FOCUS ON FINANCE 3

A LOOK INTO ONTARIO'S FINANCES

VICTOR FEDELI, MPP
OFFICIAL OPPOSITION FINANCE CRITIC

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INTRODUCTION

Welcome to the Focus on Finance series; my look into Ontario's finances. This year's cover tells a story on its own. Credit card references made their way into many of my speeches last year, so it seemed appropriate to feature them on the cover of this book.

With eight consecutive years of billion-dollar deficits, and with interest on debt costing us almost a billion dollars a month, the government borrows money to pay off the interest on the money they already borrowed! That's like using their VISA card to pay off their MasterCard, every month!

With Ontario's debt set to reach $308 billion, I have urged the government to start using their Debit Card, instead of their Credit Card, to pay their bills. And to stop spending money we don't have, to pay for programs we don't need! Every family knows that.

I look forward to the day in Ontario when this cover graphic no longer makes sense!

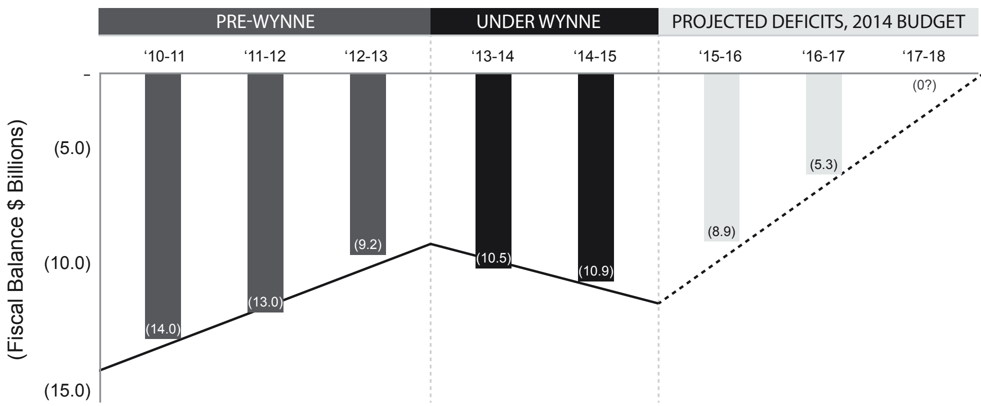
Focus on Finance, either this annual book or the monthly newsletter, is intended to shine a light on Ontario's finances. What we've disclosed over the past few years, is a deliberate and disturbing plan by the government to artificially achieve a balanced budget by 2017/18.

We learned there was doubt within the government's own Ministry of Finance. This was discovered through the 300,000 documents eventually recovered from the Gas Plant Scandal Hearings. However, the government continued to tell the public one thing, which was completely opposite of what they knew to be factual. Here is an inter-governmental, once-confidential quote retrieved from the documents, followed by a government statement, released only a month later. You decide whether to believe a confidential briefing document given to Cabinet – one that was never intended to be seen by the public, or a statement by the government on Budget Day.

> For 2014-15 and 2015-16, not on track to meet 2012 Budget deficit targets
>
> *- Confidential Ministry of Finance document, March 2013*

> The government is on track to eliminate the deficit by 2017-18
>
> *- 2013 Ontario Budget, page 103*

Despite the government's public insistence that they are on track to balance, the following chart illustrates the actual direction of their deficits, and what would have to occur to achieve balance.



As the chart indicates, something very dramatic would have to happen to change the direction of the deficits. Either spending would have to be drastically reined-in, or revenues would have to spike by many billions. But spending has continued to outpace growth, and with a softening economy not producing anticipated revenues, there was no path to balance. A bold plan was hatched.

The government made the decision to sell assets and put the money into general revenue, thereby reducing the deficit – at least artificially – and only for a few years.

These facts will be laid out for you, almost as systematically as the government unfolded their plan. Except unlike the government, who went to great pains to disguise their plan, we will dissect it for you to see – and let you be the judge.

PREFACE

Let’s begin with the remarks I gave at the launch of the Focus on Finance 2 book, just a couple days before last year’s 2015 Budget was unveiled. This News Release that accompanied my speech was harsh and direct.

> As the Legislature prepared to debate an Opposition Day motion on the 2015 Budget today, Ontario PC Finance Critic Vic Fedeli released his Focus on Finance 2 book, which highlights the persistent pattern of the government’s number-fudging and deception.
>
> “From understating the cost of the gas plant scandal and smart meters, to missing their revenue targets by half-a-billion dollars in the Fall Economic Statement, the government time and time again has been dishonest with Ontarians about the state of the province’s finances,” said Fedeli.

Here are my remarks to the media …

> When I released my most recent edition of the Fedeli Focus on Finance newsletter a couple of weeks ago, I had hoped the government would address the serious questions I raised. Sadly, but not surprisingly, they have failed to do that.
>
> So, to coincide with our Opposition Day motion today that represents the five budget asks from the Ontario PC Caucus, I am launching Focus on Finance 2; the second book to highlight how the government has dug the hole they now have us in, and how they continue to try to conceal the truth about Ontario’s finances from taxpayers.
>
> As I’ve outlined previously, experts continue to express skepticism about the government’s claim they will balance the budget by 2017-18, and have urged them to change course.

Moody's debt rating agency changed its outlook from 'stable' to 'negative'. Fitch downgraded our credit rating to AA- saying "budget options are likely to prove more limited given the extent of actions taken to date and use of one-time actions – read asset sales – to achieve targets."

Maclean's called their 2014 plan a "unicorn budget." The Conference Board of Canada said Ontario can't meet its pledge to balance the books by 2017/18 without spending cuts or tax hikes.

The Ontario Chamber of Commerce says "We are likely to reach a state of crisis unless the province cuts spending and changes the way it does business." The Canadian Federation of Independent Business declared "97% of small businesses are concerned about the state of Ontario's economy, with 67% very concerned."

Again, here's why all this focus on debt and deficit is so important. 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."

Her biggest concern was "the crowding out of other spending." We now have less money for the things our citizens expect from their province. And we're seeing it happen right now. Hospitals cutting nurses and other front line care workers. Seniors physiotherapy, cataract surgeries, diabetes testing strips, all cut. The expediting of school closures; putting teachers out of work.

The government has done nothing to discount expectations that they plan to feed their spending addiction with proceeds from one-time asset sales, which amount to burning the furniture to heat the house.

It will make the deficit numbers look artificially lower, while our TOTAL debt continues to rise, surpassing $300 billion.

The government claims it will dedicate these asset sale proceeds to transit and infrastructure, but their own legislation dictates that money be deposited into general revenues. And in Hydro One's case, they plan to either break or change the law dictating that it goes to paying down the debt of the Ontario Electricity Financing Corporation.

The real problem is, and the Canadian Forum for Policy Research confirms it – "Ontario is plagued with a structural deficit" – a fact backed up by respected economists such as Jack Mintz.

Unless this government is ready to tackle its spending addiction, they can't balance the budget.

So, today the Legislature will debate our Opposition Day Motion that states the 2015 budget should include the following:

- An announcement that the Ontario Retirement Pension Plan will not be pursued as it places an enormous burden on businesses and will kill jobs in the province;
- A commitment that a carbon tax, or its close cousin, a cap and trade process, not be adopted as it is a cost that Ontario residents and businesses cannot afford;
- A plan to fix homecare by streamlining the system to reduce the number of agencies patients must deal with and by tying CCAC funding to outcomes and clearly defined results;
- A commitment to reduce energy prices so that all people and businesses no longer have to be paying some of the highest energy costs in North America; and last but most importantly;
- A serious, credible and detailed plan to balance the budget by 2017-18.

A PLAN WAS HATCHED

A Plan Was Hatched

Despite warnings from so many respected organizations that without reigning in spending there is no hope to balance the budget, the government had a plan of their own. They would begin a systematic sale of assets, put all of that money into general revenue, but tell the public it will be used for transit and infrastructure. After all … don't you want better roads and highways? Don't you want new subways and LRTs? Are you against growth and progress? Don't you want to 'build Ontario up'? Those would be the lines the Premier, her Cabinet, and all the heckling MPPs would use in the Legislature and in the media. Except that was not what the proceeds from asset sales were for. The money was really to be used to artificially balance the budget by 2017/18 (yes … that's the next election year). But they needed a long, drawn-out plan to make it work.

The 2015 Budget is where the technical requirements to use proceeds from the sale of assets were first put into play. However the plan was set in motion months earlier.

Selling Hydro One

The discussion regarding the sale of our Hydro One public utility began in late 2014, when the Premier's Advisory Council on Government Assets (The Ed Clark Report) was first presented. Entitled *RETAIN & GAIN: Making Ontario's Assets Work Better for Taxpayers and Consumers*, the committee had a defined mission. They were to recommend ways to maximize the value of the LCBO, OPG, and Hydro One. They were to take into account the government's preference to retain core assets in public ownership and look for ways to improve customer service. Their conclusion: the Province "can retain all three core companies and significantly improve their performance." In fact they concluded "Hydro One transmission should remain in public hands as a core asset." That was then; this is now.

Something happened along the way to Ed Clark's final report, issued only five months later, just days before the 2015 budget. *Striking the Right Balance: Improving Performance and Unlocking Value in the Electricity Sector in Ontario*, claimed their thinking "evolved." They now concluded that the Province should sell a majority interest in Hydro One, through share sales to the public.

The government realized what the Ministry of Finance had been saying all along: there is no plan to balance the budget; they are not on track to meet their deficit targets. So they opted to put into play a bold plan. They would sell off assets to artificially balance the budget, yet tell the public the money was going into transit and infrastructure.

Let's just look at the facts: The government passed the 2014 budget in July, and only four months later had to come back to the Legislature, cap-in-hand, looking for $500 million more. The 2014 deficit was $10.9 billion, up from the previous year's $10.5 billion, which itself was up from the previous $9.2 billion deficit. Between rising spending and not meeting their revenue targets, the government realized its numbers were all headed the wrong way. So they needed the money from a fire sale of Hydro One – and hoped nobody would notice.

First, for weeks they leaked stories to the media about beer and alcohol … will she… won't she… what will she do? On rollout day, the Premier announced the sale of Hydro One under a massive banner that read BEER IN GROCERY STORES. She boldly stated that allowing a six-pack to be sold in a limited number of GTA grocery stores was the most dramatic change since Prohibition. And oh, by the way, we're selling Hydro One.

They announced that up to 60% of Hydro One would be sold, yielding $9 billion. Of that, $5 billion was to go to pay down Hydro One debt, and $4 billion was to go to 'transit'. Every media story said they were selling Hydro One so they could invest in transit and infrastructure and stop the gridlock. But this is where their story really starts to unravel.

I snapped this photo the moment the Premier announced she was selling Hydro One. Yes, the most significant sale in the province's history was done under a BEER IN GROCERY STORES banner as a distraction.

Budget 2015: Trick or transit -

In the 2015 Budget, the government boasted a $130 billion, 10-year transit and infrastructure plan, and portrayed it as a massive new investment. And selling the shares of Hydro One was touted as a critical piece of the infrastructure puzzle. However, if you look at the 2014 Budget, the exact same $130 billion transit and infrastructure commitment had already been announced, except it didn't require a $9 billion fire sale of Hydro One to make it work.

In fact, in both the 2014 and 2015 Budget documents, the government put forward similar plans to pay for this $130 billion investment. They included devoting 7.5 cents from the provincial gas tax, using revenues from the existing HST on the provincial gas tax, high occupancy toll lanes, and the aviation fuel tax increase, among other measures. In Table 1.1 (next page), the 2014 Budget included a smaller amount of proceeds from asset sales – $3.1 billion over four years, to be exact. A significant chunk of that had already been realized through the sale of Ontario's remaining GM shares; $1.1 billion in net proceeds. There was no mention of, nor an expenditure of the $4 billion now required from Hydro One.

TABLE 1.1 Dedicated Funds for Moving Ontario Forward
($ Billions)

	2014-15*	2015-16	2016-17	2017-18	10-Year Total
2014 Budget: Dedicated Funds	3.3	3.3	3.0	3.2	**28.9**
Projected Asset Optimization Target (Including Contributions through the Trillium Trust)	1.1	1.0	0.5	0.5	**3.1**

2015 Provincial Budget, page 45

Given that the government already had its transit and infrastructure plan costed out, the proposed sale of Hydro One and the claim that it's necessary to fund transit was met with raised eyebrows. The Ottawa Citizen's Randall Denley best summarized what the government is doing:

> 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*

In the Legislature, the government never fails to insist the proceeds from Hydro One are to pay for infrastructure. They continue to announce other transit routes the money will fund. But there's another reality the government would prefer we ignore – the $13 billion annually is for total capital spending – not just on transit and infrastructure. Approximately 60% is for bricks and mortar, 11% for equipment, 5% for IT, and 20% for transit. And a further fact … the current commitment is actually down from the $13.5 billion annual commitment the government made in the 2013 Fall Economic Statement.

Hydro One sale impact

As stated, the plan to sell up to 60% of Hydro One is expected to generate $9 billion; $4 billion ostensibly for transit and infrastructure, and $5 billion against the $27 billion Hydro debt. That debt is held by the little-known Ontario Electricity Financing Corporation (OEFC).

Prior to the 2015 Budget, Ontario law stated that all proceeds from the sale of Hydro One must be directed toward paying down that debt. Section 50.3(1) of the Electricity Act was put in place by the former government to ensure that the money from any sale of Hydro One would be used to pay down debt and provide relief to hydro customers through lower rates. As well, the $700 million in annual revenue from Hydro One is used to pay down the OEFC debt. However, Ed Clark announced the government will simply change the law so that it can use those proceeds for other purposes. By applying only a portion of the sale proceeds against the debt, and by diluting the ownership and consequently lowering annual revenue, a serious problem arises. There is less money available to pay an even larger-proportioned debt. The difference will have to come from the beleaguered ratepayers. As energy analyst Tom Adams put it "the debt represents future locked-in rate increases."

> "Filling the hole that (Ed Clark) is creating at the OEFC results in a rate increase that he's not talking about ... this is a shell game".
>
> *- Tom Adams, Toronto SUN, April 25, 2015*

Covering their tracks

As the expression goes ... the devil is in the details. After the budget was presented, we received a binder of 45 Schedules. This is where the actual details of the Bill are laid out, and this is where we learned the Hydro One oversight Ontarians rely on was going to be eliminated. On April 28 2015, the day after the budget binder was delivered to us, I revealed this to the Legislature:

> "The moment even one single share is sold, Hydro One will no longer be deemed an Agency of the Crown. Schedule 3 strips the Auditor General of powers – no more value-for-money audits over there. Schedule 10 cuts out the Financial Accountability Officer after six months. In Schedule 11, the Financial Administration Act is amended to limit our ability to obtain any information on Hydro One. In Schedule 13, Freedom of Information no longer applied to Hydro One – we don't get to know a thing. Schedule 38 removes Hydro One from the Sunshine List. That was one of the most controversial disclosures last year. Under Schedule 22, Lobbyists don't have to register any longer. Schedule 23 excludes Hydro One from the oversight of the Management Board of Cabinet Act. Schedule 28 takes Hydro One out of the Municipal Freedom of Information. Schedule 30 guarantees the Ombudsman would no longer be able to investigate Hydro One – you're going to put your own person in that role. Schedule 37 means no more Integrity Commissioner."

This was a sobering revelation of just how serious the government was to make sure the Legislature and the public had no access to the deals they were making for Hydro One.

In the following weeks, the Auditor General and several other Officers of the Legislature took the unprecedented step of writing a joint letter in opposition to the government's plan to remove their oversight of Hydro One. In the Bill's original form, the moment one single share of Hydro One is sold, those officers would no longer have oversight over its operations.

Here is the May 14 Statement from Ontario's Independent Legislative Officers.

> Ontario's Independent Officers of the Legislative Assembly are calling on the provincial government to reverse plans in the Budget Bill that they believe will significantly reduce important oversight powers.

The Officers report to the Assembly, not to the government of the day, and provide independent, expert reports and analysis of government operations and service delivery. We take seriously our legislated authority to hold government and provincial agencies and corporations accountable on behalf of the Legislature and all Ontarians.

The Officers believe that the government's proposals in Bill 91, the *Building Ontario Up Act (Budget Measures) 2015*, will reduce the scope of the reviews that can be conducted on behalf of the people of the province. They encourage the government to reconsider its decision to remove Independent Officer oversight of Hydro One and its subsidiaries, given that the government will control Hydro One assets well into the future.

