2016–17
PRE BUDGET SUBMISSION

Ontario Select Standing Committee on Finance and Government Services

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About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, not-for-profit citizen's group dedicated to lower taxes, less waste and accountable government. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national taxpayers organization. Today, the CTF has 89,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and regional offices in British Columbia, Alberta, Prairie (SK and MB), Ontario and Atlantic. Regional offices conduct research and advocacy activities specific to their provinces in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries, online postings and publications to advocate on behalf of CTF supporters. CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to affect public policy change. Each week CTF offices send out Let's Talk Taxes commentaries to more than 800 media outlets and personalities across Canada.

Any Canadian taxpayer committed to the CTF's mission is welcome to join at no cost and receive issue and Action Updates. Financial supporters can additionally receive the CTF's flagship publication The Taxpayer magazine published four times a year.

The CTF is independent of any institutional or partisan affiliations. All CTF staff, board and representatives are prohibited from holding a membership in any political party. In 2014-15 the CTF raised $4.7-million on the strength of 30,663 donations**.** Donations to the CTF are not deductible as a charitable contribution.

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PART I: INTRODUCTION

Ontario families are currently faced with a crisis created by their government. Out of control electricity bills are forcing some families to choose between making mortgage payments, buying groceries or turning on their lights. Businesses are leaving the province to set up shop in more affordable jurisdictions and taking jobs with them.

Ontario families are tightening their belts in order to take care of their financial future and their children's financial future. But their government is not doing the same. In fact, the government is pursuing policies that will make life more expensive for the people of the province, and meanwhile news coverage shows regular stories of the government's rampant waste of public money.

There is a disconnect between the challenging reality of the citizens of this province and the politicians who control the levers of power.

This report recommends the government focus itself on creating a budget that will make life more affordable in Ontario. This includes ending much of the waste and mismanagement that has plagued this government, including reforms to the electricity sector, ending cap and trade, increased transparency and accountability with campaign finance, advertising and appointments, and reducing spending through restraint with wages and program spending, and ending corporate welfare. Finally, we want to stress the importance of balancing the budget not just over the short term, but in a sustainable way.

It's time to make Ontario a province that offers a bright future for everyone, and which is a contributor to our federation.

PART II: SUMMARY OF RECOMMENDATIONS

Reforms to Electricity Sector

- **We recommend cancelling LRP I and FIT projects where construction has not begun.**
- **We recommend minimizing the cancellation costs to the greatest extent possible.**
- **We recommend cancelling, rather than merely suspending, the LRP II, and a commitment from the government that the priority in any future procurement, should it become necessary, is the affordability for ratepayers.**
- **We recommend the government immediately end spending on conservation programs.**
- **We recommend that the government repeal the Green Energy Act and Green Economy Act, and return to an independently, non-partisan planning process.**
- **We recommend that the government abide by the *Electricity Act, 1998*, and commit to respecting the checks and balances that they are legally required to.**

Cancel Cap and Trade

- **We recommend that the government immediately abandon plans for cap and trade.**

Transparency and Accountability

- **We recommend that the government reverse the provisions of the *Election Finance Statute Law Amendment Act, 2016*, which provide taxpayer subsidies to political parties and constituency associations.**
- **We recommend the government restore the discretionary powers to the Auditor General to determine what government advertisements are partisan.**
- **We recommend a reduction in the total number of patronage appointments to agencies, boards and commissions.**

Reduce Spending

- **We recommend that program spending be reduced until the government is able to achieve a balanced budget, at which point any program spending growth should be at or below the rate of inflation and population growth.**
- **We recommend that the government reduce public sector wages, which outpace private sector wages.**
- **We recommend ending all spending on corporate welfare, and instead the government should focus on making Ontario tax competitive for all businesses.**

Focus on Debt Reduction

- **We recommend the government develop a realistic plan for balancing the budget, that is long term and sustainable.**
- **We recommend the government make an undertaking of real spending restraint.**
- **We recommend a legislated debt reduction calendar to ensure the government will indeed meet the benchmarks required to achieve and maintain a balanced budget.**

PART III: HYDRO RATES

Current Hydro Rates are Unsustainable

Media coverage over the past year has been filled with tragic stories of Ontarians faced with hydro bills that they simply can't continue to pay. Families on fixed incomes have lost all ability to control their bills, which rise even as their consumption falls.

Consider the story of Kara Shaw, in Constance Bay. A single mother with a fixed income, Kara can't afford to turn on her lights and instead relies on battery powered candles to light her home. Living in an older home, Kara relies on electric heat which she can rarely afford to turn on. To keep her two children warm, they all sleep in the same room under an electric blanket.

