

QP Briefing: April 25, 2018

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Q P B R I E F I N G

April 25, 2018

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Articles

1). In Brief: OPG bond results, it isn't easy being Green, a

By: David Hains

Ontario Power Generation issued its second tranche of Fair Hydro Plan debt, looking for \$400 million on a 20-year term. The market showed an appetite for the issuance, and the yield wound up being 3.52 per cent. That's a higher yield than the \$500 million tranche that went to market in February, which sold at a 3.357 per cent mark, but the duration on that bond was 15.25 years, making it a less risky product for investors.

Depending on the reaction from credit markets, the cost of the Fair Hydro Plan could be less than the analysis by the financial accountability officer initially projected. The FAO estimated that the additional interest costs to create the complex OPG security that underlies the plan add \$4 billion that otherwise would not have been paid if the government borrowed the money in a conventional way at lower rates. The \$4 billion number rests on the assumption of the difference

between government yields and OPG yields, but so far the first two tranches have shown those differences to be smaller than predicted.

Andrea Horwath is seeing green. The leader of the third party followed the lead of Premier Kathleen Wynne by declaring her support for Green Party Mike Schreiner's inclusion in provincial leaders' debates. "There's no reason not to have Mike Schreiner there. The more discussion we have about public policy from various perspectives the better," she told Guelph Today over the weekend in the city where the Green leader hopes to pick up the party's first seat. The Greens were happy to share Horwath's comment in a press release on Wednesday, as the party has been trying to increase political pressure on Green inclusion. To that end, more than 11,000 signatures have been gathered on an online petition to include the party in provincial debates. But none of those signatures belongs to PC Leader Doug Ford, who has not weighed in on the issue. So far, two televised debates have been scheduled, one on May 7 and another on May 27.

Liberal MPP Harinder Takhar, who has held office since 2003, will not seek re-election this June.

"It has been both an honour and a privilege to serve my community and the people of Ontario, and to advocate the issues that are important to my constituents in the Ontario Legislature. After fifteen years as a Member of Provincial Parliament, I have decided not to seek re-election," he said in a statement.

A Mississauga MPP, Takhar began his career at Queen's Park as the transportation minister from 2003 to 2006. He held various cabinet roles for his first decade in office, but that changed in 2013 when he resigned from his cabinet post because of "medical issues." Since then, Takhar has been a low-key backbench MPP.

Takhar is the 12th Liberal who won't seek re-election in June, including two Grits who have already resigned from their seats. The NDP have four members who won't seek re-election, while the PCs only have one.

The PCs have a high-profile candidate in Tanya Granic Allen, who is challenging for the Mississauga Centre seat. Entrepreneur Bobbie K. Daid will run for the Liberals.

2). Spurned Liberal 'shocked' and 'shattered' after premier bypassing nomination process

By: Christopher Reynolds

A spurned Liberal nomination candidate is upset over Premier Kathleen Wynne's appointment of another would-be MPP in a contentious riding, saying his dreams have been "shattered."

The discontent came one day before the Liberals called out Progressive Conservative Leader Doug Ford for opting to sidestep the grassroots approach and appoint 11 nominees.

Shafqat Ali, a GTA real estate agent who said he's already raised about 2,000 Grit memberships, said in a Facebook post Sunday he is "shocked & disappointed with the UNFAIR and UNJUST process of the appointment."

"A FAIR CHANCE to compete & my dreams of making a difference in society, are shattered," Ali wrote.

The new candidate, Bobbie K. Daid, was announced April 18 for Mississauga Centre, where she'll face off against PC Tanya Granic Allen. A social conservative activist and recent leadership contestant, Granic Allen has proved to be a forceful politico, framing the terms of the Tory leadership campaign. Mississauga is one of several areas rimming Toronto proper likely to emerge as a battleground in the June 7 election.

Liberal MPP and campaign co-chair Deb Matthews highlighted the Liberal leader's right under the party constitution to appoint up to five candidates, and touched on why party brass may have chosen Daid over Ali.

"I do think it's important that we have a woman in that riding. Tanya Granic Allen will be running there, and we need someone who will be able to expose Tanya for who she is and what she

stands," Matthews told QP Briefing Wednesday.

