JOBS FOR TODAY AND TOMORROW

Ontario

2016 ONTARIO BUDGET

The Honourable

CHARLES SOUSA

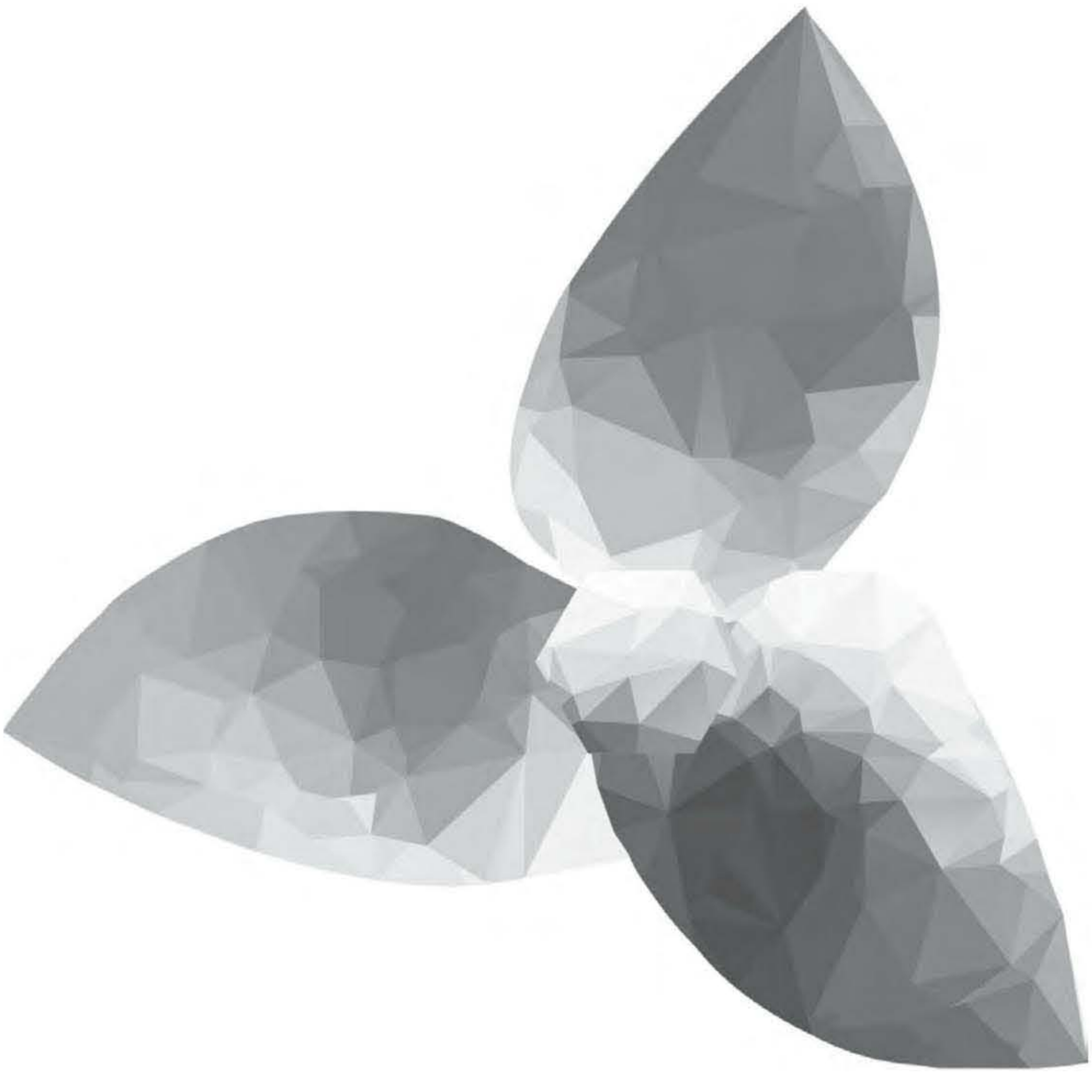
Minister of Finance

Budget Papers

JOBS FOR TODAY AND TOMORROW

Ontario

2016 ONTARIO BUDGET



The Honourable

CHARLES SOUSA

Minister of Finance

Budget Papers

For general inquiries regarding the *2016 Ontario Budget: Budget Papers*, please call:

Toll-free English & French inquiries:	1-800-337-7222
Teletypewriter (TTY):	1-800-263-7776

For electronic copies of this document, visit our website at www.ontario.ca/budget

A printed copy of this publication can be ordered:
Online at: www.serviceontario.ca/publications

By phone through the ServiceOntario Contact Centre
Monday to Friday, 8:30 AM to 5:00 PM
416 326-5300
416 325-3408 (TTY)
1 800 668-9938 Toll-free across Canada
1 800 268-7095 TTY Toll-free across Ontario

ISBN 978-1-4606-7507-6 (Print)
ISBN 978-1-4606-7508-3 (HTML)
ISBN 978-1-4606-7509-0 (PDF)

Ce document est disponible en français sous le titre :
Budget de l'Ontario 2016 – Documents budgétaires

Foreword

Jobs for Today and Tomorrow

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

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

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

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

Building Prosperity

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

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

Fostering a More Innovative and Dynamic Business Environment

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

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

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

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

Investing in a Low-Carbon Economy

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

Building Tomorrow's Infrastructure Now

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

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

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

Investing in People's Talents and Skills

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

Strengthening Retirement Security

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

Fair Society

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

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

Investing in Health Care

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

Making Everyday Life Easier

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

A Stronger Ontario and Stronger Canada

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

Strong Fiscal Management on the Path to Balance

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

Conclusion

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

The Honourable Charles Sousa
Minister of Finance

Ontario's Plan for Economic Growth and Job Creation

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

Strategic Plan for the *2016 Budget*

Path to Balance

Plan to Eliminate the Deficit

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

Engaging Ontarians

How You Helped Build this *Budget*

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

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

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

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

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

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

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

A Modern Digital Government

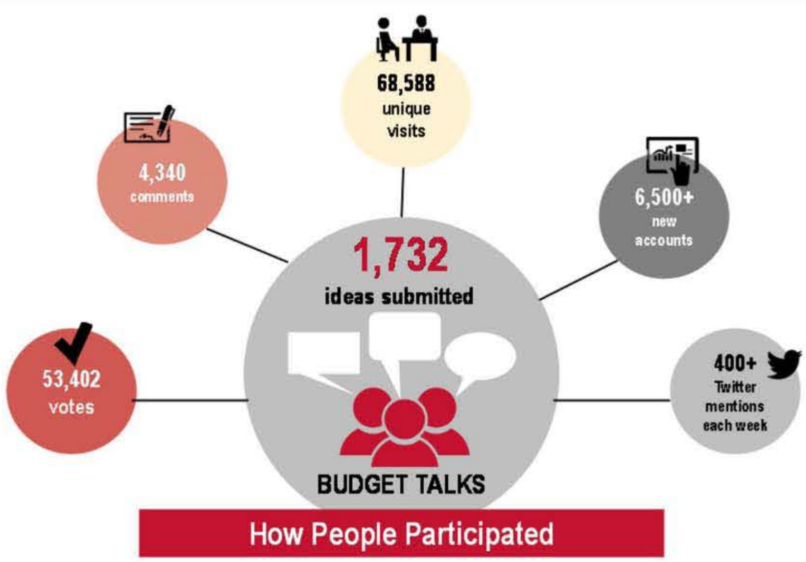
Budget Talks — Giving People a Voice in Government

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

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

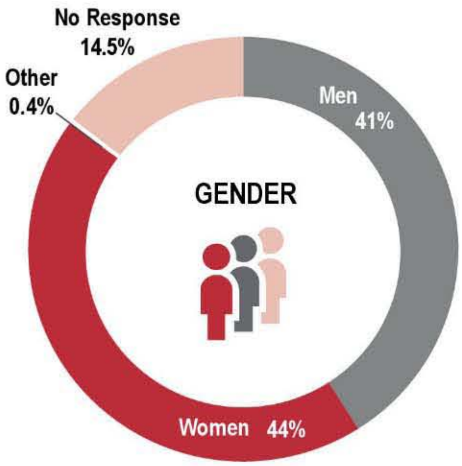
The following data represent a summary of what we heard and learned from the people who participated this year. Their voices are reflected throughout our fiscal plan.

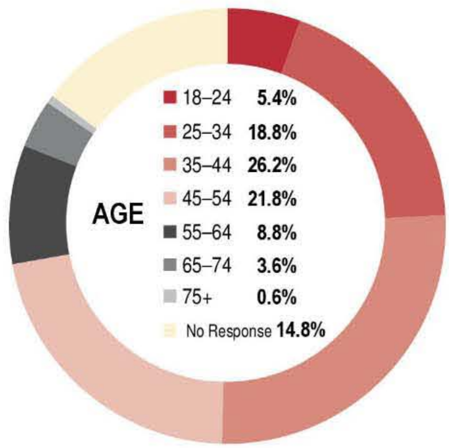
2016 Budget Talks



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

Who Participated

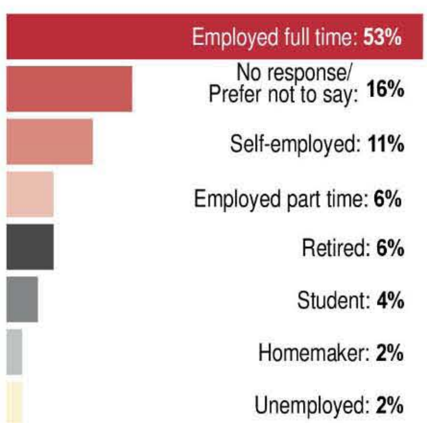




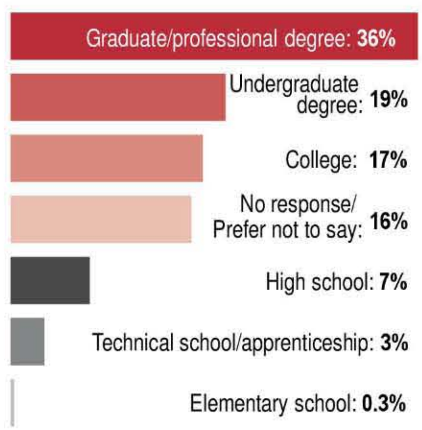
Source: www.ontario.ca/page/pre-budget-consultations

User Demographics

EMPLOYMENT STATUS



EDUCATION



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

What You Told Us

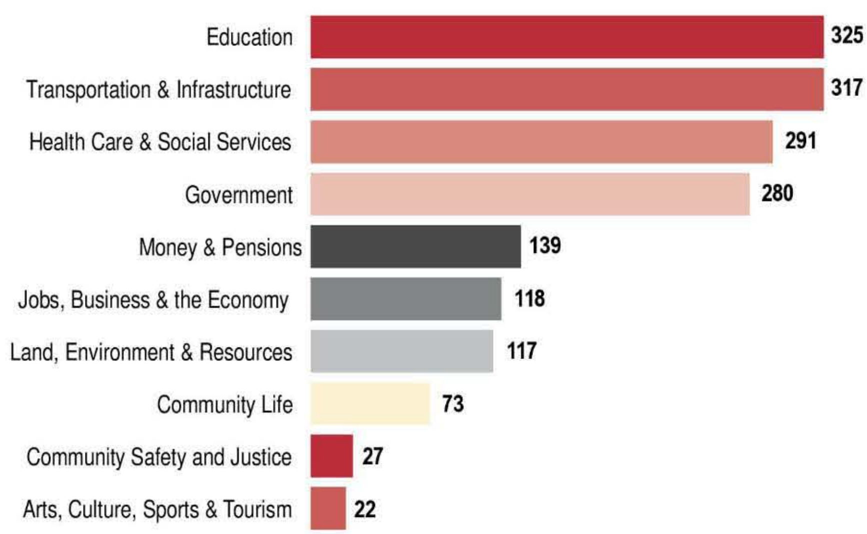
People from across the province shared personal stories, thoughtful ideas and proposals. There were strong views, passionate voices and very real perspectives gained through lived experience with government programs and services. We heard it all.

LED Light Pilot Project

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

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

Themes by Number of Ideas



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

Budget Talks Ideas

Education
325

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

Transportation & Infrastructure
317

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

Health Care & Social Services
291

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

Government
280

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

Money & Pensions
139

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

Jobs, Business & the Economy
118

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

Land, Environment & Resources
117

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

Community Safety & Justice
27

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

Community Life
73

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

Arts, Culture, Sports & Tourism
22

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

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

Ideas in Action

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

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

Contents

Section B: Building Tomorrow's Infrastructure Now

Section C: Investing in People's Talents and Skills

Section E: Towards a Fair Society

Chapter II: A Balanced Path to a Balanced Budget

Section A: Ontario's Path to Balance

Section B: Transforming Government and Managing Costs

Section C: Addressing the Underground Economy and Maintaining Tax Fairness

Chapter III: Economic and Fiscal Outlook

Section A: Economic Outlook

Section B: Fiscal Outlook

Section C: Borrowing and Debt Management

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

Chapter V: A Fair and Sustainable Tax System

Section A: Tax Measures

Chapter V: A Fair and Sustainable Tax System

List of Charts

Chapter I: Building Prosperity and Creating Jobs

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

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

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

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

In 2015:

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

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

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

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

Clean Tech

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

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

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

Automotive

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

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

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

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

Industrial Biotechnology

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

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

Supporting Ontario's Innovation SuperCorridor

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

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

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

Industry-Led Partnerships

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

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

Helping Ontario Businesses Scale Up

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

Closing the Productivity Gap

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

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

Access to Capital

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

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

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

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

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

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

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

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

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

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

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

Cap-and-Trade Green Investments

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

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

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

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

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

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

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

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

Cap and Trade — Cost to Energy Consumers

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

TABLE 1.2 Cap and Trade — Cost to Energy Consumers

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

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

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

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

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

Examples of Programs Supporting Home Energy Efficiency

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

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

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

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

Green Investment Fund

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

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

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

---

5 RGGI is a cooperative effort among the states of Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island and Vermont.

6 Analysis Group, "The Economic Impacts of the Regional Greenhouse Gas Initiative on Nine Northeast and Mid-Atlantic States," July 2015.

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

TABLE 1.3 Detailed Breakdown of Supports through Green Investment Fund

($ Millions)

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

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

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

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

Green Bonds

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

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

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

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

Strategic Partnerships

Jobs and Prosperity Fund

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

TABLE 1.4 Recent Strategic Investments through the Jobs and Prosperity Fund

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

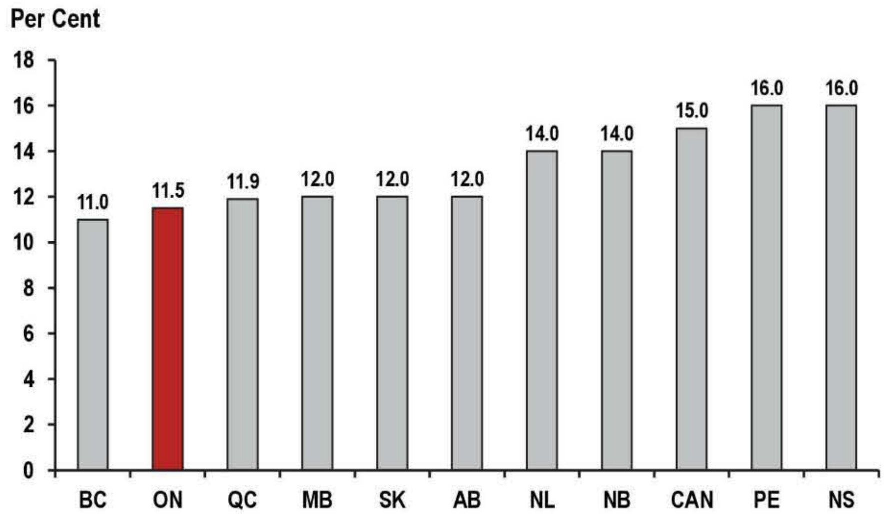
Creating New Business Opportunities through Strategic Partnerships

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

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

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

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

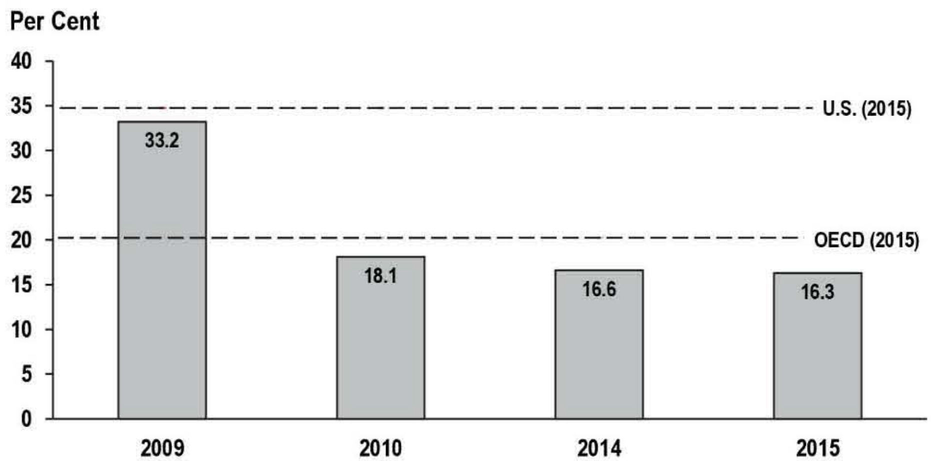


Notes: Rates are the statutory provincial or federal general CIT rates based on legislation and information available as of February 5, 2016. The 2016 New Brunswick Budget announced that it would increase the general CIT rate from 12 to 14 per cent on April 1, 2016.
Sources: Canada Revenue Agency, Revenu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

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

CHART 1.6

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



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

Sources: Finance Canada and Ontario Ministry of Finance.

Industrial Electricity Incentive Program

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

Supporting Business Expansion through the Industrial Electricity Incentive Program

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

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

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

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

  Atlantic Packaging

Industrial Conservation Initiative

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

Industrial Accelerator Program

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

Promoting Conservation and Cost Savings through the Industrial Accelerator Program

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

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

Workplace Safety Insurance Premiums

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

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

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

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

TABLE 1.6 Opportunity for WSIB Rate Reductions[1]

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

1 Subject to the assumptions underlying the long-term funding targets presented in the WSIB's "2015 Economic Statement."

2 In 2015 dollars per hundred dollars of payroll.

3 By the final year in the time period, in 2015 dollars (dollar value of savings will grow with the economy).

Note: The WSIB is an independent trust agency that is responsible for administering compensation and no-fault insurance for Ontario workplaces. The WSIB's Board of Directors has exclusive authority in setting premium rates.

Source: WSIB, "2015 Economic Statement," (November 2015).

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

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

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

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

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

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

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

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

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

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

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

Ms. Albanese's recommendations include:

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

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

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

Toronto as a Global Financial Hub

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

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

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

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

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

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

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

Eastern Ontario:

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

Northern Ontario:

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

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

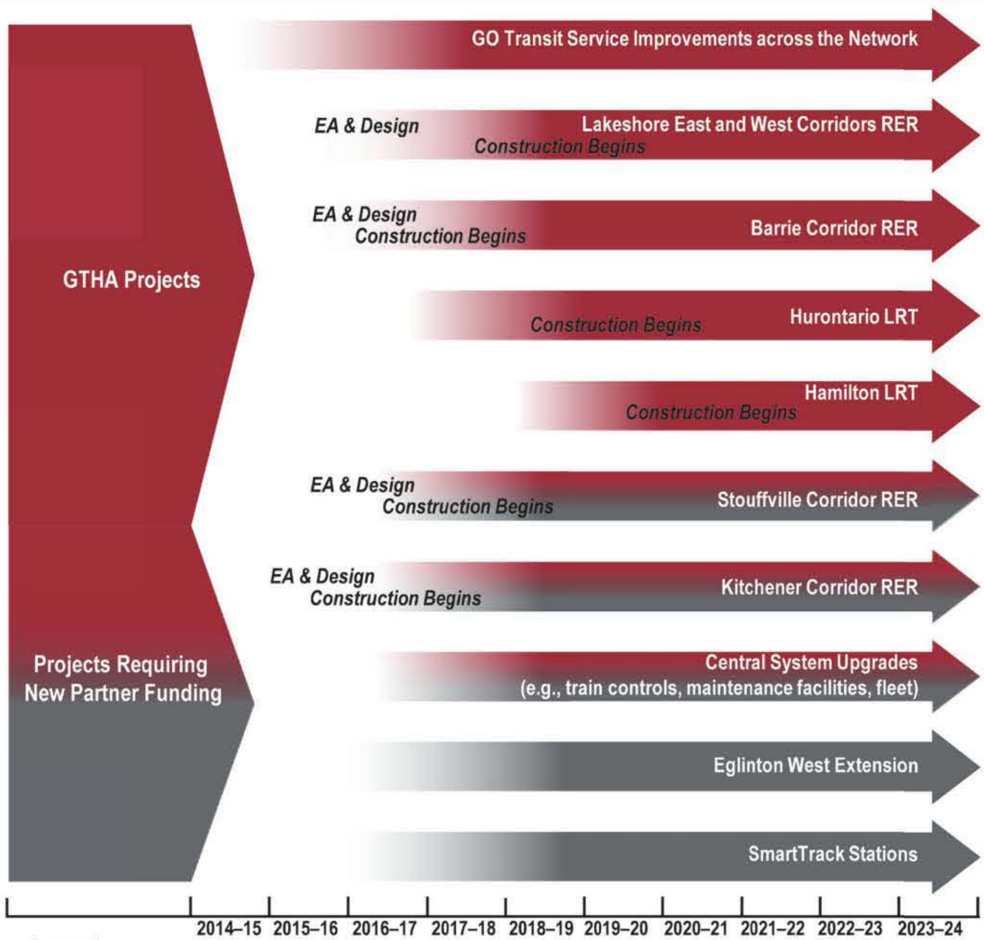
The Connecting Links program will provide \$20 million in 2016–17, up from \$15 million announced in the *2015 Budget*, to help municipalities pay the construction and repair costs for municipal roads that connect two ends of a provincial highway through a community or to a border crossing. This new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

Ring of Fire

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

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

CHART 1.11 **Moving Ontario Forward — GTHA**



Legend

- Projects supported by Moving Ontario Forward.
- Regional Express Rail (RER) elements supported by Moving Ontario Forward.
- Projects proceeding only if new partner funding is provided. Timing to be determined.

