Ontario

# Ontario Budget 2001

# RESPONSIBLE choices

**Budget Papers**

The Honourable James M. Flaherty
Minister of Finance

# 2001 Ontario Budget

## Budget Papers

*Responsible Choices*

**Presented to the**
**Members of the Legislative Assembly of Ontario by**
**The Honourable James M. Flaherty**
**Minister of Finance**
**May 9, 2001**

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ISBN 0-7794-1247-8

Le document
*Budget de l'Ontario 2001, Documents budgétaires : Des choix responsables*
est disponible en français.

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# PAPER A

## Growth Continues: Ontario's Economic & Revenue Outlook

# Overview

Ontario's economy is forecast to post real growth of 2.2 per cent in 2001. This follows four straight years of robust growth that averaged more than 5.0 per cent annually. The tax cuts and other policies implemented by the Ontario Government have contributed to this growth and are now helping the economy remain healthy despite the current weakening of the U.S. market.

In June 1999, the U.S. Federal Reserve Board began to raise interest rates in order to cool demand and prevent inflationary pressures from emerging. The Federal Reserve Board raised interest rates by 175 basis points between June 1999 and May 2000.

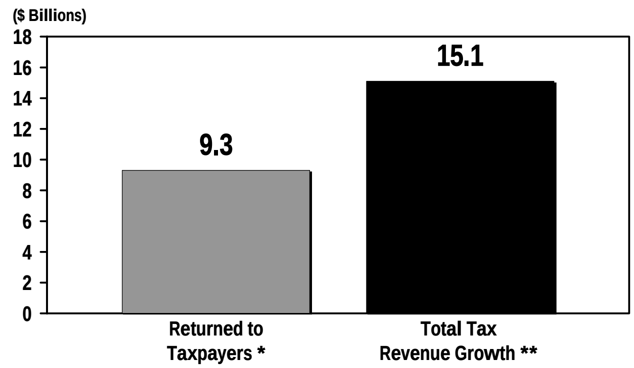
By the second half of 2000, growth in the United States had slowed. Markets for the products of some key Ontario industries, such as autos and telecommunication equipment, had softened. In Ontario, many export-oriented businesses responded with rapid adjustments that in some cases meant eliminating overtime or imposing temporary layoffs.

Underlying resiliency in the Ontario economy is cushioning the effect of the U.S. slowdown. While particular industries have been hit by the slowdown in external demand, other key domestic sectors such as construction, and wholesale and retail trade have continued to grow.

Tax cuts and lower interest rates have set the stage for an upturn in the North American economy. Most private-sector forecasters expect strong growth to resume in the second half of 2001. Ontario's dynamic, competitive economy is well positioned to lead growth in the period ahead, as it has over the past four years.

Ontario's economic growth has generated strong growth in tax revenues. Since Ontario began to cut tax rates, total tax revenue has increased by over $15 billion. Revenue is projected to decline in 2001-02, owing to one-time revenues included in 2000-01. Excluding these one-time revenues, total revenue grows by over $350 million in 2001-02. With a solid foundation in place for Ontario's long-term economic growth, revenues are projected to resume strong growth in 2002-03.

**Ontario's Tax Cuts and Tax Revenue Growth**




* 2000-01 Annualized value of provincial tax cuts since 1995.
**Increase in annual provincial tax revenue since Ontario tax-cutting began and 2000-01.

**Ontario Economic Assumptions and Revenue Outlook at a Glance**
(Annual Average)

| | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|
| Real GDP Growth (per cent) | 6.1 | 5.5 | 2.2 | 3.5 |
| Employment (thousands) | 5,688 | 5,872 | Up to 6,019 | Up to 6,200 |
| Unemployment Rate (per cent) | 6.3 | 5.7 | 5.5 - 6.0 | 5.5 - 6.0 |
| CPI Inflation (per cent) | 1.9 | 2.9 | 2.8 | 2.0 |
| Provincial Revenue ($ billions) | 62.9 | 64.9 | 64.3 | 65.5 |
| ***Provincial Revenue Excluding One-time Tax Revenue in 2000-01**** | ***62.9*** | ***63.9*** | ***64.3*** | ***65.5*** |

* Excludes one-time Personal Income Tax revenue of $764 million and Corporations Tax revenue of $250 million in 2000-01. These revenues are included in 2000-01 to reflect higher estimates of tax revenue for 1999-2000 than reported in the 1999-2000 Public Accounts.

Sources: Statistics Canada and Ontario Ministry of Finance. Revenues are on a fiscal-year basis.

- Growth in consumer spending and residential investment will be supported by substantial income tax cuts and lower interest rates.
- Business tax cuts that reinforce Ontario's competitive position will strengthen business investment over the medium term.
- Although Ontario's export and import growth has slowed markedly, reflecting slower growth in the United States and the rest of Canada in the second half of last year, trade volumes are expected to strengthen in the second half of 2001.

# Economic Growth Continues

The Ontario economy grew faster last year than anticipated at the time of the 2000 Budget. Ontario's real Gross Domestic Product (GDP) grew by 5.5 per cent in 2000, significantly higher than the Budget assumption of 4.6 per cent. Ontario's 2000 growth surpassed that of the rest of Canada, the United States and all of the other G-7 major industrial countries.

Ontario's real GDP growth is projected to slow to 2.2 per cent in 2001. Significantly slower U.S. growth and associated inventory and production cuts in the auto and telecommunication sectors are causing Ontario's growth to moderate in the first half of 2001. The economy is expected to gain strength later this year as lower interest rates and tax cuts stimulate stronger household spending, inventories return to normal levels and stronger U.S. growth boosts demand for Ontario's exports. The expansion is expected to continue in 2002, with real output advancing by 3.5 per cent.

In keeping with Ontario's policy of prudent forecasting, these projections are below the current private-sector consensus. As in previous budgets, a $1 billion reserve has also been included in the 2001-02 fiscal plan to protect against unexpected adverse changes in the economic and fiscal outlook.

**Economic Growth Assumptions**
(Per Cent)

| | 2001 | 2002 |
|---|---|---|
| **Ontario Real GDP Growth** | | |
| Private-sector survey average | 2.3 | 3.6 |
| Ontario's Planning Projection | 2.2 | 3.5 |

Note: The private-sector average is based on nine recent forecasts.
Sources: Ontario Ministry of Finance and Ontario Finance Survey of Forecasts (April 2001).

# Solid Foundation for Economic Growth

The measures taken by the Ontario Government since 1995 have laid a solid foundation for economic growth. Cutting taxes, balancing the budget, eliminating red tape, renewing infrastructure, removing barriers to growth and strengthening incentives to work and invest are spurring a healthy economy and a rising standard of living.

These policies have also made the Ontario economy better able to weather the periodic slowdowns that inevitably beset world markets.

Ontario's manufacturers are much more competitive relative to their American counterparts than in the early 1990s. Ontario manufacturing unit labour costs, expressed in U.S. dollars, have declined relative to costs in the United States by about 20 per cent over the last decade. Strong productivity growth and cost control have been important sources of Ontario's enhanced competitiveness.

In addition, the fiscal position of governments in both Canada and the United States has improved sharply. This has enabled governments to continue to lower taxes and made consumers and businesses confident that they will not face tax increases in the future.

Personal income tax cuts and strong job gains mean that more people in Ontario are working and earning more disposable income. Combined with lower interest rates, this has strengthened family finances and contributed to robust household spending.

Businesses too have improved their balance sheets through the 1990s. Corporate debt-to-equity ratios have declined significantly. With less debt, companies have greater flexibility to manage cyclical weakness in demand for their products and to finance investment and innovation.

Inflation is much lower today than 10 years ago, another positive factor for the economy. In Ontario, Canada and the United States, inflation rates are about half what they were in 1990. While energy price increases pushed up inflation rates last year, forecasters expect inflation to trend lower. As well, the slowdown in the U.S. economy has reduced the inflationary risk facing the United States.

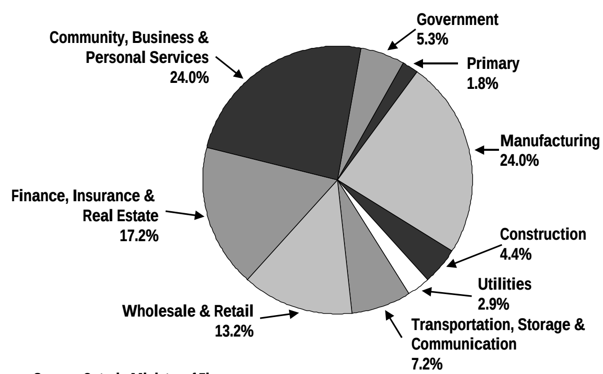
♦ Core CPI inflation in Canada has fallen from over five per cent in the early 1990s to 1.5 per cent in the last two years.

The benign inflation outlook makes it much easier for monetary authorities in both Canada and the United States to respond to slower growth. The 200-basis-point reduction in the federal funds rate by the United States Federal Reserve Board so far this year and the 100-basis-point decline in the bank rate by the Bank of Canada are expected to boost the pace of economic growth.

Growth since 1995 has been spread across a wide spectrum of industries. The year 2000, for example, saw non-auto manufacturing industries grow by 6.9 per cent; wholesale and retail trade by 6.6 per cent; construction by 3.4 per cent; community, business and personal services by 4.8 per cent, and the high-tech sector by 23.6 per cent.

**Structure of the Ontario Economy 2000**

**(Per Cent Share of GDP)**




Source: Ontario Ministry of Finance.

# Faster Growth in Second Half of 2001

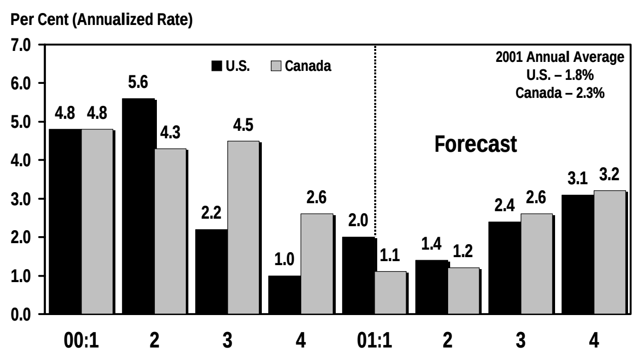
Ontario's economy is expected to gain momentum in the second half of the year as export demand strengthens and lower interest rates and tax cuts promote solid growth in domestic demand.

> *"... the province is relatively well positioned to face a temporary downturn in manufacturing activity as rising personal disposable incomes should bolster domestic demand. Next year real GDP growth is expected to bounce back into the 3.5% range as exports of consumer durable goods to the United States recover."*
>
> ***Royal Bank, April 2001***

♦ Domestic demand will continue as the primary driver of Ontario's strong growth. Over the past four years, 80 per cent of Ontario's growth reflected domestic spending. Further tax cuts this year and lower interest rates will provide an additional boost to domestic demand, enabling the economy to continue to grow in the face of slower growth of external demand.

♦ U.S. real GDP rose at a 2.0 per cent annual rate in the first quarter of 2001. Although this growth was well below that of recent years, the strength of the U.S. economy surpassed expectations. Lower interest rates and the tax cuts proposed in the United States are expected to further strengthen U.S. growth later this year.

**Quarterly Real GDP Growth, 2000:1–2001:4**




Sources: U.S. - U.S. Bureau of Economic Analysis and *Blue Chip Economic Indicators* (April 2001).
Canada - Statistics Canada and Ministry of Finance Survey of Forecasts (April 2001).

♦ Ontario's economic performance is expected to strengthen in the second half of this year as households boost spending in reaction to lower interest rates and reduced taxes, recovering U.S. growth bolsters Ontario's exports and firms gain better control of inventory levels.

# New Jobs Being Created

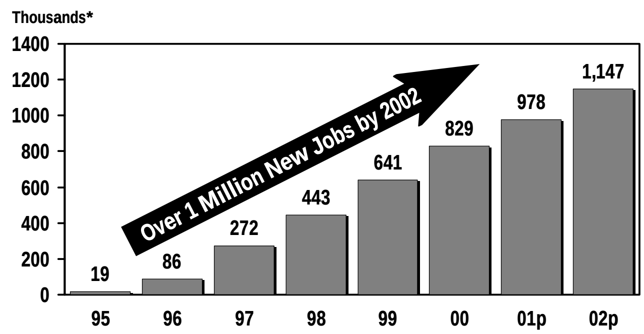
Ontario experienced record job creation over the past three years. Despite slower growth in the global economy in 2001, Ontario will continue to create new jobs this year. The pace of job creation is expected to accelerate along with economic growth in the second half of the year.

In July 2000, net job creation met the government's five-year target of 725,000 new jobs. Since then, the economy has generated an additional 97,900 jobs, making solid progress towards the Blueprint target of 825,000 jobs over the next five years.

- ♦ Ontario created 558,700 jobs during the 1998-2000 period, the strongest pace of job growth in the province's history. Of these new jobs, nine out of ten were full-time, private-sector positions.

- ♦ With economic growth moderating this year, Ontario employment is expected to increase by between 2.0 and 2.5 per cent in 2001. As growth picks up in 2002, employment is projected to rise by between 2.5 and 3.0 per cent.

**Cumulative Job Creation Since September 1995**




*Cumulative change from September 1995 to year-end employment level.
p = Based on upper end of Ontario Ministry of Finance projection of 2.0 - 2.5 per cent employment growth in 2001 and 2.5 - 3.0 per cent in 2002.
Sources: Statistics Canada and Ontario Ministry of Finance.

- ♦ A continued flow of new job opportunities, tax cuts and welfare reform are encouraging more Ontarians to participate in the labour market.

- ♦ These robust gains in employment, and the associated growth in personal income, have resulted in Personal Income Tax revenue outperforming projections in each of the last six years. In 2000-01, Personal Income Tax revenue was $1,445 million above the 2000 Budget forecast.

- Personal Income Tax revenue is projected to decline in 2001-02. This reflects the inclusion in 2000-01 revenue of $764 million of one-time revenue for higher 1999-2000 Personal Income Tax revenue than reported in the 1999-2000 Public Accounts.

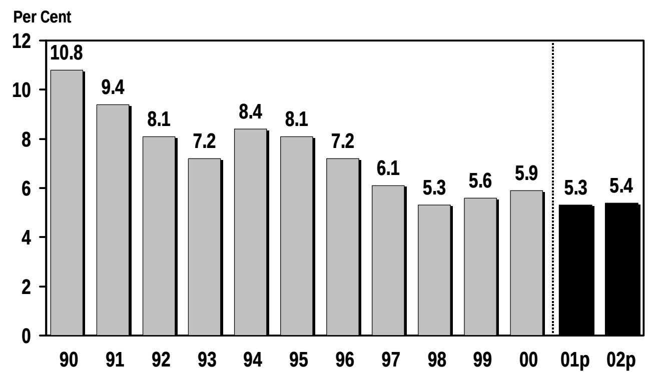
- In addition, the performance of the stock market in 2001 is expected to reduce capital gains, an important factor driving recent Personal Income Tax revenue growth. As well, the impact of the benefits to taxpayers announced in previous budgets and proposed in this Budget slows short-term Personal Income Tax growth. Past tax reductions and proposed lower tax rates, if enacted, will help to shorten the duration and lighten the impact of the current economic slowing.

# Lower Interest Rates Support Growth

Interest rates are expected to fall further in both Canada and the United States. The U.S. Federal Reserve Board and the Bank of Canada are expected to cut short-term interest rates by another 50 basis points to support economic growth.

In order to develop cautious projections of Public Debt Interest, a prudence factor has been added to the average private-sector forecast of interest rates. The interest on three-month Government of Canada treasury bills is assumed to be 50 basis points higher than the average private-sector forecast. Interest rates on 10-year Government of Canada bonds are assumed to be 100 basis points higher than the average private-sector forecast.

**10-Year Government of Canada Bond Rate**




p = private-sector average projection.
Sources: Bank of Canada and Ontario Finance Financial Market Survey (April 2001).

**Interest Rate Assumptions**

(Average Per Cent)

| | 2000 | 2001 Jan-Apr | 2001 May-Dec | 2002 |
|---|---|---|---|---|
| **3-month Government of Canada treasury bills** | | | | |
| Private-sector survey average | **5.5** | **4.7** | 4.0 | 4.1 |
| Ontario's assumption | | | 4.5 | 4.6 |
| **10-year Government of Canada bonds** | | | | |
| Private-sector survey average | **5.9** | **5.5** | 5.3 | 5.4 |
| Ontario's assumption | | | 6.3 | 6.4 |

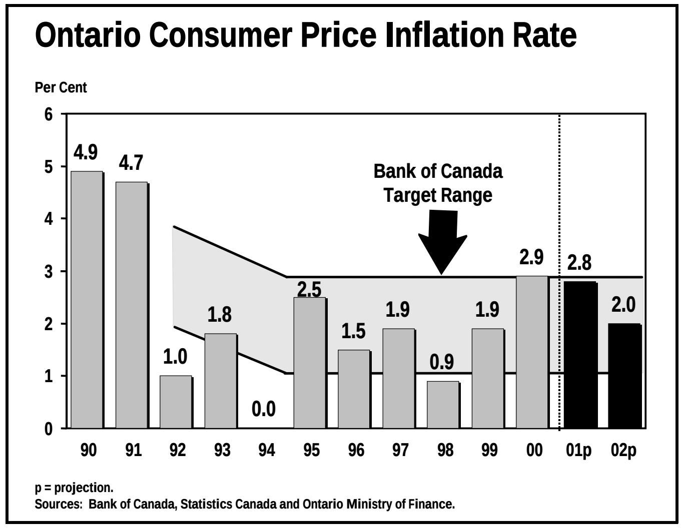
Sources: Bank of Canada, Ontario Ministry of Finance and Ontario Finance Financial Market Survey (April 2001).

# Inflation Remains Moderate

The Ontario CPI inflation rate is expected to average 2.8 per cent in 2001 and 2.0 per cent in 2002.

- Ontario's CPI inflation rate was 3.2 per cent in March 2001. Excluding food and energy prices, the core Ontario CPI inflation rate was 2.2 per cent in March.

- The annual average inflation rate in 2000 was 2.9 per cent for Ontario, up from 1.9 per cent in 1999. Last year's rise in oil and natural gas prices was the major cause of the increase in the CPI inflation rate.




- Crude oil prices (using West Texas Intermediate as the benchmark) have fallen from $34.40 US a barrel in November 2000 to between $26 US and $28 US recently. Private-sector forecasters expect oil prices to fall to $24 US by the end of April 2002.

# Consumer Spending Buoyed by Tax Cuts and Rising Income

Personal tax cuts and rising income will continue to drive solid growth in consumer spending in 2001 and 2002.

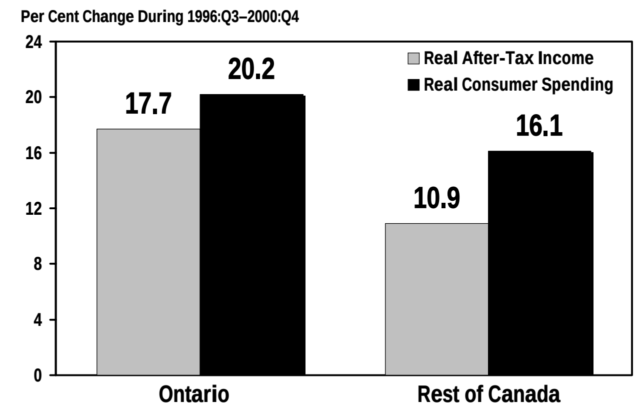
- Real consumer spending surged 4.4 per cent in 2000, supported by strong growth in real after-tax income as a result of tax cuts and strong job creation.

- The strong growth in consumer spending in 2000 boosted Retail Sales Tax revenue by 6.8 per cent in 2000-01. As a result, Retail Sales Tax revenue was $357 million above the 2000 Budget projection.

- Retail Sales Tax revenue is projected to continue to grow in 2001-02 based on higher consumer spending sustained by rising incomes, previously implemented tax cuts and proposed tax cuts.

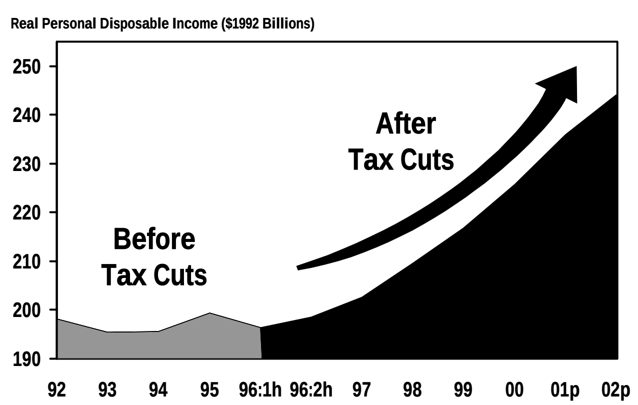
- From the second quarter of 1996, when Ontario income tax cuts began, to the fourth quarter of 2000, Ontario real disposable income increased by 17.7 per cent, much stronger than the 10.9 per cent pace for the rest of Canada.

**Ontario Outperforms the Rest of Canada**




Sources: Statistics Canada and Ontario Ministry of Finance.

**Tax Cuts Boost Real Take-Home Pay**




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

- During the same period, Ontario real consumption increased by 20.2 per cent, higher than the 16.1 per cent rise recorded for the rest of Canada.

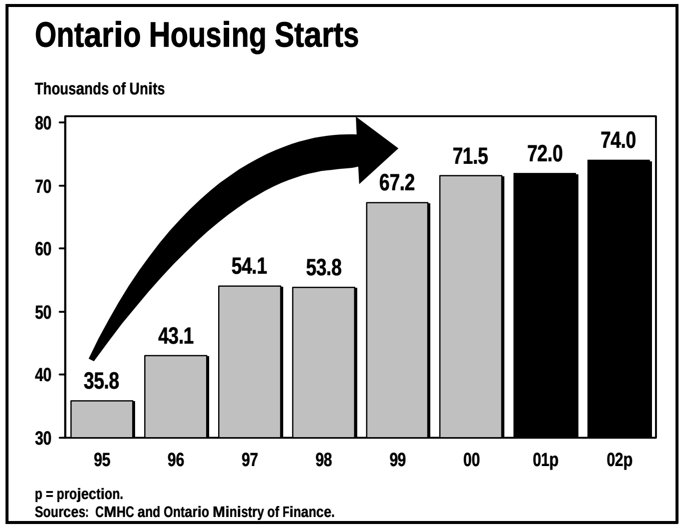
- Real disposable income is expected to rise by 4.5 per cent in 2001 and 3.5 per cent in 2002. The continuing increase in disposable income is supported by lower taxes and robust employment growth.

- Real consumer spending is expected to grow by 3.1 per cent in 2001 and 3.3 per cent in 2002.

# Housing Outlook Healthy

The housing market is expected to remain healthy in 2001, supported by lower interest rates and higher after-tax incomes.

♦ Ontario housing starts are expected to total 72,000 in 2001. Residential construction spending in Ontario is projected to rise by 2.6 per cent in 2001, and a further 5.1 per cent in 2002. The Land Transfer Tax (LTT) rebate for first-time buyers of new homes will continue to support housing purchases and the construction industry.




♦ The strong performance of the Ontario housing market in 2000 increased 2000-01 Land Transfer Tax revenue by $50 million above the 2000 Budget projection.

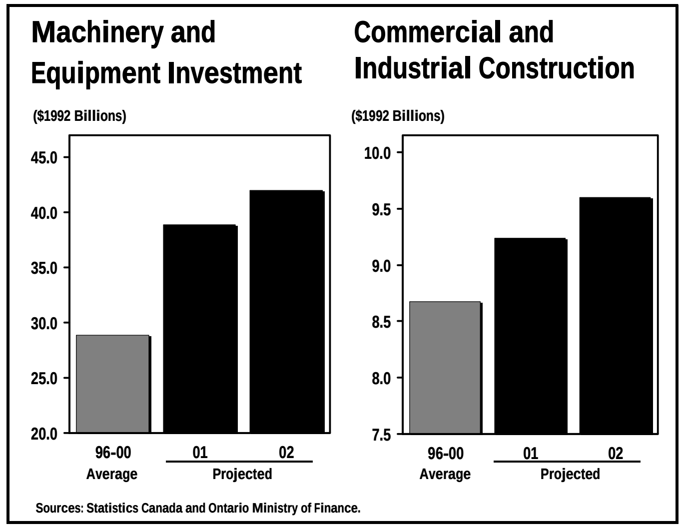
♦ Land Transfer Tax revenue is forecast to grow in 2001-02 to $670 million from $630 million in 2000-01, reflecting continued strength in the housing market.

♦ Posted five-year mortgage rates offered by major financial institutions have declined from 8.75 per cent in May 2000 to 7.5-7.75 per cent in early May 2001.

♦ Ontario housing remains affordable. In 2000, the monthly carrying cost for an average-priced home in Ontario was $1,097 compared to $1,489 in 1990. As a share of after-tax household income, the same average carrying cost was 22.6 per cent in 2000, down from 35.5 per cent in 1990.

# Firms Continue to Invest

Healthy investment growth over the past few years has boosted productivity, enhancing Ontario's competitive position in the international economy. Lower business tax rates will encourage companies to continue making capital equipment investments that increase capacity and productivity. Businesses are expected to be cautious in their investment plans in 2001, reflecting slower economic growth. However, capacity utilization remains above its long-term average, and the acceleration in growth in the second half of 2001 is likely to prompt a sharp rebound in investment spending.




Corporate profits grew by 16.2 per cent in 2000. With the temporary slowing of economic growth, aggregate corporate profits are projected to decline by 0.5 per cent in 2001 before rebounding by 9.6 per cent in 2002.

Strong profit growth led to a 12.8 per cent increase in Corporations Tax revenue in 2000-01 to $9,130 million. This was $365 million above the 2000 Budget projection.

Corporations Tax revenue is projected to be below the 2000-01 level in 2001-02. This reflects the inclusion of $250 million of one-time revenue in 2000-01 for higher 1999-2000 Corporations Tax revenue than estimated in the 1999-2000 Public Accounts. Also contributing to the lower projected level of Corporations Tax in 2001-02 is the projected decline in 2001 aggregate corporate profits and the short-term impact of the previously implemented and proposed new Corporations Tax cuts.

The value of Ontario business investment in machinery and equipment in real terms rose by 93 per cent between 1996 and 2000. Real investment in commercial and industrial construction rose by more than 35 per cent over the same period. Measured in constant 1992 dollars, machinery and equipment outlays are projected to reach $42.0 billion in 2002 and commercial and industrial construction is forecast at $9.6 billion.

♦ Machinery and equipment investment is projected to increase by 2.9 per cent in 2001. As economic growth accelerates, businesses are expected to raise their investment spending, with machinery and equipment investment set to grow by 8.1 per cent in 2002.

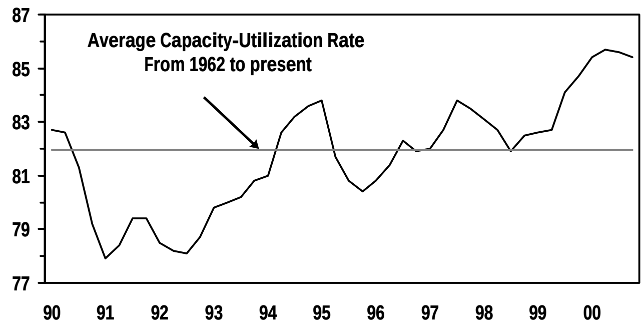
♦ Ontario industrial real estate development is growing strongly. Commercial and industrial building permits rose an average of 13.7 per cent per year over the past three years.

♦ Spending on commercial and industrial construction projects is expected to remain healthy, with a projected average annual increase of 3.4 per cent over the next two years.

Many companies are recognizing Ontario as an attractive location for investment based on its highly competitive business and tax climate and long-term economic prospects. Firms with major projects underway or announced include:

**High Capacity Utilization Encourages Investment**

Capacity-Utilization Rate* in Canadian Goods-Producing Industries (Per Cent)




*Industrial Capacity Utilization is the ratio of actual output to estimated potential output.
Source: Statistics Canada.

♦ Electrofuel Inc. in Toronto, which has opened a new manufacturing plant producing batteries for notebook computers, and DuPont Canada, which has formed a fuel cell business unit in Kingston.

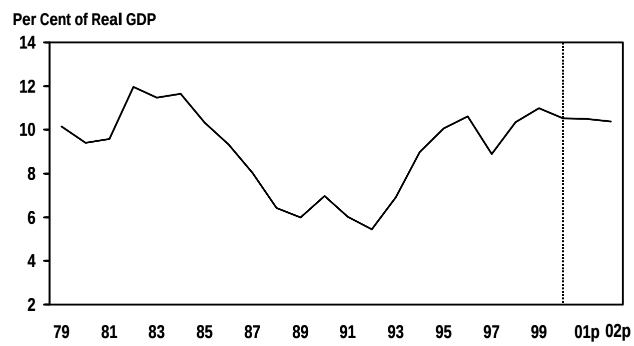
♦ Lofthouse Brass, headquartered in Whitby, which is investing in a new forging product line in its Burk's Falls plant; Great Lakes Power in Wawa, which is redeveloping the Michipicoten High Falls Hydro Dam; and Falconbridge in Timmins, which is investing in a new mine that will be the deepest operating base-metal mine in the world.

# Ontario's External Trade Grows

Ontario's high level of exports reflects a healthy, competitive economy. There has been a 51 per cent increase in exports since mid-1995, driven by NAFTA, industrial restructuring and U.S. growth. However, this has been accompanied by a 49 per cent increase in imports. Many Ontario exports, such as assembled cars, use imported components. Under NAFTA, multinational companies have been able to rationalize operations and integrate production across North America. The rationalization, which leads to greater efficiency, has increased the use of imported components in Ontario. Slower growth in the U.S. economy has resulted in weaker Ontario export growth. Part of this has been offset by reduced imports of components.

A different perspective on the role of trade in Ontario's economy is provided by net exports (the trade balance). This is the value of exports minus imports. As the chart indicates, net exports are a lower share of Ontario GDP now than they were in the early 1980s. Net exports as a share of GDP decreased in 2000. Nevertheless, Ontario's real GDP grew by 5.5 per cent in 2000.

**Ontario Net International and Interprovincial Exports**




Note: p = projection. Net Exports is Exports less Imports in $1992.
Sources: Ontario Ministry of Finance and Statistics Canada.

Ontario's competitive advantages leave it well positioned to maintain its market share in the U.S. economy, and to benefit from the expected future economic rebound.

Ontario's manufacturing industries have had strong productivity growth, and in most manufacturing industries productivity gains have matched or exceeded the growth experienced in the United States. Coupled with improved cost controls and the lower Canadian dollar, this means that Ontario's exporting industries are very competitive. Ontario's unit labour costs in manufacturing relative to costs in the United States, expressed in U.S. dollars, have declined by about 20 per cent since 1990.

- Most private-sector forecasters expect the Canadian dollar to appreciate against the U.S. dollar. A strong currency that reflects a strong and productive economy would be beneficial for Canadians by increasing their purchasing power in world markets. A lower tax burden and other measures that promote increased investment and productivity growth will strengthen the Canadian dollar.

# Auto Sales Return to Sustainable Levels

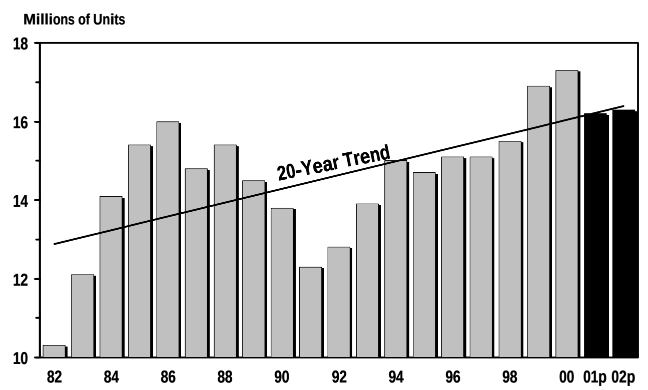
The automotive sector is an important part of the Ontario economy. Ontario is among the world's leading automotive producers, second only to Michigan in terms of auto assembly. The sector accounts for about 5.5 per cent of the Ontario economy and about 3.5 per cent of employment.

- Twelve plants in Ontario assemble cars, light trucks and vans. Ontario's share of North American assembly rose from 14.6 per cent in 1995 to 16.3 per cent in 2000, with employment increasing 8.7 per cent to 74,000 in 2000.
- Ontario's auto-parts production has also grown significantly. Employment has surged by 61.8 per cent since 1995 to a total of 125,000 in 2000. In comparison, parts employment in the United States increased by only 7.4 per cent.
- Ontario's performance reflects its relatively low costs, strong supplier base and favourable business climate.

There continue to be healthy levels of reinvestment in Ontario's auto industry.

- Toyota is modernizing its Cambridge plant. General Motors is making a substantial reinvestment in its Oshawa plants. Ford has announced a reinvestment in its St. Thomas plant. Honda recently launched two new vehicle lines at its Alliston plant.
- Parts suppliers are also investing in new capacity in Ontario. UBE is adding a new plant in Sarnia. Keiper is investing in a new plant in London.
- Auto-related research and development in Ontario is expanding significantly, with new initiatives by DaimlerChrysler in Windsor and General Motors in Oshawa.

**U.S. Auto Sales Set to Resume the 20-Year Trend**




Sources: *Ward's Automotive Report* and *Consensus Forecasts* (April 2001).

- U.S. auto sales reached a record 17.3 million units in 2000. However, sales slowed in late 2000, falling to an annual rate of 16.2 million in the fourth quarter. Over the first four months of 2001, stronger-than-expected demand and competitive pricing led to a rebound in U.S. auto sales to an annualized rate of more than 17 million units.

- The slowdown in U.S. auto sales in the second half of 2000 resulted in a buildup in inventories. However, production cuts and improved sales have brought dealer inventories into better balance recently. North American dealer inventories have fallen from 85 days' supply in January to 63 days' in March.

- Most auto-sector layoffs have been temporary, as auto assemblers adjust their inventories to more manageable levels. Some permanent layoffs are occurring, reflecting ongoing restructuring in the global auto industry.

# Growth Prospects for Ontario's High-Tech Sector Remain Strong

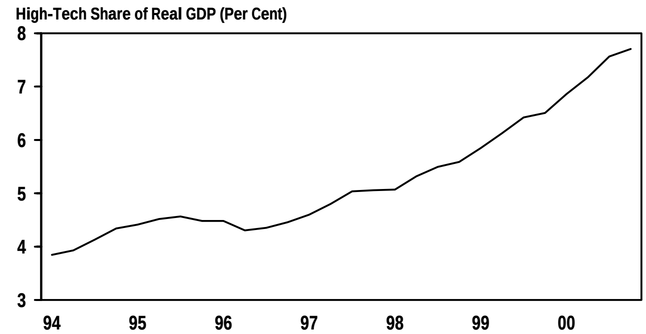
Ontario's high-tech sector, which includes information technology (IT) products and services and telecommunication, continued to create jobs in the first quarter of 2001, with employment reaching 305,000.

- ♦ Although communications equipment and parts employment has declined from a year earlier, employment in other parts of the high-tech sector—accounting for 90 per cent of the sector's jobs—has continued to grow.

- ♦ Less-cyclical services industries, such as computer and telecommunication services, have led the sector's job growth.

Leading high-tech clusters have developed in the Greater Toronto Area, Ottawa and the Kitchener-Waterloo region, all of which experienced increases in high-tech jobs in the first quarter of 2001.

**High-Tech* Share of Economy Doubled Since 1994**




*Comprises computer manufacturing, telecommunication and electronic manufacturing, computer services and telecommunication carriers.
Sources: Statistics Canada and Ontario Ministry of Finance.

- ♦ Ontario is an attractive location for high-tech firms. This reflects its highly educated workforce, universities and other research and development (R&D) capabilities, as well as its highly competitive business and tax climate.

- ♦ Many small, entrepreneurial firms are expanding throughout Ontario and undertaking R&D to develop new products and services for global markets. Typical examples are Med-Eng Systems in Ottawa, which produces personal protective systems; Cymat Corporation in the GTA, which is developing innovative materials technology; and RMH Teleservices in Sault Ste. Marie, which has set up a call centre that also serves U.S. customers.

Since 1994, the high-tech sector in Ontario has grown rapidly, doubling its share of Ontario's economy to almost eight per cent of GDP.

- U.S. real business investment in IT has historically displayed a strong growth trend, contributing to rapid growth in Ontario's high-tech exports. U.S. real business investment in IT is expected to grow in 2001, but at a slower rate than in recent years. However, since IT is a critical element for enhancing competitiveness, the strong uptrend in IT investment is expected to resume over the medium term.

# Revenue Outlook

Ontario's strong revenue performance continued in 2000-01, driven by the robust performance of the Ontario economy. Total revenue in 2000-01 was $2,867 million above the 2000 Budget projection, including $2,339 million from higher tax revenue. A detailed assessment of the performance of revenues in 2000-01 is presented in Paper B, *Fiscal Responsibility: Ontario's Plan.*

Revenue is projected to decline in 2001-02, largely as the result of $1,014 million of one-time revenues included in 2000-01. Excluding those one-time revenues, total revenue grows by over $350 million.

- There were one-time increases to Personal Income Tax and Corporations Tax revenues in 2000-01. These are a result of higher 1999-2000 revenue than reported in the 1999-2000 Public Accounts.

**Ontario Revenues: 1999-2000 to 2001-02**
($ Millions)

| | Actual 1999-2000 | Interim 2000-01 | Projected 2001-02 |
|---|---|---|---|
| **Taxation Revenue** | | | |
| Personal Income Tax | 17,617 | 18,975 | 18,010 |
| Retail Sales Tax | 12,879 | 13,757 | 14,340 |
| Corporations Tax | 8,095 | 9,130 | 8,340 |
| All Other | 7,290 | 7,800 | 8,130 |
| **Federal Payments** | 5,885 | 6,232 | 7,359 |
| **Income from Government Enterprises** | 3,708 | 3,968 | 3,424 |
| **Other Revenue** | 7,457 | 5,065 | 4,667 |
| **Total Revenue** | 62,931 | 64,927 | 64,270 |
| ***Total Revenue Excluding One-time Tax Revenue in 2000-01**** | ***62,931*** | ***63,913*** | ***64,270*** |

* Excludes one-time Personal Income Tax revenue of $764 million and Corporations Tax revenue of $250 million in 2000-01. These revenues are included in 2000-01 to reflect higher estimates of tax revenue for 1999-2000 than reported in the 1999-2000 Public Accounts.

- Personal Income Tax revenue is projected to decline in 2001-02. This reflects the inclusion in 2000-01 revenue of $764 million of one-time revenue for higher 1999-2000 Personal Income Tax revenue than estimated in the 1999-2000 Public Accounts. In addition, the performance of the stock market in 2001 is expected to reduce capital gains, an important factor driving recent Personal Income Tax revenue growth. Finally, the impact of the benefits to taxpayers proposed in this and previous budgets slows short-term Personal Income Tax growth.

- Corporations Tax revenue is projected to be below the 2000-01 level in 2001-02. This reflects the inclusion of $250 million of one-time revenue for higher 1999-2000 Corporations Tax revenue than estimated in the 1999-2000 Public Accounts. Also contributing to the lower projected level of Corporations Tax in 2001-02 is the projected decline in 2001 aggregate corporate profit growth and the impact of the Corporations Tax cuts proposed in this and previous budgets.

- Retail Sales Tax is projected to continue to grow in 2001-02 as tax cuts and rising incomes boost consumer spending.

- Continued job gains and income growth are forecast to increase Employer Health Tax revenue to $3,620 million in 2001-02.

- Transfers from the Government of Canada are projected to be $7,359 million in 2001-02. This includes $6,010 million for the Canada Health and Social Transfer (CHST), which incorporates the increase in the CHST allocation and Supplements.

- Other Revenue declines by $398 million, primarily due to the devolution of the Ontario Housing Corporation to municipalities, which reduces revenue by $256 million. Expenditure is also lowered by this transaction. Local Services Realignment revenue falls by $166 million, reflecting a lower level of reimbursable expenditures by municipalities.

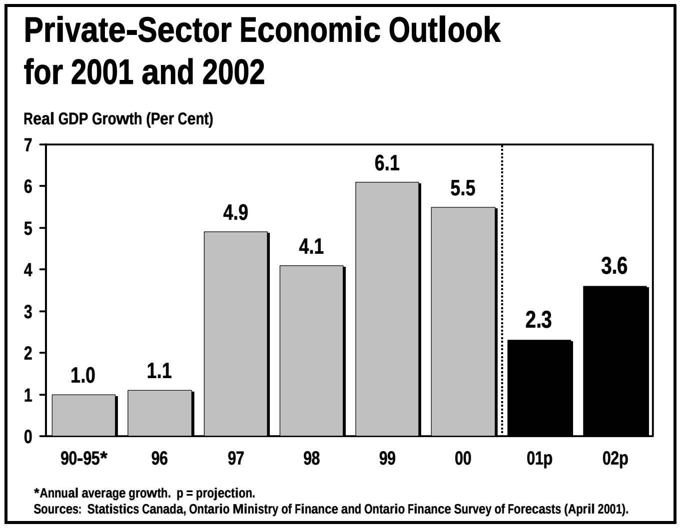
- As economic growth picks up beginning in the second half of 2001, total revenues are projected to rise from $64.3 billion in 2001-02 to $65.5 billion in 2002-03.

# Conclusion

A competitive, growing economy is the basis for sustainable revenue growth. Total tax revenues have risen by over $15 billion or 43.9 per cent since Ontario began cutting taxes. Stronger economic growth is projected to underpin further revenue growth to $65.5 billion by 2002-03.

Ontario real GDP growth will moderate this year and rebound strongly in 2002. The average private-sector forecast calls for the Ontario economy to grow by 2.3 per cent in 2001 and 3.6 per cent in 2002.

Private-sector forecasters are confident that Ontario's economy will continue to grow. Tax and fiscal policies undertaken since 1995 have focused on creating the conditions to increase growth and raise living standards on a sustained long-term basis. The economic fundamentals in Ontario are sound, especially compared to the first half of the 1990s. The economy is competitive, inflation and interest rates are low, real disposable incomes are rising, and consumer, business and government finances are in excellent shape.




Ontario is well positioned to weather the temporary slowdown in the United States and post continued real GDP growth in 2001 and 2002.

# PAPER A

## Appendix

# Details of the Ontario Economic Assumptions and Revenue Outlook

The following tables and charts provide further details about the Ontario Ministry of Finance economic and revenue projections. The revenue projections shown include the effect of legislative measures proposed in this Budget and detailed in Paper C, *Tax Cuts: Keeping Promises, Creating Opportunities.*

**The Ontario Economy, 1999 to 2002**

(Per Cent Change)

| | Actual | | Projected | |
|---|---|---|---|---|
| | **1999** | **2000** | **2001** | **2002** |
| **Real Gross Domestic Product** | **6.1** | **5.5** | **2.2** | **3.5** |
| Personal consumption | 4.2 | 4.4 | 3.1 | 3.3 |
| Residential construction | 14.7 | 3.8 | 2.6 | 5.1 |
| Non-residential construction | (0.3) | 1.1 | 2.9 | 3.9 |
| Machinery and equipment | 14.1 | 19.1 | 2.9 | 8.1 |
| Exports | 11.3 | 6.8 | 1.5 | 4.6 |
| Imports | 11.0 | 7.9 | 1.4 | 5.0 |
| **Nominal Gross Domestic Product** | **6.5** | **7.9** | **4.2** | **5.3** |
| **Other Economic Indicators** | | | | |
| Retail sales | 7.3 | 7.3 | 4.8 | 5.0 |
| Housing starts (000s) | 67.2 | 71.5 | 72.0 | 74.0 |
| Personal income | 4.6 | 6.4 | 4.5 | 5.0 |
| Corporate profits | 20.3 | 16.2 | (0.5) | 9.6 |
| Ontario Consumer Price Index | 1.9 | 2.9 | 2.8 | 2.0 |
| **Labour Market** | | | | |
| Employment* | 3.6 | 3.2 | 2.0 - 2.5 | 2.5 - 3.0 |
| Unemployment rate* (per cent) | 6.3 | 5.7 | 5.5 - 6.0 | 5.5 - 6.0 |
| **Provincial Revenue ($ billions)** | 62.9 | 64.9 | 64.3 | 65.5 |
| ***Provincial Revenue Excluding One-time Tax Revenue in 2000-01**** | ***62.9*** | ***63.9*** | ***64.3*** | ***65.5*** |

* Based on Labour Force Survey.

** Excludes one-time Personal Income Tax revenue of $764 million and Corporations Tax revenue of $250 million in 2000-01. These revenues are included in 2000-01 to reflect higher estimates of tax revenue for 1999-2000 than reported in the 1999-2000 Public Accounts.

Sources: Statistics Canada and Ontario Ministry of Finance.

