



OPEN ONTARIO

Ontario's Plan for Jobs and Growth

2010 ONTARIO BUDGET

Budget Papers

The Honourable Dwight Duncan
Minister of Finance



Ontario

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FOREWORD

Ontario's 2010 Speech from the Throne sets out a five-year plan to Open Ontario to new jobs and economic growth.

The Open Ontario plan lays the foundation for the Province to seize new global opportunities and turn them into jobs for Ontarians. It positions Ontario to emerge from the global economic recession and return to a sound financial footing.

Before the global recession, growth in spending on programs and services by the McGuinty government did not exceed growth in revenues. When the global economic recession occurred, it hit Ontario harder than other provinces, due to its manufacturing and forestry sectors. Government revenues declined steeply. In fact, no other Canadian jurisdiction experienced a sharper decline in corporate tax revenues between 2007–08 and 2009–10 than Ontario.

The McGuinty government made a choice to help lessen the impact of the recession on Ontarians, through short-term stimulus investments that created jobs and helped restore growth. The government also made a decision to protect education and health care. As a result, Ontario, like other jurisdictions in Canada and around the world, has a fiscal deficit.

The *2010 Budget* forecasts a deficit of \$21.3 billion for 2009–10, down from the \$24.7 billion projected in the *Fall 2009 Ontario Economic Outlook and Fiscal Review*. The deficit is projected to be \$19.7 billion in 2010–11. The *Budget* lays out a plan to cut the deficit in half in five years and eliminate it by 2017–18.

Continuing investments in Ontario's future are necessary to create jobs, boost economic growth and protect schools and hospitals.

Confronting the current fiscal challenge is also necessary. The government must manage spending, in spite of escalating and competing demands from Ontarians for scarce resources. It must do so to protect priority investments and sustain the progress made in Ontario's schools and hospitals. The government's plan achieves this balance.

The McGuinty government has a realistic and responsible plan to eliminate the deficit in eight years. It will cut the deficit in half in five years. The plan does not put job creation and economic growth at risk by cutting too much too soon, nor does it spend as if there is no deficit. This will allow the government to balance the budget while building the foundation of its Open Ontario plan.

The government will lead by example, and Ontarians paid by tax dollars will have a role to play in the prudent management of resources.

This *Budget* sets out the next steps in the Open Ontario plan for jobs and growth. It also lays out the government's balanced and responsible plan to manage spending, eliminate the deficit and secure the province's long-term financial sustainability.

Building on Six Years of Progress

When the McGuinty government took office in 2003, it laid out a prudent and responsible plan to improve schools, hospitals and other public services that Ontarians value, while eliminating the hidden \$5.5 billion fiscal deficit it had inherited.

The plan is delivering results.

Class sizes in Ontario's schools are smaller and test scores are higher. There are 120,000 more students in Ontario colleges and universities because of the government's 2005 Reaching Higher plan, the biggest multi-year investment in postsecondary education in 40 years.

Investments in skills training and employment supports are helping more than one million Ontarians a year get the services they need to find and succeed in new jobs.

In the last six years, 900,000 more Ontarians obtained access to a family doctor and patients have shorter wait times for cancer surgery, hip replacements and CT scans.

Investments in infrastructure are creating jobs while rebuilding Ontario's roads, bridges, schools, hospitals and transit systems, which were suffering from years of neglect.

The government's investments are protecting the environment and creating green-economy jobs, including new jobs in the clean water sector.

The Ontario Child Benefit, enhancements to social housing, increases to benefits under Ontario Works and the Ontario Disability Support Program and other investments in the government's Poverty Reduction Strategy are improving the quality of life for Ontario's most vulnerable. For Open Ontario to succeed, all Ontarians must be at their best.

The government's Tax Plan for Jobs and Growth is transforming Ontario into one of the most tax-competitive jurisdictions in the industrialized world. The tax plan replaces the outdated Retail Sales Tax with a value-added tax and combines it with the federal Goods and Services Tax on July 1, 2010. It also includes significant temporary and permanent tax relief for people and businesses. The tax plan, together with other recent tax changes, supports new business investment and is estimated to create nearly 600,000 net new jobs within 10 years.

The McGuinty government's investments since 2003 to support universal health care, public education, modern infrastructure, vulnerable citizens, a greener Ontario and lower business costs have protected and enhanced programs and services for Ontarians before, during and after the recession. These investments continue to strengthen Ontario's economy and competitive advantage, boosting jobs and growth. The government's prudent planning has allowed it to invest in people while balancing budgets, paying down debt and cutting business taxes.

Open Ontario — Ontario's Plan for Jobs and Growth

The Open Ontario plan builds on the progress the government has made over the past six years to enhance the programs and services that matter most to Ontarians.

It focuses the government's resources on areas that will open Ontario to new ideas, new economic growth and jobs.

To move the Open Ontario plan forward, the *2010 Budget* includes new investments in two priority areas: postsecondary education and northern Ontario.

Funding 20,000 Additional Postsecondary Spaces

Postsecondary education remains a top priority for the McGuinty government. A well-educated workforce enhances the province's economic growth and competitiveness. Ontario's colleges and universities also open the province to the world, attracting students from every corner of the globe.

Through its Open Ontario plan, the McGuinty government will increase Ontario's postsecondary education attainment rate to 70 per cent. The plan will ensure that every qualified Ontarian who wants to go to college or university can find a place. To help achieve this goal, the *Budget* increases postsecondary operating grants by \$310 million in 2010–11, adding 20,000 new student spaces in colleges and universities. The plan will also increase international enrolment in Ontario colleges and universities by 50 per cent.

Opening Northern Ontario to New Investment and Jobs

While many people and businesses in Ontario have been hurt by the recession, those in northern Ontario have been particularly hard hit. Through its Open Ontario plan, the McGuinty government will help open northern Ontario to new investment and jobs, while providing relief to northern industries and residents for their higher energy costs.

To help achieve these goals, the *2010 Budget* proposes to create a three-year, \$150 million-a-year Northern Industrial Electricity Rate Program for qualifying large industrial facilities, which would, on average, reduce their electricity prices by about 25 per cent. The *Budget* also invests \$45 million to leverage economic development opportunities in the north, such as the Ring of Fire chromite deposit.

As well, the *Budget* proposes a permanent Northern Ontario Energy Credit to help eligible low- to middle-income northern Ontario residents with their higher energy costs. The credit would provide up to \$130 for single people and up to \$200 for families (including single parents) annually, benefiting about a quarter of a million northern families and individuals, or over half of northerners.

Completing the Second Year of Infrastructure Stimulus Investments

In addition to new investments in postsecondary education and northern Ontario, the *Budget* includes the government's plan to invest \$32 billion in infrastructure investments to create and preserve more than 300,000 jobs.

Investing to Give Children a Strong Start in Life

An educated and healthy population is critical to Ontario's prosperity. In September 2010, the government will introduce full-day learning for four- and five-year-olds, benefiting up to 35,000 children in nearly 600 schools. The government's goal is to have early learning fully implemented by 2015–16.

The McGuinty government is disappointed that the federal government has declined to ensure stability in the child care sector. However, this government will not allow the end of federal funding to disrupt the progress made and the services that parents with young children rely on. Ontario is stepping in with an investment of \$63.5 million a year to permanently fill the gap left by the federal government, preserving approximately 8,500 child care spaces and helping over 1,000 child care workers keep their jobs.

In addition to the above measures, the *2010 Budget* sets out the government's ongoing investments to help people and businesses, including public health care, public education, skills training, modern infrastructure, a greener Ontario, support for key economic sectors and its Tax Plan for Jobs and Growth.

Managing Responsibly

The Open Ontario plan is about opening the province to new opportunities, new jobs and new growth. The plan includes the elimination of the deficit caused by the global recession in a realistic and responsible way. The government will eliminate the deficit in a way that maintains the progress Ontarians have made in their schools and health care.

Since taking office, the McGuinty government has undertaken a number of measures to modernize public services and create efficiencies in its own operations. In addition, a high priority of the government has been to improve transparency, fiscal accountability and effective financial management of public funds.

Prior to the recession, the government eliminated the deficit it inherited and posted three consecutive balanced budgets. In 2008–09, the government's per capita spending on general administration was the second lowest among provincial governments. Recent government restraint measures include a 26 per cent decrease in Ontario Public Service travel costs. The transfer of Ontario corporate income tax collection to the federal government will result in \$50 million in annual administrative cost savings.

However, more must be done to address the challenges that threaten Ontario's long-term prosperity.

Foremost among these challenges is Ontario's aging population, which will place significant pressure on the province's largest area of program spending — health care. Today, 46 cents of every dollar spent on provincial government programs are spent on health care. If the growth in health care spending is left unchecked, this amount could rise to 70 cents by 2022.

Another challenge is the potential for rising interest rates, which would impair the government's ability to invest in key priorities.

While there are signs of an economic recovery, the government cannot rely on economic growth alone to balance the budget. Action is required to manage the growth of spending and to preserve key public services in the coming years and for future generations.

Compensation Measures

Those who work in the Broader Public Sector, including employees in the Ontario Public Service, have accomplished a great deal over the past six years. Ontarians value and appreciate the contribution of those who deliver their public services, and they also expect those who are paid by tax dollars to do their part to help sustain public services as the province overcomes its fiscal challenges.

Last year, the government committed to reducing the size of the Ontario Public Service by five per cent over three years. MPPs led by example and froze their pay.

The government will continue to lead by example in the area of compensation restraint. The MPP pay freeze would be extended from one year to three years.

In addition, the government will introduce legislation that would:

- ☒ freeze the compensation structures of non-bargained political and Legislative Assembly staff for two years; and
- ☒ freeze compensation structures in the Broader Public Sector and the Ontario Public Service for all non-bargained employees for two years.

By 2011–12, this legislation would redirect up to \$750 million towards sustaining schools, hospitals and other public services.

The government will respect all current collective agreements. However, the fiscal plan provides no funding for incremental compensation increases for any future collective agreements. As agreements are renegotiated, the government will work with transfer partners and bargaining agents to seek agreements of at least two years' duration. These agreements should help manage spending pressures, protect public services that Ontarians rely on and provide no net increase in compensation.

All those who are paid through tax dollars have a role to play, and these measures will help Ontarians maintain the progress they have made together to restore services in their hospitals, schools and other public services.

Other Restraint Measures

To manage spending, reduce the deficit, enhance service delivery and place Ontario on a sustainable financial footing, this *Budget* also includes measures to:

- ☑ manage the growth of health care spending at a responsible rate. Such measures as proposed reforms to Ontario's drug system will keep drugs affordable and permit savings to be reinvested in health care. The government's goal is to hold annual health sector spending increases to three per cent by 2012–13;
- ☑ slow the pace of planning and construction of some of the government's capital projects, once the stimulus funding has ended;
- ☑ transform the delivery of government programs to improve client service and enhance efficiency;
- ☑ freeze internal operating expenses at or below 2010–11 levels; and
- ☑ hold the annual growth in program expense to an average of 1.9 per cent beyond 2012–13.

Building on the work of the government's previous expenditure management measures and the recent work of the Treasury Board Working Group, the government will continue with a comprehensive review of all government programs and services. The comprehensive review will be overseen by Treasury Board and will ensure that the government's resources are focused on delivering the programs and services that support:

- ☑ jobs and economic growth;
- ☑ access to high-quality health care and education; and
- ☑ clean and strong communities, including effective supports for the most vulnerable.

The goal of the review is to move resources from low-priority areas to high-priority areas and to move forward the Open Ontario plan.

Conclusion

Since taking office in 2003, the McGuinty government has had a clear plan to support key public services and enhance Ontario's economic competitiveness, to attract investment and create jobs.

It has improved Ontario's schools, colleges, universities and hospitals. It has built transit, roads and bridges. It has supported a greener Ontario, accelerated innovation and improved the quality of life for vulnerable Ontarians.

When the global economic crisis hit, the government laid out a strategy to lessen the impact on Ontario families and businesses, through short-term investments to stimulate the economy. The government also introduced the Tax Plan for Jobs and Growth, the single most important action it could take to strengthen Ontario's economy and create jobs.

The government's Open Ontario plan takes the next step, by focusing on the key priorities of postsecondary education and economic development that will help open Ontario to its greatest economic potential.

To secure Ontario's long-term future, the government must take steps to eliminate the deficit responsibly, while retaining the progress Ontarians have made in their schools, hospitals and communities.

Over the past six years, Ontarians have responded to many challenges and opportunities. They have responded to the opportunities presented by the global economy. They have responded to a deep, difficult recession. The government is confident that Ontarians will respond to the need to work together and do their part to eliminate the deficit and preserve public services.

In this *Budget*, the government lays out its balanced plan to meet the fiscal and economic challenges of today, so that Ontario will continue to be strong and competitive tomorrow. By managing responsibly and through economic strength, Ontario will attract investment, create jobs and continue to be able to fund the public services Ontarians need and deserve.

Chapter I

Ontario's Plan for Prosperity





Section A: **J**obs and Growth

HIGHLIGHTS

Investing in Knowledge and Skills

- ✓ 20,000 new student spaces in colleges and universities, starting in 2010–11, through a new annual investment of \$310 million.
- ✓ More than 1,000,000 Ontarians receive skills training and employment assistance annually.
- ✓ Full-day learning for four- and five-year-olds begins in September 2010, benefiting up to 35,000 children in nearly 600 schools.

Helping Job Creation and Economic Growth in Northern Ontario

- ✓ \$150 million a year, on average, over three years for a new Northern Industrial Electricity Rate Program.
- ✓ \$45 million over three years for a new skills training program to help Aboriginal Peoples and northern Ontarians benefit from developing economic opportunities such as the Ring of Fire. This *Budget* also announces a Ring of Fire Coordinator to work with all parties to advance the area's economic promise.
- ✓ A proposed permanent Northern Ontario Energy Credit of up to \$130 for single people and up to \$200 for families (including single parents) annually, to help northern Ontario residents with the higher energy costs they face.

Job Opportunities through the Green Economy

- ✓ 50,000 jobs over three years through the *Green Energy Act*, 2009.
- ✓ A new water strategy to protect Ontario's water resources and promote jobs in the water sector.

Short-Term Infrastructure Investments

- ✓ Record investment over 2009–10 and 2010–11 for roads, bridges, transit, energy retrofits and other infrastructure, creating and preserving more than 300,000 jobs.

Ontario's Tax Plan for Jobs and Growth

- ✓ Helps create nearly 600,000 net new jobs within 10 years.
- ✓ Personal Income Tax cuts for 93 per cent of income tax payers.
- ✓ Enhanced sales tax credits and property tax credits for low- to middle-income families and individuals, starting in 2010.
- ✓ Corporate Income Tax cuts, including reducing the small business income tax rate from 5.5 per cent to 4.5 per cent on July 1, 2010.
- ✓ Over \$4.2 billion in Sales Tax Transition Benefits to help Ontarians adjust to the Harmonized Sales Tax.

Advancing the Poverty Reduction Agenda

- ✓ Target to reduce child poverty by 25 per cent over five years, which would move 90,000 children out of poverty by 2013.
- ✓ \$63.5 million in annual child care funding to replace discontinued federal funding, keeping approximately 8,500 Ontario children in child care.

- ☑ Increase adult basic-needs allowances and maximum shelter allowances by one per cent for people on Ontario Disability Support Program and Ontario Works. This would provide an additional \$20 million to families and individuals in 2010–11.
- ☑ Ontario's minimum wage will rise to \$10.25 per hour on March 31, 2010.
- ☑ Personal income tax cuts will result in 90,000 lower-income taxpayers no longer paying Ontario personal income tax, starting in 2010.
- ☑ Number of employment standards officers increased to expand protection for some of the province's most vulnerable workers.

OPENING ONTARIO THROUGH KNOWLEDGE AND SKILLS

Six years ago, the McGuinty government began building a solid foundation for economic growth and prosperity through its investments in education and skills training. With its five-year Open Ontario plan, the government will continue to invest in Ontarians' knowledge and skills through postsecondary education, skills training, jobs programs and full-day learning.

Postsecondary Education

Ontario's colleges and universities play a critical role in equipping people for success and preparing them to generate the ideas, products and jobs that will ensure future prosperity.

Ontario has one of the highest rates of postsecondary education attainment in the world at 62 per cent. However, as the economy changes, 70 per cent of all new jobs will require postsecondary education or training.

The Plan:

The McGuinty government made the largest multi-year investment in postsecondary education in 40 years through Reaching Higher, announced in 2005. Postsecondary education remains a top government priority. Through its Open Ontario plan, the government's goal is to raise Ontario's postsecondary attainment rate to 70 per cent. There will be a place for every qualified Ontarian who wants to go to college or university. The government will also increase international student enrolment by 50 per cent while guaranteeing spaces for qualified Ontario students.

These measures will make Ontario one of the leading jurisdictions for postsecondary education in the world.

As part of the Open Ontario plan, commitments to postsecondary education in the *2010 Budget* include:

- ☑ adding 20,000 new spaces to colleges and universities in 2010–11, through a new investment of \$310 million. This is in addition to providing \$155 million in 2009–10 to fully support enrolment growth at colleges and universities, including \$65 million announced through the Fall 2009 *Ontario Economic Outlook and Fiscal Review*;
- ☑ aggressively promoting Ontario postsecondary schools abroad to encourage the world's best students to study here, settle here and help Ontario build a stronger economy;
- ☑ improving students' ability to navigate Ontario's postsecondary system by providing additional resources to support the implementation of a credit transfer system; and
- ☑ creating the new Ontario Online Institute, which will bring the best professors from Ontario's postsecondary institutions into the homes of those who want to pursue higher learning.

Reaching Higher

The Results:

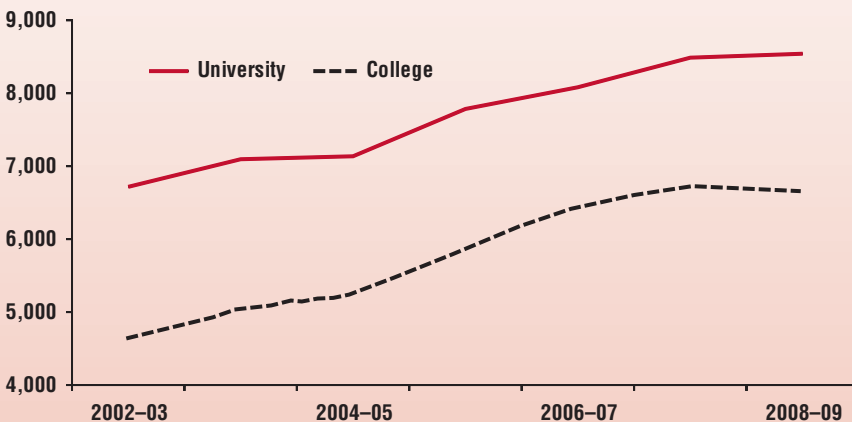
- ✓ More than 120,000 additional students are attending college and university, a 31 per cent increase over 2002–03.
- ✓ University per-student operating funding is 27 per cent higher and college per-student operating funding is 44 per cent higher in 2008–09 compared with 2002–03.
- ✓ 186,000 students are benefiting in 2009–10 from enhancements to the Ontario Student Assistance Program (OSAP) that have been introduced since 2004–05.
- ✓ The degree completion rate has increased to 78 per cent from 73 per cent in 2002–03 for university students and to 65 per cent from 57 per cent for college students.
- ✓ A total of 260 additional first-year medical student spaces will be created by 2011–12, a 38 per cent increase since 2004–05.
- ✓ More than 15,000 new graduate spaces will be created by 2011–12, an increase of over 62 per cent since 2002–03.

Increased Student Funding



Chart 1

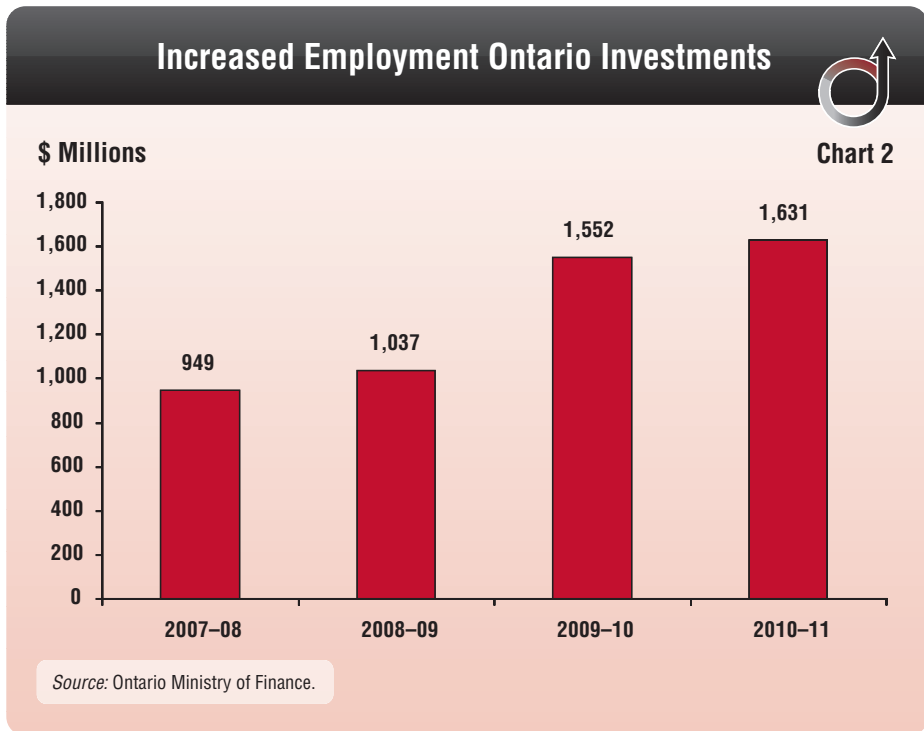
\$ Per Student



Source: Ontario Ministry of Training, Colleges and Universities.

Employment and Training Supports

Each year, more than one million Ontarians rely on Employment Ontario for help in finding work and acquiring job training. Over the past two years, demand for employment and training services has increased sharply because of the global recession. In response, the government boosted Employment Ontario spending on jobs and skills training to about \$1.6 billion in each of 2009–10 and 2010–11, with a special focus on workers affected by the economic recession. Additional employment and training services are also provided through a number of ministries.



The Plan:

The government will:

- ✓ improve customer service by creating one-stop access for all Ontarians to Employment Ontario across the province. The new service delivery model will be in place by August 2010;
- ✓ continue to deliver the Second Career Strategy by helping an additional 30,000 unemployed workers get training. This will bring the total number of participants to nearly 60,000 since the program began in June 2008;
- ✓ invest, for the second consecutive year, an additional \$39 million in 2010–11 in its Summer Jobs programs, including targeted resources for youth in high-needs neighbourhoods. This brings spending in the summer of 2010 to \$96 million — 69 per cent more than in the summer of 2008. The programs will support nearly 110,000 jobs and services for students this summer;
- ✓ implement the federal–provincial Targeted Initiative for Older Workers agreement to support skills training projects in hard-hit communities. These projects will help unemployed older workers in vulnerable communities to develop the skills required to find a good job in today’s labour market;
 - the Targeted Initiative for Older Workers will serve workers aged 55 to 64 living in communities of fewer than 250,000 people that have high unemployment or rely on a single industry that has been hard hit by the recession;
- ✓ continue workplace-based pilots for literacy training that respond to the changing needs of workers and provide them with literacy skills to work safely, effectively and productively;
- ✓ further enhance apprenticeship programs, including increasing the number of apprentices who complete the program; and

- ✓ provide improved training and employment supports for groups traditionally underrepresented in postsecondary education, training and the workforce.

Over 1,000,000 Ontarians Get Skills Training and Employment Assistance Annually

Table 1

Selected Programs	Clients Served Since 2008
Job Connect	489,867
Employment Assistance Services	367,758
Rapid Re-employment and Training Services	120,465
2009 Summer Jobs and Services	110,521
Literacy and Basic Skills	101,981
Apprenticeship Registration	50,273
Ontario Skills Development Program	27,871
Second Career	27,101
Self-Employment Benefit	5,800
Targeted Wage Subsidy	4,460
Job Creation Partnership	1,895

Investing in Full-Day Learning

Early learning is an important part of the McGuinty government's Open Ontario plan to increase student achievement, build a stronger workforce and help break the cycle of poverty. An educated, healthy and employable workforce is critical to the economic future of the province.

Various studies, including Dr. Charles Pascal's 2009 report, "With Our Best Future in Mind: Implementing Early Learning in Ontario,"¹ have found that full-day early learning is associated with improved reading and numeracy, smoother transitions to Grade 1, and increased secondary school graduation rates. Full-day learning also makes it easier for parents to participate in the job market.

¹ See www.ontario.ca/en/initiatives/early_learning/ONT06_018865 for the full report.

The Plan:

Beginning in September 2010, the government will introduce full-day learning for four- and five-year-olds, benefiting up to 35,000 children in nearly 600 schools. The program will be phased in over time, with a goal of having early learning fully implemented by 2015–16. In the next two years, the government will provide about \$245 million in capital grants to implement full-day learning. At full implementation, the Early Learning Program will employ up to an additional 3,800 teachers and 20,000 early childhood educators.

This is part of the McGuinty government's ongoing plan to strengthen education, which has already led to smaller class sizes, higher test scores and an improved graduation rate.

The federal government ended its commitment to provide the ongoing funding necessary to maintain approximately 8,500 child care spaces across Ontario. To continue support for these spaces, Ontario is permanently filling the funding gap left by the federal government with an investment of \$63.5 million annually. This initiative will help to ensure that low-income working parents continue to have access to quality child care and play an active role in the labour force.

OPENING ONTARIO TO INVESTMENT AND JOBS

Jobs and Growth for Northern Ontario

In recent years, Ontario's resource-based industries have faced significant challenges, including the strong Canadian dollar and increased global competition. The mining and forest products industries — mainstays of northern Ontario's economy — have been particularly hard hit by weak demand and soft commodity prices during the recession.

A further challenge for northern Ontario is that many of its towns and cities rely on a single, resource-based industry. Over the past three years, northern Ontario has experienced a longer and deeper employment decline than the overall Ontario economy. Employment in northern Ontario has fallen by more than twice the rate of the province as a whole.

The government recognizes the unique circumstances of northern communities. The Open Ontario plan will help strengthen the northern economy, while protecting the boreal-forest region.

The Plan:

As part of the Open Ontario plan, the *2010 Budget* proposes initiatives that will enhance job creation and economic growth in northern Ontario. These include:

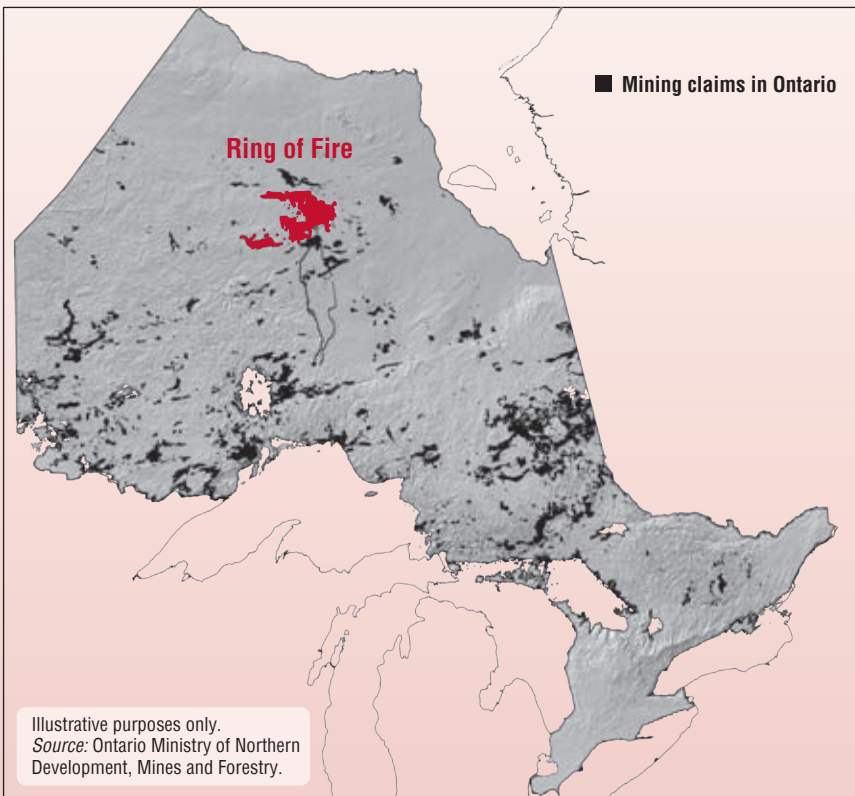
- ✓ creating a three-year Northern Industrial Electricity Rate Program (NIERP), averaging \$150 million annually, that would provide electricity price rebates of two cents per kilowatt-hour. This would, on average, reduce industrial electricity prices by about 25 per cent for large facilities, based on 2009 levels. The rebate would be available to qualifying large northern industrial facilities that commit to an electricity efficiency and sustainability plan. The program will help protect and create jobs in the north;

- ✔ providing \$45 million over the next three years for a new project-based skills training program to help Aboriginal Peoples and northern Ontarians participate in and benefit from emerging economic development opportunities, such as the Ring of Fire — an area with potentially large deposits of minerals such as chromite, nickel, copper and platinum. The program will also help build capacity in the north to undertake base mapping, develop resource inventories and gather other information. This will support community land-use planning and environmentally sustainable development that benefit Aboriginal Peoples and northern Ontarians. It will help to implement the proposed Far North Act, 2010;

Location of the Ring of Fire



Chart 3



- ✓ establishing a Ring of Fire Coordinator to work and consult with Aboriginal Peoples and northern Ontarians and the mining community to encourage responsible and sustainable economic development related to the Ring of Fire;
- ✓ proposing a new permanent Northern Ontario Energy Credit to help eligible low- to middle-income northern residents with the higher energy costs they face;
- ✓ partnering with Sudbury and Thunder Bay to establish pilot economic development planning areas; and
- ✓ implementing the Targeted Initiative for Older Workers, which will benefit unemployed older workers throughout the province, including northern Ontario.

The government is also making significant infrastructure investments to strengthen northern communities, with total planned investment of about \$1.2 billion in northern highways, hospitals, water and wastewater systems, and other infrastructure that is forecast to support 10,000 jobs in 2010–11. These investments include:

- ✓ the Thunder Bay Consolidated Courthouse, which will improve access to justice and spur downtown revitalization;
- ✓ the Ontario Provincial Police Modernization project, which will involve the construction of new detachments, regional command centres and forensic identification units in 16 communities, including nine northern locations;
- ✓ expanding the 100-kilometre corridor of Highways 11/17 between Thunder Bay and Nipigon to four lanes. Construction on two projects along this corridor is to begin in 2010–11, with work on the remainder to follow; and
- ✓ providing up to \$15 million to support Huron Central Railway's proposal for \$33 million of infrastructure investments on the Sault Ste. Marie to Sudbury rail line.

Northern Ontario Energy Credit

- ✓ The government recognizes that people living in the north tend to pay more for energy. Energy costs are higher, for example, because of more severe winters and heavier reliance on more expensive home heating fuels. The Province proposes to help low- to middle-income families and single people in the north with their energy costs by introducing a new permanent Northern Ontario Energy Credit. Eligible Ontarians living in northern Ontario would qualify for this refundable credit.
- ✓ Northern residents who pay rent or property tax for their principal residence would be eligible for an annual credit of up to \$130 for a single person and up to \$200 for a family (including single parents). To target the assistance to those who need it most, the credit would be income-tested. The credit would be reduced for a single person with adjusted net income over \$35,000 and eliminated when income exceeds \$48,000, and reduced for families with adjusted family net income over \$45,000 and eliminated when income exceeds \$65,000, as shown in Table 2.

Northern Ontario Energy Credit		Table 2	
Single Person		Family (including Single Parents)	
Maximum Benefit	Benefit Reduction Range	Maximum Benefit	Benefit Reduction Range
\$130	\$35,000 – \$48,000	\$200	\$45,000 – \$65,000

- ✓ In order to provide timely assistance this year, the government is proposing an interim method of payment for 2010. Eligible northern residents would apply to the Ontario Ministry of Revenue to receive the credit, which would be delivered in two instalments, in the fall of 2010 and early 2011.
- ✓ In subsequent years, this permanent credit would be paid on a quarterly basis and delivered along with the proposed new Ontario Energy and Property Tax Credit. See Chapter III: *Tax and Pension Systems for Ontario's Future* for further details.
- ✓ For 2010, about a quarter of a million families and single people, or over half of northerners, would benefit from about \$35 million in assistance.

Strengthening Northern Ontario

The Results:

- ✓ Ontario has moved forward on a number of initiatives that support key recommendations of Dr. Robert Rosehart, the Northwestern Ontario Economic Facilitator. For example, by:
 - establishing a new Northern Ontario Entrepreneur Program, under the Northern Ontario Heritage Fund Corporation (NOHFC). The NOHFC's programs approved grants to more than 940 projects in 2009–10, leading to the creation and retention of more than 2,300 jobs in the north; and
 - accelerating Business Education Tax (BET) rate cuts for northern businesses. Northern businesses benefit from the full implementation of the accelerated BET reduction in 2010, with savings totalling more than \$70 million.
- ✓ The Northern Ontario School of Medicine, which opened in 2005, celebrated the graduation of its first 55 medical school students in the spring of 2009.

Jobs in the Green Economy

The McGuinty government is making Ontario a leader in the green economy. Targeted investments and regulatory reforms are creating thousands of clean-technology jobs.

The Plan:

In 2009, the government enacted the *Green Energy Act, 2009* (GEA) to support the growth of clean, renewable energy sources and help build Ontario's green economy infrastructure by attracting new investments and promoting conservation.

Ontario is a Green Economy Leader

The *Green Energy Act, 2009* “is the single best green energy program on the North American continent.”

Al Gore, November 2009.

The GEA will help create 50,000 jobs for Ontarians in its first three years and boost investments in renewable generation through North America’s first comprehensive feed-in tariff (FIT) program, which pays renewable energy generators for the electricity they produce under long-term contracts.

On March 10, 2010, the Ontario Power Authority (OPA) announced it had issued the first 510 FIT contracts, totalling 112 megawatts (MW), enough to power more than 13,000 homes. These projects are to be built in 120 communities across Ontario by a number of groups, such as farmers, municipalities, local distribution companies, commercial businesses, industrial customers, school boards and hospitals. About 95 per cent of the projects are for solar generation, with other projects from biogas, water, wind and biomass.

Ontario is achieving early success in the green economy by attracting a \$7 billion proposed investment by the consortium led by Samsung C&T Corporation and Korea Electric Power Corporation, the single-largest investment in renewable energy in provincial history.

Samsung C&T Corporation and Korea Electric Power Corporation Investment

- ✓ The proposed \$7 billion investment by the consortium led by Samsung C&T Corporation and Korea Electric Power Corporation would:
 - build 2,500 megawatts (MW) of wind and solar power, tripling Ontario's generation capacity from renewable wind and solar sources. The first phase of the project, a 500 MW cluster (400 MW of wind and 100 MW of solar), is scheduled to be completed in about three years;
 - create more than 16,000 new green energy jobs to supply, build, install and operate the renewable generation projects; and
 - lay the groundwork with major partners to attract four manufacturing plants. This is expected to account for 1,440 manufacturing and related jobs (out of the 16,000 new green jobs), building wind and solar technology for use in Ontario and export across North America. Three of the four facilities are scheduled to be ready in 2013, while the fourth is scheduled to be in operation by the end of 2015.
- ✓ The consortium also intends to use Ontario-made steel in its renewable energy projects for items such as wind turbine towers.

A cornerstone of the *Green Energy Act, 2009* is the creation of a culture of conservation. For the past six years, Ontario has worked very hard to become a leading jurisdiction on energy conservation by setting tough targets and investing millions of dollars in new programs for residents and businesses.

The Industrial Transmission Connected Electricity Efficiency Program, administered by the Ontario Power Authority, would target the province's largest electricity users that are directly connected to the transmission grid. These industrial users account for about 10 per cent of Ontario's electricity usage and spend over \$1 billion on electricity per year.

This five-year program will further the productivity and global competitiveness of Ontario's industrial sector, conserve electricity and result in an estimated 5,500 jobs. Together with the Northern Industrial Electricity Rate Program announced in the *Budget*, Ontario will enhance electricity conservation, efficiency and sustainability across the province.

Expanding Opportunities through Clean Water Technologies

Global demand for water is expected to increase rapidly and the market opportunity for clean water and wastewater technologies is enormous. The Conference Board of Canada recently reported the value of this market to be over \$400 billion US worldwide and predicted it would double every five to six years. Ontario is well positioned to become a global leader in the water and wastewater sector as it begins to sell its services and technologies around the world.

Protecting Ontario's water resources is critical to the development of a strong and green economy. The Province is also strengthening the water technology sector to take advantage of emerging opportunities arising in the global water technology market.

For example, in 2009–10, the Province is investing \$100 million to help the City of Hamilton upgrade the Woodward Avenue Wastewater Treatment Plant. This important project will achieve many environmental, social and economic benefits.

Water Technology

Water technology relates to the protection, quality and treatment of water. There are over 300 companies providing water technologies and services in Ontario. Companies like Echologics Engineering and Real Tech are leaders in water technologies such as the acoustic detection of water loss and ultra-violet photometry instrumentation. Both have benefited from support programs at the MaRS Centre, such as the Ontario Business Mentorship and Entrepreneurship Program.

The Plan:

As part of its Open Ontario plan, the government is developing a wide-ranging water strategy to make Ontario the North American leader in water conservation and innovation, and protect Ontario's water resources for future generations. The strategy will promote new business and employment opportunities in the water sector through supporting the commercialization of water and wastewater technologies.

Looking Ahead

Ontario's water strategy will:

- ☒ work with colleges, universities and entrepreneurs to create jobs and attract clean water expertise and investment to the province;
- ☒ improve the efficiency of Ontario's water and wastewater infrastructure;
- ☒ introduce a new Water Opportunities Act to support the development of new technologies for water conservation and treatment; and
- ☒ promote Ontario's water technology sector at home and abroad.

Ontario has great potential in water research, education and innovation. Over 21 water-related institutes are in the Greater Toronto Area, and seven universities and colleges across the province have research institutes working in this area. Ontario is home to leading clean-technology organizations, such as the Ontario Clean Water Initiative, which helps to expand Ontario's water clusters and strengths. Ontario is also home to the United Nations University Institute for Water, Environment and Health, which focuses on resolving global water problems through the development of scientific research and capacity.

