CANADIAN Taxpayers FEDERATION
Fighting for taxpayers

2005/06 Prebudget Submission

Making Government Work

From fiscal fairness to smarter spending, a plan of action for Ontario

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EXECUTIVE SUMMARY

1. *Eliminate the provincial Health Tax and hold the line on other taxes. In the 2004-05 budget, Premier Dalton McGuinty brought in the Health Tax, breaking his September 11, 2003, election pledge to uphold the Taxpayer Protection and Balanced Budget Act (TPA) and not raise taxes. The result was the biggest tax increase Ontarians have seen in over a decade. It also disproportionately penalized low and middle-income earners.*

2. *Improve tax fairness. The government must give all Ontarians a better picture of their personal income tax burden. Two new high tax thresholds should replace the current surtaxes of 20 per cent and 56 per cent on provincial income tax payable. The government should create a new third rate of 13.40 per cent on incomes between $61,000 and $72,000, and start the true top rate of 17.42 per cent on incomes above $72,000. These changes are designed to reflect the real rates taxpayers already pay and provide greater transparency to Ontario's income tax system.*

3. *Stop running deficits. In the 2004-05 budget, the government announced its intention to keep racking up deficits until 2007 – the year Ontario will go to the polls. This is unacceptable. The government has a responsibility to steward taxpayers' money wisely and crack down on unnecessary and wasteful spending. Increasing the province's debt by an additional $12 billion and wasting an extra $4.4 billion on interest payments is irresponsible and takes money away from valuable programs. The government must balance the books and return to the intention of the Balanced Budget Act, which penalizes cabinet members for running deficits.*

4. *Spend smarter. The Ontario government's deficit is due to a spending problem, not a revenue problem. The Ontario government must not increase spending. It should re-allocate within existing budget envelopes and find savings by outsourcing work that can be less expensively performed by non-governmental workers. It should review departmental spending with the mandate of rooting out waste and eliminating programs that no longer serve the public interest.*

5. *Reform the public service. The government must reexamine salaries paid to the public service, as well as the number of employees currently on the government payroll. Public sector wages must be reviewed especially in sectors such as health where many are out of line with private sector norms.*

6. *Rebalance the roles of the public and private sector. Redefining the role of government to provide better services for Ontarians should be a priority for the current government. This involves privatizing services such as the LCBO which should not be the business of government, establishing partnerships*

with the private sector in areas such as hydro, and allowing the private sector to offer choice in areas such as health care. All proceeds from sales of Crown corporations should be used to reduce government debt.

7. *Reform the property tax system. Property tax reform must be a priority for the government. The government should scrap the Current Value Assessment system and implement a simpler, fairer unit-based assessment system. This system should remove reassessment and include a tax cap provision to stop assessment creep. Discrepancies between property taxes in many areas of Ontario must be addressed with a link to services provided.*

8. *End corporate welfare. This year has seen a dangerous trend emerge as, under the guise of "investments", government is proposing to put taxpayers' dollars into the pockets of automakers, multinational film producers and aerospace shareholders. This is unacceptable. The government should stop picking winners and losers in the economy, create a competitive tax regime for all businesses equally, and legislate an end to corporate welfare as other provinces, such as Alberta and British Columbia, have done.*

BACKGROUNDER

1. Eliminate the Health Tax, hold the line on other taxes

2004 CTF Supporter Survey Questionnaire

What should be the ONE top priority for the Ontario division of the CTF over the next year?

55%	**Holding the McGuinty government accountable for its pledge not to raise taxes and not to run a deficit**
8%	Calling for a reduction of waste, overlap and duplication in government
6%	Promoting deficit elimination and debt reduction
6%	Publicizing how much government unions cost taxpayers
6%	Calling for the shutdown of unnecessary government departments and agencies
4%	Promoting a workable Citizens' Initiative and Referendum law
4%	Opposing grants to special interest groups
3%	Advocating property tax reform
1%	Supporting greater accountability for Crown Corporations
6%	Undecided

If there is one issue which has galvanized taxpayer outrage over the past year, it was Premier Dalton McGuinty's breach of his election pledge not to raise taxes and not to run deficits. This promise, made during the 2003 election campaign and formally pledged in writing at a full-court press conference with the CTF, formed the cornerstone of the Liberals' election platform.

Yet in the last provincial budget, tabled May 18, 2004, the premier brought in a new Health Tax in direct contravention of this promise. He also ran a deficit of $2.2 billion, and shamelessly repealed the *Balanced Budget Act*, so that he and his cabinet ministers could impose deficit budgets on taxpayers without suffering any cuts in salary.

As shown in the following chart, higher taxes in 2005 for many Ontarians have reversed most of the tax cuts brought in since 1999. Those hardest hit are modest income Ontarians, earning between $35,000 and $45,000 per year. At $35,000, Ontario income taxes are up by 15.8 per cent, at $45,000 they are up by 16.0 per cent, but for those earning $80,000 per year Ontario income taxes are only up by 2.8 per cent. **The Ontario health tax is equivalent to increasing the provincial middle income tax rate of 9.15 per cent to 10.6 per cent, which is exactly what that rate was in 1999.**

