016	2017	2018	2019
BMO Capital Markets (January)	2.2	2.3	–	–
Central 1 Credit Union (January)	2.7	3.1	–	–
Centre for Spatial Economics (January)	2.4	2.6	2.2	2.2
CIBC World Markets (January)	2.2	2.6	–	–
Conference Board of Canada (January)	2.3	2.3	2.1	2.1
Desjardins Group (January)	2.2	2.3	2.0	1.5
IHS Global Insight (January)	2.0	2.0	2.3	2.4
Laurentian Bank Securities (January)	2.4	2.5	–	–
National Bank (January)	2.0	2.0	–	–
RBC Financial Group (December)	2.5	2.7	–	–
Scotiabank Group (February)	2.2	2.7	–	–
TD Bank Financial Group (January)	2.2	2.0	–	–
University of Toronto (January)	2.3	2.8	2.7	2.2
Private-Sector Survey Average	**2.3**	**2.5**	**2.3**	**2.1**
Ontario's Planning Assumption	**2.2**	**2.4**	**2.2**	**2.0**

Source: Ontario Ministry of Finance Survey of Forecasters (February 2, 2016).

Comparison to the *2015 Budget*

The estimate of Ontario real GDP growth in 2015 is slightly lower than the 2015 Budget forecast. Economic growth in 2015 was moderated by a slow start to the year, reflecting a number of temporary factors including unusually harsh winter weather, closures at auto plants for retooling, and a west-coast port strike that adversely affected exports.

Key changes since the *2015 Budget* include:

- Slightly lower real GDP growth in 2015 and 2016, followed by marginally stronger growth in 2017 and 2018;
- Lower nominal GDP growth in 2015 and 2016, but higher growth in 2017 and 2018;
- Weaker-than-expected employment growth over the forecast period; and
- Downward revisions to key external factors, including U.S. real GDP, oil prices, the Canadian dollar and interest rates.

TABLE 3.6 Changes in Ministry of Finance Key Economic Forecast Assumptions: *2015 Budget* Compared with *2016 Budget*

(Per Cent Change)

	2015p		2016p		2017p		2018p	
	2015 Budget	*2016 Budget*	*2015 Budget*	*2016 Budget*	*2015 Budget*	*2016 Budget*	*2015 Budget*	*2016 Budget*
Real Gross Domestic Product	2.7	2.5	2.4	2.2	2.2	2.4	2.1	2.2
Nominal Gross Domestic Product	4.2	3.6	4.2	4.0	4.2	4.6	4.1	4.2
Retail Sales	4.2	4.7	4.2	4.8	4.0	3.7	3.6	3.4
Housing Starts (000s)	61.0	70.2	65.0	64.0	69.0	65.0	70.0	68.0
Primary Household Income	3.9	3.3	4.3	4.5	4.4	4.4	4.2	4.2
Compensation of Employees	4.0	3.3	4.3	4.4	4.4	4.5	4.5	4.5
Net Operating Surplus — Corporations	5.0	2.1	4.8	3.7	4.7	8.5	4.4	5.7
Employment	1.1	0.7	1.3	1.1	1.4	1.2	1.3	1.2
Job Creation (000s)	78	45	93	78	99	85	96	82
Consumer Price Index	1.2	1.2	2.0	1.8	2.0	2.0	2.0	2.0
Key External Variables								
U.S. Real Gross Domestic Product	3.1	2.4	2.9	2.1	2.7	2.4	2.6	2.4
WTI Crude Oil ($ US/bbl.)	55	49	70	42	79	53	84	60
Canadian Dollar (Cents US)	79.5	78.2	80.0	72.0	85.0	75.5	89.0	81.0
Three-month Treasury Bill Rate[1] (Per Cent)	0.6	0.5	1.1	0.5	2.5	0.8	3.4	2.2
10-year Government Bond Rate[1] (Per Cent)	1.8	1.5	2.7	1.6	3.8	2.3	4.2	3.3

p = Ontario Ministry of Finance planning projection.

[1] Government of Canada interest rates.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Bank of Canada, U.S. Energy Information Administration, U.S. Bureau of Economic Analysis, *Blue Chip Economic Indicators* (October 2015 and February 2016) and Ontario Ministry of Finance.

Section B: Fiscal Outlook

The government is projecting a deficit of $5.7 billion in 2015–16 — an improvement of $2.8 billion compared with the 2015 Budget forecast and $1.8 billion compared with the projection laid out in the *2015 Ontario Economic Outlook and Fiscal Review.* It is also a $4.6 billion improvement compared with the 2014–15 deficit of $10.3 billion. This represents the Province's largest year-over-year reduction in the deficit in the last five years.

Looking forward, the government is now projecting a deficit of $4.3 billion in 2016–17, a return to balance in 2017–18 and continued balance in 2018–19. This reflects an improvement of $0.5 billion in 2016–17 compared with the deficit target laid out in the *2015 Budget*.

Ontario's record of strong fiscal management is achieving results. Based on the government's plan, net debt-to-GDP is expected to peak at 39.6 per cent in 2015–16, remain level in 2016–17 and begin to decline in 2017–18, supporting greater sustainability in the Province's management of its debt.

TABLE 3.7 Ontario's Fiscal Plan and Outlook
($ Billions)

	Actual	Interim	Plan	Outlook	
	2014–15	**2015–16**	**2016–17**	**2017–18**	**2018–19**
Revenue	**118.5**	**126.5**	**130.6**	**137.7**	**141.9**
Expense					
Programs	118.2	120.9	122.1	124.2	127.6
Interest on Debt[1]	10.6	11.2	11.8	12.5	13.1
Total Expense	**128.9**	**132.1**	**133.9**	**136.6**	**140.7**
Surplus/(Deficit) Before Reserve	**(10.3)**	**(5.5)**	**(3.3)**	**1.1**	**1.2**
Reserve	–	0.2	1.0	1.1	1.2
Surplus/(Deficit)	**(10.3)**	**(5.7)**	**(4.3)**	**0.0**	**0.0**
Net Debt as a Per Cent of GDP	39.4	39.6	39.6	38.9	38.5
Accumulated Deficit as a Per Cent of GDP	26.0	25.9	25.4	24.3	23.3

[1] Interest on debt expense is net of interest capitalized during construction of tangible capital assets of $0.2 billion in 2014–15, $0.1 billion in 2015–16, $0.2 billion in 2016–17, $0.4 billion in 2017–18 and $0.6 billion in 2018–19.

Note: Numbers may not add due to rounding.

2015–16 Interim Fiscal Performance

Ontario's deficit for 2015–16 is projected to be $5.7 billion — an improvement of $2.8 billion compared with the 2015 Budget forecast and $1.8 billion compared with the projection laid out in the *2015 Ontario Economic Outlook and Fiscal Review*.

TABLE 3.8 2015–16 In-Year Fiscal Performance
($ Millions)

	Budget Plan	Interim	In-Year Change
Total Revenue	**124,390**	**126,547**	**2,157**
Expense			
Programs	120,492	120,883	391
Interest on Debt	11,410	11,200	(210)
Total Expense	**131,902**	**132,083**	**181**
Reserve	1,000	150	(850)
Surplus/(Deficit)	**(8,512)**	**(5,686)**	**2,826**

Note: Numbers may not add due to rounding.

Total revenue is projected to be $2.2 billion above the *2015 Budget* Plan due to higher revenue from asset optimization in 2015–16, higher taxation revenues, and stronger overall performance from Government Business Enterprises (GBEs).

Total expense in 2015–16 is projected to be $0.2 billion higher than forecast in the *2015 Budget*. This includes the impact of $0.2 billion in lower interest on debt expense, resulting primarily from lower-than-forecast interest rates, the lower forecast deficit and cost-effective debt management.

Ontario's program expense is projected to be $0.4 billion higher than outlined in the *2015 Budget*, consistent with the forecast laid out in the *2015 Ontario Economic Outlook and Fiscal Review*. This is primarily due to the Green Investment Fund — a $325 million down payment that is targeted at reducing greenhouse gas (GHG) emissions while strengthening the economy and creating jobs.

The fiscal plan outlined in the *2015 Budget* included a $1.0 billion reserve in 2015–16 to protect the fiscal outlook against adverse changes in the Province's revenue and expense forecasts. The 2015–16 outlook maintains a $150 million reserve to protect the fiscal plan against any potential adverse changes that may occur before year-end.

Given the preliminary nature of these estimates, the interim forecast is subject to change as actual provincial revenue and expense are finalized in the *Public Accounts of Ontario 2015–2016* in summer 2016.

In-Year Revenue Performance

Total revenue in 2015–16 is estimated to be $126.5 billion. This is $2.2 billion, or 1.7 per cent, above the amount projected in the *2015 Budget*. The increase is largely due to higher net revenues from asset optimization in 2015–16, higher taxation revenues and stronger overall performance from GBEs, which also accounts for estimated Hydro One Limited (Hydro One) net income changes unrelated to the asset optimization strategy.

TABLE 3.9 Summary of Revenue Changes since the *2015 Budget*
($ Millions)

	Interim 2015–16
Asset Optimization	**1,149**
Other Revenue Changes	
Taxation Revenue	
Sales Tax	504
Land Transfer Tax	311
Personal Income Tax	(112)
All Other Taxes	(73)
Total Taxation Revenue	**630**
Total Government of Canada	**(17)**
Income from Government Business Enterprises	
Ontario Power Generation Inc./Brampton Distribution Holdco Inc./ Hydro One Ltd.	218
Ontario Lottery and Gaming Corporation	159
Liquor Control Board of Ontario	58
Total Income from Government Business Enterprises	**435**
Total Other Non-Tax Revenue	**(40)**
Total Revenue Changes since the *2015 Budget*	**2,157**

Note: Numbers may not add due to rounding.

Revenue Changes

Highlights of key 2015–16 revenue changes from the 2015 Budget forecast are as follows:

- **Asset Optimization** is $1,149 million higher than the total included in **Sales and Rentals** in the *2015 Budget*, mainly due to an increase in the estimated impact of a deferred tax benefit for Hydro One.
- **Sales Tax** revenues are estimated to be $504 million higher, largely reflecting an increase to Harmonized Sales Tax (HST) revenues due to Ontario's strong housing market, particularly housing completions in 2015, and one-time positive adjustments to estimates of Ontario's prior-year HST entitlements.
- **Land Transfer Tax** revenues are estimated to be $311 million higher, due to the strength of the Ontario housing market in 2015.
- **Personal Income Tax** revenues are estimated to be $112 million lower, reflecting one-time negative adjustments arising from assessment of past-years' tax returns and slightly slower 2015 wages and salaries growth**.**
- **All Other Tax** revenues combined are estimated to be $73 million lower, mainly due to lower revenues from electricity payments in lieu (PIL) of taxes unrelated to the asset optimization strategy, Tobacco Tax, Education Property Tax and Mining Profit Tax, partially offset by higher revenues from Employer Health Tax.
- **Government of Canada** transfers are estimated to be $17 million lower than the 2015 Budget forecast, largely reflecting lower transfers for infrastructure projects, mainly due to revised Building Canada Fund timelines. These lower transfers are partially offset by the higher Canada Health Transfer, Canada Social Transfer and other federal transfers.
- The change in the combined net incomes of **Ontario Power Generation Inc.** (OPG), **Brampton Distribution Holdco Inc.**, and **Hydro One** (for the portion of its net income change unrelated to the impacts of the asset optimization strategy) are projected to be $218 million above the 2015 Budget forecast, largely reflecting higher-than-projected returns from OPG's nuclear funds and lower-than-forecast operating costs for OPG.

- Net income from the **Ontario Lottery and Gaming Corporation** (OLG) is estimated to be $159 million higher than projected in the *2015 Budget*, largely reflecting higher-than-projected sales in national lotteries.
- Net income from the **Liquor Control Board of Ontario** (LCBO) is estimated to be $58 million higher than projected in the *2015 Budget,* primarily due to strong sales during summer 2015 that were boosted by favourable weather, stronger tourism and extraordinary sporting and cultural events.

In-Year Expense Performance

Total expense in 2015–16 is currently projected to be $0.2 billion higher than the 2015 Budget forecast. This is primarily due to the Green Investment Fund — a $325 million down payment that is targeted at reducing GHG emissions while strengthening the economy and creating jobs. This is partially offset by lower-than-projected interest on debt expense.

The *2015 Budget* included a $1.0 billion year-end savings target in addition to a $0.5 billion program review savings target. The government is once again on track to achieve its savings targets. See Chapter II, Section B: *Transforming Government and Managing Costs* for details on achievement of the 2015–16 program review savings target.

TABLE 3.10 Summary of Expense Changes since the *2015 Budget*
($ Millions)

	2015–16
Program Expense Changes Reported in the *2015 Ontario Economic Outlook and Fiscal Review*	
Green Investment Fund	325
Strategic Asset Management and Transformation Related to Hydro One IPO	63
Legislative Offices	9
All Other Program Expense Changes Reported in the *2015 Ontario Economic Outlook and Fiscal Review*	0
Total Program Expense Changes Reported in the *2015 Ontario Economic Outlook and Fiscal Review*	**397**
Savings Targets Included in the *2015 Budget* and the *2015 Ontario Economic Outlook and Fiscal Review*	
Year-End Savings Target	1,000
Program Review Savings Target	490
Total Savings Targets Included in the *2015 Budget* and the *2015 Ontario Economic Outlook and Fiscal Review*	**1,490**
Increase/(Decrease) in Program Expense since the *2015 Ontario Economic Outlook and Fiscal Review*[1]	
Health Sector	12
Education Sector[2]	(430)
Postsecondary and Training Sector	(51)
Children's and Social Services Sector	153
Justice Sector	49
Other Programs	(1,230)
Total Increase/(Decrease) in Program Expense since the *2015 Ontario Economic Outlook and Fiscal Review*	**(1,496)**
Net Program Expense Increase/(Decrease) after Applying Savings to Meet Total Savings Targets Included in the *2015 Budget* and the *2015 Ontario Economic Outlook and Fiscal Review*	**391**
Interest on Debt	(210)
Total Expense Changes since the *2015 Budget*	**181**

[1] Expense change by sector, restated for fiscally neutral transfers of programs between sectors.
[2] Excludes Teachers' Pension Plan. Teachers' Pension Plan expense is included in Other Programs.
Note: Numbers may not add due to rounding.

Expense Changes

The following expense changes have occurred since the *2015 Ontario Economic Outlook and Fiscal Review*:

- **Health sector** expense is projected to increase by $12 million, primarily due to new hepatitis C treatments, higher drug programs utilization, and increased demand for cancer treatment and dialysis services. This is partially offset by lower uptake in some programs.
- **Education sector** expense is projected to be $430 million lower than forecast, due in part to slightly lower-than-projected enrolment and as a result of a higher share of funding being spent on capital projects that are amortized. Higher-than-anticipated revenues from Education Development Charges further reduced Provincial funding requirements.
- **Postsecondary and training sector** expense is projected to be $51 million lower than anticipated, mainly due to lower spending on postsecondary operating grants and lower student financial assistance as a result of lower-than-forecast enrolment. As well, spending on employment and training programs is expected to be below plan, partially offset by higher expense on tax credits to employers to support training.
- **Children's and social services sector** expense is projected to increase by $153 million, primarily due to additional investments to address demand for the Ontario Disability Support Program and the cost of prescription drugs for social assistance recipients.
- **Justice sector** expense is expected to increase by $49 million, primarily due to settlements under the *Proceedings Against the Crown Act*, higher-than-expected bad debt provisions related to unpaid fines, and higher-than-expected leasing costs across the sector.
- **Other programs** expense is projected to decrease by $1,230 million, due to implementation delays related to the Building Canada Fund; underspending from the 2015 Pan/Parapan American Games; restraining compensation growth in line with the government's "net-zero" policy; reduced spending on information technology; lower fees paid to the Canada Revenue Agency; as well as a variety of other administrative savings across government.

Interest on debt expense is projected to be $210 million lower than forecast in the *2015 Budget*, primarily due to lower-than-forecast interest rates, the lower forecast deficit and cost-effective debt management.

Medium-Term Fiscal Outlook

The government is now projecting a deficit of $4.3 billion in 2016–17, a return to balance in 2017–18 and continued balance in 2018–19. This reflects an improvement of $0.5 billion in 2016–17 compared with the deficit target laid out in the *2015 Budget*.

Key Changes since the *2015 Budget*

Total revenue is projected to be higher in each year over the medium term compared with the *2015 Budget*, reflecting strength in the housing market, particularly in 2015; additional revenues reflecting prudent assumptions related to the current federal government's commitments for additional funding for infrastructure, home care, and jobs and training; and projected proceeds from the Province's cap-and-trade program.

Over the medium term, total expense is projected to increase from $132.1 billion in 2015–16 to $140.7 billion in 2018–19. Total expense is projected to be higher than forecast at the time of the *2015 Budget* as a result of program expense increases, partially offset by interest on debt savings.

The program expense outlook over the medium term is projected to be higher in each of 2016–17 and 2017–18, compared with the medium-term forecast in the *2015 Budget*. This increase reflects the government's commitment to invest in priority areas to enhance public services, support economic growth and a low-carbon economy, and create jobs.

Ontario's medium-term outlook for interest on debt is currently below the 2015 Budget estimate, primarily as a result of lower-than-forecast interest rates.

The fiscal plan also includes a reserve of $1.0 billion in 2016–17, $1.1 billion in 2017–18 and $1.2 billion in 2018–19, largely in line with the *2015 Budget*.

TABLE 3.11 Change in Medium-Term Fiscal Outlook since the *2015 Budget*

($ Billions)

	2015–16	2016–17	2017–18
Surplus/(Deficit) from the *2015 Budget*	**(8.5)**	**(4.8)**	**–**
Total Revenue Changes	**2.2**	**1.2**	**3.3**
Expense Changes			
Net Program Expense Changes	0.4	1.6	4.2
Interest on Debt	(0.2)	(0.7)	(0.7)
Total Expense Changes	**0.2**	**0.9**	**3.4**
Change in Reserve	(0.9)	(0.2)	(0.1)
Fiscal Improvement/(Deterioration)	**2.8**	**0.5**	**0.0**
***2016 Budget* Surplus/(Deficit)**	**(5.7)**	**(4.3)**	**0.0**

Note: Numbers may not add due to rounding.

Ontario's Revenue Outlook

Ontario's revenues rely heavily on the level and pace of economic activity in the province, with growth expected to be roughly in line with nominal gross domestic product (GDP). For example, taxes are collected on the incomes and spending of Ontarians, and on the profits generated by businesses operating in Ontario.

However, there are important qualifications to this general relationship.

The impact of housing completions and resales on HST and Land Transfer Tax revenues is proportionately greater than their contribution to GDP.

Growth in several tax revenue sources, such as volume-based gasoline and fuel taxes, is more closely aligned to real GDP. These revenue sources are less influenced by changes in prices. Similarly, some revenues, such as vehicle and driver registration fees, tend to more closely track demographic factors, such as growth in the driving-age population.

Growth in some revenue sources, such as the Corporations Tax and Mining Tax, can diverge significantly from economic growth in any given year due to the inherent volatility of business profits, as well as the use of tax provisions such as the option to carry losses forward or backward across different tax years.

The revenue forecast also often includes significant one-time adjustments, usually due to lags between the period in which revenues are earned and when the actual amounts are finally reported. For example, the Ministry of Finance will use the latest available information on Personal Income Tax (PIT) revenue earned by the Province for the 2015 tax year as the basis for the 2015–16 PIT revenue estimate to be published later in 2016 in the *Public Accounts of Ontario 2015–2016*. Actual PIT revenue entitlements for 2015 and 2016, however, will not be known until early 2017 and 2018, respectively, after most PIT returns for those tax years have been filed with and assessed by the Canada Revenue Agency.

Moreover, additional tax information continues to arrive for years following the actual tax year due to late tax assessments and reassessments. The result is that even after the *Public Accounts of Ontario 2015–2016* is released, new and updated tax assessment information will lead to revisions of the estimate for 2015–16 PIT revenues. Under Public Sector Accounting Board (PSAB) standards, revenue estimates already published in the *Public Accounts* are not restated for updated assessment information. Instead, these revisions are reported as prior-year adjustments in the current open year.

Medium-Term Revenue Outlook

Total revenue is projected to increase from $126.5 billion to $141.9 billion between 2015–16 and 2018–19, or at an average annual rate of 3.9 per cent, which is modestly lower than the forecast growth of nominal GDP. Revenue growth largely reflects the Ministry of Finance's outlook for economic growth outlined in Section A of this chapter: *Economic Outlook*. The medium-term revenue outlook includes prudent assumptions related to the current federal government's commitments for additional funding for infrastructure, home care, and jobs and training. It also includes projected proceeds from the Province's cap-and-trade program and projected net revenues from the Province's asset optimization strategy.

TABLE 3.12 Summary of Medium-Term Revenue Outlook
($ Billions)

	Interim 2015–16	Plan 2016–17	Outlook 2017–18	2018–19
Revenue				
Personal Income Tax	30.3	32.2	34.2	36.4
Sales Tax	23.5	24.0	24.8	25.6
Corporations Tax	11.4	12.1	12.7	13.2
Ontario Health Premium	3.5	3.6	3.8	4.0
Education Property Tax	5.7	5.8	6.0	6.1
All Other Taxes	16.5	14.2	14.5	15.0
Total Taxation Revenue	**90.8**	**91.8**	**95.9**	**100.2**
Government of Canada	22.9	24.6	25.8	26.6
Income from Government Business Enterprises	4.3	5.0	5.3	5.7
Other Non-Tax Revenue	8.6	9.1	10.6	9.4
Total Revenue	**126.5**	**130.6**	**137.7**	**141.9**

Note: Numbers may not add due to rounding.

The medium-term taxation revenue growth profile reflects growth in the economy, but may also incorporate prior-year adjustments and the impacts of past and proposed tax measures. These latter impacts may result in a taxation revenue growth profile for a specific revenue source that appears to be inconsistent with the growth profile of the main related economic driver.

To help explain the medium-term growth profile of the major taxation revenues, the following three tables adjust total projected revenues for each of Personal Income Tax, Sales Tax and Corporations Tax, to remove prior-year adjustments and impacts of measures to arrive at "base revenue." This base revenue measure is shown to be more closely aligned to the main economic driver for the specific taxation revenue source.

TABLE 3.13 Personal Income Tax Revenue Outlook
($ Billions)

Revenue	Interim 2015–16	Plan 2016–17	Outlook 2017–18	Outlook 2018–19
Total Projected Revenue	30.3	32.2	34.2	36.4
Tax Measures[1]	0.1	0.1	0.1	0.3
Adjustments for Prior Years	(0.2)	–	–	–
Base Revenue[2]	30.3	32.1	34.0	36.0
Base Revenue Growth (Per Cent)	–	5.8	6.0	6.0
Compensation of Employees[3] (Per Cent Change)	–	4.4	4.5	4.5

[1] Represents the revenue impact of all tax measures, announced previously or proposed in this *Budget*.
[2] Total Projected Revenue less the impact of tax measures or other one-time factors such as prior-year adjustments. Base Revenue reflects the impact of underlying macroeconomic factors.
[3] Includes wages, salaries and employers' social contributions.
Note: Numbers may not add due to rounding.

The primary economic driver of the forecast for **Personal Income Tax** (PIT) revenue is the outlook for growth in the compensation of employees. The PIT revenue projection also reflects the impact of tax measures and prior-year adjustments. Tax measures include measures announced in past Budgets and those proposed in this *Budget.* See Chapter V: *A Fair and Sustainable Tax System* for further details. Tax measures also reflect the impact of federal policy commitments such as ending the taxable Universal Child Care Benefit and introducing a tax-free Canada Child Benefit. Adjustments for prior years in 2015–16 reflect a slight overestimation of PIT revenues in the *Public Accounts of Ontario 2014–2015*. Excluding the impacts of tax measures and prior-year adjustments, the PIT revenue base is projected to grow at an average annual rate of 5.9 per cent over the forecast period. This compares with average annual growth of 4.5 per cent in compensation of employees over this period. Personal Income Tax revenue tends to grow at a faster rate than incomes due to the progressive structure of the PIT system.

TABLE 3.14 Sales Tax Revenue Outlook
($ Billions)

Revenue	Interim 2015–16	Plan 2016–17	Outlook 2017–18	Outlook 2018–19
Total Projected Sales Tax Revenue[1]	23.5	24.0	24.8	25.6
Tax Measures[2]	0.4	0.3	0.1	0.0
Other Adjustments	0.6	–	–	–
Base Revenue[3]	22.5	23.7	24.7	25.6
Base Revenue Growth (Per Cent)	–	5.2	4.1	3.6
Nominal Consumption Growth (Per Cent)	–	4.4	4.1	3.5

[1] Beginning July 1, 2010, most of the Retail Sales Tax was replaced with a value-added tax and combined with the federal Goods and Services Tax to create a federally administered Harmonized Sales Tax. Sales Tax Revenue is reported net of both the Ontario Sales Tax Credit and the energy component of the Ontario Energy and Property Tax Credit.

[2] Represents the revenue impact of all tax measures, announced previously or proposed in this *Budget*.

[3] Total Projected Revenue less the impact of tax measures or other one-time factors such as prior-year adjustments. Base Revenue reflects the impact of underlying macroeconomic factors.

Note: Numbers may not add due to rounding.

The **Sales Tax** revenue projection is based primarily on growth in consumer spending. The Sales Tax revenue projection also reflects the impact of tax measures and prior-year adjustments. Tax measures of $0.4 billion in 2015–16 primarily reflect the impact of transition measures such as input tax credits, which are being phased out by 2018–19. Other adjustments reflect a one-time adjustment of $0.6 billion in 2015–16 related to strong housing completions during 2015 and a variance from Sales Tax Revenue reported in the *Public Accounts of Ontario 2014–2015*. Excluding the impacts of measures and other adjustments, the Sales Tax revenue base is projected to grow at an average annual rate of 4.3 per cent, consistent with the average annual growth rate in nominal consumption of 4.0 per cent over this period.

TABLE 3.15 Corporations Tax Revenue Outlook
($ Billions)

Revenue	Interim 2015–16	Plan 2016–17	Outlook 2017–18	2018–19
Total Projected Revenue	11.4	12.1	12.7	13.2
Tax Measures[1]	0.1	0.2	0.2	0.2
Other Adjustments[2]	(0.3)	–	–	–
Base Revenue[3]	11.6	11.9	12.5	13.0
Base Revenue Growth (Per Cent)	–	2.6	5.3	3.7
Net Operating Surplus – Corporations Growth (Per Cent)	–	3.7	8.5	5.7

1 Represents the revenue impact of all tax measures, announced previously or proposed in this *Budget*.
2 Other Adjustments include the one-time impact of stronger net refunds assessed for years before 2009.
3 Total Projected Revenue less the impact of tax measures or other one-time factors such as prior-year adjustments. Base Revenue reflects the impact of underlying macroeconomic factors.
Note: Numbers may not add due to rounding.

The forecast for **Corporations Tax** (CT) revenue is based on annual growth in the net operating surplus of corporations. The CT revenue projection reflects the impact of tax measures, as well as prior-year and other adjustments. Tax measures include those announced in past federal and Provincial budgets and those proposed in the current *Budget.* See Chapter V*: A Fair and Sustainable Tax System* for further details. After accounting for tax measures and other adjustments, the CT revenue base grows at an average annual rate of 3.9 per cent over the forecast period, compared with 6.0 per cent average annual growth in the net operating surplus of corporations. Corporations Tax revenue tends to grow more slowly than corporate profits due to the use of tax provisions by corporations, including the carry-forward of losses for up to 20 years.

Ontario Health Premium revenue is based on the outlook for the growth in the compensation of employees. Ontario Health Premium revenue is projected to increase at an average annual rate of 4.8 per cent over the forecast period.

Education Property Tax revenue is projected to increase at an average annual rate of 2.5 per cent over the forecast period. This is largely due to growth in the property assessment base resulting from new construction activities and also reflects measures announced in the *2016 Budget*. See Chapter V: *A Fair and Sustainable Tax System* for further details of current proposed tax measures.

Revenues from **All Other Taxes** include a significant one-time PIL of taxes from Hydro One as a result of the initial public offering (IPO) in 2015–16. Excluding electricity PIL of taxes, other taxes are projected to increase at an average annual rate of 2.8 per cent over the forecast period. This includes revenues from volume-based taxes such as Gasoline Tax, Fuel Tax, Tobacco Tax, and Beer and Wine Tax, as well as other taxes such as Land Transfer Tax and Mining Tax.

The forecast for **Government of Canada** transfers is based on existing federal–provincial funding arrangements. Government of Canada transfers are projected to grow at an average annual rate of 5.1 per cent over the forecast period, largely reflecting projected increases in major ongoing Government of Canada transfers such as the Canada Health Transfer and the Canada Social Transfer. The forecast also includes prudent assumptions related to federal government commitments for additional funding for infrastructure, home care, and jobs and training.

The forecast for **Income from Government Business Enterprises** (GBEs) is based on Ministry of Finance estimates for Hydro One and information provided by OPG, LCBO and OLG. Overall revenue from GBEs is projected to increase by $1.4 billion between 2015–16 and 2018–19, or at an average annual rate of 9.5 per cent, largely reflecting lower net income in 2015–16 from Hydro One due to significant one-time PILs of tax expenses as a result of the Hydro One IPO in November 2015, and higher projected net income from the rest of the GBEs over the medium term.

The forecast for **Other Non-Tax Revenue** is based on information provided by government ministries and provincial agencies. Between 2015–16 and 2018–19, Other Non-Tax Revenues are projected to be higher by $883 million. This increase largely reflects estimates of the proceeds from the auctioning of cap-and-trade allowances beginning in 2017, higher revenue from vehicle and driver registration fees, and other miscellaneous sources. This is partially offset by lower, fiscally neutral, power supply contract recoveries, the removal of the debt retirement charge from electricity bills in 2018–19, and the projected net impact of the Province's planned asset optimization strategy as discussed in Chapter I: *Building Prosperity and Creating Jobs* and Chapter III, Section C: *Borrowing and Debt Management*.

Key Changes in the Medium-Term Revenue Outlook since the *2015 Budget*

Compared with the *2015 Budget*, revenues are higher over the 2015–16 to 2017–18 period.

TABLE 3.16 Summary of Medium-Term Revenue Changes since the *2015 Budget*

($ Billions)

	2015–16	2016–17	2017–18
Economic Growth	(0.6)	(0.4)	(0.3)
Housing Market	0.7	0.3	0.2
Tax Data During 2015 and One-Time Impacts	0.5	0.2	0.1
Tax Measures	(0.0)	0.1	0.2
New Federal Funding	–	0.7	1.3
Government Business Enterprises (non-asset optimization changes)	0.4	0.0	0.0
Cap-and-Trade Proceeds	–	0.5	1.9
Asset Optimization Strategy	1.1	(0.3)	(0.2)
Other Non-Tax Revenue	(0.0)	0.1	0.2
Total Revenue Changes	**2.2**	**1.2**	**3.3**

Note: Numbers may not add due to rounding.

The revised **economic growth** outlook, particularly slower growth in 2015, lowers revenues over the medium term.

Higher revenues from the strong **housing market** include higher HST in 2015–16 due to strong housing completions in 2015 and higher projected Land Transfer Taxes over the medium term, reflecting strength in Ontario housing prices and resales.

Tax data during 2015 provided a slight increase to the tax revenue base upon which growth is applied. In particular, stronger 2014 PIT returns more than offset the impact of slightly weaker 2014 corporate tax returns. **One-time impacts** that increased revenues in 2015–16 include net adjustments to estimates of prior-year HST estimates. There is also a positive adjustment to CT revenue in 2015–16, as a result of having reported the expected weakness in 2014 taxes assessed in the *Public Accounts of Ontario 2014–2015*, thereby eliminating a negative prior-year adjustment to 2015–16 revenues assumed in the 2015 Budget forecast.

Tax measures include the combined impacts of new tax measures proposed in this *Budget.* See Chapter V: *A Fair and Sustainable Tax System* for further details of current proposed tax measures and the impact of federal policy commitments, such as ending the taxable Universal Child Care Benefit and introducing a tax-free Canada Child Tax Benefit.

New federal funding largely reflects prudent assumptions related to federal government commitments for additional funding for infrastructure, home care, and jobs and training.

Income from Government Business Enterprises, excluding impacts related to the asset optimization strategy, is projected to be higher in 2015–16, reflecting stronger overall performance from the enterprises. The increase in 2016–17 and 2017–18 is due to the projected higher net income from the LCBO.

The medium-term revenue outlook also includes projected **cap-and-trade proceeds** from the auctioning of carbon allowances beginning in 2017. The current estimate for 2017 is $1.9 billion, with $478 million occurring in 2016–17. This estimate is based on a program design that is currently being discussed with stakeholders and a projected price of roughly $18 per tonne. The actual proceeds generated could vary based on the final design of the program, future auction price and Canada–U.S. exchange rate.

The change in the medium-term revenue forecast under **asset optimization strategy** reflects the higher upfront benefits from the strategy due to the Hydro One IPO. The government remains on track in its multi-year asset optimization initiative to generate $5.7 billion over time.

The decrease in **Other Non-Tax Revenue** in 2015–16 largely reflects lower miscellaneous revenue. The increase in 2016–17 and 2017–18 is mainly due to higher revenue from sales and rentals and miscellaneous revenue categories.

Risks to the Revenue Outlook

Ontario's revenue outlook is based on reasonable assumptions about the pace of growth in Ontario's economy. There are both positive and negative risks to the economic projections underlying the revenue forecast. Some of these risks are discussed in Section A: *Economic Outlook* of this chapter.

The following section highlights some of the key sensitivities and risks to the fiscal plan that could arise from unexpected changes in economic conditions. These estimates are only guidelines; actual results will vary depending on the composition and interaction of the various factors. The risks are those that could have the most material impact on the largest revenue sources. A broader range of additional risks are not included because they are either less material or difficult to quantify. For example, the outlook for Government of Canada transfers is subject to changes in economic variables that affect federal funding, as well as changes by the federal government to the funding arrangements themselves.

TABLE 3.17 Selected Economic and Revenue Risks and Sensitivities

Item/Key Components	2016–17 Assumption	2016–17 Sensitivities
Total Revenues		
Nominal GDP	4.0 per cent growth in 2016	$890 million revenue change for each percentage point change in nominal GDP growth. Can vary significantly, depending on composition and source of changes in GDP growth.
Total Taxation Revenues		
Revenue Base[1]	4.3 per cent growth in 2016–17	
Nominal GDP	4.0 per cent growth in 2016	$615 million revenue change for each percentage point change in nominal GDP growth. Can vary significantly, depending on composition and source of changes in GDP growth.
Personal Income Tax (PIT) Revenues		
Revenue Base	5.8 per cent growth in 2016–17	
Compensation of Employees	4.4 per cent growth in 2016	$316 million revenue change for each percentage point change in compensation of employees growth.
2015 Tax-Year Assessments[2]	$28.3 billion	$283 million revenue change for each percentage point change in 2015 PIT assessments.[2]
2014 Tax-Year and Prior Assessments	$1.5 billion	$15 million revenue change for each percentage point change in 2014 and prior-year PIT assessments.[2]

TABLE 3.17 Selected Economic and Revenue Risks and Sensitivities (cont'd)

Item/Key Components	2016–17 Assumption	2016–17 Sensitivities
Sales Tax Revenues		
Revenue Base	5.2 per cent growth in 2016–17	
Nominal Household Consumption	4.4 per cent growth in 2016	$185 million revenue change for each percentage point change in nominal household consumption growth.
2014 Gross Revenue Pool[3]	$24.7 billion	$247 million revenue change for each percentage point change in 2014 gross revenue pool.
2015 Gross Revenue Pool[3]	$26.2 billion	$262 million revenue change for each percentage point change in 2015 gross revenue pool.
2016 Gross Revenue Pool[3]	$26.9 billion	$269 million revenue change for each percentage point change in 2016 gross revenue pool.
Corporations Tax Revenues		
Revenue Base	2.6 per cent growth in 2016–17	
Net Operating Surplus — Corporations	3.7 per cent growth in 2016	$90 million change in revenue for each percentage point change in net operating surplus — corporations growth.
2015 Tax Assessments[2]	$9.6 billion	$96 million change in revenue for each percentage point change in 2015 Tax Assessments.
2016 Ontario Corporate Taxable Income	$111.1 billion	$128 million change in revenue for each percentage point change in the federal estimate of 2016 Ontario Corporate Taxable Income.
2017 Ontario Corporate Taxable Income	$118.3 billion	$45 million change in revenue for each percentage point change in 2017 Ontario Corporate Taxable Income.

TABLE 3.17 Selected Economic and Revenue Risks and Sensitivities (cont'd)

Item/Key Components	2016–17 Assumption	2016–17 Sensitivities
Employer Health Tax Revenues		
Revenue Base	4.6 per cent growth in 2016–17	
Compensation of Employees	4.4 per cent growth in 2016	$60 million revenue change for each percentage point change in compensation of employees growth.
Ontario Health Premium (OHP) Revenues		
Revenue Base	4.7 per cent growth in 2016–17	
Compensation of Employees	4.4 per cent growth in 2016	$24 million revenue change for each percentage point change in compensation of employees growth.
2015 Tax-Year Assessments	$3.2 billion	$32 million revenue change for each percentage point change in 2015 OHP assessments.

TABLE 3.17 Selected Economic and Revenue Risks and Sensitivities (cont'd)

Item/Key Components	2016–17 Assumption	2016–17 Sensitivities
Gasoline Tax Revenues		
Revenue Base	1.4 per cent growth in 2016–17	
Gasoline Pump Prices	99.3 cents per litre in 2016	$3 million revenue decrease (increase) for each cent per litre increase (decrease) in gasoline pump prices.
Fuel Tax Revenues		
Revenue Base	1.8 per cent growth in 2016–17	
Real GDP	2.2 per cent growth in 2016	$11 million revenue change for each percentage point change in real GDP growth.
Land Transfer Tax Revenues		
Revenue Base	2.0 per cent decline in 2016–17	
Housing Resales	5.9 per cent decline in 2016–17	$20 million revenue change for each percentage point change in both the number and prices of housing resales.
Resale Prices	2.7 per cent increase in 2016–17	
Canada Health Transfer		
Ontario Population Share	38.4 per cent in 2016–17	$36 million revenue change for each tenth of a percentage point change in Ontario's population share.
Canada Social Transfer		
Ontario Population Share	38.4 per cent in 2016–17	$13 million revenue change for each tenth of a percentage point change in Ontario's population share.

TABLE 3.17 Selected Economic and Revenue Risks and Sensitivities (cont'd)

Item/Key Components	2017–18 Assumption	2017–18 Sensitivities
Equalization Entitlements		
Three-Year Weighted-Average Population	0.9 per cent growth over 2016–17	1.0 per cent relative increase (decrease) in the three-year weighted-average population for Ontario will result in $0.5 billion higher (lower) Equalization entitlement for Ontario.
Three-Year Weighted-Average Fiscal Capacity	3.2 per cent growth over 2016–17	1.0 per cent relative increase (decrease) in Ontario's three-year weighted average fiscal capacity will result in $0.5 billion lower (higher) Equalization entitlement for Ontario.
Cap-and-Trade Proceeds		
Carbon Price ($ Canadian/tonne of carbon dioxide emissions)	$18 in 2017	A one per cent increase (decrease) in the carbon price would result in a $19 million increase (decrease) in cap-and-trade proceeds.

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

[2] Ontario 2015 Personal Income Tax and Corporations Tax are estimates because 2015 tax returns are yet to be assessed by the Canada Revenue Agency.

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

Medium-Term Expense Outlook

The Province's program expense outlook is projected to grow at an average annual rate of 1.9 per cent between 2014–15 and 2018–19. This reflects the government's commitment to invest in priority areas to enhance public services, support economic growth and a low-carbon economy, and create jobs.

TABLE 3.18 Summary of Medium-Term Expense Outlook
($ Billions)

	Actual	Interim	Plan	Outlook		Average Annual Growth 2014–15
	2014–15	2015–16	2016–17	2017–18	2018–19	to 2018–19
Programs						
Health Sector	50.0	50.8	51.8	52.8	53.7	1.8%
Education Sector[1]	24.6	24.8	25.6	25.8	25.9	1.2%
Postsecondary and Training Sector	7.7	7.8	7.9	7.9	8.0	1.1%
Children's and Social Services Sector	14.7	15.6	15.8	16.1	16.3	2.7%
Justice Sector	4.4	4.5	4.5	4.5	4.6	1.2%
Other Programs	16.9	17.5	16.5	17.2	19.1	3.2%
Total Programs	**118.2**	**120.9**	**122.1**	**124.2**	**127.6**	**1.9%**
Interest on Debt	10.6	11.2	11.8	12.5	13.1	5.4%
Total Expense	**128.9**	**132.1**	**133.9**	**136.6**	**140.7**	**2.2%**

[1] Excludes Teachers' Pension Plan. Teachers' Pension Plan expense is included in Other Programs.
Note: Numbers may not add due to rounding.

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

- Total **health sector** expense is projected to grow on average by 1.8 per cent per year between 2014–15 and 2018–19. Growth will be managed in part by a continued shift in the hospital funding model from a global funding approach to an activity-based funding approach, and continued emphasis on the sustainability of Ontario's drug programs. These measures would allow for investments in other areas of the health sector that are critical to the Patients First: Action Plan for Health Care, such as ongoing investments in home and community care. See Chapter II, Section B: *Transforming Government and Managing Costs* for more on managing health care spending and growth.
- Total **education sector** expense is projected to grow on average by 1.2 per cent per year between 2014–15 and 2018–19, mainly due to increased funding to school boards to support student enrolment; increased funding for the child care sector to support child care modernization; and continued implementation of a wage increase for front-line child care workers. The growth rate also reflects actions being taken to modernize and transform the education system, and manage costs through more efficient use of school space by consolidating schools, sharing space among school boards and fostering community partnerships, where appropriate.
- Total **postsecondary and training sector** expense is projected to grow on average by 1.1 per cent per year between 2014–15 and 2018–19, mainly due to investments in student financial assistance programs, increases related to Ontario's contribution to the Canada–Ontario Job Grant, and capital investments.
- Total **children's and social services sector** expense is projected to grow on average by 2.7 per cent per year between 2014–15 and 2018–19, primarily reflecting the government's support for vulnerable Ontarians through investments in social assistance and developmental services, as well as funding to support transformation and expansion of autism services.
- Total **justice sector** expense is projected to grow on average by 1.2 per cent per year between 2014–15 and 2018–19, mainly due to the continuing upload of court security costs from municipalities, the expansion of access to legal aid for low-income Ontarians and planned capital investments.

- **Other programs** expense is projected to grow, on average, by 3.2 per cent per year between 2014–15 and 2018–19, mainly due to investments in transit, transportation and community infrastructure, enhancement of GO Transit services, the Long-Term Affordable Housing Strategy and initiatives to support Ontario’s Climate Change Strategy.

The total expense outlook includes interest on debt expense, which is projected to increase on average by 5.4 per cent per year between 2014–15 and 2018–19. This increase is mainly due to the forecast increase in net debt from borrowing required to fund deficits and investment in capital assets.

Key Changes in the Medium-Term Expense Outlook since the *2015 Budget*

TABLE 3.19 Summary of Medium-Term Expense Changes since the *2015 Budget*

($ Billions)

	2015–16	2016–17	2017–18
Program Expense for the *2015 Budget*	**120.5**	**120.6**	**120.0**
Program Expense Changes			
Projected Cap-and-Trade Investments	0.3	0.2	1.9
Moving Ontario Forward	(0.0)	0.1	0.0
Adjustments for Demand, Demographics and Other Infrastructure	0.1	0.7	2.3
Contingency Funds[1,2]	–	0.6	–
Net Program Expense Changes	**0.4**	**1.6**	**4.2**
***2016 Budget* Program Expense**	**120.9**	**122.1**	**124.2**
Annual Growth in Program Expense (per cent)	2.2	1.0	1.7

[1] Unused contingency funds for 2015–16 drawn down at interim, with remaining balance of $15 million.

[2] In the *2015 Budget*, combined operating and capital contingency funds for 2015–16 were $650 million. In the *2016 Budget*, combined contingency funds for 2016–17 are $1,200 million.

Note: Numbers may not add due to rounding.

Compared with the *2015 Budget*, program expense is projected to be $1.6 billion higher in 2016–17 and $4.2 billion higher in 2017–18. These changes primarily reflect projected emissions reduction initiatives offset by cap-and-trade revenue, small changes to Moving Ontario Forward projects, adjustments for changes in demand and demographics across many programs, and other investments in infrastructure. In addition, the *2016 Budget* includes combined operating and capital contingency funds for 2016–17 that are $0.6 billion higher than the combined contingency funds included in the *2015 Budget* for the 2015–16 fiscal year. These increased contingencies provide flexibility to allow the government to respond to changing needs and help mitigate expense risks that may otherwise adversely affect Ontario’s fiscal performance.

Risks to the Expense Outlook

The government has proven to be a strong fiscal manager, having held average annual growth in program spending to 1.4 per cent between 2010–11 and 2014–15. It will manage risks prudently to ensure it can continue to invest in the economy, people and a healthy, clean and prosperous low-carbon future, while also balancing the budget by 2017–18 in a fair and responsible way.

Although Ontario's economic growth is outpacing national growth, an increasingly competitive global economic environment and ongoing uncertainty pose risks to the Province's expense projections.

The following table provides a summary of key expense risks and sensitivities that could result from unexpected changes in economic conditions and program demands. A change in these factors could affect total expense, causing variances in the overall fiscal forecast. These sensitivities are illustrative and can vary, depending on the nature and composition of potential risks.

TABLE 3.20 Selected Expense Sensitivities

Program/Sector	2016–17 Assumption	2016–17 Sensitivity
Health Sector	Annual growth of 2.0 per cent.	One per cent change in health spending: $518 million.
Hospitals' Sector Expense	Annual base growth of 1 per cent.	One per cent change in hospitals' sector expense: $226 million.
Drug Programs	Annual growth of 3 per cent.	One per cent change in program expenditure of drug programs: $39 million.
Long-Term Care Homes	78,233 long-term care home beds. Average Provincial annual operating cost per bed in a long-term care home is $52,000.	One per cent change in number of beds: approximately $41 million.
Home Care	Approximately 27 million hours of personal support services. Approximately 8.4 million nursing and professional visits.	One per cent change in hours of personal support services: approximately $8.7 million. One per cent change in nursing and therapy visits: approximately $5.6 million.
Elementary and Secondary Schools	Approximately 1,952,000 average daily pupil enrolment.	One per cent enrolment change: approximately $150 million.
University Students	374,000 full-time undergraduate and graduate students.	One per cent enrolment change: $32 million.
College Students	192,000 full-time students.	One per cent enrolment change: $13 million.
Ontario Works	251,313 average annual caseload.	One per cent caseload change: $25 million.
Ontario Disability Support Program	345,821 average annual caseload.	One per cent caseload change: $48 million.
Interest on Debt	Average cost of 10-year borrowing in 2016–17 is forecast to be approximately 3.1 per cent.	The impact of a 100 basis-point change in borrowing rates is forecast to be approximately $350 million.

Contingent Liabilities

In addition to the key demand sensitivities and economic risks to the fiscal plan, there are risks stemming from the government's contingent liabilities. Whether these contingencies will result in actual liabilities for the Province is beyond the direct control of the government. Losses could result from legal settlements, defaults on projects, and loan and funding guarantees. Provisions for losses that are likely to occur and can be reasonably estimated are expensed and reported as liabilities in the Province's financial statements. Any significant contingent liabilities were disclosed as part of the *2014–2015 Annual Report and Consolidated Financial Statements*, released in September 2015.

Fiscal Prudence

As required by the *Fiscal Transparency and Accountability Act, 2004,* Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense. The reserve has been set at $1.0 billion in 2016–17, $1.1 billion in 2017–18 and $1.2 billion in 2018–19.

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

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions. Three economic experts reviewed the Ministry of Finance's economic assumptions in February 2016 and found the assumptions to be reasonable. The three experts are from the Policy and Economic Analysis Program at the Rotman Institute for International Business; Rotman School of Management, University of Toronto; the Centre for Spatial Economics; and the Conference Board of Canada.

Details of Ontario's Finances

The following tables and charts provide information on the Province's historical financial performance, key fiscal indicators, and details of Ontario's fiscal plan and outlook.

TABLE 3.21 Revenue
($ Millions)

	2013–14	Actual 2014–15	Interim 2015–16	Plan 2016–17
Taxation Revenue				
Personal Income Tax	26,929	29,313	30,265	32,167
Sales Tax[1]	20,481	21,689	23,486	23,976
Corporations Tax	11,423	9,557	11,368	12,050
Education Property Tax[2]	5,457	5,561	5,666	5,834
Employer Health Tax	5,283	5,415	5,742	6,007
Ontario Health Premium	3,128	3,366	3,451	3,604
Gasoline Tax	2,363	2,447	2,468	2,522
Land Transfer Tax	1,614	1,778	2,093	2,051
Tobacco Tax	1,110	1,163	1,208	1,221
Fuel Tax	718	739	751	790
Beer and Wine Tax	557	560	579	611
Electricity Payments in Lieu of Taxes	543	180	3,232	515
Other Taxes	360	507	457	471
	79,966	**82,275**	**90,766**	**91,819**
Government of Canada				
Canada Health Transfer	11,940	12,408	13,084	13,858
Canada Social Transfer	4,689	4,847	4,984	5,128
Equalization	3,169	1,988	2,363	2,304
Infrastructure Programs	123	137	168	1,017
Labour Market Programs	909	896	927	989
Social Housing	474	465	448	434
Wait Times Reduction Fund	96	–	–	–
Other Federal Payments	877	874	899	914
	22,277	**21,615**	**22,873**	**24,644**
Government Business Enterprises				
Ontario Lottery and Gaming Corporation	2,009	1,995	2,079	1,953
Liquor Control Board of Ontario	1,723	1,831	1,938	2,025
Ontario Power Generation Inc./Hydro One Ltd./Brampton Distribution Holdco Inc.	1,605	1,789	330	1,049
	5,337	**5,615**	**4,347**	**5,027**
Other Non-Tax Revenue				
Reimbursements	962	985	979	983
Vehicle and Driver Registration Fees	1,248	1,433	1,592	1,751
Electricity Debt Retirement Charge	954	956	868	625
Power Supply Contract Recoveries	1,296	950	784	643
Sales and Rentals	1,160	2,336	2,174	2,421
Cap-and-Trade Proceeds	–	–	–	478
Other Fees and Licences	759	693	940	987
Net Reduction of Power Purchase Contract Liability	243	217	172	129
Royalties	242	275	271	287
Miscellaneous Other Non-Tax Revenue[3]	1,467	1,196	781	795
	8,331	**9,041**	**8,561**	**9,099**
Total Revenue	**115,911**	**118,546**	**126,547**	**130,589**

1 Sales Tax revenue is net of the Ontario Sales Tax Credit and the energy component of the Ontario Energy and Property Tax Credit.

2 Education Property Tax revenue is net of the property tax credit component of the Ontario Energy and Property Tax Credit and the Ontario Senior Homeowners' Property Tax Grant.

3 Relatively high Miscellaneous Other Non-Tax revenue in 2013–14 reflects the gain on the sale of the Province's shares of General Motors Company and higher recoveries of prior-year expenditures.

Note: Numbers may not add due to rounding.

TABLE 3.22 Total Expense
($ Millions)

Ministry Expense	2013–14	Actual 2014–15	Interim 2015–16	Plan 2016–17
Aboriginal Affairs[1]	63	67	74.8	77.0
Agriculture, Food and Rural Affairs[1]	800	805	943.2	915.9
Attorney General	1,812	1,782	1,816.5	1,867.8
Board of Internal Economy[2]	199	264	220.1	219.9
Children and Youth Services	3,973	4,112	4,257.6	4,346.1
Citizenship, Immigration and International Trade	152	157	169.4	220.8
Community and Social Services	9,977	10,551	11,304.6	11,467.5
Community Safety and Correctional Services[1]	2,380	2,524	2,537.5	2,649.5
Economic Development, Employment and Infrastructure / Research and Innovation[1]	992	1,076	1,195.4	1,177.0
Education[1]	23,645	24,630	24,801.4	25,635.8
Energy[1]	311	326	329.9	322.1
Environment and Climate Change[1]	480	486	502.6	531.4
Executive Offices	30	43	36.7	44.0
Finance[1]	907	951	960.6	963.1
Francophone Affairs, Office of	5	5	8.4	5.7
Government and Consumer Services	594	573	610.0	607.6
Health and Long-Term Care	48,933	50,039	50,785.4	51,785.2
Labour	303	305	307.5	309.5
Municipal Affairs and Housing[1]	845	889	916.9	900.0
Natural Resources and Forestry[1]	720	714	710.6	750.6
Northern Development and Mines	719	804	740.8	790.7
Tourism, Culture and Sport[1]	1,337	1,246	1,262.3	1,250.8
Training, Colleges and Universities	7,599	7,684	7,782.1	7,876.8
Transportation[1]	2,823	2,944	3,365.5	3,850.9
Treasury Board Secretariat[1]	222	227	220.5	316.9
Interest on Debt[3]	10,572	10,635	11,200.0	11,756.0
Other Expense[1]	5,972	5,022	5,022.8	4,056.8
Year-End Savings[4]	–	–	–	(800.0)
Total Expense	**126,364**	**128,860**	**132,083.2**	**133,895.4**

[1] Details on other ministry expense can be found in Table 3.23, Details of Other Expense.

[2] The 2014–15 amount includes expenses for the 2014 general election.

[3] Interest on debt is net of interest capitalized during construction of tangible capital assets of $134 million in 2013–14, $202 million in 2014–15, $131 million in 2015–16 and $183 million in 2016–17.

[4] As in past years, the Year-End Savings provision reflects efficiencies through in-year expenditure management and underspending due to factors such as program management, and changes in project startups and implementation plans.

Note: Numbers may not add due to rounding.

TABLE 3.23 Details of Other Expense
($ Millions)

Ministry Expense	2013–14	Actual 2014–15	Interim 2015–16	Plan 2016–17
Aboriginal Affairs				
One-Time Investments including Settlements	12	3	4.5	–
Green Investment Fund Initiatives	–	–	5.0	–
Agriculture, Food and Rural Affairs				
Time-Limited Investments in Infrastructure	132	36	21.2	–
Time-Limited Assistance	17	7	–	–
Community Safety and Correctional Services				
Time-Limited Support for 2015 Pan/Parapan American Games Security	5	44	123.5	–
Economic Development, Employment and Infrastructure / Research and Innovation				
Green Investment Fund Initiatives	–	–	99.0	–
Federal–Provincial Infrastructure Programs	–	–	–	618.7
Education				
Teachers' Pension Plan[1]	873	564	112.0	(452.0)
Energy				
Green Investment Fund Initiatives	–	–	108.0	–
Ontario Clean Energy Benefit	1,006	1,078	860.0	–
Strategic Asset Management and Transformation Related to Hydro One	–	–	52.0	70.9
Environment and Climate Change				
Green Investment Fund Initiatives	–	–	1.0	–
Finance				
Ontario Municipal Partnership Fund	569	542	512.5	505.0
Power Supply Contract Costs	1,296	920	783.6	643.1
Municipal Affairs and Housing				
Green Investment Fund Initiatives	–	–	92.0	–
Time-Limited Investments in Municipal, Social and Affordable Housing	155	153	163.1	160.3
Time-Limited Investments	208	7	0.3	–
Natural Resources and Forestry				
Emergency Forest Firefighting	92	78	96.1	69.8
Tourism, Culture and Sport				
Time-Limited Investments to Support 2015 Pan/Parapan American Games	332	405	871.2	88.6
Transportation				
Green Investment Fund Initiatives	–	–	20.0	–
Treasury Board Secretariat				
Capital Contingency Fund	–	–	–	100.0
Operating Contingency Fund	–	–	14.6	1,100.0
Employee and Pensioner Benefits	1,275	1,186	1,083.2	1,152.5
Total Other Expense	**5,972**	**5,022**	**5,022.8**	**4,056.8**

[1] Numbers reflect Public Sector Accounting Board pension expense. Ontario's matching contributions to the plan grow from $1,466 million in 2013–14 to $1,664 million in 2016–17.

Note: Numbers may not add due to rounding.

TABLE 3.24 2016–17 Infrastructure Expenditures
($ Millions)

Sector	Total Infrastructure Expenditures 2015–16 Interim[1]	2016–17 Plan: Investment in Capital Assets[2]	2016–17 Plan: Transfers and Other Infrastructure Expenditures[3]	2016–17 Plan: Total Infrastructure Expenditures[4]
Transportation				
Transit	3,293	4,701	688	5,389
Provincial Highways	2,206	2,108	43	2,150
Other Transportation, Property and Planning	815	603	166	768
Health				
Hospitals	2,174	2,621	263	2,884
Other Health	258	60	248	308
Education	1,930	1,834	171	2,005
Postsecondary				
Colleges and Other	385	608	4	613
Universities	209	–	187	187
Social	373	8	305	312
Justice	198	58	197	255
Other Sectors[5]	1,101	436	934	1,369
Total Infrastructure Expenditures	**12,941**	**13,037**	**3,203**	**16,240**

1 Includes provincial investment in capital assets of approximately $8.5 billion.
2 Includes $183 million in interest capitalized during construction.
3 Includes transfers to municipalities, universities and non-consolidated agencies.
4 Includes third-party investments in hospitals, colleges and schools; and provisional federal contributions to provincial infrastructure investments.
5 Includes government administration, natural resources, culture and tourism sectors.
Note: Numbers may not add due to rounding.

TABLE 3.25 Ten-Year Review of Selected Financial and Economic Statistics[1]

($ Millions)

	2007–08	2008–09	2009–10[2]
Revenue	**104,115**	**97,532**	**96,313**
Expense			
Programs	94,601	95,375	106,856
Interest on Debt[3]	8,914	8,566	8,719
Total Expense	**103,515**	**103,941**	**115,575**
Surplus/(Deficit) Before Reserve	**600**	**(6,409)**	**(19,262)**
Reserve	–	–	–
Surplus/(Deficit)	**600**	**(6,409)**	**(19,262)**
Net Debt[4]	156,616	169,585	193,589
Accumulated Deficit	105,617	113,238	130,957
Gross Domestic Product (GDP) at Market Prices	601,735	608,446	597,882
Primary Household Income	403,408	414,724	412,847
Population — July (000s)	12,764	12,883	12,998
Net Debt per Capita (dollars)	12,270	13,164	14,894
Household Income per Capita (dollars)	31,605	32,193	31,763
Interest on Debt as a Per Cent of Revenue	8.6	8.8	9.1
Net Debt as a Per Cent of GDP	26.0	27.9	32.4
Accumulated Deficit as a Per Cent of GDP	17.6	18.6	21.9

1 Revenue and expense have been restated to reflect a fiscally neutral accounting change for the revised presentation of education property taxes, as described in the *2010 Ontario Budget*; a fiscally neutral accounting change related to the reclassification of government agencies and organizations, as described in the *2011 Ontario Economic Outlook and Fiscal Review*; and a fiscally neutral reclassification of a number of tax measures that are transfers or grants, as described in the *2012 Ontario Budget*.