Financial Services

Ontario's financial services sector is a world leader and a critical part of the province's economy. It provides thousands of jobs and drives significant economic activity.

Toronto is home to globally successful insurance companies and investment and pension funds. Canada's banks — largely based in Ontario — enjoy a global reputation as the soundest in the world. Toronto is home to five of the 13 largest banks in North America by market capitalization and is the third-largest financial centre in North America.

The Plan:

The government is providing the financial services sector with support and flexibility to stimulate future growth while also protecting the interests of consumers and investors.

The provincial government is:

- ✓ partnering with industry and other governments to establish a Financial Services Leadership Council consisting of major financial-sector CEOs and government leaders. This Council will guide the work of the Toronto Financial Services Alliance (TFSA) as it implements a plan to improve the sector's competitiveness, create thousands of high-paying jobs and make Toronto one of the top 10 financial centres in the world;

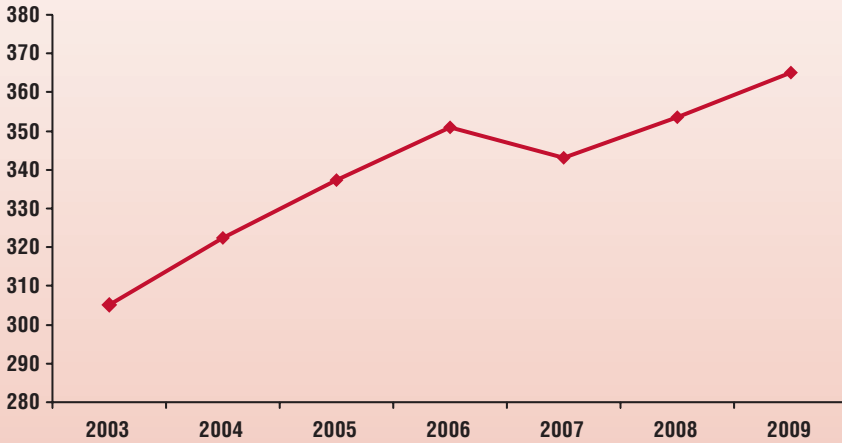
- ✔ supporting the work of the Council and TFSA to create opportunities by leveraging Ontario's excellent record in the financial services sector and its highly skilled and diverse workforce. Projects such as TFSA's Global Integrative Risk Management Institute, which will promote best practices for financial risk management, provide a unique opportunity to capitalize on the financial sector's reputation for safety and soundness;
- ✔ actively working with the federal government and other interested provinces and territories to put in place a Canadian Securities Regulator. The Province is committed to the establishment of a strong national regulator that will reflect Ontario's economic interests, enhance investor protection and improve the industry's international competitiveness. The government believes the new regulator should locate its principal operations in Toronto and will continue to press the federal government to that end;
- ✔ continuing to pursue important measures to enhance the regulation of Ontario's capital markets. In particular, the government plans to propose reforms to the *Securities Act* and the *Commodity Futures Act*, including changes to update them, strengthen the oversight of credit-rating agencies and bolster capital markets enforcement; and
- ✔ working with the credit union sector, Deposit Insurance Corporation of Ontario and Financial Services Commission of Ontario on an ongoing basis to address emerging issues and support the sector's growth and competitiveness. This follows the successful implementation on October 1, 2009 of a multi-year legislative project to modernize regulatory requirements, update investment and lending powers, and strengthen consumer protection.

More Jobs in Ontario's Financial Sector



Chart 4

Thousands (000s)



Sources: Statistics Canada and Ontario Ministry of Finance.

A Strong and Stable Future for the Financial Services Sector

The Results:

- ✓ In the *2009 Budget*, the government announced that it would partner with the City of Toronto and TFSA to advance Toronto's position as a global leader in financial services.
- ✓ Ontario has established the Centre of Excellence in Financial Services Education and is working with the sector and postsecondary institutions to attract foreign students and develop the best financial services sector talent.
- ✓ Since 2003, employment in the financial services sector grew by 60,000 to 365,000 jobs in 2009.
- ✓ The sector supports an estimated 280,000 ancillary jobs, including high-paying business services jobs (such as software design).

Opening International and Interprovincial Markets

Markets around the world look to Ontario's products, people and ideas.

The Province is helping to open markets and create new trade opportunities for Ontario's businesses by securing new interprovincial and international trade agreements. These agreements will lay the foundation for continued economic growth and improved employment in Ontario. New trade agreements will expand Ontario's economy.

The Plan:

Ontario is working with the federal government and other provinces to negotiate a Canada–European Union Comprehensive Economic and Trade Agreement (CETA). This would provide Ontario's exporters with greater access to one of the largest and richest export markets in the world.

In addition, as Ontario's economy shows signs of recovery, and trade and traffic volumes increase, it is critical that Ontario's borders with the United States, Canada's most important trading partner, operate as effectively as possible. Federal investment in technology and human resources at borders is critical to ensuring traffic flows as efficiently as possible. The federal government's recent budget commitment to invest \$87 million over two years to improve border efficiency and to expand and promote trusted traveller programs is a positive and welcome step in this regard.

The government is also working with other provinces and the federal government to improve the Agreement on Internal Trade by promoting greater mobility of goods, services and labour.

Ontario is advancing its interests in Washington, D.C. by establishing an office located in the Canadian Embassy. This office will promote the linkages and interests of the Ontario/U.S. relationship affected by U.S. policies through ongoing monitoring and focused advocacy. These include such important issues as border, trade, climate change, water, air and related matters.

Opening International and Interprovincial Markets

The Results:

- ✓ Canada and the United States recently reached an agreement under which the United States has waived the Buy American provisions of the *American Recovery and Reinvestment Act of 2009*. Ontario businesses will be able to participate in U.S. infrastructure projects and gain access to a variety of state and local public works projects, estimated at nearly \$65 billion US.
- ✓ The Ontario–Quebec Trade and Cooperation Agreement, signed in September 2009, will increase trade and investment between Ontario and Quebec, promote innovation and reduce long-standing barriers to business. It includes precedent-setting chapters on financial services, energy cooperation and regulatory cooperation.
- ✓ Since 2003, Ontario's merchandise exports to countries other than the United States have increased by almost 80 per cent, to \$25 billion in 2009, accounting for 20 per cent of Ontario's total merchandise exports compared to about seven per cent a decade ago.
- ✓ Ontario's total exports of services have grown strongly since 2003, reaching \$91 billion in 2009 and accounting for almost one-third of Ontario's overall exports.

Business Enterprise Opportunities

The government is reviewing ways to maximize the returns on its major government business enterprises. The goal of this review is to determine whether those enterprises, as they exist and are managed today, are serving Ontarians' and the province's long-term economic interests. This review of government business enterprises will determine whether a different approach could create increased economic growth and new jobs for Ontarians.

Support for Key Economic Sectors

Since 2003, the McGuinty government has invested in key sectors of the economy to strengthen Ontario's competitiveness, sustain and create jobs, and position the province for long-term growth. Initiatives include:

- ✓ **Auto** — \$4.8 billion to General Motors and Chrysler to preserve at least 85,000 jobs and ensure the future global competitiveness of a sector that directly and indirectly supported about 400,000 Ontario jobs in 2008;
- ✓ **Manufacturing** — Lowering business costs by more than \$1.2 billion a year in tax relief, when fully implemented, and providing over \$708 million since 2005 through the Next Generation of Jobs Fund and the Advanced Manufacturing Investment Strategy, securing about 10,300 jobs and leveraging over \$3.9 billion in investments;
- ✓ **Small Business** — Implementing significant tax and regulatory reforms to help small business development, including cutting the Corporate Income Tax rate for small business from 5.5 per cent to 4.5 per cent, eliminating the small business deduction surtax and providing one-time transitional assistance of up to \$1,000 to help small businesses adapt to the HST;
- ✓ **Creative Industries** — Enhancements to tax credits have driven exceptional growth, creating over 23,000 jobs since 2003 — an increase of 12 per cent. In 2009 alone, film and television production increased 40 per cent;
- ✓ **Agriculture** — \$1.8 billion in ongoing support for Ontario farmers since 2003, through farm income stabilization and support programs and by increasing base expenditures through the Ministry of Agriculture, Food and Rural Affairs by 53 per cent;
- ✓ **Innovation** — Committed more than \$1.3 billion over the next three years for research and innovation through such programs as the Innovation Demonstration Fund, Ontario Research Fund, Ontario Emerging Technology Fund and Ontario Network of Excellence;
- ✓ **Tourism** — Creating 13 new tourism regions and contributing \$40 million in ongoing annual funding, plus transition funding of \$25 million per year for the next two years, to enhance the sector's competitiveness through improved coordination in marketing and development.

For more information, see the Sector Highlights that accompany the *2010 Budget* at www.ontario.ca/budget.

INFRASTRUCTURE INVESTMENTS

Modern infrastructure boosts productivity, supports economic growth and improves the quality of life that Ontarians enjoy. By 2003, Ontario's infrastructure had been neglected for almost 30 years. Underinvestment, aging infrastructure and growth pressures led to a substantial infrastructure deficit.

The Province responded in 2005 by introducing its \$30 billion ReNew Ontario plan. The plan, which invested in schools, hospitals, public transit, roads, bridges and other infrastructure, was completed in 2008–09 — a year ahead of schedule.

In the *2009 Budget*, the government responded to the global economic crisis by launching significant short-term infrastructure investments to stimulate economic growth and help preserve and create jobs across the province. The government is successfully rolling out its infrastructure stimulus investments. Infrastructure investment is at a record level in 2009–10 and will be even higher next year. These investments are creating jobs now and will contribute to productivity growth and better public services in the future.

The Plan:

The government's infrastructure investment plan is creating jobs in communities across Ontario and will build future prosperity by modernizing and expanding the province's public infrastructure.

In addition to its stimulus investments, the government continues to make long-term infrastructure investments that will raise Ontario's economic growth potential. The government will undertake a comprehensive review of capital by the end of 2010. Following this review, the government is committed to introducing a 10-year infrastructure plan in 2011.

The Economic Impact of Public Infrastructure in Ontario

Conference Board of Canada, March 2010

The Conference Board of Canada recently produced a report that assessed the economic impact of public infrastructure investment in Ontario.¹

- ✓ Public infrastructure investment provided over 180,000 direct, indirect and induced full-year jobs in 2009, rising to nearly 225,000 jobs in 2010. (Induced jobs are generated by the spending from those directly and indirectly employed.)
- ✓ The extra boost to infrastructure spending, partly due to new stimulus measures to counter the global recession, helped lift Ontario real gross domestic product growth by 0.9 percentage points in 2009 and is expected to add a further 0.4 percentage points in 2010.
- ✓ Additional spinoff benefits from investments in infrastructure that the Conference Board identified include improved health, improved educational attainment and reduced transit times.
- ✓ Investment in public infrastructure in Ontario supports business-sector productivity growth. Since 2000, programs such as Move Ontario and ReNew Ontario have lifted the contribution of public capital investment to productivity growth to 0.23 percentage points annually, up from 0.16 percentage points in the previous two decades.

¹ Pedro Antunes, Kip Beckman and Jacqueline Johnson, "The Economic Impact of Public Infrastructure in Ontario," The Conference Board of Canada, March 2010.

Short-Term Stimulus Investments

The government has fully allocated its short-term stimulus investment programs for municipalities, universities and colleges. These projects must be completed by March 31, 2011. The majority of the projects are underway. Roads are being reconstructed, watermaines are being replaced and arenas are being upgraded. This spring, further work will begin to improve playgrounds and sports fields across Ontario to help children and youth be active and fit.

In addition, upgrades to social and affordable housing are underway and new projects will continue to be approved on a rolling basis. The projects range from replacing roofs and windows to major renovations.

In total, over 5,400 stimulus projects have been approved to date and are expected to be completed by March 31, 2011.

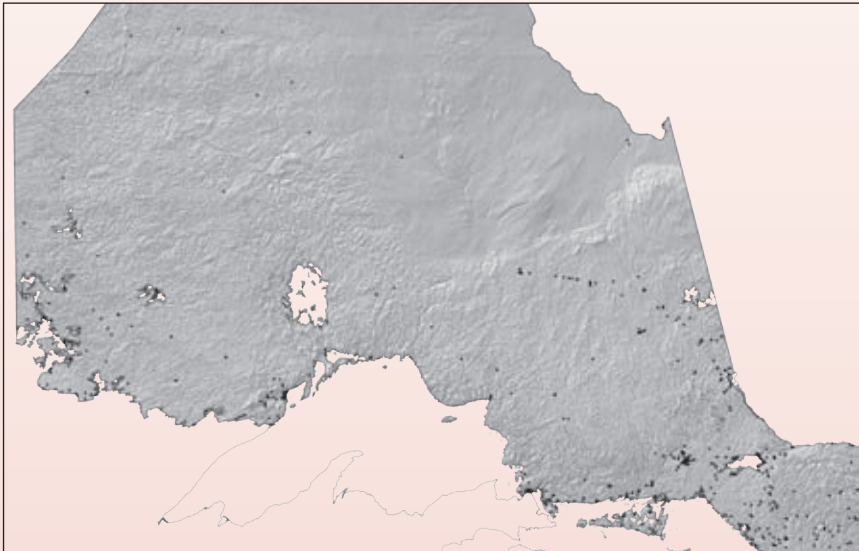
Details on the stimulus investment projects in Ontario communities can be found on the government's Revitalizing Ontario's Infrastructure website at ontario.ca/infrastructure.

Infrastructure Stimulus Projects

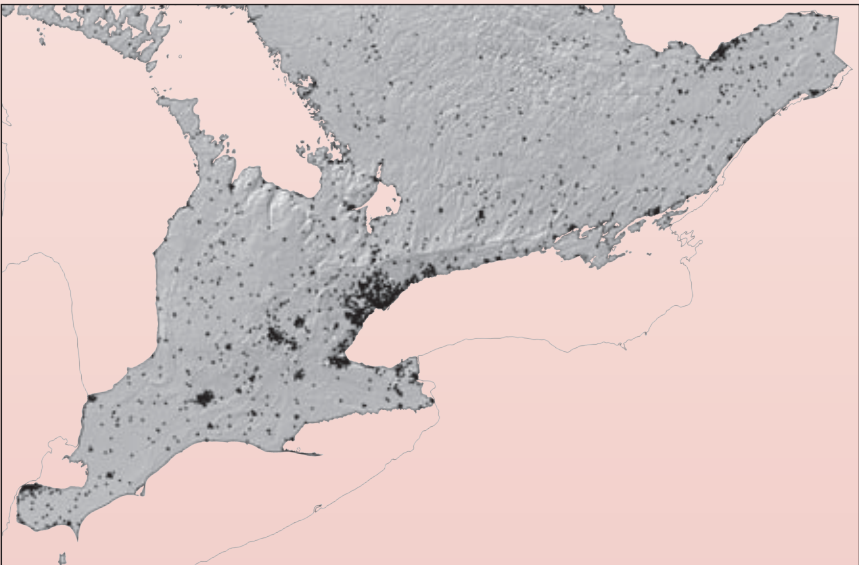


Chart 5

Northern Ontario



Southern Ontario



Source: Ontario Ministry of Energy and Infrastructure.

Ongoing Infrastructure Investments

The Province is also making ongoing long-term infrastructure investments that will continue to lay the foundation for future economic growth. Expanding transit and highways will improve the movement of people and goods, helping to lower travel times and transportation costs. Improvements to schools, colleges and universities will help equip Ontarians for future jobs and build a more prosperous future.

The Results:

- ✓ Infrastructure investments are creating jobs across Ontario:
 - the government's infrastructure investments are creating and preserving more than 300,000 jobs over two years;
 - since July 2009, employment in Ontario's construction sector has rebounded due, in part, to infrastructure investments; and
 - the government's infrastructure stimulus investments will continue to boost the economy this coming year. According to Statistics Canada's *Private and Public Investment Intentions Survey*, total investment in Ontario is expected to increase by a strong 6.0 per cent in 2010. This projected rise reflects a significant 16.4 per cent jump in public-sector investment plans.

2015 Pan/Parapan American Games

In November 2009, Ontario won the rights to host the Toronto 2015 Pan/Parapan American Games, which will be the first major international multi-sport games hosted in the province since the 1930s. The Games will lead to the construction of more than \$700 million in new and upgraded sports and recreation facilities.

The Athletes' Village for the 2015 Pan/Parapan American Games will be located in the West Don Lands in the City of Toronto. The Village will be built to accommodate 8,500 athletes and officials.

The 2015 Pan/Parapan American Games will serve as a catalyst for the continued rejuvenation and redevelopment of Toronto's waterfront into a dynamic and vibrant place to live, work and play. Hosting the 2015 Pan/Parapan American Games will accelerate the development of the West Don Lands. After the Games, the Athletes' Village will be converted into a mixed-use community in keeping with Waterfront Toronto's award-winning West Don Lands Precinct Plan.

The government will work in partnership with Waterfront Toronto, Infrastructure Ontario, the Games organizing committee and the local communities adjacent to the West Don Lands site to determine the design of the Athletes' Village as well as the mix of housing, including affordable housing, for the post-Games community.

Construction on the GO Georgetown South Service Expansion is underway and is expected to be completed by 2015. This capacity expansion will facilitate the Union-Pearson Rail Link, providing a rail connection between Toronto Pearson International Airport and Union Station that will help improve mobility during the Games.

ONTARIO'S TAX PLAN FOR JOBS AND GROWTH

As economies around the world emerge from the recession, the role governments play in job creation will begin to shift. During the height of the recession, the most important action governments could take to create and protect jobs was to inject fiscal stimulus directly into the economy, which the Ontario government did and continues to do through record levels of infrastructure investment and other targeted initiatives. As economies begin to recover, the key role for government is to create the best possible climate to promote investment and job creation by the business sector.

The Open Ontario plan achieves this transition through the Tax Plan for Jobs and Growth. At the same time that the government begins to wind down its stimulus investments, the tax plan will be in effect. These tax measures, which were announced in the *2009 Budget*, will transform Ontario into one of the most tax-competitive jurisdictions in the industrialized world for new business investment.

Ontario's Tax Plan for Jobs and Growth Supports New Investment, More Jobs and Higher Incomes

"The *2009 Ontario Budget* measures, together with other recent tax changes, will have a profound impact on Ontario's competitiveness by lowering the tax burden on new business investment.

Within ten years, Ontario will benefit from:

- ✓ increased capital investment of \$47 billion;
- ✓ increased annual incomes of up to 8.8 per cent, or \$29.4 billion; and
- ✓ an estimated 591,000 net new jobs."

Jack M. Mintz, "Ontario's Bold Move to Create Jobs and Growth," School of Public Policy, University of Calgary, November 2009.

"As has been the experience in other provinces in which Bell operates, savings from a single sales tax structure will accelerate our investment in Ontario. Fewer dollars going toward taxes in 2010 mean more dollars that Bell will reinvest in our networks and service in the province next year."

George Cope, President and CEO of Bell and BCE, March 30, 2009.

"Coming into this budget we had serious concerns that tax harmonization would mean low-income families paying more for their basic needs such as children's shoes and meals. The Sales Tax Credit is a sensible, forward-looking way to deal with that, and could become an important long-term piece of the economic security puzzle for poor people in the future. We applaud the government's plan."

Michael Oliphant, Director of Research and Communications, Daily Bread Food Bank, March 26, 2009.

The Plan:

The tax plan supports jobs and growth by:

- ✓ replacing the Retail Sales Tax with a more modern, value-added tax that will be combined with the federal Goods and Services Tax (GST) to create a Harmonized Sales Tax (HST) starting July 1, 2010;
- ✓ cutting Personal Income Tax (PIT) for 93 per cent of income tax payers — which includes eliminating Ontario PIT for 90,000 people with lower incomes — and enhancing sales and property tax credits for low- to middle-income families and individuals, starting in 2010;
- ✓ providing eligible Ontario residents with up to three Sales Tax Transition Benefit payments totalling up to \$300 for single people and up to \$1,000 for families and single parents — over \$4.2 billion in payments will be delivered in June 2010, December 2010 and June 2011, helping 6.6 million Ontario families and single people adjust to the HST;
- ✓ reducing corporate income taxes for large and small businesses, beginning July 1, 2010; and
- ✓ providing \$400 million in temporary support to small businesses to help in the transition to the HST.

See Chapter III: *Tax and Pension Systems for Ontario's Future* for further details on the tax measures.

How Do the HST and Tax Cuts for Business Create Jobs?



Chart 6

The tax changes lower the costs of operating a business and purchasing new facilities and equipment

Lower costs allow businesses to increase sales by cutting prices

Lower costs encourage businesses to invest in facilities and equipment in Ontario

Higher sales and more business investment lead to new jobs

ONTARIO'S POVERTY REDUCTION PLAN TO SUPPORT JOBS AND GROWTH

The Province has made a permanent commitment to break the cycle of poverty. In 2008, the McGuinty government announced a long-term poverty reduction plan that will provide the tools that families and individuals need to succeed and participate fully in society. The Open Ontario plan needs all Ontarians working at their best to compete in the global economy. This plan will help Ontario reach its full economic potential and lead to sustained economic growth. Supporting the vulnerable and helping them to succeed is not only fair but is also good for the economy.

This commitment to poverty reduction is particularly important in the context of the current economic challenges facing Ontario and Canada.

Opportunities for Children

The government released its vision for poverty reduction, *Breaking the Cycle: Ontario's Poverty Reduction Strategy*, in December 2008. The Poverty Reduction Strategy outlines a long-term plan for reducing poverty and ensuring that low-income Ontarians, especially children, have the opportunity to reach their full potential. The Province set a target to reduce child poverty by 25 per cent over five years, which would move 90,000 children out of poverty by 2013. Attaining this goal will require having a committed federal partner and an engaged community sector, in addition to a strengthened economy.

To ensure that children have better opportunities to succeed, the government will introduce full-day learning for four- and five-year-olds in September 2010. This initiative will serve up to 35,000 children in nearly 600 schools across Ontario, with a focus on low-income areas. Full-day learning will be phased in over time, with the goal of being fully implemented by 2015–16. This will provide young children with an enriched environment that will help them develop the necessary skills for future success, while also providing their parents with expanded opportunities to participate in the workforce.

In 2007, the government introduced the Ontario Child Benefit (OCB) to make it easier for low- to moderate-income parents to leave social assistance for employment, which helps build economic prosperity for the province. In July 2009, the OCB was increased from a maximum of \$600 to \$1,100 annually per child, two full years ahead of schedule. This increase provides benefits to more than 210,000 additional children annually. The government remains committed to increasing the maximum annual OCB from the current level of \$1,100 to \$1,310 per child by 2013.

The Province will work with school boards and municipalities to enhance and maintain existing child care and other programs for young children, offering more support for low-income working parents with young children.

The federal government ended its commitment to provide the ongoing funding necessary to maintain approximately 8,500 child care spaces across Ontario. To continue support for these spaces, Ontario is permanently filling the funding gap left by the federal government with an investment of \$63.5 million annually. This initiative will help to ensure that low-income working parents continue to have access to quality child care and play an active role in the labour force.

The investments by the government in early childhood education, child care and the OCB are the foundations of the Poverty Reduction Strategy. These initiatives provide effective tools for breaking the cycle of intergenerational poverty and support the Open Ontario plan for jobs and growth. A more prosperous economy provides additional resources to invest in programs that assist low-income families and lift them out of poverty.

Opportunities for Low-Income Working Adults

The government's poverty reduction agenda aims to provide opportunities to the most disadvantaged Ontarians by increasing their chances of work, which will help to ensure the province's long-term prosperity.

Ontario's minimum wage will rise to \$10.25 per hour on March 31, 2010. This is the seventh consecutive year that the government has helped low-income working families and individuals by increasing the minimum wage since taking office in 2003. These increases follow a nine-year period during which Ontario's minimum wage was frozen at \$6.85.

As part of Ontario's Tax Plan for Jobs and Growth, the government is providing a new permanent refundable sales tax credit of up to \$260 per person and enhancing property tax relief for low- to middle-income Ontarians starting in 2010. In addition, about 90,000 lower-income taxpayers will no longer pay Ontario Personal Income Tax as a result of the reduction to the first income bracket tax rate that took effect on January 1, 2010.

Fairness and safety in the workplace are the right of all Ontarians. The government has introduced a number of initiatives aimed at improving the working conditions of low-income working adults. In the *2009 Budget*, the government invested an additional \$4.5 million annually to increase the number of employment standards officers in the province. In this *Budget*, the government is investing an additional \$6 million over two years. This initiative will help reduce the backlog of employment standards claims and improve the protection of Ontario's employees, thereby reducing hardship for workers and their families.

In its Poverty Reduction Strategy, the McGuinty government encouraged the federal government to double the Working Income Tax Benefit (WITB) from the original \$1,000 level. In 2009, the federal government increased the maximum WITB for families from \$1,044 to \$1,680 annually. This is a step in the right direction but falls short of what low-income working families need to succeed. Ontario continues to call on the federal government to increase the annual benefit to at least \$2,000 per family.

Transforming Social Assistance

Social assistance is the social safety net program that many Ontarians must turn to when they have exhausted other resources, particularly in these difficult economic times.

Since 2003, the McGuinty government has been committed to supporting families and individuals on social assistance. Social assistance rates have increased by 11 per cent and program rules have been modernized to provide transitional support to work. For example, coverage for upfront child care costs was extended to people who need it to continue to work or pursue employment-assistance activities.

In addition, the government has increased social assistance program expenditures by over \$2 billion, or almost 50 per cent, since 2003. The government expects to provide more than \$500 million in further support for families and individuals on social assistance in 2010–11, reflecting the impact of the recession on low-income individuals and families.

The Province continues to support people in making the transition from social assistance to employment. Almost 237,000 people on social assistance participate in Ontario Works employment-assistance activities per month.

In this *Budget*, the government is proposing to increase adult basic-needs allowances and maximum shelter allowances by one per cent for people on the Ontario Disability Support Program and Ontario Works in the fall of this year. Families receiving Temporary Care Assistance and Assistance for Children with Severe Disabilities, as well as people living in long-term care homes who receive the comfort allowance, would benefit from this increase.

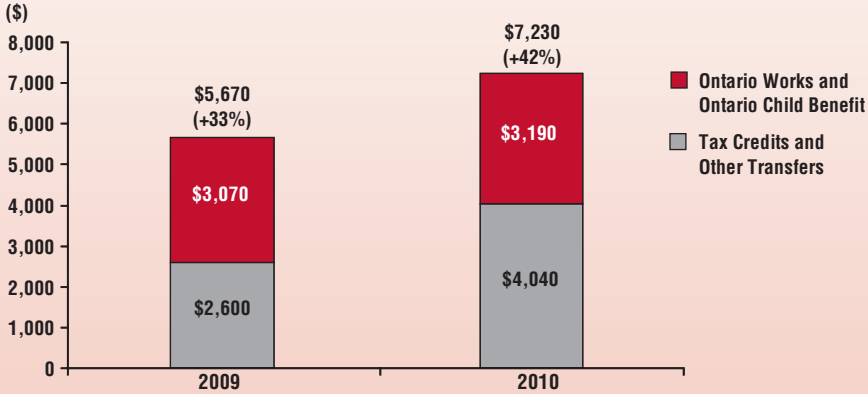
Partly as a result of this increase to social assistance benefits, a single-parent family on Ontario Works with two children aged five and seven would receive \$1,560 more per year than in 2009. This would represent an increase of \$7,230, or 42 per cent, from the family's 2003 annualized income.

Supporting Families: Ontario Child Benefit and Social Assistance



Chart 7

Change in Annualized Income Since 2003 for a Single Parent
with Two Children (Aged 5 and 7)



Notes: 1) Tax credits and other transfers include the Canada Child Tax Benefit, National Child Benefit Supplement, Universal Child Care Benefit, Goods and Services Tax Credit, Ontario Property Tax Credit, Ontario Sales Tax Credit and the Ontario Sales Tax Transition Benefit in 2010. 2) Incomes are annualized as at the end of the calendar year shown. 3) The family's annualized income would increase by \$7,230, from \$17,060 in 2003 to \$24,290 in 2010. 4) The family's annualized income would increase by \$1,560 from \$22,730 in 2009 to \$24,290 in 2010.
Source: Ontario Ministry of Finance.

This initiative would provide families and individuals on social assistance with additional benefits of about \$57 million annually. Municipalities would not be required to contribute to the proposed rate increase until January 2011.

In the Poverty Reduction Strategy, the government announced that it would review social assistance programs to remove barriers to employment and increase opportunities for success. The review is an integral part of the government's longer-term vision for a transformation of social assistance that would increase people's opportunities for work and guarantee security for those who cannot work. The government would also make social assistance programs easier to understand, more transparent, and sustainable in the long term, so that the system can continue to support the most vulnerable Ontarians.

The Special Diet Allowance (SDA) is a social assistance benefit that helps people pay for extra food costs related to specific medical conditions. Last fall, the Auditor General of Ontario reported that many applications for the SDA were associated with questionable circumstances and recommended that the government review the allowance so as to limit its possible abuse.

The program is not sustainable and is not achieving the intended results. With the help of its partners, the government plans to create a new nutritional supplement program that would be administered by the Ministry of Health and Long-Term Care on behalf of the Ministry of Community and Social Services. It would be medically based and would help individuals with severe medical needs who are on social assistance. The transition to the nutritional supplement program would occur over the next several months. This would give recipients the opportunity to adjust to the new program.

The government will announce details regarding these changes in the near future.

The Results of Ontario's Poverty Reduction Agenda:

Families and Children

Key achievements in the Poverty Reduction Strategy include:

- ✓ expanding the Children in Need of Treatment Program, which provides urgent dental and general anesthesia services, to include children in low-income families from birth to age 17; and
- ✓ creating Ontario's After-School Initiative, which supports after-school activities in high-needs communities.

Social Assistance

Families and individuals face significant barriers to leaving social assistance for employment. The government has worked to reduce these barriers (sometimes referred to as the welfare wall) by helping people become more financially independent. Measures taken include:

- ✓ allowing full-time postsecondary students who have employment earnings to keep all of their social assistance benefits;
- ✓ changing the rules governing the receipt of earnings so that people can keep a larger portion of their social assistance benefits;
- ✓ extending health benefits to people making the transition from social assistance to employment; and
- ✓ increasing the amount of social assistance benefits that parents can keep if they have employment earnings and incur unlicensed child care costs.

Other Key Initiatives

- ✓ Signing an affordable housing agreement with the federal government in June 2009 to deliver new affordable housing and renovate social housing. As part of the federal-provincial stimulus package, over 3,000 social housing projects have been committed.
- ✓ Providing ongoing funding for municipal rent banks to assist tenants who are at risk of eviction or homelessness.

Section B: **M**anaging Responsibly

HIGHLIGHTS

- ✓ The 2009–10 deficit is \$21.3 billion, down from the \$24.7 billion projected in the Fall 2009 *Ontario Economic Outlook and Fiscal Review*.
- ✓ The government has a realistic and responsible plan to cut the deficit in half in five years and eliminate it in eight years.
- ✓ To address the current fiscal challenge, while protecting public services, the government proposes to:
 - Extend the freeze on MPP pay from one year to three years.
 - Freeze the compensation structures of non-bargained political and Legislative Assembly staff for two years.
 - Freeze the compensation structures for the Broader Public Sector and the Ontario Public Service for all non-bargained employees for two years.
 - Respect all current collective agreements. However, the fiscal plan provides no funding for incremental compensation increases for any future collective agreements.
 - Work with transfer partners and bargaining agents, as agreements are renegotiated, to seek agreements of at least two years' duration. These agreements should help manage spending pressures, protect public services that Ontarians rely on and provide no net increase in compensation.

✓ The government is also:

- Phasing construction of a number of major long-term capital projects.
- Proposing to reform Ontario's drug system to keep drugs affordable and permit savings from the program to be reinvested in health care.
- Modernizing government services to improve customer service and efficiency.
- Freezing internal operating expenses at or below 2010–11 levels.
- Launching a comprehensive expenditure management review process.

THE PLAN TO ELIMINATE THE DEFICIT

Since 2003, the McGuinty government has laid the foundation for a stronger Ontario by investing in health care, education, families and infrastructure. It has made significant progress on delivering services that are targeted more effectively, are more responsive to the public's needs and ensure the best value for money. It has made responsible fiscal choices that have led to the elimination of the \$5.5 billion deficit it inherited in 2003–04 and three consecutive surpluses from 2005–06 to 2007–08.

Ontario's economy was hard hit by the global economic recession relative to other provinces, and so too were Ontario government revenues. In 2009–10, Ontario government own-source revenues were \$9.1 billion (10.5 per cent) below their pre-recession level.¹ Own-source revenues are not expected to return to their pre-recession level until 2012–13.

¹ Revenues excluding federal transfers.

The Plan:

In response to the economic crisis, the government took action by making short-term stimulus investments to create jobs and lessen the impact of the recession on families and businesses. It also made the decision to preserve public services that Ontarians rely on, particularly in these difficult economic times. The government's infrastructure investments are creating and preserving more than 300,000 jobs over two years.

The Province's actions have paid off. However, these necessary investments resulted in the Province projecting a deficit of \$24.7 billion for 2009–10 at the time of the *Fall 2009 Ontario Economic Outlook and Fiscal Review*. The government has introduced measures to achieve fiscal savings both this year and over the medium term, which have allowed it to do better than the deficit projections published in the *Fall 2009 Ontario Economic Outlook and Fiscal Review*.

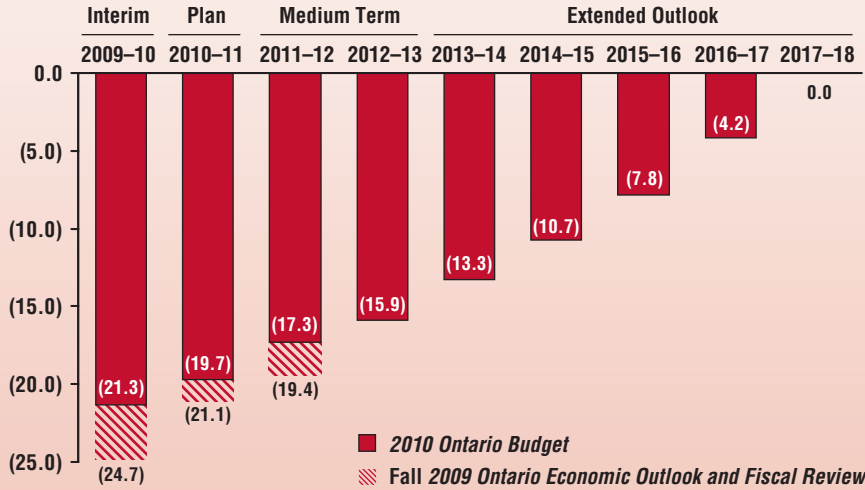
The Province is following a realistic and responsible plan to eliminate the deficit. There are now clear signs that the Ontario economy has stabilized and that recovery is taking shape. However, growth in the Ontario economy and revenues alone cannot bring the Province back to balance. The government has demonstrated its ability to manage program expense in the past and it will continue to demonstrate that restraint in order to return to a balanced budget. The government's plan will cut the Provincial deficit in half in five years and balance the budget in 2017–18.

Ontario's Plan to Eliminate the Deficit



Chart 8

Fiscal Balance
(\$ Billions)



Key elements of the government's plan to balance the budget by 2017-18 include:

- ✓ holding the annual growth in program expense to an average of 1.9 per cent beyond 2012-13;
- ✓ continually adopting efficiency practices, maximizing returns from government business enterprises and managing overall expenditures;
- ✓ building on the government's previous expenditure management measures and the recent work of the Treasury Board Working Group, the government will proceed with an ongoing comprehensive review of major government programs and services;
- ✓ promoting principled and sustainable federal-provincial arrangements; and
- ✓ maintaining a cautious and prudent fiscal plan, including contingency funds and a reserve.

Ontario's Fiscal Recovery Plan¹
(\$ Billions)**Table 3**

	Plan 10–11	Medium-Term Outlook		Extended Outlook				
		11–12	12–13	13–14	14–15	15–16	16–17	17–18
Revenue	106.9	107.7	112.0	117.6	123.4	129.6	136.1	142.9
Expense								
Programs	115.9	112.9	114.3	116.5	118.7	121.0	123.3	125.7
Interest on Debt	10.0	11.1	12.5	13.3	14.4	15.4	15.9	16.2
Total Expense	125.9	124.1	126.9	129.9	133.2	136.5	139.3	141.9
Reserve	0.7	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Surplus/ (Deficit)	(19.7)	(17.3)	(15.9)	(13.3)	(10.7)	(7.8)	(4.2)	0.0

¹ Reflects the inclusion of the fiscally neutral accounting changes from incorporating the education property tax.

Note: Numbers may not add due to rounding.

The government's plan is producing results. The Province is now projecting a \$21.3 billion deficit in 2009–10, an improvement of \$3.4 billion from the \$24.7 billion deficit forecast published in the Fall 2009 *Ontario Economic Outlook and Fiscal Review* (see Chapter II, Section B).

2009 EXPENDITURE MANAGEMENT REVIEW

The government launched an expenditure management review in the Fall 2009 *Ontario Economic Outlook and Fiscal Review* to ensure that every dollar spent on service delivery is spent more effectively. The review was led by the Treasury Board Working Group.

In this *Budget*, the Province is announcing new expenditure management measures to support its commitment to return to a stronger fiscal footing. It is also introducing measures that will help ensure the sustainability of public services and government resources in the decades ahead.

EXPENDITURE MANAGEMENT MEASURES

The government is constantly implementing efficiencies in the way it delivers services.

The Results:

- ✓ Since 2003–04, Ontario's spending per capita on general government services has consistently remained in the bottom three among provincial governments. In 2008–09, general government services spending was \$134 per person, 28 per cent below the \$186 average per person of other provincial governments and the second lowest among the provinces.
- ✓ Between 2004–05 and 2007–08, the government identified savings of \$806 million through the creation of more streamlined processes, lowering administrative costs, making better use of technology, and establishing ongoing cost-avoidance and cost-reduction initiatives.