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

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

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

Ongoing Investments in Transportation

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

Highways

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

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

- As the first step in Ontario's plan to implement high-occupancy toll lanes, a 16.5-kilometre pilot project initiative will begin on a section of the Queen Elizabeth Way between Trafalgar Road in Oakville and Guelph Line in Burlington in summer 2016 to help manage congestion and add choice for travellers. In spring 2016, Ontario will announce details on pricing and availability of HOT lanes. Information collected through the pilot will be used to support long-term planning for future HOT lanes, including new, dedicated HOT lanes with electronic tolling on Highway 427, from south of Highway 409 to north of Rutherford Road, which will open by 2021.
- The Province will widen Highway 400 from eight to 10 lanes to add a new HOV lane in each direction between Major Mackenzie Drive and King Road. This project is scheduled for completion in 2018–19.
- The 407 East project will help relieve congestion and support the efficient movement of people and goods through the eastern Greater Toronto Area and beyond. Phase 1, from Brock Road in Pickering to Harmony Road in Oshawa and Highway 412, will open in spring 2016. The initial portion of Phase 2 will extend the highway from Harmony Road in Oshawa to the new Highway 418 in Clarington by late 2017. By 2020, the final portion of Phase 2 will complete the extension to Highway 35/115 in Clarington and complete Highway 418 from Taunton Road to Highway 401.

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

Track My Plow Program

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

Transit

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

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

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

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

Supporting Municipal Transportation Systems

The Province is supporting key municipal transit projects.

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

The Legacy of the 2015 Pan/Parapan American Games

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

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

Ontarians are already benefiting from this infrastructure investment:

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

Energy Infrastructure

Smart Investments in Energy Infrastructure for Today and Tomorrow

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

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

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

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

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

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

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

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

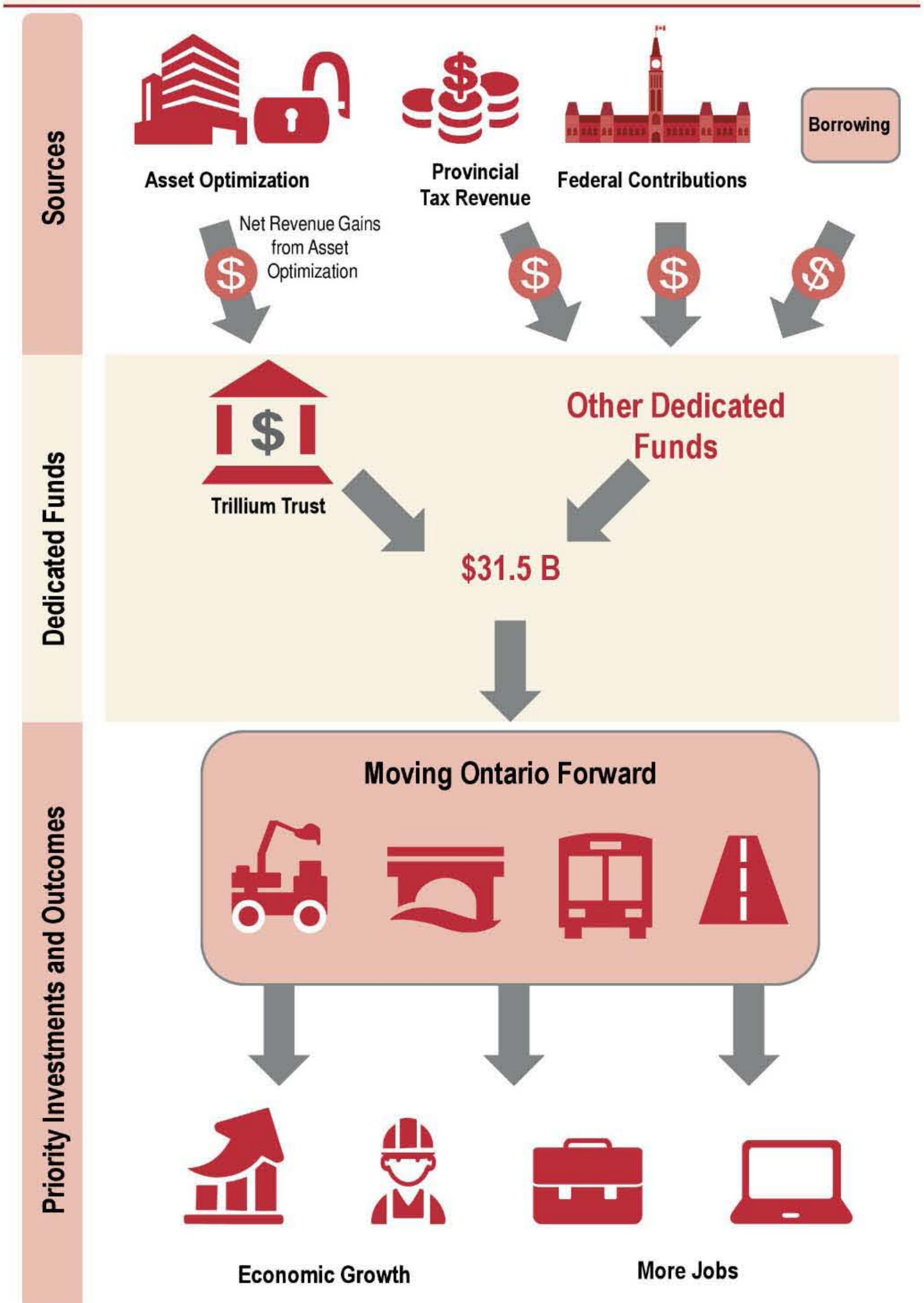
Reducing or eliminating high-cost diesel use would lessen harmful emissions, strengthen local economies, create well-paying jobs and bring lasting socioeconomic benefits for generations to come.

Asset Optimization

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

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

CHART 1.12 **Moving Ontario Forward**



Hydro One Update

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

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

Recycling Value from Ontario's Real Estate Assets into Infrastructure

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

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

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

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

Trillium Trust Update

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

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

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

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

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

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

Investing in Results, Improving Access

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

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

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

Supporting Every Child, Reaching Every Student

Achieving Excellence

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

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

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

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

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

High Skills Learning — Expanding Specialist High Skills Major

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

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

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

Responding to Recommendations of the Truth and Reconciliation Commission of Canada

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

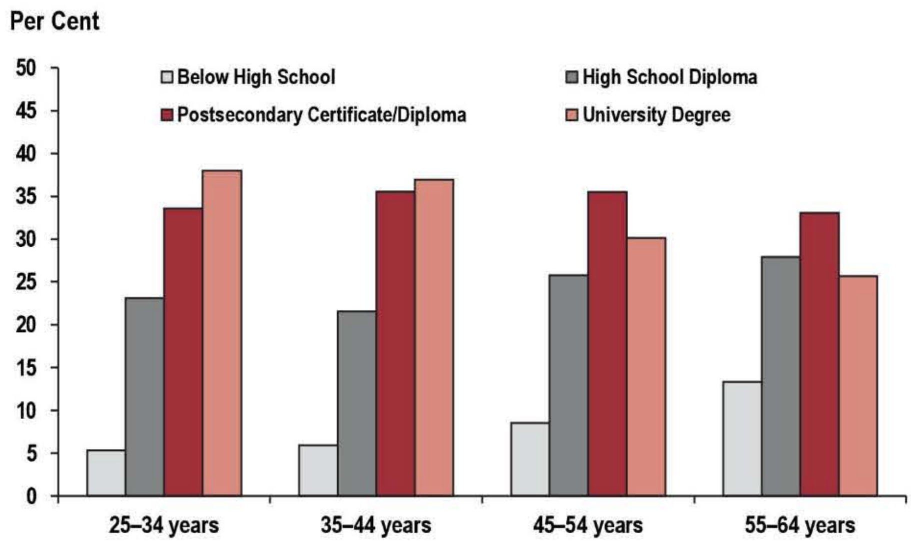
This funding will be used to help develop resources on the history and legacy of treaties, residential schools and Indigenous peoples in Ontario. This will help enhance teaching resources, build capacity and provide learning opportunities to build skills among Ontario educators to encourage critical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

Broadband Services across Ontario School Boards

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

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

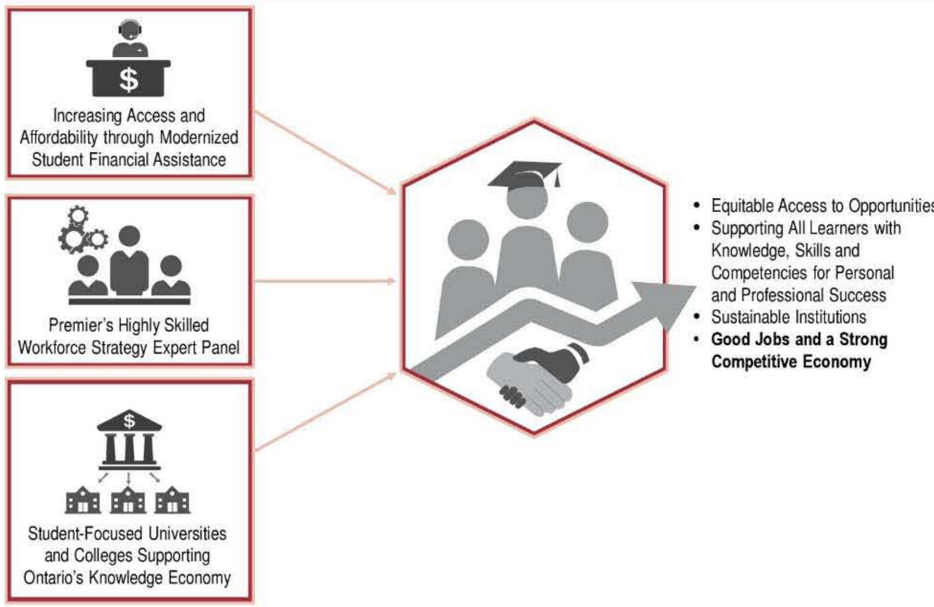
CHART 1.13 **Highest Level of Education Achieved by Age — Ontario, 2015**



Source: Statistics Canada Labour Force Survey (2015).

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

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



Improving Access to Postsecondary Education

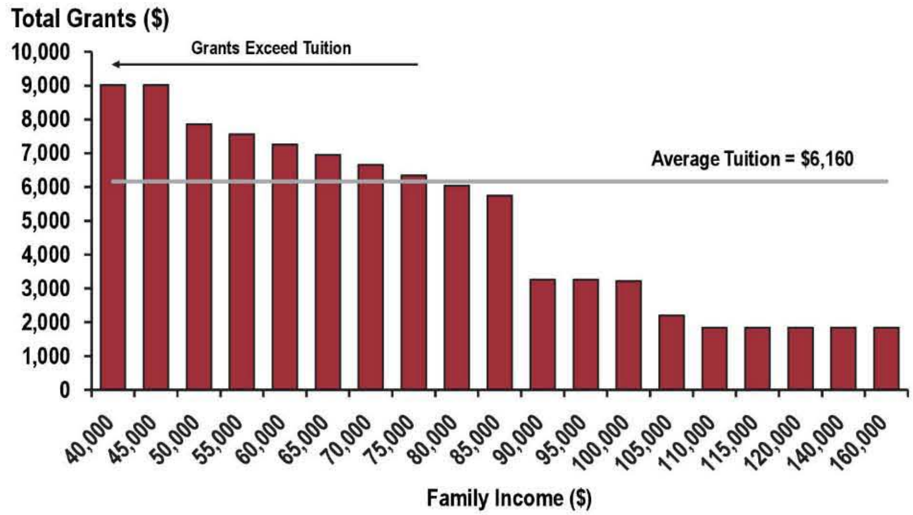
The government is building on previous successes to make postsecondary education more accessible and affordable. Ontario has incorporated feedback from students to ensure financial assistance has evolved to meet their changing needs. The Province has introduced a suite of changes in recent years to make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

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

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

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

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



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

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

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

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

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

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

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

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

Ontario's Aboriginal Health Access Centres

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

Better Access to Specialized Care

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

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

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

New Funding for Shingles Immunization

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

Investments in High-Quality Hospital Care

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

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

Expanding Services in Cancer Care

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

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

Mental Health and Addictions

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

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

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

Sustaining the Ontario Drug Benefit Program

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

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

Connecting Services and Providing More Coordinated Care in the Community

Investing in Home and Community Care

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

A Roadmap to Strengthen Home and Community Care

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

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

Safeguarding Personal Support Services

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

More Choice and Supports for Palliative Care

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

New Funding for Hospice Services

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

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

Long-Term Care

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

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

Keeping Ontarians Healthy

Healthy Choices

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

Healthy Kids

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

Immunization 2020

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

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

Smoke-Free Ontario

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

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

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

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

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

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

Protecting Ontario's Health Care System

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

Supporting Vulnerable Populations

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

Developmental Services

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

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

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

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

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

Drug Benefits for Low-Income Seniors

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

Social Assistance

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

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

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

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

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

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

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

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

For example, the Province will:

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

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

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

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

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

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

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

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

Supporting the Settlement of Refugees in Ontario

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

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

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

Mental Health and Addictions Strategy

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

Prevention of Violence against Indigenous Women

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

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

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

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

Section F: Strengthening Retirement Security

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

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

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

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

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

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

Progress on the Ontario Retirement Pension Plan

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

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

The ORPP Administration Corporation

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

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

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

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

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

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

Plan Administration

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

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

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

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

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

A Sustainable Plan

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

Mirroring the strengths of the CPP, the ORPP would:

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

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

Responsible Funding of the ORPP

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

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

Moving Forward

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

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

Target Benefit Multi-Employer Pension Plans

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

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

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

Section G: Making Everyday Life Easier

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

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

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

Reducing the Cost of Living

Hospital Parking Fees

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

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

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

Protecting Consumers and Claimants

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

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

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

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

Increasing Convenience and Choice

Community Hubs

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

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

Examples of Community Hubs

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

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

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

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

Beverage Alcohol

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

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

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

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

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

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

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

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

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

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

LCBO E-Commerce Platform

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

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

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

This new platform will be operational by mid-2016.

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

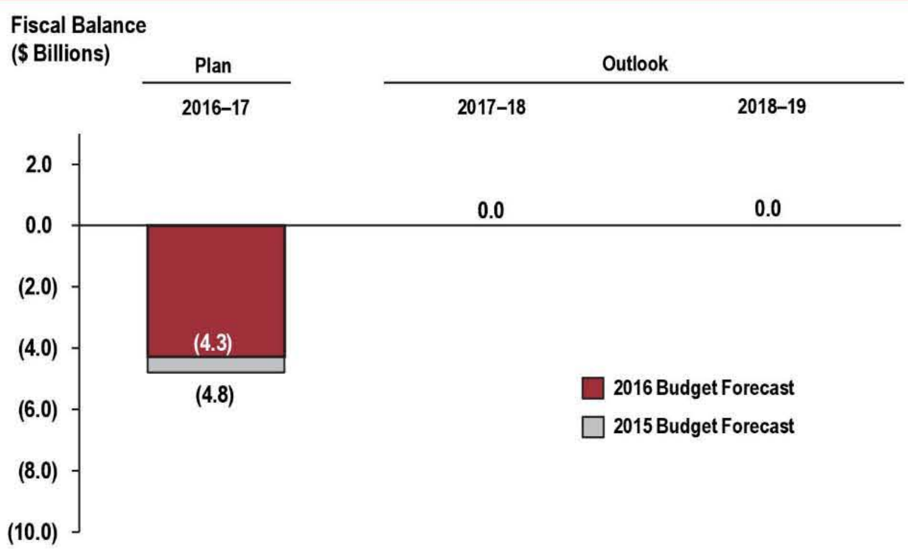
The Ministry of Health and Long-Term Care is currently leading consultations with key stakeholders, including health professionals, addiction treatment providers, beverage alcohol industry stakeholders and law enforcement to inform the policy's development. Pending the results of these consultations,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

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

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

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

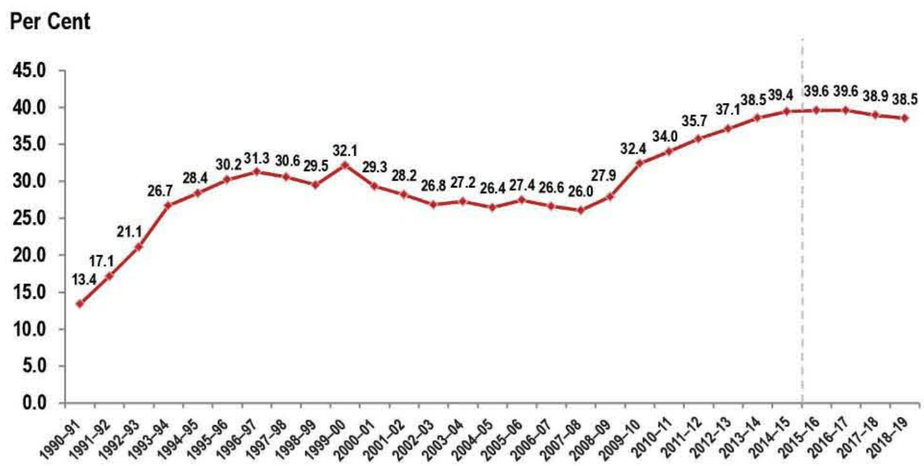
CHART 2.2 **Ontario's Plan to Eliminate the Deficit**



Source: Ontario Ministry of Finance.

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

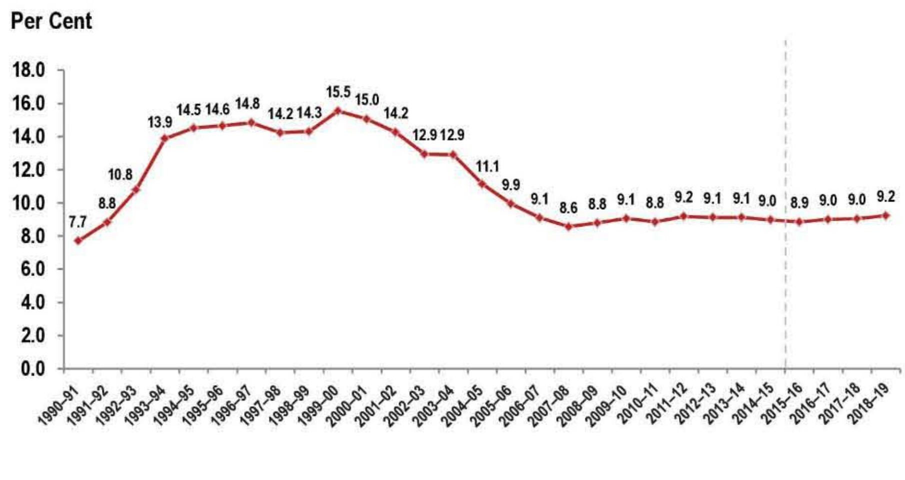
CHART 2.3 **Net Debt-to-GDP, 1990–91 to 2018–19**



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

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

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



Source: Ontario Ministry of Finance.

