Intelligence MEMOS

From: Rosalie Wyonch

To: Concerned Citizens of Ontario

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Re: **ONTARIO'S BALANCED BUDGET DOESN'T MAKE FOR A SUSTAINABLE FISCAL TRACK**

A highlight of this week's Ontario budget was its projected balance. The plan for 2017-18 predicts revenue will be $4 billion higher than was predicted in 2016. Program expenses look to be $5.3 billion higher, but with low interest rates bringing debt servicing costs $0.9 billion lower than projected, the government seems to have pulled it off – and set the stage for some politically popular new spending while keeping the bottom line in the black in 2017 and beyond.

Sadly, however, the full story is a less happy one. Starting with the projections, a notable difference between this year's budget and the last is that the $1.1 billion reserve has shrunk to $600 million, meaning there is $500 million less wiggle room in the budget for 2017-18 than there was last year. Also troubling is that Budget 2017 forecasts tax revenue higher by $5.2 billion in 2018-19 – which offsets $2.3 billion in lower revenues from other sources (Federal Transfers, Government Business Enterprises and Other non-tax income).

Worse, the government is including an "asset" related to surpluses in the Ontario Public Service Employees' Union Pension Plan and the Ontario Teachers' Pension Plan (OTPP) in Ontario's financial statements. This decision cost the province a qualified opinion from Ontario's Auditor General on its 2015/16 Public Accounts – its first time in 23 years. The Auditor General objects that the province has no title to any surplus that may exist in these plans, since it does not have unilateral control over them. Moreover, the surplus the province claims is an accounting fiction arising from an unreasonably high discount rate to value pension liabilities. While the province claims a $10.1 billion surplus related to the OTPP, the OTPP's financial statements show a $13.8 billion deficit! That discrepancy alone increases Ontario's reported net debt by more than $1,700 per Ontarian in 2016-17.

Looking ahead, skeptics will also note that Ontario's 2017 budget projects that interest payments will consume a rising share of provincial revenue in 2018-19, reversing a 5-year downward trend. The government projects $26.4 billion in gross borrowing in 2017-18, an amount that rises over time. Program expenses are budgeted to grow by 4.8 percent in 2017-18, their highest annual increase since 2009-10, as the province implements a potentially much more costly-than-projected pharmacare program, and loosens restraint on public sector wage costs. There are also concerns related to the lack of transparency in accounting for the costs of the electricity rate reduction and uncertainty surrounding the estimate of $2.5 billion over 3 years, since its projected cost is $1.4 billion in 2017-18 alone.

In sum, Ontario's balanced-budget projections rest on doubtful pension accounting and extra-buoyant tax revenue, against the backdrop of a rising debt-service burden and accelerating program spending. However positive a few years of black ink on the projected bottom line may look, getting Ontario on a sustainable fiscal track requires much more than that.

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