2003
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Ontario

Ontario Budget

THE RIGHT CHOICES:
Securing our Future

The Honourable Janet Ecker
Minister of Finance

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Paper A

Strong Economic Growth Continues: Ontario's Economic and Revenue Outlook

Overview: Ontario's Plan for Jobs and Growth

In 1995, the Ontario Government set a target of creating 725,000 net new jobs over the next five years.

In July 2000, that goal was surpassed.

By 2002, the Ontario economy had added over a million new jobs and was well on the road to achieving the second target of 825,000 additional jobs set in 1999.

Ontario's plan has laid the foundation for continued job creation and economic growth.

The province's economy rebounded strongly in 2002, growing by an estimated 3.8 per cent, more than two and a half times the rate of the previous year. However, the pace of growth slowed towards the end of last year, reflecting a marked slowdown of the U.S. economy, higher oil prices and the uncertainty stemming from the conflict with Iraq. Nevertheless, private-sector forecasters expect the Ontario economy to continue to grow. Our planning projection is real GDP growth of 3.0 per cent in 2003 and 3.6 per cent in 2004.

Global political and economic uncertainties continue to represent the major risk to Ontario's outlook. Protracted military conflict or an extended period of high world oil prices would affect Ontario adversely. However, sound economic and fiscal policies, a flexible labour force and a resilient business community will help us to weather adverse developments on the world stage. The tax reductions and responsible fiscal policies implemented since 1995 have reinforced strong economic fundamentals, boosting incentives for investment and job creation. This has helped Ontario sustain economic growth in uncertain times, as demonstrated by our experience in 2001, when the Ontario economy grew by 1.5 per cent even as the United States slipped into recession.

In this environment, revenues are projected to rise in 2003-04 to $71,566 million.

Ontario Economic Assumptions at a Glance (Annual Average)	2001	2002	2003	2004
Real GDP Growth (Per Cent)	1.5	3.8	3.0	3.6
Nominal GDP Growth (Per Cent)	2.4	5.1	5.2	5.5
Employment (Thousands)	5,963	6,068	Up to 6,280	Up to 6,500
Unemployment Rate (Per Cent)	6.3	7.1	6.3-6.5	5.5-6.0
CPI Inflation (Per Cent)	3.1	2.0	3.0	2.0

Sources: Statistics Canada and Ontario Ministry of Finance.

In keeping with Ontario's policy of prudent forecasting, the Budget's economic planning assumptions are below the current private-sector consensus.

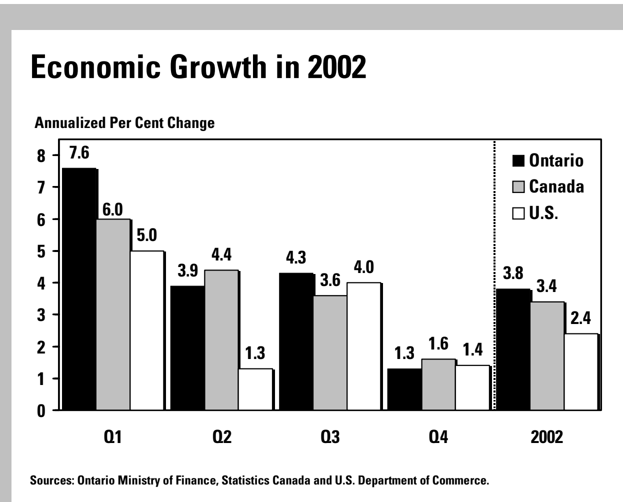
Economic Growth Assumptions (Per Cent)	2003	2004
Ontario Real GDP Growth		
Private-sector survey average	3.1	3.8
Ontario's Planning Projection	3.0	3.6

Sources: Ontario Ministry of Finance and Ontario Finance Survey of Forecasts (March 2003).

Growth Continued in the Fourth Quarter, 2002

Ontario Economic Accounts: 2002—Fourth Quarter Highlights

- The Ontario economy closed out 2002 by growing at a 1.3 per cent annualized pace in the fourth quarter after averaging 5.2 per cent over the first three quarters of the year.
- For 2002 as a whole, Ontario economic growth accelerated to a 3.8 per cent rate after slowing to 1.5 per cent in 2001. The Ontario economy has now grown by a faster rate than the nation as a whole for the past six years.
- Final domestic demand supported overall growth in the fourth quarter by rising at an annual rate of 4.7 per cent. In particular, Ontario consumer spending showed considerable resilience, advancing by almost 5.8 per cent. Ontario net exports softened in the fourth quarter as U.S. demand was noticeably weaker.
- Nominal Ontario GDP grew by an annualized 5.5 per cent in the fourth quarter of 2002, while the overall GDP price deflator advanced by 4.2 per cent.



Ontario Economic Accounts: Highlights (Per Cent Change from Previous Period at Annual Rates)

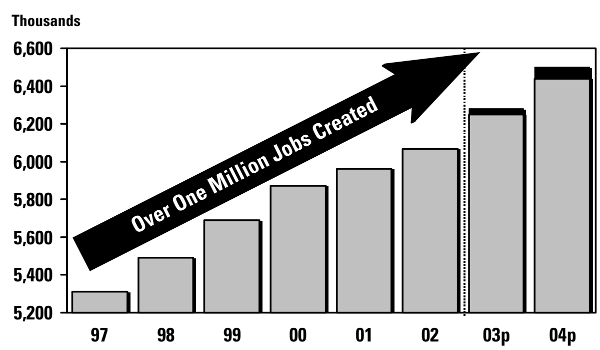
	2001	2002	2002:1	2002:2	2002:3	2002:4
Real GDP ($ 1997)	1.5	3.8	7.6	3.9	4.3	1.3
Nominal GDP ($ Current)	2.4	5.1	10.5	9.8	5.8	5.5
GDP Price Deflator	0.9	1.3	2.7	5.7	1.5	4.2

Ontario's Plan Creates over One Million Jobs

Strong job creation is the outcome of a healthy economy, and Ontario's job creation record has been remarkable. A total of 1,088,400 net new jobs have been created since September 1995, more than 80 per cent of them full-time jobs. Ontario accounted for over half of the private-sector job creation in Canada over this period. Employment growth raises incomes, lifts confidence and encourages consumer spending. This has been Ontario's continuing experience since 1995.

- Ontario's pace of job creation has accelerated in 2003 with almost 54,000 jobs added in the first two months of the year.
- Over the last 12 months, Ontario has created 228,000 jobs. Ontario's job gains have been broadly based, led by the finance, insurance and real estate sector; health care and social services; trade; professional, scientific and technical services; and manufacturing.
- The employment created in Ontario since 1995 has been largely in full-time jobs in high-paying industries. Close to 90 per cent of net new jobs have gone to people with post-secondary education.

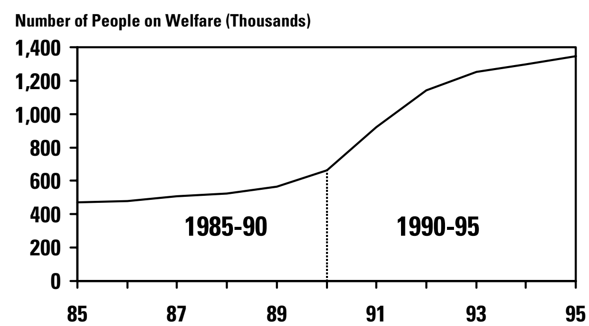
Ontario Employment*: 1997-2004



*Average annual employment level.
p = projection. Black area shows projection range.
Sources: Statistics Canada and Ontario Ministry of Finance.

- Ontario employment is expected to increase by 3.0 to 3.5 per cent in both 2003 and 2004.
- The province's vibrant job performance has attracted more Ontarians into the labour market. The participation rate—the proportion of the adult population that is in the labour force—has risen steadily since September 1995, and its current level of 68.6 per cent is an 11-year high. This reflects Ontarians' confidence that jobs are readily available.
- Even with rising labour force participation, the annual unemployment rate is projected to decline from 7.1 per cent in 2002 to as low as 6.3 per cent in 2003 and 5.5 per cent in 2004.

Ontario’s Plan Reduces Welfare Dependence

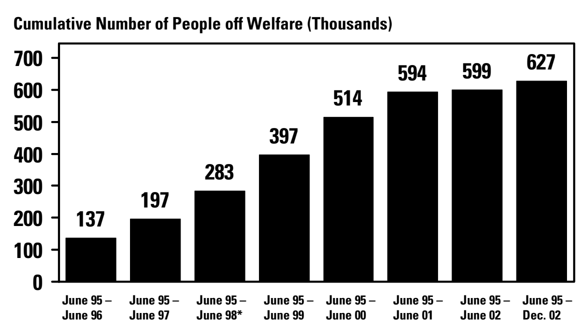


Welfare Dependence Grew, 1985-95*

* June 1985 to June 1995
Source: Ontario Ministry of Community, Family and Children’s Services.

Ontario’s success in lowering the welfare caseload since 1995 is in sharp contrast to the experience in the 1980s when the caseload grew even as the economy generated jobs and reduced unemployment. Between June 1985 and June 1990, the number of welfare beneficiaries increased by almost 200,000. By June 1995, over 1.3 million adults and children were relying on welfare.

Strong job growth, coupled with welfare reforms, has driven Ontario’s success in lowering welfare dependence every year since 1995. Ontario’s strong job creation record since 1995 has provided employment opportunities for everyone, including welfare recipients. As of December 2002, 627,000 fewer adults and children were on the Provincial welfare rolls.



Exit from Welfare Continues, 1995-2002

*As of June 1998, people with disabilities are not counted in welfare data.
Source: Ontario Ministry of Community, Family and Children’s Services.

Welfare reforms have encouraged self-reliance by breaking through barriers that fostered dependence. Ontario Works, the Province’s mandatory work-for-welfare program, requires recipients to upgrade their education, get job training and gain valuable work experience. At the same time, the welfare system remains a safety net for those who truly need it.

Ontario's Plan Supports Balanced Private-Sector Job Growth

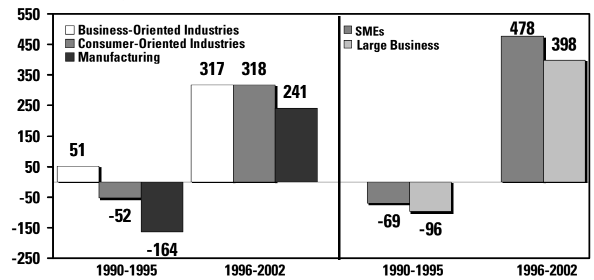
Ontario's policies promote a business climate that stimulates new investment and job creation by businesses of all sizes. The Ontario Government's approach has helped the economy recover quickly from the 2001 slowdown and post strong growth in 2002. Tax cuts, support for innovation, regulatory reform and strategic investments have encouraged private-sector businesses to maintain a strong pace of job growth.

- Industries across the private sector contributed significantly to Ontario's job growth during the 1996 to 2002 period, including business-oriented industries such as professional services and wholesaling (+317,000 jobs); consumer-oriented industries such as retailing and personal services (+318,000 jobs); and manufacturing industries (+241,000 jobs).
- Businesses of all sizes have contributed to job creation. Small and medium-sized enterprises (businesses with fewer than 500 employees, including self-employed individuals) led with 478,000 jobs in the 1996 to 2002 period—accounting for more than half of private-sector job creation. Large businesses (500 or more employees) created 398,000 net new jobs during the period.

Ontario's manufacturing sector continues to outperform its competitors in other jurisdictions, creating 241,000 net new jobs in the 1996 to 2002 period—more than any other province or U.S. state.

Enhanced Private-Sector Job Growth in Ontario

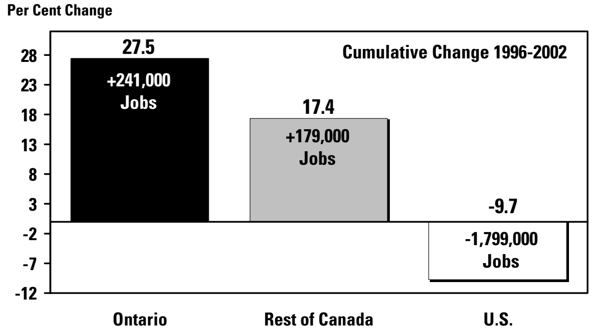
Cumulative Change in Net New Private-Sector Jobs in Ontario (Thousands)



Business-oriented industries include financial, professional, management and other business services, communications, transportation, wholesaling, utilities and resource industries; consumer-oriented industries include retailing, personal services, entertainment and construction.
SMEs defined as businesses with fewer than 500 employees, including self-employed individuals; large business defined as businesses with 500 or more employees.
Annual average data.
Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario Leads North America in Manufacturing Job Growth

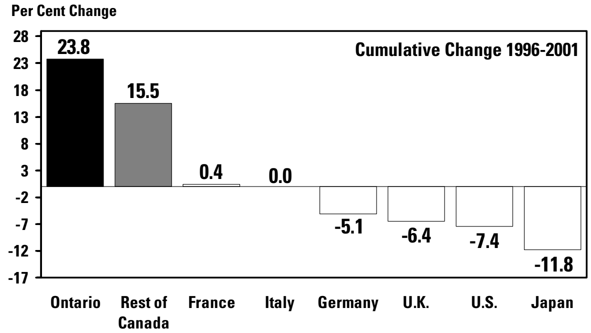
Per Cent Change



Sources: Statistics Canada, U.S. Bureau of Labor Statistics and Ontario Ministry of Finance.

- In comparison, all of the G-7 countries except Canada and France lost manufacturing jobs during the 1996 to 2001 period.
- Ontario has a highly competitive and diverse manufacturing sector. Manufacturing job growth over the 1996 to 2002 period was widespread across industries, including auto parts (+51,000 jobs); computers and electronic equipment (+29,000 jobs); machinery (+24,000 jobs); furniture (+22,000 jobs); rubber and plastics (+22,000 jobs); and fabricated metal (+21,000 jobs).

Ontario Leads G-7 in Manufacturing Job Growth

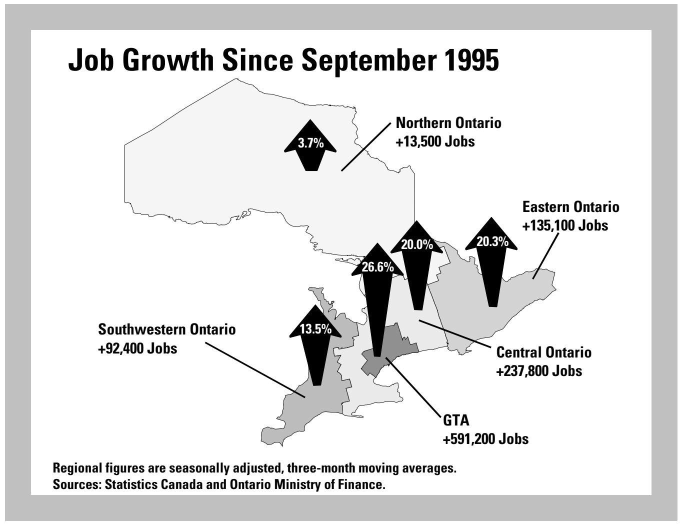


Sources: Statistics Canada, OECD and Ontario Ministry of Finance.

- In 2002, Ontario manufacturing continued to lead all provinces and U.S. states, creating 32,000 net new jobs—30 per cent of Ontario's total employment growth.

Ontario's Plan Leads to Job Growth across the Province

Since September 1995, all parts of Ontario have benefited from the province's strong job growth.

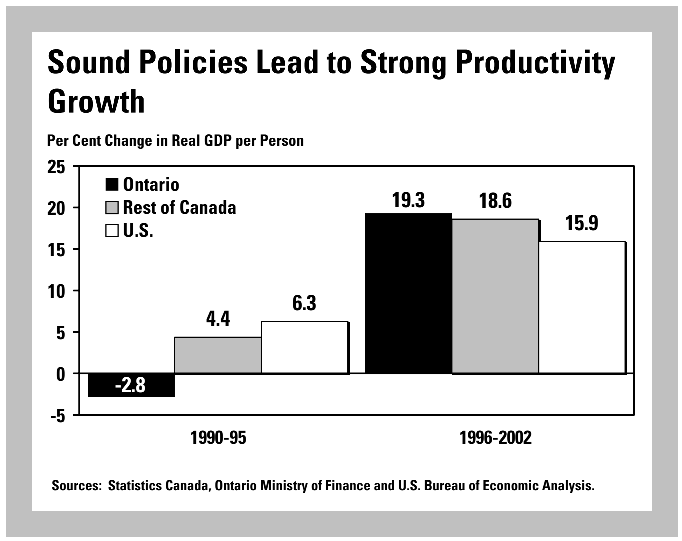


- Over the past 12 months alone, employment has increased by 93,800 net new jobs in the GTA, 60,400 in Central Ontario, 23,400 in Eastern Ontario, 20,700 in Southwestern Ontario and 11,500 in Northern Ontario.
- Strong job growth has lowered unemployment rates in all parts of the province. From September 1995 to February 2003, unemployment rates have decreased in Northern Ontario from 10.9 to 7.1 per cent, Eastern Ontario from 10.7 to 7.4 per cent, Central Ontario from 8.4 to 6.0 per cent, the GTA from 8.6 to 7.1 per cent and Southwestern Ontario from 7.4 to 6.7 per cent.

Ontario’s Plan Provides a Solid Foundation for Economic Growth

The Ontario Government has created an environment that supports economic growth. Reducing taxes, balancing the budget, reducing Provincial debt, promoting fair and efficient financial markets, making strategic investments, fostering a culture of innovation and improving our regulatory environment to remove barriers to growth have contributed to healthy economic growth and rising living standards.

Higher productivity is the only enduring way to achieve a rising standard of living. The broadest measure of productivity is real gross domestic product (GDP) per capita. Since 1995, the growth rate of Ontario’s real GDP per capita has exceeded that of the rest of Canada, the United States and the average of industrialized countries. This productivity record, combined with stellar job creation over this period, demonstrates the benefits of pursuing policies that lower taxes and encourage investment.



Ontario’s economic policies, particularly tax cuts, have supported strong consumer spending, robust investment and an internationally competitive trade sector. Almost 85 per cent of the province’s real GDP growth during the last six years has come from Ontario’s domestic spending. The enhanced ability of Ontarians to spend and invest reduces the economy’s vulnerability to fluctuations in foreign demand and increases the capacity of the economy to sustain growth. This was demonstrated during the recent global economic slowdown. In 2001, when growth among the G-7 nations slowed to 0.7 per cent, Ontario was able to record a gain of 1.5 per cent in real output and add 91,000 new jobs.

Economic growth and productivity are also stimulated by a positive business climate, which makes Ontario an attractive location for investment. Today, capital is highly mobile globally and will go to where it feels most at home. Maintaining investor confidence in Ontario’s positive economic prospects remains an important goal, given geopolitical uncertainty and the shocks to confidence engendered by the collapse of Enron and other stock market developments.

Ontario is encouraging investment by enhancing investor confidence in the fairness and efficiency of Ontario's financial markets. The government is moving forward with measures ensuring high standards of investor protection, while maintaining efficient financial markets by lowering regulatory costs and improving access to capital. These important measures enhance the ability of Ontario's financial markets to enable economic growth through attracting global capital, financing investment and safeguarding consumer savings.

Ontario Is Enhancing Investor Confidence in Fair and Efficient Financial Markets

Measures contained in the *Keeping the Promise for a Strong Economy Act (Budget Measures), 2002,* will take effect April 7, 2003, including:

- New powers for the Ontario Securities Commission (OSC): to review information that public companies provide to investors; to hold CEOs and CFOs accountable for their company's financial statements; to make rules to ensure that audit committees of Boards of Directors play an appropriate role in ensuring the integrity of those financial statements; and to impose fines for securities violations and to order offenders to give up their ill-gotten gains.
- Stronger deterrents to wrongdoing: maximum court fines for general offences will rise to $5 million from $1 million and maximum prison terms will increase to five years less a day from two years.
- The government intends to propose minor technical changes, following which it will implement the rest of the Fall 2002 investor confidence initiatives, including broader rights for secondary market investors to sue, which would provide a strong deterrent to poor disclosure practices.

The government will be reviewing the need for governance standards for publicly traded trusts.

- It will also propose technical legislative changes that would clarify that investors in publicly traded trusts would not be liable for the activities of the trust.

The final report of the Minister of Finance's Five Year Securities Laws Review Committee will be referred to a legislative committee. The government intends to respond promptly to its recommendations.

Further co-operative action towards national securities regulation is essential for Canadian capital markets to remain internationally competitive and efficient. Ontario is playing a lead role with its provincial and federal counterparts in developing options to promote real progress for Canada by moving in this direction.

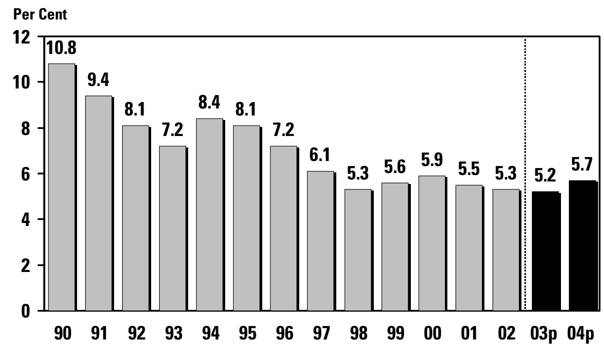
While ensuring that high standards of investor protection are maintained, Ontario is cutting regulatory costs and improving access to capital. Ontario is continuing to look for ways to make it easier for Ontario companies to raise the capital they need to grow and create jobs.

- The government has approved a new OSC fee schedule that streamlines and reduces OSC fees so they better reflect the cost of regulation. The new fees, coming into force April 1, 2003, combined with two earlier 10 per cent across-the-board fee cuts in 1999 and 2000 and the elimination of secondary market fees in 1997, will result in the securities industry saving well in excess of $40 million per year.
- In 2001, the government announced a simpler OSC regulatory framework for private placements. A new OSC study indicates that this has helped small companies raise $1.1 billion, triple the level of previous years.
- Access to capital by small and medium-sized businesses would improve as a result of the government's proposed enhancements to the Labour Sponsored Investment Fund (LSIF) and Community Small Business Investment Fund (CSBIF) programs.

Low Interest Rates and Moderate Inflation Support Growth

An economic environment characterized by moderate and stable inflation allows interest rates to remain at low levels. The Bank of Canada has raised interest rates by one percentage point since April 2002 to avoid overheating the economy. Furthermore, the Bank has signalled that additional interest rate increases will be necessary to keep inflation close to the centre of its one to three per cent target range over the medium term. The pace and timing of interest rate increases will depend on both demand conditions in Canada and how events in Iraq unfold. However, interest rates are expected to remain low by past standards, helping to sustain economic growth.

10-Year Government of Canada Bond Rate



p = projection.
Sources: Bank of Canada and Ontario Ministry of Finance.

Ontario's inflation is projected to average 3.0 per cent in 2003 and 2.0 per cent in 2004. Ontario's consumer price index (CPI) rose 4.4 per cent in February 2003 from a year earlier, reflecting higher oil and natural gas prices. Lower energy prices later this year are expected to bring inflation below the annual average rate of 3.0 per cent expected for the year as a whole.

- Since late 2001, oil and natural gas prices have risen substantially. Crude oil prices (using West Texas Intermediate as the benchmark) increased from $19 US a barrel in December 2001 to a recent peak of over $37 US in mid-March 2003. Heightened tensions in Iraq and supply disruptions in Venezuela contributed to the rise in oil prices. Prices dropped sharply as the attack on Iraq began and are likely to be volatile. On balance, private-sector forecasters expect oil prices to trend lower to near $25 US by early 2004.
- Natural gas prices (based on the Alberta reference price) increased from $2.71 per gigajoule in February 2002 to near $7 in March 2003. Natural gas prices are expected to fall to a range of $4 to $5 per gigajoule in 2004.

The following table shows the interest rate assumptions underlying the planning projection and the associated public debt interest costs.

Interest Rate Assumptions
(Average Per Cent)

	2002	2003 Jan-Mar	2003 Apr-Dec	2004
3-month Government of Canada treasury bills	2.6	2.9	3.5	4.6
10-year Government of Canada bonds	5.3	5.0	5.3	5.7

Sources: Bank of Canada and Ontario Ministry of Finance.

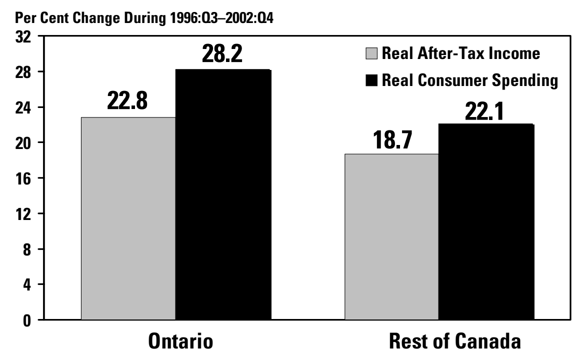
Low interest rates contribute to healthy economic growth through their positive impact on household and business finances. Business investment, housing demand and spending on durable goods such as autos and appliances are encouraged by low interest rates.

Ontario's Plan Supports Strong Consumer Spending

Healthy consumer spending has spurred economic growth over the last two years, supported by reduced taxes and low interest rates that have kept household debt servicing costs low. Rising employment and higher after-tax income are expected to sustain consumer spending during 2003 and 2004.

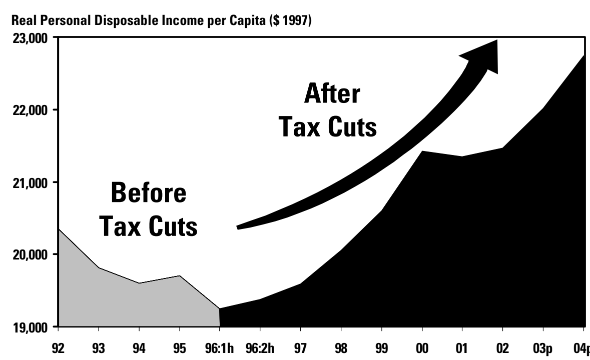
- From the second quarter of 1996, when Ontario income tax cuts began, Ontario real disposable income increased by 22.8 per cent, stronger than the 18.7 per cent pace for the rest of Canada.
- During the same period, Ontario real consumption increased by 28.2 per cent, ahead of the 22.1 per cent rise recorded in the rest of Canada.
- Real consumption rose 3.3 per cent in 2002, led by strong sales of furniture, appliances and autos.
- Real consumer spending growth is projected to be 3.4 per cent in 2003 and 3.5 per cent in 2004, supported by gains in real disposable income of 3.5 per cent in 2003 and 4.5 per cent in 2004.

Spending and Incomes Rising Faster in Ontario



Sources: Statistics Canada and Ontario Ministry of Finance.

Tax Cuts Boost Real Take-Home Pay



p = projection, h = half.
Sources: Statistics Canada and Ontario Ministry of Finance.

The healthy financial position of Ontario families will underpin sustained growth in consumer spending. Thanks to tax cuts and a growing economy, average family incomes are rising dramatically. Between 1995 and 2000, real average after-tax income of two-parent Ontario families with children rose from $57,600 to $68,700, an increase of 19 per cent. Single-parent families saw a 33 per cent increase in their real average after-tax income, from $26,500 in 1995 to $35,200 in 2000.

Although interest rates are expected to increase moderately, debt servicing costs as a share of income are anticipated to remain at a level that is low by historic standards. Canadian debt servicing costs, as a share of after-tax income, were 7.8 per cent in 2002, significantly lower than the peak of 9.4 per cent in the early 1990s.

Ontario's Plan Increases Home Ownership

Ontario's housing market is expected to remain buoyant. Underlying housing demand conditions are very favourable, reflecting strong population growth and rising incomes. Gains in after-tax income and low interest rates are keeping housing affordable for Ontario's growing population.

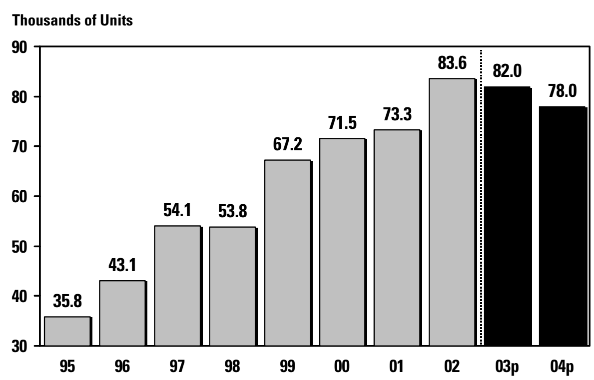
In 2001, almost 68 per cent or 2.9 million Ontario households owned their own home. Since 1996, about 340,000 more Ontario households have been able to purchase their own home. Over the 1996 to 2001 period, the increase in the rate of home ownership in Ontario has dramatically outpaced all other provinces, rising 3.5 percentage points, a testament to the relative strength of the Ontario economy.

Ontario's Land Transfer Tax Refund, introduced in 1996 by Premier Ernie Eves, then Minister of Finance, is encouraging first-time buyers of new homes. Since its introduction, the rebate has helped more than 124,000 Ontario families purchase their first home. Home building is an important source of job creation. It is estimated that each new home generates 2.8 person-years of employment so the rebate has contributed to almost 350,000 person-years of employment.

Ontario housing starts reached 83,600 units in 2002, the highest level in 13 years. Another 160,000 additional starts are expected over the next two years.

- Home ownership is affordable for a rising share of Ontario families. In 2002, the monthly carrying cost for an average-priced home was $1,119, down 25 per cent from the peak of $1,489 in 1990. Although mortgage rates are likely to rise modestly and house prices are expected to rise further, housing will remain affordable.
- Carrying costs as a share of average after-tax household income have fallen sharply, from a high of 35 per cent in 1990 to 22 per cent in 2002. The cost of home ownership relative to disposable income is expected to remain near this low level through 2004, encouraging continued housing market strength.

Ontario Housing Starts



p = projection.
Sources: Canada Mortgage and Housing Corporation and Ontario Ministry of Finance.

- Five-year mortgage lending rates in mid-March were posted at 6.6 per cent. Forecasters expect five-year mortgage rates to rise modestly, to an annual average of 7.7 per cent in 2004.

When the federal government provides more details about its recent $320 million enhancement to federal-provincial Affordable Housing Agreements, Ontario looks forward to exploring ways to help maximize new affordable housing construction in Ontario.

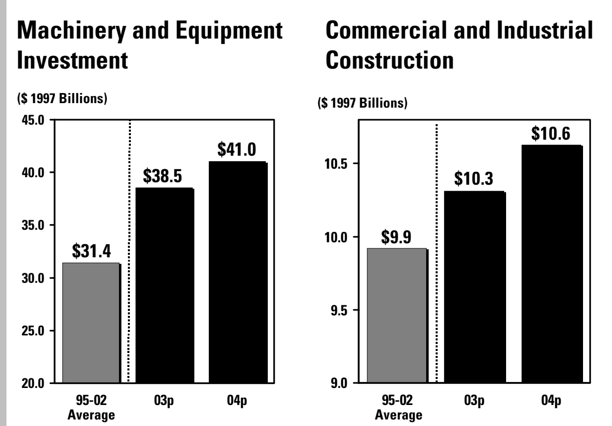
Ontario has introduced improvements to its existing rent supplement program, based on consultations with municipal and community-based organizations, and has committed to extending it to 2023. In 2003-04, this program will be renamed the New Tomorrow Rent Supplement Program, and $50 million annually will be spent to help about 8,000 households obtain affordable housing. While the average supplement is about $6,000, individual household supplements vary according to various factors including location and income.

Ontario's Plan Boosts Investment

When businesses invest, they enhance productivity and create jobs. Strong investment is essential for sustained vigorous economic growth and rising prosperity. If current geopolitical risks are resolved and business becomes more confident of the prospect for global economic growth, Ontario is well positioned for an acceleration of investment. Ontario's economic policies have fostered a healthy business climate. A highly educated workforce provides a strong labour base for the province's industries. Personal and corporate taxes have been lowered and barriers to investment eliminated. In addition, Ontario's central location and supportive infrastructure meet the needs of business in today's economy.

It is no coincidence that Ontario created over a million jobs while business spending on machinery and equipment rose nearly 83 per cent in real terms between 1995 and 2002. Real investment in commercial and industrial construction rose by 31 per cent over the same period. Healthy growth is expected to continue in 2003 and 2004.

- Rising profits will bolster business investment. Corporation profits, which began to recover in 2002, are expected to increase by 7.7 per cent in 2003 and an additional 12.5 per cent in 2004.
- Real business investment in machinery and equipment is expected to gain momentum, rising by 4.0 per cent in 2003 and 6.5 per cent in 2004, after an increase of 2.9 per cent in 2002.



p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

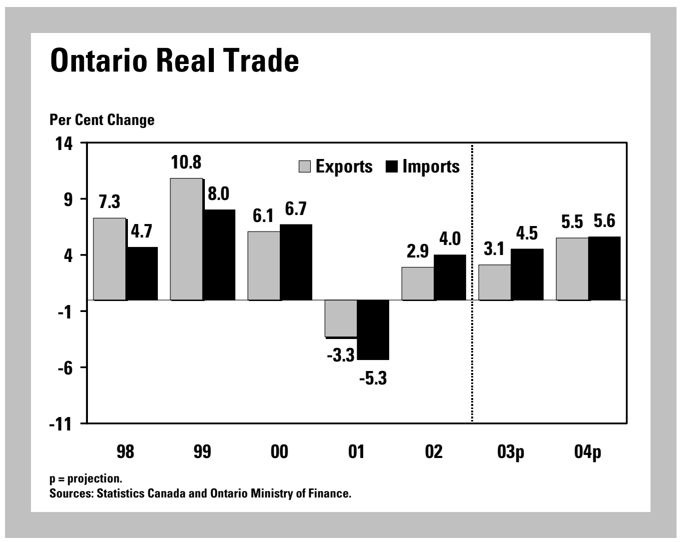
- Slower economic growth has resulted in reduced commercial and industrial construction spending since 2000. As foreign and domestic demand grows, firms will need to add to productive capacity. As a result, business spending on non-residential construction projects is expected to recover, growing by 1.2 per cent in 2003 and 3.1 per cent in 2004.
- The government will invest an additional $625 million over the next five years to expand and enhance current research and development programs and training funds to support large-scale investments in strategic sectors, like the auto sector, that create high-value jobs and support innovation, research and development. This will reinforce Ontario's strength as a location for investment.

Ontario's impressive investment record has helped exporters maintain their competitive edge.

Ontario's Plan Supports Competitive Exporters

Ontario exporters are competitive in the global marketplace and will benefit from strengthening international economic growth.

Private-sector forecasters expect the Canadian dollar to continue to appreciate gradually. Ontario's businesses will remain internationally competitive. Stronger economic prospects, ongoing current account surpluses and continued reduction of government debt as a share of GDP will support a rising value for the Canadian dollar. A rising dollar will help to maintain moderate inflation, keep interest rates low and reduce the cost of imported machinery and equipment.



- The U.S. economy grew by 2.4 per cent in 2002, with auto sales standing out as a source of strength. This contributed to strong growth in Ontario's auto industry, with real output rising by 9.3 per cent in 2002. Ontario's auto sector accounts for about 47 per cent of the province's international merchandise exports.
- Private-sector forecasters project that U.S. economic growth will strengthen further, with real GDP rising 2.4 per cent in 2003 and 3.7 per cent in 2004. Increased U.S. demand for machinery and equipment made in Ontario will help our exports gain momentum. Machinery and equipment accounts for about 21 per cent of Ontario's total merchandise exports.
- Ontario's imports are expected to grow faster than exports in 2003 as Ontario's domestic demand remains firmer than in the United States. As the U.S. economy strengthens in 2004, exports and imports are expected to grow at about the same pace.

Tourism is a key component of Ontario's service exports. The tourism industry is an important job creator, generating tax revenues and export dollars.

To support tourism industry-led marketing, the Ontario government is prepared to match funding that the industry commits for increased marketing of signature destinations.

Ontario's Plan Generates Growing Revenues

Ontario's strong economic growth has provided a significant boost to Ontario government revenues. Taxation revenues are expected to be $16 billion higher in 2003-04 than they were before this government started cutting taxes.

Ontario's stronger-than-expected economic growth generated additional government revenues in 2002-03. Corporations Tax, Land Transfer Tax, Gasoline Tax and Fuel Tax revenues are all expected to come in higher than projected at the time of the 2002 Budget, a development directly attributable to the stronger economy. Ontario's robust job creation record served to boost Personal Income Tax (PIT) and Employer Health Tax (EHT) revenues, but both these revenue sources were adversely affected by other factors such as weak financial markets. Retail Sales Tax (RST) revenues were supported by healthy consumer spending growth, but restrained business spending hampered revenue growth.

Ontario's strong economic growth in 2003 will result in continued increases in revenues. More people are working, which means more revenue to pay for health care, education and other priority areas. Overall taxation revenues are expected to rise 4.9 per cent in 2003-04 as a result of the growing economy. Despite lower tax rates, Ontario will once again have more tax revenue.

Ontario's plan will generate growing revenues. PIT and EHT revenues are projected to grow at 5.9 and 6.0 per cent respectively in 2003-04, leading the way in taxation revenue growth. Ontario's remarkable job creation record means that there are additional taxpayers earning higher wages in the economy, and therefore higher PIT and EHT revenues. The higher incomes in the economy will continue to support robust consumer spending. As a result of the strong consumer sector and an expected rebound in business spending, RST revenues are expected to increase 5.6 per cent in 2003-04.

Recent signs point to a rebound in corporate profitability, which will result in higher Corporations Tax revenues. Ontario Corporations Tax revenues are projected to increase 5.0 per cent in 2003-04. Factors that have hampered Corporations Tax revenues in recent years, such as loss carry-backs and capital loss realizations, are not expected to be a major drag on revenue growth in 2003-04.

A growing Ontario economy will boost gasoline demand and therefore Gasoline Tax revenues by 2.8 per cent. Strong manufacturing export growth will increase the demand for diesel fuel, leading to a 3.6 per cent increase in Fuel Tax revenues.

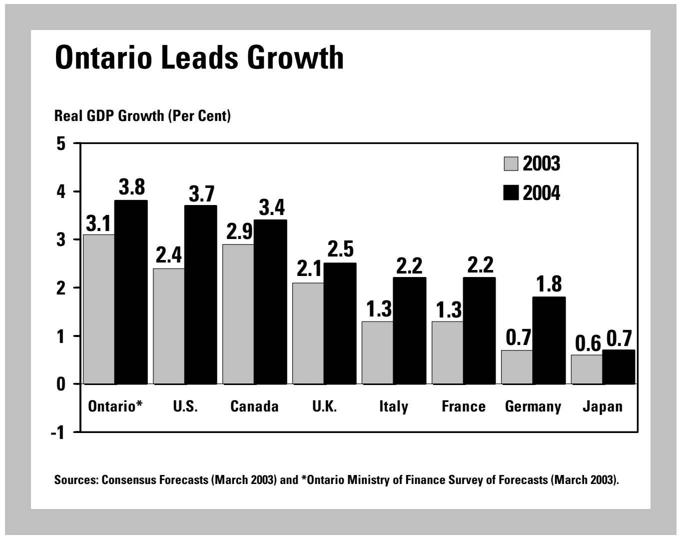
Revenue ($ Millions)	Actual 2001-02	Interim 2002-03	Plan 2003-04
Taxation Revenue			
Personal Income Tax	19,097	18,800	19,905
Retail Sales Tax	13,803	14,090	14,885
Corporations Tax	6,646	6,520	6,845
All Other Taxes	8,092	8,991	9,120
Total Taxation Revenue	47,638	48,401	50,755
Government of Canada	7,754	9,694	10,177
Income from Government Enterprises	3,345	3,889	4,416
Other Revenue	5,149	4,407	6,218
Total Revenue	**63,886**	**66,391**	**71,566**

Source: Ontario Ministry of Finance.

For more details on Ontario's Revenue Performance and 2003-04 Outlook, see Budget Paper B: *Ontario's Fiscal Plan*.

Conclusion

Private-sector forecasters, on average, project the Ontario economy will grow by 3.1 per cent in 2003 and 3.8 per cent in 2004, faster than any of the G-7 nations over this period.



