



2008

Ontario Economic Outlook and Fiscal Review

Background Papers

The Honourable Dwight Duncan
Minister of Finance

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TABLE OF CONTENTS

FOREWORD.....	ix
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ANNEX I: FISCAL OUTLOOK

SECTION A: ONTARIO'S 2008–09 FISCAL OUTLOOK

2008–09 Fiscal Performance	3
2008–09 Revenue Changes Since 2008 Budget.....	4
Details of 2008–09 In-Year Revenue Changes.....	5
2008–09 Expense Changes Since 2008 Budget	6
Details of 2008–09 In-Year Expense Changes	6
Maintaining a Prudent Accumulated Deficit-to-GDP Ratio	7
Risks to the Fiscal Outlook	8

SECTION B: EXPENDITURE MANAGEMENT

EXPENDITURE MANAGEMENT.....	11
-----------------------------	----

SECTION C: DETAILS OF ONTARIO'S FINANCES

DETAILS OF ONTARIO'S FINANCES.....	13
------------------------------------	----

ANNEX II: ECONOMIC OUTLOOK

OVERVIEW	23
Financial Market Turmoil.....	23
Ongoing External Economic Challenges	24
Ontario's Economic Progress over the Past Five Years	25
The Ontario Economy in 2008	26
Heightened Global Economic Uncertainty	27
Private-Sector Economic Forecasts	29
Comparison to the 2008 Ontario Budget	30

ANNEX III: ROLE FOR THE FEDERAL GOVERNMENT

Canada's System of Transfers Is Outdated	35
Ontario's Fiscal Gap	35
Equalization	35
Employment Insurance	36
Health Care	36
Regional Economic Development.....	37
Infrastructure	37
Time-Limited Transfers.....	37
Need for a Federal Partner	38

ANNEX IV: BORROWING AND DEBT MANAGEMENT

LONG-TERM PUBLIC BORROWING.....	41
Deficit	42
Other Changes in the Financing Table	43
Debt	43
Debt-to-GDP Ratios.....	44
Total Debt Composition	45
Debt Management	45
Debt Maturities.....	46
Cost of Debt	46

ANNEX V: TRANSPARENCY IN TAXATION, 2008

TRANSPARENCY IN TAXATION	49
Structure of the Report	49
Scope	49
Method	50
Personal Income Tax	51
Personal Income Tax — Description of Tax Provisions	55
Ontario Non-refundable Tax Credits.....	55
Employee Ownership and Ontario Labour Sponsored Investment Fund Tax Credits.....	56
Ontario Refundable Tax Credits	56
Exemptions, Deductions, Deferrals and Other Measures Shared with the Federal Government	57
Corporate Tax	59

Corporate Tax — Description of Tax Provisions	62
Corporate Income Tax	62
Sales and Commodity Tax	64
Sales and Commodity Tax — Description of Tax Provisions	67
Land Transfer Tax	67
Retail Sales Tax	67
Education Property Tax	69
Employer Health Tax	70
Estate Administration Tax	70
Gross Revenue Charge	70

ANNEX VI: HOW TO PARTICIPATE IN THE 2009 PRE-BUDGET CONSULTATIONS

HOW TO PARTICIPATE IN THE 2009 PRE-BUDGET CONSULTATIONS	73
Submissions	73

LIST OF TABLES

ANNEX I: FISCAL OUTLOOK

SECTION A: ONTARIO'S 2008–09 FISCAL OUTLOOK

Table 1: 2008–09 In-Year Fiscal Performance	4
Table 2: Summary of Revenue Changes Since 2008 Budget	5
Table 3: Summary of Expense Changes Since 2008 Budget	6

SECTION C: DETAILS OF ONTARIO'S FINANCES

Table 4: 2008–09 Fiscal Outlook	13
Table 5: Revenue	14
Table 6: Total Expense	15
Table 7: Other Expense	16
Table 8: 2008–09 Infrastructure Expenditures	17
Table 9: Ten-Year Review of Selected Financial and Economic Statistics	18

ANNEX II: ECONOMIC OUTLOOK

Table 1: Ontario Economic Outlook	23
Table 2: Key External Variables	24
Table 3: External Variables	28
Table 4: Impacts of Changes in Key Assumptions on Ontario Real GDP Growth	29
Table 5: Private-Sector Forecasts for Ontario Real GDP Growth	30
Table 6: Changes in Key Economic Forecast Assumptions, 2008 Fall Economic Statement Compared to 2008 Budget	31

ANNEX IV: BORROWING AND DEBT MANAGEMENT

Table 1: 2008–09 Borrowing Program: Province and OEFC	42
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ANNEX V: TRANSPARENCY IN TAXATION, 2008

Table 1: Personal Income Tax	51
Table 2: Amounts on Which Indexed Non-refundable Tax Credits Are Based for 2008.....	55
Table 3: Corporate Tax	59
Table 4: Sales and Commodity Tax	64
Table 5: Education Property Tax.....	69
Table 6: Employer Health Tax (EHT).....	70
Table 7: Estate Administration Tax	70
Table 8: Gross Revenue Charge (GRC).....	70

LIST OF CHARTS

ANNEX I: FISCAL OUTLOOK

SECTION A: ONTARIO'S 2008–09 FISCAL OUTLOOK

Chart 1: Ontario's Fiscal Performance	3
Chart 2: Accumulated Deficit-to-GDP	7

SECTION C: DETAILS OF ONTARIO'S FINANCES

Chart 3: Composition of Revenue, 2008–09	20
Chart 4: Composition of Total Expense, 2008–09	20
Chart 5: Composition of Program Expense, 2008–09	20

ANNEX II: ECONOMIC OUTLOOK

Chart 1: Ontario's International Merchandise Exports Are Diversifying	25
Chart 2: Jobs Created Since October 2003	26
Chart 3: Employment Growth Relatively Strong	26
Chart 4: Crude Oil Prices	28
Chart 5: Canadian Dollar	28
Chart 6: Private-Sector Forecasts	30

ANNEX III: ROLE FOR THE FEDERAL GOVERNMENT

Chart 1: Ontarians Pay into Equalization	35
Chart 2: Ontarians Do Not Receive Fair Treatment	36
Chart 3: Time-Limited Federal Transfers.....	37

ANNEX IV: BORROWING AND DEBT MANAGEMENT

Chart 1: Borrowing — All Markets	41
Chart 2: Borrowing — Domestic Market	41
Chart 3: Debt	43
Chart 4: Net Debt-to-GDP.....	44
Chart 5: Accumulated Deficit-to-GDP.....	44
Chart 6: Total Debt Composition.....	45
Chart 7: Net Interest Rate Resetting Exposure	45
Chart 8: Foreign Exchange Exposure.....	45
Chart 9: Debt Maturities.....	46
Chart 10: Effective Interest Rate (Weighted Average) of Debt.....	46

FOREWORD

The global economy is threatened in ways not imagined even a few short weeks ago. The liquidity crisis in financial markets has undermined business and consumer confidence around the world. The resulting impacts on investment and jobs are real, present, and directly affect individuals, families, businesses and governments. Ontario is no exception.

Using the best information available at October 16, 2008, the *2008 Ontario Economic Outlook and Fiscal Review* adjusts the economic assumptions contained in the 2008 Ontario Budget. The impact of these changes is applied to the government's revenue and expenditure projections, which revises the anticipated financial results for the current fiscal year.

This document establishes the principles that will guide the government's response to the range of challenges occasioned by the global economic situation. It also details steps to be undertaken in the coming days that will help manage the Province's finances through the balance of the fiscal year and it responds to the new global reality. These steps begin a process that will culminate in the 2009 Budget.

TODAY'S ENVIRONMENT

At the time of the 2008 Budget, the consensus private-sector forecast for growth in the Ontario economy in 2008 was 1.2 per cent. Since then, the private-sector average estimate for 2008 has declined to 0.1 per cent.

As a result, the Province's revenue is projected to decline in 2008–09 while expenditures will increase in certain areas. Due primarily to lower revenues, the government is now projecting a deficit of \$500 million in 2008–09.

The new economic reality is forcing governments around the world to re-examine their expenditures, adjust their assumptions and respond in an environment where the only constant is uncertainty.

GUIDING PRINCIPLES

As a first principle, the McGuinty government's five-point economic plan will continue to be the foundation of its approach to today's economy. Investing in skills, infrastructure and innovation while lowering business costs and building partnerships remains the right response in turbulent times.

The Reaching Higher Plan for postsecondary education and investments in skills training means that 100,000 more Ontarians are being trained in colleges and universities today and 50,000 more are learning a trade.

Three years ago, the government launched ReNew Ontario, a five-year, \$30 billion infrastructure investment that is building new roads, new schools, new hospitals, new bridges and transit right across Ontario. Today there are over 100 major construction projects that have been initiated. The government's projects will create over 100,000 jobs this year.

Innovation creates jobs. In addition to historic investments to attract new high technology jobs to Ontario, the government has proposed a tax incentive to commercialize Canadian ideas so that home-grown ideas turn into hometown jobs.

Strategic tax cuts announced since 2004 have already saved businesses more than \$1.5 billion and will save businesses nearly \$3 billion annually when they are fully implemented. These targeted measures promote new investment and create jobs.

The McGuinty government understands that Ontario is at its best when partners work together. Ontario is partnering with key sectors of the economy, with First Nations, with municipalities and others to foster growth. The government will also continue to press the federal government to respond to Ontario's needs fairly.

These undertakings, coupled with Ontario's multi-billion-dollar investment in the renewal of Ontario's public health care system, are coming to fruition at the precise time they are most needed.

The five-point economic plan is creating jobs and enhancing Ontario's competitive strength for tomorrow.

The second principle guiding the government's approach is that the Province must continue to be prudent while maintaining the ability to respond quickly to changing economic circumstances.

Since taking office, the McGuinty government has eliminated its inherited and hidden \$5.5 billion deficit, produced three consecutive balanced budgets, decreased Ontario's debt-to-GDP ratio and kept the rate of growth in Provincial expenditures below the rate of growth in revenue, all while making strategic investments.

The government's Second Career Strategy, for example, which will be enhanced this fall, helps retrain laid-off workers for new jobs. It is a key part of the \$2 billion Skills to Jobs Action Plan, which further enhances skills and builds places to learn.

Most importantly, in spite of the downturn in North America's manufacturing and forestry sectors, Ontario has seen an increase of more than half a million net new jobs since assuming office. Real income has grown and unemployment is below what it was in 2003.

Prudence dictates that the government take into account how global circumstances will affect capital markets, labour markets and the Province's finances.

The government will never lose sight of the fact that underneath all the statistics, all the uncertainty and all the turmoil, there are real people with real fears, real concerns and very real needs.

The third principle that will guide the government's decisions recognizes that the Province must protect the gains it has made while taking a balanced, comprehensive approach to future growth.

Ontario cannot spend its way out of today's difficulties.

Initiatives taken as part of the five-point plan constitute an economic stimulus package that is helping families, businesses and communities today.

The McGuinty government will continue to bring a laser-like focus to its priorities and, as part of that focus, has begun a comprehensive review of government expenditures. As a measured and balanced approach to slowing revenues, the government will delay or slow down the implementation of some new spending commitments.

Tax cuts alone are no substitute for a plan. Targeted business tax cuts coupled with a strategy for smart regulation will encourage investment and job growth over time.

The dramatic, unanticipated changes in the global economy mean Ontario will experience a deficit this year. A deficit, followed by a plan for its elimination, represents a balanced response to today's global reality. The alternative would be deep cuts to the very programs and initiatives that are helping families, businesses and communities weather the current storm.

THE NEXT SIX MONTHS

The McGuinty government will continue to update the people of Ontario through quarterly economic updates. Uncertainty and anxiety about the global economy will no doubt continue. The McGuinty government will diligently monitor and respond to events as they unfold.

The government's plan is the right plan for the times. It is flexible so that it can accommodate changing economic circumstances. As in other times of uncertainty, Ontario will rise to the current challenges and seize opportunities to strengthen economic growth, create new jobs and continue to be a great place to live and invest.

**** N.B. The following Annexes are based on the most recent information available as of October 16, 2008.****

ANNEX I

Fiscal Outlook

SECTION A | ONTARIO'S 2008–09 FISCAL OUTLOOK

In the current environment of heightened economic uncertainty, many international jurisdictions face an unparalleled economic crisis as slowing economies result in lower revenue growth. Ontario is no exception. The Province's 2008–09 revenue is currently projected to decline by 1.2 per cent compared to 2007–08 — the first time Provincial revenues have declined since 2003–04. This projected decline in revenue, combined with increased spending on health, has resulted in a forecasted deficit of \$500 million for 2008–09, which represents 0.5 per cent of the 2008–09 revenue outlook.

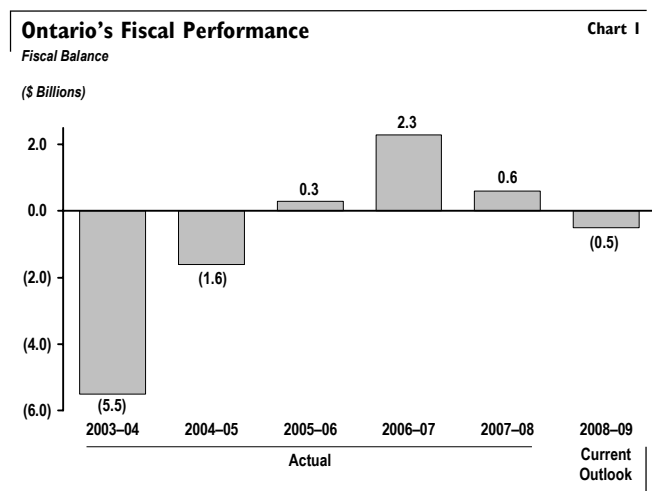
This government has successfully eliminated deficits in the past. The \$5.5 billion deficit inherited in 2003–04 was eliminated within two years. The government then posted three consecutive surpluses. This prudent fiscal management of Ontario's finances was achieved while investing in key priorities. These actions have strengthened Ontario's economic advantage and prepared the province for the current economic downturn. The projected deficit in 2008–09 is a clear indication of the government's commitment to do everything it can to protect these investments.

The government continues to strengthen the economy through its five-point economic plan to invest in skills and knowledge; invest in infrastructure; lower business costs; strengthen the environment for innovation; and form key partnerships to strengthen Ontario. Recognizing the current economic uncertainty, the government will continue to maintain a cautious and prudent fiscal plan, including a reserve and contingency funds, while taking immediate action to manage expense growth.

This Annex provides an update on the fiscal outlook for 2008–09. The government continues to monitor risks to Ontario's economic and fiscal situation closely, and will update Ontario's medium-term fiscal plan and outlook in the 2009 Budget.

2008–09 FISCAL PERFORMANCE

The 2008–09 First Quarter Ontario Finances noted that the consensus forecast predicted slower economic growth for Ontario than was projected in the 2008 Budget but that it was still too early to determine the effect on the Province's revenue and expense outlook. The current fiscal outlook reflects the estimated impact of these economic risks and modifies the outlook projected in the 2008 Ontario Budget.



2008–09 In-Year Fiscal Performance
(\$ Millions)**Table 1**

	Budget Plan	Current Outlook	In-Year Change
Revenue	96,920	96,002	(918)
Expense			
Programs	87,279	87,411	132
Interest on Debt	8,891	8,891	–
Total Expense	96,170	96,302	132
Reserve	750	200	(550)
Surplus/(Deficit)	0	(500)	(500)

Total revenue in 2008–09 is currently projected to be \$96,002 million, a decrease of 0.9 per cent from the 2008 Budget forecast, reflecting projections for slower economic growth. Total expense in 2008–09 is currently estimated to be \$96,302 million, 0.1 per cent higher than the 2008 Budget forecast, primarily due to higher utilization-related expense in the Ontario Health Insurance Plan (OHIP) program.

The 2008 Budget plan included prudence in the form of a \$750 million reserve in 2008–09 to protect against adverse changes in the Province’s revenue and expense, including those resulting from changes in Ontario’s economic performance. A portion of the reserve has been drawn down to partially offset the effects of slower economic growth on the Province’s fiscal outlook. The Province continues to maintain a \$200 million reserve in recognition of the continued global economic uncertainty that could further impact the Province’s finances.

2008–09 REVENUE CHANGES SINCE 2008 BUDGET

The revenue outlook at \$96,002 million has decreased by \$918 million from the 2008 Budget forecast, largely reflecting slower economic growth projections for 2008, partially offset by higher Government of Canada transfers.