The Officers are concerned that while the government intends to eventually hold 40 per cent of Hydro One over the long term, their ability to assess its value and quality of service, among other matters, would be eliminated, either upon the Budget Measures receiving Royal Assent or within six months of that date. Passage of the bill would result in the following:

- The Auditor General would not be able to conduct performance audits of Hydro One and its subsidiaries.
- The Ombudsman would have no ability to investigate public complaints about Hydro One and its subsidiaries.
- The Information and Privacy Commissioner would no longer be able to oversee the right of access to records held by Hydro One.
- The Financial Accountability Officer would not be able to examine the impact of planned Hydro One operations on consumers or the economy.
- Lobbyists would no longer be required to report whether they are lobbying Hydro One and its subsidiaries.
- The Integrity Commissioner would no longer review Hydro One expense claims to ensure prudent spending of taxpayer dollars.
- The French Language Services Commissioner remains concerned that Hydro One and its subsidiaries would never be subject to the French Language Services Act.

> The government would take the revenue from its Hydro One stake and reflect it in its consolidated revenues, and yet Ontarians would receive no operational information on Hydro One from Ontario's independent Legislative Officers.
>
> The work of Ontario's Officers depends first and foremost on their independence from government. This principle is sacrosanct because there is value to independence, to the public trust in government.

The statement is signed by the eight Independent Officers of the Legislature.

It's worth noting that the eight Officers acknowledged "The government would take the revenue from its Hydro One stake and reflect it in its consolidated revenues." They knew right away what this was all about – putting the sale proceeds in revenue to fluff up the books and artificially reduce the deficit.

One week later, at the Budget Committee Hearings, the Auditor General appeared and offered this further comment.

> "Our 2014 value-for-money audit of the province's Smart Metering Initiative and two of our value-for-money audits currently under way—Electricity Power System Planning, and Electricity Transmission and Distribution—are examples of work that we would not be permitted to do once the proposed amendments take effect."
>
> *- Auditor General Bonnie Lysyk, Budget Committee Hearings, May 21, 2015*

But cutting out the Officers in six months apparently didn't go far enough or fast enough for the government. The government quietly introduced amendments to the Budget Bill at the 11th hour, to allow the transfer of Hydro One securities to a holding corporation, which would immediately remove the scrutiny of those Legislative watchdogs, upon passage of the Bill. So now, not only will the future operations of Hydro One be kept from their scrutiny (and the Legislature's), but the entire sale process itself. The government has made this even less transparent than what they first announced in the budget.

Mistrust of the Trillium Trust

There is yet another area of the Budget that requires disclosure. In the 2014 Budget, the government established the Trillium Trust to hold funds from asset sales to be dedicated to transit. However, they left a couple of major loopholes in their own legislation. The Bill actually states they <u>may</u> put a <u>portion</u> of any proceeds from what it deems <u>qualifying</u> asset sales into the Trust. Yet proceeds actually are deposited into general revenues, not the Trillium Trust. We brought amendments to the Finance Committee before the Budget was passed, in an attempt to close these loopholes.

We wanted to see the word MAY changed to MUST and the word PORTION changed to ALL. This way at least we could be assured that all revenue actually made it to this Trillium Trust. But the government would have no part of that. After all, that would thwart their plans.

The first amendment attempted to have the government define exactly what a qualifying asset is compared to a non-qualifying asset. The second asked the government to designate an asset a qualifying asset within 90 days after disposition of said asset. The third would have had the Auditor General provide the Legislature with an annual report to list what qualifying and non-qualifying assets had been disposed of, and where the proceeds from those sales went.

Unfortunately, the government voted down all these amendments. Fast forward to the 2015 budget. Just prior to Committee hearings, the government proposed its own amendments which it claimed to fix the loopholes we identified. But in fact, their tepid attempt to fix the loopholes only created another loophole. The amendments stated that the Trillium Trust would be credited after asset proceeds were deposited into general revenues. But it didn't define what after means – after 90 days? 365 days? Five years? It would have allowed the government to continue to be able to skew its finances to appear different than they actually are in order to make its massive deficit look smaller. Thankfully, their amendments were ruled out of order. But as you'll soon see, they put in other remedies to achieve their original goal.

Let's end this section on the 2015 Budget with my question to the Premier, the first day the Legislature returned after the budget was presented. "Premier, your budget is just more of the same. In many instances, it's actually a re-announcement from last year. Take the investment in infrastructure you just spoke of. It was actually word for word in last year's budget, except last year you only needed $3 billion from asset sales to make it work. Now it needs the sale of the GM shares, $9 billion from the sale of Hydro One, the LCBO headquarters, and the OPG building. It suddenly needs all those now to make it work. You're selling public assets to pay for what was already budgeted. It's a shell game. You're really using the money from the sale of Hydro One to reduce your deficit. And without the hydro revenue, you are going to be increasing hydro rates to pay off the mortgage. Premier, why do you continue to increase our hydro bills to pay for your mistakes?"

The simple answer … they planned to use all of the Hydro One sale revenue to artificially reduce the deficit, no matter what it does to hydro bills. As we saw with the billion-dollar Gas Plant Scandal, the government continues to use the electricity sector as their own personal piggybank.

But they needed to make a few more moves to make their plan a reality. We'll get to those shortly, but first, following the chronology, we need to hear about the IPO prospectus, and then the Financial Accountability Officer weighs in.

The prospectus

On September 18, the government took the next step towards selling Hydro One. They filed a prospectus for an initial public offering of the electricity transmission utility. A preliminary prospectus was filed with the Ontario Securities Commission and their counterparts across the country.

The government planned to raise $9 billion from the sale of 60% of Hydro One. It owns the province's transmission grid, and serves 1.4 million customers as their electricity provider, mostly throughout rural and Northern Ontario.

In sticking to her lines, Premier Wynne says the government needs the money from the sale "to help fund a 10-year, $130 billion program for public transit and infrastructure" although she stated $5 billion will be used to pay down Hydro's debt.

What she failed to talk about was the government's alarming compensation packages to Hydro One executives totalling $24 million; $4 million alone for the CEO. In fact, the CEO's golden parachute, if fired without cause, is two years' pay, including base salary and short-term incentive pay.

One immediate result of the prospectus filing was a Moody's downgrade of Hydro One debt, from A1 to A2, with the "high probability" of another downgrade with the pending IPO. At least Moody's figured out that if you take $9 billion out, and remove the $700 million annually it generated to pay their loans, and only put $5 billion against those loans, you still have a large annual loan repayment – and no revenue to pay it with!

The plan has also made current lenders jittery. Hydro One's lenders were concerned their interests were being sacrificed in favour of the upcoming shareholders. Once the province announced details of the upcoming IPO, creditors demanded a five to 10 basis point premium over other government securities. Hydro One bonds have declined 4.2% since the initial April announcement of the sale, while Canadian corporate bonds fell 1.5% in the same timeframe.

Adding to the lender's worries is the fact the annual Hydro One dividend of $287 million will be eclipsed. The prospectus says the "annual amount of the dividend is anticipated to be approximately $500 million". Further, the prospectus indicates the new Hydro One may look to acquisitions in Canada as well as the U.S. They plan on increasing borrowing by $800 million, bringing their debt closer to 60% of total capital, fueling bondholders' fears.

And it was revealed the two largest Hydro One unions will receive shares, in return for them making greater payments in their pensions. In fact the government will go so far as to loan the groups the money to buy the stock. The Power Workers Union will receive a loan of $75 million and the Society of Energy Professionals will receive $12 million to buy Hydro One shares. Interest on the $87 million can be paid out of the quarterly dividends. PWU members at OPG, an unrelated company, received a similar deal.

Financial Accountability Officer speaks out

Established by the *Financial Accountability Officer Act, 2013*, the Financial Accountability Office (FAO) provides independent analysis on the state of the province's finances, trends in the provincial economy, and related matters important to the Legislative Assembly of Ontario. Stephen LeClair was appointed as Ontario's first Financial Accountability Officer in February, 2015. On his own initiative he undertook to produce *An Assessment of the Financial Impact of the Partial Sale of Hydro One*, as his first-ever report.

Page 1, Essential Points reads, "The initial 15% sale of Hydro One would significantly reduce the province's deficit in 2015-16." The government can continue to pretend this is all about transit and infrastructure, but there was no fooling the FAO. He goes on to say, "In years following the sale of 60% of Hydro One, the province's budget balance would be worse than it would have been without the sale." He concludes with, "The province's net debt would initially be reduced, but will eventually be higher than it would have been without the sale."

The entire 40-page analysis breaks down how he reached his conclusions. After he presented his findings, he opened up for a Q&A. The FAO talked about the importance of this analysis, to the (limited) point he was able to examine the data. For instance, he asked the government how they achieved their evaluations, but was denied access with the government claiming Cabinet Confidentiality. He got the same answer when he asked about how the government is handling the Residual Stranded Debt. When it came to his question on how the government accounts for the $130 billion in transit and infrastructure, he received no answer.

In the lock-up, the government went on the offensive, accusing him of leaking the documents to the media the previous night. Stephen LeClair responded that other than his Officers he only gave an advance copy to the government; something "I may have to re-think in the future."

I brought out the budget chart (same one on page 19) where it shows the $130 billion in transit and infrastructure did not include the proceeds from the sale of Hydro One and asked the FAO his thoughts. His answer … "You've already figured it out."

Here are some additional FAO's responses in the Q&A session. "Province's fiscal position deteriorates because of loss of net income generated by the sale." "This is a financing decision. Do you borrow or do you sell an asset?" "Immediate gains; loss of revenue over the long term." He summed up his report with these quotes to the media, "The province's fiscal position will deteriorate compared to if they didn't undertake this sale." "The sale of Hydro One will have an immediate improvement to the province's balance sheet, but because of the loss of net income that results from the partial sale, there will be a subsequent worsening of the government's fiscal position."

Despite the FAO revealing the true intent of the sale (and the fiscal consequences of it), the Premier stuck to her story that she needs to sell 60% of the utility to raise money for her 10-year, $130 billion plan for transit and infrastructure.

The plan is exposed

A little later in the book, where we talk about the government's fun with numbers, I'll get into the Fall Economic Statement. But for the purpose of this chapter on Hydro One, I will draw your attention to conclusive proof of the government's plan, found within the Fall Economic Statement.

In that report, the government claimed they would reduce the 2015/16 deficit from $8.5 billion to $7.5 billion. But they only achieved this number by booking the proceeds from the sale of Hydro One as revenue. This is proved by the quote on page 100 which reads: "This increase (in revenue) largely reflects the government's progress on its asset optimization strategy related to the recent Hydro One initial public offering." On page 101, the government breaks down its extra $1.245 billion in revenue, with $155 million coming from traditional taxes and $1.09 billion coming from (the sale of) Hydro One.

By this point the government's plan was exposed beyond any doubt. But they still needed a mechanism to get that money into the Trillium Trust to show they spent it on transit and infrastructure, and then somehow back into general revenue to fulfil their need to lower the deficit. This is where Bill 144 comes in.

Without any prior notice, the government put forward Bill 144, a 23-Schedule Finance Bill. This is basically a mini-budget. It covered a wide variety of issues from the Electricity Act, Alcohol Reform, Contraband Tobacco, Labour Relations Act, Licence Appeal Tribunal, OLG, Securities Act, Horse Racing Licence Act, and so on. This is virtually unprecedented to have a major omnibus piece of Legislation trotted out one day, time allocated after only two days of debate, sent to Committee for two days of rushed public hearings, and brought for a final vote. The entire process took only 14 sitting days!

It was obvious this less-than-transparent government was up to something. We pored through the schedules, one-by-one. When the 167-page book was almost finished, there it was, buried in the second-last schedule at the bottom of page 162. One single sentence. Schedule 22, the Trillium Trust Act 'Authorized Expenditures' Item 7(1) Amounts not exceeding the balance in the Trillium Trust may be paid out of the Consolidated Revenue Fund for the following purposes: Paragraph 1. To fund, directly or indirectly, costs relating to the construction or acquisition of infrastructure. Paragraph 2. **To reimburse the Crown for expenditures incurred by the Crown, directly or indirectly, for a purpose described in Paragraph 1.**

That's it ... that one tiny sentence, buried deep in the book, revealed what the entire Bill was simply a cover for. It allows the government to take the proceeds from asset sales and reimburse themselves for money already spent on the construction of transit and infrastructure.

This was a long and convoluted plan, carefully crafted and spread over a year, with each piece of the puzzle not appearing to be part of a bigger picture.

Now that it has been fully exposed, we can acknowledge that Ontario has a structural deficit, and masking it with one-time asset sales is not the solution to this problem.

The remainder of the book will expose many other deficiencies and give you a real look into Ontario's finances.

MORE ALARM BELLS

More Alarm Bells

Once the 2015 budget passed, the government was determined to get on with their agenda. But they were plagued with stories about waste, mismanagement, and scandal. This next chapter will take you on a chronological review of financial events which occurred between the 2015 and 2016 budgets.

This month-by-month review starts less than a week after the 2015 budget was presented. The Auditor General came out with a Special Report on Winter Highway Maintenance. Her audit found that in 2009, the government made a significant change to the way they contracted out winter road maintenance in an attempt to save money. The change saved the Ministry of Transportation $36 million, but it did so at the cost of Ontario's roads not being as well-maintained in the winter as they used to be.

Auditor General Bonnie Lysyk stated, "Essentially, the new performance-based contracting approach gave contractors full autonomy in determining how they would meet the Ministry's winter highway maintenance outcome targets (standards) to clear the highways of snow and ice within prescribed time frames. The amount of snow plows, salters, and other equipment, as well as the amount of salt, sand, and anti-icing liquid used was left solely up to the contractor." Sadly, in one contract area, anti-icing-liquid use over the winter season went from an average of 3.2 million litres under the original contract to 9,500 litres in the first year of the new performance-based contract.

"In the past, highways were cleared much faster," the Auditor told reporters, noting that "preliminary results show an increase in the number of deaths on Ontario highways in 2013 where snow, slush, or ice was a factor." In my own riding of Nipissing there were 10 winter driving-related deaths within eight days over the Christmas holiday; all were kids under the age of 20.

Days later, Ontario first heard about the debacle over SAMS, the Social Assistance Management System, with the release of a PricewaterhouseCoopers report. SAMS is the software responsible for processing social assistance and disability support payments, and has been plagued with problems since its implementation the previous fall. The Ministry of Community and Social Services has been working on the project since 2010, and the original launch date for SAMS was June 2013. This was first postponed to November 2013, then further backed up to May 2014, and finally went live on November 11, 2014.

Training on the new software began in January 2014, but was inundated with performance issues, rendering the training ineffective. One of the Social Services Committees stated, "Thus far, our experience has been one of missed milestones, unmet timelines, lack of meaningful communication, and two delays requiring complete project rescheduling."

The report stated that although the original system cost $242 million, additional costs – including $10 million to pay municipalities for overtime dealing with the troubled rollout – have put the latest tally at $271 million.

The same day as the SAMS story broke, teachers in Peel joined the striking teachers in Durham and Sudbury. That brought the total number of students out of school to 71,000 and resulted in the longest teachers' strike in 25 years. Bill 122, the two-tiered collective bargaining Act, was blamed. This escalated into further chaos, leaving 817,000 students without EQAO testing; an important progress assessment. Next, administrative duties were withdrawn by the Elementary Teachers' Federation of Ontario (ETFO). A month after the first strike, the Minister of Education tabled back-to-work legislation. This caused the elementary teachers to ramp up their work-to-rule campaign, and they stopped writing transition reports and stopped participating in transition meetings for grade 8 students. They also announced they would not plan field trips and would not participate in professional development.

The Minister of Labour brought in Bill 103, *Protecting the School Year Act*, an Act to resolve labour disputes between the Durham District School Board, Rainbow District School Board, and Peel District School Board, and the Ontario Secondary School Teachers' Federation. Days later, the Legislative session ended for the summer, and as you'll see later in the book, all it took was a few million here and a few hundred million there, to bring a resolution.

But before the Legislative session ended, and before the budget was voted on, the Auditor General had one more Special Report to deliver. Bonnie Lysyk delivered her report entitled *The Government's Proposed Amendments to the Government Advertising Act, 2004*. Her report opened with, "I am issuing this special report to the Legislative Assembly to inform Members of concerns I have with the government's recently proposed amendments to the GAA, as I believe they may well impact the credibility of my Office."

Before the budget, she had the authority to review most advertising proposed by the government to ensure that it is non-partisan and meets legislated standards. If the budget Bill passed she stated she would "be put in the untenable and unacceptable position of having to approve an advertisement … even though, in my opinion, it is clearly a partisan advertisement." She would no longer be able to consider factors such as political context, the use of self-congratulatory messages, factual accuracy, or an advertisement's criticisms of other political parties.