	Federal Income Tax	Ontario Income Tax	Total Income Tax Ontario		Federal Income Tax	Ontario Income Tax	Total Income Tax Ontario
$15,000				**$35,000**			
1999	2,106	473	2,579	1999	6,965	1,930	8,895
2004	1,991	365	2,356	2004	6,356	1,559	7,914
2005	1,966	349	2,314	2005	6,325	1,806	8,130
Increase:	**- 26**	**- 16**	**- 42**	**Increase:**	**- 31**	**247**	**216**
$45,000				**$60,000**			
1999	9,650	2,950	12,600	1999	13,620	4,672	18,292
2004	8,705	2,463	11,168	2004	12,005	3,836	15,842
2005	8,663	2,858	11,521	2005	11,963	4,381	16,343
Increase:	**- 42**	**395**	**353**	**Increase:**	**- 42**	**544**	**502**

The fallout from the Health Tax is adversely affecting the growth of the provincial economy. According to private sector economists, higher taxes are one factor contributing to lower consumer confidence:

> "A new health care levy, along with other measures of fiscal restraint such as the elimination of an electricity subsidy is currently having some impact on consumer confidence in Ontario."
> - *RBC Financial Group, Provincial Outlook October 2004*

In fact, the government's own Economic Outlook released in November 2004 revealed that retail sales tax figures were reported to be $160 million less than anticipated. Revenue from the Ontario Lottery and Gaming Corporation came in $102 million less than predicted while Liquor Control Board of Ontario revenues fell $9 million short of the mark. All of these numbers would indicate that Ontarians are spending less of their discretionary income on goods and services because they have less discretionary income to spend.

Job growth in Ontario is also not as robust as the previous year. According to Statistics Canada, 207,000 jobs were created between December 2001 and December 2002. But two years later the pace of job growth had slowed by 55 per cent between December 2003 and December 2004, with only 93,000 jobs created.

Ontario Employment – 1996 to 2004

Year	2004	2003	2002	2001	2000	1999	1998	1997	1996
Employment	6,327	6,230	6,064	5,963	5,872	5,688	5,490	5,313	5,181
Growth	1.5%	2.7%	1.7%	1.5%	3.2%	3.6%	3.3%	2.6%	n/a

Source: Statistics Canada, Labour Force Surveys

The strongest employment growth in Ontario occurred between 1997 and 2000 – the height of substantial tax cuts under the previous Conservative government. Tax increases in 2004 have dampened employment growth, and according to economic projections that sluggish rate of growth is expected to continue over the next two years. Fewer new jobs means less growth in income and sales tax revenues for the provincial government.

The Health Tax has also cast a pall over employers who fear they may be on the hook for their employees' contribution. Public sector unions have launched lawsuits against the provincial government, claiming that decade-old contracts which oblige the employer to pay any "health premium" should force the government to pay the new tax. Other employers in the private sector may face similar challenges as well.

Overall, the Health Tax is a hurtful, ill-thought-out tax that is damaging the Ontario economy. It is not resulting in more health services: the current government delisted chiropractic, optometric and physiotherapy services, and is now facing the layoff of hundreds of nurses, all the while increasing citizens' tax burden. All the tax is doing is hampering economic growth and making lawyers rich – not a healthy combination.

The Health Tax should be cut in 2005-06 with a view to being scrapped completely by 06-07. The CTF is not calling for other tax reductions, as the government is still in a deficit position. However, as will be shown later in this document, the government would be a position to cut the Health Tax by two-thirds if it were willing to spend smarter in the area of health care. By combining savings from outsourcing, such as those achieved by the Liberal government of British Columbia, with new federal funds promised at the last First Ministers' Health Meeting, the government could reduce the Health Tax without cutting services to Ontarians.

CTF 2005/06 Prebudget Recommendation #1:

> *Eliminate the provincial Health Tax and hold the line on other taxes. In the 2004-05 budget, Premier Dalton McGuinty brought in the Health Tax, breaking his September 11, 2003, election pledge to uphold the Taxpayer Protection and Balanced Budget Act (TPA) and not raise taxes. The result was the biggest tax increase Ontarians have seen in over a decade. It also disproportionately penalized low and middle-income earners.*

2. Improve tax fairness

While the Health Tax unfairly penalizes low and middle-income taxpayers, Ontario's high income surtaxes continue to penalize high-income earners. At 17.4 per cent Ontario has the sixth highest high marginal tax rate in the country, after Nova Scotia, New Brunswick, Prince Edward Island, Newfoundland and Quebec.

The following table illustrates how the surtax affects different income levels in Ontario:

Ontario's Tax System 2005

	Basic Personal Exemption	Spousal Exemption	1st Rate	2nd Rate	3rd Rate	4th Rate	5th Rate
Threshold	$8,196	$6,960	$0 -- $34,010	$34,010 -- $68,020	$68,020 plus	Ontario Tax Payable $3,929 to $4,957	Ontario Tax Payable $4,957 Plus
Rate			6.05%	9.15%	11.16%	20.00%	36.00%
Single Earner							
Threshold	$8,196	n/a	$0 -- $34,010	$34,010 -- $61,000	$61,000 -- $70,000	$70,000 plus	n/a
Rate			6.05%	9.15%	13.39%	17.41%	n/a
Married Earner							
Threshold	$8,196	$6,960	$0 -- $34,010	$34,010 -- $66,000	$66,000 -- $72,000	$72,000 plus	n/a
Rate			6.05%	9.15%	13.39%	17.41%	n/a

Without reducing income tax revenue, the tax system could be reformed by creating:

- A new threshold for income between $61,000 and $72,000 with a tax rate of 13.40 per cent; and
- A new top threshold created for income greater than $72,000 with a tax rate of 17.42 per cent.

