Turning the Corner on B.C. Debt

2015-16 Pre Budget Submission
British Columbia Select Standing Committee on Finance & Government Services

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About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit and non-partisan, advocacy organization dedicated to lower taxes, less waste and accountable government. The CTF was founded 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 more than 84,000 supporters from coast-to-coast.

The CTF maintains a federal office in Ottawa as well as provincial and regional offices in British Columbia, Alberta, the Prairies, Ontario and Atlantic Canada. Provincial and regional offices conduct research and advocacy activities specific to their provinces in addition to acting as local organizers of nation-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences, utilize social media like Twitter, Facebook, YouTube and our own blog, as well as issuing regular news releases, commentaries and publications to advocate on behalf of CTF supporters. The CTF's flagship publication, *The Taxpayer* magazine, is published four times a year. *Action Update* emails on current issues are sent to CTF supporters regularly. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets and personalities nationwide.

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.

All CTF staff and board directors are prohibited from holding a membership in any political party. The CTF is independent of any institutional affiliations. Donations to the CTF are not deductible as a charitable contribution.

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Table of Contents

Introduction

The B.C. Government should be commended for doing what only one other Canadian province has been able to do: balance the budget after the 2008 worldwide fiscal meltdown. This is an accomplishment that should not be glossed over, especially given the fact government tightened its spending to help get back in black. It's a tremendous accomplishment, and one the Canadian Taxpayers Federation applauds wholeheartedly.

But a new year brings new challenges. The B.C. Standing Committee on Finance and Government Services is again travelling the province, hearing from British Columbians about the myriad of new programs and spending they would like to see. While we are sure many of the ideas are worthwhile and would be helpful, the CTF offers different advice: stay the course and balance the budget by tightly controlling spending, and begin to address B.C.'s growing debt.

To prepare for this submission, the CTF surveyed its B.C. supporters – more than 1,000 people responded within 72 hours. Their comments and priorities are reflected in this submission. Many of our supporters' advice can be summed up by one particular comment: **"Please remember, the monies you obtain from the population does not belong to you and your government. You are entrusted with spending wisely for the people that supply the money."**

CTF RECOMMENDATIONS ACCEPTED BY GOVERNMENT

Over the past few years, several of the recommendations put forward by the CTF have been accepted by the provincial government. These include:

- Fully disclosing MLA expenses (recommended for 2012-13)
- Eliminating the Pacific Carbon Trust (recommended for 2012-13, 2013-14 and 2014-15)
- Slowing the increase in health care spending (recommended for 2012-13)
- A government-wide core review (recommended for 2013-14)
- Keep B.C.'s *Balanced Budget and Ministerial Accountability Act* in place (recommended for 2013-14)
- Reduce the size of the PavCo board of directors (recommended for 2014-15)

Other recommendations have been adopted in part:

- Freezing the carbon tax (while the CTF would prefer it be abolished; freezing the tax has been a small but positive step)
- Hold the line on government wages and benefits (B.C.'s core government has been the best performing jurisdiction in the country on this issue)
- Rein in municipalities and regional districts (the BC Public Sector Compensation Review is a significant step toward this goal)

These successes are a testament to the ability of the Standing Committee on Finance and Government Services to act as a source of ideas for policy makers.

CURRENT STATE

Finance Minister Michael de Jong's description[1] that B.C.'s budget is **"balanced on a knife edge,"** is wholly accurate. Last year's surplus came in at less than 1 % of the total budget. If government had not kept spending in check, B.C. could have easily dipped into the red. The year-end statements for 2013-14 showed revenue was several hundred million dollars less than expected, meaning budgeted spending had to be cut as well.

B.C. Budget Year End Results 2006-2016, in millions of dollars

2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
$3,977	$2,746	$128	($1,864)	($249)	($1,840)	($1,146)	$353	$266 (projected)	$228 (projected)

The most impressive discipline was shown in the Ministry of Health, which had previously seen up to 6% annual increases in spending. In 2013-14, the increase was held to just over 2%, a number that was far closer to the increase in combined inflation and population growth than previous years. This is a hopeful sign that health, the most expensive ministry in government, is beginning to flatten their cost curve.

LOWEST INCOME TAXES IN THE COUNTRY: NO LONGER

Like any business, governments are usually careful to make sure their taxation schemes are competitive with neighbouring jurisdictions. Virtually every government, at every level, compares themselves to their peers to ensure they are not driving out taxpayers with unnecessary higher rates. The B.C. government is no different. Buried in the back of every provincial budget document is Table A3, comparing six tax scenarios for families, individuals and seniors in every province in Canada.

Not too long ago, these charts showed B.C. had the lowest personal income taxes in the country. Unfortunately for taxpayers, that is no longer true. In four of the six scenarios listed in the budget document, B.C. now trails other provinces.

In the most common scenario, Saskatchewan and Ontario are beating us on provincial income taxes alone, and B.C. has fallen to third place on total tax burden behind Alberta and Saskatchewan, as shown in this excerpt from table A3 in the 2014-15 B.C. Budget document:

[1] http://www.theglobeandmail.com/news/british-columbia/key-bc-budget-comes-under-independent-

Tax	British Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
Two Income Family of Four - $60,000										
1. Provincial Income Tax	1,362	1,777	1,035	3,414	1,164	3,612	3,330	3,531	3,788	2,904
Net Child Benefits	0	-462	0	--	0	-3,206	0	0	--	0
2. Property Tax - Gross	2,766	2,495	3,026	2,855	3,645	3,509	2,781	2,631	2,823	1,930
- Net	2,196	2,495	3,026	2,155	3,645	3,509	2,781	2,631	2,823	1,930
3. Sales Tax	1,091	10	834	1,355	1,626	2,157	1,607	1,920	1,590	1,573
4. Fuel Tax	218	135	225	210	357	465	339	404	335	386
5. Net Carbon Tax	208	--	--	--	--	--	--	--	--	--
6. Provincial Direct Taxes	5,074	3,956	5,119	7,134	6,792	6,537	8,058	8,485	8,536	6,793
7. Health Care Premiums/Payroll Tax	1,662	--	--	1,290	1,170	2,721	--	--	--	1,200
8. Total Provincial Tax	6,736	3,956	5,119	8,424	7,962	9,258	8,058	8,485	8,536	7,993
9. Federal Income Tax	3,646	3,646	3,646	3,646	3,646	3,627	3,646	3,646	3,646	3,646
10. Net Federal GST	1,041	1,153	1,122	992	1,046	1,029	1,017	996	1,017	995
11. Total Tax	11,423	8,754	9,888	13,063	12,654	13,915	12,721	13,127	13,199	12,634

According to Statistics Canada, the average B.C. household makes about $70,000 a year.[2] Using the closest B.C. budget scenario – a double-income family of four, making $60,000 a year[3] – taxpayers pay $1,362 in provincial income tax in B.C., compared to $1,035 in Saskatchewan, and $1,164 in Ontario. Alberta sits at $1,777.