As the global recession took hold last year, the Province moved quickly to restrain its spending. The government:

- ✓ froze the salaries of Members of Provincial Parliament in 2009–10;
- ✓ froze the size of the Ontario Public Service (OPS) at 68,645 full-time equivalent staff and began to reduce the size of the OPS with a commitment to reduce it by five per cent by March 31, 2012 through attrition and other measures;
- ✓ saved an estimated \$111 million in the last five months of the 2008–09 fiscal year through expenditure management, including reducing travel and consulting costs; freezing the purchase of government vehicles and the existing government real estate footprint; and increasing green workplace practices to reduce printing, photocopying and fax costs; and
- ✓ will save approximately \$100 million annually in salaries and overhead by moving to the Harmonized Sales Tax.

In the face of current fiscal challenges, the government is taking additional steps in this *Budget* to find efficiencies and reduce the overall cost of government administration.

Compensation Measures

The government is committed to maintaining the gains made in improving the public services that Ontarians value so highly, while addressing the fiscal challenges faced by Ontario. Central to meeting this commitment is the management of public-sector compensation costs.

Compensation costs account for the majority of Ontario-funded program spending, either paid directly through the Ontario Public Service (OPS) or as part of the government's transfer payments to schools, hospitals and many other public-sector partners.

Protecting services requires limiting compensation growth to direct scarce resources to service delivery.

As an immediate step, the government would extend the existing freeze in the salaries of Members of Provincial Parliament for a total of three years. The compensation structures for non-bargaining political and Legislative Assembly staff would also be frozen for two years.

The government will also introduce legislation that would freeze compensation structures in the broader public sector and the OPS for two years for all non-bargained employees. The legislation would apply to substantially all organizations covered by the *Public Sector Salary Disclosure Act*, except for municipalities. It must be inclusive to be effective in controlling growth in compensation costs and in protecting services and jobs.

In two years, these measures would help redirect up to \$750 million to sustaining service delivery in the public sector.

Going forward, the fiscal plan provides no funding for incremental compensation increases for any future collective agreements.

All existing collective agreements in the public sector will be honoured. As agreements are renegotiated, the government will work with transfer payment partners and bargaining agents to seek agreements of at least two years' duration. These agreements should help manage spending pressures, protect public services that Ontarians rely on and provide no net increase in compensation.

Base Operating Expense Frozen

The government's prudent and responsible plan to manage expenditures has a significant impact on base operating expenses, resulting in a decline. These expenditures will in effect be held at or below 2010–11 levels over the medium term.

Slowing the Pace of Long-Term Infrastructure Investments

The government recognizes the importance of balancing the need to continue to invest in infrastructure to help build a stronger economy with the need to be fiscally responsible.

It remains committed to delivering economic stimulus projects to help continue the drive towards economic recovery. These investments have played a critical role in creating jobs in Ontario. However, as the economic recovery takes a stronger hold, the Province is also focused on a plan to return to fiscal balance and expects its partners to ensure that stimulus funds are spent by March 31, 2011.

To ensure the right balance between infrastructure priorities and managing down the deficit, the government will undertake a comprehensive review of capital to be completed before the end of 2010.

Following this comprehensive review, the government will launch a 10-year capital plan in 2011.

In the current fiscal environment, the government has revised the scope and timing of some capital investments. To help manage infrastructure spending over the coming years, the government will:

- ✓ working with Metrolinx, phase construction of transit projects, which would result in approximately \$4 billion in appropriation savings and reduced borrowing over the next five years;
- ✓ delay some investments in government office space by five years, resulting in appropriation savings of over \$1.4 billion;
- ✓ delay the construction of the Toronto West Courthouse by one year, resulting in appropriation savings of \$130 million over four years; and
- ✓ eliminate the Ontario Bus Replacement Program and include bus replacement costs as eligible expenses under the gas tax funding program, which supports municipal transit;
 - the government acknowledges that municipalities have current commitments under the Ontario Bus Replacement Program, and will work with them to ensure these commitments are met by providing one-time funding of almost \$174 million in 2009–10.

Ongoing Comprehensive Expenditure Management Review

Building on the work of the government's previous expenditure management measures and the recent work of the Treasury Board Working Group, the government will continue with a comprehensive review of all government programs and services. The comprehensive review will be overseen by Treasury Board and will ensure that the government's resources are focused on delivering the programs and services that support:

- ✓ jobs and economic growth;
- ✓ access to high-quality health care and education; and
- ✓ clean and strong communities, including effective supports for the most vulnerable.

The goal of the review is to move resources from low-priority areas to high-priority areas and to move forward the Open Ontario plan.

TRANSFORMING PUBLIC SERVICES

The Province is dedicated to transforming government and modernizing the services it delivers to Ontarians. In this area, Ontario has been internationally recognized as a leading-edge government and is committed to building on its successes — most notably, ServiceOntario.

ServiceOntario

ServiceOntario is a one-stop delivery network that provides Ontarians with fast, easy access to government information and services including registrations, certifications and licensing. Services can be accessed online, in person, at kiosks and by phone. Ontario is the North American leader in offering service guarantees for basic transactions.

Transforming the Health Care System

Since 2003, the McGuinty government has taken significant steps to transform the delivery of public health care services, creating a system that is focused on patients.

However, the cost of delivering quality health care services is steadily increasing in Ontario and other jurisdictions. Increases are driven by demand and cost drivers, including changes in medical technology and demographics. For example, costs to the public system tend to rise with age and Ontario's population aged 65 and over will more than double to 3.7 million by 2030.

Today, health sector spending accounts for about 46 cents of every program dollar.² If left unchecked, cost drivers could push health care spending to 70 cents of every program dollar in 12 years. The Province will continue to face challenges in managing the growth in health care spending without crowding out other priorities such as investing in schools, helping the vulnerable, protecting the environment, and investing in infrastructure and economic development.

The Plan:

Under the Open Ontario plan, the government is committed to improving the quality and accountability of the health care system. Specifically, as part of this *Budget*, the government is proposing to:

- ☑ introduce changes to the statutes governing Ontario's drug system that would facilitate lower generic drug prices. Ontarians pay more for generic drugs than those in other countries. The government would also increase supports for pharmacies in rural and underserved areas and support the expansion of clinical services provided by pharmacists;
- ☑ increase the efficiency and effectiveness of the health care system by:
 - introducing legislation to make health care providers and executives more accountable for improving patient care;
 - reviewing the *Public Hospitals Act* to create a hospital system that taps into the expertise of community partners and health professionals;
 - creating an independent, expert advisory body to provide recommendations on clinical practice guidelines; and

² Controlling for time-limited investments and the presentation of education sector expense introduced in this *Budget* (see *Addendum to the 2010 Ontario Budget: Ontario's Plan to Enhance Accountability, Transparency and Financial Management*), health sector expense would account for 46 per cent in 2009–10 and 45 per cent in 2010–11.

- ✓ strike a working committee composed of the Ministry of Health and Long-Term Care, Ministry of Finance, Local Health Integration Network representatives and Ontario Hospital Association. The committee will examine the hospital working capital issue and apply appropriate remedies for the hospitals struggling the most with inherited debt. The working committee would be responsible for putting in place an accountability structure to ensure that hospitals pulled out of negative working capital position stay on the right track.

Transforming Ontario's Benefit Programs

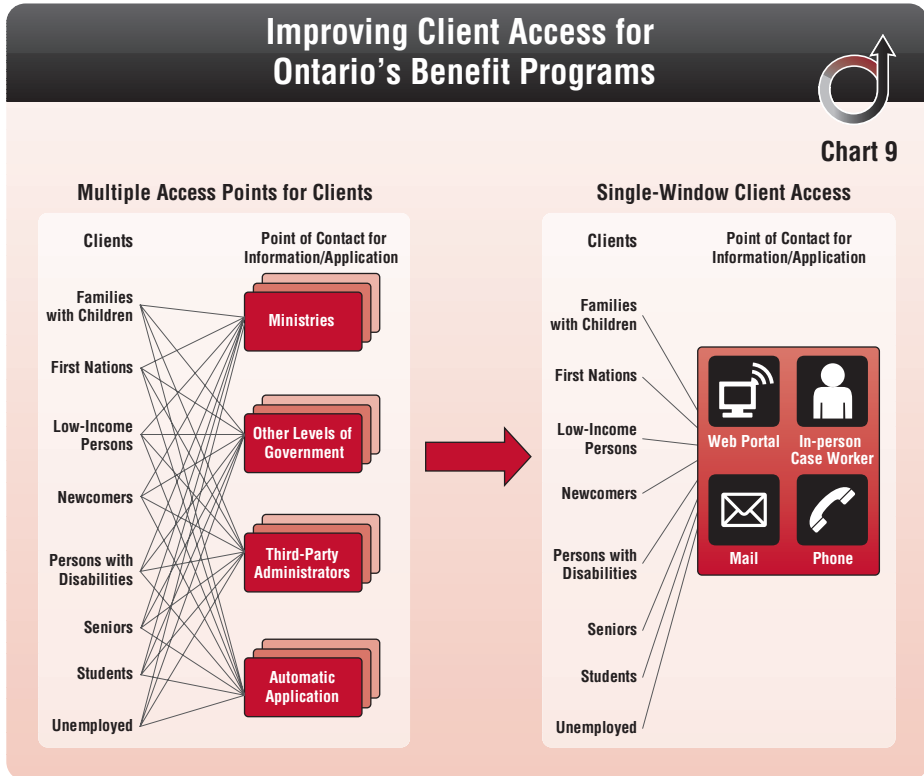
Current Benefits Delivery System

The McGuinty government provides support through benefit programs that are designed to meet Ontarians' needs arising from various circumstances. This support helps a variety of recipients, from children to seniors, and takes on many forms, including payments and in-kind benefits.

Over time, a wide range of programs has been designed to meet specific needs and different policy objectives. These programs are delivered by different administrators including ministries, other levels of government and third-party agents such as non-governmental organizations. As a result, people who need benefits often must navigate through a complex array of access points.

The Plan:

The government will continue to improve the current system of benefits to increase support for those who need it and to simplify access.



The government will undertake a comprehensive review of other jurisdictions' models of coordinated and integrated benefits administration. In transforming Ontario's benefits systems, the government will:

- ✓ create a new web portal to help centralize access to program information while improving client service;
- ✓ implement an automated income verification process for those benefit programs whose eligibility criteria include income; and

- ✓ consult with its key service delivery partners on new and innovative ways to further simplify client access to benefit programs while improving program fairness and integrity.

Transforming Employment Ontario

Employment Ontario encompasses training and employment programs and services provided by the government through the Ministry of Training, Colleges and Universities.

The Plan:

A transformation of the Employment Ontario service delivery structure is currently underway and includes a new one-stop service delivery model that will:

- ✓ improve customer service by making it easier for job seekers, employers and communities to access the programs and services they need; and
- ✓ ensure Employment Ontario remains responsive to local community needs and the changing demands of the global economy.

See Section A of this chapter for more information on Employment Ontario.

Chapter II

Ontario's Economic Outlook and Fiscal Plan





HIGHLIGHTS

Ontario's Economy

- ✓ Government-projected 2010 real GDP growth — 2.7 per cent.
- ✓ Projected 2010 real GDP growth, private-sector average — 3.0 per cent.
- ✓ Government and private-sector average projected 2011 real GDP growth — 3.2 per cent.
- ✓ Net new jobs since May 2009 — 91,700.
- ✓ Net new jobs since October 2003 — 331,700.
- ✓ Projected net new jobs in 2010–13 — 504,000.

Ontario's Finances

- ✓ 2009–10 interim deficit — \$21.3 billion, down from \$24.7 billion forecast in the *Fall 2009 Ontario Economic Outlook and Fiscal Review*.
- ✓ 2010–11 deficit projection — \$19.7 billion, down from \$21.1 billion forecast in the *Fall 2009 Ontario Economic Outlook and Fiscal Review*.
- ✓ The government has a responsible plan to cut the deficit in half in five years and eliminate it in eight years.

Improved Transparency in Financial Reporting

- ✓ Starting with this *Budget*, changes have been made in how certain revenues and expenses are presented, in order to improve the transparency of financial reporting. These changes do not affect the province's annual surplus or deficit result, the accumulated deficit or the underlying levels of revenue and expense.

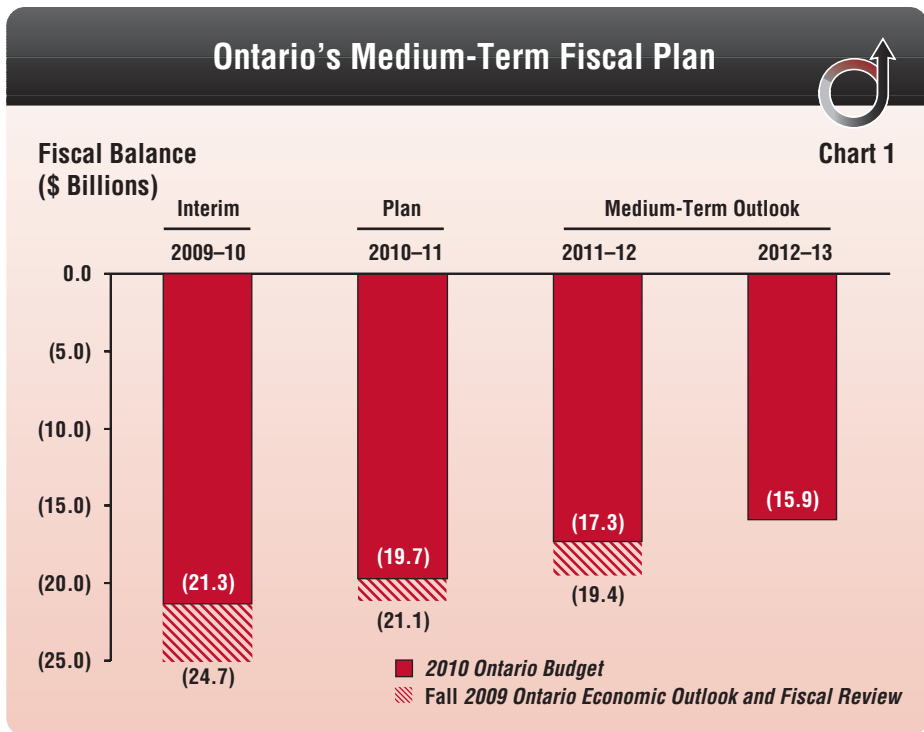
Section A: Overview

2010 Budget — Numbers at a Glance
Table 1

Ontario's Economy:		Provincial Finances:	
Projected Real GDP Growth, 2010	2.7%	2010–11 Deficit Projection	\$19.7 billion
Avg. Private-Sector Growth, 2010	3.0%	2010–11 Revenue Plan	\$106.9 billion
Projected Real GDP Growth, 2011	3.2%	2010–11 Expense Plan	\$125.9 billion
Jobs since May 2009	91,700	2010–11 Reserve	\$0.7 billion
Jobs since October 2003	331,700	Accumulated Deficit-to-GDP Ratio (2003–04)	25.2%
Real GDP (2009 above 2003)	6.2%	Accumulated Deficit-to-GDP Ratio (2009–10)	23.7%
Real Disposable Income (2009 above 2003)	18.8%		

Over the past year, Ontario's economy has been hit hard by the global economic downturn — including a recession in the United States, heightened financial market turmoil, and a contraction in the manufacturing sector. To help lessen the burden of the recession on Ontario's families and businesses, the government took decisive measures and made responsible choices. These necessary investments have contributed to a projected deficit of \$21.3 billion for 2009–10.

The government has been quick to act on the fiscal challenge that faces Ontario. Building on its track record, the government has introduced measures to achieve significant fiscal savings — both this year and over the medium term — that have allowed the government to achieve lower deficit projections than were published in the Fall 2009 *Ontario Economic Outlook and Fiscal Review*.



There are now clear signs that the Ontario economy has stabilized and that recovery is taking shape. Growth is expected to strengthen due to improving global demand, significant government actions to support jobs and the economy, and government policies to promote long-term competitiveness and growth.

Ontario has established a strong foundation for future prosperity through its tax plan for jobs and growth and by making major investments in key public services and infrastructure. As the government's stimulus is wound down and economic growth takes hold, Ontario will continue to build on that foundation with its five-year Open Ontario plan and by modernizing government operations. These measures will allow it to hold program expense growth to a rate less than the growth in revenue and cut the deficit in half within five years. As a result, the Province is projecting diminishing deficits of \$19.7 billion in 2010-11, \$17.3 billion in 2011-12 and \$15.9 billion in 2012-13, with a balanced budget by 2017-18.

Section B: **2009–10 Interim Fiscal Performance**

As outlined in the Fall 2009 *Ontario Economic Outlook and Fiscal Review*, lower 2008–09 results and a weaker economy in 2009 led to a significant reduction in projected revenues for 2009–10. Total expense increased as the Province invested to support job creation and lessen the impact of the economic downturn on Ontarians.

Since the fall of 2009, Ontario's economy has stabilized and begun to recover while the Province's finances have improved and strengthened. There are clear signs that Ontario's economic recovery is taking shape. Jobs, gross domestic product (GDP), merchandise exports and manufacturing sales have all improved from lows posted during the recession. However, the pace of recovery has been moderate and these key indicators remain below pre-recession levels (see Section C of this chapter). The economic recovery has improved the Province's finances through a modest increase in taxation revenues.

In addition, as the global recession took hold, the government took immediate action to manage spending while protecting the quality and sustainability of public services. Building on its track record of fiscal responsibility, the government tasked the Treasury Board Working Group with leading the 2009 expenditure management review to ensure taxpayers' dollars are spent effectively. Going forward, the Province will continue implementing expenditure management measures to support its commitment to return to fiscal balance (see Chapter I, Section B).

The government's plan is producing results. The Province is now projecting a \$21.3 billion deficit in 2009–10, an improvement of \$3.4 billion from the \$24.7 billion deficit forecast published in the *Fall 2009 Ontario Economic Outlook and Fiscal Review*.

The improved fiscal projection is mainly due to a \$1.9 billion reduction in program expense resulting from the government's prudent management of expense, as well as lower costs associated with the Provincial response to the H1N1 flu virus. In addition, the Province's interest on debt expense projection is \$0.5 billion below the fall forecast.

**IMPROVED TRANSPARENCY IN FINANCIAL REPORTING —
IMPACTS ON ONTARIO'S FISCAL PLAN**

Starting with this *Budget*, a number of items will be presented differently for improved transparency in reporting. These changes are being made to comply with recently revised Public Sector Accounting Board standards. These presentation changes do not impact the Province's annual surplus/deficit results or underlying revenues and expenses.

The principal change is the treatment of Education Property Tax. Previously, Education Property Taxes collected by municipalities for local school boards were netted against (i.e., subtracted from) Education expense. Under the new presentation, Education Property Taxes are included in Provincial revenue and are no longer netted against Education expense.

To facilitate comparisons, the Province's historical revenues and expenses have been restated to account for this reporting change. The following table illustrates how this change affects the Province's 2008–09 financial results.

Presentation in the Fall 2009 <i>Economic Outlook and Fiscal Review</i>		New Presentation in the <i>2010 Budget</i>	
Actual (\$ Billions)	2008–09	Actual (\$ Billions)	2008–09
Revenue		Revenue	
<i>Taxation Revenue</i>	62.4	<i>Taxation Revenue</i>	68.9
⋮	⋮	⋮	⋮
Total Revenue	90.5	Total Revenue	96.9
Expense		Expense	
Health Sector	40.7	Health Sector	40.7
<i>Education Sector</i>	13.2	<i>Education Sector</i>	19.6
⋮	⋮	⋮	⋮
Total Expense	96.9	Total Expense	103.3
Reserve	–	Reserve	–
Surplus / (Deficit)	(6.4)	Surplus / (Deficit)	(6.4)

Note that while the surplus/deficit of the Province as well as the accumulated deficit are unaffected by this change in presentation, there has been a change in the calculation of net debt. See *Addendum to the 2010 Ontario Budget: Ontario's Plan to Enhance Accountability, Transparency and Financial Management* for more information.

2009–10 In-Year Fiscal Performance
 (\$ Millions)

Table 2

	Fall Outlook ¹	Interim	Change from Fall Outlook
Revenue	96,648	96,409	(239)
Expense			
Programs	110,757	108,809	(1,949)
Interest on Debt	9,406	8,930	(476)
Total Expense	120,163	117,739	(2,425)
Reserve	1,200	–	(1,200)
Surplus/(Deficit)	(24,716)	(21,330)	3,386

¹ Both revenue and expense have been restated to reflect fiscally neutral accounting changes from incorporating the education property tax.

Note: Numbers may not add due to rounding.

The interim outlook for 2009–10 projects that revenue will be 0.2 per cent below the forecast in the Fall 2009 *Ontario Economic Outlook and Fiscal Review*. Total expense for 2009–10 is projected to decrease by 2.0 per cent from the fall forecast.

The reserve has been drawn down to help offset the impact of slower economic growth on the Province's fiscal performance.

The 2009–10 interim results are based on the best information available as of early March 2010. Given the preliminary nature of the interim forecast, these projections are subject to change as actual Provincial revenue and expense are finalized in the 2009–10 Public Accounts.

In-Year Revenue Performance

Total revenue in 2009–10 is estimated to be \$96,409 million. This is \$239 million or 0.2 per cent below the Fall 2009 *Ontario Economic Outlook and Fiscal Review* forecast.

**Summary of Revenue Changes since the Fall
2009 Ontario Economic Outlook and Fiscal Review**
(\$ Millions)

Table 3

	Interim 2009–10
Taxation Revenue	257
Government of Canada	
Infrastructure	(777)
Other	96
	(681)
Income from Government Business Enterprises	
Ontario Power Generation Inc. and Hydro One Inc.	(186)
Ontario Lottery and Gaming Corporation	(83)
Liquor Control Board of Ontario	93
All Other Government Business Enterprises	7
	(169)
Other Non-Tax Revenue	
Power Sales	472
Other Non-Tax Revenue	(118)
	354
Total Revenue Changes	(239)

Note: The Fall 2009 Ontario Economic Outlook and Fiscal Review forecast is restated to reflect accounting changes due to the implementation of line-by-line consolidation of controlled broader public-sector organizations. For a restated version of the 2009 Budget and Fall 2009 Ontario Economic Outlook and Fiscal Review revenue outlook, see Section D of this chapter.

Revenue Changes

Highlights of key 2009–10 revenue changes from the Fall 2009 Ontario Economic Outlook and Fiscal Review forecast are as follows:

- ✓ **Taxation Revenues** are slightly higher (0.4 per cent) than projected due to favourable changes in the composition of economic growth.
- ✓ Transfers from the Government of Canada for **infrastructure** are \$777 million lower due to revised timelines for capital projects and changes in federal funding. A significant portion of the expenditure planned for 2009–10 will occur in 2010–11 or later years.

- ✓ **Other Government of Canada transfers** are \$96 million higher, largely due to Labour Market program funding re-profiled to 2009–10.
- ✓ The combined net income of **Hydro One Inc. and Ontario Power Generation Inc. (OPG)** is estimated to be \$186 million lower, largely due to lower electricity market prices received by OPG for its unregulated and non-contracted electricity output.
- ✓ **Ontario Lottery and Gaming Corporation** net income is \$83 million lower, mainly due to lower gaming revenue from slot machines and casinos.
- ✓ Net income from the **Liquor Control Board of Ontario** is \$93 million higher due to stronger-than-expected sales, including better-than-expected sales of higher-margin products.
- ✓ **All Other Government Business Enterprises** are \$7 million higher, largely due to an accounting change in reporting financial results for the Ontario Northland Transportation Commission (ONTC). The impact of the reporting change is fiscally neutral.
- ✓ Revenues recorded under **Power Sales** are \$472 million higher due to the Lambton and Nanticoke support contract between the Ontario Electricity Financial Corporation and OPG. The increase in “Power Purchase” expense for the Lambton and Nanticoke contract is fully offset by the increase in revenues recovered from electricity ratepayers under Power Sales.
- ✓ **Other Non-Tax Revenue** is \$118 million lower, largely due to lower Electricity Debt Retirement Charge revenue, lower Vehicle and Driver Registration Fees, lower Royalties, and lower Other Fees, Licences and Permits. These decreases are partially offset by higher Reimbursements and Sales and Rentals revenues.

In-Year Expense Performance

Total expense in 2009–10 is currently projected to be \$117,739 million, a decrease of \$2,424.7 million, or 2.0 per cent, from the Fall

2009 *Ontario Economic Outlook and Fiscal Review* forecast.

**Summary of Expense Changes since the Fall
2009 *Ontario Economic Outlook and Fiscal Review*
(\$ Millions)**

Table 4

	Interim 2009–10
Program Expense Changes	
Health Sector	(599.6)
Education Sector ¹	(47.5)
Postsecondary and Training Sector	(237.9)
Children's and Social Services Sector	141.0
Justice Sector	(62.4)
Other Program Expense Changes	(1,142.3)
Total Program Expense Changes	(1,948.7)
Interest on Debt	(476.0)
Total Expense Changes	(2,424.7)

¹ Excludes Teachers' Pension Plan.

Expense Changes

Highlights of key 2009–10 expense changes from the Fall 2009 *Ontario Economic Outlook and Fiscal Review* forecast are as follows:

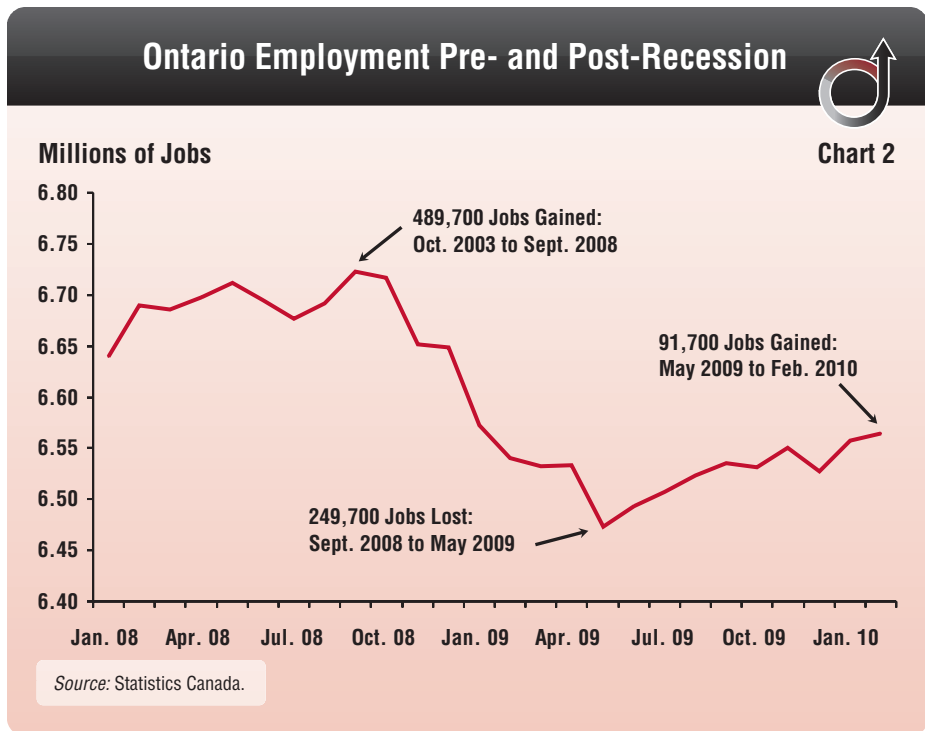
- ✓ **Health sector** expense decreased by \$599.6 million, primarily due to lower-than-anticipated costs to respond to the H1N1 flu virus and revised timelines for capital projects related to the Recreational Infrastructure Canada Program in Ontario and the Ontario Recreation Program that will now be implemented in 2010–11.
- ✓ **Education sector** expense decreased by \$47.5 million, due to lower Ministry of Education spending on administration and other programs.

- ✓ **Postsecondary and Training sector** expense decreased by \$237.9 million, primarily due to revised implementation timelines for various capital projects.
- ✓ **Children's and Social Services sector** expense increased by \$141.0 million, mainly to support the delivery of programs for the vulnerable, including social assistance and child protection services. This increase also includes \$18.3 million for community projects to support the renewal of social services facilities used by low-income and vulnerable Ontarians.
- ✓ **Justice sector** expense decreased by \$62.4 million, primarily due to revised schedules for courthouse and correctional facility construction projects.
- ✓ **Other program** expense decreased by \$1,142.3 million in 2009–10, reflecting the balance of changes in program expense. These include ministries' savings as a result of expenditure management measures, revised schedules for infrastructure projects to be completed in 2010–11, as well as a decrease in expenses of various consolidated organizations. The Operating Contingency Fund has been maintained at \$50.0 million in recognition of expense changes that could materialize as the 2009–10 Public Accounts are finalized.
- ✓ **Interest on Debt** expense is \$476.0 million lower than forecast in the Fall 2009 *Ontario Economic Outlook and Fiscal Review*. This amount reflects the impact of lower-than-forecast interest rates on floating rate debt, more financing at shorter-term maturities, and a lower deficit than forecast in the Fall 2009 *Ontario Economic Outlook and Fiscal Review*.

Section C: Ontario's Economic Outlook

OVERVIEW

Ontario's families and businesses are still feeling the effects of the global financial and economic crisis. Despite the rebound of 91,700 jobs since May, Ontario employment is still down by 158,000 jobs from the pre-recession level. Over the five-year period before the global recession, Ontario employment had increased by almost 490,000 net new jobs. The global economy remains fragile, which is a threat to Ontario's continuing recovery.



The Ministry of Finance is projecting real gross domestic product (GDP) growth of 2.7 per cent in 2010, 3.2 per cent in 2011, 3.2 per cent in 2012 and 3.0 per cent in 2013, slightly below or in line with the private-sector average each year.¹ Growth is expected to strengthen due to improving global demand for Ontario exports, significant government actions to support jobs and the economy (see Chapter I: *Ontario's Plan for Prosperity*) and government policies to promote long-term competitiveness and growth (see Chapter III: *Tax and Pension Systems for Ontario's Future*).

Ontario Economic Outlook
(Per Cent)

Table 5

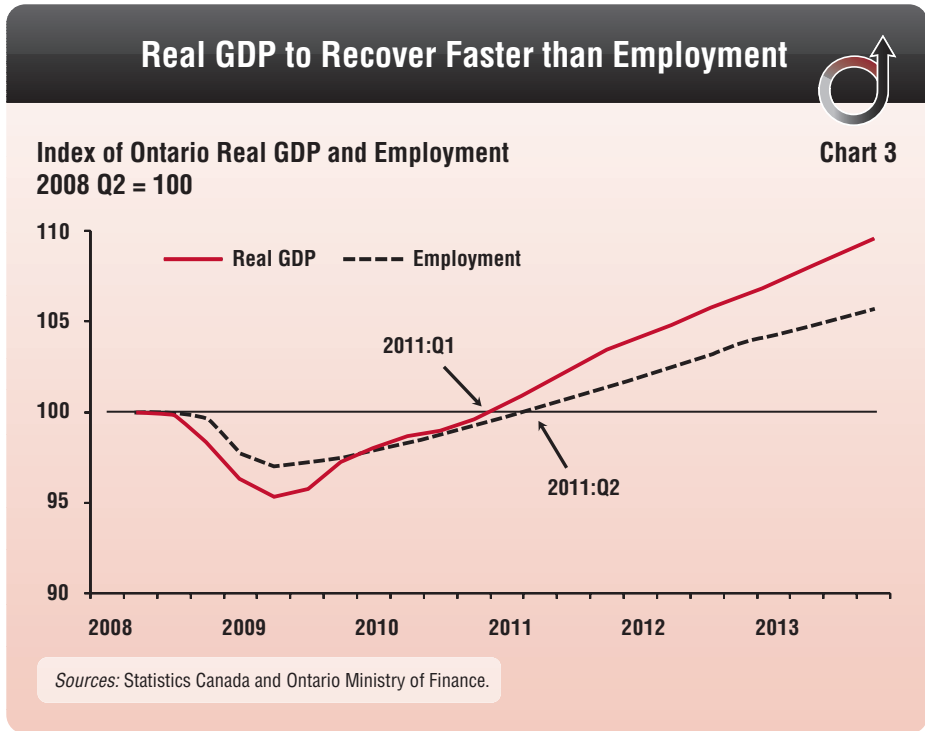
	2007	2008	2009	2010p	2011p	2012p	2013p
Real GDP Growth	2.3	(0.5)	(3.4e)	2.7	3.2	3.2	3.0
Nominal GDP Growth	4.5	0.4	(3.5e)	4.4	5.0	5.3	5.0
Employment Growth	1.6	1.4	(2.4)	1.1	2.1	2.3	2.0
CPI Inflation	1.8	2.3	0.4	1.9	2.1	2.0	2.0

e = estimate. p = Ministry of Finance planning projection.

Sources: Statistics Canada and Ontario Ministry of Finance.

¹ This forecast is based on information available up to March 12, 2010.

Due to the sharp decline in GDP resulting from the global recession, Ontario real GDP is expected to remain below its pre-recession level until the first quarter of 2011. Since employment growth tends to lag real GDP growth, it is expected to take somewhat longer for the province to see the same level of employment as before the global recession.



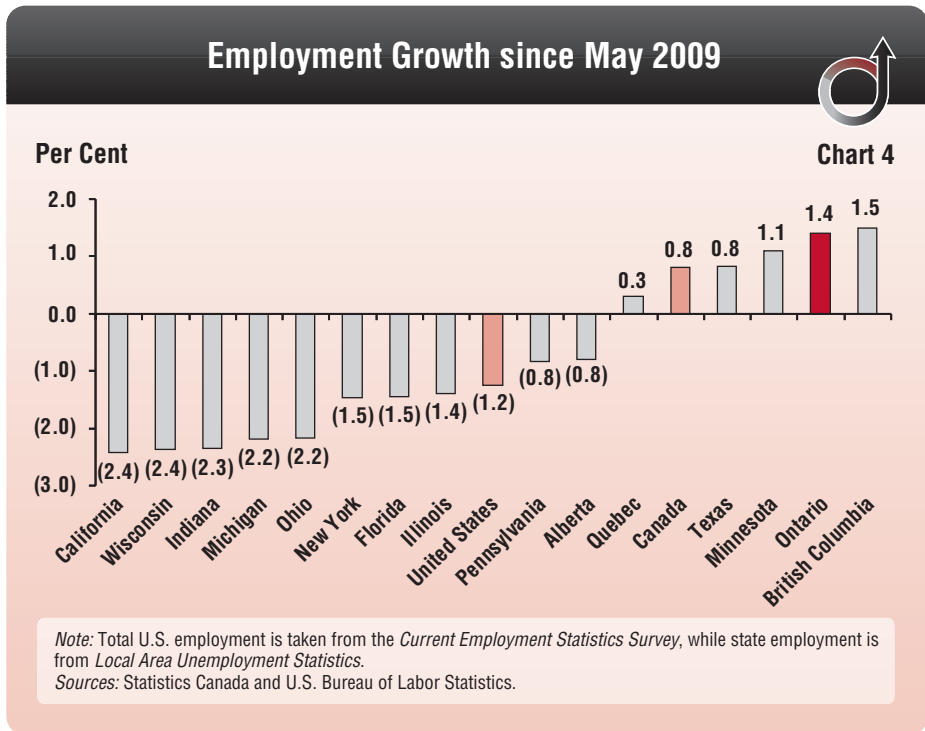
Signs of Economic Recovery in Ontario

There are clear signs that the Ontario economy has stabilized and that a recovery is taking shape. All major indicators in Ontario have improved from lows posted during the recession.

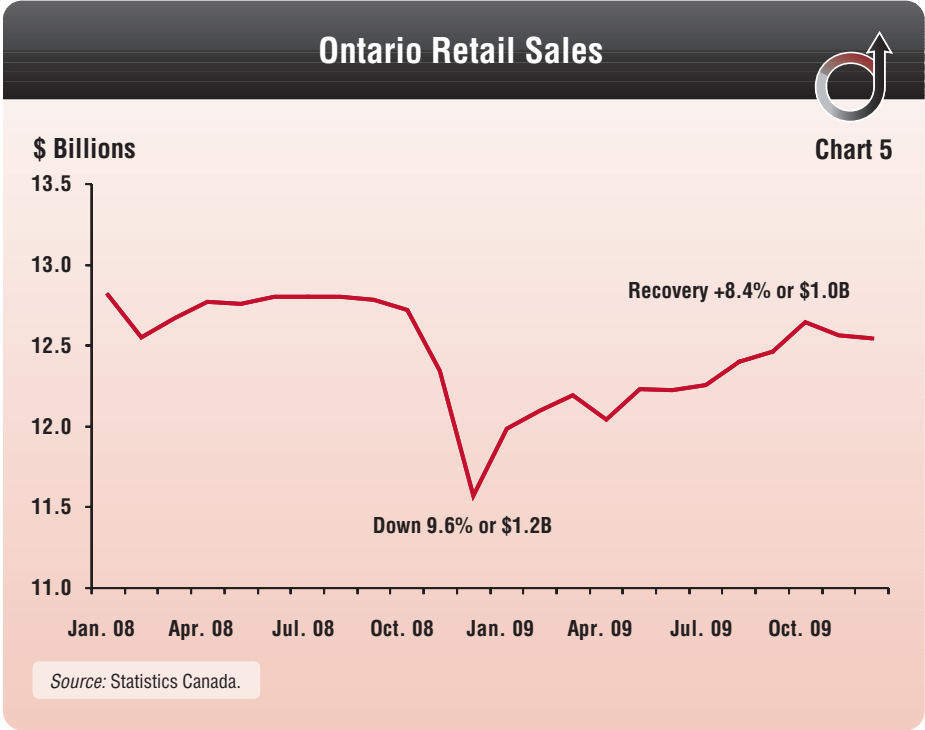
Economic Recovery Post-Recession			Table 6
	Pre-Recession Levels	Global Recession	Recovery to Date
Jobs (000s)	6,722.8	(249.7)	+91.7
Real GDP (\$ Billions, 2002)	534.9	(25.1)	+10.3
Merchandise Exports (\$ Billions)	14.3	(4.9)	+1.7
Manufacturing Sales (\$ Billions)	24.4	(7.4)	+2.7
Retail Sales (\$ Billions)	12.8	(1.2)	+1.0
<i>Sources: Statistics Canada and Ontario Ministry of Finance.</i>			

Ontario real GDP declined for four consecutive quarters, falling 4.7 per cent from the second quarter of 2008 to the second quarter of 2009. Since the low point, Ontario real GDP has increased for two consecutive quarters, rising 0.5 per cent in the third and 1.6 per cent in the fourth quarter of 2009. Despite the improvement, the level of real GDP is still 2.8 per cent below the pre-recession level.

