February 6, 2018

ONTARIO'S CREDIT RATINGS

What are the credit rating agencies' views on Ontario?

SUGGESTED RESPONSE

- **All four rating agencies have a stable outlook on Ontario's credit ratings. This reflects rating agencies' confidence in our government's fiscal plan and its ability to grow Ontario's economy and create jobs for Ontarians.**

Quotes:

- **"The outlook is stable. This reflects our forecast that Ontario's debt burden will continue to fall marginally and interest expense will remain manageable across the 18-24 month horizon." (Moody's, February 2 2018)**
- **"The ratings remain well supported by the Province's large and diversified economy, improving budgetary results and declining debt burden." (DBRS, June 28, 2017)**
- **"S&P expects the Province of Ontario to benefit from solid economic growth over the next two years, allowing it to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget." (S&P, June 15, 2017)**
- **"The return to balance is encouraging and suggests that there will likely be some modest improvement in the Province's credit metrics over the medium term, which will slowly rebuild flexibility within the rating." (DBRS, April 28, 2017).**

Ontario's ratings are:

	Long-Term	Short-Term
Moody's:	Aa2	P-1
DBRS:	AA (low)	R-1 (mid)
Fitch:	AA-	F1+
Standard and Poor's:	A+	A-1

BACKGROUND

S&P:

Why is S&P’s rating for Quebec higher than Ontario?

Although Ontario's budgetary performance has improved, S&P believes that it will continue to lag that of Quebec. S&P gives a lot of credit to Quebec for the Generations Fund, and the implicit $2-$3 billion per year surplus that it results in.

- Quebec is expected to record an operating surplus of close to 9% of revenues on average over 2015-16 to 2019-20, compared to close to 4% for Ontario. In addition, S&P expects Quebec to record after-capital surpluses of over 1.0% of total revenues over 2015-16 to 2019-20, compared to an after-capital deficit of 3.1% for Ontario over the same period.

S&P believes that Ontario's credit profile is strengthening however, they will need to see a track record of consistent operating surpluses and balanced or near-balanced after-capital results coupled with continuing declines in direct and tax-supported debt burdens that make Ontario's finances more comparable with peers' in the 'AA' category before they consider a positive rating action on the province.

- Quebec’s tax-supported debt as a share of revenues is expected to average 217% over the 2015-16 to 2019-20 period, while Ontario’s tax-supported debt is expected to average 246% over the same period.

S&P’s Report on Ontario – June 15, 2017

S&P believes that Ontario's credit profile is strengthening however, they will need to see a sustained improvement in budgetary performance leading to near-balanced after-capital results, coupled with ongoing declines in the tax-supported debt burden that make Ontario's finances more comparable with peers' in the 'AA' category before they consider a positive rating action.

S&P expects the Province of Ontario to benefit from solid economic growth over the next two years, allowing the Province to generate additional revenues to fund its capital spending plan and stabilize its finances following its eight-year path back to a balanced operating budget.

The stable outlook reflects expectations that within the next two years the province will sustain a more balanced budgetary performance, including fairly steady liquidity metrics, modest after-capital deficits, and a high but slowly declining debt burden.

The ratings reflect the province's very strong and diversified economy, strong financial management, very predictable and well-balanced institutional framework, and low contingent liabilities. The ratings also reflect S&P’s view of the province’s weak budgetary performances and very high debt burden.

S&P Lowers Ontario’s Short-term Rating to A-1 from A-1+ – June 15, 2017

S&P lowered Ontario’s short-term rating to A-1 from A-1+reflecting their revised methodology”. This is the highest short-term rating for an issuer with an A+ long-term rating, unless the issuer’s liquidity is viewed as exceptional. Ontario’s short-term borrowing costs are unaffected by this change as this simply reflects a change in their methodology rather than any change in the quality of Ontario’s credit.

S&P Mapping of Short-Term Ratings to Long-Term Ratings

Long-Term Rating	Short-Term Rating
AAA, AA+, AA, AA-	A-1+
A+, A	A-1
A-, BBB+, BBB	A-2
BBB-	A-3
BB+, BB, BB-, B+, B, B-	B
CCC+, CCC, CCC-, CC, C	C

Moody's:

Moody's Report on Ontario – February 2018

Moody's updated their Credit Opinion for Ontario following the release of their rating on the Fair Hydro Trust (FHT) on January 22nd. Moody's is now including debt issued by the Fair Hydro Trust in their key debt measure for Ontario. "While FHT, which was created at the behest of the province, is designed to be self-supporting (pay principle and interest through revenue generation) on a life-cycle basis, it is not currently as it faces a moratorium on revenue generation. Further, FHT carries the possibility that a provincial guarantee of its debt may be invoked in certain prescribed circumstances."

They do note that the total financing required is "nonetheless fairly negligible given the province's high net direct and indirect debt level." They also note that they will review this treatment once revenues from the Clean Energy Adjustment charge is added to consumers' electricity bills in 2021.

