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Ontario Select Standing Committee on Finance and Government Services

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About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) 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 taxpayers organization. Today, the CTF has 89,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and regional offices in British Columbia, Alberta, Prairie (SK and MB), Ontario 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 four 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 2014-15 the **CTF raised $4.7-million on the strength of 30,663 donations.** Donations to the CTF are not deductible as a charitable contribution.

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PART I: INTRODUCTION

Ontario was once the economic engine of Canada, but in 2010 Ontario became a "have not" province. In 2016, Ontario will receive $21.3 billion in federal transfers. The province is well down the path to economic ruin as a result of poor fiscal management by the government. Spending continues to grow, and with it, so grows the tax burden on Ontario families.

In 2016 Ontario will hit another milestone. We will become the first province to carry $300 billion in debt. We are the largest subnational borrower in the world, and the provincial per capita debt burden on every man, woman and child exceeds $21,000.

Ontario families are struggling to make ends meet. Income is stagnating, housing costs are soaring, manufacturing is fleeing the province and taking jobs with it, job growth remains sluggish, and we pay some of the highest electricity rates in North America. Ontario families are tightening their belts in order to take care of their financial future, and their children's financial future. But their government is not doing the same.

Instead, we see continuous increases on program spending, waste on payoffs to unions and corporate welfare. And as fast as the government seems to waste money, they turn to the population to ask for more money. We've seen increases in income taxes, travel taxes, and even new taxes on beer. The government wants to implement a new payroll tax in the form of the Ontario Retirement Pension Plan, toll roads, and a carbon tax that will increase the price of all manufactured goods and drive businesses away.

And we see government accountability reduced. Gas plants was just the beginning; we've now seen a number of officials related to this government criminally charged. Reform is badly needed.

This report recommends the government focus itself on balancing the budget on an expedited timeline. We recommend spending restraint, tax reduction and greater accountability. It's time for Ontario to take pride in itself and be restored as a net contributor to the Canadian economy instead of the drain it has become under this government.

PART II: SUMMARY OF RECOMMENDATIONS

Reduce Existing Taxes

- **Reverse the most recent income tax hikes, and index the top two brackets to inflation.**
- **Implement a *Gas Tax Accountability Act*, so that taxpayers can transparently see that their tax dollars are in fact going to roadway spending and much needed urban infrastructure projects.**
- **Both the federal and provincial government should eliminate the tax-on-tax portion of gas taxes, and dedicate and transfer 50% of all fuel tax revenue to municipalities for roadway development and maintenance. Alternatively, the CTF recommends that 50% of fuel tax revenue be dedicated to reducing taxes.**
- **Eliminate the Ontario Health Care Premium, which costs Ontarians $3.5 billion each year.**
- **Cancel scheduled tax hikes for beer and travel, and reverse the tax hikes on those items which have already been implemented.**

Stop Plans for New Taxes

- **Halt all plans for the Ontario Retirement Pension Plan (ORPP) payroll tax.**
    - **If the government is not willing to put a full stop to their plans to implement ORPP, it should put a hold on the plan in light of the federal government's commitment to hike Canadian Pension Plan (CPP) premiums. If the government chooses to continue down the path of implementing ORPP, even in light of the federal government's promise to make such a plan irrelevant, the Canadian Taxpayers Federation recommends specific design elements for ORPP that will allow premiums to be refunded if CPP premium hikes are implemented.**
- **Halt plans to implement a cap-and-trade carbon tax.**
- **End plans to impose double taxation for infrastructure in the form of a high-occupancy vehicle toll.**
- **Resist all calls for a regressive and oppressive tax on specific food and drink choices.**
- **Repeal the City of Toronto's power to levy a municipal land transfer tax, and commit that such a tax will never be applied in other cities.**

Focus on Debt Reduction

- **The government should fast track its balanced budget commitment and undertake real spending restraint. We also recommend a legislated debt reduction calendar to ensure the government will indeed meet the benchmarks required to achieve a balanced budget.**

Reduce Spending

- **Reduce program spending until the government is able to achieve a balanced budget, at which point any program spending growth should be at or below the rate of inflation and population growth.**
- **Freeze public sector wages in order to achieve a balanced budget. When a balanced budget is achieved, any wages shall increase at a rate no greater than the rate of inflation.**
- **Amend the interest arbitration system with a narrowing of arbitral discretion. Given the total rejection of considering the government's ability to pay by some arbitrators, enumerating some specific and objective factors could be useful. For example, a consideration of the total provincial debt burden, debt-to-GDP ratio, and the overall tax burden on the population.**
- **End all spending on corporate welfare, and instead focus on making Ontario a competitive tax jurisdiction for all businesses.**
- **Implement an immediate moratorium on new renewable power capacity, and to revisit the existing guaranteed price contracts for wind and solar electricity. To the extent possible, revisit contracts for guaranteed prices to bring those prices in line with market prices.**

Boost Revenue

- **Break the government monopoly on alcohol sales by allowing alcohol sales in private retail stores. Break up the LCBO and sell the agencies' capital assets, and apply the revenue towards the government's debt.**
- **The ongoing sale of Hydro One should allow private sector expertise to control the management direction of the company.**
- **The government should clarify where the revenue from the Hydro One sale will in fact be applied, as the fall economic statement implies the revenue is being counted both towards deficit reduction and infrastructure spending. Revenue from this sale not be**

dedicated to new spending, but rather, it should be applied as part of a comprehensive plan to eliminating the deficit when combined with controlled spending.

