



# 2009 | Ontario Economic Outlook and Fiscal Review



The Honourable Dwight Duncan  
Minister of Finance

Background Papers





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**Background Papers**

For general inquiries regarding the *2009 Ontario Economic Outlook and Fiscal Review, Background Papers* please call:

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© Queen's Printer for Ontario, 2009  
ISSN 1483-5967 (Print)  
ISSN 1496-2829 (PDF/HTML)

Ce document est disponible en français sous le titre :  
*Perspectives économiques et revue financière de l'Ontario de 2009, Documents d'information*

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## FOREWORD

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In the past year, the recession has had a significant impact on the global economy on a scale that was unforeseen by anyone. Many jurisdictions are facing sharp declines in revenues and increasing expenses as people turn to governments for support. The significant deterioration of the global economy and the tightening of credit have undermined business and consumer confidence. Ontario is not immune to these broader forces: jobs have been lost, businesses have closed and government revenues have declined dramatically. Virtually every government around the world has had to update its economic and fiscal forecasts to reflect these unanticipated economic challenges.

Over the past six years, the McGuinty government has laid the foundation for economic success by investing in health care, education, infrastructure, the environment and proposing tax cuts for Ontario families and businesses. Throughout its term, the government has been committed to the priorities that are most important to Ontarians and their families.

To be able to continue investing in key priorities while managing down the deficit, the government, in concert with Ontarians, must focus its priorities and make strategic, difficult choices. In the coming months, the government will undertake a review of service delivery so that every dollar is spent even more effectively. The Ontario Treasury Board will begin this review: it will be charged with providing a plan to return the Province to a sustainable and firmer fiscal footing, while protecting key services. Building on expenditure management initiatives in the *2008 Economic Outlook and Fiscal Review*, the 2010 Budget will provide an update on Treasury Board's progress.

Using the most recent information available at October 15, 2009, the *2009 Ontario Economic Outlook and Fiscal Review* updates the economic assumptions from the 2009 Ontario Budget. The impact of these changes is applied to the government's revenue and expenditure projections, which revise the anticipated financial results for the current fiscal year.

When the economic crisis hit, the McGuinty government took critical steps to support Ontarians. Chapter I: *Confronting the Challenge* describes the government's actions to mitigate the impacts of the downturn on Ontario families at the first signs of the economic slowdown. The Province launched significant investments in infrastructure and the auto sector to help preserve and protect jobs. To help unemployed workers, the government established a number of retraining programs such as Second Career and made improvements to Employment Ontario. The government also sought to help out families most affected by the downturn by taking steps to reduce poverty. Green energy initiatives were launched to encourage green jobs. Tax changes to encourage the entertainment and creative sectors to create jobs were proposed. All of these initiatives were designed to help protect and sustain jobs in the short term and create a better foundation for the economy in the long term.

As outlined in the 2009 Budget, the McGuinty government is also positioning the economy for future growth and job creation by modernizing the tax system. It proposed the Harmonized Sales Tax (HST) that, when implemented, would increase competitiveness and business investment. As well, the government proposed permanent income tax cuts for Ontario individuals, families and businesses.

The combined HST and Corporate Income Tax (CIT) cuts, together with other tax cuts, would reduce the tax paid on income earned from new investment by half — a significant incentive for new business investment and job creation in Ontario.

Chapter II: *Ontario's Economic Performance and Outlook* outlines the recent performance of the economy and provides projections for future growth and challenges. Like governments everywhere — Canada, the United States, Great Britain, British Columbia and Alberta — Ontario is facing economic and fiscal challenges. It appears that the grip of the economic crisis is starting to loosen and the economy is showing signs of stabilization. Financial markets have strengthened and equity markets and housing sales have risen. It will be some time, however, before unemployment rates decline and gross domestic product (GDP) returns to previous levels. Ontario's economic core is sound: strong publicly funded health care and education systems, a highly skilled workforce and growing industries in key sectors. These factors will provide the foundation for a return to growth. Data tables on the Ontario economy are available at [www.fin.gov.on.ca/en/budget/fallstatement/2009/ecotables.html](http://www.fin.gov.on.ca/en/budget/fallstatement/2009/ecotables.html)

In recent months, the impact of the global crisis has had a substantial impact on Ontario's revenues. As outlined in the *Public Accounts of Ontario 2008–2009*, Corporate Tax revenues fell by 48.1 per cent — an unprecedented amount. Government revenue tends to trail economic performance. Whether economic performance is up or down, it takes some time for that change to be reflected in revenues. The Province's fiscal situation has been substantially altered since the 2009 Budget. As in other jurisdictions, the government now projects a higher deficit: \$24.7 billion for 2009–10.

Ontario, along with many other jurisdictions around the world, is running a deficit in order to sustain its core priorities: job creation, health care, education and the establishment of a stronger economy after the recession. At the same time, the government is committed to eliminating this deficit while focusing on its priorities. Chapter III: *Fiscal Outlook* provides an update on the Province's finances.

As a result of falling revenues, combined with increased investments in infrastructure, in the auto sector and in other long-term initiatives to help return Ontario to economic growth, public borrowing has increased. Chapter IV: *Borrowing and Debt Management* details the Province's borrowing and debt activities.

Chapter V: *Creating a More Competitive and Modern Tax System* provides further details about the McGuinty government's proposed comprehensive tax package, originally announced in the 2009 Budget.

The McGuinty government is positioning the province for long-term growth. Chapter VI: *How to Participate in the 2010 Pre-Budget Consultations* invites individuals, organizations and other partners to present their views on how to manage Ontario's finances and protect public services in uncertain economic times.



# CHAPTER I

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## Confronting the Challenge



# CONFRONTING THE CHALLENGE

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## INTRODUCTION

The McGuinty government is helping Ontarians through the global recession by keeping them working. Skills and training programs have been created for workers who are transitioning to new careers. Assistance for the most vulnerable Ontarians has also been readily available. Finally, the McGuinty government has invested in long-term economic growth. Some major initiatives include:

- Infrastructure investments of \$32.5 billion over two years to stimulate economic growth and help preserve and create jobs across the province.
- Retaining jobs in the auto sector and maintaining the sector's major contribution to the economy and to communities throughout Ontario.
- Skills and training initiatives that are helping unemployed workers retrain for new careers and creating summer jobs for young people.
- Helping those most vulnerable to a downturn by accelerating the Ontario Child Benefit phase-in and increasing social assistance rates.
- Investing through the *Green Energy and Green Economy Act* to help create green economic opportunities for Ontario businesses.
- Enhancing tax credits available to the entertainment and creative industries to attract investment and create jobs.

To build and strengthen Ontario's economy for the future, the McGuinty government is proposing to modernize Ontario's tax system by cutting income taxes for people and business, and by replacing the retail sales tax with a more modern, value-added tax combined with the federal Goods and Services Tax (GST).

## INFRASTRUCTURE INVESTMENTS

For six years, the McGuinty government has been investing in Ontario’s schools, hospitals, roads and public transit. In the 2009 Budget, the government allocated \$32.5 billion for infrastructure investments over two years to stimulate economic growth, create short- and long-term jobs, and help Ontario families both now and in the future.

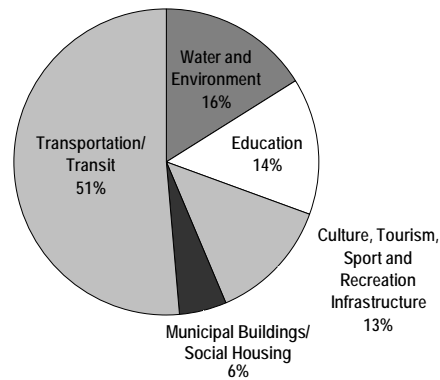
These investments build on the government’s \$30 billion ReNew Ontario infrastructure investment plan, which was completed in 2008–09, a full year ahead of schedule. The ReNew Ontario investments supported more than 85,000 jobs in 2007–08 and preserved and created more than 100,000 jobs in 2008–09. The government’s infrastructure investments are renewing and modernizing aging infrastructure and helping to address the infrastructure deficit that had built up over the three decades prior to 2003.

Ontario has moved quickly to allocate the stimulus funding announced in the 2009 Budget. The government received a tremendous response to its infrastructure programs. Project applications were carefully reviewed by both the federal and provincial governments and assessed against funding criteria, including construction readiness.

In the seven months since the 2009 Budget, the government has approved over 2,600 new federal-provincial infrastructure projects. Approximately 30 per cent of projects reporting are already under construction. Virtually all contribution agreements are either signed or in the hands of recipients for signature.

Investments are taking place in key sectors with highways, roads and transit projects accounting for just over half of the total. These projects will help to improve public transit, reduce commute times and lower business transportation costs.

**New Infrastructure Investments by Sector\*** Chart 1



\* Includes Building Canada Fund — Communities Component, Infrastructure Stimulus Fund plus the Toronto Streetcar Procurement, Building Canada Fund — Major Infrastructure Component, Recreational Programs, Post-Secondary Education Stimulus and Social and Affordable Housing Programs.  
Source: Ontario Ministry of Energy and Infrastructure.

These investments are keeping Ontarians working in communities across Ontario. Projects are now under construction that will enhance Ontario's long-term competitiveness by raising productivity, while improving the quality of life of Ontarians.

In the 2009 Budget, the McGuinty government also committed to modernizing facilities and boosting the province's long-term research and skills training capacity by providing \$780 million in capital funding for Ontario's colleges and universities. Every public college and university in the province has received funding and many projects are already under construction.

As a result of the government's commitment, Ontario colleges and universities plan to create over 36,000 new spaces by 2011, including 2,300 new apprenticeship spaces. New classroom spaces will help to keep up with the growing demand for postsecondary education in Ontario while preparing the highly educated and skilled workforce the province needs to compete in the new economy.

Additional infrastructure investments are being made in all key sectors — including water and environmental projects, health, education, culture, tourism, sports and recreation, and social and affordable housing. These investments are laying the foundation for economic growth.

<b>Selected Infrastructure Projects Currently Under Construction</b>	<b>Table 1</b>
<b>Central</b>	
University of Toronto at Mississauga Laboratory Centre	
Weston Road Resurfacing in York Region	
Winston Churchill Blvd - Road Rehabilitation in Mississauga	
Revitalization of Hanes Road in Huntsville	
<b>East</b>	
Southwest Transitway Extension in Ottawa	
La Cité Collégiale Emergency Services Training Centre 911 Institute in Ottawa	
Water Master Plan Implementation — Front Road in Kingston	
Rehabilitation of Thomas Street in Greater Napanee	
<b>North</b>	
Highway 17 Gateway Rehabilitation Project in Kenora	
Reconstructing and Upgrading Third Line in Sault Ste. Marie	
Replacement of Barbers Bay Bridge in Timmins	
Refurbishment of Public Works Garage/Fire Hall in Rainy River	
<b>West</b>	
Preston Auditorium Rehabilitation in Cambridge	
Victoria Street Sewer Separation in Amherstburg	
Calton Line Rehabilitation in Elgin County	
Niagara College Applied Health Institute in Welland	

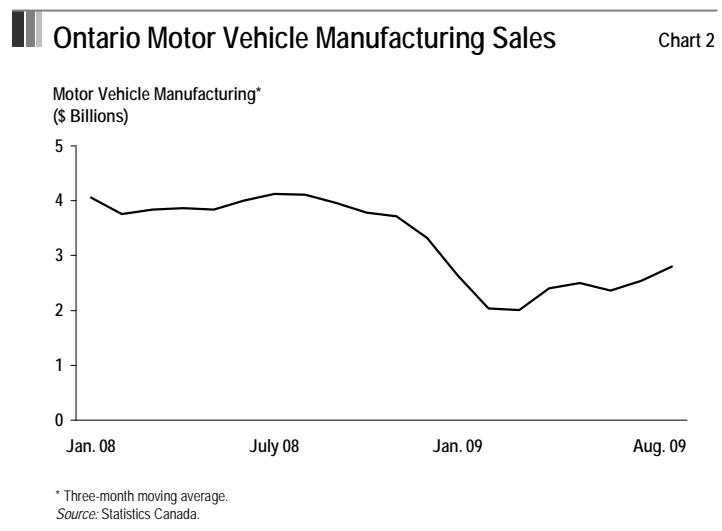
## Supporting the Auto Sector

The Ontario government has invested in the auto industry to help achieve long-term viability and competitiveness, while also supporting workers and communities. For example:

- Brampton – the Chrysler plant was saved and continues to operate, producing the Charger;
- Ingersoll – the CAMI joint venture between GM and Suzuki produces the Chevrolet Equinox;
- Windsor – in July, Chrysler Canada announced it would maintain 1,200 jobs at its Windsor minivan plant;
- Oshawa – new products are being manufactured.

The investments will be used for manufacturing, research and development, and capital expenditure, and will help drive auto-sector manufacturing in the province. By partnering with the Canadian and U.S. governments, Ontario is the only subnational jurisdiction in North America to make these investments, which are critical to the economic health of communities where the auto sector is the major employer. With key automakers and more than 400 parts manufacturers in Ontario, this crucial sector directly accounted for 3.7 per cent of Ontario's gross domestic product (GDP) in 2008 and directly and indirectly supports hundreds of thousands of workers, or about one in twenty working Ontarians. Auto exports to the United States are one of Ontario's key trade drivers.

An innovative and competitive auto industry in Ontario will lead to the creation and retention of high-value jobs in a new global marketplace for green auto-parts manufacturing. The latest data indicate that Ontario's motor vehicle manufacturing sales were \$3.0 billion in August, double the \$1.5 billion in sales in January. Auto assembly and auto-parts output were up strongly over the summer months, reflecting the ramping up of auto production following earlier widespread shutdowns. Ontario continues to build more cars than any other state or province in North America.



“The emergence from bankruptcy of Chrysler and GM early this summer with most of their productive capacity in the province still left standing — thanks in no small part to unprecedented government rescue efforts and workers’ concessions — and the recent revival of motor vehicle sales in North America have essentially put worst-case scenarios for Ontario to rest.”

*RBC Economics, September 2009*

“Demand will rebound for the auto industry, and Canada will be a big winner so long as the parties can work together to keep jobs here through the downturn.”

*Dennis DesRosiers, The Globe and Mail, March 11, 2009*

## Training and Skills Investment

Ontario’s highly educated and skilled workforce is a significant economic and competitive advantage. The Province is building on this advantage through investments in the skills of Ontarians. It has laid a solid foundation for future prosperity through: the \$6.2 billion Reaching Higher Plan for postsecondary education, over \$1 billion in annual Employment Ontario training investments, and additional investments under the Skills to Jobs Action Plan announced in the 2008 Budget.

In the 2009 Budget, the government announced further investments worth more than \$750 million over two years for new skills and enhanced training and literacy initiatives, supported by enhancements to Canada–Ontario labour market agreements. These investments are already having the desired impact, including more than 104,000 employment opportunities for students this past summer.

As part of Employment Ontario, the Second Career program, along with the Rapid Re-employment and Training Service (RRTS), were designed to provide \$355 million over three years to help 20,000 laid-off workers access the extensive training they need to succeed in new jobs. The Second Career program has already exceeded its three-year target in just 16 months, helping nearly 21,000 people receive training.

Ontario offers a number of other training and employment services to help unemployed workers meet the economic challenges facing them. For example, since April 2008, over 27,000 Ontarians have participated in the Ontario Skills Development program that provides short-term training and return-to-employment assistance for unemployed workers. The RRTS Service has provided timely counselling assistance to over 110,000 workers affected by layoffs and plant closures since the program began in 2007.

**Over One Million Ontarians Use Skills Training Annually** **Table 2**

Selected Programs	Clients Served	Time Period <sup>1</sup>
Second Career Program	20,939	Since June 2008
Summer Jobs and Services	104,140	April 1 to August 31, 2009
Rapid Re-employment and Training Services	110,000	Since January 2007
Ontario Skills Development Program	27,291	Since April 2008
Literacy and Basic Skills	83,984	Since April 2008
Apprenticeship Registration	40,900	Since April 2008
Employment Assistance Services <sup>2</sup>	299,305	Since April 2008
Job Creation Partnership <sup>2</sup>	1,712	Since April 2008
Job Connect <sup>2</sup>	426,714	Since April 2008
Self-Employment Benefit	5,178	Since April 2008
Targeted Wage Subsidy <sup>2</sup>	4,091	Since April 2008

<sup>1</sup> Based on the most recent data available.

<sup>2</sup> Employment Assistance Services and Job Connect help clients prepare for, find, get and keep jobs. Ontario Job Creation Partnership provides work experience through local employers and community groups. Ontario Targeted Wage Subsidies are used to encourage employers to permanently hire eligible unemployed workers.

*Source:* Ontario Ministry of Training, Colleges and Universities.

The 2009 Budget also announced support for the postsecondary education sector, including capital funding. In May 2009, the Governments of Ontario and Canada announced approximately \$1.5 billion in joint funding for 49 capital projects at colleges and universities. The Province also announced an additional \$115 million for facilities renewal and eight strategic projects at institutions (see Table 3).