Or think of 80 year old Bob Kincaid and his wife Janine of Sundridge. Despite using wood to heat their home as often as they could, they found that their hydro bills had crept up to $500 a month. The dramatic increase in the cost of living forced the Kincaids out their home and out of the community where they had lived their entire lives.

These bills are also hurting Ontario businesses. Shaukat Khan, who owns an Indian restaurant in Windsor, is considering shutting down his restaurant because he can't afford the electricity bills. The restaurant has only been open two years, and so far he has paid more for hydro than he is earning in profits.

And many businesses have already left. Mucci Farms in Kingsville are building new greenhouses in Ohio instead of Ontario. Even though they have been operating in Kingsville for 45 years, and would prefer to expand within Ontario, the hydro costs are too high.

High hydro rates mean more costs not just to businesses and families, but also to government. The cost of running a school or hospital has gone up as a result of hydro rates. Money that might otherwise be spent on students or patients is being used just to keep the lights on.

And municipal governments are caught flat footed by these rising rates as well. In Oshawa, the city spent more than $150,000 to keep the street lights on in June 2015, but only $3,600 of that was for the actual electricity. The rest was delivery, regulatory charges, the debt retirement charge, HST and the Global Adjustment.

In Mississauga, the city's hydro bill has jumped to $1.3 million for 2017. Of that, $975,062 is the result of increased rates.

When communities can't make ends meet, they turn around and increase property taxes, and turn to the province to ask for new taxing powers. That's exactly what's happening in Mississauga, where the city is proposing a 5.9% property tax increase, and in Toronto where John Tory is asking the province for the new power to toll roads.

The cost of electricity is unsustainable, and is a direct result of the government's continual political meddling with the grid. Undoing over a decade of damage is an urgent challenge, and we have several recommendations that could be implemented immediately.

Cancel Additional Generation Projects and Procurement

Ontario has lost billions of dollars exporting electricity out of the province at a loss, because the government committed to long term generation contracts that we don't need.

The Auditor General found that between 2009 and 2014, the province exported power to jurisdictions that we compete with at a $3.1 billion loss. And it hasn't gotten better. In June of last year, Ontario dumped power out of the province at a $200 million loss. That's $200 million in just one month. Indeed, in the first six months of 2015, power was exported at a $1.1 billion loss.

No wonder rates are high.

If Ontario has so much more electricity than it consumes (that we are paying to get rid of), common sense demands that we stop spending money building even more generation.

Yet in 2016, the government awarded five wind power contracts under the Long Term Procurement I plan (LRP I). These projects will cost customers $65 million annually, and $1.3 billion over 20 years.

The government also recommitted to the Long Term Procurement II (LRP II) in their speech from the throne. Faced with public pressure, the government reversed course two weeks later by suspending LRP II, and its 1,000 megawatt of generation that the province doesn't need. However, LRP II has not been cancelled, but rather suspended. Given the government's tendency to quickly change tacks on this issue, there remains a possibility that the government could re-open this over-priced and needless procurement process.

There are also projects under the expensive Feed-in-Tariff 5.0 program (FIT 5.0) that have not yet been built. The FIT projects are over-priced and are long term contracts that have contributed to the rapid rise in rates in the province. These projects have not yet started to generate unneeded and expensive electricity, and therefore have could be cancelled before they begin to do more serious damage to rates. While we recognize that the taxpayer will be faced with some cancellation costs, the long term costs of continuing these projects is greater than the cost of cancellation.

We recommend cancelling the LRP I and FIT projects.

We recommend cancelling, rather than merely suspending, the LRP II, and a commitment from the government that the priority in any future procurement, should it become necessary, is the affordability for ratepayers.

Stop Spending Money on Conservation Initiatives

Ontario is consuming less electricity than it produces, to such an extreme degree that excess power is being sold to our competitors at less than 20% of the cost of production under new contracts. This is resulting in billions in losses that consumers are left paying for.

In large part because of the high cost of electricity, consumption has already declined by more than 12 % since 2005. The average household now consumes 25% less than they did a decade ago, and peak demand is down 16% since 2006.

Yet, the government is spending over $400 million each year on conservation initiatives.

Consumers who reduced their consumption were actually told by the Ontario Energy Board that their conservation meant rates needed to go up by 2.5% in April.

Paying more for power because you didn't use enough defies market economics, and there is no way to explain this irrational result to consumers without making them feel cheated.

The $400 million in taxpayer money being spent on conservation programs is actually driving rate increases. It is good money after bad.

