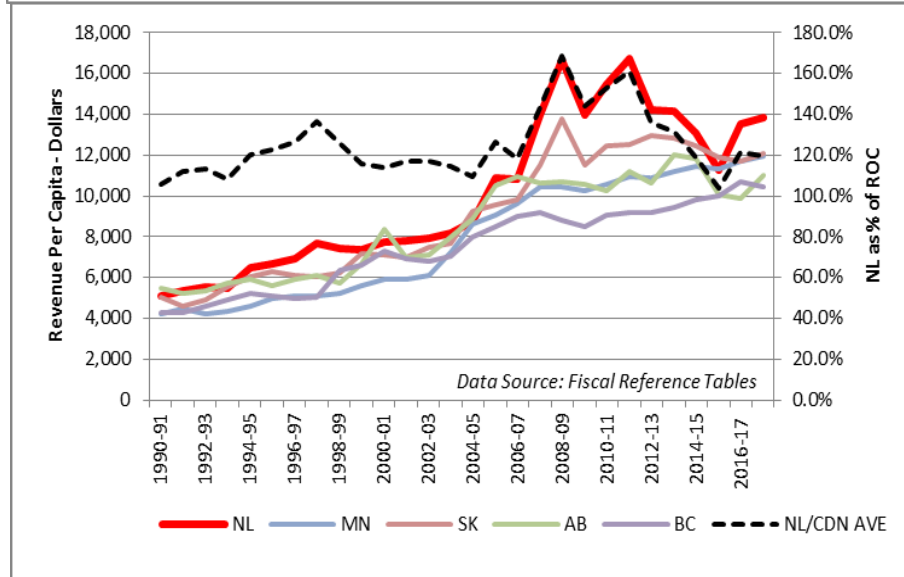
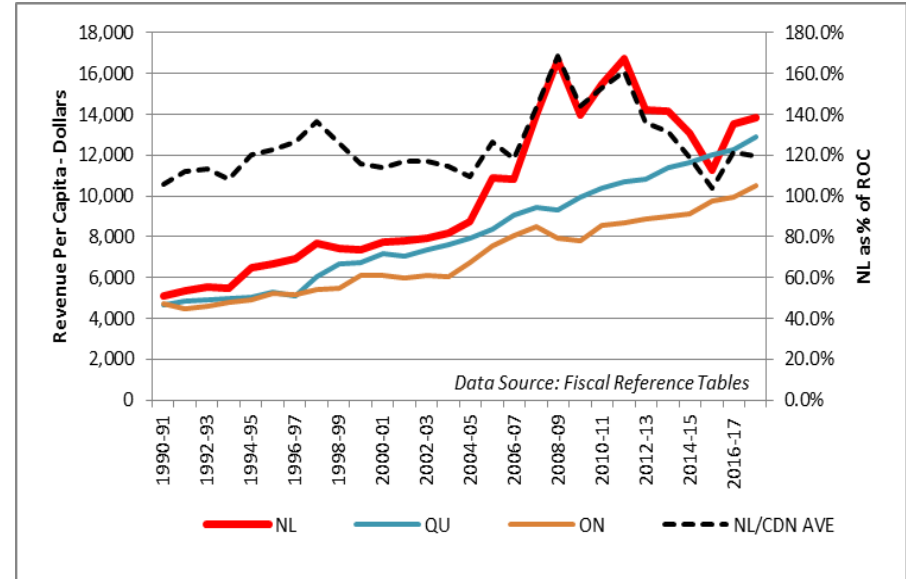
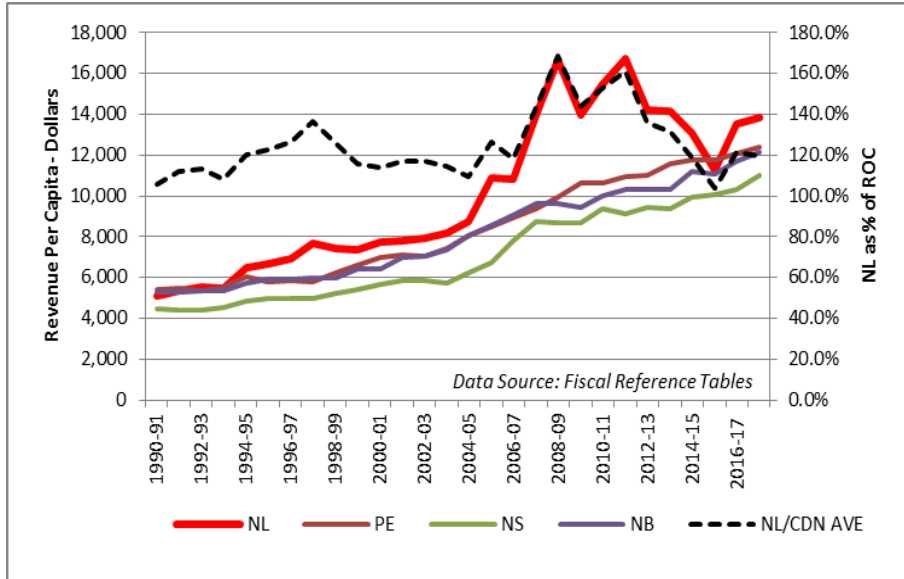