Add in property, sales, fuel, carbon and Medical Services Premium taxes, and that average B.C. family pays $6,736 in provincial taxes – nearly $2,800 more than Alberta and $1,600 more than Saskatchewan.

Alberta's lack of sales and MSP taxes catapult them into first place. It's no small amount – it's like an extra $50 bill in your pocket every single week of the year, just for living in Alberta.

Our tax burden has surpassed our western neighbours, and it's been noticed: Alberta and Saskatchewan have grown due to Canadians moving from other provinces, while B.C. lost 8,657 people to the rest of Canada in 2012.[4]

Worse yet, B.C. taxpayers are losing ground compared to just five years ago. The 2009-10 B.C. budget[5] noted the total provincial tax burden for the $60,000 per year family was $5,759, almost a thousand dollars less than it is today. That's the biggest five-year jump, in real dollars, in the country – an extra $20 bill handed over to the B.C. government, every single week of the year. As one CTF supporter told us**, "Government is clipping us at every turn, even making us pay taxes on used items at thrift stores. How many times can we pay tax on the same thing? Stop the madness!"**

British Columbians are falling behind compared to other provinces, and compared to ourselves just five years ago. This lack of competitiveness will continue to hurt our economy. Like a whirlpool gaining momentum, it gets harder and harder for governments to push back against higher taxes. But B.C. must push back. Our beautiful landscape, outdoorsy way of life, and mild weather can only overcome a certain amount of taxes. People are already beginning to vote with their feet, leaving our province for greener pastures – another spin

[2] http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/famil108a-eng.htm
[3] http://bcbudget.gov.bc.ca/2014/bfp/2014_Budget_Fiscal_Plan.pdf
[4] http://www.td.com/document/PDF/economics/special/jb0613_interprovincial_migration.pdf
[5] http://www.bcbudget.gov.bc.ca/2009/bfp/2009_Budget_Fiscal_Plan.pdf

that will continue to speed up if taxes continue to rise. **"There is only one taxpayer,"** a CTF supporter told us, **"who pays the bills for all the ideas politicians come up with. Double taxes, stealth taxes, tolls, fees, levies or whatever you want to call your tax increases: they are paid for by me! Federal, provincial, regional, municipal, Crown, quasi-Crown, 'not-for-profit' recycling agencies… give me a break, I can only pay so much on a fixed income!"**

Recommendations

Top Priority: Balance the Budget This Year

Debt Reduction

1. Pass a *Debt Reduction Act*

Improve Budget Controls

2. Pass a *Legislative Financial Accountability Act*

Public Sector Pay Reform

3. Equip local government with professional expertise and data to better manage its labour costs
4. Bring in a *Compensation Equity Act*

Outstanding Recommendations From Previous Years

1. Reduce government dividends from BC Hydro by 5 % a year for 20 years
2. End the practice of BC Hydro funding opposing statements at the B.C. Utilities Commission
3. Reduce government dividends from ICBC by 12.5 % a year for 8 years
4. Open ICBC to competition
5. Get executive salaries at BC Ferries under control
6. Remove BC Ferries' ability to veto its competition
7. Sell off BC Liquor Stores
8. Sell the naming rights to BC Place Stadium, or sell the stadium completely
9. Eliminate the Medical Services Plan tax
10. Resist new food taxes

Debt Reduction

We owe future generations more than a legacy of debt and high taxes. **"Please stop mortgaging our future, our children's future, and our grandchildren's future,"** wrote one CTF supporter in our annual survey. A *Debt Reduction Act*, modeled on Ralph Klein's legislation that pushed Alberta out of debt, should be enacted. Where once 12 % of Alberta's budget went to paying for debt, Klein's Act refocused the Wildrose province and pushed them to debt free status in 2005. As was learned in Alberta, debt freedom is achievable, but only if there is legislation in place to oblige the government to follow through.

In the BC Liberals' 2013 election platform,[6] much was made of a desire for B.C. to become debt free. With the debt now more than $61.3 billion,[7] we are a long way from that goal. But the journey of a thousand miles starts with a single step. That first step was to balance the budget, which was accomplished in 2013-14, and is government's top priority going forward. The CTF affirms that this must be the overarching goal.

Secondly, to become debt-free, B.C. must stop borrowing more money. As one CTF supporter told us, **"It's time to run the province like a business. You can't stay in debt forever."** Despite the balanced budget, the provincial debt continues to grow at a rate of $160 per second, or $13.7 million per day. In fact, the debt will has almost doubled since 2006, when it sat at $33 billion. Debt servicing cost British Columbians $2.48 billion in 2013-14: more than government spent on transportation, economic development or public safety. Careful reconsideration should be given to the borrowing slated for the next few years. Are these projects really necessary and vital? Are they worth going into deeper debt for?

The BC Liberals' election platform promised that, **"We will dedicate at least 50% of future surplus revenues to debt reduction,"** and further that government **would "create the BC Prosperity Fund to capture Liquefied Natural Gas and proposed Kitimat Clean refinery royalty revenues, and dedicate all revenues to debt reduction until provincial debt is eliminated."** While such programs are linked in that they have the long-term goal of paying down B.C.'s debt, the CTF does see them as separate and needing their own legislation.

RECOMMENDATION #1: PASS A *DEBT REDUCTION ACT*

Klein's debt reduction legislation came in two steps: first, a legislated mandatory payment toward debt every year; later, a second law mandated that 75 % of all budget surpluses go directly to debt repayment. While Alberta's energy boom is widely credited with generating the revenue needed to pay down the debt, it still took significant fiscal discipline by Klein to ensure that surpluses went to debt, not new spending programs. Within 12 years, Alberta was out of debt.