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

Section B: Transforming Government and Managing Costs

Program Review, Renewal and Transformation

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

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

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

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

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

What Does Success Look Like?

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

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

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

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

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

Progress through Program Review, Renewal and Transformation

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

Achieving Savings Targets

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

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

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

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

Achieving the 2015–16 Program Review Savings Target

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

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

Moving Forward with Program Review, Renewal and Transformation

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

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

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

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

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

[1] Annual impact. Fiscal impact increases over time as initiatives mature. Savings estimates will be refined through implementation.

[2] Fiscal impact is generated through eliminating tax credits.

[3] Fiscal impact is generated through additional revenue.

Note: Numbers may not add due to rounding.

ServiceOntario Modernization

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

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

Sector Transformation

Managing Health Care Spending and Growth

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

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

Ensuring the Sustainability of the Ontario Drug Benefit Program

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

Income Testing

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

Assistive Devices and Supplies Program

The government will target benefits for its Assistive Devices and Supplies Program (ADSP) as program costs are projected to rise in the near future. The growth is primarily attributed to Ontario's aging population and the increasing number of individuals requiring assistive devices. As a first step, the Province will examine funding criteria for the continuous positive airway pressure (CPAP) machines used for sleep apnea to ensure the benefit is targeted to individuals who need it.

Benefits Transformation

The Province provides a wide range of direct and in-kind benefits across a spectrum of needs including health, dental, housing and child care. To streamline access, Ontario is exploring initiatives that include online applications for multiple benefit programs and increased automation of back-office functions.

To support these initiatives and build on the positive steps taken to improve the way benefit programs are delivered, the government is proposing new legislation that would enable integrated program administration with broadened information sharing and modernized privacy frameworks.

Justice Sector Transformation

The justice sector is undergoing long-term transformation to create a justice system that is more modern, client-centred, community-based and focused on prevention. The government has successfully transformed Ontario's youth justice system to fully align with the principles and provisions of the federal *Youth Criminal Justice Act.* Transformation has created a continuum of community-based and custodial programs and services to improve outcomes for youth, successfully transition them out of custody and create opportunities for youth at risk. The overall youth crime rate in Ontario has been reduced by 46 per cent since the introduction of the Act in 2003.

Spending reductions will be reinvested in priority economic development opportunities, including the Business Growth Initiative outlined in Chapter I, Section A: *Fostering a More Innovative and Dynamic Business Environment.* The Province remains committed to delivering effective and targeted financial support through programs such as the Jobs and Prosperity Fund, marketing services, and collaboration with domestic and international partners. It also continues to foster the stability and development of Indigenous, rural and northern communities across the province.

Simpler, Better Targeted Postsecondary Student Financial Assistance

Ontario has made significant changes in recent years to enhance the Ontario Student Assistance Program (OSAP) to provide students with the financial support they need to get an education. Nevertheless, Ontario's student financial assistance programs are complex, often do not provide support when students need it, and do not help many disadvantaged students who cannot overcome financial barriers to access postsecondary education.

To address these gaps, the government will introduce a redesigned student financial assistance program that will be easier for students and their families to understand and access, and will shift the financial support upfront to reduce the "sticker shock" that limits access for many. It will improve access for students from lower-income families who truly need help in accessing postsecondary education. This simplified system will include one single major upfront grant for OSAP — the Ontario Student Grant (OSG), starting in September 2017. The OSG will replace the 30% Off Ontario Tuition grant, Ontario Student Opportunity Grant, Ontario Access Grants, and other grants offered by OSAP. Ontario proposes to discontinue the tuition and education tax credits. This reform is in line with recommendations by stakeholders, including student groups and the Commission on the Reform of Ontario's Public Services. All of the additional revenue from eliminating these tax credits would be reinvested to support the new OSG or other postsecondary, education, training and youth jobs programs. See Chapter V, Section A: *Tax Measures* for more information on the tax changes.

Further details will be available during 2016, with the redesigned OSAP program to be introduced for the 2017–18 school year. See Chapter I, Section C: *Investing in People's Talents and Skills* for more information.

Service Fees and Non-Tax Revenue

Service fees provide a means of ensuring that the costs of providing a program or service that has an individual benefit are paid by the beneficiary of that program or service, rather than by taxpayers in general. Examples of service fees charged in Ontario include fees charged for driver and vehicle licensing, camping in Ontario parks, fishing and hunting licences, court applications, liquor licences and event permits.

As noted by the Auditor General in 2009, Ontario's service fees, per capita, are among the lowest in Canada. Ontario is also one of the only jurisdictions in the country that does not regularly review service fees or index them to inflation. As a result, in most cases, service-fee revenue recovers only a portion of the associated expense, which results in the government having to subsidize a portion of the service from tax revenue. Managing service fees in a way that is fair, reasonable and balanced would ensure that fees are applied consistently and that the costs for providing these services are borne by those who use and benefit from them.

Service Fees and Non-Tax Revenue in Other Jurisdictions

The federal government, the provinces of Quebec and Nova Scotia, and the Northwest Territories have policies in place to permit indexation of service fees, where appropriate, to the rate of inflation. Saskatchewan and Newfoundland and Labrador have established processes to regularly review fee rates. In 2012, Quebec began to systematically review the costs of services to which existing or potential service fees apply, determine self-financing targets for each fee-based service, and index increases in fees annually at the same rate as any increase to the personal taxation system. In 2015, Alberta announced government-wide fee increases, including vehicle and driver licences, and introduced new court fees.

- The government is investing $333 million over five years, to support redesigning and consolidating autism services in Ontario, so that more children and youth receive critical interventions sooner and achieve improved outcomes through services that are better matched to their needs. This includes transitioning older children currently waiting for and receiving more costly Intensive Behavioural Interventions to more appropriate services, based on research evidence.
- A shifting of resources from enforcement-driven to early, community-based interventions that implement programs and services to keep people out of the justice system and produce positive outcomes for individuals and local communities. This will, in turn, shift the focus from reactive policing to multi-sector initiatives involving both police and other local partners working together to reduce crime and help build safer, healthier communities.

Collective Impact for At-Risk Youth

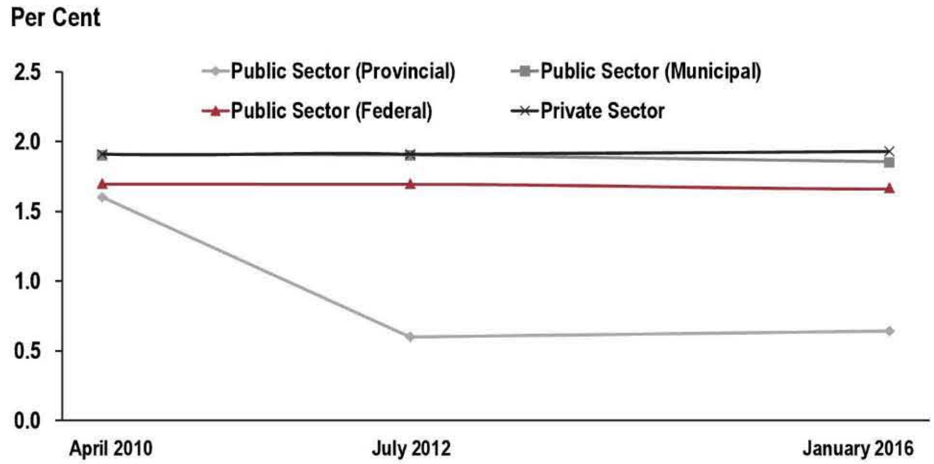
The government is also exploring new ways to address complex social problems by piloting a Collective Impact (CI) approach to improve outcomes for youth not in employment, education or training.

Collective Impact is an innovative, outcomes-driven approach to making collaboration work between government, business, the philanthropic and not-for-profit sectors, and people to achieve significant and lasting social change. It is also a service delivery transformation approach that emphasizes integration across sectors, as well as within sectors for improved outcomes.

A number of jurisdictions are using CI to tackle complex social, economic and environmental issues that cannot be addressed by a single sector or program. One notable example of CI in Canada is Calgary's Plan to End Homelessness, which has led to a coordinated system of care. Since 2008, the plan has successfully delivered a 15 per cent reduction in homelessness in Calgary.

The Province is currently assessing CI pilot communities and determining how it can best partner with and support others to improve outcomes for local youth not in employment, education or training.

CHART 2.7 **Ontario Public/Private Wage Settlement Trends**



Notes: Based on agreements with over 150 employees, ratified between April 1, 2010, and January 13, 2016. April 2010 represents the start of the government's compensation restraint mandate. The period from July 2012 to January 2016 represents the most complete picture of a full bargaining cycle across the public sector.
Sources: Ontario Treasury Board Secretariat and Ontario Ministry of Labour.

Specifically, from July 2012 to the present, the provincial public-sector annual wage increases have averaged 0.6 per cent, compared to the municipal sector at 1.8 per cent, the private sector at 1.9 per cent and the federal public sector in Ontario at 1.7 per cent.

Over the coming year, the government will continue to work with sector-level partners to assist in identifying possible opportunities to support mutually beneficial bargaining outcomes that are consistent with the government's Program Review, Renewal and Transformation priorities and the Province's fiscal plan.

Broader Public Sector Executive Compensation

In keeping with its commitment to manage executive compensation in the broader public sector, the government is developing sector-specific executive compensation frameworks.

Compensation information has been collected from all colleges and universities. Consultation, along with research on executive compensation at postsecondary institutions across Canada, is informing college and university frameworks that balance sector-specific considerations with the need to prudently manage public funds.

The government will continue to work with its partners in the broader public sector to collect compensation information and engage in consultation with affected sectors over the coming months.

To further support accountability to the public on agencies' use of powers and public resources, the government has implemented the requirement, announced in the *2015 Budget,* for board-governed agency Chairs and CEOs to attest to the integrity and reliability of their financial reports and their organization's compliance with legislation, regulations and directives. These attestations form part of activities underway to continually enhance existing government-wide accountability, internal control and assurance frameworks.

Other Accountability Measures

Changes to the *Lobbyists Registration Act, 1998,* are anticipated to be proclaimed into force in summer 2016. This will bring in new investigative powers for the Integrity Commissioner as Lobbyist Registrar, and new rules for lobbyists to add to the existing accountability and transparency measures already in place.

Recent Developments in Public Sector Accounting Standards

The government continues to work with the Public Sector Accounting Board (PSAB) on a number of initiatives, including PSAB's review of its standards on financial instruments and foreign currency translation. In 2015, PSAB extended the effective date for implementation of these new standards for senior governments by three more years to April 1, 2019.

The financial results of the Province's rate-regulated Government Business Enterprises (Ontario Power Generation Inc. and Hydro One Ltd.) are included in the Province's consolidated financial reports. The government is seeking clarification from PSAB as to whether, under its standards, the results of the entities under modified equity accounting can continue to be reflected on the same basis as they are prepared and filed for external reporting purposes to support consistency, transparency and accountability.

Section C: Addressing the Underground Economy and Maintaining Tax Fairness

Underground Economy

Participation in the underground economy creates an unfair advantage for illegitimate businesses. When businesses fail to report their income for tax purposes or avoid meeting other regulatory obligations, consumer and worker safety is put at risk.

Since 2013–14, the government has made progress in fighting underground economic activities:

- The Province held consultations with high-risk sectors, with a view to partnering with industry and gaining insight into how best to tackle the underground economy.
- Through ongoing enhanced compliance-focused measures, including those that address underground economy activity in high-risk sectors, Ontario has generated over $930 million to date — a $330 million increase over the amount reported in the *2015 Budget*.

> The Tax Verification Program has been successful in verifying compliance with tax obligations for corporations seeking to do business with the provincial government. The government was able to work with non-compliant businesses to help them satisfy their tax obligations before starting work.

- The Province requires corporations to demonstrate compliance with federal and provincial taxes before receiving government procurement contracts. Since February 2014, the government has verified compliance for more than 2,200 contracts.
- The *Taxation Act, 2007,* was amended to make the sale, use or distribution of electronic sales suppression devices an offence.

The Province is continuing to focus on underground economy activities in all high-risk sectors, and will continue to take concrete action to better support consumer and worker safety, as well as provide a level playing field for legitimate businesses.

Going Forward

As committed to in the *2015 Ontario Economic Outlook and Fiscal Review*, Parliamentary Assistant Laura Albanese has been holding consultations with the residential construction industry on issues related to the underground economy. Ontario remains committed to continuing the conversation with this important sector with a view to supporting legitimate contractors and uncovering illegitimate activity.

Stemming from these consultations, Parliamentary Assistant Albanese has submitted a draft interim report to the Minister of Finance, "Addressing Ontario's Underground Economy in the Residential Construction Sector," recommending actions the Province could take to achieve a level playing field where all businesses play by the rules.

In line with these recommendations, the Province is prepared to move forward with:

- Extending its residential roofing pilot project for an additional two years and examining opportunities to expand its scope beyond roofing to other areas of residential construction. The residential construction sector has taken note of the pilot's efficacy in delivering an integrated government approach.
- Developing a public awareness campaign that will seek to educate the public on the risks and potential liabilities associated with participation in the underground economy.
- Launching specialized audit teams to focus on sectors that are at high risk of underground economic activity, in partnership with the Canada Revenue Agency. These teams will consist of specialized auditors who will use advanced analytics and innovative enforcement tools to ensure everyone plays by the rules.

- Strengthening its ability to identify and address the underground economy by proposing legislation that would:
  - Enhance the way government gathers and uses information to target illicit activities typically associated with the underground economy;
  - Expand enforcement capabilities to ensure businesses have the proper permits, licences and other required documentation to be considered legitimate; and
  - Propose additional penalties to level the playing field for legitimate businesses.
- Enable partnering with natural gas utilities to help homeowners work with certified energy auditors and reputable contractors as part of the government's investment in home energy audits and retrofits under the Green Investment Fund.

Since 2014, the Province has undertaken a successful underground economy-focused pilot project in the residential roofing sector.

This pilot project included multiple ministries and resulted in significant action to address unsafe activities typically associated with the underground economy, including:

- Over 1,700 orders for compliance;
- Nearly 250 prosecutions initiated; and
- Over 550 information packages sent to homeowners and employers.

This pilot project also included a series of parallel, targeted inspections with the Canada Revenue Agency in summer 2015. In addition to the significant health and safety actions taken above, the pilot was successful in identifying instances of non-compliance with tax obligations.

Electronic Sales Suppression

In the *2015 Budget*, the Province made the use, possession and distribution of electronic sales suppression technologies an offence. Since then, further progress has been made. The government has concluded consultations with industry and other stakeholders on preventing electronic sales suppression and identified possible actions the Province can take to address this concern without being overly burdensome to legitimate businesses.

Ontario remains committed to working with industry and other interested parties over the coming months as it considers solutions, including software-based approaches that ensure sales integrity without the need for a physical device at the point of sale.

Collaborating with the New Federal Government

Ontario recognizes that a strong partnership in addressing the underground economy is critical to the success of initiatives at both the provincial and federal levels. To this end, the Province will continue to seek opportunities to partner with the new federal government to further ensure legitimate businesses in Ontario continue to thrive.

Contraband Tobacco

Low-cost contraband tobacco undermines the health objectives of the Province's Smoke-Free Ontario Strategy, results in less tobacco tax revenues for critical public services, and compromises public safety through links with organized crime.

The government remains committed to addressing contraband tobacco through a balanced approach of partnerships and compliance activities. The Smoke-Free Ontario Strategy is a central component of the Province's approach to tobacco.

Ontario has successfully delivered on a number of key initiatives outlined in the *2015 Budget*, and is building on these measures to take further action to address contraband tobacco.

- The government successfully implemented raw leaf tobacco oversight during the 2015 growing year. To date in 2015–16, approximately $19 million in raw leaf tobacco sales was reported by registered producers, accounting for approximately 20 million kilograms of raw leaf tobacco. To further enhance its oversight, the Province amended the *Tobacco Tax Act* in December 2015 to:
  - Require tracking labels to be affixed to bales and packages of raw leaf tobacco;
  - Include fines and penalties related to non-compliance with these tracking provisions and raw leaf tobacco registration requirements; and
  - Strengthen record-keeping and reporting requirements, and enhance information-sharing.
- A regulation prescribing labelling requirements for bales and packages of raw leaf tobacco and other requirements will be filed in time for the harvest season. The government will continue to monitor the results of its raw leaf tobacco oversight and propose future enhancements and amendments under the *Tobacco Tax Act*.
- A dedicated contraband tobacco enforcement team has been established by the Ontario Provincial Police. The team will be focused on addressing the links between organized crime and tobacco and will seek to combat and eliminate sophisticated contraband tobacco networks across Ontario. Links have been made between organizations involved in tobacco smuggling and more serious illegal activity, such as drug and weapons trafficking. The government may build on this initiative in the future, based on results.

- The government is also enhancing tobacco retail inspections by launching pilot projects with four public health units that will focus on seizing contraband tobacco and flavoured tobacco products. Working with select public health units, the Ministry of Finance and public health unit inspectors will be cross-designated under sections of the *Smoke-Free Ontario Act* and the *Tobacco Tax Act,* respectively, to identify and seize these products during retail inspections. The pilot projects will be operational in April 2016. Based on the results, future opportunities for cross-designation and additional locations will be considered.
- To build on its commitment to reduce the supply of key tobacco product components to unlicensed manufacturers, the government is seeking opportunities to work with its federal and provincial counterparts to regulate key components such as acetate tow, which is used to create cigarette filters.

Next Steps

In addition to building on compliance measures outlined in 2015, the government is taking further action on the distribution and purchase of contraband tobacco within the province. Ontario is proposing immediate legislative amendments that, if passed, would allow for the forfeiture of raw leaf tobacco. This initiative would create new deterrents to engaging in contraband tobacco distribution. In addition, the Province will examine the potential expansion of forfeiture provisions within the *Tobacco Tax Act.*

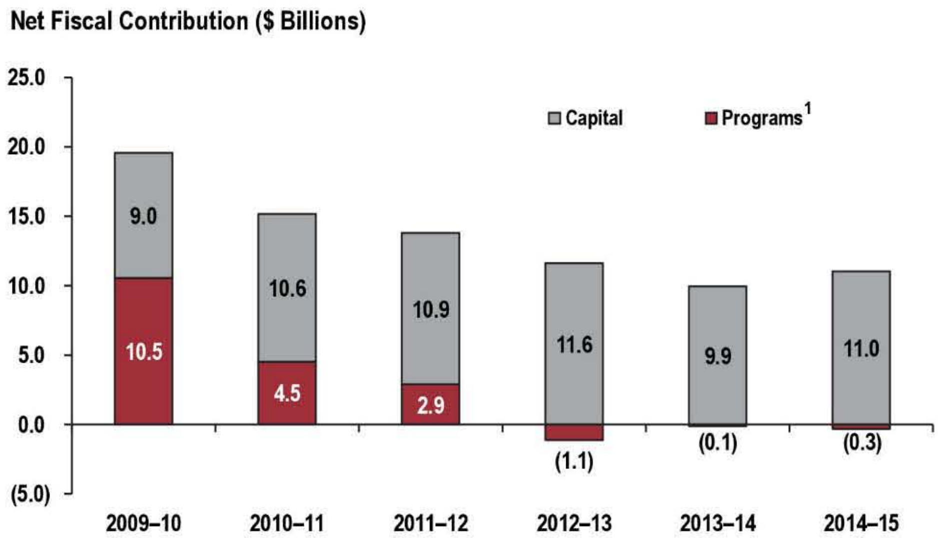
Shifting Global Economic Environment

Over the past year and a half, there has been a significant shift in the global economic environment. Growth in emerging and developing economies — notably China — has slowed, while economic growth in some advanced economies — particularly the United States — remains solid.

These developments, together with uncertainty about the global economic outlook, have contributed to dramatically lower commodity prices, notably for crude oil, with increasing supply adding to the downward pressure. In tandem with the drop in oil prices, the Canadian dollar has fallen against its U.S. counterpart, interest rates have declined and stock markets have lost value. This has shaken business confidence and left Ontario households unsure about the ultimate impact on their budgets and spending plans.

For example, while lower fuel prices have benefited households, the drop in the Canadian dollar has boosted the cost of imported food and other goods. Overall, the Ontario economy is expected to benefit from the shifting global economic environment as businesses capitalize on improving competitiveness. Households will also find firm support from an improving labour market, but there may be challenges related to the transitioning underway in the global economy.