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

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

| | 2001-02 |
|---|---|
| 100 Basis Points Lower Canadian Interest Rates | 80 |
| 1 Percentage Point Higher Real GDP Growth | 610 |

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

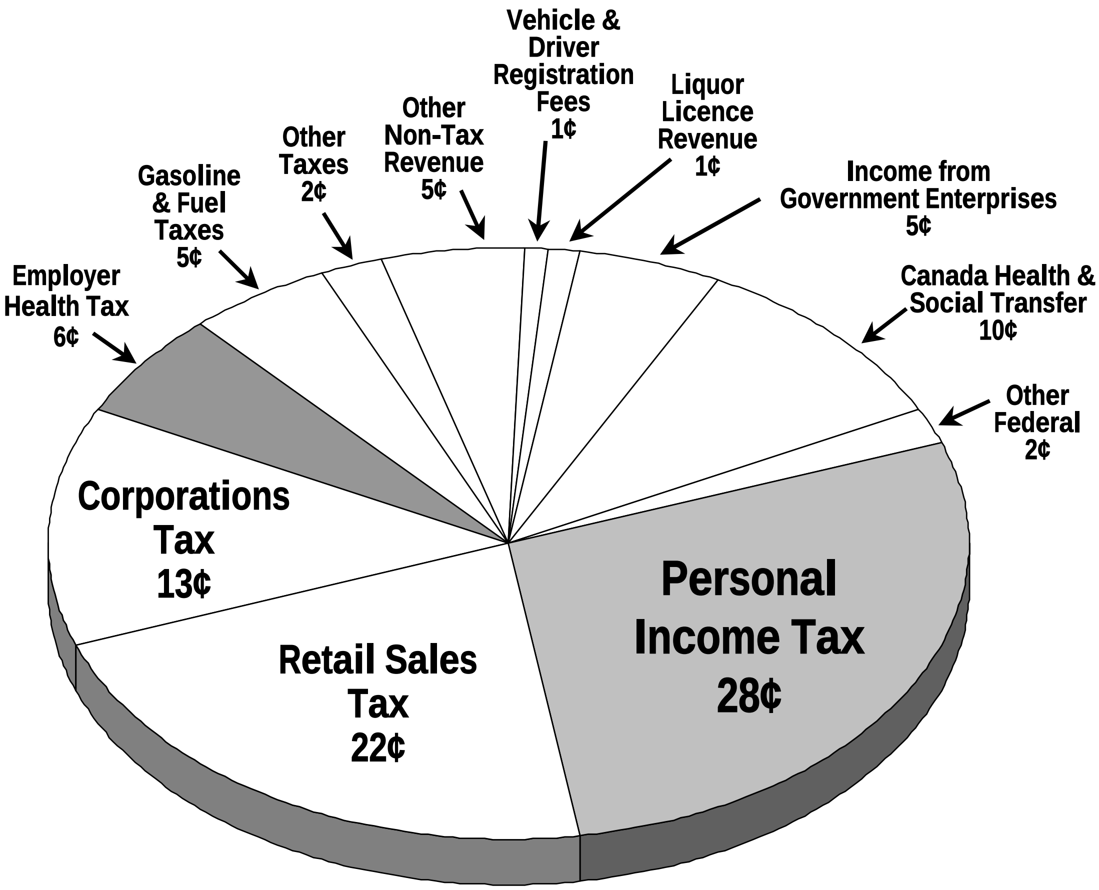
Source: Ontario Ministry of Finance.

**Revenue**
($ Millions)

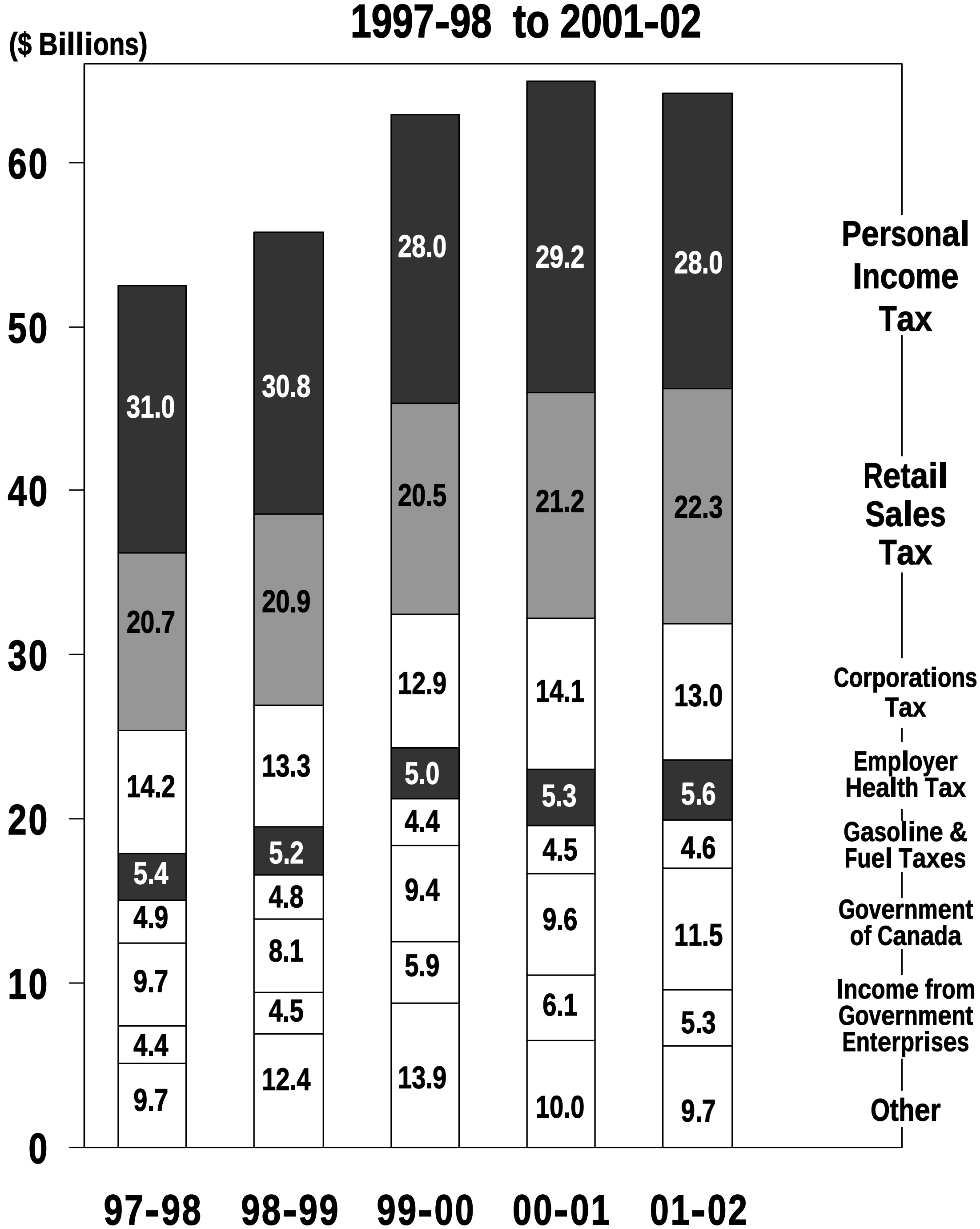
| | Actual 1997-98 | Actual 1998-99 | Actual 1999-2000 | Interim 2000-01 | Plan 2001-02 |
|---|---|---|---|---|---|
| **Taxation Revenue** | | | | | |
| Personal Income Tax | 16,293 | 17,190 | 17,617 | 18,975 | 18,010 |
| Retail Sales Tax | 10,843 | 11,651 | 12,879 | 13,757 | 14,340 |
| Corporations Tax | 7,456 | 7,447 | 8,095 | 9,130 | 8,340 |
| Employer Health Tax | 2,851 | 2,882 | 3,118 | 3,455 | 3,620 |
| Gasoline Tax | 2,028 | 2,068 | 2,154 | 2,242 | 2,300 |
| Fuel Tax | 563 | 592 | 665 | 651 | 655 |
| Tobacco Tax | 425 | 447 | 481 | 495 | 620 |
| Land Transfer Tax | 565 | 470 | 565 | 630 | 670 |
| Mining Profits Tax | 40 | 23 | 50 | 90 | 55 |
| Preferred Share Dividends Tax | 60 | 50 | 33 | 40 | 56 |
| Other Taxation | 145 | 257 | 224 | 197 | 154 |
| | **41,269** | **43,077** | **45,881** | **49,662** | **48,820** |
| **Government of Canada** | | | | | |
| Canada Health and Social Transfer | 3,970 | 3,553 | 3,967 | 4,137 | 5,630 |
| CHST Supplements | - | - | 755 | 758 | 380 |
| Social Housing | 387 | 358 | 466 | 550 | 530 |
| Student Assistance | 18 | 64 | 170 | 40 | 64 |
| Indian Welfare Services | 87 | 155 | 85 | 118 | 117 |
| Young Offenders Act | 59 | 57 | 58 | 56 | 55 |
| Bilingualism Development | 49 | 55 | 65 | 64 | 64 |
| Employability Assistance for People with Disabilities | 53 | 71 | 65 | 58 | 39 |
| Canada-Ontario Infrastructure Works | 116 | 71 | 19 | - | - |
| Other | 359 | 131 | 235 | 451 | 480 |
| | **5,098** | **4,515** | **5,885** | **6,232** | **7,359** |
| **Income from Government Enterprises** | | | | | |
| Ontario Lottery and Gaming Corporation | 1,485 | 1,764 | 1,924 | 2,150 | 2,000 |
| Liquor Control Board of Ontario | 745 | 809 | 845 | 875 | 890 |
| Ontario Power Generation Inc. and Hydro One Inc. | - | - | 903 | 918 | 524 |
| Other | 61 | (26) | 36 | 25 | 10 |
| | **2,291** | **2,547** | **3,708** | **3,968** | **3,424** |
| **Other Revenue** | | | | | |
| Vehicle and Driver Registration Fees | 820 | 890 | 911 | 930 | 925 |
| Other Fees and Licences | 548 | 661 | 667 | 680 | 685 |
| Liquor Licence Revenue | 506 | 519 | 539 | 525 | 518 |
| Royalties | 286 | 289 | 345 | 219 | 240 |
| Sales and Rentals | 582 | 640 | 2,133 | 585 | 300 |
| Fines and Penalties | 174 | 50 | 41 | 37 | 40 |
| Local Services Realignment—Reimbursement of Expenditure | 519 | 2,109 | 1,678 | 1,389 | 1,223 |
| Miscellaneous | 425 | 489 | 1,143 | 700 | 736 |
| | **3,860** | **5,647** | **7,457** | **5,065** | **4,667** |
| **Total Revenue** | **52,518** | **55,786** | **62,931** | **64,927** | **64,270** |
| ***Total Revenue Excluding One-time Tax Revenue in 2000-01**** | ***52,518*** | ***55,786*** | ***62,931*** | ***63,913*** | ***64,270*** |

* Excludes one-time Personal Income Tax revenue of $764 million and Corporations Tax revenue of $250 million in 2000-01. These revenues are included in 2000-01 to reflect higher estimates of tax revenue for 1999-2000 than reported in the 1999-2000 Public Accounts.

# The Budget Dollar
# Revenue
# 2001-02



## Revenue Sources by Category
## Per Cent of Total
## 1997-98 to 2001-02



# PAPER B

## Fiscal Responsibility: Ontario's Plan

# Introduction

Ontario's fiscal position has been restored. As a result of the government's economic and fiscal policies, and its prudent approach to budgeting, Ontario has achieved two consecutive budget surpluses, recording a $668 million surplus in 1999-2000, and a surplus of $3.2 billion projected for 2000-01. With its 2001 Budget, the Province is on track to achieve a third consecutive balanced budget, and has in place the policies needed to maintain a balanced budget into the future. This will enable the government to continue to reduce Net Provincial Debt and the burden of interest costs on taxpayers both now and in the future.

In 1995, the government outlined its Balanced Budget Plan to steadily reduce the deficit and balance the budget. The 2001 Budget demonstrates that the Province's commitment to a balanced budget is ongoing. With the passage of the *Taxpayer Protection Act* and the *Balanced Budget Act* in 1999, the people of Ontario are assured that the Province's finances will continue to be managed wisely in 2001-02 and in the years to come.

Ontario's recent fiscal performance has been outstanding. With strong economic growth and a cautious and prudent approach to budgeting, the Balanced Budget Plan targets were overachieved each year and the budget was balanced in 1999-2000, one year ahead of schedule. With a $1.0 billion reduction in Net Provincial Debt in 1999-2000 and a record $3.0 billion contribution projected for 2000-01—the largest single-year debt reduction in the Province's history—the government has achieved 80 per cent of its $5 billion debt-reduction commitment in the first two years of this mandate.

This paper reviews the following:

**Section I**: Interim Results for 2000-01

**Section II**: Ontario's 2001-02 Fiscal Plan

**Section III**: Medium-Term Outlook

**Section IV**: Ontario's Fiscal Record

**Section V**: Next Steps in Paying Down Debt

# Section I: Interim Results for 2000-01

## Second Consecutive Surplus

In 1999-2000 Ontario recorded a $668 million surplus, balancing the budget in just five years—one full year ahead of the schedule laid out in the Balanced Budget Plan. With a $3,192 million surplus projected for 2000-01, Ontario will have achieved two consecutive surpluses for the first time in more than half a century.

**2000-01 In-Year Fiscal Performance**
($ Millions)

| | Budget Plan | Interim | In-Year Change |
|---|---|---|---|
| **Revenue** | 62,060 | 64,927 | 2,867 |
| **Expenditure** | | | |
| Programs | 49,525 | 50,428 | 903 |
| Restructuring and Other Charges | - | 31 | 31 |
| Total Program Expenditure | 49,525 | 50,459 | 934 |
| Capital | 2,075 | 2,075 | - |
| Public Debt Interest | | | |
| Provincial | 8,940 | 8,883 | (57) |
| Electricity Sector | 520 | 520 | - |
| Total Expenditure | 61,060 | 61,937 | 877 |
| Less: Reserve | 1,000 | - | (1,000) |
| Add: Net Impact of Electricity Restructuring to be Recovered from Ratepayers* | - | 202 | 202 |
| **Surplus / (Deficit)** | **0** | **3,192** | **3,192** |

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

- Revenue was $2,867 million over the level projected in the 2000 Budget Plan. Most of the increase was due to higher tax revenue, which was $2,339 million above the Budget forecast. This was a result of strong economic growth supported by the government's policies of lower taxes, reduced regulation, and sound fiscal management.

- Total expenditure was $877 million higher than projected in the 2000 Budget, mainly due to the impact of accounting changes introduced in the 1999-2000 Public Accounts and priority in-year investments in health care spending and health and education infrastructure, largely offset by underspending in other areas.

- Ontario's 2000 Budget Plan included a $1 billion reserve designed to protect the balanced budget against unexpected and adverse changes in the economic and fiscal outlook. Based on improvements in the economic and revenue outlook, the $1 billion reserve was eliminated in-year and applied to reduce Net Provincial Debt.

## Strong 2000-01 Revenue Performance

Ontario's strong revenue performance continued in 2000-01. Total revenue in 2000-01 was $64,927 million, $2,867 million above the 2000 Budget projection of $62,060 million. Tax revenue, driven by the strength of the Ontario economy and continued job creation, was $2,339 million above projection. Personal Income Tax, Retail Sales Tax, Corporations Tax, Employer Health Tax and Land Transfer Tax were all above the 2000 Budget forecast. Income from Government Enterprises and Federal Payments were also higher than projected in the 2000 Budget.

**Summary of In-Year Changes to Revenue in 2000-01**

($ Millions)

| | | Interim 2000-01 |
|---|---|---|
| **Taxation Revenue** | | |
| Personal Income Tax | 1,445 | |
| Retail Sales Tax | 357 | |
| Corporations Tax | 365 | |
| Employer Health Tax | 135 | |
| Land Transfer Tax | 50 | |
| All Other | (13) | |
| | | 2,339 |
| **Federal Payments** | | |
| Canada Health and Social Transfer | 38 | |
| All Other | 162 | |
| | | 200 |
| **Income from Government Enterprises** | | |
| Ontario Lottery and Gaming Corporation | 455 | |
| Ontario Power Generation Inc., and Hydro One Inc. | 123 | |
| All Other | (33) | |
| | | 545 |
| **Other Revenue** | | |
| Miscellaneous | 175 | |
| Local Services Realignment—Reimbursement of Expenditure | (183) | |
| Sales and Rentals | (205) | |
| All Other | (4) | |
| | | (217) |
| **Total In-Year Revenue Changes** | | **2,867** |

Source: Ontario Ministry of Finance.

- Personal Income Tax (PIT) revenue was $1,445 million above the 2000 Budget projection. PIT revenues benefited from strong income, employment and capital gains growth. Of the $1,445 million increase, $764 million is a one-time revenue for higher 1999-2000 PIT than reported in the 1999-2000 Public Accounts.

- Retail Sales Tax was $357 million higher than forecast as a result of the strength of consumer spending in 2000.

- Corporations Tax revenue was $365 million above forecast. This includes $250 million in one-time revenue in 2000-01 for higher 1999-2000 Corporations Tax revenue than estimated in the 1999-2000 Public Accounts. Corporate profits in 2000-01 grew faster than projected in the 2000 Budget.

- Robust income and employment growth in 2000 increased Employer Health Tax revenue by $135 million over the 2000 Budget forecast.

- The vigorous Ontario housing market boosted Land Transfer Tax revenue by $50 million above the 2000 Budget projection.

- Due to the impact of higher energy prices on gas and fuel consumption, Gasoline Tax was $18 million below the 2000 Budget projection and Fuel Tax revenue was $14 million below.

- Federal Payments were $200 million above the 2000 Budget projection. This increase includes $190 million for medical equipment. Other changes to Federal Payments are primarily the result of Canada Millennium Scholarships being paid directly to recipients rather than through the Province, reducing expenditure and revenue in-year by $106 million.

- Income from Government Enterprises was $545 million higher than the 2000 Budget projection. Higher Ontario Lottery and Gaming Corporation net income accounted for $455 million of the increase, a result of higher-than-projected income from casinos and slot machines at race tracks. Net income from Ontario Power Generation Inc., and Hydro One Inc., outperformed the 2000 Budget projection by $123 million. This increase was due primarily to higher Ontario Power Generation net income, a result of higher electricity sales volume in Ontario and lower expenses due to higher returns on pension fund assets.

- Sales and Rentals revenue was $205 million below the Budget projection reflecting lower asset sales and lower revenue from government organizations. The lower government organizations' revenue primarily reflects lower Ontario Housing Corporation (OHC) revenue due to the acceleration of the OHC transfer to municipalities.

- Local Services Realignment revenue was $183 million lower than estimated in the 2000 Budget, reflecting lower reimbursable expenditures on behalf of municipalities.

- Miscellaneous revenue was $175 million more than projected. This includes a $344 million increase for the consolidation of the Independent Electricity Market Operator as a government organization. This in-year change parallels the treatment of this organization in the 1999-2000 Public Accounts.

## 2000-01 In-Year Operating Expenditure Changes

Operating expenditure for 2000-01 at $59,862 million is up $877 million from the 2000 Budget forecast of $58,985 million. This increase is mainly due to the impact in 2000-01 of accounting changes introduced in the 1999-2000 Public Accounts, and in-year investments in health care, largely offset by underspending in other program areas.

**Summary of In-Year Operating Expenditure Changes in 2000-01**
($ Millions)

| | Interim 2000-01 | |
|---|---|---|
| **Program Expenditure Changes:** | | |
| Health Care Funding (Net) | 775 | |
| Municipal Assistance | 216 | |
| Northern Ontario Heritage Fund Corporation—lower-than-planned spending | (157) | |
| Canada Millennium Scholarships—paid directly to recipients | (106) | |
| Ontario Cancer Research Network | (50) | |
| Other (Net) | (500) | |
| | | **178** |
| **Accounting Changes*** | | |
| Electricity Sector—increase in provision | 398 | |
| Independent Electricity Market Operator—consolidation impact offset by revenue | 321 | |
| Metro Toronto Convention Centre—consolidation impact offset by revenue | 37 | |
| | | **756** |
| **Total Program Expenditure Changes** | | **934** |
| **Public Debt Interest** | | **(57)** |
| **Total In-Year Operating Expenditure Changes** | | **877** |

* Accounting changes introduced in the 1999-2000 Public Accounts increased 2000-01 operating expenditure in-year by $756 million.

Source: Ontario Ministry of Finance.

- Health care operating spending increased by a net $775 million in-year primarily for hospitals, which received $443 million in funding enhancements, $177 million to fund hospital deficits, and $120 million to provide performance bonuses to efficient hospitals. In addition, $189 million was provided in-year for medical equipment and an extra $105 million was allocated for drug programs due to increased utilization. These increases were partially offset by reprofiling the implementation schedule for long-term care beds, reductions in OHIP utilization and slower-than-anticipated take-up of new programs, which resulted in savings of $259 million.

- An additional $166 million was provided in-year to the cities of Hamilton, Ottawa and Greater Sudbury, and the counties of Haldimand and Norfolk, for municipal assistance related to restructuring. In addition, a final contribution of $50 million was provided to reimburse the City of Toronto for improvements already made to Toronto's subway system.

- Northern Ontario Heritage Fund Corporation (NOHFC) spending was $157 million lower than planned in 2000-01, as NOHFC refocused its mandate and worked to develop a strategy for major capital partnerships. Funds not allocated in 2000-01 will be invested in the North in future years.

- Canada Millennium Scholarships were paid directly to recipients, rather than through the Province, resulting in an in-year expenditure and revenue decrease of $106 million.

- Funding to establish the Ontario Cancer Research Network was reprofiled into future years, resulting in a $50 million in-year reduction in spending.

- Public Debt Interest costs are down $57 million due to the reduction in Net Provincial Debt, lower-than-expected interest rates, and cost-effective debt management.

**Accounting Changes**

- Consistent with the government's commitment to keep electricity income in the electricity sector, $398 million has been added in-year to the Provision for the Electricity Sector. This provision is equal to the net income of Ontario Power Generation Inc. and Hydro One Inc. in excess of the Province's interest expenditure on its equity investment in the electricity sector. This treatment is consistent with the establishment of the provision in the 1999-2000 Public Accounts.

- Reported spending increased $321 million in-year to reflect the operating component of the consolidation of the Independent Electricity Market Operator as a government organization, consistent with the treatment in the 1999-2000 Public Accounts. This increase is offset by revenue.

- Reported spending increased $37 million in-year as a result of the consolidation of the Metro Toronto Convention Centre as a government organization, consistent with the treatment in the 1999-2000 Public Accounts. This increase is offset by revenue.

## In-Year Capital Expenditure Changes

The level of 2000-01 capital expenditure at $2,075 million is unchanged from the 2000 Budget forecast. Major in-year changes include one-time investments in hospital restructuring and post-secondary education, offset by lower-than-expected spending in the first year of a number of SuperBuild partnership initiatives and other capital projects.

**Summary of In-Year Capital Expenditure Changes in 2000-01**
($ Millions)

| | Interim 2000-01 | |
|---|---|---|
| Health Services Restructuring—accelerated capital projects | 140 | |
| Post-Secondary Institutions—funding for deferred maintenance | 100 | |
| Ontario Institute of Technology | 60 | |
| SuperBuild Partnership Initiatives | (334) | |
| Adult Infrastructure Renewal Project and Dedicated Young Offender System | (61) | |
| Courts Construction Projects | (24) | |
| Other (Net) | 39 | |
| | | (80) |
| **Accounting Changes*** | | |
| Independent Electricity Market Operator—consolidation impact | | 80 |
| **Total In-Year Capital Expenditure Changes** | | **0** |

* Accounting changes introduced in the 1999-2000 Public Accounts increased 2000-01 capital expenditure in-year by $80 million.

Source: Ontario Ministry of Finance.

♦ An additional $140 million was provided in-year to hospitals to help accelerate Health Services Restructuring Commission (HSRC) directed capital projects.

♦ An additional $100 million was provided to post-secondary institutions in-year to fund deferred maintenance costs incurred by colleges and universities.

♦ Expenditure increased $60 million in-year for the establishment of the Ontario Institute of Technology, a new post-secondary institution in Durham region that will offer university-degree and college-level programs.

- Underspending of $334 million in the SuperBuild Partnership Initiatives was due to decisions to delay launching of these initiatives to take into account the November 2000 elections and the time required by municipalities to prepare business cases for their projects and pass required municipal council resolutions.

- Slower-than-expected construction of capital projects under both the Adult Infrastructure Renewal Project and the Dedicated Young Offender System resulted in underspending of $61 million.

- Underspending of $24 million in the Ministry of the Attorney General was due to delays in court construction projects in Pembroke, Brampton, Owen Sound, Chatham and Brockville.

- Reported expenditure increased $80 million in-year to reflect the capital component of the consolidation of the Independent Electricity Market Operator as a government organization, consistent with the treatment in the 1999-2000 Public Accounts.

## Local Services Realignment Transition Measures

Provincial and municipal levels of government initiated the realignment of government services effective January 1, 1998. The objective of the Local Services Realignment (LSR) initiative is to improve accountability, reduce waste and provide the highest quality services to Ontario taxpayers at the lowest possible cost.

The financial responsibility for a number of LSR programs was transferred to municipalities starting on January 1, 1998. To ensure a smooth transition, the Province is continuing to deliver some of these programs on behalf of municipalities, pending program transfer. Municipalities reimburse the Province for the expenditures made on their behalf. Of the remaining LSR programs listed below, those associated with Social Assistance (the Ontario Disability Support Program and Ontario Drug Benefits) will not be transferred to municipalities.

**Local Services Realignment Transition Measures: Impact on Fiscal Plan**
($ Millions)

| | 2000-01 | 2001-02 |
|---|---|---|
| **Transition Expenditures** | | |
| Social Housing | 683 | 585 |
| Social Assistance | 520 | 554 |
| Land Ambulance | 57 | 0 |
| Provincial Offences Act | 8 | 4 |
| Grant in Respect of Provincial Offences Act Net Revenues | 37 | 7 |
| **Total Increase in Expenditure** | **1,305** | **1,150** |
| **Reimbursement of Expenditure from Municipalities** | **1,254** | **1,133** |
| **Provincial Offences Act Revenue** | **45** | **11** |
| **Net Impact on Surplus** | **(6)** | **(6)** |

Source: Ontario Ministry of Finance.

- Social Housing expenditures decline by $98 million from $683 million in 2000-01 to $585 million in 2001-02 as a result of the transfer of the public housing component of the program to municipalities effective January 1, 2001.

- Caseload increases in the Ontario Disability Support Program contribute to the $34 million increase in Social Assistance expenditures, from $520 million in 2000-01 to $554 million in 2001-02. Municipalities will benefit from year-over-year declines in Ontario Works caseloads, saving them approximately $50 million.

- There are no transition expenditures for Land Ambulance services in 2001-02 since the program was devolved by January 1, 2001.

- With the majority of the *Provincial Offences Act* court transfers completed, transition expenditures for this program decline significantly in 2001-02.

# Section II: Ontario's 2001-02 Fiscal Plan

## Third Consecutive Balanced Budget

Ontario is on track for a balanced budget in 2001-02. With surpluses recorded in each of the past two years, the Province's budget will be balanced for the third year in a row.

**2001-02 Fiscal Plan**
($ Millions)

| | Interim 2000-01 | Plan 2001-02 | Change $ Million | Change Per Cent |
|---|---|---|---|---|
| **Revenue** | 64,927 | 64,270 | (657) | (1.0) |
| **Expenditure** | | | | |
| Programs | 50,428 | 52,011 | 1,583 | 3.1 |
| Restructuring and Other Charges | 31 | - | (31) | (100.0) |
| Total Program Expenditure | 50,459 | 52,011 | 1,552 | 3.1 |
| Capital | 2,075 | 1,944 | (131) | (6.3) |
| Public Debt Interest | | | | |
| Provincial | 8,883 | 8,795 | (88) | (1.0) |
| Electricity Sector | 520 | 520 | - | - |
| Total Expenditure | 61,937 | 63,270 | 1,333 | 2.2 |
| Less: Reserve | - | 1,000 | 1,000 | - |
| Add: Net Impact of Electricity Restructuring to be Recovered from Ratepayers* | 202 | 140 | (62) | (30.7) |
| **Surplus / (Deficit)** | **3,192** | **140** | **(3,052)** | **(95.6)** |

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

- Total expenditure in 2001-02 is projected at $63,270 million, up $1,333 million from the 2000-01 level of $61,937 million, mainly due to increased base health care spending in 2001-02.

- As part of the Province's prudent budgeting practices, a $1 billion reserve has been included in the 2001-02 fiscal plan to protect the balanced budget against unexpected and adverse changes in the economic and fiscal outlook. The reserve will be available for debt reduction if not needed.

## 2001-02 Revenue Outlook

Ontario's strong revenue performance continued in 2000-01, driven by the robust performance of the Ontario economy. Revenue is projected to decline in 2001-02, largely as a result of one-time revenues included in 2000-01.

**2000-01 Revenues**
($ Millions)

| | Actual 1999-00 | Interim 2000-01 | Plan 2001-02 |
|---|---|---|---|
| Taxation | 45,881 | 49,662 | 48,820 |
| Federal Payments | 5,885 | 6,232 | 7,359 |
| Income from Government Enterprises | 3,708 | 3,968 | 3,424 |
| Other Revenue | 7,457 | 5,065 | 4,667 |
| Total Revenue | 62,931 | 64,927 | 64,270 |
| ***Total Revenue Excluding One-Time Tax Revenue in 2000-01**** | ***62,931*** | ***63,913*** | ***64,270*** |

* Excludes one-time Personal Income Tax revenue of $764 million and Corporations Tax revenue of $250 million in 2000-01. These revenues are included in 2000-01 to reflect higher estimates of tax revenues for 1999-2000 than reported in the 1999-2000 Public Accounts.

Source: Ontario Ministry of Finance.

- Revenue in 2001-02 is projected at $64,270 million, down $657 million from the level recorded in 2000-01, primarily as a result of one-time revenues included in 2000-01.

- Details on the 2001-02 revenue outlook can be found in Budget Paper A, *Growth Continues: Ontario's Economic and Revenue Outlook*.

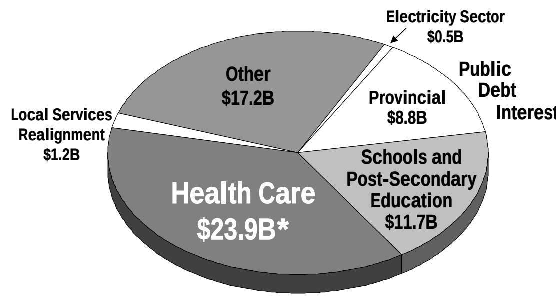
## 2001-02 Expenditure Outlook

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

- ♦ In 2001-02 total base health care funding, excluding Local Services Realignment land ambulance reimbursements, will be $23.9 billion.

- ♦ Provincial spending on schools and post-secondary education will be $11.7 billion in 2001-02.

**Support for Priority Programs, 2001-02**
**Total Expenditure: $63.3 Billion**



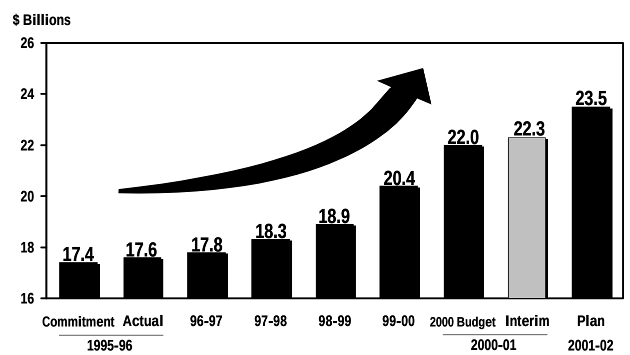

* Includes Major One-Time Health Care costs of $190 million for medical equipment.
Source: Ontario Ministry of Finance.

## Ontario's Continued Commitment to Health Care

Since the government assumed office, Ontario's base operating spending for health care has increased steadily each year. Between 1994-95 and 2000-01, health base operating spending increased by $4.7 billion. This year, it will increase a further $1.2 billion to $23.5 billion which is equivalent to $745 per second.

- In 1999, the government made a commitment to increase health care spending by 20 per cent to $22.7 billion by 2003-04. The government will exceed this commitment in 2001-02, two years ahead of the original schedule.

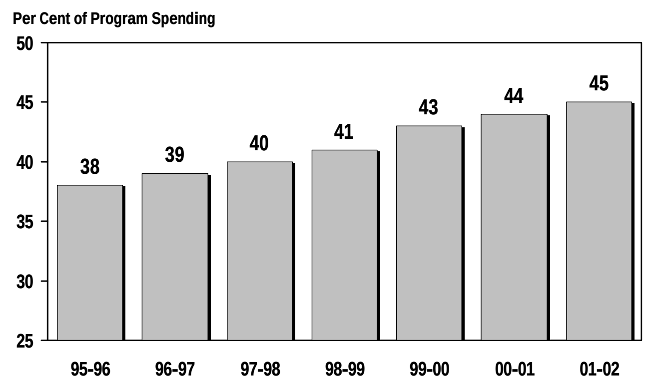
### Health Base Operating Spending Increases




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

- Health care spending is consuming an increasing share of government spending capacity. In 1995-96, base health care spending made up 38 per cent of government program expenditures (excludes capital and public debt interest). Health care's share grew to 44 per cent in 2000-01 and will increase to 45 per cent in 2001-02.

### Health Care Commitment Grows




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

## Increased Funding for Health Care Exceeding CHST Commitment

In September 2000, in response to the federal announcement of additional funding for health care, the Province challenged the federal government to restore the CHST and to do more to help provinces maintain quality health services. Ontario called on the federal government to commit to paying, at a minimum, 18 per cent of the nation's health and social services bill, the same level paid before it started cutting in 1994-95.

Ontario had already made a commitment to use any additional health funding provided by the Government of Canada, including amounts announced in the 1999 and 2000 federal budgets, for health care.

In December 2000, the Second Quarter Ontario Finances reported an increase, or acceleration, of health care spending of $498 million, almost half of the $1,070 million federal enhancement to be provided in 2001-02.

**Ministry of Health and Long-Term Care Spending: Selected Years**

($ Millions)

| | Actual 1994-95 | Actual 1998-99* | Interim 2000-01** | Plan 2001-02† | Change from Interim |
|---|---|---|---|---|---|
| Base Operating | 17,599 | 18,867 | 21,779 | 23,486 | 1,707 |
| Accelerated Health Care Commitment | - | - | 498 | - | (498) |
| Capital Expenditures | 249 | 187 | 211 | 200 | (11) |
| Total | 17,848 | 19,054 | 22,488 | 23,686 | 1,198 |
| Less: Local Services Realignment (LSR) Land Ambulance Reimbursements | 0 | (166) | (57) | 0 | 57 |
| Total Base Excluding LSR Land Ambulance Reimbursements | 17,848 | 18,888 | 22,431 | 23,686 | 1,255 |
| **Increase in Base Operating since 1994-95 (includes accelerated health care commitment)** | | | **4,678** | **5,887** | |
| **Increase in Base Total since 1998-99** | | | **3,543** | **4,798** | |
| **Increase in Base Total since 2000 Budget** | | | | **1,501** | |

* 1998-99 excludes $50 million in health care restructuring and $639 million in Major One-Time Operating Costs including $120 million startup for Canadian Blood Services, $200 million to compensate persons who contracted Hepatitis C through the blood system prior to 1986 or after 1990, $229 million in one-time assistance to hospitals and $90 million in Ministry and Broader Public Sector Year 2000 computer system changes.

** 2000-01 excludes Major One-Time Operating Costs of $486 million ($189 million for medical equipment, $120 million for performance bonuses to efficient hospitals and $177 million to fund hospital deficits) and Major One-Time Capital Costs of $140 million for HSRC capital grants.

† 2001-02 excludes Major One-Time Operating Costs of $190 million for medical equipment.

Source: Ontario Ministry of Finance.

- Since 1998-99, Ontario's total base health care spending (operating and capital) has increased by $4,798 million, as compared to $2,379 million in restored federal funding. Total base health care spending is $1,501 million higher than the 2000 Budget forecast of $22.2 billion, exceeding Ontario's commitment to invest all of the $1,070 million in restored 2000-01 Canada Health and Social Transfer (CHST) funding from the federal government in health care.

- Since 1994-95, Ontario's total base health care spending (operating and capital) has increased by $5,887 million. That same year, federal funding began a steady decline until 1999-2000 when the federal government finally started restoring some of the cuts it had made. In 2001-02, however, federal CHST transfers to Ontario are still lower than the amounts transferred to the Province in 1994-95.

## Ensuring Accessibility in Post-Secondary Education

The government is taking action to ensure that every willing and qualified Ontario student secures a place in a post-secondary education program. By 2003-04, enrolment in Ontario's colleges and universities will increase significantly as a result of secondary-school reform, population growth and a larger proportion of the population pursuing a post-secondary education.

To ensure that post-secondary institutions have the necessary resources to provide students with a high-quality education, the government will increase operating grants to colleges and universities by an estimated $293 million by 2003-04, directly proportional to the projected enrolment growth. This multi-year funding commitment will allow institutions to hire new faculty and plan for the future. A portion of operating grants will be distributed based on performance and accountability measures to encourage efficiency in the post-secondary education sector.

**Grants to Colleges and Universities**
($ Millions)

| | Actual 1999-00 | Interim 2000-01 | Plan 2001-02 |
|---|---|---|---|
| Operating Grants to Colleges and Universities | 2,291 | 2,364 | 2,394 |
| Access to Opportunities Program (ATOP) | 78 | 87 | 86 |
| Total Operating Grants to Colleges and Universities | 2,369 | 2,451 | 2,480 |
| Capital | 1,028 | 202 | 48 |

Source: Ontario Ministry of Finance.

- Planned operating grant increases will complement significant capital investments already made. In 1999-2000, through SuperBuild, the Province invested over $1 billion in colleges and universities. Combined with partner contributions, the total investment of $1.8 billion will enable the creation of more than 73,000 new student spaces.

- To help students manage the costs of their education, the Ontario Student Loan Program will be harmonized with the Canada Student Loan Program. In addition, the government will introduce legislation to establish an entity to facilitate financing for Ontario Student Loans on the best terms possible for taxpayers and for students.

- These initiatives build on previous measures to assist students such as the Ontario Student Opportunities Trust Fund, which raised $600 million to assist 185,000 students over 10 years, enhancements to the Ontario Graduate Scholarship awards, and Aiming for the Top scholarships, which have helped 4,000 high school students finance tuition costs this academic year.

- The government will provide $10 million over the next six years to establish the Premier's Platinum Awards, which will reward the very best senior researchers in the province. In addition to enhancing the government's existing $85 million commitment under the highly successful Premier's Research Excellence Awards program, the Platinum Awards underscore to the global research and development community Ontario's commitment to research excellence and support for top research talent.

**Ontario Institute of Technology**

- The government has provided $60 million in capital funding for the establishment of Ontario's newest university, the Ontario Institute of Technology, in Durham Region. Responding to the skills needs of the global and local marketplace, this university will focus on preparing students for careers that call for both practical skills and theoretical grounding.

- The Ontario Institute of Technology will prepare students for careers in such important fields as the applied health sciences, business and information technology and advanced manufacturing, and will give students flexibility by letting them move seamlessly between college and university programs.

**Training and Innovation**

- The government will provide new funding to double the number of entrants to apprenticeship programs in the skilled trades from 11,000 in 1998-99 to 22,000. When the program is fully implemented, funding will amount to $33 million annually. In addition, $50 million in capital funding will be provided over five years for an Apprenticeship Enhancement Fund to upgrade equipment and facilities in colleges.

## Support for Health Care, Charities, Communities and the Agricultural Sector

Legislation requires that net provincial revenue generated from charity casinos and race track slot machines support priority services, including health care, the problem gambling program, and funding for charitable organizations through the Ontario Trillium Foundation.

**Support for Health Care, Charities and Problem Gambling Program**

($ Millions)

| | Interim 2000-01 | Plan 2001-02 |
|---|---|---|
| Health Care | 556 | 529 |
| Ontario Trillium Foundation | 100 | 100 |
| Problem Gambling Program | 17 | 21 |
| **Total** | **673** | **650** |

Source: Ministry of Tourism, Culture and Recreation.

**Provincial revenues from charity casinos and slot machines at race tracks are used as follows:**

- In 2001-02, $529 million of provincial revenue from charity casinos and slot machines at race tracks will be dedicated to support health care priorities.
- The Ontario Trillium Foundation is provided with $100 million annually for distribution to charitable and not-for-profit organizations throughout the province. The Foundation's Annual Report identifies the charities and not-for-profit organizations that have received funding.
- Two per cent of gross slot machine revenue is allocated to support problem gambling treatment, prevention and research. In 2001-02, this is estimated to be $21 million.

**Other beneficiaries of charity casinos and slot machines at race tracks include:**

- Twenty per cent of gross race track slot machine revenue is provided directly to the horse-racing industry. For 2001-02, this support is estimated at $228 million. Since its inception, the slot machine initiative has preserved and enhanced the 45,000 jobs in Ontario's horse-racing industry, a key part of the Province's agricultural sector.

- A portion of gross slot machine revenue, estimated at $55 million, is also being provided to benefit municipalities that host charity casinos and slot operations at race tracks, including funding to help offset any additional local infrastructure and service costs.

# Section III: Medium-Term Outlook

Ontario's medium-term forecast is projecting that the budget will remain balanced into the medium term, consistent with the requirements of the *Balanced Budget Act, 1999*.

**Medium-Term Fiscal Outlook**
($ Billions)

| | Actual 1999-00 | Interim 2000-01 | Plan 2001-02 | Forecast 2002-03 |
|---|---|---|---|---|
| **Revenue** | 62.9 | 64.9 | 64.3 | 65.5 |
| **Expenditure** | | | | |
| Programs | 47.4 | 50.4 | 52.0 | 53.2 |
| Restructuring and Other Charges | 0.2 | - | - | - |
| Total Program Expenditure | 47.6 | 50.5 | 52.0 | 53.2 |
| Capital | 4.8 | 2.1 | 1.9 | 2.0 |
| Public Debt Interest | | | | |
| Provincial | 9.0 | 8.9 | 8.8 | 8.8 |
| Electricity Sector | 0.5 | 0.5 | 0.5 | 0.5 |
| Total Expenditure | 61.9 | 61.9 | 63.3 | 64.5 |
| Less: Reserve | - | - | 1.0 | 1.0 |
| Add: Net Impact of Electricity Restructuring to be Recovered from Ratepayers* | (0.4) | 0.2 | 0.1 | 0.7 |
| **Surplus / (Deficit)** | **0.7** | **3.2** | **0.1** | **0.7** |

Note: Numbers may not add due to rounding.
* Reflects the estimated excess of revenue over expenditure of the Ontario Electricity Financial Corporation (OEFC). Consistent with the principles of electricity restructuring, OEFC debt is to be recovered from ratepayers, not taxpayers.
Source: Ontario Ministry of Finance.

- The 2001-02 Budget Plan and 2002-03 forecast each include a $1 billion reserve to protect the fiscal plan against unexpected and adverse changes in the economic and fiscal outlook. If the reserve is not required, it will be applied to debt reduction.

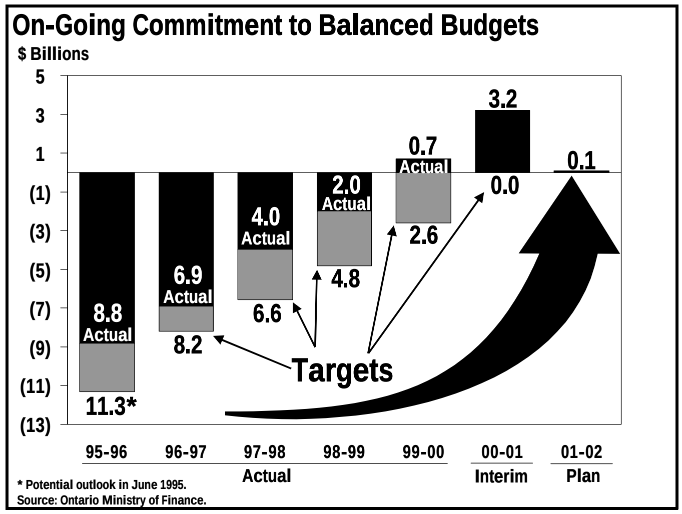
# Section IV: Ontario's Fiscal Record

## Balanced Budgets

In November 1995 the government set out the Balanced Budget Plan of steadily declining annual deficit targets, culminating in a balanced budget in 2000-01. The deficit-reduction targets were overachieved each year of the Plan, and the budget was balanced in 1999-2000, one year ahead of schedule.

- Deficit reduction targets have been overachieved each year due to prudent and realistic fiscal planning, the government's economic and fiscal policies, and a strong economy.

- Eliminating the deficit and balancing the budget was a key government commitment and is an essential component of a strategy that focuses on economic growth and competitiveness. By balancing the budget the government encourages economic growth by freeing up resources for private investment.