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**Postsecondary Education Stimulus Investments** **Table 3**

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**College Projects**

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Algonquin College — Environmental Demonstration Centre for Construction Trades and Building Bridges

Algonquin College — Perth Campus Renewal

Cambrian College — Sustainable Energy Building and Renovations

Canadore College — Parry Sound Campus

Centennial College — Library and Academic Facility

Collège Boréal — Sudbury Campus Expansion (Phase 1)

Conestoga College — School of Health and Life Sciences

Conestoga College (Cambridge–Waterloo–Guelph) — School of Engineering and Information Technology

Confederation College — Regional Education Alliance for Community Health (REACH)

Durham College — Oshawa Campus Renovation and Expansion

Durham College — Whitby Expansion Project

Fanshawe College — Centre for Applied Transportation Technologies

George Brown College — The Centre for Health Sciences on Toronto Waterfront

Georgian College — Centre for Health and Wellness (Phase 1)

Humber College — Lakeshore Revitalization

La Cité Collégiale — Emergency Services Training Centre 911 Institute

Lambton College — Fire and 911 Training Centre

Loyalist College — Sustainable Skills, Technology and Life Sciences Centre

Mohawk College — Fennell Campus Project

Niagara College — Applied Health Institute

Northern College — Centre of Excellence for Trades and Technology

Sault College — Campus Redevelopment (Phase 1)

Seneca College — Newnham Campus Expansion (North York)

Sheridan College — New Mississauga Campus

Sir Sandford Fleming College — Campus Modernization

St. Clair College — Centre for Applied Health

St. Clair College — Chatham Revitalization (Chatham Campus Technology and Trades Addition)

St. Lawrence College — Campus Consolidation and Revitalization (Cornwall)

St. Lawrence College — Campus Revitalization (Brockville)

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**University Projects**


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Algoma University — Biosciences and Technology Convergence Centre  
 Brock University — Niagara Health & Bioscience Research Complex  
 Carleton University — Interdisciplinary Academic Building (River Site)  
 Centre for International Governance Innovation with University of Waterloo — Balsillie Centre of Excellence  
 Lakehead University — Campus Modernization  
 Laurentian University — Vale Inco Living with Lakes Centre  
 Le Collège Universitaire de Hearst — Archival Centre  
 McMaster University — Centre for Spinal Cord Injury and Cancer Education and Rehabilitation  
 McMaster University — Nuclear Research Project  
 Nipissing University — Campus Modernization  
 Ontario College of Art and Design — Building Acquisition  
 Queen's University — New School of Medicine Building  
 Ryerson University — Image Arts & New Media Teaching and Research Building Renewal  
 Trent University — Health Sciences Centre Symons Campus  
 University of Guelph — Development of an Environmental Cluster  
 University of Ontario Institute of Technology — Automotive Centre of Excellence  
 University of Ontario Institute of Technology — Energy Systems and Nuclear Science Research Centre  
 University of Ottawa — Vanier Hall Renovation and Tower Addition, Faculty of Social Sciences  
 University of Toronto — Innovation Centre for the Canadian Mining Industry (St. George Campus)  
 University of Toronto Mississauga — Mississauga Laboratory Centre  
 University of Toronto Scarborough — Instructional Lab Project  
 University of Waterloo — Engineering and Math Project  
 University of Waterloo — Faculty of Environment Project  
 University of Western Ontario — Ivey School of Business  
 University of Windsor — Centre for Engineering Innovation  
 Wilfrid Laurier University — Research and Academic Centre, Brantford (Phase A)  
 York University — Life Sciences Centre  
 York University — Osgoode Renovation and Expansion

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These investments are providing an immediate economic stimulus for Ontario's economy and will create jobs in construction, and for engineers, architects, other tradespeople and technicians. They will also help improve teaching facilities and build the infrastructure needed to keep Ontario's colleges and universities at the forefront of scientific advancement.

Postsecondary Education Stimulus Investments (\$ Millions)					Table 4
Institutions/Programs	No. of Major Projects	Provincial Contribution	Federal Contribution	Institution/Other Contribution	Total Cost
<b>Joint Federal–Provincial Knowledge Infrastructure Program Investments<sup>1</sup></b>					
Colleges	25	402.9	291.8	98.6	793.3
Universities	24	578.0	487.2	257.5	1,322.7
Federal–Provincial Investment Subtotal	49	980.9	779.0	356.1	2,116.0
<b>Other Provincial Postsecondary Education Stimulus Investments</b>					
Strategic Capital Infrastructure Program	7	55.0	–	–	–
Facilities Renewal Program <sup>2</sup>		40.0	–	–	–
Mohawk College Investment	1	20.0	–	–	–
Other Provincial Investment Subtotal	8	115.0	–	–	–
<b>Postsecondary Stimulus Investments Total</b>	<b>57</b>	<b>1,095.9</b>	<b>779.0</b>	<b>356.1</b>	<b>2,116.0</b>

<sup>1</sup> Includes previous provincial investments of \$299 million towards projects under the Knowledge Infrastructure Program. Federal Contribution does not include program administration fee of \$962,000.

<sup>2</sup> The Facilities Renewal Program will support a number of small scale renewal projects at all Ontario institutions.

## Reducing Poverty

The Ontario government is committed to reducing poverty and increasing Ontario's economic potential. In 2008, the McGuinty government announced a comprehensive and long-term Poverty Reduction Strategy, to provide children and their families with the support they need and bring about opportunities for success in life. The Strategy set out a goal of reducing the number of children living in poverty by 25 per cent over five years. This would lift about 90,000 children out of poverty. This year, the government passed the *Poverty Reduction Act, 2009*, which will help ensure future governments keep poverty reduction as a priority.

Through a variety of programs designed to reduce poverty, the government is already making a real difference in the lives of people living in poverty. These efforts will lessen the suffering of families hurt by the global economic recession.

## Supporting Incomes

In July 2009, the Ontario Child Benefit (OCB) was phased in two years ahead of schedule to reach a maximum of \$1,100 annually per child, as announced in the 2009 Budget. This measure provides a significant increase in the cash benefits that low- and moderate-income families receive and supports families adversely affected by the current economic downturn. The OCB acceleration will provide over \$400 million more in children's benefits between 2009–10 and 2011–12. Over one million children benefit annually from the OCB.

**Acceleration of the Ontario Child Benefit  
(Maximum Annual \$ Per Child Per Benefit Year<sup>1</sup>)** Table 5

	2008–09	2009–10	2010–11	2011–12
Previously Scheduled OCB Levels	600	805	900	1,100
Accelerated OCB Levels	600	1,100	1,100	1,100
Increase due to OCB Acceleration	–	295	200	–

<sup>1</sup> The OCB benefit year is from July 1 to June 30.

Source: Ontario Ministry of Finance

On November 30 and December 1, 2009, adult basic needs allowances and maximum shelter allowances for recipients of the Ontario Disability Support Program and Ontario Works, respectively, will increase by two per cent. Other social assistance benefits, including Temporary Care Assistance and Assistance for Children with Severe Disabilities, will increase by the same amount. The Ministry of Health and Long-Term Care comfort allowance will also increase by two per cent.

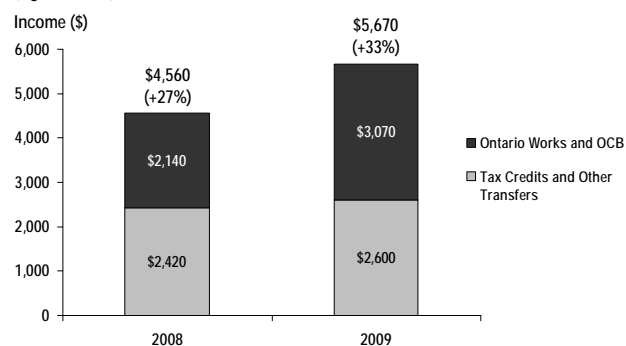
After the rate increase and OCB acceleration, a single parent on Ontario Works with two children aged five and seven will have an annualized income of \$22,730 — \$1,110 higher than in 2008. This is an increase of \$5,670, or 33 per cent, from the family's 2003 annualized income of \$17,060 (see Chart 3).

The McGuinty government increased social assistance rates by three per cent in the 2004 Budget and by two

per cent in each of the 2006, 2007 and 2008 Budgets. With the 2009 rate increase, social assistance benefits, with compounding, will be 11.5 per cent higher than when the government took office.

With the proposed personal income tax cuts in the 2009 Budget, approximately 90,000 lower-income taxpayers would no longer pay Ontario personal income tax.

**Supporting Families Through the OCB and Social Assistance** Chart 3  
Change in Annualized Income Since 2003 for a Single Parent with Two Children (Ages 5 and 7) on Ontario Works



Notes: 1) Tax credits and other transfers include the Canada Child Tax Benefit base benefit, National Child Benefit Supplement, Universal Child Care Benefit, Goods and Services Tax Credit, and Ontario Property and Sales Tax Credits. 2) Incomes are stylized and annualized as of the end of the calendar year shown. 3) The family's annualized income would increase from \$17,060 in 2003 to \$22,730 in 2009. 4) Inflation between October 2003 and December 2009 is projected to be 11 per cent.  
Source: Ontario Ministry of Finance.

## Providing Shelter

The 2009 Budget announced that, together with the federal government, the Province would invest \$1.2 billion over two years in housing initiatives that support the government's Poverty Reduction Strategy. These investments include more than \$700 million to repair social housing units through the Social Housing Renovation and Retrofit Program. In addition, more than \$360 million will be provided to create affordable housing units for low-income seniors and persons with disabilities, and \$175 million directed to create new homes for low-income families, senior citizens, persons living with mental illness and victims of domestic violence.

The 2009 Budget also provided more than \$5 million annually to stabilize funding for Rent Banks. Since 2004, the government has provided nearly \$24 million to municipalities for rent banks and has assisted over 15,500 low-income households.

## Support for Seniors

As announced in the 2008 Budget, the Ontario Senior Homeowners' Property Tax Grant is providing grants of up to \$250 to help low- to middle-income senior homeowners pay their 2009 property taxes. Starting in 2010, the maximum grant amount will double to \$500. Over the next five years, the grant will provide about \$1 billion in property tax relief to over 600,000 seniors.

Since 2003, the government has made several improvements to the Ontario Property and Sales Tax Credits to ensure they better reflect circumstances facing low-income seniors. The 2009 Budget proposed to further increase the threshold at which senior couples' benefits begin to be reduced, to ensure that senior couples receiving the guaranteed minimum level of income from governments receive the full benefit from these credits. Starting in 2010, the Ontario Property and Sales Tax Credits would be replaced with separate and enhanced tax credits.

The 2009 Budget announced the government's intention to provide retirees with greater access to locked-in funds by increasing from 25 per cent to 50 per cent, unlocking of new Life Income Funds (LIFs), effective January 1, 2010. In addition, seniors who purchased a new LIF after January 1, 2008, will have an opportunity to unlock an additional 25 per cent of amounts previously transferred into their existing fund. Remaining old LIFs and Locked-in Retirement Income Funds (LRIFs) will be harmonized with the updated new LIF rules. The *Pension Benefits Act* (PBA) regulation has now been amended to implement these changes.

## Green Economy

The Ontario government is also addressing important environmental issues such as climate change while encouraging the creation of green jobs. The *Green Energy and Green Economy Act*, combined with more than \$300 million in new initiatives announced in the 2009 Budget, are helping Ontario make progress on climate change. These measures establish the foundation for a green economy to position Ontario as a world leader of green energy.

The *Green Energy and Green Economy Act* is helping to ensure Ontario's green economic future by attracting new investment in the renewable energy sector.

Since the *Green Energy and Green Economy Act* was passed this spring, Ontario has asked Hydro One to immediately proceed with planning and implementing major transmission projects across Ontario. About \$2.3 billion will be spent by Hydro One on transmission and distribution projects over the next three years.

The launch of the Feed-in Tariff program on October 1, 2009 will attract further investments in renewable energy projects across Ontario.

Ontario has also demonstrated significant progress on Canada's largest climate change initiative as Ontario Power Generation prepares to close four coal-fuelled power units. This will help move the province to electricity generated from greener sources, which will increase investment and opportunities in Ontario's green economy.

The Province has continued to build on this foundation with the introduction of legislation that, if passed, would give the government authority to set up a greenhouse-gas emission trading system in Ontario. The proposed act would enable Ontario to link to other North American and international cap-and-trade systems. Linked systems provide maximum trading opportunities and reduce costs for companies participating in a cap-and-trade system.

## Supporting the Knowledge-Based Economy

Ontario has the third-largest entertainment and creative sector in North America, after California and New York, and is a solid international competitor in the rapidly growing interactive digital media sector.

The government's ongoing support is helping to strengthen the competitiveness of Ontario's entertainment and creative industries, an important component of the new knowledge-based economy.

## Interactive Digital Media Sector

The Ontario Interactive Digital Media Tax Credit is a refundable tax credit available to qualifying corporations for expenditures related to the creation, marketing and distribution of eligible interactive digital media products.

The 2009 Budget proposed to significantly enhance the tax credit rates and extend the tax credit to more digital media game developers.

To strengthen Ontario's competitiveness for investment in this sector, the government is proposing to streamline support for large, specialized game developers. (See Chapter V: *Creating a More Competitive and Modern Tax System*.)

## Enhancing the Ontario Production Services Tax Credit

The Ontario Production Services Tax Credit (OPSTC) is a 25 per cent refundable tax credit for qualifying labour expenditures available to corporations for qualifying foreign film and television production services and non-certified domestic film and television productions in Ontario.

As announced on June 29, 2009, effective for qualifying expenditures incurred after June 30, 2009, the OPSTC would be expanded to additional production expenditures incurred in Ontario,

including eligible service contracts as well as the purchase or rental of qualifying tangible properties, such as equipment and studio rentals.

"It [expanding the OPSTC] will ensure Ontario continues to attract productions that generate billions of dollars in economic activity, protecting our infrastructure and creating jobs throughout the industry."

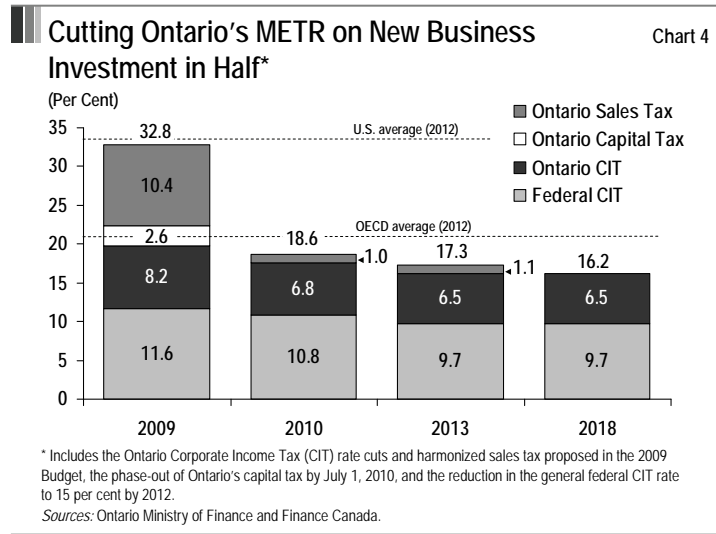
*Brian Topp, Co-Chair, FilmOntario, June 29, 2009*

## Tax Cuts and the Harmonized Sales Tax Will Lead to Economic Growth

"An immediate priority for Ontario is to move toward harmonizing our provincial sales tax with the federal GST, converting it to a value added tax. Research by us and others shows that this is the most effective tax change to stimulate investment and job creation."

*Roger Martin, Dean of the Rotman School of Management, University of Toronto, and Chair, Task Force on Competitiveness, Productivity and Economic Progress, Sixth Annual Report, November 2007*

Sales tax harmonization is the single-most important thing Ontario can do to increase long-term economic growth. The proposed move to a value-added sales tax, together with other tax changes would increase Ontario's competitiveness dramatically by cutting the marginal effective tax rate (METR)<sup>1</sup> on new business investment in half. A lower METR is important for attracting new investment. Ontario's METR is currently well above the average for the industrialized countries that are members of the Organisation for Economic Co-operation and Development (OECD). The measures proposed in the 2009 Budget would bring Ontario's METR below that average in 2010, as seen in Chart 4.



Studies show that the proposed comprehensive tax package would provide Ontario's economy with the boost in competitiveness required to meet the growing challenges of an integrated global economy. The recent and proposed tax cuts complement the government's investments in infrastructure, research, training and education, and help ensure continued growth in Ontarians' standard of living.

## Making Progress by Working with the Federal Government

Ontarians expect governments at all levels to work together. That is why Ontario, along with the federal government, is providing significant and timely stimulus to the economy through investments in infrastructure and financial support for Ontario's auto sector.

The Ontario and federal governments are also working together to promote long-term economic development and growth. Supported by federal funding, Ontario has made significant investments in the skills of Ontarians.

In addition, the proposed sales tax harmonization is only possible through working in partnership with the federal government. This measure, along with the comprehensive tax package proposed in the 2009 Budget, would make Ontario one of the most attractive jurisdictions in the industrialized world for new investments.

<sup>1</sup> The METR is a comprehensive measure of the tax that applies to an incremental dollar of income from new capital investment. It reflects the combined effect of federal and provincial corporate income taxes, rules related to depreciation, investment tax credits, capital and sales taxes.

Ontario values this partnership with the federal government and appreciates the significant investments that have been made. While much has been accomplished, the federal government needs to do more to support Ontarians in addressing current challenges.

The federal government announced changes to Employment Insurance (EI) that will better support laid-off workers in Ontario. However, eligibility rules for EI income support continue to be particularly unfavourable to most of Ontario's workforce. The Province believes that laid-off workers should be treated equitably regardless of where they live.

The federal government can also do more to ensure long-term support for Ontario's most vulnerable citizens by reconsidering its decision to terminate the Early Learning and Child Care agreement and by increasing support for low-income individuals and families through further enhancements to the Working Income Tax Benefit and the National Child Benefit Supplement.

Further, investing in people through expanded training and postsecondary education opportunities requires deeper investment by the federal government.

Finally, the Ontario government considers a healthy pension and retirement income system to be an integral part of Canada's income security system and believes that the security of retirement income will become a defining public issue in the years to come. Given the importance of pensions to Ontarians, the Ontario government is calling on the federal government to host a National Summit on pensions and retirement income as endorsed by the Council of the Federation in August.





# CHAPTER II

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## Ontario's Economic Performance and Outlook



# ONTARIO'S ECONOMIC PERFORMANCE AND OUTLOOK

This section outlines Ontario's current macroeconomic outlook, which underlies the fiscal plan.

## THE GLOBAL RECESSION AND THE ONTARIO ECONOMY

Like other jurisdictions around the world, the Ontario economy has been hard hit by the global recession and financial crisis. As of the second quarter of 2009, Ontario real gross domestic product (GDP) was 5.0 per cent below the pre-recession peak. Employment has declined by 205,200 jobs, or 3.0 per cent, from a year ago. Since 2003, Ontario has created 291,900 net new jobs.