- **Make restoring lost tobacco tax revenue a priority. The government should strike a new deal with tobacco manufacturers on native reserves to help promote economic development and legitimize markets. The government should also revisit the quantity of tobacco allocated on reserves.**

Accountability

- **Restore the discretionary powers to the Auditor General to determine what government advertisements are partisan.**
- **Remove political control for the appointment process to reduce the temptation on governments to improperly offer appointments as political favours. Reduce the total number of positions, which represent bureaucratic bloat.**
- **Amend the *Police Services Act* to give police chiefs the power to suspend officers without pay when they have been charged with a criminal offence.**

PART III: REDUCE EXISTING TAXES

Lower Income Taxes

Ontario taxpayers pay some of the highest tax rates in North America, and the rates keep increasing. The Ontario government has repeatedly dropped the threshold for the highest income tax bracket, and then repeatedly raised taxes for that bracket. Premier Wynne is effectively redefining downwards what it means to be wealthy in Ontario, and then increasing the taxes for that group.

When federal taxes and surtaxes are included, the top marginal rate in Ontario for 2016 is 53.53%. The second highest bracket is 51.97%. Taxes above 50% are a psychosocial threshold that has long been warned against by economists. When individuals are working more for the government than for themselves, it encourages tax avoidance and brain drain.

Personal income tax rates are a measure of international competitiveness. The issue was studied by the Canadian Taxpayers Federation in the 2015 report *Major Penalty for High Taxes*, which concluded that high income taxes drive high-income earners to lower tax jurisdictions. This is a bad outcome both in terms of government revenues, and in terms of productivity and innovation, as high income earners are often employers.

The top two rates are not indexed, so as wages increase with inflation, more income becomes bumped into a higher bracket, without the government having to raise the rate.

The Canadian Taxpayers Federation recommends reversing the most recent income tax hikes, and indexing the top two brackets to inflation.

Gas Tax Transparency

As illustrated year after year in the CTF's annual Gas Tax Honesty Day Report, Ontarians pay a large chunk of tax at the pumps. While the pre-tax market price of gasoline in Ontario averaged $0.68 per litre in 2014, the average final pump price was $1.05. That means 35% of the price at the pump is going to taxes.

In last year's budget, Ontario projected to raise $2.457 billion in gasoline tax and $752 million in fuel taxes (total: $3.2 billion). However, according to CTF's annual Gas Tax Report, Ontario will collect $4.1 billion in gasoline taxes (including HST) and $1.2 billion in diesel taxes (including HST), and $595 million from government taxing their own taxes. Vehicle and driver registration fees will bring in an additional $1.6 billion. This totals $6.9 billion in projected tax revenue directly from Ontario drivers in 2016, and yet the Ministry of Transportations' total operating and capital expenses is only $3.45 billion. This leaves a $3.35 billion gap in what is collected and what is spent.

Gasoline taxes were introduced and sold to voters as a user fee on roads, so there is no excuse for these funds not to be allocated directly to infrastructure spending. Instead, the Ontario government is now proposing tolling portions of Ontario highways, effectively charging taxpayers twice for infrastructure their taxes already paid for.

Table: Annual Provincial Revenue from Drivers ($Millions)

	Gas Tax	HST	Total
Gasoline	$2,732	$1,378	$4,110
Diesel	$777	$431	$1,208
Vehicle & Driver Registration Fees			$1,592
Total Driving Taxes			**$6,910**

Source: CTF 2015 Gas Tax Honesty Day Report

The provincial government must take responsibility for its core role of maintaining and improving public infrastructure. It must make commutes more manageable and Ontario cities more liveable. And these goals are achievable without increasing the overall tax burden on the province's population, but rather, by a transparent dedication of funds from fuel taxes to infrastructure.

The Canadian Taxpayers Federation recommends that the government implement a *Gas Tax Accountability Act*, so that taxpayers can transparently see that their tax dollars are in fact going to roadway spending and much needed urban infrastructure projects.

The CTF also recommends that both the federal and provincial government eliminate the tax-on-tax portion of gas taxes, and dedicate and transfer 50% of all fuel tax revenue to municipalities for roadway development and maintenance. Further, the CTF recommends that 50% of fuel tax revenue be dedicated to reducing taxes.

Other Taxes – Health Care Premium, Travel and Beer

Ontario families are faced with a slew of other taxes that have either been implemented or hiked by the current government.

For example, the Ontario health care premium was implemented in 2004, and costs individuals up to $900 a year. For 2015-16, the government estimates that this tax will squeeze $3.5 billion out of hard working Ontarians.

The current government has also hiked the tax on travel. On April 1, 2015 the tax rate on out of province aviation fuel is increasing from 3.7 cents to 4.7 cents per litre. This is the second fuel tax hike since the 2014 budget, and by 2017 the tax is scheduled to grow to 6.7 cents per liter, which is a 148% increase. While the price of fuel is falling, any savings are being eaten up by these tax increases instead of being passed on to travellers. Tax hikes on travelling will drive passengers out of the already expensive Pearson International Airport and towards airports like Buffalo and Detroit.

An estimated 3 million Ontarians already drive across the border looking for travel deals. With this new tax hike, the National Airlines Council of Canada estimates an additional 292,700 to 407,800 air travellers will be driven away.

The loss of passengers will have huge economic consequences for the province. Tourism makes up 5.2% of Ontario's labour income and generates $4.9 billion in provincial tax revenue each year. The direct, short-term negative consequences of increasing the aviation fuel tax is an estimated decrease in provincial GDP between $67 and $97 million in 2017, and a resulting decrease in employment across the province between 1,991 and 2,907 full time jobs.

And of course, Premier Wynne hiked the tax on beer in her 2015 budget. The government has already implemented the first of four planned 3-cent hikes between 2015 and 2018. The premier expects to raise $100 million from the tax hike. Larger brewers have been forced by the government to absorb the tax hike, but smaller brewers will pass the cost on to consumers. The tax hike creates a disadvantage to small and craft brewers whose product will be made more expensive relative to larger corporate brewers. The tax hike also makes already heavily taxed beer in the province even more expensive.

The Canadian Taxpayers Federation recommends a moratorium on all scheduled tax hikes, and an end to the Ontario health care premium.

PART III: STOP PLANS FOR NEW TAXES

Freeze Plans for the ORPP Payroll Tax

Premier Wynne is pressing forward with her plan to create a mandatory, government-controlled pension in Ontario, modelled after the Canadian Pension Plan (CPP). The payroll tax will represent a 40% hike on top of what employers and employees are already paying towards CPP.