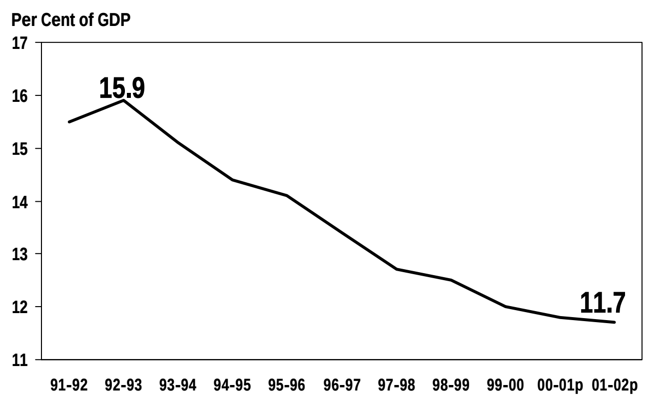
## Program Spending as a Share of the Economy

The government has made a commitment to control spending. This is necessary to ensure that the Provincial budget remains balanced, even in times of economic uncertainty.

In 2001-02, program spending as a share of the economy is projected to decline to 11.7 per cent, down from a peak of 15.9 per cent in 1992-93.

- At 11.7 per cent, program spending as a per cent of provincial Gross Domestic Product (GDP) is at its lowest level since the early 1980s.
- This trend reflects the government's commitment to smaller, more efficient government.
- Reducing the size and cost of government means better services at a lower cost, more accountability and savings for taxpayers.

**Program Spending as a Per Cent of GDP**




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

- This government requires each Ministry to develop comprehensive business plans each year to focus on core services and increase accountability.

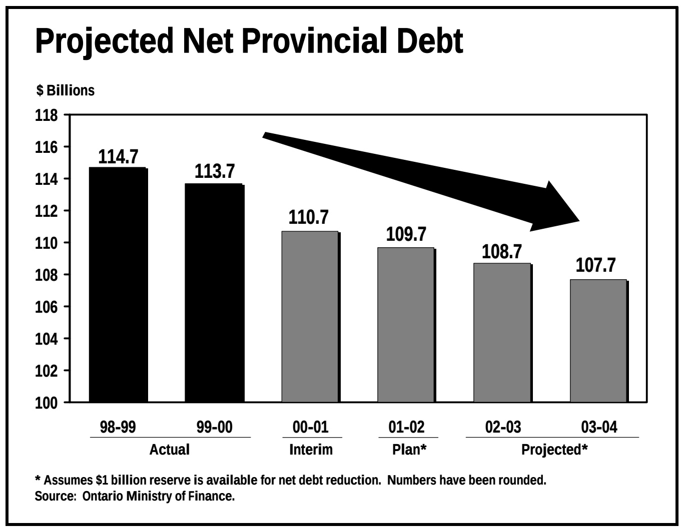
# Section V: Next Steps in Paying Down Debt

## Net Provincial Debt

In the 2000 Budget the government made a commitment to reduce Net Provincial Debt by at least $5 billion during the current term of office. With a contribution to debt reduction of $1.0 billion in 1999-2000 and $3.0 billion in 2000-01, the government has already met 80 per cent of its commitment in the first two years.

The $3.0 billion contribution to debt reduction in 2000-01 is possible because of the fiscally prudent and cautious approach taken in the 2000 Budget, and the strong growth in the Ontario economy, which increased revenues above the level projected in last year's Budget.

- The 2000-01 payment of $3.0 billion is the largest reduction of debt in the Province's history. The government remains committed to applying the $1 billion reserve, if not needed, as well as any surpluses, to pay down Net Provincial Debt.




- Net Provincial Debt is projected at $110.7 billion as at March 31, 2001.

- Ontario's recent rating improvements, including the upgrade by Standard and Poor's and the "positive" outlook by Moody's Investors Service reflect, in part, the government's commitment to debt reduction. The upgrade from Standard and Poor's is the first the Province has received from the agency since 1988.

- In their report upgrading Ontario to AA, Standard and Poor's noted "... the expectation of continued strong budgetary performance which will allow the government to continue nominal debt reduction beyond 2001, thereby allowing progressive easing of Ontario's debt burden through the medium term." Similarly, Moody's Investors Service stated that: "a trend of improving fiscal performance is beginning to produce budget surpluses and offers the promise of debt reduction over the medium term," which justifies a "positive" outlook.

## Electricity Debt

In addition to its commitment to reduce Net Provincial Debt, the government has developed a long-term plan to retire the obligations of the Ontario Electricity Financial Corporation (OEFC) through the ratepayer and not the taxpayer. Based on the conservative estimates used in the preparation of the plan, the Province anticipates that OEFC's obligations will be met between 2010 and 2017.

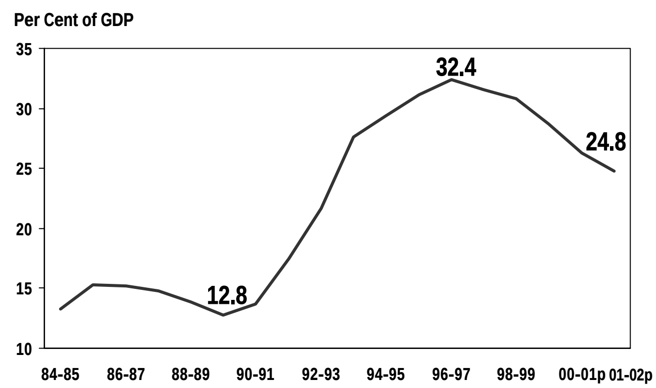
Based on projected results for 2000-01 and estimated results for 2001-02 and 2002-03, the estimated debt of OEFC will be reduced by over $1 billion over these three years. Further details can be found in Budget Paper D, *Ontario's Financing Plan*.

## Net Provincial Debt to GDP

With four consecutive deficits in excess of $10 billion annually, Ontario's debt rose dramatically in the early 1990s. Net Provincial Debt as a per cent of GDP more than doubled from 12.8 per cent in 1989-90 to 32.4 per cent in 1996-97.

- Strong economic growth, sound fiscal management and two years of budget surpluses have reduced Net Provincial Debt to 24.8 per cent of GDP in 2001-02.

**Net Provincial Debt as a Per Cent of GDP Falling**




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

# Conclusion

The Province's fiscal successes have been the result of cautious and prudent planning and strong stewardship of Ontario's financial resources. Realistic deficit-reduction targets were put in place, and in each year targets were overachieved.

To date, the Province has achieved 80 per cent of its $5 billion Net Provincial Debt reduction target.

Realistic fiscal planning combined with sound financial management has yielded significant dividends to Ontario taxpayers, and will ensure continued benefits to future generations.

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Operating Expenditure . . . . . B3

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## Graphs

The Budget Dollar: Revenue 2001-02

The Budget Dollar: Total Expenditure 2001-02

The Budget Dollar: Program Expenditure 2001-02

Revenue Sources by Category, Per Cent of Total 1997-98 to 2001-02

Operating Expenditure by Category, Per Cent of Total 1997-98 to 2001-02

Program Expenditure by Category, Per Cent of Total 1997-98 to 2001-02

Capital Expenditure by Category, Per Cent of Total 1997-98 to 2001-02

2001-02 Operating Expenditure by Category

2001-02 Capital Expenditure by Category

**Statement of Financial Transactions** **Table B1**

($ Millions)

| | Actual 1997-98 | Actual 1998-99 | Actual 1999-00 | Interim 2000-01 | Plan 2001-02 |
|---|---|---|---|---|---|
| **Revenue** | 52,518 | 55,786 | 62,931 | 64,927 | 64,270 |
| **Expenditure** | | | | | |
| Programs | 43,709 | 46,509 | 47,369 | 50,428 | 52,011 |
| Restructuring and Other Charges | 1,595 | 76 | 211 | 31 | - |
| Total Program Expenditure | 45,304 | 46,585 | 47,580 | 50,459 | 52,011 |
| Capital | 2,451 | 2,187 | 4,832 | 2,075 | 1,944 |
| Public Debt Interest | | | | | |
| Provincial | 8,729 | 9,016 | 8,977 | 8,883 | 8,795 |
| Electricity Sector | - | - | 520 | 520 | 520 |
| Total Expenditure | 56,484 | 57,788 | 61,909 | 61,937 | 63,270 |
| Less: Reserve | - | - | - | - | 1,000 |
| Add: Net Impact of Electricity Restructuring to be Recovered from Ratepayers* | - | - | (354) | 202 | 140 |
| **Surplus / (Deficit)** | **(3,966)** | **(2,002)** | **668** | **3,192** | **140** |
| **Net Provincial Debt**** | **112,735** | **114,737** | **113,715** | **110,725** | **110,725** |

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

** Net Provincial Debt represents total Liabilities less Financial Assets.

## Revenue — Table B2

($ Millions)

| | Actual 1997-98 | Actual 1998-99 | Actual 1999-00 | Interim 2000-01 | Plan 2001-02 |
|---|---|---|---|---|---|
| **Taxation Revenue** | | | | | |
| Personal Income Tax | 16,293 | 17,190 | 17,617 | 18,975 | 18,010 |
| Retail Sales Tax | 10,843 | 11,651 | 12,879 | 13,757 | 14,340 |
| Corporations Tax | 7,456 | 7,447 | 8,095 | 9,130 | 8,340 |
| Employer Health Tax | 2,851 | 2,882 | 3,118 | 3,455 | 3,620 |
| Gasoline Tax | 2,028 | 2,068 | 2,154 | 2,242 | 2,300 |
| Fuel Tax | 563 | 592 | 665 | 651 | 655 |
| Tobacco Tax | 425 | 447 | 481 | 495 | 620 |
| Land Transfer Tax | 565 | 470 | 565 | 630 | 670 |
| Mining Profits Tax | 40 | 23 | 50 | 90 | 55 |
| Preferred Share Dividends Tax | 60 | 50 | 33 | 40 | 56 |
| Other Taxation | 145 | 257 | 224 | 197 | 154 |
| | **41,269** | **43,077** | **45,881** | **49,662** | **48,820** |
| **Government of Canada** | | | | | |
| Canada Health and Social Transfer (CHST) | 3,970 | 3,553 | 3,967 | 4,137 | 5,630 |
| CHST Supplements | - | - | 755 | 758 | 380 |
| Social Housing | 387 | 358 | 466 | 550 | 530 |
| Student Assistance | 18 | 64 | 170 | 40 | 64 |
| Indian Welfare Services | 87 | 155 | 85 | 118 | 117 |
| Young Offenders Act | 59 | 57 | 58 | 56 | 55 |
| Bilingualism Development | 49 | 55 | 65 | 64 | 64 |
| Employability Assistance for People with Disabilities | 53 | 71 | 65 | 58 | 39 |
| Canada-Ontario Infrastructure Works | 116 | 71 | 19 | - | - |
| Other | 359 | 131 | 235 | 451 | 480 |
| | **5,098** | **4,515** | **5,885** | **6,232** | **7,359** |
| **Income from Government Enterprises** | | | | | |
| Ontario Lottery and Gaming Corporation | 1,485 | 1,764 | 1,924 | 2,150 | 2,000 |
| Liquor Control Board of Ontario | 745 | 809 | 845 | 875 | 890 |
| Ontario Power Generation Inc. and Hydro One Inc. | - | - | 903 | 918 | 524 |
| Other | 61 | (26) | 36 | 25 | 10 |
| | **2,291** | **2,547** | **3,708** | **3,968** | **3,424** |
| **Other Revenue** | | | | | |
| Vehicle and Driver Registration Fees | 820 | 890 | 911 | 930 | 925 |
| Other Fees and Licences | 548 | 661 | 667 | 680 | 685 |
| Liquor Licence Revenue | 506 | 519 | 539 | 525 | 518 |
| Royalties | 286 | 289 | 345 | 219 | 240 |
| Sales and Rentals | 582 | 640 | 2,133 | 585 | 300 |
| Fines and Penalties | 174 | 50 | 41 | 37 | 40 |
| Local Services Realignment - Reimbursement of Expenditure | 519 | 2,109 | 1,678 | 1,389 | 1,223 |
| Miscellaneous | 425 | 489 | 1,143 | 700 | 736 |
| | **3,860** | **5,647** | **7,457** | **5,065** | **4,667** |
| **Total Revenue** | **52,518** | **55,786** | **62,931** | **64,927** | **64,270** |
| ***Total Revenue Excluding One-Time Tax Revenue in 2000-01**** | | | ***62,931*** | ***63,913*** | ***64,270*** |

* Excludes one-time Personal Income Tax revenue of $764 million and Corporations Tax revenue of $250 million in 2000-01. These revenues are included in 2000-01 to reflect higher estimates of tax revenues for 1999-2000 than reported in the 1999-2000 Public Accounts.

## Operating Expenditure — Table B3

($ Millions)

| Ministry | Actual 1997-98 | Actual 1998-99 | Actual 1999-00 | Interim 2000-01 | Plan 2001-02 |
|---|---|---|---|---|---|
| Agriculture, Food and Rural Affairs | 306 | 309 | 347 | 406 | 446 |
| One-Time and Extraordinary | - | - | - | 233 | - |
| Farm Tax Rebate | 158 | - | - | - | - |
| Attorney General | 683 | 753 | 846 | 971 | 979 |
| Board of Internal Economy | 113 | 117 | 154 | 117 | 117 |
| Citizenship | 73 | 82 | 95 | 78 | 78 |
| Community and Social Services | 8,067 | 7,659 | 7,512 | 7,638 | 7,756 |
| Consumer and Business Services | 92 | 136 | 134 | 157 | 168 |
| Correctional Services | 531 | 540 | 563 | 595 | 610 |
| Economic Development and Trade | 138 | 87 | 92 | 93 | 106 |
| Education | 4,715 | 7,719 | 7,704 | 8,096 | 8,471 |
| School Board Transition/Phase-in Funding | 224 | - | 268 | - | - |
| Teachers' Pension Plan (TPP) | 1,443 | 67 | (363) | (779) | (230) |
| Energy, Science and Technology | 69 | 83 | 429 | 469 | 284 |
| Environment | 142 | 162 | 174 | 190 | 215 |
| Executive Offices | 14 | 17 | 19 | 22 | 21 |
| Finance - Own Account | 691 | 998 | 548 | 896 | 773 |
| Public Debt Interest | | | | | |
| Provincial | 8,729 | 9,016 | 8,977 | 8,883 | 8,795 |
| Electricity Sector | - | - | 520 | 520 | 520 |
| Community Reinvestment Fund | 169 | 678 | 521 | 561 | 561 |
| Provision for Electricity Sector | - | - | 383 | 398 | 4 |
| Health and Long-Term Care | 18,283 | 18,867 | 20,373 | 21,779 | 23,486 |
| Accelerated Health Care Commitment | - | - | - | 498 | - |
| Health Care Restructuring | 532 | 50 | - | - | - |
| Major One-Time Health Care Costs | 113 | 639 | 286 | 486 | 190 |
| Intergovernmental Affairs | 5 | 4 | 4 | 5 | 5 |
| Labour | 117 | 108 | 101 | 105 | 113 |
| Management Board Secretariat | 359 | 353 | 147 | 224 | 346 |
| Retirement Benefits | (86) | (219) | (165) | (197) | 30 |
| Contingency Fund | - | - | - | - | 654 |
| OPS Employee Severance (Net) | (159) | - | 88 | - | - |
| Special Circumstances Fund | - | 180 | - | - | - |
| Municipal Affairs and Housing | 2,395 | 1,611 | 1,665 | 1,819 | 1,214 |
| Municipal Capital and Operating Restructuring Fund | 23 | - | - | - | - |
| Municipal Restructuring Fund | 71 | - | - | - | - |
| Native Affairs Secretariat | 12 | 12 | 15 | 18 | 15 |
| Natural Resources | 463 | 531 | 460 | 413 | 407 |
| Northern Development and Mines | 62 | 82 | 122 | 113 | 179 |
| Office of Francophone Affairs | 2 | 3 | 3 | 4 | 5 |
| Solicitor General | 646 | 756 | 816 | 905 | 932 |
| Tourism, Culture and Recreation | 205 | 286 | 367 | 361 | 392 |
| Training, Colleges and Universities | 3,052 | 3,281 | 3,285 | 3,236 | 3,365 |
| Transportation | 702 | 607 | 587 | 549 | 519 |
| Restructuring | 50 | (17) | - | - | - |
| TTC Five Year Capital Transfer/Ottawa-Carleton Regional Transit Commission Transit Bus Subsidy Agreement | 829 | 44 | - | - | - |
| Year-End Savings | - | - | - | - | (200) |
| **Total Operating Expenditure** | **54,033** | **55,601** | **57,077** | **59,862** | **61,326** |

Note: 1997-98 to 1999-2000 ministry totals restated to reflect recently announced government structure.

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

| Ministry | Actual 1997-98 | Actual 1998-99 | Actual 1999-00 | Interim 2000-01 | Plan 2001-02 |
|---|---|---|---|---|---|
| Agriculture, Food and Rural Affairs | 1 | 1 | 1 | 1 | 51 |
| Attorney General | 47 | 73 | 62 | 40 | 55 |
| Community and Social Services | 31 | 27 | 20 | 14 | 38 |
| Correctional Services | 5 | 30 | 124 | 95 | 98 |
| Education | 267 | 229 | 52 | 4 | 16 |
| Energy, Science and Technology | - | 273 | 656 | 80 | 76 |
| Environment | 98 | 19 | 1 | 4 | 13 |
| Water Protection Fund | - | 15 | 160 | 17 | 5 |
| Finance | 6 | 4 | 7 | 7 | 13 |
| SuperBuild Millennium Partnerships | - | - | - | 4 | 100 |
| Contingency Fund | - | - | - | - | 100 |
| Health and Long-Term Care | 106 | 187 | 338 | 211 | 200 |
| Major One-Time Capital Costs | - | - | 1,004 | 140 | - |
| Management Board Secretariat | 80 | 39 | 13 | 20 | 37 |
| Municipal Affairs and Housing | 152 | 62 | (10) | 14 | 8 |
| Native Affairs Secretariat | 14 | 13 | 7 | 5 | 7 |
| Natural Resources | 151 | 73 | 96 | 65 | 99 |
| Northern Development and Mines | 173 | 177 | 212 | 312 | 327 |
| Solicitor General | 7 | - | - | 4 | 9 |
| Tourism, Culture and Recreation | 3 | 2 | 231 | 27 | 68 |
| Training, Colleges and Universities | 117 | 71 | 1,028 | 205 | 51 |
| Transportation | 1,193 | 892 | 830 | 806 | 673 |
| Year-End Savings | - | - | - | - | (100) |
| **Total Capital Expenditure** | **2,451** | **2,187** | **4,832** | **2,075** | **1,944** |

Note: 1997-98 to 1999-2000 ministry totals restated to reflect recently announced government structure.

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

| | Modified Cash Basis | PSAB Basis | |
|---|---|---|---|
| | 1992-93 | 1993-94 | 1994-95 |
| **Financial Transactions** | | | |
| Revenue | 41,807 | 43,674 | 46,039 |
| Expenditure | | | |
| Programs | 45,350 | 44,195 | 44,505 |
| Restructuring and Other Charges | - | - | - |
| Total Program Expenditure | 45,350 | 44,195 | 44,505 |
| Capital | 3,592 | 3,552 | 3,831 |
| Public Debt Interest | | | |
| Provincial | 5,293 | 7,129 | 7,832 |
| Electricity Sector | - | - | - |
| Total Expenditure | 54,235 | 54,876 | 56,168 |
| Less: Reserve | - | - | - |
| Add: Net Impact of Electricity Restructuring to be Recovered from Ratepayers* | - | - | - |
| **Surplus / (Deficit)** | **(12,428)** | **(11,202)** | **(10,129)** |
| **Net Provincial Debt**** | **61,796** | **80,599** | **90,728** |
| Gross Domestic Product (GDP) at Market Prices | 285,101 | 291,733 | 309,031 |
| Personal Income | 253,773 | 256,082 | 260,617 |
| Population - July (000s) | 10,570 | 10,690 | 10,828 |
| Net Provincial Debt per Capita (dollars) | 5,846 | 7,540 | 8,379 |
| Personal Income per Capita (dollars) | 24,009 | 23,955 | 24,069 |
| Total Expenditure as a per cent of GDP | 19.0 | 18.8 | 18.2 |
| Public Debt Interest as a per cent of Revenue† | 12.7 | 16.3 | 17.0 |
| Net Provincial Debt as a per cent of GDP | 21.7 | 27.6 | 29.4 |

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

** Net Provincial Debt represents total Liabilities less Financial Assets.

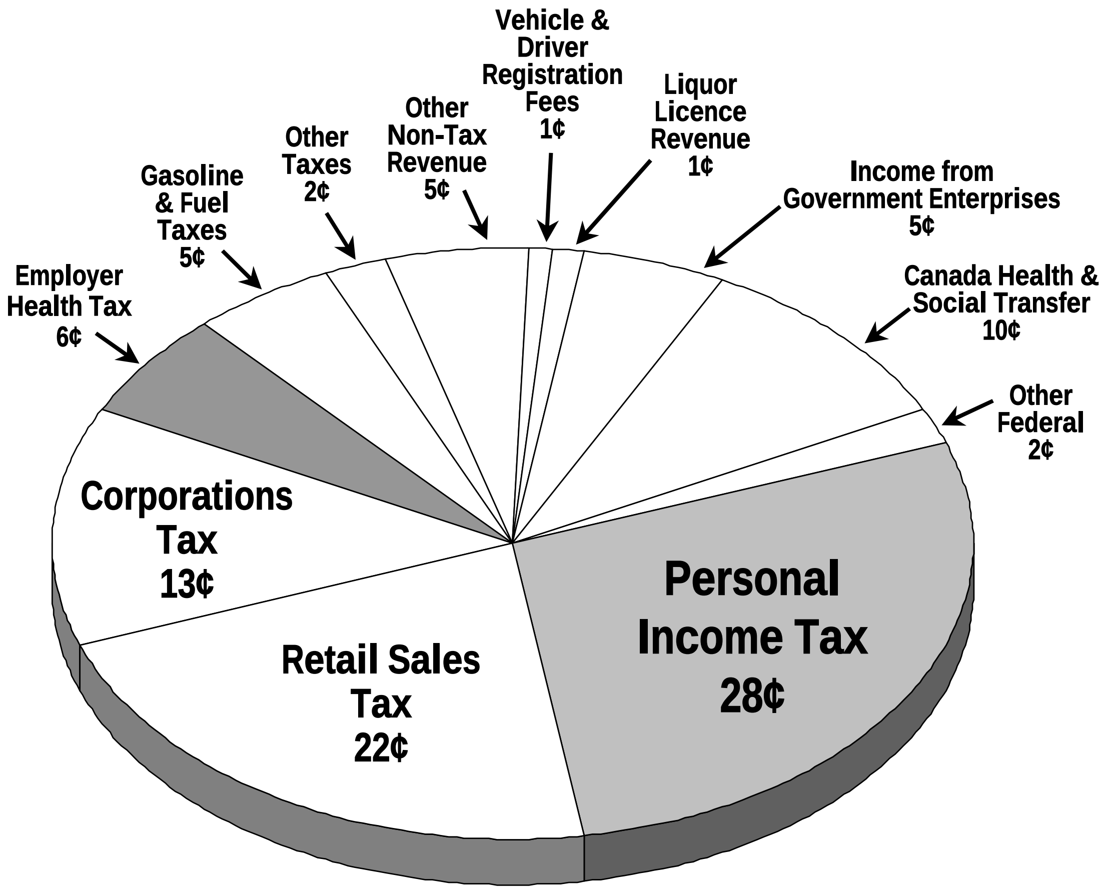
† Starting in 1999-2000, Public Debt Interest includes $520 million related to the Province's equity investment in the electricity sector.

Sources: Ontario Ministry of Finance and Statistics Canada.

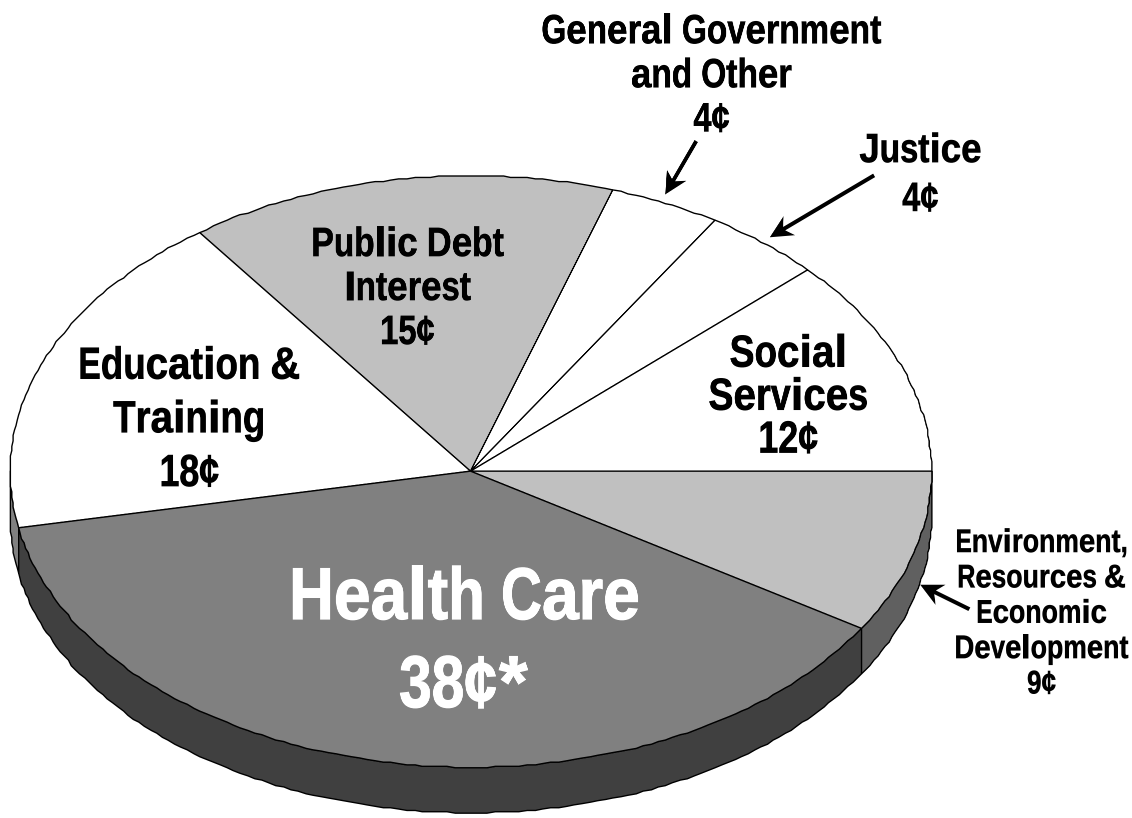
**Table B5**

| | | | PSAB Basis | | | |
|---|---|---|---|---|---|---|
| 1995-96 | 1996-97 | 1997-98 | 1998-99 | Actual 1999-00 | Interim 2000-01 | Plan 2001-02 |
| 49,473 | 49,450 | 52,518 | 55,786 | 62,931 | 64,927 | 64,270 |
| 45,309 | 42,956 | 43,709 | 46,509 | 47,369 | 50,428 | 52,011 |
| 854 | 2,180 | 1,595 | 76 | 211 | 31 | - |
| 46,163 | 45,136 | 45,304 | 46,585 | 47,580 | 50,459 | 52,011 |
| 3,635 | 2,612 | 2,451 | 2,187 | 4,832 | 2,075 | 1,944 |
| 8,475 | 8,607 | 8,729 | 9,016 | 8,977 | 8,883 | 8,795 |
| - | - | - | - | 520 | 520 | 520 |
| 58,273 | 56,355 | 56,484 | 57,788 | 61,909 | 61,937 | 63,270 |
| - | - | - | - | - | - | 1,000 |
| - | - | - | - | (354) | 202 | 140 |
| **(8,800)** | **(6,905)** | **(3,966)** | **(2,002)** | **668** | **3,192** | **140** |
| **101,864** | **108,769** | **112,735** | **114,737** | **113,715** | **110,725** | **110,725** |
| 327,246 | 335,843 | 357,300 | 372,630 | 396,775 | 428,164 | 446,019 |
| 271,361 | 276,290 | 289,312 | 303,737 | 317,766 | 338,147 | 353,427 |
| 10,965 | 11,101 | 11,249 | 11,386 | 11,517 | 11,669 | 11,816 |
| 9,290 | 9,798 | 10,022 | 10,077 | 9,874 | 9,489 | 9,371 |
| 24,748 | 24,889 | 25,719 | 26,676 | 27,591 | 28,978 | 29,911 |
| 17.8 | 16.8 | 15.8 | 15.5 | 15.6 | 14.5 | 14.2 |
| 17.1 | 17.4 | 16.6 | 16.2 | 15.1 | 14.5 | 14.5 |
| 31.1 | 32.4 | 31.6 | 30.8 | 28.7 | 25.9 | 24.8 |

# The Budget Dollar
# Revenue
# 2001-02

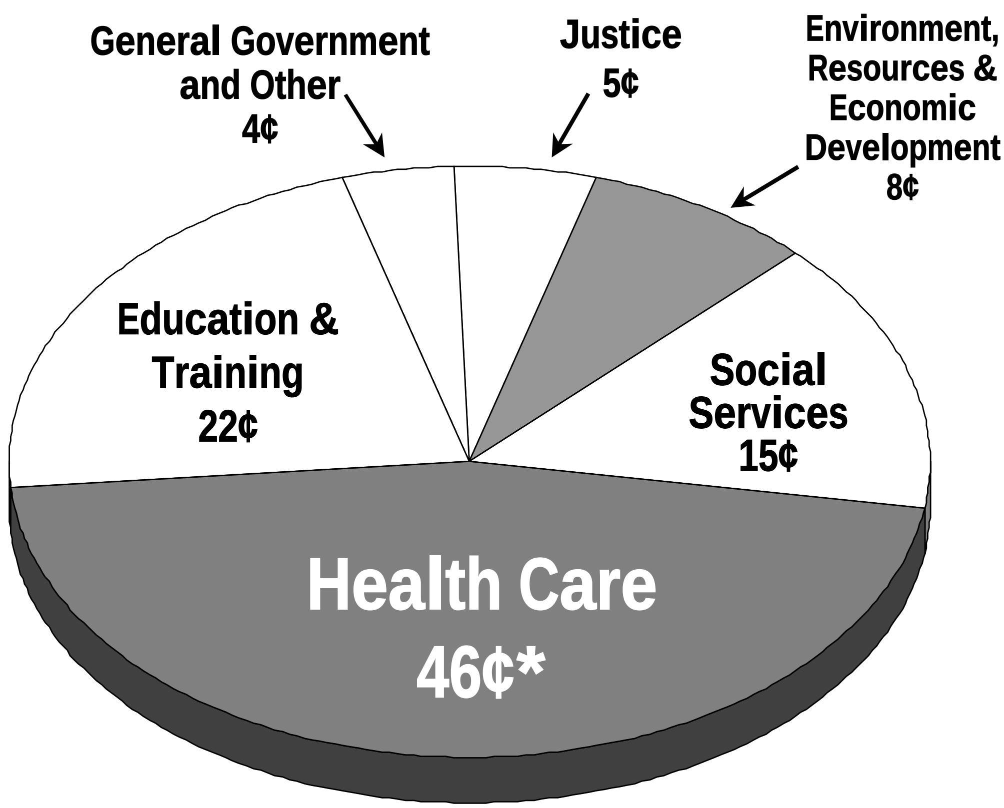


# The Budget Dollar
# Total Expenditure
# 2001-02



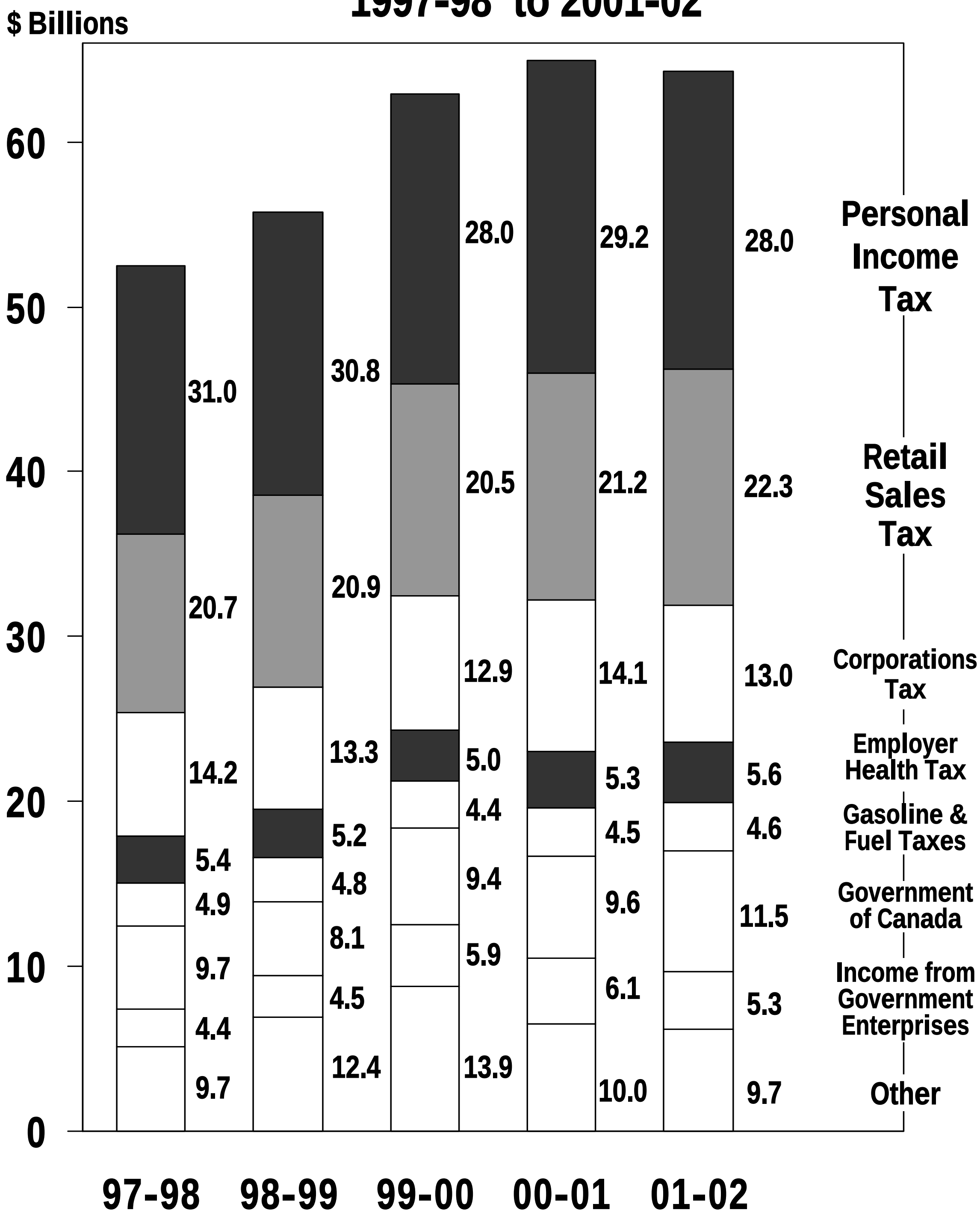

* Includes Major One-Time Health Care Spending.

# The Budget Dollar
# Program Expenditure
# 2001-02

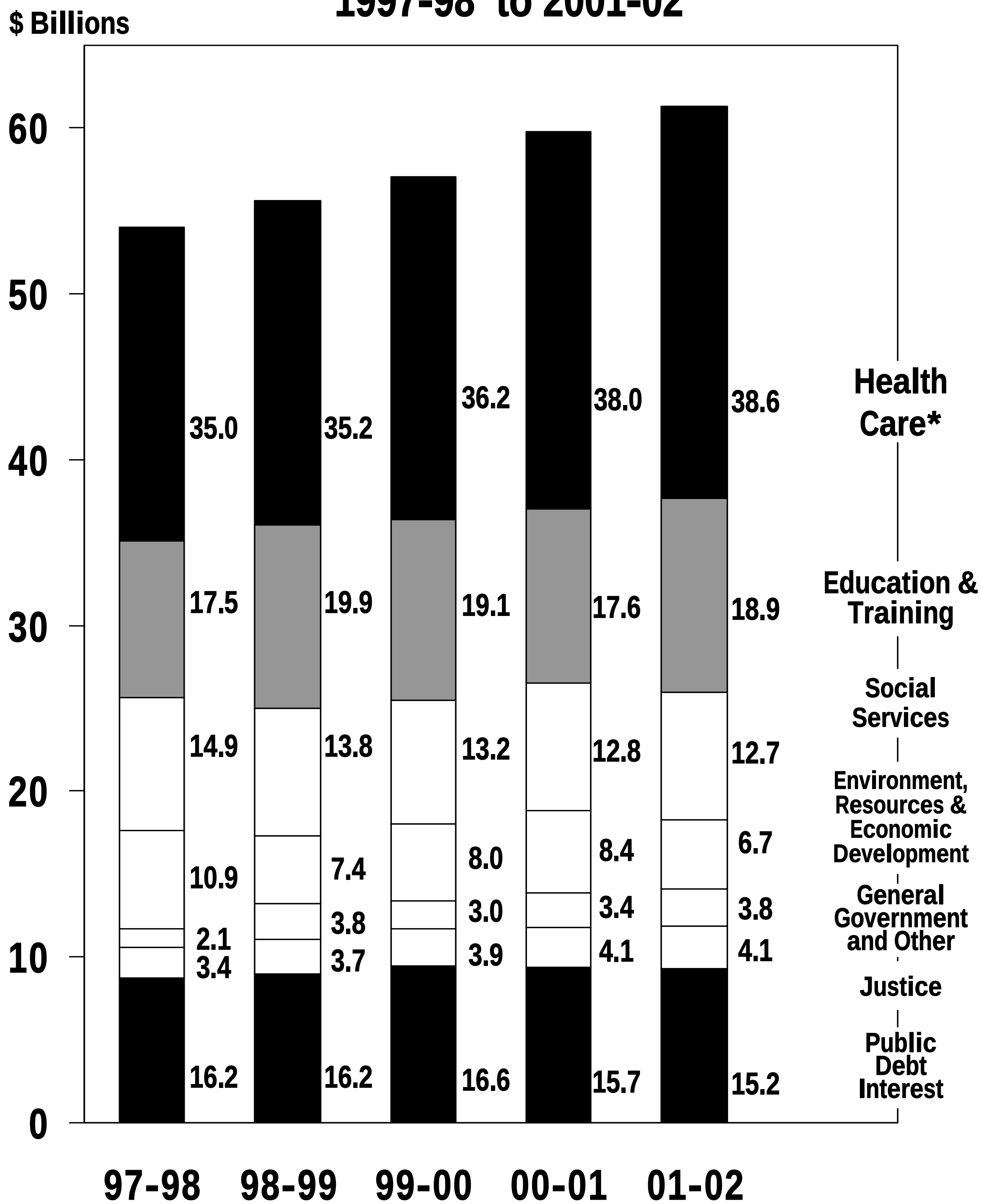



*** Includes Major One-Time Health Care Spending; excluding these costs, the health care share is 45 cents.**

# Revenue Sources by Category
## Per Cent of Total
## 1997-98 to 2001-02

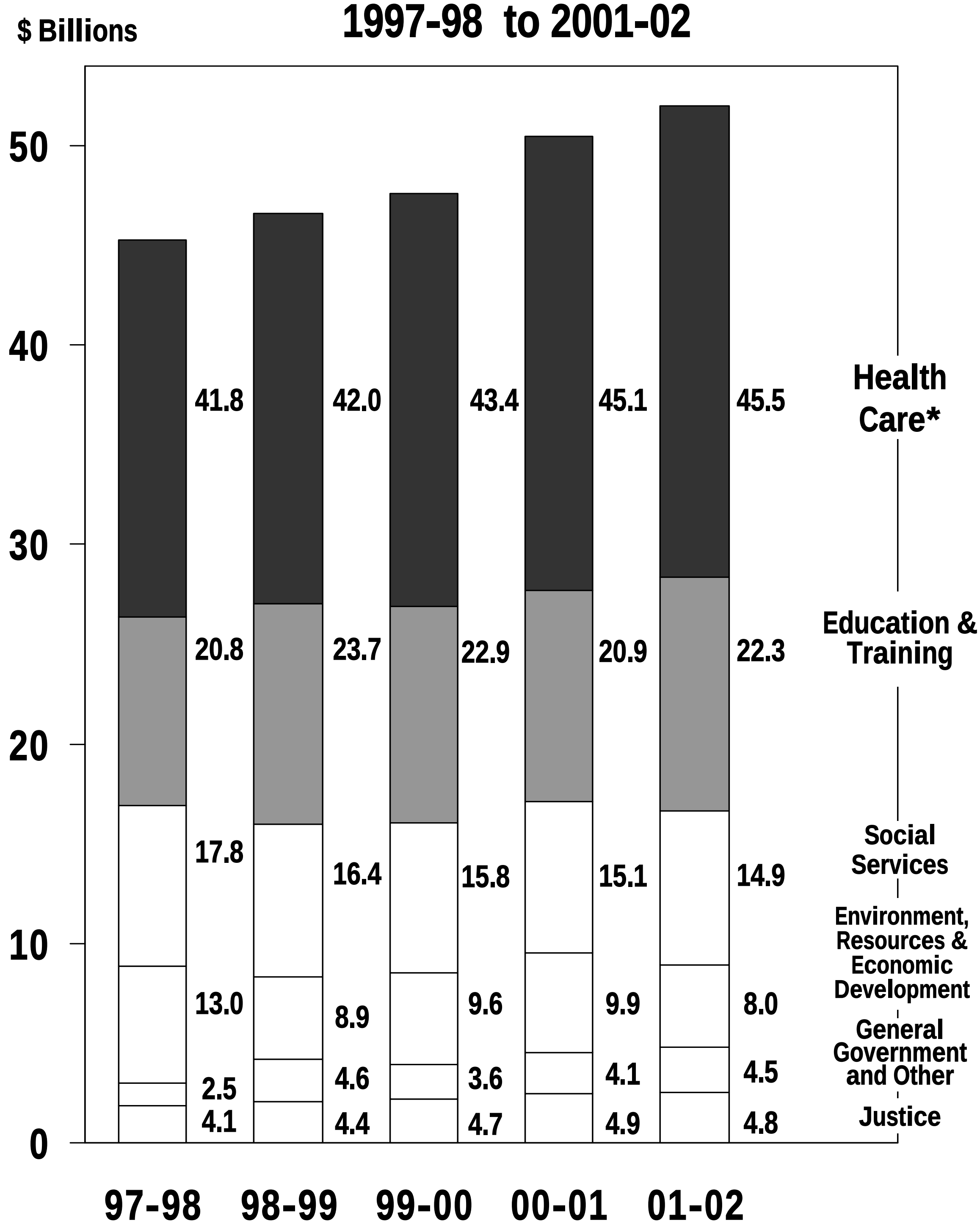


## Operating Expenditure by Category Per Cent of Total 1997-98 to 2001-02

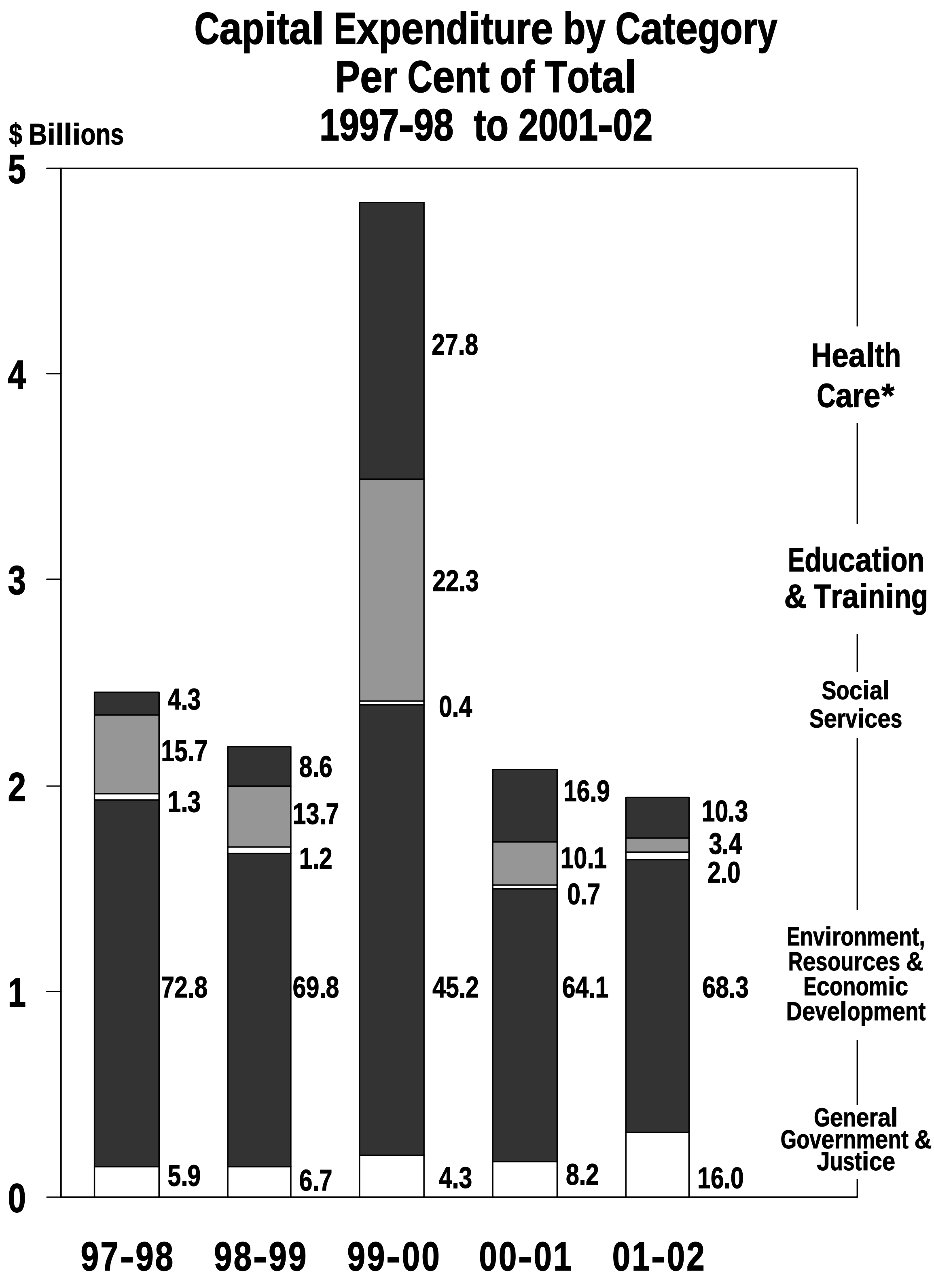



* Includes Major One-Time Health Care Spending.