# An Assessment of NL's Fiscal Position

Wade Locke  
Presented to CARE's  
State of the NL Economy

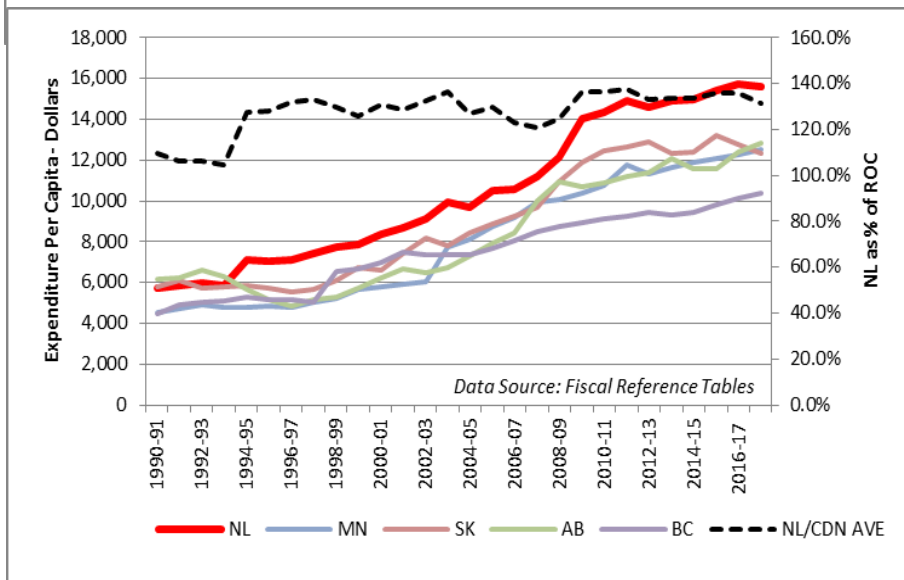
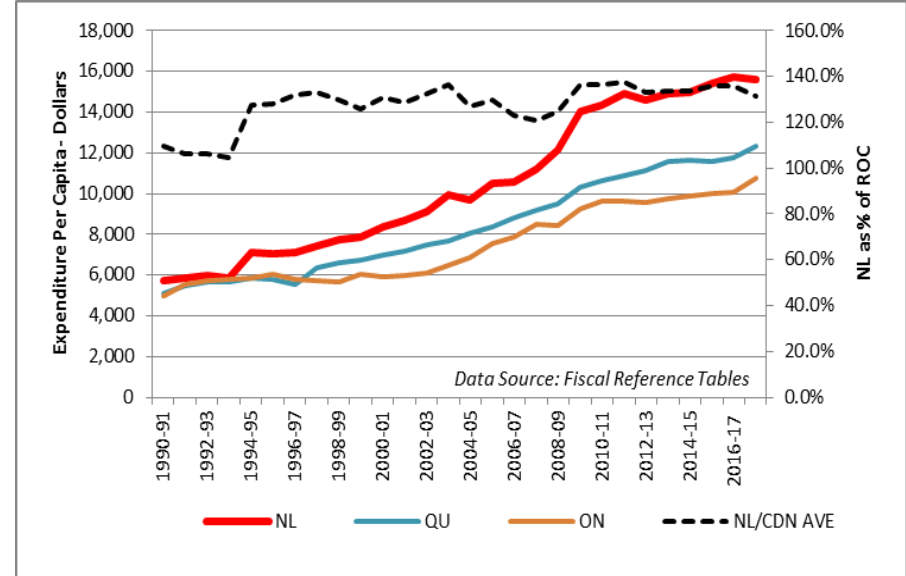
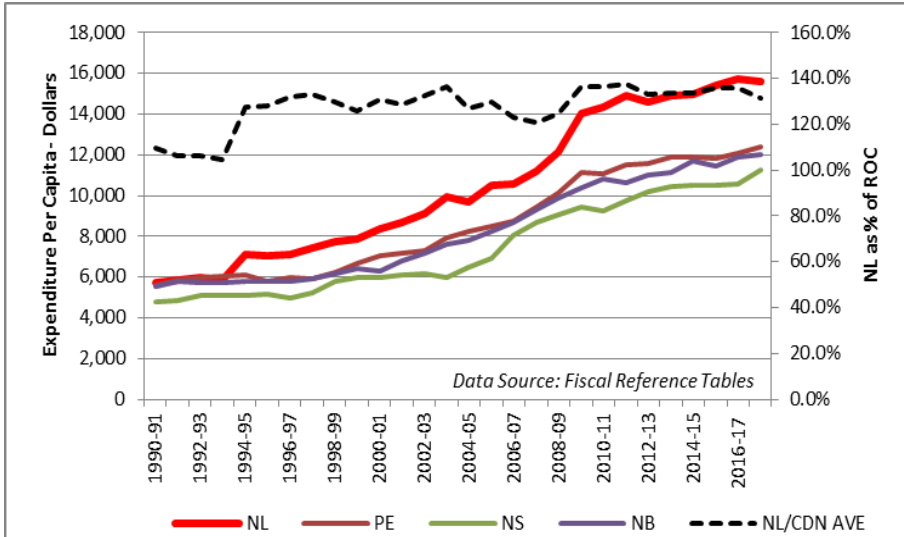
April 25, 2019

# Revenue Per Capita



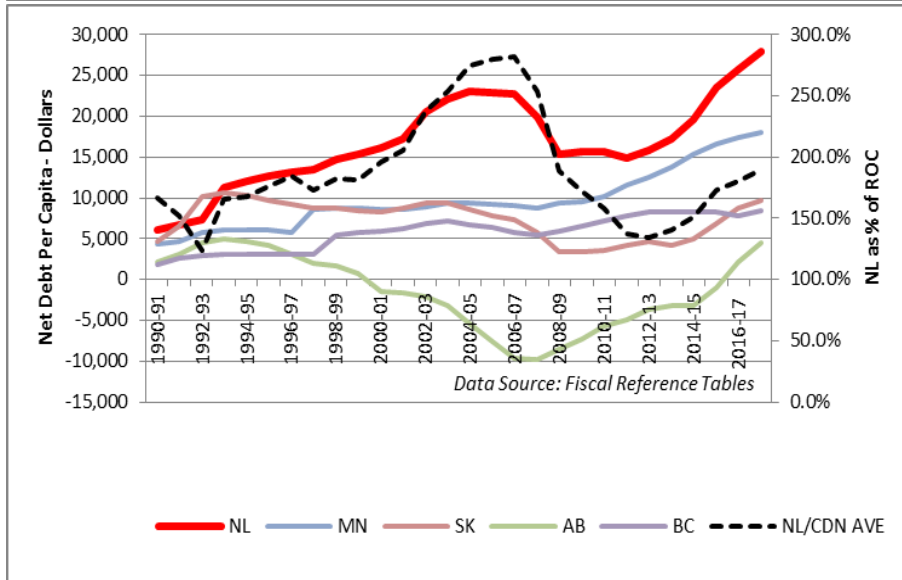
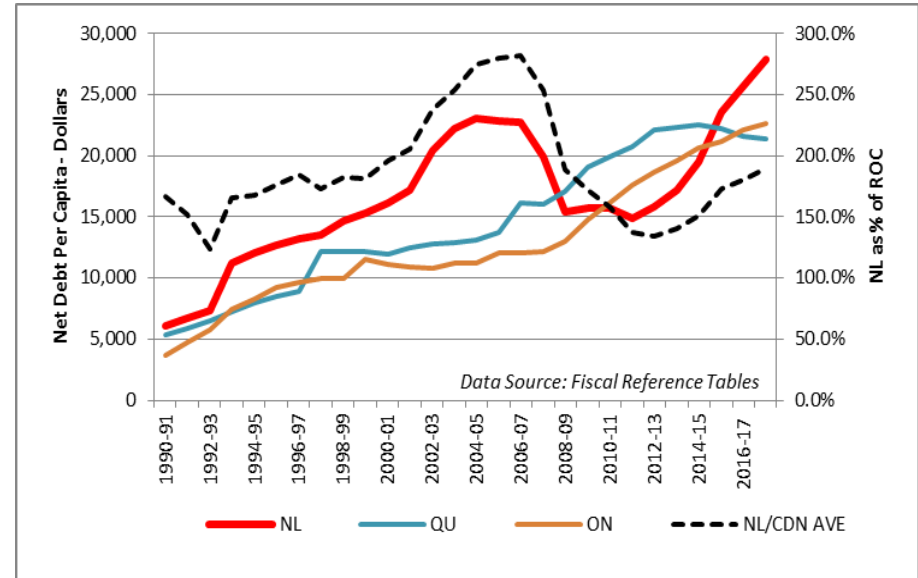
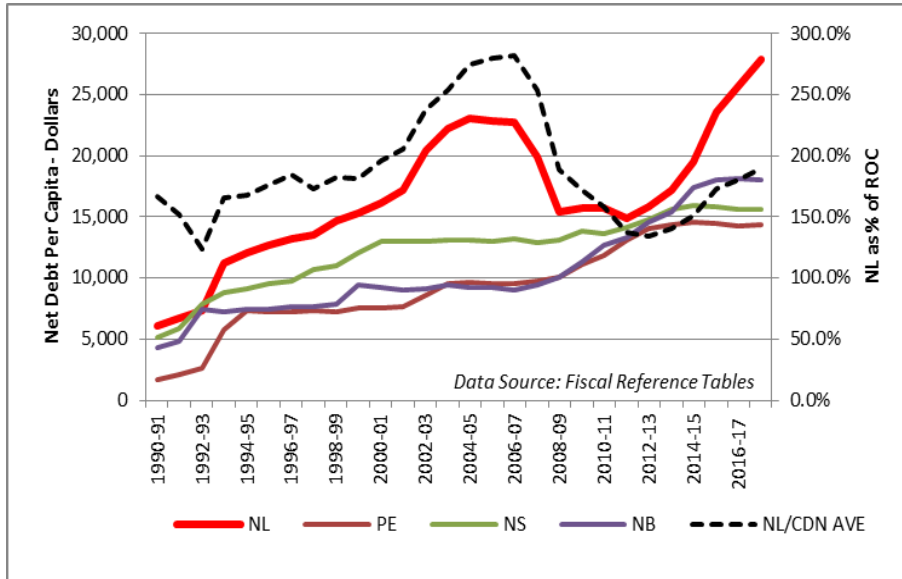
**In 2017-18, NL Revenue Per Capita was 20% higher than Rest of Canada Average**

