1998 Ontario Budget

Budget Speech

Jobs for the Future, Today

The Honourable Ernie Eves, Q.C.

Minister of Finance

Ontario

PAPER A

Ontario Economic Outlook

Highlights

Ontario's economic future is bright. Job creation has accelerated and is expected to remain strong. Consumers are enjoying rising income, lower taxes and low interest rates. With confidence in the economy strong, consumer spending on items such as cars, new homes and furniture has risen sharply. Businesses, brimming with new orders, are reinvesting profits in new equipment and more office space to create jobs, expand capacity and increase productivity.

Economic Outlook at a Glance

(Annual Average)

	1997	1998	1999	2000
Real GDP growth (per cent)	4.8	3.5	3.0	3.0
Employment (thousands)	5,413	Up to 5,629	Up to 5,800	Up to 5,973
Unemployment Rate (per cent)	8.5	7.1 to 7.4	6.4 to 7.1	6.2 to 6.9
CPI Inflation (per cent)	1.9	1.4	1.6	1.7

Sources: Statistics Canada and Ontario Ministry of Finance.

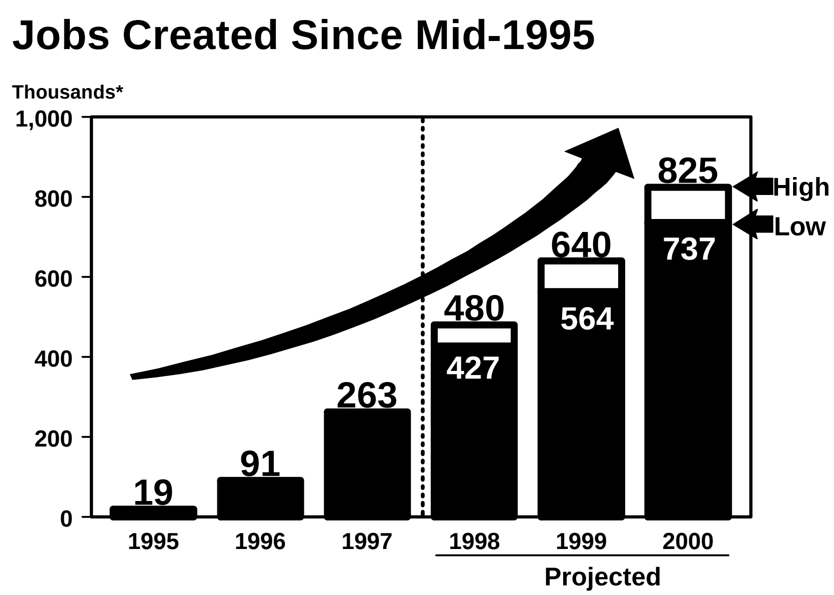
"Nineteen ninety-seven saw Ontario on a very ***strong upward economic path*** *with the momentum likely to continue through 1998 and 1999...a strong domestic recovery is now in full swing in the province."* **CIBC, February 1998**

Job Creation Accelerating

Tax cuts, low interest rates and a high level of competitiveness are invigorating Ontario's business climate. Strong consumer and business demand have resulted in impressive gains in private-sector job creation.

- The private sector in Ontario has generated 345,000 net new jobs over the September 1995 to February 1998 period. This increase accounts for 53.1 per cent of the national total.

- Job growth is accelerating. From February 1997 to February 1998, net private-sector job creation totalled 265,000, the largest 12-month gain in Ontario's history.



* Cumulative change since June 1995 to actual or projected year-end employment level.
Sources: Statistics Canada and Ontario Ministry of Finance.

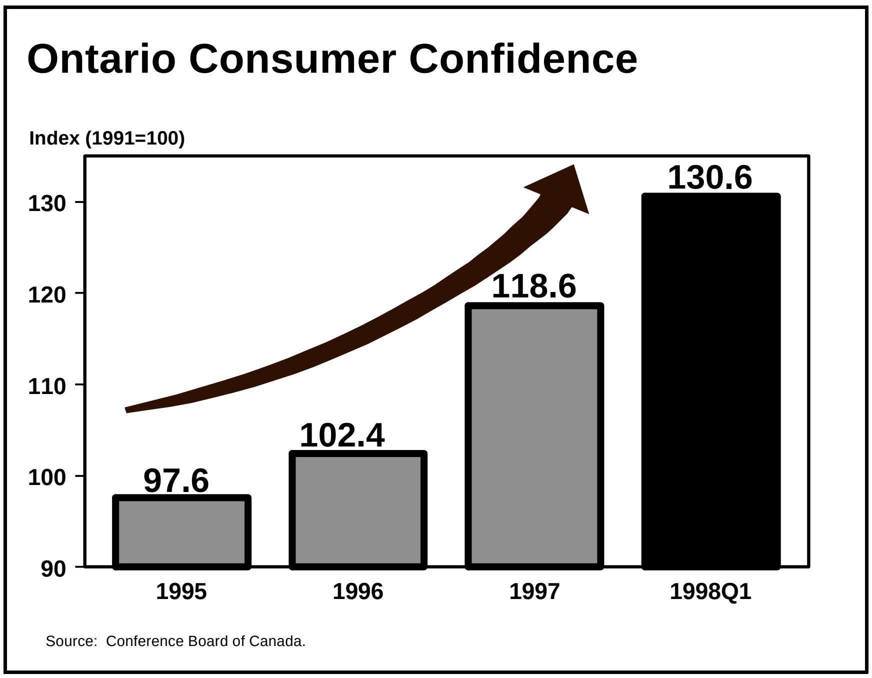
- The strong economy will support average annual job growth of 3.5 to 4.0 per cent in 1998, 2.5 to 3.0 per cent in 1999, and 2.5 to 3.0 per cent in 2000.

- The unemployment rate is projected to fall from 8.5 per cent in 1997 to a range of 6.2 to 6.9 per cent in 2000.

Confidence Rising

High consumer and business confidence have led to strong consumer spending and business investment, resulting in solid gains in real output and employment.

> *"Ontario's momentum will continue this year...healthy domestic demand—underpinned by* ***high levels of consumer and business confidence****—alongside continued strength in the province's main U.S. export market will contribute to another strong economic advance."* ***Scotiabank, April 1998***



- Ontario consumer confidence has reached its highest level in nine years.

- The Conference Board's index of consumer confidence has risen steadily and strongly since the end of 1995. Over this period, the index has risen by 47.4 per cent. Tax cuts, strong job creation and low interest rates have supported Ontarians' confidence in their economic prospects. This has supported their willingness to make important investment and spending decisions such as buying a new home.

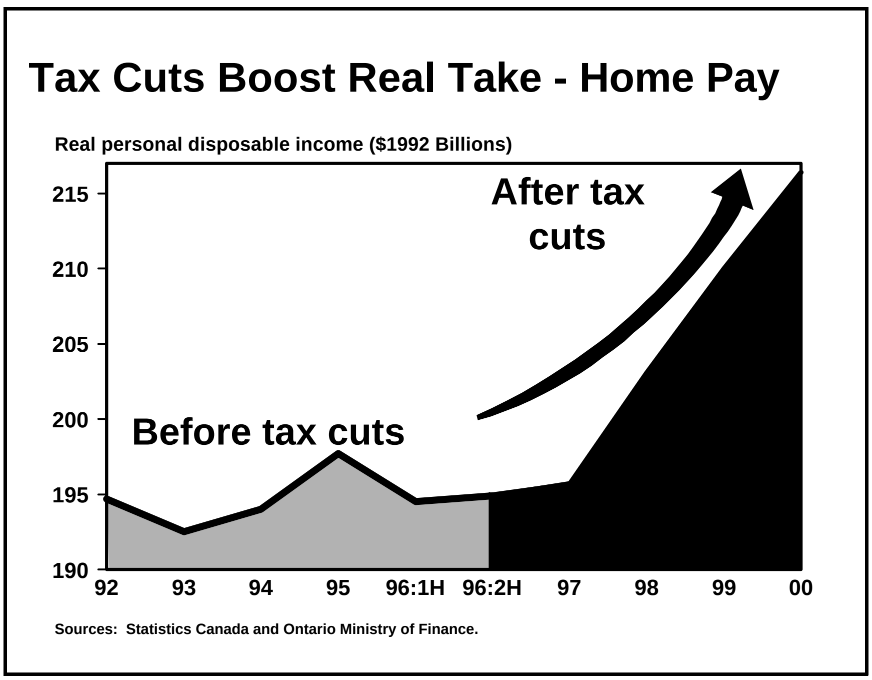
Business confidence is close to record-high levels, reflecting rising corporate profits and the improved business climate. Ontario's corporate profits before taxes rose 21.6 per cent in 1997.

Strong Consumer Demand

Tax cuts, rising personal income and low interest rates will drive continuing solid growth in consumer spending. Real consumer spending is projected to rise by 3.5 per cent in 1998 and expand by an average 2.8 per cent over the 1999 to 2000 period.

> *"**Consumer spending** in Ontario will continue to be boosted by additional employment gains and further reductions in personal income tax rates."* ***TD Bank, March 1998***

- ♦ Real consumer spending surged 3.9 per cent in 1997, the strongest performance in almost a decade. Retail sales in 1997 increased by 7.4 per cent, with sales by furniture and appliance stores up 16.5 per cent. Over the first two months of 1997, Ontario retail sales are up 10.0 per cent over the same period last year. In 1997, unit auto sales in Ontario rose 19.3 per cent, the strongest gain in 12 years.

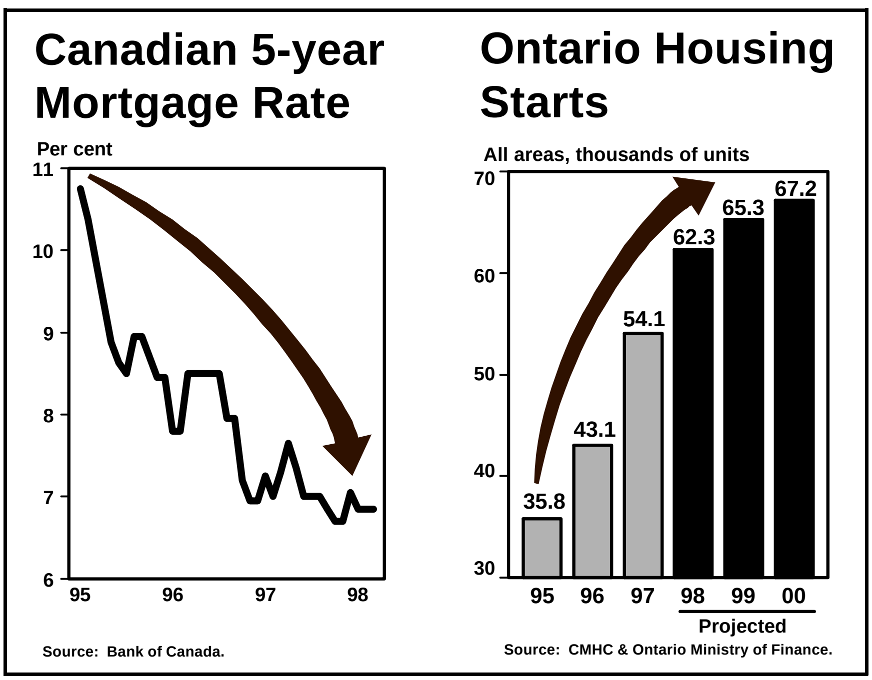


- ♦ Consumer spending is projected to grow in line with personal disposable income gains. Ontario's tax cuts and strong job gains are projected to strengthen real disposable income growth to 3.8 per cent in 1998 and an average 3.3 per cent over the 1999-2000 period.

Housing Maintains Momentum

> *"Ontario's housing market is in the midst of a strong recovery triggered by low interest rates and rising household incomes, significant pent-up demand and strong population growth."*
>
> ***Royal Bank, 1998***

The number of housing starts rose by 25.6 per cent in 1997 to 54,100 units. Demographic trends suggest that Ontario needs 65,000 to 70,000 additional housing units per year.



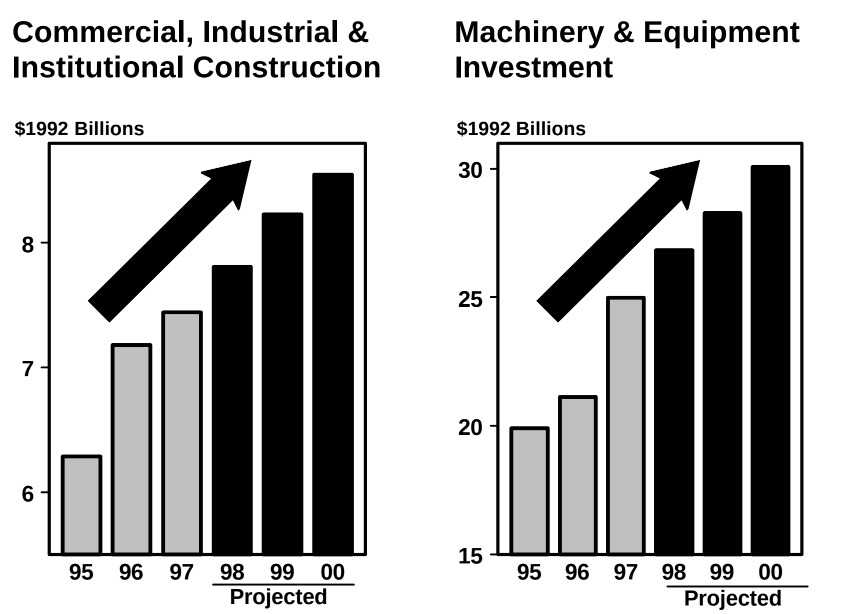
The Land Transfer Tax (LTT) rebate for families buying new homes for the first time will continue to support the housing industry. The construction industry created 26,000 new jobs in 1997 and will remain a mainstay of the Ontario economy over the next three years.

Ontario housing starts are expected to rise to 62,300 in 1998, an increase of 15.2 per cent, to 65,300 in 1999, and to 67,200 in 2000. Residential construction in Ontario is projected to rise by 9.9 per cent in 1998 and an average of 5.0 per cent in 1999 and 2000.

Investment Rising

Investment in Ontario has grown strongly over the past two years. This increased investment has enhanced the competitive position of Ontario's businesses, and will lead to greater job creation, future increases in productivity and additional output growth in the overall economy.

> *"Ontario is well positioned for a second consecutive year of solid growth. The economy entered 1998 with all cylinders firing, and growth shows little sign of abating. Domestic demand will again drive overall activity, powered by consumers who are bullish about near-term economic prospects and eager to spend. The strength of current business activity is putting pressure on existing capacity, which in turn will spur* ***investment in plant and equipment over the next two years.****"* ***The Conference Board, April 1998***



Sources: Statistics Canada and Ontario Ministry of Finance.

♦ Ontario real business investment in machinery and equipment rose 25.5 per cent over the 1995 to 1997 period. Machinery and equipment investment is projected to increase by 7.4 per cent in 1998 and by an average 5.8 per cent in 1999 and 2000.

Real investment in commercial, industrial and institutional construction rose 18.4 per cent from 1995 to 1997. Spending in this sector is expected to rise by 4.9 per cent in 1998 and an average of 4.7 per cent in 1999 and 2000.

– Major investments, for example, are being made by Honda, Toyota, Chrysler, Inco, Dofasco, TrizecHahn and the Greater Toronto Airport Authority.
– According to Royal LePage, the Toronto office vacancy rate fell to 9.4 per cent in the first quarter of 1998.
– Industrial real estate development is beginning to grow strongly. Commercial and industrial building permits rose 32.6 per cent in Ontario in 1997.

Growing Exports Boost Growth

Ontario's export orientation has increased sharply since the Canada-U.S. Free Trade Agreement, rising from 28.5 per cent of GDP in 1989 to 45.8 per cent in 1997. International exports as a share of the economy is larger in Ontario than in any other province or any of the major industrial countries.

> *"Ontario's economy shifted into top gear in 1997, growing at an estimated rate of 4.8%, spurred by* ***robust exports*** *to the U.S. and a rekindling of interest-sensitive sectors such as housing and big-ticket consumer items. Ontario's economic expansion will continue to be* ***broadly based****, with* ***robust output growth*** *across a wide array of industries....Ontario's labour market will continue to brighten this year and next in light of the healthy outlook for production."* ***Bank of Montreal, April 1998***

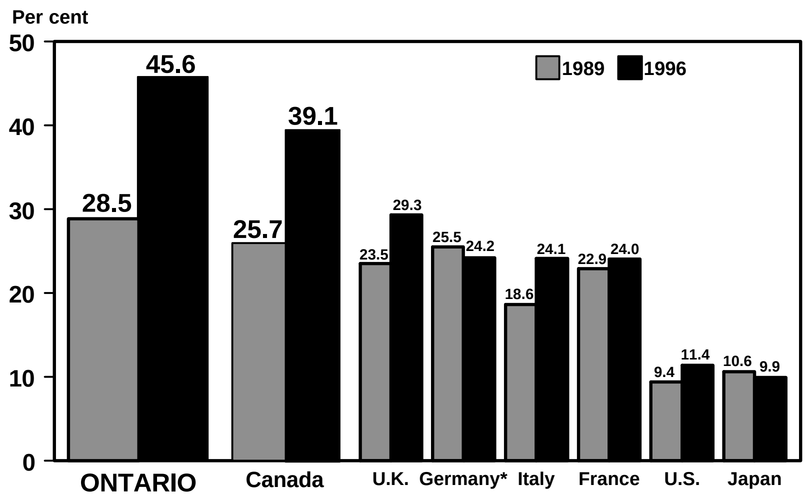
Exports create jobs in Ontario

Ontario's real exports are projected to grow at an average 5.4 per cent rate over the 1998 to 2000 period, outpacing overall economic growth. Ontario's real trade balance is expected to rise, making a net contribution to GDP growth over the medium term.

- ♦ The auto sector remains Ontario's leading export industry, accounting for 45 per cent of total international exports in 1997. The industry achieved an all-time record output level of 2.47 million units in 1997. The strong competitive position of Ontario's auto industry is based on efficiency and high quality. With demand expected to be firm, the industry is expected to continue growing over the 1998 to 2000 period.

- ♦ Knowledge-intensive, high-technology industries will be the leading job-creating sector of the economy. Telecommunications and computer-related Canadian exports have risen by 84 per cent in the last three years. Although high-tech industries directly produced only 7.6 per cent of Ontario's output in 1996, they accounted for about 42 per cent of Ontario's growth since 1990.

Exports as a Share of GDP



*1991 and 1996.

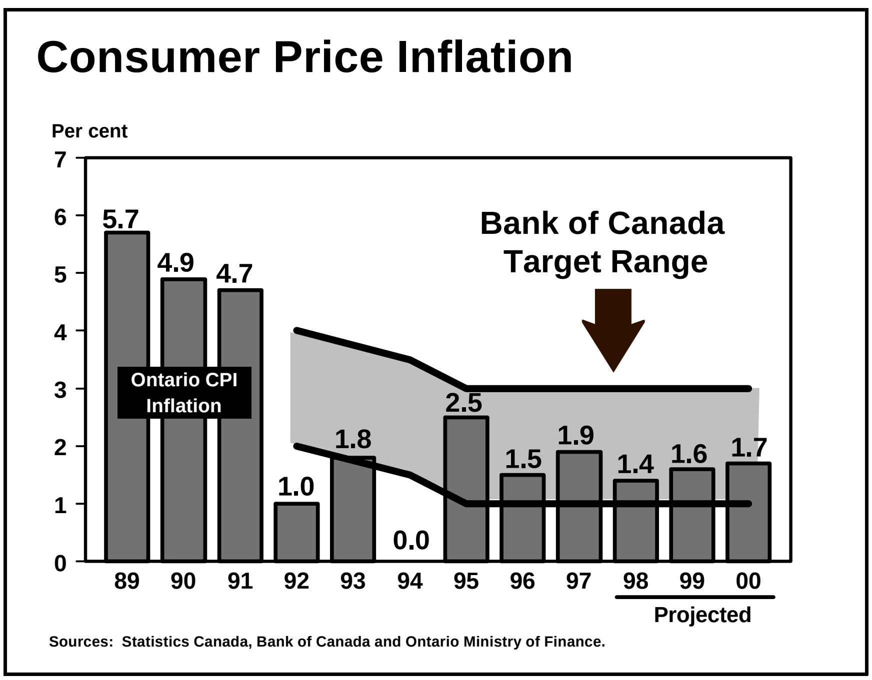
Sources: OECD, Statistics Canada and Ontario Ministry of Finance.

Continued Low Inflation

The Canadian inflation rate was 0.9 per cent in March 1998, below the low end of the Bank of Canada's target range.

Over the next few years, inflation is expected to remain in the lower half of the Bank of Canada's 1 to 3 per cent target band. Low inflation reflects the continuing availability of productive capacity and rising productivity in Ontario, combined with strong global competition intensified by the depreciation of East Asian currencies. Continuing low inflation should help to strengthen the Canadian dollar over the medium term.

Sustained low inflation will, in turn, contribute to a healthy economic environment by helping to keep interest rates low and strengthening business and consumer confidence.



The International Economic Setting

Ontario's economy is diversified and open. The external environment has become increasingly important with exports making a larger contribution to Ontario economic growth. World economic events such as the unfolding Asian crisis affect Ontario mainly through their impact on Ontario's major trading partners, world capital flows and commodity prices.

Ontario's major export market, by far, is the United States, followed by the European Union and then Japan.

- The United States accounts for about 90 per cent of Ontario's international exports. According to the average private-sector forecast, U.S. real growth will slow from 3.8 per cent in 1997 to 2.8 per cent in 1998 and 2.3 per cent in 1999. Events in Asia, a strong U.S. dollar and slower inventory accumulation and investment will contribute to this growth slowdown. This will keep inflationary pressures in check and provide stability to Ontario export growth.

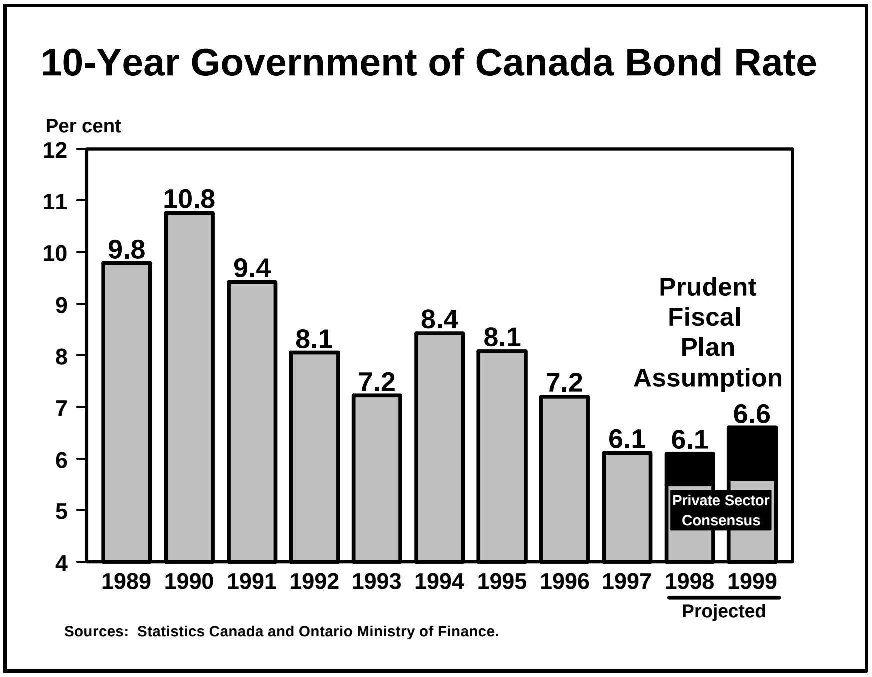
- Modest economic growth in western Europe is expected to continue over the next two years, as the European Monetary Union is launched on January 1, 1999.

- Despite recent stimulative fiscal measures, the Japanese economy remains stalled and faces significant downward pressure from adjustments in other Asian economies.

- The Asian crisis is likely to have a limited impact on Ontario's economy. Slower economic growth, lower asset prices and depreciating local currencies have reduced Asian demand for the rest of the world's products. However, total Ontario exports to the most affected countries are equivalent to less than 1.0 per cent of our GDP. Some important Ontario industries, including auto, electrical products and steel, are facing increased competition as a result of Asian currency depreciation.

Continuing Low Interest Rates

Declining government deficits and low inflation will continue to keep interest rates near historically low levels and support the dollar over the next few years. The 10-year Government of Canada Bond rate is near its lowest level in more than 30 years. Interest rates in Canada are expected to remain below U.S. rates over the next two years. This will help to drive job creation, investment and economic growth.



Private-sector forecasters expect a fairly stable interest rate environment over the next two years. The private sector expects the 10-year Government of Canada bond rate to be 5.5 per cent in 1998, 60 basis points lower than last year. Ontario's interest rate projection builds in a prudence factor above the private-sector average.

Cautious Interest Rate Assumptions (Average per cent)

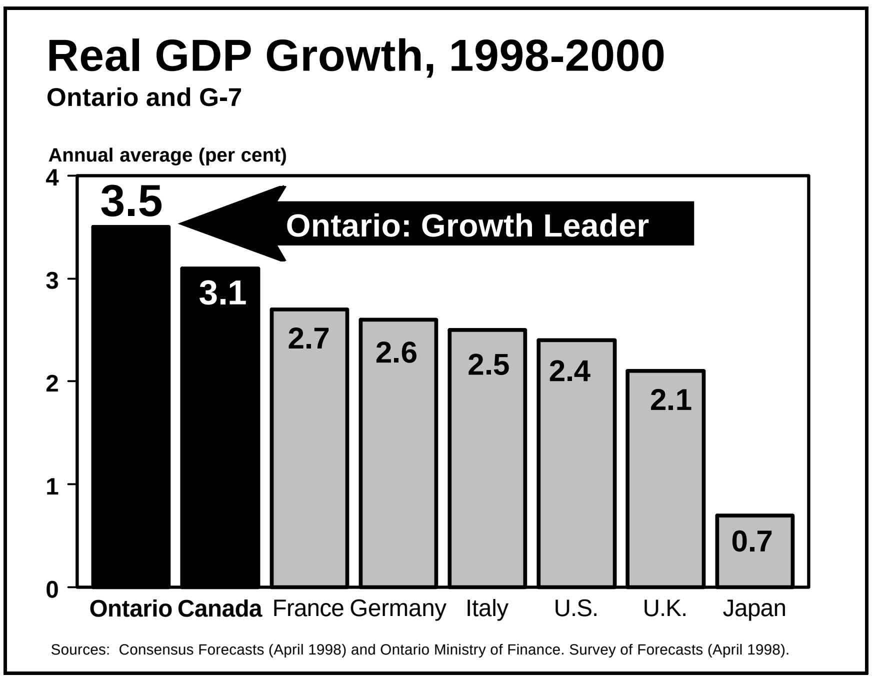
	1997	1998 Jan. -Apr.	1998 May -Dec.	1999
3-month treasury bill				
Private-sector survey average	3.3	4.5	4.7	4.6
Ontario's prudent assumption			5.7	5.6
10-year government bonds				
Private-sector survey average	6.1	5.4	5.5	5.6
Ontario's prudent assumption			6.5	6.6

Sources: Bank of Canada, Ontario Ministry of Finance and Ontario Finance Financial Market Survey (April 1998).

Conclusion

The outlook for the Ontario economy is very positive. Job creation is continuing at a near record pace. Ontario's fiscal plan is based on cautious economic growth projections of real GDP growing by 3.5 per cent in 1998, 3.0 per cent in 1999, and 3.0 per cent in 2000. Private-sector economists are more optimistic, on average forecasting real growth of 4.0 per cent in 1998, 3.2 per cent in 1999, and 3.4 per cent in 2000.

Ontario is expected to achieve faster economic growth than Canada as a whole or any of the G-7 major industrial countries.



"The Ontario ***economy is booming!*** *The tax cuts are clearly working their way through."* ***Nesbitt Burns, April 1998***

The Ontario Economy, 1995-2000
(per cent change)

	Actual			Projected		
	1995	**1996**	**1997**	**1998**	**1999**	**2000**
Real Gross Domestic Product	**3.2**	**1.1**	**4.8**	**3.5**	**3.0**	**3.0**
Personal consumption	1.7	1.8	3.9	3.5	2.9	2.7
Residential construction	-14.3	14.2	16.5	9.9	5.8	4.2
Non-residential construction	0.6	14.2	3.7	4.9	5.4	3.9
Machinery and equipment	9.0	6.1	18.3	7.4	5.4	6.3
Exports	9.4	4.5	9.3	6.3	5.1	5.0
Imports	8.0	3.4	12.1	5.9	4.9	4.8
Nominal Gross Domestic Product	**5.7**	**2.5**	**5.2**	**4.6**	**4.7**	**4.8**
Other Economic Indicators						
Retail sales	3.1	0.3	7.4	6.2	4.5	4.6
Housing starts (000s)	35.8	43.1	54.1	62.3	65.3	67.2
Personal income	3.9	1.0	2.9	4.9	4.4	4.8
Corporate profits	21.1	-3.4	21.6	7.0	4.4	5.2
Ontario Consumer Price Index	2.5	1.5	1.9	1.4	1.6	1.7
Labour Market						
Employment*	1.4	1.5	1.9	3.5-4.0	2.5-3.0	2.5-3.0
Unemployment rate* (per cent)	8.7	9.1	8.5	7.1-7.4	6.4-7.1	6.2-6.9

Sources: Statistics Canada and Ontario Ministry of Finance
* Based on Labour Force Survey.

Appendix

Sensitivity of Ontario Deficit to Changes in Economic Assumptions

In order to develop a cautious fiscal plan, this Budget is based on prudent assumptions about interest rates and economic growth. Interest rates are assumed to be one percentage point higher than the private-sector consensus forecast, and our economic assumptions are deliberately set below the private-sector consensus and Ontario's potential.

Cautious Economic Growth Projections (per cent)

	1998	1999	2000
Ontario Real GDP Growth			
Private-sector high	4.6	3.5	3.8
Private-sector low	3.6	2.8	3.0
Private-sector survey average	4.0	3.2	3.4
Ontario's prudent projection	3.5	3.0	3.0

Sources: Ontario Ministry of Finance and Ontario Finance Survey of Forecasts (April 1998)
Note: The private-sector average is based on nine respondents for 1998, eight for 1999 and five for 2000.

The following table shows the sensitivity of the deficit to the direct impact of lower interest rates on public debt interest (PDI) and the impact of stronger economic growth on revenues and expenditures. These are partial calculations. For example, the impacts do not incorporate the economic impact of lower interest rates on economic activity.

Impact of Changes in Fiscal Plan Economic Assumptions on the Ontario Deficit (Change from base level)

	Impact on Deficit ($Millions)	
	1998-99	1999-2000
100 Basis Point Fall in Canadian Interest Rates	-120	-265
1 Percentage Point Increase in Real GDP Growth	-515	-1065

Sources: Ontario Ministry of Finance
Note: Second-year figures are cumulative change from base level.

PAPER B
Ontario's Fiscal Plan

Introduction

In November 1995, the Government announced a Balanced Budget Plan to eliminate the deficit by the year 2000-01. With the 1998 Budget, the original 1998-99 deficit target of $4.8 billion will be cut by almost $0.6 billion, and set at $4.2 billion.

The 1998-99 deficit of $4.2 billion represents a reduction of $7.1 billion, or 63 per cent, from the $11.3 billion potential deficit that faced the Government upon assuming office in June 1995. The deficit target for 1999-00 remains unchanged at $2.6 billion.

The Government has consistently achieved lower deficits than called for in the Balanced Budget Plan. With an interim deficit of $5.2 billion, 1997-98 is the third consecutive year in which the Province has overachieved its deficit target.

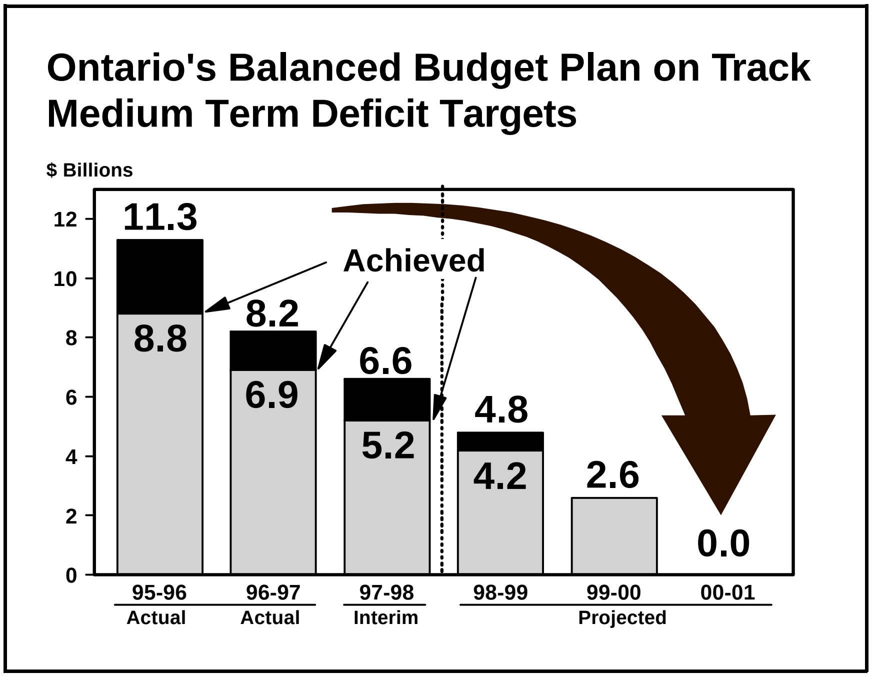
In addition, the Government is continuing to promote and support needed restructuring in health care, education and municipalities by investing heavily in these priority sectors.

This paper:

- examines Ontario's recent fiscal record;
- reviews the interim financial results for 1997-98;
- provides details on the 1998-99 Budget Plan; and
- projects the medium-term fiscal outlook.

On Track to Balance the Budget

The Balanced Budget Plan released in November 1995 specified declining annual deficit targets, culminating in a balanced budget by the year 2000-01. Due to improved fiscal performance, the 1998-99 deficit target of $4.8 billion will be cut by $0.6 billion and is set at $4.2 billion. Ontario remains on track to meet the final two years of deficit targets outlined in the Plan.



- ♦ 1997-98 was the third consecutive year in which the Balanced Budget Plan deficit target was overachieved.

  – Upon assuming office in June of 1995, the Government faced a potential deficit of $11.3 billion. The Government set a deficit target of $9.3 billion for 1995-96, moving quickly to get the Province’s finances back in order.

  – The 1995-96 deficit target of $9.3 billion was overachieved by $508 million, and in 1996-97, the Budget target of $8.2 billion was overachieved by $1,275 million.

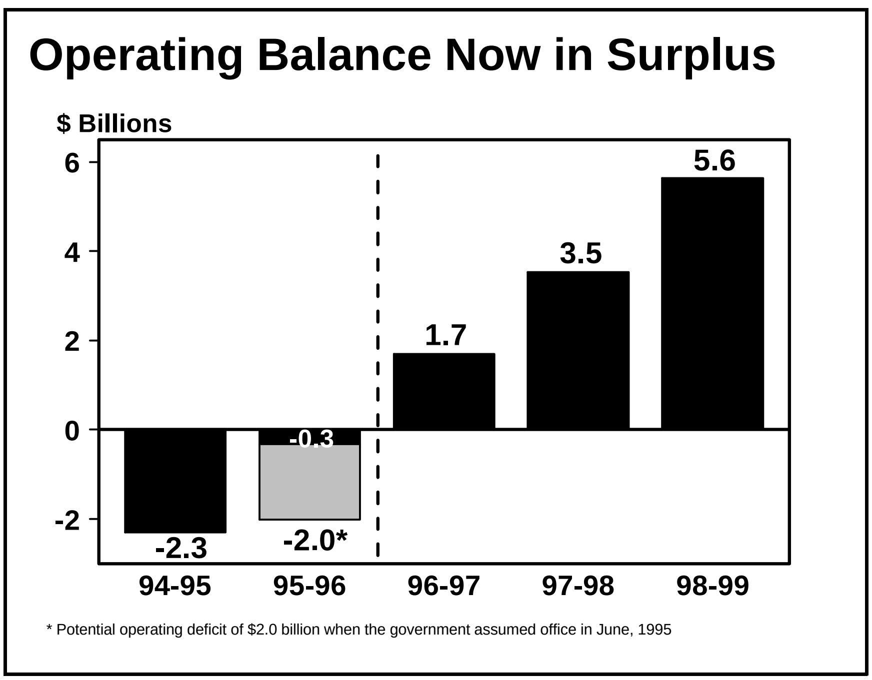
  – At $5.2 billion, the interim 1997-98 deficit is $1,377 million below the Budget target of $6.6 billion.

Ontario's Fiscal Record

A Growing Operating Surplus Needed to Pay Public Debt Interest

The Province's fiscal performance continues to show solid progress. Ontario achieved an important fiscal milestone in 1996-97 by recording an operating surplus of $1.7 billion, the first surplus since 1990-91. The operating surplus increased to $3.5 billion in 1997-98 and is projected at $5.6 billion for the current fiscal year.

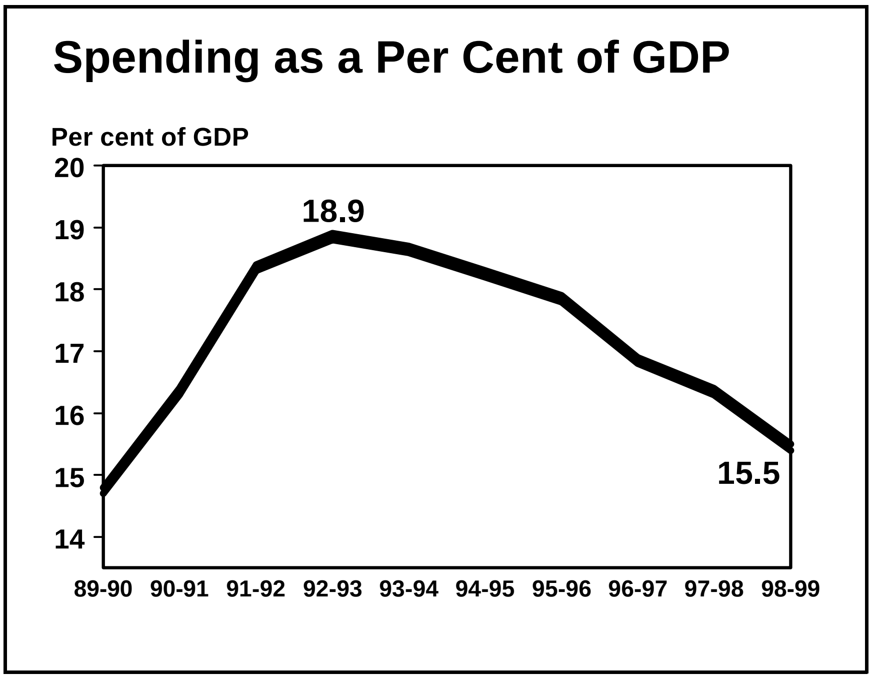
The operating balance is an indicator used by the Ontario and federal governments. It is calculated as the difference between government revenue and total spending on all programs, not including public debt interest. By achieving an operating surplus, the Province no longer borrows money to pay for on-going programs.



- ♦ The operating deficit in 1994-95 was $2.3 billion. After reducing the operating deficit to $0.3 billion in 1995-96, the Government achieved an operating surplus of $1.7 billion by 1996-97, which has since grown to $5.6 billion this year.