## Program Expenditure by Category
## Per Cent of Total
## 1997-98 to 2001-02



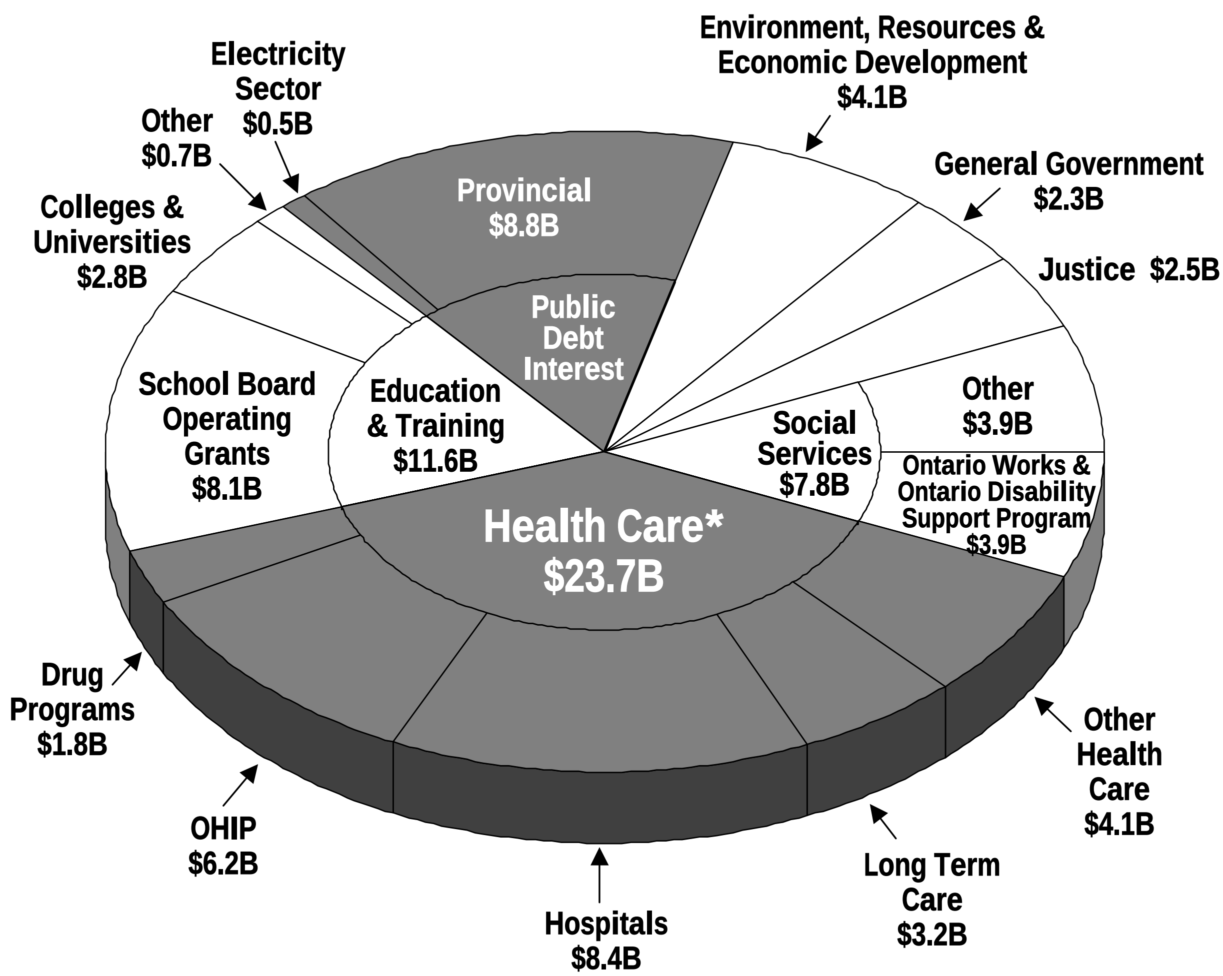

* Includes Major One-Time Health Care Spending.




* Includes Major One-Time Health Care Spending.

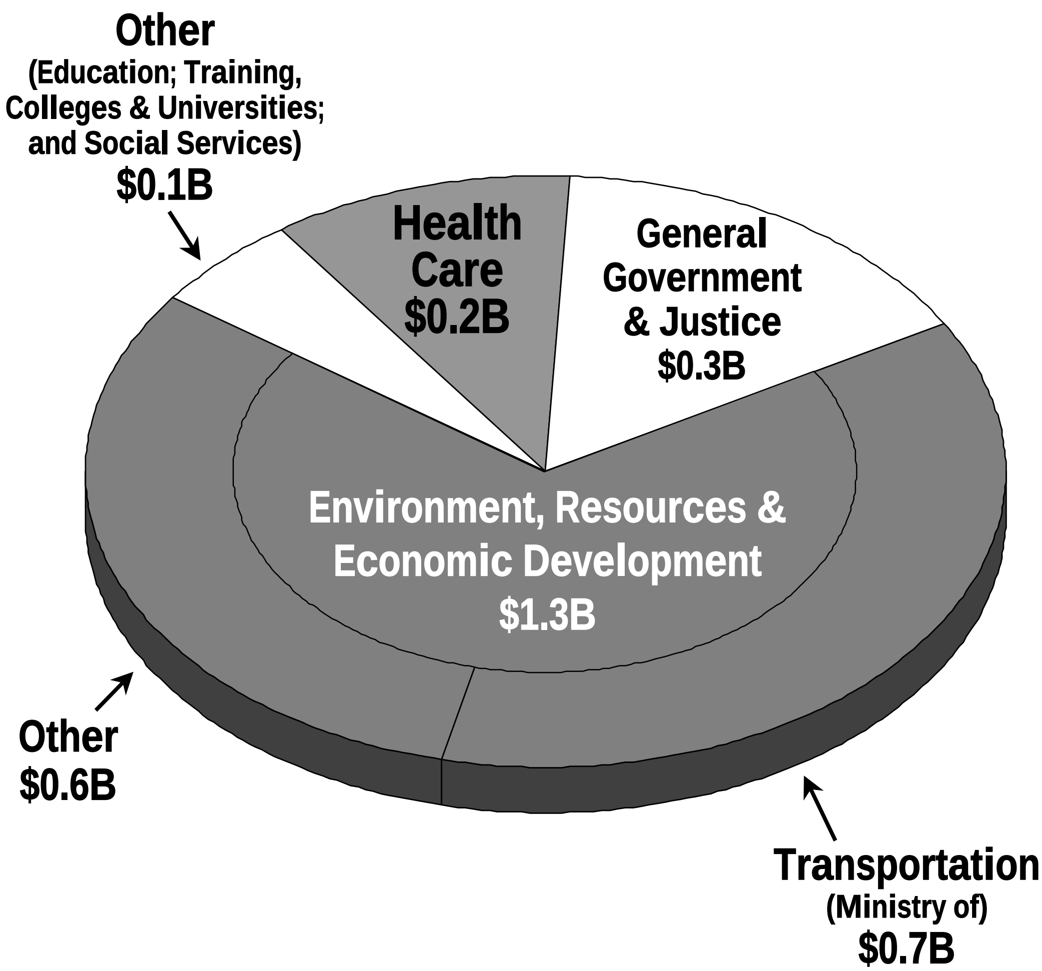
# 2001-02 Operating Expenditure by Category

## ($ Billions)




*** Includes Major One-Time Health Care costs of $190 million for medical equipment.**

# 2001-02 Capital Expenditure by Category
## ($ Billions)



# PAPER C

## Tax Cuts: Keeping Promises, Creating Opportunities

# Ontario's Tax Cut Strategy *

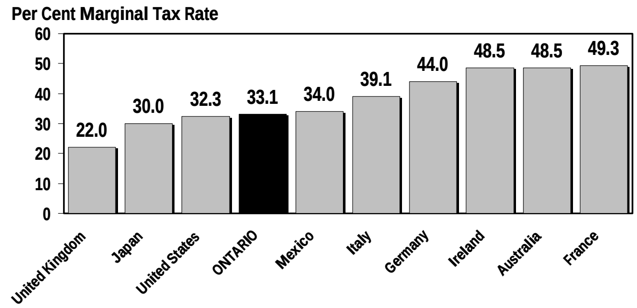
The Ontario Government has reduced taxes significantly over the past five years. Significant additional cuts are being proposed and will continue to be made in the future.

***Tax Cuts Now and Low Taxes in the Future***

- ✓ Making taxes competitive now
- ✓ Taxpayer protection to guard against future increases
- ✓ Balanced budgets to ensure we live within our means

Tax cuts are an important part of a balanced program to promote healthy economic growth, together with expenditure management and debt reduction. Today, balanced budget and taxpayer protection legislation guarantees the people of Ontario that their government is no longer running deficits and that tax increases are a thing of the past. They also have the government's continued commitment to cutting taxes as a way of maintaining and improving our economy and our competitive position in a global marketplace.

**International Comparison of Personal Income Tax Rates, 2001**
**For Individuals Earning $60,000**

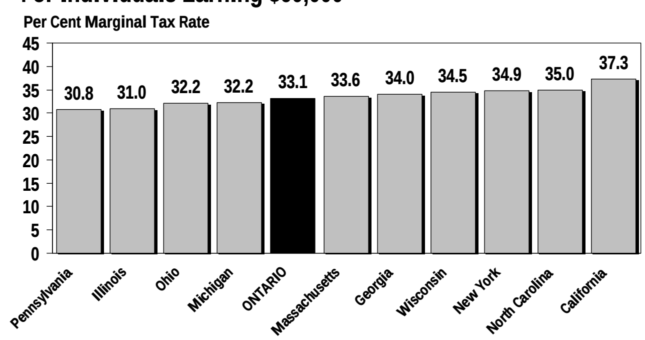



Source: Ernst & Young, 2001.

## Tax Cuts Work

In 1995, Ontario's personal income tax rate had reached an all-time high, at 58 per cent of basic federal tax. At that time, Ontario's personal income taxes were among the highest in North America.

**Comparison of Ontario and U.S. Personal Income Tax Rates*, 2001**
**For Individuals Earning $60,000**




* Combined federal-provincial and federal-state rates.
Source: Ernst & Young, 2001.

* Where applicable, statements made in this paper concerning measures proposed in this Budget are conditional on the approval of relevant legislation by the Legislature.

Since then, Ontario's income tax has been cut dramatically. In addition to significant tax rate decreases, Ontario has also moved to increase the value of certain non-refundable tax credits—for example, those recognizing the extra costs associated with pursuing an education or having a disability—and to index tax brackets and other non-refundable tax credits to Ontario's inflation rate. Taxpayers with low and middle incomes have benefited the most from these cuts.

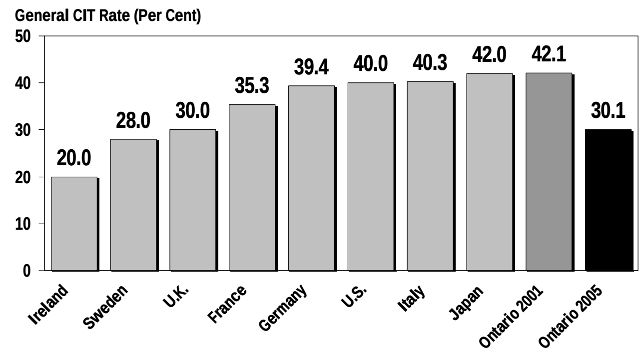
Businesses have benefited from the Province's reductions to profit-insensitive taxes. Ontario's payroll tax was eliminated for 88 per cent of private-sector employers and reduced for all other private-sector employers. Business education property taxes have been cut and municipal discretion to shift the local property tax burden onto businesses has been limited.

Small businesses have had their income tax rate cut, and the number of businesses that qualify for this lower rate has been increased. Ontario's general rate of corporate income tax is being reduced from the highest among industrialized countries to a level below all U.S. states.

As a result of the tax cuts made by the Ontario Government, the Ontario economy is much more competitive and much stronger than it was five years ago.

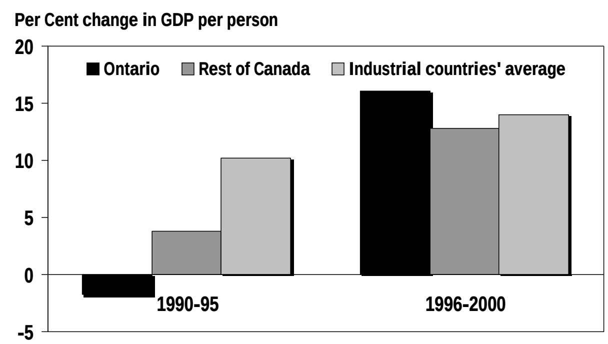
Real GDP per person has grown by a remarkable 16.3 per cent in Ontario over the past four years. This is one of the strongest growth periods since 1960 for this important economic indicator. In the period following the introduction of this government's personal income tax cuts, Ontario's growth in real GDP per person has surpassed the average for industrialized countries.

**International Comparison of Corporate Income Tax Rates, 2001**




Note: The Ontario CIT rates shown here are the combined federal-provincial rates.
Sources: *KPMG Corporate Tax Rate Survey - 2001* and Ontario Ministry of Finance.

**Sound Policies Lead to Strong Growth: Ontario Goes from Worst to First**




Sources: Statistics Canada, International Monetary Fund and Ontario Ministry of Finance.

Ontario's job growth has also been exceptional since tax cuts were first announced. Ontario's total employment has grown 16 per cent, compared to only 10.6 per cent in the rest of Canada, and 8.5 per cent in the United States.

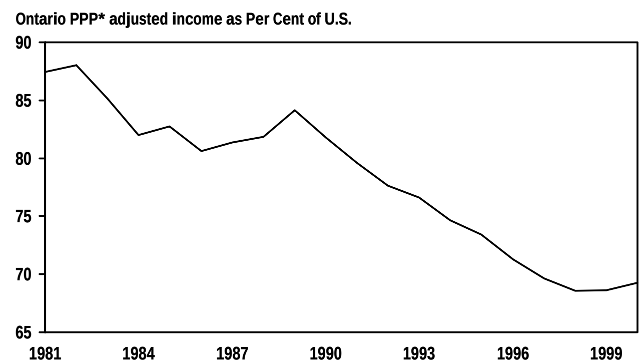
This improved performance has been a significant achievement, but clearly there is still more to do.

## More Tax Cuts Are Needed

The Ontario Government's recent tax cuts come on the heels of 30 years of steady increases in tax rates. Taxes, when combined for all levels of government in Canada, rose from under 27 per cent of GDP in the 1960s to over 37 per cent in the 1990s. Over the same period, productivity growth and growth in the standard of living for people in Ontario declined.

The Ontario economy has been performing exceptionally well in the past five years, but there remains a lot of lost ground to recover. Real disposable income per person in Ontario actually fell from $19,600 in 1989 to $17,800 in 1996. This decrease resulted from a combination of job losses, weak salary growth and rising taxes prior to 1996.

**Ontario Disposable Income Per Capita Relative to U.S. Average**




* Purchasing Power Parity.
Sources: Statistics Canada, DRI and Ontario Ministry of Finance.

People in Ontario, comparing their situation to that of friends and relatives living in the United States, are aware that their incomes have not grown nearly as much. At the beginning of the 1980s, the average level of personal disposable income in Ontario was close to 90 per cent of the U.S. average. While it has begun to rebound in recent years, it is still only about 70 per cent.

Higher business investment is critical to more rapid implementation of new technology, productivity growth and increases in the real earnings of Ontario workers. Canada cannot achieve the rate of investment it needs unless its corporate tax rates are competitive.

Governments in Canada have just begun to take action on the corporate tax side. Even after the initial reductions in corporate income tax rates that have occurred in the past year, Canadian corporate income tax rates remain among the highest in the world.

The high level of corporate taxation in Canada is one reason why Canadian investors have been moving their capital out of the country. In the years from 1995 to 2000, Canadian investors increased their foreign investments by $255 billion, which is $83 billion more than foreign investors brought into Canada.

## Personal Income Tax Cuts: Improving Disposable Income

The first stage of the Ontario Government's tax cuts, starting in 1996, focused on personal income tax cuts.

This focus reflected an economy that suffered from severely depressed demand conditions, inadequate incentives to earn income and take risks, and high unemployment. Personal income tax cuts provide a strong short-term demand stimulus and support higher long-term productivity growth.

- Personal income tax cuts directly attack the problem of low disposable income by boosting the incomes of individuals, giving them the means to boost their spending.

- Personal income tax cuts increase long-run economic growth. By allowing people to keep more of what they make, personal income tax cuts increase the incentives to work harder and make the investments that lead to higher income in the future.

### Ontario's Income Tax Cuts to Date

On January 1, 1996, the Ontario personal income tax rate was 58 per cent of basic federal tax. By July 1, 1998, Ontario's income tax rate had been cut to 40.5 per cent of basic federal tax.

In addition to cutting the tax rate by 30 per cent, the government also increased Ontario's personal credits. These measures benefited all taxpayers. As well, the Ontario Tax Reduction program was enhanced, which amplified these tax cuts for individuals with lower incomes.

In its 1999 Budget, the government committed to further personal income tax reductions and implemented an additional five per cent across-the-board rate reduction. This brought Ontario's personal income tax rate down to 38.5 per cent of basic federal tax.

The 2000 Budget announced a new "Made-for-Ontario" income tax system, one that sets Ontario's tax brackets and tax rates independently of the federal government's income tax system. Straight away, the government used its new flexibility to implement important policies for the benefit of Ontario's taxpayers and economy.

- The government cut the lowest tax rate, even when the federal government would not. The government also cut the middle tax rate.

- All Ontario investors benefit from the plan to reduce the taxable proportion of capital gains to

50 per cent. Ultimately, all Canadians benefited as well when the federal government decided to follow Ontario's lead.

- Ontario's high-tech research firms will have an improved ability to attract and retain highly skilled and mobile research employees as a result of the Ontario Research Employee Stock Option Credit.

- Investors in Ontario mining companies would benefit from the additional Ontario flow-through shares incentive. This initiative was also followed by the federal government for the benefit of investors across Canada.

As well, the government implemented full protection against inflation-induced tax increases for the taxpayers of Ontario for the first time in 15 years. In this taxation year alone, Ontario's fully indexed personal income tax system is protecting Ontario taxpayers from $290 million of hidden tax increases. People in Ontario will not pay more Ontario tax just because their salaries keep pace with inflation.

The 2000 Ontario Economic Outlook and Fiscal Review included more new tax cut announcements for the benefit of Ontario taxpayers. Tax credits for individuals attending post-secondary school, individuals with disabilities and the people who support them were all enriched. As well, the plan to reduce the taxable proportion of capital gains was accelerated in the 2000 Ontario Economic Outlook and Fiscal Review. Effective October 18, 2000, the taxable proportion of capital gains reported for Ontario income tax purposes dropped to 50 per cent.

Additional government actions have further supported working families. The 1998 Budget introduced the Ontario Child Care Supplement for Working Families, which, by providing a refundable tax credit of $1,020 for each child under age seven, had the effect of increasing the tax savings for low- and moderate-income working families. In 1999, the annual benefit was increased by $80 per child to $1,100 per child under age seven. The single-parent supplement was introduced in the 2000 Budget, increasing the maximum benefit for single-parent families by $210 per child to $1,310 per child under age seven.

## Completing the 20 Per Cent Tax Cut

Beginning in 2002, Ontario's personal income tax rates are proposed to be cut again.

- Over the next two years, Ontario's first and second tax rates would be cut to 5.65 per cent and 8.85 per cent, respectively.

- On January 1, 2003, the threshold above which surtax becomes payable would be increased, effectively eliminating the first tier of the current two-tier surtax.

In 1999, the Government of Ontario committed to provide Ontario taxpayers with an additional $4 billion in tax cut benefits over five years through a 20 per cent personal income tax reduction. Full implementation of the measures proposed in this Budget, combined with the personal income tax cuts announced in the 1999 and 2000 Ontario Budgets, would mean:

- 95 per cent of taxpayers would see Ontario tax savings of 20 per cent or more;

- average tax savings for taxpayers with incomes of up to $100,000 would exceed 20 per cent;

- the largest percentage reductions would be concentrated on taxpayers with lower and middle incomes; and

- more than $4 billion of additional tax savings would be delivered to Ontario taxpayers.

**Estimated Average Ontario Personal Income Tax (PIT) Savings from Proposed Tax Cuts, when Combined with Ontario PIT Cuts Announced in 1999 and 2000[1], by Income Group**

| Income Group[2] | Ontario Taxpayers | Estimated Average PIT Savings |
|---|---|---|
| Less than $16,160 | 10% | 69.6% |
| $16,160 - $21,115 | 10% | 42.6% |
| $21,115 - $26,015 | 10% | 33.2% |
| $26,015 - $30,945 | 10% | 31.1% |
| $30,945 - $36,400 | 10% | 31.4% |
| $36,400 - $42,320 | 10% | 28.1% |
| $42,320 - $49,765 | 10% | 24.8% |
| $49,765 - $60,455 | 10% | 22.5% |
| $60,455 - $82,510 | 10% | 24.7% |
| $82,510 - $85,680 | 1% | 25.2% |
| $85,680 - $89,160 | 1% | 24.0% |
| $89,160 - $93,670 | 1% | 23.2% |
| $93,670 - $98,540 | 1% | 22.4% |
| $98,540 - $104,670 | 1% | 21.4% |
| $104,670 - $113,695 | 1% | 19.7% |
| $113,695 - $128,545 | 1% | 18.3% |
| $128,545 - $157,190 | 1% | 16.3% |
| $157,190 - $232,690 | 1% | 13.6% |
| $232,690 - $347,700 | 0.5% | 11.3% |
| $347,700 and up | 0.5% | 10.2% |
| **Total** | **100%** | **32.1%** |

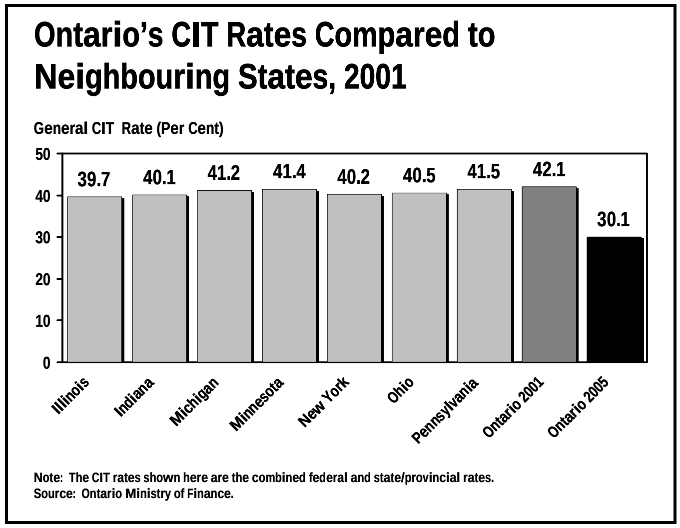
(1) Includes Ontario’s 1999 and 2000 rate cuts, indexation at estimated 2003 parameters, reduction of the capital gains inclusion rate to one-half and enhancement of tax credits for disability and education. Savings have been calculated in comparison to the tax system in place after Ontario’s original PIT cuts.

(2) The income groups divide Ontario taxpayers (before Ontario’s original personal income tax cuts) into: nine deciles, each consisting of 560,000 taxpayers, with incomes up to $82,510; nine percentiles, each containing 56,000 taxpayers, with incomes between $82,510 and $232,690; and two half-percentiles, consisting of 28,000 taxpayers each, with incomes over $232,690.

## Business Tax Cuts: Creating Jobs Through Competitive Businesses

In 2000, the Ontario Government announced a series of tax cuts that would focus directly on investment, to boost long-term job creation and productivity growth.

- The cut in the inclusion rate for capital gains income to 50 per cent will boost the incentives for entrepreneurial investment and risk-taking. It is a vital encouragement for the establishment of new businesses in leading areas of technology, which have been found to be the key to increases in economic growth.




- In addition, the 2000 Budget announced an immediate one percentage point cut in all of the Corporate Income Tax (CIT) rates, and a further 0.5 percentage point cut on January 1, 2001. This was to be followed up by a medium-term plan—a commitment to further reduce rates to eight per cent—to make combined CIT rates in Ontario lower than rates in the U.S. neighbouring states by 2005.

Capital is highly mobile internationally, and it goes to the countries where it earns the highest after-tax rate of return.

- A country that has an above-average corporate tax rate will have a lower rate of investment. People who live and work in that country are ultimately the losers, since the jobs available to them will be at a lower technological level, on average, and will pay lower incomes.

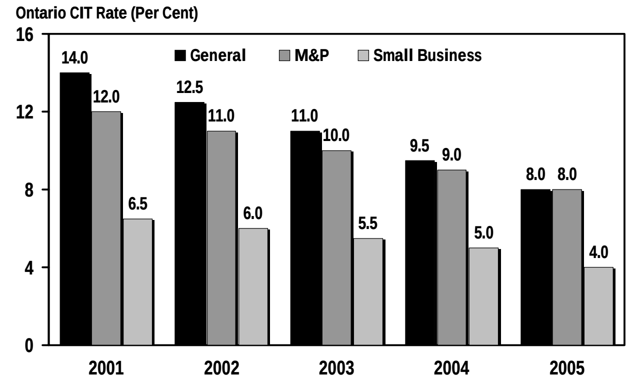
- Many of the countries that have enjoyed the strongest growth in standards of living in the past decade have cut their CIT rates to levels far below the Canadian average. These include Ireland, the United Kingdom, South Korea, Denmark, Norway and the Netherlands.

## Finalizing the Corporate Income Tax Rate Cut

In this Budget, the Ontario Government proposes to legislate a firm schedule to deliver the corporate tax cut plan it announced in last year's budget. These cuts would be completed in 2005.

- Legislating the tax cut plan would provide investors with certainty and clear information on which to base their future investment plans in Ontario.

**Cutting Ontario's Corporate Income Tax Rates**




Source: Ontario Ministry of Finance.

## Reducing and Simplifying Capital Tax

The capital tax discourages investment in capital, when more capital per worker is what is needed to boost productivity and standards of living. The capital tax is unrelated to profits, making it a fixed cost on businesses. In periods of economic slowdown when businesses are forced to cut costs, the capital tax forces them to cut in the areas where they have flexibility, which is chiefly wages. Therefore, the capital tax is a potential job killer.

The Business Tax Review Panel noted that, on an international basis, Canada is almost unique in having capital taxes. The Panel believed that the capital tax serves as a deterrent to attracting international investment.

The Business Tax Review Panel recommended that Ontario eliminate the capital tax for regular corporations and financial institutions. As a first step, it recommended that Ontario introduce a capital tax deduction for the first $5 million of taxable capital.

This Budget proposes to provide a $5 million capital tax deduction for all businesses effective January 1, 2002. This would increase capital available for reinvestment, simplify the tax system and remove capital tax liability for over 11,000 small and medium-sized businesses.

## Tax Incentive Review

In order to achieve certain economic and social objectives, Ontario provides targeted tax incentives, typically as deductions or tax credits, which reduce the tax an individual or corporation would otherwise have to pay. Targeted tax incentives can be an affordable and effective mechanism for achieving policy objectives.

However, once introduced, tax incentives tend to become fixtures of the tax system. Unlike other forms of government spending, they are not subject to regular review. The Business Tax Review Panel noted that, while tax incentives can be very effective, they add a source of complexity to the tax system and need to be reviewed to ensure that they continue to achieve the original policy intent.

The Province will conduct a review of tax incentives to determine if they are still necessary and effective in an environment of significantly reduced tax rates and lower tax burdens, and to address the concerns raised by the Business Tax Review Panel.

The government will also review certain targeted taxes, such as the Corporate Minimum Tax and the Tax for Fuel Conservation, to ensure that such measures are still appropriate.

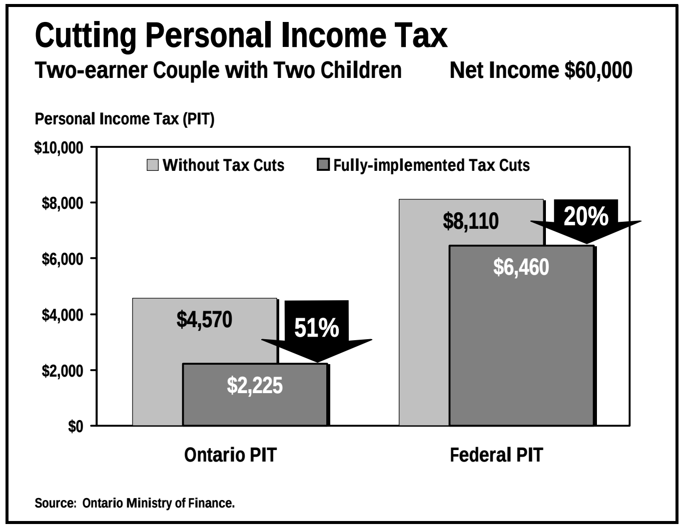
## Federal Government Still Needs to Do More

The Government of Ontario has repeatedly called on the federal government to follow Ontario's lead by enhancing the competitive economic advantage of Ontario and Canada, and improving disposable income by cutting federal taxes further.

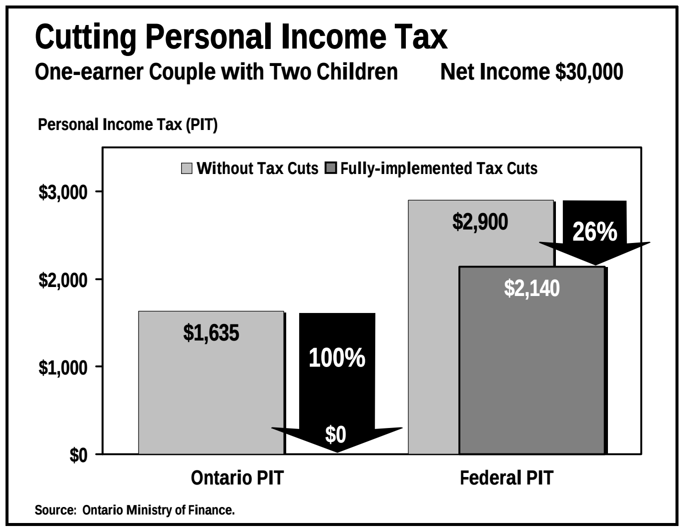
### Bigger Federal Personal Income Tax Cuts Are Needed

Ontario collects less than one-third of the income taxes paid by the people of Ontario. If the income tax burden on Ontario families is to be reduced significantly, then the federal government must also act, since the bulk of personal income taxes are levied by the federal government.

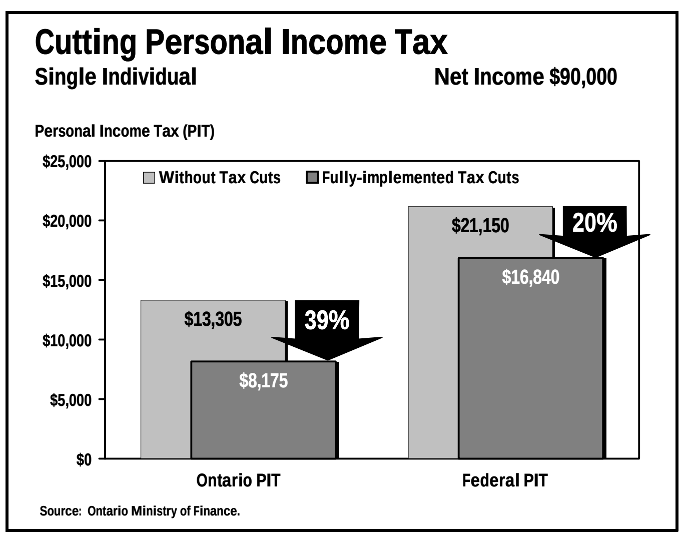
A couple with two children and net income of $60,000 from two earners would save $2,345 in Ontario personal income tax, or more than 50 per cent when the changes proposed in this Budget are added to tax cuts announced in previous budgets. Federal personal income tax cuts, when fully implemented, would save this family $1,650, or 20 per cent. At that time, this family would pay about $3 in federal tax for every $1 of Ontario tax.




A couple with two children and net income of $30,000 from one earner would pay $1,635 less Ontario income tax when the changes proposed in this Budget are added to those announced in previous Ontario budgets. They would no longer pay Ontario income tax. In contrast, this family would continue to pay federal income tax of $2,140, even after the proposed federal cuts deliver $760, or 26 per cent, in income tax savings for this family.




A single individual earning $90,000 would save $5,130, or 39 per cent, from Ontario's personal income tax cuts, including those proposed in this Budget. Fully implemented federal income tax cuts would save this individual $4,310, or only about 20 per cent. At that time, this individual would pay more than twice as much federal tax as Ontario tax.




Federal personal income taxes remain, on average, more than double the level of Ontario's personal income taxes, even after taking into consideration past and planned federal income tax cuts. With the measures proposed in this

Budget, more than 735,000 individuals and families in Ontario would not pay Ontario personal income tax but would still pay federal income tax.

While Ontario's top marginal rate has been cut by over 20 per cent since 1995, the top marginal rate of federal tax has dropped by only about seven per cent. The relatively small cut in the top marginal rate of federal tax is a source of particular concern.

At all income levels, the federal government must do more to get federal personal income taxes down.

### Federal Business Taxes Are Too High

Canada's corporate income tax rates are also high compared to competing jurisdictions. Investment is very mobile, and companies will invest in Canada only if their after-tax income is competitive with other countries.

Ontario has set a target for a single lower overall rate of eight per cent for all large businesses by 2005—this is a 48 per cent cut in the general rate and a 40 per cent cut in the manufacturing and processing rate. By comparison, the federal government is cutting the general corporate rate by 24 per cent—only half of the Ontario cut.

The federal government needs to cut corporate rates deeper to improve our international competitiveness. If the federal government met the challenge in the 2000 Ontario Budget to match our corporate rate cuts, the combined federal-provincial rate, at 23 per cent, would be among the lowest in the world.

It is also time for the federal government to reform the manner in which it manages the nation's Employment Insurance (EI) program. The federal government continues to use EI premiums contributed by employers and employees as own-source revenue. It should, instead, establish a separate account for EI, which, like the Canada Pension Plan, would be externally managed and invested in market securities.

At the same time, EI premium rates continue to be unnecessarily high. Ontario has called on the federal government to reduce EI premiums immediately to below $2 per $100 of insurable earnings. This would fully offset the CPP contribution increases that have taken effect in 2001, and would ensure that there would be no further increase in the federal payroll tax burden this year.

# Details of Tax Changes

The following sections provide information on the taxation measures proposed in the Budget. For a precise description of these measures, the reader is advised to consult the amending legislation.

## Income Tax Act

### Personal Income Tax Rates

This Budget proposes further cuts to Ontario personal income tax rates.

- Effective January 1, 2002, the first Ontario tax rate would be reduced from 6.2 per cent to 6.05 per cent of taxable income up to $30,814 (indexed after 2001), and the middle Ontario tax rate would be reduced from 9.24 per cent to 9.15 per cent of taxable income between $30,814 and $61,629 (both amounts indexed after 2001).

- Effective January 1, 2003, the first Ontario tax rate would be reduced further, to 5.65 per cent of taxable income up to $30,814 (indexed after 2001), and the middle Ontario tax rate would be reduced further, to 8.85 per cent of taxable income between $30,814 and $61,629 (both amounts indexed after 2001).

### Surtax and Tax Reduction

Ontario's two-tiered surtax is calculated as a percentage of basic Ontario tax in excess of specified amounts. In 2001, the first surtax tier does not apply to taxpayers with incomes of less than $53,650 and the second surtax tier does not apply to taxpayers with incomes of less than $63,365. Automatic indexation of the surtax thresholds ensures that these income levels will increase to keep pace with inflation.

To eliminate the surtax payable by taxpayers who pay only the first-tier surtax, it is proposed that the basic Ontario tax threshold above which the first-tier surtax applies be raised to the same level as the threshold for the second surtax tier.

- Effective January 1, 2003, the surtax would be calculated as 56 per cent of Ontario income tax in excess of $4,491 (indexed after 2001).

As a result of this proposed change, about one-third of current surtax payers—more than 340,000 individuals—would no longer pay the personal income surtax.
The Ontario Tax Reduction reduces or eliminates Ontario personal income tax payable by taxpayers with low and moderate incomes. Automatic indexation of the Ontario Tax Reduction amounts ensures that taxpayers who benefit from the program will continue to do so, even if their incomes increase by

the rate of inflation.

With the proposed changes to the first and middle tax rates, about 75,000 additional low-income taxpayers will be removed from Ontario's tax rolls and 580,000 additional taxpayers with modest incomes will have their Ontario tax further reduced by the Ontario Tax Reduction.

## Alternative Minimum Tax

For 2001, Ontario alternative minimum tax (AMT) will be calculated as 38.75 per cent of the additional tax attributable to the federal AMT calculation, and would be added to Ontario tax calculated under the regular rules. The calculation for 2001 will be expressed as:

Ontario AMT = Ontario Tax + 38.75 per cent x (Federal AMT - Federal Tax)

The 2001 rate change for the Ontario AMT calculation reflects the change to Ontario's tax rates and the proposed change to federal tax rates.

As a result of the changes to Ontario tax rates proposed in this Budget, the appropriate percentage for 2002 would be 37.81 per cent.

## Medical Expenses Tax Credit

A claim for medical expenses paid for a dependant, other than a spouse, must be reduced where the dependant's net income exceeds the basic personal amount. For Ontario purposes, the claim made for 2001 by an individual for the medical expenses of a dependant will be reduced by 26.35 per cent of the amount by which the dependant's net income exceeds the basic personal amount. This reflects changes to Ontario's tax rates and proposed changes to federal tax rates.

As a result of the changes proposed to Ontario tax rates in this Budget, for 2002, the claim made by an individual for medical expenses of a dependant would be reduced by 25.71 per cent of the amount by which the dependant's net income exceeds the basic personal amount.

## Equity in Education Tax Credit

The Budget proposes a refundable tax credit, effective for the 2002 and subsequent taxation years, that would be provided in respect of kindergarten, elementary and secondary tuition fees at independent schools in Ontario. This credit would apply to the first $7,000 per child of tuition fees exclusively and would not include, for example, expenses for books, sports, uniforms, computers, travel or boarding. Consultations will identify the appropriate framework for establishing eligibility for this credit.

This tax credit is proposed to be phased in over a five-year period, beginning with tuition fees paid in respect of instruction commencing after 2001. The proposed credit rates are:

| Taxation Year | Tax Credit Rate |
|---|---|
| 2002 | 10% |
| 2003 | 20% |
| 2004 | 30% |
| 2005 | 40% |
| **2006 and subsequent taxation years** | 50% |

## In-year Measures

As announced in the 2000 Ontario Economic Outlook and Fiscal Review, enhancements are proposed to certain Ontario non-refundable credits. These enhancements would be effective January 1, 2001.

| Non-refundable Credit | 2000 Amount | Proposed 2001 Amount |
|---|---|---|
| Disability credit | $4,293 | $6,000 |
| Caregiver credit | $2,386 | $3,500 |
| Infirm dependant credit | $2,386 | $3,500 |
| Disability credit supplement for children with severe disabilities | $2,941 | $3,500 |
| Education credits | | |
| Amount per month of full-time enrolment | $200 | $400 |
| Amount per month of part-time enrolment | $60 | $120 |

These Ontario non-refundable tax credits are calculated using the lowest Ontario tax rate for the appropriate taxation year.

# Corporations Tax Act

## Cutting Corporate Income Tax Rates

The 2000 Budget announced the government's intention to cut both the general corporate income tax rate and the tax rate on income from manufacturing and processing, mining, logging, farming and fishing to eight per cent by 2005. That Budget presented the first two stages of the tax cuts, which were subsequently enacted into law. Those tax cuts reduced the general corporate income tax rate from 15.5 per cent before the 2000 Budget to 14 per cent on January 1, 2001. The tax rate on income from manufacturing and processing, mining, logging, farming and fishing was cut from 13.5 per cent to 12 per cent over the same period.

The following table outlines the government's proposed plan for implementing the remaining tax cuts to achieve the eight per cent tax rates.

| | General Corporate Income Tax Rate* | Tax Rate on Income from Manufacturing and Processing, Mining, Logging, Farming and Fishing* |
|---|---|---|
| Current Tax Rate | 14% | 12% |
| Proposed Tax Rate: | | |
| January 1, 2002 | 12.5% | 11% |
| January 1, 2003 | 11% | 10% |
| January 1, 2004 | 9.5% | 9% |
| January 1, 2005 | 8% | 8% |

*All tax rate reductions would be prorated for taxation years straddling the effective dates.

## Reducing the Capital Tax

**Regular Corporations**

In 1999, the capital tax exemption for small businesses was increased to $2 million of taxable capital, with reduced capital tax rates applying to taxable capital between $2 million and $4 million. The full $4 million threshold was to be phased in by January 1, 2003. Currently, businesses with taxable paid-up capital between $2 million and $3.2 million are eligible for reduced capital tax rates. It is proposed that:

- the capital tax exemption be replaced with a $5 million deduction from taxable paid-up capital, effective January 1, 2002; and

- the gross revenue and total asset thresholds for using the Short-Form Corporations Tax Return be increased from $1.5 million to $3 million to reflect the $5 million deduction. This would apply for taxation years commencing after December 31, 2001.

**Financial Institutions**

- It is proposed that, effective January 1, 2002, the $2 million capital deduction applied in determining adjusted taxable paid-up capital for financial institutions would be increased to $5 million.

The proposed $5 million capital tax deductions for both regular and financial institutions would be prorated for taxation years straddling January 1, 2002.

## Restoring Support for Research and Development

One of Ontario's most important tax-based incentives for research and development (R&D) is the Super Allowance, which provides over $100 million in benefits to R&D performing firms.

In its 2000 budget, the federal government stated that provincial deductions for R&D in excess of actual expenditures would be treated as taxable government assistance. This federal action, if applied to the Super Allowance, would raise the cost of R&D investments in Ontario and could result in lower R&D expenditures in the province. Ontario businesses have expressed their concern over the adverse impact that the federal measure would have on the cost of R&D.

Recognizing the legitimate concerns expressed by Ontario's R&D industry, the 2000 Ontario Budget announced that Ontario would not adopt the federal measure. In this Budget, Ontario intends to take further action to reduce the adverse impact of the federal measure on Ontario R&D performers.

Ontario is proposing to suspend the R&D Super Allowance for two years and, in its place, allow corporations to exclude from Ontario taxable income the portion of the federal investment tax credit that relates to qualifying Ontario Scientific Research and Experimental Development (SR&ED) expenditures.

- This measure would be effective for a 24-month period, beginning with the first taxation year for which the federal super-deduction provision would apply to the corporation.

- To qualify for the Ontario benefit under this proposal, the investment tax credit must:

  - be included in federal taxable income during the 24-month period; and
  - be in respect of qualifying Ontario SR&ED expenditures incurred by the corporation during the 24-month period or in the taxation year immediately preceding the 24-month period.

Ontario calls upon the federal government to revisit its 2000 Budget proposal and to ensure that federal legislation does not target Ontario's R&D Super Allowance.

## Accelerating the Capital Gains Rate Reduction

As proposed in the 2000 Ontario Economic Outlook and Fiscal Review, for dispositions of property on or after October 18, 2000, the inclusion rate for capital gains and losses would be reduced to 50 per cent.

