The Next Hurdle:

British Columbia's Debt

2005/6 British Columbia Pre-Budget Submission

Submission to the Standing Committee
on Finance and Government Services

Sara MacIntyre
B.C. Director
Canadian Taxpayers Federation
604-1207 Douglas Street
Victoria, B.C. V8W 2E7
phone: (250)388-3660
cell: (250)812-1224
fax: (250)388-3680

smacintyre@telus.net
Visit our website: www.taxpayer.com

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 61,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and offices in the five provincial capitals of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. In addition, the CTF has a Centre for Aboriginal Policy Change in Calgary dedicated to monitor, research and provide alternatives to current aboriginal policy and court decisions. Provincial offices and the Centre conduct research and advocacy activities specific to their provinces or issues 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 six times a year. An issues and action update called *TaxAction* is produced each month. 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.

The head office of the Canadian Taxpayers Federation is located in Regina at:

Suite 105, 438 Victoria Avenue East
Regina, Saskatchewan
S4N 0N7

Telephone: 306.352.7199
Facsimile: 306.352.7203
E-mail: canadian@taxpayer.com
Web Site: www.taxpayer.com

Executive Summary

- After three years of restrained spending, regulatory reform and income tax cuts, the province is turning the corner. Employment, retail sales, non-residential building permits, manufacturing shipments, exports and housing starts are all up indicating broad based economic recovery.

- The government should be applauded for staying on target and delivering a truly balanced budget. High commodity prices, low interest rates and a strong economic performance have pushed up revenue projections and the *First Quarterly Report* puts the province on track for a sizable surplus.

- Keeping the province on the right fiscal track, however, requires more than eliminating the deficit, the government must now exercise prudence and begin to tackle the next hurdle, the debt.

- At $37 billion, the province's debt is at its highest and has doubled in just ten short years. Yesterday's spendthrift decisions are constricting today's choices. High debt servicing costs mean fewer taxpayer dollars go to health, education and are available for tax cuts. In the past 5 years, it has cost taxpayers $8.589 billion[*] to service our debt load. Now with a surplus in reach, it is time to learn from past spenders and begin to alleviate the debt load for future generations. The CTF has proposed a legislated debt repayment plan for BC to debt free in 2033.

- Since 2002, the government managed to increase revenue by 13% while keeping increases in expenditures at a rate lower than inflation, just .25%. However, between 2001 and the end of the government's fiscal plan in 2006, health spending will have increased 16% and education 12%. *The 2004/5 First Quarterly Report* reveals that health and education constitute 67% of all government expenditures.

- Now that the province is on the road to fiscal recovery, it is important to stay on track, to make decisions that are affordable, sustainable and competitive.

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[*] If the forecasted surplus is fully applied to the debt, debt-servicing costs for the past five years would be reduced to $8.459 billion, see page 52 of *The 2004/5 First Quarterly Report* and page 149 of *Budget 2004.*

Recommendations:

- *The CTF recommends a moratorium on tax and fee increases.*

- *The CTF recommends the government legislate a Taxpayer Protection Act requiring all future tax increases be subject to voter approval.*

- *The CTF recommends a reversal of the 2002 sales tax increase.*

- *The CTF recommends a legislated annual debt repayment schedule of 2.5% own source revenue or 75% of the first quarter forecast surplus, whichever is greater.*

- *The CTF recommends the province aggressively lobby the federal government and its public review panel to lift the moratorium on offshore oil and gas exploration. If successful, the province should proceed with an exploration plan to assess the level of viable resources and pursue commercial extraction as early as possible.*

- *The government should re-affirm its commitment to limit taxpayer Olympic funding to $620 million. The CTF further recommends that the provincial member of the Vancouver Olympic Organizing Committee (VANOC) report to the legislature on the management and fiscal practices of the committee including its quarterly financial reports.*