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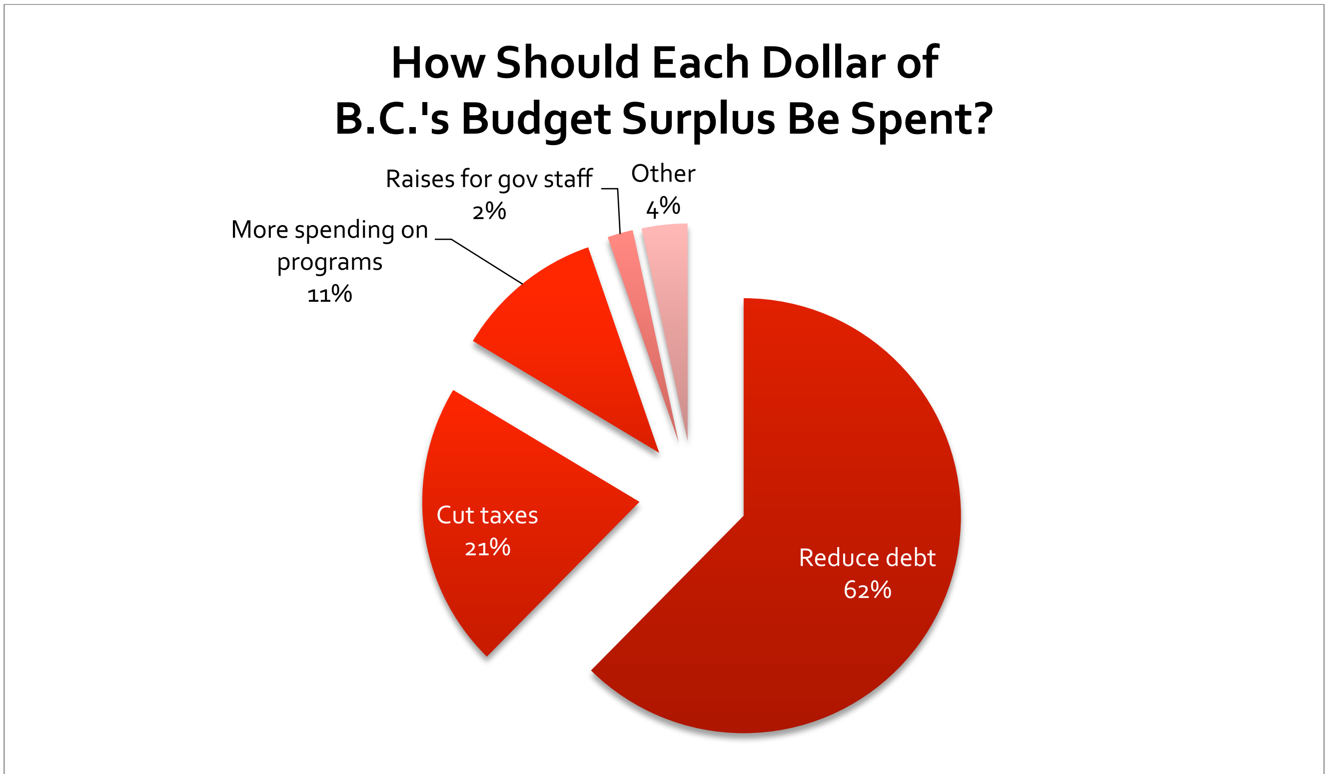
6 http://files.flipsnack.com/iframe/embed.html?hash=fhcjsxtd&wmode=window&bgcolor=EEEEEE&t=1366059446136605961 8

7 As of October 5, 2014; see www.bcdebtclock.ca for current total

The CTF recommends B.C. pass its own *Debt Reduction Act*, making it provincial law that 75% of budget surpluses go to paying down the debt, and that the bulk of the remaining surplus be returned to taxpayers through tax cuts, reducing government reliance on ICBC and BC Hydro dividends, and other tax changes proposed in this document.

A *Debt Reduction Act* was very popular with CTF supporters. **"You have to work within your budget like the rest of us in this province,"** wrote one. **"The increase to our debt of $5 billion a year is unacceptable. You say you have a balanced budget and even a surplus – why is this not being applied to the debt?"**

In our 2014 survey, we asked CTF's B.C. supporters how they would allocate every dollar of B.C. budget surpluses. Not surprisingly, they overwhelmingly supported debt reduction (62 cents of every surplus dollar) and tax cuts (21 cents of every surplus dollar).



By putting a *Debt Reduction Act* in place, special interest groups are warded off. During these pre-budget consultations, the Standing Committee on Government Services and Finance are deluged with tens of billions of dollars worth of funding requests. Virtually every agency and society that comes to the committee meetings asks for more money. If government fulfilled even a fraction of these requests, the balanced budget would turn into a multi-billion dollar deficit.

As surpluses grow, the pressure from those groups for that money will intensify. But a *Debt Reduction Act* will send a clear message: paying down B.C.'s debt comes first. As that debt is reduced, the amount of servicing and interest being paid by taxpayers will fall. This will create a snowball effect: as debt servicing decreases, surpluses will grow even larger. More money will be available to pay down the debt even faster, and debt servicing will drop even further, causing even larger surpluses.

The *Debt Reduction Act* should include legislated percentages for debt repayment and tax relief. There should be no wriggle room within it for finance ministers to work around its provisions. If a future government wants to escape this commitment to debt reduction, it should be forced to go back to the Legislature, stand up in front of the opposition, media and taxpayers, and explain why it wants to repeal the *Act.*

With B.C. back in the black, now is the time for a *Debt Reduction Act.* As one CTF supporter put it, **"If we have a surplus, don't even think of spending it until we pay down the current debt. Cut spending, reduce debt, cut taxes, seek economic growth."** Nothing good happens to debt without a plan. As a society, we need to show fiscal discipline and follow this roadmap to a debt-free British Columbia.

Improve Budget Controls

New laws, government programs and regulations are not cheap. Yet, judging by how legislation is processed in the B.C. Legislature, one might think it was free. There is no publicly-available, proper, formal cost analysis done on proposed legislation. Essentially, the majority of MLAs order from a menu without knowing the cost of the bill to taxpayers. How can they make good decisions on behalf of taxpayers? As one CTF supporter put it, **"Transparency in relation to the cost of any government action would be welcome."**

A serious political party wouldn't dare enter an election campaign without fully fleshing out its platform, letting voters know precisely how much their promises will cost and how it will affect the provincial budget. This allows taxpayers to judge whether the investment of money is worthwhile. Yet, those same parties get elected and don't provide costing for the legislation they introduce. Further, governments generate thousands of pages in analysis and projections at budget time, but don't always provide a clear cost for legislation introduced throughout the year. The CTF thinks this needs to change.