CHART 3.4 Ontario Government's Net Fiscal Contribution



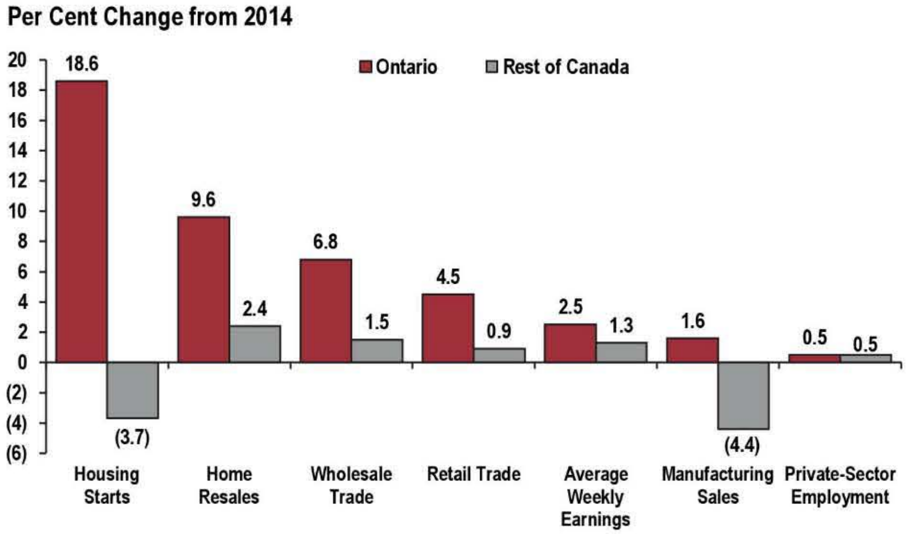
[1] Fiscal deficit minus interest on debt and the non-cash adjustment.
Sources: Ontario Ministry of Finance and Public Accounts of Ontario.

The Ontario government's plan for jobs and the economy, in response to the most severe global economic downturn since the Great Depression, included fiscal deficits and borrowing for capital. To help stimulate the economy and counter the effects of the recession, the government increased its net fiscal contribution both for capital and program spending, totalling $19.5 billion in 2009–10. As the recession eased, the government responsibly managed program spending while continuing supportive outlays on capital to improve the long-term competitiveness of the Ontario economy.

Ontario's Economy Outpacing Canada

Major economic indicators have shown stronger gains in Ontario compared to the rest of Canada in 2015. For example, indicators of business-sector activity, such as manufacturing sales and wholesale trade, have advanced more strongly than the average of the other provinces. On the consumer side, there have been stronger-than-average gains in retail sales and housing market activity.

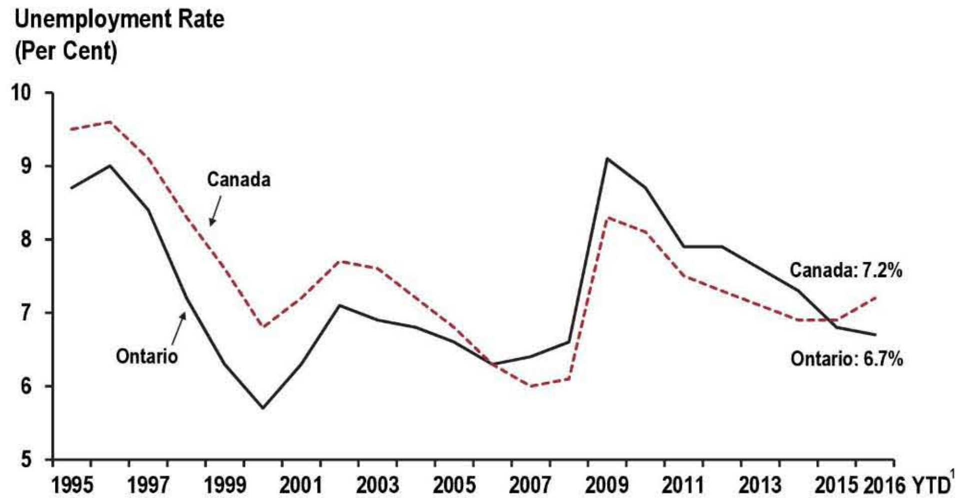
CHART 3.5 **Key Ontario Economic Indicators Outpacing Canada in 2015**



Notes: Figures for housing starts, home resales and employment are based on annual data. All other figures are year to date, compared to the same period in 2014.
Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Canadian Real Estate Association.

Ontario's unemployment rate continues to improve as the economy creates jobs. The unemployment rate declined from 7.3 per cent in 2014 to 6.8 per cent in 2015, a greater rate of improvement than any other province. As a result, Ontario's unemployment rate in 2015 moved below the national average for the first time since 2005.

CHART 3.6 Unemployment Rate Declining in Ontario

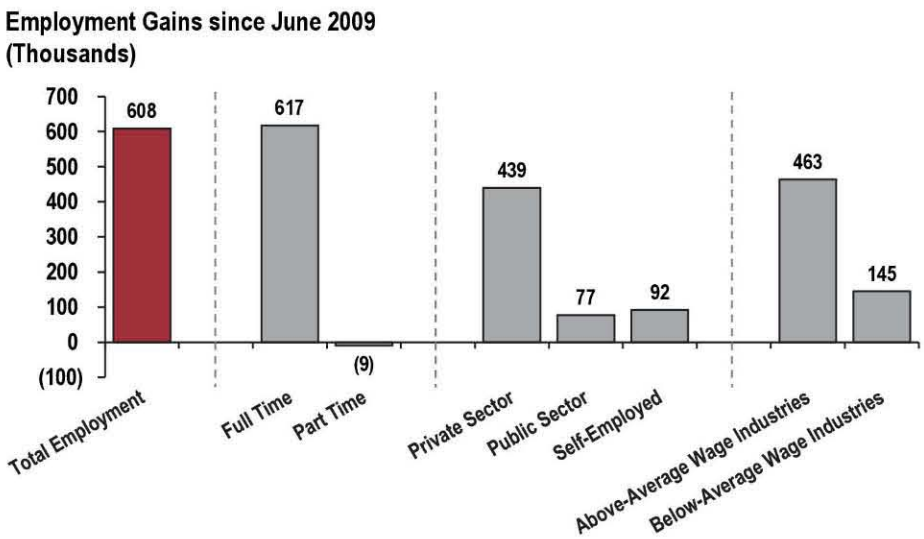


[1] January 2016.
Source: Statistics Canada.

Ontario Creating High-Quality Jobs

Ontario's employment gains since the recession have been concentrated in industries that pay above-average wages. In addition, most of the net new jobs were in the private sector and all in full-time positions.

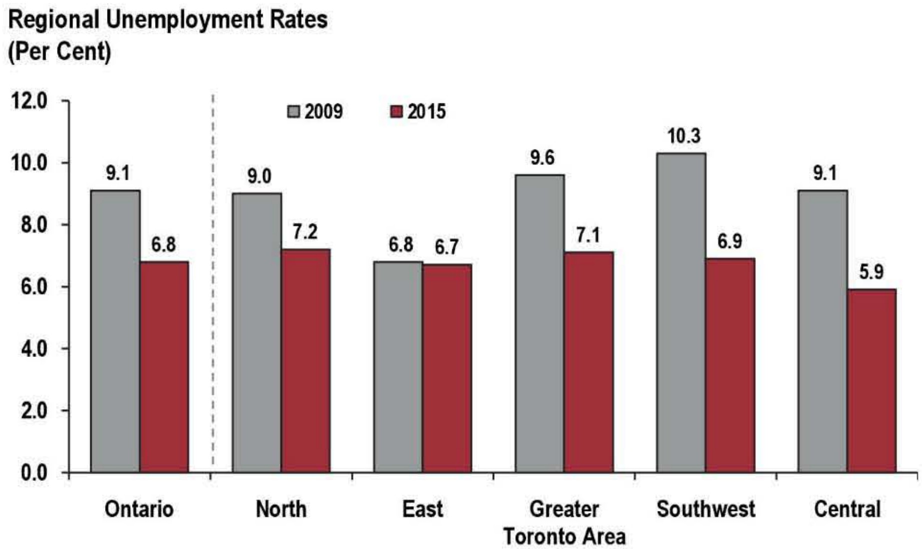
CHART 3.7 **Employment Gains Concentrated in Full-Time, Private-Sector, Above-Average Wage Industries**



Note: Above-average wage industries are defined as those with earnings above the average hourly earnings of all industries in 2015.
Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario's unemployment rate averaged 6.8 per cent in 2015, down from 9.1 per cent in 2009. All regions of the province have seen a decline in the unemployment rate over this period, though in differing degrees.

CHART 3.8 **Unemployment Rates Down in All Ontario Regions**

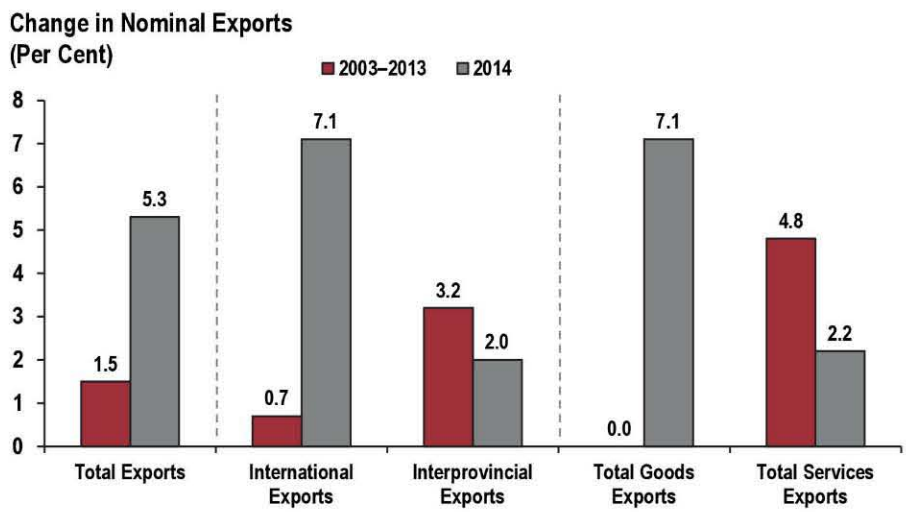


Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario Exports Up Strongly

The decline in the Canadian dollar has helped improve the competitiveness of Ontario's export sector. This, along with solid U.S. demand, has supported Ontario's trade performance. International exports increased by a strong 7.1 per cent in 2014, the fastest gain since 2011. Export gains were broadly based, with solid advances in consumer goods, industrial machinery and equipment, and automotive products.

CHART 3.9 Ontario Exports Up Strongly

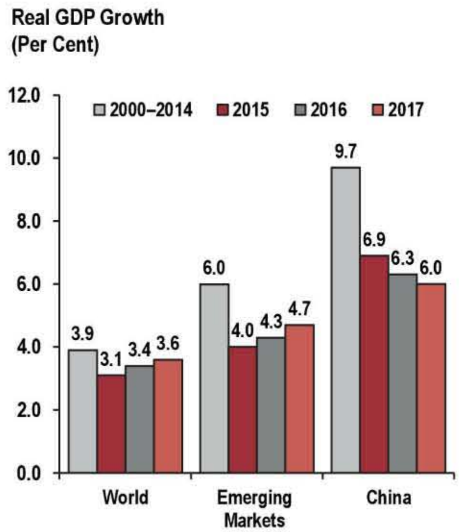


Note: Average annual growth rate for 2003–2013.
Sources: Statistics Canada and Ontario Ministry of Finance.

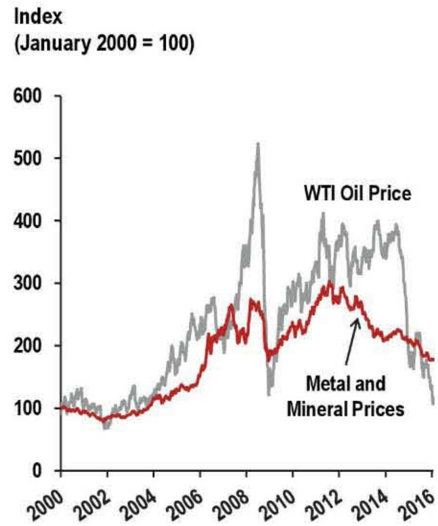
External Economic Environment

Global economic growth has softened, largely due to the deceleration in economic activity in emerging markets, particularly in China. In 2015, real GDP growth in emerging markets is estimated to have decelerated to 4.0 per cent, after averaging 6.0 per cent over the 2000–2014 period.

CHART 3.10 **Emerging Markets Weighing on Global Growth**



Source: IMF World Economic Outlook (October 2015 and January 2016).



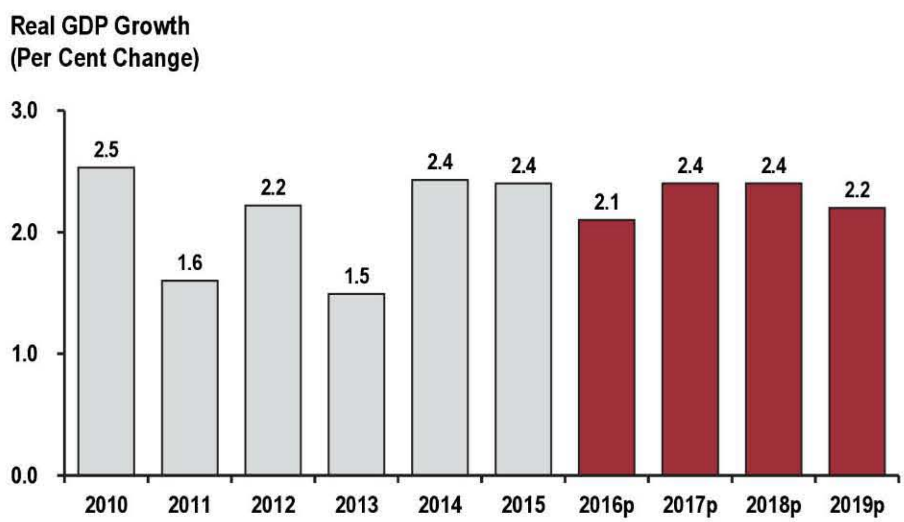
Sources: Bank of Canada and the U.S. Energy Information Administration.

U.S. Economy

The United States remains Ontario's largest trading partner: it is the destination for nearly 80 per cent of the province's exports. The U.S. market is particularly important for many Ontario industries, including motor vehicles, mechanical equipment, plastics, steel and pharmaceuticals.

U.S. real GDP expanded a solid 2.4 per cent in 2015. Job creation remains robust, accelerating in the fourth quarter of 2015, while the unemployment rate has moved steadily lower. A strong labour market is expected to continue to propel domestic demand over the near term. In contrast, net exports are forecast to act as a drag on the U.S. economy, reflecting weaker global demand and a higher U.S. dollar. All told, U.S. real GDP is projected to grow by 2.1 per cent in 2016 and 2.4 per cent in 2017. The U.S. unemployment rate is expected to move lower, from 5.3 per cent in 2015 to 4.8 per cent by 2016 and 4.5 per cent in 2017.

CHART 3.14 **Solid U.S. GDP Growth to Continue**



p = projection.
Sources: U.S. Bureau of Economic Analysis and *Blue Chip Economic Indicators* (October 2015 and February 2016).

Key Forecast Assumptions

Forecasts for key external factors are summarized in the table below. These are used as the basis for the Ministry of Finance's forecast for Ontario's economic growth.

TABLE 3.2 Outlook for External Factors

	2013	2014	2015	2016p	2017p	2018p	2019p
World Real GDP Growth (Per Cent)	3.3	3.4	3.1e	3.4	3.6	3.9	4.0
U.S. Real GDP Growth (Per Cent)	1.5	2.4	2.4	2.1	2.4	2.4	2.2
West Texas Intermediate Crude Oil ($US/bbl.)	98	93	49	42	53	60	67
Canadian Dollar (Cents US)	97.1	90.5	78.2	72.0	75.5	81.0	83.0
Three-Month Treasury Bill Rate[1] (Per Cent)	1.0	0.9	0.5	0.5	0.8	2.2	2.8
10-Year Government Bond Rate[1] (Per Cent)	2.3	2.2	1.5	1.6	2.3	3.3	3.6

e = estimate.

p = Ontario Ministry of Finance planning projection based on external sources.

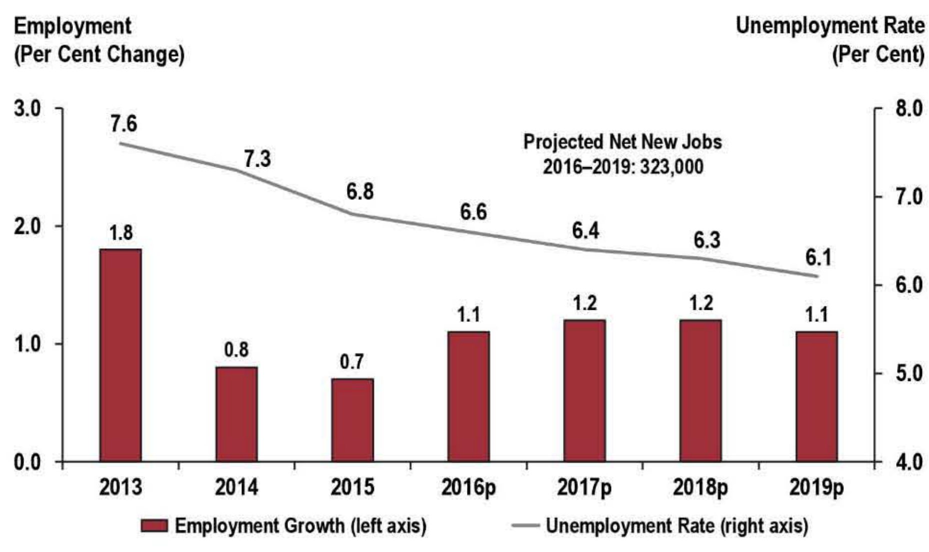
[1] Government of Canada interest rates.

Sources: IMF World Economic Outlook (October 2015 and January 2016), U.S. Bureau of Economic Analysis, *Blue Chip Economic Indicators* (October 2015 and February 2016), U.S. Energy Information Administration, Bank of Canada, Ontario Ministry of Finance Survey of Forecasters (January 2016) and Ontario Ministry of Finance.

Exports and business investment are expected to be key drivers of Ontario's economic growth over the forecast period. Ontario's exports are expected to rise by 3.0 per cent annually, on average, over the 2016 to 2019 period. While interprovincial exports are projected to remain steady over the near term, reflecting challenges in resource-based provinces, international exports are expected to continue to benefit from a lower Canadian dollar and strong U.S. demand. In addition, the government's Going Global Trade Strategy will continue to help Ontario firms compete and become more productive by learning about global opportunities and changing markets.

Employment is forecast to increase by 1.1 per cent, or 78,000 net new jobs in 2016, up from growth of 0.7 per cent in 2015. Steady employment gains of 1.2 per cent annually, on average, are expected over the 2017 to 2019 period. Ontario's unemployment rate is projected to improve to 6.6 per cent this year, down from 6.8 per cent in 2015. The unemployment rate is forecast to steadily decline to 6.1 per cent by 2019.

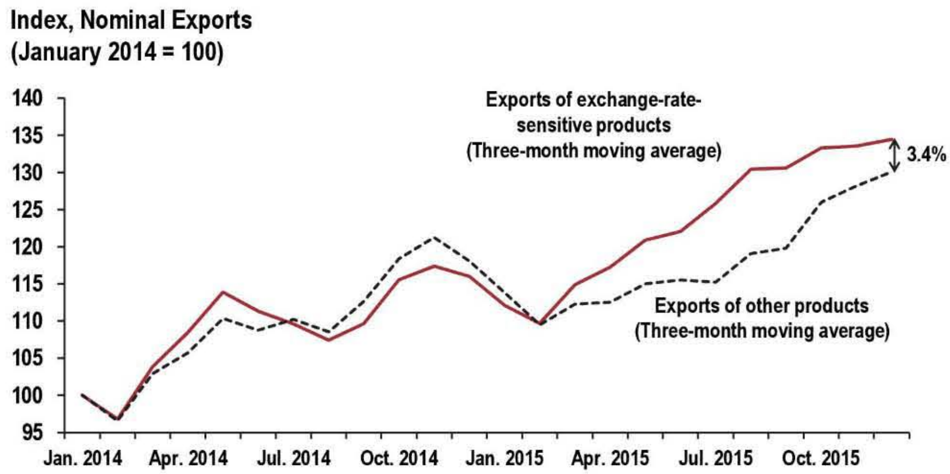
CHART 3.16 Ontario's Labour Market Expected to Improve



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

The composition of U.S. real GDP growth, driven by healthy consumer demand and strong business investment, is projected to stimulate demand for Ontario exchange-rate-sensitive exports. Those exchange-rate-sensitive sectors[3] are already benefiting from strong U.S. demand and the lower exchange rate. On a trend basis, exports from these sectors are outperforming other Ontario export categories since early 2015.

