



## **2017–20 Business Plan Highlights**

## Table of Contents

<b>EXECUTIVE SUMMARY .....</b>	<b>3</b>
<b>OVERVIEW OF 2016–17 RESULTS (TO DATE) .....</b>	<b>4</b>
<b>2017–20 OBJECTIVES.....</b>	<b>8</b>
Total Revenues and Expenditures.....	8
<b>MANDATE AND GOVERNING LEGISLATION.....</b>	<b>9</b>
<b>OVERVIEW OF CURRENT AND FUTURE PROGRAM AND ACTIVITIES AND IMPLEMENTATION PLAN: 2017–20 .....</b>	<b>10</b>
1. Execute the Province’s borrowing program.....	10
2. Manage the Province’s debt, investments, ONFA and financial risk, and contribute to the development of the Province’s fiscal plan and outlook.....	10
3. Manage key financial relationships.....	11
4. Provide services related to cash management, banking, settlement, payment and financial and reporting.....	11
5. Advise on and implement corporate and electricity finance projects and policies .....	12
6. Ensure the successful activation of OFA’s decentralized Business Continuity Plan (BCP).....	14
<b>ENVIRONMENTAL SCAN .....</b>	<b>15</b>
Economic Conditions .....	15
Financial Markets.....	16
Government Initiatives .....	16
Regulatory Compliance.....	16
<b>INITIATIVES INVOLVING THIRD PARTIES .....</b>	<b>18</b>
<b>IMPLEMENTATION PLAN .....</b>	<b>18</b>
<b>COMMUNICATION PLAN .....</b>	<b>18</b>
Business Plan .....	18
Other Communications .....	18
<b>ORGANIZATIONAL CHART .....</b>	<b>19</b>

## EXECUTIVE SUMMARY

The Ontario Financing Authority (OFA) is a Provincial Crown agency established by the *Capital Investment Plan Act, 1993* (CIPA). The initiatives in the OFA's 2017–20 Business Plan will focus on achieving the objectives set out in CIPA and the objectives set out in the OFA's mandate letter from the Minister of Finance, dated October 1, 2016 over a three year planning horizon, as well as reporting on results of the previous year's Business Plan. Initiatives for the 2017–20 Plan include:

1. Executing the Province's borrowing program through development and implementation of the annual Financing, Debt & Electricity Management Plan. The Plan will provide critical details on the borrowing program, including term structure and diversification objectives, as well as investor relations, liquidity, floating rate, foreign exchange and credit risk strategies, and also outline major risks and risk mitigation strategies.
2. Managing the Province's debt, investments, Ontario Nuclear Funds Agreement (ONFA) and financial risk, and contributing to the development of the Province's fiscal plan and outlook by working to generate savings from liquid reserve investment activities within prudent risk exposure limits, as well as centralized/segregated investment funds for various public bodies. This also involves managing ONFA-related investments, working together with Ontario Power Generation Inc. (OPG), to ensure interest rate, foreign exchange and credit exposures are within approved policy limits, as well as contributing to the Province's annual Budget, Fall Statement and quarterly finances.
3. Managing key financial relationships by building and maintaining connections with investors in both existing and new markets, as well as relationships with banks, financial service providers and investment dealers. This includes providing Investor Relations information products and updates on the OFA website. Maintaining close relationships and ongoing dialogue with credit rating agencies to keep them informed of the Province's financial status, priorities, and initiatives, and complete regulatory filings with the U.S. Securities & Exchange Commission (SEC) and any other applicable securities regulators.
4. Providing cash management and banking services on a centralized basis to all ministries and settlement, payment, financial and reporting, loan administration, information technology and client services to the Treasury Program by implementing effective treasury solutions for the Province and client agencies. Ensuring that the Province has sufficient cash available at all times to meet its financial obligations, and continuing to work with the other ministries to advise on banking and cash management components of government initiatives as well as on changes to accounting standards and their impact on the Province's debt and interest on debt.
5. Advising on and implementing corporate and electricity finance projects and policies by providing analysis and advice on cost-effective borrowing, investing and risk management by public bodies and other financing proposals, and on business cases for business supports. This includes providing advice on transactions that may affect the indebtedness or contingent liabilities of Ontario, including provincial guarantees. In addition, undertaking policy and financial analysis, modelling support and implementation, as required, for electricity financings, policies and initiatives, including ONFA, which could have fiscal, financial and/or economic implications for the Province and/or Ontario Electricity Financial Corporation (OEFC).
6. Ensuring the successful activation of OFA's decentralized Business Continuity Plan (BCP) by reviewing and updating the Corporate BCP Framework and Business Unit plans, as well as conducting corporate-wide BCP test exercises.