2 Starting in 2009–10, investments in minor tangible capital assets owned by the Province were capitalized and amortized to expense. All capital assets owned by consolidated organizations are being accounted for in a similar manner.

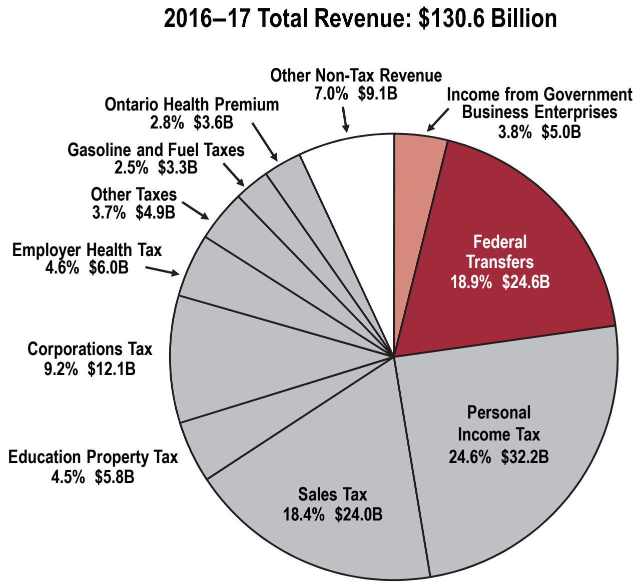
3 Interest on debt is net of interest capitalized during construction of tangible capital assets of $134 million in 2013–14, $202 million in 2014–15, $131 million in 2015–16 and $183 million in 2016–17.

4 Starting in 2009–10, Net Debt includes the net debt of hospitals, school boards and colleges, consistent with Public Sector Accounting Board standards. For comparative purposes, Net Debt has been restated from 2007–08 to 2008–09 to conform with this revised presentation.

Sources: Statistics Canada and Ontario Ministry of Finance.

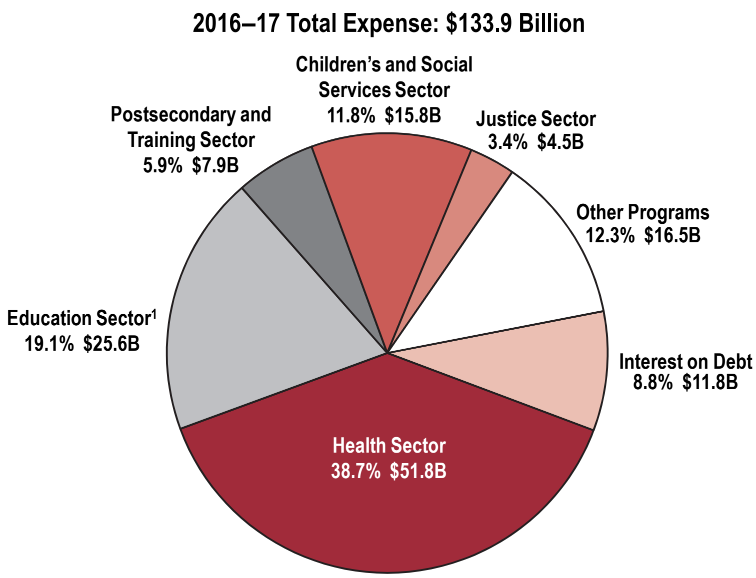
2010–11	2011–12	2012–13	2013–14	Actual 2014–15	Interim 2015–16	Plan 2016–17
107,175	**109,773**	**113,369**	**115,911**	**118,546**	**126,547**	**130,589**
111,706	112,660	112,248	115,792	118,225	120,883	122,139
9,480	10,082	10,341	10,572	10,635	11,200	11,756
121,186	**122,742**	**122,589**	**126,364**	**128,860**	**132,083**	**133,895**
(14,011)	**(12,969)**	**(9,220)**	**(10,453)**	**(10,314)**	**(5,536)**	**(3,306)**
–	–	–	–	–	150	1,000
(14,011)	**(12,969)**	**(9,220)**	**(10,453)**	**(10,314)**	**(5,686)**	**(4,306)**
214,511	235,582	252,088	267,190	284,576	296,109	308,315
144,573	158,410	167,132	176,634	187,511	193,447	197,753
630,989	659,743	680,084	693,210	721,970	748,207	778,417
424,251	444,076	459,111	473,905	490,412	506,462	529,083
13,135	13,264	13,410	13,551	13,678	13,792	13,949
16,331	17,762	18,798	19,717	20,806	21,470	22,103
32,299	33,481	34,236	34,972	35,855	36,721	37,930
8.8	9.2	9.1	9.1	9.0	8.9	9.0
34.0	35.7	37.1	38.5	39.4	39.6	39.6
22.9	24.0	24.6	25.5	26.0	25.9	25.4

CHART 3.23 **Composition of Revenue, 2016–17**



Note: Numbers may not add due to rounding.

CHART 3.24 **Composition of Total Expense, 2016–17**



[1] Excludes Teachers' Pension Plan. Teachers' Pension Plan expense is included in Other Programs.
Note: Numbers may not add due to rounding.

Support from Gaming

Proceeds from gaming activities in Ontario continue to support Provincial priorities. Net Provincial revenue generated from Ontario Lottery and Gaming Corporation (OLG) lotteries, casinos, Internet gaming and slot facilities support the operation of hospitals, charitable and not-for-profit organizations, amateur sports, problem gambling prevention, treatment and research and horse racing. Ontario Lottery and Gaming Corporation also makes payments directly from its revenues to support municipalities and Ontario First Nations.

TABLE 3.26 Support for Health Care, Charities, Problem Gambling and Related Programs, Municipalities and Ontario First Nations

($ Millions)

	Interim 2015–16	Plan 2016–17
Revenue for Provincial Purposes		
Operation of Hospitals	1,755	1,648
Ontario Trillium Foundation	115	115
Problem Gambling Prevention, Treatment and Research	38	38
Ontario Amateur Sports	10	10
General Government Priorities, including Horse Racing Support	161	143
Subtotal — Net Profit to Province from OLG	**2,079**	**1,953**
Support for Municipalities and Ontario First Nations[1]		
Municipalities and First Nations Host Payments[2]	117	117
Ontario First Nations[3]	122	122
Total Support from Gaming	**2,318**	**2,192**

1 Operating expenses of the Ontario Lottery and Gaming Corporation (OLG) include payments to host municipalities and Ontario First Nations payments under the Gaming Revenue Sharing and Financial Agreement.

2 Includes Ontario Lottery and Gaming Corporation (OLG) operated casinos, slot facilities and resort casinos, municipality host payments, the Rama First Nations Fee for Casino Rama and the Mississaugas of Scugog Island First Nation Fee for Great Blue Heron Casino.

3 Revenues paid to First Nations resulting from the Gaming Revenue Sharing and Financial Agreement.

Note: Numbers may not add due to rounding.

Section C: Borrowing and Debt Management

Ontario conducts its borrowing program responsibly to better protect the essential public services Ontarians rely on by minimizing interest on debt costs. To date, $28.4 billion, or 94 per cent, of this year's long-term public borrowing requirement has been completed. The Province's interim borrowing requirement in 2015–16 has decreased by $1.0 billion compared to the 2015 Budget forecast.

Net debt, as of March 31, 2016, is forecast to be $296.1 billion, $2.8 billion lower than forecasted in the *2015 Budget.* Net debt was $284.6 billion as of March 31, 2015. The net debt-to-GDP ratio is forecast to peak at 39.6 per cent in 2015–16, remain level in 2016–17, and decline to 38.9 per cent in 2017–18 and 38.5 per cent in 2018–19. The government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent.

Green Bonds are an important tool to help Ontario finance transit and other environmentally friendly projects across the province. As the first Canadian province to issue Green Bonds, Ontario is leading the way in establishing and developing a Canadian-dollar Green Bond market with global investor participation. The Province issued its second Green Bond in January 2016.

Long-Term Public Borrowing

The Province's deficit for 2015–16 is now projected to be $5.7 billion, compared to the 2015 Budget forecast of $8.5 billion. The total funding requirement for 2015–16 is now forecast at $4.0 billion lower than the 2015 Budget forecast. The Province's total long-term borrowing in 2016–17 is forecast to be $26.4 billion, $3.7 billion lower than the amount borrowed in 2015–16, and $4.0 billion less than forecast for 2016–17 in the *2015 Budget*.

The government will seek approval from the legislature for borrowing authority to meet the Province's requirements, and will propose amendments that, if passed, would streamline the administration of the Province's borrowing program.

TABLE 3.27 Borrowing Program and Medium-Term Outlook: Province and Ontario Electricity Financial Corporation

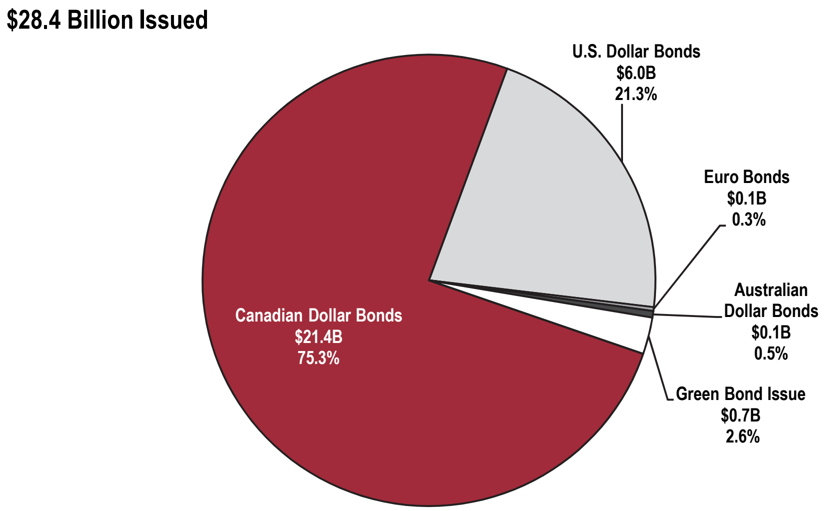
($ Billions)

	2015–16					
	2015 Budget	Interim	In-Year Change	2016–17	2017–18	2018–19
Deficit/(Surplus)	8.5	5.7	(2.8)	4.3	0.0	0.0
Investment in Capital Assets	9.1	8.5	(0.6)	11.2	12.4	14.2
Non-Cash Adjustments	(4.9)	(3.1)	1.8	(5.8)	(6.1)	(6.3)
Loans to Infrastructure Ontario	1.1	0.8	(0.2)	–	0.3	0.1
Other Net Loans/Investments	1.0	(0.2)	(1.2)	(0.9)	(0.8)	(1.2)
Debt Maturities	21.0	21.1	0.1	21.5	17.5	22.1
Debt Redemptions	0.2	–	(0.2)	0.1	0.1	0.1
Hydro One Special Dividend	–	(0.8)	(0.8)	–	–	–
Total Funding Requirement	**35.9**	**31.9**	**(4.0)**	**30.3**	**23.3**	**28.8**
Canada Pension Plan Borrowing	–	–	–	(0.1)	–	–
Decrease/(Increase) in Short-Term Borrowing	–	–	–	(1.0)	–	–
Increase/(Decrease) in Cash and Cash Equivalents	–	3.5	3.5	(2.7)	–	–
Preborrowing from 2014–15	(4.8)	(5.3)	(0.5)	–	–	–
Total Long-Term Public Borrowing	**31.1**	**30.1**	**(1.0)**	**26.4**	**23.3**	**28.7**

Note: Numbers may not add due to rounding.

To date, $28.4 billion of this year's long-term public borrowing has been completed.

CHART 3.25 2015–16 Borrowing



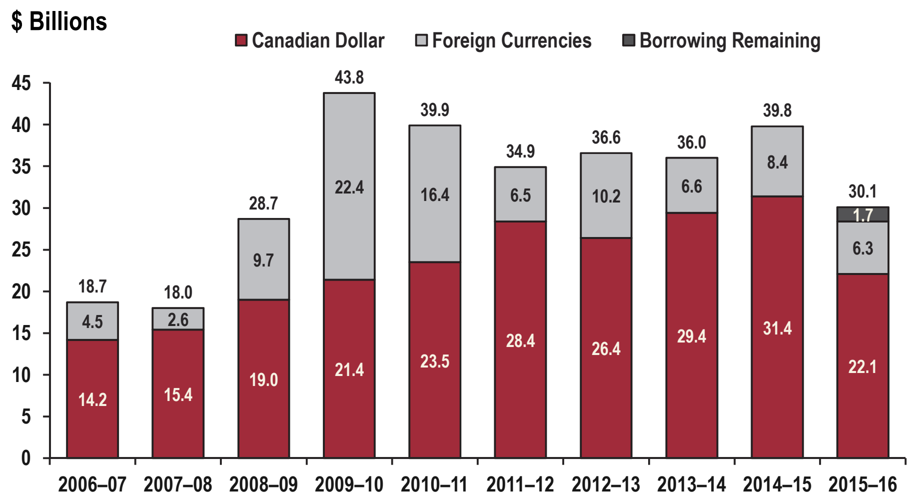
Note: Numbers may not add due to rounding.
Source: Ontario Financing Authority.

Approximately 78 per cent of this year's borrowing to date has been completed in Canadian dollars, primarily through syndicated issues and a $750 million Green Bond issue. Given the strength of demand Ontario has experienced in the Canadian-dollar market, the Province raised its Canadian-dollar borrowing target to at least 75 per cent in 2015–16 in the *2015 Budget*, up from the previous target of 70 per cent. The target for 2016–17 remains at 75 per cent.

About $6.3 billion, or 22 per cent, of borrowing has been completed in foreign currencies. The U.S.-dollar market has remained an important source of funding for Ontario this year, with $6.0 billion issued in U.S. dollars. The remaining foreign currency borrowing has been completed in euros and Australian dollars.

Ensuring Preferred Market Access

CHART 3.26 **Canadian Dollar and Foreign Currency Borrowing**



Note: Numbers may not add due to rounding.
Source: Ontario Financing Authority.

The Province regularly accesses borrowing opportunities in currencies other than Canadian dollars to diversify its investor base. This helps reduce Ontario's overall borrowing costs and ensures that the Province will continue to have access to capital if market conditions become more challenging.

Green Bond Update

On January 22, 2016, Ontario successfully launched its second Canadian-dollar Green Bond of $750 million.

As the first Canadian province to issue Green Bonds, Ontario is leading the way in establishing and developing a Canadian-dollar Green Bond market with global investor participation. In 2014, Ontario's inaugural Green Bond issue attracted investors from the United States, Europe and Asia, bringing new international buyers to the Canadian-dollar market. There was strong international interest for Ontario's second Green Bond, with 35 per cent of investor participation from the United States and Europe. The issue was also made available to retail investors through Canadian financial institutions.

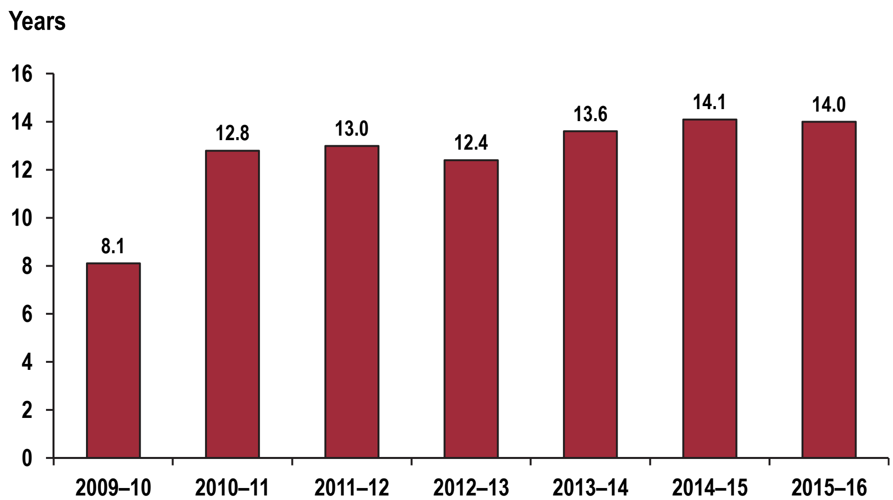
Green Bonds are an important tool to help Ontario finance transit and other environmentally friendly projects across the province. Eight eligible projects have been selected to receive funding from the second Green Bond:

- Metrolinx — Eglinton Crosstown Light Rail Transit (LRT);
- Metrolinx — vivaNext Bus Rapid Transit;
- Metrolinx — Regional Express Rail;
- Sheridan College Hazel McCallion Campus Expansion — Mississauga;
- St. Joseph's Health Care Hamilton — West 5th Campus;
- St. Joseph's Health Care London — London and St. Thomas;
- Waypoint Centre for Mental Health Care — Penetanguishene; and
- Centre for Addiction and Mental Health — Queen Street Site, Phase 1B.

The Eglinton Crosstown LRT was selected as the first project to receive Green Bond funding for $500 million in 2014. To date, total Green Bond financing amounts to $1.25 billion, with up to $1.2 billion allocated to Metrolinx for clean transportation projects.

Term of Borrowing

CHART 3.27 **Weighted-Average Term of Borrowing in Years**



Source: Ontario Financing Authority.

Given the low interest rates experienced in recent years, Ontario has been proactive in extending the term of its borrowing program. Extending the term to maturity allows the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's future interest on debt (IOD) costs.

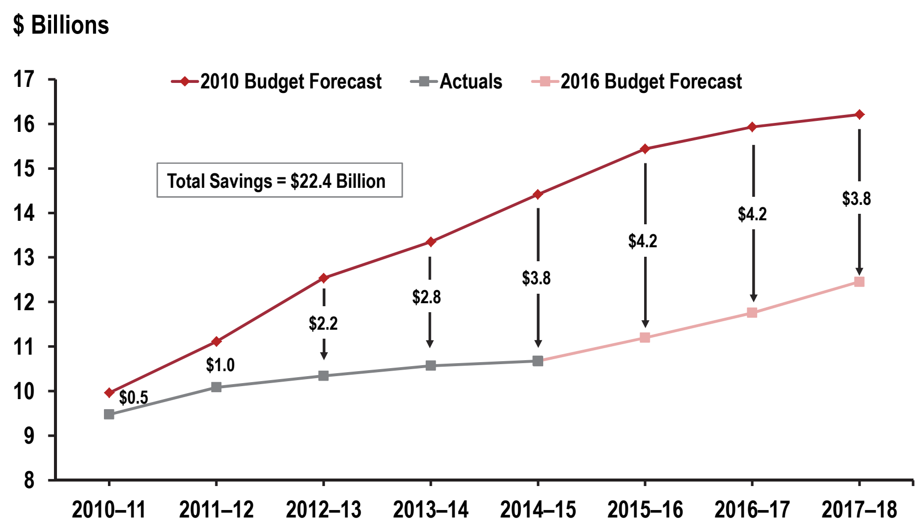
Going back to the beginning of fiscal 2010–11, Ontario has issued $53.5 billion of bonds with terms of longer than 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term Provincial debt issued has been extended significantly, from 8.1 years in 2009–10 to 14.0 years in 2015–16.

Interest on Debt Savings and Affordability

Interest on debt expense is projected to be $11,200 million for 2015–16, which is $210 million lower than forecast in the *2015 Budget*, reflecting lower-than-forecast interest rates, the lower forecast deficit for 2015–16 and cost-effective debt management. Interest on debt expense is forecast to be $11,756 million in 2016–17 and $12,453 million in 2017–18 — $682 million and $750 million lower, respectively, than forecast in the *2015 Budget.*

These savings continue a trend that has been in place since 2010, through a combination of lower deficits and borrowing requirements, and lower-than-forecast interest rates. Interest on debt savings over the period to balance now total $22.4 billion relative to the 2010 Budget forecast.

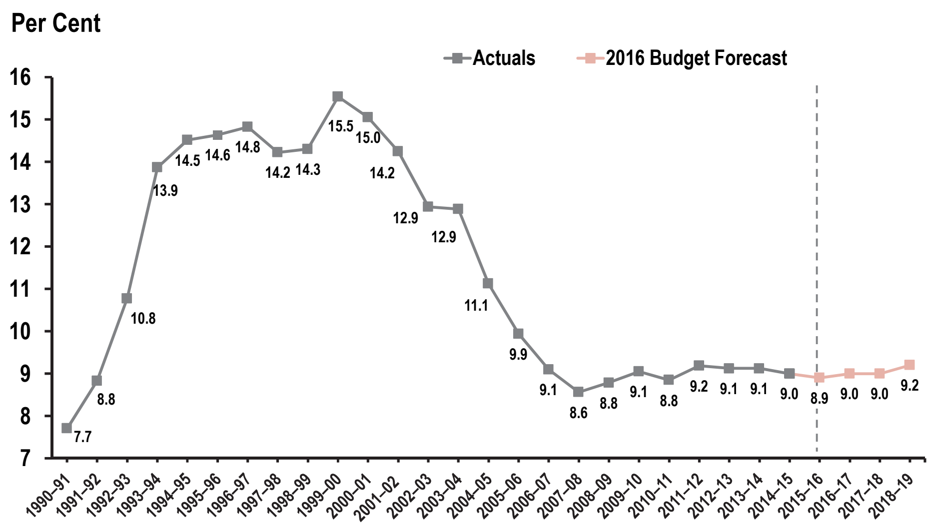
CHART 3.28 **Interest on Debt: Budget Forecast versus Actual**



Note: Numbers may not add due to rounding.
Source: Ontario Financing Authority.

Chart 3.29 illustrates how the savings on IOD have lowered a key measure of the affordability of debt. The 2010 Budget forecast that, by 2016–17, the Province would have to spend 11.7 cents of every revenue dollar received on interest. The current forecast is 2.7 cents lower, at 9.0 cents of interest costs for every dollar of revenue. This ratio is lower than it was in the 1990s and 2000s, and is forecast to remain lower through the outlook period in 2018–19.

CHART 3.29 Interest on Debt-to-Revenue Ratio



Source: Ontario Financing Authority.

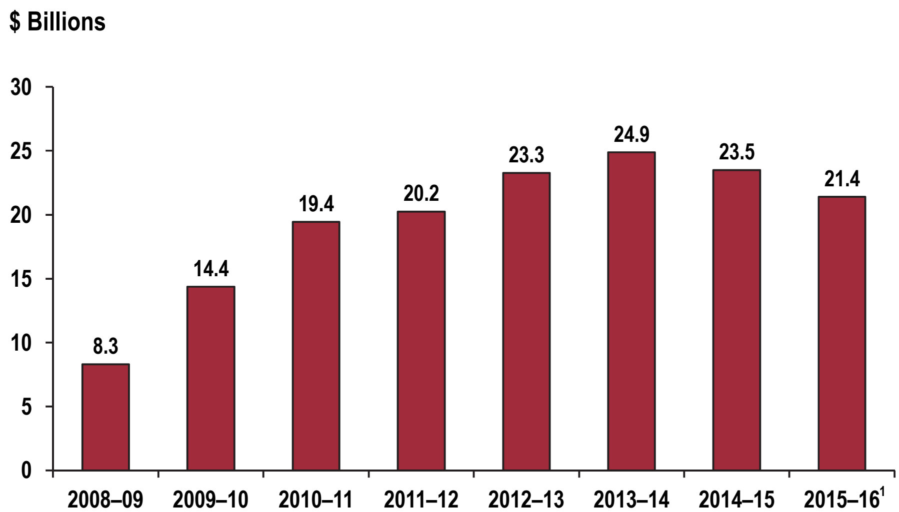
For the 12 years commencing in 1992–93, average IOD-to-revenue was 14.2 per cent, declining to 9.2 per cent over the next 12 years.

Ensuring Adequate Liquidity Levels

Ontario actively manages its financial obligations through the maintenance of a liquid reserve portfolio and the use of short-term borrowing. The Province increased its level of unrestricted liquid reserves following the financial crisis in 2008–09.

The Province's short-term borrowing program in the Canadian- and U.S.-dollar money markets is relatively small, accounting for only 6.4 per cent of Ontario's debt. The unused short-term borrowing capacity that this leaves, combined with the high levels of unrestricted liquid reserves, ensures that the Province will always have adequate liquidity to meet its financial obligations.

CHART 3.30 **Average Unrestricted Liquid Reserve Levels**



[1] As of January 31, 2016.
Source: Ontario Financing Authority.

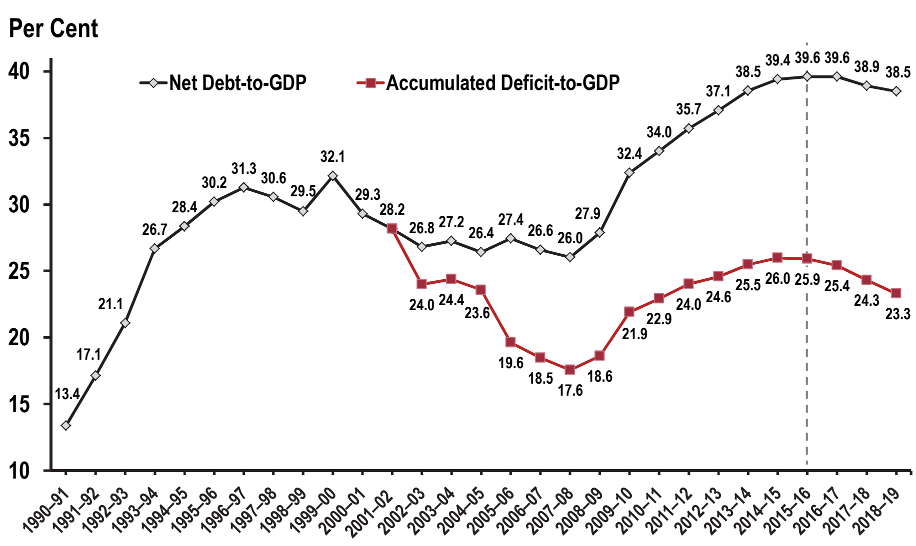
Net Debt-to-GDP

Ontario's net debt is the difference between total liabilities and total financial assets. It is projected to be $296.1 billion as of March 31, 2016, down from the net debt projection of $298.9 billion in the *2015 Budget.*

Accumulated deficit is projected to be $193.4 billion as of March 31, 2016, compared to a projection of $194.8 billion in the *2015 Budget.* The projected difference of $102.7 billion between net debt and accumulated deficit is due to the Province's consistent level of investment in infrastructure, as shown by the increase in tangible capital assets.

Ontario's net debt-to-GDP ratio is forecast to peak in 2015–16, remain level in 2016–17 and begin to decline in 2017–18. The government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent.

CHART 3.31 Net Debt-to-GDP and Accumulated Deficit-to-GDP



Notes: Historical net Debt-to-GDP was revised to reflect historical GDP released by Statistics Canada in November 2015. Net Debt has been restated to include Broader Public Sector Net Debt, starting in 2005–06.
Source: Ontario Ministry of Finance.

In 2016–17, each $780 million in net debt impacts net debt-to-GDP by one-tenth of one per cent.

Total Debt Composition

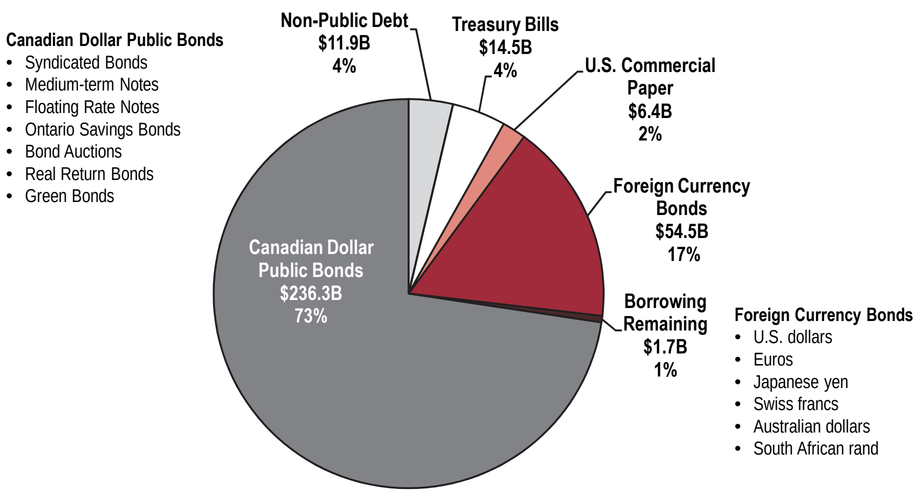
Total debt consists of bonds issued in the public capital markets, non-public debt, treasury bills and U.S. commercial paper. Total debt, which represents all borrowing without offsetting financial assets, is projected to be $325.3 billion as of March 31, 2016.

Public debt, as of March 31, 2016, is projected to be $313.4 billion, primarily consisting of bonds issued in the domestic and international public markets in seven currencies. Ontario also has $11.9 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt consists of debt instruments issued mainly to the Canada Pension Plan Investment Board. This debt is not marketable and cannot be traded.

Canadian-dollar denominated debt represents 81 per cent of the total debt projected as of March 31, 2016.

CHART 3.32 Total Debt Composition as of March 31, 2016

$325.3 Billion Outstanding



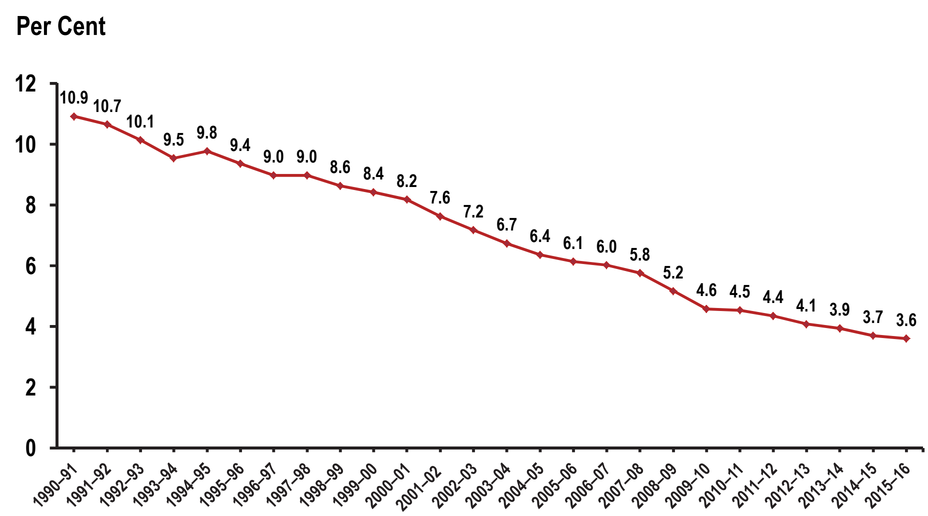
Note: Numbers may not add due to rounding.
Source: Ontario Financing Authority.

Cost of Debt

The interest rate that Ontario pays on its debt has declined steadily since 1990–91, when the effective interest rate (on a weighted-average basis) on total debt was 10.9 per cent. As of March 31, 2016, it is forecast to be 3.6 per cent, lower than the 3.7 per cent from March 31, 2015.

For 2016–17, the impact of a one percentage point change in interest rates on IOD would be approximately $350 million for the Province.

CHART 3.33 Effective Interest Rate (Weighted Average) on Total Debt

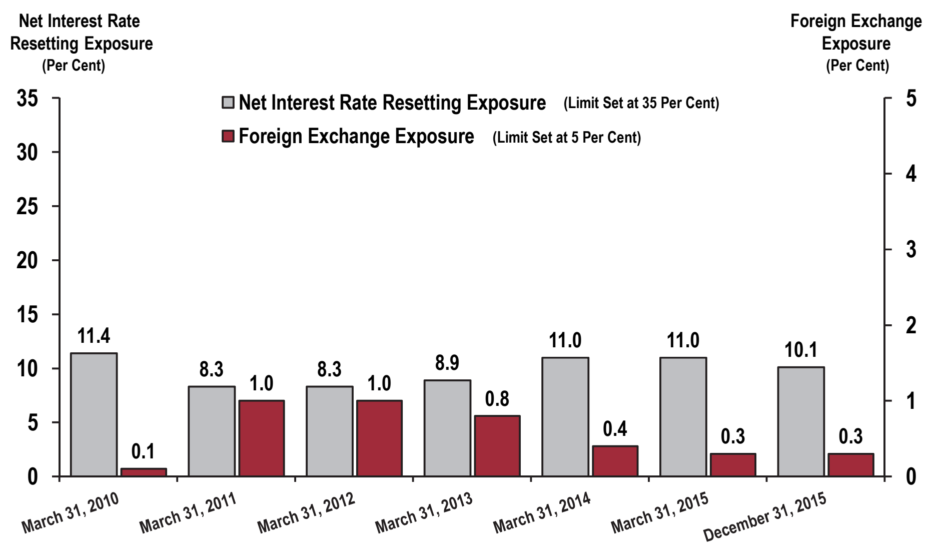


Sources: Ontario Public Accounts (1991–2015) and Ontario Financing Authority.

Limiting Risk Exposure

Ontario limits itself to a maximum net interest rate resetting exposure of 35 per cent of debt issued for provincial purposes and a maximum foreign exchange exposure of five per cent of debt issued for provincial purposes. As of December 31, 2015, the values for net interest rate resetting exposure and foreign exchange exposure were 10.1 per cent and 0.3 per cent, respectively. All exposures remained well below policy limits in 2015–16.

CHART 3.34 **Net Interest Rate Resetting and Foreign Exchange Exposure**
As a Percentage of Debt Issued for Provincial Purposes



Note: Excludes Ontario Electricity Financial Corporation debt.
Source: Ontario Financing Authority.

The Province's Use of Derivatives

To seek the most cost-effective means of meeting its borrowing requirements, Ontario issues debt in foreign currencies, as well as floating rate debt in both domestic and international markets. To mitigate the risk arising from foreign exchange and interest rate movements, the Province uses derivatives, a type of financial contract, to limit its exposure to both of these variables. Foreign currency swaps and forwards are used to convert foreign currency exposure into Canadian-dollar exposure, while interest rate swaps ensure interest payments on the Province's floating rate debt remain constant.

TABLE 3.28 Consolidated Derivative Portfolio Notional Value[1]
($ Billions)

	Total	Interest Rate Swaps	Cross-Currency Swaps	Forward Foreign Exchange Contracts	Futures	Swaptions
2014–15	$198.1	112.5	53.2	32.0	–	0.5
Interim 2015–16	$181.0	100.5	48.6	30.9	0.4	0.5

[1] Notional amounts represent the volume of outstanding derivative contracts and are not indicative of credit risk, market risk or actual cash flows.

Note: Numbers may not add due to rounding.

Source: Ontario Financing Authority.

The government proposes to introduce amendments to the *Securities Act* that, if passed, would provide that certain rules relating to the publication of derivatives trades would not apply to the Crown and certain Crown agencies. These amendments would maintain a uniform approach in their treatment of federal, provincial and territorial governments to accommodate the unique requirements of Crown entities' transactions in the Canadian over-the-counter derivatives market. These amendments would allow the Province to provide transparency to regulatory authorities, while enabling Ontario, and other Canadian governments, to continue to minimize their overall cost of borrowing.

Reducing Ontario's Electricity Sector Stranded Debt

Ontario Electricity Financial Corporation (OEFC) estimated results for 2015–16 show an estimated excess of revenue over expense of more than $3 billion, which would reduce OEFC's unfunded liability (or "stranded debt of the electricity sector") from $8.2 billion as of March 31, 2015, to below $5 billion as of March 31, 2016. This would be the twelfth consecutive year of stranded debt reduction.

The estimated 2015–16 results reflect the upfront impacts of broadening the ownership of Hydro One through an initial public offering (IPO). This includes the OEFC receiving $2.6 billion in departure tax and about $200 million in one-time additional payments in lieu of taxes (PILs), as Hydro One exited the PILs regime and will no longer pay corporate tax PILs to the OEFC. The upfront impact of the departure tax and one-time PILs payments on the OEFC's unfunded liability will be fully offset over time by their impact on reducing dedicated revenues to the OEFC in 2015–16, and in future years related to Hydro One net income.

Projected 2016–17 OEFC results are an excess of revenue over expense of about $0.6 billion.

Future OEFC results are subject to uncertainty, which depend on the financial performance of Ontario Power Generation, Hydro One and municipal electricity utilities, and other factors such as interest rates and electricity consumption.

Prudent Management of the Electricity Sector Debt

The government dedicates revenues it receives from the electricity sector to OEFC. All OEFC revenues, including the debt retirement charge (DRC) paid by electricity users, are used to service and retire its debt and other obligations, as provided for under the *Electricity Act, 1998*. The Auditor General's 2011 Annual Report confirmed that the DRC is used exclusively by the OEFC to meet its mandate, as provided for under the Act. The Auditor General audits OEFC's annual financial statements and has provided an unqualified opinion every year since the initial 1999–2000 financial statements.

Electricity sector reforms have led to 12 consecutive years of stranded debt pay-down, as projected for year-end 2015–16. This has allowed the government to follow through on its commitment to reduce electricity cost pressures for residential users by eliminating the DRC as of January 1, 2016, and for commercial, industrial and all other users as of April 1, 2018.

The OEFC will continue to receive DRC revenues in respect of electricity consumption prior to April 1, 2018, thus achieving a balance between paying down the electricity sector stranded debt and mitigating cost pressures. The fixed end date provides certainty to commercial, industrial and other non-residential electricity users, and helps them more effectively plan their business and investment decisions.

Following the end of the DRC, the remaining stranded debt will be serviced and paid down by the OEFC's other dedicated revenues, such as PILs, the amount equal to Hydro One Inc.'s provincial corporate income taxes, and the gross revenue charge paid to the OEFC. The OEFC will continue to report annually on its revenue sources and expenses, and on the stranded debt.

The government is committed to using proceeds related to the book value of shares sold from broadening ownership in Hydro One to pay down electricity sector debt. These proceeds and the pre-IPO special dividend of $800 million will allow the Province to pay down its debt and other payables to the OEFC and contribute towards the Province's targeted $5 billion debt pay-down.

As part of the *Budget Measures Act, 2015,* the *Electricity Act, 1998,* was amended to provide for payments to the OEFC equal to the Provincial corporate taxes paid by Hydro One Inc. These amounts will contribute to servicing and paying down stranded debt, as will financial benefits provided to the OEFC as a result of Hydro One share offerings, including the November 2015 IPO, in accordance with section 50.3 of the *Electricity Act, 1998*.

Consolidated Financial Tables

TABLE 3.29 Net Debt and Accumulated Deficit
($ Millions)

	2011–12	2012–13	2013–14	2014–15	Interim 2015–16	Plan 2016–17
Debt[1]						
Publicly Held Debt						
Bonds[2]	223,468	245,544	259,933	280,442	291,871	296,996
Treasury Bills	11,925	13,024	12,297	14,631	14,532	15,532
U.S. Commercial Paper[2]	4,701	6,611	8,657	6,304	6,403	6,403
Infrastructure Ontario (IO)[3]	1,854	1,909	1,603	950	300	300
Other	347	360	345	317	299	289
	242,295	**267,448**	**282,835**	**302,644**	**313,405**	**319,520**
Non-Public Debt	14,983	13,617	12,923	12,316	11,928	11,628
Total Debt	**257,278**	**281,065**	**295,758**	**314,960**	**325,333**	**331,148**
Cash and Temporary Investments	(21,180)	(29,037)	(24,303)	(26,121)	(24,237)	(21,616)
Total Debt Net of Cash and Temporary Investments	**236,098**	**252,028**	**271,455**	**288,839**	**301,096**	**309,532**
Other Net (Assets)/Liabilities[4]	(14,862)	(13,839)	(18,354)	(18,673)	(18,848)	(14,493)
Broader Public Sector (BPS) Net Debt	14,346	13,899	14,089	14,410	13,861	13,276
Net Debt	**235,582**	**252,088**	**267,190**	**284,576**	**296,109**	**308,315**
Non-Financial Assets[5]	(77,172)	(84,956)	(90,556)	(97,065)	(102,662)	(110,562)
Accumulated Deficit	**158,410**	**167,132**	**176,634**	**187,511**	**193,447**	**197,753**

[1] Includes debt issued by the Province and Government Organizations, including the OEFC.
[2] All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts.
[3] Infrastructure Ontario's (IO) interim 2015–16 debt is composed of Infrastructure Renewal Bonds ($300 million). IO's debt is not guaranteed by the Province.
[4] Other Net (Assets)/Liabilities include accounts receivable, loans receivable, advances and investments in government business enterprises, accounts payable, accrued liabilities, deferred revenue and capital contributions, pensions and other employee future benefits, and other liabilities.
[5] Non-financial assets include the tangible capital assets of the Province and broader public sector.
Source: Ontario Ministry of Finance.

TABLE 3.30 Medium-Term Outlook: Net Debt and Accumulated Deficit ($ Billions)

	2017–18	2018–19
Total Debt	**336.7**	**343.2**
Cash and Temporary Investments	(21.6)	(21.6)
Total Debt Net of Cash and Temporary Investments	315.1	321.6
Other Net (Assets)/Liabilities	(10.4)	(5.3)
Broader Public Sector (BPS) Net Debt	12.3	10.5
Net Debt	**316.9**	**326.8**
Non-Financial Assets	(119.2)	(129.1)
Accumulated Deficit	**197.7**	**197.7**

Note: Numbers may not add due to rounding.

CHAPTER IV

TOGETHER TOWARDS A STRONGER ONTARIO AND A STRONGER CANADA

Collaborative Action to Face Shared Challenges

In 2016, Canada will continue to face complex challenges. Uncertain global economic growth, greater international competition, the dangers of climate change and the far-reaching impacts of an aging population are a persistent reality for the federation. Canada's governments must collaborate to achieve meaningful and lasting solutions.

A collaborative approach will help grow the economy, increase productivity and support job creation. Ontario remains committed to working with the federal government, provinces, territories, municipalities and Indigenous partners to take forward-looking action to build up Ontario and Canada. As Canada enters the next phase of federal–provincial collaboration, the Province will continue to be a champion of principles-based partnerships that recognize and build on Ontario's investments and priorities.

Recent Progress on Shared Priorities

A collaborative approach to federalism has already begun to yield results.

Meeting of Canada's First Ministers

In November 2015, federal–provincial–territorial first ministers met as a group for the first time since 2009. Premier Kathleen Wynne, along with other Premiers and the Prime Minister, discussed matters of importance to Canadians and how governments can work together to make real progress on these issues.

- Leaders showed national unity on the international refugee crisis. Ontario will continue to work with a committed federal partner on this issue to welcome more refugees. The Province has committed $12.5 million for international relief efforts and to increase the number of refugees Ontario can welcome, and support the communities and agencies that will help them settle and integrate once they arrive. See Chapter I, Section E: *Towards a Fair Society* for further details.
- This meeting set the tone for Canada and Ontario's successful participation at the 2015 United Nations Conference on Climate Change in Paris and advanced the national discussion on addressing climate change.

Meeting of Canada's Finance Ministers

In December 2015, Canada's finance ministers met in Ottawa to discuss ways to work together to support job creation and economic growth.

- Minister Charles Sousa and his fellow finance ministers discussed how governments can support job creation, enhance productivity and grow the economy through long-term, predictable investments in public infrastructure.
- Ministers also discussed the newly proposed Canada Child Benefit, which will build on the work done by the Province through Ontario's Poverty Reduction Strategy. If implemented by the federal government, these enhancements would help reduce the number of children living in poverty and complement the Ontario Child Benefit (OCB). Ontario looks forward to working collaboratively with the federal government to make progress on reducing child poverty.

- Canada's finance ministers also discussed the need to strengthen retirement income security. See Chapter I, Section F: *Strengthening Retirement Security* for further details.

Meeting of Canada's Health Ministers

In January 2016, federal, provincial and territorial ministers of health met in Vancouver to move ahead on shared health priorities. Ministers agreed to work individually and collectively on the following areas where efforts will yield the greatest impact:

- Enhancing the affordability, accessibility and appropriate use of prescription drugs;
- Improving home and community care, and mental health services to better meet the needs of patients closer to home; and
- Fostering innovation in health care services that improves both the quality of care and value for money.

In the spirit of collaboration, all ministers agreed that new resources are needed to stimulate and support health care and drive transformation. The federal minister also confirmed the federal government's commitment to work collaboratively with provinces and territories towards a long-term funding arrangement for health care.

Other Meetings

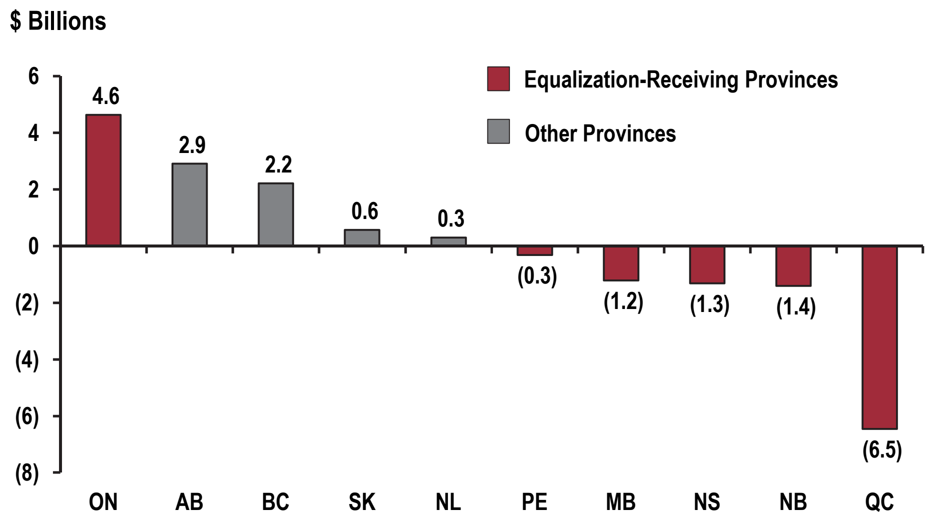
In addition, Ontario, the federal government and the other provinces and territories continue to work together in a number of key areas. Ministers responsible for the environment, social services, transportation and highway safety, and Indigenous and northern affairs, among others, have all held productive meetings.

The Province looks forward to building on this foundation of constructive collaboration and continuing to make progress in these and other shared priority areas for Ontarians and Canadians.

Getting It Right: Principles to Guide the Next Phase of Federal–Provincial Collaboration

Ontario is committed to continuing to be a collaborative partner in the federation, and Ontarians recognize the long-standing, important role that the Province has historically played as a net contributor to the federation. In 2016–17, Ontarians are projected to contribute approximately $6.9 billion to Equalization, while the Province will only receive approximately $2.3 billion in return.

CHART 4.1 **Net Contribution to the Equalization Program, 2016–17**



Sources: Ontario Ministry of Finance calculations using data from Statistics Canada's Provincial Economic Accounts (discontinued) and Finance Canada.

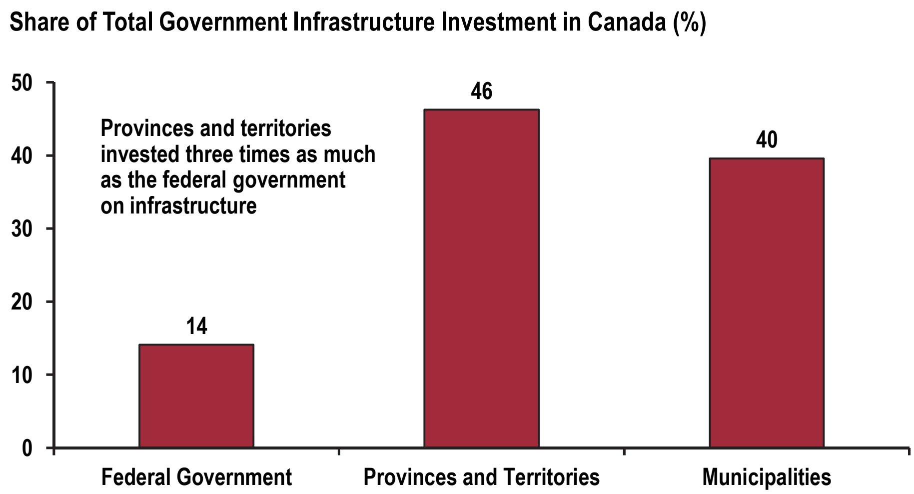
The Province is ready to work with a federal partner to build on Ontario's investments and create an effective federation that will support sustainable public services, economic growth and job creation. Ontario is also committed to collaboration to make progress on a national solution that addresses the needs of future retirees.

The federal government has recognized that coordinated and collaborative action is needed to address the issues facing Ontarians and Canadians. As Ontario enters the next phase of relations with the federal government, it is seeking to build a shared agenda for economic growth and transformation and will continue to champion principles-based partnerships.

Canadian Infrastructure Partnership for Economic Growth

In 2013, provinces and territories invested over three times as much as the federal government on infrastructure (see Chart 4.2).

CHART 4.2 **Contribution to Infrastructure Investment in Canada by Order of Government in 2013**



Notes: These data are modelled, based on data from Statistics Canada that are survey-based and self-reported. Therefore the responses are given from the perspective of the asset owner and may not correspond to reported investments. Further, the definition of public infrastructure may not correspond to individual governments' definitions.
Source: Calculations based on data from Council of the Federation's Fiscal Arrangements Working Group, Infrastructure Sub-Group.

Ontario is making public infrastructure investments of more than $137 billion over the next 10 years, or about $160 billion over 12 years, starting in 2014–15.

The Province welcomes the new federal government's commitment to build on existing programs and provide both immediate infrastructure investments and longer-term funding to support shared infrastructure priorities. A recent report by the Canadian Centre for Economic Analysis said that a small increase in federal government contributions generates significant benefits for Ontario's economy and fiscal health.[1] As the design of these new federal investments is finalized, it is critical that the federal government work together with the provinces and territories to ensure that programs are predictable, support jobs and economic growth, and respect fiscal plans.

New federal infrastructure funding should give provinces and territories a greater ability to identify those projects that can be acted on to maximize the positive impact on the economy, both now and in the future. Ontario is working with the federal government to secure its per capita share to further invest in shovel-ready and shovel-worthy projects for transit, social and green infrastructure. See Chapter I, Section B: *Building Tomorrow's Infrastructure Now* for further details.

Finding Meaningful Health Care Partnerships

Ontario will continue to seek additional funding so that support for health care is adequate, responds to the needs of Ontarians and ensures the sustainability of the health care system over the long term.

Ontario remains focused on delivering excellent health care in the community. The Province is pleased that the federal government has committed to additional funding for home care. This new funding will support Ontario's home and community care priorities.

Ontario welcomes the federal government's decision to join the pan-Canadian Pharmaceutical Alliance, which negotiates lower drug prices on behalf of public drug plans. The Province continues to lead intergovernmental work to explore ways to improve coverage and equitable access to appropriate prescription drugs for Canadians, and is pleased that the federal government agreed, at the invitation of Ontario, to join a federal–provincial–territorial working group on this priority issue.

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[1] D. Stiff and P. Smetanin, "Ontario Infrastructure Investment: Federal and Provincial Risks & Rewards," Canadian Centre for Economic Analysis, (2016).

National Fight against Climate Change

The Province continues to lead in fighting climate change. Ontario recently signed a memorandum of understanding with Quebec and Manitoba, signalling the intention to link future cap-and-trade markets and committing to concerted climate change actions.

In reaching a new global agreement in Paris to limit temperature increases to under two degrees Celsius, the world is taking the strong and coordinated action required to reduce emissions and address and prepare for the challenges of a changing climate before it is too late. Ontario is pleased to participate with all provinces and territories and the federal government on a pan-Canadian climate change framework, and is looking forward to the upcoming meeting of Canada's first ministers to make progress on this shared and critical priority.

Ontario has already made significant contributions towards addressing this global challenge. The Province successfully phased out coal-fired electricity generation in 2014, the single largest greenhouse gas (GHG) reduction initiative of its kind in North America. Between 2005 and 2013, Ontario's emissions reductions of 40 megatonnes (Mt) surpassed Canada's total emissions reductions of 23 Mt, meaning Ontario's reduction represented over 170 per cent of the national total.[2]

As the federal government continues to engage provinces and territories on national initiatives, it is critical that any action recognize the steps Ontario has already taken to reduce GHG emissions. In addition, Ontario is eager to share the benefit of its experiences to help inform the development of potential national initiatives based on its own experience of developing a broad provincial climate policy. See Chapter I, Section A: *Fostering a More Innovative and Dynamic Business Environment* for further details.

[2] United Nations Framework on Climate Change, "National Inventory Report 2015–Part 3", (2015) http://unfccc.int/national_reports/annex_i_ghg_inventories/national_inventories_submissions/items/8812.php

Building Up Skills and Training Programs

The current system of labour market agreements between Ontario and Canada supports an array of skills training and employment programs and services for Ontarians. However, there is room for improvement.

Ontario is pleased that the federal government committed to additional funding of $700 million for skills training, including an increase of $500 million for Labour Market Development Agreements (LMDAs) each year to provinces and territories. The Province is looking forward to working with the federal government to ensure that new labour market funding is able to best meet the needs of Ontario.

Broader client eligibility in the LMDAs would provide flexibility to serve more vulnerable workers and allow more unemployed Ontarians to receive the skills training they need, while a proportionate and fair allocation of LMDAs and other skills funding would help Ontario better meet the needs of unemployed workers.

In general, federal decisions regarding labour market programs should recognize the experience of provinces and territories, which are best positioned to design and deliver the programs and services required to meet the needs of their workers and employers. These programs should also adapt to reflect the labour market of today.

Attracting Skilled Newcomers

Flexibility within immigration programs is key to allowing provinces and territories to attract skilled newcomers who contribute to a growing economy.

To help Ontario build a skilled workforce, the Ontario Immigrant Nominee Program can now nominate up to 5,200 highly skilled newcomers for permanent residence annually — 2,700 more than in 2014. Two new categories designed to attract economic immigrants (Human Capital Priorities and French-Speaking Skilled Workers) were launched through the federal government's Express Entry system in 2015. Ontario is the first jurisdiction to launch a category dedicated to French-speaking prospective immigrants within its Immigrant Nominee Program. In December 2015, the Province also successfully launched two new Business Streams: the Corporate and Entrepreneur Streams. These new streams are designed to attract foreign corporations and entrepreneurs — with their new business ideas, talent and investment — to Ontario.

When highly skilled newcomers integrate smoothly, they can better contribute to the province's economic growth. That is why Ontario has invested $26.4 million in 2015–16 in Ontario Bridge Training programs, which help highly skilled newcomers integrate into the labour market. Since 2003, the program has helped close to 50,000 people in more than 100 professions continue their careers in Ontario. The Province has also reduced financial barriers through a renewed $5 million investment in the Ontario Bridging Participant Assistance Program. Ontario will work with the federal government to renew its support for bridge training programs, which is set to expire in March 2016, to continue to serve as many participants as possible.

Ontario will continue to take action in partnership with the federal government to attract a skilled workforce and build a stronger economy, help newcomers and their families achieve success, and secure international trade and investment opportunities for the benefit of all Ontarians.

Reducing Poverty in Canada

The Province is making strategic investments in health, education and housing through Ontario's Poverty Reduction Strategy. See also Chapter I, Section E: *Towards a Fair Society* for further details. Ontario will collaborate with the federal government on the development of a Canadian Poverty Reduction Strategy, ensuring alignment and a shared agenda to achieve maximum benefits for Ontarians.

Continued Collaboration with Ontario's Partners

Provincial–Municipal Partnerships

The government has a strong record of supporting and working with municipalities, while also taking measures to ensure local accountability. In 2016, the government will provide municipalities with ongoing support of over $3.8 billion — an increase of $2.7 billion above the support provided in 2003.

Ontario will continue to fulfil its commitment to upload social assistance benefit programs, as well as court security and prisoner transportation costs off the property tax base. This will ensure that municipalities have more property tax dollars to invest in local priorities such as roads, transit and economic development.

These uploads will be fully implemented by 2018. This represents a significant milestone in the provincial–municipal relationship and will help put municipalities on a financially sustainable footing. Going forward, the government's focus will be on investing in the infrastructure that is vital to the health, prosperity and quality of life of Ontarians.

In partnership with communities, Ontario is making significant investments to revitalize infrastructure and grow the economy. The Province's infrastructure commitments include transit, transportation and other priority infrastructure through Moving Ontario Forward, which is supported by $31.5 billion in dedicated funds, with about $15 billion available outside the Greater Toronto and Hamilton Area (GTHA) and about $16 billion available within the GTHA. As part of Moving Ontario Forward, the Ontario Community Infrastructure Fund is being expanded to $300 million per year by 2018–19, which will provide ongoing support for critical local infrastructure priorities.

Both the Province and municipal governments face fiscal challenges resulting from demographic, economic and other pressures. Ontario will continue to work in partnership with municipalities to promote a mature, positive and stable provincial–municipal financial relationship. Provincial measures are helping to improve municipal fiscal sustainability, but the Province must also consider its responsibility to protect key public services such as health, education and infrastructure.

Strengthening the Provincial–Municipal Partnership

In addition to implementing the provincial uploads, the Province has worked in partnership with municipalities to introduce measures that support communities. These measures include:

- **Sharing provincial gas tax revenues**, which ensures a guaranteed source of funding for eligible municipalities to improve and expand their transit services. Since 2004, the government has allocated more than $3.4 billion in gas tax funding to municipalities, including over $330 million in 2015.
- Providing annual unconditional funding through the **Ontario Municipal Partnership Fund** — $505 million in 2016.
- Working with municipal and policing partners to develop a new **Ontario Provincial Police billing model** for municipalities that is fair and equitable.
- Providing long-term predictable funding through the **Ontario Community Infrastructure Fund,** which is supporting the revitalization and repair of roads, bridges and other critical infrastructure in small, rural and northern communities.
- Implementing the **Connecting Links** program that will provide $20 million in 2016–17, up from $15 million announced in the *2015 Budget,* to help municipalities pay for construction and repair costs for municipal roads that connect two ends of a provincial highway through a community or to a border crossing. Funding for this program will increase to $30 million per year by 2018–19.
- Working in partnership with municipalities to enhance the fairness, effectiveness and predictability of Ontario's **property tax and assessment system**.
- Consulting with municipal partners through the **Memorandum of Understanding with the Association of Municipalities of Ontario,** as well as through other forums.
- Undertaking **an integrated review of the *Municipal Act*, the *City of Toronto Act* and the *Municipal Conflict of Interest Act*** to ensure that municipalities continue to be accountable, open, flexible and responsive to the people they serve.

Indigenous Partners

Ontario has made it a priority to act on the Calls to Action from the Truth and Reconciliation Commission of Canada. The Province will work with First Nations, Inuit and Métis peoples to acknowledge and teach the history and legacy of residential schools, take action to close gaps in outcomes, and build culturally sensitive and community-based services. Ontario will continue to work with Indigenous partners as the Province responds to the Commission's final report, released in December 2015. See Chapter I, Section E: *Towards a Fair Society* for further details.

Ontario has a solid foundation from which to act on the report. Most recently, Ontario signed a historic Political Accord that represents a renewal of the relationship between First Nations and Ontario. The Political Accord is an important step in the ongoing empowerment of First Nation communities and will help in the continued pursuit of reconciliation.

Ontario welcomes the federal commitment to ensure quality education for First Nation children on-reserve, address violence against Indigenous women and girls, and improve essential physical infrastructure for First Nation communities including clean drinking water, access to sustainable electricity and adequate housing. Together with Indigenous partners in Ontario, the Province is ready to work with the federal government as it acts on these commitments.

