

ANNEX III

Ontario's Borrowing and Debt Management



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BORROWING PROGRAM

The total long-term public market borrowing requirements for the Province and the Ontario Electricity Financial Corporation (OEFC) in 2003-04 are \$22.7 billion. This amount includes \$14.4 billion of debt maturities and redemptions and \$5.6 billion from the deficit.

As of December 11, 2003, the Ontario Financing Authority (OFA) had completed \$13.6 billion of the Province's estimated 2003-04 long-term public borrowing requirements of \$18.2 billion and \$4.0 billion of OEFC's \$4.5 billion requirements. The domestic market has been the main source of funding for the Province and OEFC in 2003-04, providing a total of \$11.5 billion, including seven syndicated domestic issues, 27 structured Domestic Medium Term Notes (DMTNs), two bond auctions and the ninth annual Ontario Savings Bond campaign.

While the majority of the borrowing has been completed in the domestic market, Ontario has successfully diversified its funding sources by accessing foreign markets. Since March 31, 2003, the OFA has launched its first global bond denominated in Euros as well as three U.S. dollar global bonds. Five Canadian dollar Euro Medium Term Notes (EMTNs) and four foreign currency EMTNs denominated in Australian dollars, Hong Kong dollars, Swiss francs and Japanese yen were also issued. In addition, the Province issued a yen loan.

2003-04 Borrowing Program		
Consolidated - Province and OEFC		(\$ Billions)
Deficit		5.6
Adjustments for:		
Non-cash Items Included in Deficit		0.9
Amortization of Tangible Capital Assets		(0.8)
Acquisitions of Tangible Capital Assets		1.5
Debt Maturities:		
Province*	9.8	
OEFC	<u>3.5</u>	13.3
Debt Redemptions		1.1
Canada Pension Plan Borrowing		(0.2)
(Decrease) / Increase in Cash and Cash Equivalents		(2.0)
(Increase) / Decrease in Short-Term Borrowing		(0.3)
(Other Sources) / Uses of Cash		3.6
Long-Term Public Borrowing Requirements		22.7

* Debt maturities are \$0.3 billion lower since that amount of maturities has now been extended to future years.

Borrowing Program Status			
(\$ Billions)	Completed	Remaining	Total
Province	13.6	4.6	18.2
OEFC	4.0	0.5	4.5
Total	17.6	5.1	22.7

Note: Consistent with the treatment in the 2002-03 Public Accounts, the borrowing program of OEFC was consolidated with that of the Province.

- The \$3.6 billion Uses of Cash includes the replacement of \$2.2 billion in deposits with the Province of Ontario Savings Office upon its sale, \$1.2 billion for the Ontario Nuclear Funds Agreement and a \$1.0 billion capital injection to the Ontario Municipal Economic Infrastructure Financing Authority, offset by \$0.8 billion from the collection of notes receivable from Hydro One and the Independent Electricity Market Operator.
- In addition to the borrowing and redemptions shown in the table, the Province bought back \$0.4 billion of previously issued debt, financing these purchases with similar amounts of debt issued at more favourable rates.

Debt Management Program

The OFA adheres to prudent risk management policies, using financial instruments such as options and swaps to hedge the Province's exposure to market risks such as foreign exchange and interest rate risks. The Province limits itself to having a maximum foreign exchange exposure of five per cent of debt issued for Provincial purposes. As of November 30, foreign exchange exposure was 1.4 per cent of debt issued for Provincial purposes. The Province limits itself to having a maximum interest rate reset exposure of 25 per cent of debt issued for Provincial purposes. Interest rate reset exposure is the combination of net floating rate exposure (i.e., gross floating rate exposure less liquid reserves) and all fixed rate debt maturing within the next 12 months. As of November 30, interest rate reset exposure was 14.6 per cent of debt issued for Provincial purposes.

The OFA also manages the Province's credit risk exposures arising from capital market activities by limiting market transactions to highly rated counterparties and maintaining credit exposures within the approved policy limits.

Debt maturities will remain significant during the next few years. As of November 30, the amount of maturing debt for the Province and the OEFC in 2004-05 is \$16.0 billion, followed by \$18.3 billion in 2005-06. In managing these maturities, the OFA will maintain a flexible financing approach and monitor domestic and international bond markets continuously, seeking out the most cost-effective borrowing opportunities. The OFA will also continue to aim for a balanced maturity profile and take advantage of cost-effective opportunities to schedule maturities into years that currently have lower levels of maturing debt.