For employees, the ORPP payroll tax will claw back 1.9% of earnings up to $90,000 from each pay cheque. This means up to $1,643 each year, which hurts the ability of individual Ontarians to save, or spend money on priorities like buying a home.

The plan will also claw back 1.9% from employers, in addition to footing employers with administration costs. This will hurt employers' abilities to take on more workers and expand. The Ontario Chamber of Commerce conducted a survey that found only 26% of businesses believed they can shoulder the additional burden of ORPP, and 44% of businesses would reduce their current payroll or hire fewer employees. The Canadian Federation of Independent Business found that the ORPP payroll tax would cause unemployment to rise by 0.5%, and that there would be a reduction in wages over the long term.

Not only will ORPP hurt employees and employers, but the supposed only advantage of the plan – increased retirement saving – is unlikely to be achieved. The projected performance of the ORPP is unrealistic. Returns on safe investments are currently very low. After inflation, long-term Government of Canada bonds, like most comparable quality assets, yield less than 1%. So backing a promise to pay a decent pension with suitably secure investments means making big contributions and waiting a long time.

The C.D. Howe Institute found that to meet projections, ORPP will need higher returns that CPP, and higher returns than projected by professionally managed plans like Ontario Teachers and OMERS.

Further, the per person costs of ORPP will be far higher, because it has a smaller pool of contributors than the national poor that CPP has access to.

Moreover, although Wynne repeatedly stated that she was moving ahead with ORPP because the federal government had not increased CPP premiums, she continues with the plan in spite of the new federal government's commitment to reform CPP.

Even if we assume there is a retirement savings gap – and the data does not lead inexorably to this conclusion – Wynne's very own *raison d'etre* for the ORPP is redundant if CPP premiums are increased.

The Canadian Taxpayers Federation recommends that the Ontario government halt all plans for the ORPP. Our foremost position on this issue is that individuals are better suited to save for their own retirement through voluntary instruments like Tax Free Savings Accounts and RRSPs. There are also serious questions about the existence of a widespread retirement savings gap. Indeed, the international consultancy McKinsey & Company found that 83% of Canadians are on track for retirement, and only a small segment of upper-middle-class Canadians are insufficiently prepared. Forcing all Ontarians, many of whom are adequately saving, into a government mandated scheme, will leave people worse off.

Additionally, the government should not be undertaking large scale and open-ended spending commitments given the current financial situation of the province. This year, provincial debt will reach $300 billion dollars. Ontario is the largest subnational borrower in the world, and the Wynne's government will be running an eighth consecutive deficit.

If the government is not willing to put a full stop to their plans to implement ORPP, the Canadian Taxpayers Federation recommends putting a hold on the plan in light of the recent federal election result. Prime Minister Trudeau committed to CPP reform during the federal election. Continuing to spend public funds developing a plan that the federal government has committed to make redundant is a waste of scares resources.

Finally, if the government chooses to continue down the path of implementing ORPP, even in light of the federal government's promise to make such a plan irrelevant, the Canadian Taxpayers Federation recommends specific design elements for ORPP. The CTF recommends that ORPP be designed such that once premiums begin to be collected in 2017, they can be easily returned (with interest) to employees and employers if CPP Premiums are indeed hiked. This will protect those individuals caught by the earliest wave of rolling ORPP implementation from double taxation.

Scrap Plans for a Carbon Tax

Premier Wynne has proposed a cap-and-trade carbon tax for Ontario, which will increase the costs of gasoline, natural gas and all manufactured goods.

Carbon taxes have been tried in other jurisdictions, for example, in British Columbia. The BC government introduced the carbon tax as "revenue neutral," but many of the offsetting tax credits did not help the average taxpayer. The cut that reached most residents was the personal income tax cut, but it only offset $228 million of the carbon tax's $1.2 billion overall take.

But unlike the BC carbon tax, Wynne's proposed cap-and-trade carbon tax does not even have a smokescreen of revenue neutrality. The cap-and-trade discussion paper promises that the $1 to $2 billion revenue in taxes the government gets out of the cap-and-trade program will not be applied to lower the now higher tax burden on Ontario families. Instead, the tax revenue will be "reinvested" into "complementary measures." "Reinvesting" is politician-speak for spending. The discussion paper has no detail about how the revenue will be spent, or if the revenue will simply go into a general pool that the government can access for spending on their own pet projects.

Also unlike the BC carbon tax, Ontario's cap-and-trade scheme will apply to more than just gasoline, natural gas and coal. Wynne's tax will increase the price of just about everything. The government will set arbitrary limits for carbon emissions for businesses, and then force those businesses to buy "carbon credits" if they emit more than their allotment. The price of these carbon credits is passed down to the consumers. With the highest electricity prices in North America, rising housing costs, the looming proposal of an Ontario pension payroll tax, and stagnating income levels, this carbon tax is going to hurt Ontario families.

The cap-and-trade scheme will also require the creation of a large bureaucratic office, adding to Ontario's already bloated bureaucracy. And cap-and-trade comes with the additional risk of fraud and corruption. Cap-and-trade schemes have been tried in Europe, and now Interpol has an entire program dedicated to environmental and carbon trading crime. In California, a carbon trader used the government's trading program to set up a Ponzi scheme that resulted in a $50-$80 million claim against the trader. And there is the risk that the desire to profit from selling offset credits to the government could result in individuals producing hazardous chemicals for the sole purpose of destroying them, thereby earning carbon credits. These are not hypothetical examples, these are the real risks associated with cap-and-trade schemes.

Cap-and-trade creates amble opportunity for rent-seeking among the government's preferred businesses. The premier's cap-and-trade scheme proposes giving away free carbon credits to certain industries. This would allow these select industries to either be able to continue to emit with veritable impunity or sell these free credits to less-favoured industries. It's easy to predict which businesses can expect "free allocation:" those that can afford the best lobbyists, those that donate to the government, and those that make up part of the government's voting base.