Summary of Revenue Changes Since 2008 Budget (\$ Millions)	Table 2
Taxation Revenue Changes	
Corporations Tax	(880)
Land Transfer Tax	(180)
Gasoline Tax	(65)
Total Taxation Revenue Changes	(1,125)
Changes in Government of Canada Transfers	
Infrastructure Programs	25
All Other Government of Canada	182
Total Changes in Government of Canada Transfers	207
Total Revenue Changes Since 2008 Budget	(918)

Details of 2008–09 In-Year Revenue Changes

Key revenue changes include the following:

- **Corporations Tax** revenues are projected to be \$880 million below the 2008 Budget projection, mainly due to slower projected 2008 corporate profit growth.
- **Land Transfer Tax** revenues are forecast to decline by \$180 million, reflecting a weaker resale housing market than projected in the 2008 Budget.
- **Gasoline Tax** revenue is projected to be \$65 million lower than forecast in the 2008 Budget due to lower gasoline consumption resulting from higher gasoline pump prices.
- The \$207 million increase in **Government of Canada Transfers** is mainly due to:
 - \$25 million in federal funding, related to the Building Canada Plan, which will be received in 2008–09 instead of 2007–08, as the infrastructure framework agreement was signed on July 24, 2008;
 - \$150 million federal payment related to corporate tax harmonization being recorded in 2008–09 rather than 2007–08; and
 - \$31 million in funding under the Police Officers Recruitment Fund, which was not previously booked by the Province pending decisions on use of the funds. This amount is offset by an equivalent increase in expense as noted below.

2008–09 EXPENSE CHANGES SINCE 2008 BUDGET

Total expense in 2008–09 is currently projected to be \$96,302 million, an increase of \$132 million from the 2008 Budget forecast. This change in total expense primarily reflects an increase in the Ministry of Health and Long-Term Care for utilization-related expense in the OHIP program.

Summary of Expense Changes Since 2008 Budget (\$ Millions)	Table 3
Program Expense Changes with Contingency Fund Offsets This Quarter	
Ministry of Education – School Boards’ Net Expense – Grants for Student Needs funding.	187.5
Other Changes in Program Expense with Contingency Fund Offsets – mainly funding for flood relief response and repairs, and for the OMERS Administration Corporation.	7.1
Ministry of Finance – Operating Contingency Fund offsets	(191.5)
Ministry of Energy and Infrastructure – Capital Contingency Fund offsets	(3.1)
Net Program Expense Changes with Contingency Fund Offsets This Quarter	–
Additional Changes in Program Expense This Quarter	
Ministry of Health and Long-Term Care – utilization-related expense in the OHIP program.	100.0
Ministry of Community Safety and Correctional Services – increase to support recruitment of police officers.	31.0
Other Changes in Program Expense – primarily reflects funding for college training equipment.	1.1
Total Additional Changes in Program Expense This Quarter	132.1
Net Changes in Program Expense Reported in First Quarter Ontario Finances	–
Interest on Debt Changes	–
Total Expense Changes Since 2008 Budget	132.1

Details of 2008–09 In-Year Expense Changes

The following expense changes have occurred since the 2008–09 First Quarter Ontario Finances:

Program Expense Changes with Contingency Fund Offsets:

- An increase of \$187.5 million in the **Ministry of Education School Boards’ Net Expense** to enhance Grants for Student Needs funding to support salary benchmark increases for education sector staff.
- **Other Changes in Program Expense with Contingency Fund Offsets** reflect a net increase of \$7.1 million, which includes funding for flood relief services and repairs, and a one-time payment for the OMERS Administration Corporation to administer supplemental benefit plans.

The **Operating Contingency Fund** has decreased by \$191.5 million, and the **Capital Contingency Fund** has decreased by \$3.1 million, to fund ministries' expense changes as outlined.

Additional Changes in Program Expense:

- An increase of \$100.0 million in the **Ministry of Health and Long-Term Care** due to higher utilization-related expense in the OHIP program.
- An increase of \$31.0 million in the **Ministry of Community Safety and Correctional Services**, fully offset by federal revenue from the Police Officers Recruitment Fund announced in the 2008 federal budget. This federal transfer provides partial support for the recruitment of police officers to make communities safer.
- An increase of \$1.1 million in **Other Changes in Program Expense**, primarily due to funding for college training equipment, fully offset by federal revenue.

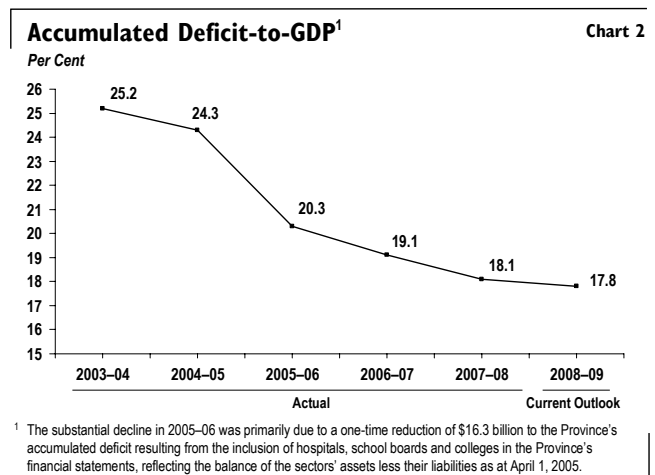
MAINTAINING A PRUDENT ACCUMULATED DEFICIT-TO-GDP RATIO

A key element of the government's fiscal plan is the commitment to maintain a prudent level of accumulated deficit relative to the size of Ontario's economy as measured by nominal gross domestic product (GDP). This contributes to responsible fiscal management that is long term in nature, so that future generations are not faced with the erosion of key programs and services.

Although a \$500 million deficit is forecast for 2008–09, the Province's accumulated deficit-to-GDP ratio is projected to improve to 17.8 per cent in 2008–09, down from 25.2 per cent in 2003–04.

This year's deficit is primarily the result of lower revenue growth due to heightened economic uncertainty, and is a clear indication of the government's commitment to do everything it can to protect investments in key public services.

Consistent with this approach, the government continues to pursue strategies to contain spending while doing all it can to protect key investments.



RISKS TO THE FISCAL OUTLOOK

Like many jurisdictions around the world, Ontario faces a much more challenging economic environment than both public and private forecasters expected at the time of the 2008 Budget. As a result, the Province's fiscal outlook is increasingly vulnerable to variances in both the revenue and expense outlooks. In particular, revenue risks are greater due to heightened global economic and financial uncertainty. Key cost drivers within the Province's expense outlook could also be affected, including pressures in demand-driven programs and services that arise from changes in the economic outlook, utilization or enrolment rates. Although the \$750 million reserve included in the 2008 Budget has been adjusted to offset a lower revenue outlook, prudence remains in the fiscal plan in the form of a reserve and contingency funds to help mitigate further changes arising from global economic uncertainty that could have an adverse impact on the Province's overall fiscal performance.

While the current outlook for Ontario's revenues has declined by \$918 million, risks that could have additional impacts on the revenue outlook for 2008–09 remain. In particular, ongoing developments in the world economy and financial markets could affect Ontario's overall economic performance. As well, as in past years, the revenue outlook could change as past years' tax return processing is finalized over the coming months. Corporations Tax revenues are subject to the greatest uncertainty, as these historically fluctuate considerably and information arriving late in the fiscal year can result in substantial changes to the outlook.

Risks to the expense outlook are especially evident in the health, education and social services sectors, which account for over two-thirds of total Provincial expense, and include assumptions about expected utilization, enrolment rates and caseloads, many of which are demand-driven and impacted by changes in Ontario's economic performance. For example, a one per cent increase in both Ontario Works and Ontario Disability Support Program caseloads would cost the Province an additional \$46 million a year.

Compensation costs and wage settlements, together with the investment performance of pension plans, are also key cost elements and could have a substantial impact on the finances of both broader public-sector (BPS) partners and the Province. With major contracts covering over 50 per cent of unionized workers in the BPS and approximately 85 per cent of employees in the Ontario Public Service (OPS) up for negotiation in 2008–09, the government will expect its bargaining agent partners in this new fiscal environment to achieve affordable agreements.

As the factors and assumptions comprising the revenue and expense forecasts interact and shift, fiscal and economic updates at various times of the fiscal cycle may include adjustments to the revenue and expense forecasts to reflect these changes. For example, a change of one per cent to total revenue or total expense in 2008–09 represents close to a \$1.0 billion change in the Province's overall fiscal outlook. While this change may be small relative to the government's \$96 billion budget, it can cause significant swings in the Province's surplus/deficit.

As part of its ongoing plan to prudently manage the Province's finances in the face of risks arising from global economic uncertainty, the government continues to pursue strategies to contain spending while doing everything it can to protect investments in key public services. This expenditure management includes delaying the implementation of and slowing down some new initiatives, undertaking a number of discretionary restraint initiatives that will realize savings, and requiring ministries to focus on the highest-priority programs and services through the results-based planning process. The 2008–09 fiscal plan also continues to maintain a cautious and prudent approach to fiscal planning, including a reserve and contingency funds.

Given global economic uncertainty, the government's immediate priority is to provide a fiscal update for 2008–09. The government continues to monitor Ontario's economic and fiscal situation closely, and will provide details about Ontario's medium-term fiscal plan and outlook in the 2009 Budget.

Detailed information on revenue and expense risks and sensitivities, including compensation costs, can be found in Chapter II of the 2008 Ontario Budget, Sections D and E respectively.

SECTION B | EXPENDITURE MANAGEMENT

The government has demonstrated its commitment to the prudent management of the Province's finances. To improve delivery of public services while managing growth in spending, the government has achieved efficiencies across the Ontario Public Service (OPS). Reportable savings of \$806 million were identified over the 2004–05 to 2007–08 period, exceeding the target of \$750 million. Savings were made possible through streamlined purchasing processes; reduced administrative costs; reduced energy and accommodation costs; improved use of information technology; and better harmonization and coordination of government operations.

The Province's commitment to finding efficiencies has reduced the overall cost of government administration from 15 per cent in 2003–04 to 12 per cent in 2007–08. In addition, Ontario's spending on general government services was \$124 per person in 2007–08 — the second-lowest rate among all provincial governments.

The government continues to pursue strategies to contain spending while doing everything it can to protect key public services that people depend on.

The government is taking action to manage its expenses in light of lower revenues and to provide fiscal flexibility. It is:

1. Delaying the implementation of and slowing down some new initiatives. Further information is available in materials released in conjunction with the *2008 Ontario Economic Outlook and Fiscal Review*.
2. Undertaking a number of discretionary restraint initiatives that will realize savings, including restrictions on government travel, consulting services, information technology and accommodation spending.
3. Requiring ministries through the 2009–10 results-based planning process to focus on the highest-priority programs and services while ensuring lower-priority programs are reviewed and assessed to look for improvements.

The Minister of Finance will continue to consult with Ontarians and other key groups and individuals to discuss how the Province can continue to manage expenses and do everything it can to protect key public services.

As Ontario faces these global economic conditions, the government is asking its Broader Public Sector (BPS) partners to help it in meeting these challenges. Broader Public Sector employers, as well as the OPS, face a heavy bargaining calendar in 2008–09. Major contracts, covering over 50 per cent of unionized workers in the BPS and approximately 85 per cent of employees in the OPS, are up for negotiations sometime during 2008–09. The government will expect its bargaining agent partners in this new fiscal environment to achieve affordable agreements.

While the Ontario Government continues to manage its expenses, \$76.6 billion (80 per cent) of total government spending in 2008–09 will be provided to transfer payment recipients. Funding will not be increasing in fiscal 2009–10 according to what was projected in the 2008 Budget last March. The government is confident that its transfer partners will work together with the Province to rise to the challenge of the current fiscal situation.

The Province continues to encourage its BPS partners to look for opportunities to modernize. For example, the OntarioBuys program has been innovative in extending supply-chain leading practices to hospitals, school boards, colleges and universities to realize efficiencies. In Toronto, a one-time government investment of \$2.6 million at four major Toronto hospitals is leading to \$21.1 million in savings over 10 years. A similar one-time government investment of \$2 million in London-area hospitals has achieved annual savings of \$1.9 million — a payback period of about one year. These are but two examples of the work being accomplished through the OntarioBuys program to ensure that Ontario tax dollars are used efficiently, and that health services continue to improve to meet Ontarians' needs. Once OntarioBuys is fully implemented across the hospital and education sectors, savings of up to \$100 million are expected, which can be reinvested back into front-line services.

Ontario will also work with government agencies to look for efficiencies in their operations.

SECTION C | DETAILS OF ONTARIO'S FINANCES

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

2008–09 Fiscal Outlook (\$ Millions)	Table 4			
	Actual 2007–08	Current Outlook 2008–09	Change	
			\$ Millions	Per Cent
Revenue	97,122	96,002	(1,120)	(1.2)
Expense				
Programs	87,608	87,411	(197)	(0.2)
Interest on Debt	8,914	8,891	(23)	(0.3)
Total Expense	96,522	96,302	(220)	(0.2)
Reserve	–	200	200	–
Surplus/(Deficit)	600	(500)	(1,100)	–
Net Debt ¹	142,418	146,311	3,893	2.7
Accumulated Deficit ¹	105,617	106,117	500	0.5

¹ Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the surplus/deficit of the Province plus the change in tangible capital assets, the change in net assets of hospitals, school boards and colleges and the change in the fair value of the Ontario Nuclear Funds. Accumulated Deficit is calculated as the difference between liabilities and total assets, including tangible capital assets and net assets of hospitals, school boards and colleges.

Revenue (\$ Millions)	Table 5				
				Actual	Current Outlook
	2004–05	2005–06	2006–07	2007–08	2008–09
Taxation Revenue					
Personal Income Tax	19,320	21,041	23,655	24,538	25,171
Retail Sales Tax	14,855	15,554	16,228	16,976	17,206
Corporations Tax	9,883	9,984	10,845	12,990	11,459
Employer Health Tax	3,886	4,197	4,371	4,605	4,821
Ontario Health Premium	1,737	2,350	2,589	2,713	2,809
Gasoline Tax	2,277	2,281	2,310	2,360	2,315
Land Transfer Tax	1,043	1,159	1,197	1,363	1,163
Tobacco Tax	1,453	1,379	1,236	1,127	1,092
Fuel Tax	727	729	723	733	742
Electricity Payments-In-Lieu of Taxes	511	951	757	546	600
Other Taxes	283	292	399	481	472
	55,975	59,917	64,310	68,432	67,850
Government of Canada					
Canada Health Transfer (CHT)	5,640	7,148	7,702	8,487	8,826
Canada Social Transfer (CST)	2,912	3,324	3,478	3,778	4,089
CHST Supplements	775	584	–	–	–
Social Housing	522	520	532	525	514
Wait Times Reduction Fund	242	243	467	468	235
Infrastructure Programs	209	285	191	207	259
Medical Equipment Funds	387	194	–	–	–
Other Government of Canada	1,195	953	1,666	3,132	2,741
	11,882	13,251	14,036	16,597	16,664
Income from Investment in Government Business Enterprises					
Ontario Lottery and Gaming Corporation	1,992	2,027	1,945	1,857	1,772
Liquor Control Board of Ontario	1,147	1,197	1,307	1,374	1,420
Ontario Power Generation Inc. and Hydro One Inc.	444	1,107	947	1,214	930
Other Government Enterprises	(5)	(23)	(3)	(8)	–
	3,578	4,308	4,196	4,437	4,122
Other Non-Tax Revenue					
Reimbursements ¹	1,241	1,295	1,415	1,464	1,382
Vehicle and Driver Registration Fees	976	763	970	1,051	1,044
Electricity Debt Retirement Charge	997	1,021	991	982	1,004
Power Sales	610	779	863	929	856
Sales and Rentals	352	465	1,108	553	701
Other Fees and Licences ¹	506	550	624	668	672
Liquor Licence Revenue	489	516	467	475	454
Net Reduction of Power Purchase Contract Liability	236	396	412	398	373
Royalties ¹	278	191	215	193	215
Miscellaneous Other Non-Tax Revenue	721	773	790	943	665
	6,406	6,749	7,855	7,656	7,366
Total Revenue	77,841	84,225	90,397	97,122	96,002

¹ The change from 2008 Budget Plan reflects reclassification to be consistent with treatment in the 2007–2008 Public Accounts of Ontario.