## OVERVIEW OF 2016–17 RESULTS (TO DATE)

The Ontario Financing Authority (OFA) accomplished the following in support of the overall strategic directions outlined in the 2016–19 Business Plan<sup>1</sup>:

### 1. *Execute the Province's borrowing program*

- As of January 31, 2017, the OFA had completed \$20.3 billion (85 per cent) of its \$23.8 billion (as per the 2016 Fall Economic Statement) long-term borrowing requirement for 2016–17. Approximately 82 per cent of long-term borrowing was completed in the Canadian dollar market.
- The 2016–17 Ontario Savings Bond (OSB) campaign raised \$127 million.
- Sufficient liquidity has been available over the fiscal year to ensure the Province has been able to meet all of its financial commitments and payment obligations, largely reflecting the long-term borrowing program being consistently ahead of pace.
- On January 26, 2017, the Province successfully priced an \$800 million re-opening of its January 2023 Global Green Bond. The six year bond will help fund twelve green infrastructure projects, with an emphasis on clean transportation and energy efficiency and conservation. The transaction represents the third and largest ever Green Bond offering from the Province of Ontario.
- Provided expertise in accounting for Green Bonds, and set up financial accounting and reporting for these investment vehicles that met the requirements outlined by the investor community. Developed and released a second Green Bond newsletter on December 12, 2016, updating investors on the second Green Bond's use of proceeds, project selection process, as well as, providing project updates on the eight projects selected.
- Analyzed the scope and impact of the Markets in Financial Instruments Directive (MiFID) II and the Bank Recovery and Resolution Directive (BRRD) on the Province and implemented required documentation changes to ensure the Province's continued, uninterrupted access to European capital markets.

### 2. *Manage the Province's debt, investments, ONFA and financial risk, and contribute to the development of the Province's fiscal plan and outlook*

- The interest-on-debt (IOD) expense for 2016–17 is currently forecast at \$11,250 million, \$506 million lower than forecast in the *2016 Budget*, primarily as a result of lower than forecast interest rates.
- Funds were managed on a discretionary basis on behalf of the Pension Benefits Guarantee Fund, Deposit Insurance Corporation of Ontario, Ontario Trillium Foundation, Infrastructure Ontario, and a commitment fund for the Ontario Capital Growth Corporation.
- With OPG, the Used Fuel and Decommissioning Segregated Funds' investments were managed under ONFA. The Funds have grown from \$16.9 billion at January 1, 2015 to about \$19.2 billion at September 30, 2016.
- Contributed to the Province's annual Budget and quarterly finances, including the electricity sector outlook and assets; advised on the potential implications of initiatives on interest on debt, borrowing objectives, credit ratings and financial markets' reactions.
- As part of the Pooled Asset Management Working Group, provided technical investment management expertise on the modelling, design and implementation of a pooled asset management entity for institutions in Ontario's broader public sector.
- Administered borrowing authority obtained under the *Financial Administration Act* (FAA) which is required to carry out the Province's borrowing program. Effected changes to the FAA to better align the foreign currency conversion of debt maturities to be refinanced with the methodology used in calculating the Province's annual borrowing requirement.

### 3. *Manage key financial relationships*

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<sup>1</sup> The OFA's fiscal year end is March 31, 2017, but quantitative performance results are as of December 31, 2016, unless otherwise noted.

- Held road shows, investor meetings and conference calls to meet with investors in Canada, the United States, Europe and Asia, and hosted meetings at the OFA offices. Provided keynote speakers and panelists at industry conferences in Toronto and New York City. Promoted Toronto as a global financial centre.
  - Continued development of the OFA website to improve functionality, add additional information for investors and provide full mobile accessibility. As part of Ontario's *Open Data Directive*, the OFA published an Open Data Inventory List on its website, which includes all of the datasets the OFA creates, collects and/or manages.
  - Maintained close relationships and held ongoing discussions with credit rating agencies and the banks which underwrite and distribute the Province's bonds in Canada and around the world to keep them apprised of government priorities and initiatives, the *2016 Budget*, the 2015–2016 Public Accounts, the *2016 Ontario Economic Outlook and Fiscal Review (Fall Statement)*, the secondary offering of Hydro One upon its public announcement and other quarterly finance releases.
  - Managed increasingly more rigorous regulatory and disclosure requirements, and maintained close relationships with the regulatory bodies in the global capital markets.
  - Monitored credit exposures to banks with which the OFA has relationships.
  - Conducted comprehensive reviews of potential rule changes affecting the Province domestically and internationally such as the Market Abuse Directive (MAR) in the European Economic Area (EEA) and fee-based changes with Canada's primary central securities depository (CDS), consulting securities regulators and other capital market participants, as appropriate.
  - Monitored and fully complied with international withholding tax requirements in respect of its financial agreements under FATCA and OECD Common Reporting Standard for Entity Tax Residency.
4. *Provide cash management and banking services as well as settlement, payment services, loan administration and financial and reporting services and client services*
- Provided centralized banking services to the Province by strategically managing banking relationships, as well as providing efficient centralized cash management services to the Province, minimizing interest on debt.
  - Continued to provide cash management services to five client agencies and crown corporations, including the Pension Benefits Guarantee Fund, Ontario Capital Growth Corporation and the Deposit Insurance Corporation of Ontario.
  - Managed the complex cash flows and settlement requirements associated with the secondary offering of Hydro One ensuring that these very large and time sensitive transactions were completed on a timely and accurate basis.
  - Continued to advise ministries on the application of the Cash Management Directive with regard to Government priorities including the proposed cap and trade mechanism for Ontario.
  - Continued strategic participation and advice to the cross-ministry Working Group, Executive Governance Committee and Payment Card Industry (PCI) Enterprise Coordination Office to assist ministries in maintaining compliance with mandatory security requirements for debit/credit card acceptance.
  - After concluding a successful pilot, continued to work with the Ministry of Community and Social Services to replace social benefits payments made by cheque with a reloadable prepaid card product for all unbanked individuals providing both cost efficiencies, and improved services to Ontarians.
  - Provided analysis and advice to Ministry of the Environment and Climate Change (MOECC) on the structuring of the Province's proposed Cap and Trade auction program, which will be linked with those of California and Quebec, to ensure its sound financial management and protection of the Province's interests.
  - Based on an in-depth risk and efficiency analysis the Province determined to no longer accept American Express cards as a payment mechanism. The decision generated savings through the elimination of a parallel infrastructure as well as reduced risk by streamlining PCI data security requirements.
  - Working closely with MOF to develop an e-services strategy for tax collection.