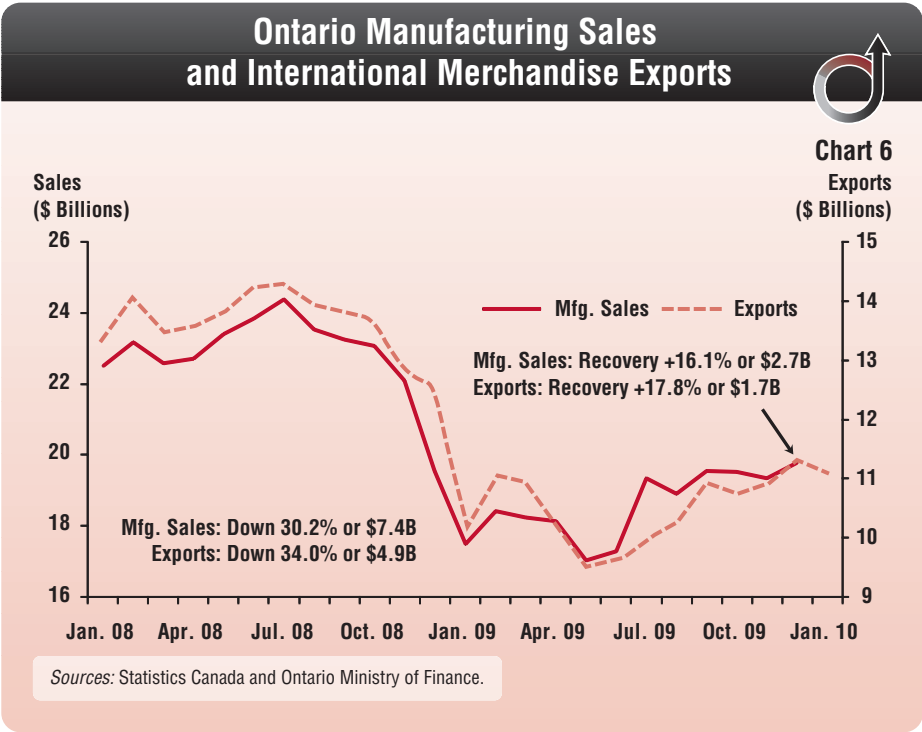
In the period from September 2008 to May 2009, Ontario employment dropped by 249,700. Since May 2009, as the Ontario economy has stabilized, employment has increased by 1.4 per cent or 91,700 net new jobs, recovering more than one-third of the jobs lost during the recession. Over the past nine months, Ontario's employment growth has been stronger than most other provinces' and significantly above that of the United States as a whole and every U.S. state.



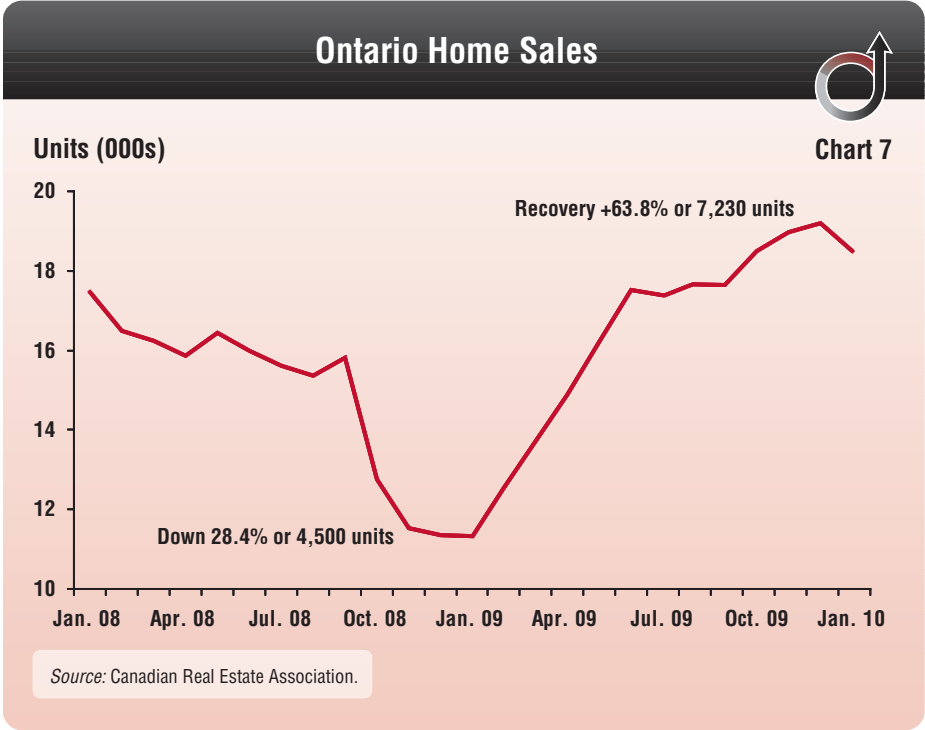
Retail trade has posted the strongest gains, recovering almost 80 per cent of the decline that occurred during the recession. Much of this decline was due to the sharp drop in auto sales, which plummeted 22.1 per cent during the recession.



Ontario's manufacturing sector suffered a sharp decline in activity during the recession. Manufacturing sales have begun to recover but remain 18.9 per cent below pre-recession levels. Auto production improved to 476,000 units in the fourth quarter of 2009 but is still almost 19 per cent below pre-recession levels. Ontario's international merchandise exports have also improved but remain 22.3 per cent below the pre-recession levels of July 2008.



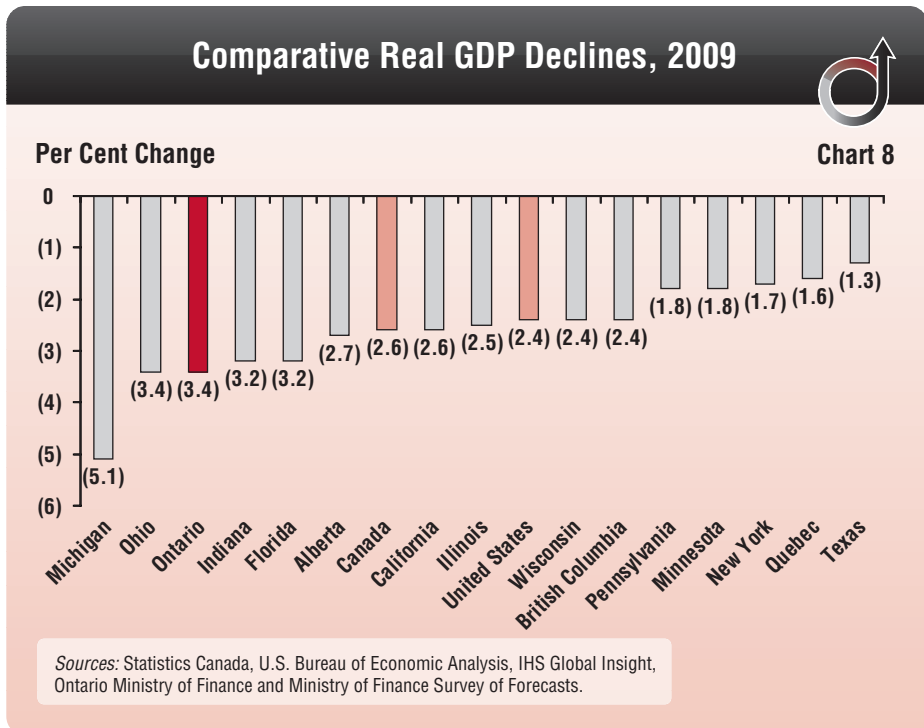
Housing sales plunged 28.4 per cent during the recession but have fully recovered over the past year. Ontario housing prices declined 5.8 per cent during the recession but have risen since then, reaching new highs.



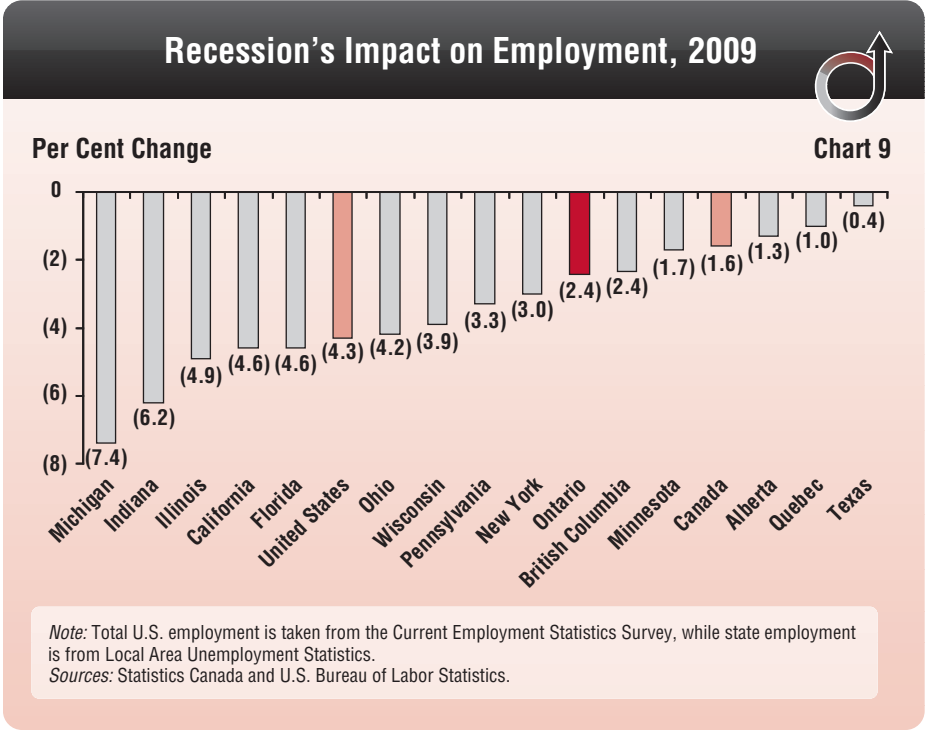
Ontario Was Hard Hit by the Global Recession

Ontario's real GDP posted a larger decline in 2009 than that of Canada or the United States, but not as severe as in many G7 countries (Germany, Italy, Japan and the United Kingdom). In 2009, Ontario represented about 40 per cent of Canadian GDP but accounted for 51 per cent of the decline in Canada's output. This degree of change reflects the relative size of the auto sector, which represented 2.6 per cent of Ontario's GDP in 2009, compared to 0.2 per cent in the rest of Canada. Government support for the auto sector last year preserved at least 85,000 Ontario jobs. The auto industry directly and indirectly supported about 400,000 Ontario jobs in 2008. Output in Ontario's automotive sector declined by 28.7 per cent in 2009.

Ontario's decline in real GDP in 2009 was not as steep as Michigan's (-5.1 per cent) but was similar to that of other Great Lake States (Ohio -3.4 per cent and Indiana -3.2 per cent). Ontario's real GDP fell more than that of any other province, except Newfoundland and Labrador.



Similarly, employment in Ontario posted a steeper decline in 2009 than in G7 countries, with the exception of the United States (-4.3 per cent). This reflects the importance of the auto industry to Ontario and the impact of the global recession on this industry. Some individual U.S. states posted particularly severe job losses in 2009: Michigan (-7.4 per cent), California (-4.6 per cent), Illinois (-4.9 per cent) and Ohio (-4.2 per cent). Ontario employment has risen modestly since May 2009 while U.S. employment has continued to decline.



Challenging Global Environment Affecting Ontario Outlook

Ontario's economic outlook is heavily influenced by global economic and financial conditions, particularly U.S. demand, oil prices, the Canadian dollar exchange rate and interest rates. Private-sector forecasts for these factors are summarized in the table below.

External Variables		Table 7			
Average Private-Sector Forecast					
		2010	2011	2012	2013
U.S. Real GDP Growth (Per Cent)		3.1	3.0	3.4	3.2
Crude Oil (\$US per Barrel)		79.1	85.6	92.3	101.3
Canadian Dollar (Cents US)		96.1	97.5	97.0	96.4
Three-Month Treasury Bill Rate* (Per Cent)		0.6	2.2	3.5	4.3
10-Year Government Bond Rate* (Per Cent)		3.7	4.2	4.8	5.1

* Government of Canada interest rates.
Sources: Blue Chip Economic Indicators (March 2010) and Ontario Ministry of Finance Survey of Forecasts (March 12, 2010).

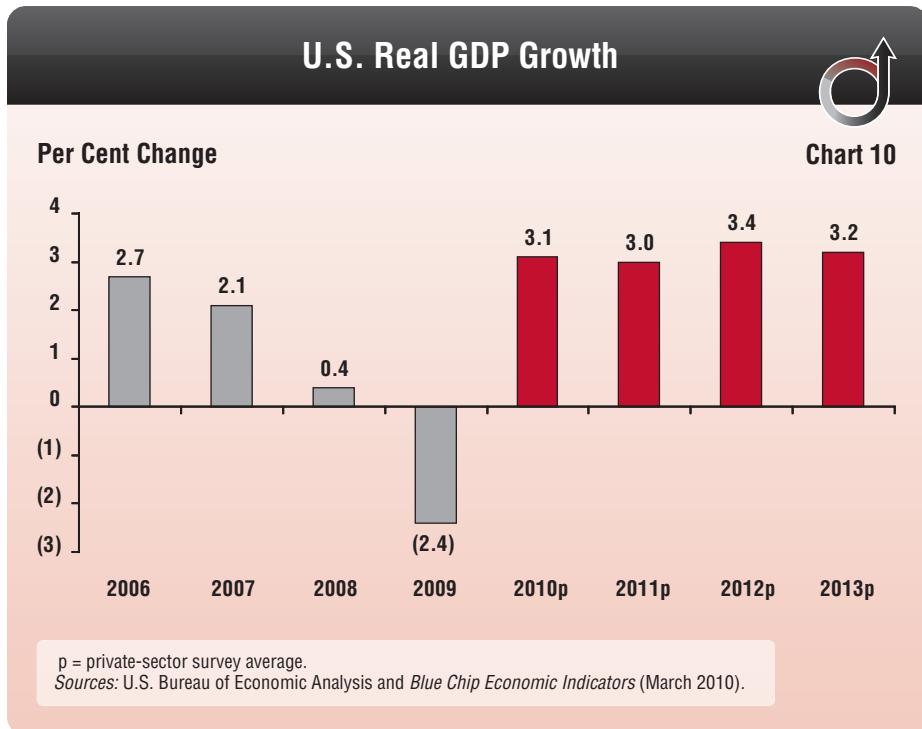
U.S. Economy Growing

The United States, which is beginning to recover from one of the deepest recessions on record, is Ontario's most important export market. It accounts for about 80 per cent of the province's international exports. U.S. businesses are increasing investment and consumer spending is rising. Although residential investment improved in the second half of 2009, recent indicators suggest it remains fragile. A weakening in U.S. residential housing investment would continue to have a negative impact on Ontario's forestry industry.

U.S. real GDP is expected to rise by 3.1 per cent in 2010, 3.0 per cent in 2011 and by an average of 3.3 per cent annually in 2012 and 2013. Canada and the United States recently reached an agreement under which the United States has waived the Buy American provisions under the *American Recovery and Reinvestment Act of 2009*.

This agreement will allow Ontario businesses to participate in U.S. infrastructure projects and gain access to a variety of U.S. state and local public works projects, estimated at nearly \$65 billion US.

U.S. auto sales are expected to rise 12.5 per cent to 11.7 million units in 2010. Sales are expected to continue to rise, to 13.2 million units in 2011 and to average 14.7 million units in 2012 to 2013. Although U.S. auto sales are expected to rebound strongly, they will remain well below the 2007 peak of 16.1 million units. U.S. demand for Ontario exports will likely be hampered by continuing weakness in U.S. consumer and business credit growth, the high value of the Canadian dollar and withdrawal of government actions to stimulate the economy. In addition, job losses are continuing and the unemployment rate remains high at around 10 per cent, the highest rate since 1983. As a result, the U.S. recovery is expected to be weaker than in previous post-recession periods.



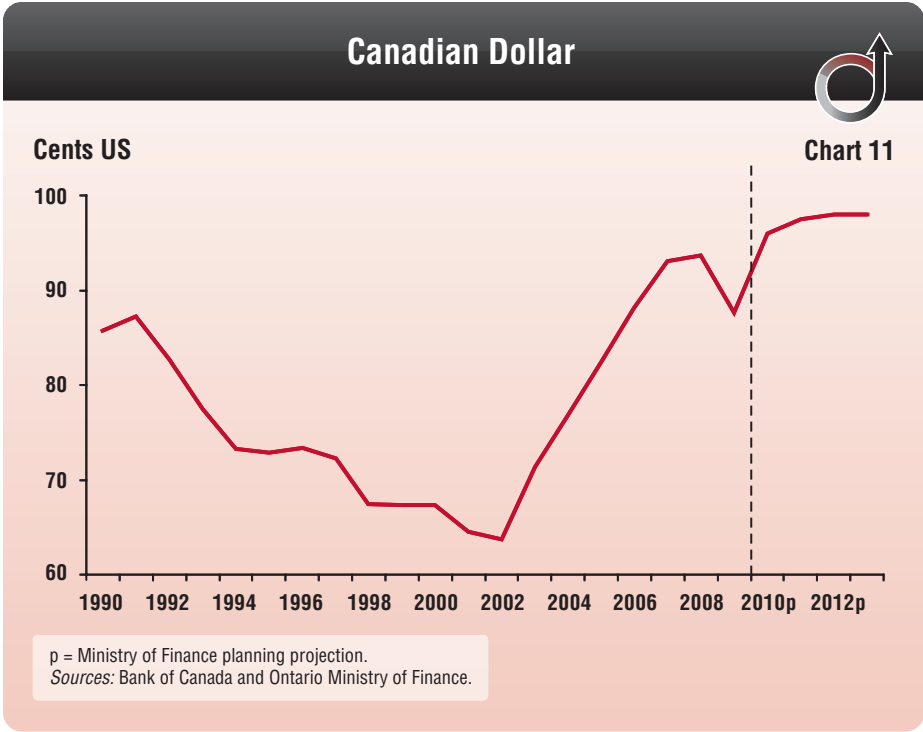
Oil Prices Rising

Stronger global growth is leading to firmer commodity prices.

Oil prices rose from below \$34 US a barrel in February 2009 to over \$83 in January 2010. Recently, oil has been trading at around \$80 US a barrel. Private-sector forecasters, on average, expect oil prices to increase from \$79 US per barrel in 2010 to \$101 US per barrel in 2013. There is a wide range of views on oil prices, reflecting uncertainty about demand conditions and available supply. For planning purposes, the Ministry of Finance forecast is based on the futures contract for oil prices as of March 10, 2010. Oil prices are projected to rise from \$82 US per barrel in 2010, to around \$86 US per barrel in 2011 and average \$87 US per barrel in 2012 and 2013.

Canadian Dollar Strengthening

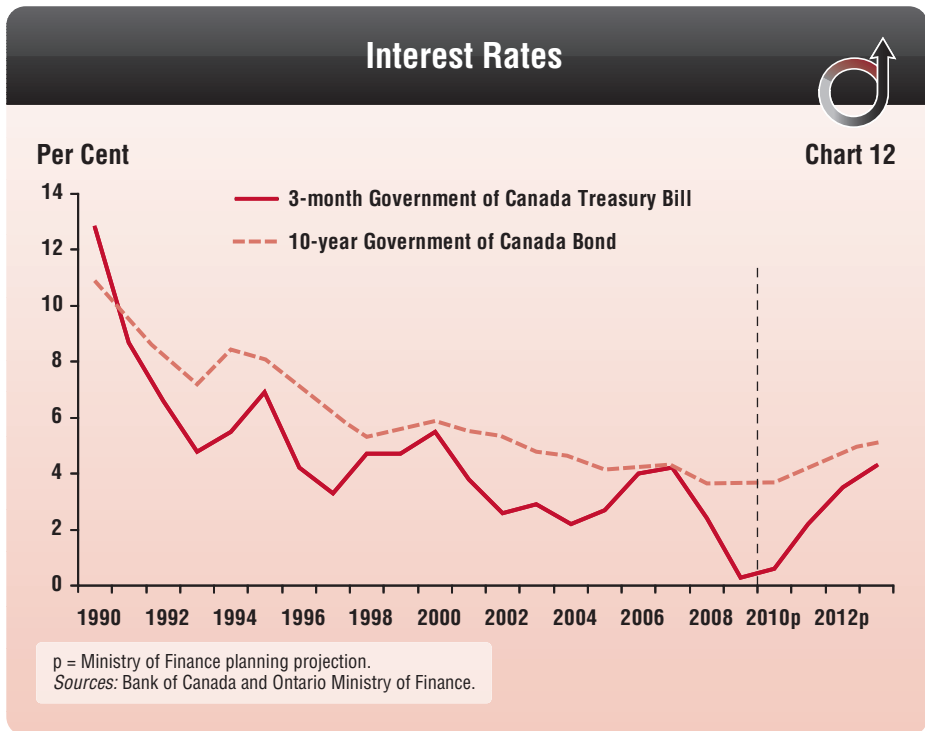
The Canadian dollar rebounded sharply in the middle of 2009, rising from below 77 cents US in March to over 97 cents US in October, influenced by higher commodity prices, global economic stabilization and a broad depreciation in the U.S. dollar. Recently the dollar has been trading at around 97 cents US. Private-sector forecasters expect the exchange rate to remain high over the medium term.



Interest Rates to Rise

The Bank of Canada's *Senior Loan Officer Survey* reported a stabilization and slight improvement in business credit conditions, the first improvement since the start of the credit crisis in mid-2007. Business credit has begun to grow again, led by market-based financing. Household credit has expanded briskly in response to low interest rates and a resurgence in housing market activity.

Interest rates for both businesses and consumers are at or near record lows. The Bank of Canada has committed to keeping its overnight interest rate target unchanged until the middle of this year. Most forecasters expect the Bank to begin raising interest rates later this year. Over the next few years, interest rates are expected to move back up, approaching more normal pre-crisis levels. There is a risk that interest rates could increase faster and be higher than expected. Interest rates affect consumer spending and business investment as well as the projected expense for interest on the Province's debt (see Chapter IV: *Borrowing and Debt Management*).



Impact on Ontario of Changes in Global Factors

Table 8 shows the implications of changes in each of the key external factors on Ontario's growth, assuming that the other external factors do not change. The wide range shows how difficult it is to predict economic performance, creating uncertainty and risks for the Ontario economic outlook.

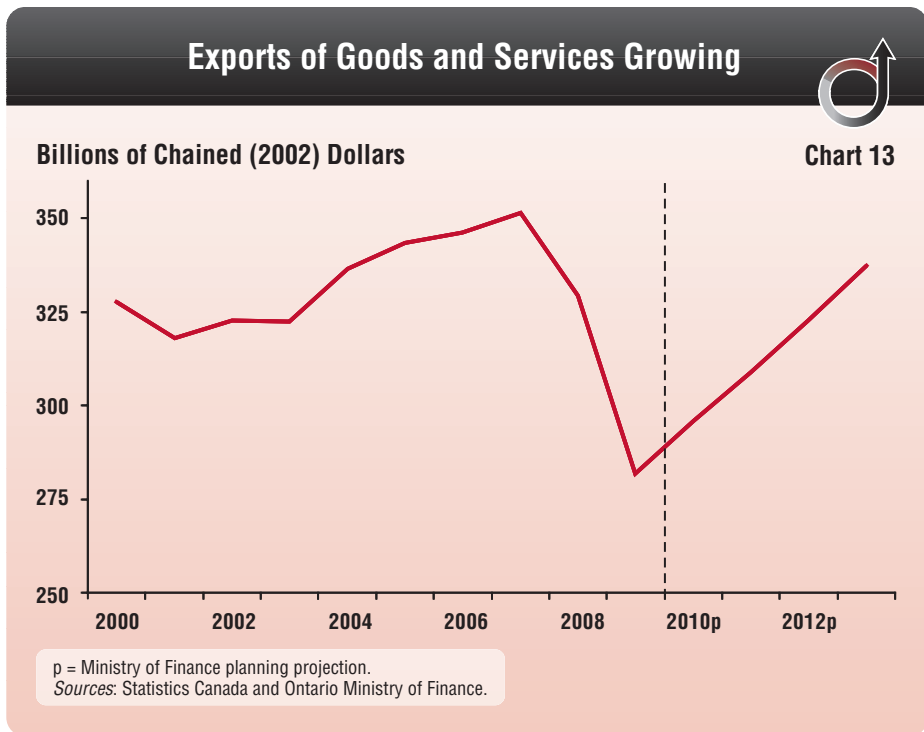
Impacts of Sustained Changes in Key Assumptions on Ontario — Real GDP Growth (Percentage Point Increase) **Table 8**

	First Year	Second Year
Canadian Dollar Depreciates by Five Cents US	0.1 to 0.8	0.5 to 1.2
World 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	0.3 to 0.7	0.4 to 0.8
Canadian Interest Rates Decrease by One Percentage Point	0.1 to 0.5	0.2 to 0.6

Source: Ontario Ministry of Finance.

Outlook for Ontario's Economic Recovery

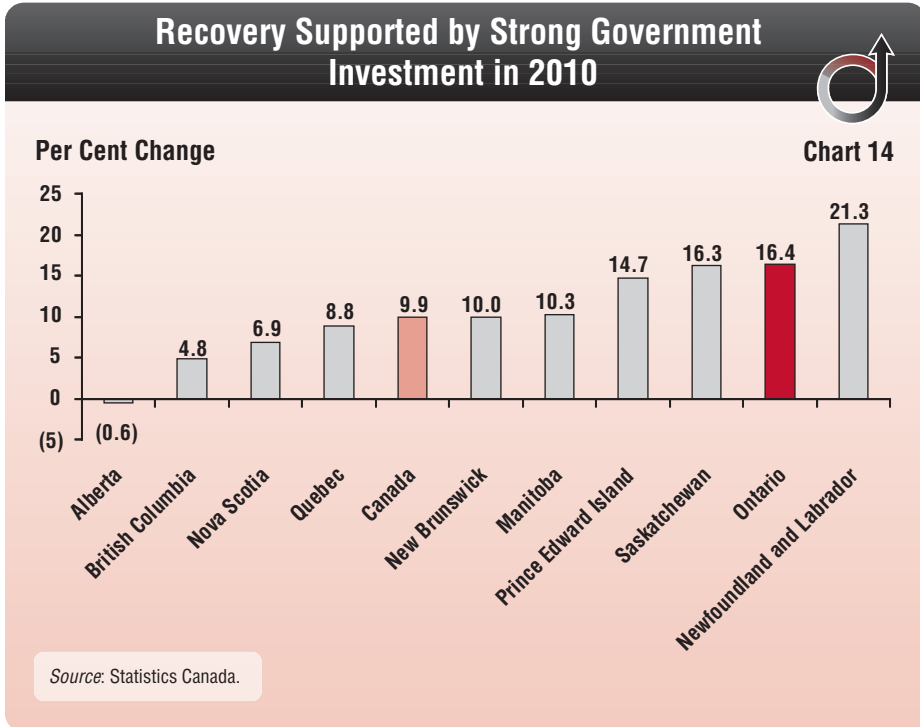
Ontario's export growth is reviving as the U.S. and global economies recover. The global rebound in auto sales is prompting a sharp turnaround in Ontario's auto exports. Ontario's trade with the rest of the world will benefit from increased demand for commodities, industrial goods and machinery and equipment, particularly from emerging Asian markets. As well, growth in other provinces will support interprovincial exports. Despite the improvement, the volume of exports is not expected to surpass its previous peak until the middle of the decade. Real exports are forecast to increase by 5.0 per cent in 2010 and an average of 4.5 per cent annually over 2011 to 2013, reflecting the improving global environment.



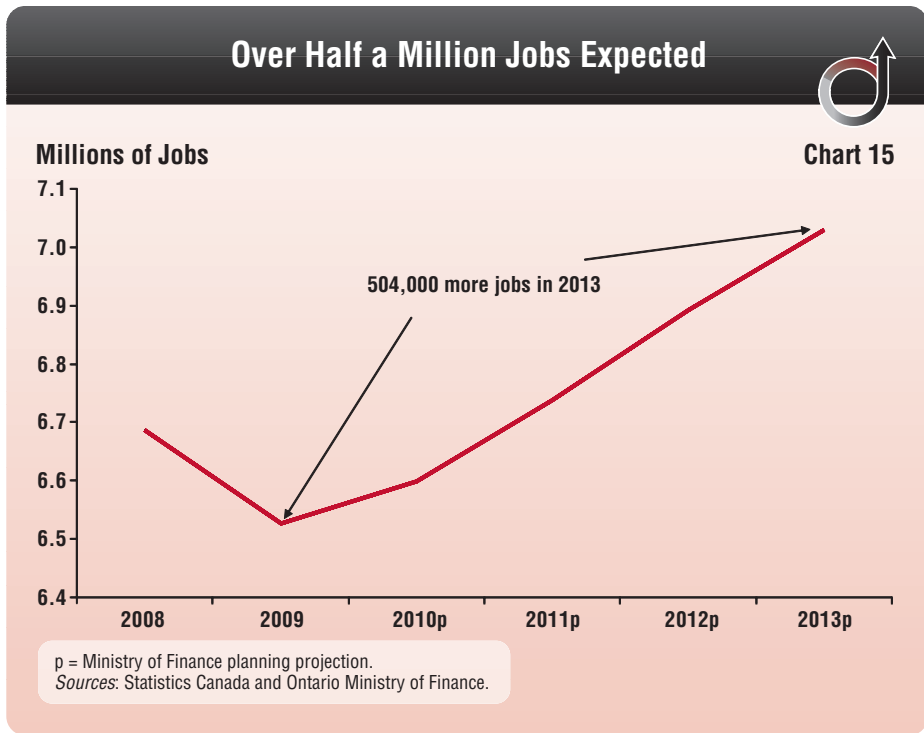
Following the large decline last year, improving business conditions are expected to support a strong rebound in corporate profits, which are projected to rise by an average of 13.6 per cent annually between 2010 and 2013. The rebound in corporate profits, coupled with rising global demand and increased tax competitiveness due to Ontario's Tax Plan for Jobs and Growth, is expected to support strengthening business investment over the coming years. Investment in machinery and equipment is expected to increase by an average of 6.9 per cent annually between 2010 and 2013 while investment in non-residential construction is projected to increase by an average of 5.5 per cent annually from 2010 to 2013.

Ontario's economic recovery continues to be supported by strong public-sector capital spending. Following strong growth in spending in 2009 (14.0 per cent), capital expenditures by all levels of government in Ontario are expected to increase by a further 16.4 per cent in 2010, second among all provinces and well above the national average

(9.9 per cent). For more information on Ontario government infrastructure investments, including record investments in 2009–10 and plans for significantly more in 2010–11, see Chapter I: *Ontario's Plan for Prosperity*.



The housing market is expected to be healthy in 2010. Housing resales are projected to rise by five per cent in 2010, drop by 10 per cent in 2011 as a result of higher average mortgage rates, and increase by an average of four per cent annually in 2012 and 2013. Accordingly, house price appreciation is set to moderate in coming years, averaging 2.4 per cent annually between 2010 and 2013. Demographic demand for new homes will support a gradual pickup in housing starts, which are projected to increase from 58,000 units in 2010 to 72,000 units in 2013.



Employment is projected to increase by 1.1 per cent in 2010, strengthening to an average of 2.1 per cent annually over 2011 to 2013, resulting in 504,000 more jobs in 2013, than in 2009. The unemployment rate is expected to stabilize at 9.1 per cent in 2010 as job creation keeps pace with the increase in the number of people seeking jobs. Ontario's employment forecast is in line with private-sector forecasts. These forecasts have incorporated the benefits of the Tax Plan for Jobs and Growth and other government actions to support jobs and the economy. Over the medium term, Ontario's unemployment rate is expected to decline to 6.8 per cent in 2013.

Labour income is expected to rebound by 2.7 per cent in 2010 and increase by an average of 5.1 per cent annually over 2011 to 2013, supported by solid employment gains. Healthy housing activity and increasing incomes will spur solid growth in household spending. Real consumer spending is expected to increase by 2.2 per cent in 2010 and then accelerate to an average of 2.7 per cent annually in 2011 to 2013.

Private-sector forecasters expect Ontario's Consumer Price Index (CPI) inflation rate to be 1.9 per cent in 2010 and 2.1 per cent in 2011. It is projected to average 2.0 per cent from 2012 to 2013, the mid-point of the Bank of Canada's target range of one to three per cent.

Details of the Ontario Economic Outlook

The following table shows details of the Ministry of Finance's economic outlook for 2010 to 2013.

The Ontario Economy, 2008 to 2013						Table 9
(Per Cent Change)						
	Actual		Projection			
	2008	2009	2010	2011	2012	2013
Real Gross Domestic Product	(0.5)	(3.4e)	2.7	3.2	3.2	3.0
Personal Consumption	2.6	0.3e	2.2	2.5	3.0	2.7
Residential Construction	(2.3)	(8.0e)	4.0	3.3	4.0	2.2
Non-residential Construction	(6.3)	(10.7e)	1.3	6.2	7.1	7.4
Machinery and Equipment	1.3	(16.7e)	4.7	8.1	7.9	7.1
Exports	(6.3)	(14.5e)	5.0	4.4	4.5	4.5
Imports	(2.8)	(14.4e)	6.7	4.4	3.7	3.8
Nominal Gross Domestic Product	0.4	(3.5e)	4.4	5.0	5.3	5.0
Other Economic Indicators						
Retail Sales	3.5	(2.5)	3.9	4.6	4.7	4.6
Housing Starts (000s)	75.1	50.4	58.0	60.0	70.0	72.0
Personal Income	3.8	(0.4e)	3.3	4.3	4.8	5.0
Labour Income	4.2	(0.9e)	2.7	4.6	5.2	5.4
Corporate Profits	(14.5)	(38.8e)	31.0	10.5	9.0	5.5
Consumer Price Index	2.3	0.4	1.9	2.1	2.0	2.0
Labour Market						
Employment	1.4	(2.4)	1.1	2.1	2.3	2.0
Job Creation (000s)	94	(161)	73	139	155	138
Unemployment Rate (Per Cent)	6.5	9.0	9.1	8.5	7.6	6.8
Key External Variables						
Crude Oil (\$ US per Barrel)	99.6	61.8	82.1	85.7	86.9	87.9
U.S. Real Gross Domestic Product	0.4	(2.4)	3.1	3.0	3.4	3.2
Canadian Dollar (Cents US)	93.7	87.6	96.0	97.5	98.0	98.0
3-month Treasury Bill Rate*	2.3	0.3	0.6	2.2	3.5	4.3
10-year Government Bond Rate*	3.6	3.3	3.7	4.2	4.8	5.1

e = estimate.

* Government of Canada interest rates (per cent).

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Bank of Canada, New York Mercantile Exchange, U.S. Bureau of Economic Analysis, *Blue Chip Economic Indicators* and Ontario Ministry of Finance.

Private-Sector Forecasts

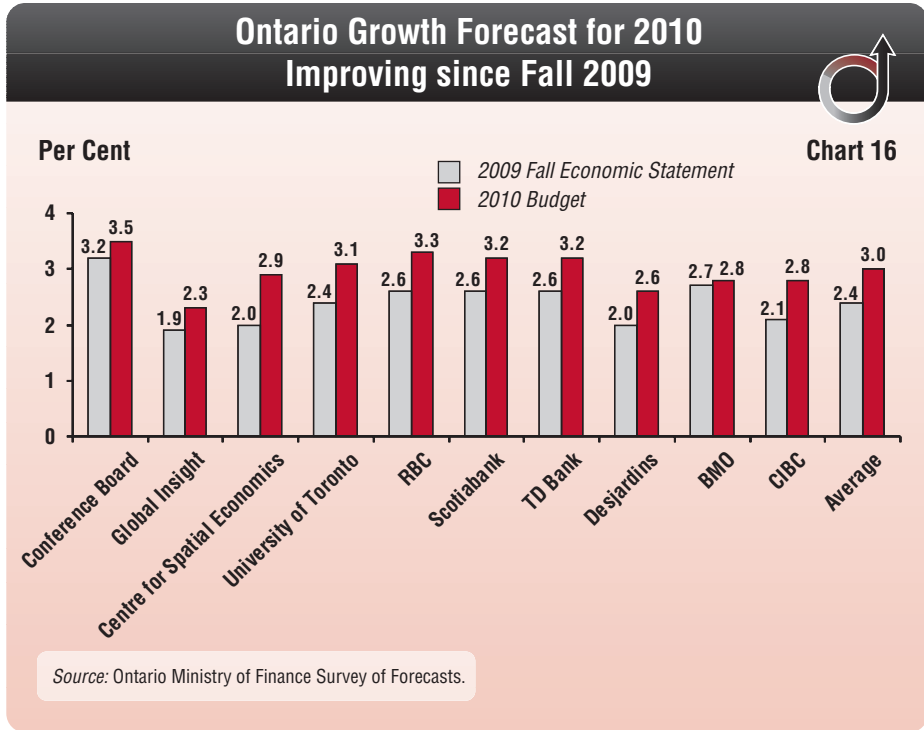
The Ministry of Finance surveys private-sector forecasts to determine appropriate planning assumptions. Private-sector forecasters are calling, on average, for Ontario real GDP to grow by 3.0 per cent in 2010, 3.2 per cent in 2011, 3.2 per cent in 2012 and 3.0 per cent in 2013. However, there is a wide range of views among forecasters. The Conference Board of Canada is the most optimistic, calling for growth of 3.5 per cent in 2010 and an average of 3.6 per cent over 2011 to 2013, while IHS Global Insight is the most pessimistic, expecting growth of only 2.3 per cent in 2010 and an average of 3.3 per cent over 2011 to 2013.