And of course there is the simple truth that manufacturing is fleeing Ontario at an alarming rate. With failed government policy resulting in some of the highest electricity rates in North America, many businesses simply can no longer to operate in Ontario. Cap-and-trade will not only increase the cost of electricity, but will also increase the cost of the entire manufacturing process, and will create new regulatory barriers for businesses. The premier's cap-and-trade discussion paper anticipates this, and uses the term "carbon leakage" to describe businesses leaving Ontario for other jurisdictions without a carbon tax.

Instead of creating policies that they themselves will result in job losses, the government should focus on creating conditions for growth.

The Canadian Taxpayers Federation recommends the government halt plans to implement a cap-and-trade carbon tax.

Halt High Occupancy Vehicle Tolls

Premier Wynne's government has announced plans to begin tolling portions of Ontario highways for single drivers who wish to use high-occupancy vehicle (HOV) lanes. The tolls will commence with a pilot project on a 16.5 kilometre stretch of highway between Burlington and Oakville. The government will sell 1,000 permits so that single drivers can use the HOV lanes.

Those who buy the pilot project permits or any future toll are in effect being taxed twice for infrastructure. This is not new infrastructure – it has already been bought and paid for through Ontario's high tax rates.

Nor will removing 1,000 drivers from a section of highway that serves 195,000 vehicles a day make any impact on congestion. Like most policies, the HOV toll is more about squeezing money out of the public than it is about policy outcomes.

The Canadian Taxpayers Federation calls on the government to end its plan to impose double taxation for infrastructure in the form of a high-occupancy vehicle toll.

Resist Other New Taxes – Fat Taxes

The Ontario government is faced with a debt load approaching $300 billion, and spends nearly $1 billion each month on debt interest alone. The economic situation in the province is desperate as a result of the government's mismanagement. Instead of getting their fiscal house in order, there is frequent talk from this government of turning to Ontario families in the form of new taxes in order to cover the government's spending problem.

There is often discussion of taxes on junk food, fat, sugar, sugar drinks, and other types of food. Call them what you will, what they amount to are an unfair tax that disproportionately burdens the poor. These types of taxes are problematic not only because they reflect the government's desire to micromanage our individual choices, but also because they are ineffective at achieving their policy goals.

In Mexico, the government implemented a 10% tax on pop. A recent study found that the tax resulted in Mexican's consuming between 4.7 and 15 fewer calories per day – roughly the amount of calories you would burn flipping through the pages of this report. The reduction in calories should barely be considered a rounding error, yet government officials in Ontario have called for the same tax to be applied here.

The Danish government also tried a fat tax, and found it to be a blunt instrument that did not achieve the intended goals. In 2011, the Danish government implemented a tax on all food with saturated fat above 2.3%. The unpopular tax lasted only one year, because it resulted in cross-border shopping rather than reduced fat consumption. And the tax resulted in job losses in food manufacturing and damage to local businesses that relied on food sales that had started to move across the border.

The Canadian Taxpayers Federation recommends that the Ontario government resist all calls for a regressive and oppressive tax on specific food and drink choices.

Resist Other New Taxes – Land Transfer Taxes

The land transfer tax is currently charged on any purchase of land in Ontario on a graduated basis. The total value of a property over $400,000 is charged a 2% provincial land transfer tax. The City of Toronto land transfer tax essentially doubles the tax.

Currently, Toronto is the only city in Ontario that has a municipal land transfer tax. The average detached home in the city is now priced over $1 million, and is becoming further out of reach for many young Canadians looking to buy a home. Add to the purchase price $16,475 provincial land transfer tax and $15,725 Toronto municipal land transfer tax, and the dream becomes even more distant.

There has been recent discussion of doubling the land transfer tax in other municipalities. If municipalities are granted the power to double the land transfer tax, homebuyers will be forced to pay between $10,000 and $15,000 in land transfer tax for a home priced at $450,000.

Mayors and provincial politicians like to talk about what can be done to make housing in Toronto and Ontario more affordable, but the reality is they need to look in the mirror. It is policies like the land transfer tax, HST on new homes, subway construction levies, development charges and convoluted and irrational building codes that drive up the price of housing.

The Canadian Taxpayers Federation recommends that the Ontario government repeal the City of Toronto's power to levy a municipal land transfer tax, and commit that such a tax will never be applied in other cities.

PART IV: FOCUS ON DEBT REDUCTION

Ontario's net debt has more than doubled in the last decade. In 2016, Ontario will reach the milestone of $300 billion in provincial debt. Ontario is the most indebted province, and is in fact the largest subnational borrower in the world. Ontario's per capita debt stands at over $21,000 per person, and by 2017, projections show that Ontario's per capita debt will exceed Quebec's.

Government debt poses serious economic problems. In the long term, high levels of government debt hinder economic growth. In the short term, high debt requires increasing amounts of government revenues be devoted to paying interest on debt instead of services taxpayers value more, like paying for doctors, schools, roads and bridges. In Ontario, interest on debt represents the third largest expenditure of the province, second only to health care and education. In 2015-16, Ontario is projected to spend $11.3 billion on debt interest; nearly one billion dollars each month. That's just to pay our credit card interest, not to touch the capital. And it's money that could otherwise be spent on valued services or on reducing the tax burden on families.

This year will represent Ontario's eighth consecutive deficit. The premier has committed to balancing the budget by 2017-18, but the target is unlikely to be reached if spending is not dramatically constrained. Even the Financial Accountability Office has noted serious risks associated with the government's plan to achieve balance on the promised timeline.

This mountain of debt will eventually be passed on to the next generation of taxpayers. Our children and grandchildren will be forced to pay for our big government and big waste. They will pay higher taxes and live with fewer resources thanks to our choices. This is irresponsible and unfair, and a shameful way to run a province.