- Continue to engage with provincial and federal counterparts on treasury and cash management program issues throughout the year.
  - Continued to provide timely and efficient settlement and payment services in managing the Provincial and OEFC debt portfolios and Non-Utility Generator (NUG) power purchase contracts.
  - The Integrity Commissioner has graduated the OFA from having to submit the travel expenses of the Board, the CEO and his direct reports and the top five employees in a fiscal year, for review by his office. The graduation is a testament to the timeliness and accuracy exhibited by the OFA in providing this information to the Office of the Commissioner over the past few years.
  - Continued to provide accurate agency financial statements, as well as reported provincial debt, derivatives and investments in accordance with strict legislated timelines. As in past years, the OFA's 2015–16 Financial Statements received an unqualified opinion from the Office of the Auditor General. The Auditor General's annual review of the OFA's financial reporting of the Province's debt and interest on debt presented in the 2015–16 Public Accounts continued to be free of material issues.
5. *Advise on and implement corporate and electricity finance projects and policies*
- Advised on capital projects and financing options for ministries and public sector entities.
  - Continued the review of business cases for OFA borrowing requests from public bodies including a number of Ontario colleges, school boards and corporations, expected to result in a total of \$400 million in new long-term loans. Loan program annual savings are estimated to be at least \$30 million per year for a total of approximately \$230 million in cumulative savings to date. Continued to provide advice on municipal debt issuance and investment activities, including the expansion of the Prudent Investor standard to other large municipalities and on the Ministry of Municipal Affairs and Housing new municipal revenue tools strategy.
  - Monitored terms and conditions of loans and loan guarantees and reviewed proposals and provided advice to the Deputy Minister and the Minister on proposed options to amend the loan guarantees and associated loan and contracts.
  - Provided analysis and advice on the Province's investment in the Ontario Venture Capital Fund, the Northleaf Venture Catalyst Fund, Ontario Emerging Technologies Fund and the ScaleUp Ventures Fund. The CEO serves on the Board of Directors, and is a Vice-Chair of, the Ontario Capital Growth Corporation (OCGC), which manages the Province's interests in these four funds.
  - Advised on and reviewed proposed contingent liabilities and indemnity agreements put forward by ministries and public bodies that would increase the indebtedness of the Province, including contingent liabilities and indemnities for major infrastructure projects, accommodation leases or broader public sector borrowing.
  - Provided analysis and advice to the MOECC on the design of the Province's cap and trade auction program as well as the procurement of a financial services provider to the WCI Inc. to provide administrative support to that program.
  - Provided analysis and advice to the MOECC on the establishment of a new climate change agency tasked with the implementation of the ministry's carbon reduction programs.
  - Providing analysis and advice on the application of Section 28 of the *Financial Administration Act* to contracts entered into by public entities that would increase the indebtedness or contingent liabilities of the Province.
  - Led the development of a new protocol for the sharing of powers and responsibilities under Section 28 of the *Financial Administration Act* between the Minister of Finance and the President of Treasury Board.
  - Provided advice to the Ministry of Research, Innovation and Science (MRIS) on private sector refinancing of the MRIS-MaRS Phase 2 loan.
  - Provided advice to ministries, Crown agencies and other public entities on loan structuring and credit enhancement strategies.
  - Provided analysis and advice in support of the Ministry of Energy moving forward with secondary offerings of Hydro One shares including, in 2016-17, the secondary offering executed in April 2016.

- Provided advice alongside MOF to help facilitate discussion and progress regarding the agreement-in-principle with First Nations – in support of broadening the ownership of Hydro One by the Province.
  - Through a working group, working with Infrastructure Ontario and other areas of government, provided analysis and advice in support of unlocking the value of the Province's real estate assets, including the sale of the LCBO's head office lands in June 2016, and the sales process for OPG headquarters properties.
  - Provided policy analysis and advice on the implementation of the Trillium Trust, and proposed framework for making disbursements from the Trillium Trust to receiving ministries in support of public infrastructure investments.
  - CEO served on the Assistant Deputy Ministers' review committee of the Jobs and Prosperity Fund.
  - Provided analysis, advice, and the fiscal impact of the electricity sector and asset optimization initiatives for the Province's annual Budget, Fall Statement, Public Accounts and quarterly finances.
  - Supported electricity policies and initiatives, focusing on potential fiscal, financial, and economic impacts on the Province and OEFC, including analysis and advice to support implementation and expansion of the Industrial Electricity Incentive (IEI); expanding the Industrial Conservation Initiative (ICI); ongoing implementation of the Northern Industrial Electricity Rate (NIER) program and its review process, the rebate for residential, small business and farm electricity bills of an amount equal to the eight per cent provincial portion of the Harmonized Sales Tax (HST) or the Ontario Rebate for Electricity Consumers (OREC); and providing analysis and advice on the stranded debt of the electricity sector.
  - Provided analysis and advice on proposed new loans facilities and continued to implement new and existing loan agreements between OEFC and OPG related to supply projects and refinancing debt maturities.
  - Renewed and continued to implement a credit facility between OFA and the Independent Electricity System Operator (IESO) for liquidity purposes and also provided analysis and advice to ensure financial oversight / governance of these credit facilities following the merger of the OPA and IESO.
  - Continued to implement the Aboriginal Loan Guarantee Program (ALGP) to facilitate Aboriginal equity participation in renewable energy and transmission projects. As of December 31, 2016, eight guarantees totalling almost \$240 million have been approved under the ALGP. All applications are reviewed in conjunction with one or more third party due diligence providers.
  - Continued to implement the ONFA, including monitoring the segregated fund values, monitoring, reviewing and providing analysis and advice on the Province's approval of OPG's ONFA Reference Plan submission in 2016 and related submissions, reviewing for approval OPG's ONFA Annual Budget submissions and disbursement eligibility and requests, and monitoring the provincial guarantee provided under ONFA to the Canadian Nuclear Safety Commission (CNSC) as part of OPG's financial guarantee requirement to the CNSC.
  - Provided analysis and advice on electricity supply initiatives, including nuclear refurbishments.
  - Provided continuous support on discussions related to developing infrastructure and projects in the Ring of Fire.
  - Provided analysis and advice on policies to support the consolidation of Ontario's electricity Local Distribution Company sector.
6. *Ensure the successful execution of the OFA's decentralized Business Continuity Plan (BCP)*
- Reviewed and updated the Corporate BCP Framework.
  - Business Units conducted monthly tests, ensuring their respective plans are reviewed and updated.
  - Carried out two corporate-wide BCP test exercises, and implemented improvements to the Plan based on the results of these tests.
  - Reviewed corporate BCP Command and Support Team membership.