We recommend the government immediately end spending on conservation programs, which will result in $2 billion in savings to taxpayers over the next five years.

End the Politicization of Decision Making in the Electricity Sector

In her 2015 report, the Auditor General found that over the last ten years, Ontario's energy system has not had a technical plan in place.

Although the *Electricity Act, 1998*, includes a requirement that the Ontario Power Authority (OPA) create a technical plan to help Ontario meet its future electricity demands, no plan has been in place. While technical plans were developed in 2007 and 2011, at an expense of $16 million, those plans were never implemented.

The result has been a highly-politicized decision making process in the electricity sector, led by political decisions by the ministry of energy and premier. The *Green Energy Act* and *Green Economy Act* are two examples of such politicisation that resulted from abandonment of the checks and balances of the legislated planning process.

We recommend that the government repeal the *Green Energy Act* and *Green Economy Act*, and return to an independently, non-partisan planning process. We recommend that the government abide by the *Electricity Act, 1998*, and commit to respecting the checks and balances that are legally required.

PART IV: CANCEL CAP AND TRADE

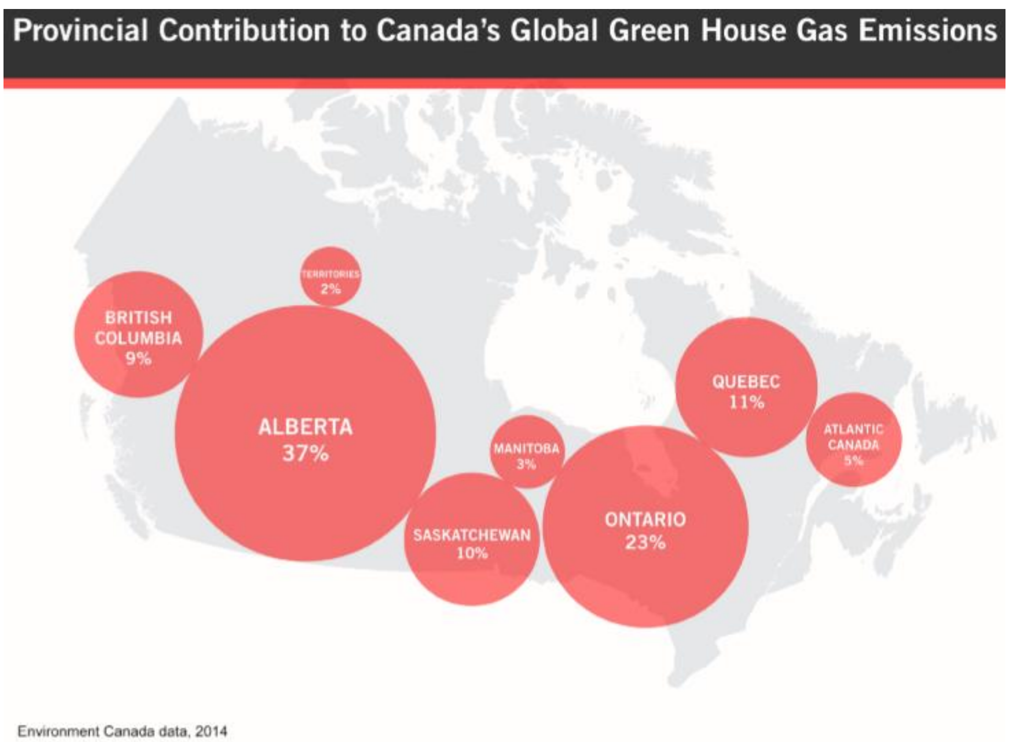
Cap and Trade Will Not Achieve Targets

Cap and trade will achieve nothing for Ontario, and it will achieve nothing at a tremendous expense to Ontario families and businesses.

The Auditor General found in her 2016 report that cap and trade will only result in a small fraction of this government's emission reduction target being achieved within the borders of Ontario. It is likely that less than 20% of the reductions required to meet the government's 2020 target will be achieved in Ontario. The government appears to be set to take political credit for the other 80% of reductions, which will occur in California and Quebec.

While the 2015 Paris Agreement allows one country to take credit for another country's reductions, there is no formal agreement between our federal governments, and the Auditor General raised concerns that no rules have been established to prevent reduced emissions being reported in more than one jurisdiction.

Even if Ontario were to achieve the entire emission reduction within our borders, it would do almost nothing in the grand scheme of things, since Canada makes up only about 1.65% of global emissions, and Ontario represents only a portion of that.