# Expenditure Per Capita



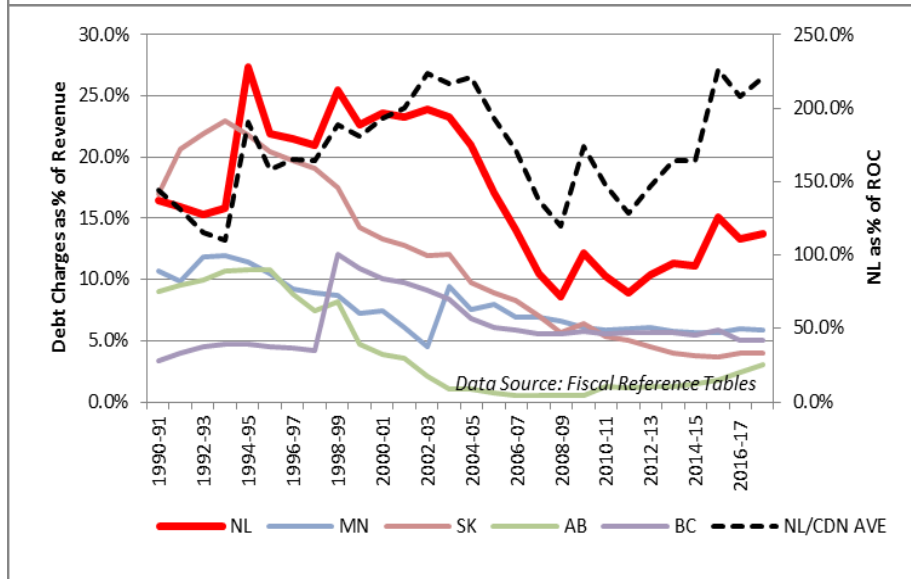
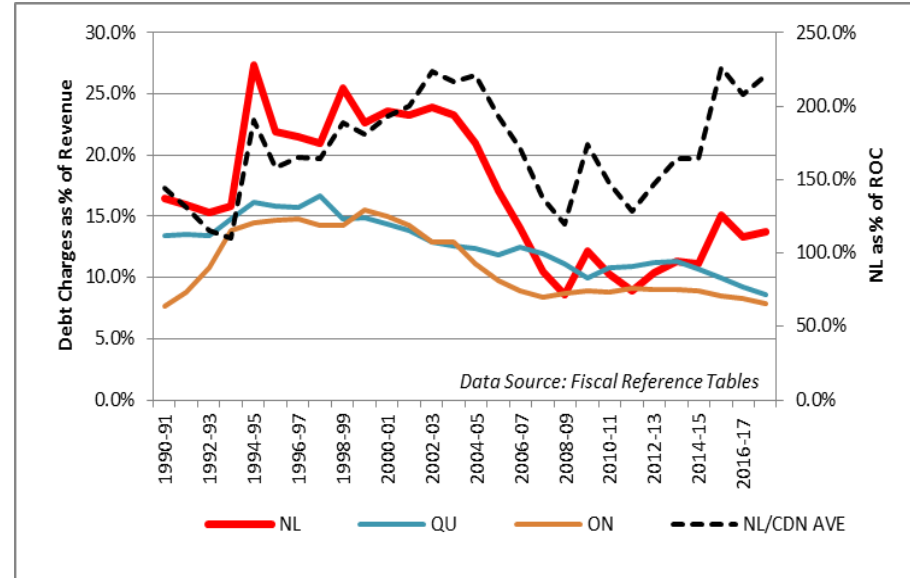
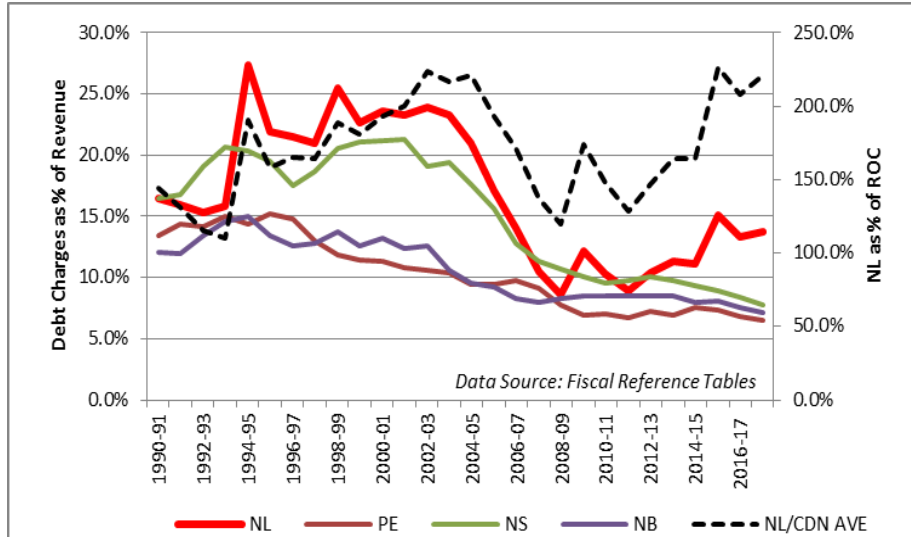
**In 2017-18, NL Expenditure Per Capita was 31% higher than Rest of Canada Average**

