



Roadmap to a people-powered recovery for Prince Edward Island

Prebudget submission to the
Government of Prince Edward Island

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About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation 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 organization. Today, the CTF has 235,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and regional offices in British Columbia, Alberta, Prairie (SK and MB), Ontario, Quebec 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 three 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 2019-20, the CTF raised [\\$4.8 million](#) on the strength of 31,655 donations. Donations to the CTF are not deductible as a charitable contribution.



Executive Summary

The pandemic has altered government finances across the country and Prince Edward Island is no exception. It has plunged the province's budget into a \$172 million deficit¹ – the largest in its history.² This will bring the province's debt to nearly \$2.5 billion mark.³

As this new debt piles on, it will drive up the province's interest payments, which already take up over 10.5 per cent of the province's own-source revenue. The longer the government waits to get the deficit under control, the more tax dollars will be gobbled up by interest payments instead of being spent on services for citizens or being kept in taxpayers' pockets.

It's also important for the government to focus not just on economic recovery, but on closing the gap between Prince Edward Island's economy and the Canadian economy as a whole.

For this budget year, the government's challenge is to find the right level of efficiency savings to ensure long-term financial sustainability, while implementing the right combination of policy actions to help the local economy recover.

This will take a mix of efficiency measures within government, to bring the budget back to balance and cut down on waste

and duplication in government departments, and use tax cuts as fiscal stimulus to help the local economy recover. The measures outlined below seek to do that with a two-to-one ratio of efficiency savings to fiscal stimulus.

- Cutting income tax bills to boost household disposable incomes.
- Replacing business subsidies with business tax cuts for a broad-based economic stimulus.
- Ending bracket creep.
- Reducing government employee compensation by 15 per cent.
- Cutting elected officials' pay.
- Divesting provincial golf courses.
- Implementing a gainsharing program to find savings.

With these proposed measures, we are confident that Prince Edward Island will emerge from crisis in a strong financial position and with a stronger and more resilient economy.

Measures	Fiscal Stimulus	Budgetary Savings
Cutting all income tax bills to boost household disposable incomes.	\$63.3	
Replacing business subsidies with business tax cuts to stimulate the economy.	\$49.9	\$49.9
Ending bracket creep to stop inflation-based tax hikes.	N/A	
Reducing government employee compensation by 15 per cent points.		\$125.9
Cutting elected officials pay to lead by example.		\$0.4
Divesting from provincial golf courses to avoid further losses.		\$0.3
Implementing a gainsharing program		N/A
Total per category	\$447.1	\$176.4
Net budget impact:		\$63.2

All numbers are in millions.

¹ https://www.princeedwardisland.ca/sites/default/files/publications/fiscal_update_2020_september.pdf

² http://www.rbc.com/economics/economic-reports/pdf/canadian-fiscal/prov_fiscal.pdf

³ https://www.princeedwardisland.ca/sites/default/files/publications/budget_estimate_book_2020-2021_web.pdf

Using fiscal stimulus for a bottom-up recovery

Cutting income taxes by \$63.3 million to boost household disposable incomes

Estimated budgetary impact: \$63.3 million in fiscal stimulus

The government's capital budget for 2021-22 shows a significant bump in government spending from what was budgeted last year, rising from \$156 million to \$196 million.⁴ It is clear this government is following the same playbook many other governments have followed: spending to restore consumer and investor confidence so investment and consumption can get rolling again.

It's important to note that economic research is very clear about the link between tax relief measures and economic growth.^{5 6 7}

One of the many tools with which governments can bolster consumer confidence is by increasing household incomes through tax relief. By taking less cash out of taxpayers' pockets, governments can boost household incomes and grow the economy.

Even before the pandemic, Prince Edward Island households' disposable incomes were the lowest in the country, sitting a bit over 12 per cent below the Canadian average.⁸ There is a clear relationship between household disposable income and household consumption,^{9 10} and between consumer spending and GDP growth.

