Ontario Budget 1978

The Honourable W. Darcy McKeough
Treasurer of Ontario

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Presented by the Honourable W. Darcy McKeough,
Treasurer of Ontario
in the Legislative Assembly of Ontario,
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Ministry of Treasury, Economics and
Intergovernmental Affairs
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1978 Budget at a Glance

	1977-78	1978-79	Growth Rates	1978-79 Fiscal Swing
	($ million)		(%)	($ million)
Gross Provincial Product	85,000	95,600	+12.5	
Spending	13,603	14,555	+7.0	
Revenue	11,987	13,500	+12.6	
Cash Requirements	1,616	1,055		−561
Budgetary Deficit	1,597	1,360		−237

Government in Ontario Takes Less Than in the Rest of Canada

(Spending as per cent of GNP)

	1973	1974	1975	1976	1977	Est. 1978
Ontario						
Federal	13.4	13.9	15.2	14.5	14.9	14.8
Provincial	10.4	10.4	11.4	11.4	11.2	11.1
Local	7.8	7.6	8.0	7.5	7.3	7.0
Total	31.6	31.9	34.6	33.4	33.4	32.9
Rest of Canada						
Federal	14.4	16.0	17.5	16.5	17.0	17.0
Provincial	14.5	15.2	16.8	16.8	17.1	17.0
Local	8.0	8.0	8.3	8.6	8.7	8.6
Total	36.9	39.2	42.6	41.9	42.8	42.6
All of Canada	34.7	36.2	39.4	38.4	39.0	38.6

1978 Budget Statement

Developing an Economic Strategy for Canada and Ontario

Mr. Speaker, all Members will have followed closely the proceedings of the First Ministers' Conference, held in Ottawa, February 13-15, 1978. Ontario played a constructive role on this important occasion in developing a set of economic policies appropriate to today's economic realities. The Premier of Ontario, the Honourable William G. Davis, put forward a specific ten point plan of action for economic growth and development. He also tabled a document entitled, "An Economic Development Policy for Canada" which contained a number of solid proposals designed to:

- encourage price stability;
- improve the business climate and increase private investment;
- promote exports and replace imports; and,
- reduce regional disparities.

The Conference communiqué reflects in considerable measure the Ontario proposals. Let me comment on some of the more important actions we are taking.

First, to encourage price stability, to improve business confidence and to provide room for job creation in the private sector, we have firmly checked growth in the Province's spending. Expenditure growth is down for the fourth successive year, and we are holding to our plan to balance the budget by 1981. Second, to increase private investment we have introduced substantial tax incentives; we will maintain in this Province a competitive tax climate. This Budget contains new tax initiatives to further stimulate economic activity. Third, my colleague, the Minister of Industry and Tourism, will be directing this Government's "Buy Canadian" campaign to promote further exports and replace imports. Fourth, we are encouraging research and development with new initiatives in a number of areas. Fifth, the Province of Ontario, having made a substantial contribution to reducing regional disparities in Canada, will continue to encourage and support federal efforts in this most important endeavour.

Let me also comment on the consultative process. For a number of years, this Government has been advocating a more open approach to decision making; we have called for a genuine consultative process. The First Ministers' Conference and the preparatory meetings of

Ministers represent substantial progress toward this goal. There will be more frequent meetings in the future, giving the opportunity to assess our actions and build upon the progress already made.

That progress is considerable. Ontario strived for a consensus and, for the first time, a consensus has been arrived at that constitutes a framework within which Canadian economic policy can be developed on a co-ordinated basis. There is recognition of the need to set explicit objectives; to pursue taxation and expenditure policies consistent with moderating inflation; to improve the business climate; and, to deal head-on with sectoral problems. All of these things must be done to provide for stable growth of the economy, to create the large number of new jobs needed to employ all of our labour force, and to ensure our continued prosperity.

Ontario's Economic Prospects

The economic prospects for 1978 and 1979 are favourable. The economy is on a recovery path.

Despite concerns about unemployment, inflation and national unity, Ontario recorded considerable progress in expanding job opportunities and restoring competitiveness to the economy in 1977. Employment grew by 73,000 jobs, or 2.0 per cent. December, 1977 over December, 1976 employment was up by 109,000, or 3.0 per cent. Seventy per cent of the new entrants to Ontario's labour force, which grew by 2.9 per cent in 1977, were youths or females. Unemployment among young people between 15 and 24 years of age has confirmed that jobs for youth continues to be the major challenge facing governments both in Ontario and in Canada.

Our expectations for 1978 are for a stronger provincial economic performance, with real growth of 4.3 per cent. This forecast is close to the middle of the range of current projections coming from a number of private and institutional sources. The Conference Board in Canada, for example, has recently forecast a more optimistic growth rate of 5.1 per cent for Ontario. The general view of increasing strength in the economy as the year progresses is consistent with my own. I see the process evolving at a moderate pace, with considerably stronger growth of 5.5 per cent in 1979. Essentially, I look forward to a strong export performance in 1978, reinforced by more buoyant consumer spending and renewed business investment in 1979. On the employment front, I expect that 100,000 new jobs will be created in 1978 and that the rate of unemployment will show a small decline.

Our recovery from the 1975 recession has been sluggish and irregular. Consumers have been uneasy in the face of high levels of both unemployment and inflation, and have been hesitant to expand significantly their own spending plans. Investment expenditures have been particularly slow at providing strength, reflecting uncertainty about

Components of Growth in the Ontario Economy, 1978 and 1979
(per cent)

	Real Growth	
	1978	1979
Consumer Spending	4.1	5.0
Business Investment	– 1.0	6.9
Government Expenditures	1.6	1.8
Net Exports	8.9	9.1
Gross Provincial Product	4.3	5.5

our economic future. In addition, the concerted national effort to break the cost and wage spiral, reflected in the Anti-Inflation Program, coupled with general recognition of the need to restore a balance to our economy, has brought forth a sustained effort to limit the growth of government and reduce its involvement in the economy. All of these factors limited our growth last year.

Turning to '78-'79, consumer confidence is on the upswing, according to recent surveys. While personal savings are still at historically high levels, the potential for a continued expansion of retail sales is excellent and very encouraging. Moreover, improvements in Canada's trading balance are expected to make a major contribution to growth in Ontario's economy in 1978. Continued strength in the economies of our major trading partners will provide strong stimulus for our exports. In addition, the major improvement in the competitive position of Ontario industries, brought about by the more realistic level of the Canadian dollar and the substantial improvement in our cost performance, has yet to be fully realized. Ontario manufacturers now face a major opportunity to compete with imports in the domestic market and to make new inroads in foreign markets. In addition, I foresee considerable growth for our tourism industry as the year progresses.

With moderating government expenditures, an improving cost performance and a restoration of consumer and investor confidence, Ontario will be poised for a strong revival of private sector capital outlays in late 1978 and into next year. Capacity utilization should improve significantly in a number of key sectors, and new job creation can be expected to keep pace with a rapidly growing labour force. A better profit performance and an ample supply of credit will provide the base for a substantial resurgence of investment. Moreover, I look forward to continued strength in investment through 1980-81, as major energy projects across Canada get under way and make their contribution to healthy demand in Ontario. My expectation, therefore, is for a steady expansion of private sector jobs, private sector incomes, and private sector prosperity of lasting benefit to all citizens.

Ontario and Canada, then, are well positioned for an economic expansion based on private sector initiatives. I would be less than frank, however, if I did not acknowledge the continuing drag on the economy caused by the worrisome uncertainty surrounding Quebec. That uncertainty has hurt confidence and investment, not only in Quebec, but throughout Canada.

Keeping Ontario Competitive

The First Ministers and Ministers of Finance agreed that general stimulation in the form of increased spending by governments would be counter productive. It is desirable to hold the trend growth in government spending below the trend growth in the economy. There also was a clear recognition that large-scale tax cuts could not be afforded, because government deficits are already too large.

This message was evident in the extensive discussions I held again this year with representatives of various groups in the economy, including labour, business and the professions. Their informative comments have deepened my perspective of the year just past and focused my attention on the problems ahead. I would like to express my appreciation to them for their participation in the budget formulation process.

On February 16th, my Ministry released a staff study entitled, "Reassessing the Scope for Fiscal Policy in Canada". This paper raises serious questions about the capacity of provincial governments to stimulate employment by further increasing their deficits. The paper shows that both the federal and Ontario governments face large deficits even at high levels of employment.

In reading this staff study, one reluctantly comes to the conclusion that the taxpayers of Ontario would see only marginal returns to the Provincial treasury when government stimulates the economy through general measures. Nearly all of the budget dividends arising from the resulting job creation flow to federal coffers in the form of savings on unemployment insurance.

Accordingly, the fiscal actions of this Budget are framed within the realities of Ontario's overall budget capacity. They aim to be selectively stimulative as we continue on our program of balancing the Ontario Budget by 1981.

The maintenance of competitive industry is of paramount importance to Ontario, and this Government recognizes the vital role of investment and profits in the economic growth process. Taxation is an important element of business costs, and it is essential that tax policies reflect the realities of international competition. The fiscal measures I am proposing in this Budget have been developed in full recognition of their impact on Ontario's competitive position.

I would like to call the Members' attention to the study I am tabling with this Budget entitled "Ontario's Retail Sales Tax Exemption

Program for Production Machinery and Equipment: An Economic Assessment". This document is a report to the Legislature on the economic impact of this incentive. It is an important study which represents the combined input of the corporate sector, the Institute for Policy Analysis of the University of Toronto and Treasury staff.

The results are strongly positive. The tax incentive stimulates investment, output and final demand. It also creates jobs. In fact, the Institute concludes its assessment of the program with these words: "It would be difficult to think of any other policy which, if taken at the Provincial level, would stimulate production levels to as great an extent". This is evident in the high benefit-cost ratio of the incentive which shows three dollars of income generated for one dollar of tax forgone.

The retail sales tax exemption improves Ontario's competitive position by lowering front-end costs. This study shows that, in Ontario, our taxation levels compare favourably with those of nearby jurisdictions with which we compete. We cannot be complacent in this regard, however, as tax levels can quickly change and offset our advantage. In the United States, for example, President Carter has recently proposed a package of tax changes which would, among other things, reduce the rate of corporate tax by 4 percentage points and make the U.S. investment tax credit considerably more generous. If changes such as these are implemented, the Province and the federal government must be prepared to review our combined tax levels to ensure that we remain competitive.

The impact of inflation on profits is also of concern to this Government. In 1976, we established the Ontario Committee on Inflation Accounting to study this problem. The Committee's Report was made public in July, 1977. The Canadian Institute of Chartered Accountants has a central role to play in further developments in this area, and I would ask them to pursue more aggressively improvements in financial reporting.

Mr. Speaker, the federal and provincial governments have made substantial progress in the consultative process. Greater understanding and stronger relationships between all groups in our society—labour, business and governments—is one of the keys to success in the 1980s. The Partnership for Prosperity Conference was convened in February, 1977, and the Premier's Advisory Committee on Ontario's Economic Future formed shortly after. As well, the federal Minister of Industry, Trade and Commerce has announced that he is forming joint committees of labour, business and governments, in which Ontario will play a full role, to study and make recommendations for various sectors of the economy. These are important initiatives.

Ontario must be prepared to meet the challenges of the 1980s, and to develop economic policies which will ensure the continued growth and prosperity of our key sectors, particularly agriculture, resources and manufacturing. We must also deal with the economic adjustments that will follow tariff changes. In these important tasks, the Government needs advice from all participants in the economic process.

Selective Measures to Stimulate the Economy

Mr. Speaker, I propose three selective and essential actions to:

- expand employment for Ontario's youth;
- improve the situation in the mining industry; and,
- stimulate the hospitality industry.

Jobs for Young People

The Government of Ontario has led the way in Canada in providing employment opportunities for our energetic young people. In 1977 we implemented a five point program which provided jobs and introductory training to the labour market for some 47,000 young people, at a cost of $65 million.

Of these Ontario initiatives, perhaps the most successful was the Ontario Youth Employment Program (OYEP) which paid $1 per hour towards the wages of young people aged 15-24. The response by Ontario businesses and farmers to this new employment incentive was overwhelming; more than 12,000 employers participated in the program, creating 21,500 new summer jobs. Ten thousand of these employers replied to the Premier, expressing their satisfaction with OYEP, and indicating strongly that they would like to see it operate again in 1978.

I propose to reintroduce the OYEP program in 1978 and expand it in two significant ways. The incentive grant will be increased to $1.25 per hour and the program will run for a full 25 weeks as compared to 16 weeks last summer. Furthermore, all employers who created jobs under the program last year will be eligible for the $1.25 subsidy on both their 1977 level of OYEP jobs plus new job creation. An initial funding level of $17.2 million has been provided in the 1978 Estimates with the expectation that OYEP–1978 will generate some 30,000 jobs for young Ontarians. If additional funding is required, it will be forthcoming.

The Government will also expand significantly in 1978 its other youth-oriented employment programs. Funding for the Ontario Career Action Program (OCAP) will rise 33 per cent to $9.3 million, allowing some 5,750 young people to gain the work experience which will help them to secure employment upon leaving school. The capacity of our Junior Ranger camps will be expanded to the maximum to provide places for an additional 300 applicants. And the Experience program will be enlarged by 2,100 jobs, to a total of 13,500 positions for young people seeking a rewarding summer in public service before resuming

Ontario Youth Employment Programs
($ million)

Program	1977-78 Funding	1977-78 Jobs	1978-79 Funding	1978-79 Jobs
Ontario Career Action (OCAP)	7.0	4,350	9.3	5,750
Youth Care for Senior Citizens	.4	158	.9	300
Experience '78	15.0	11,400	16.5	13,500
Ontario Youth Employment (OYEP)	10.0	21,500	17.2	30,000
Regular Summer Replacement	28.7	7,750	29.3	7,950
Junior Ranger	4.0	1,918	4.6	2,200
Junior Agriculturalist	.2	307	.4	450
Ontario-Quebec Exchange	.1	50	.1	50
	65.4	47,433	78.3	60,200

their studies. Altogether, Ontario's commitment to opportunities for youth will involve a total expenditure of $78 million for 1978, generating more than 60,000 jobs.

These Ontario actions will help to reduce the unacceptably high unemployment rate among our 15-24 age group. But more permanent measures are needed. No amalgam of public job creation programs, however well intentioned, can provide the challenges, the rewards and the career prospects which our young people deserve. That is why the Premier, at the recent Conference of First Ministers, urged the federal government to find ways of diverting UIC payments to youth into private sector incentives which create productive and lasting jobs to meet the legitimate expectations of these new adults in our society.

Incentives for the Mining Industry

Mr. Speaker, the mining industry has played an important and innovative role in the development of our economy in terms of growth, foreign exchange, support of secondary industry, and regional development. This sector is now in a serious slowdown. Many mining companies appear to be directing their new activities to third world countries, which are still largely unexplored and where more attractive incentives are available. I am disturbed that Ontario's mining exploration expenditures in the last five years have declined and very few new mines have been developed.

The First Ministers have agreed on the need for a joint federal-provincial review of the taxation of the resource industries by Finance and Resource Ministers. My colleague, the Minister of Natural Resources, and I will be participating in this important review. However, some interim action is essential, and I am therefore proposing the following amendments to The Mining Tax Act, effective March 7, 1978:

- an exemption for new mines and major expansions of existing mines;

- the carry-forward of unused processing allowance and the removal of mandatory minimum deductions of depreciation and exploration and development expenditures; and,
- full allowance of foreign processing costs incurred in the processing of Ontario ore.

These changes will encourage the search for and development of new mines in Ontario, and even out the burden of the mining tax over the metals cycle. As an additional incentive, I am also proposing to allow certain expenses related to social assets. To attract and retain employees, mining companies located in isolated regions of the province provide housing, social and recreational facilities. Operating and maintenance costs of social assets in Ontario will be allowed as a deductible expense after April 9, 1974.

I estimate these measures to assist the mining industry will cost $5 million in 1978-79. In years of stronger markets they will yield considerably greater tax savings to our vital resource industry. Equally important, these measures will provide a climate of certainty and confidence which is essential to high-risk investments. They will benefit small and medium-sized operations as well as the large integrated mining corporations. In the case of uranium for Ontario Hydro, these measures will apply only to new contracts.

Stimulating the Hospitality Industry

Travel costs and costs of accommodation in Canada have risen considerably over the last few years, even faster than the general cost of living. Travellers from the U.S. and abroad, as well as Canadians themselves, have been turning more and more to alternate destinations and, as a result, the nation's balance of trade in travel has deteriorated seriously. Ontario, as the principal Canadian destination of both Canadian and non-Canadian travellers, has, of course, felt this impact most directly.

To counteract these trends, I am proposing to suspend until the end of 1979 the full 7 per cent retail sales tax on all taxable accommodation. This change, effective for all guests checking in after midnight tonight, will also apply to the full price of hospitality services sold as a package deal under the American Plan, with the exception of charges for liquor. It will provide a total tax saving for travellers and tourists in Ontario of about $30 million in 1978-79. This tax saving, coupled with recent currency developments and the industry's own efforts to restrain costs, will result in significant reductions in average room costs. Here in Toronto, for example, the price of a room has already been effectively reduced by 15 per cent since November, 1976 for our American friends, and by as much as 40 per cent over the same period for visitors from Japan and Western Europe. This tax exemption will also lower the cost of charter arrangements for Canadian travel recently announced by the federal government.

The hospitality industry, as the second largest sector in the Ontario economy, can be expected to experience considerable benefits from these changes. The spillover effects in terms of employment growth, new construction and improvements to existing facilities should be substantial as visitors and Canadians alike experience the pleasures of an Ontario vacation. These beneficial effects will be realized most directly in the restaurant industry and retail trades.

I am confident the hospitality industry will respond with vigour and imagination to this new opportunity to establish Ontario as a prime international vacation centre.

Tax Incentive for Research and Development Jobs

An additional incentive to strengthen the economy, in the form of a 100 per cent tax credit for new jobs in industrial research, development and design, was proposed by the Premier in Ottawa. It would cost $100 million or more a year for the next five years in terms of tax revenues forgone, but would generate tangible benefits to our economy. It would build up our capacity for essential innovation, improve our productivity and export performance, and make Canada less dependent on foreign technology. It would also pay large dividends in terms of better jobs for talented young people, jobs which fully utilize the skills of our college and university graduates. This research and development tax incentive should be implemented on a national scale, with full participation of both the federal government and the provinces. I have already informed the Minister of Finance that Ontario wants to proceed along these lines immediately, and that we are willing to assist in the formulation of a powerful incentive program.

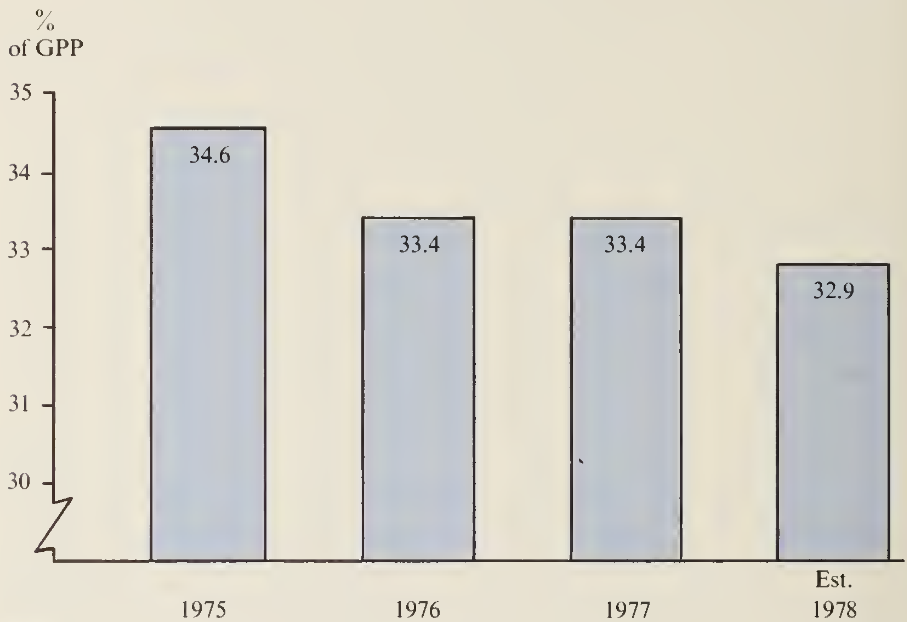
In passing, let me point out that the R & D program should be available to all corporations doing business in Canada, both large and small. We cannot afford to let concern about a "branch plant economy" limit the potential benefits which will flow to all Canadians. The program should also apply to a broad spectrum of research and development, including for example, a draughtsman in a tool and die shop or other project designers.

1978-79 Expenditure Plan

Mr. Speaker, you will recall that on September 16, 1977, I outlined the broad dimensions of the Government's 1978 spending plan. The key feature of that plan was a target of 6.9 per cent for our expenditure growth rate in the 1978-79 fiscal year. This Government has stuck to its target. The Chairman of Management Board will table Estimates which hold our spending growth for 1978-79 to 7 per cent.

This will be the fourth year in a row that Ontario has progressively reduced its spending growth rate. We have proven that government can reduce its claim on total resources. This message is finally beginning to sink in at Ottawa as well. Perhaps the most significant result of the First Ministers' Conference was the agreement to restrain government spending below the growth in the economy. That is one of the essential policies we have been advocating for building a stronger economy in the years ahead.* We are targeting for a balanced budget to make room in the economy for the private sector to grow and to flourish.

Government's Claim on the Economy in Ontario



Note: Combined federal, provincial and municipal spending, net of intergovernmental transfers.

The Government has made difficult decisions and has substantially reordered its priorities to hold our spending growth to 7 per cent. But I believe we can continue to maintain essential public services. Indeed, in a number of areas there are improvements in levels of service. Health care, for example, has been allocated additional funding of $276 million in 1978-79, or 29 per cent of the total spending increase of $952 million. This represents an increase of 8.1 per cent. To accommodate our priorities, and the unavoidable increases for such items as public debt interest and pension contributions, we have reduced our Government operating costs and our payroll budget to the minimum. Let me reiterate that at 7 per cent, unlike the Government of Canada, we are actively eating inflation. I have included for the information of Members a table which compares Ontario and federal spending performance since 1974-75.

*See Hon. W. Darcy McKeough, *1975 Ontario Budget* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1975) pp. 16-20.

Federal Versus Ontario Spending Growth Performance
(per cent)

Fiscal Year	Federal Government	Ontario Government
1974-75	28.3	24.7
1975-76	18.4	15.1
1976-77	10.2	10.1
1977-78	10.0*	9.1
1978-79	9.8	7.0

*Excludes reduction in expenditures due to termination of shared cost programs and substitution of tax points to provinces.

