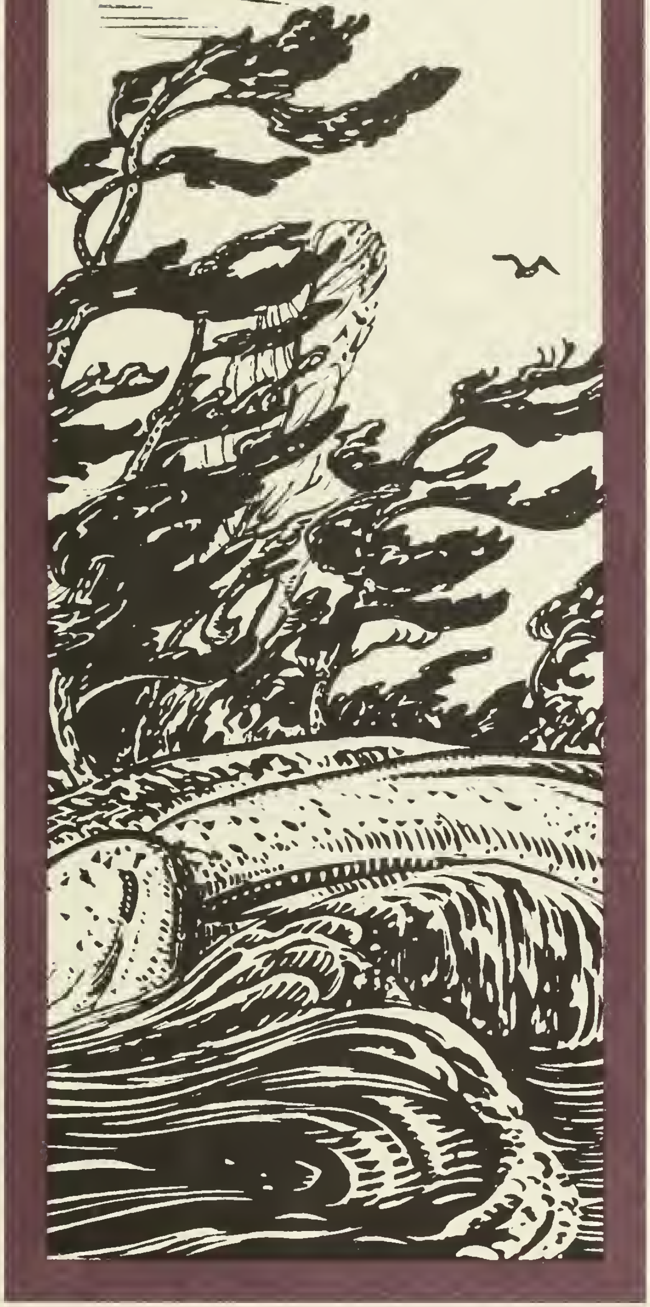

Ontario Budget

1993

1993 ONTARIO BUDGET

PRESENTED TO THE
MEMBERS OF THE LEGISLATIVE
ASSEMBLY OF ONTARIO BY
FLOYD LAUGHREN
MINISTER OF FINANCE
MAY 19, 1993

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The Cover: A.Y. Jackson, detail of Pine Island, from "Canadian Drawings - a portfolio of prints by members of the Group of Seven", 1925. Collection: Art Gallery of Ontario.

1993 Ontario Budget

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Budget at a Glance Table 1
($ Millions)

	Interim 1992-93	Budget Plan 1993-94	Per Cent Change
Revenue	41,799	43,985	5.2
Operating Expenditure: Programs	44,845	42,898	(4.3)
Public Debt Interest	5,350	7,150	33.6
Total Operating Expenditure	50,195	50,048	(0.3)
Operating Deficit	**8,396**	**6,063**	
Capital Expenditure	3,594	3,096*	
Budgetary Requirements	**11,990**	**9,159**	

* Excludes $804 million in alternative capital financing in 1993-94.

Introduction

Mr. Speaker, the Budget I am presenting today marks a turning point for Ontario.

After a terrible battering, our economy is gathering strength. In the past eight months, Ontario's economy has created 98,000 jobs – almost 90 per cent of them full-time. The pace of job growth so far this year is the fastest since 1988.

This Budget provides a solid foundation for the economic recovery. We cannot build our future economy on a foundation of debt. We must invest in jobs, make government more efficient, and put public services on a sound financial footing.

That is what this Budget does.

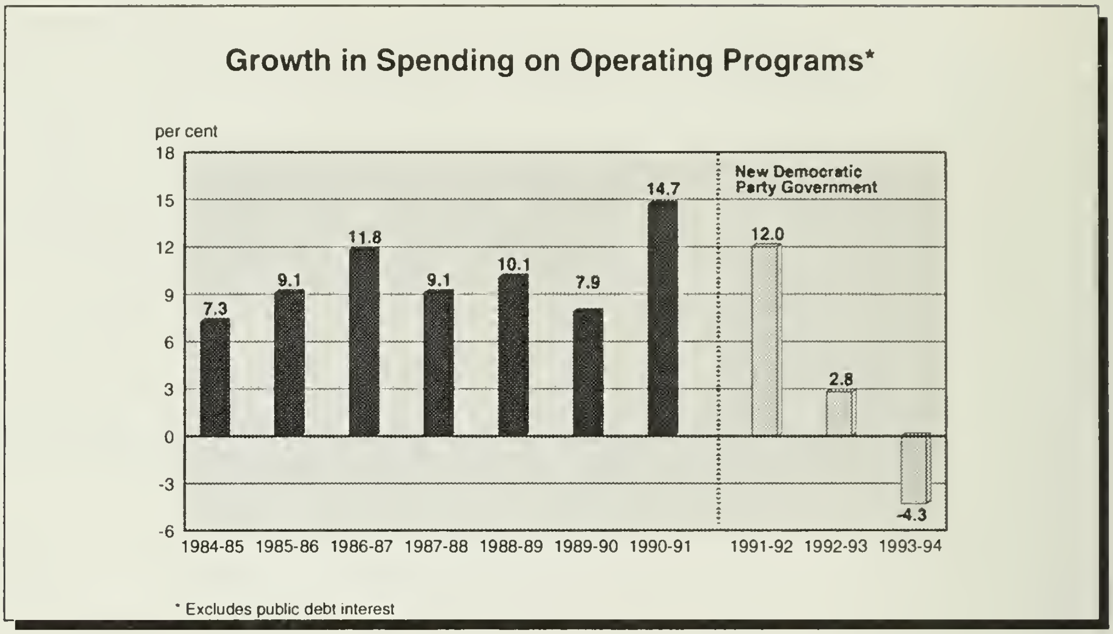
This Budget will help put more Ontarians back to work.

- We are investing almost $4 billion in capital works – such as highways, transit services, telecommunications networks, hospitals and schools – to create jobs and renew our infrastructure.
- We are investing more than $1 billion in training and adjustment to help Ontario's workers secure decent jobs in the new economy.
- We are expanding **jobsOntario** to help communities invest in permanent job creation.
- We are going to overhaul the social assistance system to provide more support to help get people back into the workforce.

At the same time, we are putting our public finances on a sound and secure footing.

- For the first time since 1942, our operating spending will actually decline.
- We are cutting the cost of running government programs by 4.3 per cent from last year's level.
- For every dollar in new taxes, there are almost four dollars in savings and reduced costs.

Figure 1



- By the end of this fiscal year, the size of government will be reduced by 5,000 employees from two years ago.
- Our deficit for this year – which had threatened to climb to almost $17 billion – has been cut to almost half that level, at $9.2 billion.

By making government more efficient, we are ensuring that we can keep and improve the essential public services that Ontarians value.

- We are maintaining a universal and affordable health care system for all Ontarians.
- We are establishing a Royal Commission on Learning so that our schools – which are among the best-funded in the world – can fully prepare our children for the demands of a changing economy and a changing society.
- We have built and are continuing to support North America's most comprehensive pay equity program for working women.
- We have expanded our environmental 3Rs program to promote reducing, reusing and recycling, and we will become the first province in Canada to enact an Environmental Bill of Rights.
- We are providing $85 million this year – twice as much as four years ago – to prevent violence against women and their children and provide services to those who have been affected by it.

This Budget includes tax measures that are necessary to put our public finances on a solid footing. I have taken every possible step to make these tax measures fair to the average Ontarian and to minimize the impact on the economic recovery.

- I am raising the Personal Income Tax and the surtax. The wealthiest in our society will pay the most.
- I am introducing a Corporate Minimum Tax on profitable corporations that pay little or no income tax. All small businesses will be exempt from this tax.
- I am closing corporate tax loopholes, eliminating outdated tax expenditures and improving collections. Deductions for expense-account meals and entertainment will be cut to 50 per cent.
- The Retail Sales Tax rate will not be increased.
- I am abolishing the $5 tax on new tires.
- I am abolishing the Commercial Concentration Tax.

Not everyone will like all the details of this package. But everyone should know that it is balanced, it is fair and it is necessary.

It balances the need to invest in jobs, maintain important public services and get our fiscal house in order. It takes a three-pronged approach to managing the fiscal challenge – by reducing the cost of government programs, negotiating a social contract with the public sector, and raising revenues.

This package is fair because it asks all of us to share the cost, and it protects those who are most vulnerable.

It is necessary because we owe it to those who will inherit this province to pass on a strong and productive economy, and vibrant and healthy public services.

A Solid Foundation for Economic Recovery

We have taken a hard look at our finances and made some tough decisions.

In April I provided the details on $4 billion in spending cuts for our 1993-94 Budget. These cuts, and the additional measures I am taking today, are necessary for one reason: we cannot build a solid and sustained economic recovery if we do not invest in jobs and take firm action on the public debt.

Excluding sovereign countries, Ontario has become the largest borrower in the world. On average we borrow more than $1 billion a month. We spend more on interest costs than we spend on our schools. About two-thirds of our new borrowing comes from outside Canada – which means that most of the interest we pay on this borrowing goes to foreign bankers, investors and economies.

Simply to let the debt increase each year at an accelerating pace would be irresponsible. Consumers would know that more and more of their incomes would be taxed away to pay the cost of public debt interest – not just this year, but long into the future. Businesses looking for a good place to invest would be discouraged from locating here. All of us who rely on our health care system and other public services would know that, sooner or later, there would simply not be enough money to maintain those services. More and more of our tax dollars would go to pay government bondholders in New York, Zurich, Tokyo and elsewhere instead of being invested here in Ontario – in Ontario services and Ontario jobs.

In March I warned that, if we did not take action, our debt would grow by almost $17 billion in 1993-94. I said that such a debt load was unacceptable to me and to this Government. In this Budget I have cut that amount almost in half.

There will be those who say that Ontario could live with a $17 billion deficit. That view ignores the realities of escalating debt and compound interest.

With that high a deficit – even assuming that international bankers would lend us the money – our interest costs would take off. With the actions we are taking today, they start to stabilize. And we will save almost $5 billion in interest costs over the next three years. That's almost $500 for every man, woman and child in the province – money that will stay in the pockets of Ontarians, instead of going to well-to-do bondholders.

Anyone who has let their credit card account get out of control knows how hard it is to pay down the debt when the interest charges keep piling up month after month. It's called a debt trap, and we are determined not to be caught in one.

There will also be those who say that we should have brought this year's deficit down even lower. But that would fatally damage essential public services and undermine Ontario's ability to care for our most vulnerable citizens.

In bringing the deficit down at a responsible pace, I am preserving investments in jobs, and I am maintaining the services that Ontarians value most.

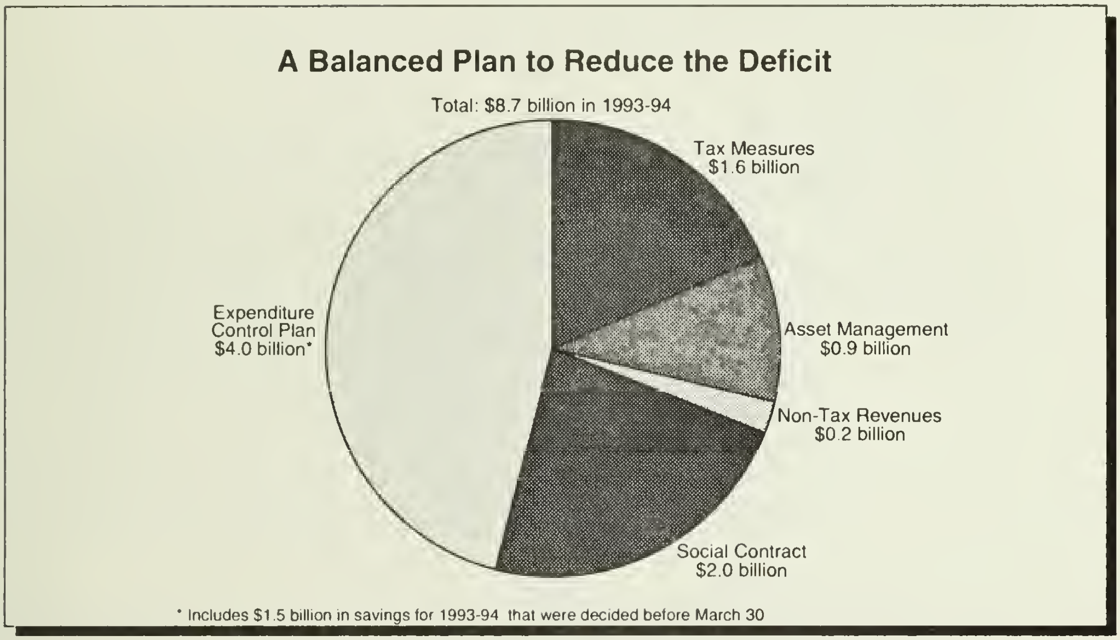
To me, the issue is not *whether* we control the growth in debt. The issue is *how*. The growth in debt must be controlled in a fair and balanced way, protecting those who are most vulnerable. It must be controlled in a way that maintains our investments in jobs, and that protects important public services and makes them more efficient. It must be controlled by decisions that are made in Ontario. And it must be controlled now.

Almost half of the deficit reduction we have achieved has come from our Expenditure Control Plan. About one-quarter is achieved through cost reductions that are being negotiated with workers and employers in the public sector.

For every dollar in new taxes, we have achieved almost four dollars in savings and reduced costs. A typical two-income family of four earning $60,000 will be asked to pay an annual tax increase of less than seven dollars a week.

I think that's a fair balance.

Figure 2



Investing in Jobs and People

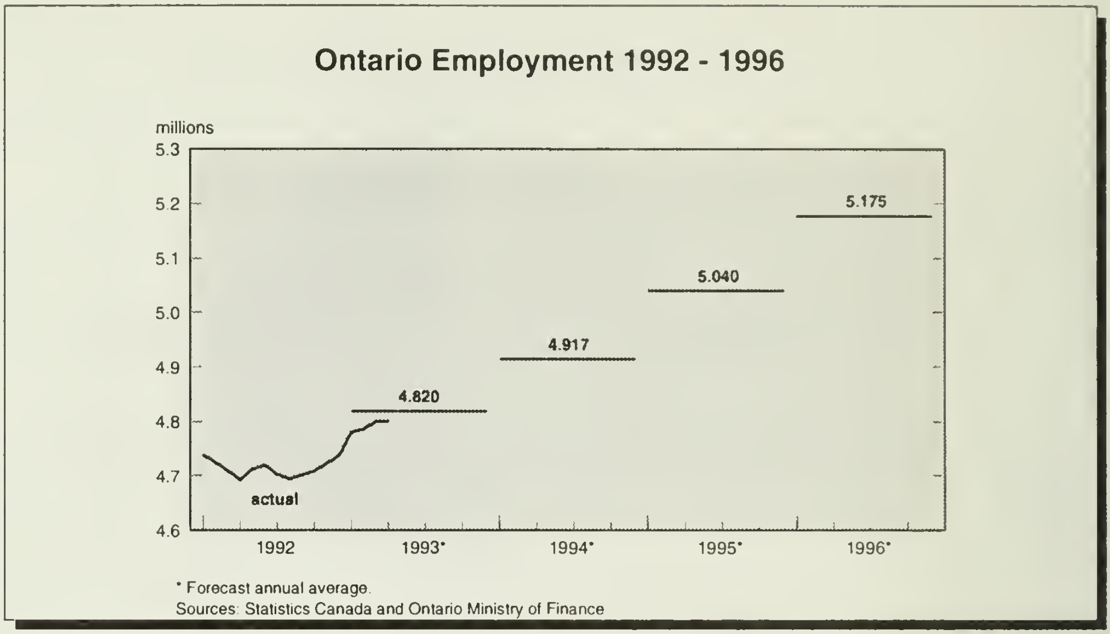
Our Budget invests to put Ontario back to work. After a long period of stagnation and uncertainty, the economic recovery is taking hold. The job picture is improving. In the past year, Ontario has accounted for two-thirds of Canada's net new jobs.

Ontario's export-based manufacturing sector, no longer strangled by a severely overvalued dollar, has strengthened. So far this year, Ontario's international exports are up by more than 11 per cent over the same period last year. Canadian auto exports have risen by 26 per cent over the same period. Manufacturing shipments have risen by more than 6 per cent. Who says businesses in Ontario can't compete? Who says Ontario workers are not among the best and most productive in the world?

Although consumers have been cautious, they too are responding to the improving economy. The Conference Board of Canada's index of consumer confidence rose by seven per cent in the first quarter of 1993, and retail spending has risen gradually.

Investment is rising as business prepares to take advantage of Ontario's solid economic future. Ontario manufacturers plan to increase investment spending by close to 30 per cent in 1993.

Figure 3



Even though the job picture is improving, unemployment is still unacceptably high. That is why the cornerstone of our economic package is to support investment that will strengthen the recovery and create jobs.

Investing in Jobs

Since we took office, our top priority has been to invest in jobs.

- Through the Sector Partnership Fund, we are working with business, labour and associations to create and maintain permanent jobs in eight key sectors – automotive parts, aerospace, computing, construction, green industries, residential furniture, telecommunications and tourism – with more sectors to be added in the coming months.
- We have negotiated sectoral training agreements with industry, labour and the federal government to provide training and skills upgrading for an estimated 37,000 workers in the electrical and electronics, auto parts and steel sectors.
- We are providing tax support for labour-sponsored investment funds that have already raised over $100 million to invest in small and medium-sized companies. In the coming year we will be reviewing proposals to expand and improve this program.
- We are working with leading financial institutions to establish an investment corporation that will direct critical financial capital and expertise to Ontario's

growth companies. There are banks and other financial institutions that recognize they have a responsibility to participate in the renewal of Ontario's economy. Together we are going to provide a means to make that happen.

- We are supporting Ontario Hydro's plan to freeze power rates this year and keep increases at or below the rate of inflation for the rest of this decade, providing a crucial foundation for a sustainable economic recovery.

Over the past year, **jobsOntario** has shown what public investment in job creation can do. This program has helped put thousands of Ontarians back to work. It has provided training and jobs for welfare recipients. It has provided work experience for young people. It has built valuable public infrastructure in communities across Ontario.

jobsOntario

jobsOntario *Capital*	– created or maintained 8,400 full-year jobs in 1992-93 – will invest $700 million in 1993-94, creating or maintaining 12,000 full-year jobs
jobsOntario *Training*	– 24,500 positions created by employers to date – 10,000 workers are completing training and are on the job – $98 million in training assistance provided in 1992-93, increasing to $329 million in 1993-94
jobsOntario *Youth*	– 9,500 summer jobs created in 1992 – target 10,000 summer jobs for 1993
jobsOntario *Homes*	– construction of new homes will create 2,850 full-year jobs in 1993-94
jobsOntario *Community Action*	– new program this year – $300 million over 3 years, including more than $120 million in **jobsOntario** *Capital*

In this Budget, we are once again investing in jobs.

- We are establishing **jobsOntario** *Community Action* to support community economic development.
- Through **jobsOntario** *Capital* and other programs, we are launching the most ambitious program of infrastructure investment in a generation.
- We are expanding investments in training, including **jobsOntario** *Training*, to support a skilled and adaptable workforce.
- And we are revamping social assistance to help people get back to work and help working families who have low incomes.

Supporting Communities and Local Enterprise

Building on the success of **jobsOntario** over the past year, we are creating a new **jobsOntario** *Community Action* program to give communities more say in their own economic development.

The people who live and work in communities across this province know better than anyone at Queen's Park the economic development priorities of their cities, towns and regions. **jobsOntario** *Community Action* will help communities help themselves.

We will invest $300 million in the first three years. The funds for community action come from the consolidation of an array of existing programs and a special allocation of more than $120 million from **jobsOntario** *Capital*.

This program will mobilize the strengths and talents of business, labour, non-profit organizations, cooperatives, credit unions, local governments, and other groups and individuals to get ideas for job creation off the drawing board.

jobsOntario *Community Action* will help fund capital projects that promote new growth. It will offer loan guarantees to new organizations called Community Loan Fund Corporations — so that local enterprises will have somewhere to turn when they can't get a loan at the bank.

It will also support local groups in setting up Community Investment Share Corporations, so that local businesses have a new source of equity investment. It will help build the capacity of communities to formulate their own economic development plans by helping to fund feasibility studies and marketing programs. And it will provide targeted support for women, Aboriginal people and other groups so that all parts of the community are included in economic development.

The Minister of Economic Development and Trade will provide additional details on the program and how communities can bring forward proposals.

We are also committing $100 million in capital funding over the next two years to support economic development in the communities affected by the decision to cancel government relocation projects. The Minister of Economic Development and Trade is initiating discussions with these communities to exchange ideas on how this funding can best be used to stimulate investment and create good jobs.

To support further development of the mining industry, particularly in Northern Ontario communities, I am providing capital tax relief for junior mining companies issuing flow-through shares to individuals. In addition, we will introduce legislation to allow mining companies to deduct immediately their contributions to reclamation funds for the clean-up of mine sites. This measure will preserve our environmental goals while providing a cash-flow benefit, especially for small mining companies.

Investing in Infrastructure

This past year, we launched a program of infrastructure investments on a scale not seen in Ontario since the 1960s.

We benefit today from the foresight of those who, a generation ago, planned and built our major highways and transit systems, our schools, colleges, universities and hospitals, our water and sewer systems, and our major public buildings. We have a duty to leave a solid legacy to those who will follow us in the new century.

In February, Premier Rae announced a comprehensive ten-year program to renew the province's infrastructure and create more than 100,000 jobs. These investments, to be made in partnership with municipalities and the private sector, will build highways and transit systems, improve water quality and conservation methods, and expand telecommunications networks.

We have initiated the **jobsOntario** *Capital* program to make strategic investments that support economic restructuring, promote community development, encourage social progress and preserve the environment.

More than 1,700 **jobsOntario** *Capital* projects have been started and over $400 million has been invested by the Province in the past year, creating or maintaining more than 8,400 full-year jobs.

To meet the demand for these strategic capital investments that create new jobs, I am expanding funding for **jobsOntario** *Capital* by $1 billion, to $3.3 billion over the period to 1996-97.

Some of the major investments through **jobsOntario** *Capital* include:

- the accelerated construction of Highway 407 and the widening of the Queen Elizabeth Way (QEW) from Hamilton to St. Catharines;
- work on the Scarborough Rapid Transit extension, the Sheppard Subway, the Eglinton West Subway, the Spadina Subway extension to York University and the Mississauga Transitway;
- the new science building at Wilfrid Laurier University in Waterloo;
- the new skills training centre at Durham College in Whitby;
- the Sudbury Southeast Bypass;

- 116 new water and sewer projects to protect the environment and support new development; and
- the Ontario Network Infrastructure Program to improve telecommunications networks that will assist researchers in universities and industries and widen Ontarians' access to information.

We are also working with the private and non-profit sectors to speed up the approval of environmentally sound development projects. In the past year, we have cut the red tape and accelerated approvals for 1,600 development projects with a potential value of $11.5 billion.

In 1993-94 alone, about 14,000 non-profit and co-operative housing units will be completed, as part of our commitment to affordable housing in Ontario communities. Last year more than one-quarter of all the new homes started in Ontario were supported through Provincial housing programs.

Under the *Capital Investment Plan Act*, we are creating three special-purpose Crown corporations to carry out investments in transportation, real estate, and water and sewer services. The three Crown corporations will work in partnership with municipalities and the private sector to plan and implement new investments as quickly and efficiently as possible.

We will also create a financing authority to arrange and coordinate domestic and international financing for these corporations, as well as for schools and hospitals, and for the Provincial government as a whole. The authority will be asked to explore new ways to finance the Province's borrowing needs. We want to discuss opportunities to develop domestic sources of capital with the banks, trust companies, credit unions and other members of the financial community.

Full details on our capital investments and financing for 1993-94 are found in Budget Paper C.