## 2017–20 OBJECTIVES

Key objectives for 2017–20 include the following, as set out in the OFA’s mandate letter from the Minister of Finance, dated October 1, 2016:

1. Execute the Province’s borrowing program
2. Manage the Province’s debt, investments, ONFA and financial risk, and contribute to the development of the Province’s fiscal plan and outlook
3. Manage key financial relationships
4. Provide services related to cash management, banking, settlement, payment, financial and reporting, and client services
5. Advise on and implement corporate and electricity finance projects and policies

In addition to the foregoing, the OFA has also identified the following additional key objective:

6. Ensure the successful execution of OFA’s decentralized Business Continuity Plan

### Total Revenues and Expenditures

<i>(in thousands of dollars)</i>	2016–17	
	Budgeted	Interim Forecast
Total Revenue	30,071	30,117
Total Expenditure	27,068	27,050
<b>Net Income</b>	<b>3,003</b>	<b>3,067</b>



## **MANDATE AND GOVERNING LEGISLATION**

The Ontario Financing Authority (OFA) is a Provincial Crown agency established by the *Capital Investment Plan Act, 1993* (CIPA). CIPA sets out the objectives of the OFA. The OFA:

- conducts borrowing and investment for the Province of Ontario and manages the Provincial debt;
- provides cash management and other financial services for the Province;
- advises ministries, Crown agencies, and other public bodies on financial matters; and
- assists Crown agencies and other public bodies to borrow and invest money through external sources or through the OFA.

The OFA also provides a broad range of financial services to Ontario Electricity Financial Corporation (OEFC) and Ontario Infrastructure and Lands Corporation (Infrastructure Ontario or OILC).

The FAA also sets out certain financial powers which OFA employees exercise on behalf of the Minister of Finance to carry out the Province's borrowing, manage the Province's debt and invest its liquid reserves.

## OVERVIEW OF CURRENT AND FUTURE PROGRAM AND ACTIVITIES AND IMPLEMENTATION PLAN: 2017–20

Activities will focus on supporting the following strategic directions:

### 1. *Execute the Province's borrowing program*

#### Overview

The OFA endeavours to ensure that borrowing by the Province and OEFC is cost-effective. Total long-term public borrowing is forecast at \$23.3 billion in 2017–18 and \$28.7 billion in 2018–19. This year's objectives may be challenging to implement due to the state of the global economy/market and the resource constraints within which the OFA is operating. Other challenges include:

- continued high amount of borrowing required for the Province, including the amount that will have to be undertaken outside Canada;
- competition in the markets from other large domestic and international borrowers;
- evolving regulatory requirements such as Basel III, Dodd-Frank and EMIR that continue to make hedging of foreign debt more expensive and a challenge to execute in the size required by the Province;
- potential challenges for Ontario's credit rating. A downgrade may result in borrowing costs increasing; and
- management of downgrading or failure of counterparties, and continued implementation of collateralized swaps to mitigate credit risk.

#### Implementation Plan

- Meet the Province's funding requirements, in a cost-effective and prudent manner.
- Manage the Ontario Savings Bond campaign.
- Continue to monitor the Green Bond market to identify future issuance opportunities under its Green Bond Program.

### 2. *Manage the Province's debt, investments, ONFA and financial risk, and contribute to the development of the Province's fiscal plan and outlook*

#### Overview

The OFA manages the debt and liquid reserve portfolios, as well as investment funds, for various public bodies, and jointly manages the Ontario Nuclear Funds with OPG. Financial risks associated with capital market activities are mitigated by adhering to prudent risk management policies which minimize financial risk by ensuring exposures and losses remain within approved limits. Risk management policies and program exposure limits are approved by the OFA Board of Directors. The OFA also contributes interest on debt, borrowing and debt management objectives, and electricity sector fiscal impact projections to the Budget, Fall Statement and other quarterly financial updates.