I have also included a table which illustrates how the Government rationed its limited funds among these competing expenditure claims. To those who would say to us the job can be done better, I would suggest that they lay the specifics before this Legislature so that the school boards, the municipalities, the public service unions and citizens' groups—each of which claims to deserve more—can respond.

1978-79 Expenditure Priorities
($ million)

	1977-78 Interim	1978-79 Estimate	Increase	
				(%)
Health Services	3,412	3,688	276	8.1
Social Services	747	794	47	6.3
Post-Secondary Education	1,029	1,095	66	6.4
Assistance to Local Government	3,792	4,039	247	6.5
Public Debt Interest	1,036	1,196	160	15.4
General Government Support	3,587	3,743	156	4.3
Total Expenditure	13,603	14,555	952	7.0

Assistance to Local Government

As Members are aware, the Province allocates some 30 per cent of its budget to support local government under a revenue-sharing formula known as the Edmonton Commitment. Last September 16, I announced Ontario's financial assistance to local governments would be $4,023 million for 1978-79, and provided a general outline of our transfers so municipalities could commence their 1978 budget planning. In our Estimates process, we have made some adjustments to the distribution of our transfers and raised the total, despite the fact that revenues have come in considerably below the forecast level upon which the Edmonton Commitment was based. Total financial assistance for 1978-79 is increased to $4,039 million.

For the information of Members, I have included a table which shows the Edmonton Commitment distribution of $4,023 million announced in September and compares it with the total of $4,039 million contained in the printed Estimates.

1978-79 Transfer Payments to Local Government
($ million)

	Sept. 16 Allocation	1978-79 ESTIMATES	Difference
Conditional Payments			
Education			
General Legislative Grants	1,970	1,970	—
Teachers' Superannuation	331	331	—
Transportation	513	513	—
Social Assistance	200	202	+2
Agriculture	56	61	+5
Housing	33	42	+9
Environment	36	35	−1
Culture and Recreation	24	23	−1
Other	49	56	+7
Sub-total	3,212	3,233	+21
Unconditional Payments	514	516	+2
Payments to Local Agencies			
Homes for the Aged	91	90	−1
Children's Aid Societies	85	84	−1
Health Agencies	70	65	−5
Conservation Authorities	29	29	—
Library Boards	22	22	—
Sub-total	297	290	−7
Total Financial Transfers	4,023	4,039	+16

I detect that some representatives and employees of some local governments are reluctant to share our commitment to expenditure restraint. They protest that I have redefined the Edmonton Commitment to cut back on provincial transfers. The facts prove otherwise. Over the five years this revenue-sharing arrangement has been in operation, that is from 1973-74 through 1977-78, the Province has delivered $13,581 million in actual transfers to local government, versus a cumulative entitlement under the original Edmonton Commitment formula of $13,583 million. That's a shortfall or underdelivery of only $2 million or $\frac{1}{50}$ of 1 per cent. I would be ecstatic if the Province came anywhere close to such a balance in its financial arrangements with the federal government.

I make no apology for reformulating the Edmonton Commitment for the future to include major elements of Provincial assistance which should have been in the formula right from the beginning. In particular,

Ontario's Delivery under the Original Edmonton Commitment
($ million)

	Base Year 1973-74	1974-75	1975-76	1976-77	1977-78	Cumulative 5 Years
Budgetary Revenue	6,844	8,177	9,010	10,514	11,325	
Revenue Growth Rate (%)	—	19.5	10.2	16.7	7.7	
Commitment Level	2,026	2,421	2,668	3,114	3,354	13,583
Actual Transfers	2,026	2,322	2,868	3,085	3,280	13,581
Actual Difference	nil	−99	+200	−29	−74	
Cumulative Balance	nil	−99	+101	+72	−2	

I added our Provincial payments to the Teachers' Superannuation Fund, which are just as valuable a form of financial assistance to school boards as are general legislative grants. On the revised and more realistic basis, the Province has been more than fair to local governments, overdelivering its commitment by some $444 million through the end of 1977-78.

Mr. Speaker, with declining school enrolments and with populations which may not be growing, I question whether or not school board and municipal spending needs to increase more than our own.

While on the topic of local government, I would like to discuss briefly several other important matters of longer term significance.

Property Tax Reform

First, let me clarify how the Government is proceeding with the complex matter of property tax reform. I have established a working committee of local elected representatives who are to report back by March 31, 1978. They are to make recommendations on the fundamental issues of implementation of market value assessment and the tax principles set out in the January 4 White Paper. After we have agreement on an acceptable way to implement market value assessment and property tax reform, then the Province will proceed to the complementary matters of grant reform and a revised revenue-sharing arrangement with local government.

The overall tax burden on residences will not increase due to reform and there will be a phasing-in process, particularly for single family dwellings. I have cautioned the Committee, however, not to look for an easy way out by loading more of the burden onto industry. Ontario's tax system must remain competitive, not just at the provincial level but at the local level as well. I am aware that some American jurisdictions are using the local tax base as assistance for industry. However, I do not think that what is in effect a municipal giveaway would be appropriate in Ontario.

Second, I expect to act on the findings of five important studies on reform of local government structure—Metropolitan Toronto, Regional Niagara, Regional Ottawa-Carleton, the County of Northumberland and the District of Parry Sound. These studies represent an important contribution to the task of making local government more responsive and efficient.

Provincial-Municipal Reciprocal Taxation

Third, I would like to indicate my intention to pursue the matter of reciprocal taxation. As Members know, Ontario entered into a reciprocal tax agreement with the federal government as of October 1, 1977; it is working well. Under this arrangement, governments pay taxes to each other on those purchases and other activities which are taxable in the private sector. This minimizes special exemptions and greatly simplifies tax administration. Under property tax reform the Province will be paying full local taxes on its properties, hence it is logical for local governments to pay Provincial taxes, that is sales tax, fuel taxes and licence fees. In the long run this will streamline the overall tax structure in Ontario and simplify our statutes.

Reducing Property Taxes for Senior Citizens

Mr. Speaker, let me turn to another aspect of our commitment to reform of the property tax. At the recent First Ministers' Conference, Prime Minister Trudeau singled out Ontario's tax credit system for high praise. Let me share with you this quote from Mr. Trudeau's speech on February 13th.

> "Many of you, in your own jurisdiction, have been equally creative. Premier Davis your Government in Ontario has introduced a refundable tax credit system to provide relief from property and sales tax for low and middle income taxpayers. Perhaps this is a model that should be pursued on a broader scale."

Budget Paper B, appended to this Statement, explains in detail how our tax credits work to relieve property tax burdens in the most equitable and efficient way. We propose to build on this proven system to meet our commitment in a "Charter for Ontario", which promises this Government will:

> "reduce the municipal tax burden on senior citizens, and work toward the ultimate elimination of this particular tax for the majority of Ontario's senior citizens."

In conjunction with the implementation of property tax reform, the basic tax credit to senior citizens will be enriched from $290 to $510, thereby offsetting in total more than 80 per cent of their property tax burden.

Measures to Raise Revenues

Within the economic and financial objectives the Government has set for this year, I have decided that it is necessary to raise additional revenues. Having examined various alternatives, I am proposing a balanced and equitable package of tax actions to raise an additional $374 million. These actions will not detract from the economic recovery nor will they impair Ontario's competitive position.

OHIP Premiums

The control of health costs continues to be a high priority of this Government. Expenditures on insured health services increased 14.5 per cent in 1976-77 and 9.2 per cent in 1977-78. For 1978, we expect an even better performance. Nevertheless, the financing of health costs continues to be unbalanced, with the share covered by OHIP premiums steadily declining. Premiums retain a visible link with the cost of services. Consequently, I am proposing to increase OHIP premiums to restore the balance in financing.

We have considered other alternatives and rejected them. My colleague in Health, and my former colleague in Health, the Minister of Natural Resources, have both worked hard to control costs. They have argued eloquently against deterrent fees, quite rightly pointing out that such a policy would deny access to our high quality health care system for those least able to pay.

Effective May 1, 1978, OHIP premiums will increase by $6 per month for single subscribers and $12 per month for families. That will produce new premium levels of $22 per month and $44 per month for single persons and families respectively. At the same time, our system of premium assistance will be enriched to ensure that this increase does not impact on low and modest income families.

I would also point out to Members that while the OHIP increase will raise payroll costs to employers, our Ontario companies will still enjoy a considerable advantage on this score over their U.S. counterparts. Even with the higher premiums, the effective rate of payroll taxation in Ontario is below that in the U.S., and this differential in our favour will widen when the American Social Security financing amendments take effect in 1978 and subsequent years.

This necessary adjustment to OHIP premiums will generate an additional $271 million. As a result, premiums in 1978-79 will again cover one-third of the costs of insured health services, which approximates the long-run norm recently recommended by the Joint Advisory Committee on Methods to Control Health Costs.

Full details of these OHIP changes are provided in Appendix C to this Statement.

Alcohol and Tobacco Taxes

I also propose to raise additional revenue from alcohol and tobacco.

Effective April 1, 1978 the gallonage fee on beer will be increased by 7 cents per gallon, and the mark-ups on spirits, wines and imported beer will also be raised. The mark-up increases will be slightly smaller on imports, as we begin to neutralize over the longer term what has been, in effect, an Ontario tariff. These increases will generate about $40 million in additional revenues in 1978-79.

As of midnight this day, the tax on cigarettes will be increased 2.8 cents to a total of 22 cents per package of 20, and the tax on cigars and pipe tobacco will also be raised. I estimate that these new rates will produce $30 million in additional revenue. Following the practice of past years, full details of these changes are set out in the Tax Appendix to this Statement.

I am also proposing to increase the compensation paid to appointed tobacco tax collectors, from the present maximum level of $700 to $1,000 per annum, effective April 1, 1978. While on the subject of compensation, I would point out to Members that the level of compensation paid to motor vehicle agents has not been changed since 1972. As an incentive to encourage motor vehicle agents to tighten up their appraisal of used cars and generate higher tax collections, I am now proposing increases in compensation, effective April 1, 1978.

I am proposing two further measures to raise revenues. First, effective March 8, 1978, the retail sales tax exemption for railway rolling stock will be withdrawn, and the 7 per cent tax will be applied on the basis of miles travelled in Ontario. Similar tax treatment is now in effect in Quebec, Manitoba, Saskatchewan and British Columbia, and these provinces—unlike Ontario—also levy a tax on the diesel fuel used in locomotives. Second, the capital tax levied on loan and trust companies will be changed to parallel the treatment of banks, effective for fiscal years ending after March 7, 1978.

I estimate that these two changes will increase our revenues by $18 million.

Structural Changes

Let me turn now to measures relating to our tax structure and collection procedures.

The federal changes to the Income Tax Act, as implemented by Bill C-11, will be paralleled in most instances in our corporate income tax. Our schedule of instalment payments under The Corporations Tax Act will also be changed to match the federal schedule. This will simplify the work of business accountants and also result in a one-time cash flow adjustment of $70 million in favour of the Province.

I would like to inform Members that some Ontario-based insurance companies have been forced to pay retaliatory taxes in the United States as a result of the 1976 increase in our premiums tax from 2 per cent to 3 per cent.This has put them at a competitive disadvantage in selling life insurance and sickness and accident insurance in the United States. In view of these developments, I propose to move Ontario's premiums tax back to 2 per cent on life insurance and sickness and accident insurance, effective March 8, 1978. Moreover, I have requested that the federal government, in its negotiations of the Canada-U.S. tax treaty, seek an exemption for the provinces from these retaliatory tax provisions.

Ontario will also parallel the federal changes to the income taxation of insurance companies. These two measures will cost a net of $5 million in 1978-79.

Tax Removed on Storm Windows and Doors

The Ontario economy is steadily adapting itself towards energy conservation. To assist in this process, I propose to remove the retail sales tax from storm windows and storm doors, effective March 8, 1978. This measure will cost $15 million in 1978-79 and bring the Government's total package of energy conservation exemptions to $25 million per annum.

Personal Income Tax

Mr. Speaker, I am pleased to announce that Ontario's personal income tax rate for 1978 will remain at 44 per cent—the second lowest among the ten provinces. I would also like to inform the Members that Ontario intends to seek amendments to its Tax Collection Agreement with the federal government—amendments which will ensure direct provincial participation in the preparation of annual income tax estimates and payment flows, and guarantee our access to the necessary tax data.

Let me summarize the tax changes I have outlined. The tax increases I have proposed amount to $359 million in total, plus $70 million in cash flow from acceleration of corporation instalment payments. The tax cuts for mining, tourism, insurance and energy conservation amount to $55 million. Altogether, therefore, these tax actions will contribute $374 million towards Ontario's financial requirements for the 1978 fiscal year, and bring us back on course towards a balanced budget.

Revenue Impact of Tax Changes
($ million)

Tax Increases	
OHIP Premiums	271
Tobacco	30
Alcohol	40
Capital Tax	3
Retail Sales Tax	15
	+359
Cash Flow Adjustments	+70
Tax Cuts	
Tourism	30
Mining	5
Insurance	5
Storm Windows	15
	−55
NET REVENUE EFFECT	+374

Streamlining Government Operations

This Government's success in trimming the public sector provides the opportunity to develop complementary borrowing and investment strategies. Accordingly, in this Budget, I am introducing a number of significant changes in the Province's long-run financial planning. These changes are explained in detail in Budget Paper C and in Budget Paper A. Consequently, I shall deal only with the main features in this Statement.

- The Province will reduce its borrowing from the Ontario Municipal Employees Retirement System (in the form of non-marketable debentures) to $100 million in 1978-79, and to zero in following years. That will leave OMERS free to invest its entire surplus in marketable securities in the private sector and in other marketable securities. I understand that OMERS will redeploy a substantial part of this additional capital into Ontario Hydro bonds.
- The direct lending activities of the Ontario Mortgage Corporation will be phased out as current commitments are completed. The Province will commence immediately to sell back to private sector institutions the large mortgage portfolio that OMC has acquired.
- Beginning in the 1978 fiscal year, the Province will switch its capital assistance to universities, school boards, hospitals and sewer and water projects from amortized loans to up-front grants.
- The Minister of Industry and Tourism will re-examine the role of the Ontario Development Corporations as direct lending agencies and explore with the private sector alternative financing mechanisms such as loan guarantees.

Mr. Speaker, these changes are of fundamental significance. In particular, the redeployment of internal pension funds into private sector investments is an important achievement. This is directly attributable to this Government's success in reducing both our spending and our reliance on deficit financing.

The financing of Canada's economic growth is itself a major challenge which we have to face. The trimming of government deficits is a necessary contribution to stable credit markets. In Ontario, we have not borrowed in the public market on our own account for the past two years. We are not just concerned about the impact of government borrowing and of regulatory policies but also about the overall flows of funds in the economy. Consequently, my Ministry will be expanding its analytical work in this area to provide fuller information to the Government on the availability and cost of credit.

Conclusion

The balanced package of tax proposals I have put before you, along with our restrained spending plan, will keep Ontario's finances in sound shape. The revenue shortfall we experienced in 1977-78 represents only a temporary setback to our goal of a balanced budget. For the 1978 fiscal year, I am estimating our overall cash requirements will decline to $1,055 million, which is within $200 million of the target set in last year's Budget.

This prudent fiscal plan means that, once again Mr. Speaker, Ontario will not need to borrow in the public capital markets. Our non-public sources of funds will be more than sufficient to finance our cash requirements.

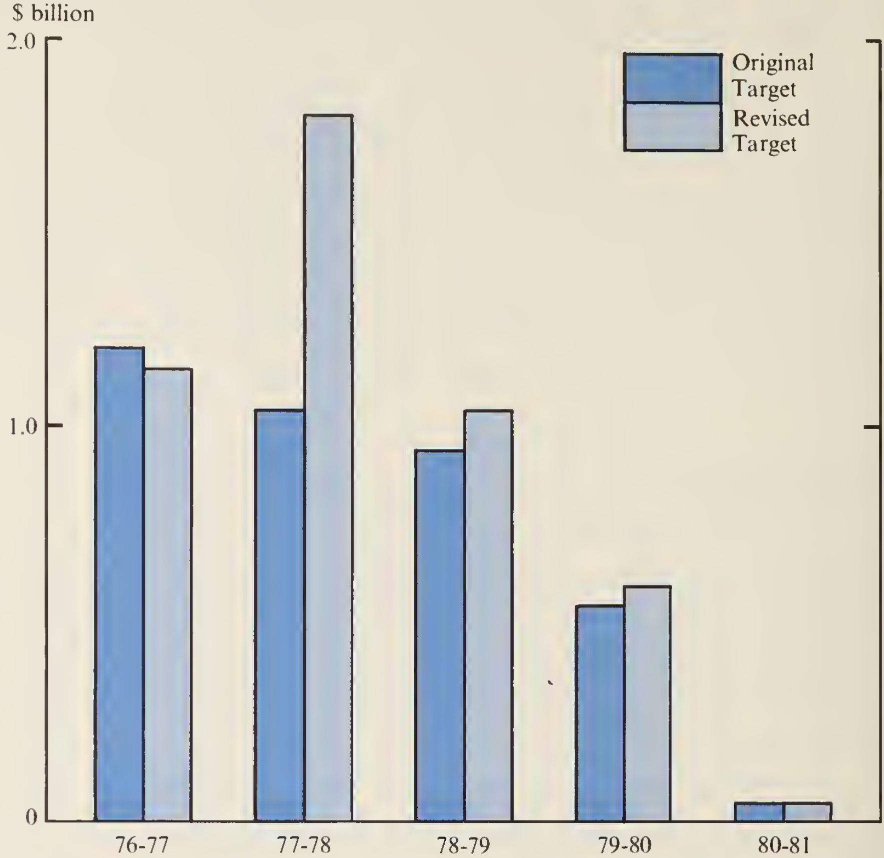
Ontario's 1978-79 Fiscal Plan
($ million)

		Estimated 1978-79	
	Interim 1977-78	Before Tax Actions	After Tax Actions
Revenue	11,987	13,001	13,500*
Spending	13,603	14,555	14,555
Net Cash Requirements	1,616	1,554	1,055

*Includes $125 million receipts from sale of OMC mortgages.

Mr. Speaker, Ontario's economic outlook is encouraging. However, an early federal budget is important. I would expect that the federal Minister of Finance will introduce measures flowing directly from the First Ministers' communiqué. Ontario stands ready to respond to important federal initiatives.

Progress Towards a Balanced Budget



Avant de terminer, je tiens à dire aux membres de cette Assemblée que le présent discours marque un moment important dans l'histoire de l'Ontario. Pour la première fois au cours des 111 années que compte maintenant la Confédération, le budget de l'Ontario est publié dans les deux langues officielles du Canada. Monsieur le Président, je suis fier de remettre des exemplaires du budget en langue française au Premier ministre Davis, aux chefs des partis d'opposition et à mon collègue, le député de Cochrane Nord.

In conclusion, this equitable and constructive Budget attests to the sound management and prudent financing policies of this Government. It reaffirms our commitment to balance the budget and to promote a healthy economy.

- It builds upon our achievements at the First Ministers' Conference.
- It expands significantly Ontario's job programs for young people.
- It cuts taxes to help tourism and the hospitality industry.
- It introduces new long-term tax incentives for expansion of the mining industry.

- It restrains spending yet meets the social and public needs of our people.
- And it prepares for the challenges of the 1980s.

With our faith in private enterprise and our control of the public sector, I believe our citizens can be confident of the future.

The Ontario Economy, 1976-78

	1976	1977	1978	76/75	77/76	78/77
		($ billion)			(per cent)	
Total Output						
Gross Provincial Product	77.3	84.5	94.2	15.5	9.3	11.4
GPP (constant 1971 dollars)	48.2	49.5	51.6	5.4	2.7	4.3
Investment						
Machinery and Equipment	5.6	6.1	6.5	2.4	9.0	6.6
Non-Residential Construction	5.0	5.1	5.4	0.5	2.3	7.2
Residential Construction	3.2	3.4	3.6	24.9	7.3	5.0
Housing Starts—Units (000)	84.7	79.1	80.0	5.9	−6.6	1.1
Other Components of Demand						
Retail Sales	20.9	22.6	24.8	9.6	8.4	9.5
Exports	22.0	25.5	28.5	13.0	16.0	11.5
Imports	17.0	19.1	21.2	10.4	12.8	11.0
Income						
Personal Income	61.4	69.1	76.0	13.7	12.6	10.0
Corporate Profits (before taxes)	8.4	9.0	10.3	−5.2	8.0	14.2
Prices						
Economy-Wide Prices (GNE Deflator)	—	—	—	9.5	6.4	6.9
Consumer Price Index (CPI)	—	—	—	7.5	8.0	7.9
Jobs						
Labour Force (000)	3,931	4,044	4,143	1.9	2.9	2.4
Employment (000)	3,689	3,762	3,863	2.1	2.0	2.7
Unemployment (% of labour force)	6.2	7.0	6.8	—	—	—

Source: Ontario Treasury.

Other Forecasts for Ontario, 1978
(per cent)

	Real Growth	Unemployment	Inflation (Deflator)
Conference Board in Canada	5.1	7.0	7.2
Royal Bank of Canada	3.6	7.5	7.0
Canadian Federation of Independent Business	3.2	7.2	6.8
Toronto-Dominion Bank	4.5	6.9	6.8

Appendix A

Details of Tax Changes

The purpose of this appendix is to provide a more detailed description of tax changes outlined in the Budget Statement. This is a concise summary only, and the reader is advised to consult the statutes for exact information.

The Corporations Tax Act

Taxation of Insurance Companies

Income Tax

- The changes in the tax treatment of insurance companies under Part I of the *Income Tax Act (Canada)* contained in the federal Bill C-11 will be automatically paralleled by Ontario in *The Corporations Tax Act.*
- The effective date of these changes will be the same as that used for federal purposes.

Insurance Premiums Tax

- The insurance premiums tax rate will be reduced to 2 per cent on accident, sickness, and all life insurance premiums, including both term and whole life policies. This change takes effect on March 8, 1978. For the 1978 taxation year, the premiums will be prorated and the new tax rate applied on the basis of the number of days subsequent to March 7, 1978.
- The current 3 per cent rate will continue to apply to premiums in respect of all other types of insurance. The additional tax of $\frac{1}{2}$ of 1 per cent on property insurance premiums will also continue to apply.

Paid-up Capital Tax on Loan and Trust Corporations

- The paid-up capital tax for corporations registered to carry on business in Ontario under *The Loan and Trust Corporations Act* will be calculated in the same manner as banks.
- The taxable paid-up capital for these corporations will be restricted to the following:
  —paid-up capital stock;
  —all reserves not allowed for income tax purposes; and,
  —earned surplus, capital and any other surplus.