Education and Training

Nothing is more important to our future prosperity than the education and training of our young people and our workers. They are our greatest resource.

In February, Premier Rae consolidated into a single ministry the responsibility for providing education and training for Ontarians of all ages – from children in kindergarten to adults in the workforce.

Despite our financial situation, Ontario has – and will continue to have – one of the best-funded education systems in the world. We are investing $9 billion in education and training this year. That includes investments in training and adjustment totalling $1.2 billion – almost twice the level of four years ago.

Investing in People		Table 2
	1993-94	Change from 1989-90
Training and adjustment	$1.2 billion	+77%
Students assisted through OSAP	177,000 students	+76%
Publicly supported child care spaces	67,100 children	+44%

We are helping Ontarians to gain the knowledge and the skills that they will need to get good jobs. This past year, 353,000 Ontarians enrolled in full-time studies in our colleges and universities – the largest number in Ontario's history. Another 410,000 students registered for part-time post-secondary courses.

Our reforms to the Ontario Student Assistance Program (OSAP) mean that we will be able to help as many as 177,000 students in the coming year – 76 per cent more than four years ago. These reforms will stretch our dollars further and provide the greatest help to those who need it most.

We must also do everything we can to help Ontarians who are already in the workforce get the skills necessary for well-paying jobs in the new economy. Across Ontario last year, more than 300,000 people received training and placement services funded by the Province. This figure includes 88,500 young people and apprentices. This year we will invest $180 million in jobs, training, counselling and educational upgrading for young people through **jobsOntario** *Youth* and other important programs.

Through **jobsOntario** *Training*, which was launched last year, employers have already created over 24,500 new jobs. The first 10,000 workers are working as vehicle assemblers at Chrysler and Navistar, as machinists at Linamar, as seamsters at John Forsyth, as research technicians and chemists at Apotex, and in scores of other firms across the province. A year ago many of these workers were relying on social assistance. This is a tremendous example of what investing in people can do, both for individuals and for our economy.

In the coming year we will more than triple our investment in jobs and training under this program, to $329 million. Our aim is to assist another 35,000 to 40,000 unemployed workers. An equal number are expected to receive training through the program's support for those currently employed.

We are reducing the barriers that have prevented parents, particularly women, from entering the workplace. The number of publicly supported child care spaces has grown by 6,500 since 1990, to 53,100. Through **jobsOntario** *Training* and other programs, another 14,000 subsidized spaces will be made available this year, so that more parents, especially women, can participate in the expanding economy.

All this adds up to the largest investment in education and training of any government in Canada. It's good for business. It's good for the economy. But most of all, it's good for people.

Supporting Families, Getting Back to Work

While we have taken many steps to help unemployed Ontarians back into the workforce, it is clear that more needs to be done. More than one million people live in households that rely on social assistance for their means of support. That includes a half-million adults who could be productively employed. It also includes one child out of every five. Three-quarters of a million Ontarians live in households where, even though someone is working, their income leaves them in poverty.

This year the Government will release a White Paper on social assistance reform. This reform, which is to take effect in early 1995, will transform social assistance into a system that connects people to education, training, work and volunteer community activity. This overhaul will enable people to move out of the welfare system and into the labour market. We will also address child poverty through this reform.

This Budget's investments in people and jobs are an essential part of our vision for Ontario. New industries, new jobs at good wages, young people who finish school with the knowledge and skills they need, and communities that work – that's the future this Government is helping to build in Ontario.

A New Social Contract to Protect Jobs and Services

Just as we are investing in new jobs, so too are we committed to preserving jobs and public services. Ontario is envied for its comprehensive network of high-quality public services such as health care and education. This Government values the dedication and hard work of the people who provide them. Our debt problem means that we have to pursue this commitment to protecting jobs and services in a new way – by seeking a new Social Contract with employers and workers in public institutions.

Through the Social Contract, we are aiming to achieve benefits for all Ontarians by initiating long-term reforms that will modernize public services and put them on a more secure financial footing. We are committed to restructuring services, redeploying workers to new jobs, and re-skilling workers as the workplace changes.

- For employees in the public sector, the Social Contract can mean greater job security by avoiding the elimination of 20,000-40,000 jobs. It can also mean a stronger role for workers in decision-making, enhanced rights for retraining and redeployment, and improvements in collective bargaining structures.
- For employers in the public sector, the Social Contract can mean more flexible and cooperative processes for managing change.
- For the public who use government services and who pay for them, the Social Contract means that existing services can be maintained at an affordable cost, and that resources can be shifted more easily to provide new services as the need arises.

The Government is fully committed to achieving the planned $2 billion in savings from the affected sectors in 1993-94. In June the Government will publish a detailed account of how the savings have been achieved.

Social Contract Savings by Sector[1] **Table 3**
($ Millions)

Sector	Savings
Municipalities	285
Health	
Hospitals	253
OHIP/ODB	234
Other Health	73
Social Services	30
Agencies, Boards and Commissions[2]	145
Schools	520
Colleges	52
Universities	118
Ontario Public Service (OPS)	290
Total	**2,000**

1. Savings targets calculated on sectoral proportion of 1991-92 total compensation base adjusted to reflect the $25,000 low income cutoff.
2. Agencies, Boards and Commissions are Schedule II & III.
Sources: Management Board of Cabinet and Ministry of Finance.

Maintaining Services, Controlling Government Costs

The savings achieved through the Social Contract and through our $4 billion Expenditure Control Plan will help us maintain the public services that Ontarians value while making them more affordable.

Ontarians want government to be more efficient. My Cabinet colleagues and I are reducing waste. We are putting our own house in order because we believe we must lead by example.

- The largest single part of the Expenditure Control Plan – $720 million – is being achieved through savings on internal government operations. This represents a reduction of more than 10 per cent in the cost of running government. We are streamlining programs, rationalizing field offices, and cutting down on the bureaucratic layers that separate senior managers from front-line service deliverers.
- We have cut the number of ministries from 28 to 20. This means we will save $40 million this year in overhead costs.
- Budgets for consulting, communications, travel and other non-salary costs have been chopped by 24 per cent over the past two years.

- By the end of this fiscal year, the number of civil servants will be reduced by 5,000 from 1991-92.
- We are establishing separate corporations to manage our real estate in a more cost-effective and business-like way. We are also introducing legislation that would enable the Province, in consultation with municipalities, to provide property assessment services on a cost-recovery basis.

Through these and other measures, the amount we spend on programs will actually decline by 4.3 per cent this year. We are also selling some surplus assets and refinancing others valued at $915 million, and we are introducing measures that will raise about $240 million through fees and levies. Budget Paper C provides details on these changes.

At the same time, we are maintaining adequate funding for the services that Ontarians value and that make Ontario a decent place to live. We are making some deliberate choices in how and where we spend. We are investing in our priorities. We are redressing inequities.

- We have legislated pay equity for women in both the public and private sectors. We are providing increased funding towards fair wages for women in the broader public sector.
- We are providing $49 million to help meet the needs of Aboriginal communities for modern infrastructure and services, and to negotiate outstanding land claims and self-government agreements. That is three times as much as was spent four years ago.
- We are investing over $30 million to protect the environment through Canada's most comprehensive program to promote the 3Rs – reduce, reuse and recycle.
- This year we are seeking passage of employment equity legislation that will ensure this province benefits from the skills of all Ontarians.
- We have made substantial progress towards implementing the Stephen Lewis report on race relations. Virtually every recommendation is under way or has been implemented.
- For the first time, we are providing stabilization funding for about 20 women's centres that provide support and advocacy for disadvantaged women across the province.

Our health care system – the service that affects more Ontarians than any other – is an achievement in which all Ontarians can take pride. This Government is determined to ensure that, years from now, universal medicare will continue to be a sustaining feature of our society.

To save medicare, we have to make it more affordable. And we are doing so.

- We are targeting our spending better by no longer paying for services that have little to do with health – like removing tattoos and reversing vasectomies.

- We are encouraging physicians to locate in areas that do not have an adequate number of doctors, while restricting growth in cities where there is an oversupply.
- We are limiting the use of Ontario tax dollars to buy private for-profit medical care in foreign countries.
- We will be reforming the Ontario Drug Benefit Program by asking everyone who benefits from it – drug manufacturers, pharmacists and consumers – to contribute to keeping program costs affordable.
- We are speeding up the reform of long-term care for seniors and people with disabilities so those who need regular care can find it in their community without having to use expensive hospital beds.

In these and other ways, we are preserving medicare by managing our health spending better. We reduced the growth in health spending – which averaged 11 per cent per year in the 1980s – to under one per cent last year. That's responsible stewardship.

Fairness in Taxation

To protect health care and other services, and to maintain our investments in jobs, we have made a series of very tough decisions this year. We have achieved $4 billion in savings through the Expenditure Control Plan. Another $2 billion in savings is being contributed by public sector workers and their employers through the Social Contract.

In recognition of these major contributions, I am also asking for a contribution from the community that benefits from these services.

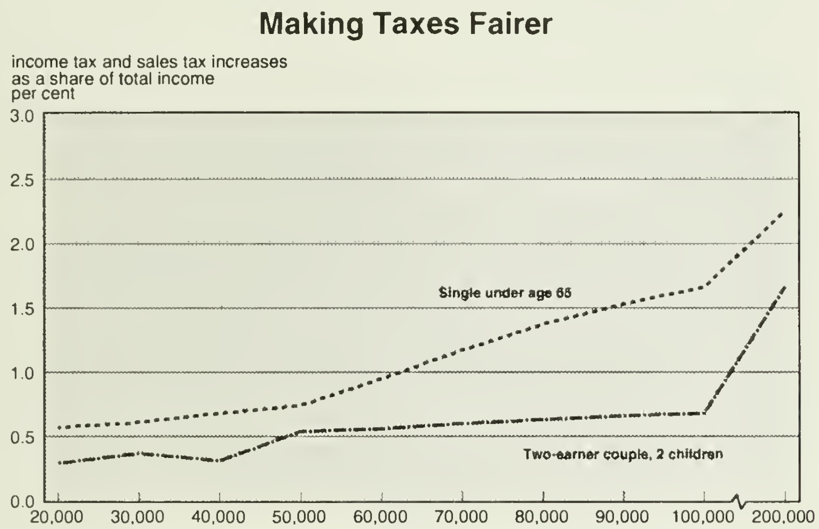
These tax increases will not be popular, but they are necessary and they are fair. When they are fully implemented, a two-income family of four earning $60,000 will pay an increase of less than seven dollars a week. The total income tax burden on that family will be the *third lowest* among the ten provinces. And corporations will pay their fair share.

- Those with the highest incomes – the top one-tenth of all taxfilers who pay the Ontario surtax – will pay the greatest increase. The Ontario surtax rates will increase to 20 per cent of Ontario personal income tax over $5,500 and a further 10 per cent of Ontario tax over $8,000.
- All taxpayers will pay an increase in personal income tax of 3 percentage points, to 58 per cent of Basic Federal Tax, effective for the 1993 and subsequent taxation years.
- The Retail Sales Tax will be extended to sand, soil, clay, gravel, unfinished stone, parking and insurance premiums. The Retail Sales Tax rebate for visitors from outside Ontario will be ended.

- We are not increasing the 8 per cent Retail Sales Tax rate. Instead, we are relying on revenue sources that are more progressive and more sensitive to consumer confidence.
- To protect low-income individuals and families, Ontario's tax reduction program will be enriched. This year an additional 40,000 people will pay no Ontario income tax and 10,000 will pay reduced Ontario income tax. Since this Government came to office, we have reduced income taxes for 270,000 low-income Ontarians – including 200,000 who have been removed from the tax rolls entirely.
- To stop large, profitable corporations from using the tax laws to avoid paying their fair share, I am introducing a corporate minimum tax (CMT). But in recognition of the importance of small business entrepreneurship, I am exempting *all* small businesses. More than 90 per cent of all corporations in Ontario will not have to calculate or pay the CMT. The CMT will take effect for taxation years beginning after December 31, 1993. When fully implemented, it is expected to raise about $100 million annually.

  Today, I am releasing a technical paper that outlines the CMT. In keeping with its commitment, the Government will consult on the technical details of the CMT prior to the introduction of legislation.
- I am also eliminating a variety of corporate tax loopholes and reducing the deductibility of meals and entertainment expenses for corporations to 50 per cent. Insurers that have been exempt from the insurance premium tax will now be subject to tax. Along with improved administrative measures, these moves will raise $145 million in a full year.
- To level the playing field, beer and wine made in produce-your-own establishments will be subject to a tax of 26 cents per litre, effective August 1st. This tax will increase to 31 cents per litre on June 15, 1994 and 38 cents per litre on June 15, 1995. There will continue to be *no* tax on beer and wine produced in private homes for home consumption.

Figure 4



I understand that nobody likes taxes. But these tax increases are needed to invest in jobs, preserve services and control the debt. They are an essential part of our economic and fiscal strategy. They are fair and responsible.

Enforcement and Compliance

I am also taking steps to improve the enforcement of existing taxes and non-tax revenues.

- In response to the Provincial Auditor's report, this year I am assigning 147 staff to tax collection and audit positions to reduce non-payment of the Employer Health Tax and other taxes. When fully implemented, this initiative will result in the recovery of more than $70 million a year in currently uncollected taxes.
- New fines management and improved collection services are being introduced to improve compliance with court orders, to reduce the incidence of unpaid fines, and to improve the collection of outstanding accounts.
- I am introducing increases in late-filing penalties and interest. In addition, those who evade payment of retail sales tax or engage in tobacco smuggling may now be subject to a maximum of two years' imprisonment.

Other Reforms

I am eliminating two taxes that were introduced by the previous government.

- I am abolishing the Commercial Concentration Tax, effective at the end of this calendar year. This tax no longer reflects the realities of the Toronto real estate market. The last payments under this tax will be in October 1993.
- I am withdrawing the $5 Tire Tax as of midnight tonight.

Details of tax changes are found in Paper A.

Achieving greater tax fairness is a clear and continuing commitment of this Government. The Fair Tax Commission is holding public hearings across the province on the entire tax system and will publish its final report by the end of this year. We remain committed to achieving a fair tax system, and we will be working – on our own, and in cooperation with the new federal government – to make that happen.

Controlling the Growth in Debt

For the year just ended, our operating expenditures were $50.2 billion. That is almost $400 million lower than our Budget plan. Excluding debt interest and social assistance, our operating spending last year increased by less than one per cent.

Unfortunately, the slower economy meant that our tax revenues last year were below planned levels. The federal government paid only part of the amount owed to us under the fiscal stabilization program, and some planned asset sales were not concluded by year-end. Consequently, our operating deficit for 1992-93 was $8.4 billion, and our budgetary requirements were $12.0 billion.

For 1993-94, Provincial revenues will total $44.0 billion. This figure reflects the new revenue measures taken in this Budget. Without these measures, revenues would actually have declined by $0.6 billion this year. That's because of the moderate pace of economic growth, the low rate of inflation, the effect of corporate tax loss carrying provisions and the need to repay the federal government this year for income tax overpayments that date back to 1991. In addition, various one-time payments boosted 1992-93 receipts including asset sales and Established Programs Financing payments in respect of prior years.

To maintain public services, vigorous cost control has been and will continue to be essential. As a result of the measures announced in this Budget, operating spending will be held to $50.0 billion in 1993-94, which is $3.0 billion below the target we set a year ago. Excluding public debt interest, our operating spending will be 4.3 per cent lower in 1993-94 than it was last year.

Ontario's operating deficit will be $6.1 billion. Adding in budgetary capital investments of $3.1 billion, our budgetary requirements will be $9.2 billion. Despite continuing fiscal pressures, this level is $2.8 billion below that of last fiscal year.

Today I am also presenting a Medium-Term Fiscal Plan extending to 1995-96. We remain committed to the goals we set out in our first Budget:

- to reduce the operating deficit steadily as the economy recovers;
- to reduce the deficit as a proportion of GDP and total revenue;
- to keep the rate of expenditure growth low; and
- to stabilize our debt servicing costs.

We remain committed to balancing the operating budget. Because of the impact of the revenue shortfall, we will balance our operating budget one year later than planned, in 1998, rather than 1997.

Medium-Term Fiscal Plan **Table 4**
($ Billions)

	1993-94	1994-95	1995-96
Revenue*	44.0	46.5	49.4
Operating Expenditure			
Programs	42.9	42.6	43.5
Public Debt Interest	7.2	8.0	8.5
Total	50.0	50.6	52.0
Operating Deficit	**6.1**	**4.1**	**2.6**
Capital Expenditure**	3.1	2.7	2.2
Budgetary Requirements	**9.2**	**6.8**	**4.8**
Debt**	78.6	85.4	90.1
Debt as % of GDP	27.5	28.4	28.5
PDI as % of Revenue	16.3	17.2	17.2

* Does not include fiscal stabilization claims made to the federal government for payments of $0.55 billion in 1993-94, $0.30 billion in 1994-95, and $0.13 billion in 1995-96.
** Capital expenditure and debt adjusted to reflect new capital financing arrangements by $0.8 billion in 1993-94, $1.2 billion in 1994-95 and $1.7 billion in 1995-96.
Note: Totals may not add due to rounding.

The operating deficit will decrease from $6.1 billion in 1993-94 to $2.6 billion in 1995-96. Taking into account capital expenditures, the Government's budgetary requirements are projected to decrease from $12.0 billion in 1992-93 to $4.8 billion in 1995-96.

Conclusion

The goal of this Government's economic plan is to invest in Ontario's future, rather than borrow from it.

It is a plan for investing in jobs, reducing the cost of government, protecting services, and raising needed revenues.

It is a plan that requires courage and leadership, which our Premier, Bob Rae, has demonstrated in abundance. I thank him for his support.

All of us look to a future with secure jobs and decent incomes, where parents can afford to raise their children in good health and in safe homes, where children go to school ready to learn, where our schools prepare our young people for the challenges they will face and where older people can enjoy a secure retirement. That is the future this Budget seeks to build.

This Budget puts investing in jobs and economic growth at the top of our action agenda.

It cuts the cost of government operations in ways that preserve jobs and services.

It asks Ontarians who have the most to pay the most, while protecting those who are most vulnerable.

It provides a fair balance – a balance in how much we cut, how much we borrow and how much we tax.

This Budget faces reality. It does not put off the tough decisions until another day.

This Budget provides a firm foundation for the economic recovery, so that our economic future and the public services we all value will be secure.

BUDGET PAPER A

DETAILS OF REVENUE CHANGES

This Budget Paper provides further information on the taxation changes outlined in the Budget Statement. For precise information, the reader is advised to consult the amending legislation.

Income Tax Act

Tax Rate Adjustment

- For the 1993 and subsequent taxation years, the rate of Ontario personal income tax will be increased by 3 percentage points to 58 per cent of Basic Federal Tax.
  - For the period July 1, 1993, to December 31, 1993, withholdings at source will be made at the rate of 61 per cent of Basic Federal Tax.

Surtax

- Effective July 1, 1993, the Ontario surtax rates will be adjusted as follows:
  - the surtax rate on Ontario personal income tax in excess of $5,500 will be increased from 14 per cent to 20 per cent; and
  - the additional surtax on Ontario personal income tax in excess of $8,000 will be increased from 6 per cent to 10 per cent.
- These new surtax rates will remain in effect for the 1994 and subsequent taxation years.
- For the 1993 taxation year, the Ontario surtax will be calculated as 17 per cent of Ontario personal income tax in excess of $5,500, plus 8 per cent of Ontario personal income tax in excess of $8,000.

Ontario Tax Reduction

- The Ontario Tax Reduction program will be enriched for the 1993 and subsequent taxation years.
  - The basic Ontario Tax Reduction will be increased to $205.
  - The amounts in respect of each dependent child under the age of 19 and each dependant with a disability will be increased to $395.
- Effective for the 1993 and subsequent taxation years, multiple jurisdiction taxfilers who are not resident in Ontario will no longer be eligible for the Ontario Tax Reduction.

Concordance with the Income Tax Act (Canada)

- The Ontario Tax Reduction and the Ontario Tax Credit programs will be amended to reflect the recent change to the definition of spouse. These programs will also be amended to parallel relevant definitions under the Child Tax Benefit.
- Other minor administrative adjustments will also be introduced.

All enquiries regarding personal income tax changes should be directed to:

Taxation Policy Branch
Ministry of Finance
5th Floor, Frost Building South
7 Queen's Park Crescent East
Toronto, Ontario
M7A 1Y7

1-416-327-0230

Labour Sponsored Venture Capital Corporations Act

- Concordance changes will be introduced to remain consistent with federal RRSP rule modifications that were announced in December 1992.
- Certain administrative amendments will also be made, reflecting administrative experience with the program during its first year. These changes will include tightening tax credit recapture provisions as well as other changes that will result in greater consistency within the Act.

All enquiries regarding labour sponsored venture capital corporations changes should be directed to:

Tax Credits and Grants Branch
Ministry of Finance
P.O. Box 624
33 King Street West
Oshawa, Ontario
L1H 8H8

English: 1-800-263-7965
French: 1-800-668-5821
Device for the Hearing Impaired (TDD):
1-800-263-7776

Employer Health Tax Act

Self-Employed Individuals

Administrative Amendments

Administrative amendments will be made, including a change to the proration of the exemption, refinement of the tax base and the individuals who are subject to the tax, and an accommodation for taxpayers with small instalment payments.

Non-Deductibility Tax Credit

- A tax credit of 22 per cent of tax otherwise payable will be provided in lieu of a deduction for Ontario personal income tax purposes.

All enquiries regarding employer health tax changes should be directed to:

Employer Health Tax Branch
Ministry of Finance
P.O. Box 627
33 King Street West
Oshawa, Ontario
L1H 8H5

English: 1-800-263-7965
French: 1-800-668-5821
Device for the Hearing Impaired (TDD):
1-800-263-7776

Retail Sales Tax Act

Insurance Premiums

- The 8 per cent Retail Sales Tax (RST) will apply to insurance premiums. Any person resident in Ontario or carrying on business in Ontario will pay tax on premiums paid to obtain a benefit, payable by an insurer or another person, on the occurrence of a risk. Tax will also be payable by persons not resident in Ontario for premiums paid with respect to the insurance of property or persons situated in Ontario.
- Uninsured benefits arrangements established by employers or organizations, whether or not a fund is created, will be subject to tax.
- Payments made into funds created by Statute intended to protect against risks to third parties will be subject to tax.

- The following exceptions will apply.
  - Auto insurance will be taxed at five per cent.
  - Insurance premiums relating to individual policies for life, health and physical well-being will be exempt.
  - Premiums paid by an Indian or Indian band, with respect to risks situated on a reserve, will be exempt.
  - Other major exemptions include annuity considerations, marine insurance, reinsurance, farm insurance, crop insurance, Unemployment Insurance and Workers' Compensation.
- Premiums paid with respect to new contracts or plans, or renewals of contracts or plans with substantial change in terms or conditions of payment, coming into force after May 19, 1993, will be taxable.
- Regular premiums with respect to existing contracts or plans in force on or before May 19, 1993, and on renewals of contracts without substantial change in terms or conditions of payment, paid before July 1, 1993, will be exempt.

Parking

- Effective July 1, 1993, the 8 per cent RST will apply to parking charges, including metered parking. No tax will apply to the following: permit parking charges on residential streets; parking paid by a tenant to a landlord as part of the residential rent; and parking paid as part of a purchase of a condominium residence or co-operative apartment.

Tire Tax

- Effective May 20, 1993, the $5 Tire Tax will be eliminated.

Additional Measures

- Effective May 20, 1993, warranty parts and labour will be subject to the 8 per cent RST.
- The RST exemption for sand, clay, soil, gravel and unfinished stone will be eliminated, effective July 1, 1993.
- Effective July 1, 1993, the Ontario Incredible rebate program will be eliminated. Taxes paid on goods and accommodation by visitors to Ontario prior to July 1 are still eligible for the rebate as long as claims are made within a year of the transaction date.
- Effective August 1, 1993, a tax of 26 cents will apply to each litre of beer or wine made at a produce-your-own beer and wine establishment.

Effective June 15, 1994, the rate will increase to 31 cents per litre and to 38 cents per litre effective June 15, 1995.