The Canadian Taxpayers Federation recommends the government fast track its balanced budget commitment and undertake real spending restraint. We also recommend a legislated debt reduction calendar to ensure the government will indeed meet the benchmarks required to achieve a balanced budget.

PART V: Reduce Spending

Reduce Program Spending

Ontario's increased debt since the recession is primarily attributable to operating deficits rather than capital investments. The Fraser Institute found that about 66% of the increase in provincial debt from 2009-10 to 2014-15 is due to current expenses exceeding revenues, which does not include any capital investments.

The 2010 Drummond Report recommended limiting program spending to 0.8% per year. When population growth and inflation is factored in, real program spending for every man, woman and child needed to fall at an annual average of 2.5% between 2010-11 and 2017-18. Despite this recommendation, program spending since the Drummond Report has grown at 1.2% per year.

The government has consistently shown itself unable to maintain a commitment to controlling program spending. In the 2015 budget, the government projected program spending to grow at a pace of only 0.3% per year. This is projection was a positive development, as it was actually below the recommendation from the Drummond Report (although this would still make the growth rate since the Drummond Report 1.8%).

However, the government estimates increased the rate of program spending to 0.5% growth over three years, and then again in the fall economic statement to 0.9% growth over three years, which now puts the rate of growth above the recommendation in the Drummond report.

In total, the program expense outlook is now $0.4 billion higher than projected in the 2015 budget.

If the Ontario government had held program spending increases to the rate of economic growth since 2003-04, program spending for 2015-16 would be approximately $103 billion rather than the $121 billion the government is now projecting to spend. That's an $18 billion difference, would have put the government into surplus this year. Instead, we're facing our eighth consecutive deficit, and debt approaching $300 billion.

The Canadian Taxpayers Federation recommends that program spending be reduced until the government is able to achieve a balanced budget, at which point any program spending growth should be at or below the rate of inflation and population growth.

Rein in Public Sector Salaries

One way of addressing program spending in Ontario is to address public sector salaries, which account for half of all program spending.

For the first time, the number of public sector employees making over $100,000 exceeded 100,000 people in 2015. The 2015 Sunshine List included 111,440 people. That's a 13.9% increase over the previous year, far above population growth (2.8%) and the overall growth rate of the economy (3.2%).

On average, the Fraser Institute has found that Ontario's government workers receive 11.5% higher wages than their private sector counterparts. On top of this, government workers receive more generous non-wage benefits, like job security.

The Drummond Report recommended that the government tie compensation for government workers to performance, in particular bonuses and raises. Bureaucracies should always be searching for ways to cut waste and eliminate redundancies, and any raise – in particular for management – should come only as a result of finding departmental savings.

This recommendation has not been followed. Instead, in 2015 the government spent an additional $58 million on raises for 8,400 bureaucrats in management. The average raise was $6,905 for each government worker.

Bonuses and severance have also been used to shoehorn extra salary into short-term contracts, instead of as a measure of performance. For example, the CEO of the Pan Am Games received $428,000 in so-called severance at the conclusion of his 19-month contract, on top of his $428,000 annual salary. The result was $1.1 million in compensation for a short term contract.

The Ontario 2015 budget committed to "net zero" wage increases, which means that any wage increase would be offset by savings in other areas. However, the result of the net zero policy by this government has been troubling. In exchange for wage hikes, hypothetical savings that are not guaranteed are promised. In other scenarios, wage hikes are paid for by cutting services that Ontarians value. For example, the recent wage hike provided to Ontario high school teachers was paid for in part by gutting a program designed to help at-risk Ontario students graduate.

In other cases, the responsibility for wage hikes is punted by the government to third party arbitrators. The 2015 agreement between the province and striking prison guards traded the workers' ability to strike for the right for wage increases to be decided by third party arbitrators. There is no obligation, or indeed ability, for the arbitrator to ensure wage hikes are "net zero," and the agreement will lead to an even greater public sector wage burden on taxpayers.

The Canadian Taxpayers Federation recommends that the government reduce public sector wages, which outpace private sector wages. Alternatively, we recommend a true public sector wage freeze until the budget is balanced, following which wages shall increase at a rate no greater than the rate of inflation.

Amend the Interest Arbitration System

As alluded to above, the interest-arbitration system punts government responsibility for wage increases to third party arbitrators who frequently refuse to include the government's ability to pay for wage increases.

The wage arbitration system has resulted in an upward leap-frogging of wages for "comparable" types of work, such as police and fire fighters. Now over 14,000 provincial and municipal police officers on the Sunshine List, earning over $100,000. Over half of the Toronto Police force is on the list.

The various pieces of legislation that cover wage arbitration for police, fire fighters, hospital workers, and now prison guards, does require that the arbitrator consider the government's ability to pay for wage increases. However, in practice this requirement is frequently ignored. There is an approach to labour arbitration law known as the "ability to pay doctrine," which holds that governments have unfettered ability to tax, and should do so to the extent necessary to treat public sector employees fairly in relation to appropriate unionized comparators.

This doctrine should be shocking if we value the principle of taxation only with representation. Appointed and unaccountable arbitrators should not be unilaterally determining that tax hikes must be implemented to pay for government employee wage hikes.

What hope is there for taxpayers on issues of wage restraint when there is entire legal doctrine in labour relations that rejects government claims that they are short of cash? This is why the 2012 Drummond Report recommended that the “ability to pay” criteria be broadened to include the wider economic and fiscal environment, and productivity criteria.

The Canadian Taxpayers Federation recommends an even further narrowing of arbitral discretion. Given the total rejection of considering the government’s ability to pay by some arbitrators, enumerating some specific and objective factors could be useful. For example, a consideration of the total provincial debt burden, debt-to-GDP ratio, and the overall tax burden on the population.

End Corporate Welfare

The government must end the practice of corporate welfare in Ontario. Not only is this a waste of taxpayer dollars, but it also has negative economic effects on the province. By subsidizing their preferred companies, the government creates an uneven playing field and dictates winners and losers in the economy. In creating a competitive and open business climate in Ontario that attracts talent and capital, the government should not interfere by bribing some companies with corporate welfare disguised as “grants” and “investments.”