- No deductions will be allowed in calculating taxable paid-up capital.
- The paid-up capital tax rate for these corporations will be increased from $\frac{3}{10}$ of 1 per cent to $\frac{3}{5}$ of 1 per cent.
- These changes apply with respect to the fiscal years of corporations ending after March 7, 1978. For fiscal years that include March 7, 1978, the change in capital tax that results from these amendments will be prorated on the basis of the number of days that is subsequent to March 7, 1978.

Tax Treatment of Government Assistance Programs

- The tax treatment of government assistance programs, such as grants, subsidies, forgiveable loans and tax credits, under the *Income Tax Act (Canada)*, will be paralleled in *The Corporations Tax Act* as follows:
  —The cost of depreciable assets will be reduced by the amount of such assistance for the purpose of capital cost allowance claims.
  —Where the assistance is related to a deductible expense, the value of the deduction will be reduced by the amount of the assistance.
- This change will take effect with respect to property acquired, and for expenses incurred, after March 7, 1978.

Capital Cost Allowance on Multiple-unit Rental Housing

The provision allowing capital cost allowance on new multiple-unit residential rental buildings which may be claimed against any source of income will be extended for one year to include construction commenced prior to 1979.

Fast Write-off for Pollution Control Equipment

The fast write-off for pollution control equipment will be extended for one year to include equipment acquired before 1980.

Corporate Tax Instalment Payments

The present treatment requiring the payment of taxes in 6 bimonthly instalments due on the 15th day of the month will be changed to parallel the treatment under the *Income Tax Act (Canada)*. Corporations will now be required to pay taxes to Ontario in 12 monthly instalments due on the last day of each month.

This change will be effective for corporations with fiscal years commencing on or after July 1, 1978.

All enquiries regarding corporations tax changes should be directed to:

Corporations Tax Branch
Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto M7A 1Y1
(416) 965-4040

The Mining Tax Act

Exemptions for New Mines and Major Expansions of Existing Mines

- Qualifying assets related to a new mine or to a major expansion of an existing mine may be written off at a 100 per cent rate against the profits derived from these operations. This accelerated depreciation will effectively exempt profits derived from a new mine, or a major expansion of an existing mine, in Ontario from the mining tax until the additional capital investment related to these operations is recovered by the operator.

- A mine project will be deemed to be a new mine or a major expansion of an existing mine if, in the opinion of the Minister, it falls within any of the following categories:
  1. A new mine project separate and distinct geologically and having no common workings with another mine in operation during the immediately preceding five years.
  2. A mine project involving an investment at an existing mining operation that is designed to increase the rate of ore production from the mining operation by at least 30 per cent over the highest annual production during the immediately preceding five taxation years for each expanded mine.
  3. A mine inactive on March 7, 1978 that is reopened, or that, if closed down after that date, remains closed down for a continuous period of five years before reopening.
  4. Any other major mining project designated by the Lieutenant Governor in Council as a new mine or a major expansion of an existing mine.

- All eligible mining projects will be subject to: designation by the Minister on qualification; audit of work in process; and, certain requirements as to timing.

- This change will apply to designated mining projects qualifying for the first time after March 7, 1978 as new mines or major expansions of existing mines under the above criteria. Mining assets acquired for the purposes of these projects after March 7, 1978 and before the project is completed will be eligible for the accelerated depreciation. New and used assets qualify only if purchased at arm's length.

Carry-forward of Processing Allowance

- There may be deducted under *The Mining Tax Act* any unused balance of processing allowances accumulated during the three years immediately preceding the taxation year, provided the current processing allowance is first deducted.
- In any taxation year, the combined current and carried-forward processing allowance claimed cannot exceed 65 per cent of combined mining and processing profits.
- This change will apply with respect to fiscal years of companies ending after March 7, 1978.

Removal of the Mandatory Minimum Deductions for Depreciation and Exploration and Development Expenses

- The present 15 per cent minimum deduction for exploration and development expenses and the 5 per cent minimum deduction for depreciation of mining and processing assets under *The Mining Tax Act* and regulations will be removed.
- This change will apply with respect to fiscal years of companies ending after March 7, 1978.

Tax Treatment of Social Assets

The tax treatment under *The Mining Tax Act* of assets acquired by mining companies to attract or retain employees will be changed as follows:

- Operating and maintenance costs of social assets in Ontario will be allowed as a deductible expense in computing profits subject to the mining tax.
- Such assets must be essential to attract or retain employees and must be available to all those employed by the company.
- Only the company's net share of direct costs will be allowed after deducting any revenue from rents, fees, or government grants.
- Depreciation on all social assets for mining and processing operations will continue to be disallowed.

This change applies with respect to expenses incurred after April 9, 1974.

Allowance of Processing Costs Outside of Canada

- Processing costs incurred outside of Canada will be allowed as a deductible expense in computing the profits subject to the mining tax, provided that the costs are specifically attributable to the processing of the output of Ontario mines.
- This change applies with respect to expenses incurred after March 7, 1978.

Exclusion of Certain Uranium Projects

- Projects undertaken pursuant to contracts with Ontario Hydro signed or approved prior to March 8, 1978, will be excluded from all of the above mining tax changes. However, the incentives will apply to all other uranium production.

All enquiries regarding mining tax changes should be directed to:

Taxation and Fiscal Policy Branch
Ministry of Treasury, Economics and
Intergovernmental Affairs
Parliament Buildings
Queen's Park
Toronto M7A 1Z2
(416) 965-6869

The Retail Sales Tax Act

Temporary Exemption for Taxable Accommodation

The 7 per cent tax on taxable accommodation (including hotels, motels, etc.) will be withdrawn for the period ending December 31, 1979.

The tax on American Plan accommodation will be suspended during this period.

Effective: March 8, 1978.

Exemption for Energy Conservation Materials and Equipment

The exemption for energy conservation materials and equipment under the Act will be expanded to include:

- storm doors and storm windows;
- double glazed windows and double glazed patio doors; and,
- window units sold complete with storm units and patio doors

with double track door systems, provided they incorporate the glazed insulating feature.

Effective: March 8, 1978.

Taxation of Railway Rolling Stock and Parts

All acquisitions of railway rolling stock and parts, for use within Ontario, will be subject to tax at a rate of 7 per cent.

- The tax payable on railway rolling stock and parts used inter-jurisdictionally will be determined by applying a formula for the apportionment of use in Ontario to total acquisition value.
- The tax payable on railway rolling stock and parts used exclusively in Ontario will be calculated on the full acquisition value.

Effective: March 8, 1978.

Compensation to Motor Vehicle Agents

Compensation will be increased to motor vehicle agents for the collection of retail sales tax on private sales of used vehicles, and for the processing of retail sales tax exemption declaration forms. The new rates of compensation will be as follows:

- $1.00 for each retail sales tax receipt issued, or 1 per cent of total tax remitted (calculated on a monthly basis), whichever is the greater;
- 30¢ for each retail sales tax exemption declaration form processed; and,
- 30¢ for each settler's effects exemption declaration form processed.

Agents may continue to retain the flat fee per sales tax receipt issued on an ongoing basis. Should the monthly compensation, when calculated on the basis of 1 per cent of taxes remitted, exceed the amounts retained, supplementary compensation will be provided.

Effective: for receipts issued and forms processed on or after April 1, 1978.

Full details of these retail sales tax changes will be provided by the Ministry of Revenue. All enquiries should be directed to:

Retail Sales Tax Branch
Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto M7A 1X9
(416) 965-5772
or
the nearest Retail Sales Tax District Office.

The Tobacco Tax Act

Tax Rate Changes

- The tax on *cigarettes* will be increased from 19.2¢ per package of 20 to 22¢ per package of 20. Other package sizes will be subject to proportional increases.
- The new tax rates applicable to the retail price of *cigars* will be:
  - 2¢ if purchased at a retail price of not more than 7¢;
  - 5¢ if purchased at a retail price of more than 7¢ but not more than 10¢;
  - 7¢ if purchased at a retail price of more than 10¢ but not more than 15¢;
  - an additional 2¢ for every 5¢ or part thereof that the retail price exceeds 15¢, with a maximum of 39¢ tax per cigar.
- The tax rate on *cut tobacco* will be increased from thirty-five one-hundredths of a cent to $\frac{4}{10}$ of a cent for each gram of tobacco.

Effective: March 8, 1978.

Inventories

Wholesalers will be required to declare their cigarette, cigar and tobacco inventories as of midnight March 7, 1978, and to remit tax on such inventories as directed by the Ministry of Revenue.

Compensation to Tobacco Tax Collectors

The amount of compensation paid to each tobacco dealer who is an appointed tax collector will be 4 per cent of tax collected, with a maximum of $1,000 per annum. The minimum compensation of $3.00 per return is maintained.

Effective: for taxes collected on or after April 1, 1978.

All enquiries regarding tobacco tax matters should be directed to:

Gasoline Tax Branch
Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto M7A 1Y3
(416) 965-2587

Increased Revenue from Alcoholic Beverages

The gallonage fee on beer will be increased by 7¢ per gallon to a total of 53.5¢ per gallon. This will be reflected by a 15¢ increase in the retail selling price of a case of 24 bottles of beer.

Mark-ups will be increased on spirits, wines and imported beers, resulting in retail price increases (including sales tax) of approximately:

- 25¢ per 25-ounce bottle of Canadian spirits;
- 15¢ per 25-ounce bottle of imported spirits;
- 15¢ per 26-ounce bottle of Canadian wine;
- 10¢ per 26-ounce bottle of imported wine; and,
- 5¢ per 12-ounce bottle of imported beer.

Proportional increases will be applied to other container and package sizes.

Actual price changes for individual products will be announced by the Liquor Control Board of Ontario.

Effective: April 1, 1978.

All enquiries regarding spirits, wine and beer price increases should be directed to:

Liquor Control Board of Ontario
55 Lakeshore Boulevard East
Toronto M5E 1A4
(416) 965-4935

Appendix B

Ontario Youth Employment Program, 1978

The Ontario Youth Employment Program will be reintroduced in 1978 with two major enrichments:

1. The length of the Program will be extended from 16 weeks to 25 weeks starting May 1 and running to October 21.
2. The amount of the grant will be increased from $1 per hour to $1.25 per hour.

How the Program Works:

- A $1.25 per hour grant will be provided to eligible employers who create jobs for Ontario youth which would not otherwise have existed.
- Employers may receive grants for up to 6 positions and for a maximum of 40 hours per week worked by each youth.
- Each job must provide a minimum of 25 hours of work per week for a minimum of 6 weeks.
- Jobs created by reason of the Program in 1977 will be eligible for the $1.25 grant together with new positions created this year.

Eligible Employers:

- Employers must have been engaged in business or farming in Ontario for at least one year prior to May 1, 1978.
- Employers who are receiving or who have applied for other financial assistance in respect of the jobs created under this program will not be funded under OYEP.

Eligible Youth:

- Young people must reside in Ontario and be at least 15 years of age but have not yet attained 25 years of age on or before May 1, 1978. Young people who turn 15 after May 1, 1978 are not eligible.
- Grants will *not* be provided for youths who are related to the employer.

Procedure:

- Employers must apply for and receive approval prior to hiring the youth.
- This program is subject to audit by the Ontario Government.

To obtain further information on this program and to request application forms:

write: Ministry of Treasury, Economics and
Intergovernmental Affairs
Subsidies Branch
Queen's Park
Toronto M7A 2R8

or phone: in Metro Toronto 965-0570
outside Metro 1-800-268-7192 (toll free)

Appendix C

The Ontario Health Insurance Plan

Details of Premium Increase

- OHIP premiums will be increased from the current single and family certificate rates of $16 and $32 per month, to $22 and $44 per month respectively.

Effective: for premiums paid in respect of coverage beginning August 1, 1978.

- All pensioners, social assistance recipients and others currently receiving free OHIP coverage will continue to receive free coverage when the higher premiums come into effect.

- For 1978-79, premium assistance will be broadened as follows:
  (a) *Free Coverage*
  —single persons having taxable incomes of $2,500 or less;
  —families having taxable incomes of $3,000 or less.
  (b) *Half Rates*
  —single persons having taxable incomes between $2,500 and $3,000;
  —families having taxable incomes between $3,000 and $4,000.

Eligible persons must apply to the Ontario Health Insurance Plan (OHIP) to receive these subsidized premium rates.

Further enquiries regarding the Ontario Health Insurance Plan should be directed to:

Ontario Health Insurance Plan
P.O. Box 1744
Station R
Toronto M4G 2T3
(416) 482-1111

Impact of Premium Increase

Budget Paper B in the *Ontario Budget 1976* provided details of the financing problem facing the Province in the area of spending on insured health services and emphasized the need to revise OHIP premiums periodically to maintain an appropriate balance in financing. The following tables summarize the impact of the premium increase to $22/44 proposed for 1978-79.

Table 1 shows that the new premium levels will raise $1,120 million in revenue for 1978-79. Premiums will cover 34 per cent of expenditures, as opposed to under 26 per cent had the old rates been maintained.

Table 2 shows that almost three-quarters of the increase will be paid for by employers, a reflection of the fact that employer subsidization of OHIP is a common fringe benefit in Ontario. Employer-paid OHIP is deductible for corporation income tax purposes and taxable under the personal income tax. Table 3 shows that when these effects are incorporated, the burden of OHIP premiums, and of the increase, is more equally shared between individuals and corporations. Table 4 illustrates the generous subsidy arrangements in effect for 1978, which will cost $415 million in revenue foregone while delivering tax relief to almost 1.9 million Ontarians. Finally, Table 5 shows that employers in Ontario face an effective payroll tax of 3.2 per cent in 1978, which leaves them more than competitive with their American counterparts.

Financing Insured Health Expenditures, 1978-79 — Table 1

($ million)

	Premiums at $16/$32	Premiums at $22/$44
Premiums	849	1,120
Other Revenues	2,438	2,167
Total	3,287	3,287
Premiums as a per cent of Total	25.8	34.1

Sources of OHIP Revenue, 1978-79 — Table 2

($ million)

	Premiums at $22/$44	Increase
Pay Directs	212	54
Employees	109	26
Employers	799	191

Net OHIP Burdens, 1978-79 — Table 3

($ million)

	Premiums		Tax Effects		Net Burden	Increase
Individuals	321	+	264	=	585	143
Corporations	799	–	288	=	511	122
Government Revenues[1]	—		24	=	24	6
					1,120	271

[1]Because losses due to corporate income tax deductibility exceed increases in personal income tax revenues, government implicitly finances part of OHIP—i.e. at $22/$44, other tax revenue of the federal and Provincial governments is $24 million lower than it would have been were there no premiums.

Extent of Premium Assistance, 1978-79 — Table 4

	No. of People (000s)	Value ($ million)
Free Premiums		
Pensioners	800	210
Welfare Recipients	400	80
Low-Income Individuals and Families	620	120
Half Premiums		
Low-Income Individuals and Families	60	5
Total	1,880	415

Net Payroll Tax Burden on Ontario Employers, 1978 — Table 5

($ million)

ONTARIO		UNITED STATES	
Payroll Taxes:		Payroll Taxes:	
UIC	675	OASDHI & UIC	65,000
CPP	500		
Workmen's Comp.	525		
OHIP Premiums	800[1]		
Total	2,500	Total	65,000
Less:		Less:	
Corporate Income Tax Offset	−900	Corporate Income Tax Offset	−25,000
Net Payroll Taxes	1,600	Net Payroll Taxes	40,000
Wages and Salaries	50,000	Wages and Salaries	1,100,000
Effective Rate of Payroll Taxation	3.2%	Effective Rate of Payroll Taxation	3.6%

[1]Assuming the new premium levels applied throughout 1978.

Budget Papers

Presented for the information of
the Legislative Assembly of Ontario
by the Honourable W. Darcy McKeough,
Treasurer of Ontario and
Minister of Economics and
Intergovernmental Affairs, March 7, 1978

Budget Paper A

Ontario's Borrowing and Public Capital Creation

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Ontario's Borrowing and Public Capital Creation

Introduction

The 1977 Ontario Budget introduced the planning target of a balanced budget by 1981. This policy is based on the recognition that rapid growth of the public sector in Canada has hindered growth of the private sector. By reducing its net cash requirements to a long run norm of zero, the Province of Ontario will reduce its claim on total resources and help to restore a more appropriate balance in the total economy.

An important consequence of balancing the Provincial budget is the impact on Ontario's debt and financing policies. When net cash requirements are basically eliminated, except for the financing of temporary fiscal actions during periods of economic slowdown, the Province will no longer need to borrow for its own purposes. At the same time, however, it will still receive an inflow of funds from non-public sources (internal pension funds) and therefore must devise mechanisms for recycling these funds into investments by Ontario Hydro and/or the private sector.

This Budget Paper examines Ontario's borrowing record over the past twelve years and relates it to the growth in the Provincial budget and in the economy. It focuses on non-public borrowing, since this is the predominant component of Ontario's debt financing. It shows how these flows of internal funds have steadily grown since the mid-sixties and how they have been deployed by Ontario to build up its modern stock of public capital. The Paper also points to the diminishing need for such public capital formation in the future, hence the potential to free up these funds for other forms of investment. As this reallocation proceeds, the Government of Ontario will be fundamentally redefining its role in the capital markets and in the economy generally.

I Ontario's Borrowing Record

Sound public finance suggests that government should finance its operating expenditures from current taxation and its capital expenditures from debt issues. Because capital investments are generally long-lived assets, they benefit future generations as well as current taxpayers; long-term debt financing of capital expenditures ensures that the future work force shares in the costs as well as the benefits. Ontario's borrowing record over the past twelve years exemplifies this prudent financing philosophy.

Table 1

Ontario's Borrowing Record

($ million)

	66/67	67/68	68/69	69/70	70/71	71/72	72/73	73/74	74/75	75/76	76/77	77/78	12-Year Total
Net Non-Public Borrowing[1]	427	482	525	569	613	747	776	938	1,156	1,230	1,322	1,558	10,343
Net Public Borrowing[1,2]	(57)	8	51	(61)	(51)	285	252	(228)	(305)	743	(230)	(66)	341
Total Net Borrowing	370	490	576	508	562	1,032	1,028	710	851	1,973	1,092	1,492	10,684
Total Provincial Spending[3]	2,820	3,462	4,107	4,792	5,795	6,636	7,038	7,885	9,832	11,319	12,467	13,606	89,759
GPP[4] ($ billion)	24.5	26.3	29.2	32.6	35.3	38.5	43.5	50.4	60.5	66.9	77.3	85.0	570.0
													12-Year Average
Total Borrowing as a per cent of:													
Total Provincial Spending[3]	13.1	14.1	14.0	10.6	9.7	15.6	14.6	9.0	8.7	17.4	8.8	11.0	12.2
Gross Provincial Product[4]	1.5	1.9	2.0	1.6	1.6	2.7	2.4	1.4	1.4	2.9	1.4	1.8	1.9

[1]Figures may vary from public accounts to a minor degree due to differential treatment of advances and sinking funds.

[2]Excludes borrowing on behalf of Ontario Hydro.

[3]Total Provincial Spending includes budgetary and non-budgetary expenditures.

[4]Gross Provincial Product estimates are on calendar year basis, i.e. calendar 1966 is comparable to fiscal 1966-67.

From 1966-67 through 1977-78, the Government of Ontario has borrowed for its own purposes some $10.7 billion. The predominant part of this borrowing has been from non-public sources (internal pension funds) which are discussed in the following section of this paper. Public borrowing over the same period (excluding Ontario Hydro) amounts to only $341 million. As Table 1 shows, the Province has entered the public capital market on any scale in only three out of the past twelve years. When Ontario has borrowed on the public market, it has been to finance expansionary fiscal policies. In 1975, for example, Ontario introduced tax cuts and selective expenditure initiatives amounting to $600 million to stimulate the economy. In other years, Ontario has generally reduced its outstanding public debt.

Table 1 shows Ontario's borrowing in relation to its total spending and in relation to the economy as a whole. Against the broad benchmark of Gross Provincial Product, Ontario's borrowing has not grown in significance over time. The ratio of borrowing to GPP has averaged 1.9 per cent from 1966-67 through 1977-78—hovering in the range of 1.4 to 2.0 per cent except in the years of strongly expansionary budgets. In relation to total spending, there is no evidence of increased reliance on borrowing. If anything, the trend points in the other direction, suggesting that a growing proportion of total expenditures—capital and operating—are being financed out of current revenues.

Apart from the stabilization policy requirements noted above, and which are discussed in detail in Ontario Tax Studies 15, Ontario has used its borrowing to invest in capital creation.[1] For the most recent five-year period for which final figures are available, 1972-73 to 1976-77, the Province's investment in capital assets has exceeded its borrowing by $1.1 billion, as shown in Table 2 and Chart 1. This demonstrates that Ontario is following a conservative financing philosophy in which a part of each year's income is invested in the future. Section III of this paper examines in some detail how Ontario has applied its funds to build up a comprehensive stock of public capital.

Ontario's Investment Exceeds Its Borrowing — Table 2

($ million)

	Total Capital Investments	Financed from Borrowing	Financed from Revenues
1972-73	1,103	1,028	75
1973-74	1,226	710	516
1974-75	1,399	851	548
1975-76	1,627	1,973	(346)
1976-77	1,480	1,092	388
5 years	6,835	5,654	1,181

[1]Ontario Tax Studies 15, *Reassessing the Scope for Fiscal Policy in Canada* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1978).

The Financing of Ontario's Capital Investments, 1972-73 to 1976-77 — Chart 1
($ million)

II Trends in Non-Public Borrowing

The distinguishing feature of non-public borrowing is the issuing of *non-marketable* Ontario debentures to the respective pension plans — the Canada Pension Plan (CPP), the Teachers' Superannuation Fund (TSF) and the Ontario Municipal Employees Retirement System (OMERS). In the case of the CPP, these are 20-year bonds which have an early call feature if there are insufficient funds to pay benefits. In the case of the TSF and OMERS, the Ontario bonds are non-callable and have maturities ranging from 20 to 30 years.

Collectively, these non-public sources have provided $10.3 billion to the Province since 1966-67, or 97 per cent of Ontario's total borrowing over the last twelve years. The Canada Pension Plan has been the largest source of funds, accounting for two-thirds of the accumulated total. But reliance on CPP borrowing has steadily declined, from 78 per cent of total non-public borrowing in 1966-67 to 55 per cent in 1977-78. The flow of funds from the TSF has grown both in absolute size and in relative importance, reaching $475 million, or 30 per cent of non-public borrowing, in fiscal 1977-78. OMERS also has built up rapidly as a source of financing for the Province, reaching $190 million, or 12 per cent of non-public borrowing in 1977-78. This growth in magnitude and shift in composition of Ontario's non-public borrowing are shown in Table 3 and in Chart 2.