Moving towards Community-Based Regulation

The government remains committed to a dialogue with First Nation communities and leaders on tobacco and gasoline, including discussions on self-regulation of tobacco on-reserve and revenue-sharing. Self-regulation of tobacco on-reserve helps support First Nations oversight of tobacco sales on-reserve, and provides a basis for mutually beneficial solutions regarding revenue-sharing.

The government has demonstrated this commitment through the tobacco pilot projects with the Chippewas of the Thames First Nation and the Mohawk Council of Akwesasne, and it welcomes similar discussions with other First Nation communities.

In 2015, the Province appointed Kathleen Lickers and Peter Griffin to lead a formal review of the First Nations Cigarette Allocation System. Kathleen Lickers is a Seneca from the Six Nations of the Grand River First Nation in southern Ontario, and has been practising law for 20 years. Peter Griffin is a lawyer who has practiced civil and commercial litigation in Toronto since 1980.

- In February 2016, the facilitators provided the government with their First Nations Cigarette Allocation System: Independent Review Report, which offers an overview of perspectives on the allocation system, and on-reserve sales of tobacco in general.
- The Independent Review notes that while there are varying perspectives on the sales of tobacco on-reserve, a number of key principles are shared among First Nations, the government, industry and public health experts, including the following:
  - Further developing the long-term relationship shared by Ontario and First Nations;
  - A need to support economic development and diversification on-reserve;
  - The importance of protecting children and youth from tobacco, and encouraging smoking cessation both on- and off-reserve;
  - The recognition that individual First Nation communities have different needs and perspectives on tobacco; and
  - An acknowledgment that an alternative approach to tobacco sales on-reserve must generate revenue for First Nation community programs and services.

Next Steps

The government is currently examining the findings of the Independent Review to determine the most appropriate path forward, including hosting a tobacco forum.

The Province and the Anishinabek Nation, which represents 39 First Nation communities across Ontario, have agreed to work together to begin developing a framework for tobacco and gasoline that would support revenue generation for the Anishinabek Nation from on-reserve sales.

Beginning in March 2016, the government will engage First Nation communities on modernizing the Ontario Gas Card Program to improve customer service and program integrity. Advice received from this engagement process will also support the work underway with the Anishinabek Nation.

Other Ongoing Partnerships

The Province continues to lead the commitment to complete a comprehensive renewal and modernization of the Agreement on Internal Trade. Additionally, Ontario and Quebec have agreed to a series of economic roundtables that will identify initiatives that would support business development, strengthen regional economic growth and job creation, and facilitate action on issues related to investment and the environment.

150 Years of Ontario and the Federation

In 2017, Ontario will celebrate the 150th anniversary of its place as a province within Canada. This anniversary provides an opportunity to celebrate its achievements as a society and to position Ontario as a place of economic growth and prosperity for future generations.

As reported in the *2015 Budget*, the government will deliver a program that will recognize and celebrate the past, while building a strong and secure foundation for the future.

Ontario has always been a leader on the national and international stage, as well as in innovation, cultural expression and community diversity. This celebratory year will create a strong economic, social and cultural legacy for Ontarians, with a particular focus on youth.

Produced with community organizations, municipalities and the federal government, the Ontario 150 programming will be a proud commemoration of the sesquicentennial for Ontarians in all regions across the province.

CHAPTER V

A FAIR AND SUSTAINABLE TAX SYSTEM

Section A: Tax Measures

As part of the Program Review, Renewal and Transformation (PRRT) process, the government reviewed tax credits to determine more effective ways of achieving desired outcomes. In addition, changes to tobacco tax rates and alcohol charges are being proposed to support key government initiatives.

Personal Income Tax Credits

Tuition and Education Tax Credits

The government is making changes to student financial assistance to ensure that financial support is transparent, timely and better targeted. See Chapter I, Section C: *Investing in People's Talents and Skills* for further details. As part of this reform, the government proposes to discontinue the Ontario tuition and education tax credits, beginning in fall 2017. All of the additional revenue from eliminating these tax credits would be reinvested to support the new Ontario Student Grant or other postsecondary, education, training and youth jobs programs. Grants are more effective than tax credits at targeting financial support to students with the greatest needs and providing support upfront.

Ontario’s Tuition Tax Credit is calculated based on eligible tuition and ancillary fees, as well as fees for certain occupational, trade or professional examinations. The Education Tax Credit provides set amounts in recognition of non-tuition expenses for each month of full-time or part-time postsecondary studies. Students who cannot use all their tuition and education tax credits for a particular year may transfer them to a parent, grandparent, spouse or common-law partner, up to an annual maximum. Credits that are not used or transferred are carried forward to future tax years.

The timing of the proposed elimination of the tuition and education tax credits would correspond to the introduction of the Ontario Student Grant. Ontario students would be able to claim the Tuition Tax Credit for eligible tuition fees paid in respect of studies up to and including September 4, 2017, and would be able to claim the Education Tax Credit for months of study before September 2017. The eligible portion of 2017 tax credits would be transferable to a qualifying family member.

Tax filers who are resident in Ontario on December 31, 2017, and have unused tuition and education tax credits available for carry-forward, would be able to claim them in future years. Tax filers who move to Ontario from other provinces after December 31, 2017, would no longer be able to claim their accumulated tuition and education tax credits in Ontario.

Children's Activity Tax Credit

The government introduced the Children's Activity Tax Credit (CATC) in 2010 to help parents with the cost of enrolling their children in various extracurricular activities, including sports, arts and cultural programs. Because non-refundable tax credits only benefit people who pay Personal Income Tax (PIT), the CATC was made refundable so that low-income people who pay little or no Ontario PIT could fully benefit from the credit. About 675,000 parents who enrolled their children in eligible activities in 2015 are expected to receive a CATC of about $70 on average.

Although the credit is refundable, it largely goes to higher-income families, who are less likely to need it to help pay for their children's activities. Of families expected to benefit from the credit for 2015, about 50 per cent have incomes above $100,000, while only five per cent have incomes below $20,000. By comparison, about 15 per cent of tax-filing families with children are estimated to have incomes below $20,000.

Ontario proposes to end the CATC as of January 1, 2017, and will focus on developing other programs to encourage physical activity and healthy eating for Ontario's children, including those in lower-income families. The Province also provides several children's physical activity and healthy eating programs through the Healthy Kids Strategy. See Chapter I, Section D: *Transforming Health Care* for further details.

Healthy Homes Renovation Tax Credit

Ontario's Healthy Homes Renovation Tax Credit (HHRTC) was announced in 2011 to help seniors live independently in their homes by increasing the affordability of renovations that improve safety and accessibility.

Ontario proposes to end the HHRTC as of January 1, 2017. The credit has had significantly lower take-up than projected and provides little support to lower-income seniors. About 2.3 million seniors are expected to file tax returns for 2015. By comparison, only an estimated 25,000 HHRTC claims are expected to be made by seniors or their family members for 2015, with only 10 per cent of the credit expected to go to claimants with net family incomes below $30,000.

The government understands the challenges faced by seniors with mobility issues and provides assistance through other programs that assess needs more effectively. For example, people with mobility-related disabilities or impairments may access funds to help with the cost of home modifications through the Ontario Home and Vehicle Modification Program.

Paralleling Federal Personal Income Tax Measures

Under the terms of the Canada–Ontario Tax Collection Agreement, Ontario parallels federal changes to the definition of taxable income and certain applicable tax rates.

Small Business Dividend Tax Credit and Gross-Up

In its 2015 budget, the federal government announced reductions in the federal small business corporate income tax rate over four years. The corresponding changes to the gross-up rate for non-eligible dividends (generally issued by companies taxed at the small business rate) will be paralleled by Ontario. As a result, Ontario's non-eligible dividend tax credit rate will decline from 4.5 per cent for 2015 to 4.2863 per cent for 2016.

Ontario will review its non-eligible dividend tax credit rate for 2017 and subsequent years.

Tax-Free Savings Accounts

The federal government recently announced a reduction in the annual contribution limit for Tax-Free Savings Accounts, from $10,000 in 2015 to $5,500 for 2016. Indexation of the contribution limit will resume. This change will increase Ontario's tax revenue.

Tax on Split Income

The Ontario government proposes to change the way it taxes income that is split with certain related children, by paralleling the federal approach of applying its top marginal PIT rate to all such income. Similar to the recent change in Ontario's tax treatment of trusts, this approach would close a tax planning loophole. The measure is not designed to generate a net increase in revenue.

Starting January 1, 2016, such split income would be taxed at Ontario's top marginal PIT rate of 20.53 per cent, and no surtax would be payable on that income.

A Simpler Personal Income Tax

Ontario has a complex Personal Income Tax (PIT) system where tax brackets and other components result in effective tax rates that are not easily understood by tax filers. The government will examine ways to simplify the PIT calculation, including the Ontario surtax and Ontario Tax Reduction, so that Ontarians can better understand their effective tax rates.

Business Tax Credits

Research and Development Tax Credits

The government provides the following corporate tax credits to support research and development (R&D) activities in Ontario:

- Ontario Research and Development Tax Credit (ORDTC) — A 4.5 per cent non-refundable tax credit on eligible R&D expenditures;
- Ontario Innovation Tax Credit (OITC) — A 10 per cent refundable tax credit for small to medium-sized companies on eligible R&D expenditures; and
- Ontario Business Research Institute Tax Credit (OBRITC) — A 20 per cent refundable tax credit on eligible R&D expenditures incurred under contract with eligible research institutes.

Despite total Ontario R&D support of approximately $400 million delivered annually through the tax system, in addition to federal programs, business spending on R&D in Ontario has declined over the last decade and continues to lag the United States as a share of the economy.

As part of the PRRT process outlined in Chapter II, Section B: *Transforming Government and Managing Costs,* the government proposes to reduce the level of support provided through the ORDTC and the OITC. In this *Budget*, the government proposes the following changes, effective for eligible R&D expenditures incurred in taxation years that end on or after June 1, 2016:

- Decreasing the ORDTC rate from 4.5 per cent to 3.5 per cent; and
- Decreasing the OITC rate from 10 per cent to eight per cent.

The rate reductions would be prorated for taxation years straddling June 1, 2016.

Research and development remains a key priority for the government. That is why the Province will reinvest savings from the proposed tax credit changes into new targeted investments across key sectors of Ontario's economy. The government is:

- Investing $35 million over five years towards establishing the Advanced Manufacturing Consortium;
- Investing $20 million over three years to partner with colleges to tackle industry challenges through innovation projects; and
- Investing $50 million over five years in world-leading research at the Perimeter Institute.

See Chapter I, Section A: *Fostering a More Innovative and Dynamic Business Environment* for further details.

The Province will continue to examine ways to encourage R&D investment in Ontario, increase the commercialization of research, and better support export activity, in line with its Business Growth Initiative.

Apprenticeship Training Tax Credit

The Apprenticeship Training Tax Credit (ATTC) is a refundable tax credit available to businesses that hire and train eligible apprentices. As committed in the *2015 Budget*, the Province is reviewing the ATTC to ensure it encourages businesses to help apprentices gain the certifications and skills they need.

The government remains committed to the continuation of employer support for apprenticeship training, and is examining ways to improve completion rates of apprenticeships and increase opportunities for apprentices in underrepresented groups, including newcomers, Indigenous peoples, women, apprentices with disabilities and apprentices from francophone communities. The Ministry of Training, Colleges and Universities is undertaking an engagement process with stakeholders and partners and will announce further details in 2016.

Other Measures

Ontario's Tobacco Strategy

Tobacco taxes are a proven method of supporting smoking cessation and prevention efforts according to experts such as the World Health Organization, and are a key tool that support the Smoke-Free Ontario Strategy and its goal of reducing the incidence of smoking in the province.

This is why, effective 12:01 a.m. the day after February 25, 2016, Ontario's tobacco tax will increase from 13.975 cents to 15.475 cents per cigarette and per gram of tobacco products other than cigars. This increase will help support smoking cessation efforts under the strategy, contributing to the Province's goal of having the lowest smoking rate in Canada. Wholesalers of tobacco products that are not collectors of tobacco tax are required to take an inventory of all tobacco products (except cigars) they hold at the end of February 25, 2016, and remit the additional tax on the inventory to the Ministry of Finance.

The government will propose further amendments to the *Tobacco Tax Act* to clarify the obligations of retail dealers as they relate to the remittance of additional tax following a tobacco tax rate change.

Moving forward, to ensure tobacco tax rates retain their real value over time, the government is increasing tobacco tax rates based on inflation over each of the next five years, beginning in 2017. Regular tobacco tax rate increases will help support the objectives of the Smoke-Free Ontario Strategy, while also supporting government efforts to address the underground economy and prevent expansion of the contraband tobacco market.

Tobacco strategy initiatives are outlined in Chapter II, Section C: *Addressing the Underground Economy and Maintaining Tax Fairness*.

To further support the Smoke-Free Ontario Strategy, the Province will use a portion of increased revenues from the tobacco tax to support a new $5 million investment this year that will enhance priority populations' access to smoking cessation services, no matter where they live across Ontario.

Smoke-Free Ontario Strategy initiatives are outlined in Chapter I, Section D: *Transforming Health Care*.

Alcohol Charges

The following changes are proposed to complement the beer initiative introduced last year:

- The Liquor Control Board of Ontario (LCBO) would increase the ad valorem mark-up for wine products by two percentage points, effective June 2016.
  - The wine mark-up will be further increased by two percentage points in April 2017, two percentage points in April 2018 and one percentage point in April 2019.
- Establish a definition of authorized grocery store and provide for the collection of tax in those stores.
- The basic tax on non-Ontario wine purchased at winery retail stores would be increased by one percentage point on each of June 2016, April 2017, April 2018 and April 2019.

The government will change the minimum price for wine to be consistent with spirits and beer. The minimum retail price for table wine will increase to $7.95, including deposit, for a 750 mL bottle, phased in over three years.

- The minimum retail prices for cider, fortified wine and low-alcohol wine will also be phased in over three years.

The government proposes to introduce legislation in the future to:

- Establish higher basic wine tax rates for sales at winery retail outlets that operate their stores inside grocery stores; and
- Replace the current mark-up and commission structure at on-site distillery retail stores with a tax on purchases of spirits.

Summary of Measures

TABLE 5.1 *2016 Budget* Tax Measures
($ Millions)

	2016–17	2017–18	2018–19
Personal Income Tax Credits			
Tuition and Education Tax Credits	20	145	335
Children's Activity Tax Credit	15	50	55
Healthy Homes Renovation Tax Credit	4	15	15
Paralleling Federal Personal Income Tax Measures			
Small Business Dividend Tax Credit and Gross-Up	20	20	20
Tax-Free Savings Accounts	10	10	10
Business Tax Credits			
Ontario Research and Development Tax Credit	15	25	25
Ontario Innovation Tax Credit	20	40	40
Other Measures			
Tobacco Tax	100	95	90
Alcohol Charges	15	45	75
Total	**220**	**445**	**665**

Notes: Numbers indicate increases in government revenue, except for the Children's Activity Tax Credit, the Healthy Homes Renovation Tax Credit and the Ontario Innovation Tax Credit, which represent reductions in government expenditures. Numbers may not add due to rounding.

Some of the additional revenue raised through proposed tax measures would be reinvested in programs and services, such as student financial assistance.

Technical Amendments

To improve administrative effectiveness and enforcement, maintain the integrity and equity of Ontario's tax and revenue collection system, and enhance legislative clarity and regulatory flexibility to preserve policy intent, amendments may be proposed to various statutes, including:

- *Alcohol and Gaming Regulation and Public Protection Act, 1996*
- *Assessment Act*
- *Automobile Insurance Rate Stabilization Act, 2003*
- *City of Toronto Act, 2006*
- *Co-operative Corporations Act*
- *Commodity Futures Act*
- *Compulsory Automobile Insurance Act*
- *Corporations Act*
- *Credit Unions and Caisses Populaires Act, 1994*
- *Electricity Act, 1998*
- *Employer Health Tax Act*
- *Estate Administration Tax Act*
- *Financial Administration Act*
- *Financial Services Commission of Ontario Act, 1997*
- *Income Tax Act*
- *Insurance Act*
- *Investment Management Corporation of Ontario Act, 2015*
- *Land Transfer Tax Act*
- *Liquor Control Act*
- *Liquor Licence Act*
- *Loan and Trust Corporations Act*
- *Local Roads Boards Act*
- *Mortgage Brokerages, Lenders and Administrators Act, 2006*
- *Motor Vehicle Accident Claims Act*
- *Municipal Act, 2001*
- *Municipal Property Assessment Corporation Act, 1997*
- *Northern Services Boards Act*
- *Pension Benefits Act*
- *Pooled Registered Pension Plans Act, 2015*
- *Provincial Land Tax Act, 2006*
- *Retail Sales Tax Act*
- *Registered Insurance Brokers Act*
- *Securities Act*
- *Taxation Act, 2007*
- *Tobacco Tax Act*

Additional proposed legislative amendments will include:

- Amendments to the *Highway Traffic Act* to implement the *2014 Budget* announcement that the Province would modernize the treatment of certain unregistered road-building machines. Implementation of this measure is expected to occur on January 1, 2017. Complementary amendments to that Act will also be proposed.
- Amendments to the *Courts of Justice Act* to implement certain recommendations of the eighth Provincial Judges Remuneration Commission.
- Amendments to statutes governing four Ontario universities to eliminate requirements that members of their boards of governors be Canadian citizens.

Section B: Strengthening Ontario’s Property Tax and Assessment System

A fair and effective property tax and assessment system is critical to support local services and adequately fund Ontario’s school system.

The Province is working with municipalities, the Municipal Property Assessment Corporation (MPAC), and other stakeholders to strengthen Ontario’s property tax and assessment system. For example, the Province is providing municipalities with increased flexibility to manage the Business Property Tax Capping Program, moving forward with measures to create a fair and modern Provincial Land Tax (PLT) system, and implementing recommendations of the Special Purpose Business Property Assessment Review (Assessment Review). Building on the success of this work, the Province will be engaging in further consultations with key stakeholders on these and other measures.

Business Property Tax Capping Program

In 2015, the Province initiated a review of the Business Property Tax Capping Program in response to municipal and business stakeholder requests to address the potential for inequities and economic distortions that may result from the program. Based on this review, the government announced significant enhancements to the capping program through the *2015 Ontario Economic Outlook and Fiscal Review*. As a result of these enhancements, municipalities will be able to adjust the capping program to best suit their local circumstances and improve the equity and transparency of the property tax system.

The Province will continue consultations with municipal and business stakeholders in 2016 to identify opportunities to further enhance the program. In support of the ongoing review, the government is introducing legislation to facilitate potential future refinements and program flexibility.

Vacant Unit Rebate and Vacant/ Excess Land Subclasses

In 2015, the Province also initiated a review of the Vacant Unit Rebate and Vacant/Excess Land Subclasses. Since 1998, these programs have provided tax rebates and reductions to property owners who have vacancies in commercial and industrial buildings or land. The review responds to municipal and business stakeholder concerns regarding the appropriateness of the lower tax level provided through these programs and any unintended implications this has for local economies. Some stakeholders have also noted that Ontario is the only province providing these types of programs in Canada.

The Vacant Unit Rebate and Vacant/Excess Land Subclasses review continues in 2016 with stakeholder consultations on the potential provision of additional municipal flexibility to reflect local needs. The Province is introducing a legislative framework to facilitate potential changes to the programs as a result of the review.

Property Tax Rate Calculation Adjustment

In response to municipal requests, the government plans to introduce a technical adjustment to the provincially prescribed property tax rate calculation. This adjustment would be designed to ensure that when calculating tax rates, municipalities and the Province are able to address any unintended effects due to in-year property assessment changes, such as assessment appeal losses. As part of implementing the adjustment, the Province will also ensure the ongoing integrity of education property tax revenues.

Provincial Land Tax

The *2015 Budget* announced changes to the Provincial Land Tax (PLT). Before these changes were announced, PLT rates had not been updated to increase revenues in over 60 years. As a result, property tax inequities had developed in northern Ontario. While this initial stage of PLT reform made important strides in creating a more equitable PLT, the government committed to continue discussions with northerners on ways to further address tax inequities in the north.

The Province initiated the next round of consultations by holding 15 open houses across northern Ontario in 2015. The open houses provided unincorporated area property owners with the opportunity to hear more about PLT changes and provide input. These sessions are summarized in "Provincial Land Tax Reform: Overview of the Provincial Land Tax Open Houses,"[1] published by the Ministry of Finance.

During the open houses, many property owners raised concerns related to remaining tax inequities in the north. One commonly raised issue was the lower PLT rate for residential properties outside school boards compared to those inside school boards. Open house participants also noted that businesses should contribute their fair share towards any future PLT changes to better support local services.

The government also heard that PLT reform needs to proceed in a manageable way and should take into consideration the many differences between northern municipalities and unincorporated areas.

The second stage of the PLT review will continue to address inequities in taxation and in how important services are paid for in the north. As part of the ongoing PLT review, the government will consult with northerners on ways to further address tax inequities in the north before determining PLT rate adjustments for 2017.

The government remains committed to transforming the PLT into a fair and modern property tax system.

[1] www.fin.gov.on.ca/en/consultations/landtaxreform/plt-openhouses-report.html

Strengthening Ontario's Assessment System

The government is working to improve the property assessment system by implementing the recommendations of the Assessment Review in partnership with the Municipal Property Assessment Corporation (MPAC), municipalities and stakeholders.

One of the key recommendations from the Assessment Review is the introduction of an advance disclosure process, which will enable affected businesses and municipalities to contribute to the determination of assessed values before the assessment roll is finalized. An important objective of this process is to reduce the number and impact of appeals by increasing transparency, predictability and accuracy of assessed values for the next province-wide reassessment in 2016.

To further support these objectives, the Ministry of Finance and MPAC have established an assessment methodology change protocol. This protocol will ensure a consultative approach is taken when a major change in assessment methodology is proposed.

As announced in the *2015 Ontario Economic Outlook and Fiscal Review*, the Province has also made improvements to the Request for Reconsideration process to standardize timelines and support the early resolution of assessment issues — a recurring theme expressed during the Assessment Review. The Province will continue to work with stakeholders to introduce refinements that promote the early resolution of assessment issues and the accurate determination of assessed values through the timely sharing of information.

Governance of MPAC

The government proposes to enhance the continuity of MPAC's leadership by increasing the length of time that members can serve on the board of directors. Currently, board members can serve for a maximum of two terms of up to three years each. It is proposed that the maximum period of service on the board be increased from two terms to three terms. This would facilitate continuity of membership on the board, allow members to make a greater contribution to the oversight of MPAC's operations and develop the necessary expertise to more effectively fulfil their mandate.

The government will be consulting on potential further changes and plans to introduce legislation to strengthen MPAC's governance structure and support its objective of remaining accountable to stakeholders while maintaining excellence in assessment service delivery.

Power Dam Special Payment Program

The Power Dam Special Payment Program provides eligible municipalities with mitigation related to the former property tax on hydroelectric generating stations (power dams). The Province has been consulting with municipal and electricity sector representatives on the program for a number of years. During these discussions, municipalities emphasized the importance of stability. In the *2015 Ontario Economic Outlook and Fiscal Review*, the Province announced that stable funding would be provided to municipalities under the Power Dam Special Payment Program for 2016.

The Province is pleased to confirm that stable funding with respect to currently eligible hydroelectric generating stations will remain in place for 2017 and future years. This means that municipalities can plan on continuing to receive the same payment under the Power Dam Special Payment Program as they received in 2015, subject to any necessary maintenance adjustments.

Value-Added Farm Activities

The government has heard from the agriculture sector that current property tax increases related to small-scale on-farm agricultural processing and manufacturing can be a disincentive for some farmers to expand and diversify their operations.

Where a farmer conducts on-farm, value-added activities that use their agricultural product to create a new product, the portion of the property that is used for that activity is taxed at the industrial rate. This is intended to ensure consistent property tax treatment and a level playing field between processing activities conducted on a farm and similar activities that are conducted off farms.

The government appreciates the importance of encouraging emerging opportunities in the agriculture sector that will help build a strong rural economy. In 2013, Premier Kathleen Wynne highlighted the importance of the agri-food sector to Ontario’s economy by issuing the Agri-Food Challenge, aimed at creating more local jobs and homegrown food. Many municipalities have also expressed support for encouraging on-farm innovations that benefit local economies and provide additional sources of food to local communities.

To that end, the Province will be working with the farming community and the municipal sector to provide sustainable property tax treatment to farmers who engage in small-scale, value-added activities as part of their farming business, while maintaining a level playing field for large processors.

Strategic Plan for the 2016 Budget

The table provides a visual representation of the key themes and narratives contained in the 2016 Document for the government’s plan to build prosperity by making investments that grow the economy and create jobs. Key pillars of the plan include Fostering an Innovative, Dynamic Business Environment, Building Tomorrow’s Infrastructure, Investing in People’s Talents and Skills, and Strengthening Retirement Security. In addition, key narratives throughout the government’s plan include Transforming Health Care, Towards a Fair Society, Responsible Fiscal Management, and Together towards a Stronger Ontario and a Stronger Canada.

Return to Strategic Plan for the 2016 Budget

Path to Balance

The table provides a visual representation of the government’s plan to eliminate the deficit, which consists of responsibly managing spending, transforming and modernizing government, addressing the underground economy and tax compliance, and investing strategically to grow the economy.

Return to Path to Balance

2016 Budget Talks

This graphic depicts the various methods (such as unique visits, new accounts, comments, votes and Twitter mentions) in which Ontarians were able to participate in the 2016 Budget Talks.

Return to Budget Talks

Who Participated

This graphic depicts the percentage of people who participated by gender and by age.

Return to Who Participated

User Demographics

This graphic depicts user demographics by employment status and by level of education achieved.

Return to User Demographics

Themes by Number of Ideas

This bar chart depicts the themes (such as Education, Transportation, Health Care, etc.) by number of ideas.

Return to Themes by Number of Ideas

Budget Talks Ideas

This graphic depicts the number of Budget Talks ideas submitted by people.

Return to Budget Talks Ideas

Chart 1.1: Ontario Accounted for Almost Half of Venture Capital Investment in Canada in 2015

According to Thomson Reuters, in 2015, Ontario-based businesses received almost 50 per cent of all venture capital investments in Canada. Quebec received less than 30 per cent, while British Columbia received less than 15 per cent. The rest of Canada together received less than 10 per cent of national venture capital investment.

Return to Chart 1.1

Chart 1.2: Changing Composition of International Exports

The bar chart shows the share of Ontario International Exports that was made up of goods and of services in the years 2004 and 2014. In 2004 Ontario exported $228.5 billion of goods and services, with goods exports accounting for $197.9 billion or 86.6 per cent of total international exports, while service exports accounted for $30.6 billion or 13.4 per cent of total international exports. Ten years later, in 2014, Ontario exported $242.6 billion of goods and services, with goods exports accounting for $198.2 billion or 81.7 per cent of total international exports while service exports accounted for $44.4 billion or 18.3 per cent of total international exports. Over the 10 year span, international service exports have increased by 45.2 per cent while international goods exports have risen by just 0.2 per cent. The share of Ontario's international service exports to total international exports has increased by 4.9 percentage points, from 13.4 per cent in 2004 to 18.3 per cent in 2014.

Return to Chart 1.2

Chart 1.3: Ontario's Cap and Trade Program

This chart describes Ontario's greenhouse gas emission reductions targets; how cap and trade works, and illustrates how cap-and-trade proceeds would be invested.

Ontario's Greenhouse Gas Reduction Targets:

- Ontario has set emissions reductions targets of 15 per cent below 1990 levels by 2020, 37 per cent below 1990 levels by 2030 and 80 per cent below 1990 levels by 2050.
- Ontario has achieved its 2014 emission reduction target of 6 per cent below 1990 levels.

How Does Cap and Trade Work?

- Starting in 2017, a province-wide cap on greenhouse gases would be in place. Through 2020, the cap will decline each year.
- The Province would distribute allowances through auctioning and free-of-charge allocation to industry.
- Emitters covered under the program must hold an allowance for every tonne of greenhouse gas emissions they release into the air.
- As the cap declines each year, emitters would need to hold a sufficient number of allowances to cover their annual emissions. To comply, emitters could reduce their emissions or purchase allowances in the carbon market.

Cap and Trade and Priority Investments

- Proceeds from the auction of emissions allowances are expected to amount to $478 million in 2016–17 and $1.8–$1.9 billion annually starting in 2017–18.
- All proceeds will be dedicated to investments that support greenhouse gas emission reductions such as energy efficiency for homes and businesses, public transit, research, innovation and clean technology adoption.

Return to Chart 1.3

Chart 1.4: Corporate Income Tax Rates in Canada

This bar chart shows that Ontario has the second lowest general Corporate Income Tax (CIT) rate of 11.5 per cent when being compared with Canada's federal and provincial general CIT rates. British Columbia has the lowest general CIT rate of 11 per cent and Nova Scotia and Prince Edward Island have the highest general CIT rate of 16 per cent. The federal general CIT rate is 15 per cent.

Return to Chart 1.4

Chart 1.5: Ontario's Internationally Competitive Corporate Income Tax Rate

This bar chart shows that in 2016, Ontario's combined federal-provincial general Corporate Income Tax (CIT) rate of 26.5 per cent is lower than the average CIT rate of G20 and G7 member countries, at 28.2 and 30.5 per cent, respectively, and well below the average federal-state CIT rate in the United States (39 per cent) and the Great Lakes States (39.7 per cent).

Return to Chart 1.5

Chart 1.6: Ontario's Marginal Effective Tax Rate on New Business Investment Has Been Cut in Half

The marginal effective tax rate (METR) is a comprehensive measure of the tax burden on new business investment. It takes into account federal and provincial/state corporate income taxes, capital taxes and sales taxes. Ontario and federal tax changes have reduced Ontario's METR from 33.2 per cent in 2009 to 16.3 per cent in 2015. By comparison, in 2015, the average METR for the United States was 34.7 per cent, and was 20.2 per cent for member countries of the OECD, excluding Canada.

Return to Chart 1.6

Chart 1.7: Development of an Integrated Strategy to Support the Sharing Economy

The chart divided into four equal quadrants and outlines the Province's four principles which will guide the development of its integrated strategy to support the sharing economy.

Quadrant 1: Promote a level playing field and tax fairness
Quadrant 2: Foster innovation and support new business
Quadrant 3: Protect workers, consumers and communities
Quadrant 4: Ensure a coordinated government approach is taken

Return to Chart 1.7

Chart 1.8: Significant Infrastructure Investments

This chart illustrates recent and planned infrastructure investments by the Province. Ontario invested $11 billion in 2014–15 and $11 billion in 2015–16. In the *2015 Ontario Economic Outlook and Fiscal Review*, the Province announced a more than $134 billion investment commitment.

Planned infrastructure investments are increasing. Ontario is planning to invest more than $137 billion over the next 10 years, or about $160 billion over 12 years, starting in 2014–15.

Figures exclude third-party investments in hospitals, colleges and schools.

Return to Chart 1.8

Chart 1.9: Moving Ontario Forward — Outside the GTHA

This chart shows preliminary estimated timelines for various investments outside the Greater Toronto and Hamilton Area (GTHA), under the Moving Ontario Forward initiative.

Return to Chart 1.9

Chart 1.10: Updates on Regional Express Rail

This map shows planned GO rail improvements on the Kitchener, Milton, Lakeshore West, Lakeshore East, Barrie, Richmond Hill and Stouffville lines. Segments of lines are distinguished by type of improvement, including Regional Express Rail, additional trips and enhanced service.

Return to Chart 1.10

Chart 1.11: Moving Ontario Forward — GTHA

This chart shows preliminary estimated timelines for various transit projects within the Greater Toronto and Hamilton Area (GTHA), under the Moving Ontario Forward initiative.

Return to Chart 1.11

Chart 1.12: Moving Ontario Forward

This chart illustrates how Moving Ontario Forward is funded and what its outcomes are. $31.5 billion in dedicated funds is generated from different sources, including net revenue gains from asset optimization, tax revenue, federal contributions and, if necessary, borrowing. The net revenue gains from asset optimization are credited to the Trillium Trust. Together, the Trillium Trust and other dedicated funds total $31.5 billion and will be invested in Moving Ontario Forward projects. Moving Ontario Forward investments will help support economic growth and job creation.

Return to Chart 1.12

Chart 1.13: Highest Level of Education Achieved by Age — Ontario, 2015

This chart shows the highest level of educational attainment for different age groups. Education attainment categories are: below high school; high school diploma; postsecondary certificate/diploma; and university degree. The proportion of people with some type of postsecondary education is lower for older age groups. For those aged 25–34, a university degree is the most common type of educational attainment.

Return to Chart 1.13

Chart 1.14: Shared Goals for a Stronger Workforce

This chart shows the different initiatives Ontario is undertaking to provide equitable access to opportunities, support all learners for personal and professional success, and create good jobs and a strong competitive economy. These initiatives include:

- Increasing access and affordability through modernized student financial assistance;
- The Premier's Highly Skilled Workforce Strategy Expert Panel; and
- The development of a new funding formula to support student-focused universities and colleges.

Return to Chart 1.14

Chart 1.15: Postsecondary Participation Rates of 18- to 21-Year-Olds Living at Home, by Parental Income, 2013

This chart shows the proportion of families with at least one child in full-time postsecondary education, for families with at least one child 18 to 21 residing at home, comparing Ontario with the rest of Canada. For all family income levels, Ontario has a higher participation rate than the rest of Canada. Participation rates increase with income for both Ontario and the rest of Canada, ranging from 20 per cent of Ontarians among households making $10,000 per year to more than 70 per cent of Ontarians among households making more than $180,000 per year.

Return to Chart 1.15

Chart 1.16: Illustrative Scenario: OSAP Grants for Dependent College Students Living Away from Home

This chart shows OSAP grant values for students after the OSAP transformation and federal Liberal platform commitments are implemented, by family income. For family incomes under $90,000, the value of grants exceeds the average cost of tuition, and for family incomes below $50,000, the value of grants exceed tuition by a larger amount.

Return to Chart 1.16

Chart 1.17: Illustrative Scenario: OSAP Grants for Dependent Arts and Science University Students Living Away from Home

This chart shows OSAP grant values for students after the OSAP transformation and federal Liberal platform commitments are implemented, by family income. For family incomes under $80,000, the value of grants exceeds the average cost of tuition and for family incomes below $50,000, the value of grants exceed tuition by a larger amount.

Return to Chart 1.17

Chart 1.18: Illustrative Scenario: Lower Expected Parental Contributions

This chart shows the amount of money that parents are expected to contribute to their children's education for family income levels from $70,000 to $110,000. It compares the expected contributions for Canada, Ontario now, and Ontario after the proposed OSAP transformation. Currently Ontario's expected contributions far exceed Canada's for family incomes $80,000 and up, but under the proposed reforms expected parental contributions will be much closer to Canada's levels.

Return to Chart 1.18

Chart 1.19: Supporting Working Families

The bar chart shows the change in total annualized income for a single parent with two children ages nine and 10, working full-time at minimum wage between 2003 and 2015. In 2003, the total annualized income was $19,468. In 2015, the total annualized income for that family type stood at $36,230, or 86 per cent higher than in 2003.

Return to Chart 1.19

Chart 2.1: Ontario's Record against Deficit Targets

This bar chart shows Ontario's actual deficits versus deficit targets from 2009–10 through 2014–15, and the interim projection for 2015–16.

In the *2009 Ontario Economic Outlook and Fiscal Review*, Ontario projected a $24.7 billion deficit for 2009–10. The actual result for 2009–10 was a deficit of $19.3 billion.

The *2010 Budget* projected deficits of $19.7 billion for 2010–11, $17.3 billion for 2011–12, $15.9 billion for 2012–13 and $13.3 billion for 2013–14. The actual deficits over the same period were $14.0 billion for 2010–11, $13.0 billion for 2011–12, $9.2 billion for 2012–13 and $10.5 billion for 2013–14.

The *2014 Budget* projected a deficit of $12.5 billion for 2014–15. The actual deficit was $10.3 billion. The *2015 Budget* projected a deficit of $8.5 billion for 2015–16. The deficit is currently projected to be $5.7 billion.

Return to Chart 2.1

Chart 2.2: Ontario's Plan to Eliminate the Deficit

This bar chart shows projections for Ontario's fiscal outlook in 2016–17, 2017–18 and 2018–19.

In 2016–17, Ontario's deficit is projected to be $4.3 billion. This is compared to a projected deficit of $4.8 billion for 2016–17 laid out in the *2015 Budget*.

Ontario is projected to balance in both 2017–18 and 2018–19.

Return to Chart 2.2

Chart 2.3: Net Debt-to-GDP, 1990–91 to 2018–19

This line chart shows Ontario's net debt-to-GDP from 1990–91 to 2018–19.

The net debt-to-GDP ratio is projected to peak at 39.6 per cent for 2015–16 before levelling off in 2016–17 and beginning to decline in 2017–18. It is projected to be 39.6 per cent in 2016–17, 38.9 per cent in 2017–18, and 38.5 per cent in 2018–19.

Return to Chart 2.3

Chart 2.4: Ratio of Program Expense to GDP, 2009–10 to 2018–19

This line chart shows the ratio of Ontario's program expense to nominal GDP from 2009–10 to 2018–19.

For 2015–16, the ratio is 16.2 per cent, based on the interim expense projection for 2015–16. The ratio is projected to be 15.7 per cent in 2016–17; 15.3 per cent in 2017–18 and 15.0 per cent in 2018–19.

For past years, the ratio is based on actual program expense amounts: it is 17.9 per cent in 2009–10; 17.7 per cent in 2010–11; 17.1 per cent in 2011–12; 16.5 per cent in 2012–13; 16.7 per cent in 2013–14; and 16.4 per cent in 2014–15.

Return to Chart 2.4

Chart 2.5: Interest on Debt as a Per Cent of Revenue, 1990–91 to 2018–19

This line chart shows the ratio of Ontario's interest on debt to total revenue from 1990–91 to 2018–19.

The ratio has been at various levels between 8.6 per cent and 9.2 per cent since 2006–07. It is projected to be 8.9 per cent in 2015–16; 9.0 per cent in both 2016–17 and 2017–18; and 9.2 per cent in 2018–19.

Return to Chart 2.5

Chart 2.6: Sources of Provincial Revenue, 2014-15

This chart shows the share of total revenue collected by Ontario in 2014–15. Total revenue in 2014–15 was $118.5 billion.

The largest source of revenue was taxation revenue, which was $82.3 billion, accounting for 69.4 per cent of total revenue.

The remaining sources of total revenue included Government of Canada transfers at $21.6 billion, or 18.2 per cent; income from Government Business Enterprises at $5.6 billion, or 4.7 per cent; Other Non-Tax Revenue at $6.9 billion, or 5.8 per cent; and Service Fees at $2.1 billion, or 1.8 per cent of total revenue.

Return to Chart 2.6

Chart 2.7: Ontario Public/Private Wage Settlement Trends

This line chart shows average bargained-wage increases for the provincial public sector, the municipal public sector, the federal public sector in Ontario, and the private sector in two periods, from April 2010 to July 2012, and from July 2012 to January 2016. The provincial public sector average wage increase decreases sharply from 1.6 per cent to 0.6 per cent during the April 2010 to July 2012 period, and remains steady during the July 2012 to January 2016 period. The other three sectors remain steady between 1.7 per cent and 1.9 per cent.

Return to Chart 2.7

Chart 3.1: Shifting Global Economic Environment

This infographic shows key global economic developments and their impacts on Ontario's economy.

The first half of the infographic describes the key global economic developments. Over the past year and a half there has been a significant shift in the global economic environment. This includes, increased oil supply and weakening economic growth in emerging economies. It also includes solid economic growth in the U.S. and strengthening growth in some advanced countries. These developments and broader uncertainty about the global economic outlook have contributed to: oil prices declining from over $100 US per barrel to recently $30 US; the Canadian dollar declining by about 25 per cent relative to the US dollar; stock markets losing value; and lower interest-rate expectations.

The second part of the infographic describes global developments and Ontario's economy. Steady U.S. economic growth, low oil prices and a weaker Canadian dollar are all conducive to Ontario's economic growth. The impacts include: lower costs to consumers, with a 17.9 per cent decrease in gasoline prices in 2015; improvements in export competitiveness, with international merchandise exports up 10.5 per cent in 2015; an 8.9 per cent increase in international visitors in 2015; and strong housing market, with home resales up 9.6 per cent in 2015. However, higher import costs and weaker confidence could dampen the outlook: Fruit and vegetable prices increased 14.3 per cent year-over-year in 2015Q4; lower dollar also means rising import costs to consumers; higher travel costs for Ontarians have decreased trips abroad by 9.6 per cent in 2015; and lower confidence and increased competition can limit investment — machinery and equipment down three straight quarters.

Return to Chart 3.1

[Chart in Text Box] Change in Household Spending 2015 versus 2014

This bar chart shows that, based on spending patterns in 2014 and movements in consumer prices over the past year, Ontario households, would on average, have paid $237 more for food bought in stores and saved $457 on gasoline.

Return to Change in Household Spending 2015 versus 2014

Chart 3.2: Ontario Real GDP Growth Outpacing Canada

The bar chart shows annual real GDP growth for Ontario and Canada over the three years, 2013–2015. In 2013, Ontario's growth of 1.3 per cent lagged Canada's growth of 2.2 per cent. In 2014, Ontario's real GDP growth rose to 2.7 per cent, outpacing the national average of 2.5 per cent for the first time since 2002. Ontario's projected real GDP growth of 2.5 per cent in 2015 is expected to continue outpacing Canadian real GDP of 1.2 per cent in 2015.

Return to Chart 3.2

Chart 3.3: Ontario's Strong Recovery from the Recession

Two charts combined to show that Ontario's economy has fully recovered from the 2008–09 recession. The first chart, a line chart, tracks quarterly Ontario real GDP per capita. This chart shows that real GDP per capita in the second quarter of 2008, just prior to the recession, stood at $47,200. As of the third quarter of 2015, Ontario real GDP per capita had risen to $48,400.

The second chart tracks monthly employment and the unemployment rate for Ontario from January 2008 to January 2016. Employment shows the pre-recession peak of 6.65 million in October 2008, and then declines to the recession low of 6.38 million in June 2009. Employment steadily increased after that point, with employment passing the pre-recession peak in mid-2011. Currently, employment in Ontario is near 7.0 million. The unemployment rate line shows a sharp increase during late 2008 and early 2009, peaking at 9.6 per cent in June 2009. Since then, the unemployment rate has trended down, standing at 6.7 per cent in January 2016.

Return to Chart 3.3

Chart 3.4: Ontario Government's Net Fiscal Contribution

This chart shows Ontario government's net fiscal contribution in billions of dollars from 2009–10 to 2014–15.

Net fiscal contribution estimates the amount spent in the economy from program and capital spending. This chart shows net fiscal contribution from supporting programs and services (i.e., overall balance excluding interest on debt) and capital spending.

The chart shows that the net fiscal contribution of the Ontario government was $19.5 billion in 2009–10. Subsequently, the government reduced the amount of stimulus from program spending but continued to spend on capital.

Return to Chart 3.4

Chart 3.5: Key Economic Indicators Outpacing Canada in 2015

The bar chart shows the performance of key economic indicators in Ontario and the rest of Canada in 2015. Housing starts increased 18.6 per cent in Ontario, compared with a 3.7 per cent decline in the rest of Canada. Home resales increased 9.6 per cent in Ontario, compared with a 2.4 per cent increase in the rest of Canada. Wholesale trade advanced 6.8 per cent in Ontario, compared with 1.5 per cent in the rest of Canada. Retail trade increased 4.5 per cent in Ontario compared with 0.9 per cent in the rest of Canada. Average weekly earnings increased 2.5 per cent in Ontario, compared with 1.3 per cent in the rest of Canada. Manufacturing sales advanced 1.6 per cent in Ontario, compared to a decline of 4.4 per cent in the rest of Canada. Private-sector employment increased 0.5 per cent in Ontario, compared with 0.5 per cent in the rest of Canada.

Return to Chart 3.5

Chart 3.6: Unemployment Rate Declining in Ontario

The line chart shows the unemployment rate for Ontario and Canada from 1995 to early 2016. From 1995 to 2005, Ontario's unemployment rate was lower than the Canadian rate. However, because of the global recession, Ontario's unemployment rate rose from 6.3 per cent in 2006 to 9.1 per cent in 2009, and was above the Canadian rate from 2007 to 2014. In 2015, Ontario's unemployment rate declined to 6.8 per cent, below the Canadian rate of 6.9 per cent. In January 2016, Ontario's unemployment rate was 6.7 per cent, below Canada's rate of 7.2 per cent.

Return to Chart 3.6

Chart 3.7: Employment Gains Concentrated in Full-Time, Private-Sector, Above-Average Wage Industries

The bar chart shows different characteristics of Ontario employment gains since June 2009. Total employment increased by 608,000 since June 2009, with full-time employment up by 617,000, while part-time employment declined by 9,000. Private-sector employment increased by 439,000, while public-sector employment rose by 77,000 and self-employment was up by 92,000. Employment in above-average wage industries rose by 463,000 compared with a 145,000 employment increase in below-average wage industries.

Return to Chart 3.7

Chart 3.8: Unemployment Rates Down in All Ontario Regions

The bar chart shows unemployment rates for Ontario regions in 2009 and 2015. Unemployment rates for all regions were lower in 2015 than in 2009. Ontario's unemployment rate was 9.1 per cent in 2009 and 6.8 per cent in 2015. The North region unemployment rate declined from 9.0 per cent in 2009 to 7.2 per cent in 2015. The East region had an unemployment rate of 6.8 per cent in 2009 and 6.7 per cent in 2015. The GTA unemployment rate was 9.6 per cent in 2009 and 7.1 per cent in 2015. The Southwest region unemployment rate fell from 10.3 per cent in 2009 to 6.9 per cent in 2015. The Central region unemployment rate was 9.1 per cent in 2009 and 5.9 per cent in 2015.

Return to Chart 3.8

Chart 3.9: Ontario Exports Up Strongly

The double bar chart illustrates the change in Ontario nominal exports during 2003–2013, expressed as an average annual growth rate over the 10-year period, compared to 2014. Total Ontario exports rose 5.3 per cent in 2014, outpacing the 2003–2013 average annual growth rate of 1.5 per cent. Ontario's exports to other countries (+7.1 per cent in 2014 compared to +0.7 per cent over the 2003–2013 period) have grown at a faster pace than exports to other provinces (+2.0 per cent in 2014 compared to +3.2 per cent over the 2003–2013 period) in 2014, which is the opposite of the direction of growth during 2003–2013. Ontario's goods exports have grown 7.1 per cent in 2014, following no growth (on average) during 2003–2013. Exports of services rose 2.2 per cent in 2014, after increasing 4.8 per cent during 2003–2013.

Return to Chart 3.9

Chart 3.10: Emerging Markets Weighing on Global Growth

There are two charts. On the left-hand side a bar chart shows real GDP growth for the world, emerging markets and China over the 2000–2014 period and projections for 2015, 2016 and 2017. Real GDP growth for the world averaged 3.9 per cent from 2000 to 2014 and is projected to grow by 3.1 per cent in 2015, 3.4 per cent in 2016 and 3.6 per cent in 2017. Real GDP growth for emerging markets averaged 6.0 per cent from 2000 to 2014 and is projected to grow by 4.0 per cent in 2015, 4.3 per cent in 2016 and 4.7 per cent in 2017. Real GDP growth for China averaged 9.7 per cent from 2000 to 2014 and is projected to grow by 6.9 per cent in 2015, 6.3 per cent in 2016 and 6.0 per cent in 2017.

On the right-hand side, a line chart shows WTI oil prices and metal and mineral prices from 2000 to 2016. Prices have been indexed to 100 in January 2000. WTI oil prices showed steady growth over the 2003 to 2006 period, growing from about 100 to 300. In 2008, oil prices spike to an indexed level of about 520, before falling sharply back to about 120 by the end of the year. Prices climb through to mid-2014, reaching levels around 400. Since then, prices have fallen sharply, with the latest data point at about 115. Metal and mineral prices follow a similar, but more muted, pattern. Indexed levels reached around 270 in 2008 before falling back below 200 by the end of the year. Prices climbed to 300 in 2011 but have since been on a downward trend, currently sitting at about 180.

Return to Chart 3.10

Chart 3.11: Volatility in Commodity and Financial Markets

There are two charts. On the left-hand side, a line chart shows the Canadian dollar and WTI oil prices from January 2014 to February 2016. The two lines follow each other closely, with the dollar starting out above 90 cents US and WTI oil prices at about $95 US per barrel. Since mid-2014 both lines have declined, with the dollar currently at about 72 cents US in February 2016 and oil at about $32 US per barrel.

On the right-hand side, a line chart show the S&P 500 and S&P/TSX indexed to 100 on January 2, 2014. The S&P 500 climbed pretty steadily through to July 2015 and then dipped down in August and September of 2015 before recovering. The S&P 500 then fell sharply at the beginning of 2016 to an indexed level of about 100, before partially recovering. The S&P/TSX was at an indexed level of over 110 in mid-2015 before beginning to trend downwards. A sharp decline in early 2016 brought the level below 90, before partially recovering.

Return to Chart 3.11

Chart 3.12: Lower Oil Prices Providing Savings in Ontario

The bar chart shows the estimated savings from lower oil prices in 2015. Savings are estimated at $3.8 billion for industry, $2.7 billion for households and $0.2 billion for others, for a total savings of $6.6 billion. A note reads: Savings compare average prices in 2015 to 2014, adjusted for the exchange rate. Numbers may not sum to total due to rounding. A small share of savings also accrued to government and the non-profit sector (“Other”).

Return to Chart 3.12

Chart 3.13: Lower Canadian Dollar Having an Impact

The line chart compares the U.S.-Canada exchange rate with visits from U.S. travellers to Ontario and visits by Ontarians to the U.S. from the first quarter of 2011 to the third quarter of 2015. The number of visits is indexed so the first quarter of 2011 is equal to 100.

The chart shows the visits by Ontarians to the U.S. increasing modestly to almost index level 110 by the middle of 2013 before declining to the current level below 85. Visits from the U.S. are little changed between 2011 and the end of 2014 before increasing sharply in the second and third quarters of 2015, ending the time period above index level 110.

Over this period, the exchange rate fell from around 102 cents US in the first quarter of 2011 to almost 75 cents US in the third quarter of 2015.

Return to Chart 3.13

Chart 3.14: Solid U.S. GDP Growth to Continue

The bar chart shows U.S. real GDP growth from 2010 to 2019. U.S. real GDP increased 2.5 per cent in 2010, 1.6 per cent in 2011, 2.2 per cent in 2012, 1.5 per cent in 2013 and 2.4 per cent in 2014 and 2015. According to *Blue Chip Economic Indicators*, U.S. real GDP is projected to grow by 2.1 per cent in 2016, 2.4 per cent in 2017,2.4 per cent in 2018 and 2.2 per cent 2019.

Return to Chart 3.14

Chart 3.15: Ontario Economic Growth Expected to Broaden

The bar chart shows the composition of Ontario growth over the outlook (2016 – 2019). The overall economy is expected to average real GDP growth of 2.2 per cent, led by business investment and exports with average annual increases of 3.4 per cent and 3.0 per cent, respectively. Average growth between 2016 and 2019 is expected to be 1.9 per cent for household spending, 1.1 per cent for government, 2.0 per cent for residential investment and 2.2 per cent for imports.

Return to Chart 3.15

Chart 3.16: Ontario's Labour Market Expected to Improve

This combined bar and line chart shows Ontario's employment growth and unemployment rates from 2013 to 2019. Bars show employment growth of 1.8 per cent in 2013, 0.8 per cent in 2014 and 0.7 per cent in 2015. Employment is forecast to grow by 1.1 per cent in 2016, 1.2 per cent in 2017 and 2018, and 1.1 per cent in 2019. A line shows the unemployment rate falling from 7.6 per cent in 2013 to 7.3 per cent in 2014 and 6.8 per cent in 2015. The unemployment rate is forecast to decline further to 6.6 per cent in 2016, 6.4 per cent in 2017, 6.3 per cent in 2018 and 6.1 per cent in 2019. A text box notes that over the 2016 to 2019 period, 323,000 net new jobs are projected to be added.

Return to Chart 3.16

Chart 3.17: Exchange-Rate-Sensitive Exports Already Benefiting from Lower Canadian Dollar

The line chart compares the growth of exchange-rate-sensitive exports and other non-sensitive exports in nominal terms, indexed to their respective values in January 2014. In December 2015, exchange-rate-sensitive exports grew 3.4 per cent more than exports that are not considered to be sensitive to fluctuations in the exchange rate. Despite the difference in growth rates, both types of exports have trended upwards since February 2015.

Return to Chart 3.17

Chart 3.18: Industry Operating Close to Full Capacity, Expected to Trigger Increased Investment Activity

The line chart shows quarterly Ontario total industry capacity utilization rates from 2002 to the third quarter of 2015. The rate is within a range of 82 per cent and 86 per cent from 2002 to 2007, but then declines sharply to about 72 per cent in the second quarter of 2009. The rate then recovers back to above 80 per cent by 2011, and by the third quarter of 2015 stands at about 83 per cent. Accompanying text reads, “Businesses were left with underused facilities following the recession, lowering investment needs. With demand now rising and facilities operating at full capacity, more investment is expected to follow.”

Return to Chart 3.18

Chart 3.19: Consumer Spending Expected to be Supported by Gains in Employment and Wages

The bar chart shows average annual per cent changes over the 2016 to 2019 period. Employment is forecast to grow by an average of 1.1 per cent, and wages and salaries are projected to average gains of 4.5 per cent, contributing to real household consumption growth of 1.9 per cent.

Return to Chart 3.19

Chart 3.20: Demographic Fundamentals to Support Housing Starts over the Medium Term

This combined line and bar chart compares the annual level of household formations in Ontario with the annual level of housing starts in Ontario, between 2011 and 2019. The line, representing household formations, begins at 66,000 in 2011 and ends at 78,000 household formations in 2019. The bars, representing housing starts, begin at 68,000 housing starts in 2011 and end at 72,000 housing starts in 2019. Over the historical period, 2011 to 2015, household formations averaged 72,100 annually, compared with housing starts, which averaged 67,000 annually. Over the forecast period, 2016 to 2019, household formations are expected to average 77,200 annually, compared with housing starts, which are expected to average 67,300 annually.

Return to Chart 3.20

Chart 3.21: Increasing Competition May Limit Growth Prospects

There are two charts. On the left-hand side, a bar chart shows the share of U.S. goods imports from Ontario, Canada, China and Mexico in the years 2004 and 2014. There have been declining shares in Ontario (from eight per cent in 2004 to five per cent in 2014) and Canada (from 17 per cent in 2004 to 15 per cent in 2014). There have been rising shares in China (from 13 per cent in 2004 to 20 per cent in 2014) and Mexico (from 11 per cent in 2004 to 13 per cent in 2014).

On the right-hand side, a line chart shows the Canadian dollar and Mexican peso indexed to 100 in January 2004 over the January 2004 to January 2016 period. Values over 100 represent an appreciation versus the U.S. dollar, and values below 100 represent a depreciation vs. the U.S. dollar. The Canadian dollar rose to over 120 by June 2007 and remained above 120, for the most part, through to mid-2014, with the main exception of a dip down to close to 100 in late 2008 to mid-2009. After mid-2014, the Canadian dollar has steadily declined and is currently at an index level of about 91. The Mexican peso remained around 100 until mid-2008, when it fell sharply to about 80. The peso stayed between 80 and 100 through to late 2014, and has since fallen to about 60.

Return to Chart 3.21

Chart 3.22: Mortgage Carrying Costs Modestly Elevated Relative to Long-Term Trends

The line chart shows the mortgage carrying cost as a share of disposable income per household in Ontario from 1981 to 2015. The line increased to a high of almost 40 per cent in 1990 and then declined to a low of 20 per cent in 1998. It has since trended higher, reaching 29 per cent in 2015. The long-term average is 26.6 per cent.

Return to Chart 3.22

Chart 3.23: Composition of Revenue, 2016–17

This pie chart shows the composition of Ontario's revenue in 2016–17, which totals $130.6 billion. The largest taxation revenue source is Personal Income Tax revenue at $32.2 billion, accounting for 24.6 per cent of total revenue. This is followed by Sales Tax at $24.0 billion, or 18.4 per cent of total revenue, and Corporations Tax at $12.1 billion, or 9.2 per cent of total revenue. Total taxation revenue accounts for $91.8 billion, or 70.3 per cent of total revenue. The other major non-taxation sources of revenue are Federal Transfers of $24.6 billion, or 18.9 per cent of total revenue, Income from Government Business Enterprises at $5.0 billion, or 3.8 per cent of total revenue, and various Other Non-Tax Revenues at $9.1 billion, or 7.0 per cent of total revenue.

Return to Chart 3.23

Chart 3.24: Composition of Total Expense, 2016–17

This pie chart shows the share of total expense and dollar amounts by sector in 2016–17. Total expense in 2016–17 is $133.9 billion.

The largest expense is the Health Sector at $51.8 billion, accounting for 38.7 per cent of total expense.

The remaining sectors of total expense include the Education Sector at $25.6 billion or 19.1 per cent; the Postsecondary and Training Sector at $7.9 billion or 5.9 per cent; the Children's and Social Services Sector at $15.8 billion or 11.8 per cent; the Justice Sector at $4.5 billion or 3.4 per cent; and Other Programs at $16.5 billion or 12.3 per cent. Interest on Debt, included as part of Total Expense, is $11.8 billion or 8.8 per cent.

Note that the Education Sector excludes the Teachers' Pension Plan. Teachers' Pension Plan expense is included in Other Programs.

Return to Chart 3.24

Chart 3.25: 2015–16 Borrowing

To date, $28.4 billion of this year's long-term public borrowing has been completed and consisted of $21.4 billion of Canadian dollar bonds, a $0.7 billion Canadian dollar Green Bond, $6.0 billion of U.S. dollar bonds, $0.1 billion of euros and $0.1 billion of Australian dollar bonds.

Return to Chart 3.25

Chart 3.26: Canadian Dollar and Foreign Currency Borrowing

To date, the Province's 2015–16 borrowing program totalled $28.4 billion. $22.1 billion was borrowed in the Canadian dollar market and $6.3 billion was borrowed in foreign currencies.

Return to Chart 3.26

Chart 3.27: Weighted-Average Term of Borrowing in Years

The weighted average term of borrowing for 2015–16 was 14.0 years. The average term to maturity of new long-term Provincial borrowing has been extended significantly from 8.1 years in 2009–10.

Return to Chart 3.27

Chart 3.28: Interest on Debt: Budget Forecast versus Actual

Interest on debt expense in 2016–17 is now forecast to be $4.2 billion lower than the forecast contained in the 2010 Budget. Interest on debt savings over the period to balance now total $22.4 billion relative to the *2010 Budget* forecast.

Return to Chart 3.28

Chart 3.29: Interest on Debt-to-Revenue Ratio

Interest on debt-to-revenue is forecast to be 9.0 per cent for 2016–17. This ratio is lower than it was in the 1990s and is forecast to remain lower through the outlook period in 2018–19.