#### Implementation Plan

- Generate savings from liquid reserve investment activities within prudent risk exposure limits, as well as centralized/segregated investment funds, for various public bodies. Manage ONFA-related investments, working together with OPG.
- Ensure interest rate, foreign exchange and credit exposures are within approved policy limits.
- Contribute to the Province's annual Budget, Fall Statement and quarterly finances, including the electricity sector outlook; advise on the potential impact of initiatives on interest on debt, borrowing

objectives, credit ratings and financial markets' reactions. Continue playing an important role in the development of the Province's annual Budget and quarterly statements through the provision of timely and accurate financial information, and preparation of the Borrowing and Debt Management section of the Budget and Fall Statement.

- Continue to implement applicable changes as per financial and regulatory reform requirements including evolving effects from Basel III, EMIR and Dodd-Frank.

### 3. *Manage key financial relationships*

#### Overview

The OFA ensures investors and the financial community in Canada and abroad receive financial updates on a timely basis to make informed decisions about Province of Ontario debt securities. Investor Relations activities support borrowing program objectives by maintaining and broadening the Province's investor base. The OFA also ensures credit rating agencies understand government policies, budget, and fiscal performance, properly reflecting these factors in their reports and rating decisions.

The OFA manages the government's relationships with financial institutions, primarily the major Canadian and global banks, their investment dealer subsidiaries, and custodial and fiscal agents. This involves the acquisition and oversight of cost-effective products and services for the Province and certain Crown corporations.

#### Implementation Plan

- Support the Province's borrowing program by building and maintaining relationships with investors in existing and new markets. Provide Investor Relations information products, including updates to the OFA website, on a timely basis.
- Maintain close relationships and ongoing dialogue with credit rating agencies to keep them informed of the Province's financial status, priorities, and initiatives.
- Manage Ontario's relationships with banks, financial service providers and investment dealers.
- Complete regulatory filings with the U.S. Securities & Exchange Commission (SEC), United Kingdom Listing Authority (UKLA), Luxembourg Stock Exchange (LuxSE), Australian Securities Exchange (ASX) and any other applicable securities regulator. Conduct due diligence conference calls, as required, with the dealers and underwriters of the Province's debt securities offerings and their legal counsel.
- Implement and maintain collateralized swap agreements with bank counterparties to limit potential financial losses as a result of a credit event.
- Manage changes in financial and regulatory reform, liaising with regulators and legal counsel, as required.

### 4. *Provide services related to cash management, banking, settlement, payment and financial and reporting*

#### Overview

The OFA provides centralized banking and cash management services to the Province. The effective provision of these services allows for the efficient delivery of provincial services and contributes towards minimizing interest on debt expenditures. The OFA is responsible for settlements, payments and accounting/reporting functions associated with the Province's and OEFC's debt management programs, as well as agency financial reporting.

## Implementation Plan

- Identify and implement effective treasury solutions for the Province and client agencies.
  - Ensure that the Province has sufficient cash available at all times to meet its financial obligations.
  - While compliance with PCI Data Security Standards is now in its sustainment phase, the OFA will continue to work with the other OPS stakeholders and the credit/debit card acquirer to ensure that the mandatory external reviews continue to report that that Province is in compliance with all applicable PCI standards.
  - After the completion of a successful pilot, continue to work with the Ministry of Community and Social Services on the rollout of a reloadable payment card for unbanked benefit recipients under the Ontario Disability Support Program.
  - Continue to advise ministries and agencies on the banking and cash management components of government initiatives including modernization and suitable banking options, as well as associated legal and regulatory aspects.
  - Continue to collaborate with industry associations and provincial and federal jurisdictions on modernization initiatives and issues unique to the public sector.
  - Continue the delivery of timely and accurate settlement/payment services for the Province and OEFC, including OEFC power supply contract settlements.
  - Continue to work on the replacement of the Public Bodies Financing System with a new, internally developed/externally sourced system capable of handling all loans issued by the OFA and the Province. Progress is expected to proceed according to schedule and it is anticipated that the new system will be operational in 2017–18.
  - Provide timely and reliable net debt and total debt estimates for the 2017 Annual Budget and the Province's quarterly reports during the fiscal year including the Fall Economic Statement.
  - Continue to provide timely and accurate financial reporting for the Province on debt, derivatives and investments. Continue to provide timely and accurate agency financial statements that pass scrutiny of the OFA Board and the Office of the Auditor General.
  - Continue to work with the Office of the Provincial Controller on providing value-added feedback on Chapter 2 of the Annual Report of the Auditor General of Ontario that deals with Ontario's Public Accounts.
  - Continue to monitor and assess any new accounting developments of the International Accounting Standards Board, the Financial Accounting Standards Board in the U.S., the Accounting Standards Board and the PSAB of the Chartered Professional Accountants of Canada that affect reporting for the Province and its agencies.
5. *Advise on and implement corporate and electricity finance projects and policies*

## Overview

The OFA provides financial modelling, analysis and advice to the Ministry of Finance, other ministries, OEFC, Crown agencies, and other public bodies, on financial policies and projects, electricity sector policies and initiatives, and borrowing from capital markets. The OFA also provides assistance in structuring and completing financial transactions, and securing and using private sector financial advisers. The OFA has been leading the implementation of the Trillium Trust and will also continue to work with the Ministry of Finance, other ministries, and Infrastructure Ontario on on-going asset optimization initiatives, including unlocking the value of certain real estate assets. The OFA is providing analysis and support as the Province moves forward in selling up to 60 per cent of its shares of Hydro One over time.