RECOMMENDATION #2: PASS A *LEGISLATIVE FINANCIAL ACCOUNTABILITY ACT*

The CTF recommends the provincial government pass a *Legislative Financial Accountability Act*, which would force MLAs and ministers to cost-out the things they introduce in the House. Any piece of new legislation would legally require a cost estimate, compliant with government accounting standards. Both the implementation (year one) and ongoing (annual) cost would be calculated, added to the legislation's preamble, and made public.

By including the price tag for legislation, debate could be expanded to include the costs of putting these new laws into effect. Are they good value? How should they be funded? MLAs would no longer be able to order from a legislative menu without understanding there is a bill attached. Taxpayers, along with advocacy groups, the media and other MLAs, could assess the financial implications of legislation. This costing element would be necessary before a bill could proceed to second reading.

The fact that costing is not already part of the official consideration of a bill shocks many Canadians. **"I am surprised that this has not been a standard requirement since the beginning of Parliament,"** one B.C. CTF supporter told us. **"This process would help to ensure the laws they proposed were well thought out and the possible downstream costs considered,"** said another.

This *Legislative Financial Accountability Act* is supported by 96 % of the CTF's B.C. supporters, according to our 2014 survey. **"Truth and transparency are the only guarantee of public finance, integrity and accountability,"** wrote one. This Act would help accomplish that.

Public Sector Pay Reform

Two huge schisms exist in British Columbia's pay structure. First, there is the substantial difference between what the provincial government pays its employees, and what city halls, regional districts and Crown corporations pay theirs. Second, all government agencies pay their staff more than the private sector pays for the same jobs. These two trends cost taxpayers billions annually.

RECOMMENDATION #3: EQUIP LOCAL GOVERNMENT WITH PROFESSIONAL EXPERTISE AND DATA TO BETTER MANAGE ITS LABOUR COSTS

In September 2014, as part of the B.C. Government's ongoing core review, a report on public sector compensation,[8] compiled by Ernst & Young, was released. The report confirmed the CTF's long-standing suspicion: municipal governments are overpaying their staff compared to both the province and the private sector.

Ernst & Young's major finding was especially welcome: **"The [provincial] government should do what is necessary to bring municipal government compensation into alignment over time, including using financial levers if necessary."**

The report showed local government employees received 38 % hikes in pay from 2001 to 2012, double the 19 % increase paid to B.C.'s core provincial employees. Inflation during the same period was 23 %, 15 points lower than the municipal union pay increase. Other findings included:

- The City of Vancouver pays the highest salaries to strategic leadership managers of any government or Crown corporation in B.C. – even higher than UBC and BC Hydro;
- Municipalities are overpaying the provincial government for technical expertise;
- Cities have a higher percentage of employees making $75,000 a year or more than in the Province;
- Of 10 local governments surveyed, only one reported publicly on how they set compensation;
- The municipal approach to collective bargaining is **"highly fragmented and inefficient."**

These findings matched the sentiments of many CTF supporters. **"Please rein in municipal spending – our property taxes are out of control,"** wrote one. The Ernst & Young report found several reasons for the disparity, including a lack of available information on municipal pay trends; a lack of clear, affordable wage mandates at local governments and regional districts; and a lack of professional negotiators working at the bargaining table on behalf of municipal taxpayers.

The CTF proposes that the provincial government help municipalities and regional districts address these critical shortfalls of data and professional expertise.

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[8] http://www.taxpayer.com/media/EY%20-%20Public%20Sector%20Compensation%20Review%20-%2009032014%20FINALv2(1).pdf

Sharing Government Pay Data

One of the recurring themes of the Ernst & Young report was the lack of coordination and shared information on wages and benefits among local governments. They operate in silos, relying only on their own individual staff to research and interpret pay trends across the province.

While B.C. has some of the most stringent public sector compensation reporting rules in Canada, that data is not collected or analyzed by the provincial government. The Public Sector Employers' Council (PSEC) should be requested to collect and post this information in one provincially-run database.

The CTF proposes that an outside contractor, after following standard B.C. bidding procedures, be selected to develop an annual Wage Index, comparing the average wages, benefits, and pensions of at least 100 positions found in the private sector, core provincial government, Crown corporations, regional districts and local government. This *Labour 100 Index* would provide valuable comparators for salaries and benefits, showing where various jurisdictions are overpaying for labour. This Index could be used by negotiators to grind down demands for more money. Once the Index is up and running, other positions could be added in the following years.

This is similar to an Ernst & Young recommendation to, "**build, analyze and use a single compensation dataset that covers the B.C. Public Sector based on total compensation."** The report notes this is important, as **"the absence of an aggregated dataset means that it is not possible to meaningfully investigate, validate, or refute the analysis by communities of interest or academics of public sector compensation built on other aggregate data sources such as census data or the labour force survey."** In other word: we can't see beyond the broadest trends to what is really going on, job-by-job or level-by-level, in the government labour force.

Professional Negotiators

Professional negotiators make a world of difference – but most small communities simply cannot afford to hire them. But they work, as Prince George recently proved. Prince George city council, led by outgoing Mayor Shari Green, have delivered something no other B.C. municipality has been able to do – a net zero contract settlement with CUPE, which city officials estimate will save taxpayers as much as $880,000 annually. The City's annual payroll currently runs at $47.2 million. **"Before this contract, Prince George's CUPE employees enjoyed 28 consecutive years of increases,"** Green told the CTF in an interview for *The Taxpayer* magazine.

Green noted one of the keys to Prince George's victory was bringing in an outside negotiator to represent them at the table. While the CUPE president went on the attack, claiming that, **"Taxpayers should also be concerned that the City has hired an expensive, high-profile lawyer from Vancouver to conduct negotiations on their behalf,"** city council realized they couldn't bring a knife to the proverbial gunfight.