Administrative Amendments

- The Minister of Finance will introduce administrative amendments to improve the operation of the *Retail Sales Tax Act* including the following measures.
  - Persons who manufacture for own use will be required to file returns as prescribed. Failure to comply will constitute an offence, and in addition to a penalty, a fine will be imposed upon conviction.
  - Persons who have purchased goods at a retail sale in Ontario for permanent use outside of the Province will be required to provide proof of payment of sales tax to another Canadian jurisdiction before a refund will be paid by the Minister.
  - Interest on refunds and rebates (where authorized) will be paid commencing 21 days after receipt of the taxpayer's application.
- The rules for RST vendors' uncollectible accounts are being expanded to include the following:
  - RST rebates will be allowed on debts arising from NSF cheques;
  - vendors will have the ability to deduct all bad debt claims from the regular return;
  - a four-year time limit for submitting claims will be introduced; and
  - no rebate will be allowed for any debt transferred or sold by the vendor to any other company, whether related or not, unless there is recourse on the debt back to the vendor.
- Where exempt and taxable items are combined in a single package, vendors will be obliged to separate the components and to charge RST on all taxable items in the package. Alternatively, RST must be charged on the total price of the package.

All enquiries regarding retail sales tax changes should be directed to:

Retail Sales Tax Branch
Ministry of Finance
P.O. Box 623
33 King Street West
Oshawa, Ontario
L1H 8H7

English: 1-800-263-7965
French: 1-800-668-5821

Device for the Hearing Impaired (TDD):
1-800-263-7776

Commercial Concentration Tax Act

- Effective for the 1994 and subsequent taxation years, no tax will be assessed under the *Commercial Concentration Tax Act*.
- Commercial parking lots, as defined for the purposes of the Commercial Concentration Tax, will be exempt from the tax effective July 1, 1993.

All enquiries regarding commercial concentration tax changes should be directed to:

Motor Fuels and Tobacco Tax Branch
Ministry of Finance
P.O. Box 625
33 King Street West
Oshawa, Ontario
L1H 8H9

English: 1-800-263-7965
French: 1-800-668-5821

Device for the Hearing Impaired (TDD):
1-800-263-7776

Corporate Minimum Tax (CMT)

- The Government will be implementing a corporate minimum tax effective for taxation years commencing after December 31, 1993. The CMT will apply to all corporations that are liable for Ontario corporate income tax, subject to the CMT small business exemption. Additional details on the CMT are outlined in the Supplementary Budget Paper, entitled "Improving Tax Fairness: A Corporate Minimum Tax for Ontario". The following chart provides an overview of Ontario's CMT.

Ontario's CMT

Net Income/Loss Per Financial Statements
(before tax, including extraordinary items)

± Adjustment to reflect cost method of accounting

– Dividends

– Tax-deferred gains on rollovers

= **Adjusted Book Income/Loss**

– Pre-CMT adjusted loss carryovers

– Post-CMT adjusted loss carryovers

= **CMT Base**

X Ontario Allocation

X Rate

= **Gross CMT Payable**

– Credit for regular corporate income tax (CIT)

– Foreign tax credits

= **Net CMT Payable ***

* Net CMT payable will be creditable against regular corporate income tax paid in the subsequent ten years.

Base

- The CMT will be based on a corporation's financial statement income computed in accordance with generally accepted accounting principles (GAAP).
- The following adjustments will be made to financial statement income computed in accordance with GAAP.
  - The equity and consolidation methods of accounting will not be allowed.
  - All dividends included in financial statement income (using the cost method of accounting) will be excluded from the CMT base to the extent that they are deducted for regular income tax purposes under sections 112 or 113 of the *Income Tax Act* (Canada), as adopted by section 34 of the *Corporations Tax Act*.
  - Any book gains that are deferred for tax purposes under certain rollover sections of the *Income Tax Act* (Canada) will also be excluded from the CMT base.
  - Corporations will be allowed to carry forward CMT losses to reduce CMT income of the following ten years. Corporations will be required to apply post-CMT losses in the order that such losses arise and to the extent necessary to reduce the CMT income of subsequent years to nil.

Credit for Regular Corporate Income Tax Paid

- Corporations will be required to pay CMT only to the extent that the CMT liability exceeds the regular income tax liability.

Small Business Exemption

- The CMT will apply only to corporations with either gross revenues in excess of $10 million or total assets in excess of $5 million.

Rate

- A rate of 4 per cent will be levied on the portion of a corporation's CMT base that is allocated to Ontario.

Transitional Relief

- As a form of transitional relief, the CMT rate will be phased in as follows:

  2 per cent effective January 1, 1994;

  3 per cent effective January 1, 1995; and,

  4 per cent effective January 1, 1996.

- The CMT rate will be prorated for taxation years that straddle January 1, 1995 or January 1, 1996.
- Further transitional relief will be provided for companies that have incurred losses in years prior to the CMT. Corporations will be allowed to aggregate their income and losses on a CMT basis for the three taxation years preceding the first taxation year that commences after December 31, 1993. If the aggregate is a net loss, the corporation will be allowed to carry forward this amount for up to ten taxation years to be applied against CMT income. Corporations will be required to apply their eligible pre-CMT losses to the extent necessary to reduce the CMT base to nil.

Instalments

- For the first taxation year in which the CMT is effective, the CMT will not affect a corporation's instalment payments and net CMT payable will be due on the date the corporation is required to pay the balance of the other taxes payable under the *Corporations Tax Act*. The CMT will form part of the instalment base for subsequent years.

CMT Carryover

- Corporations will be allowed to apply the amount of net CMT paid in a year against their regular corporate income tax liabilities in the subsequent ten years, to the extent that regular income tax (net of all credits) exceeds gross CMT less the foreign tax credits in those years.
- To remove the impact of changes in the Ontario allocation percentage between the year the CMT credit arises and the year it is applied, the CMT credits will be grossed up by dividing the net CMT paid in the year by the Ontario allocation percentage for that year. These grossed-up credits will then be multiplied by the Ontario allocation percentage for the year that they are applied against regular income tax.

The Corporations Tax Act

Meals and Entertainment Deduction

- The portion of meals and entertainment expenses that is deductible for corporate income tax purposes will be reduced from 80 per cent to 50 per cent.
- This change will be effective for expenditures incurred after May 31, 1993.

Renounced Exploration and Development Expenses

- The *Corporations Tax Act* will be amended to provide a reduction of paid-up capital for Canadian exploration expenses and Canadian development expenses incurred in searching for minerals in Canada that are renounced in favour of shareholders who are individuals. This measure will be made effective for taxation years commencing after 1985.

Corporate Tax Loopholes and Expenditures

The following amendments will be made to the *Corporations Tax Act* in order to improve tax fairness and to protect Ontario's tax base.

Central Paymasters

- For taxation years ending after December 31, 1993, a corporation that receives the benefit of the work performed or services provided by employees of a person not dealing at arm's length with the corporation, will include the wages and salaries of such employees in the formula used to allocate its taxable income.

Unsecured Debt

- Effective for taxation years ending after May 19, 1993, all loans, advances, bonds or similar obligations, whether secured or unsecured, will be included in paid-up capital. Accounts payable will continue to be excluded.

Distribution of Assets Prior to Year End

- The Act will be amended to give the Minister the authority to calculate a corporation's paid-up capital on the day preceding a non-arm's length transfer of assets, rather than at the corporation's year end, where the book value of the assets transferred exceeds $10 million and 25 per cent of the book value of its total assets before the transfer.
- This change will be effective for taxation years ending after May 19, 1993.

Goodwill Allowance

- The goodwill allowance as defined by section 62(1)(a) of the *Corporations Tax Act* will be eliminated. This change is effective for taxation years ending after May 19, 1993.

Exempt Insurers

- Associations registered under the *Prepaid Hospital and Medical Services Act* will be deemed to be insurance companies for purposes of the insurance premium tax.

- This change will be effective for premiums received under new or substantially modified contracts and for renewals of existing contracts coming into effect after May 19, 1993.

Uninsured Benefits Arrangements

- Administrators of uninsured benefits arrangements will be deemed to be insurance companies for the purposes of the insurance premium tax.
- The administrator is the person who receives the contributions paid into the fund or who pays the benefits in the case of an unfunded plan.
- Where uninsured benefits arrangements are funded, the insurance premium tax is levied on all contributions paid into the fund and administration fees paid to third-party administrators.
- A fund is created when the amounts paid in exceed those necessary to meet benefits expected and due within the next 30 days.
- For unfunded uninsured benefits arrangements, the insurance premium tax is levied on all benefits paid to beneficiaries and on administration fees paid to third-party administrators.
- These changes will be effective for:
  - contributions paid into funded plans and administration fees, and
  - benefits and administration fees paid in respect of unfunded plans,

  after June 30, 1993.

Concordance with the Income Tax Act (Canada)

Small Business Financing Program

- Ontario will parallel the extension in the effective date announced on December 2, 1992 relating to certain debt obligations of small businesses in financial difficulty.

Separate Class For Rapidly Depreciating Equipment

- Ontario will parallel the proposed changes announced on April 26, 1993 regarding the separate class elections for electronic data processing and certain electronic communications equipment. This measure will be effective for property acquired after April 26, 1993.

New Capital Cost Allowance Rate For Patents

- Ontario will parallel the proposed changes announced on April 26, 1993 regarding the creation of a new 25 per cent declining balance capital cost allowance class for all patents and rights to use patented information acquired after April 26, 1993.

Grain Storage Elevators

- The additional capital cost allowance currently available for grain storage elevators will be eliminated for the acquisition of grain storage elevators after May 19, 1993.
- The applicable capital cost allowance rates will now parallel those in the *Income Tax Act* (Canada).

Administrative Changes

- To improve tax collection and administrative efficiency, the following changes will be made to the *Corporations Tax Act*.
- These amendments will be effective upon the date of proclamation.

Instalment Re-calculation

- Required corporate instalment payments will be re-calculated whenever the tax on which they are based is reassessed. Reassessments will include the instalment interest on deficient payments for any affected taxation year.
- The *Mining Tax Act* will also be amended to include this provision.

Instalment Base Options

- The bases used for the calculation of monthly corporate tax instalments will be reduced from four to three optional bases.
- This change will bring Ontario instalment options in line with those of the federal government.

Deferred Credit Interest

- To introduce greater fairness into the tax system for timely filers, the Government will not credit interest for overpayments and refunds of tax on late-filed returns until the return has been filed.

Electronic Filing

- To improve tax administration, Ontario will be establishing a pilot project to require electronic filing for large corporations. Further details will be announced within the next few months.

All enquiries regarding corporations tax changes should be directed to:

Corporations Tax Branch
Ministry of Finance
P.O. Box 622
33 King Street West
Oshawa, Ontario
L1H 8H6

English: 1-800-263-7965
French: 1-800-668-5821
Device for the Hearing Impaired (TDD):
1-800-263-7776

The Municipal Act

- Due to technological and regulatory changes in the telecommunications industry, the Province will be undertaking a review of the gross receipts tax that is currently levied on telephone and telegraph companies under the *Municipal Act*. After consultations with key stakeholders, including the telecommunications industry and local governments, the Province will introduce legislation to replace the tax.

All enquiries regarding the gross receipts tax changes should be directed to:

Municipal Finance Branch
Ministry of Municipal Affairs
13th Floor
777 Bay Street
Toronto, Ontario
M5G 2E5

1-416-585-6073

Enforcement and Compliance

- The *Corporations, Employer Health, Fuel, Gasoline, Land Transfer, Mining, Race Tracks, Retail Sale*s and *Tobacco Tax Acts* will be amended to provide:
  - consistent penalties for late-filed returns and delinquent payment;
  - registered liens against the real and personal property of tax debtors, to assist in collection of accounts receivable;
  - interest compounded daily on outstanding payments of tax and on refunds; and,
  - other administrative amendments.
- To counter tax evasion and improve compliance, further amendments will be made to the following Acts.
  - The *Tobacco Tax Act* will be amended to provide an optional jail term of not more than two years for those convicted of unauthorized possession of unmarked cigarettes and an additional penalty of ten times the tax payable for unauthorized persons found in possession of 10,000 or more unmarked cigarettes. The Act will also be amended to provide that authorized officials may conduct searches, without warrants, of all vehicles where there are reasonable and probable grounds that the vehicles are being used to transport illegal tobacco products.
  - The *Fuel Tax Act* will be amended to provide that effective July 1, 1993, the refund of tax paid on clear fuel will be revoked, except for clear fuel used for a power take-off system driven by the same engine which propels a vehicle. Refunds will also be continued for diplomats and visiting armed forces personnel. The tax free purchase of clear fuel under a fuel acquisition permit will continue.
  - The *Retail Sales Tax Act* will be amended to provide for the application of interest on all penalties assessed from the day the default first occurred and, for failure to remit tax, an optional jail term of up to two years.

All enquiries regarding these changes should be directed to:

Ministry of Finance
33 King Street West
Oshawa, Ontario
L1H 8H7

English: 1-800-263-7965
French: 1-800-668-5821
Device for the Hearing Impaired (TDD):
1-800-263-7776

Impact of 1993 Ontario Tax Moves

Full Year Impact of Retail Sales Tax and Personal Income Tax Changes on Individuals and Families[1]

Income ($)	Total Increase ($)			
	Single Under Age 65	One-Earner Couple with Two Children	Two-Earner Couple with Two Children[2]	Senior Couple[3]
20,000	115	60	60	70
30,000	185	90	110	140
40,000	275	235	120	220
50,000	370	330	270	305
60,000	570	505	335	390
70,000	820	715	420	585
80,000	1,095	1,015	505	765
90,000	1,380	1,295	595	1,035
100,000	1,665	1,570	685	1,320
200,000	4,490	4,410	3,320	4,155

1. The Retail Sales Tax (RST) estimates reflect the direct impact on households. The Ontario personal income tax (PIT) impacts assume taxpayers claim only the standard non-refundable tax credits.
2. Assumes that employment income is the same for both spouses.
3. Assumes that one spouse receives only Old Age Security payments.

Revenue Changes: 1993 Budget Fiscal Impact Summary
($ Millions)

	Fiscal 1993-94	Full Year
Retail Sales Tax		
Insurance (8%), Auto Insurance (5%)[a]	475	715
Parking	25	40
Tire Tax	(25)	(35)
Sand, Clay, Soil, Gravel and Unfinished Stone	60	90
Ontario Incredible	5	15
Produce-Your-Own Beer and Wine	5	10
Personal Income Taxes		
Tax Rate Adjustment	960	840
Surtax	180	280
Ontario Tax Reduction	(25)	(20)
Corporate Taxes		
Corporate Minimum Tax	0	100
Meals and Entertainment	10	15
Renounced Exploration & Development Expenses	(2)	(b)
Loopholes, Tax Expenditures, Administration	40	130
Paralleling Federal Changes	(3)	(8)
Commercial Concentration Tax	(70)	(115)
Employer Health Tax (Self-Employed Persons)	(5)	(10)
Net Impact of all Revenue Changes	1,630	2,047

a) Including revenue from taxing repairs or replacement under warranty to parallel treatment under insurance.
b) Less than $1 million.

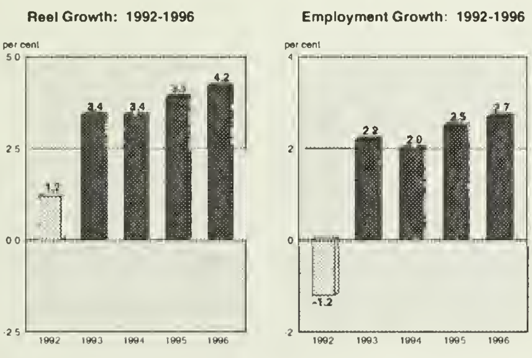
BUDGET PAPER B

ECONOMIC OUTLOOK

Forecast Highlights

- Ontario real GDP is forecast to rise by 3.4 per cent in both 1993 and 1994, and by an average of 4.1 per cent over 1995 and 1996.
- Ontario employment is forecast to rise by an average 2.4 per cent annually.

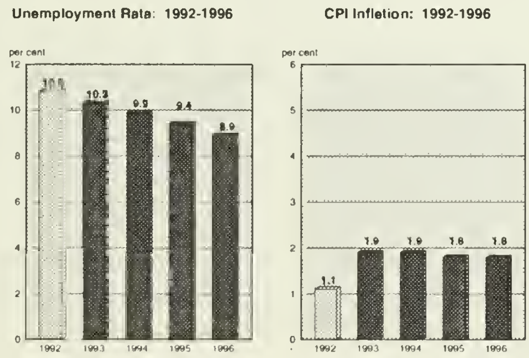
Figure 1



Sources Statistics Canada and Ontario Ministry of Finance

- Ontario's unemployment rate is forecast to fall to 8.9 per cent by 1996.
- CPI inflation will average 1.9 per cent annually over the next four years.

Figure 2



Sources Statistics Canada and Ontario Ministry of Finance

Introduction

The Ontario economy is now emerging from the most serious downturn since the 1930s. Employment gains, rising production, and strengthening domestic and export demand confirm that the recovery is under way. Ontario's economy grew faster than that of any of the G-7 countries except Japan during the 1980s and, with sound economic policies, will be among the growth leaders again.

Figure 3

Sources: Ontario Ministry of Finance, *Blue Chip Economic Indicators* and *Consensus Forecasts*

Ontario's strong performance and its high standard of living will be based on underlying competitive strengths: a highly educated, flexible and productive workforce; superior physical infrastructure; an effective health care and social security system; stable social and political institutions; and its location in the centre of the North American industrial heartland. Despite the severity of the downturn, these underlying strengths remain intact with the economic recovery under way.

Through its strategic investments in infrastructure, training and adjustment, the Ontario government is supporting the creation of more and better jobs, encouraging higher value-added industries, stimulating investment and maintaining public services.

While other industrialized economies have experienced recessions and restructuring pressures over the past few years, Ontario was especially hard-hit. Industries have been forced to restructure, to adapt to new technologies, competitive pressures, and reduce the heavy debt loads that were built up during the 1980s. The recession in Ontario was worsened by federal policies including the Canada-U.S. Free Trade Agreement (FTA), the Goods and Services Tax (GST) and tight monetary policy that pushed up interest rates and led to an overvalued Canadian dollar.

The recession also had a serious and persistent impact on Ontario's deficit and debt. Expenditures rose and tax revenues fell due to the rise in unemployment and the weakness of incomes and spending. The deficit increased and the cost of servicing the rising stock of debt was compounded by the Bank of Canada's high real interest rate policy.

While the recession drove the deficit higher, economic recovery alone will not make it disappear. The level of indebtedness was much higher at the end of the recession than it was at its outset and the cost of paying for the debt is very high. Unemployment remains at unacceptably high levels, placing added pressures on social support programs. Moreover, the growth of tax revenues will be slower than after the 1981-82 recession because of lower inflation, the expected moderate pace of economic growth and the limits that the federal government has imposed on payments to provincial governments.

Permitting the cost of servicing the Provincial debt to escalate unchecked would jeopardize the recovery by undermining business and consumer confidence, by increasing financial market uncertainty and by increasing the transfer of tax dollars from Ontarians. The measures taken in this Budget to control the Province's deficit and debt will help keep the economic recovery on a firm footing.

The Recovery is Under Way

The recession has ended and the Ontario economy has turned the corner. Lower interest rates, a decline in the value of the Canadian dollar and a pick-up in the U.S. economy have supported the recovery.

- Ontario real GDP rose at an annualized rate of 3.6 per cent in the fourth quarter of 1992.
- 98,000 jobs have been created in Ontario in the last eight months.
- The unemployment rate in Ontario has fallen to 10.7 per cent, from the recession peak of 11.3 per cent.
- Ontario's international exports in January and February are up by more than 11 per cent from a year ago. Auto exports are up 26.0 per cent over the same period.

Ontario's Economic Outlook: 1993-1996

Key Factors

Changing Structure of the Economy

Ontario's economy is increasingly based on high-wage, high-value-added industries. These industries – which include both "traditional" industries, such as the auto industry, and "industries of the future," such as computer software, medical technology and environmental protection – will become even more dominant. Intense competitive pressures will continue, reflecting trade liberalization, deregulation, changing information technologies and the changing structure of business organizations. These forces are worldwide, leading to economic restructuring in all industrialized countries. The Government of Ontario, through its Industrial Policy Framework, is facilitating the movement to a higher value-added economy by changing how it invests, how it works with companies and how it manages economic change.

The restructuring of Ontario industry is resulting in a significant improvement in productivity and cost-competitiveness. Unit labour costs for the economy as a whole rose by only 1.2 per cent last year and are unlikely to accelerate over the medium term. Low inflation and productivity improvements will limit any growth in unit labour costs.

The industrial structure of the Ontario economy is being reshaped. In the 1990s, economic growth will be based primarily on exports and investment by businesses in productivity-enhancing processes and equipment. Employment growth is expected to be slower than during typical cyclical recoveries, partly because output growth will be led by high-productivity, capital-intensive industries. This will lead to improved productivity and higher real wages.

Interest Rates and the Canadian Dollar

After peaking at 14.75 per cent in the spring of 1990, the prime lending rate declined to a low of 6 per cent in March 1993. The decline in interest rates, however, has not been steady. The Bank of Canada temporarily raised interest rates twice last year to offset downward pressure on the Canadian dollar. Volatility in interest rates has harmed both consumer and business confidence.

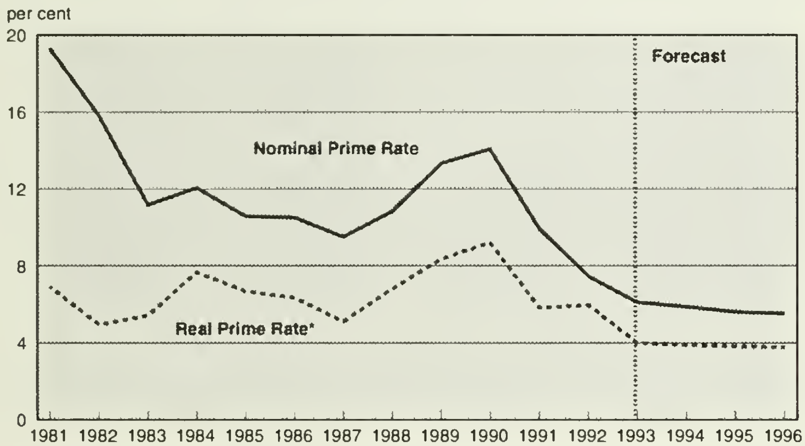
- The prime lending rate is expected to remain in the five to seven per cent range throughout the 1993-96 period.

Real interest rates – defined as the prime lending rate less the Canadian CPI inflation rate – are expected to be lower than during the 1980s but higher than during the 1960s and 1970s. High real interest rates raise the cost of borrowing, dampening investment and consumer spending. They raise the cost of servicing public debt, consuming revenues that would otherwise be available to pay for public services or to reduce the deficit more rapidly. Progress on dealing with deficits across Canada and a gradual reduction in inflationary expectations should keep interest rates from rising.

- Real interest rates are expected to remain in the 3 to 5 per cent range over the forecast period, compared to a peak of over 10 per cent in 1990 and an average of close to 6.5 per cent from 1982 to 1989.

Figure 4

Canadian Interest Rates



* Deflated by Canadian Consumer Price Index.
Sources: Bank of Canada, Statistics Canada and Ontario Ministry of Finance

The 20 per cent appreciation of the Canadian dollar between 1986 and 1991 contributed to the severity of the recession. The Canadian dollar fell from a peak of over 89 cents U.S. in late 1991 to a low of 77.3 cents U.S. in November 1992. Currently, the dollar is trading near 79 cents U.S., a level that many private-sector analysts feel is consistent with its underlying value based on relative costs and inflation.

- The dollar is expected to trade in the 77 to 81 cents U.S. range in 1993. Over the medium term, Canada's lower inflation rate, compared to that of the United States, should support a stronger Canadian dollar.

Adjusting to Low Inflation

The reduction in inflation from the moderate levels that prevailed during the expansion of the 1980s has had severe economic costs in terms of lost output and jobs. Federal economic policy has been dominated by the goal of achieving "price stability." Tight monetary policy produced record-high real interest rates and a significantly overvalued dollar. The deep recession that followed caused the rate of inflation to fall faster than indicated by the Bank of Canada's own targets.

- The year-over-year inflation rate for Canada in December 1992 was 2.1 per cent, significantly below the Bank of Canada's own target.

Inflation is expected to remain low by historical standards due to persistent excess capacity and slowly declining unemployment.

- The weak economy and high unemployment restrained 1992 CPI inflation to 1.1 per cent in Ontario and 1.5 per cent in Canada, the lowest national rate since 1962.
- The drop in inflation weakened the growth in Government revenues.
- Consumer price inflation has climbed from the low levels reached during 1992 due mainly to the lower dollar, but it is expected to average under two per cent in 1993 and over the medium term.
- Reflecting the greater severity of the downturn in this province, inflation has been slower in Ontario than in Canada as a whole. Over the medium term, Ontario inflation is expected to be close to the national average.

The transition to low inflation is having a profound impact on the economy.

- Until lenders are confident that low inflation will persist, real interest rates will remain high.
- Debt levels that appeared acceptable to borrowers in the expectation of moderate inflation and rising nominal incomes are burdensome in an environment of low inflation and slower income growth.

