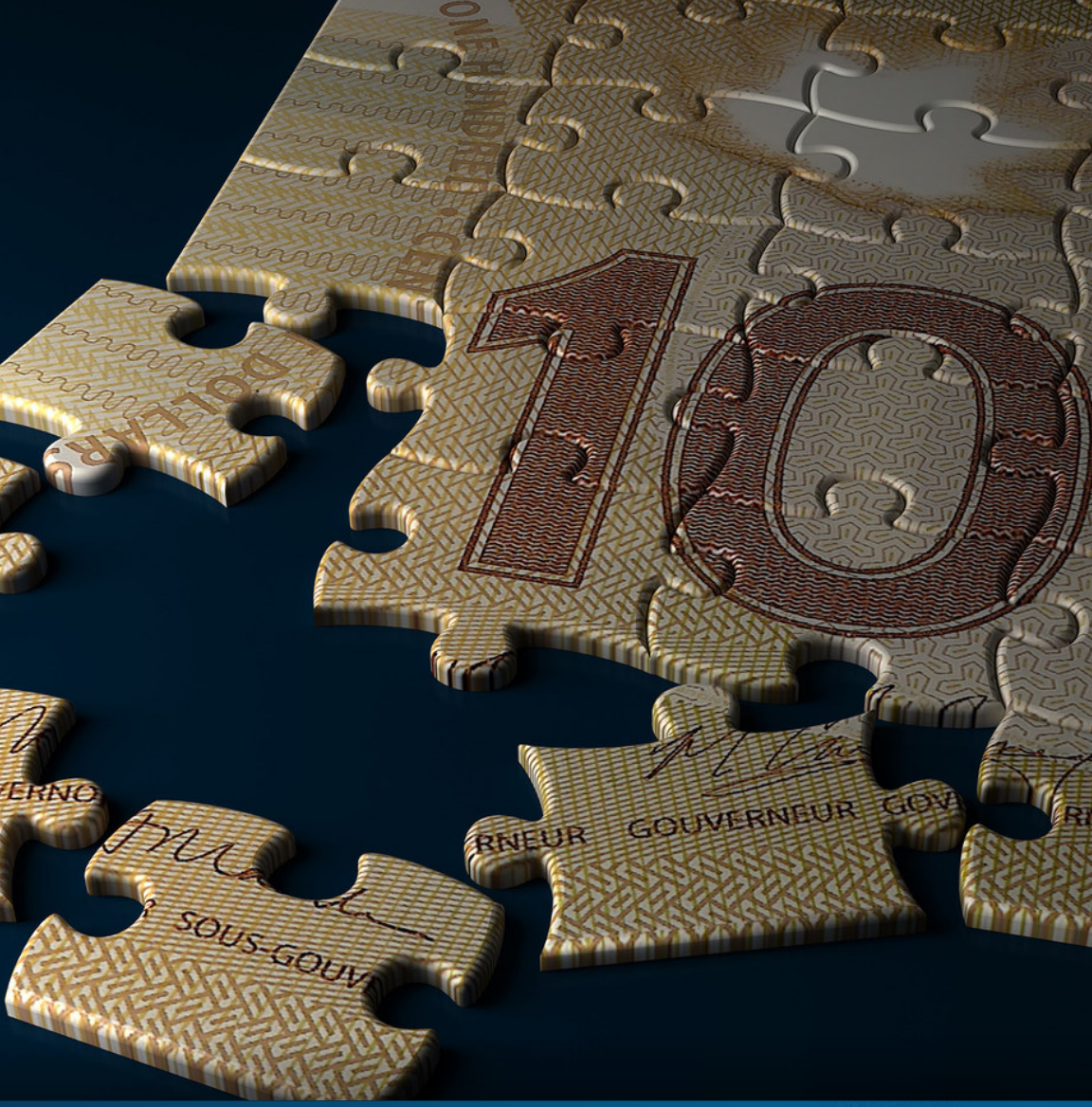

FOCUS ON FINANCE 4

A LOOK INTO ONTARIO'S FINANCES

VICTOR FEDELI, MPP
OFFICIAL OPPOSITION FINANCE CRITIC

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ISBN: 978-0-9739509-6-0

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About the cover

Assembling all the bits and pieces of what we learn from government and ministry news releases, glean from Question Period responses, read in the media, or are sent by stakeholders and experts, is much like putting together a jigsaw puzzle. Slowly and carefully we have created a picture of Ontario's finances and present the facts for you to judge the province's status for yourself.

PREFACE

PREFACE

When it was time to sit down and write *Focus on Finance 3* last year, the main focus was on the government's waste, mismanagement, and scandals. This was outlined chronologically, and backed up with various media columns and reports by several Legislative Officers. Interwoven throughout the month-by-month analysis were several feature stories that did a deeper dive into various issues.

For instance, 14 pages were devoted to the sale of Hydro One, ending with the revelation of a little-known fact. At the very end of Bill 144, the actual Bill that ended Hydro's 109-year ownership by the people, there was one single line buried on page 162. It stated … "to reimburse the Crown for the expenditures incurred to fund costs relating to infrastructure." Readers of *Focus on Finance* were the first to learn that the proceeds from the sale of Hydro One would end up in general revenue, and be used to repay the treasury for money already spent on previously-announced and -paid for infrastructure projects. That move would allow one-time revenue to be used in the province's operating budget, inflating revenue. This was later confirmed on page 89 of the actual 2016 Budget, where the Hydro One proceeds were indeed listed as general revenue. When the Financial Accountability Officer published his very first report, he confirmed what we revealed. His comments included "long-term negative impact on the budget", "the Province's budget balance would be worse than it would have been without the sale", "Province's fiscal position deteriorates", and "immediate gains; loss of revenue over the long term."

Later in the book, the same case was presented regarding Bill 172, the cap-and-trade Bill. On page 47 of the Bill, a single line buried deep in the Bill as Schedule 68 stated "to reimburse the Crown for expenditures incurred for transportation, public transit vehicles, and infrastructure." Again, readers of the *Focus* newsletters and books were the first to learn the cap-and-trade funds were actually being used to fund previously-announced and, more importantly, previously-funded infrastructure and transit programs.

But the biggest reveal was left until the end of the book where I exposed that the government could have cancelled a $5.2 billion energy deal with Samsung – without ANY penalty. Buried within the 300,000 pages of once-confidential documents turned over during the Gas Plant Scandal, was a report from the Ministry of Energy to the Minister, stating that Samsung was in default of their contract and that the government could walk away from the deal without penalty. The report added that Ontario didn't need this new energy and the cancellation would be in the best interest of the ratepayer. While the government ultimately cancelled $3.7 billion, they continued to spend $1.5 billion for energy we didn't need, at a subsidized price we couldn't afford. This exposé resulted in much media exposure and shone a light on the government's decision to do what was in their best interest, as opposed to that of the ratepayer and taxpayer.

In this edition of *Focus*, I won't leave the 'reveal' until the end. Instead, the very first chapter will prove that what the government states as fact, and what the facts are, are two very different things. In fact the book will completely debunk the government's narrative justifying the crisis they created in our hydro sector. As always, I will quote from Legislative reports, federal and provincial government websites, and will provide all my external sources.

Thanks for reading and for supporting my *Focus* series!

JUST THE FACTS

JUST THE FACTS

There's a disturbing trend playing out with many of the government's ministers. Whether they are answering questions at Queen's Park, giving a speech somewhere in the province, quoted in a media story, or writing their own Letters to the Editor, there's a common thread. Simply put ... they're making things up! Now that may sound rather pointed, but it's true, and I will spend some time illustrating this and providing several examples. These are important to present, as they lay the foundation for the next reveal, which will completely debunk the government's narrative justifying the crisis they created in our hydro sector.

Let's start with the government denying there were any service fee hikes in the 2016 budget. The Leader of the Official Opposition was questioning the Premier, and began with "This budget increases virtually every government service fee. Fees for driver and vehicle licensing are going up. Camping in provincial parks, fishing, and hunting licences just got more expensive. Everything from liquor licences to event permits for charity fundraisers will cost people more."

The next day, the then-Minister of Natural Resources chimed in with "a rebuttal directly to the Leader of the Opposition." He added, "Somewhere along the line the Leader of the Opposition may have an opportunity to correct his record. He stood on his feet to tell people that recreational hunting and fishing licences are increasing; in fact, he's wrong. I just want to say that clearly, Speaker: Recreational hunting and fishing licences are not increasing. If he's not going to correct his record, then I'm going to have to do it for him. Unequivocally, that is not the case. It's wrong."

Now I was sitting in the Legislature listening to this, and happened to be the very next speaker. I took the opportunity to set the record straight by reading directly from page 191 of the budget, as follows. "Starting in 2017-18, fees will be adjusted annually to keep up with inflation. Examples of the fees include fees charged for driver and vehicle licencing, camping in Ontario parks, fishing and hunting licences, court applications liquor licences and event permits." I went on to chastise the minister for not knowing

what was happening in his own Ministry, and obviously not reading the budget. "I would have hoped that somehow, somewhere the minister himself would have had some inclination that his own department has fees that are going up. You would think that if you're going to make an accusation, at least you could be marginally accurate." He was moved out if this Ministry 3 months later.

Here's another example. The Minister Responsible for Small Business surprised me by what he had to say in the Legislature one morning. He stood and announced "Mr. Speaker, I'm proud to say that the small business tax rate in Ontario is among the lowest in North America." The small business tax rate in Ontario is 4.5%, actually the second highest in Canada, tied with PEI. Quebec holds the highest rate at 8%. I remember visiting the Mayor of Las Vegas at the International Mining Show, and him telling me their tax rate was zero, which led me to do a quick check. It turns out there are six states at zero. Also, North Dakota is 4.31% and North Carolina is 3%. Not only are we actually the second highest in Canada, but we're miles behind U.S. states. The minister simply made up a statistic to fit into his narrative, and it has nothing to do with the facts.

This next example is a little more concerning, because of the breadth and depth of the inaccuracies. I attended a speech where the Minister of Economic Development and Growth talked about Ontario's economic growth, foreign direct investment, and employment growth. The minister stated that our economy is growing faster than the U.S. I was quite surprised, considering last year's numbers show that Arkansas, Washington, and Oregon all had higher annualized growth of 3.9%, while Colorado matched Ontario. He also stated that Ontario is the top foreign direct investment destination. That too is a surprise, considering investment dropped from $7 billion to $4 billion, and Ontario is actually not the top destination (we have fallen to 4th place, behind California, New York, and Texas). The more serious concern was the employment comment, backed up by his Letter to the Editor where the minister stated our employment is "the best in Canada" and "We're leading the country in job creation." Again, the facts are quite different from what he announced. Our unemployment rate is higher than B.C., Manitoba, and Quebec, and tied with Saskatchewan. And internal

Ministry of Finance documents revealed "there are fewer jobs today relative to the population … employment growth has not kept up with the growth of the working-age population."

We're seeing a trend here, where ministers feel free to stand and say absolutely anything that helps make their point, no matter how far-removed from the truth it may be. Recently, the Minister of the Environment and Climate Change stated that "nobody raised hydro rates faster than (the previous government)." Remember, when this government took office, hydro rates were 4.3 cents/kwh. Today, 14 years later, rates have skyrocketed to over 18 cents/kwh. His statement is mathematically impossible to be true. But it helped fit his narrative and his attempt to make a point.

The former Energy Minister chimed in with his fact that Ontario ratepayers are seeing power bills "increasing slower than they are in neighbouring jurisdictions." According to the Consumer Policy Institute, no average residential ratepayer in Canada's other nine provinces or in any of the 50 U.S. states have seen their power rates increase faster than here in Ontario. For instance, Toronto Hydro customers pay 72% more than they did in 2006. They alone have the sharpest increase in North America. Ottawa Hydro is not far behind at 71%, and Hydro One came in with a 68% increase over the last nine years. The average increase for U.S. customers was 22%. That Minister was moved out of this Ministry 4 months later.

I got so tired of correcting the new Ministry of Energy, that I wrote yet another Letter to the Editor – one I hoped would be the definitive response. Here is what ran in Northern Life's Sudbury.com online version.

Fedeli says he's fed up correcting Thibeault's 'falsehoods'

MPPs continue to spar over Ontario's electricity system

I've got to tell you … I am getting tired of chasing Glenn Thibeault around the media, correcting his falsehoods and misleading statements. I would say to him: Please spend

more time trying to fix the energy poverty you've created, rather than exerting so much effort spinning stories in the media!

Nonetheless, I simply cannot let his latest nonsense go unanswered – it's not fair to the good people of Sudbury to be misled like that.

The minister wrote a letter stating I was making misleading comments. So, let's start by reviewing the actual comments I made on Northern Life's Sudbury.com – the very comments he says are "misleading".

The column started with me sharing the independent Financial Accountability Officer's (FAO) pronouncement that households in Northern Ontario pay 25% more in energy costs than those in Toronto. He went on to report that for electricity costs specifically, we northerners pay 45% more. This was followed by the Energy Board's findings that 567,000 families were behind in their hydro bills, and that 60,000 residential customers were disconnected from hydro. Are these the "misleading" comments Glenn is referring to?

The column then discussed the lack of reliability of Ontario's hydro system, by quoting the 'Blackout Tracker Annual Report' (yes, there's such a thing!) which revealed the number of Ontario outages increased by 275% from just 2012 to 2015.

It ended with a story of Lake Talon residents (just outside North Bay) who experienced a 25-day power outage, yet were still billed the Delivery Charge. Are these the "misleading" comments Glenn is referring to?

That's it – four sets of independent facts – all called misleading by our Energy Minister. Now let's direct our attention to the falsehoods Glenn went on to add in his letter to the editor.

He claims the government rebuilt the electricity system, and that's what caused your electricity bills to skyrocket. While the government may indeed have spent billions in

transmission lines, they weren't to repair the system; they were to transmit power from wind turbines spread far and wide, all across Ontario.

Glenn's next claim, referring to our electricity rates, is that "our province is actually one of the lowest." Seriously, Minister? You have an obligation to be truthful to your constituents. Ontario has amongst the highest all-in electricity rates in North America. Instead of continuing to deny this, you would be better off doing something about it. Several times throughout his letter, Glenn asked "what would (your government) do?" Let me remind him that (Opposition) Leader Patrick Brown has offered three solutions the Minister continues to ignore: 1 - Stop the sale of Hydro One. The FAO told us this will bring the people short-term gain, but long-term financial pain. 2 - Stop signing contracts for power we don't need. The government will tell you they "suspended" the long-range contracts, but they continue to sign deals for unneeded power today. And 3 - rein in executive pay. Why do we pay the Hydro CEO $4 million, when the other province's hydro CEOs earn ten times less? These are immediate solutions (our government) would bring to the table.

He closes his letter by taking me to task for stating that our electricity system has become unreliable. He adds, "Today, we have a system that is one of the most reliable in North America."

Ahh, Glenn … remember that Blackout Tracker? They stated "Ontario ranked the highest of all provinces for the number of reported outages." These are facts, minister, not your aspirational goals. Not misleading comments. Just facts.

Something it appears you know nothing about.

Vic Fedeli
MPP, Nipissing

The list of examples of ministers stretching the truth goes on-and-on, but I think you get the point. Anything goes. The government ministers can say and do anything to support their narrative that all is well in Ontario; that the government's plan is working. As I stated at the beginning of this chapter, these examples are important, as they lay the foundation to completely debunk the government's narrative justifying the crisis they created in our hydro sector.

Last year, energy writer Scott Luft wrote a blog about a presentation that pollster David Herle of The Gandolf Group gave to an energy association. Herle served as the Premier's election campaign co-chair, steering her Party to a majority government in 2014. His presentation, entitled *Public Opinion on Energy*, laid bare what people felt was happening in the energy sector. His first slide read "Rates are an increasingly major concern in Ontario. The cost of electricity is not just seen to be unreasonably high, it is widely seen as damaging to the provincial economy." He added "Ontarians think that poor decision-making and poor management are primarily responsible for high electricity rates" and that "Fewer than one-half think rates are being driven by investments in reliability, and only a third think eliminating coal is a major factor." Clearly this is trouble for the government. People realize that it was the series of bad decisions the government made that's at the root of their unaffordable energy rates. This is why families are forced to choose whether to heat or eat.

Herle then noted some characteristics of public opinion that could change the narrative. He told the government that people like hearing about improved reliability, conservation, the elimination of coal, and renewable energy. This leads to a communications strategy that recognizes people don't want to blame cost hikes on things they like, even if they're actually why costs are skyrocketing. Instead, the blame could be focused on several hot-button issues, such as the billions spent on upgrading transmission lines, because surveys show reliability is important (even though the transmission lines they built were to bring power from far-flung wind turbine locations, not to "upgrade an aging system" as they claimed). Again, none of these points need to be based on facts – instead, they are designed to explain away the skyrocketing hydro increases, with lines that appeal to the masses. It would be these lines that were ultimately used to develop the government's talking points.

Here's how this was put into action. The Premier penned a Toronto Star column to launch their 25% reduction in hydro scheme. She wrote "Brownouts, blackouts, and dirty coal endangered our economy. We closed all of Ontario's coal plants, built thousands of kilometres of new transmission lines, and introduced renewable energy. Ontario now has a clean, reliable system with a modern, diverse mix of generating sources. But – all this came at a price. We put the $50-billion cost of the rebuild onto the hydro bills of just one generation."

Isn't it fascinating how the wording in the research turned out to be her talking points a few months later! It's because her words are just that – words. There are no facts behind them. Think they've built a reliable system? I've discussed the lack of reliability issue in my Sudbury Letter to the Editor, where the Blackout Tracker Annual Report revealed the number of Ontario outages increased by 275% from just 2012 to 2015. That's because the "thousands of kilometres of new transmission lines" were to transmit power from far-flung wind turbine installations, leaving a backlog of billions of dollars for aging existing lines, causing blackouts to spike.

And in the Auditor General's 2015 Annual Report she revealed, "Most of the increase in what consumers pay for electricity has come from generation cost increases, which account for 60% of the overall cost of electricity. Generation costs have increased by 74% over the last decade." Transmission costs, at 8.4% of the total cost of electricity, were $1.6 billion annually, so that refutes their claim. Despite the government's talking points, we know that signing heavily-subsidized contracts for power we don't need is what caused (and continues to cause) electricity bills to skyrocket. Rates didn't rise from any of the reasons the Premier listed in her touching column.

The Deputy Premier was then dispatched to send out her own Letter to the Editor across Ontario. She used the polling data to set the stage. "Brownouts, blackouts, and dirty coal plants were a danger to our health, our environment, and our economy. So, we took action." And then listed the items the research told them people liked, as the reason hydro rates skyrocketed. "We closed all of Ontario's coal plants, built new transmission lines, and invested in renewable energy. But that came at a price." Again, she lists three items that on their own are facts, but have nothing to do with the energy crisis they created.