She ended by asking the government to relieve her Office of its advertising review responsibilities, because "taxpayer-funded partisan government advertisements could very well see the light of day."

As a result of the budget Bill passing, the discretion of the AG's opinion on whether ads meet the standards is removed, a new definition of 'partisan' removes any discretionary authority the AG and her panel of experts could exercise, and it empowers the government to run any ad it chooses – even during an election period!

When the Auditor warned that the government's proposed changes would amount to "free campaign advertising" the government pointed the finger at the AG, even though her office had rejected less than 1% of the government's proposed ads. It's clear the government was looking to control the damage to their reputation – particularly when they can get someone else to pay for it. You'll read more about this later in the book, when we cover the AG's Annual Report.

The summer offered no reprieve for the government. Worldwide, the financial focus was on the economic crisis in Greece and to a lesser extent, Puerto Rico, as well as the tumbling stock market in China. But lurking in the news were several disturbing Ontario stories, each with very serious financial consequences.

In just the month of July we saw a credit rating downgrade, an alarming report on the cost of energy, a warning from our auto sector, failed insurance premium reductions, and limits put on the province's Financial Accountability Officer.

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

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

S&P downgrades Ontario debt rating

- Maclean's magazine headline, July 6

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

This should not have come as a surprise to anyone.

In her 2014 year-end report, Auditor General Bonnie Lysyk said "Ontario's debt continues to grow faster than the province's economy, which could have negative implications for the province's finances." She concluded the consequences of high debt include "the crowding out of other spending, greater vulnerability to a rise in interest rates, and a possible downgrading of the province's credit rating which would lead to higher future borrowing costs." Once again, you'll read more about this later in the book, when we cover the AG's Annual Report. Shortly after her report was released, Fitch downgraded Ontario from AA to AA-.

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

Instead of sitting up and taking notice of the harsh words and even harsher reality, the government tried to convince everyone that somehow this was good news. It was embarrassing to watch them spin their fifth downgrade into a good news story – and many media mocked them for their attempt.

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

- Financial Post headline, July 8

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

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

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

The Canadian Federation of Independent Business (CFIB) also called on the government to address electricity troubles facing the province. "Electricity rates are a key component of keeping the province's firms competitive in the economy. Unfortunately, over the past three years, the majority of Ontario's small and medium-sized businesses (85%) have seen their hydro rates skyrocket, despite not having increased consumption and having implemented energy-efficient measures to control costs," the CFIB stated in a release.

In a Financial Post article, Ross McKitrick, Professor of Economics at the University of Guelph and Tom Adams, an independent electricity consultant, commented: "With the Canadian economy inching towards recession, the Chamber has burst the bubble of official silence around Ontario's electricity policy disaster. They have exposed the link between rising power costs and provincial economic stagnation. This is a major policy disaster and it will require a major course correction to fix it."

To put a real feel to what the government's failed energy policy has done to Ontario, let me relate a story and how it played out. A few years ago, when I was first appointed Energy Critic, I embarked on a 62-city tour, meeting with various energy stakeholders. A greenhouse owner in the Chatham-Kent-Essex area toured me around and spoke of his plans to double the size of his operation. Being that this is an extremely energy-intensive business, he was looking to the government for a solution to his skyrocketing costs. This summer I ran into him and asked, "Did you ever double the size of your greenhouse?" He said, "Yup, I spent $100 million, and hired 100 people." Sadly, he went to Ohio to do it! Then he told me of his buddy who spent $85 million to expand his greenhouse operation – in Pennsylvania.

Fiat Chrysler CEO fires warning shot at Ontario

- Globe and Mail headline, July 10

Ontario's manufacturing sector has been in a long downhill slide, with 300,000 jobs lost over the last 12 years. The Ontario Chamber of Commerce issued a letter, signed by 150 major employers and trade associations, expressing "serious concerns over the proposed ... Ontario Retirement Pension Plan." (You can read about this and all aspects of the ORPP later in the book).

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

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

Hydro One goes dark

- Financial Post headline, July 8

I've already exhausted the details surrounding the sale of Hydro One, but at this point in July, the FAO was just getting started.

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

But LeClair has been told by senior bureaucrats that details of the Hydro One deal fall under Cabinet secrecy. A letter signed by both the Deputy Ministers of Finance and Energy stated "Because much of the requested information ... would disclose advice, analysis, and recommendations prepared for the consideration of the Treasury Board and Cabinet ... will limit the material that we will be able to provide in response to your request."

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

Ontario falls short on auto insurance promise

- Toronto Star headline, July 15

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

This failure illustrates the government made a promise without a plan. Remember, they promised the 15% reduction to the NDP in exchange for their support of the 2013 budget. They have ignored potential reforms to the system that would have an immediate and significant impact on costs and ultimately premiums paid by consumers.

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

July was quite a month for the Ontario government, and it produced further evidence that the province continues to head down the wrong path. Our fifth downgrade, the implications of skyrocketing energy rates, high-level concerns over new taxes, broken promises, and warnings from the Financial Accountability Officer, should ring alarm bells for Ontario. The government continues to ignore the warnings of experts and instead engages in marketing spin, while expanding the shroud of secrecy, much like we witnessed during the Gas Plant Scandal.

Late in the summer, the Ombudsman came out with his Annual Report, and Hydro One was squarely in his sights. He targeted them either because this was his last opportunity to ever see their books, or they were the most-complained-about organization under his oversight!

Andre Marin's scathing report highlights a troubling amount of complaints related to Hydro One billing and customer services practices. With 3,499 complaints, this is the second year in a row that Hydro One has topped the list.

Here are a couple of examples of the treatment by Hydro One, exposed by Mr. Marin (you can find many more on the Ombudsman's website).

A woman was frustrated and confused by a dramatic increase in her electricity bills after her meter was changed – from $244 that July, to $403 in August, and up to $1,700 in January. She said Hydro One was unable to provide her with an explanation for the increases, other than to tell her to get her wiring checked. When Hydro One staff was asked to review the woman's file, they discovered an error on her account that effectively resulted in her being charged twice for the electricity she used. Hydro One corrected the error and gave her a credit for $2,613.77 for the overbilled amount, as well as a 12-month service credit of $288.84 to compensate for the poor experience.

Two weeks before Christmas, a woman was distressed to learn that Hydro One had taken $8,390 from her bank account. She had authorized automatic payments to the utility through her account, but was astonished by the unexpectedly large bill. When she called Hydro One to ask why the amount was so high, its customer service staff told her it was a "catch-up" bill to make up for 22 months of estimated billings that it determined were too low. Ombudsman staff raised the woman's case with Hydro One officials, who acknowledged that, in fact, they had failed to obtain a meter reading during the 22 months. They agreed to repay the woman the entire amount.

Unfortunately, the people of Ontario no longer have oversight at Hydro One, and so much to the relief of the executives there, we no longer will be able to dig deep to fix these problems – and we certainly will not have any ability to share them.

The Legislature returns every September to the release of the government's Public Accounts. While a budget looks forward, the Public Accounts is a major accountability document which presents the financial statements of the Province, provides financial highlights of the past fiscal year, and reports on performance against the goals set out in the budget.

The Public Accounts for the fiscal year include: the Annual Report of the Government of Ontario, the Consolidated Financial Statements of the Government of Ontario, the Report of the Auditor General on the Consolidated Financial Statements, and supplementary volumes containing detailed ministry schedules, details of ministry vendor payments, and the financial statements of significant government organizations. I'll focus on one of those organizations.

Ontera was the telecommunications arm of the Ontario Northland Transportation Commission, a provincial crown agency founded 114 years ago. Over many generations Ontario Northland has served as the economic development engine for Ontario's North, with passenger and freight rail, freight truck, bus, marine, air, and telecommunications service. Over the years they have retreated from freight trucking and air services, and drastically cut back their marine division.

In recent years, the government announced they would be divesting the Ontario Northland, claiming it would save $235 million. Thankfully, those Gas Plant Scandal confidential documents provided some startling facts. With massive severances and various other closure expenditures, we were able to determine that not only would a selloff of Ontario Northland not generate any funds, we estimated it would actually cost the government $790 million. We asked the Auditor General to investigate, and she informed us the actual cost to divest would be $820 million – over a $1 billion difference between what the province said they would save, and what we proved it would cost.

Nonetheless, the government went ahead and shut down the passenger rail line between Toronto and Northern Ontario, and sold the Ontera division to Bell Aliant. I have stood in the Legislature for over a year saying the Ontera sale will cost the taxpayers somewhere between $50-70 million – a number that was borne out by the AG's research as well. The government has constantly denied this number, but they couldn't keep the facts hidden forever. The Public Accounts confirmed the loss of $61 million on the sale of Ontera.

After paying off tens of millions in loans, tens of millions for a Northern fibre ring, and millions in severances, they sold Ontera for $6 million. To make matters worse, the report also declares the government paid $6.5 million to lawyers and consultants to advise them. These are the same people who took a $70 million asset, shopped it around so poorly as to render it useless (every competitor now knows their pricing model details), and charged fees higher that the sale price of $6 million.

During the month of October we learned so much more about the precarious state of Ontario's finances, and some revealing examples of how we got there.

In his report *Ontario: No Longer a Place to Prosper*, Philip Cross opens with "Ontario, once Canada's economic powerhouse, has experienced an historic reversal of fortunes." Cross points out that since 2003, economic growth in Ontario has lagged the national average every year, sending unemployment in the province above the national average for the first time on record in 2007, where it remained for more than eight years. Incomes fell below the national average in 2012, again for the first time ever. Most telling is that in 2014, Ontario lost its status as the number one destination in Canada for immigrants, and has experienced a net loss of population to other provinces since 2004. Ontarians have 'voted with their feet' – and gone elsewhere.

The Cross report states clearly that "nothing symbolizes what has gone wrong with Ontario more than its energy policy and the cost of hydroelectric power." We saw more evidence of this with the announcement that hydro rates went up another 3.4% on November 1. The peak hydro rate is now more than FOUR times what it was in 2003. Cross notes that high electricity and labour costs have "crowded out business investment" in Ontario, especially in the manufacturing and resource sectors. In fact, contrary to the government's boasts, business investment peaked in 2008, and has failed to regain this level. The report also notes the failure of the government to develop its own resource base, especially the Ring of Fire. Output from resource-based manufacturing fell 8.3% between 2007 and 2011. Every percentage point of growth lost represents $7 billion of GDP. Starting in 2003, Ontario's real GDP growth dropped below the average in the rest of Canada, and has consistently lagged for more than a decade. As a result, growth in Ontario between 2002 and 2013 was 15.8% compared to 26.8% elsewhere in Canada. Ontario's annual growth average was 3.2% between 1989-2002 and fell to 1.4% after 2002, where growth elsewhere declined from 2.9% to 2.4%.

Here, the government would quickly blame the recession (when I first sat in the Legislature in 2011, then- Finance Minister Dwight Duncan was blaming the Japanese tsunami). But that gap in growth of 11% was almost equally spread between the years before and after 2008; 5.1% compared to 4.8%. That fact completely debunks the government's story that the recession is to blame for Ontario's present state.

What Cross says adds to our current state, is actually the government's policy of higher spending, which boosts debt. In the seven years from 1994/95 to 2001/02, nominal government spending rose just under 13% or less than 2% a year (despite the major 2001 stock market crash of the high-tech sector). However, since that time, total spending nearly doubled, from $63.4 billion to $126.4 billion in 2013/14, a jump of 99.4% in a dozen years. Again, this cannot be attributed to any fallout from the recession. Spending growth averaged 8.7% a year from 2001/02 to2007/08 and 8.4% post-recession to 2010/11.

Net government debt in Ontario has increased from $138.8 billion in 2003 (when the government took office) to $287.3 billion in 2014. The combination of higher debt and flat growth lifted the debt-to-GDP from 27.5% to almost 40%, over the same time period. The government continues to state they want to return to "pre-recession debt-to-GDP levels of 27%" – but again, they throw the word recession in, as if to blame that number on the recession – where they really mean they would like to return to the levels they started with! Ontario's deteriorating financial condition has recently resulted in two debt rating downgrades, adding an extra $430 million a year in costs.

The Cross report also highlights flaws in the arguments being used to support the Ontario Retirement Pension Plan (ORPP). Not only does this plan mean people will have to accept a lower standard of living today, but it also equates to an income tax hike of $1,000 for an individual making the maximum contribution. Not only that, but the ORPP will add extra administrative burdens on employers at a time when job creation is absolutely key and the economy remains fragile. Even the Premier has admitted that the new government in Ottawa could "absolutely" negate the need for the ORPP, referring to the national discussion taking place on enhancing the Canada Pension Plan.

Cross concludes that Ontario's fiscal outlook is bleaker than the government would have you believe. Their poor policies and decision making is negatively impacting the province's bottom line even further, needlessly requiring taxpayers to pony up even more of their hard-earned money to pay for those mistakes.

Teachers' Union Deal

October ended with the revelation that Ontario paid $1 million directly to the high school teachers' union as part of a deal for labour peace. In addition, the government financed raises for teachers by diverting money from a special programs fund that was intended to assist struggling students. Those details were included in a 42-page confidential document the Globe and Mail released, which spelled out the terms of the three-year labour deal. In this highly-unusual deal, the government agreed to compensate the union for the cost of negotiations, citing the new bargaining system caused talks to drag on for an extended period of time.

The Globe and Mail stated, "The Liberals need to keep a strong relationship with the OSSTF, in part because teachers are key members of the party's political base and in part because no labour dispute draws more attention than those involving schools. The timing allowed the party to clear the dispute off its plate ahead of the federal election, in which Premier Kathleen Wynne campaigned hard for Liberal Leader Justin Trudeau."

The final deal shows the government paid the OSSTF millions of dollars and won few concessions. In addition it states, "The Crown shall pay to OSSTF the sum of one million dollars ($1,000,000) to offset the cost of central collective bargaining no later than 90 days after the ratification process." However, the deal does not offer any indication as to why the taxpayers are required to pay these expenses, considering the union collects dues from its 60,000 members for just this purpose.

As the days went on, we saw a sad performance from the government, who ended up saying the million dollars was for hotel rooms and pizza. Sadly, the number continued to grow, to $2.5 million, then to $3.74 million, as other payouts to other teachers' unions surfaced.

I rose in the Legislature to reveal a new set of statistics. "Speaker … the story concocted by the government to explain the millions paid out to the teachers' unions for hotels and pizzas is starting to show cracks. Last month's public accounts details Ministry of Education payments to hotel chains, so it's clear they do business directly with the hotels. Here's a sampling: Holiday Inn, $54,778; Westin, $56,826; Best Western, $87,413; Marriott, $254,665; and Sheraton, $301,313. If the government regularly pays for these hotels directly, why would they need to make payments to teachers' unions?" I followed up with, "The people of Ontario want answers regarding their finances. We now know that $750,000 worth of local hotels was booked by the Ministry of Education last year. Public accounts also details payments of nearly $600,000 for catering. It's clear the Ministry of Education paid for the hotels and food suppliers directly. Interestingly enough, none of them were for pizza chains. The minister made payments to the teachers' unions with no receipts, and then made payments for the hotels and food suppliers directly. Where did the money really go? As you can imagine, there were no real answers to my questions. The payments have sparked yet another probe by the Auditor General.

The end of this story should have been when the Minister announced the deals were all done, and they disclosed the cost. As in most of these deals, the government announced it was another one of their "net zero" negotiations. They insisted that the agreements were all net zero, even with a total of $402 million in salary increases, a 1% lump sum payment this year, a 1% raise on September 1, and a further 0.5% hike in January.

However, five months later, we learned the net zero labour deal between Ontario and the teachers' unions actually cost $300 million. The money would be used to establish five health, life, and dental trusts, consolidating current benefit plans. They spent $175 million to establish the trusts, and $125 million to consolidate the plans. The government didn't include the $300 million cost for the benefit trusts because they claim they will eventually recover the set-up costs through "long-term efficiencies" and "improved purchasing power."

The Gas Plant Scandal Hearing documents continue to provide a window on the world of the government. We obtained somewhere around 300,000 documents, many of them stamped Confidential Advice to Cabinet, before Kathleen Wynne shut down the hearings. We still have a long way to go to learn all their secrets, but they continue to deliver. In November I presented evidence in the Ontario Legislature that the government had indeed put forth a Chromite Tax for mining in the Ring of Fire.