- *The CTF recommends the government enact an Olympic transparency plan to track all related and/or trademarked Olympic spending in addition to previously committed capital spending. The CTF also recommends that all capital projects be subject to a rigorous and competitive tendering process, and when possible, pursue public-private partnerships.*

- *The CTF recommends the government limit the rate of health and education spending increases to the rate of inflation, less federal transfers.*

- *The CTF recommends the government pursue its patient service delivery policy and improve health care accessibility by encouraging private* *sector involvement.*

- *The CTF recommends the government maintain its zero and zero public sector union contract policy and target employee and salary levels equal to or below Alberta and Ontario. The CTF further recommends that the government hedge the rate of health and education employee growth to alleviate pressure on its wage bill.*

- *The CTF recommends the government maintain and expand its public-private partnership policy for all new capital projects.*

- *The CTF recommends the government privatize and/or end its monopoly on liquor and insurance sales to allow consumers choice in a competitive marketplace.*

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Tax Recommendations:

- *Moratorium on tax and fee increases.*
- *Taxpayer Protection Act requiring all future tax increases be subject to voter approval.*
- *Reversal of the 2002 sales tax increase, expected revenue loss of $280 million a year.*

The government should be commended for the substantial income tax reductions in 2001. However, since then, the government has slowly inched up taxes and fees with each successive budget.

In 2002, for example, the provincial sales tax was increased, as were tobacco, residential rural and school property taxes. The same budget nearly doubled Medical Services Premiums. When all the increases were calculated, the government raised taxes by $758 million.

In the year following, the government continued to add to the overall tax burden by once again raising tobacco taxes, increasing the insurance premium tax and the rate of fuel tax levied by the British Columbia Transportation Authority. The most recent budget saw an abatement of the government's 'nickel and dime' syndrome with only a tobacco tax increase. Added together, in three short years, the government increased taxes by an estimated $1.069 billion.

CTF 2004 Supporter Survey

What should your CTF-BCs number ONE priority be in the lead-up to and during a provincial election?

32%	**Reducing government spending**
27%	**Balancing the budget**
12%	Democratic reform
9%	Lowering provincial taxes
8%	Privatizing crown corporations

British Columbia has the second highest hotel taxes, the third highest liquor taxes and the highest tobacco taxes in the country. Despite numerous increases, the income tax reductions from 2001 have kept the overall tax burden is lighter than in 2000. Tax Freedom Day now arrives on July 3 as opposed to July 8 in 2000. For BC taxpayers, that means an additional five days of income in their pockets.

But, we could and should be more competitive, particularly because our closest jurisdiction, Alberta, hails no provincial sales tax and will soon retire its debt. As a modest start, the government should reverse the 2002 sales tax increase. At the time of the hike, taxpayers were assured the government would revisit the increase once the provincial fiscal house was in order.

With an expected surplus of $865 million, before the forecast allowance, the province is on track and should immediately repeal the 2002 sales tax increase. The Canadian Taxpayers Federation also recommends a moratorium on all tax and fee increases as well as the adoption of a *Taxpayer Protection Act* requiring voter consent for any future tax increases.

Debt Recommendations:

- *The CTF recommends a legislated annual debt repayment schedule of 2.5% own source revenue or 75% of the first quarter forecast surplus, whichever is greater.*

Since 1989, the taxpayers' share of the provincial debt has almost tripled from $2,972 to $7,137 in 2004. The *First Quarterly Report 2004/5* indicates that by the end of this fiscal year the per capita taxpayer supporter debt is set to increase again to $7,156.

Although the increase is just shy of $20, it is noteworthy because the report's debt projections assume all of the updated surplus will be applied to the province's debt, including forecast allowances.

Therefore, while the committee may hear testimony that the time to increase spending is now, while the province has a surplus; it is precisely the opposite. Now is the time to pay down debt. Not addressing the debt today will hamstring the choices for tomorrow's generation, a bill for our fiscal impatience.