Total Expense
(\$ Millions)

Table 6

Ministry Expense	2004–05	2005–06¹	2006–07	Actual 2007–08	Current Outlook 2008–09
Aboriginal Affairs ²	21	50	25	33	55.6
Agriculture, Food and Rural Affairs ²	795	861	796	731	945.6
Attorney General ³	1,195	1,277	1,338	1,643	1,592.2
Board of Internal Economy	145	150	163	257	196.3
Children and Youth Services	2,793	3,271	3,264	3,721	4,086.1
Citizenship and Immigration ³	62	89	112	90	88.1
Community and Social Services	6,360	6,717	7,181	7,547	7,726.5
Community Safety and Correctional Services	1,732	1,749	1,876	2,003	2,140.7
Culture ²	346	478	414	350	379.8
Economic Development and Trade ^{2,4}	66	176	199	297	445.2
Education ²	365	440	423	446	472.3
School Boards' Net Expense	10,274	10,886	11,290	11,830	12,857.2
Energy and Infrastructure ^{2,4}	246	325	525	401	282.7
Environment	305	274	314	349	398.0
Executive Offices	34	31	37	36	36.3
Finance ²	534	578	564	455	557.4
Francophone Affairs, Office of	3	4	4	5	5.3
Government Services ^{2,4}	1,077	742	974	944	1,105.9
Health and Long-Term Care	17,512	17,799	19,121	20,375	21,712.4
Hospitals' Net Expense	13,877	14,816	16,145	17,381	18,436.3
Health Promotion	236	290	391	364	389.7
Labour	129	141	146	170	170.0
Municipal Affairs and Housing ²	770	926	843	744	799.5
Natural Resources ³	557	626	731	794	780.2
Northern Development and Mines	320	337	318	346	357.5
Research and Innovation ²	236	332	316	301	382.8
Revenue	523	442	563	554	610.6
Small Business and Consumer Services ^{3,4}	20	26	25	31	29.8
Tourism ³	167	210	204	234	177.4
Training, Colleges and Universities ²	3,297	3,509	4,115	4,384	4,825.3
Colleges' Net Expense	1,289	1,185	1,273	1,403	1,415.6
Transportation ²	1,744	1,802	1,794	1,899	1,960.9
Interest on Debt	9,368	9,019	8,831	8,914	8,891.0
Other Expense ²	2,998	4,369	3,813	7,490	3,091.7
Year-End Savings ⁵	–	–	–	–	(1,100.0)
Total Expense	79,396	83,927	88,128	96,522	96,301.9

¹ Starting in 2005–06, the Province's financial reporting was expanded to include hospitals, school boards and colleges using one-line consolidation. Prior to 2005–06, historical figures reflect grants to these entities for comparison purposes.

² Details on Other Ministry Expense can be found in Table 7, Other Expense.

³ Decline from 2007–08 to 2008–09 due to one-time initiatives in 2007–08.

⁴ Pending finalization of new ministry structure. Future updates will reflect adjusted ministry expense, including the newly formed Ministry of International Trade and Investment.

⁵ As in past years, the Year-End Savings provision reflects anticipated underspending that has historically arisen at year-end due to factors such as program efficiencies, and changes in project start-ups and implementation plans.

Note: Numbers may not add due to rounding.

Other Expense **Table 7**
(\$ Millions)

Ministry Expense	2004–05	2005–06	2006–07	Actual 2007–08	Current Outlook 2008–09
Aboriginal Affairs					
One-Time Expense for the First Nations Gaming Agreement	–	–	–	201	–
Agriculture, Food and Rural Affairs					
One-Time Extraordinary Assistance	458	125	259	274	–
Time Limited Assistance	143	157	19	76	166.5
Culture					
One-Time Investments	–	–	–	57	–
Economic Development and Trade ¹					
One-Time Investments	–	–	–	152	–
Education					
Teachers' Pension Plan ²	240	295	345	342	54.0
Energy and Infrastructure					
Capital Contingency Fund	–	–	–	–	171.9
One-Time Investments in Municipal Infrastructure	–	–	140	450	–
Finance					
Community Reinvestment Fund One-Time Transition Funding	233	–	–	–	–
Investing in Ontario	–	–	–	1,149	–
Ontario Municipal Partnership Fund ³	626	714	758	907	934.8
Operating Contingency Fund	–	–	–	–	193.4
Power Purchases	840	803	863	929	856.0
Government Services					
Pension and Other Employee Future Benefits	458	729	557	531	715.0
Municipal Affairs and Housing					
One-Time Investment in Municipal Social Housing Stock	–	–	–	100	–
Research and Innovation					
One-Time Investments	–	–	–	87	–
Training, Colleges and Universities					
One-Time Investments	–	–	–	699	–
Transportation					
One-Time Transit and Infrastructure Investments	–	1,546	872	1,536	–
Total Other Expense	2,998	4,369	3,813	7,490	3,091.7

¹ Pending finalization of new ministry structure. Future updates will reflect adjusted ministry expense.

² Numbers reflect accrued pension expense, not Ontario's contributions. Ontario's matching contributions to the plan grow from \$708 million in 2004–05 to \$808 million in 2007–08 and \$1,061 million in 2008–09.

³ The 2004–05 figure includes transfers under predecessor Community Reinvestment Fund.

Note: Numbers may not add due to rounding.

**2008–09 Infrastructure Expenditures
(\$ Millions)**

Table 8

Sector	Total Infrastructure Expenditures 2007–08 Actual	2008–09 Current Outlook		
		Investment in Capital Assets	Transfers and Other Expenditures in Infrastructure ¹	Total Infrastructure Expenditures
Transportation				
Transit	1,857.6	901.0	349.9	1,250.9
Highway Construction	1,452.2	1,484.3	–	1,484.3
Other Transportation ²	710.3	520.5	70.7	591.3
Health				
Hospitals	638.0	1,045.7	2.5	1,048.2
Other Health	285.9	60.8	187.4	248.1
Education				
School Boards	950.4	–	1,018.6	1,018.6
Colleges	183.3	202.0	–	202.0
Universities	677.6	–	54.8	54.8
Water/Environment	387.7	16.3	286.9	303.2
Municipal and Local Infrastructure ³	1,794.8	33.1	274.9	308.0
Justice	215.2	426.2	49.7	475.9
Other	717.1	244.9	294.1	539.0
Total⁴	9,870.1	4,934.7	2,589.5	7,524.2

¹ Mainly consists of transfers for capital purposes to municipalities and universities, expenditures for servicing capital-related debt of schools, and expenditures for the repair and rehabilitation of schools. These expenditures are included in the Province's total expense in Tables 6 and 7.

² Other Transportation includes planning activities, property acquisition, and other infrastructure programs (e.g., Municipal/Local Roads/Remote Airports).

³ Municipal and local water and wastewater infrastructure investments are included in the Water/Environment sector. 2007–08 actual expenditures include \$1,149 million under the *Investing in Ontario Act, 2008*.

⁴ Total expenditures in 2008–09 include \$48 million in flow-throughs in Investment in Capital Assets (for provincial highways) and \$225 million in flow-throughs in Transfers and Other Expenditures in Infrastructure (\$15 million in Transportation, \$15 million in Health, \$67 million in Water/Environment, \$128 million in Municipal and Local Infrastructure).

Note: Numbers may not add due to rounding.

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

	1999–00	2000–01	2001–02
Financial Transactions			
Revenue	65,042	66,294	66,534
Expense			
Programs	53,347	53,519	55,822
Interest on Debt	11,027	10,873	10,337
Total Expense	64,374	64,392	66,159
Reserve	–	–	–
Surplus/(Deficit)	668	1,902	375
Net Debt^{3,4}	134,398	132,496	132,121
Accumulated Deficit⁵	134,398	132,496	132,121
Gross Domestic Product (GDP) at Market Prices	409,020	440,759	453,701
Personal Income	321,702	347,653	361,187
Population — July (000s)	11,505	11,683	11,897
Net Debt per Capita (dollars)	11,682	11,341	11,106
Personal Income per Capita (dollars)	27,963	29,756	30,360
Total Expense as a per cent of GDP	15.7	14.6	14.6
Interest on Debt as a per cent of Revenue	17.0	16.4	15.5
Net Debt as a per cent of GDP	32.9	30.1	29.1
Accumulated Deficit as a per cent of GDP	32.9	30.1	29.1

¹ Starting in 2002–03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries are accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated organizations are accounted for on a full accrual basis.

² Starting in 2005–06, the Province's financial reporting was expanded to include hospitals, school boards and colleges using one-line consolidation. Total expense prior to 2005–06 has not been restated to reflect expanded reporting.

³ Net Debt is calculated as the difference between liabilities and financial assets. The annual change in Net Debt is equal to the surplus/deficit of the Province plus the change in tangible capital assets, the change in net assets of hospitals, school boards and colleges and, effective April 1, 2007, the change in the fair value of the Ontario Nuclear Funds.

⁴ Net Debt is restated in 2003–04, 2004–05 and 2005–06 to reflect the value of hydro corridor lands transferred to the Province from Hydro One Inc.

⁵ Accumulated Deficit is calculated as the difference between liabilities and total assets, including tangible capital assets and net assets of hospitals, school boards and colleges. The annual change in the Accumulated Deficit is equal to the surplus/deficit plus, effective April 1, 2007, the change in the fair value of the Ontario Nuclear Funds. For fiscal 2005–06, the change in the Accumulated Deficit includes the opening combined net assets of hospitals, school boards and colleges that were recognized upon consolidation of these Broader Public Sector entities. For fiscal 2006–07, the change in the Accumulated Deficit includes an adjustment to the unfunded liability of the Ontario Electricity Financial Corporation made at the beginning of the year. For fiscal 2007–08, a \$1.2 billion decrease in the Accumulated Deficit is made up of \$0.6 billion in the Province's operating surplus, with the remainder resulting from a change in accounting policy. Under this change, Ontario Nuclear Funds Agreement (ONFA) funds are reported at fair value on Ontario Power Generation Inc. (OPG) books and, upon consolidation, on the Province's consolidated financial statements.

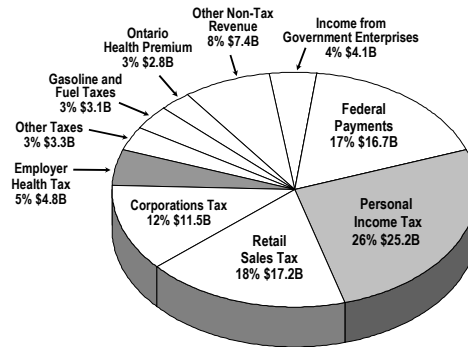
Sources: Ontario Ministry of Finance and Statistics Canada.

Table 9

2002–03 ¹	2003–04	2004–05	2005–06 ²	2006–07	Actual 2007–08	Current Outlook 2008–09
68,891	68,400	77,841	84,225	90,397	97,122	96,002
59,080	64,279	70,028	74,908	79,297	87,608	87,411
9,694	9,604	9,368	9,019	8,831	8,914	8,891
68,774	73,883	79,396	83,927	88,128	96,522	96,302
–	–	–	–	–	–	200
117	(5,483)	(1,555)	298	2,269	600	(500)
132,647	138,816	140,921	141,928	141,100	142,418	146,311
118,705	124,188	125,743	109,155	106,776	105,617	106,117
477,763	493,081	517,068	536,431	559,840	584,053	596,245
369,420	381,127	401,066	419,253	441,371	463,520	483,104
12,091	12,242	12,391	12,528	12,665	12,794	12,929
10,971	11,339	11,373	11,328	11,141	11,132	11,317
30,553	31,132	32,369	33,464	34,849	36,231	37,366
14.4	15.0	15.4	15.6	15.7	16.5	16.2
14.1	14.0	12.0	10.7	9.8	9.2	9.3
27.8	28.2	27.3	26.5	25.2	24.4	24.5
24.8	25.2	24.3	20.3	19.1	18.1	17.8

**Composition of Revenue
2008–09**

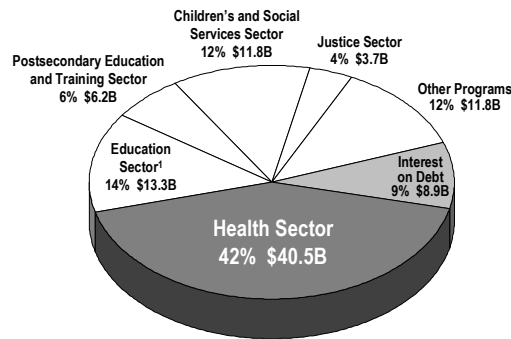
Chart 3



Note: Numbers may not add due to rounding.

**Composition of Total Expense
2008–09**

Chart 4

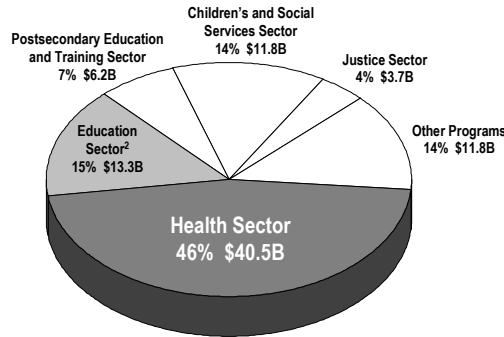


¹ Excludes Teachers' Pension Plan

Note: Numbers may not add due to rounding.

**Composition of Program Expense¹
2008–09**

Chart 5



¹ Program expense equals total expense minus interest on debt.

² Excludes Teachers' Pension Plan.

Note: Numbers may not add due to rounding.

ANNEX II

Economic Outlook

OVERVIEW

The province's economic growth is expected to be soft in the near term due to heightened global economic uncertainty. The Ministry of Finance is projecting Ontario real gross domestic product (GDP) growth of 0.1 per cent for 2008. The average private-sector forecast for Ontario real GDP growth, as of October 16, 2008, is 0.7 per cent in 2009.

Ontario Economic Outlook (Per Cent)	Table 1						
	2003	2004	2005	2006	2007	2008e	2009p
Real GDP Growth	1.4	2.5	2.7	2.5	2.2	0.1	0.7
Employment Growth	3.0	1.7	1.3	1.5	1.6	1.5	0.4
CPI Inflation	2.7	1.9	2.2	1.8	1.8	2.3	2.0

e = estimate; p = private-sector average (October 16, 2008).

Sources: Statistics Canada, Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts.

This is a time of unusually heightened global economic uncertainty that is having an impact on many jurisdictions including Ontario. Private-sector forecasts for economic growth were changing rapidly during the writing of this document, reflecting the current environment. The Ministry of Finance will update its economic growth projections for planning purposes in the 2009 Budget.

FINANCIAL MARKET TURMOIL

Recent global financial market and economic turmoil poses a significant threat to economic growth. Virtually every economy has faced a decline in consumer and business confidence over the past year. There have been significant liquidity challenges in the investment and banking sectors. Equity markets worldwide have experienced sharp price declines. Central banks have acted to prevent credit markets from seizing up by injecting liquidity and lowering their policy interest rates. The fall in interest rates for central government debt, however, has not been fully matched by declines in interest rates for businesses, consumers and other levels of government. As well, financial market uncertainty has reduced credit availability and is dampening business and household spending, which is having an adverse impact on Ontario.

SOURCES OF CREDIT MARKET TURMOIL AND RISKS TO GROWTH

The global financial crisis began with a sharp rise in defaults in the subprime mortgage market in the United States. Many of these high-risk mortgages had been packaged as securities and sold to investors around the world. Rising default rates caused the value of these securities to plunge. Uncertainty regarding risk led to reduced lending and higher interest rates for businesses and consumers. Numerous well-known institutions have failed, been acquired by their governments or bought by stronger competitors at marked-down values.

The Canadian banking and financial systems are in much better shape than their counterparts south of the border. The subprime mortgage market in Canada is estimated to account for less than five per cent of the mortgages outstanding, compared to 22 per cent in the United States. Canadian banks, therefore, have faced much lower loan losses. Risk aversion in U.S. financial markets has spread to Canada, but to a lesser extent. The commercial paper market has frozen up, making it very difficult for businesses to raise money through the traditional capital-market channel. Canadian Treasury-bill yields have fallen as investors look for safer assets. Inter-bank lending rates have increased sharply in Canada, making it more costly and difficult for banks to do business.

The most serious risk going forward is the relationship between the financial system and the economy. Tighter liquidity conditions lead to restrictions in business and consumer lending, which contributes to weaker economic growth that in turn leads to further weakening in financial markets. Recently, central banks and governments worldwide have injected substantial additional liquidity and provided other important measures to safeguard the financial system.

ONGOING EXTERNAL ECONOMIC CHALLENGES

Ontario has been facing an increasingly challenging external economic environment. Until recently, oil prices have been increasing and the Canadian dollar has been strengthening. More recently, weakening U.S. demand and heightened global financial market turmoil have created additional challenges.

Key External Variables	Table 2						
	2002	2003	2004	2005	2006	2007	2008 ^y
Crude Oil (\$ US per Barrel)	26.1	31.1	41.4	56.5	66.1	72.3	113.3
Canadian Dollar (Cents US)	63.7	71.4	76.8	82.5	88.2	93.1	98.2
U.S. Real GDP Growth (Per Cent)	1.6	2.5	3.6	2.9	2.8	2.0	2.3
Three-Month Treasury Bill Rate	2.6	2.9	2.2	2.7	4.0	4.2	2.6
10-Year Government Bond Rate	5.3	4.8	4.6	4.1	4.2	4.3	3.7

y = year-to-date average (October 16, 2008).

