CREATING OPPORTUNITIES BY CONTROLLING SPENDING

2011-12 Prebudget Submission

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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 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 over 74,000 supporters nationwide.

The CTF maintains a federal office in Ottawa and offices in the six provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Nova Scotia. 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 and publications to advocate the common interest of taxpayers. The CTF‟s flagship publication, *The Taxpayer* magazine, is published four times a year. Action Updates are regularly e-mailed to our supporters. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets and personalities nationally.

CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to effect 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. Contributions to the CTF are not tax deductible.

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Summary of Recommendations: Pre-Budget 2011

Taxation

1. Increase the provincial share of education funding to 66 per cent in 2010-11.
2. Phase-out education property taxes by 2020.
3. Index tax brackets to the *provincial* rate of inflation.
4. Reduce the Small Business Tax Rate to 2.5 per cent and the General Business Income Tax Rate to 10 per cent by 2014.
5. Phase-in a single personal income tax rate of 10 per cent over the next five years and increase the basic personal exemption to $15,000 over the next three years.

Spending

6. Freeze spending and balance the budget.
7. Limit future spending to the combined rate of population growth and inflation.
8. Evaluate labour legislation and move to a system of hiring and remuneration based on performance.
9. Limit public sector pay levels to no higher than average private sector pay levels.
10. Push for a discussion at next finance minister‘s meeting to address growing gap between public sector and private sector pay.
11. Shift to ‗citizen driven culture and commerce‘ – discontinue cultural and business grants in favour of allowing citizens to determine which bodies they wish to support.

Innovation

12. Allow licensed private health firms to provide the same services as the public system.
13. Conduct an in-depth examination of Saskatchewan crowns and be open to privatization.
14. Allow private sector competition with public liquor retail.
15. Explore managed competition and gain sharing for government services to reduce costs and improve results

Debt Repayment

16. Establish a goal of becoming debt free by the end of 2015-16.

Introduction

A little over a decade ago, Saskatchewan was crippled by high income taxes, business taxes, sales taxes and property taxes. Saskatchewan was a ―have-not” province, completely dependent on handouts from other provinces.

Today, as a result of tax relief provided by the former NDP government and the current Saskatchewan Party administration, Saskatchewan's economy and Saskatchewan taxpayers are much better off.

Sales taxes, income taxes, education property taxes and business taxes have all been reduced and are more competitive. While some may intuitively think that would result in a drop in revenues, the opposite has happened – tax revenue has soared.

After all, by reducing taxes, businesses have been to keep more of their revenues and use them to expand, retain employees and hire new ones. As Saskatchewan's tax environment has become more competitive, it has helped attract more investment from abroad.

Ultimately, more people working and more businesses succeeding has resulted in more taxes being paid.

But as you will see in this document, there is more work to do.

The Canadian Taxpayers Federation applauds tax relief and debt repayment made since the Wall administration took office.

However, since taking office, the Wall government has let spending climb from $7.7 billion in 2006-07 to $10.5 billion in 2010-11.

That's an increase of 36 per cent in just four years.

Reining-in spending will allow the province to aggressively pay down the province's debt and provide Saskatchewan residents with further tax relief. Ultimately, lower taxes will allow taxpayers to enjoy more of the fruits of their labour and help even more businesses expand and create opportunities for Saskatchewan residents.

This document includes recommendations on taxation reform, spending restraint and innovative ideas to improve overall results for Saskatchewan taxpayers.

Recommendations - Taxation

Education Property Taxes

Ever since Ray Boughen chaired the Commission on Financing Kindergarten to Grade 12 Education in 2003, the CTF has called for the province to eventually phase out school taxes.

After all, education property taxes are one of the most archaic forms of taxation currently in use in the province.

As the Boughen Commission noted in 2003, education property taxes are not as fair as other forms of taxation, particularly income and sales taxes. Unlike the latter, education property taxes have to be paid whether a homeowner can afford the bill or not.

The same can be said for education property tax bills that businesses face. If a business is struggling, its corporate income tax bill drops off, but its education property tax bill will still be there waiting to put the final nail in the coffin.

