

A Financial Plan for the Province of Newfoundland and Labrador

Steps to finding a realistic solution for solving the debt problem

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Many investors are frustrated by traditional investment methods. There is much anger on the behalf of investors, particularly baby boomers, who were promised great investment returns only to see their savings not meet their needs after so many years of investing. This book is a way to teach alternative investing methods in an entertaining fashion.

Many books try to preach investing methodology as in "there is what you should do." That doesn't work because everyone already knows that they should buy low and sell

high but, because buying low can only be done during a time of great worry and selling high can only be done when the economy is booming and profits are easy to get, investors cannot actually make proper investment decisions. [\[Continue reading...\]](#)



Tweets by @Larry_Short

Larry Short Retweeted
Know... @KriszHolmes
Replying to @MrChurchill
@pmorningahow
It's a good point, one
@Larry_Short says he plans
to touch on this afternoon.
Here are the details on that
event.



**A Financial Plan
for the professional
Newfound and Leaned**
New & Leaned professional
investors who are looking
for a way to grow their
wealth and secure their
future.

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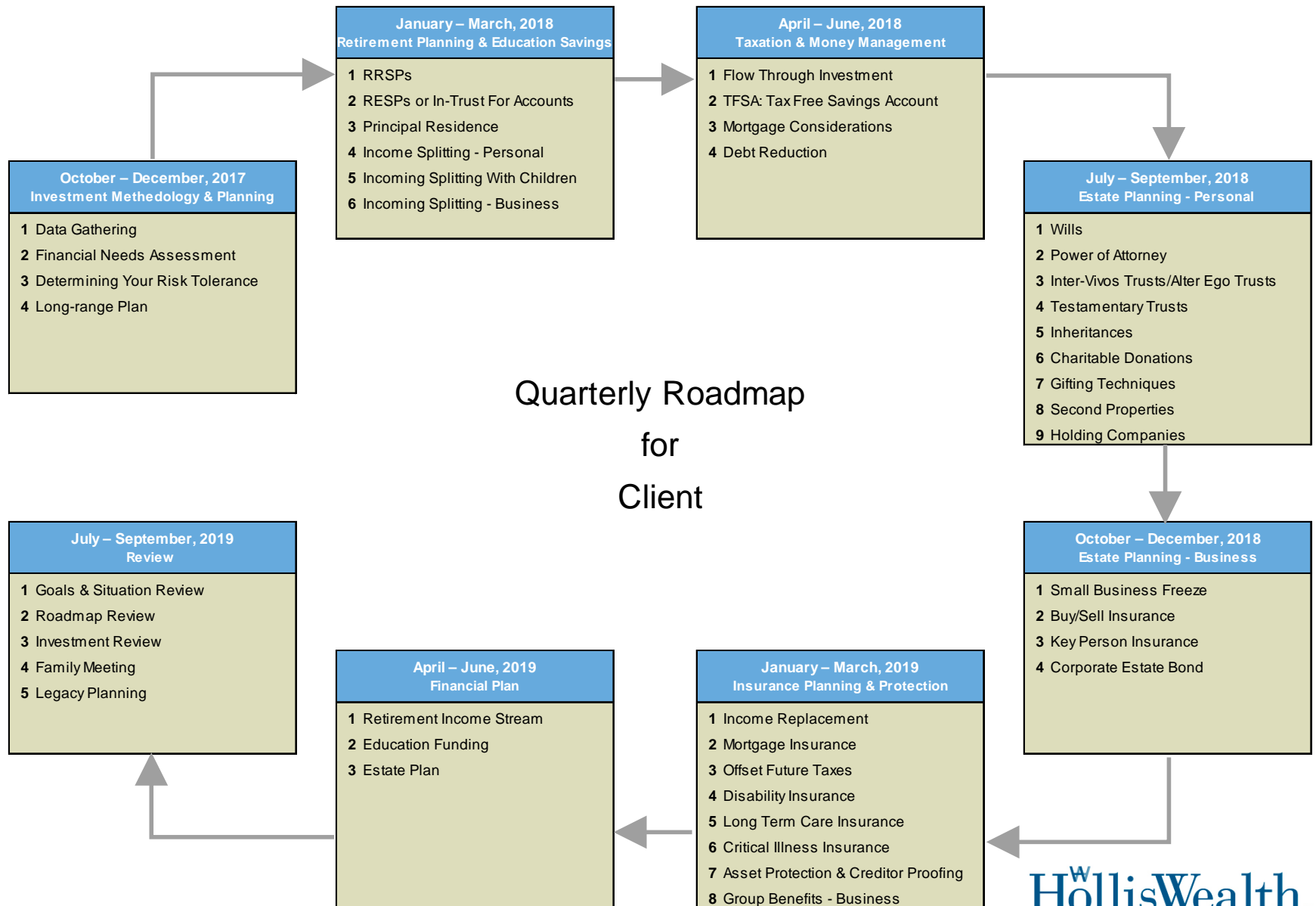
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A Financial Plan for the Province of Newfoundland and Labrador

DRAFT ONE

Financial Planning approach to NL Debt Problem

- A good financial planner guides the client to look down the road to the end of their life and decide on priorities.
- A great financial planner brings the client to the end of their life and guides them to look back
- This changes how one perceives their finances
 - Focuses the mind on goals
 - Focuses on what you leave behind when you are gone
 - Your legacy



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We are a full service wealth management firm offering investment advice and insurance solutions.

We work with our clients' accountants and lawyers to facilitate corporate restructuring, estate planning and tax reduction strategies.

We Want to Foster Debate

- What are the taboos in Newfoundland and Labrador?
 - Resettlement
 - Closing medical facilities
 - Lay-off of government workers (municipal and provincial)
 - Reduction of government services
 - Amalgamation of municipalities
 - Service level agreements

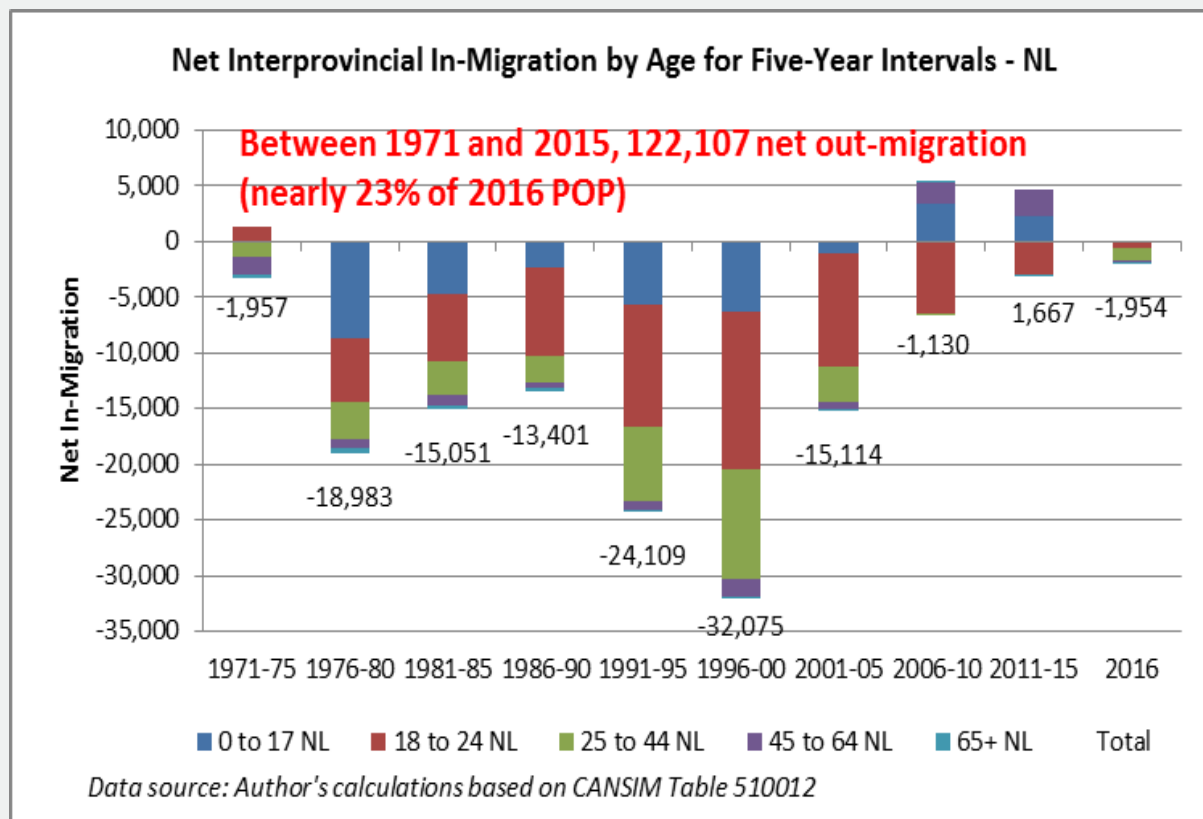
Newfoundland and Labrador Society Behaviour

- Everybody wants improvement
- Nobody wants change
- Newfoundlanders and Labradorians shoot the messenger
- Newfoundlanders and Labradorians detest prophets and love saviours
- Everyone feels “hard done by”

Where to Start?