The Finance Minister was next up. I sat in the audience at The Empire Club where he announced the budget date, but took the opportunity to share the same hydro talking points. The SUN's Lorrie Goldstein relates the story far better than I would, so I'm going to paraphrase a bit of his column here.

> *Sousa said Ontario's electricity grid is now "the envy of North America" because the government restored "integrity and reliability" to it, unlike neighbouring Canadian provinces and the rust belt states.*
>
> *Simply put, what on earth is Sousa talking about?*
>
> *In her December, 2015 annual report, Auditor General Bonnie Lysyk said between 2010 and 2014, Hydro One customers experienced 24% more power outages, lasting 30% longer, while costs to run the system increased by 31%. She describes Hydro One as "consistently one of the least reliable among large Canadian electricity distributors".*
>
> *She said its maintenance backlog increased by 47% and power outages by 7%, between 2012 and 2014. Lysyk reported the risk of power failures was increasing because Hydro One hadn't replaced $4.5 billion in transmission assets, "that have exceeded their planned useful service life".*

The Premier stated the government spent $50 billion on the cost of this so-called rebuild. But her own Energy Minister issued a news release claiming Ontario had "invested more than $35 billion" in new and refurbished generation. Between them, their talking points differed. My retired banker friend and frequent National Post energy columnist Parker Gallant beat me to the punch and has created a comprehensive list. His findings are here:

Wind generation	10.2B
Solar generation	5.2B
Transmission connections for above	5.0B
Unreliable & intermittent power:	$20.4B

(Continued next page)

Smart Meters	2.0B
Smart grid	1.2B
Coal plant write-off	.6B
Conservation	2.5B
Cancelling gas plants	1.1B
Frills and shiny baubles:	$7.4B
Beck hydro tunnel ($600M over budget)	1.5B
Mattagami hydro project ($1B over budget)	2.6B
Photo-op generation:	$4.1B
Bruce Nuclear refurbishment	3.4B
Value for money:	$3.4B

This is indeed shy of the $50 billion the Premier says was spent, but the number lines up with the Energy Minister's claim. Nonetheless, this proves that the bulk of the money did not go towards "the cost of the rebuild." It went to intermittent and unreliable wind and solar projects (like the AG said it did), which are unable to deliver generation when the wind isn't blowing and the sun's not shining. The second largest category, *Frills and shiny baubles*, created no generation, nor improved transmission, and did nothing to reduce blackouts or brownouts.

The most compelling evidence came from the Ministry of Energy staff giving us the technical briefing of the actual Bill. They told us that of the $50 billion spent, $35 billion of it was for power generation – just like the AG said!

Now you have it. Definitive proof that the government understood people believed their electricity rates were too high, this was hurting our economy, and that the government's poor decisions and poor management were responsible. You also have definitive proof that the government looked to blame the increases on issues they knew people approved of, even though they were not the cause of the increases. It doesn't get more cynical than that.

ONTARIO'S ELECTRICITY CRISIS

ONTARIO'S ELECTRICITY CRISIS

This book is called *Focus on Finance*, and I promise there will be plenty of finance issues discussed, but without fail, energy is the number one issue in Ontario. It affects virtually every aspect of our finances – from the fact that revenues are not where they should be because companies are leaving Ontario due to skyrocketing hydro rates, to the added debt the province is taking on to bail themselves out of the trouble those skyrocketing rates have caused them. It's been a few years since I retraced how the province got into this hydro debacle, so I thought I would dig up an old newspaper column I wrote. Shockingly, even though we disclosed all this back in 2012, the government failed to act on what they knew, and the situation has reached crisis status.

Back in 2011, after serving my first three months as our Party's Energy Critic, it was apparent that while energy rates had doubled, they were poised to skyrocket. The Auditor General had just presented his scathing report on the Green Energy Act and the government showed no sign of changing course. I put pen to paper and in January 2012 the following column was published in most Ontario newspapers.

Ontario Being Led Down Green Garden Path

Sitting in the Mayor's chair in North Bay for seven years afforded me plenty of opportunity to interact with provincial politicians. I raised an eyebrow a couple years ago when I first heard an MPP use the expression "dirty coal" at a non-energy announcement. Then I noticed each government MPP worked the phrase into their speeches, regardless of the topic. As a life-long marketing executive, I cracked a smile, knowing that this spin was laying the groundwork for the real hit. That came in 2009, in the form of a document entitled The Green Energy Act (GEA). The stated purpose was to 'green' Ontario's energy sector through conservation and renewable energy generation. To ensure that no one got in its way, the Government removed all municipal planning powers over the development of renewable energy generation.

In many ways, the GEA put the desires of the renewable power industry ahead of the needs of Ontario businesses and electricity consumers.

For instance, when you neutralize the municipality (the public's only forum to fight a rezoning), toss around phrases like "dirty coal" (which stiffles naysayers), and put a 'green' label on it (which minimizes opposition), you've got a perfect storm for procedural abuses, failed fiscal oversight, and gross misuse of taxpayer dollars.

Now, as a newly-elected MPP and Ontario's Energy Critic, I've spent the past three months meeting with industry stakeholders from all sides, assessing the GEA. It will be no surprise to anyone who pays a hydro bill, that I believe the GEA to be a complete disaster. What may surprise you are some of the people who agree with that assessment. Here's a quick recap of what has happened with electricity, under Premier Dalton McGuinty.

The Feed-in-Tarif (FIT) Program pays out massive subsidies for wind and solar contracts to produce power we don't need. This continues to drive up the cost of electricity – it rose 26% between 2008 and 2010. It is projected to rise another 46% by 2014.

Even McGuinty knew what would happen next. Years earlier, while he served as Energy Critic, he stated "I am not going out on much of a limb when I say there is a direct correlation between hydro rates and our rate of unemployment in Ontario. As the rates go up, so will the rate of unemployment."

As a result of skyrocketing energy prices, manufacturing plants, forestry mills, and mineral processors close and move to where they find cheaper power. In Timmins, a city of 43,000, Xstrata Copper axed 672 employees and moved just across the border to set up shop in Quebec, where hydro is cheaper. It affected another 4,000 employees province-wide.

In total, Ontario has lost 300,000 manufacturing jobs in recent years. This has resulted in even lower demand for hydro, and we now generate far more power than needed. Unlike a commodity, you can't store electricity. So, we pay the U.S. and Quebec to take this surplus power off our hands. We've paid them $1.8 billion over the past six years; $420 million in the first 10 months of 2011 alone. Their industries use this cheap power to compete even harder with our manufacturers, and so the downward spiral continues.

If the province stays on this current path, your hydro bills are going to increase dramatically.

Auditor General Jim McCarter delivered a scathing indictment of Dalton McGuinty's energy policy. He found that wind generators operate at 28% capacity and that wind output was out of phase with electricity demand during certain times of the day. Solar generators operate at just 13% capacity. And the Feed-In-Tarif (FIT) Program, with its overly-generous payments, will cost taxpayers $4.4 billion more than the previous Standard Offer Program. In 2010 wind and solar accounted for 1,700 MW and the target for them is to produce 10,700 MW by 2018. The very problem that has sent our hydro bills skyrocketing and gutted our manufacturing sector is about to get six times bigger. The AG also told us that billions of dollars were committed to renewable energy without fully evaluating the impact through a comprehensive business-case analysis. No independent, objective, expert investigation had been done to examine the potential effects of renewable-energy policies on prices or job creation.

Even Dr. Patrick Moore, co-founder of Greenpeace, weighed in recently with his comment that the wind power industry is "a destroyer of wealth and negative to the economy." He went on to say that wind farms are "ridiculously expensive and don't work half the time."

George Smitherman, the former Energy Minister and architect of the Green Energy Act, spoke out recently. He feels that maybe the price paid for FIT contracts needs to be adjusted, and that perhaps municipalities should not have been cut out of the picture. At the launch of the GEA, he said it could lead to a "modest increase in electricity bills of about 1% annually". The cost you paid for electricity went up an average of 9.8% last year alone. Without an immediate cancellation of the FIT program, look for that to continue. Next, look for the words 'Global Adjustment' on your hydro bill. Simply put, Global Adjustment covers the spread between the market price and the guaranteed price paid to generators, plus the cost of paying standby gas plants not to produce electricity, as well as paying for conservation programs. This will be the hottest energy topic for the next several years. One manufacturer showed me their Global Adjustment, nonexistent on 2009 hydro bills, is now $1,700/month, while their electricity charge is $1,400/month.

Another Canadian branch plant of an American head office showed me their annual Global Adjustment is over $1 million – for a line-item they never factored into their budgets. The Global Adjustment is expected to increase tenfold, from $700 million in 2006 to $8.1 billion in 2014. This will certainly cause more Ontario manufacturers to close up shop and move to cheaper locales.

Also, watch for the Smart Meter charges to hit home. Environment Commissioner Gord Miller weighed in recently, reminding us that reducing peak demand was the prime driver for introducing smart meters in the first place, yet there is no data to show if it's helping consumers conserve. The computer system that runs the Smart Meters cost $250 million, and the bill is now due. Your local utility will be adding 75 cents a month to repay that purchase. And where a traditional meter costs 65 cents to read, these electronic meters cost $1.50 plus another 90 cents for the towers and controllers. In addition, your local utility will be adding a $1.50 monthly fee to pay for their share of the $1 billion spent on the actual Smart Meter units. Total it all up and you'll see a further $4.00 a month added to your bill this year.

Let's not forget the cancellation of the Oakville power plant and cancelling, demolishing, and relocating the Mississauga power plant. These cancellations were nothing more than political 'seat savers' and may cost taxpayers $1 billion. That bill will come due this year, followed by the bill for the new plants, once the government figures out where to locate them. This comes at a time when industry experts are questioning the reliability of the GTA power grid.

The path this government is on will continue to be destructive to Ontario. (The rest of the column was political in nature, and cannot be included in this non-partisan book).

Remember, that column was written at the end of 2011 – it's remarkable how accurate those predictions were – especially the gas plant cancellations costing $1 billion and the dead-accurate prediction that the Global Adjustment would hit $8 billion by 2014 (it reached $7.7 billion that year)! Any government paying attention would have known the financial mess it created.

What we saw was a government with a social engineering plan in mind – the Green Energy Act. When this disaster started, Ontario produced 25% of its energy from green energy – water power – the cleanest, greenest, most reliable and affordable source of renewable energy. In the latest Long-Term Energy Plan, the forecast was *still* to produce just 25% from green energy; 22% from water power and 3% from wind (IESO, 2017). There is absolutely nothing green about their version of green energy.

Since writing that column, a few more facts have surfaced, including more details on the Global Adjustment charge. The Auditor General revealed that from 2006 to 2014, the electricity portion of the hydro bills increased by 70%. In particular, the Global Adjustment (excess payments to generators over the market price) cost consumers $37 billion during that period, and is projected to cost an additional $133 billion from 2015 to 2032. Consumers paid $9.2 billion more for renewables under the Green Energy Act than they would have paid under the previous procurement program. As a result, the government developed several social-assistance programs for needy families not able to pay their hydro bills. The low-income support program or OESP (Ontario Electricity Support Program) included $400 million in the recent budget.

She also pointed out wind generators operate at 28% capacity and wind makes energy mostly at night when we don't need the extra power. As a result, we have been paying Quebec and the U.S. to take that surplus power. In her 2015 year-end report, the Auditor General estimates the annual revenue from selling surplus power was $2.4 billion lower than what it cost Ontario ratepayers to produce it. Whenever wind does blow during the day, and power is produced, the government is contracted to take that power. But not knowing whether wind would generate power that day, they would have already contracted for all the power they needed. As a consequence, the government spills water over Niagara Falls onto idle generators, costing us more than $300 million annually not to produce power.

And when that reduction is maxed out, they turn to nuclear plants, and redirect the steam away from the generators and vent it outside. That little exercise, one month of July alone, cost the ratepayers $80 million. Add together the $2.4 billion lost to Quebec

and the U.S., the $300 million in spilled water, the $80 million in vented steam, and the $400 support program, and that's over $3 billion in extra payments due to wind power, or 'the law of unintended consequences'. The cost of paying guaranteed rates to generators is soaring. In fact, the Auditor General estimates that between 2006 and 2015 Ontario ratepayers will have paid $50 billion to cover the cost of paying generators a premium for their output compared to what it would sell for on the province's wholesale electricity market.

Wind proponents will quickly tell you that because only 3% of Ontario's power came from wind, it was not their fault your hydro bills skyrocketed. They are not accounting for the above-explained money wasted as a consequence of wind-generated power contracts; that extra $3 billion dollars added to the Global Adjustment. When all this started, electricity sold for 4.3 cents per kilowatt hour in 2003. Today, at peak times of day, energy sells for 18 cents per kilowatt hour – more than quadruple the 2003 hydro rates.

The Auditors General are not alone in their concerns. Here are some worldwide headlines: Italy Cuts Solar Subsidy; Dutch Pull Plug on Wind Subsidies; UK Solar Subsidies Slashed; Germany Slashes FIT; and Spain Halts Renewable Subsidies to Curb $31 Billion of Debts.

While other jurisdictions are realizing what a disaster this has been, Ontario is still doubling down. The very problem that has sent your hydro bills skyrocketing and gutted our manufacturing sector continues to grow, with the province signing even more contracts for power we don't need!

The Auditor General stated the FIT program loses two to four manufacturing jobs for every so-called green job created.

While the government claimed the Green Energy Act would create 50,000 jobs, the Auditor General stated the FIT program loses two to four manufacturing jobs for every

so-called green job created. In Timmins, Xstrata Copper, Ontario's single-largest user of power, moved their smelter 115 kilometers across the border into Quebec, lured by low hydro rates, and terminated their 672 Ontario employees. This should have been a warning to the government. Instead, we now have hundreds more examples of companies leaving Ontario for cheaper power, and there are more added every single day.

There are also companies that simply will not locate in Ontario because of our high hydro rates. Canadian Business magazine ran a spring 2017 story announcing that Google would build their first Canadian cloud computing facility in Montreal. They stated that Quebec's competitive electricity rates made the city a cloud-computing destination. The move follows similar announcements from Amazon, IBM, and others. Amazon cited Quebec's lower electricity prices, compared to Ontario, as a major reason for its decision to locate in the province.

Clearly, the province's competitiveness suffers from its high electricity prices for industrial users. But it's also affecting the commercial sector, according to a Canadian Federation of Independent Business survey. The report stated "97% of small businesses are concerned about the current state of Ontario's economy, with 67% very concerned." It also stated "93% wanted the government to reduce energy costs".

In my 2011 column, the Smart Meter concept was also introduced. Since then, we learned the real story – and the real cost. The Auditor General released that the overall costs related to implementing smart metering in Ontario had reached $1.9 billion – twice the original estimate. Her report also noted that the government's stated objective of reducing power demand at peak times is not being met. Then-Minister of Energy, Bob Chiarelli, shocked reporters after Auditor General Bonnie Lysyk presented her annual report by stating, "Why are my numbers more credible than hers? First, the electricity system is very complex, is very difficult to understand", suggesting the Auditor General, who had a decade of experience at Manitoba Hydro, an MBA, and CPA designation, just didn't get it. The program was awarded a provincial 'Teddy' award from the Canadian Taxpayers Federation, for government waste.

The bottom line is the province has built more plants than we actually need. Ontario has the built-in capacity to produce 30,203 megawatts of power, but only needs less than 16,000 on an average day. Even on the busiest day of the year, the province only required 22,774 megawatts. Every month, that excess power is being sold at a loss to Quebec, Michigan, Ohio, and New York. This adds up to $200 million monthly, or $2.4 billion each year – and growing. These losses increase the Global Adjustment charges and continue to drive companies and jobs out of Ontario. Our U.S. and Quebec competitors are being subsidized by Ontario ratepayers – and are eating our lunch! The government's reaction has been to promote subsidies for investors, at the taxpayers' expense, rather than creating a system that provides affordable power.

Professor Ian Lee of Ottawa's Sprott School of Business summarized Ontario's energy situation in a Toronto SUN article. "Over the last eight years, the government of Ontario has squandered an energy-competitive advantage that keeps the province competitive with northeastern U.S. states, such as New York, Pennsylvania, Michigan, and Ohio," he said. Failed Liberal policies mean we've lost that competitive edge. "The government squandered it to drive up energy prices by subsidizing people at 10 times above the market price to put in solar panels to produce a surplus of electricity – that we didn't need in the first place – which we then sold at a loss to the Americans to exacerbate the competitive advantage we have handed them by squandering our cost advantage on energy," he said. We'll give the last word on this to Carol Goar of the Toronto Star, as she sums up the Liberal's Green Energy Act. "The rollout was costly and ill-conceived. It drove up electricity prices, undermined public support for wind and solar power, riled rural Ontarians, and left a trail of aggrieved investors and producers".

ALARM BELLS STILL RINGING

ALARM BELLS STILL RINGING

This next chapter (which is about 3/4 of the entire book) will take you on a chronological review of the events affecting Ontario's finances, which occurred between the 2016 and 2017 budgets.

The day the 2016 budget was released, many of us spent seven hours in the lock-up combing through the documents. As Finance Critic, I gave my remarks to the 150+ media also in the lock-up. This is the last sentence in my 5-minute speech:

"The simple fact is this: Until Ontario's poor financial state is properly addressed, the government will continue to cut funding to frontline health care, close needed schools, and raise hydro rates to make up for their waste, mismanagement, and scandals."

As you can see, nothing has changed – I could have used the same sentence in this year's speech. The government continues to fire frontline health care workers (in my hometown of North Bay, 388 frontline workers have been terminated – 100 of them nurses). They continue to close schools – this government has closed more schools than ANY other government in Ontario's history! The government finally admitted they plan to close at least 300 more schools, while documents show that to be closer to 600. And the hydro crisis continues, even though the government announced their 25% plan (which includes the previously-announced 8% HST rebate), which we now know will add a minimum of $45 billion in additional financing costs, yet the root cause of the hydro increases remains.

Once the debate on the 2016 budget began, the experts started to speak out. The first was Stephen LeClair, the province's Financial Accountability Officer (FAO). He stated "the province's plan continues to rely on relatively optimistic assumptions for revenue growth combined with aggressive plans to limit growth in program spending." He referred to the budget as "vague and uncertain", adding that the government has made the deficit appear smaller by using one-time money from asset sales, contingency reserves, and

the brisk housing market – $500 million in extra sales tax revenue and $300 million more in land transfer taxes were booked as operating revenue.

The revenue side, he says is "mainly buoyed by relatively optimistic economic assumptions, additional federal transfers, and new cap-and-trade proceeds, as well (as being) boosted by the sale of Hydro One." He concludes "the government projects total revenue to rise by 5.1% per year on average from 2014-15 to 2017-18. This is much higher than the 2.6% average annual growth recorded over the past four years."