Over the last twelve years, the cumulative financing available to Ontario from these non-public sources has exceeded the Province's cumulative cash requirements. This has permitted Ontario to limit its public borrowing to a very modest $341 million over the entire period.

Table 3

Composition of Ontario's Non-Public Borrowing

($ million)

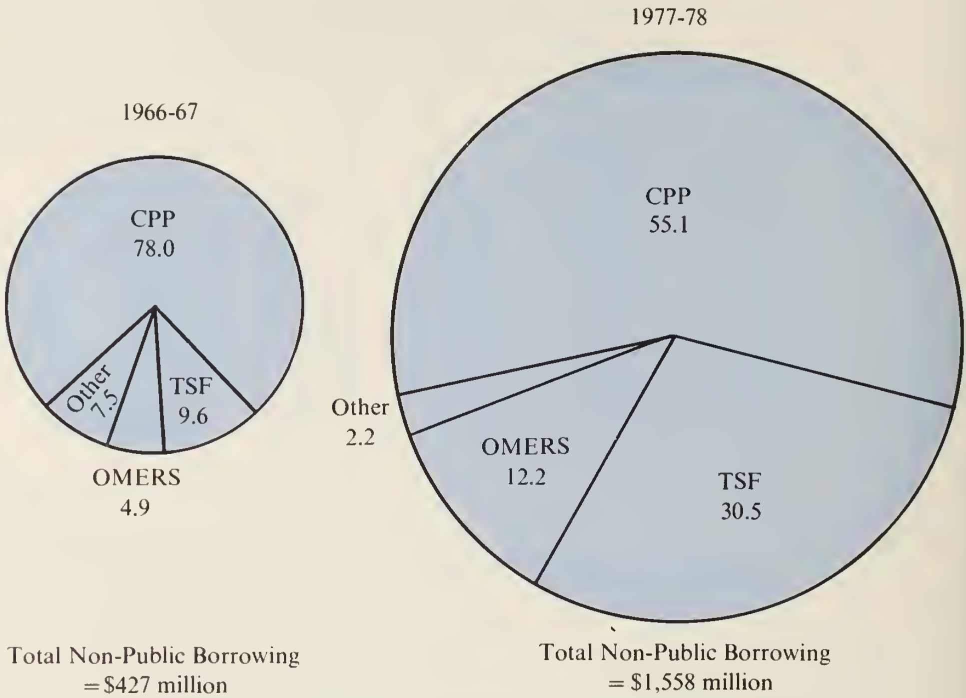
	66/67	67/68	68/69	69/70	70/71	71/72	72/73	73/74	74/75	75/76	76/77	77/78	12-Year Total
Canada Pension Plan (CPP)	333	376	412	446	476	498	536	607	702	784	813	858	6,841
Teachers' Superannuation Fund (TSF)	41	55	73	80	80	172	120	195	286	197	334	475	2,108
Ontario Municipal Employees Retirement System (OMERS)	21	26	37	47	61	75	91	126	144	156	180	190	1,154
Other Non-Public	32	25	3	(4)	(4)	2	29	10	24	93[1]	(5)	35	240
Total Net Non-Public Borrowing	427	482	525	569	613	747	776	938	1,156	1,230	1,322	1,558	10,343
Net Cash Requirements	302	467	468	247	570	1,020	744	708	977	1,799	1,319	1,614[2]	10,235
													12-Year Average
Net Non-Public Borrowing as a per cent of Net Cash Requirements	141.4	103.2	112.2	230.4	107.5	73.2	104.3	132.5	118.3	68.4	100.2	96.5	115.7

[1]The most significant portion of this was the Federal-Provincial Winter Capital Projects Fund.

[2]Estimated as at December 31, 1977. See *Ontario Finances*.

Composition and Size of Ontario's Non-Public Borrowing
(per cent)

Chart 2



Almost all of Ontario's public borrowing during this period was concentrated in 1971, 1972 and 1975, when the Province undertook major fiscal initiatives to stimulate the economy. In the other years, the Province has generally followed a policy of redeeming outstanding public debt or increasing liquid reserves.

The Cost of Non-Public Borrowing

Although Ontario's non-public debt issues are non-marketable, the interest rates that the Province pays are directly related to market rates.

The interest rate on CPP borrowing is determined monthly by the average yield on outstanding long-term Government of Canada bonds. Since federal debt generally commands the best price in the market, the cost of CPP borrowing is usually lower than the cost of either public or other non-public issues by the Province. The interest rates paid to OMERS and to TSF are calculated annually, and are tied to the weighted average yield to maturity of long-term bonds payable in Canadian dollars which are issued or guaranteed by the Province of Ontario, plus one-eighth of 1 per cent. The following table compares these interest rates on non-public borrowing to the rates Ontario pays on its public issues.

The Cost of Non-Public Borrowing[1] — Table 4
(per cent)

	1972/73	1973/74	1974/75	1975/76	1976/77
Sources:					
Public [2]	7.94	8.27	9.92	9.98	9.69
OMERS[3]	8.02	8.15	9.81	10.05	10.28
TSF	7.86	8.06	8.39	10.04	10.11
CPP	7.36	7.53	8.55	8.94	9.00

[1]Coupon rate paid on new monies borrowed.

[2]Ontario Hydro rate used for years when Ontario issued no long-term public debentures.

[3]OMERS rate of return calculated on calendar year basis, i.e. calendar 1972 is comparable to fiscal 1972-73.

III Ontario's Capital Formation

Since the end of World War II, Ontario has undergone dramatic changes in its demographic, social and economic fabric. With the rapid increase in the post-war population, the diversified pattern of industrial growth, and an increasingly urbanized lifestyle, there has been a continuous need to expand public capital expenditures to provide the social and economic infrastructure essential for Canada's fastest growing province. In fact, the 20-year period between 1950 and 1970 witnessed unprecedented additions to Ontario's public capital stock.

However, since 1970 a significant reduction in the rate of population growth has occurred which is easing the overall demand for new investment in public capital. As well, a widening geographical dispersion of people to rural areas of Ontario is altering the structure of this investment. An examination of these trends shows they have important implications for both the level and composition of public sector capital formation.

Changing Demographic Trends

From the mid-1950's to 1970, Ontario experienced strong population growth. During this period, the province's population grew from 5.3 million to 7.6 million, or by 45 per cent. This growth was more rapid than in the rest of Canada and, as a result, Ontario's population rose steadily from 33.5 per cent of Canada's in 1955 to 35.5 per cent in 1970. This trend, which is shown in Table 5, continued through 1975 and is expected to continue to 1980, although the rate of population growth will be slower in the future.

The table indicates that the majority of Ontario's population growth occurred in the period 1955-1965. As well, about 90 per cent of the 1.5 million increase in Ontario's population over the decade occurred in cities of 100,000 and over. This concentrated urbanization required a large-scale expansion in schools, hospitals and urban

Ontario Population Growth, 1955-1980 — Table 5

	Ontario		Canada		Ontario as Per Cent of Canada
	Population	Change	Population	Change	
	(000)	(%)	(000)	(%)	
1955	5,266		15,698		33.5
1960	6,111	16.0	17,870	13.8	34.2
1965	6,788	11.1	19,644	9.9	34.6
1970	7,551	11.2	21,297	8.4	35.5
1975	8,226	8.9	22,800	7.1	36.1
1980 (Proj.)	8,810[1]	7.1	23,773[2]	4.3	37.1

[1]Ontario Treasury estimates.
[2]Statistics Canada estimates.

infrastructure as well as the building of a vast provincial transportation network.

The rapid growth in Ontario's population has also involved a marked shift in demographic patterns. By 1965, the combined elementary and secondary school age population rose to nearly two million, a 55.3 per cent increase over the decade. Table 6 shows the impact of the post-war "baby boom" in accelerating the growth in the number of people of elementary and secondary school age in the 1960's and of university age in the late 60's and early 70's. Significantly expanded public educational facilities were needed to accommodate the burgeoning school age population. Thus, during the mid 1960's, Ontario's investment in elementary and secondary schools amounted to $200 million annually. In the late 1960's, the Province invested on a similar scale in its post-secondary education facilities, including the building of a network of 22 new community colleges.

Since 1970, not only has there been a significant reduction in the growth in numbers of secondary school children aged 14-19, but the number of children in the pre-school and elementary school age groups has actually declined. There has been a consequent reduction in demand for educational facilities. As well, the slowdown in the province's overall population growth rate has resulted in lower demand for other social capital and especially for new health-care facilities.

As Table 6 indicates, the population bulge shifts into the family formation years throughout the 1970's. In addition, though the trend to urbanization has continued, there has been a decrease of settlement in concentrated urban areas and an increase in surrounding rural communities. From 1971 to 1976, only 66 per cent of the 560,000 increase in the province's population occurred in cities of 100,000 and over, versus 90 per cent in the previous decade. This new settlement pattern has increased the costs of public capital investments because of the lower density development. These recent trends in family formation and in the geographical dispersion of population have increased de-

Ontario's Shifting Demography, 1955-1980 — Table 6
(thousand)

Age Group	1955	1960	1965	1970	1975	1980[1]
Pre-School (0–4)	610	724	760	655	633	641
(% Change)		18.7	5.0	−13.9	−3.3	1.3
Elementary (5–14)	942	1,219	1,413	1,560	1,497	1,341
(% Change)		29.5	15.9	10.4	−4.0	−10.4
Secondary (15–19)	341	419	571	694	791	832
(% Change)		22.6	36.5	21.4	14.0	5.2
Post-Secondary (20–24)	364	387	452	638	735	826
(% Change)		6.3	16.8	41.0	15.3	12.3
Household Formation (20–34)	1,200	1,279	1,314	1,637	2,030	2,371
(% Change)		6.6	2.7	24.5	24.1	16.8
Total Population	5,266	6,111	6,788	7,551	8,226	8,810
(% Change)		16.0	11.1	11.2	8.9	7.1

[1]Ontario Treasury estimates.

mand for new public sector investment in priority areas including housing, transportation and other hard services. On balance, however, because of the deceleration in the rate of population growth noted earlier, the overall demand for hard services will ease in future years.

Ontario's Capital Investment Record

An in-depth analysis of the application of Ontario's capital expenditure over the past five years has been conducted by the Ontario Treasury. Before discussing the trend and composition of the Government's investment in public capital, it will be useful to describe the various categories of capital.[2] In general, there are five groups, including:

- *Buildings:* schools, libraries, universities, community colleges, hospitals, health centres, laboratories, housing projects, homes for the aged, day nurseries, police communication facilities, courthouses, jails, detention centres, recreational and cultural facilities, railway stations, transit shelters, offices, etc.
- *Transportation Vehicles:* buses, subway cars, streetcars, and other vehicles.
- *Other Physical Assets:* roads, highways, bridges, tunnels, overpasses, dams, subways, drainage and flood control, water and sewer facilities, waste disposal facilities, etc.
- *Land:* rights-of-way and land banking.
- *Financial Assets:* mortgages, commercial loans to industry and equity investments.

[2]The definition of public sector capital used in this paper does not include expenditures on maintenance of physical assets and expenditures on furniture and equipment when not part of original projects.

Table 7 and Chart 3 detail Ontario's capital expenditures from 1972-73 to 1976-77, the most recent period for which final information is available. Reflecting demographic trends, Table 7 shows that total capital investment has stabilized at a level of approximately $1.5 billion. Investment in public buildings such as schools, universities, hospitals, homes for the aged and administration offices account for approximately 30 per cent of total capital investment over the five-

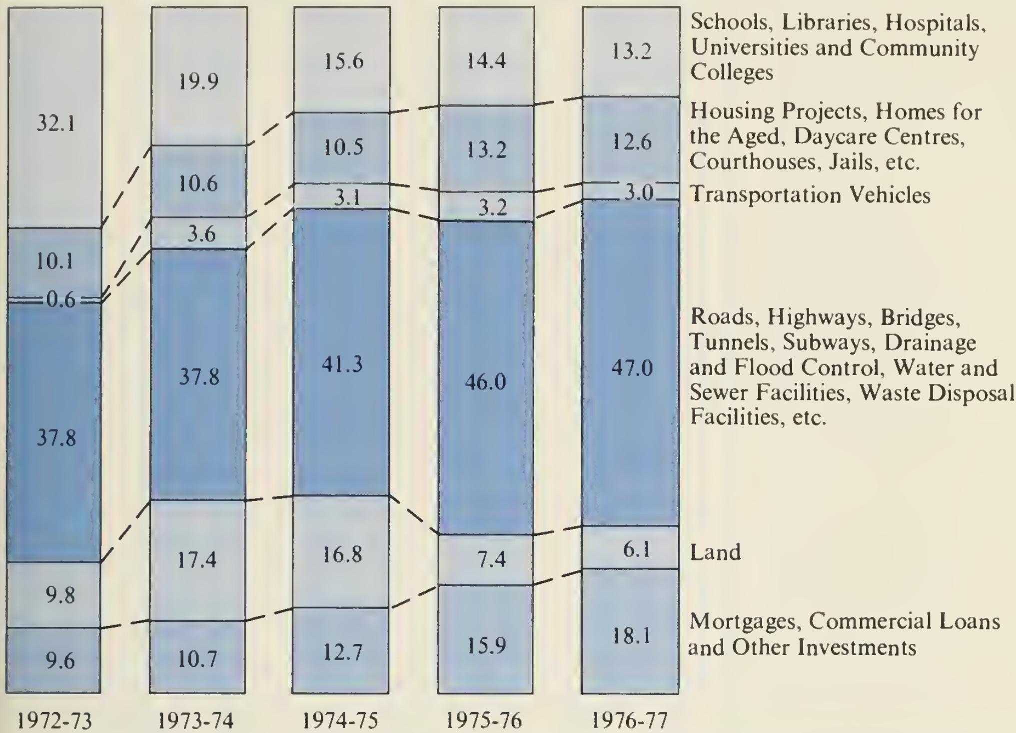
Ontario's Capital Investment Profile, 1972-73 to 1976-77 — Table 7

($ million)

	72/73	73/74	74/75	75/76	76/77	5-Year Total
Buildings						
Schools and Libraries	121	84	84	95	73	456
Universities and Community Colleges	144	77	44	49	40	352
Hospitals, Health Centres, Laboratories	89	83	90	90	82	434
Housing Projects	36	39	38	46	30	189
Homes for the Aged, Day Nurseries	13	7	10	18	15	64
Courthouses, Jails, Detention Centres	25	20	17	31	28	120
Recreation and Cultural Facilities	9	18	17	46	36	127
Railway Stations, Transit Shelters, Garages	7	17	23	28	24	98
Office and Administrative	13	20	24	22	10	88
Other	9	10	18	24	44	105
	466	374	365	447	382	2,033
Transportation Vehicles						
Buses, Subway, Streetcars, etc.	7	44	43	54	44	191
Other Physical Assets						
Roads and Highways	261	260	323	370	305	1,518
Bridges, Tunnels, Overpasses	22	33	22	31	36	144
Subways	17	39	17	45	61	180
Drainage and Flood Control	34	48	76	112	89	359
Water and Sewer Facilities	81	82	135	174	184	657
Experimental Waste Disposal Facilities	—	—	—	5	7	12
Power, Telephone, Other Facilities	2	2	5	11	13	34
	416	464	578	748	695	2,903
Land						
Rights-of-Way	26	40	40	17	29	152
Other	82	173	195	103	62	614
	108	213	235	120	91	766
Financial Assets						
Mortgages	63	68	133	178	180	621
Commercial Loans	43	28	45	52	30	198
Other Investments	1	35	—	29	58	122
	106	131	178	259	268	942
TOTAL INVESTMENT	1,103	1,226	1,399	1,627	1,480	6,835

Note: Figures may not add due to rounding.

The Changing Composition of Capital Expenditures, 1972-73 to 1976-77 — Chart 3
(per cent)



year period. Infrastructure investment in roads, highways, subways, and sewer facilities makes up 43 per cent of the total. The remaining 27 per cent is invested in land purchases (11 per cent), and financial assets such as mortgages and other loans (14 per cent), and transportation vehicles (2 per cent).

Chart 3 shows the relative importance of the various categories of assets in more detail, and in a manner which better reflects the impact of population and other factors which affect the demand for public sector capital. The chart clearly shows that:

- The proportion of capital expenditures directed to hospitals, schools, libraries, universities and community colleges declined steadily from 32.1 per cent to 13.2 per cent. This reduction in the share of the capital budget represents an absolute decline in capital expenditures of $159 million.
- The percentage of funds allocated to land purchases which rose rapidly in 1973-74 and 1974-75 has declined to 6.1 per cent since that time.
- The share of capital spending allocated to basic economic infrastructure to support housing, transportation (including vehicles)

and industry has increased sharply from 38.4 per cent in 1972-73 to 50.0 per cent in 1976-77.

- Similarly, the amount of funds allocated to housing and other building projects has risen from 10.1 per cent in 1972-73 to 12.6 per cent in 1976-77.
- finally, the acquisition of mortgages, commercial notes and other essentially private sector financial assets required 9.6 per cent of the capital budget in 1972-73. By 1976-77, the percentage had nearly doubled to 18.1 per cent.

Mortgages comprise two-thirds of the financial assets held by the Province. These larger holdings have resulted from the Government's efforts to stabilize the housing market during a period of record high interest rates. Loans to private developers through the Ontario Mortgage Corporation to finance the construction of reasonably priced accommodation nearly tripled from $63 million in 1972-73 to $180 million in 1976-77. Private mortgage funds are now in adequate supply, giving a greater measure of stability to the housing market. The Province is thus reprivatizing its mortgage lending activity and will commence the sale of its existing portfolio in the 1978-79 fiscal year, as explained in Budget Paper C.

Over the same period commercial loans, mainly through the Ontario Development Corporations, have helped fill a visible gap in the capital market by supplying financing to the province's small business sector for industrial mortgages, export support programs and development of the tourist industry. However, the performance of the capital market in this area has improved considerably, and operational and venture capital is in more abundant supply. The Government is therefore re-examining the role of the development corporations and will be looking into the viability of a loan guarantee program to replace direct lending.

Finally, Ontario's $91 million equity investment in Syncrude, in joint-participation with Alberta, the federal government and the private sector, and the $11 million in Polar Gas in joint-participation with the federal government and the private sector, currently account for 65 per cent of the Province's other investments in financial assets.

IV Directions for the Future

The declining need for public capital investment in Ontario coincides with the Government's commitment to a balanced budget strategy. The opportunity is presented to shift economic resources from the public sector to meet new important investment priorities in the private sector including:

- ensuring an adequate supply of domestically generated investment funds at reasonable cost;

- underwriting the exploration and development of Canada's energy resources;
- stimulating greater activity in innovation, research and development;
- encouraging a faster pace of technological advance;
- financing the replacement of outdated capital equipment and the modernization of plant operations; and,
- providing the opportunity for the maximum penetration of domestic and foreign markets by Canadian industry.

Non-public sources of financing available to Ontario must now be gradually redeployed to the private sector. In an effort to ensure the successful implementation of this redeployment of public funds from the public to the private sector, the Government of Ontario initiated the OMERS experiment in 1975.[3] This experiment has proven successful, and thought can now be given to instituting similar procedures for other sources of internal funds.

The OMERS Experience

For some time prior to 1975, the members of OMERS had asked to have The OMERS Act revised to allow diversified investment of the Fund's monies. As a result of meetings held between the Treasurer of Ontario and the OMERS Board, the "Joint Study Group on OMERS Investment Policies" was commissioned to review and to make recommendations on OMERS general investment policies. In 1975, based on the findings of its Study Group, the Ontario Municipal Employees Retirement System began a five-year experimental program of investing increasing portions of its monies in marketable securities.

Initially, it was agreed that 20 per cent of the surplus funds generated in 1974-75 would be placed in the private market, the remainder in Ontario debentures. The general investment policy recommended by the Study Group for the marketable portion of the investment portfolio was approved by the OMERS Board as shown in Table 8 below.

OMERS Guidelines for Marketable Investment Portfolio — Table 8
(per cent)

Mortgages (NHA insured)	50-75
Bonds (Corporate and Government)	0-20
Common Stock	0-20
Real Estate	0-20
Short-Term Investments	0-50

Source: OMERS.

[3]The Hon. John White, *1974 Ontario Budget* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1974).

Investment in marketable securities commenced on September 30, 1975. In accordance with the planned gradual transition to a mixed portfolio, an agreement was reached in 1976 between the Board and the Treasurer whereby the Board would invest the amounts as outlined in Table 9 in non-marketable Ontario debentures. All other funds would be invested in the private market.

OMERS Investment in Ontario Debentures — Table 9

($ million)

April 1/76 to March 31/77	180
April 1/77 to March 31/78	190
April 1/78 to March 31/79	200

Marketable investment portfolios for 1975, 1976 and 1977 are shown in Table 10. Year-end yields on the market fund were approximately 10.5 per cent, 10.3 per cent and 10.2 per cent for these years respectively.

In view of the success of OMERS private investment program, the agreement concerning the flow of OMERS monies to marketable securities has again been revised. Effective for 1978, only $100 million instead of the original $200 million will be held for Provincial debentures. Commencing in 1979, OMERS will be left free to invest its entire new funds.

Other Internal Funds

With the OMERS private investment program as a prototype, the next fund to be looked at in terms of a transition to private market investment is the Teachers' Superannuation Fund. To date, the Province has underwritten the actuarial liabilities of the Teachers' Superannuation Fund to maintain the plan's actuarial soundness. This has resulted from the Government assuming the role of employer of the teachers, unlike the OMERS situation where the individual municipalities are the employers. In the future, if TSF funds are to be invested privately, local school boards must assume full responsibility for actuarial liabilities in the same manner as the municipalities accept their financial responsibility with OMERS. Such a transition will involve extensive discussions with school trustees, teachers and others. It will not begin until after the report of the Ontario Royal Commission on Pensions has been received.