This would have no impact on Ontario's income tax revenues, but would make the tax system more transparent and more comparable.

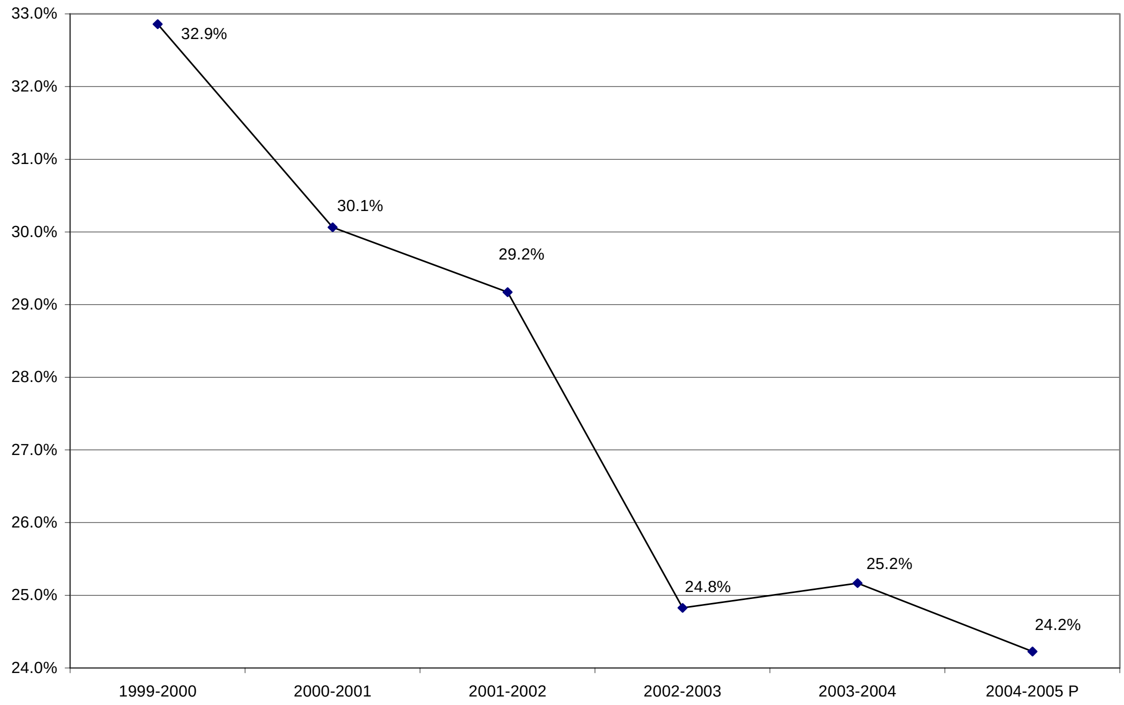
CTF Prebudget 2005/06 Recommendation #2:

Improve tax fairness. The government must give all Ontarians a better picture of their personal income tax burden. Two new high tax thresholds should replace the current surtaxes of 20 per cent and 56 per cent on provincial income tax payable. The government should create a new third rate of 13.40 per cent on incomes between $61,000 and $72,000, and start the true top rate of 17.42 per cent on incomes above $72,000. These changes are designed to reflect the real rates taxpayers already pay and provide greater transparency to Ontario's income tax system.

3. Stop running deficits

While Ontario's debt situation has improved over the last few years, thanks to modest debt repayment and strong economic growth, in 2004-05 the province backslid into a deficit position. The government further announced in the 2004-05 budget that it would run deficits until 2007-08.

Ontario's Debt-to-GDP Ratio



Running deficits and keeping debt on the books has two pernicious effects on Ontario's budget. First, it increases the cost of servicing the debt, which at present is the government's third largest spending envelope eating up 13 per cent of total spending. Second, it saddles future generations of Ontario taxpayers with obligations that can only be paid with hard-earned tax dollars. **As a result, money that could go to valuable programs is wasted while services, such as chiropractic care, eye exams and physiotherapy, are cut.**

During the provincial election, Liberal Leader Dalton McGuinty proudly declared that his government would not increase the province's debt – unlike the previous two governments, which increased the debt by more than $85 billion. The Premier not only broke this major election promise but repealed the *Balanced Budget Act*, which imposed penalties on cabinet members for failure to balance the province's books. The government subsequently introduced the *Fiscal Transparency and Accountability Act*, which received royal assent on December 16, 2004.

Unfortunately for taxpayers, unlike its name would indicate, this new *Act* does nothing to increase transparency or accountability in the province's finances. It effectively provides the government with an "escape clause" allowing the finance minister to present excuses in lieu of a balanced budget and removes all penalties on cabinet ministers for increasing the public debt.

As the CTF pointed out in its pre-budget submission in 2004-05, the government does not have a revenue problem – it has a spending problem. Unfortunately, last year's budget did nothing to curb the government's spending zeal. **The chart below demonstrates that the current government is spending money at the same levels as the NDP government of Bob Rae in the early 1990's.** Over the course of his mandate, Bob Rae's successive deficits added $66 billion to the public debt – debt that today's taxpayers are still paying for.