Ontario has been the leader in reducing taxes and removing barriers to growth and job creation. This has contributed to the province's impressive economic record. Since 1996, the Ontario economy's real growth rate averaged over a full percentage point higher than that of the economy of the rest of Canada. Private-sector forecasters are confident this trend will continue over the next two years.

Ontario's economic foundation is strong. Our businesses are more competitive than ever before, inflation is in check, interest rates are low and after-tax incomes are rising. Sound policies will continue to strengthen these fundamentals. Balanced budgets, tax cuts and positive business conditions have created a climate that is stimulating economic growth and raising living standards. A strong economy supports solid growth of Provincial revenues to pay for health care, education, a clean environment and other public services that are vital to our quality of life.

Paper A

Appendix

Details of Ontario Economic Assumptions

The following table provides further details about the Ontario Ministry of Finance economic projection.

The Ontario Economy, 2001 to 2004
(Per Cent Change)

	Actual		Projected	
	2001	**2002**	**2003**	**2004**
Real Gross Domestic Product	**1.5**	**3.8**	**3.0**	**3.6**
Personal consumption	2.3	3.3	3.4	3.5
Residential construction	2.4	11.8	2.3	2.5
Non-residential construction	-1.2	-3.2	1.2	3.1
Machinery and equipment	-3.1	2.9	4.0	6.5
Exports	-3.3	2.9	3.1	5.5
Imports	-5.3	4.0	4.5	5.6
Nominal Gross Domestic Product	**2.4**	**5.1**	**5.2**	**5.5**
Other Economic Indicators				
Retail sales	2.6	5.5	5.5	5.0
Housing starts (000s)	73.3	83.6	82.0	78.0
Personal income	3.8	2.9	5.5	5.6
Corporate profits	-15.6	4.4	7.7	12.5
Consumer Price Index	3.1	2.0	3.0	2.0
Labour Market				
Employment	1.5	1.8	3.0-3.5	3.0-3.5
Unemployment rate (per cent)	6.3	7.1	6.3-6.5	5.5-6.0

Sources: Statistics Canada and Ontario Ministry of Finance.

The following table shows the sensitivity of the fiscal balance to the direct impact of lower interest rates on Public Debt Interest and the impact of stronger economic growth on revenues and expenditures.

Impact of Changes in Economic Assumptions on the Ontario Surplus
($ Millions)

	Full Year 2003-04
100 Basis Points Lower Canadian Interest Rates	70
1 Percentage Point Higher Real GDP Growth	620

Note: These responses would hold "on average" and could vary significantly depending on the composition of change in income and expenditures.
Source: Ontario Ministry of Finance.

Paper B

Ontario's Fiscal Plan

Introduction

Ontario has balanced the budget for 2002-03. As a result of the government's economic and fiscal policies, the Province has met or exceeded its fiscal and debt-reduction targets for eight consecutive years and the budget has been balanced since 1999-2000.

With a strong foundation for economic growth established for 2003 and the medium term, Ontario is projecting a balanced budget for 2003-04, consistent with the requirements of the *Balanced Budget Act, 1999.* Continued economic growth has enabled the government to provide necessary investments in priority sectors such as health care, schools, post-secondary education and the environment, while still ensuring the budget is balanced.

This paper reviews the following:

Section I: Interim Results for 2002-03

Section II: Ontario's 2003-04 Fiscal Plan

Section III: Ontario's Capital Investments

Section IV: Strengthening Our Partnerships

Section V: Medium-Term Outlook

Section I: Interim Results for 2002-03

Ontario has balanced its budget for the fourth consecutive year in 2002-03. The interim results for 2002-03 show a surplus of $524 million, meeting the Province's commitment to maintain a balanced budget on an ongoing basis.

2002-03 In-Year Fiscal Performance
($ Millions)

	Budget Plan	Interim	In-Year Change
Revenue	66,544	66,391	(153)
Expenditure			
Programs	54,384	55,271	887
Gross Capital Expenditure	2,713	2,467	(246)
Less: Net Investment in Capital Assets*	634	576	(58)
Public Debt Interest			
Provincial	8,550	8,225	(325)
Electricity Sector	520	520	-
Total Expenditure	65,533	65,907	374
Less: Reserve	1,000	-	(1,000)
Add: Decrease/(Increase) in Stranded Debt from Electricity Sector Restructuring to be Recovered from Ratepayers**	(11)	40	51
Surplus / (Deficit)	**0**	**524**	**524**

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

** Reflects the estimated excess of revenue over expenditure of the Ontario Electricity Financial Corporation (OEFC). Consistent with the principles of electricity restructuring, OEFC debt is to be recovered from ratepayers, not taxpayers.

Source: Ontario Ministry of Finance.

- Revenue is estimated at $153 million below the level projected in the 2002 Budget Plan, mainly due to lower Sales and Rentals revenues, partially offset by higher Canada Health and Social Transfer (CHST) revenue, including a one-time CHST Supplement.

- Total expenditure was $374 million above the level projected in the 2002-03 Budget Plan, mainly due to increased in-year funding for hospitals, and additional support for school boards as a result of the Province's early response to the Education Equality Task Force recommendations, partially offset by lower Public Debt Interest charges.
- Ontario's 2002-03 Budget Plan included a $1 billion reserve designed to protect the balanced budget against unexpected and adverse changes in the economic and fiscal outlook. Consistent with the role of the reserve in prudent budgeting, the reserve has been allocated to ensure the balanced budget target is met in 2002-03, and to reduce Provincial debt.
- With the 2002-03 surplus of $524 million, the Province has achieved its target to reduce debt by $5 billion from the 1998-99 level.

2002-03 Revenue Performance

Total revenue in 2002-03 is estimated at $66,391 million, $153 million below the 2002 Budget forecast. Taxation revenues are expected to be $41 million above forecast. Payments from the Government of Canada are estimated at $1,504 million above forecast. Income from Government Enterprises is estimated at $146 million above forecast. Other Revenue is estimated at $1,844 million below the 2002 Budget forecast.

Summary of In-Year Changes to Revenue in 2002-03
($ Millions)

		Interim 2002-03
Taxation Revenue		
Personal Income Tax	(285)	
Retail Sales Tax	(140)	
Corporations Tax	370	
Employer Health Tax	(105)	
Gasoline and Fuel Taxes	70	
Tobacco Tax	(110)	
Land Transfer Tax	90	
All Other	151	
		41
Government of Canada		
Canada Health and Social Transfer (excluding Supplements)	578	
New Canada Health and Social Transfer Supplements	967	
Infrastructure	(107)	
All Other	66	
		1,504
Income from Government Enterprises		
Ontario Power Generation Inc. and Hydro One Inc.	170	
All Other	(24)	
		146
Other Revenue		(1,844)
Total In-Year Revenue Changes		**(153)**

Source: Ontario Ministry of Finance.

- Personal Income Tax (PIT) revenues are estimated to be $285 million below the 2002 Budget forecast. While Ontario's strong job creation record and wage growth in 2002 boosted PIT revenues, these factors were more than offset by the lower 2001 PIT base as reflected in 2001-02 Public Accounts and the effect of weak financial markets on capital gains and investment income.
- Retail Sales Tax revenues are expected to be $140 million below forecast. While consumer spending was strong in 2002, business spending on goods and services not directly used in the production process was restrained by a focus on cost control.
- Corporations Tax revenues are expected to be $370 million above the 2002 Budget forecast. This is attributable to stronger 2002 corporate profit growth and lower refunds being paid with respect to 2001-02.
- Employer Health Tax (EHT) revenues are expected to be $105 million below forecast. Unusually low levels of corporate bonuses and stock options contributed to the shortfall in EHT revenues in 2002-03. Unusually high refunds with respect to prior years also reduced EHT revenues in 2002-03. The higher past-year refunds were partly due to the 2000 Budget initiatives whereby EHT would no longer apply to employee stock option benefits granted by eligible research and development companies. EHT refunds also increased as a result of the revised tax treatment of religious and charitable organizations with multiple locations.
- Gasoline and Fuel Tax revenues are expected to be a combined $70 million above the 2002 Budget forecast. Ontario's strong economic growth and robust automobile sales in 2002 boosted gasoline consumption and therefore Gasoline Tax revenues. Higher manufacturing exports increased diesel fuel consumption and therefore Fuel Tax revenues.
- Tobacco Tax revenues are expected to be $110 million below the 2002 Budget forecast. The shortfall in revenues is due to a larger-than-expected decline in cigarette consumption.
- Land Transfer Tax revenues are expected to be $90 million above forecast. Ontario's robust housing market in 2002, featuring record housing resales and rising resale prices, resulted in a significant increase in Land Transfer Tax revenues above expectations.
- All Other Taxation revenue is expected to be a combined $151 million above forecast. This is mainly due to higher revenues for Preferred Share Dividend Tax and Power Dam Tax. Preferred Share Dividend Tax revenues will be $110 million above the 2002 Budget forecast mainly due to late-arriving revenues from the 2000 taxation year that were not processed by the Canada Customs and Revenue Agency until 2002. Power Dam Tax revenues are expected to be $50 million above the 2002 Budget forecast because of the inclusion of 13 Ontario Power Generating stations under the tax, and recording, in this year, the revenue collected in respect of tax owed since January 2001.

- Canada Health and Social Transfer (CHST) payments from the federal government are estimated to be $578 million above the 2002 Budget forecast. Of this increase, $482 million is due to prior-period adjustments that arise from Ontario representing a lower-than-expected share of the estimated Canada-wide 2001 personal and corporate income tax bases. This results in Ontario receiving an adjustment in 2002-03 to reflect the Province's higher-than-expected share of the fixed amount of federal CHST funding for 2000-01 and 2001-02.
- CHST Supplement payments from the federal government are $967 million above forecast. Ontario has recorded, in 2002-03, its share of the $2.5 billion Supplement announced by the federal government in February 2003. Including Ontario's share of the CHST Supplement in 2002-03 revenue is consistent with the announcement by the federal government that it would "immediately invest $2.5 billion in the CHST to relieve existing pressures."
- Infrastructure payments from the federal government are estimated to be $107 million below forecast. Delays related to the finalizing of contract agreements and project administration reduced these federal payments by $169 million, partially offset by $62 million in new federal funding for the Toronto Transit Commission.
- All other payments from the federal government are expected to be $66 million above forecast. This is primarily due to federal contributions towards Provincial payments to Ontario farmers made in past years and federal support for Provincial primary health care services.
- The combined net income from Hydro One Inc. and Ontario Power Generation Inc. (OPG) is expected to be $170 million above forecast, primarily due to higher net income from OPG. Higher OPG revenues from electricity sales, gains on the sales of long-term investments and lower operating expenses more than offset higher OPG expenditures to return to service and upgrade the Pickering "A" nuclear station, resulting in higher OPG net income.
- The combined revenue from all other government enterprises is expected to be $24 million below forecast. This is largely due to the Ontario Lottery and Gaming Corporation net income being estimated at $25 million below the 2002 Budget projection.
- Other revenues were $1,844 million below forecast, mainly due to lower income from the commercialization of government enterprises than projected in the 2002 Budget.

2002-03 In-Year Operating Expenditure Changes

Operating expenditure for 2002-03 at $64,016 million is up $562 million from the 2002 Budget forecast of $63,454 million. This increase was mainly due to increased funding in-year for hospitals, school boards, drug programs and child welfare services, partially offset by savings in Public Debt Interest costs.

Summary of In-Year Operating Expenditure Changes in 2002-03
($ Millions)

	Interim 2002-03
Program Expenditure Changes:	
Hospitals—enhancing patient care	350
School Boards—early response to the Education Equality Task Force recommendations	349
Drug Programs—increased utilization	158
Child Welfare—increased funding for Children's Aid Societies	102
Pension and Retirement Benefit Expenditures	58
Agriculture Sector Support—transition funding for farmers (Net)	53
Other (Net)	(183)
Total Program Expenditure Changes	**887**
Public Debt Interest	**(325)**
Total In-Year Operating Expenditure Changes	**562**

Source: Ontario Ministry of Finance.

- Operating grants to hospitals increased by $350 million in-year to enhance patient care, help stabilize hospital budgets, and support innovation and positive financial performance in hospitals.
- Funding provided to school boards increased in-year by $349 million to support the implementation of the recommendations that the Education Equality Task Force identified as a priority. This increase reflects the fiscal requirement associated with the $610 million package that was announced in December 2002, which provided increased support for special education and additional resources for collective bargaining.

- An additional $158 million was allocated in-year due to higher-than-anticipated utilization in drug programs in the Ministry of Health and Long-Term Care and the Ministry of Community, Family and Children's Services to ensure that all drug program recipients, primarily seniors and social assistance recipients, have access to essential prescription drugs necessary for treating illness and maintaining good health.
- Child welfare services expenditure increased in-year by $102 million to ensure that Children's Aid Societies have the resources they need to provide protection services to children at risk of neglect and abuse.
- Pension and retirement benefits expenditure increased in-year by $58 million. This increase was mainly due to the impact of weaker-than-expected global financial markets on the assets of the Teachers' Pension Plan, the OPSEU Pension Trust and the Public Service Pension Plan, as well as the cost of benefit improvements, partially offset by one-time savings in retirement benefits as a result of changes from the most recent round of collective bargaining.
- Ontario's portion of a federal-provincial transition program for farmers in Ontario increased by $73 million in-year, partially offset by $20 million from the Contingency Fund. The increase provided represents Ontario's share of the first year of a two-year federal-provincial bridge funding initiative to assist the agricultural sector in its move towards a longer-term approach to business risk management.
- Public Debt Interest costs were $325 million below the 2002 Budget Plan projection of $9,070 million due to lower-than-expected interest rates and cost-effective debt management.

2002-03 In-Year Capital Expenditure Changes

The level of 2002-03 net capital expenditure at $1,891 million is down $188 million from the 2002-03 Budget Plan. This decline was largely the result of underspending in municipal partnership initiatives and other areas, partially offset by higher expenditure for transit assistance to Toronto.

Summary of In-Year Capital Expenditure Changes in 2002-03
($ Millions)

	Interim 2002-03
Toronto Transit Commission—transit assistance	111
Biotechnology and Information Technology Programs—lower-than-expected expenditures	(20)
Municipal Partnership Initiatives—lower-than-expected expenditures	(286)
Other (Net)	7
Total In-Year Capital Expenditure Changes	**(188)**

Source: Ontario Ministry of Finance.

- The Province provided an additional $111 million to the City of Toronto for the Toronto Transit Commission (TTC), partially offset by $62 million in federal revenue. This funding was provided to the TTC for capital renewal and rehabilitation projects as part of the Canada-Ontario Infrastructure Program and the Provincial Transit Investment Plan.
- Ministry of Enterprise, Opportunity and Innovation investments in biotechnology and information technology programs were $20 million lower than planned in 2002-03 due to project development and start-up delays in a variety of programs, including Connect Ontario and Medical and Related Sciences (MaRS).
- Spending on the municipal partnership initiatives (Millennium Partnerships; Toronto Waterfront Revitalization; Ontario Small Town and Rural Infrastructure; and Sports, Culture and Tourism Partnerships) was $286 million less than planned in the 2002 Budget due to delays in formalizing multi-government approvals and finalizing contract agreements for municipal infrastructure projects.

ELECTRICITY SECTOR

Interim Results for 2002-03

The combined net income from Hydro One Inc. (HOI) and Ontario Power Generation Inc. (OPG) is expected to be $170 million above the forecast, primarily due to higher net income from OPG. Higher OPG revenues from electricity sales, gains on the sales of long-term investments, and lower operating expenses more than offset OPG expenditures to return to service and upgrade the Pickering “A” nuclear station, resulting in higher OPG net income.

Revenue for the Ontario Electricity Financial Corporation (OEFC) was $40 million above expenditure, an improvement of $51 million from the 2002 Budget forecast. This improvement is primarily due to the gain on sale of Hydro One Inc. notes, higher-than-expected income from the Provision for Electricity Sector due to higher OPG net income, and lower-than-expected financing costs.

The government expects that the fund to freeze prices at 4.3 cents/kWh will balance over the life of the government’s electricity action plan.

Section II: Ontario's 2003-04 Fiscal Plan

Ontario is projecting a balanced budget for 2003-04. This represents the fifth consecutive balanced budget since 1999-2000.

2003-04 Fiscal Plan
($ Millions)

	Interim 2002-03	Plan 2003-04	Change $ Millions	Change Per Cent
Revenue	66,391	71,566	5,175	7.8
Expenditure				
Programs	55,271	59,390	4,119	7.5
Gross Capital Expenditure	2,467	3,170	703	28.5
Less: Net Investment in Capital Assets*	576	702	126	21.9
Public Debt Interest				
Provincial	8,225	8,188	(37)	(0.4)
Electricity Sector	520	520	-	-
Total Expenditure	65,907	70,566	4,659	7.1
Less: Reserve	-	1,000	1,000	-
Add: Decrease/(Increase) in Stranded Debt from Electricity Sector Restructuring to be Recovered from Ratepayers**	40	-	(40)	-
Surplus / (Deficit)	**524**	**0**	**(524)**	**-**

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

** Reflects the estimated excess of revenue over expenditure of the Ontario Electricity Financial Corporation (OEFC). Consistent with the principles of electricity restructuring, OEFC debt is to be recovered from ratepayers, not taxpayers.

Source: Ontario Ministry of Finance.

- Total revenue in 2003-04 is projected at $71,566 million, up $5,175 million from the 2002-03 interim level of $66,391 million. This increase is primarily due to higher taxation revenues driven by the strong Ontario economy.
- Total expenditure in 2003-04 is projected at $70,566 million, up $4,659 million from the 2002-03 interim level of $65,907 million. This increase is primarily attributed to increased funding for priority areas including health care, schools and post-secondary education.
- A reserve of $1 billion has been included in the 2003-04 fiscal plan to protect the balanced budget against unexpected and adverse changes in the economic and fiscal outlook. The reserve will be available for debt reduction at year-end if not needed.

2003-04 REVENUE OUTLOOK

Revenue in 2003-04 is projected at $71,566 million, $5,175 million or 7.8 per cent above the 2002-03 interim level.

Revenue ($ Millions)	Actual 2001-02	Interim 2002-03	Plan 2003-04
Taxation Revenue			
Personal Income Tax	19,097	18,800	19,905
Retail Sales Tax	13,803	14,090	14,885
Corporations Tax	6,646	6,520	6,845
All Other Taxes	8,092	8,991	9,120
Total Taxation Revenue	47,638	48,401	50,755
Government of Canada	7,754	9,694	10,177
Income from Government Enterprises	3,345	3,889	4,416
Other Revenue	5,149	4,407	6,218
Total Revenue	**63,886**	**66,391**	**71,566**

Source: Ontario Ministry of Finance.

- Personal Income Tax (PIT) revenue is projected to increase to $19,905 million in 2003-04. This increase reflects the robust growth in jobs and wages forecast for Ontario during 2003-04.
- Retail Sales Tax (RST) revenue is expected to increase to $14,885 million in 2003-04. This is based on an economic forecast calling for continued strong growth in consumer spending and an expected rebound in business spending on goods and services subject to RST.
- Corporations Tax revenue is expected to increase to $6,845 million in 2003-04. This increase is based on the growth in corporate profits projected for 2003.
- Employer Health Tax revenue is expected to increase to $3,805 million in 2003-04, based on the strong growth in employment and wages forecast for Ontario during 2003-04.
- Gasoline and Fuel tax revenues are expected to increase to $2,365 million and $710 million respectively in 2003-04. This is due to the growing Ontario economy and the corresponding increases expected in gasoline and diesel fuel consumption.

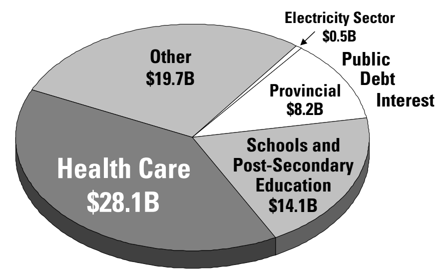
- Tobacco Tax revenue is expected to increase to $1,260 million in 2003-04. This reflects the full-year impact of the tax increase introduced in June 2002. The forecast assumes decreasing cigarette consumption consistent with higher taxes and long-term trends towards decreased smoking.
- Land Transfer Tax revenues are expected to decline to $785 million in 2003-04. This reflects the assumption of a slightly less robust Ontario housing market in 2003, following the record-setting pace of housing resales in 2002.
- All Other Taxation revenues are expected to decline to $195 million. This is mainly due to the one-time revenues included in 2002-03 for Preferred Share Dividend Tax and Power Dam Tax, the ongoing reductions in Mining Profits Tax and the elimination of the Gross Receipts Tax.
- Canada Health and Social Transfer (CHST) payments from the federal government are expected to decline to $7,146 million in 2003-04. The decline is due to the one-time revenue from prior-year adjustments included in the 2002-03 revenue estimate.
- CHST Supplement payments from the federal government are projected at $771 million in 2003-04. Ontario is including in the forecast the entire amount of its per capita share of the $2 billion Supplement that the federal government is expected to make available in 2003-04.
- Payments from the federal government under the recently announced Health Reform Fund ($386 million) and the Diagnostic and Medical Equipment Fund ($193 million) are based on Ontario's per capita share of the total funding available for 2003-04.
- Social Housing payments from the federal government are expected to increase to $643 million in 2003-04. This is primarily due to increased federal support for capital investments under the new Canada-Ontario Affordable Housing Program.
- Infrastructure payments from the federal government are expected to increase to $285 million in 2003-04. This represents federal contributions towards a number of provincial and municipal capital projects.
- All other payments from the federal government are expected to increase to $753 million in 2003-04. This is the net outcome of a number of changes expected in ongoing federal-provincial programs and agreements, including increased support for the provincial farm sector and primary health care initiatives.
- Net income from the Ontario Lottery and Gaming Corporation is projected to increase to $2,406 million in 2003-04. This is due to expectations for continued growth in the net income from racetracks, charity casinos and lotteries. This is expected to be partially offset by lower revenue from commercial casinos, which face increasing competitive pressures from facilities in the United States.

- The combined net income of Ontario Power Generation Inc. and Hydro One Inc. is expected to increase to $884 million in 2003-04.
- Liquor Control Board of Ontario (LCBO) net income is expected to increase to $1,123 million in 2003-04. The strong growth in the Ontario economy is expected to boost LCBO sales and net income in 2003-04. The decision to convert the Alcohol and Gaming Commission of Ontario (AGCO) fee on domestic beer sold in LCBO stores to an LCBO markup will also boost LCBO net income in 2003-04. This decision will leave consumer prices unaffected and transfer revenue from Liquor Licence Revenue to LCBO net income.
- Sales and Rentals revenues are expected to increase by $1,886 million to $2,207 million in 2003-04. This is largely due to revenues expected from the commercialization of government enterprises in 2003-04.
- Liquor Licence revenues are projected to decline to $477 million in 2003-04. The decision to convert the AGCO fee on domestic beer sold in LCBO stores to an LCBO markup will reduce Liquor Licence Revenue.

2003-04 EXPENDITURE OUTLOOK

The government's 2003-04 expenditure plan continues to focus on priority sectors, including health care, schools and post-secondary education, while improving efficiency and effectiveness in the delivery of all government services.

Support for Priority Programs, 2003-04
Total Expenditure: $70.6 Billion



Source: Ontario Ministry of Finance.

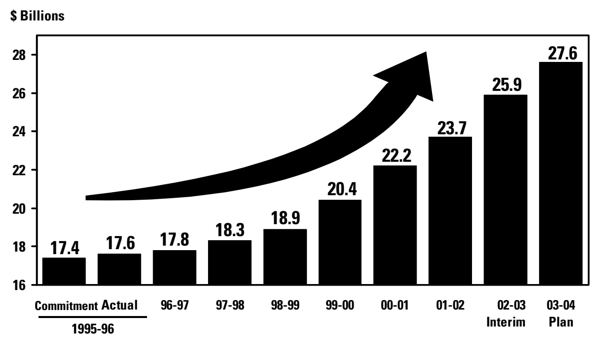
- In 2003-04, total health care funding including both program and capital expenditures will be $28.1 billion, an increase of $1.9 billion from the 2002-03 total of $26.2 billion.
- Provincial spending on schools and post-secondary education will be $14.1 billion in 2003-04. This total includes $9.3 billion for the School Board Operating Grant, the Provincial component of school board funding; $2.9 billion in operating and capital grants for colleges and universities; and $1.9 billion for other programs, including training programs and support for students in post-secondary education, as well as Provincial expenditure related to the Teachers' Pension Plan.
- Transfer payments to the broader public sector including hospitals, school boards, colleges, universities, as well as transfers to individuals, make up over 80 per cent of Provincial expenditure excluding public debt interest costs.
- Excluding expenditure on health care, schools and post-secondary education, and the environment, Provincial spending per person has declined by about 30 per cent since 1995-96 when adjusted for inflation.
- Details of ministry operating and capital expenditure for 2003-04 and recent years can be found in the financial tables and graphs at the end of this Paper.

ONTARIO'S ONGOING COMMITMENT TO HEALTH CARE

The government has continued to increase Ontario's base operating spending on health care every year since it assumed office in 1995-96. This year, an additional $1.7 billion will be allocated for health care, bringing health operating spending to $27.6 billion in 2003-04.

- In 1999, the government promised to invest $22.7 billion in health care by 2003-04. By steadily allocating resources into this key sector, the government increased health care expenditure to $23.7 billion by 2001-02—$1 billion higher than promised and two years ahead of schedule.
- While the government remains committed to ensuring high quality health care for all Ontarians, the financing of health care is a long-term and growing challenge.

Health Base Operating Spending Increases*



* Ministry of Health and Long-Term Care base operating spending excludes capital, restructuring and major one-time costs.
Source: Ontario Ministry of Finance.

- As health care spending is not a true measure of the benefits taxpayers receive from the health care system, there is a need to do more to measure the quality of the health care system by its outputs and outcomes. The government is working with health care providers to improve the information available to the public on health care system outcomes. The availability of better information will ensure that the government and health care providers are more accountable to Ontarians for the way health care dollars are spent.

INCREASED FUNDING FOR HEALTH CARE EXCEEDING FEDERAL GOVERNMENT'S COMMITMENT

Ontario and the other provinces and territories have called on the federal government to become an equal partner in maintaining quality health care by restoring funding through the Canada Health and Social Transfer (CHST). At the February 2003 First Ministers' meeting, the federal government announced modest improvements in support of health care reform and funding sustainability, although it did not fully respond to the needs identified by all provinces and territories.

Ministry of Health and Long-Term Care Spending: Selected Years
($ Millions)

	Actual 1994-95	Interim 2002-03	Plan 2003-04	Change from Interim
Operating	17,599	25,888	27,595	1,707
Gross Capital Expenditure	249	335	504	169
Total	17,848	26,223	28,099	1,876
Increase in Total since 1994-95			**10,251**	

Source: Ontario Ministry of Finance.

- Since 1994-95, Ontario's total health care spending (operating and capital) has increased by $10.3 billion. By contrast, federal CHST transfers to Ontario by 2003-04 are expected to be only $1.3 billion more than in 1994-95.
- Following the February First Ministers' meeting, the 2003 federal budget confirmed new funding for health care, including a $2.5 billion CHST Supplement, provided to meet immediate needs. Ontario's $967 million share of the CHST Supplement has been included in 2002-03 revenue to deal with immediate needs within the province's health care system.
- Ontario's share of enhancements to federal funding for 2003-04 includes: $386 million from the Health Reform Fund for primary health care, home care and catastrophic drug coverage; $193 million from the three-year fund for diagnostic and medical equipment as well as associated training; and $771 million for a one-time CHST top-up. Federal transfers from the CHST, as well as the new Health Reform Fund and the Diagnostic and Medical Equipment Fund, are expected to increase by $143 million in 2003-04. Ontario's total health care spending for the year will increase by $1.9 billion.

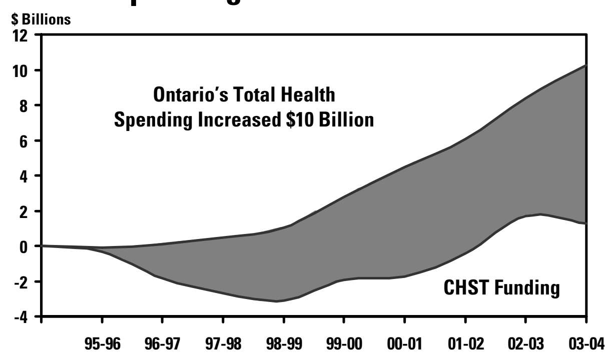
FEDERAL FUNDING GAP

Federal funding for health care in Ontario, through the Canada Health and Social Transfer (CHST), was reduced by more than $3 billion after 1994-95. The federal funding gap for health care has not been closed by more recent increases in CHST payments.

CHST Funding Gap

- Starting in 1994-95, CHST payments to Ontario began a steady decline, dropping to as low as $3.6 billion in 1998-99, down more than $3 billion from $6.6 billion in 1994-95.

Change in CHST Payments and Ontario's Health Spending Since 1994-95



Source: Ontario Ministry of Finance.

- CHST revenue in 2002-03 at $8.4 billion includes Ontario's $967 million share of the recently announced CHST Supplement, as well as $482 million for an adjustment to CHST totals reported in past years. These adjustments are mainly due to Ontario representing a lower-than-expected share of the estimated Canada-wide 2001 personal and corporate income tax bases, which resulted in Ontario receiving an adjustment in 2002-03 to reflect the Province's higher-than-expected share of the fixed amount of federal CHST funding for 2000-01 and 2001-02.
- Including Ontario's share of the CHST Supplement in 2002-03 revenue is consistent with the announcement in February by the federal government that it would "immediately invest $2.5 billion in the CHST to relieve existing pressures."
- Federal transfers have been partially restored over the last number of years, but have not kept up with the rising cost of health care. In 2003-04, CHST payments to Ontario for health care, post-secondary education and social services will be only $1.3 billion more than they were in 1994-95, while total spending on health care alone has increased by $10.3 billion.

SUPPORT FOR HEALTH CARE, THE ONTARIO TRILLIUM FOUNDATION AND COMMUNITIES

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

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

	Interim 2002-03	Plan 2003-04
Lotteries, Charity Casinos and Slot Machines at Racetracks Revenue		
Operation of Hospitals	1,466	1,634
Ontario Trillium Foundation	100	100
Problem Gambling and Related Programs	29	36
Commercial Casinos Revenue		
General Government Priorities	680	636
Total	**2,275**	**2,406**

Sources: Ministry of the Attorney General and Ministry of Finance.

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, and funding for charitable organizations through the Ontario Trillium Foundation.

- In 2003-04, it is estimated that $1,634 million net revenue from lotteries, charity casinos and slot machines at racetracks will be applied to support the operation of hospitals.
- The Ontario Trillium Foundation has become one of Canada's largest grant-making foundations. In 2003-04, the Ontario Trillium Foundation will be provided with $100 million to help build strong and healthy communities by contributing to charitable and not-for-profit organizations.
- Two per cent of gross slot machine revenue, estimated at $36 million for 2003-04, is allocated to programs that support problem gambling and related treatment, prevention and research programs.

Benefits from Commercial Casinos

- In 2003-04, net Provincial revenues from commercial casinos estimated at $636 million will be used to support general government priorities including health care, education, justice and social programs.
- Since the commencement of commercial casino operations, 27,000 direct and indirect jobs have been created in Ontario. Commercial casino operations, and the additional tourists they attract, contribute an estimated $2.4 billion annually to the Ontario economy.

Support for the Agricultural Sector and Municipalities
($ Millions)

	Interim 2002-03	Plan 2003-04
Agricultural Sector	299	320
Municipalities	73	78
Total	**372**	**398**

Source: Ministry of the Attorney General.

- Twenty per cent of gross revenue from slot machines at racetracks is provided to promote economic growth of the horse-racing industry. Since 1998, this initiative has preserved and enhanced 45,000 jobs in Ontario's horse-racing industry, providing over $840 million to a key component of the Province's agricultural sector. For 2003-04, additional support is estimated at $320 million.
- A portion of gross slot machine revenue estimated at $78 million in 2003-04 will be provided to municipalities that host charity casinos and slot operations at racetracks, including funding to help offset local infrastructure and service costs.

Section III: Ontario's Capital Investments

SUPERBUILD CAPITAL INVESTMENT PLAN FOR 2003-04

The Ontario SuperBuild Corporation is responsible for the strategic management of the government's capital investment plan, including investments in the Province's own assets and transfers for capital purposes to hospitals, municipalities and post-secondary educational institutions. In 2003-04, SuperBuild will invest approximately $3.2 billion in Ontario's infrastructure.

The 2002 Budget announced that starting with the 2002-03 fiscal year, major tangible capital assets owned by the Province (land, buildings and transportation infrastructure) would be accounted for on a full accrual accounting basis. This change, which was recommended by both the independent Ontario Financial Review Commission and the Provincial Auditor, reflects a business approach to the treatment of major tangible capital assets and is consistent with Public Sector Accounting Board (PSAB) recommendations. The move to full accrual accounting for capital is reflected in the Net Investment in Capital Assets adjustment to total capital expenditure.

Gross Capital Expenditure
($ Millions)

		Plan 2003-04
Transportation		1,499
Highways	1,055	
Transit	359	
Other Transportation	85	
Health and Long-Term Care		504
Post-Secondary Education		97
Environment and Natural Resources		116
Justice		88
Municipal and Local Infrastructure		608
Other (Net)		258
Total Gross Capital Expenditure		**3,170**

Note: Total gross capital expenditure includes $429 million in flow-through funds: $126 million for Transportation, $1 million for Environment and Natural Resources, and $302 million for Municipal and Local Infrastructure. SuperBuild's gross capital expenditure excluding flow-through funds is $2.7 billion.

Source: Ontario Ministry of Finance.

- Through the Ministry of Transportation and the Ministry of Northern Development and Mines, the Province will invest $1,055 million in highway planning, expansion and rehabilitation in 2003-04. The Province will also provide $359 million in transit assistance through the Transit Investment Plan, which includes GO Transit, inter-regional transit through the Golden Horseshoe Transit Investment Partnerships (GTIP)/Transit Investment Partnerships (TIP) and the renewal of municipal transit systems through the Transit Renewal Program. An additional $85 million will support other transportation initiatives such as the Connecting Links Program, ferries and remote airport upgrades.
- The Ministry of Health and Long-Term Care will invest $504 million in hospitals, community health and long-term care capital initiatives in 2003-04. This will enable hospitals and other health care providers to continue to modernize, retrofit and expand their infrastructure and services across the province.
- The Province is investing $97 million in post-secondary education capital this year. This funding includes $20 million through the Apprenticeship Enhancement Fund and the College Equipment and Renewal Fund to enable colleges to acquire more up-to-date equipment and learning resources. The funding also includes $18 million of the government’s three-year, $33 million commitment to establish the Northern Ontario Medical School with campuses in Sudbury and Thunder Bay.
- Investment for environmental purposes will be $116 million in 2003-04, which will include $45 million for upgrades to drinking water systems and other infrastructure at Ontario Parks and $15 million for environmental clean-up projects. The Province is also investing $15 million for ongoing implementation of Ontario’s Living Legacy, $7 million for watershed-based source protection and $5 million to improve Conservation Authority dams.
- The Province is investing $88 million in 2003-04 primarily to complete current court and correctional facilities construction and expansion projects as well as for smaller repair and rehabilitation projects. Expansion work will also continue at the Ontario Police College.
- The capital plan includes other initiatives totalling $258 million, including biotechnology programs, technological education and other capital programs.

$608 Million for Municipal and Local Infrastructure

SuperBuild continues to make investments in municipal partnership initiatives. Of the $3.2 billion SuperBuild plans to invest in 2003-04, $608 million is for municipal and local infrastructure, including the Toronto Waterfront Revitalization, Millennium Partnerships strategic investments in major urban areas, the capital portion of the Ontario Small Town and Rural Infrastructure (OSTAR) initiative, the Sports, Culture and Tourism Partnerships (SCTP) initiative, the Affordable Housing Program and the Northern Ontario Heritage Fund. This amount includes $302 million of federal flow-through transfers.

Section IV: Strengthening Our Partnerships

Transfers to hospitals, school boards, colleges and universities account for about 40 per cent of total provincial government program spending. To ensure that these funds are used effectively and efficiently, productive partnerships need to be strengthened between the government and the institutions that provide these important services, on which the public depends.

The 2002 Throne Speech and the 2002 Budget signalled the government’s intent to develop a model of Multi-Year Base Funding (MYBF) for school boards, hospitals, colleges and universities that ensures accessibility and enhances accountability. The intent was to provide a measure of funding stability for these organizations to allow for better planning and better services.

This Budget takes two important first steps towards such a model:

- it provides funding commitments for 2003-04, 2004-05 and 2005-06; and
- it presents a policy framework for the development of MYBF (see Budget Paper F: *Progress Through Partnership*).

MYBF is intended to reflect the cost of continuing core services based on current projections of service volumes and other funding decisions. Projected base targets are an important step in providing dependable funding to support service stability. Based on the government’s current commitments, the targets indicate that school boards, colleges, universities and hospitals can plan on receiving no less than the amounts announced in this Budget.

These funding commitments represent a cautious and prudent approach to MYBF that will evolve and adapt to varying economic circumstances and priorities. In developing MYBF, enhancements to funding must be supported by a better understanding of the results of spending and enhanced accountability to taxpayers by all public-sector bodies. The government is committed to developing and improving the measures and mechanisms needed to demonstrate performance in these sectors.

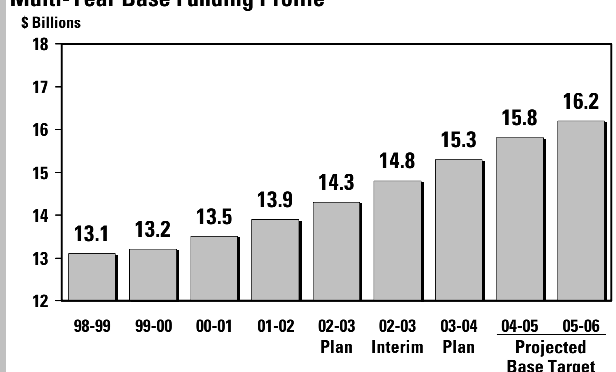
In addition, the government is inviting municipalities to participate in a dialogue on a new multi-year approach to municipal funding. The government is providing a sound basis for these discussions by committing to increased funding for municipalities over the next three years.

SCHOOL BOARDS

The government is committed to a strong, publicly funded primary and secondary education system. Since the introduction of Student-Focused Funding in 1998-99, overall annual funding available to school boards in the form of direct transfers from the Province and education property tax revenues has increased by more than $1.7 billion to $14.8 billion in 2002-03.

In 2002-03, the government established the Education Equality Task Force under the leadership of Dr. Mordechai Rozanski to review Student-Focused Funding to ensure that it continues to meet the needs of students in Ontario. In December 2002, the government announced a $610 million package on a school-year basis to support the implementation of the recommendations that the Education Equality Task Force identified as a priority. On a fiscal-year basis, this early response increased funding provided to school boards by $349 million in-year, bringing direct Provincial transfers to school boards to $8.7 billion in 2002-03.

Education Funding (School Year)
Multi-Year Base Funding Profile



Source: Ontario Ministry of Finance.