Spending Returning to a Sustainable Level

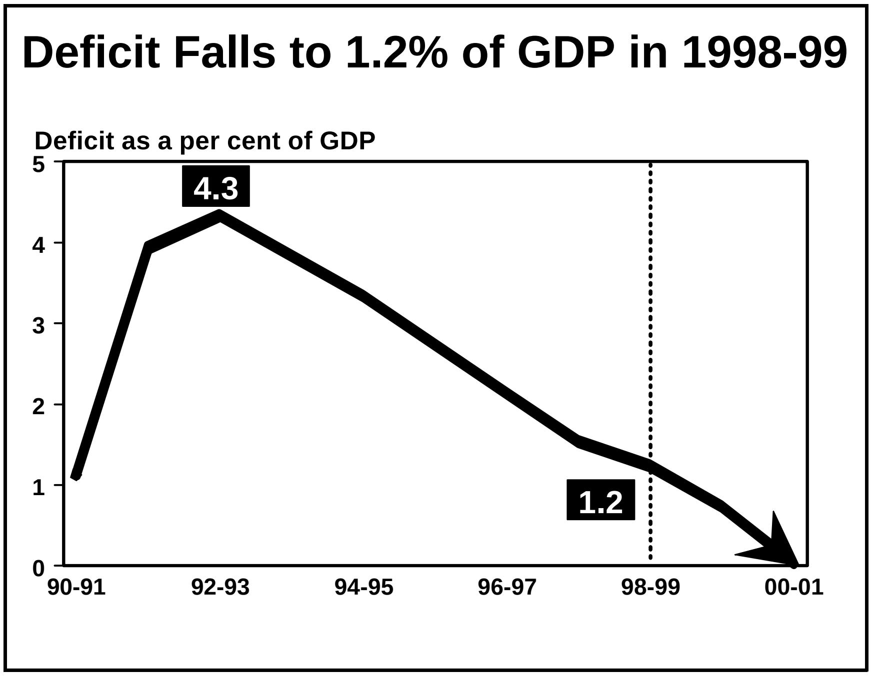
In the early 1990s, Provincial spending as a share of the economy climbed from about 15 per cent of Gross Domestic Product (GDP) to almost 19 per cent. By focusing on priority areas such as health care and education, and improving the efficiency and effectiveness of government services, Provincial spending has been reduced to 16.4 per cent of GDP in 1997-98 and 15.5 per cent in 1998-99.



- Between 1980 and 1990 spending ranged from 14 per cent to 16 per cent of GDP. The actions taken by the Government have returned spending as a share of the economy to within that range.

Deficit as a Per Cent of GDP Declining

The success of the Government's policy of controlling spending and cutting taxes to stimulate the economy can be seen in the declining ratio of the deficit as a share of the Ontario economy. This year, Ontario's deficit will fall to 1.2 per cent of GDP.

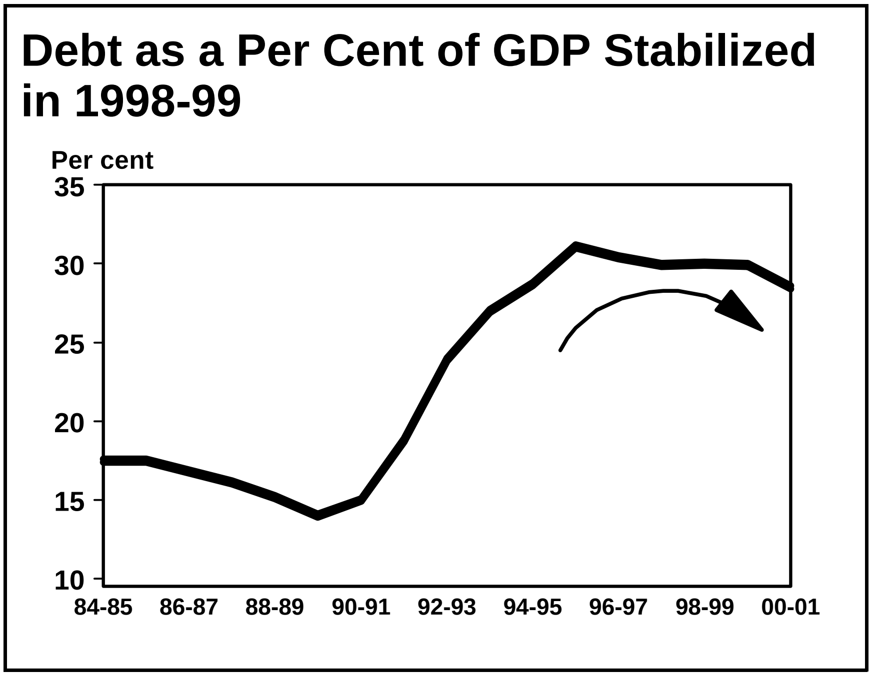


- ♦ High deficits and a shrinking economy in the early 1990s combined to push Ontario's deficit to 4.3 per cent of provincial GDP by 1992-93. The deficit will be 1.2 per cent of GDP this year.

- ♦ The deficit is projected to fall to 0.7 per cent of GDP in 1999-00, and zero in 2000-01.

Debt as a Per Cent of GDP Stabilized in 1998-99

As a result of the Government's Balanced Budget Plan, the ratio of debt to GDP will stabilize and begin to decline after 1998-99.



♦ After stabilizing at just over 30 per cent over the period 1996-97 to 1998-99, Ontario's debt as a share of GDP will drop to 30.0 per cent in 1999-00 and fall annually thereafter. Debt is projected at 28.6 per cent of GDP in 2000-01.

♦ In 1995-96, $5.6 billion of debt was pre-borrowed to meet 1996-97 financing requirements and to take advantage of favourable market conditions at that time. This borrowing caused the temporary upswing in the ratio of debt to GDP in 1995-96.

1997-98 In-Year Fiscal Performance

A Third Year of Overachieving the Deficit Target

For the third year in a row, the Balanced Budget Plan deficit target has been overachieved. At $5.2 billion, the interim deficit for 1997-98 is $1,377 million below the Budget target of $6.6 billion.

1997-98 In-Year Fiscal Performance
($ Millions)

	Budget Plan	Interim	In-Year Change
Revenue	48,400	52,110	3,710
Expense			
Programs	41,780	42,963	1,183
Restructuring and Other Charges	610	3,211	2,601
Total Program Expense	42,390	46,174	3,784
Capital	2,750	2,411	(339)
Public Debt Interest	9,190	8,728	(462)
Total Expense	54,330	57,313	2,983
Reserve	650	--	(650)
Deficit	**6,580**	**5,203**	**(1,377)**

- Revenue was $3,710 million higher than projected in the 1997 Budget Plan. Higher revenue reflects both the strength of the economy and the cautious nature of the Budget Plan.
  - The increase in Personal Income Tax (PIT) revenue includes $990 million to take account of a higher estimate of 1996-97 PIT revenue than included in the 1996-97 Public Accounts. Under the accounting guidelines set out by the Public Sector Accounting and Auditing Board (PSAAB), the difference between the higher estimate and the 1996-97 Public Accounts estimate is included in 1997-98 revenue.
- Total expense was $2,983 million above the Plan, largely due to a $2,601 million in-year increase in Restructuring and Other Charges to accommodate necessary investments in health care, education and municipalities, and a $530 million increase in transitional expense related to Local Services Realignment (LSR).
- The $650 million Reserve, included in the 1997 Budget to protect the Budget Plan against unforeseen risks such as unexpected and adverse changes in the economic outlook, was not used and contributed to deficit reduction.

Ontario Opportunities Fund

The Ontario Opportunities Fund was established in the 1996 Budget to provide for debt and deficit reduction. The Fund receives savings realized from overachievement of deficit targets, proceeds from major asset sales, and contributions from Ontarians.

The $1,377 million overachievement of the 1997-98 deficit target has been applied to the Ontario Opportunities Fund.

Ontario Opportunities Fund
($ Millions)

		Interim 1997-98
Provincial Purpose Debt at April 1, 1997		101,511
Add: Borrowing requirements to finance projected deficit of $6,580 million and loans and investments in agencies	5,466	
Decrease in liquid reserves	(552)	
Increase in debt:		4,914
Debt before Ontario Opportunities Fund		106,425
Less:		
Ontario Opportunities Fund		
Overachievement in 1997-98 deficit target (including proceeds from major asset sales and contributions from Ontarians*)	1,377	
Fund balance applied to Debt Reduction		(1,377)
Provincial Purpose Debt at March 31, 1998		105,048

* There were no major asset sales in 1997-98. Contributions from Ontarians amounted to $14,825 in 1997-98.

- Over the past three years, the Ontario Opportunities Fund has reduced the Province's planned borrowing by a cumulative total of $3,160 million. As a result, lower borrowing saved the Province $180 million in public debt interest costs in 1997-98.

1997-98 Restructuring Charges

In recognition of the extent of restructuring currently underway in health care, education and municipalities, the Government made significant investments in these key areas. These investments will enable service providers in these sectors to become more efficient and effective. Government restructuring decisions made in-year also led to one-time charges.

1997-98 Restructuring and Other Charges
($ Millions)

		Interim 1997-98
Health		
Health Care Restructuring Investments		880
Education		
School Board Transition Costs	268	
School Board Capital Debentures	971	
		1,239
Municipal Restructuring		
Toronto Transit Commission 5-Year Capital Transfer and Sheppard Subway	828	
Increase in Provision for Local Services Realignment (LSR) Exit Costs	91	
Municipal Restructuring Fund	75	
Financial Assistance for the City of Toronto	50	
Highway Transfers	50	
Non-profit and Co-operative Housing	23	
		1,117
Other		
1997-98 Provision for OPS Severance	175	
Decrease in Provision for OPS Severance (1995-96 and 1996-97)	(200)	
		(25)
Total Restructuring and Other Charges		**3,211**

♦ Total Restructuring and Other Charges amounted to $3.2 billion in 1997-98. This represents an increase of $2.6 billion over the $610 million provision initially set aside for restructuring in the 1997 Budget.

- The 1997 Budget included a provision of $450 million to support restructuring in the health care system. As a result of additional directions from the Health Services Restructuring Commission (HSRC) and revised information from the hospital sector, this provision has been increased by $430 million to $880 million to enable a more efficient and effectively managed health care system to better meet the needs of patients.
- To assist school boards in needed restructuring such as the amalgamation and start-up costs of new boards, the Province has invested $268 million in transition funding. A further $117 million will be provided in 1998-99 for a total of $385 million.
- The Province has also invested $971 million to assume responsibility for school boards' debt service costs over the next three years, during which restructuring will occur. The Province, by taking on this responsibility, has ensured that school boards will be able to access capital markets efficiently.
- As part of Local Services Realignment (LSR), which requires that municipalities become fully responsible for all aspects of transit operations and funding, the Province will make a one-time payment of $828 million to discharge provincial responsibilities flowing from cancellation of the Toronto Transit Commission (TTC) 5-year Capital Transfer and Sheppard Subway Agreement.
- The provision for Local Services Realignment exit costs expensed in 1996-97 has been increased by $91 million. This is mainly due to increased cost estimates arising from slower-than-expected implementation of Local Services Realignment, and more recent financial information.
- The Government of Ontario has announced a number of other initiatives aimed at supporting restructuring in the municipal sector. These initiatives include the Municipal Restructuring Fund ($75 million), financial assistance for the City of Toronto ($50 million), additional funding for highway transfers ($50 million), and funding for co-operative and non-profit housing capital reserves ($23 million).

- The 1997 Budget Plan provided $137 million in operating funding for 1997-98 under the Municipal Capital and Operating Restructuring Fund (MCORF). As announced in December 1997, this funding has been reallocated as part of the creation of the Special Circumstances Fund and the Special Transition Assistance component of the Community Reinvestment Fund.

- Decisions made over the past year have led to Ontario Public Service (OPS) restructuring charges of $175 million for employee severance costs in 1997-98. In addition, the provisions for OPS employee severance charges in 1995-96 and 1996-97 have been revised downward resulting in a reduced expense of $200 million. This downward revision is due to an increased number of employees being either redeployed within the OPS or transferred to other employers under alternative service delivery initiatives. In total, these changes have resulted in a net reduction in OPS severance expense of $25 million in 1997-98.

Local Services Realignment

The goal of the Local Services Realignment process is to reduce waste and duplication, improve accountability and provide better government services at a lower cost to Ontario taxpayers. Provincial and municipal services are being realigned in order to provide the best possible services at the lowest possible cost.

Responsibility for a number of programs was transferred to municipalities on January 1, 1998. As a transition measure and to ensure continuity of service, the Province is continuing to deliver some of these programs on behalf of municipalities, pending program transfer. During the transition period, municipalities will reimburse the Province for these expenditures on their behalf.

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

	1997-98	1998-99
Transitional Expenditures		
Social Housing - Operating	198	850
- Capital	17	48
Social Assistance	185	654
Child Care	15	58
Public Health and Land Ambulances	52	206
Property Assessment	31	123
GO Transit - Operating	10	46
- Capital	15	35
Provincial Offences Act	8	17
Total Increase in Expenditures	**530**	**2,037**
Reimbursement of Expenditures from Municipalities	**(469)**	**(1,996)**
Provincial Offences Act Revenue	**(27)**	**(87)**
Net Impact on Deficit	**34**	**(46)**

Note: Numbers may not add due to rounding

- The Province will continue to provide non-profit housing and Ontario Housing Corporation (OHC) operating subsidies and payments as well as capital grants to the OHC. These amounted to $215 million in 1997-98 and will total $898 million in 1998-99.

- The Province provided $200 million in 1997-98 and will provide $712 million in 1998-99 to deliver the municipal share of Social Assistance and Child Care services under the new cost-sharing arrangements.
- The Province provided $52 million in 1997-98 and will provide $206 million in 1998-99 for Public Health and Land Ambulance services.
- The Province provided $31 million in 1997-98 and will provide $123 million in 1998-99 for Property Assessment services.
- The Province provided $25 million in 1997-98 and will provide $81 million in 1998-99 for interim financing of GO Transit services.
- The Province will also continue to administer the Provincial Offences Act until municipalities assume responsibility, subject to the approval of the Legislature.
- Provincial revenues increased by $496 million in 1997-98 and will increase by $2,083 million in 1998-99 as a result of reimbursements of expenditures from municipalities for these programs and Provincial Offences Act revenues.
- When combined with reimbursements from municipalities for municipal policing costs, total revenues for Local Services Realignment programs were $540 million in 1997-98 and will be $2,261 million in 1998-99.
- During the period that the Province continues to have a role in the delivery of these services, alternative ways to streamline billing and simplify administration will be explored, as well as any necessary changes to legislation.

1997-98 In-Year Revenue Changes

Total revenue in 1997-98 was $52,110 million, $3,710 million above the $48,400 million level projected in the 1997 Budget. The strength of the economy, the cautious nature of the Budget projections and $496 million for reimbursement of expenditures from municipalities for Local Services Realignment contributed to the revenue increase. Revenue was also increased by the inclusion of $990 million in 1997-98 Personal Income Tax (PIT) to take account of 1996-97 PIT revenue, which is now estimated to be higher than the amount included in the 1996-97 Public Accounts.

Summary of In-Year Changes to Revenue in 1997-98
($ Millions)

Taxation Revenue		
Personal Income Tax	1,702	
Corporations Tax	925	
Retail Sales Tax	395	
Employer Health Tax	103	
Land Transfer Tax	105	
All Other (Including Gas, Fuel and Mining Profits Taxes)	103	
		3,333
Federal Payments		
Canada Health and Social Transfer	(268)	
Canada-Ontario Infrastructure Works	(81)	
All Other (Including Young Offenders and Vocational Rehabilitation)	(10)	
		(359)
Income from Government Enterprises		
Ontario Casino Corporation	20	
Liquor Control Board of Ontario	20	
Ontario Lottery Corporation	(71)	
Other	(33)	
		(64)
Other Revenue		
Reimbursement of Expenditures from Municipalities (Including *Provincial Offences Act*)	496	
Royalties	99	
Fines and Penalties	50	
Vehicle and Driver Registration Fees	57	
Sales and Rentals	51	
All Other (Including LLBO Fees and Licenses, Other Fees and Licenses)	47	
		800
Total In-Year Revenue Changes		**3,710**

- Personal Income Tax revenue was $1,702 million above the 1997 Budget projection as a result of stronger 1997 income growth and higher 1996 PIT assessments than previously estimated. Of the PIT increase, $990 million is due to higher estimated 1996-97 PIT than was reported in the 1996-97 Public Accounts. Under PSAAB guidelines, the difference between the higher estimate and the 1996-97 Public Accounts estimate is recorded in 1997-98.

- Corporations Tax revenue was $925 million higher than forecast in the 1997 Budget outlook due to robust corporate profit growth in 1997. Corporate profits in 1997 grew by 21.6 per cent, substantially faster than the 1997 Budget projection of 13.8 per cent.

- The strength of consumer and business spending in Ontario in 1997 pushed Retail Sales Tax revenue $395 million above the 1997 Budget projection.

- Employer Health Tax (EHT) revenue was $103 million above the 1997 Budget outlook due to faster than projected growth in incomes in 1997.

- The strong resale housing market increased Land Transfer Tax revenue by $105 million over the 1997 Budget.

- Transfers from the Government of Canada for 1997-98 are $4,936 million, $359 million lower than the 1997 Budget forecast. This largely reflects $268 million in lower-than-projected Canada Health and Social Transfer (CHST) payments for 1997-98 as a result of an increase in the value of Personal Income Tax. Under the federal CHST allocation formula, an increase in the value of Ontario's income tax points, transferred to Ontario in 1977, results in lower federal cash payments to the Province. Canada-Ontario Infrastructure Works program revenues for 1997-98 were $81 million lower than forecast in the 1997 Budget as a result of projects being deferred until 1998-99. Partially offsetting these decreases was $88 million in disaster relief funding associated with the February 1998 ice storm.

- Income from Government Enterprises was $64 million below the 1997 Budget projection. Income from the Ontario Lottery Corporation was down $71 million due to the cancellation of the introduction of Video Lotteries at race tracks and Charity Gaming Clubs. Partially offsetting this decline was higher income from the Ontario Casino Corporation and the Liquor Control Board of Ontario.

- Other Revenue was $800 million above the 1997 Budget projection primarily due to the inclusion of $496 million from reimbursement of expenditures from municipalities for Local Services Realignment. Total reported Local Services Realignment revenue of $540 million in 1997-98 includes this $496 million as well as $44 million for the reimbursement from municipalities for municipal policing costs, which was already included in the original 1997 Budget Plan. Higher Royalties, Fines and Penalties and Vehicle and Driver Registration Fees also contributed to the increase in Other Revenue.

1997-98 In-Year Operating Expense Changes

Operating expense for 1997-98 was $3,322 million higher than forecast in the Budget Plan, increasing from $51,580 million to $54,902 million. This increase is mainly due to a $2,601 million increase in Restructuring and Other Charges, a $498 million increase related to transitional measures associated with Local Services Realignment, and increased spending of $443 million in the Ministry of Health, partly offset by savings of $462 million in Public Debt Interest expense.

Summary of In-Year Operating Expense Changes ($ Millions)

		Interim 1997-98
Program Expense Changes:		
Restructuring and other charges -- In-year Increase	2,601	
Local Services Realignment -- Operating Transition Measures	498	
Teachers' Pension Plan Expense	226	
OHIP and Drug Programs -- Increased Utilization	200	
Ministry of Health -- Special Provision	144	
Broader Public Sector Proxy Pay Equity -- One-time Retroactive Payments	140	
School Boards funding -- Metropolitan Toronto and Ottawa	102	
Ice Storm -- Disaster Relief Support	91	
Seniors' Care -- Enhancements	88	
Hospital Working Capital Shortfall	47	
Social Assistance Savings	(49)	
Public Service/OPSEU Pension Plan Expense	(253)	
Other changes (net)	(51)	
Total Program Expense Changes		**3,784**
Public Debt Interest -- In-year expense savings		**(462)**
Total In-Year Operating Expense Changes		**3,322**

- The $610 million provision for Restructuring and Other Charges included in the 1997 Budget was increased in-year by $2,601 million to $3,211 million to support necessary investments. Restructuring charges in 1997-98 include $880 million for health care, $1,239 million for education, $1,117 million for municipalities, and a net reduction of $25 million in OPS employee severance expense.

- As part of Local Services Realignment, responsibility for a number of programs was transferred to municipalities on January 1, 1998. As a transition measure, the Province will continue to deliver some of these programs on behalf of municipalities pending program transfer. Local Services Realignment transition measures increased operating expense by $498 million. The Province will be reimbursed by municipalities for delivering these programs on their behalf.

- Teachers' pension expense increased $226 million in-year. This increase reflects a $499 million reduction in regular pension expense, mainly due to good investment performance which has put the Plan in a surplus position on an accounting basis, and a $725 million provision for benefit enhancements recently agreed to by the Ontario Teachers' Federation and the Province. The $725 million provision represents the Province's share of the costs of an enhanced early retirement incentive and increased pension benefits for active and retired teachers, and is in addition to the $250 million provision the Government set up in 1996-97 for a teachers' early retirement incentive.

- An overall in-year increase in expense of $200 million for OHIP and drug programs in the Ministry of Health was mainly due to increased utilization of doctors' services and drug programs.

- The Ministry of Health made a special provision totalling $144 million in-year. Ontario's participation in the federal, provincial and territorial agreement to provide financial assistance to persons who contracted Hepatitis C or were infected with HIV through secondary contact via the blood system, accounted for $113 million, and a one-time payment to Quebec associated with resolution of a billing issue, accounted for $31 million.

- A provision for one-time retroactive pay equity costs for agencies using proxy comparisons increased 1997-98 operating expense by $140 million.

- Consistent with the December, 1997 and March, 1998 schools funding announcements, school grants were increased by $102 million in-year for the former Metropolitan Toronto School Board and the Ottawa Board of Education.

- The Government is providing almost $300 million in operating and capital relief to people, small business, and farmers affected by the ice storms in Eastern Ontario. Of this total, $91 million was included in operating expense in 1997-98. The federal government's share of overall relief is more than $220 million, which is reflected in Provincial revenues.
- An $88 million in-year increase in funding for seniors' care was primarily related to an increase in the per diems in facilities to recognize more complex care requirements for residents, as well as enhancements in home-based services.
- An additional $47 million was provided in-year to assist hospitals with working capital shortfalls resulting from restructuring activities.
- Year-end savings of $49 million were achieved in social assistance.
- Public Service and OPSEU Pension Plan expense decreased by $253 million in-year, mainly as a result of good investment performance which has put both Plans in a surplus position on an accounting basis.
- Public Debt Interest (PDI) was $462 million lower than projected largely due to interest rates lower than the prudent Budget assumptions, lower borrowing requirements and higher-than-expected investment income.

1997-98 In-Year Capital Expense Changes

Capital expense was $2,411 million, $339 million below the Budget Plan projection of $2,750 million. Most of the reduction is due to slower-than-expected completion of construction projects for Canada-Ontario Infrastructure Works II, water and sewage facilities, municipal transit, health care institutions, and elementary and secondary schools.

Summary of In-Year Capital Expense Changes
($ Millions)

	Interim 1997-98
Purchase of Five Water Bombers	125
Local Services Realignment -- capital transition measures	32
Construction Delays	
Canada-Ontario Infrastructure Works II	(151)
Water and Sewage Facilities	(91)
Municipal Transit	(68)
Health Care Institutions	(55)
Elementary and Secondary Schools	(30)
Other changes (net)	(101)
Total In-Year Capital Expense Changes	**(339)**

- Purchase of five forest firefighting water bombers in 1997-98 increased capital expense by $125 million.

- Provincial capital expense increased $32 million as a result of Local Services Realignment transition measures. The Province will be reimbursed by municipalities for delivering these programs on their behalf.

- Construction delays reduced capital expense in 1997-98 by $151 million for Canada-Ontario Infrastructure Works II, $91 million for water and sewage facilities, $68 million for municipal transit projects, $55 million for health care institutions, and $30 million for elementary and secondary schools.

1998-99 Fiscal Plan

1998-99 Deficit Target Cut by $600 Million

The 1998-99 Balanced Budget Plan deficit target of $4.8 billion is revised down by $0.6 billion and is forecast at $4.2 billion. This represents a decline of 63 per cent or $7.1 billion from the $11.3 billion deficit outlook facing the Government upon assuming office in June of 1995.

1998-99 Fiscal Plan ($ Millions)

	Interim 1997-98	Plan 1998-99	Change $ Millions	Change Per cent
Revenue:				
Taxation Revenue	40,838	40,446	(392)	(1.0)
Federal Transfers	4,936	4,928	(8)	(0.2)
Income from Government Enterprises	2,256	2,438	182	8.1
Other Revenue	4,080	5,578	1,498	36.7
Total Revenue	52,110	53,390	1,280	2.5
Expense:				
Programs	42,963	45,219	2,256	5.3
Restructuring and Other Charges	3,211	194	(3,017)	(94.0)
Total Program Expense	46,174	45,413	(761)	(1.6)
Capital	2,411	2,337	(74)	(3.1)
Public Debt Interest	8,728	9,214	486	5.6
Total Expense	57,313	56,964	(349)	(0.6)
Reserve		650	650	
Deficit	**5,203**	**4,224**	**(979)**	**(18.8)**

- Revenue in 1998-99 is projected at $53,390 million, 2.5 per cent above the 1997-98 level of $52,110 million.
- Expense in 1998-99 is projected at $56,964 million, $349 million lower than the 1997-98 level of $57,313 million.
- In keeping with prudent budgeting, a $650 million Reserve has been included in the 1998-99 fiscal plan. The Reserve is designed to protect the fiscal plan against unforeseen risks such as unexpected and adverse changes in the economic outlook and their impact on revenues and public debt interest. If the reserve is not needed, it will be applied to deficit reduction.

1998-99 Revenue Outlook

Revenue in 1998-99 is projected to be $53,390 million, $1,280 million, or 2.5 per cent, above the 1997-98 level. Tax revenue is below the 1997-98 level due to the inclusion in 1997-98 Personal Income Tax (PIT) revenue of $990 million for higher estimated 1996-97 PIT than was included in the 1996-97 Public Accounts. Excluding this, standardized tax revenue grows by $598 million or 1.5 per cent in 1998-99.

Standardized Taxation Revenue*
($ Millions)

	1996-97	1997-98	1998-99
Standardized Taxation Revenue	38,511	39,848	40,446

* Taxation revenue adjusted to report PIT in the year earned.

1998-99 Revenues
($ Millions)

	Actual 1996-97	Interim 1997-98	Plan 1998-99
Taxation	38,466	40,838	40,446
Federal Payments	5,778	4,936	4,928
Income from Government Enterprises	1,959	2,256	2,438
Other Revenue	3,247	4,080	5,578
Total Revenue	**49,450**	**52,110**	**53,390**

- Personal Income Tax revenue is projected at $14,635 million. This includes the impact of the accelerated tax rate cut, the Fair Share Health Care Levy and the measures announced in the Budget.

- Retail Sales Tax revenue is forecast to increase to $11,435 million due to rising consumer and business spending and includes revenue measures announced in the Budget.

- Corporations Tax revenue is estimated to climb to $7,600 million as corporate profits are expected to continue to grow. This includes the measures announced in the Budget.

- Employer Health Tax revenue is projected to increase to $2,780 million. This includes the impact of the accelerated final phase-in of the EHT exemption.

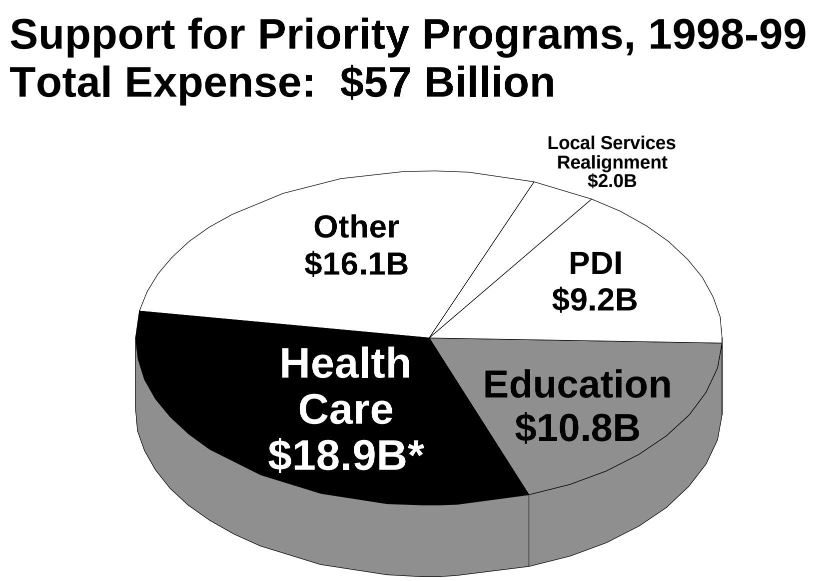
- Transfers from the Government of Canada are forecast to decline to $4,928 million in 1998-99. 1998-99 Canada Health and Social Transfer payments are forecast to increase by $13 million over 1997-98 levels, to $3,950 million. The small increase is due to technical changes in the CHST allocation formula. Increased CHST entitlements due to the cash-floor are offset by lower cash entitlements resulting from the increased value of tax points. Revenues related to the February 1998 ice storm for 1998-99 are forecast at $135 million.

- Income from Government Enterprises is projected to increase to $2,438 million. This includes $90 million from the initial phase-in of charity casinos and slot machines at race tracks.

- Other Revenue is expected to increase to $5,578 million primarily due to the full-year reimbursement from municipalities for services provided under Local Services Realignment as a transition measure. Other Revenue also includes Vehicle and Driver Registration Fees, Other Fees and Licences, Royalties, Fines and Penalties, and Sales and Rentals.

1998-99 Expense Outlook

While continuing to control costs, the Government is focusing resources on the priority areas of health care and education. In 1998-99, almost $30 billion will be made available to support these priorities.



* Includes $18,476 million in operating expense, net of Local Services Realignment transition expense, and $471 million in Health Capital

- ♦ Despite cuts in federal transfers for health care, the Government has increased its funding for health care to the highest level in the history of the province. Total health care funding in 1998-99 will be $18.9 billion, excluding Local Services Realignment transition expense. Planned reductions in hospital operating funding of $507 million initially scheduled for 1998-99 will not occur. Excluding LSR transition expense and restructuring, program spending will increase to $18.5 billion in 1998-99 from $18.3 billion in 1997-98. The capital budget for the Ministry of Health will be $471 million this year, significantly higher than last year's $113 million.

- ♦ As part of the Government's commitment to stable spending for school boards over the next three years, the Government will provide $6.7 billion in school board operating grants in 1998-99. Funding for post-secondary education, including grants to colleges and universities as well as Provincial support for student assistance will be $2.9 billion in 1998-99. More than $370 million will be invested by the Ministry of Education and Training for capital projects.

Supporting Ontario's Charities, Communities and the Health Care Sector

The Government is taking significant measures to support Ontario's charities, communities and the health care sector. All provincial revenue generated from charity gaming in Ontario will be dedicated through proposed legislation to fund new priority health care services and to provide assistance to charitable groups and communities across the province. These funds will be generated from gaming at charity casinos and from slot machines at race tracks throughout Ontario.

Supporting Ontario's Charities, Communities and the Health Care Sector ($ Millions)

	1998-99	Potential Full-Year
Charities	50[1]	40[3]
Trillium Foundation	8	80
Health	72[2]	480
Total	**130**	**600**

[1] Includes $40 million advance of funds to charities participating at charity casinos
[2] Includes funding for seniors' care ($69 million) and problem gambling ($3 million)
[3] Excludes $80 million flowing directly from Ontario Lottery Corporation to charities

- All provincial proceeds from slot machines and half of the net proceeds from table games will be dedicated to support provincial priority areas including health care, funding to charities and not-for-profit organizations, communities and the Trillium Foundation.
  - The remaining half of the net proceeds from table games will flow directly from the Ontario Lottery Corporation to the participating charities at each charity casino.
- Amendments will be proposed to the *Ontario Lottery Corporation Act* to implement these initiatives and provide taxpayers with full disclosure of expenditures related to charity gaming. The Minister responsible for gaming will table a report in the Legislature annually, prepared by the Ontario Lottery Corporation, on the uses of revenues, including all payments under agreements relating to charity gaming and slot machines.
- To ensure that the public has full access to information on the use of revenues from charity gaming, the Province will report annually on these activities in the Ontario Budget and the Public Accounts.

Preserving Ontario's Health Care System

The Government is significantly increasing its financial support to health care this year. Excluding Local Services Realignment transition expense and restructuring charges, the Ministry of Health operating envelope will increase to $18.5 billion in 1998-99, a $300 million increase from the envelope announced in December 1997 and a 1.0 per cent increase from last year's level.

Ministry of Health Operating Envelope ($ Millions)

	Interim 1997-98	Plan 1998-99	Change $Millions
Operating Envelope	18,288	18,476	188
Local Services Realignment*	52	206	154
Total	18,340	18,682	342
Health Care Restructuring	880		

* Public health and land ambulance services

- Additional funding will be provided to expand the number of beds for seniors and persons with disabilities and to provide a substantial increase in community-based services. These initiatives will ensure that health care services are modern, available, timely and close at hand.

- The restructuring in the health care sector, which is underway, will give Ontario a health care system that is up-to-date, better coordinated and more integrated.

Increasing Efficiency in Government and Improving Pension Legislation

The Government is introducing several initiatives to further improve efficiency and effectiveness within the public sector.

Ontario Realty Corporation

The Ontario Realty Corporation (ORC) will be converted into a publicly owned, administratively independent agency of the Government. A key goal of the proposed new structure is to ensure the capacity of the ORC to effectively and competitively manage the Government's real estate portfolio. This includes ensuring that an adequate revenue stream is available to cover the costs of the real estate management responsibilities of the Government.

Year 2000 Project Office

To ensure that computer systems within the Ontario Public Service (OPS) continue to operate correctly after December 31, 1999, a Year 2000 Project Office has been established. Working with Government ministries, the Office has identified 63 projects that are vital to the smooth functioning of the Provincial Government.

Over $200 million has been set aside to make the necessary modifications within the OPS so that Ontarians can continue to receive essential government services in the year 2000 and beyond.

Organizations in the Broader Public Sector should include in their annual reports, a statement of management responsibility for internal controls and protection of their assets. The Government looks to the Broader Public Sector to formally report on its readiness for the year 2000 in its public documents.

Maintaining the Integrity of the Tax System

Some people try to avoid paying their fair share of taxes by participating in the underground economy. The Government will continue to hire more audit and collections staff and will propose legislative amendments to maintain the integrity of the Province's tax system and to make sure that taxes are paid if they are owed. Other amendments will be proposed to improve fairness and continue the modernization of Ontario's tax statutes.

Improving Pension Legislation

The Government will be consulting on and responding with specific legislative options to provide Ontarians with appropriate and efficient access to locked-in retirement accounts when they are faced with hardship.

In last year's Budget, the Government noted that the Province's pension legislation is complex, inefficient and costly. Through consultations, over 50 suggestions were made for amendments to the *Pension Benefits Act* and Regulations that could reduce red tape and increase harmonization of Ontario's pension rules with other Canadian jurisdictions. The Government will consult on these proposals and bring forward for the consideration of the Legislature the necessary changes to ensure that they will meet the needs of both employers and employees.

In light of the agreement with the Ontario Teachers' Federation, the Government will also be introducing legislation to amend the *Teachers' Pension Act*.

Charting a Course for Competitive Electricity and Jobs in Ontario

A competitive electricity system will deliver benefits to all power consumers in the province - from homeowners to large institutions, commercial businesses and major industries - as well as to Ontario taxpayers. In particular, the Government believes that the move to a competitive electricity market is key to creating new jobs and a robust economy that is competitive and attractive to investors, and to providing the lowest possible costs while maintaining a reliable, safe, environmentally sound electricity supply.

As outlined in "Direction for Change: Charting a Course for Competitive Electricity and Jobs in Ontario," the proposals for the new competitive structure involve a major restructuring of Ontario Hydro into new companies with clear business mandates on a sound financial footing.

The Province will invest in the equity of the new successor companies which will be expected to earn commercial rates of return. Return on this investment will be reflected in the Province's financial position.

Specifics of the equity investments will be determined once the Legislature has approved the necessary legislative changes, and the successor companies have been established.

Medium Term Fiscal Outlook

Over the medium term, Ontario's deficit will continue on its downward track toward a balanced budget. In 1999-00, the deficit outlook will be reduced by a further $1.6 billion from $4.2 billion in 1998-99 to $2.6 billion.

Medium Term Fiscal Outlook ($ Billions)

	Interim 1997-98	Plan 1998-99	Outlook 1999-00
Revenue	52.1	53.4	54.0
Expense			
Programs	43.0	45.2	44.3
Restructuring and Other Charges	3.2	0.2	0.0
Total Programs	46.2	45.4	44.3
Capital	2.4	2.3	2.0
Public Debt Interest	8.7	9.2	9.6
Total Expense	57.3	57.0	55.9
Reserve		0.7	0.7
Deficit	**5.2**	**4.2**	**2.6**

Note: Numbers may not add due to rounding.

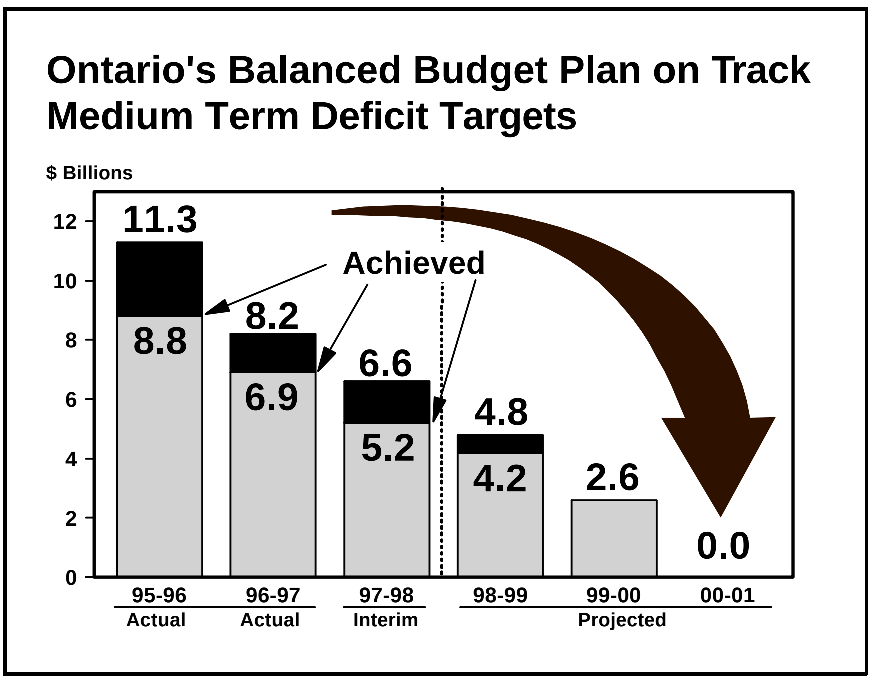
- The 1999-00 deficit target is $2.6 billion. This is $8.7 billion or more than 75 per cent lower than the $11.3 billion potential deficit outlook the Government faced upon assuming office in June of 1995.
- The 1999-00 outlook includes a Reserve designed to protect the fiscal plan against unforeseen risks such as unexpected and adverse changes in the economic outlook and their impact on revenues and public debt interest. If the reserve is not needed, it will be applied to deficit reduction.

Conclusion

In its third Budget, the Government has reduced Ontario's deficit by 63 per cent to $4.2 billion from the potential $11.3 billion deficit facing the Government when it assumed office in June 1995. By next year, Ontario will be three-quarters of the way to achieving a balanced budget.

Through prudent and cautious fiscal planning, the Government has consistently overachieved the deficit targets set out in the Balanced Budget Plan. Interim results indicate the 1997-98 deficit target of $6.6 billion will be overachieved by almost $1.4 billion to $5.2 billion. At $4.2 billion, the deficit outlook for 1998-99 is $0.6 billion below the Balanced Budget Plan target of $4.8 billion.

Ontario is beginning to see the benefits of lower taxes and an improved fiscal environment through a vibrant economy and rising employment.