By using 50 per cent of the savings outlined in this document to provide a broad-based tax relief, the government would be in a position to lower all current income tax bills by 15.8 per cent, thus directly reinjecting \$63.3 million dollars into the local economy.¹¹

Taxable income	Current tax bill	Tax bill with proposed tax cut	Saving under proposed plan
\$50,000	\$4,318	\$3,636	\$682
\$70,000	\$7,196	\$6,059	\$1,137
\$90,000	\$10,536	\$8,871	\$1,665

Source: Intuit TurboTax

⁴ https://www.princeedwardisland.ca/sites/default/files/publications/capital_estimates_fall_2020_0.pdf

⁵ https://www.brookings.edu/wp-content/uploads/2016/06/09_effects_income_tax_changes_economic_growth_gale_samwick.pdf

⁶ <https://www.taxpolicycenter.org/briefing-book/how-do-taxes-affect-economy-long-run>

⁷ <https://taxfoundation.org/what-evidence-taxes-and-growth/#:~:text=In%20sum%2C%20the%20U.S.%20tax,a%20higher%20standard%20of%20living.>

⁸ <http://www.rbc.com/economics/economic-reports/pdf/provincial-forecasts/provtbl.pdf>

⁹ <http://www.econ2.jhu.edu/people/ccarroll/papers/cos-wealth-effects-literature/papers/macklem.pdf>

¹⁰ <https://www.atlantis-press.com/proceedings/emehss-17/25874812>

¹¹ https://www.princeedwardisland.ca/sites/default/files/publications/budget_estimate_book_2020-2021_web.pdf

Replacing business subsidies with business tax cuts to stimulate all industries

Estimated budgetary impact: \$49.9 million in budget savings and \$49.9 million in fiscal stimulus for all businesses

The current recession is affecting the entire province's economy. Given this reality, a targeted governmental approach favouring specific sectors or specific companies does not reflect the needs of Prince Edward Island's economy.

It is also important to note that subsidies are not the most effective tool for governments to attract business investment. Instead, governments should focus on creating the right business environment to attract job creators. When job creators decide where to relocate or expand, their primary focus is usually on long-term profitability rather than one-off subsidy packages.¹²

Other factors, such as regulatory burdens, workforce education, and availability of transportation infrastructure, lead to market access having a much bigger impact on decisions to locate in one jurisdiction rather than a one-off financial aid packages at taxpayers' expense.¹³ Subsidies merely act as icing on the cake for job creators who have already analyzed the risks and potential returns in establishing a viable location for their investment project.

Economic research found no statistically significant relationship between business subsidies and economic growth or per capita GDP levels.¹⁴ What is clear, is that the level of corporate taxation, compared to competing jurisdictions, affects a company's productivity, and ultimately its bottom-line and pace of growth.¹⁵

Competitive tax rates attract job creators and the direct investment.¹⁶ Lower tax rates also contribute to lowering the cost of capital¹⁷ for job creators, thus increasing their ability to re-invest in their company.

Provincial general corporate tax rates	
Canadian Jurisdiction	General corporate tax rate
Prince Edward Island	16%
Newfoundland and Labrador	15%
Nova Scotia	14%
New Brunswick	14%
Canadian provincial average	12.6%
Manitoba	12%
Saskatchewan	12%
British Columbia	12%
Quebec	11.6%
Ontario	11.5%
Alberta	8%

Sources: Provincial government websites

Compared with other provinces, Prince Edward Island's corporate tax rate puts the province at an investment disadvantage, with the highest rate in the country at 16 per cent versus the 12.6 per cent average rate in other provinces.¹⁸

Replacing business subsidies with corporate tax cuts would have an added advantage: reducing the economic distortion associated with targeted financial measures.¹⁹ Prince Edward Island's economic recovery should not be based on growth

¹² https://www.mercatus.org/system/files/farren_and_philpot_-_policy_brief_-_amazon_hq2_the_story_so_far_-_v1.pdf

¹³ <https://www.brookings.edu/wp-content/uploads/2016/06/cohen-1.pdf>

¹⁴ <https://medium.com/concentrated-benefits/florida-man-seeks-a-quarter-of-a-billion-dollars-6bb5fe36a96e>

¹⁵ <https://www.oecd.org/mena/competitiveness/41997578.pdf>

¹⁶ <https://www.oecd.org/mena/competitiveness/41997578.pdf>

¹⁷ https://files.taxfoundation.org/legacy/docs/TaxFoundation_FF477.pdf

¹⁸ <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/corporation-tax-rates.html>

¹⁹ https://www.jec.senate.gov/public/_cache/files/fe2eafaa-f355-462f-b515-15ad4a8f5e74/the-inefficiency-of-targeted-tax-policies-april-1997.pdf

expectations in a few targeted sectors, but rather by a broad-based growth of its economy and the associated employment and incomes that come with it.