First we have to come to
agreement on the deficit

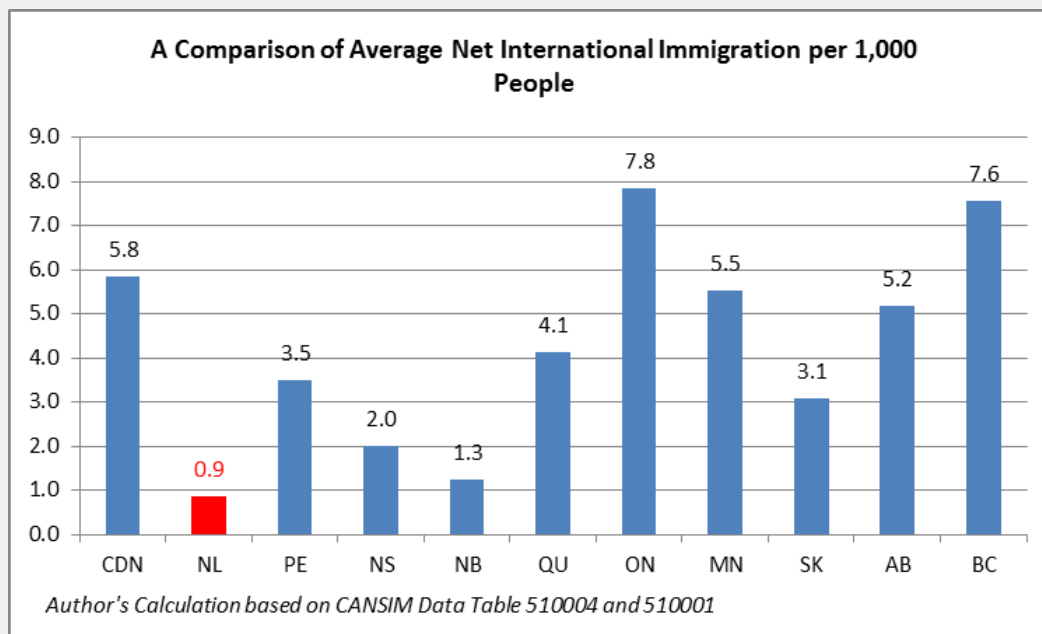
Out-Migration: The Great Resettlement



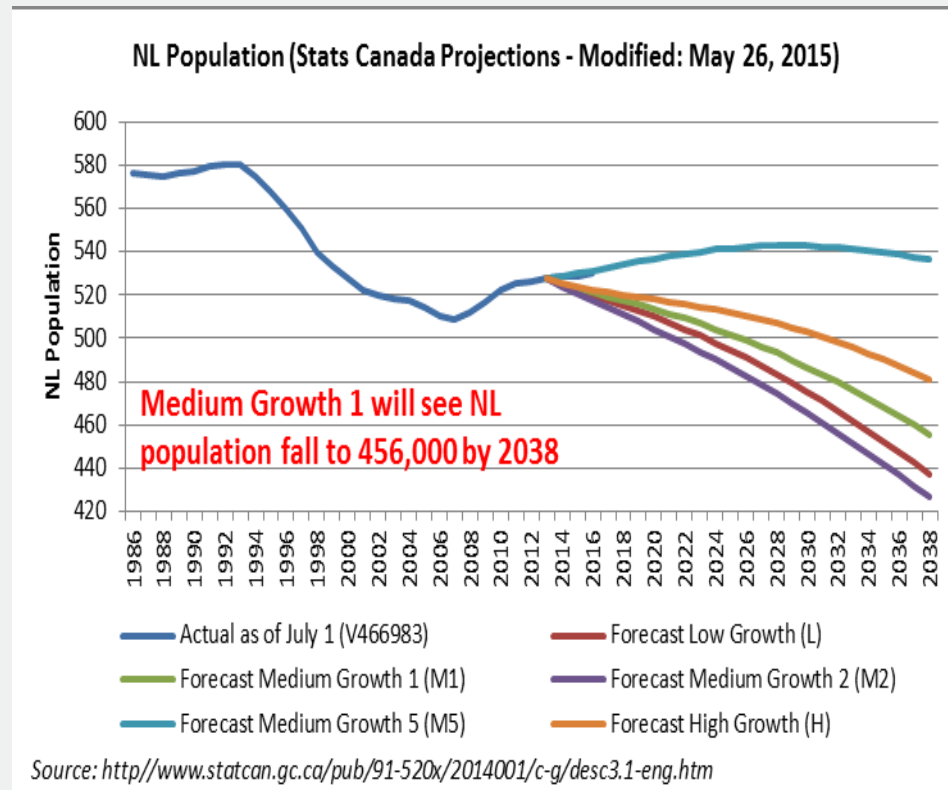
Recent in-migrants are in 45 to 64 group and 0 to 17, coming for jobs with families, but even that appears to have reverse in 2016