Ontario Per Capita Government Spending
in 2004 Dollars – Select Years
Amounts adjusted for inflation

Year	Description	Per Capita Spending
1989-1990	Last year of David Peterson Government – Lib	6,113
1991-1995	**Bob Rae Government (4 Year Average) – NDP**	**6,380**
1995-1996	First year of Harris Government – PC	6,399
1996-1997	Harris Reforms begin – PC	6,026
1997-1998	Year 3 – PC	5,860
1998-1999	Year 4 – PC	5,863
1999-2000	Election year budget – PC	6,112
2000-2001	Year 2 – PC	5,860
2001-2002	Year 3 – PC	5,935
2002-2003	Year 4 – PC	6,019
2003-2004 [P]	Last Budget Ernie Eves Government – PC	6,020
	Ontario PC Government Average	**5,962**
2003-2004	Revised Budget – post election	6,201
2004-2005	First Budget	6,539
	Average Liberal Government – Dalton McGuinty	**6,370**

The chart also shows that despite the oft-cited charge that the Harris/Eves government slashed spending, very little cutting actually occurred. Progressive Conservative spending levels in 2000-2001 were 8.6 per cent lower than those of the NDP. **However, average annual spending in seven years of PC budgets was almost identical to that of David Peterson's last year in office – and rose close to Rae levels under Ernie Eves.**

If budget slashing was not the actual record of the previous government, increasing government revenues must have been the formula to balance the province's books between 1999 and 2002. It is important to bear in mind that the successful formula of tax reductions and fairness between 1996 and 2002 produced the highest economic growth amongst Canada's non-resource economies. **Indeed, an average 36 per cent cut in personal income taxes produced a 15 per cent increase in personal income tax revenues and an impressive 37 per cent increase in the province's overall own source revenues.**

Ontario Per Capita Government Own Source Revenues in 2004 Dollars - Select Years
Amounts adjusted for inflation

Year	Description	Own Source Revenue ($ Million)	Per Capita Own Source $ 2004
1989-1990	Last year of David Peterson Government – L	36,328	5,338
1991-1995	Bob Rae Government (4 Year Average) – NDP	n/a	4,225
1995-1996	First Year of Harris Government – PC	41,593	4,567
1996-1997	Harris Cuts Begin – PC	43,672	4,670
1997-1998	Year 3 – PC	47,420	4,919
1998-1999	Year 4 – PC	51,271	5,201
1999-2000	Election year – PC	57,046	5,632
2000-2001	Year 2 – PC	59,915	5,668
2001-2002	Year 3 – PC	58,495	5,270
2002-2003	Year 4 – PC	59,997	5,239
2003-2004 [P]	Last Budget Ernie Eves Government – PC	59,323	4,990
	Ontario PC Government Average	**n/a**	**5,128**
2003-2004	Revised Budget – post election	58,507	5,050
2004-2005	First Budget	67,419	5,467
	Average Liberal Government – Dalton McGuinty	n/a	**5,258**

The chart above demonstrates that despite a modest decline in own source revenues in 2001 and 2002, revenues are up from the NDP deficit years. **Under the Tories, growth was greatest during the years of substantial tax cuts.** Though there may be debates about the extent to which tax cuts stimulate government revenues, there is little argument about the impact of economic growth on government coffers. Outstanding revenue growth between 1995 and 2000 mirrored economic growth, but a government committed to growing the economy during these years by reducing Ontario's tax burden amplified the effects of a strong recovery.

In 2004-05, the government's revenues will increase on the basis of increased income taxes (the Health Tax), and higher liquor and tobacco taxes. As previously discussed, however, the impact of higher income taxes on sales tax revenues and job growth is predicted to slow economic growth, thus curbing the increase in revenues that would have otherwise occurred in a lower-tax environment**.**

To further illustrate how spending is out of control, consider the fact that when the Health Tax is factored out, the government's revenues would have still grown by 6.8 per cent - higher than the rate of population and inflation growth. If the government had not collected the Health Tax, in 2004-05 it would have taken in $65.7 billlion vs. $67.4 billion – per Ontarian, a sum of $5,332. This would represent an increase of 6.8 per cent over the $4,490 that Ernie Eves planned to collect per capita in 2003-04. In other words, the government's own source revenues would still have outpaced inflation (less than 2 per cent) and population growth (less then 1 per cent) without the imposition of the Health Tax. This is a classic case of expenses unnecessarily exceeding revenues even though those revenues increased – analogous to getting a raise, and spending it twice.

CTF 2005/06 Prebudget Recommendation #3:

> *Stop running deficits. In the 2004-05 budget, the government announced its intention to keep racking up deficits until 2007 – the year Ontario will go to the polls. This is unacceptable. The government has a responsibility to steward taxpayers' money wisely and crack down on unnecessary and wasteful spending. Increasing the province's debt by an additional $12 billion and wasting an extra $4.4 billion on interest payments is irresponsible and takes money away from valuable programs. The government must balance the books and return to the intention of the Balanced Budget Act, which penalizes cabinet members for running deficits.*

4. Spend smarter

Contrary to what Premier McGuinty would have Ontarians believe, the provincial government has room for spending reductions on a projected $80.2 billion budget in 2004/05. As the table on the next page illustrates, the two biggest spending envelopes are, of course, health and education.