Since 2004 and up to May 31, 2015, the Ministry of Economic Development has committed to funding 374 projects with a total of $2.36 billion.

In her 2015 annual report, the Auditor General found that the Ministry had not attempted to measure whether the money provided to Ontario businesses since 2004 actually strengthened the economy or made recipients more competitive. The Ministry does not have a plan for measuring outcomes from future corporate welfare, and has not set a goal for minimum GDP growth or unemployment rate reductions.

The Auditor General also found that there was little transparency in how corporate welfare is awarded. Since 2010, about 80% of total approved funding is made through non-publically advertised processes in which only selected businesses were invited to apply for corporate welfare. The ministry provided no criteria for identifying the businesses invited to apply, and could provide no list of the companies invited or those whose applications were unsuccessful. The funding was often awarded without a needs assessment, and some projects were approved for corporate welfare even though there was evidence they would have proceeded without it. None of the ministry's contracts gave the government a share in the success of any projects, and there is no evidence the ministry even considered obtaining an equity stake in the projects in exchange for funding. The government had no performance measures to see if lasting economic benefits, including job creation, were achieved by the corporate welfare beyond the project date.

If the government were to cut spending and balance its books, it could offer lower taxes and a more competitive business climate to all companies, instead of targeted handouts.

The Canadian Taxpayers Federation recommends ending all spending on corporate welfare, and instead focus on making Ontario a competitive tax jurisdiction for all businesses.

Stop Overpaying for Renewables

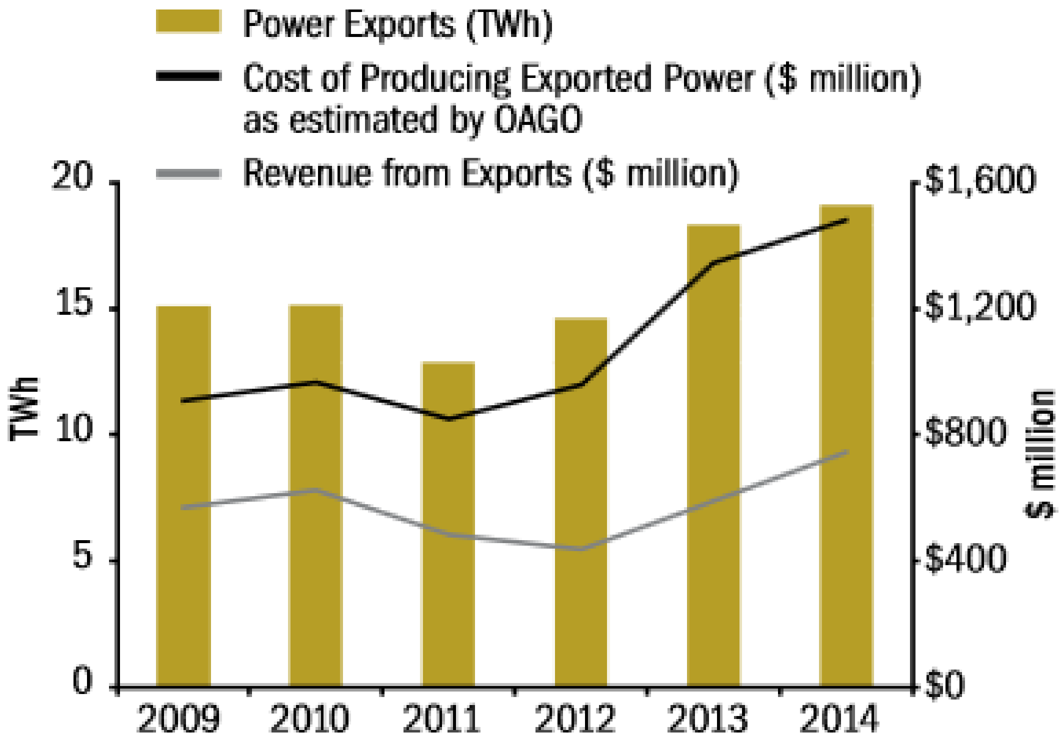
The cost of electricity in Ontario is out of control. The Fraser Institute estimates that since 2004, the cost of power has risen more than 50%, even though prices on the wholesale market are declining.

Part of cause of the dramatic increase in electricity prices is the *Green Energy Act.* The Fraser Institute found that solar and wind systems provided just under 4% of Ontario's power, but accounted for 20% of the average commodity cost in 2013.

The Ontario government has entered 20 year contracts for wind and solar production with guaranteed prices far above market rate. The Auditor General found that the prices under Ontario's guaranteed-price program were double the market price for wind and three and a half times the market price for solar in 2014. As a result, consumers have paid $9.2 billion above market rate for renewable energy.

The guaranteed price program has resulted in a surplus of electricity in Ontario. This surplus is exported at a loss, because the rate Ontario pays to produce electricity is so much higher than the rate the market will pay. Between 2009 and 2014, Ontario exported power at a $3.1 billion loss.

Figure: Power Exports and Their Related Cost and Revenue, 2009-2014



Source: 2015 Auditor General Report

Ontario's guaranteed prices for renewables are still too high, and the government continues to accept new applications for participation in the guaranteed price program.

The Canadian Taxpayers Federation recommends an immediate moratorium on new renewable power capacity, and to revisit the existing guaranteed price contracts for wind and solar electricity. To the extent possible, we recommend revisiting contracts for guaranteed prices to bring those prices in line with market prices.

PART VI: BOOST REVENUE

LCBO

The Ontario government has a stranglehold over liquor distribution in Ontario in the form of the LCBO. Government should stick to sectors where there is a perceived market shortfall, and not monopolize a highly lucrative industry with absurd and contradictory policies. Ontario's puritanical alcohol rules mean that Ontario residents are stuck with inconvenient locations, poor selection, higher prices, and restrictive store hours.

