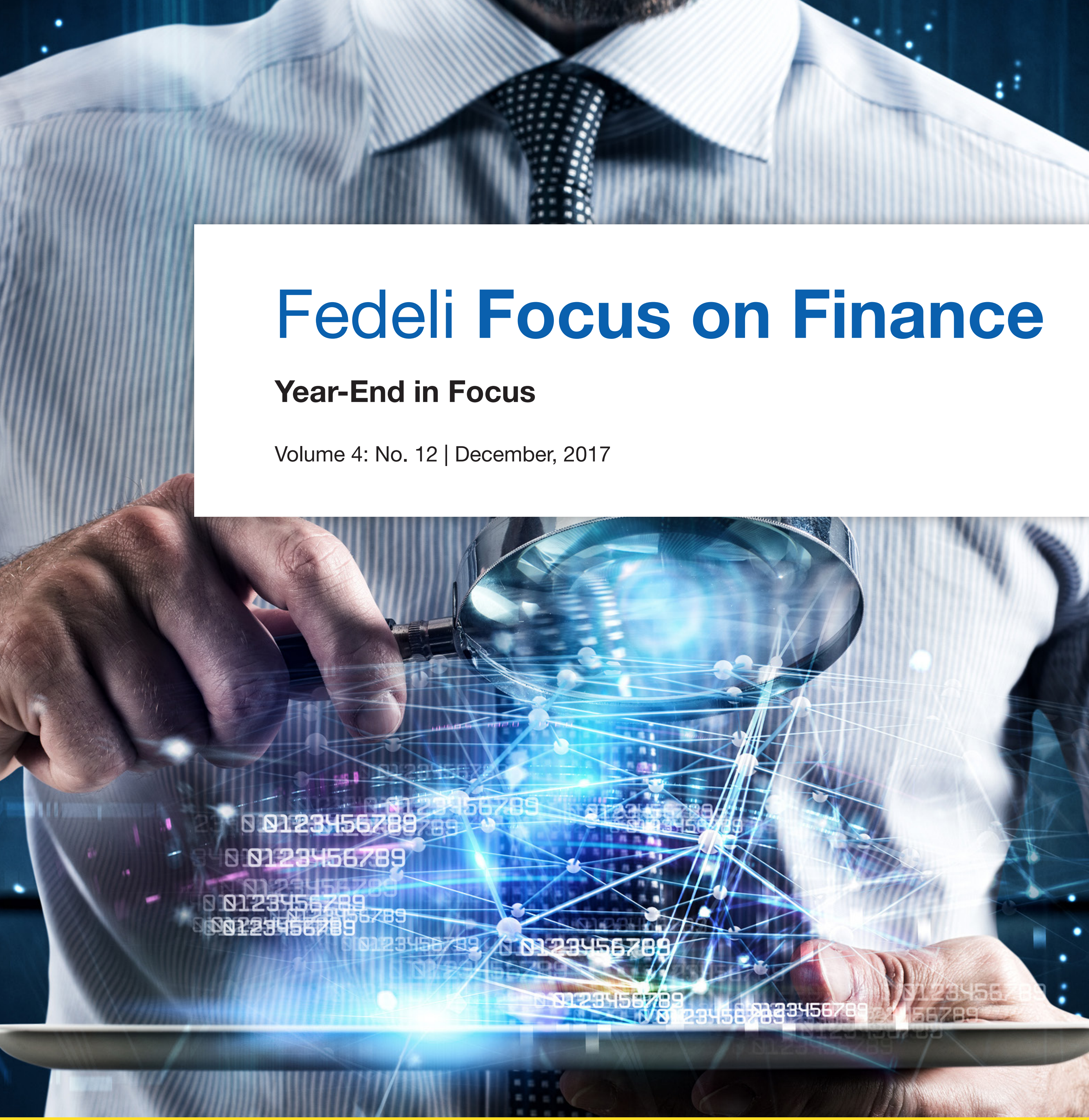


Fedeli **Focus on Finance**

Year-End in Focus

Volume 4: No. 12 | December, 2017

Ontario

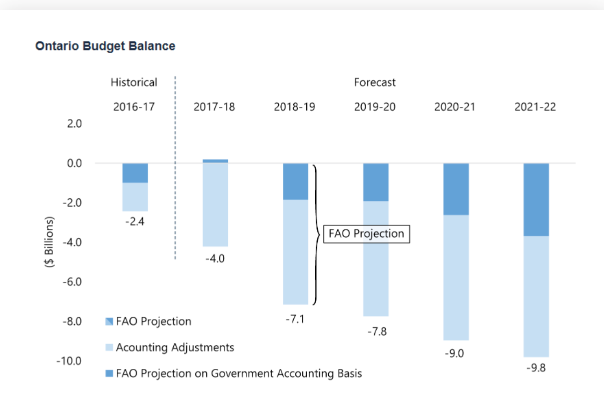
Vic Fedeli MPP DÉPUTÉ
NIPISSING

Year-End in Focus

Happy New Year! As we settle into the start of 2018, this edition catches you up on what happened in December with respect to Ontario's finances. The earlier December Special Edition of *Focus* covered what the Auditor General had to say. This regular issue will fill in what happened throughout the rest of the month.