Prince Edward Island's main vehicle for doling out subsidies is Innovation PEI, gobbling a whopping \$51.7 million every year, with a meager \$1.8 million in associated revenue.²⁰ This represents a net cost to taxpayers of \$49.9 million annually.

The province should shut down Innovation PEI and reallocate its net cost towards tax cuts in the general and small business corporate income tax rates. This would enable the province to further reduce its small business tax rate from two percent to 0.8 per cent and its general corporate tax rate from 16 per cent down to 6.8 per cent. This would make Prince Edward Island the most attractive province in the country from a business tax standpoint and would represent \$49.9 million in economic stimulus for all Prince Edward Island based businesses.

²⁰ https://www.princeedwardisland.ca/sites/default/files/publications/budget_estimate_book_2020-2021_web.pdf

Ending bracket creep to stop inflation-based tax hikes

Estimated budgetary impact: N/A

By keeping tax brackets immobile from year to year, as the government of Prince Edward Island does, Islanders who have no more purchasing power than they did the year before get pushed into higher tax brackets simply because of inflation. This increases the part of their income they have to dedicate to paying income taxes. This covert tax hike is what economists refer to as bracket creep.

Apart from a few changes to the basic personal amount, tax brackets in Prince Edward Island have remained mostly unchanged since 2008.²¹ Meanwhile, the purchasing power of a dollar has gone down by 17 per cent in Prince Edward Island.²²

Across the country, most governments have recognized the negative impacts of bracket creep and have elected to index their tax rates to inflation. Only Prince Edward Island, Nova Scotia and Alberta fail to index their tax rates.

Due to a lack data to accurately calculate the budgetary impact, we have elected to leave the amount blank. The department of finance's modelling would be able to yield significantly better results. Nevertheless, this indexation would have a significant impact on Islanders in the long-run as the impact of bracket creep compounds year over year.

Prince Edward Island should change its Income Tax Act so the basic minimum amount and tax brackets are indexed to the consumer price index starting this fiscal year. The table below provides an overview of tax savings at different income levels that would result from indexing tax rates, based on RBC's projection for a 1.2 per cent increase in the consumer price index for 2021.²³

Salary in 2021	Tax Bill Under Current System	Income Tax Bill with Inflation Adjustment	Tax Savings
\$50,000	\$4,318	\$4,290	\$28
\$70,000	\$7,196	\$7,141	\$55
\$90,000	\$10,536	\$10,479	\$57

Source: Intuit TurboTax, RBC provincial outlook December 2020

²¹ https://www.princeedwardisland.ca/sites/default/files/legislation/i-01-income_tax_act.pdf

²² <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000501&pickMembers%5B0%5D=1.5&cubeTimeFrame.startYear=2008&cubeTimeFrame.endYear=2019&referencePeriods=20080101%2C20190101>

²³ <https://royal-bank-of-canada-2124.docs.contently.com/v/2021-promises-better-days-from-coast-to-coast-pdf>

Controlling government spending to ensure financial sustainability

Reducing government employee compensation costs by 15 per cents

Estimated budgetary impact: \$125.9 million in budgetary savings

Expenditures related to government employee compensation continue to present a significant cost for Prince Edward Island, with employee compensation representing the single largest source of expenditures at 41.5 per cent of the budget.²⁴

Government employee compensation cost Islanders \$839 million.²⁵ If Prince Edward Island wants to chart a course back to balanced budgets and fiscal discipline, it must address its biggest line item: compensation costs for provincial bureaucrats.

Prior to the pandemic, provincial government employee wages were on average 15.9 per cent higher than the average wage offered by other employers, when adjusting for education.

	Prince Edward Island Labour Market	Composite Labour Market Adjusting for Education of Provincial Employees	Provincial Government Employees	Government Employee Premium
Average Employment Income	\$36,741	\$41,522	\$49,367	15.9%

Source: Statistics Canada and authors' calculations.