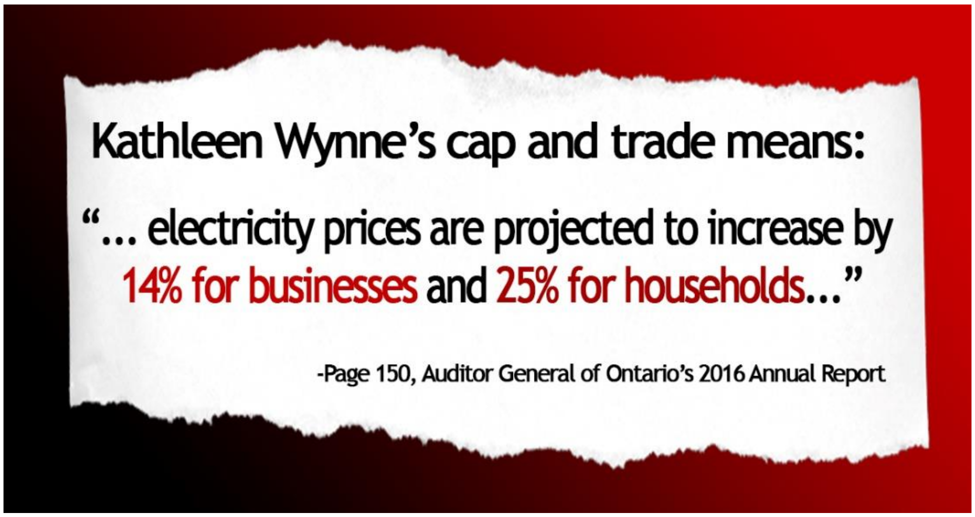


But with only 20% of the reduction taking place within the province, Ontario won't even get the marginal benefit of improved air quality. That benefit will be felt in California and Quebec.

Cap and Trade Will Increase Electricity Costs

Although the government has claimed that cap and trade “will not make your electricity more expensive,” the truth is that it will.

Cap and trade is expected to bring higher electricity prices; a 14% increase for businesses, and a 25% increase for households. This is a cost that families and businesses cannot bear.



The government is planning on spending $1.32 billion to bribe citizens to stay with expensive electricity as the price is driven up by this policy. The government is concerned that people will switch to less expensive natural gas. Even with the increased cost of natural gas that will be caused by cap and trade, electricity prices are rising quickly and are extremely volatile.

This $1.32 billion subsidy would not be necessary if the government acknowledged that cap and trade is too expensive and will not achieve the targets.

But even $1.32 billion will barely make a dent in the price increases to electricity that will result from cap and trade. The Auditor General found that even after applying the subsidy, households will still be faced with a 23% increase to hydro (as opposed to 25%) and businesses 13% (as opposed to 14%).

Cap and Trade Will Send Billions to Quebec and California

The negligible reductions to emissions that can be attributed to cap and trade will come at an incredibly high cost to Ontario businesses and households.

Based on the Auditor General’s analysis, Ontario businesses are expected to send $466 million to California and Quebec under cap and trade by 2020. And by 2030, businesses will have sent about $2.2 billion. Because the province linked in with California and Quebec to trade carbon credits, Ontario businesses will be forced to buy credits from outside Ontario.

That’s all money leaving the Ontario economy to achieve almost nothing.

And sadly, it's just the beginning. That's just the money being sent out of Ontario. The total cost is projected to be $8 billion over the first four years.

That's not money conjured out of thin air – it's money from businesses that are already squeezed by out of control hydro rates, and money out of your pockets every time you pay your natural gas bill, fill your car up or buy products that were manufactured or transported in Ontario. It's money we can't afford to waste on a policy that does nothing.

Cap and Trade Will Increase Cost of Living

The government is vastly underestimating the cost of cap and trade to businesses and households. The government's claim that cap and trade will cost Ontarians $13 per month ignores the many indirect costs of the policy, and focuses solely on increases to the cost of natural gas and gasoline.

The reality is that cap and trade will cost far more. The government's own estimate is that cap and trade will squeeze about $1.9 billion dollars out of Ontario businesses and families in the first year. A report by Stikeman Elliott estimates that cap and trade will cost small manufacturers $136,000 in the first year. Businesses will not be willing to eat this cost increase alone, and will pass the costs on to consumers.

Since there are 4.9 million households in Ontario, by the government's own estimation the cost of the first year of cap and trade is more likely to be $387 per household, not the $156 the government claims. That's a difference of 148%.

And that's just the first year. Costs will escalate quickly. By 2030, the tax will cost each large participant at least $2 million. The plan for an $18 per tonne carbon tax is just the thin edge of the wedge, as we have heard from the federal government that they want to see the cost go up to $50 per tonne, and the province has admitted that the price will be $95 per tonne by 2030.