## Retail Sales Tax Act

### Extending the Rebate for Alternative Fuel Vehicles to Electric Hybrids

The rebate program for alternative fuel vehicles provides purchasers or long-term lessors of qualifying alternative fuel cars with a retail sales tax rebate of up to $1,000. This program currently does not extend to the newly developed electric hybrid cars.

As a result, legislation will be introduced to extend the retail sales tax rebate to qualifying electric hybrid cars. The Ministry of Finance welcomes input from the industry. In general, a qualifying electric hybrid car would be one that combines an electric traction motor with another power unit, such as a conventional gas or diesel engine. To qualify for the proposed rebate, an electric hybrid car would be required to have:

- regenerative braking capability to recover the energy released while slowing down or stopping; and

- electric storage systems, such as batteries, ultra-capacitors, or flywheels.

It is proposed that qualifying electric hybrid cars delivered after May 9, 2001 be eligible for this rebate.

### Exempting Audio Books for People Who Are Blind

The government proposes to exempt from retail sales tax audio books purchased by people who are legally blind. The proposed measure would be effective on proclamation.

The government will consult with the Canadian National Institute for the Blind on implementation details.

## Succession Duty Act Supplementary Provisions Act

Succession duties were eliminated in 1979, in respect of persons who died after April 10 of that year. However, in certain instances, succession duties may continue to apply to estates of persons who died on or before that date. For example, the amount of an inheritance or the identity of a beneficiary may be uncertain where a life interest was granted to a spouse and the remainder interest to their children. There are fewer than 200 remaining estates for which payment of succession duties has been deferred until the occurrence of a future event.

In order to bring succession duties to an end, it is proposed that no further succession duty would be payable on or after May 9, 2001, other than amounts due before that day.

# Making the Tax System Fairer

## Revenue from Beer

It is proposed that, effective June 25, 2001, the ad valorem component of the brewers' basic fee would be eliminated.

- The new basic fee rate for regular beer—beer shipped in containers with a capacity of less than 18 litres—would be 51.05 cents per litre.

- The new basic fee rate for draught beer—beer shipped in containers with a capacity equal to or greater than 18 litres—would be 36.05 cents per litre.

- The microbrewery fee rates would be based on the new regular and draught basic fee rates. The microbrewery reduction rates and thresholds are not proposed to change.

  - The rates on the first 25,000 hectolitres of beer shipped in Ontario would be 33.69 cents per litre for regular beer and 23.79 cents per litre for draught.
  - The rates on the next 50,000 hectolitres of beer shipped in Ontario would be 45.94 cents per litre for regular beer and 32.44 cents per litre for draught.

## Heritage Properties

To encourage the restoration and preservation of heritage buildings, the government proposes to give municipalities the ability to provide property tax relief to owners of buildings that are designated under the *Ontario Heritage Act* as being of architectural or historical value.

The government will consult with stakeholders to develop eligibility criteria and a relief mechanism that is equitable for property owners and administratively feasible for municipalities. It is proposed that this relief mechanism would take effect on January 1, 2002.

## New Rental Apartment Buildings

In 1998, the Province created the "new multi-residential property class" to enable municipalities to apply a lower tax rate to newly built rental apartment buildings. If adopted by a municipality, this class would apply to newly built multi-residential properties for the first eight years after construction, and then these properties would move into the regular multi-residential class.

To provide a greater incentive for the development of new affordable rental housing, the government intends to extend the time horizon of the new multi-residential property class from eight years to 35 years.

This change would take effect on January 1, 2002.

# Technical Amendments

## Changes to the Application of Retail Sales Tax to Trucks and Buses Registered under the International Registration Plan

On April 1, 2001, Ontario became a member of the International Registration Plan (IRP). Ontario's IRP membership will enhance the competitive position of Ontario's truck and bus industries by giving them improved access to U.S. markets.

To accommodate Ontario's membership in the IRP, Ontario proposes to amend the *Retail Sales Tax Act* as it applies to trucks and buses registered under the IRP and used in Ontario. Ontario is planning to implement an annual prorated sales tax to be collected at the time of registration. This would replace the retail sales tax normally applicable to these multijurisdictional vehicles. This taxation system is used in British Columbia, Saskatchewan and Manitoba.

- Trucks and buses used only in Ontario would continue to be subject to the current retail sales tax system at the time of purchase.

In addition, under this proposal, trailers, repair parts and labour services for multijurisdictional trucks and buses registered under the IRP and used in Ontario would be exempt from retail sales tax at the time of purchase. The proposed rates have been developed to account for the Ontario proportion of the retail sales tax on trailers, repair parts and labour.

- Trailers, repair parts and labour services for trucks and buses used only in Ontario would continue to be subject to the current retail sales tax system at the time of purchase.

The proposed measure would be payable each year upon registration of a multijurisdictional truck or bus, and would be calculated based on the vehicle's purchase price and the proportional distance travelled in Ontario by the vehicle during the previous year. The applicable tax rate would vary, depending on when the vehicle was acquired.

**Proposed Rates for Multijurisdictional Trucks and Buses**

| | Tax rate for multi-jurisdictional trucks registered under IRP (%) | Tax rate for multi-jurisdictional buses registered under IRP (%) |
|---|---|---|
| Acquisition year | 3.669 | 3.285 |
| First calendar year following the acquisition year | 2.876 | 2.419 |
| Second calendar year following the acquisition year | 2.307 | 1.814 |
| Third calendar year following the acquisition year | 1.901 | 1.390 |
| Fourth calendar year following the acquisition year | 1.612 | 1.093 |
| Fifth calendar year following the acquisition year | 1.570 | 1.036 |
| Sixth calendar year following the acquisition year | 1.483 | 0.949 |
| Seventh calendar year following the acquisition year | 1.447 | 0.913 |
| Eighth calendar year following the acquisition year | 1.448 | 0.911 |
| Ninth and subsequent calendar years following the acquisition year | 1.475 | 0.934 |

Under this proposal, multijurisdictional trucks and buses previously purchased in Ontario may qualify for a transitional credit against the annual prorated tax. Rules would also be introduced to address taxation where there is a change in the use of a truck or bus.

The government proposes to implement the modified retail sales tax system for multijurisdictional vehicles as of October 1, 2001. The government will be seeking industry input on this proposal.

## Professional Corporations

It is proposed that technical amendments relating to professional corporations be made to the *Business Corporations Act*. The amendments would clarify that the liability for professional negligence of a shareholder of a professional corporation is not affected by the existence of the corporation or the fact that the corporation is a member of a partnership or limited liability partnership.

In addition, technical amendments are proposed to be made to various statutes governing regulated professionals to provide that the conditions, prohibitions and restrictions that currently apply to individuals who practise the particular profession would also apply to professional corporations.

## Other Technical Amendments

To improve administrative effectiveness and enforcement, to maintain the integrity and the equity of the tax system, and also to enhance legislative clarity, various other amendments will be proposed to the following Ontario statutes:

- *Assessment Act*
- *Capital Investment Plan Act, 1993*
- *Commodity Futures Act*
- *Corporations Tax Act*
- *Education Act*
- *Electricity Act, 1998*
- *Employer Health Tax Act*
- *Fuel Tax Act*
- *Gasoline Tax Act*
- *Income Tax Act*
- *Land Transfer Tax Act*
- *Mining Tax Act*
- *Ministry of Revenue Act*
- *Municipal Act*
- *Ontario Property Assessment Corporation Act, 1997*
- *Retail Sales Tax Act*
- *Tobacco Tax Act*

# Improving Customer Service and Cutting Red Tape

This Budget builds on the measures introduced by the government in previous Budgets. Cutting red tape and improving customer service is an ongoing job, and this Budget introduces several new improvement initiatives.

## Quality Service in Tax Administration

Taxpayers have the right to demand and expect professionalism and courtesy in the administration of their tax system.

In order to enhance service quality and increase accountability, Ontario is developing specific service standards for tax administration. These standards, when finalized, will be used to measure our performance in administering tax laws with fairness, courtesy and common sense.

Results will be reported to the public annually, allowing taxpayers to hold the government and its employees accountable for the quality of service provided and the professional manner in which taxpayers are treated.

Consultations with key stakeholders on draft tax administration service standards will begin shortly, aimed at finalizing standards by September 1, 2001.

## Simplification of Tax Filing Procedures

Business people in Ontario want to create jobs, not fill out unnecessary or complicated paperwork. The following proposed measures would help to reduce the paperwork that businesses are required to file, while ensuring all taxpayers are treated fairly.

- An administrative easement will be introduced to waive one late-filing penalty for Retail Sales Tax returns, where the business has otherwise had no previous late-filed returns over the past four years. This change would be applied retroactively as of July 1, 2000.

- Corporations are currently required to pay monthly corporate tax instalments if annual tax payable in the current or preceding year is $2,000 or more. To simplify instalment requirements for more small businesses, it is proposed that corporations be allowed to pay quarterly instalments if their tax payable in the current or preceding year is greater than or equal to $2,000 and less than $10,000. This change would apply to taxation years commencing in 2002.
- For taxation years ending after 2000, corporations filing their Ontario corporate tax return would no longer be required to file a copy of their federal T2 return and related schedules, provided the federal documents have been filed with the Canada Customs and Revenue Agency (CCRA).

- Effective immediately, it is proposed that gasoline, fuel and tobacco tax refund claims would no longer require copies of supporting documentation, where the annual claim is $500 or less. However, supporting documentation must be retained and provided upon request.

- The Ministry of Finance will accelerate its ongoing review of all tax forms to: eliminate unnecessary forms; improve the layout design and use of plain language; reduce the overall number of forms by introducing multipurpose forms; and explore opportunities for businesses to submit forms electronically.

## Simplification of Retail Sales Tax Definitions and Rules

Ontario recognizes the need for simpler and more effective definitions and rules in the retail sales tax system, such as those relating to the taxation of computer software. To that end, Ontario will consult with taxpayers and other interested groups on potential measures for a simpler retail sales tax.

## Streamlined Tax Audit Procedures

The Business Tax Review Panel recommended that the Province explore ways of simplifying and consolidating the audit process. The following measures are proposed:

- More consolidated audits will be conducted across various tax programs, where feasible and the business is agreeable to the audit approach. Auditing multiple tax programs at the same time will mean a reduction in the overall time spent by tax auditors at the business location.

- The Ministry of Finance will continue to work closely with the federal government to arrange more joint, multijurisdiction audits, where this is feasible and the business is agreeable to the audit approach.

- Retail sales tax audits on small businesses will be streamlined. In most cases, this will mean that the typical small business owner can expect the auditor to be in and out of their place of business within two full working days.

## A More Customer-Focused Tax Administration

The government recognizes and values the role that small businesses play in providing feedback and suggestions on ways to improve customer service and cut red tape. The following measures will help foster a better working relationship between the tax administration and its customers and stakeholders.

- A Small Business Advisory Committee will be formed, comprising small business representatives, key stakeholders and tax administration officials. The mandate of the committee will be to identify and discuss new ways of simplifying tax administration and cutting red tape, with a goal of implementing changes by 2002.

- Tax Information Forums will be held across the province. These forums will provide small businesses with a one-stop opportunity to obtain information and ask questions on a variety of tax programs administered in Ontario.

- The Ministry of Finance will continue to work with key stakeholders, such as Chambers of Commerce and other groups, to seek more opportunities to meet with them and explain tax administration rules and requirements.

## Improved Customer Service Through Electronic Service Delivery

In support of the government's goal for electronic service delivery, the following customer service measures will be implemented by 2002.

- An Internet e-mail subscription service will be introduced. This service will send the user an e-mail announcement whenever new publications are released, key dates are announced, or a variety of other events occur. Small businesses, and all subscribers to the service, will have an effective and efficient means of staying on top of the latest changes.

- A new "Tele-Tax" system will be implemented. Users of this integrated voice response (IVR) service will call an automated, self-serve telephone system and obtain recorded messages containing answers to frequently asked questions.

- Customer service feedback and other survey tools will be available via the Internet. These tools will provide businesses with yet another way to engage the tax administration and suggest ways to simplify processes and cut red tape.

- Retail sales tax interpretation rulings, which have general applicability to a wide audience, will be made available via the Internet. A search engine will make finding specific information quick and easy.

- Corporate income and capital tax Information and Interpretation Bulletins will be revised to remove obsolete information and update statutory references. The revised Bulletins will be available on the Internet by June 30, 2001. Over the next two years, these Bulletins will undergo a major overhaul, and new Bulletins will be issued, incorporating current legislation, interpretation rulings and court decisions, and reflecting current trends and developments in the corporate community. These Bulletins will be organized by topic and updated on a timely basis.

- General information changes, such as a business address or telephone number, will be accepted via the Internet. This service means that businesses will be able to inform tax administration staff of their general information changes 24 hours a day, seven days a week, whenever it's most convenient for them to do so.

## Amendments to Financial Services Legislation

It is proposed that various pieces of financial services legislation be amended to eliminate barriers to competitiveness, reduce costs of compliance, and increase efficiency and effectiveness.

### The Co-operative Corporations Act

Thirteen amendments are proposed to streamline the regulatory requirements for co-operatives. These amendments are intended to address the commitment in the 2000 Budget to streamline co-operative regulatory requirements. The proposed changes include:

- removing the requirement for a corporate seal;

- harmonizing requirements (regarding joint membership and articles of incorporation) between co-operatives with and without share capital;

- clarifying policies respecting membership shares; and

- introducing amendments intended to facilitate more efficient and less costly functioning of annual meetings.

### Credit Unions and Caisses Populaires Act, 1994

It is proposed that this Act be changed to permit the Deposit Insurance Corporation of Ontario (DICO) to invoice credit unions and caisses populaires for premiums within 120 days of the start of their fiscal year. This would allow premiums to be based on the previous year's audited financial statements.

## Insurance Act and Registered Insurance Brokers Act

It is proposed that the list of permissible investments for Ontario-incorporated insurance companies be updated to give provincially incorporated companies more flexibility in planning their investment strategies. Further amendments to insurance legislation are being considered to harmonize Ontario investment standards with those in other Canadian jurisdictions.

Proposed changes to the *Insurance Act* and the *Registered Insurance Brokers Act* would remove restrictions on foreign ownership of corporate agents and adjusters and brokerages.

## Loan and Trust Corporations Act

Changes are proposed to eliminate overlap and duplication in the regulation of the loan and trust sector. With these changes, the Province would no longer incorporate loan or trust companies. After a transition period, only federally incorporated companies would be able to operate in Ontario.

## Mortgage Brokers Act

A proposed change would exempt from regulatory requirements foreign banks that are allowed to operate in Canada under the federal *Bank Act*.

## Securities Act

Eight changes are proposed to clarify securities legislation, to reduce the cost of compliance for market participants, and to harmonize requirements with those of other Canadian jurisdictions. For example, a proposed amendment to permit the use of electronic communications for delivery of shareholder meeting materials (proxy material and information circulars) would reduce issuer mailings and associated costs.

| Proposed Benefits to Taxpayers: 2001 Budget Impact Summary | 2001-02 Benefit ($ Millions) | Full-Year Benefit ($ Millions) |
|---|---|---|
| **Personal Income Tax** | | |
| 20% PIT cut, remaining steps | 60 | 975 |
| In-year measure to enhance certain non-refundable tax credits | 60 | 60 |
| Equity in Education tax credit | 15 | 300 |
| **Corporations Tax** | | |
| Corporate Income Tax rate cut, remaining steps | 10 | 2,200 |
| Reducing the Capital Tax | 4 | 180 |
| **Capital Gains** | | |
| Accelerating the Capital Gains Reduction (62% to 50%) | 520 | 500 |
| **Retail Sales Tax** | | |
| Exempting audio books for people who are blind | 1 | 3 |
| Extending the Rebate for Alternative Fuel Vehicles to electric hybrids | 1 | 1 |
| **Succession Duty Act Supplementary Provisions Act** | 1 | 2 |
| **Making the Tax System Fairer** | | |
| Eliminating ad valorem component of brewers' basic fee | 6 | 8 |
| **Total Benefits to Taxpayers** | **678** | **4,229** |

# PAPER D

## Ontario's Financing Plan

# Highlights

- In the 2000 Budget the government made a commitment to reduce Net Provincial Debt by at least $5 billion during the current term of office. With a contribution to debt reduction of $1.0 billion in 1999-2000 and $3.0 billion in 2000-01, the government has already met 80 per cent of its commitment in the first two years. Net Provincial Debt is projected at $110.7 billion as of March 31, 2001.

- The 2000-01 payment of $3.0 billion is the largest reduction of debt in the Province's history. The government remains committed to applying the $1 billion reserve, if not needed, as well as any surpluses, to pay down Net Provincial Debt.

- Although the Province has a balanced budget, borrowing levels remain high due to significant amounts of debt maturities in the next few years. High levels of maturities place an additional emphasis on the need to reduce debt and maintain cost-effective and prudent debt management practices.

- Credit-rating agencies have recognized the government's balanced budget achievements and commitment to debt reduction. On January 29, 2001, Standard and Poor's upgraded the Province of Ontario's debt rating to AA from AA-. This is the first upgrade from Standard and Poor's since 1988. On February 9, 2001, Moody's Investors Service reaffirmed Ontario's Aa3 rating and revised the outlook to "positive" from "stable."

- Through the Ontario Financing Authority (OFA), the Province intends to raise $9.1 billion in long-term public borrowing for 2001-02. This will include proceeds from the seventh annual Ontario Savings Bond campaign in June.

- The Province's 2000-01 long-term public borrowing program of $8.5 billion was completed in a cost-effective manner. As a strong and stable credit, Ontario benefited from preferred access to the fixed income markets, despite uncertain market conditions during 2000-01.

# 2000-01 Borrowing Program

- The Province's long-term public borrowing program for 2000-01 was $8.5 billion. While the government had a surplus, the Province continued to borrow mainly to refinance maturing debt of $8.1 billion, accruals and consolidations of $4.6 billion, and early bond redemptions of $1.1 billion.

- As a strong and stable credit, the Province continued to have preferred access to capital markets in 2000-01, despite uncertain markets, which caused some borrowers to postpone, downsize or increase interest rates on their bond issues. The Province was also successful in adapting to the changing market conditions by borrowing in a wide range of maturities.

- The Province used a variety of instruments to lower its borrowing costs in 2000-01:

  - The OFA completed its first two bond auctions. These auctions raised a total of $0.5 billion on behalf of the OEFC, at attractive prices and with estimated savings of $1 million in commission costs.
  - The Province saved on commissions and fees that would have otherwise been charged in the public market by borrowing $0.6 billion directly from the Canada Pension Plan (CPP) to refinance debt held by that entity.
  - In order to promote liquidity and save money, nearly $1 billion of smaller, higher-yielding Ontario bonds were repurchased and replaced with larger and more cost-effective benchmark issues.

- Despite limited borrowing opportunities outside the Canadian domestic market, the OFA was able to raise the equivalent of $1.7 billion in foreign currencies at attractive rates via the following issues:

  - The Province reopened three U.S. Dollar Global issues, raising the equivalent of just over $1.2 billion in Canadian dollars. The proceeds from one of these issues were lent to the OEFC.
  - The Province also raised over $0.1 billion from a floating rate U.S. Dollar Euro Medium Term Note.
  - Through the reopening of an existing Yen Global issue, the Province raised just under $0.4 billion.

- The 2000-01 Ontario Savings Bond campaign raised $3.4 billion, a Canadian provincial record.

# 2001-02 Borrowing Program

**Financial Summary**
($ Billions)

| | 2000-01 Budget Plan | 2000-01 Interim | 2001-02 Budget Plan |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Surplus/(Deficit) | 0.0 | 3.2 | 0.1 |
| Accruals and Consolidations | (5.2) | (4.6) | (2.3) |
| Maturities | (8.4) | (8.1)* | (9.6) |
| Provision for Early Redemptions | (0.5) | (1.1) | (1.0) |
| Other Sources/(Uses) | 0.0 | (0.3) | 0.0 |
| Net Repayment from/(Loans to) Agencies | 0.0 | (0.1) | 0.0 |
| Decrease/(Increase) in Liquid Reserves | 4.5 | 2.0 | 2.6 |
| Increase/(Decrease) in Short-Term Borrowing | 0.0 | (0.1) | 0.0 |
| Canada Pension Plan Borrowing | 1.0 | 0.6 | 1.1 |
| **Long-Term Public Borrowing** | **8.6** | **8.5** | **9.1** |
| of which: Completed | | | 0.6 |
| Remaining | | | 8.5 |

Note: Numbers may not add due to rounding.

* Maturing debt is lower than the 2000 Budget Plan due to the Province exercising options on extendible bonds.

- The Province's total long-term public borrowing for 2001-02 is projected at $9.1 billion. The Province will be borrowing to refinance $9.6 billion in maturing debt, $2.3 billion related to accruals and consolidations, and $1.0 billion as a provision for early bond redemptions. Since the end of fiscal 2000-01, the Province has completed $0.6 billion of its 2001-02 long-term public borrowing program.

- The domestic market will likely remain the main source of borrowing for the Province, including the seventh annual Ontario Savings Bond campaign. The Province will continue to monitor foreign markets for cost-effective borrowing opportunities.

- In addition to the $9.1 billion in long-term public borrowing planned, up to $1.1 billion may be borrowed from the CPP, if it is cost-effective.

# OEFC's Borrowing Program

The OEFC is the agency of the Province responsible for the servicing and management of the former Ontario Hydro's provincially guaranteed debt, derivative contracts and certain other liabilities. As the OEFC does not have its own credit rating, the Province borrows on its behalf. In return, the OEFC issues debt to the Province.

- For 2000-01, the Province raised almost $3.0 billion in long-term public borrowing on behalf of the OEFC, to meet that entity's $1.9 billion long-term borrowing requirements, while paying down short-term debt by $0.7 billion and pre-borrowing almost $0.4 billion for fiscal 2001-02.

- The majority of the borrowing done on behalf of the OEFC was accomplished in the Canadian dollar market. The only non-Canadian dollar borrowing was a U.S. Dollar Global reopening for $0.4 billion undertaken by the Province and lent to the OEFC.

- For 2001-02, the OEFC's long-term borrowing requirement is $3.6 billion, reflecting $4.4 billion in maturing debt, partially offset by a projected cash surplus of about $0.8 billion. The OEFC has completed nearly $0.4 billion of its 2001-02 long-term public borrowing program.

# Update on Ontario Hydro Restructuring

Ontario's electricity industry was restructured on April 1, 1999. Ontario Hydro was continued as the OEFC, responsible for managing and retiring liabilities not transferred to other successor corporations. These include Ontario Power Generation Inc. (OPG), Hydro One Inc. (HOI), the Independent Electricity Market Operator (IMO), and the Electrical Safety Authority.

- The respective business units of Ontario Hydro were transferred to OPG, HOI, and the IMO in exchange for debt payable to the OEFC of $17.2 billion. The Province then exchanged equity of $8.9 billion in OPG and HOI for debt owing to the OEFC. The Province's cost of this investment is approximately $520 million of interest annually, and is reflected as an expenditure within Public Debt Interest.

- Income earned from OPG and HOI is included in the provincial surplus in "Income from Investment in Government Business Enterprises." Consistent with the government's commitment to keep electricity income in the electricity sector, net income of OPG and HOI in excess of the Province's cost of investment in its electricity subsidiaries will be set aside for the retirement of OEFC's debt. The cost of the Province's investment amounts to approximately $520 million annually. This is referred to in the accounts as a "Provision for Electricity Sector," and is an explicit demonstration of the government's intent to repay electricity sector debt with electricity sector income.

- As the government has a long-term plan in place to retire the OEFC's obligations from ratepayers and not taxpayers, the impact of OEFC's operations is separated from other government activities in the Province's financial statements.

- A separate one-line disclosure is provided for the excess of OEFC's revenues over expense, which is included in the provincial surplus.

- The OEFC's obligations of $38.1 billion, including stranded debt, will be repaid by cash flows from the following sources:

  - Notes receivable from the Province, OPG, HOI, and the IMO, resulting from the restructuring transaction;
  - Payments-in-lieu of corporate income, property and capital taxes, made by OPG, HOI, and municipal electric utilities. These revenue streams are dedicated to the OEFC, and will not be available to the taxpayer;
  - A Debt Retirement Charge, to be paid by ratepayers based on the consumption of electricity; and
  - Provision for Electricity Sector, described above.

- The government, in consultation with the Provincial Auditor, hired an independent accounting firm to review the assumptions and consistency of the OEFC debt recovery plan. Based on the conservative estimates used in the preparation of the plan, and the review performed by the accounting firm, the Province anticipates that its plan for meeting the OEFC's obligations will be completed between 2010 and 2017.

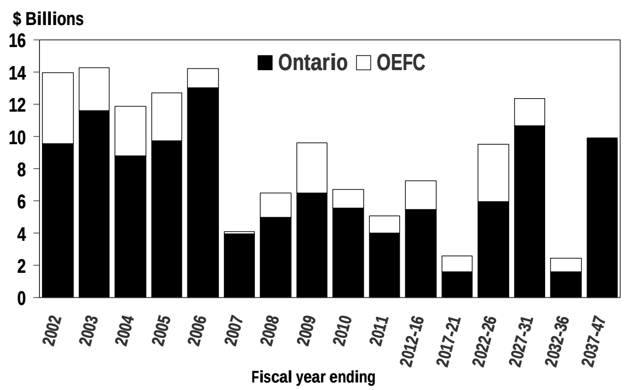
# Debt Maturities

- ♦ Ontario has high amounts of debt maturities over the next five years. These amounts were created by a significant run-up in debt issuance by both the previous government and Ontario Hydro in the early 1990s.

- ♦ For 2001-02, the total amount of maturing debt for the Province and the Ontario Electricity Financial Corporation (OEFC) is $14.0 billion. In 2002-03, maturities will total $14.3 billion. The OEFC's debt is guaranteed by the Province, and the refinancing of its maturities is undertaken by the OFA on its behalf.

- ♦ In managing these maturities, the Province will maintain a flexible financing approach and monitor domestic and international bond markets to seek out the most cost-effective borrowing opportunities. The Province will also continue to smooth its maturity profile and take advantage of opportunities to schedule maturities into years that currently have lower levels of maturing debt.

**Debt Maturity Profile**




Source: Ontario Financing Authority.

- ♦ With reductions in Net Provincial Debt and continued prudent borrowing and debt management practices, the Province will continue to have preferred access to capital markets to refinance maturing debt.

# Debt Management Policies

Ontario's debt issuance process involves various risk exposures. The Province manages its debt by adhering to prudent risk management policies to mitigate its exposures to these risks, while maintaining the needed flexibility in its borrowing and debt management programs.

- The Province's exposure to unhedged foreign currencies is limited to five per cent of debt managed on behalf of the Province. As of March 31, 2001, the Province's foreign exchange exposure was 1.7 per cent of debt.

- As of March 31, 2001, interest rate reset exposure was 12.1 per cent of debt managed on behalf of the Province. Interest rate reset exposure is the total of net floating rate exposure (i.e., gross floating rate exposure less liquid reserves) and all fixed rate debt maturing within the next 12-month period. The Province is limited to a maximum interest rate reset exposure of 25 per cent of debt.

- When issuing debt, the Province aims for a smooth debt maturity profile to diversify the interest rate risk inherent in refinancing maturing and floating-rate debt.

- Liquid reserves are maintained at levels sufficient to ensure the government can meet its short-term financial obligations. Ontario's Treasury Bill and U.S. Commercial Paper programs are also available to meet additional liquidity needs if required.

- Credit risk arises when the Province invests its liquid reserves and when it carries out debt management activities to mitigate risks associated with new borrowing and outstanding debt. To lower credit risk, the Province limits itself to undertaking transactions only with the federal and provincial governments and non-government counterparties with high credit quality. The minimum credit rating of a non-government counterparty for liquid reserve investments is R-1(mid) and for long-term transactions is A-. Approximately 80 per cent of the Province's approved counterparties are rated AA-or better.

# Paper D Appendix: Financial Tables


| | |
|---|---|
| Table I (A): | Net Provincial Debt |
| Table I (B): | Debt Maturity Schedule |
| Table I (C): | Summary of Ontario Electricity Financial Corporation (OEFC) Interim Debt |
| Table I (D): | Description of Derivative Financial Instruments |
| Table II: | Schedule of Outstanding Debt Issued by the Province of Ontario |

## NET PROVINCIAL DEBT — TABLE I(A)
**Interim 2001[1]** — **($ Millions)**

| | 1997 | 1998 | 1999 | 2000 | Interim 2001 | Plan 2002 |
|---|---|---|---|---|---|---|
| **Debt Issued for Provincial Purposes [2]** | | | | | | |
| Non-Public Debt | | | | | | |
| Minister of Finance of Canada: | | | | | | |
| Canada Pension Plan Investment Fund | $ 12,209 | $ 11,358 | $ 10,487 | $ 10,369 | $ 10,442 | $ 10,800 |
| Ontario Teachers' Pension Fund | 14,049 | 13,822 | 13,213 | 12,252 | 11,535 | 11,043 |
| Ontario Municipal Employees Retirement Fund (OMERS) | 722 | 697 | 666 | 622 | 569 | 502 |
| Colleges of Applied Arts and Technology Pension Plan | 91 | 91 | 89 | 86 | 81 | 73 |
| Ryerson Retirement Pension Plan | 9 | 9 | 8 | 8 | 7 | 6 |
| Canada Mortgage and Housing Corporation | 1,272 | 1,246 | 1,208 | 1,181 | 1,147 | 1,111 |
| Public Service Pension Fund | 3,790 | 3,681 | 3,604 | 3,535 | 3,446 | 3,331 |
| Ontario Public Service Employees' Union Pension Fund (OPSEU) | 1,772 | 1,749 | 1,712 | 1,679 | 1,637 | 1,582 |
| | $ 33,914 | $ 32,653 | $ 30,987 | $ 29,732 | $ 28,864 | $ 28,448 |
| Publicly Held Debt | | | | | | |
| Debentures and Bonds[3] | $ 61,939 | $ 68,199 | $ 72,464 | $ 72,549 | $ 73,278 | $ 73,196 |
| Treasury Bills | 2,071 | 675 | 950 | 3,002 | 2,680 | 2,680 |
| U.S. Commercial Paper[3] | — | — | 272 | 396 | 523 | 523 |
| Other | 468 | 455 | 460 | 458 | 447 | 446 |
| | $ 64,478 | $ 69,329 | $ 74,146 | $ 76,405 | $ 76,928 | $ 76,845 |
| **Total Debt Issued for Provincial Purposes** | $ 98,392 | $ 101,982 | $105,133 | $106,137 | $105,792 | $105,293 |
| **Debt Issued for Investment in Electricity Sector [4]** | — | — | — | $ 8,885 | $ 8,885 | $ 8,885 |
| **Deposits with Province of Ontario Savings Office** | $ 2,135 | $ 2,245 | $ 2,517 | $ 2,812 | $ 2,487 | $ 2,500 |
| **Other Liabilities[5]** | $ 20,938 | $ 21,995 | $ 19,237 | $ 19,403 | $ 16,549 | $ 17,264 |
| **Total Liabilities:** | $ 121,465 | $126,222 | $126,887 | $137,237 | $133,713 | $133,942 |
| **Less: Financial Assets[6]** | $ (12,696) | $(13,487) | $(12,150) | $(23,522) | $(22,988) | $(23,217) |
| **Net Provincial Debt** | $ 108,769 | $112,735 | $114,737 | $113,715[7] | $110,725 | $110,725 |

Source: Ontario Ministry of Finance.

(1) Prepared on the basis of modified accrual and consolidation accounting.
(2) Includes debt issued by Government Organizations.
(3) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts entered into by the Province.
(4) Debt issued for investment in Electricity Sector comprises notes payable to Ontario Electricity Financial Corporation as a result of a debt for equity swap between the Province and its two wholly owned subsidiaries, Ontario Power Generation Inc. and Hydro One Inc.
(5) Other Liabilities includes Accounts Payable, Accrued Liabilities, and Pensions.
(6) Financial Assets comprise Cash and Temporary Investments, Accounts Receivable and Investment in Government Enterprises (including $8,885 million of investment in Electricity Sector).
(7) For more information on Net Provincial Debt (Accumulated Deficit), please see 1999-2000 Public Accounts of Ontario, Statement of Financial Position.

## DEBT MATURITY SCHEDULE — TABLE I(B)
### Interim 2001[1] — ($ Millions)

| | Debt Issued for Provincial Purposes[2] | | | Ontario Electricity Financial Corporation (OEFC) Purposes[4] | |
|---|---|---|---|---|---|
| Year Ending March 31 | Publicly Held Debt[3] | Non-Public Debt | Sub-Total | | Total |
| 2002 | 9,540[5] | 1,542 | 11,082 | 3,070 | 14,152 |
| 2003 | 9,219 | 2,387 | 11,606 | 117 | 11,723 |
| 2004 | 5,671 | 2,544 | 8,215 | 350 | 8,565 |
| 2005 | 7,623 | 2,240 | 9,863 | 2,700 | 12,563 |
| 2006 | 10,952 | 2,593 | 13,545 | 500 | 14,045 |
| 0-5 years | 43,005 | 11,306 | 54,311 | 6,737 | 61,048 |
| 6-10 years | 14,087 | 10,201 | 24,288 | 3,835 | 28,123 |
| 11-15 years | 329 | 5,466 | 5,795 | — | 5,795 |
| 16-20 years | 51 | 1,822 | 1,873 | 19 | 1,892 |
| 21-25 years | 5,966 | 67 | 6,033 | — | 6,033 |
| 26-50 years | 13,490 | 2 | 13,492 | 604 | 14,096 |
| | **76,928** | **28,864** | **105,792** | **11,195** | **116,987** |

(1) Prepared on the basis of modified accrual and consolidation accounting.
(2) Includes debt issued by Government Organizations.
(3) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts entered into by the Province.
(4) This debt is offset by bonds of Ontario Electricity Financial Corporation (OEFC) bearing like terms and conditions to the Ontario obligations. Pursuant to the *Ontario Electricity Act, 1998*, OEFC was established as a continuation of Ontario Hydro on April 1, 1999.
(5) Includes $2,680 million in Treasury Bills and $523 million in U.S. Commercial Paper.

**SUMMARY OF ONTARIO ELECTRICITY FINANCIAL CORPORATION (OEFC) INTERIM DEBT** — **TABLE I(C) ($ Millions)**

| Currency | Canadian Dollar | U.S. Dollar | Japanese Yen | 31-Mar-01 Total | 31-March-00 Total |
|---|---|---|---|---|---|
| Fiscal Year | | | | | |
| 2001 | | | | | 5,672 |
| 2002 | 4,134 | 1,141 | - | 5,275 | 2,708 |
| 2003 | 2,617 | - | - | 2,617 | 2,848 |
| 2004 | 1,748 | - | 65 | 1,813 | 1,813 |
| 2005 | 2,700 | - | - | 2,700 | 2,000 |
| 2006 | 1,000 | - | - | 1,000 | - |
| 1-5 years | 12,199 | 1,141 | 65 | 13,405 | 15,041 |
| 6-10 years | 7,123 | 1,530 | - | 8,653 | 6,787 |
| 11-15 years | 648 | 1,183 | - | 1,831 | 2,876 |
| 16-20 years | 1,079 | - | - | 1,079 | 500 |
| 21-25 years | 3,558 | - | - | 3,558 | 3,133 |
| 26-50 years | 2,040 | - | - | 2,040 | 3,001 |
| | 26,647 | 3,854 | 65 | 30,566 | 31,338 |

**OEFC Debt Statistics**

| As at March 31 ($ Millions) | 1997 | 1998 | 1999 | 2000 | Interim 2001 | Plan 2002 |
|---|---|---|---|---|---|---|
| Debt issued by the Province for OEFC (formerly Ontario Hydro) | 3,140 | 2,886 | 4,248 | 9,647 | 11,195 | 13,800 |
| Debt guaranteed by the Province | 31,786 | 30,675 | 26,238 | 21,691 | 19,371 | 15,550 |
| Total OEFC Debt | 34,926 | 33,561 | 30,486 | 31,338 | 30,566 | 29,350 |

## DESCRIPTION OF DERIVATIVE FINANCIAL INSTRUMENTS — TABLE I(D)

The table below presents a preliminary maturity schedule of the Province's derivative financial instruments, by type, outstanding at March 31, 2001, based on the notional amounts of the contracts.

The Province has sizeable financing requirements, largely due to refinance maturing indebtedness. To meet these financing requirements in the most cost-effective manner, the Province has issued a variety of debt instruments in domestic and international markets. To take advantage of favourable interest rates, the Province issues debt instruments that are repayable in numerous currencies other than Canadian dollars. The Province employs prudent debt management strategies and operates within strict limits to ensure exposure to risk is well managed. A variety of strategies are used, including the use of derivative financial instruments ("derivatives").

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

**DERIVATIVE PORTFOLIO NOTIONAL VALUE**
**as at March 31, 2001** **($ Millions)**

| Maturity in Fiscal Year | 2002 | 2003 | 2004 | 2005 | 2006 | 6-10 Years | Over 10 Years | Interim 2001 Total | 1999-00 Total |
|---|---|---|---|---|---|---|---|---|---|
| Swaps: | | | | | | | | | |
| Interest rate | 5,127 | 10,017 | 1,355 | 3,931 | 7,990 | 10,441 | 1,496 | 40,357 | **41,888** |
| Cross currency | 6,297 | 8,037 | 3,682 | 4,268 | 6,093 | 5,850 | - | 34,227 | **38,089** |
| Forward foreign exchange contracts | 1,090 | - | - | - | - | - | - | 1,090 | **954** |
| Futures | 769 | - | - | - | - | - | - | 769 | **-** |
| Forward rate agreements | - | - | - | - | - | - | - | - | **50** |
| Options (FX & BOND) | - | - | - | - | - | - | - | - | **160** |
| Spreadlocks | - | | | | | | | - | **309** |
| | $ 13,283 | $ 18,054 | $ 5,037 | $ 8,199 | $ 14,083 | $ 16,291 | $ 1,496 | $ 76,443 | $ 81,450 |

**Definitions**

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

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

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

**Forward rate agreement (FRA):** an agreement between two parties to set future borrowing/lending rates in advance.

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

**Option:** a contract that confers a right but not the obligation to buy/sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a fixed future period.

**Spreadlocks:** spreadlocks are options to enter into currency or interest rate swaps. Under a spreadlock structure, an institution may agree to provide a swap over a defined period (generally less than six months) at an agreed upon spread over a reference rate comparable to the maturity of the anticipated swap.