The stable outlook reflects Moody's forecast that the debt burden will continue to fall marginally and interest expense will remain manageable across the 18-24 month horizon.

Moody's noted the following credit strengths:

- Institutional framework provides significant fiscal policy flexibility
- Prudent debt management waith a focus on market access and debt affordability
- Revenue supported by a diversified economy with a broad and productive tax base

Moody's highlighted a number of credit challenges:

- High debt burden and debt will continue to increase despite balanced budget projections
- Elevated interest expense, with higher rates anticipated
- Rising expenditures risk to balanced fiscal targets

Factors that could lead to a downgrade:

A return to an upward trend in the province's debt burden leading to higher interest expense or increases in provincial liabilities, including off-balance sheet contingent liabilities, could put downward pressure on the rating. Loss of fiscal discipline leading to consecutive years of material consolidated deficits could also lead to downward credit pressure.

DBRS:

DBRS 2018 Canadian Provincial Government Outlook – November 17, 2017

DBRS notes that most provincial ratings are expected to remain relatively stable.

Economic fundamentals have exceeded expectations in 2016 and 2017, enabling most provinces to finish the year better than expected while increasing spending or reducing taxes. Growth will likely slow over the medium term as cyclical influences diminish.

Ontario's credit profile is improving. However, the province has only recently balanced its budget, debt is significantly higher than it was before the recession and the pace of debt-to-GDP reduction is gradual. In past recessions, the policy response and economic contraction led to significant increases in the debt-to-GDP ratio. A similar economic impact and policy response could put downward pressure on the rating.

DBRS notes that Ontario intends to maintain balanced budgets, with rising revenues being directed into program spending. Debt growth has slowed with the return to balance, which is leading to a gradual decline in the debt-to-GDP ratio. DBRS expects debt to decrease to 40.0% of GDP over the medium term.

The ratings for Ontario and New Brunswick appear most at risk of a negative rating action if the economy were to face a severe recession, while a downturn may accelerate the pace of a rating change in Alberta.

DBRS Report on Ontario – June 28, 2017

DBRS notes that the ratings remain well supported by the Province's large and diversified economy, improving budgetary results and declining debt burden.

The better-than-expected result stemmed from strength in the underlying economy, which provided incremental revenue more than sufficient to offset the in-year spending pressures.

Debt growth has slowed with the return to balance. The DBRS adjusted debt-to-GDP ratio, which is currently at 43.3%, is projected to approach 40.0% of GDP over the medium term.

DBRS expects the ratings to remain stable. Improvement or deterioration in Ontario's credit profile tends to be gradual because of the diverse economy and revenue base.

A downgrade could occur if debt were to rise sharply because of a downturn in the economy or a change in the government's fiscal policies. In contrast, an upgrade would require a significant reduction in the provincial debt burden.

DBRS Commentary on Ontario's Plan to Reduce Electricity Prices – March 2017

DBRS views the proposed changes as credit neutral, since the Province has the ability to absorb the fiscal impact while still restoring budgetary balance in 2017–2018.

The Province will recover the debt and financing costs associated with reducing the Global Adjustment through future electricity rates. Provided the debt continues to be fully supported by the electricity rate base, DBRS will treat it as self-supported and exclude it from tax-supported debt. DBRS will re-evaluate once more information becomes available.

DBRS Report – October 2016

DBRS released a report stating that spending on infrastructure "can result in higher nominal GDP that can be large enough to result in a declining government debt ratio." According to DBRS, "historically low interest rates are providing a window for governments to lock in low rates on public investment projects."

<u>Fitch:</u>

Fitch Report on Ontario – June 2017

The tabled budget for fiscal 2018 completes the province's plan to eliminate its annual budget deficits by fiscal 2018. Despite some variations to the plan announced in the 2010 budget, the province has remained committed to this fiscal goal

The province has demonstrated the ability to exert considerable expenditure restraint while instituting revenue changes to achieve its deficit reduction objectives. Ontario's 'AA-' rating is supported by its wealthy, diversified economy and generally sound financial management.

Ontario's Current Long-term and Short-term Ratings

Agency	Long-Term Rating	Short-Term Rating	Most Recent Review
Moody's	Aa2	P-1	Confirmed February 2, 2018
DBRS	AA (low)	R-1 (mid)	Confirmed June 28, 2017
Fitch	AA-	F1+	Confirmed June 20, 2017
S&P	A+	A-1	Long-term rating confirmed; short-term rating lowered June 15, 2017