PAPER B
Appendices

Financial Tables and Graphs

Statement of Financial Transactions **Table B1**
($ Millions)

	Actual 1994-95	Actual 1995-96	Actual 1996-97	Interim 1997-98	Plan 1998-99
Revenue	46,039	49,473	49,450	52,110	53,390
Expense					
Programs	44,505	45,309	42,831	42,963	45,219
Restructuring and Other Charges		854	2,180	3,211	194
Total Program Expense	44,505	46,163	45,011	46,174	45,413
Capital	3,831	3,635	2,737	2,411	2,337
Public Debt Interest	7,832	8,475	8,607	8,728	9,214
Total Expense	56,168	58,273	56,355	57,313	56,964
Reserve	-	-	-	-	650
Deficit	**10,129**	**8,800**	**6,905**	**5,203**	**4,224**

Ontario Opportunities Fund **Table B2**
($ Millions)

		1997-98
Provincial Purposes Debt at April 1, 1997		101,511
Add: Borrowing requirements to finance projected deficit of $6,580 million and loans and investments in agencies	5,466	
Decrease in liquid reserves	(552)	
Increase in debt:		4,914
Debt before Ontario Opportunities Fund		106,425
Less:		
Ontario Opportunities Fund		
Overachievement in 1997-98 deficit target (including proceeds from major asset sales and contributions from Ontarians*)	1,377	
Fund Balance Applied to Debt Reduction		(1,377)
Provincial Purpose Debt at March 31, 1998		105,048

* There were no major asset sales in 1997-98. Contributions from Ontarians amounted to $14,825 in 1997-98

Revenue
($ Millions) **Table B3**

	Actual 1994-95	Actual 1995-96	Actual 1996-97	Interim 1997-98	Plan 1998-99
Taxation Revenue					
Personal Income Tax	14,758	15,633	16,357	16,192	14,635
Retail Sales Tax	9,090	9,424	9,964	10,785	11,435
Corporations Tax	4,557	5,174	5,852	7,375	7,600
Employer Health Tax	2,640	2,695	2,772	2,743	2,780
Gasoline Tax	1,939	1,944	1,951	2,010	2,045
Fuel Tax	495	500	540	568	600
Tobacco Tax	322	337	356	440	470
Land Transfer Tax	372	342	452	555	580
Mining Profits Tax	86	71	54	42	50
Race Tracks Tax	84	92	46	5	6
Preferred Share Dividends Tax	56	65	73	50	55
Other Taxation	60	39	49	73	190
	34,459	**36,316**	**38,466**	**40,838**	**40,446**
Government of Canada					
Canada Health and Social Transfer	-	-	4,814	3,937	3,950
Established Programs Financing	4,059	3,820	-	-	-
Canada Assistance Plan	2,577	2,508	-	-	-
Fiscal Stabilization	184	367	-	-	-
National Training Act	75	55	37	-	-
Bilingualism Development	65	62	44	48	40
Young Offenders	82	61	59	59	59
Vocational Rehabilitation	61	63	65	45	46
Canada-Ontario Infrastructure Works	159	350	142	120	92
Social Housing	-	384	341	389	353
Other	345	210	276	338	388
	7,607	**7,880**	**5,778**	**4,936**	**4,928**
Income from Government Enterprises					
Ontario Lottery Corporation	631	651	654	714	840
Liquor Control Board of Ontario	637	667	701	750	760
Ontario Casino Corporation	316	422	594	760	915
Ontario Housing Corporation	(273)	-	-	-	-
GO Transit	(166)	-	-	-	-
Other	(77)	(10)	10	32	(77)
	1,068	**1,730**	**1,959**	**2,256**	**2,438**
Other Revenue					
Vehicle/Driver Registration Fees	751	736	816	862	915
Other Fees and Licences	686	631	624	632	570
Liquor Licence Board of Ontario Revenues	532	530	520	516	510
Royalties	223	263	264	324	265
Sales and Rentals	98	497	543	496	480
Fines and Penalties	163	143	157	140	40
Local Services Realignment-Reimbursement of Expenditure	-	-	-	540	2,261
Miscellaneous	452	747	323	570	537
	2,905	**3,547**	**3,247**	**4,080**	**5,578**
Total Revenue	**46,039**	**49,473**	**49,450**	**52,110**	**53,390**

Operating Expense
($ Millions) **Table B4**

Ministry	Actual 1994-95	Actual 1995-96	Actual 1996-97	Interim 1997-98	Plan 1998-99
Agriculture, Food and Rural Affairs	258	263	324	291	340
Farm Tax Rebate	151	157	150	158	-
Attorney General	830	1,085	638	624	733
Board of Internal Economy	135	206	124	115	121
Citizenship, Culture and Recreation	408	363	302	287	307
Community and Social Services	9,364	8,816	7,965	8,010	7,848
Consumer and Commercial Relations	150	140	123	100	133
Economic Development, Trade and Tourism	463	385	245	237	170
Education and Training	8,357	8,390	7,825	7,832	10,204
Teachers' Pension Plan (TPP)*	643	812	933	971	61
School Board Transition	-	-	-	268	117
School Board Capital Debentures	-	-	-	971	-
Energy, Science and Technology	14	13	11	3	161
Environment	258	226	146	158	143
Executive Offices	10	13	13	14	19
Finance - Own Account	425	701	435	567	691
Public Debt Interest	7,832	8,475	8,607	8,728	9,214
Community Reinvestment Fund	-	-	-	169	677
Health	17,599	17,607	17,760	18,340	18,682
Health Care Restructuring	-	-	970	880	-
Intergovernmental Affairs	6	5	4	5	4
Labour	135	135	103	114	111
Management Board Secretariat	823	554	712	323	348
Public Service/OPSEU Pension Plan	682	685	94	(108)	(100)
Contingency Fund	-	-	-	-	830
OPS Employee Severance (Net)	-	400	438	(25)	-
Retroactive Pay Equity Payments	-	-	-	140	-
Special Circumstances Fund	-	-	-	-	77
Municipal Affairs and Housing	1,487	2,421	2,456	2,378	1,728
Municipal Capital and Operating Restructuring Fund	-	-	150	-	-
Municipal Restructuring Fund	-	-	-	75	-
Native Affairs Secretariat	16	16	17	10	9
Natural Resources	478	519	417	429	388
Northern Development and Mines	54	66	52	55	100
Office of Francophone Affairs	3	2	2	2	3
Office Responsible for Women's Issues	22	18	14	19	21
Solicitor General and Correctional Services	1,136	1,111	1,159	1,164	1,188
Transportation	598	1,054	879	720	499
Restructuring/ Municipal Capital and Operating Restructuring Fund	-	-	550	50	-
TTC Five Year Capital Transfer	-	-	-	828	-
Year-End Savings	-	-	-	-	(200)
Total Operating Expense	**52,337**	**54,638**	**53,618**	**54,902**	**54,627**

* The comparative figures for the Teachers' Pension Plan have been reclassified as necessary to conform to the 1997-98 presentation

Capital Expense
($ Millions)

Table B5

Ministry	Actual 1994-95	Actual 1995-96	Actual 1996-97	Interim 1997-98	Plan 1998-99
Agriculture, Food and Rural Affairs	12	5	-	1	3
Attorney General	4	-	20	47	91
Citizenship, Culture and Recreation	42	29	9	3	5
Community and Social Services	72	14	116	31	20
Economic Development, Trade and Tourism	117	113	11	3	-
Education and Training	421	559	199	393	379
Energy, Science and Technology	-	-	-	-	45
Environment	271	238	225	100	51
Municipal Capital and Operating Restructuring Fund	-	-	-	-	29
Finance	3	1	18	5	1
Health	249	168	175	113	471
Management Board Secretariat	260	272	152	58	10
Municipal Affairs and Housing	310	628	313	159	91
Native Affairs Secretariat	17	9	13	11	12
Natural Resources	54	47	33	151	29
Northern Development and Mines	240	163	168	175	179
Solicitor General and Correctional Services	2	2	6	11	72
Transportation	1,757	1,387	1,279	1,150	849
Total Capital Expense	**3,831**	**3,635**	**2,737**	**2,411**	**2,337**

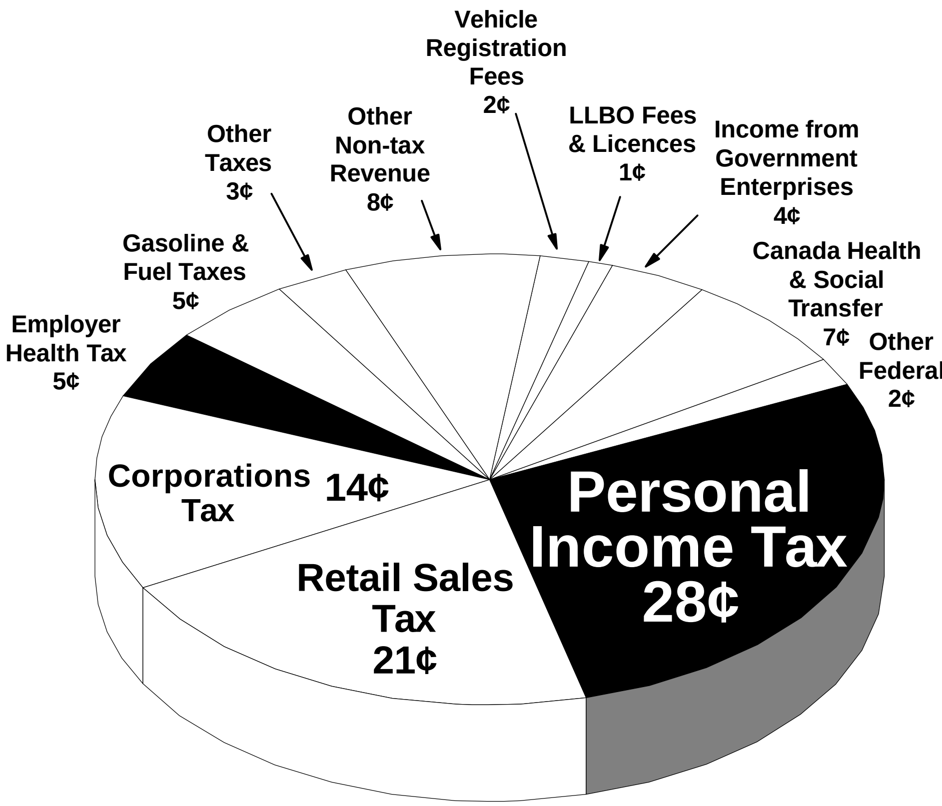
Ten-Year Review of Selected Financial and Economic Statistics
($ Millions)

	Modified Cash Basis		
	1989-90	**1990-91**	**1991-92**
Financial Transactions			
Revenue	41,225	42,892	40,753
Expense			
Programs	33,926	38,924	43,613
Restructuring and Other Charges	-	-	-
Total Program Expense	33,926	38,924	43,613
Capital	3,392	3,221	3,874
Public Debt Interest	3,817	3,776	4,196
Total Expense	41,135	45,921	51,683
Reserve	-	-	-
Deficit/(Surplus)	**(90)**	**3,029**	**10,930**
Provincial Purpose Debt	**39,256**	**42,257**	**53,083**
Gross Domestic Product (GDP) at Market Prices	278,724	280,172	281,136
Personal Income	225,521	236,865	243,484
Population - July (000s)	10,151	10,341	10,464
Total Debt per Capita (dollars)	3,867	4,086	5,073
Personal Income per Capita (dollars)	22,217	22,905	23,269
Total Expense as a per cent of GDP	14.8	16.4	18.4
Public Debt Interest as a per cent of Revenue	9.3	8.8	10.3
Total Debt as a per cent of GDP	14.1	15.1	18.9
Cumulative Net Borrowing for Ontario Hydro			
U.S.	5,150	5,049	4,185
C.P.P.	2,748	2,748	2,748
Contingent Liability (mainly Ontario Hydro)	21,490	26,009	30,369

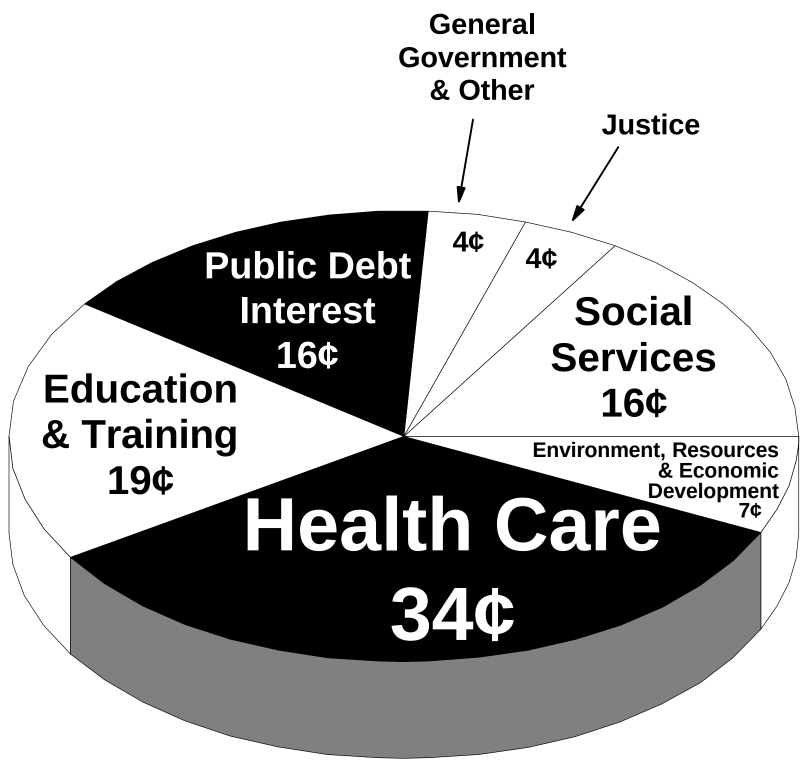
Table B6

	PSAAB Basis					
					Interim	**Plan**
1992-93	**1993-94**	**1994-95**	**1995-96**	**1996-97**	**1997-98**	**1998-99**
41,807	43,674	46,039	49,473	49,450	52,110	53,390
45,350	44,195	44,505	45,309	42,831	42,963	45,219
-	-	-	854	2,180	3,211	194
45,350	44,195	44,505	46,163	45,011	46,174	45,413
3,592	3,552	3,831	3,635	2,737	2,411	2,337
5,293	7,129	7,832	8,475	8,607	8,728	9,214
54,235	54,876	56,168	58,273	56,355	57,313	56,964
-	-	-	-	-	-	650
12,428	**11,202**	**10,129**	**8,800**	**6,905**	**5,203**	**4,224**
68,607	**79,439**	**88,580**	**101,396**	**101,511**	**105,048**	**110,256**
286,389	293,148	307,379	324,846	333,068	350,400	366,368
244,353	246,751	251,273	261,194	263,765	271,284	284,688
10,663	10,805	10,963	11,121	11,272	11,422	11,561
6,434	7,352	8,080	9,118	9,006	9,197	9,537
22,916	22,837	22,920	23,487	23,400	23,751	24,625
18.9	18.7	18.3	17.9	16.9	16.4	15.5
12.7	16.3	17.0	17.1	17.4	16.7	17.3
24.0	27.1	28.8	31.2	30.5	30.0	30.1
3,969	1,789	1,087	1,060	392	138	N/A
2,748	2,748	2,748	2,748	2,748	2,748	N/A
34,657	34,008	33,782	31,590	31,786	30,796	N/A

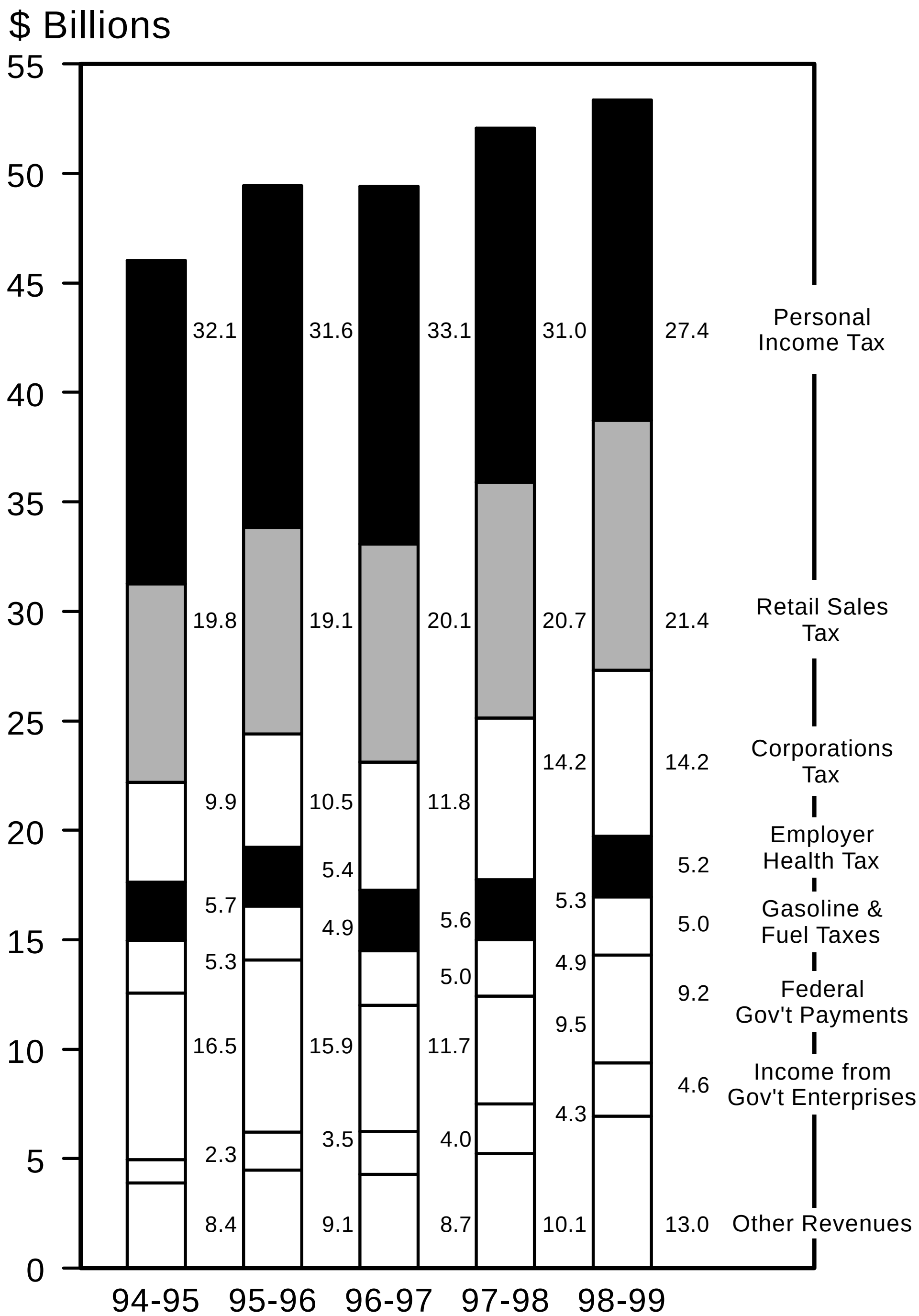
The Budget Dollar: Revenue 1998-1999



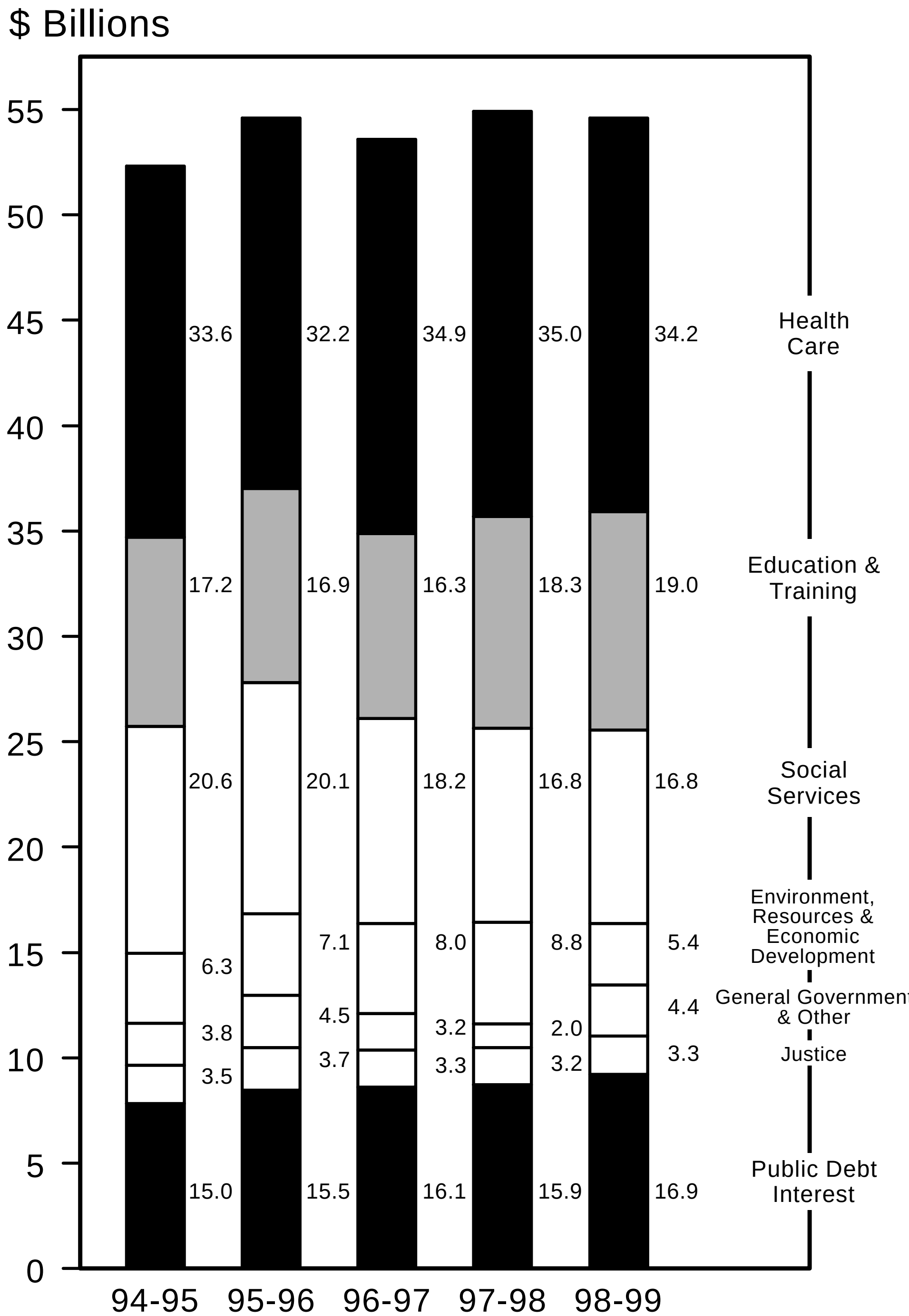
The Budget Dollar: Total Expense 1998-1999



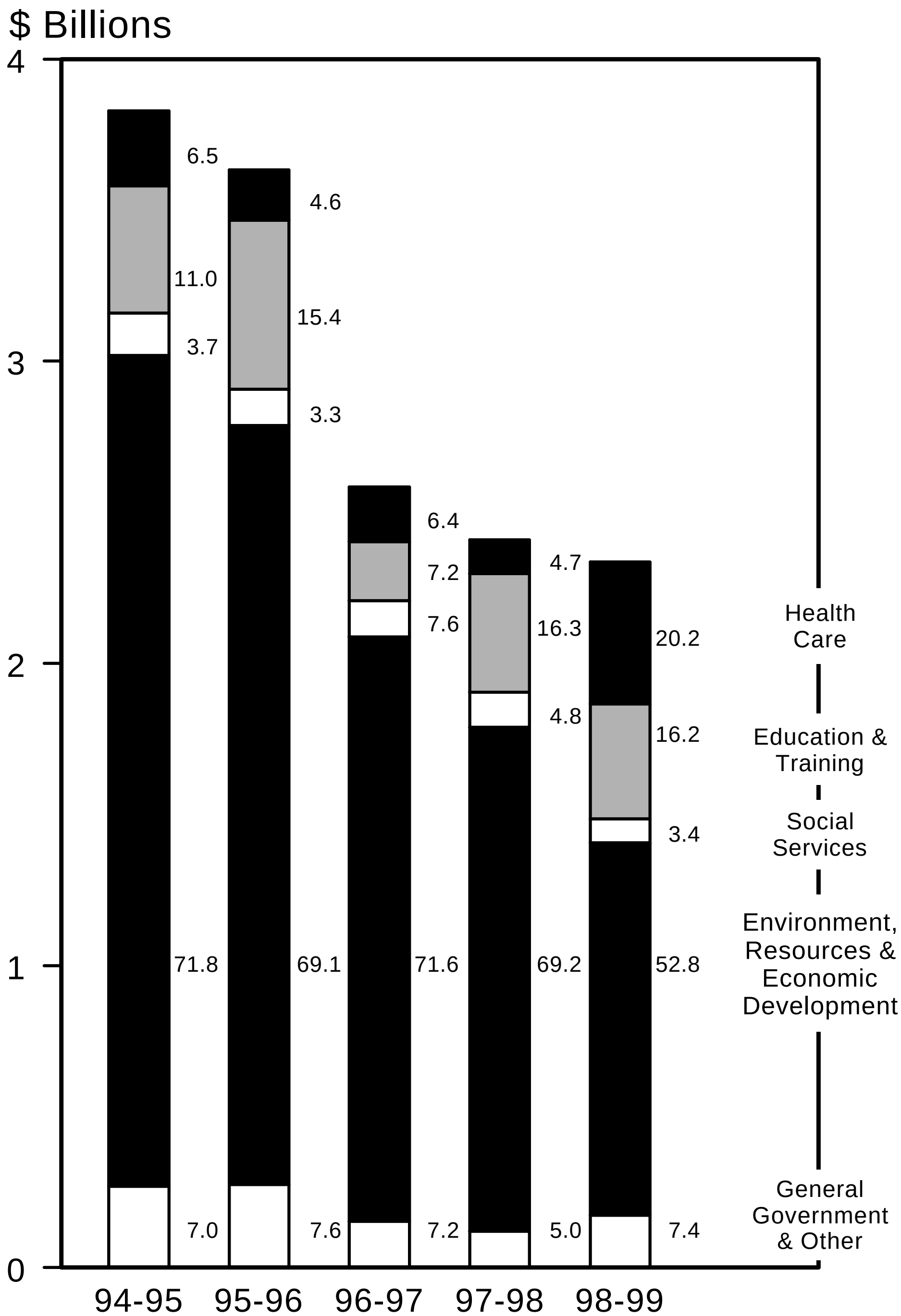
Revenue Sources by Category: Per Cent of Total 1994-95 to 1998-99



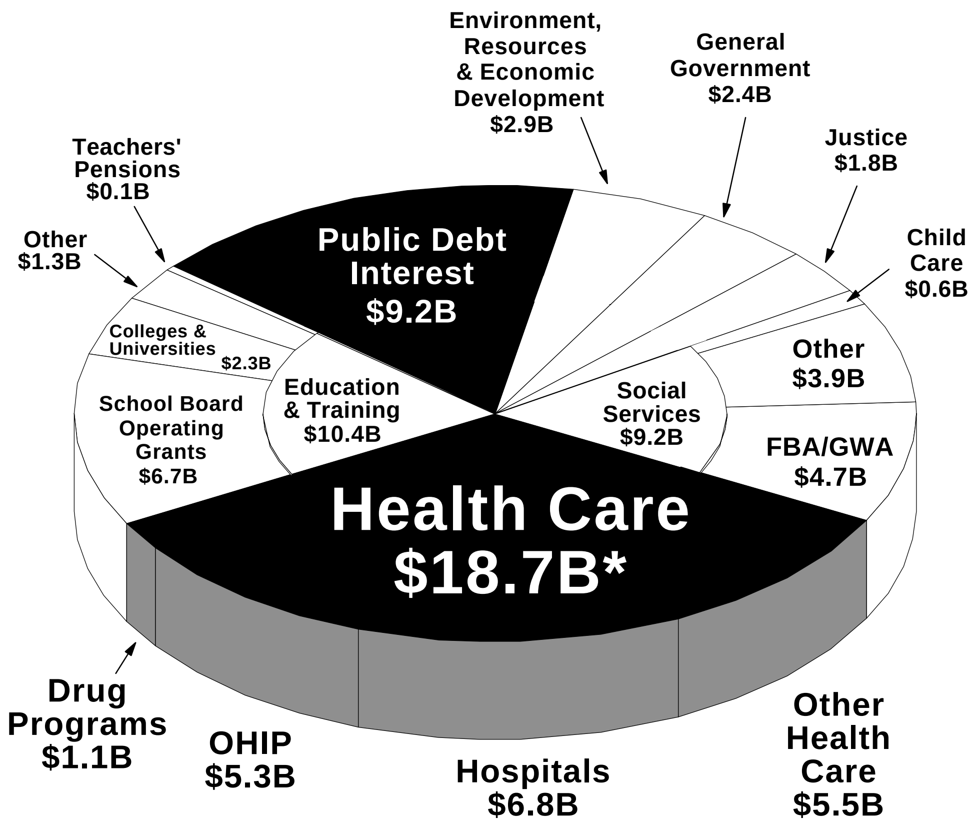
Operating Expense by Category: Per Cent of Total 1994-95 to 1998-99



Capital Expense by Category: Per Cent of Total 1994-95 to 1998-99

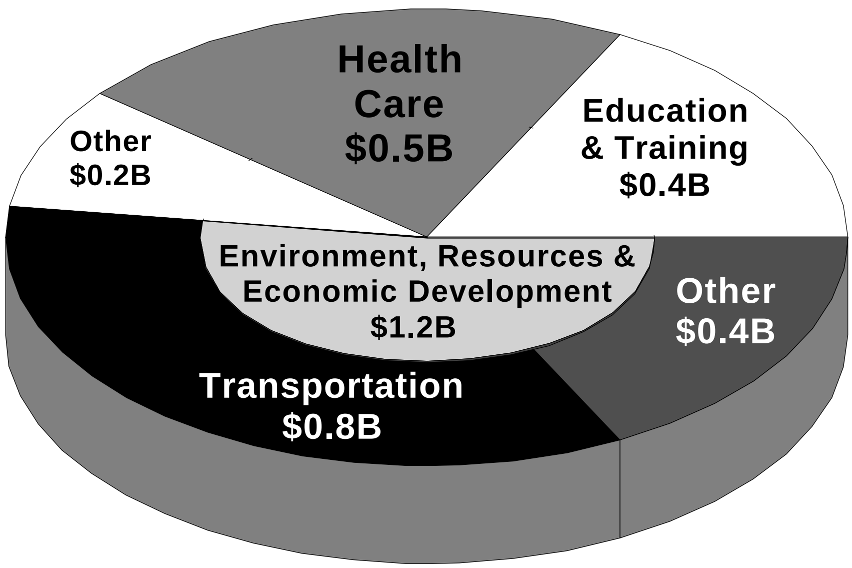


1998-99 Operating Expense by Sector
($ Billions)



* Includes $18.5 billion in operating expense, and $0.2 billion in Local Services Realignment transition expense

1998-99 Capital Expense by Sector
($ Billions)



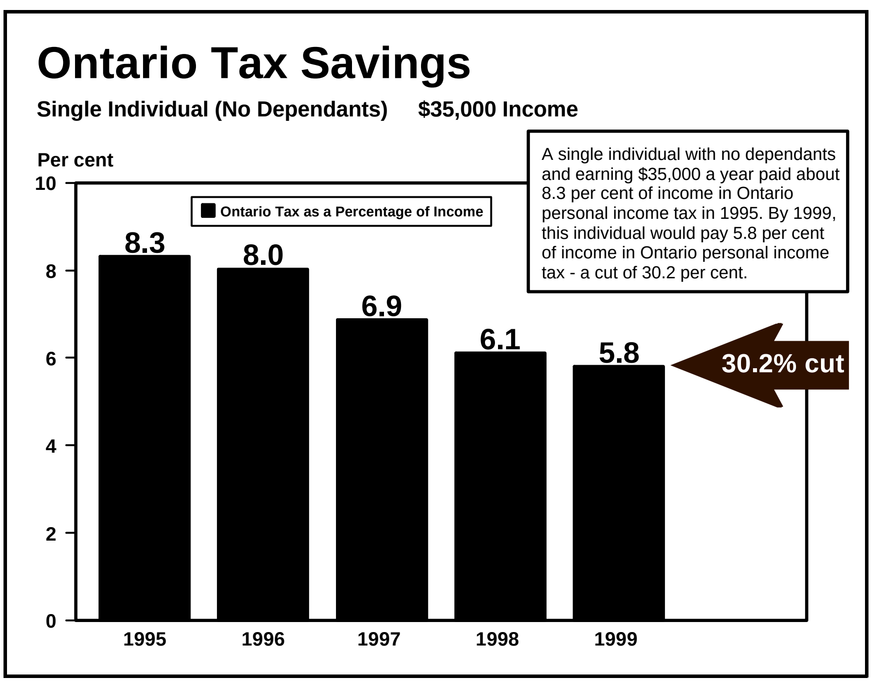
PAPER C
Details of Revenue Measures

The Ontario Income Tax Cut is Fully Implemented

> "We will cut your provincial income tax rate by 30% in three years. Half of these cuts will come up-front — in year one."
>
> *Common Sense Revolution*

This Government promised the people of Ontario a 30 per cent cut during its first three years in office. The tax cut is proposed to be completed just two years after the first cut was made. On July 1, 1998, Ontario's income tax rate is proposed to be 40.5 per cent — 30.2 per cent lower than it was on June 30, 1996. This tax cut:

- reduces Ontario income tax for every Ontario income taxpayer
- delivers the greatest percentage reductions to Ontarians with lower incomes
- ensures that every taxpayer with $60,000 or less in income gets a 30 per cent tax cut or greater



A Fair Distribution of the Tax Cut

All Ontario taxpayers benefit from the tax cut. Enrichments to the Ontario Tax Reduction and the introduction of the Fair Share Health Care Levy ensure that the income tax cut is distributed fairly. Average reductions in Ontario tax would range from a low of 18.0 per cent for taxpayers reporting incomes in excess of $255,000 to 49.6 per cent for taxpayers reporting incomes of less than $15,150.

Ontario's Proposed Tax Cut by Income Group

Income Group ($)	Individual Tax Payers (%)	Average Tax Cut *(%)*
Less than 15,150	10.0	*49.6%*
15,150 - 19,675	10.0	*36.0%*
19,675 - 24,135	10.0	*34.6%*
24,135 - 28,610	10.0	*33.5%*
28,610 - 33,130	10.0	*32.7%*
33,130 - 38,245	10.0	*31.6%*
38,245 - 44,890	10.0	*30.9%*
44,890 - 54,040	10.0	*30.5%*
54,040 - 68,025	10.0	*30.3%*
68,025 - 70,300	1.0	*29.6%*
70,300 - 72,890	1.0	*28.9%*
72,890 - 76,040	1.0	*28.0%*
76,040 - 80,090	1.0	*27.3%*
80,090 - 85,120	1.0	*26.3%*
85,120 - 92,190	1.0	*25.6%*
92,190 - 103,575	1.0	*24.7%*
103,575 - 125,000	1.0	*23.7%*
125,000 - 177,000	1.0	*21.2%*
177,000 - 255,000	0.5	*19.7%*
255,000 +	0.5	*18.0%*
Total	**100.0**	***33.5%***

Proposed Provincial Personal Income Tax Cuts Support Community Economies Across Ontario

	Full Implementation Tax Cut ($M)
Algoma District	40.0
Brant County	38.0
Bruce County	22.5
Cochrane District	33.0
Dufferin County	18.0
Durham Region	203.0
Elgin County	25.0
Essex County	155.0
Frontenac County	51.5
Grey County	23.0
Haldimand - Norfolk Region	33.0
Haliburton County	3.5
Halton Region	223.5
Hamilton - Wentworth Region	176.0
Hastings County	39.0
Huron County	16.0
Kenora District	19.0
Kent County	41.0
Lambton County	54.0
Lanark County	20.5
Leeds and Grenville County	34.0
Lennox and Addington County	11.0
Manitoulin District	2.5
Middlesex County	158.5
Muskoka District	14.5
Niagara Region	147.5
Nipissing District	26.0
Northumberland County	25.5
Ottawa - Carleton Region	371.0
Oxford County	35.5
Parry Sound District	10.0
Peel Region	369.5
Perth County	24.5
Peterborough County	40.0

Proposed Provincial Personal Income Tax Cuts Support Community Economies Across Ontario	Full Implementation Tax Cut ($M)
Prescott - Russell County	23.5
Prince Edward County	7.0
Rainy River District	7.0
Renfrew County	30.0
Simcoe County	114.0
Stormont, Dundas and Glengarry County	34.0
Sudbury District	7.0
Sudbury Region	64.0
Thunder Bay District	65.0
Timiskaming District	11.0
Toronto	1,120.0
Victoria County	20.5
Waterloo Region	167.0
Wellington County	68.5
York Region	312.0
Total	**4,555.0**

Overview of the Tax Cut

1. The tax cut was introduced in the 1996 Ontario budget. At that time, Ontario's income tax rate was 58 per cent of Basic Federal Tax. The top marginal income tax rate was the second-highest in the country, and the highest for entrepreneurs because of the application of Employer Health Tax to self-employment income. Before this tax cut, four provinces had a lower statutory rate than Ontario; in 1999, these proposals will give Ontario the lowest statutory rate in Canada.

The first income tax rate cut took place in July 1996. By January 1997, Ontario's income tax rate was down to 49 per cent of Basic Federal Tax — 15.5 per cent of the 30 per cent rate cut was already in place. Last year, a further round of cuts was announced and, by January 1998, Ontario's income tax rate was down to 45 per cent of Basic Federal Tax — 22.4 per cent of the 30 per cent tax cut was then in place.

With the cuts proposed in this budget, the 30 per cent income tax cut would be completed two years after it began. On July 1, 1998, Ontario's income tax rate is proposed to be 40.5 per cent — 30.2 per cent lower than the 58 per cent rate this Government inherited.

More than a 30 Per Cent Tax Cut

Every year, substantial improvements have been made to the Ontario Tax Reduction program. The Ontario Tax Reduction program reduces or eliminates Ontario income tax for people with lower incomes. With each cut to the income tax rate, this program has been enriched. With the enrichments proposed in this budget, the Ontario Tax Reduction will have been enriched in three consecutive budgets.

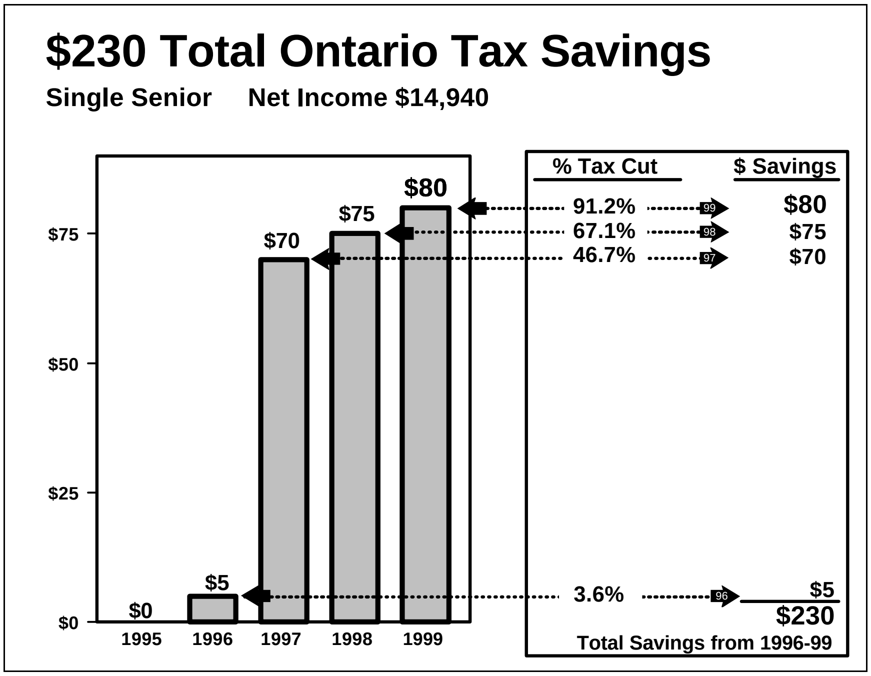
The Ontario Tax Reduction increases the value of the tax cut to more than 30 per cent. In total, 630,000 people will have had their Ontario income tax reduced by more than 30 per cent. Of these taxpayers, 360,000 additional taxpayers benefit from this program as a result of this Government's initiatives.