Ontario Government Spending: Top Three Envelopes
($ million)

	Total Spending	Health Spending	Education Spending	Debt Servicing	Total Top Three	Remainder as a Percentage of Total
1989-1990	41,602	13,787	8,059	4,284	26,130	37.19%
1994-1995	56,168	17,848	9,421	7,832	35,101	37.5%
1995-1996	58,273	17,607	9,761	8,475	35,843	38.5%
1996-1997	56,355	17,760	8,957	8,607	35,324	37.3%
1997-1998	56,484	19,035	9,816	8,729	37,580	33.5%
1998-1999	57,788	19,743	11,367	9,016	40,126	30.6%
1999-2000	61,909	22,001	11,974	9,497	43,472	29.8%
2000-2001	61,940	22,993	10,982	9,416	43,391	30.0%
2001-2002	65,874	24,108	11,710	10,337	46,155	29.9%
2002-2003	68,492	26,097	12,788	9,694	48,579	29.0%
2003-2004	73,883	29,218	13,918	9,604	52,740	28.6%
2004-2005 [P]	80,209	31,431	15,374	10,114	56,919	29.0%

Source: Provincial Budget Documents 1989 – 2004 & Fiscal and Economic Update November 2004

Within major areas of the public sector, typically about 75% of operating costs are related to salaries and benefits. Every time salaries increase, taxpayers are paying more but are not receiving any more services in return.

In the health care sector, a report this year by the Fraser Institute showed that many hospital employees, such as food care workers and cleaners, receive more money (in some cases one-and-a-half times the going wage) than workers performing comparable jobs in the private sector. The report also showed that Ontario hospital employees are overpaid compared with their counterparts in other provinces.

To curb out-of-control health care costs, the government should mandate the outsourcing of hospital jobs in support and administrative services where this work can be performed less expensively by the private sector. There is a precedent for this type of reform. In British Columbia the government is now saving $66 million a year in the health care sector alone by contracting out hospital services such as food preparation, security and cleaning. Extrapolating the size of the BC health budget to Ontario indicates a potential savings estimate of $1.4 billion, based on the following information:

- **In the 2002-2003 fiscal year, British Columbia spent $11.2 billion on health care;**
- **This fiscal year, 2004-2005, British Columbia will spend 4.5% less on health care ($10.7 billion);**
- **If Ontario experienced similar results in adopting the British Columbia Liberal approach to health care reform, then Ontario could save $1.4 billion.**

Add this $1.4 billion to the additional $824 million pledged by the federal government at its last First Ministers Meeting on health and Ontario would be able to cut the provincial Health Tax by two-thirds without any reduction in services.

In the education sector, the government could also realize savings by reexamining the cost and role of school boards. Some 214,000 people are on the provincial payroll through school boards. The $10 billion cost is paid for in part by the province and in part by local school boards through provincially levied property taxes. Any policy that would result in more school board employment could increase provincial government spending quite substantially. **With average wages at $49,095 this year's 1,000 employee increase has resulted in $490 million in additional education spending alone – with no measurable increase in education services to the province's children.** The government should reexamine the role of boards and the value they bring to education with a view to reducing costs. The government should also better deploy existing dollars to programs which benefit students, such as physical education, literacy and math skills.

If the government does not spend smarter on health and education, it will have to find savings in the remaining 29 per cent of the province's budget. That would leave an envelope of $23 billion for reallocation and reductions, with a target of between $2 and $4 billion in spending cuts. The result would be a spending envelope equal to what the government had to fund these areas in the 2003/04 fiscal year.

CTF 2005/06 Prebudget Recommendation #4:

> *Spend smarter. The Ontario government's deficit is due to a spending problem, not a revenue problem. The Ontario government must not increase spending. It should re-allocate within existing budget envelopes and find savings by outsourcing work that can be less expensively performed by non-governmental workers. It should review departmental spending with the mandate of rooting out waste and eliminating programs that no longer serve the public interest.*

5. Reform the public service

Apart from reviewing the cost-effectiveness of each individual ministry and department, the government has to take a look at the cost and performance of the public service as a whole. The Ontario government has already indicated that public sector salaries and benefits are under review. When presenting the 2004 Economic Outlook, the finance minister remarked that "Each one per cent increase in broader public sector compensation costs more than $350 million per year." **In fact, simply retaining the status quo will add $345 million to existing provincial government spending in 2005-06.**

Ontario Public Sector Employment at a glance 1989 to 2004

Year	Provincial Public Sector Employment	Total Cost ($ million)	Average Wage	Public Sector as Percentage of Total Employment	Public Sector Wages as Percentage Of Spending
1989	447,064	13,374	$29,914	8.6%	32.2%
1990	461,534	14,580	$31,591	8.9%	32.1%
1991	471,175	16,043	$34,050	9.4%	31.0%
1992	464,777	16,611	$35,740	9.4%	30.6%
1993	455,239	16,650	$36,574	9.2%	30.0%
1994	440,815	16,037	$36,380	8.0%	28.6%
1995	431,864	15,893	$36,802	8.6%	27.7%
1996	403,037	15,028	$37,286	7.9%	26.7%
1997	404,670	15,064	$37,224	7.8%	26.7%
1998	399,262	15,427	$38,640	7.5%	26.7%
1999	400,685	16,345	$40,793	7.0%	26.4%
2000	406,254	17,636	$43,411	6.9%	28.5%
2001	409,904	17,393	$42,433	6.9%	26.4%
2002	410,349	17,489	$42,621	6.8%	25.5%
2003 [P]	434,511	20,431	$47,020	7.0%	27.2%
2004 [Q]	448,538	21,529	$48,000	7.1%	27.0%

Source: Statistics Canada, Public Sector Employment 2004
P Projection denotes a projection for the year, not the final results.
Q Quarterly average, denotes a projection for the year based on the most recent quarterly results and a projection of costs based on a modest increase in average public sector wages.

