2003/04 Ontario Pre-Budget Submission

CANADIAN Taxpayers FEDERATION Fighting for taxpayers

CTF Urges Government to Get Back on Tax Relief Freeway

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2003/04 Budget Recommendations:

Tax Relief & Fiscal Responsibility

1. *To ensure the economy remains competitive and strong it is essential that the Ontario government re-commit to the fiscal formula voters twice elected it to enact. That is to say, modest tax relief combined with even-handed spending increases and some debt-repayment.*

2. *The commitment to a balanced provincial budget in 2002/03 must be met. It has the full endorsement of the Canadian Taxpayers Federation. Under no circumstance should the Ontario government return to deficit financed spending*

3. *The government should apply the contingency reserve to pay down debt at the end of each fiscal year and establish a debt-repayment schedule.*

4. *The Ontario government should restore the tax relief measures that were delayed in the 2002/03 budget.*

5. *To ensure the tax system does not discourage the incentive to work the government of Ontario must eliminate the 20 per cent surtax on all income earners in the upcoming budget and begin to phase out the 36 per cent rate. As an interim step, our truth in taxation recommendation is for the government to lower the threshold of the 9.15 per cent second rate to $55,000, create a new third rate of 10.98 per cent between incomes of $55,000 and $70,000, and start the true top rate of 17.41 per cent on incomes above $70,000. These changes are meant to reflect the real rates taxpayers already pay and provide greater transparency to Ontario's tax system. Under no circumstance should the government change its rates to collect additional revenue from taxpayers.*

6. *It is a virtual unanimous belief that eliminating capital taxes would increase productivity and attract investment. The Ontario government should abolish its capital tax.*

7. *The Ontario government should send a signal to Ottawa and other job-taxing jurisdictions that it is time to get serious about taking the tax off job creation by lowering and establishing a schedule to eliminate the provincial payroll tax.*

8. *The Ontario government should make a greater effort to collect outstanding business taxes.*

Streamline Government

9. *The government should appoint an all-powerful committee to review departmental spending with the mandate of rooting out waste and ending programmes that no longer serve the public interest.*

10. *Departments such as Citizenship (a federal responsibility), Enterprise, Opportunity and Innovation, and Intergovernmental Affairs are ripe for closure.*

11. *The Ontario government should meet increased expenditures through re-allocation within existing budget envelopes. In the post-deficit era, the province must remain as vigilant in controlling expenditures as it was during its effort to eliminate the deficit.*

12. *The government should open up health care to innovation and private service-providers, as European countries have done, to save money and improve on quality service delivery.*

13. *Ontario must continue to exert greater autonomy in setting its health care policy.*

14. *The CTF recommends widespread privatization and public-private partnerships to promote competition, entrepreneurship, and efficient and cost-effective services. The provincial government should attempt to 'steer' the economy not 'row' it via direct involvement.*

15. *Crown corporations like TV Ontario (TVO) and the Liquor Control Board of Ontario should be readied for divestiture or privatization. Other candidates such as fleet management, certain transit operations, and information technology servicing can also be identified*

Electricity Sector

16. *The Ontario government needs to go back to the drawing board and develop a plan to meet the needs of Ontario electricity consumers and ensures there is long-term investment by the private sector to meet the province's growing power demand.*

Property Taxes

17. *The government should establish an all-party committee to consider alternatives to the Current Value Assessment tax scheme that focuses on usage and tax fairness, rather than property prices.*

18. *The government should provide property owners the same protection it gave businesses by capping property assessments as an interim measure until a better system is devised.*

Structural Economic Challenges

The Ontario economy continued to grow in 2002 and performed better than predicted. Private-sector forecasters on average expect real growth to be 3.5 per cent in 2002, up from a consensus forecast of 3.2 per cent at the time of the June budget. However, continued economic uncertainty in the United States has moderated the outlook in 2003. Growth is expected to be 3.5 per cent rather than the 4.3 per cent projected last June. For 2004, forecasters expect real growth to remain bullish at 3.9 per cent.

Private Sector Forecast for Ontario Economy
(Annual Average, Per Cent)

	2001	2002	2003p	2004p
Real GDP Growth	1.5%	3.5%	3.5%	3.9%
Unemployment Rate	6.3%	7.1%	6.7%	6.4%
CPI Inflation	3.1%	2.1%	2.4%	1.9%

P is Projection of Private Sector Average.