# Net Debt Per Capita



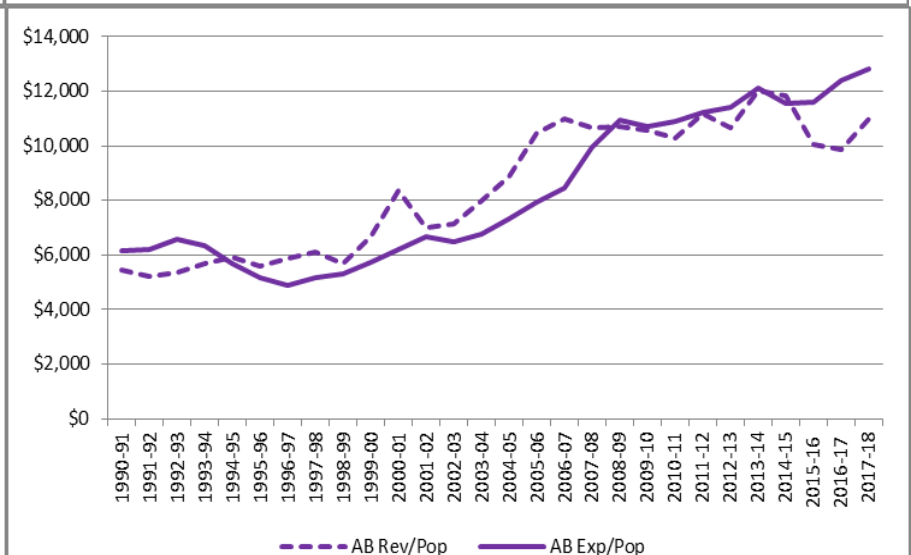
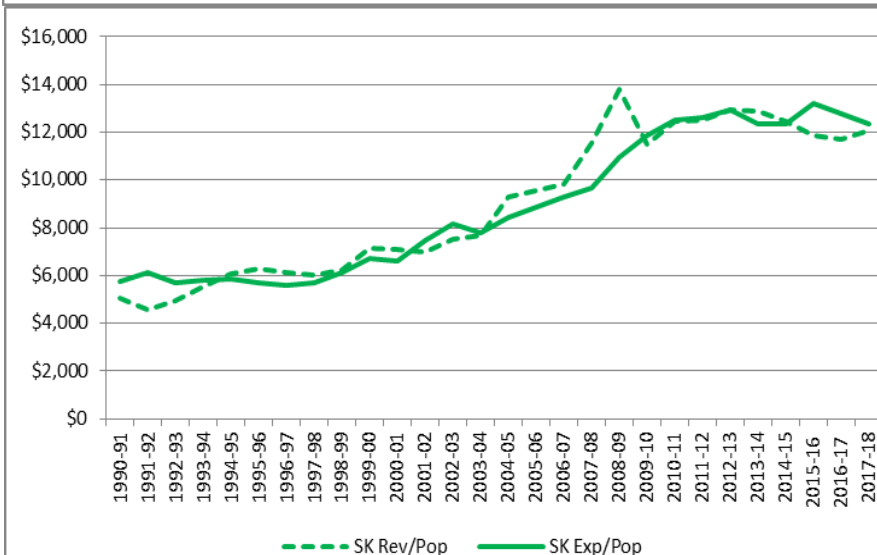
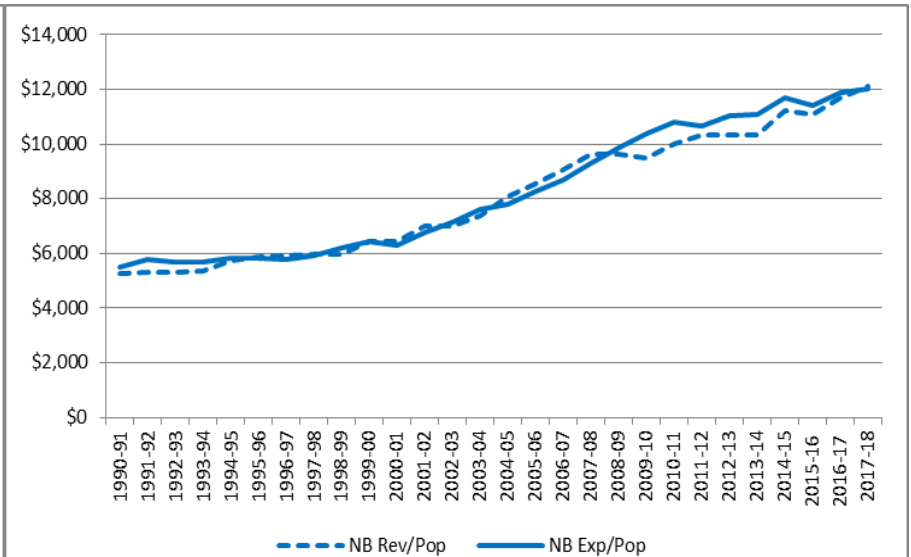
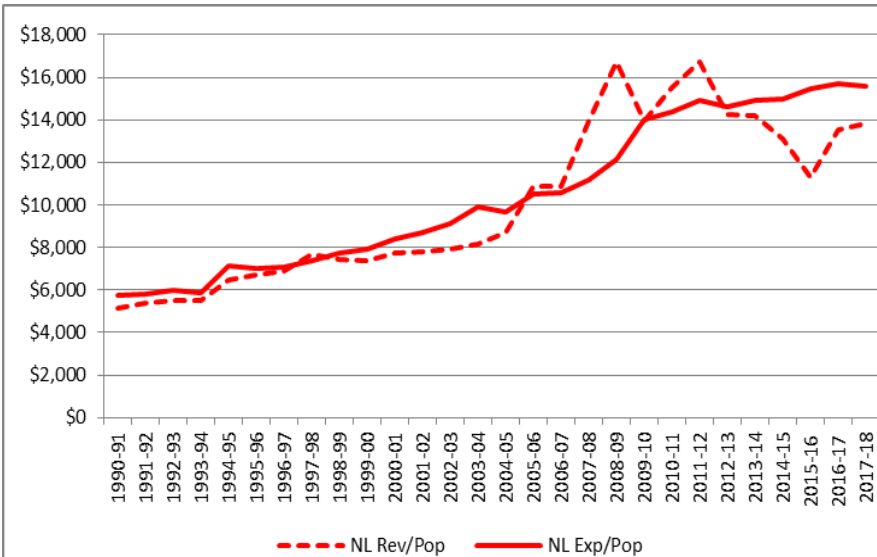
**In 2017-18, NL Net Debt Per Capita was 90% higher than Rest of Canada Average**