Cap and trade is like the *Green Energy Act* all over again. It's going to do to our natural gas costs and gasoline costs what the government has done to our hydro rates, and it will only serve to make life even more unaffordable.

Cap and Trade Lacks Transparency

The government is not only being dishonest about the total cost of cap and trade to households, but they are also hiding the cost from consumers, and using the revenue from cap and trade to spend on pre-approved projects.

The government will not separately disclose the cost of cap and trade on natural gas bills, despite the fact that British Columbia and Quebec include the carbon tax a separate line item on bills.

A survey of natural gas consumers found that 89% thought it was important to disclose the cost of cap and trade on bills. Nevertheless, the government will not act transparently and will not provide consumers with this information.

Another issue is that the province has provided limited detail in the *Climate Change Action Plan* about how the tax revenue generated from cap and trade will be spent. The Financial Accountability Officer (FAO) raised this lack of detail as a concern, and noted that cash raised from cap and trade will be used to acquire capital assets, and be used to fund programs already approved. The Auditor General noted the same concern, citing about $1 billion in cap and trade revenues appears to be funding previously approved initiatives.

This is a concern from a transparency perspective. Even though the government stated that the revenue would be exclusively used for green initiatives, it is apparent that they plan on using cap and trade as a means of dealing with their deficit.

While we view the government's deficit as an urgent issue that needs to be addressed, it is dishonest for the government to use revenue it claimed it was raising for green initiatives to balance their books. Fiscal prudence demands that the government work within their means, not impose new taxes.

Based on all of the above, we recommend that the government abandon its plans for cap and trade.

PART V: TRANSPARENCY AND ACCOUNTABILITY

Reverse Plans to Subsidize Political Parties

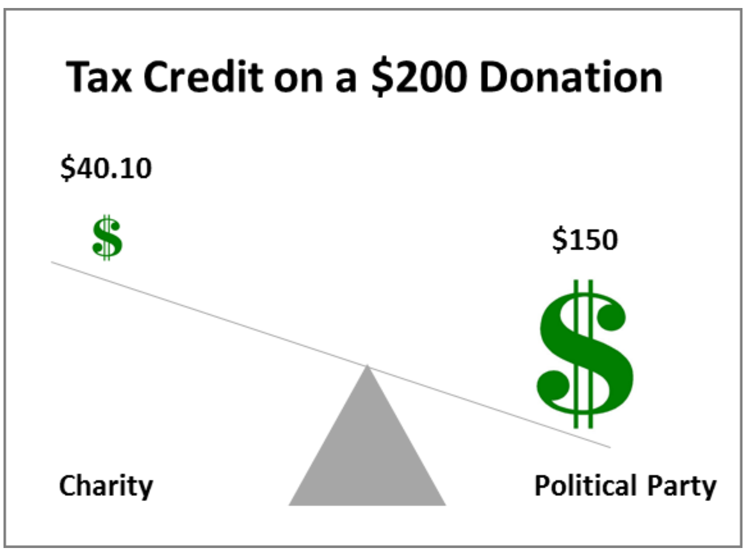
The government is looking for new ways of taxing an already overburdened population, and yet politicians in Ontario are simultaneously planning on spending taxpayer money they don't have on themselves and their political campaigns.

The third reading of Bill 2, *Election Finance Statute Law Amendment Act, 2016*, has just concluded and the Bill was carried on division. This legislation will see subsides to political parties and constituency associations.

These subsidies have no legislated termination date.

Millions of taxpayer dollars will be flowing to political parties so they can run attack ads and jam our mailboxes full of flyers.

Subsidizing politicians is not a priority for Ontarians who are all being asked to do more with less. Political parties already receive generous tax benefits, they don't need direct subsidies. A $200 donation to an Ontario political party will give you a tax credit of $150. Meanwhile, a donation of $200 to the Red Cross will result in a tax credit of $40.10.



The decision to provide subsidies is a blatantly political response to the backlash the government has faced to revelations that cabinet ministers had $500,000 fundraising targets, and were hosting secret invitation only fundraisers for special interest groups. If the government is unhappy with the political backlash they have faced, they should not engage in that kind of conduct. Instead, the government has filled their fundraising gap with the money of the hardworking people of this province.

As a non-profit, we recognize that fundraising is hard work. But the Canadian Taxpayers Federation is able to operate on a budget of purely voluntary donations and we do not accept any subsidies from any level of government. We believe that our government should be held to the same standard.