The CTF applauded the increase in the province's school funding share from 51 per cent of to 63 in the 2009-10 budget. This move resulted in substantial savings for school property taxpayers.

We are also pleased with the October 2010 Throne Speech commitment to increase funding to 66 per cent; putting school property tax relief back on track.

However, we recommend establishing a long term target to phase out school taxes all together. This would bring Saskatchewan in-line with provinces in Atlantic Canada that do not have education property taxes as well as B.C. and Alberta; who have much lower education property tax rates.

A Second Look at the K-12 Education System

YEAR	SK INFLATION	ACTUAL EXPENDITURES	EXPENDITURES @ INFLATION	STUDENT ENROLMENT
2000*	2.6%	**1,083,380,712**	**$1,083,380,712**	**184,494**
2001-02	3.0%	**	$1,111,548,611	
2002-03	2.9%	**	$1,144,895,069	
2003-04	2.3%	**	$1,178,097,026	
2004-05	2.2%	**	$1,205,193,258	
2005-06	2.2%	**	$1,231,707,510	
2006-07	2.1%	**	$1,258,805,075	
2007-08	2.8%	**	$1,285,239,981	
2008-09	-	**$1,589,878,047**	**$1,321,226,701**	**159,457**
		Expenditures Up 47%		**Enrolment Down 14%**

** Previously reported based on the calendar year*
*** Data unavailable at time of publishing*

The task sounds more difficult than one might expect. Consider that from 2000 to 2009, enrolment dropped by approximately 14 per cent, yet K-12 education expenditures rose by over 47 per cent.

In other words, there are fewer students in the system, yet costs have skyrocketed.

The CTF estimates that had education expenditures been capped for inflation, spending would have been at least $270 million lower than it actually was in 2008-09.

Considering school taxes raised $596 million in 2010, merely controlling expenditures in the K-12 system could have allowed for a 45 per cent reduction in school tax bills.

Recommendation 1: *Follow through on the Throne Speech commitment to increase provincial funding to 66 per cent of total K-12 costs.*

Recommendation 2: *Phase out education property taxes by 2020.*

Personal Income Taxes - Adjust PIT system for the provincial inflation rate

A CTF press release in February 2009 drew attention to a hidden form of bracket creep that still exists in Saskatchewan – the fact that the tax system is indexed to the national rate of inflation, not the provincial rate.

While indexation is better than no indexation at all, the system is cheating taxpayers out of their hard earned dollars.

Figures from the Saskatchewan Bureau of Statistics show that in the past nine years, the provincial inflation rate has exceeded the national inflation rate seven times. Only once did the national rate exceed the provincial inflation rate.

Annual Inflation Based on Consumer Price Index

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Canada	2.5	2.2	**2.8**	1.8	2.2	2.0	2.2	2.3	0.3
Saskatchewan	**3.0**	**2.9**	2.3	**2.2**	2.2	**2.1**	**2.8**	**3.3**	**1.0**

Source: Saskatchewan Bureau of Statistics

As wage hikes for MLAs are indexed to the provincial rate of inflation, so should the provincial tax system.

Recommendation 3: *Index tax brackets to the provincial inflation rate in the 2011 budget.*

Personal Income Tax Relief – Set a long-term goal for a 10 per cent single rate tax

The Saskatchewan government took a substantial step forward in 2008 when it raised the basic personal income tax exemption by $4,000. That was a welcome move, one that benefitted all taxpayers, especially low income taxpayers.

However, Saskatchewan still has less favourable tax rates compared to its western neighbours.

As many are aware, Alberta's 10 per cent single rate tax is much lower than Saskatchewan's 11 per cent, 13 per cent and 15 per cent system. However, B.C.'s income tax system is lower than Saskatchewan's rates, even after health premiums are included.