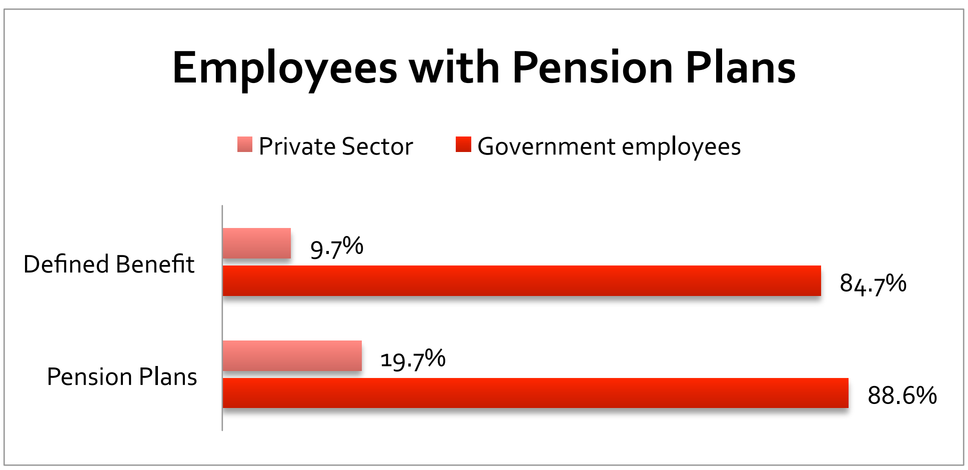
If professional negotiators work for CUPE, why shouldn't municipal taxpayers have similar expertise representing them across the province? It was certainly successful in Prince George. As Ernst & Young note, **"at the local government level, there is disparity in the power of those at the table. At the smaller local**

government level, unelected officials are often unwilling to delegate bargaining to professionals, despite the lack of skills of their negotiating teams compared to their union counterparts."

It's time to change that. The B.C. Government should create a list of prequalified, professional negotiators willing to work on behalf of local governments in labour negotiations. Further, the Province should offer to pay for 50 % of the costs incurred by local governments for hiring these negotiators – if the local government is willing to follow provincial compensation mandates. This would reinforce the B.C. Government's commitment to controlling labour costs and easing the overall tax burden. As Green said, **"What's good for the goose is good for the gander. I anticipated that they would bring their best and we needed to have outside expertise – a labour lawyer – and it proved to be well worth the money."**

RECOMMENDATION #4: BRING IN A *COMPENSATION EQUITY ACT*

Government employees, in general, get paid more than private sector employees to do the same job. We've seen it over and over again: ridiculous salaries, bonuses and other perks (plus bloated management numbers) at ICBC,[9] BC Hydro,[10] Community Living B.C.,[11] BC Ferries,[12] TransLink,[13] city halls[14] and the provincial government itself.



A government liquor clerk, for example, makes up to $28 an hour when you factor in their pension and benefits. The private sector liquor clerk, working the same job, makes $11 an hour. Various studies have shown that government employees make more than their private sector counterparts,[15] as outlined in the provincial government's own Ernst & Young compensation review.[16]

Salary is just one piece of the puzzle. Pensions are another. In B.C., 88.6% of government employees have a pension plan, compared to 19.7% of private sector employees. Within those numbers, 84.7% of government

[9] http://taxpayer.com/british-columbia/bc-icbc-executives-make-drunken-sailors-blush
[10] http://taxpayer.com/british-columbia/how-increased-power-rates-and-deferred-debt-turn-big-bc-hydro-bonuses
[11] http://taxpayer.com/blog/19-06-2012/bc-clbc-bosses-get-more-money-lieu-bonuses
[12] http://taxpayer.com/british-columbia/new-bc-ferries-boss-has-big-ship-turn
[13] http://taxpayer.com/blog/03-04-2012/bc-top-10-reasons-why-translink-bosses-should-not-get-bonuses
[14] http://taxpayer.com/issues/british-columbia/bc-take-back-city-hall
[15] http://taxpayer.com/issues/british-columbia/bc-fix-bc-public-private-pay-gap-now
[16] http://www.taxpayer.com/media/EY%20-%20Public%20Sector%20Compensation%20Review%20-%2009032014%20FINALv2(1).pdf

employees with pensions have the ultra-expensive defined-benefit plans, compared to 9.7% of private sector employees.[17]

While most of us are paying taxes and trying to scrimp and save for our own retirements, government employees continue to enjoy guaranteed, expensive pension plans. This is neither fair nor equitable. And it's a huge concern for taxpayers. **"Wages and benefits should be in line with the general private sector,"** said one CTF supporter. **"Accountability in the public sector is being missed as the biggest threat to the entire economy and the next generation. These pensions are not sustainable,"** added another.

A *Compensation Equity Act* would go a long way to solving these problems. It could make it illegal for a public servant to be paid more than they would earn for the same job in the private sector. It could factor in pension as "deferred income," ensuring that taxpayers weren't overpaying twice for the same labour. It could set out salary caps for executives and build a cadre of skilled negotiators who could grind down government union and executive pay and benefits.

The *Act* has public support. An *Angus Reid Public Opinion* poll[18] showed an overwhelming number of British Columbians believe government workers are being paid more than taxpayers can afford and should be brought in line with the private sector.[19]

Four in five British Columbians said compensation for government employees should be the same as what private sector employees earned. Almost three-quarters (73 %) said they would support provincial legislation – a *Compensation Equity Act* – to ensure governments can't blow the budget on bureaucrat wages.

POLL QUESTION: Taxpayers can't afford to pay more to government employees...

	B.C.	GVRD	Island	S.Interior	North
Strongly Agree	58%	55%	52%	69%	64%
Moderately Agree	20%	22%	23%	14%	19%
Moderately Disagree	11%	11%	13%	11%	11%
Strongly Disagree	7%	8%	8%	5%	5%
Not Sure	4%	4%	4%	2%	0%

[17] http://taxpayer.com/issues/british-columbia/bc-fix-bc-public-private-pay-gap-now

[18] Poll conducted between March 16 and 18, 2012, by *Angus Reid Public Opinion*. The online survey was of 804 randomly selected British Columbia adults who are *Angus Reid Forum* panelists, with a margin of error of +/- 3.5 %.

[19] http://taxpayer.com/sites/default/files/Backgrounder%20-%20poll%20results%20on%20pub%20vs%20priv%20pay.pdf

Outstanding Recommendations

While the provincial government has moved on many of our policy suggestions over the years, there are still some outstanding recommendations from previous CTF provincial budget submissions that bear repeating.