# Debt Costs as a Percent of Revenue



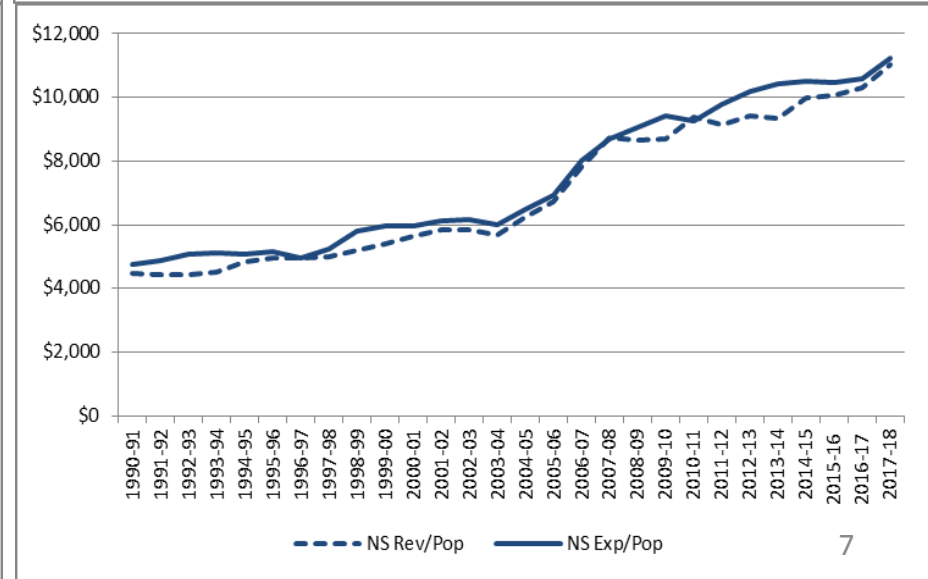
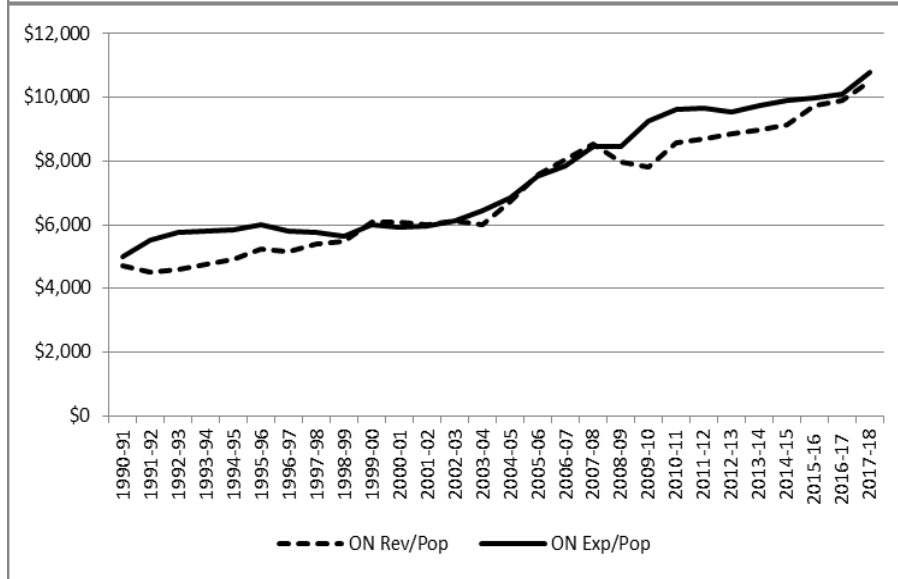
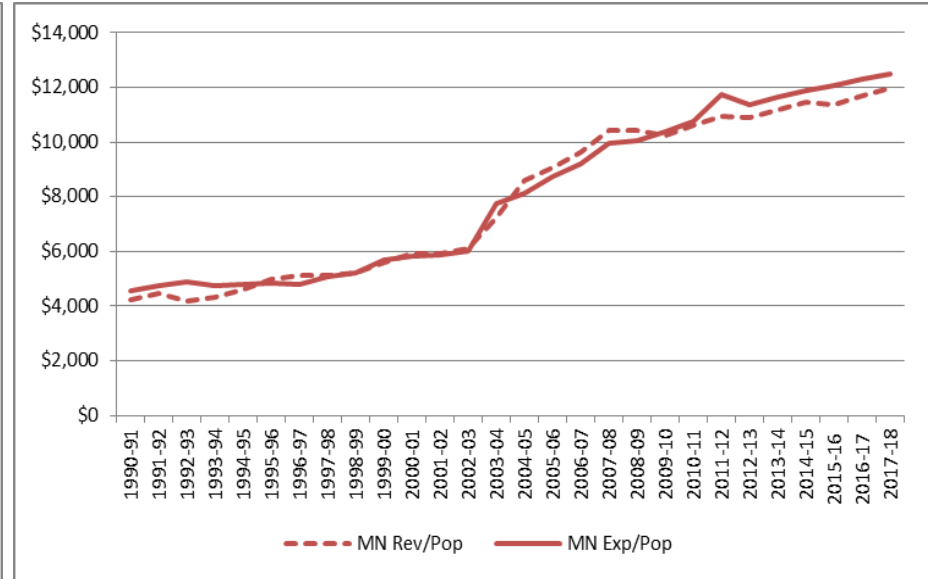
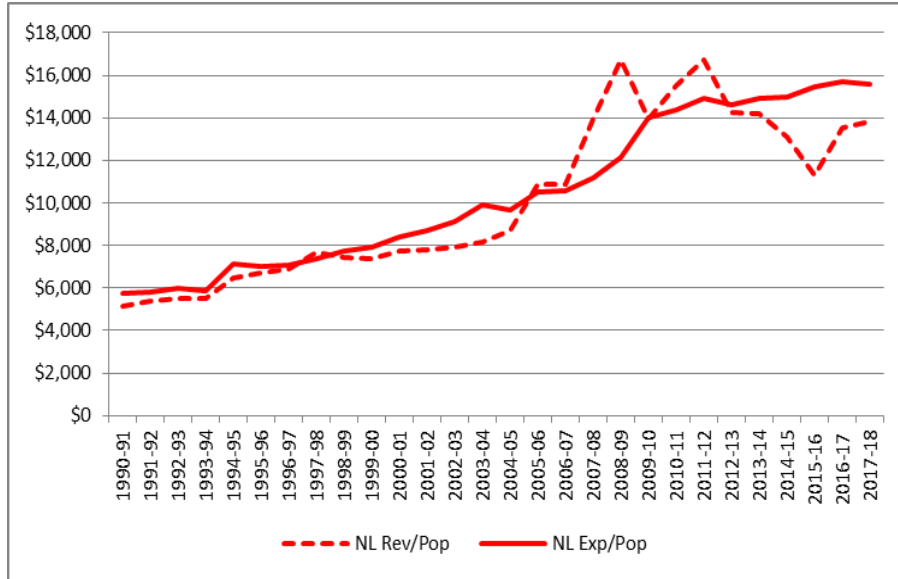
**In 2017-18, NL Debt Cost as a Percent of Revenue was 121% higher than Rest of Canada Average**