The FAO Weighs-in

Of major significance was the release of the Financial Accountability Office's (FAO) *Economic and Fiscal Outlook: Assessing Ontario's Medium-term Prospects*. The very first sentence should give you all the information you need … "FAO projects a return to significant budget deficits." It goes on to explain that despite a strong boost to revenues this year (much is one-time revenue), "the FAO is projecting a budget deficit of $4 billion in 2017-18." This is the result of the Auditor General's (AG) recommended accounting treatment for both the government's so-called Fair Hydro Plan and the net pension assets of jointly-sponsored pension plans.



Note: Budget Balance before reserve.
Source: Ontario Public Accounts, 2017 Ontario Economic Outlook and Fiscal Review and FAO.

Beyond this year, the FAO is projecting a "significant increase in the budget deficit due to the loss of time-limited revenues, a more moderate pace of tax revenue growth, and the growing impact from the Fair Hydro Plan." By 2021-22, the FAO is projecting a budget deficit of $9.8 billion. The report reveals "This is a significant deterioration since the FAO's spring outlook and is primarily the result of the introduction of the Fair Hydro Plan, which will add $3.2 billion to the budget deficit by 2021-22, under the Auditor General's recommended accounting treatment."

The FAO, both in the report and in the briefing lock-up, expressed concern about having all these various forks in the road, leading to several versions of deficit numbers. The report concludes "It is becoming more difficult for legislators and the public to assess the government's fiscal projections. This has reduced the transparency and reliability of Ontario's fiscal plan."

The FAO stated that "additional measures to raise revenue or lower spending will be required if the province intends to achieve and maintain a balanced budget." However, there are major differences between the FAO's forecasts and the government's, both on the revenue and expense side. According to the government, between 2017-18 to 2019-20, revenues will grow by 5.2% on average, much higher than the FAO's projection of 4.3%. This results in a difference of $2.9 billion in tax revenue. In addition, many of the one-time revenues will expire, including federal equalization payments (gone by 2019-20), debt retirement charge, federal infrastructure transfers, carbon allowance proceeds (there were five auctions vs four as in most years), and sales of assets, such as Hydro One and various real estate. On the expense side, the government will spend $9.7 billion more than what they had planned to spend in 2017-18, according to their own fiscal plan of just two years ago.

As for the key risks in the outlook, the FAO, as well as most forecasters, continues to assume that uncertainty over NAFTA will have a detrimental effect. Some businesses are postponing investment decisions until this is resolved. The FAO is also concerned that "strong growth in household spending has not been matched by similar gains in household incomes, leading to higher levels of household debt." With rates expected to rise, "many households will scale back discretionary spending in order to make higher debt interest payments, which in turn could have implications for the pace of overall economic growth." In the FAO's spring report, it outlined the housing market as a significant threat to the economy, with record consumer debt loads and stretched level of affordability.

Further Analysis

This all ties in with what many associations and financial groups published in December. RBC Economics stated "After several years of consumer spending and housing activity acting as the main engines of growth, changes to regulations in the housing market and rising interest rates are setting up for a moderation in housing resales and ancillary purchases." With respect to overall growth, RBC further commented that "economic slack has diminished considerably following long periods of expansion, making it harder to repeat 2017's rapid growth rates."

Central 1's economic analysis sees slower growth in the near term, largely from personal consumption and residential spending, with a small drag from a shrinking trade balance. They also list the minimum wage impact and NAFTA uncertainties as sources of risk for the province's economy. Central 1 also reported that small business optimism in Ontario decreased since November, to 57.5/100 (down 0.8%). Since June, year-over-year small business confidence tracked lower than the same period last year. December's year-over-year negative gap was the widest of 2017.

Many organizations chimed in on the minimum wage issue. The Bank of Canada announced that Ontario's move to $15 per hour will cost the province 60,000 jobs. This is bracketed by the Financial Accountability Office's estimate of 50,000 lost jobs, and TD Bank's assessment pegging it at 90,000 jobs to be lost. The CFIB suggested this change will cost Ontario between 68,100-155,900, when both direct and indirect job losses are considered. Undoubtedly this debate will continue, but all eyes will be on the monthly labour statistics, for some months to come.

In a series of blistering reports, the Fraser Institute painted a bleak picture of Ontario. The titles are very revealing. Uneven Recovery: Much of Ontario still hasn't fully recovered from the 2008 recession; Canada's job engines are in the West and Quebec – not Ontario; Ontario's manufacturing sector falling behind other provinces, U.S. states; and Rising electricity costs and declining employment in Ontario's manufacturing sector.