Agency Long-term Rating Scale

Rating	S&P	Moody's	DBRS	Fitch	Definition
Triple A	AAA	Aaa	AAA	AAA	Highest rating possible; capacity to pay interest and repay principal extremely strong.
Double A	AA+	Aa1	AA (high)	AA+	Has a very strong capacity to pay interest and principal and differs from triple A only in a small degree.
	AA	Aa2	AA	AA	
	AA-	Aa3	AA (low)	AA-	
Single A	A+	A1	A (high)	A+	Has a strong capacity to pay interest and principal, but more susceptible to adverse developments than higher rated categories.
	A	A2	A	A	
	A-	A3	A (low)	A-	

Agency Short-term Rating Scale

Credit Quality	S&P	Moody's	DBRS	Fitch	Definition
Highest Quality	A-1+	Prime-1	R-1 (high)	F1+	Capacity for timely repayment is exceptionally strong. Unlikely to be adversely affected by future events.
High Quality	A-1		R-1 (mid)	F1	Capacity for timely repayment is strong. Unlikely to be significantly vulnerable to future events.
			R-1 (low)		
Good Quality	A-2	Prime-2	R-2 (high)	F2	Capacity for timely repayment is satisfactory. Somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions.
			R-2 (mid)		
			R-2 (low)		
Fair Quality	A-3	Prime-3	R-3	F3	Adequate capacity for timely repayment. May be vulnerable to future events.
Speculative	B	Not Prime	R-4	B	Speculative capacity for timely repayment. Heightened vulnerability to near term adverse changes in financial and economic conditions.
Highly Speculative	C		R-5	C	High level of uncertainty as to the capacity to meet short-term financial obligations.

Ontario's ratings

<u>Ontario's Long-term Credit Rating History 1990-2017</u>

Year	S&P	Moody's	DBRS	Fitch
2017	**A+**	**Aa2**	**AA (low)**	**AA-**
2016	A+	Aa2	AA (low)	AA-
2015	A+	Aa2 (N)	AA (low)	AA-
2014	AA- (N)	Aa2 (N)	AA (low)	AA-
2013	AA- (N)	Aa2	AA (low)	AA (N)
2012	AA- (N)	Aa2	AA (low)	AA (N)
2011	AA-	Aa1 (N)	AA (low)	AA (N)
2010	AA-	Aa1	AA (low)	AA
2009	AA-	Aa1	AA (low)	AA
2008	AA	Aa1	AA	AA
2007	AA	Aa1	AA	AA
2006	AA	Aa1	AA	
2005	AA	Aa2	AA	
2004	AA	Aa2	AA (N)	
2003	AA	Aa2	AA	
2002	AA	Aa2	AA	
2001	AA	Aa3 (P)	AA	
2000	AA- (P)	Aa3	AA(low) (P)	
1999	AA-	Aa3	AA(low)	
1998	AA-	Aa3	A(high)	
1997	AA-	Aa3	A(high)	
1996	AA-	Aa3	A(high)	
1995	AA-	Aa3	A(high)	
1994	AA-	Aa3	A(high)	
1993	AA-	Aa2	A(high)	
1992	AA (N)	Aa2	AA(low) (CW-N)	
1991	AA+ (N)	Aa2	AA(low)	
1990	AAA	Aaa	AA	

Provincial Long-term Rating Comparison

Province	S&P	Moody's	DBRS	Fitch
Canada	AAA	Aaa	AAA	AAA
Ontario	**A+**	**Aa2**	**AA (low)**	**AA-**
British Columbia	AAA	Aaa	AA (high)	AAA
Saskatchewan	AA	Aaa	AA	AA
Quebec	AA-	Aa2	A (high)	AA-
Nova Scotia	A+ (P)	Aa2	A (high)	Not Rated
Alberta	A+	Aa1 (N)	AA (high) (N)	Not Rated
Manitoba	A+	Aa2	A (high)	Not Rated
New Brunswick	A+	Aa2	A (high)	Not Rated
PEI	A	Aa2	A (low)	Not Rated
Newfoundland & Labrador	A	Aa3 (N)	A (low)	Not Rated

Provincial Short-term Rating Comparison

Province	S&P	Moody's	DBRS	Fitch
Canada	A-1+	P-1	R-1 (high)	F1+
Ontario	**A-1**	**P-1**	**R-1 (mid)**	**F1+**
British Columbia	A-1+	P-1	R-1 (high)	F1+
Saskatchewan	A-1+	Not Rated	R-1 (high)	F1+
Quebec	A-1+	P-1	R-1 (mid)	F1+
Alberta	A-1+	P-1	R-1 (high)	Not Rated
New Brunswick	A-1+	Not Rated	R-1 (mid)	Not Rated
Nova Scotia	A-1+	Not Rated	R-1 (mid)	Not Rated
Manitoba	A-1	P-1	R-1 (mid)	Not Rated
PEI	A-1	Not Rated	R-1 (low)	Not Rated
Newfoundland & Labrador	A-1	Not Rated	R-1 (low)	Not Rated

Prepared by: Bonnie Lemcke, 416 325 8170
Ontario Financing Authority
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Approved by: Gadi Mayman

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