



Communications Branch
Your Strategic Partner

MEDIA CONTACT REPORT

DATE: May 7, 2018

REPORTER:

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MEDIA CONTACT PERSON: Alisha Tharani

SUBJECT: Re: Corrections re: April 21st Article: “Bad books”

QUESTIONS and RESPONSES:

See related media contact reports from May 2, April 25, 20, 6, 5 & March 12, 2018.

Questions:

I’m still not clear on when the government began using special purpose entities to raise debt. And I’d still like a list of all special purpose entities that have borrowed on behalf of the province.

Also, if the Fair Hydro Trust borrows \$1 billion, by what amount will the gross debt figure on the Province’s consolidated financial statements increase by?

Responses:

1. I’m still not clear on when the government began using special purpose entities to raise debt. And I’d still like a list of all special purpose entities that have borrowed on behalf of the province.	As previously communicated, the legal structure of an entity does not determine how it is accounted for in the consolidated financial statements of the Province. However, the use of a trust to issue debt was previously used, at least once, in 2003. That trust – called the School Board Trust – is still in place today. The disclosure related to that trust is included in Note 2 of the consolidated financial statements of the Province, and states:
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	School Board Trust Debt A School Board Trust was created in June 2003 to permanently refinance debt incurred by 55 school boards. The Trust issued 30-year sinking fund debentures amounting to \$891 million, and provided \$882 million of the proceeds to the 55 school boards in exchange for the irrevocable right to receive future transfer payments from the Province related to this debt. An annual transfer payment is made by the Ministry of Education to the Trust's sinking fund under the School Board Operating Grant program to retire the debt over 30 years. This debt, recorded net of the sinking fund of \$239 million (2015–16, \$217 million), is reflected in the Province's debt.
2. Also, if the Fair Hydro Trust borrows \$1 billion, by what amount will the gross debt figure on the Province's consolidated financial statements increase by?	Debt issued by the Fair Hydro Trust is recorded in the consolidated financial statements of Ontario Power Generation (OPG). As communicated in the responses provided on May 2, 2018, the net assets of OPG are recorded as an "Investment in Government Business Enterprises" in the consolidated statement of financial position of the Province. This accounting treatment, which is referred to as the modified equity method, is required by Public Sector Accounting Standards (PSAS). The rationale for the use of the modified equity method is explained in Section 1300 of PSAS, and states: 32. A government business enterprise differs from other government organizations in its relationship to the government, and its objectives, and operations. A government enterprise represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, equity accounting is appropriate. 33. Accounting for a government business enterprise by the equity method avoids commingling the independently-managed business enterprise's budget and actual results with those of other government organizations on a line-by-line basis. It also avoids including the business enterprise's gross debt with that of other government organizations as the business enterprise is expected to repay that debt from its own revenues.

	34. Because a government enterprise carries on a business, its financial statements should be prepared on the same basis as a private sector business. This basis is most appropriate for measuring the government's investment in the organization and the impact it has on the government's financial position and results. As such, the modified equity method is the most suitable form of equity accounting. As highlighted above, the debt of the government business enterprise (OPG, which consolidates the Fair Hydro Trust) is not included with the debt of the other government organizations as the debt of the government business enterprise is not expected to be repaid with general revenue of the government. This rationale is consistent with the expected outcome of the debt issued by the Fair Hydro Trust. That debt will be repaid by amounts collected from the electricity ratepayers, and is not expected to be repaid with general revenue of the government. The debt issued by OPG and the Fair Hydro Trust as of March 31, 2018 of approximately \$900 million, will increase the long-term debt disclosed for OPG in Schedule 9 to the consolidated financial statements, which as of March 31, 2017, was approximately \$16.7 billion. The \$900 million will not increase the debt on the consolidated statement of financial position. However, stating that debt of the Province will not increase without explaining that the debt is recorded elsewhere in the consolidated statement of financial position is misleading.
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