These factors will contribute to the moderate pace of growth forecast for the Ontario economy over the medium term.

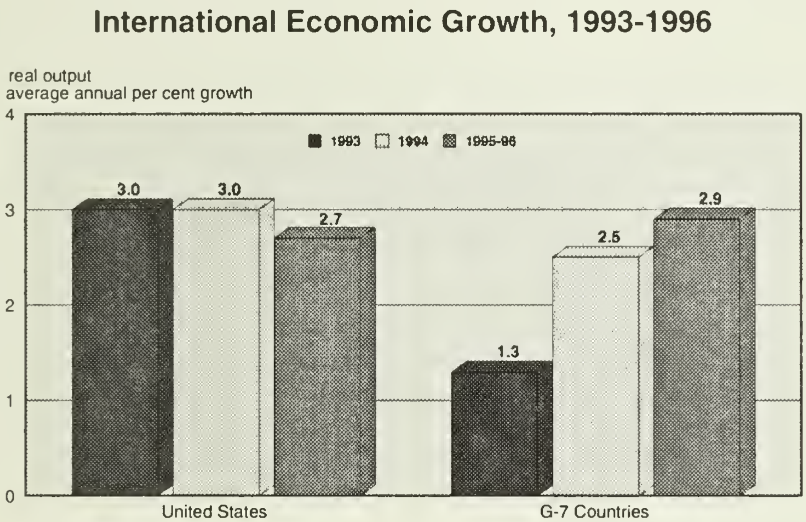
The International Outlook

Moderate but improving growth among Canada's trading partners will support rising demand for Ontario's exports.

According to a survey of U.S. forecasters, real GDP in the U.S. is predicted to grow by 3.0 per cent in both 1993 and 1994. Over the 1995 to 1996 period, real growth is forecast to average 2.7 per cent.

Real output of the G-7 countries rose by 1.3 per cent in 1992. According to the consensus of forecasters, G-7 economic activity is forecast to expand by only 1.3 per cent in 1993 and by 2.5 per cent in 1994. In 1995 and 1996, the pace of real growth in the G-7 countries is forecast to pick up to 2.9 per cent. The slow pace of international growth and low inflation over the medium term is expected to keep global interest rates low.

Figure 5



Sources: *Blue Chip Economic Indicators* and *Consensus Forecasts*.

Canadian Outlook

The Canadian economy is projected to grow by 3.2 per cent this year and next. Canada is experiencing an export-led recovery, reflecting the lower value of the Canadian dollar and a pick-up in U.S. growth. Canadian domestic demand will remain subdued, with only a modest improvement expected in 1993. Canada's real GDP is forecast to grow at an average annual pace of 3.8 per cent over 1995 and 1996 as the expansion becomes more broadly based. Over 1993 to 1996, Canada's real growth is forecast to be 3.5 per cent, faster than any other G-7 country.

Ontario's Economic Outlook

The economic recovery in the 1990s is anticipated to be modest compared to the 1980s. Initially, the recovery will be led by exports and productivity-enhancing investment. As employment and incomes grow, consumer spending and housing will gain momentum. Real GDP is forecast to grow by 3.4 per cent in both 1993 and 1994. Real growth increases to an average of 4.1 per cent over 1995 and 1996 as the base of the expansion broadens.

Modest Job Gains Expected

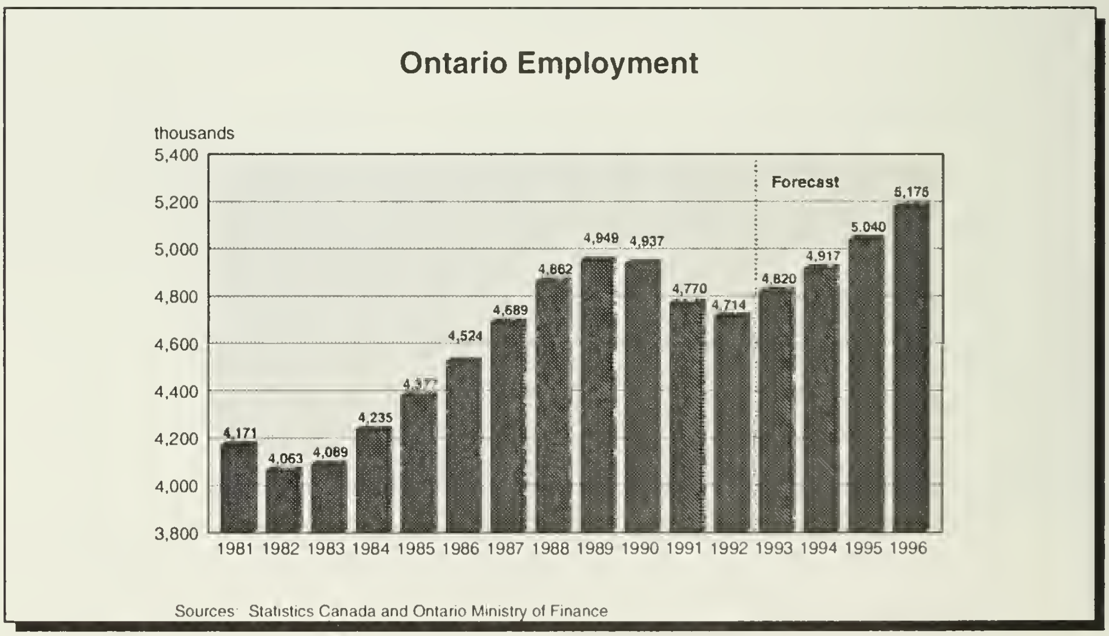
Although total employment declined by 1.2 per cent in 1992, job growth rebounded during the year. Ontario has created 98,000 jobs over the last eight months. Employment growth in Ontario is expected to pick up, averaging 2.4 per cent or 115,000 jobs per year, over the 1993 to 1996 period.

Many of the jobs that will be created over the medium term will be in knowledge-intensive occupations. The new jobs will generally require higher levels of skills and education. Ontario has a growing supply of well-educated workers. Ontario's high level of educational attainment will play an increasingly important role in facilitating structural change and in developing our economic advantage.

- About 40 per cent of Ontario men and women age 20 and over have at least one year of post-secondary education. This compares favourably with 38 per cent of adults in the United States and 20 per cent in Japan.

Ontario's increasing emphasis on active labour market policies and programs, such as **jobsOntario** *Training* and the establishment of the Ontario Training and Adjustment Board, will encourage and support investments in training and infrastructure to promote employment, productivity and income security. Productivity growth is essential to maintaining the competitiveness of Ontario industry in both international markets and at home. High productivity ultimately means higher real incomes for both labour and business. This will lead to higher spending and more jobs.

Figure 6

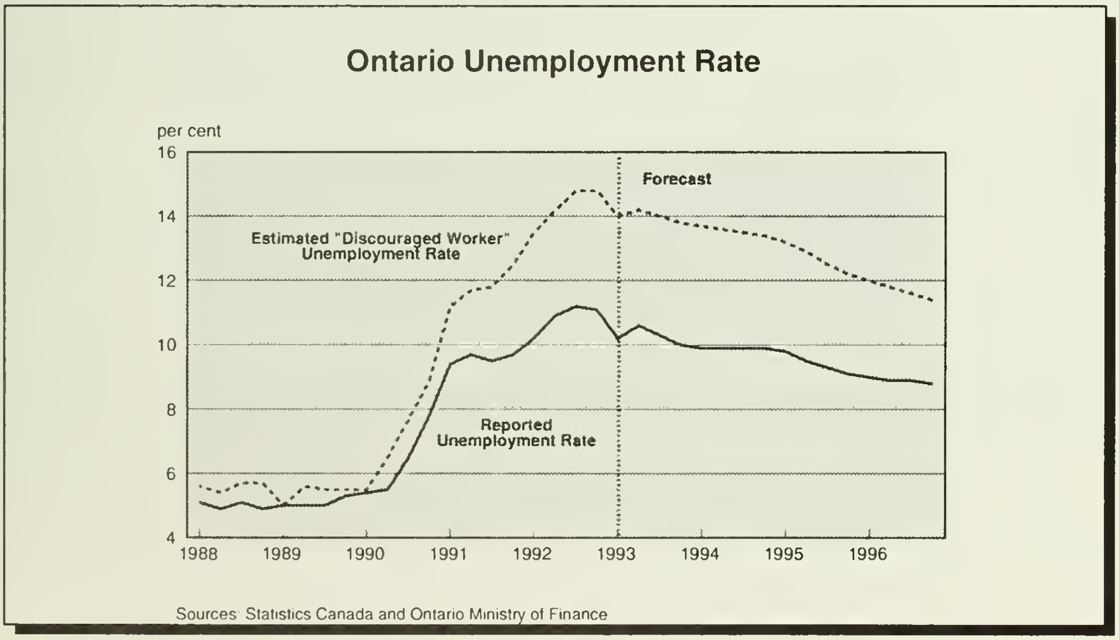


Unemployment Will Decline

Ontario's unemployment rate was 10.7 per cent in April, down from a peak of 11.3 per cent in September 1992. The moderate pace of job growth expected in Ontario over the first half of the 1990s, combined with high immigration levels and the return of discouraged workers to the labour force, will limit the decline in the unemployment rate. The unemployment rate is not expected to fall below 9 per cent until 1996.

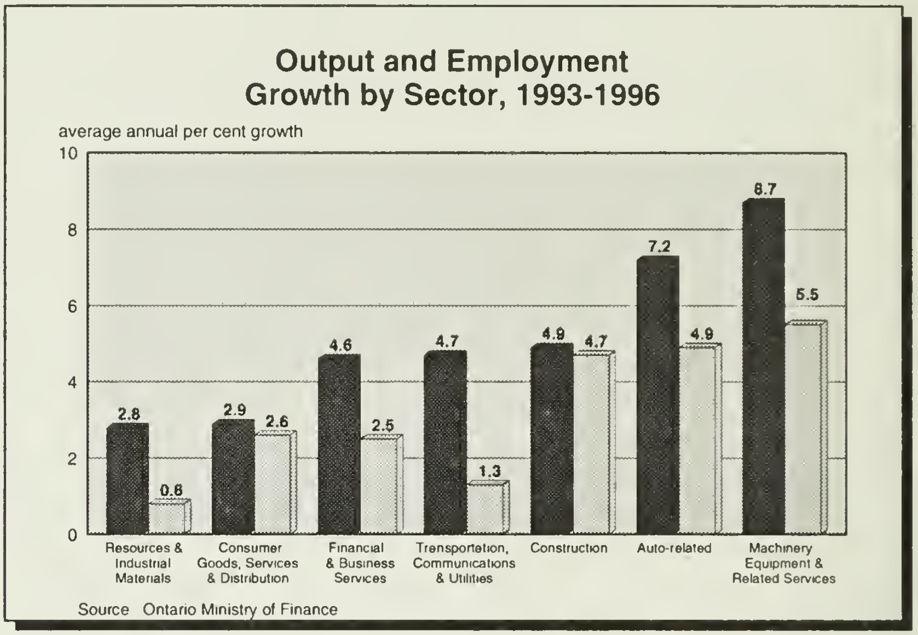
- During the recession, many workers gave up looking for work. However, renewed employment growth will encourage their return to the labour force. If these discouraged workers were counted as "unemployed," Ontario's current unemployment rate would be about 14 per cent.
- One out of every three unemployed workers in Ontario has been jobless for more than six months. The problem of long-term unemployment is likely to persist over the medium term.
- International immigration to Ontario will be about 130,000 in 1993, over three times the 1984 level. On the basis of the federal planning targets, immigration to Ontario over the medium term is expected to stabilize in the 110,000-140,000 range.

Figure 7



Sectoral Composition of Growth

Figure 8



Much-improved competitiveness is already contributing to a resurgence in manufacturing output growth. Stronger growth in manufacturing productivity will contribute to a rebound in corporate profits, while manufacturing job gains will be modest.

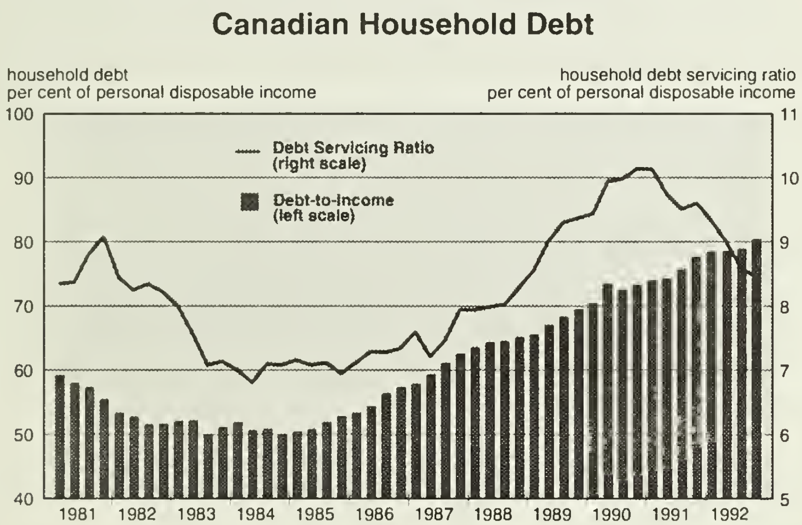
- Machinery and equipment and related services industries, such as computers, software and medical technologies, will make a key contribution to exports and growth. Businesses are restructuring by investing in productivity-enhancing equipment and new technologies to remain competitive in the changing economy.
- Improvements in manufacturing will be led by the automotive sector, based on a rebound in U.S. auto sales and Ontario's favourable position as a highly competitive auto producer.
- Industrial materials, such as chemicals and plastics, and resource products, such as lumber, will share in the cyclical rebound in manufacturing output growth. However, growth over the next few years will remain relatively modest, reflecting technological changes that are reducing the use of resources and traditional materials in production.
- Growth in consumer industries, such as retail trade distribution and tourism, will be modest, reflecting the slow pace of consumer spending and continued restructuring pressures in some sub-sectors.
- Other industries, such as transportation, banking and utilities, are streamlining their capacity to raise productivity and position themselves for market growth.

Consumer Spending Recovers

Lower nominal interest rates, together with improving labour and housing markets, are expected to contribute to a gradual recovery in consumer spending. However, spending growth is forecast to be weaker than in previous recoveries, due to slower employment and income growth, high debt levels, the impact of lower asset values on households' net wealth and the current low savings rate.

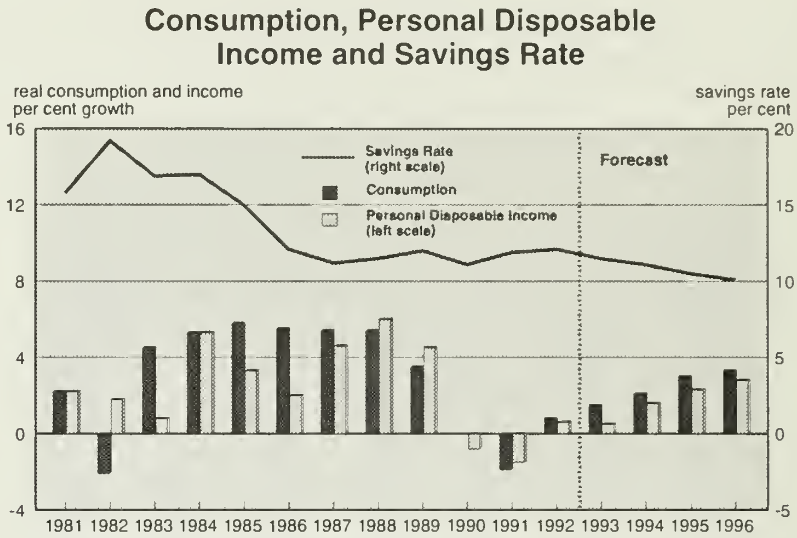
- The household debt-to-income ratio is expected to remain high in the 1990s, reflecting a rising trend in mortgage debt and slow income growth.
- Although lending rates are expected to remain near current levels, debt servicing costs will continue to decline over the short term, as homeowners renew mortgages at much lower interest rates. In Canada, debt servicing costs have fallen 13.7 per cent, or $6.5 billion, from the peak in 1991.

Figure 9



Sources Bank of Canada, Statistics Canada and Federal Department of Finance

Figure 10



Sources: Statistics Canada and Ontario Ministry of Finance

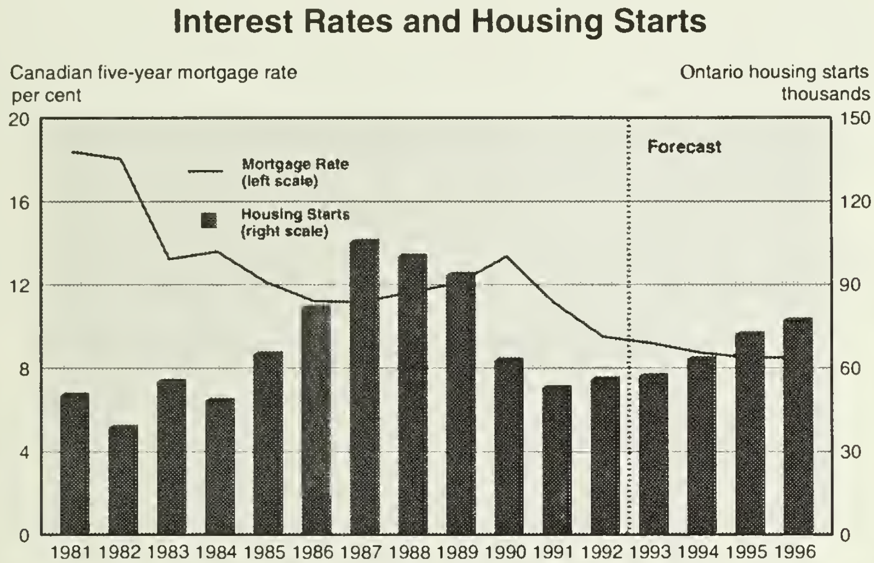
Real consumption, which grew by 0.8 per cent in 1992, is forecast to rise by 1.5 per cent in 1993 and by 2.1 per cent in 1994.

- A gradual improvement in consumer spending, led by autos and home furnishings, is expected in 1993 and 1994, aided by the recent decline in interest rates, strengthening housing and labour markets, and improving consumer confidence.
- The lower dollar and improved competitiveness in the quality, service and prices offered by Canadian retailers should continue to dampen cross-border shopping and boost consumer spending in Ontario.
- Over the 1995-96 period, consumption growth is expected to strengthen to an average annual rate of 3.1 per cent, aided by continued high levels of immigration and continued improvement in housing and labour markets.

Housing Buoyed By Affordability

Real spending on housing rose by 8.1 per cent in 1992, after two consecutive large annual declines. Housing starts increased 5.6 per cent to 55,772 in 1992, supported by socially assisted starts that increased by 25.4 per cent to nearly 17,000 dwellings.

Figure 11



Sources: Bank of Canada, CMHC and Ontario Ministry of Finance.

Real residential investment is predicted to grow by 2.3 per cent this year and by 8.0 per cent in 1994. Housing starts are forecast to rise to 57,000 in 1993 and to 63,000 in 1994, as confidence in the economy grows.

A key ingredient in a stronger housing market is the significant improvement in affordability in recent years.

- The improvement in affordability reflects stable or declining house prices and lower interest rates. The five-year mortgage rate is currently below 9 per cent.
- According to the Canada Mortgage and Housing Corporation, 28 per cent of renters could afford to carry the mortgage payments associated with an average starter home in Toronto in 1992, compared to only 7 per cent in 1990.

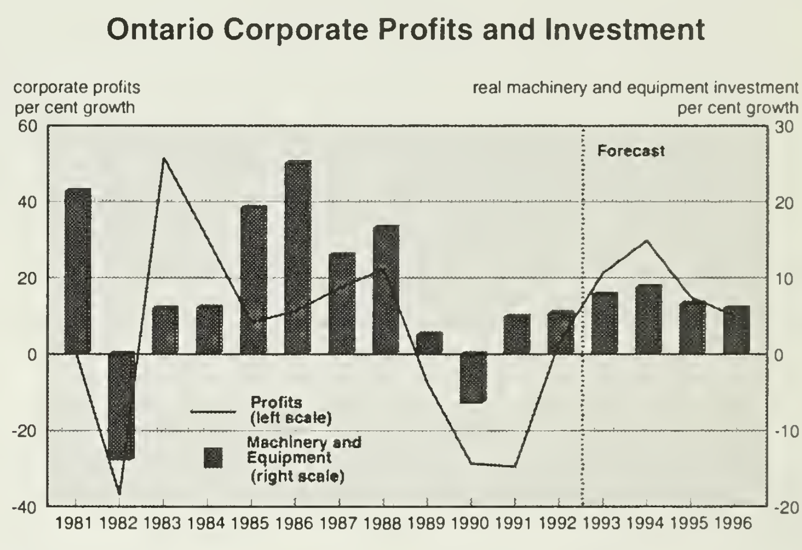
Ontario's housing market should strengthen further in 1995 and 1996, supported by pent-up demand, rising employment, restrained house prices and continuing low mortgage rates. Housing starts are expected to rise to 72,000 in 1995 and to 77,000 in 1996. Real residential investment is forecast to expand at an average rate of 8.1 per cent per year over the 1995-96 period.

- According to a survey by Royal LePage, first-time buyers accounted for close to 50 per cent of the Toronto home buyers last year. The second, and larger, half of the baby boom generation is still in the prime first-time buyer age group (i.e., 27-36 years of age). High international immigration will also raise demand for housing.

Machinery and Equipment Investment Grows Rapidly

Real investment spending on machinery and equipment is expected to increase by 7.8 per cent this year, 8.8 per cent in 1994 and an average of 6.3 per cent over the 1995 to 1996 period. The rebound in corporate profits and lower interest rates are improving business cash flow. Firms are investing in productivity-enhancing processes and equipment, such as flexible manufacturing systems and computer-based information technologies.

Figure 12



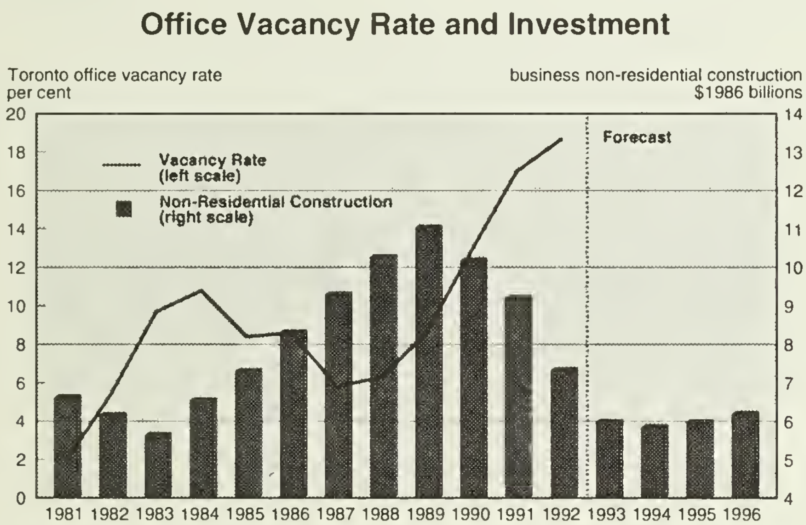
Sources: Statistics Canada and Ontario Ministry of Finance

- Modest gains in profits and lower nominal interest rates have reduced debt-service burdens for Ontario firms.
- The recent decline in the dollar should boost Ontario's export- and import-competing industries, encouraging higher investment. However, this positive stimulus will be partially offset because the lower dollar also raises prices for imported machinery and equipment.
- The investment recovery will be sustained by stronger demand for Canadian-produced goods and services and low nominal interest rates.

Commercial Construction Spending Remains Depressed

Business non-residential construction in the province, as in most industrial economies, is facing significant excess supply of commercial and retail space. Real non-residential construction spending in Ontario is forecast to fall by 18.4 per cent in 1993, and by a further 2.3 per cent in 1994. By 1994, the volume of private non-residential construction will have declined for five consecutive years in Ontario.

Figure 13



Sources Royal LePage and Ontario Ministry of Finance

A number of factors suggest that the weakness in industrial and commercial construction is likely to persist for several years.

- Although some specialized plants will be built, given current high levels of under-utilized manufacturing capacity, investment in additional plant capacity will lag the overall recovery in the Ontario economy.
- Competitive pressures are forcing firms to utilize office and retail space more efficiently, and technological advances are resulting in more work-at-home employees.

A modest increase in non-residential construction activity is expected in the 1995-1996 period, as the maturing economic expansion absorbs excess capacity.