Fraser claims that most of the province's job creation took place in its largest urban areas. Toronto and Ottawa alone created the equivalent of 98.6% of all new jobs in Ontario between 2008 and 2016. Basically, throughout the rest of Ontario, there has been virtually no job creation since 2008. I can attest that my hometown of North Bay is one of the 17 urban areas that are under the national average, and one of the 11 urban areas that actually experienced net job losses (around 9%) since 2008.

While Ontario is not alone in having a reduced manufacturing sector, it exhibits the most substantial decline when compared to other jurisdictions in Canada and the U.S. Fraser compared the manufacturing sector's share of real GDP between 2005 and 2016. Ontario's share dropped 5.1% compared to the U.S. falling less than 1%. In fact, several jurisdictions in the U.S. northeast (our main competitors) saw increases, including Indiana at 1.5%, and Michigan and Kentucky by almost 1%. Another indicator of decline is Ontario's relative ability to attract investment. Between 2006 and 2016, manufacturing investment declined by 26%, while it increased in Saskatchewan by 35%, B.C. by 15%, Quebec by 11%, and Manitoba by 5%.

The various reports conclude "Ontario is faring so poorly relative to other jurisdictions that all face the same challenges. Simply put, poor policy, including policies that have dramatically increased electricity costs, which have likely placed too large a financial burden on manufacturing and hampered the sector's competitiveness."

Hydro Still Making News

Ontario's skyrocketing hydro rates just can't seem to shake the news cycle. After the Auditor General revealed that $260 million was paid out in ineligible expenses claimed by power plants, opposition parties have called for a deeper review, including asking the OPP to investigate. It was further revealed that Ontario Power Generation is one of the companies that still owes ratepayers for inappropriate expenses.

New government rules forced local utilities to promote the government's programs. An Order in Council mandated that utilities must print 'Ontario's Fair Hydro Plan' and 'Bringing electricity bills down' in a "reasonably prominent location on the face of the bill insert." The so-called Fair Hydro Plan is the name the government gave to their financing scheme to temporarily (and the AG states artificially) lower hydro bills by an average of 25%. The Niagara-on-the-Lake Hydro Board issued a statement accusing the government of politicizing electricity bills.

Hydro customer debt and disconnections soared, according to new numbers quietly posted by the Ontario Energy Board. During the past four years, there's been a 19% increase in residential hydro disconnections, a 28% increase in households in arrears, and a 40% increase in customer debt owed to the local electricity distributors. North Bay Hydro wrote off more than $1.12 million in past-due bills for 2,930 customer accounts. This was 40 times greater than the $25,573 written off the previous year, for 145 accounts.

A CBC News story detailing how market-based bidding has pushed down the price of renewable electricity in places such as Mexico, got others doing comparisons with Ontario's costs. The story described 'the cheapest electricity on the planet' in Mexico, at 1.7 cents/kwh for wind power. Over the last year the rate paid to wind generators in Ontario was 14 cents/kwh. As a result, Ontario families and industries are struggling to pay amongst the highest electricity rates in North America, with rates increasing by 71% since 2008.

Conclusion

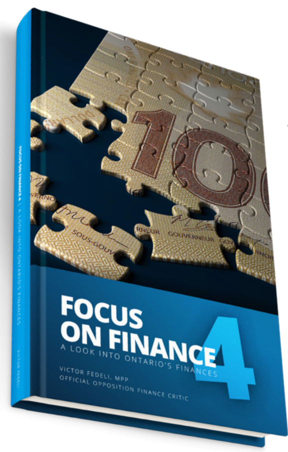
Ontario families, businesses, Legislators, and rating agencies, need to trust the government's fiscal projections. But as the FAO stated, there is reduced transparency and reliability of Ontario's fiscal plans. This needs to end. We should have one set of books in Ontario – and a government that will work to ensure the government's books are properly reported.

Key Questions

Will the government accept the fiscal assessment of the Financial Accountability Officer and publish realistic numbers in their 2018 budget?

Will the government acknowledge that much of Ontario hasn't recovered from the recession and propose turn-around solutions for our economy?

Will the government address the core causes of skyrocketing hydro rates and stop buying costly power we don't need?



Similar stories of waste, mismanagement, and scandal are disclosed in my new book, ***Focus on Finance 4***.

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

Please feel free to SHARE this report with as many people as you can!

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

Vic Fedeli MPP DÉPUTÉ
NIPISSING

Constituency Office:
165 Main Street East
North Bay, Ontario P1B 1A9

Tel: **705-474-8340**
Fax: **705-474-9747**
vic.fedelico@pc.ola.org

www.fedeli.com

Queen's Park Office:
Room 347, Main Legislative Building, Queen's Park
Toronto, Ontario M7A 1A8

Tel: **416-325-3434**
Fax: **416-325-3437**
vic.fedeli@pc.ola.org