On page 2,156 of one section, under the heading 'Confidential – Commercially Sensitive Material' the section on Cliffs reads: "The province created the chromite royalty."

It goes on to say, "Expected revenues from the new chromite royalty, which was created for this Ring of Fire project ... range from $6.6 million to $34.4 million per year."

A major mining discovery is made, and the very first thing this government thought of was, "How can we tax them more?" Well, they taxed them right out of Ontario. Last year, Cliffs Natural Resources, one of the senior mining companies exploring in the Ring of Fire, canceled their project. In fact, not only did they sell off their Ring of Fire property, they actually left Ontario.

This is a redo of what the government did to DeBeers in 2007. The company had just about completed a $1 billion investment in their Victor Mine; a diamond mine in the far North. The government introduced a surprise diamond royalty of 5% to 13%, depending on annual production values. DeBeers had based their budgets on the current policies and tax regimes of the day. Is it any wonder that under this government, Ontario has fallen from the #1 mining jurisdiction in the world, to #23?

November also saw the Financial Accountability Officer launch his second initiative. He delivered *An Assessment of Ontario's Medium-term Economic and Fiscal Outlook*. Here he drilled deep into the numbers, and did it just before the Fall Economic Statement (FES) was set to be released. This was very advantageous, as we were able to ask the FAO what numbers to look for in the FES.

He stated, "The government's fiscal plan is based on a relatively robust outlook for revenue growth combined with significant restraint in the growth of program spending." As you will see from his further comments, neither is realistic.

He offered, "The budget plan includes revenue growth averaging 4.3% annually over the next three fiscal years ... well above the 2.6% average annual growth in revenue over the past four years." He estimated the nominal Gross Domestic Product to only grow by 3.0% instead of the 2015 budget projection of 4.3% or even the current (revised) forecast of 3.4%.

This is key. Nobody expects the government to stick to their original projection of 4.3% – that ship has sailed. They may be tempted to use their current forecast of 3.4% but that too is risky. To reach that would require growth rates in each of the last two quarters to be 1.8% – and that has only happened once in the last 20 quarters. So he recommends using a rate of 3%. However, as every 1% drop in GDP equals a loss of $885 million in government assessment, that would mean if they use the 3% number, they would have to adjust for a $1 billion loss of revenue.

On the spending side, "The budget plan also assumes program spending growth averaging 0.5% annually over the next three years, below the 1.4% pace of program spending growth over the past four years. The planned growth in spending is also well below the expected growth in population and price inflation – key driver of government expenditures."

While the government is projecting they will significantly change their spending pattern, Stephen LeClair says that's hard to do. And it will get harder and harder to meet their aggressive targets on the spending side.

The report concluded with several alternative 2017/18 scenarios.

The government's plan uses revenue of $134.4 billion, based on growth of 4.3%. Program expense is restrained at .5% growth (roughly one-third the average over the past four years) totalling $120 billion, less interest of $13.2 billion, for a surplus of $1.2 billion. In order for this to happen, the FAO stated "everything would have to go perfectly."

He offered two scenarios of his own. The first was a status quo forecast; if the current revenue and spending patterns continue exactly as they have for the last four years, he expects a deficit of $3.5 billion. If spending grows to 3%, expect the deficit to hit $7.4 billion. Overall, there is a substantial risk that the government will not balance the province's books by 2017-18.

The province's Fiscal Accountability Legislation prescribes precisely when the Fall Economic Statement (FES) is to be submitted to the Legislature. But this government continues to snub their nose at our laws, and turned the document over 11 days late.

This is part of a disturbing trend. In October 2013, Finance Minister Charles Sousa failed to ever deliver the long-range assessment of Ontario's fiscal environment, as he was obligated to do under the Fiscal Transparency and Accountability Act. Then in 2014, the Minister announced he would not be presenting their 3rd Quarter Results on February 15, as is also required under the Fiscal Transparency and Accountability Act. (If I jump ahead to 2016, the Minister again did not provide the documents by the February 15th deadline, instead writing to the Clerk that they would be included in the Budget). They continue to hide the truth, as, either of these documents would have demonstrated they were not on track to balance the budget. But this Fall Economic Statement revealed what we proved in the opening chapter of this book: the government plans to balance by selling assets.

In the previous section, the Financial Accountability Officer told us to look for a couple key items in the FES. Remember, he said the government should revise their growth number from 4.3% down to 3%. He also said that a 1% drop equals a loss of $885 million, so using 3% would require revenue to be $1 billion lower.

Well, the FES used part of his advice. The government acknowledged that nominal GDP will not be 4.3% – it would only grow by 2.9% – almost exactly what the FAO estimated. And at that number, revenues should then be down $1 billion to $123.4 billion vs. the original budget of $124.4 billion. But instead of lowering revenue, the government used an even higher revenue number of $125.6 billion!

In the government's own words, they achieved this number by booking the proceeds from the sale of Hydro One as revenue. This is proved by the quote on page 100 of the FES which reads: "This increase (in revenue) largely reflects the government's progress on its asset optimization strategy related to the recent Hydro One initial public offering." On page 101, the government breaks down its extra $1.245 billion in revenue, with $155 million coming from traditional taxes and $1.09 billion coming from (the sale of) Hydro One.

Again, remember the FAO also said the 2015 budget was overstating its revenue projections for each year. He encouraged the government to adjust their revenue projections to reflect this lack of future revenue. Again, instead of following the advice of the Financial Accountability Officer, the FES actually has revenues drastically increasing. The FAO also stated that everything would have to go "perfectly" for the government to achieve budget balance by 2017-18. The readjusted revenue forecast for this year is the first indication that things are not going perfectly.

This chart shows the differences between what the Financial Accountability Officer is forecasting vs. the government's numbers. And as you can see, there's an $8 billion hole in the budget.

Fiscal Year	FAO Revenue Projection	FES Revenue Projection	Difference (in billions)
2015-16	$123.4	$125.6	$2.2
2016-17	$127.4	$129.5	$2.1
2017-18	$131.6	$135.3	$3.7
Total:	$382.4	$390.4	$8.0

While the Finance Minister continues to insist in the Legislature that the government is "controlling our spending", the Fall Economic Statement reveals 19 ministries are projected to spend more than the previous fiscal year.

The government's Fall Economic Statement also reveals they have quietly reduced expectations for job creation and growth, despite continuing bravado and rhetoric to the contrary.

2015 Budget – 78,000
FES – 46,000
Difference – **Down 32,000**

2016 Budget – 93,000
FES – 78,000
Difference – **Down 15,000**

2017 Budget – 99,000
FES – 93,000
Difference – **Down 6,000**

Some of the other bottom line numbers in the FES are, quite frankly, startling and are likely to get notice in the financial community:

- Debt to GDP is now almost 40%
- Debt/person is over $21,000
- Interest on debt will rise to nearly $13 billion by 2017-18; almost 10% of total government spending
- And contrary to the government's claims, the FES shows federal transfer payments were actually up

The Hydro One sleight of hand isn't the only accounting trick the government appears ready to employ to make the deficit appear lower. On page 106 of the Fall Economic Statement, the government revealed they intend to use proceeds from a cap-and-trade system to balance the budget.

In the Medium-Term Outlook, under 'other nontax revenue' the section reads: "a preliminary estimate of the revenues that are expected to arise from the auctioning of cap-and-trade allowances beginning in 2017." This is verified by a graph on page 107 that denotes the total amount of revenue to be gained from cap-and-trade will be $1.6 billion by 2017-18.

Let's give the last word on this to the Waterloo Record:

> So overly optimistic were Finance Minister Charles Sousa's predictions this week in his Fall Economic Statement, they belonged at Canada's Wonderland, not Queen's Park. They're products of some fantasy world, a kingdom of plastic mountains and mechanical unicorns where every wish, however ridiculous, comes true for a while. The trouble is, when you leave, you're back in the real world.
>
> *- Waterloo Record Editorial, Nov. 28, 2015*

The year ended as always, with the Annual Report from the Auditor General.

We talk an awful lot about debt and deficit, and thankfully we're starting to read more about it as well. Regular national columns are appearing from former Finance Minister Joe Oliver, the Canadian Taxpayers Federation's Christine Van Geyn, author Candice Malcolm, and the Fraser Institute. The Legislature's own Financial Accountability Officer, Stephen LeClair, weighed in with his first report, expressing his doubts about this government's plan to balance the budget.

And now, as the year comes to a close, we have another Auditor General report that has red lights blinking.

As with her 2014 Annual Report, the 2015 report devotes significant focus to Ontario's growing debt burden, with a closer look at the implications of the debt on the province's finances. Specifically, Auditor Bonnie Lysyk wrote "The negative impacts of a large debt burden include debt-servicing costs that divert funding from other programs, greater vulnerability to the impact of interest rate increases, and potential credit-rating downgrades and changes in investor sentiment, which could make it more expensive for Ontario to borrow."

Consistent with her commentary last year, she 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%." Net debt at March 31, 2015 stood at nearly $284.5 billion.

In Ontario, our ratio of debt to GDP is rising. This means our net debt is growing faster than the provincial economy, and becoming an increasing burden. The increase in the cost of servicing this debt (interest expense) directly affects the quantity and quality of programs and services the government can provide.

In her 2014 report, the Auditor General commented extensively on the consequences of high indebtedness. She said "Ontario's debt continues to grow faster than the province's economy, which could have negative implications for the province's finances." She warned the consequences of higher debt would result in "the 'crowding out' of other spending, greater vulnerability to a rise in interest rates, and a possible downgrading of the province's credit rating which would lead to higher future borrowing costs."

Her warnings went unheeded, and Ontario saw two downgrades; first Fitch downgraded the long-term rating from AA to AA- followed by S&P, lowering the rating from AA- to A+.

In the 2015 report she notes the very same observations remain relevant, as her concerns continue to be ignored. Here are the three points she makes again this year:

- Debt-servicing costs cut into funding for other programs
- Greater vulnerability to interest rate increases
- Potential credit-rating downgrades could lead to higher borrowing costs

ONTARIO LONG-TERM CREDIT RATINGS		
Date		**Rating**
Today	S&P	A+
	Moody's	Aa2 (N)
	Fitch	AA-
	DBRS	AA (low)
July 6, 2015	S&P	Downgrade from AA- to A+
Dec 19, 2014	Fitch	Downgrade from AA to AA-
July 2, 2014	Moody's	Debt Rating Outlook cut from Stable to Negative
April 25, 2012	S&P	Debt Rating Outlook cut from Stable to Negative
April 26, 2012	Moody's	Downgrade from Aa1 (N) to Aa2 (S)
Oct 29, 2009	S&P	Downgrade from AA to AA-
Oct 22, 2009	DBRS	Downgrade from AA to AA (low)

The most significant request from the Auditor came in her 'Final Thoughts' in the Public Accounts chapter. She states "… this would be a good time for the government, legislators, and the public to start a conversation about the potential reduction of the provincial debt. We noted that government debt has been described as a burden on future generations, especially debt used to finance operating deficits." She concludes with "… no clear strategy has been articulated for paying down current and future debt."

The 2015 Annual Report covered results from a wide range of value-for-money audits, including energy planning, healthcare services, long-term-care homes, child welfare, infrastructure planning, and electricity transmission and distribution.

The Auditor's News Release stated "This year's report shows there are numerous areas where improvements are needed to enhance the quality and cost-effectiveness of government and broader-public-sector services."

There were 14 value-for-money audits contained in the report, as well as a chapter on annual reports of government agencies and a chapter on government advertising. Here is a snapshot of each section, beginning with a direct quote from the Auditor General followed by a short summary pulled directly from each audit.

Community Care Access Centres – Home Care Program

"Five years after the last audit, home care problems linger"

The province has yet to correct many of the problems in the Home Care Program of Ontario's 14 Community Care Access Centres that were identified in an audit the AG's office completed five years ago. Over the last six years, the Ministry has increased spending on home-care services by 42%, while the number of clients served increased by 22%.

Child Protection Services – Ministry

"Children's Aid Societies need to better adhere to protection standards and may be closing cases too soon"

Children's Aid Societies are not always meeting provincial protection standards, may be closing cases too soon, and are taking too long to complete investigations of possible abuse. In more than half the files reviewed that were subsequently reopened, the circumstances and risk factors that led to reopening of the case were present when the case was initially closed.

Economic Development and Employment Programs

"Business support funding lacks transparency, overall strategy, and assessment of results"

Over the last five years, 80% of the funding the Ministry of Economic Development, Employment and Infrastructure approved to support businesses went to select companies that were invited to apply for it. But the ministry could not provide the criteria it used to identify the businesses it invited to apply, or a list of those whose applications were unsuccessful. Over the last 10 years, the government has doled out almost $1.5 billion and publicly re-announced almost $1 billion of economic development funding that had already been announced under different funding programs. At the same time, the ministry has not attempted to measure whether the funding actually strengthened the economy, improved employment, or helped recipients become more competitive.

Electricity Power System Planning

"Over the last 10 years the Ministry of Energy issued directives that sometimes went against the OPA's advice. Electricity ratepayers have had to pay billions for these decisions"

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 for the same amount of renewables under the previous procurement program.

Hydro One – Management of Electricity Transmission and Distribution Assets

"Hydro One's transmission and distribution systems are becoming less reliable, yet costs are increasing"

In recent years, Hydro One's transmission and distribution systems have become less reliable, yet their costs are increasing. Customers have experienced 24% more outages and those outages have lasted 30% longer. Meanwhile, costs to maintain the transmission system have increased 31% over the same period.

Infrastructure Planning

"Ontario needs to better prioritize infrastructure investments"

Given that Ontario plans to spend more than $130 billion on infrastructure over the coming decade, it needs to better identify and prioritize where the spending should be directed. Although the government plans to devote two-thirds of its infrastructure spending to new construction and one-third to repairs and maintenance of existing properties, its own analysis of ministry information shows these proportions should be reversed.

Local Health Integration Networks

"LHINs' marching orders not clear enough and performance gaps widening"

Ontario's 14 Local Health Integration Networks have a mandate to plan, fund, and integrate local health systems, but the Ministry of Health and Long-term Care has not clearly outlined what the end result should look like and when it should be achieved. During the audit, one LHIN had not met the wait-time target for MRI scans in six of eight years; another had not met its hip-replacement wait-time target in seven of eight years. The ministry responded by relaxing targets for some LHINs.

Long-term-care Home Quality Inspection Program

"Backlog and delays in critical-incident and complaint inspections of long-term-care homes"

The Ministry of Health and Long-term Care fell behind on its critical-incident and complaint inspections at the province's 630 long-term-care homes. The backlog has doubled between December 2013 and March 2015; from 1,300 to 2,800. Such delays can place residents at risk. High-risk complaints and critical incidents that should have triggered immediate inspections often took three days or more.

Management of Contaminated Sites

"No co-ordinated provincial plan to prioritize the cleanup of contaminated sites"

Although individual ministries have their own list of contaminated sites, the government has no centralized inventory or funding strategy in place for cleaning up contaminated sites. The government's estimate of its future liability for remediating its sites is $1.8 billion.

Mines and Minerals Program

"Province could do more to encourage mining development in Ontario"

The Ministry of Northern Development and Mines has not been effective in encouraging timely developments in Ontario. Although Ontario is the largest mineral producer in Canada, accounting for one-quarter of total Canadian mineral production, a survey of mining and exploration companies ranked Ontario ninth among Canadian provinces and territories in investment attractiveness in mining exploration. In addition, the chromite and nickel deposits in the Ring of Fire have an estimated value of $60 billion, but the province has no detailed plan or timeline for supporting the development.

Social Assistance Management System

"Social-assistance IT system (SAMS) launched prematurely with serious defects"

A new computer system used in the administration of social assistance (SAMS) was launched prematurely with serious defects, at a cost of $200 million, which was about $40 million over budget, with additional costs to fix the defects that are expected to bring the total cost to about $290 million. The consequences of launching a defective system so far included a total of $140 million in benefit calculation errors, comprising $89 million in potential over-payments and $51 million in potential underpayments, as well as thousands of hours of front-line workers' time to deal with system-related problems.

Student Transportation

"Province could do more to further minimize risks to students being transported to and from school"

Risks need to be considered and minimized in three key areas that impact the safe transport of students: bus driver competence, vehicle condition, and student behaviour on buses. For example, there is little oversight of school bus operators, who are allowed to certify their own buses for mechanical fitness.

University Intellectual Property

"Impact of provincial funding for university research not evaluated"

The Ministry of Research and Innovation does not track the total funding ministries and agencies invest in research, and does not evaluate the impact of funded research. This results in difficulty determining whether value for money is being achieved. The AG stated universities garner the largest share, receiving $1.9 billion over the last five years.