Based on quarterly projections for 2004, Ontario's public sector employment is slated to reach the highest levels seen since 1994. The former government failed to make substantial reductions in the size of the public sector. The current government must set targets for reducing public sector employment in the province. The table on the following page presents three scenarios.

- B Baseline: reduces government employment to 2003 levels with average wage indexed for inflation;
- CTF target: reduces government employment by 5 per cent and holds average wages at 2003 levels; and
- LCD Lowest Common Denominator: reduces government employment to 1998 levels and adjusts 1998 average wages for inflation.

Ontario Public Sector Employment Reductions: 2004

Year	Provincial Public Sector Employment	Total Cost ($ million)	Average Wage	Public Sector as Percentage of Total Employment	Savings ($ million)	Public Sector Wages as Percentage of Spending
2005 B	434,511	21,390	$ 49,230	7.1%	139	26.7%
2005 CTF	426,111	20,035	$ 47,020	6.6%	1,494	25.5%
2005 LCD	399,262	18,127	$ 45,400	6.2%	3,400	23.6%

Whereas opting for a 5 per cent reduction would net small savings, setting a target of the lowest level of public sector employment since 1994 along with reining in average wages would produce more substantial savings.

CTF 2005/06 Prebudget Recommendation #5:

> *Reform the public service. The government must reexamine salaries paid to the public service, as well as the number of employees currently on the government payroll. Public sector wages must be reviewed especially in sectors such as health care where many are out of line with private sector norms.*

6. Rebalance the public and private sector

In the CTF's pre-budget presentations in 2004, we noted that privatization, public-private partnerships (P3s), and alternative service delivery (ASD) were viable options for reducing government spending. At that time, there were medium term concerns about the growth in government spending as well as the size of government. Very little has changed on the government side – despite rhetoric in favour of privatization and ASD, the previous government did not meet its $2.5 billion target to find substantial savings. **Privatizing and ASD are not unique to Ontario: worldwide, government-owned enterprises now constitute only six per cent of "global gross domestic product" compared to ten per cent twenty years ago.** Over 100 countries have divested government-owned enterprises to the private sector.

Crown Corporations: Defining the Business of Government

The issue of privatization goes beyond the obvious benefits of cost savings, the promotion of competition, entrepreneurship, and efficient services for taxpayers. It involves a debate of what the role of government should be. Should the government run liquor stores? Should the government promote gambling? Should the government operate an amusement park? Should the government own a television network? These are fundamental questions for any society to ask.

Some will argue that Crown corporations that make money should remain in public hands. The problem is many of these enterprises don't actually turn a profit - or misleadingly claim that they do. The best example of this is the LCBO, which claims to earn over $1 billion in profit annually, when in reality the amount it refers to is the liquor tax it collects on behalf of the government (according to the Brewers of Canada, the LCBO actually lost $35 million in 2002-03). This tax would be collected whether liquor stores were in public or private hands: last year Alberta's privately-run liquor stores collected a mark-up worth $546 million. And in terms of consumer choice, Alberta has 21,587 products available, while Ontario has just 13,600 listings.

In light of this and other evidence, the Ontario government's recent announcement that "the LCBO is not for sale" is wrong-headed and should be reversed. That the government would spend $1,000 per day per person on a four-member "alcohol beverage sales review" panel, announced January 11, 2005, and not allow that panel to consider the potential of privatization, is a waste of time and taxpayers' money.

Once any Crown corporations are privatized, all funds realized from divestiture should go directly toward debt repayment. The experience of previous Conservative budgets shows the folly of booking asset sales as revenue to be used in supporting annual spending. This practice should not continue and apart from any annual savings resulting from divestiture, all proceeds should go to reduce Ontario's government debt burden.

Hydro: A Need for Clear Direction

Reports from the provincial Electricity Conservation and Supply Task Force and OPG Review Committee revealed that Ontario Hydro contributed to the financial woes of the previous government and has serious potential to negatively impact the current government. The decision to lift the rate cap was a good first step in reversing the financial damage caused by Ontario Hydro. Subsidizing the rate cap, by adding to the stranded Ontario Hydro debt, was an ill-advised move. In the end, hydro ratepayers covered the cost of the cap each month by paying into the mandated hydro debt retirement fund. By imposing a rate cap in name only, the previous government helped to add $700 million to the province's deficit.

It is essential that a viable long-term plan for Ontario's electricity sector be adopted and followed. The government has already backed down from its election promise to shut down Ontario's coal-fired plants by 2007. It has not proposed a clear direction or indicated what the role of the private sector in Hydro's future will be. As the following table shows, when CTF supporters were asked what direction they favoured, a majority wanted to see privatization of Ontario Hydro and market prices for electricity.

2004 CTF Supporter Survey Questionnaire

Should the Ontario government privatize the electricity market, OR should the Ontario market be owned and operated by the government?