Income Taxes Payable by Income Level

	$35,000	**$50,000**	**$70,000**	**$100,000**
Saskatchewan	**$6,074**	**$10,799**	**$17,799**	**$29,021**
Alberta	$5,510	$9,892	$16,292	$26,614
British Columbia	$4,907	$8,921	$14,861	$25,602

Source: *Ernst and Young 2010 Personal Income Tax Calculator*

Since 2004, the CTF has argued for a higher basic personal exemption on income taxes and a single-rate of income taxation. The $4,000 rise in the basic exemption in 2008 was a welcome step forward, but it did not mean substantial tax relief for those on higher incomes.

In the spring of 2009, Enterprise Saskatchewan recommended that the province adopt a 10 per cent single rate of taxation on personal and business income as exists in Alberta. For 2010, Alberta's basic personal exemption (BPE) is $16,825—still much higher than Saskatchewan's $13,348 exemption.

The CTF supports the idea of a 10 per cent single-rate of tax for its simplicity and the competitive position it would offer the province. It would also represent substantial improvement over the current system. We encourage the province to partner any tax rate relief with and increase to the BPE to $15,000.

Recommendation 4: Phase in a 10 per cent single-rate income tax over the next five years and increase the basic personal exemption to $15,000 over the next three years.

Business Income Tax Relief

In the first half of the decade, Saskatchewan‘s business tax rates lagged behind other provinces; putting local business at a competitive disadvantage.

Following the province‘s business tax review in 2005, the general business income tax rate gradually dropped from 17 to 12 per cent.

While some might intuitively think that lower tax rates necessarily result in lower revenues, the reductions have not only spurred economic growth, business tax revenues are much higher than they were in 2005.

According to provincial government data, business income tax revenues represented $257 million in 2005, yet are expected to hit $1.1 billion for 2010-11 - a 328 per cent increase in revenue.

Further reductions to Saskatchewan‘s business tax rates will help improve the competitiveness of Saskatchewan businesses.

2011 Business Tax Rates

Province	General Rate	M & P Rate	Small Business Rate
MB	12%	12%	0%
SK	**12%**	**10%**	**4.5%**
AB	10%	10%	3.0%
BC	11%	11%	2.5%

Recommendation 5: Reduce the small business tax rate to 2.5 per cent and the general business income tax rate to 10 per cent by 2014.

Recommendations - Spending

Since taking office, the Wall government has let spending climb from $7.7 billion in 2006-07 to $10.5 billion in 2010-11; as of the last fiscal update.

That‘s an increase of 36 per cent in just four years. Had spending been capped for inflation and population growth, the province could have paid off its $4.1 billion debt (GRF) and returned an additional $1.3 billion to taxpayers.

A Spending Snapshot

Year	Actual Exp	Population	Per Capita	CPI	Per Capita Adjusted for CPI	Expenditures Adjusted for CPI Pop Growth	Savings
2006-07	$7,706,000,000	991,260	$7,774	2.1	$7,774	$7,706,000,000	**$0**
2007-08	$8,036,000,000	996,152	$8,067	2.8	$7,937	$7,906,711,447	**$129,288,553**
2008-09	$10,355,000,000	1,010,300	$10,249	3.3	$8,159	$8,243,539,932	**$2,111,460,068**
2009-10	$10,099,000,000	1,024,691	$9,856	1	$8,429	$8,636,875,043	**$1,462,124,957**
2010-11	$10,539,000,000	1,040,735	$10,126	-	$8,513	$8,859,827,137	**$1,679,172,863**
							$5,382,046,441

Elimination of the debt would produce annual savings of approximately $435 million. Combined with spending restraint, the province would have had annual savings of $2.2 billion as of 2010-11.

It‘s true that you cannot simply measure a government‘s performance based on spending alone; that is why we have recommended measures that can improve results while reducing costs (see innovation section).

Recommendation 6: *Balance the budget.*

Recommendation 7: *Freeze spending this year and cap future spending increases at the combined rate of population and inflation growth.*

Public Sector Pay & Benefits

It‘s no secret that public sector pay levels are typically higher than similar positions in the private sector. Further, the benefits of such positions are inevitably more generous as well.

According to a 2008 Canadian Federation of Independent Business study, provincial public servants in Saskatchewan enjoyed a combined wage and benefit compensation package that was approximately 26 per cent higher than similar positions in the private sector.