The government had to make some tough decisions in order to meet its 2004/5 balanced budget target. Spending restraint, ministerial restructuring and a reduction in public sector employment were necessary measures to get the province back on track and back in the black.

We are seeing the benefits of those decisions today, with a higher than forecast surplus and GDP growth rates that surpass the national average. However, difficult decisions remain. To sustain the province's fiscal recovery, the government must not only spend less than it receives, it must also look long term and implement an aggressive debt repayment plan.

Alberta, our closest jurisdiction and competitor, has announced that it will retire its debt within the year. It has been suggested that Alberta's oil fortunes paid off their debt, not tough fiscal decisions. But this is not true, in the 1990's Alberta substantially reduced the size of its public sector workforce and restrained spending. More importantly however, Alberta legislated a debt repayment schedule. Surpluses were mandated to debt repayment and after 19 years Alberta will be debt free.

British Columbia can also be debt free. The CTF has drafted a debt repayment schedule and recommends the government amend *The Balanced*

Budget and Ministerial Accountability Act to include its provisions. The

plan, as outlined in Table A.1, proposes 2.5% of own source revenue or 75% of the first quarter forecast surplus, whichever is greater, be applied to the debt each year. Table A.1 assumes 2.5% of own source revenue will be greater and slates 2033 for BC to be debt free.

The CTF recommends that the government amend *The Balanced Budget and Ministerial Accountability Act* to include a debt repayment clause similar in principle and meaning to the following:

Debt repayment schedule

1 (1) Each fiscal year, the greater of, (a) 2.5% of government own source revenues, or (b) 75 % of first quarter forecast surplus, must be applied to the reduction of the debt

(2)The Comptroller General shall report to the government annually after publication of each fiscal year's public accounts the amount to be applied under subsection (1).

(3) In 2014/15 an all-party committee must accept or decline an accelerated debt repayment to 5% own source revenue or 75% of the first quarter forecast surplus, whichever is greater.

Table A.1: Debt Repayment Schedule

Year	Debt Projection	Forecast Allowance	Projected Surplus	CTF Proposal
2005-2006	37,480	400	-802	656
2007-2008	36,547	300	-633	663
2008-2009	36,297	250	0	671
2009-2010	36,097	200	0	678
2010-2011	35,211	200	0	686
2011-2012	34,318	200	0	693
2012-2013	33,418	200	0	701
2013-2014	32,509	200	0	709
2014-2015	31,593	200	0	716
2015-2016*	**29,944**	**200**	**0**	**1,449**
2016-2017	28,280	200	0	1,465
2017-2018	26,599	200	0	1,481
2018-2019	24,901	200	0	1,497
2019-2020	23,188	200	0	1,514
2020-2021	21,457	200	0	1,531
2021-2022	19,710	200	0	1,547
2022-2023	17,945	200	0	1,565
2023-2024	16,163	200	0	1,582
2024-2025	14,364	200	0	1,599
2025-2026	12,547	200	0	1,617
2026-2027	10,712	200	0	1,635
2027-2028	8,859	200	0	1,653
2028-2029	6,988	200	0	1,671
2029-2030	5,098	200	0	1,690
2030-2031	3,189	200	0	1,709
2031-2032	1,262	200	0	1,727
2032-2033	**Debt Paid**			

**Denotes accelerated debt repayment schedule of 5% own source revenue.*

Offshore Oil & Gas Recommendations:

- *The CTF recommends the government aggressively lobby the federal government and its public review panel to lift the moratorium on offshore oil and gas exploration.*
- *If successful, the province should proceed with an exploration plan to assess the level of viable resources and pursue commercial extraction as early as possible.*

Once again, the federal government is reviewing the moratorium on offshore oil and gas exploration in British Columbia. The Public Review Panel, referred to as the Priddle Panel, held hearings across the province and will present its final report and recommendations to the federal government this fall.

The government is commended for assembling an offshore oil and gas team to gather information, assess environmental concerns and prepare policy directions. The province's Priddle Panel submission was clear, "the decision on whether to lift the moratorium is a matter of policy rather than of science. ...The Province considers that the potential public benefits from an offshore oil and gas industry are too great to ignore."