Although there are signs that the economy has stabilized, the pace of growth is expected to be gradual. Gross domestic product is not expected to return to its pre-recession level until the second quarter of 2011. Because employment tends to lag GDP growth during a recovery — businesses increase the number of hours worked for existing employees before hiring new workers — employment is not projected to reach its pre-recession level until late 2011.

	2005	2006	2007	2008	2009p	2010p	2011p	2012p
Real GDP Growth	2.9	2.4	2.1	(0.5)	(3.5)	2.0	3.0	3.3
Nominal GDP Growth	4.1	4.1	4.5	0.5	(3.8)	3.6	4.7	5.1
Employment Growth	1.3	1.5	1.6	1.4	(2.6)	0.6	2.3	2.5
CPI Inflation	2.2	1.8	1.8	2.3	0.4	1.9	2.5	2.0

p = Ministry of Finance planning projection.

Sources: Statistics Canada and Ontario Ministry of Finance.

For planning purposes, the Ministry of Finance is assuming a decline of 3.5 per cent in Ontario real GDP in 2009, followed by gains of 2.0 per cent in 2010 and 3.0 per cent in 2011. The Ministry of Finance's key economic planning assumptions, finalized on October 15, 2009, are more conservative than the average private-sector forecasts available at that time.

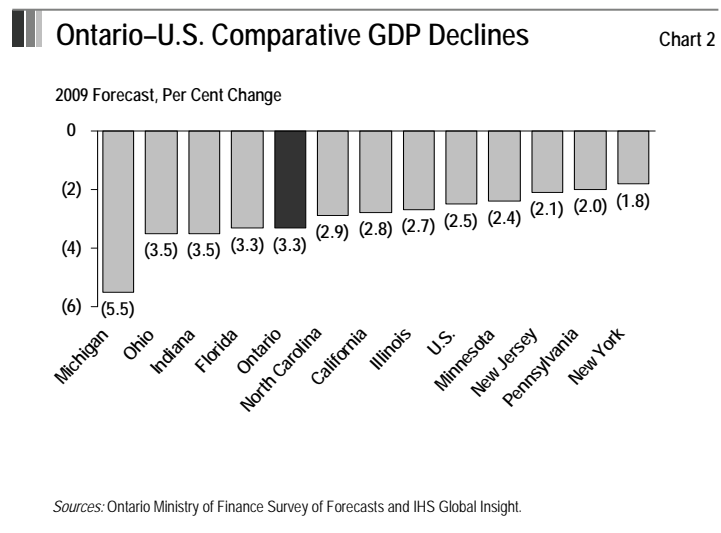
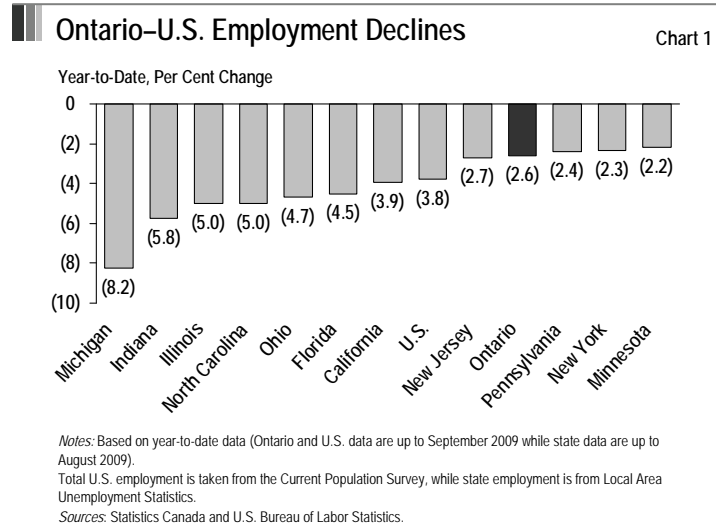
## Impact of the Global Financial and Economic Crisis

Over the past year, the global recession has had a severe impact on jurisdictions around the world — and Ontario is no exception. The decline in global trade and a sharp drop in consumer and business spending stemmed from the collapse in confidence following the financial crisis that hit last fall. Lower international demand led to a sharp drop in Ontario's exports, which in turn forced businesses to cut production and employment.

The decline in economic activity led to a drop in corporate profits of 49.7 per cent, lower business investment, rising unemployment and lower incomes.

Ontario's real GDP declined by 1.0 per cent in the second quarter of 2009, following sharper declines in the previous two quarters (-2.1 per cent in the first quarter of 2009 and -1.5 per cent in the fourth quarter of 2008). Since the fourth quarter of 2007, Ontario real GDP has declined by 5.0 per cent. Private-sector forecasters estimate Ontario's decline in real GDP in 2009 to be similar to that of the neighbouring Great Lakes States — Ontario's

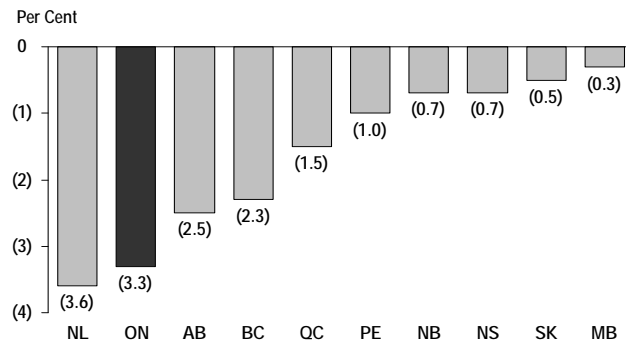
major competitors — though larger than that of the United States as a whole. Ontario has seen less severe declines in employment so far this year (-2.6 per cent) than neighbouring Great Lakes States and the United States as a whole (-3.8 per cent). Entering the downturn, Ontario's housing market was far healthier than that of the United States. Canada's sound financial institutions and various actions taken by the McGuinty government have also mitigated the impact of the global recession on the Ontario economy. See Chapter I: *Confronting the Challenge* for more information on actions the government is taking.



However, the global economic downturn hit Ontario's economy relatively hard compared to other provinces. Manufacturing, especially the auto sector, is a large and important part of Ontario's economy and it has been particularly affected by the recession. Declining U.S. demand caused Ontario auto manufacturing sales to fall by 37 per cent over the first eight months of 2009, compared to the same period in 2008. Ontario's decline in real GDP in 2009 is expected to be significantly larger than Canada's as a whole, and that of all the other provinces except Newfoundland and Labrador.

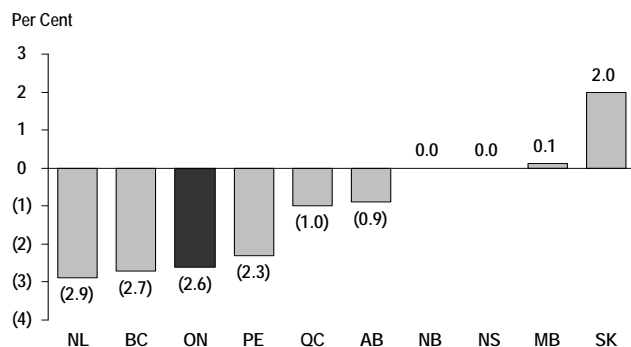
Because of the size of the auto sector, Ontario has also had larger job losses than Canada as a whole and all the other provinces except Newfoundland and Labrador and British Columbia. Ontario automotive employment has fallen by 25.5 per cent over the first nine months in 2009 compared to the same period in 2008.

**Provincial Real GDP Declines, 2009** Chart 3



Source: Ontario Ministry of Finance Survey of Forecasts.

**Provincial Employment Change, 2009** Chart 4



Note: Based on year-to-date data (September 2009).  
Source: Statistics Canada.

## Uncertain and Challenging Global Economic Environment

Ontario's economic outlook is very dependent on economic and financial conditions outside its own border, particularly U.S. economic growth, oil prices, the Canadian dollar exchange rate and interest rates. Private-sector forecasts for these variables are summarized in the table below.

**External Variables** Table 2  
**Private-Sector Forecast**

	2010			2011			2012		
	Low	Avg.	High	Low	Avg.	High	Low	Avg.	High
U.S. Real GDP Growth (Per Cent)	1.1	2.5	3.7	1.3	3.1	4.4	1.9	3.3	5.3
Crude Oil (\$US per Barrel)	66.5	74.2	90.0	68.9	77.5	86.0	74.2	83.8	95.6
Canadian Dollar (Cents US)	88.4	93.7	99.3	90.8	94.5	102.0	92.3	96.6	105.0
Three-Month Treasury Bill Rate (Per Cent)	0.3	0.7	1.4	1.4	2.4	3.6	2.9	3.7	4.6
10-Year Government Bond Rate (Per Cent)	3.5	3.8	4.3	4.0	4.3	4.5	4.3	4.8	5.2

*Sources: Blue Chip Economic Indicators (October 2009) and Ontario Ministry of Finance Survey of Forecasts (October 15, 2009).*

The global economy remains vulnerable to a number of risks that could adversely affect future growth.

For instance, any further rounds of financial market turbulence could once again limit access to financing and reduce confidence and wealth, which could hinder any economic growth.

The U.S. economy, critically important for Ontario's export-oriented businesses, is beginning to emerge from one of the deepest recessions on record. However, job losses continue, consumer spending remains weak and business investment continues to soften.

Projected increases in oil prices, a strengthening Canadian dollar and rising interest rates all represent challenges for the Ontario economy going forward.

The wide range of forecasts in Table 2 above shows how difficult it is to predict economic performance, creating risks to the Ontario economy. Table 3 shows the implications of changes in key external factors, under the assumption that no other variables will change.

**Impacts of Changes in Key Assumptions on Ontario Real GDP Growth<sup>1</sup>**  
(Percentage Point Increase)

**Table 3**

	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 <sup>2</sup>	0.1 to 0.3	0.1 to 0.3
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

<sup>1</sup> Impacts based on changes being sustained. The estimated impacts shown in the table are most applicable to small changes in key assumptions. Very large shocks are likely to have less predictable effects, particularly due to their potential impact on confidence and expectations.

<sup>2</sup> The impact estimates for lower world oil prices reflect the positive effect of lower oil prices on Ontario alone, and exclude the stimulative impact on U.S. and rest-of-world economic activity.

Source: Ontario Ministry of Finance.

## Ontario Economy Beginning to Stabilize

Recent economic data provide early signs that the economy is beginning to stabilize. Financial markets have normalized to a large degree while equity markets and housing sales have moved higher.

These developments have helped improve both consumer and business confidence. The Conference Board of Canada's index of consumer attitudes for Ontario has increased for nine consecutive months and is up almost 43 per cent from a low in December 2008.

Ontario's international merchandise exports increased in June, July and August, reflecting gains in exports of automotive products. Manufacturing sales are up 9.3 per cent from the recent low in May.

After declines over the first five months of 2009, Ontario's labour market has shown signs of stabilizing, with modest job gains in the past four months. Wholesale trade, an important indicator of the overall strength of the economy, has

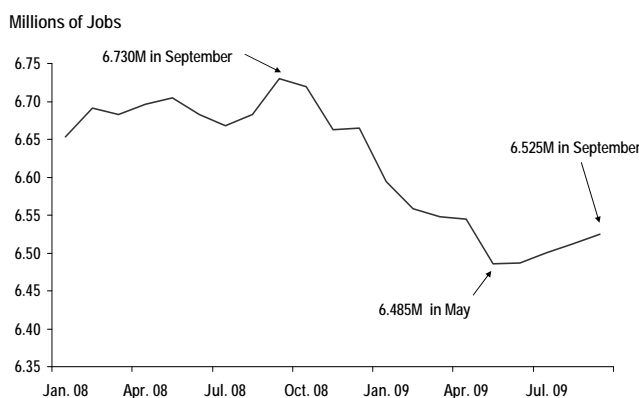
increased over the past six months, up almost nine per cent from the recent low in January.

Housing resales have increased in seven of the past eight months and are up over 60 per cent from the low in January.

Though some economic signs are improving, the damage caused by the global recession has been considerable. Household wealth and consumer confidence are still below pre-recessionary levels while retail sales remain 5.1 per cent lower. Compared to a year ago, manufacturing sales are down 19 per cent, international exports are down over 28 per cent and wholesale trade has fallen

**Ontario Employment**

Chart 5



Source: Statistics Canada.

6.7 per cent. Even with the recent growth, housing resales are down by 1.4 per cent so far this year compared to the same period a year ago and employment is still lower by 205,200 jobs since the peak in September 2008. The measures introduced in Ontario's 2009 Budget *Confronting the Challenge* are helping families weather the global economic storm.

## Outlook for Ontario Economic Growth

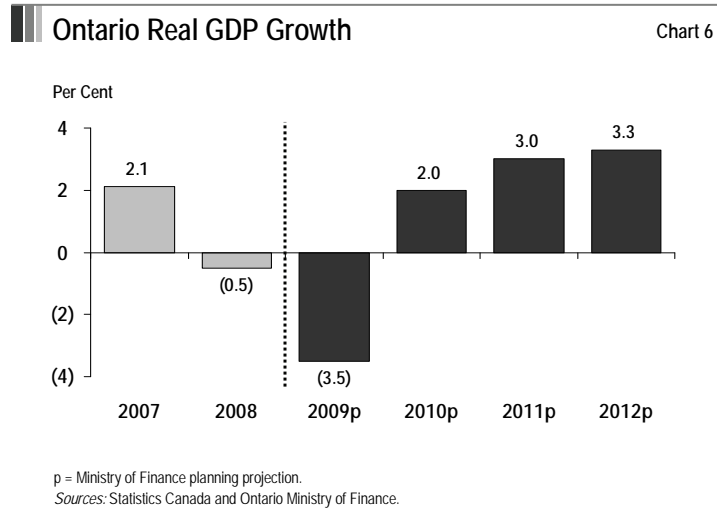
Based on the most up-to-date information, Ontario's economy is expected to grow by a modest 2.0 per cent in 2010 and then by 3.0 per cent in 2011 and 3.3 per cent in 2012. Despite this growth, it will take Ontario considerable time to regain its pre-recession level of activity.

Improving U.S. and global demand is expected to contribute to a turnaround in Ontario's export growth. As well, stronger growth

in other provinces will boost interprovincial exports. The domestic economy is expected to be a source of strength, supported by a healthy housing market, gains in consumer spending and increased business investment. The prospects for strong growth in investment are even better, due to the major increase in tax competitiveness that would result from the 2009 Budget's proposed tax cuts and Harmonized Sales Tax. See Chapter V: *Creating a More Competitive and Modern Tax System* for more information on the benefits of Ontario's comprehensive tax package. It is projected that this will lead to strengthened business investment in both machinery and equipment as well as commercial and industrial construction.

Private-sector forecasters project 360,000 jobs will be created over the 2010 to 2012 period and employment is expected to reach its pre-recession level during the latter half of 2011. According to private-sector forecasters, the unemployment rate is expected to edge up from 9.3 per cent in 2009 to 9.9 per cent in 2010 as the number of job seekers outpaces the number of people getting jobs. Over the medium term, Ontario's unemployment rate is expected to remain elevated, declining to 7.8 per cent in 2012.

Future gains in employment and improving household wealth are projected to support an increase in consumer spending of 1.2 per cent in 2010, 2.7 per cent in 2011 and 3.3 per cent in 2012. The number of home resales is expected to rise by 3.6 per cent in 2010 and by an average of 3.6 per cent annually in 2011 and 2012. The resale market should support moderate price gains of 2.0 per cent in 2010 and average 3.0 per cent a year in 2011 and 2012. Current tight conditions in the resale market



are expected to ease as housing starts expand with growing housing demand, rising from 50,000 units in 2010 to 70,000 units in 2012.

Sales tax harmonization, together with Corporate Income Tax cuts and elimination of the Capital Tax, would significantly increase Ontario's competitiveness. The dramatically lower marginal effective tax rate on new investment would spur capital investment in the province. The substantial increases in capital investment in Ontario would help create new, higher-paying jobs for Ontario workers and help increase long-term economic growth in the province.

## PRIVATE-SECTOR FORECASTS

Table 4 shows current private-sector forecasts for the Ontario economy.

Private-Sector Forecasts for Ontario Real GDP Growth (Per Cent)	Table 4			
	2009	2010	2011	2012
Conference Board of Canada (October)	(3.0)	3.2	4.0	4.5
IHS Global Insight (July)	(2.9)	1.9	3.3	3.5
Centre for Spatial Economics (July)	(3.6)	2.0	3.3	3.7
University of Toronto (October)	(3.9)	2.4	3.8	3.5
RBC Financial Group (September)	(3.1)	2.6	–	–
Scotiabank Group (October)	(3.0)	2.6	–	–
TD Bank Financial Group (October)	(2.7)	2.6	3.1	–
Desjardins Group (September)	(3.8)	2.0	2.5	2.5
BMO Capital Markets (October)	(3.1)	2.7	–	–
CIBC World Markets (October)	(3.5)	2.1	3.5	–
<b>Private-Sector Survey Average</b>	<b>(3.3)</b>	<b>2.4</b>	<b>3.4</b>	<b>3.5</b>
<b>Ontario's Planning Assumption</b>	<b>(3.5)</b>	<b>2.0</b>	<b>3.0</b>	<b>3.3</b>

*Sources:* Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (October 15, 2009).

The Ministry of Finance consults extensively with private-sector forecasters to ensure its economic projections are reasonable and its economic and fiscal policy is appropriate. The Ontario government's projections are based on an average of private-sector forecasts. In order to plan prudently, the government is more conservative in its projections.

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, Ernie Stokes from the Centre for Spatial Economics and Dale Orr from Dale Orr Economic Insight. The Minister of Finance met with Council members and other private-sector forecasters in the process of preparing the *2009 Ontario Economic Outlook and Fiscal Review* to hear their views on the economic outlook and how the government should respond to the increase in the deficit, given the current challenging economic climate.