Private-Sector Forecasts for Ontario Real GDP Growth (Per Cent)				Table 10
	2010	2011	2012	2013
BMO Capital Markets (March)	2.8	3.0	–	–
Centre for Spatial Economics (January)	2.9	3.6	3.2	3.2
CIBC World Markets (March)	2.8	2.7	–	–
Conference Board of Canada (January)	3.5	3.7	3.9	3.1
Desjardins Group (February)	2.6	2.8	2.0	2.5
IHS Global Insight (January)	2.3	3.2	3.4	3.3
RBC Financial Group (March)	3.3	4.1	–	–
Scotiabank Group (March)	3.2	2.5	–	–
TD Bank Financial Group (March)	3.2	3.0	–	–
University of Toronto (January)	3.1	3.4	3.3	2.9
Private-Sector Survey Average	3.0	3.2	3.2	3.0
Ontario's Planning Assumption	2.7	3.2	3.2	3.0

Sources: Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (March 12, 2010).

To ensure reasonable and accountable economic projections, the Ministry of Finance consults extensively with private-sector forecasters. The Ontario Economic Forecast Council was established as part of the *Fiscal Transparency and Accountability Act, 2004* to provide advice on macroeconomic forecasts and assumptions. The Minister of Finance met with council members and other private-sector forecasters in the process of preparing the *2010 Budget*. Council members were asked to review the Ministry of Finance's economic assumptions in February 2010. All of the forecast council members provided letters stating that the forecast was reasonable. Subsequent to the review, small adjustments were made to

the economic forecast to maintain consistency with revisions to private-sector forecasts as of March 12, the date the economic assumptions for the *Budget* were finalized.



Private-sector forecasts for Ontario economic growth have strengthened since the Fall 2009 *Ontario Economic Outlook and Fiscal Review*. All of the 10 forecasters surveyed by the Ministry of Finance have raised their Ontario 2010 economic growth projections, with the average projection for real GDP growth increasing from 2.4 per cent to 3.0 per cent. The growth projections have increased recently due to a stronger U.S. economy and an improved Ontario labour market. Private-sector forecasts for real GDP growth are expected to move higher given the strength of recent data. As a result, the ministry's forecast is a prudent basis for fiscal planning.

Comparison to the 2009 Ontario Budget

**Changes in Key Economic Forecast Assumptions
2010 Budget Compared to 2009 Budget
(Per Cent Change)**

Table 11

	2009		2010		2011	
	2009 Budget	Actual	2009 Budget	2010 Budget	2009 Budget	2010 Budget
Real Gross Domestic Product	(2.5)	(3.4e)	2.3	2.7	3.3	3.2
Nominal Gross Domestic Product	(2.4)	(3.5e)	3.6	4.4	4.7	5.0
Retail Sales	(1.0)	(2.5)	3.8	3.9	4.0	4.6
Housing Starts (000s)	50.0	50.4	55.0	58.0	65.0	60.0
Personal Income	0.6	(0.4e)	3.6	3.3	4.6	4.3
Labour Income	0.3	(0.9e)	3.2	2.7	4.2	4.6
Corporate Profits	(24.8)	(38.8e)	9.5	31.0	8.2	10.5
Employment	(2.0)	(2.4)	0.8	1.1	1.6	2.1
Job Creation (000s)	(135)	(161)	54	73	107	139
Key External Variables						
Crude Oil (\$ US per Barrel)	47.3	61.8	55.5	82.1	60.4	85.7
U.S. Real Gross Domestic Product	(2.6)	(2.4)	1.9	3.1	3.4	3.0
Canadian Dollar (Cents US)	80.0	87.6	85.0	96.0	88.0	97.5
3-month Treasury Bill Rate* (Per Cent)	0.6	0.3	1.1	0.6	3.1	2.2
10-year Government Bond Rate* (Per Cent)	2.9	3.3	3.3	3.7	4.4	4.2

e = estimate.

* Government of Canada interest rates.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Bank of Canada, New York Mercantile Exchange, U.S. Bureau of Economic Analysis, *Blue Chip Economic Indicators* and Ontario Ministry of Finance.

Comparison to the 2009 Fall Economic Statement

Changes in Key Economic Forecast Assumptions Table 12
2010 Budget Compared to 2009 Fall Economic Statement (FES)

	2009		2010		2011	
	2009 FES	Actual	2009 FES	2010 Budget	2009 FES	2010 Budget
Real Gross Domestic Product	(3.5)	(3.4e)	2.0	2.7	3.0	3.2
Nominal Gross Domestic Product	(3.8)	(3.5e)	3.6	4.4	4.7	5.0
Retail Sales	(3.5)	(2.5)	3.6	3.9	4.1	4.6
Housing Starts (000s)	48.5	50.4	50.0	58.0	60.0	60.0
Personal Income	(0.7)	(0.4e)	2.6	3.3	4.4	4.3
Labour Income	(1.2)	(0.9e)	2.1	2.7	4.4	4.6
Corporate Profits	(38.9)	(38.8e)	23.5	31.0	14.4	10.5
Employment	(2.6)	(2.4)	0.6	1.1	2.3	2.1
Job Creation (000s)	(171)	(161)	40	73	152	139
Key External Variables						
Crude Oil (\$ US per Barrel)	61.2	61.8	78.5	82.1	81.8	85.7
U.S. Real Gross Domestic Product	(2.5)	(2.4)	2.5	3.1	3.1	3.0
Canadian Dollar (Cents US)	88.0	87.6	95.0	96.0	96.0	97.5
3-month Treasury Bill Rate* (Per Cent)	0.3	0.3	0.7	0.6	2.4	2.2
10-year Government Bond Rate* (Per Cent)	3.3	3.3	3.8	3.7	4.3	4.2

e = estimate.

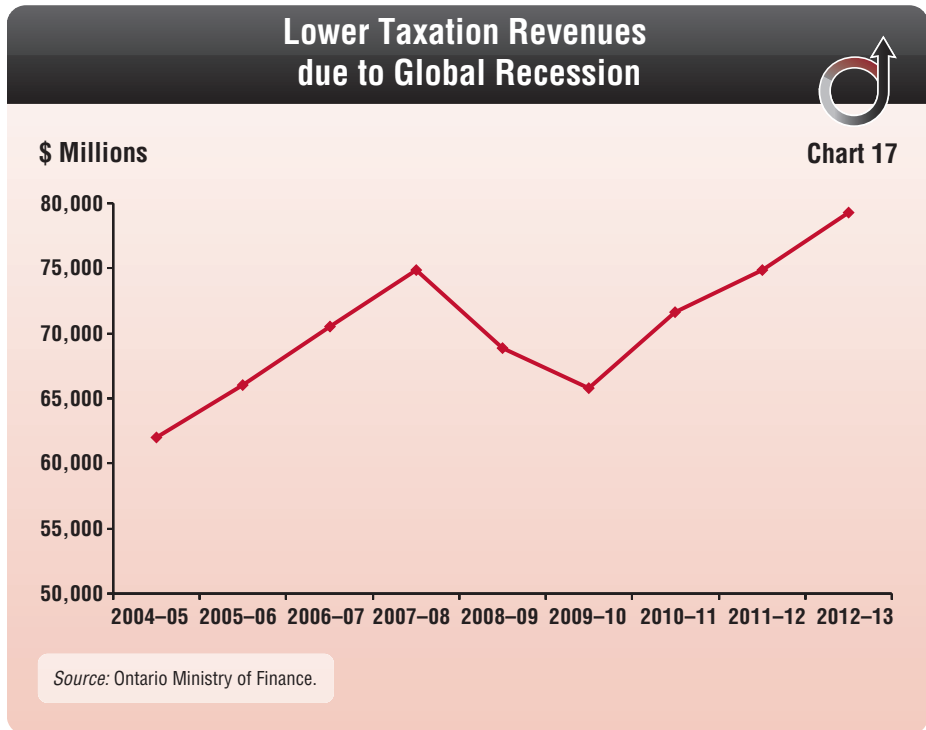
* Government of Canada interest rates.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Bank of Canada, New York Mercantile Exchange, U.S. Bureau of Economic Analysis, *Blue Chip Economic Indicators* and Ontario Ministry of Finance.

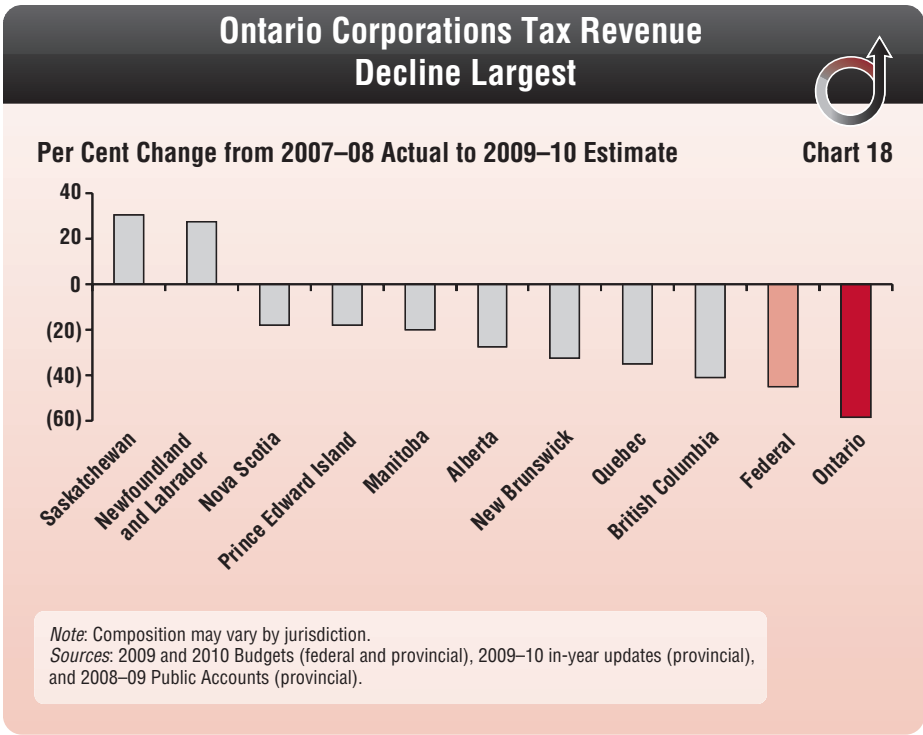
Section D: Ontario's Revenue Outlook

INTRODUCTION

Ontario government revenues have stabilized and are beginning to recover. However, the pace of recovery is moderate and the impact of the global financial crisis was substantial. Taxation revenues in 2009–10 are estimated at \$65.8 billion, 12.2 per cent below their level two years ago. Taxation revenues are not expected to recover to their 2007–08 level until 2011–12.



Just as Ontario's economy has been hard hit by the global economic recession relative to other provinces, so too have Ontario government revenues. This is especially true of Corporations Tax revenues, which declined by \$6.2 billion (48 per cent) in 2008–09 in Ontario. Further declines in 2009–10 have resulted in revenues \$7.6 billion (59 per cent) below the 2007–08 level. Based on the latest estimates available from other jurisdictions as of March 12, 2010, no other jurisdiction in Canada has seen a decline as severe as Ontario's over the 2007–08 to 2009–10 period.



MEDIUM-TERM REVENUE FORECAST

Summary of Medium-Term Outlook (\$ Billions)				Table 13
Revenue	Interim 2009–10	Plan 2010–11	Outlook 2011–12 2012–13	
Taxation Revenue	65.8	71.6	74.9	79.3
Personal Income Tax	24.0	25.9	26.7	28.3
Sales Tax	17.4	19.1	20.3	21.4
Corporations Tax	5.4	7.4	8.0	9.4
Education Property Tax	5.7	5.3	5.3	5.2
Ontario Health Premium	2.7	2.9	3.0	3.2
All Other Taxes	10.5	10.9	11.6	11.9
Government of Canada	18.6	23.7	21.5	21.1
Income from Government Business Enterprises	4.1	4.2	4.4	4.6
Other Non-Tax Revenue	8.0	7.4	7.0	7.0
Total Revenue	96.4	106.9	107.7	112.0

Note: Numbers may not add due to rounding.
Source: Ontario Ministry of Finance.

The medium-term revenue forecast is based on the Ministry of Finance economic outlook and reflects the estimated impacts of government policy decisions. Revenues are projected to increase at an annual average rate of 5.1 per cent between 2009–10 and 2012–13. This is consistent with the economic outlook (see Section C of this chapter) for nominal gross domestic product (GDP) growth, averaging 4.9 per cent over the 2010 to 2012 period.

Tax Plan for Jobs and Growth

The Tax Plan for Jobs and Growth reduces Ontario revenue by more than \$4 billion over the first three years, net of federal assistance of \$4.3 billion.

Transparency in Reporting: Education Property Tax and Tax Credits

Starting with this *Budget*, a number of items will be presented differently for improved transparency in reporting. These presentation changes do not affect the Province's annual surplus/deficit results. Tax revenues affected are Education Property Tax, Personal Income Tax and Sales Tax. For a detailed discussion of these changes, see the *Addendum to the 2010 Ontario Budget: Ontario's Plan to Enhance Accountability, Transparency and Financial Management*.

Personal Income Tax Revenue Outlook
(\$ Billions)**Table 14**

	Interim 2009–10	Plan 2010–11	Outlook	
			2011–12	2012–13
Total Projected Revenue	24.0	25.9	26.7	28.3
Measures Included in Total	–	(0.9)	(1.0)	(1.1)
Other Adjustments	(1.5)	0.4	–	–
Base Revenue	25.6	26.5	27.7	29.3
Base Revenue Growth (Per Cent)	–	3.5	4.8	5.8
Wages and Salaries Growth (Per Cent)	–	2.7	4.6	5.2

Note: Numbers may not add due to rounding.

The **Personal Income Tax** (PIT) revenue forecast is consistent with the economic outlook for incomes. Wages and salaries growth is the most important component of this. The forecast reflects previously announced tax measures, such as 2009 *Budget* PIT cuts, as well as measures proposed in this *Budget*. In Tables 14, 15 and 16, Measures Included in Total represents the incremental revenue impact of all tax measures announced previously and in this *Budget* relative to their impact on revenue in 2009–10. The latter are discussed in Chapter III: *Tax and Pension Systems for Ontario's Future*. The forecast also includes impacts of tax measures announced by the federal government in its 2010 budget that Ontario is obliged to parallel under the current tax collection agreement. Other Adjustments include amounts for overestimating revenues in prior years' Public Accounts and the effect in 2009–10 of the global financial crisis on taxes related to capital gains and losses. Some recovery in capital gains is expected to boost revenues in 2010–11. The revenue base, which reflects the impact of macroeconomic factors, is projected to grow at an average annual rate of 4.7 per cent over the forecast period. The PIT revenue base tends to grow at a faster rate than incomes due to the progressive structure of the tax system.

Sales Tax Revenue Outlook
 (\$ Billions)

Table 15

	Interim 2009-10	Plan 2010-11	Outlook	
			2011-12	2012-13
Total Projected Sales Tax Revenue	17.4	19.1	20.3	21.4
Measures Included in Total	—	—	—	—
Conversion of RST Base to HST Base	—	1.2	2.0	2.2
Sales Tax Credit Enhancement	—	(0.6)	(0.9)	(0.9)
Temporary Restriction of Input Tax Credits for Businesses	—	0.7	1.0	1.0
Other Adjustments	0.4	0.3	—	—
Sales Tax Base Revenue	17.0	17.5	18.2	19.1
Base Revenue Growth (Per Cent)	—	3.0	3.8	5.1
Nominal Consumption Growth (Per Cent)	—	3.9	4.6	4.7

Note: Numbers may not add due to rounding.

After adjusting for measures, total **Sales Tax** revenue base growth is consistent with the underlying growth in consumer spending. The Sales Tax forecast reflects the introduction of the Harmonized Sales Tax (HST) on July 1, 2010 as announced in the *2009 Budget*. Tax reform measures related to the introduction of the HST are summarized in Chapter III: *Tax and Pension Systems for Ontario's Future*. Other adjustments include accrued revenues related to the future receipt of retail sales taxes that are being wound down as of July 1, 2010.

Corporations Tax Revenue Outlook
 (\$ Billions)

Table 16

	Interim	Plan	Outlook	
	2009–10	2010–11	2011–12	2012–13
Total Projected Revenue	5.4	7.4	8.0	9.4
Measures Included in Total	–	(1.1)	(2.2)	(2.5)
Adjustments for Prior Years	(1.5)	–	–	–
Other Adjustments	(0.5)	(1.0)	(0.2)	0.5
Base Revenue	7.4	9.4	10.4	11.3
Base Revenue Growth (Per Cent)	–	27.6	10.0	9.4
Corporate Profit Growth (Per Cent)	–	31.0	10.5	9.0

Note: Numbers may not add due to rounding.

Corporations Tax (CT) revenues are projected to increase over the medium term due to a projected rebound in corporate profits. Growth is moderated by the impact of previously announced tax measures, including tax measures for business announced in the *2009 Budget*. The forecast also includes impacts of tax measures announced by the federal government in its 2010 budget that Ontario is obliged to parallel under the current tax collection agreement. There is a one-time downward adjustment of \$1.5 billion in 2009–10 as a result of overestimating CT revenues in prior years' Public Accounts. Other adjustments are largely due to the two-year lag in the provincial allocation of Canada-wide corporate income taxes now under federal administration.

Education Property Tax (EPT) revenue is now included in Ontario revenues consistent with fiscally neutral presentation changes to improve transparency and accountability. These presentation changes are outlined in more detail in the *Addendum to the 2010 Ontario Budget: Ontario's Plan to Enhance Accountability, Transparency and Financial Management*. Education Property Tax revenue decreases by an average annual rate of 2.8 per cent over the forecast period. This decrease is due to the impact of policy measures, including plans announced in the *2007 Budget* to reduce high business education tax rates. The decrease in EPT revenue also reflects the enhancement for the property tax credit announced in the *2009 Budget*.

The **Ontario Health Premium** forecast is based on the outlook for employment and personal income growth. Ontario Health Premium revenues are projected to increase by an annual average of 5.2 per cent over the forecast period, consistent with the outlook for personal income growth.

The forecast for **All Other Taxes** is projected to increase by an annual average of 4.2 per cent between 2009–10 and 2012–13, reflecting the economic outlook discussed in Section C of this chapter. The forecast is developed on an item-by-item basis. For example, the forecast for Gasoline and Fuel Taxes is based on the outlook for gasoline and diesel pump prices, disposable income and real GDP growth. The forecast reflects estimated impacts of all previously announced measures.

The forecast for **Government of Canada** transfers is based on existing federal–provincial funding arrangements. The decline in transfers over the forecast period is mainly due to the ending of federal–provincial infrastructure stimulus programs after 2010–11, and the ending of HST transition payments after 2011–12.

The forecast for **Income from Government Business Enterprises** is based on information provided by each of these enterprises. Revenues from government enterprises are projected to increase by \$0.5 billion, or at an annual average rate of 3.9 per cent, between 2009–10 and 2012–13.

The forecast for **Other Non-Tax Revenue** is based on information provided by government ministries and provincial agencies. Between 2009–10 and 2012–13, other non-tax revenues are projected to decline by \$1.0 billion. Reimbursements from municipalities decline by \$0.5 billion over this period due to the government's previously announced decision to upload the municipal share of the Ontario Disability Support Program costs. Most of the remaining decline is due to the previously announced replacement of certain alcohol charges, including Beer and Wine Fees, with taxes beginning on July 1, 2010. This change is revenue neutral to the government. Additional information on this change can be found in Ontario's Tax Plan for Jobs and Growth available at ontario.ca/taxchange.

CHANGES SINCE THE FALL 2009 ONTARIO ECONOMIC OUTLOOK AND FISCAL REVIEW

**Summary of Medium-Term Revenue Changes since
Fall 2009 Ontario Economic Outlook and Fiscal Review
(\$ Billions)**

Table 17

	Interim 2009–10	Plan 2010–11	Outlook 2011–12
Stronger Economic Growth	0.2	0.6	0.7
Tax Measures	0.0	(0.2)	(0.3)
Federal Payments	(0.7)	0.7	1.0
Government Enterprises	(0.2)	(0.3)	(0.4)
Power Sales (Fiscally Neutral)	0.5	0.4	0.4
All Other	(0.1)	(0.1)	(0.2)
Total Revenue Changes	(0.2)	1.0	1.2

Note: Numbers may not add due to rounding.

The medium-term forecast for total revenues is slightly lower in 2009–10 but higher in 2010–11 and 2011–12 compared to the Fall 2009 *Ontario Economic Outlook and Fiscal Review*.

Stronger Economic Growth projections (see Section C of this chapter) have increased the outlook for taxation revenues.

Tax Measures announced since the Fall 2009 *Ontario Economic Outlook and Fiscal Review* have resulted in a modest decrease in projected revenues. These include measures announced in this *Budget*; additional point-of-sale exemptions for the provincial component of the HST for qualifying prepared food and beverages sold for \$4.00 or less and print newspapers; and the impact of paralleling measures announced in the 2010 federal budget. For details on measures announced in this *Budget*, see Chapter III: *Tax and Pension Systems for Ontario's Future*.

The forecast for **Federal Payments** has changed due to revised timelines for capital projects funded through federal–provincial infrastructure stimulus programs, and reflects the outlook for existing federal–provincial funding arrangements, based on current demographic, economic and fiscal information.

Net income from **Government Business Enterprises** is lower over the forecast period. The outlook for the combined net incomes of Hydro One Inc. and Ontario Power Generation Inc. (OPG) has decreased in each year over the medium term primarily due to lower OPG earnings as a result of lower projected market electricity prices for its unregulated and non-contracted generation. Ontario Lottery and Gaming Corporation net income is lower over the forecast period, largely due to the projected impact of a strong Canadian dollar and an unfavourable economic outlook for U.S. border states. These decreases are partially offset by a higher net income outlook for the Liquor Control Board of Ontario.

Revenues recorded under **Power Sales** are higher over the forecast period due to the Lambton and Nanticoke support contract between the Ontario Electricity Financial Corporation (OEFC) and OPG. The increase in Power Purchase expense for the Lambton and Nanticoke contract is fully offset by the increase in revenues recovered from electricity ratepayers under Power Sales.

Other revenue changes largely reflect lower revenue from the Electricity Debt Retirement Charge, Vehicle and Driver Registration Fees, Crown Stumpage Royalties, and Other Fees, Licences and Permits, partially offset by higher Reimbursements and Sales and Rentals revenue.

Improved Transparency in Financial Reporting — Impacts on Ontario's Fiscal Plan

As stated earlier, starting with this *Budget*, a number of items will be presented differently for improved transparency in reporting. These changes are being made to comply with recently revised Public Sector Accounting Board standards. These presentation changes do not impact the Province's annual surplus/deficit results.

The principal change is the treatment of Education Property Tax. Previously, Education Property Taxes collected by municipalities for local school boards were netted against (i.e., subtracted from) Education expenses. Under the new presentation, Education Property Taxes are included in Provincial Revenue and are no longer netted against Education expenses. In addition, property tax credits are now netted against Education Property Tax revenue rather than Personal Income Tax revenue as was done previously, and sales tax credits are now netted against Sales Tax revenue rather than Personal Income Tax revenue as was done previously.

For each of the *2009 Budget* and *Fall 2009 Ontario Economic Outlook and Fiscal Review*, the following tables show:

- ☑ the revenue forecast as originally presented in those documents;
- ☑ restated revenues consistent with presentation changes for improved transparency; and
- ☑ the change in revenues resulting from this restatement.

See *Addendum to the 2010 Ontario Budget: Ontario's Plan to Enhance Accountability, Transparency and Financial Management* for further information.

Revised Presentation of 2009 Budget Forecast

Summary of Medium-Term Outlook as of 2009 Budget (\$ Billions)

Table 18

As Published	Interim 2008–09	Plan 2009–10	Outlook	
			2010–11	2011–12
Taxation Revenue	65.4	64.9	68.6	71.8
Personal Income Tax	25.6	25.2	25.0	26.1
Sales Tax	17.5	17.6	21.0	22.9
Corporations Tax	8.6	8.5	8.8	8.4
Education Property Tax	–	–	–	–
Ontario Health Premium	2.8	2.8	2.9	3.1
All Other Taxes	11.0	10.7	11.0	11.4
Government of Canada	16.6	19.2	23.0	20.5
Income from Government Business Enterprises	3.9	4.3	4.5	4.8
Other Non-Tax Revenue	7.5	7.6	7.6	7.4
Total Revenue	93.4	96.0	103.6	104.4
Revised Presentation				
Taxation Revenue	71.9	71.3	75.2	78.4
Personal Income Tax	26.5	26.1	26.7	28.2
Sales Tax	17.2	17.4	20.3	21.9
Corporations Tax	8.6	8.5	8.8	8.4
Education Property Tax	5.7	5.7	5.5	5.5
Ontario Health Premium	2.8	2.8	2.9	3.1
All Other Taxes	11.0	10.7	11.0	11.4
Government of Canada	16.6	19.2	23.0	20.5
Income from Government Business Enterprises	3.9	4.3	4.5	4.8
Other Non-Tax Revenue	7.5	7.6	7.6	7.4
Total Revenue	99.9	102.4	110.2	111.0
Change Due to Revised Presentation				
Taxation Revenue	6.4	6.5	6.5	6.6
Personal Income Tax	1.0	0.9	1.7	2.1
Sales Tax	(0.2)	(0.2)	(0.7)	(1.0)
Corporations Tax	–	–	–	–
Education Property Tax	5.7	5.7	5.5	5.5
Ontario Health Premium	–	–	–	–
All Other Taxes	–	–	–	–
Government of Canada	–	–	–	–
Income from Government Business Enterprises	–	–	–	–
Other Non-Tax Revenue	–	–	–	–
Total Revenue Change Due to Revised Presentation	6.4	6.5	6.5	6.6
Total Expense Change Due to Revised Presentation	(6.4)	(6.5)	(6.5)	(6.6)
Net Fiscal Impact	–	–	–	–

Revised Presentation of the Fall 2009 Ontario Economic and Fiscal Review Forecast

**Summary of Medium-Term Outlook as of
Fall 2009 Ontario Economic Outlook and Fiscal Review
(\$ Billions)**

Table 19

As Published	Actual	Plan	Outlook	
	2008-09	2009-10	2010-11	2011-12
Taxation Revenue	62.4	59.1	64.3	67.4
Personal Income Tax	24.7	22.7	22.8	23.8
Sales Tax	17.3	17.1	20.2	21.8
Corporations Tax	6.7	5.9	7.6	7.6
Education Property Tax	—	—	—	—
Ontario Health Premium	2.8	2.7	2.8	3.0
All Other Taxes	10.9	10.6	10.8	11.2
Government of Canada	16.6	19.2	23.0	20.5
Income from Government Business Enterprises	4.0	4.3	4.5	4.8
Other Non-Tax Revenue	7.5	7.6	7.6	7.4
Total Revenue	90.5	90.2	99.3	100.0
Revised Presentation				
Taxation Revenue	68.9	65.5	70.8	73.9
Personal Income Tax	25.7	23.7	24.5	25.9
Sales Tax	17.0	16.9	19.6	20.8
Corporations Tax	6.7	5.9	7.6	7.6
Education Property Tax	5.7	5.7	5.5	5.5
Ontario Health Premium	2.8	2.7	2.8	3.0
All Other Taxes	10.9	10.6	10.8	11.2
Government of Canada	16.6	19.2	23.0	20.5
Income from Government Business Enterprises	4.0	4.3	4.5	4.8
Other Non-Tax Revenue	7.5	7.6	7.6	7.4
Total Revenue	96.9	96.6	105.8	106.6
Change Due to Revised Presentation				
Taxation Revenue	6.5	6.5	6.5	6.6
Personal Income Tax	1.0	0.9	1.7	2.1
Sales Tax	(0.2)	(0.2)	(0.7)	(1.0)
Corporations Tax	—	—	—	—
Education Property Tax	5.7	5.7	5.5	5.5
Ontario Health Premium	—	—	—	—
All Other Taxes	—	—	—	—
Government of Canada	—	—	—	—
Income from Government Business Enterprises	—	—	—	—
Other Non-Tax Revenue	—	—	—	—
Total Revenue Change Due to Revised Presentation	6.5	6.5	6.5	6.6
Total Expense Change Due to Revised Presentation	(6.5)	(6.5)	(6.5)	(6.6)
Net Fiscal Impact	—	—	—	—

RISKS TO THE REVENUE OUTLOOK

Ontario's revenue outlook is built on reasonable assumptions about the pace and strength of Ontario's rebound from recession. This 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 and actual results can 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. There is uncertainty regarding both the speed and robustness of the global economic recovery. If, for example, economic recovery in the United States were to falter, Ontario's economy and revenues would be affected.

There is a broader range of additional risks that are not included because they are either not as material or are difficult to quantify. For example, there are risks due to the application of losses arising from the global financial crisis against future corporate income taxes. While the forecast attempts to take into account a reasonably prudent estimate of these losses, realized losses could be significantly different. Likewise, income from Government Enterprises, representing roughly four per cent of total revenues, could be affected by changes in each business's particular market. The outlook for Government of Canada transfers is subject to those factors that affect federal funding formulas as well as future decisions by the federal government.

Selected Economic and Revenue Risks and Sensitivities**Table 20**

Item/Key Components	2010–11 Assumption	2010–11 Sensitivities
Total Revenues		
– Real GDP	2.7 per cent growth in 2010	\$750 million revenue change for each percentage point change in real GDP growth. Can vary significantly, depending on composition and source of changes in GDP growth.
– GDP Deflator	1.7 per cent growth in 2010	
Total Taxation Revenues		
– Revenue Base ¹	5.6 per cent growth in 2010–11	\$530 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.
– Nominal GDP	4.4 per cent growth in 2010	
Personal Income Tax (PIT) Revenues		
– Revenue Base	3.5 per cent growth in 2010–11	
Key Economic Assumptions		
– Wages and Salaries	2.7 per cent growth in 2010	\$327 million revenue change for each percentage point change in wages and salaries growth.
– Employment	1.1 per cent growth in 2010	
– Unincorporated Business Income	4.1 per cent growth in 2010	\$33 million revenue change for each percentage point change in unincorporated business income growth.
Key Revenue Assumptions		
– Net Capital Gains Income	29.4 per cent growth in 2010	\$8 million revenue change for each percentage point change in net capital gains income growth.
– RRSP Deductions	3.3 per cent growth in 2010	\$18 million revenue change in the opposite direction for each percentage point change in RRSP deductions growth.
– 2009 Tax-Year Assessments ²	\$23.6 billion	\$236 million revenue change for each percentage point change in 2009 PIT assessments. ³
– 2008 Tax-Year and Prior Assessments ²	\$1.3 billion	\$13 million revenue change for each percentage point change in 2008 and prior PIT assessments. ³

Selected Economic and Revenue Risks and Sensitivities

Item/Key Components	2010–11 Assumption	2010–11 Sensitivities
Sales Tax Revenues		
– Revenue Base	3.0 per cent growth in 2010–11	
Key Economic Assumptions		
– Nominal Consumption Expenditure	3.9 per cent growth in 2010	\$175 million revenue change for each percentage point change in nominal consumption expenditure growth.
Corporations Tax Revenues		
– Revenue Base	27.6 per cent growth in 2010–11	
– 2009 Tax Assessments ²	\$7.7 billion	\$77 million revenue change for each percentage point change in 2009 Tax Assessments.
– Corporate Profits	31.0 per cent growth in 2010	\$51 million revenue change for each percentage point change in pre-tax corporate profit growth. ⁴
– 2010 Canada Corporate Taxable Income	\$170 billion	\$90 million revenue change for each percentage point change in the federal estimate of 2010 Canada Corporate Taxable income, assuming Ontario's 2010 share of taxable income remains at 35.6 per cent.
– 2011 Canada Corporate Taxable Income	\$194 billion	\$21 million revenue change for each percentage point change in 2011 Canada Corporate Taxable income
– Ontario Share of 2011 Corporate Taxable Income	36.2 per cent	or Ontario share of 2011 Corporate Taxable Income. ⁵
Employer Health Tax Revenues		
– Revenue Base	3.3 per cent growth in 2010–11	
– Wages and Salaries	2.7 per cent growth in 2010	\$47 million revenue change for each percentage point change in wages and salaries growth.
Ontario Health Premium (OHP) Revenues		
– Revenue Base	3.9 per cent growth in 2010–11	
– Personal Income	3.3 per cent growth in 2010	\$27 million revenue change for each percentage point change in personal income growth.
– 2009 Tax-Year Assessments	\$2.6 billion	\$26 million revenue change for each percentage point change in 2009 OHP assessments.

Selected Economic and Revenue Risks and Sensitivities

Item/Key Components	2010–11 Assumption	2010–11 Sensitivities
Gasoline Tax Revenues		
– Revenue Base	No growth in 2010–11	
– Gasoline Pump Prices	104.0 cents per litre in 2010	\$2 million revenue change in the opposite direction for each cent per litre change in gasoline pump prices.
Fuel Tax Revenues		
– Revenue Base	0.9 per cent growth in 2010–11	
– Real GDP	2.7 per cent growth in 2010	\$7 million revenue change for each percentage point change in real GDP growth.
Land Transfer Tax Revenues		
– Revenue Base	0.1 per cent growth in 2010–11	
– Housing Resales	7.9 per cent decrease in 2010–11	\$11 million revenue change for each percentage point change in both the number and prices of housing resales.
– Resale Prices	1.6 per cent growth in 2010–11	
Canada Health Transfer⁶		
– Ontario Population Share	38.7 per cent in 2010–11	\$37 million revenue change for each tenth of a percentage point change in population share.
– Ontario Basic Federal Tax Share	40.5 per cent in 2010–11	\$9 million revenue change in the opposite direction for each tenth of a percentage point change in Ontario's Basic Federal Tax share.
Canada Social Transfer		
– Ontario Population Share	38.7 per cent in 2010–11	\$11 million revenue change for each tenth of a percentage point change in population share.

¹ Revenue base is revenue excluding the impact of measures, adjustments for past Public Accounts estimate variances and other one-time factors.

² Ontario 2009 Personal Income Tax (PIT) and Corporate Income tax (CIT) are forecast estimates because 2009 tax returns are yet to be assessed by the Canada Revenue Agency. Some tax amounts for 2008 and prior years are also yet to be assessed in 2010, and estimates of these amounts are included in the revenue outlook.

³ Any changes in the 2009 or prior-year PIT or CIT assessments will have an effect on 2010–11 revenues through a change in the revenue base upon which that year's growth is applied.

⁴ Revenue impact would be realized in the current year if reflected in federal instalment payments. Otherwise, it would be recognized in future years.

⁵ The provincial allocation of 2011 Canada Corporate Taxable Income will be based on shares from the 2009 tax returns to be assessed during 2010.

⁶ Excludes impact on additional federal payments to Ontario to ensure it receives the same per-capita cash support as other receiving provinces.

Section E: Ontario's Fiscal Plan

MEDIUM-TERM FISCAL OUTLOOK

The government's plan over the medium term manages down growth in expenses and continues to follow through on policies that support jobs and growth to ensure future opportunity and prosperity. Details are provided in the table below.

Medium-Term Fiscal Plan and Outlook ¹				Table 21
(\$ Billions)				
	Interim 2009–10	Plan 2010–11	Outlook	
			2011–12	2012–13
Total Revenue	96.4	106.9	107.7	112.0
Expense				
Programs	108.8	115.9	112.9	114.3
Interest on Debt	8.9	10.0	11.1	12.5
Total Expense	117.7	125.9	124.1	126.9
Reserve	–	0.7	1.0	1.0
Surplus/(Deficit)	(21.3)	(19.7)	(17.3)	(15.9)

¹ Both revenue and expense have been restated to reflect a fiscally neutral accounting change for the revised presentation of education property taxes.

Note: Numbers may not add due to rounding.

Medium-term revenue is projected to increase at an annual average rate of 5.1 per cent between 2009–10 and 2012–13, consistent with the economic outlook for nominal GDP growth.

Total expense is projected to increase by an average annual rate of 2.5 per cent from 2009–10 to 2012–13, which is about half the projected growth in revenue over the same period. This reflects the government's continued commitment to follow through on policies that support jobs and growth while managing down growth in expenses.

Recognizing that the fragility of the global economy is a threat to Ontario's continuing economic recovery, the fiscal plan includes prudence in the form of contingency funds of \$2.0 billion in 2010–11 to offset potential expense changes, and a reserve of \$0.7 billion in 2010–11 and \$1.0 billion in 2011–12 and 2012–13.

Key Changes since the Fall 2009 Ontario Economic Outlook and Fiscal Review

As discussed further in the *Addendum to the 2010 Ontario Budget: Ontario's Plan to Enhance Accountability, Transparency and Financial Management*, Education Property Taxes are now explicitly included in Provincial revenue and are no longer netted against Education expense. The following table shows the medium-term fiscal outlook as published in the Fall 2009 Ontario Economic Outlook and Fiscal Review, restated for this accounting change.

Fall 2009 Ontario Economic Outlook and Fiscal Review¹		Table 22		
Restated Medium-Term Fiscal Outlook				
(\$ Billions)				
	2009–10	2010–11	2011–12	
Total Revenue	96.6	105.8	106.6	
Expense				
Programs	110.8	115.2	112.9	
Interest on Debt	9.4	10.6	11.9	
Total Expense	120.2	125.8	124.8	
Reserve	1.2	1.2	1.2	
Surplus/(Deficit)	(24.7)	(21.1)	(19.4)	

¹ Both revenue and expense have been restated to reflect a fiscally neutral accounting change for the revised presentation of education property taxes.

Note: Numbers may not add due to rounding.

The following table outlines key changes to Ontario's medium-term fiscal plan since the Fall 2009 *Ontario Economic Outlook and Fiscal Review* after it has been restated to reflect the accounting change.

Change in Fiscal Outlook since the Fall 2009 Ontario Economic Outlook and Fiscal Review (\$ Billions)	Table 23		
	2009–10	2010–11	2011–12
Surplus / (Deficit) from Fall 2009 Ontario Economic Outlook and Fiscal Review	(24.7)	(21.1)	(19.4)
Total Revenue Changes	(0.2)	1.0	1.2
Programs			
Change in Infrastructure Expense	(1.6)	1.0	0.2
All Other Program Expense Changes	(0.4)	(0.3)	(0.2)
Total Program Expense Changes	(1.9)	0.7	0.0
Change in Interest on Debt Projections	(0.5)	(0.6)	(0.8)
Total Expense Changes	(2.4)	0.1	(0.7)
Change in Reserve	(1.2)	(0.5)	(0.2)
Fiscal Improvement since Fall 2009 Ontario Economic Outlook and Fiscal Review	3.4	1.4	2.1
2010 Budget Surplus / (Deficit)	(21.3)	(19.7)	(17.3)
Note: Numbers may not add due to rounding.			