The Fair Share Health Care Levy

The Fair Share Health Care Levy was introduced in July 1996 and it has been adjusted with each new cut in the income tax rate. The Fair Share Health Care Levy has made it possible for the job-killing payroll tax on small business to be abolished without affecting health care funding. The federal government rejected the original design for the Fair Share Health Care Levy so the pre-existing surtax was amended and expanded. As promised, the Fair Share Health Care Levy reduces the value of the Ontario tax cut but this plan will ensure that no taxpayer gets less than a 16.2 per cent cut.

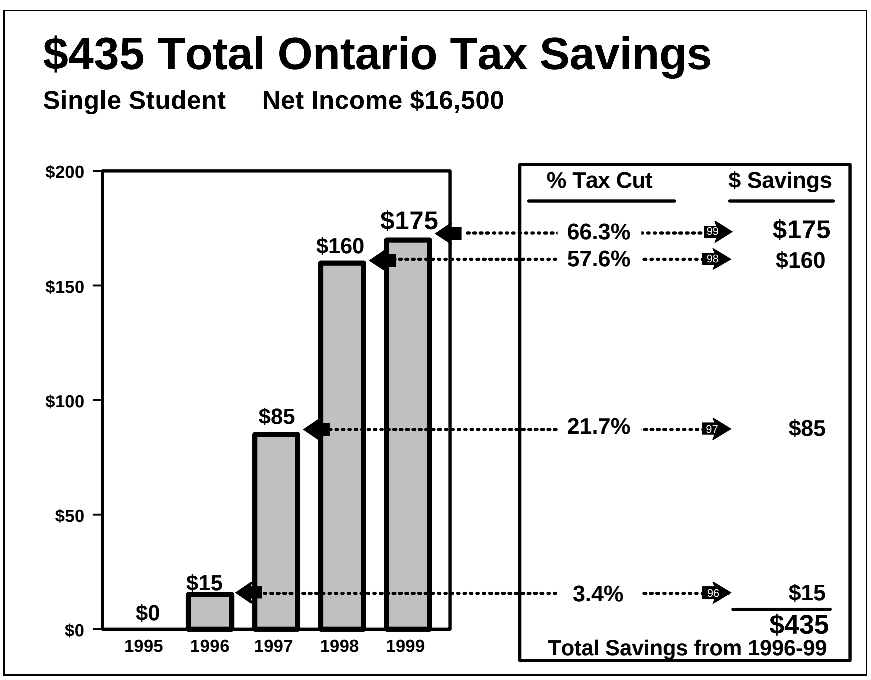
Illustrative Examples

The measures proposed in this budget will, if approved by the Legislature, complete the 30 per cent Ontario personal income tax cut, accelerate the implementation of the Employer Health Tax exemption for self-employed individuals and introduce the Ontario Child Care Supplement for Working Families. The following examples illustrate the impact of these proposed tax cuts on individuals and families in a variety of circumstances.



♦ A single senior receives Old Age Security of $4,850, Guaranteed Income Supplement of $1,440, and Canada Pension of $2,650. A private pension provides additional income of $2,000 and GICs pay interest of $4,000.

♦ Ontario's tax cut would save this individual $230 in Ontario personal income tax over four years. By 1999, the amount of Ontario tax payable would be lower by 91.2%.



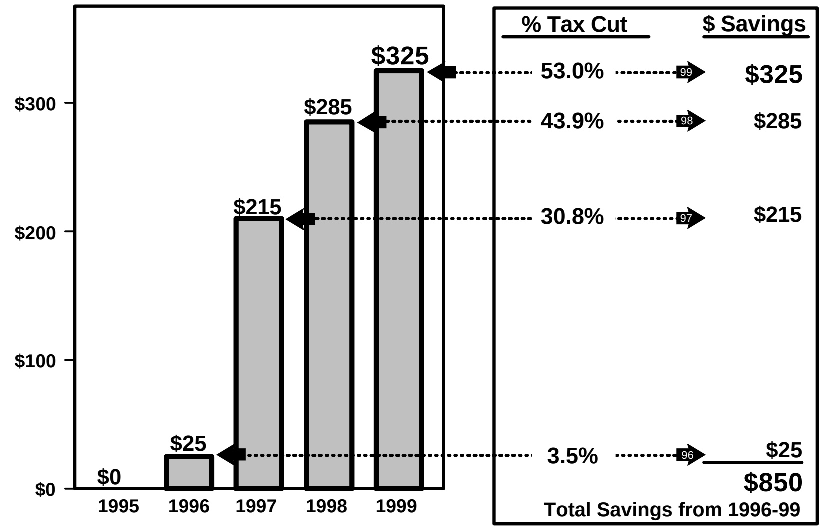
♦ A single student attends university full-time for eight months a year. Annual tuition is $4,000 and ancillary fees are $500.

♦ This student earns $16,500 as a waiter, working full-time during the summer and part-time while attending school.

♦ Ontario's tax cut would save this individual $435 in Ontario personal income tax over four years. By 1999, the amount of Ontario tax payable would be lower by 66.3%.

$850 Total Ontario Tax Savings

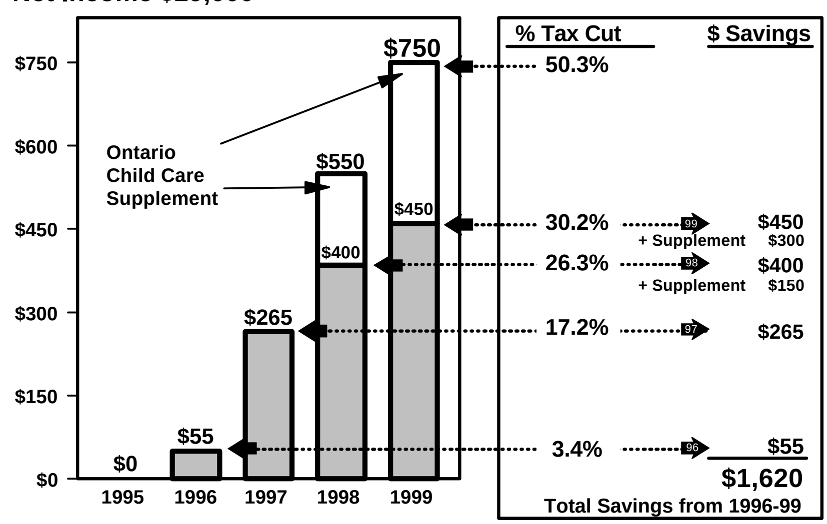
Senior Couple Net Income $29,000



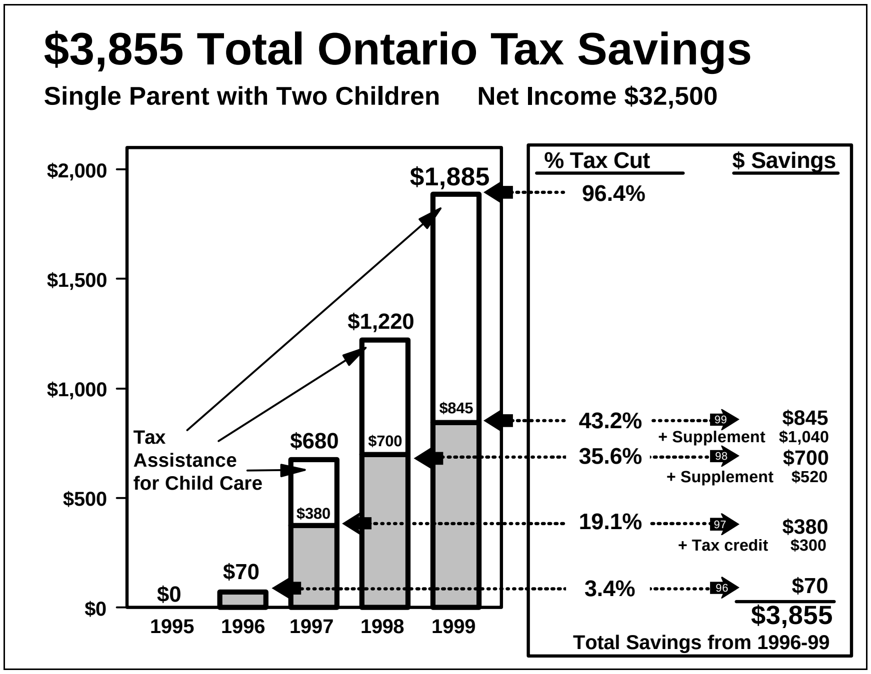
- Two seniors collect $4,850 each in Old Age Security and $5,000 each from their RRIFs. One receives $5,150 and the other $4,150 in Canada Pension payments.
- Ontario's tax cut would save this senior couple $850 in Ontario personal income tax over four years. By 1999, their Ontario tax would be lower by 53.0%.

$1,620 Total Ontario Tax Savings

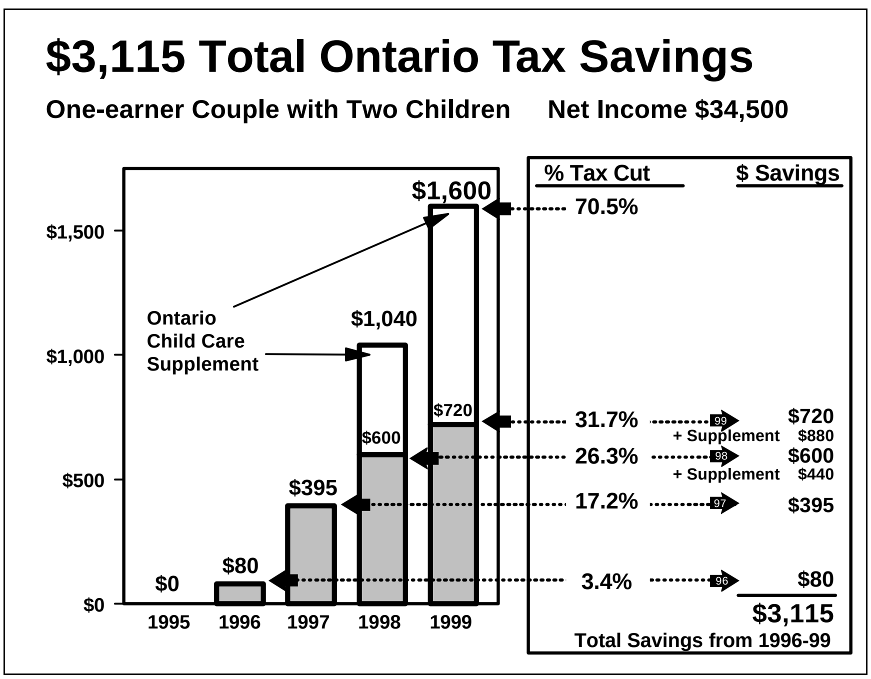
One-earner Couple (Self-employed) with One Child
Net Income $29,000



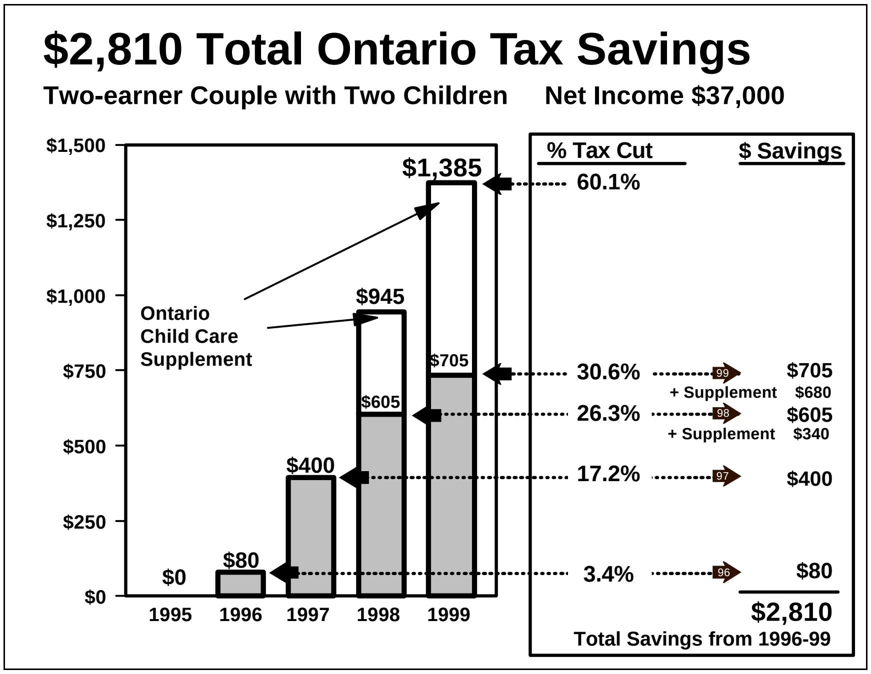
- One parent earns $29,000 as a freelance journalist. The other parent is currently out of work and cares for their 3-year old child.
- Ontario's tax cut and child care supplement would give this family $1,620 more spending money over four years – consisting of cumulative Ontario tax savings of $1,170, plus child care supplements of $450.
- By 1999, their Ontario tax would be 50.3% less than without these changes.



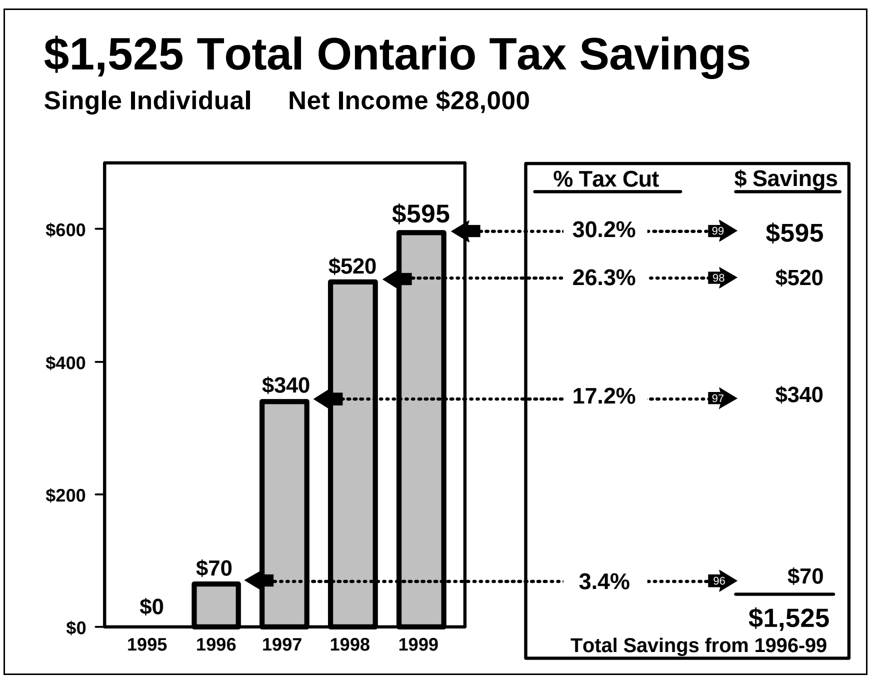
- A single parent with two children (ages 3 and 5) earns $46,000 a year as a registered nurse, pays $850 in union and professional dues and contributes $2,650 to a company pension. Day care for the children costs $10,000 a year.
- Ontario's tax cut would save this single parent $1,995 in personal income tax over four years. When these savings are combined with the child care supplements of $1,860 over the same period, the total benefit would be $3,855.
- By 1999, the amount of Ontario tax would be 96.4% less than without these changes.



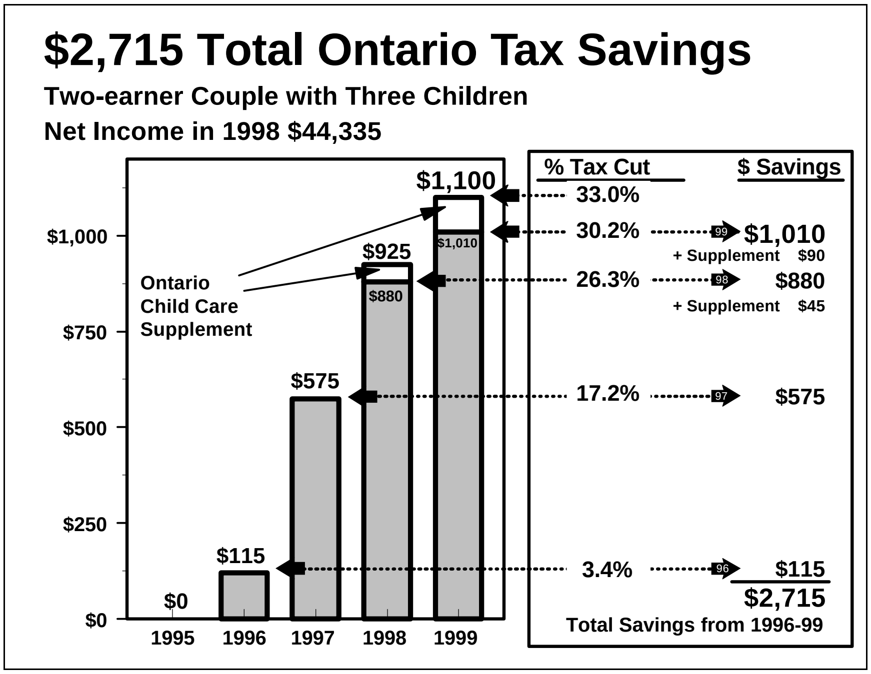
- One parent earns $37,000 a year as a bus driver, pays $500 a year in union dues and contributes $2,000 to a company pension. The other parent stays home to care for their two young children (ages 1 and 3).
- Ontario's tax cut and child care supplement would give this family $3,115 more spending money over four years – consisting of cumulative Ontario tax savings of $1,795, plus child care supplements of $1,320.
- By 1999, their Ontario tax would be 70.5% less than without these changes.



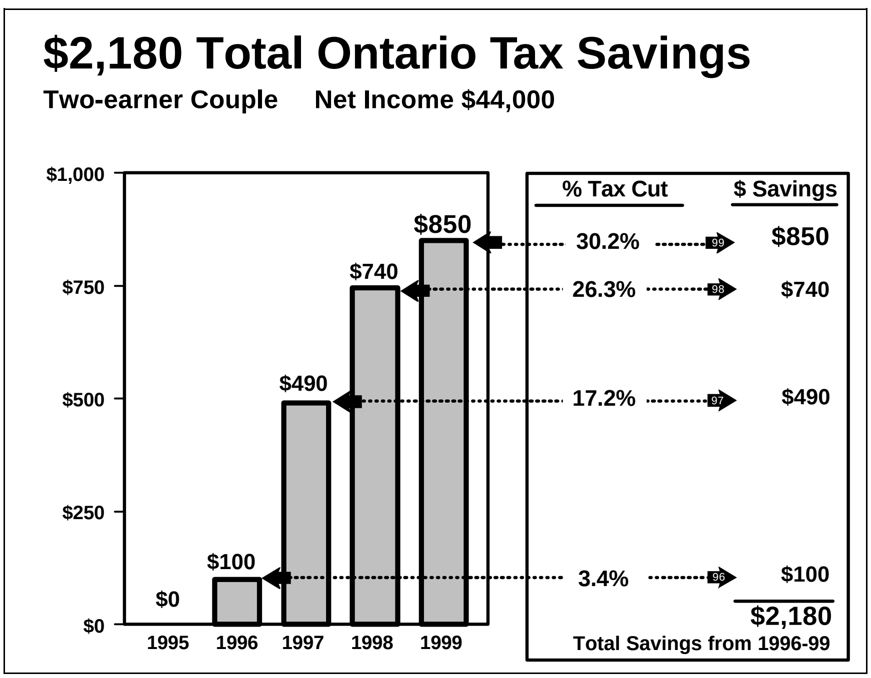
♦ One parent earns $33,000 a year as a machine operator, pays $600 in union dues and contributes $1,400 a year to a company pension. The other parent, while caring for their two young children (ages 1 and 4) earns $6,000 a year from a home-based business.
♦ Ontario's tax cut and child care supplement would give this family $2,810 more spending money over four years – consisting of cumulative Ontario tax savings of $1,790, plus child care supplements of $1,020.
♦ By 1999, their Ontario tax would be 60.1% less than without these changes.



♦ A single individual with no dependants earns $28,500 a year as a security guard and pays union dues of $500.
♦ Ontario's tax cut would save this individual $1,525 in Ontario personal income tax over four years. By 1999, the amount of Ontario tax payable would be lower by 30.2%.



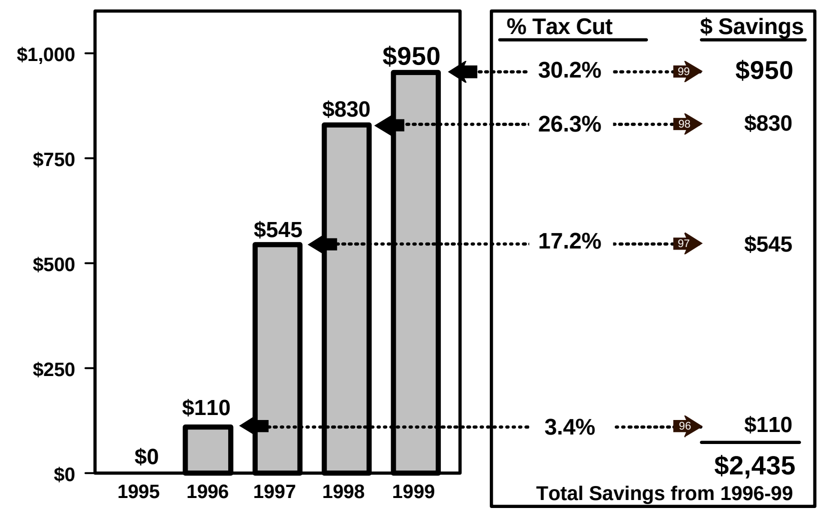
- ♦ One parent earns $22,000 a year as a bank teller and contributes $1,000 to a company pension. The other parent works as a sales representative, earning $43,000 a year, and contributes $5,000 to an RRSP.
- ♦ Child care costs for their three children (ages 2, 4 and 7) are $15,000 a year.
- ♦ Ontario's tax cut and child care supplement would give this family $2,715 more spending money over four years – consisting of cumulative Ontario tax savings of $2,580 plus child care supplements of $135.
- ♦ By 1999, their Ontario tax would be 33.0% less than without these changes.



- ♦ A recent college graduate earns $15,000 a year working part-time as a telemarketer.
- ♦ A recent university graduate is working as an accounting clerk towards an accounting designation. This person earns $29,000 a year.
- ♦ Ontario's tax cut would save this couple $2,180 in Ontario personal income tax over four years. By 1999, their Ontario tax would be lower by 30.2%.

$2,435 Total Ontario Tax Savings

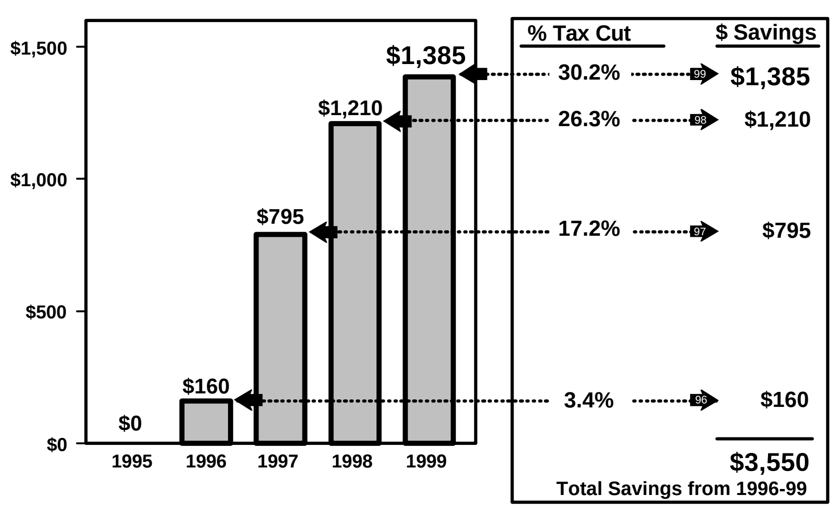
Senior Couple Net Income $47,700



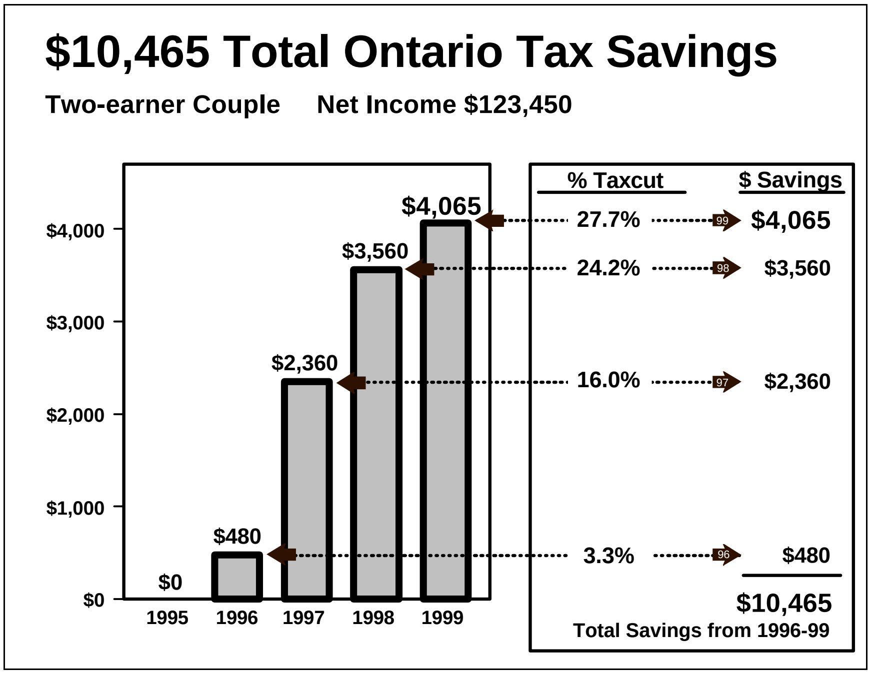
- Both individuals are retired. They each receive $4,850 in Old Age Security and $2,500 in Canada Pension.
- One individual has a company pension of $29,000 a year. The other individual receives annual annuity payments of $1,000. They each report interest income of $1,500.
- Ontario's tax cut would save this couple $2,435 in Ontario personal income tax over four years. By 1999, their Ontario tax would be lower by 30.2%.

$3,550 Total Ontario Tax Savings

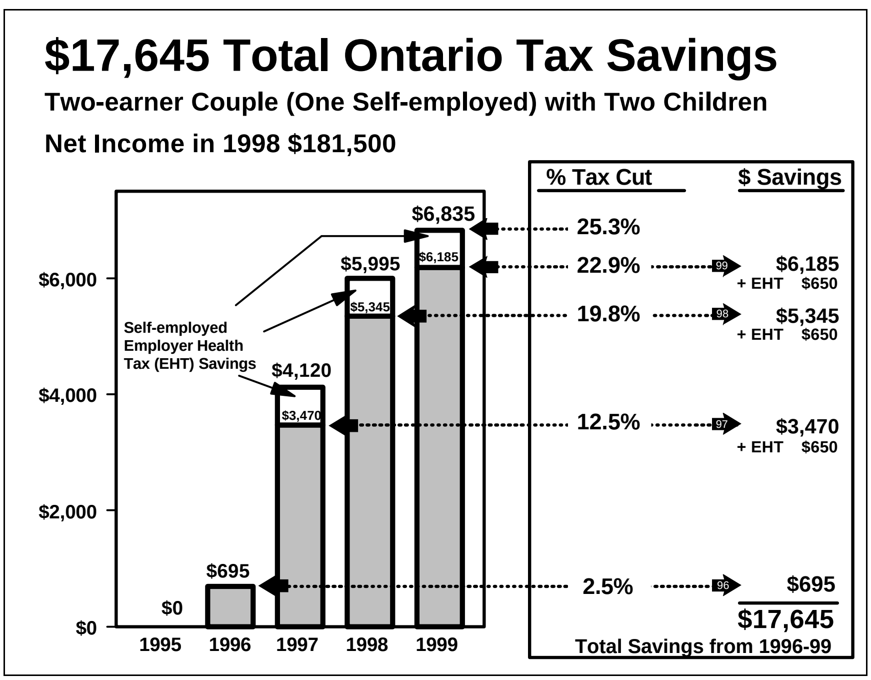
Two-earner Couple with Two Children Net Income $60,000



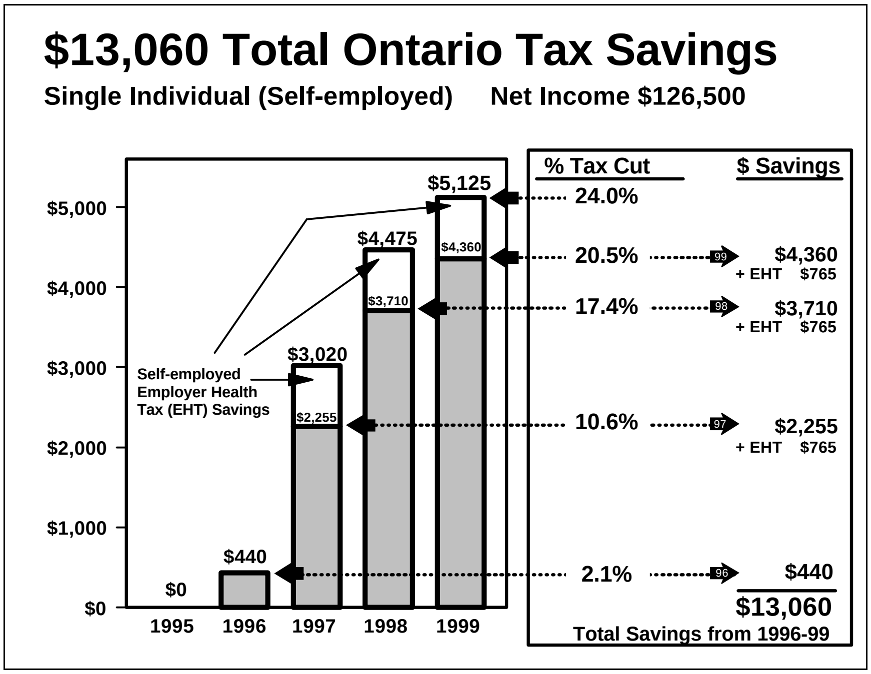
- One parent earns $35,000 a year as a computer operator. The other parent is a clerk typist, making $25,000 a year.
- No child care costs are incurred for their two school-aged children (ages 12 and 15).
- Ontario's tax cut would save this family $3,550 in Ontario personal income tax over four years. By 1999, their Ontario tax would be lower by 30.2%.



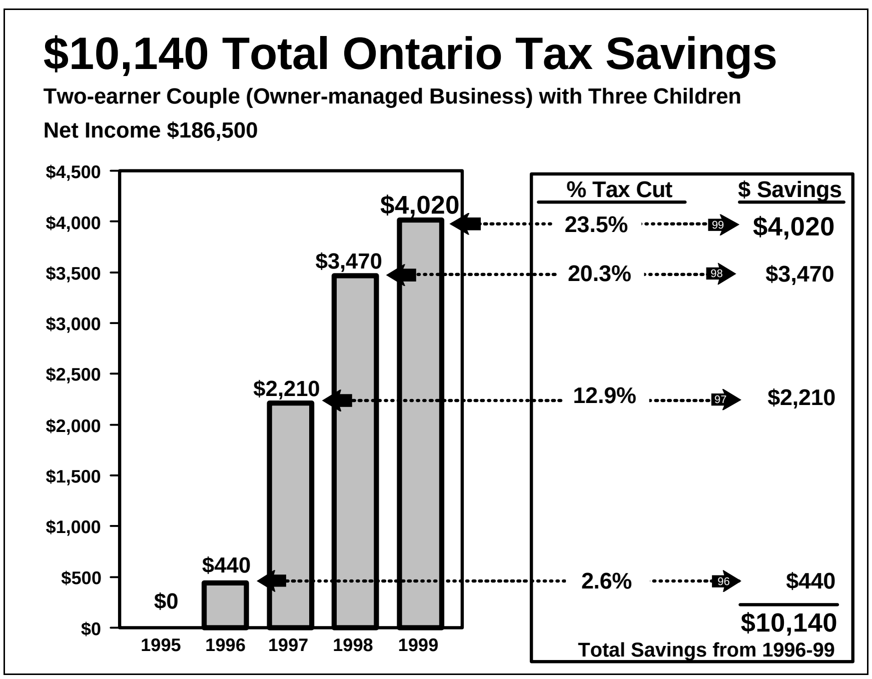
- ♦ A professor earns $75,000 a year and contributes $4,300 annually to the university pension.
- ♦ A teacher earns $58,000, pays $750 in union dues and contributes $4,500 a year to the teachers' pension fund.
- ♦ Ontario's tax cut would save this couple $10,465 in Ontario personal income tax over four years. By 1999, their Ontario tax would be lower by 27.7%.



- ♦ A self-employed lawyer makes $125,000 a year and contributes $13,500 to an RRSP. An engineer at a large telecommunications company earns $84,000 a year. Their two young children (ages 2 and 4) are cared for in their home by a nanny, at a cost of $18,000 a year.
- ♦ Ontario's tax cut would save this family $15,695 in Ontario personal income tax and $1,950 in self-employed EHT over four years for total savings of $17,645. By 1999, their Ontario tax would be 25.3% less than without these changes.



- ♦ A single doctor, with no dependants, earns $140,000 a year and contributes $13,500 to an RRSP.
- ♦ Ontario's tax cut would save this individual $10,765 in Ontario personal income tax and $2,295 in self-employed EHT over four years for total savings of $13,060. By 1999, the amount of Ontario tax would be 24% less than without these changes.



- ♦ Each parent owns 50% of the family's incorporated lumber business. As a shareholder of the company, each parent receives an annual dividend of $50,000.
- ♦ One parent also receives a salary of $75,000 a year and contributes $13,500 to an RRSP. The other parent stays home to care for their three children (ages 5, 8, and 10).
- ♦ Ontario's tax cut would save this family $10,140 in Ontario personal income tax over four years. By 1999, their Ontario tax would be lower by 23.5%.

Conclusion

Ontario's tax cuts benefit all taxpayers.

People with lower incomes get the greatest percentage tax reductions. On average, the 20 per cent of taxpayers who report less than $19,675 would receive an average tax cut of 42.8 per cent.

Middle income people get the largest share of the tax cut. Sixty-four per cent of the tax cut would be delivered to people reporting between $25,000 and $75,000 of income.

People reporting high incomes also share in the tax cut but receive lower percentage benefits. On average, the top 0.5 per cent of taxpayers in Ontario may look forward to a 18.0 per cent tax cut.

Details of Revenue Measures

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

Income Tax Act

Completing the 30 Per Cent Ontario Tax Rate Cut

The Ontario personal income tax rate is set as a percentage of Basic Federal Tax. In 1995, the Ontario tax rate was 58 per cent of Basic Federal Tax. This budget proposes to complete the 30.2 per cent rate cut.

- ♦ Effective July 1, 1998, the Ontario personal income tax rate is proposed to be reduced from 45 per cent of Basic Federal Tax to 40.5 per cent of Basic Federal Tax.
  - – For the 1998 taxation year, the Ontario personal income tax rate would be 42.75 per cent of Basic Federal Tax.
- ♦ For the 1999 and subsequent taxation years, the Ontario personal income tax rate is proposed to be 40.5 per cent of Basic Federal Tax.

Fair Share Health Care Levy

The Fair Share Health Care Levy (FSHCL) is a surtax applied to basic Ontario income tax. This levy does not apply to taxpayers reporting less than $50,980 of income. The FSHCL has two tiers. To complement the income tax cut, adjustments have been made to the thresholds above which the FSHCL rates apply. Further adjustments to the top FSHCL rate and threshold have been made to offset the cost of the Employer Health Tax exemption.

- Effective July 1, 1998, the FSHCL is proposed to be calculated as 20 per cent of Ontario income tax in excess of $3,845 plus 36 per cent of Ontario income tax in excess of $4,800.
  - For the 1998 taxation year, the FSHCL would equal 20 per cent of Ontario income tax in excess of $4,057.50 plus 33 per cent of Ontario income tax in excess of $5,217.50.
- For the 1999 and subsequent taxation years, the FSHCL is proposed to be calculated as 20 per cent of Ontario income tax in excess of $3,845 plus 36 per cent of Ontario income tax in excess of $4,800.

Ontario Tax Reduction

The Ontario Tax Reduction reduces or eliminates Ontario income tax payable by taxpayers with low incomes. A “basic amount” ensures that all low income taxpayers are eligible to benefit from this program and “supplements” provide additional tax reductions to taxpayers who have dependent children and disabled dependants. For the third year in a row, low income taxpayers will receive improved benefits from enrichments to the Ontario Tax Reduction program.

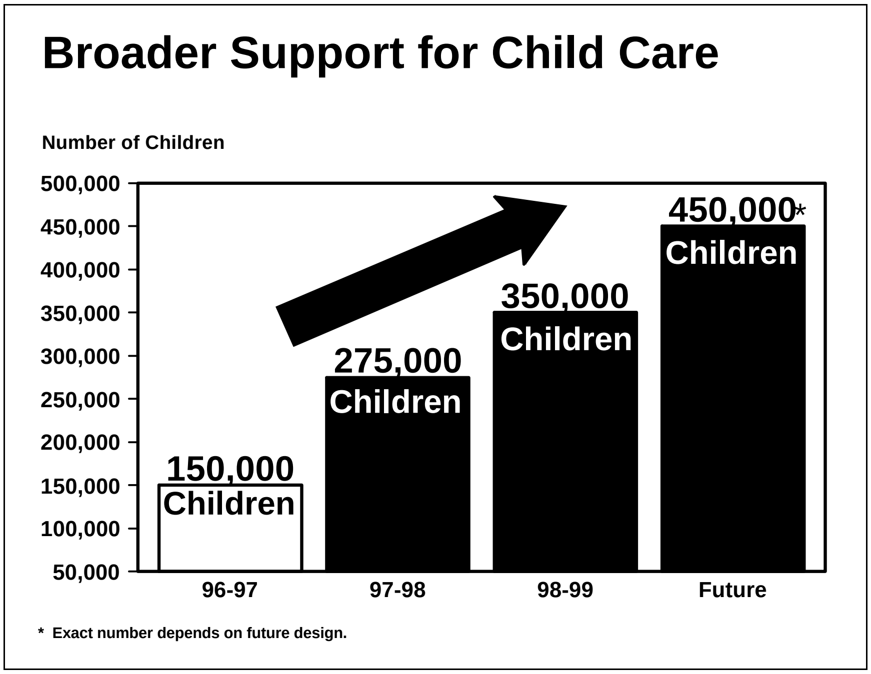
- Effective July 1, 1998, the basic reduction would be $160 and the amount in respect of each dependent child age 18 or under and each dependant with a disability would be $325.

Enhanced Support for Families with Children

In the 1997 Budget, Ontario introduced a refundable tax credit for lower income families who incur child care expenses. This $40 million child care tax credit provided up to $400 for each child under age 7 to 90,000 families for 125,000 children.