Sources: Bank of Canada, New York Mercantile Exchange and U.S. Bureau of Economic Analysis.

The price of oil has soared from a low of \$18 US per barrel in January 2002 to a record high of more than \$147 US per barrel in mid-July 2008. Oil prices have averaged \$113 US per barrel so far this year, up \$87 US per barrel over the past six years — the largest increase on record. Higher oil prices are a challenge for Ontario because they increase costs for businesses, consumers and governments. In 2007, Ontario residents and industry spent an estimated \$30 billion on crude oil and oil products, natural gas and coal, equivalent to about five per cent of the province's GDP.

The Canadian dollar increased from a low of 61.8 cents US in January 2002 to a peak of 110.3 cents US in November 2007, marking the largest five-year increase on record. So far this year, the Canadian dollar has averaged 98.2 cents US. The stronger Canadian dollar is a challenge as it makes Ontario's exports more expensive and imports cheaper. As a result, Ontario businesses find it more difficult to compete with foreign producers, both in the Canadian market and abroad. On the other hand, the stronger Canadian dollar benefits Ontario consumers and businesses by lowering the cost of imported goods and materials, including productivity-enhancing machinery and equipment.

U.S. demand for Ontario-produced goods and services has been declining due to the stronger Canadian dollar, weakening U.S. economic growth and increasing competition from newly industrializing economies. The value of Ontario's merchandise exports over the last five years to the United States, its largest trading partner, has fallen by 12.2 per cent.

While newly industrializing economies are a competitive challenge for Ontario

businesses, they also present new opportunities. Ontario's international merchandise exports to countries other than the United States have more than doubled over the past five years.

As a result, Ontario's export base has significantly diversified. For instance, over the last five years, the value of merchandise exports to Russia has increased by 377 per cent; exports to India by 258 per cent; and exports to China by 95 per cent. Ontario has also increased its exports to other G7 countries.

Over the last five years, exports to the United Kingdom have risen by 280 per cent; exports to Germany by 36 per cent; exports to Japan by 30 per cent; and exports to Italy by 77 per cent.

ONTARIO'S ECONOMIC PROGRESS OVER THE PAST FIVE YEARS

Ontario's economic advantages include its proximity to large markets, a well-educated population, a highly skilled workforce, diversified industrial structure, competitive business costs, modern infrastructure and strong support for innovation. The Ontario Government's five-point economic plan, outlined in the *Foreword*, continues to enhance the foundation for long-term growth.

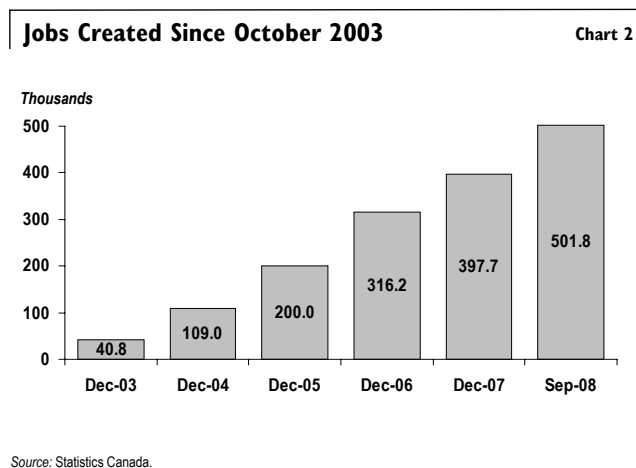
There has been continued economic growth in Ontario over the past five years, despite an increasingly challenging global environment:

- Ontario real GDP growth averaged 2.3 per cent over the 2003 to 2007 period.



- Inflation has been low and stable in recent years, with the consumer price index (CPI) inflation rate averaging close to two per cent over the 2003 to 2007 period.

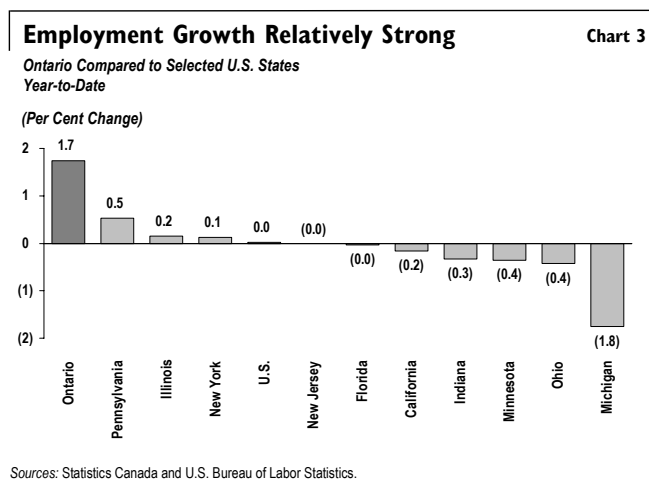
- More than a half million net new jobs have been created since October 2003. There has been strong employment growth in sectors paying above-average wages, including educational services (98,000); health care and social assistance (89,200); construction (73,500); professional, scientific and technical services (62,100); and finance, insurance, real estate and leasing (47,800).



- Solid wage and employment growth has led to strong income gains. Real personal disposable income per capita has grown at an average annual pace of 1.8 per cent over the past five years.
- Business investment has been robust. Real machinery and equipment investment, a key component of increasing productivity in the province, expanded by an average of 9.0 per cent annually between 2003 and 2007.
- Housing starts averaged 78,100 per year between 2003 and 2007. Unlike in other jurisdictions, there is little evidence of overbuilding in the Ontario housing market.

THE ONTARIO ECONOMY IN 2008

As reported in the 2008 second-quarter Ontario Economic Accounts, Ontario economic growth during the first half of 2008 was very modest. Real GDP increased 0.3 per cent in the second quarter, following a contraction of 0.4 per cent in the first quarter. The main drag on growth has been lower export volumes, which are down more than seven per cent over the first half of the year. Ontario is not alone in seeing modest growth during the first half of 2008. Canadian real GDP increased



0.1 per cent in the second quarter, following a contraction of 0.2 per cent in the first quarter.

All G7 economies are also facing significant economic challenges. Among them, Germany, France, Italy

and Japan have seen at least one quarterly decline in output so far. Despite avoiding a quarterly decline, there has been weakness in U.S. and U.K. employment, housing construction and financial markets.

Ontario has created 104,100 jobs so far this year. About 83 per cent of these have been in the private sector. Although Ontario has lost 16,200 manufacturing jobs, there have been strong job gains in other industries paying above-average wages including construction (37,500); health care and social assistance (26,800); and professional, scientific and technical services (19,400). This increase in employment has led to solid income gains. Labour income grew by 4.2 per cent over the first half of the year, supported by job gains and higher wages.

The side of the Ontario economy based on domestic demand has remained strong in 2008. Household spending continues to be firm, with real consumer spending up by a robust 4.6 per cent in the first half of the year. Residential construction spending has increased by 0.9 per cent in real terms. So far in 2008, housing starts averaged 77,600 units (on an annualized basis), up from 69,100 units for the same period in 2007. While housing starts have increased, home resales have weakened from a record-setting year in 2007.

Corporate profits are down 2.8 per cent over the first half of this year, reflecting the negative impact of record oil prices and the higher dollar. So far this year, Ontario real non-residential construction has grown by 2.1 per cent, and real machinery and equipment spending has risen 1.2 per cent.

Ontario's CPI inflation rate has averaged 2.2 per cent so far this year, up from 1.8 per cent in 2007. This was largely due to elevated gasoline prices and an increase in food inflation. Ontario's core inflation rate, which excludes food and energy, has averaged 1.1 per cent on a year-over-year basis and has remained below 2.0 per cent for 11 straight months. The dramatic decline in oil prices since mid-July 2008 will exert downward pressure on CPI inflation over the near term. Over the first seven months of 2008, annual wage settlements have averaged 2.4 per cent.

Ontario's trade balance has deteriorated significantly in 2008, largely because of a decline in automotive exports to the United States. Imports have declined, but at a slower pace than exports, largely due to reduced demand for automotive production inputs.

HEIGHTENED GLOBAL ECONOMIC UNCERTAINTY

The short-term Ontario economic outlook is heavily influenced by external factors such as oil prices, the Canadian dollar exchange rate, interest rates, U.S. economic growth and global financial market turmoil. In the current economic environment there is an unusually wide range of views on the outlook for each of these key factors as shown in the following table. The recent dramatic movements in asset prices, foreign exchange and commodity markets mean that relatively little confidence can be attached even to these wide private-sector forecast ranges in 2009.

External Variables

Table 3

Private-Sector Forecast

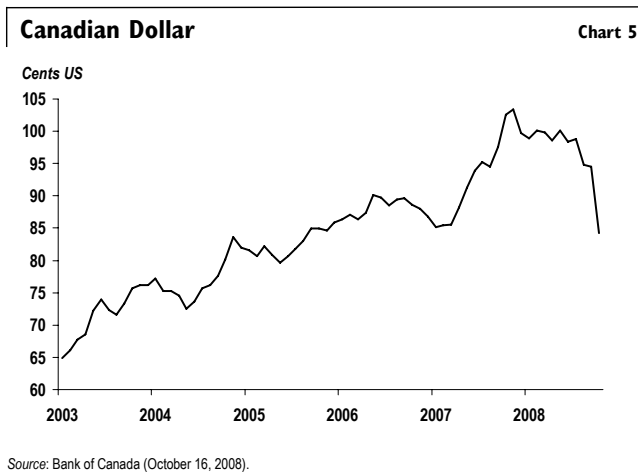
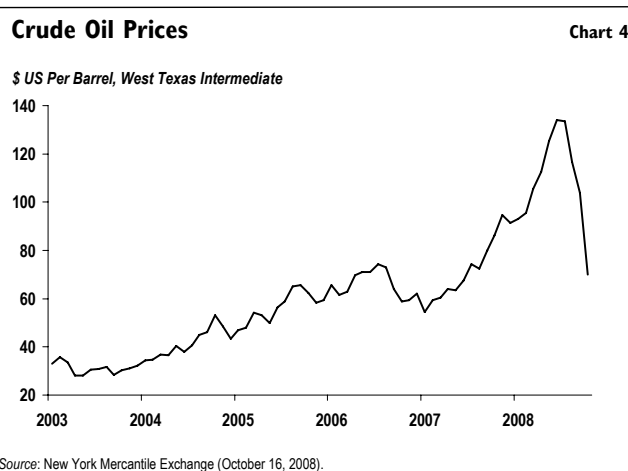
	2008			2009		
	Low	Avg.	High	Low	Avg.	High
Crude Oil (\$US per Barrel)	105.0	110.4	119.1	78.0	103.3	130.0
Canadian Dollar (Cents US)	93.7	95.7	97.7	85.3	92.2	95.7
U.S. Real GDP Growth (Per Cent)	1.2	1.5	1.8	(0.7)	0.5	1.9
Three-Month Treasury Bill Rate (Per Cent)	1.8	2.2	2.7	1.7	2.3	3.5
10-Year Government Bond Rate (Per Cent)	3.4	3.6	4.0	3.4	3.9	4.5

Sources: Bank of Canada, *Blue Chip Economic Indicators* (October 2008) and Ontario Ministry of Finance Survey of Forecasts (October 16, 2008).

Oil prices fell from a record intra-day high of \$147.27 US per barrel on July 11 to less than \$70 US per barrel in mid-October 2008. Weaker demand from Organization for Economic Cooperation and Development (OECD) countries is expected to continue to be more than offset by strong consumption in non-OECD countries. Limited global surplus capacity will likely keep oil markets relatively tight and oil prices vulnerable to major supply disruptions over the forecast horizon.

A significant amount of volatility still exists in oil markets, and analysts' projections for 2009 range from a high of \$130 US per barrel to a low of \$78 US.

After hovering around parity with the U.S. dollar for the first seven months of the year, the Canadian dollar depreciated significantly in October, reflecting the sharp decline in commodity prices and weakening outlook for the domestic economy. The value of the Canadian dollar could fluctuate a great deal in the future depending on commodity prices, financial flows and interest rates. There is a



significant divergence of views on the outlook for the Canadian dollar, with forecasts ranging from a low of 85.3 cents US to a high of 95.7 cents US in 2009.

Although overall U.S. economic growth has continued at a moderate pace, there has been a significant reduction in U.S. demand for Ontario-produced goods and services. For example, spending on autos has been particularly hard hit, with auto sales expected to slow to 13.8 million units in 2008 — the lowest level since 1992. There are considerable risks stemming from the U.S. economy, which continues to face imbalances and significant issues in its financial markets.

Interest rates affect consumer and business costs as well as the projected government expense for interest on the Province's debt. The Bank of Canada has cut its benchmark target for the overnight interest rate by 200 basis points since December 2007, including the 50 basis point cut on October 8, 2008, and has taken additional measures to support liquidity in financial markets. However, the turmoil in global financial markets has led to tighter credit conditions for businesses, and some are facing higher borrowing costs. How global financial markets evolve and how this impacts economic growth have important implications for interest rate projections.

The wide range of views on each of these key assumptions represents a significant risk to the forecast because a change in any of them can have a major impact on Ontario's economic growth outlook. The following table shows the typical range for the first- and second-year impacts of these external factors on Ontario real GDP growth. These estimates are based on historical relationships and illustrate the upper and lower limits for the average response. They show the implications of sustained changes in key assumptions in isolation from changes to other external factors. The combination of changing circumstances can also have a substantial bearing on the actual outcome.

Impacts of Changes in Key Assumptions on Ontario Real GDP Growth¹ (Percentage Point Increase)	Table 4	
	First Year	Second Year
Canadian Dollar Depreciates by Five Cents US	0.1 to 0.8	0.5 to 1.2
World Crude Oil Prices Decrease by \$10 US per Barrel	0.1 to 0.5	0.1 to 0.5
U.S. Real GDP Growth Increases by One Percentage Point	0.3 to 0.7	0.4 to 0.8
Canadian Interest Rates Decrease by One Percentage Point	0.1 to 0.5	0.2 to 0.6

¹ Impacts based on changes being sustained.

Source: Ontario Ministry of Finance.

PRIVATE-SECTOR ECONOMIC FORECASTS

The Ontario Economic Forecast Council was established as part of the *Fiscal Transparency and Accountability Act, 2004* to provide advice on macroeconomic forecasts and assumptions. The council members are Peter Dungan from the University of Toronto, Glen Hodgson from the Conference Board of Canada, Dale Orr from Global Insight and Ernie Stokes from the Centre for Spatial Economics. The Minister of Finance met

with council members and other private-sector forecasters in the process of preparing the *2008 Ontario Economic Outlook and Fiscal Review* and received their views on Ontario's economic outlook and other economic policy advice.

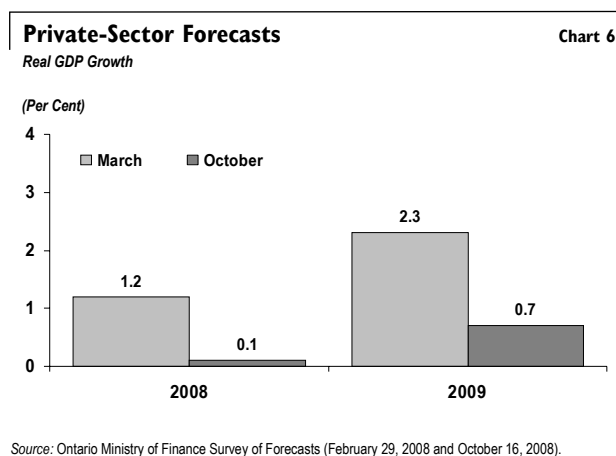
Private-Sector Forecasts for Ontario Real GDP Growth (Per Cent)	Table 5	
	2008	2009
Conference Board of Canada (October)	0.3	1.5
Global Insight (October)	0.3	0.5
Centre for Spatial Economics (June)	0.4	1.9
University of Toronto (October)	(0.4)	0.6
RBC Financial Group (October)	0.0	0.4
Scotiabank Group (October)	(0.1)	(0.9)
TD Bank Financial Group (October)	0.3	0.8
Desjardins Group (September)	(0.1)	0.9
BMO Capital Markets (October)	(0.1)	0.4
CIBC World Markets (October)	0.1	0.9
Private-Sector Survey Average	0.1	0.7

Source: Ontario Ministry of Finance Survey of Forecasts (October 16, 2008).