The OFA will also continue to support and facilitate the implementation of a number of other government initiatives, including the Cap and Trade Program and investing in Ontario's venture capital sector.

## Implementation Plan

- Provide analysis and advice on business cases and other financing proposals. Develop the structure and negotiate the detailed terms and conditions of transactions to minimize costs and best meet market expectations.
- Provide advice on cost-effective borrowing, investing and risk management by public bodies.
- Provide advice on transactions requiring a provincial guarantee or those that may otherwise increase the indebtedness or contingent liabilities of Ontario.
- Develop interest rate and other borrowing, investing and risk management policies, and advise ministries, agencies and public bodies on interest rates and other financing issues.
- Support initiatives for Ontario's various industry sectors.
- Provide continued support for the government initiative on OFA loans to public bodies.
- Provide support to the government on Ministry of Finance loans and loan guarantees as required.
- Continue to provide advice to ministries, Crown agencies and other public bodies on financing, loan structuring and credit enhancement strategies.
- Provide advice as required on evaluating the Province's assets, including investments in its business enterprises, and analysis and advice on asset optimization to enhance efficiency and maximize value.
- Provide policy and financial analysis, and modelling support, as required, for electricity policies and initiatives that could have fiscal, financial and/or economic implications for the Province and/or OEFC, including the following:
  - *The Ontario Rebate for Electricity Consumers Act, 2016.*
  - Ongoing implementation of the Industrial Electricity Incentive program.
  - Ongoing implementation of the NIER program.
  - Expanding the Industrial Conservation Initiative.
  - Electricity supply and conservation initiatives.
- Provide financial due diligence and advice to the Minister of Finance on applications received under the ALGP.
- Monitor and provide electricity sector fiscal and financial projections for the Province and OEFC, including analysis and advice to the Minister of Finance on the stranded debt, as well as continued reporting on OEFC's revenue sources (e.g. the debt retirement charge (DRC) for non-residential users, now legislated to end on April 1, 2018, and payments in lieu of taxes) and expenses (e.g. interest on debt).
- Provide analysis and advice to support the effective administration of ONFA and other initiatives related to nuclear liabilities, including monitoring and reviewing OPG's implementation of its ONFA Reference Plan as updated from time-to-time, approval of yearly ONFA budgets including investment related expenses, reviewing OPG's expected financial guarantee submission to the CNSC expected in 2017, including reviewing, monitoring, and seeking approval on any implications on a Provincial guarantee to the CNSC, as provided for under ONFA.
- Provide analysis and advice on nuclear supply, financing and cost recovery issues, including for nuclear refurbishments.
- Continue to monitor, review and support policy discussions on developing the Ring-of-Fire.
- Continue to work closely with staff at the MRIS and OCGC on approaches for managing the Province's investment in the Ontario venture capital sector. Support the CEO's role as Vice Chair of the OCGC Board.
- Provide analysis and due diligence related to Jobs and Prosperity Fund applications and relevant Eastern Ontario Development Fund and Southwestern Ontario Development Fund applications.
- Continue to support the government's asset optimization initiative of broadening the ownership of Hydro One by providing financial analysis and advice, and dedication of net revenue gains from these transactions to the Trillium Trust to support investments in infrastructure.
- Provide coordination and oversight of certain real estate asset optimization initiatives, such as, the divestment of OPG's head office properties, and Seaton and Lakeview lands.

- Lead implementation of the Trillium Trust to help support investments in transit, transportation and other priority infrastructure.

6. *Ensure the successful activation of OFA's decentralized Business Continuity Plan (BCP).*

#### Overview

The BCP remains in place and is updated as required to be successfully activated so staff can complete critical time-sensitive tasks in the event of a business disruption.

#### Implementation Plan

- Review and update the Corporate BCP Framework.
- Review and update Business Unit plans.
- Plan and conduct corporate-wide BCP test exercises.
- Review corporate BCP Command and Support Team membership.

Implementation of the above strategic directions will require regulatory compliance and reliable information technology.

## ENVIRONMENTAL SCAN

### Economic Conditions

The economic outlook for Ontario as described below is based on the average private sector view as of January 2017. As with all projections, there are positive and negative risks to the outlook. The most significant immediate risks to the outlook are rising interest rates and uncertainty regarding future U.S. economic policy. For business planning purposes, the OFA recognizes that it may confront increased demands to provide financing and other services.

Ontario's economy continues to grow in an uncertain global economic environment. Ontario real GDP increased 2.5 per cent in 2015. Private-sector forecasters, on average, estimate Ontario real GDP will grow by 2.6 per cent in 2016, 2.3 per cent in 2017, 2.2 per cent in 2018 and 2.0 per cent in 2019. The economic outlook is influenced by external factors, such as U.S. economic growth, oil prices and the Canadian dollar. Steady growth in the U.S. economy, along with the ongoing impacts of a more competitive Canadian dollar and low oil prices, continues to support Ontario's economic growth. Ontario's economy is expected to strengthen as growth broadens across major sectors of the economy, including household spending and exports. The recent increase in interest rates and the uncertainty tied to U.S. trade policy represents a downside risk to the Ontario economic outlook.

The United States is Ontario's largest trading partner, accounting for 80 per cent of the Province's international merchandise exports in 2015. Economic growth in the U.S. strengthened to 2.6 per cent in 2015 after rising by 2.4 per cent in 2014. According to the January 2017 Blue Chip consensus outlook, the U.S. economy is expected to grow by 1.6 per cent in 2016, 2.3 per cent in 2017 and 2.4 per cent in 2018.