"We look for balance on many dimensions: male-female, cultural background, experience, age, a number of factors where we really are looking to create a caucus that reflects the base of Ontario," she said.

"If the gender was an issue than why I was approved as a Nomination Contestant?" Ali wrote on Facebook.

"Our issue is not the constitutional right of the leader to appointments, but issue is the way it was done.

"I was dragged till eleventh hours and assured till last minute that it will be an Open Nomination. But all that hard work of volunteers and my years of loyalty with Ontario Liberal Party was ignored in this case," he said.

Matthew responded: "Of course he's unhappy, and we understand that. It's not an easy decision to appoint, and that's why we do it very sparingly."

Two days earlier, she had slammed the PCs' sweeping nomination move over the weekend, calling it "absolutely undemocratic."

Duff Conacher, co-founder of election reform advocacy group Democracy Watch, dubbed last week's appointment of Daid "definitely anti-democratic."

"The parties should only be able to have character-based criteria for candidates that want to run in nominations races, things like if you have a criminal record," Conacher said.

He has called for nomination contests to be legislated and overseen by Elections Ontario.

Liberal leaders have occasionally appointed candidates, which last month caused blowback to the point of nixing a planned appointment in the Grit stronghold of Toronto—St. Paul's.

"What's different is our constitution gives the leader of the Liberal party that power," Matthews said earlier this week, defending against questions of Grit hypocrisy. "What [Ford] has done is short-circuit the vetting process."

PC parliamentary leader Vic Fedeli said Monday that Ford was exercising his right in the face of an approaching writ-drop on May 9. Fedeli cited the PC constitution, but did not answer questions on where it lays out the leader's right to appoint candidates.

Shafqat Ali did not respond to repeated phone calls. Bobby K. Daid did not respond immediately to attempts to reach her via email and social media.

"I'm honoured to be joining Premier Kathleen Wynne's team to ensure we continue to invest in the transit, health care and community supports Mississauga needs," Daid said in the Liberals' email announcement last week.

Daid, described by the party as a business owner and entrepreneur, ran against PC deputy leader and transportation critic Sylvia Jones as a sacrificial lamb in Dufferin—Caledon in 2014.

3). Your Question Period briefing: The great accounting spa

By: David Hains

The issue of the day:

After yesterday's question period opened with sombre civility in the wake of the attack on Yonge Street, the legislature returned to its normal rhythm on Wednesday.

"The opening sentence of the auditor general's blistering report says it all: The numbers from the Liberal government are 'not a reasonable presentation of Ontario's finances,' " said PC parliamentary leader Vic Fedeli, who is in his element when he gets to dive into a spreadsheet.

"The Liberal government cannot be trusted. Will the government finally come clean about the true state of Ontario's finances?" he asked – a question with an assumption he knew the Liberals would not agree with.

The premier responded that the government can be trusted to do its diligence and has implemented the Fair Hydro Plan, which was initiated in 2017 as the Grits faced widespread disapproval over hydro prices that were perceived to be too high. "We've been very, very careful as we made the decision as a government to reduce people's electricity bills by 25 per cent. We knew that that was necessary, and we worked very, very hard to make it clear that that would mean a cost over a period of time," Kathleen Wynne said.

This wasn't enough for the PCs, who used most of their question period questions to attack the government's accounting of the Fair Hydro Plan following the auditor general's pre-election budget criticism on Wednesday morning.

"There's billions in cash going out the door, but they're not listing it as an expense. They're borrowing money to pay the bills, but not recording the cheques, so it appears that there's money in the bank when there isn't any. Only Liberals think they can get away with that," said Fedeli, furthering his criticism of the government's accounting.

Wynne responded that the debt has been recorded, and Treasury Board President Elanor McMahon thanked the auditor general for her report.

Lisa MacLeod then turned up the volume of the PC criticism: "What the auditor actually said is that the election report is not a reasonable presentation of Ontario's election finances. How can this government be trusted?"

Finance Minister Charles Sousa found the implication of MacLeod's questioning objectionable. "Mr. Speaker, the member is attacking the public service," he said, rising to defend the honour of the civil service.