The FAO reports that "Spending is projected to increase by 1.7% per year on average from 2014-15 to 2017-18, rising to 2.7% for 2018-19. This pace of program spending growth is higher than assumed in the 2015 budget." As noted in the FAO's October 2015 *Economic and Fiscal Assessment Report*, "the government's plan to further reduce growth in core program spending will face upward pressure from population growth and price inflation." As you will read shortly, the FAO will have much more to say on the budget, once he and his team were able to pour through the supporting documents. Hint … it's not good news.

The experts all agree with the FAO in that if it wasn't for the use of one-time revenue, there would be no path to balance – we still have a structural deficit in Ontario. Bryne Purchase, Ontario's former Chief Economist and Deputy at several ministries, stated "The added revenue from cap-and-trade and the Hydro One sale help make the provincial deficit numbers look better." And BMO Capital Markets Economics wrote in its weekly digest that the planned asset sales of $5.7 billion are "one-time in nature, and don't address the underlying structural deficit."

Each year the budget seems to have one cut that is viewed as 'a bridge too far'. In the 2015 budget, the government announced the cancellation of certain film tax credits, made retroactive to January. This announcement sent a chill throughout the multi-billion-dollar industry, as many feature film and post-production contracts were signed under the then-current guidelines. We mounted a very robust campaign to have that

cut removed from the budget, in order to save the thousands of jobs that would flee to the east and west coasts, where the tax credits remained untouched. It was a well-fought battle we won.

Last year's budget called for the doubling of seniors' drug benefits costs for anyone with an income of more than $19,000. This would affect 92% of seniors. Again, we mounted an aggressive campaign; *Standing Up for Seniors*. From Legion halls to bingo parlours, we met with groups and encouraged them to tell us their stories which we shared at Queen's Park. At the budget committee hearings, one seniors' group said that "seniors will be forced to choose between buying food instead of medication." As a result of the month-long assault, the government announced they were "pausing" the planned increases, which were to come into effect August 1.

Most of the financial news that occurred in March and April was covered in *Focus on Finance 3*, as that book went to press two months after the budget was rolled out. As a reminder, the top-line issues included a complete analysis of the cap-and-trade program, a definitive report on the Ontario Registered Pension Program (more on that later), and the revelation of government documents showing they could have cancelled the remaining Samsung deal without penalty, and saved the ratepayers $1.5 billion.

One story was still unfolding at that time, and we now have a complete picture. In 2012, former Auditor General Jim McCarter predicted the Union-Pearson (UP) Express – the $456 million train that transfers travellers between Pearson Airport and Union Station – had "overly optimistic" ridership projections and that a fare of $22.50 would not work. In March, Metrolinx slashed one way fares from $27.50 to $12, as ridership has been well below projections since its summer, 2015 launch. Current AG Bonnie Lysyk says it's "disappointing" the previous AG's recommendations weren't implemented, as the situation could have been avoided.

A few days later, it was revealed that the high-fashion uniform designs for the UP Express cost $40,000 just for the design. Then Metrolinx agreed to pay a further $22,650 to be part of a show during Fashion Week in Toronto. While the show plans were derailed, they still had to pay $8,475 to cover costs incurred.

In April, UP Express documents, which Metrolinx fought to keep secret for two years, were released to Postmedia Network. They show a series of consultant studies and polls warned the transit agency that the $27.50 fare wouldn't work. They indicated a range of $10-$15 would be the right price point. But even $15, which would see a net revenue of $49 million based on 3.52 million passengers, would not cover the $70 million to operate the service. The reports were ignored by Metrolinx, and the revenues fell $23.3 million short of operating costs for the first eight months of operation, resulting in a taxpayer subsidy of $46 per rider. With the price drop to $12, the annualized data suggests there will be an ongoing shortfall of $20 million per year. Metrolinx had originally pledged the service would pay for itself in three to five years.

Naturally, this all leads to more questions than answers. Why did the government allow a fare of $27.50 when all the consultants and the Auditor General told them it wasn't going to work? And why did the government continue to insist they were on track to meet the 5,000 daily passenger target, when the early ridership was stuck at 2,500 riders per day?

This brings us to May, where we saw a mixed bag of events that piled on in advance of the Legislature's summer break. The month began with news of a 5th OPP investigation into the current government, and it had a familiar ring. The government faces another criminal investigation into allegations it destroyed documents related to a cancelled electricity project. Trillium Power Wind Corp. was developing an offshore industrial wind turbine project in Lake Ontario, near Kingston. In the spring of 2011, in the face of a backlash from rural residents, the former Premier killed the project by imposing a moratorium on offshore wind. Trillium sued the province for $500 million. Throughout their discovery, they allege the Premier's office was missing crucial e-mails and other

related documents, and reported this to the police, who launched an investigation. Trillium said when they received the government's disclosure, there were no records related to the power project, even though Trillium had received e-mails from officials in the Premier's office discussing it. I can tell you, as the Opposition Party's lead on the Gas Plant Scandal hearings, this has a familiar ring. When I contacted the OPP regarding missing e-mails related to the cancelled gas plants, they launched an investigation. Subsequently, two of the former Premier's staffers were charged criminally, and the case goes to trial in September 2017. None of the allegations have been proven in court. Later in the month, a $475 million lawsuit was launched by Windstream Energy regarding the cancellation of their offshore wind project.

The Cash-for-Access Fundraising Scandal appeared in the media for the first time, with news the government held 90 such fundraisers in two years. It also became apparent that government cabinet ministers were given fundraising quotas, many in the hundreds of thousands of dollars. One example that came forward included ministers receiving $1.3 million for their Party from 30 renewable energy companies – the same ones receiving millions of dollars in government contracts for wind and solar projects. It was further revealed that in order to skirt the guidelines, ministers sent senior staff to attend Party funders, to meet their quotas. This eventually led to massive reform resulting in fundraising dollars not being allowed from any corporation or union, drastically reduced donation limits, and MPPs no longer being allowed to attend any fundraising functions.

A Special Report by the Auditor General, *Government Payments to Education-Sector Unions*, was released. The request was made for the AG to review payments by the province to education-sector unions for collective bargaining since 2008, including $2.5 million in 2014-15. The request came after media reports that the government paid or committed to paying three unions to offset contract-bargaining costs – without asking for receipts or an accounting of how the money was spent.

When asked 'why it matters', the AG reported that other provinces rarely pay bargaining costs of teachers' unions and Ontario has not subsidized bargaining expenses of other large public-sector unions. She added that there were concerns about public money going to unions instead of services for Ontarians, and whether payments prolonged the bargaining process, compromised union independence, or encouraged unions to support the government's political interests.

What she found was that between 2008 and 2012, the Ministry of Education offered to cover unions' bargaining costs to encourage participation, but required proof of expenses. In the 2014-15 negotiations, the Ministry agreed to pay $1 million to each of two unions and $500,000 to a third, without accountability requirements. In total, the government committed $3.8 million to unions and also gave school board trustees' associations about $11.1 million for the 2014-15 bargaining round. From 2000/01 to 2015-16, the Ministry gave teachers' unions and the Ontario Teachers' Federation an additional $80.5 million, including $22 million in 2006 with no strings attached, and $58.5 million mainly for professional development. The Auditor General pointed out, "We found very little evidence of governments paying education-sector unions for significant bargaining costs elsewhere in Canada" and "Accordingly, Ontario is an outlier with respect to this use of taxpayer funds." She concluded that "payments were unusual and public concerns are understandable."

Several finance- and business-related groups also spoke out in May. The Ontario Chamber of Commerce released their report, *Top 3 Obstacles to Small Business Success*. It highlighted a lack of access to qualified workers, key infrastructure gaps, and the rising cost of doing business in Ontario. The qualified worker concern centres around the skills gap, where we are training people in fields where no jobs exist, and we're not offering enough training spaces for areas of high growth (computer coding, for example). The infrastructure gaps, in addition to roads, bridges, and rail, include inadequate access to broadband internet, which is compromising the ability for communities across Ontario to attract and retain businesses and families. The rising cost of business focusses

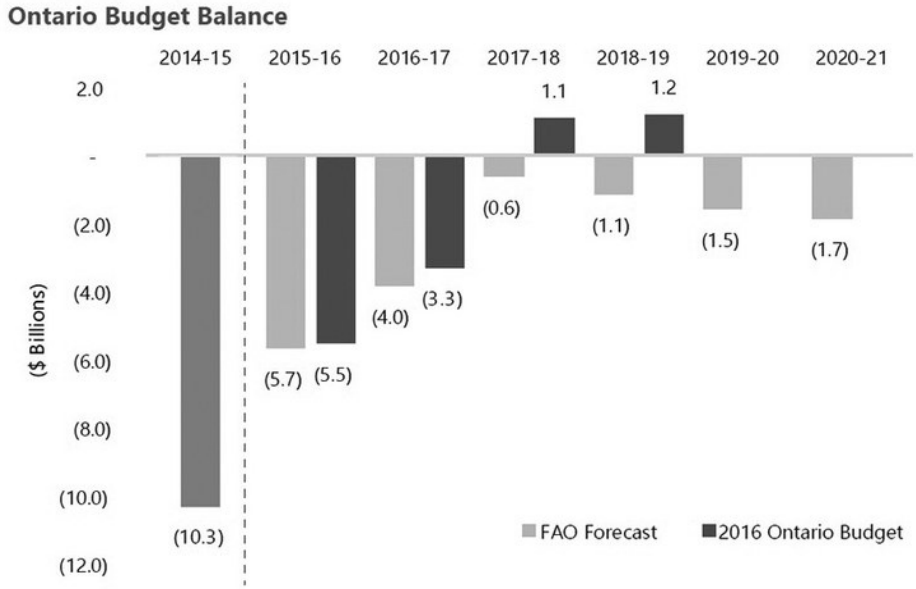
on electricity prices, which have quadrupled in the last decade, the pending Ontario Retirement Pension Plan (you'll read about its cancellation in July), the cap-and-trade tax (which the Chamber has asked the government to delay implementation for a year), and the highest property taxes in the country.

The Conference Board of Canada also came out with a report entitled *Ontario Fiscal Snapshot: Budget Balance Will Be a Photo Finish*. This report looks at the state of Ontario's economy and the government's fiscal challenges, and provides a short- and medium-term outlook for the province. It states "The province is relying on strong revenue assumptions combined with tight program spending to balance the books in 2017-18." As well, it concludes "Given our weaker outlook for economic growth and lower transfers from the federal government, balancing the books by the target date of 2017–18 will be a photo finish." The Conference Board suggests that over the next two years, the government would have to focus on spending restraint and keep program spending growth at just over 1% (not something they ever have achieved). This would be through ambitious targets in health care and education and sizable cuts to other program spending. Meanwhile, it projects that health care spending in Ontario would have to grow by an average pace of 4.5% per year over the next three fiscal years just to keep pace with inflation and demographic changes in the province.

The Financial Accountability Officer also released a report on Ontario business investment. He was commenting on a Statistics Canada survey of investment intentions. They forecast that Ontario business investment will fall by 0.7% in 2016, to $40.1 billion. "The small decline in Ontario private sector capital spending predicted by the Statistics Canada survey contradicts the consensus view among economic forecasters that business investment, along with international exports, would be primary drivers of economic growth in 2016," said the FAO's report. "In Ontario, private investment has yet to recover to levels recorded prior to the 2008-09 recession, despite strong gains in 2014 and 2015." The FAO also noted that Ontario manufacturing investment is projected to decline by 8% this year.

In his Economic and Fiscal Outlook, Ontario's Financial Accountability Officer (FAO) confirmed what we and many experts have been saying all along – the government is using one-time money from asset sales, contingency funds, and tax increases to try to balance the budget in an election year, while leaving significant structural deficits.

Based on revenue and spending outlooks, the FAO forecasted a budget deficit of $600M in 2017-18, which debunks the government's assertion they are able to balance the budget without one-time, extraordinary measures. He also indicated a "gradual deterioration in the province's budget balance," i.e. a structural deficit, with Ontario being in the red $1.7B by 2020-21.



FAO, Economic and Fiscal Outlook – Spring 2016

While noting the government won't meet its budget projections, the FAO also flagged significant funding pressures occurring across most program areas, notably in the health, education, and justice sectors. By 2018-19, he's forecasted $4B in spending pressures just to maintain the quality and nature of public services provided in 2015, meaning even more cuts to the frontline services that Ontarians rely on, and a huge increase to the province's debt. In fact, he concludes that "Ontario's net debt is forecast to rise by

approximately $54 billion over the next five years, to $350 billion." This government has created soaring structural deficits and record levels of mounting debt without even being able to maintain current frontline services, let alone improve them.

As opposed to working towards addressing the fiscal deficit they've created, another troubling pattern has emerged – a democratic deficit. In the spring session alone, a number of events point to a pattern of stonewalling and censoring Legislative Officers from shining a light on the government's mismanagement.

The Financial Accountability Officer took the unprecedented step of holding a press conference to issue a stinging indictment of the government's "broader pattern" of secrecy and refusal to provide legally-required information. He even went so far as saying he believes the government's obstruction was a result of "political direction".
As the FAO rightly pointed out, the Financial Accountability Officer Act is very clear on the obligations of the government to give all requested information to the FAO necessary to carry out his mandate. The problem is, the government is actively skirting their legal requirements by simply refusing to hand over necessary documents or applying Cabinet Confidence far too broadly.

> It is highly disappointing that instead of looking to maximize the information that the government can provide to MPPs and through them all Ontarians, the government is focusing on how it can restrict disclosure of information. In doing so, they are impeding the ability of MPPs to perform their constitutional duties of holding the government to account."
>
> *– Financial Accountability Officer (Stephen LeClair), May 31, 2016*

As the FAO put it, this is highly problematic as it makes it "difficult to assess the plausibility of the government's financial projections and to evaluate risks that those projections would not be met." Simply put, this government can't get its fiscal house in order and they don't want to be held accountable for it.

As noted in several *Focus on Finance* issues, the government has regularly missed key financial reporting deadlines since 2012. We recently saw this again, with the government ignoring another critical deadline and withholding key information about the long-term fiscal health of Ontario.

The Fiscal Transparency and Accountability Act requires the Minister of Finance to release a long-range assessment of Ontario's fiscal environment within two years of each provincial election. This includes an analysis of key economic issues that are likely to affect the long-term sustainability of the economy and public sector. The Ministry of Finance has had over two years to complete this assessment. Given significant uncertainty in Ontario's long-term fiscal position and record levels of debt accumulation, it is highly troubling that the government ignored this deadline. This echoes the Financial Accountability Officer's concerns that the government seems focused on restricting information disclosure, as opposed to maximizing it.

Furthermore, section 11(1) of the Fiscal Transparency and Accountability Act, 2004 indicates: If the Minister does not release information required by this Act on or before the specified deadline, the Minister shall release a statement on or before that deadline in which the Minister explains why the required information was not so released. In contravention of the Act, the Minister of Finance provided no explanation for missing the June 12, 2016 reporting deadline (more on this later).

The democratic deficit continued with a June report from the Auditor General. Despite claims from the government that the Pan Am Games were an unbridled success, the AG confirmed that they were neither on time nor on budget. Auditor General Bonnie Lysyk found the government went $342M over budget on the games, contrary to their claim they were on budget.

The original budget was set at $1.44 billion for the 16 days of games. However, the Auditor's investigation revealed that the final cost was actually close to $2.5 billion. When

it became clear that the Games were going to exceed the original budget, instead of instituting rigorous budgeting controls and cost reduction measures, the government simply increased the budget. That's how we ended up with stories of the $140,000 spent on haircuts and nail art (remember those?) and the Premier declaring the Games coming in "under budget" (Toronto SUN, January 16, 2016).

Despite missing their budget target by a staggering 61%, the government rewarded Pan Am/Parapan Am Games executives with gold medal bonuses totaling $5.3 million. In fact, the report found that four of the 10 highest paid public-sector employees on the 2015 Sunshine List were Games executives who took home an average of $815,000. And even more disturbing than the mismanagement and lavish bonuses, the AG's report demonstrates the government continues its pattern of failing to be open and transparent. Under the report's 'Scope Limitation' section, the Auditor General said she routinely couldn't get access to documents or answers to questions, and many computer hard drives, including the CEOs, were destroyed prior to the audit.

> We were unable to obtain answers to certain questions and could not obtain some documents we requested. We also were not able to obtain many computer hard drives that were disposed of by TO2015, including the CEOs."
>
> *– Auditor General (Bonnie Lysyk), Special Report on the 2015 Pan Am/Parapan Am Games*

This government's history of destroying hard drives is well known, and this latest example leaves us wondering... what important information did those hard drives contain and why is the government hiding it from taxpayers? Ontario's Information and Privacy Commissioner has taken note of the Auditor General's comments and has launched yet another investigation into whether this government followed appropriate record keeping and record retention practices.

From a Premier who began her mandate with a promise of being "open and transparent", this government has clearly failed to deliver. Along with the recent examples provided above, the government has relaxed rules over partisan government advertising,

cancelled the gas plant scandal hearings, and removed Legislative Officer oversight over Hydro One. Not to mention the record five OPP investigations they are facing.

A tremendous amount of information regarding the poor state of Ontario's finances was revealed in July. Sadly, most of it went unnoticed, as it was released in the dead of summer. The month began 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 describes policies with phrases such as "... shaking Ontario, remaking Canada's former epicentre of rugged free enterprise into something akin to a debt-encumbered Euro-state", "... the most administered province in the country, and the clumping footsteps of government are felt throughout the economy", and "... drive the cost of electricity sky high for all but the largest industrial employers, scaring off future investment." The most telling line of all, "Success would be more likely if the Liberal programs didn't so often emit the stench of self-serving politics." This is a must-read and you can read it here: http://www.macleans.ca/politics/ how-kathleen-wynne-has-ontario-goingbackwards/

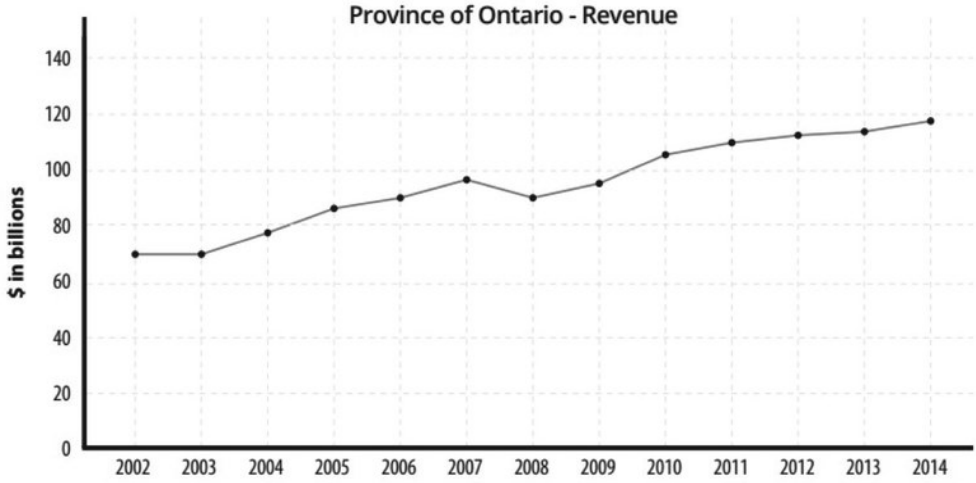
The biggest news by far came from the Financial Accountability Officer (FAO), where he announced the province's net debt is set to rise by over $50 billion by 2020-21 to a record $350 billion. He also disclosed that Ontario has the highest debt burden among the major provinces, carrying $2.40 in net 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 FAO 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.