# Expenditure and Revenue Per Capita



NL not adjusting to changed fiscal circumstances

# Expenditure and Revenue Per Capita



# Per Capita – Including Local Government

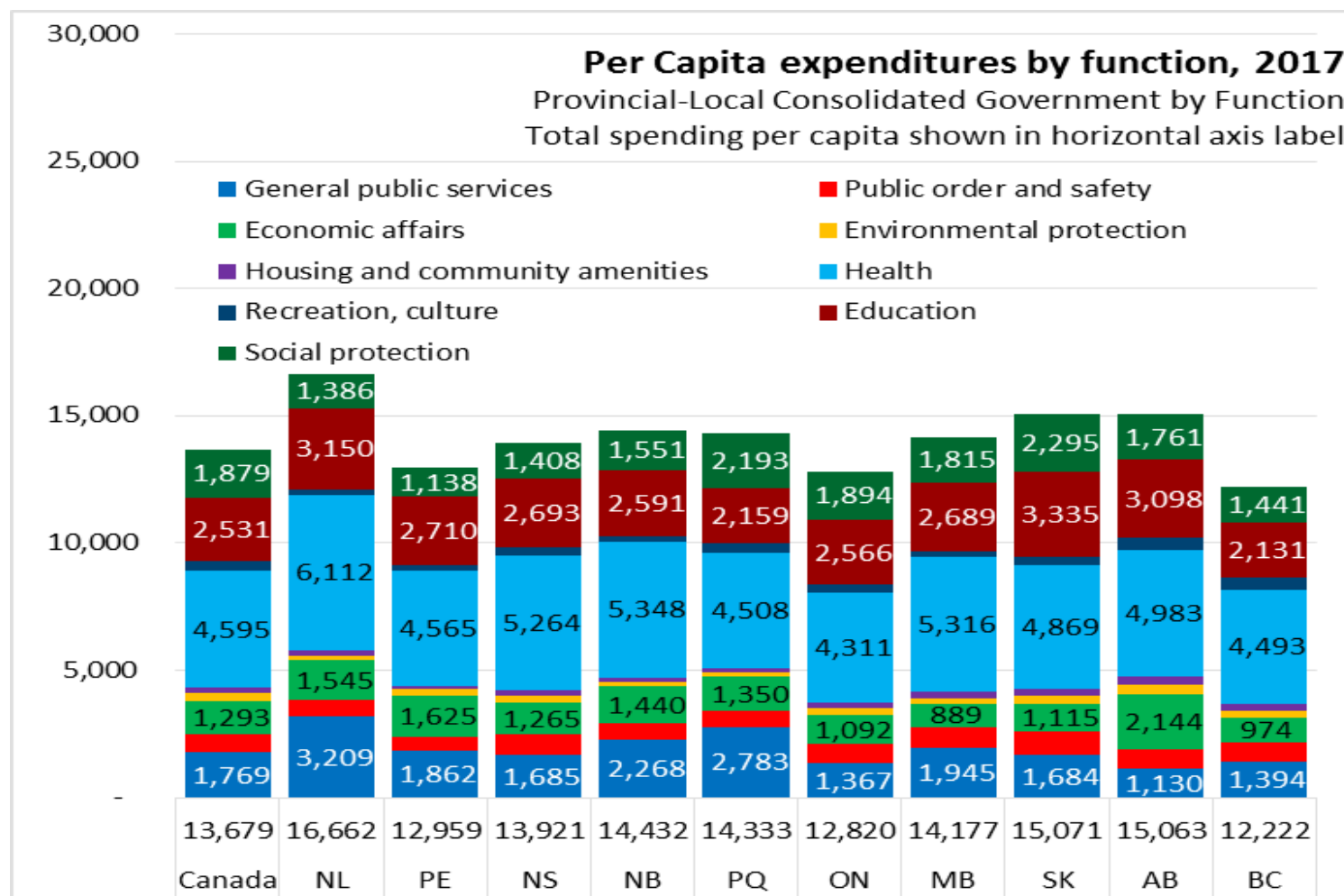
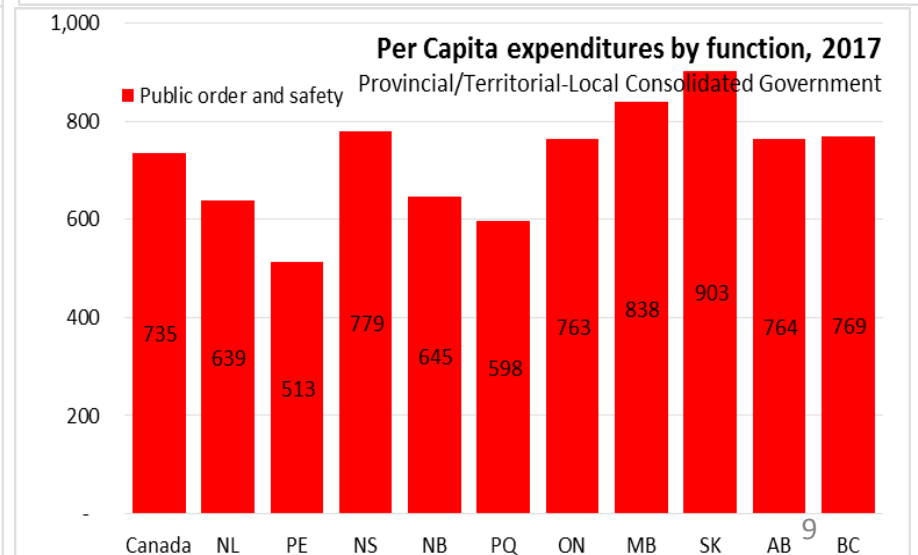
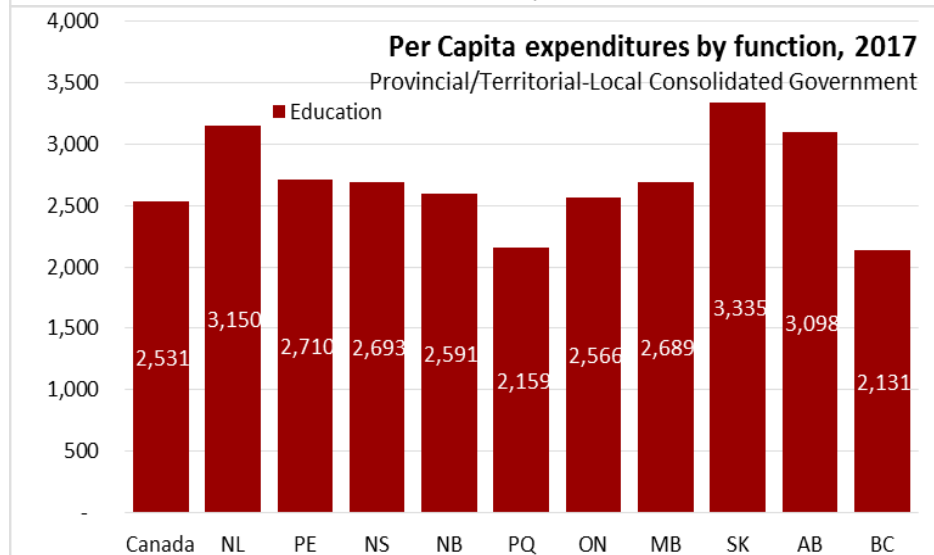
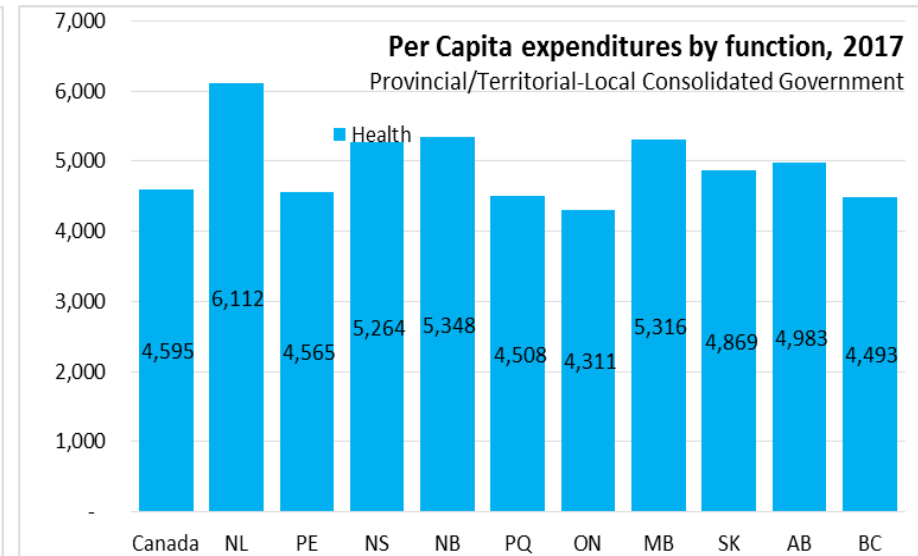
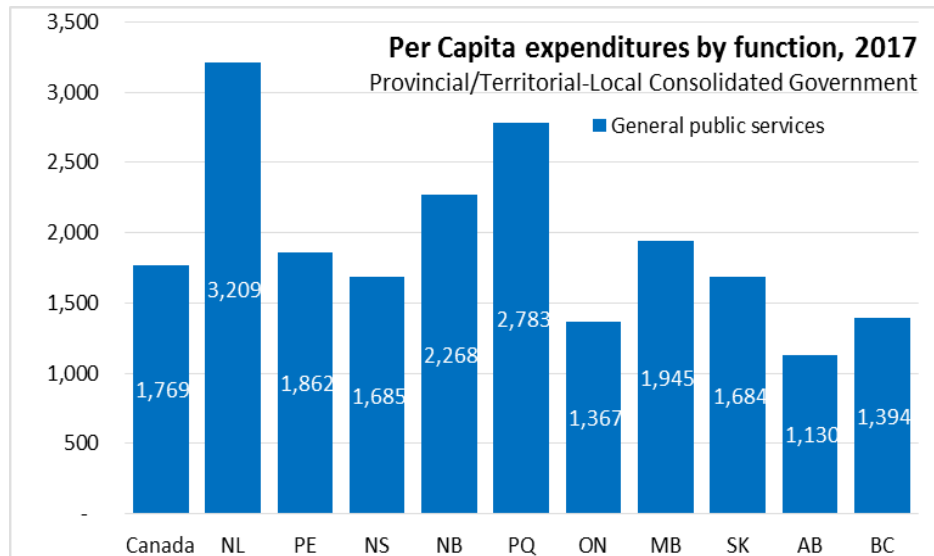