Public sector unions are often able to achieve such generous pay packages by their monopoly over the system. For example, it is no coincidence that unions will often run attack ads during labour disputes and fear-mongering ads around election time.

Unlike private businesses, politicians have to run for re-election and are therefore vulnerable to labour unrest and political action.

Another tactic used by public sector unions to gain generous wage agreements is to play ―public sector leapfrog.‖ The game is played by taking a generous wage agreement in one province and using it as justification for a large wage settlement in another. Inevitably, the game continues across the country. The victim of course is the private sector employee whose salary never seems to keep up with the ―the new rich;‖ the unionized public servant.

Conversely, no one expects civil servants to work for peanuts. A civil servant who works hard and produces meaningful results for taxpayers deserves a fair pay cheque just like everyone else.

That is why we recommend moving to a system that rewards performance and is fair to both taxpayers and civil servants.

Recommendation 8: *Limit overall public sector pay increases to no higher than average private sector pay increases.*

Recommendation 9: *Review labour legislation and move to a system of hiring and remuneration based on performance, instead of pay based on years served.*

Recommendation 10: *Advocate for a discussion of out of line public sector pay on the next provincial finance ministers meeting. Move to address the problem in lock step with other provinces to make more reasonable salaries easier to achieve.*

Citizen-driven Culture and Commerce

The government of Saskatchewan annually hands out millions of dollars to businesses, arts groups and other special interest groups.

Although well-intentioned and sometimes political, the decisions could actually be made by taxpayers themselves.

After all, taxpayers walk into video stores every day and select which movies to rent. Similarly, why couldn't taxpayers be left to decide for themselves which art groups to support?

Further, taxpayers will often frequent a business if they know it is struggling to survive. Provincial grants to businesses should be scrapped in favour of reducing taxes and letting taxpayers decide which ones to support. This would especially help small independent businesses as they seldom have the resources to lobby for specialized grants.

To assist businesses and arts groups through the transition period, the province could replace the myriad of web pages with information about grants and replace them with a simple web page that includes the names of any groups seeking assistance and their contact information.

Recommendation 11: *Take funds currently allotted to arts groups, cultural groups, businesses and other special interest groups and give them back to taxpayers.*

Recommendations - Innovation

Allow Pay for Service Health Care

While keeping the public health care system, the CTF recommends allowing licensed health providers to provide the same services as the public system provides.

The major benefits of such a move are threefold.

First, instead of the Danny Williamses of Saskatchewan flying down to the U.S. for health care and supporting American companies, those dollars could be kept in Saskatchewan and support Sask workers and businesses.

Second, every person that uses private health services is a person that isn‘t depending on the public system; helping to reduce wait times and costs.

Third, and most importantly, offering additional services right in Saskatchewan would help even more patients get services faster.

Do you support a parallel private medical system to coexist alongside the public one?

Yes: 80% **No:** 9% **Undecided:** 11%

- 2008 CTF Saskatchewan Supporter Survey

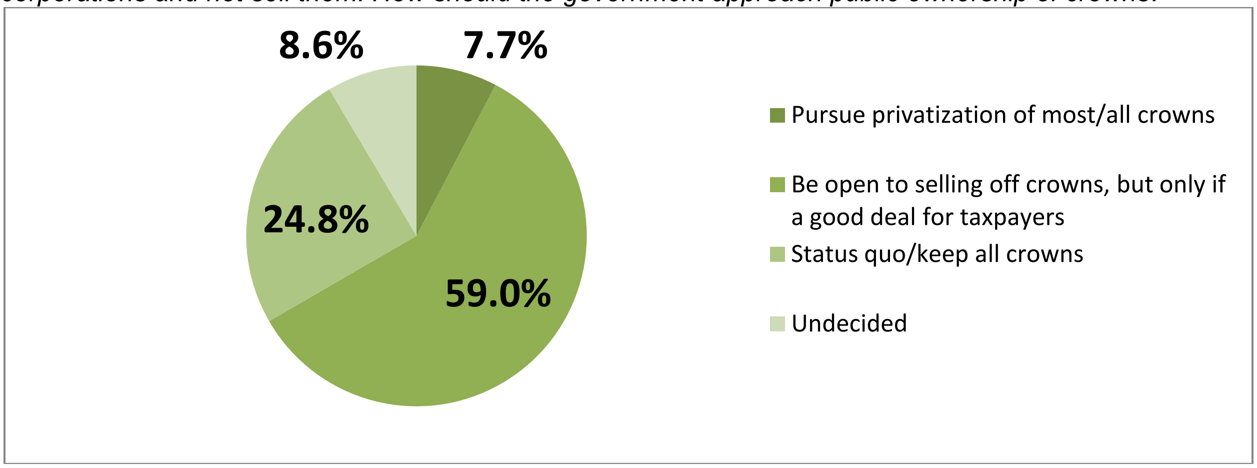
Recommendation 12: *Allow licensed private sector health firms to provide the same services as the public sector.*