Immigrants are Not Staying in NL

Demographics – Net International Migration per 1,000 People

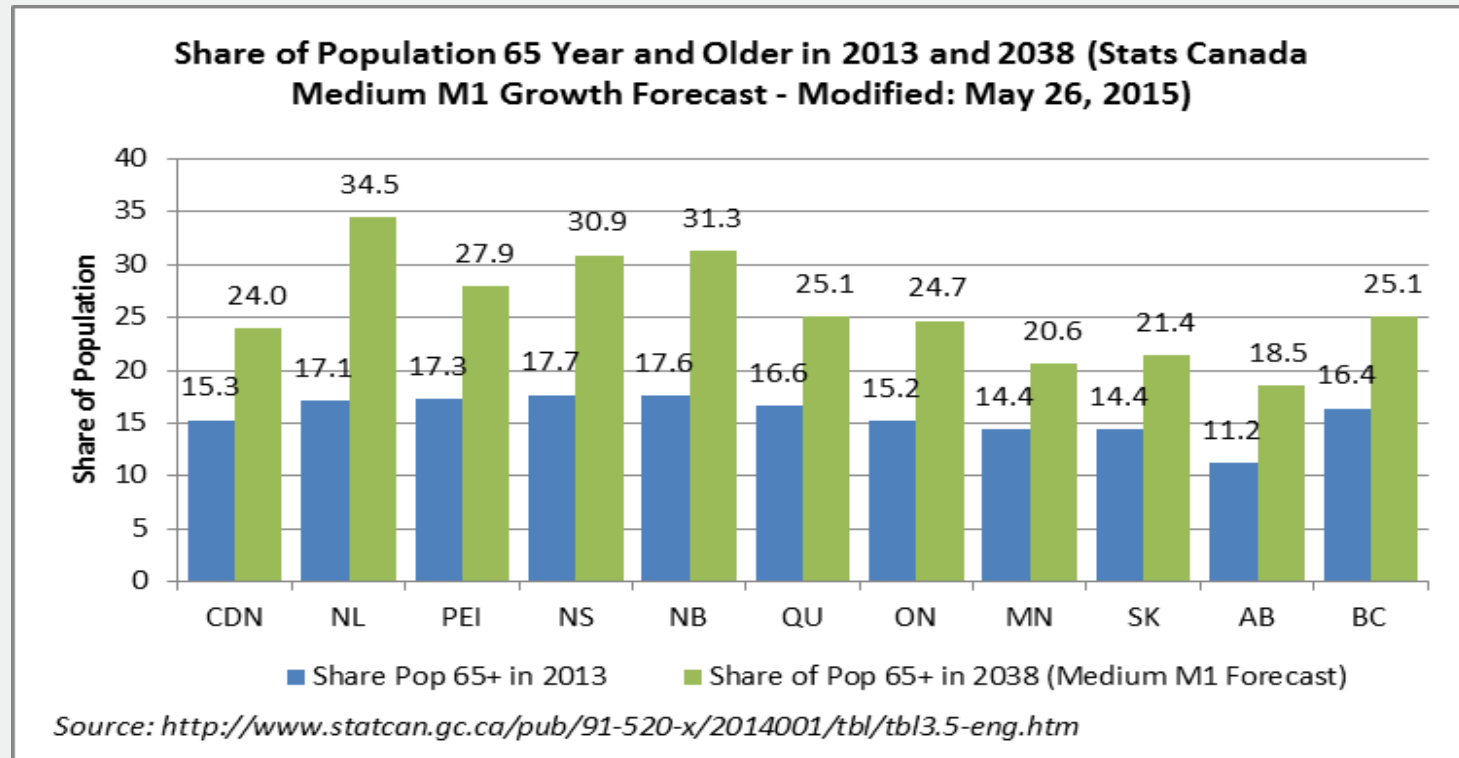


Declining Population of Newfoundland and Labrador



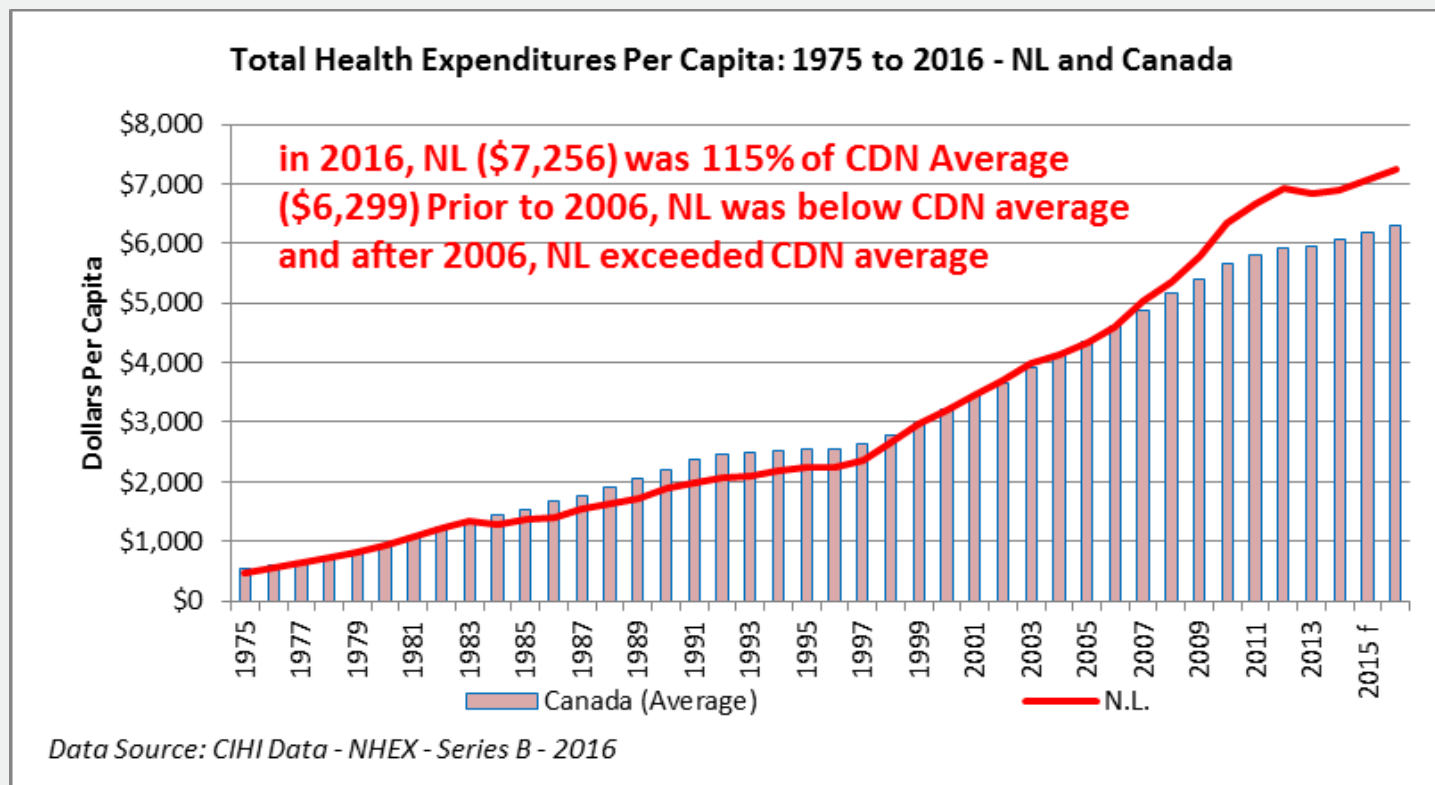
- While these demographic projections were developed before the collapse of oil, medium growth forecast will see a substantial fall in NL's population – 450,000 (Stats Canada M1 projection) or 500,000 (NL Finance medium projection)
- The number of people who are 65+ will double and lead all provinces by 2038 NL's population is comprised of fewer and older people

Standard of Living Will Fall 20% due to Aging Alone



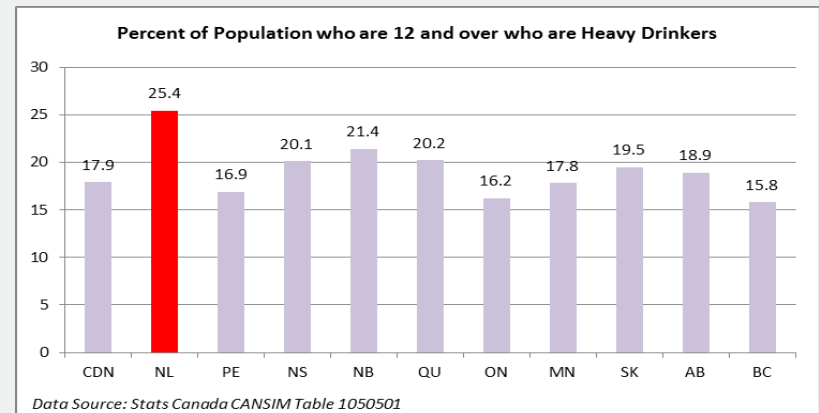
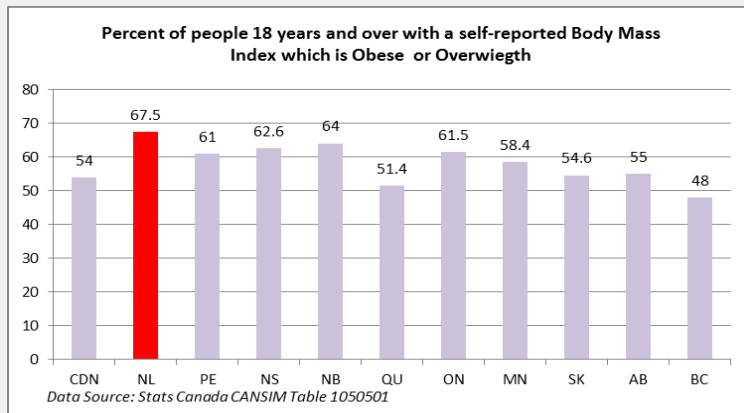
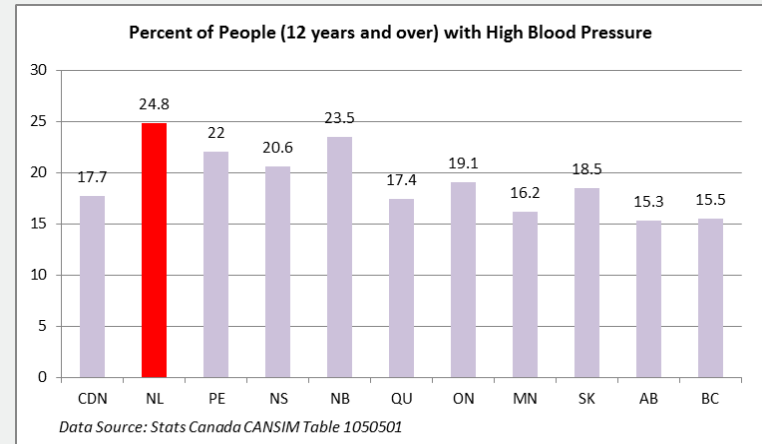
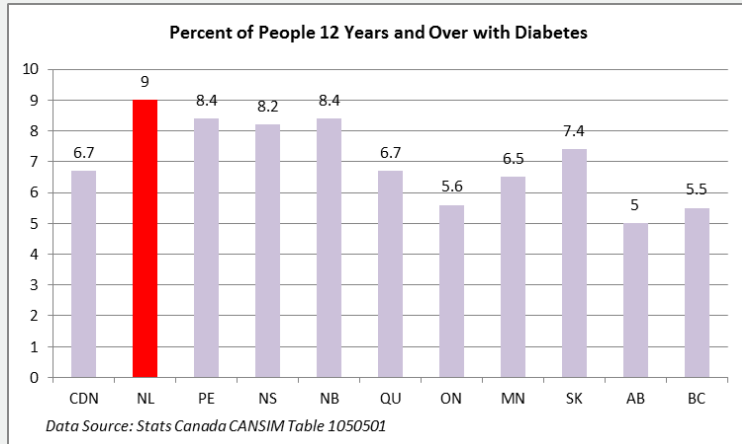
This is independent of any fiscal issues, enhanced out-migration due to lower job prospects, higher taxes and reduced public services and any issues caused by lower commodity prices making resource development less attractive

Per Capital Health Care Expenditures



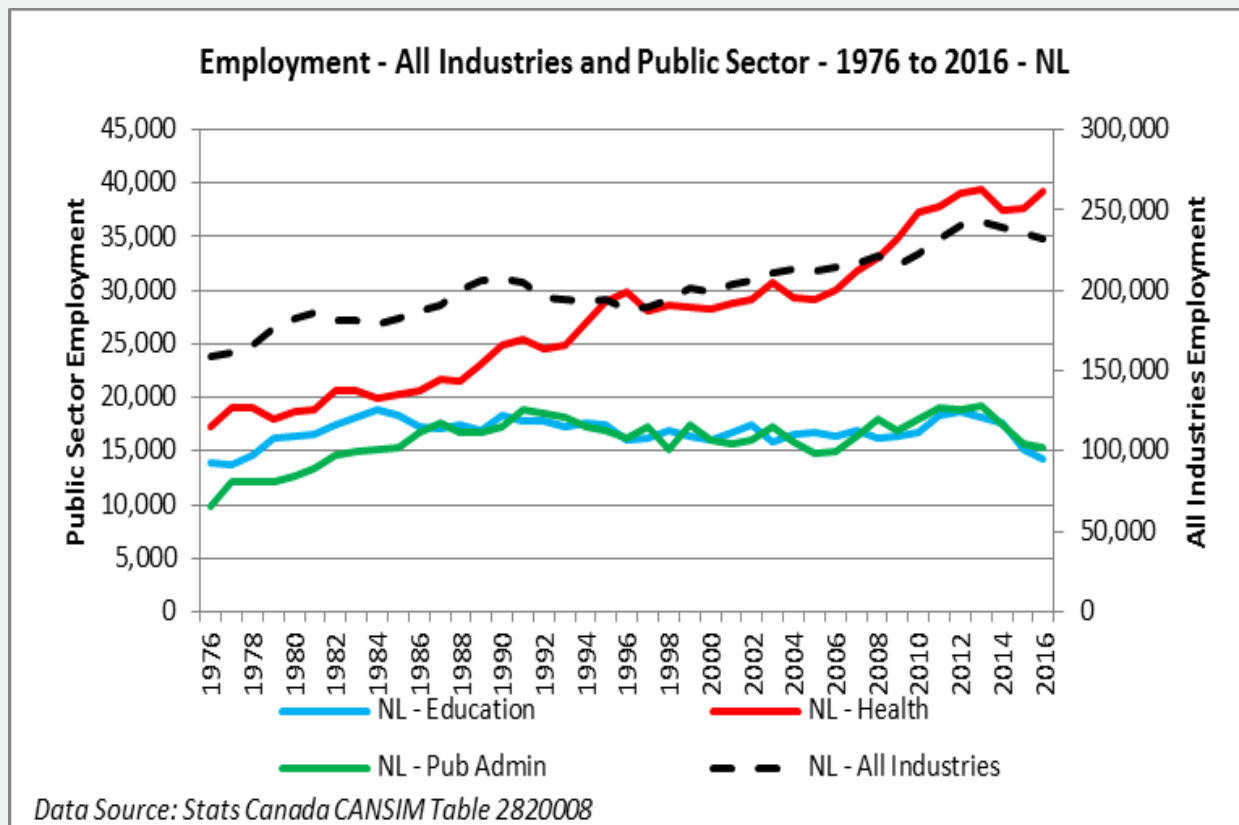
- NL per capita expenditures on total health exceeds that in any other province
- Expenditure per capita on health has been similar to that experienced Canada-wide, but in the most recent decade, NL is far outpacing the rest of Canada.