This composite model excludes pension, as well as other non-wage benefits afforded to government employees which ultimately contribute to the province's higher compensation expenditures.

For instance, government employees have higher enrollment numbers for registered pension plans in comparison to private sector employees. Data from Statistics Canada show a 74 per cent pension enrollment rate for all government employees in Prince Edward Island, compared to less than 12 per cent of private sector workers.^{26 27}

	Total Employment (2019)	Registered Pension Plan Enrollment	Percentage of employees covered by pensions
Government Employees	21,100	15,618	74.02%
Private Sector Employees	56,800	6,636	11.68%

Source: Statistics Canada

Government employees also tend to be covered under a defined benefits pension plan, unlike their private sector counterparts which tend to be covered by defined contribution plans. Government defined benefit pension plans shift the investment risk from bureaucrats to taxpayers, resulting in taxpayer-funded bailouts when pension funds do not perform well. In recent years, this has lead Prince Edward

²⁴ https://www.princeedwardisland.ca/sites/default/files/publications/volume_1_2018-2019_final.pdf

²⁵ https://www.princeedwardisland.ca/sites/default/files/publications/volume_1_2018-2019_final.pdf

²⁶ <https://www150.statcan.gc.ca/t1/tb1/en/cv.action?pid=1110013301&fbclid=IwAR2pwhhk1uSgWqQ2ufZRkqz6ZY53z8ZL1pEdaP0SOX6g-H9fOIGFYSPGT7o>

²⁷ <https://doi.org/10.25318/1410002701-eng>

Island taxpayers to pledge to cover \$231.2 million between 2013 and 2022 in unfunded pension liabilities associated with the Civil Service Superannuation Fund and the Teachers' Superannuation fund.²⁸

While pension plans have been renegotiated to further protect taxpayers from covering the entirety of pension shortfalls, taxpayers are still on the hook for 20 per cent of such shortfalls as well as 396.1 million in transitional allowances between 2023 and 2030.²⁹

Government employees also enjoy other non-wage benefits such as earlier retirement, and better job security compared to the average private-sector employee³⁰. These non-wage employee benefits overwhelmingly favour government employees over their private sector counterparts and, while there is no direct compensation cost associated with them, they are still part of the economic calculations that individuals make and should be considered when looking into compensation data.

Given the province's projected deficit and ever-increasing compensation costs, Prince Edward Island must make significant changes to its biggest line-item expense: government employee compensation. With government employees already benefiting from a 15.9 per cent wage premium before the current crisis, it would be quite unfair to ask already struggling taxpayers to shoulder an overly bloated government sector.

In order to close the gap between government and private sector compensation, the government of Prince Edward Island must implement an immediate 15 per cent reduction in the cost of government employee benefits.

This will reduce the estimated costs for government salaries and benefits from \$839 million to \$713 million, saving the taxpayers of Prince Edward Island an estimated \$126 million by the end of the fiscal year. These savings can be used to provide much needed tax-relief for taxpayers, while securing the fiscal sustainability of the government of Prince Edward Island.

	Current Costs	Projected Costs with Proposed Reductions
Employee Benefits	\$839.0	\$713.1
	Budgetary Savings:	\$125.9

Source: Government of Prince Edward Island, Department of Finance. All numbers in millions.

²⁸ https://www.princeedwardisland.ca/sites/default/files/publications/volume_1_2018-2019_final.pdf

²⁹ https://www.princeedwardisland.ca/sites/default/files/publications/volume_1_2018-2019_final.pdf

³⁰ <https://www.fraserinstitute.org/sites/default/files/comparing-government-and-private-sector-compensation-in-canada.pdf>

Cutting politicians pay to lead by example

Estimated budgetary impact: \$390,000 in budgetary savings

Political leaders worldwide recognized that governments had to show leadership and solidarity with their constituents in the face of the pandemic. Many political leaders voluntarily cut their pay to show that they were not exempt from the sacrifices they were asking of their constituents. New Zealand Prime Minister Jacinda Ardern sparked a global trend when she announced a voluntary 20 per cent pandemic pay-cut for her and her cabinet ministers³¹.