The Ontario child care tax credit is proposed to be combined with $100 million in funds made available by the National Child Benefit initiative to create a new $140 million Ontario Child Care Supplement for Working

Families that would be delivered monthly to 210,000 families for 350,000 children under age 7.



The maximum annual benefit would be $1,020 for each child under age 7. This represents more than a doubling of assistance provided under the former child care tax credit. Also, working families where one parent stays at home to care for their young children would be eligible.

Which Families Would be Eligible?

- Low and middle income working families with children under age 7 would be eligible. Families incurring qualifying child care expenses in order to attend school or obtain training would also be eligible for benefits.

How Would Benefits be Calculated?

- For families with earnings from work (including self-employment), benefits would be calculated as a percentage of earnings in excess of $5,000, depending upon the number of children under age 7.
  - Benefits are proposed to be 20 per cent of earnings above $5,000 for a family with one child under age 7, 40 per cent for a family with two children under age 7 and 60 per cent for a family with three or more children under age 7.
  - The maximum annual benefit would be $1,020 multiplied by the number of children under age 7.

- Parents with earnings below $5,000 who incur child care expenses in order to attend school or obtain training would qualify for an annual benefit equal to 50 per cent of qualifying child care expenses, up to a maximum of $1,020 for each child under age 7.

- Where a family has earnings from work and qualifying child care expenses, the annual benefit would be equal to the greater of the two benefits described above.

- Benefits would be reduced by 8 per cent of family net income in excess of $20,000. Benefits for families receiving child care subsidies would be further adjusted to reflect child care costs covered by these subsidies.

- The calculated annual benefit would be paid by Ontario in equal monthly instalments to the same parent who receives the federal Child Tax Benefit.

When Would Benefits Start?

- This year families would be required to apply for the benefit by September 30, 1998. Benefits would accrue from July 1998, and the first payment of accumulated benefits would be made late this year. Thereafter, benefits would be paid monthly.

- In subsequent years families would be required to apply for benefits by June 30.

- Benefit entitlements for the period July 1998 to June 1999 would be calculated on the basis of amounts reported on the 1997 tax return and federal Child Tax Benefit information.

- Benefit entitlements would be recalculated every July based on the tax information for the previous taxation year and federal Child Tax Benefit information.

Employer Health Tax Act

Employer Health Tax Exemption

The Employer Health Tax is a payroll tax which applies to all employers in Ontario. In 1997, a $200,000 payroll exemption was introduced. This exemption applies exclusively to private-sector employers. This exemption rose to $300,000 on January 1, 1998 and was scheduled to increase to $400,000 effective January 1, 1999. The final step of the $400,000 exemption is proposed to be accelerated.

- In order to give effect to a $400,000 exemption beginning July 1, 1998, the payroll level above which the Employer Health Tax becomes payable is proposed to be increased to $350,000 for the 1998 taxation year.

Self-Employed Individuals

The employer health tax also applies to self-employed individuals.

- To parallel the acceleration of the $400,000 exemption, the tax exemption on self-employment income is also proposed to be $350,000 for the 1998 taxation year. In 1999, the tax on self-employed individuals will be eliminated.

Community Small Business Investment Funds Act

In 1997, Ontario introduced the Community Small Business Investment Fund (CSBIF) Program to promote greater access to investment capital for growing businesses with $1 million or less in assets. Incentives were provided to encourage Labour Sponsored Investment Funds (LSIFs) and financial institutions to participate in this initiative.

In 1998, it is proposed that the CSBIF program be refined and enhanced to increase the flow of investment capital to Ontario's small business sector.

- To encourage local participation in CSBIFs, a 15 per cent incentive is proposed for individuals investing between $150,000 and $500,000 in a CSBIF in 1998. One-half of the incentive would be made available when the investment is made in a CSBIF and the remainder would be made available when the CSBIF invests in eligible businesses.

- The time limit for LSIFs to invest funds already set aside for CSBIF investment would be extended until the end of 1998 to allow sufficient time for the organization and registration of CSBIFs.

- It is proposed that funds set aside this year in respect of 1998 investment requirements must be transferred to a CSBIF by the end of 1999.

- The federal government will be asked to recognize LSIF investments in CSBIFs as eligible for the enhanced federal Labour Sponsored Venture Capital Corporations small business investment incentive.
- Other technical amendments will be proposed to ensure the proper functioning of the program, and to provide for the extension to the deadline for LSIF claims by taxpayers affected by the ice storm.

Land Transfer Tax Act

Land Transfer Tax Refund for First-time New Home Buyers Extended

This temporary refund program applies to the purchase of a newly-built home by a first-time home buyer. Under the current program, the agreement of purchase and sale must be completed on or before March 31, 1998 and the purchaser must take possession of the house by December 31, 1998, and the transfer must be registered by December 31, 1999. The refund is equal to tax paid or payable, to a maximum of $1,725.

- As announced on April 1, 1998, legislation will be introduced to extend this program for one year.

Retail Sales Tax Act

Retail sales tax legislation will be introduced to implement the following proposals.

Extend the Rebate on Building Materials for Farmers

As announced on April 1, 1998, legislation will be introduced to extend the temporary rebate for retail sales tax paid on building materials purchased by farmers until March 31, 1999 and the deadline for submitting claims to December 31, 1999.

- The program eligibility rules would remain unchanged.

Expand the Rebate on Vehicles for Persons with Physical Disabilities

Amendments will be introduced to expand the current retail sales tax rebate relating to the purchase of a qualifying motor vehicle used to transport a person with a permanent physical disability.

- It is proposed to expand eligibility to defined individual caregivers who provide proof of an ongoing caregiving relationship with a person with a permanent physical disability.

Twenty-five Cent Coin Charges for Local Telephone Calls

Legislation will be introduced to exempt twenty-five cent local telephone calls, made by coin, from retail sales tax effective May 6, 1998.

Corporations Tax Act

Income Tax Rate Reduction for Small Business

The small business deduction reduces the Ontario corporate income tax rate from 15.5 per cent to 9.5 per cent for small Canadian-controlled private corporations on their first $200,000 of active business income. The Government will introduce legislation to further reduce the small business corporate income tax rate to 4.75 per cent over the next eight years by annual increases to the small business deduction.

- Effective May 5, 1998, the small business corporate income tax rate is proposed to be reduced to 9.0 per cent. The tax rate reduction would be prorated for taxation years straddling May 5, 1998.
- Effective January 1, 1999, the small business corporate income tax rate would be reduced to 8.5 per cent. A 0.5 percentage point reduction would follow each January 1st, until January 1, 2005, when the rate would be 5.5 per cent. On January 1, 2006, the small business corporate income tax rate would be reduced to 4.75 per cent. The tax rate reductions would be prorated for taxation years straddling the adjustment dates.
- The benefit of the small business deduction would continue to be gradually reduced where taxable income is greater than $200,000, and eliminated where taxable income is $500,000 and above.

Ontario Interactive Digital Media Tax Credit

Ontario will introduce legislation to provide a new 20 per cent refundable tax credit to small corporations for qualifying Ontario labour expenditures incurred to create interactive digital media products in Ontario.

Eligible Interactive Digital Media Products

- It is proposed that eligible interactive digital media products would be those that:
  - are developed by a qualifying corporation in Ontario for commercial exploitation with the copyright owned by the corporation;
  - are delivered electronically, for example, via CD-ROM or the Internet, in digital format;
  - are interactive, where users have the ability to direct the course of their immediate interaction with the electronic product; and
  - integrate the following media: text, audio and video.
- It is proposed that ineligible products would include those:
  - used for interpersonal communications;
  - used primarily to present or promote the qualifying corporation, its products or its services;
  - which contain subject matter that is considered inappropriate for public funding such as pornography; or
  - developed under a fee-for-service arrangement.

Qualifying Corporation

- It is proposed that a qualifying corporation would be a Canadian corporation that:
  - has a permanent establishment in Ontario;
  - on an associated company basis, has neither annual gross revenues in excess of $10 million nor total assets in excess of $5 million; and
  - is not exempt from taxation under the *Corporations Tax Act*.

Qualifying Ontario Labour Expenditures

- It is proposed that qualifying Ontario labour expenditures would be salaries and wages:

  - paid to Ontario-based individuals who report to a permanent establishment of the corporation in Ontario;
  - incurred in performing activities that result in the development of the eligible interactive digital media product; and
  - incurred after June 30, 1998.

- An Ontario-based individual would be one who was a resident of Ontario at the end of the calendar year prior to the one in which the salary or wage was incurred.

Tax Credit

It is proposed that:

- the Ontario Interactive Digital Media tax credit would be calculated at a rate of 20 per cent of qualifying Ontario labour expenditures;
- to claim the tax credit, a certificate of eligibility would have to be filed with the qualifying corporation's tax return under the *Corporations Tax Act*; and
- the credit would be applied against outstanding Ontario tax liabilities and any excess refunded.

Enrichment of the Ontario Computer Animation and Special Effects Tax Credit

The Ontario Computer Animation and Special Effects (OCASE) tax credit is a 20 per cent refundable tax credit available to corporations for Ontario labour expenditures incurred in respect of digital animation and digital visual effects carried out in Ontario for use in film and television productions.

It is proposed that effective for labour expenditures incurred after May 5, 1998, the OCASE tax credit would be enhanced as follows:

- the annual tax credit maximum of $500,000 per associated group of corporations would be eliminated.
- the tax credit would be extended to OCASE activities for television productions under 30 minutes.

Ontario Sound Recording Tax Credit

Ontario will introduce legislation to provide a new 20 per cent refundable tax credit to small Ontario-based sound recording companies for qualifying expenditures related to sound recordings by emerging Canadian artists. The credit would be effective for expenditures incurred after January 1, 1999.

Implementing Previous Film Tax Credit Announcements

As announced in November 1997, it is proposed that the *Corporations Tax Act* be amended to enhance the Ontario Film and Television Tax Credit and to introduce the 11 per cent Ontario Production Services Tax Credit.

Ontario Film and Television Tax Credit

The Ontario Film and Television Tax Credit is a 20 per cent refundable tax credit available to Ontario-based, Canadian-controlled production companies producing eligible film and television productions in Ontario.

- It is proposed that effective for productions commencing principal photography on or after November 1, 1997, eligible genres would be expanded to include variety, educational, instructional, and magazine format programming and the per-project and annual tax credit limits eliminated.

Ontario Production Services Tax Credit

- It is proposed that effective November 1, 1997, an 11 per cent refundable tax credit on qualifying Ontario labour expenditures would be available for foreign-based and domestic productions in Ontario that do not qualify for the Ontario Film and Television Tax Credit.

Workplace Child Care Tax Incentive

A new tax incentive is proposed to support businesses that create additional licensed child care facilities or improve existing child care facilities for children of working parents.

Tax Incentive

- The proposed incentive would be available to incorporated and unincorporated businesses, other than those in the business of providing child care.

- Corporations would be eligible to claim a super deduction of 30 per cent of qualifying expenditures. Individuals carrying on unincorporated businesses would be eligible to claim a refundable tax credit of 5 per cent of qualifying expenditures.

- Where a corporation allocates part of its taxable income to another jurisdiction, the deduction would be grossed-up by its Ontario allocation factor to ensure that the full benefit of the incentive is realized.

- For partnerships, the proposed incentive would be shared by the partners in a manner consistent with other Ontario tax incentives.
- The proposed incentive would be a once-only claim and separate from, and in addition to, other deductions available for income tax purposes in respect of the qualifying expenditures.

Qualifying Expenditures

- Qualifying expenditures would be:

  – capital costs of the construction of new on-site licensed child care facilities in Ontario, or capital renovations of existing child care facilities; or

  – contributions made by a business to an unrelated entity that are used to fund the capital cost of new licensed child care facilities in Ontario, or capital renovations of existing child care facilities.

- Capital costs would be expenditures described in Capital Cost Allowance classes 1, 3, 6 and 13 of the federal Income Tax Regulations.

When to Claim the Incentive

- The proposed incentive would be available in the taxation year in which the property first qualified for Capital Cost Allowance, or if the qualifying expenditure were a contribution to an unrelated entity, in the taxation year in which the contribution was made.

Effective Date

- The proposed incentive would apply to capital costs for construction or renovations incurred after May 5, 1998, and to contributions made after May 5, 1998.

Workplace Accessibility Tax Incentive

For employers that hire an eligible person with a disability, a new tax incentive is proposed to be made available in respect of qualifying expenditures incurred to accommodate that person.

Tax Incentive

- The proposed deduction for corporations would be an additional 100 per cent of qualifying expenditures incurred in a taxation year to a maximum of $50,000 per eligible employee.
- An equivalent incentive is proposed to be extended to unincorporated employers.
- This proposed incentive would be a once-only claim and would be separate from, and in addition to, normal deductions allowed for income tax purposes in respect of the qualifying expenditures.
- Where a corporation allocates part of its taxable income to another jurisdiction, the deduction would be grossed-up by the Ontario allocation factor to ensure that the full benefit of the incentive is realized.
- For partnerships, the proposed incentive would be shared by the partners in a manner consistent with other Ontario tax incentives.

Qualifying Expenditures

- It is proposed that qualifying expenditures be expenditures made in Ontario that are allowed as deductions under paragraphs 20(1)(qq) (disability-related modifications) and 20(1)(rr) (disability-related equipment) of the *Income Tax Act* (Canada), and other such expenditures as prescribed.

Effective Date

- The proposed incentive would apply to qualifying expenditures incurred after July 1, 1998.

Ontario Commercial and Industrial Education Tax Cut Plan

The Government will be introducing legislation to cut education taxes on commercial and industrial properties in municipalities with higher than average education tax rates.

The Government also proposes to increase grants to school boards to offset the impact of cutting education taxes. This would ensure that adequate funding for education is maintained.

Starting in 1998, the Province proposes to phase in the commercial and industrial education tax reduction over eight years for businesses in those single- and upper-tier municipalities that have average commercial or industrial education tax rates above 3.3 per cent — the estimated current provincial average. For each year, commercial and industrial education taxes would be reduced by 1/8 or 12.5 per cent of the difference between the 1998 above-average commercial or industrial education tax rate in the municipality and the 1998 provincial average.

The table below shows the estimated education tax reduction that would be provided to commercial and industrial properties in each municipality for 1998 and 2005, when the tax cut would be fully implemented.

Distribution of Proposed Commercial and Industrial Education Tax Cuts by Municipality

	Property Class	1998 Tax Cut ($)	Fully Implemented 2005 Tax Cut ($)	Fully Implemented % Cut in Education Taxes
Algoma District	Industrial	25,180	201,400	1.2%
Brant County	Industrial	254,950	2,039,600	21.6%
Cochrane District	Industrial	122,410	979,300	8.5%
Durham Region	Industrial	987,210	7,897,700	21.8%
Elgin County	Industrial	152,500	1,220,000	19.2%
Essex County	Industrial	1,117,230	8,937,800	22.4%
Frontenac County	Industrial	158,050	1,264,400	24.4%
Grey County	Industrial	114,860	918,900	26.4%
Haldimand - Norfolk Region	Industrial	222,780	1,782,200	21.2%
Halton Region	Industrial	159,210	1,273,700	3.3%
Hamilton - Wentworth Region	Industrial	2,538,290	20,306,300	44.0%
Hastings County	Industrial	159,180	1,273,400	17.6%
Kenora District	Industrial	159,650	1,277,200	20.0%
Kent County	Industrial	98,980	791,800	11.2%
Lambton County	Industrial	394,560	3,156,500	21.3%
Lanark County	Industrial	94,130	753,000	26.9%
Leeds and Grenville County	Industrial	409,110	3,272,900	39.0%
Lennox and Addington County	Industrial	103,710	829,700	21.0%
Middlesex County	Industrial	581,440	4,651,500	26.0%
Niagara Region	Industrial	1,551,030	12,408,200	37.3%
Nipissing District	Industrial	93,330	746,600	24.9%
Northumberland County	Industrial	210,560	1,684,500	27.1%
Ottawa - Carleton Region	Industrial	323,150	2,585,200	12.7%
Oxford County	Industrial	220,880	1,767,000	13.8%
Perth County	Industrial	74,280	594,200	9.1%
Peterborough County	Industrial	143,540	1,148,300	21.4%
Prescott - Russell County	Industrial	31,080	248,600	10.6%
Rainy River District	Industrial	60,960	487,700	20.9%
Rainy River District	Commercial	6,180	49,400	2.5%
Renfrew County	Industrial	210,000	1,680,000	35.4%
Simcoe County	Industrial	367,240	2,937,900	18.3%
Stormont, Dundas and Glengarry County	Industrial	328,090	2,624,700	33.4%
Sudbury District	Industrial	139,490	1,115,900	32.8%

Distribution of Proposed Commercial and Industrial Education Tax Cuts by Municipality

			Fully Implemented	
	Property Class	1998 Tax Cut ($)	2005 Tax Cut ($)	% Cut in Education Taxes
Sudbury District	Commercial	12,600	100,800	5.5%
Thunder Bay District	Industrial	498,300	3,986,400	18.6%
Thunder Bay District	Commercial	10,740	85,900	0.3%
Timiskaming District	Industrial	13,530	108,200	7.5%
Timiskaming District	Commercial	4,880	39,000	0.9%
Toronto	Industrial	14,000,100	112,000,800	50.6%
Toronto	Commercial	36,307,060	290,456,500	25.3%
Waterloo Region	Industrial	927,800	7,422,400	18.0%
Wellington County	Industrial	367,450	2,939,600	18.1%
Total		**63,755,700**	**510,045,100**	**26.9%**

Notes:

- The proposed commercial and industrial education tax cut estimates for each municipality are based on preliminary 1998 assessment data and may be adjusted once assessment data and provincial education rates are finalized.
- The proposed percentage cut in education taxes has been estimated as an average decrease for the overall commercial or industrial class in the region, county or district.

Making the Tax System Fairer

Ontario will introduce legislation to improve the fairness of the tax system and ensure that all taxpayers pay their fair share of taxes.

Tax Fairness

Changes are proposed to certain Ontario tax statutes to ensure that the tax system operates fairly and that taxpayers do not reduce their taxes unduly by using legislative provisions to obtain an unintended benefit. These include the following proposed amendments:

Corporations Tax Act

- Rules would be introduced to prevent the undue reduction of provincial tax by corporations through the manipulation of claims for discretionary deductions and reserves in taxation years where there are significant changes in the proportionate amount of taxable income that a corporation allocates to Ontario.

- Amendments will be introduced effective May 5, 1998 to the rules added in 1997 in the *Corporations Tax Act* which deal with inter-provincial asset transfers. These changes would make the Ontario rules more effective and align them more closely with similar rules enacted by Quebec.

  – A corporation would qualify as an Ontario corporation in a taxation year only if it allocates at least 90 per cent of its taxable income to Ontario for the taxation year in which the transfer is made. Partnerships would qualify as Ontario partnerships under similar rules.

  – Where there is a transfer of property between Ontario corporations or partnerships, it is proposed that the parties may elect for Ontario purposes that the property be transferred at an amount between the federal elected amount and the federal elected amount plus or minus the difference between the federal and Ontario cost amounts of the property.

  – The anti-avoidance rules contained in subsections 29.1(6), 31.1(6) and 34(10.3) of the Act, which currently apply to Ontario corporations and partnerships in situations where tax is being avoided, would be amended to provide that the rules apply where the transaction results in an increase as well as a decrease to elected or designated amounts. These rules would also be extended to apply to all corporations where tax is being avoided in respect of Class 3 buildings acquired after November 12, 1981 and before October 25, 1985, foreign resource properties, and other prescribed transactions.

- The 1997 Ontario Budget announced a capital tax rule to prevent corporations increasing their investment allowance and artificially reduce taxable paid-up capital by making loans or advances immediately before year-end to related corporations. Effective for taxation years ending on or after October 31, 1998, legislation will be introduced to make this rule applicable to other types of investments that qualify for the investment allowance, i.e., shares, bonds and lien notes.

Employer Health Tax Act

- In some instances, employers can avoid employer health tax through arrangements where an employee is paid directly by a third party for services provided to the third party. In order to prevent such tax avoidance, legislation will be introduced to require employers to pay employer health tax on remuneration paid by a third party to an employee where all of the following conditions are met:

- a service is provided in Ontario by the employee to the third party;
- the service is performed for the third party as an employee of the employer;
- the service provided is the same as the employee's core function that he or she normally performs for the employer;
- it is reasonable to consider that the third party would not engage the employee to provide the service if it were not for the employment relationship that the employee has with his or her employer;
- no reasonable amount of remuneration has been paid by the employer to the employee in respect of the services provided to the third party; and
- the remuneration paid by the third party is not otherwise subject to employer health tax.

This measure would take effect on January 1, 1999.

Retail Sales Tax Act

- ♦ Amendments will be introduced to ensure that asset rollover provisions work properly to eliminate double taxation and are not being abused.

Addressing the Underground Economy

Ontario will introduce a number of initiatives targeted at the underground economy and tax evasion. These proposed initiatives will include the following:

- ♦ modifying the Motor Vehicle Transfer System to ensure that sales of all motor vehicles, whether new or used, are accurately recorded and that tax is properly collected for the purposes of the *Retail Sales Tax Act*;
- ♦ enhancing prohibitions relating to the placement of coloured fuel in the tank of a licensed motor vehicle in the *Fuel Tax Act*;

- adding a penalty to the *Tobacco Tax Act* for persons in possession of unmarked cigarettes to discourage smuggling;
- increasing other fines and penalties under the *Tobacco Tax Act* and *Retail Sales Tax Act;* and
- amending the 5 per cent penalty under the *Corporations Tax Act* for filing a late or incomplete return to adopt the federal *Income Tax Act* provisions which increase the penalty by 1 per cent per month (maximum 12 months) while the return is outstanding and double the penalty for multiple occurrences.

Simplification

Ontario will introduce a number of measures to simplify tax legislation and provide fair and consistent treatment of taxpayers. These proposed measures will include:

- introducing legislation across all tax statutes to better protect taxpayers by enhancing the rules that safeguard the confidentiality of information supplied by taxpayers;
- amending Ontario tax statutes and regulations to increase the interest rate to the prime rate on amounts refunded to taxpayers whose tax issues, under the objections and appeals process, are resolved in the taxpayers' favour. The rate increase would be effective January 1, 1999 with the exception of refunds issued under the *Corporations Tax Act*, *Mining Tax Act* and *Employer Health Tax Act*. Under these statutes, the measure would apply to refunds arising from objections or appeals for 1998 and subsequent taxation years.
- amending the *Corporations Tax Act* effective for taxation years ending on or after October 31, 1998, to adopt the treatment under the federal Large Corporations Tax for the following items:
    - the inclusion in taxable capital of a deferred revenue item and the eligibility of the corresponding advance made by the payer for an investment allowance;
    - the eligibility of an investment in a stripped coupon for an investment allowance where the underlying bond qualifies; and
    - the exclusion for investment allowance purposes of an investment in a financial institution, other than an investment in a share or long-term debt of a financial institution;

- simplifying the administration of the "fairness" legislation as it applies to Ontario tax credits claimed under the *Income Tax Act*;
- amending the *Retail Sales Tax Act* regulations to make the treatment of transfers of assets between partnerships and their principals consistent with that of transfers between corporations and their shareholders, and of transfers from one related corporation to another;
- minimizing red tape for fuel exporters by amending the *Fuel Tax Act* and the *Gasoline Tax Act* to remove provisions requiring exporters to give advance notice of their intent to remove motive fuels in bulk from Ontario;
- amending the *Gasoline Tax Act* to implement the 1997 Budget initiative to optimize cash flows by bringing tax remittance dates in line with those of the federal *Excise Tax Act*. Ontario will work with the petroleum industry to implement these changes.
- amending the *Corporations Tax Act* and *Income Tax Act* where applicable to maintain concordance with recent amendments to the federal *Income Tax Act*.

Technical Amendments

To improve administrative effectiveness and maintain the technical integrity of the tax system, various changes will be introduced to the following Ontario tax statutes:

- *Income Tax Act*
- *Corporations Tax Act*
- *Land Transfer Tax Act*
- *Retail Sales Tax Act*
- *Fuel Tax Act*
- *Gasoline Tax Act*
- *Race Tracks Tax Act*
- *Tobacco Tax Act*

Revenue Changes: 1998 Budget Impact Summary

	1998-1999 ($ million)	Full Year ($million)
Income Tax Act		
PIT Cut	(946)	(4,815)
Fair Share Health Care Levy	40	260
Subtotal	**(906)**	**(4,555)**
Enriched Ontario Tax Reduction	(8)	(40)
Employer Health Tax Act		
EHT Exemption	(24)	(260)
S-EHT Elimination	(3)	(30)
Corporations Tax Act		
Income Tax Cut for Small Business	(30)	(280)
Workplace Child Care Tax Incentive*	(8)	(10)
Workplace Accessibility Tax Incentive*	(5)	(7)
Interactive Digital Media Credit	(5)	(10)
Enrichment of the Ontario Computer Animation and Special Effects Tax Credit	(1)	(1)
Sound Recording Tax Credit	0	(5)
Retargeted Tax Incentives for Film Production Services	0	(5)
Enhancements to Ontario Film and Television Tax Credit	(5)	(7)
Community Small Business Investment Fund Act		
New Incentive for Individual Investors	(3)	(5)
Retail Sales Tax Act		
Extended Rebate for Farmers	(7)	(7)
Expanded Rebate for Persons with Physical Disabilities	0	(1)
Land Transfer Tax Act		
First Time New Home Buyers Refund Extended	(18)	(22)
Education Quality Improvement Act, 1997		
Commercial and Industrial Education Property Tax Cut	(80)	(510)
Making the Tax System Fairer	4	17
Total Revenue Changes	**(1,099)**	**(5,738)**

* Includes credits claimed by unincorporated businesses.

For further information on these Budget initiatives:

English or French enquiries: 1-800-337-7222
Teletypewriter (TTY): 1-800-263-7776
Ministry of Finance WEB site: http://www.gov.on.ca/FIN/hmpage.html

If you would prefer to write, please direct your enquiry to:

Questions about:	**Contact:**
Personal income tax, Community small business investment funds program, Education property tax	Taxation Policy Branch Ministry of Finance 5th Floor, Frost Building South 7 Queen’s Park Crescent East Toronto ON M7A 1Y7
Corporations tax	Corporations Tax Branch Ministry of Finance P.O. Box 622 33 King Street West Oshawa ON L1H 8H6
Employer health tax	Employer Health Tax Branch Ministry of Finance P.O. Box 641 33 King Street West Oshawa ON L1H 8P5
Land transfer tax	Motor Fuels and Tobacco Tax Branch Ministry of Finance P.O. Box 625 33 King Street West Oshawa ON L1H 8H9
Retail sales tax	Retail Sales Tax Branch Ministry of Finance P.O. Box 623 33 King Street West Oshawa ON L1H 8H7
Changes to make the tax system fairer	Tax Design and Legislation Branch Ministry of Finance 2nd Floor, Frost Building North 95 Grosvenor Street Toronto ON M7A 1Z1

PAPER D
Ontario's Financing Operations

Introduction

The Government's Balanced Budget Plan is an important step in establishing control of the Province's growing debt and public debt interest expense. With debt at $105.0 billion as of March 31, 1998, and 1997-98 public debt interest expense payments of $8.7 billion, cost-effective borrowing and careful debt management are essential.

To ensure that Ontario's debt and public debt interest are managed effectively, the Government has taken steps to:

- reduce borrowing needs;
- ensure cost-effective borrowing; and
- follow prudent debt management practices.

Reducing Borrowing Needs

Reducing the amount of borrowing necessary to meet the Province's financing needs has been effective in managing Ontario's debt and interest payments.

Slowing the Growth in Public Debt Interest

Since 1995, the rate of growth in debt and public debt interest expense has declined rapidly.

Percentage Change	1995-96	1996-97	1997-98
Debt (Net of Liquid Reserves)	8.0%	6.5%	3.2%
Public Debt Interest (PSAAB)	5.3%	1.6%	1.4%

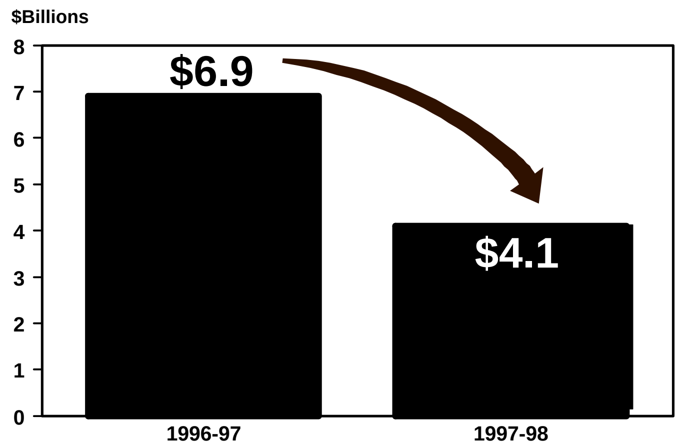
- Lower liquid reserves, as well as improvements and increased efficiencies in financing operations, have contributed to lower borrowing requirements and public debt interest expense.

Reducing Liquid Reserves

Declining deficits have diminished Ontario's need to access capital markets, allowing the average level of liquid reserves (cash and other short-term holdings) to be reduced during the fiscal year. As a result, the Ontario Financing Authority reduced borrowing and saved associated interest costs while meeting cash needs.

Reducing the Average Level of Liquid Reserves

(Saving $78 Million in Public Debt Interest)



- ♦ The average level of liquid reserves was reduced by approximately $2.8 billion from 1996-97 to 1997-98, thereby saving $78 million in net interest payments in fiscal 1997-98.

Other Measures to Reduce Borrowing

The Ontario Financing Authority undertook a number of other measures to reduce the amount of borrowing, which in turn lowered public debt interest expense.

Improving Cash Management Across Government, Saving More Than $2 Million per Year

The Ontario Financing Authority made a concerted effort to consolidate surplus funds from agencies across the Government. This consolidation reduced borrowing by more than $200 million, thus saving more than $2 million per year.

A 1997 Budget initiative committed the Ontario Financing Authority to work with other Ministries to minimize liquid reserves and to optimize cash flows by ensuring that revenues are collected and payments made on a timely basis.

This year, efforts will continue to improve the timeliness of cash flows. As part of this process, program managers in the Ontario Government will be required to adopt prudent cash management practices.

Reducing the Line of Credit, Saving $1.5 Million per Year

The Province has in place a syndicated line of credit as a back-up for short-term borrowing. Since 1996-97, the Ontario Financing Authority has reduced the line from U.S.$4 billion to U.S.$1.25 billion and negotiated lower fees, saving $1.5 million annually.

Lowering the Cost of Banking Services, Saving $1.2 Million Annually

In 1997-98, the cost of banking services was reduced by an estimated $1.2 million per year. These savings were made possible by consolidating banking service requirements across the Government and by selecting the Province's lead cash management banks through a well-defined competitive process.

Implementing the Pooled Fund Structure, Saving $0.5 Million in 1997-98

In 1997-98, the Ontario Financing Authority worked with a number of Crown agencies to improve the approach to investing short-term agency funds. As at March 31, 1998, these agencies had approximately $330 million invested in Ontario securities. This pooled approach to investment saved the Province more than $500,000 in 1997-98.

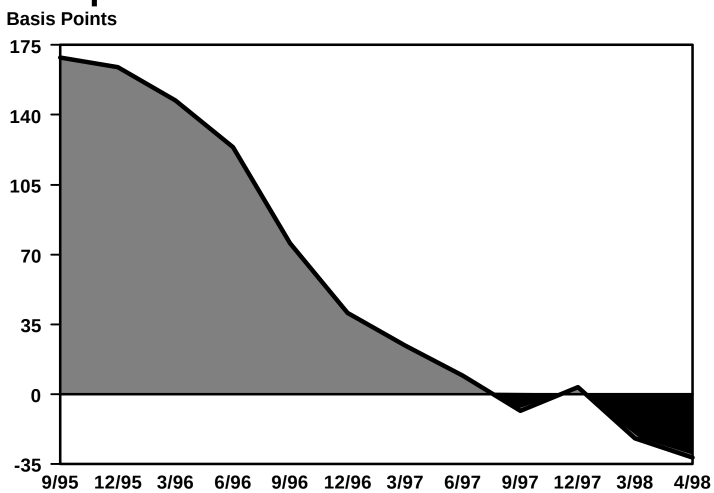
Cost-Effective Borrowing

Just as lowering deficits and liquid reserves reduced the Province's borrowing needs, favourable capital market conditions and improvements to the borrowing program also contributed to public debt interest savings.

Favourable Capital Market Conditions

During 1997-98, the United States and Canada experienced strong economic growth, leading to higher government tax revenues, which in turn contributed to lower deficits and subsequent lower borrowing requirements. This environment, together with low inflation, has resulted in low long-term interest rates, particularly in Canada.

30-Year Canada-U.S. Bond Rate Comparison



- ♦ Long-term interest rates dropped below 6 per cent, to levels not seen since the early 1960s. Since mid-1997, interest rates on 30-year Government of Canada bonds have been lower than corresponding U.S. interest rates on a generally sustained basis.

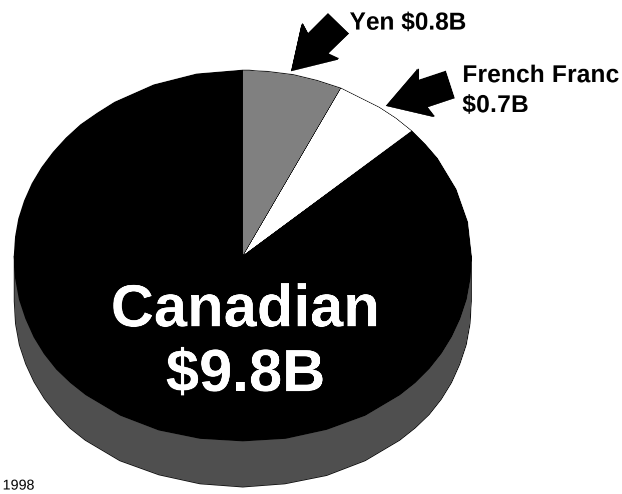
1997-98 Borrowing Program

In 1997-98, the Province borrowed $11.3 billion to fund the deficit and refinance maturing debt. By the end of 1997-98, the average interest rate on Total Provincial Purpose Debt had declined to 9.0 per cent from 9.1 per cent the year before, reducing public debt interest expense by more than $135 million annually.

Borrowing in Canadian Markets

The Canadian market remained the key source of financing for the Province. In 1997-98, more than 86 per cent of total public borrowing, or $9.8 billion, was raised in Canadian capital markets.

Total Public Borrowing - $11.3 Billion



As at March 31, 1998

- ♦ Of the total borrowed in Canada, $6.0 billion was borrowed in the 30-year term to take advantage of low long-term interest rates. The Province borrowed at rates as low as 6.05 per cent.

- ♦ In 1997-98, Ontario residents invested $1.5 billion in Ontario Savings Bonds.

Borrowing in Foreign Markets

The Province also raised $1.5 billion in overseas markets.

- Ontario issued its second successful French Franc bond issue for $715 million.
- Japanese investors purchased five Yen issues, securing $795 million for the Province.

The Ontario Financing Authority saved $12 million in present value terms after converting these issues into Canadian dollars.

Improvements to the Borrowing Program

The Ontario Financing Authority develops debt products that meet investor requirements and reduce borrowing costs. For example, in the last two years, in excess of $6.5 billion was raised by issuing instruments — medium term notes (MTNs), Eurobonds and Japanese issues — targeted to specific investor needs. In total, more than 40 of these instruments were issued in this period, saving more than $126 million in interest payments, in present value terms.

In February 1998, a benchmark bond issue was created as a base to improve the liquidity and marketability of future long-dated MTN issues. The cost of long-dated MTNs issued under this initiative fell by as much as 1.5 basis points.

Over the last two years, the administration of the annual Ontario Savings Bond campaign was streamlined, saving an average of $1.5 million per year.

Prudent Debt Management Policies and Practices

With an emphasis on cost-effectiveness, the Ontario Financing Authority continued its prudent use of a wide range of financial instruments, including options and swaps. This approach resulted in significant public debt interest expense savings in 1997-98.

Debt Management Policies

Current debt management policies require:

- floating-rate debt net of liquid reserves to be no more than 20 per cent of total debt;
- debt exposed to changes in foreign exchange rates to be no more than 5 per cent of total debt; and
- the credit rating of counterparties in foreign exchange and interest rate arrangements to be no less than single A.

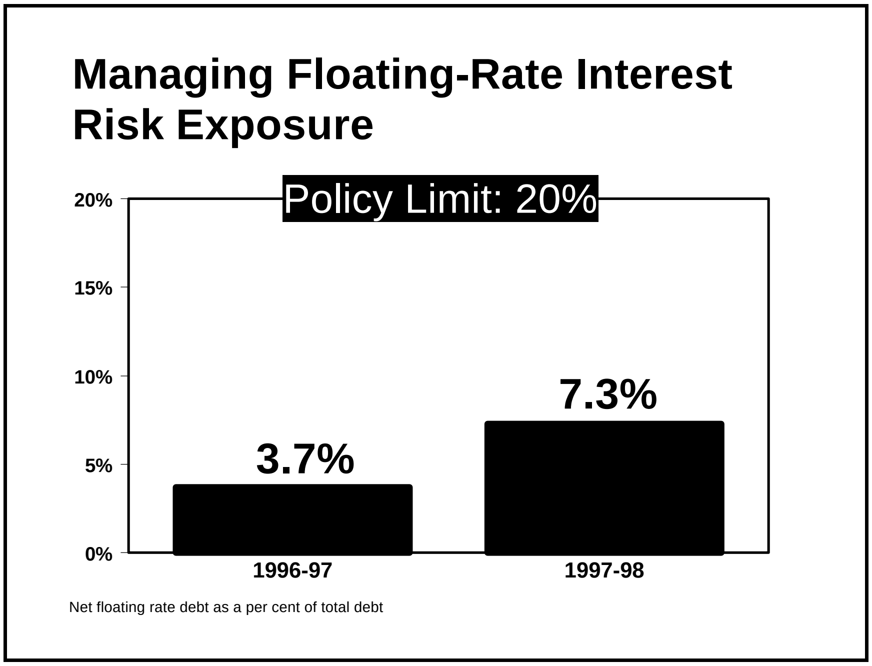
These limits allow the Ontario Financing Authority to balance market opportunities and risks to reduce the cost of debt over the long term.

Compliance with these limits is monitored daily and audited annually. Capital market operations also report daily on the cost-effectiveness of borrowing and the performance of short-term investment activities. Performance of debt, risk management and liquid reserve portfolios are measured against standard industry benchmarks, reviewed periodically and audited annually to ensure prudent debt management practices.

Basing the public debt interest expense projection on cautious assumptions is another important debt management practice to limit the impact of potentially higher-than-expected interest rates on the fiscal plan.

Floating-Rate Interest Risk Exposure

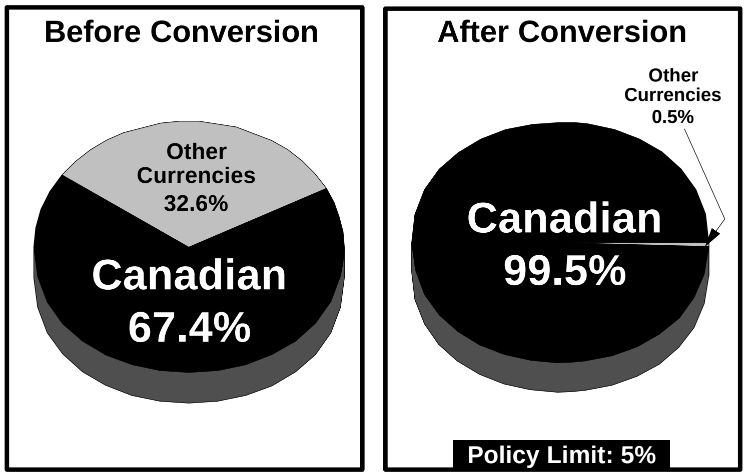
During 1997-98, the Ontario Financing Authority increased the share of Provincial floating-rate debt, as short-term interest rates were lower than long-term rates.