As outlined in the previous section, the medium-term forecast for total revenue is slightly lower in 2009–10 but higher in 2010–11 and 2011–12 compared with the Fall 2009 *Ontario Economic Outlook and Fiscal Review*.

Holding the line on program expense growth is a key reason the government has been able to improve on the fiscal targets outlined in the Fall 2009 *Ontario Economic Outlook and Fiscal Review*. In fact, the government's medium-term expense outlook is on track with the projections included in the fall forecast. While immediate actions undertaken by the government to restrain spending are contributing to a projected decline in program expense of \$1.9 billion this year, changes to the Province's 2010–11 program expense forecast are mainly related to the revised timelines for the completion of infrastructure stimulus projects. As stimulus is wound down as planned at the end of 2010–11, the Province's 2011–12 program expense outlook at \$112.9 billion is unchanged from the projection in the Fall 2009 *Ontario Economic Outlook and Fiscal Review*.

Interest on debt expense is now lower than forecast in the Fall 2009 *Ontario Economic Outlook and Fiscal Review*. This change partly reflects the improved deficit projections over the medium term.

The reserve for 2009–10 has been drawn down to help offset the impact of slower economic growth on the Province's fiscal performance. The reserve for 2010–11 and 2011–12 has been lowered to reflect the fact that the Ontario economy has stabilized and is showing signs of recovery.

In total, the fiscal outlook for the Province of Ontario has improved by \$3.4 billion in 2009–10, \$1.4 billion in 2010–11 and \$2.1 billion in 2011–12, compared to the projections included in the Fall 2009 *Ontario Economic Outlook and Fiscal Review*.

Ontario's Medium-Term Expense Outlook

Summary of Medium-Term Expense Outlook¹
(\$ Billions)

Table 24



	Interim 2009–10	Plan 2010–11	Outlook	
			2011–12	2012–13
Programs				
Health Sector	43.5	46.1	48.0	49.5
Education Sector ²	20.6	21.4	22.3	23.0
Postsecondary and Training Sector	7.2	8.1	7.1	7.0
Children's and Social Services Sector	13.1	13.9	14.2	14.7
Justice Sector	3.9	4.4	4.6	4.7
Other Programs	20.5	22.0	16.7	15.5
Total Programs	108.8	115.9	112.9	114.3
Interest on Debt	8.9	10.0	11.1	12.5
Total Expense	117.7	125.9	124.1	126.9

¹ Both revenue and expense have been restated to reflect a fiscally neutral accounting change for the revised presentation of education property taxes.

² Excludes Teachers' Pension Plan.

Note: Numbers may not add due to rounding.

Highlights of key program expenses over the medium term include the following:

-  Total **health sector** expense is projected to increase by \$6.0 billion from 2009–10 to 2012–13. In addition to maintaining funding growth in major program areas such as hospitals, OHIP and long-term care, the government will continue to support priorities such as reducing emergency-room wait times and achieving results through the Ontario Diabetes Strategy.
-  Total **education sector** funding is projected to increase by \$2.4 billion from 2009–10 to 2012–13. This increase includes additional Provincial grants to school boards to support improved student achievement and implementation of the government's full-day learning initiative.

- ✓ Total **postsecondary and training sector** expense is projected to increase by \$0.9 billion in 2010–11, primarily due to new funding to support postsecondary enrolment growth and revised implementation schedules for various capital projects. From 2010–11 to 2012–13, expense stabilizes after accounting for one-time stimulus funding.
- ✓ Total **children's and social services sector** funding is projected to increase by \$1.6 billion from 2009–10 to 2012–13. This is primarily due to increased expenses in social assistance, the Ontario Child Benefit and developmental services to cushion the effect of the recession on families and communities. It also takes into account \$63.5 million in annual provincial funding for child care to permanently fill the gap left by the federal government.
- ✓ Total **justice sector** expense is projected to increase by \$0.8 billion between 2009–10 and 2012–13. This increase includes investments for various justice and community safety initiatives, including capital funding for courthouses and correctional facilities.
- ✓ **Other Programs expense** is projected to decrease by \$5.0 billion between 2010–11 and 2012–13. This decrease is mainly due to the phase-out of time-limited investments intended to help the Province emerge from the economic downturn and temporary relief for the transition to the new sales tax system, while also reflecting steps taken to manage overall expense.

Included in the total expense outlook is **interest on debt**, which is expected to increase by \$3.6 billion over the medium term, mainly due to additional borrowing required to fund investments in infrastructure and deficits.

The government's medium-term total expense outlook — which projects growth of no more than 2.5 per cent — also reflects the new measures announced in this *Budget* to restrain spending in support of the Province's return to balance in 2017–18. This includes efficiency measures aimed at managing the overall rate of growth in spending — such as freezing base operating expenses at or below 2010–11 levels over the medium term and adjusting the timing of key infrastructure investments — as well as a new plan to support the transformation of key public services.

Risks to Expense Outlook

A heightened degree of global economic uncertainty remains despite clear signs of recovery. Ontario's economy has been hit hard by the global economic downturn and this will continue to impact the Province's overall fiscal plan, including the expense outlook.

The government's 2010–11 expense plan includes contingency funds totalling \$2.0 billion. The contingency funds will provide the government with the flexibility to respond in a timely manner to further challenges that may arise to Ontario's continuing recovery.

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 impact total expense, causing variances in the overall fiscal forecast. It should be noted that these sensitivities and risks are illustrative and can vary, depending on the nature and composition of potential risks.

Selected Expense Risks and Sensitivities**Table 25**

Program/Sector	2010–11 Assumption	2010–11 Sensitivity
Health Sector	Annual growth of 6.0 per cent.	One per cent change in health spending: \$461 million.
Hospitals' Sector Expense	Annual growth of 4.9 per cent.	One per cent change in hospitals' sector expense: \$206 million.
Drug Programs Utilization	Annual growth of less than 7 per cent.	One per cent change in program expenditure of all drug programs: \$41 million (seniors and social assistance recipients).
Long-Term Care Homes	77,027 long-term care home beds. Average Provincial annual operating cost per bed in a long-term care home is \$41,600.	One per cent change in number of beds: approximately \$34 million.
Home Care	Approximately 19 million hours of homemaking and support services.	One per cent change in hours of homemaking and support services: approximately \$5 million.
	Approximately 8 million nursing and professional visits.	One per cent change in nursing and professional visits: approximately \$6 million.
University Students ¹	357,700 full-time undergraduate and graduate students.	One per cent enrolment change: \$34 million.
College Students	177,000 full-time students.	One per cent enrolment change: \$13 million.
Ontario Works	267,195 average annual caseload.	One per cent caseload change: \$23 million.
Ontario Disability Support Program	274,469 average annual caseload.	One per cent caseload change: \$35 million.
Correctional System	3.2 million adult inmate days per year. Average cost \$173 per inmate per day.	One per cent change in inmate days: \$5.6 million.
Interest on Debt	Average cost of 2010–11 borrowing is forecast to be approximately 4.9 per cent.	The 2010–11 impact of a 100 basis-point change in borrowing rates is forecast to be approximately \$480 million.

¹ Based on 2009–10 estimates.

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

Contingent Liabilities

In addition to the key demand sensitivities and economic risks to the fiscal plan, there are additional 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. Significant contingent liabilities were disclosed as part of the *2008–09 Annual Report and Consolidated Financial Statements*, released in September 2009.¹

Fiscal Prudence

In addition to maintaining a prudent and responsible approach to managing growth in expenditures, the fiscal plan includes other key elements of prudence each year to help protect the government's overall fiscal objectives and contribute to the achievement of fiscal targets.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions.

Consistent with requirements under the *Fiscal Transparency and Accountability Act, 2004*, the 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, including those resulting from changes in Ontario's economic performance.

The fiscal plan also includes contingency funds (both operating and capital) totalling \$2.0 billion in 2010–11 to help mitigate expense risks that may otherwise have a negative impact on results.

¹ For further information, visit www.fin.gov.on.ca/en/budget/paccts/2009.

Section F: A Stronger Ontario for a Stronger Canada

OVERVIEW

The Ontario and federal governments have worked well together recently to strengthen Ontario's economy. This partnership has produced real results: significant economic stimulus through infrastructure investments; financial support for Ontario's auto sector; service delivery improvements and cooperation in regulatory activities; and enhanced competitiveness through sales tax harmonization.

Ontario is concerned, however, with the trend of disappearing federal financial commitment in key areas. When federal support for provincial programs is time-limited, declines over time or ends, it can leave provinces with significant ongoing financial pressures and negatively affect citizens who rely on these key services.

To build on past successes and achieve results, the Province is calling on the federal government to invest in the future success of Ontarians and recognize that Canada's success depends on a strong and competitive Ontario.

Federal Transfers and Support for a Stronger Ontario

Ontario welcomes the federal government's decision to continue transfers that support hospitals and schools, and to extend the funding for another year to 2014–15.

Ontario will continue to press the federal government to protect these existing federal transfers, renew health care funding agreements, strengthen investments in postsecondary education and training programs, live up to the Canada–Ontario Immigration Agreement, support Ontario's green economy, help Ontario's First Nations, and locate the principal operations for a Canadian Securities Regulator in Toronto.

The Need for a Reliable Long-Term Funding Partner

Ontario is disappointed that the federal government has stepped away from ensuring stability in the child care sector. The last federal payment under the Early Learning and Child Care Agreement was made in 2006–07. This final payment helped the Province sustain approximately 8,500 subsidized child care spaces to the end of 2009–10.

However, access to affordable high-quality child care and full-day learning programs is crucial to working families. The government will not allow the end of federal funding to disrupt the progress made to date, and the services that parents with young children rely on. The Province remains committed to supporting Ontario families and will step in with an investment of \$63.5 million per year to permanently fill the funding gap left by the federal government. This funding will support on an ongoing basis the 8,500 child care spaces.

In other areas, the Province will be unable to make up the lost support when the federal government vacates its funding responsibilities and will have to consider the implications of time-limited funding before entering into further agreements with the federal government.

The funding enhancements to the Labour Market Agreement and the Labour Market Development Agreement announced in the 2009 federal budget helped to provide much-needed assistance to workers affected by the global recession. These enhancements, however, will expire after the 2010–11 fiscal year. As employment tends to lag economic recovery, Ontario strongly believes that extending the time-limited, federally funded enhancements is necessary and that responsibility for funding these extensions rests with the federal government.

The federal government is also not fully living up to its commitment to support new Canadians. During the first four years of the Canada–Ontario Immigration Agreement, the federal government underspent by an estimated \$193 million, shortchanging new Canadians who come to Ontario.

That is why it is important that Ontario and the federal government begin to negotiate a new immigration agreement that would include devolution to the Province of settlement and language training and full funding for these programs.

A Partnership for Results

As a leader in the green economy, Ontario is looking to the federal government to substantially extend its funding commitments for the environment, beyond carbon capture and storage projects, to support Ontario's transition to a prosperous low-carbon economy. The Province calls on the federal government to show leadership on climate change, to help Ontario businesses take advantage of the changes that are coming to the North American market and to help create jobs for Ontarians.

The federal government also has the opportunity to enhance an already successful partnership on tax harmonization by supporting Ontario's First Nations.

The Province continues to call on the federal government to work with Ontario and First Nations to determine a mutually agreeable method of administering a point-of-sale exemption under the Harmonized Sales Tax that best corresponds to Ontario's current administrative approach under the Retail Sales Tax.

Section G: **Accountability, Transparency and Financial Management**

The government is committed to ensuring Ontarians receive the best value for their tax dollars. This objective is achieved by enhancing the public's understanding of government finances, improving transparency in financial reporting and strengthening accountability to the public.

Details of the government's plan to strengthen accountability and provide greater transparency in the reporting of government finances are presented in the *Addendum to the 2010 Ontario Budget: Ontario's Plan to Enhance Accountability, Transparency and Financial Management*.

ENHANCING PUBLIC UNDERSTANDING OF GOVERNMENT FINANCES

Ontario, along with the federal, territorial and other provincial governments, has been working with the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) to improve public-sector financial reporting. The aim is to ensure that Canadian public-sector accounting standards continue to support sound public policy decision-making, government fiscal accountability and the clear transparent reporting of information on government finances to the public.

Ontario and the other governments in Canada are concerned that changes PSAB recently proposed to accounting standards are inconsistent with these objectives. Ontario raised these concerns with PSAB through an interjurisdictional Joint Working Group of senior government and accounting standards officials. The Group identified concerns with PSAB's conceptual framework that underlies the board's development of all public-sector accounting standards in Canada.

The government believes Ontarians, and all Canadians, need a set of public-sector accounting standards that:

- ☑ reflects governments' public policy objectives and the role of public-sector organizations in delivering public services;
- ☑ supports governments' and public-sector organizations' accountability for the spending of tax dollars;
- ☑ reflects the unique structure of governments and the public sector in Canada; and
- ☑ gives the public transparent and understandable information on government finances.

Currently, the CICA prescribes four different sets of accounting standards for use in the public sector in Canada. In 2011, the CICA will introduce another set, International Financial Reporting Standards. Each of these sets of standards measures, records and reports public-sector financial results differently. This results in public-sector organizations reporting different financial results in similar circumstances. This distorts transparency and fiscal accountability for the expenditure of public monies.

Accordingly, there is a need for PSAB to establish a consistent set of accounting standards for all public-sector organizations in Canada as soon as possible. In the interim, the Ontario government will provide direction to provincial government organizations and enterprises to ensure consistent, transparent financial reporting and fiscal accountability are sustained throughout Ontario's public sector.

IMPROVED TRANSPARENCY IN FINANCIAL REPORTING

Starting with this *Budget*, for improved transparency in reporting, a number of important changes have been implemented in how revenues and expenses are presented. These presentation changes do not impact the Province's annual surplus or deficit results or accumulated deficit. These changes affect the presentation of:

- ☑ education property taxes and school board expenses;
- ☑ refundable property and sales tax credits; and
- ☑ net debt.

STRENGTHENING ACCOUNTABILITY TO THE PUBLIC

As part of continuing efforts to strengthen the financial management, transparency and accountability of Ontario's ministries and agencies, the government is enhancing existing policies and processes to improve accountability, oversight and reporting, including:

- ☑ strengthening the assurance that Ontario's ministries and government agencies are spending taxpayer dollars wisely, including strict new guidelines on procurement and hospitality expenses;
- ☑ strong control measures to ensure stimulus grants are spent wisely by recipient organizations. These controls ensure that funds are spent for the intended purpose and that results are achieved on time and on budget;
- ☑ enhancing the quality and transparency of disclosures under the *Public Sector Salary Disclosure Act, 1996* by disclosing salaries of individuals earning over \$100,000 who are seconded to government ministries from public-sector organizations; and

- ✓ proposing a number of amendments to the *Financial Administration Act* and other related statutes to improve financial management and reporting transparency. These amendments include the government's authority to direct organizations in the province's reporting entity on which accounting policies to apply when preparing their financial statements.

Section H: Details of Ontario's Finances

This section provides information on the Province's historical performance, key fiscal indicators, and details on Ontario's fiscal plan and outlook.

Medium-Term Fiscal Plan and Outlook ¹ (\$ Billions)				Table 26
	Interim 2009–10	Plan 2010–11	Outlook	
			2011–12	2012–13
Revenue	96.4	106.9	107.7	112.0
Expense				
Programs	108.8	115.9	112.9	114.3
Interest on Debt ²	8.9	10.0	11.1	12.5
Total Expense	117.7	125.9	124.1	126.9
Reserve	–	0.7	1.0	1.0
Surplus/(Deficit)	(21.3)	(19.7)	(17.3)	(15.9)
Net Debt ³	193.2	220.0	245.0	267.8
Accumulated Deficit ³	134.6	154.3	171.6	187.5

¹ Both revenue and expense have been restated to reflect a fiscally neutral accounting change for the revised presentation of education property taxes.

² Interest on Debt expense is net of interest capitalized during construction of tangible capital assets of \$0.1 billion in 2009–10, \$0.2 billion in 2010–11, \$0.2 billion in 2011–12, and \$0.2 billion in 2012–13.

³ Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the surplus/deficit of the Province plus the change in non-financial assets; and the change in the fair value of the Ontario Nuclear Funds. Accumulated Deficit is calculated as the difference between liabilities and total assets. The annual change in the Accumulated Deficit is equal to the surplus/deficit plus the change in the fair value of the Ontario Nuclear Funds.

Note: Numbers may not add due to rounding.

Revenue
(\$ Millions)

Table 27

	2007-08	Actual 2008-09	Interim 2009-10	Plan 2010-11
Taxation Revenue				
Personal Income Tax	25,472	25,738	24,049	25,942
Sales Tax ¹	16,745	17,021	17,410	19,137
Corporations Tax	12,990	6,748	5,381	7,390
Education Property Tax ²	5,754	5,696	5,673	5,316
Employer Health Tax	4,605	4,617	4,551	4,701
Ontario Health Premium	2,713	2,776	2,726	2,871
Gasoline Tax	2,360	2,323	2,365	2,366
Land Transfer Tax	1,363	1,013	1,022	1,023
Tobacco Tax	1,127	1,044	1,080	966
Fuel Tax	733	698	646	652
Beer and Wine Tax (replacing Fees) ³	—	—	—	414
Electricity Payments-In-Lieu of Taxes	546	830	525	481
Other Taxes	481	352	353	342
	74,889	68,856	65,781	71,601
Government of Canada				
Canada Health Transfer	8,487	8,942	9,737	10,217
Canada Social Transfer	3,778	4,079	4,204	4,327
Equalization	—	—	347	972
Infrastructure Programs	207	151	969	2,146
Labour Market Programs	664	797	1,261	1,207
Social Housing	525	520	492	487
Wait Times Reduction Fund	468	235	97	97
Other Federal Payments	2,468	1,867	1,458	4,230
	16,597	16,591	18,565	23,683
Government Business Enterprises				
Ontario Lottery and Gaming Corporation	1,857	1,921	1,883	1,859
Liquor Control Board of Ontario	1,374	1,410	1,419	1,465
Ontario Power Generation Inc./Hydro One Inc.	1,214	713	797	844
Other Government Enterprises	(8)	(2)	(1)	(4)
	4,437	4,042	4,098	4,164
Other Non-Tax Revenue				
Reimbursements	1,464	1,379	1,375	1,095
Vehicle and Driver Registration Fees	1,051	1,034	1,045	1,067
Electricity Debt Retirement Charge	982	970	912	916
Power Sales	929	953	1,436	1,385
Sales and Rentals	553	733	645	673
Other Fees and Licences	677	683	710	749
Beer and Wine Fees (replaced by Tax) ³	466	459	458	115
Net Reduction of Power Purchase Contract Liability	398	373	348	339
Royalties	193	205	184	195
Miscellaneous Other Non-Tax Revenue	943	655	852	885
	7,656	7,444	7,965	7,419
Total Revenue	103,579	96,933	96,409	106,867

¹ Sales Tax in 2010–11 includes Retail Sales Tax and Harmonized Sales Tax. As announced in the *2009 Budget*, effective July 1, 2010, the Retail Sales Tax will be replaced with a value-added tax and combined with the federal Goods and Services Tax to create a federally administered Harmonized Sales Tax.

² Education Property Tax (EPT) revenue, rather than netting against Education expense, will now be reported as revenue. These presentation changes are fiscally neutral.

³ Beer and Wine Tax replaces reduced Beer and Wine Fees (–\$343 million) and the reduced sales tax on alcohol (–\$71 million). There is no net new revenue for the Province.

Total Expense
(\$ Millions)**Table 28**

Ministry Expense	2007–08	Actual 2008–09	Interim 2009–10	Plan 2010–11
Aboriginal Affairs ¹	33	55	69.0	75.5
Agriculture, Food and Rural Affairs ¹	731	877	1,141.4	1,288.1
Attorney General	1,650	1,669	1,605.6	1,709.8
Board of Internal Economy	257	188	195.0	195.0
Children and Youth Services	3,733	4,069	4,455.7	4,667.3
Citizenship and Immigration	90	89	104.3	112.4
Community and Social Services	7,549	8,001	8,673.3	9,263.2
Community Safety and Correctional Services	1,982	2,121	2,257.7	2,690.6
Consumer Services	54	58	54.4	60.0
Economic Development and Trade ¹	328	245	262.3	349.8
Education ^{1,2}	18,733	19,626	20,636.4	21,363.7
Energy and Infrastructure ¹	389	251	369.5	683.3
Environment ¹	347	363	362.4	383.0
Executive Offices	36	35	35.6	33.1
Finance ¹	380	677	555.7	652.0
Francophone Affairs, Office of	5	5	5.1	5.1
Government Services ¹	916	939	1,230.8	1,102.4
Health and Long-Term Care	37,744	40,352	43,083.1	45,352.4
Health Promotion ¹	364	382	380.9	408.7
Labour	170	177	183.6	192.2
Municipal Affairs and Housing ¹	744	756	693.0	686.4
Natural Resources	629	621	624.2	600.1
Northern Development, Mines and Forestry	506	645	637.6	857.3
Research and Innovation ¹	301	295	343.8	411.5
Revenue ¹	641	635	1,161.8	1,003.8
Tourism and Culture ¹	584	566	684.0	715.1
Training, Colleges and Universities ¹	5,787	6,081	6,663.4	7,147.2
Transportation ¹	1,892	2,038	2,110.0	2,294.6
Interest on Debt ³	8,914	8,566	8,930.0	9,961.2
Other Expense ¹	7,490	2,960	10,229.3	12,767.0
Year-End Savings ⁴	–	–	–	(1,174.5)
Total Expense	102,979	103,342	117,738.8	125,857.3

¹ Details on other ministry expense can be found in Table 29, Other Expense.

² Education expense now includes School Board Expense, including \$20.9 billion in 2010–11 as explained in the *Addendum to the 2010 Ontario Budget: Accountability, Transparency and Financial Management*.

³ Interest on debt is net of interest capitalized during construction of tangible capital assets of \$109 million in 2009–10 and \$212 million in 2010–11.

⁴ As in past years, the Year-End Savings provision reflects anticipated underspending that has historically arisen at year-end due to factors such as program efficiencies, and changes in project startups and implementation plans.

Note: Numbers may not add due to rounding.

Other Expense
 (\$ Millions)

Table 29

Ministry Expense	2007-08	Actual 2008-09	Interim 2009-10	Plan 2010-11
Aboriginal Affairs				
One-Time Expense for the First Nations Gaming Agreement	201	—	—	—
Agriculture, Food and Rural Affairs				
One-Time Extraordinary Assistance	274	—	—	—
Time-Limited Investments in Infrastructure	—	—	842.1	1,898.0
Time-Limited Assistance	76	13	28.5	9.0
Economic Development and Trade				
One-Time Investments	152	—	—	—
Education				
Teachers' Pension Plan ¹	342	50	255.0	525.0
Energy and Infrastructure				
Capital Contingency Fund	—	—	—	200.0
One-Time Investments in Municipal Infrastructure	450	—	—	—
Environment				
One-Time Investments	—	68	36.5	—
Finance				
One-Time Automotive Sector Support ²	—	—	4,000.0	—
Investing in Ontario Act Investments	1,149	—	—	—
Ontario Municipal Partnership Fund	907	905	782.9	645.5
Operating Contingency Fund	—	—	50.0	1,840.4
Pension Benefit Guarantee Fund	—	—	500.0	—
Power Purchases	929	953	1,436.0	1,385.0
Government Services				
Pension and Other Employee Future Benefits	531	971	917.0	1,102.0
Health Promotion				
Time-Limited Investments in Infrastructure	—	—	47.8	345.1
Municipal Affairs and Housing				
Time-Limited Investments in Municipal Social and Affordable Housing Stock	100	—	585.3	659.3
Research and Innovation				
One-Time Investments	87	—	5.0	—
Revenue				
Harmonized Sales Tax Transitional Support	—	—	—	3,200.0
Tourism and Culture				
One-Time Investments	57	—	—	—
Training, Colleges and Universities				
Time-Limited Investments	699	—	553.5	957.7
Transportation				
One-Time Transit and Infrastructure Investments	1,536	—	189.7	—
Total Other Expense	7,490	2,960	10,229.3	12,767.0

¹ Numbers reflect PSAB pension expense. Ontario's matching contributions to the plan grow from \$808 million in 2007-08 to \$1,245 million in 2009-10 and \$1,307 million in 2010-11.

² Reflects the estimated fiscal impact of Ontario's \$4.8 billion in support to the automotive industry.

Note: Numbers may not add due to rounding.

2010–11 Infrastructure Expenditures
(\$ Millions)**Table 30**

Sector	Total Infrastructure Expenditures 2009–10 Interim	2010–11 Plan		
		Investment in Capital Assets	Transfers and Other Infrastructure Expenditures ¹	Total Infrastructure Expenditures
Transportation				
Transit	1,941	1,381	355	1,735
Highway Expansion / High Occupancy Vehicle Lanes	873	1,018	–	1,018
Highway and Bridge Rehabilitation	922	1,017	–	1,017
Other Transportation ²	773	1,022	117	1,139
Health				
Hospitals	2,306	2,065	10	2,075
Other Health	299	311	143	454
Education–School Boards	1,731	1,657	–	1,657
Postsecondary				
Colleges	146	146	–	146
Universities	83	–	98	98
Water/Environment	505	41	306	348
Municipal and Local Infrastructure	464	34	493	527
Justice	271	641	29	670
Other	760	697	384	1,082
Short-Term Stimulus Investments	1,627	697	3,679	4,376
Subtotal	12,702	10,728	5,614	16,342
Less: Other Partner Funding ³	514	464	–	464
Total Excluding Partner Funding	12,188	10,264	5,614	15,878
Less: Flow-Throughs ⁴	1,120	487	2,179	2,666
Total Provincial Expenditure⁵	11,068	9,776	3,435	13,212

¹ Mainly consists of transfers for capital purposes to municipalities and universities, and expenditures for capital repairs. These expenditures are included in the Province's total expense in Table 28.

² Other transportation includes planning activities, property acquisition, highway service centres and other infrastructure programs (e.g., municipal/local roads/remote airports).

³ Third-Party Contributions to capital investment in the consolidated sectors (schools, colleges and hospitals).

⁴ Mostly federal government transfers for capital investments.

⁵ Total Provincial Infrastructure Expenditure includes Investment in Capital Assets of \$8.5 billion for 2009–10.

Note: Numbers may not add due to rounding.

Ten-Year Review of Selected Financial and Economic Statistics¹

(\$ Millions)

	2001–02	2002–03 ²	2003–04
Financial Transactions			
Revenue	72,307	74,675	74,269
Expense			
Programs	61,595	64,864	70,148
Interest on Debt ⁴	10,337	9,694	9,604
Total Expense	71,932	74,558	79,752
Reserve	—	—	—
Surplus/(Deficit)	375	117	(5,483)
Net Debt ^{5,6}	132,121	132,647	138,816
Accumulated Deficit ⁷	132,121	118,705	124,188
Gross Domestic Product (GDP) at Market Prices	453,701	477,763	493,081
Personal Income	361,187	369,420	381,127
Population — July (000s)	11,897	12,091	12,242
Net Debt per Capita (dollars)	11,105	10,971	11,339
Personal Income per Capita (dollars)	30,360	30,553	31,133
Total Expense as a per cent of GDP	15.9	15.6	16.2
Interest on Debt as a per cent of Revenue	14.3	13.0	12.9
Net Debt as a per cent of GDP	29.1	27.8	28.2
Accumulated Deficit as a per cent of GDP	29.1	24.8	25.2

¹ Both revenue and expense have been restated to reflect a fiscally neutral accounting change for the revised presentation of education property taxes.

² Starting in 2002–03, investments in major tangible capital assets owned by the Province (land, buildings, and transportation infrastructure) have been capitalized and amortized to expense over their useful lives. Starting in 2009–10, investments in minor tangible capital assets owned by the Province (information technology infrastructure and systems, vehicles and marine fleet and aircraft) will also be capitalized and amortized to expense. All capital assets owned by consolidated organizations are being accounted for in a similar manner.

³ Starting in 2005–06, the Province's financial reporting was expanded to include hospitals, school boards and colleges. Total expense prior to 2005–06 has not been restated to reflect expanded reporting.

⁴ Interest On Debt is net of interest capitalized during construction of tangible capital assets of \$109 million in 2009–10 and \$212 million in 2010–11.

⁵ Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the surplus/deficit of the Province plus the change in non-financial assets and, effective April 1, 2007, the change in the fair value of the Ontario Nuclear Funds.

Sources: Ontario Ministry of Finance and Statistics Canada.

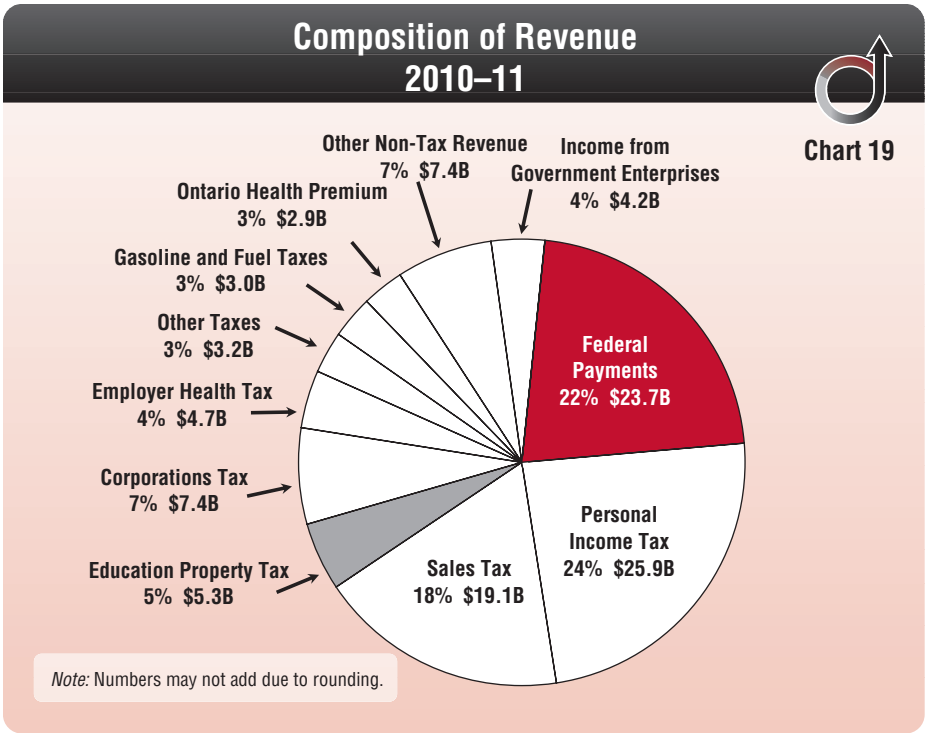
Table 31

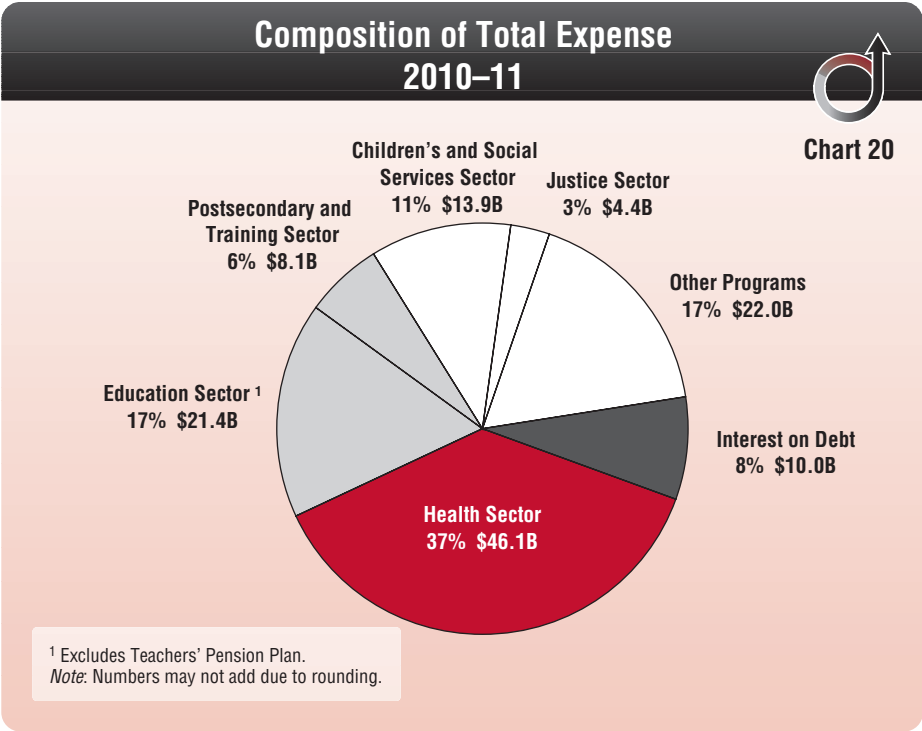
2004–05	2005–06 ³	2006–07	2007–08	Actual 2008–09	Interim 2009–10 ²	Plan 2010–11
83,861	90,305	96,640	103,579	96,933	96,409	106,867
76,048	80,988	85,540	94,065	94,776	108,809	115,896
9,368	9,019	8,831	8,914	8,566	8,930	9,961
85,416	90,007	94,371	102,979	103,342	117,739	125,857
–	–	–	–	–	–	700
(1,555)	298	2,269	600	(6,409)	(21,330)	(19,690)
140,921	149,928	150,618	153,188	165,864	193,226	219,991
125,743	109,155	106,776	105,617	113,238	134,568	154,258
516,106	537,383	560,286	585,723	587,827	567,199	592,155
400,994	419,457	442,615	464,593	482,086	480,379	496,232
12,391	12,528	12,665	12,795	12,936	13,069	13,194
11,373	11,967	11,892	11,972	12,822	14,785	16,674
32,362	33,482	34,948	36,311	37,267	36,757	37,610
16.6	16.7	16.8	17.6	17.6	20.8	21.3
11.2	10.0	9.1	8.6	8.8	9.3	9.3
27.3	27.9	26.9	26.2	28.2	34.1	37.2
24.4	20.3	19.1	18.0	19.3	23.7	26.1

⁶ 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 2005–06 to 2008–09 to conform with this revised presentation. Net Debt has also been restated in 2003–04, 2004–05 and 2005–06 to reflect the value of hydro corridor lands transferred to the Province from Hydro One Inc.

⁷ Accumulated Deficit is calculated as the difference between liabilities and total assets. The annual change in the Accumulated Deficit is equal to the surplus/deficit plus, effective April 1, 2007, the change in the fair value of the Ontario Nuclear Funds. For fiscal 2005–06, the change in the Accumulated Deficit includes the opening combined net assets of hospitals, school boards and colleges that were recognized upon consolidation of these Broader Public Sector entities. For fiscal 2006–07, the change in the Accumulated Deficit includes an adjustment to the unfunded liability of the Ontario Electricity Financial Corporation made at the beginning of the year. For fiscal 2007–08, a \$1.2 billion decrease in the Accumulated Deficit is made up of \$0.6 billion in the Province's operating surplus, with the remainder resulting from a change in accounting policy. Under this change, Ontario Nuclear Funds Agreement funds are reported at fair value on Ontario Power Generation Inc. books and, upon consolidation, on the Province's consolidated financial statements.

Sources: Ontario Ministry of Finance and Statistics Canada.

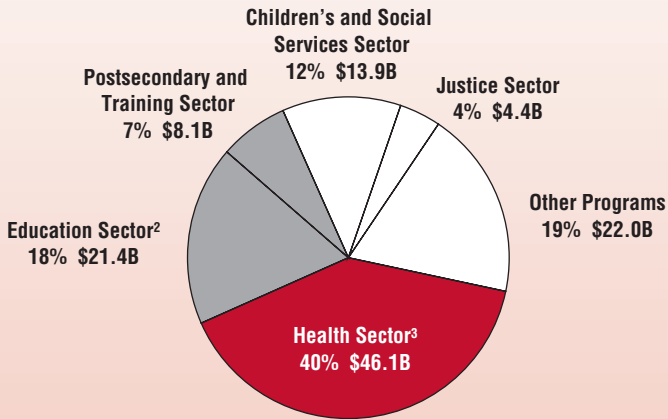




Composition of Program Expense¹ 2010–11



Chart 21



¹ Program expense equals total expense minus interest on debt.

² Excludes Teachers' Pension Plan.

³ Controlling for time-limited investments and the presentation of education sector expense introduced in this Budget (see *Addendum to the 2010 Ontario Budget: Ontario's Plan to Enhance Accountability, Transparency and Financial Management*), health sector expense would account for 46 per cent in 2009–10 and 45 per cent in 2010–11.

Note: Numbers may not add due to rounding.

Support from Gaming for Health Care, the Ontario Trillium Foundation and Communities

Provincial proceeds from gaming activities continue to support Provincial priorities, including the operation and support of hospitals, charities, amateur sports, communities and the agricultural sector.

Support for Health Care, Charities, and Problem Gambling and Related Programs
(\$ Millions)

Table 32

	Interim 2009–10	Plan 2010–11
Revenue from Lotteries, Charity Casinos and Slot Machines at Racetracks:		
Operation of Hospitals	1,543	1,567
Ontario Trillium Foundation	120	120
Problem Gambling and Related Programs	40	39
Ontario Amateur Sports	10	10
Revenue from Commercial Casinos:		
General Government Priorities	171	123
Total	1,883	1,859

Note: Numbers may not add due to rounding.

Revenue from Lotteries, Charity Casinos and Slot Machines at Racetracks

The *Ontario Lottery and Gaming Corporation Act, 1999*, requires that net Provincial revenue generated from lotteries, charity casinos and racetrack slot machines support services such as the operation of hospitals, problem gambling and related programs, amateur sports, and funding for charitable and not-for-profit organizations through the Ontario Trillium Foundation.

An estimated \$1,567 million in net revenue from lotteries, charity casinos and slot machines at racetracks will be applied to support the operation of hospitals in 2010–11.

In 2010–11, the Ontario Trillium Foundation will receive \$120 million to help build strong and healthy communities through contributions to charitable and not-for-profit organizations in the arts and culture, sports and recreation, human and social services, and environment sectors.