Private-sector forecasters are, on average, calling for modest Ontario real GDP growth of 0.9 per cent in 2009. This modest pace of growth is due to the view that the economic environment will remain challenging well into 2009. Views regarding the outlook for 2009 have changed rapidly, making it especially difficult for the government to determine appropriate planning projections.

COMPARISON TO THE 2008 ONTARIO BUDGET

The Ministry of Finance is lowering its projection for 2008 real GDP growth to 0.1 per cent from the 1.1 per cent released in the 2008 Budget last March. The average private-sector forecast at the time of the budget was 1.2 per cent. This adjustment largely reflects continued financial market turmoil and a more negative outlook for U.S. demand. Weaker Ontario real GDP growth in 2008 is largely reflected through weaker exports and profits. Exports are currently expected to decline by 6.0 per cent rather than remaining



flat as expected at the time of the Budget. Corporate profits are now expected to be weaker than forecast in March, falling by 5.0 per cent in 2008 instead of growing by 4.0 per cent.

Employment and wages, along with retail sales and housing starts, have performed well so far this year, with growth forecasts now higher than at the time of the Budget. Employment was forecast to grow by 1.0 per cent for 2008, but that forecast has been revised up to 1.5 per cent. Solid employment gains have contributed to stronger-than-expected income and spending growth. Personal income is forecast to rise by 4.2 per cent — 1.1 percentage points above the forecast at the time of the Budget. Retail sales for 2008 are now forecast to grow by 4.6 per cent, up from 3.4 per cent in the Budget, and there are expected to be 75,000 housing starts, up from a Budget forecast of 64,000.

The average private-sector forecast for Ontario real GDP growth is now 0.7 per cent in 2009, significantly weaker than the Ministry of Finance's 2008 Budget forecast of 2.1 per cent. This is primarily due to global financial market turbulence and a substantially weaker outlook for U.S. demand. The table below shows the changes in the projections for the key economic variables since the 2008 Budget.

Changes in Key Economic Forecast Assumptions, 2008 Fall Economic Statement Compared to 2008 Ontario Budget (Per Cent Change)				Table 6	
	2008		2009		
	2008 Budget	2008e Fall Update	2008 Budget	2008p Fall Update	
Real GDP	1.1	0.1	2.1	0.7	
Nominal GDP	2.8	2.1	3.9	2.2	
Retail Sales	3.4	4.6	3.7	3.6	
Housing Starts (000s)	64.0	75.0	63.0	64.9	
Personal Income	3.1	4.2	4.0	3.8	
Labour Income	3.4	4.3	3.9	3.9	
Corporate Profits	4.0	(5.0)	4.9	1.7	
Employment	1.0	1.5	1.1	0.4	
Job Creation (000s)	68	101	76	25	
Key External Variables					
Crude Oil (\$ US per Barrel)	85.0	108.0	80.0	103.3	
U.S. Real GDP	1.7	1.5	2.6	0.5	
Canadian Dollar (Cents US)	100.0	96.0	98.0	92.2	
Three-Month Treasury Bill Rate	3.3	2.3	3.8	2.3	
10-Year Government Bond Rate	3.9	3.6	4.5	3.9	

e = estimate; p = private-sector average.

Sources: *Blue Chip Economic Indicators* (October 2008), Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (October 16, 2008).

ANNEX III

Role for the Federal Government

All Canadians deserve to be treated fairly. Ontarians, however, are not being treated like Canadians living in other provinces. Unemployed Ontario workers deserve the same support that unemployed workers in other provinces receive. Ontarians ought to have the same level of per-person health care funding now provided to Canadians elsewhere in the country. And Ontario should receive its fair share of federal investment in Canada’s infrastructure.

Ontario has the wealth it needs, but needs to keep more of its own money during challenging economic times.

CANADA’S SYSTEM OF TRANSFERS IS OUTDATED

Ontario’s Fiscal Gap

Each year, under the current federal system of programs and transfers, the federal government collects more than \$20 billion from Ontario taxpayers to deliver programs and services elsewhere in Canada. These funds — \$1,815 per Ontarian — are redistributed from Ontario taxpayers to other regions of the country, despite the fact that some of these regions are as prosperous as Ontario, if not more so.

In September of this year, the TD Bank Financial Group released a report that estimated the portion of Ontario’s fiscal gap for 2005 that resulted from discriminatory federal programs to be \$11.8 billion. The report noted that the total fiscal gap amounts to four per cent of Ontario’s gross domestic product (GDP).

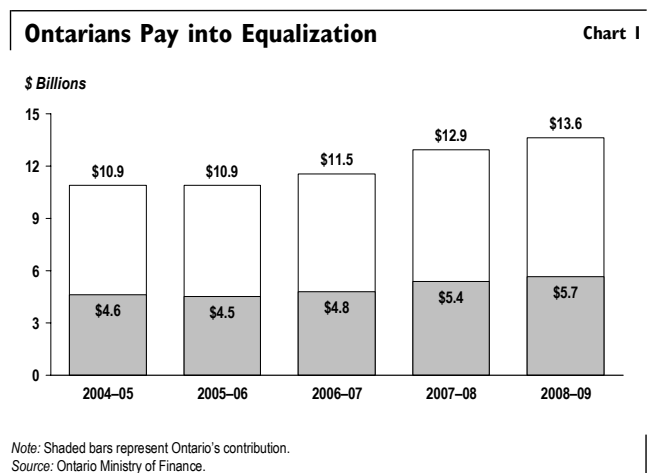
If Ontario was able to keep more of its own money, it could further strengthen the economy and enhance programs and services for its citizens.

The financial burden that Ontario carries within Canada must be reduced. In recent years, under two different prime ministers, Ontario has made some progress. The Canada Social Transfer is now provided on an equal per-capita basis. And in 2005, Ontario negotiated a Canada–Ontario Immigration Agreement (COIA) for \$920 million in new investments for settlement and language training services over five years.

Ontario welcomes these changes but, overall, Ontarians continue to be treated unfairly.

Equalization

Over the last 50 years, Ontarians have contributed over \$100 billion in equalization payments to other Canadian provinces — almost half of all funds contributed to the program in that time.



In 2008–09 alone, Ontario taxpayers will contribute \$5.7 billion to the equalization program. Unlike the other nine provinces, Ontario has always been a contributor to the equalization program, but never a recipient.

Ontarians contributed to equalization because it was the fair and right thing to do. But when Ontario was eligible to receive equalization in the late 1970s, the federal government changed the rules of the program to exclude it.

Now, some economists believe that under the new federal formula, Ontario may once again soon qualify to receive equalization funds. A key factor contributing to this development is the hardship that the North American manufacturing sector is enduring. In contrast, the economies of Canada’s oil-producing provinces are growing faster than Ontario’s.

If the Ontario Government received equalization, more of the tax dollars that the federal government extracts from Ontarians would support investments and public services needed in their own province. If Ontario does qualify, it expects to receive its share of equalization from the federal government.

Employment Insurance

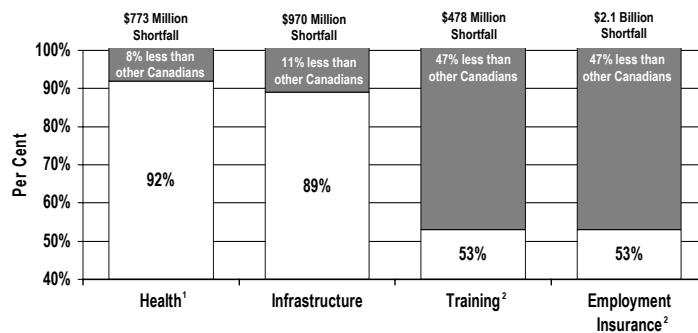
In difficult times, it is especially important to have a strong system of support for laid-off workers. Canada’s Employment Insurance (EI) system does not meet the needs of Ontario’s workers. Unemployed persons in Ontario, compared with those in other provinces, are far less likely to be eligible for EI regular benefits. As a result, average EI regular benefits in 2007 per unemployed person were about \$5,120 in Ontario and \$9,750 in other provinces — a difference of over \$4,600 per unemployed person, or \$2.1 billion in total.

The labour market support and training components of EI also fail to meet Ontarians’ needs. Although Ontario had 42 per cent of Canada’s unemployed population in 2007, Ontarians received only 27 per cent of EI funding for labour market support and training in 2007–08.

Health Care

Through the Canada Health Transfer (CHT), Ontario receives \$773 million less than its fair share, compared to other provinces, in per-person cash funding for its health care system. Although the federal government recognized this

Ontarians Do Not Receive Fair Treatment Chart 2
Ontario's Per-Capita Funding Compared to the Rest of Canada



Notes: 1. Rest of Canada excludes Ontario and Alberta.
 2. Rest of Canada includes all provinces outside Ontario. EI shortfall compares average total regular benefits per unemployed person.
 Sources: Ontario Ministry of Finance and Statistics Canada.

unfairness in its 2007 budget, Ottawa does not intend to fix the CHT until 2014. Ontario believes it should be fixed immediately.

Regional Economic Development

The federal government provides regional economic development support to Atlantic Canada, Quebec, the West and Northern Ontario. In 2008–09, the federal government will spend \$934 million on regional development in Canada, of which only \$41 million — or four per cent — is provided to northern and rural Ontario through FedNor.

Despite Ontario’s importance as the heart of Canada’s manufacturing sector, no economic development program exists for southern Ontario. If Ontario received its fair share of federal regional development funding, Ontarians would benefit from an additional \$534 million in 2008–09.

Infrastructure

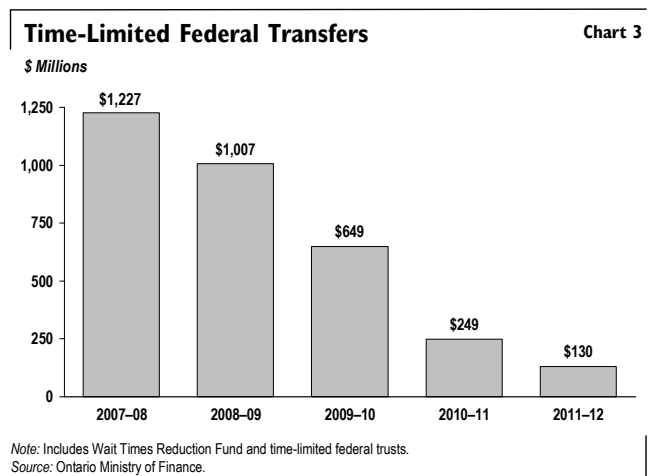
Building infrastructure is crucial to Ontario’s future: it creates jobs in the short term and builds a stronger economy in the long term.

The Ontario Government has made significant investments in the province’s infrastructure, but the Province is not receiving its fair share of federal support in this area. Ontario is still awaiting a \$6 billion federal contribution to Metrolinx’s regional transportation plan for the Greater Toronto Area and Hamilton to complement the Province’s \$11.5 billion commitment. If Ontario were to receive its fair share of the federal government’s seven-year Building Canada infrastructure plan on a per-capita basis, it would receive an additional \$970 million.

Time-Limited Transfers

The federal government has committed time-limited funding to support a variety of provincial services, including wait times reduction for health care, postsecondary education, transit and the environment. Federal support from these time-limited transfers will decrease from 2008–09 levels by over \$350 million in 2009–10 and by over \$750 million in 2010–11.

Ontario’s ongoing commitments in these areas will not stop when the federal transfers end.



NEED FOR A FEDERAL PARTNER

The Province is doing what it must to strengthen Ontario's economy and create new jobs. But it could do much more, much faster, if it could keep more of Ontarians' money in the province — and if it had a true partner in the federal government.

Ontario therefore calls on the federal government to:

- recommit to a principled allocation formula for all federal transfers to reduce the drain on Ontario
- provide Ontario with its fair share of federal funding, including:
 - its full share of funding payable under the equalization program, should Ontario qualify
 - equal per-capita health care funding immediately through the Canada Health Transfer
 - a fair share of federal infrastructure funding
 - the continuation of time-limited federal funding
- modernize the EI program to better meet the needs of Ontario workers by providing the same support and job training that workers receive in other regions of Canada
- invest in Ontario's economic development, as it does everywhere else in the country.

Ontario needs a true partner in the federal government that will work with it to make the province stronger than ever. Building a stronger Ontario means a stronger Canada.

Ontario invites the federal government to engage in a substantive discussion of these fairness issues, with the mutual goals of strengthening the Ontario economy and building a more prosperous Canada.

ANNEX IV

Borrowing and Debt Management

LONG-TERM PUBLIC BORROWING

As an agency of the Ministry of Finance, the Ontario Financing Authority (OFA) manages the borrowing, debt, investment and cash management activities of the Province and the Ontario Electricity Financial Corporation (OEFC) in a cost-effective manner.

The interim long-term public borrowing requirement for 2008–09 is \$24.8 billion.

Global financial markets are facing unprecedented challenges. The Province is not immune to these conditions. However, the OFA has been able to maintain the pace of its borrowing program.

As at October 10, 2008, \$13.6 billion, or 55 per cent, of the long-term borrowing requirement was completed.

Despite extremely difficult financial market conditions, the Province maintained a flexible approach to borrowing, monitoring both domestic and international capital markets for cost-effective borrowing opportunities.

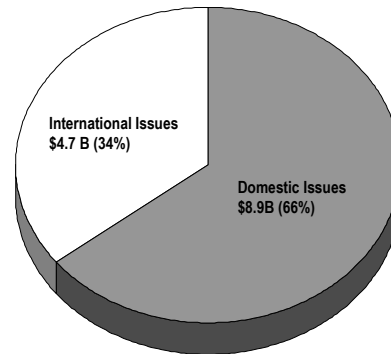
The Province typically targets 25 per cent of its borrowing from international markets. About \$4.7 billion, or 34 per cent, of borrowing has been raised from international markets so far in 2008–09, compared to 14 per cent for the entire 2007–08 fiscal year. Bonds issued in foreign currencies were:

- three Global bond issues in U.S. dollars
- Euro Medium-Term Notes (EMTNs) in sterling, Swiss francs and U.S. dollars
- one Japanese yen loan.

Borrowing — All Markets

Chart 1

C\$13.6 Billion Issued

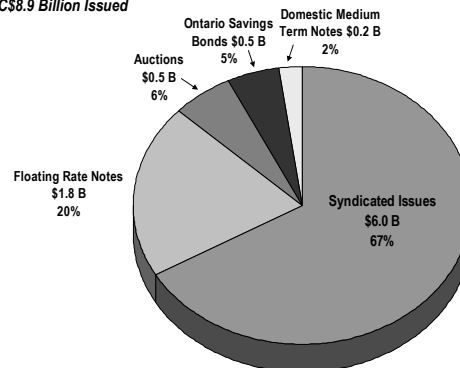


Source: Ontario Financing Authority.

Borrowing — Domestic Market

Chart 2

C\$8.9 Billion Issued



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

About \$8.9 billion, or 66 per cent, of borrowing was completed in the domestic market through a number of instruments, including:

- syndicated issues
- bond auctions
- floating rate notes
- Ontario Savings Bonds
- domestic medium-term notes.

2008–09 Borrowing Program: Province and OEFC
(\$ Billions)

Table 1

	Budget Plan	Current Outlook	In-Year Change
Deficit/(Surplus)	0.0	0.5	0.5
Non-Cash Adjustments	(0.9)	2.0	2.9
Investment in Capital Assets	4.9	4.9	0.0
Net Loans/Investments	1.3	1.1	(0.2)
Debt Maturities	20.5	20.5	0.0
Debt Redemptions	1.0	0.6	(0.4)
Total Funding Requirement	26.9	29.6	2.7
Canada Pension Plan Borrowing	(0.6)	(0.5)	0.1
Decrease/(Increase) in Short-Term Borrowing	(2.0)	(2.9)	(0.9)
Increase/(Decrease) in Cash and Cash Equivalents	0.0	(1.4)	(1.4)
Total Long-Term Public Borrowing Requirement	24.3	24.8	0.5

Note: Numbers may not add due to rounding.

Deficit

The total long-term public borrowing requirement of \$24.8 billion is \$0.5 billion higher than the Budget Plan and the First Quarter Ontario Finances, due to the projected deficit.

Accumulated deficit is the difference between total liabilities and total assets. It is projected to be \$106.1 billion as at March 31, 2009, compared to \$105.6 billion as at March 31, 2008. The accumulated deficit is forecast to increase by the amount of the deficit.

Total debt is also expected to increase due to the government's capital investments in key priority areas, loans to school boards for capital projects and increased short-term borrowing to maintain cash levels. The increase in net debt is primarily a result of the government's capital investments.