## DETAILS OF THE ONTARIO ECONOMIC OUTLOOK

The following table shows details of the Ministry of Finance's economic outlook for 2009 to 2012.

The Ontario Economy, 2007 to 2012 (Per Cent Change)		Table 5				
	Actual		Projected			
	2007	2008	2009	2010	2011	2012
Real Gross Domestic Product	2.1	(0.5)	(3.5)	2.0	3.0	3.3
Personal Consumption	3.9	2.7	(0.2)	1.2	2.7	3.3
Residential Construction	1.9	(2.2)	(9.5)	1.3	4.3	3.5
Non-residential Construction	18.1	(9.7)	(21.6)	1.0	1.9	4.1
Machinery and Equipment	5.0	0.6	(18.4)	1.5	5.0	6.2
Exports	0.5	(5.5)	(15.9)	2.0	5.2	5.3
Imports	3.3	(2.2)	(16.1)	3.0	5.0	5.0
Nominal Gross Domestic Product	4.5	0.5	(3.8)	3.6	4.7	5.1
Other Economic Indicators						
Retail Sales	3.9	3.5	(3.5)	3.6	4.1	4.0
Housing Starts (000s)	68.1	75.1	48.5	50.0	60.0	70.0
Personal Income	5.0	3.8	(0.7)	2.6	4.4	5.1
Labour Income	4.5	4.2	(1.2)	2.1	4.4	5.1
Corporate Profits	0.3	(14.2)	(38.9)	23.5	14.4	6.5
Consumer Price Index	1.8	2.3	0.4	1.9	2.5	2.0
Labour Market						
Employment	1.6	1.4	(2.6)	0.6	2.3	2.5
Job Creation (000s)	101	94	(171)	40	152	168
Unemployment Rate (per cent)	6.4	6.5	9.3	9.9	9.0	7.8
Key External Variables						
Crude Oil (\$ US per Barrel)	72.3	99.6	61.2	78.5	81.8	83.7
U.S. Real Gross Domestic Product	2.1	0.4	(2.5)	2.5	3.1	3.3
Canadian Dollar (Cents US)	93.1	93.7	88.0	95.0	96.0	97.0
3-month Treasury Bill Rate	4.1	2.3	0.3	0.7	2.4	3.7
10-year Government Bond Rate	4.3	3.6	3.3	3.8	4.3	4.8

*Sources:* Statistics Canada, Canada Mortgage and Housing Corporation, Bank of Canada, New York Mercantile Exchange, U.S. Bureau of Economic Analysis, *Blue Chip Economic Indicators* and Ontario Ministry of Finance.

## COMPARISON TO THE 2009 ONTARIO BUDGET

Table 6 compares current economic assumptions with those in the 2009 Budget.

Changes in Key Economic Forecast Assumptions, 2009 Fall Economic Statement Compared to 2009 Ontario Budget (Per Cent Change)							Table 6
	2009		2010		2011		
	Budget	Fall Update	Budget	Fall Update	Budget	Fall Update	
Real Gross Domestic Product	(2.5)	(3.5)	2.3	2.0	3.3	3.0	
Nominal Gross Domestic Product	(2.4)	(3.8)	3.6	3.6	4.7	4.7	
Retail Sales	(1.0)	(3.5)	3.8	3.6	4.0	4.1	
Housing Starts (000s)	50.0	48.5	55.0	50.0	65.0	60.0	
Personal Income	0.6	(0.7)	3.6	2.6	4.6	4.4	
Labour Income	0.3	(1.2)	3.2	2.1	4.2	4.4	
Corporate Profits	(24.8)	(38.9)	9.5	23.5	8.2	14.4	
Employment	(2.0)	(2.6)	0.8	0.6	1.6	2.3	
Job Creation (000s)	(135)	(171)	54	40	107	152	
<b>Key External Variables</b>							
Crude Oil (\$ US per Barrel)	47.3	61.2	55.5	78.5	60.4	81.8	
U.S. Real Gross Domestic Product	(2.6)	(2.5)	1.9	2.5	3.4	3.1	
Canadian Dollar (Cents US)	80.0	88.0	85.0	95.0	88.0	96.0	
3-month Treasury Bill Rate	0.6	0.3	1.1	0.7	3.1	2.4	
10-year Government Bond Rate	2.9	3.3	3.3	3.8	4.4	4.3	

*Sources: Blue Chip Economic Indicators and Ontario Ministry of Finance.*



# CHAPTER III

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## Fiscal Outlook



## SECTION A: ONTARIO'S FISCAL OUTLOOK

The government has taken decisive measures to reduce the impact on Ontario of the severe global recession and financial crisis by making substantial investments in infrastructure, supporting the automotive sector, investing in skills training, and sustaining public services. The latest economic forecasts indicate that the Ontario economy is beginning to stabilize, having benefited from the government's stimulus initiatives and increased household spending.

The government is now projecting deficits of \$24.7 billion in 2009–10, \$21.1 billion in 2010–11 and \$19.4 billion in 2011–12. These projections reflect a reduction in anticipated revenues due to lower 2008–09 results and a weaker economy in 2009. The decision to run a deficit also demonstrates the government's commitment to help Ontario families during these difficult times by maintaining key public services while also positioning the province to be competitive in the global market.

This chapter provides an update to the fiscal outlook for 2009–10 and the medium-term forecast for 2010–11 and 2011–12.

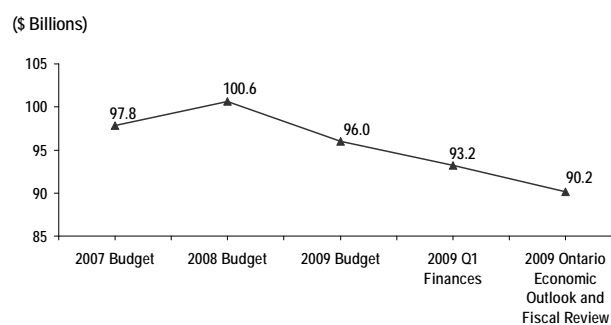
### 2009–10 FISCAL PERFORMANCE

The fiscal outlook for 2009–10 reflects a weaker Ontario economy than was projected in the 2009 Budget, and increased spending due to the impact of the global economic downturn. While signs of economic stabilization are emerging, Ontario is still experiencing the effects of the global recession.

Total revenue in 2009–10 is currently projected to be \$90.2 billion, a decrease of \$5.8 billion or 6.0 per cent from the 2009 Budget forecast, reflecting the effect of a weak global economy and its impact on Ontario.

Evolution of 2009–10 Revenue Outlook

Chart 1



Total expense in 2009–10 is currently estimated to be \$113.7 billion, 4.4 per cent higher than the 2009 Budget forecast. Ongoing government measures to maintain services and lessen the effect of the economic crisis have increased spending on vital programs within the Ministry of Health and Long-Term Care, Ministry of Community and Social Services and Ministry of Training, Colleges and Universities. Higher expenses have also been driven by time-limited support to the automotive sector, additional spending for social assistance and the Province’s response to the H1N1 flu virus.

The 2009 Budget plan also included a \$1.2 billion reserve to protect against adverse changes in the Province’s revenue and expense outlook, including those resulting from changes in Ontario’s economic performance. The Province continues to maintain this reserve, as well as significant contingency funds, in recognition of the continued economic uncertainty that could further impact Ontario’s finances.

<b>2009–10 In-Year Fiscal Performance</b>			<b>Table 1</b>
<b>(\$ Millions)</b>			
	<b>Budget Plan</b>	<b>Current Outlook</b>	<b>In-Year Change</b>
<b>Revenue</b>	<b>95,980</b>	<b>90,180</b>	<b>(5,800)</b>
<b>Expense</b>			
Programs	99,579	104,290	4,711
Interest on Debt	9,301	9,406	105
<b>Total Expense</b>	<b>108,880</b>	<b>113,696</b>	<b>4,816</b>
Reserve	1,200	1,200	–
<b>Surplus/(Deficit)</b>	<b>(14,100)</b>	<b>(24,716)</b>	<b>(10,616)</b>

## 2009–10 REVENUE CHANGES SINCE 2009 BUDGET

The global recession and financial crisis that have severely affected the world economy over the past year continue to affect Ontario's revenues. The 2009–10 revenue outlook, at \$90.2 billion, is \$5.8 billion below the 2009 Budget forecast, largely reflecting a weaker economy in 2009 and new information from the ongoing processing of 2008 personal and corporate tax returns.

2009–10 Summary of Revenue Changes Since Budget (\$ Millions)	Table 2
<b>Taxation Revenue Changes</b>	
Corporations Tax	(2,650)
Personal Income Tax	(2,435)
Retail Sales Tax	(500)
Ontario Health Premium	(125)
Employer Health Tax	(90)
<b>Total Revenue Changes Since Budget</b>	<b>(5,800)</b>

### DETAILS OF 2009–10 IN-YEAR REVENUE CHANGES

Key revenue changes from the 2009 Budget forecast include:

- **Corporations Tax (CT)** revenues are forecast to be \$2,650 million, or 31.1 per cent, lower largely due to the impact of the global recession and financial crisis on corporate income taxes in 2008. Since the 2009 Budget, processing of 2008 corporate tax returns lowered estimated 2008–09 revenues, which lowers the base upon which projected changes are applied in forecasting revenues for 2009–10 and beyond. In addition, the most recent information from tax return processing has further lowered estimated CT revenues, resulting in a decrease of \$1.2 billion as past-year adjustments are included in the current year. There is a relatively high degree of uncertainty in forecasting corporate taxes, reflecting both the inherent volatility of these taxes and information lags with respect to current corporate performance.
- **Personal Income Tax (PIT)** revenues are projected to be \$2,435 million, or 9.7 per cent, lower due to weaker 2009 wages and salaries and lower revenues from processing past-year personal income tax returns. Since the 2009 Budget, processing of tax returns has yielded 2008–09 revenues below Budget estimates, lowering the base upon which projected changes are applied for 2009–10 and beyond. As well, new information from tax return processing results in a decrease of \$450 million as past-year adjustments are included in the current year.
- **Retail Sales Tax (RST)** revenues are expected to be \$500 million, or 2.8 per cent, lower due to the weaker outlook for retail sales in 2009 and a lower 2008–09 retail sales tax revenue base than estimated at the time of the Budget.

- **Ontario Health Premium** (OHP) revenues are expected to be \$125 million, or 4.4 per cent, lower, reflecting weaker 2009 wages and salaries and a lower-than-estimated 2008–09 base. As well, new information from tax return processing results in a one-time decrease of \$60 million in 2009–10 as past-year adjustments are included in the current year.
- **Employer Health Tax** (EHT) revenues are projected to be \$90 million, or 1.9 per cent, lower, reflecting weaker 2009 wages and salaries, and a lower-than-estimated 2008–09 base upon which the projected changes are applied for 2009–10 and beyond.

## 2009–10 EXPENSE CHANGES SINCE 2009 BUDGET

Total expense in 2009–10 is currently projected to be \$113.7 billion, a net increase of \$4.8 billion from the 2009 Budget forecast. This change mainly reflects support to the automotive sector, an increase in the Ministry of Health and Long-Term Care for the Ontario Health Insurance Program, investments in skills training in the Ministry of Training, Colleges and Universities, and additional spending for social assistance due to the increased number of Ontarians requiring income support from the government. These investments have helped cushion the effect of the recession on families and communities across Ontario.

2009–10 Summary of In-Year Expense Changes Since Budget (\$ Millions)	Table 3
<b>Program Expense Changes</b>	
<b>Non-Core Program Expense Changes</b>	
<b>One-Time Expense</b>	
Automotive Sector Support <sup>1</sup>	4,000.0
Ministry of Health and Long-Term Care — Province's response to the H1N1 Flu Virus	650.0
<b>Total One-Time Expense</b>	<b>4,650.0</b>
<b>Additional Funding Related to the Economic Downturn</b>	
Ministry of Training, Colleges and Universities — Labour Market and Training Programs	294.7
Ministry of Community and Social Services — Social Assistance	254.2
Ministry of Education: School Boards — Lower-than-Forecast Education Property Tax Revenues	30.0
<b>Total Additional Funding Related to the Economic Downturn</b>	<b>578.9</b>
<b>Total Non-Core Program Expense Changes</b>	<b>5,228.9</b>
<b>Core Program Expense Changes</b>	
Ministry of Health and Long-Term Care — OHIP Increase	700.0
Ministry of Training, Colleges and Universities — OSAP and Enrolment Pressures	95.0
All Other Core Program Expense	16.9
<b>Total Core Program Expense Changes</b>	<b>811.9</b>
<b>Net Changes to Contingency Funds</b>	<b>(1,330.0)</b>
<b>Total Program Expense Changes</b>	<b>4,710.9</b>
Interest on Debt	105.0
<b>Total In-Year Expense Changes Since Budget</b>	<b>4,815.9</b>

<sup>1</sup> As published in the First Quarter Ontario Finances.

*Note:* Numbers may not add due to rounding.

## DETAILS OF 2009–10 IN-YEAR EXPENSE CHANGES

The majority of changes in Provincial program spending since the 2009 Budget are related to non-core program expense — mainly time-limited investments being made to protect and create jobs for Ontarians while also maintaining key public services. It is essential that the government continue to take action to counter the effects of the recession.

The following expense changes have occurred since the 2009 Budget:

### Non-Core Program Expense Changes

- **Ministry of Finance – Automotive Sector Support:** An estimated fiscal impact of \$4,000 million, to support the automotive industry, partially offset from the Operating Contingency Fund.
- **Ministry of Health and Long-Term Care – Province’s response to the H1N1 flu virus:** A one-time increase of up to \$650 million for the purchase and delivery of the H1N1 vaccine, supplies and equipment for health care workers, flu centres, testing and communications activities.
- **Ministry of Training, Colleges and Universities:** An increase of \$294.7 million to provide additional support for labour market and training programs, which are experiencing unprecedented demand due to the economic downturn.
- **Ministry of Community and Social Services:** An increase of \$254.2 million for social assistance due to a caseload increase over the previous year, which is related to 2009 unemployment now projected at 9.3 per cent, compared to the 8.8 per cent anticipated in the 2009 Budget.
- **Ministry of Education – School Boards:** An additional \$30 million in the Ministry of Education School Boards’ Net Expense reflects an increase in provincial transfers to school boards to offset lower-than-forecast education property tax revenues.

### Core Program Expense Changes

- **Ministry of Health and Long-Term Care:** An increase of \$700 million to accommodate higher-than-anticipated costs in the OHIP plan, due to factors such as increased patient and physician enrolment in primary care models and reimbursements for services provided outside of Ontario.
- **Ministry of Training, Colleges and Universities:** An increase of \$95 million due to enrolment growth and Ontario Student Assistance Program (OSAP) pressures.
- **All Other Core Program Expense:** A net increase of \$16.9 million, mainly as a result of funding for Legal Aid Ontario.

- **The Operating Contingency Fund** has decreased by a net \$1,330 million since the 2009 Budget, mainly reflecting offsets for support to the automotive sector and allocations to fund expense changes in other ministries.

**Interest on Debt** expense for the year is forecast to increase by \$105 million due to the impact of a higher deficit projected for 2009–10.

## Federal-Provincial Infrastructure Investments in the 2009 Budget

2009–10 Inter-Ministry Transfers Related to Federal-Provincial Infrastructure Investments Table 4  
(\$ Millions)

<b>Transfer to:</b>	
Ministry of Agriculture, Food and Rural Affairs <sup>1</sup>	1,055.8
Ministry of Training, Colleges and Universities	489.2
Ministry of Municipal Affairs and Housing <sup>2</sup>	233.1
Ministry of Health Promotion	192.6
	1,970.8
<b>Transfer from:</b>	
Ministry of Energy and Infrastructure	(1,970.8)
<b>Net Change in Expense</b>	-

<sup>1</sup> Includes transfer of \$14.7 million for Huron Elgin London Clean Water Project, as published in the First Quarter Ontario Finances.

<sup>2</sup> As published in the First Quarter Ontario Finances.

*Note:* Numbers may not add due to rounding.

The 2009 Budget outlined new federal-provincial infrastructure investments totalling \$3.2 billion in 2009–10 to preserve and create jobs in Ontario. As contribution agreements were negotiated with delivery partners, the government has moved funding from the Ministry of Energy and Infrastructure to various ministries, as follows:

- **Ministry of Agriculture, Food and Rural Affairs:** An increase of \$1,055.8 million as a result of a transfer from federal-provincial infrastructure funding under the Ministry of Energy and Infrastructure, to support the municipal intake of the Infrastructure Stimulus Fund and Intake Two of the Building Canada Fund – Communities Component. Also includes a transfer for Huron Elgin London Clean Water Project, as published in the First Quarter Ontario Finances.
- **Ministry of Training, Colleges and Universities:** An increase of \$489.2 million as a result of a transfer of federal-provincial infrastructure funding from the Ministry of Energy and Infrastructure to support postsecondary investments, including 49 college and university projects under the Knowledge Infrastructure Program.
- **Ministry of Municipal Affairs and Housing:** An increase of \$233.1 million due to a transfer from the Ministry of Energy and Infrastructure, to support new affordable housing programs for

low-income seniors and persons with disabilities, and to extend the Canada-Ontario Affordable Housing Program, as published in the First Quarter Ontario Finances.

- **Ministry of Health Promotion:** An increase of \$192.6 million as a result of a transfer from federal-provincial infrastructure funding under the Ministry of Energy and Infrastructure, to support the Ontario Recreation Program and the Recreational Infrastructure Canada Program in Ontario.
- **Ministry of Energy and Infrastructure:** A decrease of \$1,970.8 million as a result of infrastructure funding transfers to other ministries, including the Ministry of Agriculture, Food and Rural Affairs, Ministry of Training, Colleges and Universities, Ministry of Municipal Affairs and Housing, and Ministry of Health Promotion.