We recommend that the government reverse the provisions of the *Election Finance Statute Law Amendment Act, 2016*, which provide taxpayer subsidies to political parties and constituency associations.

Restore Auditor General's Authority to Review Government Advertising

For a time, Ontario was an example to the rest of the country in government advertising. The landmark *Government Advertising Act*, the only law of its kind in Canada, gave the Auditor General the final say on whether a government ad would make it onto the airwaves. Under this law, a government ad would be rejected if it used tax dollars to pay for a partisan message.

Last year, the government amended this legislation to take remove the Auditor General's discretion to determine if an ad was partisan.

Since removing that power, the government has run many ads that are self-congratulatory and timed for political gain, which the Auditor General herself has said would not have been approved under the old legislation.

For example, documents obtained by the Canadian Taxpayers Federation reveal that the government spent $800,000 on advertising from the budget of the Ontario Retirement Pension plan after the ads were cancelled. The auditor general even commented on the ads when they were running, stating that they were "self congratulatory," and that they would not have been approved under the old law.

That was after spending $600,000 on the ORPP during the federal election. About those ads, the Auditor General stated that under the old rules the ads would be considered partisan because they because they were timed to coincide with the federal election.

In her Annual Report, the Auditor General outlined many other examples of partisan, misleading, or self-congratulatory advertisements. These ads were run by several different ministries and on topics ranging from cap-and-trade, to infrastructure, to health-care and education. Millions in taxpayer dollars were spent on these ads.

The amount the government has spent on advertising since they removed the Auditor General's powers has also increased. Last year, the government spent $20.9 million on advertising. This year the amount more than doubled, with a total of $49.9 million spent on ads. The Auditor General has said that this dramatic increase is "likely due to the running of more ads that would not have been approved by our Office under the previous version of the Act."

We recommend the government restore the discretionary powers to the Auditor General to determine what government advertisements are partisan.

Reform the Public Appointment Process

Given the enormous number of political appointments the government makes to agencies, boards and commissions, greater accountability is required. Governments of all stripes will always be tempted to improperly offer appointments as a form of political favour.

We have seen this issue unfold in Sudbury, with charges being laid against Gerry Lougheed and Pat Sorbara under the *Elections Act* for allegedly attempting to bribe a party activist with a patronage appointment.

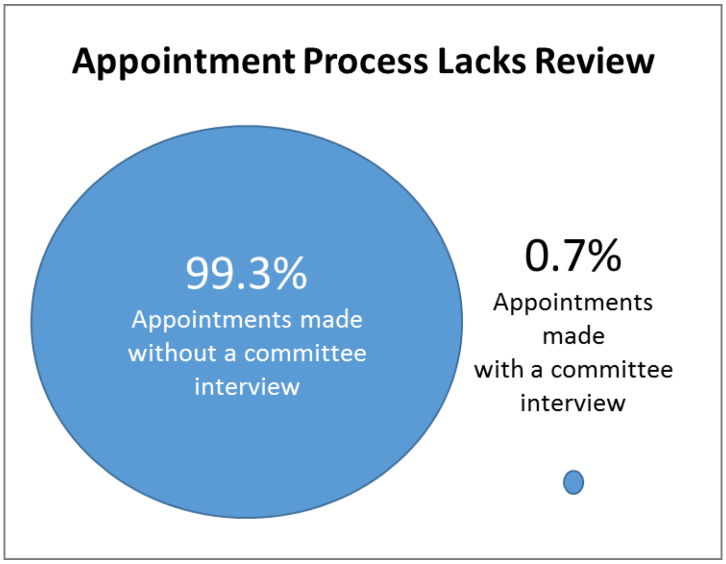
An analysis of patronage appointments by the Canadian Taxpayers Federation found that 33% of failed Liberal candidates from by-elections between 2009 and 2016 have been appointed to government agencies, boards and commissions (ABCs).

Further analysis of ABC appointments dating back to 2011 reveal that patronage appointments were given to 9% of federal and provincial Liberal candidates who failed, retired or subsequently won an election between 2007 and 2016.

A huge part of the problem in Ontario is the sheer number of appointments that exist. There are 540 different agencies, boards and commissions. In 2014, the government made 1,384 appointments. In contrast, federally there are only 207 agencies boards and commissions to which the government makes appointments for the entire country.

The other problem is that there is limited review. While the Standing Committee on Government Agencies can interview nominees, they are only able to interview a tiny fraction of the constant tide of government appointments.

As the number of positions has expanded, the percentage of candidates interviewed has shrunk. Between 1999 and 2003, the committee interviewed 10% of all new appointments. But in 2014, only 0.7% of new appointments were interviewed — 10 out of 1,384. This has led to blatant examples of partisan patronage.