The future role of funds generated by the Canada Pension Plan is not clear. Their very existence depends on how the CPP is financed, but an acceptable method of financing the CPP has not yet been

Table 10

OMERS Marketable Investment Portfolio

Type of Investment	1975 Market Value	1975 Cost	1975 Per cent of Marketable Portfolio	1976 Market Value	1976 Cost	1976 Per cent of Marketable Portfolio	1977 Market Value	1977 Cost	1977 Per cent of Marketable Portfolio
	($000)			($000)			($000)		
Mortgages (NHA insured)	7,359	7,359	46.7	38,576	38,576	50.3	92,724	92,724	58.6
Bonds and Debentures	6,887	6,874	43.6	28,479	27,278	35.6	43,382	42,703	27.0
Common Stock	502	500	3.3	8,694	8,287	10.8	16,306	15,061	9.5
Real Estate	1,010	1,010	6.4	2,543	2,543	3.3	7,619	7,619	4.9
Total	15,758	15,743	100.0	78,292	76,684	100.0	160,031	158,107	100.0

Source: OMERS.

determined. The basic economic and philosophical issues involved in financing a national pension plan are being examined by the Royal Commission.[4]

Conclusion

This paper has documented Ontario's prudent debt management policy. Since 1966, total net borrowing has averaged annually less than 2 per cent of Gross Provincial Product. In 1977-78, the ratio was 1.8 per cent. Net new public borrowing has occurred in only three of the past twelve years. In those three years, the borrowed funds were used in the financing of temporary measures required to stimulate the economy. Non-public borrowing, which accounts for most of the increase in debt, has exceeded the Province's net cash requirements on a cumulative basis over the same period. These borrowed funds have been fully invested by Ontario in the province's social and economic infrastructure.

However, the demand for new public capital investment has levelled off and an examination of demographic forces suggests that a lower level of demand will prevail in the future. This development presents an opportunity to redeploy Ontario's non-public sources of funds to other, predominantly private sector uses. The OMERS experience demonstrates the practical feasibility of this proposition.

[4]For Ontario's views see, Hon. W. Darcy McKeough, "Financing the Canada Pension Plan", statement to the Provincial Ministers of Finance, Toronto, October 20-21, 1976; Hon. W. Darcy McKeough, "Financing Options for the Canada Pension Plan", statement to the Federal-Provincial Meeting of the Ministers of Finance, Ottawa, December 6-7, 1976; Hon. W. Darcy McKeough remarks to the Canadian Pension Conference, Toronto, January 20, 1977; Hon. W. Darcy McKeough, "The Challenge for the Pension Industry", remarks to the International Pension Conference, Ste. Jovite, Quebec, June 13, 1977; Hon. W. Darcy McKeough, "Pensions in the Canadian Economic Environment", remarks to the Canadian Pension Conference, Toronto, December 8, 1977. For a discussion of the economic issues see "Public Pensions and Personal Saving; Canadian Evidence in the Extended Life Cycle Model", (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1977).

Budget Paper B

Relieving the Burden of Property Taxes on Senior Citizens

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Relieving the Burden of Property Taxes on Senior Citizens

Introduction

In *A Charter for Ontario*, the Premier of Ontario, the Honourable William G. Davis, announced the Government's intention to:

> "reduce the municipal tax burden on senior citizens, and work toward the ultimate elimination of this particular tax for the majority of Ontario's senior citizens."[1]

Through a lifetime of work and effort, senior citizens have contributed to the betterment of society and are deserving of support during their retirement years. Retirement from employment means a considerable reduction in income for many persons. The reduced income also tends to be fixed, leaving pensioners particularly vulnerable to inflation.

Both the federal and Provincial governments provide support to senior citizens. Federal Old Age Security (OAS) and Guaranteed Income Supplements (GIS) will amount to over $1.6 billion in Ontario in 1977-78. The Province of Ontario has greatly expanded its programs in the 1970's, offering substantial relief to needy pensioners and moving to offset some of the more burdensome costs faced by all pensioners. In 1977-78, these programs will cost the Province over $800 million.

This paper reviews the income profile of Ontario's senior citizens and the dollar value and nature of support provided by the Province. Against this perspective, it examines the extent and equity of relief from property taxes which is currently given to pensioners. The paper then discusses the implications of enriching that support in terms of the commitment made in *A Charter for Ontario*.

I The Financial Position of Pensioners in Ontario

Income to Pensioners

In 1977, there were just under 750,000 pensioners in Ontario. Of these, 661,000 are expected to file income tax returns. The remainder do not file returns since they are spouses whose husbands or wives file

[1]The Hon. W. G. Davis, *A Charter for Ontario*, May 19, 1977.

the tax return and report all income for the household. Income reported on tax returns by pensioners will be in the neighbourhood of $4.5 billion. In addition, low-income pensioners receive some $450 million in federal GIS and Ontario Guaranteed Annual Income System (GAINS) payments which are not counted for tax purposes. Thus, the total income of Ontario's pensioners is in the order of $5 billion, or an average of $7,500 per pensioner taxfiler. Table 1 shows the distribution of pensioner income by income class. Approximately 82 per cent of senior citizens have income below $10,000, and they receive only one-half of the total income received by pensioners as a group.

The Income of Ontario Pensioners, 1977 — Table 1

Income Class	Income Reported for Tax Purposes	GIS/GAINS Income	Total Income	Number	Average Income
($000)	($ million)	($ million)	($ million)	(000)	($)
0-5	963	440	1,403	383	3,700
5-10	1,117	10	1,127	157	7,200
10-12	391	—	391	36	11,000
12-15	312	—	312	23	13,500
15-20	476	—	476	27	17,500
20-25	316	—	316	14	22,500
25+	939	—	939	20	47,100
All Pensioners	4,514	450	4,964	661	7,500

Source: Ontario Treasury estimates.

A substantial part of this income to senior citizens is provided by governments. Federal OAS cheques, totalling $1.3 billion in 1977, were paid to almost all pensioners in Ontario. As well, some $340 million in GIS payments were received by Ontario's lowest-income pensioners. Ontario provided a further monthly supplement to the lowest-income pensioners through its GAINS program. This ensured a guaranteed level of income of $3,439 to every single pensioner and $6,878 to every pensioner couple in the province in 1977. Table 2 shows how the GAINS guarantee levels are determined.

GAINS Guarantee Payments, 1977 — Table 2
(dollars)

	Single Pensioner	Pensioner Couple
Maximum OAS	1,747	3,494
Maximum GIS	1,225	2,176
GAINS Payment	467	1,208
Guaranteed Income to Ontario's Pensioners	3,439	6,878

When Ontario introduced the GAINS program in July, 1974, it was the first provincially administered guaranteed income program in Canada. Since then, the GAINS payment level has been increased several times, and the total guarantee level is adjusted quarterly to reflect indexing of the federal OAS/GIS payments. In 1977-78, GAINS payments amounting to $110 million will be delivered to 260,000 low-income pensioners. As a result, senior citizens in Ontario enjoy a level of income security which is among the most generous in the world.

This is not, however, a complete picture of the financial circumstances of senior citizens in Ontario. It does not recognize that many pensioners have accumulated substantial assets during their lifetime, upon which they can draw during retirement. On the basis of the investment and capital gains income reported in 1975, pensioners account for almost 40 per cent of the total investment income in Ontario, as shown in Table 3. By contrast, they represent only 13 per cent of the taxfiling population. This suggests that the pool of financial assets owned by pensioners amounts to more than $15 billion. Furthermore, the principal residences of 260,000 pensioner homeowners, many of these free of mortgages, are not included in this asset pool.

Assets and Investment Income of Ontario Pensioners, 1975 — Table 3

	Amount Reported by Pensioners	Per Cent of Total
	($ million)	
Investment Income	1,236	40.4
Capital Gains Income	19	15.0
Income from Capital	1,255	39.3
Estimated Capital Assets (@ 8% rate of return)	15,700	39.3

Source: Ontario Treasury estimates.

Cost Relief to Pensioners

Equally important in compiling an accurate picture of the financial position of senior citizens are the special support programs provided by the Province. These fall into two categories—(a) *universal benefits* which are available to all senior citizens regardless of financial circumstances, and (b) *selective benefits* geared to pensioners with low to modest incomes. In the first category are free health care, free prescription drugs, free camping in Provincial Parks and subsidization of the per diem costs of nursing homes and homes for the aged. In the latter category is the subsidization of senior citizen housing, where rents are geared to income.

Collectively, these Provincial programs relieve pensioners of substantial out-of-pocket expenses which most other citizens have to pay. The exemption from OHIP premiums, for example, saved each senior citizen $192 in 1977, and the free drug card is worth a further $100 per year on average. These two programs alone will take up some $227 million of the Provincial budget in 1977-78. An equivalent amount will be spent by Ontario to subsidize care in nursing homes and homes for the aged—the Provincial subsidy averaging $11 per day for 56,000 residents. The subsidy for Ontario's 35,000 senior citizen housing units will cost a further $54 million, or the equivalent of a rent discount of about $130 per month on average. Table 4 shows that these particular Provincial programs providing cost relief to senior citizens amounted to over one-half billion dollars in 1977-78.

Cost Relief to Ontario Pensioners, 1977-78 — Table 4

	Pensioners Benefitting	Cost
	(000)	($ million)
Free OHIP	800[1]	154
Free Prescription Drugs	750	73
Free Camping	5	—
Subsidized Nursing Homes*	28	130
Subsidized Homes for the Aged*	28	109
Subsidized Housing*	35	54
Total Cost		520

Source: Ontario Treasury estimates.
*Cost shared with the federal government.
[1]Includes spouses under 65 and any other dependants.

Preferential Tax Treatment for Pensioners

The income tax system in Canada and Ontario also affords pensioners more favourable treatment than taxpayers under 65 years of age. The significance of this tax advantage to pensioners tends to be overlooked because it is encountered only once a year and is not as visible as the income and support programs already discussed. However, it will amount to $122 million in income tax savings to Ontario pensioners for the 1977 taxation year—of which $37 million represents savings in Ontario income tax and $85 million represents savings on federal income tax.

The two major measures which generate income tax relief for senior citizens are the age exemption—equal to $1,420 for 1977—and the $1,000 deduction for private pension income. Other income tax provisions also tend to favour older taxpayers but are not unique to pensioners. These include the dividend tax credit, the $1,000 exemption for investment income, and the zero tax rate on the first $1,680

Income Tax System Favours Pensioners, 1977 — Table 5
(dollars)

Taxable Income	5,000	8,000	10,000	15,000
Income Tax Payable by Non-Pensioner	943	1,790	2,397	4,048
Special Tax Savings for Pensioners:				
Age Exemption ($1,420)	379	414	431	480
Private Pension Deduction ($1,000)	255	274	303	332
Income Tax Payable by Pensioner	309	1,102	1,663	3,235

of taxable income. The preferential income tax treatment for pensioners is illustrated in Table 5. As well, GIS and GAINS supplements are not counted as income for the purposes of the personal income tax.

Under the 1977 income tax system, a single pensioner could have an income of almost $7,500 without paying any income tax. At this same level of income a single wage earner would pay $854 in income tax. The tax-free level of income for a pensioner couple can be over $11,000. At this same income level, a family with two children under the age of 16 would pay $1,073 in income tax. This lower tax burden for pensioners carries throughout the entire income spectrum. For the great majority of people whose retirement income is $10,000 or less, attaining the age of 65 means that income tax liability is cut in half.

Overall, only 175,000 of the 661,000 pensioners in Ontario filing 1977 tax returns will pay any income tax, and the total tax collected will amount to about $450 million. This means that Ontario pensioners will contribute about 5 per cent of the total income tax collected in the province, though they represent 13 per cent of the taxfiling population.

Disposable Income of Pensioners

The preceding analysis has shown that senior citizens as a group are treated fairly in Ontario. They are guaranteed an income which increases with inflation; they are sheltered from major costs such as drugs and nursing care which could ravage their savings; and, they pay substantially lower income taxes than the community at large. Taken together, these measures ensure that pensioners enjoy a comfortable standard of living during their retirement years. Even those senior citizens who rely entirely on public support have a reasonable level of disposable income—$3,731 for a single pensioner and $7,462 for a pensioner couple. Table 6 shows that the net income position of pensioners, after accounting for free services and zero income tax, compares favourably with that of non-pensioners who must earn their income and pay full taxes.

Net Income of Pensioners vs Non-Pensioners Table 6
(dollars)

	Gross Income	+	Imputed Benefits[1]	−	Income Tax	−	CPP, UIC, Health	=	Net Income
Dependent Single Pensioner[2] (no private income)	3,439		292		0		0		3,731
Minimum Wage Earner[3]	5,512		192		0		216		5,488
Independent Pensioner Couple[4]	9,200		584		0		0		9,784
One Wage Earner Family[5] (average industrial wage)	13,000		0		1,882		468		10,650

Source: Ontario Treasury estimates.
[1]Imputed benefits include free OHIP and free prescription drugs.
[2]Gross income consists of OAS, GIS and GAINS.
[3]Based upon $2.65 per hour.
[4]Income includes OAS for each spouse, plus an estimated average amount of income from CPP, private pension and investment sources for one spouse.
[5]Taxfiler is married with 2 children under the age of 16. Assumed that 88 per cent of health premium is paid by employer.

Recalling Table 1, it is significant that approximately 75,000 of Ontario pensioners report incomes in excess of the average industrial wage. This fact, taken together with the proportionately greater ownership of assets by senior citizens, demonstrates the equity of gearing major government support programs to income levels.

II Ontario Tax Credits Reduce Tax Burdens and Supplement Incomes

It was stated earlier that three-quarters of Ontario pensioners pay no income tax. In addition, the remaining tax-paying pensioners enjoy preferential income tax status, which is well deserved, at a total cost of over $120 million. The Ontario Tax Credit System provides additional and even more substantial benefits to pensioners than is provided by these income tax breaks.

- It delivers $176 million in tax credit payments to senior citizens, or 41 per cent of the total tax credits paid.
- Because most pensioners pay no income tax, $145 million of this amount represents refunds in excess of income tax, or straight income supplementation, which pensioners can use to pay their property taxes.

Thus, Ontario tax credits substantially reduce the property tax burden of pensioners. This section briefly reviews the main features of the tax credit system and documents its success in delivering benefits to senior citizens.

The Ontario Tax Credit System

The Ontario Tax Credit System was introduced in 1972. It represents a major breakthrough in terms of tax equity. The system brings together the burdens of income taxation, property taxation and sales taxation and redistributes the final overall burden according to a person's ability to carry that burden. Whereas exemptions and deductions grow in value as income increases, tax credits offset taxes on a dollar-for-dollar basis, thus providing a much fairer distribution of taxation. Further, income tax credits exhibit a feature that exemptions cannot—refundability. What this means is that where a taxfiler's calculated credits exceed his income tax liability, a refund or "negative income tax" is paid. This important income supplementation feature is unavailable in a system of exemptions and deductions.

At the present time, only Ontario and Manitoba run comprehensive tax credit systems—comprehensive in the sense that all residents, including both property taxpayers and renters, may claim for relief. Ontario residents are eligible to claim "property tax credits" on the basis of property taxes paid or 20 per cent of rent paid, "sales tax credits" on the basis of family circumstances, and "pensioner credits" on the basis of age.[2] Appendix 1 illustrates how these credits are claimed. Credit entitlement increases directly with property taxes and family size, but declines as income increases.[3]

Payments have grown substantially since 1972, when 2.3 million Ontarians received property tax credits of $180 million. For calendar 1977, tax data indicate that close to three million Ontarians, or almost 60 per cent of the taxfiling population, will claim $434 million in property tax, sales tax and pensioner credit payments.

Ontario Tax Credit System Benefits, 1972 to 1977 — Table 7

	1972	1973	1974	1975	1976	1977
Benefits ($ million)	180	305	387	408	421	434
Recipients (000)	2,329	2,842	2,898	3,013	2,950	2,950

Source: Income tax statistics and Ontario Treasury estimates.

Table 8 shows the breakdown of the $434 million in benefits for 1977 in terms of the separate credits. The progressivity of the system is evident from the table. The favourable position of pensioners is also

[2]Both property owners and renters receive tax credits in respect of their principal residence only. Owners use property tax paid to calculate their entitlement, while renters use 20 per cent of rent paid. The technical term to represent these amounts is "occupancy cost."

[3]Appendix 2 shows the formulae for calculating credit entitlement from 1972 through 1977, and readily exhibits the credit-to-income inverse relationship. This and more information can be found in, Ontario Tax Studies 14, *Reductions in Tax Burdens through Tax Credits: Ontario's Experience* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1977).

Tax Credits Favour Pensioners and Low Income Families, 1977 — Table 8
($ million)

Income Class	Property Tax Credits	Sales Tax Credits	Pensioner Credits	Total Ontario Credits
($000)				
0–5	115	31	41	187
5–10	93	22	17	132
10–12	26	9	3	38
12–15	26	14	3	43
15–20	12	15	2	29
20–50	1	2	1	4
50+	—	—	—	—
Total	273	93	67	434

Source: Ontario Treasury estimates.
Note: Figures may not add due to rounding.

clear: they are major beneficiaries under the scheme by virtue of their lower taxable incomes and their receipt of the pensioner credit.

Low-income persons get the bulk of credits and the largest income supplements. Of the almost 3 million individuals benefitting from credits, 1.3 million will receive credits in excess of their income tax liability—with the resultant income supplementation amounting to almost $250 million. Almost three-quarters of all credit benefits will go to individuals and families reporting less than $10,000 income in 1977. The average credit for these filers will amount to $184, which is more than three times the dollar value received by filers in the $20,000 to $25,000 income range.

For the 1978 tax year, it is estimated that the current system will pay out benefits of approximately $450 million, with the distribution about the same in terms of the three credits and income.

Value of Tax Credits to Pensioners

As indicated previously, pensioners receive benefits considerably in excess of those available to non-pensioners. Much of this is due to the special pensioner credit; pensioners paying property taxes claim $180 + $110 = $290, as their basic property tax credit. But it is also due to the fact that the income tax system favours pensioners by reducing or eliminating their taxable income. The Ontario Tax Credit System implicitly recognizes this through the 2% taxable income offset. Consequently, a large portion of the property taxes of pensioners is refunded via Ontario's tax credits.

Of the 661,000 pensioner taxfilers in Ontario in 1977, an estimated 625,000 will receive tax credits totalling $176 million. Though they represent 13 per cent of the taxfiling population, pensioners will receive 40 per cent of all tax credit payments. What's more, because the majority of pensioners pay no income tax, almost $145 million of the credit payments are refunds, i.e. an income supplement.

Table 9 shows that the tax credit system delivers greater relief to low-income than to high-income pensioners. Fully 88 per cent of all credits received by senior citizens will be paid to individuals reporting income less than $10,000. The average credit declines with income. The 373,000 recipients reporting less than $5,000 income for tax purposes will receive an average credit of $282, compared to $125 for the 13,000 recipients reporting income between $20,000 and $25,000.

1977 Ontario Tax Credit Entitlement — Table 9

	All Pensioners		Pensioners Reporting Property Tax	
Income Class	Number of Claimants	Average Credit	Number of Claimants	Average Credit
($000)	(000)	($)	(000)	($)
0-5	373	282	255	350
5-10	153	326	130	362
10-12	33	265	30	289
12-15	20	229	19	239
15-20	27	201	27	201
20-50	18	108	18	108
50+	neg.	—	neg.	—

Source: Ontario Treasury estimates.
Note: neg. = negligible.

Pensioners living in their own homes and those living in apartments receive about equal benefits under the Ontario Tax Credit System. About 260,000 or 40 per cent of senior citizen tax credit recipients are homeowners, and about 170,000 are renters. The remaining 195,000 are either institutionalized, living with their children, or spouses of principal taxpayers. The homeowners tend to report higher property taxes than renters, but also have higher incomes and a correspondingly greater taxable income offset.

Overall, more than 55 per cent of property taxes of $250 million incurred by pensioners in 1977 is offset by tax credits. Table 10 shows the estimated property taxes paid by pensioners against their tax credit entitlement by income class. On average, 88 per cent of property tax is refunded in the less than $5,000 reported income range; 58 per cent of property tax is refunded on average in the $5,000 to $10,000 reported income range. The share of property tax refunded declines quickly as income further increases. An estimated 147,000 pensioners actually receive property tax and pensioner credits which exceed property taxes paid. *Focusing only on education taxes, which constitute about one-half of the total property tax burden, the tax credit system already offers on average a complete offset.* In short, the current level of property tax relief goes a long way towards meeting the commitment set out in *A Charter for Ontario.*

Impact of the Ontario Tax Credit on Property Tax Burdens of Senior Citizens, 1977 — Table 10

Income Class	Estimated Property Tax Paid[1]	Value of Existing Tax Credits[2]	% of Property Tax Offset by Credits
($000)	($ million)	($ million)	
0-5	90	79	88
5-10	72	42	58
10-12	17	7	44
12-15	11	4	35
15-20	21	4	21
20-50	33	1	3
50+	5	—	—
Total	250	138[3]	55

Source: Ontario Treasury estimates.
[1]As measured by occupancy cost.
[2]Property tax and pensioner credits only.
[3]Additional $38 million paid in sales tax and pensioner credits for a total of $176 million.
Note: Figures may not add due to rounding.

III Enriching Property Tax Relief for Pensioners

A review of pensioners' incomes, tax breaks, cost relief and tax credits indicates that all Ontario pensioners enjoy a comfortable standard of living. Nevertheless, property tax increases have been considerable in recent years and can represent a major burden for many pensioners—a burden which makes it difficult for some to maintain their own home. As well, there may be further tax increases for some pensioners when market value assessment is implemented. Consequently, in *A Charter for Ontario*, the Government made the commitment to reduce further the municipal tax burden with a view to eventually eliminating it for the majority of senior citizens. As already discussed, the current level of property tax relief is very significant in terms of this commitment.

There are two considerations fundamental to an enrichment of benefits under the current system. First, property taxes paid by pensioners rise with income, as shown in Table 11. As a result, there is the question of determining an equitably appropriate maximum level of property taxes to be offset. Clearly, to offset the total property taxes of pensioners with incomes over $15,000 would be unduly generous. Second, pensioners receive their tax credit refund in the year following

Estimated Property Tax Burden of Pensioners by Income, 1978 — Table 11

Gross Income[1]	Number	Average Property Tax
($000)	(000)	($)
0-5	253	372
5-10	134	618
10-12	29	622
12-15	24	586
15-20	28	783
20-25	16	881
25+	23	1,100
Total	509	530

Source: Ontario Treasury estimates.

[1]Income reported for tax purposes.

their payment of the property tax. Consequently, their ultimate perception of the actual amount of property tax refunded is often rather low. This explains why many pensioners feel that they are being unfairly burdened by the payment of education taxes. In reality, however, the tax credit system refunds more than the education tax component of property taxes for at least two-thirds of all pensioners. And for the remainder, most are relieved of the majority of the education tax payment.

Tax Credits Deliver Benefits Effectively

Several avenues could be pursued to achieve the Government's goal. The Province could amend its legislation to exempt senior citizens from property taxes, and reimburse the municipalities directly; or, the Province could mail out cheques directly to the elderly; or, the Ontario Tax Credit System could be enriched.