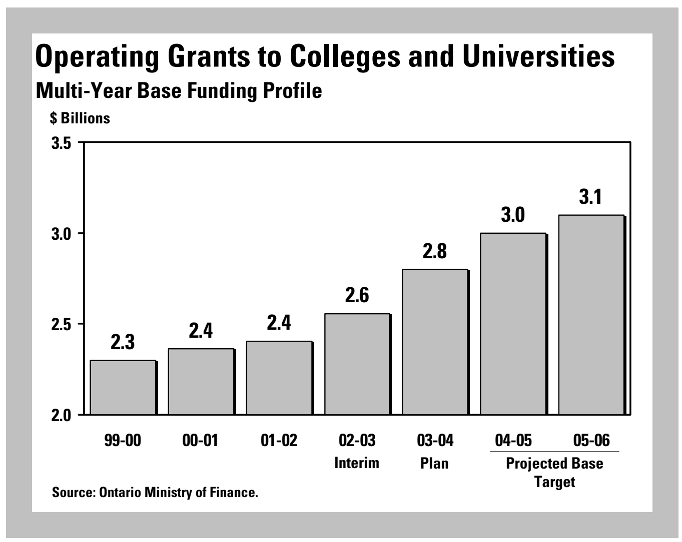
- In the 2003-04 school year, the funding commitment to school boards, including property tax revenues, will rise to $15.3 billion. For the 2005-06 school year, the projected base target is $16.2 billion, representing a 14 per cent increase over the 2002-03 Plan level.
- The 2003-04 funding commitment and projected funding for 2004-05 and 2005-06 reflect estimated primary and secondary student enrolment in these years and additional funding to address the remaining recommendations of the Education Equality Task Force, including enhancements to cost benchmarks within the Student-Focused Funding formula. For additional details on multi-year funding, see Budget Paper F: *Progress Through Partnership*.
- Given modest growth projected for education property taxes, these enhancements will be financed primarily through increases in direct transfers from the Province. On a fiscal-year basis, the School Board Operating Grant is projected to increase from $9.3 billion in 2003-04 to $10.1 billion by 2005-06.
- Overall education spending will be increasing over the medium term even though enrolment is projected to decline from 2.0 million in 2002-03 to 1.9 million by 2005-06.

COLLEGES AND UNIVERSITIES

This is a period of unprecedented enrolment growth in the post-secondary education sector, driven by secondary-school reform, a rising population and increasing demand for advanced education. In response, the government is building on previous measures to ensure that Ontario's post-secondary education sector remains accessible to every willing and qualified Ontario student.

For 2003-04, the government is increasing its operating grants to colleges and universities to $2.8 billion. This increase will address overall enrolment growth, as well as provide transitional and operating funding for the creation of the Northern Ontario Medical School. Total funding to colleges and universities, including program-specific and operating grants, will be $3.1 billion in 2003-04.

- In the 2001 Budget, the government made a commitment to increase post-secondary-education funding on a multi-year basis to address anticipated enrolment growth as a result of secondary-school reform and demographic changes. With further enhancements announced in the 2002 and 2003 Budgets, operating grants to colleges and universities will be $443 million higher in 2003-04 than they were in 2000-01. This is $75 million over the commitment announced for 2003-04 in the 2002 Budget.

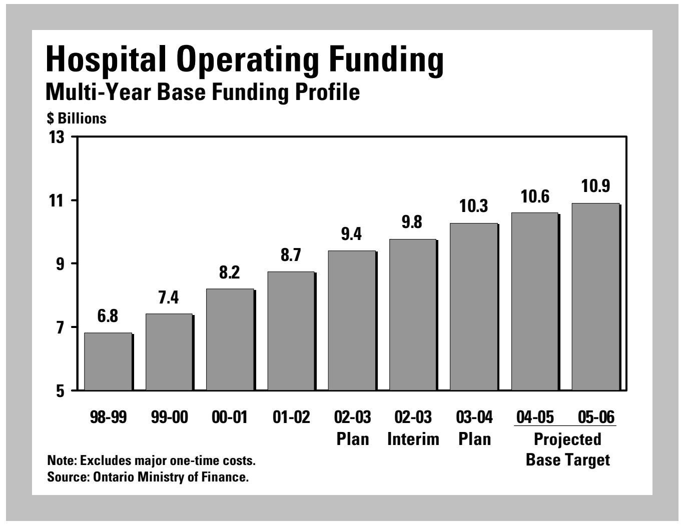


- The government is also extending its operating grant funding commitment and providing projected base funding levels for colleges and universities in 2004-05 and 2005-06. The projected funding for 2005-06 is $3.1 billion, up by more than $500 million or 21 per cent over the 2002-03 Plan level. For additional details on multi-year funding, see Budget Paper F: *Progress Through Partnership*.

- To make the investments that will enhance the quality of education for students over the double-cohort period, Ontario is establishing Quality Assurance Funds in each post-secondary sector. The government will provide the college fund with $60 million in 2003-04, and the fund will rise each year, reaching $100 million in 2006-07. The government will provide the university fund with $75 million in 2003-04, and the fund will rise each year, reaching $200 million in 2006-07. The Province will work with post-secondary institutions, faculty and students to develop a performance measurement framework that will govern the funds.
- The government continues to support the creation of the Northern Ontario Medical School by providing $19 million in transitional and operating funding in 2003-04. Through SuperBuild, the government is also providing $33 million over three years to establish two campuses, one in Sudbury and another in Thunder Bay.

HOSPITALS

Since 1998-99, Provincial operating grants to hospitals have increased by 50 per cent. The government and the hospital sector continue to work together to better address the changing and rising cost of caring for patients.



- In 2003-04, hospital base operating grants will be $10.3 billion, a five per cent increase over the 2002-03 interim level and a 10.4 per cent increase over the 2002 Budget level. Total grants to hospitals, including an additional $130 million one-time funding for diagnostic and medical equipment, will be $10.4 billion, an increase of 6.3 per cent over the 2002-03 interim level.
- Projected base target funding will rise to $10.6 billion in 2004-05 and $10.9 billion in 2005-06, resulting in an increase of 16 per cent over the level of support announced for 2002-03 in the 2002 Budget prior to the Third-Party Review of hospital finances. The projected base targets for 2004-05 and 2005-06 reflect annual increases of three per cent to deal with volume growth driven by demographic changes and service enhancements. For additional details on multi-year funding, see Budget Paper F: *Progress Through Partnership*.
- The demographic growth projection is consistent with estimates provided in the Ontario Hospital Association's paper *Stability and Sustainability: A Multi-Year Funding Policy Framework for Ontario Hospitals,* released in 2002.
- The challenge for the hospital sector is to improve patient satisfaction over the next three years and work towards increased certainty in projecting service requirements over the next few years. As part of the proposed multi-year base funding policy framework, accountability standards would require all hospitals to demonstrate that enhancements in funding will translate into enhancements in services.

Section V: Medium-Term Outlook

Consistent with the *Balanced Budget Act, 1999,* Ontario's medium-term forecast is for a balanced budget in 2004-05.

Medium-Term Fiscal Outlook
($ Billions)

	Actual 2001-02	Interim 2002-03	Plan 2003-04	Forecast 2004-05
Revenue	63.9	66.4	71.6	73.4
Expenditure				
Programs	52.5	55.3	59.4	61.2
Gross Capital Expenditure	1.9	2.5	3.2	3.2
Less: Net Investment in Capital Assets*	-	0.6	0.7	0.7
Public Debt Interest				
Provincial	8.5	8.2	8.2	8.2
Electricity Sector	0.5	0.5	0.5	0.5
Total Expenditure	63.4	65.9	70.6	72.4
Less: Reserve	-	-	1.0	1.0
Add: Decrease/(Increase) in Stranded Debt from Electricity Sector Restructuring to be Recovered from Ratepayers**	(0.1)	-	-	-
Surplus / (Deficit)	**0.4**	**0.5**	**0.0**	**0.0**

Note: Numbers may not add due to rounding.
* Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expenditure in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.
** Reflects the estimated excess of revenue over expenditure of the Ontario Electricity Financial Corporation (OEFC). Consistent with the principles of electricity restructuring, OEFC debt is to be recovered from ratepayers, not taxpayers.
Source: Ontario Ministry of Finance.

- The projected balanced budget for 2004-05 includes a $1 billion reserve to protect the fiscal plan against unexpected and adverse changes in the economic and fiscal outlook. The reserve will be available for debt reduction if not needed.

Conclusion

In 2002-03 Ontario balanced its budget for the fourth consecutive year. The Province is on track for a further balanced budget in 2003-04.

With the resumption of strong economic growth in 2002 and the foundation for growth in 2003 and the medium term, Ontario is able to address the needs in key sectors such as health care, schools, post-secondary education and the environment, while continuing to meet its commitment to balance the budget on an ongoing basis.

LIST OF FINANCIAL TABLES AND GRAPHS

Financial Tables — Table Numbers

Graphs

Statement of Financial Transactions **Table B1**
($ Millions)

	Actual 1999-00	Actual 2000-01	Actual 2001-02	Interim 2002-03	Plan 2003-04
Revenue	62,931	63,824	63,886	66,391	71,566
Expenditure					
Programs	47,525	50,401	52,523	55,271	59,390
Gross Capital Expenditure	4,887	2,123	1,890	2,467	3,170
Less: Net Investment in Capital Assets*	-	-	-	576	702
Public Debt Interest					
Provincial	8,977	8,896	8,509	8,225	8,188
Electricity Sector	520	520	520	520	520
Total Expenditure	61,909	61,940	63,442	65,907	70,566
Less: Reserve	-	-	-	-	1,000
Add: Decrease/(Increase) in Stranded Debt from Electricity Sector Restructuring to be Recovered from Ratepayers**	(354)	18	(69)	40	-
Surplus / (Deficit)* **	**668**	**1,902**	**375**	**524**	**0**
Net Provincial Debt after Provisional Adjustment for CCRA Error; and Accounting Changes†	113,715	112,480	112,036	98,352	98,352
Accounting Changes (included in Net Provincial Debt above)					
Provisional Adjustment for CCRA Error		(2,043)	(2,043)	(2,043)	
Retirement Benefits		197	197	197	
Tangible Capital Assets‡				13,200	
Net Impact of Accounting Changes		(1,846)	(1,846)	11,354	11,354
Net Provincial Debt - Before Provisional Adjustment for CCRA Error; and Accounting Changes	**113,715**	**110,634**	**110,190**	**109,706**	**109,706**

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

** Reflects the estimated excess of revenue over expenditure of the Ontario Electricity Financial Corporation (OEFC). Consistent with the principles of electricity restructuring, OEFC debt is to be recovered from ratepayers, not taxpayers.

*** Includes provisional adjustment for Canada Customs and Revenue Agency error; retirement benefits accounting policy change in accordance with new Public Sector Accounting Board recommendations; and adjustment to decrease in stranded debt from electricity sector restructuring to be recovered from ratepayers.

† Starting in 2002-03 Net Provincial Debt has been adjusted to include Investment in Capital Assets. For all other years, Net Provincial Debt represents total liabilities less financial assets.

‡ Estimated opening net book value at April 1, 2002.

Revenue **Table B2**
($ Millions)

	Actual 1999-00	Actual 2000-01	Actual 2001-02	Interim 2002-03	Plan 2003-04
Taxation Revenue					
Personal Income Tax	17,617	17,911	19,097	18,800	19,905
Retail Sales Tax	12,879	13,735	13,803	14,090	14,885
Corporations Tax	8,095	9,200	6,646	6,520	6,845
Employer Health Tax	3,118	3,424	3,502	3,590	3,805
Gasoline Tax	2,154	2,172	2,192	2,300	2,365
Fuel Tax	665	648	659	685	710
Tobacco Tax	481	504	703	1,215	1,260
Land Transfer Tax	565	642	665	825	785
Other Taxation	307	333	371	376	195
	45,881	**48,569**	**47,638**	**48,401**	**50,755**
Government of Canada					
Canada Health and Social Transfer (CHST)	4,722	4,895	6,211	7,386	7,146
New CHST Supplements	-	-	-	967	771
Social Housing	466	541	524	526	643
Health Reform Fund	-	-	-	-	386
Infrastructure	19	2	-	118	285
Diagnostic and Medical Equipment Fund	-	190	190	-	193
Other	678	501	829	697	753
	5,885	**6,129**	**7,754**	**9,694**	**10,177**
Income from Government Enterprises					
Ontario Lottery and Gaming Corporation	1,924	2,181	2,255	2,275	2,406
Liquor Control Board of Ontario	845	877	904	953	1,123
Ontario Power Generation Inc. and Hydro One Inc.	903	783	179	650	884
Other	36	14	7	11	3
	3,708	**3,855**	**3,345**	**3,889**	**4,416**
Other Revenue					
Sales and Rentals	2,133	637	303	321	2,207
Vehicle and Driver Registration Fees	911	929	941	963	952
Local Services Realignment - Reimbursement of Expenditure	1,678	1,407	1,116	707	711
Other Fees and Licences	667	660	627	671	677
Reimbursements	264	402	476	470	503
Liquor Licence Revenue	539	525	530	528	477
Royalties	345	235	224	237	225
Independent Electricity Market Operation Revenue	314	344	384	171	153
Other Miscellaneous Revenue	606	132	548	339	313
	7,457	**5,271**	**5,149**	**4,407**	**6,218**
Total Revenue	**62,931**	**63,824**	**63,886**	**66,391**	**71,566**

Operating Expenditure **Table B3**
($ Millions)

Ministry	Actual 1999-00	Actual 2000-01	Actual 2001-02	Interim 2002-03	Plan 2003-04
Agriculture and Food	347	401	456	602	622
One-Time and Extraordinary Costs	-	233	319	28	-
Attorney General	846	957	983	1,030	1,024
Board of Internal Economy	154	116	124	138	129
Citizenship	95	77	71	72	76
Community, Family and Children's Services	7,512	7,620	7,742	7,969	8,281
Consumer and Business Services	134	155	172	179	179
Culture	214	236	279	263	269
Education	7,704	7,961	8,354	9,058	9,716
Phase-in Funding	268	-	-	-	-
Teachers' Pension Plan (TPP)	(363)	(402)	42	296	306
Energy	329	344	367	120	127
Enterprise, Opportunity and Innovation	192	201	222	231	309
Environment	174	190	265	250	266
Executive Offices	19	21	19	21	20
Finance—Own Account	270	558	576	500	612
Public Debt Interest					
Provincial	8,977	8,896	8,509	8,225	8,188
Electricity Sector	520	520	520	520	520
Support for Children and Seniors	278	284	326	282	674
Community Reinvestment Fund	521	561	557	624	649
Provision for Electricity Sector	383	263	-	130	23
Health and Long-Term Care	20,373	22,184	23,713	25,888	27,595
Major One-Time Health Care Costs	286	487	190	-	-
Intergovernmental Affairs	4	4	4	4	5
Labour	101	104	110	118	120
Management Board Secretariat	147	145	263	223	336
Retirement Benefits	(165)	(33)	63	(131)	218
Contingency Fund	-	-	-	-	762
OPS Employee Severance (Net)	88	-	(17)	-	-
Municipal Affairs and Housing	1,665	1,792	1,135	646	688
Native Affairs Secretariat	15	16	13	17	15
Natural Resources	460	417	438	464	450
Northern Development and Mines	67	69	75	76	77
Office of Francophone Affairs	3	4	5	3	4
Public Safety and Security	1,379	1,500	1,601	1,782	1,601
Tourism and Recreation	153	124	144	140	147
Training, Colleges and Universities	3,285	3,219	3,248	3,451	3,994
Transportation	587	593	664	797	796
Program Review and Evaluation	-	-	-	-	(500)
Year-End Savings	-	-	-	-	(200)
Total Operating Expenditure	**57,022**	**59,817**	**61,552**	**64,016**	**68,098**

Gross Capital Expenditure **Table B4**
($ Millions)

Ministry	Actual 1999-00	Actual 2000-01	Actual 2001-02	Interim 2002-03	Plan 2003-04
Agriculture and Food	1	1	29	67	1
Attorney General	62	42	46	51	35
Community, Family and Children's Services	20	14	31	24	13
Consumer and Business Services	-	-	-	1	1
Culture	72	18	14	49	106
Education	52	4	17	10	16
Energy	156	86	50	40	30
Enterprise, Opportunity and Innovation	500	-	19	25	46
Environment	1	5	19	14	14
Water Protection Fund	160	17	1	1	1
Finance—Own Account	7	7	11	8	6
SuperBuild Millennium Partnerships	-	4	-	4	52
Contingency Fund	-	-	-	-	200
Health and Long-Term Care	338	182	205	335	504
Major One-Time Capital Costs	1,004	140	-	-	-
Management Board Secretariat	13	24	28	44	15
Municipal Affairs and Housing	(10)	-	12	26	304
Native Affairs Secretariat	7	5	3	3	3
Natural Resources	96	65	70	78	91
Northern Development and Mines	267	356	371	391	347
Public Safety and Security	124	99	88	67	53
Tourism and Recreation	159	14	9	58	50
Training, Colleges and Universities	1,028	204	49	74	98
Transportation	830	836	818	1,097	1,284
Year-End Savings	-	-	-	-	(100)
Total Gross Capital Expenditure*	**4,887**	**2,123**	**1,890**	**2,467**	**3,170**
Less: Net Investment in Capital Assets**	-	-	-	576	702
Net Capital Expenditure	4,887	2,123	1,890	1,891	2,468

* Gross Capital Expenditure includes the following: i) acquisition or construction of major tangible capital assets owned by the Province (land, buildings and transportation infrastructure) and other tangible capital assets; ii) repairs and maintenance; and iii) transfers for capital purposes. Total gross capital expenditure in 2003-04 includes $429 million in flow-through funds. Gross capital expenditure excluding flow-through funds is $2.7 billion.

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

Schedule of Net Investment in Capital Assets **Table B5**
($ Millions)

	Plan 2003-04			
	Land and Buildings	**Transportation Infrastructure**	**Government Organizations' Capital Assets**	**Total**
Acquisition/Construction of Major Tangible Capital Assets	133	1,042	346	1,521
Amortization of Provincially Owned Major Tangible Capital Assets	(110)	(546)	(163)	(819)
Net Investment in Capital Assets*	**23**	**496**	**183**	**702**

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

Transfers for Capital Purposes (Included in Gross Capital Expenditure) ($ Millions)	Table B6
Ministry	**Plan 2003-04**
Community, Family and Children's Services	13
Culture	61
Education	10
Enterprise, Opportunity and Innovation	46
Environment	11
Water Protection Fund	1
Finance—Own Account	-
SuperBuild Millennium Partnerships	52
Health and Long-Term Care	479
Municipal Affairs and Housing	302
Native Affairs Secretariat	3
Natural Resources	5
Northern Development and Mines	105
Tourism and Recreation	46
Training, Colleges and Universities	97
Transportation	187
Total Transfers for Capital Purposes	**1,418**

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

	1994-95	1995-96	1996-97
Financial Transactions			
Revenue	46,039	49,473	49,450
Expenditure			
Programs	44,505	46,163	45,136
Gross Capital Expenditure	3,831	3,635	2,612
Less: Net Investment in Capital Assets*	-	-	-
Public Debt Interest			
Provincial	7,832	8,475	8,607
Electricity Sector	-	-	-
Total Expenditure	56,168	58,273	56,355
Less: Reserve	-	-	-
Add: Decrease/(Increase) in Stranded Debt from Electricity Sector Restructuring to be Recovered from Ratepayers**	-	-	-
Surplus / (Deficit)* **	**(10,129)**	**(8,800)**	**(6,905)**
Net Provincial Debt after Provisional Adjustment for CCRA Error; and Accounting Changes †	90,728	101,864	108,769
Accounting Changes (included in Net Provincial Debt above)			
Provisional Adjustment for CCRA Error			
Retirement Benefits			
Tangible Capital Assets ‡			
Net Impact of Accounting Changes			
Net Provincial Debt—Before Provisional Adjustment for CCRA Error; and Accounting Changes	**90,728**	**101,864**	**108,769**
Gross Domestic Product (GDP) at Market Prices	311,096	329,317	338,173
Personal Income	260,671	271,397	276,303
Population—July (000s)	10,828	10,965	11,101
Net Provincial Debt per Capita (dollars)	8,379	9,290	9,798
Personal Income per Capita (dollars)	24,074	24,751	24,890
Total Expenditure as a per cent of GDP	18.1	17.7	16.7
Public Debt Interest as a per cent of Revenue	17.0	17.1	17.4
Net Provincial Debt as a per cent of GDP	29.2	30.9	32.2

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

** Reflects the estimated excess of revenue over expenditure of the Ontario Electricity Financial Corporation (OEFC). Consistent with the principles of electricity restructuring, OEFC debt is to be recovered from ratepayers, not taxpayers.

*** Includes provisional adjustment for Canada Customs and Revenue Agency error; retirement benefits accounting policy change in accordance with new Public Sector Accounting Board recommendations; and adjustment to decrease in stranded debt from electricity sector restructuring to be recovered from ratepayers.

† Starting in 2002-03 Net Provincial Debt has been adjusted to include Investment in Capital Assets. For all other years, Net Provincial Debt represents total liabilities less financial assets.

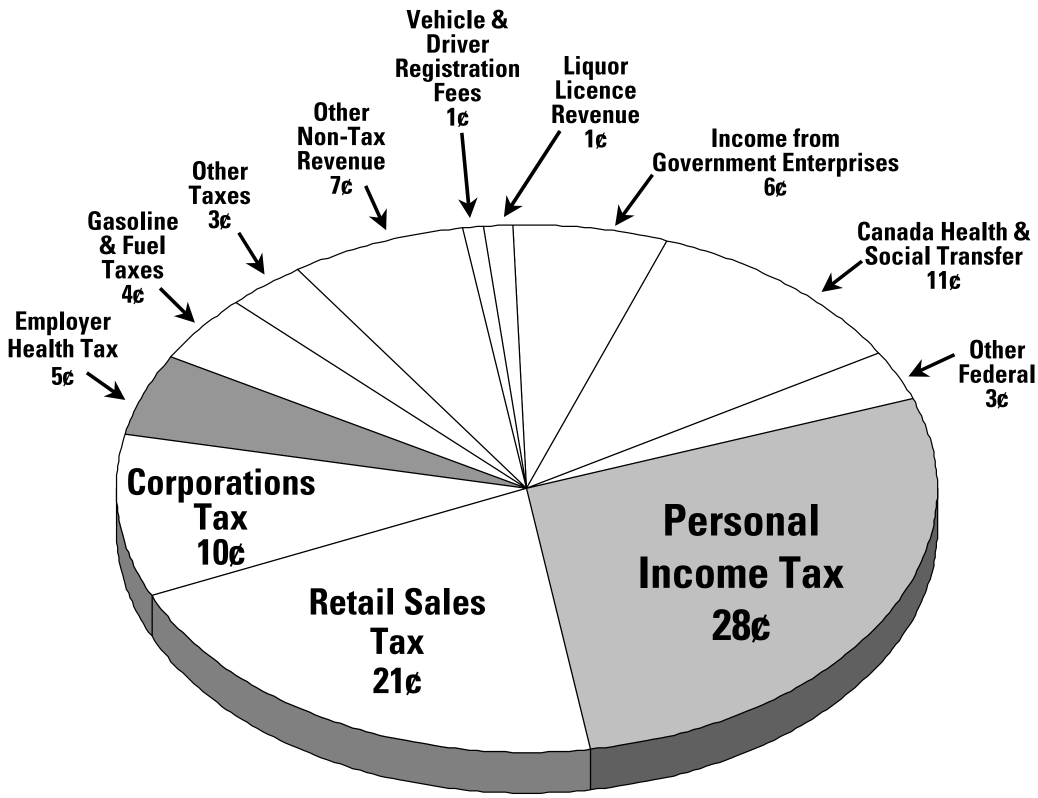
‡ Estimated opening net book value at April 1, 2002.

Sources: Ontario Ministry of Finance and Statistics Canada.

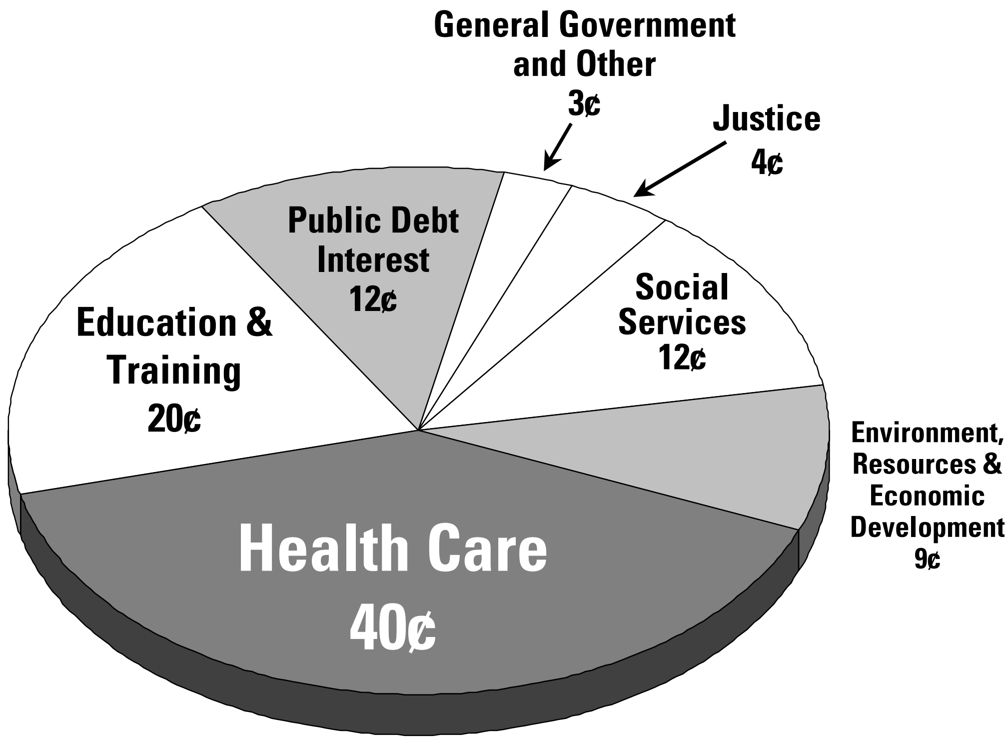
Table B7

1997-98	1998-99	1999-00	2000-01	Actual 2001-02	Interim 2002-03	Plan 2003-04
52,518	55,786	62,931	63,824	63,886	66,391	71,566
45,304	46,557	47,525	50,401	52,523	55,271	59,390
2,451	2,215	4,887	2,123	1,890	2,467	3,170
-	-	-	-	-	576	702
8,729	9,016	8,977	8,896	8,509	8,225	8,188
-	-	520	520	520	520	520
56,484	57,788	61,909	61,940	63,442	65,907	70,566
-	-	-	-	-	-	1,000
-	-	(354)	18	(69)	40	-
(3,966)	**(2,002)**	**668**	**1,902**	**375**	**524**	**0**
112,735	114,737	113,715	112,480	112,036	98,352	98,352
			(2,043)	(2,043)	(2,043)	
			197	197	197	
					13,200	
			(1,846)	(1,846)	11,354	11,354
112,735	**114,737**	**113,715**	**110,634**	**110,190**	**109,706**	**109,706**
359,353	377,897	409,099	433,446	443,852	466,651	491,098
289,537	304,652	322,549	346,738	359,927	370,522	391,075
11,249	11,387	11,528	11,698	11,895	12,068	12,226
10,022	10,076	9,864	9,615	9,419	8,150	8,044
25,739	26,754	27,980	29,641	30,259	30,703	31,987
15.7	15.3	15.1	14.3	14.3	14.1	14.4
16.6	16.2	15.1	14.8	14.1	13.2	12.2
31.4	30.4	27.8	26.0	25.2	21.1	20.0

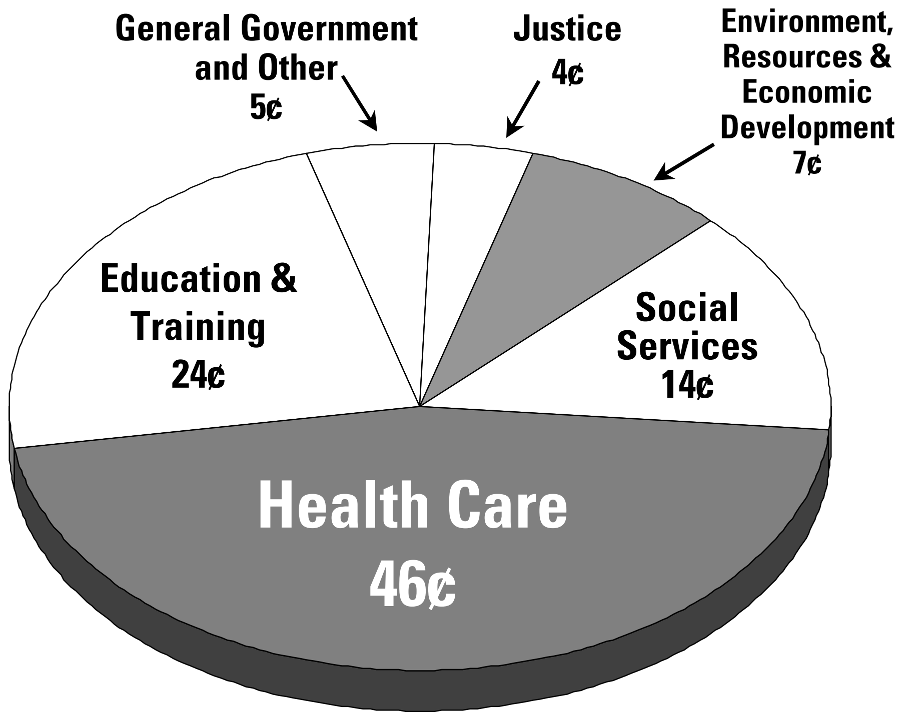
The Budget Dollar
Revenue
2003-04



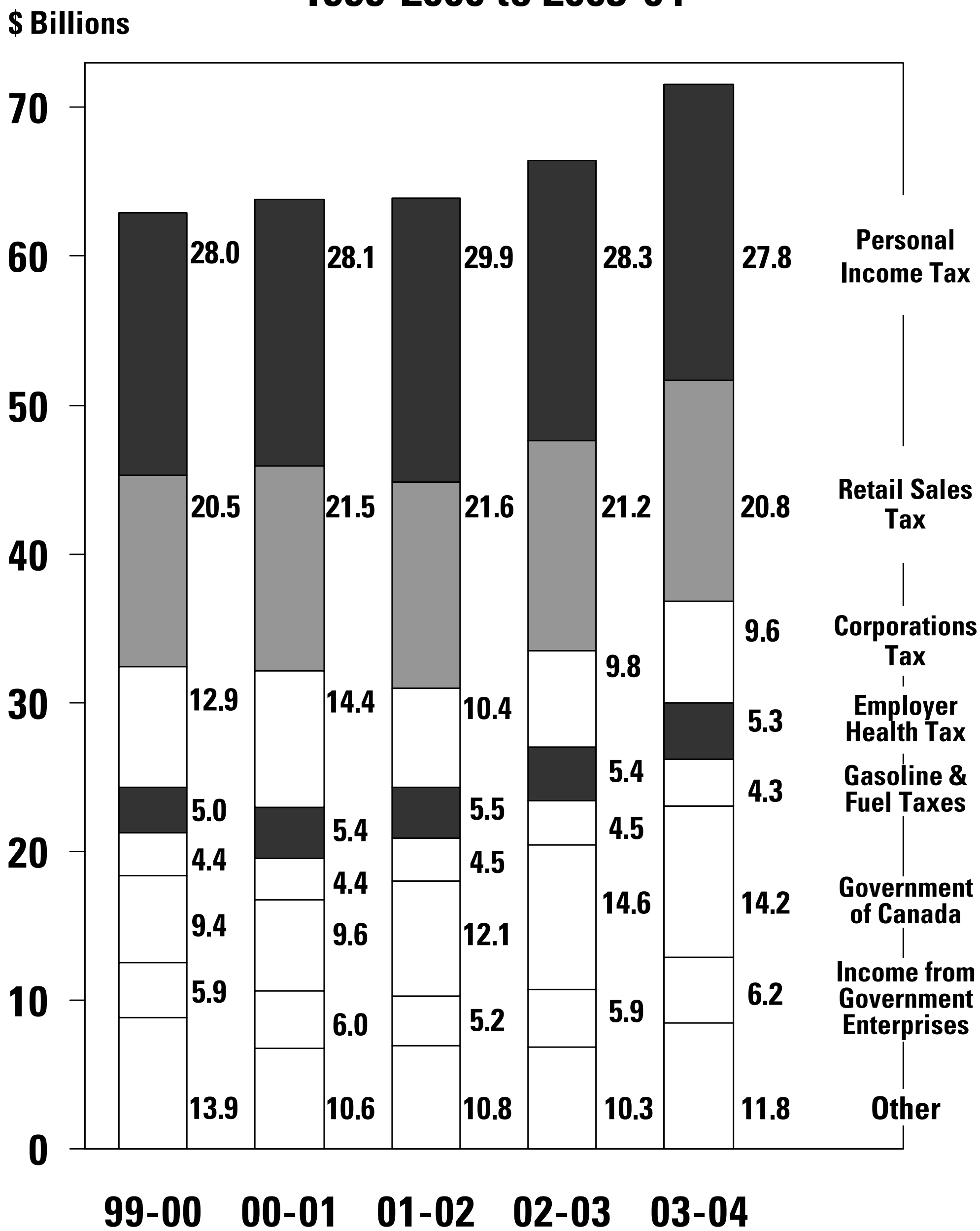
The Budget Dollar
Total Expenditure
2003-04



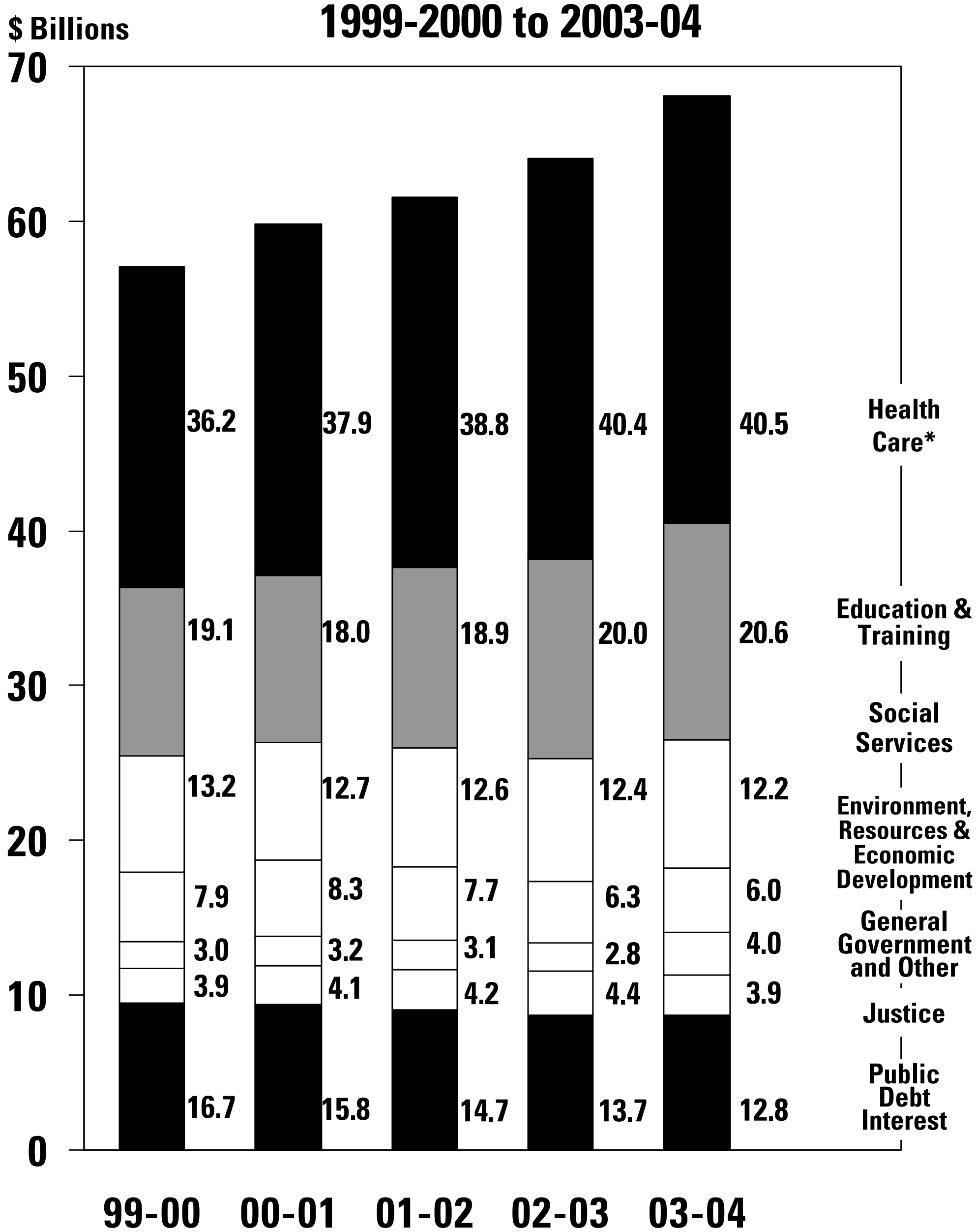
The Budget Dollar
Program Expenditure
2003-04



Revenue Sources by Category
Per Cent of Total
1999-2000 to 2003-04

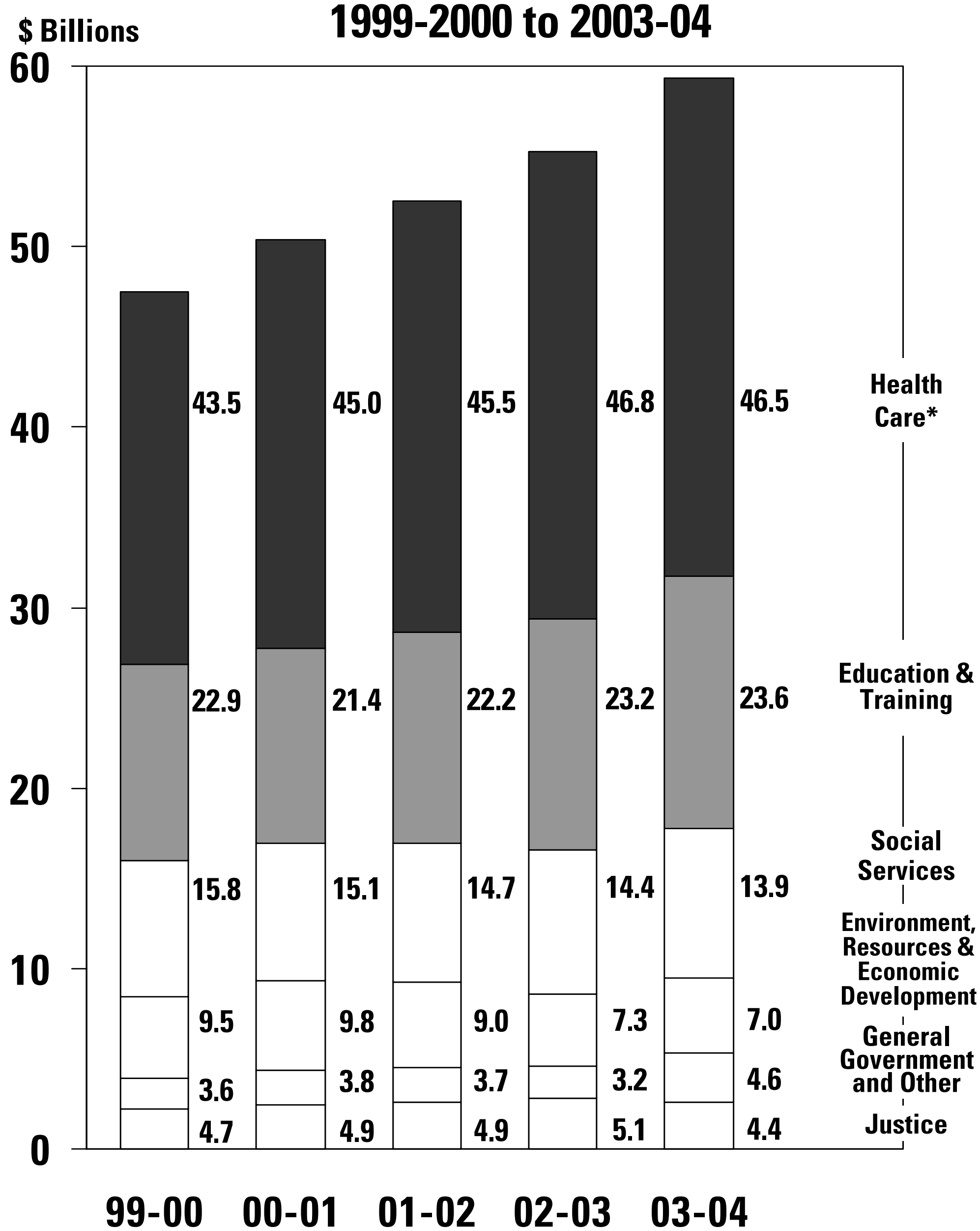


Operating Expenditure by Category Per Cent of Total 1999-2000 to 2003-04



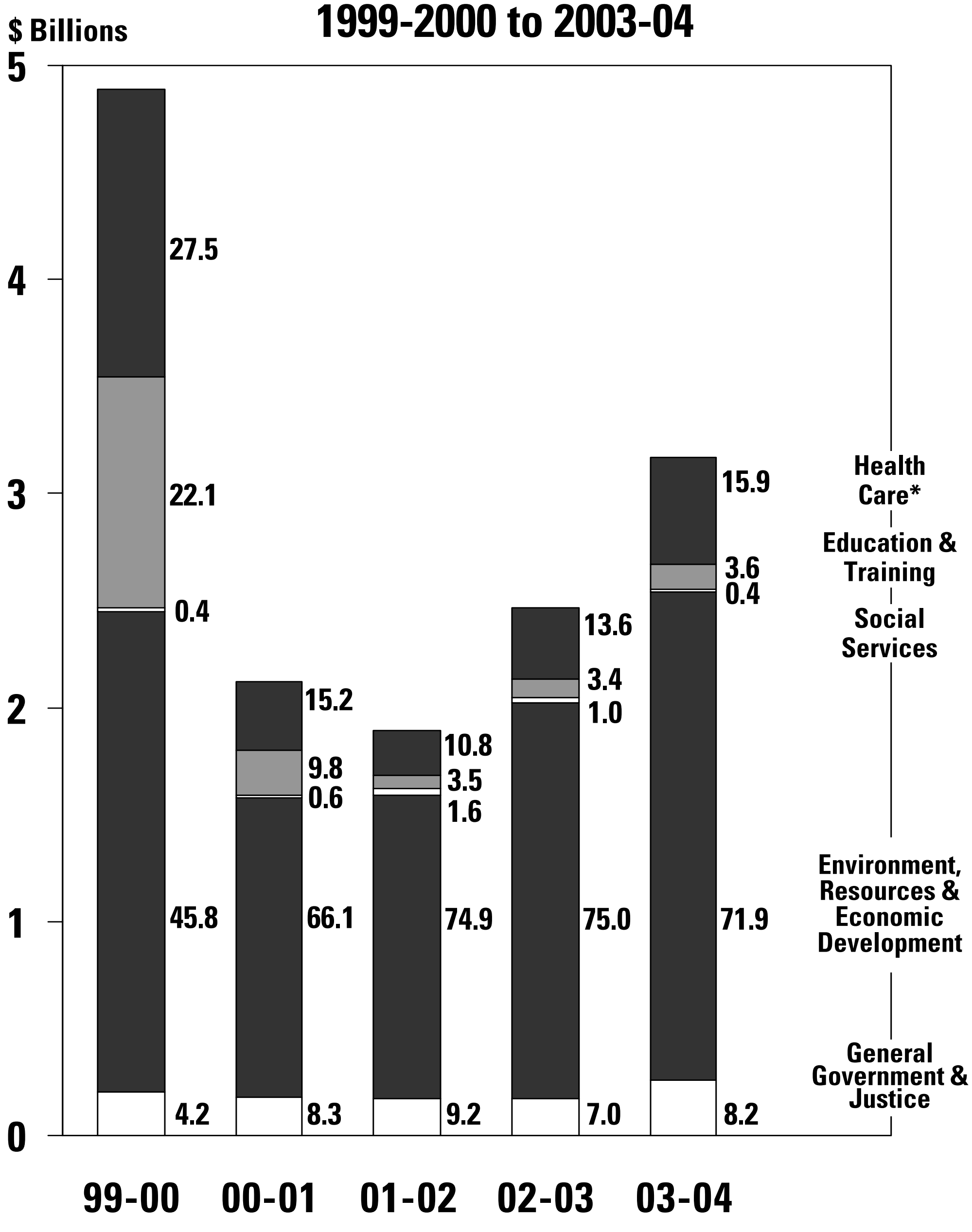
* Includes Major One-Time Health Care Costs and Health Care Restructuring.