RECOMMENDATION #1: REDUCE GOVERNMENT DIVIDENDS FROM BC HYDRO BY 5 % A YEAR FOR 20 YEARS

To make the system fairer for ratepayers and to help BC Hydro address long-term debt and infrastructure concerns, the CTF recommends that government reduce its take of dividends from the corporation over the next two decades. The 2014-15 budget projects a $410 million annual dividend from BC Hydro into general government revenue for each of the next three years. Given growing concerns over the financial state of BC Hydro, these dividend targets seem overly ambitious and will be impossible to achieve without continued rate hikes or more borrowing. Frankly, the best way for government to protect BC Hydro ratepayers from future price shock is to get its hand out of the till.

The CTF plan would see government slowly weaning itself off Hydro dividends over a period of up to two decades. In all likelihood, it would take less time than that, as BC Hydro would have hundreds of millions of dollars to reinvest in the corporation and pay down debt, accelerating its return to fiscal health.

This is a key philosophical shift. Dividends should flow back in lower rates to BC Hydro ratepayers – the ones who paid the money in the first place. The current practice of transferring money to general revenue makes BC Hydro more of a taxation agency than a power company.

RECOMMENDATION #2: END THE PRACTICE OF BC HYDRO FUNDING OPPOSING STATEMENTS AT THE B.C. UTILITIES COMMISSION

The practice of BC Hydro sending tens of thousands of dollars to fund its opponents' and critics' presentations to the B.C. Utilities Commission (BCUC) should cease. Agencies, organizations and citizens who wish to weigh in on BC Hydro issues should do so by standing on their own merits, not because they receive a subsidy from ratepayers to finance their work. This creates a culture where submissions are made that may not be necessary or constructive.

By being required to fund their opposition, BC Hydro is propagating an agenda of "no," rather than allowing the free marketplace of ideas to determine what advocates are worthy of support and therefore presenting to the BCUC.

RECOMMENDATION #3: REDUCE GOVERNMENT DIVIDENDS FROM ICBC BY 12.5 % A YEAR FOR EIGHT YEARS

Dividends are overpayments that B.C. auto insurance purchasers are forced to make. The 2014-15 B.C. Budget anticipates $160 million a year in ICBC profit flowing to general government revenue for the next three years.

With no competition in basic auto insurance, drivers are completely at ICBC's mercy, paying ever-increasing rates with no commensurate increase in service. Worse, those corporation profits don't flow back to the people who paid for them – drivers. Instead, dividends flow into government coffers. Cutting that dividend by $20 million per year would not bankrupt government, but would slowly wean government off ICBC.

Government should look to ratchet down government dependence on those payments, reinvest those tens of millions of dollars into the corporation, and – most importantly – push rates lower for drivers. **"I hate the way the government keeps raiding ICBC for money – it's just another tax,"** one CTF supporter told us.

RECOMMENDATION #4: OPEN ICBC TO COMPETITION

The CTF recommends the government introduce legislative changes to allow competition in the provision of basic auto insurance.

One of the many promises the current government made during the 2001 election was to "introduce greater competition in auto insurance, to create increased choice and reduce motor vehicle premiums."[20] Apart from setting up a new regulator, the British Columbia Utilities Commission, there has been little change to the government auto insurance monopoly.

In 2003, Bill 58 was introduced to amend the regulations of the government run ICBC. However, the most important provisions governing competition and ensuring a "level playing field" for private insurance providers, (sections 50 and 51) were never proclaimed into law.

In October 2011, the Fraser Institute released a report on Canadian auto insurance rates.[21] ICBC's rates are the second-highest in Canada. In fact, the report found that three of the four provinces with the least affordable auto insurance were provinces with government-run monopolies like B.C. Meanwhile, the best rates can be found in five provinces where insurance is handled by a competitive and regulated private sector – Alberta, Newfoundland, Nova Scotia, Prince Edward Island and New Brunswick. The average auto insurance premium in B.C. was $1,113, second only to Ontario's $1,281.

These numbers reinforce a long-standing Canadian Taxpayers Federation recommendation: that ICBC's basic auto insurance monopoly is bad for ratepayers, and the market be opened to competition.

In light of rising premiums, rising costs, rising executive bonus levels, and falling customer satisfaction levels, it is time to end the ICBC monopoly.

[20] http://www.scribd.com/doc/48388741/BC-Liberal-2001-Platform-complete
[21] http://www.fraserinstitute.org/research-news/display.aspx?id=2147483787

Opening up the auto insurance market to competition will create an environment of greater accountability and no longer leave taxpayers to compensate for managerial mistakes.

RECOMMENDATION #5: GET EXECUTIVE SALARIES AT BC FERRIES UNDER CONTROL

It's as annual an occurrence as there is in B.C. – news of another BC Ferries executive compensation package that is completely out of line with public expectations. Last year, public disgust reached new levels when it was revealed that BC Ferries CEO Mike Corrigan made more than the top three Washington State Ferries (WSF) executives – combined.[22] This despite the fact that WSF moves more people and more vehicles, and is even with, or better, than BC Ferries in most measures.

Corrigan took home $563,000 in compensation last year. BC Ferries VP Robert Clarke made $492,207 last year, including a $133,711 bonus, while VP Glen Schwartz made $491,643, including a $127,008 bonus. In comparison, Washington State Ferries' CEO David Moseley made $165,943.[23] Moseley is directly accountable to Washington's governor, not a board of directors – a model the CTF supports. As we see with core government employees in B.C., including deputy ministers earning half what Corrigan makes, direct accountability to an elected official helps keep salaries more in line with the public expectations.

The CTF supports whatever measures are needed to rein in executive compensation and bonuses at BC Ferries once and for all, up to and including firing the board of directors.

RECOMMENDATION #6: REMOVE BC FERRIES' ABILITY TO VETO ITS COMPETITION

BC Ferries has the power to veto any ferry competition – and their board and CAO aren't afraid to use it.

Quite simply, former CAO David Hahn made sure no private company could ever live up to the standards he set out for competition. Instead of looking at safety and legal issues – the only things government should be regulating in a private business, BC Ferries demanded equipment redundancies and financial viability.