CHART 3.17 **Exchange-Rate-Sensitive Exports Already Benefiting from Lower Canadian Dollar**



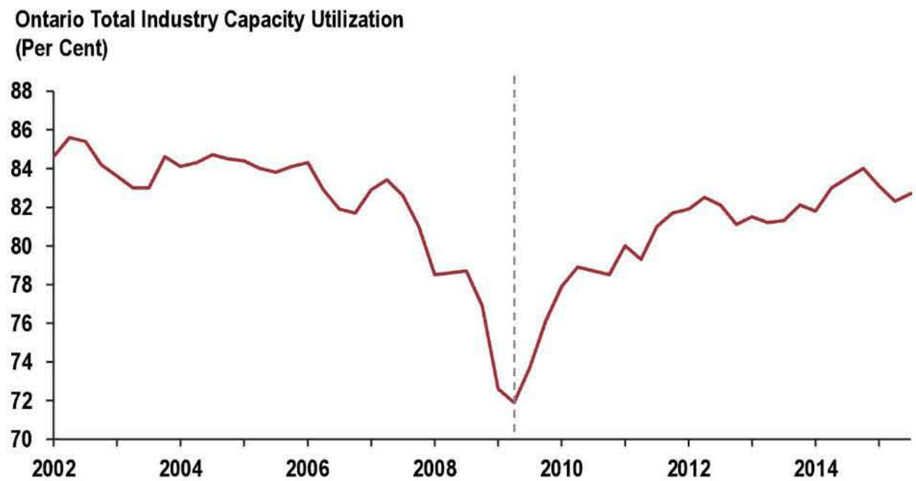
Note: Exchange-rate-sensitive goods are fabricated metal products; non-metallic mineral products; plastic and rubber products; building and packaging materials; industrial and electronic machinery, equipment and parts; communication and audio/video equipment; medium and heavy trucks, buses and other motor vehicles; motor vehicle engines and parts; aircrafts, aircraft and other transportation equipment and parts; clothing, footwear and textile products; paper and published products; pharmaceutical products; furniture; and cleaning products and appliances. Data expressed in nominal terms.
Sources: Statistics Canada, Bank of Canada and Ontario Ministry of Finance.

[3] André Binette, Daniel de Munnik and Julie Melanson, "An Update — Canadian Non-Energy Exports: Past Performance and Future Prospects," Bank of Canada Discussion Paper 2015–10 (October 2015).

Rising exports, reflecting solid U.S. demand and a lower Canadian dollar, will provide an increasingly compelling case for increased investment, especially now that Ontario's businesses are operating closer to full capacity. Business investment will also continue to be supported by Ontario's competitive tax structure.

CHART 3.18 **Industry Operating Close to Full Capacity, Expected to Trigger Increased Investment Activity**

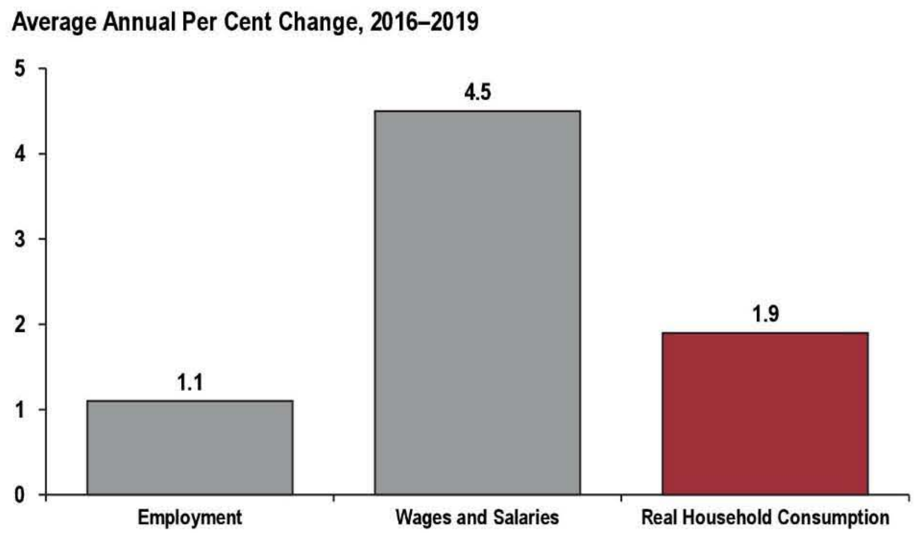
Businesses were left with underused facilities following the recession, lowering investment needs. With demand now rising and facilities operating close to full capacity, more investment is expected to follow.



Sources: Statistics Canada and Ontario Ministry of Finance.

Growth in incomes, buoyed by continued job growth and rising wages along with low interest rates, is projected to support consumer spending in Ontario. Recently, consumer spending has been lifted by positive wealth effects from increasing resale home prices that have likely offset the negative impact from declines in equity markets.[4] Following estimated growth of 3.0 per cent in 2015, real household consumption is forecast to moderate to 1.9 per cent annually, on average, over the 2016 to 2019 period.

CHART 3.19 **Consumer Spending Expected to Be Supported by Gains in Employment and Wages**

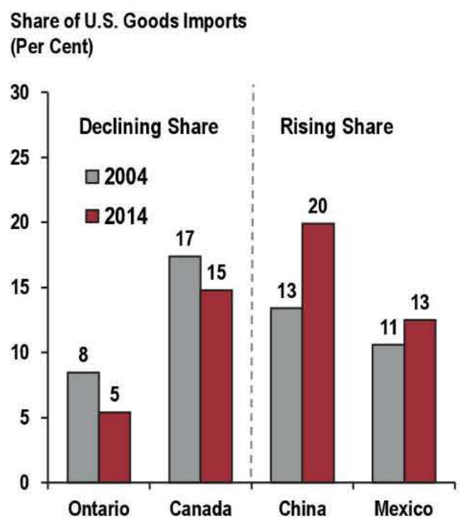


Source: Ontario Ministry of Finance.

[4] Lise Pichette, "Are Wealth Effects Important for Canada?", Bank of Canada Review, Spring 2004. The report highlights that consumer spending responds very little to changes in equity wealth, but is sensitive to changes in housing wealth.

Despite a more favourable external environment, challenges remain for Ontario's export sector. This partly reflects the loss of U.S. market share to Mexico and China, suggesting Ontario export growth to the United States may be less robust than experienced during past periods of currency depreciation. Furthermore, the U.S. dollar has appreciated against most currencies, limiting the competitive advantage Ontario has gained.

CHART 3.21 Increasing Competition May Limit Growth Prospects



Sources: Statistics Canada and U.S. Bureau of Economic Analysis. *Source:* OANDA.

Ontario's housing market also represents a risk to the economic outlook. In general, housing market corrections are triggered by a spike in interest rates or the unemployment rate. In the current outlook, interest rates are expected to increase moderately, while the unemployment rate is projected to continue improving steadily. As a result, Ontario's average house-price appreciation is expected to slow.

Table 3.3 provides current estimates of the impact of sustained changes in key external factors on the growth of Ontario's real GDP, assuming other external factors are unchanged. The relatively wide range for the impacts reflects uncertainty regarding how the economy would be expected to respond to these changes in external conditions.

TABLE 3.3 Impacts of Sustained Changes in Key External Factors on Ontario's Real GDP Growth

(Percentage Point Change)

	First Year	Second Year
Canadian Dollar Depreciates by Five Cents US	+0.1 to +0.7	+0.2 to +0.8
Crude Oil Prices Decrease by $10 US per Barrel	+0.1 to +0.3	+0.1 to +0.3
U.S. Real GDP Growth Increases by One Percentage Point	+0.2 to +0.6	+0.3 to +0.7
Canadian Interest Rates Increase by One Percentage Point	–0.1 to –0.5	–0.2 to –0.6

Source: Ontario Ministry of Finance.

Private-Sector Forecasts

The Ministry of Finance consults with private-sector economists and tracks their forecasts to inform the government's planning assumptions. In the process of preparing the *2016 Budget*, the Minister of Finance met with private-sector economists to discuss their views on the economy. As well, three economic experts reviewed the Ministry of Finance's economic assumptions in February 2016 and found the assumptions to be reasonable. The three experts are from the Policy and Economic Analysis Program at the Rotman Institute for International Business, Rotman School of Management, University of Toronto; the Centre for Spatial Economics; and the Conference Board of Canada.

Private-sector economists are projecting continued growth for Ontario over the forecast horizon. On average, private-sector economists are calling for real GDP growth of 2.3 per cent in 2016, 2.5 per cent in 2017, 2.3 per cent in 2018 and 2.1 per cent in 2019. For prudent fiscal planning, the Ministry of Finance's real GDP growth projections are slightly below the average private-sector forecast.

TABLE 3.5 Private-Sector Forecasts for Ontario Real GDP Growth
(Per Cent)

	2016	2017	2018	2019
BMO Capital Markets (January)	2.2	2.3	–	–
Central 1 Credit Union (January)	2.7	3.1	–	–
Centre for Spatial Economics (January)	2.4	2.6	2.2	2.2
CIBC World Markets (January)	2.2	2.6	–	–
Conference Board of Canada (January)	2.3	2.3	2.1	2.1
Desjardins Group (January)	2.2	2.3	2.0	1.5
IHS Global Insight (January)	2.0	2.0	2.3	2.4
Laurentian Bank Securities (January)	2.4	2.5	–	–
National Bank (January)	2.0	2.0	–	–
RBC Financial Group (December)	2.5	2.7	–	–
Scotiabank Group (February)	2.2	2.7	–	–
TD Bank Financial Group (January)	2.2	2.0	–	–
University of Toronto (January)	2.3	2.8	2.7	2.2
Private-Sector Survey Average	**2.3**	**2.5**	**2.3**	**2.1**
Ontario's Planning Assumption	**2.2**	**2.4**	**2.2**	**2.0**

Source: Ontario Ministry of Finance Survey of Forecasters (February 2, 2016).

TABLE 3.6 Changes in Ministry of Finance Key Economic Forecast Assumptions: *2015 Budget* Compared with *2016 Budget*

(Per Cent Change)

	2015p		2016p		2017p		2018p	
	2015 Budget	*2016 Budget*	*2015 Budget*	*2016 Budget*	*2015 Budget*	*2016 Budget*	*2015 Budget*	*2016 Budget*
Real Gross Domestic Product	2.7	2.5	2.4	2.2	2.2	2.4	2.1	2.2
Nominal Gross Domestic Product	4.2	3.6	4.2	4.0	4.2	4.6	4.1	4.2
Retail Sales	4.2	4.7	4.2	4.8	4.0	3.7	3.6	3.4
Housing Starts (000s)	61.0	70.2	65.0	64.0	69.0	65.0	70.0	68.0
Primary Household Income	3.9	3.3	4.3	4.5	4.4	4.4	4.2	4.2
Compensation of Employees	4.0	3.3	4.3	4.4	4.4	4.5	4.5	4.5
Net Operating Surplus — Corporations	5.0	2.1	4.8	3.7	4.7	8.5	4.4	5.7
Employment	1.1	0.7	1.3	1.1	1.4	1.2	1.3	1.2
Job Creation (000s)	78	45	93	78	99	85	96	82
Consumer Price Index	1.2	1.2	2.0	1.8	2.0	2.0	2.0	2.0
Key External Variables								
U.S. Real Gross Domestic Product	3.1	2.4	2.9	2.1	2.7	2.4	2.6	2.4
WTI Crude Oil ($ US/bbl.)	55	49	70	42	79	53	84	60
Canadian Dollar (Cents US)	79.5	78.2	80.0	72.0	85.0	75.5	89.0	81.0
Three-month Treasury Bill Rate[1] (Per Cent)	0.6	0.5	1.1	0.5	2.5	0.8	3.4	2.2
10-year Government Bond Rate[1] (Per Cent)	1.8	1.5	2.7	1.6	3.8	2.3	4.2	3.3

p = Ontario Ministry of Finance planning projection.

[1] Government of Canada interest rates.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, Bank of Canada, U.S. Energy Information Administration, U.S. Bureau of Economic Analysis, *Blue Chip Economic Indicators* (October 2015 and February 2016) and Ontario Ministry of Finance.

Section B: Fiscal Outlook

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

Looking forward, the government is now projecting a deficit of $4.3 billion in 2016–17, a return to balance in 2017–18 and continued balance in 2018–19. This reflects an improvement of $0.5 billion in 2016–17 compared with the deficit target laid out in the *2015 Budget*.

Ontario's record of strong fiscal management is achieving results. Based on the government's plan, net debt-to-GDP is expected to peak at 39.6 per cent in 2015–16, remain level in 2016–17 and begin to decline in 2017–18, supporting greater sustainability in the Province's management of its debt.

TABLE 3.7 Ontario's Fiscal Plan and Outlook
($ Billions)

	Actual	Interim	Plan	Outlook	
	2014–15	2015–16	2016–17	2017–18	2018–19
Revenue	**118.5**	**126.5**	**130.6**	**137.7**	**141.9**
Expense					
Programs	118.2	120.9	122.1	124.2	127.6
Interest on Debt[1]	10.6	11.2	11.8	12.5	13.1
Total Expense	**128.9**	**132.1**	**133.9**	**136.6**	**140.7**
Surplus/(Deficit) Before Reserve	**(10.3)**	**(5.5)**	**(3.3)**	**1.1**	**1.2**
Reserve	–	0.2	1.0	1.1	1.2
Surplus/(Deficit)	**(10.3)**	**(5.7)**	**(4.3)**	**0.0**	**0.0**
Net Debt as a Per Cent of GDP	39.4	39.6	39.6	38.9	38.5
Accumulated Deficit as a Per Cent of GDP	26.0	25.9	25.4	24.3	23.3

[1] Interest on debt expense is net of interest capitalized during construction of tangible capital assets of $0.2 billion in 2014–15, $0.1 billion in 2015–16, $0.2 billion in 2016–17, $0.4 billion in 2017–18 and $0.6 billion in 2018–19.

Note: Numbers may not add due to rounding.

2015–16 Interim Fiscal Performance

Ontario's deficit for 2015–16 is projected to be $5.7 billion — an improvement of $2.8 billion compared with the 2015 Budget forecast and $1.8 billion compared with the projection laid out in the *2015 Ontario Economic Outlook and Fiscal Review*.

TABLE 3.8 2015–16 In-Year Fiscal Performance
($ Millions)

	Budget Plan	Interim	In-Year Change
Total Revenue	**124,390**	**126,547**	**2,157**
Expense			
Programs	120,492	120,883	391
Interest on Debt	11,410	11,200	(210)
Total Expense	**131,902**	**132,083**	**181**
Reserve	1,000	150	(850)
Surplus/(Deficit)	**(8,512)**	**(5,686)**	**2,826**

Note: Numbers may not add due to rounding.

Total revenue is projected to be $2.2 billion above the *2015 Budget* Plan due to higher revenue from asset optimization in 2015–16, higher taxation revenues, and stronger overall performance from Government Business Enterprises (GBEs).

Total expense in 2015–16 is projected to be $0.2 billion higher than forecast in the *2015 Budget*. This includes the impact of $0.2 billion in lower interest on debt expense, resulting primarily from lower-than-forecast interest rates, the lower forecast deficit and cost-effective debt management.

Ontario's program expense is projected to be $0.4 billion higher than outlined in the *2015 Budget*, consistent with the forecast laid out in the *2015 Ontario Economic Outlook and Fiscal Review*. This is primarily due to the Green Investment Fund — a $325 million down payment that is targeted at reducing greenhouse gas (GHG) emissions while strengthening the economy and creating jobs.

- Net income from the **Ontario Lottery and Gaming Corporation** (OLG) is estimated to be $159 million higher than projected in the *2015 Budget*, largely reflecting higher-than-projected sales in national lotteries.
- Net income from the **Liquor Control Board of Ontario** (LCBO) is estimated to be $58 million higher than projected in the *2015 Budget,* primarily due to strong sales during summer 2015 that were boosted by favourable weather, stronger tourism and extraordinary sporting and cultural events.

The fiscal plan also includes a reserve of $1.0 billion in 2016–17, $1.1 billion in 2017–18 and $1.2 billion in 2018–19, largely in line with the *2015 Budget*.

TABLE 3.11 Change in Medium-Term Fiscal Outlook since the *2015 Budget*

($ Billions)

	2015–16	2016–17	2017–18
Surplus/(Deficit) from the *2015 Budget*	**(8.5)**	**(4.8)**	**–**
Total Revenue Changes	**2.2**	**1.2**	**3.3**
Expense Changes			
Net Program Expense Changes	0.4	1.6	4.2
Interest on Debt	(0.2)	(0.7)	(0.7)
Total Expense Changes	**0.2**	**0.9**	**3.4**
Change in Reserve	(0.9)	(0.2)	(0.1)
Fiscal Improvement/(Deterioration)	**2.8**	**0.5**	**0.0**
***2016 Budget* Surplus/(Deficit)**	**(5.7)**	**(4.3)**	**0.0**

Note: Numbers may not add due to rounding.

Ontario's Revenue Outlook

Ontario's revenues rely heavily on the level and pace of economic activity in the province, with growth expected to be roughly in line with nominal gross domestic product (GDP). For example, taxes are collected on the incomes and spending of Ontarians, and on the profits generated by businesses operating in Ontario.

However, there are important qualifications to this general relationship.

The impact of housing completions and resales on HST and Land Transfer Tax revenues is proportionately greater than their contribution to GDP.

Growth in several tax revenue sources, such as volume-based gasoline and fuel taxes, is more closely aligned to real GDP. These revenue sources are less influenced by changes in prices. Similarly, some revenues, such as vehicle and driver registration fees, tend to more closely track demographic factors, such as growth in the driving-age population.

Growth in some revenue sources, such as the Corporations Tax and Mining Tax, can diverge significantly from economic growth in any given year due to the inherent volatility of business profits, as well as the use of tax provisions such as the option to carry losses forward or backward across different tax years.

The revenue forecast also often includes significant one-time adjustments, usually due to lags between the period in which revenues are earned and when the actual amounts are finally reported. For example, the Ministry of Finance will use the latest available information on Personal Income Tax (PIT) revenue earned by the Province for the 2015 tax year as the basis for the 2015–16 PIT revenue estimate to be published later in 2016 in the *Public Accounts of Ontario 2015–2016*. Actual PIT revenue entitlements for 2015 and 2016, however, will not be known until early 2017 and 2018, respectively, after most PIT returns for those tax years have been filed with and assessed by the Canada Revenue Agency.

Moreover, additional tax information continues to arrive for years following the actual tax year due to late tax assessments and reassessments. The result is that even after the *Public Accounts of Ontario 2015–2016* is released, new and updated tax assessment information will lead to revisions of the estimate for 2015–16 PIT revenues. Under Public Sector Accounting Board (PSAB) standards, revenue estimates already published in the *Public Accounts* are not restated for updated assessment information. Instead, these revisions are reported as prior-year adjustments in the current open year.

The medium-term taxation revenue growth profile reflects growth in the economy, but may also incorporate prior-year adjustments and the impacts of past and proposed tax measures. These latter impacts may result in a taxation revenue growth profile for a specific revenue source that appears to be inconsistent with the growth profile of the main related economic driver.

To help explain the medium-term growth profile of the major taxation revenues, the following three tables adjust total projected revenues for each of Personal Income Tax, Sales Tax and Corporations Tax, to remove prior-year adjustments and impacts of measures to arrive at "base revenue." This base revenue measure is shown to be more closely aligned to the main economic driver for the specific taxation revenue source.

TABLE 3.15 Corporations Tax Revenue Outlook
($ Billions)

	Interim	Plan	Outlook	
Revenue	**2015–16**	**2016–17**	**2017–18**	**2018–19**
Total Projected Revenue	11.4	12.1	12.7	13.2
Tax Measures[1]	0.1	0.2	0.2	0.2
Other Adjustments[2]	(0.3)	–	–	–
Base Revenue[3]	11.6	11.9	12.5	13.0
Base Revenue Growth (Per Cent)	–	2.6	5.3	3.7
Net Operating Surplus – Corporations Growth (Per Cent)	–	3.7	8.5	5.7

[1] Represents the revenue impact of all tax measures, announced previously or proposed in this *Budget.*
[2] Other Adjustments include the one-time impact of stronger net refunds assessed for years before 2009.
[3] Total Projected Revenue less the impact of tax measures or other one-time factors such as prior-year adjustments. Base Revenue reflects the impact of underlying macroeconomic factors.
Note: Numbers may not add due to rounding.