The simplicity and directness of the first two approaches are appealing, but the problems are many. Principally, the Province would have to set up a costly administrative system to deal with the 500,000 pensioners who report occupancy cost. As well, some pensioners could get less relief than they currently receive from the tax credit program. There would also be the inability to channel the increased relief on an ability-to-pay basis without a tremendous increase in administrative complexity. Finally, it would be difficult to handle renters fairly and directly. A host of smaller technical problems also exist.

On the other hand, the tax credit system has proven effective. It utilizes the current income tax system and gets the money directly to the taxpayer. It offers an efficient and inexpensive delivery system, an equitable distribution of relief, and handles both owners and renters with an equal degree of ease.

On balance, the credit system is seen as the appropriate mechanism to employ, because it offers the best chance to deliver the new relief simply and at minimum cost. Its one drawback is the one-year lag in the delivery of relief.

The Government recognizes that this lag in delivery can represent a burden for low-income pensioners. Consequently, changes to the delivery system to provide immediate payment or refund of property tax for GAINS recipients, or at least those GAINS recipients who own property, will be examined. In this way, the Province will maintain the equitable nature of its tax relief program, while at the same time offering extra assistance to pensioners on low incomes.

The move to an enriched credit system for pensioners also entails certain administrative changes which will have to be negotiated with the federal government. There will be changes required in the calculation of the credit. There will be two tax credit forms—one for pensioners and one for all other taxfilers. This will prevent confusion on the part of senior citizens, as they will be able to do their calculations in a simple fashion, clearly separate from the procedure applicable to non-pensioners.[4]

Increasing the Basic Credit for Pensioners

An increase in the basic credit from $180 to $400 would provide property tax relief consistent with the norms set out in the Charter. Under this structure the basic amount which pensioners could claim as a property tax credit *increases to $510 ($400 + $110)*, up from $290 under the current system. In addition, maximum credit entitlement for pensioners would be increased to $750. This effectively means that pensioners with no taxable income and up to $566 in property tax would get all of that property tax refunded.

This enrichment would increase tax credit payments to pensioners to $264 million in 1978, up $80 million from the current system. The number of credit recipients would increase slightly to 647,000, with 498,000 of these reporting occupancy cost. The average credit for these filers would be $492, which compares with average occupancy cost of about $530.

Table 12 shows that the increase would be delivered in a progressive fashion, with the bulk of relief received by pensioners with the lowest income. Because low-income filers already get a considerable portion of their property taxes refunded, a small part of the increase in relief will be funnelled to higher income taxfilers. However, the increase for higher income taxfilers is kept to a minimum.

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[4]See Appendix 3.

Impact of the Enrichment to $400 Basic Credit on the Property Tax Burdens of Senior Citizens, 1978 — Table 12

Income Class	Estimated Property Tax Paid[1]	Value of Enriched Tax Credit[2]	% of Property Tax Offset by Credits
($000)	($ million)	($ million)	
0-5	94	112	119
5-10	83	71	86
10-12	18	14	74
12-15	14	10	68
15-20	22	10	47
20-50	34	6	18
50+	5	—	neg.
Total	270	223[3]	83

Source: Ontario Treasury estimates.
[1]As measured by occupancy cost.
[2]Property tax and pensioner credits only.
[3]Additional $41 million paid in sales tax and pensioner credits for a total of $264 million.
Note: neg. = negligible.

This structure would ensure that an estimated 275,000 pensioners, or 54 per cent of pensioners paying property taxes, would get a credit at least equal to their property taxes. *Overall, $223 million of the estimated $270 million in property taxes paid by pensioners (82.5 per cent) would be offset by credits,* up from 55 per cent under the current system.

Other Considerations

Currently, there are two programs of additional property tax assistance for pensioners operating in the province—the Municipal and School Tax Credit program, which is funded by the Province, and the Municipal Elderly Residents' Assistance program, for which the Province provides the enabling legislation. The tax credit enrichment outlined above will make these programs redundant. Consequently, these programs can be terminated, for an annual saving of $2.5 million.

One of the aspects of the current system also subject to review is the fact that pensioners in nursing homes and homes for the aged are eligible to claim tax credits. As was mentioned earlier, there are currently almost 60,000 pensioners in such homes. The Province pays for part or all of their accommodation according to the type of home and the type of care. The pensioners are then eligible to claim a property tax credit based upon their accommodation cost paid out-of-pocket. This cost is treated as rent. However, the property taxes to which these residents would be subject are already covered by the Province through its contributions to the operating cost of the homes. Consequently, a property tax credit should not be claimed by residents of such homes. As much as $15 million in credit payments can be saved by removing this eligibility.

Furthermore, the Government recognizes that senior citizens living with their children are presently eligible for the pensioner credit. These pensioners do not face any property tax burden. As a result, the eligibility rules for the pensioner credit will be reviewed to determine if it is appropriate to continue this eligibility for the pensioner credit.

No other changes to the system for pensioners are contemplated. The system works efficiently and effectively, and compliance amongst pensioners is high. For those senior citizens who have difficulty with the system, the Government provides an information network of high quality to assist them.

Conclusion

This paper has examined the income profile of pensioners in Ontario to provide perspective to a discussion of the appropriate level of relief from current property taxation. It has proposed an enrichment of the current Ontario Tax Credit System for senior citizens and faster delivery of benefits for those most in need.

At the same time, it must be recognized that the Government has proposed major reforms to property assessment and taxation in Ontario. These changes are expected to have a widespread impact on the tax base. Many residents of Ontario will enjoy property tax reductions—particularly renters and persons in newer housing—while others may experience increases.

Because of the scope of property tax reform, it is anticipated that the tax credit enrichment for pensioners would accompany the introduction of property tax reform. Consequently, pensioners would not only benefit from an increase in credit entitlement, but they would also be sheltered from the differential impact of tax reform. In recognition of possible increases in tax burdens for other citizens, the Government will also consider a general enrichment in its property tax credit system to complement property tax reform.

Appendix 1

Claiming The Ontario Tax Credit

The federal government administers both the Ontario income tax and tax credit systems under the Tax Collection Agreement. The federal government makes payments to those taxfilers eligible for a refund of Ontario personal income tax and reduces Ontario personal income tax liabilities for the remainder. The Ontario tax credit is claimed by completing the purple attachment to the T1 income tax form, and submitting it in conjunction with the annual income tax return.

As far as the taxfiler is concerned, this is quite a simple system. Only one return is filed and only one adjustment is made, whether it be a refund or otherwise. In addition, all Ontario taxpayers benefit because federal administration results in about a $10 million per year saving in administration costs.

Ontario

THE ONTARIO TAX CREDIT SYSTEM

T1C (ONT.)

This program is financed by Ontario. The Property, Sales and Pensioner Tax Credits are intended to improve the fairness of the provincial and municipal tax systems, by relating these tax credits to the individual's ability to pay taxes. The Political Contribution Tax Credit is designed to encourage greater public participation in the democratic process.

Before completing your tax credit claim, read carefully the Rules and Instructions on the reverse side of this form.

Complete and attach one signed copy of this form to your tax return.

Calculation of Ontario Property, Sales and Pensioner Tax Credits for 1977

		$ ¢	$ ¢	$ ¢
Total Rental Payments in 1977	91			
20% of the above 'Total Rental Payments in 1977' (line 91)				
Property Taxes paid in 1977	92			
Student Residence—claim $25 if eligible (see reverse side)	93			
Occupancy Cost (total of above three lines)	94			
PROPERTY TAX CREDIT—Enter $180 or 'Occupancy Cost' (line 94), whichever is *less*				
Add: 10% of 'Occupancy Cost' (line 94)				
Total Property Tax Credit				
SALES TAX CREDIT—1% of 'Total Personal Exemptions' (line 45 on page 2 of your return)				
PENSIONER TAX CREDIT—If you were 65 years of age or over in 1977 *and* you meet the qualifications listed under 'Pensioner Tax Credit' on the back of this form, claim $110				
Total of above credits				
SUBTRACT: 2% of 'Taxable Income' (line 60 on page 2 of your return)—if taxable income is $1,680 or less enter "nil"				
ONTARIO PROPERTY, SALES AND PENSIONER TAX CREDITS—If you did not have an Ontario Political Contribution for 1977, enter Amount (A) or $500, whichever is *less*, on the 'Ontario Tax Credits' line 74 on page 4 of your return.	(A)			

Calculation of Ontario Political Contribution Tax Credit for 1977

Attach official receipts to this form otherwise your claim will be rejected

		$ ¢	$ ¢	$ ¢
Total Ontario Political Contributions in 1977	95			
Allowable credit—75% of first $100 of Total Contributions is				
50% of next $450 of Total Contributions is				
33⅓% of amount of Total Contributions exceeding $550 is				
Total allowable credit *(maximum $500)*	(i)			
Ontario Tax Payable (from line 68 on page 4 of your return)				
SUBTRACT: Ontario Property, Sales and Pensioner Tax Credits (line (A) above)				
Ontario Tax Payable in excess	(ii)			
ALLOWABLE ONTARIO POLITICAL CONTRIBUTION TAX CREDIT—Enter Amount (i), or Amount (ii), whichever is *less*	(B)			

Ontario Tax Credits—Ontario Property, Sales and Pensioner Tax Credits (line (A) above)		
Ontario Political Contribution Tax Credit (line (B) above)		
TOTAL ONTARIO TAX CREDITS—Enter Amount (C) on the 'Ontario Tax Credits' line 74 on page 4 of your return	(C)	

Appendix 2

The Ontario Tax Credit System, 1972 to 1977 — Table 2-1

Year	Basic Property Tax Credit	+ Additional Property Tax Credit	+ Sales Tax Credit	+ Pensioner Credit	− Taxable Income Offset	Maximum Credit
1972	A)[1] $90	10% of occupancy cost	—	—	1%	$250
	B)[2] occupancy cost	0	—	—	1%	
1973	lesser of occupancy cost or $90	10% of occupancy cost	1% of personal exemptions	$100	1%	$400
1974 1975 1976 1977	lesser of occupancy cost or $180	10% of occupancy cost	1% of personal exemptions	$110	2%	$500

[1]Formula applied if occupancy cost equal to $90 or more.
[2]Formula applied if occupancy cost less than $90.

Appendix 3

Claiming the Enriched Tax Credit

CALCULATION A: ONTARIO TAX CREDITS FOR PERSONS AGE 65 OR MORE.

Total Rent Payments	______ 1.		
20% of above Rent Payments	______ 2.		
Property Taxes	______ 3.		
Occupancy Cost (2 + 3)	______ 4.		
Property Tax Credit—$400 or occupancy cost, whichever is less		______ 5.	
—Add: 10% of occupancy cost		______ 6.	
—Add: $110 (only if occupancy cost claimed)		______ 7.	
Total Property Tax Credit (5 + 6 + 7)			______ 8.
Sales Tax Credit—1% of Total Personal Exemptions			______ 9.
Sub-Total (8 + 9)			______ 10.
Subtract 2% of Taxable Income			______ 11.
Ontario Property Tax and Sales Tax Credits (maximum $750)			______ 12.

CALCULATION B: ONTARIO TAX CREDITS FOR PERSONS AGE UNDER 65.

Total Rent Payments	______ 1.		
20% of above Rent Payments	______ 2.		
Property Taxes	______ 3.		
Student Residence (claim $25)	______ 4.		
Occupancy Cost (2 + 3 + 4)	______ 5.		
Property Tax Credit—$180 or occupancy cost, whichever is less		______ 6.	
—Add: 10% of occupancy cost		______ 7.	
Total Property Tax Credit (6 + 7)			______ 8.
Sales Tax Credit—1% of Total Personal Exemptions			______ 9.
Sub-Total (8 + 9)			______ 10.
Subtract: 2% of Taxable Income			______ 11.
Ontario Property Tax and Sales Tax Credits (maximum $500)			______ 12.

Budget Paper C

Streamlining Government Operations in Ontario

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Streamlining Government Operations in Ontario

Introduction

The Government of Ontario has achieved considerable success in restraining expenditures. For the second year in a row, spending came in below original estimates. Sluggish revenue growth in 1977-78 represented a temporary setback to the balanced budget target. However, the tax initiatives announced in this year's Budget will work to offset this revenue shortfall over the remainder of the planning period. Thus, a balanced budget by 1980-81 remains a viable objective.

This Paper reviews the performance of revenue and expenditure in 1977-78 and recasts the balanced budget profile to 1980-81. It discusses new initiatives being developed to improve the management and control of spending. The Paper also reports some necessary financial planning changes which reflect the Government's intention to streamline its operations and improve accountability.

I Expenditures Constrained Below Target

Last April's budget plan placed a ceiling of $13,698 million on spending in fiscal 1977-78. This objective has been more than met, as year-end final spending will come in $95 million below original budget. This is the second year in a row that spending has come in below the Estimates.

Ontario's Spending Restraint Record — Table 1

($ million)

	Budget Plan	Revised Plan	In-Year Savings	Spending Growth Rates
1976-77	12,576	12,467	109	10.1%
1977-78	13,698	13,603	95	9.1%
1978-79	14,555	—	—	7.0%

The 1978-79 expenditure package continues to emphasize restraint. In total, spending for 1978-79 will amount to $14,555 million, an increase of 7.0 per cent over the current year. This means the rate of increase in spending has been successively reduced for the fourth consecutive year.

The firm application of spending restraint secured altogether $491 million in savings during the fiscal year. Table 2 shows that savings were achieved by Management Board across a wide range of Government programs as part of its monthly scrutiny of expenditures. These substantial savings were in large measure required to meet unavoidable spending increases in other areas.

Savings Achieved in 1977-78 — Table 2
($ million)

Government-wide Overhead	124
Land Acquisition and Government Buildings	80
Loans and Advances	78
Operation of Hospitals	58
OHIP Costs	25
Social Services	24
Unconditional Grants	10
General Legislative Grants	10
Other	82
Total In-Year Savings	491

Table 3 shows the details of the $396 million of expenditure additions which were approved during the course of the year. Instalment payments in respect of pension fund actuarial deficiencies alone make up $241 million of this amount. The payments reflect an upward adjustment in the unfunded liability estimates for the Teachers' and Public Service superannuation funds.

In-Year Expenditure Additions Financed by Savings — Table 3
($ million)

Teachers' Superannuation Fund—actuarial deficiency instalments	210
Public Service Superannuation Fund—actuarial deficiency instalments	31
Lottery Projects	29
June 9 Election Expenses	15
Advances to Crop Insurance Commission	13
OHC—Working Capital	12
General Welfare Assistance	7
ONTC Operations	7
Restructured Municipalities	6
French Language	6
Extra Firefighting	4
Children's Services Division	4
Cobalt Disaster Relief	3
Ontario Home Renewal Program	3
Municipal Roads	3
Other	43
Total In-Year Additions	396

The balance of the $491 million savings, or $95 million, has been held in the Consolidated Revenue Fund and applied to reduce the Province's net cash requirements. Nevertheless, this good performance on the spending side was more than offset by a below-forecast revenue performance of $634 million. Consequently, net cash requirements increased over the course of the year to a level of $1,616 million, as shown in Table 4.

1977 Budget Performance — Table 4

	Actual 1976-77	Budget Plan 1977-78	Interim 1977-78	In-Year Change
Revenues	11,148	12,621	11,987	−634
Spending	12,467	13,698	13,603	−95
Net Cash Requirements	1,319	1,077	1,616	+539

II Revenue Performance in 1977

Table 5 shows that total revenues fell short of forecast by 5.0 per cent. The sluggish performance of the economy during 1977 reduced the yield of the Province's responsive revenue sources. These are taxes which historically have exhibited a strong correlation to the overall performance of the economy. In fact, the bulk of the revenue shortfall experienced in 1977 can be accounted for by three revenue sources: the personal income tax; the corporation taxes; and, the retail sales tax.

Of the deterioration in budgetary revenue, $525 million was attributable to personal income taxes alone. The major source of error was the 1977 personal income tax forecast supplied by the federal government, which was off target by 12.0 per cent. Additionally, negative adjustments to reflect overpayments in prior years brought the federal cash flow forecast error to a startling 17.6 per cent. This automatically

Revenue Performance in 1977-78 — Table 5

	Budget Estimate	Revised Estimate	Difference	
	($ million)	($ million)	($ million)	(%)
Sources of Adjustment				
Federal Government				
Personal Income Tax	2,975	2,450	−525	−17.6
EPF Payments	1,106	1,252	+146	+13.2
Sub-Total	4,081	3,702	−379	−9.3
Ontario				
All Other Revenue	8,540	8,285	−255	−3.0
Total	12,621	11,987	−634	−5.0

boosted Ontario's Established Programs Financing (EPF) payments from Ottawa since these payments make up the difference between the yield of the income tax points and the Province's total financial entitlement.[1] Even with this compensating effect however, Ontario's revenues were off $379 million, or 9.3 per cent, in those fields controlled by the federal government.

Revenue weakness was not restricted to the personal income tax as a number of other revenue sources fell below the Province's own forecast. On balance, Ontario Treasury estimates were on the high side by approximately 3.0 per cent. Significant revenues which underperformed included the corporation income tax ($119 million), the mining profits tax ($70 million), and the retail sales tax ($66 million).

These adjustments reflect some of the major trends in the economy. Consumer spending has held up relatively well despite statistically high unemployment. Government transfer payments and indexing of the personal income tax provide an automatic cushion. On the other hand, the mining industry has accumulated vast unsold inventories of nickel, copper and other metals. Ontario's mining profits tax is not imposed until the product is sold. Finally, the corporate sector has experienced a mixed growth performance.

III Reaffirming the Balanced Budget Plan

The commitment to a balanced budget by 1981 was made in the 1977 Ontario Budget.[2] The projections in Table 6 show the revenue and spending streams to 1980-81, and compare the revised net cash requirements with the targets set in 1977. It is clear from the Table

Ontario's Balanced Budget Plan — Table 6

($ billion)

	Actual	Interim	Estimated	Projected	
	1976-77	1977-78	1978-79	1979-80	1980-81
Revenue	11.2	12.0	13.5	14.8	16.3
Spending	12.5	13.6	14.6	15.5	16.4
NET CASH REQUIREMENTS					
Original Target	1.4	1.1	0.9	0.6	0.1
Revised Target	1.3	1.6	1.1	0.7	0.1
Target Shortfall	0.1	(0.5)	(0.2)	(0.1)	—
Growth Rate Targets (%)					
Revenue	—	7.5	12.6[1]	9.4	10.1
Spending	—	9.1	7.0	6.3	6.0

[1]Includes tax increases.

[1]See the Hon. W. Darcy McKeough, *Ontario Budget 1977* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1977).

[2]*Ibid.*

that net cash requirements increased by $300 million rather than decreasing by $200 million in 1977-78. The discretionary revenue increases in this Budget, together with continued expenditure constraint, however, have put the fiscal plan back on target.

It is useful at this point to review the economic assumptions used in formulating the balanced budget commitment. These assumptions are central to the success of the plan which rests squarely upon the performance of the Ontario economy over the next three years. They call for real GPP growth of 4.5 per cent each year and an inflation rate of 6.0 per cent. This gives a nominal growth for GPP of 10.8 per cent over the planning period.

In summary, Ontario's long-run objective to restore a more appropriate balance between the public and private sectors by reducing the burden of government spending and deficit financing remains a viable goal for 1981. This plan has been reinforced by the initiatives set forth in the 1977 and 1978 Ontario Budgets.

IV Strengthening Expenditure Control

Over the past three years, the Government of Ontario has made a number of important improvements to the management and control of spending. These measures include: a monthly expenditure control system; pre-approval of all capital expenditure commitments; early in-year assessment of open-ended programs; dollar control of manpower; and, a strengthening of The Audit Act.[3]

Such improvement is ongoing and the following new initiatives are being developed to achieve further progress:

- a formal requirement for an assessment of the economic and fiscal impact of all new legislation;
- quarterly reporting by crown corporations;
- zero-base budgeting; and,
- sunset provisions in legislation.

New Expenditures Must Meet Fiscal and Economic Criteria

An effective method of expenditure control involves prior assessment of both the short and longer term economic and fiscal impacts of new policies. Early scrutiny of new initiatives will prevent programs from becoming so ingrained as to limit the Government from withdrawing from them at a future date.

Effective December 21, 1977, Cabinet agreed that all future Ministry submissions for new or additional funding must include a detailed fiscal

[3]See the Hon. W. Darcy McKeough, "Towards a Balanced Budget", Budget Paper C, *Ontario Budget 1977* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1977).

and economic statement. This approach was recommended by the Ontario Chamber of Commerce. The required statement is an assessment of the extent to which each new policy may:

- duplicate the intent and function of existing programs and agencies;
- increase prices for the consumer now or in the future;
- create the need for greater government revenue, hence, increased taxes;
- result in a loss of jobs;
- create jobs in the private sector;
- create the necessity for an expanded civil service;
- have a positive or negative effect on the attraction of investment capital;
- reduce the incentive to work; and,
- encourage or discourage the formation of new business.

A similar assessment is currently being developed for all existing programs, legislation and regulations.

Quarterly Reporting By Crown Corporations

In a continuing effort to improve expenditure control in the public sector the Ontario Government has so far concentrated its efforts on direct own-account expenditure and on parallel restraint in local government spending. Close scrutiny and control of spending by Ontario's crown corporations and agencies is also imperative. Therefore, commencing this fiscal year, a number of the major crown corporations will be required to submit quarterly financial statements to the Treasurer of Ontario. These operating reports will provide the basis for a supplementary table to be included in the Ontario Finances publication, and further enhance public sector accountability.

Progress Report on Zero-Base Budgeting

Over the past year the Government of Ontario has conducted an in-depth review of the zero-base budgeting (ZBB) system. It is apparent that ZBB offers several advantages to Ministries in establishing program priorities within the framework of limited available resources. The Ministries which are experimenting with ZBB have found it to be a useful budgetary tool that helps them to cope with the difficult decisions necessitated by the current program of constraint.

The Ministries of Revenue and the Solicitor General are most advanced in developing this technique. The Ministry of Treasury, Economics and Intergovernmental Affairs will move on to this system before mid-year.

Sunset Provisions

To limit the inherent tendency of Government to expand into new areas without contracting in old areas, sunset provisions to cover certain Government boards and commissions will be introduced. Sunset legislation provides for the automatic termination of programs or agencies in a given number of years unless the legislation is re-enacted. At the end of the specified time a review will determine whether the agency is working, if it is still needed and if its funding level is justified. In this way, boards can be modified, or eliminated if they have outlived their usefulness, or where they have proven their worth, given the authorization to continue. The performance review of these agencies will also bring to the surface any duplication in programs.