## SECTION B: ONTARIO'S MEDIUM-TERM FISCAL OUTLOOK

### MEDIUM-TERM REVENUE OUTLOOK

The medium-term revenue forecast reflects the Ministry of Finance's economic outlook and the estimated impact of government policy decisions. (For more information on Ontario's economic outlook, see Chapter II: *Ontario's Economic Performance and Outlook*.)

**Summary of Medium-Term Revenue Outlook** Table 5  
(\$ Billions)

Revenue	Actual	Projected Outlook		
	2008-09	2009-10	2010-11	2011-12
Taxation Revenue	62.4	59.1	64.3	67.4
Government of Canada	16.6	19.2	23.0	20.5
Income from Government Business Enterprises	4.0	4.3	4.5	4.8
Other Non-Tax Revenue	7.5	7.6	7.6	7.4
<b>Total Revenue</b>	<b>90.5</b>	<b>90.2</b>	<b>99.3</b>	<b>100.0</b>

*Note:* Numbers may not add due to rounding.

The medium-term **Taxation Revenue** outlook reflects the latest revenue information and current projections on economic performance. The medium-term revenue outlook also anticipates that corporations will continue to apply some of their 2008 losses against future tax liabilities. Policy measures announced to date, including those subsequent to the 2009 Budget, are also included in the outlook.

The outlook for **Government of Canada** transfers, **Income from Government Business Enterprises** and **Other Non-Tax Revenue** is unchanged from the 2009 Budget. The projection for transfers from the Government of Canada includes \$3.0 billion in 2010-11 and \$1.3 billion in 2011-12 in support of a move to a more competitive Ontario economy through the implementation of a Harmonized Sales Tax (HST). For more information on these projections, see the *2009 Ontario Budget, Chapter II, Section D, Ontario's Revenue Outlook*.

## MEDIUM-TERM REVENUE CHANGES SINCE THE 2009 BUDGET

### Summary of Medium-Term Revenue Changes Since Budget (\$ Billions)

Table 6

Source of Change	2009–10	2010–11	2011–12
Weaker Economic Outlook	(1.8)	(1.9)	(2.0)
Lower 2008–09 Revenues	(2.3)	(2.3)	(2.3)
Past-Year Tax Return Processing	(1.7)	0.0	0.0
Proposed Enhancements to the Ontario Production Services Tax Credit	(0.1)	(0.1)	(0.1)
<b>Total Revenue Changes</b>	<b>(5.8)</b>	<b>(4.3)</b>	<b>(4.4)</b>

*Note:* Numbers may not add due to rounding.

The medium-term forecast for total revenues is lower in each year compared to the 2009 Budget.

A weaker **economic outlook**, particularly in 2009, lowers revenues from 2009–10 to 2011–12. The economic outlook is discussed in detail in Chapter II: *Ontario's Economic Performance and Outlook*.

**Lower 2008–09 revenues** than assumed in the 2009 Budget resulted in a lower revenue base upon which projected changes are applied, lowering the revenue outlook on an ongoing basis from 2009–10. The ongoing past-year tax return impact noted above also includes the potential application of 2008 corporate losses against future tax liabilities.

New **tax return processing** information results in a one-time revenue decrease in 2009–10 as past year adjustments are included in the current year.

Proposed **Enhancements to the Ontario Production Services Tax Credit** are discussed in detail in Chapter V: *Creating a More Competitive and Modern Tax System*.

## MEDIUM-TERM FISCAL OUTLOOK

The recession has been deeper than even the most pessimistic economic forecasters predicted at the time of the 2009 Budget. Ontario has met these economic and fiscal challenges head-on, but uncertainties remain. The medium-term outlook now reflects further deterioration in Ontario revenue as a result of the deep global recession, as well as the impact on expenditures of policy measures taken by the government to help lessen the burden on Ontario's families and businesses.

	Actual	Projected Outlook		
	2008–09	2009–10	2010–11	2011–12
Revenue	90.5	90.2	99.3	100.0
Expense				
Programs	88.3	104.3	108.6	106.3
Interest on Debt	8.6	9.4	10.6	11.9
<b>Total Expense</b>	<b>96.9</b>	<b>113.7</b>	<b>119.2</b>	<b>118.2</b>
Reserve	–	1.2	1.2	1.2
<b>Surplus/(Deficit)</b>	<b>(6.4)</b>	<b>(24.7)</b>	<b>(21.1)</b>	<b>(19.4)</b>

*Note:* Numbers may not add due to rounding.

The government is projecting deficits of \$24.7 billion in 2009–10, \$21.1 billion in 2010–11 and \$19.4 billion in 2011–12. Revenue projections are lower than the 2009 Budget levels as a result of downward revisions to Ontario's economic forecast and new information from the ongoing processing of past-year tax returns.

In response to the deeper economic downturn, the government has taken the necessary step of running larger deficits in the near term to deliver targeted and timely stimulus to shelter Ontario families from the worst of the economic storm. As a result, total expense over the medium term is projected to increase from \$113.7 billion in 2009–10 to \$118.2 billion in 2011–12. Investments in skills training, increased expenditures for social assistance, in addition to higher interest on debt expense, have led to increased spending since the 2009 Budget.

Over the medium term, total provincial revenues are projected to increase from \$90.2 billion in 2009–10 to \$100.0 billion in 2011–12. As economic conditions improve and the government implements its expenditure management plan, deficits are projected to decline.

As a result of the ongoing fragility that remains in the global economic environment — a vulnerable situation for Ontario with its open economy — the government's medium-term projections will continue to include a reserve of \$1.2 billion each year. This is meant to protect the fiscal outlook

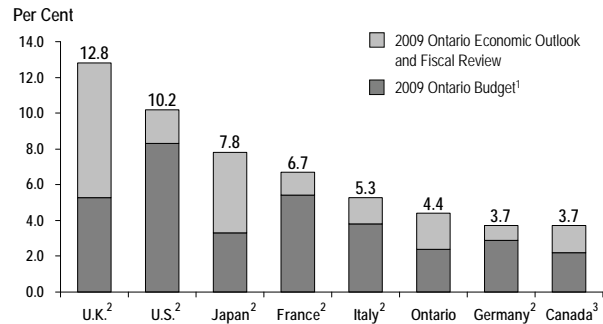
against further adverse changes in the Province’s revenue and expense, including those resulting from changes in Ontario’s economic performance.

Since the 2009 Budget, the fiscal projections for all G7 economies have deteriorated, resulting in higher deficit-to-GDP ratios across the board. Despite revisions to Ontario’s board. Despite revisions to Ontario’s projections, the deficit in 2009–10 relative to the size of the economy, at 4.4 per cent, is still low compared with other industrialized jurisdictions impacted by the global economic crisis.

Furthermore, Ontario has the second-lowest 2009–10 expense per capita among all Canadian jurisdictions. This means Ontario is cost-efficient in delivering programs to the public. As the Province stood on the brink of recession, Ontario was in a strong fiscal position and was well prepared to provide much-needed stimulus, maintain key public services and position the Province to be competitive in future years through proposed tax cuts and the HST.

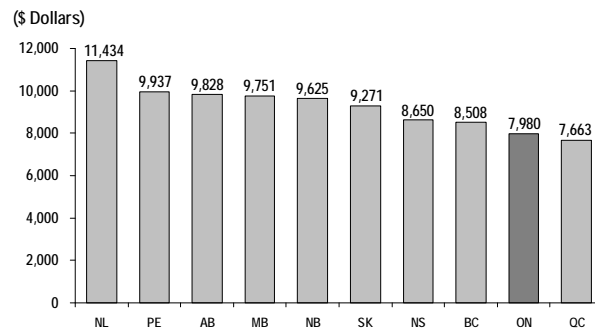
As the economy improves and the Province moves forward from the global economic crisis, the government remains committed to returning to balanced budgets. The government has already made significant headway in modernizing its operations and managing expenditure growth, and it is committed to doing much more.

**Jurisdictional Comparison: 2009–10 Deficit-to-GDP** Chart 2



Note: Not all jurisdictions use comparable accounting methodology.  
<sup>1</sup> Please refer to the 2009 Ontario Budget for previous sources for jurisdictional comparisons.  
<sup>2</sup> Sources: <sup>2</sup>Organisation for Economic Co-operation and Development (OECD) Economic Outlook 85 Database, June 2009;  
<sup>3</sup>September 2009 Federal Update of Economic and Fiscal Projections.

**Program Expense per Capita** Chart 3



Sources: Program expense data from 2009 Provincial Budgets and Updates; population data from Statistics Canada.

## ONTARIO'S EXPENDITURE MANAGEMENT PLAN

The government has already taken numerous steps to ensure Ontarians receive value-for-money and it is committed to implementing an even more aggressive expenditure management process to look at ways of improving further the delivery of key services for Ontarians in the future.

Ontario is not alone in its efforts to implement effective expenditure management practices. The new economic reality and inevitable demographic pressures associated with an aging population are forcing governments around the world to re-examine their expenditures and implement new approaches to manage spending.

In addition to its existing responsibilities for approving the Province's annual expenditure plans, the Treasury Board/Management Board of Cabinet will conduct a rigorous strategic spending review focused on high-impact areas to ensure continued relevance and effectiveness of government programs and services and the way they are funded. This review will be guided by a policy framework that reflects the government's values of fairness, targeting those who need it most, investing for the future, and value-for-money. The Board will make recommendations and provide continued support as these are considered and implemented by the government. The Board's recommendations will be announced as a plan-of-action in the 2010 Budget.

As part of the government's other expenditure management initiatives, the government will work with its broader public-sector partners and will also review all agencies, boards and commissions to make sure that their programs are designed to meet the priorities of Ontarians and yield measurable results in an efficient and effective way.

These initiatives will balance the government's commitment to sustain Ontario's public services while securing a strong and sustainable fiscal footing for Ontario.



## SECTION C: DETAILS OF ONTARIO'S FINANCES

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

<b>Medium-Term Fiscal Plan and Outlook (\$ Billions)</b>	<b>Table 8</b>			
	Actual	Projected Outlook		
	2008–09	2009–10	2010–11	2011–12
Revenue	90.5	90.2	99.3	100.0
Expense				
Programs	88.3	104.3	108.6	106.3
Interest on Debt <sup>1</sup>	8.6	9.4	10.6	11.9
<b>Total Expense</b>	<b>96.9</b>	<b>113.7</b>	<b>119.2</b>	<b>118.2</b>
Reserve	–	1.2	1.2	1.2
<b>Surplus/(Deficit)</b>	<b>(6.4)</b>	<b>(24.7)</b>	<b>(21.1)</b>	<b>(19.4)</b>
Net Debt <sup>2</sup>	153.3	184.1	212.7	238.4
Accumulated Deficit <sup>2</sup>	113.2	138.0	159.1	178.5

<sup>1</sup> Interest on debt expense is net of interest capitalized during construction of tangible capital assets of \$0.1 billion in 2009–10, \$0.3 billion in 2010–11, and \$0.5 billion in 2011–12.

<sup>2</sup> 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. The annual change in the Accumulated Deficit is equal to the surplus/deficit plus the change in the fair value of the Ontario Nuclear Funds.

*Note:* Numbers may not add due to rounding.

**Revenue  
(\$ Millions)**
**Table 9**

	2005-06	2006-07	2007-08	Actual 2008-09	Current Outlook 2009-10
<b>Taxation Revenue</b>					
Personal Income Tax	21,041	23,655	24,538	24,727	22,735
Retail Sales Tax	15,554	16,228	16,976	17,267	17,100
Corporations Tax	9,984	10,845	12,990	6,748	5,868
Employer Health Tax	4,197	4,371	4,605	4,617	4,597
Ontario Health Premium	2,350	2,589	2,713	2,776	2,704
Gasoline Tax	2,281	2,310	2,360	2,323	2,367
Land Transfer Tax	1,159	1,197	1,363	1,013	895
Tobacco Tax	1,379	1,236	1,127	1,044	995
Fuel Tax	729	723	733	698	732
Electricity Payments-In-Lieu of Taxes	951	757	546	830	685
Other Taxes	292	399	481	352	378
	<b>59,917</b>	<b>64,310</b>	<b>68,432</b>	<b>62,395</b>	<b>59,056</b>
<b>Government of Canada</b>					
Canada Health Transfer	7,148	7,702	8,487	8,942	9,722
Canada Social Transfer	3,324	3,478	3,778	4,079	4,213
Equalization	–	–	–	–	347
Infrastructure Programs	285	191	207	151	1,746
Labour Market Programs	127	289	664	797	1,193
Social Housing	520	532	525	520	509
Wait Times Reduction Fund	243	467	468	235	97
Other Federal Payments	1,604	1,377	2,468	1,867	1,419
	<b>13,251</b>	<b>14,036</b>	<b>16,597</b>	<b>16,591</b>	<b>19,246</b>
<b>Income from Investment in Government</b>					
<b>Business Enterprises</b>					
Ontario Lottery and Gaming Corporation	2,027	1,945	1,857	1,921	1,966
Liquor Control Board of Ontario	1,197	1,307	1,374	1,410	1,326
Ontario Power Generation Inc. and Hydro One Inc.	1,107	947	1,214	713	983
Other Government Enterprises	(23)	(3)	(8)	(2)	(8)
	<b>4,308</b>	<b>4,196</b>	<b>4,437</b>	<b>4,042</b>	<b>4,267</b>
<b>Other Non-Tax Revenue</b>					
Reimbursements	1,295	1,415	1,464	1,379	1,297
Vehicle and Driver Registration Fees	763	970	1,051	1,034	1,065
Electricity Debt Retirement Charge	1,021	991	982	970	955
Power Sales	779	863	929	953	964
Sales and Rentals	465	1,108	553	733	619
Other Fees and Licences	550	624	668	674	815
Liquor Licence Revenue	516	467	475	468	457
Net Reduction of Power Purchase Contract Liability	396	412	398	373	348
Royalties	191	215	193	205	211
Miscellaneous Other Non-Tax Revenue	773	790	943	655	880
	<b>6,749</b>	<b>7,855</b>	<b>7,656</b>	<b>7,444</b>	<b>7,611</b>
<b>Total Revenue</b>	<b>84,225</b>	<b>90,397</b>	<b>97,122</b>	<b>90,472</b>	<b>90,180</b>

**Total Expense  
(\$ Millions)**

**Table 10**

	2005-06	2006-07	2007-08	Actual 2008-09	Current Outlook 2009-10
<b>Ministry Expense</b>					
Aboriginal Affairs <sup>1</sup>	50	25	33	55	71.1
Agriculture, Food and Rural Affairs <sup>1</sup>	861	796	731	877	1,116.1
Attorney General	1,282	1,343	1,648	1,662	1,665.8
Board of Internal Economy	150	163	257	188	173.3
Children and Youth Services	3,284	3,277	3,733	4,056	4,406.5
Citizenship and Immigration	89	112	90	89	106.7
Community and Social Services	6,714	7,178	7,544	7,998	8,581.5
Community Safety and Correctional Services	1,728	1,856	1,982	2,142	2,260.0
Consumer Services <sup>2,3</sup>	39	39	46	45	48.8
Culture <sup>1</sup>	478	414	350	381	476.7
Economic Development and Trade <sup>1,2</sup>	176	199	297	218	398.9
Education <sup>1</sup>	440	423	446	443	492.9
School Boards' Net Expense	10,886	11,290	11,830	12,722	13,723.5
Energy and Infrastructure <sup>1</sup>	325	525	401	263	764.7
Environment <sup>1</sup>	274	314	349	365	367.2
Executive Offices	31	37	36	35	36.6
Finance <sup>1</sup>	578	564	455	750	670.6
Francophone Affairs, Office of	4	4	5	5	5.3
Government Services <sup>1</sup>	749	978	950	953	1,311.4
Health and Long-Term Care <sup>1</sup>	17,797	19,119	20,373	21,780	23,576.2
Hospitals' Net Expense	14,816	16,145	17,381	18,585	19,293.6
Health Promotion <sup>1</sup>	290	391	364	382	398.9
Labour	141	146	170	177	174.1
Municipal Affairs and Housing <sup>1</sup>	926	843	744	756	703.9
Natural Resources <sup>2</sup>	626	731	794	780	788.2
Northern Development, Mines and Forestry <sup>2,4,5</sup>	332	314	341	491	378.4
Research and Innovation <sup>1</sup>	332	316	301	295	482.7
Revenue	442	563	554	557	820.2
Tourism	210	204	234	185	216.4
Training, Colleges and Universities <sup>1</sup>	3,509	4,115	4,384	4,581	5,126.4
Colleges' Net Expense <sup>1</sup>	1,185	1,273	1,403	1,495	1,549.5
Transportation <sup>1</sup>	1,795	1,787	1,892	2,044	2,112.6
Interest on Debt <sup>6</sup>	9,019	8,831	8,914	8,566	9,406.0
Other Expense <sup>1</sup>	4,369	3,813	7,490	2,960	13,141.1
Year-End Savings <sup>7</sup>	-	-	-	-	(1,150)
<b>Total Expense</b>	<b>83,927</b>	<b>88,128</b>	<b>96,522</b>	<b>96,881</b>	<b>113,695.9</b>

<sup>1</sup> Details on other ministry expense can be found in Table 11, Other Expense.

<sup>2</sup> Future updates will reflect the impacts of previously announced ministry restructuring details.

<sup>3</sup> Expense presented is that of the former Ministry of Small Business and Consumer Services.

<sup>4</sup> Expense presented is that of the former Ministry of Northern Development and Mines.

<sup>5</sup> 2008-09 amount reflects an accounting adjustment of \$112.1 million resulting from the reclassification of the Ontario Northland Transportation Commission from a Government Business Enterprise to a Government Organization.

<sup>6</sup> Interest on debt is net of interest capitalized during construction of tangible capital assets of \$78 million in 2009-10.

<sup>7</sup> 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 startups and implementation plans.

*Note:* Numbers may not add due to rounding.

