Fedeli **Focus on Finance**

More alarm bells for Ontario

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More alarm bells for Ontario

Lately, much of our financial focus is on the economic crisis in Greece and to a lesser extent, Puerto Rico, as well as the tumbling stock market in China. But lurking in the news are several disturbing Ontario stories, each with very serious financial consequences.

LONG TERM CREDIT RATING HISTORY

DATE	COMPANY	RATING
Today	S&P Moody's Fitch DBRS	*A+* *Aa2(N)* *AA-* *AA(low)*
Jul 6, 2015	S&P	*AA- to A+*
Dec 19, 2014	Fitch	*AA to AA-*
Jul 2, 2014	Moody's	*Debt Rating Outlook cut from Stable to Negative*
Apr 26, 2012	Moody's	*Aa1(N) to Aa2(S)*
Apr 25, 2012	S&P	*Debt Rating Outlook cut from Stable to Negative*
Oct 29, 2009	S&P	*AA to AA-*
Oct 22, 2009	DBRS	*AA to AA(low)*

The last couple of weeks saw a credit rating downgrade, an alarming report on the cost of energy, a warning from our auto sector, failed insurance premium reductions, and limits put on the province's Financial Accountability Officer.

Any one of those issues is a concern. When piled on top of each other, there should be alarm bells ringing – and the government should be heeding these warnings.

To give some added context to the stories, an actual headline from a different major media outlet is used as the heading for each chapter.

Cover photo:

The former Arclin (Reichhold Chemical) plant closed in North Bay last year. The Senior VP of the Georgia multi-national said they "had the highest energy costs of any of our 13 plants."

S&P downgrades Ontario debt rating

(Maclean's magazine headline, July 6)

July started with one of the world's major credit rating agencies downgrading Ontario from AA- to A+. Standard & Poors warned "Ontario is a sustained and projected underperformer on its budgetary performance and debt burden versus domestic and international peers." Ontario's risk level has deteriorated substantially "due to considerable very weak budgetary performance and very high debt level." They added that Ontario "has been slow to fully roll out the spending controls and revenue measures needed to eliminate its structural operating deficit, which has caused its tax-supported debt level to approximately double since fiscal 2008."

This should not have come as a surprise to anyone.

In her year-end report, Auditor General Bonnie Lysyk said "Ontario's debt continues to grow faster than the province's economy, which could have negative implications for the province's finances". She concluded the consequences of high debt include "the crowding out of other spending, greater vulnerability to a rise in interest rates, and a possible downgrading of the province's credit rating which would lead to higher future borrowing cost." Shortly after her report was released, Fitch downgraded Ontario from AA to AA-.

Back in April, when the 2015 budget was presented, National Bank analyst Warren Lovely reminded us "Rating agencies will have their say in the coming weeks, with S&P's negative outlook on the province's AA- long-term rating overdue to be resolved." After this month's downgrade he concluded "While resolution of the outlook could have been timelier, evidence of a structural deficit and Ontario's relatively high debt burden helps justify the downgrade." He added "S&P had indicated that maintaining an AA- rating would have required the province to both achieve fiscal balance before 2017-18 and place its tax-supported debt burden on a downward track. With neither test having been met, the agency proceeded with the downgrade."

While I prefer to present only the facts in these newsletters, I must offer this editorial comment. Instead of sitting up and taking notice of the harsh words and even harsher reality, the government tried to convince everyone that somehow this was good news. It was embarrassing to watch them spin their fifth downgrade into a good news story – and many media mocked them for their attempt.

Ontario's job killer: Business sounds alarm over soaring electricity prices

(Financial Post headline, July 8)

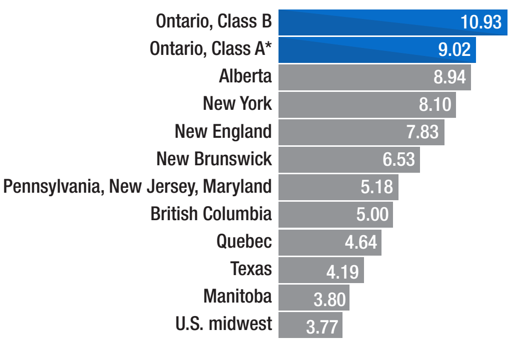
Days after the credit downgrade, the Ontario Chamber of Commerce released an alarming report, *Empowering Ontario: Constraining Costs and Staying Competitive in the Electricity Market*. They cautioned that soaring electricity prices have reached a crisis point for Ontario businesses and consumers. One in 20 Ontario businesses now expect to shut their doors in the next five years due to electricity costs, and nearly 40% report that electricity costs have already forced them to delay or cancel investment decisions.

In addition, the public opinion research from Leger found that 81% of Ontarians are concerned that rising electricity prices will impact the health of the Ontario economy and the same percentage fear that rising electricity prices will impact their disposable income. These numbers rise to over 90% in Northern Ontario.

"The price of electricity in Ontario is set to rise over the next two decades, adding to the cost of doing business in the province," said Allan O'Dette, President & CEO of the OCC. "If real and meaningful action is not taken to mitigate these increases, businesses will leave the province, jobs will be lost, and our economy will suffer."

2013 INDUSTRIAL ELECTRICITY RATES BY PROVINCE AND U.S. STATE

CENTS PER KILOWATT HOUR



*Transmission-connected, does not include distribution delivery charges.