Continued Control on Number of Civil Servants

For the fourth year in a row, the Government has placed stringent controls over civil service costs. Table 7 shows the reductions in the size of the civil service achieved since 1976, and which have been reflected in cost savings. In 1978-79, the Government is providing only a 4 per cent increase for general government spending. The new system of *dollar control of manpower*, with its emphasis on cost control rather than on numbers of civil servants, will ensure that if civil service salary and wage settlements exceed 4 per cent the additional payroll costs will have to be offset through staff reductions or through savings in administration.

Summary of Total Staff Strength of all Ministries, 1975 to 1977[1] — Table 7

	March 1, 1975	March 1, 1976	Dec. 31, 1976	Dec. 31, 1977
Classified Staff	65,108	63,883	63,210	63,316
Unclassified Staff	14,567	15,039	15,385[2]	15,205
Other Crown Employees	2,859	2,715	2,704	2,663
Total	82,534	81,637	81,299	81,184
Increase Over Previous Year (%)	—	−1.1	−0.4	−0.1
Other[3]	4,575	4,699	4,790	4,760

[1]Excludes staff of the Lieutenant-Governor, Office of the Assembly, Ombudsman and Provincial Auditor.

[2]Difference of 574 from figures in 1977 Budget due to clerical error in Ministry submissions at that time.

[3]Includes OPP Uniformed Staff, Security Guards and Environment Plant Operators.

V Redefining the Province's Role as a Lender

Improved management systems are vitally important to the achievement of expenditure control. However, governments must also be prepared to demonstrate flexibility in financial planning. This Budget includes a number of changes designed to reduce the Government of Ontario's role as a major lender. These changes are:

- a switch to front-end capital financing;
- the wind-down of direct mortgage lending and sale of the Ontario Mortgage Corporation (OMC) mortgage portfolio;
- a review of the lending activities of the Ontario Development Corporations (ODC); and,
- the integration of Ontario Land Corporation (OLC) activities with other crown corporations.

Front-End Capital Grants

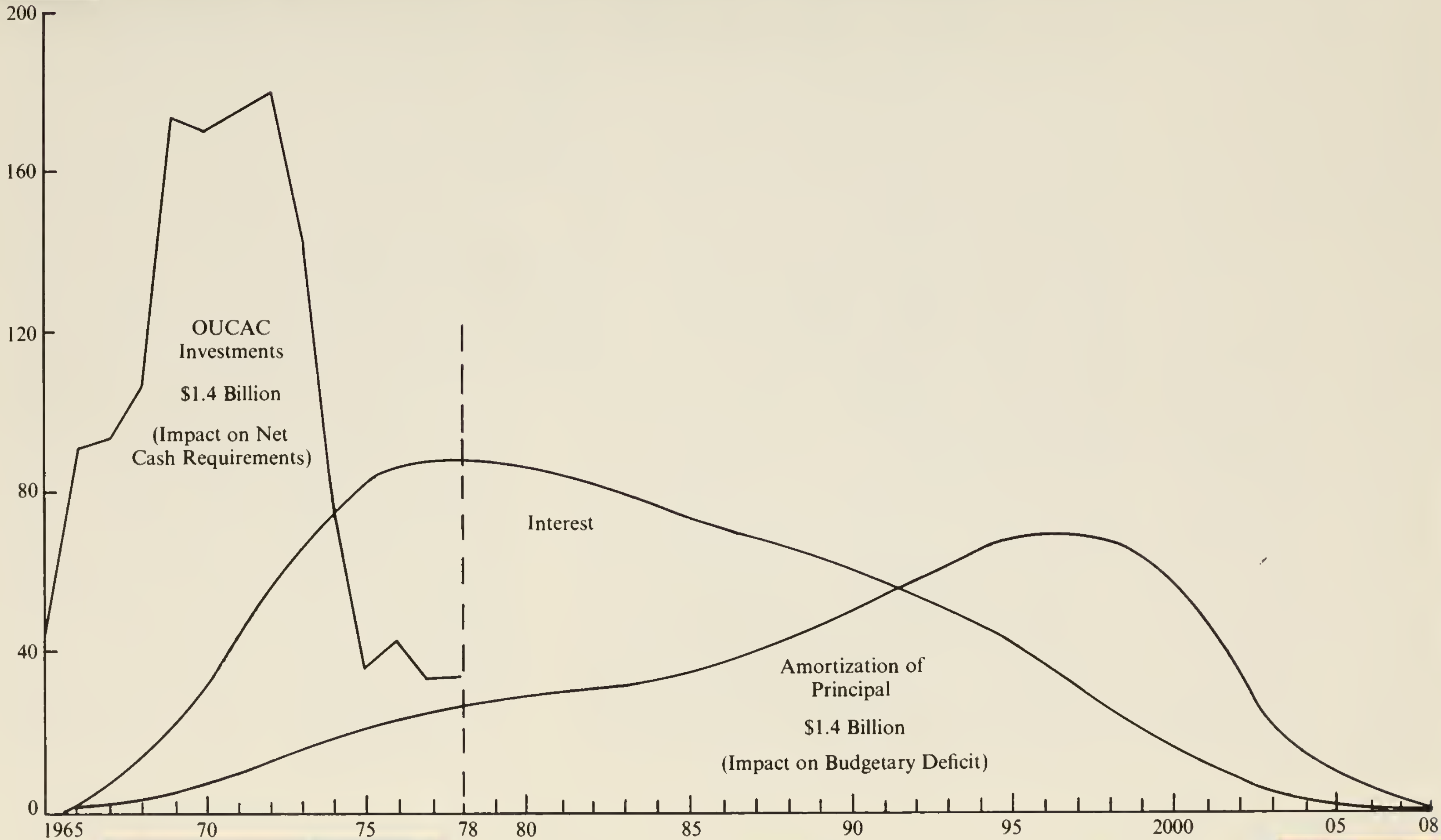
Budget Paper A shows that Provincial investment in schools, universities, hospitals and other community facilities peaked during the late 1960's and early 1970's. To accommodate this bulge in capital formation Ontario established various vehicles—including capital aid corporations—to amortize these investments over thirty to forty years. This ensured that future beneficiaries of these assets would contribute to their costs and also levelled out the impact on the annual budget.

Chart 1 illustrates this amortization of Ontario's investment in universities and colleges, through the Ontario Universities Capital Aid Corporation. It shows that the $1.4 billion investment lumped into the past thirteen years is stretched out over 43 years in terms of impact on budgetary transactions and on the Province's net debt. Had this capital investment been charged off on a current basis rather than amortized, it would have grossly distorted the Province's spending pattern and budgetary deficit in those years of peak activity. In 1968-69 for example, the $173 million investment in university and college expansion would have represented almost 5 per cent of budgetary spending, whereas on an amortized basis it actually represented one-tenth of 1 per cent.

Now that the need for new capital formation in schools, universities, hospitals, etc., is declining, it has become possible to switch the Province's capital assistance to front-end grants without major distortion of budgetary spending patterns. Thus, Provincial capital assistance will be placed on a pay-as-you-go basis instead of being spread out over several decades through capitalization. This change involves a significant simplification of certain Provincial capital assistance programs, as it will eliminate bureaucratic and complex loan systems and replace them with direct capital grants. Included in this switch to front-end

Chart 1

Comparative Financing Streams, Ontario Universities Capital Aid Corporation,
for Fiscal Years Ending March 31
($ million)



capital assistance will be public hospitals, water and sewerage projects, the Ontario Education Capital Aid Corporation (OECAC) and the Ontario Universities Capital Aid Corporation (OUCAC).

The conversion to up-front Provincial capital financial assistance will take effect on April 1, 1978 in respect of capital undertakings of universities, colleges, and public hospitals. A similar switch on behalf of school board capital projects will be made after January 1, 1979 because of the need for some lead-time for school board budget planning and legislative amendments. In the case of water and sewerage projects, the effective date will be April 1, 1978 for all new projects, except for projects already under construction or for which signed agreements stipulate the old arrangements. In the latter case, municipalities will be free to opt into the revised procedures. Generally, any outstanding Provincial investments will continue to be amortized as before until they have been fully recovered.

The revised procedure will reduce the Province's non-budgetary cash requirements while increasing budgetary cash requirements. To the extent Provincial capital assistance is no longer amortized and becomes part of budgetary spending, the impact on the Province's net debt position will become more immediate. For instance, Table 8 shows that in 1978-79 the replacement of $61 million of capital assistance loans for hospitals and universities by direct up-front grants has a zero impact on net cash requirements but raises net debt through the increase in the budgetary deficit.

Impact on Provincial Accounts[1] — Table 8

($ million)

	Current Method		Front-End Method	
	1977-78	1978-79	1977-78	1978-79
Budgetary Deficit	—	—	67	61
Non-Budgetary Deficit	67	61	—	—
Net Cash Requirements	67	61	67	61

[1] Includes OUCAC investments and loans to public hospitals.

The Ontario Mortgage Corporation

The Ontario Mortgage Corporation (OMC) was created at a time when interest rates were boosted to unprecedented levels by inflationary forces in the economy. The Province felt that a need existed to provide a supplementary source of mortgage financing at below market rates to ensure the creation of an adequate supply of housing for people with modest incomes. Mortgage funds are today in abundant supply and interest rates have fallen. The private sector's allocation of funds to mortgages has increased substantially and this situation is expected to prevail in the future.

Consequently, the OMC will discontinue its role as a prime lender in the marketplace after completing current commitments. This means that OMC loans for 1978-79 will amount to only $22 million, down from $86 million in 1977-78.

In addition, the Government has instructed the corporation to sell its mortgage portfolio back to the private sector over the next few years, as market conditions allow. In 1978-79, the OMC will offer for sale approximately $125 million of the $1 billion portfolio under its management.

The Ontario Development Corporations

The Ontario Development Corporations were formed to improve the availability of funds and managerial advice and assistance to small and medium-sized businesses in the province. Over the past few years, federal lending activity has been expanded considerably and the chartered banks have adopted a more aggressive and innovative role in the financing of these types of enterprises. In addition, the Province has introduced a number of initiatives to assist smaller businesses including a low rate of income tax and legislation for the creation of Venture Investment Corporations.

Ontario must remain competitive with other jurisdictions. The Minister of Industry and Tourism will be examining the role of the Ontario Development Corporations. In addition, the Minister will be consulting with the private sector to explore alternate ways to supplement private sector financial activities.

Integrating the Activities of the Ontario Land Corporation

In 1978-79 the operations and responsibilities of the Ontario Land Corporation will be transferred to the Ministry of Housing and integrated with the land development programs of the Ontario Housing Corporation which are presently being carried out by that Ministry. In addition, administration and funding of some of the industrial parks programs which OLC had undertaken on behalf of the Ontario Development Corporation will be transferred to the Ministry of Industry and Tourism. This streamlining process will help to improve the overall productivity of these agencies.

Appendix

Financial Reporting Change

Ministry of Community and Social Services

Children's Services Division

Effective July 1, 1977 program activities relating to children's services were transferred to the Ministry of Community and Social Services. Table 9 shows the program transfers and complement effects upon the respective Ministries. The objective of this new Division is to amalgamate all existing children's programs under one jurisdiction for ease of administration and co-ordination of the range of services for children with special needs in Ontario.

Transfer of Activities to the Children's Services Division, 1977-78 — Table 9

	Program	$ Million	Complement
Transfers from other Ministries			
Attorney General	Observation and Detention Homes	2.7	108
Correctional Services	Rehabilitation of Juveniles	35.6	1,046
Health	Community Mental Health Facilities for Children	62.1	422
Transfers from within Community and Social Services	Social Services	130.6	66
Additional Funds	Direct Operating Costs Child Welfare Services	1.7 2.0	22
Total Children's Services Division		234.7[1]	1,664

[1]Estimated full-year impact.

Financial Tables

Statement of Provincial Net Cash Requirements and Related Financing — Table C1

($ million)

	1975-76	1976-77	Interim 1977-78	Estimated 1978-79
Budgetary Transactions				
Revenue	9,010	10,514	11,325	12,645
Expenditure	10,490	11,743	12,922	14,005
Budgetary Deficit	1,480	1,229	1,597	1,360
Non-Budgetary Transactions				
Receipts and Credits	510	634	662	855
Disbursements and Charges	829	724	681	550
Non-Budgetary Deficit	319	90	19	(305)
NET CASH REQUIREMENTS	1,799	1,319	1,616	1,055
FINANCING				
Non-Public Borrowing				
Proceeds of Loans	1,237	1,366	1,583	1,516
Repayment of Loans	7	44	17	19
Net Non-Public Borrowing	1,230	1,322	1,566	1,497
Public Borrowing				
Proceeds of Loans	775	—	—	-
Repayment of Loans	32	230	66	80
Net Public Borrowing	743	(230)	(66)	(80)
Increase in Liquid Reserves	174	(227)	(116)	362
TOTAL FINANCING	**1,799**	**1,319**	**1,616**	**1,055**

Budgetary Revenue — Table C2

($ million)

	1975-76	1976-77	Interim 1977-78	Estimated 1978-79
Taxation				
Personal Income Tax[1]	1,571	1,782	2,450	2,752
Revenue Guarantee	255	496	210	40
Corporation Taxes				
Income Tax	976	791	877	1,045
Capital Tax	120	143	195	242
Insurance Premiums Tax	44	68	85	85
Mining Profits Tax	63	42	40	33
Retail Sales Tax	1,328	1,775	1,975	2,165
Gasoline Tax	505	508	525	537
Motor Vehicle Fuel Tax	73	79	87	93
Reciprocal Taxation	—	—	22	49
Tobacco Tax	104	157	215	253
Land Transfer Tax	51	52	62	68
Land Speculation Tax	3	6	8	9
Succession Duty	64	62	75	70
Race Tracks Tax	38	41	44	46
Income Tax — Public Utilities	7	5	8	8
Other Taxation	3	(1)	3	3
	5,205	6,006	6,881	7,498
Other Revenue				
Premiums — OHIP	573	799	820	1,120
LCBO Profits	273	302	321	350
Vehicle Registration Fees	222	223	286	305
Other Fees and Licences	165	190	215	234
Ontario Lottery Profits	42	76	70	70
Fines and Penalties	47	51	60	65
Royalties	40	42	50	52
Sales and Rentals	37	52	48	50
Utility Service Charges	32	36	40	44
Miscellaneous	53	56	59	61
	1,484	1,827	1,969	2,351
Payments from the Federal Government (see Table C6)	1,930	2,236	2,030	2,344
Interest on Investments	391	445	445	452
TOTAL BUDGETARY REVENUE	**9,010**	**10,514**	**11,325**	**12,645**

[1]Net of tax credits of $391 million, $418 million, $422 million and $434 million for the 1975-76, 1976-77, 1977-78 and 1978-79 fiscal years.

Budgetary Expenditure by Policy Field and Ministerial Responsibility

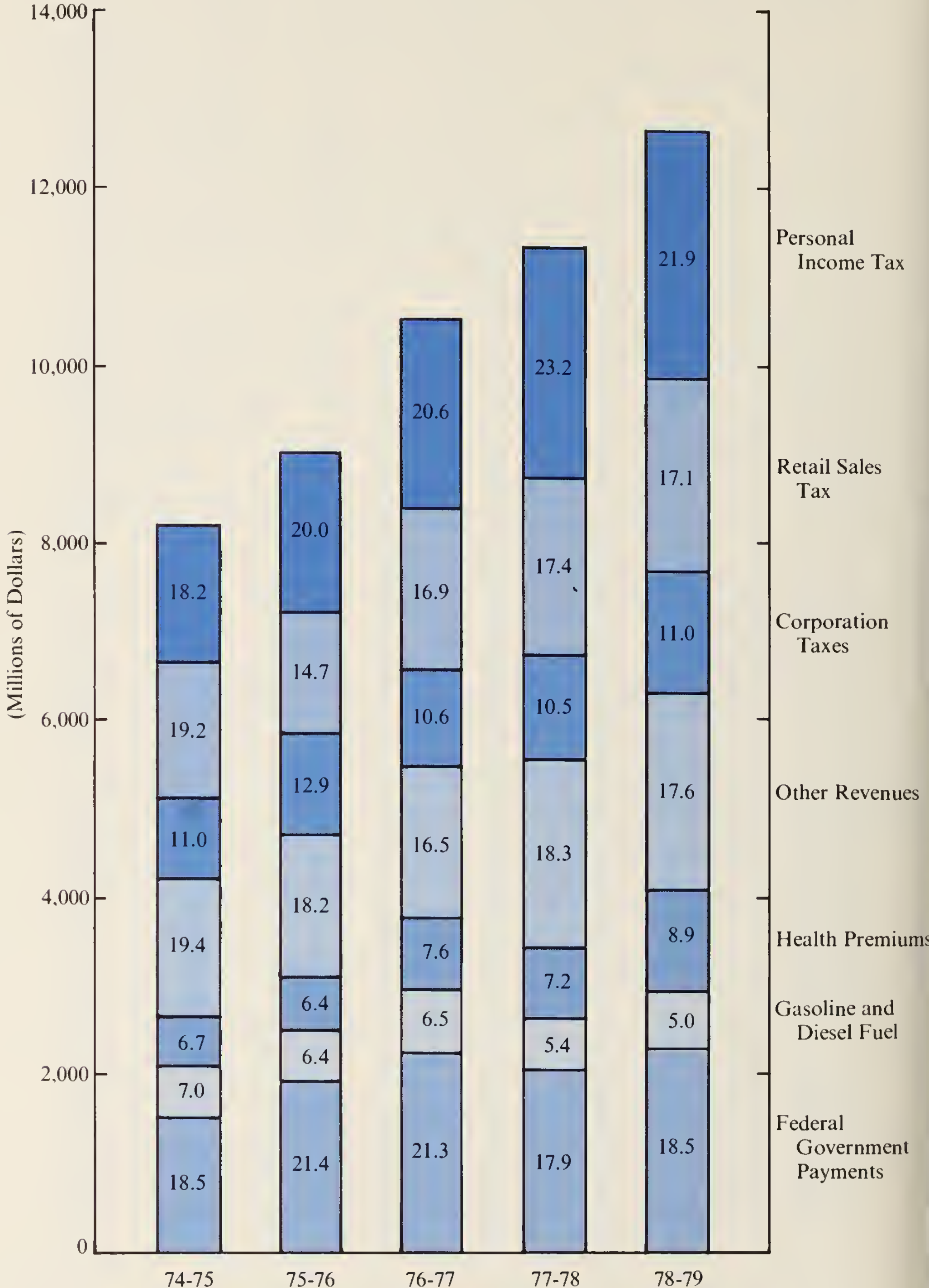
Table C3

($ million)

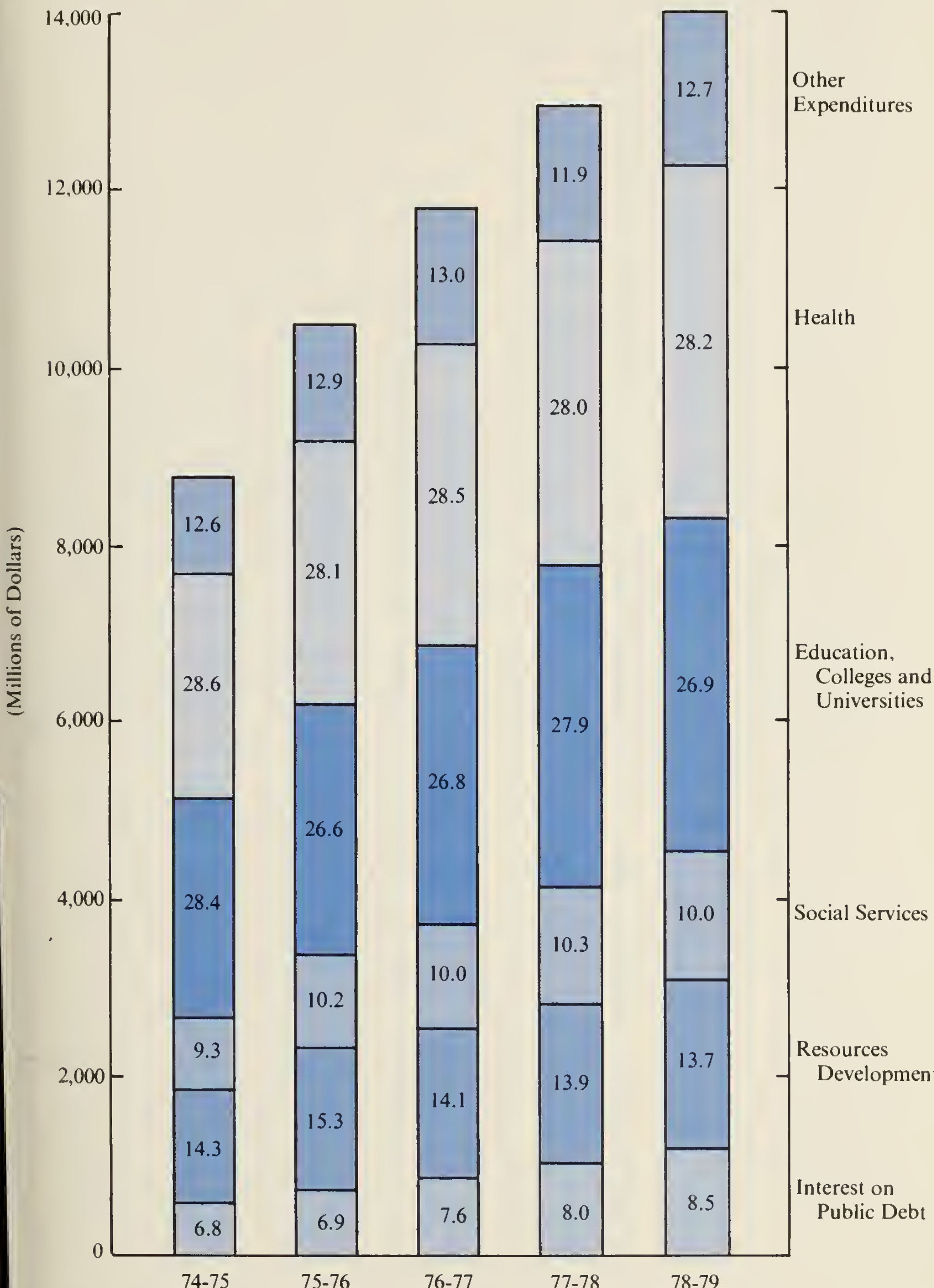
	1975-76	1976-77	Interim 1977-78	Estimated 1978-79
Social Development Policy				
Health	2,945	3,349	3,624	3,945
Education	1,776	1,986	2,344	2,399
Colleges and Universities	1,019	1,158	1,259	1,369
Community and Social Services	956	1,034	1,144	1,226
Culture and Recreation	109	144	190	181
	6,805	7,671	8,561	9,120
Resources Development Policy				
Transportation and Communications	911	917	1,009	1,060
Natural Resources	202	234	231	247
Housing	192	157	175	201
Agriculture and Food	151	165	174	176
Environment	83	99	111	127
Industry and Tourism	50	56	54	62
Labour	20	23	31	36
Energy	4	4	9	13
	1,613	1,655	1,794	1,922
Justice Policy				
Solicitor General	128	144	157	167
Attorney General	99	116	131	136
Correctional Services	88	107	117	123
Consumer and Commercial Relations	43	61	66	64
	358	428	471	490
Other Ministries				
Treasury, Economics and Intergovernmental Affairs	387	481	414	532
Government Services	288	295	279	262
Revenue	173	198	197	203
Northern Affairs	95	87	117	140
Assembly	30	17	30	17
Management Board	8	8	8	9
Ombudsman	1	3	4	4
Other	7	10	11	11
	989	1,099	1,060	1,178
Public Debt—Interest	725	890	1,036	1,196
Contingency Fund	—	—	—	99
TOTAL BUDGETARY EXPENDITURE	**10,490**	**11,743**	**12,922**	**14,005**