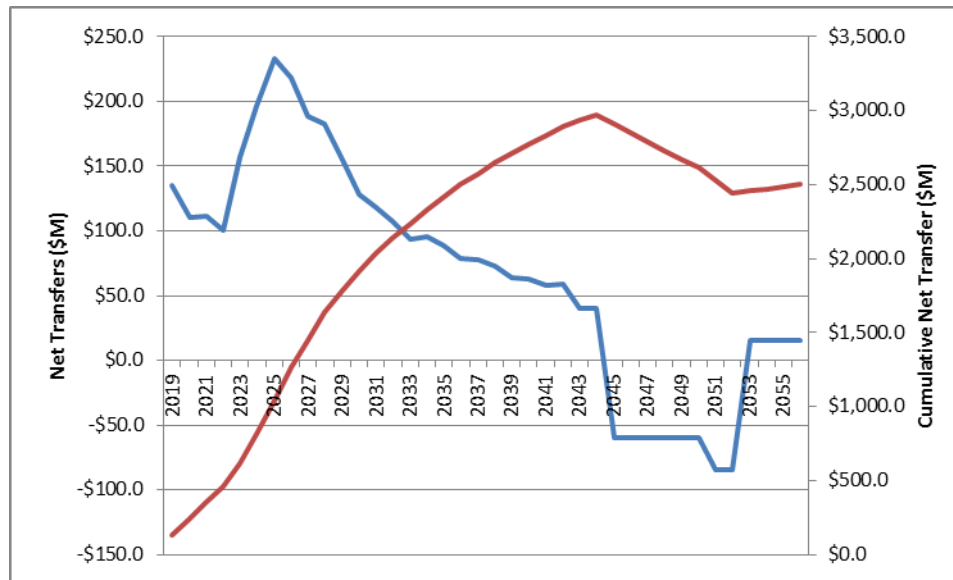
Table: 10-10-0005-01 (formerly CANSIM 385-0041)



# Select Per Capita Expenditures



# Atlantic Accord

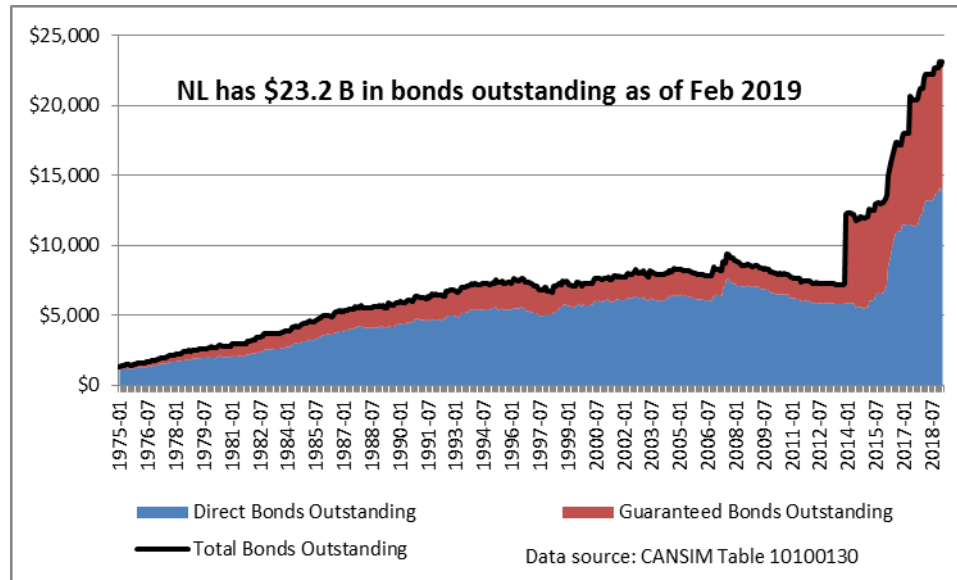


Note Clause 6c – Canada and Newfoundland and Labrador shall conclude discussions on the improvements under the Accord Acts within two (2) years of the Effective Date, or within such timeframe as agreed to by the parties, to deepen joint management in areas such as land tenure, worker safety, regulatory efficiency and regulator modernization

**The things negotiated were not part of the Atlantic Accord and the things that were part of the Atlantic Accord were not negotiated**

**While we got a \$1.9 billion surplus and a reduction in net debt, we should think of Bill C69 and the Atlantic Accord and then think about regulatory efficiency**

# NL Bonds Outstanding



**While Net Debt has fallen to \$13.8 B because of accrual based budgeting and the Atlantic Accord, we still have in excess of \$23.2 B in outstanding bonds and plan to borrow another \$1.2 B with the current budget**

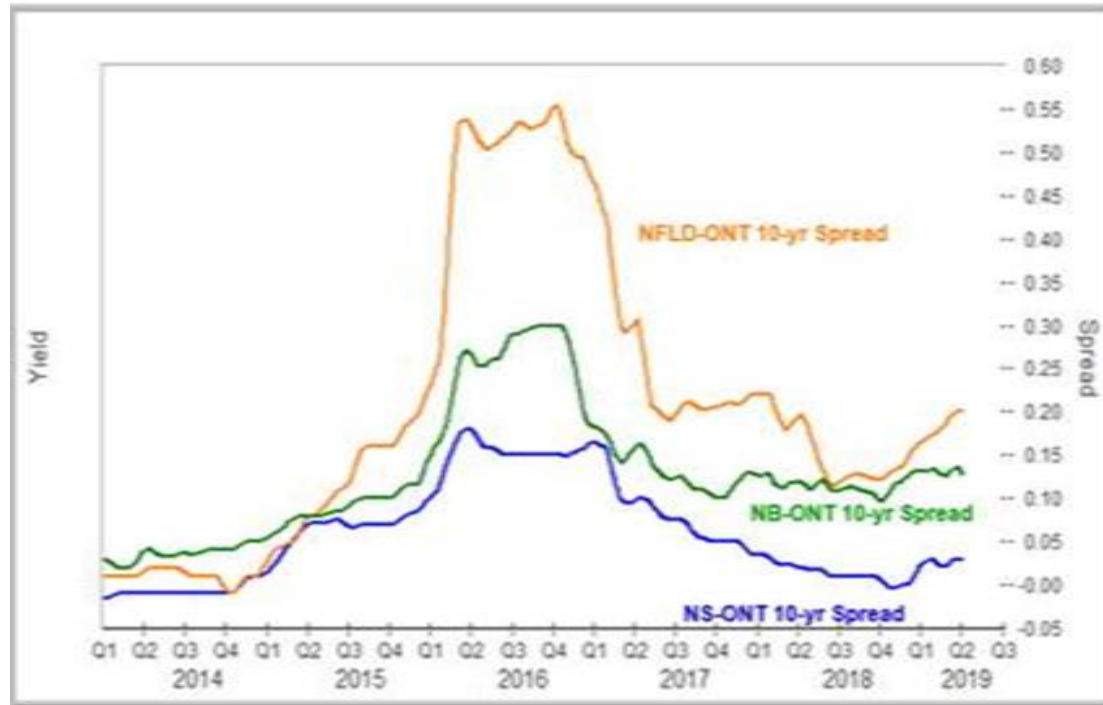
# Credit Rating

	DBRS	S&P	Moody's with JDA	Moody's BCA
BC	AA(high)	AAA	<u>Aaa</u>	<u>Aaa</u>
Alberta	AA(negative)	A+	Aa1(negative)	Aa2(negative)
Saskatchewan	AA	AA	<u>Aaa</u>	Aa1
Manitoba	A(high)	A+	Aa2	A1
Ontario	AA(low)	A+	Aa3	A2
Quebec	A(high)	AA-	Aa2	A1
New Brunswick	A(high)	A+	Aa2	A1
Nova Scotia	<b>A(high)</b>	<b>AA-</b>	<b>Aa2</b>	<b>Aa3</b>
PEI	A(low) (positive)	A	Aa2	A1
Newfoundland	A(low)	A	Aa3(negative)	A2(negative)

Moody's has two ratings: the public measure is JDA, which stands for Joint Default Analysis, that is, the implied support from the Federal government, and BCA stands for Baseline Credit Assessment – the Province on a stand-alone basis. There is typically a two notch upgrade from BCA to JDA.