Other Changes in the Financing Table

As at March 31, 2008, cash and cash equivalents were \$1.4 billion higher than forecast in the 2008 Budget as the OFA-funded expenditures that had been anticipated to flow by the end of 2007–08 did not flow until 2008–09.

The increase in short-term borrowing is aimed at funding the timing difference between accrual expenditures and cash outflows, while targeting liquid reserves at \$5.4 billion as at March 31, 2009, unchanged from the Budget Plan.

Debt redemptions are down \$0.4 billion due to lower redemptions of Ontario Savings Bonds. The \$0.2 billion decrease in net loans/investments is mainly the result of a decrease in loans to Ontario Power Generation Inc. (OPG). Canada Pension Plan borrowing of \$0.1 billion was used to buy back less cost-effective debt.

The restructuring of the frozen asset-backed commercial paper (ABCP) market in Canada has received all court approvals, and the Province expects to receive its restructured notes within the next month. The Province plans to hold these notes to maturity and no further writedown is expected at this time.

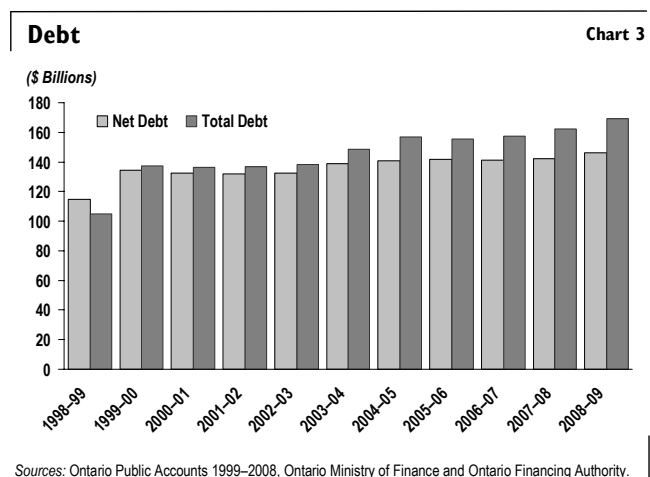
It is expected that by holding on to the restructured notes to maturity, the Province will recover most of the accounting writedown taken last fiscal year.

In the last fiscal year, final Interest on Debt charges totalled \$209 million less than forecast in the 2007 Budget, even after the Province took a \$107 million writedown related to its ABCP holdings. This \$209 million saving allowed the Province to make further investments in priority areas such as health care, education and infrastructure.

Debt

Total debt, which represents all borrowing without offsetting financial assets, was \$172.3 billion as at September 30, 2008. Total debt as at March 31, 2009 is projected to be \$169.4 billion, compared to \$162.2 billion as at March 31, 2008.

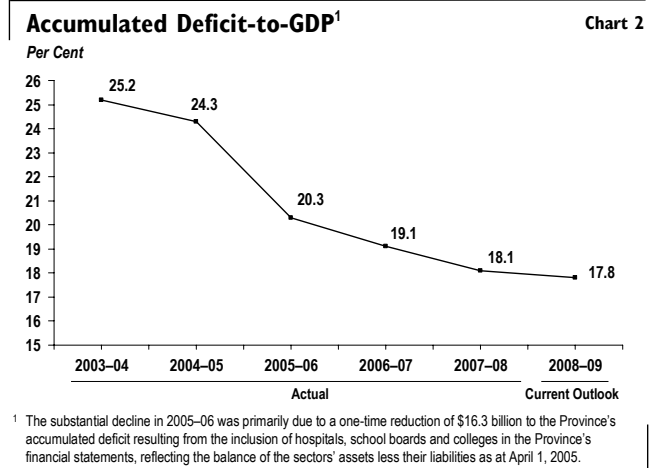
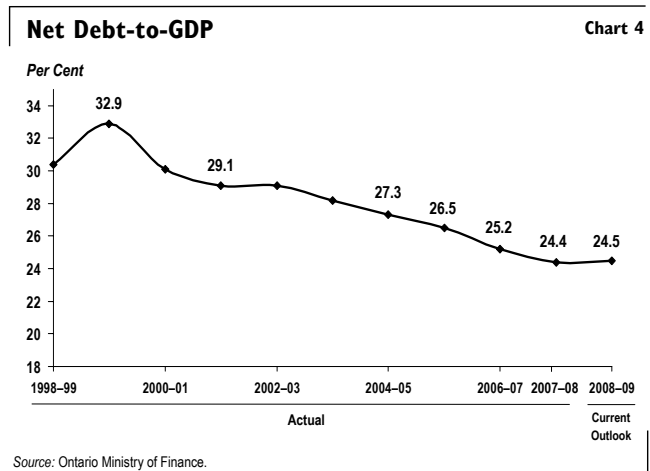
Ontario's net debt, the difference between total liabilities and total financial assets, is projected to be \$146.3 billion as at March 31, 2009, compared to \$142.4 billion as at March 31, 2008.



Debt-to-GDP Ratios

Net debt-to-GDP peaked at 32.9 per cent in 1999–2000, the year the Province first consolidated the unfunded liability (or “stranded debt”) of the OEFC. Since then, Ontario’s net debt-to-GDP ratio has trended downward. The current outlook projects a ratio of 24.5 per cent in 2008–09.

The Province’s accumulated deficit-to-GDP ratio is forecast to improve from 25.2 per cent in 2003–04 to a forecast of 17.8 per cent in 2008–09.



Total Debt Composition

Total debt is composed of bonds issued in both the short- and long-term public capital markets and non-public debt.

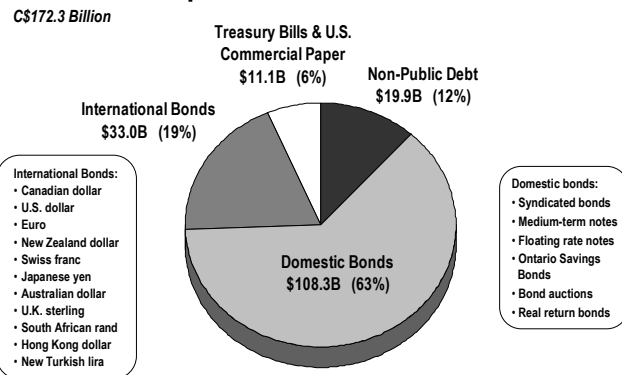
Public debt totals \$152.4 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 11 currencies. Ontario also has \$19.9 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt consists of debt instruments issued to public-sector pension funds in Ontario and the Canada Pension Plan Investment Board (CPPIB). This debt is not marketable and cannot be traded.

Debt Management

The Province limits itself to a maximum net interest rate resetting exposure of 35 per cent of debt issued for Provincial purposes and a maximum foreign exchange exposure of five per cent of debt issued for Provincial purposes. As at September 30, 2008, the net interest rate resetting exposure was 13.4 per cent and foreign exchange exposure was 0.1 per cent.

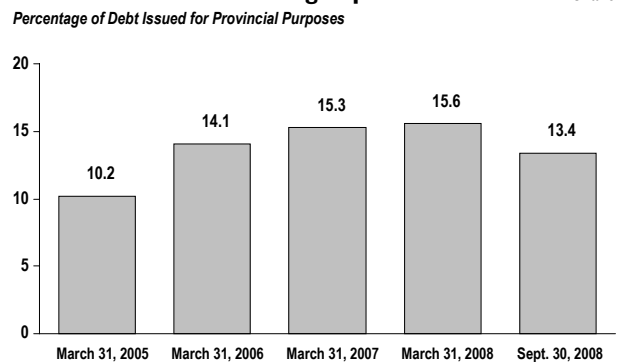
All exposures have remained well below policy limits in 2008–09.

Total Debt Composition Chart 6



Source: Ontario Financing Authority (September 30, 2008).

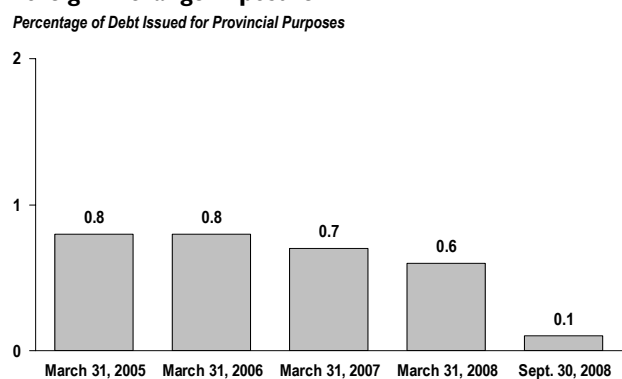
Net Interest Rate Resetting Exposure Chart 7



Source: Ontario Financing Authority.

Excludes OEFC debt.

Foreign Exchange Exposure Chart 8

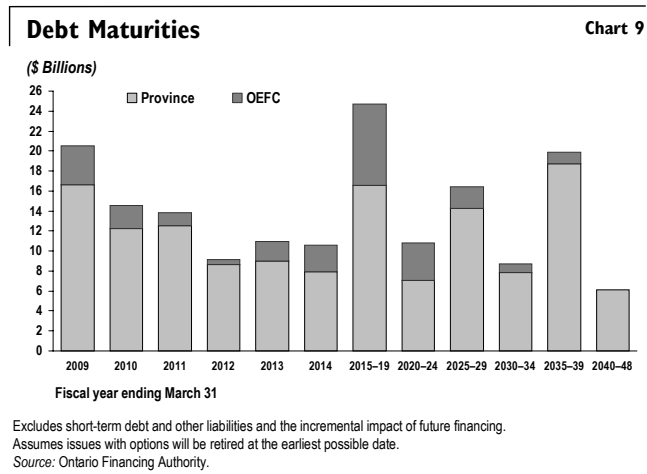


Source: Ontario Financing Authority.

Excludes OEFC debt.

Debt Maturities

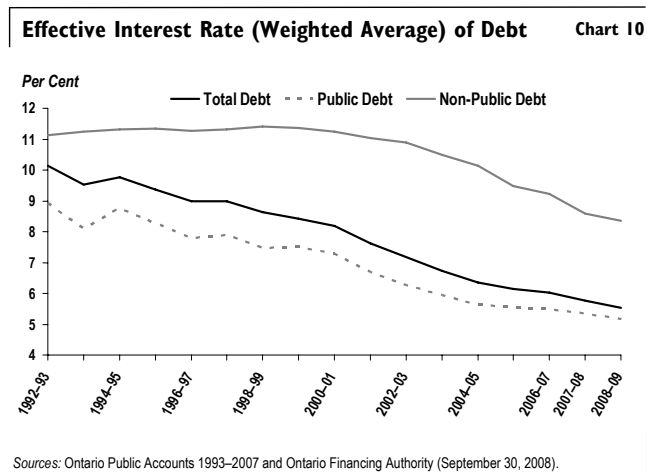
The largest component of the borrowing program is the refinancing of maturing debt. The year-to-year variation in debt maturities largely reflects past borrowing activities. The Province will continue to aim for a balanced maturity profile and take advantage of opportunities to schedule maturities into years that currently have lower levels of maturing debt.



Cost of Debt

The effective interest rate (on a weighted-average basis) on total debt was 5.53 per cent as at September 30, 2008 (March 31, 2008, 5.76 per cent). For comparison, as at March 31, 1993, the effective interest rate on total debt was 10.14 per cent.

The effective interest rate on public debt was 5.16 per cent as at September 30, 2008, compared to 5.35 per cent as at March 31, 2008. The effective interest rate on non-public debt was 8.35 per cent as at September 30, 2008, compared to 8.59 per cent as at March 31, 2008.



ANNEX V

Transparency in Taxation, 2008

TRANSPARENCY IN TAXATION

Tax expenditure reporting is an important element of improved fiscal accountability. It increases fiscal transparency by providing a complete picture of revenue forgone in the tax system.

STRUCTURE OF THE REPORT

This report provides estimates of revenue forgone in 2008 with respect to provisions in the following taxes:

- Personal Income Tax
- Corporate Tax
- Sales and Commodity Tax
- Education Property Tax
- Employer Health Tax
- Estate Administration Tax
- Gross Revenue Charge.

This report includes descriptions only of tax provisions that are new or have been modified since the 2007 *Transparency in Taxation* report.

The descriptions are intended to provide a basic understanding of the provisions and do not replace the relevant legislation or regulations.

Descriptions of the tax provisions presented in this report are available online at:
www.fin.gov.on.ca/english/budget/fallstatement/2008/

SCOPE

Given the absence of a universally accepted definition of a “tax expenditure,” this report continues the broad approach adopted in previous reports of listing estimates of forgone revenue that could potentially be included under a broad-based tax system.

Personal and Corporate Income Tax expenditures identified in this report include tax expenditures shared with the federal government and Ontario-only tax expenditures.

Under a tax collection agreement between Ontario and Canada, the federal government determines the Personal Income Tax base. Ontario has limited policy control over the individual components of taxable income and the associated tax expenditures related to the federally defined tax base.

Ontario and the federal government are finalizing a corporate tax collection agreement. The agreement provides for the federal collection and administration of Ontario’s Corporate Income Tax, Minimum Tax, Capital Tax and Special Additional Tax on life insurers, effective for taxation years ending after 2008.

Similar to the tax collection agreement for Personal Income Tax, the corporate tax collection agreement requires Ontario to harmonize with the federal corporate income tax base.

METHOD

The estimates in this report were developed using the latest available taxation or economic data, forecast to the 2008 calendar year. The data used to estimate the values of the tax provisions come from a variety of sources. The estimated value of a tax provision may differ from the amount reported in a prior year for a variety of reasons including amendments to the provision, changes in economic factors, revisions to the underlying data and improvements to the estimation method. Some tax provision estimates are particularly sensitive to economic conditions or other variables and, therefore, can fluctuate significantly from year to year.

It is important to note that the estimates in this report are not intended to represent the potential revenue gain for the Province if the tax provisions were not in place. Each estimate has been determined separately and in isolation of other factors, such as the economic impact of any change, behavioural responses, the interaction among various tax provisions, or any modifications in policy that might reasonably accompany the change. As a result, the estimates cannot be added together to determine the total cost of a particular group of tax expenditures.

Tax expenditure estimates of less than \$1 million are denoted by the letter “s” (small). This report also includes tax provisions for which relevant data from the tax system are not currently available to the Ministry of Finance. Although estimates may not be available, these items are listed to ensure greater accountability and transparency.

Future annual reports will continue to refine Ontario’s tax expenditure estimates.

PERSONAL INCOME TAX

Table 1 provides estimates of tax provisions relating to the Ontario Personal Income Tax system. Business provisions listed here are for unincorporated businesses.