The Auditor General has also pointed out issues with the appointments process. Her office found that there is a lack of transparency in the election and approval process. In a survey of appointees, chairs and CEOs, 28%, 21%, and 54% rated the transparency of the process as poor or very poor. The lack of transparency undermines the credibility of ABCs.

The Auditor General also found that appointees to non-board governed agencies were serving longer than their maximum term, and that the existing process does not effectively attract qualified candidates, and that there have been significant delays in the reappointment process.

We recommend a reduction in the total number of patronage appointments to agencies, boards and commissions, because of the tendency of every government to treat appointments as political favours, and because of the government's own inability to manage the number and scale of appointments in a transparent and accountable manner.

PART VI: REDUCE SPENDING

Ontario's increased debt since the recession is primarily attributable to operating deficits rather than capital investments. The Fraser Institute found that about 66% of the increase in provincial debt from 2009-10 to 2014-15 is due to current expenses exceeding revenues, which does not include any capital investments.

The provinces' fall fiscal update shows expenses increasing faster than the government expected, and faster than the Financial Accountability Office (FAO) expects. In the 2016 budget, the government planned to have expenses grow by 2% – modest, but still above the 2015 budget commitment to stay at 1% growth. The fall fiscal update shows that instead, expenses grew by 3.1% in 2016.

The government is planning on expenses growing next year by 2.4%, and the FAO said that the government won't even balance the budget even with a more modest 1.3% expense growth.

The government's expenses are almost double what the FAO assumed they would be when it projected Ontario will remain in deficit over the next five years. There is no plan to balance the budget that doesn't involve more taxes.

We recommend that program spending be reduced until the government is able to achieve a balanced budget, at which point any program spending growth should be at or below the rate of inflation and population growth.

Rein in Government Employee Salaries

One way of addressing program spending in Ontario is to address government employee salaries, which account for half of all program spending.

The Fraser Institute has found that, on average, Ontario's government employees receive 11.5% higher wages and benefits than their private sector counterparts. On top of this, government employees receive more generous non-monetary benefits, like job security.

The Drummond Report recommended that the government tie compensation for government employees to performance, in particular bonuses and raises. Bureaucracies should always be searching for ways to cut waste and eliminate redundancies, and any raise – in particular for management – should come only as a result of finding departmental savings.

This recommendation has not been followed. Instead, last week the government announced it will be spending an additional $125 million on raises for 8,500 bureaucrats in management. The average raise is $14,705 for each government employee. These bureaucrats will be getting raises of 10%, 20% and even 35%.

We have also seen runaway bonuses for government employees, like the executives of the 2015 Pan Am Games who were given $5.7 million in bonuses. The bonuses were supposed to be based on performance, but the Games ran $342 million over budget.

The government has also now removed their "net zero" requirement from bargaining, which previously required all wage increases be offset by savings in other areas. While flawed, to removed the "net zero" requirement is a mistake.

It's true that the government found ways of working around their own mandate, by excluding millions in benefits and secret payouts to teachers unions from the net zero framework.

Removing the net zero mandate before the government has even achieved their balanced budget target is reckless, and will guarantee the Financial Accountability Officer's prediction that the government will return to deficits immediately following the election.

We recommend that the government reduce public sector wages, which outpace private sector wages. Until this reduction is negotiated, we recommend a true public sector wage freeze and until the budget is balanced, following which wages shall increase at a rate no greater than the rate of inflation. As a further alternative, we recommend a return to "net zero" bargaining.

End Corporate Welfare

The government must end the practice of corporate welfare in Ontario. Not only is this a waste of taxpayer dollars, but it also has negative economic effects on the province. By subsidizing their preferred companies, the government creates an uneven playing field and dictates winners and losers in the economy. In creating a competitive and open business climate in Ontario that attracts talent and capital, the government should not interfere by bribing some companies with corporate welfare disguised as "grants" and "investments."

Since 2004 and up to May 31, 2015, the ministry of economic development committed to funding 374 projects with a total of $2.36 billion.

The Auditor General found that the ministry had not attempted to measure whether the money provided to Ontario businesses actually strengthened the economy or made recipients more competitive. The ministry does not have a plan for measuring outcomes from future corporate welfare, and has not set a goal for minimum GDP growth or unemployment rate reductions.