These policies reflect a government-knows-best mindset that regulations alone are not enough to achieve policy objectives, and that government must control the supply of alcohol in order to protect us from ourselves. Ontarians are now less responsible than our neighbours in Quebec or New York, which have private liquor sales.

The government ownership of the LCBO also means the stores are subject to the high salaries and labour strife that plague public sector unions in Ontario. In 2015, there were 267 LCBO employees on the Sunshine List, earning over $100,000.

Alberta privatized liquor sales in 1993, and the results were telling. Stores grew from 208 to 1,324 and products available rose from 2,200 to over 19,300.

Ontario has taken some steps to loosen government control over alcohol sales by allowing certain grocery stores to sell beer. Currently, there are only 58 grocery stores permitted to sell beer. The government is allowing another round of bidding for 92 additional licences to sell beer by May 2017.

Beer in grocery stores is a baby step in the right direction, but even this simple policy is overly bureaucratic and micromanaged. The government created a set of government rules that allow a select few government-approved large grocery stores to sell beer. None of the existing stores are in rural areas, or even in the downtown core in Toronto.

The employees who stock beer onto the shelves must also be over 18 and have government accreditation from the SmartServe program, even though those who stock the shelves have no sales interaction with consumers.

Beer also cannot be sold after 6 pm on Sundays, or in quantities larger than six-packs. That privilege is retained by the foreign-owned former monopoly beer retailer, the Beer Store, which has donated over $1.1 million to Ontario politicians over the past decade. Although there is a 10 LCBO's in the greater Toronto area are participating in a "pilot project" to test whether consumers can be trusted to buy beer in twelve-packs.

The government is currently studying whether wine can be sold in grocery stores as well, and the Canadian Taxpayers Federation is concerned that any opening of wine sales in private stores will involve similar red tape issues.

The LCBO is a revenue generating asset, but this does not mean that it is an asset that is best managed by the government.

The Canadian Taxpayers Federation recommends breaking the government monopoly on alcohol sales by allowing alcohol sales in private retail stores. We also recommend breaking up the LCBO and selling the agencies' capital assets, and applying the revenue towards the government's debt.

Hydro One

The government announced plans for a partial sell off of Hydro One in the 2015 budget. The first initial public offering of shares of the company has already occurred, and 60% of the company will be sold.

Hydro One is a badly managed and unproductive asset that could benefit from an infusion of private sector expertise. However, if the government retains operational control of the company, many of the problems that plague the company, including the large pension liability and high salaries of hydro workers, will remain unaddressed.

Hydro One is a revenue generating asset, but it is an asset that is underperforming in government hands. Just because the government owns something, doesn't mean it should own that asset or is capable of managing that asset.

The Canadian Taxpayers Federation recommends the ongoing sale of Hydro One allow private sector expertise to control the management direction of the company.

The revenue from the sale of Hydro One is dedicated to be spent on infrastructure. The revenue is required to be set into the Trillium Trust. In the Fall Economic Statement, the projected revenue from the Hydro One sale appears to form a part of the general revenue for the government. This appears to be an accounting trick, which allows the government to count the revenue from the sale twice, even though it clearly can only be spent once. The revenue from the sale cannot be both applied towards deficit reduction, and towards spending on infrastructure.

The Canadian Taxpayers Federation recommends clarification from the government of where the revenue from the Hydro One sale will in fact be applied. The Canadian Taxpayers Federation further recommends that the revenue from this sale not be dedicated to new

spending, but rather, be applied as part of a comprehensive plan to eliminating the deficit when combined with controlled spending.

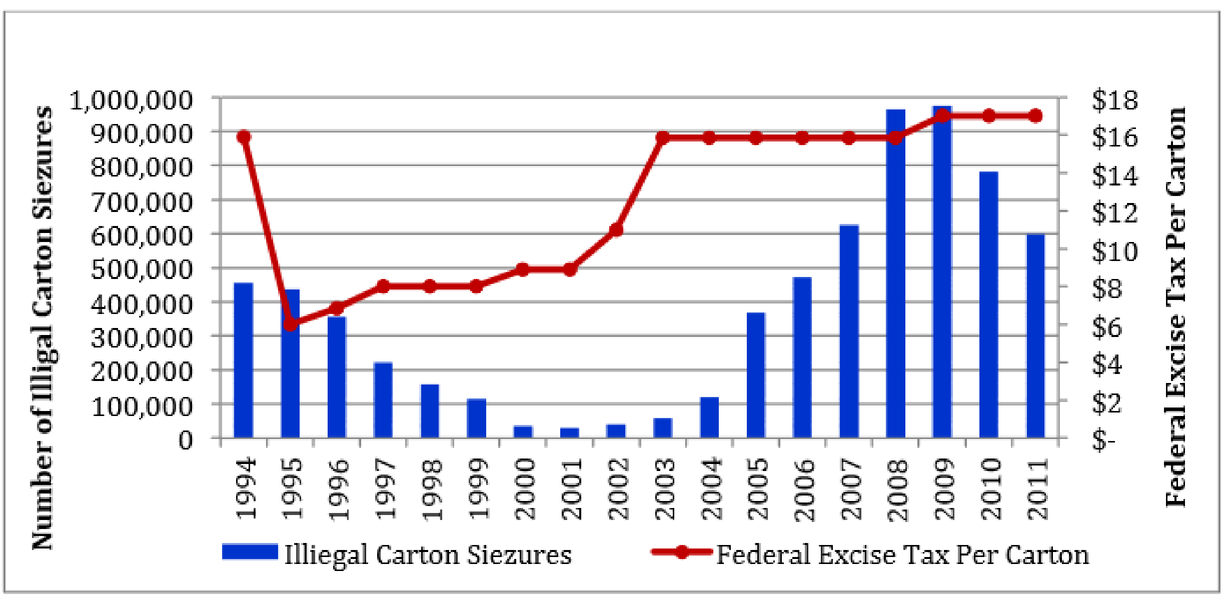
Contraband Tobacco

The contraband tobacco trade in Canada is one of the most serious public policy concerns in the country, and yet, the issue is rarely discussed. The government of Ontario gives lip service to the issue of the growing contraband tobacco market in the province, but it continues to flip flop on policy direction and has been unable to implement a strategy to reduce the prevalence of illegal and untaxed tobacco in Ontario.