- In 1997-98, average floating-rate debt (net of liquid reserves) increased from 3.7 per cent to about 7.3 per cent, well within the policy limit of 20 per cent. The increase in floating-rate debt reduced public debt interest expense by more than $120 million in 1997-98.
- The estimated floating-rate debt of the federal government and other provincial governments ranged from 4 to 43 per cent of their outstanding debt (as of March 31, 1997).

Foreign Exchange Risk Exposure

The Province borrows in foreign markets when total financing costs are lower than in the Canadian domestic market. Foreign exchange exposure is reduced through converting payments of principal and interest in these foreign currencies for equivalent Canadian dollar payments.



Managing Foreign Exchange Risk Exposure

As at March 31, 1998.

- ♦ Almost one-third of Provincial debt has been raised in foreign currencies. However, the actual exposure to changes in foreign exchange rates is less than one per cent of total debt, virtually eliminating the exposure of the fiscal plan to fluctuations in foreign exchange rates.

- ♦ The federal government and other provincial governments had estimated foreign exchange exposures ranging from zero to 42 per cent of their outstanding debt (as of March 31, 1997).

Financing Program

1997-98 Review

- For the third consecutive year, the Province's financing program benefitted from an overachievement of the fiscal plan. Total financing requirements were approximately $5.3 billion lower than planned due to a smaller-than-expected deficit and lower cash timing adjustments. This lower financing requirement together with lower interest rates resulted in public debt interest expense savings of $266 million in 1997-98.

- Long-term borrowing increased by about $700 million from the 1997 Budget Plan.

($ Billions)	1996-97 Final	1997-98 Budget Plan	1997-98 Interim	1998-99 Budget Plan
Deficit	6.9	6.6	5.2	**4.2**
Cash Timing Adjustments	(1.6)	2.6	(0.9)	**3.8**
Cash Requirements	5.3	9.2	4.3	**8.0**
Maturities	6.5	5.4	5.8	**5.8**
Borrowing on behalf of agencies	0.7	0.6	(0.2)	**0.3**
Total Financing Requirements	**12.5**	**15.2**	**9.9**	**14.1**
Financed by				
(Increase)/Decrease in Liquid Reserves	5.7	3.0	0.1	**3.0**
Other Sources	0.2	0.1	(0.1)	**(0.1)**
Increase/(Decrease) in Short-term Borrowing	–	1.5	(1.4)	**2.0**
Long-term Borrowing Planned	–	9.9	–	**8.4**
Long-term Borrowing Completed	6.5	0.7	11.3	**0.8**
Total	**12.5**	**15.2**	**9.9**	**14.1**

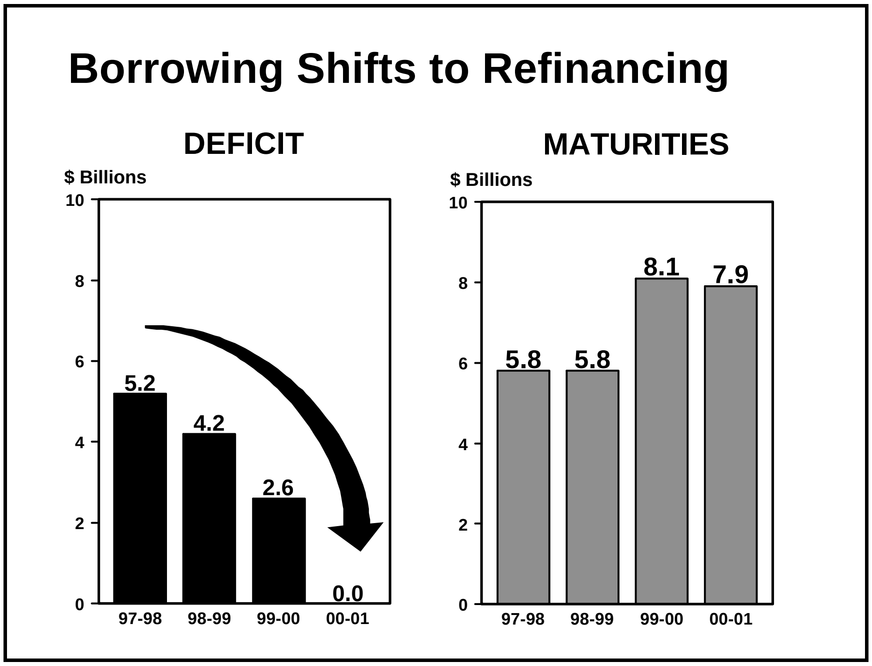
Cash requirements and maturities are the key determinants of borrowing requirements. Cash requirements are the difference between revenues recognized when cash is received and expenses recognized when cash is disbursed. The deficit is determined on an accrual basis and reports the gap between revenues and expenses attributed to the reporting period.

1998-99 Outlook

- The Government will reduce Provincial long-term borrowing from $11.3 billion in 1997-98 to $9.2 billion in 1998-99.
- The domestic market will continue to be the main focus of the borrowing program, including the fourth Ontario Savings Bonds campaign in June.
- On behalf of the Province, the Ontario Financing Authority will continue to monitor major capital markets. It will take advantage of opportunities to borrow cost-effectively. At the same time, the Ontario Financing Authority will ensure that prudent financial management policies and practices are followed.

Medium Term Outlook

Cost-effective borrowing and debt management will continue to be important, as borrowing requirements will remain around $9 billion per year on average for the next five years, mostly due to maturing debt.



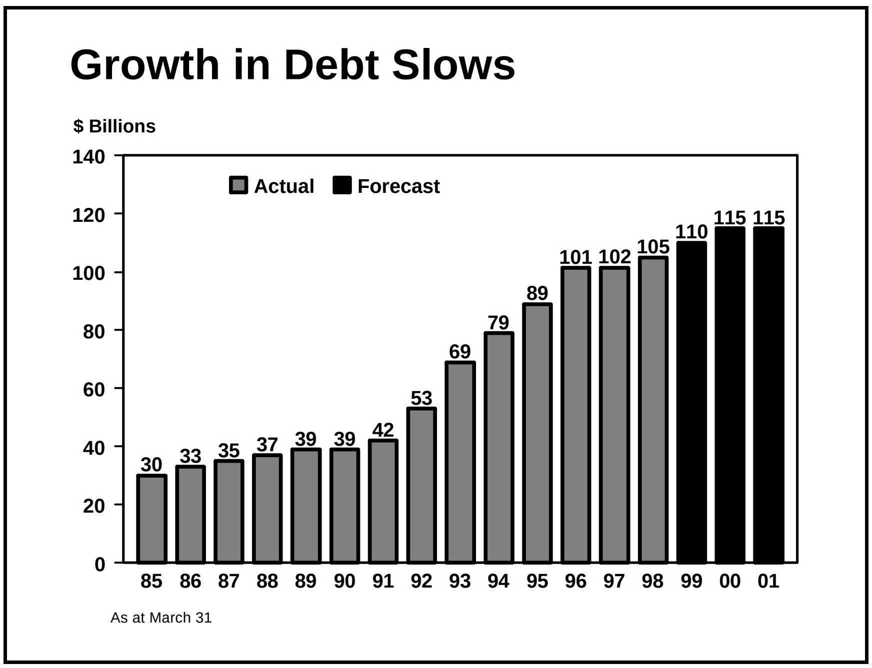
- ♦ 1998-99 will mark the second consecutive year that maturing debt will exceed the deficit, meaning that the refinancing of maturing debt is constituting an increasing share of the borrowing program.

Debt Outlook

The Government has minimized debt and public debt interest payments by:

- reducing borrowing needs;
- ensuring cost-effective borrowing; and
- following prudent debt management practices.

With these measures, the Government is able to maximize resources available for priorities, such as deficit reduction, tax cuts and investments in key program areas.



- Total Provincial Purpose Debt continues to grow despite deficit reduction measures, although at a slower rate.
- Given the size of the debt, prudent debt management remains essential to minimize risks to public debt interest expense and the fiscal plan.
- The Province will be in a position to begin paying down its accumulated debt, once it has balanced the budget in 2000-01.

Appendix

Overview

This appendix provides in-depth information on the Province’s debt portfolio.

Chart

The chart shows debt outstanding by currency. With $105.0 billion in total debt outstanding, the Canadian dollar remains the Province’s core currency ($70.8 billion), followed by the U.S. dollar ($21.3 billion), the Japanese Yen ($5.3 billion) and other currencies ($7.6 billion).

Tables

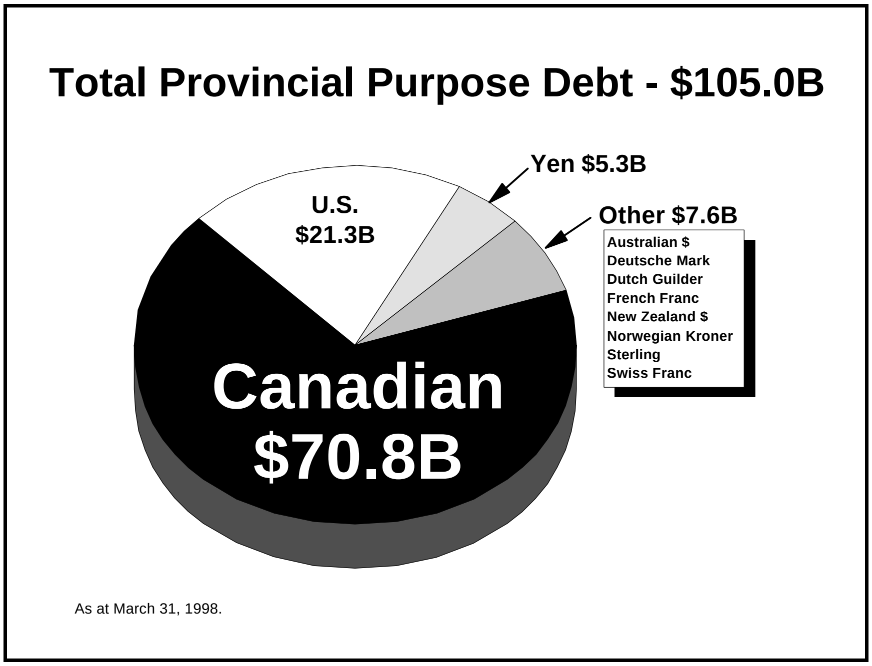
Table 1(A) is a five-year summary of the Province’s public and non-public debt outstanding.

Table 1(B) presents the maturity schedule for debt issued by the Province.

Table 1(C) summarizes the financial contracts entered into by the Ontario Financing Authority as part of its prudent practices in managing the Province’s debt. These contracts limit the exposure to interest rate and currency fluctuations.

Schedule II displays detailed information, such as date of issue and maturity, interest rates, original and currently outstanding issue amounts, on each of the Province’s public and non-public issues.

Chart


Total Provincial Purpose Debt - $105.0B
Yen $5.3B
Other $7.6B
U.S.
$21.3B
Australian $
Deutsche Mark
Dutch Guilder
French Franc
New Zealand $
Norwegian Kroner
Sterling
Swiss Franc
Canadian
$70.8B
As at March 31, 1998.

FINANCIAL TABLES
TABLE I(A)
SUMMARY OF PROVINCIAL PURPOSE DEBT[1]

As at March 31

	1994	1995	1996[3]	1997[3]	Interim 1998[3]
	(in millions)				
Incurred by the Province					
Non-Public Debt					
Minister of Finance of Canada:					
Canada Pension Plan	$13,105	$12,404	$11,620	$10,807	$ 9,956
Other	14	8	4	---	---
	$13,119	$12,412	$11,624	$10,807	$ 9,956
Ontario Teachers' Pension Fund	14,648	14,584	14,386	14,049	13,822
Ontario Municipal Employees Retirement Fund (OMERS)[5]	1,164	1,015	742	722	697
Colleges of Applied Arts and Technology Pension Plan[5]	---	---	91	91	91
Ryerson Retirement Pension Plan	---	16	16	9	9
Canada Mortgage & Housing Corporation	270	264	258	251	244
Public Service Pension Fund	5,939	3,976	3,884	3,790	3,681
Ontario Public Service Employees' Union Pension Fund (OPSEU)	---	1,859	1,816	1,772	1,749
	$35,140	$34,126	$ 32,817	$ 31,491	$ 30,249
Publicly Held Debt					
Debentures and Bonds[2]	$38,225	$49,522	$ 60,888	$ 61,939	$ 68,199
Treasury Bills	2,884	1,921	1,716	2,071	675
U.S. Commercial Paper[2]	465	142	177	---	---
	$41,574	$51,585	$ 62,781	$ 64,010	$ 68,874
Total Debt Incurred by the Province for Provincial Purposes	$76,714	$85,711	$ 95,598	$ 95,501	$ 99,123
Incurred by Government Service Organizations					
Non-Public					
Canada Pension Plan[4]	$ 79	$ 79	$ 1,402	$ 1,402	$
Canada Mortgage & Housing	---	---	1,038	1,021	1,402
Corporation					1,002
Public	---	---	18	35	
Other	---	---	430	433	18
Collateralized Financing[2]					437
Total Debt Incurred by Government Service Organizations for Provincial Purposes .	$ 79	$ 79	$ 2,888	$ 2,891	$ 2,859
Total Debt Incurred for Provincial Purposes	$76,793	$85,790	$ 98,486	$ 98,392	$101,982
Other					
Province of Ontario Savings Office . . .	$ 2,059	$ 2,089	$ 2,220	$ 2,135	$ 2,073
Other Liabilities[4]	587	701	690	984	993
Subtotal	$ 2,646	$ 2,790	$ 2,910	$ 3,119	$ 3,066
Total Provincial Purpose Debt[6]	$79,439	$88,580	$101,396	$101,511	$105,048

Source: Ontario Ministry of Finance

(1) Prepared on the basis of modified accrual and consolidation accounting.
(2) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts entered into by the Province.
(3) Figures for Interim 1997-98 and fiscal 1996-97 and 1995-96 reflect the change in status of Ontario Housing Corporation ("OHC") and GO Transit to Government Service Organizations, which are consolidated on a line-by-line basis. Fiscal 1994-95 and 1993-94 have not been restated and reflect OHC and GO Transit as Government Enterprises, which are consolidated on the modified equity basis. Therefore, comparisons of information from years prior to fiscal 1995-96 with fiscal 1995-96, 1996-97 and Interim 1997-98 may not be meaningful.
(4) Figures for fiscal 1993-94 through Interim1997-98 include the reclassification of $79 million from Other Liabilities to "Canada Pension Plan" debt.
(5) The original debentures payable to OMERS were replaced effective December 31, 1995, with debentures payable to OMERS and to Colleges of Applied Arts and Technology Pension Plan, in the amounts of $741.6 million and $90.9 million, respectively. The terms and conditions remain the same as those of the original debentures.
(6) The total Debt incurred for Provincial Purposes does not include debt issued on behalf of Ontario Hydro, which is offset by bonds of Ontario Hydro bearing like terms and conditions to the Ontario obligations.

TABLE I(B)
ONTARIO'S DEBT MATURITY SCHEDULE
Interim 1998[1]

	Debt Incurred for Provincial Purposes			Ontario Hydro Purposes[4]		
Year Ending March 31,	Publicly Held Debt[2]	Non-Public Debt	Total	United States Dollar-Denominated[3]	Canadian Dollar-Denominated	Total Debt Incurred for Provincial Purposes and Ontario Hydro
(in millions)						
1999	$	$ 1,701	$	$ 137	$ 0	$ 6,632
2000	4,794[5]	2,128	6,495	0	0	8,131
2001	6,003	1,477	8,131	0	500	8,449
2002	6,472	1,542	7,949	0	500	8,153
2003	6,111	2,473	7,653	0	0	11,373
	8,900		11,373			
1999-03 . .	32,280	9,321	41,601	137	1,000	42,738
2004-08 . .	19,256	11,488	30,744	0	508	31,252
2009-13 . .	1,980	10,149	12,129	0	1,240	13,369
2014-18 . .	141	1,279	1,420	0	0	1,420
2019-23 . .	1,851	366	2,217	0	0	2,217
2024-48 . .	13,821	50	13,871	0	0	13,871
	$ 69,329	$ 32,653	$101,982	$ 137	$ 2,748	$104,867

(1) Prepared on the basis of modified accrual and consolidation accounting.

(2) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts entered into by the Province.

(3) Debt of US $97.2 million, translated into Canadian dollar at the prevailing exchange rate in effect at March 31, 1998.

(4) This debt is offset by bonds of Ontario Hydro bearing like terms and conditions to the Ontario obligations.

(5) Includes $675 million in Treasury Bills.

TABLE I(C)
DESCRIPTION OF DERIVATIVE FINANCIAL INSTRUMENTS

The table below presents a preliminary maturity schedule of the Province's derivative financial instruments, by type, outstanding at March 31, 1998, based on the notional amounts of the contracts.

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

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

DERIVATIVE PORTFOLIO NOTIONAL VALUE
as at March 31, 1998

Maturity in Fiscal Year	1999	2000	2001	2002	2003	6-10 Years	Over 10 Years	Interim 1998 Total	1996-97 Total
					(in millions)				
Swaps:									
Cross Currency	$3,791	$ 5,862	$5,597	$5,862	$ 7,974	$13,127	$1,648	$43,861	$45,500
Interest Rate	1,351	4,112	4,305	3,610	8,357	13,341	400	35,476	37,233
Forward Foreign Exchange Contracts	1,677	0	0	0	0	0	0	1,677	2,496
Forward Rate Agreements	200	0	0	0	0	0	0	200	925
Futures	570	297	0	0	0	0	0	867	1,235
Options	285	0	60	0	0	0	0	345	1,517
	$7,874	$10,271	$9,962	$9,472	$16,331	$26,468	$2,048	$82,426	$88,906

Definitions:

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

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

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

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

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

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

II Schedule of Outstanding Debt Incurred by the Province of Ontario
Interim as at March 31, 1998

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%	$	$	

Debt Incurred for Provincial Purposes

(A) PAYABLE IN CANADA IN CANADIAN DOLLARS

NON-PUBLIC DEBT

To Minister of Finance of Canada

Canada Pension Plan Investment Fund:

Year ending March 31

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
1999	1979	CPP	9.35 to 10.16	915,916,000	915,916,000	
2000	1980	CPP	9.98 to 12.74	987,943,000	987,943,000	
2001	1981	CPP	12.50 to 13.39	537,872,000	537,872,000	
2002	1982	CPP	13.66 to 16.10	768,736,000	768,736,000	
2003	1983	CPP	12.01 to 16.53	1,235,751,000	1,235,751,000	
2004	1984	CPP	10.92 to 12.14	1,200,847,000	1,200,847,000	
2005	1985	CPP	12.08 to 14.06	1,133,182,000	1,133,182,000	
2006	1986	CPP	10.58 to 12.57	1,213,502,000	1,213,502,000	
2007	1987	CPP	9.36 to 10.17	232,269,000	232,269,000	
2008	1988	CPP	42,300,000 10.79	42,300,000		
2012	1992	CPP	9.81 to 10.04	987,249,000	987,249,000	
2013	1993	CPP	9.17 to 9.45	700,137,000	700,137,000	
					9,955,704,000	(5)

The *Municipal Works Assistance Act:*

Year ending March 31

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
1998-1999	1966-1969	MW	5.625	1,869,862	4,970	(1)(8)
					4,970	

Total to Minister of Finance of Canada	9,955,708,970	

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%	$	$	
To Ontario Teachers' Pension Fund:						
Year ending March 31						
1999	1979-1991	TI	9.51 to 12.73	609,888,869	609,888,869	
2000	1975-1991	TI	8.39 to 13.13	960,288,107	960,288,107	
2001	1981-1991	TI	11.05 to 11.10	717,238,319	717,238,319	
2002	1977-1991	TI	9.54 to 10.11	492,524,321	492,524,321	
2003	1978-1991	TI	9.82 to 10.53	655,570,855	655,570,855	
2004	1982-1984	TI	12.88 to 13.34	900,000,000	900,000,000	
2005	1984-1991	TI	12.60 to 13.27	821,000,000	821,000,000	
2006	1985-1991	TI	11.07 to 14.40	1,070,000,000	1,070,000,000	
2007	1985-1991	TI	10.26 to 13.01	1,185,000,000	1,185,000,000	
2008	1983-1991	TI	10.15 to 15.38	1,945,000,000	1,945,000,000	
2009	1986-1991	TI	10.98 to 11.50	1,465,000,000	1,465,000,000	
2010	1986-1991	TI	10.22 to 11.24	1,236,000,000	1,236,000,000	
2011	1987	TI	10.11 to 10.32	560,000,000	560,000,000	
2012	1988-1991	TI	10.68 to 11.24	580,000,000	580,000,000	
2013	1989-1991	TI	11.06 to 11.31	625,000,000	625,000,000	
					13,822,510,471	(1)
To Ontario Municipal Employees Retirement Fund:						
Year ending March 31						
1999	1996	MER	7.21	31,251,467	31,251,467	
2000	1996	MER	8.19	43,849,567	43,849,567	
2001	1996	MER	9.10	52,494,948	52,494,948	
2002	1996	MER	7.85	67,500,000	67,500,000	
2003	1996	MER	8.02 to 10.28	235,259,824	235,259,824	
2004	1996	MER	9.45	163,695,000	163,695,000	
2007	1996	MER	9.77	102,675,000	102,675,000	
					696,725,806	(1)(38)
To Colleges of Applied Arts & Technology Pension Plan:						
Year ending March 31						
1999	1996	CAAT	7.21	1,848,533	1,848,533	
2000	1996	CAAT	8.19	2,850,433	2,850,433	
2001	1996	CAAT	9.10	5,105,052	5,105,052	
2002	1996	CAAT	7.85	7,500,000	7,500,000	
2003	1996	CAAT	8.02 to 10.28	30,540,176	30,540,176	
2004	1996	CAAT	9.45	24,255,000	24,255,000	
2007	1996	CAAT	9.77	18,625,000	18,625,000	
					90,724,194	(1)(38)

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%	$	$	
To Ryerson Retirement Pension Plan:						
Year ending March 31						
1999	1995	RRPF	10.07	455,954	455,954	
2000	1995	RRPF	11.53	494,883	494,883	
2001	1995	RRPF	13.40	586,257	586,257	
2002	1995	RRPF	16.95	732,095	732,095	
2003	1995	RRPF	14.65	926,036	926,036	
2004	1995	RRPF	12.78	1,081,061	1,081,061	
2005	1995	RRPF	13.33	1,229,597	1,229,597	
2006	1995	RRPF	11.16	1,464,199	1,464,199	
2007	1995	RRPF	9.64	1,618,485	1,618,485	
					8,588,567	(1)
To Canada Mortgage and Housing Corporation:						
Year ending March 31						
1999-2003	1971 to 1978	CMHC	5.375	688,415	203,693	
1999-2004	1974 to 1975	CMHC	5.125 to 7.875	1,296,489	493,543	
1999-2005	1971 to 1975	CMHC	5.125 to 8.625	2,754,646	1,200,507	
1999-2006	1973 to 1976	CMHC	5.125 to 10.375	2,200,837	1,235,296	
1999-2007	1974 to 1977	CMHC	5.375 to 10.375	6,049,712	3,683,914	
1999-2010	1970 to1975	CMHC	5.75 to 6.875	4,312,601	2,391,258	
1999-2011	1971 to 1976	CMHC	5.375 to 8.25	5,876,136	3,897,609	
1999-2012	1972	CMHC	6.875 to 8.25	7,281,714	4,936,414	
1999-2013	1973	CMHC	7.25 to 8.25	1,252,053	894,505	
1999-2014	1974	CMHC	6.125 to 8.25	19,734,125	14,296,718	
1999-2015	1975	CMHC	7.50 to 10.375	11,488,523	8,703,149	
1999-2016	1976	CMHC	5.375 to 10.75	22,775,312	18,117,944	
1999-2017	1977	CMHC	7.625 to 10.75	15,797,368	13,170,286	
1999-2018	1977 to 1978	CMHC	7.625 to 13.00	38,133,367	33,140,020	
1999-2019	1977 to 1980	CMHC	7.625 to 15.25	41,958,001	37,257,906	
1999-2020	1978 to 1980	CMHC	7.625 to 15.75	65,976,661	59,235,918	
1999-2021	1981	CMHC	9.50 to 15.75	30,946,135	28,230,105	
1999-2022	1982	CMHC	9.75 to 15.75	1,177,064	1,101,151	
					232,189,936	(7)
To Canada Mortgage and Housing Corporation (CMHC) Section 40 Debt:						
1999-2002	1982	CMHC	7.099	36,967,243	11,965,628	
					11,965,628	(7)
Total to Canada Mortgage and Housing Corporation					244,155,564	
(2)						

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%	$	$	
To Public Service Pension Fund:						
Year ending March 31						
1999	1997	OPB	8.06 to 14.71	90,958,259	45,479,132	
2000	1997	OPB	8.39 to 10.17	63,070,663	63,070,663	
2001	1997	OPB	10.04 to 11.61	75,635,207	75,635,207	
2002	1997	OPB	10.10 to 13.48	101,778,265	101,778,265	
2003	1997	OPB	9.50 to 17.11	128,554,996	128,554,996	
2004	1997	OPB	9.50 to 14.81	134,530,331	134,530,331	
2005	1997	OPB	9.82 to 12.89	160,431,479	160,431,479	
2006	1997	OPB	11.05 to 13.48	172,212,515	172,212,515	
2007	1997	OPB	11.16 to 13.47	188,766,466	188,766,466	
2008	1997	OPB	15.38 to 15.51	218,362,903	218,362,903	
2009	1997	OPB	12.79 to 12.89	264,512,886	264,512,886	
2010	1997	OPB	12.88 to 13.02	273,669,452	273,669,452	
2011	1997	OPB	13.33 to 13.48	282,994,558	282,994,558	
2012	1997	OPB	11.55 to 11.67	336,229,108	336,229,108	
2013	1997	OPB	10.38 to 10.40	374,479,804	374,479,804	
2014	1997	OPB	11.10 to 11.19	409,677,031	409,677,031	
2015	1997	OPB	11.19 to 11.31	450,938,707	450,938,707	
					3,681,323,503	(1)(23)(65)
To Public Service Employees' Union Pension Fund:						
Year ending March 31						
1999	1997	OPPT	8.06 to 14.71	43,210,140	21,605,070	
2000	1997	OPPT	8.39 to 10.17	29,962,010	29,962,010	
2001	1997	OPPT	10.04 to 11.61	35,930,854	35,930,854	
2002	1997	OPPT	10.10 to 13.48	48,350,235	48,350,235	
2003	1997	OPPT	9.50 to 17.11	61,070,644	61,070,644	
2004	1997	OPPT	9.50 to 14.81	63,909,254	63,909,254	
2005	1997	OPPT	9.82 to 12.89	76,213,714	76,213,714	
2006	1997	OPPT	11.05 to 13.48	81,810,350	81,810,350	
2007	1997	OPPT	11.16 to 13.47	89,674,381	89,674,381	
2008	1997	OPPT	15.38 to 15.51	103,734,305	103,734,305	
2009	1997	OPPT	12.79 to 12.89	125,658,067	125,658,067	
2010	1997	OPPT	12.88 to 13.02	130,007,936	130,007,936	
2011	1997	OPPT	13.33 to 13.48	134,437,870	134,437,870	
2012	1997	OPPT	11.55 to 11.67	159,727,189	159,727,189	
2013	1997	OPPT	10.38 to 10.40	177,898,359	177,898,359	
2014	1997	OPPT	11.10 to 11.19	194,618,964	194,618,964	
2015	1997	OPPT	11.19 to 11.31	214,220,513	214,220,513	
					1,748,829,715	(1)(23)(65)
TOTAL NON-PUBLIC DEBT					30,248,566,790	

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%	$	$	
(A) PAYABLE IN CANADA IN CANADIAN DOLLARS						
PUBLICLY HELD DEBT						
Aug.27, 1998	Aug.27, 1991	GU	10.20	500,000,000	500,000,000	(1)
Jan.10, 2001	Jan.10, 1991	GH	10.875	1,050,000,000	1,050,000,000	(1)
Dec.12, 2001	Aug.12, 1991	GS	10.50	600,000,000	600,000,000	(1)
Mar.11, 2003	Mar.11, 1993	HK	8.00	1,500,000,000	1,500,000,000	(1)
Apr.22, 2003	Dec.29, 1992	HG	8.75	750,000,000	750,000,000	(1)
Dec.8, 2003	July 20, 1993	HM	7.75	1,250,000,000	1,250,000,000	(1)
Sept.15, 2004	June 21, 1994	HU	9.00	1,450,000,000	1,450,000,000	(1)
Oct.12, 2005	Oct.12, 1995	JR	8.95	65,000,000	65,000,000	(45)
Oct.27, 2005	Oct.27, 1995	JS	9.00	55,000,000	55,000,000	(44)
Dec.1, 2005	Sept.13, 1995	JP	8.25	1,000,000,000	1,000,000,000	(1)
Jan.19, 2006	Jan.19, 1996	JV	7.50	1,250,000,000	1,250,000,000	(1)
Feb.20, 2006	Feb.20, 1996	JZ	0.0-17.25	107,000,000	107,000,000	(1)(40)
July 24, 2006	July 24, 1996	KE	7.75	600,000,000	600,000,000	(1)
Jan.12, 2007	Jan.12, 1995	JF	9.50	200,000,000	200,000,000	(1)(21)
Feb.3, 2007	June 6, 1997	KZ	7.50	50,000,000	50,000,000	(51)
June 27, 2007	June 27, 1997	LB	7.20	100,000,000	100,000,000	(68)
Sept.12, 2007	Sept. 12, 1997	LE	6.125	1,000,000,000	1,000,000,000	(1)
Dec.10, 2007	Dec. 10, 1997	LH	5.875	125,000,000	125,000,000	(1)(81)
Jul.15, 2008	Feb. 6, 1998	LM	5.50	75,000,000	75,000,000	(70)
Oct.17, 2008	Oct. 17, 1996	KH	6.75-9.375	65,000,000	65,000,000	(3)
Sept.4, 2009	Sept. 4, 1997	LD	6.00-7.625	75,000,000	75,000,000	(71)
Oct. 10, 2009	Oct.10, 1997	LG	5.875-7.00	50,000,000	50,000,000	(72)
March 2, 2010	March 2, 1998	LP	6.15	60,000,000	60,000,000	(82)
Feb. 18, 2013	Feb. 18, 1993	HJ	9.24	250,000,000	250,000,000	(1)
July 13, 2022	July 13, 1992	HC	9.50	1,850,000,000	1,850,000,000	(1)
Sept. 8, 2023	Sept. 8, 1993	HP	8.10	1,350,000,000	1,350,000,000	(1)
Feb. 7, 2024	Feb. 7, 1994	HS	7.50	1,250,000,000	1,250,000,000	(1)
June 2, 2025	Dec. 20, 1994	JE	9.50	500,000,000	500,000,000	(1)
Dec. 2, 2025	Oct. 5, 1995	JQ	8.50	1,000,000,000	1,000,000,000	(1)
Feb. 6, 2026	Feb. 6, 1996	JY	8.00	50,000,000	50,000,000	(1)
June 2, 2026	Dec. 21, 1995	JU	8.00	1,000,000,000	1,000,000,000	(1)
Dec.2, 2026	Dec. 2, 1996	KL	4.35-7.04	162,000,000	162,000,000	(48)
Dec.2, 2026	Feb. 13, 1997	KR	8.00	225,000,000	225,000,000	(1)(49)
Dec.2, 2026	Sept. 26, 1997	LF	8.00	100,000,000	100,000,000	(73)
Feb. 3, 2027	Aug. 3, 1997	KN	7.50	300,000,000	130,350,000	(74)
Feb. 3, 2027	Aug. 3, 1997	KT	6.95	200,000,000	50,975,000	(75)
Feb. 3, 2027	Apr. 7, 1997	KY	7.50	68,000,000	68,000,000	(50)
Feb. 4, 2027	Feb. 4, 1998	KQ	7.375	125,000,000	125,000,000	(76)
June 2, 2027	Oct. 17, 1996	KJ	7.60	4,000,000,000	4,000,000,000	(1)(77)
Aug.25, 2028	Feb. 25, 1998	LQ	6.25	500,000,000	500,000,000	
Mar.8, 2029	Jan.8, 1998	LK	6.50	2,000,000,000	2,000,000,000	(1)
Jan.13, 2031	Sept.8, 1995	JN	9.50	125,000,000	125,000,000	(1)

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%	$	$	
(A) PAYABLE IN CANADA IN CANADIAN DOLLARS (CONT'D)						
PUBLICLY HELD DEBT						
Nov.3, 2034	Nov.3, 1994	HY	9.75	280,000,000	280,000,000	(1)
Jan.10, 1995 to	Nov.30, 1994	HZ	9.4688	189,616,626	144,875,792	(1)(24)
Jan.10,2035	"	JA	9.4688	24,766,559	24,766,559	(1)(24)
"	"	JB	9.4688	8,482,324	8,482,324	(1)(24)
"	"	JC	9.4688	4,764,354	4,764,354	(1)(24)
"	"	JD	9.4688	3,171,134	3,171,134	(1)(24)
Feb.8, 2035	Feb.8, 1995	JJ	9.875	73,000,000	73,000,000	(19)
June 20, 2036	June 20, 1996	KC	8.25	211,000,000	211,000,000	(1)
June 20, 2038	Sept.16, 1996	KG	8.10	120,000,000	120,000,000	(1)
Jan.10, 2045	May 25, 1995	JL	8.39	35,531,176	35,531,176	(1)(41)
Mar.1, 2045	Mar. 1, 1995	JK	9.50	150,000,000	150,000,000	(20)
					27,768,916,339	
LESS: REPURCHASED BY THE PROVINCE						
Feb.3, 2027	Aug.3, 1997	KN	7.50	23,500,000	(23,500,000)	
SUBTOTAL: REPAYABLE IN CANADA IN CANADIAN DOLLARS					27,745,416,339	
ONTARIO SAVINGS BONDS						
Mar.1, 2000	Mar.1, 1995	Annual	Variable	789,297,500	683,694,700	(29)
Mar.1, 2000	Mar.1, 1995	Compound	Variable	817,902,500	643,661,700	(29)
June 21, 2000	June 21, 1997	Annual	Fixed	281,498,800	283,120,500	(30)
June 21, 2000	June 21, 1997	Compound	Fixed	168,756,600	166,767,200	(30)
June 21, 2001	June 21, 1996	Annual	Step-Up	279,338,000	277,800,700	(62)(63)
June 21, 2001	June 21, 1996	Compound	Step-Up	337,518,000	315,952,000	(62)(63)
June 21, 2001	June 21, 1996	Annual	Variable	219,990,000	83,097,900	(62)(64)
June 21, 2001	June 21, 1996	Compound	Variable	194,579,100	79,874,900	(62)(64)
June 21, 2004	June 21, 1997	Annual	Step-Up	447,763,300	450,501,600	(62)(66)
June 21, 2004	June 21, 1997	Compound	Step-Up	451,525,200	417,715,600	(62)(66)
June 21, 2004	June 21, 1997	Annual	Variable	107,533,500	65,544,300	(62)(67)
June 21, 2004	June 21, 1997	Compound	Variable	80,484,400	52,881,800	(62)(67)
					3,520,612,900	(1)
TOTAL PAYABLE IN CANADA IN CANADIAN DOLLARS					31,266,029,239*	

*Excludes Ontario Treasury Bills of $675,000,000. See page 30.