Exports Benefit from Lower Dollar, Stronger U.S. Growth and Improved Productivity

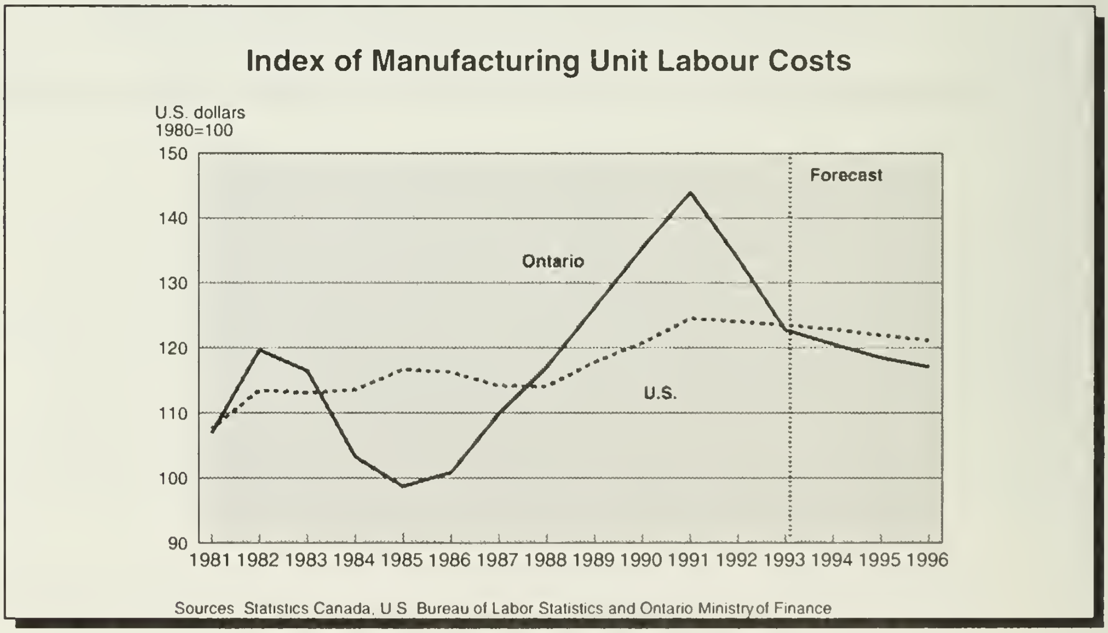
Ontario's real trade balance is forecast to improve by $2.4 billion in 1993 and by a further $2.5 billion in 1994. The trade balance is expected to continue to improve in 1995 and 1996.

- Both exports and imports will increase as a share of Ontario's economy because firms are specializing in products and market niches where Ontario has a competitive advantage relative to its trading partners.

An improving U.S. economy, together with the recent decline in the dollar, should boost the province's exports. Ontario export volumes are forecast to grow by 10.6 per cent in 1993 and by 7.9 per cent in 1994. Over 1995-1996, real exports will grow at an average rate of 5.4 per cent per year.

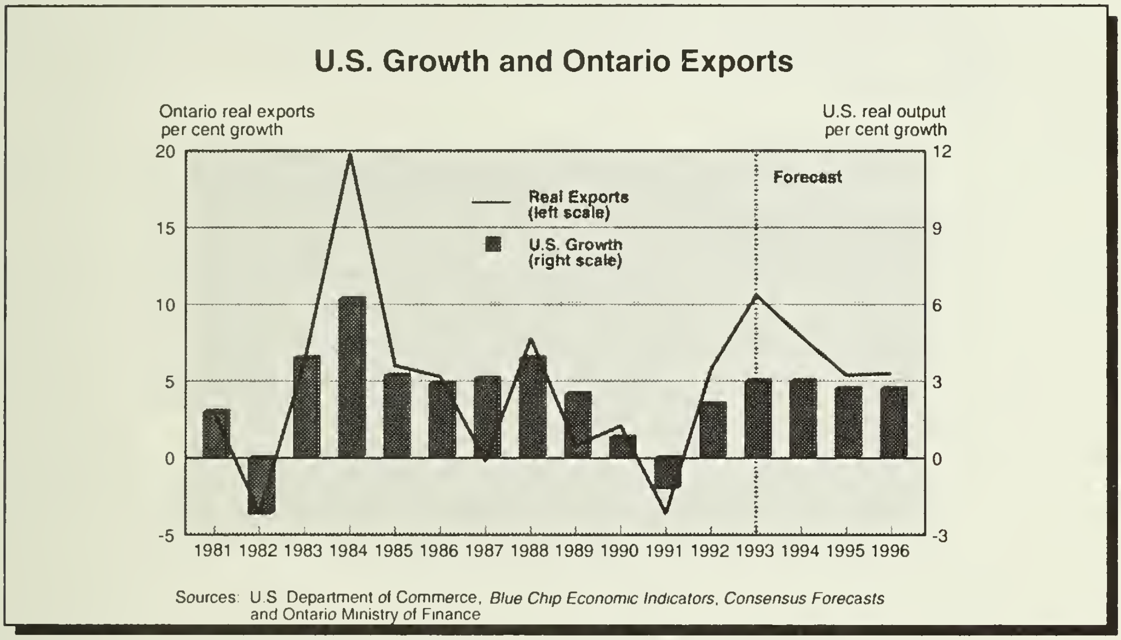
- Exports are expected to benefit from a continuing recovery in the U.S. and the decline in the Canadian dollar from its late-1991 peak above 89 cents U.S. to near 79 cents currently.
- There has been a significant improvement in Ontario's manufacturing competitiveness. Unit labour costs, measured in U.S. dollars, declined by 7 per cent in 1992 and are projected to decline a further 8 per cent in 1993.
- Import-competing industries, such as consumer products, should also increase market share due to improved productivity and a lower exchange rate.

Figure 14



Ontario's real imports are expected to rise by 8.5 per cent in 1993 and by 6.1 per cent in 1994. Over 1995-96, real imports are forecast to expand by an average annual rate of 4.0 per cent. Rising imports will be driven by modest increases in consumption, rising auto production and growth in investment in productivity-enhancing machinery and equipment.

Figure 15



Ontario's auto exports are expected to rise by about 12.8 per cent this year, 9.5 per cent next year and by an average 8.6 per cent during the 1995-1996 period.

- Motor vehicles and parts account for about 44 per cent of Ontario's international exports. Ontario accounts for 16 per cent of North American car production and 18 per cent of North American truck production.
- Motor vehicle sales are primed for cyclical recovery due to pent-up replacement demand in Canada and the U.S. Following three consecutive years of decline, auto sales in the U.S. rose by 4 per cent in 1992 and are forecast to grow by 5 per cent in 1993, to 13.8 million units.
- Renewed strength in U.S. vehicle sales is expected to be a major source of economic growth in Ontario over the medium term. However, North American sales are expected to remain well below the pre-recession peak until 1996.

Summary

Ontario's economy is undergoing profound structural change. A cyclical recovery from the deepest recession since the 1930s is now under way. The pace of growth is expected to be modest compared to previous recoveries.

The policies of the Government of Ontario have focused on ensuring the recovery is on a sure footing and enhancing the economy's underlying competitive strengths. Government policies directed towards effective investment and sound fiscal management will raise productivity and provide the basis for sustainable growth in the 1990s. Higher productivity leads to higher real incomes for both labour and business.

Ontario Strengths

- The province has a history of strong growth, with real increases in GDP averaging 3.3 per cent between 1983 and 1992, better than any of the G-7 nations except Japan.
- With 1992 real GDP per capita of $21,796 and roughly 10 million residents, Ontario is one of Canada's richest provinces.
- Ontario is centrally located in the North American market. Total household income within one day's trucking distance of Toronto (400 miles/650 km) is higher than for any other major North American city.
- The province offers a highly skilled workforce. About 40 per cent of Ontario men and women age 20 and over have at least one year of post-secondary education. This compares favourably with 38 per cent of adults in the U.S. and 20 per cent in Japan.
- Capital-intensive industries, such as machinery, computer equipment and medical technologies, are among the fastest growing sectors in the economy, playing a key role in restructuring toward higher productivity throughout the economy.
- Ontario's infrastructure is among the best in the world. The World Competitiveness Report in 1992 ranked Canada second in energy production and fourth in power supply and telecommunications.
- The United Nation's Human Development Report in 1992 identified Canada as the most desirable country to live in, based on factors such as life expectancy, literacy and standard of living.

The Ontario Economy, 1991-1996 **Table 1**
(per cent change)

	1991	1992	1993	1994	1995	1996
Real Gross Domestic Product ($1986)	**-3.1**	**1.2**	**3.4**	**3.4**	**3.9**	**4.2**
Consumption	-1.9	0.8	1.5	2.1	3.0	3.3
Residential Construction	-14.2	8.1	2.3	8.0	9.9	6.3
Non-Residential Construction	-9.6	-20.2	-18.4	-2.3	2.1	3.7
Machinery and Equipment	4.9	5.4	7.8	8.8	6.6	6.0
Exports	-3.6	5.8	10.6	7.9	5.4	5.5
Imports	1.5	4.9	8.5	6.1	4.0	4.0
Nominal Gross Domestic Product	**-0.7**	**1.5**	**4.1**	**5.0**	**5.4**	**5.7**
Other Economic Indicators						
Retail Sales*	-7.5	1.9	4.2	4.5	4.6	4.8
Housing Starts – Units (000s)	52.8	55.8	57.0	63.0	72.0	77.0
Personal Income	2.7	1.7	2.7	3.9	4.3	4.8
Pre-Tax Corporate Profits	-29.5	3.0	21.3	29.8	15.0	10.0
Consumer Price Index						
Canada	5.6	1.5	2.1	2.0	1.8	1.8
Ontario	4.6	1.1	1.9	1.9	1.8	1.8
Labour Market						
Labour Force	0.2	0.2	1.6	1.6	2.0	2.1
Employment	-3.4	-1.2	2.2	2.0	2.5	2.7
Unemployment Rate (%)	9.6	10.8	10.3	9.9	9.4	8.9

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

BUDGET PAPER C

FISCAL REVIEW AND OUTLOOK

Introduction

This paper summarizes the Province's fiscal review and outlook.

Part I provides a fiscal overview of 1992-93 and 1993-94, including highlights of changes from the 1992 Budget Plan.

Part II discusses how revenue changes have affected the Government's operating expenditure plans. This section:

- describes how 1992-93 revenue performance was lower than originally anticipated;
- gives a revised 1993-94 revenue outlook based on the current economic forecast, including tax and non-tax revenue measures, asset management activities and federal payments;
- highlights 1992-93 operating expenditures and the achievement of over $1 billion in savings; and
- presents the 1993-94 operating expenditure plan which reinforces the Government's commitment to meeting Ontario's priorities while achieving $6 billion in savings through $4 billion identified in the Expenditure Control Plan and $2 billion related to the Social Contract negotiations.

Part III details the new strategic plan for capital expenditures in the Province. This section:

- recaps the 1992-93 capital performance;
- gives an overview of base capital investments for 1993-94;
- highlights **jobsOntario** *Capital;*
- reviews the new loan-based financing system for new education and hospital facilities; and
- introduces three new Crown corporations in Ontario.

Part IV outlines the Government's medium-term fiscal plan to show how budgetary requirements will decrease from $9.2 billion in 1993-94 to $4.8 billion by 1995-96. This section also discusses borrowing and debt management by the Province.

Part I: Fiscal Overview

The changing world economy has affected Ontario significantly over the past few years. Critical shifts in virtually all sectors have required a rethinking of how both businesses and governments operate, and major restructuring has been key to survival. Ontario has not been exempt from these structural changes. The provincial government – like other organizations – has taken action to streamline procedures, eliminate duplication of services and deliver programs more efficiently.

Although the economic recovery began in 1992, the continuing effects of the deep and prolonged recession dominated Ontario's 1992-93 fiscal performance. Revenue, which had been projected to grow by 8.6 per cent, instead increased only by 2.6 per cent to $41,799 million. Revenues were $2,746 million or 6.2 per cent below the 1992 Budget forecast. Significant revenue shortfalls occurred in Personal Income Tax, Corporations Tax, Retail Sales Tax, Employer Health Tax, and sales and rentals. In addition, the federal government made only an interim payment under the Fiscal Stabilization Program rather than paying the full amount of the Ontario claims.

The Government's aggressive expenditure control policies achieved savings of over $1 billion, including $400 million toward the original 1992 Budget target, a further reduction of $550 million to offset revenue losses due to the slower than anticipated recovery, and $283 million redirected to offset expenditure pressures such as the Ontario Student Assistance Program (OSAP), Seniors' Property Tax Grants, Guaranteed Annual Income Supplements (GAINS) and the Program for Older Worker Adjustment.

1992-93 Document Update Summary **Table 1**
($ Millions)

	Document Plan 1992-93	Interim	In-Year Change
Revenue	44,545	41,799	(2,746)
Operating Expenditure:			
Programs	45,292	44,845	(447)
Public Debt Interest*	5,275	5,350	75
Total Operating Expenditure	50,567	50,195	(372)
Operating Deficit	**6,022**	**8,396**	**2,374**
Capital Expenditure	3,900	3,594	(306)
Budgetary Requirements	**9,922**	**11,990**	**2,068**

* For reporting purposes, revenue from interest on investments reported in the 1992 Budget has been netted against Public Debt Interest expenditures.

Despite the resumption of economic growth, 1993-94 revenues will continue to reflect the impacts of the 1990-1992 recession. Without further action by the Government, revenues in 1993-94 would be below 1992-93 levels. This has reinforced the need to step up efforts to manage the operating deficit.

For 1993-94, the fiscal plan projects a budgetary requirement of $9,159 million. Ontario's planned operating deficit is $6,063 million, compared to a deficit of $8,396 million in 1992-93.

As indicated in last year's Budget, the Government is maintaining its commitment to provide $3.9 billion in capital investment in 1993-94. This amount includes $0.8 billion in alternative capital financing.

1993-94 Fiscal Plan **Table 2**
($ Millions)

	Interim 1992-93	Budget Plan 1993-94	Per Cent Change
Revenue	41,799	43,985	5.2
Operating Expenditure: Programs	44,845	42,898	(4.3)
Public Debt Interest	5,350	7,150	33.6
Total Operating Expenditure	50,195	50,048	(0.3)
Operating Deficit	**8,396**	**6,063**	
Capital Expenditure	3,594	3,096*	
Budgetary Requirements	**11,990**	**9,159**	

* Excludes $804 million in alternative capital financing in 1993-94 which, when included, shows an 8.5 per cent increase from 1992-93.

The 1993-94 fiscal plan incorporates tax and non-tax measures and asset management activities totalling $2.8 billion, almost $4.0 billion in savings generated by the Expenditure Control Plan and the $2 billion target from the Social Contract negotiations.

Part II: Revenue and Operating Expenditure Plans

1992-93 Revenue Performance

While Ontario began to emerge from the recession in 1992-93, Ontario's revenues continued to be severely affected. Continuing high unemployment and slower than expected nominal income growth hit tax revenues especially hard. Other revenues were also adversely affected by delays in the sale of SkyDome and refinancing of GO Transit rolling stock. In addition, the federal government made only an interim payment under the Fiscal Stabilization program rather than paying the full amount of the Ontario claims. While interim revenues for 1992-93 are reported at $41,799 million, 2.6 per cent above 1991-92 levels, they are $2,746 million, or 6.2 per cent, below the 1992 Budget forecast. Most revenue sources were below the levels projected in last year's Budget.

In-Year Revenue Performance, 1992-93 **Table 3**
($ Millions)

			In-Year Change	
	Budget Plan	**Interim**	**($ Millions)**	**%**
Taxation Revenue	31,766	30,042	(1,724)	(5.4)
Other Revenue	5,049	4,204	(845)	(16.7)
Federal Government Payments	7,730	7,553	(177)	(2.3)
Total	**44,545**	**41,799**	**(2,746)**	**(6.2)**

Taxation revenues were $1,724 million lower than forecast in the 1992 Budget. Slower than expected growth in employment and nominal incomes had a negative impact on all tax revenues. The slower pace of nominal growth was largely a result of lower inflation than forecast in the 1992 Budget. Government revenues, especially taxation revenues which depend on nominal spending and incomes, are lower when inflation is lower.

Summary of In-Year Changes to Revenue in 1992-93 ($ Millions)		Table 4
Taxation Revenue		
Retail Sales Tax	(549)	
Corporations Tax	(556)	
Personal Income Tax	(337)	
Employer Health Tax	(153)	
Land Transfer Tax	(82)	
All Other	(47)	**(1,724)**
Other Revenue		
Sales and Rentals	(689)	
LLBO Fees, Licences and Permits	(139)	
LCBO Profits	(70)	
Lottery Profits	68	
All Other	(15)	**(845)**
Federal Payments		
Established Programs Financing	687	
Fiscal Stabilization	(890)	
All Other	26	**(177)**
Total In-Year Changes		**(2,746)**

Retail Sales Tax (RST) revenues were down by $549 million from the 1992 Budget forecast. RST revenues have been adversely affected by weak employment and nominal income growth and by changes in consumption patterns brought about by the recession. The continuing uncertainty over the economy, and concerns over job security in 1992-93, resulted in consumers spending proportionately less on durable goods – most of which are subject to RST – and more on necessities such as food – which are not generally taxed. The growth of the underground economy (including tax avoidance actions) has also likely had a negative impact on RST revenues.

Weaker than expected corporate profits, large write-offs associated with the decline in the commercial real estate market and the use of loss carry over provisions resulted in Corporations Tax revenue falling $556 million below the Budget projection. Corporations applied large losses incurred during the recession to reduce their 1992-93 tax payments both by reducing their current tax liabilities and by claiming refunds for taxes paid in prior profitable years.

The shortfall in Personal Income Tax (PIT) revenue of $337 million from the 1992 Budget plan was the result of slower than forecast employment and personal income growth, and greater than expected repayments to the federal government for PIT overpayments received in previous years. Due to past PIT overpayments by the federal government, Ontario was required to repay $746 million to the federal government in 1992-93, with further repayments of $493 million deferred to 1993-94.

Employer Health Tax (EHT) revenue was $153 million below the 1992 Budget projection. Lower than anticipated growth in employment and wages and salaries contributed to this shortfall.

The revenue from the Land Transfer Tax was $82 million below the 1992 Budget forecast, due mainly to weaker housing and commercial markets than were expected.

A net shortfall in other taxation revenues of $47 million from the 1992 Budget plan reflected declines of $23 million in Mining Profits Tax, $26 million in Gasoline and Fuel Taxes, $16 million in Tobacco Tax and $16 million in Race Tracks Tax. These declines were partially offset by a $35 million increase in the Preferred Share Dividend Tax in respect of 1990.

Non-taxation revenues were $845 million lower than the 1992 Budget forecast. This decline was mainly due to a $689 million shortfall in Sales and Rentals, largely the result of the delay in the sale of SkyDome and the refinancing of GO Transit rolling stock. The decline in revenues from LCBO Profits and LLBO Fees, Licences and Permits of $209 million from the 1992 Budget plan, was the result of reduced demand and an optimistic sales forecast for LLBO revenues. An increase of $68 million in Lottery Profits, due to higher than expected sales, partly offset the declines.

Net total payments from the federal government were $177 million below the Budget forecast.

The main reason was a shortfall of $890 million in Fiscal Stabilization payments, as the federal government made only an interim payment of $300 million, rather than paying the full amount of $1,190 million claimed by Ontario. Fiscal Stabilization is a legislated program, under the authority of the *Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act*, 1977, intended to protect provinces from year-over-year revenue losses that result from an economic downturn.

The shortfall in Stabilization payments was partly offset by increases over Budget forecasts of $687 million in Established Programs Financing (EPF) cash payments and $33 million in Canada Assistance Plan (CAP) payments.

EPF, which is paid on a per capita basis, increased by $357 million as a result of the decision by the federal government to include in the population more than 400,000 Ontarians who were not previously counted in the 1991 Census.
An additional $284 million increase in EPF partly offset declines in Personal Income Tax revenues. The total EPF entitlement is paid through a combination of Personal and Corporate Income Tax transfers and residual cash grants, with declines in the value of the tax portion offset by equivalent cash increases.
An additional $46 million increase in EPF cash payments resulted from growth in Ontario population, unrelated to the inclusion of previously uncounted persons,

and to revised federal estimates of Gross National Product and Corporate Taxable Income.

Of the $33 million increase in CAP payments, $25 million resulted mainly from claims for 1988-89 and prior years, $5 million from delayed recoveries by the federal government and $3 million from work activity projects not subject to the five per cent ceiling on CAP growth.

Other federal payments declined by a net $7 million from Budget forecasts, mainly due to reduced federal contributions under the federal-provincial Non-Profit Housing Program.

1993-94 Revenue Outlook

The revenue outlook is based on the current economic forecast of continuing recovery. Despite this expected growth in the economy, total revenues in 1993-94 would be $0.6 billion, or 1.4 per cent below 1992-93 levels without any action by the Government. Several factors are responsible. The 1992-93 revenues were increased by various one-time payments amounting to over $1.1 billion. These included the interim payment received under the Fiscal Stabilization Program and Established Programs Financing (EPF) payments in respect of prior years, as well as some asset sales. Tax revenue growth has also been restrained by a number of factors, which are discussed below.

The Government is taking a number of actions to increase revenues. These actions are expected to increase Government revenues by $2,784 million in 1993-94, including $1,630 million from tax measures and $1,154 million from other revenue-raising measures. Total revenue, including these measures and the decrease in the base revenue, is expected to be $43,985 million, 5.2 per cent above interim 1992-93 levels.

Tax Revenues

Total tax revenues are expected to be $32,095 million in 1993-94, up 6.8 per cent from 1992-93. This includes $1,630 million in tax measures announced in the Budget. Without these measures, total tax revenue growth would have been marginal, reflecting the modest rate of real growth, inflation and employment growth forecast for Ontario, PIT repayments to the federal government and the impact of Corporate Income Tax loss carry over provisions.

With the measures announced in the Budget, Personal Income Tax (PIT) revenues are forecast to be $14,315 million, which are 5.7 per cent or $772 million above last year's total. PIT revenue growth in 1993-94 is restrained by the required repayments to the federal government for PIT overpayments in 1991 and 1992. Payment of the Ontario Seniors' Tax Credit will reduce the Province's net PIT revenues by $470 million in 1993-94.

Retail Sales Tax (RST) revenues are expected to grow this year by $724 million, or 9.9 per cent, from 1992-93 to $8,040 million. This RST growth reflects the impact of the measures taken in the Budget and the modest increase in consumer and business spending on goods subject to the RST.

Corporations Tax revenue is forecast to increase by 15 per cent to $3,120 million as corporate profits begin to recover from their very sharp decline during the recession. However, the use of loss carry forwards and carry backs will cause Corporate Income Tax revenue growth to be below the forecast growth rate of profits.

The Employer Health Tax is forecast to increase 4.2 per cent above last year's levels to total $2,700 million, in line with the growth rate of wages and salaries in Ontario.

Other tax revenues are expected to increase 1.1 per cent from 1992-93 to $3,920 million in 1993-94.

Non-Tax Revenues

Non-tax revenues are expected to total $5,045 million, an increase of $841 million, or 20 per cent, from 1992-93. These revenues include LCBO profits, Other Fees and Licences, Vehicle and Driver Registration Fees, LLBO Fees and Licences, Lottery Profits, and Sales and Rentals. The significant revenue growth is largely a result of the Non-Tax Revenue Strategy and Asset Management Activities.

The fiscal plan for 1993-94 includes a number of new non-tax revenue initiatives. The Government is placing more emphasis on non-tax revenue and in 1992-93 instituted a new Non-Tax Revenue Strategy intended to encourage new ways of doing business and to enhance customer service in the public sector.

New non-tax revenue initiatives are projected to generate about $240 million in revenue in 1993-94. These initiatives fall into the following categories:

- **Cost recovery** such as the introduction of fees for non-delegated subdivision approvals and consents under the *Planning Act* of Ontario by the Ministry of Municipal Affairs. Other initiatives in this category include public land use charges and rent increases to fair market value, the fines management and central collections service projects, Ontario Municipal Board application fees and augmented collection of family support payment arrears.
- **Operational efficiencies** such as the Two-Tier Personal Property Security Registration Fee Structure of the Ministry of Consumer and Commercial Relations to encourage direct registration and to reduce more costly, time-consuming paper registration. Other initiatives in this category include general revisions to the motor vehicle and licence fees, and streamlined processing of minor offences.
- **Improved service delivery** such as the Provincial Victim Fine Surcharge to provide additional funding to support new and existing victims'

assistance programs. Other initiatives in this category include mineral sector data distribution and consulting sales, information product sales, diversification of products for sale, and enhanced confiscation of the proceeds of crime.