Health Indicators



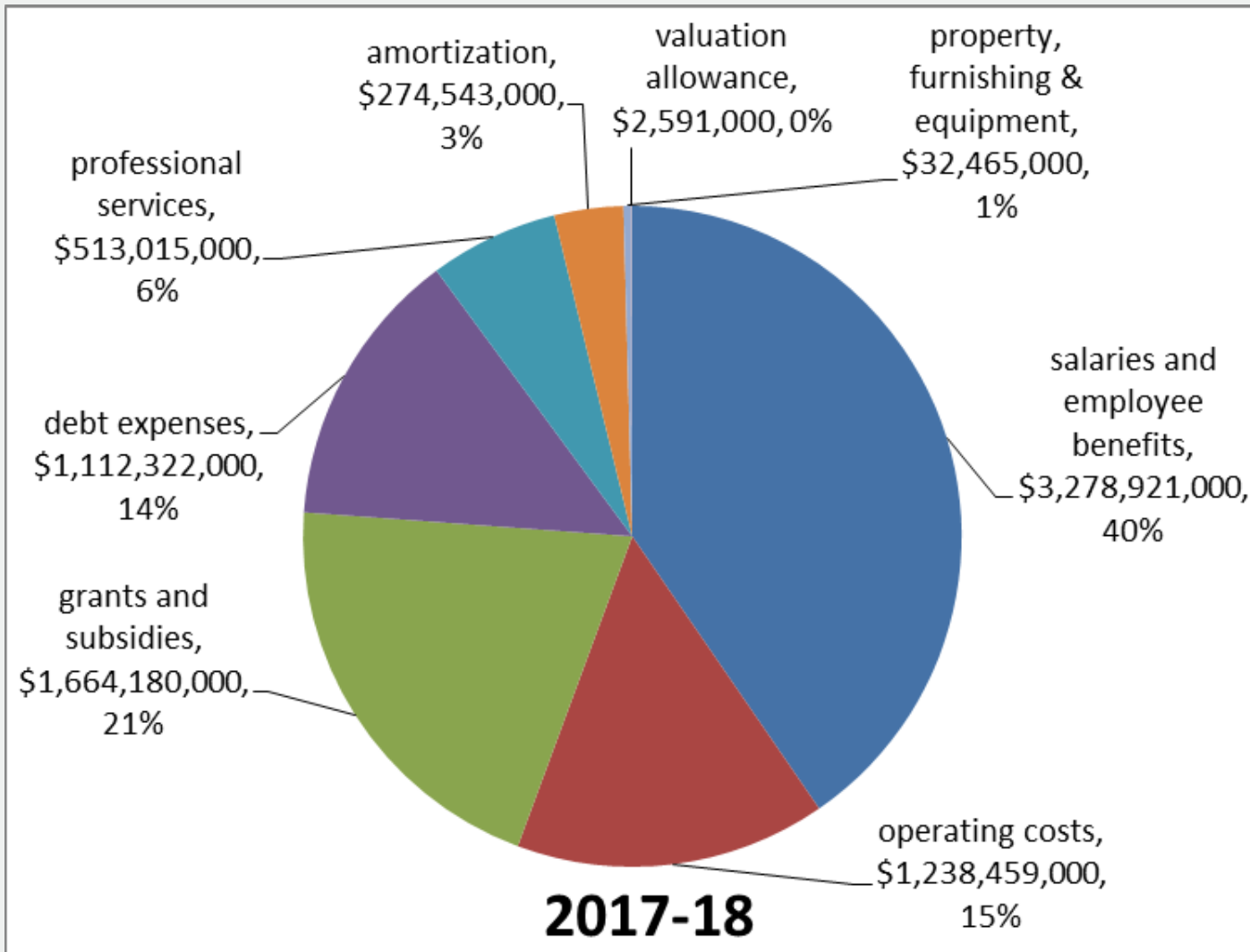
It is not just fiscal issues.

Public Sector Employment

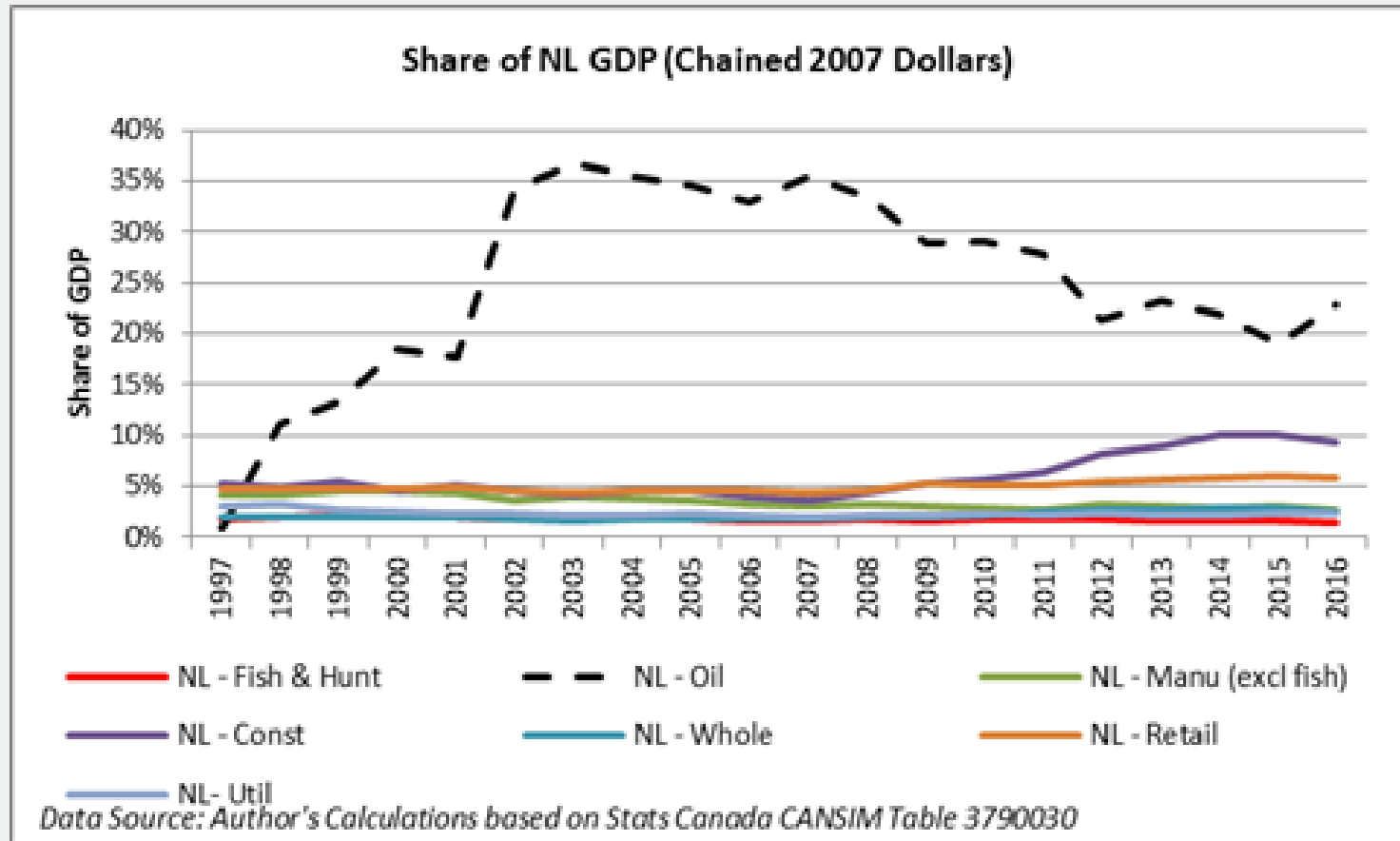


In NL public sector employment is growing faster than overall employment, but public sector is really being driven by the health care sector