**Other Expense  
(\$ Millions)**

**Table 11**

	2005-06	2006-07	2007-08	Actual 2008-09	Current Outlook 2009-10
<b>Ministry Expense</b>					
Aboriginal Affairs					
One-Time Expense for the First Nations Gaming Agreement	–	–	201	–	–
Agriculture, Food and Rural Affairs					
One-Time Extraordinary Assistance	125	259	274	–	–
Time-Limited Investments in Infrastructure	–	–	–	–	1,055.8
Time-Limited Assistance	157	19	76	13	164.0
Culture					
One-Time Investments	–	–	57	–	–
Economic Development and Trade					
One-Time Investments	–	–	152	–	–
Education					
Teachers' Pension Plan <sup>1</sup>	295	345	342	50	259.0
Energy and Infrastructure					
Capital Contingency Fund	–	–	–	–	200.0
One-Time Investments in Municipal Infrastructure	–	140	450	–	–
Time-Limited Investments in Infrastructure	–	–	–	–	676.5
Environment					
One-Time Investments	–	–	–	68	–
Finance					
One-Time Automotive Sector Support	–	–	–	–	4,000.0
<i>Investing in Ontario Act</i> Investments	–	–	1,149	–	–
Ontario Municipal Partnership Fund	714	758	907	905	782.9
Operating Contingency Fund	–	–	–	–	1,880.0
Power Purchases	803	863	929	953	964.1
Government Services					
Pension and Other Employee Future Benefits	729	557	531	971	932.0
Health and Long-Term Care					
H1N1 Response One-Time Expense	–	–	–	–	650.0
Health Promotion					
Time-Limited Investments in Infrastructure	–	–	–	–	192.6
Municipal Affairs and Housing					
Time-Limited Investments in Municipal Social and Affordable Housing Stock	–	–	100	–	585.3
Research and Innovation					
One-Time Investments	–	–	87	–	20.0
Training, Colleges and Universities					
Time-Limited Investments – Training, Colleges and Universities	–	–	699	–	695.2
Time-Limited Investments – Colleges' Net Expense	–	–	–	–	83.7
Transportation					
One-Time Transit and Infrastructure Investments	1,546	872	1,536	–	–
<b>Total Other Expense</b>	<b>4,369</b>	<b>3,813</b>	<b>7,490</b>	<b>2,960</b>	<b>13,141.1</b>

<sup>1</sup> Numbers reflect PSAB pension expense. Ontario's matching contributions to the plan grow from \$740 million in 2005-06 to \$1,070 million in 2008-09 and \$1,249 million in 2009-10.

*Note:* Numbers may not add due to rounding.

**Infrastructure Expenditures  
(\$ Millions)**
**Table 12**

Sector	Total Infrastructure Expenditures 2008–09 Actual	2009–10 Current Outlook		
		Investment in Capital Assets	Transfers and Other Expenditures on Infrastructure <sup>1</sup>	Total Infrastructure Expenditures
Transportation				
Transit	1,073.1	1,316.0	371.1	1,687.1
Highway Construction	1,444.4	1,718.3	0.0	1,718.3
Windsor Gateway	144.9	186.9	60.2	247.1
Other Transportation <sup>2</sup>	350.0	524.5	51.5	576.0
Health				
Hospitals	2,264.3	2,542.8	0.0	2,542.8
Other Health	260.4	468.2	166.4	634.6
Education				
School Boards	1,372.9	1,473.6	30.0	1,503.6
Colleges	267.4	239.9	0.0	239.9
Universities	49.9	0.0	105.6	105.6
Water/Environment	288.0	37.1	236.6	273.8
Municipal and Local Infrastructure <sup>3</sup>	279.2	19.5	459.0	478.5
Justice	383.3	318.6	37.1	355.6
Other	812.9	1,066.1	736.1	1,802.3
New Short-Term Stimulus Investments <sup>4</sup>	0.0	702.0	2,728.6	3,430.6
<b>Total</b>	<b>8,990.6</b>	<b>10,613.5</b>	<b>4,982.2</b>	<b>15,595.7</b>
Less: Other Partner Funding <sup>5</sup>	531.2	501.0	0.0	501.0
<b>Total Excluding Partner Funding</b>	<b>8,459.4</b>	<b>10,112.5</b>	<b>4,982.2</b>	<b>15,094.7</b>
Less: Flow-Throughs <sup>6</sup>	221.1	613.3	1,776.7	2,390.0
<b>Total Provincial Expenditure<sup>7</sup></b>	<b>8,238.3</b>	<b>9,499.2</b>	<b>3,205.5</b>	<b>12,704.7</b>

<sup>1</sup> Mainly consists of transfers for capital purposes to municipalities and universities, and expenditures for capital repairs. These expenditures are included in the Province's total expense in Table 10.

<sup>2</sup> Other transportation includes planning activities, property acquisition, and other infrastructure programs (e.g., municipal/local roads/remote airports).

<sup>3</sup> Municipal and local water and wastewater infrastructure investments are included in the Water/Environment sector.

<sup>4</sup> New Short-Term Stimulus Investments include the federal-provincial stimulus projects referenced in Chapter I.

<sup>5</sup> Third-party contributions to capital investment in the consolidated sectors (schools, colleges and hospitals).

<sup>6</sup> Mostly federal government transfers for capital investments.

<sup>7</sup> Total provincial expenditure includes acquisitions of tangible capital assets by the Province and consolidated sectors (schools, colleges and hospitals). The Province's total expense includes amortization on tangible capital assets, rather than acquisitions.

*Note:* Numbers may not add due to rounding.

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

	2000-01	2001-02	2002-03 <sup>1</sup>
<b>Financial Transactions</b>			
Revenue	66,294	66,534	68,891
Expense			
Programs	53,519	55,822	59,080
Interest on Debt	10,873	10,337	9,694
<b>Total Expense</b>	<b>64,392</b>	<b>66,159</b>	<b>68,774</b>
Reserve	-	-	-
<b>Surplus/(Deficit)</b>	<b>1,902</b>	<b>375</b>	<b>117</b>
Net Debt <sup>3,4</sup>	132,496	132,121	132,647
Accumulated Deficit <sup>5</sup>	132,496	132,121	118,705
Gross Domestic Product (GDP) at Market Prices	440,759	453,701	477,763
Personal Income	347,653	361,187	369,420
Population — July (000s)	11,683	11,897	12,091
Net Debt per Capita (dollars)	11,341	11,106	10,971
Personal Income per Capita (dollars)	29,756	30,360	30,553
Total Expense as a per cent of GDP	14.6	14.6	14.4
Interest on Debt as a per cent of Revenue	16.4	15.5	14.1
Net Debt as a per cent of GDP	30.1	29.1	27.8
Accumulated Deficit as a per cent of GDP	30.1	29.1	24.8

<sup>1</sup> Starting in 2002-03, investments in major tangible capital assets owned by the Province (land, buildings, and transportation infrastructure) have been capitalized and amortized to expense over their useful lives. Starting in 2009-10, investments in minor tangible capital assets owned by the Province (information technology infrastructure and systems, vehicles and marine fleet and aircraft) will also be capitalized and amortized to expense. All capital assets owned by consolidated organizations are being accounted for in a similar manner.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> 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.

<sup>5</sup> 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 funds are reported at fair value on Ontario Power Generation Inc. books and, upon consolidation, on the Province's consolidated financial statements.

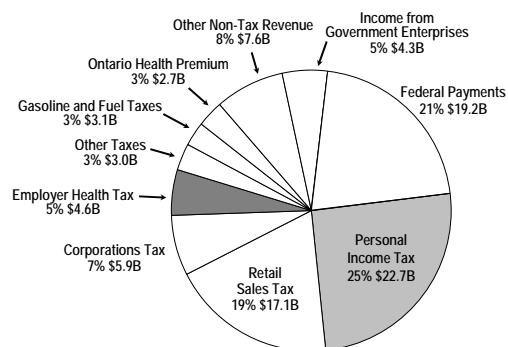
*Sources:* Ontario Ministry of Finance and Statistics Canada.

Table 13

2003-04	2004-05	2005-06 <sup>2</sup>	2006-07	2007-08	Actual 2008-09	Current Outlook 2009-10 <sup>1</sup>
68,400	77,841	84,225	90,397	97,122	90,472	90,180
64,279	70,028	74,908	79,297	87,608	88,315	104,290
9,604	9,368	9,019	8,831	8,914	8,566	9,406
73,883	79,396	83,927	88,128	96,522	96,881	113,696
-	-	-	-	-	-	1,200
(5,483)	(1,555)	298	2,269	600	(6,409)	(24,716)
138,816	140,921	141,928	141,100	142,418	153,325	184,110
124,188	125,743	109,155	106,776	105,617	113,238	137,954
493,081	516,106	537,232	559,293	584,664	587,796	565,377
381,127	400,994	419,325	442,166	464,217	482,008	478,731
12,242	12,391	12,528	12,665	12,795	12,936	13,069
11,339	11,373	11,329	11,141	11,131	11,853	14,088
31,132	32,363	33,471	34,912	36,281	37,261	36,631
15.0	15.4	15.6	15.8	16.5	16.5	20.1
14.0	12.0	10.7	9.8	9.2	9.5	10.4
28.2	27.3	26.4	25.2	24.4	26.1	32.6
25.2	24.4	20.3	19.1	18.1	19.3	24.4

**Composition of Revenue  
2009-10**

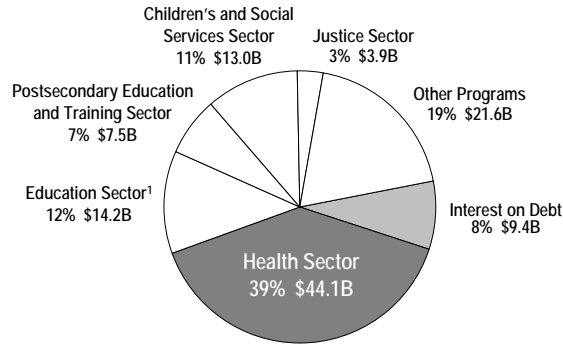
Chart 4



Note: Numbers may not add due to rounding.

**Composition of Total Expense  
2009–10**

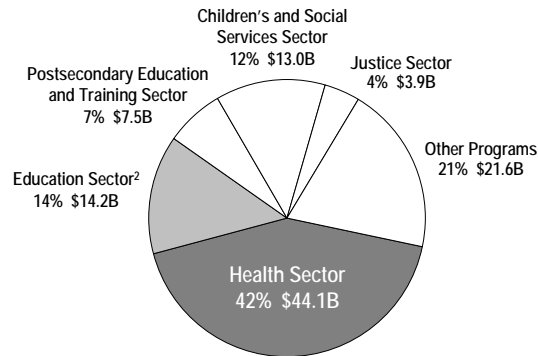
Chart 5



<sup>1</sup> Excludes Teachers' Pension Plan.  
*Note:* Numbers may not add due to rounding.

**Composition of Program Expense<sup>1</sup>  
2009–10**

Chart 6



<sup>1</sup> Program expense equals total expense minus interest on debt.  
<sup>2</sup> Excludes Teachers' Pension Plan.  
*Note:* Numbers may not add due to rounding.



# CHAPTER IV

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## 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 Ontario Electricity Financial Corporation (OEFC) in a cost-effective manner.

The forecast long-term public borrowing requirement for 2009–10 is \$42.6 billion.

Global financial markets continue to face daunting 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 7, 2009, \$24.0 billion, or 56 per cent, of the long-term borrowing requirement was completed. This figure includes Ontario Savings Bond sales of \$1.1 billion.

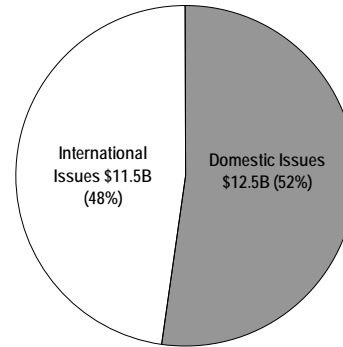
Despite difficult financial market conditions, the Province maintained a flexible approach to borrowing, monitoring both domestic and international capital markets for cost-effective borrowing opportunities.

Depending on market conditions, the Province plans to borrow

35 to 50 per cent from international markets. This range was announced in the 2009 Budget, and is higher than in previous years due to the size of the borrowing program and the capacity of domestic capital markets. About \$11.5 billion, or 48 per cent, of borrowing has been raised from international markets so far in 2009–10, compared to 34 per cent for the entire 2008–09 fiscal year. Bonds issued in foreign currencies were:

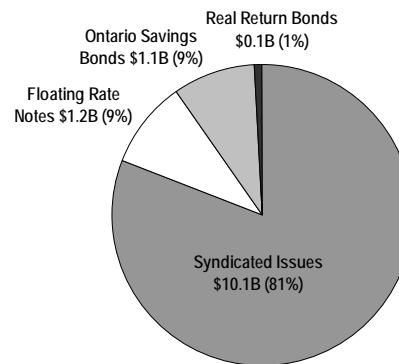
- three Global bond issues in U.S. dollars
- Euro Medium-Term Notes (EMTNs) in euros, Swiss francs and Hong Kong dollars.

**Borrowing – All Markets** Chart 1  
C\$24.0 Billion Issued



Source: Ontario Financing Authority.

**Borrowing – Domestic Market** Chart 2  
C\$12.5 Billion Issued



Source: Ontario Financing Authority.

About \$12.5 billion, or 52 per cent, of borrowing was completed in the domestic market through a number of instruments, including:

- syndicated issues
- floating rate notes
- Ontario Savings Bonds
- real return bonds.

**2009–10 Borrowing Program: Province and OEFC (\$ Billions)** **Table 1**

	Budget Plan	Current Outlook	In-Year Change
Deficit/(Surplus)	14.1	24.7	10.6
Non-Cash Adjustments	(2.0)	0.5	2.5
Investment in Capital Assets	9.5	9.5	0.0
Net Loans/Investments	1.9	1.6	(0.3)
Debt Maturities	14.6	14.7	0.1
Debt Redemptions	0.4	0.4	0.0
<b>Total Funding Requirement</b>	<b>38.5</b>	<b>51.5</b>	<b>13.0</b>
Canada Pension Plan Borrowing	(0.7)	(1.1)	(0.4)
Decrease/(Increase) in Short-Term Borrowing	(3.0)	(7.8)	(4.7)
Increase/(Decrease) in Cash and Cash Equivalents	0.0	0.0	0.0
<b>Total Long-Term Public Borrowing Requirement</b>	<b>34.8</b>	<b>42.6</b>	<b>7.8</b>

*Note:* Numbers may not add due to rounding.

## DEFICIT AND BORROWING

Like other jurisdictions, Ontario is projecting a larger-than-expected deficit this year. The Province of Alberta, for example, is facing growing deficits for the first time in 15 years. Ontario's deficit is roughly proportional to Canada's and significantly less than that of the United States, based on the sizes of the respective economies and populations.

Ontario's increased deficit will be funded through an increase in both short- and long-term public borrowing. The total long-term public borrowing requirement of \$42.6 billion is \$7.8 billion higher than the 2009 Budget Plan, and \$3.4 billion higher than reported in the First Quarter Ontario Finances. Short-term borrowing will increase by \$4.7 billion over the 2009 Budget Plan, but will remain less than nine per cent of the Province's total debt.

The government will seek approval from the legislature for additional borrowing authority to meet the Province's increased funding requirements.

## OTHER CHANGES IN FINANCING

Medium-Term Borrowing Outlook: Province and OEFC (\$ Billions)	Table 2		
	2009-10	2010-11	2011-12
Deficit/(Surplus)	24.7	21.1	19.4
Non-Cash Adjustments	0.5	(2.5)	(3.0)
Investment in Capital Assets	9.5	11.4	10.4
Net Loans/Investments	1.6	0.3	0.4
Debt Maturities	14.7	15.6	15.6
Debt Redemptions	0.4	0.4	0.4
<b>Total Funding Requirement</b>	<b>51.5</b>	<b>46.3</b>	<b>43.1</b>
Canada Pension Plan Borrowing	(1.1)	(0.8)	(1.1)
Decrease/(Increase) in Short-Term Borrowing	(7.8)	(3.8)	(1.9)
Increase/(Decrease) in Cash and Cash Equivalents	0.0	(2.0)	(1.0)
<b>Total Long-Term Public Borrowing Requirement</b>	<b>42.6</b>	<b>39.7</b>	<b>39.1</b>

*Note:* Numbers may not add due to rounding.

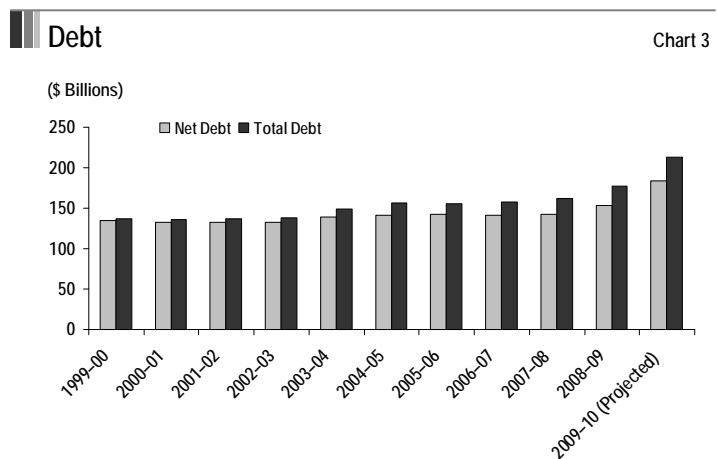
## DEBT

Total debt, which represents all borrowing without offsetting financial assets, is projected to be \$213.2 billion as at March 31, 2010, compared to \$176.9 billion as at March 31, 2009.

Ontario's net debt, the difference between total liabilities and total financial assets, is projected to be \$184.1 billion as at March 31, 2010, compared to \$153.3 billion as at March 31, 2009.

Accumulated deficit is the difference between total liabilities and total assets. It represents the total of all past annual deficits minus all past annual surpluses, including prior-period adjustments. Accumulated deficit is projected to be

\$138.0 billion as at March 31, 2010, compared to \$113.2 billion as at March 31, 2009.