MacLeod did not back down.

"If the finance minister were still at the bank, he'd be fired for what he just said. This government is intent on hiding the truth from Ontario taxpayers. When the real deficit ... " She was asked to withdraw the unparliamentary remark by Speaker Dave Levac, and did so.

Sousa declined to answer her question, referring it instead to McMahon. "It's not worth the response," he said in an aside to the premier.

Other issues:

The NDP used their lead question on health care funding. France Gélinas used asked why the Liberals lowered corporate taxes rather than increasing funding for hospitals. "Why did the premier choose to create a crisis in our health care system instead of asking the richest people and the most profitable corporations to pay their fair share?"

Wynne rejected this comparison, arguing that the government must tackle multiple issues at the same time, adding that the government has increased funding for health care, and that economic indicators are robust.

John Fraser asked a friendly question about wood frame construction. "I know that the Minister of Municipal Affairs has been advocating for wood construction for a number of years. Minister, could you please tell us a bit about the work that you and your ministry and the government have done on wood-based construction?"

Municipal Affairs Minister Bill Mauro was more than happy to take a crack at this softball. "In an effort to further support the use of wood in building construction last year, we released the tall wood reference, which will assist architects, engineers, building and fire officials and developers in the development of safe alternative solutions for taller wood projects. We also co-funded, with the federal government, to test the performance of mass timber building systems," he responded, explaining the government's initiatives.

Catherine Fife used an NDP question to challenge the government on child care and the long

waiting lists that many families face. "Does the premier understand how stressful and how challenging it is to find quality child care in the province of Ontario?"

Education Minister Indira Naidoo-Harris, who is responsible for early years and child care, responded: "Let me just tell you about some of the things that we've been doing. We're planning on investing \$2.2 billion over three years to ensure that there will be free child care for preschoolers. That will save families an estimated \$17,000 per child. That's in addition to what they'll be saving in full-day kindergarten, which is \$6,500 per child."

The Liberal used another friendly question to discuss government initiatives on cycling infrastructure. Liz Sandals asked Transportation Minister Kathryn McGarry about the subject, and the minister responded with enthusiasm for the government's two-wheeled-related spending. "We've made consistent investments, including bike rooms at GO stations, bike lockers at carpool lots and introducing a safe cycling education fund. While our Liberal government remains committed, we know that the Conservatives would scrap the cap-and-trade program, which this year alone is supporting commuter cycling projects in nearly 120 municipalities across the province."

Gila Martow used a PC question to ask about the perceived lack of residency spots for medical students, and the legislature could hear the low rumble of their protests on the South Lawn as she made an inquiry on behalf of the students.

Health Minister Helena Jaczek responded: "This is a pan-Canadian problem, so we're working with our medical schools to create more specialized residency spots. Obviously, this upcoming school year, everyone will find a spot."

Heckle of the day: "I smell toast," said PC MPP Steve Clark, referring to the Liberals' political chances. "I smell warnings," responded Speaker Dave Levac, who put the member on notice.

Warnings. It's a part of our heritage.

4). *Premier decries 'misogynist language' as possible links suspect and "incel" culture*

By: Christopher Reynolds

Premier Kathleen Wynne called it "very disturbing" that the man accused in Monday's deadly van attack may have identified with a misogynistic online community, but cautioned against jumping to conclusions.

"My response to that as, yes, as the first female premier of Ontario, but as a mom, as a grandmother, is that it's very disturbing – it's very, very disturbing – that we have venues where this kind of hateful, misogynist language is used, where those attitudes are given permission in some way," Wynne said outside her office Wednesday.

The premier also warned against ungrounded speculation on the goals or motivations of Alek Minassian, 25, who was charged Tuesday with 10 counts of murder and 13 counts of attempted murder (a 14th count is believed to be pending).

"I think it's early days. I don't think that we can jump to any conclusions about that. But it is an idea that has come up," she said.

Wynne said the police investigation will aim to unearth the roots of a rampage that left 10 dead and 14 injured in a two-kilometre trail of carnage Monday afternoon.