Program Expenditure by Category Per Cent of Total 1999-2000 to 2003-04



* Includes Major One-Time Health Care Costs and Health Care Restructuring.

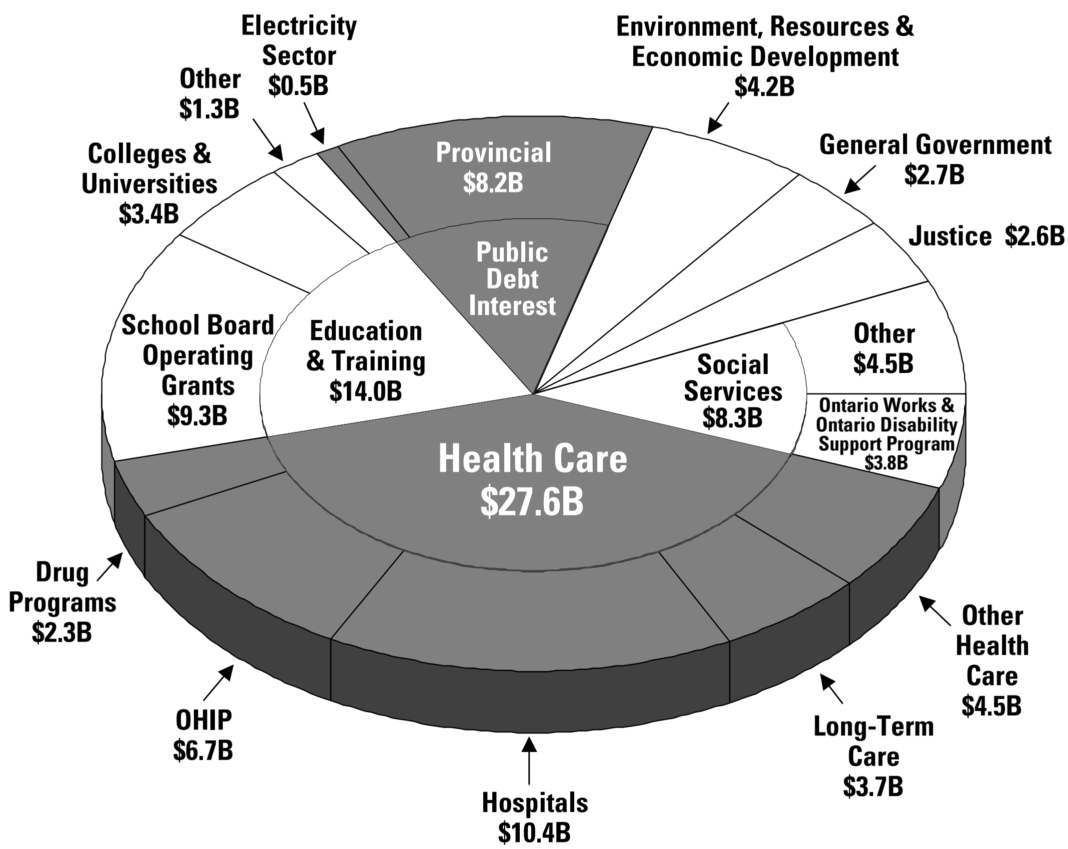
Gross Capital Expenditure by Category Per Cent of Total 1999-2000 to 2003-04



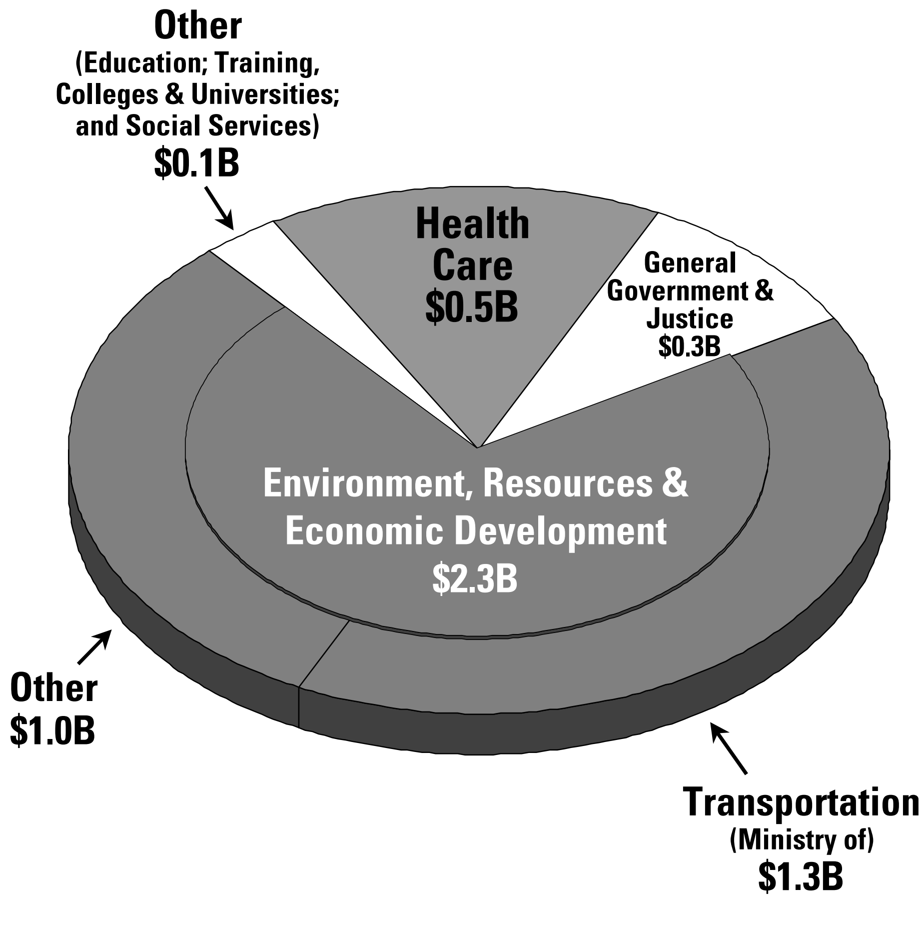
* Includes Major One-Time Health Care Capital Costs.

2003-04 Operating Expenditure by Category

($ Billions)



2003-04 Gross Capital Expenditure by Category
($ Billions)



Paper C

Choosing Prosperity, Competitiveness and Job Creation

Choosing Prosperity, Competitiveness and Job Creation

Ontario's comprehensive reductions in taxes have put the province's economy back on track. Consumers, workers, entrepreneurs and investors have responded in force to the opportunities provided by lower taxes.

The government's tax cuts would allow individual and business taxpayers in Ontario to retain $16 billion more of their money in 2003-04. Taxpayers have invested or used this money to meet their individual needs, creating jobs and healthy economic growth. This, in turn, has fuelled strong revenue growth for all levels of government.

Ontario has gone from being one of the worst-performing jurisdictions in the industrialized world to one of the best. In the last several years, real gross domestic product (GDP) per person—the key to a rising standard of living—has grown faster in Ontario than in the rest of Canada, the United States or the average of the industrialized countries.

As far as we have come, there is still much more to accomplish. The legacy of the tax-and-spend policies of the late 1980s and early 1990s continues to this day: Ontarians' standard of living remains below that of the United States. The Government of Ontario believes that with the right policies, the people of this province can have a higher standard of living than our U.S. neighbours.

More Capital Investment Is Vital

More capital investment is vital for creating more highly paid jobs and a rising standard of living for all Ontarians. Investment in machinery and equipment (M&E) is particularly important because most technological advances are embodied in new equipment.

In almost all manufacturing industry comparisons, the investment in capital is much higher in the United States than in Ontario. On average, manufacturing industries in the United States have 1.5 times as much M&E per worker as their Ontario counterparts have. Employees in these industries are more productive and their employers can afford to pay them higher salaries.

One consequence of lagging productivity and higher taxes in Canada has been a lower value for the Canadian dollar. Canadians have effectively had to "mark down" their wages to remain competitive. This makes imports more expensive for Canadian consumers, resulting in a lower standard of living.

Strong investment and strong job creation go hand in hand. Creating and keeping good jobs that fully use the skills of Ontario's labour force requires continuing and growing capital investment. A competitive tax environment is one of the key factors that will attract the scale and quality of business investment that Ontario requires.

LOWER BUSINESS TAX RATES BOOST INVESTMENT

Many factors affect investment location decisions, including the quality of the labour force, infrastructure and environment. However, tax rates remain among the most important factors. Economic studies show that tax rates have a substantial impact on where investment takes place. For example, a study of investment by foreign corporations in U.S. states found that state corporate tax rate differences of one per cent are associated with investment share differences of 9 to 11 per cent (James Hines, *American Economic Review*, 1996, no. 5).

Countries around the world are increasingly recognizing that it is vital to have competitive corporate income tax (CIT) rates in order to attract new investment. In 2000, 10 countries cut the CIT rate and no country increased it. In 2001, 12 countries cut the CIT rate and no country increased it. The average rate in the Organisation for Economic Co-operation and Development at the beginning of 2002 was 31.4 per cent, down from 35.3 per cent in 2000. Based on recent trends, by 2006 the international average is likely to be considerably lower than 31.4 per cent.

Another study, examining the investments of 500 major U.S. corporations in 60 countries, found that a lower tax rate that increases the after-tax return to capital by one per cent is associated with about three per cent more real capital invested (Grubert and Mutti, *National Tax Journal*, December 2000).

LOWER BUSINESS TAX RATES LEAD TO BENEFITS FOR WORKERS

The Scandinavian countries all have corporate income tax rates that are well below Ontario's level. These countries all have a high overall tax burden. However, they have chosen to reduce their corporate tax rates because they know that workers are the main beneficiaries of lower corporate taxes.

> "Economic policy should not be based on tax increases. ...A high tax level is associated with social costs such as a reduction in the labour force. In an ever-more integrated world, the possibilities for maintaining a tax level that deviates also from other countries are substantially limited."
>
> *Norway Ministry of Finance*
> *Report no. 29 to the Storting (2000-2001),*
> *Guidelines for economic policy*

It is an almost unanimous finding among economists that lower corporate income tax rates are ultimately a benefit to workers, rather than the owners of capital. Capital investment is highly mobile internationally, and investors expect to earn the same after-tax rate of return in Ontario as in any other jurisdiction.

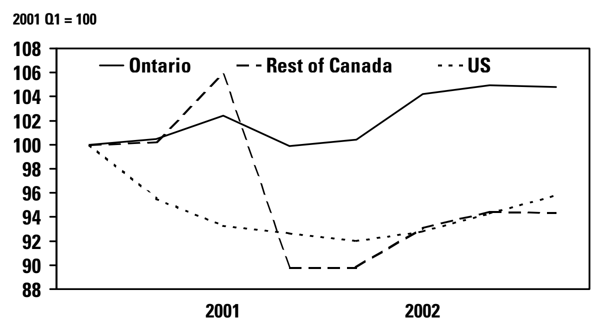
If the CIT rate is higher in Ontario, it must be offset by a higher pre-tax rate of return. This means that only the most profitable of the investment opportunities in Ontario get implemented. Fewer investment projects and fewer new plants mean less demand for workers, and therefore lower real wages for Ontario's workers. Corporate income tax cuts do not primarily benefit higher-income people.

CAPITAL INVESTMENT IN ONTARIO IS IMPROVING IN RESPONSE TO TAX CUTS

There is already evidence that Ontario's tax cuts are making a difference to investment. Capital investment is cyclical, and usually falls back sharply during economic slowdowns. During every previous economic downturn in the United States, investment in Ontario fell back much more sharply than in the United States.

Remarkably, in the past two years, machinery and equipment investment in Ontario has remained quite strong. This is in sharp contrast to major reductions in spending in the United States and the rest of Canada. The recent peak of machinery and equipment investment as a share of Ontario's GDP is at an all-time record in the available data, which go back to 1961.

Ontario Leads in Growth of M&E Investment



Sources: Ontario Ministry of Finance, Statistics Canada and Bureau of Economic Analysis.

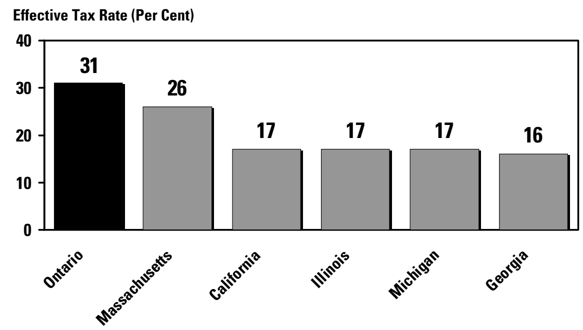
The Ontario Government has taken significant steps to encourage more capital investment. The improvements in the economic environment, including balanced budgets, better regulation and lower personal income tax rates, are all favourable to increased investment. Lower corporate income tax rates are another key factor in creating a more dynamic economy.

BUSINESS TAX CUTS MUST CONTINUE

Ontario's business taxes need to be structured in a way that improves competitiveness to attract the investment essential to economic growth and job creation. That economic growth and job creation in turn will produce more revenue for public services.

Because competition for investment capital is on a global level, Ontario cannot allow its many inherent competitive advantages to be eroded by uncompetitive business taxes.

Average Marginal Effective Tax Rate on Capital



Source: Closing the Prosperity Gap, Task Force on Competitiveness, Productivity & Economic Progress, First Annual Report, November 2002.

Although the United States has a higher average statutory corporate income tax rate than Ontario, there are other features of its corporate tax system that lower the effective tax rate on capital investment.

A recent study by the Task Force on Competitiveness, Productivity and Economic Progress found that the effective tax rates in the United States are lower than in Ontario. Other aspects of the tax system in the United States, such as the absence of capital tax, more generous tax depreciation allowances and inventory cost deductions lower its effective tax rates.

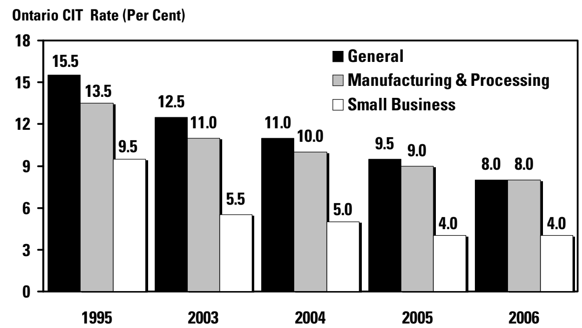
The United States can remain competitive for corporate investment, even with a slightly higher tax rate, because it has the world's largest market and it is the home base for so many major multinational corporations.

For Ontario to attract investment, it is especially vital to maintain competitive tax rates. Increased concerns about security over the past few years, and the resulting heightened border tensions, have made companies more hesitant about investing outside the United States. Ontario must show itself to be strongly competitive in all dimensions to overcome this hurdle.

ONTARIO'S STRATEGY TO MEET THE CHALLENGE

In the 2000 Budget, the Ontario Government introduced measures directed specifically at encouraging capital investment by corporations. A multi-year program of corporate income tax reductions was announced, along with a cut in the capital gains inclusion rate for both individuals and businesses. The Province outlined a corporate tax cut plan with a view to achieving a clear Ontario tax rate advantage over competing jurisdictions. This plan called for corporate income tax rate cuts across the board—for general corporations, manufacturers and small business.

Ontario's Multi-Year Corporate Income Tax Rate Cut Plan



Source: Ontario Ministry of Finance.

The plan that is already legislated will cut corporate income tax rates significantly—to four per cent for small businesses by 2005 and to eight per cent for all other businesses by 2006. Ontario's plan to move to a single corporate tax rate of eight per cent across all sectors will provide a tax system that is more efficient and fair, with less distortion of business investment decisions and more encouragement to expand. But lower corporate income tax rates are only one way to ensure a globally competitive business environment that promotes new investment.

> "…companies have been using the planned Ontario corporate tax reductions to promote the province for new investment. Once they are fully implemented, they will provide a clear measure of advantage over competing jurisdictions such as Texas and Louisiana."
>
> *Canadian Chemical Producers' Association*

ELIMINATION OF CAPITAL TAX

The capital tax also has a significant impact on Ontario's competitiveness and ability to attract new investments.

> "The capital tax has also discouraged many important investments in small business enterprises throughout the province. ...eliminate the capital tax so that the hospitality industry can attract the required capital to remain competitive. Such a decision will not only result in increased prosperity and job creation but it will also raise the profile of Ontario among the international business community as a destination to invest and do business."
>
> *Ontario Restaurant Hotel & Motel Association*

The capital tax is a direct tax, paid year after year, on the money that companies have invested in their capital. It is a tax that must be paid regardless of whether the company makes any profit. It affects not only large businesses, but also growing small and medium-sized businesses with taxable capital as low as $5 million.

The capital tax discourages investment, when it is clear that we should strive to encourage more capital investment. Most of our competitors do not have a significant capital tax, so it has put Ontario at a particular competitive disadvantage.

The Canadian Automotive Partnership Council, which includes representatives from both the federal and provincial governments as well as the auto industry and labour, has issued a set of recommendations for strengthening Canada's auto sector. It described the capital tax as a "key impediment" to investment, and urged its abolition by both governments.

> "Capital taxes are job killers because they are insensitive to the profitability of an enterprise."
>
> *Windsor & District Chamber of Commerce*

In periods of economic slowdown when businesses are losing money and have to search for ways to cut costs, the capital tax forces them to cut in other areas where they have some flexibility, which is chiefly wages. Therefore, the capital tax leads to greater job losses in economic downturns.

> "The capital tax not only is a direct disincentive to the ownership of capital in the province of Ontario, but it also puts Ontario investors at a complete disadvantage to their U.S. competitors."
>
> *Canadian Manufacturers & Exporters*

As a result, Ontario will propose measures to eliminate the capital tax. Eliminating the capital tax would make Ontario a better place to do business. In the future, when investors here and around the world look for a place to invest capital, Ontario would stand out as one of the best business locations in the world. A greater inflow of capital investment to Ontario will support innovation, productivity and economic growth. If the impediment of capital tax were to be removed, more Ontario workers would be employed in productive, high value-added jobs.

A Tax System That Supports and Encourages People at Every Income Level

Ontario's attractiveness as a place to work and invest is also influenced by the way in which individuals are taxed, particularly those mobile managers, scientists, professionals and entrepreneurs who could choose any jurisdiction in which to work or locate their business.

Ontario's personal income tax cuts to date are providing $12 billion in benefits to all individual taxpayers this year. Further cuts to the first and second tax rates, already legislated for January 1, 2004, will add another $700 million in benefits. The greatest percentage savings have been concentrated on taxpayers with low and moderate incomes. Ontario now has the lowest tax rates in Canada for most taxpayers reporting incomes of less than about $60,000 and is broadly competitive with our U.S. neighbours at similar income levels.

This government's commitment to eliminate the personal income tax surtax is an important step in the process of choosing competitiveness and prosperity. The surtax is an extra tax that applies even to people with moderate income. The actions proposed in this Budget, together with the personal income tax cuts scheduled for January 1, 2004, would eliminate the surtax for 40 per cent of the people who currently pay it.

Details of Revenue Measures

The following sections provide information on the taxation measures proposed in the budget. Consistent with normal budgetary procedures, in order for these measures to take effect, the relevant legislation, where required, must be introduced and approved by the Legislature.

For a precise description of these measures, the reader is advised to consult the amending legislation, when approved by the Legislature.

ONTARIO HOME PROPERTY TAX RELIEF FOR SENIORS

Ontario Home Property Tax Relief for Seniors

To help seniors stay in their homes, the Government of Ontario will propose home property tax relief for seniors.

Seniors who own or rent their homes would be eligible for a credit that reimburses their full residential education property tax, starting in respect of their property tax after July 1, 2003.

The credit program would require seniors to complete an application. Once their application has been processed, seniors would be reimbursed for the full amount of their residential education property tax, beginning in 2004.

This new credit would not affect Ontario's continuing significant investments in public education.

INCOME TAX ACT

Ontario Property Tax and Sales Tax Credits

The Ontario Tax Credits for Seniors program would be adjusted to reflect the new Ontario Home Property Tax Relief for Seniors to ensure that already credited amounts are not double counted.

Ontario Tax Reduction Program

The Ontario Tax Reduction program reduces or eliminates Ontario personal income tax otherwise payable by taxpayers with low to moderate incomes. This budget proposes to increase the basic amount from $181 to $197, plus an increase for inflation, effective January 1, 2004.

With this proposed change, about 45,000 taxpayers would be removed from Ontario's income tax roll and 630,000 would pay less Ontario personal income tax. This would bring to 825,000 the number of people who would not pay Ontario income tax but will continue to pay income tax to the federal government.

Surtax

The government has committed to eliminate Ontario's personal income tax surtax, which is an extra tax that applies even to people with moderate incomes. This Budget proposes a further step towards this goal by increasing the threshold above which Ontario surtax becomes payable.

Next year, Ontario's remaining surtax will become payable when Ontario income tax exceeds $4,727 plus an increase for inflation. This budget proposes to increase that threshold to $5,240, effective January 1, 2005.

With this proposal, the surtax would not apply to individuals with taxable income of less than $75,000. The surtax would be eliminated for 70,000 taxpayers and reduced for all other surtax payers.

Improved Tax Support for People with Disabilities and for Family Caregivers

Many individuals with disabilities and their caregivers must cope with more costs than does the general population. Ontario's tax system already recognizes their reduced ability to pay taxes through several non-refundable tax credits for people with disabilities and individuals caring for disabled or infirm family members. Three enhancements are proposed to these credits, effective January 1, 2003.

First, this budget proposes to increase the underlying amounts for the disability credit, the caregiver credit, the infirm dependant credit and the disability credit supplement for children with severe disabilities to $6,637.

Non-refundable Credit	Current 2003 Amount	Proposed 2003 Amount
Disability credit	$6,316	$6,637
Caregiver credit	$3,684	$6,637
Infirm dependant credit	$3,684	$6,637
Disability credit supplement for children with severe disabilities	$3,684	$6,637

Second, this budget proposes to expand the caregiver credit and the infirm dependant credit to include spouses or common-law partners who are dependent by reason of a mental or physical infirmity, and to provide support to more caregivers living apart from dependent relatives.

Third, this budget proposes that both the caregiver credit and the infirm dependant credit be reduced when the dependant's net income reaches $13,050 and eliminated at an income level of $19,687. Currently, the caregiver credit is eliminated when a dependant's income reaches $16,290, and the infirm dependant credit is reduced to zero for dependants with incomes of $8,922 or more.

Taken together, these improvements would provide an estimated $50 million in benefits to about 165,000 Ontario taxpayers.

Ontario also plans to work with the federal government and representatives of the disability and caregiving communities to simplify and further enrich support.

Equity in Education Tax Credit

In the 2001 Budget, the government announced its intention to support families who are seeking more choice with respect to their children's education through a tax credit for parents who send their children to independent schools. In order to enhance the government's support for parental choice in education, the government proposes to accelerate the implementation schedule.

This change would restore the implementation schedule proposed in the 2001 Budget:

Taxation Year	Tax Credit Rate
2003	20%
2004	30%
2005	40%
2006 and subsequent taxation years	50%

Ontario Child Care Supplement for Working Families

In the 1998 Budget, the government introduced the Ontario Child Care Supplement for Working Families as a reinvestment under the National Child Benefit initiative. Additional funds will be made available in July 2003 as a result of the enrichment of the federal National Child Benefit Supplement in the 2003 federal budget.

The Ontario Government proposes to increase the threshold at which benefits from the Ontario Child Care Supplement for Working Families begin to be reduced, from $20,000 to $20,750. Benefits from the Ontario Child Care Supplement for Working Families would continue to be reduced by eight per cent of family net income in excess of the $20,750 threshold.

The higher net-income threshold would be implemented beginning with the July 2003 payment, or adjustments would be made retroactively depending on the enactment by the legislature of the necessary changes to the legislation.

Benefits for the period from July 2003 to June 2004 would be calculated on the basis of amounts reported on families' 2002 income tax returns and Canada Child Tax Benefit information.

CORPORATIONS TAX ACT

Capital Tax

In order to encourage investment, economic growth and job creation, the Government of Ontario proposes to eliminate the capital tax.

In 2001, as a first step to capital tax elimination, the first $5 million of taxable capital for all corporations was exempted from capital tax. The Ontario Government proposes to eliminate the capital tax for all corporations at the same time that the federal government eliminates its capital tax. This budget announces the next step in eliminating capital tax. Capital tax rates for all corporations would be reduced by 10 per cent effective January 1, 2004.

Corporate Income Tax Incentive for Self-Generated Electricity

Corporations that generate electricity for their own use relieve demand on Ontario's supply of electricity. These corporations are currently eligible for the fast write-off for assets used to generate electricity from alternative or renewable energy sources.

To further encourage electricity self-sufficiency, this budget proposes to provide an additional 100 per cent income tax deduction to Ontario corporations for the cost of qualifying assets used to generate electricity for their own use from alternative or renewable energy sources.

It is proposed that:

- the tax deduction would apply to electrical generating facilities where construction commences after November 25, 2002 and is completed before January 1, 2008; and
- corporations eligible for this incentive would not be eligible for the 10-year income tax holiday for new electricity generation.

Apprenticeship Tax Credit

The Ontario Government is proposing to introduce an Apprenticeship Tax Credit to encourage Ontario businesses to hire apprentices, which would help to increase the availability of skilled workers across key sectors of the economy such as manufacturing and construction.

Tax Incentive

Corporations and unincorporated businesses in Ontario would be eligible for a 10 per cent refundable tax credit for eligible expenditures in respect of apprentices in a qualifying skilled trade. The tax credit would be increased to 15 per cent for businesses with total payroll costs of not more than $400,000. An employer would be eligible for a tax credit of up to $250 per month per apprentice to a maximum of $6,000 over a 24-month employment period.

Eligible Expenditures

Eligible expenditures would be salaries and wages paid after March 27, 2003 to an apprentice in a qualifying skilled trade.

Qualifying skilled trades would include designated construction and industrial trades as well as the leading-edge technology trades eligible under the present apprenticeship component of the Co-operative Education Tax Credit.

Apprenticeship Tax Credit

Skilled trades qualifying for the Apprenticeship Tax Credit would include, but not be limited to, the following:

Industrial Trades
- General machinist
- Tool and die maker
- Machine tool design
- Industrial electrician
- Mould designer
- Mould maker
- Industrial mechanic (millwright)
- Industrial instrument mechanic
- Industrial electrical technician
- Precision metal fabricator

Construction Trades
- Plumber
- Sheet metal worker
- Electrician
- Refrigeration and air conditioning mechanic
- Brick and stone mason
- General carpenter
- Ironworker

Services Trades
- Electronic service technician
- Micro-electronics manufacturer
- Network cabling specialist
- Information technology support analyst

Motive Power Trades
- Fuel and electrical systems technician
- Motive power machinist

Interaction with the Leading-Edge Technology Component of the Co-operative Education Tax Credit

The Co-operative Education Tax Credit would continue to be available to businesses hiring co-op students and post-secondary students enrolled in leading-edge technology programs other than apprenticeship programs.

Rules would be introduced to provide a transition to the proposed new tax credit for existing apprenticeships under the Co-operative Education Tax Credit.

Ontario Film and Television Tax Credit

The Ontario Film and Television Tax Credit (OFTTC) is a 20 per cent refundable tax credit available to Ontario-based, Canadian-controlled production companies producing eligible productions in Ontario.

To maintain Ontario's competitive advantage in the film and television production industry and to promote job creation in this important sector of the Ontario economy, the Ontario Government is proposing to enhance the OFTTC.

Effective for productions commencing principal photography after March 27, 2003, eligible Ontario labour expenditures would not be reduced by equity investments from government agencies.

TECHNICAL AMENDMENTS

Ontario Book Publishing Tax Credit

The Ontario Book Publishing Tax Credit is a 30 per cent refundable tax credit available to eligible Ontario book publishing companies for qualifying expenditures on eligible literary works by first-time Canadian authors.

Where a corporate reorganization occurs, the successor corporation may not be eligible for the tax credit, though it is continuing the publishing business of the predecessor corporation. To improve fairness, this budget proposes to deem the books published and the qualifying expenditures incurred by the predecessor corporation to be those of the successor corporation. This measure would be effective for corporate reorganizations after December 31, 2001.

Ontario Business-Research Institute Tax Credit

The Ontario Business-Research Institute Tax Credit is a 20 per cent refundable tax credit on qualified research and development (R&D) expenditures incurred by an Eligible Research Institute (ERI) under a research contract funded by the corporation claiming the credit.

To further the tax credit's objectives of strengthening Ontario's R&D competitiveness and forging stronger links between the private sector and non-profit research institutes in Ontario, the following changes are proposed:

- Where an ERI and a corporation are connected at any time during a contract, only the R&D expenditures that relate to the period they are connected would not qualify for the tax credit. Also, the requirement that the corporation and the ERI cannot be connected at any time during the 24 months preceding the contract would be eliminated. These changes would be effective for expenditures incurred after May 6, 1997.
- Effective for subcontracts entered into after March 27, 2003, an ERI would be permitted to subcontract R&D work to any person provided that the work is under the general control of the ERI and represents no more than 10 per cent of the total R&D expenditures incurred under the research contract between the ERI and the corporation.

ELECTRICITY ACT, 1998

Transfer Tax

Municipalities and municipal electricity utilities that transfer an interest in electricity assets to another person are subject to a 33 per cent transfer tax on the value of those assets.

Prior to the restructuring of the electricity industry, there were over 300 municipally owned electricity utilities in Ontario. A two-year transfer tax exemption that applied from 1998 to 2000 reduced this number significantly. But, still over 90 municipally owned utilities remain. To encourage further rationalization and greater efficiencies within the publicly owned electricity distribution sector, a regulation will be made to re-introduce a two-year transfer tax exemption.

The transfer tax exemption would be available for transfers of electricity assets from a municipality or a municipally owned electricity utility to another municipality or publicly owned electricity utility. This exemption would apply to transfers occurring after March 27, 2003 and before March 28, 2005.

RETAIL SALES TAX ACT

Rebate for Wind, Micro-Hydroelectric and Geothermal Energy Systems for Residential Premises

To encourage the production of clean, renewable energy in Ontario, legislation will be introduced that would expand the five-year retail sales tax rebate for solar energy systems, announced in November 2002, to include wind energy systems, micro-hydroelectric systems and geothermal heating/cooling systems for residential premises. The rebate would be available for purchases made after March 27, 2003 and before November 26, 2007.

Increased Rebate for Alternative Fuel Vehicles

To encourage the purchase of alternative, cleaner vehicles and to support their development, legislation will be introduced to double the retail sales tax rebate for qualifying alternative fuel vehicles delivered to purchasers after March 27, 2003, to a maximum of $2,000. The maximum rebate for propane vehicles will remain at $750.

Expansion of Rebate for Capital Investments by Charities

This measure proposes to modernize the retail sales tax rebate for charities constructing new facilities. Religious, charitable or benevolent organizations may currently apply for a rebate of the retail sales tax that they pay for materials incorporated into buildings that they own or lease under a long-term lease. The rebate relieves these organizations from the tax that they would otherwise be required to pay on building materials incorporated into their capital investments.

Regulation amendments would be made to expand the eligibility for this rebate to qualifying religious, charitable or benevolent organizations that enter into an agreement to construct a facility that they will lease on a long-term basis immediately upon completion.

To qualify:

- the building must be transferred to the charity immediately following substantial completion;
- the building must be leased to the charity for at least 20 years; and
- the charity must have the right to acquire the building for nil or nominal consideration at the end of the lease.

This proposal would update the rebate program to reflect modern financing arrangements. All other eligibility rules for the rebate would remain unchanged:

- A religious, charitable or benevolent organization means an organization defined as a "registered charity" for federal income tax purposes with a charitable registration number issued by Canada Customs and Revenue Agency.
- As with the existing rebate, the charity would be required to provide an undertaking that all of the rebate will be used solely for the charitable purposes of the organization.

The new rules would apply to contracts entered into after March 27, 2003. As a transitional rule, partial rebates would be available for contracts entered into on or before March 27, 2003, based on the portion of the contract price paid after March 27, 2003.

Restructure Retail Sales Tax as Applied to Domestic Carriers

Following suggestions from the trucking industry, the Ontario Government will consult with the industry on the merits of extending the modified retail sales tax system for multi-jurisdictional vehicles to all heavy commercial vehicles.

COMMUNITY SMALL BUSINESS INVESTMENT FUNDS ACT

Access to capital for small- and medium-sized businesses would be improved as the result of proposed enhancements to the Labour Sponsored Investment Funds (LSIF) and Community Small Business Investment Funds (CSBIF) programs.

The LSIF program is a significant source of venture capital for small and medium-sized businesses, having invested $350 million in Ontario businesses last year. LSIFs represented the single-largest investor in early-stage businesses in Ontario in 2002.

- There are many small public companies that are unable to access venture capital in today's market environment. For these companies to succeed, they require additional sources of financing. LSIFs, which are a significant source of capital for small companies, are limited in the size of business they can invest in, and in the amount of investment they can make in public companies. In order to improve access to capital for these businesses, the following changes are proposed:
  - The restriction on LSIF investments in companies listed on a stock exchange would be relaxed so that an LSIF could invest up to 25 per cent of its investments in a year in listed companies instead of the current limit of 15 per cent.
  - The definition of a small business would be amended to increase the maximum asset size of an eligible small business to $6 million.
  - Currently, LSIFs are limited to a maximum investment size of $15 million in companies of up to $50 million in assets. The government believes that LSIFs should be able to make larger deals in larger companies. Because the federal government's LSIF program contains identical definitions overlapping Ontario's program, Ontario will approach the federal government to pursue joint action for increasing these limits to allow investments of up to $18 million in businesses with up to $60 million in assets.

In 1997, Ontario introduced the CSBIF program to promote greater access to investment capital for growing businesses with $1 million or less in assets. This program has become an important source of capital for universities and hospitals that are commercializing research. There are now 13 CSBIFs with approximately $50 million of capital.

- In 2003, the following changes are proposed to the CSBIF program to facilitate the establishment of additional CSBIFs:
  - The current deadline for the registration of a CSBIF would be extended from December 31, 2003 to December 31, 2004.
  - The investment incentive available to individuals and corporations would be increased from a maximum of 15 per cent to a maximum of 30 per cent. The investment incentive available would be 15 per cent, at the time of an investment in a CSBIF, and 15 per cent when the CSBIF invests in small businesses. The maximum incentive an individual or corporation would be able to claim is $150,000.
  - The requirement for a CSBIF to obtain investment from a financial institution or LSIF prior to registration would be removed.

- To ensure that taxpayers obtain the maximum investment in small businesses possible in return for the LSIF tax credit, the following change is proposed for the CSBIF program:
  - An LSIF that makes an investment in a CSBIF would be able to count that investment against its own investment pacing requirements once—at the time the LSIF invests in the CSBIF.

CREDIT UNIONS AND CAISSES POPULAIRES ACT

The Ontario Government proposes to give credit union members more choice in determining the best way for their credit union to provide services. Credit unions that want to provide services to their members on a national basis would have the ability to transfer from the Ontario jurisdiction to the federal jurisdiction. Similarly, credit unions from other provinces and federal financial institutions would have the ability to transfer to the Ontario jurisdiction. This would contribute to Ontario's deposit-taking institutions' flexibility to adapt to changing competitive circumstances, and thereby support the ability of Ontarians in communities of all sizes to have effective access to high-quality banking and financial services.

LAND TRANSFER TAX ACT

Exempting Life Leases from Land Transfer Tax

Life leases are a form of housing for seniors, whereby the owner of a life lease has the exclusive right to occupy a residential dwelling for life. This government recognizes the unique nature of life leases. It is proposed that certain life leases be exempt from land transfer tax. Life lease transactions that would qualify for the exemption are those pursuant to agreements between a registered charity under the federal *Income Tax Act*, or a non-profit organization as specified in the regulation, and the purchaser of the life lease. The proposed exemption would be implemented by regulation and would be retroactive to the application of land transfer tax to unregistered dispositions of land.

Transfers of Farmland between Family Members

Farming and farm-related businesses make an important contribution to Ontario's economy. Currently, transfers of farmland into a family farm corporation are exempt from land transfer tax. To provide relief for all farmers, it is proposed that amendments to the Regulation would be made to expand the exemption to include transfers of farmland between family members. The proposed measure would apply to qualifying transfers after March 27, 2003.