The forecast for **Corporations Tax** (CT) revenue is based on annual growth in the net operating surplus of corporations. The CT revenue projection reflects the impact of tax measures, as well as prior-year and other adjustments. Tax measures include those announced in past federal and Provincial budgets and those proposed in the current *Budget.* See Chapter V*: A Fair and Sustainable Tax System* for further details. After accounting for tax measures and other adjustments, the CT revenue base grows at an average annual rate of 3.9 per cent over the forecast period, compared with 6.0 per cent average annual growth in the net operating surplus of corporations. Corporations Tax revenue tends to grow more slowly than corporate profits due to the use of tax provisions by corporations, including the carry-forward of losses for up to 20 years.

Ontario Health Premium revenue is based on the outlook for the growth in the compensation of employees. Ontario Health Premium revenue is projected to increase at an average annual rate of 4.8 per cent over the forecast period.

Education Property Tax revenue is projected to increase at an average annual rate of 2.5 per cent over the forecast period. This is largely due to growth in the property assessment base resulting from new construction activities and also reflects measures announced in the *2016 Budget*. See Chapter V: *A Fair and Sustainable Tax System* for further details of current proposed tax measures.

Revenues from **All Other Taxes** include a significant one-time PIL of taxes from Hydro One as a result of the initial public offering (IPO) in 2015–16. Excluding electricity PIL of taxes, other taxes are projected to increase at an average annual rate of 2.8 per cent over the forecast period. This includes revenues from volume-based taxes such as Gasoline Tax, Fuel Tax, Tobacco Tax, and Beer and Wine Tax, as well as other taxes such as Land Transfer Tax and Mining Tax.

The forecast for **Government of Canada** transfers is based on existing federal–provincial funding arrangements. Government of Canada transfers are projected to grow at an average annual rate of 5.1 per cent over the forecast period, largely reflecting projected increases in major ongoing Government of Canada transfers such as the Canada Health Transfer and the Canada Social Transfer. The forecast also includes prudent assumptions related to federal government commitments for additional funding for infrastructure, home care, and jobs and training.

The forecast for **Income from Government Business Enterprises** (GBEs) is based on Ministry of Finance estimates for Hydro One and information provided by OPG, LCBO and OLG. Overall revenue from GBEs is projected to increase by $1.4 billion between 2015–16 and 2018–19, or at an average annual rate of 9.5 per cent, largely reflecting lower net income in 2015–16 from Hydro One due to significant one-time PILs of tax expenses as a result of the Hydro One IPO in November 2015, and higher projected net income from the rest of the GBEs over the medium term.

The forecast for **Other Non-Tax Revenue** is based on information provided by government ministries and provincial agencies. Between 2015–16 and 2018–19, Other Non-Tax Revenues are projected to be higher by $883 million. This increase largely reflects estimates of the proceeds from the auctioning of cap-and-trade allowances beginning in 2017, higher revenue from vehicle and driver registration fees, and other miscellaneous sources. This is partially offset by lower, fiscally neutral, power supply contract recoveries, the removal of the debt retirement charge from electricity bills in 2018–19, and the projected net impact of the Province's planned asset optimization strategy as discussed in Chapter I: *Building Prosperity and Creating Jobs* and Chapter III, Section C: *Borrowing and Debt Management*.

Key Changes in the Medium-Term Revenue Outlook since the *2015 Budget*

Compared with the *2015 Budget*, revenues are higher over the 2015–16 to 2017–18 period.

TABLE 3.16 Summary of Medium-Term Revenue Changes since the *2015 Budget*

($ Billions)

	2015–16	2016–17	2017–18
Economic Growth	(0.6)	(0.4)	(0.3)
Housing Market	0.7	0.3	0.2
Tax Data During 2015 and One-Time Impacts	0.5	0.2	0.1
Tax Measures	(0.0)	0.1	0.2
New Federal Funding	–	0.7	1.3
Government Business Enterprises (non-asset optimization changes)	0.4	0.0	0.0
Cap-and-Trade Proceeds	–	0.5	1.9
Asset Optimization Strategy	1.1	(0.3)	(0.2)
Other Non-Tax Revenue	(0.0)	0.1	0.2
Total Revenue Changes	**2.2**	**1.2**	**3.3**

Note: Numbers may not add due to rounding.

The revised **economic growth** outlook, particularly slower growth in 2015, lowers revenues over the medium term.

Higher revenues from the strong **housing market** include higher HST in 2015–16 due to strong housing completions in 2015 and higher projected Land Transfer Taxes over the medium term, reflecting strength in Ontario housing prices and resales.

Tax data during 2015 provided a slight increase to the tax revenue base upon which growth is applied. In particular, stronger 2014 PIT returns more than offset the impact of slightly weaker 2014 corporate tax returns. **One-time impacts** that increased revenues in 2015–16 include net adjustments to estimates of prior-year HST estimates. There is also a positive adjustment to CT revenue in 2015–16, as a result of having reported the expected weakness in 2014 taxes assessed in the *Public Accounts of Ontario 2014–2015*, thereby eliminating a negative prior-year adjustment to 2015–16 revenues assumed in the 2015 Budget forecast.

Tax measures include the combined impacts of new tax measures proposed in this *Budget.* See Chapter V: *A Fair and Sustainable Tax System* for further details of current proposed tax measures and the impact of federal policy commitments, such as ending the taxable Universal Child Care Benefit and introducing a tax-free Canada Child Tax Benefit.

New federal funding largely reflects prudent assumptions related to federal government commitments for additional funding for infrastructure, home care, and jobs and training.

Income from Government Business Enterprises, excluding impacts related to the asset optimization strategy, is projected to be higher in 2015–16, reflecting stronger overall performance from the enterprises. The increase in 2016–17 and 2017–18 is due to the projected higher net income from the LCBO.

The medium-term revenue outlook also includes projected **cap-and-trade proceeds** from the auctioning of carbon allowances beginning in 2017. The current estimate for 2017 is $1.9 billion, with $478 million occurring in 2016–17. This estimate is based on a program design that is currently being discussed with stakeholders and a projected price of roughly $18 per tonne. The actual proceeds generated could vary based on the final design of the program, future auction price and Canada–U.S. exchange rate.

The change in the medium-term revenue forecast under **asset optimization strategy** reflects the higher upfront benefits from the strategy due to the Hydro One IPO. The government remains on track in its multi-year asset optimization initiative to generate $5.7 billion over time.

The decrease in **Other Non-Tax Revenue** in 2015–16 largely reflects lower miscellaneous revenue. The increase in 2016–17 and 2017–18 is mainly due to higher revenue from sales and rentals and miscellaneous revenue categories.

Risks to the Revenue Outlook

Ontario's revenue outlook is based on reasonable assumptions about the pace of growth in Ontario's economy. There are both positive and negative risks to the economic projections underlying the revenue forecast. Some of these risks are discussed in Section A: *Economic Outlook* of this chapter.

The following section highlights some of the key sensitivities and risks to the fiscal plan that could arise from unexpected changes in economic conditions. These estimates are only guidelines; actual results will vary depending on the composition and interaction of the various factors. The risks are those that could have the most material impact on the largest revenue sources. A broader range of additional risks are not included because they are either less material or difficult to quantify. For example, the outlook for Government of Canada transfers is subject to changes in economic variables that affect federal funding, as well as changes by the federal government to the funding arrangements themselves.

TABLE 3.17 Selected Economic and Revenue Risks and Sensitivities

Item/Key Components	2016–17 Assumption	2016–17 Sensitivities
Total Revenues		
Nominal GDP	4.0 per cent growth in 2016	$890 million revenue change for each percentage point change in nominal GDP growth. Can vary significantly, depending on composition and source of changes in GDP growth.
Total Taxation Revenues		
Revenue Base[1]	4.3 per cent growth in 2016–17	
Nominal GDP	4.0 per cent growth in 2016	$615 million revenue change for each percentage point change in nominal GDP growth. Can vary significantly, depending on composition and source of changes in GDP growth.
Personal Income Tax (PIT) Revenues		
Revenue Base	5.8 per cent growth in 2016–17	
Compensation of Employees	4.4 per cent growth in 2016	$316 million revenue change for each percentage point change in compensation of employees growth.
2015 Tax-Year Assessments[2]	$28.3 billion	$283 million revenue change for each percentage point change in 2015 PIT assessments.[2]
2014 Tax-Year and Prior Assessments	$1.5 billion	$15 million revenue change for each percentage point change in 2014 and prior-year PIT assessments.[2]

TABLE 3.17 Selected Economic and Revenue Risks and Sensitivities (cont'd)

Item/Key Components	2016–17 Assumption	2016–17 Sensitivities
Sales Tax Revenues		
Revenue Base	5.2 per cent growth in 2016–17	
Nominal Household Consumption	4.4 per cent growth in 2016	$185 million revenue change for each percentage point change in nominal household consumption growth.
2014 Gross Revenue Pool[3]	$24.7 billion	$247 million revenue change for each percentage point change in 2014 gross revenue pool.
2015 Gross Revenue Pool[3]	$26.2 billion	$262 million revenue change for each percentage point change in 2015 gross revenue pool.
2016 Gross Revenue Pool[3]	$26.9 billion	$269 million revenue change for each percentage point change in 2016 gross revenue pool.
Corporations Tax Revenues		
Revenue Base	2.6 per cent growth in 2016–17	
Net Operating Surplus — Corporations	3.7 per cent growth in 2016	$90 million change in revenue for each percentage point change in net operating surplus — corporations growth.
2015 Tax Assessments[2]	$9.6 billion	$96 million change in revenue for each percentage point change in 2015 Tax Assessments.
2016 Ontario Corporate Taxable Income	$111.1 billion	$128 million change in revenue for each percentage point change in the federal estimate of 2016 Ontario Corporate Taxable Income.
2017 Ontario Corporate Taxable Income	$118.3 billion	$45 million change in revenue for each percentage point change in 2017 Ontario Corporate Taxable Income.

Highlights of the program expense outlook over the medium term include the following:

- Total **health sector** expense is projected to grow on average by 1.8 per cent per year between 2014–15 and 2018–19. Growth will be managed in part by a continued shift in the hospital funding model from a global funding approach to an activity-based funding approach, and continued emphasis on the sustainability of Ontario's drug programs. These measures would allow for investments in other areas of the health sector that are critical to the Patients First: Action Plan for Health Care, such as ongoing investments in home and community care. See Chapter II, Section B: *Transforming Government and Managing Costs* for more on managing health care spending and growth.

- Total **education sector** expense is projected to grow on average by 1.2 per cent per year between 2014–15 and 2018–19, mainly due to increased funding to school boards to support student enrolment; increased funding for the child care sector to support child care modernization; and continued implementation of a wage increase for front-line child care workers. The growth rate also reflects actions being taken to modernize and transform the education system, and manage costs through more efficient use of school space by consolidating schools, sharing space among school boards and fostering community partnerships, where appropriate.

- Total **postsecondary and training sector** expense is projected to grow on average by 1.1 per cent per year between 2014–15 and 2018–19, mainly due to investments in student financial assistance programs, increases related to Ontario's contribution to the Canada–Ontario Job Grant, and capital investments.

- Total **children's and social services sector** expense is projected to grow on average by 2.7 per cent per year between 2014–15 and 2018–19, primarily reflecting the government's support for vulnerable Ontarians through investments in social assistance and developmental services, as well as funding to support transformation and expansion of autism services.

- Total **justice sector** expense is projected to grow on average by 1.2 per cent per year between 2014–15 and 2018–19, mainly due to the continuing upload of court security costs from municipalities, the expansion of access to legal aid for low-income Ontarians and planned capital investments.

The following table provides a summary of key expense risks and sensitivities that could result from unexpected changes in economic conditions and program demands. A change in these factors could affect total expense, causing variances in the overall fiscal forecast. These sensitivities are illustrative and can vary, depending on the nature and composition of potential risks.

TABLE 3.20 Selected Expense Sensitivities

Program/Sector	2016–17 Assumption	2016–17 Sensitivity
Health Sector	Annual growth of 2.0 per cent.	One per cent change in health spending: $518 million.
Hospitals' Sector Expense	Annual base growth of 1 per cent.	One per cent change in hospitals' sector expense: $226 million.
Drug Programs	Annual growth of 3 per cent.	One per cent change in program expenditure of drug programs: $39 million.
Long-Term Care Homes	78,233 long-term care home beds. Average Provincial annual operating cost per bed in a long-term care home is $52,000.	One per cent change in number of beds: approximately $41 million.
Home Care	Approximately 27 million hours of personal support services.	One per cent change in hours of personal support services: approximately $8.7 million.
	Approximately 8.4 million nursing and professional visits.	One per cent change in nursing and therapy visits: approximately $5.6 million.
Elementary and Secondary Schools	Approximately 1,952,000 average daily pupil enrolment.	One per cent enrolment change: approximately $150 million.
University Students	374,000 full-time undergraduate and graduate students.	One per cent enrolment change: $32 million.
College Students	192,000 full-time students.	One per cent enrolment change: $13 million.
Ontario Works	251,313 average annual caseload.	One per cent caseload change: $25 million.
Ontario Disability Support Program	345,821 average annual caseload.	One per cent caseload change: $48 million.
Interest on Debt	Average cost of 10-year borrowing in 2016–17 is forecast to be approximately 3.1 per cent.	The impact of a 100 basis-point change in borrowing rates is forecast to be approximately $350 million.

Contingent Liabilities

In addition to the key demand sensitivities and economic risks to the fiscal plan, there are risks stemming from the government's contingent liabilities. Whether these contingencies will result in actual liabilities for the Province is beyond the direct control of the government. Losses could result from legal settlements, defaults on projects, and loan and funding guarantees. Provisions for losses that are likely to occur and can be reasonably estimated are expensed and reported as liabilities in the Province's financial statements. Any significant contingent liabilities were disclosed as part of the *2014–2015 Annual Report and Consolidated Financial Statements*, released in September 2015.

Fiscal Prudence

As required by the *Fiscal Transparency and Accountability Act, 2004,* Ontario's fiscal plan incorporates prudence in the form of a reserve to protect the fiscal outlook against adverse changes in the Province's revenue and expense. The reserve has been set at $1.0 billion in 2016–17, $1.1 billion in 2017–18 and $1.2 billion in 2018–19.

The fiscal plan also includes contingency funds (both operating and capital) to help mitigate expense risks — particularly in cases where health and safety may be compromised or services to the most vulnerable are jeopardized — that may otherwise adversely affect Ontario's fiscal performance.

In keeping with sound fiscal practices, the Province's revenue outlook is based on prudent economic assumptions. Three economic experts reviewed the Ministry of Finance's economic assumptions in February 2016 and found the assumptions to be reasonable. The three experts are from the Policy and Economic Analysis Program at the Rotman Institute for International Business; Rotman School of Management, University of Toronto; the Centre for Spatial Economics; and the Conference Board of Canada.

Details of Ontario's Finances

The following tables and charts provide information on the Province's historical financial performance, key fiscal indicators, and details of Ontario's fiscal plan and outlook.

TABLE 3.21 Revenue
($ Millions)

	2013–14	Actual 2014–15	Interim 2015–16	Plan 2016–17
Taxation Revenue				
Personal Income Tax	26,929	29,313	30,265	32,167
Sales Tax[1]	20,481	21,689	23,486	23,976
Corporations Tax	11,423	9,557	11,368	12,050
Education Property Tax[2]	5,457	5,561	5,666	5,834
Employer Health Tax	5,283	5,415	5,742	6,007
Ontario Health Premium	3,128	3,366	3,451	3,604
Gasoline Tax	2,363	2,447	2,468	2,522
Land Transfer Tax	1,614	1,778	2,093	2,051
Tobacco Tax	1,110	1,163	1,208	1,221
Fuel Tax	718	739	751	790
Beer and Wine Tax	557	560	579	611
Electricity Payments in Lieu of Taxes	543	180	3,232	515
Other Taxes	360	507	457	471
	79,966	**82,275**	**90,766**	**91,819**
Government of Canada				
Canada Health Transfer	11,940	12,408	13,084	13,858
Canada Social Transfer	4,689	4,847	4,984	5,128
Equalization	3,169	1,988	2,363	2,304
Infrastructure Programs	123	137	168	1,017
Labour Market Programs	909	896	927	989
Social Housing	474	465	448	434
Wait Times Reduction Fund	96	–	–	–
Other Federal Payments	877	874	899	914
	22,277	**21,615**	**22,873**	**24,644**
Government Business Enterprises				
Ontario Lottery and Gaming Corporation	2,009	1,995	2,079	1,953
Liquor Control Board of Ontario	1,723	1,831	1,938	2,025
Ontario Power Generation Inc./Hydro One Ltd./Brampton Distribution Holdco Inc.	1,605	1,789	330	1,049
	5,337	**5,615**	**4,347**	**5,027**
Other Non-Tax Revenue				
Reimbursements	962	985	979	983
Vehicle and Driver Registration Fees	1,248	1,433	1,592	1,751
Electricity Debt Retirement Charge	954	956	868	625
Power Supply Contract Recoveries	1,296	950	784	643
Sales and Rentals	1,160	2,336	2,174	2,421
Cap-and-Trade Proceeds	–	–	–	478
Other Fees and Licences	759	693	940	987
Net Reduction of Power Purchase Contract Liability	243	217	172	129
Royalties	242	275	271	287
Miscellaneous Other Non-Tax Revenue[3]	1,467	1,196	781	795
	8,331	**9,041**	**8,561**	**9,099**
Total Revenue	**115,911**	**118,546**	**126,547**	**130,589**

[1] Sales Tax revenue is net of the Ontario Sales Tax Credit and the energy component of the Ontario Energy and Property Tax Credit.

[2] Education Property Tax revenue is net of the property tax credit component of the Ontario Energy and Property Tax Credit and the Ontario Senior Homeowners' Property Tax Grant.

[3] Relatively high Miscellaneous Other Non-Tax revenue in 2013–14 reflects the gain on the sale of the Province's shares of General Motors Company and higher recoveries of prior-year expenditures.

Note: Numbers may not add due to rounding.

TABLE 3.22 Total Expense
($ Millions)

Ministry Expense	2013–14	Actual 2014–15	Interim 2015–16	Plan 2016–17
Aboriginal Affairs[1]	63	67	74.8	77.0
Agriculture, Food and Rural Affairs[1]	800	805	943.2	915.9
Attorney General	1,812	1,782	1,816.5	1,867.8
Board of Internal Economy[2]	199	264	220.1	219.9
Children and Youth Services	3,973	4,112	4,257.6	4,346.1
Citizenship, Immigration and International Trade	152	157	169.4	220.8
Community and Social Services	9,977	10,551	11,304.6	11,467.5
Community Safety and Correctional Services[1]	2,380	2,524	2,537.5	2,649.5
Economic Development, Employment and Infrastructure / Research and Innovation[1]	992	1,076	1,195.4	1,177.0
Education[1]	23,645	24,630	24,801.4	25,635.8
Energy[1]	311	326	329.9	322.1
Environment and Climate Change[1]	480	486	502.6	531.4
Executive Offices	30	43	36.7	44.0
Finance[1]	907	951	960.6	963.1
Francophone Affairs, Office of	5	5	8.4	5.7
Government and Consumer Services	594	573	610.0	607.6
Health and Long-Term Care	48,933	50,039	50,785.4	51,785.2
Labour	303	305	307.5	309.5
Municipal Affairs and Housing[1]	845	889	916.9	900.0
Natural Resources and Forestry[1]	720	714	710.6	750.6
Northern Development and Mines	719	804	740.8	790.7
Tourism, Culture and Sport[1]	1,337	1,246	1,262.3	1,250.8
Training, Colleges and Universities	7,599	7,684	7,782.1	7,876.8
Transportation[1]	2,823	2,944	3,365.5	3,850.9
Treasury Board Secretariat[1]	222	227	220.5	316.9
Interest on Debt[3]	10,572	10,635	11,200.0	11,756.0
Other Expense[1]	5,972	5,022	5,022.8	4,056.8
Year-End Savings[4]	–	–	–	(800.0)
Total Expense	**126,364**	**128,860**	**132,083.2**	**133,895.4**

[1] Details on other ministry expense can be found in Table 3.23, Details of Other Expense.

[2] The 2014–15 amount includes expenses for the 2014 general election.