- **Resource use charges** such as water power royalties for private hydro-electric producers, commercial fish royalties and an increase to the Timber Licence Area charge.
- **Registration and other fees** such as new snowmobile registration and an increase in land registration fees by the Ministry of Consumer and Commercial Relations. Other initiatives in this category include premium fees for same-day counter service at the Registrar General's offices, increased technical standards fees, charitable Monte Carlo event fees and Assessment Review Board fees.
- **Change to Crown Dues (stumpage)** — Stumpage charges will be increased and the Province will commence the process of transferring certain additional forest management costs and responsibilities to the forest tenure holders to further improve the management of the forests.
- **Ontario Home Renewal Program (OHRP)** — Municipalities will be asked to return all OHRP funds to the Province as a result of the wind down of this program. A separate program providing assistance for disabled persons will not be affected.

Additional revenues will also be generated through Project Fair Share, which expands audit and collections activities to target those not paying their fair share of taxes. Expanded audits will be in the corporations, retail sales, motor fuels and employer health tax areas. Expanded collections activity will be primarily in retail sales tax.

The Integrated Safety Project pilot, a road and public safety initiative, will also generate added revenue. This initiative uses improved technology for speed control, on-board computers in police vehicles and an integrated fines system to enforce existing road/driving regulations and laws, reduce accidents, and more efficiently levy and collect fines. This project improves law enforcement, policing and public safety through the introduction of new technologies to enhance access and sharing of critical information.

Table 5 provides details of these measures.

New Non-Tax Revenue Initiatives in 1993-94 ($ Millions)	Table 5
Vehicle/Driver Registration Fees	
– General Motor Vehicle and Licence Fee Revisions	39.2
– Product Diversification	12.1
– Snowmobile Registration Fees	3.2
Other Fees and Licences	
– Subdivision Approvals and Consents Fees	1.5
– Ontario Municipal Board Application Fees	0.9
– Two-Tier Personal Property Security Registration Fee Structure	1.8
– Registrar General Premium Service Fees	1.9
– Increased Technical Standards Fees	3.7
– Charitable Monte Carlo Event Fees	0.1
– Increased Land Registration Fees	21.6
– Assessment Review Board Fees	2.1
Royalties	
– Commercial Fish Royalties	0.1
– Water Power Royalties	2.0
– Timber Licence Area Charges	9.5
– Crown Dues (Stumpage)	25.0
Sales and Rentals	
– Public Land Use and Rental Charges	3.3
– Mineral Sector Data Distribution and Consulting Sales	0.7
– Information Product Sales	3.7
Fines and Penalties	
– Fines Management Project	12.0
– Provincial Victim Fine Surcharge	3.0
– Streamlined Processing of Minor Offences	2.0
– Integrated Safety Project	15.0
Recoveries	
– Central Collections Service	2.6
Reimbursements	
– Family Support Payment Arrears Collection	2.4
– Ontario Home Renewal Program – Trust Accounts	40.0
Miscellaneous	
– Enhanced Confiscation of Proceeds of Crime	0.5
Project Fair Share*	29.5
Total	**239.4**

* Enhanced tax revenue collection.

Asset Management Activities

In total, revenues of about $915 million are anticipated in 1993-94 from asset management activities currently in progress. The Province has already received about $190 million this year from the sale of its remaining share holdings in Suncor.

The Province is continuing to negotiate the sale of SkyDome to a private sector consortium. The sale is expected to close in the 1993-94 fiscal year, with proceeds of about $140 million on a present value basis.

Provincial land and buildings will be developed, managed and financed by the Ontario Realty Corporation, as part of our approach to better manage public capital investments for economic renewal. Revenues of approximately $250 million are expected for 1993-94.

The Province is continuing its efforts in the refinancing of the GO transit rolling stock and expects to conclude this transaction in 1993-94 despite some delays. These assets are currently valued at about $325 million. Other refinancing activities will also be explored.

Federal Payments

Payments from the federal government in 1993-94 are forecast to be $6,845 million, a decline of $708 million from the 1992-93 total of $7,553 million.

The main component of the decrease is a reduction of $454 million in Established Programs Financing payments, principally as a result of one-time payments received in 1992-93 in respect of prior years. Prior-year payments amounted to $554 million in 1992-93, but are expected to be only $59 million in 1993-94: in 1992-93, payments were received for 1990 and 1991 Personal Income Tax (PIT) decreases, the inclusion of persons not previously counted in the 1991 Census and Ontario population growth. An additional $86 million decrease in 1993-94 EPF payments is associated with forecast increases in 1993 PIT and Corporate Taxable Income. These decreases are partly offset by an increase of $126 million due to population growth.

Fiscal Stabilization payments show a decrease of $300 million year-over-year. An interim payment of $300 million on the Ontario claims was made in 1992-93. Future payments will be included in revenues after they have been received. The Province will continue to press the federal government for quick resolution of these claims.

Canada Assistance Plan (CAP) payments are forecast to increase $88 million. Growth in CAP entitlements is restricted to five per cent annually. The forecast increase is less than five per cent as a result of prior-year payments amounting to $25 million that were received in 1992-93 and are not forecast for 1993-94.

Details of 1993-94 revenues are found in Table C2.

1992-93 Operating Expenditures

Fiscal 1992-93 was a pivotal year as the Government continued to manage and reduce operating expenditures to offset lower than forecast revenues. The 1992 Budget reduced projected expenditures by $3 billion through internal operating efficiencies, capping transfer payments, cash flow rescheduling and program review and restructuring. The Budget also included a $400 million operating savings target.

Total interim operating expenditures, including Public Debt Interest, in 1992-93 at $50,195 million were $372 million below the level set out in the original Budget plan. Excluding Public Debt Interest and social assistance, operating spending in 1992-93 increased by less than 1 per cent over 1991-92.

1992-93 Expenditure Changes

The year started with aggressive restrictions on spending to achieve the $400 million operating savings target set in the Budget and to offset emerging pressures due to the recession. On November 26, the Minister of Finance announced further expenditure control measures to offset projected declines in revenue. During the third and fourth quarters, restrictions were placed on external hiring, non-salary operating budgets (such as travel, supplies and equipment) and on all uncommitted expenditures in order to achieve the required expenditure reductions.

Throughout the year, over $1 billion was achieved in savings:

- $400 million toward the operating expenditure savings and constraint target included in the 1992 Budget plan;
- $550 million related to the further expenditure reduction target identified at the end of the second quarter to offset revenue losses; and
- more than $280 million in additional savings used to offset expenditure pressures that emerged during the year.

Summary of 1992-93 Savings — **Table 6**
($ Millions)

	Savings	Operating	Capital
1992 Budget Operating Expenditure Savings Target	(400)	(400)	–
Further Expenditure Reduction Target to Offset Revenue Loss	(550)	(372)	(178)
Offsets for New Operating Expenditure Pressures/Increases	(283)	(155)	(128)
Total	**(1,233)**	**(927)**	**(306)**

Capital expenditure savings of $306 million were mainly due to lower priced contracts, delays in the planning process, and project design and implementation. On the operating expenditure side, $927 million was achieved in savings. After taking into account increases related to approvals for new pressures and the related capital offsets, operating expenditures decreased from the Budget plan by $372 million.

Highlights of Major In-Year Operating Expenditure Changes 1992-93 ($ Millions)	**Table 7**
In-Year Savings	
Health care	(224)
Restrictions on hiring and discretionary operating expenditures	(167)
Restrictions on all uncommitted expenditures	(149)
Social assistance savings due to lower than anticipated claims	(123)
BPS Pay Equity	(120)
School Boards	(72)
Sector Partnership Fund	(30)
Employee Wage Protection Program	(21)
Various other savings	(21)
	(927)
Adjustment for $400 million savings target already included in Budget Plan	**400**
In-Year Increases	
Public Debt Interest	75
Student Assistance	66
Support for Seniors	30
jobsOntario *Youth*	20
Additional requirements for OPP	23
Older Worker Adjustment	14
Losses on Loans (administered by ODC)	13
Various other increases	42
	283
Capital Savings* to Offset Pressures/Increases	**(128)**
Net Change from 1992 Budget Plan	**(372)**

* See Table 6.

In-Year Savings

Health care costs grew at an average annual rate of 11 per cent from 1981-82 to 1991-92. Through a wide variety of measures, the Ministry of Health has limited growth in operating expenditures in 1992-93 to under one per cent. Savings of $224 million were achieved primarily in the operation of hospitals, ministry operations, reductions in out-of-country OHIP expenditures, and delays related to Long-Term Care Reform implementation.

Restrictions placed on external hiring and discretionary operating expenditures (such as travel, supplies, equipment, etc.), resulted in savings of $167 million. In order to maximize potential savings, a freeze was later imposed on all uncommitted expenditures, netting a further $149 million in operating savings.

In 1992-93, social assistance costs for General Welfare Assistance were also lower than planned, for both allowances/benefits and municipal administration, with savings of $123 million.

Savings related to pay equity in the broader public sector were due to delays in settlements of pay equity plans, resulting in slower than anticipated funding of these costs by the Government, as well as an extension to the schedule for achieving pay equity as outlined in Bill 102.

Slower than anticipated implementation of new programs by school boards resulted in operating grant savings of approximately $72 million. Also, $30 million was realized in savings in the Sector Partnership Fund due to slower than expected start-up of the program.

Finally, a downward revision of cash flow requirements and lower than projected costs per claim led to a $21 million savings in the Employee Wage Protection Program.

In-Year Increases

During 1992-93, the Province funded in-year expenditure pressures of $283 million. The higher deficit required an extra $75 million in interest on public debt. Increased demands for student assistance and support for seniors also raised operating expenditures by $66 million and $30 million respectively.

In line with the Government's priorities, $20 million was authorized for **jobsOntario** *Youth*. In addition, $23 million was provided for the increased budgetary requirements of the Ontario Provincial Police.

Continued weakness in the economy required an additional $14 million for increased claims related to the Older Worker Adjustment Program and $13 million for loan losses administered by the Ontario Development Corporations.

1993-94 Operating Expenditures

In 1993-94, the Government will reduce spending by $6 billion through two key elements: the $4 billion Expenditure Control Plan and a Social Contract to realize $2 billion from lower public sector compensation costs.

With the 1991 Budget, the Government launched a comprehensive, multi-year review and evaluation of existing programs. In the first year, twenty-one program reviews were undertaken, with savings of over $700 million.

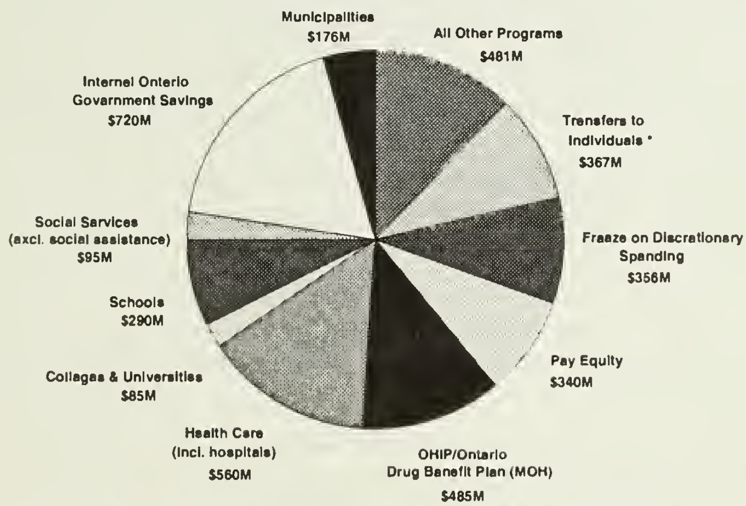
The results of this year's review were detailed in the **Expenditure Control Plan** announced on April 23rd. This plan will reduce spending in 1993-94 by almost $4 billion through the reform and restructuring of ministries and programs.

In developing the plan, every ministry carefully examined its programs and its own operations for opportunities to eliminate waste and inefficiencies, scale back and refocus services, and restructure programs so that service can be provided at less cost.

The resulting expenditure reductions are designed to minimize the impact on essential services and jobs and those who are the most vulnerable.

Figure 1

Ontario's $4 Billion Expenditure Control Plan



* Transfers to Individuals includes Social Assistance - $175M, Ontario Student Assistance Program - $178M

The Government has also initiated the negotiation of a **Social Contract** with employees and employers in the Ontario Public Service and the Broader Public Sector to realize an additional $2 billion in savings in 1993-94.

Together, the **Expenditure Control Plan** and the **Social Contract** will enable the Government to keep its commitments to create jobs, maintain important services and minimize public sector job impacts. Combined operating savings from the **Expenditure Control Plan** and the **Social Contract** will total $6 billion in 1993-94.

Operating expenditures will decrease 0.3 per cent to $50,048 million in 1993-94, the first time that operating spending has decreased year-over-year since 1942-43. Program spending, excluding Public Debt Interest, will decrease by 4.3 per cent.

Over the medium term, the Government will continue its expenditure control strategy through ongoing program evaluation, further streamlining and service restructuring.

To implement several of the **Expenditure Control Plan** and non-tax revenue initiatives, omnibus legislation will be introduced. The details are outlined in the Appendix to this paper.

Putting Our Own House In Order

Within the $4 billion **Expenditure Control Plan** for 1993-94, the largest category of savings, a total of $720 million will come from the Government's own operations, including payroll and other direct operating expenditures. This represents more than a 10 per cent decrease in overhead costs. Rigorous expenditure control measures implemented over the past two years will result in the Government reducing its operating expenses for transportation, communication, services, supplies and equipment by 24 per cent.

Many of these expenditure reductions involve administrative efficiencies, including streamlining operations and delayering the bureaucracy. For example, several ministries have consolidated or closed offices. The reorganization of the Ontario Government, announced by the Premier in February, reduced the number of ministries and created the opportunity to share common services like legal, finance, human resources and other support services. The reorganization will realize gross savings of $131 million over the next three years.

It is projected there will be almost 5,000 fewer Full-Time Equivalent positions in the Ontario Public Service by the end of 1993-94, including 3,800 as part of the Expenditure Control Plan. A large part of these reductions will be due to administrative efficiencies and streamlining of government operations. Wherever possible, normal attrition and voluntary retirements or resignations will absorb these reductions. In keeping with delayering the bureaucracy, these reductions will result in more than a 10 per cent decrease in senior management positions and a seven per cent decrease in the number of other management-related positions. As well, these reductions will be directed more to non-essential service and administrative areas in order to minimize the impact on delivery of essential services to the public.

Improving Program Efficiency

Ontario prides itself on the quality of its public services, especially health care, education, social services and public infrastructure. Maintaining high quality and affordable public services is a fundamental objective of the Government's expenditure control strategy.

Reform and restructuring efforts by all parts of the public sector will ensure that it operates more efficiently and that high-quality essential services are maintained. Expenditure growth is being contained through careful management and reform in major program areas such as health care, social assistance, justice, education, housing and transportation.

Health Care

The Expenditure Control Plan contained a number of measures related to the hospital sector, the Ontario Health Insurance Plan (OHIP) and the Ontario Drug Benefit (OBD) program, which were designed to reduce the growth in health care spending. This continues the trend begun in 1992-93 to lower the rate of increase in spending from the 11 per cent average annual rate of growth experienced between 1981-82 and 1991-92 to less than one per cent experienced in 1992-93.

Over the past two years, hospitals in Ontario have successfully accelerated restructuring of their programs and services, and improved delivery of care in responsible and effective ways. The number of hospital beds has been reduced by 9.6 per cent or 3,062 beds by increasing the number of day surgeries by 7.2 per cent or 62,640 cases, decreasing the average length of stay by 10 per cent and treating almost 400,000 more people on an out-patient basis. Overall, hospitals are treating more people than ever before.

A number of initiatives have been put in place over the past two years to better manage the use of physician, other practitioners and laboratory services under OHIP. In addition, some measures have been implemented to contain the costs for these services. In 1993-94, the Ministry is:

- introducing differential fees for new physicians to restrict growth in the number of physicians in areas of oversupply and to obtain more health services in communities that need them;
- promoting alternate payment models for delivery of health care;
- providing compensation to the actual providers of services;
- introducing fairness in compensation for certain standard services; and
- ensuring that laboratory services continue to be available to the public in the most cost-effective way.

Management initiatives in the Ontario Drug Benefit program have reduced the annual rate of growth over the past few years from 18 per cent to 11 per cent. The goal is to continue to be able to afford this program, to maintain and improve the program and to ensure a fair contribution from all parts of the system. Manufacturers will be expected not to increase the price of drugs. Dispensing fees by pharmacists will be reviewed. Physicians will be required to use guidelines that will ensure appropriate and sound prescribing of drugs. In some cases, consumers will be asked to make a contribution towards the costs of their prescriptions.

These tangible measures are required to reduce the growth and costs of the traditional health care system while at the same time promoting and supporting the shift to alternative care delivery models and community-based health services such as Long-Term Care.

Social Assistance

Social assistance costs increased significantly during the recession because of rapidly growing caseloads. In order to manage the growth in costs, measures were taken in 1992-93 to streamline program administration and to review eligibility and benefits. Additional measures will be implemented in 1993-94 to ensure further efficiencies in the delivery and entitlement of benefits. As a result, in 1993-94 the rate of growth in social assistance costs will be down sharply from the 1992-93 level.

Additional administrative streamlining initiatives to be implemented in this fiscal year include mandatory direct deposit of benefit cheques, changes to monthly reporting requirements and a reduction in the number of forms needed to administer the program.

In-depth case reviews are among the measures that will be taken to verify benefit levels and eligibility. Benefits will also be restricted where other resources are deemed to be available. For example, the definition of assets will be changed to include home equity and interest on liquid assets, while benefits will be reduced for young recipients whose parents have a legal obligation to support them.

More than a third of the participants to date in the **jobsOntario** *Training* Fund are social assistance recipients. Creation of these employment and training opportunities has helped to reduce the costs of social assistance both in the short and long term.

With these changes in place, Ontario continues to have one of the highest benefit levels in Canada.

Justice

Over the last decade the criminal justice system has experienced high growth rates in operating expenditures. The Ministry of the Attorney General, for example, has had an average annual rate of growth of 12 per cent from 1983-84 to 1992-93. In 1993-94, operating expenditures, which include contributions to the legal aid plan, are expected to be below the 1992-93 spending level.

Criminal justice system costs will be managed through a number of initiatives including the introduction of new policies to reduce the number of charges laid in minor matters, and the implementation of a new strategy to resolve more cases before trial. Reform of the *Provincial Offences Act* will streamline court procedures. These efficiencies will help reduce the overall operating expenditures of the Ministry of the Attorney General.

Legal aid costs will be managed through the identification of efficiencies, significant new revenues including improved collection of outstanding liens, reduced costs from implementation of new approaches to court matters and tighter discretion when providing legal aid for driving offences where a person's livelihood is not directly at risk. As a result of these reforms, legal aid spending is expected to decrease in 1993-94.

Education

Restructuring initiatives are also proceeding within the school and post-secondary sectors.

For example, in the post-secondary sector, distance education initiatives such as the development of an open learning system will facilitate cost-efficient access to education, regardless of limitations imposed by geography or facility size.

In 1993-94, a centralized system will be fully implemented to process college entrance applications, reducing costs and streamlining administration. Similarly, the Student Support Program is being redesigned and its application process automated, for faster turnaround and greater efficiency.

Previously announced changes to the Ontario Student Assistance Plan (OSAP), converting it from a grant-based to a loan-based program, will save money and increase accessibility. These changes include measures such as the child care and disabled bursary programs, and interest relief, which will increase accessibility to post-secondary education and ease the financial transition from college or university to employment.

To maintain high-quality education programs, school boards will need to continue to pursue new partnerships with their employees and communities, in order to contain costs by streamlining activities and eliminating duplication. Student transportation is one area where school boards are saving money and improving efficiency through a variety of measures including computerization, joint planning and administration, staggered hours and shared routes.

Housing

The Ministry of Housing has also implemented changes that will lead to greater efficiencies and cost-effectiveness in the delivery and operation of non-profit housing. By adopting a more proactive approach to mortgage financing that takes advantage of currently low interest rates, future subsidy requirements will be reduced.

Transportation

The Ministry of Transportation is taking a number of steps to achieve substantial savings through better use of resources while continuing to provide high levels of maintenance and service. For example, engineering and highway operations are being streamlined. And, in partnership with municipalities, grants criteria for municipal roads and the pacing of projects will be adjusted to put greater emphasis on safety and less on aesthetics and non-essential services.

Social Contract

The $4 billion in savings identified in the **Expenditure Control Plan** are not enough to respond adequately to the debt and deficit problem confronting the Province. But to cut any further into Government program spending would result in substantial job loss.

The Government has initiated negotiations toward a **Social Contract** with employers and employees in the public sector to complement the **Expenditure Control Plan**. The purpose of the Social Contract is to preserve public services and public sector jobs while putting them on a secure financial footing.

The **Social Contract** will realize a planned $2 billion in incremental savings in 1993-94 from the nearly $43 billion in total compensation for the 900,000 public sector workers in Ontario. Table 8 shows the Social Contract targeted savings planned for each sector.

Social Contract Savings by Sector* ($ Millions)	Table 8
Sector	**Savings**
Municipalities	285
Health	
Hospitals	253
OHIP/ODB	234
Other Health	73
Social Services	30
Agencies, Boards and Commissions**	145
Schools	520
Colleges	52
Universities	118
Ontario Public Service (OPS)	290
Total	2,000

* Savings targets calculated on sectoral proportion of 1991-92 total compensation base adjusted to reflect the $25,000 low income cutoff.
** Agencies, Boards and Commissions are Schedule II & III.
Sources: Management Board of Cabinet and Ministry of Finance.

Meeting Ontario's Priorities

The Government is committed to meeting Ontario's priorities consistent with its Expenditure Control Plan. By reforming and restructuring ministries and programs, the Government will be able to address priority areas yet, at the same time, reduce overall operating spending.

Economic Development

In 1993-94, $329 million in the **jobsOntario** *Training* Fund will support the development of a skilled and experienced workforce to maintain Ontario's competitiveness as the province comes out of the recession. The program is designed to facilitate training and employment for the long-term unemployed by providing pre-employment training, helping employers create high-quality jobs and removing barriers to employment by providing access to affordable child care.

Over five years, $150 million will be provided for the Sector Partnership Fund. The new focus on working with sectors rather than individual companies is intended to emphasize support towards cooperative projects undertaken by groups of firms within a sector and towards sector-level initiatives that benefit the sector as a whole.

Throughout 1992-93, extensive internal consultation was undertaken in several sectors, to develop joint workplans for sector strategies. While there were no expenditures from the Fund in 1992-93, financial commitments by several sectors to develop sector strategies were assembled and forwarded to the Government. In 1993-94, the budgeted expenditures on both strategy development and sector initiatives are $25 million.

Environment

Under the Sustainable Forestry initiative, public input is being provided in the development of a comprehensive forest policy framework report, and in the development of a conservation strategy for old growth forests. Community forestry pilot projects are in place and are being evaluated. Both the revenue strategy and timber production policy are being developed and public consultation is taking place.

Ontario will continue to focus on Accelerated Waste Reduction with a comprehensive and aggressive 3Rs Program. Ontario will be at the forefront of waste reduction and resource management by achieving waste reduction targets of a minimum of 50 per cent of 1987 levels by the year 2000. Ontario will also become the first province in Canada to enact an Environmental Bill of Rights.

Equity

Broader public sector pay equity funding will grow to $448 million in 1993-94. When pay equity is fully implemented, almost $1 billion annually will be provided to reduce income disparities and promote greater equity for women.

In 1993-94, $10 million will be provided for advocacy. This funding will support the establishment of an Advocacy Commission, substitute decision-making and consent to treatment for vulnerable adults.

As a result of the implementation of Bill 79, which establishes a mandatory employment equity framework for over 17,000 Ontario employers, increased funding will be provided in 1993-94. The legislation will ensure that employment barriers are removed in all workplaces covered by Bill 79, thereby improving access to employment opportunities.

In 1993-94, $1 million will be provided to about 20 women's centres in Ontario. For the first time, the Province will contribute ongoing operating funding to centres with limited resources. These centres are an important alternative for women who have difficulty accessing mainstream programs.

The Government will continue its commitment to improving the quality of life for Aboriginal people in Ontario. Since 1989-90, the annual allocation for two significant Aboriginal priorities has increased by $36 million to $49 million. About $18 million will be used to expedite land claims and self-government negotiations and $25 million will be used to construct infrastructure in Aboriginal communities.

The Ontario Government remains committed to its anti-racism agenda. In 1993-94, an additional $10 million has been provided to date for the continuing implementation of the Anti-Racism Strategy for Ontario, as well as the Stephen Lewis Report recommendations.