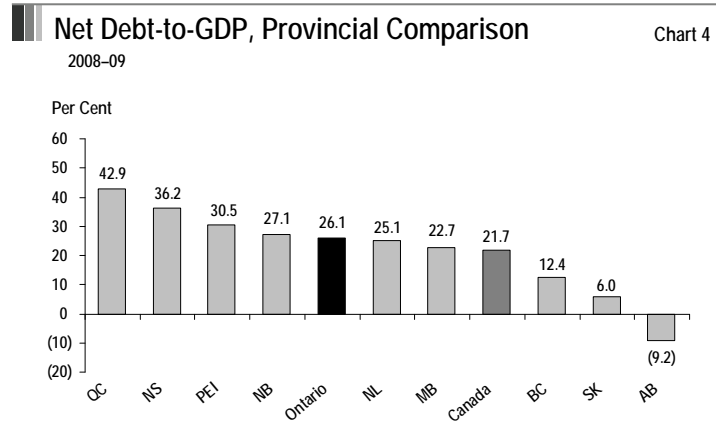


Sources: Ontario Public Accounts 1999-2009. Ontario Ministry of Finance and Ontario Financing Authority.

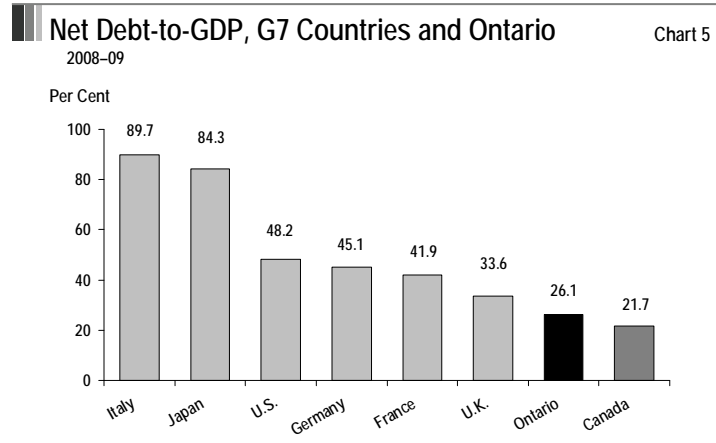
## DEBT-TO-GDP RATIOS

In 2008–09, the most recent year for which data are available for all jurisdictions, Ontario’s net debt-to-GDP level was near the median for the provinces and Canada.

In 2008–09, Canada’s and Ontario’s net debt-to-GDP ratios were below those of G7 countries.



Sources: Conference Board of Canada, Provincial Budgets, Updates and Public Accounts, and OECD Economic Outlook No. 85 (June 2009).

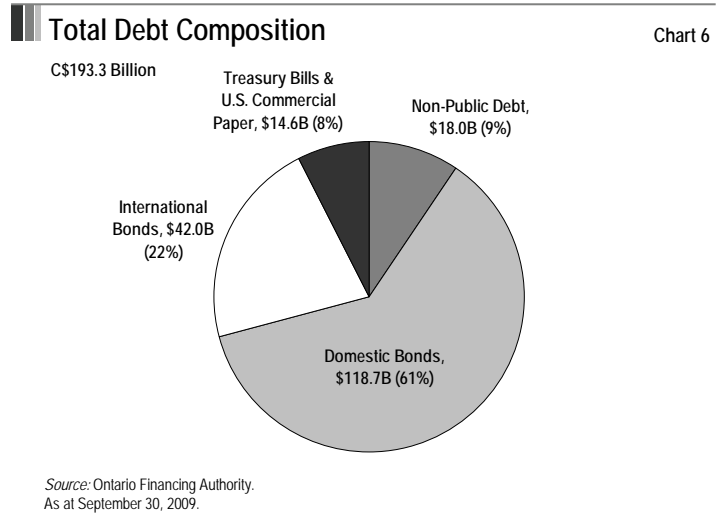


Note: Net debt measures are not always comparable across countries due to different definitions and treatment of debt (and asset) components.  
Sources: OECD Economic Outlook No. 85 (June 2009) and Ontario Financing Authority.

## TOTAL DEBT COMPOSITION

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

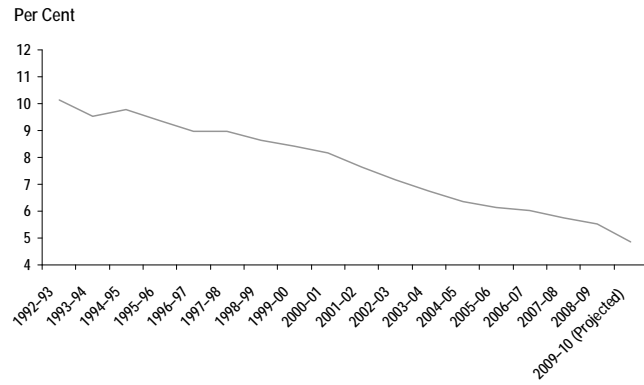
Public debt totals \$175.3 billion, primarily consisting of bonds issued in the domestic and international long-term public markets in 10 currencies. Ontario also has \$18.0 billion outstanding in non-public debt issued in Canadian dollars. Non-public debt consists of debt instruments issued to public-sector pension funds in Ontario and the Canada Pension Plan Investment Board (CPPIB). This debt is not marketable and cannot be traded.



## COST OF DEBT

The effective interest rate (on a weighted-average basis) on total debt was 4.85 per cent as at September 30, 2009 (March 31, 2009, 5.17 per cent). For comparison, as at March 31, 1993, the effective interest rate on total debt was 10.14 per cent.

Effective Interest Rate (Weighted Average) on Total Debt Chart 7



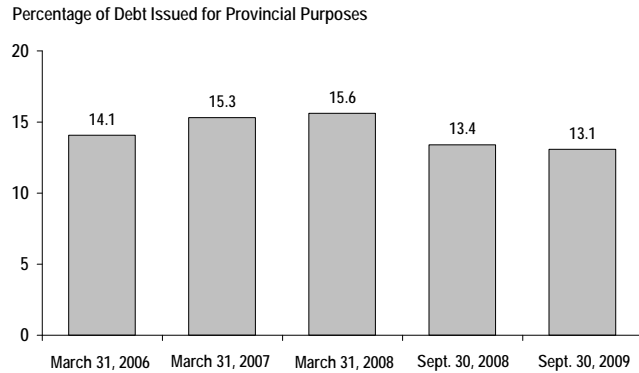
Sources: Ontario Public Accounts (1993–2009) and Ontario Financing Authority (September 30, 2009).

## RISK EXPOSURE

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, 2009, the net interest rate resetting exposure was 13.1 per cent and foreign exchange exposure was 0.2 per cent.

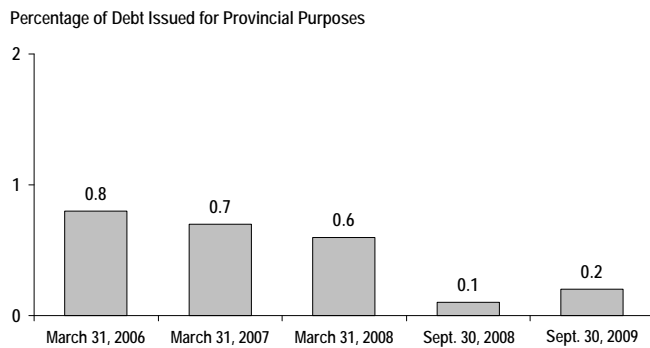
All exposures have remained well below policy limits in 2009–10.

**Net Interest Rate Resetting Exposure** Chart 8



Excludes OEFC Debt.  
Source: Ontario Financing Authority.

**Foreign Exchange Exposure** Chart 9



Excludes OEFC Debt.  
Source: Ontario Financing Authority.





# CHAPTER V

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## Creating a More Competitive and Modern Tax System



## TAX CUTS FOR A STRONGER ONTARIO

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In the 2009 Budget, the McGuinty government proposed a comprehensive tax package to position Ontario's economy for long-term competitiveness in a global marketplace, so that families and businesses can take advantage of the next generation of jobs and economic growth.

This paper provides additional details on the proposed changes to create a more competitive and modern tax system. A strong, competitive Ontario that thrives in the new economy will better support high-quality public services and greater prosperity.

### HARMONIZED SALES TAX

To further strengthen Ontario's economic growth and tax competitiveness, the 2009 Budget proposed that, effective July 1, 2010, the Retail Sales Tax (RST) would be replaced with a value-added tax and combined with the federal Goods and Services Tax (GST) to create a federally administered Harmonized Sales Tax (HST). The HST would have a combined rate of 13 per cent. The provincial portion would be eight per cent — the same as the general RST rate — and the federal portion would be five per cent.

Ontario's announcement was followed by British Columbia, which would join three of the Atlantic provinces (New Brunswick, Nova Scotia and Newfoundland and Labrador) and Quebec, all of which have had value-added taxes since the 1990s.

"This is the single biggest thing we can do to improve BC's economy. This is an essential step to make our businesses more competitive, encourage billions of dollars in new investment, lower costs on productivity and reduce administrative costs to BC taxpayers and businesses. Most importantly, this will create jobs and generate long-term economic growth that will in turn generate more revenue to sustain and improve crucial public services."

*The Honourable Gordon Campbell, Premier, British Columbia, July 23, 2009*

"We had to move fast if we were not to be left at a competitive disadvantage to Ontario."

*The Honourable Colin Hansen, Minister of Finance, British Columbia, August 20, 2009*

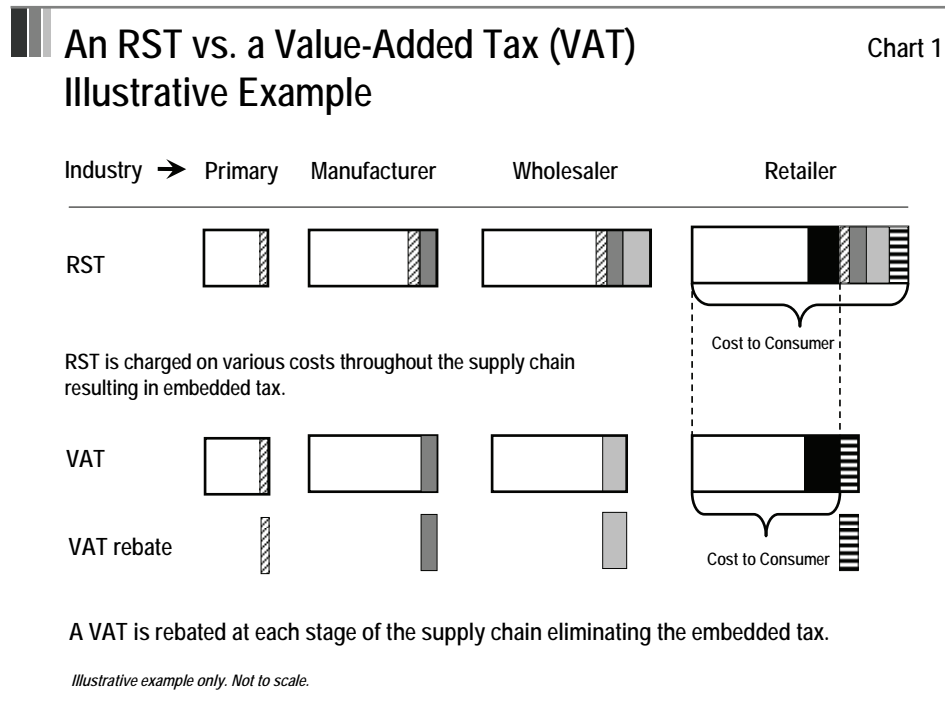
More than 130 countries have already adopted a value-added tax, which is generally viewed as being more efficient than an RST.

The RST is charged on many of the purchases made by businesses in the course of producing goods and services. As illustrated in Chart 1, this tax works its way into each stage of the production, distribution and retail process as it is passed on from

“...the bottom line is that sales tax harmonization will strengthen Ontario's competitiveness, attract new investment and improve job opportunities for workers throughout the province.”

*Thomas d'Aquino, former Chief Executive and President, Canadian Council of Chief Executives, September 23, 2009*

suppliers to business customers and eventually to consumers. The result is a tax that becomes embedded and hidden in the price of purchases made, raising the cost of operating a business in Ontario. This cascading pattern leads to higher prices for Ontario consumers and makes Ontario exports less competitive, which discourages investment in the province. The proposed HST would remove this hidden tax by refunding sales taxes paid on most business inputs, resulting in a cost saving for business.



A study that examined the impact of sales tax harmonization in the Atlantic provinces found that cost savings to business were passed through to consumers.<sup>1</sup> A recent TD Bank report predicts that, in Ontario, competitive pressures would lead businesses to pass through 80 per cent of their savings to consumers in the first year and 95 per cent by the third year.<sup>2</sup> The report notes that “(i)n order for

<sup>1</sup> Michael Smart, “Lessons in Harmony: What Experience in the Atlantic Provinces Shows About the Benefits of a Harmonized Sales Tax,” *C.D. Howe Institute Commentary*, July 2007.

<sup>2</sup> “The Impact of Sales Tax Harmonization in Ontario and B.C. on Canadian Inflation,” *TD Economics Special Report*, September 18, 2009.

businesses to generate an increase in demand for their products they will have to pass those savings onto consumers.”<sup>3</sup>

## TAX CUTS FOR PEOPLE

### Personal Income Tax Cuts

The 2009 Budget proposed \$10.6 billion in tax relief to Ontarians over three years to provide personal income tax (PIT) cuts, enhance the sales tax and property tax credits and help consumers adjust to the HST.

The government is proposing to cut the tax rate on the first \$36,848 of taxable income (adjusted for inflation) by one percentage point, from 6.05 per cent to 5.05 per cent, effective for the 2010 taxation year. In addition, the Ontario dividend tax credit rates would be adjusted to reflect the proposed Corporate Income Tax (CIT) rate reductions. The proposed PIT changes would benefit about 4.3 million individuals and families in Ontario, providing more than \$1.1 billion annually in broadly based PIT cuts. About 93 per cent of Ontario taxpayers would pay less income tax, and approximately 90,000 lower-income taxpayers would no longer pay Ontario PIT.

### Sales Tax and Property Tax Credits

The government is proposing to introduce two new, separate and enhanced tax credits — the Ontario Sales Tax Credit and the Ontario Property Tax Credit — to replace the existing combined property and sales tax credits. The new credits would continue to be refundable but would better target sales and property tax relief to low- to middle-income tax filers. An additional \$1 billion in property and sales tax relief would be provided to Ontarians through the new credits.

“Coming into this budget we had serious concerns that tax harmonization would mean low-income families paying more for their basic needs such as children's shoes and meals. The Sales Tax Credit is a sensible, forward-looking way to deal with that, and could become an important long-term piece of the economic security puzzle for poor people in the future. We applaud the government's plan.”

*Michael Oliphant, Director of Research and Communications, Daily Bread Food Bank, March 26, 2009*

### Ontario Sales Tax Credit

Currently, Ontarians have to wait until they file a tax return to receive sales tax relief for the previous year. To provide more timely assistance, the new Ontario Sales Tax Credit would be paid quarterly,

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<sup>3</sup> Ibid.

starting in August 2010, to individuals who are 19 years of age or over or who have a spouse or a common-law partner or live with their child.

The credit would provide about 2.9 million low- to middle-income families and individuals with annual assistance of up to \$260 for each adult and each child. It would be reduced by four per cent of the previous year's adjusted family net income over \$20,000 for single people and over \$25,000 for families, including single parents.

## Ontario Property Tax Credit

Starting in 2010, the proposed enhanced Ontario Property Tax Credit would be paid annually to low- to middle-income Ontario homeowners and renters who are 18 years of age or over or who have a spouse or a common-law partner or live with their child. Like the existing property tax relief, it would be based on occupancy cost — that is, property tax paid or 20 per cent of rent paid. Non-seniors would be able to claim up to \$250 plus 10 per cent of occupancy cost and seniors would be able to claim up to \$625 plus 10 per cent of occupancy cost. The credit would not exceed occupancy cost and would be subject to a maximum of \$900 for non-seniors and \$1,025 for seniors. It would then be reduced by two per cent of adjusted family net income over \$20,000 for single individuals and over \$25,000 for families, including single parents. This credit would benefit about 2.3 million families and individuals.

**Program Parameters for the Proposed Ontario Sales Tax Credit and Ontario Property Tax Credit** Table 1

	Maximum Amount <sup>1</sup>	Phase-out Rate	Phase-out Range — Adjusted Family Net Income <sup>1</sup>				
			Singles		Families		
			Begins	Ends	Begins	Ends	
Ontario Sales Tax Credit (OSTC)	\$260 per adult and child in a family	4%	\$20,000	\$26,500	\$25,000	Family Size	Income <sup>2</sup>
						2	\$38,000
						3	\$44,500
						4	\$51,000
						5	\$57,500
Ontario Property Tax Credit (OPTC)	Non-seniors: \$900	2%	\$20,000	\$65,000 <sup>3</sup>	\$25,000	\$70,000 <sup>3</sup>	
	Seniors: \$1,025			\$71,250 <sup>3</sup>		\$76,250 <sup>3</sup>	

*Notes:*

- <sup>1</sup> The amounts and income thresholds for the OSTC and OPTC would be indexed annually for inflation.
- <sup>2</sup> Maximum income for the OSTC varies with the number of people in the family; it rises to \$64,000 for a family of six, and by \$6,500 for each additional family member.
- <sup>3</sup> The maximum income for the OPTC depends on the property tax or rent paid. These upper limits represent the maximum possible income at which someone could stop receiving the OPTC. For many people, especially tenants, the maxima would be much lower. For example, a non-senior family would have to pay over \$2,700 a month in rent to receive the OPTC with income at or near \$70,000.