Return to Chart 3.29

Chart 3.30: Average Unrestricted Liquid Reserve Levels

As of January 31, 2016, the average unrestricted liquid reserve for 2015–16 was $21.4 billion.

Return to Chart 3.30

Chart 3.31: Net Debt-to-GDP and Accumulated Deficit-to-GDP

The net debt-to-GDP ratio is forecast to peak at 39.6 per cent in 2015–16. The accumulated deficit-to-GDP is projected to be 25.9 per cent as of March 31, 2016.

Return to Chart 3.31

Chart 3.32: Total Debt Composition as of March 31, 2016

As of March 31, 2016, the Province's total debt is projected to be $325.3 billion, and consists of $236.3 billion of Canadian dollar public bonds, $11.9 billion of Canadian dollar non-public debt, $14.5 billion of treasury bills, $6.4 billion of U.S. dollar commercial paper, $54.5 billion of foreign currency bonds and $1.7 billion yet to be borrowed.

Return to Chart 3.32

Chart 3.33: Effective Interest Rate (Weighted Average) on Total Debt

As of March 31, 2016, the effective interest rate (calculated as a weighted average) is forecast to be 3.6 per cent on the Province's total debt, lower than the 3.7 per cent in 2014–15. The effective interest rate has been steadily decreasing from 10.9 per cent in 1990–91.

Return to Chart 3.33

Chart 3.34: Net Interest Rate Resetting and Foreign Exchange Exposure (as a Percentage of Debt Issued for Provincial Purposes)

The Province's interim net interest rate resetting exposure, calculated as a percentage of the debt issued for Provincial purposes, was 10.1 per cent on December 31, 2015. This compares to 11.0 per cent as of March 31, 2015 and 11.0 per cent as of March 31, 2014. The interest rate exposure limit is set at 35 per cent. The Province's interim foreign exchange exposure, calculated as a percentage of the debt issued for Provincial purposes, was 0.3 per cent as of December 31, 2015. This is unchanged from the 0.3 per cent as of March 31, 2015 and lower than the 0.4 per cent as of March 31, 2014. The foreign exchange exposure limit is set at five per cent.

Return to Chart 3.34

Chart 4.1: Net Contribution to the Equalization Program, 2016–17

This chart shows that in 2016–17, Ontario is expected to be the largest net contributor to the Equalization program. Ontario is followed by Alberta, British Columbia, Saskatchewan, and Newfoundland and Labrador. All other provinces receive more in Equalization payments than their taxpayers contribute through federal taxes.

Return to Chart 4.1

Chart 4.2: Contribution to Infrastructure Investment in Canada by Order of Government in 2013

This bar chart illustrates the share of total public infrastructure investment made in Canada in 2013 by the federal government, provincial and territorial governments combined, and municipal governments combined. The three bars show that the federal government contributed 14 per cent to total public infrastructure investment, compared to 46 per cent by provinces and territories, and 40 per cent by municipalities. These shares demonstrate that provinces and territories invested three times as much as the federal government in infrastructure in Canada in 2013. These calculations are based on data from the Council of the Federation's Fiscal Arrangements Working Group, Infrastructure Sub-Group.

Return to Chart 4.2

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An Assessment of the Financial Impact of the Partial Sale of Hydro One

FAO
Financial Accountability Office of Ontario

OCTOBER 2015 \ FAO-ON.ORG

Financial Accountability Office of Ontario

Established by the *Financial Accountability Officer Act*, 2013 (the act), the Financial Accountability Office (FAO) provides independent analysis on the state of the Province's finances, trends in the provincial economy and related matters important to the Legislative Assembly of Ontario.

The FAO produces independent analysis on the initiative of the Financial Accountability Officer. Upon request from a member or committee of the Assembly, the officer may also direct the FAO to undertake research to estimate the financial costs or financial benefits to the Province of any bill or proposal under the jurisdiction of the legislature.

Stephen LeClair was appointed as Ontario's first Financial Accountability Officer in February 2015. A career civil servant, he was most recently the Deputy Minister of Finance with the Government of Yukon and had previously held the position of Assistant Deputy Minister, Economics and Fiscal Policy with the Government of Alberta.

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Table of Contents

Table of Abbreviations

Abbreviation	Term
CT	Corporations tax
DRC	Debt Retirement Charge
EBITDA	Earnings before interest, taxes, depreciation and amortization
ESDI	Electricity sector dedicated income
FAO	Financial Accountability Office of Ontario
FMV	Fair market value
GBE	Government Business Enterprises
HOI	Hydro One Inc.
IPO	Initial public offering
NBV	Net book value
NPV	Net present value
OEB	Ontario Energy Board
OEFC	Ontario Electricity Financial Corporation
OPG	Ontario Power Generation
PB	Price to book value of equity multiple
PE	Price to earnings multiple
PIL	Payments-in-lieu of taxes
RSD	Residual stranded debt
UCC	Undepreciated capital cost
TEV	Total enterprise value

Essential Points

+ The Province of Ontario plans to sell part of its wholly owned electricity transmission and distribution company, Hydro One. It plans to sell 15 per cent of the company in 2015–16 and an additional 45 per cent in subsequent years.

+ The FAO estimates the market value of Hydro One to be $11–$14.3 billion.

+ The initial 15 per cent sale of Hydro One would significantly reduce the Province's deficit in 2015–16.

+ In subsequent years in which the Province sells shares in Hydro One, the impact on the budget balance (i.e. surplus/deficit) would depend on market conditions and policy decisions of the Province around the repayment of electricity sector debt, and would range from negative to positive.

+ In years following the sale of 60 per cent of Hydro One, the Province's budget balance would be worse than it would have been without the sale.

+ The Province's net debt would initially be reduced, but will eventually be higher than it would have been without the sale.

+ The total amount credited to the Trillium Trust to finance infrastructure as a result of the sale is estimated at $3.3–$5.8 billion.

Executive Summary

Background

Hydro One is an electricity transmission and distribution company[1] wholly owned by the Province of Ontario. In 2014, the company operated 97 per cent of Ontario's transmission capacity and the largest distribution system in Ontario, spanning 75 per cent of the province.[2]

Consistent with a recommendation from the Premier's Advisory Council on Government Assets[3] (the council), in its 2015 Budget the Province announced its intention to sell up to 60 per cent of Hydro One. The Province would sell 15 per cent of Hydro One in 2015–16 and the balance in subsequent sales for which it has not announced a specific timeline. In April 2015, the council estimated the value of Hydro One at $13.5–$15 billion.[4] In October 2015, Hydro One's prospectus implied an estimated proceeds value of the company of $11.3–$12.5 billion.[5]

The 2015 Budget also noted that

> *uniquely attractive conditions enable the government to maximize value and obtain greater net proceeds. … these would be available to be credited to the Trillium Trust and directed into building transit, transportation, and other priority infrastructure, through Moving Ontario Forward…*[6]

As such, the Province has made a commitment to use the net proceeds from the Hydro One transaction to finance its infrastructure plans, as part of a broader asset optimization initiative.

1 The company's subsidiaries are Hydro One Networks Inc., Hydro One Remote Communities Inc., and Hydro One Telecom Inc. as of October 18, 2015.
2 http://www.hydroone.com/ourcompany/pages/quickfacts.aspx
3 The 2014 Budget announced that the government is undertaking a review of government assets to unlock their value. As part of this review, the Province created the Premier's Advisory Council on Government Assets to recommend how to maximize the value and performance of government business enterprises, including Hydro One. (2014 Ontario Budget, p. 163)
4 Striking the Right Balance: Improving Performance and Unlocking Value in the Electricity Sector in Ontario, Premier's Advisory Council on Government Assets, p. 23. This estimate excludes the value of Hydro One Brampton Networks Inc. and represents the fully distributed equity value of Hydro One, which is the value assessed if shares are already publicly traded. The Council also recommended proceeding with a sale or merger of Hydro One Brampton, with an estimated value of about $600 million.
5 Hydro One's amended and restated preliminary base PREP prospectus, p. 15, October 9, 2015. The FAO has estimated the $11.3–$12.5 billion value using the anticipated share price of $19–$21 multiplied by the number of shares of 595 million. This figure is based on a pricing range for marketing purposes that is not on the same basis as the fully distributed equity value. For example, this figure excludes the $800 million special dividend issued to the Province that would be a part of the council's original estimate. Note that the Province has the option to sell up to 15 per cent of the company by exercising an over-allotment option defined in the prospectus.
6 2015 Ontario Budget, p. 79.

The partial sale of Hydro One could also have important direct implications for non-residential electricity customers.[7] They pay a Debt Retirement Charge (DRC), which is levied on electricity consumption to help pay down the debt of the former Ontario Hydro, the predecessor to Hydro One. The DRC is not only an additional charge for electricity consumers, but also a significant source of revenue for the Province.

Purpose of the Report: Key Questions

In this context, this report answers the following key questions:

+ How much can the Province expect in proceeds from the partial sale of Hydro One?
+ What is the impact of the partial sale on the DRC?
+ What is the impact on the Province's budget balance (surplus/deficit)?
+ What is the impact on the Province's net debt?
+ What is the impact on the Trillium Trust?

Each of the sections that follow answers one of the key questions.

Financial Impact Scenarios

There are two key areas of uncertainty associated with the financial impact of the partial sale of Hydro One: the amount of proceeds and the impact of the sale on the DRC.

Proceeds from the Partial Sale of Hydro One

Valuations of companies are subject to a high degree of uncertainty, and are impacted by market and economic conditions. Using publicly available information and generally accepted valuation approaches, the FAO estimates the proceeds of Hydro One to be \$11–\$14.3 billion,[8] excluding the value of Hydro One Brampton.[9] Based on this valuation, a 60 per cent sale of ownership would generate \$6.8–\$8.9 billion in cash proceeds for the Province.

While the FAO's valuation is largely consistent with the council's estimate of \$13.5–\$15 billion, the FAO's analysis generates a wider and somewhat lower range. The FAO cannot reproduce the council's estimate, because the Province has deemed this methodology to be a Cabinet record and has chosen not to release it.[10]

7 The 2015 Budget announced that the DRC would only be charged on non-residential consumption starting in 2016, and projected the DRC would be eliminated by the end of 2018 (2015 Ontario Budget, p.192).
8 The FAO's valuation uses data available to October 2015.
9 Hydro One Brampton was separated from Hydro One on August 31, 2015. Please refer to Hydro One's prospectus for additional details. As such, the FAO's valuation and estimate of the fiscal impact of the transaction excludes Hydro One Brampton.
10 Under the *Financial Accountability Officer Act, 2013* and *Freedom of Information and Protection of Privacy Act*, the Province is not permitted to disclose Cabinet records to the FAO unless the Cabinet gives permission or a record is more than 20 years old. The determination of what constitutes a Cabinet record is made by the Province.

Debt Retirement Charge

The Debt Retirement Charge (DRC) is a charge on non-residential electricity consumption, which the FAO estimates will generate $0.6 billion per year in revenue for the Province from 2016–17 to 2018–19.[11] Under the *Electricity Act, 1998*, the gross proceeds from the partial sale of Hydro One, less certain deductions, must be used to pay down the debt of the former Ontario Hydro. If this debt is reduced sufficiently, the DRC could no longer be levied.

The FAO estimates that the revenue and other adjustments from the sale may be sufficient to eliminate the DRC. However, the FAO estimates are subject to uncertainty, because the Province has not announced the current level of residual stranded debt (RSD) or the assumptions and inputs into the estimation of the RSD, and because of uncertainty associated with the sale proceeds. As such, the FAO presents estimates of fiscal impact with and without the DRC.

Table ES-1 summarizes the four fiscal impact scenarios based on low and high estimates of sale proceeds and on whether the DRC is retained or eliminated, the two key areas of uncertainty.

TABLE ES-1: Financial Impact Scenarios

Financial Impact Scenarios	DRC Retained	DRC Eliminated
Low Proceeds	Low-DRC	Low-No DRC
High Proceeds	High-DRC	High-No DRC

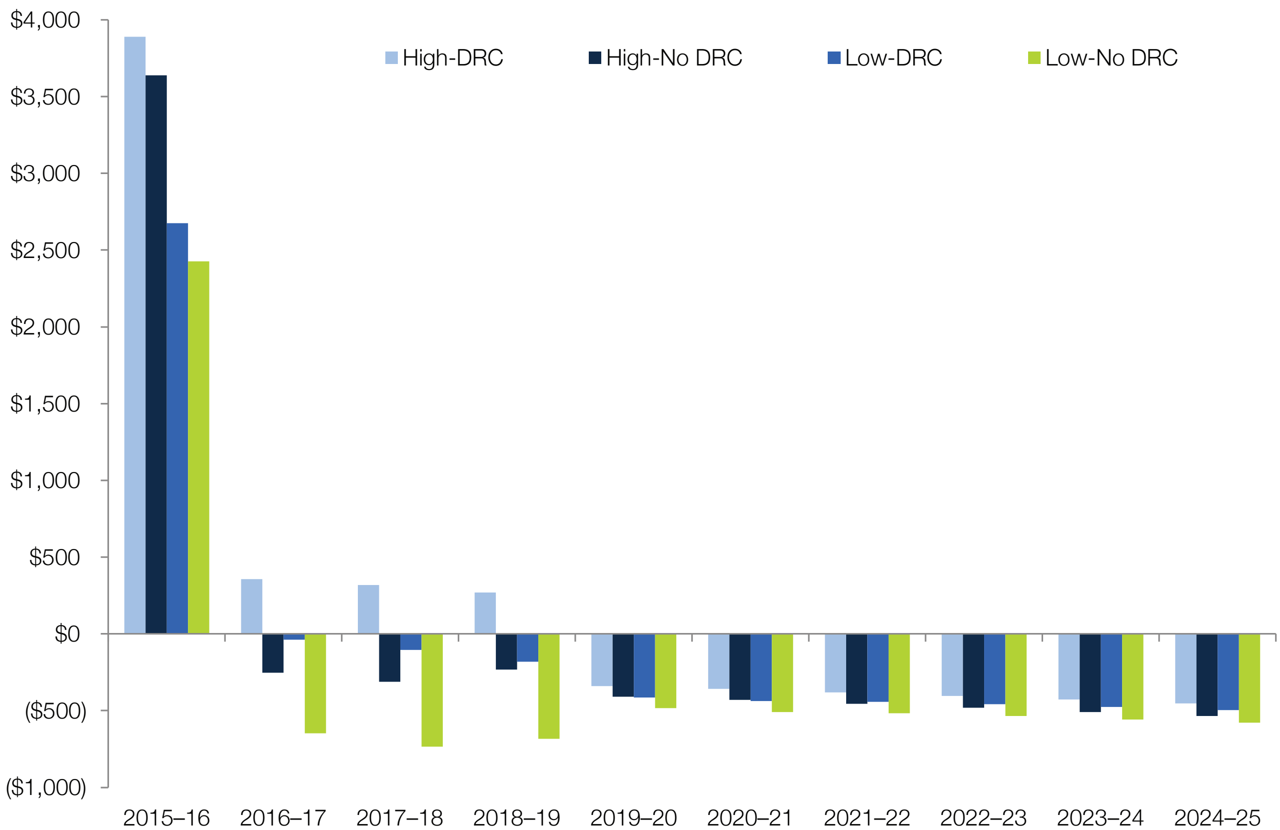
Financial Impact of the Partial Sale of Hydro One

Figure ES-1 presents the FAO estimate of the impact of the sale of 60 per cent of Hydro One on the Province's budget balance (surplus/deficit). These estimates should be viewed as illustrative only, as they assume that the Province sells 15 per cent of Hydro One each year from 2015–16 to 2018–19. The estimates vary based on the low and high estimates of sale proceeds and whether the DRC is eliminated, as discussed above.

Under all scenarios, the Province would see an improvement in its budget balance in the first year in which the initial 15 per cent sale takes place. In subsequent years, as more shares are sold, the impact on the budgetary balance could be positive or negative depending on whether the DRC is eliminated and the prices obtained for Hydro One shares sold. By 2019–20 once the full 60 per cent has been sold, the Province would experience an ongoing negative impact on budget balance from foregone net income and payments-in-lieu of taxes from Hydro One.

11 The 2015 Budget announced that the DRC would only be charged on non-residential consumption starting in 2016, and projected the DRC would be eliminated by the end of 2018 (2015 Ontario Budget, p.192).

FIGURE ES-1: Estimated Impact of the Partial Sale of Hydro One on the Province's Budget Balance (Surplus/Deficit), $ Millions, 2015–16 to 2024–25



Source: FAO estimates

Note: Assumes the Province sells 15 per cent of Hydro One each year from 2015–16 to 2018–19.

The Province has determined that the specific estimates of the fiscal impact of the sale that are included in its budget projections are a Cabinet record and has chosen not to disclose them (as discussed above). Without knowing what is included in the budget projections (both amounts and timing), it is not possible for the FAO to offer a definitive opinion on whether the partial sale of Hydro One would help the Province to achieve a balanced budget or surplus in 2017–18.

Turning from annual deficits to net debt (the Province's stock of liabilities less its financial assets), assuming that the Province sells 15 per cent of Hydro One in 2015–16, Ontario's net debt would initially be reduced by $2.4–$3.9 billion. However, net debt would eventually increase as a result of the partial sale as the costs of forgone revenues from Hydro One begin to exceed the initial fiscal benefits.

The Trillium Trust is a dedicated revenue account of the Province, created to finance infrastructure. The Province has committed to credit the net proceeds of the partial sale of Hydro One to the Trillium Trust. The FAO estimates the net proceeds to be $1.4–$3.1 billion for the full 60 per cent sale of Hydro One. In addition, the Province has committed to credit the gain from Hydro One's deferred tax assets to the Trillium Trust;[12] estimated by the FAO to be \$1.9–\$2.7 billion. As such the FAO estimates the total amount to be credited to the Trillium Trust as a result of the partial sale of Hydro One to be \$3.3–\$5.8 billion.

Questions for the Province

On the basis of the analysis presented here, legislators may wish to ask a number of questions about the proposed partial sale of Hydro One to better understand its economic and financial implications.

Issue and Importance	Question
There is much uncertainty around how the debt retirement charge (DRC) would be affected by the partial sale. The DRC is significant revenue for the Province and a cost for consumers of electricity.	Does the Province expect the partial sale of Hydro One to affect the date that the debt retirement charge would be eliminated?
The single most important unknown in the proposed transaction is the timing of sales after the initial 15 per cent sale in 2015–16. Timing would affect the Province's budget balance (surplus/deficit), including possibly whether a balanced budget is achieved in 2017–18.	When does the Province plan future sales of Hydro One shares beyond the initial 15 per cent committed in 2015–16?
The Province has not announced how it expects the partial sale of Hydro One to impact the provincial budget balance. Relative to not selling Hydro One, FAO analysis suggests that the transaction would improve the Province's budget balance with the initial 15 per cent sale, but it is unclear how the transaction would affect the budget balance in later years in which sales occur. Once 60 per cent of Hydro One has been sold, the FAO projects the Province would realize a permanent deterioration in budget balance as a result of the transaction.	What is the Province's estimate of the fiscal impact of sale of 60 per cent of Hydro One specifically over the next 10 years in terms of annual deficit/ surpluses and net debt?

12 Ontario Newsroom: Asset Optimization – Broadening Ownership of Hydro One

1\ Introduction

1\1 Background

Hydro One is an electricity transmission and distribution company[13] wholly owned by the Province of Ontario. In 2014, the company operated 97 per cent of Ontario's transmission capacity and the largest distribution system in Ontario, spanning 75 per cent of the province.[14]

Consistent with a recommendation from the Premier's Advisory Council on Government Assets[15] (the council), in its 2015 Budget the Province announced its intention to sell up to 60 per cent of Hydro One, 15 per cent in 2015–16[16] and the balance in subsequent sales for which no specific timeline has been announced. In April 2015, the council estimated the value of Hydro One at $13.5–$15 billion.[17] In October 2015, Hydro One's prospectus implied an estimated proceeds value of the company at $11.3–$12.5 billion.[18]

Ontario's Electricity System

Ontario's electricity system consists of generation, transmission and distribution companies. Generation involves the production of electricity from sources such as nuclear, natural gas, solar and water (hydro). Transmission involves moving electricity though high voltage lines over long distances from generating stations to local distribution companies. Distribution companies take electricity from the transmission system and deliver it to consumers.

Source: Ministry of Energy

13 The company's subsidiaries are Hydro One Networks Inc., Hydro One Remote Communities Inc., and Hydro One Telecom Inc. as of October 18, 2015.

14 http://www.hydroone.com/ourcompany/pages/quickfacts.aspx

15 The 2014 Budget also announced that the government is undertaking a review of government assets to unlock their value. As part of this review, the Province created the Premier's Advisory Council on Government Assets to recommend how to maximize the value and performance of government business enterprises, including Hydro One. (2014 Ontario Budget, p. 163)

16 The Council also recommended proceeding with a sale or merger of Hydro One Brampton, with an estimated value of about $600 million.

17 Striking the Right Balance: Improving Performance and Unlocking Value in the Electricity Sector in Ontario, Premier's Advisory Council on Government Assets, p. 23. This estimate excludes the value of Hydro One Brampton Networks Inc. and represents the fully distributed equity value of Hydro One, which is the value assessed if shares are already publicly traded. This figure is based on a pricing range for marketing purposes that is not on the same basis as the fully distributed equity value. For example, this figure excludes the $800 million special dividend issued to the Province that would be a part of the council's original estimate.

18 Hydro One's amended and restated preliminary base PREP prospectus, p. 15, October 9, 2015. The FAO has estimated the $11.3–$12.5 billion value using the anticipated share price of $19–$21 multiplied by the number of shares of 595 million. This figure is based on a pricing range for marketing purposes that is not on the same basis as the fully distributed equity value. For example, this figure excludes the $800 million special dividend issued to the Province that would be a part of the council's original estimate. Note that the Province has the option to sell up to 15 per cent of the company by exercising an over-allotment option defined in the prospectus.

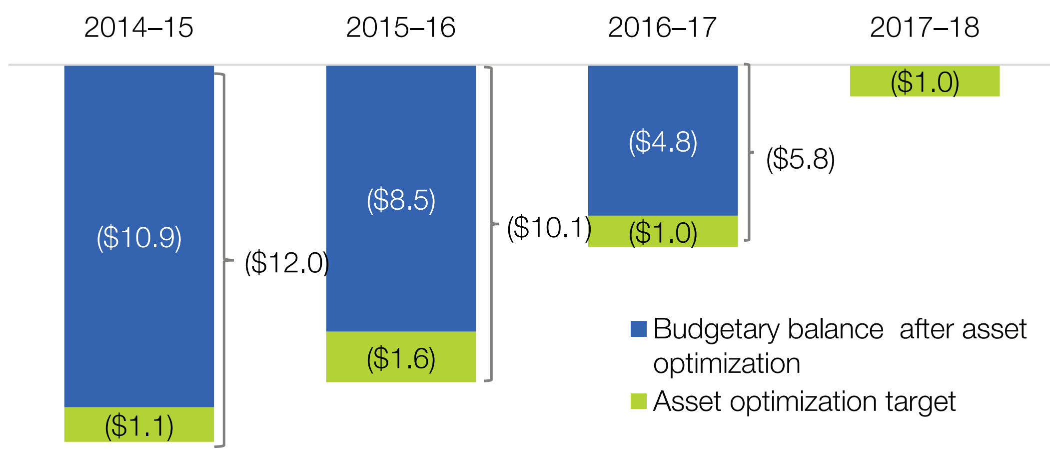
The Budget noted that

> *uniquely attractive conditions enable the government to maximize value and obtain greater net proceeds. … these would be available to be credited to the Trillium Trust and directed into building transit, transportation, and other priority infrastructure, through Moving Ontario Forward…*[19]

As such, the Province has made a commitment to use the net proceeds from the Hydro One transaction to finance its infrastructure plans.

The proposed partial sale of Hydro One is part of a broader asset optimization initiative that the Province is undertaking. The 2015 Budget set the asset optimization target at $5.7 billion over 10 years in revenue on a budget basis, of which $4.9 billion was to be realized from 2014–15 to 2017–18 (Figure 1-1). Revenue from asset optimization is therefore important to help achieve budget balance in 2017–18. However, the asset optimization target includes a number of initiatives, and the government has not announced how much of the target is expected to be achieved through the partial sale of Hydro One.

FIGURE 1-1: Ontario's Projected Budgetary Balance and Asset Optimization Target from 2014–15 to 2017–18, $ Billions



Source: FAO calculations based on the Ontario 2015 Budget

Note: 2014–15 excludes $249 million in net proceeds from the sale of General Motors shares in 2013–14.

Finally, the partial sale of Hydro One could have important implications for non-residential electricity customers who pay a debt retirement charge (DRC), which is levied on electricity consumption to help pay down the debt of the former Ontario Hydro, a predecessor of Hydro One. The DRC is not only an additional charge for electricity customers, but also a significant source of revenue for the Province.

19 2015 Ontario Budget, p. 79

1\2 Key Questions

In this context, this report answers the following key questions:

+ How much can the Province expect in proceeds from the partial sale of Hydro One?

+ What is the impact of the partial sale on the Debt Retirement Charge?

+ What is the impact on the Province's budget balance (surplus/deficit)?

+ What is the impact on the Province's net debt?

+ What is the impact on the Trillium Trust?

1\3 Scope

This report does not seek to:

+ Assess the merits of the decision to sell Hydro One

+ Forecast the impact of the partial sale of Hydro One on electricity rates in Ontario

+ Assess the prospects for performance improvements at Hydro One that might result from the partial sale or any future changes at Hydro One

+ Assess the financial impact of any government spending financed by the sale of Hydro One, i.e. transportation projects financed by the Trillium Trust.

1\4 Methodology

In line with the key questions that this project seeks to answer, the FAO's methodology first estimates the likely proceeds from the proposed partial sale of Hydro One, then uses this estimate to assess the impact on the Province's budget balance and net debt over the next 10 years, from 2015–16 to 2024–25. This assessment includes an analysis of the likely impact on the DRC.

Two methodological points are worth highlighting:

+ Timing of the sale: While the Province has committed to selling 15 per cent of Hydro One in 2015–16, it has not provided a timeline for the subsequent sale(s) of shares. To provide legislators with an understanding of the full financial impact on the Province, the FAO assumes that the Province would sell 15 per cent of Hydro One in each year from 2015–16 to 2018–19. The results of this analysis are sensitive to the timing of subsequent sales.

+ Forecast of results: The FAO bases its analysis on Hydro One results from the 12 months ending in the second quarter of 2015.[20] Figures after 2015–16 are forecast using historical growth rates of results as reported in the company's annual report. These forecasts are subject to changes in the financial performance of Hydro One and changing economic conditions, such as interest rates.

20 The FAO's financial analysis of Hydro One is based on the company's financial statements that have been prepared in accordance with United States (US) Generally Accepted Accounting Principles (GAAP). The FAO has not accounted for any potential changes in the preparation of the company's financial statements, such as adoption of International Financial Reporting Standards (IFRS).

During the preparation of this report, meetings were held with the ministries of Finance and Energy and Treasury Board Secretariat to obtain additional information on fair market value estimation methods for rate-regulated companies, accounting line items that would be impacted and related accounting treatments.

Under the *Financial Accountability Officer Act, 2013* and *Freedom of Information and Protection of Privacy Act*, the Province is not permitted to disclose Cabinet records to the FAO unless the Cabinet gives permission or a record is more than 20 years old. The determination of what constitutes a Cabinet record is made by the Province. In some cases, in the course of this project, the FAO requested information that the Province had deemed to be a Cabinet record, and chose not to provide. Where relevant, these gaps in information have been identified in this report.

Other methodological points are discussed where relevant in the chapters that follow.

2\ Financial Impact Scenarios

There are two key areas of uncertainty in estimating the financial impact of the partial sale of Hydro One:

+ The amount of sale proceeds

+ Whether the Debt Retirement Charge (DRC) would be eliminated.

To provide a full picture of the range of potential financial impacts that the partial sale of Hydro One might have for the Province, the FAO has developed four scenarios based on these two areas of uncertainty. Table 2-1 summarizes these scenarios.

TABLE 2-1: Financial Impact Scenarios

Financial Impact Scenarios	DRC Retained	DRC Eliminated
Low Proceeds	Low-DRC	Low-No DRC
High Proceeds	High-DRC	High-No DRC

The remainder of this chapter reviews the two key areas of uncertainty in greater detail.

2\1 Proceeds from the Partial Sale of Hydro One

The fair market value (FMV) of Hydro One is critical in determining the cash (gross) proceeds that the Province would receive from the partial sale of the company. FMV may be considered the price that a buyer or group of buyers would be willing to pay for ownership in the company. Given that the Province has decided to sell Hydro One on the stock market, comparing the share prices of comparable firms is a reasonable way to measure FMV.

To estimate the FMV of Hydro One, the FAO compared the share prices of publicly traded companies that have operations similar to Hydro One. The FAO then divided the share prices of each company by a measure of the company's financial performance to generate a comparable metric that could be applied to the financial performance of Hydro One. As a result, the share price, or FMV, of Hydro One is estimated.[21] Overall, the FAO estimates the FMV of Hydro One at $11–$14.3 billion, excluding the value of Hydro One Brampton (a former subsidiary of Hydro One).

21 Section 4.2 in the appendix provides more information and detailed calculations.

The estimate of gross proceeds presented above is subject to uncertainty, including

+ investors' perception of the risk that Province would intervene in the operations, governance, regulation or market of Hydro One

+ the economic conditions at the time of the sale

+ the transaction terms.

2\2 Debt Retirement Charge

The DRC is revenue for the Province. It is raised by levying a charge on the bills of electricity consumers (as of 2016, only non-residential electricity consumers)[22]. DRC revenue is used to pay down the unfunded liability of the Ontario Electricity Financial Corporation (OEFC),[23] a wholly owned agency of the Province. The Province may levy the DRC until the Minister of Finance declares residual stranded debt (RSD) is retired.[24] The FAO estimates revenue from the DRC to be roughly $0.6 billion per year.[25]

The *Electricity Act, 1998*[26] requires that an amount equivalent to the proceeds from the sale of Hydro One be paid to the OEFC less certain deductions, which the FAO has identified to be:

1. the acquisition cost of the Province's investment in Hydro One
2. the cumulative net income from the company (less interest costs of investment)
3. transaction costs.

Amounts payable to OEFC would effectively reduce the OEFC's RSD. The Province's 2014 Fall Economic Statement estimated the RSD to be $2.6 billion as of March 31, 2014[27], and estimated that the RSD would be paid off by the end of 2018,[28] implying an average reduction of $0.5 billion per year.

22 2015 Ontario Budget, p.192
23 The difference between the assets and liabilities of the OEFC is called the unfunded liability. The unfunded liability of OEFC is estimated to be $9.8 billion at March 31, 2014 (2014 Ontario Economic Outlook and Fiscal Review, Government of Ontario, 2014). The Province dedicates revenues to pay down this debt, consisting of payments-in-lieu of taxes of OPG, Hydro One and municipal electricity utilities, and the cumulative net income from OPG and Hydro One in excess of the interest cost of the Province's original investment in these companies (OEFC's 2014 annual report, p. 5, as per the *Electricity Act, 1998).*
24 OEFC's 2014 annual report, p. 5, as per the *Electricity Act, 1998*. Residual stranded debt is defined as the OEFC's unfunded liability less the estimated amount of future net income and PILs from Ontario Power Generation and Hydro One. At March 31, 2014, the net present value of these dedicated income streams was estimated by the Province to be $7.2 billion. The residual stranded debt is calculated as the unfunded liability less the net present value (NPV) of these dedicated income streams.
25 DRC revenues totaled $956 million in 2014-15. However, the residential portion is to be eliminated by the end of calendar 2015, which is approximately one-third of the total DRC, as indicated by Ministry of Finance officials.
26 Section 50.3 of the *Electricity Act, 1998.*
27 2014 Ontario Economic Outlook and Fiscal Review, Government of Ontario, 2014.
28 ibid

The FAO estimates that the RSD would likely not be eliminated ahead of 2018–19 under either valuation scenario (Table 4-8, p. 44). However, the margin of error is small and there is significant uncertainty associated with these estimates, which includes forecasting the future net income from Hydro One. As such, the FAO has estimated the financial impact of the partial sale of Hydro One under both scenarios.

2\2\1 Areas of Uncertainty

The Province has not yet announced its estimate of the RSD for March 31, 2015 or how the changes in future net income of Hydro One would impact this estimate. The FAO has requested more information on the calculation of future net income, but the Province has determined this information to be a Cabinet record, and has chosen not to release it (see Section 1.4 for explanation).

2\2\2 Question for the Province

On the basis of the analysis presented here, legislators may wish to ask the following question about the proposed partial sale of Hydro One to better understand the economic and financial implications of the transaction.

Issue and Importance	Question
There is much uncertainty around how the debt retirement charge (DRC) would be affected by the partial sale. The DRC is significant revenue for the Province and a cost for consumers of electricity.	Does the Province expect the partial sale of Hydro One to affect the date that the debt retirement charge would be eliminated?

3\ Financial Impact of the Partial Sale of Hydro One

This chapter estimates the impact of the partial sale of Hydro One on the Province's budget balance (surplus/deficit) and net debt for each of the four previously identified scenarios.

3\1 Impacts on the Province's Budget Balance

Figure 3-1 presents the FAO estimates of the impact of the sale of 60 per cent of Hydro One under the four scenarios, assuming that the Province sells 15 per cent of Hydro One each year from 2015–16 to 2018–19. The sections that follow explain in more detail how the FAO estimated each component of the fiscal impact.

3\1\1 One-Time Gain on Deferred Tax Assets

Immediately after the Province sells the initial 15 per cent of Hydro One, the Province would realize a gain (a type of revenue) of $1.9–$2.7 billion dollars.[29]

This gain results from provisions of the *Electricity Act, 1998* and the federal *Income Tax Act*[30] that would result in Hydro One increasing the recorded value of its assets and allowable depreciation expenses for tax purposes. This allows the company to report lower income for tax purposes, thereby generating tax savings. The FAO has estimated the total of future annual tax savings at $2.2–$3.2billion,[31] which would be recorded as an income by Hydro One. Since this tranaction would occur after the sale, 85 per cent of this one-time increase in net income would be recognized by the Province.

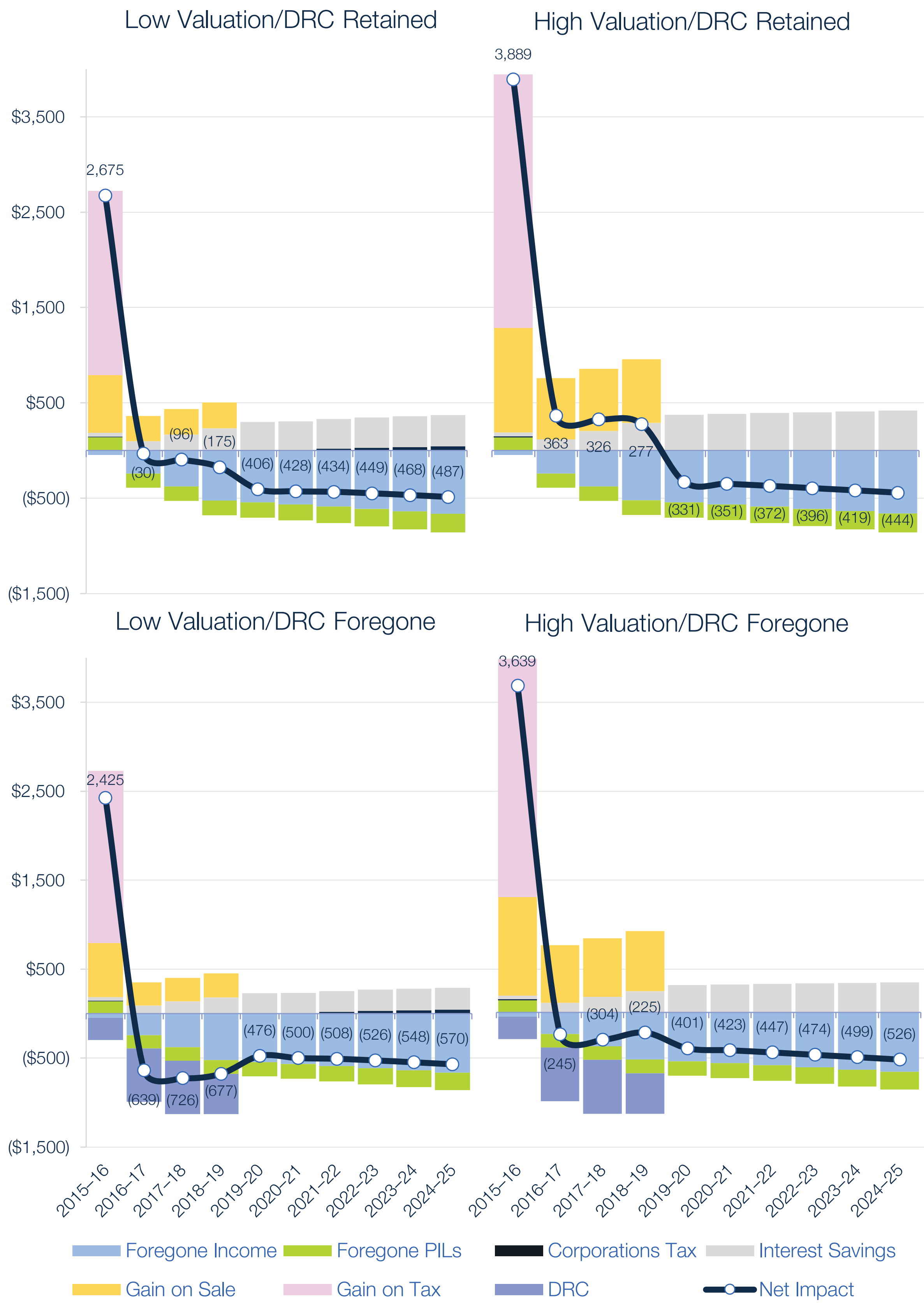
3\1\2 Gains from Sale of Investment (Net Proceeds)

Provincial revenues would increase by the net proceeds from the sales, which the FAO assumes would be recorded as "Gains from Sale of Investment" in Ontario's Public Accounts. The FAO estimates that the net proceeds of the full 60 per cent sale would be $1.4–$3.1 billion.

The FAO estimates the book value[32] of Hydro One on the Province's balance sheet to be $7 billion (Section 3.2.1). As the Province's stake in Hydro One is sold, the recorded value of this asset would be reduced proportionally. The net proceeds (or net gain) from the sale are the gross proceeds of $6.8–$8.9 billion, less the proportionate reduction in the asset.[33]

29 Section 4.3.2 of the Appendix provides more details and calculations.
30 Section 149(10) of the *Income Tax Act*, and section 16.1 of Ontario Regulation 207/99.
31 This "tax shield", as it was termed by the council, is a benefit to Hydro One in that it would pay less income tax than it otherwise would.
32 This value is determined by accounting standards and is estimated on a different basis than market value.
33 Since the FAO assumes that the Province sells 15 per cent of Hydro One each year from 2015-16 to 2018-19, the estimate of net proceeds takes into account growth in the book and market value of Hydro One (see Appendix 4.5.2 to calculate net proceeds).

FIGURE 3-1: Estimated Financial Impact on the Budget Balance, $ Millions



Source: FAO estimates

Note: Data labels indicate net impact on budget balance. For more details see Table 4-9 and Table 4-10.

3\1\3 Electricity Payments-In-Lieu of Taxes and Corporations Taxes

Electricity payments-in-lieu of taxes (PILs) are revenue for the Province. As a Crown corporation, Hydro One is exempt from federal and provincial corporations tax (CT)[34] and, instead, makes PILs to the Province.[35] These PILs are equivalent to the amount of both federal and provincial CT payments that Hydro One would make if it were subject to CT. Upon the sale of the initial 15 per cent of Hydro One, the company would become subject to federal and provincial CT,[36] and would no longer pay PILs to the Province. Hydro One recognized an expense of approximately $100 million in PILs in the year ending in the second quarter of 2015.

The company would not pay the equivalent PILs amount in CT to the Province for two reasons:

+ The value of Hydro One's assets[37] would allow the company to claim depreciation that would shield some or all of its income from CT for some time (Section 4.3.2).
+ While the company would eventually begin paying CT, the Province would not regain all the revenues it once collected in PILs, since the Province would only receive the provincial portion of the CT, while the PILs were equivalent to both the federal and provincial CTs. The provincial portion of PILs from Hydro One is estimated to be approximately $40 million over the last year. The federal portion of PILs ($60 million per year) is the ongoing revenue loss to the Province from the switch from PILs to CT.

In 2015–16, in conjunction with the initial 15 per cent sale, the Province would recognize a one-time revenue from the payment by Hydro One of a departure tax.[38] However, the payment would reduce Hydro One's net income by the same amount. As such, the departure tax has no impact on the overall budget balance and net debt position of the Province. Hydro One's prospectus announced that the departure tax would be $2.6 billion[39,40] (Section 4.3.1).

34 The Province presents a Corporations Tax line, which includes the corporate income tax (CIT), corporate minimum tax and insurance premium revenues. The FAO estimates the impact to the federal and provincial CIT but refers to CT for consistency with the provincial presentation.

35 Section 149 (10) of the *Income Tax Act*. Sections 89 and 90 of the *Electricity Act, 1998*. These payments ensure that Hydro One is subjected to similar tax treatments as the private sector to ensure fairness among all players in the electricity sector (Direction for Change, Charting a Course for Competitive Electricity and jobs in Ontario, Government of Ontario, 1997).

36 Section 149 of the *Income Tax Act* states that a corporation is exempt when the Crown owns 90 per cent or more of its shares.

37 Upon the sale, the company must revalue its assets to their fair market value, which is estimated to be higher than the current amount reported for tax purposes. The greater the FMV of its assets, the larger the depreciation deduction.

38 Departure tax is a term used to describe the deemed disposition rules from the payments-in-lieu of tax system as prescribed by the *Income Tax Act* and the *Electricity Act, 1998*.

39 Hydro One's prospectus, p. 108

40 The Hydro One prospectus announced that the Province will be purchasing additional common shares from Hydro One worth $2.6 billion to help the company fund the departure tax (p. 102). Transaction would affect the cash balance but not the provincial income statement.

3\1\4 Income from Investment in Government Business Enterprises

As sole owner, the Province currently has claim to all of the net income of Hydro One,[41] approximately $750 million over the last year. Following the sale of 15 per cent of the company, the Province would have claim to only 85 per cent of the company's net income.[42] The FAO estimates that the sale of 15 per cent of Hydro One would result in a reduction of approximately $50 million in income from investment in GBEs in 2015–16[43] and on an ongoing annual basis thereafter. The FAO has termed this item "foregone income", which will grow over time.[44] Each additional sale of ownership would increase the amount of foregone income. A 60 per cent sale of Hydro One would result in roughly $500 million in foregone income on an annual basis, which would grow over time.

However, the FAO recognizes there may be potential for improvements to Hydro One's net income as result of changes currently being made or proposed at Hydro One, including the sale of shares on market and the resulting influence of new owners. Should the net income of Hydro One increase as a result of these changes, the foregone income from the sale would be reduced. Given the uncertainty associated with forecasting future changes at Hydro One, the FAO has not assumed any increases in profitability as a result of new ownership.

3\1\5 Interest on Debt

Interest on debt is an expense for the Province, and the only provincial expense that would be affected directly by the sale of Hydro One. The FAO has assumed that the cash received from the sale of Hydro One shares and other inflows (Appendix 4.5.2) would effectively reduce the Province's need to borrow, and therefore result in lower interest payments.[45] In addition, Hydro One has decided to increase the dividend payout ratio paid by Hydro One,[46] which increases the amount of cash received by the Province and reduces interest expenses. The FAO estimates the Province would realize annual interest savings of $0.2–$0.4 billion after 60 per cent of ownership is sold.[47]

3\1\6 Areas of Uncertainty

There are two key areas of uncertainty associated with the financial impact of the partial sale of Hydro One: what the budget assumed as the financial impact of Hydro One and the timing of the sales subsequent to the initial 15 per cent in 2015–16.

41 Since Hydro One is consolidated in the Province's public accounts, the net income of Hydro One is reported on the Province's Consolidated Statement of Operations as Income from Government Business Enterprises (GBEs) rather than dividends.
42 PS 3070.08A, CPA Canada Public Sector Accounting Handbook, Public Sector Accounting Standards, 2015 Edition
43 The FAO estimates an initial annual reduction of approximately $100 million in income, but has adjusted for the impact of the mid-year sale.
44 The FAO has assumed a 4 per cent annual growth rate in Hydro One's net income, which is largely based on the historical financial performance of Hydro One.
45 The FAO assumes that cash credited to the Trillium Trust offsets previously planned borrowing to finance existing infrastructure plans. In practice, the Province may not reduce borrowing, but rather invest the cash proceeds on a short-term basis, with roughly similar impact on the Province's budget balance.
46 Hydro One's amended and restated preliminary base PREP prospectus, p. 15.
47 Section 4.5 of the Appendix provides more details and calculations. The FAO has assumed an effective interest rate on debt of 3.5 per cent.

Budget assumptions on financial impact

As noted in Section 1.1, the Province has not publicly stated how it expects the partial sale of Hydro One to impact its fiscal (surplus/deficit) position. The Province did provide in the 2015 Budget an overall estimate of the fiscal impact of all asset optimization activities, including Hydro One. However, the government has determined that the specific estimates of the fiscal impact of the sale that are included in its budget projections are a Cabinet record and has chosen not to release this information. Due to this limitation, the FAO can only provide an estimate of the impact of the partial sale compared to the status quo (i.e. no sale) rather than compared to the fiscal plan presented in the 2015 Budget.

Timing

The FAO estimate of financial impact presented in this chapter assumes, for illustrative purposes only, that the government sells 15 per cent of Hydro One each year from 2015–16 to 2018–19. The estimate would change to the extent the timing of subsequent sales differs from the FAO assumption. The government has not announced the timing of the subsequent sales incorporated in the fiscal plan presented in the 2015 Budget. Without knowing the government's assumed schedule for sales beyond the initial 15 per cent committed for 2015–16, the FAO is unable to provide more definitive estimates for the impact of the sale on specific years, and the impact to the government's commitment to balance the budget in 2017–18. As noted above, the Province has determined that the specific estimates of the fiscal impact of the sale that are included in its budget projections are a Cabinet record and has chosen not to release this information.

3\1\7 Questions for the Province

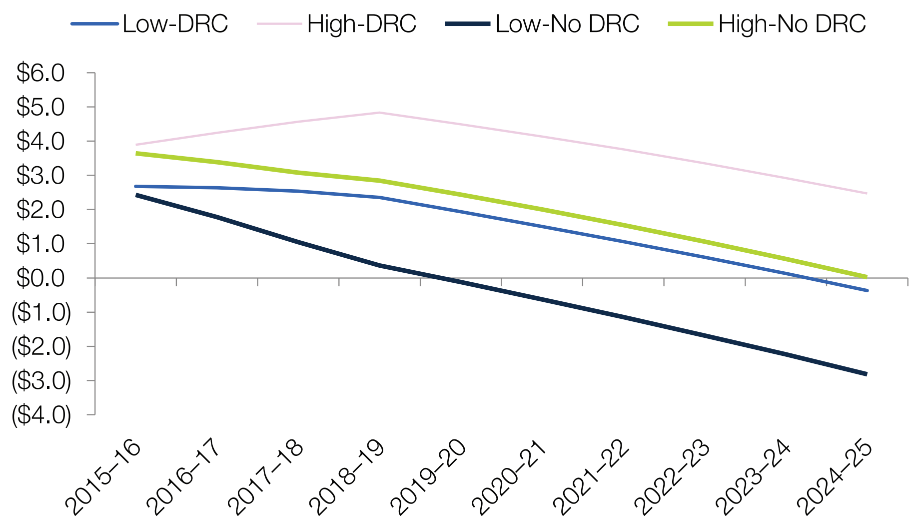
On the basis of the analysis presented here, legislators may wish to ask a number of questions about the proposed partial sale of Hydro One to better understand the economic and financial implications of the transaction.

Issue and Importance	Question
The single most important unknown in the proposed transaction is the timing of sales after the initial 15 per cent sale in 2015–16. Timing would affect the Province's budget balance (surplus/deficit), including possibly whether a balanced budget is achieved in 2017–18.	When does the Province plan future sales of Hydro One shares beyond the initial 15 per cent committed in 2015–16?
The Province has not announced how it expects the partial sale of Hydro One to impact the provincial budget balance. Relative to not selling Hydro One, FAO analysis suggests that the transaction would improve the Province's budget balance with the initial 15 per cent sale, but it is unclear how the transaction would affect the budget balance in later years in which sales occur. Once 60% per cent of Hydro One has been sold, the FAO projects the Province would realize a permanent deterioration in budget balance as a result of the transaction.	What is the Province's estimate of the fiscal impact of the sale of 60 per cent of Hydro One specifically over the next 10 years in terms of annual deficit/ surpluses and net debt?

3\2 Impacts on the Province's Net Debt

Assuming that the Province sells 15 per cent of Hydro One each year from 2015–16 to 2018–19, Ontario's net debt[48] would be reduced by the cash (gross) proceeds and Hydro One's tax gain, less the reduction in Ontario's ownership of Hydro One (an asset for the Province) (Figure 3-2). However, net debt would eventually increase as the costs of forgone revenues from Hydro One begin to exceed the initial benefits of the tax gain and net sale proceeds.

FIGURE 3-2: Cumulative Reduction in Provincial Net Debt from the Partial Sale of Hydro One, $ Billions, 2015–16 to 2024–25



Source: FAO estimates

Note: Assumes the government sells 15 per cent of Hydro One each year from 2015–16 to 2018–19. Numbers may not add up due to rounding. Negative figures indciate an increase in net debt.

3\2\1 Assets

Hydro One is an asset on the Province's balance sheet valued[49] at $8.3 billion in the second quarter of 2015.[50] Prior to the sale, Hydro One's equity would increase by $2.6 billion due to the new investment from the Province. However, the departure tax payment would reduce the company's equity by $2.6 billion. Also, the company divested Hydro One Brampton for $0.5 billion and is returning $0.8 billion in cash to the Province. The net effect is a decrease in Hydro One's asset value on the Province's balance sheet to $7 billion.

48 Net debt is defined as the Province's liabilities less its financial assets.
49 This value is determined by accounting standards and is estimated on a different basis than market value.
50 Hydro One's Q2 Consolidated Financial Statements. Total equity includes preferred shares.

After the sale, the gain on the deferred tax asset would increase the company's value, which is dependent on the FMV of assets. As the Province's stake in Hydro One is sold, the recorded value of this asset would be reduced proportionally.

Overall, the FAO estimates that the 15 per cent sale of Hydro One would result in a decrease of $0.1 billion to an increase of $0.6 billion in investment in government business enterprises, depending on the value of the tax gain (Section 4.5.2).[51]

3\2\2 Liabilities

The Province's debt is presented on its balance sheet in two segments: OEFC Debt and Debt Issued for Provincial Purposes. According to the Province's Public Accounts,

> *this accounting reflects the legislative structure put in place to ensure OEFC's revenues are derived from the electricity sector ratepayer and not the taxpayer, and that these revenues can be used only to service and retire OEFC debt.*[52]

While both OEFC debt and provincial purposes debt are combined in Ontario's consolidated debt, the allocation of the proceeds to each segment of the debt has different implications.

The allocation of the proceeds from the partial sale of Hydro One is governed by two laws:

+ The *Electricity Act, 1998* requires that a portion of the proceeds pay down the OEFC debt[53] (Section 2.2); and

+ The *Trillium Trust Act, 2014* requires that the net proceeds be credited to the Trillium Trust.

3\3 Trillium Trust

As noted in Section 1.1, the Trillium Trust is a dedicated revenue account of the Province created to finance infrastructure. The Province has committed to credit the net proceeds (gain on sale of investment) of the partial sale of Hydro One to the Trillium Trust. Section 3.1.2 estimated the net proceeds to be $1.4–$3.1 billion for the full 60 per cent sale of Hydro One. In addition, the Province has committed to credit the gain from the deferred tax asset to the Trillium Trust,[54] estimated by the FAO to be $1.9–$2.7 billion. As such the FAO estimates the total amount to be credited to the Trillium Trust as a result of the partial sale of Hydro One to be $3.3–$5.8 billion.

51 Section 4.5 of the Appendix provides more details and calculations.
52 2000–2001 Annual Report and Financial Statements, Province of Ontario
53 The OEFC is the legal continuation of Ontario Hydro (Section 54(1), *Electricity Act, 1998*), holding $38.1 billion in liabilities in 1999 (Appendix 4.1). The difference between the assets and liabilities on the balance sheet of the OEFC is known as the unfunded liability. At March 31, 2014, the Province estimated the unfunded liability to be $9.8 billion (2014 Ontario Economic Outlook and Fiscal Review, Government of Ontario, 2014).
54 Ontario Newsroom: Asset Optimization – Broadening Ownership of Hydro One

4\ Appendix

4\1 Overview of Ontario Hydro Restructuring

This section provides a brief and relevant overview of the historical background to the partial sale of Hydro One.

The 1997 White Paper “Direction for Change: Charting a Course for Competitive Electricity and Jobs in Ontario”, along with its enabling legislation, the *Energy Competition Act, 1998*, set out the Province’s plan to restructure Ontario’s electricity industry. The plan called for the restructuring of Ontario Hydro and the elimination of its longstanding monopoly on electricity production with the introduction of competition to Ontario’s electricity sector. The belief underlying the plan was that a competitive market environment is the key to restoring the financial soundness and viability of Ontario’s electricity sector. Subsequently, the Province broke up Ontario Hydro into five successor companies.[55] Hydro One inherited Ontario Hydro’s transmission and distribution assets in 1999.

The restructuring of Ontario Hydro was intended to ensure that[56]:

+ Electricity prices are kept as low as possible
+ The successor companies are provided with a solid financial footing and investment-grade capital structures
+ Maximum value is retained within the electricity sector until Ontario Hydro’s debt is retired
+ Any residual stranded debt is recovered from the electricity sector, without recourse to Ontario’s taxpayers
+ The new financial structure was announced on April 1, 1999, when Ontario Hydro ceased operations and its assets and liabilities were transferred to five successor corporations together with their subsidiaries.

As the legal continuation of Ontario Hydro, the Ontario Electricity Financial Corporation (OEFC) became responsible for ensuring the prudent and efficient management of $38.1 billion (as of April 1, 1999) in debt, derivatives and other liabilities of the former Ontario Hydro.

Two commercial companies, Hydro One Inc. (HOI), formerly the Ontario Hydro Services Company Inc., and Ontario Power Generation Inc. (OPG), together with their subsidiaries, received the majority of Ontario Hydro’s assets and in return issued a total of $17.1 billion of debt to the OEFC.

55 Annual Report, April 1, 1999, to March 31, 2000, of the Ontario Electricity Financial Corporation (OEFC), http://www.oefc.on.ca/pdf/oefcar_e.pdf
56 ibid

To achieve commercially viable capital structures, HOI and OPG entered into debt-for-equity swaps with the Province of Ontario. In exchange for $3.8 billion of equity in HOI and $5.1 billion of equity in OPG, the Province of Ontario assumed $8.9 billion of the debt issued to the OEFC by the successor corporations. The Province is the sole shareholder of the two commercial companies.[57]

In March of 2002, the Province filed a preliminary prospectus for an initial public offering of its common shares; however, it did not proceed with the sale.

In 2015, the Premier's Advisory Council on Government Assets (the council) recommended that the Province sell up to 60 per cent of Hydro One, with an initial sale of 15 per cent.[58] The council estimated the value of Hydro One at $13.5–$15 billion.[59] The 2015 Budget confirmed the Province's intention to proceed with these recommendations. In October 2015, Hydro One's prospectus implied an estimated value of the company at $11.3–$12.5 billion.[60]

2015 Ontario Budget Announcement

"The Council has now finalized its analysis on maximizing value for Ontarians and providing enhanced protection to ratepayers, and is recommending that the Province move forward with an IPO of approximately 15 per cent of the common shares in Hydro One, with additional shares being made available in subsequent years, over time totaling up to 60 per cent of the Province's common shares in Hydro One. By law, the Province would retain 40 per cent of its initial common shares in Hydro One, following the IPO and subsequent share offerings…

As part of an effort to strengthen long-term performance and unlock the benefit for all Ontarians, the government accepts the Council's recommendation and intends to broaden ownership in Hydro One. Accordingly, the Province is planning to launch an IPO for approximately 15 per cent of Hydro One common shares in fiscal 2015–16."

Source: 2015 Ontario Budget (pp. 78-79)

57 Taken from Annual Report, April 1, 1999 to March 31, 2000, of the Ontario Electricity Financial Corporation (OEFC), http://www.oefc.on.ca/pdf/oefcar_e.pdf

58 Striking the Right Balance: Improving Performance and Unlocking Value in the Electricity Sector in Ontario, Premier's Advisory Council on Government Assets, 2015 (p. 4)

59 Striking the Right Balance: Improving Performance and Unlocking Value in the Electricity Sector in Ontario, Premier's Advisory Council on Government Assets, p. 23. This estimate excludes the value of Hydro One Brampton Networks Inc. and represents the fully distributed equity value of Hydro One, which is the value assessed if shares are already publicly traded. The council also recommended proceeding with a sale or merger of Hydro One Brampton, with an estimated value of about $600 million.

60 Hydro One's amended and restated preliminary base PREP prospectus, p. 15, October 9, 2015. The FAO has estimated the $11.3–$12.5 billion value using the anticipated share price of $19–$21 multiplied by the number of shares of 595 million. This figure is based on a pricing range for marketing purposes that is not on the same basis as the fully distributed equity value. For example, this figure excludes the $800 million special dividend issued to the Province that would be a part of the Council's original estimate. Note that Hydro One has the option to sell 15 per cent of the company through exercising the over-allotment option as defined in the prospectus.

4\2 Fair Market Value

This section discusses in more detail the FAO estimate of fair market value of Hydro One.

4\2\1 Fair Market Value of Equity

The fair market value (FMV) of Hydro One's equity[61] is a critical variable in determining the cash (gross proceeds) that the Province would receive for the partial sale of the company. The FAO compared the FMV of equity of publicly traded companies that have similar operations to Hydro One to estimate a range of FMV of equity of Hydro One. This approach is known as a comparable trading multiples approach, and is the standard approach in market valuation.

Comparable Trading Multiples

The first step in trading multiple valuation is to select a group of comparable companies. The primary selection criterion was to identify companies that operate regulated electricity transmission and distribution assets. Companies with significant exposure to other business lines, which include power generation, were excluded. The secondary selection criterion was to identify companies that operate primarily in Canada, given the unique investment risks specific to the region, which may impact share prices and valuation. Emera Inc. and Fortis Inc. met both selection criteria. However, these companies failed to meet a tertiary selection criterion, in that both companies demonstrated a consistent history of purchasing other companies, which increases measures of growth and may increase the FMV. Note that while Hydro One has recently made some smaller corporate acquisitions, the company has not purchased assets that were material in size. To account for similar growth rates, two companies from the United States were included, Eversource and FirstEnergy, because each company has demonstrated a growth rate that is similar to Hydro One's growth rate. Each company also operates regulated electricity transmission and distribution assets, although investment risks may not necessarily represent the unique investment risks of a Canadian company. As a whole, the four comparable companies may be considered a balanced representation of the factors that would impact the FMV of Hydro One.