In an interview with Vaughn Palmer on February 9, 2012, Hahn admitted alternative service delivery by private operators was **"never going to happen."**[24] He stated that any competitors had to be **"financially viable, meaning your balance sheet has to be willing to stand up in front of ours."** That's a shocking admission, considering BC Ferries itself relies on massive government subsidies and huge fare increases – and still loses money just as often as it makes it. Hahn also demanded **"experience"** to run routes. How would a B.C. company have such experience in a province where BC Ferries controls everything?

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[22] http://www.theprovince.com/business/Michael+Smyth+ferry+execs+hosing+taxpayers+look+Washington+State+system/8830132/story.html
[23] http://taxpayer.com/news-releases/time-to-sink-bc-ferries--gravy-boat
[24] http://taxpayer.com/british-columbia/why-bc-ferries-has-no-competition

The truth is BC Ferries had no interest in allowing any competing models. This should be changed to allow any operator to run a ferry service as long as they meet safety regulations.

RECOMMENDATION #7: SELL OFF BC LIQUOR STORES

There is simply no reason for the provincial government to be in the booze business. It should not be government's business to compete with private industry in an area of no strategic or real community value such as alcohol sales. As the Fraser Institute's Mark Milke says, **"The B.C. government could get out of liquor retailing, still collect the revenues it wants, give job creation a push, and give B.C. consumers and tourists a much more competitive liquor retail environment than now exists. Selling beer is hardly a core function of government."**[25]

The CTF supports the B.C. Chamber of Commerce's view of this issue: **"The liquor industry in this province is disadvantaged by the government having sole right to dictate pricing in this area. The growth of the industry, and its ability to create jobs and contribute to the provincial economy, would see a significant increase if private sector outlets were allowed true price parity and competition. If private business sectors could purchase liquor wholesale, competition, not government policy, would dictate the price and quantities sold. Additionally, removing the single government distribution and warehousing system would create a more nimble, responsive system that could support industry growth in line with demand. Consumers and the private sector would both win, and government revenue would be protected and costs significantly reduced."**[26]

Despite the fact that private liquor stores receive only a 16 % price break from the government on liquor purchases, the industry has proven its ability to give consumers better options than the BC Liquor Stores through smart location choices, clever marketing, superior customer service and drive for cost-savings through efficient business practices.

Selling off BC Liquor Stores would give the provincial government a shot of capital dollars, save current and future employee costs (including pensions for entry level workers like cashiers and shelf-stockers), cut bureaucracy, and could still result in the same revenue flowing into the treasury – as it did in Alberta.

The CTF would even support giving existing Liquor Store employees the first option to purchase their outlets – turning employees into owners. As one of our supporters said: **"The number one job for the Finance Minister is to create an environment for growth. How about fully transferring liquor distribution to the private sector? Or automobile insurance? Or electricity generation? The Minister should adopt this motto: tax it, regulate it, but don't own and operate it."**

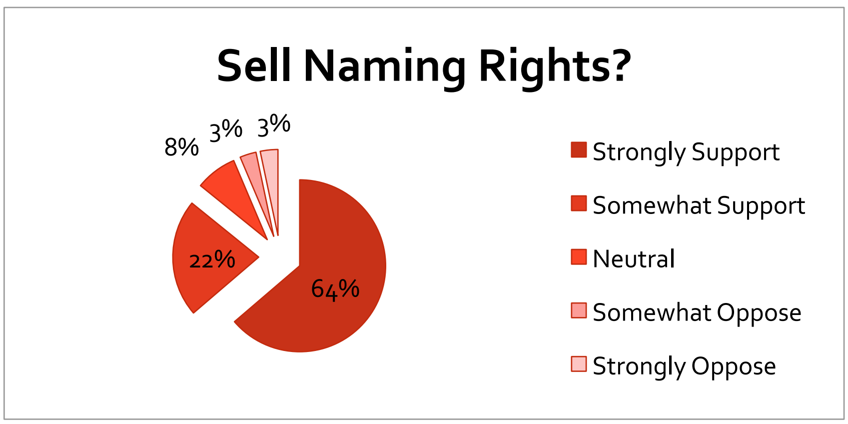
[25] http://www.taxpayer.com/news-releases/your-beer-is-probably-cheaper-in-alberta

[26] http://www.bcchamber.org/advocacy/policy/provincial_gov/justice_liquor/levelling_the_playing_field_for_liquor_retailing.html

RECOMMENDATION #8: SELL THE NAMING RIGHTS TO BC PLACE STADIUM, OR SELL THE STADIUM COMPLETELY

Two years have passed since the provincial government bowed out of a deal to rename BC Place Stadium – a 10 year contract that would have generated $35 million for taxpayers.[27] At the time, the first government news release claimed the B.C. Place name was too iconic to give up.[28] Subsequent interviews hinted that parceling out advertising rights may generate more money – although BC Place is already chockfull of ads. Then there was the report that government itself heavily courted Telus to take the naming rights, before backing out.[29] But now, apparently, the naming rights are off the table all together.

The supporters of the CTF find this decision perplexing. In our September 2014 supporter survey, 86 % of respondents supported selling the naming rights to both BC Place Stadium and the Vancouver Trade and Convention Centre. As one CTF supporter wrote, **"Do anything possible to bring in revenue streams. Take an entrepreneurial approach."** From another: **"This would be a great source of revenue to defray cost and save taxpayer money."**



This was a significant missed opportunity to generate much-needed revenue for BC Place Stadium and should be remedied immediately.

Better yet, follow the advice of NDP MLA Adrian Dix, who suggested during the May 2013 election campaign that BC Place be sold off completely: **"Skills training, healthcare, education, and managing our land base are all fundamental priorities for government. Retractable roofs and stadium management, in my view, are not. If the private sector can do a better job of running BC Place, while freeing taxpayers of millions in annual losses and reducing public debt, we've got a win-win, and we will pursue that."**[30]

RECOMMENDATION #9: ELIMINATE THE MEDICAL SERVICES PLAN TAX

One provincial tax that seems to continually increase is the monthly Medical Services Plan (MSP) tax. On January 1, 2010, MSP for families with children increased from $108 to $114. On January 1, 2011, it went up again to $121; increased again on January 1, 2012, to $128; again to $134 on January 1, 2013, and again to $138.50 on January 1, 2014. In its 2014-15 budget, government announced another increase for January 1, 2015,

[27] http://www.vancouversun.com/sports/Opinion+Buzz+over+Premier+Photo+snub+Telus/6255103/story.html
[28] http://www.newsroom.gov.bc.ca/2012/03/statement-on-a-naming-rights-agreement-for-bc-place.html
[29] http://blogs.vancouversun.com/2012/03/08/scrapped-telus-deal-for-bc-place-raises-lots-of-questions/
[30] http://www.huffingtonpost.ca/2013/04/24/adrian-dix-bc-place_n_3148233.html

bringing it to $144 per month. That's a 33 % increase since 2010 – a lot of money for a middle-class family, pushing the annual MSP bill up $366 to $1,728.