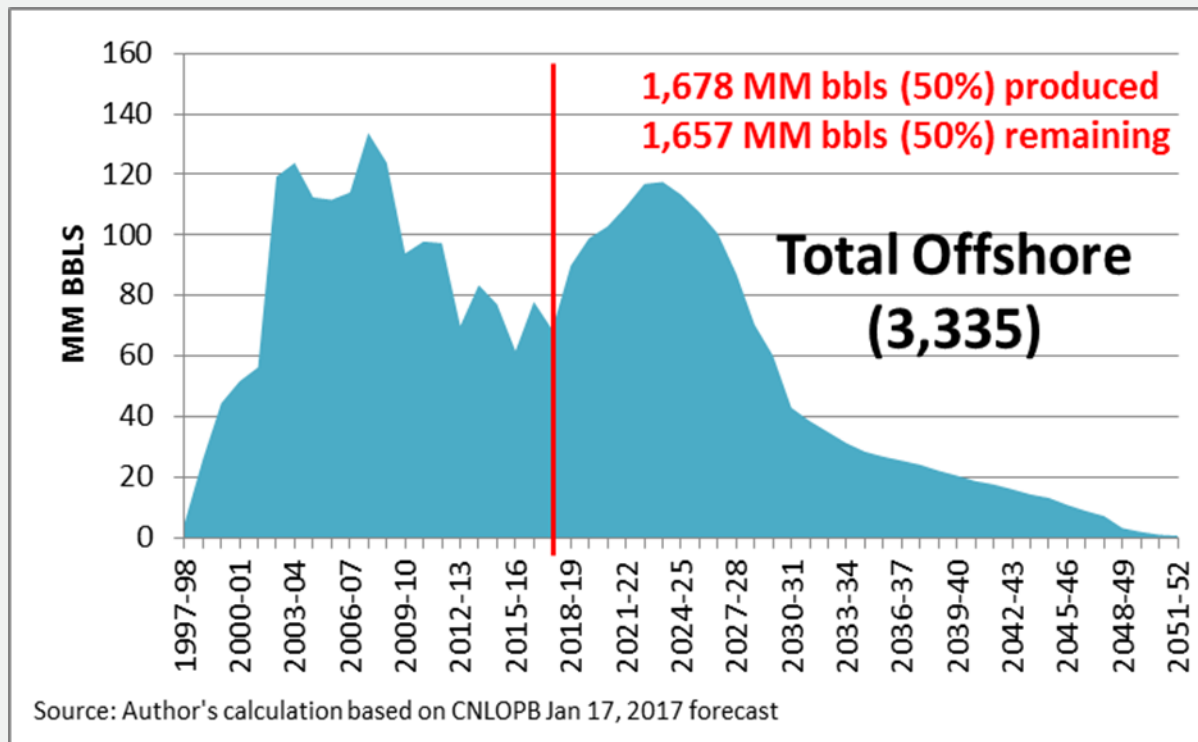
Where is the Money Going?



Impact of Oil on Newfoundland and Labrador



Half of Existing Products Produced



Oil royalties have fallen from \$2.8 B at peak in 2011 to just above \$500 M in 2015-16. This fall of \$2.3 B with no change in expenditure explains the deficits that we have been running recently

Provincial Budget 2017

iPad

10:24 AM
budget.gov.nl.ca

79%

OIL PRICE AND EXCHANGE RATE SENSITIVITIES

	Fiscal Year 2017-18	
	Budget 2016	Budget 2017
Oil Royalties	\$ 949 Million	\$882 Million
Average Oil Price	US\$52	US\$56
Exchange Rate (USD/CAD)	0.77	0.75

Sensitivities	Fiscal Year Change in Royalties (\$ Millions)					
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Oil Price Budget Assumption (\$US):	\$56	\$62	\$69	\$71	\$73	\$75
Minus \$1.00 US Impact (\$M):	-21.9	-25.7	-26.7	-24.1	-23.7	-23.1
Plus \$1.00 US Impact (\$M):	23.4	25.7	26.7	24.1	23.7	23.1
Exchange Rate Budget Assumption:	0.75	0.76	0.76	0.78	0.79	0.8
Minus 1 Cent Impact (\$M):	17.8	21.2	24.5	22.2	22.2	22
Plus 1 Cent Impact (\$M):	-16.2	-20.7	-23.9	-21.6	-21.7	-21.4

Newfoundland
Labrador

The Death of Oil



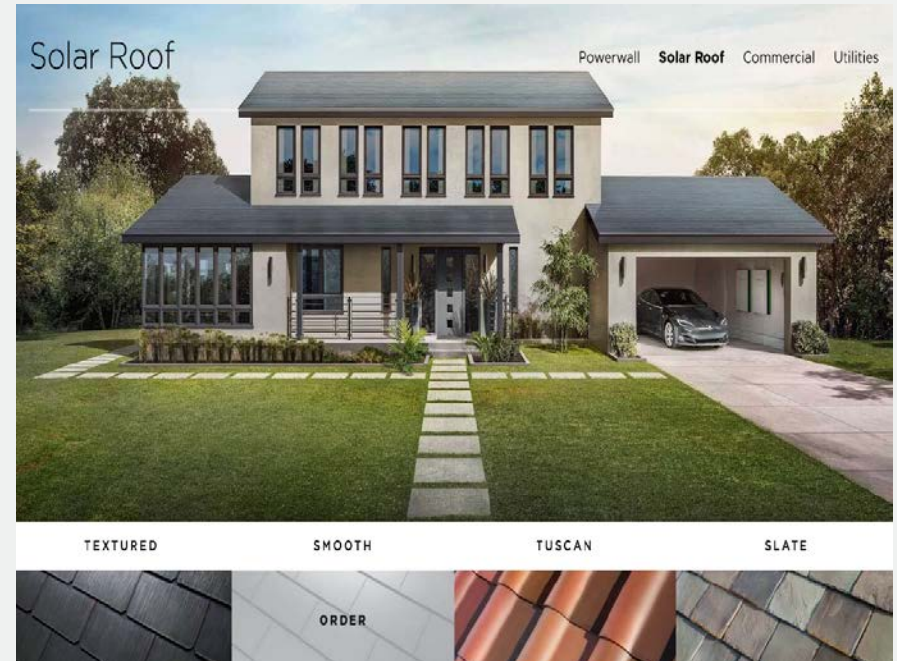
"China sees an opportunity to leapfrog to the global stage," "It's about making China more green, getting the pollution under control and building up a global player. ... The government sees a disruptive opportunity."

- For years the "bad boy" of climate change, emitting the highest level of greenhouse gases but reluctant to accept restrictions to its economic activity, China has now reversed course and is aiming to be the world's leading eco-car nation.