The next step in the valuation approach is to calculate the trading multiple, in which the FMV of a company is divided by a measure of its financial performance such as earnings. The FAO calculated three different trading multiples for each of the four companies (Table 4-1). The FAO then multiplied the average of each trading multiple (calculated from the comparators) to the related measure of financial performance for Hydro One to estimate the company's FMV. Using this approach the FMV of Hydro One is $11–$14.3 billion (Table 4-2). Note that trading multiple valuations are currently above the historical average (Table 4-3). The FAO estimate of the FMV of Hydro One excludes the value of Hydro One Brampton[62].

61 Equity represents the amount of money paid by owners to purchase ownership in the company.
62 The net income, earnings before interest, taxes, depreciation and amortization (EBITDA) and book value of equity of Hydro One Brampton have been excluded from the financial items of Hydro One that were multiplied to the comparable trading multiples. The financial measures for Hydro One Brampton have been obtained from Hydro One's prospectus, and are estimated to be $12 million in annual net income, $44 million in annual EBITDA and $450 million for the book value of equity.

TABLE 4-1: Trading Multiples of Publicly Traded Peers

Fair Market Value of Equity	Peer	Canada		United States	
Comparable Trading Multiples	**Average**	**Emera**	**Fortis**	**Eversource**	**FirstEnergy**
	$ Millions				
Market Capitalization	11,548	6,371	10,588	16,081	13,150
Net Debt	11,506	3,536	10,881	8,932	22,676
Total Enterprise Value	23,054	9,907	21,469	25,013	35,826
Book Value of Equity	9,116	4,000	9,747	10,185	12,531
EBITDA	2,074	891	2,066	2,436	2,903
Net Income	624	401	666	993	436
	Ratios				
Price to Book Value of Equity (PB)	1.3	1.6	1.1	1.6	1.0
Total Enterprise Value to EBITDA (TEV/EBITDA)	11.0	11.1	10.4	10.3	12.3
Price to Earnings (PE)	19.5	15.9	15.9	16.2	30.2

Source: Company reports, Yahoo! Finance Canada, FAO estimates

Note: Numbers may not add up due to rounding. The financial figures of Eversource and FirstEnergy are presented in US dollars. Share prices last updated on October 6, 2015. Financials represent trailing 12-month figures.

TABLE 4-2: Estimated Fair Market Value of Hydro One using Comparable Trading Multiples, $ Millions

Hydro One Fair Market Value	Price	TEV	Price
Comparable Trading Multiples	**Book**	**EBITDA**	**Earnings**
Average Peer Multiple	1.3	11.0	19.5
Multiplied by: Hydro One's Financial Item	9,398[1]	1,957[2]	733[3]
Total Value Before Debt Adjustments	12,470	21,586	14,321
Less: Value of Net Debt	0	(10,555)	0
Estimated FMV of Hydro One	12,470	11,030	14,321

1: Book value of equity

2: Earnings before interest, taxes, depreciation and amortization

3: Net income

Source: Company reports, Yahoo! Finance Canada, FAO estimates

Note: Numbers in parentheses are negative. Numbers may not add up due to rounding and are in Canadian dollars unless otherwise stated.

TABLE 4-3: Historical Trading Multiples of Comparable Firms

Historical Fair Market Value	2010	2011	2012	2013	2014	Average	Today
Price to Book							
Emera	1.4	1.8	1.7	1.4	1.3	1.5	1.6
Fortis	1.0	1.1	1.0	1.0	0.8	1.0	1.1
Eversource	1.1	1.3	1.0	1.3	1.4	1.2	1.6
FirstEnergy	1.1	1.0	1.3	1.2	1.1	1.1	1.0
Average	1.2	1.3	1.2	1.2	1.2	1.2	1.3
TEV / EBITDA							
Emera	10	12	11	11	9	11	11
Fortis	9	9	9	9	10	9	10
Eversource	8	9	11	10	10	10	10
FirstEnergy	7	10	9	10	15	10	12
Average	8	10	10	10	11	10	11
Price to Earnings							
Emera	13	13	16	17	11	14	16
Fortis	13	14	15	15	19	15	16
Eversource	11	13	18	16	17	15	18
FirstEnergy	12	16	21	38	46	27	30
Average	12	14	18	21	23	18	20

Source: Company reports, Yahoo! Finance Canada, FAO estimates

Note: Numbers may not add up due to rounding.

Discounted Cash Flow

Another approach to estimate the FMV of equity is known as a discounted cash flow (DCF) approach. Given that the focus of the report is to estimate the immediate financial impact of the proposed divestiture, the focus for the range in valuation estimates is to use the comparable trading multiple approach. This approach is more commonly used by investors and provides a more appropriate method to estimate the amount of gross proceeds to be received by the Province.[63]

4\2\2 Fair Market Value of Depreciable Assets

Upon the sale of at least 10 per cent of Hydro One, the company must reassess the fair market value (FMV) of its depreciable assets for tax purposes, which impacts the amount of the taxes paid by the company. However, Hydro One has not yet disclosed the FMV of its depreciable assets.

The FMV of Hydro One's depreciable assets must be estimated to determine the company's tax payments after the sale. To estimate the depreciable assets, the FAO uses the fact that the sum of a company's equity and liabilities must equal its assets.

63 Valuing and pricing IPOs, Peter Roosenboom, 2012; Information Content of Equity Analyst Reports, Paul Asquith, Michael B. Mikhail, Andrea S. Au, 2003

Table 4-4 adds the estimated FMV of Hydro One (i.e. its equity) to the company's FMV of debt and book value (BV) of other liabilities to arrive at the FMV of total equity and liabilities, which is equal to the FMV of total assets post-sale.

The FAO also assumes that the entire appreciation in the value of Hydro One's total assets is attributed to its depreciable assets, which the FAO assumes to be equal to the value of property, plant and equipment. Therefore, the FMV of Hydro One's depreciable assets is the FMV of its total assets less the book value[64] of its non-depreciable assets.

TABLE 4-4: Fair Market Value of Depreciable Assets Estimate, $ Millions

	Low	High
FMV Equity	11,030	14,321
FMV Debt	10,695	10,695
BV Other Liabilities	5,620	5,620
Total Liabilities and Equity	27,345	30,636
FMV of Total Assets	27,345	30,636
BV of Other Assets	(6,679)	(6,679)
FMV of PPE	20,666	23,957

Source: Company reports, FAO estimates

4\3 Taxes

4\3\1 Departure Tax

The departure tax[65] is revenue for the Province. Based on the federal *Income Tax Act* and the *Electricity Act, 1998*, Hydro One is subject to the departure tax as a one-time payment under the PILs system.[66] When Hydro One is sold, it must re-value its assets for tax purposes.[67] The departure tax is applied if the value of the company's assets after the sale is estimated to be higher than the value the company currently records for tax purposes.

Under a regulation of the *Electricity Act,*[68] the Minister of Finance may consent to an amount of departure tax a company would pay, based on a reasonable approximation. The company's prospectus disclosed that the Minister of Finance consented to a departure tax of $2.6 billion.

While this amount is revenue to the Province as a PIL, the company faces an equivalent reduction in its net income. Since both PILs and Hydro One's net income are revenues to the Province, these two impacts offset one another.

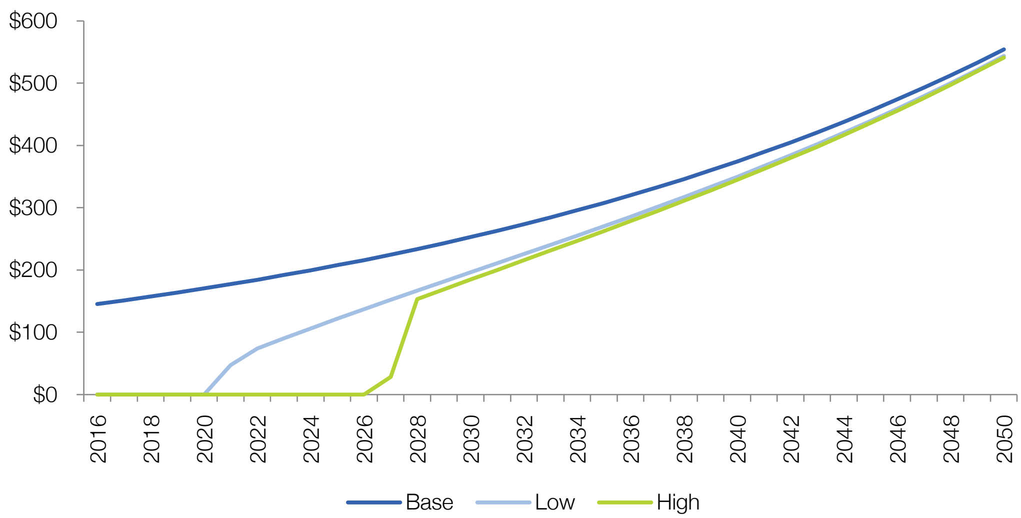
64 Hydro One's second quarter 2015 management, discussion and analysis.
65 The term "departure tax" is unofficial, but is in common use among those dealing with PILs and Hydro One. The tax consists of the CT/PILs treatment of changes in the value of depreciable and eligible capital property assets.
66 Section 16.1 of Ontario Regulation 207/99 and 149(10) of the *Income Tax Act*
67 Section 149 (10) of the *Income Tax Act*
68 Section 16.1 of Ontario Regulation 207/99

4\3\2 Corporations Tax

Corporations tax (CT) is revenue for the Province. Hydro One is currently exempt from paying corporations tax because it is wholly owned by the Province.[69] However, once the Province sells 15 per cent of Hydro One, the company would be subject to federal and provincial CT,[70] which would increase provincial CT revenues.

However, when Hydro One becomes a taxable company under the federal *Income Tax Act*, it would be considered a new company for tax purposes. The FMV of its depreciable assets, which the FAO assumes to be the value of property, plant and equipment, is estimated to increase to $20.7–$24 billion (Section 4.2.2). These assets are eligible for capital cost allowance, which reduces income for tax purposes and, in turn, reduces the corporations tax that the company must pay. Given the large size of the FMV of Hydro One's depreciable assets, the FAO estimates that Hydro One would not be required to pay corporations tax until between 2020 and 2026, depending on its valuation (Figure 4-1).

FIGURE 4-1: Estimated Total Corporate Taxes and PILs Paid by Hydro One, $ Millions



Source: FAO estimates.

Note: The Base line represents the FAO's estimate of Hydro One's future PILs payments if the company was not sold by the Province. The Low and High lines represent the FAO's estimates of Hydro One's future corporate tax payments if the company was sold by the Province for the low valuation and high valuation scenarios, respectively.

69 Section 149 (10) of the *Income Tax Act*. Hydro One is also subject to payments-in-lieu of additional municipal and school taxes. Section 92 (1) of the *Electricity Act, 1998* requires that Hydro One continue to pay these municipal PILs after divestiture.
70 Section 149 of the Income Tax Act states that a corporation is exempt when the Crown owns 90 per cent or more of its shares. Hydro One may also be subject to Ontario's corporate minimum tax.

Assuming the OEB does not require Hydro One to pass on savings to consumers, the sum of the anticipated tax savings generated by the IPO would be recorded on Hydro One's balance sheet as a deferred income tax asset, which is reduced over time as the taxes are paid. The company's prospectus reports $1.2 billion in deferred income tax assets, which is subject to change depending on the value of Hydro One after the IPO.[71] Given the FAO's estimate of the FMV of Hydro One, the FAO estimates the deferred income tax assets to be $1–$1.8 billion under the low and high valuation scenarios respectively. The deferred income tax assets are combined with the reversal of the deferred income tax liability (due to the exit of the company from the PIL system) to generate a one-time increase in the company's equity of between $2.2–$3.2 billion.

Impact of Tax Effects on Valuation

The impact of Hydro One's deferred tax asset on the company's market value is unclear. The reduced future corporate income tax payments would create additional cash flow and increase the market value under a discounted cash flow valuation approach. In the past, regulated revenues have been both adjusted and unadjusted by the Ontario Energy Board (OEB) for changes in tax payable from changes in tax treatments.* It is unclear how the board would react to the impact of the departure tax and reduced corporate tax from the Hydro One divestiture.

*Source: 2006 Electricity Distribution Rate Handbook, Ontario Energy Board; Ontario Energy Board Submission EB-2009-0408, Great Lakes Power Transmission Inc., 2009

This one-time increase in equity on the company's balance sheet would be recorded as income, which would in turn increase the Province's revenue from the net income of Hydro One by $1.9-$2.7 billion (Section 3.1.4).

4\4 Debt Retirement Charge

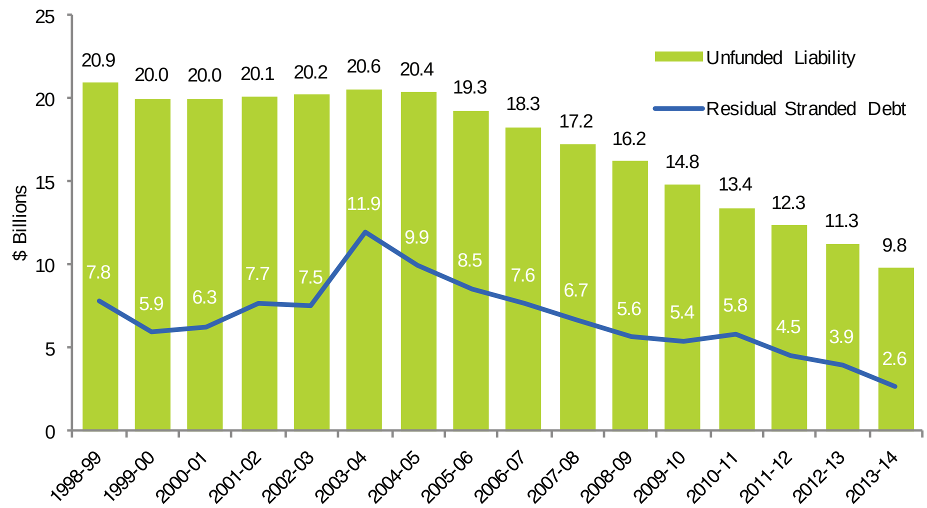
4\4\1 OEFC Stranded Debt and Residual Stranded Debt

The Ontario Electricity Financial Corporation (OEFC) is the legal continuation of Ontario Hydro,[72] holding $38.1 billion in liabilities in 1999. The OEFC transferred the majority of its assets to four other Ontario Hydro successor companies in return for $17.2 billion in debt issued to OEFC (representing an asset) from those companies. The Province assumed $3.8 billion of Hydro One's debt owed to OEFC in return for full equity in Hydro One. The difference between the total liabilities of OEFC and the financial notes owed to it by the Province and the successor companies is the initial unfunded liability of OEFC, valued at $20.9 billion in 1999.

71 This value is based on the pro forma financial statements provided for illustrative purposes only, based on a valuation of assets assumed to have occurred on January 1, 2014.
72 Section 54(1), *Electricity Act, 1998*

The Province dedicated revenues to pay OEFC, consisting of payments-in-lieu of taxes, the cumulative net income from OPG and Hydro One in excess of the interest cost of Province's original investment in these companies, and the debt retirement charge.[73] In 2013–14, the net present value of these projected future dedicated income streams was estimated by the Province to be $7.2 billion.[74]

FIGURE 4-2: OEFC Residual Stranded Debt



Source: 2014 Economic Outlook and Fiscal Review, FAO

Estimated to be $2.6 billion at March 31, 2014, the RSD is the difference between the unfunded liability and the net present value of OEFC's dedicated income streams (Figure 4-2). The government is able to levy the DRC until the Minister of Finance deems the RSD is retired.[75] In the 2014 Fall Economic Statement, and repeated in the 2015 Budget, the Province estimated that the RSD would be retired and the DRC eliminated by the end of 2018. The DRC would raise approximately $600 million annually beginning in 2016–17, after taking into account the elimination of the residential portion after 2015.

73 The 2014 Budget announced that the DRC will be eliminated for residential users after December 31, 2015. The residential portion of the DRC is estimated to be one-third of total DRC revenues, which was reported as $948 million in 2014–15.
74 Future income streams included in this projection excludes the debt retirement charge.
75 Section 85 of the *Electricity Act, 1998.*

4\4\2 Proceeds to be Paid to OEFC

The *Electricity Act,1998*[76] requires that all proceeds from the Hydro One divestiture be paid to OEFC less certain deductions:

1. Any amount that the Minister considers advisable in connection with the acquisition of the securities, debt obligations or interest, including the amount of the purchase price; any obligations assumed and any other costs incurred by the Crown
2. Any amounts which have been allocated by the Crown to the Financial Corporation (i.e. OEFC) in respect of the securities[77]
3. The amount of any costs incurred by the Crown in disposing of the securities, debt obligation or interest[78]

Table 4-5 estimates the amount of deductions from the gross sale proceeds that are to be allocated to the OEFC. The total amount associated with the acquisition of Hydro One includes (1) the original purchase of $3,759 million, which is recorded on OEFC's balance sheet as *Notes and Loans Receivable* and the new investment of $2,600 million announced in Hydro One's prospectus.[79]

The total amounts allocated to the OEFC (2) are the cumulative net income of Hydro One (less the Province's interest costs of acquiring Hydro One), which is dedicated to the OEFC. OEFC's balance sheet contains an asset, *Due from Province of Ontario*, which reflects the cumulative net incomes of both Ontario Power Generation (OPG) and Hydro One, less interest. Since the cumulative net income of OPG (after deducting interest costs of investment), is negative from 2000–2014, the FAO attributes the entire asset to Hydro One, which is equal to $4,903 million. The FAO also takes into account Hydro One's estimated year-to-date net income, which includes the impacts of the tax gain and departure tax.

When the Province sells the initial 15 per cent in 2015–16, a similar portion of these amounts are deducted from the payment that the Province is required to make to OEFC. The subtotal of the proportional amounts of these deductions is $1,677–$1,785 million. Finally, the transaction costs (3) associated with the sale have been reported to be approximately $65 million,[80] which all combine to total deductions of $1,742–$1,850 million.

76 Section 50.3 of the *Electricity Act, 1998*.
77 The Ministry of Finance indicated that these amounts represent the cumulative net income from Hydro One (less interest costs).
78 The Ministry of Energy has noted that these costs are estimated to be approximately $60 million
79 Hydro One's amended and restated preliminary base PREP prospectus, p. 102
80 Official Report of Debates (Hansard), Standing Committee on Estimates, September 29, 2015, p. E-420

TABLE 4-5: Estimated Deductions from Gross Sale Proceeds to the OEFC, $ Millions

Proceed Deductions	Low	High
Notes Receivable reported by OEFC	3,759	3,759
New Investment in Hydro One	2,600	2,600
(1) Total Amount Associated with Acquisition of Hydro One	6,359	6,359
Due from Province	4,903	4,903
Hydro One Portion	100%	100%
Hydro 2014	4,903	4,903
Hydro Tax Gain	2,133	2,853
Hydro Departure Tax	(2,600)	(2,600)
Hydro Net Income to Nov, 2015	382	382
(2) Total Amounts Allocated to OEFC	4,818	5,538
Sub-Total of (1) and (2)	11,177	11,897
Portion Sold	15%	15%
Sub-Total of (1) and (2) Proportional to the Sale	1,677	1,785
(3) Transaction Cost	65	65
Total Deductions	1,742	1,850

Source: FAO estimates

4\4\3 Impact on Residual Stranded Debt

RSD is the unfunded liability less the net present value of OEFC's dedicated income streams. Table 4-6 estimates the amount of foregone future dedicated income, which includes Hydro One's net income and PILs, as a result of the 15 per cent sale. Hydro One's forecasted net income for 2015 is $727 million ($509 million net of interest costs of investment), is grown and discounted to its present value of $3,917 million.[81] The FAO estimates that a 15 per cent sale of ownership would result in approximately $588 million in foregone revenues to the OEFC.

Similarly, Hydro One's PIL payment of $106 million in 2015, which is fully lost upon the sale,[82] is grown and discounted to arrive at a present value of $816 million. The NPV of Hydro One's net income and PIL dedicated to the OEFC combine to $1,404 million, which would be forgone due to the sale, and by itself, increase the estimated RSD.

81 The FAO has applied a discount rate that is consistent with the OEFC's historical financial statements. The FAO estimates the implicit discount rate of 13 per cent by dividing OEFC's reported electricity sector income and PILs by the OEFC's reported net present value of this future income and PILs, averaged from 2010 to 2014.
82 The Province's revenues from Hydro One's corporations tax after the sale is not dedicated to OEFC.

TABLE 4-6: Estimated Foregone NPV of Income to OEFC, $ Millions

Foregone NPV of Income	
Hydro Income	727
Less: Interest Cost	(218)
Hydro ESDI	509
Divided: Rate	13%
Lost Income	3,917
Portion Sold	15%
NPV of Foregone Hydro One Net Income	588
Hydro PILs	106
Divided: Rate	13%
NPV of Foregone PILs	816
NPV of Forgone Dedicated Income	1,404

Source: FAO estimates

The Province's 2014 Fall Economic Statement estimated the RSD to be $2.6 billion as of March 31, 2014,[83] and estimated that the RSD would be retired by the end of 2018,[84] implying an average reduction of $0.5 billion per year. Overall, the FAO estimates the current value of the RSD to be approximately $1.7 billion (Table 4-7). However, the estimated amount of RSD is subject to uncertainty, which includes the forecast of the net present value of future income.

TABLE 4-7: Estimated Current Value of Residual Stranded Debt, $ Millions

Residual Stranded Debt	
RSD 2013–14	2,600
RSD 2018–19	0
Difference	2,600
Years	4.75
Annual Reduction	547
Years: 2014 to Now	1.6
Reductions to Date	668
Beginning RSD	2,600
Deductions	(867)
RSD on Nov. 1, 2015	1,733

Source: FAO estimates, OEFC Annual Report

83 2014 Ontario Economic Outlook and Fiscal Review, Government of Ontario, 2014.
84 ibid

Table 4-8 estimates the impact to the residual stranded debt as a result of the sale of 15 per cent of Hydro One. The previously estimated deductions are applied towards the gross proceeds from the sale under both the low and high valuation scenarios. In addition, the $2.6 billion departure tax payment and $200 million in additional PILs[85] are allocated to the OEFC.[86] The estimated foregone NPV of future income is applied to increase the RSD. The overall impact is then compared to the current estimated value of the RSD.

If the estimated reductions are greater than the current value, the RSD is estimated to be eliminated. Overall, the FAO estimates that the RSD would be retained under both valuation scenarios. However, the estimates are subject to uncertainties, which include the NPV of future income calculation. As such, the FAO has presented financial impact scenarios that include and exclude the DRC revenues to the Province.

TABLE 4-8: Estimated Impact to the Residual Stranded Debt, $ Millions

RSD Impact	Low	High
Gross Proceeds	(1,655)	(2,148)
Less: Deductions	1,742	1,850
Payment (as per *Electricity Act*)	87	(299)
Add: Departure Tax	(2,600)	(2,600)
Add: Additional PILs	(200)	(200)
Unfunded Liability	(2,713)	(3,099)
Less: NPV Income	1,404	1,404
RSD Impact	(1,309)	(1,695)
RSD Base Case	1,733	1,733
RSD Remaining after Partial Sale	424	38

Source: FAO estimates

Note: The departure tax has a fiscally neutral impact to the OEFC. While the departure tax is paid to the OEFC, Hydro One's net income would be reduced by a corresponding amount.

85 Ontario Newsroom: Asset Optimization – Broadening Ownership of Hydro One
86 The FAO has not assumed any allocation of potential proceeds from the sale of Hydro One Brampton to the OEFC.

4\5 Forecasted Financial Impact Tables

This section presents the FAO estimates of the impact of the 60 per cent sale of Hydro One on the financial position of the Province. Specifically, the impact on the Province's budgetary balance and net debt position for each of the four scenarios over the next 10 years.

4\5\1 Impact on the Province's Budget Balance

TABLE 4-9: Estimated Financial Impact to the Province's Budget Balance, DRC Retained, $ Millions

Low Valuation	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Revenue										
Gain on Sale	605	262	266	270	0	0	0	0	0	0
Corporations Tax	9	0	(0)	0	(0)	0	19	30	36	42
Electricity PILS	137	(149)	(151)	(154)	(159)	(165)	(173)	(182)	(189)	(197)
Departure PIL	2,600	0	0	0	0	0	0	0	0	0
Debt Retirement Charge	0	0	0	0	0	0	0	0	0	0
Hydro Tax Gain	1,933	0	0	0	0	0	0	0	0	0
Hydro Departure Tax	(2,600)	0	0	0	0	0	0	0	0	0
Hydro One Income	(49)	(242)	(378)	(524)	(545)	(567)	(590)	(613)	(638)	(663)
Total Revenue Impact	2,635	(129)	(263)	(408)	(704)	(733)	(744)	(766)	(791)	(818)
Expenses										
Interest	(40)	(99)	(167)	(233)	(299)	(304)	(310)	(317)	(323)	(330)
Total Expense Impact	(40)	(99)	(167)	(233)	(299)	(304)	(310)	(317)	(323)	(330)
Surplus / Deficit	2,675	(30)	(96)	(175)	(406)	(428)	(434)	(449)	(468)	(487)

High Valuation	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Revenue										
Gain on Sale	1,098	639	653	667	0	0	0	0	0	0
Corporations Tax	9	0	(0)	0	(0)	0	0	0	0	0
Electricity PILS	137	(149)	(151)	(154)	(159)	(165)	(173)	(182)	(189)	(197)
Departure PIL	2,600	0	0	0	0	0	0	0	0	0
Debt Retirement Charge	0	0	0	0	0	0	0	0	0	0
Hydro Tax Gain	2,653	0	0	0	0	0	0	0	0	0
Hydro Departure Tax	(2,600)	0	0	0	0	0	0	0	0	0
Hydro One Income	(49)	(242)	(378)	(524)	(545)	(567)	(590)	(613)	(638)	(663)
Total Revenue Impact	3,849	247	124	(11)	(704)	(733)	(763)	(795)	(827)	(860)
Expenses										
Interest	(40)	(116)	(202)	(288)	(374)	(382)	(391)	(399)	(408)	(417)
Total Expense Impact	(40)	(116)	(202)	(288)	(374)	(382)	(391)	(399)	(408)	(417)
Surplus / Deficit	3,889	363	326	277	(331)	(351)	(372)	(396)	(419)	(444)

Source: FAO estimates

TABLE 4-10: Estimated Financial Impact to the Province's Budget Balance, DRC Foregone, $ Millions

Low Valuation	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Revenue										
Gain on Sale	605	262	266	270	0	0	0	0	0	0
Corporations Tax	9	0	(0)	0	(0)	0	19	30	36	42
Electricity PILS	137	(149)	(151)	(154)	(159)	(165)	(173)	(182)	(189)	(197)
Departure PIL	2,600	0	0	0	0	0	0	0	0	0
Debt Retirement Charge	(250)	(600)	(600)	(450)	0	0	0	0	0	0
Hydro Tax Gain	1,933	0	0	0	0	0	0	0	0	0
Hydro Departure Tax	(2,600)	0	0	0	0	0	0	0	0	0
Hydro One Income	(49)	(242)	(378)	(524)	(545)	(567)	(590)	(613)	(638)	(663)
Total Revenue Impact	2,385	(729)	(863)	(858)	(704)	(733)	(744)	(766)	(791)	(818)
Expenses										
Interest	(40)	(90)	(137)	(181)	(229)	(232)	(236)	(239)	(243)	(248)
Total Expense Impact	(40)	(90)	(137)	(181)	(229)	(232)	(236)	(239)	(243)	(248)
Surplus / Deficit	2,425	(639)	(726)	(677)	(476)	(500)	(508)	(526)	(548)	(570)

High Valuation	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Revenue										
Gain on Sale	1,098	639	653	667	0	0	0	0	0	0
Corporations Tax	9	0	(0)	0	(0)	0	0	0	0	0
Electricity PILS	137	(149)	(151)	(154)	(159)	(165)	(173)	(182)	(189)	(197)
Departure PIL	2,600	0	0	0	0	0	0	0	0	0
Debt Retirement Charge	(250)	(600)	(600)	(450)	0	0	0	0	0	0
Hydro Tax Gain	2,653	0	0	0	0	0	0	0	0	0
Hydro Departure Tax	(2,600)	0	0	0	0	0	0	0	0	0
Hydro One Income	(49)	(242)	(378)	(524)	(545)	(567)	(590)	(613)	(638)	(663)
Total Revenue Impact	3,599	(353)	(476)	(461)	(704)	(733)	(763)	(795)	(827)	(860)
Expenses										
Interest	(40)	(107)	(172)	(236)	(304)	(310)	(316)	(322)	(328)	(334)
Total Expense Impact	(40)	(107)	(172)	(236)	(304)	(310)	(316)	(322)	(328)	(334)
Surplus / Deficit	3,639	(245)	(304)	(225)	(401)	(423)	(447)	(474)	(499)	(526)

Source: FAO estimates

4\5\2 Impact on the Province's Net Debt

TABLE 4-11: Estimated Financial Impact to the Province's Net Debt, DRC Retained, $ Millions

	As At March 31									
Low Valuation	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Liabilities										
OEFC Debt	**(2,737)**	**149**	**151**	**154**	**159**	**165**	**173**	**182**	**189**	**197**
Departure Tax	(2,600)	0	0	0	0	0	0	0	0	0
DRC	0	0	0	0	0	0	0	0	0	0
Additional PIL	(200)	0	0	0	0	0	0	0	0	0
Electricity PILs	63	149	151	154	159	165	173	182	189	197
Gross Proceeds less Deductions	0	0	0	0	0	0	0	0	0	0
Provincial Purpose	**(86)**	**(2,092)**	**(2,055)**	**(2,015)**	**(325)**	**(332)**	**(357)**	**(375)**	**(389)**	**(403)**
Special Dividend	(800)	0	0	0	0	0	0	0	0	0
New Investment	2,600	0	0	0	0	0	0	0	0	0
Gross Proceeds less OEFC Payments	(1,655)	(1,688)	(1,721)	(1,756)	0	0	0	0	0	0
Dividends - Ongoing	(10)	(25)	(25)	(26)	(27)	(28)	(28)	(28)	(29)	(31)
Dividends - Sale Impact	(163)	(280)	(142)	0	0	0	0	0	0	0
Interest Savings	(58)	(99)	(167)	(233)	(299)	(304)	(329)	(346)	(360)	(373)
Total Liabilities Impact	**(2,823)**	**(1,943)**	**(1,905)**	**(1,861)**	**(166)**	**(167)**	**(184)**	**(193)**	**(200)**	**(207)**
Assets										
Investment in GBE's	**(147)**	**(1,973)**	**(2,000)**	**(2,036)**	**(572)**	**(595)**	**(617)**	**(642)**	**(667)**	**(694)**
One-Time Impacts	1,124	0	0	0	0	0	0	0	0	0
Tax Asset	1,933	0	0	0	0	0	0	0	0	0
Departure Tax	(2,600)	0	0	0	0	0	0	0	0	0
New Investment	2,600	0	0	0	0	0	0	0	0	0
Recapitalization	(809)	0	0	0	0	0	0	0	0	0
Decrease from Sale	(1,067)	(1,463)	(1,471)	(1,485)	0	0	0	0	0	0
Sold Book Value	(1,050)	(1,425)	(1,455)	(1,485)	0	0	0	0	0	0
Impact to Retained Earnings	(17)	(38)	(16)	0	0	0	0	0	0	0
Ongoing Impacts	(204)	(510)	(530)	(550)	(572)	(595)	(617)	(642)	(667)	(694)
Net Income	(194)	(485)	(504)	(524)	(545)	(567)	(590)	(613)	(638)	(663)
Dividends	(10)	(25)	(25)	(26)	(27)	(28)	(28)	(28)	(29)	(31)
Net Debt	2,675	(30)	(96)	(175)	(406)	(428)	(434)	(449)	(468)	(487)
Cumulative	2,675	2,645	2,549	2,374	1,968	1,540	1,107	657	190	(297)

High Valuation	As At March 31 2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Liabilities										
OEFC Debt	**(3,090)**	**(247)**	**(288)**	**(330)**	**159**	**165**	**173**	**182**	**189**	**197**
Departure Tax	(2,600)	0	0	0	0	0	0	0	0	0
DRC	0	0	0	0	0	0	0	0	0	0
Additional PIL	(200)	0	0	0	0	0	0	0	0	0
Electricity PILs	63	149	151	154	159	165	173	182	189	197
Gross Proceeds less Deductions	(353)	(396)	(439)	(484)	0	0	0	0	0	0
Provincial Purpose	**(227)**	**(2,217)**	**(2,165)**	**(2,110)**	**(400)**	**(410)**	**(420)**	**(430)**	**(440)**	**(450)**
Special Dividend	(800)	0	0	0	0	0	0	0	0	0
New Investment	2,600	0	0	0	0	0	0	0	0	0
Gross Proceeds less OEFC Payments	(1,796)	(1,796)	(1,796)	(1,796)	0	0	0	0	0	0
Dividends - Ongoing	(10)	(25)	(25)	(26)	(27)	(28)	(29)	(31)	(32)	(33)
Dividends - Sale Impact	(163)	(280)	(142)	0	0	0	0	0	0	0
Interest Savings	(58)	(116)	(202)	(288)	(374)	(382)	(391)	(399)	(408)	(417)
Total Liabilities Impact	**(3,316)**	**(2,463)**	**(2,454)**	**(2,439)**	**(241)**	**(244)**	**(247)**	**(248)**	**(250)**	**(253)**
Assets										
Investment in GBE's	**573**	**(2,100)**	**(2,127)**	**(2,163)**	**(572)**	**(595)**	**(619)**	**(644)**	**(670)**	**(697)**
One-Time Impacts	1,844	0	0	0	0	0	0	0	0	0
Tax Asset	2,653	0	0	0	0	0	0	0	0	0
Departure Tax	(2,600)	0	0	0	0	0	0	0	0	0
New Investment	2,600	0	0	0	0	0	0	0	0	0
Recapitalization	(809)	0	0	0	0	0	0	0	0	0
Decrease from Sale	(1,067)	(1,590)	(1,598)	(1,612)	0	0	0	0	0	0
Sold Book Value	(1,050)	(1,552)	(1,582)	(1,612)	0	0	0	0	0	0
Impact to Retained Earnings	(17)	(38)	(16)	0	0	0	0	0	0	0
Ongoing Impacts	(204)	(510)	(530)	(550)	(572)	(595)	(619)	(644)	(670)	(697)
Net Income	(194)	(485)	(504)	(524)	(545)	(567)	(590)	(613)	(638)	(663)
Dividends	(10)	(25)	(25)	(26)	(27)	(28)	(29)	(31)	(32)	(33)
Net Debt	3,889	363	326	277	(331)	(351)	(372)	(396)	(419)	(444)
Cumulative	3,889	4,252	4,578	4,855	4,524	4,173	3,801	3,405	2,985	2,542

Source: FAO estimates

TABLE 4-12: Estimated Financial Impact to the Province's Net Debt, DRC Foregone, $ Millions

	As At March 31									
Low Valuation	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Liabilities										
OEFC Debt	**(2,487)**	**749**	**751**	**604**	**159**	**165**	**173**	**182**	**189**	**197**
Departure Tax	(2,600)	0	0	0	0	0	0	0	0	0
DRC	250	600	600	450	0	0	0	0	0	0
Additional PIL	(200)	0	0	0	0	0	0	0	0	0
Electricity PILs	63	149	151	154	159	165	173	182	189	197
Gross Proceeds less Deductions	0	0	0	0	0	0	0	0	0	0
Provincial Purpose	**(86)**	**(2,083)**	**(2,025)**	**(1,963)**	**(256)**	**(260)**	**(282)**	**(297)**	**(309)**	**(321)**
Special Dividend	(800)	0	0	0	0	0	0	0	0	0
New Investment	2,600	0	0	0	0	0	0	0	0	0
Gross Proceeds less OEFC Payments	(1,655)	(1,688)	(1,721)	(1,756)	0	0	0	0	0	0
Dividends - Ongoing	(10)	(25)	(25)	(26)	(27)	(28)	(28)	(28)	(29)	(31)
Dividends - Sale Impact	(163)	(280)	(142)	0	0	0	0	0	0	0
Interest Savings	(58)	(90)	(137)	(181)	(229)	(232)	(254)	(269)	(280)	(290)
Total Liabilities Impact	**(2,573)**	**(1,334)**	**(1,275)**	**(1,359)**	**(96)**	**(95)**	**(109)**	**(115)**	**(120)**	**(124)**
Assets										
Investment in GBE's	**(147)**	**(1,973)**	**(2,000)**	**(2,036)**	**(572)**	**(595)**	**(617)**	**(642)**	**(667)**	**(694)**
One-Time Impacts	1,124	0	0	0	0	0	0	0	0	0
Tax Asset	1,933	0	0	0	0	0	0	0	0	0
Departure Tax	(2,600)	0	0	0	0	0	0	0	0	0
New Investment	2,600	0	0	0	0	0	0	0	0	0
Recapitalization	(809)	0	0	0	0	0	0	0	0	0
Decrease from Sale	(1,067)	(1,463)	(1,471)	(1,485)	0	0	0	0	0	0
Sold Book Value	(1,050)	(1,425)	(1,455)	(1,485)	0	0	0	0	0	0
Impact to Retained Earnings	(17)	(38)	(16)	0	0	0	0	0	0	0
Ongoing Impacts	(204)	(510)	(530)	(550)	(572)	(595)	(617)	(642)	(667)	(694)
Net Income	(194)	(485)	(504)	(524)	(545)	(567)	(590)	(613)	(638)	(663)
Dividends	(10)	(25)	(25)	(26)	(27)	(28)	(28)	(28)	(29)	(31)
Net Debt	2,425	(639)	(726)	(677)	(476)	(500)	(508)	(526)	(548)	(570)
Cumulative	2,425	1,786	1,060	383	(92)	(592)	(1,101)	(1,627)	(2,175)	(2,745)

	As At March 31									
High Valuation	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Liabilities										
OEFC Debt	**(2,840)**	**353**	**312**	**120**	**159**	**165**	**173**	**182**	**189**	**197**
Departure Tax	(2,600)	0	0	0	0	0	0	0	0	0
DRC	250	600	600	450	0	0	0	0	0	0
Additional PIL	(200)	0	0	0	0	0	0	0	0	0
Electricity PILs	63	149	151	154	159	165	173	182	189	197
Gross Proceeds less Deductions	(353)	(396)	(439)	(484)	0	0	0	0	0	0
Provincial Purpose	**(227)**	**(2,208)**	**(2,135)**	**(2,058)**	**(331)**	**(338)**	**(345)**	**(353)**	**(360)**	**(367)**
Special Dividend	(800)	0	0	0	0	0	0	0	0	0
New Investment	2,600	0	0	0	0	0	0	0	0	0
Gross Proceeds less OEFC Payments	(1,796)	(1,796)	(1,796)	(1,796)	0	0	0	0	0	0
Dividends - Ongoing	(10)	(25)	(25)	(26)	(27)	(28)	(29)	(31)	(32)	(33)
Dividends - Sale Impact	(163)	(280)	(142)	0	0	0	0	0	0	0
Interest Savings	(58)	(107)	(172)	(236)	(304)	(310)	(316)	(322)	(328)	(334)
Total Liabilities Impact	**(3,066)**	**(1,855)**	**(1,824)**	**(1,937)**	**(171)**	**(172)**	**(172)**	**(171)**	**(170)**	**(170)**
Assets										
Investment in GBE's	**573**	**(2,100)**	**(2,127)**	**(2,163)**	**(572)**	**(595)**	**(619)**	**(644)**	**(670)**	**(697)**
One-Time Impacts	1,844	0	0	0	0	0	0	0	0	0
Tax Asset	2,653	0	0	0	0	0	0	0	0	0
Departure Tax	(2,600)	0	0	0	0	0	0	0	0	0
New Investment	2,600	0	0	0	0	0	0	0	0	0
Recapitalization	(809)	0	0	0	0	0	0	0	0	0
Decrease from Sale	(1,067)	(1,590)	(1,598)	(1,612)	0	0	0	0	0	0
Sold Book Value	(1,050)	(1,552)	(1,582)	(1,612)	0	0	0	0	0	0
Impact to Retained Earnings	(17)	(38)	(16)	0	0	0	0	0	0	0
Ongoing Impacts	(204)	(510)	(530)	(550)	(572)	(595)	(619)	(644)	(670)	(697)
Net Income	(194)	(485)	(504)	(524)	(545)	(567)	(590)	(613)	(638)	(663)
Dividends	(10)	(25)	(25)	(26)	(27)	(28)	(29)	(31)	(32)	(33)
Net Debt	3,639	(245)	(304)	(225)	(401)	(423)	(447)	(474)	(499)	(526)
Cumulative	3,639	3,393	3,089	2,864	2,463	2,041	1,594	1,120	621	94

Source: FAO estimates

About This Document

This Financial Accountability Office of Ontario (FAO) report was prepared as an initiative of the Financial Accountability Officer. In keeping with the FAO's mandate to provide the Legislative Assembly of Ontario with independent analysis, this report makes no recommendations.

The analysis was prepared by Matthew Stephenson and Luan Ngo, under the direction of Peter Harrison and David West. Patrick Baud of the FAO and Jason Jacques, formerly with the FAO, also provided helpful advice.

A number of external reviewers reviewed the report. The assistance of external reviewers implies no responsibility for the final product, which rests solely with the FAO.

The report is available on the FAO's website, fao-on.org.

Stephen LeClair
Financial Accountability Officer of Ontario

Ontario

Treasury Board Secretariat

PUBLIC ACCOUNTS OF ONTARIO

Annual Report and Consolidated Financial Statements

2015-2016

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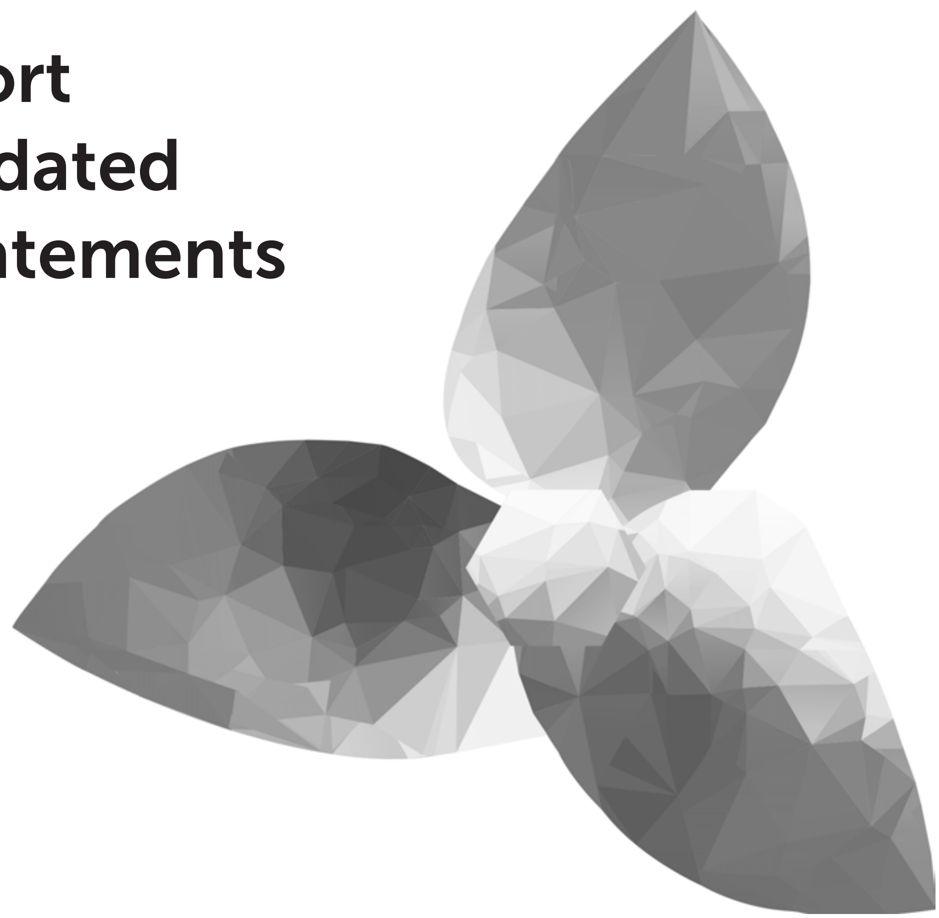

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Ontario

The Honourable Elizabeth Dowdeswell, OC, OOnt
Lieutenant Governor of Ontario
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May It Please Your Honour:

The undersigned have the privilege to present the Public Accounts of the Province of Ontario for the fiscal year ended March 31, 2016, in accordance with the requirements of the *Financial Administration Act*.

Respectfully submitted,

Original signed by

The Honourable Liz Sandals
President of the Treasury Board
Toronto, October 2016

Original signed by

The Honourable Charles Sousa
Minister of Finance
Toronto, October 2016

Contents

CONSOLIDATED FINANCIAL STATEMENTS

Foreword

Each year, the Province releases the Public Accounts to update Ontarians on our end-of-year financial position. The Annual Report that accompanies the financial statements provides transparency and accountability for the dollars we spend. Ontario is a recognized leader in financial reporting. The C.D. Howe Institute, an independent research organization that focuses on support for economically sound public policy practices, has acknowledged the consistent basis used by Ontario for our Budget, Estimates and Public Accounts as a best practice for supporting transparency and accountability.

I am pleased to present the Public Accounts for the year 2015–16, which confirm that our government's plan to achieve fiscal balance by 2017–18 is working.

At $5.0 billion, Ontario's deficit is $3.5 billion lower than projected in the 2015 Budget. This marks the seventh year in a row that Ontario has beaten its deficit target.

When the global economic recession hit, our government made a deliberate choice to invest in our economy and stimulate growth. Since then, Ontario has created almost 600,000 net new jobs and the unemployment rate declined to an eight-year low of 6.4 per cent in July 2016. Ontario's economy continues to grow and is expected to remain one of the fastest growing in Canada over the next two years.

Although we have made considerable progress since the recession, there is still hard work ahead to eliminate the deficit. Our government will make the tough but necessary decisions needed to ensure our province continues to grow. As President of the Treasury Board, it is my role to lead this effort and to help create a modern and open government — one that is fiscally responsible, uses evidence to track performance and is focused on results.

In the spirit of openness and increased transparency, this year we have created new visualization tools to help Ontarians understand the Province's finances. To access these new tools, and to see the full Public Accounts online, visit Ontario.ca/publicaccounts.

Making every dollar count

In 2014, we implemented a new fiscal planning and expenditure management approach. Through the Program Review, Renewal, and Transformation (PRRT) process, we are looking across ministries to achieve better value for money.

We have deliberately taken a fair and equitable approach, allowing us to continue to make strategic investments in physical infrastructure such as roads and transit, as well as in social capital through the talents and skills of Ontarians, all while protecting the services on which Ontarians rely.

By prioritizing cross-ministry collaboration in our planning and policy development, we are undertaking major transformation and efficiency initiatives that will help free up resources and allow us to invest in key priorities. This means asking tough questions and making tough choices about services that are not linked to government priorities, serve no clear public interest or fail to achieve their desired outcomes.

For example, transfer payments to organizations including consolidated broader public sector organizations account for approximately 82 per cent of the government's expenditures. The Transfer Payment Administration Modernization (TPAM) project will streamline government transfers to hospitals, school boards, municipalities, non-profits and all other transfer payment recipients. It will not only improve the way we work with these organizations, but will also make their jobs easier by reducing their administrative burdens. TPAM will also help us get better value for our money by emphasizing data and evidence when making funding decisions.

Making services simpler, faster and easier

Through Ontario's Digital Government strategy, we are modernizing government for the digital age, using technology to make services simpler, easier and more convenient for people. This work will improve citizens' online experience with government and deliver better value for public money.

We are also finding innovative ways to support how we drive change across the government. In 2015, we established the Centre of Excellence for Evidence-Based Decision Making. The centre is setting standards for the use of evidence. Its mandate is to build capacity to assess program performance, using evidence to inform choices and lead change in critical public services.

Modern infrastructure and a dynamic business climate

Ontario must build and maintain its infrastructure to remain economically strong and competitive.

The Province is continuing to pursue opportunities to unlock economic value from its assets. Unlocking value from provincial assets is providing resources to invest in new transit and transportation infrastructure, and is helping to expand the economy and improve competitiveness and productivity. In short, it will help to create jobs for Ontarians.

We're investing more than $137 billion over the next 10 years in public infrastructure such as roads, bridges, public transit, hospitals and schools. This investment builds on previous commitments, resulting in a total of approximately $160 billion in public infrastructure investments over 12 years, starting in 2014–15. This is the largest investment in public infrastructure in the Province's history. Planned investments will support more than 110,000 jobs, on average, each year.

The government is building the infrastructure that is needed today and tomorrow. These investments will help manage congestion, connect people, and improve the economy and Ontarians' quality of life.

In addition, our government continues to create a dynamic and innovative business climate. As of August 31, 2016, the 10-year, $2.7 billion Jobs and Prosperity Fund is helping to create and retain more than 22,000 jobs and is attracting more than $2.2 billion in investments. Our government is reducing business costs, keeping tax rates competitive, building strategic partnerships, helping businesses go global, strengthening the financial services sector and investing in training and education.

We have an ambitious agenda to Build Ontario Up. Our balanced budget plan is vitally important, and Public Accounts is the tool by which we report our progress. Working to eliminate the deficit and taking a balanced and disciplined approach to our fiscal plan over the last three and a half years has allowed us to deliver better services and outcomes to Ontarians, and help people in their everyday lives. We are striving to build a province that is the best place to live, from childhood to retirement — a place where everyone has the opportunity to realize their full potential.

Original signed by

The Honourable Liz Sandals
President of the Treasury Board

Introduction

The Annual Report is a key element of the Public Accounts of the Province of Ontario and is central to demonstrating the Province's transparency in reporting its financial activities and position as well as its accountability for financial resources.

This Annual Report presents Ontario's financial results and position for the year ending March 31, 2016, against the approved 2015 Budget. Specifically, it compares the Province's actual financial results for the 2015–16 fiscal year to the Budget plan presented in April 2015 and explains major variances.

This year, in addition to providing a comparison of actual to planned results, the Annual Report has been enhanced in several areas to further support transparency and accountability for readers:

- It expands the comparison of the current year's results to those of the prior year, and includes analysis of the trends over a five-year period as related to several financial items, including an expanded discussion on balance sheet items.
- It provides a description of the Province's capital assets, reflecting their importance in service delivery and their impact on the Province's financial condition.
- It includes a discussion of key risks that could impact the Province's financial results.

As in previous years, the Annual Report sets out and analyzes trends in a number of key financial ratios over the past several years.

The additional discussion and analysis included in this year's Annual Report will help users of the Consolidated Financial Statements better understand the impacts of economic conditions and government decisions on the Province's financial results and position.

Producing the Public Accounts of Ontario requires the teamwork and collaboration of many stakeholders across Ontario's public sector. The Office of the Auditor General plays a critical role in auditing and reporting on the Province's financial statements, and the Standing Committee on the Public Accounts also plays an important role in providing legislative oversight and guidance. I would like to thank everyone for their contributions.

We welcome your comments on the Public Accounts. Please share your thoughts by email at infoTBS@ontario.ca, or by writing to the Office of the Provincial Controller,
Re: Annual Report, Treasury Board Secretariat, Second Floor, Frost Building South,
7 Queen's Park Crescent, Toronto, Ontario M7A 1Y7.

Original signed by

Nadine Petsche, MBA, CPA, CA
Director, Accounting Policy and Financial Reporting
Treasury Board Secretariat

Guide to the Public Accounts

The Public Accounts of the Province of Ontario comprise this Annual Report and three supporting volumes.

The Annual Report includes a Financial Statement Discussion and Analysis, the Consolidated Financial Statements of the Province and other supporting schedules and disclosures.

Financial Statement Discussion and Analysis

The first section of the Annual Report is the Financial Statement Discussion and Analysis section, which:

- Compares the Province's financial results to both the approved Budget for the year and results for the previous year;
- Shows trends in key financial items and indicators of financial condition;
- Sets out key potential risks to financial results and explains how the government manages them;
- Includes descriptions of various assets and liabilities on the statement of financial position; and
- Presents non-financial activities results and discusses important initiatives related to enhancing transparency and accountability.

The Consolidated Financial Statements

The Consolidated Financial Statements show the Province's financial position at the end of the previous fiscal year, its financial activities during the reporting period and its financial position at the end of the fiscal year. The statements are linked, and figures that appear in one statement may affect another.

The Province's financial statements are presented on a consolidated basis, meaning that the Province's statement of financial position and statement of operations reflect the combination of ministry results as well as financial results for entities that are controlled by the government. Therefore, reported revenues and expenses of the Province can be affected directly by the activities of ministries as well as the performance of controlled entities such as government business enterprises (GBEs) and broader public sector (BPS) organizations such as hospitals, school boards and colleges. In addition, the Province's results are also affected by transfer payments made to non-consolidated entities, such as municipalities and universities.

The financial statements comprise:

- The Consolidated Statement of Operations, which provides a summary of the government's revenue for the period less its expenses, and shows whether the government incurred an operating deficit or surplus for the year, in comparison to its approved Budget plan as presented on April 23, 2015, as well as the financial results for the prior fiscal period. The annual surplus/deficit has an impact on the Province's financial position.

- The Consolidated Statement of Financial Position, which reports the Province's assets and liabilities and is also known as the balance sheet. The Province's total liabilities include debt and other long-term financing. Financial assets include cash, short-term investments and investment in GBEs. The difference between total liabilities and financial assets is the Province's net debt, which provides a measure of the future government revenues that will be required to pay for the government's past transactions. Non-financial assets, mainly tangible capital assets such as highways, bridges and buildings, are subtracted from net debt to arrive at the accumulated deficit. An operating deficit in the year increases the accumulated deficit.

- The Consolidated Statement of Change in Net Debt, which shows how the Province's net debt position changed during the year. The main factors increasing net debt are the annual deficit and additions to tangible capital assets, which increase liabilities.

- The Consolidated Statement of Change in Accumulated Deficit, which is a cumulative total of all the Province's annual deficits and surpluses to date. It is mainly impacted by the annual surplus or deficit in a year.

- The Consolidated Statement of Cash Flow, which shows the sources and uses of cash and cash equivalents over the year. Two major sources of cash are revenues and borrowings. Uses of cash include funding for operating costs, investments in capital assets and debt repayment. The statement is presented in what is referred to as the indirect method, meaning that it starts with the annual surplus or deficit and reconciles that to the cash flow from operations by adding or subtracting non-cash items, such as amortization of tangible capital assets. As well, it also shows cash used to acquire tangible capital assets and investments, as well as cash generated from financing activities.

When reading the Consolidated Financial Statements, it is essential to also read the accompanying notes and schedules, which summarize the Province's significant accounting policies and give more information on underlying financial activities, market value of investments, contractual obligations and risks. Commentary is also provided on possible future changes to accounting standards.

Other elements of the Annual Report

- In management's Statement of Responsibility, the government acknowledges its responsibility for the Consolidated Financial Statements and the Financial Statement Discussion and Analysis. The Statement, which appears on page 5, outlines the accounting policies and practices used in preparing the financial statements and acknowledges the government's responsibility for financial management systems and controls.

- For the 2015–16 Public Accounts, the government legislated the accounting treatment for pension assets of its jointly sponsored pension plans. Note 18 to the Consolidated Financial Statements includes additional information about this change.

- The Auditor General's Report, which appears on page 45, expresses an opinion under the *Auditor General Act* as to whether the statements present fairly the annual financial results and financial position of the government in accordance with Canadian Public Sector Accounting Standards.

Supporting volumes

Volume 1 contains ministry statements and detailed schedules of debt and other items. Individual ministry statements compare actual expenses to the amounts appropriated by the Legislative Assembly. Appropriations are made through the Estimates, Supplementary Estimates and annual *Supply Act* (as modified by any Treasury Board Orders), other statutes and any special warrants. The ministry statements include amounts appropriated to fund certain provincial organizations, including hospitals, school boards and colleges. The financial results of all provincial organizations included in the government reporting entity in accordance with Public Sector Accounting Standards are consolidated with those of the Province to produce the Consolidated Financial Statements in accordance with the accounting policies described in Note 1 to the statements.

Volume 2 contains the individual financial statements of significant provincial corporations, boards and commissions that are part of the government's reporting entity, as well as other miscellaneous financial statements.

Volume 3 contains the details of payments made by ministries to vendors (including sales tax) and transfer payment recipients that exceed certain thresholds, including payments to suppliers of temporary help services; payments made directly to a supplier by the ministry for employee benefits; travel payments for employees; total payments for grants, subsidies or assistance to persons, businesses, non-commercial institutions and other government bodies; other payments to suppliers of goods and services; and statutory payments.

Statement of Responsibility

The Consolidated Financial Statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

The government accepts responsibility for the objectivity and integrity of these Consolidated Financial Statements and the Financial Statement Discussion and Analysis.

The government is also responsible for maintaining systems of financial management and internal control to provide reasonable assurance that transactions recorded in the Consolidated Financial Statements are within statutory authority, assets are properly safeguarded and reliable financial information is available for preparation of these Consolidated Financial Statements.

The Consolidated Financial Statements have been audited by the Auditor General of Ontario in accordance with the *Auditor General Act* and Canadian Auditing Standards. Her report appears on page 45 of this document.

Original signed by	Original signed by	Original signed by
Scott Thompson Deputy Minister Ministry of Finance	Greg Orencsak Deputy Minister, Treasury Board Secretariat and Secretary of Treasury Board and Management Board of Cabinet	Nadine Petsche Director, Accounting Policy and Financial Reporting Treasury Board Secretariat
October 5, 2016	October 5, 2016	October 5, 2016

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

Highlights

2015–16 Financial Highlights — Table 1
($ Billions)

Consolidated Statement of Operations
For the fiscal year ended March 31

	2015 Budget	2015–16 Actual	2014–15 Actual	Change from 2015 Budget	Change from 2014–15 Actual
Total Revenue	124.4	128.4	118.5	4.0	9.8
Expense					
Programs	120.5	122.4	118.2	1.9	4.2
Interest on debt	11.4	11.0	10.6	(0.4)	0.4
Total Expense	131.9	133.4	128.8	1.5	4.6
Reserve	1.0	-	-	(1.0)	-
Annual Deficit	(8.5)	(5.0)	(10.3)	(3.5)	(5.3)
Consolidated Statement of Financial Position As at March 31					
Financial Assets		83.5	82.5		1.0
Liabilities		388.7	367.1		21.6
Net Debt		(305.2)	(284.6)		20.6
Non-Financial Assets		102.5	97.1		5.4
Accumulated Deficit		(202.7)	(187.5)		15.2

Note: Numbers may not add due to rounding.

Comparison to the 2015 Budget plan

The Province of Ontario recorded a deficit of $5.0 billion for the 2015–16 fiscal year, an improvement of $3.5 billion from the $8.5 billion projected in the 2015 Budget plan (see Table 1).

The improvement over plan was due to revenues that were $4.0 billion above forecast, at $128.4 billion. This was largely due to higher-than-expected taxation revenues and net revenues from the first phase of broadening Hydro One ownership.