As you can see from the chart, other than 2008, revenues have grown every single year since this government has taken office. 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.

In accordance with the Financial Accountability Officer Act, the FAO presented his Annual Report. The majority of his Executive Summary focused on the government stonewalling his requests for information. He made six information requests of ministries and public entities. At the time of his report, four were partially fulfilled and two were not fulfilled. The ministries refused the information citing reasons not grounded in the FAO Act, despite the fact the FAO has made available to them clarification that ministries may not deny him access to information for reasons not grounded in the FAO Act.

In addition, FAO Stephen LeClair states, "Ministries have also overused the 'Cabinet records exception', seemingly claiming that all forecasts of future revenue cannot be disclosed to the FAO if they have not otherwise been publicly released." He further explains, "The Assembly needs access to detailed financial information, including forward-looking information that goes beyond the current fiscal year."

Later in the book, when I discuss the 2017 budget, you will see that the government goes to the unusual extent of not forecasting revenues or expenses after 2018-19. This is all because there will be no further major one-time revenues like the funds from the sale of Hydro One, to continue to balance the budget. This is exactly why they will not provide the FAO any outward-looking numbers.

The biggest news by far was the cancellation of the Ontario Registered Pension Plan (ORPP) program, scheduled for 2017. What was described by the Canadian Federation of Independent Business as "one of the most ill-advised and damaging public policy proposals in Ontario's history" was abandoned by the province. Unfortunately, the cost of the cancelled Ontario Retirement Pension Program was revealed to top $70 million. Of this amount, $8 million was spent on partisan advertising. The AG confirmed she would not have approved these ads due to their partisan nature, however the government changed the laws around political advertising.

The costs include $17.6 million for consultants, $12.2 million for a five-year lease of two furnished floors of a downtown office building, and $3.5 million in legal fees. Other costs centred around executive pay, with the CEO receiving $827,925 in total compensation for six months work. (This is the same person who was Deputy Minister during the eHealth scandal and the boss who 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. That accounts for $22,761 a day on the taxpayer dime. The Auditor General is expected to release a full costing of the failed scheme.

Here are a few more issues that came to the surface in July:

- Metrolinx Annual Report was released revealing 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 announced they're 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.

- The Debt Clock rolled into Queen's Park just in time for the 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).

- 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 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!

All across Ontario, people recognize that there's a crisis in our hydro sector. We have been saying this for years. In his 2011 report, the then-Auditor General (AG) told us so. And now it's confirmed – we have energy poverty throughout all parts of Ontario. In August, there was a bi-election in Scarborough-Rouge River, which seemed to be the eventual, yet reluctant turning point for the government.

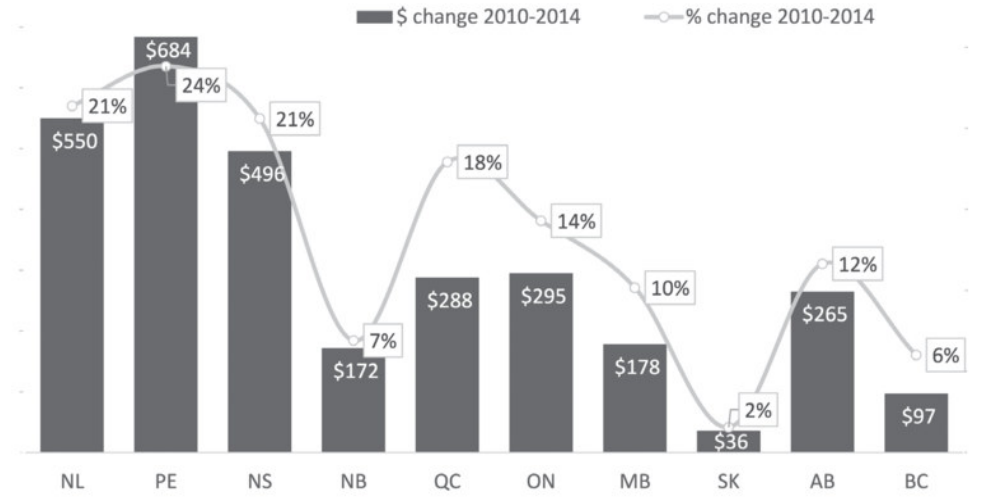
It started with the province's newly-minted Energy Minister. He stated he was "still not using the word crisis" when it came to describing families struggling with hydro bills. His Letter to the Editor ran in several newspapers, where he claimed all is well, the government removed the Debt Retirement Charge (DRC), and created 40,000 green energy jobs. Naturally I was compelled to correct him with my own Letter to the Editor in those papers. It pointed out that the 2011 AG's report stated the DRC had already been paid off, and asked the government why they're still collecting $1 billion annually. And I chuckled at his job creation number, pointing out his predecessor claimed it was 31,000 jobs, and the Environment Minister just recently said the number "was over 20,000 jobs". Clearly the Minister was repeating talking points rather than actually digging deep and developing an understanding of what is happening in the energy sector.

Data from the Ontario Energy Board (OEB) revealed some startling news. There were 567,000 families who were in hydro arrears at the end of 2015, owing $172.5 million. This is significantly higher than the 472,620 electricity customers who owed roughly $108 million in 2013. Hydro One, which serves 1.3 million customers (primarily in rural and Northern Ontario) reported the number of their residential customers in arrears grew from 183,934 in 2013 to 225,952 in 2015; an increase of 22.8%. This resulted in Hydro One write-offs from $327,230 in 2013 to $1,798,531 in 2015; a 450% increase. But the most startling fact from the OEB was that nearly 60,000 residential customers were disconnected from their hydro services for non-payment, last year alone. Keeping that number 'down' to 60,000 is a government program, Community Homelessness Prevention Initiative (CHPI), that administers funds through local social service boards, to pay hydro arrears for those most in need. In my riding of Nipissing, more than $57,000 was issued over the last 12 months, to prevent hydro disconnections.

What really brought the energy crisis to the forefront was excellent reporting by Global News TV. For weeks, they painted a picture of the impact Ontario's failed hydro policy is having on families. They aired several features with titles such as "Energy Minister in the dark", "The high cost of soaring hydro", "Hydro horror stories", "Families struggle", and the list goes on and on. Francesca Dobbyn, Executive Director of the United Way of Bruce and Grey County, was one of the people Global spoke to about the size of the OEB numbers. "It explains why people are struggling, it explains the frustration and despair, and it really explains the anger we're seeing out in Ontario," said Dobbyn.

This month we also learned of a new distinction for Ontario. For years we have stated that we have amongst the highest energy rates in North America. But now it's official: Ontario has the highest rates. Medium-density customers pay 22.6 cents, and the low-density price hit 25.9 cents – and that's before HST is added. That now surpasses Hawaii, the previous record-holder at 22.6 cents/kw hour. (If you live in an urban centre, I'll bet you were not aware that there are higher-tiered rates for those of us who live in the country!)

Respected analysts from all sectors piled on. Doug Porter, BMO Chief Economist, said rising hydro rates could cause "serious harm" to Ontario's economy. He warned that "continued increases to the cost of electricity threatens to undermine the long-term competitiveness of Ontario's economy". "It hurts small businesses, it hurts large businesses. And it reduces their willingness to invest here in the province if one of their core costs is higher than in nearby regions", added Porter. This is on top of the continued pleas from the Ontario Chamber of Commerce, the CFIB, and so many other business organizations.



Source: FAO analysis of data from the Statistics Canada Survey of Household Spending.

A new analysis from the FAO has indicated that household energy costs have been on a steady increase. The average household in Ontario spent $295 more on home energy in 2014 than in 2010; an increase of 14%. A quick tally of electricity rate changes since

May 2015 reveals that households have faced a further increase of $254.96 in just a 12-month period.

Finally, the Independent Electricity System Operator's (IESO) long-term outlook confirmed the cost of delivering electricity has skyrocketed by $5 billion over the past decade; a 32% hike. They also noted a drop in overall energy demand, which has driven up the average unit cost of electricity. They paid $143.48/mw hour in 2015, up from $101.53 in 2006; a 41% increase. The outlook also illustrates a startling drop in industrial energy use, as companies have either cut production or moved out of Ontario. Recall that Ontario has lost 350,000 manufacturing jobs in the last decade.

As a result of all the negative news, both the Premier and her Energy Minister developed a new narrative, with new talking points. As I outlined in the opening chapter, according to them, your hydro bill has increased because the government inherited a hydro system in decline, and they needed to spend money to put 10,000 km of transmission lines in place. But what you now know is that the majority of those transmission lines were used to bring power in from newly-created, far-flung, expensive wind and solar projects; not primarily to upgrade the system, as they allude to. Remember, the Annual Blackout Tracker Report found the number of reported outages in Ontario increased by 275% from just 2012 to 2015!

As usual, it took the Auditor General to explain why hydro rates have increased dramatically, in her December 2015 Annual Report. She revealed, "Most of the increase in what consumers pay for electricity has come from **generation** cost increases, which account for 60% of the overall cost of electricity. Generation costs have increased by 74% over the last decade." She went on to say, "Global Adjustment fees have increased significantly, from $650 million in 2006 to $7.03 billion in 2014. Electricity consumers have already paid a total of $37 billion, and they are expected to pay another $133 billion in Global Adjustment fees from 2015 to 2031." Despite the government's talking points, we know that signing contracts for power we don't need, is what caused (and continues to cause) your electricity bills to skyrocket.

Since the government first took office, average households in Ontario are paying $1,000 more a year on their annual hydro bills. Skyrocketing hydro costs have created unprecedented levels of energy poverty and significantly reduced business investment. The latest facts suggest the hydro affordability crisis is deepening and yet the newly-minted Energy Minister has refused to acknowledge a crisis even exists.

A few days into the new month, the light literally went on – the Premier declared hydro "an urgent issue." In the Speech from the Throne, the province acknowledged the crisis they created in the electricity sector. They pledged to provide a hydro rebate equivalent to the 8% provincial share of the HST. This amounts to 36 cents/day, on average. Unfortunately, this does absolutely nothing to remedy the damage caused in our hydro system. The government is still signing contracts for heavily-subsidized power we don't need; still paying the U.S. and Quebec to take our surplus power every night. Instead, their solution is for the taxpayers to borrow a further $1 billion annually to pay out to the hydro ratepayers. This is all about appearing to do something rather than actually doing something.

The September return of the Legislature saw the release of, for the very first time in the history of our province, an UNAUDITED Annual Report. That's because the Auditor General wouldn't sign off on it. Instead of receiving the Annual Public Accounts, due on September 27, the Legislature, taxpayers, and lenders, are receiving a set of unaudited books, almost a week later. This alone should be ringing alarm bells across the province.

But what's worse – this is not the only deadline the government ignored. The Fiscal Transparency and Accountability Act states the Minister of Finance must release a long-term assessment of Ontario's fiscal environment within two years of each provincial election. That June 12 deadline was missed; the report had still not been filed in September. Furthermore, the government missed filing their 3rd-quarter results last February, and has missed filing them since 2012. There's something seriously wrong with repeatedly missing these deadlines. (I go into much more detail on this in the January section of this chapter).

The unaudited Annual Report is all about accounting for pension funds. The Auditor General wants this year's $1.5 billion the government paid into pension funds to be counted as government spending, and the fund's current surplus of $10.7 billion not to be considered a government asset. Why? Because the $1.5 billion was paid as the government's share and is not available to be spent again, and the $10.7 billion surplus cannot be accessed by the government, so it shouldn't be used to reduce their debt.

In their own words, here are the submissions from both parties, outlining their positions.

In writing to Treasury, the AG stated that the government does not have a legally enforceable right to unilaterally access the assets of these jointly-sponsored pension plans. As such, with no agreement in place to the contrary, the AG believes that the pension asset should be removed from the province's balance sheet. And the AG stated the province would need to take a full valuation allowance of the $10.7 billion pension assets currently reported for the Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP), which would eliminate these assets from the province's consolidated financial statements.

The province claims that based on professional staff's interpretation of Public Sector Accounting Board (PSAB), the government believes that pension assets for OPSEUPP and OTPP exist and should be reported in order to fairly present the province's financial position. And they say that despite measurement uncertainty, the assets resulting from the application of PSAB standards to OTPP and OPSEUPP do have value.

Given that the AG would not sign-off on the Public Accounts document, Cabinet approved a time-limited regulation which legislates the accounting for pension assets of jointly sponsored pension plans for 2015-16. They then issued their own Unaudited Annual Report – not 'Annual Public Accounts' – with NO comment from Ontario's Auditor General. This is unprecedented.

They issued this report in a hastily-convened news conference. I attended the emergency technical briefing followed by the Ministers' news conference. The government was very quick to blame the situation on the Auditor General. And they were very quick

to suggest that how they reported pension assets has been consistent for the last 14 years. But the Auditor General offered her reasoning behind the change. She said "We saw an increasing trend in the pension asset. We saw there wasn't a way to adjust that asset down. We saw the upward impact it would eventually have on the statements."

When asked about the criteria used to determine whether there should be a change in pension accounting, she stated, "Can the government access it? Do they have unilateral control over it? Is it something the government's creditors can access? We obtained a no to all of that. It's a notional number that doesn't have the backing of cash or assets." Finally, when asked what changed this year compared to past years, she offered, "The significance of those figures has grown. There's something called materiality … because there's a build-up here, we're now sitting with an asset of a certain value. It is big enough to look into a little more deeply."

In continuing to take aim at the AG, the government said she only told them of this accounting change two weeks before the deadline. They repeated this over and over; so much so that the media picked it up as a theme. But here's where the story doesn't align with the facts. First, read what the AG released on October 3, while the government was holding their news conference.

Auditor's Response to Government's Release of Unaudited Financial Statements

> *The Office of the Auditor General is disappointed that the government decided to release the Consolidated Financial Statements for the Province of Ontario without the Auditor's opinion, the Auditor General of Ontario said today.*
>
> *"This is the first time in the history of Ontario that the statements have been released without the audit opinion," Bonnie Lysyk said.*
>
> *"As late as 10:30 a.m. this morning, we were still in discussions over an accounting issue that we brought to the government's attention in June of this year," Lysyk added.*

Lysyk concluded, "We continue to work toward finalizing the opinion on the Consolidated Financial Statements for the Province of Ontario for the year ended March 31, 2016."

Bonnie Lysyk Auditor General

In her letter, the AG said they have been talking about this since June … not just two weeks ago. But it actually goes back even further. In her 2015 Annual Report, AG Bonnie Lysyk spent a considerable number of pages devoted precisely to this issue. In the chapter on complying with the standards of the Public Sector Accounting Board (PSAB), the AG said "However, we have identified a number of areas where additional information to improve insight into the province's financial position and annual operating results for the year could be incorporated in the Financial Statement Discussion and Analysis (FSD&A). Even the government's own Technical Briefing handout outlined a Timeline page, which quite clearly identifies in June, "Revised Audit Planning Report issued by AG reflects review of accrued pension benefit assets".

It's further obvious that these changes came as no surprise, as the government is claiming; in fact, it appears the government was fully prepared for it. If you look throughout the Unaudited Annual Report, there are detailed mentions of this new pension treatment on dozens of pages. They add an explanatory sentence "mainly due to a change in the accounting treatment for pension assets of jointly-sponsored pension plans" liberally, throughout the document. The charts all include this new treatment. The words Public Accounts are not to be found anywhere (nor should they). All the documents are also translated and printed in French. The binders that were delivered on the day of the announcement all included colourful covers titled Annual Report (again, not Public Accounts). The point I am making here is that all this simply could not have been done in a day, or a week or so. This was all prepared long in advance – despite the government's insistence the AG "sprung" this on them.

The Unaudited Annual Report offered some interesting insight into Ontario's struggling finances, for what it's worth.

- Year-over-year, total spending rose by $4.6 billion, or 3.5%, from $128.8 billion to $133.4 billion. The government missed both its 2015 Budget Program Review savings target of $490 million and year-end savings of $1 billion.

- The government acknowledged that the sale of Hydro One contributed $2 billion to their revenues. Of course we know this is only a one-time revenue generator and is not sustainable. In fact, the FAO has confirmed the sale of Hydro One will have a negative impact on the province's bottom line in the long run.

- From just 2011, the amount of taxes imposed by the government has increased by $16.2 billion to a record $91.8 billion this year. That's an increase of 21.4% in just 5 years.

- Net debt grew by $20.6 billion during the year.

- Budget 2016 indicated Net Debt-to-GDP was expected to peak at 39.6% in 2015–16. The statement indicates it will grow to 40.9%. (This takes into account the new accounting of pensions; under the previous structure the number would have remained unchanged). However, the Finance Minister's Mandate Letter reiterated the government's commitment to reduce the Net Debt-to-GDP to 27%.

It's uncertain to me why the government would go through with this charade. To me picking a public fight with the Auditor General is not a great message to send to Ontario families or to the province's lenders.

October saw a lot of numbers cross our desks. Many were in the billions – some just too large to fathom. Let's take a run through some of the numbers, so you can get a feel for what your tax money is used for every month.

The first number is $133.4 billion. That's what the Auditor General eventually signed off as the 2015-16 expenses. And that's greater than the revenue of $128.4 billion. So the government produced another deficit – their 8th deficit in eight years. Lets look at various numbers – how they came to be, and what they mean to you and me.

308. That's the number of millions the government spent on another abandoned initiative. Through a Freedom of Information inquiry, we learned the government spent $308 million over the last two years on their plan to modernize the OLG. They spent $190 million in 2012-13, $69 million more in 2013-14, and a further $49 million in 2014-15. When we asked for the details of where the money was spent, the reply was "access to the records is denied." The money was spent with no paper trail and absolutely nothing to show for it in return. I asked the Minister of Finance to release a detailed account of where the money went – sadly there was no response. To pay for this, the government cut $107 million from OLG's transfers to hospitals, taking the money away from frontline healthcare services.

A further $300 million was lost in a two-week period through a succession of hydro-related missteps. First, it was revealed that most of the $12 million to be spent on a plan to offer discounts to low-income electricity customers went to consultants. There was $9.3 million spent on consultants and $2.4 million on media and advertising. Then we learned the government was on the hook for $28 million in damages after a NAFTA tribunal ruled in favour of Windstream Energy. The ruling follows the government's decision to place a moratorium on offshore wind projects in 2011, cancelling a $5.2 billion, 300-megawatt contract with Windstream. The company also stated the tribunal ruling makes it clear the contract it signed with the province is still in force and has not been unilaterally terminated by the government.