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue References	Series	Interest Rate	Original Issue	Outstanding	
			%	$	$	
(B) PAYABLE IN EUROPE IN CANADIAN DOLLARS						
Apr.19, 1998	Apr.19, 1991	GP	10.25	500,000,000	500,000,000	
July 15, 1998	July 15, 1991	GR	10.625	500,000,000	500,000,000	
July 22, 1999	July 22, 1996	EMTN20	6.25	100,000,000	100,000,000	
Apr.5, 2001	Feb.22, 1996	JW	6.23	510,125,000	510,125,000	(42)
Oct.29, 2001	Oct.29, 1991	GX	9.75	750,000,000	750,000,000	
Sept.27, 2005	Sept.27, 1993	HQ	7.25	500,000,000	500,000,000	
July 13, 2034	July 13, 1994	EMTN5	9.40	300,000,000	300,000,000	
TOTAL PAYABLE IN EUROPE IN CANADIAN DOLLARS					3,160,125,000	(1)
(C) PAYABLE IN CANADA IN U.S. DOLLARS						
Aug.17, 1999	Feb.17, 1994	HT	Floating	2,000,000,000	2,000,000,000	(34)
Jan.27, 2003	Jan.27, 1993	HH	7.375	3,000,000,000	3,000,000,000	
June 22, 2004	June 22, 1994	HV	7.625	1,000,000,000	1,000,000,000	
April 24, 2005	April 24, 1995	DMTN1	Floating	100,000,000	100,000,000	(35)
May 1, 2005	May 1, 1995	DMTN2	Floating	100,000,000	100,000,000	(35)
May 9, 2005	May 9, 1995	DMTN3	Floating	100,000,000	100,000,000	(35)
May 16, 2005	May 16, 1995	DMTN4	Floating	100,000,000	100,000,000	(35)
Aug.4, 2005	Aug.4, 1995	JM	7.00	1,000,000,000	1,000,000,000	
TOTAL PAYABLE IN CANADA IN U.S. DOLLARS					7,400,000,000	(1)
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE OF $1.32992					9,841,420,000	(9)
(D) PAYABLE IN THE UNITED STATES IN U.S. DOLLARS						
June 28, 2000	June 28, 1993	HL	6.125	2,000,000,000	2,000,000,000	
Oct. 17, 2001	Oct. 17, 1991	GY	8.00	750,000,000	750,000,000	
June 4, 2002	June 4, 1992	HB	7.75	2,000,000,000	2,000,000,000	
Feb. 21, 2006	Feb. 21, 1996	KA	6.00	1,500,000,000	1,500,000,000	
TOTAL PAYABLE IN UNITED STATES IN U.S. DOLLARS					6,250,000,000	(1)
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE OF $1.27540					7,971,249,995	(10)
(E) PAYABLE IN JAPAN IN U.S. DOLLARS						
July 17, 2001	July 17, 1997	LC	3.25	285,714,000	285,714,000	(78)
TOTAL PAYABLE IN JAPAN IN U.S. DOLLARS					285,714,000	
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE OF $1.25980					359,942,263	(85)

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue References	Series	Interest Rate	Original Issue	Outstanding	
			%	$	$	
(F) PAYABLE IN EUROPE IN U.S. DOLLARS						
Aug.27, 1998	Aug.27, 1993	EMTN1	5.125	255,000,000	241,800,000	(1)(43)
Jan. 27, 1999	Jan. 27, 1992	HA	7.00	1,000,000,000	1,000,000,000	(1)
Nov. 18, 1999	Nov. 18, 1996	EMTN27	6.00	60,000,000	60,000,000	(1)
Dec. 17, 1999	Dec. 17, 1996	EMTN30	6.00	44,648,800	44,648,800	(1)(25)
Jan. 27, 2000	Jan. 30, 1997	EMTN32	5.60	70,000,000	70,000,000	(1)
Nov. 7, 2000	Nov. 7, 1995	EMTN18	5.75	200,000,000	200,000,000	(1)
Feb. 28, 2001	Feb. 28, 1991	GL	8.50	600,000,000	600,000,000	(1)
Jan. 10, 2002	Jan. 10, 1997	EMTN31	Floating	50,000,000	50,000,000	(26)
TOTAL PAYABLE IN EUROPE IN U.S. DOLLARS					2,266,448,800	
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $1.19801					2,715,218,278	(11)
(G) PAYABLE IN EUROPE IN POUNDS STERLING						
Sept. 15, 2000	Sept. 15, 1993	HN	6.875	255,000,000	255,000,000	
Feb. 14, 2001	Feb. 14, 1991	GK	11.125	100,000,000	100,000,000	
July 30, 2002	July 30, 1992	HD	9.375	200,000,000	200,000,000	
TOTAL PAYABLE IN EUROPE IN POUNDS STERLING					555,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $2.11712					1,175,000,000	(12)
(H) PAYABLE IN EUROPE IN SWISS FRANCS						
June 29, 2001	Mar. 29, 1996	KB	4.00	250,000,000	250,000,000	
Jan. 27, 2003	Jan. 27, 1993	HF	6.25	400,000,000	400,000,000	
TOTAL PAYABLE IN EUROPE IN SWISS FRANCS					650,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $1.10691					719,489,141	(13)
(I) PAYABLE IN JAPAN IN JAPANESE YEN						
Jan.28, 2003	Jan.28, 1993	YL	5.50	10,000,000,000	10,000,000,000	(1)
Mar.24, 2003	Mar.22, 1993	YL	4.80	7,000,000,000	7,000,000,000	(1)
Aug.25, 2003	Aug.25, 1993	YL	Floating	10,000,000,000	10,000,000,000	(1)(4)
Sept.22, 2003	Sept.22, 1993	YL	5.20	10,000,000,000	10,000,000,000	(1)
July 6, 2004	July 6, 1994	YL	4.40	10,000,000,000	10,000,000,000	(1)
July 21, 2004	July 21, 1994	YL	4.53	10,000,000,000	10,000,000,000	(1)
July 28, 2004	July 27, 1994	YL	4.55	7,000,000,000	7,000,000,000	(22)
Sept. 8, 2004	Sept. 7, 1994	YL	4.71	7,000,000,000	7,000,000,000	(1)
Oct.25, 2004	Oct.25, 1994	YL	5.00	10,000,000,000	10,000,000,000	(1)

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue References	Series	Interest Rate	Original Issue	Outstanding	
			%	$	$	
			(I) PAYABLE IN JAPAN IN JAPANESE YEN (CONT'D)			
Dec.20, 2004	Dec.20, 1994	YL	4.80	5,000,000,000	5,000,000,000	(1)
Aug.31, 2005	Aug.31, 1995	YL	3.10	25,000,000,000	25,000,000,000	(1)
Mar.16, 2007	Mar.18, 1997	KU	3.10	5,000,000,000	5,000,000,000	(1)(54)
Mar.16, 2007	Mar.18, 1997	KV	3.25	15,000,000,000	15,000,000,000	(1)(55)
July 18, 2007	July 18, 1997	YL	2.615	10,000,000,000	10,000,000,000	
TOTAL PAYABLE IN JAPAN IN JAPANESE YEN					141,000,000,000	
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE OF $0.01282					1,807,700,786	(14)
			(J) PAYABLE IN EUROPE IN JAPANESE YEN			
Jan.28, 1999	Jan.28, 1994	EMTN002	Floating	10,000,000,000	10,000,000,000	(27)
May 27, 1999	May 27, 1994	EMTN003	Floating	10,000,000,000	10,000,000,000	(31)
Sept.20, 1999	Sept.20, 1994	EMTN010	4.24	10,000,000,000	10,000,000,000	
Sept.21, 1999	Sept.26, 1994	EMTN011	4.43	10,000,000,000	10,000,000,000	
Nov.18, 1999	Nov.18, 1996	EMTN028	5.15	10,000,000,000	10,000,000,000	
Nov.29, 1999	Nov.29, 1994	EMTN013	4.50	2,000,000,000	2,000,000,000	
Jan. 25, 2000	Jan. 30, 1995	EMTN014	Floating	10,000,000,000	10,000,000,000	(28)
July 5, 2000	July 5, 1996	EMTN019	2.05	5,000,000,000	5,000,000,000	
Sept.19, 2000	Sept.19, 1996	EMTN023	Floating	5,000,000,000	5,000,000,000	(56)
Sept.26, 2000	Sept.26, 1996	EMTN024	Floating	5,000,000,000	5,000,000,000	(56)
June 20, 2001	July 11, 1994	HW	4.40	100,000,000,000	100,000,000,000	
July 12, 2001	July 12, 1994	EMTN006	3.90	5,000,000,000	5,000,000,000	(32)
Nov.10, 2001	Nov.10, 1994	EMTN012	4.75	3,000,000,000	3,000,000,000	
Mar.15, 2005	Mar.15, 1995	EMTN015	6.00	2,000,000,000	2,000,000,000	(33)
Sept.8, 2005	Mar.23, 1998	EMTN037	6.21	10,000,000,000	10,000,000,000	
Aug.29, 2006	Aug.29, 1996	EMTN021	4.28	10,000,000,000	10,000,000,000	(57)
Mar.26, 2007	Apr.3, 1997	EMTN033	3.20	10,000,000,000	10,000,000,000	(47)
June 13, 2007	June 13, 1997	EMTN034	3.58	10,000,000,000	10,000,000,000	(79)
Feb.25, 2008	Feb.25, 1998	EMTN036	2.60	7,100,000,000	7,100,000,000	(80)
Sept.18, 2015	Sept.18, 1995	EMTN017	5.65	10,000,000,000	10,000,000,000	(36)
TOTAL PAYABLE IN EUROPE IN JAPANESE YEN					244,100,000,000	(1)
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE OF $0.01414					3,450,520,063	(15)
			(K) PAYABLE IN EUROPE IN DEUTSCHE MARKS			
Jan.27, 2000	Jan.27, 1995	JH	Floating	500,000,000	500,000,000	(46)
Feb.15, 2001	Feb.15, 1996	JX	5.00	500,000,000	500,000,000	
Jan.13, 2004	Jan.13, 1994	HR	6.25	1,500,000,000	1,500,000,000	
TOTAL PAYABLE IN EUROPE IN DEUTSCHE MARKS					2,500,000,000	(1)
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE OF $0.89250					2,231,254,639	(16)
			(L) PAYABLE IN EUROPE IN NETHERLANDS GUILDERS			
Sept.27, 2004	Sept.27, 1994	HX	7.75	500,000,000	500,000,000	
TOTAL PAYABLE IN EUROPE IN NETHERLANDS GUILDERS					500,000,000	(1)
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE OF $0.77542					387,710,000	(17)

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue References	Series	Interest Rate	Original Issue	Outstanding	
			%	$	$	
			(M) PAYABLE IN EUROPE IN AUSTRALIAN DOLLARS			
Nov.9, 1998	Nov.9, 1995	JT	5.00	600,000,000	600,000,000	
Nov.18, 1999	Nov. 18, 1996	EMTN026	5.72	79,293,060	79,293,060	(58)
Oct.15, 2001	Oct.15, 1996	EMTN025	5.00	125,000,000	125,000,000	
TOTAL PAYABLE IN EUROPE IN AUSTRALIAN DOLLARS					804,293,060	(1)
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE OF $0.95643					769,247,496	(18)
			(N) PAYABLE IN JAPAN IN AUSTRALIAN DOLLARS			
Nov.13, 1998	Nov.13, 1996	KK	5.20	¥30,000,000,000	333,333,000	(59)
Aug. 26, 1999	Aug.29, 1996	KF	6.00	¥25,000,000,000	296,271,500	(60)
TOTAL PAYABLE IN JAPAN IN AUSTRALIAN DOLLARS					629,604,500	(1)
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE OF $1.07205					674,966,390	(52)
			(O) PAYABLE IN EUROPE IN FRENCH FRANCS			
July 29, 2008	July 29, 1996	KD	6.875	3,000,000,000	3,000,000,000	
July 21, 2009	July 21, 1997	EMTN035	5.875	3,000,000,000	3,000,000,000	
TOTAL PAYABLE IN EUROPE IN FRENCH FRANCS					6,000,000,000	(1)
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE OF $0.25158					1,509,459,933	(53)
			(P) PAYABLE IN EUROPE IN NORWEGIAN KRONER			
Dec.29, 2004	Sept.12, 1996	EMTN022	7.00	300,000,000	300,000,000	
TOTAL PAYABLE IN EUROPE IN NORWEGIAN KRONER					300,000,000	(1)
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE OF $0.21235					63,704,048	(61)
			(Q) PAYABLE IN EUROPE IN NEW ZEALAND DOLLARS			
Nov.24, 1998	Nov.20, 1996	EMTN029	7.15	100,000,000	100,000,000	
TOTAL PAYABLE IN EUROPE IN NEW ZEALAND DOLLARS					100,000,000	(1)
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE OF $0.95632					95,631,900	(69)
TOTAL PUBLICLY HELD DEBENTURES AND BONDS					68,198,669,171	
TREASURY BILLS					675,000,000	(84)
TOTAL PUBLICLY HELD DEBT INCURRED BY PROVINCE FOR PROVINCIAL PURPOSES					68,873,669,171	
TOTAL DEBT INCURRED BY PROVINCE FOR PROVINCIAL PURPOSES					99,122,235,961	

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%	$	$	
Debt Incurred by Government Service Organizations						
(A) PAYABLE IN CANADA IN CANADIAN DOLLARS						
NON-PUBLIC DEBT						
To Minister of Finance of Canada						
Canada Pension Plan Investment Fund:						
Year ending March 31						
2009	1989	CPP	9.15 to 10.31	310,439,000	310,439,000	
2010	1990	CPP	9.78 to 11.33	925,157,000	925,157,000	
2011	1991	CPP	9.81 to 10.04	91,630,000	91,630,000	
2012	1992	CPP	9.00 to 9.45	75,135,000	75,135,000	
					1,402,361,000	(5)
To Canada Mortgage and Housing Corporation:						
Year ending March 31						
1999	N/A	CMHC	5.375		35,187	
2003	N/A	CMHC	5.125		14,973	
2004	N/A	CMHC	5.2068		53,365	
2005	N/A	CMHC	5.125		39,697	
2006	N/A	CMHC	4.25		99,396	
2007	N/A	CMHC	4.6739		409,316	
2008	N/A	CMHC	5.875		289,676	
2009	N/A	CMHC	5.375		224,839	
2010	N/A	CMHC	6.4598		1,067,754	
2011	N/A	CMHC	6.4159		9,325,354	
2012	N/A	CMHC	5.2994		472,590	
2013	N/A	CMHC	5.375		6,860,615	
2014	N/A	CMHC	5.6206		20,339,266	
2015	N/A	CMHC	5.822		18,392,922	
2016	N/A	CMHC	6.1388		49,075,389	
2017	N/A	CMHC	6.2491		75,223,275	
2018	N/A	CMHC	7.1327		60,859,807	
2019	N/A	CMHC	5.875 to 7.6159		64,754,946	
2020	N/A	CMHC	5.75 to 7.85		214,648,130	
2021	N/A	CMHC	6.875 to 7.5596		107,448,282	
2022	N/A	CMHC	7.74 to 8.25		103,997,054	
2023	N/A	CMHC	7.25 to 8.625		86,502,579	
2024	N/A	CMHC	7.50 to 7.75		72,996,417	
2025	N/A	CMHC	7.74		57,092,756	
2026	N/A	CMHC	7.74		23,866,777	
2027	N/A	CMHC	7.74		24,195,726	
2028	N/A	CMHC	7.74		3,656,805	
					1,001,942,893	(7)

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%	$	$	
		(A) PAYABLE IN CANADA IN CANADIAN DOLLARS				
PUBLIC DEBT						
1999 to 2002	N/A	Various Mortgages	Various		17,869,560	
		(B) PAYABLE IN THE UNITED STATES IN U.S. DOLLARS				
PUBLIC DEBT						
July 1, 2006	Mar.31, 1994	Collateralized financing	7.261 to 7.395	311,866,966	316,694,732	
TOTAL PAYABLE IN UNITED STATES IN U.S. DOLLARS					316,694,732	
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $1.38108					437,382,118	
TOTAL DEBT ISSUED BY GOVERNMENT SERVICE ORGANIZATIONS FOR PROVINCIAL PURPOSES					2,859,555,571	
TOTAL DEBT INCURRED FOR PROVINCIAL PURPOSES					**101,981,791,532**	(83)

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue References	Series	Interest Rate	Original Issue	Outstanding	
			%	$	$	
			Debt Incurred for Ontario Hydro			
			(A) PAYABLE IN CANADA IN CANADIAN DOLLARS			
NON-PUBLIC DEBT						
	Canada Pension Plan Investment Fund					
2001	1981	CPP	11.61 to 13.46	500,000,000	500,000,000	
2002	1982	CPP	14.81 to 17.51	500,000,000	500,000,000	
2007	1987	CPP	9.64	119,000,000	119,000,000	
2008	1988	CPP	9.13 to 9.72	302,278,000	302,278,000	
2009	1989	CPP	9.62 to 10.31	675,756,000	675,756,000	
2010	1990	CPP	9.61 to 10.31	650,712,000	650,712,000	
TOTAL PAYABLE IN CANADA IN CANADIAN DOLLARS					2,747,746,000	(5)
			(B) PAYABLE IN NEW YORK IN UNITED STATES DOLLARS			
PUBLICLY HELD DEBT						
Apr.25, 2013	Apr.25, 1983	GD	11.75	100,000,000	97,215,000	
TOTAL PAYABLE IN UNITED STATES IN U.S. DOLLARS					97,215,000	(39)
CANADIAN DOLLAR EQUIVALENT AT MARCH 31, 1998 EXCHANGE RATE OF $1.4166					137,714,769	
TOTAL DEBT INCURRED FOR ONTARIO HYDRO (NOT INCLUDED IN TABLE I(A) SUMMARY OF PROVINCIAL PURPOSE DEBT)					2,885,460,769	
TOTAL DEBT INCURRED FOR PROVINCIAL PURPOSES AND ONTARIO HYDRO					104,867,252,301	

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

References:

1. Non-callable.
2. Liability to Canada Mortgage and Housing Corporation assumed by the Ministry of Finance upon the dissolution of Ontario Land Corporation.
3. Callable, in whole but not in part, on October 17 in each year from 1999 to 2007 at par. Interest payable is 6.75% for the first 4 years, 7.25% in years five and six, 8% in year seven, 8.25% in year eight, 8.75% in year nine, 9% in year ten, 9.25% in year eleven, and 9.375% in year twelve.
4. Interest payable is 6 month Yen LIBOR.
5. Securities sold to the Canada Pension Plan Investment Fund are payable 20 years after their respective dates of issue, are not negotiable and not transferable or assignable but are redeemable in whole or in part before maturity at the option of the Minister of Finance of Canada, on six months' prior notice, when the Minister deems it necessary in order to meet the requirements of the Canada Pension Plan. In the case of redemption before maturity, the Ontario Securities are to be redeemed in the order in which they were issued and the amount of Ontario Securities to be redeemed at any time shall be proportionate to the amount of all securities then held to the credit of the said fund represented by Ontario Securities.
6. Callable 15-25 years after date of issue at various declining premiums and thereafter at par.
7. The terms of these debentures require that equal payments be made each year until their maturity. Each payment consists of blended principal and interest.
8. The terms of these debentures require that equal payments be made each year for a period, after which, the payments decline and remain constant for another period. The decline in payments may happen more than once during the term of the debenture. Each payment consists of blended principal and interest.
9. The Province entered into currency exchange agreements which effectively converted these U.S. Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.32992. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.60% and 8.19% on $7,141.5 million and USD 450 million respectively, and floating Canadian BA rate on $2,700 million; offset in part by the receipt of floating U.S LIBOR rate on USD 450 million.
10. The Province entered into currency exchange agreements which effectively converted all but the USD 225 million of these U.S Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.27540. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on all of this debt to a fixed rate of 8.21%.
11. The Province entered into currency exchange agreements which effectively converted these U.S Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.19801. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 9.07% and 5.60% on $2,676 million and USD 70 million, respectively and floating Canadian BA rate on $40 million; offset in part by the receipt of floating U.S LIBOR rate on USD 70 million.

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

12. The Province entered into currency exchange agreements which effectively converted these Pounds Sterling obligations to Canadian Dollar obligations at an exchange rate of 2.11712. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.35%.
13. The Province entered into currency exchange agreements which effectively converted these Swiss Franc obligations to Canadian Dollar obligations at an exchange rate of 1.10691. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.47% on $436 million and floating Canadian BA rate on $283 million.
14. The Province entered into currency exchange agreements which effectively converted substantially all of these Japanese Yen obligations to Canadian Dollar obligations at an exchange rate of 0.01282. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.24% on $1,670 million, and floating Canadian BA rate and Yen LIBOR rate on $199 million and JPY 27,000 million, respectively; offset in part by the receipt of floating U.S. LIBOR rate on USD 259 million.
15. The Province entered into currency exchange agreements which effectively converted substantially all of these Japanese Yen obligations to Canadian Dollar obligations at an exchange rate of 0.01414. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.36% on $2,992 million, and floating Canadian BA rate and Yen LIBOR rate on $576 million and JPY 45,000 million, respectively; offset in part by the receipt of floating U.S LIBOR rate on USD 442 million.
16. The Province entered into currency exchange agreements which effectively converted these Deutsche Mark obligations to Canadian Dollar obligations at an exchange rate of 0.89250. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 7.87% on $1,761 million and floating Canadian BA rate on $470 million.
17. The Province entered into currency exchange agreements which effectively converted these Netherlands Guilder obligations to Canadian Dollar obligations at an exchange rate of 0.77542. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.44%.
18. The Province entered into currency exchange agreements which effectively converted these Australian Dollar obligations to Canadian Dollar obligations at an exchange rate of 0.95643. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 6.66% on $564 million and floating Canadian BA rate on $206 million.
19. Retractable in whole or in part on February 8, 2007, at the holder’s option, provided that the notice of retraction is made during the period from July 15, 2006 to January 15, 2007 inclusive. Such election is irrevocable.
20. Retractable in whole or in part on March 1, 2010, at the holder’s option, provided that the notice of retraction is made during the period from March 1, 1995 to February 12, 2010 inclusive. Such election is irrevocable.
21. Exchangeable at any time, in whole or in part, at the holder’s option, for an equivalent principal amount of Series JG 9.50% bonds due January 12, 2035.

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

22. Callable in full, and not in part, on July 27, 2001, at par.
23. The terms of these debentures require that the principal be repaid in twelve equal monthly payments in the year preceding the date of maturity.
24. The terms of these debentures require unequal payments, consisting of both principal and interest, to be made at predetermined irregular intervals. At January 10, 2035, the principal to be repaid on each debenture will be $2.3 million.
25. The terms of these debentures permit the principal to be repaid in either USD 44.6 million or AUD 55.0 million at the Province's option.
26. Interest payable is 6-month US LIBOR + 0.3%, with a maximum rate of 6.8%. Callable, in whole but not in part, at par on January 10, 2000 and every six months thereafter.
27. Interest payable is 6-month Yen LIBOR + 0.2%, with a minimum rate of 3.0% and a maximum rate of 4.5%.
28. Interest payable is 12-month Yen LIBOR + 0.3%.
29. 1995 OSB Series: Redeemable at the option of the holder on March 1 or September 1 or upon the death of the beneficial owner. The Minister of Finance may reset the interest rate from time to time prior to maturity. The minimum interest rate payable is 7.0% in year 3. Effective March 1, 1998 to August 31, 1998 the interest rate is set at 5.0%. The interest rate will be reset next on September 1, 1998.
30. The interest rate was set at 5.25% for the three year life of the bond.
31. Interest payable is 4.5% to May 27, 1996, then 1.0% + 5 times (YEN 7-year swap rate minus YEN 3-month LIBOR minus 1.28%) to maturity, with a minimum of 1.0%.
32. Interest is payable in Australian Dollars, based on a notional principal of AUD 66 million at a rate of 3.9%.
33. Interest is payable in Australian Dollars, based on a Notional principal of AUD 27.2 million at a rate of 6.0%.
34. Interest payable is 3 month U.S LIBOR rate.
35. Interest payable is 6 month U.S LIBOR rate +.0475%.
36. Interest is payable in Australian Dollars, based on a notional principal of AUD 138.2 million at a rate of 5.65%.
37. Interest is payable in Australian Dollars, based on a notional principal of AUD 149.3 million at a rate of 5.50%.
38. The original debentures payable to OMERS were replaced effective December 31, 1995, with debentures payable to OMERS and to Colleges of Applied Arts and Technology Pension Plan, in the amounts of $741.6 million and $90.9 million, respectively. The terms and conditions remain the same as those of the original debentures.
39. Callable 15-25 years after date of issue at various declining premiums and thereafter at par. The Province called the bonds on April 25, 1998.
40. No interest is payable in the first five years, thereafter interest is payable monthly at an annual interest rate of 17.25%.
41. The terms of these debentures require unequal payments, consisting of both principal and interest, to be made at predetermined irregular intervals with the final payment on January 10, 2045. The total principal and interest to be paid over the life of the debenture is $1,325 million in total.

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

42. The terms of these debentures require no interest payments until maturity, at which time a single payment, comprised of both principal and interest, will be made in the amount of $700 million.
43. The terms of these debentures set the par value of these debentures at $300 million, the proceeds at issuance at $255 million and the obligation to be repaid at maturity, at $241.8 million.
44. Callable, in whole but not in part, at par on October 27, 1998.
45. Callable, in whole but not in part, at par on October 12, 2000.
46. Interest payable is 3 month Deutsche Mark LIBOR + .0625%.
47. Interest is payable in Australian Dollars based on a notional principal of AUD 103.2 million at a rate of 3.2% payable annually.
48. The terms of these debentures require that a special one-time interest payment in the amount of $40.5 million be made at maturity. Interest payable is 4.35% for the first seven years, thereafter interest payable is 7.04%. The debentures are retractable, in whole but not in part, on December 2, 2003, at the holder's option, provided that the notice of retraction is made during the period from October 31, 2003 to November 12, 2003 inclusive. Such election is irrevocable and if invoked the one-time interest payment at maturity is forfeited.
49. These debentures have two call options exercisable on August 6, 1997. Each of Option 1 and Option 2 permits the purchase of $75 million 30 years debentures with a coupon interest rate of 8%, at a strike price of 108.00 and 109.50 respectively. One, both or neither of the options may be exercised but may not be traded separately. During the fiscal year, options 1 and 2 were fully exercised by investors.
50. Investors have exercised their option to exchange the 10 year 7.5% bond on March 27, 1998 for an equal amount of 7.5% bond due February 3, 2027.
51. Non-detachable exchange option allows investors to exchange the 10 year 7.5% bond on November 30, 1998, for an equal amount of 7.5% bonds due February 3, 2027.
52. The Province entered into currency exchange agreements which effectively converted these Australian Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.07205. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a floating Canadian BA rate.
53. The Province entered into currency exchange agreements which effectively converted these French Franc obligations to Canadian Dollar obligations at an exchange rate of 0.25158. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 6.31%.
54. Interest is payable in Australian Dollars, based on a notional principal of AUD 52.5 million at a rate of 3.10%.
55. Interest is payable in U.S. Dollars, based on a notional principal of USD 120.8 million at a rate of 3.25%.
56. Interest payable is 3 month Yen LIBOR rate + 0.1%.
57. Interest is payable in Australian Dollars, based on a notional principal of AUD 121.1 million at a rate of 4.28%.

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

58. The terms of these debentures are: proceeds received at issuance were JPY 7,000 million, the obligation to be repaid is AUD 79.3 million and interest is payable in Japanese Yen based on a notional principal of JPY 7,000 million at a rate of 5.72%.
59. The terms of these debentures are: proceeds received at issuance were JPY 30,000 million, the obligation to be repaid is AUD 333.3 million and interest is payable in Japanese Yen based on a notional principal of JPY 30,000 million at a rate of 5.20%.
60. The terms of these debentures are: proceeds received at issuance were JPY 25,000 million, the obligation to be repaid is AUD 296.3 million and interest is payable in Japanese Yen based on a notional principal of JPY 25,000 million at a rate of 6.00%.
61. The Province entered into currency exchange agreements which effectively converted these Norwegian Kroner obligations to Canadian Dollar obligations at an exchange rate of 0.21235. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a floating Canadian BA rate.
62. 1996 and 1997 Series OSB: Redeemable at the option of the holder on June 21 or December 21 or upon the death of the beneficial owner. The Minister of Finance may reset the interest rate from time to time prior to maturity.
63. The interest rate was set at 4.50% for the first year. The minimum interest payable is 5.75% in the second year, 6.25% in the third year, 7.25% in the fourth year, and 9.00% in the final year.
64. The Minister of Finance will reset the interest rate every six months. The initial interest rate was set at 4.75%. Effective December 21, 1997 the interest rate was set at 4.25%.
65. Pursuant to the *Ontario Public Service Employees' Pension Act 1994,* and the *Asset Transfer Agreement of December 12, 1994*, the Province is obligated to re-split the debentures between the Public Service Pension Fund (PSPF), and the Ontario Public Service Employees' Union Pension Plan Trust Fund (OPSEUPF) based on accurate data when it is available. On June 13, 1997 a *Restated Sponsorship Amendment and Asset Transfer Agreement* was signed, replacing the 1994 agreement. Pursuant to this Agreement on September 17, 1997, the re-split of the debentures was completed. To effect this re-distribution of assets, $3,745.8 million of debentures held by PSPF and $1,751.4 million of debentures held by OPSEUPF were retired and replaced by $3,726.8 million and $1,770.4 million of debentures to be held by PSPF and OPSEUPF respectively.
66. The interest rate was set at 3.00% for the first year. The minimum interest payable is 5.25% in the second year, 6.00% in the third year, 6.50% in the fourth year, 7.00% in the fifth year, 7.50% in the sixth year, and 8.00% in the final year.
67. The Minister of Finance will reset the interest rate every six months. The initial interest rate was set at 4.25%. Effective December 21, 1997 the interest rate was set at 4.25%.
68. Callable by the Province, in whole but not in part, at par on June 27, 2001.
69. The Province entered into currency exchange agreements which effectively converted these New Zealand Dollar obligations to Canadian Dollar obligations at an exchange rate of 0.95632. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a floating Canadian BA rate.

II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

70. On January 8, 2001, the investor has the right to purchase an equal amount of July 15, 2028, 6.25% bonds at a price of 105.66.

71. Notes are extendible at the option of the Province on September 4, 2000, 2003 and 2006 to the final maturity date of September 4, 2009. Coupon interest is paid semi-annually at a rate of 6.00% in years 1-3, 6.125% in years 4-6, 6.35% in years 7-9 and 7.625% in years 10-12.

72. Bonds are extendible at the option of the Province on every coupon date starting on October 10, 1999 to October 10, 2009, except in year five. Coupon interest is paid semi-annually at a rate of 5.875% in years 1-2, 6% in years 3-4, 6.25% in years 5-6, 6.375% in years 7-8, 6.5% in years 9-10, and 7% in years 11-12.

73. Non-detachable call options allow the investor to purchase an equal amount of the same bond at a price of 120. The call option can be exercised, only once, from August 21, 1998 to September 18, 1998. The maximum size of the issue after exercise will be $200 million.

74. KN Series bonds in the amount of $169.7 million face value were purchased and retired by the Province. Series LQ bonds were re-opened to finance the retirement of the KN Series bonds.

75. KT Series bonds in the amount of $149 million face value were purchased and retired by the Province. Series LQ bonds were re-opened to finance the retirement of the KT Series bonds.

76. On February 4, 1998, investors exercised their options and exchanged their 5 year Series KP bonds for 30 year 7.375% KQ Series bonds due February 4, 2027.

77. During the 1997/1998 fiscal year, Series KJ bonds were re-opened seven times bringing the total issue to $4,000 million.

78. Proceeds are received in Japanese Yen. Redemption of principal is in US Dollars at an exchange rate of 105 Yen/US Dollar. Interest is payable in Japanese Yen based on a notional principal of JPY 30,000 million at a rate of 3.25%.

79. Proceeds of issue and repayment of principal are in Japanese Yen. Interest is payable in US Dollars based on a notional principal of USD 86.3 million, at a rate of 3.58% payable annually.

80. Proceeds of issue and repayment of principal are in Japanese Yen. Interest is payable in US Dollars semi-annually based on notional principal of USD 57.1 million, at a rate of 2.6% payable semi-annually.

81. On December 7, 1998, exchangeable at par, at the holder's option for a 5.875% December 10, 2027 bond.

82. Extendible at the Province's option on March 2, 2000 and every 6 months thereafter with the exception of September 2, 2002 and March 2, 2003. Final maturity date is set at March 2, 2010. Interest accrues at 6.15% semi-annually and is paid on the maturity date.

83. Total Debt Incurred for Provincial Purposes on a consolidated basis, includes the long term debt of the Toronto Area Transit Authority (GO Transit) for $437 million and the Ontario Housing Corporation for $2,343 million.

84. The Treasury Bill balance does not include $193 million of Treasury Bills held by the Northern Ontario Heritage Fund Corporation which is eliminated upon consolidation.

85. The Province entered into currency exchange agreements which effectively converted these U.S. Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.2598. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on all this debt to a fixed rate of 5.29%.

PAPER E

Strategic Skills:

Investing in Jobs for the Future, Today

Strategic Skills: Investing in Jobs for the Future, Today

Overview

This Budget is about keeping Ontario competitive in the new global economy. It is about responding quickly to what employers have said about shortages of people with the skills they need now and in the future for economic success. It is about how to improve Ontario's training capacity and shorten the response time for developing necessary skills.

Current shortages of people with the right skills are blocking growth in certain new industries such as information technology. Real shortages will occur in other established industries — such as the automotive sector — where thousands of skilled workers will reach retirement age in the next few years. Many other sectors are affected by new technologies and now require specially skilled workers.

People with these strategic skills are key to economic growth and jobs in Ontario.

Ontario must find and act on the best plans for breaking through skills bottlenecks and equipping industries to grow and create jobs. Real results are needed now.

The Ontario Government is committed to responding directly to the critical skill shortages that businesses, workers and students are identifying. The Province is equally committed to providing more opportunities for youth and other workers in the high-paying jobs of the future.

The 1998 Budget addresses the serious shortage of graduates from our colleges and universities in high-demand engineering and computer science programs. Ontario will invest $150 million over the next three years to implement an Access to Opportunities Program, starting in September 1998, to double the spaces for students in these fields. In addition, operating costs for new spaces will be recognized and funded. The Government will apply a "market test" by requiring that industry match start-up costs.

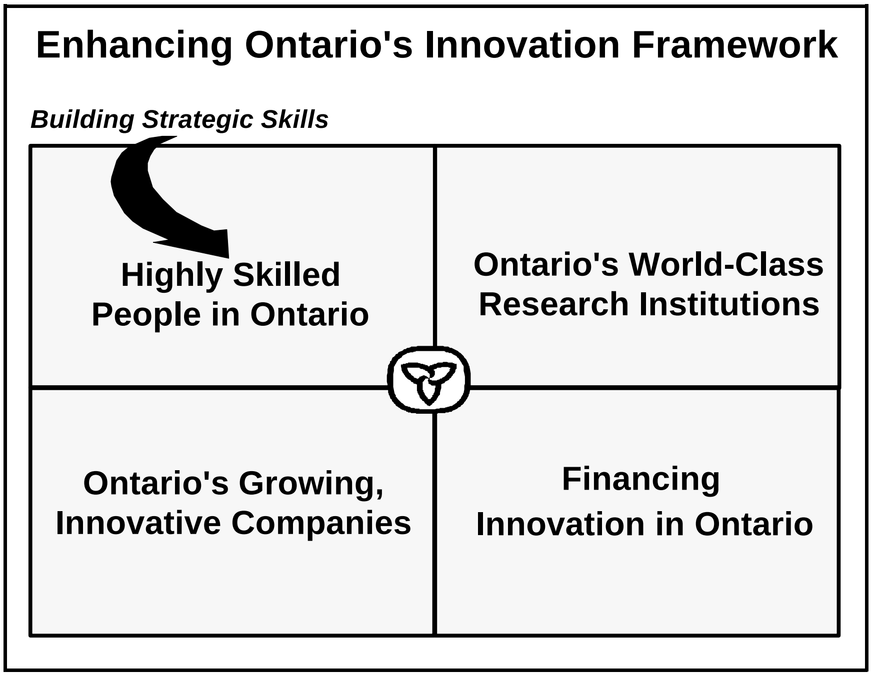
A private-sector reference group will be appointed to get employers involved and to provide summer and co-op placements and permanent jobs for graduates.

The Ontario Government is taking further action to address other critical skill needs right now. The 1998 Budget commits more than $10 million to invest in four path-breaking skills projects that will increase the supply of strategic skills. Industry has identified these four critical skills areas and is prepared to invest in them along with government, workers, students and educators. The partnerships will benefit the auto parts, telecommunications, metalworking, new media and several other industries and their employees.

The Province is setting aside another $20 million this year to kick-start other forward-looking skills partnerships. Ontario will seek and fund the best projects that are ready to go now. The focus of the new investments will be on speeding up the creation of strategic skills.

These immediate skills investments will complement the $500 million R&D Challenge Fund introduced in the 1997 Budget. One of its key purposes is to attract and keep world-class researchers in Ontario by encouraging partnerships between businesses, universities and other research institutions. Over 100 proposals were submitted to the first round of competition and the first approvals are now being announced. World-class research will help companies to grow. Growing, innovative companies also need highly skilled workers.

Action on strategic skills also will complement the longer-term and broader perspective of the Ontario Jobs and Investment Board. Through the panel on Preparing People for Tomorrow’s Work, a clear vision of the future relationship between learning and jobs will be set out for the new millennium.


Enhancing Ontario's Innovation Framework
Building Strategic Skills
Highly Skilled People in Ontario
Ontario's World-Class Research Institutions
Ontario's Growing, Innovative Companies
Financing Innovation in Ontario

Ontario on the Road to the Information Economy

The rapid growth and widespread use of new technologies across all sectors have created jobs that call for new kinds of skills — often called strategic skills. This is the case in sectors as diverse as automotive parts manufacturing, retail sales, banking, and computer software design.

Abundant natural resources, the advantage of geography that gives convenient access to large markets, and long-established relationships with familiar customers are no longer enough to secure prosperity and jobs.

Information and products move around the globe with increasing ease and speed. People with strategic skills create new products and services and use tools and methods that are undergoing continuous change.

People with strategic skills get jobs that:

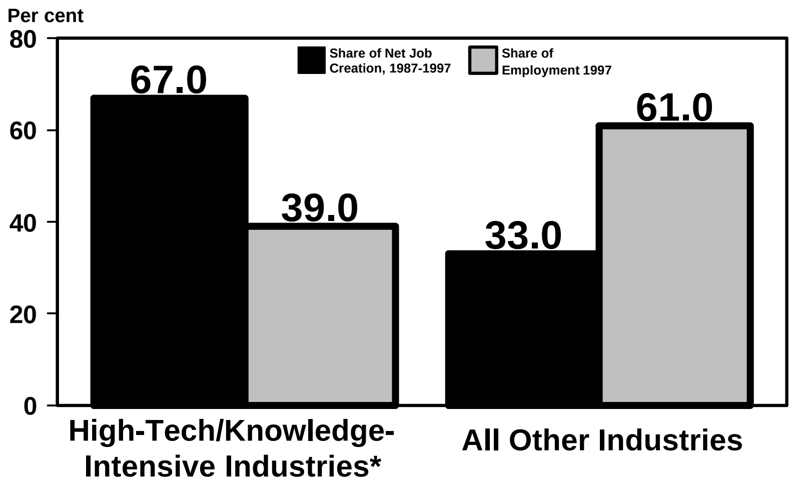
- *meet the demands of new technology*, such as software development, biotechnology or computer-aided manufacturing;
- *are essential to exploiting opportunities for economic growth* in any sector, and might include tool and die makers in manufacturing, master chefs in the hospitality industry, or highly trained "help desk" staff in the telecommunications industry;
- *create additional spin-off jobs;* for example, design engineers develop a product, which then requires manufacturing, marketing, sales and distribution workers to bring it to the customer.

Prosperity increasingly depends on these skilled people. Shortages of them stand in the way of growth and good jobs for young people.

Over the past decade, high-technology and knowledge-intensive industries have led job creation in Ontario. Two-thirds of net job creation have been in these sectors, even though they account for only 39 per cent of employment.

Nortel, the largest R&D performer in Canada, reports that 10 years ago 45 per cent of its employees were knowledge workers; today, this has risen to 77 per cent.

Job Growth Leaders in Ontario, 1987-1997



* High-tech/knowledge-intensive industries based on a weighted average of high-tech (determined by share of high-tech non-labour inputs) and knowledge-intensive (determined by share of weeks worked by university graduates). Commercial sector only.

Sources: Department of Finance Canada and Ontario Ministry of Finance.

Skill Shortages Identified by Business

The demand for new and specialized skills is growing rapidly. There are warning signals that shortages of people with the right skills are already critical for some sectors and will become widespread in others.

- ♦ The Canadian Advanced Technology Association (CATA) has projected a shortfall in Ontario of 42,000 computing scientists and computer-related engineers over the next five years. They say that Ontario must "double the pipeline" of these graduates to remain competitive.

- ♦ A 1997 Industry Canada survey indicated that 35 per cent of information technology companies had vacancies for highly skilled workers. Seventy-seven per cent of companies forecast an increase in their demand for these workers over the next two years.

- ♦ A 1996 Canadian Federation of Independent Business survey found that nearly one-half of its members reported difficulty finding qualified workers. The findings for Ontario were similar.

- The Automotive Parts Manufacturers' Association (APMA) says that the main challenge facing the industry is the serious shortage of trained technical workers, including engineers, quality control workers, and tool and die makers. The reasons are both demographic and technological. The APMA projects that more than one-third of auto parts workers will retire in the next 10 years, rising to over 70 per cent in some plants. In the automotive assembly sector, some 40 per cent will reach retirement age by 2003. Many other industries share this concern.

Shortages of employees with the right skills can stunt economic growth, affecting the success of businesses and their capacity to provide jobs for youth and the unemployed. Shortages can result in lost business opportunities at home and abroad. The Minister of Economic Development, Trade and Tourism's Export Marketing Task Force, composed of 27 senior executives from leading Ontario companies, has identified shortages of scientists, engineers, and business professionals with a global outlook as critical barriers to global competitiveness.

Shortages of skilled people also can discourage new investment. A 1997 Goldfarb Consultants' study of the views of international investors stated that "the most important resource which many companies consider when making investment decisions is the availability of skilled labour."

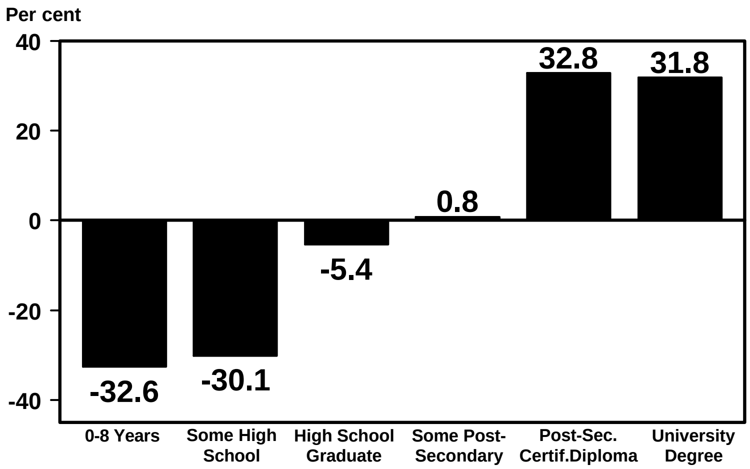
Ontario's highly qualified workforce is one of the Province's major selling points for new investment. Serious, prolonged skill shortages in high-investment sectors of the economy could affect Ontario's excellent reputation as a place to do business.

Skill shortages are an indication of mismatches between available jobs and skilled people. Mismatches waste talent and energy, especially of young people.