CTF 2002 Supporter Survey

If it can be done with environmental safeguards, do you favour offshore drilling for oil and gas on BC's coast?

88% Yes
7% No

A series of reports, independent evaluations and studies have all concluded that there is no scientific reason to prohibit all offshore oil and gas exploration. The Royal Society of Canada Report (2004) stated, "provided an adequate regulatory regime is put in place, there are no science gaps that need to be filled before lifting the moratoria on oil and gas development."

Cursory exploration reports suggest a potential resource value of $100 billion. Resources revenues could be used to set up a BC legacy fund that would pay annual dividends to taxpayers.

Newfoundland and Labrador continue to reap the benefits of an offshore oil and gas industry. In recent years, Newfoundland's real gross domestic product has been $2-3 billion higher because of offshore oil activity and annual GDP growth has led the country for the past five years. The east coast's offshore oil and gas industry accounts for 19% of their GDP.[1]

The opportunity to develop an offshore oil and gas sector is limited. Industry will not sit on the sidelines and wait to invest. The government must develop a regulatory regime and resolve outstanding issues like the moratoria. Furthermore, as commodity prices increase and offshore activity remains suspended, BC is essentially forfeiting sizable resource revenues.

[1] For more information on the socio-economic impacts of the offshore oil and gas industry, please see the CTF's submission to the Priddle Panel, "Lifting the Moratorium: The First Step to Exploring British Columbia's Offshore Oil & Gas potential" prepared by Chris M. Campbell, PhD, available at www.taxpayer.com.

Olympic Recommendations:

- *The government should re-affirm its commitment to limit taxpayer Olympic funding to $620 million. The CTF further recommends that the provincial member of the Vancouver Olympic Organizing Committee (VANOC) report to the legislature on the management and fiscal practices of the committee including its quarterly financial reports.*
- *The CTF recommends the government enact an Olympic transparency plan to track all related and/or trademarked taxpayer Olympic spending in addition to previously committed capital spending. The CTF also recommends that all capital projects be subject to a rigorous and competitive tendering process, and when possible pursue public-private partnerships.*

In 2010, Vancouver will host the Winter Olympics. While putting together the bid for the Olympics, all the partners signed contribution agreements. The province committed to providing $255 million for the capital costs of sport and event venues, $55 million for a legacy endowment fund, $175 million in security costs, medical costs of $13 million, upgrade costs for the Sea-to Sky Highway at $600 million, $14 million for the Callaghan Valley Road and a $139 million contingency fund.

Together provincial taxpayers will be billed at least $1.251 billion[2] (before inflation) for the "Spirit of 2010." However, the government maintains the capital infrastructure commitments, like the Sea-to-Sky Highway upgrade were already planned expenditures and do not count as Olympic related funding.

In order to clarify the extent of taxpayer funding for the Games, the CTF recommends that the government adopt an Olympic transparency plan. The government should produce an annual report that tracks all Olympic related and trademarked spending for all ministries, including new spending initiatives like the Spirit of 2010 Business Centre, BC Olympic Games Secretariat and the 2010 Business Summit. The report should also provide results based measurements demonstrating value for tax dollars.

[2] For further details on the government's Olympic spending plan, please see the Auditor General's *2002/03 Report 6: Review of Estimates Related to Vancouver's Bid to Stage the 2010 Olympic Winter Games and Paralympic Winter Games.*

It is further recommended that the government pursue public-private partnerships for all capital spending to limit taxpayer risk and to ensure the commercial viability of project proposals.

The provincial bid covenant also included a guarantee to cover any financial shortfalls of the Vancouver Olympic Organizing Committee (VANOC). As a bid partner and contributor, the province has a VANOC representative. The CTF recommends that the provincial member report to the legislature annually on the activities and performance of the VANOC. The VANOC member should also provide the legislature with the committee’s quarterly financial reports. As the financial backstop, taxpayers have a right to know how the VANOC is managed.