In the 2015-16 Public Accounts, the Independent Electricity System Operator reported a "previously unrecognized actuarial loss and past services costs" of $80.6 million. This is further to the Auditor General's instructions regarding how to account for pension funds, covered earlier in the book. The provincial agency says it will raise fees it charges the power industry to recover the losses as part of its accumulated deficit charge. Finally,

a further court ruling has forced the Ontario government to pay out $179 million due to a miscalculation in a power purchase agreement five years ago. Northland Power and their various companies received retroactive payments from the Ontario Electricity Financial Corporation as a result of the court ruling on the interpretation of their power purchase agreements with the OEFC. This was a very costly two weeks for Ontario electricity ratepayers.

Sticking with the hydro file for a moment, let's look at the real savings vs cost of the much-trumpeted electricity trade agreement with Quebec Hydro. The government has agreed to import 2-terawatts of water-generated electricity from Quebec, replacing gas-generated power made in Ontario, as part of their climate change action plan. They stated this will reduce costs by about $70 million over seven years. In a radio interview, the Energy Minister was pressed about what that means for the average consumer. He eventually said the savings would be "somewhere about ten cents." When pressed whether this was monthly, or annually, he fessed up … it was "ten cents overall." Now, think about how many of the small natural gas non-utility generators will not have their contracts renewed next year, and how many Ontario job losses that will mean. (We later learned it was eight Ontario companies whose contracts were not renewed, and about 100 people lost their jobs).

What started out as a $10,000 request to evaluate deer numbers in southwestern Ontario turned into the disclosure of a $70 million fund that was wrung dry. Licence fees from angling and hunting are collected by the Ministry of Natural Resources and placed in a Special Purpose Account (SPA) to be spent on programs to improve hunting and fishing in the province. When the request was turned down, the group asked how the fund – worth more than $70 million a year – is being spent. It took the group over four years to finally get their answer, and they were shocked at the response. The spending included $65,000 to buy and sell a house, $12,251 for psychologists, money for dentists and doctors, and the list goes on. What was not on the list was even more shocking. The group said they failed to find money for angling and hunting projects.

Auto insurance rates increased 1.5% in the 3rd quarter. This follows a .33% increase in the 2nd quarter. Despite the government's 2013 promise to reduce rates 15% by August 2015, rates are only down 8.5%. Recall that the Premier said her deal – which was in exchange for the 3rd Party's support for the budget – was actually a "stretch goal."

Metrolinx, the provincial transit agency in charge of the Presto program, has spent $276.7 million dollars on the Presto card rollout. This is almost $22 million more than the 2012 estimate of $255 million, and there's more to come. The number is as at March 31, and much more has been spent since that time, including deployment on all subway stations, installing self-serve reload machines and fare vending machines, and fare card readers on 2,400 buses and vehicles. None of the parties involved, including the Ministry of Transportation, stated how much the final bill will total.

Sitting at the intersection of University and College in downtown Toronto, Ontario Power Generation's head office is on the block! The sale price is unknown – "The market will dictate what the ultimate sale price of the building will be," stated spokesperson Neal Kelly. The provincially-owned energy company occupies only four of the 19 floors and leases the remaining offices. While the government is quick to add that they are selling the building to use the cash for infrastructure spending, the Financial Accountability Officer (FAO) has shown previous asset sale proceeds have gone straight into general revenue.

And I have pointed out in previous *Focus on Finance* issues that the government put a back-door clause that allows them to use their asset sale funds "To reimburse the Crown for expenditures relating to the construction or acquisition of infrastructure." It's really all about the one-time sale of assets to artificially balance the budget by 2017-18. Sadly, the FAO has also told us we will plunge back into deficit the next year. Earlier this year the government sold the LCBO head office lands for $246 million.

The final number is 3, as in $3 million. The Leader of the Official Opposition disclosed in the Legislature that the government had awarded a $3 million contract to David Herle, their Party's chief electoral strategist, to do polling at the taxpayer's expense. When asked about it, the Deputy Premier said "Polling is an important way for the government

to gauge the effectiveness of their programs and what people are thinking on various issues." When the Leader asked for the results of the polling and research to be released, the government would not agree. Remember the first chapter that talked about the hydro research that was done – where none of the government's talking points are based on facts? Now you know what $3 million spent on polling told the government to say!

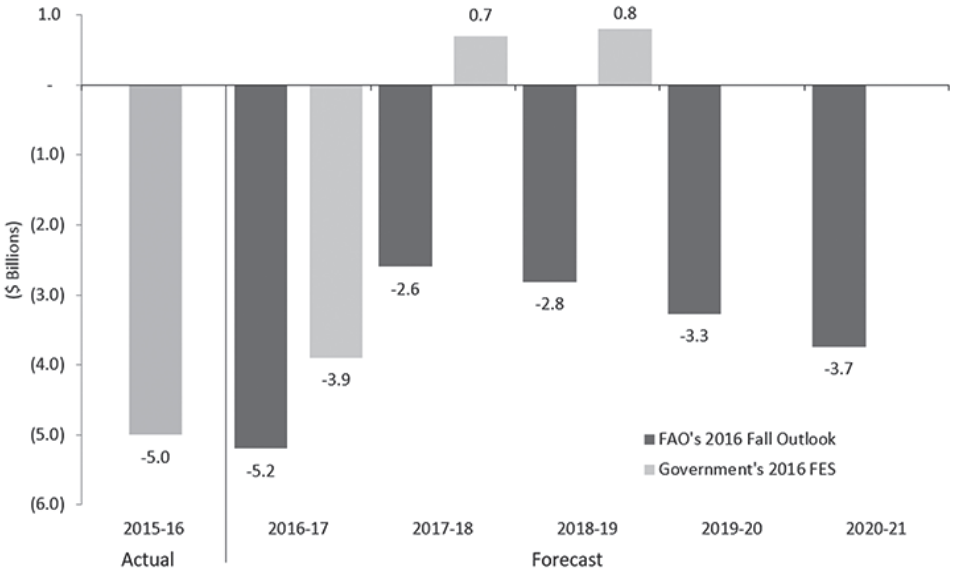
This really was a lot to digest, but I felt it was important to reveal that this kind of activity goes on month after month. Money, in fact hundreds of millions, is spent every month, often without anything to show for it. We will continue, through Freedom of Information requests, to dig deep, analyze, and present the real numbers to you.

Over the last several years I have revealed many internal, once-confidential documents outlining how the government acknowledges they are not on track to balance the provincial budget by 2017-18. November saw reports from the Financial Accountability Officer (FAO) and the government's own Fall Economic Statement that show a balanced budget can only be temporarily achieved through revenue generated from one-time asset sales, the use of contingency funds, revenue from cap-and-trade, and new taxes. The message from all reports is clear: the government's promise to balance the budget by 2017-18 – just in time for the next election – can only be met using artificial solutions.

The Financial Accountability Officer kicked things off with his Economic and Fiscal Outlook, which assesses Ontario's medium-term prospects. In his report, the FAO forecasts a budget deficit of $2.6 billion in 2017-18, the same year the government says they will balance. He adds that "Ontario's budget would be expected to remain in deficit over the next five years" and will "steadily deteriorate to $3.7 billion by 2020-21." That would make it thirteen years of deficits in Ontario.

The FAO also revealed that Ontario's net debt, currently $307 billion, is expected to rise by $64 billion and is set to surpass $370 billion in the next five years. Ontario will continue to be the largest non-nation borrower on the planet, yet at the same time have

the highest taxes in Canada. With interest payments approaching $12 billion a year, that's more than we spend annually on post-secondary education, community safety, and six other ministries, combined.



The FAO also expected growth to be lower in 2016 and 2017. With his statement that "growth in business investment has been disappointing over the past four years", he revised down his projection compared to the outlook he presented in his spring report. As well, Ontario's net debt-to-GDP ratio will grow to 41% – significantly above the 39.6% peak projected in his last report. The concern here is that the government has pledged to return to the 27% it was at when they took office 13 years ago, yet they have provided no details on how to get there. The FAO adds "It isn't hard to see that at this rate, we won't be returning to pre-recession debt levels for some time to come. A clearer, more direct path to this important goal is needed." Frankly, it would take 50 years to get there at the rate this government is moving.

He wraps up his report with "the outlook for the budget balance has deteriorated" and concludes "Ontario's budget would be expected to remain in deficit over the next five years."

Only 11 days later, the government released their Fall Economic Statement (FES) – a significantly different take on the province's finances. The Minister of Finance claimed "we are on track to balance the budget in 2017-18 and remain balanced in 2018-19." A closer look reveals the revenue tools he uses to artificially balance the budget.

The Fall Economic Statement indicates that contingency reserves have been reduced by $600 million. They are also relying on an additional $800 million through the one-time sale of assets. And they continue to increase administration fees, bringing in a further three quarters of a billion dollars. For example, vehicle and driver registration fees have increased by $503 million over the last four years. Other licensing fees such as hunting, fishing, camping, etc. have risen by $228 million over that same period.

Despite the Premier's promise that there are no new taxes in the FES Bill 70, the very first page adds new taxes to craft distillers' products. Schedule 1 of Bill 70 amends the Act to introduce a 61.5% tax on spirit sales from local distilleries. During the deputations, the head of the Craft Distillers Association shared how he will close down his own craft distillery once this Bill passes. A little later in the Bill, we find $105 million in new taxes from the transfer of land over $400,000.

So far, it seems the FAO had it right when he said "Achieving and maintaining budget balance will likely require additional measures to raise revenue." In his news conference he told the media the sale of one-time assets will bring $5.7-$6.1 billion over 10 years and in addition they will need to raise revenue or lower expenses to balance." It seems they took the 'raise revenue' approach.

Nine days after the FES was released, the Financial Accountability Officer released his cap-and-trade report, which is an assessment of the fiscal impact of cap-and-trade. The FAO stressed that cap-and-trade will likely have an impact on the province's balance sheet. As I said to the Minister during Question Period, quoting directly from the FAO's report, "pick a page … page 1: reduce the deficit now and increase the deficit in future

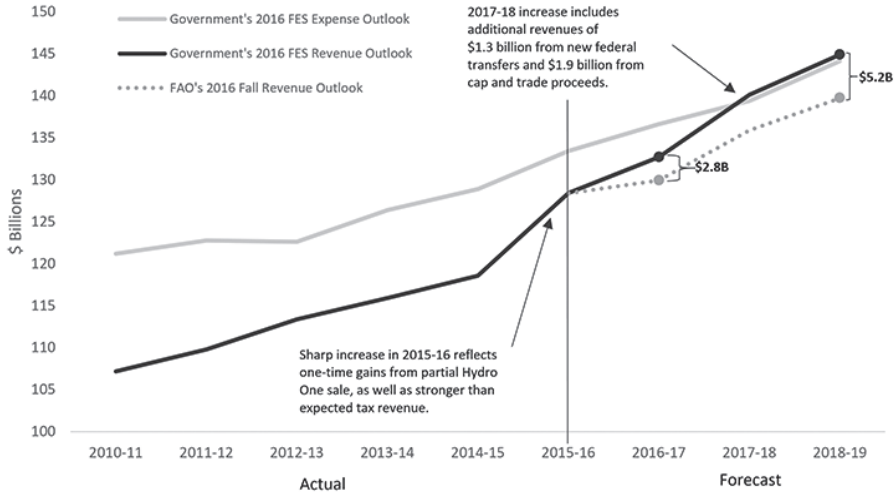
years; page 5: resulting in the cap-and-trade reducing deficits; page 16: the result would be a reduction in the deficit. Speaker, I ask the Minister to pick a page and then tell us, will he come clean and admit that he's using cap-and-trade funds to artificially balance the budget?"

The government will be quick to remind you they promised to create a Greenhouse Gas Reduction Account (GGRA) with cap-and-trade revenue; an account dedicated to funding emissions-reducing projects. But recall earlier I disclosed the one sentence in the cap-and-trade Bill that allows the government to "reimburse the Crown for expenditures incurred by the Crown" for "active transportation infrastructure, public transit vehicles, and infrastructure, technologies, infrastructure, vehicles, buildings, and structures that reduce greenhouse gas emissions." In other words, the government set it up to allow themselves to pay for projects they have already committed to, and budgeted for, using revenue they claim to be for new green initiatives.

The FAO was very clear about the government using cap-and-trade revenue to pay down the deficit. Here are the two points he makes right on page one of his report:

"Whatever level of revenue the province achieves from cap-and-trade, if it uses the funds to finance capital projects or programs that are already planned, cap-and-trade expenses would be lower than revenues, resulting in a reduction in the deficit/increase in the surplus." He follows that with "If the province does not spend all of the cash raised from cap-and-trade in the same year, it could reduce the deficit in that year and increase the deficit in future years."

This Revenue Outlook graph clearly identifies the government plans to use one-time revenue from the sale of Hydro One as well as revenue from cap-and-trade to artificially balance the budget.



The Financial Accountability Officer ended the month with the publication of yet another document; the FAO Commentary. In it he reaffirmed "projected budget deficits of $5.2 billion in 2016-17, $2.6 billion in 2017-18, and a steady deterioration to $3.7 billion by 2020-21." His message is clear: the government's numbers do not reflect reality.

The FAO warns that the plan to balance the budget "continues to rely on optimistic assumptions for revenue growth and program spending restraint. As a result, there is significant risk that the government may not be able to eliminate the deficit in 2017-18, nor maintain a balanced budget going forward."

In this report, he gets into a few more financial details as to where his numbers differentiate from the government's. The government projects revenue $2.8 billion higher than the FAO for 2016-17 and $5.2 billion higher by 2018-19. This is primarily due to the government's higher projection of tax revenue. Their forecast for personal income tax is more than $1 billion higher, where the FAO's projection is consistent with estimates from the federal government.

The government's forecast for corporate tax revenue is also significantly higher, based on a more optimistic forecast for growth. The same applies to the government's projections on tax revenue from HST, Gas Tax, Land Transfer Tax, and Health Premiums, based on stronger growth forecasts.

In conclusion, the FAO states, "In addition to the government's optimistic tax revenue projection, the FES outlook also assumes $1.3 billion in new federal transfers and $1.9 billion in cap-and-trade proceeds by 2017-18 – assumptions which are incorporated into the FAO's projections. If tax revenue growth disappoints, or these new revenue sources fall short of expectations, the province's fiscal targets would be at risk."

On several occasions throughout the year, the Auditor General offered a serious look at how the government spent our tax dollars. In May, Bonnie Lysyk provided a Special Report entitled Government Payments to Education-Sector Unions, where she revealed that in 2014-15 the government paid $2.5 million for collective bargaining to three unions, initially without accountability requirements. In June, her Special Report on the Pan Am/Parapan Games, revealed that the Games came in $342 million over budget, or 61% higher than expected. In October, the AG announced the Province of Ontario released their Consolidated Financial Statements adding "This is the first time in the history of Ontario that the statements have been released without the audit opinion."
In December of every year, we receive the Auditor General's Annual Report. This year, the title of the News Release sums it up...

2016 Annual Report Identifies Need for Improvements.

The Report presents the results of value-for-money audits of spending in health care, environment, roads and transit construction, government procurement, and employment programs. I listened carefully as she laid out a blistering indictment of this government's waste, mismanagement, and scandals. I also sat a couple of metres away from the government when they responded to the AG's report. The Deputy Premier opened with "We factually disagree" followed by "We take issue with the Auditor's accounting practices." Her Cabinet Ministers continued with "I'm not entirely sure that her report is accurate" and "I want to correct the Auditor." Not a very professional way to address an Officer of the Legislature.

There were some colourful stories in the report, but none that got heads spinning more than the 'upside-down bridge' tale. The contractor of a pedestrian bridge in Pickering that crossed Highway 401 was so bad that Metrolinx had to take over the completion. They hired the same contractor who then caused "significant damage" to the bridge in phase two. Even after installing one of the trusses upside down, they were paid $19 million!

Metrolinx came under further scrutiny for the $4.1 billion they spent over the last five years on various construction projects. She goes on to say that "Design consultants' errors and delays result in additional costs to Metrolinx, yet they take little action to recover costs and prevent this from reoccurring." In one project alone, errors made by the consultant caused the project to be over budget by 35%, or $13.6 million. After performing poorly and receiving a letter of default, one contractor was awarded 22 more projects, totalling $90 million – and continued to have their performance rated as 'poor'. And the 'upside-down bridge' builders... after being terminated, they were re-hired for a new $39 million GO contract!

The Auditor focused mainly on the $725 million spent with Canada's two major railway companies. The AG found that when it comes to these two companies, "it does not verify charged costs, it does not ensure that charged costs are reasonable, when it requests that the parts on a project be new (and pays the cost of new parts), it does not require that parts be checked to ensure that they are new, and it has been paying excessively high markup rates." One U.S media claimed "The Auditor General laid out a case that (the two railways) saw Metrolinx coming a mile away and sought to harvest every last taxpayer dollar."

In a completely different take on things, the Auditor also wrote about a "Phantom Consultant". A former Director at the Ministry of Government and Consumer Services is alleged to have hired himself as an IT consultant, and billed the government more than $160,000.

The cumulative effect of these stories is very damning, and paints a picture of a tired and negligent government, incapable of successfully providing even the most basic services. Here is a synopsis of each value-for-money audit, beginning with a direct quote from the Auditor General followed by a short summary of her findings, reprinted directly from the 1,062-page report.

Child and Youth Mental Health

"More oversight and analysis of child and youth mental-health agencies is needed"

Despite a 50% increase in hospitalization of children and youth with mental health problems since 2008/09, the province has not analyzed the reasons for the increase or taken steps to address it. In addition, the Ministry continues to allocate the majority of funding to agencies based on historical allocations rather than the mental-health needs of the children and youth they currently serve.

Climate Change

"Ontario's cap-and-trade will not significantly lower emissions within the province by 2020"

The Ministry's own study projected that Ontario will achieve less than 20% of the reductions required to meet the province's 2020 target. They plan to count emission reductions achieved in California and Quebec, using allowances purchased by Ontario emitters, to meet the remaining 80% of the target. The Auditor concluded the funds for those purchases "may be leaving the Ontario economy for no purpose other than to help the government claim it has met a target."

Electronic Health Records' Implementation Status

"eHealth is still unfinished after 14 years and $8 billion spent"

Over the last 14 years, the government has spent $8 billion on various electronic health records projects, but significant components are still not operational. In 2008 the government had committed to providing an EHR for every Ontarian by 2015. The Auditor could not tell whether the $8 billion represented fair value, because the government never set an overall budget for the project.