Crown Corporation Review

Public monopolies often discourage entrepreneurship, innovation, and economic growth. In some cases, government businesses are competing with the private sector or are a net drain on the provincial treasury.

A majority of CTF supporters believe that the government should be open to the option of selling crown corporations, if a good deal is in the interests of taxpayers.

Question: *The Saskatchewan Party pledged in the last election that it would keep the province's crown corporations and not sell them. How should the government approach public ownership of crowns:*



Source: *2009 CTF Supporter Survey*

The first step is to conduct a review of the crowns to estimate their value, and examine the potential benefits of selling them.

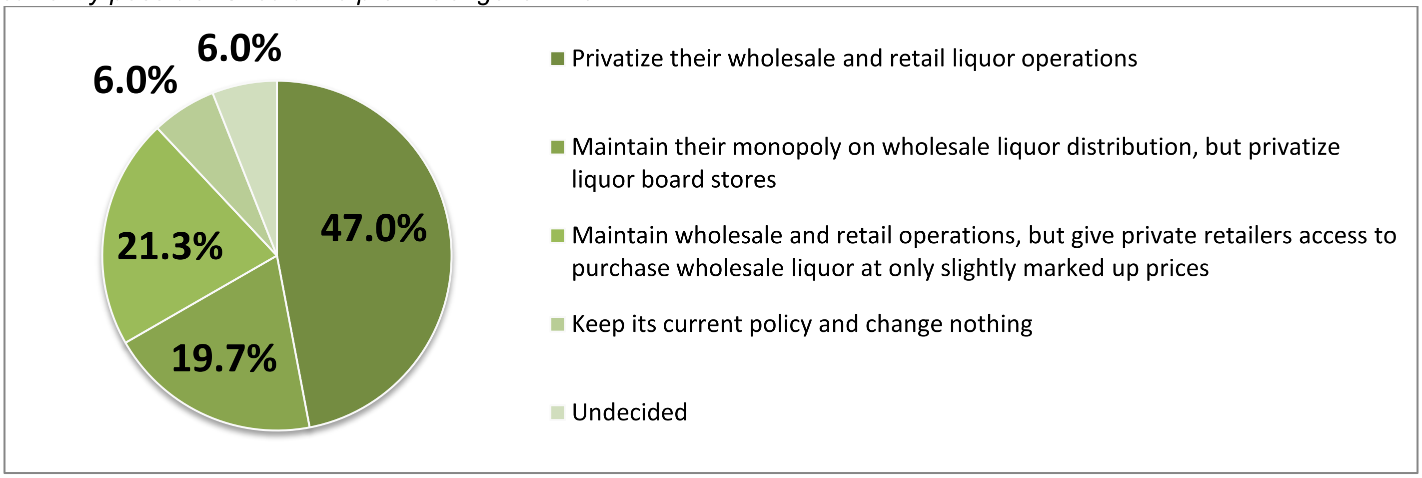
Recommendation 13: *Conduct an in-depth examination of Saskatchewan crowns and be open to privatization.*

Liquor stores

A 2009 survey of CTF Saskatchewan supporters found 88 per cent support reforming how alcohol is sold in the province.