Despite the challenges stemming from an uncertain global economic setting, Ontario's economy grew, with real gross domestic product (GDP) increasing by 2.6 per cent in 2015, slightly below the forecast of 2.7 per cent in the 2015 Budget.

Total spending for 2015–16 came in at $133.4 billion, which was $1.5 billion higher than forecast in the 2015 Budget plan. This increase from plan was due mainly to the change in the Province's accounting treatment for pension assets of jointly sponsored pension plans.

The government identified and acted on a number of initiatives in the 2015 Budget to modernize public services, improve outcomes for Ontarians and support the Province's fiscal objectives. Savings from these and other initiatives identified through Program Review, Renewal and Transformation (PRRT) are reflected in all of the program expense lines in the 2015–16 results.

Comparison to the 2014–15 fiscal year

Provincial revenues were up $9.8 billion, or 8.3 per cent, from the previous year (see Table 1). This increase was due in part to nominal GDP growth of 3.5 per cent, which contributed to higher taxation revenues. Higher transfers from the federal government, particularly Canada Health Transfer, Canada Social Transfer and Equalization payments, also increased revenues.

Also contributing to year-over-year revenue growth was the completion of the first phase of Hydro One share sales in 2015–16 through an initial public offering (IPO). This transaction and its fiscal impacts are discussed in more detail in "Broadening Hydro One ownership" on page 14.

Year-over-year, total spending rose by $4.6 billion, or 3.5 per cent, going from $128.8 billion to $133.4 billion. Increases in the health care, children's and social services, and justice sectors, as well as other program areas, accounted for most of the increase. Interest on debt rose by 3.1 per cent, from $10.6 billion to $11.0 billion, reflecting financing costs for the Province's debt. In addition, the change in the Province's accounting treatment for pension assets accounted for $1.5 billion of the year-over-year variance.

As a result of stronger relative growth in revenue than in spending, the annual deficit fell from $10.3 billion in 2014–15 to $5.0 billion in 2015–16, reflecting an improvement of 51.2 per cent.

For the 2015-16 Public Accounts, the Province's opening pension asset balance was adjusted to reflect a legislated change in accounting treatment for pension assets of jointly sponsored pension plans[1]. As a result, net debt — the difference between the Province's liabilities and financial assets — grew by $20.6 billion during the year. Excluding the $10.7 billion impact of this change in accounting treatment for pension assets related to jointly sponsored pension plans, total liabilities increased by $10.9 billion which was partially offset by a $1.0 billion increase in financial assets.

The net book value of capital assets such as roads and bridges owned by the Province grew by $5.4 billion during the year, reflecting new capital investments. The accumulated deficit rose by $15.2 billion, mainly as a result of the annual deficit of $5.0 billion and other adjustments.

[1] See Note 18 to the Consolidate Financial Statement.

Cash flow during the year was used to fund the annual deficit of $5.0 billion, provide $10.9 billion for investment in capital assets, repay maturing debt of $21.9 billion and cover other cash items. These needs were partially covered with funds borrowed before the end of 2014–15, including pre-borrowing for 2015–16, for a total of $12.4 billion in new financing.

Analysis of 2015–16 Results

Details of 2015–16 Actual Results[1]
($ Billions)

Table 2

	2015 Budget	2015–16 Actual	2014–15 Actual	Change from 2015 Budget	Change from 2014–15 Actual
Revenue					
Taxation	87.4	91.8	82.3	4.4	9.5
Government of Canada	22.9	22.9	21.6	-	1.2
Income from government business enterprises	4.8	4.9	5.6	0.1	(0.7)
Other non-tax revenue	9.3	8.8	9.0	(0.5)	(0.2)
Total Revenue	124.4	128.4	118.5	4.0	9.8
Expense					
Health sector	50.8	51.1	50.0	0.3	1.1
Education sector[2]	25.2	25.0	24.6	(0.2)	0.4
Post-secondary and training sector	7.8	7.6	7.7	(0.2)	(0.1)
Children's and social services sector	15.4	15.6	14.7	0.1	0.9
Justice	4.4	4.5	4.3	0.1	0.2
Other programs[3]	16.8	18.6	16.9	1.8	1.7
Total Program Expense	120.5	122.4	118.2	1.9	4.2
Interest on debt	11.4	11.0	10.6	(0.4)	0.4
Total Expense	131.9	133.4	128.8	1.5	4.6
Reserve	1.0	-	-	(1.0)	-
Annual Deficit	(8.5)	(5.0)	(10.3)	(3.5)	(5.3)

Notes:
1 Numbers may not add due to rounding.
2 Teachers' Pension Plan expense is included in Other programs. In the Consolidated Financial Statements, this expense item appears under the Ministry of Education. Schedule 4 to the financial statements provides details.
3 The 2015 Budget included a Program Review Savings Target of $490 million and Year End Savings of $1.0 billion.

Revenue

Comparison to the 2015 Budget plan

In the 2015 calendar year, Ontario's real GDP grew by a solid 2.6 per cent, driven by a boost from exports, business investments and sustained growth in household spending. Growth was very close to the 2.7 per cent forecast in the 2015 Budget.

The robust growth was supported by solid economic expansion in the United States and favourable shifts in key external factors, including reduced oil prices, a more competitive Canadian dollar and low interest rates.

Revenues for 2015–16 came in at $128.4 billion, or 3.2 per cent higher than forecast in the 2015 Budget. See Chart 1 for a breakdown of revenues by source.

Excluding the impacts of the sale of Hydro One shares, as discussed on page 14:

- Taxation revenues were $1.7 billion, or 2.0 per cent higher than projected in the 2015 Budget. Personal income tax revenues were $0.8 billion higher, reflecting stronger-than-projected 2015 tax assessments. The strong housing market in 2015 contributed to a $0.8 billion increase in combined sales tax and land transfer tax revenues.

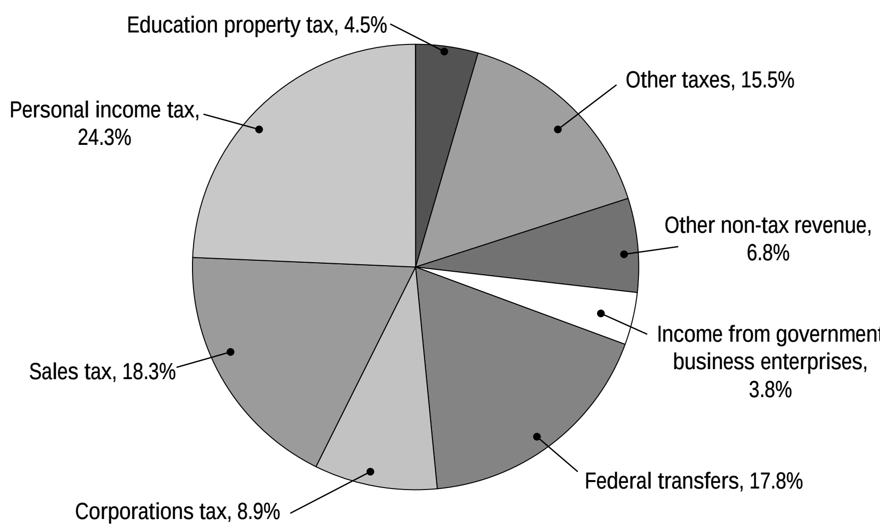
- Income from GBEs was $0.6 billion higher, reflecting higher-than-projected returns from Ontario Power Generation Inc., the Ontario Lottery and Gaming Corporation and the Liquor Control Board of Ontario.

- Other non-tax revenues were $0.3 billion higher on a net basis, mainly reflecting higher recoveries of prior year expenditures and higher fiscally neutral Power Supply Contract Recoveries.

Another factor was an increase from plan of $1.5 billion in net revenues arising from the completion of the first phase of broadening Hydro One ownership.

Transfers from the Government of Canada were close to the 2015 Budget estimate.

2015–16 revenue by source ($128.4 billion) Chart 1



Percentages may not add to 100 per cent due to rounding.

Comparison to prior year and earlier years

Total revenues were up $9.8 billion, or 8.3 per cent, from the previous year.

Excluding the impacts of the sale of Hydro One shares, as discussed below:

- Taxation revenues grew by $6.8 billion, or 8.3 per cent, reflecting economic growth, including a strong 2015 housing market. Prior year adjustments that lowered 2014–15 corporations tax revenues and boosted 2015–16 Harmonized Sales Tax (HST) revenues also contributed to stronger year-over-year growth.

- Net income from GBEs declined in 2015–16 by $0.2 billion, mainly due to lower net income from Ontario Power Generation after a one-time gain from 2014–15. This was partially offset by higher net income growth from the Ontario Lottery and Gaming Corporation and the Liquor Control Board of Ontario.

Higher net revenues from asset optimization arising from the first phase of broadening Hydro One ownership accounted for $2.0 billion of the increase in Provincial revenues.

Higher transfers under the Canada Health Transfer, Canada Social Transfer and Equalization programs accounted for most of the $1.2 billion year-over-year increase in Government of Canada transfers.

Broadening Hydro One ownership

In November 2015, the Province completed the first phase of its plan to broaden Hydro One ownership. It sold approximately 16 per cent of the Province's outstanding Hydro One common shares at a price of $20.50 per share through an IPO and through related share sales to electricity sector union trusts. As a result, as at March 31, 2016, the Province owned about 84 per cent of the outstanding common shares in Hydro One.

The Province reported a gain of $0.8 billion from the sale of Hydro One shares as well as a deferred gain of $48 million in connection with sales to electricity sector union trusts.

The Hydro One IPO had additional impacts. Prior to the IPO, Hydro One was exempt from taxation under the federal *Income Tax Act* and the provincial *Taxation Act, 2007*, and instead made payments in lieu of corporate taxes (corporate PILs) to the Province.

Hydro One's tax-exempt status ended as a result of the IPO, and it exited the corporate PILs regime to become subject to federal and provincial taxes. Immediately before that occurred, the entity was deemed to have disposed of its assets for proceeds equal to the assets' fair market value.

As a result of this deemed disposition, before exiting the corporate PILs regime Hydro One had to make a payment to the Province through the Ontario Electricity Financial Corporation under the *Electricity Act, 1998*, related to the income and capital gains arising from the difference between the assets' fair value and tax value. This one-time payment to the Province, referred to as the departure tax, was $2.6 billion. Hydro One also paid the Province $0.2 billion in additional corporate PILs in connection with leaving the corporate PILs regime.

These one-time payments did not affect the Province's annual deficit, as the additional revenue was offset by an equal reduction in Hydro One's net income, which is consolidated in the Province's financial statements. The Province continues to consolidate Hydro One according to its proportionate share ownership.

Hydro One is now subject to corporate income taxes. The transition into the corporate income tax regime also resulted in Hydro One recognizing a deferred tax recovery based on the fair market value of its assets that increased the Province's reported revenues by $2.4 billion. The deferred tax asset reflects the fact that cash taxes payable by Hydro One, including those payable to the Province, will be reduced for some period into the future.

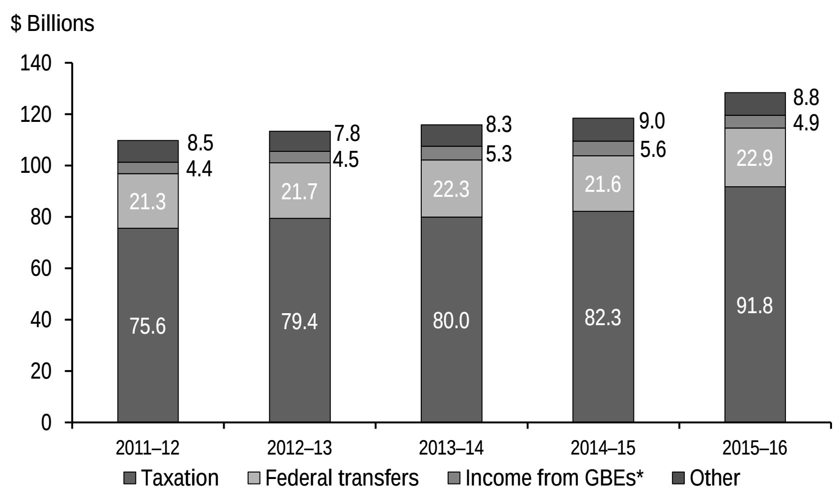
Under the *Trillium Trust Act, 2014,* net revenue gains from the disposition of Hydro One shares are allocated to the Trillium Trust. See "Transparency and Accountability" on page 40, and Volume 1 of the Public Accounts for more details.

Revenue trend

Chart 2 shows the recent trends in revenue for the Province's major revenue sources.

Revenue by source — 5-year comparison

Chart 2



* Government business enterprises (Liquor Control Board of Ontario, Ontario Lottery and Gaming Corporation, Ontario Power Generation Inc., Hydro One Limited and Brampton Distribution Holdco Inc.).

Taxation revenue

Between 2011–12 and 2015–16, taxation revenue grew at an annual average rate of 5.0 per cent, higher than the average annual nominal GDP growth of 3.2 per cent over the same period.

Although economic growth and increases in taxation revenue are clearly linked, the relationship is affected by several factors. Growth in some revenue sources, such as corporations tax and mining tax, can diverge significantly from economic growth in any given year, due to the inherent volatility of business profits as well as the use of tax provisions such as the option to carry losses forward or backward. The impact of housing completions and re-sales on HST and Land Transfer Tax revenue is proportionately greater than their contribution to GDP. As well, changes in such sources as volume-based gasoline and fuel taxes are more closely aligned to growth in real as opposed to nominal GDP, as these revenue sources are less influenced by price changes.

Much of the rising trend in taxation revenues between 2011–12 and 2015–16 reflects a growing economy and the impact of tax measures, as well as measures aimed at tax fairness and addressing the underground economy.

Other taxation revenues increased significantly in 2015–16 compared to the prior year. The increase largely reflects one-time payments in lieu of taxes from Hydro One associated with the Hydro One IPO. This transition resulted in a one-time $2.6 billion departure tax payment, in addition to $0.2 billion in one-time payments in lieu of taxes from Hydro One to the Province. These one-time payments were revenue neutral to the Province, as they also reduced the Province’s revenues from Hydro One’s net income by an equal amount. The Province’s relative share of Hydro One’s net income is reported in the Consolidated Financial Statements as income from GBEs.

Federal government transfers

Government of Canada transfers are based on existing federal–provincial funding arrangements and formulas. These include major federal transfer programs such as the Canada Health Transfer, Canada Social Transfer and Equalization programs, as well as transfers for social housing, infrastructure and labour market programs. There are also a number of smaller federal transfers to the Province, which are largely program-specific. Some transfers are ongoing, while others are time-limited.

Between 2011–12 and 2015–16, Government of Canada transfers grew at an annual average rate of 1.8 per cent. Higher entitlements under the Canada Health Transfer, Canada Social Transfer and Equalization payments were partially offset by several time-limited transfers that wound down over that time period.

Income from government business enterprises

Revenues for the Province include the net income of five GBEs: the Ontario Lottery and Gaming Corporation, the Liquor Control Board of Ontario, Ontario Power Generation Inc., Hydro One Limited and Brampton Distribution Holdco Inc. (Before August 31, 2015, Hydro One Brampton Networks Inc., a subsidiary of Brampton Distribution Holdco Inc., was a subsidiary of Hydro One and its results were included in those of Hydro One on the Province's financial reports.)

After growing between 2011–12 and 2014–15, net income from GBEs declined in 2015–16. This was mainly due to the impact on Hydro One's net income from the one-time, final payments in lieu of taxes to the Province triggered by the Hydro One IPO.

Other non-tax revenues

Other non-tax revenues arise from a number of sources, including vehicle and driver registration fees; sales and rentals of goods and services; other fees, licences and permits; reimbursements of provincial expenditures in delivering certain services; royalties for the use of Crown resources; and such revenue sources from the electricity sector as the Debt Retirement Charge, Power Supply Contract Recoveries and Net Reduction of Power Purchase Contract Liability.

Other non-tax revenues grew moderately, at an annual average rate of 1.0 per cent, between 2011–12 and 2015–16. Two major factors were responsible for most of the growth in revenues:

- Increases in licensing and vehicle validation fees to maintain and expand provincial roads and highways; and
- The Province's asset-optimization strategy, particularly the gain on the sale and redemption of General Motors shares in 2013–14 and 2014–15 and the gain on the sale of Hydro One common shares in 2015–16.

These gains were partially offset by lower non-tax revenues from the electricity sector.

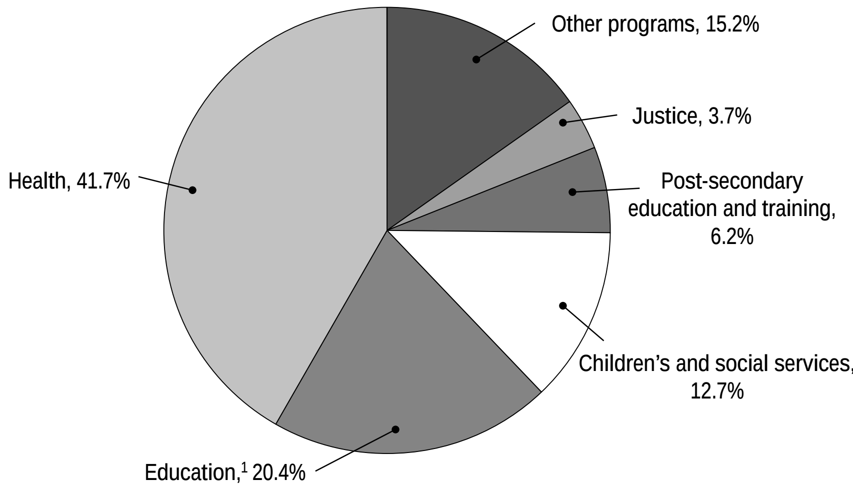
Expense

Comparison to the 2015 Budget plan

Total expense in 2015–16 was $133.4 billion, which was higher than forecast in the 2015 Budget plan. Program spending was $122.4 billion, up $1.9 billion from a planned spending of $120.5 billion. Spending in the health, children's and social services, and justice sectors, as well as in other programs, was higher than planned (see Table 2). See Chart 3 for a breakdown of program expense by sector.

2015–16 program expense by sector ($122.4 billion)

Chart 3



Percentages may not add to 100 per cent due to rounding.

[1] Teachers' Pension Plan is included in Other programs.

Total program spending was $1.9 billion higher than the Budget plan, resulting in actual program expense of $122.4 billion. The increases were attributable to:

- Health sector expense that was $294 million, or about 0.6 per cent, above plan. Higher spending resulted from increased drug costs as well as higher hospital sector expense, which was partially offset by underspending in agencies.

- Children's and social services sector expense that was $124 million higher than planned, due mainly to additional spending to address demand for the Ontario Disability Support Program, and the cost of prescription drugs for social assistance recipients.

- Justice sector expense increases of $120 million, mainly due to settlements under the *Proceedings Against the Crown Act* and higher-than-expected bad debt provisions related to unpaid fines.

- Other programs expense was $1.8 billion higher than expected, mainly due to a change in the accounting treatment for pension assets of jointly sponsored pension plans, higher-than-anticipated expense for the Ontario Production Services Tax Credit and costs related to the Hydro One IPO.

Increases in these sectors and programs were partially offset by:

- Education sector expense that was $233 million lower than expected, due in part to a higher share of funding spent on capital projects that are capitalized and amortized instead of expensed, higher-than-forecasted revenues from education development charges and slightly lower-than-projected enrolment.

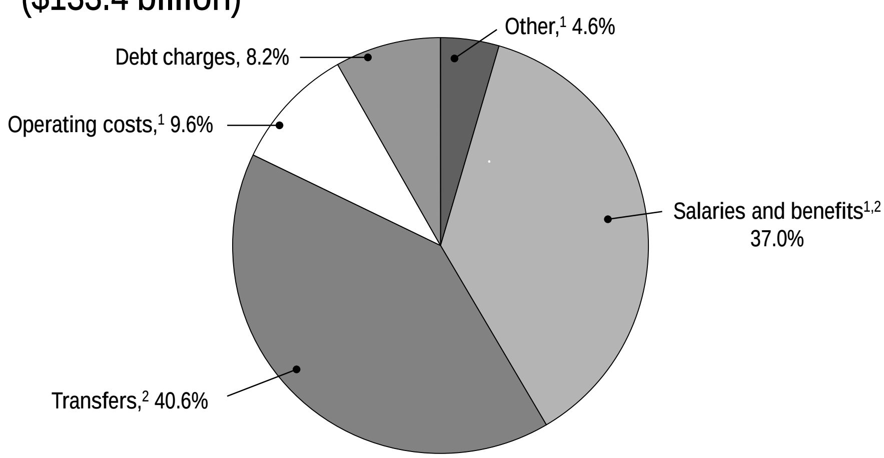
- Post-secondary and training sector expense that was $176 million lower than expected, mainly due to lower spending on post-secondary operating grants and lower student financial assistance as a result of lower-than-forecast enrolment. As well, spending on employment and training programs was below plan, partially offset by higher expense on tax credits to employers to support training.

As noted in the footnote to Table 2, the 2015 Budget included two savings targets that together totalled $1.49 billion as part of other programs expense. Ministries achieved $1.1 billion in savings against these targets which were reallocated to the ministries that achieved savings — notably in both the education and post-secondary and training sectors, as highlighted above. Program expense was $1.9 billion higher than planned as a result of $0.4 billion higher ministry spending and the impact of the change in accounting treatment for pension assets in jointly sponsored pension plans, which increased other program expense by $1.5 billion for the year.

Chart 4 shows spending by type of expense instead of spending by sector. A significant share of government spending goes directly to salaries and benefits across ministries in the Ontario Public Service and BPS organizations, including hospitals, school boards and colleges that are consolidated in its accounts. Note that the share labelled “Transfers” in Chart 4 includes payments to doctors for physician services, but does not include transfers to consolidated BPS organizations; these are reflected in the other expense types.

2015–16 spending by type of expense ($133.4 billion)

Chart 4



[1] Salaries and benefits, Operating costs and Other include consolidated BPS organizations and are net of third-party revenues from the BPS organizations. Information on BPS results can be found in Schedule 10 of the Consolidated Financial Statements.
[2] Compensation related costs for non-consolidated entities (e.g., Children’s Aid Societies, Community Care Access Centres, Universities) and payments to doctors for physician services are included in Transfers.

The transfers category reflects payments to a variety of third parties, mainly in the public sector, to support the delivery of public services. These third parties include, for example, child care providers, social service agencies and health care professionals. As service providers, a large share of the spending of these third parties typically goes to salaries and benefits.

Comparison to prior year and earlier years

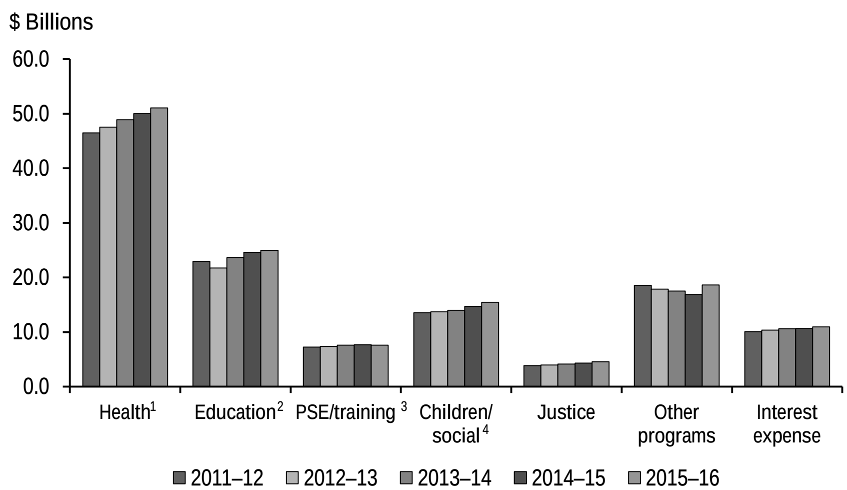
Year-over-year, program spending grew by 3.6 per cent in 2015–16.

Health care represents the largest share of government program spending. Transformation efforts to make the sector more effective and sustainable are vital to managing overall spending growth and to achieving better outcomes for patients in a better integrated system. These continuing efforts moderated the year-over-year growth in health sector spending to 2.1 per cent in 2015–16. Prior to this transformation, the sector had been experiencing an average annual growth rate of over 6.0 per cent.

Chart 5 shows the recent trends in spending for major program areas.

Expense by sector — 5-year comparison

Chart 5



[1] Includes payments to Community Care Access Centres
[2] Teachers' Pension Plan is included in Other programs.
[3] Post-secondary education and training.
[4] Children's and social services includes Children's Aid Societies.

- Health sector expense increased from $46.5 billion in 2011–12 to $51.1 billion in 2015–16, or on average by 2.4 per cent per year between 2011–12 and 2015–16. These increases are due in part to increasing demands for health care services from an aging and growing population, along with other factors. Increases also include new investments in home and community care as well as specialized services such as cancer care. Expense increases in the health sector have been moderated by ongoing transformation of the sector to focus on patients while reducing costs such as the prices of generic prescription drugs.

- Education sector expense increased from $22.9 billion in 2011–12 to $25.0 billion in 2015–16, or on average by 2.2 per cent per year between 2011–12 and 2015–16. The increase is mainly due to the introduction of full-day kindergarten, which has been made available to every four- and five-year-old in Ontario since September 2014. Expense was lower in 2012–13 due to the impact of $1.3 billion in one-time savings from reducing liabilities carried by school boards for sick-day banking and retirement gratuities.

- Post-secondary education and training sector expense increased from $7.3 billion in 2011–12 to $7.6 billion in 2015–16, or on average by 1.3 per cent per year between 2011–12 and 2015–16. The increase is mainly due to continued funding to support enrolment growth in post-secondary institutions, growth in student financial assistance programs and support for employment and training programs.

- Children's and social services sector expense increased from $13.5 billion in 2011–12 to $15.6 billion in 2015–16, or on average by 3.5 per cent per year between 2011–12 and 2015–16. This increase reflects annual social assistance rate increases, caseload growth in the Ontario Disability Support Program and investments in developmental services and the Ontario Child Benefit.

- Justice sector expense increased from $3.9 billion in 2011–12 to $4.5 billion in 2015–16, or on average by 4.1 per cent per year between 2011–12 and 2015–16. These increases are mainly due to the provincial upload of court security costs from municipalities, costs incurred mainly in 2015–16 for the security services for the 2015 Pan/Parapan American Games and improved access to legal aid for low-income Ontarians.

- Other programs expense was $18.6 billion in 2015–16, including a $1.5 billion increase in pension expense. This brought other programs expense back to about where it was in 2011–12. Excluding the increase in pension expense, other programs expense for 2015–16 would have been $17.1 billion, contributing to an average decrease of 2.0 per cent per year between 2011–12 and 2015–16.

Interest costs

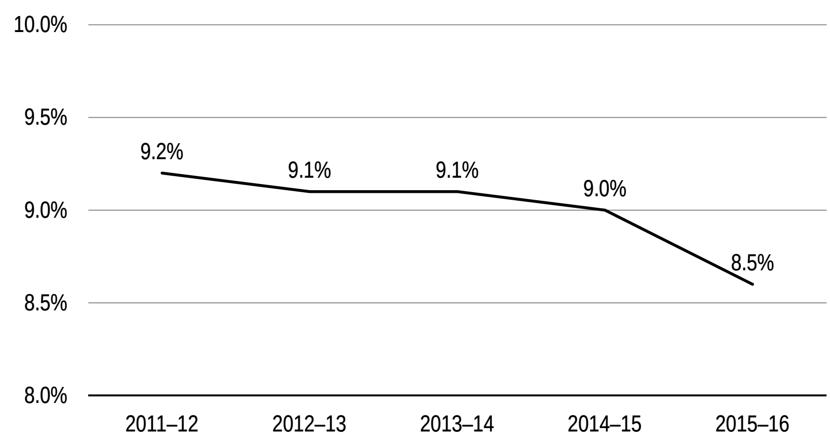
Interest on debt expense was $0.4 billion below plan in 2015–16, as a result mainly of lower-than-forecast interest rates, the lower-than-planned deficit and cost-effective borrowing and debt management.

Interest expense grew from $10.6 billion in 2014–15 to $11.0 billion in 2015–16 (see Table 2).

Between 2011–12 and 2015–16, interest expense has trended upward, reflecting higher borrowings required to fund the deficit and investments in infrastructure. Chart 6 shows that although interest costs have grown in absolute terms, they have steadily fallen as a percentage of the Province's revenues. The interest on debt-to-revenue ratio is now at its lowest level since 1990–91. This is mainly due to historically low interest rates, coupled with cost-effective debt management.

Debt servicing costs to total revenue — 5-year trend

Chart 6



Statement of Financial Position analysis

Financial assets

Financial Assets ($ Billions)					Table 3
	2015–16 Actual	% of Total	2014–15 Actual	% of Total	Variance Increase (Decrease)
Cash and cash equivalents	13.6	16.3%	15.2	18.4%	(1.6)
Investments	21.8	26.1%	20.4	24.7%	1.4
Accounts receivable	11.1	13.3%	10.3	12.5%	0.8
Loans receivable	11.5	13.8%	11.1	13.5%	0.4
Other assets	1.9	2.3%	2.0	2.4%	(0.1)
Investment in government business enterprises	23.6	28.2%	23.5	28.5%	0.1
Total Financial Assets	83.5	100.0%	82.5	100.0%	1.0

Financial assets consist of items such as cash and cash equivalents, and investments that are available to the Province to meet its expenditure needs; accounts and loans receivable, which are amounts it expects to receive from third parties; and other items, including investment in GBEs.

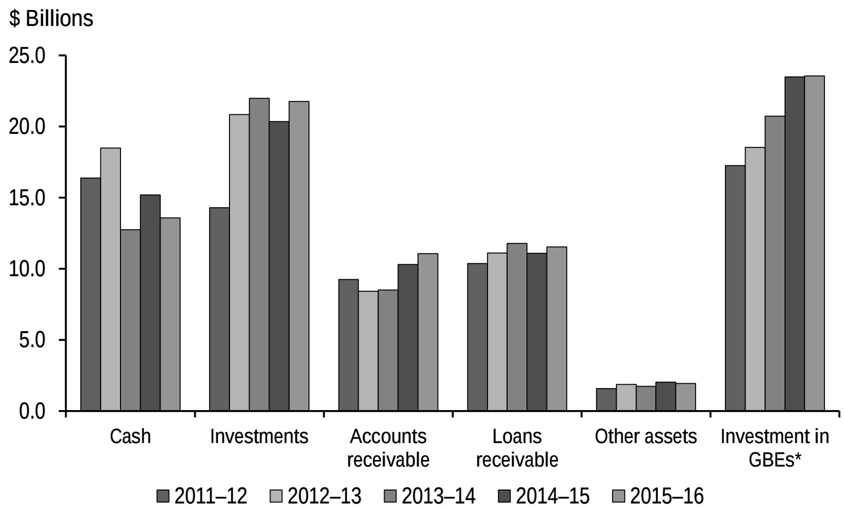
The Province's financial assets increased by $1.0 billion in 2015–16 over the prior year to $83.5 billion. This increase was mainly due to a $1.4 billion increase in investments and a $0.8 billion increase in accounts receivable, which was offset by a $1.6 billion decrease in cash and cash equivalents (see Table 3):

- Investments went up by $1.4 billion, mainly due to the pre-borrowing at year-end for 2016–17 spending requirements.
- Accounts receivable, which shows amounts owing to the Province by third parties, increased by $0.8 billion, mainly due to an increase in tax receivable at year-end.
- Cash and cash equivalents, which are financial instruments that can be easily converted to cash, decreased by $1.6 billion as a result of operating, investing, capital and financing activities.

Chart 7 shows the recent trends in financial assets for the Province.

Financial assets — 5-year comparison

Chart 7



* Government business enterprises (Liquor Control Board of Ontario, Ontario Lottery and Gaming Corporation, Ontario Power Generation Inc., Hydro One Limited and Brampton Distribution Holdco Inc.).

The five-year trend shows a steady gain in investment in GBEs from 2011–12 to 2014–15, reflecting an increase in net assets reported for these entities. The same upward trend did not continue in 2015–16, mainly due to the Province's decreased ownership interest in Hydro One.

The level of other financial assets, including cash, accounts receivable and investments, tends to be more variable, since these assets often reflect specific circumstances at year-end, such as pre-borrowing for the following period's needs.

Tangible capital assets

The government is responsible for a large portfolio of non-financial assets, which is almost entirely made up of tangible capital assets.

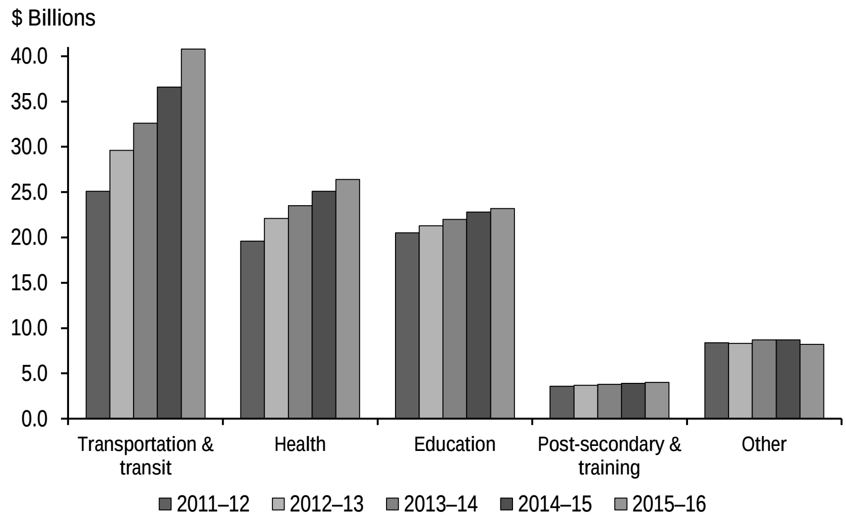
Tangible capital assets owned by the Province and its consolidated entities represent the largest component of the Province's infrastructure investments. These assets include those it owns directly, such as provincial highways, as well as the assets of school boards, hospitals, colleges and agencies that are consolidated in its financial statements. The assets of GBEs are reflected in the Province's statement of financial position as an investment in government business enterprises.

The reported net book value of Ontario's tangible capital assets exceeded $102.5 billion in 2015–16, increasing by $5.4 billion over the prior year. Buildings, including schools, hospitals and college facilities, made up the single largest share, at $53.4 billion. The total also includes assets under construction, whether these are being built using the Alternative Financing Procurement (AFP) model, which the private sector finances during construction, or by other means. The balance sheet includes AFP assets under construction in accordance with the Province's accounting policy. The impacts of AFPs on balance sheet liabilities are discussed in "Other long-term financing" on page 28.

Growth in the net book value of capital assets has averaged 7.4 per cent annually over the past five years. Most of the growth has been in new and renewed buildings and in transportation infrastructure, including provincial highways, bridges and the transit network owned by Metrolinx, an agency of the Government of Ontario. See Chart 8 for the recent trends in provincial tangible capital assets.

Trends in the net book value of provincial tangible capital assets — 5-year comparison

Chart 8



Infrastructure expenditures

One of the goals of investing in capital is to improve the economic growth of the province. A 2015 report from The Centre for Spatial Economics, entitled *The Economic Benefits of Public Infrastructure Spending in Canada*, found that, on average, investing $1.00 in public infrastructure in Canada raises GDP by $1.43 in the short term and up to $3.83 in the long term. The full report is available at www.broadbentinstitute.ca/infrastructure.

The Province's infrastructure spending in 2015–16 was $12.8 billion (see Table 4). This included $10.4 billion invested in assets owned by the Province and its consolidated entities, as discussed in "Tangible capital assets" on page 24 and $2.4 billion provided to non-consolidated partners such as universities and municipalities, and other infrastructure expenditures. The total was slightly less than the $13.9 billion set out in the 2015 Budget plan because of lower-than-forecast construction activity for the period.

Infrastructure expenditures, 2015–16[1] ($ Billions) — Table 4

Sector	Investment in Capital Assets[2]	Transfers and Other Infrastructure Expenditures[3]	Total Infrastructure Expenditures
Transportation and transit	5.7	0.6	6.3
Health	2.8	0.4	3.2
Education	1.5	0.0	1.6
Post-secondary and training	0.4	0.2	0.6
Other sectors[4]	(0.1)	1.1	1.0
Totals[5]	10.4	2.4	12.8

Notes:

[1] Numbers may not add due to rounding.

[2] Includes adjustments for the net book value of assets disposed during the year, as well as changes in valuation.

[3] Mainly transfers for capital purposes to municipalities and universities and expenditure for capital repairs. Transfers for capital-related purposes and other infrastructure expenditures are recorded as expenses in the Province's Consolidated Statement of Operations.

[4] Includes government administration, natural resources, and culture and tourism sectors. A negative investment in capital assets is due to the transfer of Pan/Parapan American Games assets to third parties.

[5] Includes third-party investments in consolidated entities such as hospitals, colleges and schools.

Liabilities

The Province's liabilities consist of debt and other financial obligations, including accounts payable, funds it has received from the federal government but not yet spent and the estimated cost of future payments, including net pension liabilities, owing to current and former employees (see Table 5).

Liabilities
($ Billions)
Table 5

	2015–16 Actual	% of Total	2014–15 Actual	% of Total	Variance Increase (Decrease)
Accounts payable and accrued liabilities	19.4	5.0%	20.1	5.5%	(0.7)
Debt	327.4	84.2%	315.0	85.8%	12.4
Other long-term financing	14.1	3.6%	13.9	3.8%	0.2
Deferred revenue and capital contributions	10.8	2.8%	10.1	2.8%	0.7
Pensions and other employee future benefits liability	12.1	3.1%	3.2	0.9%	9.0
Other liabilities	4.9	1.3%	4.9	1.3%	0.0
Total Liabilities	388.7	100.0%	367.1	100.0%	21.6

Debt

Debt and other long-term financing make up the largest share of liabilities. Debt grew by $12.4 billion in 2015–16 to $327.4 billion by year-end, primarily to finance the operating deficit and to invest in infrastructure. The change in Province's accounting treatment for pensions, while increasing net debt, had no impact on the Province's borrowing requirements. Hence total debt remained unchanged by this adjustment.

Net debt as at March 31, 2016, was $305.2 billion, $6.3 billion higher than forecast in the 2015 Budget. Table 6 summarizes how the Province used its net new financing in 2015–16.

Use of new financing by the Province, 2015–16
($ Billions)
Table 6

Operating deficit and other transactions[1]	1.4
Cash invested in capital assets owned by the Province and its consolidated organizations, including hospitals, school boards and colleges[2]	10.7
Increase in the Province's cash and investments	0.5
	12.6
Increase in other long-term financing[3]	(0.2)
Net new financing	12.4

[1] The Province's operating deficit of $5.0 billion was offset by a net $3.6 billion in changes to assets and liabilities that provided cash for operating purposes. See the Consolidated Statement of Cash Flow.

[2] New investments of $10.9 billion less proceeds of $0.2 billion from the sale of tangible capital assets.

[3] Including net increase in financing of capital projects through AFP. See Note 4 to the Consolidated Financial Statements.

The government completed an annual borrowing program of $32.1 billion in 2015–16. This yielded net new financing of $12.4 billion after adjustments and repayment of $21.9 billion in existing debt that matured.

Other long-term financing

This category includes debt incurred to finance construction for public assets, including those procured through the AFP model and other means. All assets that are owned by the Province and its consolidated entities, and the associated financing liabilities, are reflected on the Province's balance sheet as the assets are constructed and the liabilities incurred. For information on asset investments, refer to "Tangible capital assets" on page 24.

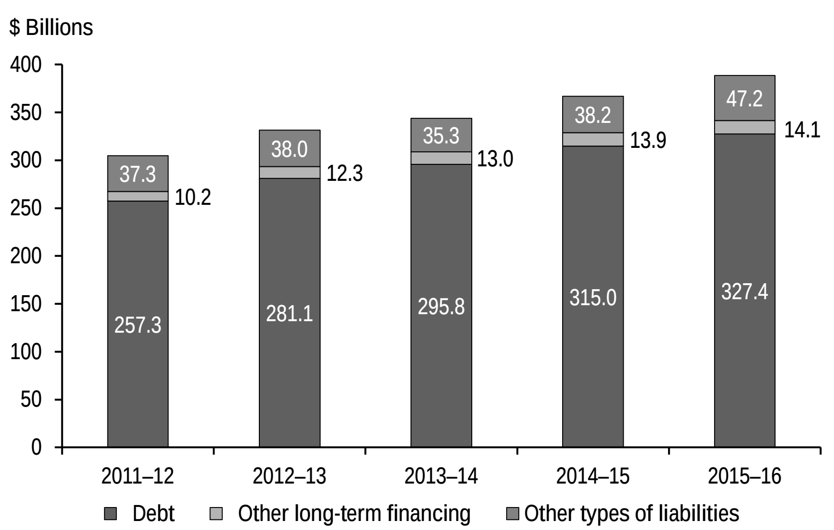
Other types of liabilities

Other types of liabilities include accounts payable, pensions and other employee future benefits, transfers received from the federal government representing deferred revenues, and other liabilities. This category increased by $9.0 billion in 2015–16 over the prior year, mainly due to an adjustment to the opening pension asset balance.

Chart 9 shows the recent trends in liabilities for the Province. This trend over the period between 2011–12 and 2015–16 shows public debt rising, mainly to fund capital investments and the annual deficit, as well as the impact in 2015-16 of the change in accounting treatment for pension assets of jointly sponsored pension plans. The upward trend in other long-term financing indicates increased capital related activities through AFPs. Other types of liabilities, including accounts payable and deferred revenue, tend to be more variable, since they often reflect specific circumstances at year-end, such as accrued liabilities for goods and services.

Liabilities — 5-year trend

Chart 9



Risks and risk management

The Province's financial results and financial reporting are subject to risks and uncertainties over which the government has limited or no control. These include:

- Actual economic and/or revenue growth that differs from forecast;
- Significant changes in financial statement items, especially taxation revenues, arising from actual results that differ from accounting estimates;
- Unforeseen changes in transfer payments from the federal government;
- Demand for entitlement-based public services or a change in other expense, including pension expense, that reflects actual experience that is significantly different than forecast;
- Unusual weather patterns, extreme weather events and natural disasters with major financial impacts;
- Security breaches or other malicious behaviour that could interrupt services, result in loss of information, compromise privacy and/or damage equipment or facilities;
- The outcomes of legal settlements, arbitration and negotiations, and possible defaults on projects and potential defaults affecting loan and funding guarantees;
- Financial market conditions, including access to capital markets, currency exchange rates and interest rates, that differ from expectations; and
- Changes in accounting standards.

Ontario manages risks to the revenue forecast by consulting with private sector economists and tracking their forecasts to inform the government's planning assumptions. For prudent fiscal planning, the Ministry of Finance's real GDP growth projections are slightly below the average private sector forecast.

The Province monitors information flows about revenues on an ongoing basis to assess potential risks to its finances. It also works constantly to enhance information flows for the same purpose. Collaboration with the Canada Revenue Agency, which administers roughly 75 per cent of Ontario's taxation revenues, is essential to achieving this. As well, Ontario is currently leading a federal, provincial and territorial working group that is exploring ways to enhance corporate income tax revenue forecasting and monitoring.

The possible impacts on tax revenue of actual growth in the economy and other parameters differing from the assumptions used in the Budget is disclosed on pages 273–277 of the 2015 Budget, which is available at: http://www.fin.gov.on.ca/en/budget/ontariobudgets/2015/papers_all.pdf.

There are also risks arising from other sources of revenue, such as federal transfers and income from GBEs. Because these represent a smaller share of total revenue, the risks they present are generally less material to the revenue forecast and, in any event, are difficult or impossible to predict or quantify. Note 1 to the Consolidated Financial Statements provides additional details on measurement uncertainty.

On the expense side, the fiscal plan includes contingency funds to help mitigate risks. In the 2015 Budget, these totalled $650 million: $550 million for operating risks and $100 million for capital. Funds were used to support initiatives such as emergency forest firefighting and supporting social assistance recipients.

Provisions for losses that are likely to occur as a result of contingent liabilities, such as ongoing litigation, and that can be reasonably estimated, are expensed and reported as liabilities. Note 13 to the Consolidated Financial Statements provide further details.

Note 3 to the Consolidated Financial Statements explains the Province's risk management strategies, which are intended to ensure that exposure to borrowing-related risk is managed in a prudent and cost-effective manner.

Changes in Canadian generally accepted accounting principles for the public sector made by the Public Sector Accounting Board (PSAB) can have an impact on the Province's budgets, estimates and actual results. Treasury Board Secretariat actively monitors proposed changes and provides input to standard setters to support development of standards that support sound public policy decision-making and transparency and accountability in reporting.

As required under the *Fiscal Transparency and Accountability Act, 2004*, a reserve is included in the projected surplus/deficit each year to guard against unforeseen revenue and expense changes that could have a negative impact on the Province's fiscal performance. The 2015 Budget plan included a $1.0 billion reserve for 2015–16. Excluding this reserve, the 2015 Budget projected a deficit of $7.5 billion. Because the reserve is a forecast provision, and the fiscal results for 2015–16 are now finalized, a reserve is not reflected in the Province's financial statements. The final deficit for the 2015–16 fiscal year is $5.0 billion, a $3.5 billion improvement compared with the 2015 Budget projection of $8.5 billion, which included the reserve.

Key Financial Ratios

The use of key measures of financial position helps readers of the Annual Report assess the financial position of the Province. Through the levels and trends of these measures, readers are able to gauge the impacts of economic and other events on the Province's finances, as well as how the government has responded.

The Public Sector Accounting Board recommends a series of ratios that help financial statement users better understand the sustainability, flexibility and vulnerability of a reporting entity.

For greater transparency and accountability, the Province has expanded the number of ratios on which it reports. The ratio, and the level of each, over the past five years are outlined in Table 7.

Key Financial Ratios — Table 7

as at the end of the fiscal period

		2011–12	2012–13	2013–14	2014–15	2015–16
Sustainability	Net Debt to GDP (%)	35.7%	37.1%	38.5%	39.4%	40.9%
	Net Debt to Total Revenue (%)	214.6%	222.4%	230.5%	240.1%	237.8%
	Net Debt per Capita ($)	$ 17,626	$ 18,667	$ 19,591	$ 20,693	$ 21,926
Flexibility	Debt Charges to Total Revenue (%)	9.2%	9.1%	9.1%	9.0%	8.5%
	Own-Source Revenue to GDP (%)	13.4%	13.5%	13.5%	13.4%	14.1%
Vulnerability	Federal Transfers to Total Revenue (%)	19.4%	19.1%	19.2%	18.2%	17.8%
	Foreign Currency Debt to Total Debt (%)	25.4%	24.3%	22.9%	20.9%	18.8%
	Unhedged Foreign Currency Debt (%)	0.9%	0.7%	0.5%	0.3%	0.3%

Measures of sustainability

Net debt provides a measure of the future government revenues that will be required to pay for the government's past transactions. Net debt as a percentage of the Province's GDP shows the financial demands on the economy resulting from the government's spending and taxation policies. A lower ratio of net debt-to-GDP indicates higher sustainability.

The Province's net debt-to-GDP ratio was 40.9 per cent at the end of fiscal year 2015–16. In 2011–12, it was 35.7 per cent. Over this period, the deficit and other adjustments, including the 2015–16 legislated change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, contributed to 64 per cent of the increase in net debt, with investments in capital assets accounting for the balance. Between 2011–12 and 2014–15, because net debt grew more quickly than GDP, the ratio increased from 35.7 per cent to 39.4 per cent. The ratio increased to 40.9 per cent in 2015–16, mainly as a result of the change in accounting treatment for pension assets of jointly sponsored pension plans. If not for this change, this ratio would have remained level.

The government continues to maintain a target of returning net debt to GDP to the pre-recession level of 27 per cent. The first key step in achieving this is to balance the budget. Debt is incurred for two main reasons: to finance deficits and to invest in capital assets. The government plans to invest $137 billion in capital over 10 years. These capital investments will be amortized over a period of time that corresponds to the useful life of the assets. After balancing the budget, increases in debt will be limited to the difference between the cash investment to build the assets and the amortization, which is a non-cash amount.

The government's plan to reduce the ratio of net debt to GDP therefore hinges on both balancing the budget and investing in capital assets to help the economy grow, both of which will help achieve the 27 per cent target.

The ratio of net debt to total revenue is another measure of sustainability, since it shows the future revenue that is required to pay for past transactions and events. A lower net debt-to-revenue ratio indicates higher sustainability. In 2011–12, the ratio was 214.6 per cent. It rose to 240.1 per cent in 2014–15, as net debt grew more quickly than revenue. Even with the change in the accounting treatment for pension assets, the ratio fell to 237.8 per cent in 2015–16, indicating that total revenues increased at a greater rate than did net debt.

Measures of flexibility

The ratio of interest on debt to total revenue shows the share of provincial revenue that is being used to pay borrowing costs and is thus not available for programs. A lower ratio indicates that a government has more flexibility to direct its revenues to programs. The ratio has steadily fallen for Ontario over the past five years, from a high of 9.2 per cent in 2011–12 to the current level of 8.5 per cent. The Province's strategy of extending the term of its borrowing program and locking in low interest rates for a longer period has also contributed to lower interest costs. This strategy has extended the weighted average term to maturity of provincially issued debt from approximately 8 years in 2009–10 to 14 years in 2015–16.

Own-source revenue as a share of the provincial GDP shows the extent to which the government is using funds from the provincial economy collected through taxation, user fees and other revenue sources it controls. Too high a taxation burden makes a jurisdiction uncompetitive, so increases in the ratio can reduce future revenue flexibility. Ontario's ratio was stable between 2011–12 and 2014–15. The increase from 13.4 per cent in 2014–15 to 14.1 per cent in 2015–16 was largely due to the strong growth in tax and other revenues. This caused own-source revenues to increase more sharply than GDP.

Measures of vulnerability

Transfers from the federal government as a percentage of total revenue are an indicator of the degree to which the Province relies on the federal government for revenue. A very high ratio shows that a provincial government is very reliant on federal transfers, a source of revenue over which it has limited or no control, and therefore vulnerable to shifts in federal policy on transfers. Ontario's highest share of revenue from federal transfers in the past five years was 19.4 per cent, in 2011–12. The lowest was 17.8 per cent, in 2015–16. The gradual decline largely represents the expiration of time-limited federal transfers, including the HST transition payment, and the maturing of federal stimulus programs put in place following the global economic crisis in 2008.

Foreign currency debt to total debt is a measure of vulnerability to changes in foreign currency exchange rates. Accessing borrowing opportunities in foreign currencies allows Ontario to diversify its investor base and take advantage of lower borrowing costs. It also ensures that the Province will continue to have access to capital in the event that domestic market conditions become more challenging. Ontario manages foreign currency risk by hedging its exposure to Canadian dollars through the use of financial instruments, which is called hedging. Effective hedging has allowed the Province to consistently limit its exposure to foreign currency fluctuations to 0.9 per cent of debt issued for provincial purposes in 2011–12, declining to 0.3 per cent in 2015–16.

Responsible Fiscal Management

The 2015–16 annual deficit of $5.0 billion was an improvement of $3.5 billion from the $8.5 billion deficit target laid out in the 2015 Budget. As a result, Ontario has achieved better-than-planned results in each of the last seven years.

The government's record of strong fiscal management is due to an ongoing focus on managing growth in spending, as well as stimulating the economy and protecting revenue.

After declines in revenue in 2008–09 and 2009–10, paralleled by poor economic conditions in those years, Ontario's economic and revenue performance have shown steady gains. Ontario's economic recovery from the global recession has been driven by solid economic fundamentals, supported by long-term job recovery efforts such as significant infrastructure investments. Over the past four years, revenue has grown at an average annual rate of 4.0 per cent, while nominal GDP has grown at an average annual rate of 3.2 per cent.

To protect provincial revenues, better support consumer and work safety, and provide a level playing field for legitimate businesses, the government has focused on fighting underground economic activities. As noted in the 2016 Budget, Ontario has generated over $930 million since 2013–14 through ongoing enhanced compliance-focused measures.

Government action to manage growth in spending has achieved results. Program expense fell to 16.4 per cent of GDP in 2015–16, lower than the 17.9 per cent reached in 2009–10. Ontario also consistently has the lowest per-capita program spending among all Canadian provinces, and is projected to remain the lowest in 2015–16.

Program Review, Renewal and Transformation

Part of the reason for this success has been the Program Review, Renewal and Transformation initiative, the government's ongoing fiscal planning and expenditure management approach and a continuous review of programs. PRRT is helping the government achieve better program outcomes while also lowering costs.

To improve programs, PRRT focuses on evidence-based decision-making, gathering and analyzing the best available information to improve how planned outcomes are identified and achieved across government. This may mean redesigning policies to support greater efficiency and cooperation within government, modernizing program delivery and changing or ending programs that do not meet people's needs. The government met the $490 million program review savings target for 2015–16. To meet this target, the government achieved a number of efficiencies to make programs more sustainable, such as negotiating lower prices for goods and services and managing compensation.

Some examples of program transformation from PRRT that have resulted in savings include:

- Making changes to the Ontario Drug Benefit Program to improve program efficiency, effectiveness and sustainability. This has enabled the government to achieve savings of approximately $100 million in 2015–16 and will enable over $200 million in annual savings when fully implemented. Changes include optimizing the quantities of medication dispensed and maximizing the use of generic drugs. Savings are reflected in the Ministry of Health and Long-Term Care and Ministry of Community and Social Services expense lines for 2015–16 results.

- Continuing to reduce the government's office footprint, to optimize the use of government real estate and drive government-wide cost reductions, achieving savings of approximately $24 million in 2015–16. Savings are reflected in various ministry expense lines for 2015–16 results.

- Undertaking a series of initiatives that are lowering information technology (IT) costs and improving how technology supports the delivery of government programs and services, based most recently on a 2015 third-party independent benchmarking review of the government's IT capability. Savings in the amount of $56 million (including consolidation of data centres, early vendor payments and lower contract costs, including for software and IT consulting services, laboratory supplies and security services) are reflected in various ministry expense lines for 2015–16 results.

- Reduced costs associated with managing under-utilized schools, by encouraging school boards to consolidate schools, share space with other boards and foster community partnerships.

- Better targeted funding through business support programs such as the Ontario Interactive Digital Media Tax Credit, in which the government narrowed the broad eligibility criteria to improve the ability of the credit to support innovative products.

- Changes to the Second Career program by removing client targets for service providers, while ensuring that funding supports all eligible clients. These changes are generating approximately $40 million per year in ongoing savings and will enable the government to invest in the Canada–Ontario Job Grant and the renewed Ontario Youth Jobs Strategy.

The government has also established a new Centre of Excellence for Evidence-Based Decision Making to build capacity to assess how programs are performing, using evidence to inform choices and lead change in critical public services.

Managing compensation

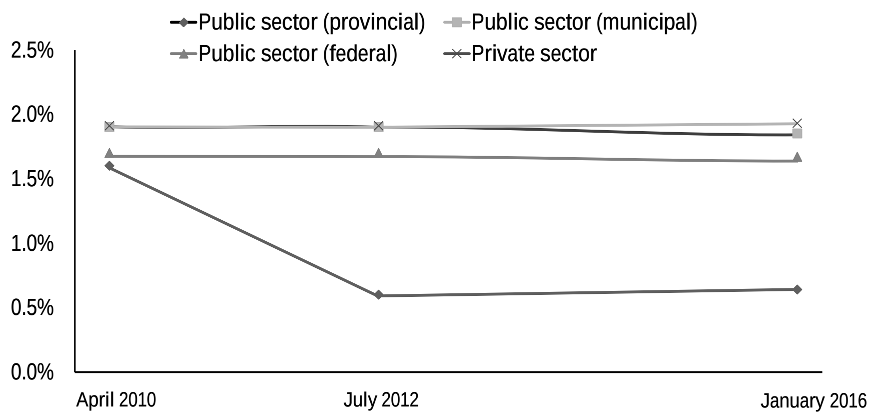
With a significant share of resources going to salaries and benefits, managing compensation costs is critical to balancing the budget.

The 2015 Budget stated that compensation costs must be addressed within Ontario's fiscal framework, which does not include additional funding for wage increases. Collective bargaining during this fiscal year continued to be subject to the principles of the net-zero compensation framework, in which any modest wage increases were required to be offset.

Chart 10 shows that the average percentage annual wage increase of the Provincial public sector has trended lower than increases in the municipal and federal public sectors and the private sector.

Ontario public/private wage settlement trends

Chart 10



Note: Based on agreements with over 150 employees, ratified between April 1, 2010, and January 13, 2016. April 2010 represents the start of the government's compensation restraint mandate. The period from July 2012 to January 2016 represents the most complete picture of a full bargaining cycle across the public sector. The provincial public sector includes the Ontario Public Service, government business enterprises, provincial utilities and all other provincially funded public employers.

In addition, the interest on debt expense of $11.0 billion reported for 2015–16 was an improvement of $0.4 billion over the forecast in the 2015 Budget. Through a combination of lower deficits and borrowing requirements, lower-than-forecast interest rates and cost-effective debt management, interest on debt has consistently come in below forecast in each year since the 2010 Budget.

With the economy expected to continue to grow, and the government's ongoing commitment to transform programs and services, Ontario remains committed to balancing the budget by 2017–18 and remaining balanced in 2018–19.

Non-Financial Activities

This section discusses key non-financial performance in major sectors. The purpose is to allow readers of the Annual Report to understand how the government is using the funds available to it to achieve specific outcomes.

Health care

The government is committed to transforming Ontario's health care system to become more patient-centred and focused on better access to care, quality and value. Ontario's *Patients First: Action Plan for Health Care*, launched in 2015, aims to achieve four goals: increase access to health care, improve care coordination, better inform Ontarians to support their health care decisions, and protect patients and the Province's health care system for the future.

In 2015–16, the Province made progress toward all four goals.

- Access: The Province has continued to reduce wait times for key service areas such as surgeries and diagnostic imaging.
- Connect: To improve access to integrated primary, home and community care, the government has begun planning to implement an expanded role for the Province's 14 Local Health Integration Networks, pending legislation. Ontario has increased investment in home and community care by 5 per cent annually, amounting to $250 million in 2015–16, for a total of $750 million over three years. It has also increased the hourly wages of publicly funded personal support workers caring for patients at home and in the community by $1.50 per hour in 2015–16 to at least $15.50 per hour, in the second of three annual increases totalling up to $4.00 over three years to at least $16.50 per hour by April 1, 2016.
- Inform: The government passed the *Healthy Menu Choices Act, 2015*, requiring calorie information to be posted in numerous food service locations, to inform Ontarians about healthier food choices. Ontario has also passed regulations to help reduce smoking rates by making it harder for youth to obtain tobacco products and by banning the sale of electronic cigarettes to anyone under the age of 19.
- Protect: Ontario is funding a nasal spray flu vaccine to better protect young children against the flu, made prescription refills more convenient and less expensive for people with chronic conditions, and helped ensure that Ontarians get good value for drug costs now and in the future through the efforts of the pan-Canadian Pharmaceutical Alliance (pCPA). The government appointed Ontario's first-ever Patient Ombudsman to help address patients' otherwise unresolved concerns about their care by a health organization.