Solar Roof

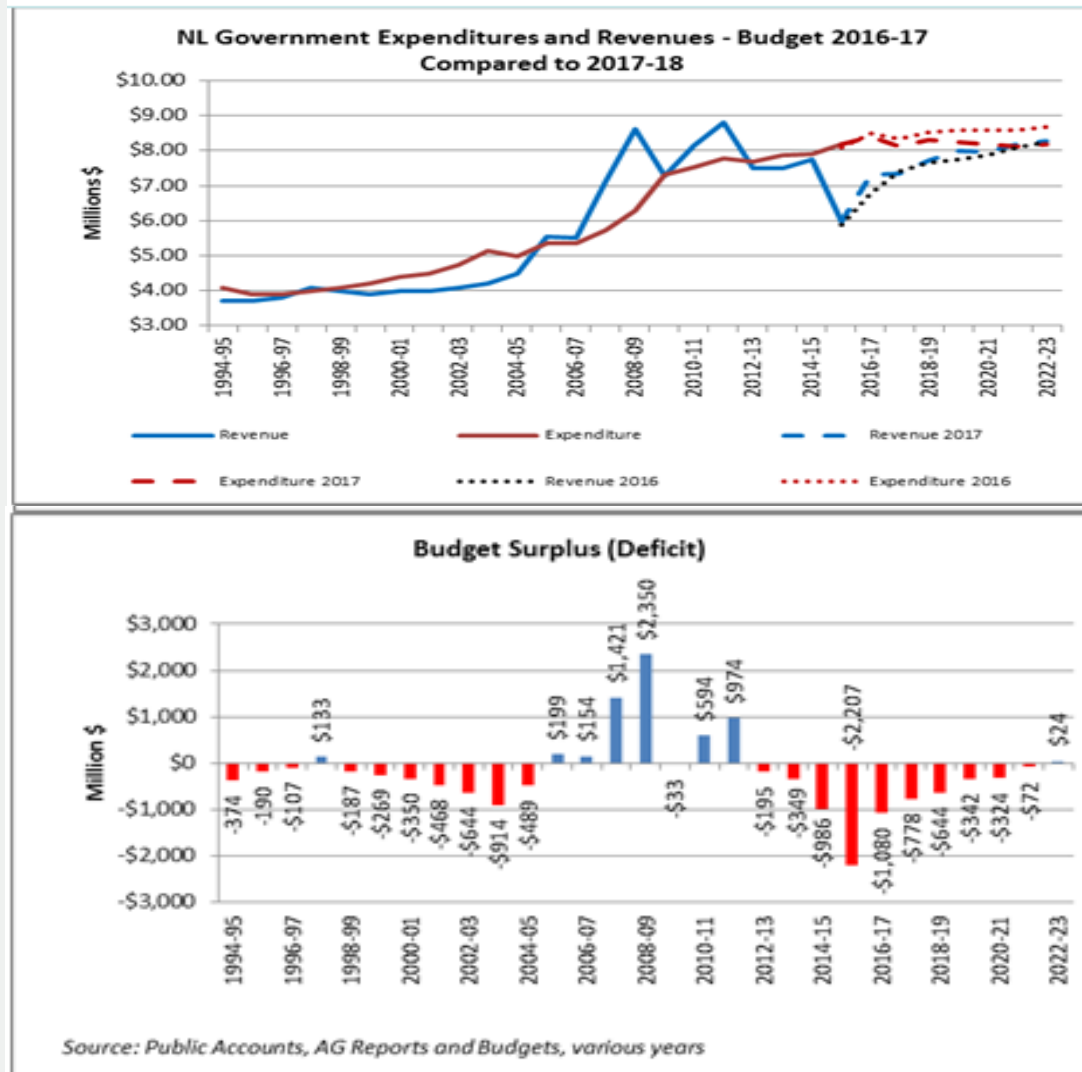


Source: Citilab.com, 2017

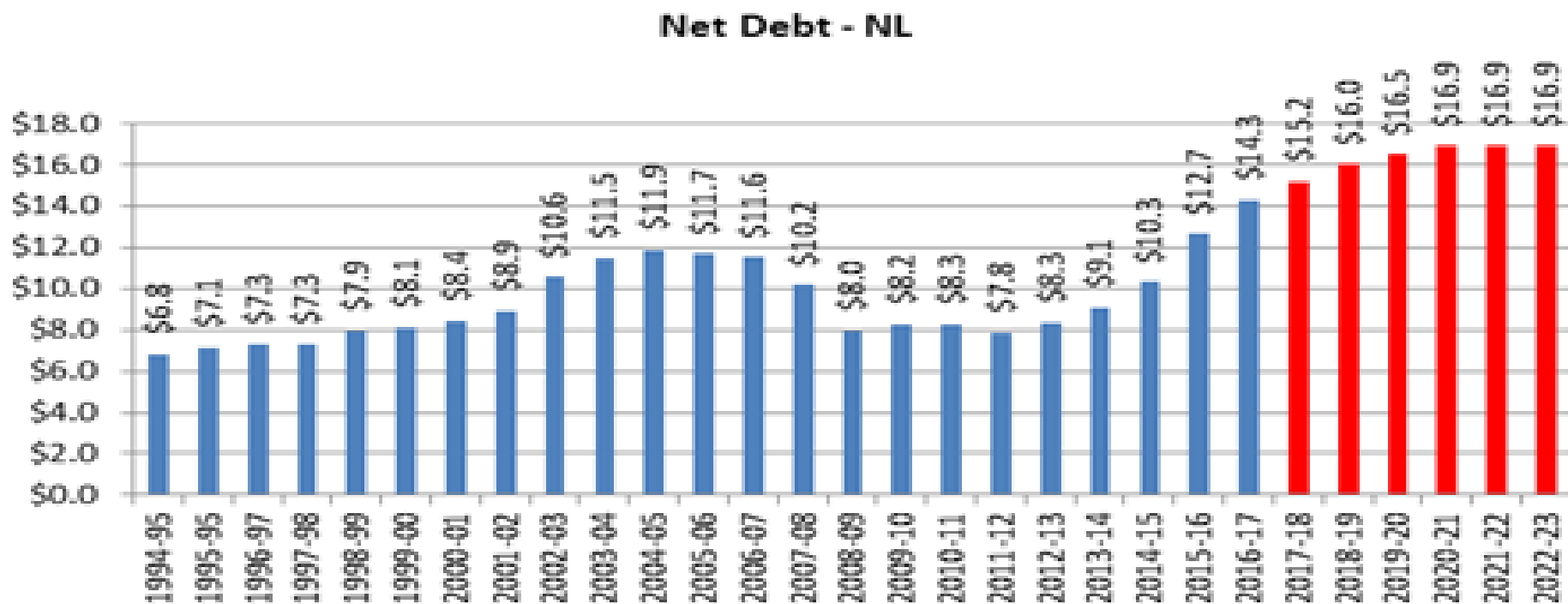


Source: Tesla.com, 2017

Expected Fiscal Position Based on Budget 2017-18

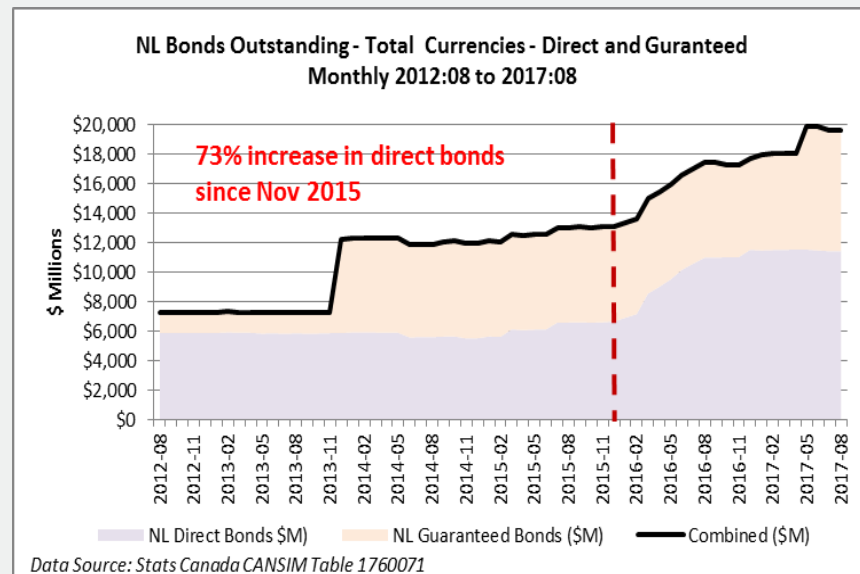
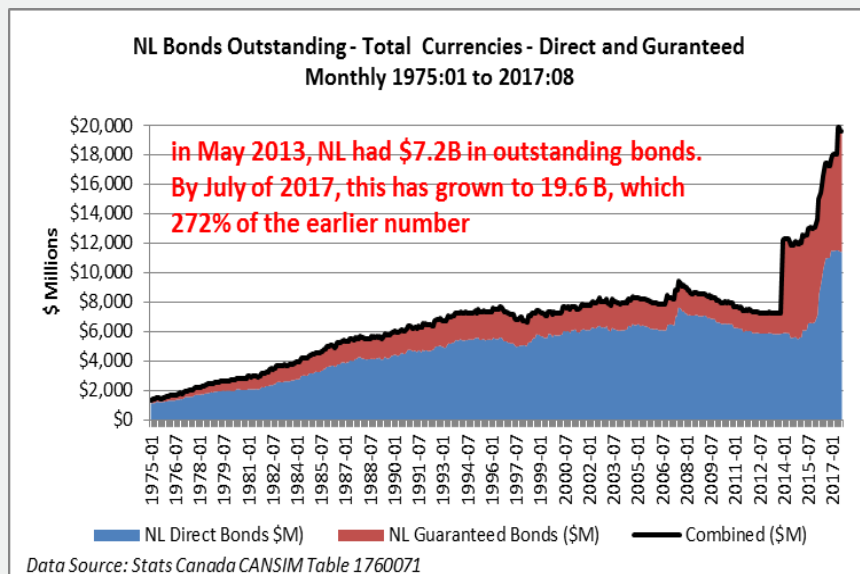


Net Debt



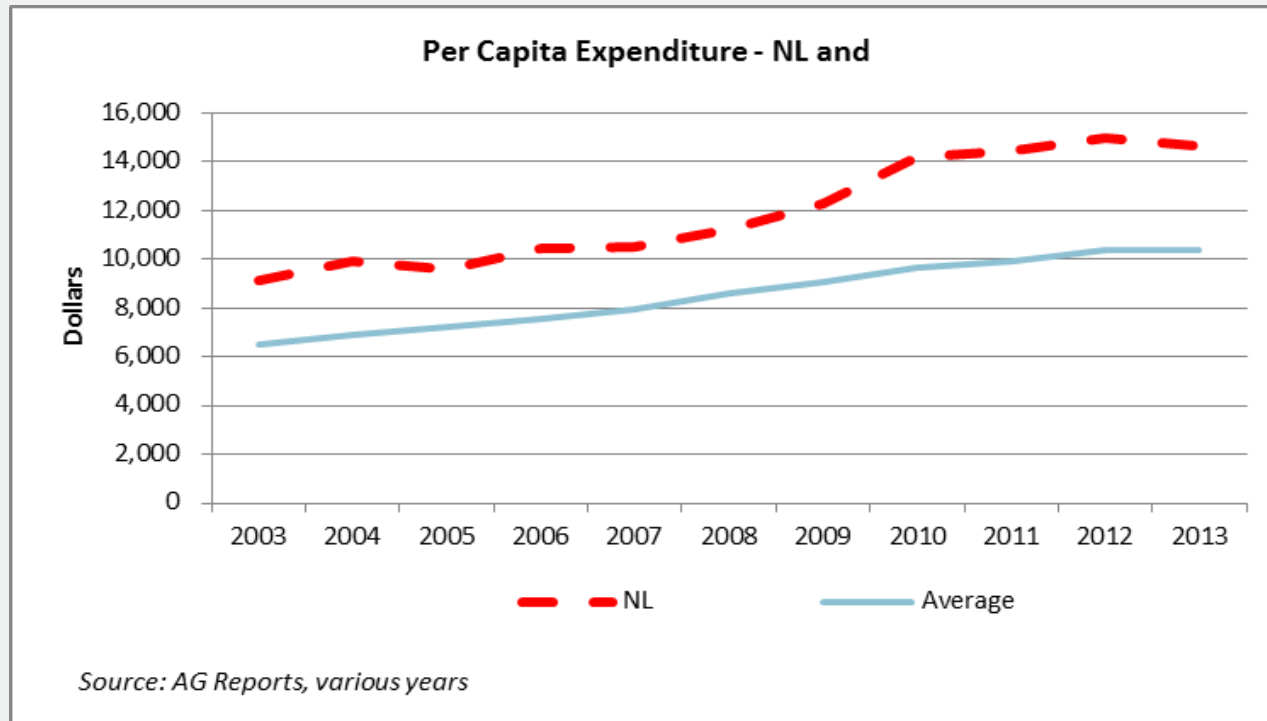
Source: AG report, provincial budgets and public accounts, various years

Outstanding Bonds - NL



NL has engaged in a substantial borrowing program, primarily driven by investment requirements for Muskrat Falls and the running of larger fiscal deficits by the provincial government

Province Spending More Per Person Than Any Other Province in Canada



NL per capita expenditure 44% higher than CDN Ave, 33% higher than Maritime Provinces, 34% than average of QU and 60% higher than ON and 18% higher than SK (the next highest province)

Parliamentary Budget Office (2017)

- October 5th Fiscal Sustainability Report 2017 of the Parliamentary budget office indicated that current fiscal policy in NL is not sustainable over the long term.
- PBO estimates that permanent tax increases or spending reductions amounting to 6.5 per cent of provincial GDP (\$2.0 billion in current dollars) would be required to achieve fiscal sustainability.
- This is equivalent to a permanent 26 per cent increase in the tax burden (including federal transfers) or a 21 per cent reduction in program spending.
- Health care spending is the key fiscal pressure, increasing by 6.9 percentage points of GDP over 2020 to 2091.
- PBO projects NL's population to decline continuously over the next 75 years and its senior dependency ratio to rise to levels well above all other provinces and territories.