Towards Better Accountability

"Government late to release annual reports of its agencies"

The annual reports of some of Ontario's largest agencies are not being made public in a timely manner – or not at all in some cases. A review of 57 agencies over the past three years found that only 5% were tabled within six months of their fiscal year-end, 68% tabled after more than 12 months, and 6% had not been tabled at all. For the majority, the delay was at the ministry, which had received the reports but not acted in a timely manner to make them public.

Review of Government Advertising

"The amended Act now requires our office to 'rubber-stamp' all advertising, including items we believe were partisan under the original Act"

The Ontario government made significant changes to the *Government Advertising Act, 2004* this year, and in the process it significantly weakened the Auditor General's ability to ensure that no public money is spent on advertising that is partisan. It is noteworthy that the Auditor also commented on the process used to amend the Act. Bonnie Lysyk was critical with both words and tone describing the fact her office was not consulted in advance nor given a draft copy. Here is an example she used in her report:

> "Within a month of proclamation of the new Act, we approved a radio and digital advertising campaign from the Ministry of Finance on the Ontario Retirement Pension Plan (ORPP), a signature policy of the current government, contained in the 2015 Budget. A few weeks later, while these ads were still running, the Ontario Liberal Party launched a television advertisement called Never Slow Down, in which the Premier speaks about ensuring that Ontarians have a decent pension to retire on."
>
> "Under the original Act, we could have expressed concerns about the overlap between the publically-funded advertisement and the political Party commercials, and the fact that the taxpayer-funded items effectively reinforced the partisan messaging of the Ontario Liberal Party. We would also have had the authority to withdraw our approval for the Ministry of Finance item, or even disallow it entirely in the first place, on the grounds that it claimed the ORPP was "here" when, in fact, it is at this point planned to begin operating in 2017."
>
> "Under the amended Act, however, the ORPP advertisement met all required standards and continued to air at the same time as the Ontario Liberal Party spot."

In Conclusion

Ontario reported a higher net-debt-to-GDP ratio than every other province except Quebec. With the Auditor General having to repeat her warning about debt and deficit, almost word-for-word from last year, it's clear this government is not taking the problem seriously. The government has no credible plan to reduce the debt and eliminate the deficit.

This inaction results in the 'crowding out' the Auditor spoke of. An example exists in my home town of North Bay, where our hospital has been forced to cut 350 frontline health care positions in the last three years, including 100 nurses!

In addition, the Auditor pointed out several examples where past audits have revealed serious flaws that have gone unheeded, and recommended fixes.

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. The 93 ministerial directives in the energy file, which caused our rates to soar; the awarding of over a billion dollars in business funding to preferred companies; selecting infrastructure programs against the advice of their own experts; holding back annual reports from being tabled in the Legislature; and changing the government advertising rules to allow for partisan ads are all clear examples.

To view the full report, please visit www.auditor.on.ca

As 2016 kicked into full swing, life simply continued to get harder under the Wynne government. Electricity rates went up January 1st, adding more than $100 to the average bill, eliminating any savings from the belated end of the Debt Retirement Charge. The Ontario Retirement Pension Plan and new cap-and-trade tax plan will add costs to businesses and consumers, and result in job losses. Even the government admits to this.

All the while, government debt concerns grow, and the impact of the 'crowding out' of key services is starting to be felt, especially in health care. And more and more head-shaking examples of the lack of oversight and general incompetence of this government continue to come to light.

Taking all this into account, the Ontario Chamber of Commerce (OCC) released their annual Economic Update, the fifth and final presentation of their *Emerging Stronger* series. Developed by the OCC, the Mowat Centre, and Leger, their analysis indicates that Ontario businesses are increasingly unsure about the direction of the provincial economy.

Their Ontario Business Confidence Index presents some very disconcerting numbers. When members were asked "In a global context, do you believe the Ontario economy is going in the right direction?", in 2012 it hit 42%. This year the number tumbled to 30%. When asked "How confident are you in the Ontario economy right now?", in 2012 it was 47%. This year it cratered to 30%. And when asked "Based on the way the Ontario economy is operating now, would you say that in the next five years your organization will expand, decrease, or remain the same?", in 2014 58% said they would expand; now it's at 46%.

They also asked a series of questions beginning with "Thinking back to five years ago, would you say Ontario is *better off* or *worse off* when it comes to ..."

...fostering a culture of innovation and smart risk-taking in order to become a productivity leader? 28% better off; 51% worse off.

...building a 21st century workforce? 32% better off; 54% worse off.

...restoring fiscal balance by improving the way government works? 20% better off; 69% worse off.

...taking advantage of new opportunities in the global economy? 31% better off; 50% worse off.

...identifying, championing, and strategically investing in our competitive advantages in the global economy? 24% better off; 53% worse off.

The Chamber concludes with " ... our province still faces extraordinary challenges. Economic growth will remain slow for the foreseeable future. Regional disparities are becoming more pronounced. Business confidence is sagging. Stimulative government spending, while helpful in the short-term, cannot sustain economic growth in the long-term. Simply put, our economic recovery is not yet assured."

Our all-Party Finance Committee toured Ontario late in January, holding pre-budget consultations. What we heard was startling, especially regarding health cuts. It's the 'crowding out' of services the Auditor General warned of last year. Nursing jobs are being cut by the hundreds across Ontario, and we heard horror stories about patients collapsing on their front steps after being sent home too soon, or seniors crying out of hunger because their caregiver is too overwhelmed to help them eat. These were real stories from real people. There were also stories about the crushing impact on consumers and businesses that rising energy rates are having, and opposition to the Hydro One sale as people fear it will send rates even higher.

All of that, however, was sadly being ignored by the government. News broke before the hearings ended that the budget may come down in February. We know from experience that it takes several weeks (if not months) to put the budget together, let alone translate and print it. So this was confirmation the government had no intention of including any of the input from the pre-budget hearings in its final document. Worse, the Finance Minister appeared before the committee trying to insist otherwise. It's a new level of arrogance and lack of respect of democracy that the public needs to be aware of. Later in the year we learned, through a Canadian Press FOI, that the budget had indeed been sent to the translators January 27th, before the public consultations were even finished on February 2.

Stories of the government's waste, mismanagement, and scandals continued to grow by leaps and bounds. Amazingly, the following are all stories from January 2016 alone – and the Legislature wasn't sitting! I could write a full column on each one of these items, but the headlines alone paint a picture of the trouble we're in.

Hydro One can't get a Wi-Fi signal from 36,000 smart meters and will now have to read them manually

(Self explanatory)

Auditors have been called in to look into expenses rung up by the Ontario Tire Stewardship agency

(Credit card statements show executives and board members enjoyed wine, gin martinis, steak dinners, and a tab of more than $16,000)

The government continued to throw money into fixing its MaRS real estate bungle

(Giving $18.3 million to U of T to collaborate with a private biotech firm.)

Premier Wynne tried to pass off the government's failure to reach its 15% auto insurance rate reduction as "a stretch goal"

(Any kid caught lying would say 'it was just a stretch')

The Education Minister still hasn't released details of teachers' contracts as questions remain about $3.74 million in payments to some unions.

(This in addition to the cost to restore labour peace to schools, estimated at $8.4 million).

Pan Am organizers paid $140,000 to a private contractor to run a temporary hair and nail salon for athletes.

(I'm not even going to go there)

Just 42 days after opening, the $106 million Nipigon River bridge failed

(Now they're busy pointing the blame fingers)

Nearly two years after a promised $120 million grant to OpenText to create 1,200 jobs, no money paid out: no jobs created

(We'll likely see a re-announcement soon)

The Institute for Competitiveness and Prosperity, echoed recent findings of the Auditor General which stated there is little coordination between provincial business support programs and their ministries

(It was a damning report)

Concerns were raised that the passage of *Strengthening Consumer Protection and Electricity System Oversight Act* will shut down "the last arena of independent public review of the billions of dollars being spent by the province"

(By solidifying the province's control over the Ontario Energy Board)

The government has a well-documented track record of failed policies that are making life harder for Ontarians. They can't be trusted to get anything right. As a result of their waste, mismanagement, and scandal, the government can't afford to fund essential government services, as evidenced by cuts to health care. The government isn't looking out for the best interests of Ontarians, and seems only interested in political survival.

It would also seem that the government knows no bounds in their search for cash. And most often they end up scrounging for nickels and dimes in the couch. All of this is because they cannot control their spending. It was not uncommon to hear deputants in our Pre-Budget Hearings suggest the government raise corporate taxes "to make up for the shortfall in revenue". If I've heard that once, I have heard that a thousand times. So I want to set the record straight … we do NOT have a revenue problem in Ontario! Have a look at the chart on page 92 for proof there is almost twice as much revenue today, as was available when the government took office. Ontario does not have a revenue problem – it has a spending problem!

2016
BUDGET

2016 Budget

After spending 7 hours reading the budget in the lock-up, I can summarize it this way … life in Ontario is now even more unaffordable. Taxes are going up on alcohol and tobacco, gasoline and home heating. But tax credits that helped children, students, seniors, and families are being eliminated. In fact, the vast majority of seniors would have to pay almost double for their prescription drugs. We also continue to have very serious concerns about the credibility of the government's numbers, which I'll explore more fully.

The budget confirms the government is using one-time money from the sale of Hydro One, as well as contingency funds, to make the deficit <u>appear</u> smaller. But make no mistake, in a couple of years (just after the next election), once the one-time sales are exhausted and the spending continues, there will be a massive hole in the budget. To this point, the Financial Accountability Officer referred to the budget as "vague and uncertain" and reported "maintaining balanced budgets <u>beyond</u> 2017/18 will likely prove challenging." He also stated, "The government projects total revenue to rise by 5.1% per year on average. This is much higher than the 2.6% average annual growth recorded over the past four years."

BMO Capital Markets described it this way: "Asset sales of $5.7 billion… are one-time in nature, and don't address any underlying structural deficit." Further, Bryne Purchase, Ontario's former Chief Economist and Deputy Minister at several ministries stated "the added revenue from cap-and-trade and the Hydro One sale help to make the provincial numbers <u>look</u> better." Finally, you will also see a definite theme throughout this analysis – the government gives with one hand, but won't mention what they're taking with the other.

Here are some of the key ways life is getting more expensive in Ontario:

Sin taxes: The budget has again increased taxes on alcohol and tobacco. Wine prices will increase by 4% and there will be a minimum price applied to alcoholic ciders.

While the government talks about increased availability of wine, their plan won't be fully implemented for nine years; but the bottom line is you'll be paying more today.

Cap-and-Trade: Climate change is a serious challenge that requires a credible plan to reduce greenhouse gas emission, while protecting taxpayers and our economy. We're very concerned the government will take advantage of the goodwill the public has shown on wanting to combat climate change. This budget seems to make their program just another revenue tool. So much so, that I've devoted a section later in the book to outline what we've discovered about the government's accounting for cap-and-trade.

Seniors drug costs: Effective August 1, 2016, the Ontario Drug Benefit Program will adjust income eligibility thresholds for the Low-Income Seniors' Benefit. You will pay more if you're alone and earn over $19,300 or a couple earning over $32,300. Seniors above the low-income threshold will see an increased annual deductible under the ODB from $100 to $170, and the co-payment will increase by $1 per prescription. The Premier boasted that 170,000 seniors will pay less, but what she doesn't tell you is that 92% of the 2.1 million seniors (2013, Ministry of Finance website) in Ontario will pay double. Like many fellow MPPs, I held a news conference in my constituency office regarding this, and was surrounded by concerned seniors. In addition, I used my Members' Statement time to read a letter protesting this that came from a Legion Zone AGM. I was heckled and shouted down by the government bench – which tells me they're feeling the pressure from seniors too. Look for this to be removed before the budget passes!

Tax Credits removed: Families will continue to feel the pinch as the government cut both the Children's Activity Tax Credit and the Healthy Homes Renovation Tax Credit, costing families $64 million over the next three years. I recall these being rolled out with great fanfare. Now it seems they were no more than photo ops.

Service fees: While elimination of the $30 Drive Clean fee grabbed headlines, there are also increases to virtually every other government service fee. Starting next year, fees for driver and vehicle licensing, camping in provincial parks, fishing and hunting licences, liquor licences, event permits, and court applications will rise, and then be adjusted every year for inflation.

Municipal impacts: Schedules 5 and 16 of the Budget Bill, would allow municipalities to set their own taxation rates for certain classes of vacant or excess commercial and industrial land. The Ministry of Finance confirms these changes would affect properties valued at $100 million province-wide. We'll be watching this closely to see if it's simply a back door 'revenue tool' for municipalities. Also, up to 5,000 road building vehicles will be reclassified, requiring licence plates and payment of the related fees. Many of these are owned by municipalities. The government says this will bring in up to $8 million in new money. Sadly, we all know there is only one taxpayer.

Hydro One sale: As discussed previously, with the sale of Hydro One proceeding, energy consumers will see higher bills well into the future. There was virtually no mention of hydro in the budget, and certainly no strategy to develop an affordable hydro plan.

Fun with numbers

We have a structural deficit in Ontario being masked by various one-time supplements. Although we have been detailing this fact in these newsletters for years, it's not just us suggesting the numbers are questionable. The government's revenue projections for 2017-18 are nearly $4 billion higher than the Financial Accountability Officer's best-case scenario he laid out last fall.

To lower this year's deficit the government has:

- Removed $850 million from the contingency fund;
- Applied a $2.6 billion one-time departure tax from the sale of Hydro One; and
- Included revenue of $1.1 billion from Hydro One sales.

$ Billions	2015-16 Scenario A	2015-16 Scenario B	2016-17 Scenario A	2016-17 Scenario B	2017-18 Scenario A	2017-18 Scenario B
Total Revenue						
2015 Budget Forecast	124.4		129.4		134.4	
FAO Scenario	123.7	123.4	128.7	127.4	133.8	131.6

Ontario's Fiscal Plan and Outlook
($ Billions)

	Actual	Interim	Plan	Outlook	
	2014-15	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Revenue	118.5	126.5	130.6	137.7	141.9

The government claims they are on track to balance the budget by 2017-2018 but it is due to:

- Anticipated $1.8 billion transfer from the Federal Government;
- $1.9 billion in new personal income tax revenue;
- $500 million in sales tax increases;
- $700 million in corporate income tax revenue; and
- Additional cap-and-trade revenue of $500 million.

But the government admits it will not achieve significant economic growth in the next two years. That means in order to meet those targets, it will have to raise taxation rates. Consider yourself warned! Magically increasing revenue, when the government's own growth forecasts don't support it, is not credible. Using one-time revenue is nothing more than a Hail Mary pass.

And 'one' final note: the budget also now allows anyone in Ontario to legally use one word for their full name. Don't ask me why that's in the budget, but I'm certain that Cher, Madonna, and Pele will be excited!

Debt

Debt is projected to increase this year to $308.3 billion (up from $296.1 billion in 2015/16); an increase of $12.2 billion. Ontario continues to be the largest sub-national debtor in the world. And debt will continue to grow, as the government projects an increase of more than $40 billion by 2018/19. The net debt to GDP ratio is projected to remain at 39.6%, an historic high. Interest on the debt represents the 3rd largest expense in the 2016 Budget, accounting for $11.75 billion.

The day after the budget was presented, bond rating agency DBRS stated, "the Province has yet to restore sufficient flexibility to withstand another economic downturn without negatively affecting the credit profile."

Fewer jobs today and tomorrow

Alarmingly, the government's 2016 projections for job creation have dropped drastically. Last year they predicted 93,000 jobs would be created in 2016; they are now projecting 78,000 – or 15,000 less. Similarly for employment rates, last year the government predicted a 1.3% increase in employment, but are now projecting only a 1.1% change. In my opinion, this is an admission by the Ministry of Finance that all of the added costs in this budget will reduce disposable income, depress consumer spending, and cost Ontarians jobs.

To make matters worse, the government is reducing tax credits to job creators. The Ontario Innovation Tax Credit (OITC) rate is dropping from 10% to 8%, while the Ontario Research and Development Tax Credit goes from 4.5% to 3.5% effective June 1, 2016.

Health care ins and outs

This 2016 budget literally gives with one hand and takes with another. Nowhere is this more evident than in health care. The budget does provide hospitals a long-awaited increase to base funding of 1%, or $345 million. But at the same time, it removes $107 million of traditional OLG gaming revenue for the operation of hospitals, and parking revenues by $28 million, meaning the increase is really only $210 million. Spread amongst 150 hospitals, it will do little to impact the cuts to services and nursing jobs we've seen across the province.