## Schedule of Outstanding Debt Issued by the Province of Ontario — TABLE II
## Interim as at March 31, 2001

| Date of Maturity | Date of Issue | Series | Interest Rate (%) | Original Issue ($) | Outstanding ($) | Reference |
|---|---|---|---|---|---|---|
| **Debt Issued for Provincial Purposes** | | | | | | |
| **(A) PAYABLE IN CANADA IN CANADIAN DOLLARS** | | | | | | |
| **NON-PUBLIC DEBT** | | | | | | |
| **To Minister of Finance of Canada** | | | | | | |
| **Canada Pension Plan Investment Fund:** | | | | | | |
| **Year ending March 31** | | | | | | |
| 2002 | 1982 | CPP | 13.66 to 16.10 | 768,736,000 | 768,736,000 | |
| 2003 | 1983 | CPP | 12.01 to 16.53 | 1,235,751,000 | 1,235,751,000 | |
| 2004 | 1984 | CPP | 10.92 to 12.14 | 1,200,847,000 | 1,200,847,000 | |
| 2005 | 1985 | CPP | 12.08 to 14.06 | 1,133,182,000 | 1,133,182,000 | |
| 2006 | 1986 | CPP | 10.58 to 12.57 | 1,213,502,000 | 1,213,502,000 | |
| 2007 | 1987 | CPP | 9.36 to 10.17 | 232,269,000 | 232,269,000 | |
| 2008 | 1988 | CPP | 10.79 | 42,300,000 | 42,300,000 | |
| 2012 | 1992 | CPP | 9.81 to 10.04 | 987,249,000 | 987,249,000 | |
| 2013 | 1993 | CPP | 9.17 to 9.45 | 700,137,000 | 700,137,000 | |
| 2019 | 1999 | CPP | 5.81 to 5.84 | 45,270,000 | 45,270,000 | |
| 2020 | 1999 | CPP | 5.5 to 6.91 | 869,889,000 | 869,889,000 | |
| 2021 | 2000 | CPP | 6.33 to 6.67 | 609,834,000 | 609,834,000 | |
| | | | | | 9,038,966,000 | |
| **Issued by Government Organizations** | | | | | | |
| 2009 | 1989 | CPP | 9.15 to 10.31 | 310,439,000 | 310,439,000 | |
| 2010 | 1990 | CPP | 9.78 to 11.33 | 925,157,000 | 925,157,000 | |
| 2011 | 1991 | CPP | 9.81 to 10.04 | 91,630,000 | 91,630,000 | |
| 2012 | 1992 | CPP | 9.00 to 9.45 | 75,135,000 | 75,135,000 | |
| | | | | | 1,402,361,000 | |
| Total to Canada Pension Plan Investment Fund | | | | | **10,441,327,000** | (5) |
| **To Ontario Teachers' Pension Fund:** | | | | | | |
| Year ending March 31 | | | | | | |
| 2002 | 1977-1991 | TI | 9.54 to 10.11 | 492,524,321 | 492,524,321 | |
| 2003 | 1978-1991 | TI | 9.82 to 10.53 | 655,570,855 | 655,570,855 | |
| 2004 | 1982-1984 | TI | 12.88 to 13.34 | 900,000,000 | 900,000,000 | |
| 2005 | 1984-1991 | TI | 12.60 to 13.27 | 821,000,000 | 821,000,000 | |
| 2006 | 1985-1991 | TI | 11.07 to 14.40 | 1,070,000,000 | 1,070,000,000 | |
| 2007 | 1985-1991 | TI | 10.26 to 13.01 | 1,185,000,000 | 1,185,000,000 | |
| 2008 | 1983-1991 | TI | 10.15 to 15.38 | 1,945,000,000 | 1,945,000,000 | |
| 2009 | 1986-1991 | TI | 10.98 to 11.50 | 1,465,000,000 | 1,465,000,000 | |
| 2010 | 1986-1991 | TI | 10.22 to 11.24 | 1,236,000,000 | 1,236,000,000 | |
| 2011 | 1987 | TI | 10.11 to 10.32 | 560,000,000 | 560,000,000 | |
| 2012 | 1988-1991 | TI | 10.68 to 11.24 | 580,000,000 | 580,000,000 | |
| 2013 | 1989-1991 | TI | 11.06 to 11.31 | 625,000,000 | 625,000,000 | |
| | | | | | 11,535,095,176 | (1) |

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

| Date of Maturity | Date of Issue | Series | Interest Rate (%) | Original Issue ($) | Outstanding ($) | Reference |
|---|---|---|---|---|---|---|
| **To Ontario Municipal Employees Retirement Fund:** | | | | | | |
| Year ending March 31 | | | | | | |
| 2002 | 1996 | MER | 7.85 | 67,500,000 | 67,500,000 | |
| 2003 | 1996 | MER | 8.02 to 10.28 | 235,259,824 | 235,259,824 | |
| 2004 | 1996 | MER | 9.45 | 163,695,000 | 163,695,000 | |
| 2007 | 1996 | MER | 9.77 | 102,675,000 | 102,675,000 | |
| | | | | | 569,129,824 | (1)(38) |
| **To College of Applied Arts & Technology Pension Plan:** | | | | | | |
| Year ending March 31 | | | | | | |
| 2002 | 1996 | CAAT | 7.85 | 7,500,000 | 7,500,000 | |
| 2003 | 1996 | CAAT | 8.02 to 10.28 | 30,540,176 | 30,540,176 | |
| 2004 | 1996 | CAAT | 9.45 | 24,255,000 | 24,255,000 | |
| 2007 | 1996 | CAAT | 9.77 | 18,625,000 | 18,625,000 | |
| | | | | | 80,920,176 | (1)(38) |
| **To Ryerson Retirement Pension Plan:** | | | | | | |
| Year ending March 31 | | | | | | |
| 2002 | 1995 | RRPF | 16.95 | 732,095 | 732,095 | |
| 2003 | 1995 | RRPF | 14.65 | 926,036 | 926,036 | |
| 2004 | 1995 | RRPF | 12.78 | 1,081,061 | 1,081,061 | |
| 2005 | 1995 | RRPF | 13.33 | 1,229,597 | 1,229,597 | |
| 2006 | 1995 | RRPF | 11.16 | 1,464,199 | 1,464,199 | |
| 2007 | 1995 | RRPF | 9.64 | 1,618,485 | 1,618,485 | |
| | | | | | 7,051,473 | (1) |

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

| Date of Maturity | Date of Issue | Series | Interest Rate (%) | Original Issue ($) | Outstanding ($) | Reference |
|---|---|---|---|---|---|---|
| **To Canada Mortgage and Housing Corporation:** | | | | | | |
| Year ending March 31 | | | | | | |
| 2000-2003 | 1971 to 1978 | CMHC | 5.375 | 688,415 | 88,008 | |
| 2000-2004 | 1974 to 1975 | CMHC | 5.125 to 7.875 | 1,296,489 | 250,336 | |
| 2000-2005 | 1971 to 1975 | CMHC | 5.125 to 8.625 | 2,754,646 | 749,350 | |
| 2000-2006 | 1973 to 1976 | CMHC | 5.125 to 10.375 | 2,200,837 | 873,186 | |
| 2000-2007 | 1974 to 1977 | CMHC | 5.375 to 10.375 | 6,049,712 | 2,781,119 | |
| 2000-2010 | 1970 to1975 | CMHC | 5.75 to 6.875 | 4,312,601 | 1,922,482 | |
| 2000-2011 | 1971 to 1976 | CMHC | 5.375 to 8.25 | 5,876,136 | 3,309,104 | |
| 2000-2012 | 1972 | CMHC | 6.875 to 8.25 | 7,281,714 | 4,245,473 | |
| 2000-2013 | 1973 | CMHC | 7.25 to 8.25 | 1,252,053 | 786,855 | |
| 2000-2014 | 1974 | CMHC | 6.125 to 8.25 | 19,734,125 | 12,668,635 | |
| 2000-2015 | 1975 | CMHC | 7.50 to 10.375 | 11,488,523 | 7,843,729 | |
| 2000-2016 | 1976 | CMHC | 5.375 to 10.75 | 22,775,312 | 16,591,970 | |
| 2000-2017 | 1977 | CMHC | 7.625 to 10.75 | 15,797,368 | 12,239,138 | |
| 2000-2018 | 1977 to 1978 | CMHC | 7.625 to 13.00 | 38,133,367 | 31,212,792 | |
| 2000-2019 | 1977 to 1980 | CMHC | 7.625 to 15.25 | 41,958,001 | 35,368,232 | |
| 2000-2020 | 1978 to 1980 | CMHC | 7.625 to 15.75 | 65,976,661 | 56,489,132 | |
| 2000-2021 | 1981 | CMHC | 9.50 to 15.75 | 30,946,135 | 27,088,148 | |
| 2000-2022 | 1982 | CMHC | 9.75 to 15.75 | 1,177,064 | 1,066,948 | |
| | | | | | 215,574,637 | (2)(7) |
| **To Canada Mortgage and Housing Corporation (CMHC) Section 40 Debt:** | | | | | | |
| 2002 | 1982 | CMHC | 7.099 | 36,967,243 | 3,311,039 | (2)(7) |
| **Issued by Government Organizations** | | | | | | |
| 2003 | N/A | CMHC | 5.125 to 7.98 | | 6,447 | |
| 2004 | N/A | CMHC | 5.2068 to 7.98 | | 28,736 | |
| 2005 | N/A | CMHC | 5.125 to 7.98 | | 24,387 | |
| 2006 | N/A | CMHC | 4.25 to 7.98 | | 65,978 | |
| 2007 | N/A | CMHC | 4.6739 to 7.98 | | 291,294 | |
| 2008 | N/A | CMHC | 5.875 to 7.98 | | 219,609 | |
| 2009 | N/A | CMHC | 5.375 to 7.98 | | 175,886 | |
| 2010 | N/A | CMHC | 6.4598 to 7.98 | | 871,718 | |
| 2011 | N/A | CMHC | 6.4159 to 7.98 | | 7,796,972 | |
| 2012 | N/A | CMHC | 5.2994 to 7.98 | | 398,232 | |
| 2013 | N/A | CMHC | 5.375 to 7.98 | | 5,887,316 | |
| 2014 | N/A | CMHC | 5.6206 to 7.98 | | 17,755,439 | |
| 2015 | N/A | CMHC | 5.822 to 7.98 | | 16,302,157 | |
| 2016 | N/A | CMHC | 6.1388 to 7.98 | | 44,119,355 | |
| 2017 | N/A | CMHC | 6.2491 to 7.98 | | 68,351,266 | |
| 2018 | N/A | CMHC | 7.1327 to 7.98 | | 56,209,137 | |
| 2019 | N/A | CMHC | 5.875 to 7.98 | | 60,366,487 | |

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

| Date of Maturity | Date of Issue | Series | Interest Rate (%) | Original Issue ($) | Outstanding ($) | Reference |
|---|---|---|---|---|---|---|
| 2020 | N/A | CMHC | 6.25 to 7.98 | | 193,960,246 | |
| 2021 | N/A | CMHC | 5.75 to 7.98 | | 93,976,368 | |
| 2022 | N/A | CMHC | 6.089 to 8.25 | | 97,114,033 | |
| 2023 | N/A | CMHC | 6.089 to 7.98 | | 78,891,563 | |
| 2024 | N/A | CMHC | 6.089 to 7.98 | | 64,994,700 | |
| 2025 | N/A | CMHC | 6.089 to 7.98 | | 54,313,913 | |
| 2026 | N/A | CMHC | 6.089 to 7.98 | | 23,861,405 | |
| 2027 | N/A | CMHC | 6.089 | | 23,179,552 | |
| 2028 | N/A | CMHC | 6.089 | | 3,513,939 | |
| | | | | | 928,325,157 | (7) |
| Total to Canada Mortgage and Housing Corporation | | | | | **1,147,210,833** | |
| **To Public Service Pension Fund:** | | | | | | |
| Year ending March 31 | | | | | | |
| 2002 | 1997 | OPB | 10.13 to 13.48 | 101,778,265 | 50,889,133 | |
| 2003 | 1997 | OPB | 9.81 to 16.95 | 128,554,996 | 128,554,996 | |
| 2004 | 1997 | OPB | 9.50 to 14.65 | 134,530,331 | 134,530,331 | |
| 2005 | 1997 | OPB | 9.82 to 12.78 | 160,431,479 | 160,431,479 | |
| 2006 | 1997 | OPB | 11.05 to 13.33 | 172,212,515 | 172,212,515 | |
| 2007 | 1997 | OPB | 11.16 to 13.33 | 188,766,466 | 188,766,466 | |
| 2008 | 1997 | OPB | 15.38 | 218,362,903 | 218,362,903 | |
| 2009 | 1997 | OPB | 12.79 | 264,512,886 | 264,512,886 | |
| 2010 | 1997 | OPB | 12.88 | 273,669,452 | 273,669,452 | |
| 2011 | 1997 | OPB | 13.33 | 282,994,558 | 282,994,558 | |
| 2012 | 1997 | OPB | 11.55 | 336,229,108 | 336,229,108 | |
| 2013 | 1997 | OPB | 10.38 | 374,479,804 | 374,479,804 | |
| 2014 | 1997 | OPB | 11.10 | 409,677,031 | 409,677,031 | |
| 2015 | 1997 | OPB | 11.19 | 450,938,707 | 450,938,707 | |
| | | | | | 3,446,249,369 | (1)(23)(65) |

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

| Date of Maturity | Date of Issue | Series | Interest Rate (%) | Original Issue ($) | Outstanding ($) | Reference |
|---|---|---|---|---|---|---|
| **To Public Service Employees' Union Pension Fund:** | | | | | | |
| Year ending March 31 | | | | | | |
| 2002 | 1997 | OPPT | 10.13 to 13.48 | 48,350,235 | 21,175,117 | |
| 2003 | 1997 | OPPT | 9.81 to 16.91 | 61,070,644 | 61,070,644 | |
| 2004 | 1997 | OPPT | 9.50 to 14.65 | 63,909,254 | 63,909,254 | |
| 2005 | 1997 | OPPT | 9.82 to 12.78 | 76,213,714 | 76,213,714 | |
| 2006 | 1997 | OPPT | 11.05 to 13.33 | 81,810,350 | 81,810,350 | |
| 2007 | 1997 | OPPT | 11.16 to 13.33 | 89,674,381 | 89,674,381 | |
| 2008 | 1997 | OPPT | 15.38 | 103,734,305 | 103,734,305 | |
| 2009 | 1997 | OPPT | 12.79 | 125,658,067 | 125,658,067 | |
| 2010 | 1997 | OPPT | 12.88 | 130,007,936 | 130,007,936 | |
| 2011 | 1997 | OPPT | 13.33 | 134,437,870 | 134,437,870 | |
| 2012 | 1997 | OPPT | 11.55 | 159,727,189 | 159,727,189 | |
| 2013 | 1997 | OPPT | 10.38 | 177,898,359 | 177,898,359 | |
| 2014 | 1997 | OPPT | 11.10 | 194,618,964 | 194,618,964 | |
| 2015 | 1997 | OPPT | 11.19 | 214,220,513 | 214,220,513 | |
| | | | | | 1,637,156,663 | (1)(23)(65) |
| **TOTAL NON- PUBLIC DEBT ISSUED** | | | | | **28,864,140,514** | |
| **(A) PAYABLE IN CANADA IN CANADIAN DOLLARS** | | | | | | |
| **PUBLICLY HELD DEBT** | | | | | | |
| Dec. 12, 2001 | Aug. 12, 1991 | GS | 10.50 | 600,000,000 | 600,000,000 | (1) |
| Apr. 22, 2003 | Dec. 29, 1992 | HG | 8.75 | 750,000,000 | 750,000,000 | (1) |
| Jul. 13, 2003 | Jan. 13, 2000 | NB | Floating | 100,000,000 | 100,000,000 | (8) |
| Sept. 16, 2003 | Sept. 16, 1998 | MA | Floating | 100,000,000 | 100,000,000 | (1)(73) |
| June 2, 2004 | Feb. 3, 2000 | MG | 4.875 | 200,000,000 | 200,000,000 | (1)(70) |
| July 14, 2004 | July 14, 1999 | MQ | 6.15 | 60,000,000 | 60,000,000 | (31) |
| Sept. 15, 2004 | June 21, 1994 | HU | 9.00 | 1,450,000,000 | 1,450,000,000 | (1) |
| Dec. 02, 2004 | Oct. 28, 1999 | MV | 6.40 | 107,000,000 | 107,000,000 | (34) |
| Mar. 08, 2005 | Dec. 10, 1999 | MZ | 6.25 | 1,000,000,000 | 1,000,000,000 | (1) |
| May 13, 2005 | May 13, 1999 | ML | 5.85 | 50,000,000 | 50,000,000 | (44) |
| Dec. 1, 2005 | Sept. 13, 1995 | JP | 8.25 | 1,000,000,000 | 1,000,000,000 | (1) |
| Feb. 1, 2006 | Feb. 1, 1999 | MJ | 5.00 | 90,000,000 | 90,000,000 | (1) |
| Feb. 20, 2006 | Feb. 20, 1996 | JZ | 0.00-17.25 | 107,000,000 | 107,000,000 | (1)(40) |
| Mar. 8, 2006 | Oct. 26, 2000 | NL | 5.90 | 500,000,000 | 500,000,000 | (1) |
| July 24, 2006 | July 24, 1996 | KE | 7.75 | 600,000,000 | 593,800,000 | (1)(39) |
| Jan. 12, 2007 | Jan. 12, 1995 | JF | 9.50 | 200,000,000 | 132,950,000 | (1)(21) |
| June 27, 2007 | June 27, 1997 | LB | 7.20 | 100,000,000 | 100,000,000 | (68) |
| Sept. 12, 2007 | Sept. 12, 1997 | LE | 6.125 | 1,100,000,000 | 1,085,000,000 | (1)(39) |

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

| Date of Maturity | Date of Issue | Series | Interest Rate (%) | Original Issue ($) | Outstanding ($) | Reference |
|---|---|---|---|---|---|---|
| **PUBLICLY HELD DEBT**- Continued | | | | | | |
| Dec. 10, 2007 | Dec. 10, 1997 | LH | 5.875 | 125,000,000 | 125,000,000 | (1) |
| June 3, 2008 | June 3, 1999 | MN | Floating | 50,000,000 | 50,000,000 | (46) |
| July 15, 2008 | Feb. 6, 1998 | LM | 5.50 | 75,000,000 | 75,000,000 | (1) |
| Sept. 4, 2008 | Sept. 4, 1998 | LW | 6.30 | 50,000,000 | 50,000,000 | (86) |
| Oct. 19, 2008 | Aug. 19, 1999 | MS | Floating | 50,000,000 | 50,000,000 | (58) |
| Dec. 1, 2008 | Sept. 15, 1998 | LZ | 5.70 | 1,550,000,000 | 1,550,000,000 | (1)(96) |
| Dec. 19, 2008 | June 28, 1999 | MP | Floating | 50,000,000 | 50,000,000 | (60) |
| Apr. 1, 2009 | Apr. 1, 1998 | LR | 6.15 | 205,000,000 | 205,000,000 | (87) |
| July 27, 2009 | July 27, 1999 | MR | 5.75-6.50 | 40,000,000 | 40,000,000 | (25) |
| Sept. 4, 2009 | Sept. 4, 1997 | LD | 6.00-7.625 | 75,000,000 | 75,000,000 | (71) |
| Oct. 10, 2009 | Oct. 10, 1997 | LG | 5.875-7.00 | 50,000,000 | 50,000,000 | (72) |
| Nov. 13, 2009 | Nov. 13, 1998 | MD | 5.40-6.10 | 47,000,000 | 47,000,000 | (88) |
| Nov. 19, 2009 | Nov. 19, 1999 | MU | 6.20 | 1,000,000,000 | 1,000,000,000 | (1) |
| Mar. 2, 2010 | Mar. 2, 1998 | LP | 6.15 | 60,000,000 | 60,000,000 | (82) |
| Nov. 19, 2010 | Nov. 24, 2000 | NK | 6.10 | 1,500,000,000 | 1,500,000,000 | (1) |
| Sept. 22, 2011 | Sept. 22, 1999 | MT | 6.10-7.125 | 40,000,000 | 40,000,000 | (49) |
| Sept. 1, 2015 | Sept. 1, 2000 | DMTN1 | 6.25 | 34,000,000 | 34,000,000 | (1)(45) |
| Sept. 4, 2020 | Sept. 4, 1998 | LY | 6.30 | 50,000,000 | 50,000,000 | (89) |
| July 13, 2022 | July 13, 1992 | HC | 9.50 | 1,850,000,000 | 1,850,000,000 | (1) |
| Sept. 8, 2023 | Sept. 8, 1993 | HP | 8.10 | 1,350,000,000 | 1,350,000,000 | (1) |
| June 2, 2025 | Dec. 20, 1994 | JE | 9.50 | 500,000,000 | 500,000,000 | (1) |
| Dec. 2, 2025 | Oct. 5, 1995 | JQ | 8.50 | 1,000,000,000 | 1,000,000,000 | (1) |
| Feb. 6, 2026 | Feb. 6, 1996 | JY | 8.00 | 50,000,000 | 12,500,000 | (1)(93) |
| June 2, 2026 | Dec. 21, 1995 | JU | 8.00 | 1,000,000,000 | 1,000,000,000 | (1) |
| Dec. 2, 2026 | Feb. 13, 1997 | KR | 8.00 | 425,000,000 | 425,000,000 | (1) |
| Dec. 2, 2026 | Jan. 20, 1999 | MH | 7.00 | 124,584,000 | 124,584,000 | (1)(90) |
| Feb. 3, 2027 | Aug. 5, 1997 | KN | 7.50 | 300,000,000 | 62,600,000 | (74) |
| Feb. 3, 2027 | Aug. 5, 1997 | KT | 6.95 | 200,000,000 | 34,275,000 | (75) |
| Feb. 3, 2027 | Apr. 1, 1997 | KY | 7.50 | 68,000,000 | 11,549,000 | (1) |
| Feb. 3, 2027 | Dec. 4, 1998 | LA | 7.50 | 50,000,000 | 5,507,000 | (1) |
| Feb. 4, 2027 | Feb. 4, 1998 | KQ | 7.375 | 125,000,000 | 990,000 | (76) |
| June 2, 2027 | Oct. 17, 1996 | KJ | 7.60 | 4,170,300,000 | 4,170,300,000 | (1)(77) |
| Aug. 25, 2028 | Feb. 25, 1998 | LQ | 6.25 | 645,243,000 | 2,020,000 | (1) |
| Mar. 8, 2029 | Jan. 8, 1998 | LK | 6.50 | 4,677,000,000 | 4,677,000,000 | (1)(95) |
| Jan. 13, 2031 | Sept. 8, 1995 | JN | 9.50 | 125,000,000 | 125,000,000 | (1) |
| June 2, 2031 | Mar. 27, 2000 | NF | 6.20 | 1,000,000,000 | 1,000,000,000 | (1) |
| Nov. 3, 2034 | Nov. 3, 1994 | HY | 9.75 | 280,000,000 | 280,000,000 | (1) |

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

| Date of Maturity | Date of Issue | Series | Interest Rate (%) | Original Issue ($) | Outstanding ($) | Reference |
|---|---|---|---|---|---|---|
| **PUBLICLY HELD DEBT**-Continued | | | | | | |
| Jan. 10, 1995 to | | | | | | |
| Jan. 10, 2035 | Nov. 30, 1994 | HZ | 9.4688 | 189,616,626 | 15,876,154 | (1)(24) |
| " " | " " | JA | 9.4688 | 24,766,559 | 24,766,559 | (1)(24) |
| " " | " " | JB | 9.4688 | 8,482,324 | 8,482,324 | (1)(24) |
| " " | " " | JC | 9.4688 | 4,764,354 | 4,764,354 | (1)(24) |
| " " | " " | JD | 9.4688 | 3,171,134 | 3,171,134 | (1)(24) |
| Feb. 8, 2035 | Feb. 8, 1995 | JJ | 9.875 | 73,000,000 | 73,000,000 | (19) |
| June 20, 2036 | June 20, 1996 | KC | 8.25 | 211,000,000 | 211,000,000 | (1) |
| June 20, 2038 | Sept. 16, 1996 | KG | 8.10 | 120,000,000 | 120,000,000 | (1) |
| July 13, 2038 | July 29, 1998 | LS | 5.75 | 50,000,000 | 50,000,000 | (1) |
| Aug. 25, 2038 | Aug. 17,1998 | LT | 6.00 | 100,000,000 | 100,000,000 | (1) |
| July 13, 2039 | Feb. 2, 1999 | MK | 5.65 | 250,000,000 | 250,000,000 | (1)(37) |
| Dec. 2, 2039 | Feb. 25, 2000 | NE | 5.70 | 263,700,000 | 263,700,000 | (1)(94) |
| Jan. 10, 2045 | May 25, 1995 | JL | 8.39 | 35,531,176 | 35,531,176 | (1)(41) |
| Mar. 1, 2045 | Mar. 1, 1995 | JK | 9.50 | 150,000,000 | 150,000,000 | (20) |
| | | | | | 31,018,366,701 | |
| **ONTARIO SAVINGS BONDS** | | | | | | |
| March 1, 2000 | March 1, 1995 | Annual | Variable | 789,297,500 | 20,973,500 | (29) |
| March 1, 2000 | March 1, 1995 | Compound | Variable | 817,902,500 | 23,878,050 | (29) |
| June 21, 2000 | June 21, 1997 | Annual | Fixed | 281,498,800 | 2,056,900 | (29) |
| June 21, 2000 | June 21, 1997 | Compound | Fixed | 168,756,600 | 1,788,600 | (29) |
| June 21, 2001 | June 21, 1996 | Annual | Step-Up | 279,338,000 | 273,082,800 | (62)(63) |
| June 21, 2001 | June 21, 1996 | Compound | Step-Up | 337,518,000 | 287,654,300 | (62)(63) |
| June 21, 2001 | June 21, 1996 | Annual | Variable | 219,990,000 | 38,973,500 | (62)(64) |
| June 21, 2001 | June 21, 1996 | Compound | Variable | 194,579,100 | 35,547,600 | (62)(64) |
| June 21, 2001 | June 21, 1998 | Annual | Fixed | 101,725,500 | 105,677,000 | (6)(30)(62) |
| June 21, 2001 | June 21, 1998 | Compound | Fixed | 78,706,000 | 73,579,200 | (30)(62) |
| June 21, 2002 | June 21, 1999 | Annual | Fixed | 160,184,700 | 163,338,900 | (6)(30)(62) |
| June 21, 2002 | June 21, 1999 | Compound | Fixed | 148,829,300 | 144,341,400 | (30)(62) |
| June 21, 2003 | June 21, 1999 | Compound | Step-Up | 404,053,600 | 258,424,900 | (62)(92) |
| June 21, 2003 | June 21, 1998 | Annual | Step-Up | 439,199,300 | 272,657,000 | (62)(92) |
| June 21, 2003 | June 21, 2000 | Annual | Fixed | 432,459,400 | 433,841,100 | (6)(30)(62) |
| June 21, 2003 | June 21, 2000 | Compound | Fixed | 362,585,200 | 360,850,800 | (30)(62)(92) |
| June 21, 2004 | June 21, 1997 | Annual | Step-Up | 447,763,300 | 447,929,700 | (6)(62)(66) |
| June 21, 2004 | June 21, 1997 | Compound | Step-Up | 451,525,200 | 370,831,100 | (62)(66) |
| June 21, 2004 | June 21, 1997 | Annual | Variable | 107,533,500 | 20,527,900 | (62)(67) |
| June 21, 2004 | June 21, 1997 | Compound | Variable | 80,484,400 | 16,337,500 | (62)(67) |

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

| Date of Maturity | Date of Issue | Series | Interest Rate (%) | Original Issue ($) | Outstanding ($) | Reference |
|---|---|---|---|---|---|---|
| **ONTARIO SAVINGS BONDS**-Continued | | | | | | |
| June 21, 2004 | June 21, 1999 | Compound | Step-up | 386,322,100 | 256,507,300 | (62)(28) |
| June 21, 2004 | June 21, 1999 | Annual | Step-up | 350,043,000 | 240,044,500 | (62)(28) |
| June 21, 2005 | June 21, 1998 | Annual | Variable | 495,453,600 | 169,968,000 | (62)(81) |
| June 21, 2005 | June 21, 1998 | Compound | Variable | 435,985,400 | 152,767,800 | (62)(81) |
| June 21, 2005 | June 21, 2000 | Annual | Step-Up | 711,832,300 | 710,831,300 | (62)(48) |
| June 21, 2005 | June 21, 2000 | Compound | Step-Up | 628,656,700 | 616,243,000 | (62)(48) |
| June 21, 2006 | June 21, 1999 | Compound | Variable | 447,350,800 | 180,885,700 | (62)(81) |
| June 21, 2006 | June 21, 1999 | Annual | Variable | 556,662,200 | 198,714,600 | (62)(81) |
| June 21, 2007 | June 21, 2000 | Compound | Variable | 513,553,000 | 438,795,300 | (62)(56) |
| June 21, 2007 | June 21, 2000 | Annual | Variable | 731,472,600 | 610,636,100 | (62)(56) |
| | | | | | 6,927,185,350 | (1) |
| TOTAL PAYABLE IN CANADA IN CANADIAN DOLLARS | | | | | 37,945,552,051 | |
| **(B) GLOBAL MARKET PAYABLE IN CANADIAN DOLLARS** | | | | | | |
| Mar. 11, 2003 | Mar. 11, 1993 | HK | 8.00 | 1,500,000,000 | 1,500,000,000 | |
| Dec. 8, 2003 | July 20, 1993 | HM | 7.75 | 1,250,000,000 | 1,250,000,000 | |
| Jan. 24, 2005 | Jan. 24, 2000 | NC | Floating | 500,000,000 | 500,000,000 | (50) |
| Jan. 19, 2006 | Jan. 19, 1996 | JV | 7.50 | 1,250,000,000 | 1,240,000,000 | (39) |
| Feb. 7, 2024 | Feb. 7, 1994 | HS | 7.50 | 1,250,000,000 | 1,250,000,000 | |
| TOTAL PAYABLE IN CANADIAN DOLLARS | | | | | 5,740,000,000 | (1) |
| **(C) PAYABLE IN EUROPE IN CANADIAN DOLLARS** | | | | | | |
| Apr. 5, 2001 | Feb. 22, 1996 | JW | 6.23 | 510,125,000 | 510,125,000 | (42) |
| Oct. 29, 2001 | Oct. 29, 1991 | GX | 9.75 | 750,000,000 | 750,000,000 | |
| Nov. 6, 2001 | Nov. 6, 1998 | MC | 5.00 | 100,000,000 | 100,000,000 | |
| Nov. 27, 2003 | Nov. 27, 1998 | ME | 5.00 | 250,000,000 | 250,000,000 | |
| Sept. 27, 2005 | Sept. 27, 1993 | HQ | 7.25 | 500,000,000 | 500,000,000 | |
| Dec. 1, 2005 | Dec. 1, 1999 | EMTN045 | 6.50 | 325,000,000 | 325,000,000 | |
| Jan. 27, 2009 | Jan. 27, 1999 | EMTN042 | 5.00 | 250,000,000 | 250,000,000 | |
| July 13, 2034 | July 13, 1994 | EMTN005 | 9.40 | 300,000,000 | 300,000,000 | |
| TOTAL PAYABLE IN EUROPE IN CANADIAN DOLLARS | | | | | 2,985,125,000 | (1) |
| **(D) PAYABLE IN UNITED STATES IN CANADIAN DOLLARS** | | | | | | |
| Feb. 18, 2013 | Feb. 18, 1993 | HJ | 9.24 | 250,000,000 | 250,000,000 | |
| TOTAL PAYABLE IN UNITED STATES IN CANADIAN DOLLARS | | | | | 250,000,000 | (1) |

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

| Date of Maturity | Date of Issue | Series | Interest Rate (%) | Original Issue ($) | Outstanding ($) | Reference |
|---|---|---|---|---|---|---|
| **(E) PAYABLE IN THE UNITED STATES IN U.S. DOLLARS** | | | | | | |
| Oct. 17, 2001 | Oct. 17, 1991 | GY | 8.00 | 750,000,000 | 750,000,000 | |
| TOTAL PAYABLE IN UNITED STATES IN U.S. DOLLARS | | | | | 750,000,000 | (1) |
| CANADIAN DOLLAR EQUIVALENT | | | | | | |
| EXCHANGE RATE OF $1.18125 | | | | | 885,937,495 | (10) |
| **(F) GLOBAL MARKET PAYABLE IN U.S. DOLLARS** | | | | | | |
| June 4, 2002 | June 4, 1992 | HB | 7.75 | 2,000,000,000 | 2,000,000,000 | |
| Jan. 27, 2003 | Jan. 27, 1993 | HH | 7.375 | 3,000,000,000 | 3,000,000,000 | |
| June 22, 2004 | June 22, 1994 | HV | 7.625 | 1,000,000,000 | 1,000,000,000 | |
| Aug. 4, 2005 | Aug. 4, 1995 | JM | 7.00 | 1,000,000,000 | 1,250,000,000 | |
| Feb. 21, 2006 | Feb. 21, 1996 | KA | 6.00 | 1,500,000,000 | 1,800,000,000 | |
| Oct. 1, 2008 | Oct. 1, 1998 | MB | 5.50 | 1,000,000,000 | 1,000,000,000 | |
| TOTAL PAYABLE IN U.S. DOLLARS | | | | | 10,050,000,000 | (1) |
| CANADIAN DOLLAR EQUIVALENT | | | | | | |
| EXCHANGE RATE OF $1.34374 | | | | | 13,504,621,133 | (43) |
| **(G) PAYABLE IN CANADA IN U.S. DOLLARS** | | | | | | |
| Apr. 24, 2005 | Apr. 24, 1995 | DMTN1 | Floating | 100,000,000 | 100,000,000 | |
| May 1, 2005 | May 1, 1995 | DMTN2 | Floating | 100,000,000 | 100,000,000 | |
| May 9, 2005 | May 9, 1995 | DMTN3 | Floating | 100,000,000 | 100,000,000 | |
| May 16, 2005 | May 16, 1995 | DMTN4 | Floating | 100,000,000 | 100,000,000 | |
| TOTAL PAYABLE IN CANADA IN U.S. DOLLARS | | | | | 400,000,000 | (35) |
| CANADIAN DOLLAR EQUIVALENT | | | | | | |
| EXCHANGE RATE OF $1.36625 | | | | | 546,500,000 | (9) |
| **(H) PAYABLE IN EUROPE IN U.S. DOLLARS** | | | | | | |
| June 12, 2003 | Jan. 19, 2001 | EMTN 47 | Floating | 100,000,000 | 100,000,000 | |
| TOTAL PAYABLE IN EUROPE IN U.S. DOLLARS | | | | | 100,000,000 | (1) |
| CANADIAN DOLLAR EQUIVALENT | | | | | | |
| EXCHANGE RATE OF $1.5260 | | | | | 152,600,000 | (11) |
| **(I) PAYABLE IN JAPAN IN U.S. DOLLARS** | | | | | | |
| July 17, 2001 | July 17, 1997 | LC | 3.25 | 285,714,000 | 285,714,000 | (78) |
| TOTAL PAYABLE IN JAPAN IN U.S. DOLLARS | | | | | 285,714,000 | |
| CANADIAN DOLLAR EQUIVALENT | | | | | | |
| EXCHANGE RATE OF $1.25980 | | | | | 359,942,263 | (85) |

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

| Date of Maturity | Date of Issue | Series | Interest Rate (%) | Original Issue ($) | Outstanding ($) | Reference |
|---|---|---|---|---|---|---|
| **(J) PAYABLE IN JAPAN IN JAPANESE YEN** | | | | | | |
| Jan. 28, 2003 | Jan. 28, 1993 | YL001 | 5.50 | 10,000,000,000 | 10,000,000,000 | (1) |
| Mar. 24, 2003 | Mar. 22, 1993 | YL002 | 4.80 | 7,000,000,000 | 7,000,000,000 | (1) |
| Aug. 25, 2003 | Aug. 25, 1993 | YL003 | Floating | 10,000,000,000 | 10,000,000,000 | (1)(4) |
| Sept. 22, 2003 | Sept. 22, 1993 | YL004 | 5.20 | 10,000,000,000 | 10,000,000,000 | (1) |
| July 6, 2004 | July 6, 1994 | YL005 | 4.40 | 10,000,000,000 | 10,000,000,000 | (1) |
| July 21, 2004 | July 21, 1994 | YL006 | 4.53 | 10,000,000,000 | 10,000,000,000 | (1) |
| July 28, 2004 | July 27, 1994 | YL007 | 4.55 | 7,000,000,000 | 7,000,000,000 | (22) |
| Sept. 8, 2004 | Sept. 7, 1994 | YL008 | 4.71 | 7,000,000,000 | 7,000,000,000 | (1) |
| Oct. 25, 2004 | Oct. 25, 1994 | YL009 | 5.00 | 10,000,000,000 | 10,000,000,000 | (1) |
| Dec. 20, 2004 | Dec. 20, 1994 | YL010 | 4.80 | 5,000,000,000 | 5,000,000,000 | (1) |
| Aug. 31, 2005 | Aug. 31, 1995 | YL011 | 3.10 | 25,000,000,000 | 25,000,000,000 | (1) |
| Mar. 16, 2007 | Mar. 18, 1997 | KU | 3.10 | 5,000,000,000 | 5,000,000,000 | (1)(54) |
| Mar. 16, 2007 | Mar. 18, 1997 | KV | 3.25 | 15,000,000,000 | 15,000,000,000 | (1)(55) |
| July 18, 2007 | July 18, 1997 | YL012 | 2.615 | 10,000,000,000 | 10,000,000,000 | (1) |
| Nov. 12, 2009 | Nov. 12, 1999 | YL014 | 2.00 | 10,000,000,000 | 10,000,000,000 | (1) |
| TOTAL PAYABLE IN JAPAN IN JAPANESE YEN | | | | | 151,000,000,000 | |
| CANADIAN DOLLAR EQUIVALENT | | | | | | |
| EXCHANGE RATE OF $0.012980 | | | | | 1,959,928,967 | (14) |
| **(K) GLOBAL MARKET PAYABLE IN JAPANESE YEN** | | | | | | |
| Jan. 25, 2010 | Jan. 25, 2000 | ND | 1.875 | 50,000,000,000 | 50,000,000,000 | |
| TOTAL PAYABLE IN JAPAN IN JAPANESE YEN | | | | | 50,000,000,000 | (1) |
| CANADIAN DOLLAR EQUIVALENT | | | | | | |
| EXCHANGE RATE OF $0.01256 | | | | | 628,000,000 | |
| **(L) PAYABLE IN EUROPE IN JAPANESE YEN** | | | | | | |
| June 20, 2001 | July 11, 1994 | HW | 4.40 | 100,000,000,000 | 100,000,000,000 | |
| July 12, 2001 | July 12, 1994 | EMTN006 | 3.90 | 5,000,000,000 | 5,000,000,000 | (32) |
| Nov. 10, 2001 | Nov. 10, 1994 | EMTN012 | 4.75 | 3,000,000,000 | 3,000,000,000 | |
| Mar. 15, 2005 | Mar. 15, 1995 | EMTN015 | 6.00 | 2,000,000,000 | 2,000,000,000 | (33) |
| Sept. 8, 2005 | Mar. 23, 1998 | EMTN037 | 6.21 | 10,000,000,000 | 10,000,000,000 | |
| Sept. 19, 2005 | Sept. 4,1998 | EMTN038 | 6.205 | 10,000,000,000 | 10,000,000,000 | |
| Aug. 29, 2006 | Aug. 29, 1996 | EMTN021 | 4.28 | 10,000,000,000 | 10,000,000,000 | (57) |
| Mar. 26, 2007 | Apr. 3, 1997 | EMTN033 | 3.20 | 10,000,000,000 | 10,000,000,000 | (47) |
| June 13, 2007 | June 13, 1997 | EMTN034 | 3.58 | 10,000,000,000 | 10,000,000,000 | (79) |
| Feb. 25, 2008 | Feb. 25, 1998 | EMTN036 | 2.60 | 7,100,000,000 | 7,100,000,000 | (80) |
| Nov. 19, 2009 | Nov. 24, 1999 | EMTN046 | 2.00 | 10,000,000,000 | 10,000,000,000 | |
| TOTAL PAYABLE IN EUROPE IN JAPANESE YEN | | | | | 177,100,000,000 | (1) |
| CANADIAN DOLLAR EQUIVALENT | | | | | | |
| EXCHANGE RATE OF $0.015028 | | | | | 2,661,380,515 | (15) |

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

| Date of Maturity | Date of Issue | Series | Interest Rate (%) | Original Issue ($) | Outstanding ($) | Reference |
|---|---|---|---|---|---|---|
| **(M) PAYABLE IN EUROPE IN AUSTRALIAN DOLLARS** | | | | | | |
| Oct. 15, 2001 | Oct. 15, 1996 | EMTN025 | 5.00 | 125,000,000 | 125,000,000 | |
| TOTAL PAYABLE IN EUROPE IN AUSTRALIAN DOLLARS | | | | | 125,000,000 | (1) |
| CANADIAN DOLLAR EQUIVALENT | | | | | | |
| EXCHANGE RATE OF $1.09189 | | | | | 136,486,250 | (18) |
| **(N) PAYABLE IN EUROPE IN DEUTSCHE MARKS** | | | | | | |
| Jan. 13, 2004 | Jan. 13, 1994 | HR | 6.25 | 1,500,000,000 | 1,439,150,000 | (3) |
| TOTAL PAYABLE IN EUROPE IN DEUTSCHE MARKS | | | | | 1,439,150,000 | (1) |
| CANADIAN DOLLAR EQUIVALENT | | | | | | |
| EXCHANGE RATE OF $0.86581 | | | | | 1,246,029,301 | (16) |
| **(O) PAYABLE IN EUROPE IN EUROS** | | | | | | |
| Feb. 17, 2006 | Feb. 17, 1999 | EMTN043 | 3.50 | 27,000,000 | 27,000,000 | (1) |
| TOTAL PAYABLE IN EUROPE IN EUROS | | | | | 27,000,000 | |
| CANADIAN DOLLAR EQUIVALENT | | | | | | |
| EXCHANGE RATE OF $1.6890 | | | | | 45,603,000 | (27) |
| **(P) PAYABLE IN EUROPE IN FRENCH FRANCS** | | | | | | |
| July 29, 2008 | July 29, 1996 | KD | 6.875 | 3,000,000,000 | 3,000,000,000 | |
| July 21, 2009 | July 21, 1997 | EMTN035 | 5.875 | 3,000,000,000 | 3,000,000,000 | |
| TOTAL PAYABLE IN EUROPE IN FRENCH FRANCS | | | | | 6,000,000,000 | (1) |
| CANADIAN DOLLAR EQUIVALENT | | | | | | |
| EXCHANGE RATE OF $0.28491 | | | | | 1,709,459,932 | (53) |
| **(Q) PAYABLE IN EUROPE IN GREEK DRACHMA** | | | | | | |
| June 19, 2001 | June 19, 1998 | EMTN040 | Floating | 10,000,000,000 | 10,000,000,000 | (36) |
| TOTAL PAYABLE IN EUROPE IN GREEK DRACHMA | | | | | 10,000,000,000 | (1) |
| CANADIAN DOLLAR EQUIVALENT | | | | | | |
| EXCHANGE RATE OF $0.004903 | | | | | 49,031,053 | (59) |
| **(R) PAYABLE IN EUROPE IN NETHERLANDS GUILDERS** | | | | | | |
| Sept. 27, 2004 | Sept. 27, 1994 | HX | 7.75 | 500,000,000 | 400,000,000 | (26) |
| TOTAL PAYABLE IN EUROPE IN NETHERLAND GUILDERS | | | | | 400,000,000 | (1) |
| CANADIAN DOLLAR EQUIVALENT | | | | | | |
| EXCHANGE RATE OF $0.77542 | | | | | 310,168,000 | (17) |

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

| Date of Maturity | Date of Issue | Series | Interest Rate (%) | Original Issue ($) | Outstanding ($) | Reference |
|---|---|---|---|---|---|---|
| **(S) GLOBAL MARKET PAYABLE IN NEW ZEALAND DOLLARS** | | | | | | |
| Dec. 3, 2008 | Dec. 3, 1998 | MF | 6.25 | 250,000,000 | 250,000,000 | |
| TOTAL PAYABLE IN NEW ZEALAND DOLLARS | | | | | 250,000,000 | (1) |
| CANADIAN DOLLAR EQUIVALENT | | | | | | |
| EXCHANGE RATE OF $0.82770 | | | | | 206,925,000 | (69) |
| **(T) PAYABLE IN EUROPE IN NORWEGIAN KRONER** | | | | | | |
| Dec. 29, 2004 | Sept. 12, 1996 | EMTN022 | 7.00 | 300,000,000 | 300,000,000 | |
| TOTAL PAYABLE IN EUROPE IN NORWEGIAN KRONER | | | | | 300,000,000 | (1) |
| CANADIAN DOLLAR EQUIVALENT | | | | | | |
| EXCHANGE RATE OF $0.21235 | | | | | 63,704,048 | (61) |
| **(U) PAYABLE IN EUROPE IN POUNDS STERLING** | | | | | | |
| July 30, 2002 | July 30, 1992 | HD | 9.375 | 200,000,000 | 200,000,000 | |
| June 10, 2004 | June 10, 1998 | EMTN039 | 6.375 | 200,000,000 | 200,000,000 | |
| TOTAL PAYABLE IN EUROPE IN POUNDS STERLING | | | | | 400,000,000 | (1) |
| CANADIAN DOLLAR EQUIVALENT | | | | | | |
| EXCHANGE RATE OF $2.30675 | | | | | 922,700,000 | (12) |
| **(V) PAYABLE IN EUROPE IN SWISS FRANCS** | | | | | | |
| June 29, 2001 | Mar. 29, 1996 | KB | 4.00 | 250,000,000 | 250,000,000 | |
| Jan. 27, 2003 | Jan. 27, 1993 | HF | 6.25 | 400,000,000 | 400,000,000 | |
| July 7, 2003 | July 7, 1998 | EMTN041 | 2.50 | 250,000,000 | 250,000,000 | |
| TOTAL PAYABLE IN EUROPE IN SWISS FRANCS | | | | | 900,000,000 | (1) |
| CANADIAN DOLLAR EQUIVALENT | | | | | | |
| EXCHANGE RATE OF $1.07645 | | | | | 968,804,139 | (13) |
| **TOTAL DEBENTURES AND BONDS** | | | | | 73,278,498,147 | |
| **TREASURY BILLS** | | | | | 2,679,700,000 | (84) |
| **U.S. COMMERCIAL PAPER (in U.S. Dollars)** | | | | | 347,500,000 | |
| CANADIAN DOLLAR EQUIVALENT | | | | | | |
| EXCHANGE RATE OF $1.50467 | | | | | 522,871,875 | (91) |

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

| Date of Maturity | Date of Issue | Series | Interest Rate (%) | Original Issue ($) | Outstanding ($) | Reference |
|---|---|---|---|---|---|---|
| **Other Debt Issued by Government Organizations** | | | | | | |
| **PAYABLE IN THE UNITED STATES IN U.S. DOLLARS** | | | | | | |
| July 1, 2006 | Mar. 31, 1994 | Collateralized financing | 7.261 to 7.395 | 311,866,966 | 316,928,050 | |
| TOTAL PAYABLE IN UNITED STATES IN U.S. DOLLARS | | | | | 316,928,050 | |
| CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $1.4115 | | | | | 447,339,003 | |
| **TOTAL PUBLICLY HELD DEBT ISSUED** | | | | | **76,928,409,025** | |
| **TOTAL DEBT ISSUED FOR PROVINCIAL PURPOSES** | | | | | **105,792,549,539** | (83) |
| **Debt Issued for Ontario Electricity Financial Corporation (OEFC)*** | | | | | | |
| **(A) PAYABLE IN CANADA IN CANADIAN DOLLARS** | | | | | | |
| **NON-PUBLIC DEBT** | | | | | | |
| **Canada Pension Plan Investment Fund** | | | | | | |
| 2002 | 1981 | CPP | 14.81 to 17.51 | 500,000,000 | 500,000,000 | |
| 2007 | 1986 | CPP | 9.64 | 119,000,000 | 119,000,000 | |
| 2008 | 1988 | CPP | 9.13 to 9.72 | 388,715,000 | 388,715,000 | |
| 2009 | 1989 | CPP | 9.62 to 10.31 | 589,319,000 | 589,319,000 | |
| 2010 | 1990 | CPP | 9.61 to 10.31 | 650,712,000 | 650,712,000 | |
| 2021 | 2001 | CPP | 6.08 | 19,375,000 | 19,375,000 | |
| TOTAL PAYABLE IN CANADA IN CANADIAN DOLLARS | | | | | 2,267,121,000 | (5) |

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

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

| Date of Maturity | Date of Issue | Series | Interest Rate (%) | Original Issue ($) | Outstanding ($) | Reference |
|---|---|---|---|---|---|---|
| **(B) PAYABLE IN CANADA IN CANADIAN DOLLARS** | | | | | | |
| **PUBLICLY HELD DEBT** | | | | | | |
| Nov. 1, 2002 | May 9, 2000 | HC-NH | 6.239 | 116,995,000 | 116,812,956 | (98) |
| June 2, 2004 | Dec. 9, 1998 | HC-MG | 4.875 | 2,500,000,000 | 2,500,000,000 | (52) |
| Mar. 8, 2006 | Mar. 8, 2001 | CDB-NLA | 5.90 | 500,000,000 | 500,000,000 | |
| Dec. 1, 2008 | Jan. 22, 1999 | HC-LZ | 5.70 | 650,000,000 | 650,000,000 | (97) |
| Nov. 19, 2009 | July 26, 2000 | HC-MU | 6.20 | 500,000,000 | 500,000,000 | |
| Nov. 19, 2010 | Sept. 1, 2000 | HC-NK | 6.10 | 500,000,000 | 500,000,000 | |
| Mar. 15, 2011 | Mar. 15, 2001 | DMTN3 | 5.50-6.80 | 50,000,000 | 50,000,000 | (99) |
| June 2, 2027 | Feb. 4, 2000 | HC-KJA | 7.60 | 25,500,000 | 25,500,000 | |
| Aug. 25, 2028 | April 6, 1999 | HC-LQA | 6.25 | 78,600,000 | 78,600,000 | |
| June 2, 2031 | Feb. 24, 2000 | HC-NF | 6.20 | 500,000,000 | 500,000,000 | (51) |
| | | | | | 5,420,912,956 | |
| **(C) PAYABLE IN EUROPE IN CANADIAN DOLLARS** | | | | | | |
| Nov. 27, 2003 | June 17, 1999 | HC-ME | 5.00 | 350,000,000 | 350,000,000 | |
| Feb. 28, 2005 | Feb. 28, 2001 | EMTN-48 | 5.25 | 200,000,000 | 200,000,000 | |
| | | | | | 550,000,000 | |
| **(D) GLOBAL MARKET PAYABLE IN U.S. DOLLARS** | | | | | | |
| Oct. 1, 2008 | Mar. 19, 2001 | GLB-MBB | 5.5 | 250,000,000 | 250,000,000 | |
| TOTAL PAYABLE IN U.S. DOLLARS | | | | | 250,000,000 | |
| CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $1.550 | | | | | 387,500,000 | (100) |
| **TREASURY BILLS** | | | | | 2,134,000,000 | |
| **US COMMERCIAL PAPER (in U.S. Dollars)** | | | | | 286,000,000 | |
| CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $1.5240 | | | | | 435,865,225 | |
| **TOTAL DEBT ISSUED FOR ONTARIO ELECTRICITY FINANCIAL CORPORATION (OEFC)** | | | | | **11,195,399,181** | |

**References:**

1. Non-callable.
2. Liability to Canada Mortgage and Housing Corporation assumed by the Ministry of Finance upon the dissolution of Ontario Land Corporation.
3. On October 13, 1999 the Province purchased for cancellation 60.85 million Deutsche Marks of the HR Series bonds.
4. Interest payable is six-month Yen LIBOR.
5. Securities sold to the Canada Pension Plan Investment Fund are payable 20 years after their respective dates of issue, are not negotiable and not transferable or assignable but are redeemable in whole or in part before maturity at the option of the Minister of Finance of Canada, on six months' prior notice, when the Minister deems it necessary in order to meet the requirements of the Canada Pension Plan. In the case of redemption before maturity, the Ontario Securities are to be redeemed in the order in which they were issued and the amount of Ontario Securities to be redeemed at any time shall be proportionate to the amount of all securities then held to the credit of the said fund represented by Ontario Securities.
6. The par value of bonds outstanding exceeds the original par value of bonds issued due to conversions from compound interest form bonds into annual interest form bonds.
7. The terms of these debentures require that equal payments be made each year until their maturity. Each payment consists of blended principal and interest.
8. Interest payable is three-month Canadian BA.
9. The Province entered into currency exchange agreements that effectively converted these U.S. Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.36625. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 8.64%.
10. The Province entered into currency exchange agreements that effectively converted the U.S. Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.18125. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 9.69%.
11. The Province entered into currency exchange agreements that effectively converted these U.S. Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.5260. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.66% .
12. The Province entered into currency exchange agreements that effectively converted these Pounds Sterling obligations to Canadian Dollar obligations at an exchange rate of 2.30675. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.81%.
13. The Province entered into currency exchange agreements that effectively converted these Swiss Franc obligations to Canadian Dollar obligations at an exchange rate of 1.07645. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 8.97% on $437 million and floating Canadian BA rate +0.004% on $283 million and floating Canadian BA rate -0.025% on $249 million.
14. The Province entered into currency exchange agreements that effectively converted substantially all of these Japanese Yen obligations to Canadian Dollar obligations at an exchange rate of 0.012980. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.48% on $1,740 million, and floating Canadian BA rate -0.051% on $220 million.
15. The Province entered into currency exchange agreements that effectively converted substantially all of these Japanese Yen obligations to Canadian Dollar obligations at an exchange rate of 0.015028. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 7.61%.
16. The Province entered into currency exchange agreements that effectively converted these Deutsche Mark obligations to Canadian Dollar obligations at an exchange rate of 0.86581. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 7.76%.
17. The Province entered into currency exchange agreements that effectively converted these Netherlands Guilder obligations to Canadian Dollar obligations at an exchange rate of 0.77542. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 8.58%.
18. The Province entered into currency exchange agreements that effectively converted these Australian Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.09189. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate -0.054%.
19. Retractable in whole or in part on February 8, 2007, at the holder's option, provided that the notice of retraction is made during the period from July 15, 2006 to January 15, 2007 inclusive. Such election is irrevocable.
20. Retractable in whole or in part on March 1, 2010, at the holder's option, provided that the notice of retraction is made during the period from March 1, 1995 to February 12, 2010 inclusive. Such election is irrevocable.