Employment Ontario

"Better information is needed if employment and training programs are to be effective"

The province spends more than $1 billion annually on employment and training programs without sufficient labour-market information about where skilled workers are needed now, and where they will be needed in the future. In addition, only 38% of people using the Employment Service Program reported being employed full-time, and fewer than half of the people who begin an apprenticeship program complete it.

Environmental Approvals

"Environmental approval process not effective in regulating polluters"

Weaknesses in the government's environmental approvals process pose risks to the environment and the health of Ontarians from polluting activities. Significant numbers of emitters may be operating without proper environmental approvals, with the Ministry relying on public complaints to identify emitters operating without approval. Fees cover only 20% of the $23 million to administer the program, and that's before enforcement and compliance expenditures of $100 million.

Environmental Assessments

"Environmental assessment process has not kept up with the times"

Current processes for assessing the environmental impact of projects and plans are not in line with best practices across Canada and internationally. As a result, taxpayers could be impacted financially, as the province may eventually have to pay to clean up these projects. Of the 10 contaminated sites with the largest provincial rehabilitation cost, four are former private-sector sites, with the province facing a rehabilitation cost of $968 million.

Housing and Supportive Services for People with Mental Health Issues

"More attention is needed to placement of high needs individuals in mental-health housing and supportive services"

The Ministry lacks information about the demand for and the cost-effectiveness of mental-health supportive housing. The wait lists for ministry-funded supportive housing do not prioritize high need individuals or those awaiting discharge from psychiatric hospitals. The cost to keep an individual in a psychiatric hospital is approximately nine times that of supportive housing.

Large Community Hospital Operations

"After admission, patients are experiencing long waits at large community hospitals for in-patient beds and surgery"

Those who go to an emergency room and have a condition serious enough to be admitted to hospital, wait an excessive amount of time in the emergency room, after admission, before being transferred to intensive-care or other acute care wards. At the three hospitals visited by the AG team, the time to transfer patients requiring intensive care was 23 hours. Patients needing an acute-care bed waited in emergency for 37

hours. In addition, over 4,000 patients occupied beds they no longer needed, while waiting for long-term care or home care.

Metrolinx

"Metrolinx's oversight of consultants and contractors does not always ensure value for money"

Metrolinx does not always hold contractors and design consultants accountable for work that is late or inadequate – and sometimes awards new work to contractors that have performed badly in the past. The lack of a process to hold construction contractors accountable contributes to projects being completed late, inconveniences commuters, and adds extra costs for Metrolinx and taxpayers. The Auditor provided multiple examples of projects that were tens-of millions of dollars over budget.

Ministry of Transportation

"Substandard asphalt leads to early cracking of provincial highways"

The 15-year pavement has failed prematurely because contractors hired have sometimes used substandard asphalt lasting only two years. Premature cracks in pavement have significantly increased the Ministry's highway-repair costs. The Ministry also pays contractors bonuses ($8 million annually) for providing the quality of asphalt as required in the contract. They continued paying these bonuses after discovering that contractors were tampering with the asphalt samples to obtain the bonuses.

Physician Billing

"The Ministry needs to improve the oversight of physician billing and payment models"

Payment models implemented by the Ministry to encourage family physicians to see more patients have not always led to more timely access to care. In 2014-15 there were

243,000 visits to hospital emergency rooms for conditions that could have been treated by family physicians. These visits cost the province $62 million, including $33 million for patients whose family physicians had already been compensated for having these patients enrolled in their Family Health Organization.

Specialty Psychiatric Hospital Service

"Ontario lacks comprehensive mental-health standards"

The number of people going to emergency rooms with mental-health issues rose 21% in the last five years, but Ontario does not have provincial mental-health standards for admission, treatments, and discharge for use by all hospitals, and there is no set timetable to create them. In addition, the Auditor found that people with the most severe forms of mental illness who do not receive timely and proper treatment are at a higher risk of harming themselves and others.

Supply Chain Ontario and Procurement Practices

"Ministries generally following prudent procurement practices"

However, the government often hires external consultants to do IT work that costs $40,000 more per consultant than if the work was done by a permanent IT employee. In addition, the Auditor noted control weaknesses in how ministries procure IT consultants that leave the process vulnerable to fraud. As well, Supply Chain Ontario lacked information it could use to identify new bulk-buying opportunities that could save money on future purchases.

The Provincial Public Appointment Process

"Public appointments and re-appointments to Agencies, Boards, and Commissions are not timely"

In the last five years, there have been significant delays in appointing people to many of the Province's 544 agencies, boards, and commissions. The Report found that positions were vacant an average of 15 to 16 months before new appointments were made. In addition, 275 appointees to non-board-governed agencies (22%) were serving longer than 10 years, contrary to the maximum term allowed.

Review of Government Advertising

"The government is using public funds to do more self-promotion"

After significantly weakening a law to stop the government from using taxpayer funds to pay for partisan advertising last year, the government spent $50 million in 2015-16 on ads whose primary objective was to make themselves look good. The AG concluded that health-care ads appeared to be self-congratulatory, aimed at ensuring the government gets credit, and the series on the environment could be seen as self-congratulatory and, in some cases, misleading.

> This ad does not provide viewers with any useful information. This leads us to conclude that the primary objective is to foster a positive impression of the government."
>
> *– Auditor General, Bonnie Lysyk*

Follow-up Reports on 2014 Value-for-Money Audits

"Although some progress has been made, the government still has work to do to improve programs and services vital to Ontarians" Some highlights include:

- The Ministry of Energy has made little progress to reduce the duplication of smart meter processing costs;
- Six years after being audited, the Ministry of Health and Long-Term Care plans to fully implement its overhaul of the immunization program only by 2020;
- The Ministry of Health and LongTerm Care has not yet implemented any recommendations to palliative care, and is still in the early stages of creating an improved system;
- The Financial Services Commission of Ontario has not developed strategies to mitigate financial risk to sponsors and members from underfunded pension plans;
- The Ministry of Community and Social Services has not made progress on wait times or inspections of residential services for people with developmental disabilities.

When the government writes a cheque – whether it's for a new transit project, the creation of a skills development program to help people find employment, or the establishment of an electronic health records system – the people of Ontario expect their government to ensure they are getting value for their dollar. Unfortunately, this Auditor General's Report lays out a blistering indictment of this government's waste, mismanagement, and scandals. It paints a picture of a tired and negligent government, incapable of successfully providing even the most basic services. Finally, we saw far too many examples of a government doing what's in their best interest, not in the best interest of the people of Ontario. Capitalizing on the changes to the advertising rules

the government brought in last year, and spending $50 million on self-congratulatory ads, is a prime example.

After the champagne corks were all swept up, and the revellers headed home, the first morning of 2017 presented a stark reality: life just got more expensive in Ontario.

If you stopped at the gas pumps that first morning, you would have found the price of gasoline rose by 4.3 cents/litre. The government first claimed that the cost of cap-and-trade per household would be $156/year, including an increase in gasoline costs of $8/month. But once their phones started ringing, they came up with a new line. "Any costs associated with fighting climate change are borne by fuel distributors who decide how and if the costs are passed on to consumers." So now "it's not us ... it's them!" The government also claimed that home heating fuel would go up by $5/month, but the Ontario Energy Board (who won't allow the companies to list the charge separately on the bills) stated it will be up to 34% higher than the government's claim.

Not only is the price not stated separately on any energy bill, there really is no way of knowing how much extra you're going to pay for groceries, clothes, hardware, sporting goods, or any other goods and services you buy. After buying carbon credits, businesses then pass along their increased costs to the end consumers, but there is no transparency, so you will never know the true cost of the cap-and-trade tax.

I started the year off at the Economic Club's annual Outlook breakfast, where the five major banks' chief economists spoke. RBC's Craig Wright stated that any carbon tax should be revenue neutral – that is return all the revenue to families to cope with the higher cost of living it causes. He followed this up with a deputation to the Legislature's all-Party pre-budget consultations and stated, "What I typically think of successful carbon pricing agreements is that they have to be transparent, predictable, gradual and, most importantly, they have to be revenue-neutral. The issue is that carbon pricing is to change the structure of the economy; it's not about growing the size of government,

and that's when you get into this revenue-neutral side. If it's just about the government grabbing more money and then reallocating it, that's less than ideal, especially in the context of a more competitive environment."

I have covered various aspects of cap-and-trade, especially the fact that the money is going to reimburse the government for projects already funded. The key message was that this program has absolutely nothing to do with reducing greenhouse gas emissions; it's all about a revenue grab. This concern was then shared by the Financial Accountability Officer, who appeared at the Cap-and-Trade Committee Hearings and addressed his concerns. The true intentions were also laid bare in the Fall Economic Statement and again in the 2016 Budget, where cap-and-trade proceeds were entered directly into general revenue. Finally, the Auditor General weighed in with "Ontario's cap-and-trade will not significantly lower emissions within the province by 2020". The Ministry's own study projected that Ontario will achieve less than 20% of the reductions required to meet the province's 2020 target. They plan to count emission reductions achieved in California and Quebec, using allowances purchased by Ontario emitters, to meet the remaining 80% of the target. The Auditor concluded the funds for those purchases "may be leaving the Ontario economy for no purpose other than to help the government claim it has met a target."

January also saw the release of a pair of reports that were of concern. The Ministry of Finance released Ontario's Economic Accounts, which noted that business investment in the province declined by 0.8%, including a drop of nearly 6% in investments in machinery and equipment. In addition, the Financial Accountability Officer released a report that notes Ontario has experienced a decrease in the share of both full-time and private sector positions, and the "employment rate remains well below prerecession levels." The FAO also found that employment prospects for youth remain stagnant, with unemployment rates of nearly 15%; well above the national average. These are on top of the earlier news that Ontario's foreign direct investment has dropped from 1st to 4th place in North America; from $7 billion to just $4 billion. Ontario's market share has been cut in half from 12% in 2015 to just 6% last year.

Most of the month involved the all-Party pre-budget consultations, which were held throughout Ontario. Craig Wright's comments on cap-and-trade were already mentioned, but he also weighed in on the hydro rate crisis, telling the committee "I think electricity is one of the many areas that makes Ontario investment less attractive than only a short while ago." He was backed up by many vocal groups, including Rory McAlpine, a Sr. VP with Maple Leaf Foods who told the committee "our electricity price increased by 18% in 2016 … I think anyone would agree that 18% is a large increase." He added, "If we had operated in Manitoba instead of Ontario it would have been a 65% saving on our electricity bill." Norm Beal, CEO of Food and Beverage Ontario also weighed-in on skyrocketing electricity prices. He said he's hearing from his members, who receive daily calls from U.S. jurisdictions asking them to relocate for cheaper hydro. His members are telling him "We've had enough. We're starting to look at the alternatives south of the border." Gerry Macartney, CEO of the London Chamber of Commerce, said "Many decisions are being made because of the high cost of electricity, and companies are looking at other, more competitive jurisdictions." Frank Dottori, CEO of White River Forest Products, summarized the feelings of most deputants; "Most jurisdictions use energy costs to promote economic development, not to kill jobs, which is what we're doing in Ontario."

You'll need to pull even more money out of your wallet for the myriad of fees that came into effect this month. If you drive a car – you'll pay more. If you heat your home with gas – you'll pay more. If you camp, fish, or hunt – you'll pay more. We're not talking chump change here – vehicle and driver registration fees have increased by more than $500 million over the last four years. In fact, service fees will cost families $2.74 billion this year, up by nearly 40% in just five years.

There are also a series of regulations that went into effect. Restaurant chains with 20 or more locations must start posting caloric content on their menus. After seeing this at the Quorum Restaurant here at Queen's Park, I've nixed my daily Caesar salads for lunch! Travel agents and wholesalers must include the all-in price in their advertising. Towing companies must now post their rates on their trucks, must accept credit cards, and cannot demand cash. Spousal and child support will no longer be treated as income for

people receiving social assistance or those on ODSP, which will end the claw-back from this. And the maximum cost of a $100 payday loan will drop to $18 from $21.

The end of the month brought sad news for the men and women working at natural gas plants all across Ontario. Recall when the Premier announced Ontario will be buying $70 million of water-power-produced electricity from Quebec Hydro. The government boasted that they signed a deal for Ontario to import up to two terawatt hours of electricity annually from Quebec "allowing the province to reduce its use of natural gas to generate power." The province further boasted the shift from Ontario-produced natural gas power to Quebec-produced water power will be good for the environment, cutting annual greenhouse gas emissions by about one million tonnes. Well, it also cut jobs, at home. Natural gas 'non-utility generators' (NUGS) throughout Ontario are starting to shut down, exactly as was forecast would happen. In my home town of North Bay, the NUG here has been idled, and 11 people were sent home. The same can be said for another half-dozen plants across Ontario – putting some 85 people out of work.

Ontario families already struggle to pay some of the highest hydro bills and taxes in the country, yet the cap-and-trade scheme is adding costs onto everything from gas to groceries. A revenue-neutral plan could mean a refund on your hydro bill or a cut on income taxes. The plan would also reduce emissions here at home, while putting money back into the pockets of Ontario families.

A couple of long-overdue reports from the Province of Ontario were finally released. Under the *Fiscal Transparency and Accountability Act*, the Ministry of Finance has several legal obligations to meet, with respect to financial disclosure. This government has not met those obligations. One of these demands that "Within two years after each provincial election, the minister shall release a long-range assessment of Ontario's fiscal environment." Another chapter of the Act requires the Minister of Finance to release the province's 3rd Quarter Finances annually, by the 15th of February.

In October 2013, two years after the 2011 election, the government did not produce the document. Six months later, after repeated requests from my office, they finally released the report. Fast forward to June 2016, two years after the 2014 election, and again ... no report. I made repeated requests to the Minister and finally, eight months late, the government produced the Ontario Long-Term Report on the Economy. The report confirmed what experts have been saying all along – Ontario's long-term economic prosperity has been critically damaged. It paints a picture of slow growth and an economy that will continue to shift from good-paying manufacturing jobs to more part-time and temporary employment. In the first six pages, the report stated "Growth in the trade in services continuing to outpace the trade in goods"; "The structure of the Ontario economy will continue to shift from goods-producing to service-producing sectors"; and "Shifting employment from goods-producing industries, in particular manufacturing, to service sector industries." The report also projects a drop in the growth of Ontario's GDP, a decline in private sector savings, imports, exports, labour participation rate, in fact nearly all of the major economic indicators.

However, here are some of the facts the report fails to address:

- Foreign direct investment in Ontario dropped this past year, from $7 billion to $4 billion. Ontario's market share has been cut in half from 12% in 2015 to just 6% this year – The ƒDi Annual Report 2016

- Private investment is set to decline 0.7% in 2016, with an 8% drop projected for manufacturing sector – Financial Accountability Officer, Ontario Business Investment Expected to Edge Lower in 2016

- Business investment in the province declined by 0.8%, including a drop of nearly 6% in investments in machinery and equipment – Ontario's Economic Accounts for the 3rd quarter of 2016

- $2.74 billion in revenue from service fees in 2016-17 a 38.7% increase from 2011-12 – Financial Accountability Officer

- Deterioration in the province's budget balance, with a deficit of $1.7 billion by 2020 and Ontario's net debt projected to rise over the next five years to a record total of $350 billion – Financial Accountability Officer

- Ontario currently has the highest debt burden among the major provinces, carrying $2.40 in net debt for each dollar of provincial revenue – Financial Accountability Officer

- Interest payments on debt will total nearly $11.8 billion this fiscal year – Minister of Finance's Quarterly Financial Statement

Despite the legal requirement, the government again failed to provide the 2016-17 3rd Quarter Finances by the February 15 deadline. While they did deliver a report six days later, this is the first time they have produced a report in eight years, repeatedly withholding important financial information from the media, opposition, and taxpayers. Ontario's Financial Accountability Officer (FAO) has warned of the government's "broader pattern" of secrecy and their refusal to provide information was making it "difficult to assess the plausibility of the government's financial projections and to evaluate risks that those projections would not be met." The report states that contrary to the information provided by the FAO, the government shows they will balance the budget next year. Closer inspection of the revenue sources reveals $600 million from reserves, $500 million more in unplanned revenue. A closer look at the numbers reveals revenue from the Land Transfer Tax, additional revenue from service fees, and the sale of one-time assets such as Hydro One. In addition, and contrary to the ruling from the Auditor General, the government is including the surplus pension funds.

The third report came from the Ontario Chamber of Commerce. For five years their annual analysis was titled Emerging Stronger, but as an acknowledgement that the name was purely aspirational, the Chamber chose Ontario Economic Report 2017 this year, to be more accurate. The most stunning revelation was that only 24% of businesses have confidence in the province's economy. Since the Premier first took office in 2013, business confidence in the provincial economy has been cut in half, from 48%. Interestingly, despite a lack of provincial confidence, 62% of members are confident about their own organization's economic outlook. In addition to the Business Confidence Survey, the report also contains the Business Prosperity Index, and the Economic Outlook, providing a snapshot of the year that was and the year ahead. It's a must-read report found at OCC.ca.

The government continues to ignore the ruling of the Auditor General. Recall that AG Bonnie Lysyk concluded that pension plan surpluses shouldn't be included on the province's balance sheets as an asset, because the government can't access them. The government then budgeted $435,000 to empanel a committee to review the AG's decision. This private panel concluded that the pension surpluses should be counted as assets. The government has stated they will implement the panel's advice and will use it in preparing the province's financial statements. AG Bonnie Lysyk says she won't give her "seal of approval". She's insisting on seeing letters from the Ontario Teachers' Federation and OPSEU, showing a formal negotiated agreement with the government, stating they can use that money. The government says that joint pension agreements already spell out how surpluses are handled, so no letter is needed. This is no small dispute, as almost $11 billion dollars is what's at stake. Again, while the argument is that the government can't access those funds directly, if allowed on the balance sheet, this year's number could easily tip the province into the black, and the larger amount would lower the province's debt.

The MaRS building real estate bailout has resurfaced after three years. First and foremost, the work the men and women perform within the MaRS building is exceptional, ground-breaking, and very exciting. And the companies located there are world-class. But the 2014 scandal had nothing to do with the tenants and their employees. It was about the government providing a secret $308 million bailout to a U.S. real estate firm – until a whistle-blower slipped a brown envelope under our door. When the bailout hit the media, it was a top story for several days, with comparisons being made to the e-Health and gas plant scandals. The real issue was once again, the government was not being open and transparent. Instead of coming clean and letting the public know the building's owner was in trouble because only one-third of the building was leased out, they secretly bailed the firm out. They had the taxpayer assume the risk, and tied up hundreds-of-millions of dollars for years. The Auditor General called it "a high-risk bailout".

Early in February, when three financial services firms announced their investments in MaRS will be used to repay the money, the government didn't hide that from the public. They held a news conference where the Minister of Economic Development and Growth called the 2014 headlines of the bailout "fake news". So, if you're caught red-handed because of a whistle-blower, and the AG calls what you did "a high-risk bailout" – when the issue is resolved three years later, somehow the original debacle was "fake news"? The Minister later took to Twitter to apologize for his comment.