Of course, MLAs and public servants don't notice this increase as they don't pay MSP – they are paid by taxpayers on their behalf. But rest assured: it is hurting families in British Columbia. More than $2 billion was collected last year in MSP. That's money sucked out of the economy at a time when it was needed the most.

Economists like to talk about unintended side effects. One nasty side effect of the 33 % hike in MSP premiums is the huge hit to the provincial treasury: it's costing a fortune to pay the monthly MSP premiums for MLAs, public servants, health care workers and teachers. Health care and education costs are going through the roof and this is one of the reasons why.

Rather than just re-negotiating with the unions to get them to pay for their own MSP premiums, why not help all B.C. families? Scrap medical services plan premiums completely and get rid of the costly MSP collection bureaucracy in Victoria. As one CTF supporter noted in our 2014 survey: **"MSP is a tax and should be administered as such. Having it as a monthly 'bill' I have to pay is misleading and presumably costly to operate."** And another: **"Why is B.C. the only province to charge MSP?"**

RECOMMENDATION #10: RESIST NEW FOOD TAXES

Whether by the B.C. independent business tax panel,[31] the B.C. Healthy Living Alliance[32] or a Kamloops city councillor,[33] the idea of a fat or sugar tax continues to pop up like the pesky mole in that old midway game. Unfortunately, it's taxpayers – and the provincial economy – that would get whacked by such a tax.

Supporters of such a flawed taxation policy should look to Denmark's experience for a textbook example of why it doesn't work.

In October 2011, Denmark was the one of the first countries in the world to bring in a fat tax, and the first to abolish it thirteen months later.[34] No wonder: it was a fiscal disaster, driving hundreds of thousands of Danes across the German border for cheaper groceries and costing hundreds of jobs, according to Jens Klarskov, CEO of *Dansk Erhverv* (the Danish Chamber of Commerce).

It got so bad during Denmark's fat tax era that German stores sent flyers to Danish homes, translated into Danish, bragging: **"No fat tax here!"**

The ads worked; more Danes began to shop in Germany.[35] The Danish Chamber released a poll showing that before the fat tax, one in three Danes shopped in Germany. During the fat tax era, that number grew to one out

[31] http://www.fin.gov.bc.ca/docs/Final Report as of September 14, 2012.pdf
[32] http://www.bchealthyliving.ca/healthy-eating
[33] http://www.kamloopsthisweek.com/news/157640315.html?mobile=true
[34] http://translate.google.com/translate?sl=auto&tl=en&js=n&prev=_t&hl=en&ie=UTF-8&layout=2&eotf=1&u=http%3A%2F%2Fwww.skm.dk%2Fpublic%2Fdokumenter%2Fpresse%2FFaktaark_afgiftsogkonkurrencepakke.pdf&act=url
[35] http://cphpost.dk/commentary/opinion/opinion-tax-everyone-wants-see-cut

of every two. When asked about why they shopped outside Denmark, one in three named the fat tax as the primary reason. Long known as the place where Danes shop for booze, cigarettes and sweets, Germany, thanks to the fat tax, large discounts and professional marketing, became a place where Danes also shopped for food.

Sound familiar? Lower Mainlanders crossed the U.S. border 15.4 million times into Whatcom County in 2012[36] in search of cheaper gas, cheaper flights, cheaper booze, cheaper clothing, cheaper consumer goods, cheaper milk and cheaper cheese. That's the highest cross-border shopping total since 1997.

With money stretched thin due to a high cost of living and heavy tax load, British Columbians are already pouring south to stretch their paycheques further.

As the Fraser Institute's Mark Milke points out, Canadian customs tariffs already add $3.6 billion in consumer costs to nearly everything we buy here.[37] Throwing on another tax would just further grow that price gap.

Imagine a tax on fat or sugar in B.C., and U.S. grocery stores ripping a page out of the German advertising playbook: **"No fat tax here!"**

For the two-thirds of British Columbians who live in the six regional districts along the U.S. border, such savings would be impossible to ignore. Add to that the thousands of people who live near the Alberta border and the economic fallout for B.C. could be catastrophic.

The argument for fat and sugar taxes revolves around higher prices limiting consumption and thus curbing obesity. Fortunately, many B.C. health experts don't buy into that myth. **"Research actually shows little correlation between individual behaviours and body weight: many who seldom consume such foods are overweight while many who do, are not,"** said Dr. Paul Martiquet,[38] an adjunct professor at the UBC School of Medicine and the Medical Health Officer for Powell River, Sunshine Coast, Sea to Sky, Bella Bella and Bella Coola.

Indeed, Klarskov, who visited Canada on a speaking and media tour last year to share the Danish fat tax experience, noted that Denmark's health experts estimated only a five-and-a-half day increase to Danish life expectancy, once the fat tax was in place for ten full years. **"This is [like] shooting rabbits with nuclear weapons,"** Klarskov quipped.[39]

B.C. bureaucrats have noted, in documents obtained by the CTF through a *Freedom of Information Act* request,[40] that a fat tax is **"purely a revenue measure."**

Klarskov and the Danish Chamber of Commerce estimate Denmark lost 1,300 jobs as a direct result of their fat tax social experiment. In B.C., it could be worse. Fat and sugar tax supporters would do well to read up on the Danish experience before willfully causing harm to the B.C. economy for virtually no health return.

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36 http://www.bellinghamherald.com/2013/01/29/2856393/southbound-border-traffic-into.html
37 http://www.huffingtonpost.ca/mark-milke/canada-tariff-imported-goods_b_2707650.html
38 http://www.coastreporter.net/article/20121031/SECHELT0611/310319997/-1/sechelt0611/should-sugar-and-fat-be-the-new-tobacco
39 http://news.nationalpost.com/2013/02/21/fat-taxes-like-shooting-rabbits-with-nuclear-weapons-denmark-warns/
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