Atlantic Provinces are already challenged in terms of borrowing

Long Term Debt Credit Rating Systems

Investment Quality	Moody's	Standard and Poor's	DBRS	Fitch
Highest Quality	Aaa	AAA	AAA	AAA
Substantial Payment Capacity	Aa1	AA+	AA(High)	AA+
	Aa2	AA	AA(Middle)	AA
	Aa3	AA-	AA(Low)	AA-
High Payment Capacity	A1	A+	A(High)	A+
	A2	A	A(Middle)	A
	A3	A-	A(Low)	A-
Adequate Payment Capacity	Baa1	BBB+	BBB(High)	BBB+
	Baa2	BBB	BBB(Middle)	BBB
	Baa3	BBB-	BBB(Low)	BBB-
Non-investment grade: BB, B, CCC, CC and C categories				
In Default	C	D	D	D

Canadian Provincial Ratings, December 31st, 2016

	DBRS	S&P	Moody's
British Columbia	AA(high)	AAA	Aaa
Alberta	AA(high)	AA (negative)	Aa1 (negative)
Saskatchewan	AA	AA+ (negative)	Aaa
Manitoba	A(high)	AA- (negative)	Aa2
Ontario	AA(low)	A+	Aa2
Quebec	A(high)	A+(positive)	Aa2
New Brunswick	A(high)	A+	Aa2
Nova Scotia	A(high)	A+	Aa2
Prince Edward Island	A(low)	A	Aa2
Newfoundland & Labrador	A(low)	A (negative)	Aa3 (negative)

What Does a Debt Crisis Look Like

- Debt crises shows up before bankruptcy – it's the last chance
- Saskatchewan ran into a debt crisis in 1993
- Ireland ran into a debt crisis in 2009
- A debt crisis would mean we cannot borrow in the regular government bond markets
 - Our interest costs would soar dramatically
- Currently our 10 year borrowing costs are Government of Canada +0.867%
 - Ontario = Canada +0.772%
 - Ireland = Canada +12.5%

Secret Meeting Between Federal Government and Saskatchewan in 1993 when Sask Hit the Debt Limit

Premier reveals Saskatchewan Flirted with Bankruptcy

Undisclosed federal bailout averted crisis in 1993

Saturday, March 22, 1997, By David Roberts, The Globe and Mail

Saskatchewan was on the brink of declaring bankruptcy in early 1993 and might have done so if the Prime Minister, Brian Mulroney, had not stepped in with emergency financial assistance, Premier Roy Romanow revealed yesterday:

One day after his New Democratic government tabled its fourth consecutive surplus budget, Mr. Romanow disclosed just how precipitously close the province came in early 1993 to being unable to pay creditors during the debt crisis that then faced the nation's most impecunious provinces. "I think The Globe and Mail ran a story on the front page of one of its editions around that time about an unnamed province being rumored to be on the verge of bankruptcy," Mr. Romanow said in an interview.

"The Bank of Canada was very chilled by this, as was the Federal Government. At that time it was Mr. Mulroney's government. We had one budget in which we just simply—and this is going to be in my memoirs if I ever write my memoirs—where the cabinet caucus [where] gridlocked in ideology and coming to the cliff in making some of these decisions.

"And I must pay a little tribute to Mr. Mulroney here, because he was able, through his minister of finance, to grease some payment from the federal government to the Province of Saskatchewan."

Mr. Romanow said **Saskatchewan Finance Minister Janice Mackinnon met secretly in Ottawa with her federal counterpart, Donald Mazankowski**, to try to explain the province's dangerous fiscal position and how the province was close to defaulting on its debt payments on more than \$15-billion. "She was able to meet with Mazankowski to help us put the [1993] budget together and help us get over this little crisis. "It would have been quite an embarrassment for Canada—let alone Saskatchewan—had that ever taken place. It's just a little inside story about how grave it was."

Finding a Solution

Who Gets Paid First if we Default?

CONSOLIDATED REVENUE FUND (UNAUDITED)

105

PROVINCE OF NEWFOUNDLAND AND LABRADOR

Statement of Financial Position
As at 31 March 2017
with comparative figures for 2016

LIABILITIES

Sch. D	Other liabilities	1,823,654	1,668,561
	Deferred revenue	36,102	29,828
Sch. E	Debenture and other debt	11,710,510	10,071,750
	Less: Sinking fund assets	1,334,747	1,219,413
	Plus: Unamortized unrealized foreign exchange gains (losses) and unamortized premiums (discounts) and issuance fees	(227,911)	(162,822)
	<i>Owed to Mostly Mainlanders</i>	10,147,852	8,689,515
	Group health and life insurance retirement benefits	2,674,238	2,602,751
	Unfunded pension liability	277,653	1,838,037
	Plus: Promissory notes	4,405,632	2,603,172
	<i>Owed to Employees of the province including pensioners</i>	4,683,285	4,441,209
	Total Liabilities	19,365,131	17,431,864

How do you Find a Solution?

- If we hit our debt limit we lose the power to make compassionate decisions that reflect the caring nature of Newfoundland and Labrador society
- In the hands of mainland bankers we have to make decisions suddenly based on money alone and without consideration
- This is no longer a question of union versus management, townie versus bayman or PC versus Liberal versus NDP, we will have lost our status as a province
- We have time to avoid this but only if we make the slightly less difficult decisions now

15 Happiest Countries on Earth

1. Norway (7.53)
2. Denmark (7.52) – **(56 degree North)**
3. Iceland (7.50)
4. Switzerland (7.49)
5. Finland (7.46)
6. Netherlands (7.37)
7. Canada (7.31) – **(St. John's is 47 degrees North)**
8. New Zealand (7.31)
9. Australia (7.28)
10. Sweden (7.28)
11. Israel (7.21)
12. Costa Rica (7.07)
13. Austria (7.0)
14. U.S. (6.99)
15. Ireland (6.97)

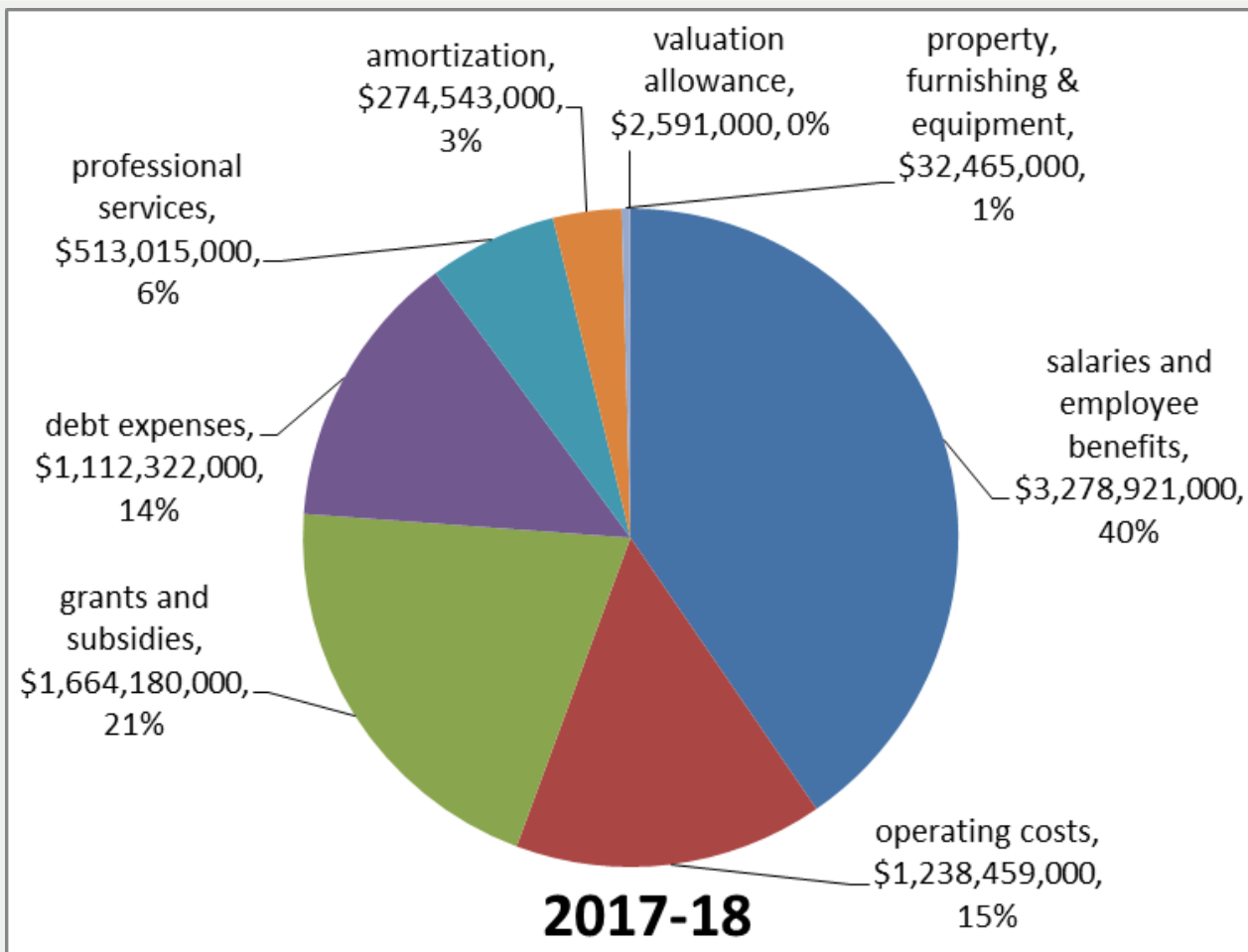
Financial Planning approach to NL Debt Problem

- In going through this exercise, we normally hear the following as being goals that the province should stride towards:
 - Good healthcare
 - **Keep children in province**
 - Roads and bridges maintained, snow clearing in winter
 - Education for children
 - A healthy and peaceful society

How do we Keep the Children Here?