Two per cent of gross slot-machine revenue, estimated at \$39 million for 2010–11, is allocated for problem gambling prevention, treatment and research programs.

The Quest for Gold lottery will provide an estimated \$10 million in 2010–11 for direct financial support to Ontario's high-performance amateur athletes.

Benefits from Commercial Casinos

In 2010–11, net Provincial revenue from commercial casinos, estimated at \$123 million, will be used to support general government priorities, including health care, education and public infrastructure. In addition to the support for general government priorities, commercial casino operations support approximately 10,800 direct jobs in Ontario and provide vital tourism and economic development attractions for their respective communities.

Other Beneficiaries of Charity Casinos and Slot Machines at Racetracks

Support for Agricultural Sector and Municipalities
(\$ Millions)

Table 33

	Interim 2009–10	Plan 2010–11
Agricultural Sector ¹	333	346
Municipalities	76	77
Total	409	423

¹ The agricultural sector's share of racetrack slot-machine revenue and municipalities' share of slot-machine revenue from charity casinos or racetrack slot facilities is received directly from the Ontario Lottery and Gaming Corporation.

Approximately 20 per cent of gross revenue from slot machines at racetracks is used to promote the economic growth of the horse-racing industry. Since 1998, this initiative has provided over \$2.9 billion to the horse-racing industry in Ontario, a key component of the Province's agricultural sector. For 2010–11, additional support is estimated at \$346 million.

A portion of gross slot-machine revenue, estimated at \$77 million in 2010–11, will be provided to municipalities that host charity casinos and slot operations at racetracks. These revenues will help offset local infrastructure and service costs.

Chapter III

Tax and Pension Systems for Ontario's Future





HIGHLIGHTS

Ontario's Tax Plan for Jobs and Growth

- ✓ Within 10 years, helps create nearly 600,000 net new jobs, attract \$47 billion in business investment and increase annual incomes by up to 8.8 per cent.
- ✓ Over three years, delivers \$11.8 billion in tax relief to people, including cutting income tax for 93 per cent of income tax payers.
- ✓ Eliminates Ontario income tax for 90,000 lower-income tax filers.
- ✓ Provides the lowest provincial tax rate in Canada on the first \$37,106 of taxable income.
- ✓ Supports low- to middle-income families and individuals by enhancing sales tax credits and property tax credits.
- ✓ Delivers \$4.2 billion in transition payments to help Ontarians adjust to the Harmonized Sales Tax.
- ✓ Cuts corporate income taxes for large and small businesses.

Modernizing Pensions and the Retirement Income System

- ✓ Bill 236, the Pension Benefits Amendment Act, 2010 — the most significant pension reform package introduced in Ontario in more than 20 years — was introduced in December 2009.
- ✓ The government will continue its consultative pension reform process in 2010, building on recommendations from the Report of the Expert Commission on Pensions and feedback from stakeholders.
- ✓ As part of the national review of the retirement income system, the government will continue to consult on how the retirement income system could be improved for tomorrow's seniors.

ONTARIO'S TAX PLAN FOR JOBS AND GROWTH

The tax plan introduced in the *2009 Budget* will significantly improve Ontario's competitiveness for new business investment and cut income taxes for people. The tax plan will lead to more jobs and higher incomes and help sustain key priorities, such as health care and education, by creating a stronger, more competitive economy.

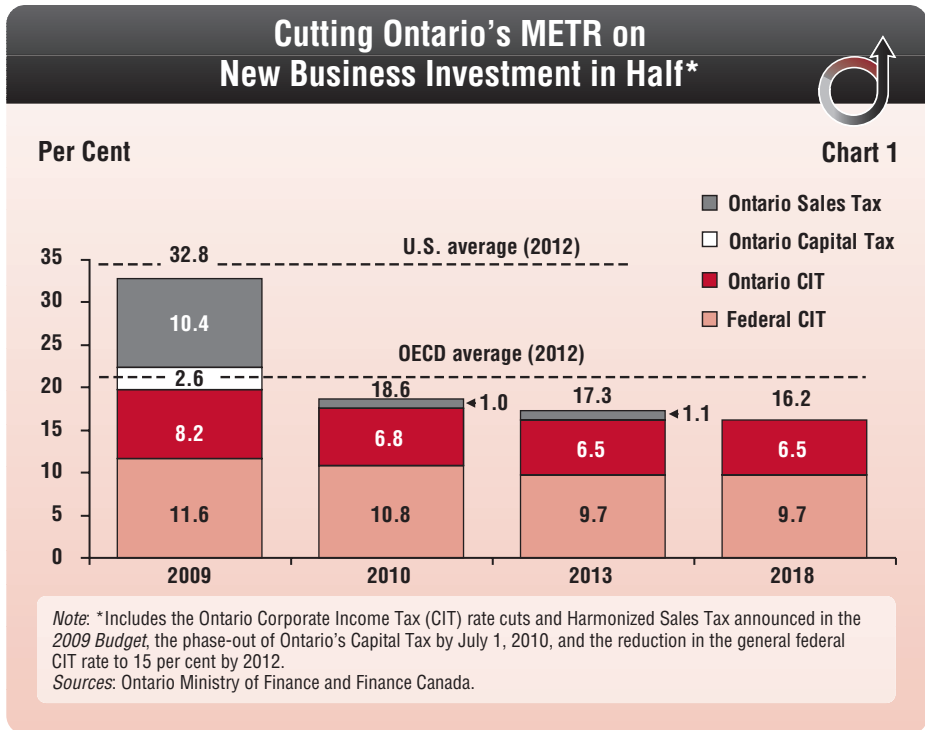
A study by tax expert Jack Mintz shows that the tax plan will provide large benefits to Ontarians. The study estimates that by 2020, the tax measures in the *2009 Budget*, together with other recent tax changes, will lead to \$47 billion in incremental business investment, higher annual incomes of up to 8.8 per cent and nearly 600,000 net new jobs.

To view Professor Mintz's report, visit www.rev.gov.on.ca/en/taxchange/pdf/mintz.pdf.

A key component of the tax plan is the elimination of the Retail Sales Tax (RST) on purchases of new capital goods by businesses. Economic studies have found that removing the RST from these purchases has a stronger beneficial impact on economic growth than any other kind of tax measure.¹ Therefore, the Harmonized Sales Tax (HST) combined with Corporate Income Tax (CIT) cuts will have a vastly larger positive impact on the economy than CIT cuts alone.

¹ Maximilian Baylor and Louis Beauséjour, "Taxation and Economic Efficiency: Results from a Canadian CGE Model," Finance Canada, Working Paper 2004-10, November 2004, Table 5.

Increased capital investment by businesses is vital for achieving sustained economic growth and creating well-paying jobs. Ontario's marginal effective tax rate (METR), which measures the tax burden on new investment, will be cut in half by 2018, making Ontario one of the most attractive locations in the industrialized world for businesses to invest and create jobs.²



² The METR is a comprehensive measure of the tax that applies to an incremental dollar of income from new capital investment. It takes into account federal and provincial corporate income taxes, capital taxes and sales taxes.

Harmonized Sales Tax

Effective July 1, 2010, the outdated RST will be replaced with a value-added tax (VAT) and combined with the federal Goods and Services Tax (GST) to create a federally administered HST. A VAT is a multi-stage tax on consumption that applies throughout the supply chain regardless of whether the purchase is for use by a business or consumer, but that allows most businesses to be reimbursed for the tax paid on their business inputs through the use of input tax credits. The provincial portion of the HST will be eight per cent — the same as the current general RST rate — and the federal portion will be five per cent, for a combined HST rate of 13 per cent.

In addition to the HST, Ontario's Tax Plan for Jobs and Growth delivers significant permanent and temporary tax relief for people and businesses.

Tax Cuts for People

Tax relief totalling \$11.8 billion over three years is being provided to people by permanently cutting Personal Income Tax (PIT), enhancing ongoing sales tax and property tax relief, and providing direct payments to help Ontarians adjust to the HST.

- ✓ Effective January 1, 2010, the tax rate on the first tax bracket was cut by one percentage point, from 6.05 per cent to 5.05 per cent. As a result, 93 per cent of income tax payers will see a PIT cut, and approximately 90,000 lower-income tax filers will no longer pay Ontario PIT. Ontarians now benefit from the lowest provincial tax rate in Canada on the first \$37,106 of taxable income for 2010.

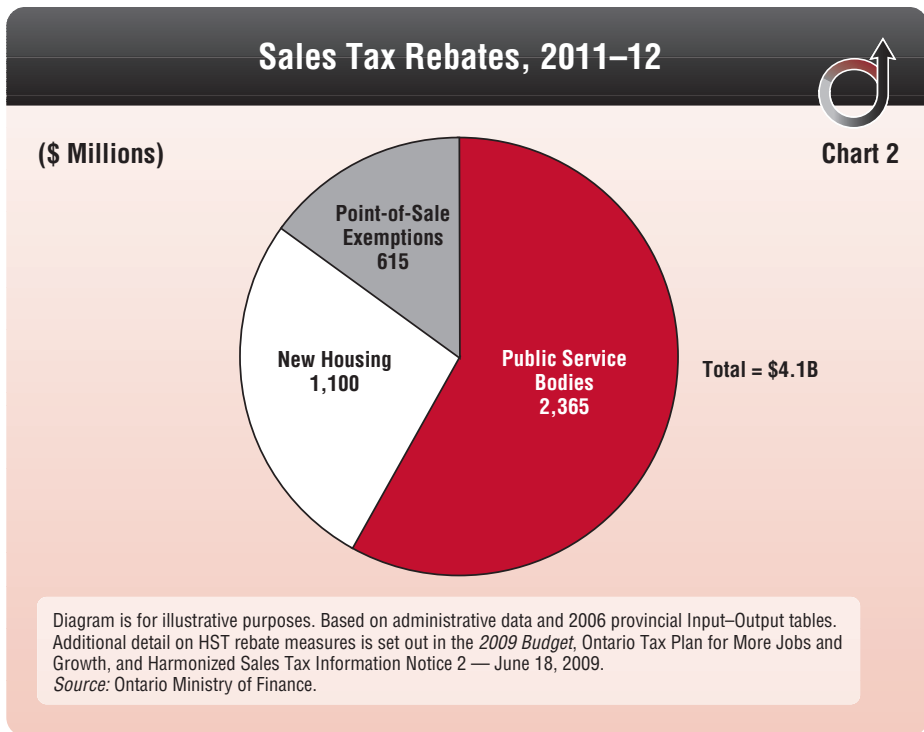
- ☑ To help offset the impact of the HST, two new tax credits are replacing the combined property and sales tax credits, starting with 2010. The new credits are refundable and provide tax relief to low-to middle-income people. The Ontario Sales Tax Credit will provide sales tax relief of over \$1 billion per benefit year to about 3.1 million families and individuals, and will be paid quarterly starting in August 2010. In this *Budget*, the government proposes to introduce legislation to convert the Ontario Property Tax Credit to the Ontario Energy and Property Tax Credit. This tax credit would provide over \$1.2 billion in energy and property tax relief to about 2.8 million individuals and families annually, and would be paid quarterly starting in the summer of 2011.
- ☑ To help Ontarians adjust to the HST, eligible Ontario residents aged 18 or over or who have a spouse or common-law partner or live with a dependent child will receive Sales Tax Transition Benefit payments in June 2010, December 2010 and June 2011. Eligible families (including single parents) with adjusted family net incomes of \$160,000 or less will get three payments totalling \$1,000. Eligible single individuals with adjusted net incomes of \$80,000 or less will get three payments totalling \$300.

Ontario will provide targeted HST relief to people and key public service bodies through point-of-sale exemptions and rebates.

Supporting People and Public Service Bodies
(\$ Millions)

Table 1

Supporting People			
	2010–11	2011–12	2012–13
HST Point-of-Sale (POS) Exemptions			
Books	(65)	(90)	(90)
Feminine Hygiene Products and Diapers	(30)	(45)	(45)
Children's Footwear	(25)	(35)	(35)
Children's Clothing	(105)	(145)	(150)
Children's Car Seats/Booster Seats	(4)	(5)	(5)
Print Newspapers	(35)	(50)	(50)
Prepared Food and Beverages (\$4 and under)	(180)	(245)	(255)
Total POS Exemptions	(444)	(615)	(630)
Enhanced Ontario New Housing Rebate	(960)	(1,100)	(1,165)
Total	(1,404)	(1,715)	(1,795)
Supporting Public Service Bodies			
	2010–11	2011–12	2012–13
HST Public Service Body (PSB) Rebates			
Municipalities	(710)	(960)	(980)
Universities	(135)	(180)	(185)
Public Colleges	(40)	(55)	(55)
School Authorities	(270)	(365)	(370)
Hospital Authorities	(295)	(400)	(410)
Charities	(250)	(340)	(345)
Qualifying Non-Profit Organizations	(50)	(65)	(70)
Total PSB Rebates	(1,750)	(2,365)	(2,415)
Total POS Exemptions and PSB Rebates	(3,154)	(4,080)	(4,210)



Tax Cuts for Business

Tax cuts for large and small businesses totalling more than \$4.6 billion over three years will begin on July 1, 2010. These include:

- ✓ cutting the general CIT rate from 14 per cent to 12 per cent and then to 10 per cent over three years;
- ✓ cutting the CIT rate on income from manufacturing and processing, mining, logging, farming and fishing from 12 per cent to 10 per cent;
- ✓ cutting the small business CIT rate from 5.5 per cent to 4.5 per cent; and
- ✓ eliminating the small business deduction surtax of 4.25 per cent.

These tax cuts are in addition to more than \$1.6 billion in annual savings for business from the elimination of the Capital Tax on July 1, 2010.

The Tax Plan for Jobs and Growth reduces Ontario revenue by more than \$4 billion over the first three years, net of federal transitional assistance of \$4.3 billion.

Tax Plan for Jobs and Growth — Revenue Changes¹		Table 2		
(\$ Millions)				
	2010–11	2011–12	2012–13	
Conversion of RST Base to HST Base	1,210	2,025	2,180	
Tax Measures for People				
Personal Income Tax Cut	(1,140)	(1,205)	(1,270)	
Ontario Sales Tax Credit	(560)	(860)	(910)	
Ontario Energy and Property Tax Credit	(470)	(530)	(600)	
Ontario Sales Tax Transition Benefit ²	(2,785)	(1,460)	–	
	(4,955)	(4,055)	(2,780)	
Tax Measures for Business				
CIT and Corporate Minimum Tax Cuts	(510)	(1,410)	(1,845)	
Small Business CIT Rate Cut	(45)	(150)	(155)	
Small Business Surtax Elimination	(15)	(65)	(70)	
Small Business Transition Support ²	(400)	–	–	
	(970)	(1,625)	(2,070)	
Temporary Input Tax Credit Restrictions for Business	685	955	995	
Total Tax Reform Measures	(4,030)	(2,700)	(1,675)	

¹ Revenue changes include temporary transitional support for people and businesses primarily funded from federal government payments totalling \$4.3 billion over two years.

² Transitional support is reported as a program expense.

Additional information on Ontario's Tax Plan for Jobs and Growth is available at ontario.ca/taxchange.

DETAILS OF TAX MEASURES

Ontario Energy and Property Tax Credit

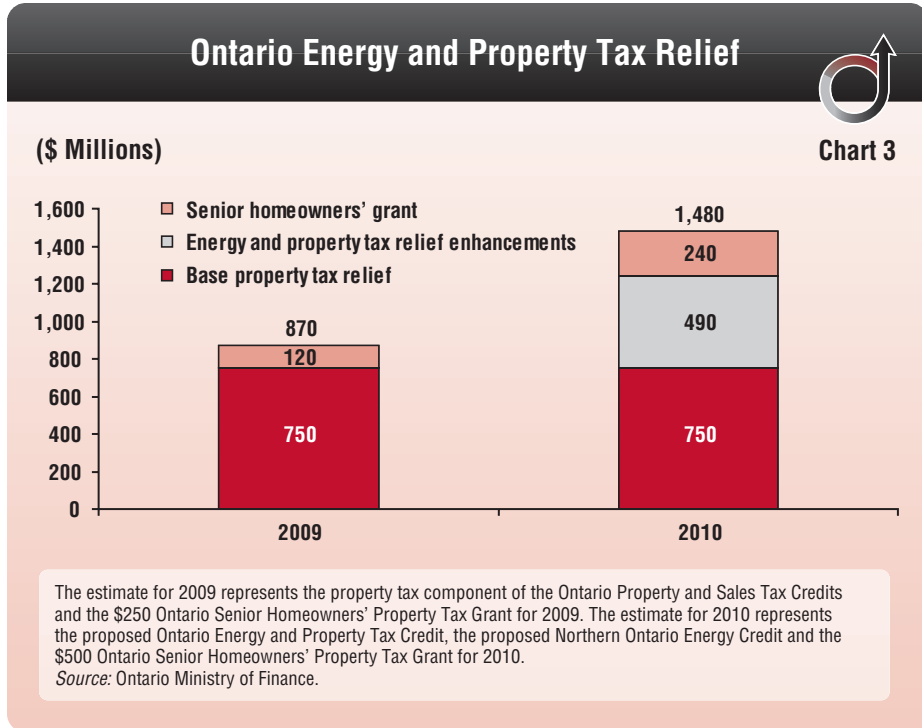
Ontario's Tax Plan for Jobs and Growth significantly enhanced property and sales tax relief for low- to middle-income families and single people. These enhancements included a new Ontario Sales Tax Credit of up to \$260 a year for each adult and each child in an eligible family, paid quarterly — an increase of over \$800 million per benefit year. Providing four smaller payments throughout the year, instead of one lump-sum amount at tax-filing time, makes it easier for families to manage their household budgets.

In this *Budget*, the government proposes to introduce legislation to convert the Ontario Property Tax Credit to the Ontario Energy and Property Tax Credit. Effective for the 2010 tax year, this tax credit would deliver more than \$1.2 billion in annual support — an increase of \$455 million compared to the tax relief provided in 2009, due to the enhancements announced in the *2009 Budget*.

In the first year of implementation, the Ontario Energy and Property Tax Credit would be provided after people file their 2010 tax returns in 2011. Beginning in 2011, the credit would be paid quarterly, like the Ontario Sales Tax Credit. The government will consult with social policy groups regarding the timing of the payments to best meet the needs of people receiving the credits.

In addition, the government is proposing a new Northern Ontario Energy Credit to recognize the higher energy costs in northern Ontario. See Chapter I: *Ontario's Plan for Prosperity* for further details.

As shown in Chart 3, legislated increases and proposed enhancements for 2010 would increase the energy and property tax relief provided to low- to middle-income people by 70 per cent compared to 2009.



Paralleling Federal Tax Measures

Under the terms of the Canada–Ontario Tax Collection Agreement, Ontario will automatically adopt certain 2010 federal budget PIT and CIT measures and their effective dates. These measures include proposals related to the:

- ✓ rollover of certain registered plan proceeds to a Registered Disability Savings Plan;
- ✓ taxation of the Universal Child Care Benefit;
- ✓ Medical Expense Tax Credit;
- ✓ scholarship exemption and Education Tax Credit;

- ✓ treatment of employee stock options;
- ✓ deduction for U.S. Social Security benefits;
- ✓ disbursement quota for charities; and
- ✓ capital cost allowance system.

Assisting Businesses with the Transition to the Harmonized Sales Tax

Building on the measures implemented by the *Ontario Tax Plan for More Jobs and Growth Act, 2009*, including the wind-down of compensation for RST vendors as of March 31, 2010, the government is proposing to extend compensation to RST vendors up to a maximum of \$375 for the shortened RST collection period of April 1, 2010 to June 30, 2010.

Further, a technical amendment would be made to enable the Province to prescribe the 12-month period for calculating the \$2 million taxable sales threshold for purposes of the small business transition assistance.

Amendments to Sales Tax on Certain Types of Insurance

As the tax on certain types of insurance will be continued under the *Retail Sales Tax Act* after June 30, 2010, the government is proposing that vendors of taxable insurance continue to be eligible for vendor compensation of up to \$1,500 annually. For the transitional year of April 1, 2010 to March 31, 2011, the vendor compensation for insurance would be available up to \$375 for the period of April 1, 2010 to June 30, 2010 and up to \$1,125 for the period of July 1, 2010 to March 31, 2011.

An amendment is further proposed to the tax that will be retained on insurance to ensure that certain costs and fees, such as administration fees for benefit plans, would not be subject to both the HST and the RST by providing an RST exemption for such costs and fees from the tax on insurance.

Taxation of Corporate Groups

The *2009 Budget* presented a plan to modernize Ontario's tax system that will significantly improve Ontario's competitiveness for new business investment. The implementation of a single corporate tax administration has also streamlined the cost of doing business in Ontario. The McGuinty government continues to look for ways to improve the tax system and strengthen the long-term competitiveness of Ontario's economy.

In its 2010 budget, the federal government made a commitment to explore new rules for the taxation of corporate groups, such as consolidated reporting. Ontario welcomes this review and the federal government's acknowledgment of concerns raised by provincial governments regarding the utilization of tax losses within corporate groups. Ontario looks forward to working collaboratively with the federal government to explore options to address the impact these transactions have on provincial tax and interprovincial income allocation.

In advance of any formal changes to the tax system, Ontario calls on the federal government, in administering Ontario's corporate taxes, to ensure that tax losses are utilized by a corporation in the province where the loss takes place. This will ensure losses are treated in a fair and reasonable manner and do not distort the principles of interprovincial income allocation. Ontario will consider taking action, where appropriate and within its administrative purview, to ensure these principles are upheld.

TECHNICAL MEASURES

Supporting the Move to the Harmonized Sales Tax

The government is proposing the following amendments to the *Retail Sales Tax Act* to build on the measures implemented by the *Ontario Tax Plan for More Jobs and Growth Act, 2009*, and further support consumers and businesses with implementation of the HST:

- ✓ an amendment to permit vendors to provide refunds of RST to purchasers after October 31, 2010, other than for returned goods. Where goods are purchased before July 1, 2010 and returned to the vendor after October 31, 2010, purchasers would continue to be able to claim RST refunds directly from the Ontario Ministry of Revenue;
- ✓ an amendment to provide for a rebate of RST to a purchaser to relieve double taxation where the purchaser has paid both the RST and HST on goods and services acquired on or after July 1, 2010;
- ✓ an amendment to provide that multi-jurisdictional vehicles would no longer be subject to RST (exit tax) when they cease to be registered under the International Registration Plan on or after July 1, 2010, as announced in Ontario's Tax Plan for Jobs and Growth; and
- ✓ an amendment to confirm that the exemption for gifts of used vehicles between siblings would be available effective July 1, 2010, as announced in Ontario's Tax Plan for Jobs and Growth.

As of July 1, 2010, tobacco retailers will no longer be able to obtain a vendor's permit under the *Retail Sales Tax Act*. Amendments to the *Tobacco Tax Act* are proposed to require tobacco retailers who do not hold a vendor's permit on June 30, 2010 to obtain a retail dealer's permit under the *Tobacco Tax Act*.

Land Transfer Tax Act: Reorganization of Charities

Regulatory amendments will be proposed to exempt certain transfers of land by registered charities from land transfer tax for transfers after March 25, 2010. Transfers of land from trustees to a non-share capital corporation, or from one non-share capital corporation to another, would be exempt provided:

- ✓ the non-share capital corporation will be continuing the same charitable purpose for the same members; and
- ✓ no consideration is paid, other than the assumption of any existing liabilities registered on the land.

Sustainable Funding for Tourism

A key recommendation of the Ontario Tourism Competitiveness Study, chaired by Greg Sorbara, which was implemented by the *Ontario Tax Plan for More Jobs and Growth Act, 2009*, provides for the collection of a regional tourism levy on transient accommodation on a proclaimed date. Amendments are proposed to the *Ministry of Tourism and Recreation Act* that would authorize the revenue collected from the levy in a particular tourism region to be paid out to that region's tourism organization. The amount would be limited to the amount collected from the region, less any costs related to the provincial administration of the levy.

NON-TAX MEASURES

The government is proposing amendments to the following legislation:

- ✓ the *Smoke-Free Ontario Act* to further help prevent young people from starting to smoke as well as helping current smokers quit;
- ✓ the *Local Health System Integration Act, 2006* to provide the time necessary for a thorough review of the Act and the powers available to Local Health Integration Networks;

- ✓ the *Mental Health Act* and *Health Care Consent Act, 1996* to facilitate the transfer of patients in certain circumstances to a psychiatric facility that is more appropriate for their requirements. Other amendments to the *Mental Health Act* will also be proposed;
- ✓ the *City of Ottawa Act, 1999* to establish an independent board of health for the city;
- ✓ the *Insurance Act* to implement auto insurance reforms, including recognizing the unique status of public transit services under Ontario's no-fault insurance system by excluding injuries where no collision has occurred;
- ✓ the *Insurance Act* and *Health Insurance Act* to recover some costs to Ontario's health care system from accidents covered by auto insurance policies;
- ✓ the *Law Society Act* to modernize the governance structure of the Law Society of Upper Canada; and
- ✓ the *Ministry of Training, Colleges and Universities Act* and the *Limitations Act, 2002*.

The government is proposing to introduce:

- ✓ the *Electronic Land Registration Services Act, 2010* to enable further modernization of the land registry system; and
- ✓ legislation to ensure Ontario can carry out obligations under certain land-claim settlement agreements with First Nations.

The government is proposing to create a regulation and proclaim the amendments to the *Compulsory Automobile Insurance Act* to ensure that most Ontario licensed motor vehicles carry insurance.

OTHER MEASURES AND TECHNICAL AMENDMENTS

Ontario proposes to introduce amendments to the *Taxation Act, 2007* to enact certain previously announced measures.

To improve administrative effectiveness and enforcement, and maintain the integrity and equity of Ontario's tax and revenue collection system, as well as enhance legislative clarity and regulatory flexibility to preserve policy intent, legislation will be proposed, including amendments to the following statutes:

- | | |
|--|--|
| ✓ <i>Alcohol and Gaming Regulation and Public Protection Act, 1996</i> | ✓ <i>Land Transfer Tax Act</i> |
| ✓ <i>Assessment Act</i> | ✓ <i>Liquor Control Act</i> |
| ✓ <i>Business Corporations Act</i> | ✓ <i>Local Roads Boards Act</i> |
| ✓ <i>City of Toronto Act, 2006</i> | ✓ <i>Management Board of Cabinet Act</i> |
| ✓ <i>Community Small Business Investment Funds Act</i> | ✓ <i>Mining Tax Act</i> |
| ✓ <i>Co-operative Corporations Act</i> | ✓ <i>Ministry of Revenue Act</i> |
| ✓ <i>Corporations Tax Act</i> | ✓ <i>Municipal Act, 2001</i> |
| ✓ <i>Education Act</i> | ✓ <i>Northern Services Boards Act</i> |
| ✓ <i>Electricity Act, 1998</i> | ✓ <i>Pension Benefits Act</i> |
| ✓ <i>Employer Health Tax Act</i> | ✓ <i>Provincial Land Tax Act, 2006</i> |
| ✓ <i>Financial Administration Act</i> | ✓ <i>Retail Sales Tax Act</i> |
| ✓ <i>Financial Services Commission of Ontario Act, 1997</i> | ✓ <i>Tax Increment Financing Act, 2006</i> |
| ✓ <i>Fuel Tax Act</i> | ✓ <i>Taxation Act, 2007</i> |
| ✓ <i>Gasoline Tax Act</i> | ✓ <i>Tobacco Tax Act.</i> |
| ✓ <i>Income Tax Act</i> | |

2010 Budget Impact Table
(\$ Millions)**Table 3**

	2010–11	2011–12	2012–13
Northern Ontario Energy Credit ¹	(35)	(30)	(45)
Paralleling Federal Tax Measures			
Personal Income Tax	65	85	85
Corporate Income Tax	(3)	(4)	(4)
RST Vendor Compensation ²	(27)	–	–
Sales Tax on Insurance			
Vendor Compensation ²	(3)	(3)	(3)
Specified Fees Exemption	(3)	(4)	(4)
Technical Measures	–	–	–
Total Tax Changes	(6)	44	29

¹ Benefit levels for northerners would be maintained in 2011–12 but program cost would decline because accounting rules require one of the four quarterly payments to be reported in 2012–13. Northern Ontario Energy Credit for 2010 reported as a program expense.

² Vendor Compensation reported as a program expense.

Note: “–” Indicates a nil or a small amount (less than \$1 million).

MODERNIZING PENSIONS AND THE RETIREMENT INCOME SYSTEM

The last decades of the 20th century saw major improvements in the incomes of older Canadians and dramatic reductions in poverty among seniors. While these successes should be acknowledged, research indicates that the retirement income system may experience challenges in the 21st century. As the population of Ontario ages, retirement security issues are becoming more important for people with and without pension plans.

Although defined benefit (DB) plans are a key source of income for seniors in Ontario (50 per cent of singles and couples age 65 or over receive income from DB pension plans), DB plan coverage has declined from over 40 per cent to about a third of paid employees. Many Ontarians without employment pension plans have seen their retirement savings decline significantly due to negative returns in equity markets around the world in 2008, the global recession and low interest rates.

The Province is playing a leading role in a national effort to review the state of the current retirement income system, its future sustainability and options that could strengthen it for tomorrow's seniors. It is also in the midst of reforms to modernize the *Pension Benefits Act* (PBA). Reforms that began in 2009 will continue in 2010 as the government considers recommendations from the report of the Expert Commission on Pensions — *A Fine Balance: Safe Pensions, Affordable Plans, Fair Rules*.³

Transforming the Pension System

Over the last year, Ontario has announced major initiatives to modernize its employment pension system. The government will move forward with these initiatives to ensure that the pension system remains viable for retirees, plan members and plan sponsors.

Modernizing the Pension Benefits Act

Bill 236, the Pension Benefits Amendment Act, 2010, was introduced on December 9, 2009. Bill 236 is the most significant pension reform package to be introduced in Ontario in more than 20 years and the first step in a multi-stage process. These proposed reforms are intended to balance the diverse interests of pensioners, pension plan members and plan sponsors.

In 2010, the government will also consult on regulations related to Bill 133, the *Family Statute Law Amendment Act, 2009*, which introduced new rules for the division of pensions on marriage breakdown.

Enhancing Multi-jurisdictional Regulation

To improve the regulation and administration of multi-jurisdictional pension plans, the government has been working with other Canadian jurisdictions to finalize an agreement that would establish clear rules for the administration and regulation of these plans.

³ See www.fin.gov.on.ca/en/consultations/pension/report.

Legislative amendments will be introduced that would enable Ontario to become a signatory to this agreement, joining Quebec and Alberta as jurisdictions with the legislative authority to enter into the proposed agreement.

Solvency Funding Relief

To mitigate the effects of the 2008 market downturn, the government amended the regulation under the PBA in the summer of 2009 to provide temporary solvency funding relief for DB pension plans in Ontario. By December 31, 2009, over a quarter of the DB pension plans that filed actuarial valuation reports had elected to use these funding relief measures, resulting in over \$650 million in temporary cash-flow relief.

Supporting Sustainable Public-Sector Pension Plans

Since the introduction of the solvency funding relief measures, many single-employer DB pension plan sponsors in the public sector and broader public sector (BPS), including universities, have approached the government seeking additional funding relief, including full exemptions from solvency funding requirements for their plans. The Expert Commission recommended that exemptions of this nature should only be contemplated for pension plans that are structured to provide for joint risk-sharing and joint decision-making.

The government will consider additional temporary funding relief measures for public-sector and BPS pension plans if certain conditions related to greater sharing of risk and governance are met, such as:

- ✓ converting to joint sponsorship for future service;
- ✓ more equitable sharing of the normal cost of providing benefits between plan sponsors and members;

- ✓ linking some future benefits, such as inflation protection, to plan performance; and
- ✓ enhancing cost certainty and affordability through benefit adjustments that make plans more sustainable.

These plans should also explore measures that would reduce administrative and investment expenses in order to enhance cost efficiency.

A Vision for Further Reform

The government will continue the pension reform process in 2010. Building on recommendations from the Expert Commission, feedback from stakeholder consultations, advice from the Minister's Advisory Council on Pensions and Retirement Income, and ongoing discussions with the Canadian Institute of Actuaries, the next stage of reforms will be informed by the following principles:

- ✓ funding should be required for all benefits that a pension plan provides;
- ✓ risk and responsibility should be shared among stakeholders; and
- ✓ funding rules should match benefit and governance structures.

The government intends to explore reforms that would, among other things:

- ✓ strengthen the requirements for taking contribution holidays to ensure greater benefit security and require disclosure of contribution holidays to plan members and retirees;
- ✓ enhance the requirements for funding benefit improvements when existing benefits are not fully funded and require that all benefit improvements be funded more quickly;
- ✓ limit the extent to which funding can be based on going-concern and solvency valuations that exclude the value of certain benefits, employ asset values that significantly depart from market values, or smooth interest rates;

- ☑ further encourage innovative plan design by providing a framework for “flexible pension plans,” as permitted under the federal *Income Tax Act*;
- ☑ permit letters of credit to be used to partially satisfy solvency funding requirements;
- ☑ clarify procedures for determining surplus entitlement when a pension plan winds up; and
- ☑ set a uniform funding threshold at which annual actuarial valuations would be required.

As recommended by the Expert Commission, the government will also examine an updated framework for the funding, governance and regulation of plans that meet specified criteria. These rules might apply, for example, to certain multi-employer pension plans and jointly sponsored pension plans.

In October 2009, the federal government proposed reforms to update the pension investment rules contained in the federal *Pension Benefits Standards Regulations*, which Ontario adopted by reference in 2000. Once implemented, Ontario will carefully examine the appropriateness of the rules, including the 30 per cent rule, for Ontario-registered plans. The Province will then determine which changes, if any, will be adopted.

Pension reform will be implemented in stages to ensure that related proposals are effectively coordinated and cost increases are mitigated as appropriate (e.g., phasing in changes to funding rules). Many of these changes would be enacted by regulations while others would require amendments to the PBA.

All regulations emerging from the reform process will be posted for consultation on the Ontario Regulatory Registry to ensure the technical implementation of pension reforms is workable for all affected parties.

The Pension Benefits Guarantee Fund

One of the issues raised by the Expert Commission was the continuing viability of the Pension Benefits Guarantee Fund (PBGF). The PBGF is the only fund of its kind in Canada. The Pension Benefit Guaranty Corporation in the United States and the Pension Protection Fund in the United Kingdom operate in similar pension systems. All three face considerable financial challenges.

While intended to be self-financing, the annual assessments paid by the employer sponsors of DB pension plans (which averaged \$48 million per year from 2005 to 2009) have been insufficient to meet the claims on the PBGF. The Province has provided a series of loans to the Fund that resulted in debts outstanding to the Province of \$275 million at March 31, 2009.

Stabilizing the PBGF

Responding to the increasing challenges faced by the PBGF, the government is providing a \$500 million grant to the Fund in 2009–10. This grant will help ensure the PBGF has sufficient assets to cover claims in the near term.

Actuarial Projection Study of the PBGF

Consistent with the Expert Commission's recommendations, the government commissioned the first independent actuarial projection study of PBGF premiums and benefits in 2009. The results of this study, expected in the spring of 2010, will provide greater insight into the PBGF's financial health. The government will then determine the best steps for moving forward with reforms that address the future of the PBGF.

Tomorrow's Retirement Income System

The severe downturn in world equity markets in 2008 and low long-term interest rates have adversely affected the retirement savings of Canadians. These events have focused attention on the state of Canada's retirement income system. The Province is engaged in an evidence-based assessment of the system, undertaken in partnership with other governments across the country.

In December 2009, federal, provincial and territorial finance ministers reviewed the results of extensive research on Canada's retirement income system, including a study by pension expert Bob Baldwin commissioned by the Ontario Ministry of Finance.⁴

Building on this research, finance ministries are assessing a range of options to address the possible future challenges facing the system. It is expected that a preliminary assessment will be presented at the finance ministers' meeting scheduled in May 2010.

The options under consideration can be broadly summarized by four themes:

- ✓ expansion of public pensions to increase the proportion of retirement income provided to tomorrow's seniors through the Canada Pension Plan;
- ✓ supplementary defined contribution pension plans to provide additional options for retirement savings to Canadians without employment pension plans;
- ✓ pension innovations, such as target benefit plans, to expand coverage through the existing employment pension system and registered retirement savings plans; and
- ✓ reforms to tax assistance to facilitate higher levels of retirement savings and potential innovations in the delivery of pensions.

⁴ See www.fin.gov.on.ca/en/consultations/pension/dec09report.html for the full report.

Consultations

The Province remains committed to an open, consultative approach to reforming the pension and retirement income system. Building on the consultation process initiated by the Expert Commission, to which 127 individuals and groups provided briefs and submissions, the government will continue to engage in an open and transparent dialogue on these important matters.

In the lead-up to the next finance ministers' meeting in May 2010, the Province will be seeking advice from interested Ontarians on how retirement income security could be improved for tomorrow's seniors.

Following Premier McGuinty's call in 2009 for the federal government to lead a national pension summit, the Province welcomes the recent announcement in the federal 2010 budget that the government of Canada will undertake consultations on the retirement income system. Once these pan-Canadian consultations are completed, the Province looks forward to a national pension summit led by the federal government in 2010.

Chapter IV

Borrowing and Debt Management





HIGHLIGHTS

- ✓ The total funding requirement for 2009–10 has declined by \$6 billion since the Fall 2009 *Ontario Economic Outlook and Fiscal Review*, due primarily to the \$3.4 billion decline in the projected deficit.
- ✓ Long-term public borrowing is forecast at \$39.7 billion for 2010–11, down \$4.1 billion from \$43.8 billion for 2009–10.
- ✓ Interest on debt expense is \$476 million lower than forecast in the Fall 2009 *Ontario Economic Outlook and Fiscal Review*, reflecting lower-than-forecast interest rates, more financing at shorter-term maturities and a lower deficit.
- ✓ Total debt is projected to be \$212.4 billion as at March 31, 2010.
- ✓ Net debt is projected to be \$193.2 billion as at March 31, 2010.
- ✓ In 2009–10, Canada's and Ontario's net debt-to-GDP ratios were well below those of G7 countries.
- ✓ Ontario's net debt-to-GDP level was near the median for Canadian provinces in 2008–09, the most recent year for which data are available.
- ✓ For 2010–11, the impact of a one per cent increase in interest rates would be an estimated additional \$480 million in interest cost for the Province.