In Canada, Manitoba Premier Brian Pallister reduced his base salary by 25 per cent³² while he negotiated for reduced hours and temporary layoffs for government employees to redirect funds towards essential services such as healthcare. Halifax Mayor Mike Savage voluntarily cut his salary by 20 per cent³³ as his municipal government moved to cut 1,480 positions to deal with budgetary shortfalls from the pandemic.

Solving Prince Edward Island's budgetary issues require spending cuts for government compensation costs, especially when it represents the biggest expense for the province's taxpayers.³⁴ Similarly, the province's political leadership should not be immune to wage reductions in times of economic hardship.

Total compensation costs for the members of the Legislative Assembly, including supplemental salaries paid to officeholder positions, costs Prince Edward Island taxpayers \$2.6 million³⁵ annually.

Members of the House Assembly should lead by example and take a 15 per cent reduction in compensation.

	Current remuneration	Proposed remuneration
Member of the Legislative Assembly	\$74,394	\$63,235
Premier	\$80,797	\$68,677
Minister	\$51,986	\$44,188
Speaker	\$51,986	\$44,188
Deputy Speaker	\$25,993	\$22,094
Leader of the Opposition	\$51,986	\$44,188
Leader of a Third Party	\$25,993	\$22,094
Government House Leader	\$14,018	\$11,915
Opposition House Leader	\$7,009	\$5,958
Third Party House Leader	\$4,626	\$3,930
Whips	\$4,084	\$3,471

Source: Indemnities & Allowances Commission, 2019 Report.

	Total Compensation Costs	Total Compensation Costs with Proposed Reductions
Members of the Legislative Assembly	\$2,598,600	\$2,208,810
	Savings:	\$389,790

Source: Government of Prince Edward Island.

We estimate that voluntary changes in compensation for the political leadership in the province will save Prince Edward Island taxpayers about \$390,000. This will signal to taxpayers and government workers that government leadership is not exempt from the pandemic's economic burden.

³¹ <https://www.nzherald.co.nz/nz/covid-19-coronavirus-politicians-pass-temporary-law-for-own-pay-cuts/EEPZBFROPNIZE7SZCWIZVF4FXE/>

³² <https://winnipeg.ctvnews.ca/manitoba-premier-takes-pay-cut-as-he-seeks-public-sector-cuts-during-pandemic-1.4905764>

³³ <https://www.cbc.ca/news/canada/nova-scotia/halifax-mayor-taking-cut-to-190k-salary-during-pandemic-1.5534267>

³⁴ https://www.princeedwardisland.ca/sites/default/files/publications/volume_1_2018-2019_final.pdf

³⁵ https://www.princeedwardisland.ca/sites/default/files/publications/budget_estimate_book_2020-2021_web.pdf

