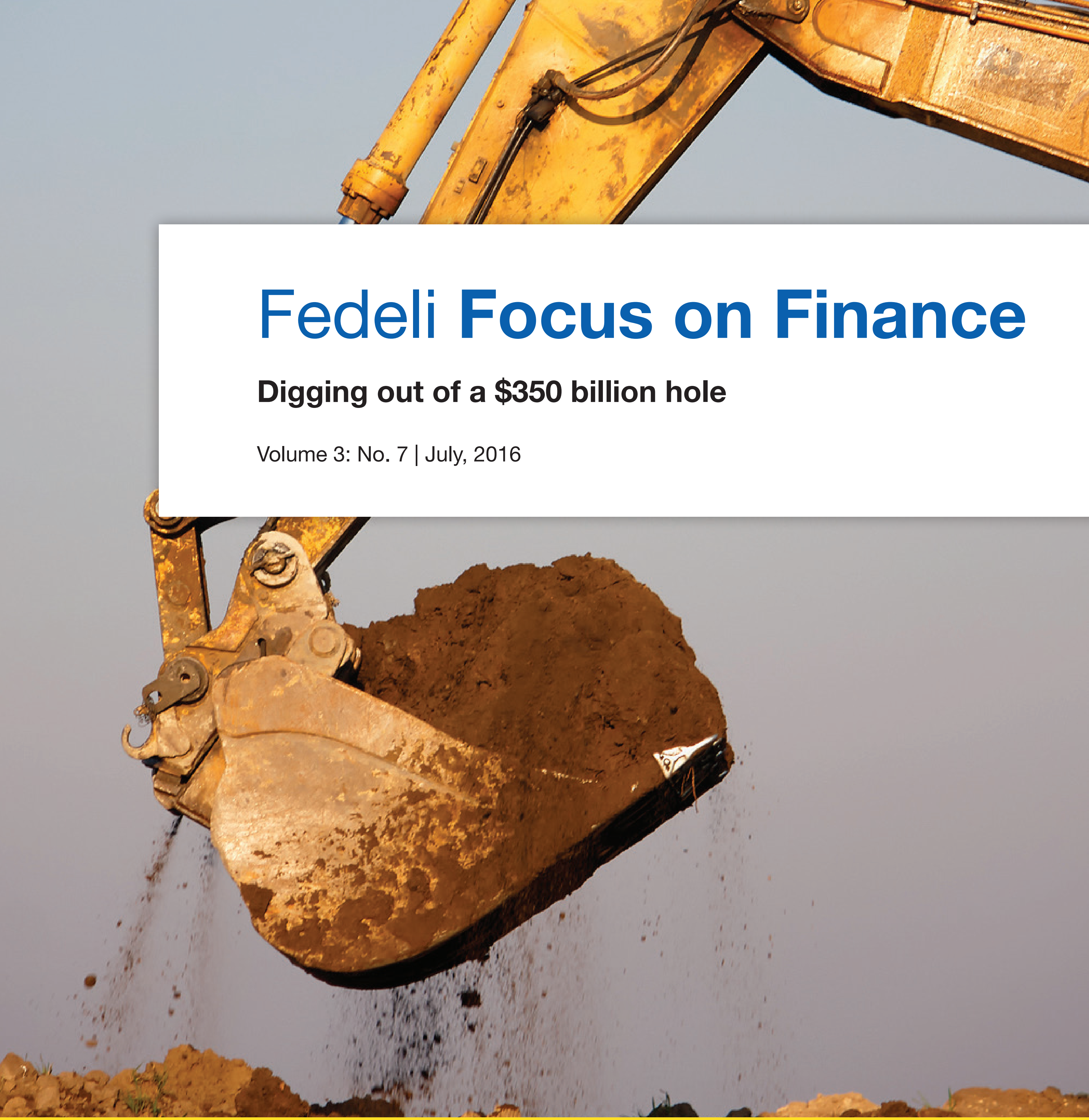

Fedeli **Focus on Finance**

Digging out of a $350 billion hole

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Ontario

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Digging out of a $350 billion hole

A tremendous amount of information regarding the poor state of Ontario's finances was revealed in July. Sadly most of it will go unnoticed, as it was released in the dead of summer. This *Focus on Finance* series will unpack the past month for you and present the issues you will want to know about.