Education Paves the Way to Good Jobs

Since 1990, all new jobs, on a net basis, have gone to those with higher education and job skills. A declining number of jobs are open to those with less than a high school education. In fact, jobs requiring higher levels of education and training — managerial, professional and technical jobs in science and engineering, health care, teaching and skilled trades — are forecast to contribute nearly half of all new jobs in Ontario between 1995 and 2005.

Employment Growth Rates by Level of Education, 1990-1997



Source: Statistics Canada, Labour Force Survey.

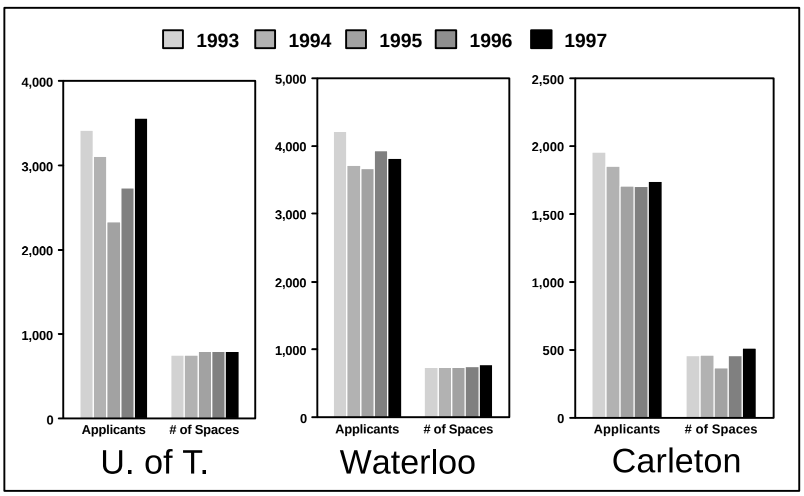
By world standards, Ontarians are well educated and therefore generally well equipped to meet the challenges of a changing economy. In 1994, 46.5 per cent of Ontarians aged 25 to 64 had completed post-secondary education, the highest percentage in the Organization for Economic Co-operation and Development (OECD). Such graduates have a wider range of skills and capacity to adapt to changes in the job market. They also are more likely to upgrade their skills throughout their careers.

The Youth Perspective

Young people need to be able to acquire the strategic skills they will need to obtain good jobs, while helping to fill the skills gap.

Our best-qualified high school graduates are eager to develop high-demand skills. However, there are many more applicants to high-demand engineering and computer science programs than spaces. At the same time, demand for skilled graduates is growing faster than colleges and universities can expand or create programs.

Applications vs Available Space in University Engineering Programs



Source: Nortel, The Supply of High Technology Professionals, February, 1998.

Keeping pace with rapidly changing skills needs and keeping the infrastructure up to date taxes the ingenuity and flexibility of the public education system.

It costs more to train students in high technology and engineering fields than in many other program areas, creating a barrier to expansion. There are also considerable costs to acquire laboratory equipment, hire new faculty or undertake capital expansions to open new programs.

The result is that many otherwise-qualified young people are being denied the opportunity to enter science and technology programs.

Data from the 1996 Census show that graduates from science and technology programs as a share of all post-secondary graduates in Ontario actually declined over the past decade, from 19.1 per cent in 1986 to 17.7 per cent in 1996.

Colleges and universities are trying to respond to these pressures. For example, at least six universities plan to expand the number of spaces available in first-year computer-related engineering programs in September 1998.

Other colleges and universities have restructured some of their traditional disciplines to create new programs that meet the new skill demands.

But these efforts are not enough. There must be further, significant increases in programs in high-demand fields. Business needs the graduates, and Ontario's young people are eager to enter these careers.

Apprenticeship is another important way in which employers, institutions and government work together to develop skills that are important to Ontario's economy.

Apprenticeship prepares young people for a wide variety of occupations in the service sector, in construction, and in manufacturing, including the auto, aerospace and high-technology sectors. These are well-paid jobs such as industrial millwright, tool and die maker, microelectronics manufacturer, mechanic, electrician, plumber and skilled horticulture worker.

Skilled trades are in high demand in rapidly growing sectors of the economy, and pressures are developing because large numbers of skilled workers are approaching retirement age.

Apprenticeship training is driven by the real needs of employers and results in certification that lets all employers know exactly what skills have been attained.

However, legislation governing the apprenticeship system is outdated—unchanged since 1964. The Province is now reforming and modernizing the apprenticeship system to give industry a stronger role, eliminate unnecessary government regulation, and make it easier and more attractive for young people to train in skilled trades in high demand.

Re-skilling the Current Workforce

It is a fact that most people who will be working in the next decade are already employed. Creating opportunities to update their skills also will lead to jobs and growth. Life-long learning is no longer just a slogan.

As the knowledge needed to do the job well changes rapidly, existing skills, even for the best educated, have a limited life span and need constant renewal. For example, investment in computer-assisted equipment has increased at an explosive rate over the past decade. To manage this sophisticated machinery, workers have to attain new skills, including higher literacy skills in document reading and numeracy. Establishing high levels of literacy — both traditional and technical — is as important as keeping up to date with job-specific skills.

Workers know they need support and opportunities from employers to build on their experience and dedication. A 1997 Conference Board of Canada report observes that research on different types of training shows a high return from employer-based training.

While Canadian governments spend more on education than governments in most other jurisdictions, Canadian employers spend less than their international counterparts on employee training. Canada ranked 37th among 49 countries on in-company training activity in a 1996 survey by the World Economic Forum. Only 31 per cent of Canadian firms reported being actively involved in training their workers, compared with 80 per cent in Great Britain, according to a 1991 OECD study.

Industry must become more self-reliant in training workers and developing a strong culture of training. Employers must provide training in firm-specific skills. It is in their interest to commit effort and dollars to new approaches to skills development.

New Solutions and Approaches to Strategic Skills

Business, educators, trainers, students and workers all have made it clear that action to address critical skills is needed now. Solutions must be based on the insights and active contribution of all these players:

- business, which brings the knowledge of skill needs and provides jobs and training for workers;
- public educators and private trainers, who are aware of skill needs and respond to them;
- governments, which create a healthy environment for growth and invest strategically to ensure that opportunities for economic growth happen;
- individuals, who invest in education and skills throughout their lives.

The stakes are high and the most successful businesses, sectors and institutions are leading the way. Some forward-looking efforts by industry and educational institutions, illustrated on the next page, are already under way. However, Ontario needs action now to expand and build on these partnerships. Ontario needs to speed the introduction of more projects like these. Public funds can be used to produce targetted and quick results.

The old way of supporting training through unfocused grants and wage subsidies to businesses and workers by federal and provincial governments alike is not strategic and will not meet Ontario's needs. A new approach that targets critical skills is required.

The new approach features new partnerships and collaboration, and invests in skills directly related to employment outcomes. It asks the questions: Will investments guarantee good jobs? Are businesses and students willing to pay a fair price for the training?

The new approach builds greater company and sectoral self-reliance in training workers. It ensures industry's commitment of effort and dollars. It rewards flexible and responsive educational structures.

Leading the Way: Industry Partnerships to Train for the Future

The Ontario Chemical Industries Council (OCIC). OCIC, in partnership with a private training company, Williams Learning Network, developed an affordable, interactive CD-ROM training program that employees in many small and medium-sized companies can access for on-the-job training and skills upgrading.

Centre for Advanced Robotics, Mechatronics and Intelligent Systems. Toronto-based R&D company Energenius Inc. and the University of Toronto are working together to train 30 students in robotics and mechatronics. The students will work with international researchers toward a Master of Applied Science.

Ottawa-Carleton Venture in Training Engineers and Scientists for Software Engineering. O-Vitesse, a collaboration between the University of Ottawa, Carleton University and seven local companies, retrains people who already hold science or engineering degrees in non-computer specialties to work in the software industry. Forty-two students are now in the program, working with local companies, including Newbridge, Nortel, Cognos and Mitel. Participating firms pay the students' tuition for two study terms and hire and train them on two work terms.

Brock University. Brock offers Canada's only B.Sc. in oenology and viticulture, to meet the needs of Ontario's grape and wine industry.

Confederation College. This college offers a unique program in aviation manufacturing, developed in conjunction with Bombardier, Boeing and Bristol Aerospace.

Textile Management Internship Program. The Textiles Human Resources Council has teamed up with McMaster University and Mohawk College to help fill the gaps created by high retirement rates among textiles industry managers. The new one-year program helps science, engineering and technology graduates acquire additional skills for managerial and professional positions.

Taking Immediate Action

The 1998 Budget addresses the serious shortage of graduates from our colleges and universities in computer science and high-demand engineering programs. The Canadian Advanced Technology Association has said these skilled workers are critical to growth.

The Ontario Government will invest $150 million over the next three years to implement an Access to Opportunities Program, starting in September 1998, to enable twice as many university students to enroll in these fields. Colleges will commit to increase student opportunities by 50 per cent in related technology programs. The Government will apply a "market test" by requiring that industry match start-up costs identified by universities and colleges applying for the new funds. In addition, operating costs for new spaces will be recognized and funded.

If all universities and colleges accept the challenge, the investment will achieve over 8,000 new entry-level spaces by September 2000. In five years, up to 17,000 new opportunities for students will be created.
A private-sector reference group will be appointed to get employers involved and to provide summer and co-op placements and permanent jobs for graduates.

The Ontario Government is taking further action right now to address other critical skills needs. The 1998 Budget commits more than $10 million to invest in four path-breaking skills projects that will increase the supply of strategic skills. Each of these projects involves a major financial contribution from the firms and sectors whose urgent needs they meet. These investments are described below. They will immediately benefit the auto parts, telecommunications, metalworking, new media, and several other industries.

This public investment will kick-start Ontario's direct response to creating the skills the economy needs now. It will speed up the creation of strategic skills.

These targeted skills project funds will be in addition to the post-secondary education grants, tax credits and other training programs already in place to support students, apprentices and institutions in educating Ontarians.

Four Path-Breaking Skills Projects in 1998

Georgian College and IRDI — Centre of Expertise for Automotive Parts Design and Manufacturing Technology. Ontario will invest $3.8 million in a collaboration between the college and the Industrial Research and Development Institute (IRDI). IRDI focuses on industrial design and research and has 250 member companies in the automotive and related industries. This investment will immediately fill a skills gap by offering leading-edge introductory training, customized advanced retraining for already highly skilled workers, and share more widely the results of IRDI's applied and theoretical research. The tool and die program will be doubled. The advanced program will increase enrollment to 300 in 1999 from 75 in 1998.

Canadian Film Centre — New Media. Ontario will invest $500,000 to support a private-sector-led initiative at the Canadian Film Centre, to provide innovative training in new media. The focus is on integrating business skills with technical and creative skills to foster creation of compelling new media products. New media specialists currently have insufficient opportunities for continuing education.

Conestoga College — Metal Machining, Automated Manufacturing and Engineering and Information Technology. Ontario will invest $3.6 million to help address skill shortages identified by a number of key industries in Canada's Technology Triangle in the Cambridge-Guelph-Kitchener-Waterloo region, such as S-S Technologies, Kuntz Electroplating, ATS Automation Tooling Systems and Waterloo Furniture Components. Conestoga College will expand training in metal machining and other key engineering technologies. Spaces will increase for 800 full-time students and 3,500 part-time students.

Humber College — Telecommunications Learning Institute (TLI). Ontario will invest $3 million to help provide comprehensive business and technology training, from executive to entry-level, in the telecommunications industry. With the support of 26 industry partners, TLI and Humber will manage an integrated training delivery network. TLI will deliver training through effective use of training technology, from CD-ROM to on-line access. At full capacity, it will provide training for over 17,000 employed workers annually.

Next Steps

As the next step in the response to critical skills needs, Ontario has set aside another $20 million this year to seek out and fund the best projects that are ready to go now: collaborations that lead by example and meet urgent needs.

The Minister of Energy, Science and Technology, in co-operation with the Ministers of Economic Development, Trade and Tourism, and Education and Training, will receive proposals and approve projects in June, September and February this year through a competitive process. This will balance quick response with fairness.

The focus of the new skills investments will be on creating strategic skills essential to competitiveness in growing industries right now. It will be on expanding opportunities for youth and the unemployed to train for high-demand, high-paying jobs. It will be on improving Ontario's public and private training capacity for strategic skills.

Proposals are expected for a wide range of sectors and skills. Recognizing that strategic skills are present throughout the economy, participation will be open to all sectors. Partnerships will be formed among sectors, public- and private-sector educators and trainers, foundations, regional organizations, and unions.

The investments will reward flexibility and innovation. Different projects will require various kinds of start-up investments, including facilities, personnel or capital, but public investments will not address employer wage costs or training allowances.

The Government's willingness to invest in strategic skills is built on the expectation that all participants — industry, educators, students and governments — will contribute substantially to the new skills partnerships. The investment provided by the Ontario government will trigger millions of additional dollars in spending by project partners:

- ♦ Industry will take the lead in proposing strategic skills projects, contributing both to start-up funding and to ongoing costs of projects. Its contributions will include wage costs, training allowances, equipment and facility donations, donations of skilled professionals as faculty and trainers, and supervision of co-op student placements or apprenticeships.

- Universities and colleges are Ontario's primary source of higher education and training. They and private-sector training providers will be major partners in implementing the new projects. Their contribution will include course development, assessment and certification processes, faculty and trainers, student scholarships and new facilities. Over the longer term, institutions may also look to endowment funds and to restructuring of programs to divert resources to high-demand areas.

- For their part, students and workers will invest in education and training through tuition and commitment of time and effort.

- With successful completion of a Canada-Ontario Labour Market Development Agreement, the Ontario Government will direct Employment Insurance funds — paid for by Ontario's employers and employees — toward the Province's priorities for helping the unemployed get back to work. Two of those priorities would be strategic skills training and apprenticeship.

Immediate action on short-term needs will be complemented by the Ontario Jobs and Investment Board's longer-term and broader perspective. Through the panel on Preparing People for Tomorrow's Work, a clear vision of the future relationship between learning and jobs will be set out as well as the steps to be taken over the longer term to address projected skill requirements.

Conclusion

The Ontario Government's commitment is to respond directly to Ontario's critical skills needs, ensuring that employers have the right workers at the right time and providing Ontarians with access to better jobs.

Addressing strategic skills adds a critical piece to Ontario's innovation framework. The immediate actions and the consultations proposed through the Ontario Jobs and Investment Board will bring together the best thinking and the best practices to create the skilled workers and jobs essential to success in the economy of the 21st century.

Immediate Investments in Strategic Skills

Project Sponsors
A wide range of partnerships is expected among the following:

- sectors/industries
- private and public educational institutions and providers
- foundations
- communities/regional organizations
- unions.

Strategic Focus
The focus is on creating strategic skills essential to competitiveness in growing industries right now.

The focus is on expanding opportunities for youth and other workers to train for high-demand, high-paying jobs.

The focus is on improving Ontario's public and private training capacity for creating strategic skills.

Funding
All partners, including the Ontario Government, will contribute based on potential benefits.

Public funding will be awarded on a competitive basis.

Eligible Costs
One-time costs integral to implementing the project will be considered. Employer wage costs will not be eligible.

Administration
Government commits to an expeditious decision-making process.

PAPER F

Making Welfare Work

Making Welfare Work: Ontario's Success with Welfare Reform

Overview

When the Government took office in 1995, the challenge posed by the welfare system was staggering. Through the policy failures of past governments, welfare had lost its original purpose: a transitional program of last resort for those truly in need, with a stepping stone back to work.

The loosening of eligibility rules had turned welfare into a first line of defence rather than a program of last resort. Benefit enrichments had weakened its connection to getting back to work and self-sufficiency. Taxpayers had lost confidence in a system in which growth in welfare rolls and expenditures were out of proportion to economic conditions.

Welfare cost the provincial government more than $40 billion between 1985 and 1995. By 1994-95, provincial costs had peaked at $6.7 billion, up from $1.5 billion in 1985-86. This was more than one-third the size of the health budget.

Welfare dependency in Ontario had risen to record levels — the highest in Canada. The welfare caseload had not declined since 1976. Increases occurred even in good economic times, even as unemployment fell.

The Government came to power promising fundamental welfare reforms. The goal was to return the welfare system to its original purpose and restore hope for people by breaking the cycle of dependency.

The Government has delivered on its commitment to implement fundamental welfare reform. And welfare reform is working. Ontario has registered a dramatic reduction in the welfare caseload since June 1995.

Ontario Works is providing people with the skills, confidence and opportunities to return to work.

However, with more than a million Ontarians still relying on public assistance, the challenge is far from over. Ontario must continue on the path of welfare reform and support low-income working families to ensure that they remain self-reliant.

A Welfare System Badly in Need of Reform

In 1995, the Government inherited a welfare system that was out of control and badly in need of reform.

Previous governments had failed to ensure that welfare remained a system of last and temporary resort for the truly needy. Instead, through the previous decade, Ontario's welfare system had become a system that trapped people into long-term dependence on government handouts. Too often it acted against those who wanted to work.

It also had become a system open to abuse, losing the confidence of those who paid for it — the taxpayers.

Rising Dependence Even in Good Economic Times

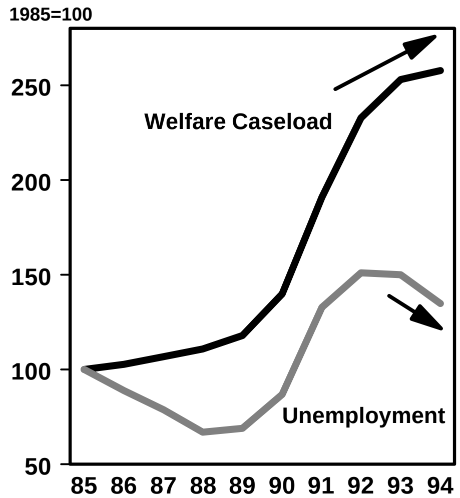
In 1983, following the recession of the early 1980s, the number of jobless in Ontario peaked at half-a-million, an increase of 63 per cent over the recession period. Over this same period, Ontario's welfare caseload rose by 25 per cent, much less than the rise in unemployment.

From 1983 to 1989, Ontario enjoyed a period of rapid economic growth. Ontario's economy generated nearly a million net new jobs. The unemployment rate was cut in half. However, the welfare caseload continued to grow, even as unemployment fell.

When the 1990s recession set in, the proportion of people on welfare was already unacceptably high.

What had gone wrong with the welfare system?

Trends in Welfare Caseload and Unemployment



Source: Statistics Canada, Ontario Ministry of Community and Social Services and Ontario Ministry of Finance.

The welfare system had stopped responding to changes in economic and job conditions. Past government policies had relaxed eligibility rules and enhanced benefits. These measures undermined the Province's ability to ensure that welfare benefits went only to those truly in need.

These measures also made welfare generous to the point where the incentive to leave welfare was seriously eroded. The link between welfare and returning to work had been broken for those who were able to work.

The Policies of Past Governments Failed the Welfare System

Benefit rates enriched For many welfare recipients, benefit rates between 1985 and 1994 rose at more than double the rate of inflation. By comparison, the average earnings received by Ontario workers, after adjusting for inflation, rose only marginally.

Work Incentives Eroded In many cases, high welfare benefits left welfare recipients better off financially than if they were working. For example, before the social assistance rate reductions implemented in 1995, a single parent with two children would have needed a full-time job paying more than $10 an hour to earn the equivalent of what she or he received from social assistance. Such disincentives to work undermined welfare recipients' ability to become self-sufficient.

Single-Parent Rules Relaxed The introduction of the "spouse-in-the-house" rule in the latter part of the 1980s contributed to the increased size and cost of the single-parent caseload. Under this rule, a single parent could live with a common-law partner for three years before the partner's income was considered part of the family's finances.

Growing Abuse The absence of effective screening mechanisms failed to separate the truly needy from those who tried to defraud the system. This created the perception that the welfare system was an easy target for fraud and abuse, and eroded taxpayers' confidence in the management of the system.

Ontario Was a Leader in Welfare Dependence

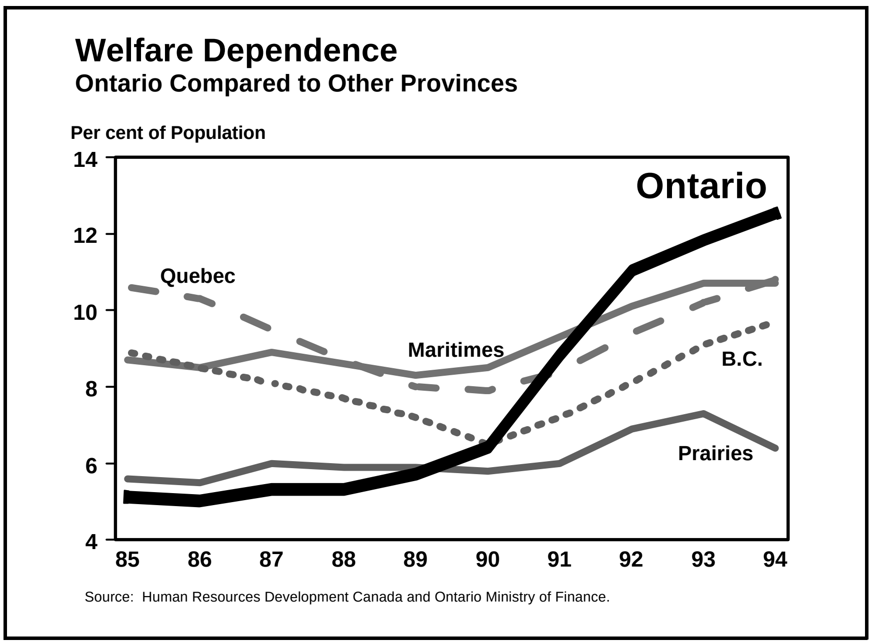
The early 1990s recession, together with generous welfare benefits and ease of access, led to an unprecedented growth in the Province's welfare rolls. Ontario had the dubious distinction of becoming a leader in welfare dependence.

In 1994, Ontario's welfare rolls peaked at 673,000 cases. More than 1.3 million men, women and children — or one in eight Ontarians — depended on government assistance. A decade earlier, only one in 20 depended on welfare.

Average stays on General Welfare Assistance (GWA) nearly doubled over the first half of the 1990s. The welfare system that was supposed to cushion temporary difficulties had become a trap of long-term dependence.

Welfare dependence in Ontario also grew faster than in every other province. In 1985, Ontario had the second-lowest proportion of people on welfare (5.2 per cent) among provinces, next to Alberta. By 1994, Ontario ranked highest among provinces for welfare dependence, at 12.6 per cent.

Ontario, one of Canada's wealthiest provinces, had the highest per-capita welfare caseload in the country.



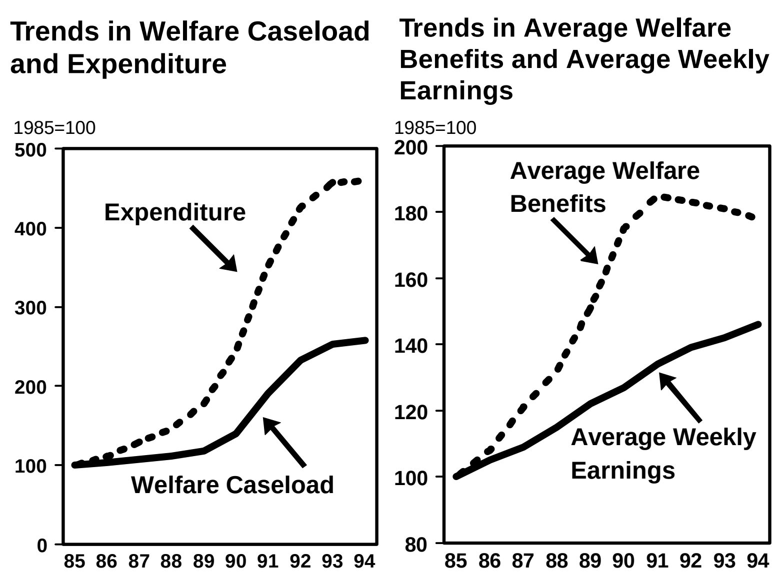
The Price of Welfare Dependency

Record-high welfare dependency carried a steep price. This was paid by those on welfare who saw their initiative, their self-esteem, their skills and their earnings potential erode. It also was paid by taxpayers who footed a welfare bill of more than $40 billion between 1985 and 1995.

Record growth in the welfare caseload, along with a series of benefit enrichments, added to the fiscal pressures faced by Ontario in the 1990s. Growth in welfare expenditures outstripped caseload growth by two to one.

The cost of social assistance benefits rose 77 per cent between 1985-86 and 1989-90. In the next five years, it rose another 159 per cent to the unsustainable level of $6.1 billion a year in 1994-95.

The average cost per year of a welfare case to the province rose from $5,600 in 1985 to nearly $10,000 in 1994.



Sources: Statistics Canada, Ontario Ministry of Community and Social Services and Ontario Ministry of Finance.

Fixing Ontario's Welfare System

After taking office, the Government moved quickly to meet the commitments made in the *Common Sense Revolution* to provide major reform to Ontario's welfare system.

Making welfare work for those who need it was a social policy priority. Making welfare work for the majority who pay for it was a fiscal imperative.

Reform Principles

Effective welfare reform is not only about restoring good fiscal management. It is also about fundamentally changing welfare from an expensive, confusing system that trapped 1.3 million on dependency to a system that focuses on encouraging self-sufficiency and getting people back to work.

The Government's reform commitments were:

♦ To restore the welfare system to its original purpose: a transitional program of last resort, with a stepping stone back to work and independence.

♦ For people with disabilities, to provide a new program outside the welfare system that meets their unique needs, protects their benefits and provides better employment supports.

Welfare reform was guided by three principles: fairness, accountability and effectiveness.

Guiding Principles of Reform

Fairness Programs that merely provide financial assistance and do not assist welfare recipients back into jobs fail to meet the principle of fairness. They let down the people who need assistance by trapping them in a vicious circle of dependency and skill loss. They also fail the taxpayers. They lead to perpetually growing costs. They squeeze out other programs and priorities. They increase public debt.

Accountability Effective programs must provide for mutual accountability. Government is accountable to both the taxpayers, who pay for the programs, and to those who use them. Welfare recipients are accountable for their own efforts to join or rejoin the workforce.

Effectiveness An effective welfare program is one that works and is seen to work. Effectiveness means positive results. For those who can work, it means the shortest route to self-sufficiency and a job.

Welfare Reform that Leads to Jobs: Ontario Works

The Government implemented a series of reforms that followed the three principles. It is called Ontario Works.

Strengthening Incentives to Work

People should always be better off working than on welfare. Ontario reduced welfare benefits that had been about 30 per cent above the average of the other nine provinces, to a level about 10 per cent above benefits in other provinces. This ensures that a single person will be significantly better off working at the minimum wage than on welfare. Recipients are allowed to earn back the difference between the old and new rates without penalty. This earn-back provision is the most generous in the country.

Focusing on Returning to Work

Ontario introduced mandatory participation in job search and community placements to help people in financial need make the transition to self-sufficiency.

The Ontario Works program is now in place in communities across the province. Already, more than 240,000 people have participated in one or more of the program's mandatory activities:

- community service participation that builds the skills, confidence, contacts and opportunities to return to work while allowing participants to contribute to their communities;
- job searches and services to support job searches;
- referral to basic education and other job-specific skills training for many who lack the proper preparation to get a job or a better job; and
- employment placement to deliver direct help in getting a job.

People are provided with the child care and other supports they need to participate. An additional $30 million in child care has already been provided to enable parents to access the same opportunities leading to jobs and independence that are available to others.

Tightening Eligibility

A number of changes were introduced to ensure that only those truly in need were eligible to receive welfare. Sixteen- and 17-year-olds are required to be in school or training and be under adult supervision in order to obtain assistance. The definition of spouse was clarified to specify circumstances under which people living together in common-law relationships are not eligible for assistance. Welfare eligibility is curtailed for people who left jobs or refused employment.

Clamping Down on Fraud and Abuse

To protect the system for those who truly need it and to restore the confidence of the public, disincentives for abuse were implemented. These included establishing a welfare fraud hotline and developing information-sharing agreements with other provinces and Ottawa.

A New Legislative Framework

The *Ontario Works Act* was passed by the Ontario Legislature in November 1997 and was proclaimed May 1, 1998. The *Act* provides the legislative basis and continues the process of welfare reform in Ontario.

The *Act* ensures the provision of basic financial assistance to participants, and mandatory dental and vision care for children. It specifies the types of employment assistance available to help participants achieve self-sufficiency. It requires that sole-support parents participate in these community and employment measures, once their children are in school.

More Effective Delivery

The *Ontario Works Act* also contains the first substantial legislative changes in more than 30 years to the delivery of welfare, by providing for a single system at the municipal level. Municipal governments are closer to their communities, are more flexible and can therefore be most effective. The number of municipalities delivering assistance is being reduced from about 200 to approximately 50.

First Nations will continue to deliver the welfare program in their communities through Ontario Works.

Protecting the Disabled

Welfare reform also has responded to requests from the community to reform the system for people with disabilities.

A new and separate program ensures that people in need with clearly assessed disabilities receive income and employment supports that meet their unique needs. The Ontario Disability Support Program, to be proclaimed in June 1998, enshrines the new program in law.

People with disabilities have been moved out of the welfare system where they never should have been.

Their benefits have not been reduced. These benefits remain the most generous in Canada — almost 50 per cent higher than the average of the other nine provinces.

People with disabilities who can and want to work are receiving better employment supports.

Welfare Reform is Working

The Ontario Government is delivering on its commitment to implement fundamental welfare reform. Already there is positive proof that Ontario's reform programs work in practice as well as in theory.

Dramatic Caseload Reduction

Welfare reform, along with Ontario's robust job market, is producing impressive results. The Government's welfare philosophy and actions have fundamentally altered the policy environment and broken through the barriers that fostered dependence and wasted human resources.

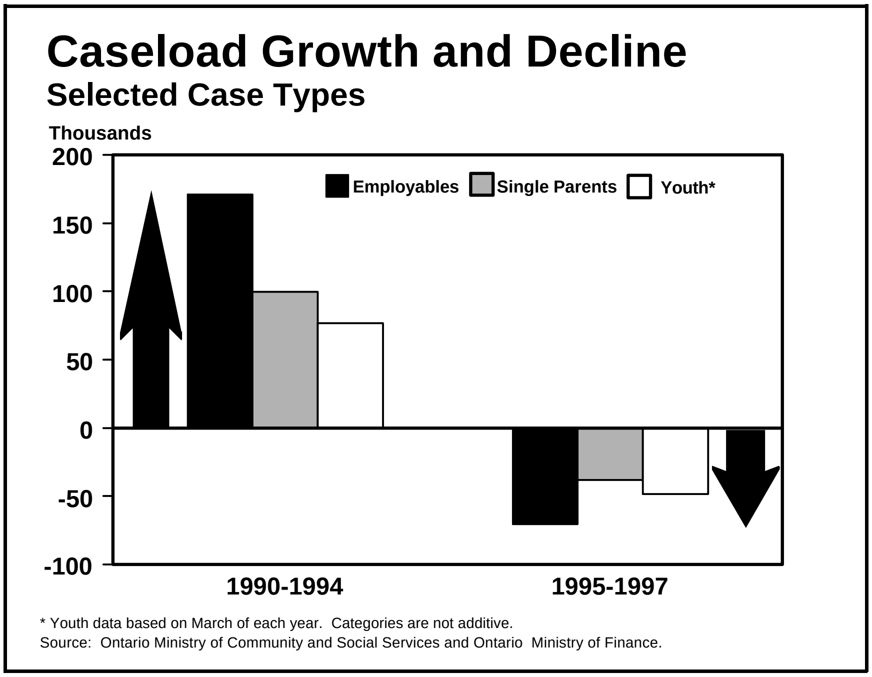
Since June 1995, the number of people depending on welfare in Ontario has declined by more than a quarter million, a decline of almost one-fifth. The welfare caseload has declined by almost 130,000 cases, again, about one-fifth of the entire caseload inherited by the Government.

This decline in the number of recipients is equivalent to the populations of Belleville, Ajax, Sarnia, Owen Sound and North Bay combined.

Ontario's rate of welfare dependence has been reduced from one in eight at the end of 1994 to one in 11 in the spring of 1998. This achievement contrasts sharply with the perpetual caseload growth that characterized the previous decade.

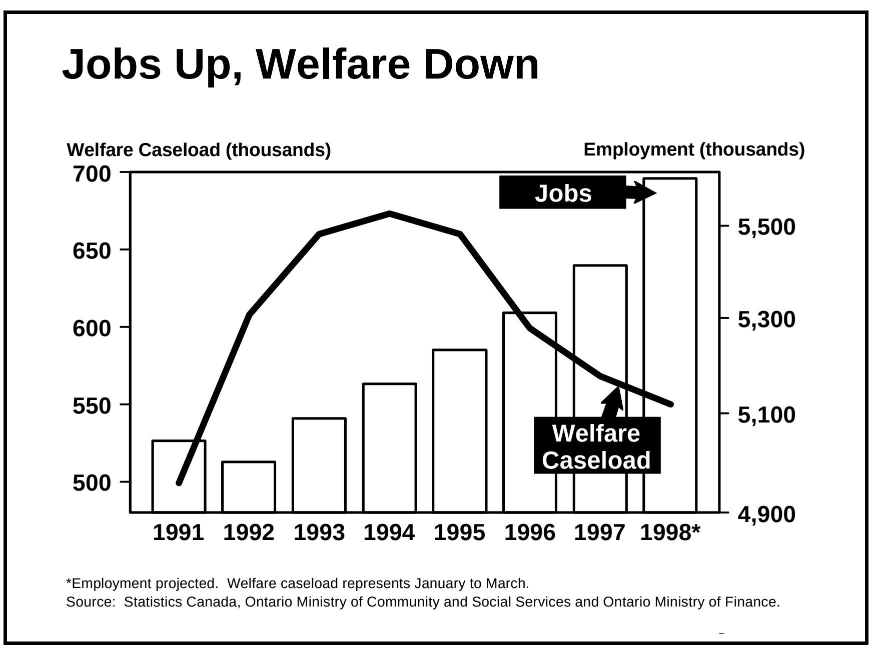
In 1997, the caseload declined by 5.2 per cent. This followed declines of 9.2 per cent in 1996 and 2.0 per cent in 1995. These three consecutive years of decline are the only ones since 1976.

Caseload reduction is occurring across most case types, including single parents and youth. In 1997, single-parent cases declined by 8.8 per cent and youth cases by 9.7 per cent.

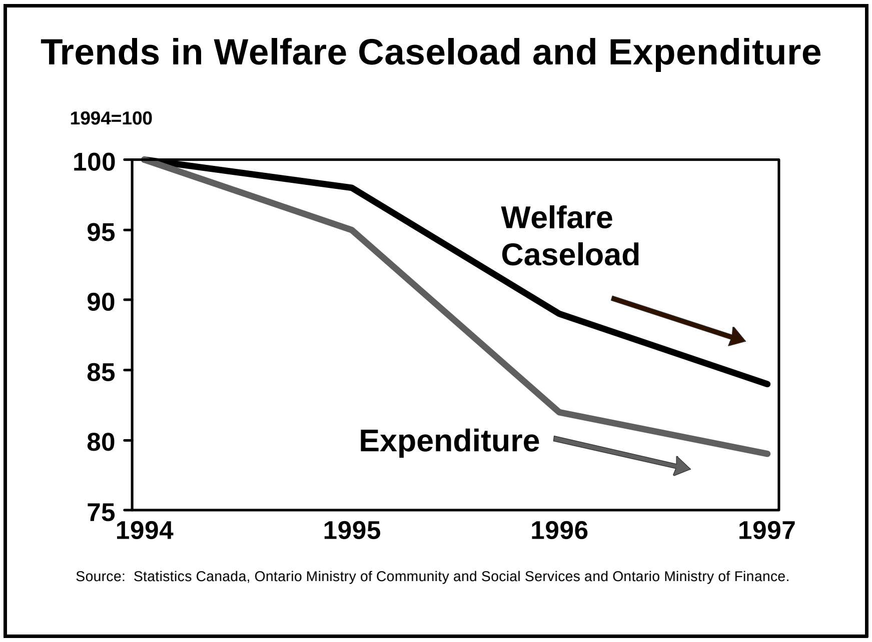


People leaving the welfare system are finding jobs. Private-sector employment in Ontario has increased by 345,000 net new jobs from September 1995. Welfare recipients, along with other unemployed people in Ontario, are benefitting from the vibrant economy.

An independent study commissioned by the Ministry of Community and Social Services showed that about 60 per cent of those who left welfare did so for job-related reasons.



The Government's reforms and effective management of the welfare system also have resulted in savings to taxpayers of over $1 billion — money that can be better used to pay down Ontario's deficit or help pay for priority programs such as health and education.



Successes in the Community

Community agencies are responding to Ontario Works by providing opportunities that give participants a chance to apply and update their existing skills and gain new ones. They are providing them with routes to paying jobs and opportunities to give something back to their communities.

Community service participants are contributing to their communities in areas such as conservation, palliative care and community sports.

Continuing to Respond to the Caseload Challenge

Ontario has dramatically reduced the welfare caseload and welfare dependence. However, the caseload is still unacceptably high, with more than one million Ontarians relying on social assistance.

Ontario must continue on the path of welfare reform, a path that provides the fastest route to a paying job to those still trapped on welfare.

The next phase of welfare reform will build on the achievements to date:

- Community service placements in Ontario Works will be expanded. The ultimate goal is to allow every welfare recipient to contribute something of value in exchange for his or her benefits.

- The Government will remain vigilant against fraud and abuse to ensure that the welfare system remains viable for those who need it and maintains the trust of those who pay for it.

- The Government will seek ways to further simplify a welfare system that remains too bureaucratic and too complicated. Legislative and other reforms already have served to significantly rationalize welfare programs and delivery while increasing accountability.

- Child care supports will be expanded for those on welfare. The Learning, Earning and Parenting (LEAP) program will provide $25 million in subsidies and other supports for single parents on welfare to help them finish school. An additional $10 million will be made available for child care assistance for other participants in Ontario Works to provide greater flexibility and choices. These measures are in addition to the $30 million already dedicated to the child care needs of Ontario Works participants. This expansion of child care moves the welfare system closer to the ultimate goal of ensuring that all parents on welfare benefit from workfare through access to child care.

With the successful negotiation of a Canada-Ontario Labour Market Development Agreement, millions of dollars in Employment Insurance funds will be available to help Ontario's welfare recipients get back to work.

Supports to Working Families

Reforming welfare to ensure people have a stepping stone to work is essential. However, the challenge does not end there. It is equally important to support working families to ensure that they remain self-reliant.

Ontario will expand its programs to help low-income families find and keep jobs:

- The new Ontario Child Care Supplement for Working Families would boost the resources available to families with young children to help with child care costs. This year, the program would support 350,000 young children. The new program would combine the $40 million child care tax credit with an additional $100 million made available by the National Child Benefit initiative in 1998-99. Low- and middle-income working families and parents who pay child care expenses to take training would receive up to $1,020 per year for each child under age seven. Next year, the Government will invest more than $200 million in this program.

- For the third year in a row, low-income taxpayers will receive benefits from an enrichment to the Ontario Tax Reduction program. The Ontario Tax Reduction adjustments made by this Government will benefit an additional 360,000 taxpayers. Seventy thousand Ontarians will have their Ontario income tax eliminated, and a further 290,000 taxpayers will have their income tax reduced by more than 30 per cent.

The new Ontario Child Care Supplement for Working Families, along with tax cuts, the enrichment of the tax reduction program, and other measures supporting children, recognize the importance of providing families with the supports necessary to strengthen the commitment to work and self-sufficiency. These programs spend money where it counts — keeping people working and learning.

Conclusion

The success in addressing the welfare challenge confirms that the Government's policies are working. Ontario has opened up opportunities and restored hope to those on welfare while, at the same time, bringing responsible management to the welfare system.

The new initiatives announced in the 1998 Budget will help ensure that the renewed sense of self-confidence and pride that comes with moving off welfare and into paid employment is not lost.