Divesting provincial golf courses to avoid further losses

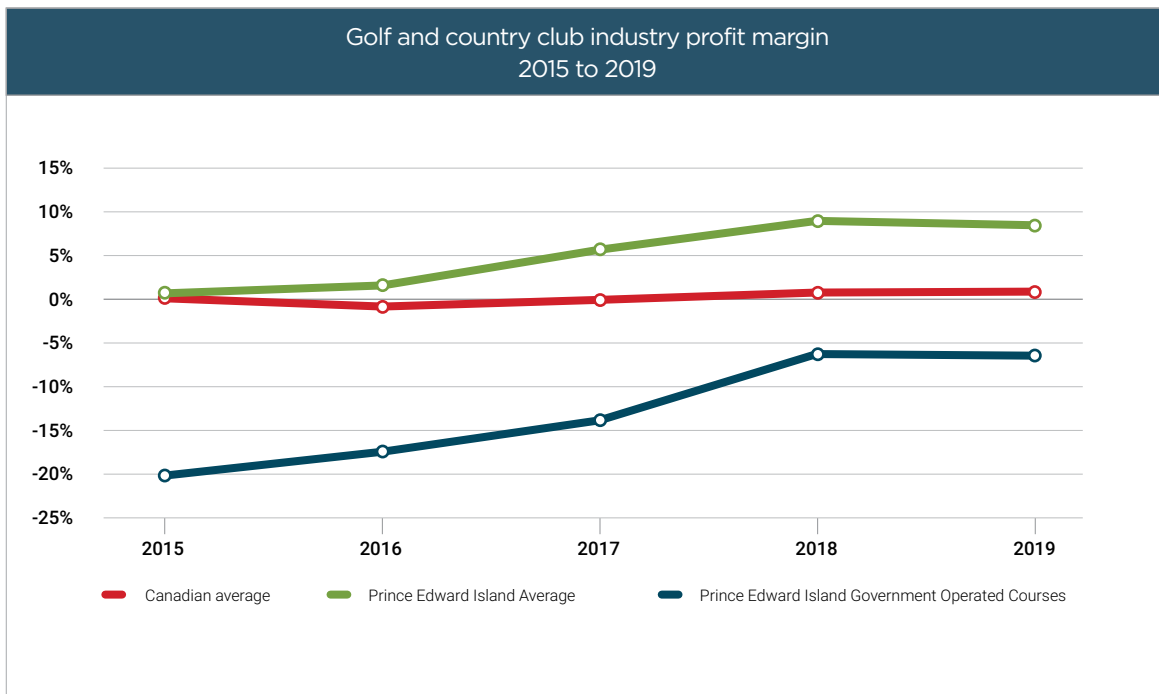
Estimated budgetary impact: At least \$250,000 in budgetary savings

The government of Prince Edward Island owns and operates three different golf courses in the Island’s east, namely Brudenell, Dundarave and the Links at Crowbush Cove.³⁶

For 2020-21, the province estimated it would spend nearly \$4.1 million on day-to-day operations of its golf course assets, while only recuperating \$2 million from green fees and other golf course revenues.³⁷ And while this year’s record losses are partially due to the pandemic, it has been a long time since the province’s golf courses were able to cover their operating costs, much less their capital costs.

Between 2015-16 and 2019-2038^{38 39 40 41 42} golf course operations have cost Island taxpayers over \$2.5 million more than they have brought in, losing hundreds of thousands of dollars systematically every single year.

While the golf industry in Canada has been struggling with low, sometimes negative profit margins in recent years, it’s important to note that Prince Edward Island’s golf courses have been faring noticeably better.⁴³ Despite the province’s golf industry’s healthy margins, provincial golf courses keep being a drag on taxpayers and losing money year after year. For comparative purposes, Prince Edward Island’s government operated golf course margins have also been added based on budget forecasts.



Source: Statistics Canada, Table 21-10-0057-01; Government of Prince Edward Island, budget forecasts 2015-16 to 2019-2020

³⁶ <https://www.princeedwardisland.ca/en/information/economic-development-and-tourism/provincial-golf-courses>

³⁷ https://www.princeedwardisland.ca/sites/default/files/publications/budget_estimate_book_2020-2021_web.pdf

³⁸ <https://www.princeedwardisland.ca/sites/default/files/publications/budget2016estimates.pdf>

³⁹ https://www.princeedwardisland.ca/sites/default/files/publications/estimates2017_web.pdf

⁴⁰ https://www.princeedwardisland.ca/sites/default/files/publications/2018_budget_estimates_consolidation.pdf

⁴¹ https://www.princeedwardisland.ca/sites/default/files/publications/estimates_2019.pdf

⁴² https://www.princeedwardisland.ca/sites/default/files/publications/budget_estimate_book_2020-2021_web.pdf

⁴³ <https://www150.statcan.gc.ca/t1/tb11/en/tv.action?pid=2110005701>

Given the recurring losses in golf course operations, especially compared to the industry's health in Prince Edward Island, the government should divest from its golf course assets and let local entrepreneurs operate golf businesses and contribute to the province's economy and the government's coffers.

Using conservative estimates, doing so would save Islanders over \$250,000 per year,⁴⁴ equivalent to the total provincial income taxes paid by 117 median Islanders.⁴⁵ It's important to note that this is a conservative estimate, using net expenditure figures from the 2019-20 budget year.

While only operational impacts have been considered as budgetary impacts in this prebudget submission, it's important to note that divesting provincial golf course assets would save Prince Edward Island a further \$2.5 million in capital expenditures⁴⁶ over the next five years. Proceeds from the sale of provincially owned golf course assets have also not been considered as part of this submission.