PROPERTY TAX

Property Assessment and Classification Review

In 2002, a review of property assessment and classification issues was conducted by Marcel Beaubien, MPP, Lambton-Kent-Middlesex, Parliamentary Assistant to the Minister of Finance. A report containing a broad range of recommendations on the issues raised by stakeholders during the review was released by Mr. Beaubien in November 2002. The public was invited to provide feedback to the Minister of Finance on the recommendations in this report as it is the government's intention to consider stakeholder feedback before making decisions about the implementation of these recommendations.

As a result of the positive feedback received to date, the government is moving forward with the following measures to streamline administration and enhance the fairness and flexibility of the property tax system.

Managed Forests Property Class:

- To provide municipalities with more flexibility to respond to local priorities, the government proposes to amend the *Municipal Act, 2001* to enable upper-tier and single-tier municipalities to reduce the municipal portion of the tax rate on the managed forests property class below 25 per cent of the residential tax rate. Municipalities would be given this option beginning in the 2003 taxation year. This measure would mirror the option provided for the farm property class in the 2002 Budget.
- To help promote greater land stewardship planning and to recognize the diversity of the forest landscape, the eligibility criteria for the managed forests property class would be expanded to allow natural areas that cannot support tree growth, such as marshes or rock facings, to be included in the managed forests property class along with eligible forested areas. This measure would be implemented by regulation and would take effect for the 2004 taxation year.
- To reduce red tape and to streamline the administration of the managed forests property class, the following administrative improvements are proposed to be implemented by regulation:
    - Change the application deadline from August 31 to July 31 to allow sufficient time for applications to be processed prior to the preparation of the assessment roll, commencing with the assessment roll for the 2004 taxation year.
    - Change the application requirement from annual to every 10 years to reduce property owners' costs of obtaining managed forest plans. Appropriate monitoring measures would be in place to ensure ongoing compliance with eligibility criteria between application periods.

- Change the application filing requirements to remove the obligation for property owners to submit an entire managed forest plan and only require relevant portions of plans to be submitted.
- Allow applications to be accepted up to December 31 of the taxation year in situations where there are mitigating circumstances, such as changes of ownership, commencing with the 2003 taxation year.

Farm Property Class:

- Consistent with the change proposed for the managed forests property class, the government intends to authorize the acceptance of applications for inclusion in the farm property class up to December 31 of the taxation year, commencing with the 2003 taxation year, to provide the flexibility to address situations where there are mitigating circumstances (such as a change of ownership). This measure would be implemented by regulation.

Rooming Houses:

- To clarify the regulation defining property classes (Ontario Regulation 282/98), the Province proposes to amend the regulation to specify that licensed rooming houses shall be included in the residential property class, not in the multi-residential property class, beginning in 2003. This amendment would alleviate the uncertainty that currently exists for taxpayers who are occupying this low-cost form of housing.

The government is continuing to receive input from stakeholders in response to the remaining recommendations in Mr. Beaubien's report. Analysis of these recommendations is ongoing and will be taken into consideration in the context of the 2004 reassessment.

Assessment Quality Measures

Under the *Municipal Property Assessment Corporation Act, 1997*, the Minister of Finance has the authority to establish "policies, procedures and standards" for the provision of assessment services by the Municipal Property Assessment Corporation (MPAC).

As province-wide reassessments will now be conducted annually, the government intends to open a dialogue with taxpayers, municipalities and MPAC to identify policies, procedures and standards that could be implemented to enhance the quality of assessment service delivery, improve customer satisfaction and bring further clarity to MPAC's roles and responsibilities.

As an immediate measure, an amendment will be proposed to the *Assessment Act* to enable the Minister of Finance to prescribe additional information that must be included on the assessment roll beyond the current requirements. This authority would facilitate improvements to the nature and clarity of assessment information that is made available to municipalities and taxpayers.

Assessment Averaging Review

In 1998, the Province introduced current value assessment (CVA) to bring fairness and accountability to the property tax system in Ontario. As part of the original property tax reform plan, the government introduced legislation to enact an assessment averaging mechanism that would take effect in 2005. Subsequent to the enactment of the assessment averaging legislation, the Province implemented mandatory limits on annual property tax increases and provided municipalities with a variety of tax mitigation tools to ensure that the transition to the new current value assessment system would be manageable for taxpayers.

As five years have now passed since CVA and tax mitigation tools were introduced, and as assessment averaging is scheduled to be implemented in less than two years, the government believes this is an appropriate time to evaluate whether there is a need for assessment averaging in the context of the existing mechanisms.

Accordingly, Marcel Beaubien, MPP, Lambton-Kent-Middlesex, Parliamentary Assistant to the Minister of Finance, has been appointed to conduct a review, lead public consultations and provide advice to the Minister of Finance on the implementation of assessment averaging in Ontario. This review will consider the effectiveness of the existing property tax mitigation tools and the degree to which assessment averaging would enhance taxpayer protection.

Pending the outcome of Mr. Beaubien's review, the government proposes to defer the introduction of assessment averaging beyond 2005. An amendment to the *Assessment Act* will be proposed to replace the 2005 implementation date with a date to be determined by the Minister of Finance. A notice period of 18 months will be proposed to allow municipalities and the Municipal Property Assessment Corporation sufficient time to implement the operational and systems changes that would be required to support this measure.

The government remains committed to providing taxpayers with a manageable transition to CVA and to maintaining a property tax system that is fair, transparent and accountable.

BEER AND WINE

Microbreweries

Small brewers promote tourism and community and rural development. To encourage the growth and development of Ontario's microbrewery sector, the fees levied by the Alcohol and Gaming Commission of Ontario will be adjusted effective May 26, 2003.

A microbrewery would be defined, on or after May 26, 2003, as a manufacturer of beer whose annual worldwide production over the last five years averages 150,000 hectolitres or less.

The microbrewery reduction rates and thresholds are proposed to change according to the following schedule:

- 5.11 cents per litre for regular beer and 3.61 cents per litre for draught on the first 15,000 hectolitres of beer shipped in Ontario on or after May 26, 2003;
- 12.76 cents per litre for regular beer and 9.01 cents per litre for draught on the next 15,000 hectolitres of beer shipped in Ontario on or after May 26, 2003;
- 25.53 cents per litre for regular beer and 18.03 cents per litre for draught on the next 20,000 hectolitres of beer shipped in Ontario on or after May 26, 2003;
- 38.29 cents per litre for regular beer and 27.04 cents per litre for draught on the next 25,000 hectolitres of beer shipped in Ontario on or after May 26, 2003;
- 45.95 cents per litre for regular beer and 32.45 cents per litre for draught on the next 75,000 hectolitres, up to 150,000 hectolitres of beer shipped in Ontario on or after May 26, 2003; and
- 51.05 cents per litre for regular beer and 36.05 cents per litre for draught when over 150,000 hectolitres of beer is shipped in Ontario on or after May 26, 2003.

Regular beer is beer shipped in containers with a capacity of less than 18 litres. Draught beer is beer shipped in containers with a capacity equal to or greater than 18 litres.

Beer Products Sold in the Liquor Control Board of Ontario (LCBO)

To ensure consistent treatment of all beer products sold in the LCBO, the accounting system for revenue from domestic beer products will be amended to mirror that of imported beer products.

Support for Ontario's Wine Strategy

The government currently supports the Ontario Wine Industry's Strategic Plan "The Wines of Ontario—Building a World-Class Brand" through matching funds for marketing, advertising and tourism initiatives. The current program expires December 31, 2004. To assist this vibrant domestic industry, the Province will commit to provide new marketing support of $2 million annually, for a five-year term. These funds will be available on a matching basis after the existing program expires. This partnership with the private sector will help the industry realize the goals of its strategic plan.

ADMINISTRATIVE FAIRNESS AND EFFECTIVENESS

Ensuring Integrity in the Tax System

All of Ontario's major tax statutes require taxpayers to voluntarily file tax returns, accurately report their tax liabilities and pay the taxes they owe. In a system based on voluntary compliance there will always be those who shirk their responsibility by not filing tax returns and not carrying their fair share of the tax burden. The Ministry of Finance is taking aggressive action to ensure that all corporations file tax returns or Exempt from Filing declarations.

By April 30, 2003, notices will be issued to all corporations in default of filing, requiring immediate filing of appropriate documents. Failure to respond to this notice could ultimately result in the corporation's dissolution and prosecution of the directors of the corporation under the *Provincial Offences Act* for failure to file tax returns. In addition, where tax is owing, late filing penalties will be imposed of up to 17 per cent of the tax owing, escalating to 50 per cent for repeat late filers.

To ensure that all tax debts have been paid or secured, amendments to the *Ontario Business Corporations Act* will be proposed to allow for the dissolution of the corporation and the withholding of clearance certificates for revivals, transfers of assets or dissolutions where tax debts are owed to the Ministry of Finance under the *Employer Health Tax Act, Retail Sales Tax Act, Land Transfer Tax Act, Fuel Tax Act, Gasoline Tax Act* and *Tobacco Tax Act.*

Simplifying Tax Administration by Providing Taxpayers with Quality Service and Information

The Government of Ontario is committed to ensuring that all taxpayers have the information they need in order to determine their tax liabilities and to continuing to improve tax-filing processes for taxpayers. While many improvements have been made in these areas over the past few years, the government recognizes the need for further improvement.

The government is announcing the implementation of Service Commitments and Standards for Tax Administration. These seven commitments and 18 standards will be measured and reported on annually. The commitments and standards will hold the government and its employees accountable for the quality of service provided to taxpayers, and help ensure that tax laws are administered with courtesy and fairness.

Changes to the retail sales tax (RST) Purchase Exemption Certificate (PEC) system will be proposed to reduce red tape and compliance costs for vendors and taxpayers when claiming an exemption from RST on purchases. PECs will no longer require a signature or a list of exempt items and will have no expiry date. These changes would be implemented through amendments to the existing Regulation provisions.

To simplify the purchase of eligible farm-related supplies, equipment and building materials, qualifying farmers will be allowed to use a farmer identification card in lieu of a PEC. Farm organizations will be consulted to establish the implementation date and confirm the administrative process. These changes would be implemented through amendments to the Regulations.

The Ministry of Finance will strengthen the communications around the requirement to file Employer Health Tax (EHT) returns and pay tax by sending an annual information package to employers with payrolls between $300,000 and $400,000, advising them of their potential EHT obligations.

To ensure consistency with existing provisions in the *Corporations Tax Act* and *Employer Health Tax Act,* an amendment will be proposed to the *Retail Sales Tax Act* to provide the authority for the Minister of Finance to seek a waiver from taxpayers in instances where the period for taxes owing is about to become statute-barred. This would allow taxpayers time to gather additional information to support their position without the concern that an estimated assessment would be issued.

Technical Measures

Ontario will introduce legislation and regulations to improve policy and administrative effectiveness, maintain the integrity and fairness of the tax system, and simplify legislation and tax compliance.

- *Assessment Act*
- *Business Corporations Act*
- *Corporations Tax Act*
- *Education Act*
- *Electricity Act, 1998*
- *Employer Health Tax Act*
- *Fuel Tax Act*
- *Gasoline Tax Act*
- *Income Tax Act*
- *Land Transfer Tax Act*
- *Municipal Act, 2001*
- *Municipal Property Assessment Corporation Act, 1997*
- *Municipal Tax Assistance Act*
- *Ontario Energy Board Act, 1998*
- *Retail Sales Tax Act*
- *Tobacco Tax Act*

Benefits to Taxpayers: 2003 Budget Impact Summary	2003-04 ($ Millions)	Full Year ($ Millions)
BENEFITS TO PEOPLE		
Ontario Home Property Tax Relief for Seniors	340	450
Ontario Tax Reduction enrichment	5	20
Surtax threshold increase	0	105
Improved income tax support for people with disabilities and for family caregivers	50	50
Equity in Education Tax Credit	60	180
Changes to Community Small Business Investment Fund Programs	3	3
RST Rebate for Wind, Micro-Hydroelectric and Geothermal Energy Systems for Residential Premises	3	3
Increased RST Rebate for Alternative Fuel Vehicles	2	2
Exempting Life Leases from Land Transfer Tax (LTT)	4	1
LTT Exemption for Transfers of Farmland Between Family Members	5	5
Expansion of RST Rebate for Capital Investments by Charities	2	2
Total Benefits to People	**474**	**821**
BENEFITS TO EMPLOYERS		
Capital Tax (Next Step in Elimination)	3	110
Apprenticeship Tax Credit	11	15
Corporate Income Tax Incentive for Self-Generated Electricity	8	10
Ontario Film and Television Tax Credit	4	4
Business Education Property Tax Cut	14	57
Revenue from Microbreweries	5	6
Corporate Income Tax Technical Amendments	2	2
Total Benefits to Employers	**47**	**204**
Total Benefits to Taxpayers	**521**	**1,025**

Paper D

Ontario's Financing Plan

Highlights

- With the 2002-03 surplus of $524 million, the Province has achieved its target to reduce debt by $5 billion from the 1998-99 level.
- Rating agencies have recognized Ontario’s fiscal and economic achievements. In July 2002, Ontario’s credit rating was upgraded by Moody’s Investors Service (Moody’s) to Aa2 from Aa3, the first upgrade from Moody’s since 1974. In August 2002, both Standard & Poor’s (S&P) and Dominion Bond Rating Service (DBRS) confirmed their AA ratings for the Province. Since 1995, Ontario has achieved nine rating improvements, including four upgrades to its long-term rating.
- Through the Ontario Financing Authority (OFA), the Province intends to raise $11.8 billion in long-term public borrowing for 2003-04, primarily to refinance maturing debt. This will include proceeds from the ninth annual Ontario Savings Bond campaign in June.
- The Province’s 2002-03 long-term public borrowing program of $15.8 billion was completed in a cost-effective manner. As a strong and stable credit, Ontario is able to take advantage of a variety of borrowing opportunities in the domestic and international fixed income markets.
- The Province completed the Ontario Electricity Financial Corporation’s (OEFC) 2002-03 borrowing requirements, including debt maturities of $2.7 billion, and will refinance OEFC’s long-term debt maturities of $3.5 billion in 2003-04.
- OEFC sold $2.1 billion of the Hydro One debt that it had held since the restructuring of the electricity sector in 1999. This sale into the public capital markets resulted in a financial gain of over $200 million for OEFC.
- The Province announced on January 28, 2003 that Desjardins Credit Union Inc. was the successful bidder for the Province of Ontario Savings Office (POSO). Desjardins Credit Union Inc. will be the new owner effective April 1, 2003.

2002-03 Borrowing Program

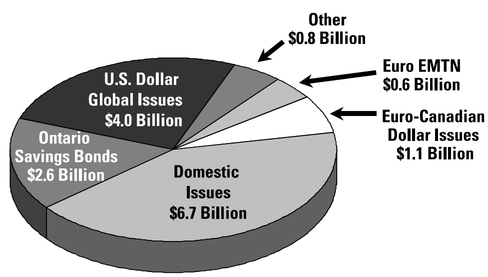
The Province, through the OFA, employed a wide variety of financing approaches to complete its borrowing requirements in 2002-03. Ontario adapted to challenging market conditions by continuing to diversify its funding sources to meet investors' needs. These funding sources included domestic, European and global bonds as well as medium term notes (MTNs). In addition, Ontario residents participated in the annual Ontario Savings Bond campaign.

The Province's bond issues are well received by both retail and institutional investors worldwide. While domestic investors comprise the largest investor base for Ontario, significant foreign investor interest, particularly from the United States, but also Europe and Asia, demonstrates the widespread international demand for Ontario's bonds.

- The Province completed $15.8 billion in long-term public borrowing in 2002-03, compared to the Budget Plan of $12.7 billion. Historically low but rising interest rates made it prudent for the Province to partially pre-fund its 2003-04 financing needs, including $2.2 billion related to the replacement of POSO deposits.
- The domestic market was the main funding source for the Province in 2002-03, providing a total of $6.7 billion, including:
  - 11 syndicated domestic issues; and
  - more than 20 smaller structured issues via the domestic MTN program.
- The 2002 Ontario Savings Bond campaign raised an additional $2.6 billion.
- The Province also issued nine Euro-Canadian dollar bonds via its Euro Medium Term Note (EMTN) program, raising a total of $1.1 billion.

2002-03 Long-Term Public Borrowing

$15.8 Billion in Long-Term Public Borrowing*



* Excludes debt buybacks.
Source: Ontario Financing Authority.

- While more than two-thirds of the borrowing program was raised in Canadian dollars, Ontario was also successful in accessing foreign currency markets. This borrowing achieved funding costs below those available in the Canadian dollar markets. The Province issued seven U.S. dollar global bonds for the Canadian dollar equivalent of $4.0 billion. Additionally, a total of $0.9 billion was raised via a New Zealand dollar global bond, a Euro currency-denominated EMTN and an Australian dollar-denominated EMTN.
- In 2002-03, the Province purchased and retired $517 million of several Ontario debt issues, financing the purchases with similar amounts of debt issued at more favourable rates.

2003-04 Borrowing Program

The Province intends to raise $11.8 billion in long-term public borrowing in 2003-04, primarily to refinance maturing debt.

Financial Summary ($ Billions)	2002-03 Budget Plan	2002-03 Interim	2003-04 Budget Plan
Surplus	0.0	0.5	0.0
Adjustments for:			
Non-Cash Items Included in Surplus	(2.9)	(4.2)	(1.3)
Amortization of Tangible Capital Assets	0.7	0.8	0.8
Acquisitions of Tangible Capital Assets	(1.4)	(1.3)	(1.5)
Maturities of Debt*	(11.7)	(11.6)	(10.1)
Early Redemptions of Debt	(1.2)	(1.1)	(1.0)
Canada Pension Plan Borrowing	0.7	-	1.2
Decrease/(Increase) in Cash and Cash Equivalents	3.0	(0.2)	3.0
Increase/(Decrease) in Short-Term Borrowing	-	1.3	0.3
Other Sources/(Uses) of Cash**	-	-	(3.2)
Long-Term Public Borrowing Requirement	**12.7**	**15.8**	**11.8**

Note: Numbers may not add due to rounding.

* 2002-03 interim maturities of debt are lower than the 2002-03 Budget Plan due to the Province exercising its options on extendible bonds.

** Includes a $1 billion capital injection to the Ontario Municipal Economic Infrastructure Financing Authority and the replacement of approximately $2.2 billion in deposits with the Province of Ontario Savings Office upon its sale.

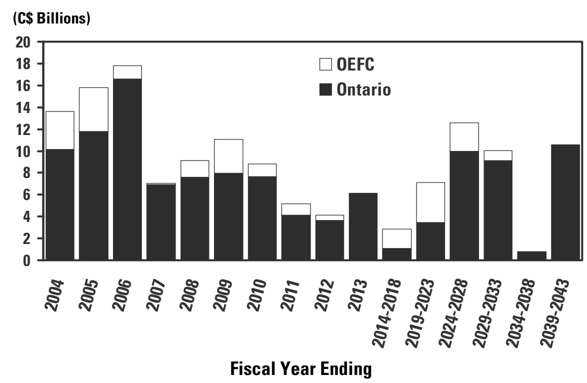
- The domestic market will remain the main borrowing source for the Province, including the ninth annual Ontario Savings Bond campaign in June.
- The Province will also continue to take advantage of foreign markets when cost-effective borrowing opportunities arise.

Debt Management Program

The Province manages its debt by adhering to prudent risk management policies to mitigate its exposures to financial risk, such as interest rate, foreign exchange and credit risk, while maintaining the needed flexibility in its borrowing and debt management programs.

- The Province has set a policy of a maximum interest rate reset exposure of 25 per cent of outstanding debt. Interest rate reset exposure is the combination of net floating rate exposure (i.e., gross floating rate exposure less liquid reserves) and all fixed rate debt maturing within the next 12 months. As of February 28, 2003, interest rate reset exposure was 12.1 per cent of outstanding debt, compared to 12.5 per cent as of March 31, 2002.
- The Province has set a policy that limits exposure to unhedged foreign currencies to five per cent of outstanding debt. As of February 28, 2003, the Province's foreign exchange exposure was 1.5 per cent of outstanding debt, unchanged from March 31, 2002.
- Credit risk arises when the Province invests its liquid reserves and when it carries out debt management activities to mitigate risks associated with new borrowing and outstanding debt. To minimize credit risk, the Province has set a policy of undertaking transactions only with the federal and provincial governments and non-government counterparties with high credit quality.
- Liquid reserves are maintained at levels sufficient to ensure the government can meet its short-term financial obligations. Ontario's Treasury Bill and U.S. Commercial Paper programs are also available to meet additional liquidity needs if required.
- The Province and OEFC have debt maturing over the next three fiscal years ranging from $13.6 billion in 2003-04 to $17.8 billion in 2005-06.
- The Province strives for a balanced debt maturity profile to mitigate the interest rate risk inherent in refinancing maturing and floating-rate debt.

Debt Maturity Profile



Source: Ontario Financing Authority.

Ontario's Credit Ratings

Credit rating agencies have recognized Ontario's fiscal and economic achievements.

In July 2002, Ontario's credit rating was upgraded by Moody's to Aa2 from Aa3, the first upgrade from Moody's since 1974. In August 2002, both S&P and DBRS confirmed their AA ratings for the Province. The upgrade placed Ontario's overall credit ratings second among Canada's provinces, with only Alberta having higher ratings.

Since 1995, Ontario has achieved nine rating improvements, including four upgrades to its long-term rating. These upgrades are based on continued improvements in the Province's financial profile, reflected in:

- consecutive balanced budgets since 1999-2000;
- improved overall competitiveness of Ontario's economy resulting from tax cuts; and
- prudent fiscal policy and continuing improvement in the Province's debt profile.

Ontario's Credit Ratings

	Credit Rating	Outlook
Standard & Poor's	AA	Stable
Moody's Investors Service	Aa2	Stable
Dominion Bond Rating Service	AA	Stable

Source: Ontario Financing Authority.

Ontario Electricity Financial Corporation (OEFC)

OEFC is the agency of the Province responsible for the servicing and management of the former Ontario Hydro's debt, derivative contracts and certain other liabilities.

- OEFC sold $2.1 billion of the Hydro One debt that it had held since the restructuring of the electricity sector in 1999. This sale into the public capital markets resulted in a financial gain of over $200 million for OEFC.
- In 2002-03, the Province completed OEFC's borrowing requirements, including debt maturities of $2.7 billion, through the $2.1 billion raised from the successful sale of the Hydro One notes and the issuance of $0.9 billion in long-term debt.
- OEFC's long-term debt maturities total $3.5 billion in 2003-04. These maturities will be refinanced in the long-term public debt markets.
- On December 9, 2002, the *Electricity Pricing, Conservation and Supply Act, 2002* was passed to freeze the price that families, small businesses and farmers pay for electricity at 4.3¢ per kilowatt-hour (kWh) until 2006. OEFC is responsible for managing the Electricity Consumer Price Protection Fund created under the Act.

Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA) and Ontario Opportunity Bonds

In August 2002, in an address to the annual conference of the Association of Municipalities of Ontario, the Premier announced that OMEIFA would be created to reduce infrastructure financing costs for municipalities to assist them in meeting the challenges presented by expanding economies and growing populations.

The *Ontario Municipal Economic Infrastructure Financing Authority Act, 2002*, which received royal assent on December 9, 2002, provides the framework for the governance and accountability of the new agency.

The Premier also stated that the government would provide a capital injection to OMEIFA of $1 billion to start up the new financing authority and that the Ontario Clean Water Agency would provide $120 million to be dedicated to finance sewage and clean water infrastructure. OMEIFA will issue tax-exempt Ontario Opportunity Bonds to investors to raise additional capital.

Province of Ontario Savings Office (POSO)

POSO provides basic deposit-taking services to the public through its 28 offices in Ontario.

- In the 2001 Budget, the Province of Ontario announced its intent to sell POSO, as it had become clear that these services were better delivered by the private sector, which has more experience in running banks. On September 26, 2002, the government released a Request for Proposals to qualified bidders interested in buying POSO.
- On January 28, 2003, the government announced that Desjardins Credit Union Inc. was the successful bidder for POSO and will be the new owner effective April 1, 2003. Desjardins Credit Union Inc. will pay approximately $50 million for POSO and invest an additional $120 million into expanded services, training and improvements.
- The Province will continue to guarantee payment of all POSO short-term deposits and guaranteed investment certificates that were purchased before April 1, 2003, until their maturity. The Provincial guarantee on demand deposits will remain in place until the transfer of POSO to the new owner. On the date of the transfer, Desjardins Credit Union Inc. will assume responsibility for all POSO deposits.

PAPER D Appendix: Financial Tables

NET PROVINCIAL DEBT **TABLE I (A)**
Interim 2003[1] ($ Millions)

	1999	2000	2001	2002	Interim 2003	Plan 2004
Debt Issued for Provincial Purposes[2]						
Non-Public Debt						
Minister of Finance of Canada:						
Canada Pension Plan Investment Fund	$ 10,487	$ 10,369	$ 10,442	$ 10,063	$ 8,768	$ 7,567
Ontario Teachers' Pension Fund	13,213	12,252	11,535	11,043	10,387	9,487
Ontario Municipal Employees Retirement Fund	666	622	569	502	266	103
Canada Mortgage and Housing Corporation	1,208	1,181	1,147	1,116	1,078	1,040
Public Service Pension Fund	3,604	3,535	3,446	3,331	3,200	3,052
Ontario Public Service Employees' Union Pension Fund (OPSEU)	1,712	1,679	1,637	1,582	1,520	1,450
Colleges of Applied Arts and Technology Pension Plan	89	86	81	73	43	19
Ryerson Retirement Pension Plan	8	8	7	6	5	4
Ontario Immigrant Investor Corporation					42	41
	$ 30,987	$ 29,732	$ 28,864	$ 27,716	$ 25,309	$ 22,763
Publicly Held Debt						
Debentures and Bonds[3]	$ 72,464	$ 72,549	$ 73,279	$ 76,502	$ 81,553	85,364
Treasury Bills	950	3,002	2,680	2,118	2,971	2,626
U.S. Commercial Paper[3]	272	396	523	809	1,256	1,256
Other	460	458	447	447	438	435
	$ 74,146	76,405	$ 76,929	$ 79,876	$ 86,218	$ 89,681
Total Debt Issued for Provincial Purposes	$ 105,133	$ 106,137	$ 105,793	$ 107,592	$ 111,527	$ 113,645
Debt Issued for Investment in Electricity Sector[4]	$ -	$ 8,885	$ 8,885	$ 8,885	$ 8,885	$ 8,885
Deposits with the Province of Ontario Savings Office[5]	$ 2,517	$ 2,812	$ 2,482	$ 2,438	$ -	$ -
Other Liabilities[6]	19,237	19,403	15,940	12,815	14,289	10,058
Total Liabilities:	$ 126,887	$ 137,237	$ 133,100	$ 131,730	$ 134,701	$ 132,588
Less: Total Assets	$ (12,150)	$ (23,522)	$ (22,466)	$ (21,540)	$ (24,995)	$ (22,882)
Net Provincial Debt[7] - Before Provisional Adjustment for CCRA Error; and Accounting Changes	**$ 114,737**	**$ 113,715**	**$ 110,634**	**$ 110,190[7]**	**$ 109,706**	**$ 109,706**

Source: Ontario Ministry of Finance.

(1) The definition of Net Provincial Debt for 2002-03 and 2003-04 includes the Net Investment in Tangible Capital Assets. For all other years, the definition of Net Provincial Debt represents total Liabilities less Financial Assets.

(2) Includes debt issued by Government Organizations.

(3) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts entered into by the Province.

(4) Debt issued for Investment in Electricity Sector comprises notes payable to Ontario Electricity Financial Corporation as a result of a debt for equity swap between the Province and its two wholly owned subsidiaries, Ontario Power Generation Inc. and Hydro One Inc.

(5) On January 28, 2003, the government announced that Desjardins Credit Union Inc. was the successful bidder for POSO. The sale is effective March 31, 2003. POSO deposits are being replaced with long-term and short-term debt. Accordingly, the POSO liability of $2.2 billion is reflected in Other Liabilities in Interim 2003. Funds will be transferred to the purchaser on April 1, 2003.

(6) Other Liabilities include Accounts Payable, Accrued Liabilities and Pensions and reflect amounts Before Provisional Adjustment for CCRA Error; and Accounting Changes.

(7) For more information on Net Provincial Debt, please see 2001-02 Public Accounts of Ontario, Statement of Financial Position.

DEBT MATURITY SCHEDULE **TABLE I(B)**
Interim 2003[1] ($ Millions)

	Debt Issued for Provincial Purposes[2]			Debt Issued by Province for OEFC Purposes[4]	
Year Ending March 31	**Publicly Held Debt[3]**	**Non-Public Debt**	**Sub-Total**		**Total**
2004	9,932	2,546	12,478	3,742	16,220
2005	9,071	2,243	11,314	3,250	14,564
2006	14,484	2,600	17,084	925	18,009
2007	5,892	1,903	7,795	119	7,914
2008	5,376	2,410	7,786	836	8,622
1-5 years	44,755	11,702	56,457	8,872	65,329
6-10 years	18,770	10,217	28,987	3,828	32,815
11-15 years	36	1,320	1,356	-	1,356
16-20 years	1,641	2,044	3,685	230	3,915
21-25 years	9,955	26	9,981	25	10,006
26-50 years	11,061	-	11,061	578	11,639
	86,218	25,309	111,527	13,533	125,060

(1) Prepared on the basis of modified accrual and consolidation accounting.
(2) Includes debt issued by Government Organizations.
(3) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts entered into by the Province.
(4) This debt is offset by bonds of Ontario Electricity Financial Corporation (OEFC) bearing like terms and conditions to the Ontario obligations. Pursuant to the *Ontario Electricity Act, 1998*, OEFC was established as a continuation of Ontario Hydro on April 1, 1999.

SUMMARY OF ONTARIO ELECTRICITY FINANCIAL CORPORATION (OEFC) Interim Debt 2003					TABLE I(C) ($ Millions)
Currency	**Canadian Dollar**	**U.S. Dollar**	**Japanese Yen**	**31-March-03 Total**	**31-March-02 Total**
Fiscal Year					
2003	-	-	-	-	6,544
2004	4,558	309	-	4,867	1,666
2005	3,250	-	65	3,315	3,250
2006	500	425	-	925	1,000
2007	619	-	-	619	119
2008	302	1,572	-	1,874	-
1-5 years	9,229	2,306	65	11,600	12,579
6-10 years	6,389	388	-	6,777	8,237
11-15 years	648	1,114	-	1,762	1,843
16-20 years	3,678	-	-	3,678	2,702
21-25 years	2,083	-	-	2,083	3,037
26-50 years	929	-	-	929	966
	22,956	3,808	65	26,829	29,364

OEFC Debt Statistics					
Interim 2003 ($ Millions)	**2000**	**2001**	**2002**	**Interim 2003**	**Plan 2004**
Debt issued by the Province for OEFC (formerly Ontario Hydro)	9,647	11,195	13,217	13,533	16,200
Debt guaranteed by the Province	21,691	19,371	16,147	13,296	11,400
Total OEFC Debt	31,338	30,566	29,364	26,829	27,600

DESCRIPTION OF DERIVATIVE FINANCIAL INSTRUMENTS — Table I(D)

The table below presents a preliminary maturity schedule of the Province's derivative financial instruments, by type, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts, are not indicative of credit or market risk, and are not representative of actual cash flows.

The Province has sizable financing requirements, largely to refinance maturing indebtedness. To meet these financing requirements in the most cost-effective manner, the Province has issued a variety of debt instruments in domestic and international markets. To take advantage of favourable interest rates, the Province issues debt instruments that are repayable in several currencies other than Canadian dollars.

Derivatives are financial contracts, the value of which is derived from underlying assets. The Province uses derivatives for the purpose of hedging and to minimize interest and currency exchange costs. Hedges are created primarily through swaps, which are legal arrangements, the effect of which is that each party agrees to exchange, with another party, cash flows on a notional amount during a specified period in order to offset or effectively convert its existing obligations. Other derivative instruments used by the Province include forward foreign exchange contracts, forward rate agreements, futures and options.

DERIVATIVE PORTFOLIO NOTIONAL VALUE
Interim 2003 ($ Millions)

Maturity in Fiscal Year	2004	2005	2006	2007	2008	6-10 Years	Over 10 Years	Interim 2003 Total	2002 Total
Swaps:									
Interest rate	2,821	4,442	13,876	1,795	5,539	8,901	7,930	45,304	41,245
Cross currency	3,589	5,915	10,575	1,206	2,512	4,078	-	27,875	29,187
Forward foreign exchange contracts	1,208	-	-	-	-	-	-	1,208	1,252
Futures	251	-	-	-	-	-	-	251	171
	$ 7,869	$ 10,357	$ 24,451	$ 3,001	$ 8,051	$ 12,979	$ 7,930	$ 74,638	$ 71,855

Definitions:

Notional value: represents the volume of outstanding contracts. It does not represent cash flows.

Swap: a legal arrangement, the effect of which is that each of the parties (the counterparty) takes responsibility for a financial obligation incurred by the other counterparty. An interest rate swap exchanges floating interest payments for fixed interest payments or vice versa. A cross-currency swap exchanges principal and interest payments in one currency for cash flows in another currency.

Forward foreign exchange contract: an agreement between two parties to set exchange rates in advance.

Future: a contract that confers an obligation to buy/sell a commodity at a specified price and amount on a future date.

The Province also limits its credit risk exposure on derivatives by entering into contractual agreements that provide for netting arrangements with virtually all of its counterparties, which enables it to settle derivative contracts on a net basis in the event of a counterparty default.

Schedule of Outstanding Debt Issued by the Province of Ontario Interim 2003					TABLE II
Date of Maturity	**Date of Issue**	**Series**	**Interest Rate (%)**	**Outstanding ($)**	**Reference**
			Debt Issued for Provincial Purposes		
PAYABLE IN CANADA IN CANADIAN DOLLARS **NON-PUBLIC DEBT** **To Minister of Finance of Canada** **Canada Pension Plan Investment Fund:** **Year ending March 31**					
2004	1984	CPP	10.92 to 12.14	1,200,847,000	
2005	1985	CPP	12.08 to 14.06	1,133,182,000	
2006	1986	CPP	10.58 to 12.57	1,213,502,000	
2007	1987	CPP	9.36 to 10.17	232,269,000	
2008	1988	CPP	10.79	42,300,000	
2012	1992	CPP	9.81 to 10.04	987,249,000	
2013	1993	CPP	9.17 to 9.45	700,137,000	
2019	1999	CPP	5.81 to 5.84	45,270,000	
2020	1999	CPP	5.50 to 6.91	869,889,000	
2021	2000	CPP	6.33 to 6.67	609,834,000	
2022	2001	CPP	6.17 to 6.47	330,994,000	
				7,365,473,000	
Issued by Government Organizations					
2010	1989	CPP	9.15 to 10.31	435,983,000	
2011	1990	CPP	10.36 to 11.33	799,613,000	
2012	1991	CPP	9.81 to 10.04	91,630,000	
2013	1992	CPP	9.17 to 9.45	75,135,000	
				1,402,361,000	
Total to Canada Pension Plan Investment Fund				8,767,834,000	(5)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued					
Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
To Ontario Teachers' Pension Fund:					
Year ending March 31					
2004	1982-1984	TI	12.88 to 13.34	900,000,000	
2005	1984-1991	TI	12.60 to 13.27	821,000,000	
2006	1985-1991	TI	11.07 to 14.40	1,070,000,000	
2007	1985-1991	TI	10.26 to 13.01	1,185,000,000	
2008	1983-1991	TI	10.15 to 15.38	1,945,000,000	
2009	1986-1991	TI	10.98 to 11.50	1,465,000,000	
2010	1986-1991	TI	10.22 to 11.24	1,236,000,000	
2011	1987	TI	10.11 to 10.32	560,000,000	
2012	1988-1991	TI	10.68 to 11.24	580,000,000	
2013	1989-1991	TI	11.06 to 11.31	625,000,000	
				10,387,000,000	(1)
To Ontario Municipal Employees Retirement Fund:					
Year ending March 31					
2004	1996	MER	9.45	163,695,000	
2007	1996	MER	9.77	102,675,000	
				266,370,000	(1)(38)
To Colleges of Applied Arts & Technology Pension Plan:					
Year ending March 31					
2004	1996	CAAT	9.45	24,255,000	
2007	1996	CAAT	9.77	18,625,000	
				42,880,000	(1)(38)
To Ontario Immigrant Investor Corporation					
Year ending March 31					
2004-2008	2003	OIIC	Zero	41,967,309	(123)
				41,967,309	

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
To Ryerson Retirement Pension Plan:					
Year ending March 31					
2004	1995	RRPF	12.78	1,081,061	
2005	1995	RRPF	13.33	1,229,597	
2006	1995	RRPF	11.16	1,464,199	
2007	1995	RRPF	9.64	1,618,485	
				5,393,342	(1)
To Canada Mortgage and Housing Corporation:					
Year ending March 31					
2000-2004	1974 to 1975	CMHC	5.125 to 7.875	54,532	
2000-2005	1971 to 1975	CMHC	5.125 to 8.625	389,342	
2000-2006	1973 to 1976	CMHC	5.125 to 10.375	566,844	
2000-2007	1974 to 1977	CMHC	5.375 to 10.375	2,018,879	
2000-2010	1970 to 1975	CMHC	5.75 to 6.875	1,558,695	
2000-2011	1971 to 1976	CMHC	5.375 to 8.25	2,833,542	
2000-2012	1972	CMHC	6.875 to 8.25	3,689,497	
2000-2013	1973	CMHC	7.25 to 8.25	700,166	
2000-2014	1974	CMHC	6.125 to 8.25	11,361,699	
2000-2015	1975	CMHC	7.50 to 10.375	7,151,935	
2000-2016	1976	CMHC	5.375 to 10.75	15,348,205	
2000-2017	1977	CMHC	7.625 to 10.75	11,465,977	
2000-2018	1977 to 1978	CMHC	7.625 to 13.00	29,585,263	
2000-2019	1977 to 1980	CMHC	7.625 to 15.25	33,762,881	
2000-2020	1978 to 1980	CMHC	7.625 to 15.75	54,158,503	
2000-2021	1981	CMHC	9.50 to 15.75	26,114,815	
2000-2022	1982	CMHC	9.75 to 15.75	1,037,170	
				201,797,945	(7)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued					
Date of Maturity	**Date of Issue**	**Series**	**Interest Rate (%)**	**Outstanding ($)**	**Reference**
Issued by Government Organizations					
2004	N/A	CMHC	5.207	10,075	
2005	N/A	CMHC	5.125	12,810	
2006	N/A	CMHC	4.25	41,238	
2007	N/A	CMHC	4.674	203,017	
2008	N/A	CMHC	5.875	165,659	
2009	N/A	CMHC	5.375	138,646	
2010	N/A	CMHC	6.46	718,642	
2011	N/A	CMHC	6.416	6,604,779	
2012	N/A	CMHC	5.299	341,767	
2013	N/A	CMHC	5.375	5,146,880	
2014	N/A	CMHC	5.621	15,783,554	
2015	N/A	CMHC	5.822	14,694,383	
2016	N/A	CMHC	6.139	40,279,091	
2017	N/A	CMHC	6.249	63,012,260	
2018	N/A	CMHC	7.133	52,518,737	
2019	N/A	CMHC	5.875 to 7.616	56,864,700	
2020	N/A	CMHC	6.25 to 7.85	174,236,741	
2021	N/A	CMHC	6.875 to 7.56	85,941,610	
2022	N/A	CMHC	6.089 to 6.875	94,426,729	
2023	N/A	CMHC	6.089 to 7.25	75,238,542	
2024	N/A	CMHC	6.089	60,149,021	
2025	N/A	CMHC	6.089 to 7.50	55,100,409	
2026	N/A	CMHC	6.089	21,953,380	
2027	N/A	CMHC	6.089	22,393,095	
2028	N/A	CMHC	6.089	3,403,370	
Various	N/A	CMHC	Various	27,149,000	
				876,528,135	(7)
Total to Canada Mortgage and Housing Corporation				**1,078,326,080**	