Personal Income Tax ¹	Table 1
Tax Provisions	2008 Estimates ² (\$ Millions)
Ontario Non-refundable Tax Credits	
Adoption Expense Credit	s
Age Credit	265
Amounts Transferred from a Spouse or Common-law Partner	25
Basic Personal Credit	4,270
Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) Contributions Credit	555
Caregiver Credit	15
Charitable Donations Credit	645
Disability Credit	85
Eligible Dependant Credit	85
Employment Insurance (EI) Premiums Credit	190
Infirm Dependant Credit	1
Medical Expense Credit	145
Ontario Overseas Employment Tax Credit	6
Pension Income Credit	120
Spouse or Common-law Partner Credit	175
Student Loan Interest Credit	9
Tuition and Education Credits	290
Ontario Tax Reduction (OTR)	
OTR — Basic Reduction	185
OTR — Reduction for Dependent Children Under 19	200
OTR — Reduction for Disabled or Infirm Dependents	10
OTR — Total	330
Employee Ownership and Ontario Labour Sponsored Investment Fund Tax Credits	
Employee Ownership (EO) Tax Credit	s
Labour Sponsored Investment Fund (LSIF) Tax Credit	25
Research Oriented Investment Fund (ROIF) Tax Credit	1
Ontario Refundable Tax Credits	
Ontario Focused Flow-through Share Tax Credit	3
Ontario Political Contribution Tax Credit	5

Personal Income Tax ¹	Table 1
Tax Provisions	2008 Estimates ² (\$ Millions)
Ontario Property and Sales Tax Credits (OTCs)	
OTCs — Non-seniors	450
OTCs — Seniors ³	515
OTCs — Total ³	965
Exemptions, Deductions, Deferrals and Other Measures Shared with the Federal Government	
Business	
<i>Items for Which an Estimate is not Available</i>	
Assistance for Artists and Deduction for Canadian Art Purchased by Unincorporated Businesses	
Assistance for Prospectors and Grubstakers	
Deduction of Accelerated Capital Cost Allowance	
Deferral Through Use of Billed-basis Accounting by Professionals	
Employment	
Deduction for Clergy Residence	15
Deduction of Home Relocation Loans	s
Deduction for Military and Police Deployed to High-risk International Missions	5
Deduction of Other Employment Expenses	270
Deduction of Union and Professional Dues	150
Employee Security Options	195
Moving Expense Deduction	20
Northern Residents Deductions	1
<i>Items for Which an Estimate is not Available</i>	
Deduction for Artists and Musicians	
Deduction for Tradespersons' and Apprentice Vehicle Mechanics' Tools	
Deduction for Tuition Assistance for Adult Basic Education	
Deferral of Salary Through Leave of Absence/Sabbatical Plans	
Employee Benefit Plans	
Non-taxation of Business-paid Health and Dental Benefits	
Non-taxation of Certain Non-monetary Employment Benefits	
Special Tax Computations for Certain Retroactive Lump-sum Payments	

Tax Provisions

2008 Estimates²
(\$ Millions)

Farming and Fishing

Items for Which an Estimate is not Available

- Cash-basis and Flexibility in Inventory Accounting
- Deduction of Farm Losses for Part-time Farmers
- Deferral of Income for Farmers
- Net Income Stabilization Account for Farmers

Investment

\$750,000 Lifetime Capital Gains Exemption for Farm or Fishing Property and Small Business Shares	165
Deduction of Allowable Business Investment Losses	10
Deduction of Carrying Charges Incurred to Earn Income	295
Deduction of Resource-related Expenditures	185
Partial Inclusion of Capital Gains	1,130

Items for Which an Estimate is not Available

- Capital Gains Exemptions — \$1,000 on Personal-use Property and \$200 on Foreign Exchange Transactions
- Deduction of Limited Partnership Losses
- Deferral of Capital Gains Through Five-year Reserves
- Deferral of Capital Gains Through Rollovers
- Deferral of Capital Gains Through 10-year Reserves for Farm or Fishing Property and Small Business Shares
- Deferral of Capital Gains Through Transfers to a Spouse or Spousal Trust
- Exemption for Capital Gains Arising from Certain Donations
- Non-taxation of Capital Gains on Principal Residences
- Taxation of Capital Gains Upon Realization

Non-taxable Income

Guaranteed Income Supplement and Allowance Benefits	35
Social Assistance Benefits and Provincial Supplements	25
Workers' Compensation Benefits	170

Items for Which an Estimate is not Available

- Certain Federal Government Pensions and Allowances
- Damages With Respect to Personal Injury or Death
- Death Benefits of Up to \$10,000

Personal Income Tax¹**Table 1****Tax Provisions****2008 Estimates²
(\$ Millions)**

Employer-paid CPP/QPP Contributions and EI Premiums	
Gifts and Bequests	
Income of Status Indians on Reserves	
Income from the Office of the Governor General and Allowances for Diplomats and other Government Employees Posted Abroad	
Investment Income on Life Insurance Policies	
Lottery and Gambling Winnings	
Strike Pay	
Special Circumstances	
Child Care Expense Deduction	175
Pension Income Splitting	200
Treatment of Alimony, Maintenance and Child Support Payments	35
<i>Items for Which an Estimate is not Available</i>	
Deduction Related to Vows of Perpetual Poverty	
Disability Supports Deduction	
Exemption of Scholarship, Fellowship and Bursary Income	
Tax-free Amount for Emergency Service Volunteers	
Tax-deferred Savings	
Registered Pension Plans (RPPs) — Deduction for Contributions	705
Registered Retirement Savings Plans (RRSPs) — Deduction for Contributions	2,005
<i>Items for Which an Estimate is not Available</i>	
Deferred Profit-sharing Plans	
Registered Disability Savings Plans (RDSPs) — Non-taxation of Investment Income and Federal Contributions	
Registered Education Savings Plans (RESPs) — Non-taxation of Investment Income and Federal Contributions	
RPPs and RRSPs — Non-taxation of Investment Income	

¹ Estimates do not include the impact of revenue forgone from Personal Income Tax provisions for trusts, which are taxed as individuals under the *Income Tax Act*.

² Estimates are based on 2005 tax-filer data forecast to represent the 2008 taxation year, unless otherwise noted.

³ Estimate includes the enrichment of the income threshold for senior couples to \$24,300 proposed in the 2008 Ontario Budget.

PERSONAL INCOME TAX — DESCRIPTION OF TAX PROVISIONS

The following Personal Income Tax provisions have been introduced or changed since the 2007 *Transparency in Taxation* report.

Ontario Non-refundable Tax Credits

The non-refundable tax credits listed in the following table are based on amounts that are adjusted for inflation each year.

Amounts on Which Indexed Non-refundable Tax Credits Are Based for 2008 (\$)	Table 2
Non-Refundable Tax Credits	
Adoption Expense Credit, maximum claim	10,591
Age Credit, maximum claim	4,239
Reduced by 15 per cent of individual's net income in excess of \$31,554	
Fully phased out when individual's net income reaches \$59,814	
Basic Personal Credit	8,681
Caregiver Credit, maximum claim	4,092
Reduced by dependant's net income in excess of \$13,999	
Fully phased out when dependant's net income reaches \$18,091	
Disability Credit	7,014
Disability supplement for individuals under 18 years of age, maximum claim	4,091
Eligible Dependant Credit, maximum claim	7,371
Reduced by dependant's net income in excess of \$737	
Fully phased out when dependant's net income reaches \$8,108	
Infirm Dependant Credit, maximum claim	4,091
Reduced by dependant's net income in excess of \$5,817	
Fully phased out when dependant's net income reaches \$9,908	
Medical Expense Credit	
Qualifying medical expenses of self, spouse or common-law partner, and dependent children in excess of the lesser of three per cent of net income and \$1,965	no limit
Qualifying medical expenses of other dependants in excess of the lesser of three per cent of the dependant's net income and \$1,965, maximum claim for each	10,591
Pension Income Credit, maximum claim	1,201
Spouse or Common-law Partner Credit, maximum claim	7,371
Reduced by spouse's or common-law partner's net income in excess of \$737	
Fully phased out when spouse or common-law partner's net income reaches \$8,108	
Tuition and Education Credits	
Education Credit, full time or eligible for Disability Credit (per month)	468
Education Credit, part time (per month)	140
Maximum transfer	6,003

Medical Expense Credit — Tax filers may claim a credit for non-reimbursed medical expenses, including those incurred on behalf of a tax filer's spouse or common-law partner or minor children. For 2008, the credit is calculated as 6.05 per cent of eligible expenses in excess of the lesser of \$1,965 and three per cent of the individual's net income for the year. In addition, up to \$10,591 of qualifying medical expenses paid on behalf of other dependent relatives may be claimed to the extent that they exceed the lesser of \$1,965 and three per cent of the dependant's net income. Beginning with 2008, the list of expenses eligible for the credit will be expanded. This change parallels the 2008 federal budget initiative.

Employee Ownership and Ontario Labour Sponsored Investment Fund Tax Credits

Labour Sponsored Investment Fund (LSIF) Tax Credit — LSIFs are venture capital corporations designed to provide capital to small and medium-sized Ontario businesses. Investors qualify for a 15 per cent non-refundable tax credit on investment up to a certain maximum. As announced in the *2007 Ontario Economic Outlook and Fiscal Review*, effective January 1, 2007, the maximum annual eligible investment that qualifies for the LSIF tax credit increased from \$5,000 to \$7,500. In addition, the phase-out of the LSIF tax credit was delayed by one year to the end of 2011.

Research Oriented Investment Fund (ROIF) Tax Credit — Where an LSIF qualifies as a ROIF, investors receive an additional five per cent non-refundable tax credit. Effective January 1, 2007, the maximum annual eligible investment that qualifies for the ROIF tax credit increased from \$5,000 to \$7,500. In addition, the phase-out of the ROIF tax credit was delayed by one year to the end of 2011.

Ontario Refundable Tax Credits

Ontario Property and Sales Tax Credits (OTCs) — The refundable OTCs may be claimed by low- and moderate-income tax filers to offset the cost of provincial property and retail sales taxes. The Property Tax Credit is calculated as the lesser of occupancy cost and a basic property tax credit amount (\$250 for non-senior single individuals or couples, or \$625 for senior single individuals or couples), plus 10 per cent of occupancy cost. Occupancy cost is equal to property tax paid or 20 per cent of rent paid on an individual's principal residence plus \$25 if residing in a student residence. The Sales Tax Credit is \$100 for an individual plus \$100 for a spouse or common-law partner and \$50 for each dependent child aged 18 or under. For non-seniors, the OTCs are jointly reduced by two per cent of adjusted family net income in excess of \$4,000; for single seniors the credits are jointly reduced by four per cent of family net income in excess of \$22,000. For senior couples, the 2008 Ontario Budget proposed that the credits be jointly reduced by four per cent of family net income in excess of \$24,300. The maximum OTCs are \$1,000 for non-seniors and \$1,125 for seniors.

The estimate includes the increase to the income threshold for senior couples proposed in the 2008 Budget.

Exemptions, Deductions, Deferrals and Other Measures Shared with the Federal Government

Employment

Northern Residents Deductions — To offset the relatively higher cost of living and travelling in the North, individuals living in a qualifying remote location in Canada for a continuous period of at least six months may claim certain deductions from income. Beginning in 2008, the residency deduction will increase by 10 per cent. This change parallels the 2008 federal budget initiative.

Investment

Item for Which an Estimate is not Available

Exemption for Capital Gains Arising from Certain Donations — Capital gains on gifts of publicly listed securities to a qualified donee are exempt from tax. In addition, capital gains on gifts of ecologically sensitive land to a qualified donee (other than a private foundation) are exempt from tax, as are capital gains on certain objects certified as being of cultural importance to Canada that are donated to a designated museum or art gallery. In certain circumstances, the capital gains exemption applies to gains from securities exchanged for publicly listed securities that are then donated to a qualified donee after February 25, 2008. Extending the exemption to exchanged securities parallels the 2008 federal budget initiative.

Tax-Deferred Savings

Item for Which an Estimate is not Available

Registered Disability Savings Plans (RDSPs) – Non-taxation of Investment Income and Federal Contributions — In its 2007 budget, the federal government introduced RDSPs to help parents and others save for the future needs of persons with severe disabilities. Investment income on contributions to RDSPs and federal assistance will accumulate tax-free in the plans, and contributions will not be included in income for tax purposes when they are withdrawn. Only the portion of withdrawals from an RDSP that relates to federal assistance and investment income will be included in the income of the person with a disability. Individuals benefit from a deferral of tax on investment income and federal contributions until funds are withdrawn from these plans. This provision parallels the 2007 federal budget initiative.

Registered Education Savings Plans (RESPs) – Non-taxation of Investment Income and Federal Contributions — Individuals may contribute to RESPs on behalf of designated children. Federal assistance and investment income accrued within the plans are not taxed until withdrawn for the postsecondary education of the named beneficiaries. Beginning in 2008, the maximum contribution period and the maximum lifespan of an RESP, as well as the contribution age limit for a beneficiary of a family plan, will be extended by 10 years. This extension parallels the 2008 federal budget initiative.

CORPORATE TAX

Estimates of tax provisions relating to the Ontario Corporate Income Tax, Capital Tax and Mining Tax systems are presented in Table 3.

Corporate Tax	Table 3
Tax Provisions	2008 Estimates¹ (\$ Millions)
Corporate Income Tax	
Ontario Refundable Tax Credits	
Apprenticeship Training Tax Credit ²	70
Co-operative Education Tax Credit ²	10
Ontario Book Publishing Tax Credit	2
Ontario Business Research Institute Tax Credit	7
Ontario Computer Animation and Special Effects Tax Credit	15
Ontario Film and Television Tax Credit	135
Ontario Innovation Tax Credit	215
Ontario Interactive Digital Media Tax Credit	13
Ontario Production Services Tax Credit	33
Ontario Sound Recording Tax Credit	1
Ontario Deductions and Exemptions	
Additional Deduction for Credit Unions	5
Manufacturing and Processing (M&P) and Resource Sector Credit	245
Non-taxation of the Federal Investment Tax Credit ^{3,4}	250
Ontario Current Cost Adjustment ³	2
Ontario Depletion Allowance ³	9
Ontario New Technology Tax Incentive ³	s
Ontario Political Contributions ³	6
Ontario Resource Allowance ^{3,5,6}	120
Ontario Tax Exemption for Commercialization *	s
Small Business Deduction ⁷	1,125

* The estimated cumulative impact of this proposed provision in the *Ideas for the Future Act, 2008*, if passed, is \$7 million over the period 2008–09 to 2010–11. The *Ideas for the Future Act, 2008* is before the Ontario legislature as of October 22, 2008.

Corporate Tax	Table 3
Tax Provisions	2008 Estimates¹ (\$ Millions)
Exemptions, Deductions, Deferrals and Other Measures Shared with the Federal Government	
Allowable Business Investment Losses ^{8,9}	3
Deductibility of Charitable Donations ⁸	95
Deductibility of Gifts to the Crown ⁸	s
Deductibility of Gifts of Cultural Property and Ecologically Sensitive Land ⁸	3
Deferral of Income for Farmers ⁸	s
Holdback on Progress Payments to Contractors ⁸	15
Non-taxation of Non-profit Organizations ⁸	150
Partial Inclusion of Capital Gains ⁸	1,360
<i>Items for Which an Estimate is not Available</i>	
Accelerated Write-off of Capital Assets and Resource-related Expenditures	
Temporary Incentive for Manufacturing and Processing (M&P) Machinery & Equipment ¹⁰	
Cash-basis and Flexibility in Inventory Accounting	
Deductibility of Countervailing and Anti-dumping Duties	
Deferral Through Capital Gains Rollovers	
Deferral Through Use of Billed-basis Accounting by Professionals	
Donations of Medicine for the Developing World	
Exemption for Capital Gains Arising from Certain Donations	
Expensing of Advertising Costs	
Non-taxation of Provincial, Municipal and Federal Crown Corporations	
Non-taxation of Registered Charities	
Tax Exemption on Income of Foreign Affiliates of Canadian Corporations	
Taxation of Capital Gains upon Realization	
Capital Tax¹¹	
Capital Tax Deduction	460
Deferred Mining Exploration and Development Expenses ¹²	s
Deferred Ontario New Technology Tax Incentive (ONTTI) and Scientific Research and Experimental Development (SR&ED) Costs ¹²	s
Exemption for Family Farm Corporations, Family Fishing Corporations, Credit Unions and Other Specified Entities	s
Small Business Investment Tax Credit for Financial Institutions	20
<i>Item for Which an Estimate is not Available</i>	
Renounced Mining Expenses	

Corporate Tax**Table 3****Tax Provisions****2008 Estimates¹
(\$ Millions)****Mining Tax¹³**

Mining Tax Exemption	s
Mining Tax Holiday for Mines (other than remote mines)	s
Mining Tax Holiday for New Remote Mines	s
Mining Tax Rate for Remote Mines	s
Processing Allowance	44
<i>Item for Which an Estimate is not Available</i>	
Fast Write-off of Exploration Costs	

¹ Estimates are forecast to the 2008 calendar year based on preliminary 2006 and 2007 Ontario tax administration data, unless otherwise noted. Estimates do not include the revenue forgone from Corporate Income Tax provisions for mutual fund corporations.

² Estimates include the impact of both the Corporate and Personal Income Tax provisions.

³ These Ontario differences from the federal definition of taxable income do not apply for taxation years ending after 2008.

⁴ For taxation years ending after 2008, a 4.5 per cent non-refundable tax credit has been enacted to replace this provision.

⁵ The resource allowance applies to the mining and oil and gas sectors. The estimate is not net of mining taxes and Crown royalties paid.

⁶ For taxation years ending after 2008, a tax credit/debit mechanism has been enacted to replace this provision.

⁷ Estimate includes the impact of the Small Business Deduction phase-out.

⁸ Estimates are based on assessed 2006 federal tax administration data and forecast to 2008.

⁹ Estimate could overstate the true value as it does not reflect the future reduction in tax revenues that would occur if those losses were instead deducted from future capital gains.

¹⁰ The 2008 cash flow impact of this provision, based on the 2008 Ontario Budget estimate and adjusted to a calendar-year basis, is \$195 million.

¹¹ Ontario has legislated a plan to eliminate the Capital Tax effective July 1, 2010.

¹² These provisions do not apply for taxation years ending after 2008.

¹³ Estimates are forecast to the 2008 calendar year based on preliminary 2007 Ontario Mining Tax administration data.

CORPORATE TAX — DESCRIPTION OF TAX PROVISIONS

The following Corporate Income Tax provisions have changed since the 2007 *Transparency in Taxation* report.