To address the continuing high rates of youth unemployment, $25 million has been provided in 1993-94 to **jobsOntario** *Youth*. This funding creates summer employment for youth throughout the province and supports employment counselling and vocational planning through existing youth programs.

Social Justice

Funding of $12 million for justice system management initiatives will improve the efficiency of the criminal justice system by focusing resources on serious crime.

In support of the creation of a stable, accessible non-profit child care system, funding will be provided to support the creation of up to 20,000 subsidized spaces through the **jobsOntario** *Training* Fund by 1996.

Through the **jobsOntario** *Homes* Fund, 20,000 non-profit housing units will be allocated by the end of 1995. This will lead to the creation of new construction employment and increase the Province's supply of affordable housing.

An additional $93 million will be provided for Long-Term Care Reform. As part of this initiative, services will be redirected to create a comprehensive and integrated system of health and social services supporting physically disabled and elderly persons. Community services will be enhanced to enable individuals to live independently in their own homes.

Over the next 18 months, $3 million will be provided for the Royal Commission on Learning, which will undertake a province-wide effort to make Ontario's elementary and secondary education system work better and be more accountable.

Conclusion

When the **Expenditure Control Plan** savings introduced this year are fully implemented in 1995-96, savings will total $6.2 billion annually by 1995-96. Reform and restructuring of Government operations will continue, as will the ongoing review of expenditures. This will enable the Government to address priority areas while controlling overall operating spending.

Details of 1993-94 expenditures are found in Tables C3 and C4.

Part III: The Capital Strategy

In the 1992 Budget, the Government committed to make investments in public infrastructure that would improve productivity, attract private sector investment, secure more and better jobs for the future and maintain a high quality of life. The Government also announced that it would take a more innovative approach to capital investment and financing by changing funding arrangements for major public institutions, and finding new ways to finance significant capital investments such as transportation infrastructure. Over the next several years, the Government will maintain its strong commitment to capital investment to help promote continuing economic recovery, restructuring and job creation.

In 1992-93, the Government launched its five-year, $2.3 billion **jobsOntario** *Capital* program to make strategic investments that support economic restructuring, promote community development, encourage social progress and preserve the environment. This program has been successful to date in shifting capital investments in new directions and, as a result, in this Budget, total funding for **jobsOntario** *Capital* has been increased to $3.3 billion to continue the realignment of public infrastructure spending towards strategic investments.

1992-93 Capital Performance

Total capital spending in 1992-93 was $3.6 billion, approximately $300 million less than the $3.9 billion allocated in the Budget. Spending was lower than planned, partly because of normal delays and design changes that affect some projects. However, much of the saving also came from favourable prices that continued to be experienced on many contracts. As a result, the actual amount of construction activity has been close to planned levels, and about 70,000 jobs are estimated to have been created or supported by the base capital and **jobsOntario** *Capital* programs.

Base capital program expenditures, which are designed to meet ongoing needs for economic and social infrastructure, amounted to $3.2 billion in 1992-93. Highlights of this program include:

- approximately $1 billion to improve and maintain municipal transportation infrastructure, including roads and transit;
- over $450 million for elementary, secondary and post-secondary educational facilities;
- $230 million for health and long-term care facilities;
- more than $190 million for environmental infrastructure; and
- more than $200 million to improve infrastructure and community facilities in Northern Ontario.

In its first year, **jobsOntario** *Capital* initiated more than 1,700 projects with a total provincial commitment of $800 million over three years. In addition, funding from partners such as municipalities, school boards and local groups will total $200 million.

Examples of strategic **jobsOntario** *Capital* projects under way include the establishment of a new science building at Wilfrid Laurier University in Waterloo, a new skills training centre at Durham College in Whitby and a new Centre for Advanced Process Technology at Lambton College in Sarnia. In 1992-93, expenditures under the program were $422 million, with over 8,000 direct and indirect person years of employment being created.

In conjunction with **jobsOntario** *Capital* and with the directions set out in the paper "Public Investment for Economic Renewal," a program of major Economic Renewal Infrastructure projects was announced in February to support economic recovery and job creation, including:

- major economic highways such as the acceleration of Highway 407;
- five major Greater Toronto Area (GTA) transit initiatives;
- new water and sewer projects across the Province; and
- improved telecommunication networks to assist researchers in universities and industries across the Province.

To help finance and deliver the Economic Renewal Infrastructure projects and others, the Government announced that it would establish three special-purpose Crown corporations. These corporations will help to maximize the leverage of the Government's capital resources by seeking new partnerships and developing new revenue sources. The Government is also moving to a loan-based system for financing major capital projects for the province's colleges, universities, schools and hospitals. These initiatives will make the financing and management of public investments more business-like, and more effective in delivering the needed infrastructure.

A new corporate capital planning process has been implemented by the Treasury Board. As part of this process, all capital proposals received from ministries have been reviewed for their benefits, their contribution to meeting key government policy objectives and their multi-year cost implications. This review will help ensure that the Province's capital investments are focused on those projects that best meet the current and future needs for infrastructure. The process will also assist the Government in choosing investments that help to meet its objective of improving services while reducing ongoing costs.

1993-94 and Beyond

As the Ontario economy emerges from the recession, changes in the structure of the economy, technological advances and the need to meet high environmental standards will require a continued high level of investment in physical infrastructure. This will help to meet the challenges of the 1990s and beyond, and to generate economic growth and high value-added jobs.

Base Capital

The 1993-94 base capital program will continue to invest in ongoing needs for capital renewal. These include rehabilitation and construction of roads and highways, schools, colleges, universities, health care and social service facilities, and the public housing stock. Investments in these kinds of facilities will play a key role in helping the Government improve its delivery of services while reducing costs. Highlights of the 1993-94 plan include:

- more than $1.4 billion allocated to rehabilitate and improve local roads and provincial highways;
- almost $400 million for the province's elementary, secondary and post-secondary educational institutions;
- over $300 million allocated to support transit service enhancements, over and above the strategic GTA transit initiatives;
- nearly $240 million allocated to maintain and improve our health and long-term care facilities; and
- over $55 million allocated to rehabilitate and upgrade our public housing stock.

Also included in the base capital program are important investments in social and environmental priorities. These investments are linked to the Government's priorities of improving the quality of life for all Ontarians and providing adequate support for workers with families. Highlights include:

- over $25 million to improve native community infrastructure;
- $50 million allocated for improving waste treatment and recycling facilities;
- over $40 million for social service facilities such as shelters for the homeless and victims of family violence, facilities for persons with developmental disabilities, and children's services programs;
- over $20 million for child care facilities at schools and other centres; and
- nearly $30 million for cultural and recreational community facilities.

jobsOntario *Capital*

In 1993-94, **jobsOntario** *Capital* spending will increase to $700 million in keeping with the Government's commitment to fund more strategic capital investments that have long-term positive impacts on the economy. Included in the 1993-94 allocation are funds for the start-up of the major Economic Renewal Infrastructure projects announced in February. Highlights of this year's investment program include:

- over $100 million allocated to strategic highways initiatives, including the accelerated construction of Highway 407 and widening of the Queen Elizabeth Way and 401;

- $42 million allocated to initiate GTA transit projects, including the Scarborough Rapid Transit extension, Eglinton West Subway, the Sheppard Subway and the Spadina subway extension to York University and Mississauga Transitway;
- $92 million for new water and sewer projects across the province, in addition to projects already under way; and
- several other new initiatives to be started in 1993-94, including the $300 million, three-year **jobsOntario** *Community Action* program.

Loan-Based Financing

The existing budgetary system treats capital investments as expenditures during the construction phase, despite the fact that these investments provide benefits over many years. Because of this, in past periods of restraint there has been a tendency by governments to reduce capital expenditures in tandem with operating expenses. To help ensure that capital requirements for our public institutions are funded adequately, the Government has introduced a new loan-based financing system for its investments in our colleges, universities, schools and hospitals.

In 1993-94 these institutions will receive more than $600 million in capital loans, instead of capital grants, from the Province for major projects. The loans will be amortized over 20 years, more closely matching the expenditures with the benefits generated. In 1993-94, hospitals will receive $150 million for major capital projects, school boards $357 million, and colleges and universities $101 million.

In future, Provincial investments in new education and hospital facilities will be financed on this basis. This will not impose any additional costs on the institutions as the Province will provide the institutions with annual instalments required to repay the loans.

Crown Corporations

The *Capital Investment Plan Act* is being introduced this session as a key element of the Government's public infrastructure investment strategy. The omnibus bill will establish the three new capital Crown corporations announced in February, support the loan-based financing approach to school boards, colleges, universities and hospitals, and create a fourth Crown corporation to assist with the financing of the investment plan. In combination, the new corporations will provide efficient, focused and entrepreneurial vehicles to help deliver the Government's capital investment plan.

The corporations will play a major role in facilitating partnerships and joint ventures with private and public sector partners and in developing and accessing new revenue sources to support infrastructure improvements. Working within the context of the Government's new capital planning process, the corporations will help to streamline the initiation and planning of capital investments and accelerate their implementation.

The Ontario Transportation Capital Corporation will be responsible for facilitating the financing and implementation of Ontario's highways, rapid transit systems and other transportation programs. Its contributions towards new revenue sources will include beneficiary-pay mechanisms to help fund the GTA transit projects and tolls to assist with the capital construction costs of Highway 407.

The Ontario Clean Water Agency will help municipalities develop and implement water and sewage services, and will operate and maintain existing facilities in a more business-like manner. The agency will develop financial partnerships and recover its costs, thereby contributing towards more rapid progress for investment than would otherwise be possible. Needed upgrading of facilities will benefit public health and the environment by ensuring safer drinking water and cleaner lakes and rivers.

Under the *Capital Investment Plan Act*, the Ontario Realty Corporation will be initiated to provide the Government with a wide range of services related to real property and improvements to real property. The Realty Corporation will expedite the development, marketing and effective management of Government lands, buildings and related assets.

The Ontario Financing Authority, discussed later in this paper, will assist the capital corporations to undertake financing necessary for the planned capital investments. In addition, the Authority will provide financial services to post-secondary institutions, hospitals and school boards in support of the new loan-based investment approach to capital funding in those sectors. This approach, used by several provincial governments including British Columbia and Saskatchewan, will help to maximize the investment potential of available funds, while ensuring strong investment partnerships across the broader public sector.

The $3.9 billion 1993-94 capital investment plan shown on Table 9 is designed to build on the new directions set out last year and meet the needs for the future. Direct budgetary capital expenditures by ministries will be $3,096 million, while non-budgetary capital expenditures will be $804 million. Of the non-budgetary expenditures, $608 million will be provided in the form of loans to school boards, colleges, universities and hospitals, as loan-based financing is introduced for those institutions. The special-purpose Crown corporations, which will be operational later this year, will spend a planned $196 million.

1993-94 Capital Plan **Table 9**
($ Millions)

Ministry	Total	jobsOntario *Capital*	Budgetary	Non-Budgetary
Agriculture and Food	16	1	16	–
Attorney General	4	–	4	–
Citizenship	11	2	11	–
Community and Social Services	85	34	85	–
Culture, Tourism and Recreation	65	23	65	–
Economic Development and Trade	132	95	132	–
Education and Training	476	84	18	458
Environment and Energy	331	129	269	62
Finance				
Economic Development Projects	10		10	–
Contingency Fund: **jobsOntario** *Capital*	27	27	27	–
Health	239	–	89	150
Housing	109	35	109	–
Management Board Secretariat	239	23	206	33
Municipal Affairs	14	–	14	–
Native Affairs Secretariat	20	–	20	–
Natural Resources	90	37	90	–
Northern Development and Mines	225	31	225	–
Solicitor General & Correctional Services	5	1	5	–
Transportation	1,877	178	1,776	101
In-Year Savings	(75)	–	(75)	–
Total	**3,900**	**700**	**3,096**	**804**

Part IV: Medium-Term Fiscal Plan

The Medium-Term Fiscal Plan to 1995-96 is outlined in Table 10 below. Over the period 1993-94 to 1995-96, budgetary requirements decrease from $9.2 billion to $4.8 billion; the operating deficit similarly declines from $6.1 billion in 1993-94 to $2.6 billion in 1995-96.

The Government remains committed to balancing the operating budget. Because of the impact of the revenue shortfall, balancing the operating budget will occur one year later than planned, in 1998 rather than 1997. The Government also remains committed to the capital spending and alternative financing plan outlined in the 1992 Budget.

Over the medium term, revenue growth at an average rate of 6 per cent will continue to be slow compared to historical rates of growth because of lower inflation and the moderate expected pace of real economic growth. This reinforces the need to keep the deficit in check through tight control of expenditures.

Medium-Term Fiscal Plan — **Table 10**
($ Billions)

	1993-94	1994-95	1995-96
Revenue*	44.0	46.5	49.4
Operating Expenditure:			
Programs	42.9	42.6	43.5
Public Debt Interest	7.2	8.0	8.5
Total	50.0	50.6	52.0
Operating Deficit	**6.1**	**4.1**	**2.6**
Capital Expenditure**	3.1	2.7	2.2
Budgetary Requirements	**9.2**	**6.8**	**4.8**
Debt**	**78.6**	**85.4**	**90.1**
Fiscal Indicators (per cent)			
Total Operating Expenditure Growth	(0.3)	1.0	2.8
Program Spending Growth (excludes PDI)	(4.3)	(0.7)	2.1
Debt as % of GDP**	27.5	28.4	28.5
PDI as % of Revenue	16.3	17.2	17.2
Budgetary Requirement as % of GDP	3.2	2.3	1.5
Budgetary Requirement to Total Revenues	20.8	14.6	9.6

* Does not include fiscal stabilization claims made to the federal government for payments of $0.55 billion in 1993-94, $0.3 billion in 1994-95 and $0.13 billion in 1995-96.

** Capital expenditure and debt adjusted to reflect new capital financing arrangements by $0.8 billion in 1993-94, $1.2 billion in 1994-95, and $1.7 billion in 1995-96.

Note: Totals may not add due to rounding.

The 1993-94 operating expenditures include Expenditure Control Plan savings of $4 billion and Social Contract savings of $2 billion. Program spending excluding Public Debt Interest (PDI) will decline in 1994-95 and only increase by 2.1 per cent in 1995-96, which is in line with the projected rate of inflation. When PDI is included, operating spending growth averages less than 2 per cent annually in these two years.

Ontario's public debt interest (PDI) payments are forecast to reach $7.2 billion in 1993-94. Most of the 1993-94 PDI can be attributed to the debt of $68.6 billion outstanding at the end of the 1992-93 fiscal year. A much smaller proportion of PDI will arise from interest and other charges on additional debt from financing the 1993-94 deficit. The medium-term fiscal plan will sharply decrease the rate of growth in PDI and, as a result, stabilize PDI as a per cent of revenue over the medium term.

The Government is maintaining its commitment to provide $3.9 billion in capital investment annually over the medium term as outlined in Table 11.

Medium-Term Capital Plan **Table 11**
($ Billions)

	1993-94	1994-95	1995-96
Total Capital Expenditures	**3.9**	**3.9**	**3.9**
Budgetary	3.1	2.7	2.2
Non-Budgetary	0.8	1.2	1.7

The Province's financial position shows a steady improvement over the medium term:

- budgetary requirements decline steadily from $9.2 billion in 1993-94 to $4.8 billion by 1995-96; the operating deficit also declines from $6.1 billion in 1993-94 to $2.6 billion in 1995-96;
- budgetary requirements as a percentage of gross domestic product steadily decline over the medium term, from 3.2 per cent in 1993-94 to 1.5 per cent by 1995-96;
- budgetary requirements as a percentage of total revenues steadily decline over the medium-term, from 20.8 per cent in 1993-94 to 9.6 per cent by 1995-96; and
- PDI as a percentage of revenue stabilizes over the medium term at 17.2 per cent.

Borrowing and Debt Management

In 1992-93, the Province borrowed a total of $16.6 billion. This was achieved through a diversified borrowing program composed of $14.2 billion in bond and debenture issues, an increase of $1.7 billion in short-term public debt consisting of treasury bills and commercial paper, and $737 million in borrowing from the Canada Pension Plan, the Province of Ontario Savings Office (POSO) and other sources. The proceeds of these borrowings were used to finance the $12.0 billion deficit and retirements of $1.1 billion, as well as to pre-borrow for the 1993-94 fiscal year.

Borrowing requirements for 1993-94 are forecast to be approximately $11.4 billion. This is composed of $6.1 billion for funding the operating deficit, $3.1 billion for capital spending, $1.1 billion for alternate financing arrangements and new loans and $1.1 billion for refinancing maturing debt.

The Province's total direct debt at March 31, 1994 is forecast to be about $78.6 billion ($7,638 per capita), up from $68.6 billion a year earlier.

Ontario has continued its diversification and innovation in financing this year. The Province issued for the first time in the Global Bond markets, and completed a U.S. $3 billion Global Bond issue in January 1993. In addition to the Global Bond and domestic Canadian markets, Ontario has raised funds in an expanding number of international capital markets. In the 1992-93 fiscal year, markets in which Ontario issued included U.S. domestic, EuroSterling and Swiss domestic. The Province will continue to develop financing strategies that encourage a broad range of investors to invest in Ontario.

As part of overall debt management, a new Crown corporation, the Ontario Financing Authority (OFA), will be established. The OFA will facilitate the implementation of Ontario's new capital investment approach and encourage investment in the economy through the adoption of new financing arrangements. It will also arrange and coordinate Ontario's capital market borrowing program and will provide cash, risk and investment management services to the Province, its Crown corporations and other public sector clients. Centralized financing through the OFA will help minimize borrowing costs for the Province and avoid duplication of effort on finance-related activities.

The Province and Ontario Hydro will continue to work jointly to access global capital markets. This results in lower borrowing costs for the credit, a high degree of financing flexibility and a broad investor base. Sophisticated risk management activities combined with ongoing debt portfolio analysis through debt modelling techniques, as well as prudent cash management will continue to enable the Province to identify and minimize exposure to financial risk. This is increasingly important given the significant level of government debt in Canada.

The Province will maintain a strong investor relations program. The principal objective continues to be to broaden the investor base for all Ontario securities by keeping institutional investors and the public informed of Ontario's major financial, economic and fiscal developments. The Province and Ontario Hydro will continue to develop this area as a joint credit.

APPENDIX

Omnibus Legislation

Omnibus legislation to implement a range of proposals contained in the Government's Expenditure Control Plan, or identified as new non-tax revenue initiatives in this Document, will be introduced. The following will be included in the legislation:

- Amendments to the *Legal Aid Act* that will allow Legal Aid, rather than the Ministry of Community and Social Services, to do the financial assessments of legal aid applicants.
- Amendments to the *Business Corporations Act, Corporations Act, Corporations Information Act* and *Extra-Provincial Corporations Act* that will statutorily require annual information returns to be filed for all corporations in Ontario. The amendments will also provide for Notice of Dissolution for failure to file to be sent by regular, and not registered, mail.
- Amendments to the *Centennial Centre for Science and Technology Act* (for the Ontario Science Centre) and the *St. Lawrence Parks Commission Act* that will allow the agencies to collect and keep fees and revenues in order to encourage greater financial self-sufficiency.
- Amendments to the *Small Business Development Corporations Act* and the *Employee Share Ownership Plan Act* that will allow the two programs to be phased out in a well-managed fashion.
- Amendments to the *Health Insurance Act* that will provide for co-payments by long term psychiatric patients in provincial psychiatric hospitals as well as changes to the definition of resident, to ensure that health insurance coverage is provided only to permanent residents of the province.
- Amendments to the *Game and Fish Act* that will allow for the collection of a royalty on the landed value of commercially caught fish, effective January 1, 1994.
- Amendments to the *Public Lands Act* providing for Water Power Lease Agreements will be included. The Agreements will allow the Government to impose additional charges on private hydro-electric energy producers.
- Amendments to the *Ontario Drug Benefit Act* that will provide for cost-sharing by some recipients of the Plan, permit setting of a dispensing fee schedule and designate some limited use benefits.

Statement of Financial Transactions ($ Millions)			Table C1
Operating	1991-92	Interim 1992-93	Plan 1993-94
Revenue	40,753	41,799	43,985
Operating Expenditure			
Programs	43,613	44,845	42,898
Public Debt Interest	4,196	5,350	7,150
Total	47,809	50,195	50,048
Surplus (Deficit)	(7,056)	(8,396)	(6,063)
Capital Expenditure	**3,874**	**3,594**	**3,096**
Increase (Decrease) in Budgetary Requirements	(10,930)	(11,990)	(9,159)
Financing:			
Debt Issues – Net (Table C5)	10,616	15,484	9,988
POSO and Other Liabilities (Table C5)	210	37	36
Net Financing (Table C5)	10,826	15,521	10,024
Net Loan Repayments (Issues) (Table C6)	(5)	(310)	(1,115)
(Increase) Decrease in Cash	109	(3,221)	250
Increase (Decrease) in Accumulated Deficit	**10,930**	**11,990**	**9,159**

Revenues **Table C2**
($ Millions)

	1991-92	Interim 1992-93	Plan 1993-94
Taxation Revenue			
Personal Income Tax*	13,712	13,543	14,315
Retail Sales Tax	7,487	7,316	8,040
Corporations Tax	3,184	2,714	3,120
Employer Health Tax	2,648	2,592	2,700
Mining Profits Tax	49	27	50
Gasoline Tax	1,618	1,834	1,900
Fuel Tax	379	440	460
Tobacco Tax	1,028	969	910
Land Transfer Tax	421	363	400
Race Tracks Tax	82	82	85
Commercial Concentration Tax	111	111	45
Other Taxation	19	51	70
	30,738	30,042	32,095
Other Revenue			
LCBO Profits	675	615	620
Vehicle/Driver Registration Fees	652	665	765
LLBO Fees, Licences and Permits	483	511	500
Other Fees and Licences	496	586	655
Lottery Profits	455	538	555
Royalties	191	191	270
Utility Service Charges	160	167	175
Sales and Rentals	94	513	1,020
Fines and Penalties	143	152	175
Recoveries	81	123	75
Reimbursements	118	131	175
Miscellaneous	143	12	60
	3,691	4,204	5,045
Payments from the Federal Government			
Established Programs Financing	3,524	4,316	3,862
Canada Assistance Plan	2,159	2,283	2,371
National Training Act	113	104	76
Bilingualism Development	72	70	72
Young Offenders	63	60	60
Vocational Rehabilitation	50	75	66
Fiscal Stabilization	—	300	—
Other	343	345	338
	6,324	7,553	6,845
Total	40,753	41,799	43,985

* Net of tax credits of $404 million in 1991-92, $461 million in 1992-93 and $920 million in 1993-94.

Operating Expenditures ($ Millions)			Table C3
Ministry	1991-92	Interim 1992-93	Plan 1993-94
Agriculture and Food	592	551	542
Attorney General	677	736	735
Board of Internal Economy	140	138	131
Citizenship	63	69	77
Community and Social Services	7,494	8,566	8,884
Consumer and Commercial Relations	175	173	176
Culture, Tourism and Recreation	438	425	394
Economic Development and Trade	275	346	366
Education and Training	9,392	9,401	9,683
Environment and Energy	444	437	411
Executive Offices	14	14	13
Finance	1,002	879	460
Contingency Fund			443
Economic Development Projects	36	9	13
Public Debt Interest	4,196	5,350	7,150
Francophone Affairs, Office of	4	4	3
Health	17,394	17,547	17,571
Housing	738	915	1,032
Intergovernmental Affairs	7	9	8
Labour	236	263	215
Management Board Secretariat	595	556	553
Municipal Affairs	1,052	1,069	980
Native Affairs Secretariat	17	17	18
Natural Resources	626	585	529
Northern Development and Mines	117	105	88
Solicitor General and Correctional Services	1,170	1,169	1,190
Transportation	892	838	759
Women's Issues, Office Responsible for	23	24	24
Expenditure Savings and Constraints			(400)
Social Contract Savings*	–	–	(2,000)
Total	47,809	50,195	50,048

* See Table 8 for details; 1993-94 expenditures for ministries will be adjusted at the conclusion of the Social Contract negotiations.