LONG-TERM PUBLIC BORROWING

Ontario successfully completed its largest annual borrowing program in 2009–10, despite continuing challenges in global financial markets. It did so mainly through greater diversification in international bond markets and by being responsive to its bond investors.

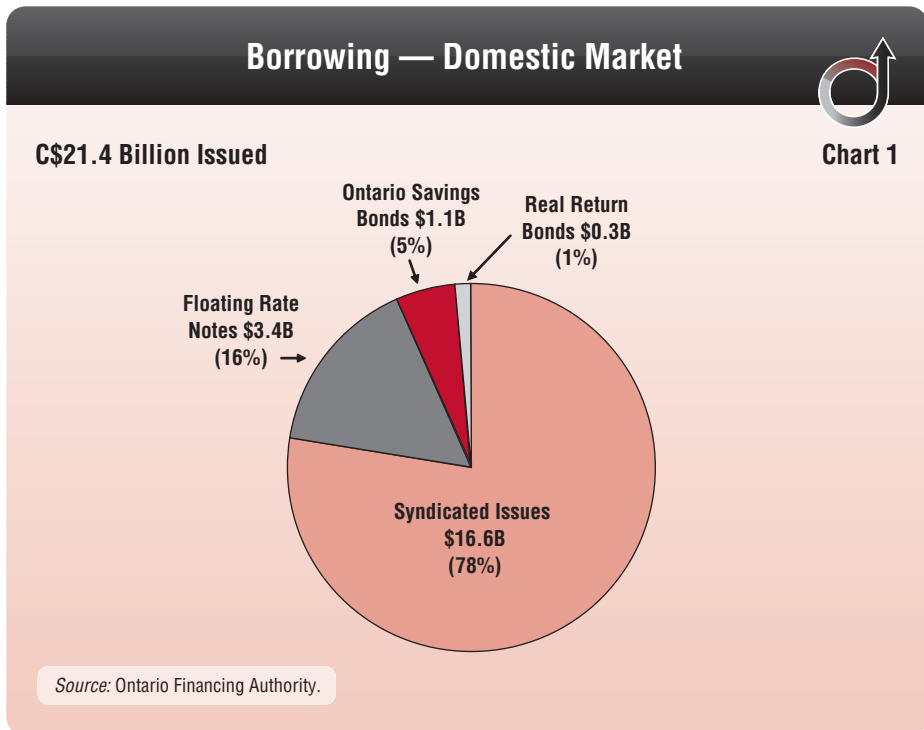
The interim long-term borrowing for 2009–10 is \$43.8 billion, compared to \$42.6 billion in the Fall 2009 *Ontario Economic Outlook and Fiscal Review*. The difference is primarily due to a decision to increase cash reserves, partially offset by the \$3.4 billion reduction in the deficit.

In 2009–10, 51 per cent (\$22.4 billion) was borrowed in international capital markets. Bonds issued in foreign currencies were:

- ☑ Global bonds in U.S. dollars
- ☑ Euro Medium-Term Notes (EMTNs) in euros, Swiss francs and Hong Kong dollars.

About \$21.4 billion, or 49 per cent, of borrowing was completed in the domestic market through a number of instruments, including:

- ☑ syndicated issues
- ☑ floating rate notes
- ☑ Ontario Savings Bonds
- ☑ real return bonds.



**2009–10 Borrowing Program:
Province and Ontario Electricity Financial Corporation
(\$ Billions)**

Table 1

	Fall Outlook	Interim	In-Year Change
Deficit	24.7	21.3	(3.4)
Investment in Capital Assets	9.5	8.5	(1.0)
Non-Cash Adjustments	0.5	(0.6)	(1.1)
Net Loans/Investments	1.6	1.3	(0.3)
Debt Maturities	14.7	14.6	(0.1)
Debt Redemptions	0.4	0.4	–
Total Funding Requirement	51.5	45.5	(6.0)
Canada Pension Plan Borrowing	(1.1)	(1.1)	–
Decrease/(Increase) in Short-Term Borrowing	(7.8)	(6.0)	1.8
Increase/(Decrease) in Cash and Cash Equivalents	–	5.5	5.5
Total Long-Term Public Borrowing	42.6	43.8	1.2

Note: Numbers may not add due to rounding.

The total funding requirement for 2009–10 has declined by \$6 billion since the Fall 2009 *Ontario Economic Outlook and Fiscal Review*, primarily due to the decline in the projected deficit. This has allowed the Province to increase its cash balance, which will provide greater flexibility in meeting its funding requirement for 2010–11.

Interest on debt (IOD) expense, at \$8,930 million, is \$476 million lower than forecast in the Fall 2009 *Ontario Economic Outlook and Fiscal Review*. This reduction in IOD reflects the impact of lower-than-forecast interest rates on floating rate debt, more financing at shorter-term maturities, and a lower deficit than forecast in the Fall 2009 *Ontario Economic Outlook and Fiscal Review*.

Medium-Term Borrowing Outlook:**Table 2****Province and Ontario Electricity Financial Corporation****(\$ Billions)**

	2010–11	2011–12	2012–13
Deficit	19.7	17.3	15.9
Investment in Capital Assets	9.8	10.6	10.4
Non-Cash Adjustments	(1.7)	(3.0)	(2.8)
Net Loans/Investments	1.9	1.8	1.0
Debt Maturities	15.6	14.0	17.3
Debt Redemptions	0.4	0.4	0.5
Total Funding Requirement	45.6	41.1	42.2
Canada Pension Plan Borrowing	(0.8)	(1.1)	(0.8)
Decrease/(Increase) in Short-Term Borrowing	(1.6)	(1.2)	(1.2)
Increase/(Decrease) in Cash and Cash Equivalents	(3.5)	–	–
Total Long-Term Public Borrowing	39.7	38.8	40.2

Note: Numbers may not add due to rounding.

The 2010–11 borrowing requirements are primarily the result of the deficit, investments in capital assets and the refinancing of debt maturities. To meet the borrowing requirements, Ontario will continue to be flexible, monitoring domestic and international markets, issuing bonds in different terms and currencies, and responding to investor preferences. Diversification of borrowing sources will continue to be a primary objective in 2010–11. Depending on market conditions, the Province plans to borrow at least 50 per cent in the domestic market.

For fiscal years 2009–10 to 2011–12, the Province's total funding requirement has declined by a cumulative \$8.7 billion from the forecasts included in the Fall 2009 *Ontario Economic Outlook and Fiscal Review*. This decrease is primarily due to lower-than-forecast deficits in these years.

The government will seek approval from the legislature for borrowing authority to meet the Province's requirements.

DEBT

Total debt, which represents all borrowing without offsetting financial assets, is projected to be \$212.4 billion as at March 31, 2010, compared to \$176.9 billion as at March 31, 2009.

Ontario's net debt is the difference between total liabilities and total financial assets. Starting in 2009–10, the broader public sector's (BPS) net debt is included in the Province's net debt because of the adoption of a revised presentation of BPS revenues, expenses, assets and liabilities in the Province's consolidated financial reports. Broader public-sector organizations include hospitals, school boards and colleges. To be consistent with the presentation used in 2009–10, net debt has been restated for prior years to 2005–06.

Until 2009–10, the Province's net debt excluded net debt of hospitals, school boards and colleges, which was previously included in the Province's net assets of BPS organizations in the Province's consolidated financial statements (see the *Addendum to the 2010 Ontario Budget: Ontario's Plan to Enhance Accountability, Transparency and Financial Management* for further details on changes in the Province's financial presentation of BPS organizations). This change does not impact the Province's annual surplus/deficit results or accumulated deficit.

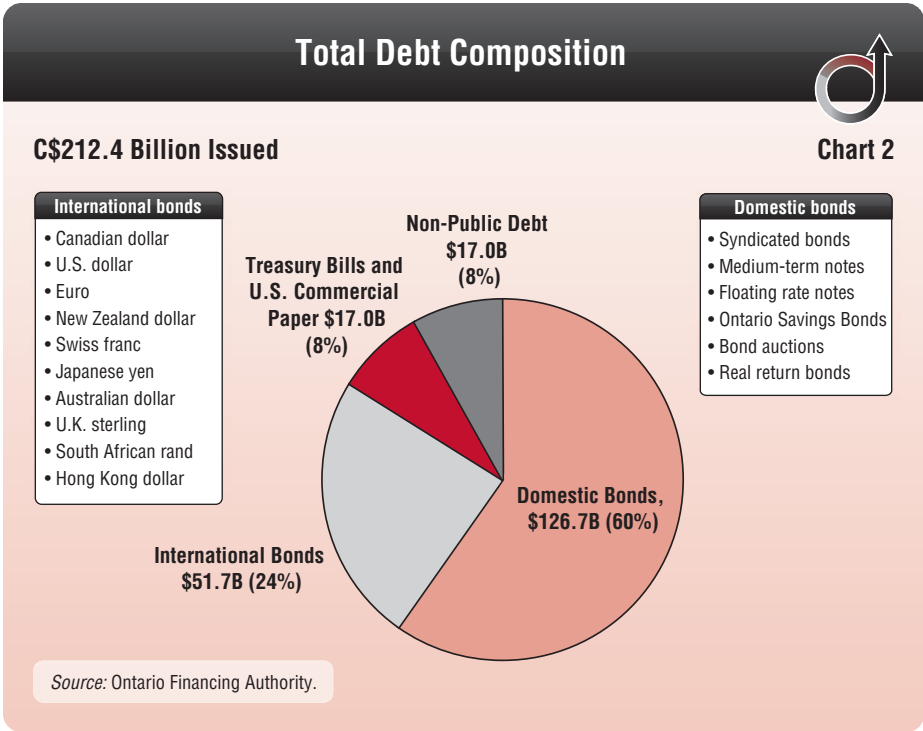
Ontario's net debt is projected to be \$193.2 billion as at March 31, 2010. This figure includes BPS net debt of \$11.6 billion. As at March 31, 2009, net debt was \$165.9 billion, including \$10.6 billion related to the BPS.

Interim 2009–10 results for the Ontario Electricity Financial Corporation (OEFC) show a projected excess of revenue over expense of about \$1.4 billion, reducing the Corporation's unfunded liability (or "stranded debt of the electricity sector") from \$16.2 billion as at March 31, 2009 to \$14.8 billion as at March 31, 2010. Projected 2010–11 OEFC results are an excess of revenue over expense of about \$1.0 billion, which would reduce the unfunded liability to \$13.8 billion as at March 31, 2011.

TOTAL DEBT COMPOSITION

Total debt consists of bonds issued in the public capital markets, non-public debt, treasury bills and U.S. commercial paper.

Public debt totals \$195.4 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 10 currencies. Ontario also has \$17.0 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt consists of debt instruments issued to public-sector pension funds in Ontario and the Canada Pension Plan Investment Board (CPPIB). This debt is not marketable and cannot be traded.

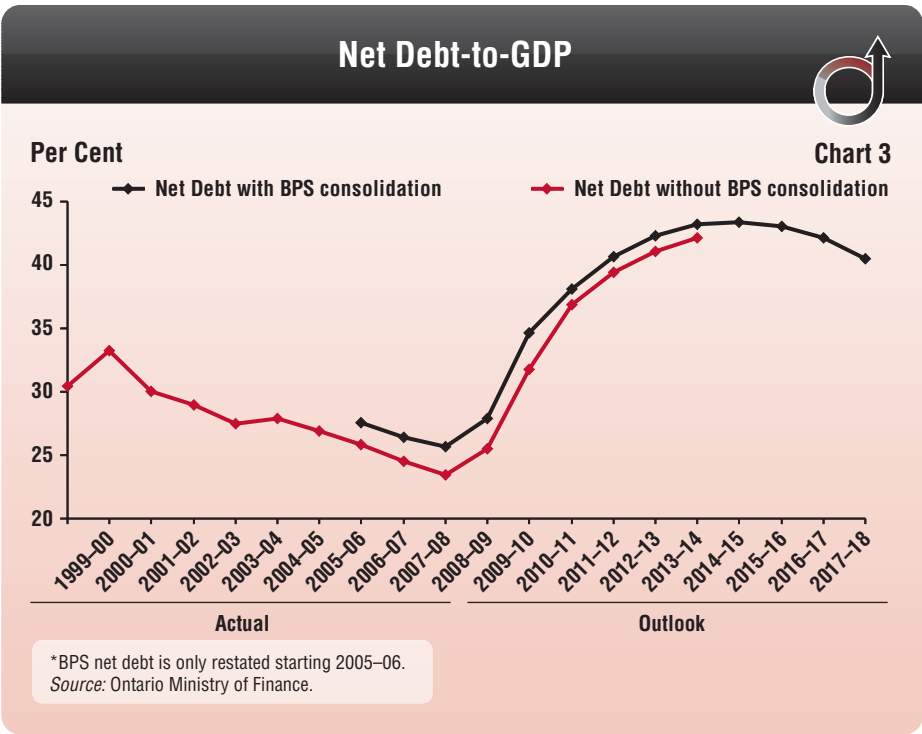


DEBT-TO-GDP RATIOS

The Province’s debt-to-GDP ratios are expected to increase due to the projected deficits. The ratios stabilize and begin to decline during the period of the recovery plan to balance the budget.

This year, because of changes to the Province’s financial presentation of BPS organizations, the Province’s net debt-to-GDP ratio is shown with and without BPS net debt of hospitals, school boards and colleges for comparison purposes to 2013–14.

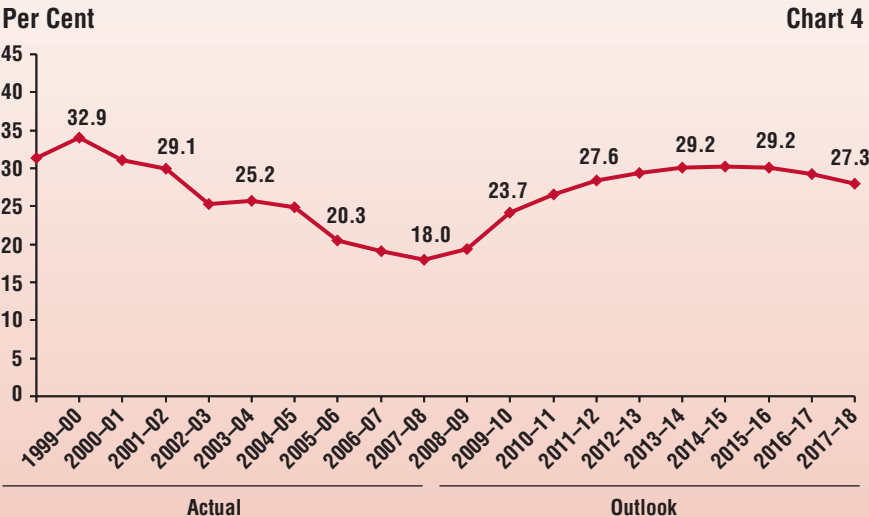
Going forward, only the Province’s net debt, including BPS net debt, will be illustrated.



Accumulated Deficit-to-GDP

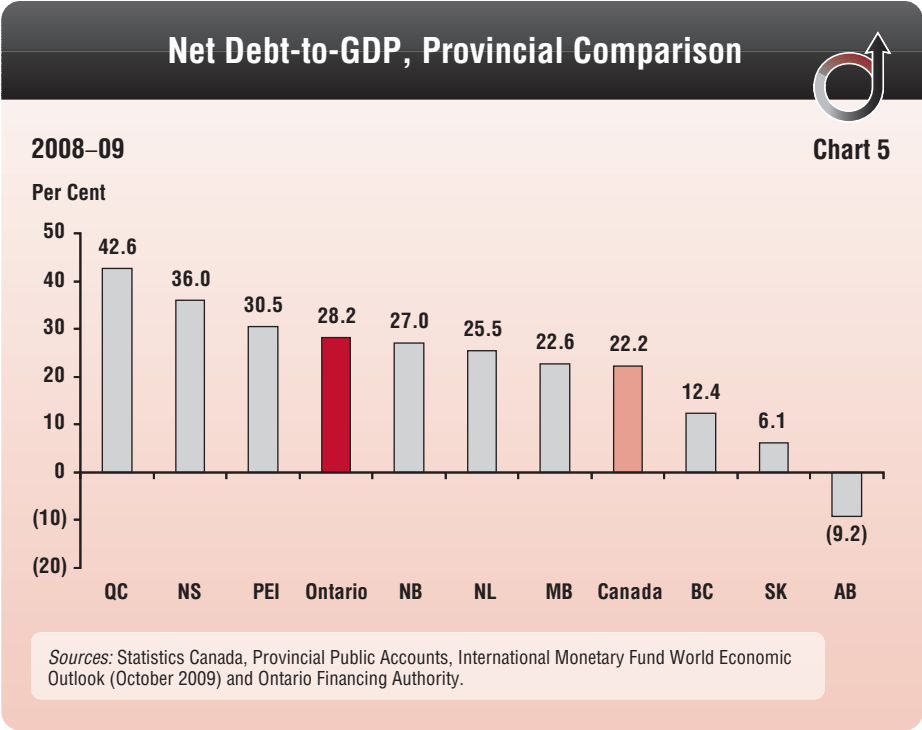


Chart 4

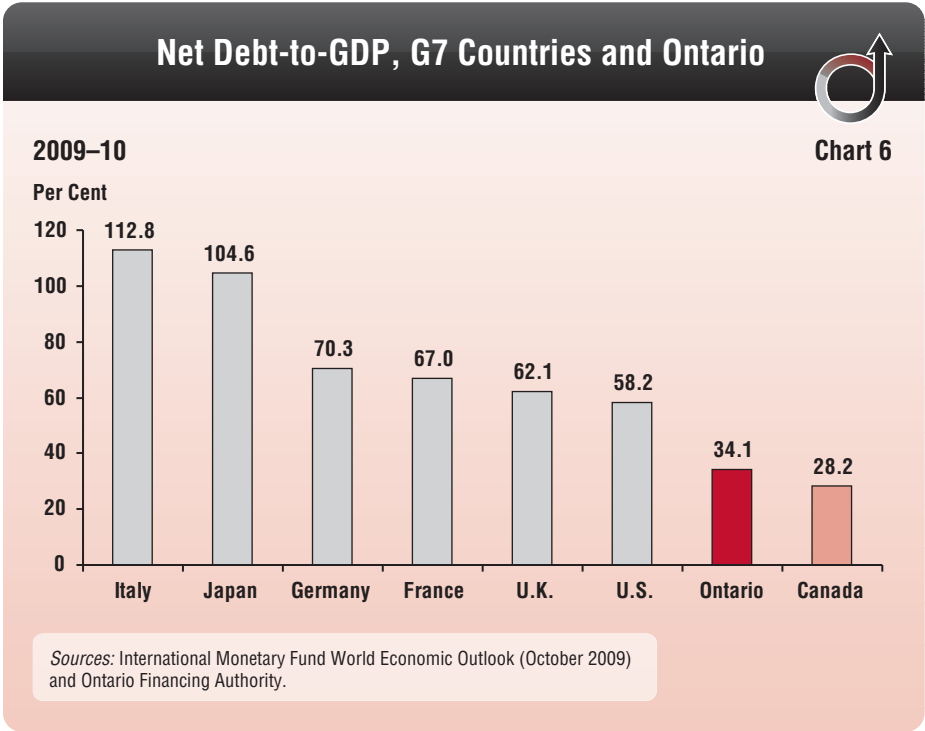


Source: Ontario Ministry of Finance.

In 2008–09, the most recent year for which data are available for all provinces, Ontario’s net debt-to-GDP level was near the median for the provinces.



In 2009–10, Canada’s and Ontario’s net debt-to-GDP ratios were well below those of G7 countries.

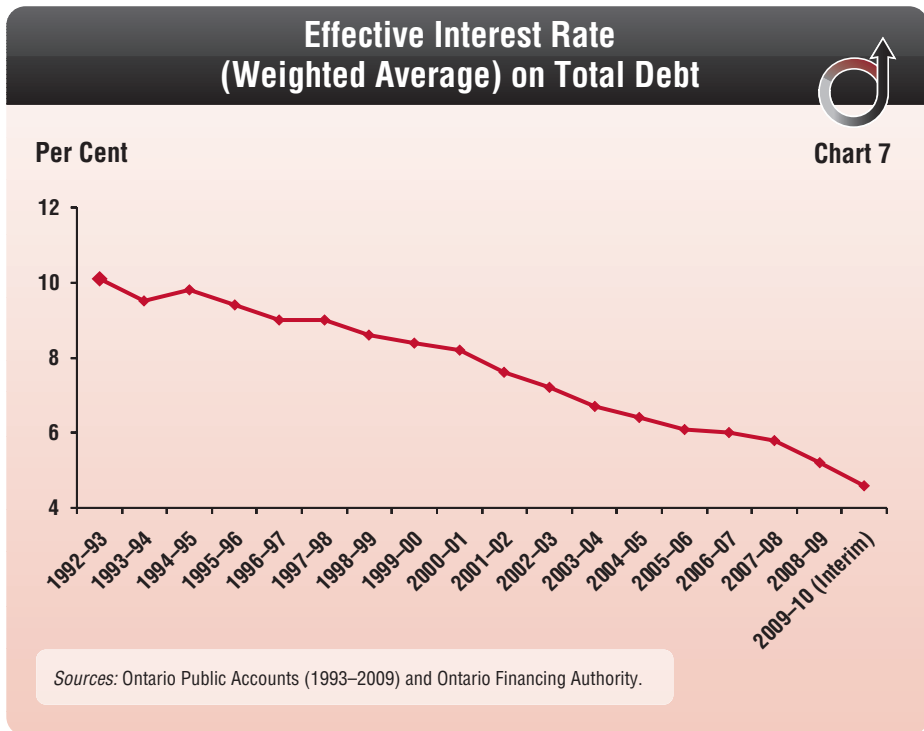


COST OF DEBT

The effective interest rate (on a weighted-average basis) on total debt is estimated to be 4.57 per cent as at March 31, 2010 (March 31, 2009, 5.17 per cent). For comparison, as at March 31, 1993, the effective interest rate on total debt was 10.14 per cent. The effective interest rate on public debt is estimated to be 4.32 per cent as at March 31, 2010 (March 31, 2009, 4.83 per cent).

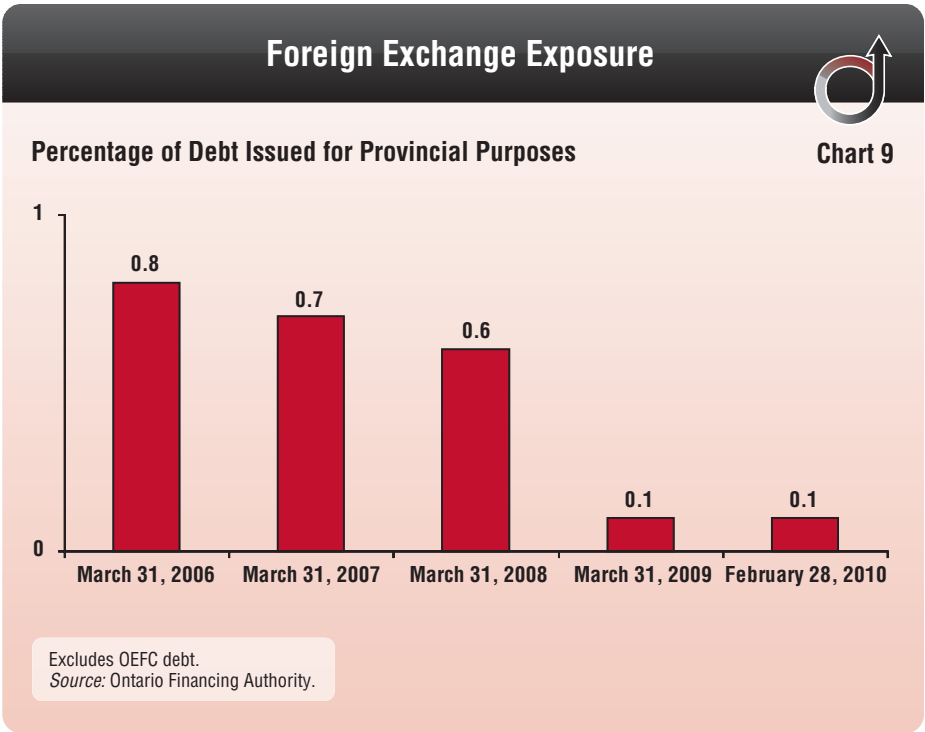
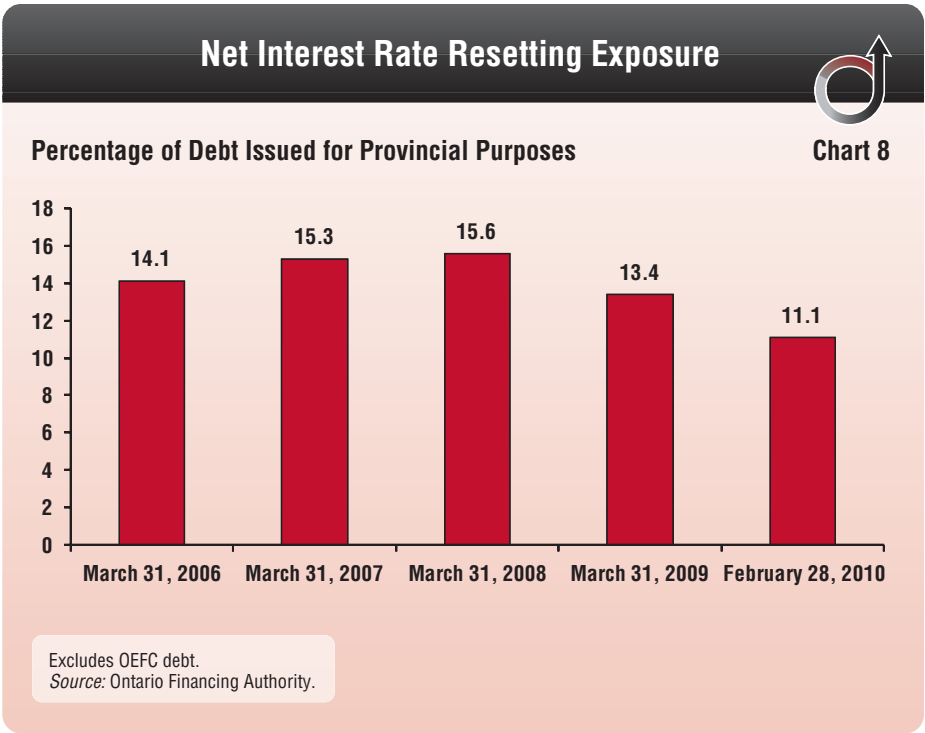
The effective interest rate on non-public debt is estimated to be 7.38 per cent as at March 31, 2010 (March 31, 2009, 8.05 per cent).

For 2010–11, the impact of a one per cent increase in interest rates would be an estimated additional \$480 million in interest cost for the Province.



RISK EXPOSURE

The Province 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 at February 28, 2010, the net interest-rate resetting exposure was 11.1 per cent and foreign-exchange exposure was 0.1 per cent. All exposures remained well below policy limits in 2009–10.



CONSOLIDATED FINANCIAL TABLES

Net Debt and Accumulated Deficit Interim 2010 (\$ Millions)

Table 3

	2005-06	2006-07	2007-08	2008-09	Interim 2009-10	Plan 2010-11
Debt ¹						
Publicly Held Debt						
Bonds ²	123,129	128,666	134,362	145,398	176,020	201,702
Treasury Bills	5,215	4,249	5,092	9,044	13,616	15,216
U.S. Commercial Paper ²	706	254	644	2,006	3,471	3,471
Infrastructure Ontario (IO) ³	1,323	1,262	1,632	1,695	1,890	1,890
Other	387	—	—	68	296	294
	130,760	134,431	141,730	158,211	195,293	222,573
Non-Public Debt						
Canada Pension Plan Investment Board	10,233	10,233	10,233	10,233	10,233	10,233
Ontario Teachers' Pension Fund	7,596	6,411	4,466	3,001	1,765	1,205
Public Service Pension Fund	2,705	2,502	2,260	1,991	1,713	1,403
Ontario Public Service Employees' Union Pension Fund (OPSEU)	1,285	1,188	1,074	946	814	667
Canada Mortgage and Housing Corporation	960	914	863	811	755	696
Other ⁴	1,367	1,314	1,430	1,632	1,702	1,541
	24,146	22,562	20,326	18,614	16,982	15,745
	154,906	156,993	162,056	176,825	212,275	238,318
Unrealized Foreign Exchange Gains	426	318	161	90	112	94
Total Debt	155,332	157,311	162,217	176,915	212,387	238,412

Net Debt and Accumulated Deficit (cont'd)
Interim 2010
(\$ Millions)

Table 3

	2005-06	2006-07	2007-08	2008-09	Interim 2009-10	Plan 2010-11
Total Debt	155,332	157,311	162,217	176,915	212,387	238,412
Cash and Temporary Investments ⁵	(7,426)	(6,622)	(8,144)	(11,878)	(17,492)	(13,848)
Total Debt Net of Cash and Temporary Investments	147,906	150,689	154,073	165,037	194,895	224,564
Other Net (Assets)/Liabilities ⁵	(5,852)	(8,581)	(10,365)	(9,735)	(13,223)	(15,484)
Broader Public Sector (BPS) Net Debt ⁶	7,874	8,510	9,480	10,562	11,554	10,911
Net Debt⁷	149,928	150,618	153,188	165,864	193,226	219,991
Non-Financial Assets ⁸	(40,773)	(43,842)	(47,571)	(52,626)	(58,658)	(65,733)
Accumulated Deficit	109,155	106,776	105,617	113,238	134,568	154,258

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 2009-10 debt is composed of Infrastructure Renewal Bonds (\$1,250 million) and short-term commercial paper (\$640 million). IO's debt is not guaranteed by the Province.

⁴ Other non-public debt includes Ontario Immigrant Investor Corporation, Ontario Municipal Employees Retirement Fund, College of Applied Arts and Technology Pension Plan, Ryerson Retirement Pension Plan and indirect debt of school boards (the indirect debt of school boards was incurred in June 2003 to permanently refinance the debt of 55 school boards).

⁵ Other Net (Assets)/Liabilities include accounts receivable, loans receivable, advances and investments in government business enterprises, accounts payable, accrued liabilities, pensions and the liability for power purchase agreements with non-utility generators. Prior periods have been restated to reflect elimination of intercompany balances on consolidation of BPS starting in 2009-10.

⁶ BPS Net Debt includes cash, temporary investments, accounts receivable, loans receivable, other long-term financing, loans payable, accounts payable, accrued liabilities, pensions and other employee future benefits and liability.

⁷ Starting in 2009-10, net debt includes the net debt of hospitals, school boards and colleges (BPS) consistent with changes in accounting standards. For comparative purposes, net debt has been restated from 2005-06 to 2008-09 to conform with this revised presentation.

⁸ Starting in fiscal year 2009-10, this line item now includes the tangible capital assets of BPS and is net of deferred capital contributions. Fiscal years 2005-06 to 2008-09 have been restated to conform with this presentation.

Source: Ontario Ministry of Finance.

Debt Maturity Schedule
Interim 2010
 (\$ Millions)
Table 4

	Currency					Interim	2008–09
	Canadian Dollar	U.S. Dollar	Japanese Yen	Euro	Other Currencies ¹	2009–10 Total	Total
Fiscal Year Payable							
Year 1	26,924	6,832	–	–	252	34,008	25,382
Year 2	8,771	4,664	–	–	47	13,482	16,394
Year 3	7,255	9,564	–	–	550	17,369	13,742
Year 4	15,250	1,010	165	2,343	576	19,344	11,975
Year 5	11,832	9,142	59	–	717	21,750	16,938
1–5 years	70,032	31,212	224	2,343	2,142	105,953	84,431
6–10 years	23,201	5,483	96	5,288	2,794	36,862	27,101
11–15 years	12,142	–	–	–	–	12,142	11,097
16–20 years	15,602	–	–	–	–	15,602	16,658
21–25 years	9,626	–	–	–	–	9,626	8,816
26–45 years ²	32,090	–	–	–	–	32,090	28,722
Unamortized Foreign Exchange Gains	–	71	(1)	44	(2)	112	90
Total³	162,693	36,766	319	7,675	4,934	212,387	176,915
Debt Issued for Provincial Purposes	139,195	34,285	319	7,496	3,713	185,008	149,247
OEFC Debt	23,498	2,481	–	179	1,221	27,379	27,668
Total	162,693	36,766	319	7,675	4,934	212,387	176,915

¹ Other currencies includes Australian dollar, New Zealand dollar, U.K. sterling, Swiss franc, Hong Kong dollar and South African rand.

² The longest term to maturity is to June 2, 2054.

³ Total foreign currency denominated debt (before unrealized foreign exchange gains) as at March 31, 2010, is projected to be \$49.7 billion (2009, \$31.5 billion). Of that, \$49.2 billion or 99.0 per cent (2009, \$31.2 billion or 99.1 per cent) was fully hedged to Canadian dollars.

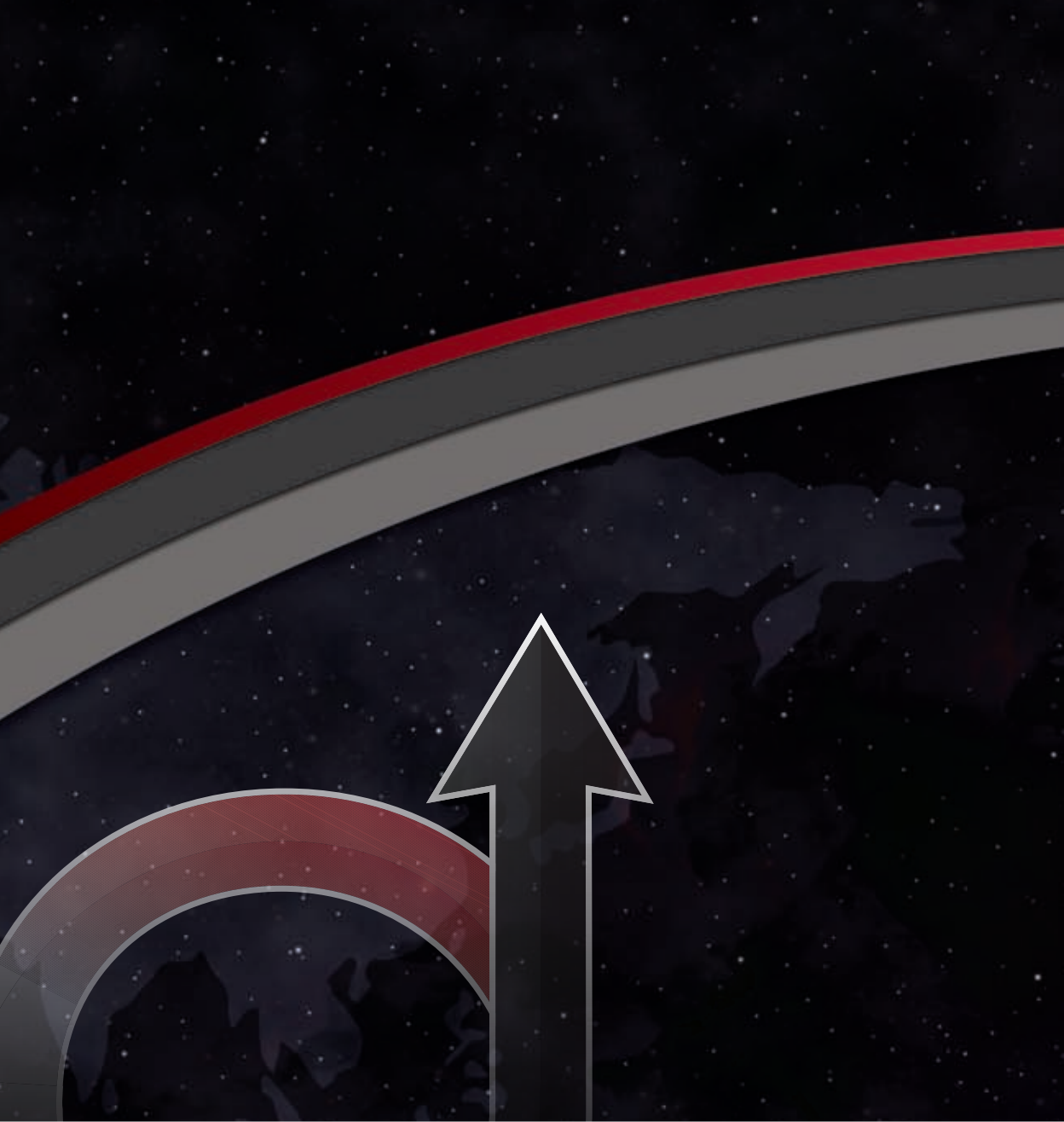
Medium-Term Outlook		Table 5	
Net Debt and Accumulated Deficit			
(\$ Billions)			
	2011–12	2012–13	
Total Debt	265.1	289.3	
Cash and Temporary Investments	(13.8)	(13.8)	
Total Debt Net of Cash and Temporary Investments	251.3	275.6	
Other Net (Assets)/Liabilities	(17.6)	(19.2)	
Broader Public Sector (BPS) Net Debt	11.4	11.4	
Net Debt	245.0	267.8	
Non-Financial Assets	(73.5)	(80.3)	
Accumulated Deficit	171.6	187.5	
<i>Note: Numbers may not add due to rounding.</i>			

Derivative Portfolio Notional Value
Interim 2010
 (\$ Millions)

Table 6

Maturity in Fiscal Year	2010-11	2011-12	2012-13	2013-14	2014-15	6-10 Years	Over 10 Years	Interim 2009-10 Total	2008-09 Total
Swaps:									
Interest rate	9,472	10,763	12,491	6,596	24,112	22,772	6,274	92,480	74,207
Cross currency	5,877	3,992	10,396	6,068	7,602	15,692	—	49,627	31,847
Forward foreign exchange contracts	3,510	—	—	—	—	—	—	3,510	8,881
Caps and floors	—	—	—	—	—	—	—	—	88
Total	18,859	14,755	22,887	12,664	31,714	38,464	6,274	145,617	115,023

The table above presents the maturity schedule of the Province's derivatives by type, interim as at March 31, 2010, 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. The Province uses derivatives to hedge and to minimize interest costs. Hedges are created primarily through swaps. Swaps allow the Province to offset existing obligations, effectively converting them into obligations with more desirable characteristics.



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