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued					
Date of Maturity	**Date of Issue**	**Series**	**Interest Rate (%)**	**Outstanding ($)**	**Reference**
To Public Service Pension Fund:					
Year ending March 31					
2004	1997	OPB	9.50 to 14.65	67,265,166	
2005	1997	OPB	9.82 to 12.78	160,431,479	
2006	1997	OPB	11.05 to 13.33	172,212,515	
2007	1997	OPB	11.16 to 13.33	188,766,466	
2008	1997	OPB	15.38	218,362,903	
2009	1997	OPB	12.79	264,512,886	
2010	1997	OPB	12.88	273,669,452	
2011	1997	OPB	13.33	282,994,558	
2012	1997	OPB	11.55	336,229,108	
2013	1997	OPB	10.38	374,479,804	
2014	1997	OPB	11.10	409,677,031	
2015	1997	OPB	11.19	450,938,707	
				3,199,540,075	(1)(23)(65)
To Public Service Employees' Union Pension Fund:					
Year ending March 31					
2004	1997	OPPT	9.50 to 14.65	31,954,627	
2005	1997	OPPT	9.82 to 12.78	76,213,714	
2006	1997	OPPT	11.05 to 13.33	81,810,350	
2007	1997	OPPT	11.16 to 13.33	89,674,381	
2008	1997	OPPT	15.38	103,734,305	
2009	1997	OPPT	12.79	125,658,067	
2010	1997	OPPT	12.88	130,007,936	
2011	1997	OPPT	13.33	134,437,870	
2012	1997	OPPT	11.55	159,727,189	
2013	1997	OPPT	10.38	177,898,359	
2014	1997	OPPT	11.10	194,618,964	
2015	1997	OPPT	11.19	214,220,513	
				1,519,956,275	(1)(23)(65)
TOTAL NON-PUBLIC DEBT ISSUED				**25,309,267,081**	

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued					
Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
PAYABLE IN CANADA IN CANADIAN DOLLARS					
PUBLICLY HELD DEBT					
Apr. 22, 2003	Dec. 29, 1992	HG	8.75	750,000,000	(1)
July 13, 2003	Jan. 13, 2000	NB	Floating	100,000,000	(8)
Sept. 16, 2003	Sept. 16, 1998	MA	Floating	100,000,000	(1)(73)
June 2, 2004	Feb. 3, 2000	MG	4.875	190,600,000	(1)(97)
June 4, 2004	Oct. 4, 2001	DMTN20	Floating	75,500,000	(1)(102)
June 11, 2004	Oct. 11, 2001	DMTN21	Floating	50,000,000	(1)(100)
July 2, 2004	July 2, 2002	DMTN50	Floating	50,000,000	(129)
Sept. 15, 2009	June 21, 1994	HU	9.00	1,450,000,000	(1)
Nov. 4, 2009	Nov. 4, 2002	DMTN55	Step-Up	25,000,000	(2)
Nov. 27, 2009	Nov. 27, 2002	DMTN56	Step-Up	25,000,000	(17)
Dec. 2, 2004	June 11, 2002	DMTN48	6.40	94,290,000	(130)
Dec. 2, 2014	Oct. 28, 1999	MV	6.40	12,710,000	(34)(49)
Dec. 18, 2009	Dec. 18, 2002	DMTN57	Step-Up	25,000,000	(96)
Jan. 31, 2011	Jan. 31, 2003	DMTN58	Step-Up	25,000,000	(139)
Feb. 18, 2010	Feb. 18, 2003	DMTN59	Step-Up	25,000,000	(85)
Mar. 1, 2005	Mar. 1, 2002	DMTN38	Floating	50,000,000	(115)
Mar. 8, 2005	Dec. 10, 1999	MZ	6.25	1,052,875,000	(1)(106)
May 13, 2005	May 13, 1999	ML	5.85	50,000,000	(44)
Dec. 1, 2005	Sept. 13, 1995	JP	8.25	1,000,000,000	(1)
Feb. 1, 2006	Feb. 1, 1999	MJ	5.00	90,000,000	(1)
Feb. 1, 2006	Feb. 1, 2002	DMTN34	Floating	500,000,000	(1)(105)
Feb. 20, 2006	Feb. 20, 1996	JZ	0.00 to 17.25	107,000,000	(1)(40)
Mar. 8, 2006	Oct. 26, 2000	NL	5.90	995,710,000	(1)(97)
July 20, 2006	July 20, 2001	DMTN6	Step-Up	45,000,000	(3)
July 24, 2006	July 24, 1996	KE	7.75	700,000,000	(1)(39)(78)
Aug. 21, 2006	Aug. 21, 2001	DMTN9	Step-Up	25,000,000	(22)
Sept. 5, 2006	Sept. 5, 2001	DMTN12	Step-Up	25,000,000	(26)
Sept. 11, 2006	Sept. 11, 2001	DMTN13	Step-Up	30,000,000	(36)
Sept. 11, 2006	Sept. 11, 2001	DMTN14	6.25	125,000,000	(32)
Nov. 28, 2006	Nov. 28, 2001	DMTN25	Step-Up	25,000,000	(94)
Dec. 12, 2006	Dec. 12, 2001	DMTN27	Step-Up	25,000,000	(88)
Jan. 12, 2007	Jan. 12, 1995	JF	9.50	132,950,000	(1)(21)
Feb. 12, 2007	Feb. 12, 2002	DMTN35	Step-Up	50,000,000	(108)
Feb. 20, 2007	Nov. 20, 2001	DMTN24	Step-Up	100,000,000	(95)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued					
Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding Issue ($)	Reference
PUBLICLY HELD DEBT - Continued					
Mar. 1, 2007	Mar. 1, 2002	DMTN36	Step-Up	35,000,000	(113)
Mar. 8, 2007	Sept. 11, 2001	DMTN16	5.20	1,499,640,000	(1)(77)(97)
Mar. 19, 2007	Mar. 19, 2002	DMTN41	Step-Up	25,000,000	(6)
May 3, 2007	May 3, 2002	DMTN43	Step-Up	30,000,000	(131)
June 4, 2007	Dec. 4, 2001	DMTN28	Step-Up	30,000,000	(72)
June 18, 2007	Dec. 18, 2001	DMTN31	Step-Up	33,000,000	(111)
July 21, 2007	Jan. 21, 2002	DMTN32	Step-Up	35,000,000	(112)
July 15, 2007	July 15, 2002	DMTN49	Step-Up	50,000,000	(136)
Aug. 27, 2007	Aug. 27, 2001	DMTN11	Step-Up	25,000,000	(42)
Sept. 12, 2007	Sept. 12, 1997	LE	6.125	1,145,000,000	(1)(39)
Nov. 15, 2007	May 15, 2002	DMTN47	Step-Up	25,000,000	(134)
Dec. 10, 2007	Dec. 10, 1997	LH	5.875	66,475,000	(1)
June 3, 2008	June 3, 1999	MN	Floating	50,000,000	(46)
July 15, 2008	Feb. 6, 1998	LM	5.50	75,000,000	(1)
Sept. 4, 2008	Sept. 4, 1998	LW	6.30	50,000,000	(1)
Sept. 17, 2008	Sept. 17, 2001	DMTN15	Step-Up	38,000,000	(52)
Oct. 22, 2008	Oct. 22, 2001	DMTN22	Step-Up	25,000,000	(99)
Dec. 1, 2008	Mar. 5, 2002	DMTN39	Floating	150,000,000	(116)
Dec. 1, 2008	Sept. 15, 1998	LZ	5.70	1,550,000,000	(1)
Dec. 5, 2008	Dec. 5, 2001	DMTN30	Step-Up	50,000,000	(110)
Mar. 3, 2009	Mar. 3, 2003	DMTN60	Step-Up	25,000,000	(140)
Mar. 17, 2009	Mar. 17, 2003	DMTN63	Step-Up	25,000,000	(141)
Mar. 18, 2009	Mar. 18, 2002	DMTN40	Step-Up	30,000,000	(117)
Apr. 1, 2009	Apr. 9, 1998	LR	6.15	205,000,000	(87)
Apr. 3, 2009	Apr. 3, 2002	DMTN42	Step-Up	45,000,000	(132)
May 6, 2009	May 6, 2002	DMTN45	Step-Up	36,000,000	(133)
July 23, 2009	July 23, 2002	DMTN51	Step-Up	25,000,000	(137)
July 27, 2009	July 27, 1999	MR	5.75 to 6.50	40,000,000	(25)
Sept. 4, 2009	Sept. 4, 1997	LD	6.00 to 7.625	75,000,000	(71)
Sept. 10, 2009	Sept. 10, 2002	DMTN52	Step-Up	35,000,000	(138)
Oct. 3, 2009	Oct. 3, 2001	DMTN19	Step-Up	33,000,000	(103)
Nov. 19, 2009	Mar. 19, 1999	MU	6.20	900,000,000	(1)(109)
Mar. 4, 2010	Mar. 4, 2002	DMTN37	Step-Up	25,000,000	(114)
May 30, 2010	May 30, 2001	DMTN4	Step-Up	50,000,000	(59)
June 28, 2010	June 28, 2001	DMTN5	Step-Up	30,000,000	(68)
July 30, 2010	July 30, 2001	DMTN7	Step-Up	25,000,000	(70)
Nov. 19, 2010	Nov. 24, 2000	NK	6.10	1,620,000,000	(1)
Sept. 28, 2011	Sept. 28, 2001	DMTN17	Step-Up	40,000,000	(104)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued					
Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
PUBLICLY HELD DEBT - Continued					
Oct. 5, 2011	Oct. 5, 2001	DMTN18	Step-Up	40,000,000	(101)
Oct. 30, 2011	Oct. 30, 2001	DMTN23	Step-Up	35,000,000	(16)
Nov. 29, 2011	Nov. 29, 2001	DMTN26	Step-Up	50,000,000	(89)
Dec. 2, 2011	Feb. 27, 2002	DMTN8	6.10	1,000,000,000	(1)(60)
July 7, 2012	May 18, 2002	DMTN46	Zero	25,269,411	(98)
Oct. 15, 2012	Oct. 15, 2002	DMTN54	Step-Up	30,000,000	(86)
Dec. 2, 2012	Dec. 2, 2002	DMTN53	5.375	2,000,000,000	(1)
Sept. 1, 2015	Sept. 1, 2000	DMTN1	6.25	34,000,000	(1)(45)
Sept. 4, 2020	Sept. 4, 1998	LY	6.30	50,000,000	(135)
July 13, 2022	July 13, 1992	HC	9.50	1,590,438,000	(1)(53)
Sept. 8, 2023	Sept. 8, 1993	HP	8.10	1,350,000,000	(1)
June 2, 2025	Dec. 20, 1994	JE	9.50	500,000,000	(1)
Dec. 2, 2025	Oct. 5, 1995	JQ	8.50	1,000,000,000	(1)
Feb. 6, 2026	Feb. 6, 1996	JY	8.00	12,500,000	(1)
June 2, 2026	Dec. 21, 1995	JU	8.00	1,000,000,000	(1)
Dec. 2, 2026	Feb. 13, 1997	KR	8.00	386,500,000	(1)
Dec. 2, 2026	Jan. 20, 1999	MH	7.00	124,584,000	(1)(90)
Feb. 3, 2027	Aug. 5, 1997	KN	7.50	58,220,000	(18)
Feb. 3, 2027	Aug. 5, 1997	KT	6.95	8,726,000	(74)
Feb. 3, 2027	Aug. 1, 1997	KY	7.50	11,549,000	(1)
Feb. 3, 2027	Dec. 4, 1998	LA	7.50	5,507,000	(1)
Feb. 4, 2027	Feb. 4, 1998	KQ	7.375	990,000	(1)
June 2, 2027	Oct. 17, 1996	KJ	7.60	4,237,700,000	(1)(75)
Aug. 25, 2028	Feb. 25, 1998	LQ	6.25	2,020,000	(1)
Mar. 8, 2029	Jan. 8, 1998	LK	6.50	4,677,000,000	(1)
Jan. 13, 2031	Sept. 8, 1995	JN	9.50	125,000,000	(1)
June 2, 2031	Mar. 27, 2000	NF	6.20	2,500,000,000	(1)(107)
Mar. 3, 2033	Feb. 17, 2003	DMTN61	5.85	1,000,000,000	(1)
Nov. 3, 2034	Nov. 3, 1994	HY	9.75	280,000,000	(1)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued					
Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
PUBLICLY HELD DEBT - Continued					
Jan. 10, 1995 to					
Jan. 10, 2035	Nov. 30, 1994	HZ	9.4688	2,315,904	(1)(24)
" "	" "	JA	9.4688	16,636,760	(1)(24)(82)
" "	" "	JB	9.4688	8,482,324	(1)(24)
" "	" "	JC	9.4688	4,764,354	(1)(24)
" "	" "	JD	9.4688	3,171,134	(1)(24)
Feb. 8, 2035	Feb. 8, 1995	JJ	9.875	73,000,000	(19)
June 20, 2036	June 28, 1996	KC	8.25	211,000,000	(1)
June 20, 2038	Sept. 16, 1996	KG	8.10	120,000,000	(1)
July 13, 2038	July 29, 1998	LS	5.75	50,000,000	(1)
Aug. 25, 2038	Aug. 17, 1998	LT	6.00	100,000,000	(1)
July 13, 2039	Feb. 2, 1999	MK	5.65	300,000,000	(1)
Dec. 2, 2039	Feb. 25, 2000	NE	5.70	553,700,000	(1)
July 13, 2040	Apr. 18, 2002	DMTN44	6.20	50,000,000	(1)
Dec. 2, 2041	Aug. 15, 2001	DMTN10	6.20	290,000,000	(1)(126)
Mar. 8, 2042	Dec. 4, 2001	DMTN29	6.00	41,000,000	(1)
June 2, 2042	Jan. 18, 2002	DMTN33	6.00	140,000,000	(1)(128)
June 2, 2043	Feb. 24, 2003	DMTN62	5.75	50,000,000	(1)
June 10, 2045	May 25, 1995	JL	8.435	35,531,176	(1)(41)
Mar. 1, 2045	Mar. 1, 1995	JK	9.50	150,000,000	(20)
				40,712,355,063	
ONTARIO SAVINGS BONDS					
Mar. 1, 2000	Mar. 1, 1995	Annual	Variable	2,590,400	(29)
Mar. 1, 2000	Mar. 1, 1995	Compound	Variable	4,472,350	(29)
June 21, 2000	June 21, 1997	Annual	Fixed	371,100	(29)
June 21, 2000	June 21, 1997	Compound	Fixed	221,800	(29)
June 21, 2001	June 21, 1996	Annual	Step-Up	1,483,800	(29)
June 21, 2001	June 21, 1996	Compound	Step-Up	2,933,100	(29)
June 21, 2001	June 21, 1996	Annual	Variable	686,900	(29)
June 21, 2001	June 21, 1996	Compound	Variable	500,600	(29)
June 21, 2001	June 21, 1998	Annual	Fixed	444,200	(29)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued					
Date of Maturity	**Date of Issue**	**Series**	**Interest Rate (%)**	**Outstanding ($)**	**Reference**
ONTARIO SAVINGS BONDS - Continued					
June 21, 2001	June 21, 1998	Compound	Fixed	558,800	(29)
June 21, 2002	June 21, 1999	Annual	Fixed	2,390,300	(29)
June 21, 2002	June 21, 1999	Compound	Fixed	3,537,600	(29)
June 21, 2003	June 21, 1998	Compound	Step-Up	246,371,300	(62)(92)
June 21, 2003	June 21, 1998	Annual	Step-Up	270,137,100	(62)(92)
June 21, 2003	June 21, 2000	Annual	Fixed	438,656,400	(30)(62)
June 21, 2003	June 21, 2000	Compound	Fixed	354,083,900	(30)(62)
June 21, 2004	June 21, 1997	Annual	Step-Up	445,456,400	(62)(66)
June 21, 2004	June 21, 1997	Compound	Step-Up	361,201,500	(62)(66)
June 21, 2004	June 21, 1997	Annual	Variable	9,890,400	(62)(67)
June 21, 2004	June 21, 1997	Compound	Variable	10,082,200	(62)(67)
June 21, 2004	June 21, 1999	Compound	Step-Up	244,513,350	(62)(28)
June 21, 2004	June 21, 1999	Annual	Step-Up	237,819,100	(62)(28)
June 21, 2004	June 21, 2001	Annual	Fixed	709,584,100	(30)(62)
June 21, 2004	June 21, 2001	Compound	Fixed	560,437,400	(30)(62)
June 21, 2005	June 21, 1998	Annual	Variable	67,563,100	(62)(81)
June 21, 2005	June 21, 1998	Compound	Variable	70,412,700	(62)(81)
June 21, 2005	June 21, 2000	Annual	Step-Up	705,343,800	(62)(48)
June 21, 2005	June 21, 2000	Compound	Step-Up	601,201,150	(62)(48)
June 21, 2005	June 21, 2002	Annual	Fixed	531,693,300	(62)(30)
June 21, 2005	June 21, 2002	Compound	Fixed	502,633,100	(62)(30)
June 21, 2006	June 21, 1999	Compound	Variable	72,197,600	(62)(81)
June 21, 2006	June 21, 1999	Annual	Variable	52,920,600	(62)(81)
June 21, 2006	June 21, 2001	Annual	Step-Up	869,007,500	(62)(63)
June 21, 2006	June 21, 2001	Compound	Step-Up	1,077,474,100	(62)(63)
June 21, 2007	June 21, 2000	Compound	Variable	116,973,650	(62)(56)
June 21, 2007	June 21, 2000	Annual	Variable	90,312,600	(62)(56)
June 21, 2007	June 21, 2002	Annual	Step-Up	196,374,400	(62)(124)
June 21, 2007	June 21, 2002	Compound	Step-Up	255,628,700	(62)(124)
June 21, 2008	June 21, 2001	Annual	Variable	93,684,000	(62)(64)
June 21, 2008	June 21, 2001	Compound	Variable	99,940,700	(62)(64)
June 21, 2009	June 21, 2002	Annual	Variable	356,705,800	(62)(127)
June 21, 2009	June 21, 2002	Compound	Variable	249,823,200	(62)(127)
				9,918,314,100	
TOTAL PAYABLE IN CANADA IN CANADIAN DOLLARS				75,939,936,244	(1)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued					
Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
GLOBAL MARKET PAYABLE IN CANADIAN DOLLARS					
Dec. 8, 2003	July 20, 1993	HM	7.75	1,250,000,000	
Jan. 24, 2005	Jan. 24, 2000	NC	Floating	500,000,000	(50)
Jan. 19, 2006	Jan. 19, 1996	JV	7.50	1,240,000,000	(39)
Feb. 7, 2024	Feb. 7, 1994	HS	7.50	1,250,000,000	
TOTAL PAYABLE IN CANADIAN DOLLARS				4,240,000,000	(1)
PAYABLE IN EUROPE IN CANADIAN DOLLARS					
Nov. 27, 2003	Nov. 27, 1998	ME	5.00	250,000,000	
Sept. 27, 2005	Sept. 27, 1993	HQ	7.25	500,000,000	
Dec. 1, 2005	Dec. 1, 1999	EMTN045	6.50	375,000,000	
Jan. 23, 2006	Jan. 23, 2003	EMTN053	3.50	100,000,000	
Aug. 9, 2006	Aug. 9, 2001	EMTN049	5.75	100,000,000	
Sept. 10, 2007	Sept. 10, 2002	EMTN052	4.375	750,000,000	
Dec. 31, 2007	Jan. 16, 2002	EMTN051	5.125	350,000,000	(31)
Jan. 27, 2009	Jan. 27, 1999	EMTN042	5.00	350,000,000	
Nov. 30, 2011	Nov. 30, 2001	EMTN050	5.25	450,000,000	(58)
July 13, 2034	July 13, 1994	EMTN005	9.40	300,000,000	
TOTAL PAYABLE IN EUROPE IN CANADIAN DOLLARS				3,525,000,000	(1)
PAYABLE IN THE UNITED STATES IN CANADIAN DOLLARS					
Feb. 18, 2013	Feb. 18, 1993	HJ	9.24	250,000,000	
TOTAL PAYABLE IN THE UNITED STATES IN CANADIAN DOLLARS				250,000,000	(1)
PAYABLE IN THE UNITED STATES IN U.S. DOLLARS					
June 30, 2005	Mar. 13, 2002	NP	4.20	250,000,000	
TOTAL PAYABLE IN THE UNITED STATES IN U.S. DOLLARS				250,000,000	(1)
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $1.5885				397,125,000	(10)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued					
Date of Maturity	**Date of Issue**	**Series**	**Interest Rate (%)**	**Outstanding ($)**	**Reference**
GLOBAL MARKET PAYABLE IN U.S. DOLLARS					
June 22, 2004	June 22, 1994	HV	7.625	1,000,000,000	
Aug. 4, 2005	Aug. 4, 1995	JM	7.00	1,250,000,000	
Dec. 15, 2005	Nov. 26, 2002	NT	2.625	481,691,920	(125)
Feb. 21, 2006	Feb. 21, 1996	KA	6.00	2,050,000,000	
Sept. 17, 2007	Sept. 17, 2002	NR	3.50	1,000,000,000	
Oct. 1, 2008	Oct. 1, 1998	MB	5.50	1,750,000,000	
Dec. 15, 2009	Oct. 1, 2002	NS	3.75	300,000,000	
July 17, 2012	July 17, 2002	NQ	5.125	750,000,000	
Feb. 15, 2013	Feb. 7, 2003	NU	4.375	500,000,000	
TOTAL PAYABLE IN U.S. DOLLARS				9,081,691,920	(1)
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $1.47419				13,388,151,133	(43)
PAYABLE IN CANADA IN U.S. DOLLARS					
Apr. 24, 2005	Apr. 24, 1995	DMTN1	Floating	100,000,000	
May 1, 2005	May 1, 1995	DMTN2	Floating	100,000,000	
May 9, 2005	May 9, 1995	DMTN3	Floating	100,000,000	
May 16, 2005	May 16, 1995	DMTN4	Floating	100,000,000	
TOTAL PAYABLE IN CANADA IN U.S. DOLLARS				400,000,000	(35)
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $1.36625				546,500,000	(9)
PAYABLE IN EUROPE IN U.S. DOLLARS					
June 12, 2003	Jan. 19, 2001	EMTN047	Floating	100,000,000	
TOTAL PAYABLE IN EUROPE IN U.S. DOLLARS				100,000,000	(1)
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $1.5260				152,600,000	(11)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued					
Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
PAYABLE IN JAPAN IN JAPANESE YEN					
Aug. 25, 2003	Aug. 25, 1993	YL003	Floating	10,000,000,000	(1)(4)
Sept. 22, 2003	Sept. 22, 1993	YL004	5.20	10,000,000,000	(1)
July 6, 2004	July 6, 1994	YL005	4.40	10,000,000,000	(1)
July 21, 2004	July 21, 1994	YL006	4.53	10,000,000,000	(1)
Sept. 8, 2004	Sept. 7, 1994	YL008	4.71	7,000,000,000	(1)
Oct. 25, 2004	Oct. 25, 1994	YL009	5.00	10,000,000,000	(1)
Dec. 20, 2004	Dec. 20, 1994	YL010	4.80	5,000,000,000	(1)
Aug. 31, 2005	Aug. 31, 1995	YL011	3.10	25,000,000,000	(1)
Mar. 16, 2007	Mar. 18, 1997	KU	3.10	5,000,000,000	(1)(54)
Mar. 16, 2007	Mar. 18, 1997	KV	3.25	15,000,000,000	(1)(55)
July 18, 2007	July 18, 1997	YL012	2.615	10,000,000,000	(1)
Nov. 12, 2009	Nov. 12, 1999	YL014	2.00	10,000,000,000	(1)
TOTAL PAYABLE IN JAPAN IN JAPANESE YEN				127,000,000,000	
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $0.01313				1,667,763,321	(14)
GLOBAL MARKET PAYABLE IN JAPANESE YEN					
Jan. 25, 2010	Jan. 25, 2000	ND	1.875	50,000,000,000	
TOTAL PAYABLE IN JAPANESE YEN				50,000,000,000	(1)
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $0.01248				624,152,136	(122)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued					
Date of Maturity	**Date of Issue**	**Series**	**Interest Rate (%)**	**Outstanding ($)**	**Reference**
PAYABLE IN EUROPE IN JAPANESE YEN					
Mar. 15, 2005	Mar. 15, 1995	EMTN015	6.00	2,000,000,000	(33)
Sept. 8, 2005	Mar. 23, 1998	EMTN037	6.21	10,000,000,000	
Sept. 19, 2005	Sept. 4, 1998	EMTN038	6.205	10,000,000,000	
Aug. 29, 2006	Aug. 29, 1996	EMTN021	4.28	10,000,000,000	(57)
Mar. 26, 2007	Apr. 3, 1997	EMTN033	3.20	10,000,000,000	(47)
June 13, 2007	June 13, 1997	EMTN034	3.58	10,000,000,000	(79)
Feb. 25, 2008	Feb. 25, 1998	EMTN036	2.60	7,100,000,000	(80)
Nov. 19, 2009	Nov. 24, 1999	EMTN046	2.00	10,000,000,000	
TOTAL PAYABLE IN EUROPE IN JAPANESE YEN				69,100,000,000	(1)
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $0.01278				883,354,744	(15)
PAYABLE IN EUROPE IN AUSTRALIAN DOLLARS					
Mar. 7, 2008	Mar. 7, 2003	EMTN054	4.75	100,000,000	
TOTAL PAYABLE IN AUSTRALIAN DOLLARS				100,000,000	(1)
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $0.89714				89,713,600	(142)
PAYABLE IN EUROPE IN EUROS					
Jan. 13, 2004	Jan. 13, 1994	HR	6.25	735,825,710	(119)
Sept. 27, 2004	Sept. 27, 1994	HX	7.75	181,512,086	(120)
Feb. 17, 2006	Feb. 17, 1999	EMTN043	3.50	27,000,000	(1)
July 29, 2008	July 29, 1996	KD	6.875	457,347,051	(121)
July 21, 2009	July 21, 1997	EMTN035	5.875	457,347,051	(118)
Mar. 12, 2010	Mar. 12, 2003	EMTN055	3.50	400,000,000	(143)
TOTAL PAYABLE IN EUROPE IN EUROS				2,259,031,898	
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $1.75148				3,956,660,123	(27)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
GLOBAL MARKET PAYABLE IN NEW ZEALAND DOLLARS					
Mar. 3, 2008	Mar. 3, 2003	NV	5.75	250,000,000	
Dec. 3, 2008	Dec. 3, 1998	MF	6.25	250,000,000	
TOTAL PAYABLE IN NEW ZEALAND DOLLARS				500,000,000	(1)
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $0.83151				415,754,000	(69)
PAYABLE IN EUROPE IN NORWEGIAN KRONER					
Dec. 29, 2004	Sept. 12, 1996	EMTN022	7.00	300,000,000	
TOTAL PAYABLE IN EUROPE IN NORWEGIAN KRONER				300,000,000	(1)
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $0.21235				63,704,048	(61)
PAYABLE IN EUROPE IN POUNDS STERLING					
June 10, 2004	June 10, 1998	EMTN039	6.375	200,000,000	
TOTAL PAYABLE IN EUROPE IN POUNDS STERLING				200,000,000	(1)
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $2.3635				472,700,000	(12)
PAYABLE IN EUROPE IN SWISS FRANCS					
July 7, 2003	July 7, 1998	EMTN041	2.50	250,000,000	
TOTAL PAYABLE IN EUROPE IN SWISS FRANCS				250,000,000	(1)
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $0.99726				249,315,000	(13)
TOTAL DEBENTURES AND BONDS				81,553,162,268	
TREASURY BILLS				2,971,000,000	(84)
U.S. COMMERCIAL PAPER (in U.S. Dollars)				817,420,000	
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $1.53674				1,256,161,845	(91)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued					
Date of Maturity	**Date of Issue**	**Series**	**Interest Rate (%)**	**Outstanding ($)**	**Reference**
Other Debt Issued by Government Organizations					
PAYABLE IN THE UNITED STATES IN U.S. DOLLARS					
July 1, 2006	Mar. 31, 1994	Collateralized financing	7.261 to 7.395	313,102,206	
TOTAL PAYABLE IN THE UNITED STATES IN U.S. DOLLARS				313,102,206	
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $1.3977				437,624,036	
TOTAL PUBLICLY HELD DEBT ISSUED				**86,217,948,149**	
TOTAL DEBT ISSUED FOR PROVINCIAL PURPOSES				**111,527,215,230**	(83)
Debt Issued for Ontario Electricity Financial Corporation (OEFC)*					
PAYABLE IN CANADA IN CANADIAN DOLLARS					
NON-PUBLIC DEBT					
Canada Pension Plan Investment Fund					
2007	1986	CPP	9.64	119,000,000	
2008	1988	CPP	9.13 to 9.72	388,715,000	
2009	1989	CPP	9.62 to 10.31	589,319,000	
2010	1990	CPP	9.61 to 10.31	650,712,000	
2021	2001	CPP	6.08	19,375,000	
2022	2002	CPP	6.17 to 6.29	172,961,000	
2023	2003	CPP	6.16	38,130,000	
TOTAL PAYABLE IN CANADA IN CANADIAN DOLLARS				1,978,212,000	(5)

* This debt is offset by Bonds of Ontario Electricity Financial Corporation (OEFC) bearing like terms and conditions to the Ontario obligations. Pursuant to the *Ontario Electricity Act, 1998*, OEFC was established as a continuation of Ontario Hydro on April 1, 1999.

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued					
Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
PAYABLE IN CANADA IN CANADIAN DOLLARS					
PUBLICLY HELD DEBT					
June 2, 2004	Dec. 9, 1998	HC-MG	4.875	3,000,000,000	(76)
Mar. 8, 2006	Mar. 8, 2001	CDB-NLA	5.90	500,000,000	
Dec. 1, 2008	Jan. 22, 1999	HC-LZ	5.70	650,000,000	
Nov. 19, 2009	July 26, 2000	HC-MU	6.20	500,000,000	
Nov. 19, 2010	Sept. 1, 2000	HC-NK	6.10	500,000,000	
Mar. 15, 2011	Mar. 15, 2001	DMTN3	5.50	50,000,000	(37)
Dec. 2, 2011	July 20, 2001	DMTN8	6.10	500,000,000	(60)
June 2, 2027	Feb. 4, 2000	HC-KJA	7.60	25,500,000	
Aug. 25, 2028	Apr. 6, 1999	HC-LQA	6.25	78,600,000	
June 2, 2031	Feb. 24, 2000	HC-NF	6.20	500,000,000	(51)
				6,304,100,000	
PAYABLE IN EUROPE IN CANADIAN DOLLARS					
Nov. 27, 2003	June 17, 1999	HC-ME	5.00	350,000,000	
Feb. 28, 2005	Feb. 28, 2001	EMTN-48	5.25	250,000,000	
				600,000,000	
GLOBAL MARKET PAYABLE IN U.S. DOLLARS					
Dec. 15, 2005	Nov. 26, 2002	GLB-NTB	2.625	268,308,080	(125)
Mar. 28, 2008	Feb. 26, 2003	GLB-NW	3.282	300,000,000	
Oct. 1, 2008	Mar. 19, 2001	GLB-MBB	5.50	250,000,000	
TOTAL PAYABLE IN U.S. DOLLARS				818,308,080	
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $1.5392				1,259,499,999	(93)
TREASURY BILLS				3,081,788,000	
U.S. COMMERCIAL PAPER (in U.S. Dollars)				204,000,000	
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $1.5166				309,386,150	
TOTAL DEBT ISSUED FOR ONTARIO ELECTRICITY FINANCIAL CORPORATION (OEFC)				**13,532,986,149**	

References:

1. Non-callable.
2. Bonds are extendible at the option of the Province on the Initial Maturity Date of November 4, 2004, and on each Extended Maturity Date thereafter to the final maturity date of November 4, 2009. Coupon interest is paid semi-annually at a rate of 4.10% in years 1-2, 4.55% in year 3, 5.40% in year 4, 6.0% in year 5, 6.75% in year 6, and 7.5% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligations on this debt to 3.40%.
3. Bonds are extendible at the option of the Province every six months starting July 20, 2003, to the final maturity date of July 20, 2006. Coupon interest is paid monthly at a rate of 5.35% in years 1-2, 5.90% in year 3, 6.50% in year 4, and 7.00% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.99%.
4. Interest payable is six-month Yen LIBOR.
5. Securities sold to the Canada Pension Plan Investment Fund are payable 20 years after their respective dates of issue, are not negotiable and not transferable or assignable but are redeemable in whole or in part before maturity at the option of the Minister of Finance of Canada, on six months' prior notice, when the Minister deems it necessary in order to meet the requirements of the Canada Pension Plan. In the case of redemption before maturity, the Ontario Securities are to be redeemed in the order in which they were issued and the amount of Ontario Securities to be redeemed at any time shall be proportionate to the amount of all securities then held to the credit of the said fund represented by Ontario Securities.
6. Bonds are extendible at the option of the Province on the Initial Maturity Date of March 19, 2004, and on each Extended Maturity Date thereafter to the final maturity date of March 19, 2007. Coupon interest is paid semi-annually at a rate of 4.20% in years 1-2, 4.75% in year 3, 5.75% in year 4, and 7.1% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligations on this debt to floating three-month Canadian BA rate minus 0.09%.
7. The terms of these debentures require that equal payments be made each year until their maturity. Each payment consists of blended principal and interest.
8. Interest payable is three-month Canadian BA.
9. The Province entered into currency exchange agreements that effectively converted these U.S. dollar obligations to Canadian dollar obligations at an exchange rate of 1.36625. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 8.64%.
10. The Province entered into currency exchange agreements that effectively converted these U.S. dollar obligations to Canadian dollar obligations at an exchange rate of 1.5885. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a floating rate Canadian dollar three-month BA rate minus 0.07%.
11. The Province entered into currency exchange agreements that effectively converted these U.S. dollar obligations to Canadian dollar obligations at an exchange rate of 1.5260. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.85%.
12. The Province entered into currency exchange agreements that effectively converted these Pounds Sterling obligations to Canadian dollar obligations at an exchange rate of 2.3635. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.50%.
13. The Province entered into currency exchange agreements that effectively converted these Swiss franc obligations to Canadian dollar obligations at an exchange rate of 0.99726. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a floating Canadian BA rate minus 0.025%.
14. The Province entered into currency exchange agreements that effectively converted substantially all of these Japanese yen obligations to Canadian dollar obligations at an exchange rate of 0.01313. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 7.87% on $1,448 million, and floating Canadian BA rate minus 0.051% on $220 million.
15. The Province entered into currency exchange agreements that effectively converted substantially all of these Japanese yen obligations to Canadian dollar obligations at an exchange rate of 0.01278. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.78%.
16. Bonds are extendible at the option of the Province on the Initial Maturity Date of October 30, 2003, and on each Extended Maturity Date thereafter to the final maturity date of October 30, 2011. Coupon interest is paid monthly at a rate of 4.75% in year 1. 5.0% in year 2, 5.25% in year 3, 5.50% in year 4, 5.75% in year 5, 6.00% in year 6, 6.50% in year 7, 6.75% in year 8, 7.00% in year 9 and 7.25% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.12%.

17. Bonds are extendible at the option of the Province on the Initial Maturity Date of November 27, 2004, and on each Extended Maturity Date thereafter to the final maturity date of November 27, 2009. Coupon interest is paid semi-annually at a rate of 4.0% in years 1-2, 4.2% in year 3, 4.55% in year 4, 5.35% in year 5, 6.05% in year 6, and 6.55% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.372%.
18. During the 2002-03 fiscal year, the Province purchased for cancellation $4.38 million of the KN Series bonds.
19. Retractable in whole or in part on February 8, 2007, at the holder's option, provided that the notice of retraction is made during the period from July 15, 2006 to January 15, 2007 inclusive. Such election is irrevocable.
20. Retractable in whole or in part on March 1, 2010, at the holder's option, provided that the notice of retraction is made during the period from March 1, 1995 to February 12, 2010 inclusive. Such election is irrevocable.
21. Exchangeable at any time, in whole or in part, at the holder's option, for an equivalent principal amount of Series JG 9.50% bonds due January 12, 2035.
22. Bonds are extendible at the option of the Province on the Initial Maturity Date of August 21, 2003, and on each Extended Maturity Date thereafter to the final maturity date of August 21, 2006. Coupon interest is paid semi-annually at a rate of 5.20% in years 1-2, 5.50% in year 3, 6.00% in year 4 and 6.70% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.63%.
23. The terms of these debentures require that the principal be repaid in 12 equal monthly payments in the year preceding the date of maturity.
24. The terms of these debentures require unequal payments, consisting of both principal and interest, to be made at predetermined irregular intervals. On January 10, 2035, the principal to be repaid on each debenture will be $2.3 million.
25. Bonds are extendible at the option of the Province on the Initial Maturity Date of July 27, 2001 (option exercised), and on each Extended Maturity Date thereafter to the final maturity date of July 27, 2009. Coupon interest is paid semi-annually at a rate of 5.75% in years 1-2, 5.90% in years 3-4, 6.00% in years 5-6, 6.15% in years 7-8, 6.25% in year 9 and 6.50% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.125%.
26. Bonds are extendible at the option of the Province on the Initial Maturity Date of September 5, 2003, and on each Extended Maturity Date thereafter to the final maturity date of September 5, 2006. Coupon interest is paid semi-annually at a rate of 5.00% in years 1-2, 5.25% in year 3, 5.75% in year 4 and 6.40% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.39%.
27. The Province entered into currency exchange agreements that effectively converted these Euro obligations to Canadian dollar obligations at an exchange rate of 1.75148. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.65% on $3,912 million and floating Canadian BA rate minus 0.055% on $45 million.
28. The interest rate was set at 4.75% for the first year. The interest payable is 6.00% in the second year, 6.25% in the third year, 6.50% in the fourth year and 6.75% in the final year.
29. The 1995 series of Ontario Savings Bonds matured on March 1, 2000, the 1997 fixed series bonds matured on June 21, 2000, the 1996 Series bonds and the 1998 fixed series bonds matured on June 21, 2001, and the 1999 fixed series bonds matured on June 21, 2002. The outstanding amounts represent bonds not yet presented for redemption.
30. In every year for the period 1997-2002, the Province issued fixed rate OSBs each with terms of three years. Interest rates were set for the term of the bonds. The rate on the 1997 and 1998 Series bonds was set at 5.25%. The rate on the 1999 and 2001 Series bonds was 5.50%. The rate on the 2000 Series bonds was 6.50%, and the rate on the 2002 Series was 4.625%.
31. During the 2002-03 fiscal year, Series EMTN51 was reopened once, bringing the total issue to $350 million.
32. Callable in full, and not in part, on September 4, 2003, at par. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.06%.
33. Proceeds of issue and repayment are in Japanese yen. Interest is payable in Australian dollars, based on a notional principal of AUD 27.2 million at a rate of 6.00%.
34. The bonds are extendible at the option of the bondholder on or before November 10, 2004. Coupon interest is paid at 6.40% for the first five years. If extended to the final maturity date of December 2, 2014, the coupon will step up to 6.80%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate.
35. Interest payable is six-month U.S. LIBOR plus 0.0475%.
36. Bonds are extendible at the option of the Province on the Initial Maturity Date of September 11, 2003, and on each Extended Maturity Date thereafter to the final maturity date of September 11, 2006. Coupon interest is paid semi-annually at a rate of 4.75% in years 1-2, 5.10% in year 3, 5.55% in year 4 and 6.40% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.07%.