53%	Privatize
25%	Government owned and operated
22%	Undecided

Should electricity be sold to Ontario consumers…

88%	At the market price it cost to produce?
3%	Below what it cost to produce with the Ontario government making up the price difference by paying a subsidy?
9%	Undecided

Health care: Allow the Creation of a Parallel Private System

In the area of health care, allowing a choice of private service delivery is not an option, but a necessity. Health care as currently funded is unsustainable in Ontario. The following chart shows growth in health spending in the last 15 years:

Growth in Health Spending 1989 - 2004
($ Million)

Year	Total Spending	Health Spending	Health as % of Total
1989-90	$ 41,602	$ 13,787	33.1%
1990-91	45,458	15,346	33.8%
1991-92	51,683	17,588	34.0%
1992-93	54,235	17,758	32.7%
1993-94	54,876	17,684	32.2%
1994-95	56,168	17,848	31.8%
1995-96	58,273	17,607	30.2%
1996-97	56,355	17,760	31.5%
1997-98	56,484	19,035	33.7%
1998-99	57,788	19,743	34.1%
1999-00	61,909	22,001	35.5%
2000-01	61,940	22,993	37.1%
2001-02	65,874	24,108	36.6%
2002-03	68,492	26,097	38.1%
2003-04	75,153	29,011	38.6%
2004-05 P	80,209	31,431	39.1%

Source: Provincial Budget Documents 1989 to 2003

The long term solution to the health care funding dilemma is clear. **Provincial governments including Ontario must urge the federal government to amend the Canada Health Act and permit the private sector to provide choice in health care services.** Alberta and Quebec have already taken the lead in terms of innovation and allowing private clinics to operate. Yet in Ontario, the McGuinty government refuses to take off its ideological blinders, choosing instead to hike taxes, delist services, force hospitals to lay off nurses, and use precious public dollars to buy out perfectly functional private MRI clinics. **Ontarians are paying more and getting less, all in the name of this government's ideology of rationing services.**

A parallel private health care system would take the pressure off a beleaguered and chronically under-funded public system and allow the province to maintain both health spending and spending in other areas. Yet the Ontario government refuses to recognize what countries all over the world already know: health care should be delivered by a mix of public and private services. This is already the case in nations such as Sweden, France, Britain, New Zealand, and many more.

2004 CTF Supporter Survey Questionnaire

Do you support a parallel private medical system to co-exist alongside the public one?

79% support
17% oppose
4% undecided / no answer

Examining private health care options does not make us less caring, or less Canadian. It does not mean that we will create an American system where people are uninsured. It simply ensures that we can provide quality care for more people at less cost.

CTF 2005/06 Prebudget Recommendation #6:

Rebalance the roles of the public and private sector. Redefining the role of government to provide better services for Ontarians should be a priority for the current government. This involves privatizing services such as the LCBO which should not be the business of government, establishing partnerships with the private sector in areas such as hydro, and allowing the private sector to offer choice in areas such as health care. All proceeds from sales of Crown corporations should be used to reduce government debt.

7. Reform the property tax system

2004 CTF Supporter Survey Questionnaire

Are your local property or business taxes higher or lower than last year?

27%	much higher
62%	higher
0	lower
0	much lower
8%	same
3%	not sure

Rising property tax rates are a concern across Ontario. The 2004 announcement by the finance minister lifting the property tax cap from commercial and industrial properties allowed municipalities to impose a further tax burden on business property owners. This increase will be inevitably passed on to all taxpayers in the form of higher prices, raised rents and even lost jobs.

The problem of higher property taxes is not limited, however, to this one regulatory change. The system itself is the culprit. Ontario's Current Value Assessment (CVA) system utilizes the current assessment of a property's value as the basis against which municipalities and the province set property tax rates. As assessed values fluctuate with the real estate market, so do the tax burdens on individual properties without any consideration given to the level of municipal services consumed, the ability to pay, or the cost of delivering services.

In theory, overall assessment changes should have no effect on the amount of tax paid. If assessments go up (or down) municipal councils and the province can and should adjust their property tax rates to ensure re-assessment is revenue neutral. But individual property values seldom rise and fall in lockstep. As a result, taxes for some property owners go up while they fall for others. Revised assessments shift tax burdens from one group of property owners to another on the basis of property values, rather than usage. And where municipalities do face an overall increase in assessed values and choose not to adjust the tax rate downwards — so it is revenue neutral — CVA is used as a stealth tax increase hidden from the public.

A growing number of taxpayers believe CVA is unfair and inequitable. This is because the assessment rate has no bearing on the municipal services a property consumes; it is a tax on capital, not on consumption; it also taxes on the basis of an unrealized capital gain, that is to say the perceived value of a property. And because assessments change routinely, it is difficult for property owners to predict what taxes will be in the future. Finally, regular re-assessments require a large – and costly – bureaucracy to administer. In 2001 the Municipal Property Assessment Corporation spent $141 million, and in 2002 its spending was up to $146 million.

Other jurisdictions — such as Britain, California, Florida and Israel— have successfully developed alternative municipal tax assessment arrangements. Given the growing number of local taxpayer groups calling for change, the government should establish an all-party committee to consider CVA alternatives that focus on usage and tax fairness, rather than property prices.

One promising option is to institute a tax rate cap as a means to stop assessment creep, and to move to a unit-based system of assessment. Assessment creep is the phenomenon experienced by many Ontarians when the increasing value of their house causes their property taxes to increase. Rather than assessing homes at changing market values every year, a fairer evaluation would be unit based, looking at lot size and habitable square footage. By taking property values out of the equation, the only way a municipality's assessment base will grow is by way of new construction or substantial renovations to existing homes. This system would be much simpler and cleaner, without the need for annual real estate market updates. For taxpayers this kind of system would bring a sense of stability to local taxes.