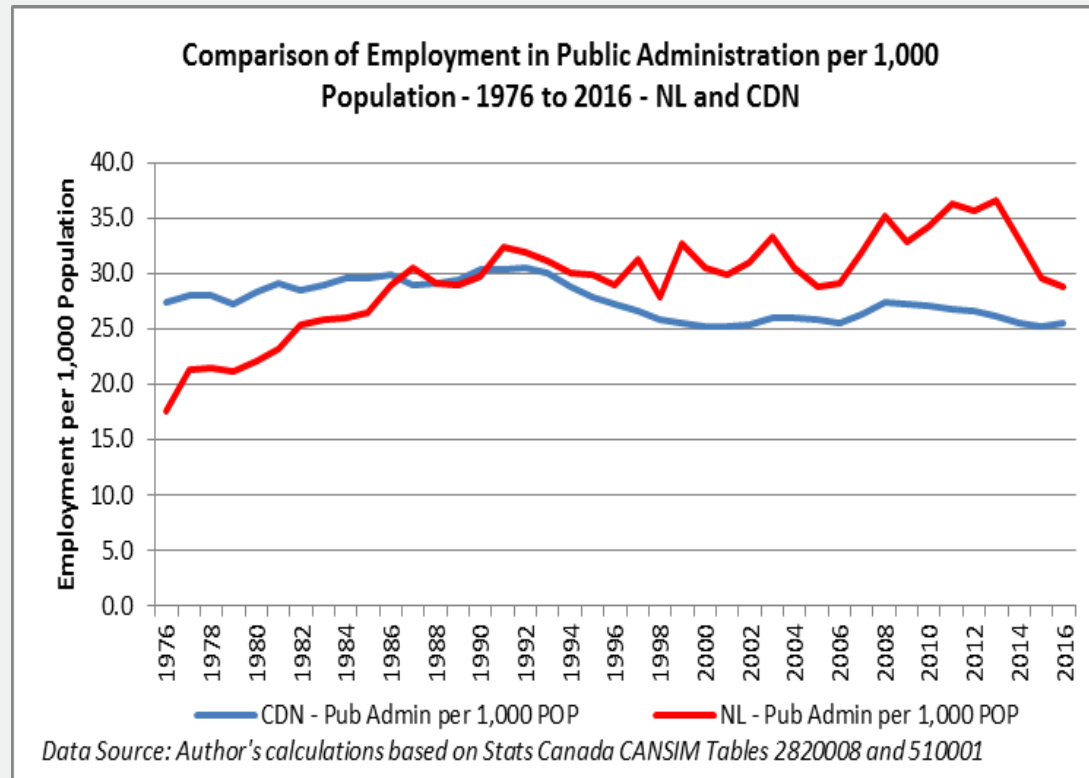
- Create jobs for the children
- We have to concentrate the population into key economic zones
- We have to improve the ease for business to get done in the province
- Cut bureaucracy and employ service level agreements (SLA)
- Lower tax rate starting with Corporate Taxes

Option 1: Expenditure Cuts



- \$2 B reduction in expenditure would imply \$800 M less in wages and benefits expenditure and require 13,000 to 14,000 fewer people at approximately \$60,000 per person

Public Sector Employment per 1,000 people NL and CDN



- **Three – five years** to get vacant Crown land turned into granted farmland
(Source: Government of Newfoundland and Labrador, A New Way Forward, page five)
- Parable of the Shoe Company

Zulu Dawn, 1964



Quartermaster says, *“Get in line and wait your damn turn!”*

Can we Adopt the German Model?

Parable of the shoe company.

Under the German model, unions are organized at the industry level and co-exist with works councils at both the plant and company levels.^[2] These unions negotiate wage determination with employers' associations. The strength of this setup is the cooperation among unions and management councils. This is unique among Western countries, which have been marked by either substantial weakening of union powers (such as in the United States and United Kingdom) over the last twenty years, or consistent union conflict (such as in France and Italy, where unions have remained strong).

Option 2: Compassionate Resettlement

Do the options include resettlement?

Be careful what you say.

"Don't mention the word, or someone will have you in the freezer for lobster bait next spring," O'Reilly says.

Terry Roberts · CBC News · [CBC News](#)
[3 Hours Ago](#)



Kevin O'Reilly chairs the ferry users committee in St. Brendan's, an island community in Newfoundland's Bonavista Bay. (Cal Tobin/CBC)

Option 3: Closing Healthcare Facilities

Newfoundland and Labrador Health Centers



NDP Government Closes Hospitals in Saskatchewan

Published: February 2, 1995 the western producer

[Livestock](#)

[0 comments](#)

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CALGARY – Five rural hospitals will be closing in central Alberta and more may follow within the next two years.

The closures announced Jan. 11, were the first for the 120 rural hospitals in the province. Until now, they have been spared the knife as the province continues its goal of cutting \$734 million from the health budget by 1997.

These closures will save \$11 million and cut 400 jobs, department officials say.

Lyle Oberg, a rural physician and MLA from Brooks, said about 10 percent of rural hospitals will be closed.

Option 4: Amalgamation of Larger Towns

- St. John's
 - 12 km
- Mount Pearl
 - 6.4km
- Paradise
 - 16km
- Conception Bay

One Example of Why Amalgamation Works

Adoption of 2015 National Building Code and NL Municipalities

Uncoordinated adoption of the NBC among Urban Municipalities

- Mt. Pearl November 2016
- CBS January 2017
- Paradise May 2017
- St. John's sometime in 2018

Causing Home Builders to adapt to different building practices depending on the municipality they are operating, some examples include:

- Part 9.36 Energy Efficiency Code
- Underslab vapour barrier installation guidelines & future radon extraction pipe rough-in

Smaller NL Municipalities are too small to employ qualified inspectors thus divulging the responsibility back to the Builder. No independent inspection for code compliance are being conducted in these properties.

Service Levels in Toronto

Mandatory (Legislated) Program Service Standards

Activity	Service Standard		2016 Actual Service Level	2017 Target Service Level
Building Permit Review (Complete Applications)	House	10 Days	95%	95%
	Small Building	15 Days		
	Large Building	20 Days		
	Complex Building	30 Days		
Mandatory Inspections	Buildings	2 Days	91%	95%
	Signs	2 Days	95%	95%
Sign Permit Review	Signs	10 Days	94%	94%

Option 5: Can We Reduce Corporate Taxes?

	2017-18 Estimates (\$000)	2016-17 Revised (\$000)
PROVINCIAL TAX SOURCES:		
Personal Income Tax	1,826,828	1,602,559
Sales Tax	1,181,848	1,136,364
Gasoline Tax	273,824	305,870
Payroll Tax	174,806	180,862
Income Tax	101,944	161,599
Corporate Income Tax	178,480	274,391
Offshore Royalties	802,765	885,469
Mining Tax and Royalties	41,442	95,068
Insurance Companies Tax	71,233	69,893
Corporate Capital Tax	35,652	33,658
Forest Management Tax	1,800	-
TOTAL: PROVINCIAL TAX SOURCES	4,848,804	4,745,733
OTHER PROVINCIAL SOURCES:		
Newfoundland and Labrador Liquor Corporation	180,000	198,000
Lottery Revenues	138,300	133,942
Vehicle and Driver Licenses	96,860	94,650
Registry of Deeds, Companies and Securities	33,801	33,555
Fines and Forfeitures	13,431	13,312
Inland Fish and Game Licenses	4,680	4,650
Water Power Rentals	7,851	8,599
Registry of Personal Property	4,850	4,980
Crown Lands	3,687	3,441
Forestry Royalties and Fees	1,824	1,809
Mining Permits and Fees	8,481	6,666
Offshore Revenue Fund	-	26,272
Other	12,084	159,505
TOTAL: OTHER PROVINCIAL SOURCES	602,689	689,381
TOTAL: PROVINCIAL SOURCES	5,451,493	5,435,114
GOVERNMENT OF CANADA:		
Equalization	-	(4,520)
Health Transfers	688,637	529,434
Social Transfers	187,708	195,663
Statutory Subsidies	8,710	9,710
TOTAL: GOVERNMENT OF CANADA	745,963	730,287
TOTAL: PROVINCIAL AND FEDERAL REVENUES	5,897,426	6,165,401

Corporate Taxes 2017
= \$178,480,000

Equals 3.026% of Total
Revenue

Open Our Minds to Non-Traditional Ideas

1. Bulk Water Sales
2. Two Tiered Healthcare System
3. Lean in to the coming mining surge

Let's Talk Politics

- Everybody wants improvement
- Nobody wants change
- Newfoundlanders and Labradorians shoot the messenger
- Newfoundlanders and Labradorians detest prophets and love saviours
- Everyone feels “hard done by”
- We have to allow our politicians to discuss this openly.
- We have to stop attacking politicians for human frailties that we all have
- We have to discuss the issues. We are all in this together.

In Summary we are Headed for a Bigger Boondoggle Than Muskrat Falls

1. This is DRAFT ONE of a solution
2. There is a date when we will lose choice. This forces us to look back from that date to see what we can change to avoid our debt crisis
3. There is time but it is short
4. “I am a dreamer. I hope I’m not the only one...”
5. There are major benefits to a plan including certainty, confidence and vision
6. Solutions may have to be unique to Newfoundland and Labrador
7. We need THE BIG SPEECH: “I promise you nothing but blood, sweat, toil and tears...” – Winston Churchill
8. Politicians need to be “allowed” to debate these issues without fear

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Thank You!