Education

Ontario's publicly funded early years and education system is focused on ensuring that Ontarians have the education and skills needed to lead in the global economy.

Outcomes reported in 2015–16 included the following:

- More high school students graduating. In 2015, 85.5 per cent of students graduated from high school, compared to 68 per cent in 2004. This is an increase of more than 17 percentage points.
- Improving child care. Through the introduction of the *Child Care and Early Years Act, 2014*, which came into effect in August 2015, the government is modernizing the legislative and regulatory framework for child care.

Post-secondary education and training

Post-secondary education and training play a critical role in preparing people for the workforce. This will be increasingly important as Ontario moves further toward a more knowledge-based economy. Besides having better employment prospects, Ontarians with higher levels of education and skills earn higher wages and have better health and longevity.

Outcomes reported in 2015–16 included:

- Helping people in Ontario achieve higher levels of education. In 2015, the most recent year for which information is available, 67 per cent of adults in Ontario aged 25 to 64 had a post-secondary degree, diploma or certificate. This is higher than the average of any country in the Organisation for Economic Co-operation and Development. This positions Ontario well to meet or exceed its 70 per cent target by 2020.
- Investments in student financial assistance between 2009–10 and 2014–15 resulted in a 50 per cent increase in the number of students qualifying for aid (approximately 125,000 additional students). During this same time period, enrolment increased by 8 per cent. Rates of participation in post-secondary education among Ontario's young people are higher than for the rest of Canada.

Condition of provincial tangible capital assets

As part of the annual budgeting process, each ministry that owns and operates infrastructure is required to prepare and update a plan to properly maintain its assets. Examples of recent asset management practices include:

- In the transportation sector, over the last five years, there has been a significant improvement in highway pavement and bridge conditions throughout the province as a result of continued investments in these assets.

- In the health sector, the Facility Condition Assessment Program has been conducting standardized technical audits of hospital infrastructure to provide comparable and reliable data about the current stock and condition of public hospital assets. This allows the Province to better target renewal funding and develop a long-term outlook for capital investment requirements.

- In the education sector, the School Condition Improvement Program addresses renewal needs, focusing on ensuring that facilities are in good condition, energy efficient, accessible and meet modern service standards.

- Since 2011, the Province has been working with colleges to create a comprehensive space inventory, develop space standards and assess the condition of their facilities. With improved inventory and facilities condition data, the Province is better able to support asset management initiatives, including forecasting needs and developing a provincial infrastructure asset inventory.

- Other provincially owned capital assets include buildings within the government's General Real Estate Portfolio, which consists of offices and special-purpose buildings such as courthouses and detention centres. Facility condition index targets are set for the buildings, and most buildings are currently within the acceptable ranges.

Going forward, the *Infrastructure for Jobs and Prosperity Act, 2015*, which came into force on May 1, 2016, requires that the Province publish a long-term infrastructure plan within three years and that subsequent plans be tabled at least once every five years. The Act also:

- Establishes principles that must be considered by the government and broader public sector entities when making infrastructure decisions, as well as prioritization criteria to be used by the government when considering infrastructure projects.

- Creates regulatory authorities related to broader public sector asset management plans, supporting the use of apprentices on provincial infrastructure projects and promoting design excellence in public works.

- Emphasizes the importance of minimizing environmental impacts and ensuring climate change resiliency in infrastructure planning and investment.

The Act aligns infrastructure investments with Ontario's economic development priorities through long-term planning, while strengthening the Province's competitive edge globally.

Transparency and Accountability

Recent developments in public sector accounting standards

The Province's financial reports are in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada (CPA Canada).

PSAB's project on concepts underlying financial performance remains a work in progress. Ontario, along with the federal, territorial and other provincial governments, continues to monitor the work of the project's task force and to provide input to support high-quality Canadian public sector accounting standards, which are integral to achieving the Province's transparency and accountability reporting objectives. As described in Note 16 to the Consolidated Financial Statements, additional future changes in accounting standards may affect how assets, liabilities, revenues and expenses are reported in the Province's future financial reports.

The Province will continue to work with standard setters, other jurisdictions, the Auditor General's Office and the accounting community on matters related to transparency and accountability in public sector financial reporting.

The C.D. Howe Institute Fiscal Accountability Report

Each year, the C.D. Howe Institute, an independent research organization that focuses on support for economically sound public policies, assesses the fiscal planning and reporting of governments in Canada.

Consistency and comparability of planned and actual results in the Budget, Estimates and summary financial statements of the Province are essential to allow users to compare performance against the approved Budget and to understand longer-term trends. The institute has again recognized that Ontario's practices, which align the Budget, Estimates and financial reporting, demonstrate a high level of accountability and transparency.

In the most recent C.D. Howe report on Canadian provinces, territories and the federal government, Ontario also scored consistently highly on the general accuracy of its spending plans and for not over-estimating its revenue forecast. See https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/commentary_448.pdf.

Trillium Trust

The *Trillium Trust Act, 2014*, provides for an account to be maintained in the Public Accounts that records the prescribed amounts of financial benefits to Ontario from the disposition of qualifying assets under the Act. The Act also requires the account to record all expenditures made under the Act to support infrastructure investments. A report on the financial activities of the Trillium Trust is included as a schedule in Volume 1 of the Public Accounts.

Volume 1 shows that $1.35 billion was allocated to the Trillium Trust as at March 31, 2016, in relation to the sale and redemption of the Province's shares in General Motors in earlier years.

Subsequent to year end, in August 2016, the Province filed a regulation crediting an additional $3.2 billion to the Trillium Trust related to the sale of Hydro One common shares which occurred in 2015–16.

Data visualization

Last year, the government created its first interactive data visualization tool to graphically present details on the information contained in Volume 1 of the 2014–15 Public Accounts. This year, additional data visualization tools and data tables have been created and are now available on the Ontario.ca website. The government has also increased the number of Public Accounts open data sets available for download from two to seven.

CONSOLIDATED FINANCIAL STATEMENTS

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Legislative Assembly of the Province of Ontario

I have audited the accompanying consolidated financial statements of the Province of Ontario, which comprise the consolidated statement of financial position as at March 31, 2016, and the consolidated statements of operations, change in net debt, change in accumulated deficit and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

The Government of Ontario (Government) is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as the Government determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Government, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

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Basis for Qualified Opinion

As at April 1, 2015, the Province increased the opening accumulated deficit by $9.154 billion to correct for an error in prior periods in its valuation allowance for an accrued benefit pension asset included in the liability for pensions and other employee future benefits. As reflected in the consolidated financial statements and described in Note 18, the Province has not restated its 2015 comparative period to reflect the correction of the error which constitutes a departure from Public Sector Accounting Standards. Accordingly, in the comparative period, opening accumulated deficit would have increased by $8.201 billion, education expense would have increased by $956 million, general government and other expense would have decreased by $3 million, annual deficit would have increased by $953 million and ending accumulated deficit would have increased by $9.154 billion.

Qualified Opinion

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Province of Ontario as at March 31, 2016, and the consolidated results of its operations, change in its net debt, change in its accumulated deficit and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other Matter

I draw attention to the Province's Financial Statement Discussion and Analysis that has also not been restated for the effects on the comparative periods of the error in the valuation allowance for an accrued benefit pension asset included in the liability for pensions and other employee future benefits, as discussed in the Basis for Qualified Opinion paragraph above.

Toronto, Ontario
October 5, 2016

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

Province of Ontario
Consolidated Statement of Operations

($ Millions)	2015–16 Budget[1]	2015–16 Actual	2014–15 Actual
Revenue *(Schedules 1 and 2)*			
Personal Income Tax	30,377	31,141	29,313
Sales Tax	22,982	23,455	21,689
Corporations Tax	11,342	11,428	9,557
Education Property Tax	5,715	5,839	5,561
Employer Health Tax	5,680	5,649	5,415
Ontario Health Premium	3,458	3,453	3,366
Gasoline and Fuel Taxes	3,209	3,210	3,186
Other Taxes *(Note 11)*	4,634	7,643	4,188
Total Taxation	87,397	91,818	82,275
Transfers from Government of Canada	22,890	22,857	21,615
Income from Investment in Government Business Enterprises *(Schedule 9 and Note 11)*	4,812	4,909	5,615
Other	9,291	8,793	9,041
	124,390	128,377	118,546
Expense *(Schedules 3 and 4)*			
Health	50,773	51,067	50,039
Education[2]	25,302	26,588	25,194
Children's and Social Services	15,431	15,555	14,683
Environment, Resources and Economic Development	12,987	12,612	11,682
Interest on Debt	11,410	10,967	10,635
Post-Secondary Education and Training	7,810	7,634	7,660
Justice	4,429	4,549	4,351
General Government and Other	3,760	4,434	4,617
	131,902	133,406	128,861
Reserve	1,000	–	–
Annual Deficit	(8,512)	(5,029)	(10,315)

[1] Amounts reported as "Plan" in 2015 Budget.
[2] Teachers' Pension Plan expense is included in Education (Schedule 4).
See accompanying Notes and Schedules to the Consolidated Financial Statements.

Province of Ontario
Consolidated Statement of Financial Position

As at March 31 ($ Millions)	2016	2015
Liabilities		
Accounts Payable and Accrued Liabilities *(Schedule 5)*	19,361	20,055
Debt *(Note 2)*	327,413	314,960
Other Long-Term Financing *(Note 4)*	14,145	13,935
Deferred Revenue and Capital Contributions *(Note 5)*	10,779	10,110
Pensions and Other Employee Future Benefits *(Note 6)*	12,107	3,151
Other Liabilities *(Note 7)*	4,905	4,878
	388,710	367,089
Financial Assets		
Cash and Cash Equivalents	13,600	15,193
Investments *(Note 8)*	21,765	20,366
Accounts Receivable *(Schedule 6)*	11,059	10,306
Loans Receivable *(Schedule 7)*	11,545	11,125
Other Assets	1,936	2,021
Investment in Government Business Enterprises *(Schedule 9)*	23,572	23,502
	83,477	82,513
Net Debt	(305,233)	(284,576)
Non-Financial Assets		
Tangible Capital Assets *(Note 9)*	102,536	97,065
Accumulated Deficit	(202,697)	(187,511)

Contingent Liabilities (Note 13) and Contractual Obligations (Note 14).
See accompanying Notes and Schedules to the Consolidated Financial Statements.

Province of Ontario
Consolidated Statement of Change in Net Debt

For the year ended March 31 ($ Millions)		2016		2015
Annual Deficit		(5,029)		(10,315)
Acquisition of Tangible Capital Assets *(Note 9)*	(10,922)		(11,183)	
Amortization of Tangible Capital Assets *(Note 9)*	4,913		4,544	
Proceeds on Sale of Tangible Capital Assets	175		140	
Loss/(Gain) on Sale of Tangible Capital Assets	363		(10)	
		(5,471)		(6,509)
(Decrease)/Increase in Fair Value of Ontario Nuclear Funds *(Note 10)*		(1,003)		1,121
Increase in Net Debt		(11,503)		(15,703)
Net Debt at Beginning of Year		(284,576)		(268,873)
Pension Asset Valuation Allowance *(Note 18)*		(9,154)		–
Restated Net Debt at Beginning of Year		(293,730)		(268,873)
Net Debt at End of Year		(305,233)		(284,576)

See accompanying Notes and Schedules to the Consolidated Financial Statements.

Province of Ontario
Consolidated Statement of Change in Accumulated Deficit

For the year ended March 31 ($ Millions)	2016	2015
Accumulated Deficit at Beginning of Year	(187,511)	(178,317)
Pension Asset Valuation Allowance *(Note 18)*	(9,154)	–
Restated Accumulated Deficit at Beginning of Year	(196,665)	(178,317)
Annual Deficit	(5,029)	(10,315)
(Decrease)/Increase in Fair Value of Ontario Nuclear Funds *(Note 10)*	(1,003)	1,121
Accumulated Deficit at End of Year	(202,697)	(187,511)

See accompanying Notes and Schedules to the Consolidated Financial Statements.

Province of Ontario
Consolidated Statement of Cash Flow

For the year ended March 31 ($ Millions)	2016	2015
Operating Transactions		
Annual Deficit	(5,029)	(10,315)
Non-Cash Items:		
Amortization of Tangible Capital Assets *(Note 9)*	4,913	4,544
Loss/(Gain) on Sale of Tangible Capital Assets	363	(10)
Gain on Sale of Shares of Hydro One Limited *(Note 11)*	(783)	–
Income from Investment in Government Business Enterprises *(Schedule 9)*	(4,909)	(5,615)
PSAB Adjustment for Liabilities for Contaminated Sites	–	(1,683)
Increase in Pension Asset Valuation Allowance *(Note 6)*	1,514	–
Cash Items:		
Increase in Accounts Receivable *(Schedule 6)*	(753)	(1,793)
(Increase)/Decrease in Loans Receivable *(Schedule 7)*	(420)	1
(Decrease)/Increase in Accounts Payable and Accrued Liabilities *(Schedule 5)*	(694)	1,460
Decrease in Liability for Pensions and Other Employee Future Benefits *(Note 6)*	(1,712)	(752)
Increase in Other Liabilities *(Note 7)*	27	1,604
Increase in Deferred Revenue and Capital Contributions *(Note 5)*	669	629
Remittances from Investment in Government Business Enterprises *(Schedule 9)*	5,365	3,964
Decrease/(Increase) in Other Assets	85	(280)
Cash Applied to Operating Transactions	(1,364)	(8,246)
Capital Transactions		
Acquisition of Tangible Capital Assets *(Note 9)*	(10,922)	(11,183)
Proceeds from Sale of Tangible Capital Assets	175	140
Cash Applied to Capital Transactions	(10,747)	(11,043)
Investing Transactions		
(Increase)/Decrease in Investments *(Note 8)*	(1,399)	1,623
Capital Contribution to Hydro One Limited *(Schedule 9)*	(2,600)	–
Net Proceeds from Sale of Shares of Hydro One Limited *(Note 11)*	1,854	–
Cash (Applied)/Provided by Investing Transactions	(2,145)	1,623
Financing Transactions		
Long-Term Debt Issued	34,362	41,543
Long-Term Debt Retired	(21,882)	(22,322)
Net Change in Short-Term Debt	(27)	(19)
Increase in Other Long-Term Financing *(Note 4)*	210	913
Cash Provided by Financing Transactions	12,663	20,115
Net (Decrease)/Increase in Cash and Cash Equivalents	(1,593)	2,449
Cash and Cash Equivalents at Beginning of Year	15,193	12,744
Cash and Cash Equivalents at End of Year	13,600	15,193

See accompanying Notes and Schedules to the Consolidated Financial Statements.

1. Summary of Significant Accounting Policies

(a) Basis of Accounting

The Consolidated Financial Statements are prepared by the Government of Ontario in accordance with legislation and the accounting standards for governments recommended by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

(b) Reporting Entity

These financial statements report the activities of the Consolidated Revenue Fund combined with those organizations that are controlled by the Province.

Government business enterprises (GBEs), broader public sector (BPS) organizations (i.e., hospitals, school boards and colleges) and other government organizations controlled by the Province are included in these financial statements. Controlled organizations are consolidated if they meet one of the following criteria: i) their revenues, expenses, assets or liabilities are greater than $50 million; or ii) their outside sources of revenue, deficit or surplus are greater than $10 million. In accordance with PSAB, the Province also applies the “benefit versus cost constraint” in determining which organizations should be consolidated in the Province’s financial statements. A listing of consolidated government organizations is provided in Schedule 8. For those organizations that do not meet the PSAB benefit versus cost constraint standard, such as Children’s Aid Societies and Community Care Access Centres, they are reflected as government transfer payment expense in these financial statements through the accounts of the ministries responsible for them.

Trusts administered by the Province on behalf of other parties are excluded from the reporting entity, but are disclosed in Note 15.

(c) Principles of Consolidation

Government business enterprises are defined as those government organizations that i) are separate legal entities with the power to contract in their own name and that can sue and be sued; ii) have the financial and operating authority to carry on a business; iii) have as their principal activity and source of revenue the selling of goods and services to individuals and non-government organizations; and iv) are able to maintain their operations and meet their obligations from revenues generated outside the government reporting entity. The activities of GBEs are recorded in the financial statements using the modified equity method. Under this method, GBEs are reported in accordance with the accounting principles generally accepted for government business enterprises. Their combined net assets are included in the financial statements as Investment in Government Business Enterprises on the Consolidated Statement of Financial Position, and their net income is shown as a separate item, Income from Investment in Government Business Enterprises (GBEs), on the Consolidated Statement of Operations. Less than wholly owned GBEs (e.g., Hydro One Limited) are reflected using the modified equity method based on the percentage of ownership government held during the fiscal year.

The assets and liabilities of the BPS organizations are consolidated with those of the Province on a line-by-line basis on the Consolidated Statement of Financial Position. As such, the net debt of hospitals, school boards and colleges is included in the consolidated net debt of the Province. The total annual expenses of these BPS organizations, net of third party revenues they receive directly from the public, such as tuition fees, patient fees, donations and other recoveries, are included in the consolidated expenses of the Province. The expenses of hospitals are included in Health expenses, school boards in Education expenses, and colleges in Post-Secondary Education and Training expenses on the Consolidated Statement of Operations. Where appropriate, adjustments are made to present the accounts of these organizations on a basis consistent with the accounting policies of the Province to eliminate significant inter-organizational accounts on the Consolidated Statement of Financial Position and to remove inter-organizational gains/losses from the Consolidated Statement of Operations.

Other government organizations controlled by the Province are consolidated on a line-by-line basis with the assets, liabilities, revenues and expenses of the Province based on the percentage of ownership the government held as at the end of the fiscal year. Where appropriate, adjustments are also made to present the accounts of these organizations on a basis consistent with the accounting policies of the Province, and to eliminate significant inter-organizational accounts and transactions.

(d) Measurement Uncertainty

The preparation of financial statements requires the Province to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses during the reporting period. Uncertainty in the determination of the amounts at which an item is recognized or disclosed in the financial statements is known as measurement uncertainty.

Measurement uncertainty that is material to these financial statements exists in the valuation of pensions and other employee future benefits obligations, the value of tangible capital assets, the estimation of personal income tax, corporations tax and harmonized sales tax revenue accruals, the valuation of the Canada Health Transfer, Canada Social Transfer Equalization Payment entitlements, and the estimation of liabilities for contaminated sites.

Pensions and other employee future benefits liability of $12,107 million (2015, $3,151 million), see Note 6, is subject to measurement uncertainty because actual results may differ significantly from the Province's best long-term estimate of expected results (for example, the difference between actual results and actuarial assumptions regarding return on investment of pension fund assets and health care cost trend rates for retiree benefits).

The net book value of tangible capital assets of $102,536 million (2015, $97,065 million), see Note 9, is subject to uncertainty because of differences between estimated useful lives of the assets and their actual useful lives.

Personal income tax revenue estimate of $31,141 million (2015, $29,313 million), see Schedule 1, may be subject to subsequent revisions based on information available in the future related to past-year tax return processing. Corporations tax revenues of $11,428 million (2015, $9,557 million), see Schedule 1, and Harmonized Sales Tax revenues of $23,455 million (2015, $21,689 million), are also subject to uncertainty for similar reasons.

The estimation of the Canada Health Transfer of $13,089 million (2015, $12,408 million) and Canada Social Transfer of $4,984 million (2015, $4,847 million), and Equalization Payments entitlements of $2,363 million (2015, $1,988 million), see Schedule 1, is subject to uncertainty because of variances between the estimated and actual Ontario shares of the Canada-wide personal income and corporations tax base and population.

There is measurement uncertainty surrounding the estimation of liabilities for contaminated sites of $1,751 million as at March 31, 2016 (2015, $1,792 million), see Note 7. The Province may be responsible for cleanup costs that cannot be reasonably estimated due to several factors, including: insufficient information related to the nature and extent of contamination, timing of costs well into the future (e.g., unknown impacts of future technological advancements), the challenges of remote locations and unique contaminations.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. By their very nature, estimates are subject to measurement uncertainty. Therefore, actual results may differ materially from the Province's estimates.

(e) Significant Accounting Policies

Revenue

Revenues are recognized in the fiscal year that the events giving rise to the revenues occur and they are earned. Amounts received prior to the end of the year, which relate to revenues that will be earned in a subsequent fiscal year, are deferred and reported as liabilities.

Expense

Expenses are recognized in the fiscal year that the events giving rise to the expenses occur and resources are consumed.

Transfer payments are recognized in the year that the transfer is authorized and all eligibility criteria have been met by the recipient. Any transfers paid in advance are deemed to have met all eligibility criteria.

Interest on debt includes: i) interest on outstanding debt net of interest income on investments and loans; ii) amortization of foreign exchange gains or losses; iii) amortization of debt discounts, premiums and commissions; iv) amortization of deferred hedging gains and losses; and v) debt servicing costs and other costs. Interest income earned on investments and loans is netted with interest expense incurred on debt.

Employee future benefits, such as pensions, other retirement benefits and entitlements upon termination, are recognized as expenses over the years in which the benefits are earned by employees. These expenses are the government's share of the current year's cost of benefits, interest on the net benefits' liability or asset, amortization of actuarial gains or losses, cost/gain on plan amendments and other adjustments.

Other employee future benefits are recognized in the period when the event that obligates the government occurs or in the period when the benefits are earned by employees.

The costs of buildings, transportation infrastructure, vehicles, aircraft, leased assets, machinery, equipment and information technology infrastructure and systems owned by the Province and its consolidated organizations are amortized and recognized as expenses over their estimated useful lives on a straight-line basis.

Liabilities

Liabilities are recorded to the extent that they represent present obligations of the government to outside parties as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in the sacrifice of economic benefits in the future.

Liabilities include obligations to make transfer payments to organizations and individuals, present obligations for environmental costs, probable losses on loan guarantees issued by the government and contingencies when it is likely that a loss will be realized and the amount can be reasonably determined.

Liabilities also include obligations to GBEs.

Deferred revenue represents unspent externally restricted receipts from the federal government or other third parties. Amounts received prior to year-end that relate to funding for a subsequent fiscal year are reported as deferred revenue. Deferred revenues are recorded into revenue in the period in which the amounts received are used for the purposes specified or all external restrictions are satisfied. Deferred capital contributions represent the unamortized amount of contributions received from the federal government and other third parties to construct or acquire tangible capital assets. These contributions are recognized as deferred capital contributions and recorded into revenue over the useful life of the tangible capital assets based on the relevant stipulations of the contributions taken together with the actions and communications of the Province.

Alternative Financing and Procurement (AFP) refers to the Province using private-sector partners to procure and finance infrastructure assets. Assets procured via AFP are recognized as tangible capital assets and the related obligations are recognized as other long-term financing liabilities in these financial statements as the assets are constructed.

Debt

Debt consists of treasury bills, commercial paper, medium- and long-term notes, savings bonds, debentures and loans.

Debt denominated in foreign currencies that has been hedged is recorded at the Canadian dollar equivalent using the rates of exchange established by the terms of the hedge agreements. Other foreign currency-denominated debt is translated to Canadian dollars at year-end rates of exchange and any exchange gains or losses are amortized over the remaining term to maturity.

Derivatives are financial contracts, the value of which is derived from underlying instruments. The Province uses derivatives for the purpose of managing risk associated with interest cost. The Province does not use derivatives for speculative purposes. Gains or losses arising from derivative transactions are deferred and amortized over the remaining life of the related debt issue.

Pensions and Other Employee Future Benefits

The liabilities for pensions and other employee future benefits are calculated on an actuarial basis using the government’s best estimates of future inflation rates, investment returns, employee salary levels and other underlying assumptions, and, where applicable, the government’s borrowing rate. When actual plan experience of pensions, other retirement benefits and termination pay differs from that expected, or when assumptions are revised, actuarial gains and losses arise. These gains and losses are amortized over the expected average remaining service life of plan members for each respective plan.

Liabilities for selected employee future benefits (such as pensions, other retirement benefits and termination pay) represent the government's share of the actuarial present values of benefits attributed to services rendered by employees and former employees, less its share of the assets of the plans. In addition, the liability includes the Province's share of the unamortized balance of actuarial gains or losses, and other adjustments primarily for differences between the fiscal year-end of the pension plans and that of the Province.

The Province has legislated the accounting required when a pension plan is in an asset position on the financial statements such that the asset is determined to have NIL value (see Note 18).

Assets

Assets are resources controlled by the government from which it has reasonable expectation of deriving future benefit. Assets are recognized in the year the transaction or event gives rise to the government's control of the benefit.

Financial Assets

Financial assets are resources that can be used to discharge existing liabilities or finance future operations. They include cash and cash equivalents, investments, accounts receivable, loans receivable, advances and investments in government business enterprises.

Investments include temporary investments and portfolio investments. Temporary investments are recorded at the lower of cost or market value. Portfolio investments are recorded at the lower of cost or their estimated net realizable value.

Accounts receivables are recorded at cost. A valuation allowance is recorded when collection of the receivable is considered doubtful.

Loans receivable include loans to GBEs and loans under the student loans program and advanced manufacturing investment program. Loans receivable with significant concessionary terms are considered in part to be grants and are recorded on the date of issuance at face value discounted by the amount of the grant portion. The grant portion is recognized as an expense at the date of issuance of the loan or when the concession is provided. The amount of the loan discount is amortized to revenue over the term of the loan.

Investment in GBEs represents the net assets of GBEs recorded on the modified equity basis as described under Principles of Consolidation.

Tangible Capital Assets

Tangible capital assets are recorded at historical cost less accumulated amortization. Historical cost includes the costs directly related to the acquisition, design, construction, development, improvement or betterment of tangible capital assets. Cost includes overheads directly attributable to construction and development, as well as interest related to financing during construction. Tangible capital assets, except land, are amortized over the estimated useful lives of the assets on a straight-line basis.

Maintenance and repair costs are recognized as an expense when incurred. Betterments or improvements that significantly increase or prolong the service life or capacity of a tangible capital asset are capitalized. External contributions for acquisition of tangible capital assets are recorded as deferred capital contributions and amortized to revenue consistent with the amortization to expense of the related tangible capital assets, reflecting the intent of the external contributors that the grants be used to construct or acquire assets that will provide public services over the useful lives of the underlying assets.

2. Debt

The Province borrows in both domestic and international markets. Debt of $327.4 billion, as at March 31, 2016 (2015, $315.0 billion), is composed mainly of bonds and debentures issued in the short- and long-term domestic- and international-public capital markets and non-public debt held by certain federal and provincial public-sector pension funds. Debt comprises Debt Issued for Provincial Purposes of $303.1 billion (2015, $289.6 billion) and Ontario Electricity Financial Corporation (OEFC) Debt of $24.4 billion (2015, $25.3 billion). The following table presents the maturity schedule of the Province's outstanding debt, by currency of repayment, expressed in Canadian dollars, and reflects the effects of related derivative contracts.

Debt As at March 31 ($ Millions)						2016	2015
Currency	Canadian Dollar	U.S. Dollar	Japanese Yen	Euro	Other Currencies[1]	Total	Total
Maturing in:							
2016	–	–	–	–	–	–	$42,819
2017	25,167	17,086	–	–	499	$42,752	21,583
2018	12,227	5,183	–	385	–	17,795	17,648
2019	12,144	9,556	76	–	576	22,352	17,683
2020	15,312	3,746	–	4,811	532	24,401	24,280
2021	14,138	4,662	425	1,651	1,046	21,922	–
1–5 years	78,988	40,233	501	6,847	2,653	129,222	124,013
6–10 years	71,248	5,160	–	5,326	604	82,338	78,886
11–15 years	14,598	–	–	–	–	14,598	20,739
16–20 years	17,732	–	–	–	–	17,732	10,210
21–25 years	27,879	–	–	–	–	27,879	34,648
26–50[2] years	55,564	–	–	80	–	55,644	46,464
Total[3, 4]	266,009	45,393	501	12,253	3,257	$327,413	$314,960
Debt Issued for Provincial Purposes[5]	242,837	45,024	501	12,074	2,619	303,055	289,619
OEFC Debt	23,172	369	–	179	638	24,358	25,341
Total	266,009	45,393	501	12,253	3,257	$327,413	$314,960
Effective Interest Rates (Weighted Average)							
2016	3.92%	1.98%	2.06%	3.37%	3.71%	3.62%	–
2015	4.03%	2.28%	1.99%	3.48%	3.80%	–	3.73%

1 Other currencies comprise the Australian dollar, Swiss franc and South African rand.

2 The longest term to maturity is to June 2, 2062.

3 Total foreign currency-denominated debt as at March 31, 2016, was $61.4 billion (2015, $66.0 billion). Of that, $60.4 billion or 98.4 per cent (2015, $65.0 billion or 98.6 per cent) was fully hedged to Canadian dollars. The remaining 1.6 per cent (2015, 1.4 per cent) of foreign debt was unhedged as follows: $425 million (2015, $389 million) Japanese yen-denominated debt, $540 million (2015, $547 million) Swiss franc-denominated debt and $2 million (2015, nil) Euro-denominated debt. Unhedged foreign currency debt as a percentage of total debt was 0.3% (2015, 0.3%).

4 Total debt includes issues totalling $0.5 billion (2015, $0.5 billion), which have embedded options exercisable by either the Province or the bondholder under specific conditions.

5 As at March 31, 2016, debt issued for provincial purposes purchased and held by the Province denominated in Canadian and U.S. dollars at its Canadian dollar equivalent, includes long-term debt of $4.3 billion (2015, $2.2 billion) and $1.3 billion (2015, $0.5 billion), and short-term debt of $2.0 billion (2015, $1.2 billion) and nil (2015, nil).

Debt As at March 31 ($ Millions)	2016	2015
Debt Payable to/of:		
Public Investors	$315,443	$302,644
Canada Pension Plan Investment Board	10,233	10,233
Ontario Immigrant Investor Corporation	709	959
School Board Trust Debt	674	696
Canada Mortgage and Housing Corporation	354	428
Total	$327,413	$314,960

Fair value of debt outstanding approximates the amounts at which debt instruments could be exchanged in a current transaction between willing parties. In valuing the Province's debt, fair value is estimated using discounted cash flows and other valuation techniques and is compared to public market quotations where available. These estimates are affected by the assumptions made concerning discount rates and the amount and timing of future cash flows.

The estimated fair value of debt as at March 31, 2016, was $375.6 billion (2015, 374.8 billion). This is higher than the book value of $327.4 billion (2015, $315.0 billion) because current interest rates are generally lower than the interest rates at which some of the debt was issued. The fair value of debt does not reflect the effect of related derivative contracts.

School Board Trust Debt

A School Board Trust was created in June 2003 to permanently refinance debt incurred by 55 school boards. The Trust issued 30-year sinking fund debentures amounting to $891 million, and provided $882 million of the proceeds to the 55 school boards in exchange for the irrevocable right to receive future transfer payments from the Province related to this debt. An annual transfer payment is made by the Ministry of Education to the Trust's sinking fund under the School Board Operating Grant program to retire the debt over 30 years. This debt, recorded net of the sinking fund, is reflected in the Province's debt.

3. Risk Management and Derivative Financial Instruments

The Province employs various risk management strategies and operates within strict risk exposure limits to ensure that exposure to financial risk is managed in a prudent and cost-effective manner. A variety of strategies are used, including the use of derivative financial instruments ("derivatives").

Derivatives are financial contracts, the value of which is derived from underlying instruments. The Province uses derivatives to hedge and to minimize interest cost volatility. Hedges are created primarily through swaps, which are legal contracts under which the Province agrees with another party to exchange cash flows based on one or more notional amounts using stipulated reference interest rates for a specified period. Swaps allow the Province to offset its existing obligations and thereby effectively convert them into obligations with more cost-effective characteristics. Other derivative instruments used by the Province include forward foreign exchange contracts, forward rate agreements, futures and options.

Foreign exchange or currency risk is the risk that foreign currency debt principal and interest payments and foreign currency transactions will vary in Canadian dollar terms due to fluctuations in foreign exchange rates. To manage currency risk, the Province uses derivative contracts including forward foreign exchange contracts, futures, options and swaps to convert foreign currency cash flows into Canadian dollar cash flows. Most of the derivative contracts hedge the underlying debt by matching all the critical terms to achieve effectiveness. In instances where the term of forward foreign exchange contracts used for hedging is shorter than the term of the underlying debt, hedge effectiveness is maintained by continuously rolling the forward foreign exchange contract over the remaining term of the underlying debt, or until replaced with a long-term derivative contract.

The current market risk policy allows the amount of unhedged foreign currency debt principal net of foreign currency holdings to reach a maximum of 5 per cent of Total Debt Issued for Provincial Purposes and OEFC. At March 31, 2016, the respective unhedged levels were 0.3 and nil per cent (2015, 0.3 and nil per cent). As of March 31, 2016, unhedged debt was limited to debt issued in Japanese yen, Swiss francs and Euros. A one-Japanese yen appreciation of the Japanese currency, relative to the Canadian dollar, would result in unhedged debt denominated in Japanese yen increasing by $5.0 million (2015, $4.2 million) and a corresponding increase in interest on debt of $1.3 million (2015, $1.0 million). A one-Swiss rappen appreciation of the Swiss currency, relative to the Canadian dollar, would result in unhedged debt denominated in Swiss francs increasing by $7.4 million (2015, $7.2 million) and a corresponding increase in interest on debt of $2.1 million (2015, $1.8 million). Total foreign exchange gains/losses recognized in the Statement of Operations for 2015–16 were losses of $5.1 million (2014–15, gains of $63.9 million).

Interest on debt expense may also vary as a result of changes in interest rates. In respect of Debt Issued for Provincial Purposes and OEFC debt, the risk is measured as interest rate resetting risk, which is the floating rate exposure plus fixed rate debt maturing within the next 12-month period net of liquid reserves as a percentage of Debt Issued for Provincial Purposes and OEFC debt, respectively.

The current market risk policy limits net interest rate resetting risk for Debt Issued for Provincial Purposes and OEFC debt to a maximum of 35 per cent. At March 31, 2016, the net interest rate resetting risk for Debt Issued for Provincial Purposes and OEFC debt was 10.9 per cent and 7.6 per cent, respectively (2015, 11.0 per cent and 20.4 per cent). Based on net floating rate exposure at March 31, 2016, plus planned refinancing of maturing fixed rate debt to March 31, 2017, a one per cent (100 basis point) increase in interest rates would result in an increase in interest on debt of approximately $350 million (2015, $377 million).

Liquidity risk is the risk that the Province will not be able to meet its current short-term financial obligations. To reduce liquidity risk, the Province maintains liquid reserves: that is, cash and temporary investments (Note 8), adjusted for collateral (Note 13), at levels that are expected to meet future cash requirements and give the Province flexibility in the timing of issuing debt. Pledged assets are considered encumbered for liquidity purposes while collateral held that can be sold or repledged is a source of liquidity. In addition, the Province has short-term note programs as alternative sources of liquidity.

The table below presents a maturity schedule of the Province's derivatives, by type, outstanding as at March 31, 2016, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts and are not indicative of credit risk, market risk or actual cash flows.

Derivative Portfolio Notional Value and Fair Value of Derivatives
As at March 31

($ Millions)								Notional Value 2016	Notional Value 2015	Fair Value 2016	Fair Value 2015
Maturity in Fiscal Year	2017	2018	2019	2020	2021	6–10 Years	Over 10 Years	Total	Total	Total	Total
Swaps:											
Interest Rate[1]	27,955	12,131	16,311	13,482	8,958	14,380	7,582	100,799	112,466	(2,589)	(2,747)
Cross Currency	10,036	4,567	4,528	11,998	8,096	8,320	80	47,625	53,214	6,366	6,196
Forward Foreign Exchange Contracts	31,027	–	–	–	–	–	–	31,027	31,958	(1,776)	362
Swaptions[2]	500	–	–	–	–	–	–	500	500	–	2
Total	$69,518	$16,698	$20,839	$25,480	$17,054	$22,700	$7,662	$179,951	$198,138	$2,001	$3,813

1 Includes $4.0 billion (2015, $4.3 billion) of interest rate swaps related to loans receivable held by a consolidated entity and $4.9 billion (2015, $2.0 billion) related to short-term investments held by the Province.

2 See glossary for definition.

The use of derivatives introduces credit risk, which is the risk of a counterparty defaulting on contractual derivative obligations in which the Province has an unrealized gain. The table below presents the credit risk associated with the derivative financial instrument portfolio, measured through the replacement value of derivative contracts, as at March 31, 2016.

Credit Risk Exposure As at March 31 ($ Millions)	2016	2015
Gross Credit Risk Exposure	$9,774	$10,861
Less: Netting	(7,252)	(6,739)
Net Credit Risk Exposure	2,522	4,122
Less: Collateral Received *(Note 13)*	(1,712)	(3,277)
Net Credit Risk Exposure (Net of Collateral)	$810	$845

The Province manages its credit risk exposure from derivatives by, among other things, dealing only with high-credit-quality counterparties and regularly monitoring compliance to credit limits. In addition, the Province enters into contractual agreements ("master agreements") that provide for termination netting and, if applicable, payment netting with most of its counterparties. Gross Credit Risk Exposure represents the loss that the Province would incur if every counterparty to which the Province had credit risk exposure were to default at the same time, and the contracted netting provisions were not exercised or could not be enforced. Net Credit Risk Exposure is the loss including the mitigating impact of these netting provisions. Net Credit Risk Exposure (Net of Collateral) is the potential loss to the Province further mitigated by the collateral received from counterparties.

4. Other Long-Term Financing

Other long-term financing comprises the total debt of the BPS organizations and obligations under AFP arrangements.

Other Long-Term Financing of $14.1 billion, as at March 31, 2016 (2015, $13.9 billion) includes BPS debt of $5.0 billion (2015, $5.5 billion), BPS AFP obligations of $5.4 billion (2015, $5.5 billion) and direct provincial AFP obligations of $3.7 billion (2015, $2.9 billion).

5. Deferred Revenue and Capital Contributions

In 2010–11, the Province renewed its long-standing business partnership with Teranet Inc. by extending Teranet's exclusive licences to provide electronic land registration and writs services in Ontario for an additional 50 years. The Province received approximately a $1.0 billion upfront payment for the transaction, which is amortized into revenue over the life of the contract.

The Province provides a two-year vehicle licence plate renewal option and multi-year driver licence renewals (two years for seniors and five years for all others). Amounts received under these multi-year renewals are recognized as revenue over the periods covered by the licences.

Deferred capital contributions represent the unamortized portion of tangible capital assets or liabilities to construct or acquire tangible capital assets from specific-purpose funding received from the Government of Canada, municipalities or third parties. Deferred capital contributions are recorded in revenue over the estimated useful life of the underlying tangible capital asset when the tangible capital asset is placed in service.

Deferred Revenue and Capital Contributions As at March 31 ($ Millions)	2016	2015
Deferred Revenue:		
Teranet	$923	$956
Vehicle and Driver Licences	972	908
Other	1,973	1,917
Total Deferred Revenue	3,868	3,781
Deferred Capital Contributions[1]	6,911	6,329
Total	$10,779	$10,110

[1] Federal transfers have been reclassified to deferred capital contributions.

6. Pensions and Other Employee Future Benefits

Pensions and Other Employee Future Benefits Liability (Asset)

As at March 31 ($ Millions)	2016 Pensions	2016 Other Employee Future Benefits	2016 Total	2015 Total
Obligation for benefits	$117,542	$10,999	$128,541	$124,726
Less: plan fund assets	(141,749)	(562)	(142,311)	(129,880)
Unamortized actuarial gains	12,649	305	12,954	6,084
Adjustments[1]	2,246	9	2,255	2,221
Accrued liability (asset)	(9,312)	10,751	1,439	3,151
Valuation Allowance[2]	10,668	–	10,668	–
Total	$1,356	$10,751	$12,107	$3,151

1 Adjustments for pensions consist of:
i) differences for amounts reported by the pension plans at December 31, instead of the Province's year-end of March 31;
ii) unamortized difference between employer and employee contributions for jointly sponsored pension plans; and
iii) amounts payable by the Province that are reflected as contributions in the pension plan assets.

2 Valuation allowances are related to the pension assets for the Ontario Teachers' Pension Plan and for the OPSEU Pension Plan (Note 18).

Information on pension plans with accrued benefit obligation in excess of plan fund assets is as follows:

Pensions Benefit Plans

As at March 31 ($ Millions)	2016	2015
Obligation for benefits	$26,607	$25,547
Less: plan fund assets	(25,919)	(24,144)
Plan Liability	$688	$1,403

Pensions and Other Employee Future Benefits Expense For the year ended March 31 ($ Millions)	2016	2016	2016	2015
	Pensions	Other Employee Future Benefits	Total	Total
Cost of benefits	$2,265	$240	$2,505	$2,542
Amortization of actuarial (gains) losses	(145)	(2)	(147)	106
Employee contributions	(318)	–	(318)	(310)
Gain on plan amendment or curtailment	–	(98)	(98)	(39)
Recognition of unamortized experience gains	–	(22)	(22)	(5)
Interest (income) expense	(870)	238	(632)	(333)
Adjustments[1]	(126)	–	(126)	(126)
Valuation Allowance[4]	1,514	–	1,514	–
Total[2,3]	$2,320	$356	$2,676	$1,835

1 Adjustments for pensions consist of amortization of:
i) the difference between employer and employee contributions for jointly sponsored pension plans; and
ii) employee contribution reductions for solely sponsored plans.

2 Total Pensions and Other Employee Future Benefits Expense is reported in Schedule 3. The Teachers' Pension expense of $1,590 million (2014–15, $564 million) is included in the Education expense in the Consolidated Statement of Operations and is disclosed separately in Schedule 4. The Public Service and OPSEU Pension expense of $730 million (2014–15, $787 million) and Other Employee Future Benefits — Retirement Benefits expense of $393 million (2014–15, $319 million) are included in the General Government and Other expense in the Consolidated Statement of Operations, and is under Employee and Pensioner Benefits in Schedule 4.The remainder of Other Employee Future Benefits expense is included in the relevant ministries' expenses in Schedule 4.

3 The Pensions and Other Employee Future Benefits Expenses for the hospitals, school boards and colleges sectors (except for the Ontario Teachers' Pension Plan [OTPP]) are not included in the table above. The expenses for HOOPP of $747 million (2014–15, $843 million) and CAATPP of $190 million (2014–15, $199 million) are included in the Salaries, Wages and Benefits expenses of the hospitals and colleges sectors, respectively (Schedule 10) and in the expenses of the BPS ministries (Education, Health and Long-Term Care, and Training, Colleges and Universities) in Schedule 4.

4. Valuation allowances are related to the pension assets for the Ontario Teachers' Pension Plan and for the OPSEU Pension Plan (Note 18).

Pensions

The Province sponsors several pension plans. It is the sole sponsor of the Public Service Pension Plan (PSPP) and joint sponsor of the Ontario Public Service Employees Union (OPSEU) Pension Plan and the Ontario Teachers' Pension Plan (OTPP).

These three plans are contributory defined benefit plans that provide Ontario government employees and elementary and secondary school teachers and administrators with a guaranteed amount of retirement income. Benefits are based primarily on the best five-year average salary of members and their length of service, and are indexed to changes in the Consumer Price Index to provide protection against inflation. Plan members normally contribute 7 to 11 per cent of their salaries to these plans. The Province matches these contributions.

The Province is also responsible for sponsoring the Public Service Supplementary Benefits Plan and the Ontario Teachers' Retirement Compensation Arrangement. Expenses and liabilities of these plans are included in the Pensions Expense and Pensions Liability reported in the above tables.

In addition to the Provincial sponsored plans, pension benefits for employees in the hospital and colleges sectors are provided by the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP) respectively, and are included in these financial statements.

HOOPP is a multi-employer pension plan covering employees of Ontario's health care community. CAATPP is a multi-employer pension plan covering employees of the Colleges of Applied Arts and Technology in Ontario, the Board of Trustees, the Ontario College Application Services and the Ontario College Library Services. Both of these plans are accounted for as joint contributory defined benefit plans that provide eligible members with a retirement income based on a formula that takes into account a member's earnings history and length of service in the plan. The plans are financed by contributions from participating members and employers, and by investment earnings. Because organizations covered under these plans are in the government's reporting entity, the Province includes 56 per cent of BPS organizations' portion[1] of the net obligation of HOOPP and includes 50 per cent of the net obligation of CAATPP.

The obligation for benefits and plan fund assets of the above plans is based on actuarial accounting valuations that are performed annually. Funding of these plans is based on statutory actuarial funding valuations undertaken at least once every three years.

[1] BPS organizations are represented in HOOPP at 85 per cent in 2015–16 (2014–15, 84 per cent).

Information on contributory defined benefit plans is as follows:

	OTPP	PSPP	OPSEU	HOOPP[1]	CAATPP
Government's Best Estimates as of December 31, 2015					
Inflation rate	2.00%	2.00%	2.00%	2.00%	2.00%
Salary escalation rate	3.00%	3.00%	3.00%	4.25%	3.00%
Discount rate and expected rate of return on pension assets	6.25%	6.00%	6.25%	5.75%	6.00%
Actual return on pension assets	13.00%	6.14%	8.00%	5.12%	8.10%
Accounting Actuarial Valuation as of December 31, 2015					
Market value of pension fund assets ($ millions)	171,440	23,075	18,399	63,924	8,592
Employer contributions[2] ($ millions)	1,600	361	214	930	202
Employee contributions[3] ($ millions)	1,615	318	241	911	206
Benefit payments (including transfers to other plans) ($ millions)	5,548	1,176	897	1,924	410
Number of active members (approximately)	183,000	42,000	44,000	196,000	26,000
Average age of active members	42.5	45.6	46.1	44.8	48.0
Expected remaining service life of the employees (years)	15.3	10.8	12.2	12.8	13.7
Number of pensioners including survivors (approximately)	133,000	36,000	34,000	87,000	14,000
Government's Best Estimates as of December 31, 2014					
Inflation rate	2.25%	2.25%	2.25%	2.25%	2.25%
Salary escalation rate	3.25%	3.25%	3.25%	4.50%	3.25%
Discount rate and expected rate of return on pension assets	6.50%	6.25%	6.50%	6.00%	6.25%
Accounting Actuarial Valuation as of December 31, 2014					
Market value of pension fund assets ($ millions)	154,476	22,231	17,481	60,848	7,965
Employer contributions[2] ($ millions)	1,531	355	218	899	196
Employee contributions[3] ($ millions)	1,578	310	248	889	202
Benefit payments (including transfers to other plans) ($ millions)	5,315	1,083	798	1,702	372

1 HOOPP employer contributions only include the BPS organizations. The market value of pension fund assets, benefit payments (including transfers to other plans), employee contributions, number of active members, average age of active members, and number of pensioners including survivors, represent the entire HOOPP plan, including non-BPS organizations.
2 Employer contributions paid during the Province's fiscal year. Employer contributions excludes other employers' contributions made by agencies participating in PSPP and OPSEU, and excludes other employers' contributions to OTPP. PSPP employer contributions include special payments of $99 million (2014–15, $99 million).
3 Employee contributions paid during the calendar year.

Other Employee Future Benefits

Other Employee Future Benefits are non-pension retirement benefits, post-employment benefits, compensated absences and termination benefits.

Non-Pension Retirement Benefits

The Province provides dental, basic life insurance, supplementary health and hospital benefits to retired employees through a self-insured, unfunded defined benefit plan. Changes to eligibility criteria and premium cost-sharing terms announced in 2014 will take effect as of January 1, 2017. Certain Public Service Pension Plan members, and OPSEU Pension Plan members who do not meet the current 10-year eligibility criteria by January 1, 2017, would be required to have 20 years of pension service and retire to an immediate unreduced pension to be eligible to receive the post-retirement insured benefits. Further, any eligible members who commence receipt of a pension on or after January 1, 2017, would be required to pay 50 per cent of the premium costs in order to participate in the post-retirement insured benefits plan.

Notwithstanding the changes described in the previous paragraph, an arbitration decision resulting from the Association of Law Officers of the Crown/Ontario Crown Attorneys Associations (ALOC/OCAA) policy grievance precluded the application of these announced changes to associations' members for the balance of the term of the current collective agreement. In addition, in 2015–16, the Province updated the OPSEU retiree's supplementary health benefits to align with changes negotiated for active OPSEU members. These two amendments resulted in a $30 million past service cost that is included in the results for the 2015–16 fiscal year.

The liability for non-pension retirement benefits of $8.3 billion as at March 31, 2016 (2015, $8.1 billion), is included in the Other Employee Future Benefits Liability. The expense for 2015–16 of $393 million (2014–15, $319 million) (excluding the expense for BPS organizations) is included in the Other Employee Future Benefits Expense. The BPS expense of $29 million in 2015–16 (2014–15, $41 million) is included in the Salaries, Wages and Benefits expense of BPS organizations (Schedule 10) and in the expenses of the related ministries (Schedule 4).

The discount rate used in the non-pension retirement benefits calculation for 2015–16 is 3.40 per cent (2014–15, 3.70 per cent). The discount rate used by BPS organizations in the non-pension retirement benefits calculation for 2015–16 ranges from 2.35 per cent to 5.75 per cent (2014–15, 2.80 per cent to 5.75 per cent).

Post-Employment Benefits, Compensated Absences and Termination Benefits

The Province provides, on a self-insured basis, workers' compensation benefits, long-term disability benefits and regular benefits to employees who are on long-term disability.

In 2015, the Province eliminated termination pay entitlement upon retirement for the Ontario Public Service Employee Union (OPSEU) employees hired on or after January 1, 2013. For current OPSEU employees who retire after December 31, 2016, service accrued will be capped up to December 31, 2016, and any termination payments on retirement after January 1, 2016, will be paid based on salary in effect on December 31, 2016. A plan curtailment gain of $128 million and recognition of net unamortized gains of $22 million are included in the fiscal year 2015–16 Other Employee Future Benefits.

During the previous year, the Province eliminated severance entitlement upon retirement for the Association of Management, Administrative and Professional Crown Employees of Ontario (AMAPCEO) employees hired on or after April 1, 2014. For current AMAPCEO employees who retire after January 1, 2016, service accrued will be capped up to December 31, 2015, and any termination payments on retirement after January 1, 2016, will be paid based on salary in effect on December 31, 2015. A plan curtailment gain of $39 million and recognition of net unamortized gains of $5 million is included in fiscal year 2014–15 Other Employee Future Benefits.

For all other employees subject to terms set out in collective agreements, with the exception of management-excluded staff who have completed five years of service, the Province provides termination pay equal to one week's salary for each year of service up to a maximum of 50 per cent of their annual salary. Employees who have completed one year of service but less than five years are also entitled to termination pay in the event of death, retirement or release from employment. All employees who resign are not eligible for any severance pay in respect to service after December 2011.

The total post-employment benefits liability of $2.5 billion as at March 31, 2016 (2015, $2.7 billion), is included in the Other Employee Future Benefits Liability. The total post-employment benefits recovery of $37 million in 2015–16 (2014–15, $165 million post-employment benefit expense, excluding the expense for BPS organizations) is included in the Other Employee Future Benefits Expense. The BPS post-employment benefits expense of $471 million in 2015–16 (2014–15, $527 million) is included in the Salaries, Wages and Benefits expense of BPS organizations (Schedule 10) and in the expenses of the related ministries (Schedule 4).

The discount rate used in the post-employment benefits, compensated absences and termination benefits calculations for 2015–16 is 2.70 per cent (2014–15, 3.15 per cent). The discount rate used by BPS organizations in the post-employment benefits for 2015–16 ranges from 2.35 per cent to 6.75 per cent (2014–15, 2.75 per cent to 8.00 per cent).

7. Other Liabilities

Other Liabilities As at March 31 ($ Millions)	2016	2015
Power Purchase Contracts	$307	$479
Liabilities for Contaminated Sites	1,751	1,792
Other Funds and Liabilities	2,847	2,607
Total	$4,905	$4,878

Power Purchase Contracts

Power supply contracts include both power purchase contracts and power supply support agreements. Power purchase contracts and related loan agreements were entered into by the former Ontario Hydro with non-utility generators (NUGs) located in Ontario. As the legal continuation of Ontario Hydro, Ontario Electricity Financial Corporation (OEFC), a consolidated government organization, is the counterparty to these contracts. The contracts, expiring on various dates to 2048, provided for the purchase of power at prices that were expected to be in excess of the future market price. Accordingly, a liability was recorded at $4.3 billion on a discounted cash-flow basis when Ontario Hydro was continued as OEFC on April 1, 1999.

Under legislated reforms to the electricity market, OEFC began receiving actual contract prices for power from ratepayers effective January 1, 2005, and no longer incurs losses on these contracts. At that time, the Ministry of Finance estimated the bulk of the liability would be eliminated over 12 years as existing electricity contracts expire. As a result, the OEFC is amortizing the bulk of the liability to revenue over that period. The decrease in the liability for power purchase contracts was $172 million (2014–15, $217 million), resulting in a liability of $307 million as at March 31, 2016 (2015, $479 million).

In addition, effective January 1, 2009, OEFC entered into a support contract, the Contingency Support Agreement (CSA), with Ontario Power Generation Inc. (OPG), whereby OPG agreed to maintain the reliability and availability of Lambton and Nanticoke coal-fired stations following implementation of a greenhouse gas emissions-reduction strategy. Under the contract, OEFC agreed to ensure OPG would recover the actual costs of operating the stations after implementing this strategy. Any costs to OEFC under this agreement are fully recovered from electricity ratepayers. As at December 31, 2013, OEFC triggered an early termination clause in the CSA to reflect the advanced closure of these plants by one year to the end of 2013. OPG is allowed to recover actual costs that cannot reasonably be avoided or mitigated, during the period from the early shutdown date until December 31, 2014, consistent with the original end date of the CSA.

During the year ended March 31, 2016, OEFC's cost under power supply contracts totalled $875 million (2014–15, $950 million), including purchases of power from NUGs of $865 million (2014–15, $902 million) and OPG support contract costs of $10 million (2014–15, $48 million). These costs were recovered from electricity ratepayers (as shown in Schedules 1, 3 and 4).

Liabilities for Contaminated Sites

The Province reports environmental liabilities related to the management and remediation of contaminated sites where the Province is obligated or likely obligated to incur such costs. A contaminated sites liability of $1,751 million (2015, $1,792 million) has been recorded based on environmental assessments or estimations for those sites where an assessment has not been conducted.

The Province's ongoing efforts to assess contaminated sites may result in additional environmental remediation liabilities related to newly identified sites, or changes in the assessments or intended use of existing sites, including mine sites. Any changes to the Province's liabilities for contaminated sites will be accrued in the year in which they are assessed as likely and reasonably estimable.

Other Funds and Liabilities

Other funds and liabilities include pension and benefit funds related to the Provincial Judges' Pension Fund, the Public Service and the Deputy Ministers' Supplementary Benefit Accounts, externally restricted funds and other long-term liabilities.

8. Investments

Investments As at March 31 ($ Millions)	2016	2015
Temporary Investments	$16,112	$14,743
Add: Assets Purchased under Resale Agreements	4,657	5,942
Less: Assets Sold under Repurchase Agreements	(1,008)	(1,994)
Total Temporary Investments	$19,761	$18,691
Other Investments	2,004	1,675
Total Investments	$21,765	$20,366

Temporary Investments

Temporary investments primarily consist of investments in government bonds. The fair value of temporary investments, including assets purchased and sold under resale and repurchase agreements at March 31, 2016, is $19.8 billion (2015, $18.7 billion). Fair value is determined using quoted market prices.

A resale agreement is an agreement between two parties where the Province purchases and subsequently resells a security at a specified price on a specified date. A repurchase agreement is an agreement between two parties where the Province sells and subsequently repurchases a security at a specified price on a specified date.

Other Investments

Other investments represent the investments held by BPS organizations. These investments primarily consist of fixed-income securities. The fair value of these investments approximates book value.

9. Tangible Capital Assets

Tangible Capital Assets
As at March 31
($ Millions)

	Land	Buildings	Transportation Infrastructure	Machinery and Equipment	Information Technology	Other	2016	2015
Cost								
Opening Balance	13,801	73,621	30,740	11,630	5,483	5,781	141,056	131,299
Additions	896	3,965	3,439	874	763	985	10,922	11,183
Disposals	46	672	1,410	340	149	19	2,636	1,426
Closing Balance	14,651	76,914	32,769	12,164	6,097	6,747	149,342	141,056
Accumulated Amortization								
Opening Balance	–	21,496	9,100	8,771	2,992	1,632	43,991	40,743
Additions	–	2,189	1,217	721	547	239	4,913	4,544
Disposals	–	201	1,410	321	147	19	2,098	1,296
Closing Balance	–	23,484	8,907	9,171	3,392	1,852	46,806	43,991
Net Book Value								
2016	14,651	53,430	23,862	2,993	2,705	4,895	102,536	–
2015	13,801	52,125	21,640	2,859	2,491	4,149	–	97,065

Land includes land acquired for transportation infrastructure, parks, buildings and other program use, and land improvements that have an indefinite life and are not being amortized. Land excludes Crown lands acquired by right.

Buildings include administrative and service structures, and dams and engineering structures.

Transportation Infrastructure includes provincial highways, railways, bridges and related structures and facilities, but excludes land and buildings.

Machinery and Equipment consists mainly of hospital equipment.

Information Technology consists of computer hardware and software.

Other includes leased assets, vehicles, aircraft and other miscellaneous tangible capital assets owned by the government and its consolidated organizations.

Works of art and historical treasures are excluded from tangible capital assets.

Assets under construction have been included within the various asset categories presented above. The total value of assets under construction as at March 31, 2016, is $11.8 billion (2015, $14.2 billion).

All tangible capital assets, except assets under construction, land and land improvements with an indefinite life, are being amortized on a straight-line basis over their estimated useful lives. Amortization expense for the fiscal year 2015–16 totalled $4.9 billion (2014-15, $4.5 billion) of which $2.0 billion (2014–15, $1.8 billion) relates to the Province and $2.9 billion (2014–15, $2.7 billion) relates to the BPS. The latter expense is included under the BPS expense reported on Schedule 10. The useful lives of the Province's tangible capital assets have been estimated as:

Buildings	20 to 40 years
Dams and Engineering Structures	20 to 80 years
Transportation Infrastructure	10 to 75 years
Machinery and Equipment	3 to 20 years
Information Technology	3 to 15 years
Other	3 to 30 years

10. Changes in the Fair Value of Ontario Nuclear Funds

The Ontario Nuclear Funds Agreement (ONFA) Funds were established by Ontario Power Generation Inc. (OPG) and the Province to ensure that sufficient funds will be available to pay for the costs of nuclear station decommissioning and nuclear used fuel waste management.

Since April 1, 2007, the fair value of ONFA Funds has been reflected in the Province's Consolidated Financial Statements. Unrealized gains and losses of ONFA Funds are included in Investment in Government Business Enterprises and recorded as an Increase (Decrease) in Fair Value of Ontario Nuclear Funds in the Consolidated Statement of Change in Net Debt and the Consolidated Statement of Change in Accumulated Deficit. Realized gains and losses of ONFA Funds are included in Income from Investment in Government Business Enterprises. Inter-organizational balances related to ONFA Funds are eliminated.

ONFA Funds incurred unrealized losses in 2015–16 of $1,003 million (2014–15, unrealized gain of $1,121 million) that resulted in a decrease in Investment in Government Business Enterprises and a corresponding increase in Net Debt and Accumulated Deficit.