CTF 2005/06 Prebudget Recommendation #7:

> *Reform the property tax system. Property tax reform must be a priority for the government. The government should scrap the Current Value Assessment system and implement a simpler, fairer unit-based assessment system. This system should remove reassessment and include a tax cap provision to stop assessment creep. Discrepancies between property taxes in many areas of Ontario must be addressed with a link to services provided.*

8. End corporate welfare

This year marked the start of a disturbing trend in Ontario: the resurgence of corporate welfare. First, the provincial government doled out $100 million to Ford Inc. to "retool" an automobile plant in Oakville. Then Premier McGuinty announced Ontario was hiking its film tax credits by 50%. Most recently, the Premier has mused on ways to "work with [Bombardier Inc] on any projects that build on its assets, encourage new growth and create skilled jobs in Ontario" (from a letter to the CTF dated December 22, 2004).

While the government may claim to be creating or protecting jobs of Ontario workers, let's review who's really getting the money here. Ford, a multi-billion dollar auto manufacturer which posted third-quarter profits of 15 cents per share, or $266 million, shortly before the Oakville announcement was made. Film producers, primarily from the U.S., who while they create temporary jobs in Canada, take their profits back home once they are done. And Bombardier, a company which despite receiving millions in subsidies, export development loans, and preferential bidding decisions from Canadian taxpayers for over three decades, is cutting 6000 jobs and has seen its bonds downgraded to junk status.

The provincial government will argue that because other provinces and states offer subsidies, incentives and tax breaks, Ontario has little choice but to follow suit. Even John Tory, leader of the Ontario Progressive Conservatives, campaigned vigorously for film tax credits, and remained notably silent when the premier discussed the possibility of "working with" Bombardier. The NDP has come out in favour of subsidies to auto and aerospace companies, because they benefit their labour union supporters. Sadly, no one is speaking up for taxpayers, who are the ones funding all this assistance through their hard-earned tax dollars.

In the United States, taxpayers are not taking this abuse lying down – they're going to court. A dozen taxpayers and three small businesses in Toledo, Ohio, with assistance from presidential candidate and consumer advocate Ralph Nader, filed a lawsuit challenging special tax credits their state gave to the Chrysler corporation while it was building a new assembly plant in Toledo. This past summer, a three-judge panel found the tax credits unconstitutional, because they gave preferential treatment to companies that expanded within the state, rather than in other states, thus hindering interstate commerce. According to a senior Chrysler official, the ruling appeared to call into question all kinds of aid to industry. The case has been appealed, but if the decision is upheld it would set a precedent to challenge similar corporate welfare programs.

There is a further issue of fairness. Awarding selective incentives to a handful of businesses means other taxpaying companies subsidize their competitors. In Ontario's auto sector, that means that Toyota, Chrysler, Honda, Suzuki and GM – and their workers – will end up helping Ford beat them at their own game. This spawns a never-ending demand for more public assistance. And just how do governments decide who gets their money? Too often, political connections pave the way, without regard for the viability of the actual business.

In Canada, none of the leading provincial economies have governments playing the corporate welfare game. Alberta has legislation banning these types of handouts, while British Columbia Premier Gordon Campbell has effectively shut down all corporate welfare programs and related funds. Sadly, Ontario's Premier has to date taken the opposite approach, by cancelling corporate tax cuts planned by the previous government, and putting select business interests ahead of those of Ontario taxpayers.

CTF 2005/06 Prebudget Recommendation #8:

> *End corporate welfare. This year has seen a dangerous trend emerge as, under the guise of "investments", government is proposing to put taxpayers' dollars into the pockets of automakers, multinational film producers and aerospace shareholders. This is unacceptable. The government should stop picking winners and losers in the economy, create a competitive tax regime for all businesses equally, and legislate an end to corporate welfare as other provinces, such as Alberta and British Columbia, have done.*

CONCLUSION

In last year's budget, Premier Dalton McGuinty failed to honour his pledge to taxpayers not to increase taxes and not to run deficits, breaching the basic covenant he and his party made with voters in the 2003 election. He also set the government up for failure in terms of balanced budgets to come. The Premier is dragging Ontario down the same deficit-strewn road traveled by Bob Rae a decade ago, spending the province into the ground.

The key to reversing this trend is to reduce expenses by eliminating waste and spending smarter. This involves a reexamination of the role of government and of all those employed in it. Government should not be in the business of maintaining monopolies like the LCBO or competing with other cultural media by means of TVO. In areas such as health and education the government can reduce costs while maintaining programs, by outsourcing hospital services and curbing the amount of money spent on school boards.

In addition, the government must take a broad look at the role and remuneration of the public sector as a whole. It must rebalance the mix of public and private sector services currently available to Ontarians. Denying Ontarians quality health care in the name of political ideology is unconscionable. Private sector participation in health care must increase and choice be made available to take the pressure off the public system.

The government should also take a hard look at rising property taxes and Ontario's Current Value Assessment System. Changes must be made to bring more fairness and predictability to the province's system of property tax.

Finally, the government must put an end to corporate welfare. Trying to buy jobs with taxpayers' money will not put Ontario further ahead; it will distort the economy and siphon money from programs which could benefit all Ontarians, not the select few who work for or own shares in companies benefiting from government largesse.

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