The Auditor General also found that there was little transparency in how corporate welfare is awarded. Since 2010, about 80% of total approved funding is made through non-publically advertised processes in which only selected businesses were invited to apply for corporate welfare. The ministry provided no criteria for identifying the businesses invited to apply, and could provide no list of the companies invited or those whose applications were unsuccessful. The funding was often awarded without a needs assessment, and some projects were approved for corporate welfare even though there was evidence they would have proceeded without it. None of the ministry's contracts gave the government a share in the success of any projects, and there is no evidence the ministry even considered obtaining an equity stake in the projects in exchange for funding. The government had no performance measures to see if lasting economic benefits, including job creation, were achieved by the corporate welfare beyond the project date.

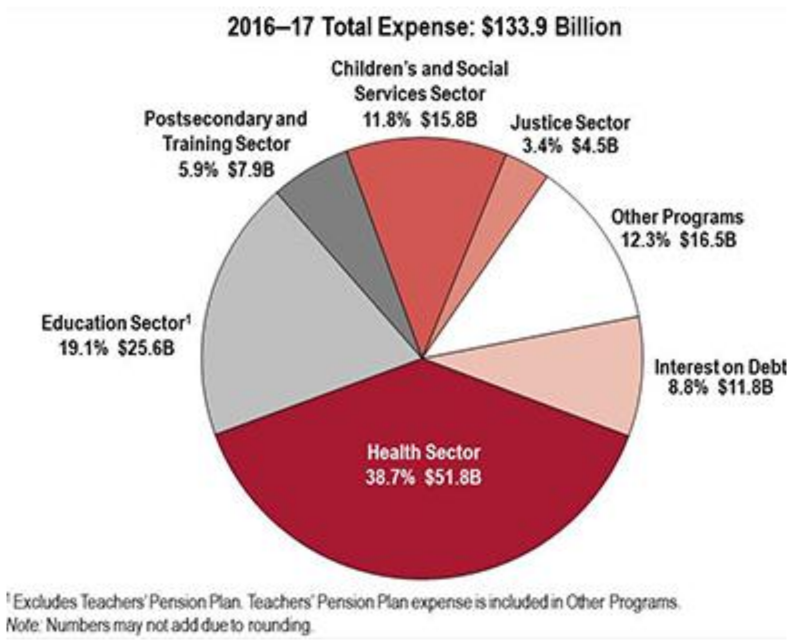
If the government were to cut spending and balance its books, it could offer lower taxes and a more competitive business climate to all companies, instead of targeted handouts.

We recommend and end to all spending on corporate welfare, and instead the government should focus on making Ontario a competitive tax jurisdiction for all businesses.

PART VII: FOCUS ON DEBT REDUCTION

Ontario's net debt has more than doubled in the last decade. Ontario is the most indebted province, and is in fact the largest subnational borrower in the world. Ontario's per capita debt stands at over $22,000 per person, and Ontario's per capita debt now exceeds Quebec's.

Government debt poses serious economic problems. In the long term, high levels of government debt hinder economic growth. In the short term, high debt requires increasing amounts of government revenues be devoted to paying interest on debt instead of services taxpayers value more, like paying for doctors, schools, roads and bridges. In Ontario, interest on debt represents the third largest expenditure of the province, second only to health care and education.



In 2017-18, Ontario is projected to spend $11.7 billion on debt interest; nearly one billion dollars each month. That's just to pay our credit card interest, not to touch the capital. And it's money that could otherwise be spent on valued services or on reducing the tax burden on families.

This year will represent Ontario's ninth consecutive deficit. The premier has committed to balancing the budget by 2017-18, but the Financial Accountability Office has noted that the target is unlikely to be reached. The Financial Accountability Office issued a report that concluded that in order to balance the budget, the government would require additional measures to raise revenue or reduce expense.

We remain concerned that even if the government does claim a balanced budget in 2017-18, there will remain a capital expense deficit even if the operating budget is temporarily balanced. The key is "temporary," because the plan to balance the operating budget relies on the one-time sale of Hydro One, which cannot be repeated in subsequent years. Indeed, the Financial

Accountability Officer has warned that even if the operating budget is temporarily balanced, in subsequent years the government will slip back into operating deficits and add $54 billion debt the debt in the next five years.

This projected $350 billion mountain of debt will eventually be passed on to the next generation of taxpayers. Our children and grandchildren will be forced to pay for our big government and big waste. They will pay higher taxes and live with fewer resources thanks to our choices. This is irresponsible and unfair, and a shameful way to run a province.

We recommend the government develop a realistic plan for balancing the budget, that is long term and sustainable. We recommend the government make an undertaking of real spending restraint. We also recommend a legislated debt reduction calendar to ensure the government will indeed meet the benchmarks required to achieve and maintain a balanced budget.