The price of WTI (West Texas Intermediate) crude oil fell by over 70 per cent from its June 2014 peak of \$108 US per barrel to below \$30 US per barrel in early 2016, a reflection of strong supply and weaker global demand. WTI oil prices averaged \$43 US per barrel in 2016, down from \$49 US per barrel in 2015. The recent agreement between the Organization of the Petroleum Exporting Countries (OPEC) and other oil producers to reduce output has led to a rise in the price of oil. The current private-sector forecast average for the WTI price of oil is \$54 US in 2017 – well below levels recorded over the 2010-14 period.

Sharply lower oil prices and diverging monetary policy between Canada and the United States contributed to a depreciation of the Canadian dollar to an average of 78.2 cents US in 2015, down from 90.5 cents US in 2014. The Canadian dollar declined further in 2016, averaging 75.4 cents US. On average, private-sector forecasters expect the Canadian dollar will average 74.5 cents US in 2017.

Ontario's housing market continued to strengthen in 2016 alongside solid increases in the number of households and incomes. Sales of existing homes and resale prices rose 9.4 per cent and 15 per cent, respectively in 2016. Ontario housing starts also increased in 2016. Private-sector economists expect a soft landing in the Ontario housing market. Home resales and prices are projected to stabilize over the next few years as gradually rising interest rates, historically high valuations and mortgage debt temper healthy demographic-related demand.

There are risks surrounding the housing market outlook. Home price gains in Ontario have outstripped incomes in recent years, fuelling mortgage debt accumulation. As a result, affordability in Ontario's housing market has eroded. Despite historically low mortgage rates, monthly carrying costs are elevated relative to long-term trends. High levels of debt combined with elevated resale prices leave Ontario households potentially vulnerable in the event of an adverse economic shock.

## **Financial Markets**

Moderate economic growth and headline inflation still operating below the 2 per cent target has prompted the Bank of Canada to hold the target overnight rate at 0.5 per cent since mid-2015. For the most part, private-sector economists do not expect the Bank of Canada to raise rates until mid-2018.

In the United States, the Federal Reserve raised rates at its December 2016 meeting, citing a strengthening labour market and rising inflation. It is expected that the Fed will continue to raise rates, though at a gradual pace. On the other hand, monetary policy in the European Union remains highly accommodative. In January, the European Central Bank announced that interest rates will remain unchanged and are expected to stay "at present or lower levels for an extended period of time, and well past the horizon of the net asset purchases."

In Canada, while long-term interest rates are expected to remain at historically low levels, they are projected to gradually rise over the next few years. The expected onset of interest rate hikes by the U.S. Federal Reserve combined with the result of the recent U.S. election has already put upward pressure on Canadian bond yields.

According to private-sector forecasters, the Canadian three-month Treasury bill rate is expected to rise gradually from an average of 0.5 per cent in 2016 to 0.6 per cent in 2017, and 0.9 per cent in 2018. According to the January 2017 Blue Chip consensus outlook, the three-month U.S. Treasury bill rate is expected to average 0.9 per cent in 2017, before rising to 1.6 per cent in 2018.

The 10-year Government of Canada bond rate averaged 1.3 per cent in 2016. According to private-sector forecasters, the 10-year Government of Canada bond rate is projected to rise, averaging 1.9 per cent in 2017 and 2.4 per cent in 2018. According to the Blue Chip consensus outlook, the yield on 10-year U.S. government notes is expected to average 2.7 per cent in 2017 and 3.1 per cent in 2018, up from 1.8 per cent in 2016.

## **Government Initiatives**

Government policy developments and financial performance in Ontario's electricity sector, including OPG, Hydro One and municipal electricity utilities, may affect borrowing requirements through the cash flows to OEFC. In particular, the Province's ongoing effort to broaden ownership of Hydro One will result in large cash flow impacts for OEFC.

The OFA will continue to monitor the Green Bond market to identify future issuance opportunities under its Green Bond Program. The OFA will lead the implementation of the Trillium Trust, for dedicated net revenue gains from qualifying asset sales to help fund infrastructure investments across Ontario. The OFA will also provide financial support to the Ministry of Environment and Climate Change in respect of the government's Cap and Trade program, as well as in the establishment of a Greenhouse Gas Reduction Account and a climate change agency.

The OFA will also provide financial analysis and advice in support of the Province's commitment to unlock the value of designated assets, and will continue to work with Infrastructure Ontario and other areas of government on optimizing certain holdings in the Province's real estate portfolio, in particular, the sale of OPG headquarter properties, as well as Seaton and Lakeview lands.

## **Regulatory Compliance**

The OFA will ensure that information required to be disclosed by the Province in its debt securities offerings related documents, periodic published reports (including the Ontario Budget, the quarterly finances, the Public Accounts of the Province of Ontario and the annual fall Economic Outlook and Fiscal Review) and other disclosures filed or submitted under applicable securities legislation, rules and



regulations in the United States, the United Kingdom, Luxembourg, Australia, Switzerland and Singapore is filed on time and otherwise in accordance with those requirements. Regulatory requirements will be monitored continually to ensure the Province has ongoing access to these markets.

## INITIATIVES INVOLVING THIRD PARTIES

There are no third parties, other than the provincial government, with which the OFA is partnering or with which it has a funding relationship for the purpose of delivering OFA programs. Moreover, the OFA does not provide transfer payments (grants, subsidies, assistance to persons; the business sector; non-commercial institutions; and other government bodies) to third parties.

