



# Fedeli Focus on Finance

**Taking a closer look at the numbers**

Volume 4: No. 2 | February, 2017



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# Taking a closer look at the numbers

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

In October 2013, two years after the 2011 election, the government did not produce the document. Six months later, after repeated requests from my office, they finally released the report. Fast forward to June 2016, two years after the 2014 election, and again ... no report. I made repeated requests to the minister and finally, eight months late, the government produced the *Ontario Long-Term Report on the Economy*.

The report confirmed what experts have been saying all along – Ontario’s long-term economic prosperity has been critically damaged. It paints a picture of slow growth and an economy that will continue to shift from good-paying manufacturing jobs to more part-time and temporary employment. In the first six pages, the report stated “Growth in the trade in services continuing to outpace the trade in goods”; “The structure of the Ontario economy will continue to shift from goods-producing to service-producing sectors”; and “Shifting employment from goods-producing industries, in particular manufacturing, to service-sector industries.” The report also projects a drop in the growth of Ontario’s GDP, a decline in private sector savings, imports, exports, labour participation rate, in fact nearly all of the major economic indicators.

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

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

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

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

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

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

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

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

## More missed deadlines

Despite the legal requirement, the government again failed to provide the *2016-17 3rd Quarter Finances* by the February 15 deadline. While they did deliver a report six days later, this is the first time they have produced a report in eight years, repeatedly withholding important financial information from the media, opposition, and taxpayers. Ontario’s Financial Accountability Officer (FAO) has warned of the government’s “broader pattern” of secrecy and their refusal to provide information was making it “difficult to assess the plausibility of the government’s financial projections and to evaluate risks that those projections would not be met.”

The report states that contrary to the information provided by the FAO, the government shows they will balance the budget next year. Closer inspection of the revenue sources reveals \$600 million from reserves, \$500 million more in unplanned revenue

from the Land Transfer Tax, additional revenue from service fees, and the sale of one-time assets such as Hydro One. In addition, and contrary to the ruling from the Auditor General, the government is including the surplus pension funds. (More on that later).

## The Chamber weighs in

The third report came from the Ontario Chamber of Commerce. For five years their annual analysis was titled *Emerging Stronger*, but as an acknowledgement that the name was purely aspirational, the Chamber chose *Ontario Economic Report 2017* this year, to be more accurate. The most stunning revelation was that only 24% of businesses have confidence in the province's economy. Since the Premier first took office in 2013, business confidence in the provincial economy has been cut in half, from 48%. Interestingly, despite a lack of provincial confidence, 62% of members are confident about their own organization's economic outlook.

In addition to the Business Confidence Survey, the report also contains the Business Prosperity Index, and the Economic Outlook, providing a snapshot of the year that was and the year ahead. It's a must-read report found at OCC.ca

## Ignoring the Auditor General

The government continues to ignore the ruling of the Auditor General. Recall that AG Bonnie Lysyk concluded that pension plan surpluses shouldn't be included on the province's balance sheets as an asset, because the government can't access them. The government then budgeted \$435,000 to empanel a committee to review the AG's decision. This private panel concluded that the pension surpluses should be counted as assets. The government has stated they will implement the panel's advice and will use it in preparing the province's financial statements.

AG Bonnie Lysyk says she won't give her "seal of approval". She's insisting on seeing letters from the Ontario Teachers' Federation and OPSEU, showing a formal negotiated agreement with the government, stating they can use that money. The government says that joint pension agreements already spell out how surpluses are handled, so no letter is needed.

This is no small dispute, as almost \$11 billion dollars are what's at stake. Again, while the argument is that the government can't access those funds directly, if allowed on the balance sheet, this year's number could easily tip the province into the black, and the larger amount would lower the province's debt.

## Minister calls MaRS building debacle "Fake News"

The MaRS building real estate bailout has resurfaced after three years. First and foremost, the work the men and women perform within the MaRS building is exceptional, ground-breaking, and very exciting. And the companies located there are world-class. But the 2014 scandal had nothing to do with the tenants and their employees. It was about the government providing a secret \$308 million bailout to a U.S. real estate firm – until a whistle-blower slipped a brown envelope under our door.

When the bailout hit the media, it was a top story for several days, with comparisons being made to the e-Health and gas plant scandals. The real issue was once again, the government was not being open and transparent. Instead of coming clean and letting the public know the building's owner was in trouble because only one-third of the building was leased out, they secretly bailed the firm out. They had the taxpayer assume the risk, and tied up hundreds-of-millions of dollars for years. The Auditor General called it "a high-risk bailout".

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

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

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

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

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

## Conclusion

There were many other finance-related events in February, but I felt it was important to share these five stories with you, as they form part of a pattern we're seeing with the government. The Financial Accountability Officer's warning of the "broader pattern" of secrecy and the government's refusal to provide information really has made it "difficult to assess the plausibility of the government's financial projections". I will continue to provide monthly news and analysis, and look forward to your continued feedback.

## Key Questions

Will the Minister of Finance agree to provide all reports as mandated in the *Fiscal Transparency and Accountability Act*?

Will the government abide by the ruling of the Auditor General, with respect to accounting for Pension Fund assets?

Will the Minister of Economic Development and Growth stop using inaccurate information to describe the state of employment in Ontario?



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

Please go to [www.fedeli.com](http://www.fedeli.com) to download your own copy of the book.

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