21. Exchangeable at any time, in whole or in part, at the holder's option, for an equivalent principal amount of Series JG 9.50% bonds due January 12, 2035.
22. Callable in full, and not in part, on July 27, 2001, at par.
23. The terms of these debentures require that the principal be repaid in 12 equal monthly payments in the year preceding the date of maturity.
24. The terms of these debentures require unequal payments, consisting of both principal and interest, to be made at predetermined irregular intervals. On January 10, 2035, the principal to be repaid on each debenture will be $2.3 million.
25. Bonds are extendible at the option of the Province on every coupon date starting on July 27, 2001, to the final maturity date of July 27, 2009. Coupon interest is paid semi-annually at a rate of 5.75% in years 1-2, 5.90% in years 3-4, 6.00% in years 5-6, 6.15% in years 7-8, 6.25% in year 9, and 6.50% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate -0.125%.
26. On September 27, 1999 the Province purchased for cancellation 100 million Netherlands Guilders of the HX Series bonds.
27. The Province entered into currency exchange agreements that effectively converted these Euro obligations to Canadian Dollar obligations at an exchange rate of 1.6890. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate -0.055%.
28. The interest rate was set at 4.75% for the first year. The interest payable is 5.00% in the second year, 5.50% in the third year, 6.00% in the fourth year and 6.25% in the final year.
29. The 1995 series of Ontario Savings Bonds matured on March 1, 2000, and the 1997 fixed series bonds matured on June 21, 2000. The outstanding amounts at March 31, 2001 represent bonds not yet presented for redemption.
30. In every year for the period 1997-2000, the Province issued fixed rate OSBs each with terms of three years. Interest rates were set for the term of the bonds. The rate on the 1997 and 1998 Series bonds was set at 5.25%. The rate on the 1999 Series bonds was 5.50% and the rate on 2000 Series bonds was 6.50%.
31. The Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating rate Canadian BA -0.085%. The Province has the right to call the issue after 2.5 years (Jan. 14, 2002).
32. Proceeds of issue and repayment are in Japanese Yen. Interest is payable in Australian Dollars, based on a notional principal of AUD 66 million at a rate of 3.9%.
33. Proceeds of issue and repayment are in Japanese Yen. Interest is payable in Australian Dollars, based on a notional principal of AUD 27.2 million at a rate of 6.0%.
34. The bonds are extendible at the option of the bondholder on or before November 10, 2004. Coupon interest is paid at 6.40% for the first five years. If extended to final maturity date of December 2, 2014, the coupon will step up to 6.80%.
35. Interest payable is six-month U.S. LIBOR +0.0475%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 8.65%.
36. Interest payable is three-month Athimid LIBOR -0.75%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate -0.135%.
37. During the 1999-2000 fiscal year, Series MK bonds were reopened bringing the total issue to $250 million.
38. The original debentures payable to OMERS were replaced effective December 31, 1995, with debentures payable to OMERS and to Colleges of Applied Arts and Technology Pension Plan, in the amounts of $741.6 million and $90.9 million, respectively. The terms and conditions remain the same as those of the original debentures.
39. Agricorp, a Government Organization, holds $15 million in Series LE, $10 million in Series JV and $6.2 million in Series KE. On consolidation under PSAB these amounts reduce the outstanding balance of each issue.
40. No interest is payable in the first five years, thereafter interest is payable monthly at an annual interest rate of 17.25%.
41. The terms of these debentures require unequal payments, consisting of both principal and interest, to be made at predetermined irregular intervals with the final payment on January 10, 2045. The total principal and interest to be paid over the life of the debenture is $1,325 million in total.
42. The terms of these debentures require no interest payments until maturity, at which time a single payment, comprising both principal and interest, will be made in the amount of $700 million.
43. The Province entered into currency exchange agreements that effectively converted these U.S. Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.34374. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 8.09%.
44. Bond is callable on May 13, 2003 at the option of the Province. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate -0.05%.
45. The Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate -0.02%.

46. The Province has the right to call the note after two years (June 3, 2001). Interest is payable at floating Canadian BA rate +0.85% paid quarterly for the first two years, then 5.75% semi-annually if not called. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate -0.07%.
47. Proceeds of issue and repayment are in Japanese Yen. Interest is payable in Australian Dollars based on a notional principal of AUD 103.2 million at a rate of 3.2% payable annually.
48. The interest rate was set at 5.75% for the first year. The minimum interest payable is 6.25% in the second year, 6.50% in the third year, 6.75% in the fourth year and 7.00% in the final year.
49. Bonds are extendible at the option of the Province on every coupon date starting on September 22, 2001, to the final maturity date of September 22, 2011. Coupon interest is paid semi-annually at a rate of 6.10% in years 1-4, 6.15% in years 5-6, 6.20% in years 7-8, 6.30% in year 9, 6.40% in year 10, and 6.75% in year 11, and 7.125% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate -0.11%.
50. The Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.61%.
51. This issue has been on-lent to OEFC until June 2, 2010, after which the issue will be assumed by the Province until the maturity date.
52. During the 2000-2001 fiscal year, Series HC-MG bonds were reopened twice, bringing the total issue to $2,500 million.
53. The Province entered into currency exchange agreements that effectively converted these French Franc obligations to Canadian Dollar obligations at an exchange rate of 0.28491. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.34% on $1,509 million and floating Canadian BA rate +0.057% on $200 million.
54. Proceeds of issue and repayment are in Japanese Yen. Interest is payable in Australian Dollars, based on a notional principal of AUD 52.5 million at a rate of 3.10%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate -0.051%.
55. Proceeds of issue and repayment are in Japanese Yen. Interest is payable in U.S. Dollars, based on a notional principal of USD 120.8 million at a rate of 3.25%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate -0.051%.
56. The Minister of Finance will reset the interest rate every six months. The initial interest rate was set at 6.00%. Effective December 21, 2000, the interest rate was set at 5.75%.
57. Proceeds of issue and repayment are in Japanese Yen. Interest is payable in Australian Dollars, based on a notional principal of AUD 121.1 million at a rate of 4.28%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 7.38%.
58. The Province has the right to call the note after two years (October 19, 2001). Interest is payable at floating Canadian BA +0.84% paid quarterly for the first two years, then 6.29% semi-annually if not called. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate -0.08%.
59. The Province entered into currency exchange agreements that effectively converted these Greek Drachma obligations to Canadian Dollar obligations at an exchange rate of 0.004903. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate -0.135%.
60. The Province has the right to call the note after two years (December 19, 2001). Interest is payable at floating Canadian BA +0.82% paid quarterly for the first two years, then 5.75% semi-annually if not called. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA -0.07% until the call date, then to floating Canadian BA -0.05% for the remaining seven years.
61. The Province entered into currency exchange agreements that effectively converted these Norwegian Kroner obligations to Canadian Dollar obligations at an exchange rate of 0.21235. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate -0.028%.
62. Current outstanding OSBs are redeemable at the option of the holder on June 21 and December 21 with the exception of fixed rate bonds which are redeemable at maturity only. All current outstanding OSBs may be redeemed upon the death of the beneficial owner. 1999 and 2000 series may also be redeemed during the 14 calendar days immediately following June 21 and December 21. The Minister of Finance may reset the interest rate from time to time prior to maturity.
63. The interest rate was set at 4.50% for the first year. The interest payable is 5.75% in the second year, 6.25% in the third year, 7.25% in the fourth year, and 9.00% in the final year.
64. The Minister of Finance will reset the interest rate every six months. The initial interest rate was set at 4.75%. Effective December 21, 2000 the interest rate was set at 5.75%.

65. Pursuant to the *Ontario Public Service Employees' Pension Act 1994*, and the Asset Transfer Agreement of December 12, 1994, the Province is obligated to re-split the debentures between the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Plan Trust Fund (OPSEUPF) based on accurate data when it is available. On June 13, 1997 a Restated Sponsorship Amendment and Asset Transfer Agreement was signed, replacing the 1994 agreement. Pursuant to this Agreement on September 17, 1997, the re-split of the debentures was completed. To effect this redistribution of assets, $3,745.8 million of debentures held by PSPF and $1,751.4 million of debentures held by OPSEUPF were retired and replaced by $3,726.8 million and $1,770.4 million of debentures to be held by PSPF and OPSEUPF respectively.
66. The interest rate was set at 3.00% for the first year. The interest payable is 5.25% in the second year, 6.00% in the third year, 6.50% in the fourth year, 7.00% in the fifth year, 7.50% in the sixth year and 8.00% in the final year.
67. The Minister of Finance will reset the interest rate every six months. The initial interest rate was set at 3.25%. Effective December 21, 2000 the interest rate was set at 5.75%.
68. Callable by the Province, in whole but not in part, at par on June 27, 2001.
69. The Province entered into currency exchange agreements that effectively converted these New Zealand Dollar obligations to Canadian Dollar obligations at an exchange rate of 0.82770. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA+0.075%.
70. During the 2000-01 fiscal year, Series MG bonds were reopened, bringing the total issue to $200 million.
71. Notes are extendible at the option of the Province on September 4, 2000, 2003 and 2006 to the final maturity date of September 4, 2009. Coupon interest is paid semi-annually at a rate of 6.00% in years 1-3, 6.125% in years 4-6, 6.35% in years 7-9 and 7.625% in years 10-12. In addition, the Province entered into interest rate agreements that effectively converted the interest obligations on this debt to floating Canadian BA rate -0.22%.
72. Bonds are extendible at the option of the Province on every coupon date starting on October 10, 1999 to October 10, 2009, except in year five. Coupon interest is paid semi-annually at a rate of 5.875% in years 1-2, 6% in years 3-4, 6.25% in years 5-6, 6.375% in years 7-8, 6.5% in years 9-10, and 7% in years 11-12. In addition, the Province entered into interest rate agreements that effectively converted the interest obligations on this debt to floating Canadian BA rate -0.22%. On March 13, 2001 the Province of Ontario exercised its rights not to extend the maturity date of the bonds and gave notice to the registered holders that the bonds will mature on April 10, 2001.
73. Interest payable is three-month Canadian BA -0.05%.
74. On October 5, 1999, the Province purchased for cancellation $43.934 million of the KN Series bonds.
75. On September 28, 1999, the Province purchased for cancellation $10.68 million of the KT Series bonds.
76. On October 5, 1999, the Province purchased for cancellation $27.34 million of the KQ Series bonds.
77. During the 2000-2001 fiscal year, Series KJ bonds were reopened twice, bringing the total issue to $4,170 million.
78. Proceeds were received in Japanese Yen. Redemption of principal is in U.S. Dollars at an exchange rate of 105 Yen/US Dollar. Interest is payable in Japanese Yen based on a notional principal of JPY 30,000 million at a rate of 3.25%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.19%.
79. Proceeds of issue and repayment of principal are in Japanese Yen. Interest is payable in U.S. Dollars based on a notional principal of USD 86.3 million, at a rate of 3.58% payable annually. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.36%.
80. Proceeds of issue and repayment of principal are in Japanese Yen. Interest is payable in U.S. Dollars semi-annually based on notional principal of USD 57.1 million, at a rate of 2.6%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.60%.
81. The Minister of Finance will reset the interest rate every six months. The initial interest rate was set at 5.00%. Effective December 21, 2000 the interest rate was set at 5.75%.
82. Extendible at the Province's option on March 2, 2000 and every six months thereafter with the exception of September 2, 2002 and March 2, 2003. Final maturity date is set at March 2, 2010. Interest accrues at 6.15% semi-annually and is paid on the maturity date. In addition, the Province entered into interest rate agreements that effectively converted the interest obligations on this debt to floating Canadian BA rate -0.17%.
83. Total Debt Issued for Provincial Purposes on a consolidated basis includes the long-term debt of the Toronto Area Transit Authority (GO Transit) for $447 million and the Ontario Housing Corporation for $2,252 million.
84. The Treasury Bill balance does not include the following Treasury Bill holdings: $234 million held by the Northern Ontario Heritage Fund Corporation, $106 million held by Ontario Trillium Foundation and $21 million held by Ontario Securities Commission, as these will be eliminated upon consolidation.
85. The Province entered into currency exchange agreements that effectively converted these U.S. Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.2598. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.19%.

86. Between August 1, 2001 and August 28, 2001, these bonds can be exchanged for 6.30% bonds maturing September 4, 2020.
87. Bond is callable on April 1, 2003 at the Province of Ontario's option. In addition, the Province entered into interest rate agreements that effectively converted the interest obligations on this debt to floating Canadian BA rate -0.08%.
88. This bond can be extended every six months commencing on November 13, 2001 up until November 13, 2009, excluding May 2002 to May 2003. In addition, the Province entered into interest rate agreements that effectively converted the interest obligations on this debt to floating Canadian BA rate -0.07%.
89. Callable between August 1, 2001 and August 28, 2001 for repayment at par on September 4, 2008.
90. The terms of these debentures require that a special one-time interest payment of $31.1 million be made at maturity.
91. U.S. Commercial Paper issues are non-interest bearing with maturities up to 92 days.
92. The interest rate was set at 4.75% for the first year. The interest payable is 5.00% in the second year, 5.50% in the third year, 5.75% in the fourth year and 6.00% in the final year.
93. On September 22, 1999, the Province purchased for cancellation $37.5 million of the JY Series bonds.
94. During the 2000-01 fiscal year, Series NE bonds were reopened three times, bringing the total issue to $263.7 million.
95. During the 2000-01 fiscal year, Series LK bonds were reopened four times, bringing the total issue to $4,677 million.
96. During the 2000-01 fiscal year, Series LZ bonds were reopened once, bringing the total issue to $1,550 million.
97. During the 2000-01 fiscal year, Series HC-LZ bonds were reopened twice, bringing the total issue to $650 million.
98. The terms of these debentures require unequal payments, consisting of principal and interest, to be paid quarterly until their maturity.
99. Retractable in whole or in part on March 15, 2005, at the holder's option provided that irrevocable notice of retraction is made on March 1, 2005. Coupon interest is paid at 5.50% for the first four years and 6.80% for the remaining six years on outstanding bonds.
100. The Province entered into currency exchange agreements that effectively converted these U.S. Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.55. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.51%.

# PAPER E

## SuperBuild: Building Ontario’s Future

# A. Infrastructure and the 21st-Century Economy

## Infrastructure Is Key to Economic Growth and Quality of Life

As we begin the 21st century, Ontario has one of the highest standards of living in the world. To keep our high standard of living, we must be prepared to meet the competitive challenges of the 21st-century global economy.

Our prosperity depends on good economic management. And good economic management includes making sure that we have the right kind of infrastructure in the right places at the right time, and at an affordable cost.

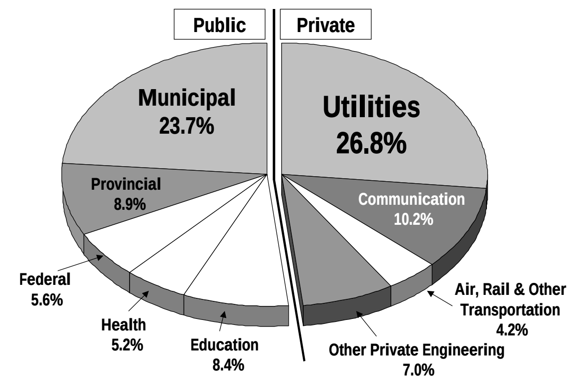
The purpose of this paper is to provide some insight into SuperBuild's approach to infrastructure investment. Section A explains why we need to plan now for future investments in infrastructure. Section B describes how SuperBuild will contribute to better capital planning, financing and management throughout the public sector. Section C provides an overview of SuperBuild's key initiatives and policy priorities.

Infrastructure is fundamental to our quality of life. Infrastructure is not an end in itself; it is a means to provide people and businesses with the services they need. It consists of the roads that enable us to travel; the pipes and wires that bring us water, electricity, gas, telephone and cable TV services; the schools, hospitals and other buildings that provide education, health and government services; and all of the equipment associated with these services. From hospitals to highways to hockey rinks, the people of Ontario use infrastructure every day.

These networks, buildings and equipment are capital assets, meaning they generate services over a relatively long period of time. Infrastructure is provided by governments, utilities or non-profit organizations (such as hospitals) as an essential part of delivering their services. Ontario has about $210 billion worth of infrastructure. This is the depreciated value of the assets (taking age and wear and tear into account), not what it would cost to replace them.
Close to half of the province's infrastructure assets are owned by private companies, primarily utilities regulated by the federal or provincial governments. The public sector owns 52 per cent of Ontario's infrastructure, and almost half of this is owned by municipalities.

The Province directly owns about 17 per cent of public infrastructure (8.9 per cent of all infrastructure), but it has provided significant funding to help build the capital assets in the health, education and municipal sectors.

Ontario's Infrastructure Providers, 1999




Note: Municipal includes local government, public transit, and water and sewage systems.
Sources: Statistics Canada and Ontario Ministry of Finance.

Infrastructure contributes to our standard of living through its impact on productivity and by enabling the provision of services that improve our quality of life. Investment in infrastructure can raise productivity by increasing returns to private capital and by enabling the private sector to adopt new methods of organization. Similarly, in the public sector, investment in infrastructure can raise the quality and efficiency of health, education and other public services.

Total capital investment consists of all of the investments in buildings, networks (such as roads and fibre-optic cable), and machinery and equipment by companies, governments and other organizations. In Ontario, investment in infrastructure by both the private and public sectors makes up a significant share of total capital investment—averaging 40 per cent through the 1990s. The public-sector share alone averaged over 20 per cent.

The Ontario economy of tomorrow will require significant infrastructure investment:

- to accommodate new economic and population growth;
- to keep our existing infrastructure in good condition;
- to remedy infrastructure deficits that may have arisen as a result of past underinvestment; and
- to improve the efficiency and quality of public services, as technology and methods of delivering services change.

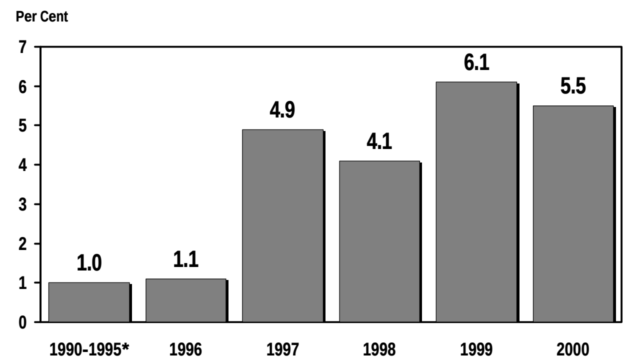
## The Infrastructure Investment Challenge

Like many other North American jurisdictions, Ontario faces a significant infrastructure investment challenge over the next 30 years. In Ontario's case, a large part of our need for investment is attributable to growth. Some of it is a result of changes such as new technology or an aging population. And some of it is because infrastructure needs to be replaced when it reaches the end of its useful life.

## Ontario's Rapid Economic Growth

Ontario has had extraordinary economic growth in the past four years, averaging more than five per cent annually. Real GDP is now 23.5 per cent higher than it was in 1995. This growth brings with it a need for more infrastructure investment, especially to relieve the congestion and gridlock in rapidly growing urban centres. Highways, bridges and other infrastructure need to grow with the economy to meet the increased demands placed upon them, and rehabilitation investment is required to keep them in good condition as their use intensifies.

**Ontario Real GDP Growth**




* = annual average.
Sources: Statistics Canada and Ontario Ministry of Finance.

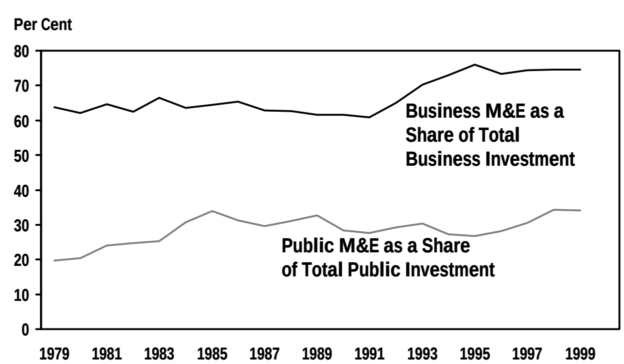
## Rising Technological Intensity

New technology is changing infrastructure, and infrastructure needs, just as it is changing the rest of the economy. There are at least three aspects to this change.

First, it is changing the delivery of government services. ServiceOntario kiosks, traffic-monitoring cameras and computers in the classroom are a few examples.

Second, the composition of public capital investment is shifting towards new technologies—as opposed to "bricks and mortar" investments. The private sector is making this shift more quickly, as it seizes the opportunities new technologies present to deliver new and better services, and to do so more efficiently.

**Machinery & Equipment Share of Investment in Public and Private Sectors**

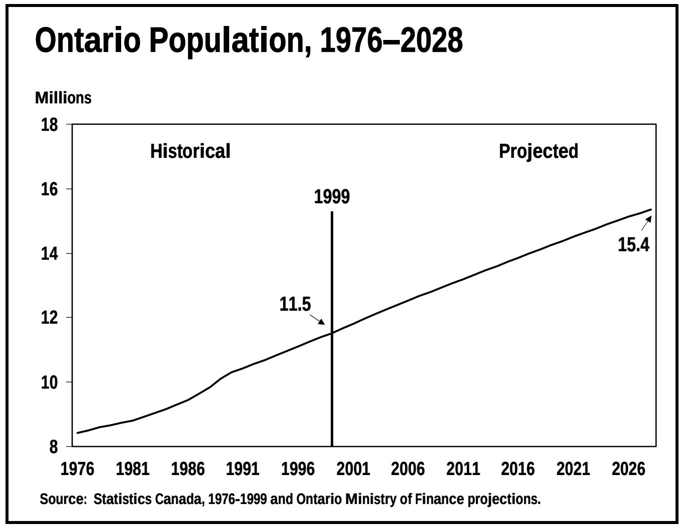



Source: Statistics Canada.

Third, technology assets typically have a shorter life than other capital assets. As a result, they have to be replaced more often, the average age of the capital stock falls, and more investment is required to keep our infrastructure in good condition.

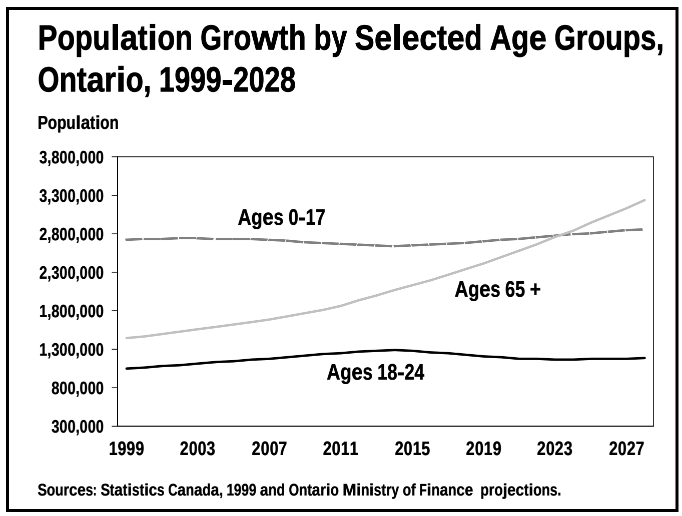
## Ontario's Population Growth to Remain High

In the next few decades, Ontario's population will grow more rapidly than any other province, except British Columbia. Ontario will also grow faster than any G-7 country.




In the last three decades, the province's population has risen from 7.8 million in 1971 to 11.5 million in 1999. By 2028, the population will have grown by another 3.8 million people—a 33 per cent increase. Since there will be about as much population growth over this period as there was in the past three decades, a comparable level of infrastructure investment will be needed.

## Aging Population Means Increased Pressure on Health Care Services




The future age structure of Ontario's population is already largely determined because of the sheer size of the baby-boom generation.

The number of people aged 65 and over will more than double by 2028. In 2011, the baby boomers will begin to turn 65. By 2028, one in every five people in Ontario will be a senior.

Although seniors currently account for 12.6 per cent of the population, they account for 43 per cent of provincial health care expenditure. Increasing demands on health infrastructure are inevitable as the baby-boom generation ages.

## GTA and the Golden Horseshoe: A Growing City Region

City regions are increasingly the key to competitive advantage in the global economy, and their competitiveness depends upon complex and sophisticated infrastructure systems. The Greater Toronto Area (GTA) has become one of the top 10 city regions in North America.

Although every region in Ontario is expected to grow, about 85 per cent of the increase in Ontario's population is expected to occur in the Greater Toronto Area and the Central Ontario region, including Simcoe, Waterloo and Hamilton. Today, the GTA and Central regions account for two-thirds of Ontario's population. By 2028, these regions will be home to over three million additional people and have a combined share of 71 per cent of Ontario's population. The Ottawa and Windsor-Essex areas will also contribute significantly to Ontario's population growth.

**City Regions in Canada and the United States**

| Area Name | Census Population in 2000 | Rank | Population Change 1990-2000 | Rank |
|---|---|---|---|---|
| New York—Northern New Jersey—Long Island | 21,199,865 | 1 | 1,650,216 | 2 |
| Los Angeles—Riverside—Orange County | 16,373,645 | 2 | 1,842,116 | 1 |
| Chicago—Gary—Kenosha | 9,157,540 | 3 | 917,720 | 7 |
| Washington—Baltimore | 7,608,070 | 4 | 881,020 | 8 |
| San Francisco—Oakland—San Jose | 7,039,362 | 5 | 786,051 | 9 |
| Philadelphia—Wilmington—Atlantic City | 6,188,463 | 6 | 295,526 | 25 |
| Boston—Worcester—Lawrence | 5,819,100 | 7 | 363,697 | 19 |
| Detroit—Ann Arbor—Flint | 5,456,428 | 8 | 269,257 | 26 |
| Dallas—Fort Worth | 5,221,801 | 9 | 1,184,519 | 3 |
| **TORONTO Census Metropolitan Area** | **4,751,408** | **10** | **750,993** | **10** |
| Houston—Galveston—Brazoria | 4,669,571 | 11 | 938,440 | 6 |
| Atlanta | 4,112,198 | 12 | 1,152,248 | 4 |
| Miami—Fort Lauderdale | 3,876,380 | 13 | 683,798 | 12 |
| Seattle—Tacoma—Bremerton | 3,554,760 | 14 | 584,432 | 14 |

Sources: Statistics Canada and U.S. Census Bureau.

Notes: Data for Toronto include revised boundary, final inter-censal estimates and preliminary post-censal estimates.
The U.S. 1990 Census population counts are as published in the 1990 census reports and do not include changes published subsequently due to boundary or other changes.
Toronto population is for the Census Metropolitan Area. U.S. populations are for the appropriate Consolidated Metropolitan Statistical Areas and Metropolitan Statistical Areas.

## Government Role Is Changing as Infrastructure Changes

> *"Around the world, governments are transforming their roles from the exclusive financiers and providers of infrastructure services to the facilitators and regulators of services provided by private firms. Growing experience shows that private sector participation in infrastructure can improve the quality and quantity of infrastructure services, while reducing the burden on constrained public finances."*

***World Bank, Private Participation in Infrastructure.***

Major investments in infrastructure by governments have helped shape the economic history of Ontario, including railways to the west, hydroelectric power from the Sir Adam Beck Station at Niagara Falls, the building of Highway 401, the growth of the university and college system in the 1960s and 1970s and many others.

Ontario must continue to invest in infrastructure to support our expanding economy and to provide services for the province's growing and aging population. But the government's role in the provision of infrastructure is changing.

In the past, governments and government-regulated utilities were primarily responsible for the provision of public infrastructure for sound economic reasons:

- Network systems such as water and sewer pipes are what economists call "natural monopolies," where it is not efficient to have more than one provider competing in the same area (i.e., one pipe serves all the houses on a street).

- There are economies of scale, which means that per-unit costs decline as the size of the system increases.

- Investments tend to be "lumpy"—large investments that take place once in a while, such as a water-treatment plant or a new highway.

- Direct billing of customers for their use of services is sometimes difficult, leading governments to pay for infrastructure from general tax revenues.

While some of these conditions still hold, innovations in technology, industry regulation and capital markets have made it possible to involve the private sector in the provision of infrastructure while still protecting public interests. In the right circumstances, this can result in lower costs for taxpayers and more efficient delivery through:

- the application of beneficiary-pay principles, so that those who use the infrastructure more pay more towards its capital and operating costs (e.g., highway tolling, water and sewer metering);
- "unbundling" of infrastructure, so that parts of an infrastructure system are subject to competition and parts that remain natural monopolies are not;
- transfer of risk to the private sector, so that financial and construction risks are not borne by taxpayers;
- securitization of future revenue streams, which allows private investors to buy and operate large infrastructure assets; and
- separation of regulatory and delivery responsibilities, which enables the government to protect the public interest more effectively than if it were responsible for both regulation and delivery.

To meet the infrastructure investment challenge facing Ontario, more investment is needed. This challenge cannot be met by the Province acting alone. More investment from the private sector and from other public-sector partners will help to ensure that Ontario has better and more infrastructure sooner to meet growing and changing needs. At the same time, the Province recognizes its responsibility to continue to invest in its own right, to help find better ways of delivering and financing infrastructure, and to ensure that the public interest is protected.

# B. The Ontario SuperBuild Corporation

## SuperBuild's Goals

> Ontario is already on the way to adopting some of the (capital management) best practices—for example, through the new SuperBuild agency, it has created a clearinghouse for proposed capital projects.
>
> —Ontario Financial Review Commission, 2001

The government established the Ontario SuperBuild Corporation in December 1999 as part of the Ministry of Finance. SuperBuild's mandate is to act as a catalyst for the changes needed to ensure that Ontario has first-class infrastructure in the 21st century.

SuperBuild, as the government's central agency for capital, is responsible for strategic management of the government's entire capital infrastructure envelope, including transfers to municipalities, hospitals and educational institutions for capital purposes.

SuperBuild has five main goals:

- to increase the amount invested in infrastructure to accommodate growth, to bring existing assets into good condition and to keep them in good condition;
- to develop strategic policy for key infrastructure sectors;
- to make long-term capital planning, wise asset management and open financial reporting a priority throughout the public sector;
- to develop new and better ways of financing infrastructure, including public-private partnerships and user-pay arrangements; and
- to advise the government on potential privatizations.

While these goals sound straightforward, they require a major commitment on the part of both the province and its partners to change the way we plan, finance and deliver infrastructure.

## Ontario Financial Review Commission

The government asked the Ontario Financial Review Commission to report to the Minister of Finance on options for reporting the government's investment in tangible capital assets.

As a result of its review of the financial reporting of capital assets, the Commission recommended that the government begin immediately to develop the information needed to show the cost and depreciation of existing tangible capital assets and evaluate deferred maintenance needs, and move to adopt the Public Sector Accounting Board's standards for reporting tangible capital assets as soon as possible.

As well, in its 2001 report, the Commission recommended that the government follow best practices in its internal budgeting for capital expenditures and the maintenance of capital assets. These best practices include:

- co-ordination of plans through a central agency, meaning that long-term plans are developed at the agency level and submitted to a centralized authority, which sets priorities for consideration at the level of elected officials;
- life-cycle costing estimates at the time of capital budgeting requests for any expensive and long-lived asset;
- estimates of ongoing project costs;
- mechanisms to identify and address maintenance backlogs, such as facility audits;
- alignment of capital budgeting with policy goals and with optimal resource allocation; and
- consideration of private-sector involvement where appropriate.

The Ministry of Finance and SuperBuild intend to implement these recommendations.

## Knowing Our Assets

Most people expect that any responsible organization would know what assets it owns, what they are worth and what kind of condition they are in. Unfortunately, this is often not the case in the public sector.

The following table provides an overview of some of Ontario's infrastructure assets. What it does not show is either the book value or the replacement value of these assets. Both of these measures are needed to allow for accurate financial reporting and to make financial provisions for the replacement of large assets with long lives.

Net book value is a measure based on the historical cost of the asset less accumulated depreciation. Depreciation is an annual allowance that reflects the wear and tear on the asset associated with use and age. For example, if an asset has a 40-year expected life, it would depreciate at a rate of 2.5 per cent of the original value per year (assuming straight-line depreciation methodology). After 40 years, it would be fully depreciated and its net book value would be zero (assuming no salvage value). The historic cost/net book value method is widely accepted in the international accounting community for reporting purposes.

However, it is very difficult to develop an accurate set of historical cost accounts for infrastructure because most governments have neither the historical records necessary to identify the original purchase price of many of their assets nor records of improvements to those assets. Sophisticated estimation methods are therefore necessary to implement historic cost accounting for existing capital assets.

**Ontario's Capital Assets (Selected Overview)**

| Sector | Asset | Description |
|---|---|---|
| **Transportation** | Provincial Highways | 38,622 lane km |
| | Bridges/Structures | 3,440 |
| **Environment** | Sewage Treatment Facilities | 452 facilities |
| | Water Treatment Facilities | 630 facilities |
| **Education** | Elementary Schools | 4046 |
| | Secondary Schools | 892 |
| | Provincial Schools | 9 |
| | Universities | 18 |
| | Colleges | 25 |
| **Health** | Hospitals* | 213 |
| | Long-Term Care Facilities | 503 |
| | Community Health Centres | 56 |
| **General Government**** | Ministry and Agency Office Buildings | 7.5 m sq ft |
| | Institutional Buildings | 13.4 m sq ft |
| | Special-Purpose Buildings | 9.1 m sq ft |
| | Other Buildings | 13.1 m sq ft |
| | Land Banks | 55,000 to 60,000 acres |

* 159 corporations on 213 sites.

** Includes government-owned buildings managed by the Ontario Realty Corporation. Includes justice facilities. Does not include property owned by the Ministry of Natural Resources, the Ministry of Transportation or the Ministry of the Environment.

Source: Ontario SuperBuild Corporation.

Information on current replacement costs is useful because it indicates the actual investment required to obtain a new, similar asset, and therefore enables more accurate analysis of the current cost of the services provided by the asset.

SuperBuild is beginning the process of collecting information on capital assets in the public sector. This will require significant and sustained effort on the part of both government ministries and the rest of the public sector. It is our intention to establish systems that will track historic cost, replacement value, asset condition and deferred maintenance needs.

For example, at SuperBuild's request, the Ministry of Training, Colleges and Universities has asked colleges and universities to submit an annual capital plan and investment report. The report will, at a minimum:

- report on all capital investment(s) at the institution for the year regardless of funding source;
- clarify how the institution is maintaining and renewing existing infrastructure (for example, through the establishment of an annuity or other funding commitment);
- provide details on planned and continuing projects for creating more student spaces through capital investment and other efficiency improvements; and
- report on the progress and performance of the capital plan during the previous year.

The first capital plan and investment report is due this summer.

## Open and Accountable Financial Reporting

The Canadian Institute of Chartered Accountants defines tangible capital assets as "non-financial assets having physical substance that are acquired, constructed or developed, and: (1) are held for use in the production or supply of goods and services; (2) have useful lives extending beyond an accounting period and are intended to be used on a continuing basis; and (3) are not intended for sale in the ordinary course of operations.

The government's current accounting practice is to expense the full cost of tangible capital assets in the year of acquisition or construction.

The impact of this practice is that the cost of an asset is not expensed over its useful life, potentially resulting in underinvestment in capital. Once acquired, assets no longer appear on the government's books, their condition is not reported and deferred maintenance needs are not identified. As a result, it is difficult for the government to determine whether it has the right mix of assets and whether its capital investment strategy will lead to the desired policy outcomes.

Ontario will account for and report on tangible capital assets as part of its financial statements. The Province intends to report on its tangible capital assets on its Statement of Financial Position. The Statement of Operations will include amortization of tangible capital assets instead of expenditures on those assets.

The Province also intends to require that all public-sector organizations, including municipalities, hospitals, universities, colleges and schools, report on their tangible capital assets on a basis consistent with the Province. The Ministry of Finance is currently developing an implementation plan for the introduction of these changes.

## The Concept of Economic Capital

Public financial accounts report on capital investment by individual organizations or ministries and do not reflect the total investment being made by all contributors in a given sector. For example, SuperBuild invested almost $40 million at Queen's University to build a new chemistry building and expand teaching space for the School of Business. In addition to the SuperBuild funding, Queen's University contributed $15.6 million and business and other partners contributed $39 million for a total capital investment of $94.6 million. Only $40 million shows up on the Province's financial statements, not the true total investment of $94.6 million.

As part of our commitment to greater accountability and more open reporting of capital, SuperBuild is also providing initial reporting on economic capital investment for 1999-2000. Economic capital is defined as investments in tangible capital assets that constitute public infrastructure, regardless of accounting classification or source of funds.

The advantage of economic capital is that it provides a more accurate picture of all capital investment activity, so that long-term planning can be carried out, life-cycle costs can be taken into account, funding tradeoffs can be made and all sources of funding are counted.

The economic capital concept overcomes the problem of different accounting classifications for different types of capital investments. For example, Provincial funding for both school and long-term care capital is classified as an operating expense, even though it is provided to transfer partners for capital purposes.

The capital investments table provides a preliminary overview of economic capital investment. According to Statistics Canada, total capital investment in public infrastructure was $7.7 billion in 1999-2000 (excluding federal investment). The data are shown by sector to the extent possible. SuperBuild hopes to be able to publish this information by source of funds in the future.

Investment in transportation accounted for more than one-third of total investments. More than $1 billion was invested in health infrastructure, and more than $1.7 billion in education infrastructure.

**Capital Investment in Public Infrastructure in Ontario 1999-2000**

($ Millions)

| | |
|---|---|
| **Transportation** | |
| Highways [1] | 1,032 |
| Municipal Roads [2] | 993 |
| Transit [2] | 776 |
| Other Provincial Transportation [1] | 71 |
| **Health** [3] | |
| Hospitals | 960 |
| Long-Term Care and other health services | 127 |
| **Education** | |
| School Boards [4] | 1,343 |
| Post-secondary [4] | 382 |
| **Natural Resources** [5] | 127 |
| **Justice** [6] | 186 |
| **Water** [7] | 457 |
| **Recreation and Culture** [2] | 392 |
| **Social and Family Services** [2] | 82 |
| **Other** | 752 |
| **Total Investment** [8] | **7,680** |

Notes:

(1) Ministry of Northern Development and Mines, Ministry of Transportation, 407 International Inc. Other transportation includes transfers to municipalities, funding for ferries and Ontario Northland Transportation Corporation, winter and access roads, and Intelligent Transportation Systems.

(2) Financial Information Returns (FIR) data from Ministry of Municipal Affairs and Housing.

(3) Statistics Canada data for 1999.

(4) School Board Financial Statement data (school year 1999-2000), Statistics Canada, and Financial Report of Ontario Universities 1999-2000 (fiscal year ended April 30, 2000).

(5) Public Accounts of Ontario 1999-2000.

(6) Ministry of the Attorney General and Ministry of Correctional Services.

(7) Statistics Canada data for 1999. Does not include sewers.

(8) Statistics Canada data for 1999. Does not include federal government infrastructure.

Source: Ontario SuperBuild Corporation.

## New Approaches to Infrastructure Financing

Governments around the world are looking for new ways to finance and deliver public infrastructure more effectively. With the creation of SuperBuild, Ontario signalled its intention to increase its use of public-private partnerships to finance and deliver infrastructure.

Public-private partnerships have several potential benefits when applied in the right circumstances:

- Increased total infrastructure investment because the private-sector investment is in addition to government investment.
- Lower costs due to more efficient construction and management, and the transfer of construction and management risks to the private sector.
- The ability to make large infrastructure investments sooner than would otherwise have been possible.
- The introduction of new technology and service innovations.
- More efficient use of capital assets and a fairer distribution of costs as a result of the application of beneficiary-pay principles.

### Britain's Private Finance Initiative

Britain has established a program called the Private Finance Initiative (PFI) to increase the role of the private sector in delivering and financing infrastructure and other public services.

A key principle of PFI is to transform government departments and public-sector agencies from owners and operators of public assets to purchasers of services from the private sector. The private-sector partner undertakes the capital investment. For example, rather than building roads, the government purchases kilometres of maintained highways.

Projects with a combined capital value of over $31 billion Cdn have been signed since May 1997 in such diverse areas as schools, colleges, hospitals, local authorities, information technologies and property management.

Experience has shown that public-private partnerships work best when the cost of services is clearly known and there is a dedicated revenue stream for the private partner to earn an adequate rate of return.

From a government perspective, a genuine transfer of risk to the private sector is required, and it must be possible to protect the public interest through regulation and the terms of the contract. Insofar as possible, the government intends to set appropriate standards and outcomes that must be achieved rather than prescribe particular design solutions. We will be seeking ideas from the private sector and others in achieving this objective. The Province also intends to maintain its commitment to fair, open and competitive bidding processes for capital infrastructure.

SuperBuild is seeking opportunities for public-private partnerships that make sense from a financial and public policy perspective. For example, SuperBuild and the Ministry of the Attorney General have retained advisers to assess the redevelopment needs for courts in various communities, examine courthouse planning and partnership models, and review architectural standards. The Durham consolidated courthouse will be the first to benefit from the partnership approach. The Archives of Ontario is pursuing a public-private partnership for the management and operation of an off-site storage facility. The successful firm will also provide related moving and records-handling services.

In May 1999, Ontario undertook the largest highway privatization in the world with the sale of Highway 407 ETR, the world's only open-access, fully electronic toll highway. The highway was sold for $3.1 billion to a private-sector consortium. This is an example of a privatization opportunity that SuperBuild intends to pursue in the future with other highway projects.

The Ministry of Transportation and the Ontario SuperBuild Corporation will lead an inter-ministry task force to review financing options associated with the expansion of our province's 400-series highways.

## SuperBuild Investments

SuperBuild represents a commitment to invest at least $20 billion over five years, consisting of $10 billion of provincial funding and at least $10 billion from private- and public-sector partners.