## IMPLEMENTATION PLAN

For 2017–20, the OFA intends to implement its business plan using existing resources and allocations.

## COMMUNICATION PLAN

### Business Plan

The OFA Business Plan serves as an internal tool for management and staff in the development of program plans and, through the regular reporting of the status of initiatives to the Board of Directors, it serves as a performance measurement tool. The plan also communicates the OFA's business objectives to the Minister of Finance and the Ministry.

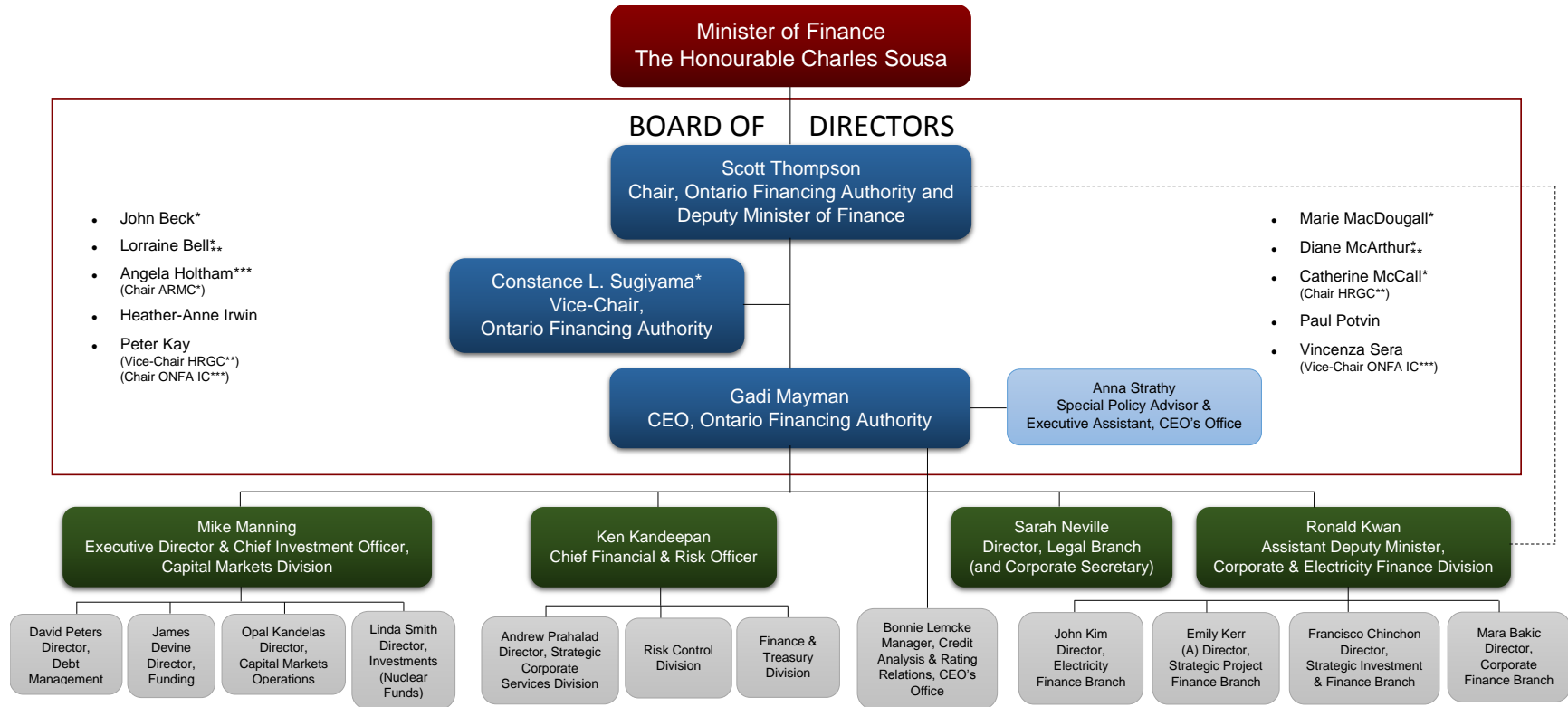
### Other Communications

The OFA has a number of external stakeholders, including institutional and retail investors, investment dealers, banks, and credit rating agencies. In 2017–20, the OFA will communicate with stakeholders using various methods including:

1. Websites (including expense information): [www.ofina.on.ca](http://www.ofina.on.ca); [www.ontariosavingsbonds.com](http://www.ontariosavingsbonds.com); [www.ofina.on.ca/algp](http://www.ofina.on.ca/algp);
2. Budget and quarterly updates: develop borrowing and debt management components;
3. Fact sheets, investor relations presentations, and other investor material (available on the website);
4. Annual Report (as required by the *Capital Investment Plan Act, 1993*);
5. Regulatory filings;
6. Business Plan; and
7. Memorandum of Understanding (MOU).

Other methods of communication to be used throughout the year are investor relations meetings and regular discussions with credit rating agencies. In addition, the OFA is responsible for the development of communications vehicles for OEFC and will continue to maintain the OEFC website, [www.oefc.on.ca](http://www.oefc.on.ca), and to produce the OEFC annual report.

**ORGANIZATIONAL CHART**



\* ARMC = Audit & Risk Management Committee  
 \*\* HRGC = Human Resources & Governance Committee  
 \*\*\* ONFA IC = Ontario Nuclear Funds Agreement Investment Committee