Major Revenue Sources, 1974-75 to 1978-79 — Chart C1

(per cent of total)



Major Expenditure Functions, 1974-75 to 1978-79 Chart C2
(per cent of total)



Details of Non-Budgetary Transactions — Table C4

($ million)

RECEIPTS	1975-76	1976-77	Interim 1977-78	Estimated 1978-79
Repayments of Loans, Advances and Investments				
Ontario Mortgage Corporation	21	28	24	144
Education Capital Aid Corporation	51	56	62	66
Investment in Environmental Protection	17	32	33	33
Universities Capital Aid Corporation	22	24	26	28
Nuclear Power Generating Station	11	20	24	23
Ontario Development Corporations	20	21	23	19
Loans to Public Hospitals	14	16	17	18
Tile Drainage Debentures	5	6	7	9
Ontario Housing Corporations	13	10	16	9
Municipal Improvement Corporation	5	4	5	5
Ontario Junior Farmers	3	3	6	4
Municipal Works Assistance	6	5	5	4
Ontario Land Corporation	4	—	—	—
Other	11	10	8	14
TOTAL RECEIPTS	**203**	**235**	**256**	**376**

DISBURSEMENTS	1975-76	1976-77	Interim 1977-78	Estimated 1978-79
Loans, Advances and Investments				
Investment in Environmental Protection	155	146	145	153
Education Capital Aid Corporation	98	77	75	79
Ontario Development Corporations	52	30	39	47
Ontario Housing Corporations	56	36	43	33
Ontario Land Corporation	22	—	8	30
Regional and Municipal Public Works	20	27	25	26
Ontario Mortgage Corporation	178	180	86	22
Ontario Transportation Development Corporation	—	6	27	20
Tile Drainage Debentures	16	16	20	18
Ontario Energy Corporation	—	—	3	15
Municipal Improvement Corporation	9	16	3	5
Loans to Public Hospitals	33	35	33	—
Universities Capital Aid Corporation	42	33	34	—
Winter Capital Projects	34	—	—	—
Ontario Northland Transportation Commission	11	—	—	—
Crop Insurance Commission	3	2	13	—
Other	1	3	3	5
TOTAL DISBURSEMENTS	**730**	**607**	**557**	**453**
NET INCREASE IN LENDING ACTIVITY	**527**	**372**	**301**	**77**

Details of Non-Budgetary Transactions — Table C5

($ million)

CREDITS	1975-76	1976-77	Interim 1977-78	Estimated 1978-79
Payments into Special Purpose Accounts				
Public Service Superannuation Fund	195	239	248	297
Teachers' Superannuation Adjustment Fund	19	44	50	62
Public Service Superannuation Adjustment Fund	2	18	32	31
The Provincial Lottery	—	10	31	30
Province of Ontario Savings Deposits (net)	53	52	10	28
Motor Vehicle Accident Claims Fund	15	17	18	18
Other	23	19	17	13
TOTAL CREDITS	**307**	**399**	**406**	**479**
CHARGES				
Payments from Special Purpose Accounts				
Public Service Superannuation Fund	47	52	58	62
Motor Vehicle Accident Claims Fund	15	17	17	18
The Provincial Lottery	—	2	8	11
Ontario Energy Corporation	28	39	33	—
Other	9	7	8	6
TOTAL CHARGES	**99**	**117**	**124**	**97**
NET INCREASE IN SPECIAL PURPOSE ACCOUNTS	**208**	**282**	**282**	**382**

Federal Government Payments to Ontario — Table C6

($ million)

	1975-76	1976-77	Interim 1977-78	Estimated 1978-79
Established Programs Financing[1]	—	—	1,233	1,492
Hospital Insurance	849	1,027	29	39
Medical Care	288	360	8	—
Post-Secondary Education Payments	167	190	—	—
Extended Health Care Services[2]	—	—	167	188
Canada Assistance Plan	444	472	385	420
Adult Occupational Training	71	80	88	88
Bilingualism Development	30	36	35	37
Economic Development	23	14	26	20
Vocational Rehabilitation	11	10	14	14
Other Federal Payments	47	47	45	46
TOTAL PAYMENTS	**1,930**	**2,236**	**2,030**	**2,344**
Annual Per Cent Increase	27.2	15.9	(9.2)	15.5
Federal Payments as a Per Cent of Ontario Budgetary Revenue	21.4	21.3	17.9	18.5

[1]Replaces Hospital Insurance, Medical Care and Post-Secondary Education Agreements effective April 1, 1977.

[2]Replaces a portion of shared-cost expenses previously paid under the Canada Assistance Plan.

Ontario's Capital Investments — Table C7

($ million)

	1976-77	Interim 1977-78	Estimated 1978-79
Physical Assets (roads, water and sewer facilities, etc.)	695	758	800
Buildings (schools, universities, hospitals, etc.)	382	393	362
Land	91	79	81
Transportation Vehicles (buses, subway and streetcars, etc.)	44	84	74
Financial Assets (mortgages, commercial loans, etc.)	268	163	87
TOTAL INVESTMENTS	**1,480**	**1,477**	**1,404**

Financing
($ million)

Table C8

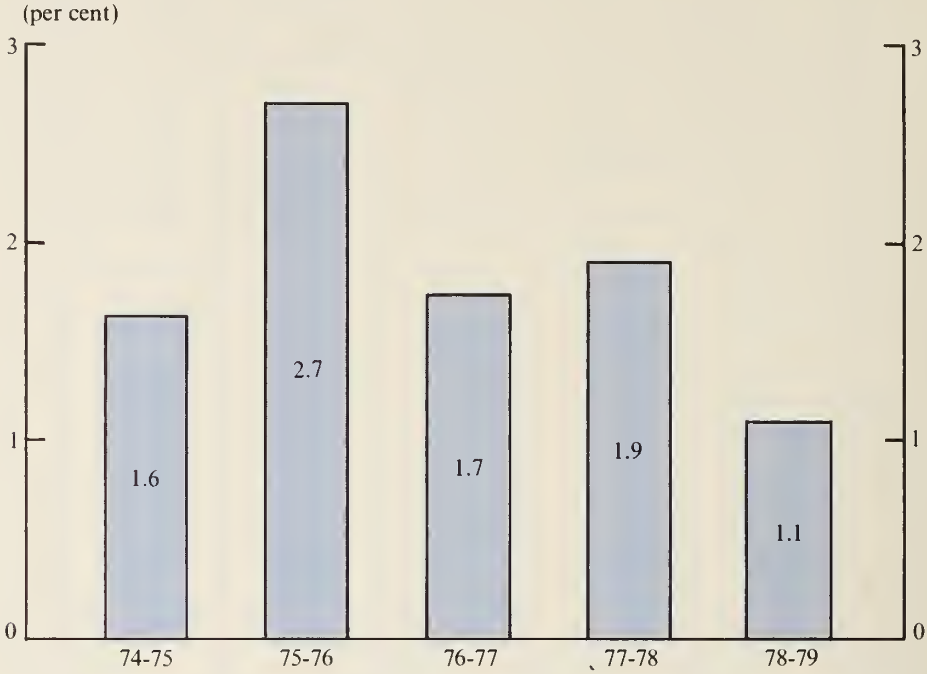
	1975-76	1976-77	Interim 1977-78	Estimated 1978-79
Non-Public Borrowing				
Canada Pension Plan	784	813	860	910
Teachers' Superannuation Fund	197	334	481	450
Municipal Employees' Retirement Fund	156	180	190	100
CMHC Pollution Control Loans	36	39	52	56
Federal-Provincial Winter Capital Projects Fund	64	—	—	—
Retirements	(7)	(44)	(17)	(19)
Net Non-Public Borrowing	1,230	1,322	1,566	1,497
Public Borrowing				
Treasury Bills (net)	325	(195)	—	—
Debenture Issues	450	—	—	—
Debenture Retirements	(32)	(35)	(66)	(80)
Net Public Borrowing	743	(230)	(66)	(80)
Increase in Liquid Reserves	174	(227)	(116)	362
TOTAL FINANCING	**1,799**	**1,319**	**1,616**	**1,055**

Reconciliation of Provincial Net Cash Requirements and Financing, with Public Accounts
($ million)

Table C8(a)

	1975-76	1976-77	Interim 1977-78	Estimated 1978-79
Net Cash Requirements for Provincial Purposes	1,799	1,319	1,616	1,055
Net Cash Requirements for Ontario Hydro Transactions	530	269	392	—
Total Cash Requirements (per Public Accounts)	**2,329**	**1,588**	**2,008**	—
Financing for Provincial Purposes	1,799	1,319	1,616	1,055
Net U.S. Borrowing on Behalf of Ontario Hydro	530	269	392	—
Total Financing (per Public Accounts)	**2,329**	**1,588**	**2,008**	—

Net Cash Requirements as a Per Cent of Gross Provincial Product, 1974-75 to 1978-79 — Chart C3



Ontario Payments to Local Governments and Agencies
($ million)

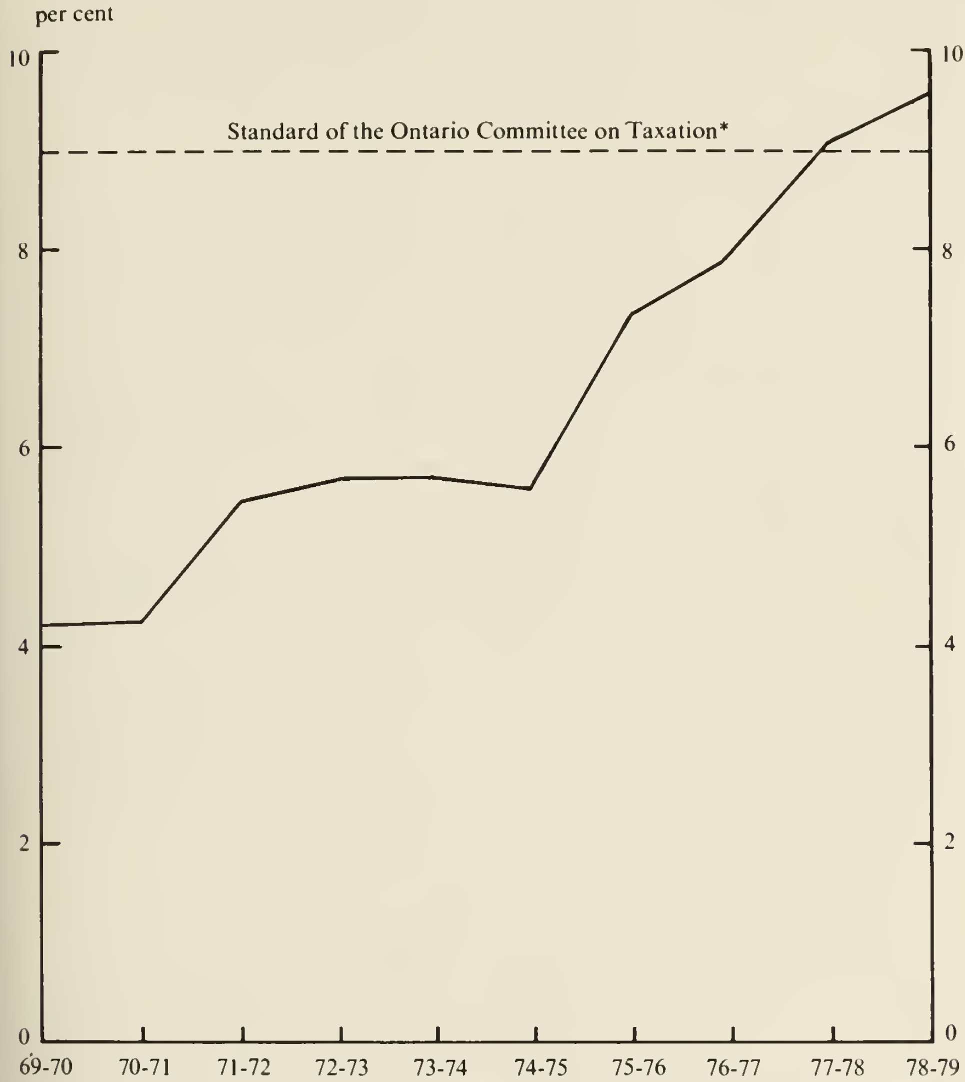
Table C9

	1975-76	1976-77	Interim 1977-78	Estimated 1978-79
Conditional Payments				
Education				
General Legislative Grants	1,575	1,693	1,871	1,970
Teachers' Superannuation Fund	127	209	387	331
Transportation	442	442	489	513
Social Assistance	170	162	187	202
Agriculture	43	56	57	61
Housing	31	42	38	42
Environment	14	18	25	35
Culture and Recreation	16	15	23	23
Other	42	39	45	56
	2,460	2,676	3,122	3,233
Unconditional Payments				
General Support	79	97	111	133
Resource Equalization	81	88	98	109
Per Capita—Policing	71	109	56	93
Per Capita—General	64	98	42	76
Payments-in-Lieu of Taxes	35	40	45	49
Northern Ontario Grants	18	22	31	35
Other	32	25	19	21
	380	479	402	516
Payments to Local Agencies				
Homes for the Aged	78	82	85	90
Children's Aid Societies	67	74	78	84
Health Agencies	43	50	56	65
Conservation Authorities	33	26	27	29
Library Boards	19	20	22	22
	240	252	268	290
TOTAL FINANCIAL TRANSFERS	**3,080**	**3,407**	**3,792**	**4,039**
Growth in Total Financial Transfers (%)	18.7	10.6	11.3	6.5

Net Debt as a Per Cent of Budgetary Revenue, 1969-70 to 1978-79

Chart C4

Net Debt as a Per cent of Gross Provincial Product, 1969-70 to 1978-79 — Chart C5



*See, *The Ontario Committee on Taxation* (Toronto: Queen's Printer, 1967), Volume I, p. 281.

Public Service Strength in Ontario by Category, December 31, 1977[1] — Table C10

Ministry	Classified Staff	Unclassified Staff	Other Crown Employees	Total
Premier	43	24	—	67
Cabinet Office	32	5	—	37
Management Board	80	8	—	88
Civil Service Commission	172	55	34	261
Government Services	2,831	502	—	3,333
Revenue	3,887	137	—	4,024
Treasury	616	150	1	767
Northern Affairs	114	33	—	147
Justice Policy	13	—	—	13
Attorney General	2,874	1,661	369	4,904
Consumer and Commercial Relations	1,785	376	63	2,224
Correctional Services	4,456	1,028	60	5,544
Solicitor General	1,461	491	3	1,955
Resources Development Policy	13	68	—	81
Agriculture and Food	1,589	734	—	2,323
Energy	70	14	—	84
Environment	1,455	176	—	1,631
Housing	845	297	1,395	2,537
Industry and Tourism	511	148	—	659
Ontario Development Corporation	199	3	1	203
Labour	1,031	56	11	1,098
Natural Resources	3,870	3,165	—	7,035
Transportation and Communications	10,495	2,446	107	13,048
Social Development Policy	21	37	—	58
Colleges and Universities	632	81	2	715
Community and Social Services	9,872	1,440	17	11,329
Culture and Recreation	560	651	—	1,211
Education	1,600	427	600	2,627
Health	12,189	992	—	13,181
Total	63,316	15,205	2,663	81,184
O.P.P. Uniformed Staff and Security Guards	4,136	—	—	4,136
Environment Plant Operators	542	82	—	624

[1]Excludes staff of the Lieutenant Governor, Office of the Assembly, Ombudsman and Provincial Auditor.

Ontario Lottery Proceeds
($ million)

Table C11

	1976-77	Interim 1977-78	Estimated 1978-79
Funds available from prior years	38	78	83
Ontario Lottery Proceeds	76	70	70
	114	148	153
Less—Expenditure on approved projects and overhead costs	36	65	41
Less—Project commitments	60	62	85
Cumulative Funds available	18	21	27

Provincial Lottery Proceeds
($ million)

Table C12

	1976-77	Interim 1977-78	Estimated 1978-79
Funds available from prior years	—	8	31
Provincial Lottery Proceeds	10	31	30
	10	39	61
Less—Approved spending for health and environmental research	2	8	11
Cumulative Funds available	8	31	50

Ten-Year Review

($ million)

Table C13

	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	Interim 1977-78	Estimated 1978-79
Budgetary Transactions										
Revenue	4,360	5,024	5,340	6,046	6,843	8,177	9,010	10,514	11,325	12,645
Expenditure	4,210	5,160	5,965	6,412	7,223	8,724	10,490	11,743	12,922	14,005
Surplus or (Deficit)	150	(136)	(625)	(366)	(380)	(547)	(1,480)	(1,229)	(1,597)	(1,360)
Financial Position										
Total Liabilities	5,084	5,795	6,986	8,333	9,390	10,832	13,544	15,187	n.a.	n.a.
Total Assets	3,691	4,266	4,832	5,811	6,488	7,384	8,616	9,030		
Net Debt (total liabilities minus total assets)	1,393	1,529	2,154	2,522	2,902	3,448	4,928	6,157	7,754	9,114
Net Debt Per Capita (dollars)	189	203	280	324	368	429	605	746	928	1,077
Net Debt as a Per Cent of Gross Provincial Product (%)	4.3	4.3	5.6	5.8	5.8	5.7	7.4	8.0	9.1	9.5
Net Debt as a Per Cent of Budgetary Revenue (%)	31.9	30.4	40.3	41.7	42.4	42.2	54.7	58.6	68.5	72.1
Contingent Liabilities (mainly Ontario Hydro)	**2,168**	**2,413**	**2,781**	**3,030**	**3,330**	**3,843**	**5,027**	**5,734**	n.a.	n.a.

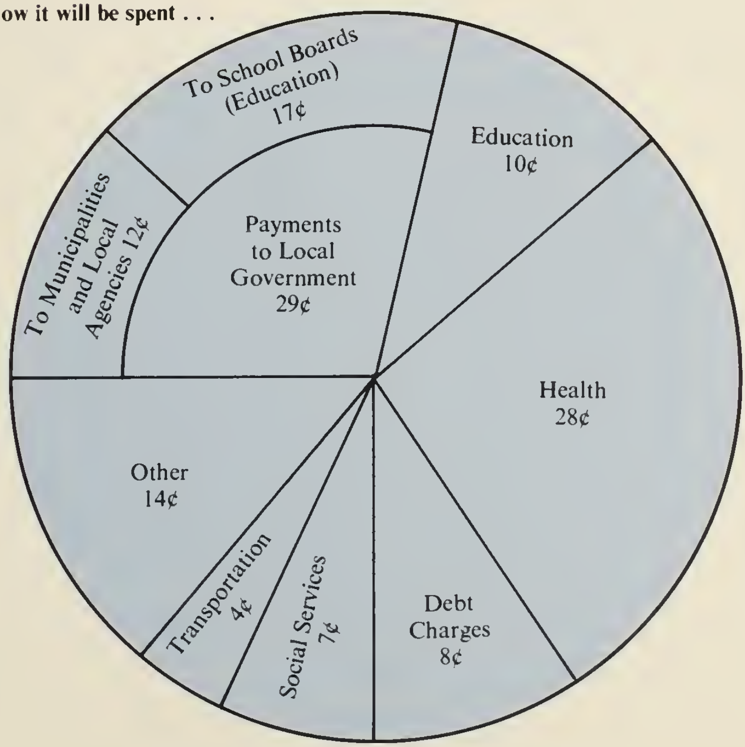
n.a.—not available.

THE BUDGET DOLLAR

Fiscal Year 1978-79 Estimates

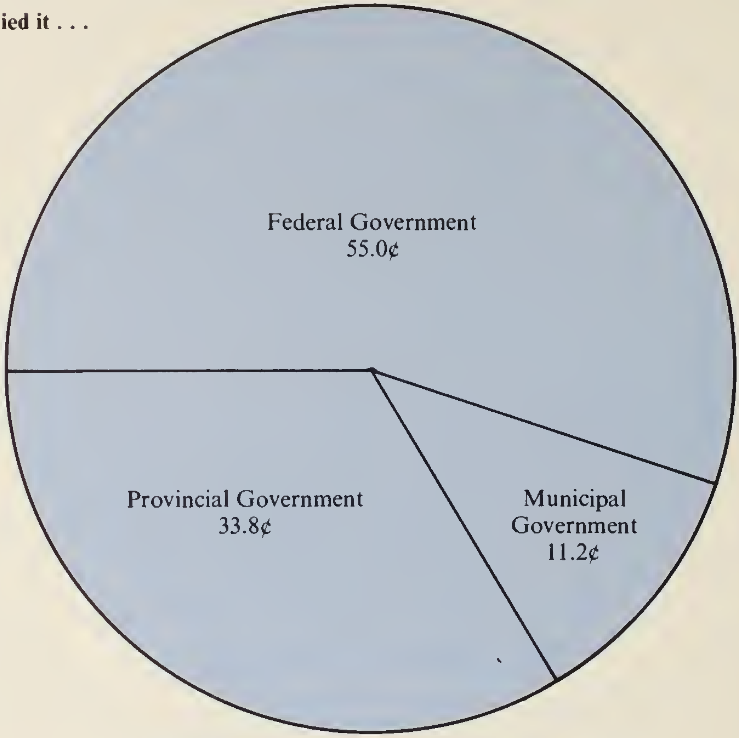
Where it will come from . . .

How it will be spent . . .



THE TAX DOLLAR IN ONTARIO 1977

Who levied it . . .



Who spent it . . .