The story should have ended there. Instead, the Minister doled out some fake news of his own. In his speech and media scrum, he talked about Ontario's economic growth, foreign direct investment, and employment growth.

The Minister stated that our economy is growing faster than the U.S. That's not at all accurate, as last year's numbers show that Arkansas, Washington, and Oregon all had higher annualized growth of 3.9%, while Colorado matched Ontario.

He also stated that Ontario is the top foreign direct investment destination. That's not true. As I mentioned earlier, investment dropped from $7 billion to $4 billion, and Ontario is no longer the top destination; we have fallen to 4th place, behind California, New York, and Texas.

In a Letter to the Editor, in a speech in the Legislature, and again at the news conference, the Minister has stated our employment is "the best in Canada" and "We're leading the country in job creation". Again, the facts are quite different. Our unemployment rate is higher than B.C., Manitoba, and Quebec, and tied with Saskatchewan. And internal Ministry of Finance documents revealed "there are fewer jobs today relative to the population … employment growth has not kept up with the growth of the working-age population". These misleading comments are part of the trend I spoke of in the opening chapter.

With the government slumping in the polls due to skyrocketing hydro rates (almost 400% increase in 14 years), and with families being forced to decide whether to heat or eat, the government launched their *Fair Hydro Plan* at the beginning of March.

The media headlines describe the sentiment regarding the hydro plan best … "Sleazy, desperate hydro ploy to fool Ontarians"; "Cutting today's hydro bill, for today's votes, with tomorrow's money"; "Hydro slash will cost us"; "Hail Mary"; "$25B hydro boondoggle"; and "Hydro on Layaway".

In the first chapter of this book, we revealed that government pollster David Herle gave a presentation. Recall his research revealed people felt "Rates are an increasingly major concern in Ontario. The cost of electricity is not just seen to be unreasonably high; it is widely seen as damaging to the provincial economy." And he also told the government that people like hearing about improved reliability, conservation, the elimination of coal, and renewable energy. Well, the *Fair Hydro Plan* is what they came up with to match those talking points!

Although no Bill has been tabled in the Legislature, we did obtain a copy of the Ministry's slide deck. The plan has four major components: refinance the Global Adjustment (GA); enhance consumer rebates; lower the Industrial Conservation Initiative threshold; and find efficiencies in the market.

The GA bucket is where most of the sins lie, as it's the difference between market price and what the government pays for power, plus all other hydro-related costs. The Auditor General told us "GA fees have increased significantly, from $650 million in 2006 to $7.03 billion in 2014." She added "Electricity consumers have already paid a total of $37 billion, and they are expected to pay another $133 billion in GA from 2015 to 2031." The government's number used in the announcement put the 2017 GA over $12 billion. The refinancing plan would spread the costs over a longer period of time, by reducing about $2.5 billion per year over 10 years, for an additional accumulated debt of about $28 billion.

The enhanced consumer rebates consist of broadening the Rural or Remote Electricity Rate Protection ($500 million in the coming year; funded by provincial revenues); enhancing the Ontario Electricity Support Program ($185 million in the coming year; funded by provincial revenues); First Nations On-Reserve Delivery Credit ($20 million in the coming year; funded by provincial revenues); and establishing a New Affordability Fund ($200 million in the coming year; funded by provincial revenues). The total cost to the tax base is $905 million annually. This is on top of the roughly $1 billion required from the tax base to pay for the 8% HST rebate.

The Industrial Conservation Initiative will target industries with the NAICS codes 31-33 and expand the eligibility to manufacturers with average monthly peak demand over 500KW. The cost to the ratepayers is yet to be calculated.

The last area is finding efficiencies or as the government says, 'bending the cost curve'. The government feels that the changes they will make to future initiatives are estimated to save at least $200 million per year, starting in 2021.

One interesting side-note is that the government has co-opted OPG into their scheme. The slide deck states that OPG "Finances/manages the GA proposal". Why, you might ask? Well OPG is certainly large enough to absorb this massive financial hit, but primarily … they are two steps removed from the province … and this liability doesn't show up

on the province's books. Burying this purported fix inside of OPG's balance sheet does nothing to solve the government's bad contracts crisis. Instead, it simply masks the consequences of this scheme. It's inappropriate and risky for OPG.

As you can see, there is nothing here that fixes any of the hydro problems. The government will continue to sign contracts for power we don't need and continue with escalating hydro rates from the further sale of Hydro One. This is simply financial engineering – no solutions; just accounting changes. All in, it's expected this will add about $50 billion in financing costs to both the ratepayer and the taxpayer.

The government was so eager to spread the word about their plan, that rather than tabling it in the Legislature, having a debate, and voting on it, they just went ahead and bought $1 million worth of taxpayer-paid advertising. And they say there's more to come. The Auditor General weighed in calling the ads a "pat-on-the-back" and could be considered partisan. She also said the ads likely wouldn't have been approved under old government advertising rules. Recall the government changed the advertising rules to allow partisan ads to run, and the AG's approval has been reduced to a rubber stamp. The Auditor was so incensed by the changes that she penned a Special Report to the Legislature decrying the changes. She said changing the rules would end up giving taxpayers the bill for millions of dollars of partisan ads. "Sure enough, the government walked right through that open door," she added.

We now understand why the government did this. Their polling numbers were terrible, and people saw the hydro crisis as damaging to the economy. The pollsters convinced them the solution was to tell people what they needed to hear. We also now understand what they did. It was purely financial engineering – nothing whatsoever to do with fixing the systemic problems with hydro. And they co-opted OPG into being their bank for the financing of their scheme. Then they used taxpayer's money and the rules they changed to allow partisan advertising to tell the people of Ontario how good this plan was, before even tabling it in the Legislature.

*** As the book was going to press, the Financial Accountability Officer released *An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan* and the Auditor General

commented at the Committee hearings. I'm going to add their findings here, although they will be out of sync with the chronological order. ***

The FAO delivered a stinging indictment of the province's so-called Fair Hydro Plan (FHP). Stephen LeClair estimates the FHP will cost the ratepayers and taxpayers a minimum of $45 billion over 29 years, while offering electricity ratepayers savings of $24 billion. This results in a net cost to Ontarians of $21 billion. However, the $45 billion assumes the province will maintain a balanced budget over the next 29 years. If the FHP is required to be funded through debt, then the cost could increase to between $69 billion and $93 billion.

Under the FHP, average electricity bills are projected to decrease by 25% in 2017, followed by four years of increases at the rate of inflation. Then electricity bills are projected to increase by an average of 6.8% annually until 2027. "Temporary savings are achieved for electricity ratepayers by moving the costs to the taxpayers and by deferring $18.4 billion in electricity costs for 10 years," says LeClair. "After 10 years, ratepayers will be required to repay the deferred electricity costs plus approximately $21 billion in interest which will result in higher electricity bills than under the status quo."

But this should come as no surprise to the people of Ontario, and especially to the government. A leaked 'Confidential Cabinet Document' revealed that while there would be temporary relief the first year, there would be 2% increases over the next four years, a spike of 6.5% for each of the next six years, followed by a 10.5% increase in year 12. While the government argued this impact was all wrong and based on "outdated numbers" – they were right – except the real numbers turned out to be even worse!

Finally, the Auditor General took it upon herself to attend the Standing Committee on Justice's hearings on the Fair Hydro Plan. She stated that the government's decision to borrow money to lower hydro bills is a policy decision, but how the government accounts for that decision is her responsibility to report on. She told the hearings, "The government plans to borrow about $26 billion to cover the 25% shortfall from ratepayers, but it does not want to reflect the overall impact of these borrowings on

their consolidated statements. Under their scenario, there would be no impact on net debt on the Province's balance sheet … or on the annual surplus or deficit." She then stated, four times, that this is not allowed under Canadian public-sector accounting standards. And she further explained, "borrowings are debt; unearned revenue is not an asset today; and when your expenses exceed your revenues, you incur a deficit."

2017 Budget

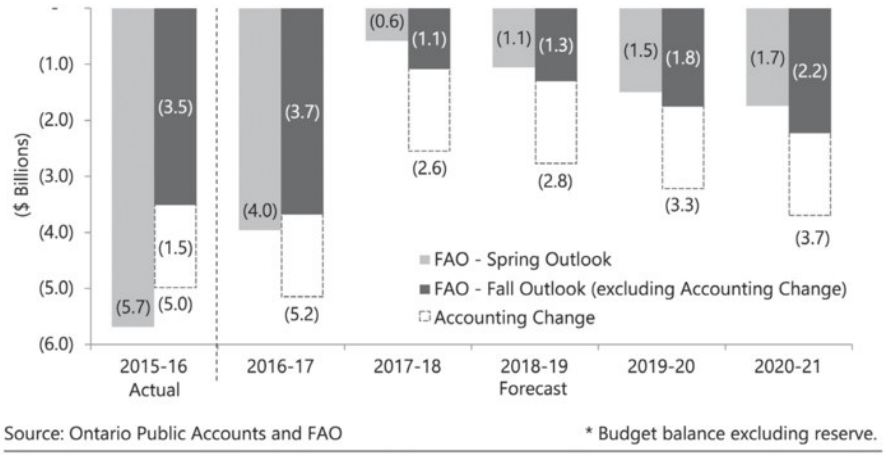
The 2017 Budget is more proof that Ontario families will continue to pay more and get less.

While the government has announced that they have 'balanced' the budget, this is far from reality. Readers of this *Focus* series have known for months, if not years, that there would be no balance. The once-confidential Gas Plant Scandal documents were very clear, in the Ministry's own words – "the government is not on a path to balance." And that was before the deficits took a further move south under our current Premier. Then all of a sudden, the Province's fortunes shifted, to the tune of billions of dollars. But before you look for any kind of spending controls to make that shift, look again at the 'special' revenue.

The government started adding 'Asset Optimization' funds each year – billions of dollars' worth. In 2014 it was $1.1 billion, which included the sale of their GM stock – straight into revenue. In 2015, another $1 billion – all from one-time asset sales; straight into revenue. 2016 was a banner year, where they booked an additional $2.2 billion over the 2015 forecast. The budget states this was "…due to higher revenue from asset optimization in 2015-16" which consisted primarily of revenue from the sale of Hydro One shares. They also received $800 million more in land and sales taxes "due to Ontario's strong housing market."

In this budget, they have "overachieved" as the Finance Minister so frequently tells us. Only, a significant amount of the revenue bump is from one-time sources. It starts with a $1.5 billion increase in infrastructure revenue from the Feds. This is traditionally a $100

million fund, but the Feds are investing in infrastructure, so this is a temporary bump. Land Transfer Tax is also up a further $400 million this year (it was up $600 million last year). One-time asset sales are up $1 billion. New this year we see $1.8 billion in cap-and-trade tax added straight to revenue. And finally, $500 million is booked from the Teachers' Pension Plan, even though the Auditor General said she would not allow it.



Source: Ontario Public Accounts and FAO

* Budget balance excluding reserve.

Add up the real one-time funds, and there is a $5 billion hole in the budget. We have a structural deficit. We spend more money every year, than we take in. The Financial Accountability Officer's chart bears this out. You will hear the government say that the funds from the sale of Hydro One and from cap-and-trade will go into the Trillium Trust and be used for infrastructure. On the surface, they're correct. But, they slipped ONE sentence into each of those Bills to give themselves an out. Bill 144, which facilitates the sale of Hydro One, has a great line in Schedule 22, Section 7, Paragraph 2, which states ..."to reimburse the Crown for the expenditures incurred to fund costs relating to infrastructure." I printed this quote in the June 2015 issue of *Focus* ...

> A reasonable person might wonder why we need to sell most of a significant public asset, just to keep doing what we have been doing for years. The real answer, I suspect, is that putting some billions of new money into the province's transit trust will enable the government to quietly shift existing money to help it reduce the deficit or pay for other spending".
>
> *– Ottawa Citizen, April 22, 2015*

And that is indeed what Schedule 22 allowed the government to do – put the sale money into infrastructure, and take the money already budgeted for that infrastructure and apply it against the deficit.

It worked so well for the sale of Hydro One, the government did it again with the revenue from cap-and-trade. Bill 172, which facilitates the cap-and-trade deal, does this in Schedule 68, Section 2, Item 3, which states … "to reimburse the Crown for expenditures incurred for transportation, public transit vehicles, and infrastructure." Again, they put the revenue into infrastructure, and take the money already budgeted for that infrastructure and apply it against the deficit. There you have it – an easy way to tell the people one thing, when the real intent is completely different.

The Finance Minister also announced that not only are they balancing this year, but next year, and the year after that one too! I mention this because the budget book only forecasts to 2017-18. There are NO numbers beyond that. Even last year's budget went out to 2018-19, which means this year's book is missing two years of forecasts normally included.

The reasons become more evident as you read deeper into the book. Ontario's economic growth is forecast to fall from 2.7% to 2.3% this year and down to 1.7% in 2020. Our employment growth will fall to .9% in 2020. Job creation will tumble from 94,000 jobs next year to 66,000 in 2020. And housing construction starts are scheduled to slide from 75,000 in 2016 down to 68,500 in 2018. All these affect revenues – so the government chose not to put any future revenue numbers in the book! The book itself is about 70 pages shorter than previous versions and is chock full of colour photos. It appears to be more of an election-positioning budget rather than a financial document.

Take a closer look at some of the numbers buried inside the budget:

Total program spending is up $6 billion, to a record $141 billion.
Interest on the debt rose, from $11.2 billion to $11.6 billion.
Debt has increased from $302 billion in 2016-17 to $312 billion in 2017-18.
It is projected to increase to $323 billion by 2018-19 and $336 billion by 2019-20.
Incidentally, debt was $139 billion when this government took over in 2003.

The Auditor General devoted considerable space in her 2014 and 2015 Annual Reports to Ontario's growing debt burden. This debt has significant implications in your day-to-day life. Specifically, Auditor Bonnie Lysyk wrote "The negative impacts of a large debt burden include debt-servicing costs that divert funding from other programs." This is why we're seeing 1,500 nurses fired in Ontario. My own local hospital in North Bay has seen 388 frontline healthcare workers fired in the last five years – and that includes 100 nurses. This is exactly what the Auditor was referring to – and exactly why you should care whether the government runs a balanced budget or not.

In her 2015 Report, the AG instructs the government to provide "long-term targets for addressing the current and projected debt" and to "develop a long-term debt-reduction plan outlining how it will achieve its own target of reducing net debt to GDP from its current 39.5% to the (Premier Harris era) ratio of 27%." As mentioned earlier, Ontario's debt has ballooned to $312 billion – up from the $285 billion it stood when the Auditor gave her last warning.

Budget announcements:

A children's pharmacare program will begin January 2018 and provide drug coverage for all people aged 24 or under. Despite this being their signature budget item, there is only one page devoted to this in the budget, and there are NO financial details included. In fact, it is not mentioned anywhere whatsoever in Bill 127, the actual budget Bill. It will have to be brought up by separate legislation. Ministry officials released that it will cost $465 million/year and will be funded through the Ontario Drug Benefit. When the Minister was asked why no details of this signature plan were in the budget, he simply answered "You can't put everything in the book."

There will be a $7 billion increase in healthcare funding over the next three years. This includes $1.3 billion for wait times and $518 million in hospital operating funding, about a 2% increase, which barely covers inflation. As well, there will be $9 billion over 10 years for major hospital projects as part of the existing infrastructure spend. If properly

allocated, this money could start to address issues caused by the four-year freeze of hospital budgets.

Out of the Community and Social Services budget will be $480 million over four years to raise asset limits, increase income exemptions for cash gifts, and provide a 2% increase to Ontario Works and Ontario Disability Support Program recipients. There's $677 million over four years for adults with developmental disabilities including additional residential placement programs and increasing access to the current Passport Program.

The Guaranteed Basic Income pilot program will run for three years in Thunder Bay, Hamilton, and Lindsay, at a cost of $50 million each year. It will be quite interesting to review the results of this pilot in three years, but the program doesn't address the real issue at hand – people need better opportunities for employment in Ontario.

There were 24,000 daycare spaces, as part of the plan for 100,000 spaces previously-announced in the Throne Speech, at a cost of $3.75 billion.

School repairs and renewal will add $1.2 billion over the next two years. There is $21 million over three years in services for youth-in-care, including transportation services so they can stay at the same school. There are 40,000 new work-related placements for students at a cost of $190 million over three years. And recent graduates will not have to start repaying the provincial portion of their OSAP loans until they start making $35,000.

The infrastructure budget has been increased to $190 billion over 13 years from $160 billion over 12 years. So there's a further $30 million for the year 2030! In addition, there is $80 million committed over five years for an Autonomous Vehicle pilot.

In addition to the usual sin taxes, the government will allow municipalities to levy a Hotel Tax. All of the service fees will rise, bringing in a further $100 million. Last year's budget allowed for automatic increases, so they no longer need to be listed annually – and they now applied that same treatment to the sin taxes, so you won't be hearing about them next year.

What you won't see accounted for is the so-called 25% reduction of hydro bills. The plan has four major components: refinance the Global Adjustment (GA), adding an additional accumulated debt of about $28 billion; enhance consumer rebates, at a cost of $905 million, plus the $1 billion required from the tax base to pay for the 8% HST rebate; lower the Industrial Conservation Initiative threshold, with the cost to the ratepayers yet to be calculated; and find efficiencies in the market, to save at least $200 million per year, starting in 2021. As outlined earlier, the government has co-opted OPG into their scheme, so these liabilities don't show up on the province's books.

You also won't see the Ring of Fire in the budget. As an unabashed Northerner, this is particularly concerning. The Ring of Fire is the largest mining find in recent history. Between the nickel and the chromite (necessary for making stainless steel) found there, there are proven reserves of over $60 billion in the ground, waiting to be dug out and shipped within Ontario for processing. Once deeper underground, the full extent of the mineral find would be determined, with many experts believing there is a 100-year mine present. In the 2014 budget, the government announced $1 billion for Ring of Fire infrastructure. Sadly, nothing was acted on, so it was merely re-announced in the 2015 budget, and cut and pasted into the 2016 budget. This year, there was simply no mention whatsoever of the Ring of Fire – a clear example of the latest blunder. A government with announcements and no follow-through – plenty of soundbites full of aspiration but nothing in the way of operation.

It was sad to watch the charade unfold, where the government tried to claim they have balanced the budget, when clearly they haven't. They have provided a set of numbers that only add up through the use of one-time revenue. Because of that, it's clear that we are running a structural deficit. In addition, Ontario remains the largest non-national debtor on the planet, and there is no plan to tackle our growing debt.

TRUMP BUMP OR TRUMP SLUMP?

TRUMP BUMP OR TRUMP SLUMP?