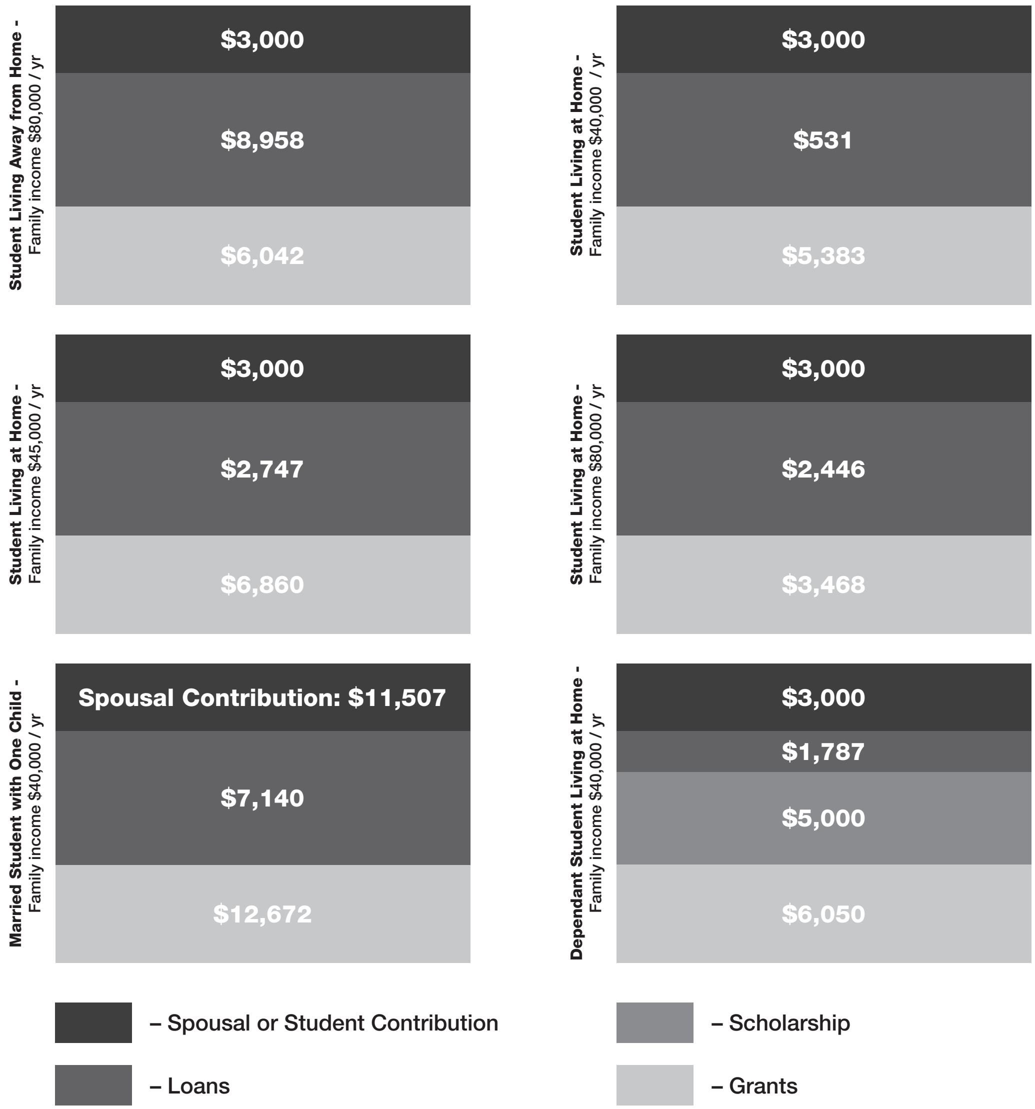
Free tuition? Look again

The headline-grabber on budget day was the unveiling of the Ontario Student Grant (OSG), starting in the 2017–18 school year. It was described by many, especially in the media, as providing "free tuition" for students from families with less than $50,000 household income. This will be done by redirecting 100% of the funding from the 30%-Off Ontario Tuition grant, Ontario Student Opportunity Grant, Ontario Access Grants, and other grants offered by the Ontario Student Assistance Program (OSAP). But look at the scenarios laid out in the Ministry's backgrounder (next page):

All of these are contingent on a spousal or student contribution. Now, the rules state students can forego that contribution if they meet certain criteria such as living at home. That's anything but free.

The Ministry of Finance also confirmed to us that 70% of Ontario families won't qualify for the full benefit. And fully half of Ontario families (those with a household income above $83,300) will lose the benefit of the tuition tax credit altogether, and are ineligible for the new program.

The government says this isn't a tax grab, but the Conference Board of Canada estimated that the cancellation of the tax credits will net the government $145 million in new revenue. Yet the budget of the Ministry of Training, Colleges and Universities is going up $94.7 million next year. How do they account for this budget discrepancy?


Student Living Away from Home -
Family income $80,000 / yr
$3,000
$8,958
$6,042
Student Living at Home -
Family income $40,000 / yr
$3,000
$531
$5,383
Student Living at Home -
Family income $45,000 / yr
$3,000
$2,747
$6,860
Student Living at Home -
Family income $80,000 / yr
$3,000
$2,446
$3,468
Married Student with One Child -
Family income $40,000 / yr
Spousal Contribution: $11,507
$7,140
$12,672
Dependant Student Living at Home -
Family income $40,000 / yr
$3,000
$1,787
$5,000
$6,050
– Spousal or Student Contribution
– Loans
– Scholarship
– Grants

NEW PROGRAMS

New Programs

Will Cap-and-Trade leave us Cap in Hand?

As discussed earlier, climate change is a serious challenge that requires a credible plan to reduce greenhouse gas emission, while protecting taxpayers and our economy. This chapter will reveal why we're very concerned the government will take advantage of the goodwill the public has shown on wanting to combat climate change, and turn it into a revenue tool. We saw the first signs of this when the government released their *discussion paper* late last year. As the Canadian Taxpayers Federation suggested, "The 66-page document might as well have been written in another language, for all the clarity of terms it provides." Here are some of the phrases the CTF quotes, and what they suggest was really meant.

'Border carbon adjustment' – is nothing more than a tariff – a tax on goods when they cross the border, based on the greenhouse gases emitted during their production. 'Free allocation' would give away free carbon credits to certain industries – allowing them to either emit with impunity or sell their credits to less-favoured industries. 'Reinvesting' into 'complementary' measures will mean using that money to pay for their already-announced infrastructure programs (more on that later). And my personal favourite – 'carbon leakage' – meaning job losses, as in a company relocates out of Ontario and into another jurisdiction where production is more affordable. Thanks to CTF's Christine Van Geyn for her colourful column in the National Post.

Overall, the discussion paper outlines a 5-year plan aiming for a 15% reduction in emissions over the 1990 levels, by the year 2020. The strategy says the money will be used to fund green initiatives, but businesses and environmental groups agree that needs to be made clear, even legislated, to ensure the cash doesn't flow into general operating revenue (again, more on that in a moment). The paper alludes to the fact that some emitters will be exempt and some industries will be allowed to emit more than others. Finally, they announced the cost of this climate change strategy was unclear, at this time.

But the very next day, the Fall Economic Statement was released, and it turns out the government already knew of the significant role cap-and-trade would play in the province's finances.

On page 106, the government revealed that they intend to put proceeds from a cap-and-trade system directly into general revenue. Under 'other nontax revenue' it reads, "a preliminary estimate of the revenues that are expected to arise from the auctioning of cap-and-trade allowances beginning in 2017." This is followed by a graph on page 107 that denotes the total amount of revenue to be gained from cap-and-trade will be $1.6 billion by 2017-18.

Summary of Medium-Term Revenue Changes since the 2015 Budget
($ Billions)

	Current Outlook 2015-16	Medium-Term Outlook	
		2016-17	2017-18
2015 Budget Total Revenue	124.4	129.4	134.4
Source of Change			
Tax Revenue Base	0.0	0.1	0.1
One-Time Revenue Changes	0.6	0.0	0.0
Slower Economic Growth	(0.5)	(0.3)	(0.4)
Increased Revenues from Asset Optimization	1.1	--	--
Preliminary Projected Cap-and-Trade Proceeds	--	0.3	1.3
Total Changes since the 2015 Budget	**1.2**	**0.1**	**1.0**
2015 Ontario Economic Outlook and Fiscal Review Total Revenue	**125.6**	**129.5**	**135.3**

2015 Fall Economic Statement, page 107

"The document also reveals for the first time how much money the government hopes to raise from a new cap-and-trade scheme that will be phased in starting in 2016. It expects to raise $300 million that year and $1.3 billion the next

- National Post, November 27, 2015

Four months later, the budget showed an even greater take for the government. The tax is expected to bring in $1.9 billion in 2017-18; $600 million more than they forecasted in the FES. The 4.3 cent a litre increase in gasoline will eventually mean a $400 increase in annual costs according to private forecasts, and by 2025 natural gas will rise by $475 a year for each household heated by natural gas. The government claims residential energy rates will decrease with a $24 a year savings through cap-and-trade money, or $2 a month. But when you consider the $100 hydro increase on January 1st of this year alone, this is an insult.

The bottom line is the government is playing precisely the same shell-game with the cap-and-trade revenue as they did with the revenue from the sale of Hydro One. **They are using it to pay for already-budgeted items, and using those previously-earmarked funds to lower the deficit.**

Now I realize I took 14 pages at the beginning of this book to outline the plan that was hatched for the Hydro One sleight-of-hand. I promise to reveal this plan a lot quicker! After all, the playbook they used the first time seemed to work; why not simply run the same play? Once again, they buried the real meat at the end of the 56-page Bill. It's found on page 47, then 55, and back to page 47.

We'll start with what they can spend the Cap-and-Trade money on. Schedule 68, Greenhouse Gas Reduction Account 'Authorized Expenditures', Subsection 2, Paragraph 2: *To fund, directly or indirectly, costs relating to initiatives described in Schedule 1 to this Act.*

Let's go to Schedule 1 and see what some of the specific items are. Initiatives, Section 3 *ii) Active transportation infrastructure; iii) Public transit vehicles and infrastructure; iv) Technologies, infrastructure, vehicles, buildings, and structures that reduce greenhouse gas emissions associated with the movement of goods.*

So, now we know cap-and-trade can fund transit and infrastructure. But going back to Schedule 68, we see a familiar sentence as in Hydro One, a little further down the page. Subsection 3: *To reimburse the Crown for expenditures incurred by the Crown, directly or indirectly, for any purpose describes in paragraph 2*.

They've done it again – **build one of the $130 billion previously-announced transit projects, then use cap-and-trade money to reimburse the government for funds that were already budgeted for that project.**

Post-budget polling suggested Ontarians were skeptical of the plan, until they were told revenues were to fund greenhouse gas reduction measures. To get their spin out, the government is rolling out an advertising blitz. And look for quite a bit of spin. Responding to the media, the Climate Change Minister insists "we couldn't legally subsidize a deficit or build a highway" with the new money. "We have $1.9 billion that we can only spend on the stuff that's going back to Ontarians, into their cars, their homes, and into their businesses," the Minister stated, even though the actual Bill clearly states the opposite to be true.

A voice from the past

People are starting to catch on to what this really is, as we hear from former Finance Minister Greg Sorbara. He took his former government colleagues to task when he said, "Although the (Finance) Minister said there are no tax increases, the fact is that there's a $1.9 billion increase. I call it a flow-through tax that will ultimately affect consumers ... it's an interesting way to raise money while saying, at the same time, you're not raising taxes." He went on to say "I have to be a little bit skeptical about the whole scheme, other than it's going to bring ... a whole lot of new money into the government."

Financial Accountability Officer speaks out, again

Just as this book was going to the printers, the Financial Accountability Officer appeared as a deputant at the cap-and-trade Committee Hearings. Stephen LeClair stated the revenue brought in through cap-and-trade will end up influencing the government's deficit and surplus figures. The cap-and-trade proceeds will end up in general revenue, the same as taxes and federal transfer funds (and as we discovered, the Hydro One sale revenue).

LeClair jumps right into Section 68 (as I outlined above), and states it "may hinder my ability to provide you and your fellow members with information on the fiscal impacts of the Act."

He stated, "There could be a case where even if revenues do match expenses there could be an impact on the surplus or deficit of the province." And he warns, "This would occur if some of the expenses were not on new initiatives but were tied to previously planned expenses."

He continued to express the same concerns he had with the sale of Hydro One, with respect to the government limiting his access to necessary data. In his presentation he stated, "I am becoming increasingly concerned that ministries are claiming that too wide a range of government information falls under the Cabinet records exception."

He spends the last 3 pages of his submission on Section 68, beginning with, "I would like to highlight one of my particular areas of concern, which is relevant to subsection 68(3) of the proposed Act."

The Financial Accountability Officer confirms our evidence on precisely what is happening with the cap-and-trade revenue. Exactly like the government did with the Hydro One revenue, the cap-and-trade revenue is being used to pay for already-announced infrastructure and transit programs, and the existing money is being used to artificially balance the budget.

Ontario Registered Pension Program

When the ORPP was first proposed by the government in 2013, its real purpose was immediately clear. It was a political tool (many would call it a wedge) to be used in the 2014 provincial election and the 2015 federal election. It's no surprise $600,000 was used to advertise the ORPP in the middle of the federal election campaign – a questionable use of taxpayer dollars – as the Auditor General outlined earlier. It was more or less a threat to the federal government of the day – enhance the Canada Pension Plan or we're going it alone. In fact, only a week before the last federal election, Kathleen Wynne announced, "A majority win for Justin Trudeau … could absolutely negate the need for an Ontario pension plan."

The ORPP is a mandatory pension plan that will see employers and employees contribute 1.9% each (3.8% combined) of an employee's annual earnings up to $90,000. That works out to $1,643 per year, for both the employee and the employer. The ORPP will mirror the Canada Pension Plan (CPP) with money paid out to the employee once they reach age 65.

Once again, thanks to the Gas Plant Scandal Hearings, we have obtained confidential internal government documents. One document entitled 'Confidential Advice To Cabinet – Not Recommended' warned the Premier that the province will lose 18,000 jobs for every $2 billion collected. As this is now a $6 billion plan, that's 54,000 job losses. The government was told the long-term behavioural impact would be lower business investment, relocation of business to other jurisdictions, reduced work effort, and an out-migration of people. In fact of all the 'revenue tools' the government was considering, the payroll tax had the largest negative economic impact.

The government also commissioned EKOS, a prominent public affairs and polling company, to assess the impact of the ORPP. They found that 54% of businesses are considering a hiring freeze, and two-thirds of businesses would make operating cuts. Large businesses are considering layoffs as well as cancelling existing pension plans. Small businesses have suggested they will redefine employees from full-time to contract workers. In total, 60% of businesses expect to be hurt by the ORPP. This information was released only because the Canadian Taxpayers Federation filed a Freedom of Information request. They concluded, "It's remarkable the Ontario government didn't walk away from the ORPP when they saw this research. The ORPP is being sold as a benefit to Ontario employees, when in reality it will mean many of them will end up worse off."

In addition, the government released a Cost Benefit Analysis from the Conference Board of Canada, commissioned by the Ministry of Finance. It admits it will take 20 years before the economy recovers from the shock of the ORPP. They calculate job losses will peak at 23,000 in 2023. Real disposable income and consumption spending will remain lower until 2040. This will lead to a fall in real private investment that peaks at $939 million in 2024. When does the report say the good news kicks in? That would be in 2093 ... 75 years from now!

The Canadian Federation of Independent Businesses (CFIB) stated in their pre-budget submission that the ORPP would lead to a loss of 160,000 person-years of unemployment, and a 0.5% increase in the unemployment rate in Ontario. They also noted that 90% of their members do not support the ORPP (up from 86% last year), 69% say they'll freeze or cut salaries, and 53% would cut jobs if the ORPP goes ahead. In fact support for the plan has dropped from 8% to 5%. They concluded the ORPP will significantly undermine the competitiveness of Ontario businesses. The CFIB also quoted recent polls by Forum Research and Mainstreet Technologies which indicate more employees (future ORPP plan members) oppose this pension tax now, than a year ago.