June ended with a very lengthy in-depth analysis of Ontario's finances in *Maclean's* magazine. The title pretty much gives away the theme of the 8-page article: *How Kathleen Wynne has Ontario going backwards*. It's a must-read, with the most telling line being, *'Success would be more likely if the Liberal program didn't so often emit the stench of self-serving politics.'* You can read it here: **http://www.macleans.ca/politics/how-kathleen-wynne-has-ontario-going-backwards/**

The biggest news by far came from the Financial Accountability Officer (FAO), where he announced the province's net debt is set to rise by over $50 billion by 2020-21 to a record $350 billion. He also disclosed that Ontario has the highest debt burden among the major provinces, carrying $2.40 in net debt for each dollar of provincial revenue. This means that every man, woman, and child in Ontario owes over $21,000 towards the province's debt burden.

"The FOA expects that Ontario's net debt will continue to rise due to annual deficits from 2018-19 to 2020-21"

- Financial Accountability Officer (Stephen LeClair), July 19, 2016

When the FAO stated that Ontario's net debt will continue to rise due to annual deficits, this tells us that rather than taking steps to address the fiscal mess they've created, the government continues to be locked into a vicious cycle of wasteful spending and structural deficits. And as expected, the FAO directly confirmed what we've been saying for months – the government is using one-time money from asset sales, contingency funds, and tax increases to artificially balance the budget in an election year.

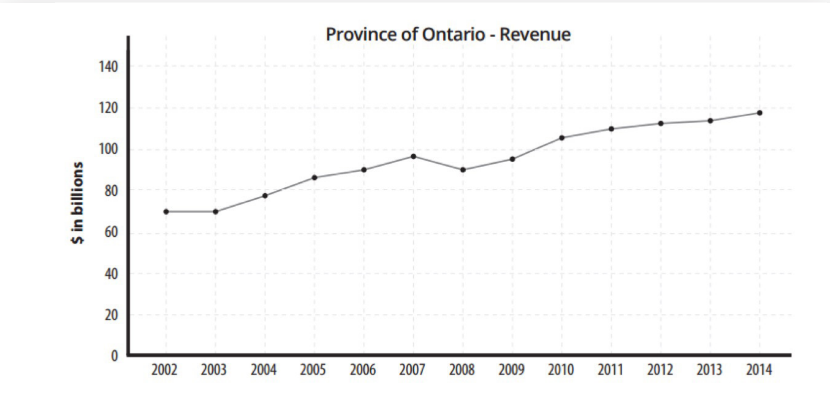
Ontario currently pays over $11 billion in interest payments toward servicing the debt. This means the province now pays more on interest payments than it does towards either post-secondary education or community safety. In fact, interest is the third largest expense behind health care and public education. Considering we are still in deficit, we actually borrow money to make our interest payments. That's like using your VISA card to make your monthly MasterCard payments!

The FAO also indicated that interest payments would increase by $350M – more than the current budgets of both the Ministries of Labour and Indigenous Affairs – with each 1 point increase in interest rates. Today's low interest rate environment will not last forever. Even modest interest rate increases will cause Ontario's interest rate payments to skyrocket and make the current "crowding out" effect much worse. This is a significant risk, particularly as nearly 40% of Ontario's existing debt is set to mature in 2020.

"What would you cut?"

We're constantly being asked, "So, what would you cut?" to balance the budget. That comment assumes there is only one solution to the problem. But another solution to balanced budgets may be increased revenue through growth. As you can see from the chart, other than 2008, revenues have grown every single year since this government has taken office. But through waste, mismanagement, and scandal, spending has increased at an annual rate of 4.7% – far beyond what's needed to compensate for population growth and overall price increases. If program spending was simply held to the growth rate, Ontario would be in surplus.

Most families would realize that if they've dug themselves into a financial hole, the first thing to do is to stop digging! In Ontario, that would mean putting an end to waste (like secretly paying over $300 million to bail out a U.S. realtor for the MaRs building), mismanagement (coming in $342 million over budget on the Pan Am Games and then paying $5.3 million in performance bonuses),



The Debt Clock rolled into Queen's Park just in time for the debt counter to roll over to $300 billion. The clock is managed by the Canadian Taxpayers' Federation, with the hopes of raising awareness about Ontario's ballooning debt.