37. Retractable in whole or in part on March 15, 2005, at the holder's option provided that irrevocable notice of retraction is made on March 1, 2005. Coupon interest is paid at 5.50% for the first four years and 6.80% for the remaining six years on outstanding bonds.
38. The original debentures payable to OMERS were replaced effective December 31, 1995, with debentures payable to OMERS and to Colleges of Applied Arts and Technology Pension Plan, in the amounts of $741.6 million and $90.9 million, respectively. The terms and conditions remain the same as those of the original debentures.
39. Agricorp, a Government Organization, holds $15 million in Series LE, $10 million in Series JV and $6.2 million in Series KE.
40. No interest is payable in the first five years, thereafter interest is payable monthly at an annual interest rate of 17.25%.
41. The terms of these debentures require unequal payments, consisting of both principal and interest, to be made at predetermined irregular intervals with the final payment on January 10, 2045. The total principal and interest to be paid over the life of the debenture is $1,325 million in total.
42. Bonds are extendible at the Option of the Province on the Initial Maturity Date of August 27, 2003, and on each Extended Maturity Date thereafter to the final maturity date of August 27, 2007. Coupon interest is paid semi-annually at a rate of 5.10% in years 1-2, 5.60% in year 3, 5.80% in year 4, 6.00% in year 5 and 7.00% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest on this debt to a fixed rate of 4.52%.
43. The Province entered into currency exchange agreements that effectively converted these U.S. dollar obligations to Canadian dollar obligations at an exchange rate of 1.4768. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.24% on $12,649 million and floating Canadian BA rate on $763 million.
44. Bonds are callable on May 13, 2003 at the option of the Province. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.05%.
45. The Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.02%.
46. Interest is payable at floating Canadian BA rate plus 0.85% paid quarterly for the first two years, then 5.75% semi-annually if not called. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.07%.
47. Proceeds of issue and repayment are in Japanese yen. Interest is payable in Australian dollars based on a notional principal of AUD 103.2 million at a rate of 3.2% payable annually. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.86%.
48. The interest rate was set at 5.75% for the first year. The minimum interest payable is 6.25% in the second year, 6.50% in the third year, 6.75% in the fourth year and 7.00% in the final year.
49. During the 2002-03 fiscal year, the Province repurchased for cancellation $94.29 million of Series MV bonds.
50. The Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.63%.
51. This issue has been on-lent to OEFC until June 2, 2010, after which the issue will be assumed by the Province until the maturity date.
52. Bonds are extendible at the option of the Province on the Initial Maturity Date of September 17, 2003, and on each Extended Maturity Date thereafter to the final maturity date of September 17, 2008. Coupon interest is paid annually at a rate of 4.75% in years 1-2, 5.25% in year 3, 6.20% in year 4, 6.25% in year 5, 6.50% in year 6 and 6.75% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.79%.
53. During the 2002-03 fiscal year, the Province repurchased for cancellation $95.282 million of Series HC bonds.
54. Proceeds of issue and repayment are in Japanese yen. Interest is payable in Australian dollars, based on a notional principal of AUD 52.5 million at a rate of 3.10%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.051%.
55. Proceeds of issue and repayment are in Japanese yen. Interest is payable in U.S. dollars, based on a notional principal of USD 120.8 million at a rate of 3.25%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.051%.
56. The Minister of Finance will reset the interest rate every six months. The initial interest rate was set at 6.00%. Effective December 21, 2002, the interest rate was set at 2.50%.
57. Proceeds of issue and repayment are in Japanese yen. Interest is payable in Australian dollars, based on a notional principal of AUD 121.1 million at a rate of 4.28%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 7.38%.
58. During the 2002-03 fiscal year, Series EMTN50 was reopened twice, bringing the total issue to $450 million.

59. Bonds are extendible at the option of the Province on the Initial Maturity Date of May 30, 2003, and on each Extended Maturity Date thereafter to the final maturity date of May 30, 2010. Coupon interest is paid semi-annually at a rate of 5.50% in year 1, 5.75% in year 2, 6.00% in year 3, 6.25% in year 4, 6.50% in year 5, 6.75% in year 6, 7.00% in year 7, 7.50% in year 8 and 8.00% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 5.04%.
60. During the 2002-03 fiscal year, Series DMTN8 was reopened once, bringing the total issue size to $1,500 million (including $500 million for OEFC purposes).
61. The Province entered into currency exchange agreements that effectively converted these Norwegian kroner obligations to Canadian dollar obligations at an exchange rate of 0.21235. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.028%.
62. Current outstanding OSBs are redeemable at the option of the holder on June 21 and December 21 with the exception of fixed rate bonds, which are redeemable at maturity only. All current outstanding OSBs may be redeemed upon the death of the beneficial owner. The 1999, 2000, 2001 and 2002 series may also be redeemed during the 14 calendar days immediately following June 21 and December 21. The Minister of Finance may reset the interest rate from time to time prior to maturity.
63. The interest rate was set at 4.25% for the first year. The rate is 5.00% in the second year, 5.75% in the third year, 6.25% in the fourth year and 6.75% in the final year.
64. The Minister of Finance will reset the interest rate every six months. The initial interest rate was set at 4.50%. Effective December 21, 2002, the interest rate was set at 2.50%.
65. Pursuant to the *Ontario Public Service Employees' Pension Act 1994* and the *Asset Transfer Agreement of December 12, 1994*, the Province is obligated to re-split the debentures between the Public Service Pension Fund ("PSPF") and the Ontario Public Service Employees' Union Pension Plan Trust Fund ("OPSEU Fund") based on accurate data when it is available. On June 13, 1997, a *Restated Sponsorship Amendment and Asset Transfer Agreement* was signed, replacing the 1994 agreement. Pursuant to this Agreement on September 17, 1997, the re-split of the debentures was completed. To effect this redistribution of assets, $3,745.8 million of debentures held by PSPF and $1,751.4 million of debentures held by OPSEU were retired and replaced by $3,726.8 million and $1,770.4 million of debentures to be held by PSPF and OPSEU respectively.
66. The interest rate was set at 3.00% for the first year. The interest payable is 5.25% in the second year, 6.00% in the third year, 6.50% in the fourth year, 7.00% in the fifth year, 7.50% in the sixth year and 8.00% in the final year.
67. The Minister of Finance will reset the interest rate every six months. The initial interest rate was set at 3.25%. Effective December 21, 2002, the interest rate was set at 2.50%.
68. Bonds are extendible at the option of the Province on the Initial Maturity Date of June 28, 2003, and on each Extended Maturity Date thereafter to the final maturity date of June 28, 2010. Coupon interest is paid semi-annually at a rate of 5.70% in years 1-2, 6.00% in years 3-4, 6.25% in year 5, 6.50% in year 6, 7.00% in year 7, 7.50% in year 8 and 8.00% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 4.82%.
69. The Province entered into currency exchange agreements that effectively converted these New Zealand dollar obligations to Canadian dollar obligations at an exchange rate of 0.82770. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.56%.
70. Bonds are extendible at the option of the Province on the Initial Maturity Date of July 30, 2003, and on each Extended Maturity Date thereafter to the final maturity date of July 30, 2010. Coupon interest is paid semi-annually at a rate of 5.50% in year 1, 5.75% in year 2, 6.25% in years 3-4, 6.50% in years 5-6, 7.00% in year 7, 7.25% in year 8 and 7.50% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 4.79%.
71. Bonds are callable at the option of the Province on September 4, 2000, 2003 and 2006 to the final maturity date of September 4, 2009. Coupon interest is paid semi-annually at a rate of 6.00% in years 1-3, 6.125% in years 4-6, 6.35% in years 7-9 and 7.625% in years 10-12. In addition, the Province entered into interest rate agreements that effectively converted the interest obligations on this debt to floating Canadian BA rate minus 0.19%.
72. Bonds are extendible at the option of the Province on the Initial Maturity Date of June 4, 2004, and on each Extended Maturity Date thereafter to the final maturity date of June 4, 2007. Coupon interest is paid semi-annually at a rate of 4.20% in years 1-2, and 6.05% in the remaining three years. In addition, the Province entered into interest rate agreements that converted the interest obligation on this debt to floating Canadian BA rate minus 0.04%.
73. Interest payable is three-month Canadian BA rate minus 0.05%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.23%.
74. During the 2002-03 fiscal year, the Province purchased for cancellation $25.549 million of the KT Series bonds.
75. During the 2002-03 fiscal year, Series KJ bonds were reopened once, bringing the total issue to $4,237.7 million.

76. During the 2002-03 fiscal year, Series HC-MG were reopened twice, bringing the total issue to $3,000 million.
77. During the 2002-03 fiscal year, Series DMTN16 bonds were reopened once, bringing the total issue to $1,500 million.
78. During the 2002-03 fiscal year, Series KE bonds were reopened once, bringing the total issue to $700 million.
79. Proceeds of issue and repayment of principal are in Japanese yen. Interest is payable in U.S. dollars based on a notional principal of USD 86.3 million, at a rate of 3.58% payable annually. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.35%.
80. Proceeds of issue and repayment of principal are in Japanese yen. Interest is payable in U.S. dollars semi-annually based on notional principal of USD 57.1 million, at a rate of 2.6%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.57%.
81. The Minister of Finance will reset the interest rate every six months. The initial interest rate was set at 5.00%. Effective December 21, 2002, the interest rate was set at 2.50%.
82. During the 2002-03 fiscal year, the Province purchased for cancellation $1.54071 million of the JA Series bonds.
83. Total Debt Issued for Provincial Purposes on a consolidated basis includes the long-term debt of the Ontario Housing Corporation for $2,200 million, the Toronto Area Transit Authority (GO Transit) for $438 million and the Ontario Municipal Improvement Corporation for $79 million.
84. The Treasury Bill balance does not include the following Treasury Bill holdings: $267 million held by the Northern Ontario Heritage Fund Corporation, $120 million held by Ontario Trillium Foundation and $33 million held by Ontario Securities Commission, as these will be eliminated upon consolidation.
85. Bonds are extendible at the option of the Province on the Initial Maturity Date of February 18, 2005, and on each Extended Maturity Date thereafter to the final maturity date of February 18, 2010. Coupon interest is paid semi-annually at a rate of 4.15% in years 1-2, 4.40% in year 3, 4.75% in year 4, 5.50% in year 5, 6.30% in year 6 and 7.15% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.519%.
86. Bonds are callable at the option of the Province on October 15, 2004. Coupon interest is not paid until October 15, 2004, after which coupon interest is paid semi-annually at a rate of 5.50%. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligation on this debt to floating Canadian BA rate.
87. Bonds are callable on April 1, 2003 at the Province of Ontario’s option. In addition, the Province entered into interest rate agreements that effectively converted the interest obligations on this debt to floating Canadian BA rate minus 0.09%.
88. Bonds are extendible at the option of the Province on the Initial Maturity Date of December 12, 2003, and on each Extended Maturity Date thereafter to the final maturity date of December 12, 2006. Coupon interest is paid semi-annually at a rate of 4.00% in years 1-2, 4.75% in year 3, 5.90% in year 4 and 7.00% in the final year. In addition, the Province entered into interest rate agreements that effectively locked in a gain of 11 basis points.
89. Bonds are extendible at the option of the Province on the Initial Maturity Date of November 29, 2003, and on each Extended Maturity Date thereafter to the final maturity date of November 29, 2011. Coupon interest is paid semi-annually at a rate of 4.50% in year 1, 4.75% in year 2, 5.00% in year 3, 5.50% in year 4, 6.00% in year 5, 6.25% in year 6, 6.50% in year 7, 6.75% in year 8, 7.00% in year 9 and 7.50% in the final year. In addition, the Province entered into interest rate agreements that effectively locked in a gain of eight basis points
90. The terms of these debentures require that a special one-time interest payment of $31.1 million be made at maturity.
91. U.S. Commercial Paper issues are non-interest bearing with maturities up to 182 days.
92. The interest rate was set at 4.75% for the first year. The minimum interest payable is 5.00% in the second year, 6.00% in the third year, 6.25% in the fourth year and 6.50% in the final year.
93. The Province entered into currency exchange agreements that effectively converted these U.S. dollar obligations to Canadian dollar obligations at an exchange rate of 1.5392. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.51%.
94. Bonds are extendible at the option of the Province on the Initial Maturity Date of November 28, 2003, and on each Extended Maturity Date thereafter to the final maturity date of November 28, 2006. Coupon interest is paid semi-annually at a rate of 3.50% in years 1-2, and 5.25% in the remaining three years. In addition, the Province entered into interest rate agreements that effectively locked in a gain of nine basis points.
95. Bonds are extendible at the option of the Investors on the Initial Maturity Date of November 20, 2002 (option exercised), and on each Extended Maturity Date thereafter to the final maturity date of February 20, 2007. Coupon interest is paid quarterly at a rate of Canadian BA rate minus 0.05% in year 1, BA rate minus 0.01% in year 2, BA rate plus 0.03% in year 3, BA rate plus 0.05% in year 4 and BA rate plus 0.07% for the remaining term.

96. Bonds are extendible at the option of the Province on the Initial Maturity Date of December 18, 2004, and on each Extended Maturity Date thereafter to the final maturity date of December 18, 2009. Coupon interest is paid semi-annually at a rate of 4.0% in years 1-2, 4.20% in year 3, 4.75% in year 4, 5.5% in year 5, 6.0% in year 6 and 6.50% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.320%.
97. Legal Aid, a government organization, holds $9.4 million in Series MG, $4.7 million in Series NL, and $0.36 million in Series DMTN16.
98. This Series is a variable payment, zero coupon bond with a yield of 4.54%.
99. Bonds are extendible at the option of the Province on the Initial Maturity Date of October 22, 2003, and on each Extended Maturity Date thereafter to the final maturity date of October 22, 2008. Coupon interest is paid monthly at a rate of 4.00% in years 1-2, 4.50% in year 3, 5.25% in year 4, 6.10% in year 5, 6.75% in year 6 and 7.50% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.46%.
100. Interest is paid quarterly at three-month Canadian BA rate plus 0.05%.
101. Bonds are extendible at the option of the Province on the Initial Maturity Date of October 5, 2003, and on each Extended Maturity Date thereafter to the final maturity date of October 5, 2011. Coupon interest is paid semi-annually at a rate of 4.70% in year 1, 5.00% in year 2, 5.25% in year 3, 5.50% in year 4, 5.75% in year 5, 6.00% in year 6, 6.25% in year 7, 6.50% in year 8, 7.00% in year 9 and 7.50% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.51%.
102. Interest is paid quarterly at one-month Canadian BA rate plus 0.05%, compounded.
103. Bonds are extendible at the option of the Province on the Initial Maturity Date of October 3, 2003, and on each Extended Maturity Date thereafter to the final maturity date of October 3, 2009. Coupon interest is paid semi-annually at a rate of 4.50% in years 1-2, 5.00% in year 3, 5.50% in year 4, 5.80% in year 5, 6.00% in year 6, 6.50% in year 7 and 7.50% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.50%.
104. Bonds are extendible at the option of the Province on the Initial Maturity Date of September 28, 2003, and on each Extended Maturity Date thereafter to the final maturity date of September 28, 2011. Coupon interest is paid annually at a rate of 5.00% in years 1-2, 5.05% in years 3-4, 5.10% in year 5, 6.35% in year 6, 6.50% in year 7, 6.75% in year 8 and 7.00% in the final two years. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.57%.
105. Interest is paid quarterly at three-month Canadian BA rate plus 0.03%. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on $425 million to a fixed rate of 4.68%.
106. During the 2002-03 fiscal year, the Province repurchased for cancellation $197.125 million of Series MZ bonds.
107. During the 2002-03 fiscal year Series NF was reopened three times, bringing the total issue size to $2,500 million.
108. Bonds are extendible at the option of the Province on the Initial Maturity Date of February 12, 2004, and on each Extended Maturity Date thereafter to the final maturity date of February 12, 2007. Coupon interest is paid semi-annually at a rate of 4.05% in years 1-2, 4.75% in year 3, 6.00% in year 4 and 7.25% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.31%.
109. During the 2002-03 fiscal year, the Province repurchased for cancellation $100 million of Series MU bonds.
110. Bonds are extendible at the option of the Investors on the Initial Maturity Date of December 5, 2002 (option exercised), and on each Extended Maturity Date thereafter to the final maturity date of December 5, 2008. Coupon interest is paid quarterly at a rate of Canadian BA rate minus 0.05% in year 1, Canadian BA rate minus 0.01% in year 2, Canadian BA rate plus 0.03% in year 3, Canadian BA rate plus 0.05% in year 4, Canadian BA rate plus 0.07% in year 5 and Canadian BA rate plus 0.08% in the final two years.
111. Bonds are extendible at the option of the Province on the Initial Maturity Date of June 18, 2004 to the final maturity date of June 18, 2007. Coupon interest is paid semi-annually at a rate of 4.20% in years 1-2, and 6.05% in the final three years, if extended. In addition, the Province entered into interest rate agreements that converted the interest rate obligation on this debt to floating Canadian BA rate minus 0.06%.
112. Bonds are extendible at the option of the Province on the Initial Maturity Date of July 21, 2004, and on each Extended Maturity Date thereafter to the final maturity date of July 21, 2007. Coupon interest is paid semi-annually at a rate of 4.00% in years 1-2, and 6.00% in the final three years, if extended. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.38%.
113. Bonds are extendible at the option of the Province on the Initial Maturity Date of March 1, 2004, and on each Extended Maturity Date thereafter to the final maturity date of March 1, 2007. Coupon interest is paid semi-annually at a rate of 4.10% in years 1-2, 4.50% in year 3, 5.75% in year 4 and 7.25% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest obligation on this debt to floating three-month Canadian BA rate minus 0.08%.
114. Bonds are extendible at the option of the Province on the Initial Maturity Date of March 4, 2004, and on each Extended Maturity Date thereafter to the final maturity date of March 4, 2010. Coupon interest is paid at 4.30% in years 1-2, 4.5% in year 3, 5.10% in year 4, 6.0% in year 5, 6.5% in year 6, 7.0% in year 7 and 7.50% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest obligation on this debt to floating three-month Canadian BA rate minus 0.08%.

115. Interest is paid quarterly at a rate of three-month Canadian BA rate plus 0.275% up to the maximum of 4.775% for the first year, 5.025% for the second year, and 5.775% for the third year. In addition, the Province has entered into interest rate agreements that effectively converted the interest obligation on this debt to floating three-month Canadian BA rate minus 0.01%.
116. The issue is callable on June 1, 2005, at the option of the Province. Interest is paid quarterly at a rate of three-month Canadian BA rate plus 0.59% in years 1-3, and semi-annually at a rate of 5.70% if not called. In the event that the bond is not called, the bond holder has the right to exchange this series for series LZ. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligation on this debt to floating three-month Canadian BA rate minus 0.03%.
117. Bonds are extendible at the option of the Province on the Initial Maturity date of March 18, 2004, and on each Extended Maturity Date thereafter to the final maturity date of March 18, 2009. Coupon interest is paid semi-annually at a rate of 4.5% in years 1-2, 4.75% in year 3, 5.5% in year 4, 6.25% in year 5, 6.5% in year 6 and 7% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating three-month Canadian BA rate minus 0.09%.
118. The amount outstanding in legacy currency is French franc 3,000,000,000. The French franc was converted to Euro using conversion rate of one Euro equals 6.55957 French francs in accordance with Council Regulation (EU) No. 2866/98. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.41%.
119. The amount outstanding in legacy currency is Deutsche marks 1,439,150,000. The Deutsche marks were converted to Euro using conversion rate of one Euro equals 1.95583 Deutsche marks in accordance with Council Regulation (EU) No. 2866/98. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 7.684%.
120. The amount outstanding in legacy currency is Netherlands guilders 400,000,000. The Netherlands guilders were converted to Euro using conversion rate of one Euro equals 2.20371 Netherlands guilders in accordance with Council Regulation (EU) No. 2866/98. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 9.859%.
121. The amount outstanding in legacy currency is French franc 3,000,000,000. The French franc was converted to Euro using conversion rate of one Euro equals 6.55957 French francs in accordance with Council Regulation (EU) No. 2866/98. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 6.6%.
122. The Province entered into currency exchange agreements that effectively converted substantially all of these Japanese yen obligations to Canadian dollar obligations at an exchange rate of 0.01248. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 2.78%.
123. Bonds are zero coupon bonds issued at a discount. The terms of these debentures require payment of principal and interest to be made on individual maturity dates ranging from 2004 to 2008. The total principal and interest to be paid over the life of these debentures is $49,508,448.
124. The interest rates were set at 2.50% for the first year, 3.75% for the second year, 4.50% for the third year, 5.00% for the fourth year and 5.50% for the final year.
125. The issue size is USD $750 million (including $268,308,080 on-lent to OEFC).
126. During the 2002-03 fiscal year, Series DMTN10 was reopened twice, bringing the total issue to $290 million.
127. The Minister of Finance will reset the interest rate every six months. The initial interest rate was set at 2.75%. Effective December 21, 2002, the interest rate was set at 2.50%.
128. During the 2002-03 fiscal year, Series DMTN33 was reopened three times, bringing the total issue to $140 million.
129. Interest is payable quarterly at floating three-month Canadian BA rate minus 0.02%. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on $50 million to a fixed rate of 3.89%.
130. The Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating three-month Canadian BA rate.
131. Bonds are extendible at the option of the Province on the Initial Maturity Date of May 3, 2004, and on each Extended Maturity Date thereafter to the final maturity date of May 3, 2007. Coupon interest is paid monthly at a rate of 4.70% in years 1-2, 5.15% in year 3, 6.05% in year 4 and 6.90% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 4.0775%.
132. Bonds are extendible at the option of the Province on the Initial Maturity Date of April 3, 2004, and on each Extended Maturity Date thereafter to the final maturity date of April 3, 2009. Coupon interest is paid semi-annually at a rate of 4.80% in years 1-2, 5.625% in year 3, 6.50% in year 4, 6.875% in year 5, 7.25% in year 6 and 7.75% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 4.301%.
133. Bonds are extendible at the option of the Province on the Initial Maturity Date of May 6, 2004, and on each Extended Maturity Date thereafter to the final maturity date of May 6, 2009. Coupon interest is paid monthly at a rate of 4.62% in years 1-2, 5.00% in year 3, 6.00% in year 4, 6.50% in year 5, 7.00% in year 6 and 7.25% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.969%.

134. Bonds are extendible at the option of the Province on the Initial Maturity Date of November 15, 2004 and on each Extended Maturity Date thereafter to the final maturity date of November 15, 2007. Coupon interest is paid semi-annually at a rate of 4.50% in years 1-2 and 5.80% in years 3-5, if extended. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 4.532%.
135. The Province has the right to call Series LY on September 4, 2008.
136. Bonds are extendible at the option of the Province on the Initial Maturity Date of July 15, 2004, and on each Extended Maturity Date thereafter to the final maturity date of July 15, 2007. Coupon interest is paid semi-annually at a rate of 4.30% in years 1-2, 5.00% in year 3, 5.75% in year 4 and 6.70% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.624%.
137. Bonds are extendible at the option of the Province on the Initial Maturity Date of July 23, 2004, and on each Extended Maturity Date thereafter to the final maturity date of July 23, 2009. Coupon interest is paid semi-annually at a rate of 4.30% in years 1-2, 5.10% in year 3, 5.80% in year 4, 6.30% in year 5, 6.50% in year 6, and 7.75% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.45%.
138. Bonds are extendible at the option of the Province on the Initial Maturity Date of September 10, 2004, and on each Extended Maturity Date thereafter to the final maturity date of September 10, 2009. Coupon interest is paid semi-annually at a rate of 4.00% in years 1-2, 4.50% in year 3, 5.25% in year 4, 6.00% in year 5, 6.50% in year 6 and 7.25% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.5173%.
139. Bonds are extendible at the option of the Province on the Initial Maturity Date of January 31, 2005, and on each Extended Maturity Date thereafter to the final maturity date of January 31, 2011. Coupon interest is paid semi-annually at a rate of 4.25% in years 1-2, 4.35% in year 3, 4.45% in year 4, 5.25% in year 5, 5.35% in year 6, 5.75% in year 7 and 6.25% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.534%.
140. Bonds are extendible at the option of the Province on the Initial Maturity Date of March 3, 2005, and on each Extended Maturity Date thereafter to the final maturity date of March 3, 2009. Coupon interest is paid semi-annually at a rate of 4.05% in years 1-2, 4.40% in year 3, 4.85% in year 4, 5.85% in year 5 and 6.875% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt into floating three-month Canadian BA rate minus 0.07%.
141. Bonds are extendible at the option of the Province on the Initial Maturity Date of March 17, 2005, and on each Extended Maturity Date thereafter to the final maturity date of March 17, 2009. Coupon interest is paid semi-annually at a rate of 4.0% in years 1-2, 4.10% in year 3, 5.0% in year 4 and 6.0% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt into floating three-month Canadian BA rate minus 0.07%.
142. The Province entered into currency exchange agreements that effectively converted these Australian dollar obligations to Canadian dollar obligations at an exchange rate of 0.89714. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.5252%.
143. The Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.8831%.

Paper E

Creating Jobs and Prosperity Through Strategic Long-Term Tax Reductions

Introduction

In 1995, the Ontario economy was clearly showing the effects of a decade of excessive tax and spending increases.

- In the first half of the 1990s, Ontario suffered its worst economic decline since the Great Depression of the 1930s. In 1994, Ontario's real gross domestic product (GDP) per capita was still about five per cent below its level of five years earlier.
- Relative to both the United States and the rest of Canada, Ontario's real GDP per capita had fallen about 10 percentage points—demonstrating that tax increases and high deficits, not just the global economy, were hurting Ontario.
- Unemployment was high—jobs were being lost to other provinces and the United States.
- Public spending and Provincial debt were out of control. Ontario was facing a potential deficit of $11.3 billion and Provincial debt was growing by $1 million every hour.
- A decade of tax increases was driving investment and job creation to lower-tax jurisdictions.

Since then, a plan to improve fundamentals, highlighted by significant reductions in tax rates, has resulted in stronger economic growth than any of the major industrialized countries, more than a million new jobs and rising living standards. In 2003-04 the government's tax cuts already in place, together with those proposed in this budget, would allow individual and business taxpayers in Ontario to retain over $16 billion of their money.

Ontario Tax Environment in 1995

In 1995, Ontario taxpayers faced some of the highest tax rates in North America. A succession of personal income tax rate increases between 1985 and 1995 had pushed up income taxes significantly for people with lower and middle incomes. Ontario's top tax rate was the second highest in Canada—only British Columbia had a higher top personal income tax rate. Ontario's personal income tax rates were also badly out of line with those of our U.S. competitors.

Ontario's property tax system was in disarray. Properties were assessed infrequently and different methodologies were used, which resulted in a patchwork of out-of-date and unexplainable assessed values. Tax rates applied to those values varied significantly among municipalities.

Education tax rates levied by school boards had jumped by over 60 per cent between 1985 and 1995. During that period, school board tax revenues increased by over 120 per cent, while enrolment increased by only 16 per cent.

Businesses also faced unacceptably high tax rates in 1995. Ontario's tax rate on small businesses—the businesses that create many of the jobs in the economy—was the second highest in Canada at the time. The Employer Health Tax, introduced in 1991, was directly impacting the job creation potential of small business.

Ontario's Tax Cut Record

It was clear that significant changes were needed to address an economy that was in the doldrums and taxes that had reached unacceptably high levels. The government embarked on a bold plan to create jobs by leaving more of people's income in their pockets and the profits of small businesses in the business.

Personal Income Tax Cuts Benefit All Taxpayers

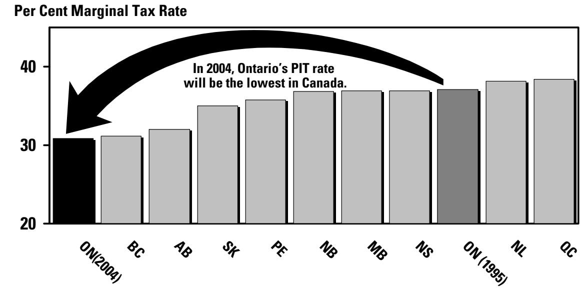
In 1995, the government committed to cut Ontario's personal income tax rate by 30 per cent. By 1998, that commitment had been fulfilled—a year ahead of schedule. In 1999, a new commitment was made to provide Ontarians with an additional $4 billion in benefits by reducing Ontario personal income tax by a further 20 per cent, starting with a five per cent rate cut in 1999.

Until then, Ontario personal income tax was calculated as a percentage of federal tax. This meant that when the federal government increased its tax rates, Ontario's effective tax rates automatically went up too. And Ontario was unable to prevent the hidden tax increases that resulted from the federal government's failure to fully index the income tax system.

In 2000, the Province moved to a "Made-for-Ontario" income tax system, in which provincial income tax is calculated on taxable income, and not on federal tax. Ontario has the authority to set its own tax brackets and rates independently of federal tax brackets and rates, and to provide its own tax credits to recognize the impact of special circumstances on people's ability to pay income tax. The Ontario government has used its new policy flexibility to:

- cut Ontario's first and second tax rates further, providing benefits to all taxpayers;
- index the income tax system to Ontario's inflation rate to protect against hidden tax increases;
- increase tax credits for students, people with disabilities and family members who support them;
- reduce the amount of capital gains included in income from 75 to 50 per cent; and
- take steps to increase the level of income at which Ontario's surtax becomes payable.

Taken together, the personal income tax cuts brought in by the government since 1995 mean that:



Interprovincial Comparison

Combined Federal-Provincial PIT Rates, 2004
For Individuals Earning $50,000

Note: Rates are combined federal-provincial personal income tax rates. Reflects 2003 Federal Budget and Provincial Budgets, through February 2003.
Source: Ontario Ministry of Finance.

- six million Ontarians have had their Ontario personal income tax reduced or eliminated;
- all taxpayers benefit from reduced personal income taxes, with the largest percentage cuts concentrated on individuals with the lowest incomes;
- a typical family of four with net income of $60,000 from two earners will save $2,125 in taxes this year; and
- Ontario's personal income tax rates are lower for most Ontario taxpayers than in other provinces, and the income tax burden on people is much more in line with our American competitors'.

Significant Reductions in Ontario's Personal Income Tax Rates

	1995 Tax Year		
Taxable income brackets		$29,590	$59,180
Ontario tax rates before Ontario 1996 Budget (equivalent to Ontario "tax on tax" rate of 58%)	9.86%	15.08%	16.82%
	2004 Tax Year		
Taxable income brackets (with estimated indexation)		$33,473	$66,946
Ontario tax rates for 2004	5.65%	8.85%	11.16%

Note: Does not include Ontario surtax.

Next year, when Ontario's first and second tax rates are cut further and the surtax threshold is raised, individual taxpayers will benefit from almost $900 million more in income tax savings.

To the government, tax revenues are Ontarians' hard-earned money, entrusted to the Province to be spent efficiently on the programs and services that Ontarians value.

In 1999, the economy performed better than expected and produced more revenue than was needed for the government to achieve the plan that had been set out. As a result, individuals who paid income tax to Ontario in 1999 and contributed to the province's financial success that year became eligible for a "dividend" of up to $200 each. Altogether, $1 billion was returned to five million Ontario taxpayers through this program.

HOMEOWNERS HAVE BENEFITED FROM PROPERTY TAX REFORMS

Beginning in 1998, the Province began a comprehensive reform of the property tax system. The introduction of current value assessment (CVA) in 1998 brought fairness and transparency to the property tax system by assessing properties across the province based on current market values.

Based on several recent studies and the experience of other jurisdictions, the government believes that CVA is the most appropriate basis upon which to value property for taxation purposes. By applying CVA, Ontario is remaining consistent and competitive with most other jurisdictions in North America.

CVA is more equitable, more understandable and more accountable than the former system where assessments in many communities were as much as 50 years out of date. The province-wide application of CVA ensures that similar properties of similar value pay similar taxes in each community. By basing assessments on the amount that properties would sell for at a fixed point in time, property owners can understand their assessments and compare them with other properties.

For the 2003 taxation year, the assessment of properties is based on the amount of money a property would sell for as of the common valuation date of June 30, 2001. The 2003 reassessment marks the beginning of annual province-wide reassessments. Beginning in 2004, annual reassessments will base property values on market conditions as of June 30 of the preceding tax year. We believe it is essential that all properties be assessed on a consistent basis at a fixed point in time and that values be updated on a regular basis. Property values can change over time at different rates, and frequent updates ensure that fairness is maintained.

Municipalities were given the flexibility to gradually implement the tax changes that occur in a reassessment over a period of up to eight years. Many homeowners have benefited from municipalities' use of this option. In addition, a variety of tax relief programs have enabled municipalities to provide assistance to charities, non-profit organizations, heritage property owners, seniors and residents experiencing situations of hardship.

Residential education property tax burdens have been reduced substantially. In 1998, the Province assumed responsibility for determining education funding and setting education property tax rates. In that year, the Province cut residential education property taxes in half and transferred $2.5 billion in tax room to municipalities in the context of a broader reform of provincial and municipal funding responsibilities. A new uniform education property tax rate for all residential and multi-residential properties was established.

In 1999, the government made a commitment to reduce residential education property taxes by 20 per cent. An immediate 10 per cent rate cut was implemented for the 1999 tax year, resulting in $250 million in annual property tax reductions for residential property owners. However, not all homeowners received the benefit of this tax reduction because some municipalities increased the municipal portion of the property tax, which offset the intended education tax savings. Therefore, the government has proposed that the second half of this tax cut be delivered directly to taxpayers by the Province.

Supporting Ontario's Seniors

More than 1.5 million of Ontario's 12 million residents are aged 65 or older. Ontario's senior citizens have helped to create a prosperous and proud province. Their ongoing contributions continue to support Ontario's success and prosperity. As a group, however, senior citizens have lower average incomes than the population as a whole and many rely on fixed incomes.

Ontario's personal income tax system already provides significant recognition for these differences through a variety of tax credits. Ontario's age credit, for example, will deliver over $200 million in tax savings this year to low- and moderate-income seniors. Ontario property and sales tax credits provide enriched benefits for seniors that deliver an additional $300 million a year in income tax–based support to seniors and their families. As a group, seniors are also saving $1.6 billion this year as a result of Ontario's tax cuts to date.

To complete the government's commitment to reduce residential education taxes, this budget proposes to provide senior homeowners and renters with a tax credit that reimburses them for the full amount of the residential education property taxes they pay.

This property tax support will assist all seniors with their housing costs. This assistance will be of particular help to those seniors on fixed incomes, who do not have the opportunity to increase their incomes to keep pace with rising costs.

Seniors would have their residential education property tax on their principal residence fully eliminated through a new Ontario Home Property Tax Relief for Seniors program in respect of property taxes after July 1, 2003. The new application-based credit would be made available to both senior homeowners and senior tenants.

Ontario's 700,000 senior homeowners and 245,000 senior tenants would receive $450 million in net new benefits a year.

Recognizing the Value of Caregiving

Many individuals who live with disabilities or infirmities receive the support and care they need to remain in their homes from family members. These individuals must cope with higher costs than does the general population.

Ontario's tax system currently provides assistance to over 150,000 individuals with disabilities or infirmities and relatives who care for them through a number of non-refundable tax credits, including the disability credit, caregiver credit and infirm dependant credit. However, the care provided by individuals for an infirm spouse or common-law partner goes unrecognized by the current income tax system, as do the efforts of adult children to help their infirm parents or grandparents with modest incomes remain in their own homes.

To close these gaps and provide greater recognition of the impact these circumstances have on an individual's ability to pay income tax, this budget proposes three enhancements to Ontario's current tax support for caring and disabilities.

First, the amounts on which these tax credits are based would be increased to $6,637.

Second, this budget proposes to expand the caregiver credit and the infirm dependant credit to include spouses or common-law partners who are dependent by reason of mental or physical infirmity and to provide support to more caregivers living apart from dependent relatives.

Third, the dependant's income level at which the caregiver credit and infirm dependant credit are reduced would be raised to $13,050, and both credits would be eliminated when the dependant's income reaches $19,687.

In addition, this government proposes to work with the federal government and representatives of caregivers and the disability community to simplify the existing array of personal income tax supports for these individuals and to provide overall enriched benefits, through the income tax system, for individuals with disabilities and their caregivers.

SUPPORTING LOW-INCOME WORKING FAMILIES

Since June 1995, Ontario's tax and transfer system has been changed to support low- and moderate-income working families and to ensure that people are better off working than receiving social assistance.

The greatest percentage cut made to Ontario's statutory tax rates has been in the rate that applies to modest incomes. In 1995, Ontario's first tax rate stood at 9.86 per cent; when Ontario's tax cuts are complete in January 2004, our first tax rate will be 5.65 per cent. This 43 per cent reduction in the rate will give Ontarians with modest incomes the lowest income tax rate in Canada.

At the same time, the Ontario Tax Reduction (OTR) program has been enriched. This program reduces or eliminates income tax for Ontarians with lower incomes. For 2004, this budget proposes to further improve the OTR by increasing the basic personal claim to $197, plus indexation. Altogether, including the enrichment proposed in this budget and rate cuts that will come into effect on January 1, 2004, this government's tax cuts would eliminate Ontario income tax for 695,000 modest-income taxpayers. As well, 825,000 Ontarians would pay no provincial income tax, yet would continue to pay income tax to the federal government.

To complement the income tax cuts, the government also introduced the Ontario Child Care Supplement (OCCS) for Working Families. The OCCS increases the incentive to work by improving the returns from working.

The OCCS was launched as a result of the National Child Benefit (NCB) agreement between the federal government and the provinces. The NCB was designed to ensure that families leaving social assistance are better off as a result of working. Under the NCB agreement, provinces have the option of reducing social assistance payments by the amount of the federal NCB Supplement if they reinvest these funds in programs for low-income families with children. Ontario's principal reinvestment is the OCCS.

To ensure that the OCCS continues to improve the returns from working relative to welfare, this budget proposes to increase the net income level above which OCCS benefits are reduced from $20,000 to $20,750.

Support for Low- to Moderate-Income Working Families

The OCCS is a $1,100 annual tax-free benefit for low- to moderate-income working families with children under age seven. The program also supports parents who are attending school or are receiving training by providing benefits to families with qualifying child care expenses for children under age seven. As well, an annual supplement of $210 per child under age seven is provided to working single parents to recognize their special circumstances. The OCCS was launched in 1998.

This budget proposes to increase the net income threshold at which OCCS benefits begin to be reduced from $20,000 to $20,750. In total, the OCCS will provide over $200 million in benefits annually for up to 373,000 children in 227,000 families.

In June 1995, the structure of Ontario's welfare benefits provided little incentive for low-income families to work. Welfare benefits were higher than the income that many families with children could earn working full-time at a minimum wage job. A single parent with two children, aged four and six, working full-time at $6.85 per hour, the minimum wage, would have had total after-tax income of $16,199 annually, including the federal Child Tax Benefit and Working Income Supplement. This parent would have had to earn $8.40 an hour to have before tax income equal to a similar family on welfare.

Since June 1995, the tax and transfer system has been restructured. The changes increase the return from working and provide an incentive for parents to enter the labour force or work more hours. In 2003, this same single parent working full time at the minimum wage would have an annual after-tax income of $21,558, including $2,620 in OCCS benefits and the Canada Child Tax Benefit. This income is substantially higher than if this family were receiving welfare.

BIG TAX SAVINGS FOR ONTARIO FAMILIES

The results of Ontario's broadly based personal income tax and property tax cuts are clear: significant tax savings for all Ontario taxpayers.

The following examples show the impact of Ontario's tax cuts on individuals and families for a variety of incomes and circumstances.

Examples of Annual Savings from Ontario's Tax Cuts for People ($)

Family Description	Net Income	Tax Cut or Benefit	Saving[1]
Single senior with OAS, CPP and a private pension, paying $500 in monthly rent	20,000	Personal income tax cuts	520
		Residential education property tax cuts	152
			672
One-earner couple with two children under age seven and a home assessed at $150,000	30,000	Personal income tax cuts	1,620
		Residential education property tax cut	56
		Ontario Child Care Supplement	1,460
			3,136
Single parent with two children under age seven and a home assessed at $160,000	40,000	Personal income tax cuts	1,890
		Residential education property tax cut	60
		Ontario Child Care Supplement	1,080
			3,030
Senior couple, one disabled, with income from OAS, CPP and a private pension, living in a home assessed at $170,000	50,000	Personal income tax cuts	2,250
		Residential education property tax cuts	633
			2,883
Two-earner couple with two children over age six and a home assessed at $180,000	60,000	Personal income tax cuts	2,575
		Residential education property tax cut	67
			2,642
One-earner couple with one severely disabled child and a home assessed at $200,000	70,000	Personal income tax cuts	3,955
		Residential education property tax cut	74
			4,029
Single individual with a home assessed at $220,000	80,000	Personal income tax cuts	5,210
		Residential education property tax cut	82
			5,292
One earner and one investor with dividend income and capital gains, living in a home assessed at $240,000	90,000	Personal income tax cuts	5,220
		Residential education property tax cut	89
			5,309

1. Based on tax cuts and benefits since 1995, tax cuts scheduled to take effect in 2004 and measures proposed in the budget, when fully implemented. Residential education property tax cuts include the net benefit under the proposed Ontario Home Property Tax Relief for Seniors.