A post on Minassian's Facebook account earlier this week seemed to speak in coded language, saying "The Incel Rebellion has already begun!" It praised "the Supreme Gentleman Elliot Rodger!"

A 22-year-old Californian, Rodger was behind a killing spree in Isla Vista, Calif., in May 2014 that left six people dead. Rodger posted a YouTube video shortly before his arrest where he described himself as a virgin who wanted to carry out revenge on women.

The word "incel" refers to "involuntary celibate," members of a diffuse online movement made up of men who blame women for supposedly shunning sex or relationships with them. The internet subculture traffics in anti-feminist rhetoric and misogynistic messages, sometimes

going so far as to condone physical assault and rape.

Facebook has authenticated the post on Minassian's account as a real post, and Toronto police alleged he posted the "cryptic message" to his account before the attack.

Helping and heroics

Wynne said she is in touch with security officials and Toronto's chief coroner. "Whatever is needed, we will provide. At this point, there have not been extra resources requested," she said.

"There continues to be no threat, any national security issues."

The chief coroner is working "very closely with families," Wynne said, adding that many families have asked for privacy. An official list of names will not be released until all victims have been confirmed.

On Tuesday, the premier reached to out Const. Ken Lamb, the Toronto police officer whose restrained response to the crisis saw the accused arrested in a dramatic standoff without any shots fired.

"We had a brief conversation. I wanted to let him know that he is thought so highly of, that I am getting comments consistently from people about how courageous he was, how well he performed, how calm he was under such pressure," Wynne said. "And wanted him to hear from me on behalf of the government that we were so proud of the work that he did."

Wynne, who attended a vigil for the victims Tuesday evening, said attendees came "together to hold on to one another," to "express their love" and their grief, "but also because they were fearful."

"We will heal from this, but I think people are going to need to keep coming together for some time," she said.

5). Auditor General slams government's books in pre-election understated by billions

By: Jessica Smith Cross

Ontario is heading into an election with books that don't accurately reflect the state of its finances, according to the province's auditor general.

But what either opposition party will do about that should they form the next government remains anybody's guess.

In a report tabled Wednesday, AG Bonnie Lysyk said the government's finances — recorded in the 2018 budget and a pre-election finance report — underestimate the true size of the deficits projected for the coming years, because they fail to properly account for billions in debt being used to lower Ontarians' hydro bills and certain joint pension assets.

Lysyk said the deficit forecast for this fiscal year should be \$11.7 billion, rather than the \$6.7 billion stated in the proposed government budget. As the borrowing connected to the Fair Hydro Plan is forecast to grow in years to come, the discrepancy between the books and the true debt grows too, according to the auditor. She projects the deficit to hit \$12.5 billion in 2020 — nearly twice the \$6.5 billion projected by the government.

Premier Kathleen Wynne characterized the issue as a mere disagreement between auditors. "Those are old discussions, and they're ongoing," she said.

But Lysyk said she believes it's more than that — that it amounts to the government being able to legislate its own accounting practices in such a way to hide debt from the books, and she alleges it has done so with respect to the Fair Hydro Plan borrowing.

Lysyk's report is required under legislation and is meant to give the public and opposition parties a clear idea of the province's true fiscal health before they vote in an election. The Liberals passed that law after Dalton McGuinty came into office in 2003 and, after enlisting the help of a

former auditor general, found a hidden deficit in the books left by the PCs.

Lysyk has signed off on the current government's books, with the exception of the accounting disputes over the Fair Hydro Plan and pension assets.

Both opposition parties expressed outrage at her conclusions.

"The auditor's scathing reporting is an indictment of this Liberal government," said PC parliamentary leader Vic Fedeli in question period, mere minutes after the report hit the table.

Fedeli, along with PC MPP Lisa MacLeod accused the government of lying and deliberately hiding the true state of the province's finances from legislators and the voting public.

NDP MPP John Vanthoff said he wouldn't go so far, but criticized the lack of transparency in the government's books.

However, none of the opposition politicians would confirm that they would follow the auditor general's advice if they form government.

The NDP has promised to cancel the Fair Hydro Plan borrowing, but Vanthoff wouldn't say how an NDP government would account for the pension-plan assets.