SuperBuild's capital investment in the last two years totals almost $7 billion, well on the way to the government's commitment of $10 billion over five years.

This year, SuperBuild's investment in the province's infrastructure will be almost $2 billion.

**1999-2000 to 2001-02 SuperBuild Capital Investments**
($ Millions)

| | 1999-2000 | 2000-01 | 2001-02 |
|---|---|---|---|
| Highways and Other Transportation | | | |
| Highways | 937 | 1,049 | **906** |
| Other Transportation | 102 | 62 | **78** |
| Health and Long-Term Care* | 1,342 | 351 | **200** |
| Post-Secondary Education | 1,028 | 202 | **48** |
| Justice** | 186 | 139 | **162** |
| Environment and Natural Resources | 259 | 91 | **127** |
| SuperBuild Partnership Initiatives | | | |
| Sports, Culture, Tourism Partnerships | | 1 | **50** |
| Ontario Small Town and Rural Infrastructure | | | **50** |
| Millennium Partnerships | | 4 | **100** |
| Ontario Innovation Trust | 500 | - | **-** |
| Other | 478 | 176 | **323** |
| Year-End Savings | - | - | **(100)** |
| **Total Investment** | **4,832** | **2,075** | **1,944** |

* Health and Long-Term Care does not include ELDCAP investment. This investment is provided by MNDM.

** Justice does not include investment for Young Offender System provided by MCSS.

Source: Ontario Ministry of Finance.

# C. SuperBuild's Policy Priorities and Initiatives

## 1. SuperBuild's Support for Smart Growth

Investments in infrastructure strongly influence the way in which urban growth takes place and the future costs to taxpayers of supporting it. SuperBuild, as the government of Ontario's lead agency for strategic infrastructure investment, has a significant role to play in implementing the government's Smart Growth strategy.

Over the next few months, the Minister of Municipal Affairs and Housing will lead consultations across the province to gather ideas on our made-in-Ontario Smart Growth strategy. The results of these consultations will help to determine SuperBuild's regional investment priorities and to identify the Smart Growth criteria to be applied in evaluating major infrastructure investments.

In addition, the government is announcing some immediate SuperBuild initiatives to support Smart Growth and help manage the challenges of growth in our most rapidly growing urban areas. These initiatives will invest in strategic infrastructure in Ontario's large urban centres, expand transit to address congestion gridlock, and protect corridors for the next generation of 400-series highways and transit services.

> What kind of life do we want for ourselves and our children...5, 10 or 15 years from now? Will we live in cities or in the suburbs? Will we take transit or will we drive? Will the roads be tolled? Where will we park? What about the quality of our air? What about the quality of our lives?... I believe that we must consider these tough questions now—before it is too late....
>
> Inefficient growth means higher infrastructure costs. Higher taxes. More pollution... That's what happens when we don't plan for the future...The simple fact is that—without the right vision to foster growth—Ontario's growing and aging population will present major challenges for our towns, cities and infrastructure...
>
> Our made-in-Ontario vision of Smart Growth will foster growth—not stop it. Our plan is based on three main principles. A strong economy. Strong communities. And a healthy environment. Most of all—our vision means a better quality of life for men, women and children in every corner of Ontario.
>
> —Mike Harris, Premier (2001)

## 2. Strategic Infrastructure Investments in Municipalities

### Public-Private Partnerships for Strategic Infrastructure

The government will invest $250 million from the Millennium Partnerships Initiative in strategic infrastructure projects in eight major urban areas: Ottawa, Waterloo Region, London, Windsor, Niagara Region, Hamilton, Sudbury and Thunder Bay.

Millennium Partnerships will invest in four project categories:

- address gridlock, including transit expansion projects;

- environmental protection, including water and sewer upgrades and environmental remediation projects;

- access to strategic highway corridors and international border crossings; and

- urban revitalization projects, including "public realm" components of downtown and waterfront renewal projects.

One of the main goals of the Millennium Partnerships initiative is to develop new ways of financing and delivering municipal infrastructure. To encourage municipal innovation, public-private partnerships will be given priority for funding. All projects will require a sound business case and a compelling public policy rationale. Projects that support Smart Growth will be given preferential consideration.

Up to $70 million of the $250 million allocation will be used to cost-share infrastructure priorities in the City of Ottawa. These investments could include new and expanded interchanges on Highway 417 to serve "Silicon Valley North" in Kanata. Recognizing the need to relieve gridlock, the government will examine the options and timing for widening the Ottawa section of the Highway 417 corridor from Highway 7 in the west to Anderson Road in the east.

The government will also use this investment to cost-share other projects determined in consultation with the City of Ottawa. These projects could include light rail or transitway expansion to support Smart Growth.

The government will soon announce how the remaining Millennium Partnership funding will be distributed among the other major urban areas. Project selection will be negotiated among the Ontario SuperBuild Corporation, municipalities and their funding partners. Municipalities will be expected to determine their infrastructure investment priorities. The government will determine funding awards based on the advice of SuperBuild.

Ontario invites the federal government to also partner with Ontario municipalities to support these Millennium Partnership projects.

## Toronto Waterfront Revitalization

The Ontario Government's $500 million investment in the $1.5 billion Toronto Waterfront Revitalization initiative will result in significant provincial support for environmental remediation, new parks and open space, transportation and other essential infrastructure in Ontario's capital city—all linked to Smart Growth. Ontario's investment is being provided through the SuperBuild Millennium Partnerships initiative. The waterfront plan directly supports the city's bid for the 2008 Olympic and

Paralympic Games, as well as providing lasting benefits independent of the Games.

The Province and its federal and city partners have agreed to commit and equally cost-share up to $290.7 million towards four initial waterfront capital priorities:

- $170.0 million to extend Front Street West from Bathurst Street to a new interchange with the Gardiner Expressway near the Canadian National Exhibition grounds;

- $60.7 million to undertake soil remediation and site preparation activities in the Portlands and West Donlands, to make these areas of the waterfront attractive for development;

- $58.0 million to add a second TTC subway platform at Union Station and to expand the pedestrian connections between the subway station and the GO Transit concourse; and

- $2.0 million to begin environmental scoping and assessment to "renaturalize" the Don River Mouth area and implement flood-control solutions.

The three levels of government have also agreed to establish a Toronto Waterfront Revitalization Corporation that will be responsible for implementing the waterfront projects, cutting red tape in the planning approval process, levering private-sector investment and participation and continuing to develop the overall master plan and supporting business cases for the waterfront vision.

## SuperBuild OSTAR Initiative

High-quality infrastructure is part of Smart Growth. SuperBuild's Ontario Small Town and Rural development (OSTAR) initiative will provide $600 million over five years for infrastructure and economic development. The infrastructure component of OSTAR will invest in strategic infrastructure critical to the future economic growth and quality of life of small cities, small towns and rural areas.

The priority for Round 1 of OSTAR is public health and safety, including projects to comply with the new Drinking Water Protection Regulation. The government has committed a minimum of $240 million for Round 1.

The province is currently reviewing about 380 proposals. Approximately 55 per cent are projects to enable municipalities to comply with the new Drinking Water Protection Regulation. The remainder are mostly other water and sewer projects or municipal road and bridge projects. Except for projects to come into compliance with the new drinking water regulation, proposals will be evaluated through a competitive, criteria-based process that emphasizes the need for the project, good value for money and the ability to lever investment from partners.

The Province may nominate projects approved through OSTAR for federal funding under the Canada-Ontario Infrastructure Program.

## SuperBuild Sports, Culture and Tourism Partnerships Initiative

Sports, culture and tourism facilities are part of the fabric of community life throughout Ontario. SuperBuild's Sports, Culture and Tourism Partnerships (SCTP) initiative will invest $300 million over the next five years to rebuild and enhance sports, cultural, recreational, and tourism facilities throughout the province.

The top priority in Round 1 is public health and safety projects. Municipalities were required to provide assurance that they are in compliance with the new Drinking Water Protection Regulation.

Over 450 project proposals were received for Round 1 of the SCTP initiative. In light of this overwhelming interest, the approval process will be extremely competitive. Proposals were due April 12, 2001, and they are currently under review.

The Province may nominate projects approved through SCTP for federal funding under the Canada-Ontario Infrastructure Program.

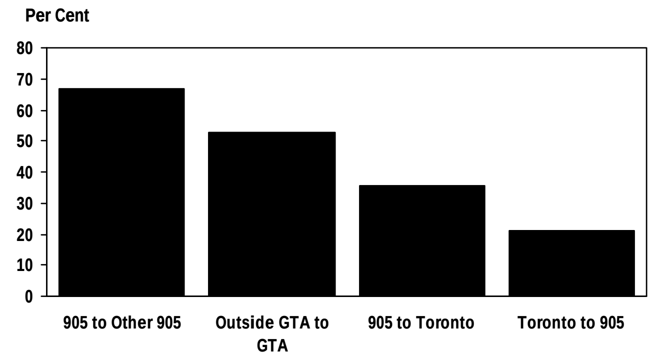
## 3. Addressing the Gridlock

### Supporting Transit Expansion

The government recognizes that strategic transit investment is key to addressing congestion gridlock in the GTA and the surrounding Golden Horseshoe region.

Many indicators of congestion reinforce what commuters experience every day. Approximately 80 per cent of the GTA expressway network is currently congested during peak periods, and the peak periods themselves have become much longer. GO Transit rail service is operating at full capacity during peak periods. Union Station, the GTA's transportation hub, has already reached its peak-period capacity limit and is a constraint on future GO Transit rail service expansion. Cross-border commuting among the 905 regions is expected to increase by 67 per cent in the next 20 years.

**Traffic Growth*, 2001–2021**




*Morning peak-hour travel. 905 includes Durham, York, Peel, Halton & Hamilton.
Source: Ontario Ministry of Finance and Ontario Ministry of Transportation.

To help alleviate gridlock, the Province will create a Golden Horseshoe Transit Investment Partnerships (GTIP) Fund by allocating $250 million from the five-year $1.0 billion SuperBuild Millennium Partnerships initiative.

The GTIP will support the expansion of inter-regional transit infrastructure such as commuter rail, light rail and dedicated transitways. New rolling stock, signals, station infrastructure and advanced fare collection and passenger information systems will be eligible provided they create region-wide network service benefits.

GTIP investments will be awarded on a competitive, business-case basis for projects in the following categories:

- service intensification in existing inter-regional commuter rail corridors;
- new extensions to existing inter-regional commuter rail corridors;
- new inter-regional commuter rail corridors;
- new inter-regional rapid transit corridors using light rail or bus transitway infrastructure;
- new or significantly improved regional transit hubs and gateway stations; and

- advanced transit technologies.

GTIP projects that meet these criteria may be proposed by municipal governments in the GTA and surrounding Golden Horseshoe region, transit service providers and the private sector. Public-private partnerships will be preferred.

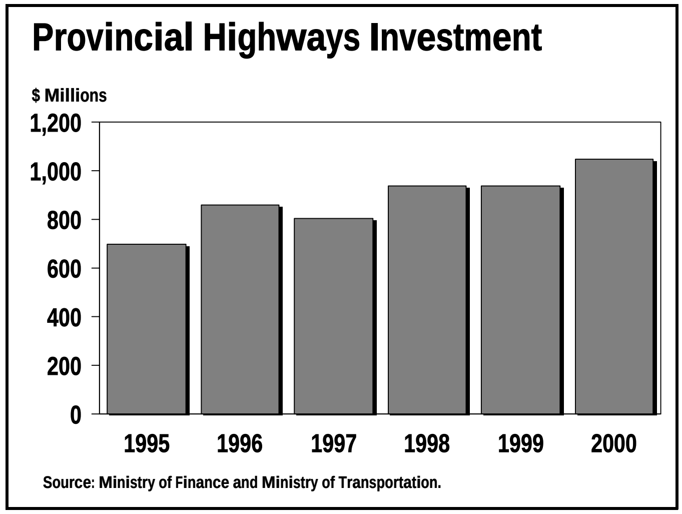
The federal government has indicated that it is considering investing in transit but so far has not made a funding commitment. The U.S. government is investing over $200 billion US in transportation, including urban transit, through its *Transportation Equity Act for the 21st Century*. A comparable commitment by the government of Canada would be over $20 billion. Ontario invites the federal government to take a first step by becoming a highway and transit funding partner. Matching commitments from the federal government and municipalities, along with an expanded role for the private sector, could significantly add to the GTIP investments in new and expanded transit services throughout the Golden Horseshoe region.

A co-ordinated approach to transit planning, service delivery, fares and financing is needed to ensure both a seamless transit system in the GTA and beyond, and that transit becomes increasingly attractive and efficient. While there has been considerable effort over the last two years to improve co-operation among GTA municipalities, it is clear that provincial leadership is necessary.

The government has received a number of submissions that reinforce the need for a new approach to transit planning and co-ordination, including proposals from the Urban Development Institute and the Ontario Chamber of Commerce. A report from the Greater Toronto Services Board is also expected shortly. Taking these proposals and other advice into account, the government will consider options for meeting future inter-regional transit needs in the GTA and the surrounding Golden Horseshoe regions, including the most appropriate governance and financing options.

## Strategic Highway Investment

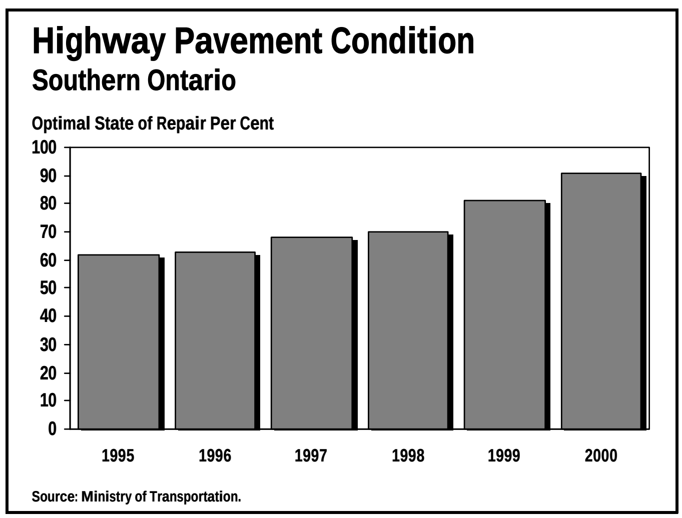
The provincial highway network is a strategic asset that helps Ontario compete successfully in the global economy. With an estimated replacement cost of $27 billion, proper planning and investment is vital to preserve this asset and to promote the safe, efficient movement of people and goods.




To ensure that Ontario remains competitive, the government has invested more than $5 billion in the highway network since 1995. Approximately 90 per cent of the network in southern Ontario is now in good condition, up from 62 per cent in 1995. Highway conditions have also improved in the North.

As part of its support for the Smart Growth strategy, the government is undertaking a series of major transportation corridor assessment studies to help prepare Ontario's transportation network for the future:

- extending Highway 427;
- extending Highway 407 East;
- extending Highway 404 and establishing a Bradford bypass;
- providing additional capacity at the Windsor-Detroit border crossing;
- a new east-west corridor in the GTA;
- a new mid-peninsula Niagara corridor; and
- a proposed Ottawa ring road.



These new transportation corridors are critical elements in ensuring that economic growth in the GTA and the surrounding Golden Horseshoe region continues and that major environmental and agricultural features can be protected. As part of the planning exercise, the government will examine public-private partnerships as a way to finance, build and operate highway infrastructure, including tolling options.

For example, if the needs assessment currently underway confirms the need for a new highway link in Niagara, the government will proceed with environmental assessment work for a new Mid-Peninsula Niagara Expressway corridor between Hamilton and the Niagara International Gateway. The new corridor would parallel the QEW along an east-west alignment south of the Niagara Escarpment. This corridor would be designed to make the land above the Escarpment a choice location for future urbanization and development in the City of Hamilton and Niagara Region.

## 4. Enhancing Municipal Capability

### Brownfields Redevelopment Strategy

As part of its made-in-Ontario Smart Growth strategy, the government will take steps to encourage the redevelopment of brownfield sites across the province. Brownfields are sites on which industrial or commercial activity took place in the past, but are currently abandoned or underused. These properties may or may not be contaminated. They are often located in prime locations where infrastructure and other urban services already exist.

Brownfields redevelopment can revitalize older urban areas. Many waterfront municipalities in Ontario are looking for ways to replicate Cobourg's harbour redevelopment in which four adjacent, heavily contaminated brownfield properties were redeveloped. An investment of $2 million for remediation and $3 million for municipal improvements resulted in $162 million of construction projects, a new marina, and a new clean public waterfront that draws thousands of tourists annually. Unfortunately, millions of dollars in annual property tax revenue is still being lost to municipalities through abandoned and underused properties. For example, the City of Toronto's Treasurer has estimated that the city is losing at least $50 million in annual property tax revenue from vacant and underused properties.

The Minister of Municipal Affairs and Housing will be introducing new legislation that would remove the most important impediments to brownfields redevelopment. The legislation would address environmental liability issues and the environmental requirements associated with cleanup.

Brownfields redevelopments in major urban centres will also be eligible under the strategic infrastructure component of SuperBuild's Millennium Partnerships initiative.

### Urban Economic Development Tools

Large urban areas or city regions, as dynamic centres of innovation, production and consumption, are increasingly becoming a primary focus of the global economy. Ontario's urban centres compete with metropolitan economies across the United States to attract investment, innovation, people and jobs.

The government commissioned a study to evaluate the economic development tools that could be made available to municipalities to help them compete more effectively with American jurisdictions. The study evaluated economic development best practices in U.S. and European jurisdictions and their potential application to Ontario. It identified several tools that could promote investment in complex urban infrastructure projects, including urban redevelopment corporations, new powers to allow municipalities to be full partners in public-private partnerships and tax incentives for private investment in infrastructure.

The study will be released as part of the Minister of Municipal Affairs and Housing's consultations on the made-in-Ontario Smart Growth strategy. Many of the urban economic development tools identified in the study would require legislative or regulatory changes, and their implications for Ontario will have to be evaluated carefully.

## 5. Long-Term Water and Sewer Investment and Financing Strategy

On August 10, 2000, as part of Operation Clean Water, the Province announced that the advisory board of the Ontario SuperBuild Corporation would guide the development of a long-term water and sewer infrastructure investment and financing strategy. As part of the strategy, the board will be evaluating the options and implications of moving towards full cost recovery for water and sewer services.

### Investment Needs

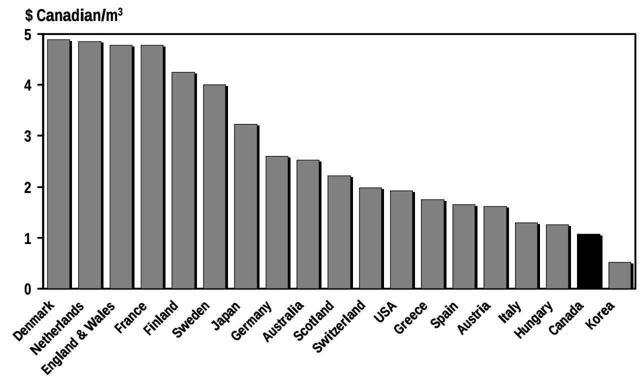
Ontario's water and sewer sector is facing large infrastructure investment and renewal requirements. Various needs estimates have been developed with varying degrees of credibility. More research and analysis is required to obtain a better understanding of the current condition of Ontario's water and sewer infrastructure. However, it is safe to say that several billion dollars worth of investment in above- and below-ground infrastructure will be required to meet future needs. Under current water pricing, it is clear that the system is not financially sustainable and will not be able address future investment needs.

### Price of Water in Ontario Versus Other Jurisdictions

The people of Ontario pay relatively less for their drinking water than people who live in other OECD countries. Lack of metering is one of the reasons for Ontario's underpricing of water. Meters would enable service providers to appropriately charge users for the water and sewer services they consume.

Few, if any, municipalities recover all capital and operating costs for water and sewer services through user charges. The costs of underground pipes are often subject to the "out of sight, out of mind" adage. Some communities have already taken steps to address this issue. For example, the City of Hamilton has developed a long-term investment plan and is adopting water prices that will provide sustainable funding for water and wastewater infrastructure. This is a step in the right direction and a model for other municipalities to consider.

**Household Water Prices in Selected OECD Countries**




Source: OECD Working Paper, 1999.

## Role of Ontario SuperBuild Corporation Advisory Board and Consulting Studies

The SuperBuild board of advisors has been asked to:

- recommend the best option(s) for the investment and financing of water and sewer infrastructure in Ontario's circumstances;

- identify options for moving to the new ways(s) of investing and financing water and sewer infrastructure; and

- advise on the merits and feasibility of restructuring the water and sewer infrastructure business in Ontario to improve service delivery and reliability, and to identify options the Province could consider for beginning the restructuring process.

In January 2001, the Ontario SuperBuild Corporation released terms of reference for eight studies on the water and sewer sector. The studies cover a wide range of topics, including an inventory of assets in Ontario, financing, pricing and asset-management practices in the province, and best practices in other jurisdictions. Information from the studies will make an important contribution to the province's long-term investment and financing strategy for water and sewer infrastructure. The studies will be shared with the Walkerton Inquiry and made public.

The government's goal is to find the best way to deliver water and sewer services in the future. Ontarians deserve nothing less.

**Consultant Studies**

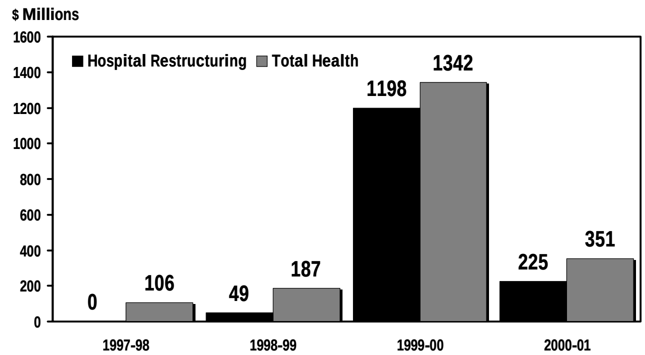
| Study | Purpose |
|---|---|
| Asset Inventory | Collect information on Ontario's water and sewer infrastructure assets and compile it into a comprehensive database. This will help assess Ontario's existing and future water and sewer infrastructure investment needs. |
| Economics | Provide a description, analysis and synthesis of the economic principles applicable to water and sewer infrastructure. |
| Financing | Describe and evaluate current financing, asset management and accounting practices with respect to water and sewer infrastructure in Ontario. |
| Pricing | Provide a comprehensive database of water and wastewater pricing in Ontario and describe and analyse current pricing practices in Ontario. |
| Organization | Describe and analyse how water and wastewater systems are organized in the province and identify emerging organizational models. |
| Best Practices | Identify a range of best practices in other jurisdictions with respect to water and sewer infrastructure and assess their applicability to Ontario. |
| Business Model Analysis | Describe the organization of regulated utility industries and determine their applicability to water and sewer infrastructure in Ontario. |
| Industry | Identify and describe national and international private-sector water and wastewater investors and suppliers and analyse their market strategies. |

# 6. Health Care Renewal

## Provincial Investment in Health Infrastructure

In 1996, the government appointed the Health Services Restructuring Commission (HSRC). Over the 1996 to 2000 period, the HSRC provided directions for change to hospitals in 22 communities across the province and advised the Province on other changes needed to improve the accessibility, quality and cost-effectiveness of the health care system. The purpose of hospital restructuring is to ensure that the size and location of hospitals is efficient, and to support the shift to community-based health care resulting from current and emerging clinical practices.

**Health Capital and Hospital Restructuring Capital Funding**




Note: Does not include $718 million in HSRC renovation expenditure.
Sources: Ontario Ministry of Finance and Ontario Ministry of Health and Long-Term Care.

To date, the government has invested $2.2 billion to modernize and upgrade hospitals in 22 communities across the province, including $1.1 billion in SuperBuild investments to help accelerate restructuring. Together with our partners, this commitment will provide over $3 billion in new hospital construction and renovation. Over the next few years, this investment will continue to expand hospital emergency rooms, build new cancer and cardiac care centres, and help provide a better mix of acute care, mental health and rehabilitation beds for the communities served by these hospitals.

The government is also implementing other reforms to modernize the health care system. Currently, 20,000 long-term care beds are being added to our health care system, and 16,000 existing long-term care beds are being upgraded. In addition, community-based care is expanding and Telehealth is being implemented across the province.

## Developing a Long-Term Strategy for Health Infrastructure

Despite these sizable investments, challenges remain. A variety of factors are influencing the need for investment in health infrastructure, including changing demographics, changing technology and changing clinical practices (see table).

**Drivers Changing the Health Care System**

| Pressures | Impact | Challenges / Opportunities |
|---|---|---|
| Growing and aging population | Increasing demand on health services/shifting services as our population ages | Meeting the rising demand for health care services<br><br>Partnership approaches for financing health care infrastructure and services |
| New medical technologies | Adapting clinical practice to take advantage of new technology | Funding new technology at appropriate levels, changing clinical practice and infrastructure<br><br>Private-sector financing and provision of technology and related services |
| New drugs | Treating illnesses more effectively, with less intervention | Funding new drugs at appropriate levels, changing clinical practice and infrastructure |
| New information technologies | Allowing doctors to co-ordinate better care for their patients, using the latest treatments and services | Expensive and difficult to implement, must ensure the privacy of patient and other information<br><br>Private-sector financing and provision of technology and related services |
| Changing clinical practices | More frequent use of a broader range of health care practitioners and treatment options. | More co-ordination required between health care partners with various roles better defined |
| Informed consumer (through Internet, etc.) | Patients more aware of treatment options | Patients demanding the latest most effective treatments |

Over the next year SuperBuild will work with the Ministry of Health and Long-Term Care and other health care partners to develop a long-term health infrastructure strategy that will include:

- evaluating long-term needs for health care infrastructure;
- analysing the relationship between capital investment and the quality of health services;
- evaluating public-private partnership options where appropriate, subject to the provisions of the *Canada Health Act*;
- investigating alternative methods of financing health care infrastructure and technology; and

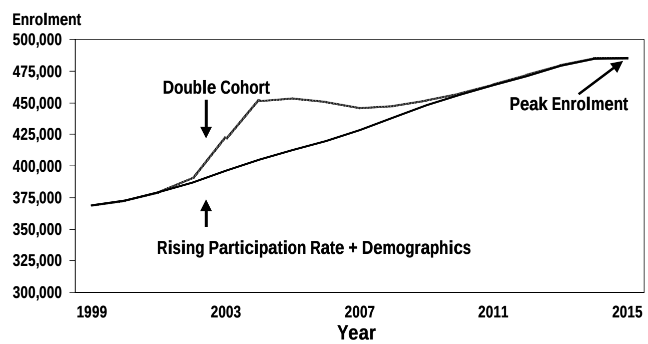
♦ finding better ways to invest in new technologies.

## 7. Post-Secondary Education Enrolment Growth

About 380,000 students are currently enrolled in Ontario's post-secondary system. Enrolments at colleges and universities are projected to increase due to growth in the 18-24 age group, rising participation rates and secondary school reform. The Ministry of Training, Colleges and Universities estimates that 78,000 additional students will be enrolled at colleges and universities by 2005-06, an increase of 21 per cent from today's level. While the effects of secondary school reform will subside, enrolment is expected to continue to rise due to demographic factors.

In 1997, the Province announced a new four-year high school program. In 2003, the first set of graduates of the new four-year program will leave high school at the same time as the last set of graduates of the old five-year program. This "double cohort" of Ontario high school graduates will cause a steep rise in full-time enrolment between the years 2003 and 2005.

**Projected Post-Secondary Full Time Enrolment**




Sources: Ontario Ministry of Finance population projections and Ministry of Training, Colleges and Universities full-time headcounts. Assumes a 0.2 percentage point rise in participation annually.

### Once-in-a-Generation SuperBuild Investment in Post-Secondary Education

In order to accommodate the expected increase in enrolments, the Province invested over $1 billion through SuperBuild in post-secondary education capital in 1999-2000. Combined with partner contributions, this investment will result in a total investment of $1.8 billion and the creation of more than 73,000 new student spaces at colleges and universities. This is the largest capital investment in Ontario's post-secondary system in more than 30 years.

Colleges and universities have agreed to create additional student spaces through better use of existing facilities. To help them achieve this objective, the Province invested over $140 million in 2000-01 for the renovation and renewal of existing post-secondary facilities. This funding will support the investments institutions are making to upgrade existing buildings to accommodate more students.

Following the advice of the Ontario Jobs and Investment Board to strengthen the link between theoretical and applied post-secondary education, the government provided support for nine joint college-university partnership projects in 1999-2000.

Building on this investment, the Province has provided $60 million as an essential first step in the establishment of a new Ontario Institute of Technology that would provide university and college level programs and link post-secondary education and skills training with the needs of the marketplace. Building on the excellent track record of Durham College, this new institution will address the skill requirements needs in the eastern GTA.

# PAPER F

## Accountability: Progress through Performance

# Overview

*Accountability is a relationship based on the obligation to demonstrate and take responsibility for performance in light of agreed-upon expectations.*

Accountability is woven throughout the fabric of public service. The strands of accountability—the way in which organizations and the workers within them must answer to those who pay for and use their services—determine the strength of our public services. When a single strand fails, our faith in the entire structure is put at risk.

This Budget, and every Ontario Budget that has come before it, has had the responsibility of showing the taxpayers and citizens of Ontario what their government will be held accountable for.

Each year, the Budget outlines the resources—the hard-earned taxpayers' dollars—that are entrusted to the government and the services that will be produced with these resources.

Taxpayers, citizens and users of government services expect, in fact demand, that the government deliver quality services in the most efficient and effective manner possible. They expect high-quality services at the lowest possible cost, or stated succinctly, they want and expect to receive value for their money. Not receiving value for money has the direct impact of wasting money that could have been used to improve the quality and quantity of services offered to the public.

Providing a plan is one part of the accountability process. At the end of the year, the government must report on what it accomplished with the resources entrusted to it. It must state whether it met what it set out to do. The release of the Province's Annual Report and audited Financial Statements meets this objective.

Since being elected, this government has taken many important steps to improve both the services that it delivers to the public directly and reporting what it is accountable for (see Improvements in Accountability Practices). The process of improving accountability was started in 1995 with the work of the Ontario Financial Review Commission and continues to this day. But much more can be done to improve accountability to the taxpayer.

# Panel on the Role of Government in the 21$^{st}$ Century

The Throne Speech, as part of step 3, announced that "the government will strike a panel to make recommendations on the appropriate role of government in the 21$^{st}$ century: what its business should and shouldn't be; where it belongs and where it does not." This is a crucial step towards greater accountability. We must determine what the government should be held accountable for as we move into the 21$^{st}$ century.

## Value-for-Money Review

The government must continue to find ways of offering those services that the people of Ontario depend on and find ways to deliver these services in an efficient and effective manner.

The Ministry of Finance will be undertaking a value-for-money review of government activities and services to ensure that they are delivered in the most cost-effective manner possible. This review will support the government's commitment to apply the principle of zero-based budgeting. The review will rely on private-sector expertise to assure that best practices from other jurisdictions are identified and applied to Ontario's needs.

The review will have several objectives as it assesses government activities:

- Is the government's original policy intent for the activity still valid?
- Is the activity meeting that policy objective?
- Is the activity being delivered in the most cost efficient and effective manner?
- Is the activity a priority of government?
- Does the activity provide wider economic and social benefits to Ontario?

The outcome of the work of this review will be:

- improved services to taxpayers;
- saving taxpayers' money;
- eliminating unnecessary activities;
- eliminating waste; and
- bolstering the economy.

## Broader Accountability

While the government has and continues to take steps to improve its own ability to deliver value-for-money services directly to the public, it is dependent on its transfer partners doing the same for the services that are funded with taxpayers' hard-earned dollars.

More than 80 per cent of program and capital spending is in the form of transfer payments, most of which go to our transfer partners in the broader public sector who run our schools, our hospitals, our colleges and universities and other services that are crucial to the well-being of all Ontarians. These organizations, like the government of Ontario, are accountable to the taxpayers of Ontario and to others who fund them for delivering the highest quality of service at the lowest possible price and for reporting back on their performance in light of agreed-upon expectations.

It is for these reasons that the Government of Ontario is announcing today a four-part plan to help public-sector organizations meet their obligation to Ontario taxpayers for the use of their hard-earned dollars.

- It is proposed that all public-sector organizations will be required to meet **minimum requirements** to ensure they are accountable to the public, their staff, their funders and the end-users of their services.

- It is proposed that all significant public-sector organizations will be held accountable for operating in a fiscally prudent manner through the preparation and achievement of an annual **balanced budget**.

- An **Accountability Office** will be set up in the Ministry of Finance to support the continued improvement in accountability practices in the broader public sector and to take action in those circumstances where further improvement is needed.

- A proposed **Public Sector Accountability Act** will enshrine in legislation the requirement for all significant public-sector organizations to publicly report on their plans to use resources entrusted to them and on their performance against this plan.

The new accountability framework for Ontario must start with the recognition that all publicly funded organizations are accountable to the people of Ontario in three ways: they must answer to taxpayers and others who fund the services they provide; to the clients who rely on those services for their personal health, well-being and security; and to the people of Ontario to whom all broader public-sector institutions ultimately belong. In other words, they must provide the best possible service at a cost that the taxpayer is willing to pay, strive always to improve, and respect the public.

## Improvements in Accountability Practices

Since coming into office in 1995, the government has implemented a number of improvements in its accountability practices including the:

- Creation of the Ontario Financial Review Commission in 1995 with the mandate to review the Province's accounting, reporting and financial management practices;
- Introduction of ministry business plans that outline their core activities, set performance goals each year and report on results;
- Adoption of Public Sector Accounting Board recommendations in the preparation of the Budget, Quarterly Finances and the Financial Statements of the Province of Ontario;
- Introduction of Management Board Directives on Accountability in 1997 and Transfer Payment Accountability in 1998;
- Introduction in 1998 by the Ministry of Training, Colleges and Universities of key performance indicators to measure and report on key areas, such as graduation and graduate employment rates at all post-secondary institutions, and a requirement that student loan default rates be made public for all OSAP-eligible institutions. As a next step, the government in 2000 began rewarding the performance of colleges and universities in achieving these ministry-stated goals;
- *Taxpayer Protection Act, 1999* and the *Balanced Budget Act, 1999*;
- Announcement by the Ministry of Municipal Affairs and Housing in 2000 of the reporting of municipal performance measures in nine core service areas;
- Reconvening of the Ontario Financial Review Commission in 2000 with the mandate to review options: for improving the financial management, decision-making and reporting practices of the government's key transfer partners; for reporting the government's investment in tangible capital assets; and the government's response to the recommendations made by the previous Commission;
- Creation of a Task Force on Effective Schools in 2001 to make recommendations on how best to organize schools to improve student achievement and learning, as well as ways to hold school boards accountable for school improvement planning;
- Various health care initiatives including:
  - Independently produced report cards will be made available to the people of Ontario and will provide a hospital-by-hospital assessment of performance;
  - A Patient Charter will outline the rights and responsibilities that Ontario citizens have within the health system; and
  - Recognition of efficient hospitals through the application of a performance grant.
- Announcement in the 2001 Throne Speech of the government's intention to amend the *Audit Act* to empower the Provincial Auditor to ensure that institutions funded by Ontario taxpayers use that money prudently, effectively and as intended.

# 1. Setting Minimum Requirements

All significant public-sector organizations must address minimum accountability requirements. The report of the 2001 Ontario Financial Review Commission, made up of leaders in the financial and business community, was released on April 30 of this year. Their report, entitled *Raising the Bar: Enhanced Accountability to the People of Ontario*, set out what they believe to be the basic building blocks of accountability. These include:

- proper legal status, strong governance, well-articulated mission and vision, and effective management;
- well-defined relationships with all stakeholders, including funders, service users, staff and ministry;
- commitment to proper business planning, performance evaluation and continuous improvement; and
- a culture of openly and actively sharing financial and performance information with all communities that have an interest in the organization.

In the culture of accountability Ontario wants to create, organizations report about how well they will use the resources entrusted to them and how they will work to improve their performance. They are open to answering questions about how they operate, how they are governed and what they are trying to achieve. They are willing to be measured on their performance and they understand that excellent performance will be recognized, just as poor performance must be remedied. Their energy is focused on providing results, not building arguments for more funding without explaining how they use the resources they already have. Meeting the minimum requirements of accountability as outlined by the 2001 Ontario Financial Review Commission's report is the first step in improving public-sector accountability.

# 2. Operating in a Fiscally Prudent Manner

With the passage of the *Taxpayer Protection Act, 1999* and the *Balanced Budget Act, 1999* the Government of Ontario now guarantees its accountability to taxpayers by requiring that the government balance its budget or cut the salaries of Cabinet members by 25 per cent for each year of deficit spending and 50 per cent for each consecutive deficit. In doing so, the government has enshrined in legislation its obligation to the taxpayers and citizens of Ontario to carry out its operations in a fiscally prudent manner.

The government believes that organizations funded with taxpayers' money should also be held accountable to carry out their operations in a fiscally prudent manner. To ensure this, all significant public-sector organizations would be required to prepare and deliver annual balanced budgets under the proposed Public Sector Accountability Act.

## Transfer Partners and Accountability

Ensuring the best use of resources becomes more complex when funds are flowed to transfer partners—that is, public-sector organizations that are outside direct control of the elected government.

Transfer partners play a central role in providing public services. The provincial government sets policy directions, establishes legislation and provides funding for services such as health care, education and social programs. In most cases, however, a third party—a transfer partner—actually delivers the service. Transfer partners include hospitals, other health care facilities, homes for the aged, school boards, colleges, universities, municipalities and social agencies.

These bodies often have deep roots in the communities in which they are located. Their boards usually include local people and, often, people who use their services. Transfer partners are in an excellent position to leverage local knowledge and expertise, prompt innovation and tailored solutions, and access additional sources of funding beyond provincial transfer payments. The provincial government and other funders nonetheless care about the financial and organizational efficiency of transfer partners, and how well they provide service compared to their peers.

As with services delivered directly, government has made considerable strides in trying to ensure the accountability of transfer partners. Examples include:

- Developed a common curriculum for elementary and secondary schools, so that all students work towards the same goals; and

- Created the Education Quality and Accountability Office to improve the quality of education in Ontario by measuring student performance and reporting on results.

While government and transfer partners continue to work towards greater accountability, much remains to be done.

## What More Should Be Done?

The government will continue to work with its transfer partners towards:

- improving planning and goal-setting and, where appropriate, developing shared goals;

- giving the public more and better information on performance;

- strengthening the link between goals and results, and taking action when organizations do not meet their goals; and

- working to lower the cost of service while maintaining quality through such measures as benchmarking against other providers; common procurement and public tendering processes; better co-ordination of efforts among service providers; and creation of common service bureaus.

# 3. The Accountability Office

In response to the need to evaluate how well entire sectors, as well as the bodies within them, are performing, the government will create an Accountability Office in the Ministry of Finance.

This office will draw on the expertise within ministries, as well as individuals with in-depth knowledge of the sector and demonstrated objectivity.

The Accountability Office will:

- evaluate performance throughout a sector, using appropriately designed measures, and report clearly to the public and the relevant minister on findings;
- champion strongest performers and disseminate best practices;
- promote the development of common goals and performance measures;
- promote communication within and among sectors;
- monitor compliance with the proposed Public Sector Accountability Act; and
- implement remedies for underperforming organizations.

The key objective of the Accountability Office will be to support continuous improvement in the accountability practices of the broader public sector.

In those situations where organizations consistently fail to meet their performance targets outlined in their business plan or fail to significantly meet their targets in any one year, the Minister of Finance, in consultation with other Ministers, would be able to request an independent review of the financial management, business planning and operating practices of the organization.

# 4. The Proposed Public Sector Accountability Act

The 1997 Ontario Budget discussed the idea of a Public Sector Accountability Act to require publicly funded organizations to follow best practices in managing their operations. Since that time, the government has sought the advice of leaders in accountability practices. The 2001 Ontario Financial Review Commission recommended that the government should enshrine accountability in legislation. The government agrees with this advice and will introduce a Public Sector Accountability Act in the current session.

The proposed act would apply to all public-sector organizations that receive substantial government or public funding. Specifically, the proposed act would apply to significant Crown agencies and municipalities, school boards, hospitals, universities and colleges and to very large agencies in the social services sector.

The purpose of the proposed act would be to:

1. Initiate best practices in public-sector organizations by measuring their performance against their established goals and by reporting publicly on the progress made.

2. Improve program effectiveness and public accountability by promoting a stronger focus on the results and service quality of public-sector organizations.

3. Improve service delivery by requiring that public-sector organizations prepare a plan to meet identified objectives and to provide information on results and service quality achieved.

4. Improve decision-making in public-sector organizations by ensuring that relevant information about each organization's objectives and about the effectiveness and efficiency of the organization's activities in meeting those objectives is available to the public.

5. Improve fiscal responsibility by requiring public-sector organizations to prepare and deliver a yearly balanced budget.

The proposed act would provide a broad framework in which public-sector organizations can work towards improved accountability and performance. It would require organizations to:

- prepare and publicly disclose a business plan and monitor performance against this business plan; and

- identify to whom they are accountable, identify who is accountable and for what they are accountable.

A public-sector organization's **business plan** would be required to contain information with respect to the current fiscal year on:

- its governance and management structure;

- a comprehensive mission statement;

- a description of the major activities of the organization;

- the goals and objectives to be achieved for each of the major activities;

- the actions to be taken to achieve those goals and objectives;

- an estimate of how much these services/activities will cost in terms of human, financial, technological and other resources needed to achieve those goals;

- the performance targets and indicators to be used in measuring or assessing the relevant inputs, outputs and outcomes of the major activities of the organization and, to the extent practical, be expressed in an objective and measurable form;

- external factors outside the control of the organization that are likely to affect the achievement of those goals and objectives; and

- a description of actions taken to validate and verify the plan, and the actions taken to review the organization's success in achieving its goals and objectives.

Public-sector organizations would be required to consider the views of people and entities outside the organization who may have an interest in its activities and to have their business plan approved by their governing body.

Private-sector delivery alternatives should be examined to improve service and reduce costs. The results of these reviews should be reported in the organization's annual report.

Each organization would be required to prepare and make public an annual report that contained:

- a business plan for the previous fiscal year and the current fiscal year;
- a description of the extent to which the organization achieved its goals and objectives for the previous fiscal year, as set out in the business plan for that fiscal year;
- if any of the goals and objectives were not achieved, a description of the reasons and of the steps the organization plans to take to achieve them;
- a statement that the organization's books and records are complete and accurate;
- a statement indicating whether the organization's systems and practices can reasonably be relied upon to have ensured the organization protected its assets, spent money only as authorized and managed its resources efficiently and economically; and
- audited financial statements of the organization prepared in accordance with generally accepted accounting principles or as would be prescribed in regulation.

A proposed Accountability Act by itself cannot improve accountability and effectiveness—it can set the framework in which organizations work towards improved accountability and effectiveness. Actions taken by all parties will ultimately lead towards these goals. The proposed Accountability Act's ultimate success will depend on the willingness of all parties to work towards improved accountability and effectiveness and to report publicly on results.

# Property Assessment Corporation and Accountability

The Ontario Property Assessment Corporation (OPAC) is not a transfer partner, but because of its legislative relationship with the government, it too should be held accountable to the public and the agencies that it serves. It is essential that OPAC, like other public service providers, strives to deliver efficient and effective programs and high-quality services and is responsive to the needs of its customers.

OPAC was created to deliver property assessment services. Operational responsibility for assessment service delivery was transferred to the municipal sector on December 31, 1998.

As announced on December 12, 2000, the government recently conducted a review of the structure and operations of OPAC to confirm that the needs of Ontario property owners and municipalities are being met. Analysis of this review identified the need to enhance OPAC's accountability and customer service capacity.

To meet these objectives, the government intends to introduce legislation to improve OPAC's accountability to its stakeholders through a series of initiatives, including the following:

- **Quality Service Commissioner**
  To ensure that OPAC is providing consistently high standards of service, the government intends to introduce amendments to the *Ontario Property Assessment Corporation Act, 1997*, which would require the appointment of a Quality Service Commissioner.

  The Commissioner, who would oversee quality service and customer relations, would be required to implement quality service benchmarks similar to those instituted by the provincial government.

- **Board of Directors**
  OPAC is governed by a 14-member Board of Directors, which is composed of 12 municipal representatives and two provincial appointees.

To ensure that the interests of property taxpayers are represented at OPAC, the government intends to introduce amendments to the *Ontario Property Assessment Corporation Act, 1997,* that would change the composition of the Board of Directors. The proposed new board would comprise eight municipal representatives, five taxpayer representatives, and two provincial appointees.

The proposed new board structure would balance the interests of all of OPAC's customers.

- **Renaming OPAC**
  The government proposes to change the name of OPAC to the Municipal Property Assessment Corporation.

Over the coming months, the government will continue to consult on the portion of the review that relates to Ontario Regulation 282/98, which determines how properties are classified for property-tax purposes.

# A Plan for the Future

Queen's Printer for Ontario, 2001
Ontario Budget. Budget Papers – ISBN 0-7794-1247-8