Together these recommendations should provide enhanced transparency of taxpayer Olympic funding and serve to keep the public informed on the progress made and decisions taken by the VANOC.

CTF 2004 Supporter Survey

With regard to the 2010 Winter Olympics in Vancouver/Whistler, do you support or oppose the following:
Governments should spend no more than $620 million – the original estimates that surfaced prior to the bidding process.

79%	Support
10%	Oppose
11%	Undecided

Health and Education Recommendations:

- *The CTF recommends the maximum health and education spending increase be limited to the rate of inflation, less federal transfers.*
- *The CTF recommends that the government pursue its patient service delivery policy and improve health care accessibility by encouraging private sector involvement.*

Health and education continue to be the biggest spending areas for the provincial government. While other ministries have undergone budgetary reductions, health and education expenses continue to grow. For example, in 2001 health expenditures accounted for 33.5% of all government spending and by 2006/7 that figure is to jump to 40%. Similarly, education spending accounted for 24% of all government expenditures in 2002 and is expected to increase to 30%. For this year, health and education will account for 68% of all government expenditures.

To ensure that the province stays on track, today's spending decisions must be sustainable and affordable in the future. It is recommended, therefore, that health and education spending not exceed the rate of inflation, less federal transfers.

In order to enhance service and patient accessibility, the CTF recommends the government encourage a greater role for the private sector and ambitiously pursue its patient service delivery policy. The Ministry of Health Services and Health Planning issued a policy communiqué noting, "the policy deals with enhancing patient service delivery through delivery of publicly funded hospital outpatient services by private providers."

The policy brief further states:

Objectives in expanding the role of the private sector:

- Improve patient access to necessary care.
- Enhance choice within the health authority on where services may be received.
- Realize the benefits of competition in the public system to improve efficiency and contain costs.
- Maintain a sustainable public health care system through improved access to innovation and efficiencies

With the latest round of provincial and federal government negotiations resulting in the same prescription, more money, for the misdiagnosed ailment, government monopoly, of our health care system, the government is commended for its innovative policy and should proceed with its implementation immediately. As noted in our annual supporter survey results, BC is tremendously in favour of private sector involvement in the health care sector.

CTF 2004 Supporter Survey

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

95%	Agree
3%	Disagree
2%	Undecided

Public Sector Recommendations

- *The CTF recommends the government maintain its zero and zero public sector union contract policy and target employee and salary levels equal to or below Alberta and Ontario. The CTF further recommends that the government hedge the rate of health and education employee growth to alleviate pressure on its wage bill.*

According to Statistics Canada, in 2004 public sector employees will account for a staggering 10% of the BC's total employment, estimated at 2,066,000.

Number of Provincial Public Sector Employees By Province

Year	**ON**	**AB**	**BC**
1989	447,063	157,995	161,888
1990	461,534	163,565	173,176
1991	471,175	156,935	177,970
1992	464,777	156,768	182,290
1993	455,239	149,322	183,059
1994	440,815	136,432	182,907
1995	431,864	134,944	187,725
1996	403,037	128,573	190,890
1997	404,670	119,774	191,853
1998	399,262	121,830	194,299
1999	400,685	121,512	198,247
2000	406,254	124,986	202,466
2001	409,904	122,428	***203,591***
2002	410,349	123,791	***204,811***
2003 [P]	434,511	127,135	***209,176***
2004 [Q]	447,035	130,599	***210,133***

Source: Statistics Canada, FMS Data
Employment Data is averaged for the year and refers to the number of employees, not full-time equivalents
[P] Denotes preliminary Data
[1.] Figures may not add to the total due to rounding.

The province's wage bill continues to increase, despite its zero and zero contract policy. This is largely due to the growth in higher paid education and health employees. The CTF recommends that the government continue its zero and zero policy until wage rates are equal to or lower than Alberta and Ontario. The CTF commends the government for resolving to re-align wage rates for non-essential health service workers.