⁴⁴ https://www.princeedwardisland.ca/sites/default/files/publications/budget_estimate_book_2020-2021_web.pdf

⁴⁵ https://www.princeedwardisland.ca/sites/default/files/publications/asr_2019_1.pdf

⁴⁶ https://www.princeedwardisland.ca/sites/default/files/publications/capital_estimates_fall_2020_0.pdf

Implementing a gainsharing program to incentivize government employees to propose cost-saving measures

Estimated budgetary impact: unknown

Cost-saving measures within government can come from major restructuring initiatives as well as simple logistical changes on day-to-day operations. Whether these measures improve government structures on a division or a departmental level, any cost-saving measures that can save taxpayer dollars should be explored.

Gainsharing programs have worked in the private sector and can be adopted to suit government organizational structures. Gainsharing is a pay-for-performance program that awards employees with pay incentives if they help the organization generate cost savings.⁴⁷

Jurisdictions in regional and local governments also adopted similar programs and benefited from savings eventually shared between the local government, government employees, and taxpayers⁴⁸. Within one year of launching its pilot gainsharing program, the municipal government of Baltimore saved more than \$950,000⁴⁹.

The government of Prince Edward Island should implement a directive to incentivize government employees to share any cost-saving ideas, and reward cost-cutting measures through a gainsharing program. Such incremental savings should not be disregarded as they help make service delivery more efficient, and marginally lower its cost.

⁴⁷ <https://www.innovations.harvard.edu/gainsharing-program>

⁴⁸ <https://www.washingtonpost.com/archive/local/1998/03/26/md-counties-try-productivity-bonuses/2ed5418c-50db-431c-837c-97c47c776799/>

⁴⁹ <https://mayor.baltimorecity.gov/news/press-releases/2019-02-15-mayor-pugh-announces-savings-over-950000-city-gain-sharing-plan>

Conclusion

It's clear that Prince Edward Island must make immediate changes to its budget to get back on the path of fiscal sustainability. Given the financial implications of the pandemic for government, citizens and businesses, it's also crucial for the province to provide immediate relief and support for taxpayers and local businesses.

With the province's debt expected to reach the \$2.5 billion-dollar mark and the province running its largest deficit in history, it becomes crucial for Prince Edward Island to look at its expenditures and find where efficiency savings can be achieved to avoid ballooning expenditures and in turn bigger interest payments in the future.

Employee compensation has to be addressed to bring the budget back to balance. The province cannot ignore its single largest expenditure at \$839 million last year. It's also important for legislators to lead the way and show they are not exempt from such compensation reductions. The reductions outlined in this submission with regards to employee and legislators' compensation represent over \$126 million in potential budgetary savings.

It is also clear the government is not in a position to continue to spend taxpayer dollars on money-losing programs. Provincially owned and operated golf courses have cost Islanders dearly and keep costing millions of dollars, with taxpayers losing an estimated \$2 million this year alone. While a conservative estimates pegs direct budgetary savings to be \$250,000 for the 2021-22 financial year, it's important to note that divesting from provincial golf course assets would save Prince Edward Island a further \$2.5 million in capital expenditures over the next five years.

Given COVID-19's impacts on all sectors of Prince Edward Island, as well as the relative ineffectiveness of business subsidies, replacing the province's business subsidies with business tax cuts would empower local businesses of all size to participate to the province's economic recovery.

Using half the savings outlined in this submission, the government could also reinvest in local economic growth by cutting personal income tax bills by \$63 million. This money would go a long way towards boosting consumer spending and helping the local economy recover not from the top-down, but from the bottom-up.

The government also needs to put an end to the stealthy, inflation-based tax hikes known as bracket creep by indexing its tax brackets to inflation. Islanders shouldn't have to fork over a larger share of their income to the government when they are no better off compared to the previous year.

All in all, the proposed measures will put \$113 million back in the pockets of Islanders and help save \$176 million in government operations. This would not only help kickstart the local economy but would also deliver \$63.2 in structural savings for Prince Edward Island, bringing it that much closer to a balanced budget and fiscal sustainability.