Capital Plan **Table C4**
($ Millions)

Ministry	1991-92	Interim 1992-93	Plan 1993-94
Budgetary			
Agriculture and Food	20	22	16
Attorney General	9	7	4
Citizenship	14	14	11
Community and Social Services	65	58	85
Culture, Tourism and Recreation	97	97	65
Economic Development and Trade	8	22	132
Education and Training*	570	543	18
Environment and Energy*	270	230	269
Finance			
Economic Development Projects	11	3	10
Contingency Fund: **jobsOntario***Capital*	–	–	27
Health*	194	230	89
Housing	110	85	109
Management Board Secretariat*	249	192	206
Municipal Affairs	36	18	14
Native Affairs Secretariat	15	17	20
Natural Resources	84	75	90
Northern Development and Mines	242	239	225
Solicitor General and Correctional Services	34	4	5
Transportation*	1,846	1,738	1,776
In-Year Savings	–	–	(75)
Sub-Total	**3,874**	**3,594**	**3,096**
Non-Budgetary			
Loan Based:			
Education and Training			
• Colleges and Universities	–	–	101
• School Boards	–	–	357
Health			
• Hospitals	–	–	150
Crown Corporations			
Environment and Energy			
• Clean Water Agency	–	–	62
Management Board Secretariat			
• Ontario Realty Corporation	–	–	33
Transportation			
• Transportation Capital Corporation	–	–	101
Sub-Total	–	–	**804**
Total	**3,874**	**3,594**	**3,900**

* See also Non-Budgetary section of this table to determine total capital for these ministries.

Financing ($ Millions)			Table C5
	1991-92	Interim 1992-93	Plan 1993-94
Debt			
Issues	11,255	16,605	11,093
Retirements:			
Canada Pension Plan	(498)	(536)	(607)
Ontario Teachers' Pension Plan	(44)	(506)	(252)
Public Service Pension Plan	(87)	(62)	(106)
Public	–	(7)	–
Other	(10)	(10)	(140)
	(639)	(1,121)	(1,105)
Net Debt Issues	10,616	15,484	9,988
Province of Ontario Savings Office – Net Deposits	145	26	20
Other Liabilities – Net	65	11	16
Net Financing	**10,826**	**15,521**	**10,024**

Loans and Investments ($ Millions)			Table C6
	1991-92	Interim 1992-93	Plan 1993-94
Repayments			
Corporations, Boards and Commissions	75	59	94
Water Treatment and Waste Control Facilities	37	70	23
Tile Drainage Debentures	20	18	17
School Boards	22	15	12
Other	24	29	24
	178	191	170
Issues			
Corporations, Boards and Commissions	109	70	834
Water Treatment and Waste Control Facilities	63	74	157
Ontario Land/Realty Corporation	—	350	283
Tile Drainage Debentures	11	7	11
	183	501	1,285
Net Repayments (Issues)	**(5)**	**(310)**	**(1,115)**

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

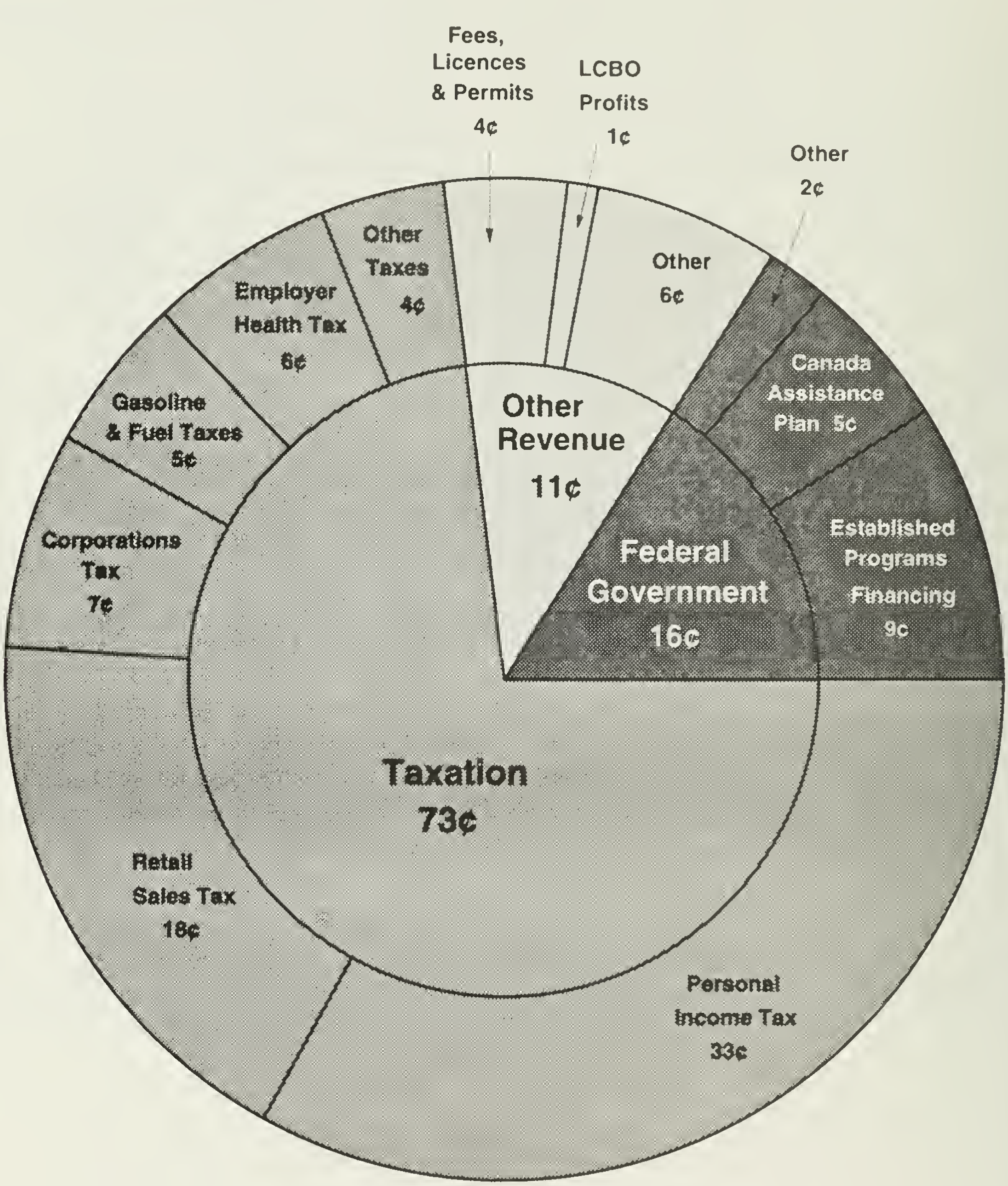
	1984-85	1985-86	1986-87	1987-88
Financial Transactions				
Revenue	23,388	25,785	29,215	32,158
Operating Expenditure (Excluding PDI)	21,451	23,405	26,166	28,548
PDI	2,417	2,795	3,210	3,476
Operating (Deficit) Surplus	(480)	(415)	(161)	134
Capital Expenditure	2,079	2,199	2,473	2,623
Budgetary (Requirements) Surplus	(2,559)	(2,614)	(2,634)	(2,489)
Accumulated Budgetary Requirements	22,634	28,919	31,531	34,020
Net Financing	2,635	2,863	2,199	1,878
Provincial Purpose Debt*	30,041	32,904	35,103	36,981
Gross Domestic Product (GDP) at Market Prices	168,915	183,732	202,710	223,862
Personal Income	144,410	156,362	169,294	186,085
Population – June (000s)	8,902	9,006	9,113	9,265
Total Debt per Capita (dollars)	3,375	3,654	3,852	3,991
Personal Income per Capita (dollars)	16,222	17,362	18,577	20,085
Expenditure as a per cent of GDP	15.4	15.5	15.7	15.5
Public Debt Interest as a per cent of Revenue	10.3	10.8	11.0	10.8
Total Debt as a per cent of GDP	17.8	17.9	17.3	16.5
Cumulative Net Borrowing for Ontario Hydro				
U.S.	7,206	7,189	6,667	6,033
C.P.P.	1,000	1,000	1,119	1,508
Contingent Liabilities (mainly Ontario Hydro)	14,220	15,963	17,603	18,595

* Excludes borrowing for Ontario Hydro and all contingent liabilities.

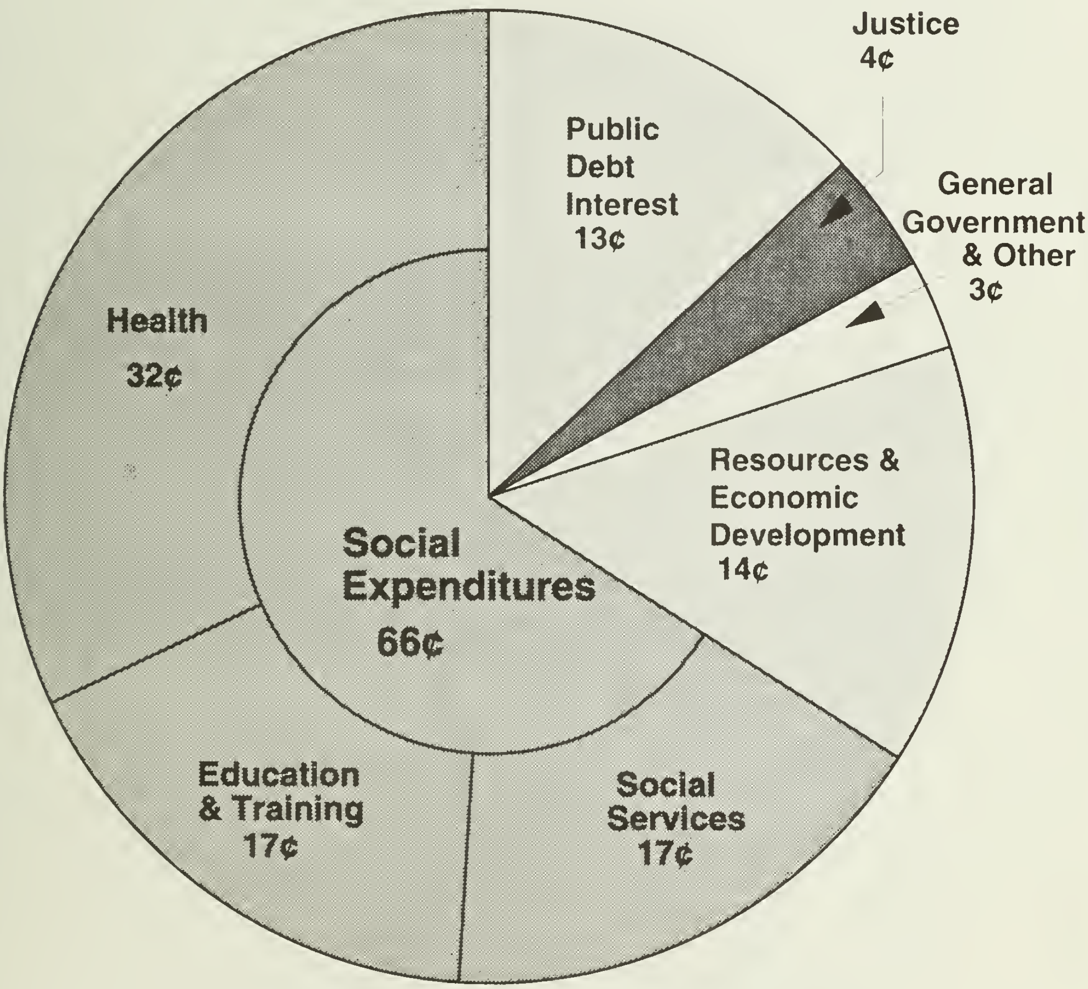
Table C7

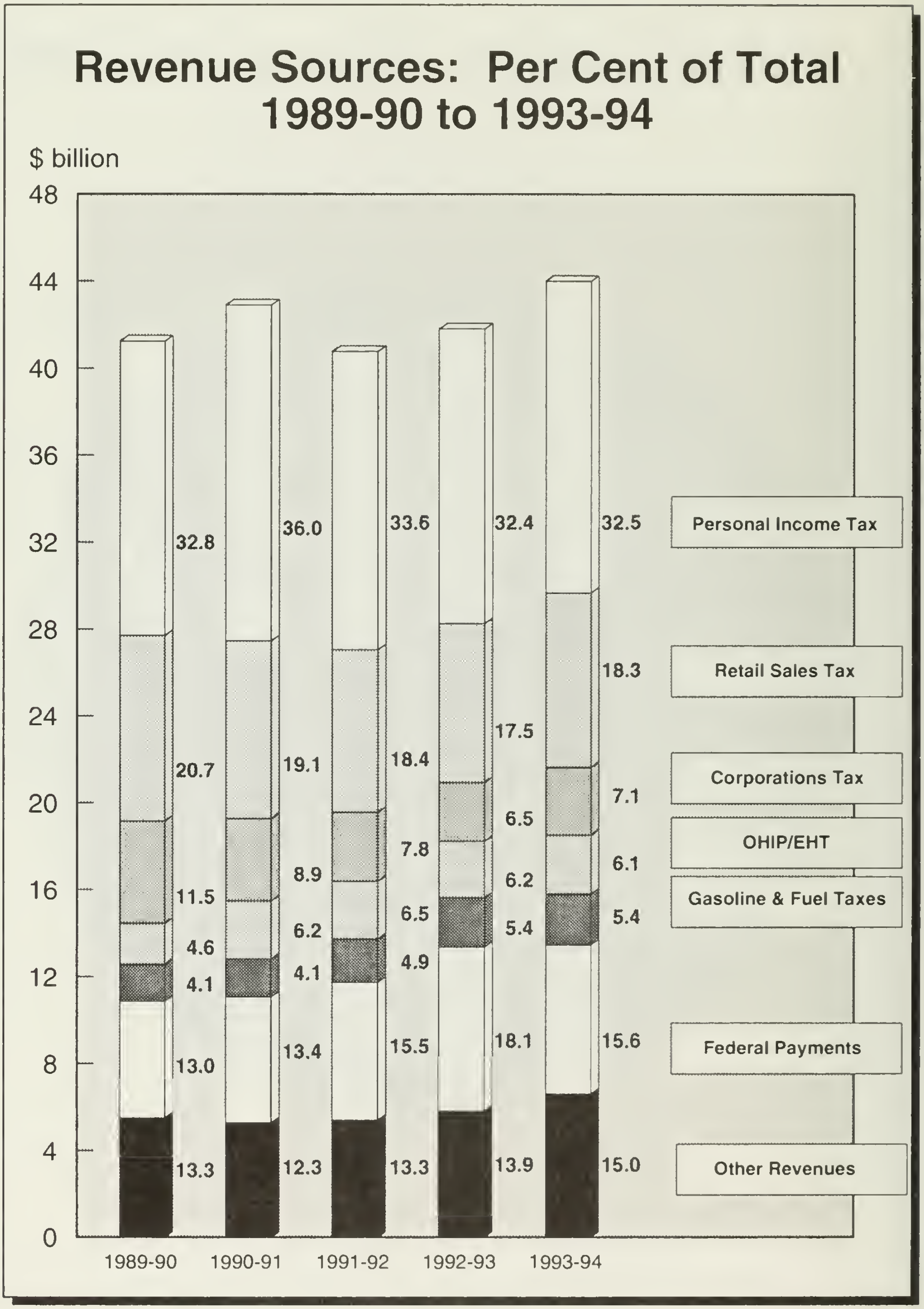
1988-89	1989-90	1990-91	1991-92	Interim 1992-93	Plan 1993-94
36,991	41,225	42,892	40,753	41,799	43,985
31,435	33,926	38,924	43,613	44,845	42,898
3,767	3,817	3,776	4,196	5,350	7,150
1,789	3,482	192	(7,056)	(8,396)	(6,063)
3,268	3,392	3,221	3,874	3,594	3,096
(1,479)	90	(3,029)	(10,930)	(11,990)	(9,159)
35,499	35,409	38,438	49,368	61,358	70,517
2,033	242	3,001	10,826	15,521	10,024
39,014	39,256	42,257	53,083	68,604	78,628
252,946	272,369	272,278	270,463	274,601	285,995
207,287	226,434	238,776	245,319	249,496	256,327
9,431	9,590	9,750	9,917	10,099	10,294
4,137	4,093	4,334	5,353	6,793	7,638
21,979	23,611	24,490	24,737	24,705	24,901
15.2	15.1	16.9	19.1	19.6	18.6
10.2	9.3	8.8	10.3	12.8	16.3
15.4	14.4	15.5	19.6	25.0	27.5
5,692	5,150	5,049	4,185	3,969	n/a
2,097	2,748	2,748	2,748	2,748	n/a
20,559	21,490	26,009	30,369	34,814	n/a

The Budget Dollar: Revenue, 1993-94



The Budget Dollar: Total Expenditure, 1993-94

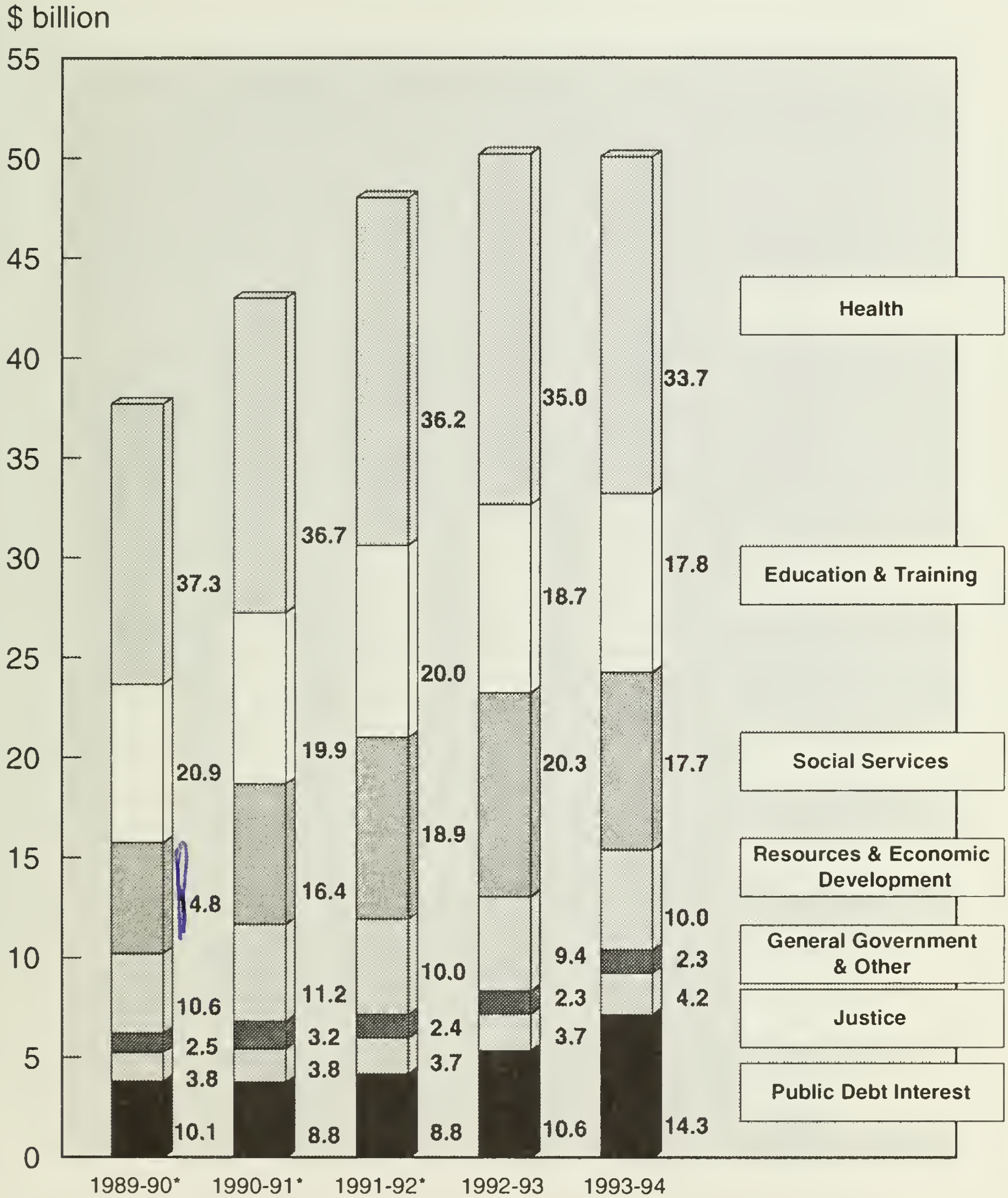




Revenue Sources: Per Cent of Total
1989-90 to 1993-94
$ billion
48
44
40
36
32
28
24
20
16
12
8
4
0
1989-90
1990-91
1991-92
1992-93
1993-94
32.8
36.0
33.6
32.4
32.5
20.7
19.1
18.4
17.5
18.3
11.5
8.9
7.8
6.5
7.1
4.6
6.2
6.5
6.2
6.1
4.1
4.1
4.9
5.4
5.4
13.0
13.4
15.5
18.1
15.6
13.3
12.3
13.3
13.9
15.0
Personal Income Tax
Retail Sales Tax
Corporations Tax
OHIP/EHT
Gasoline & Fuel Taxes
Federal Payments
Other Revenues

Operating Expenditures by Category

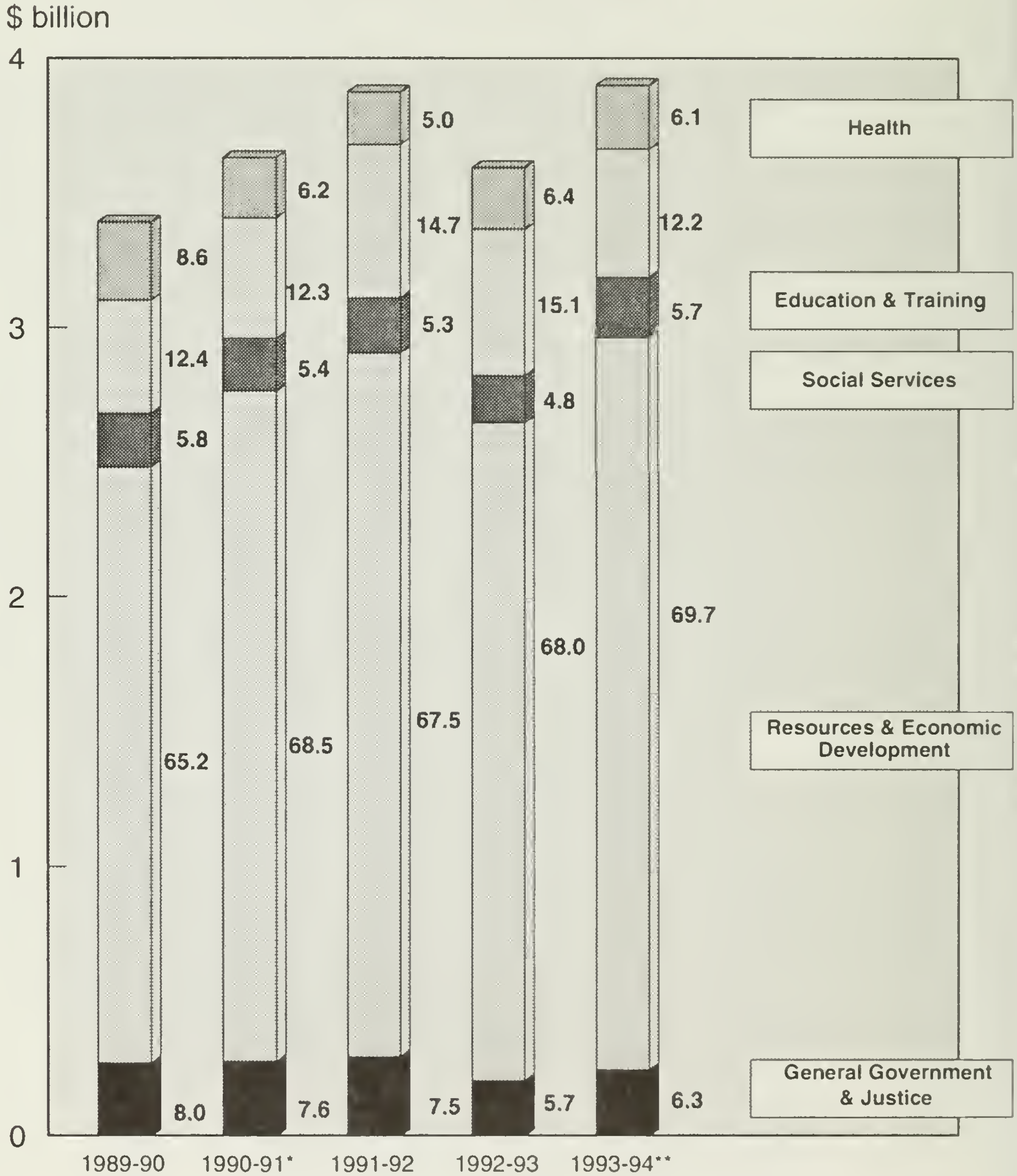
Per Cent of Total
1989-90 to 1993-94



* Excludes Advance Payments

Total Capital by Category

Per Cent of Total 1989-90 to 1993-94



* Excludes Advance Payments

** Budgetary and Non-Budgetary

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