## Sales Tax Transition Benefit

Up to three non-taxable payments would be made to eligible Ontario residents aged 18 and over in June 2010, December 2010 and June 2011. Individuals under 18 years of age

Payment Month	Single Individuals		Single Parents and Couples	
	Maximum Benefit	Phase-out Range	Maximum Benefit	Phase-out Range
June 2010	\$100	\$80,000–\$82,000	\$330	\$160,000–\$166,600
December 2010	\$100	\$80,000–\$82,000	\$335	\$160,000–\$166,700
June 2011	\$100	\$80,000–\$82,000	\$335	\$160,000–\$166,700
<b>Total</b>	<b>\$300</b>		<b>\$1,000</b>	

would also be eligible if they have a spouse or common-law partner or live with their child. Eligible families (including single parents) with adjusted family net incomes of \$160,000 or less would receive three payments totalling \$1,000. Eligible single individuals with adjusted net incomes of \$80,000 or less would receive three payments totalling \$300. The maximum benefit would be reduced by five per cent of income over these income thresholds. This proposed measure would provide about \$4 billion to 6.5 million eligible individuals and families to help smooth the transition to the proposed new sales tax system.

## How the Tax Changes Would Benefit People

Ontarians would benefit from the greater prosperity that comes from a stronger, more competitive economy that creates more jobs, provides higher incomes and better supports public services that Ontarians depend on.

People would also benefit from the permanent income tax cuts, enriched tax credits and the transition payments.

“On the whole, Ontario’s 2009–10 budget establishes a positive direction for the next few years.... It provides additional support for low-income families and individuals. It takes a bold step towards a more effective and efficient tax system, through harmonization of Ontario’s consumption tax with the GST.”

*Hugh Mackenzie, former Research Director, United Steelworkers of America and former Executive Director, Ontario Fair Tax Commission, March 27, 2009*

The following examples illustrate the impact of the proposed tax changes. The impacts are shown for:

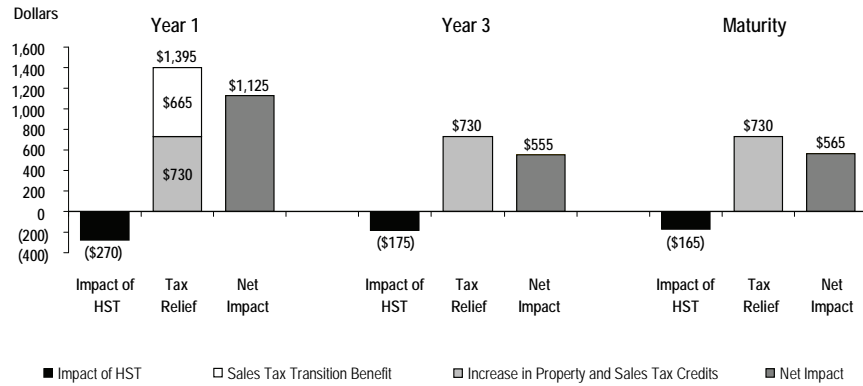
- the first full year of the HST, when individuals and families would receive two of the transition benefit payments;
- the third year, when the transition benefit would no longer be provided; and
- at maturity, when the HST credits for businesses would be fully phased in.

These examples show that the transition benefit, combined with the permanent PIT cuts and enriched tax credits, would more than offset the HST impacts for many families, especially those with lower incomes and those with children.<sup>4</sup>

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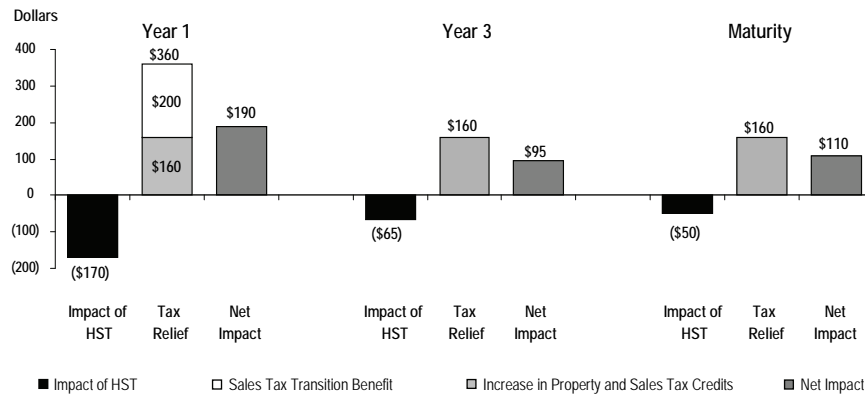
<sup>4</sup> The specific impacts on individual households may vary according to their actual consumption patterns, sources and divisions of income, tax credits and deductions, and level of savings. The examples do not include the benefits to households from higher Gross Domestic Product and personal disposable incomes as the result of the tax changes.

## Impact of Proposed Sales Tax Changes and Tax Relief — Single Parent on Ontario Works, 2 Children (ages 5 & 7) Chart 2



*Note:* Single parent with \$11,532 in annual Ontario Works benefits, paying \$620 in monthly rent, with no day-care costs.  
*Source:* Ontario Ministry of Finance.

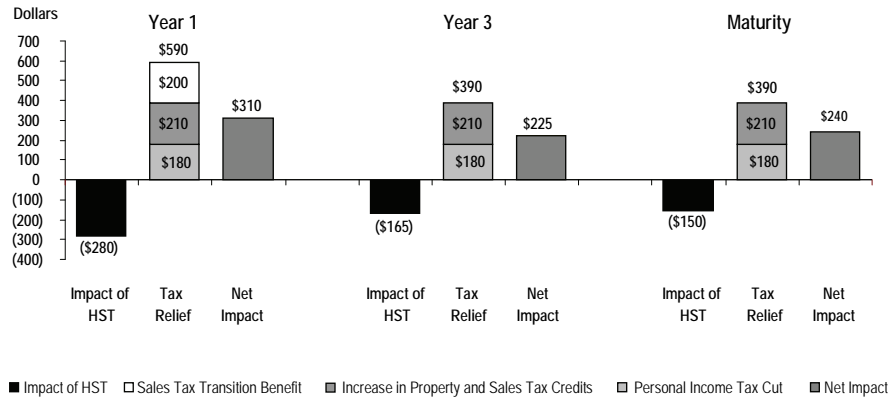
## Impact of Proposed Sales Tax Changes and Tax Relief — Single Senior, Pension Income \$20,000 Chart 3



*Note:* Senior individual with pension income including Old Age Security, Guaranteed Income Supplement and Canada Pension Plan, and paying \$600 in monthly rent.  
*Source:* Ontario Ministry of Finance.

## Impact of Proposed Sales Tax Changes and Tax Relief — Single Individual, \$30,000

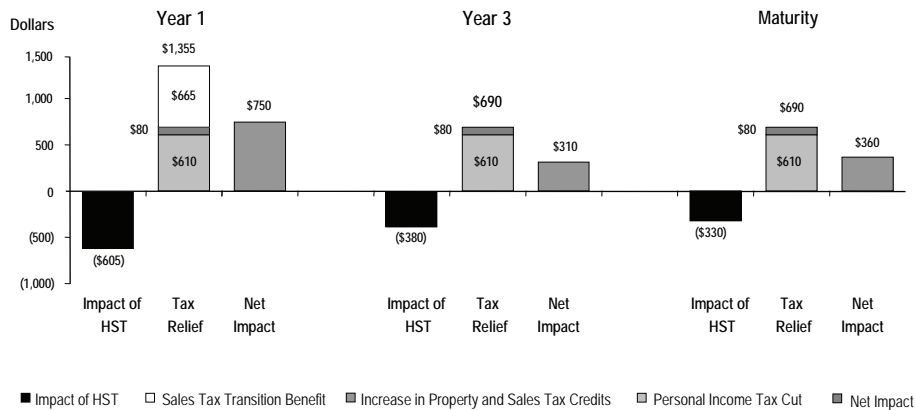
Chart 4



Note: Individual with \$600 in monthly rent.  
 Source: Ontario Ministry of Finance.

## Impact of Proposed Sales Tax Changes and Tax Relief — Couple, \$70,000, 2 Children (ages 5 & 10)

Chart 5



Note: Family with income split 60%/40%, paying \$4,000 in property taxes on their home, with day-care costs of \$11,000 a year.  
 Source: Ontario Ministry of Finance.

## COMPETITIVE BUSINESS TAXES

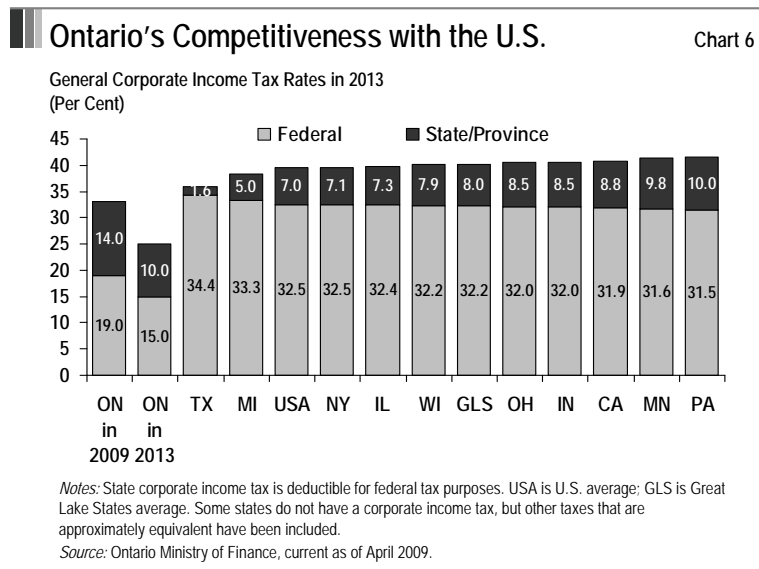
The 2009 Budget proposed \$4.5 billion in business tax relief over three years that would lower business costs, enhance Ontario’s competitiveness and support growing small businesses. These measures would build on the tax relief already in place, such as the elimination of the Capital Tax for manufacturers retroactive to 2007 and complete Capital Tax elimination on July 1, 2010.

The comprehensive tax package proposed in the 2009 Budget would permanently and significantly reduce taxes for large and small businesses across the province. For example, CIT rates would be cut, beginning July 1, 2010, as follows:

- the general CIT rate would be cut from 14 per cent to 12 per cent and further reduced to 10 per cent over three years;
- the CIT rate on manufacturing and processing, mining, logging, farming and fishing income would be cut from 12 per cent to 10 per cent;
- the small business CIT rate would be cut from 5.5 per cent to 4.5 per cent; and
- the small business deduction surtax of 4.25 per cent would be eliminated.

### How the Tax Changes Would Benefit Business

When the proposed Ontario CIT rate cuts are fully implemented, Ontario’s combined federal–provincial CIT rate of 25 per cent would be lower than the current average corporate tax rate among developed countries and about 15 percentage points below the average combined federal–state general CIT rate in the U.S. Great Lakes States — Ontario’s key competitors for jobs and investment.



The HST would also provide substantial tax savings for businesses. When fully implemented, businesses would save \$4.5 billion a year through input tax credits on business purchases.

In addition, businesses would save over \$500 million a year in compliance costs from the move to a single HST administration.

These tax and cost savings could be used to reduce prices or invest in new machinery and equipment, allowing Ontario businesses, large and small, to better compete in the export market or domestically against imports, and to create new jobs.

Ontario's marginal effective tax rate<sup>5</sup> (METR) on new business investment would be cut in half, making Ontario one of the most competitive

jurisdictions in the industrialized world for new investment. Ontario's position as one of the best places in the world to invest would be further strengthened by other actions the government has taken to improve competitiveness, such as investments in infrastructure, skills training and innovation.

"The HST will lower business input costs and stimulate investment in capital equipment — a necessary step for restructuring and leaner production among companies in struggling industries like Ontario's automotive sector.... This change will simplify the lives of small, medium and large businesses, allowing them to focus on expansion, investment and job creation. All of this will add to the competitiveness of Ontario businesses."

*Glen Hodgson, Chief Economist, Conference Board of Canada, September 25, 2009*

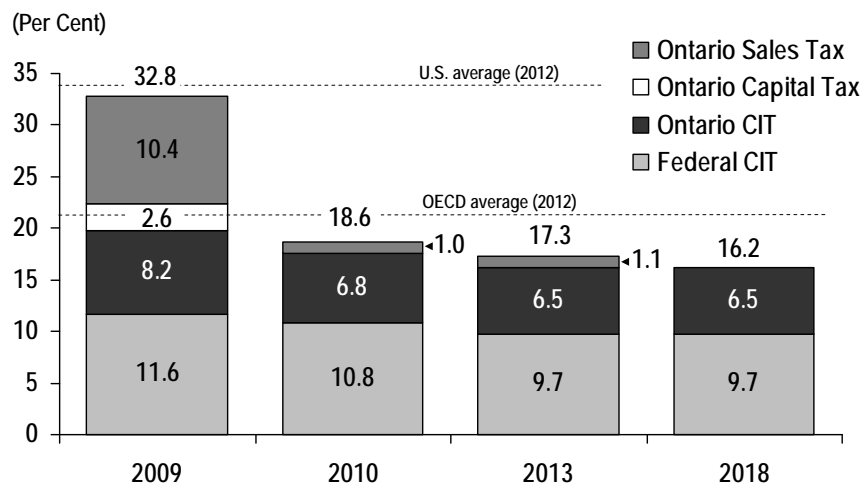
**Three Ways Businesses Would Save Under the HST** Chart 7

Input Tax Credits on Business Purchases	Reducing Embedded Tax in Supplier Prices	Reducing Compliance Costs
<p>While some business inputs are RST-exempt, many are RST-taxable.</p> <p>Under the HST, businesses would receive Input Tax Credits for the sales tax they pay on many of their business inputs and capital investments.</p>	<p>The HST would eliminate the cascading layers of RST, which is an embedded tax hidden in the purchase price.</p> <p>Removing this embedded RST would reduce the price of business inputs.</p>	<p>Businesses would save over \$500 million a year from one set of forms, one payment and one point of contact for audits, appeals and taxpayer services, and from eliminating the many complex RST rules that vendors currently face.</p>

<sup>5</sup> The METR is a comprehensive measure of the tax that applies to an incremental dollar of income from new capital investment. It reflects the combined effect of federal and provincial corporate income taxes, rules related to depreciation, investment tax credits, capital and sales taxes.

## Cutting Ontario's METR on New Business Investment in Half\*

Chart 8



\* Includes the Ontario Corporate Income Tax (CIT) rate cuts and harmonized sales tax proposed in the 2009 Budget, the phase-out of Ontario's capital tax by July 1, 2010, and the reduction in the general federal CIT rate to 15 per cent by 2012.

Sources: Ontario Ministry of Finance and Finance Canada.

## SUPPORTING INNOVATION AND KEY SECTORS

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The McGuinty government continues to partner with key sectors to help Ontario businesses be well positioned to succeed in an increasingly competitive global economy.

The entertainment and creative industries are an important component of the new knowledge economy. These industries enhance creativity and innovation in the province, and in turn boost economic growth by attracting businesses, skilled workers and highly mobile professionals and investors. Ontario provides significant support to strengthen its entertainment and creative cluster.

### STREAMLINING THE DIGITAL MEDIA TAX CREDIT FOR LARGE GAME DEVELOPERS

The 2009 Budget proposed to enhance the Ontario Interactive Digital Media Tax Credit rates from 25 per cent (30 per cent for small corporations) to 40 per cent for qualifying corporations, regardless of size, that develop their own eligible products and to 35 per cent for corporations that develop eligible products under a fee-for-service arrangement.

To streamline the tax credit for large game developers and strengthen Ontario's competitiveness for investment in this sector, the government is proposing additional changes to better support large, specialized game developers that develop eligible interactive digital media games in Ontario.

It is proposed that, effective after March 26, 2009, a 35 per cent refundable tax credit on Ontario salaries and wages would be available annually to certified game developers that incur at least \$1 million of Ontario labour expenditures per year in the development of eligible interactive digital media games. A certified game developer generally would have at least 80 per cent of Ontario payroll or 90 per cent of annual revenues attributable to interactive digital media game development.

### ENHANCING THE PRODUCTION SERVICES TAX CREDIT

To support the film and television sector, Ontario announced an enhancement to the Ontario Production Services Tax Credit (OPSTC) on June 29, 2009. The OPSTC is a 25 per cent refundable tax credit for labour expenditures available to corporations for qualifying foreign film and television production services and non-certified domestic film and television productions in Ontario. Effective for expenditures incurred after June 30, 2009, the OPSTC would be expanded to additional production expenditures incurred in Ontario, including eligible service contracts as well as the purchase or rental of qualifying tangible properties, such as equipment and studio rentals.



# CHAPTER VI

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## How to Participate in the 2010 Pre-Budget Consultations



## HOW TO PARTICIPATE IN THE 2010 PRE-BUDGET CONSULTATIONS

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There are several ways to submit your thoughts and ideas to the government. In addition to a number of roundtables with groups plus larger pre-budget consultation sessions, you can visit the Ministry of Finance website at [www.fin.gov.on.ca](http://www.fin.gov.on.ca) to submit your ideas for the 2010 Budget. Click on “Tell Us What You Think” in the What’s New menu and complete the form provided. You can also e-mail your input to [submissions@ontario.ca](mailto:submissions@ontario.ca), fax it to 416-325-0969 or mail it to: The Minister of Finance, c/o Budget Secretariat, Frost Building North, 3rd Floor, 95 Grosvenor Street, Toronto, ON M7A 1Z1.

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

When preparing your comments, please use the following questions to frame your submission:

1. What processes should the government put in place to enable it to move out of deficit?
2. What steps should the government take to streamline and provide better public services to Ontarians?
3. Government priorities are job creation, health care, education, strong fiscal management and economic growth. How should the government balance this multitude of priorities? Given the considerable fiscal challenges, what should be the core priorities of the 2010 Budget?

Information on which communities and locations the Minister plans to visit will be posted at [www.fin.gov.on.ca](http://www.fin.gov.on.ca) in November 2009. Individuals who wish to attend one of these consultations can call toll-free 1-800-263-7965 or 1-800-263-7776 TTY.