11. Sale of Hydro One Common Shares

In November 2015, the Province sold approximately 16 per cent of Hydro One's common shares at a price of $20.50 per common share, through a public offering and through related share sales. As of March 31, 2016, the Province owned approximately 84 per cent of Hydro One's common shares.

In August 2015, prior to the sale of Hydro One common shares, Hydro One transferred all of the issued and outstanding shares of Hydro One Brampton to the Province as a dividend-in-kind. Hydro One also transferred all of the long-term intercompany debt plus accrued interest owed by Hydro One Brampton to Hydro One as a return of stated capital. The transfers were made to the newly formed Brampton Distribution Holdco Inc., creating a new government business enterprise. Also, prior to the sale of the Hydro One Shares, Hydro One declared and paid a special dividend to the Province of $800 million. This amount is reported in the Remittances to Consolidated Fund in Schedule 9 and was considered in the book value calculation of the shares sold.

An accounting gain of $783 million was recognized in the 2015–16 financial results in connection with the sale of Hydro One shares. An additional gain of $48 million was deferred in connection with a sale of shares to electricity sector union trusts during the year and will be recognized as revenue as the loans provided to the trusts to purchase the shares are repaid.

In conjunction with the disposition of Hydro One shares, Hydro One exited the Province's payments in lieu of corporate income tax regime (corporate PILs regime) and is now subject to federal and provincial corporate income taxes. Immediately before exiting the corporate PILs regime, Hydro One was deemed to have disposed of its assets for proceeds equal to the assets' fair market value. As a result of this deemed disposition, before exiting the corporate PILs regime Hydro One had to make a payment under the *Electricity Act, 1998*, related to the income and capital gains arising from the difference between the assets' fair value and tax value. This one-time payment to the Province, referred to as the "departure tax," was $2.6 billion. Hydro One also paid the Province $191 million in additional corporate PILs in connection with leaving the corporate PILs regime. These one-time payments did not affect the Province's annual deficit as the additional revenue recognized by the Province was offset by an equal reduction in Hydro One's net income, which is consolidated in the Province's financial statements.

The transition into the federal and provincial corporate income tax regime also resulted in Hydro One eliminating a deferred tax liability and recognizing a deferred tax asset in 2015–16, which reflects reduced cash taxes payable by Hydro One for some period in the future. The Province's proportionate share of the deferred tax benefit increased the Province's revenues by $2.4 billion, and is reflected in Income from Government Business Enterprises.

A summary of key direct components of the Hydro One transactions include:

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

12. Hydro One and Ontario Power Generation use of US GAAP

Hydro One Limited and Ontario Power Generation Inc. prepare their stand-alone financial statements on a US GAAP basis as permitted under current securities legislation. The entities are consolidated on the Province's books, using the modified equity method, on the same basis on which they report their stand-alone financial reports. As government business enterprises, in the Introduction to the Public Sector Accounting Standards, for purposes of consolidation, Hydro One Limited and Ontario Power Generation Inc. are directed to prepare their financial statements in accordance with accounting standards used by publicly accountable enterprises, which under Part I of the Accounting Standards Handbook would be International Financial Reporting Standards (IFRS). If the results for Hydro One Limited and Ontario Power Generation Inc. were consolidated with those of the Province using IFRS, Financial Assets would be $473 million lower, Income from Investment in Government Business Enterprises would be $34 million lower and Opening Accumulated Deficit would be $439 million higher.

13. Contingent Liabilities

Obligations Guaranteed by the Province

The authorized limit for loans guaranteed by the Province as at March 31, 2016, was $1.4 billion (2015, $2.0 billion). The outstanding loans guaranteed and other contingencies amounted to $1.0 billion as at March 31, 2016 (2015, $1.4 billion). A provision of $3.4 million (2015, $4.0 million), based on an estimate of the likely loss arising from guarantees under the Student Support Programs, has been reflected in these financial statements.

Ontario Nuclear Funds Agreement

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 portion of the nuclear used fuel waste management segregated fund related to the fixed volume of used fuel. If the earnings on assets in that fund related to the fixed volume exceed the guaranteed rate, the Province is entitled to the excess.

Two agreements are in place 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 gives the CNSC access (in prescribed circumstances) to the segregated funds established under ONFA. The other agreement between the Province and the CNSC provides a direct provincial guarantee to the CNSC on behalf of OPG. This guarantee relates to the portion of the decommissioning and waste management obligations not funded by the estimated value of ONFA funds as at January 1, 2013. In return, the Province receives from OPG an annual fee equal to 0.5 per cent of the value of the guarantee. The provincial guarantee, for up to $1,551 million, is in effect from January 1, 2013, through the end of 2017, when the next reference plan for the CNSC is planned to be approved. In each of January 2015 and 2016, OPG paid a guarantee fee of $8 million to the Province based on the guarantee amount of $1,551 million.

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 through the Ministry of Municipal Affairs and Housing or the Ontario Mortgage and Housing Corporation.

At March 31, 2016, there were $5.0 billion (2015, $5.4 billion) of mortgage loans outstanding. As operating subsidies provided by the Province 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

There are claims outstanding against the Crown, of which 70 (2015, 58) 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. The cost to the Province, if any, cannot be determined because the financial outcome of these actions is uncertain. For a detailed listing of claims against the ministries, refer to Public Accounts Volume 1, "Claims Against the Crown."

Subsequent to year end, on April 20, 2016, the Ontario Superior Court determined that Bill 115, the *Putting Students First Act, 2012*, was in contravention of the unions' right to collective bargaining under the Charter of Rights and Freedoms. The Court did not impose a penalty on the Province, and directed that the parties attempt to negotiate a remedy. The impact on the March 31, 2016, consolidated financial statements of the related accrual is based on the Province's best estimation of the remedy amount on information available, the extent of which is not disclosed given that an agreement has not been reached.

Canadian Blood Services

The provincial and territorial governments of Canada have entered into a Canadian Blood Services Excess Insurance Captive Support Agreement (the "Captive Support Agreement") with Canadian Blood Services (CBS) and Canadian Blood Services Captive Insurance Company Limited (CBSI), a wholly owned subsidiary of CBS. Under the Captive Support Agreement, each government indemnifies CBSI for its pro-rata share of any payments that CBSI becomes obliged to make under a comprehensive blood risks insurance policy it provides to CBS. The policy has an overall limit of $750 million, which may cover settlements, judgments and defence costs. The policy is in excess of, and secondary to, a $250 million comprehensive insurance policy underwritten by CBS Insurance Company Limited, a subsidiary of CBS. Given current populations, Ontario's maximum potential liability under the Captive Support Agreement is approximately $376 million. The Province is not aware of any proceedings that could lead to a claim against it under the Captive Support Agreement.

Legal Aid Ontario — Certificates

Legal Aid Ontario (LAO) issues certificates to individuals seeking legal aid assistance. Each certificate issued authorizes legal services to be performed within the tariff guidelines. At March 31, 2016, a potential $51.9 million (2015, $55.6 million) could still be incurred on certificates issued on or before March 31, 2016, over and above the billings received to date.

Contaminated Sites

The Province has identified contingent liabilities related to 125 sites (2015, 76 sites) that may have potential liabilities of $365 million (2015, $383 million). A liability has not been recorded for these sites because either the likelihood of the government becoming responsible for the site is not determinable, the amount of the liability cannot be estimated, or both.

General Real Estate Portfolio — Lease Obligation

Prior to the amalgamation of Stadium Corporation of Ontario Limited (STADCO) with Infrastructure Ontario and the Ontario Realty Corporation on June 6, 2011, all assets, liabilities and operations of STADCO were transferred to the General Real Estate Portfolio (GREP), including ground leases dated June 3, 1989, with Canada Lands Company (CLC) for the SkyDome Lands and the sublease to Rogers Stadium Limited Partnership (sub-tenant). Under the terms of the ground lease, GREP is responsible for base rent, realty taxes, utilities and certain operating costs, which are assumed by the sub-tenant under the terms of the sub-lease. In the event of a default by the sub-tenant, the potential financial impact to GREP is estimated to be the base rent, in the range of $300 million to $400 million annually, plus realty taxes, utilities and certain operating costs.

Collateral

The Province has entered into securities repurchase agreements and collateralized swap agreements with certain counterparties. Under the terms of those agreements, the Province may be required to pledge and/or receive assets relating to obligations to the counterparties. In the normal course of business, these pledged securities will be returned to the pledgor when there are no longer any outstanding obligations.

As at March 31, 2016, the Province pledged assets in the carrying amount of $33 million (2015, $35 million), which are included in Investments and/or Cash and Cash Equivalents.

14. Contractual Obligations

Contractual Obligations as at March 31 ($ Millions)	2016	2015	Minimum Payments to be made in: 2017	2018	2019	2020	2021	2022 and thereafter
Transfer Payments	$10,965	$7,872	$6,701	$2,777	$732	$364	$139	$252
Alternative Financing Contracts	27,528	24,210	11,715	773	849	651	548	12,992
Ontario Power Generation	6,499	5,286	1,982	538	504	505	293	2,677
Leases	4,391	4,139	670	557	491	421	358	1,894
Construction Contracts	4,980	4,654	1,800	848	453	302	256	1,321
Other	8,987	7,204	1,573	1,179	983	823	664	3,765
Total Contractual Obligations	$63,350	$53,365	$24,441	$6,672	$4,012	$3,066	$2,258	$22,901

Ontario Power Generation Inc.'s contractual obligations include future contributions under ONFA of $3.2 billion and fuel-supply agreements of $783 million.

The Province has entered into a number of multiple-year alternative financing contracts for the construction of assets and delivery of services. The contractual obligations represent the unperformed capital and operating portion of the contracts and will become liabilities in the future when the terms of the contracts are met.

15. Trust Funds Under Administration

Summary financial information from the most recent financial statements of trust funds under administration is provided below.

Workplace Safety and Insurance Board (WSIB)[1] As at December 31 ($ Millions)	2015	2014[2]
Assets	$28,305	$25,779
Liabilities	32,102	31,025
Deficiency of Assets	(3,797)	(5,246)
Unfunded Liability attributable to WSIB stakeholders	($6,599)	($7,890)

[1] The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).
[2] The 2014 results were restated by WSIB in March 2016.

Other Trust Funds As at March 31 ($ Millions)			2016	2015
	Assets	Liabilities	Fund Balance (Unfunded Liability)	Fund Balance (Unfunded Liability)
The Public Guardian and Trustee for Province of Ontario	$1,734	$54	$1,680	$1,623
Motor Vehicle Accident Claims Fund	64	230	(166)	(161)
Pension Benefits Guarantee Fund	600	159	441	372

As at December 31	Assets	Liabilities	2015 Fund Balance	2014 Fund Balance
Deposit Insurance Corporation of Ontario	$219	$13	$206	$185

Unfunded liabilities of trusts under administration are not included in the Province's consolidated financial statements as it is intended that they will be discharged by external parties. The most recent financial statements of these trusts are reproduced in Volume 2 of the Public Accounts of Ontario.

16. Future Changes in Accounting Standards

PSAB 3450 — Financial Instruments and PSAB 2601 — Foreign Currency Translation

PSAB has introduced new sections on Financial Instruments and Foreign Currency Translation that categorize items to be accounted for at either fair value, cost or amortized cost. Fair value measurement applies to derivatives and portfolio investments in equity instruments that are quoted in an active market. Other financial assets and financial liabilities will generally be measured at cost or amortized cost. Until an item is derecognized (for example, through disposition), any gains and losses arising due to changes in fair value (remeasurements) will be reported in the Statement of Remeasurement Gains and Losses. PSAB has agreed to further explore the views of the stakeholders in the areas of hedge accounting and linkage to the Concepts Underlying Financial Performance project. PSAB has extended the effective date of these standards until fiscal year 2019–20.

PSAB 2200 — Related Party Disclosures

PSAB has issued a new standard on Related Party Disclosures. This standard requires disclosure of related party transactions if they have a material financial effect on the Consolidated Financial Statements and only if those transactions occur at a value different from what would have been arrived at if the parties were unrelated. Transactions involving key management personnel and their close family members may be required to be disclosed if they meet certain criteria. The standard is effective in fiscal year 2017–18 or earlier. The Province is currently assessing the impact of this standard on its Consolidated Financial Statements.

PSAB 3420 — Inter-Entity Transactions

PSAB has issued a new standard on Inter-Entity Transactions. It establishes standards on how to account for and report transactions between public-sector entities that comprise a government’s reporting entity from both a provider and recipient perspective. This standard covers recognition and measurement and references disclosure of information about Inter-Entity Transactions, in accordance with the Related Party Disclosure, Section PS 2200. The standard is effective in fiscal year 2017–18 or earlier. The Province is currently assessing the impact of this standard on its Consolidated Financial Statements.

Concepts Underlying Financial Performance

PSAB is currently in the process of revisiting its conceptual framework, which establishes principles for the development of standards used for financial reporting by the public–sector entities in Canada. The conceptual framework is important to ensure public–sector standards appropriately reflect the economic substance of government transactions and to support transparency and accountability in public-sector reporting. PSAB continues with stakeholder communication activities and is currently deliberating on comments received on their latest consultation paper.

Asset Retirement Obligations

PSAB is currently developing an exposure draft for a new accounting standard that addresses the reporting of legal obligations associated with the retirement of long-lived tangible capital assets currently in productive use. The Province will be responding to the exposure draft, which is expected in the first quarter of 2017.

Revenue

PSAB is currently developing an exposure draft for revenue recognition principles that apply to revenues of governments and government organizations other than government transfers and tax revenue. The Province will be responding to the exposure draft, which is expected in the first quarter of 2017.

17. Subsequent Event

Subsequent to the Province's fiscal year end, on April 14, 2016, the Province sold 72,434,800 common shares of Hydro One Limited at $23.65 per share through a secondary share offering, generating approximately $1.7 billion in gross proceeds.

The Province also granted an over-allotment option to the underwriters to purchase up to an additional 10,865,200 common shares, under the same terms and conditions as the base offering. The underwriters exercised this over-allotment option in full on April 29, 2016. Including the over-allotment option, the Province generated approximately $2 billion in gross proceeds from the offering.

Subsequent to this sale, the Province owns approximately 70 per cent of the outstanding, common shares of Hydro One Limited.

18. Change in Accounting for Pension Assets of Jointly Sponsored Pension Plans

For the 2015–16 Public Accounts, the government legislated the accounting treatment for pension assets of its jointly sponsored pension plans. The legislation impacts the accounting for both the Ontario Teachers' Pension Plan and the Ontario Public Service Employees' Union Pension Plan. The legislation requires a full valuation allowance be recorded against the pension assets, therefore writing off the value of the assets.

As described in Public Sector Accounting Standards (PSAS), a pension asset arises when the government's total contributions to a plan, including income earned thereon, are greater than the cumulative retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the estimated cost of the pensions earned during the year that will be paid out to retirees in the future. In prior years, the government recorded pension assets to the extent the government expected to benefit from the asset through future reductions in contributions to the plan.

These plans are now accounted for in accordance with PSAS and legislation requiring a full valuation allowance be recorded. The change was made to reflect the Auditor General of Ontario's view that a full valuation allowance is required if the government does not have the legally enforceable right to unilaterally access the assets of the jointly sponsored pension plans, or in absence of that right, an irrevocable agreement in place at year-end with the joint sponsors of the plans to reduce contributions.

19. Comparative Figures

The comparative figures have been reclassified as necessary to conform to the 2016 presentation.

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Province of Ontario
Schedule 1: Revenue by Source

($ Millions)	2015–16 Budget[1]	2015–16 Actual	2014–15 Actual
Taxation			
Personal Income Tax	30,377	31,141	29,313
Sales Tax	22,982	23,455	21,689
Corporations Tax	11,342	11,428	9,557
Education Property Tax	5,715	5,839	5,561
Employer Health Tax	5,680	5,649	5,415
Ontario Health Premium	3,458	3,453	3,366
Electricity Payments-In-Lieu of Taxes (Note 11)	524	3,247	180
Gasoline Tax	2,457	2,459	2,447
Land Transfer Tax	1,782	2,118	1,765
Tobacco Tax	1,262	1,226	1,163
Fuel Tax	752	751	739
Beer and Wine Tax	575	582	560
Other Taxes	491	470	520
	87,397	91,818	82,275
Transfers from Government of Canada			
Canada Health Transfer	13,065	13,089	12,408
Canada Social Transfer	4,976	4,984	4,847
Equalization Payments	2,363	2,363	1,988
Labour Market Development Agreement	632	632	628
Social Housing	448	455	465
Indian Welfare Services Agreement	243	259	246
Job Fund Agreement	192	205	179
Infrastructure Programs	308	146	137
Bilingualism Development	83	85	86
Labour Market Agreement for Persons with Disabilities	76	76	76
Youth Criminal Justice	52	52	52
Legal Aid Criminal	51	51	53
Other	401	460	450
	22,890	22,857	21,615

Province of Ontario
Schedule 1: Revenue by Source (cont'd)

($ Millions)	2015–16 Budget[1]	2015–16 Actual	2014–15 Actual
Income from Investment in Government Business Enterprises *(Schedule 9)*	4,812	4,909	5,615
Other			
Sales and Rentals	2,803	2,102	2,336
Vehicle and Driver Registration Fees	1,592	1,565	1,433
Electricity Debt Retirement Charge	865	859	956
Power Supply Contract Recoveries (Note 7)	793	875	950
Other Fees and Licences	745	743	693
Royalties	262	274	275
Independent Electricity System Operation Revenue	234	221	240
Net Reduction of Power Purchase Contracts (Note 7)	172	172	217
Local Services Realignment	117	125	106
Miscellaneous	1,708	1,857	1,835
	9,291	8,793	9,041
Total Revenue	124,390	128,377	118,546

[1] Amounts reported as "Plan" in 2015 Budget.

Province of Ontario
Schedule 2: Revenue by Sector

Sectors	Health[1]		Education[2]		Children's and Social Services[3]		Environment, Resources and Economic Development[4]	
For the year ended March 31 ($ Millions)	2016	2015	2016	2015	2016	2015	2016	2015
Revenue								
Taxation *(Schedule 1)*	–	–	–	–	–	–	1	2
Transfers from Government of Canada *(Schedule 1)*	49	55	79	80	360	346	883	913
Income from Investment in Government Business Enterprises	–	–	–	–	–	–	719	1,963
Other *(Schedule 1)*	232	229	32	26	88	64	4,020	3,748
Total	281	284	111	106	448	410	5,623	6,626

1 Includes the activities of the Ministry of Health and Long-Term Care.

2 Includes the activities of the Ministry of Education.

3 Includes the activities of the Ministries of Children and Youth Services, and Community and Social Services.

4 Includes the activities of the Ministries of Aboriginal Affairs; Agriculture, Food and Rural Affairs; Citizenship, Immigration and International Trade; Economic Development, Employment and Infrastructure/Research and Innovation; Energy; Environment and Climate Change; Labour; Municipal Affairs and Housing; Natural Resources and Forestry; Northern Development and Mines; Tourism, Culture and Sport; and Transportation.

Post-Secondary Education and Training[5]		Justice[6]		General Government and Other[7]		Total	
2016	2015	2016	2015	2016	2015	2016	2015
–	–	–	–	91,817	82,273	91,818	82,275
909	868	103	100	20,474	19,253	22,857	21,615
–	–	–	–	4,190	3,652	4,909	5,615
55	54	735	727	3,631	4,193	8,793	9,041
964	922	838	827	120,112	109,371	128,377	118,546

[5] Includes the activities of the Ministry of Training, Colleges and Universities.

[6] Includes the activities of the Ministries of Attorney General, and Community Safety and Correctional Services.

[7] Includes the activities of the Ministries of Government and Consumer Services, Finance, the Board of Internal Economy, Executive Offices, the Office of Francophone Affairs and Treasury Board Secretariat.

Province of Ontario
Schedule 3: Expense by Sector[1]

Sectors	Health[2]		Education[3]		Children's and Social Services[4]		Environment, Resources and Economic Development[5]	
For the year ended March 31 ($ Millions)	2016	2015	2016	2015	2016	2015	2016	2015
Expense								
Transfer Payments	48,299[10]	47,912[10]	24,974	24,909	14,692	13,899[11]	6,045	5,436
Interest on Debt	–	–	–	–	–	–	–	–
Salaries and Wages	654	639	212	204	444	429	1,820	1,802
Services	1,877	1,740	153	138	230	186	1,499	1,238
Pensions and Employee Future Benefits *(Note 6)*	5	6	1,590	565	6	7	9	11
Power Supply Contract Costs	–	–	–	–	–	–	–	–
Amortization of Tangible Capital Assets	63	54	9	9	36	23	1,868	1,678
Employee Benefits	124	120	34	33	69	69	346	349
Supplies and Equipment	422	396	7	8	9	9	228	231
Transportation and Communication	61	60	14	15	19	20	130	116
Net Impact of Broader Public Sector Organizations on Provincial Expenses *(Schedule 10)*	(495)	(1,042)	(436)	(717)	–	–	–	–
Other	57	154	31	30	50	41	667	821
Total[12]	51,067	50,039	26,588	25,194	15,555	14,683	12,612	11,682

1 The information in the sectors' columns represents activities of ministries and consolidated agencies after adjustments to eliminate transactions between sectors.

2 Includes the activities of the Ministry of Health and Long-Term Care.

3 Includes the activities of the Ministry of Education.

4 Includes the activities of the Ministries of Children and Youth Services, and Community and Social Services.

5 Includes the activities of the Ministries of Aboriginal Affairs; Agriculture, Food and Rural Affairs; Citizenship, Immigration and International Trade; Economic Development, Employment and Infrastructure/Research and Innovation; Energy; Environment and Climate Change; Labour; Municipal Affairs and Housing; Natural Resources and Forestry; Northern Development and Mines; Tourism, Culture and Sport; and Transportation.

Post-Secondary Education and Training[6]		Justice[7]		General Government and Other[8]		Interest on Debt[9]		Total	
2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
7,515	7,521	446	391	720	789	–	–	102,691	100,857
–	–	–	–	–	–	10,967	10,635	10,967	10,635
93	91	2,321	2,246	948	917	–	–	6,492	6,328
62	65	978	962	380	366	–	–	5,179	4,695
–	–	20	18	1,046	1,228	–	–	2,676	1,835
–	–	–	–	875	950	–	–	875	950
5	2	15	12	61	63	–	–	2,057	1,841
15	14	306	299	122	101	–	–	1,016	985
1	1	165	171	38	37	–	–	870	853
4	4	96	93	43	44	–	–	367	352
(120)	(102)	–	–	–	–	–	–	(1,051)	(1,861)
59	64	202	159	201	122	–	–	1,267	1,391
7,634	7,660	4,549	4,351	4,434	4,617	10,967	10,635	133,406	128,861

6 Includes the activities of the Ministry of Training, Colleges and Universities.
7 Includes the activities of the Ministries of Attorney General, and Community Safety and Correctional Services.
8 Includes the activities of the Ministries of Government Services and Consumer Services, Finance, the Board of Internal Economy, Executive Offices, the Office of Francophone Affairs and Treasury Board Secretariat.
9 Includes the activities related to the management of the debt of the Province.
10 Includes transfers of $2,587 million (2014–15, $2,495 million) to Community Care Access Centres.
11 Includes transfers of $1,504 million (2014–15, $1,490 million) to Children's Aid Societies.
12 The comparative figures have been reclassified to conform to the 2015–2016 presentation.

Province of Ontario
Schedule 4: Expense by Ministry

($ Millions)	2015–16 Budget[1]	2015–16 Actual	2014–15 Actual
Aboriginal Affairs	74	79	71
Agriculture, Food and Rural Affairs	1,041	1,026	943
Attorney General	1,780	1,860	1,783
Board of Internal Economy	210	205	264
Children and Youth Services	4,316	4,260	4,132
Citizenship, Immigration and International Trade	159	169	157
Community and Social Services	11,115	11,295	10,551
Community Safety and Correctional Services	2,649	2,689	2,568
Economic Development, Employment and Infrastructure/Research and Innovation	1,453	1,134	1,076
Education	25,231	24,998	24,630
Teachers' Pension *(Note 6)*	71	1,590	564
Energy	1,183	1,232	1,404
Environment and Climate Change	503	503	486
Executive Offices	34	37	43
Finance	860	951	827
Interest on Debt	11,410	10,967	10,635
Municipal Partnership Fund	513	513	542
Power Supply Contract Costs	793	875	950
Government Services and Consumer Services	602	608	573
Health and Long-Term Care	50,773	51,067	50,039
Labour	311	304	305
Municipal Affairs and Housing	1,080	1,088	1,050
Natural Resources and Forestry	790	819	792
Northern Development and Mines	757	701	804
Office of Francophone Affairs	8	8	5
Tourism, Culture and Sport	2,179	2,270	1,650
Training, Colleges and Universities	7,810	7,634	7,660
Transportation	3,457	3,287	2,944
Treasury Board Secretariat	291	216	227
Contingency Fund[2]	650	–	–
Employee and Pensioner Benefits	1,289	1,021	1,186
Program Review Savings Target[3]	(490)	–	–
Year-End Savings[3]	(1,000)	–	–
Total Expense	131,902	133,406	128,861

[1] Amounts reported as "Plan" in 2015 Budget.
[2] See glossary for definition.
[3] For Budget purposes, these items were not allocated to individual ministries.

Province of Ontario
Schedule 5: Accounts Payable and Accrued Liabilities

As at March 31 ($ Millions)	2016	2015
Transfer Payments	4,825	4,094
Interest on Debt	3,610	3,874
Salaries, Wages and Benefits	2,917	2,788
Other	8,009	9,299
Total Accounts Payable and Accrued Liabilities	19,361	20,055

Province of Ontario
Schedule 6: Accounts Receivable

As at March 31 ($ Millions)	2016	2015
Taxes	6,579	5,552
Transfer Payments[1]	597	573
Other Accounts Receivable[2]	4,337	4,335
	11,513	10,460
Less: Allowance for Doubtful Accounts[3]	(1,226)	(1,298)
	10,287	9,162
Government of Canada	772	1,144
Total Accounts Receivable	11,059	10,306

1 The Transfer Payment receivable consists primarily of recoverables of $573 million (2015, $612 million) for the Ontario Disability Support Program — Financial Assistance.

2 Other Accounts Receivable includes trade receivables.

3 The Allowance for Doubtful Accounts includes a provision of $493 million (2015, $532 million) for the Ontario Disability Support Program — Financial Assistance.

Province of Ontario
Schedule 7: Loans Receivable

As at March 31 ($ Millions)	2016	2015
Government Business Enterprises[1]	3,499	3,695
Municipalities[2]	5,407	5,067
Students[3]	2,655	2,521
Industrial and Commercial[4]	554	492
Pension Benefit Guarantee Fund[5]	198	209
Universities[6]	14	22
Other[7]	508	402
	12,835	12,408
Unamortized Concession Discounts[8]	(262)	(277)
Allowance for Doubtful Accounts[9]	(1,028)	(1,006)
Total Loans Receivable	11,545	11,125

1 Loans to government business enterprises bear interest at rates of 2.32 per cent to 6.33 per cent (2015, 2.32 per cent to 6.33 per cent).
2 Loans to municipalities bear interest at rates of up to 10.00 per cent (2015, 10.52 per cent).
3 Loans to students bear interest at rates of 0.99 per cent to 3.85 per cent (2015, 1.23 per cent to 4.00 per cent).
4 Loans to industrial and commercial enterprises bear interest at rates of up to 6.30 per cent (2015, 6.56 per cent).
5 The loan to the Pension Benefit Guarantee Fund is interest-free.
6 Loans to universities are mortgages bearing interest at rates of 2.77 per cent to 7.00 per cent (2015, 2.77 per cent to 7.00 per cent).
7 Loans to other include loan for MaRS Phase 2 of $290 million (2015, $294 million) and loans to electricity sector union trusts of $111 million (2015, nil).
8 Unamortized concession discounts related to loans made to municipalities of $75 million (2015, $71 million), loans to the Pension Benefit Guarantee Fund of $97 million (2015, $102 million) and loans to industrial and commercial enterprises and other of $90 million (2015, $104 million).
9 Allowance for doubtful accounts related to loans made to students of $616 million (2015, $604 million), municipalities of $69 million (2015, $158 million), industrial and commercial enterprises and other of $242 million (2015, $137 million) and the Pension Benefit Guarantee Fund of $101 million (2015, $107 million).

Repayment Terms As at March 31 ($ Millions)	Principal Repayment	
Years to Maturity	2016	2015
1 year	1,511	1,284
2 years	1,639	799
3 years	820	1,601
4 years	1,211	761
5 years	915	1,164
1–5 years	6,096	5,609
6–10 years	2,542	2,831
11–15 years	1,512	1,305
16–20 years	585	513
21–25 years	352	282
Over 25 years	1,591	1,618
Subtotal	12,678	12,158
No fixed maturity	157	250
Total	12,835	12,408

Province of Ontario
Schedule 8: Government Organizations[1]

Government Business Enterprises[2]	Responsible Ministry
Brampton Distribution Holdco Inc.	Energy
Hydro One Limited	Energy
Liquor Control Board of Ontario	Finance
Ontario Lottery and Gaming Corporation	Finance
Ontario Power Generation Inc.	Energy
Other Government Organizations[2]	**Responsible Ministry**
Agricorp	Agriculture, Food and Rural Affairs
Agricultural Research Institute of Ontario	Agriculture, Food and Rural Affairs
Algonquin Forestry Authority	Natural Resources and Forestry
Cancer Care Ontario	Health and Long-Term Care
Education Quality and Accountability Office	Education
eHealth Ontario	Health and Long-Term Care
Forest Renewal Trust	Natural Resources and Forestry
General Real Estate Portfolio	Economic Development, Employment and Infrastructure/Research and Innovation
Independent Electricity System Operator	Energy
Legal Aid Ontario	Attorney General
Local Health Integration Networks	
Central East Local Health Integration Network	Health and Long-Term Care
Central Local Health Integration Network	Health and Long-Term Care
Central West Local Health Integration Network	Health and Long-Term Care
Champlain Local Health Integration Network	Health and Long-Term Care
Erie St. Clair Local Health Integration Network	Health and Long-Term Care
Hamilton Niagara Haldimand Brant Local Health Integration Network	Health and Long-Term Care
Mississauga Halton Local Health Integration Network	Health and Long-Term Care
North East Local Health Integration Network	Health and Long-Term Care
North Simcoe Muskoka Local Health Integration Network	Health and Long-Term Care
North West Local Health Integration Network	Health and Long-Term Care
South East Local Health Integration Network	Health and Long-Term Care
South West Local Health Integration Network	Health and Long-Term Care
Toronto Central Local Health Integration Network	Health and Long-Term Care
Waterloo Wellington Local Health Integration Network	Health and Long-Term Care
Metrolinx	Transportation
Metropolitan Toronto Convention Centre Corporation	Tourism, Culture and Sport
Niagara Parks Commission	Tourism, Culture and Sport
Northern Ontario Heritage Fund Corporation	Northern Development and Mines
Ontario Agency for Health Protection and Promotion (Public Health Ontario)	Health and Long-Term Care
Ontario Capital Growth Corporation	Economic Development, Employment and Infrastructure/Research and Innovation
Ontario Clean Water Agency	Environment and Climate Change
Ontario Educational Communications Authority (TVO)	Education
Ontario Electricity Financial Corporation	Finance
Ontario Energy Board	Energy
Ontario Financing Authority	Finance
Ontario French-Language Educational Communications Authority (TFO)	Education
Ontario Immigrant Investor Corporation	Economic Development, Employment and Infrastructure/Research and Innovation

[1] The schedule of government organizations is updated on an annual basis to reflect any amalgamations or dissolutions of consolidated organizations in the year. This listing represents all consolidated organizations included in the Province's financial statements as at March 31, 2016. Other controlled organizations that do not meet the consolidation threshold of materiality and cost-benefit (per PSAB standards), such as Children's Aid Societies and Community Care Access Centres, are instead reflected as government transfer payment expense in these financial statements through the accounts of the ministries responsible for them.

[2] The most recent audited financial statements of these organizations are included in Public Accounts of Ontario, Volume 2.

Province of Ontario
Schedule 8: Government Organizations[1]

Other Government Organizations[2] (cont'd)	Responsible Ministry (cont'd)
Ontario Infrastructure and Lands Corporation (Infrastructure Ontario)	Economic Development, Employment and Infrastructure/Research and Innovation
Ontario Mortgage and Housing Corporation	Municipal Affairs and Housing
Ontario Northland Transportation Commission	Northern Development and Mines
Ontario Place Corporation	Tourism, Culture and Sport
Ontario Racing Commission	Agriculture, Food and Rural Affairs
Ontario Securities Commission	Finance
Ontario Tourism Marketing Partnership Corporation	Tourism, Culture and Sport
Ontario Trillium Foundation	Tourism, Culture and Sport
Ornge	Health and Long-Term Care
Ottawa Convention Centre Corporation	Tourism, Culture and Sport
Province of Ontario Council for the Arts (Ontario Arts Council)	Tourism, Culture and Sport
The Centennial Centre of Science and Technology (Ontario Science Centre)	Tourism, Culture and Sport
The Royal Ontario Museum	Tourism, Culture and Sport
Toronto Organizing Committee for the 2015 Pan American and Parapan American Games (Toronto 2015)	Tourism, Culture and Sport
Toronto Waterfront Revitalization Corporation (Waterfront Toronto)[3]	Economic Development, Employment and Infrastructure/Research and Innovation
Transmission Corridor Program	Economic Development, Employment and Infrastructure/Research and Innovation

Broader Public Sector Organizations

Public Hospitals — Ministry of Health and Long-Term Care

Alexandra Hospital Ingersoll	Groves Memorial Community Hospital
Alexandra Marine & General Hospital	Guelph General Hospital
Almonte General Hospital	Haldimand War Memorial Hospital
Anson General Hospital	Haliburton Highlands Health Services Corporation
Arnprior Regional Health	Halton Healthcare Services Corporation
Atikokan General Hospital	Hamilton Health Sciences Corporation
Baycrest Centre for Geriatric Care	Hanover & District Hospital
Bingham Memorial Hospital	Headwaters Health Care Centre
Blind River District Health Centre	Health Sciences North
Bluewater Health	Holland Bloorview Kids Rehabilitation Hospital
Brant Community Healthcare System	Hôpital Général de Hawkesbury and District General Hospital Inc.
Brockville General Hospital	Hôpital Glengarry Memorial Hospital
Bruyère Continuing Care Inc.	Hôpital Montfort
Cambridge Memorial Hospital	Hôpital Notre Dame Hospital (Hearst)
Campbellford Memorial Hospital	Hornepayne Community Hospital
Carleton Place and District Memorial Hospital	Hospital for Sick Children
Casey House Hospice	Hôtel-Dieu Grace Healthcare
Chatham-Kent Health Alliance	Hôtel-Dieu Hospital, Cornwall
Children's Hospital of Eastern Ontario	Humber River Regional Hospital
Clinton Public Hospital	Joseph Brant Hospital
Collingwood General and Marine Hospital	Kemptville District Hospital
Cornwall Community Hospital	Kingston General Hospital
Deep River and District Hospital Corporation	Kirkland and District Hospital
Dryden Regional Health Centre	Lady Dunn Health Centre
Englehart and District Hospital Inc.	Lady Minto Hospital at Cochrane
Espanola General Hospital	Lake of the Woods District Hospital
Four Counties Health Services	Lakeridge Health
Georgian Bay General Hospital	Leamington District Memorial Hospital
Geraldton District Hospital	Lennox and Addington County General Hospital

[3] Toronto Waterfront Revitalization Corporation (Waterfront Toronto) is a government partnership with the Province having one-third interest.

Public Hospitals — Ministry of Health and Long-Term Care (cont'd)	
Grand River Hospital	Sinai Health System
Grey Bruce Health Services	Sioux Lookout Meno-Ya-Win Health Centre
Listowel Memorial Hospital	Smooth Rock Falls Hospital
London Health Sciences Centre	South Bruce Grey Health Centre
Mackenzie Health	South Huron Hospital Association
Manitoulin Health Centre	Southlake Regional Health Centre
Manitouwadge General Hospital	St. Francis Memorial Hospital
Markham Stouffville Hospital	St. Joseph's Care Group
Mattawa General Hospital	St. Joseph's Continuing Care Centre of Sudbury
McCausland Hospital	St. Joseph's General Hospital, Elliot Lake
Muskoka Algonquin Healthcare	St. Joseph's Health Care, London
Niagara Health System	St. Joseph's Health Centre (Guelph)
Nipigon District Memorial Hospital	St. Joseph's Health Centre (Toronto)
Norfolk General Hospital	St. Joseph's Healthcare Hamilton
North Bay Regional Health Centre	St. Mary's General Hospital
North Wellington Health Care Corporation	St. Mary's Memorial Hospital
North York General Hospital	St. Michael's Hospital
Northumberland Hills Hospital	St. Thomas - Elgin General Hospital
Orillia Soldiers' Memorial Hospital	Stevenson Memorial Hospital
Ottawa Hospital	Stratford General Hospital
Pembroke Regional Hospital Inc.	Strathroy Middlesex General Hospital
Perth and Smiths Falls District Hospital	Sunnybrook Health Sciences Centre
Peterborough Regional Health Centre	Temiskaming Hospital
Providence Care Centre (Kingston)	Thunder Bay Regional Health Sciences Centre
Providence Healthcare	Tillsonburg District Memorial Hospital
Queensway-Carleton Hospital	Timmins and District Hospital
Quinte Healthcare Corporation	Toronto East General Hospital
Red Lake Margaret Cochenour Memorial Hospital Corporation	Trillium Health Partners
Religious Hospitallers of St. Joseph of the Hôtel Dieu of Kingston	University Health Network
Religious Hospitallers of St. Joseph of the Hotel Dieu of St. Catharines	University of Ottawa Heart Institute
Renfrew Victoria Hospital	Weeneebayko Area Health Authority
Riverside Health Care Facilities Inc.	West Haldimand General Hospital
Ross Memorial Hospital	West Nipissing General Hospital
Rouge Valley Health System	West Park Healthcare Centre
Royal Victoria Regional Health Centre	West Parry Sound Health Centre
Runnymede Healthcare Centre	William Osler Health System
Salvation Army Toronto Grace Health Centre	Wilson Memorial General Hospital
Sault Area Hospital	Winchester District Memorial Hospital
Scarborough Hospital	Windsor Regional Hospital
Seaforth Community Hospital	Wingham and District Hospital
Sensenbrenner Hospital	Women's College Hospital
Services de santé de Chapleau Health Services	Woodstock General Hospital Trust

Specialty Psychiatric Hospitals — Ministry of Health and Long-Term Care	
Centre for Addiction and Mental Health	Royal Ottawa Health Care Group
Ontario Shores Centre for Mental Health Sciences	Waypoint Centre for Mental Health Care

Province of Ontario
Schedule 8: Government Organizations[1]

School Boards — Ministry of Education

Algoma District School Board
Algonquin and Lakeshore Catholic District School Board
Avon Maitland District School Board
Bloorview MacMillan School Authority
Bluewater District School Board
Brant Haldimand Norfolk Catholic District School Board
Bruce-Grey Catholic District School Board
Campbell Children’s School Authority
Catholic District School Board of Eastern Ontario
Conseil des écoles publiques de l’Est de l’Ontario
Conseil scolaire catholique Providence
Conseil scolaire de district catholique Centre-Sud
Conseil scolaire de district catholique de l’Est ontarien
Conseil scolaire de district catholique des Aurores boréales
Conseil scolaire de district catholique des Grandes Rivières
Conseil scolaire de district catholique du Centre-Est de l’Ontario
Conseil scolaire de district catholique du Nouvel-Ontario
Conseil scolaire de district catholique Franco-Nord
Conseil scolaire de district du Grand Nord de l’Ontario
Conseil scolaire de district du Nord-Est de l’Ontario
Conseil scolaire Viamonde
District School Board of Niagara
District School Board Ontario North East
Dufferin-Peel Catholic District School Board
Durham Catholic District School Board
Durham District School Board
Grand Erie District School Board
Greater Essex County District School Board
Halton Catholic District School Board
Halton District School Board
Hamilton-Wentworth Catholic District School Board
Hamilton-Wentworth District School Board
Hastings and Prince Edward District School Board
Huron-Perth Catholic District School Board
Huron-Superior Catholic District School Board
James Bay Lowlands Secondary School Board
John McGivney Children’s Centre School Authority
Kawartha Pine Ridge District School Board
Keewatin-Patricia District School Board
Kenora Catholic District School Board
KidsAbility School Authority
Lakehead District School Board
Lambton Kent District School Board
Limestone District School Board
London District Catholic School Board
Moose Factory Island District School Area Board
Moosonee District School Area Board
Near North District School Board
Niagara Catholic District School Board
Niagara Peninsula Children’s Centre School Authority
Nipissing-Parry Sound Catholic District School Board
Northeastern Catholic District School Board
Northwest Catholic District School Board
Ottawa Catholic District School Board
Ottawa Children’s Treatment Centre School Authority
Ottawa-Carleton District School Board
Peel District School Board
Penetanguishene Protestant Separate School Board
Peterborough Victoria Northumberland and Clarington Catholic District School Board
Rainbow District School Board
Rainy River District School Board
Renfrew County Catholic District School Board
Renfrew County District School Board
Simcoe County District School Board
Simcoe Muskoka Catholic District School Board
St. Clair Catholic District School Board
Sudbury Catholic District School Board
Superior North Catholic District School Board
Superior-Greenstone District School Board
Thames Valley District School Board
Thunder Bay Catholic District School Board
Toronto Catholic District School Board
Toronto District School Board
Trillium Lakelands District School Board
Upper Canada District School Board
Upper Grand District School Board
Waterloo Catholic District School Board
Waterloo Region District School Board
Wellington Catholic District School Board
Windsor-Essex Catholic District School Board
York Catholic District School Board
York Region District School Board

Province of Ontario
Schedule 8: Government Organizations[1]

Colleges — Ministry of Training, Colleges and Universities

Algonquin College of Applied Arts and Technology
Cambrian College of Applied Arts and Technology
Canadore College of Applied Arts and Technology
Centennial College of Applied Arts and Technology
Collège Boréal d'arts appliqués et de technologie
Collège d'arts appliqués et de technologie La Cité collégiale
Conestoga College Institute of Technology and Advanced Learning
Confederation College of Applied Arts and Technology
Durham College of Applied Arts and Technology
Fanshawe College of Applied Arts and Technology
George Brown College of Applied Arts and Technology
Georgian College of Applied Arts and Technology
Humber College Institute of Technology and Advanced Learning
Lambton College of Applied Arts and Technology
Loyalist College of Applied Arts and Technology
Mohawk College of Applied Arts and Technology
Niagara College of Applied Arts and Technology
Northern College of Applied Arts and Technology
Sault College of Applied Arts and Technology
Seneca College of Applied Arts and Technology
Sheridan College Institute of Technology and Advanced Learning
Sir Sandford Fleming College of Applied Arts and Technology
St. Clair College of Applied Arts and Technology
St. Lawrence College of Applied Arts and Technology

Province of Ontario

Schedule 9: Government Business Enterprises

Summary financial information of Government Business Enterprises is provided below.

For the year ended March 31, 2016 ($ Millions)	Brampton Distribution Holdco Inc.[1]	Hydro One Limited[2, 3]	Liquor Control Board of Ontario[1]	Ontario Lottery and Gaming Corporation[1]	Ontario Power Generation Inc.[2]	Total
Assets						
Cash and Temporary Investments	47	213	273	489	540	1,562
Accounts Receivable	70	715	61	157	549	1,552
Inventories	–	–	433	30	428	891
Prepaid Expenses	–	–	9	56	–	65
Fixed Assets	365	15,269	388	1225	20,778	38,025
Other Assets	99	4,409	8	2	25,221	29,739
Total Assets	581	20,606	1,172	1,959	47,516	71,834
Liabilities						
Accounts Payable	71	782	628	307	1,291	3,079
Deferred Revenue	–	–	–	16	271	287
Long-Term Debt	–	8,028	105	66	5,459	13,658
Other Liabilities	39	3,449	2	258	27,490	31,238
Total Liabilities	110	12,259	735	647	34,511	48,262
Net Assets (liabilities)	471	8,347	437	1,312	13,005	23,572
Revenue	345	5,707	5,620	7,779	5,526	24,977
Expenses	325	5,471[4]	3,664	5,545	5,063	20,068
Net Income (loss)	20	236	1,956	2,234	463	4,909
Net Assets at Beginning of Year	–	8,072	416	1,469	13,545	23,502
Decrease in Fair Value of Ontario Nuclear Funds *(Note 10)*	–	–	–	–	(1,003)	(1,003)
Hydro One Brampton transfer *(Note 11)*	451	(451)	–	–	–	–
Capital Contribution to Hydro One	–	2,600	–	–	–	2,600
Book value of Hydro One Shares Sold *(Note 11)*	–	(1,071)	–	–	–	(1,071)
Remittances (to) Consolidated Revenue Fund	–	(1,039)	(1,935)	(2,391)	–	(5,365)
Net Assets	471	8,347	437	1,312	13,005	23,572

1 Amounts reported using IFRS.

2 Amounts reported in the standalone financial statements of Hydro One Limited and Ontario Power Generation are prepared in accordance with US GAAP. The differences between US GAAP and IFRS are not material to the consolidated financial statements of the Province (*Note 12*).

3 As at March 31, 2016, the Province owned approximately 84 per cent of Hydro One Limited.

4 Reflects the amount of the revaluation of the tax basis of the assets of formerly Hydro One Inc. and its subsidiaries to fair market value, which resulted in a net deferred tax recovery of $2.6 billion recorded in 2015 by Hydro One Ltd.

Brampton Distribution Holdco Inc.

The principal business of Brampton Distribution Holdco Inc. is the ownership, operation and management of electricity distribution systems and facilities. It is regulated by the Ontario Energy Board.

Hydro One Limited

The principal business of Hydro One Limited is the transmission and distribution of electricity to customers within Ontario. It is regulated by the Ontario Energy Board.

Liquor Control Board of Ontario

The Liquor Control Board of Ontario regulates the purchase, sale and distribution of liquor for home consumption and liquor sales to licensed establishments through Liquor Control Board stores, Brewers Retail stores and winery retail stores throughout Ontario. The Board buys wine and liquor products for resale to the public, tests all products sold and establishes prices for beer, wine and spirits.

Ontario Lottery and Gaming Corporation

The Corporation conducts lottery games and operates commercial casinos, charity casinos and slot machines at Ontario racetracks.

Ontario Power Generation Inc.

The principal business of Ontario Power Generation Inc. is the generation and sale of electricity in the Ontario wholesale market and in the interconnected markets of Quebec, Manitoba and the northeast and midwest United States.

Province of Ontario
Schedule 10: Broader Public Sector Organizations

Summary financial information of Broader Public Sector Organizations is provided below.

For the year ended March 31, 2016 ($ Millions)	Hospitals	School Boards	Colleges	Total
Expense				
Salaries, Wages and Benefits	17,684	19,016	2,465	39,165
Amortization Expense	1,531	1,054	273	2,858
Interest Expense[1]	220	386	15	621
Other Expense	7,349	4,034	1,178	12,561
Fees, Donations and Other Revenues	(4,143)	(1,374)	(2,263)	(7,780)
Total Sector Expense	22,641	23,116	1,668	47,425
Transfers from the Province	(23,136)	(23,552)	(1,788)	(48,476)
Net Impact on Provincial Expense – (Decrease)	(495)	(436)	(120)	(1,051)

[1] Interest Revenue of $156 million is netted with Interest Expense.

GLOSSARY

Note: The descriptions of the terms in the glossary are provided for the purpose of assisting readers of the 2015–16 Public Accounts. The descriptions do not affect or alter the meaning of any term under law. The glossary does not form part of the audited consolidated financial statements.

Accumulated Amortization: the total amortization that has been recorded over the life of an asset to date. The asset's total cost less the accumulated amortization gives the asset's net book value.

Accumulated Deficit: the difference between liabilities and assets. It represents the total of all past annual deficits minus all past annual surpluses, including prior-period adjustments.

Amortization: expensing a portion of an asset's cost in an accounting period by allocating its cost over its estimated useful life. This is applicable to tangible capital assets and items such as expenses relating to a debt issue.

Appropriation: an authority of the Legislative Assembly to pay money out of the Consolidated Revenue Fund or to incur a non-cash expense.

Broader Public Sector (BPS): public hospitals, specialty psychiatric hospitals, school boards and colleges. For financial statement purposes, universities and other organizations such as municipalities are excluded because they do not meet the criteria of government organizations as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada.

Canada Health Transfer (CHT): a federal transfer provided to each province and territory in support of health care.

Canada Social Transfer (CST): a federal transfer provided to each province and territory in support of post-secondary education, social assistance and social services, including early childhood development, early learning and child care.

Capital Gain: the profit arising from the sale or transfer of capital assets or investments. For accounting purposes, it is the proceeds or market value received less the net book value of the capital asset or investment.

Capital Lease: a lease that, from the point of view of the lessee, transfers substantially all the benefits and risks incident to ownership of property to the lessee.

Cash and Cash Equivalents: cash or other short-term liquid low-risk instruments that are readily convertible to cash, typically within three months or less.

Consolidated Revenue Fund (CRF): the aggregate of all public monies on deposit to the credit of the Minister of Finance or in the name of any agency of the Crown approved by the Lieutenant Governor in Council. Payments made from the CRF must be appropriated by a statute. *See* Appropriation.

Consolidation: the inclusion of the financial results of government-controlled organizations in the Province's consolidated financial statements.

Consumer Price Index (CPI): a broad measure of the cost of living. Through the monthly CPI, Statistics Canada tracks the retail price of a representative shopping basket of goods and services from an average household's expenditure: food, housing, transportation, furniture, clothing, and recreation. The percentage of the total basket that any item occupies is termed the "weight" and reflects typical consumer spending patterns. Since people tend to spend more on food than clothing, changes in the price of food have a bigger impact on the index than, for example, changes in the price of clothing and footwear.

Contingency Fund: an amount of expense that is approved by the Legislative Assembly at the beginning of the year to cover higher spending due to unforeseen events. This approved spending limit is allocated during the year to ministries for their programs and activities. The actual costs incurred are charged to the respective programs and activities and not to the contingency fund. Therefore, the contingency fund as at the end of the Province's fiscal year is nil. *See* Reserve.

Contingent Liabilities: possible obligations that may result in the future sacrifice of economic benefits arising from existing conditions or situations involving uncertainty, which will ultimately be resolved when one or more future events not wholly within the government's control occur or fail to occur. Resolution of the uncertainty will confirm the incurrence or non-incurrence of a liability.

Contractual Obligations: obligations of a government to others that will become liabilities when the terms of any contract or agreement, which the government had entered into, are met.

Debenture: a debt instrument where the issuer promises to pay interest and repay the principal by the maturity date. It is unsecured, meaning there is no lien on any specific asset.

Debt: an obligation resulting from the borrowing of money.

Deferred Capital Contribution: the unamortized portion of tangible capital assets or liabilities to construct or acquire tangible capital assets from specific funding received from other levels of government or third parties. Deferred capital contribution is recorded in revenue over the estimated useful life of the underlying tangible capital assets once constructed or acquired by the Province.

Deferred Revenue: unspent externally restricted grants from other levels of government and third parties for operating activities. Deferred revenues are recorded into revenue in the period in which the amount received is used for the purposes specified.

Deficit: the amount by which government expenses exceed revenues in any given year. On a forecast basis, a reserve may be included.

Derivatives: financial contracts that derive their value from other underlying instruments. The Province uses derivatives including swaps, forward foreign exchange contracts, forward rate agreements, futures and options to hedge and minimize interest costs.

Expected Average Remaining Service Life: total number of years of future services expected to be rendered by that group of employees divided by the number of employees in the group.

Fair Value: the price that would be agreed upon in an arm's-length transaction and in an open market between knowledgeable, willing parties who are under no compulsion to act. It is not the effect of a forced or liquidation sale.

Financial Assets: assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets include cash; an asset that is convertible to cash; a contractual right to receive cash or another financial asset from another party; a temporary or portfolio investment; a financial claim on an outside organization or individual; and inventory.

Financial Instrument: liquid asset, equity security in an entity, or a contract that gives rise to a financial asset of one contracting party and a financial liability or equity instrument of the other contracting party.

Fiscal Plan: an outline of the government's consolidated revenue and expense plan for the upcoming fiscal year and the medium term, including information on the projected surplus/deficit. The plan is formally presented in the Budget, which the government presents in the spring of each year and is updated, as required, during the year. The fiscal plan numbers can be different from the expenditures outlined in the Printed Estimates.

Fiscal Year: the Province of Ontario's fiscal year runs from April 1 of a year to March 31 of the following year.

Floating Rate Notes (FRNs): debt instruments that bear a variable rate of interest.

Forgivable Loan: advances where the terms and conditions of the loan agreement allow for the non-repayment of the principal or accrued interest when certain conditions are met.

Forward Contract: a contract that obligates one party to buy, and another party to sell, a specified amount of a particular asset at a specified price, on a given date in the future.

Forward Rate Agreement: a forward contract that specifies the rate of interest, usually short term, to be paid or received on an obligation beginning at a future start date.

Fund: fiscal and accounting entity segregated for the purpose of carrying on specific activities, or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Futures: an exchange-traded contract that confers an obligation to buy or sell a physical or financial commodity at a specified price and amount on a future date.

Gross Domestic Product (GDP): the total unduplicated value of the goods and services produced in the economy of a country or region during a given period, such as a quarter or a year. Gross domestic product can be measured three ways: as total income earned in current production, as total final expenditures or as total net value added in current production.

Hedging: a strategy to minimize the risk of loss on an asset (or a liability) from market fluctuations such as interest rate or foreign exchange rate changes. This is accomplished by entering into offsetting commitments with the expectation that a future change in the value of the hedging instrument will offset the change in the value of the asset (or the liability).

Indemnity: an agreement whereby one party agrees to compensate another party for any loss suffered by that party. The Province can either seek or provide indemnification.

Infrastructure: the facilities, systems and equipment required to provide public services and support private-sector economic activity including network infrastructure (e.g., roads, bridges, water and wastewater systems, large information technology systems), buildings (e.g., hospitals, schools, courts), and machinery and equipment (e.g., medical equipment, research equipment).

Liquid Reserve: comprises cash and short-term investments managed before consolidation with other government entities. It includes cash in the Province's bank accounts, money market securities and long-term bonds which have not been lent out through a sale and re-purchase agreement, adjusted for net pledged collateral.

Loan Guarantee: an agreement to pay all or part of the amount due on a debt obligation in the event of default by the borrower.

Net Book Value of Tangible Capital Assets: historical cost of tangible capital assets less both the accumulated amortization and the amount of any write-downs.

Net Debt: the difference between the Province's total liabilities and financial assets. It represents the Province's future revenue requirements to pay for past transactions and events.

Nominal: an amount expressed in dollar terms without adjusting for changes in prices due to inflation or deflation. It is not a good basis for comparing values of GDP in different years, for which a "real" value expressed in constant dollars (i.e., adjusted for price changes) is needed. *See* Real GDP.

Non-Financial Assets: assets that normally do not generate cash capable of being used to repay existing debts. The non-financial assets of the Province are tangible capital assets.

Non-Tax Revenue: revenue received by the government from external sources. This also includes revenues from the sale of goods and services, fines and penalties associated with the enforcement of government regulations and laws; fees and licence; royalties; profits from a self-sustaining Crown agency; and asset sales.

Ontario Disability Support Program (ODSP): a program designed to meet the unique needs of people with disabilities who are in financial need, or who want and are able to work and need support. Ontarians aged 65 years or older who are ineligible for Old Age Security may also qualify for ODSP supports if they are in financial need.

Option: a contract that confers the right, but not the obligation, to buy or sell a specific amount of a commodity, currency or security at a specific price, on a certain future date.

Pension Actuarial Accounting Valuation: a valuation performed by an actuary to measure the pension benefit obligations at the end of the period or a point in time. The valuation attributes the cost of the pension benefit obligations to the period the related services are rendered by the members.

Pension Statutory Actuarial Funding Valuation: a valuation performed by an actuary to determine whether a pension plan has sufficient money to pay for its obligations when they become due. The valuation determines the contributions required to meet the pension benefit obligations.

Present Value: the current worth of one or more future cash payments, determined by discounting the payments using a given rate of interest.

Program Expense: total expense excluding interest on debt.

Public Accounts: the Consolidated Financial Statements of the Province along with supporting statements and schedules as required by the *Financial Administration Act*.

Real GDP: gross domestic product measured to exclude the impact of changing prices.

Recognition: the process of including an item in the financial statements of an entity.

Reserve: an amount included in the fiscal plan to protect the plan against unforeseen adverse changes in the economic outlook, or in the Provincial revenue and expense. Actual costs incurred by the ministry, which pertain to the reserve, are recorded as expenses of that ministry. *See* Contingency Fund.

Segment: a distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information to help users of the financial statements identify the resources allocated to support the major activities of the government.

Sinking Fund Debenture: a debenture that is secured by periodic payments into a fund established to retire long-term debt.

Straight-Line Basis of Amortization: a method whereby the annual amortization expense is computed by dividing i) the historical cost of the asset by ii) the number of years the asset is expected to be used.

Surplus: the amount by which revenues exceed government expenses in any given year. On a forecast basis, a reserve may be included.

Swaption: an option granting its owner the right but not the obligation to enter into an underlying swap. Although options can be traded on a variety of swaps, the term swaption typically refers to options on interest rate swaps.

Tangible Capital Assets: physical assets including land, buildings, transportation infrastructure, vehicles, leased assets, machinery, furniture, equipment and information technology infrastructure and systems, and construction in progress.

Temporary Investments: investments that are transitional or current in nature and generally capable of reasonably prompt liquidation.

Total Debt: the Province's total borrowings outstanding.

Total Expense: sum of program expense and interest on debt expense.

Transfer Payments: grants to individuals, organizations or other levels of government for which the government making the transfer does not:

- receive any goods or services directly in return, as would occur in a purchase or sale transaction;
- expect to be repaid, as would be expected in a loan; or
- expect a financial return, as would be expected in an investment.

Treasury Bills: short-term debt instrument issued by governments on a discount basis.

Unrealized Gain or Loss: an increase or decrease in the fair value of an asset accruing to the holder. Once the asset is disposed of or written off, the gain or loss is realized.

SOURCES OF ADDITIONAL INFORMATION

The Ontario Budget

The Ontario government presents a Budget each year, usually in the early spring. This document outlines expected expense and revenue for the upcoming fiscal year. For an electronic copy of the Ontario Budget, visit the Ministry of Finance website at www.fin.gov.on.ca.

The Estimates of the Province of Ontario

The government's spending Estimates for the fiscal year commencing April 1 are presented to members of the Legislative Assembly following the presentation of the Ontario Budget by the Minister of Finance. The Estimates outline the spending plans of each ministry and are submitted for approval to the Legislative Assembly according to the *Supply Act*. For electronic access, go to: www.fin.gov.on.ca.

Ontario Finances

This is a quarterly report on the performance of the government's Budget for the fiscal year. It covers developments during a quarter and provides a revised outlook for the remainder of the year. For electronic access, go to: www.fin.gov.on.ca.

Ontario Economic Accounts

This quarterly report contains data on Ontario's economic activity. For electronic access, go to: www.fin.gov.on.ca.

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