In a Financial Post article, Ross McKitrick, Professor of Economics at the University of Guelph and Tom Adams, an independent electricity consultant, commented:

"With the Canadian economy inching towards recession, the Chamber has burst the bubble of official silence around Ontario's electricity policy disaster. They have exposed the link between rising power costs and provincial economic stagnation. This is a major policy disaster and it will require a major course correction to fix it."

Fiat Chrysler CEO fires warning shot at Ontario

(Globe and Mail headline, July 10)

Ontario's manufacturing sector has been in a long downhill slide, with 300,000 jobs lost over the last 12 years. Last month, the Ontario Chamber of Commerce issued a letter, signed by 150 major employers and trade associations, expressing "serious concerns over the proposed … Ontario Retirement Pension Plan."

Now, Sergio Marchionne, CEO of Fiat Chrysler, says that Ontario risks reducing its competitive position in the auto industry even further with such policies as the pension tax and a cap-and-trade tax. "We're fully aware of the fact that this proposal on pensions and cap-and-trade … these are all things that add cost to the running of an operation," Mr. Marchionne said at a conference in Toronto, where he was seated beside Premier Kathleen Wynne. "They don't come for free. They cost money. You start adding up the bill." During a question-and-answer session, he added "This is not what I would call the cheapest jurisdiction in which to produce."

While the final costs of the pension tax and the cap-and-trade tax are not yet known, Mr. Marchionne noted that if they had to add $1,000 of costs into the minivans they produce in Windsor, costs that aren't found in other jurisdictions, then they're not competitive. "It's a very large number; it will drastically change your ability to retain capital."

Hydro One goes dark

(Toronto SUN headline, July 13)

Back in April, I rose in the Legislature and revealed what I had found while reading the finer points of the Budget. This all pertains to removing any oversight over the Hydro One sale. While I did include this in the last Focus on Finance issue, here again is the Hansard record of what I announced, as it now pertains to the next story.

"The moment even one single share is sold, Hydro One will not be deemed an agency of the crown any longer. Schedule 3 strips the Auditor General of powers—no more value-for-money audits. Schedule 10 cuts out the Financial Accountability Officer after six months. In schedule 11, the Financial Administration Act is amended to limit our ability to obtain any information on Hydro One. In schedule 13, Freedom of Information no longer applies to Hydro One. Schedule 38 removes Hydro One from the Sunshine List. Under schedule 22, lobbyists don't have to register any longer. Schedule 23 excludes Hydro One from the oversight of the Management Board of Cabinet Act. Schedule 28 takes Hydro One out of Municipal Freedom of Information. Schedule 30 guarantees the Ombudsman would no longer be able to investigate Hydro One. Schedule 37 means no more Integrity Commissioner."

Now, in his first official probe into the government, Stephen LeClair, the new Financial Accountability Officer, told the media "We are examining the sale of Hydro One and its impact on the government's fiscal plan." He wrote a letter to the government asking for "data, information, and related assumptions that support the government's valuation estimate of Hydro One, as well as any information that explains the government's assessment of the fiscal impact on the Province of Ontario's financial statements."

But LeClair has been told by senior bureaucrats that details of the Hydro One deal fall under Cabinet secrecy. A letter signed by both the

Deputy Ministers of Finance and Energy stated "Because much of the requested information … would disclose advice, analysis, and recommendations prepared for the consideration of the Treasury Board and Cabinet … will limit the material that we will be able to provide in response to your request."

Nonetheless, LeClair is not deterred, adding "We will continue forward with our report … and then it is up to parliamentarians to decide. We ask for the information to do the best work possible."

Ontario falls short on auto insurance promise

(Toronto Star headline, July 15)

The next shoe to drop in July was a report from the Financial Services Commission of Ontario on the government's promise to reduce auto insurance rates 15% on average by August 2015. FSCO, which regulates the province's auto insurance market, announced the reduction achieved is only 6.46% – down from 7% in April. Rates for 26 companies, representing 52% of the market, actually increased an average of 0.6% in the second quarter.

This failure illustrates the government made a promise without a plan. They have ignored potential reforms to the system that would have an immediate and significant impact on costs and ultimately premiums paid by consumers.

Ontario premiums remain the highest in Canada – 45% higher than Alberta and twice as high as the Maritime provinces. Claims costs are also out of line with the rest of the country, averaging over $31,000 in Ontario, $3,800 in Alberta and $8,700 in the Martimes.

Conclusion

There certainly has been a focus on finance this month, and it produced further evidence that Ontario continues to head down the wrong path.

Our fifth downgrade, the implications of skyrocketing energy rates, high-level concerns over new taxes, broken promises, and concern from the Financial Accountability Officer, should ring alarm bells for Ontario.

The government continues to ignore the warnings of experts and instead engages in marketing spin, while expanding the shroud of secrecy, much like we witnessed during the Gas Plant Scandal.

Key Questions

- Despite all the warnings, why won't the government move off its tax and spend agenda?
- With the highest hydro rates in North America, rates that went up 15% in May, and rates forecast to go up another 10% in November, what is the government doing to make hydro affordable?
- With 150 companies and associations concerned about the new pension tax, and when the Ministry of Finance estimates claim that over 30,000 jobs will be lost, why is the government proceeding with the Ontario Registered Pension Plan?
- How can this government credibly claim to be transparent when it withholds information from Officers of the Legislature?

Ontario

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