[3] Interest on debt is net of interest capitalized during construction of tangible capital assets of $134 million in 2013–14, $202 million in 2014–15, $131 million in 2015–16 and $183 million in 2016–17.

[4] As in past years, the Year-End Savings provision reflects efficiencies through in-year expenditure management and underspending due to factors such as program management, and changes in project startups and implementation plans.

Note: Numbers may not add due to rounding.

TABLE 3.23 Details of Other Expense
($ Millions)

Ministry Expense	2013–14	Actual 2014–15	Interim 2015–16	Plan 2016–17
Aboriginal Affairs				
One-Time Investments including Settlements	12	3	4.5	–
Green Investment Fund Initiatives	–	–	5.0	–
Agriculture, Food and Rural Affairs				
Time-Limited Investments in Infrastructure	132	36	21.2	–
Time-Limited Assistance	17	7	–	–
Community Safety and Correctional Services				
Time-Limited Support for 2015 Pan/Parapan American Games Security	5	44	123.5	–
Economic Development, Employment and Infrastructure / Research and Innovation				
Green Investment Fund Initiatives	–	–	99.0	–
Federal–Provincial Infrastructure Programs	–	–	–	618.7
Education				
Teachers' Pension Plan[1]	873	564	112.0	(452.0)
Energy				
Green Investment Fund Initiatives	–	–	108.0	–
Ontario Clean Energy Benefit	1,006	1,078	860.0	–
Strategic Asset Management and Transformation Related to Hydro One	–	–	52.0	70.9
Environment and Climate Change				
Green Investment Fund Initiatives	–	–	1.0	–
Finance				
Ontario Municipal Partnership Fund	569	542	512.5	505.0
Power Supply Contract Costs	1,296	920	783.6	643.1
Municipal Affairs and Housing				
Green Investment Fund Initiatives	–	–	92.0	–
Time-Limited Investments in Municipal, Social and Affordable Housing	155	153	163.1	160.3
Time-Limited Investments	208	7	0.3	–
Natural Resources and Forestry				
Emergency Forest Firefighting	92	78	96.1	69.8
Tourism, Culture and Sport				
Time-Limited Investments to Support 2015 Pan/ Parapan American Games	332	405	871.2	88.6
Transportation				
Green Investment Fund Initiatives	–	–	20.0	–
Treasury Board Secretariat				
Capital Contingency Fund	–	–	–	100.0
Operating Contingency Fund	–	–	14.6	1,100.0
Employee and Pensioner Benefits	1,275	1,186	1,083.2	1,152.5
Total Other Expense	**5,972**	**5,022**	**5,022.8**	**4,056.8**

[1] Numbers reflect Public Sector Accounting Board pension expense. Ontario's matching contributions to the plan grow from $1,466 million in 2013–14 to $1,664 million in 2016–17.

Note: Numbers may not add due to rounding.

TABLE 3.24 2016–17 Infrastructure Expenditures
($ Millions)

Sector	Total Infrastructure Expenditures 2015–16 Interim[1]	2016–17 Plan: Investment in Capital Assets[2]	2016–17 Plan: Transfers and Other Infrastructure Expenditures[3]	2016–17 Plan: Total Infrastructure Expenditures[4]
Transportation				
Transit	3,293	4,701	688	5,389
Provincial Highways	2,206	2,108	43	2,150
Other Transportation, Property and Planning	815	603	166	768
Health				
Hospitals	2,174	2,621	263	2,884
Other Health	258	60	248	308
Education	1,930	1,834	171	2,005
Postsecondary				
Colleges and Other	385	608	4	613
Universities	209	–	187	187
Social	373	8	305	312
Justice	198	58	197	255
Other Sectors[5]	1,101	436	934	1,369
Total Infrastructure Expenditures	**12,941**	**13,037**	**3,203**	**16,240**

1 Includes provincial investment in capital assets of approximately $8.5 billion.
2 Includes $183 million in interest capitalized during construction.
3 Includes transfers to municipalities, universities and non-consolidated agencies.
4 Includes third-party investments in hospitals, colleges and schools; and provisional federal contributions to provincial infrastructure investments.
5 Includes government administration, natural resources, culture and tourism sectors.
Note: Numbers may not add due to rounding.

Support from Gaming

Proceeds from gaming activities in Ontario continue to support Provincial priorities. Net Provincial revenue generated from Ontario Lottery and Gaming Corporation (OLG) lotteries, casinos, Internet gaming and slot facilities support the operation of hospitals, charitable and not-for-profit organizations, amateur sports, problem gambling prevention, treatment and research and horse racing. Ontario Lottery and Gaming Corporation also makes payments directly from its revenues to support municipalities and Ontario First Nations.

TABLE 3.26 Support for Health Care, Charities, Problem Gambling and Related Programs, Municipalities and Ontario First Nations

($ Millions)

	Interim 2015–16	Plan 2016–17
Revenue for Provincial Purposes		
Operation of Hospitals	1,755	1,648
Ontario Trillium Foundation	115	115
Problem Gambling Prevention, Treatment and Research	38	38
Ontario Amateur Sports	10	10
General Government Priorities, including Horse Racing Support	161	143
Subtotal — Net Profit to Province from OLG	**2,079**	**1,953**
Support for Municipalities and Ontario First Nations[1]		
Municipalities and First Nations Host Payments[2]	117	117
Ontario First Nations[3]	122	122
Total Support from Gaming	**2,318**	**2,192**

[1] Operating expenses of the Ontario Lottery and Gaming Corporation (OLG) include payments to host municipalities and Ontario First Nations payments under the Gaming Revenue Sharing and Financial Agreement.

[2] Includes Ontario Lottery and Gaming Corporation (OLG) operated casinos, slot facilities and resort casinos, municipality host payments, the Rama First Nations Fee for Casino Rama and the Mississaugas of Scugog Island First Nation Fee for Great Blue Heron Casino.

[3] Revenues paid to First Nations resulting from the Gaming Revenue Sharing and Financial Agreement.

Note: Numbers may not add due to rounding.

Section C: Borrowing and Debt Management

Ontario conducts its borrowing program responsibly to better protect the essential public services Ontarians rely on by minimizing interest on debt costs. To date, $28.4 billion, or 94 per cent, of this year's long-term public borrowing requirement has been completed. The Province's interim borrowing requirement in 2015–16 has decreased by $1.0 billion compared to the 2015 Budget forecast.

Net debt, as of March 31, 2016, is forecast to be $296.1 billion, $2.8 billion lower than forecasted in the *2015 Budget.* Net debt was $284.6 billion as of March 31, 2015. The net debt-to-GDP ratio is forecast to peak at 39.6 per cent in 2015–16, remain level in 2016–17, and decline to 38.9 per cent in 2017–18 and 38.5 per cent in 2018–19. The government continues to maintain a target of reducing the net debt-to-GDP ratio to its pre-recession level of 27 per cent.

Green Bonds are an important tool to help Ontario finance transit and other environmentally friendly projects across the province. As the first Canadian province to issue Green Bonds, Ontario is leading the way in establishing and developing a Canadian-dollar Green Bond market with global investor participation. The Province issued its second Green Bond in January 2016.

TABLE 3.27 Borrowing Program and Medium-Term Outlook: Province and Ontario Electricity Financial Corporation

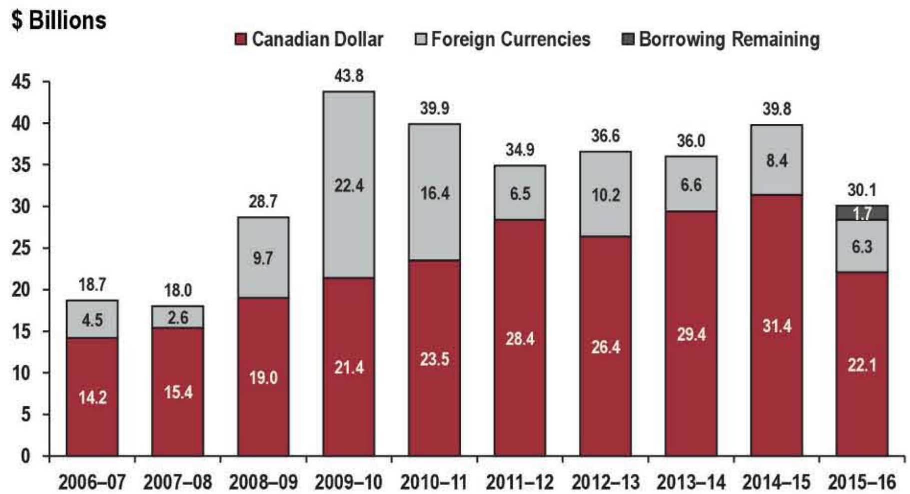
($ Billions)

	2015–16					
	2015 Budget	**Interim**	**In-Year Change**	**2016–17**	**2017–18**	**2018–19**
Deficit/(Surplus)	8.5	5.7	(2.8)	4.3	0.0	0.0
Investment in Capital Assets	9.1	8.5	(0.6)	11.2	12.4	14.2
Non-Cash Adjustments	(4.9)	(3.1)	1.8	(5.8)	(6.1)	(6.3)
Loans to Infrastructure Ontario	1.1	0.8	(0.2)	–	0.3	0.1
Other Net Loans/Investments	1.0	(0.2)	(1.2)	(0.9)	(0.8)	(1.2)
Debt Maturities	21.0	21.1	0.1	21.5	17.5	22.1
Debt Redemptions	0.2	–	(0.2)	0.1	0.1	0.1
Hydro One Special Dividend	–	(0.8)	(0.8)	–	–	–
Total Funding Requirement	**35.9**	**31.9**	**(4.0)**	**30.3**	**23.3**	**28.8**
Canada Pension Plan Borrowing	–	–	–	(0.1)	–	–
Decrease/(Increase) in Short-Term Borrowing	–	–	–	(1.0)	–	–
Increase/(Decrease) in Cash and Cash Equivalents	–	3.5	3.5	(2.7)	–	–
Preborrowing from 2014–15	(4.8)	(5.3)	(0.5)	–	–	–
Total Long-Term Public Borrowing	**31.1**	**30.1**	**(1.0)**	**26.4**	**23.3**	**28.7**

Note: Numbers may not add due to rounding.

Ensuring Preferred Market Access

CHART 3.26 **Canadian Dollar and Foreign Currency Borrowing**



Note: Numbers may not add due to rounding.
Source: Ontario Financing Authority.

The Province regularly accesses borrowing opportunities in currencies other than Canadian dollars to diversify its investor base. This helps reduce Ontario's overall borrowing costs and ensures that the Province will continue to have access to capital if market conditions become more challenging.

Green Bond Update

On January 22, 2016, Ontario successfully launched its second Canadian-dollar Green Bond of $750 million.

As the first Canadian province to issue Green Bonds, Ontario is leading the way in establishing and developing a Canadian-dollar Green Bond market with global investor participation. In 2014, Ontario's inaugural Green Bond issue attracted investors from the United States, Europe and Asia, bringing new international buyers to the Canadian-dollar market. There was strong international interest for Ontario's second Green Bond, with 35 per cent of investor participation from the United States and Europe. The issue was also made available to retail investors through Canadian financial institutions.

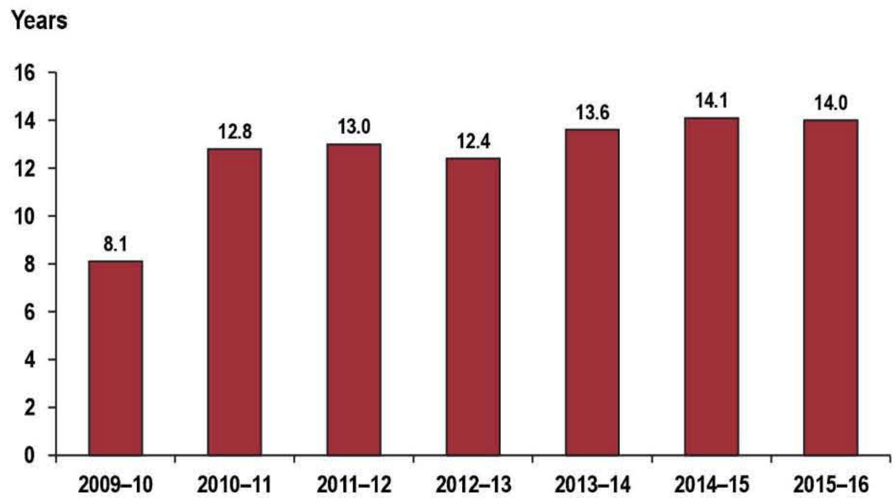
Green Bonds are an important tool to help Ontario finance transit and other environmentally friendly projects across the province. Eight eligible projects have been selected to receive funding from the second Green Bond:

- Metrolinx — Eglinton Crosstown Light Rail Transit (LRT);
- Metrolinx — vivaNext Bus Rapid Transit;
- Metrolinx — Regional Express Rail;
- Sheridan College Hazel McCallion Campus Expansion — Mississauga;
- St. Joseph's Health Care Hamilton — West 5th Campus;
- St. Joseph's Health Care London — London and St. Thomas;
- Waypoint Centre for Mental Health Care — Penetanguishene; and
- Centre for Addiction and Mental Health — Queen Street Site, Phase 1B.

The Eglinton Crosstown LRT was selected as the first project to receive Green Bond funding for $500 million in 2014. To date, total Green Bond financing amounts to $1.25 billion, with up to $1.2 billion allocated to Metrolinx for clean transportation projects.

Term of Borrowing

CHART 3.27 **Weighted-Average Term of Borrowing in Years**



Source: Ontario Financing Authority.

Given the low interest rates experienced in recent years, Ontario has been proactive in extending the term of its borrowing program. Extending the term to maturity allows the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's future interest on debt (IOD) costs.

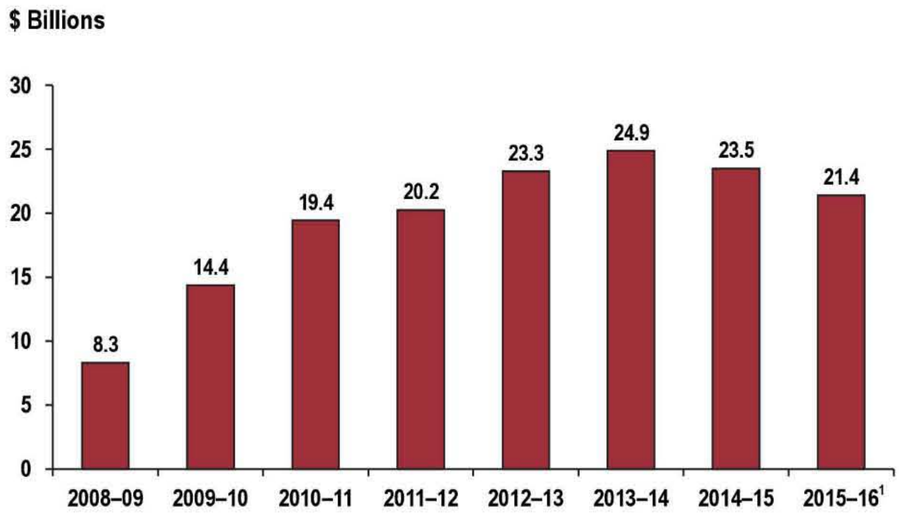
Going back to the beginning of fiscal 2010–11, Ontario has issued $53.5 billion of bonds with terms of longer than 30 years to lock in low rates. As a result, the weighted-average term to maturity of long-term Provincial debt issued has been extended significantly, from 8.1 years in 2009–10 to 14.0 years in 2015–16.

Ensuring Adequate Liquidity Levels

Ontario actively manages its financial obligations through the maintenance of a liquid reserve portfolio and the use of short-term borrowing. The Province increased its level of unrestricted liquid reserves following the financial crisis in 2008–09.

The Province's short-term borrowing program in the Canadian- and U.S.-dollar money markets is relatively small, accounting for only 6.4 per cent of Ontario's debt. The unused short-term borrowing capacity that this leaves, combined with the high levels of unrestricted liquid reserves, ensures that the Province will always have adequate liquidity to meet its financial obligations.

CHART 3.30 Average Unrestricted Liquid Reserve Levels



[1] As of January 31, 2016.
Source: Ontario Financing Authority.

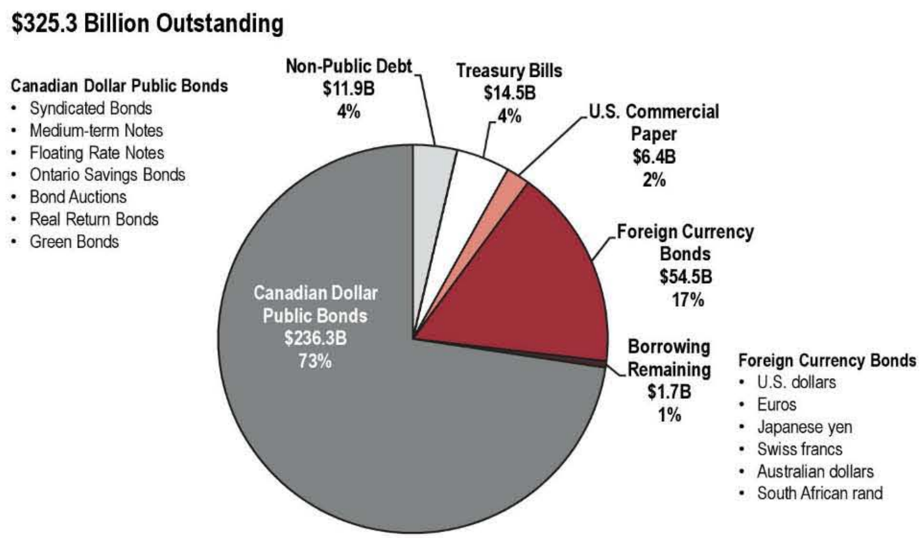
Total Debt Composition

Total debt consists of bonds issued in the public capital markets, non-public debt, treasury bills and U.S. commercial paper. Total debt, which represents all borrowing without offsetting financial assets, is projected to be $325.3 billion as of March 31, 2016.

Public debt, as of March 31, 2016, is projected to be $313.4 billion, primarily consisting of bonds issued in the domestic and international public markets in seven currencies. Ontario also has $11.9 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt consists of debt instruments issued mainly to the Canada Pension Plan Investment Board. This debt is not marketable and cannot be traded.

Canadian-dollar denominated debt represents 81 per cent of the total debt projected as of March 31, 2016.

CHART 3.32 **Total Debt Composition as of March 31, 2016**

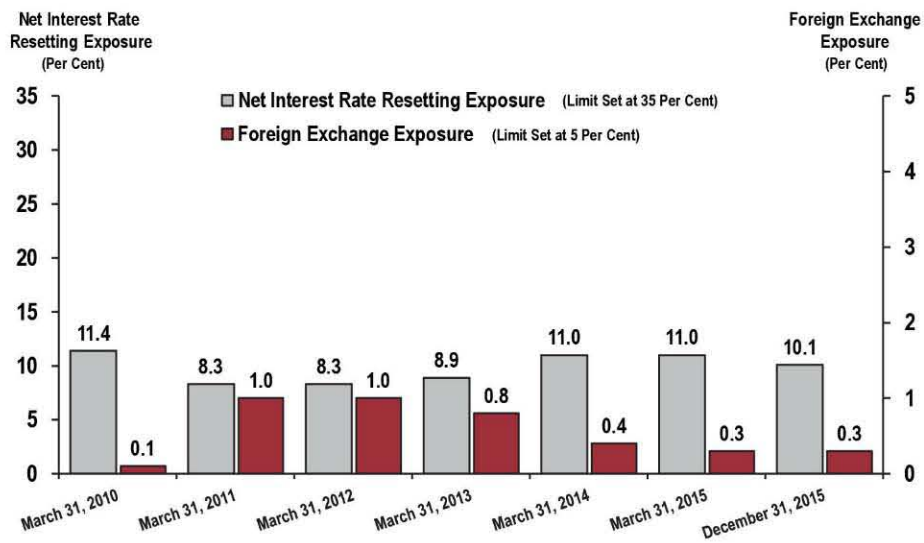


Note: Numbers may not add due to rounding.
Source: Ontario Financing Authority.

Limiting Risk Exposure

Ontario limits itself to a maximum net interest rate resetting exposure of 35 per cent of debt issued for provincial purposes and a maximum foreign exchange exposure of five per cent of debt issued for provincial purposes. As of December 31, 2015, the values for net interest rate resetting exposure and foreign exchange exposure were 10.1 per cent and 0.3 per cent, respectively. All exposures remained well below policy limits in 2015–16.