The Ontario Chamber of Commerce presented a letter to the government, opposing the ORPP. They urged the government to expand the definition of comparable plans, thus exempting many of those businesses from participating. It was signed by 150 key stakeholders, including some of Ontario's largest corporations, including Magna, Chrysler, Ford, GM, Canadian Tire, GE, Walmart, Maple Leaf Foods, along with 57 local Chambers and industry associations. Remember, it was the Fiat Chrysler Chair who talked about Ontario being an expensive jurisdiction, partly due to the ORPP. And the day the ORPP was first announced, Magna declared this would cost them $36 million annually, and they would never open another plant in Ontario. For this number of high-profile companies to band together is simply unprecedented. The Chamber has stated that only 26% of its members can afford the increased cost of an ORPP and 44% of its members will reduce employees or hire fewer staff. The key thing to remember is this – *it's impossible to save for retirement if you don't have a job.*

The Canadian Manufacturers & Exporters (CME) group warned the introduction of the Ontario Registered Pension Plan will lead to more layoffs and wage freezes. The CME represents manufacturers who account for 750,000 jobs in Ontario. A survey of their members say as many as 35% will lay off staff to cope with additional costs associated with the ORPP. About 68% said they would eliminate wage increases or bonuses to pay for those additional costs.

Let me end this section on a slightly political note. Back in 2014 Premier Wynne announced she had appointed former Prime Minister Paul Martin as a special adviser. Martin, who once famously called payroll taxes a "cancer" on the economy, joined the Premier to advocate for a provincial pension plan that would require employer and employee contributions. And current federal Finance Minister Bill Morneau co-authored a book entitled *The Real Retirement: Why you could be better off than you think and how to make that happen*. In it he argues there is no pension crisis for many of the current retirees, but there are challenges for a "significant swath" who haven't saved enough.

What is a comparable plan?

On August 11, 2015 the government released the long awaited details of the ORPP. The announcement featured two key details: the definition of a comparable plan, and the expected phase-in period. During the media availability the Premier admitted she did not know how much it will cost to administer the ORPP. Two types of pension plans would be deemed comparable and thus exempt: Defined Benefit (DB) and selected Defined Contribution (DC) plans.

In order for a defined benefit plan to be exempt it must have a minimum accrual rate, the rate at which a plan builds up income, of 0.5% of one's annual income. For defined contribution plans to be exempt, they must have a minimum annual contribution rate of 8% and employers must match employee contributions. Unlike defined benefit plans, this definition is fairly restrictive and most current defined contribution plans will not meet this definition. Because of the restrictive definition, employers whose plans do not qualify have told us they may have to lay off workers in order to fund an enhancement of their plan, or cancel their plan altogether, leaving just the ORPP in place for workers. Some large employers, including the Ontario Public Service, have a comparable DB plan, meaning they will be exempt. However, many small businesses provide DC plans which are not exempt. The CFIB sees this as directly targeting small business in the province.

Group RRSPs, TFSAs, and RRSPs are not deemed comparable. The government also did not exempt Pooled Registered Pension Plans, but did leave the door open to an exemption in the future. The government wants to include self-employed Ontarians but cannot yet, as amendments must be made to the Federal Income Tax Act. To date there are about one million employees in Ontario with a comparable plan.

In addition to the definition of comparable, the government originally announced a four-wave phased-in start of the pension plan (which they later altered):

Wave 1: Starts in 2017 – businesses with 500 employees or more
Wave 2: Starts in 2018 – businesses with 50-499 employees
Wave 3: Starts in 2019 – businesses with 50 or fewer employees
Wave 4: Starts in 2020 – businesses with existing non-comparable plans

Half a year later, in February 2016, the Premier announced the first wave of implementation for the ORPP would be pushed back one year, to January 2018. The changes only affect Ontario's large employers – those with more than 500 employees. They will now have to enroll on January 1, 2017 but won't have to begin contributing until one year later. This was done for two main reasons – one logistical, the other political. First, the province had not properly informed businesses of their expectations or exemptions in a timely manner. And, because they've failed to implement it, the government is now trying to buy time to push for enhanced CPP reform, over a new ORPP system.

Within these timelines, the first payments will be issued to employees in 2022, but the first employees to receive full payments will not be until 2057. Therefore, based on current life expectancy figures, ***anyone who is currently about 45 years or older will never receive a full payment from the ORPP.***

Future fallout

Here are just some of the key consequences of the ORPP that you'll never hear the government talk about.

Cash grab under the guise of infrastructure?

Right from day one, we realized this tax was never about the retirees; it was always about infrastructure. The government continues with their denials, but evidence – and media stories – continues to surface.

In a pre-budget speech this year, in one breath the Finance Minister promised that decisions on where to invest ORPP funds collected would be arms-length, then in the next breath stated his expectation that money would go to infrastructure projects. That's hardly a hands-off approach. And the Associate Finance Minister's denials caused me to write this rebuttal Letter to the Editor to the Globe and Mail, last July:

> I was disturbed with the Letter (to the Editor) from Ontario's Associate Finance Minister Mitzie Hunter.
>
> Referring to the Ontario Retirement Pension Plan, she states, "The government will not determine where and how contributions are invested" and that the government is establishing an independent body to manage and administer the ORPP, and develop an investment strategy.
>
> That is NOT what the government told the Legislature.

> The 2014 budget states, "By unlocking value from assets and encouraging more Ontarians to save through the new ORPP, new pools of capital would be available for projects such as building roads, bridges, and transit. Our strong Alternative Financing and Procurement model, run by Infrastructure Ontario, will allow for efficient deployment of this capital in job-creating projects."
>
> I am offended because what was presented to us in the Legislature is the complete opposite of what the public is being told.

In case there's still any doubt about the government's intended use for this pension money, one need only look at the regulatory posting dated March 14, 2016 that proposes to eliminate the 30% rule for Pension Investment (Regulation 909, Pension Benefits Act). The posting states "eliminating the 30% rule could open up new investment opportunities and tap the capacity of the pension sector to contribute more to economic growth." It's clear the government is being less than forthright about its real plans for the money it will require you to shell out for the ORPP.

National Post columnist Andrew Coyne summed it up with, "The Wynne government keeps letting slip references to the ORPP being harnessed, not to earning the best risk-adjusted return for fundholders, but to financing provincial projects – more on the lines of the Quebec Pension Plan than the CPP. Which is to say, a tax increase."

Are we under-saving?

The entire ORPP rests on the premise that Ontarians are not saving enough for their retirement. However, a McKinsey Consulting group report shows that 83% of Canadians are saving adequate amounts for their retirement. Under-saving is actually only a problem for the middle to upper middle class, and McKinsey found this is because they commonly do not take advantage of pension plans already available to them. It also didn't take into account the nearly $9 trillion of wealth Canadians hold (such as real estate) outside of formal pension plans.

In addition, Jack Mintz, economist and fellow at the University of Calgary, suggests it's far from clear as to what problem is trying to be addressed. He states that well-documented, large-sampling analysis has been done by McKinsey (above) and Statistics Canada, concluding almost four-fifths of Canadians have sufficient income at retirement.

Finally, Malcolm Hamilton, an actuary and pension expert, and Senior Fellow at the C.D. Howe Institute, says that reports that we're under-saving for retirement are based on faulty assumptions. Young people are saving enough for retirement, he reports, by "choosing to buy a house, which becomes a big asset later." He concludes, "They are at the beginning of their work life ... (and) have substituted saving for some vague retirement date for spending on a home."

Fewer retirement savings options

One of the impacts of the ORPP is companies may eliminate their existing savings plans for employees – plans that pay better than the ORPP. It would make more sense if the ORPP wasn't mandatory, and employers had a choice instead. No employer will carry two plans. The Canadian Life & Health Insurance Association said that 78% of their members would be likely to reduce contributions to existing pensions, and 66% may consider eliminating existing plans if the ORPP goes ahead. They called for a one-year delay of the ORPP, and for the immediate adoption of regulations to facilitate Pooled Registered Pension Plans to enhance retirement income security.

The Portfolio Management Association of Canada (PMAC) made a pointed case against the ORPP, recommending the government delay or ditch the plan altogether. The PMAC represents over 200 investment management firms and is responsible for more than $1 trillion in assets. "We believe that the ORPP does not adequately address retirement savings in Ontario and more specifically, it undermines a broader and more appropriate targeted national approach to pension reform and retirement savings for all Canadians, where gaps exist in their retirement savings," stated president Katie Walmsley and VP Scott Mahafffy. Furthermore, PMAC alleges the ORPP would harm small- and medium-sized businesses; the plan is unaffordable in today's precarious economic environment; it narrows individual choice in saving for retirement; and it penalizes low-income earners.

Further to that point, not only does the plan take money from those who can least afford the loss in pay, if affects the people who will benefit the least. Upon retirement, this additional income will raise them beyond set thresholds, and their Old Age Security and their Guaranteed Income Supplements will be clawed-back by 50 cents out of every dollar. Therefore, the ORPP will actually see very little given out to the poorest of Ontarians who, arguably, need the most money in retirement.

In conclusion, it's surprising the government is forging ahead, when disapproval has come from so many diverse groups, associations, businesses, and individuals, highlighting the negative impact the plan will have on our economy. When you have skyrocketing energy prices and ever-growing red tape, the ORPP will only make matters worse, creating more uncertainty at a time when companies need stability in order to invest.

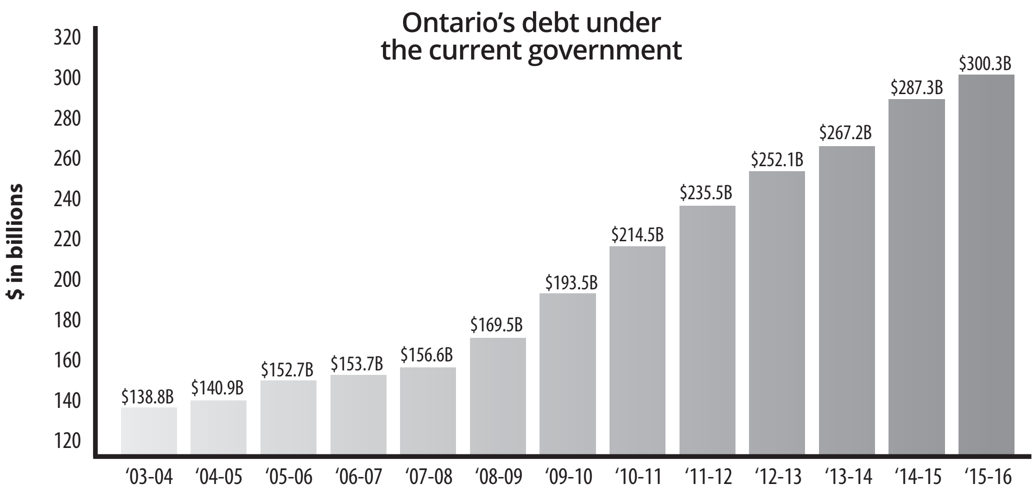
People need to realize this isn't government money they will receive. It's the government taking their money and promising to pay it back, later!

FURTHER CONCERNS

Further Concerns

Debt & Deficit

In every chapter I have weaved in a tale of what that particular story has to do with our debt and deficit. Ontario will soon owe $308 billion, and is now the largest sub-national borrower on the planet. At almost $1 billion a month, Ontario now spends more on debt interest than it does on its entire welfare system. The Auditor General has been ringing the alarm bell for several years, yet nobody in the government seems to hear it. In fact in her latest annual report she repeated her call for the government to outline a plan to reduce the long-term debt. Sadly, this has become an annual event.



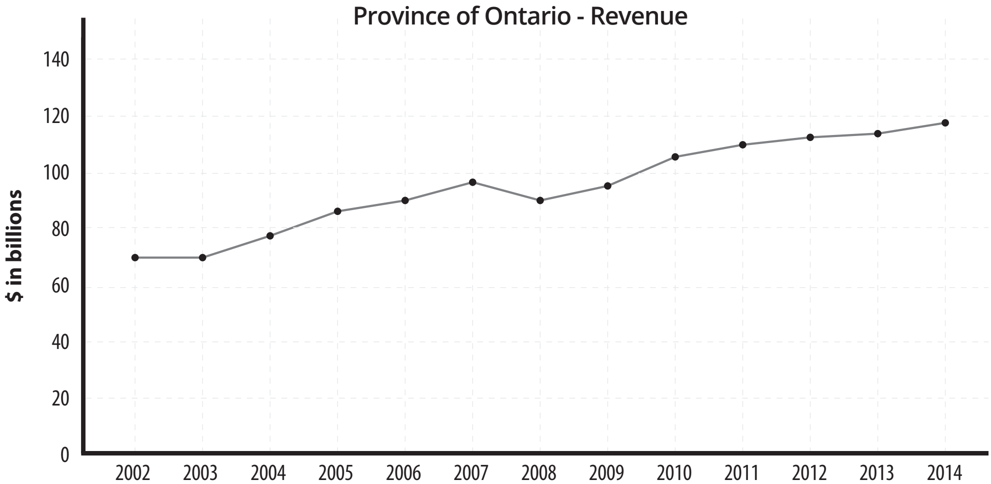
Instead of heeding the warnings, the government continues with its head in the sand, apparently oblivious to the damage they have caused Ontario. At his pre-budget speech to the Empire Club of Canada, the Finance Minister continued to blame the global recession for our financial situation. But then he described the "bold choices" taken; the path he chose. I had to look up to make sure it was him speaking when he stated, "Other governments chose to spend and borrow. And some said Ontario needed to spend more, and not worry about deficits. But that too would have been reckless and irresponsible. Because we cannot simply pass the burden of debt onto future generations."

Huh? Has he seen the latest debt figures? Just who does he believe doubled that debt? And who does he believe he is passing that debt onto? It took 23 premiers, over 136 years (which included a couple wars, a depression, and a few recessions) to rack up $139 billion in debt, yet it took this government only a dozen years to more than double that debt to almost $300 billion! That's the highest growth rate of any government in Canada. Look at Ontario's debt chart (previous page) – note how the number rises every single year since this government has been in power.

A friend of mine had this to say: Debt, like body weight, is the easiest thing to increase, and the hardest thing to decrease. As the chart indicates, the province's net debt doubled in a decade, and continues to grow. It stands at over $21,000 per person (remember that Detroit declared bankruptcy when they reached $27,000 per person). According to the Fraser Institute's Ben Eisen, the underlying cause is the government's inability to restrain spending and the next couple of paragraphs are from various articles he penned on the topic.

He outlines how program spending has increased at an annual rate of 4.7%. That's far beyond what's needed to compensate for population growth and overall price increases, at 2.8% annually, and well beyond Ontario's growth rate of 3.2%. Eisen states, "If the Ontario government had held program spending increases to the rate of economic growth since 2003/04, program spending for 2015/16 would be approximately $103 billion rather than the $121 billion the government is projected to spend." That's a difference of $18 billion – far greater than the $5.7 billion deficit announced in the budget. Ontario would have had a surplus this year, instead of a deficit – and the same could be said for the last few years.

As I have discussed earlier in the book, Ontario does NOT have a revenue problem. The government has a spending problem. Have a look at the trajectory on the revenue chart (next page). Aside from a small dip in 2008, revenues continue to climb – but spending has gone up even more. This chart also debunks the government tale that the recession is to blame for all of Ontario's woes.



New voices are being added to the chorus of concern about Ontario's mounting debt. Former Finance Minister Dwight Duncan is ironically sounding the debt alarm. In a recent column he says "In a very real way, the size and cost of Ontario's debt is now constraining, and indeed, molding Ontario's public policy choices. Ontario's interest payments on its nearly $300 billion debt are now significantly impacting every aspect of provincial spending and dictating policy choices that might not otherwise be taken." He concludes with "the day of reckoning is here."

Yet amid all the bleak economic news, despite two credit rating agency downgrades, and warnings from the Auditor General, there are still those who profess that all is well. The Toronto Star reported on a story about a study from the Canadian Centre for Policy Alternatives. The 20-page report entitled *No Crisis on the Horizon: Ontario Debt, 1990-2015* suggested the government not focus on eliminating the deficit by 2017/18. "Despite some concerns about the level of Ontario debt, the province isn't anywhere close to hitting a debt wall," wrote Sheila Block, senior economist with the Centre. She offered that the government has allowed concerns about debt and deficit to hamstring their activist agenda.

Shortly after that report was published, the 2015 budget was tabled, showing the province will run its eigth consecutive budget deficit. Net debt-to-GDP is a hair under 40%. Spending was up. Thanks to booking the funds from the sale of Hydro One into general revenue, revenue was up. Yet Ontario still came up with a deficit forecast of

$5.7 billion. Debt servicing costs are projected to be more than $11 billion – that's 9% of revenue. Between 2015 and 2018, interest payments are projected to grow at 6.7%. That makes servicing debt the fastest-growing line item in the budget. And as the Auditor General has pointed out, the money spent servicing that debt is money not available to spend on important public services. That is the "crowding out" the Auditor speaks of, so often.