As reform can take many shapes, we asked supporters to consider three possible approaches to improve how alcohol is sold.

Question: *Apart from limited discounts on beer, private liquor retailers must buy all liquor at full price from a government store and attempt to resell it at a profit. This means meaningful competition is not currently possible. Should the provincial government:*



Source: *2009 CTF Saskatchewan Supporter Survey*

The push for reforming the sale of alcohol is also supported by Saskatchewan residents as a whole. In 2004, a *Sigma Analytics* poll, commissioned by the CTF, showed that 72 per cent of Saskatchewan residents wanted government to either get out of the liquor business altogether or at least restrict SLGA involvement to the wholesale level.

That same year, the CTF published a research paper showing how liquor privatization could lead to higher revenues for government, increased economic development and lower prices for consumers. This happened in Alberta following the privatization of its stores in 1993 and it could happen here.

As it stands, off-sale retailers must buy liquor from Saskatchewan Liquor and Gaming Authority (SLGA) stores at the same prices as consumers, and somehow try to re-sell it at a profit.

Not surprisingly, the Saskatchewan Hotel & Hospitality Association (SHHA) is crying foul. The SHHA wants a transparent and fair mark-up at the wholesale level to allow private sector competition.

In addition, the SHHA wants the finances of the wholesale, retail and regulatory operations of the SLGA to be disclosed separately and transparently so taxpayers can see what they are getting for their money. The SHHA further recommends that tax exempt status for liquor stores be removed and *each* of the 80 retail stores operated by the SLGA be required to be economically viable in themselves, not propped up by profits from other SLGA stores or taxpayers.[19]

These suggestions are sound. The Saskatchewan Party promised to keep crowns in public hands; it did not promise that private liquor retailers couldn‘t compete with public stores. The province would do well to engage Saskatchewan residents further on this issue and pursue reform.

Recommendation 14: *Allow private sector competition with public liquor retail and increase the transparency and accountability of SLGA stores*.

Explore Managed Competition & Gainsharing

In the 1990s the City of Indianapolis introduced a process known as —managed competition” for many city services.

In short, the government determined a list of services that it was providing, but could be provided by the private sector. They then tested the market to see if anyone could deliver the same results or better, but for a lower price.

The key to managed competition was to not simply contract out, but to allow existing employees to bid in and try and improve how things were being managed. After all, many employees knew how to improve the services they provided every day, but had no incentive to do so.

For example, after subjecting pothole repair services to competition, city crews bid in and won the contract to keep their jobs.

They reduced costs from $425 per ton to fill potholes to $307 per ton – a 25 per cent drop. At the same time, productivity went from 3.1 lane miles per day to 5.2 – a 68 per cent increase.

Part of the city workers‘ secret to winning the bid was attributed to remounting some patching equipment. This allowed them to reduce their crew from two trucks and eight workers down to one truck with five workers.

For services that cannot be contracted out, other public bodies have saved taxpayers money through the use of —gainsharing.”

The practice involves taking baseline costs and results provided by a government body (agency, business unit, etc.) and splitting any savings that employees come up with, with the employees.

It‘s a win-win situation as the government is guaranteed the same results for a reduced cost and employees can boost their earnings.

Suddenly the incentive model has changed as it‘s now in employees‘ interest to find cheaper accommodations, reduce surplus staff, cut down on travel, curtail the number of cell phones in circulation, etc.

Recommendation 15: *Explore managed competition and gainsharing for government services to reduce costs and improve results*.

Recommendations - Debt

As noted previously, capping spending at the combined rate of population growth and inflation could have saved the government approximately $5.4 billion over the past four years and approximately $1.7 billion annually.

A more prudent approach to spending could have allowed the government to repay the GRF debt, freeing up $435 million in annual interest charges.

Moving forward, the CTF encourages the government to take a more restrained approach to spending and set a goal of paying off the GRF debt by the end of 2015-16.

Recommendation 16: *Set a goal of eliminating the GRF debt by 2015-16.*

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