Corporate Income Tax

Ontario Refundable Tax Credits

Ontario Film and Television Tax Credit — A refundable tax credit on labour expenses is available to corporations for certified domestic film and television productions in Ontario. As announced in the 2007 *Ontario Economic Outlook and Fiscal Review*, effective for labour expenses incurred after December 31, 2007 and before January 1, 2010, the tax credit rate is increased from 30 per cent to 35 per cent. First-time producers are eligible for a 40 per cent credit on the first \$240,000 of eligible labour expenses. A 10 per cent regional bonus credit is available where certain production activities occur outside the Greater Toronto Area.

Ontario Innovation Tax Credit — A 10 per cent refundable tax credit is available to small corporations with qualifying Scientific Research and Experimental Development (SR&ED) expenditures in Ontario. The 2008 Ontario Budget proposed to increase the expenditure limit from \$2 million to \$3 million and extend the taxable income phase-out range of between \$400,000 and \$600,000 to a new upper limit of \$700,000. These enhancements would parallel the effective dates and phase-in rules of the federal SR&ED tax credit enhancements announced in the 2008 federal budget.

Ontario Interactive Digital Media Tax Credit — A refundable tax credit is available for the creation, marketing and distribution of interactive digital media products. As announced in the 2008 Ontario Budget, the tax credit rate increased from 20 per cent to 25 per cent for qualifying expenditures incurred after March 25, 2008, and before January 1, 2012. The 2008 Ontario Budget also extended the enhanced 30 per cent tax credit rate available to small and medium-sized corporations that develop their own products for two years, to qualifying expenditures incurred before January 1, 2012.

Ontario Production Services Tax Credit — A refundable tax credit on labour expenses is available to corporations for qualifying foreign film and television production services and non-certified domestic film and television productions in Ontario. As announced in the 2007 *Ontario Economic Outlook and Fiscal Review*, effective for labour expenses incurred after December 31, 2007 and before January 1, 2010, the tax credit rate is increased from 18 per cent to 25 per cent.

Ontario Deductions and Exemptions

Ontario Tax Exemption for Commercialization — The *Ideas for the Future Act, 2008*, if passed, would provide new corporations established after March 24, 2008 and before March 25, 2012, that commercialize intellectual property developed at qualifying Canadian universities, colleges or research institutes, with a refund of Corporate Income Tax paid in their first 10 taxation years. This measure was proposed in the 2008 Ontario Budget.

Small Business Deduction — Canadian-controlled private corporations are eligible for a reduced corporate income tax rate of 5.5 per cent on the first \$500,000 of active business income. The benefit of the lower rate is phased out as taxable income rises to \$1.5 million. As announced in the *2007 Ontario Economic Outlook and Fiscal Review*, the active business income level was increased from \$400,000 to \$500,000 and the taxable income level was increased from \$1,128,519 to \$1.5 million, effective January 1, 2007.

Exemptions, Deductions, Deferrals and Other Measures Shared with the Federal Government *Items for Which an Estimate is not Available*

Temporary Incentive for Manufacturing and Processing (M&P) Machinery and Equipment — The 2008 Ontario Budget proposed to extend this incentive by allowing eligible assets acquired in 2009 to be depreciated on a 50 per cent straight-line basis and those assets acquired in 2010 and 2011 on a declining balance basis. This parallels the 2008 federal budget initiative.

Donations of Medicine for the Developing World — Corporations that make donations of medicine from their inventory may claim an additional charitable deduction equal to the lesser of 50 per cent of the difference between the value of the donated medicine and its cost, and the cost of the medicine. For donations after June 30, 2008, the definition of an eligible charity is changed to a registered charity that, in the opinion of the federal Minister of International Cooperation, meets conditions prescribed by regulation. The definition change parallels the 2008 federal budget measure.

Exemption for Capital Gains Arising from Certain Donations — Capital gains on gifts of publicly listed securities to a qualified donee are exempt from tax. In addition, capital gains on gifts of ecologically sensitive land to a qualified donee (other than a private foundation) are exempt from tax, as are capital gains on certain objects certified as being of cultural importance to Canada that are donated to a designated museum or art gallery. In certain circumstances, the capital gains exemption applies to gains from securities exchanged for publicly listed securities that are then donated to a qualified donee after February 25, 2008. Extending the exemption to exchanged securities parallels the 2008 federal budget initiative.

SALES AND COMMODITY TAX

Estimates of tax provisions relating to sales and commodity taxes, including the Fuel Tax, Gasoline Tax, Land Transfer Tax, Retail Sales Tax and Tobacco Tax, are presented in Table 4.

Sales and Commodity Tax	Table 4
Tax Provisions	2008 Estimates ¹ (\$ Millions)
Fuel Tax	
Exemptions/Reduced Rates	
Exemption for Biodiesel ²	s
Exemption for Coloured Fuel ³	410
Reduced Rate for Railway Diesel ⁴	60
Refunds	
Auxiliary Power Take-off Equipment ⁵	6
Gasoline Tax	
Exemptions/Reduced Rates	
Exemption for Methanol and Natural Gas	9
Reduced Rate for Aviation Fuel ⁶	300
Reduced Rate for Propane ⁶	7
Refunds	
Auxiliary Power Take-off Equipment ⁵	s
Aviation Fuel ⁵	s
Tax-exempt Use in Unlicensed Equipment ⁵	4
Land Transfer Tax	
Exemptions	
Deferrals and Exemptions for Corporate Reorganizations ⁵	85
Family Business Conveyances ⁵	s
Family Farms ⁷	6
Life Leases ³	s
<i>Items for Which an Estimate is not Available</i>	
Hospital Restructuring	
Oil/Pipeline Easements and Mineral Lands	
Other Transfers and Dispositions	

Sales and Commodity Tax

Table 4

Tax Provisions**2008 Estimates¹**
(\$ Millions)**Refunds**Refund for First-time Home Buyers⁵ 115**Retail Sales Tax****Exemptions/Reduced Rates**25¢ Coin Pay Phone Calls⁷ s

Agricultural Goods 270

Audio Books Purchased for Use by Persons Who Are Legally Blind⁷ 5Automobile Insurance Premiums^{7,8} 820

Basic Groceries 1,715

Books, Newspapers and Magazines Sold by Subscription 410

Children's Car Seats and Booster Seats⁷ 5

Children's Clothing 140

Commercial and State Aircraft, Vessels Greater than 1,400 Cubic Metres and Commercial
Vessels of 1,400 Cubic Metres or Less 165Custom Software⁹ 100Donations to Schools, Colleges and Universities⁷ 7Educational CDs and DVDs⁷ 4

Energy 5,290

Feminine Hygiene Products⁷ 21

Footwear Sold for \$30 or Less 31

Goods Purchased for Use by Fishers and Fur-trappers s

Individual Life and Health Insurance Premiums¹⁰ 480

Mobile Homes s

Municipal Fire-fighting Equipment 2

Nicotine Replacement Therapies¹¹ 5Prepared Foods Sold for \$4 or Less⁷ 245

Prescription Drugs and Medical Supplies 1,065

Production Machinery and Equipment 685

Religious Equipment and Publications 12

Repairs and Replacements Performed Under Warranty^{7,8} 155

Seedlings s

Services 11,065

Temporary Exemption for Bicycles and Related Safety Equipment⁷ 16Temporary Exemption for Destination Marketing Fees⁷ 2

Sales and Commodity Tax

Table 4

Tax Provisions	2008 Estimates ¹ (\$ Millions)
Temporary Exemption for Energy Star® Household Products ⁷	55
Toll-free Telephone Services ⁷	50
Transient Accommodation ¹²	120
University Research Equipment	7
<i>Items for Which an Estimate is not Available</i>	
Admissions ¹³	
Modular Homes	
Municipal, Hospital Restructuring	
Used Adult Clothing or Footwear Sold for \$50 or Less by Religious, Charitable, Benevolent and Non-profit Organizations	
Works of Art Purchased by Museums and Art Galleries	
Credits/Rebates	
Rebate for Alternative Fuel Vehicles ⁵	6
Rebate for Building Materials for Religious, Charitable and Benevolent Organizations ⁵	20
Tax Credit for Fuel Conservation ⁷	7
Temporary Rebate for Solar Energy, Wind Energy, Micro Hydro-electric and Geothermal Energy Systems ⁵	1
Vendor Compensation ¹⁴	110
Tobacco Tax	
Compensation for Tax Collectors ¹⁴	s

¹ Estimates are forecast to the 2008 calendar year based on preliminary 2004 provincial Input–Output tables from Statistics Canada, unless otherwise noted.

² Based on estimated amount of biodiesel sold in Ontario.

³ Based on best tax administration data currently available.

⁴ Forgone revenue estimated as difference from the general fuel tax rate.

⁵ Based on refunds filed or rebates/deferrals claimed.

⁶ Forgone revenue estimated as difference from the general gasoline tax rate.

⁷ Based on the best information currently available from a variety of sources, such as industry data and Statistics Canada surveys, projected to 2008.

⁸ Estimates assume items would be taxed at eight per cent general RST rate.

⁹ Based on Statistics Canada Computer Software and Related Services Industry Revenue Profile.

¹⁰ Based on insurance premiums data provided by the Canadian Life and Health Insurance Association Inc.

¹¹ Based on Statistics Canada CANSIM Table 105-0055: Smoking Cessation Aids.

¹² Transient accommodation is taxed at a reduced rate of five per cent. Forgone revenue estimated as difference from the general RST rate of eight per cent.

¹³ Includes the exemption for admissions to live theatres with 3,200 seats or less, which is estimated to cost \$18 million per year. There are currently no data available to the Ministry of Finance for the cost of other admissions exemptions of general application.

¹⁴ Based on returns filed by registered tax collectors.

SALES AND COMMODITY TAX — DESCRIPTION OF TAX PROVISIONS

The following Sales and Commodity Tax provisions have changed since the 2007 *Transparency in Taxation* report.

Land Transfer Tax (LTT)

Exemptions

Family Farms — The 2008 Ontario Budget announced the expansion of the LTT exemption for conveyances of farmed land to include conveyances from family farm corporations to individual family members after March 25, 2008.

Refunds

Refund for First-time Home Buyers — The 2007 *Ontario Economic Outlook and Fiscal Review* announced the expansion of the refund program to include the purchase of resale homes. The maximum amount of the refund is \$2,000 and the expansion is effective for agreements of purchase and sale entered into after December 13, 2007.

Retail Sales Tax (RST)

Exemptions/Reduced Rates

Books, Newspapers and Magazines Sold by Subscription — As announced in December 2007 and noted in the 2008 Ontario Budget, the definition of “newspaper” is being expanded to enable publications with smaller circulation or less frequent publishing schedules, such as community and ethnic newspapers, to qualify for the RST exemption for newspapers. The expanded definition will be retroactive to January 1, 2000 once the regulation is finalized.

Nicotine Replacement Therapies — The 2008 Ontario Budget made permanent the RST exemption for nicotine replacement therapies registered with a Health Canada Drug Identification Number or Natural Product Number.

Temporary Exemption for Bicycles and Related Safety Equipment — The 2008 Ontario Budget extended the temporary RST exemption for bicycles costing \$1,000 or less and related bicycle safety equipment to purchases made on or before December 31, 2010.

Temporary Exemption for Destination Marketing Fees — The 2008 Ontario Budget extended this exemption by two years. Destination marketing fees charged on transient accommodation are temporarily exempt from RST until June 30, 2010.

Temporary Exemption for Energy Star® Household Products — The 2008 Ontario Budget extended the temporary RST exemption for eligible Energy Star® qualified household appliances and light bulbs to purchases made on or before August 31, 2009 (with delivery of appliances on or before September 30, 2009).

Items for Which an Estimate is not Available

Admissions — A number of RST exemptions are available for admissions. The 2008 Ontario Budget made permanent the RST exemption on admissions to live theatres with not more than 3,200 seats that present live dramatic, comedic, choreographic or musical performances, including a live theatrical play and a live ballet, orchestral or operatic performance.

EDUCATION PROPERTY TAX

Table 5 provides estimates of tax provisions relating to the Education Property Tax system.

Education Property Tax ¹	Table 5
Tax Provisions	2008 Estimates ² (\$ Millions)
Brownfields Financial Tax Incentive Program ³	s
Charity Rebate	7
Conservation Land Property Tax Exemption Program	2
Eligible Convention Centres Exemption	s
Eligible Live Performance Theatres Exemption and Professional Sports Facility Tax Rate Reduction	13
Farm Property Class Tax Rate Reduction	65
Farmlands Awaiting Development Sub-class Tax Rate Reduction	s
Heritage Property Tax Rebate	s
Managed Forest Tax Incentive Program	3
Seniors and Persons with Disabilities Property Tax Relief ⁴	s
Tax Exemptions Under Private Statutes	6
Vacant Commercial and Industrial Unit Rebate	31
Vacant Land and Excess Land Sub-class Tax Rate Reduction	48
<i>Items for Which an Estimate is not Available</i>	
Other Tax Exemptions Under Public Statutes	
Discretionary exemptions granted by municipalities to special purpose properties (e.g., legions, navy leagues, public-private capital facilities)	
Mandatory exemptions granted to special purpose/institutional properties (e.g., places of worship, cemeteries, Boy Scouts Association of Canada and Canadian Girl Guides Association, charitable institutions including Canadian Red Cross, St. John Ambulance and charitable, non-profit philanthropic corporations organized for the relief of the poor)	
Relief from Property Taxes That are Unduly Burdensome for Residential, Farm or Managed Forest Properties	

¹ Expenditures related to provincial land taxes or payments made in lieu of taxes have not been included.

² Estimates based on 2008 education tax rates, 2008 Assessment Roll, 2006 Municipal Financial Information Returns and municipal tax policies.

³ Effective October 1, 2004, municipalities may pass bylaws cancelling municipal property taxes on eligible brownfields properties. The Province may match the municipal reduction with an education property tax reduction.

⁴ Estimate does not include expenditures due to the exemption from taxation on 10 per cent of the assessment of improvements to accommodate seniors and persons with disabilities in newly built homes or the expenditure on such improvements in existing homes.

EMPLOYER HEALTH TAX

Table 6 provides an estimate of the tax exemption under the Employer Health Tax.

Employer Health Tax (EHT)	Table 6
Tax Provision	2008 Estimate (\$ Millions)
\$400,000 Exemption for Private-sector Employers ¹	725

¹ Estimate is based on 2006 remuneration data forecast to represent the 2008 taxation year.

ESTATE ADMINISTRATION TAX

Table 7 provides an estimate of the exemption under the Estate Administration Tax.

Estate Administration Tax	Table 7
Tax Provision	2008 Estimate (\$ Millions)
Exemption Where the Value of the Estate Does Not Exceed \$1,000	s

GROSS REVENUE CHARGE

Table 8 provides an estimate of the tax provision under the Gross Revenue Charge.

Gross Revenue Charge (GRC)¹	Table 8
Tax Provision	2008 Estimate (\$ Millions)
Gross Revenue Charge 10-year Holiday	s

¹ Expenditure does not include the provincial water rental portion of the GRC.

ANNEX VI

How to Participate in the 2009 Pre-Budget Consultations

HOW TO PARTICIPATE IN THE 2009 PRE-BUDGET CONSULTATIONS

The Minister of Finance will be hosting pre-budget consultations with individuals, organizations, associations and other stakeholders across the province as part of the government's ongoing dialogue with the citizens of Ontario.

In particular, the Minister is interested in hearing Ontarians' views on what more the government can do during uncertain economic times to prudently manage Ontario's finances and protect important public services.

When preparing your comments, please consider the following questions:

1. During this period of global economic uncertainty and fiscal challenges, what should the Ontario Government's top priorities be for the 2009 Budget?
2. During uncertain economic times, should the Ontario Government work towards achieving a balanced budget or run a deficit in order to do everything it can to protect priority programs and services?
3. Given the current fiscal challenges, what government programs could be delayed, phased in more slowly, or eliminated?
4. What further steps can the Ontario Government take to promote economic growth and job creation?
5. How can the Ontario Government work more effectively with other levels of government and other key partners during challenging economic times?

Information on which communities and locations the Minister plans to visit will be posted at www.fin.gov.on.ca in late October 2008. Individuals who wish to attend one of these consultations can call toll-free 1-800-263-7965 or 1-800-263-7776 TTY.

The information below describes how to participate in the 2009 pre-budget consultations.

SUBMISSIONS

Visit the Ministry of Finance website at www.fin.gov.on.ca to submit your ideas for the 2009 Budget. Click on the "Tell Us What You Think" item in the What's New menu and complete the form provided.

Submissions may also be e-mailed to submissions@ontario.ca, sent by fax to 416-325-0969 or mailed to: The Honourable Dwight Duncan, Minister of Finance, c/o Budget Secretariat, Frost Building North, 3rd Floor, 95 Grosvenor Street, Toronto, ON M7A 1Z1.



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