In closing, do you have a yen for our debt? I often get asked about ownership of our debt, so here is a summary. The Province's publicly-held debt consists of funds borrowed from the general public and institutional investors. Publicly held debt as of March 31, 2016, is projected to be $313.4 billion, or 96% of total debt, issued in the following currencies: $252.5 billion Canadian dollars, $45.0 billion U.S. dollars, $12.1 billion Euros, $1.9 billion Swiss francs, $1.4 billion Australian dollars, and $0.5 billion Japanese yen. This is up $10 billion from the September 2015 report (which also included Norwegian kroner and Hong Kong dollars). As of March 31, 2016, Ontario's non-public debt is projected to be $11.9 billion, or 4 per cent of total debt. Non-public debt consists of debt instruments issued mainly to Canada Pension Plan Investment Board.

Ring of Fire – or just blowing smoke?

I believe the Ring of Fire is one of the greatest potential job- and wealth-creators to come along in a century. This is the name given to the massive mineral discovery made in 2007, in a remote section of Northern Ontario, halfway between the northernmost section of Highway 11 and James Bay. The most exciting find was discovering chromite, used to make stainless steel. There are only a few known chromite deposits in commercial use in the world. In addition, there is an ample nickel deposit, as well as many other minerals. The estimated value of the deposits in the Ring of Fire is at least $60 billion, with a working life of 100 years. The Ontario Chamber of Commerce estimated it would generate $9.4 billion in economic activity, and support 5,500 jobs a year.

With Ontario in desperate need of job creation and economic development opportunities, you'd think the government would be jumping at the chance to develop the Ring of Fire and take credit for doing so. Yet here we are, nearly 10 years later, and the area sits virtually idle. Instead, the government has used it as nothing more than a political football to kick from one election to the next – and they'll do so again in 2018.

I have personally been to the Ring of Fire five times; once each year since my first election in 2011. On my first trip I saw exploration camps with more than 250 men and women stationed there. As I flew in, I spotted dozens of stacks of drill rods – the kind that are manufactured by mining supply companies in my riding – and realized the potential this had for Northern communities. As the years went on and I got to know the players, I met one Toronto engineering firm doing $4 million/month for one of the claim-holders, and met several financial and legal firms who were doing big business with Ring of Fire proponents. I soon realized the potential this had for all of Ontario.

My most recent trip was last May when I headed back up with Opposition Leader Patrick Brown. The changes were startling. Instead of seeing a bustling community with active drilling operations, there were six people left; simply caretakers of the infrastructure. One of the major U.S. companies had not only left the site, but left Ontario and Canada altogether because of the government's inaction on moving the development forward. They had spent $700 million on their claim and design work, and sold it all for $27 million. What a disappointment to see the remnants of a once-hopeful site.

The series of bungles, stumbles, and hurdles the government has thrown up over the past several years when it comes to the Ring of Fire (RoF) is truly staggering. Among them:

- When I first met the RoF Secretariat in 2011, my jaw dropped when I was told her office had never visited the site, after 18 months on the job;
- there was a bungled energy deal with one of the proponents that we discovered in the Gas Plant Scandal documents;

- the government announced a RoF Development Corporation, then re-announced it five more times in the months preceding and following 2014 election;
- the government announced a $1 billion RoF infrastructure commitment in the 2014 Budget, contingent on the federal government matching it. They then re-announced it in the 2015 Budget. And re-announced it in the 2016 Budget (this time, with the same Party in government federally, it was now no longer contingent on matching federal funds);
- when I asked the Premier in the Legislature about the government's inaction on the Ring of Fire, and why she's never been there in person, she suggested that paddling down the Attawapiskat River was somehow equivalent. Unfortunately someone forgot to tell the Premier that she was some 20 km away from the camp site, you can't mine ore with a paddle, or ship ore in a canoe!;
- as previously mentioned, we discovered documents indicating the province was preparing to impose a chromite tax of up to $34 million annually;
- the 2015 Auditor General's report blasted the Northern Development Ministry for what was called a pattern of inaction. It pointed out the Ring of Fire Secretariat missed deadlines and failed to set performances measures to access progress;
- the recent federal budget made no mention of the Ring of Fire.

There are many more tales to tell, but I think you have a snapshot of what has (or hasn't) taken place over the last decade. The bottom line is there are willing proponents with active claims; there are First Nations groups who look forward to revenue-sharing and job-creation opportunities – but neither of those groups was invited to sit on the Development Corporation. Those seats are taken by four government bureaucrats. Truly shameful.

Samsung Deal - Opportunity lost

As I've stated many times in the Legislature, and several times in this book, the Gas Plant Scandal Hearing documents continue to reveal insider facts. The latest papers we discovered were a March 26, 2013 Treasury Board, Management Board of Cabinet 'Assessment Notice' outlining that the government could have cancelled the lucrative Samsung deal, without penalty!

This is found in a government document marked *Confidential: Not to be Copied or Reproduced*. But through dogged persistence before the 2014 election, we were able to have all the files obtained through the Gas Plant Scandal Hearings released publically. Stating that date is important, because after the election, Premier Wynne had the Committee disbanded, and there was no further access to new documents.

The Samsung document starts with "The Ministry is seeking a negotiating mandate to amend the Green Energy Investment Agreement (GEIA), which was signed between the Korean Consortium (KC), as represented by the Samsung Corporation, and the Province."

The crux of the document states, "KC has since missed key commitments in the GEIA by missing multiple milestone deadlines (March 31, 2012) for Phase 2 and 3 construction projects. This triggers the province's ability to terminate the GEIA, ***without penalty***, through existing termination clauses." This would have resulted in cost avoidance for the province of $5.2 billion dollars – and saved about 2% on the average residential electricity bill.

Once the province realized they could walk away from this deal, they needed to make a decision – do we do what's best for the ratepayers – or best politically? About two weeks after the Treasury Board note was issued, here is the Cabinet Briefing Note:

> "The GEIA commits the KC to deliver a total of 2,500 MW of wind and solar electricity generation through five phases. The agreement also commits KC to

> establishing four manufacturing plants in Ontario with an expected 900 jobs. In return, KC receives a long-term revenue stream through Power Purchase Agreements (PPA), priority access to the transmission system, plus an additional payment of up to $110 million if specific job creation targets are met."
>
> "To date, KC has secured Power Purchase Agreements only for Phases 1 and 2. KC has also established three of the four manufacturing plants in Ontario, although these have not yet achieved the full job creation targets. Phases 3, 4, and 5, as well as the fourth manufacturing plant, have not yet been implemented for a variety of reasons."
>
> "The ministry proposes to eliminate Phases 3, 4, and 5 from the agreement. The ministry also proposes to reduce the additional payment while having KC maintain some of their job requirements."
>
> "Currently, KC is in default of the terms of the existing GEIA. The ministry is proposing to authorize a 45 day negotiation period. If an agreement with KC cannot be reached within that timeframe, the Minister of Energy would be authorized to terminate the entire agreement (with 30 days notice). In this event Phases 1 and 2 would still be able to proceed."

The Cabinet Office Analysis also offers a window into what the thinking of the day was:

> "The ministry is now proposing to eliminate much of the existing agreement. The ministry argues that doing so could save Ontario ratepayers as much as $5.2 billion over 20 years."
>
> "Aside from the GEIA, there is a more fundamental question about what Ontario's future electricity needs are and how they should be met. Currently, Ontario has more generation capacity than it requires, and the ministry presents this as a rationale for not proceeding with the future phases of the GEIA. However, this may not be consistent with the government's previous commitment to fostering renewable energy generation."

> "Also, saying that KC's renewable generation capacity is not needed could also be contentious in communities where other renewable generation projects (e.g., wind farms) are currently being built in the face of community opposition."
>
> "Whether the agreement is renegotiated as proposed or terminated, Ontario would have to manage the risk of being perceived to be walking away from an investment agreement that, in the past, has been described as an important job creation initiative. To date, KC has not achieved the job creation targets set out in the GEIA."
>
> "Even though Ontario appears to be well within its rights to terminate the agreement, the ministry has flagged that there is a risk that KC could initiate legal action against the province."
>
> "Ontario's negotiating position with KC became stronger when KC went into default of the GEIA on December 31, 2012. This gives Ontario more leverage than it had in previous negotiations and supports the rationale for proceeding with the decision at this time."

What does all this mean to you and what did the government ultimately do?

Three months after the initial Treasury Board Note, the Minister of Energy made his announcement ... "The province will now buy $6 billion worth of electricity produced by Samsung's wind farms and solar projects over the next 20 years, which is $3.7 billion less than the original 2010 agreement." He added, "This was the most significant step our province could take ... to bend the cost curve for ratepayers." He told reporters, "Samsung missed some deadlines, so the province was able to reopen negotiations and reduce the amount of electricity it will buy from 2,500 MW to 1,369 MW."

Now hang on a second, there are two flags on the play here. The documents state "The cost of the GEIA to ratepayers is $10.5 billion over 20 years." In fact Page 1 details the breakdown of each Phase, showing the total to be $10,514,000,000. Let's call it $10.5 billion. So right from day one, the government has been using the lower $9.7 billion number, for whatever reason, when their documents clearly show this is low by $800 million. Did the government deliberately understate this figure?

The second point is that while the documents state the cancellation would save $5.2 billion, the announcement says $3.7 billion – fully $1.5 billion less. And the announcement states they're reducing from 2,500 MW to 1,369 MW, when Phases 1 and 2 only allowed for 1,069 MW – that's 300 MW less.

The answer is that while the government did cancel the wind projects of Phases 3, 4, and 5, they left the 300 MW of future solar projects intact. According to this announcement then, they will be paying $1.5 billion for 300 MW of solar.

The bottom line is that clearly, the ratepayers come last. While the government would like you to believe there's little it can do to mitigate skyrocketing hydro costs, we now know that's simply not true – they had a real opportunity to make a serious course correction – and chose not to. And the document also contains a clear admission that this deal would increase the cost of hydro – something the government denied right from the beginning.

And just when you would think there can't be anything more cynical to add, let me present the various media quotes the government trotted out throughout this whole deal ...

"Premier Dalton McGuinty has signed a landmark agreement with a South Korean consortium that will see 16,000 new jobs over six years."

"Samsung will build wind turbines and other green energy equipment in Ontario – that will mean four new factories and some 1,440 manufacturing jobs."

"Thanks to Samsung's Green Energy Investment Agreement with the Government of Ontario, we are creating 9,000 jobs, kick-starting a new industry in Ontario and generating 1,369 megawatts of clean energy."

March 2013 Treasury Board Note:
Job Targets (for all 5 Phases) = 900; Jobs created = 300.

MY FINAL THOUGHTS

My Final Thoughts

When our Premier was featured in a segment on the television show W5, there was footage shot at a Cabinet meeting. Deputy Premier Deb Mathews, who also serves as President of the Treasury Board announced, "We're out of money." She then stated, "We have to do everything we can to raise revenues." What's telling was that her response wasn't 'we need to cut costs'. No, she went right for your pocketbook! As the government searched for those revenues, they couldn't resist taking the easy way out – using one-time money to prop them up until after the next election. The sad thing is, now that they're caught, they'll continue to dodge, deny, deflect, and as history has taught us … delete.

Any year-in-review of this government would reveal a sad tale; there are four OPP investigations underway as well as bribery charges in Sudbury and Breach of Trust charges in the gas plant scandal. In addition there are three top operatives of the government's political Party charged with criminal activity. This presents the impression that a culture of corruption and abuse of the public's trust exists.

And now we've learned that Cabinet ministers have a fund-raising quota to reach from within their stakeholders. Some targets are as high as $500,000 per year! All this money is to be raised from the very stakeholders who lobby the government for contracts or for changes to legislation. Sadly, it may lead people to wonder if there is any connection between donations and contracts. I can't imagine what Kathleen Wynne can ever do to restore credibility to the Office of the Premier.

Throughout this year of waste, mismanagement, and scandal, there were a couple of encouraging signs. First, the Auditor General continues to shine a light on so many important issues. She, along with her staff, has the ability to get down into the weeds of each ministry and pop up in December with reams of material for the Legislature to ponder. We're all very grateful for her independent annual reports, as well as those timely one-off issues that garner her attention.

The addition of a Financial Accountability Officer and his staff was so very welcomed this year. He took it upon himself to present the facts about the effects of the sale of Hydro One. Then he advanced the Fall Economic Statement and told us exactly what numbers to look for and what they meant. He also publishes a monthly newsletter that keeps us current with respect to issues affecting Ontario's finances. As I outlined, his last report questioned where the cap-and-trade revenue is really going, and how that will affect the budget. This is exactly what we've been looking at and speaking about in the Legislature.

This book is a summary of the last year, and hopefully presented a credible take on our province's financial situation. As I read through it one last time, a few points rose to the top.

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 the ORPP and 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.

Also, I find the government can really pour out an aspirational message, but falls completely flat on operational delivery. Promising to reduce insurance rates by 15% is a great example. It sounded wonderful; definitely aspirational. Borne out of necessity (it was part of a deal to obtain the 3rd Party's support for the 2013 budget), there was an announcement, but absolutely no plan to deliver on it. After missing the 2-year deadline by 50%, the Premier said it was just a "stretch goal". The bungled roll-out of the ORPP is another example. A great sound bite, but no operational plan to back it up, which is why we've seen delay after delay. Think of all the examples throughout the book. There's a common theme.

I also found a lot of federal politics at play over the last year. The government of Kathleen Wynne blamed the Stephen Harper government for everything they could. When the annual federal transfer increases were announced, they were never enough. The Premier pulled out all the stops to support Justin Trudeau, suggesting he would be more generous to Ontario if he got elected. But after the election, the complete opposite occurred. The feds announced Ontario would receive $60 million <u>less</u> transfer funding in 2016/17 than it did the previous year. Ontario's Finance Minister's answer was, "But that's OK. We want to support all provinces to be at their best." It's this disgusting display of hypocrisy that makes people cynical. It leads you to wonder how you can believe anything this government tells you.

Further to that point would be these examples of how the government throws out numbers not backed up by any facts.

There's not a week that goes by without some Cabinet minister stating, "Closing coal has saved $4 billion in health care." Closing coal was a positive move for Ontario, which is why the previous government actually ordered the closing of the first coal plant. But making a statement like that, when there is a U.S. coal plant just across the river from the former Lambton coal generating station makes the statement nothing more than ridiculous.

Parker Gallant wrote a great column on the Wind Concerns Ontario website asking if Ontario lost 11,000 jobs! He notes that in June 2013, Energy Minister Bob Chiarelli put out a news release that listed 'Quick Facts' including, "Ontario's Green Energy has attracted billions of dollars in private sector investments and created 31,000 jobs since 2009." Then in November 2015, Minister of the Environment and Climate Change Glen Murray released a 'Did You Know' chart. One fact he presented was, "Over 20,000 clean energy jobs have been created since 2009." So, 31,000 jobs were there in 2013, but in 2015 there were only 20,000 clean energy jobs. Parker asks, "Does this mean that despite the addition of thousands of megawatts of wind and solar generation since 2009, and the price of electricity rising by 76% in that time, that 11,000 clean energy jobs were lost?" Of course he was being tongue-in-cheek, but the point is these guys throw made up numbers around, and they continue to get caught.

As the book is heading off to the printers, there are former government Party operatives who are heading off to trial in the Gas Plant Scandal. Many of the people involved over the years, treated the opposition with mockery and contempt. The first scandal after cancelling the two gas plants, was putting in place a process that wrote a blank cheque in order to reach a deal. In essence, the deal was to move from the court system into a private arbitration venue where the proceedings and the results would be kept secret. In order to secure an agreement, the government waived valid defences and gave up the benefit of judicial limits on damages. The government then hid the majority of the settlement costs on the hydro bill, while only talking publicly about the much smaller taxpayer portion of the costs.

The second scandal was the cover-up followed by the deletion of computer files, which was a further cover-up of the cover-up. Together they form a transaction which was conceived and plotted in secrecy, carried out by stealth, and attempted to be hidden from the authorities by deceit.

This is precisely why many Ontarians feel frightened and shut out of a political and economic system they feel is rigged against their interests.

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A little bit about Victor Fedeli ...

Vic 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. Within a month 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 two *Focus* books. As witnessed throughout the pages of this 3rd book, the documents are still revealing starting facts about the inner workings of the government

MPP Victor Fedeli, Opposition Leader Patrick Brown, and Noront Resources President & CEO Alan Coutts at Noront's core sample table in the Ring of Fire.