The government announced the province's real GDP grew by 0.8% for the fourth quarter of last year. The main drivers were a 12.1% increase in housing prices and the current monetary environment of low interest rates and a low Canadian dollar, not sound government policy. Regardless of the government's spin, they're touting success that is largely based on artificial growth.

The fact is a vast majority of Ontarians are not better off. An unprecedented number of families and businesses have been plunged into energy poverty directly because of the government's policies. Also, Statistics Canada has found that the median family growth in Ontario is only 0.4% annually, substantially lower than the national average of 1.2% annually.

Two released reports reflect the lack of confidence in the fundamentals of Ontario's economy. Ontario's Financial Accountability Officer warned that total investment by Ontario business and public sector institutions is expected to decline by 0.1% this year.

And foreign direct investment has also fallen off sharply. The annual report from fDi Intelligence shows Ontario has dropped from first to fourth in North America, from $7 billion in investment to $4 billion. Ontario's market share has been cut in half from 12% in 2015 to just 6% this year.

The cost of the cancelled Ontario Retirement Pension Program was revealed to top $70 million. The CEO will receive $827,925 in total compensation for 6 months work. (This is the same person who was Deputy Minister during the eHealth scandal and the boss who

and scandals (take your pick from the Auditor General, the FAO, or the OPP – they would include Smart Meters costing $1 billion more than the public was told, or the Gas Plant Scandal coming in at $1.1 billion as opposed to the $40 million announced, or the $5.2 billion Samsung deal the province could have walked away from for nothing). These are but a few examples – every issue of this Focus series has revealed many more issues.

Assuming revenues will continue on the same trajectory, the FAO has repeatedly told us the key to balance will be to control spending. We don't have a revenue problem in Ontario – we have a spending problem. Have another look at that revenue chart – it also debunks the government's claim that the recession is to blame for all our financial woes.

July, by the numbers

July was a very revealing month, starting with the Metrolinx Annual Report. We learned that the provincial government subsidized passengers on the troubled Union Pearson Express last year at a rate of $52.26 per ride. In the first 10 months of operation, the subsidy totalled close to $40 million.

The government is installing 500 electric vehicle charging stations at more than 250 locations, including the parking lots of McDonald's, Tim Horton's, and IKEA. The total cost is $20 million, as an advance on the revenue the province will pull in from its cap-and-trade program.

brought the Pan Am Games in at $342 million over budget). One employee, hired on June 6, received $341,418 for only 15 days of work.

The month ended with the announcement that charges related to the cost of cap-and-trade will NOT be listed separately on hydro bills. Instead, they will be included in the 'delivery' line charge. In addition, they will charge HST, which amounts to putting a tax on a tax!

Conclusion

The issues of debt and deficit are not just abstract numbers. The Premier likes to speak of the world we should be leaving our children and grandchildren. The FAO and others have confirmed she is creating a bleak future for Ontarians, where funding for essential services such as health care and education will continue to be crowded out by her government's mismanagement and recklessness.

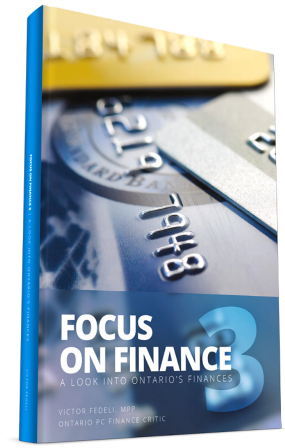
Governing is more than just photo-ops and political spin. Unfortunately that's something this government simply does not understand. The result? Issues they find inconvenient, such as Ontario's spiraling debt, are simply ignored. Unfortunately that means the sustainability of programs Ontarians value most continues to be threatened.

Key Questions

How does the government intend to keep its commitment to reducing Ontario's debt-to-GDP ratio from 39.8% to the 27% it was when they took office?

Will the government confirm the FAO's claims that it is locked in a vicious cycle of excessive spending and structural deficits?

What is being done to address the waste, mismanagement, and scandal that has plagued this government?



Similar stories of waste, mismanagement, and scandal are disclosed in my newest book, **Focus on Finance 3**.

Please go to **www.fedeli.com** to download your own copy of the book.

If you would like to read previous issues of Focus on Finance, please go to www.fedeli.com or email us and we'll add you to our electronic mailing list.

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