**We should start thinking about how we are going to deal with these issues**

# 10 year Credit Spreads Relative to Ontario for the last Five years for Atlantic Canada



**Recently, there is a noticeable deterioration of the credit spreads**

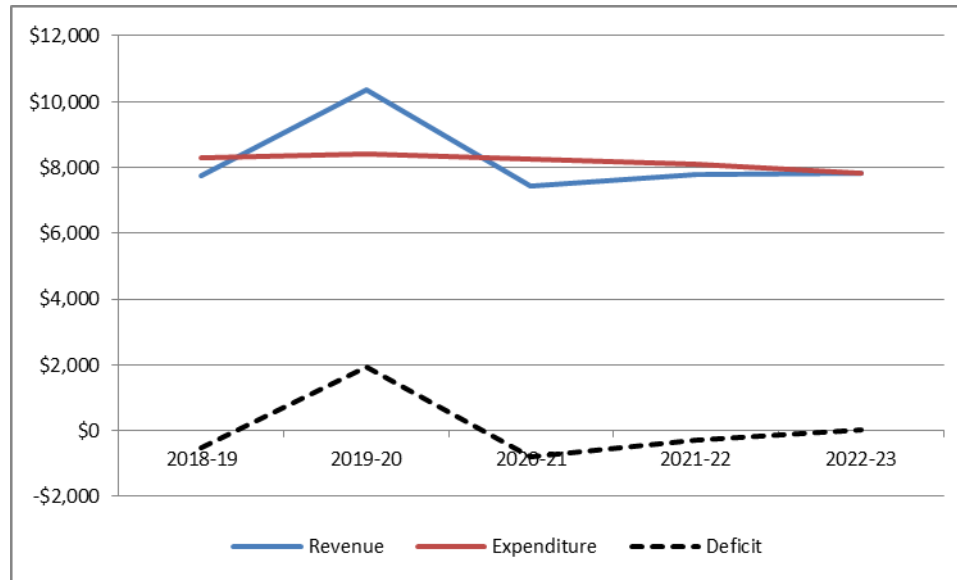
**NL has borrowed 1.425 B or \$1.4 expected in 2018-19 - \$1.2 B planned for this budget**

**NB had \$67 M surplus in 2017-18, forecast \$4.5 surplus in 2018-19 & \$23 M surplus in 2019-20, but no improvement in credit spreads on the improved fiscal plan**

# Rate Mitigation Plan

• Needed in 2021	\$725.9 M
• Holyrood net fuel saving	-\$178.2 M
• NL Hydro surplus energy	-\$40.1 M
• Nalcor dividend	-\$200.0 M
• Organizational Change	-\$20.0 M
• Assume lower MF O&M cost	-\$12.0 M
• Isolated Diesel	-\$7.4 M
• Fuel Switching/Electrification	-\$15.0 M
• Add Value to energy surplus	-\$35.5 M
• Holyrood Performance Credit (carbon credits)	-\$8.7 M
• <b>Collaborate with Government of Canada</b>	<b>-\$200 M ?????</b>

# Budget Plan

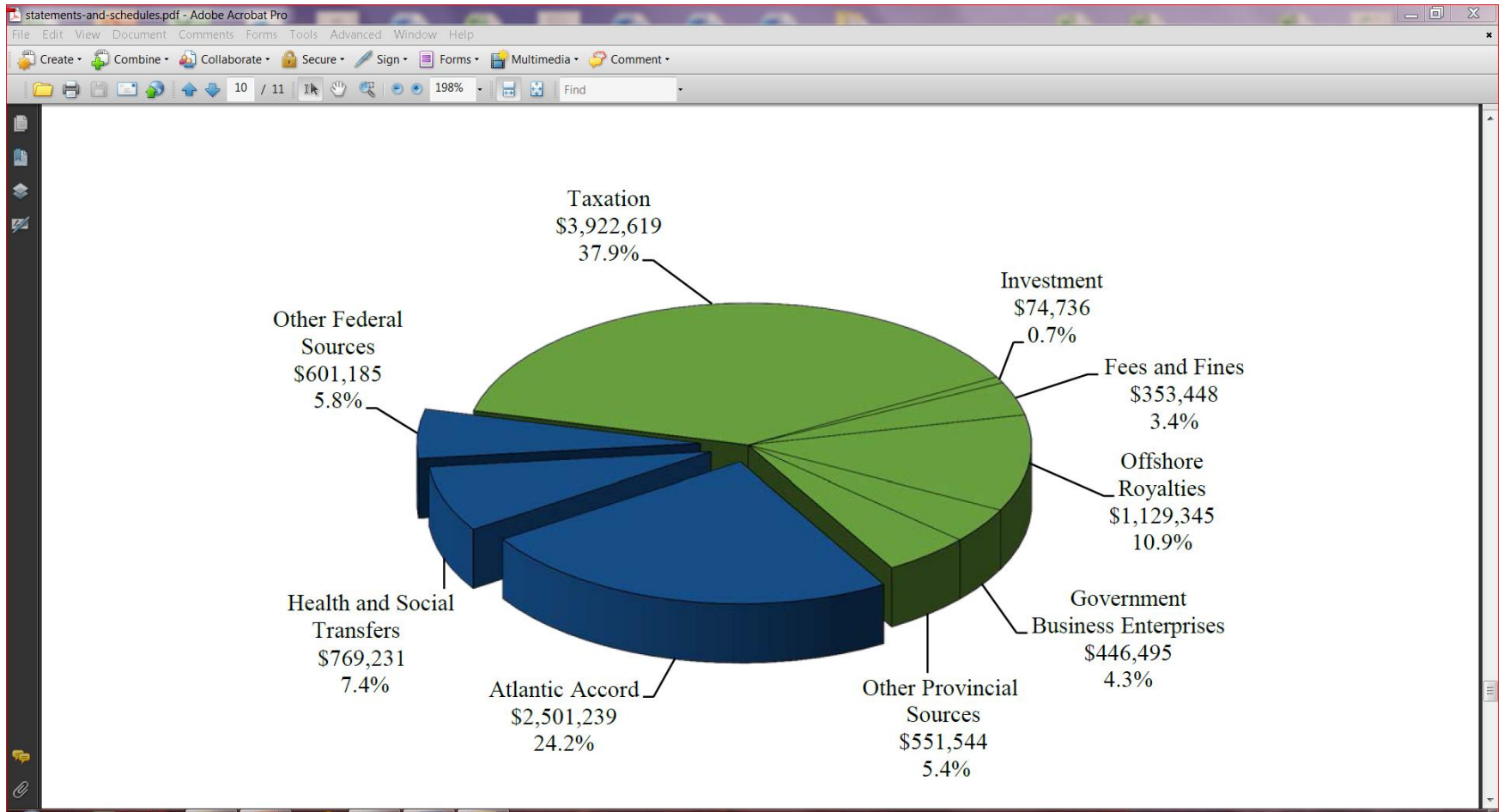


	2018-19	2019-20	2020-21	2021-22	2022-23
Revenue	\$7,751.0	\$10,350.0	\$7,452.0	\$7,788.0	\$7,831.0
Expenditure	\$8,273.0	\$8,425.0	\$8,238.0	\$8,088.0	\$7,808.0
Deficit	-\$522.0	\$1,925.0	-\$786.0	-\$300.0	\$23.0
		-\$575.0			

**Requires a 1% increase in revenue and 5.6% drop in expenditure relative to 2018-19 seem ambitious**

**Assumed oil price is \$65 and exchange rate and assumed 76.5 US/CDN exchange rate seem reasonable**

# Budgetary Revenue



**We better hope that offshore oil is successful and Bill C69 is somehow amended to our benefit. Otherwise, our ability to provide the goods and services is constrained**