Total Provincial Public Sector Wages and Salaries by Province ($ Million)

Year	ON	AB	BC
1989	13,374	4,199	4,433
1990	14,580	4,405	4,957
1991	16,043	4,277	5,425
1992	16,611	4,342	6,003
1993	16,650	4,270	6,258
1994	16,037	3,949	6,599
1995	15,893	3,612	6,859
1996	15,028	3,637	6,964
1997	15,064	3,739	7,075
1998	15,427	4,004	7,170
1999	16,345	4,257	7,313
2000	17,636	4,660	7,644
2001	17,393	4,943	***8,025***
2002 [P]	17,489	5,087	***7,910***
2003 [Q]	20,431	5,526	***8,749***

Source: Statistics Canada, FMS Data
Employment Data is averaged for the year and refers to the number of employees, not full-time equivalents
[P] Denotes preliminary Data
Figures may not add to the total due to rounding

1.

P3 Recommendations

The CTF recommends the government maintain and expand its public-private partnership policy for all new capital projects.

Public-private partnerships (P3s) are an effective means of cost containment for major public projects. Most P3s involve a competitive bidding process, a long-term contract between the private sector partner and the government, a fee schedule and quality control measures.

The benefit is obvious: taxpayers are protected from cost overruns. If a project budget unexpectedly increases or is not on schedule, the private sector partner pays, not the taxpayer.

The government is commended for pursing the P3 model with the establishment of Partnerships BC. Several infrastructure and health facility projects have been put through their competitive tendering process, measured against the Public Sector Comparator (the price of the project being entirely publicly financed and managed) and are now in the final phases of contract negotiations. To date, the Sierra Yoyo Desan Road and the Academic Ambulatory Care Centre in Vancouver have public-private partnerships signed and construction is underway.

Public institutions, such as universities are also benefiting from the P3 model. For example, Simon Fraser University has established a global asset and wealth management MBA program that involves 16 financial service companies. Each company pays an annual membership fee of $25,000 and it operates as their adjunct research arm and training ground for new and existing employees.

Increasing the level and degree of private sector involvement in all capital spending projects will help alleviate taxpayer burden and risk while increasing timely and cost-efficient delivery.

As health care and infrastructure costs spiral out of control, it is crucial that the government look for alternative service delivery mechanisms to save money. Public-private partnerships are a proven method to contain costs and improve service.

Privatization:

- *The CTF recommends the government privatize and/or end its monopoly on liquor and insurance sales to allow consumers choice in a competitive marketplace.*

Privatization has increased in particular over the last two decades. Worldwide, government-owned enterprises only constitute six percent of "global gross domestic product" compared to ten percent twenty years ago. Over 100 countries have divested government-owned enterprises to the private sector.

During restructuring, the government announced that two questions would guide all decisions: should the government be doing this? And, if so, is this the most effective way to do it? The insurance and liquor monopolies are good examples of a few questions that were left answered. The government should at least allow the private sector to compete if it is unwilling to let go of the reins.

According to a recent CTF study, choice swelled for consumers in Alberta once competition was introduced, the number of stores rose from 304 government-owned liquor stores in 1993 to 907 completely private stores in 2001 or ***one store for every 3,400 people***.

In comparison, B.C. currently has 224 government-owned liquor stores with 544 stores either under license to B.C. Liquor Stores or private stores (the latter of which are limited to beer and wine sales only), or 768 in total or ***one store for every 5,300 people*.**

The BC government has held a monopoly over liquor sales since 1921, its time to hand the reins over to the market where pricing, product and service are competitive.

CTF 2004 Supporter Survey

Which of these Crown corporations/agencies, if any, do you feel should be privatized and/or made to face competition? (Respondents could make more than one choice).

59%	BC Liquor Stores
53%	ICBC
46%	BC Ferries