"I can assure you that when Andrea Horwath is premier on June 7, we are going to sit down with the auditor general and with the Financial Accountability Office and work together to ensure that Ontario's books are open and transparent," he said, but repeatedly refused to confirm if an NDP government would follow the AG's accounting.

Doing so would add \$2.6 billion to the \$3.3 billion deficit for 2018-19 that the NDP outlined in its election platform.

The PCs were more critical of the government, yet less clear about their plans.

Fedeli read out a list of words the AG and FAO have used to criticize the government's books, as if he was playing a game of Mad Libs: Fiscal Accountability Edition.

" 'Secrecy,' 'deterioration,' 'dangerous precedent,' 'unlikely assumptions,' 'significantly understated,' 'inappropriate,' 'high,' 'unreliable,' 'concealed,' 'distort,' 'false,' 'deceptive,' 'obstructive behaviour' and 'bogus,' " he said. "Those are their exact words describing this government's books. That in itself shows you they are deliberating misleading the legislature and the people of Ontario."

However, when asked if a PC government would continue the Fair Hydro Plan — the subject of those words — Fedeli would not say; he would only promise that PC Leader Doug Ford would offer a plan to reduce electricity costs in the coming days and weeks.

He gave the same "coming days and weeks" answer when asked if PC government would run deficits, except he wouldn't confirm if the campaign would answer that question before voters go to the polls. He would also not answer if the PCs will present a costed platform to voters.

"We're looking forward to Doug Ford unveiling more of our plan in the coming days," MacLeod said.

The Fair Hydro Plan

The major point of contention between Lysyk and the government is the accounting of the Fair Hydro Plan, which involves the borrowing of billions of dollars — likely more than \$25 billion, if the plan is followed through to completion — to subsidize Ontarians' hydro bills, without that debt showing up on the province's books.

The complex plan involves a partnership with Ontario Power Generation (OPG) and the Independent Electricity System Operator (IESO) and the creation of a regulatory/ investment asset. Prior to implementing the plan, the IESO adopted rate-regulated accounting standards, which allows the IESO to treat the future repayment of the debt by ratepayers as an asset, ultimately resulting in the borrowing having no impact on the government's consolidated financial statements.

Lysyk argues that the use of rate-regulated accounting is not appropriate and the debt should indeed be counted on the books.

Moreover, she says she has evidence the plan was designed so that the government could lower hydro rates without affecting budget targets.

"We know the intent was to try and design an accounting and financing structure that would keep the bottom line from being impacted by a policy decision and keep net debt from going up," she said, adding that the public service, along with private-sector consultants, then came up with the plan to do just that.

Lysyk has pointed out that the province's Financial Accountability Office said the interest costs associated with the plan would be billions of dollars lower if the government were to borrow the money to subsidize hydro bills directly, rather than deploying the complex financial scheme.

The FAO initially estimated that extra cost at \$4 billion, and that is one of the reasons Vanthoff said the NDP is planning to ditch the plan.

"Who is going to pay that? The people who buy hydro in Ontario. That's the toughest part of it," he said.

The other part is the bit about the debt not showing up on the government's books.

"When a government makes a decision to spend money, it should show up clearly and transparently on the books, and in this case, it doesn't," he said.

Meanwhile, the true cost of the plan won't be known for years, as future electricity costs, future interest rates, and how exactly a future government might use this new fiscal tool remain unknown.

For her part, Lysyk has argued the plan creates a slippery slope whereby the government could issue debt without representing it on its balance sheet, rendering its books meaningless.

The government's response

In a joint statement, Treasury Board President Eleanor McMahon and Finance Minister Charles Sousa said they stand by the government's accounting and the Fair Hydro Plan.

"We continue to believe that the government's accounting for the Fair Hydro Plan is appropriate, and specifically the use of rate-regulated accounting to account for the component of the plan recoverable from the ratepayers, is supported by United States Generally Accepted Accounting Principles, as Public Sector Accounting Standards are silent on this issue. The second issue is the accounting for the net pension assets of the Province's two jointly sponsored pension plans, which is supported by an expert panel of accountants, actuaries and lawyers. The government's opinion on these two matters has not changed."