While much of Ontario's finances depend on controlling spending, the other half of the equation is revenue. Aside from new taxes, revenue is dependent on growth, and that brings us to the elephant in the room. On November 8, 2016, Donald J. Trump was elected the 45th President of the United States, and he took office on January 20, 2017. His campaign slogan was 'Make America Great Again', and that is exactly what he intends to do. He plans to achieve this by lowering corporate taxes, cutting red tape, making energy affordable, and instituting a 'Buy America' plan.

This has an obvious and immediate impact on Canada, but the real question is whether this will help or hinder Ontario? Will we get a Trump Bump, or will this create a Trump Slump?

I first sat down to write this chapter as one of my *Focus on Finance* monthly newsletters. But the sands seemed to be shifting back and forth, and quite frankly, the jury was still out. Early in the year (and continuing), the Dow roared, which is a signal that investors believe the U.S. economy is poised to take off. In the Wall Street Journal, the U.S. Treasury Secretary was looking forward to "more normalized economic growth." Growth hit a high of 3.3% in 2005, and hasn't been above 3% since then. President Trump claimed that 4% growth was within reach. Hyperbole aside, that should be good news for most countries. If the world's largest economy takes off, a rising tide lifts all boats, and Canada, by proximity, should be right along for the ride. That's the Trump Bump!

But, the U.S. expects to achieve that hyper-growth by tax cuts, deregulation, and infrastructure spending with a Buy America rider. That all makes for great opportunities for U.S.-based businesses, at the expense of others. Add to that Trump's forceful language with U.S. firms, which has them taking action. Remember Carrier announced they were moving jobs to Mexico, and after Trump was elected, announced they were staying put? Ford scrapped their plans to open a factory in Mexico. And the list goes on. All good for the U.S. – all part of Making America Great Again. Except it's at the expense of others; including Ontario. That's the Trump Slump.

President Trump repeatedly stated he would tear up NAFTA; the "worst trade agreement ever." While such a move would require the sign-off of the U.S. Congress, the President can act unilaterally and sign Executive Orders regarding tariffs and similar balance-of-payment issues. For most of the post-election period, up to about April, we continued to hear "Oh, all that talk is focussed on Mexico." There was certainly worry that Canada might get a little splashed when the elephant jumped into the water, and it seemed our leaders kept their heads down, hoping nobody would notice us. I recall the exact same talk when former President Barrack Obama instituted his Buy America campaign for States to access any of the $840 billion Troubled Asset Relief Program (TARP) funds. He insisted he was a 'free trader' and this was directed at Mexico and China, but it affected Ontario businesses that simply could not take part in any of the TARP infrastructure programs. By the time he announced it was never intended for Canada, most of the billions were spent.

If anyone thought that Trump's musings were directed solely at Mexico, they were dispelled this spring. The President started in on the supply management system that protects the Canadian dairy industry. Then he slapped a tariff on softwood lumber imports from Canada. These new import duties range from 3% on the low end to 24%, and had an immediate and serious consequence for Ontario's forestry sector. Not only was the tax immediate, it was retroactive for 90 days. The decades-old argument has been that Canada's forest industry is subsidized because producers source their timber on Crown land (as opposed to paying higher fees for accessing private lands).

Yet these will pale by comparison to the border tax the President is talking about. This would be a "massive" Border Adjustment Tax (BAT) designed solely to protect U.S. jobs. Trump tweeted "Toyota Motor said it will build a new plant in Baja, Mexico, to build Corolla cars for U.S. NO WAY! Build plant in U.S. or pay big border tax." It remains unclear whether the target is strictly Asia's parts suppliers, or whether Mexico and Canada would be included. It would work like this: When a U.S. company buys any type of product from another U.S. company as an input either to their own production or for final sale to U.S. consumers, they can write off the entire amount of that purchase. The same purchase from an Ontario company would not be deductible, resulting in what amounts to a 20% tariff.

The BAT program would also include a massive cut to the corporate tax rate from 35% to only 15%. At the end of April this year, Trump unveiled his broad tax-cut plan. It called for deep reductions in business tax rates and major changes to the individual tax system. The proposal includes a 15% tax rate for all businesses, lower individual rates, a larger standard deduction for households, and a repeal of the estate tax. The cost to the Treasury is about $2 trillion over 10 years, so this is a huge incentive for business. Under this plan, the average U.S. business will pay about a 20% tax rate, after accounting for state taxes. Canada's average combined federal-provincial rate is 27%. What was once our greatest advantage, will now appear to be excessive. The concern is this will siphon away Ontario jobs and investment far more than the previously-mentioned tariffs.

This spring, the federal government and many of the provinces scrambled to put together a lobbying blitz to persuade U.S. States and the Trump administration to leave Canada out of their protectionist trade measures. The message is that there are hundreds of thousands of U.S. jobs dependent on free trade, that will be at risk if any of Trump's plans target Canadian companies. Saskatchewan Premier Brad Wall offered up the best explanation of cross-border supply chains. "Saskatchewan farmers buy John Deere tractors, made in Iowa, to harvest oats that are then sold to General Mills in Cedar Rapids, turned into Cheerios and exported back to Canada." Former Canadian Ambassador to the U.S., Derek Burney, further explained "For Americans more generally, we need to demonstrate specifically and statistically how important our trade is to American jobs and interests and emphasize that damage to one partner inevitably damages the other." Unfortunately, that doesn't line up with the President's "Make America Great Again" theme.

According to Ministry of Finance documents, the U.S. remains Ontario's primary destination for international merchandise exports, representing 80.5% of the total in 2015. An increasing share of goods and services exports is integrated into the production of other products, and Ontario is an important contributor to these global value chains. On the energy front, President Trump has unravelled key elements of the Obama-era climate change policies. He has promised cheaper energy, and like many of his promises, he seems prepared to go to extremes to achieve them. In Ontario, the new cap-and-

trade tax will take almost $2 billion out of our economy annually. These policies are going in opposite directions, and will drastically affect the competitiveness of Ontario's manufacturers. One way to mitigate this is by making the federally-mandated carbon tax (to be put in place next year by Prime Minister Trudeau), revenue neutral. As was covered earlier, RBC's Chief Economist Craig Wright stated that any carbon tax should be revenue neutral – "The issue is that carbon pricing is to change the structure of the economy; it's not about growing the size of government, and that's when you get into this revenue neutral side. If it's just about the government grabbing more money and then reallocating it, that's less than ideal, especially in the context of a more competitive environment." President Trump will continue with his goal of providing cheap power to kickstart the U.S. economy, while here in Ontario we have the highest all-in electricity rates in North America.

The final piece in the Make America Great Again campaign is cutting red tape. Billed by the White House as the most ambitious attack on red tape since the Reagan era, President Trump signed an executive order aimed at cutting business regulations and capping the total cost of new rules that each government agency can impose annually. Trump signed an order called 'one in, two out' – for each new regulation proposed by an agency such as EPA or the Labor Department, the same department will need to identify two existing regulations to be eliminated. The President also signed an executive order requiring every federal agency to form a "regulatory reform task force" that would root out regulations for repeal. Joined in the Oval Office by business executives, Trump said "unnecessary" and "burdensome" regulations are "killing jobs" and "driving companies out of our country like never before." He said reducing the regulatory burden will "unleash economic activity."

Will Ontario feel a Trump Bump or will we see a Trump Slump? The story continues to unfold. We know one thing is consistent: uncertainty and the unknown spooks business.

THE STATE OF ONTARIO'S FINANCES

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To get a real picture of where we are today, let's look back at the opening and closing chapters of the last three *Focus* books. It's amazing how you could almost drop those paragraphs into this year's book, and they would still be relevant. It's actually quite disturbing to see just how little has changed.

The original *Focus on Finance* opened with a tale of Ontario having the highest energy rates in North America, highest payroll taxes in Canada, crushing red tape, and listing several high-profile companies who announced they're leaving the province. It pointed out that Ontario, once the economic engine of Confederation, had become a 'have-not' province, relying on equalization payments from the federal government. And it reminded us that before this government took office, Ontario boasted a low debt-to-GDP ratio, low unemployment, cheap hydro, and reduced red tape.

The book described the ideological decisions that were made by the government, and the resulting consequences. Considerable evidence was provided that the finances in Ontario were far worse off than the government has disclosed. Remember, this was during the Gas Plant Scandal, where the government was forced to turn over once-confidential financial records – documents they never dreamed anyone would ever see. They illustrated there was no clear path to balance, considering the government had started a spending spree under the guise of recessionary stimulus funding. It ended with a stark warning brought on by the government's refusal to provide financial reports mandated under the Fiscal Transparency and Accountability Act. I concluded "The government is hiding the truth, because any of these reports would demonstrate the province is not on track to balancing the budget by 2017-18. The government continues to tell the Legislature, the financial community, and the public one thing, while their own once-secret documents prove they know the complete opposite to be true."

Focus on Finance 2 opened up with quotes from a number of respected groups, all ringing alarm bells about Ontario's finances. The Auditor General said "Ontario's debt continues to grow faster than the province's economy, which could have negative implications for the province's finances". The title of the Ontario Chamber of Commerce

report on Ontario's debt and deficit was *How Bad Is It?* As if the title wasn't enough, it also states, "Ontario's fiscal situation is becoming increasingly dire ... we are likely to reach a state of crisis unless the province cuts spending and changes the ways it does business". The Fraser Institute's study, *Ontario's Debt Balloon*, calculates that 66% of the increase in debt since the 2008 recession is directly attributable to day-to-day expenses exceeding revenues on an annual basis. It states, "Ontario's debt has grown by $117 billion since the recession, largely because of government borrowing to fund day-to-day expenses – not investments in infrastructure".

The pages of the book painted a clear picture of the problems affecting families and businesses. Hydro was a significant focus, yet was still not on the government's radar. Higher taxes, especially through service fees, was a growing concern. And red tape was increasingly becoming a barrier to businesses looking to locate or expand in Ontario. Clear evidence was presented that because the government knew they had no path to balance the budget by 2017-18, they hatched a plan to artificially achieve that goal. They would begin to sell assets and put the funds directly into each years' revenue. John Ivison said it best in his National Post column when he wrote, "The province's finance minister had fluffed the books for this year and next, with net revenue gains from 'asset optimization' totaling $2 billion."

In *Focus on Finance 3*, the breadth and depth of the government's plan to use one-time revenue to artificially balance the budget by 2017-18 was detailed. It illustrated the difference between the 2014 budget, where very little 'Asset Optimization' was required for transit and infrastructure, and the 2015 budget, where suddenly the proceeds from the sale of Hydro One were now listed as part of operating revenue. And it disclosed, for the first time, the fine-print of the budget Bill where one sentence buried in the end of the book gave the government the tools it needed – it allowed them to reimburse themselves for money they already spent on infrastructure.

The book concluded that there's a cumulative affect that's hurting Ontario. It's not necessarily one decision or another – it's the piling on of these decisions. Whether it's the cumulative regulatory burden, the skyrocketing hydro rates, the future cost increases

from cap-and-trade – add them together and they are the reasons why businesses continue to flee Ontario, or choose not to locate here. Ontario has become the weakling and other jurisdictions are poaching us.

What's alarming is that so little has changed over the last four years. While the government has declared they have balanced the budget, the use of one-time revenue sources masks the seriousness of the situation they have created. Ben Eisen and Charles Lammam described it their post-budget editorial.

"A popular narrative from Queen's Park is that factors beyond the government's control (such as the global recession of 2009) are to blame for the mountainous run-up in debt in recent years. But this narrative is, at best, an oversimplification. In reality, undisciplined spending also significantly contributed to Ontario's fiscal problems. Between 2003-04 and 2015-16, program spending in Ontario (which excludes interest payments on government debt) increased at an average annual rate of 4.7%. This greatly exceeds the annual average growth rate of the provincial economy (3.2%), as well as other relevant metrics. But had the government increased spending since 2003-04 at the same rate as growth in the provincial economy, Ontario would have run just one budget deficit (instead of 11). Under this scenario, the doubling in provincial debt simply would not have occurred".

Revenue from a booming GTA housing market, elevated transfers from the federal government, and proceeds from the sale of Hydro One, all required under this government to balance the budget, won't last forever. And higher costs due to an aging population and debt service payments, will continue to put pressure on budgets. They conclude with "It's worrying that instead of restraint, the government has opened the tap, with spending set to grow 4.8% this year – the largest increase since 2009. The decisions in the last decade to increase spending faster than the provincial economy's

growth, and faster than was needed to keep up with a growing population and rising prices, contributed to Ontario's dire fiscal problems."

To put that spending into context, last year's budget listed 2017-18 program spending as $124.1 billion. Now, Budget 2017 shows the number will now be $129.5 billion – more than $5 billion in extra spending. Debt will increase by $10 billion, as well.

Clearly, the message is not sinking in. Years of waste, mismanagement and scandals, have not had any affect on the government's thinking. They continue to kick the fiscal can down the road, hoping that revenue growth will eventually catch up to their spending. But they can't help themselves, and continue to spend ever-increasing amounts of taxpayers' money. They repeated this approach in their resolution to skyrocketing hydro prices. Instead of fixing the core problem at hydro and stop signing more contracts for power we don't need, they chose to kick that can down the road too. They're adding a minimum of $45 billion in financing costs to artificially lower hydro bills – money that when paid back will cause those bills to soar, even more.

*** I had just finished proofing the additions made to the Hydro section on page 83 and was preparing to send the book to press, when the Financial Accountability Officer released yet another report. The headline of his News Release says it all: *FAO Expects Steady Deterioration of Ontario's Budget Deficit Without Additional Government Measures.* ***

The FAO delivered an explosive report confirming Ontario's budget is not in balance, and we can expect "continued budget deficits over the next five years, reaching $6.5 billion by 2021-22." While the government declared a balanced budget for 2017-18, FAO Stephen LeClair projects a deficit. He describes the scenario where the government is using "$3 billion in one-time revenues." He also described higher revenues came from "strong growth in tax revenues (housing) and a boost from one-time, non-tax revenues (sale of Hydro One, OPG building, etc.)." Beginning next year, the growth in tax revenues is projected to be moderate, while the boost from one-time, non-tax revenues will end.

Because of the ongoing dispute between the Auditor General and the government on the application of government accounting standards for pension plans, two separate projections were delivered. By presenting the budget forecasts under both accounting treatments, we can better understand the implications of these different accounting interpretations on the province's fiscal position. This concludes that under the AG's recommended accounting treatment, the FAO is projecting significant budget deficits over the entire outlook. Under the government's accounting presentation, the government uses significant one-time revenues to announce a balance in 2017-18, but "beyond 2017-18, the deficit is projected to deteriorate steadily due to rising expenses and slower revenue growth."

Significant risks that could result in weaker than expected economic growth include the policy direction of the new U.S. administration (the Trump Slump), as well as the surging housing market being the largest risk for the economy. President Trump's Buy America policy, cutting red tape, lowering taxes, or the renegotiation of NAFTA, all "could harm Ontario's competitiveness, further discouraging business investment and limiting the contribution of exports to overall growth." Domestically, the housing market continues to pose a significant risk to the overall economy. "The relative importance of residential housing investment to the overall economy has increased substantially in recent years, posing a significant risk to the Ontario economy, in the event of a sharp housing market correction." Of interest is the fact that residential investment spending now accounts for 8.3% – a record share of GDP. In 1989 it reached 8.2% before correcting down to 4% in 1995.

By the numbers:

Debt projected to rise by $76 billion over the next five years

Debt will reach $390 billion by 2021-22

Net debt-to-GDP will reach 40.3% by 2021-22, far above government projections

MY FINAL THOUGHTS

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As you would have seen throughout the last three *Focus* books or read in the monthly *Focus* newsletters, I display a growing sense of frustration. This is not the Ontario we grew up in. That was a different, and a far-better Ontario. But what happened to Ontario did not happen by accident. It is the result of clear and conscious decisions, primarily based on ideology. We're not in the terrible financial shape the government got us into because of the recession, or the tsunami, as a former finance minister used to lay blame. It's because the government spends more money than it brings in. Way more. More than can be attributed to population growth or inflation. The Auditor General points to the waste, mismanagement, and scandals that have all cost money. Waste, such as spending $50 million on partisan advertising. Mismanagement such as paying hundreds of millions of dollars on 15-year road resurfacing, only to have to spend the money again two years later because substandard asphalt was used. And scandals, like spending $1.1 billion to move two gas plants to save seats in an election.

The Auditor has talked about what will result from not having a plan to manage the province's spiraling debt. She calls it the 'crowding out' of services we expect in Ontario. And this is exactly what has happened. Hospitals, with their budgets frozen for four years have had to fire thousands of frontline healthcare workers, including 1,600 nurses. Almost 100 schools have closed – this government has closed more schools than any other government in the history of the province – with the province acknowledging they will close up to 300. (School Boards say that number will hit 600). The hydro debacle caused 60,000 families to have their power turned off – and 567,000 homes are in arrears.

It's all about priorities. And it appears what's happening to the people of Ontario is still not registering with the government. I get home to my Constituency Office every Friday, and it's here where you really get an understanding of why I said "This is not the Ontario we grew up in." Late last year, my office had a constituent who had their energy cut off. This caused their pipes to freeze and burst. Now, with no water, they were forced to shovel snow into their bathtub so that when it melted, they could bathe. To many, that is what Ontario now means to them.

If you would like to download previous monthly editions of the *Fedeli Focus on Finance* newsletters, or the three previous *Focus on Finance* books, go to **www.Fedeli.com** and click on the *Focus on Finance* link under *Media*.

In addition, if you would like to receive future editions of the *Fedeli Focus on Finance* newsletters, please subscribe at the same link.

A little bit about Victor Fedeli ...

Victor Fedeli is a life-long entrepreneur, specializing in communications. He opened his first company in 1978 and grew the firm into a wildly-successful full-service marketing company. In 1989, his Fedeli Corporation was named **34th in the 50 Best Places to Work in Canada!**

In 2003, Vic successfully ran for Mayor of the City of North Bay, and served two terms. Few people get an opportunity to re-shape a City, and Vic took great advantage of his opportunity while Mayor. Simply put, he and his wonderful team of Councillors restored hope and restored solvency.

In 2011 Vic was elected as MPP for Nipissing. He was named Official Opposition Energy Critic, eventually heading up the Gas Plant Scandal Hearings. After serving two years, he was named Finance Critic.

In this role, Vic began publishing ***Fedeli Focus on Finance***, a monthly series of newsletters offering an in-depth look into the finances of Ontario.

His shocking revelations – through once-confidential internal government documents released in the Gas Plant Scandal Hearings – are what prompted the writing of the first ***Focus*** book. As witnessed throughout the pages of this 4th book, the documents are still revealing startling facts about the inner workings of the government.

MPP Victor Fedeli joins Official Opposition Leader Patrick Brown in the Queen's Park Media Studio, as Patrick answers a reporter's question.

May 2017