The overall contraband tobacco trade in Ontario cost an estimated 832.6 million and $1.22 billion (high) in lost tax revenue in 2014-15. This adds up to an estimated $5.9 billion to $9.2 billion over the last eight years.

The CTF has studied the issue of contraband tobacco. In our 2012 report *How Much is Contraband Tobacco Costing Taxpayers in Ontario*, we illustrated the correlation between tax rates and illegal activity. In 1994, the federal government lowered tax rates, and RCMP seizures dropped by 93%.

Chart: Tobacco Tax per Carton vs. Number of Illegal Carton Seizures



Despite evidence that high excise taxes drive the black market in cigarettes, the Ontario government continues to increase the tax rate, and has not changed the allocation system for aboriginal reserves that fuels the black market. Instead, the government has focused on antismoking campaigns and policies like banning cigarettes on patios and in public parks. The real dangers, of course, come from unmarked and unregulated tobacco that circumvents Canada's laws and is distributed without warning labels and sold without proof of age.

The Canadian Taxpayers Federation recommends the government make restoring lost tobacco tax revenue a priority, and recommends striking a new deal with tobacco manufacturers on native reserves to help promote economic development and legitimize markets. The government should also revisit the quantity of tobacco allocated on reserves.

PART VII: Accountability

Restore Auditor General Oversight for Government Advertising

In December 2004, Ontario passed the landmark *Government Advertising Act*, the only law of its kind in Canada, which gives the Auditor General the final say on whether a government ad will make it onto the airwaves. Under this law, a government ad will be rejected if it uses tax dollars to pay for a partisan message.

Until now, the definition of partisan has been at the discretion of the Auditor General, who is supported by a four-person independent body called the Advertising Review Board. Her office has developed a set of criteria to determine whether an ad is partisan. The Advertising Review Board asks if the ad is fair, balanced and objective, if it is factual, if it is self-congratulatory, timed for political gain, or if it makes inappropriate use of the colour associated with the governing party.

But the Ontario budget tabled April 23rd has proposed amendments to the *Government Advertising Act* which would narrow the definition of partisan, and remove the Auditor General's discretion. The changes are so drastic, that on May 12th, the Auditor General tabled a special report to the legislature warning that these changes would turn her office into a "rubber stamp" for partisan ads.

The changes have narrowed the definition of a "partisan" ad to only those ads which contain a voice or image of an MPP, the name or logo of a party, or the colour of the governing party "to a significant degree."

During the 2015 federal general election, the Ontario government ran ads promoting the ORPP. The issue of retirement savings and CPP was a federal election issue, and the Premier's support of Liberal leader Justin Trudeau's proposal for CPP reform was well known. The Auditor General stated that under the old rules, the Premier's adds would have been considered partisan and would not have been run, because of they were timed to coincide with the federal election.

The Canadian Taxpayers Federation calls on the government to restore the discretionary powers to the Auditor General to determine what government advertisements are partisan.

Reform the Public Appointment Process

In September 2015, the Ontario Provincial Police laid bribery charges against Gerry Lougheed, a top Sudbury Liberal activist. The charges relate to a conversation Lougheed had with Andrew Oliver, who was hoping to run as a Liberal candidate in a forthcoming by-election. In audio recordings, Lougheed is heard suggesting that Oliver drop out in favour of the party's preferred candidate, and in exchange he may receive a political appointment to an agency, board or commission.

In 2014, 1,384 appointments were made to provincial agencies and other entities. There is a government Standing Committee on Agencies that interviews candidates for appointments, and may question them related to partisanship and the nature of their appointment. In 2014, of the total 1,384 appointments, only 10 individuals were interviewed by the committee. That is only five interviews per session of Parliament. The Committee also has the ability to issue a non-concurrence if they view an appointee as inappropriate. Between 2003 and 2014, there was only one non-concurrence (it occurred in November 2013).

Given the enormous number of political appointments the government makes to agencies, boards and commissions, some accountability is required. Governments of all stripes may be tempted to improperly offer appointments as a form of political favour.

The Canadian Taxpayers Federation recommends removing political control for the appointment process to reduce the temptation on governments to improperly offer appointments as political favours. The Canadian Taxpayers Federation further recommends reducing the total number of positions, which represent bureaucratic bloat.

Amend the Police Services Act to End Pay for Criminal Cops

Ontario is the only province in Canada that allows charged — let alone convicted — police officers to continue to receive pay. Under the Police Services Act, officers facing criminal charges must be suspended with pay until they resign, are terminated or reintegrated, in a process that can take years.

Convicted officers can remain suspended with pay until they are sentenced to a term of imprisonment. After sentenced to imprisonment, it is at the discretion of the chief or Police Board to suspend the officer without pay. But even then, the officer keeps his job. And if an officer is convicted of a serious criminal offence and receives a conditional discharge (no prison time) the option of unpaid leave is not even available.

An officer can only be fired after a decision by a disciplinary tribunal, which can take years.

There are currently at least 50 officers with the province's four largest police officers suspended from duty for alleged misconduct, who are nevertheless receiving pay. With police earning on average about $90,000 per year, these forces alone are spending approximately $4.5 million on officers who are not working because of alleged misconduct.

But the broader problem is one of public trust. In almost any other field, if you commit a criminal offence in the course of your job — defraud your employer, steal from the till, assault a customer — you will be fired for cause. But if you're a police officer in Ontario, special rules apply.

The Canadian Taxpayers Federation recommends that the *Police Services Act* be amended to give police chiefs the power to suspend officers without pay when they have been charged with a criminal offence.