CHART 3.34 **Net Interest Rate Resetting and Foreign Exchange Exposure**
As a Percentage of Debt Issued for Provincial Purposes



Note: Excludes Ontario Electricity Financial Corporation debt.
Source: Ontario Financing Authority.

Electricity sector reforms have led to 12 consecutive years of stranded debt pay-down, as projected for year-end 2015–16. This has allowed the government to follow through on its commitment to reduce electricity cost pressures for residential users by eliminating the DRC as of January 1, 2016, and for commercial, industrial and all other users as of April 1, 2018.

The OEFC will continue to receive DRC revenues in respect of electricity consumption prior to April 1, 2018, thus achieving a balance between paying down the electricity sector stranded debt and mitigating cost pressures. The fixed end date provides certainty to commercial, industrial and other non-residential electricity users, and helps them more effectively plan their business and investment decisions.

Following the end of the DRC, the remaining stranded debt will be serviced and paid down by the OEFC's other dedicated revenues, such as PILs, the amount equal to Hydro One Inc.'s provincial corporate income taxes, and the gross revenue charge paid to the OEFC. The OEFC will continue to report annually on its revenue sources and expenses, and on the stranded debt.

The government is committed to using proceeds related to the book value of shares sold from broadening ownership in Hydro One to pay down electricity sector debt. These proceeds and the pre-IPO special dividend of $800 million will allow the Province to pay down its debt and other payables to the OEFC and contribute towards the Province's targeted $5 billion debt pay-down.

As part of the *Budget Measures Act, 2015,* the *Electricity Act, 1998,* was amended to provide for payments to the OEFC equal to the Provincial corporate taxes paid by Hydro One Inc. These amounts will contribute to servicing and paying down stranded debt, as will financial benefits provided to the OEFC as a result of Hydro One share offerings, including the November 2015 IPO, in accordance with section 50.3 of the *Electricity Act, 1998*.

Consolidated Financial Tables

TABLE 3.29 Net Debt and Accumulated Deficit
($ Millions)

	2011–12	2012–13	2013–14	2014–15	Interim 2015–16	Plan 2016–17
Debt[1]						
Publicly Held Debt						
Bonds[2]	223,468	245,544	259,933	280,442	291,871	296,996
Treasury Bills	11,925	13,024	12,297	14,631	14,532	15,532
U.S. Commercial Paper[2]	4,701	6,611	8,657	6,304	6,403	6,403
Infrastructure Ontario (IO)[3]	1,854	1,909	1,603	950	300	300
Other	347	360	345	317	299	289
	242,295	**267,448**	**282,835**	**302,644**	**313,405**	**319,520**
Non-Public Debt	14,983	13,617	12,923	12,316	11,928	11,628
Total Debt	**257,278**	**281,065**	**295,758**	**314,960**	**325,333**	**331,148**
Cash and Temporary Investments	(21,180)	(29,037)	(24,303)	(26,121)	(24,237)	(21,616)
Total Debt Net of Cash and Temporary Investments	**236,098**	**252,028**	**271,455**	**288,839**	**301,096**	**309,532**
Other Net (Assets)/Liabilities[4]	(14,862)	(13,839)	(18,354)	(18,673)	(18,848)	(14,493)
Broader Public Sector (BPS) Net Debt	14,346	13,899	14,089	14,410	13,861	13,276
Net Debt	**235,582**	**252,088**	**267,190**	**284,576**	**296,109**	**308,315**
Non-Financial Assets[5]	(77,172)	(84,956)	(90,556)	(97,065)	(102,662)	(110,562)
Accumulated Deficit	**158,410**	**167,132**	**176,634**	**187,511**	**193,447**	**197,753**

[1] Includes debt issued by the Province and Government Organizations, including the OEFC.
[2] All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts.
[3] Infrastructure Ontario's (IO) interim 2015–16 debt is composed of Infrastructure Renewal Bonds ($300 million). IO's debt is not guaranteed by the Province.
[4] Other Net (Assets)/Liabilities include accounts receivable, loans receivable, advances and investments in government business enterprises, accounts payable, accrued liabilities, deferred revenue and capital contributions, pensions and other employee future benefits, and other liabilities.
[5] Non-financial assets include the tangible capital assets of the Province and broader public sector.
Source: Ontario Ministry of Finance.

CHAPTER IV

TOGETHER TOWARDS A STRONGER ONTARIO AND A STRONGER CANADA

National Fight against Climate Change

The Province continues to lead in fighting climate change. Ontario recently signed a memorandum of understanding with Quebec and Manitoba, signalling the intention to link future cap-and-trade markets and committing to concerted climate change actions.

In reaching a new global agreement in Paris to limit temperature increases to under two degrees Celsius, the world is taking the strong and coordinated action required to reduce emissions and address and prepare for the challenges of a changing climate before it is too late. Ontario is pleased to participate with all provinces and territories and the federal government on a pan-Canadian climate change framework, and is looking forward to the upcoming meeting of Canada's first ministers to make progress on this shared and critical priority.

Ontario has already made significant contributions towards addressing this global challenge. The Province successfully phased out coal-fired electricity generation in 2014, the single largest greenhouse gas (GHG) reduction initiative of its kind in North America. Between 2005 and 2013, Ontario's emissions reductions of 40 megatonnes (Mt) surpassed Canada's total emissions reductions of 23 Mt, meaning Ontario's reduction represented over 170 per cent of the national total.[2]

As the federal government continues to engage provinces and territories on national initiatives, it is critical that any action recognize the steps Ontario has already taken to reduce GHG emissions. In addition, Ontario is eager to share the benefit of its experiences to help inform the development of potential national initiatives based on its own experience of developing a broad provincial climate policy. See Chapter I, Section A: *Fostering a More Innovative and Dynamic Business Environment* for further details.

[2] United Nations Framework on Climate Change, "National Inventory Report 2015–Part 3", (2015) http://unfccc.int/national_reports/annex_i_ghg_inventories/national_inventories_submissions/items/8812.php

In 2015, the Province appointed Kathleen Lickers and Peter Griffin to lead a formal review of the First Nations Cigarette Allocation System. Kathleen Lickers is a Seneca from the Six Nations of the Grand River First Nation in southern Ontario, and has been practising law for 20 years. Peter Griffin is a lawyer who has practiced civil and commercial litigation in Toronto since 1980.

- In February 2016, the facilitators provided the government with their First Nations Cigarette Allocation System: Independent Review Report, which offers an overview of perspectives on the allocation system, and on-reserve sales of tobacco in general.
- The Independent Review notes that while there are varying perspectives on the sales of tobacco on-reserve, a number of key principles are shared among First Nations, the government, industry and public health experts, including the following:
  - Further developing the long-term relationship shared by Ontario and First Nations;
  - A need to support economic development and diversification on-reserve;
  - The importance of protecting children and youth from tobacco, and encouraging smoking cessation both on- and off-reserve;
  - The recognition that individual First Nation communities have different needs and perspectives on tobacco; and
  - An acknowledgment that an alternative approach to tobacco sales on-reserve must generate revenue for First Nation community programs and services.

Next Steps

The government is currently examining the findings of the Independent Review to determine the most appropriate path forward, including hosting a tobacco forum.

The Province and the Anishinabek Nation, which represents 39 First Nation communities across Ontario, have agreed to work together to begin developing a framework for tobacco and gasoline that would support revenue generation for the Anishinabek Nation from on-reserve sales.

Beginning in March 2016, the government will engage First Nation communities on modernizing the Ontario Gas Card Program to improve customer service and program integrity. Advice received from this engagement process will also support the work underway with the Anishinabek Nation.

Other Ongoing Partnerships

The Province continues to lead the commitment to complete a comprehensive renewal and modernization of the Agreement on Internal Trade. Additionally, Ontario and Quebec have agreed to a series of economic roundtables that will identify initiatives that would support business development, strengthen regional economic growth and job creation, and facilitate action on issues related to investment and the environment.

150 Years of Ontario and the Federation

In 2017, Ontario will celebrate the 150th anniversary of its place as a province within Canada. This anniversary provides an opportunity to celebrate its achievements as a society and to position Ontario as a place of economic growth and prosperity for future generations.

As reported in the *2015 Budget*, the government will deliver a program that will recognize and celebrate the past, while building a strong and secure foundation for the future.

Ontario has always been a leader on the national and international stage, as well as in innovation, cultural expression and community diversity. This celebratory year will create a strong economic, social and cultural legacy for Ontarians, with a particular focus on youth.

Produced with community organizations, municipalities and the federal government, the Ontario 150 programming will be a proud commemoration of the sesquicentennial for Ontarians in all regions across the province.

CHAPTER V

A FAIR AND SUSTAINABLE TAX SYSTEM

Section A: Tax Measures

As part of the Program Review, Renewal and Transformation (PRRT) process, the government reviewed tax credits to determine more effective ways of achieving desired outcomes. In addition, changes to tobacco tax rates and alcohol charges are being proposed to support key government initiatives.

Personal Income Tax Credits

Tuition and Education Tax Credits

The government is making changes to student financial assistance to ensure that financial support is transparent, timely and better targeted. See Chapter I, Section C: *Investing in People's Talents and Skills* for further details. As part of this reform, the government proposes to discontinue the Ontario tuition and education tax credits, beginning in fall 2017. All of the additional revenue from eliminating these tax credits would be reinvested to support the new Ontario Student Grant or other postsecondary, education, training and youth jobs programs. Grants are more effective than tax credits at targeting financial support to students with the greatest needs and providing support upfront.

Ontario's Tuition Tax Credit is calculated based on eligible tuition and ancillary fees, as well as fees for certain occupational, trade or professional examinations. The Education Tax Credit provides set amounts in recognition of non-tuition expenses for each month of full-time or part-time postsecondary studies. Students who cannot use all their tuition and education tax credits for a particular year may transfer them to a parent, grandparent, spouse or common-law partner, up to an annual maximum. Credits that are not used or transferred are carried forward to future tax years.

The timing of the proposed elimination of the tuition and education tax credits would correspond to the introduction of the Ontario Student Grant. Ontario students would be able to claim the Tuition Tax Credit for eligible tuition fees paid in respect of studies up to and including September 4, 2017, and would be able to claim the Education Tax Credit for months of study before September 2017. The eligible portion of 2017 tax credits would be transferable to a qualifying family member.

Tax filers who are resident in Ontario on December 31, 2017, and have unused tuition and education tax credits available for carry-forward, would be able to claim them in future years. Tax filers who move to Ontario from other provinces after December 31, 2017, would no longer be able to claim their accumulated tuition and education tax credits in Ontario.

Children's Activity Tax Credit

The government introduced the Children's Activity Tax Credit (CATC) in 2010 to help parents with the cost of enrolling their children in various extracurricular activities, including sports, arts and cultural programs. Because non-refundable tax credits only benefit people who pay Personal Income Tax (PIT), the CATC was made refundable so that low-income people who pay little or no Ontario PIT could fully benefit from the credit. About 675,000 parents who enrolled their children in eligible activities in 2015 are expected to receive a CATC of about $70 on average.

Although the credit is refundable, it largely goes to higher-income families, who are less likely to need it to help pay for their children's activities. Of families expected to benefit from the credit for 2015, about 50 per cent have incomes above $100,000, while only five per cent have incomes below $20,000. By comparison, about 15 per cent of tax-filing families with children are estimated to have incomes below $20,000.

Ontario proposes to end the CATC as of January 1, 2017, and will focus on developing other programs to encourage physical activity and healthy eating for Ontario's children, including those in lower-income families. The Province also provides several children's physical activity and healthy eating programs through the Healthy Kids Strategy. See Chapter I, Section D: *Transforming Health Care* for further details.

Healthy Homes Renovation Tax Credit

Ontario's Healthy Homes Renovation Tax Credit (HHRTC) was announced in 2011 to help seniors live independently in their homes by increasing the affordability of renovations that improve safety and accessibility.

Ontario proposes to end the HHRTC as of January 1, 2017. The credit has had significantly lower take-up than projected and provides little support to lower-income seniors. About 2.3 million seniors are expected to file tax returns for 2015. By comparison, only an estimated 25,000 HHRTC claims are expected to be made by seniors or their family members for 2015, with only 10 per cent of the credit expected to go to claimants with net family incomes below $30,000.

The government understands the challenges faced by seniors with mobility issues and provides assistance through other programs that assess needs more effectively. For example, people with mobility-related disabilities or impairments may access funds to help with the cost of home modifications through the Ontario Home and Vehicle Modification Program.

Paralleling Federal Personal Income Tax Measures

Under the terms of the Canada–Ontario Tax Collection Agreement, Ontario parallels federal changes to the definition of taxable income and certain applicable tax rates.

Small Business Dividend Tax Credit and Gross-Up

In its 2015 budget, the federal government announced reductions in the federal small business corporate income tax rate over four years. The corresponding changes to the gross-up rate for non-eligible dividends (generally issued by companies taxed at the small business rate) will be paralleled by Ontario. As a result, Ontario's non-eligible dividend tax credit rate will decline from 4.5 per cent for 2015 to 4.2863 per cent for 2016.

Ontario will review its non-eligible dividend tax credit rate for 2017 and subsequent years.

Tax-Free Savings Accounts

The federal government recently announced a reduction in the annual contribution limit for Tax-Free Savings Accounts, from $10,000 in 2015 to $5,500 for 2016. Indexation of the contribution limit will resume. This change will increase Ontario's tax revenue.

Tax on Split Income

The Ontario government proposes to change the way it taxes income that is split with certain related children, by paralleling the federal approach of applying its top marginal PIT rate to all such income. Similar to the recent change in Ontario's tax treatment of trusts, this approach would close a tax planning loophole. The measure is not designed to generate a net increase in revenue.

Starting January 1, 2016, such split income would be taxed at Ontario's top marginal PIT rate of 20.53 per cent, and no surtax would be payable on that income.

A Simpler Personal Income Tax

Ontario has a complex Personal Income Tax (PIT) system where tax brackets and other components result in effective tax rates that are not easily understood by tax filers. The government will examine ways to simplify the PIT calculation, including the Ontario surtax and Ontario Tax Reduction, so that Ontarians can better understand their effective tax rates.

Business Tax Credits

Research and Development Tax Credits

The government provides the following corporate tax credits to support research and development (R&D) activities in Ontario:

- Ontario Research and Development Tax Credit (ORDTC) — A 4.5 per cent non-refundable tax credit on eligible R&D expenditures;
- Ontario Innovation Tax Credit (OITC) — A 10 per cent refundable tax credit for small to medium-sized companies on eligible R&D expenditures; and
- Ontario Business Research Institute Tax Credit (OBRITC) — A 20 per cent refundable tax credit on eligible R&D expenditures incurred under contract with eligible research institutes.

Despite total Ontario R&D support of approximately $400 million delivered annually through the tax system, in addition to federal programs, business spending on R&D in Ontario has declined over the last decade and continues to lag the United States as a share of the economy.

As part of the PRRT process outlined in Chapter II, Section B: *Transforming Government and Managing Costs,* the government proposes to reduce the level of support provided through the ORDTC and the OITC. In this *Budget*, the government proposes the following changes, effective for eligible R&D expenditures incurred in taxation years that end on or after June 1, 2016:

- Decreasing the ORDTC rate from 4.5 per cent to 3.5 per cent; and
- Decreasing the OITC rate from 10 per cent to eight per cent.

The rate reductions would be prorated for taxation years straddling June 1, 2016.

Research and development remains a key priority for the government. That is why the Province will reinvest savings from the proposed tax credit changes into new targeted investments across key sectors of Ontario's economy. The government is:

- Investing $35 million over five years towards establishing the Advanced Manufacturing Consortium;
- Investing $20 million over three years to partner with colleges to tackle industry challenges through innovation projects; and
- Investing $50 million over five years in world-leading research at the Perimeter Institute.

See Chapter I, Section A: *Fostering a More Innovative and Dynamic Business Environment* for further details.

The Province will continue to examine ways to encourage R&D investment in Ontario, increase the commercialization of research, and better support export activity, in line with its Business Growth Initiative.

Apprenticeship Training Tax Credit

The Apprenticeship Training Tax Credit (ATTC) is a refundable tax credit available to businesses that hire and train eligible apprentices. As committed in the *2015 Budget*, the Province is reviewing the ATTC to ensure it encourages businesses to help apprentices gain the certifications and skills they need.

The government remains committed to the continuation of employer support for apprenticeship training, and is examining ways to improve completion rates of apprenticeships and increase opportunities for apprentices in underrepresented groups, including newcomers, Indigenous peoples, women, apprentices with disabilities and apprentices from francophone communities. The Ministry of Training, Colleges and Universities is undertaking an engagement process with stakeholders and partners and will announce further details in 2016.

Summary of Measures

TABLE 5.1 *2016 Budget* Tax Measures
($ Millions)

	2016–17	2017–18	2018–19
Personal Income Tax Credits			
Tuition and Education Tax Credits	20	145	335
Children's Activity Tax Credit	15	50	55
Healthy Homes Renovation Tax Credit	4	15	15
Paralleling Federal Personal Income Tax Measures			
Small Business Dividend Tax Credit and Gross-Up	20	20	20
Tax-Free Savings Accounts	10	10	10
Business Tax Credits			
Ontario Research and Development Tax Credit	15	25	25
Ontario Innovation Tax Credit	20	40	40
Other Measures			
Tobacco Tax	100	95	90
Alcohol Charges	15	45	75
Total	**220**	**445**	**665**

Notes: Numbers indicate increases in government revenue, except for the Children's Activity Tax Credit, the Healthy Homes Renovation Tax Credit and the Ontario Innovation Tax Credit, which represent reductions in government expenditures. Numbers may not add due to rounding.

Some of the additional revenue raised through proposed tax measures would be reinvested in programs and services, such as student financial assistance.

Additional proposed legislative amendments will include:

- Amendments to the *Highway Traffic Act* to implement the *2014 Budget* announcement that the Province would modernize the treatment of certain unregistered road-building machines. Implementation of this measure is expected to occur on January 1, 2017. Complementary amendments to that Act will also be proposed.
- Amendments to the *Courts of Justice Act* to implement certain recommendations of the eighth Provincial Judges Remuneration Commission.
- Amendments to statutes governing four Ontario universities to eliminate requirements that members of their boards of governors be Canadian citizens.

Provincial Land Tax

The *2015 Budget* announced changes to the Provincial Land Tax (PLT). Before these changes were announced, PLT rates had not been updated to increase revenues in over 60 years. As a result, property tax inequities had developed in northern Ontario. While this initial stage of PLT reform made important strides in creating a more equitable PLT, the government committed to continue discussions with northerners on ways to further address tax inequities in the north.

The Province initiated the next round of consultations by holding 15 open houses across northern Ontario in 2015. The open houses provided unincorporated area property owners with the opportunity to hear more about PLT changes and provide input. These sessions are summarized in "Provincial Land Tax Reform: Overview of the Provincial Land Tax Open Houses,"[1] published by the Ministry of Finance.

During the open houses, many property owners raised concerns related to remaining tax inequities in the north. One commonly raised issue was the lower PLT rate for residential properties outside school boards compared to those inside school boards. Open house participants also noted that businesses should contribute their fair share towards any future PLT changes to better support local services.

The government also heard that PLT reform needs to proceed in a manageable way and should take into consideration the many differences between northern municipalities and unincorporated areas.

The second stage of the PLT review will continue to address inequities in taxation and in how important services are paid for in the north. As part of the ongoing PLT review, the government will consult with northerners on ways to further address tax inequities in the north before determining PLT rate adjustments for 2017.

The government remains committed to transforming the PLT into a fair and modern property tax system.

---

[1] www.fin.gov.on.ca/en/consultations/landtaxreform/plt-openhouses-report.html

Value-Added Farm Activities

The government has heard from the agriculture sector that current property tax increases related to small-scale on-farm agricultural processing and manufacturing can be a disincentive for some farmers to expand and diversify their operations.

Where a farmer conducts on-farm, value-added activities that use their agricultural product to create a new product, the portion of the property that is used for that activity is taxed at the industrial rate. This is intended to ensure consistent property tax treatment and a level playing field between processing activities conducted on a farm and similar activities that are conducted off farms.

The government appreciates the importance of encouraging emerging opportunities in the agriculture sector that will help build a strong rural economy. In 2013, Premier Kathleen Wynne highlighted the importance of the agri-food sector to Ontario's economy by issuing the Agri-Food Challenge, aimed at creating more local jobs and homegrown food. Many municipalities have also expressed support for encouraging on-farm innovations that benefit local economies and provide additional sources of food to local communities.

To that end, the Province will be working with the farming community and the municipal sector to provide sustainable property tax treatment to farmers who engage in small-scale, value-added activities as part of their farming business, while maintaining a level playing field for large processors.