SIGNIFICANT TAX CUTS FOR SMALL BUSINESS

Ontario's small and medium-sized businesses create over half of the private-sector jobs in the province. With an environment that supports investment, job creation and entrepreneurship, many small businesses can grow into successful large businesses. The Province recognizes the important contribution that small businesses make to the economy and has provided substantial tax cuts to enable them to reinvest the savings, to expand and to create more jobs.

The government's policies are working—since September 1995, the Ontario economy has created more than a million new jobs.

Ontario's personal income tax cuts have supported many of the Province's small businesses. Unincorporated businesses report their business income on their personal income tax returns. By reducing income tax rates for individuals, Ontario has also reduced the taxes on unincorporated small business owners. Those tax cuts provide small business owners with more money to invest in the growth of the business and to hire more people.

In 1998, Ontario announced a plan to reduce the corporate income tax rate for small business. Since then, the tax rate for incorporated small business has been cut from 9.5 to 5.5 per cent. On January 1, 2004, the rate will fall to five per cent and on January 1, 2005, the small business rate will fall to four per cent—an overall rate reduction of about 58 per cent.

In addition, the income eligibility threshold for Ontario's small business rate is being increased to $400,000 by 2005—twice the original level. By increasing the income level that is eligible for the small business rate, Ontario extended the benefits of the lower rate to more small businesses and reduced a tax barrier to growing small businesses.

The federal government announced in the 2003 Budget that the amount of active business income eligible for the small business rate would be increased from $200,000 to $300,000 by 2006. That would still be $100,000 short of the level of income eligible for the Ontario small business rate. If the federal government matched Ontario's $400,000 income eligibility threshold, small businesses in Ontario with $400,000 of taxable income would each save $9,000 annually in federal corporate income tax.

Small Business Corporate Income Tax Rate Cut Plan

	1995	January 1, 2001	October 1, 2001	January 1, 2003	January 1, 2004	January 1, 2005
Tax Rate	9.5%	6.5%	6%	5.5%	5%	4%
Income Level	$200,000	$240,000	$280,000	$320,000	$360,000	$400,000

More than 100,000 small businesses have been helped by Ontario's tax cuts and are continuing to grow and create jobs.

In 2005, when the small business rate cuts are fully implemented, Ontario will have one of the lowest small business corporate income tax rates among all the provinces; only Alberta and New Brunswick will be lower.

Small businesses were also particularly hard hit by taxes, such as payroll, property and capital tax that must be paid regardless of a firm's profitability. The government has introduced a number of measures since 1995 to reduce the burden of these profit-insensitive taxes.

All private-sector employers have benefited from changes made to the Employer Health Tax (EHT). In 1995, both large and small businesses paid EHT, which discouraged job creation. This tax also applied to self-employed individuals reporting more than $40,000 of earnings from self-employment. Between 1996 and 1999, a $400,000 exemption was put in place that had the effect of eliminating the EHT for 88 per cent of private-sector businesses. During that same period, the EHT on self-employed earnings was eliminated.

Supporting Small Businesses

- Small business corporate income tax rate cut from 9.5 to 5.5 per cent and will be further cut to 4 per cent by 2005.
- Income level at which the small business rate applies was increased from $200,000 to $320,000 and will be increased to $400,000 by 2005.
- Taxable portion of capital gains reduced from 75 to 50 per cent.
- Employer Health Tax eliminated on the first $400,000 of private-sector payrolls and on self-employment income.
- Overtaxed business properties are protected from further municipal tax increases.
- Business education property taxes reduced by more than $500 million by 2005.
- Capital tax eliminated for businesses with up to $5 million in taxable capital.

Ontario businesses are benefiting from the province's property tax reforms. The introduction of a consistent approach to the assessment of property has brought fairness and transparency to the basis for property taxation. A five per cent limit on annual tax increases related to reassessment means that tax changes are manageable for all business taxpayers. In municipalities where business properties face very high tax burdens relative to residential properties, municipalities cannot increase business property taxes until a fairer distribution of tax burdens between residential and business properties is achieved.

Most significantly, businesses across Ontario are benefiting from a Provincial commitment to reduce business education taxes by over $500 million by 2005. Since 1998, the Province's approach to setting business education tax rates has reduced property taxes for business by over $400 million annually and has focused these reductions on businesses facing the highest tax rates. Further reductions in 2004 and 2005 will complete the implementation of the Province's business education tax cuts.

To encourage municipalities to cut their own taxes, the Province maintains a policy of providing accelerated business education tax cuts to match municipal tax reductions for commercial and industrial properties. Since 1998, the Province has matched municipal property tax cuts with business education tax cuts in 10 municipalities.

In 1995, small businesses were liable for paying Ontario capital tax if either their assets or revenues were greater than $1 million. Between 1999 and 2001, the government simplified and enriched the capital tax exemption for small business and took the first step to eliminating the capital tax by increasing the capital tax exemption to $5 million of taxable capital. The result is that 70,000 small businesses in the province no longer pay the capital tax.

This budget proposes to cut Ontario capital tax rates by 10 per cent effective January 1, 2004. The government would eliminate the capital tax at the same time as the federal capital tax is eliminated.

Strategic Tax Reductions to Stimulate Job Creation

In addition to general broad-based cuts to personal income tax, property tax and corporate taxes for small business, the government also introduced strategic tax reductions designed to stimulate jobs and help key sectors grow.

Hiring and Training

To encourage businesses to provide work opportunities to post-secondary graduates, the Graduate Transitions Tax Credit provides a refundable tax credit of 10 per cent (15 per cent for small businesses) for businesses hiring recent post-secondary graduates who have been unemployed for at least 16 of the past 32 weeks.

To support the efforts of businesses to hire workers with a disability, the Workplace Accessibility Tax Incentive provides an additional 100 per cent deduction to corporations (15 per cent refundable tax credit for unincorporated businesses) for expenses related to accommodating newly hired employees with a disability.

Ontario Tax Incentives to Support Hiring and Training

- Co-operative Education Tax Credit for Co-op and Post-Secondary Technology Students;
- Proposed New Apprenticeship Tax Credit;
- Graduate Transitions Tax Credit; and
- Workplace Accessibility Tax Incentive.

To foster skills training and youth employment, the Co-operative Education Tax Credit (CETC) was introduced to provide a refundable tax credit of 10 per cent (15 per cent for small businesses) for businesses hiring a co-op student. As well as supporting skills training and youth employment, this credit recognized that workers skilled in leading-edge technologies are key to the continuing growth of Ontario's economy and maintaining and increasing the supply of well-paid jobs for Ontarians.

The government is proposing to introduce a new Apprenticeship Tax Credit built on the CETC to encourage Ontario businesses to hire and train skilled-trades workers in strategic sectors of the economy such as manufacturing and construction.

Research and Development (R&D) and Innovation

Ontario's tax system provides significant support for the continued activities of R&D and innovation. Ontario's corporate tax incentives for R&D performers include:

- a tax exemption on the federal Scientific Research and Experimental Development (SR&ED) investment tax credit;
- a 20 per cent refundable tax credit for R&D performed at eligible research institutes in Ontario;
- a 10 per cent refundable Ontario Innovation Tax Credit for eligible small and medium-sized companies performing R&D; and
- a 100 per cent deduction for the cost of intellectual property, such as patents and licences.

Ontario Tax Support for R&D and Innovation

- Innovation Tax Credit;
- Interactive Digital Media Tax Credit;
- Non-Taxation of Federal SR&ED Tax Credit;
- Business-Research Institute Tax Incentive;
- New Technology Tax Incentive;
- Royalty Payments Exempt from Five Per Cent Income Add-Back;
- Research Employee Stock Option Credit;
- Retail Sales Tax Exemption for Medical Research and Investigation Equipment; and
- Broader Retail Sales Tax Exemption for R&D Equipment for Manufacturers.

Improved Access to Capital

Refinements to the Labour-Sponsored Investment Fund (LSIF) program have helped to ensure that small, growth-oriented Ontario businesses have better access to capital. This budget proposes amendments to the LSIF program that would further facilitate LSIF investments in companies that have been unable to raise venture capital.

Entrepreneurs need access to venture capital if they are to continue to produce the new jobs that have done so much for Ontario's economy. Ontario also intends to parallel the 2003 federal budget announcement regarding small business rollovers. This program encourages investors to reinvest in small businesses by deferring, in certain circumstances, tax owing on capital gains earned from the disposition of shares in qualifying small businesses.

Ontario Tax Incentives to Improve Access to Capital

- Changes to Labour-Sponsored Investment Fund program have resulted in more capital being delivered to smaller firms sooner.
- Community Small Business Investment Funds and Research-Oriented Investment Funds have targeted venture capital to high growth-potential firms.
- Further changes are proposed to the Community Small Business Investment Fund (CSBIF) program to increase the pool of venture capital available to commercialize university and hospital research.

The creation of the CSBIF and Research-Oriented Investment Fund programs has improved the flow of venture capital into strategic sectors of our economy. Access to venture capital is a crucial part of commercializing the results of research in Ontario's universities and hospitals, and the CSBIF program has become an important source of capital for these institutions.

The government proposes to extend the registration deadline for new CSBIFs by another year, until December 31, 2004. In addition, this budget proposes enhancements to the program to encourage individuals and corporations to invest in the commercialization of research through CSBIFs.

Cultural Industries

The film and television industry is important to Ontario's economy, generating over $2 billion in production activity in 2002. In recognition of the highly mobile nature of film production and the valuable jobs that it creates, the government introduced targeted tax incentives to support investment and job creation in the industry with tax incentives such as:

- a 20 per cent refundable Ontario Film and Television Tax Credit (OFTTC) on labour expenditures for domestic film and television productions;
- an 11 per cent refundable Ontario Production Services Tax Credit on labour expenditures for foreign and non-certified domestic film and television productions; and
- a 20 per cent refundable Ontario Computer Animation and Special Effects Tax Credit on labour expenditures for digital animation and special effects in film and television productions.

Ontario Tax Incentives to Support Cultural Industries

- Film and Television Tax Credit;
- Ontario Production Services Tax Credit;
- Computer Animation and Special Effects Tax Credit;
- Book Publishing Tax Credit; and
- Sound Recording Tax Credit.

Further recognizing the importance of a vibrant cultural sector and the high value-added jobs it generates, the government introduced the following tax incentives aimed at encouraging jobs and investment:

- a 30 per cent refundable Ontario Book Publishing Tax Credit for publishing and promoting the first three literary works of a Canadian author; and
- a 20 per cent refundable Ontario Sound Recording Tax Credit for producing sound recordings by emerging Canadian artists.

This budget proposes to enhance Ontario's support for Canadian film and television productions by allowing the Ontario Film and Televison Tax Credit to be claimed on equity investments by government agencies.

Mining Industries

Ontario’s mining industry is an important source of jobs, especially in the North. In 2000, the government announced a plan to cut the mining tax rate to further support the competitiveness of the Ontario mining industry. In 1995, Ontario’s tax rate on mining profits was 20 per cent. Today, the mining tax rate is 12 per cent. By 2004, it will fall to 10 per cent—an overall rate cut of 50 per cent.

In 2000, the government also introduced enhanced incentives for investors in flow-through shares for mineral exploration.

PROMOTING KEY OBJECTIVES THROUGH TAX REDUCTIONS

Additional tax reductions and incentives are being provided to achieve a variety of important objectives.

Supporting Choice in Education

In 2001, the government acted to support parents who want more choice with respect to their children’s education, particularly those who want their children educated in a manner that is consistent with their cultural and religious beliefs. The Equity in Education Tax Credit provides parents with a partial tax credit on the first $7,000 of eligible tuition expenses for children attending independent schools in Ontario.

Supporting Choice in Education
- Equity in Education Tax Credit

The government is reconfirming its commitment to support parental choice in education by proposing to accelerate the phase-in of the tax credit rate, and by introducing legislation to prescribe the remaining steps of the phase-in schedule.

Ontario Tax Support for Education
- School Bus Safety Tax Incentive;
- Educational Technology Tax Incentive;
- Retail Sales Tax Exemption for Donations to Educational Institutions;
- Retail Sales Tax Exemption for Educational CD-ROMs; and
- Increased Personal Income Tax Credits for Post-Secondary Students.

Retail Sales Tax Reductions

Retail sales tax on auto insurance premiums has been reduced from five per cent and will be fully eliminated by April 1, 2004. Retail sales tax on repairs and replacements made under warranty will also be eliminated by April 1, 2004, down from a rate of eight per cent.

First-Time Home Buyers

To promote home ownership, the government provides a refund of up to $2,000 in Land Transfer Tax (LTT) paid on the purchase of a newly built home by first-time buyers. The LTT refund program supports job creation and the housing industry, an important part of the Ontario economy.

Other Key Tax Reductions and Incentives

- Retail sales tax exemption for farm building materials;
- Elimination of capital tax for credit unions and caisses populaires;
- Elimination of gross receipts tax;
- Extension of the retail sales tax rebate for alternative fuel vehicles to electric hybrid cars, light trucks and sport utility vehicles;
- Extension of audio books from the retail sales tax for people who are blind;
- Exemption of biodiesel from the 14.3 cents/litre fuel tax; and
- Retail sales tax exemption for call centres.

Energy Incentives

Last fall, the government introduced the *Electricity Pricing, Conservation and Supply Act, 2002* to protect families, small businesses and farmers from high energy prices, and to increase energy supply and promote conservation.

The Act included a comprehensive tax package designed to encourage rapid development of clean, alternative or renewable sources of electrical energy. The measures will also encourage consumers to conserve energy and use it more efficiently, reducing the demand for electricity and promoting clean air in Ontario.

This budget proposes a new tax incentive for investments in self-generated electricity, including co-generation, as well as additional support for energy conservation and renewable green energy.

Energy Incentives

Announced in November 2002

- A 10-year corporate income tax holiday for new electricity generation from alternative or renewable energy sources;
- A 10-year property tax holiday for new facilities that generate electricity from alternative or renewable energy sources;
- An immediate 100 per cent corporate income tax writeoff for new assets used to generate electricity from alternative or renewable energy sources;
- A capital tax exemption for new assets used to generate electricity from alternative or renewable energy sources before January 1, 2008;
- A retail sales tax rebate for qualifying Energy Star® clothes washers, dishwashers, refrigerators and freezers purchased before November 26, 2003;
- A retail sales tax rebate for building materials purchased and used after November 25, 2002 and before January 1, 2008 to build electricity generating facilities that use alternative or renewable energy sources; and
- A five-year retail sales tax rebate for residential solar energy systems.

New Measures

- An expanded retail sales tax rebate for solar energy systems to include other eligible residential energy systems;
- An increased retail sales tax rebate for certain alternative fuel vehicles, to a maximum of $2,000;
- A 100 per cent corporate income tax deduction for new assets used to self-generate electricity from alternative or renewable energy sources; and
- A two-year transfer tax exemption for sales and amalgamations of publicly owned municipal electricity utilities to encourage greater rationalization and efficiency.

Multi-Year Tax Reductions to Boost Long-Term Job Creation

In order to increase Ontario's competitiveness, encourage new investment and better support high-value-added jobs, the 2000 Budget announced a multi-year plan to cut corporate income tax rates.

Ontario's plan to cut corporate income tax rates is continuing as currently scheduled. The general corporate income tax rate has been cut from 15.5 to 12.5 per cent, and the manufacturing and processing rate has been cut from 13.5 to 11 per cent. By 2006, Ontario will have a single rate of eight per cent. The small business rate, which is currently available to businesses with less than $320,000 of income, has been cut from 9.5 to 5.5 per cent and will be further cut to four per cent by 2005.

Ontario's combined general corporate tax rate is no longer one of the highest in the world. It is lower than the combined average rate of the neighbouring states in the United States, much closer to the current Organisation for Economic Co-operation and Development (OECD) average rate and below the current rates in the United States, Japan, Germany and Italy.

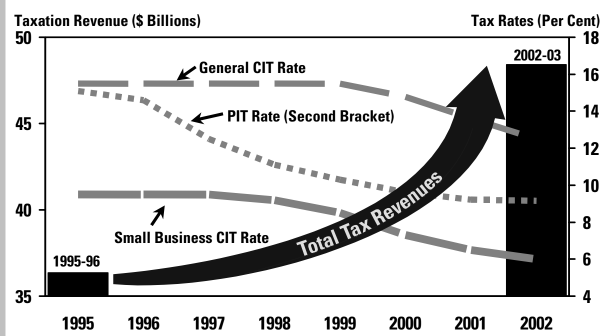
Although Ontario's statutory corporate income tax rates are becoming increasingly competitive, it is not enough to look at income tax rates only. Business investment decisions are likely to be based on the effective corporate tax rate on capital investment. Effective tax rates measure taxes paid as a percentage of income earned where after-tax income is enough to justify making an investment. Studies have shown that the effective tax rate in Ontario remains higher than the rate in the United States, despite our lower corporate income tax rate.

This budget proposes to reduce capital tax rates for all corporations and to eliminate the capital tax at the same time that the federal government eliminates its capital tax. Eliminating the capital tax would significantly lower the effective tax rate on capital investment and encourage economic growth, job creation and prosperity. Most of Ontario's competitors do not have a significant capital tax.

Real Benefits from Ontario's Tax Reductions

The benefits of Ontario's tax reductions to date are significant. These tax cuts, together with the further measures proposed in this budget, would provide over $16 billion in benefits to individual and business taxpayers in Ontario.

Tax Revenues Grew as Tax Rates Cut



Source: Ontario Ministry of Finance.

In the last several years, economic growth in Ontario has exceeded that of the rest of Canada, the United States and the average of industrialized countries. More than one million jobs have been created in Ontario since 1995.

While individual taxpayers and businesses benefit from the government's tax cuts, Ontario's tax system is producing more revenue overall. This enables the government to invest in key priorities and continue to provide the services that Ontarians have come to expect.

Paper F

Progress Through Partnership: Implementing Multi-Year Base Funding in Ontario

Introduction

The people of Ontario deserve the highest quality public services from their hospitals, schools, colleges and universities.

- People deserve hospitals that respond to the needs of everyone.
- People deserve schools that ensure the province's students will have the resources they need to reach their full potential.
- People deserve colleges and universities that ensure that there will be a space for every willing and qualified student in Ontario.

Quite simply, improving public services means improving the quality of life. Taxpayers need to know that government is doing all it can to safeguard the future of public services. Government must demonstrate to taxpayers that their hard-earned dollars are being used effectively and show taxpayers the results of their investment. It is not enough for government to spend—it must demonstrate that it is investing in strategic priorities that will improve life in Ontario.

To do so, the public debate must go beyond a one-dimensional discussion of amounts spent to an understanding of success in terms of results. In the future, the focus will shift more to measuring improvements that taxpayer investments have bought. This government is determined to continue to improve the way it assesses, funds and reports on the services that the people of Ontario value. The government continues to look to itself first in improving its efficiency and effectiveness. The government is delivering on this objective by making program evaluation a permanent part of Ontario Government business. This initiative will review all areas of government spending each year, including priorities such as health and education, to ensure taxpayers' investments in those priorities are producing the desired results.

The Ontario Government promised to develop a model of multi-year base funding (MYBF) for hospitals, school boards, colleges and universities. This will provide transfer partners with increased funding stability and a better planning horizon. Transfer partners will be able to use increased certainty to provide more effective and efficient services. These improvements will be possible only through partnership based on accountability. Collaboration is essential as the government continues to build public services that the people of Ontario trust, value and can afford. The result, over the long term, will be better health care and better education.

MYBF can be described as a process. This paper outlines the policy framework that will shape that process in Ontario. It will describe the government's broad vision for a multi-year strategy and outline the supporting mechanisms that will help to achieve that vision. The process outlined in the MYBF policy framework is the key to ensuring stability and enhancing accountability.

For MYBF, this coming year will be one of transition. The 2003 Budget presents multi-year base targets for each sector in Budget Paper B: *Ontario's Fiscal Plan*. However, the key to success will be getting the policy framework right as the basis for future discussion. It is important to remember that this is a step-by-step process that will be tailored to the individual needs of each sector.

Recently, Premier Eves reiterated the need for collaborative, trust-based partnerships between government and broader public-sector (BPS) organizations. Consistent with this vision, the government recently held consultations with hospitals, school boards, colleges and universities on the underlying principles and key elements of an MYBF policy framework. The comments received from these stakeholders are the necessary first step in the design of a sustainable MYBF approach.

> "... my government will continue to follow the very simple, four-step formula ...
>
> We ask for your input. You answer. We listen. We take action.
>
> We believe that's how government should operate."
>
> *Premier Ernie Eves,*
> *Rural Ontario Municipal Association/*
> *Ontario Good Roads Association,*
> *February 24, 2003*

Background

The need for increased stability in funding has been a recurring theme in consultations with transfer partners in the health and education sectors. Organizations have underscored the importance of funding predictability, stressing that it would translate into better planning, management and improved services. Ontario's hospitals, school boards and post-secondary institutions should be able to focus on delivering high-quality public services and on the achievement of outcomes.

> "OCSTA welcomes the government's decision to move to multi-year funding for school boards. Reliable multi-year grant forecasts, coupled with adequate resources, will enable boards to engage in effective long term planning and will afford increased spending flexibility."
>
> *Ontario Catholic School Trustees' Association, 2003 Pre-Budget Submission*
>
> "The 'Stop & Go' funding mind set needs to be replaced with a commitment to a funding model that supports stability and long-term planning."
>
> *Ontario College of Family Physicians, 2002 Pre-Budget Submission*
>
> "The OHA and its Working Group welcome the government's commitment to multi-year funding and support the government's view that multi-year funding commitments would allow hospitals to better plan programs and address staffing needs over a reasonable time horizon."
>
> *Stability and Sustainability: A Multi-Year Funding Policy for Ontario Hospitals, Ontario Hospital Association, October 2002*

A clear example of how MYBF allows for better planning is the action that the government took in 2001 to ensure that every willing and qualified Ontario student will have a place in a post-secondary education institution. Recognizing that population growth, increased participation rates and secondary-school reform would significantly increase enrolment in post-secondary institutions, the government committed to increase operating grant funding in proportion to the projected enrolment growth. Assured of the levels of future funding, post-secondary institutions are now able to better plan for the single-largest increase in enrolment since the 1960s.

Understanding the complexities of MYBF can be supported by the examination of other jurisdictions' experiences with multi-year planning and funding strategies. Several jurisdictions have developed multi-year approaches as part of efforts to improve fiscal discipline, as well as promote stability and sustainability of public services. The United Kingdom, the Australian state of New South Wales and British Columbia are among the many jurisdictions pioneering multi-year approaches at various levels of the public service.

- The United Kingdom has adopted a Golden Rule of fiscal responsibility, which states that government will borrow only to invest and not to fund current spending. To focus on results, in its biennial spending reviews, the United Kingdom publishes three-year departmental expenditure limits coupled with multi-year service delivery plans.
- In New South Wales, recent reform has resulted in the implementation of multi-year arrangements for Area Health Services, including service agreements and minimum quality standards.
- In late 2002, British Columbia announced a three-year block funding approach for their five regional health authorities. Consistent with the principles of fiscal responsibility and risk sharing, balanced budgets are required through three-year transfer payment agreements with each authority.

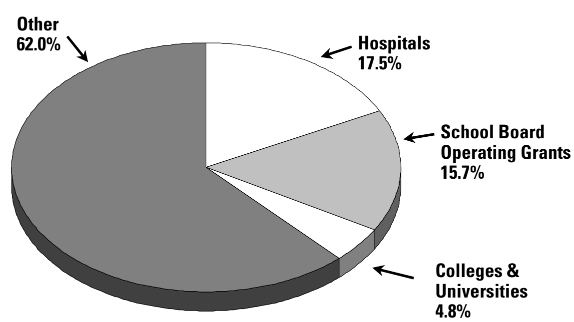
The Commitment

> "… in the next year, we will begin to provide more stability and certainty for our public-sector partners by moving towards a multi-year approach to budgeting and funding."
>
> *Janet Ecker, Minister of Finance, Provincial Budget, June 2002*

The people of Ontario depend on the government and its partners to deliver key services. Teachers, nurses, doctors, professors and other dedicated professionals across the province work hard to establish trust in public services. Stable and sustainable funding is the foundation upon which that trust is built. In last year's Budget speech, Minister of Finance Janet Ecker pledged to improve that foundation by developing MYBF for hospitals, school boards, colleges and universities. With this approach, also outlined in the Speech from the Throne, the government is giving these public-sector organizations more stability and certainty about funding for their operations over a three-year time horizon. Capital projects will continue to be planned and managed through the SuperBuild Corporation. Planning operating funding with greater certainty will allow organizations to focus on achieving results.

From the government's perspective, it is important that increased funding stability be achieved within the boundaries of existing government initiatives and direction. The MYBF framework must fit into the Government of Ontario's commitment to fiscal responsibility and balanced budgets.

Ontario Transfers to Major Transfer Partners as a Percentage of Total Program Spending, 2003-04



Source: Ontario Ministry of Finance.

Hospitals, school boards, colleges and universities and municipalities provide the people of Ontario with highly valued public services. In addition, these organizations make up a large part of total Provincial expenditures. Thus, the development of an MYBF policy framework will focus on these key partners. Although the current discussion around MYBF is focused on these four sectors, the government is committed to providing the same funding stability for other sectors. Municipalities represent important funding and delivery partners for the Province in a range of programs and services that are valued by taxpayers. The government has invited municipalities to begin a dialogue on a new, multi-year approach to municipal funding.

Principles

The 2002 Budget presented five principles as a starting point for discussion of MYBF: fiscal responsibility; risk management; openness and transparency; a focus on results; and enhanced accountability. The government has recently consulted with its transfer partners in the BPS and the consensus is that a MYBF policy framework is the way forward.

In addition to the principles announced in the 2002 Budget, other principles emerged:

- Flexibility—At both the provincial and organizational levels, strategic priorities, business realities and economic circumstances change. Flexibility is necessary to respond effectively to changing circumstances and to avoid unintended consequences.
- Adequacy—Public-sector organizations are depended on to provide quality services that are readily accessible to the people of Ontario.
- Quality information—Public institutions need high quality information to be able to make the right decisions at the right time and ensure that change and system integration are managed well. The success of MYBF depends on the development of consistent and appropriate performance measures.

The government has heard, and agrees, that a spirit of trust and collaboration between government and the BPS is necessary if MYBF is to translate into better planning and better services.

A Multi-Year Base Funding Policy Framework

With the advantage of consultations with transfer partners and the experiences of other jurisdictions, the government envisions an MYBF approach that:

- "sizes" the system using timely and reliable information on the volume, price and quality of service;
- includes agreements with BPS organizations that outline performance objectives, performance measures and risk mitigation strategies;
- allows for regular reviews of funding methodologies, risks and outcome-based performance information; and
- sets out minimum public reporting requirements.

This paper outlines the policy framework that will, over time, achieve that vision. The new long-term funding direction will be shaped by elements in four key areas: **responsible fiscal foundations**, **a focus on services**, **risk sharing** and **enhancing accountability**.

I. Responsible Fiscal Foundations

Fiscal responsibility is the cornerstone of the government's policies. The commitment to prudent fiscal management and balanced budgets has been essential to protecting public services by returning the economy to a strong growth track. Those principles will continue to shape Ontario's fiscal planning.

> "… taxpayers' pockets are not bottomless. Parents and everyone in the education sector must appreciate the connection between spending on public priorities and the fiscal resources available to the Province."
> *The Report of the Education Equality Task Force (the Rozanski Report), December 2002*

From the government's perspective, the MYBF framework will be built upon a foundation that must include:

- **Balanced provincial budgets.** The government is legally required to balance its budget and live within its means.
- **Prudent planning.** The government will use prudent assumptions about economic growth and revenue projections in its fiscal plans.

- **No automatic adjustments.** The government will not build automatic adjustments for inflation into the framework. Doing so would limit the government's flexibility and could expose taxpayers to unacceptable risk. Any adjustments to funding arrangements will be the result of explicit policy decisions.

An effective MYBF strategy rests on the ability to accurately forecast future government revenues. Ontario is not immune to economic and fiscal uncertainties. Even with prudent assumptions about growth, revenue forecast variance is inevitable and increases in the out-years. Because transfer payments represent a significant portion of the Provincial budget, increased attention must be directed to potential future revenue fluctuations.

While it is important to start with a prudent plan, ensuring sufficient flexibility in the event of economic uncertainty is also a key goal for government in developing an MYBF framework. Because government funding also supports such important public services as environmental protection, road safety and policing, any approach to MYBF must be done within an overall budget context that recognizes the need to protect these services over the long term.

II. A Focus on Services

While ensuring that its focus remains on the quality of services provided, not merely on the dollars spent, the government has two important roles in working towards this objective:

- It acts as an agent for taxpayers, who are ultimately purchasing public services with their tax dollars.
- It works on behalf of the users of public services to ensure that services are available, accessible and of high quality.

These roles lead inevitably to the conclusion that funding must support a system that is the right size and that provides services at a "price" that is fair to the taxpayer.

For MYBF to be successful, the framework must incorporate a

> "Moving to a Service Based Funding (SBF) arrangement for remunerating hospitals (from the current system based on global budgets that are not tied to the specific levels of services delivered to patients) will enable Canadians to see—for the first time—the direct relationship between the level of funding and the number and types of procedures performed. This will help shift the public debate away from dealing exclusively with dollars in the abstract, to concretely evaluating the quantity of services that can be provided to patients by a given level of funding."
>
> *Highlights: Principles and Recommendations for Reform Part I, The Senate Standing Committee on Social Affairs, Science and Technology on the Health Care System in Canada (the Kirby Report), April 2002*

mechanism for "sizing" the system using timely and reliable information on the volume, cost and quality of service.

To meet size and "price" needs, the base in MYBF must be driven by two factors: the number of people served (volume) and an affordable "price" for each service provided (rate). The result is a system that makes the factors that determine the budgets of public organizations clear to taxpayers. A volume-and-rate system also makes for easier comparison of results across sectors. Recent reports on the funding of public services—the Kirby Report on health care and the Ontario Hospital Association working group on MYBF—validate this approach. The recommendations made by the Education Equality Task Force are also based on a volume-and-rate system.

As the government moves forward on MYBF, the following questions remain important in determining appropriate volumes and rates for each sector:

- **What core services does each sector provide?** The goal is to define a set of core services that accurately reflects the basic ongoing activities of each sector while at the same time increase the understanding of how these services evolve over time.
- **How to best predict the volume of services used?** The volume part of the equation is seldom a simple projection of current levels. Certainly, demographics are a key determinant of service volume. However, an array of other less easily quantified factors have an impact on volume. Predicting service volumes is difficult because the definition of each sector's core services evolves over time.
- **What is the appropriate rate per unit of service?** The rate must reflect a balance of factors. That balance is achieved by weighing the need for efficiency against the need for adequate funding for quality services. The factors that influence the rate decision include technological changes, quality standards, program mix, economies of scale and government policy decisions.

III. Risk Sharing

In addition to fiscal responsibility and a focus on services, the government is committed to efficient risk management. MYBF adds a new dimension to risk management efforts because uncertainty about future events tends to increase as the time horizon lengthens. The framework will seek to identify and

> "Both the Province and school boards would benefit from multi-year planning of education funding. A multi-year model would provide an element of predictability and time to plan ahead for both partners, with the caveat, of course, that the Province's economic situation could change and that the multi-year process would have to be fluid and dynamic enough to recognize and adapt the model to such a change."
>
> *The Report of the Education Equality Task Force (the Rozanski Report), December 2002*

mitigate, through appropriate sharing mechanisms, the increased risks of longer-term budgeting and planning.

The government is committed to providing the people of Ontario with stable and sustainable public services. Achieving that goal requires the government to pay close attention to maintaining the Province's fiscal foundations without losing sight of service requirements. The impact of future uncertainty on both areas calls for a partnership between government and service providers in addressing these risks. As with all aspects of the framework, collaboration between government and BPS organizations will be key to solving this joint concern. To address concerns about the uncertainty of future events, the government envisions a review-and-renew process for MYBF.

- **Review and Renew.** This process will provide both government and BPS organizations with the flexibility needed to take a longer-term, more strategic view of major public services. To that end, the review-and-renew process should have the following core characteristics:
  - Collaborative—Close partnerships between government and BPS organizations are crucial to the success of MYBF. These partnerships should be open, transparent and ultimately trust building.
  - Evidence-based—The decisions resulting from the review-and-renew process must be based on solid, verifiable empirical evidence.
  - Longer-term perspectives—Broadening the planning horizon will focus dialogue between government and its partners on the issues that matter and away from day-to-day crises.
  - A balance between efficiency and adequacy considerations—Renewing funding arrangements for the future must consider both increases to address adequacy and restraint to address efficiency to ultimately determine what is appropriate.

  The review-and-renew process should focus on the following three elements:
  - The methodology of funding—Ongoing changes to both volume and rate considerations require periodic reviews to ensure that the funding framework is meeting its goals. Regular reviews of the funding formula components will build trust between the government and BPS organizations.
  - Development of performance information—Performance reviews support the principle of accountability and strengthen the key link between greater funding certainty and improved performance. Any discussion of MYBF must go hand in hand with a discussion of how government and its transfer partners will measure success.

- Risk management and sharing—The third vital topic for each review-and-renew process is the identification and management of risk. This begins with an open discussion of the nature of risks in each sector. Does managing risk for one party increase the risk for the other? Which risks cannot be controlled? Management strategies might include, for example, oversight of sectoral contingency funds; strategies for rapid response to unforeseen fiscal developments and changes in legislation; and design elements in funding formulas to allow for flexibility when needed.

A review-and-renew process will ensure a flexible multi-year framework. This will allow the funding system to evolve and adapt not only to changes in the fiscal plan, but also to any challenges that public-sector organizations may face in the future.

IV. Enhancing Accountability

Government is ultimately accountable to the people of Ontario to provide the best and most efficient services possible. MYBF will have failed to achieve its purpose if it does not lead to better service.

MYBF must include mechanisms to demonstrate performance. Therefore, to support the principle of accountability, the policy framework will work towards the following:

- **Service-based agreements.** Performance agreements with BPS organizations will outline performance objectives, performance measures and risk mitigation strategies. When accompanied by a comprehensive review-and-renew process, service-based agreements will promote an environment of innovation and progress.
- **New accountability legislation.** As recommended by the Ontario Financial Review Commission in 2001, common minimum accountability standards are an important step towards enhanced accountability. In the next year, the government will consult on the development of new accountability legislation that lays out a framework for planning and reporting for all organizations involved in MYBF arrangements. This legislation would allow each organization the flexibility to set its own objectives and performance measures within the context of overall sectoral objectives and performance measures. While efforts to establish sector-wide comparisons are important, it is crucial that each organization be able to reflect its unique goals and circumstances.

A Paradigm Shift

Since 1995, this government has demonstrated its willingness to spend more on priority areas, ensuring accessibility in the areas of health, education and post-secondary education. But spending more does not mean spending effectively. The people of Ontario deserve to know how spending improves services and how services are improving quality of life. The government must shift the paradigm of debate away from measures of "more or less funding" to "better or worse outcomes." While providing more stability for transfer partners, MYBF must also effect that change for the people of Ontario. Accountability requires that it work towards answering:

- How well are the government and transfer partners spending taxpayers' dollars?
- What is the impact of investments in programs?

The tool required to answer these questions is quality information. Both government and its partners recognize that shifting the performance paradigm is impossible without the right information at the right time. The entire public sector will need to do more to develop the necessary information management tools.

Therefore, the government is committed to:

- **Strengthening Our Partnerships**—As part of MYBF, the government will continue to develop strategic alliances with the BPS and related ministries through collaboration on training and research projects. In addition, the government will also focus on key information-development projects. The intention is to enhance the development and use of high quality information that is needed to support decision-making in the public sector.
- **Developing New Accountability Legislation—**Within the next year, the government will develop, in consultation with its transfer partners, legislation that would lay out common planning and reporting standards for BPS organizations involved in MYBF.

SIGNIFICANT INCREASES ARE TARGETED FOR 2005-06

Within the context of the MYBF process outlined in this paper, the government is taking the first step to increase funding stability for hospitals, school boards, colleges and universities.

Multi-Year Base Funding ($ Billions)

Sector	2002-03 Plan	2002-03 Interim	2003-04 Plan	2004-05 Projected Base Target[1]	2005-06 Projected Base Target[1]
Colleges and Universities[2]	2.5	2.6	2.8	3.0	3.1 21% over 2002-03 Plan
School Boards[3] (school-year basis)	14.3	14.8	15.3	15.8	16.2 14% over 2002-03 Plan
Hospitals[4]	9.4	9.8	10.3	10.6	10.9 16% over 2002-03 Plan

1. Targets represent funding on which the transfer partners can depend. They reflect the cost of continuing core services given projections of volume and decisions on funding.
2. Excludes ATOP, Nursing Baccalaureate and College and University Quality Assurance Funds.
3. Includes government response to Education Equality Task Force recommendations.
4. Accommodates projected impact of demographics and enhancements to services. Excludes Diagnostic and Medical Equipment Fund.

Source: Ontario Ministry of Finance.

- For 2005-06, the targeted base increase for hospitals is $1.5 billion, or 16 per cent, over the 2002-03 Plan before the Third-Party Review. Hospitals will also receive additional funding for medical equipment.
- For 2005-06, the targeted base increase for school boards is $2.0 billion, or 14 per cent, over the 2002-03 Plan, before the government began to respond to the Education Equality Task Force report.
- For 2005-06, the targeted base increase for colleges and universities is over $500 million, or 21 per cent, over the 2002-03 Plan. In addition to these base amounts, colleges and universities will receive funding for the Access to Opportunities Program (ATOP), the Nursing Baccalaureate and the College and University Quality Assurance Funds.

Of course, as part of the government's ongoing decision-making process, MYBF targets will be reviewed and renewed on a regular basis.

Increased funding comes with the responsibility of demonstrating better services through performance reporting. The public demands the best and most efficient services possible for taxpayer dollars. As MYBF evolves, the government and its transfer partners will develop performance measures to ensure that effective and efficient services are delivered to the public.

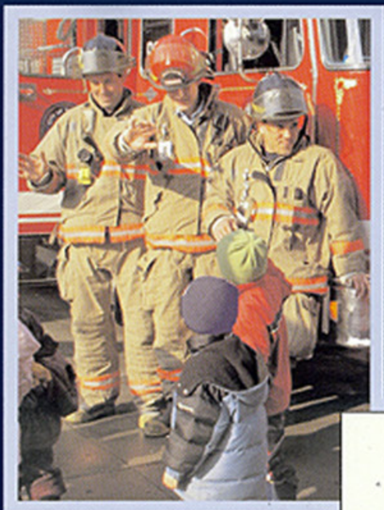
In addition to the MYBF targets above, an important next step is the government's invitation to municipalities for a dialogue on a new multi-year approach to municipal funding. The Government of Ontario is providing a sound basis for these discussions by committing to increased funding for municipalities over the next three years. The government is committed to working with municipalities to enrich accountability for public investment and public services.

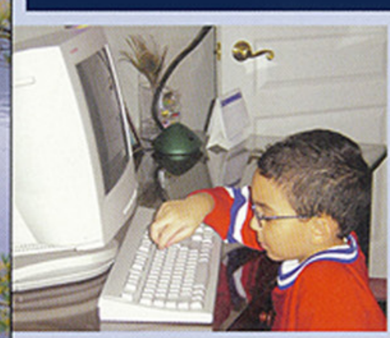
The government is committing to increased funding for municipalities over the next three years. By 2005-06, funding for municipalities will have increased by 18 per cent, or $106 million over the 2002-03 Plan.

- 2002-03 plan: $582 million
- 2002-03 interim funding: $624 million
- 2003-04 plan: $649 million
- 2004-05: $668 million
- 2005-06: $688 million

MYBF represents the opportunity to build on the existing partnerships between government and organizations in the BPS. Over the next year, the government will continue with the consultative process and benefit from stakeholder feedback in order to move forward. The government and its partners in the BPS will work together to safeguard the future of the public services so important to the people of Ontario.

THE RIGHT CHOICES:
Securing our Future





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