Source: Statistics Canada, Ontario Ministry of Finance.

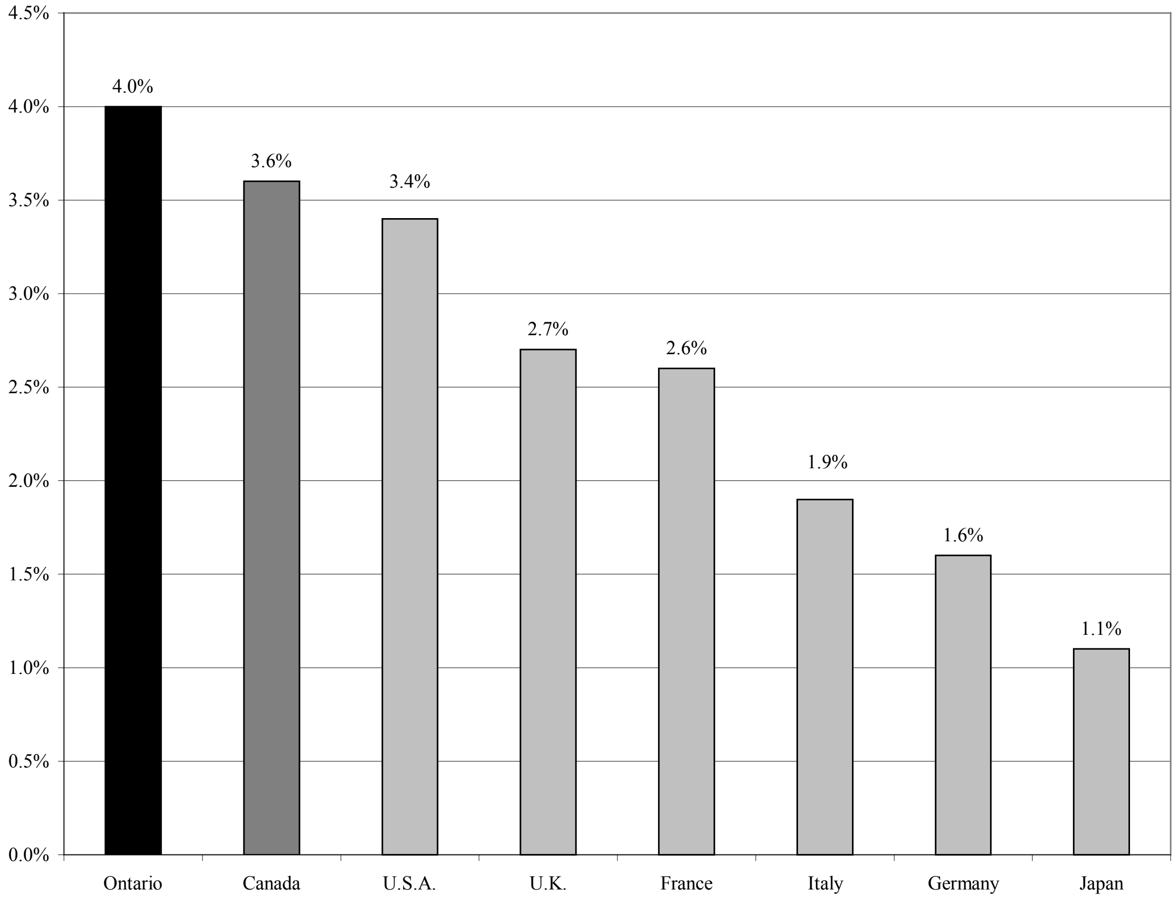
While the fiscal indicators signal continued robust economic performance, a heightened level of caution and prudence must underlie the planning of Ontario's fiscal plan in the 2003/04 budget. To ensure the economy remains competitive and strong it is essential that the provincial government re-commit to the fiscal formula voters twice elected it to enact. That is to say, modest tax relief combined with even-handed spending increases and some debt-repayment. As the Minister of Finance reminded us recently, "[Ontario's] strong performance in the face of adversity did not happen by accident."[1]

The Canadian Taxpayers Federation (CTF) acknowledges the far-reaching and positive impact the economic reforms made by the government since 1995 have had on the province. A 30 per cent cut in personal income taxes between 1996 and 1998 and an ongoing additional 20 per cent personal income tax reduction have put money back into the pockets of working Ontarians. Lowering Ontario's small business income tax rate from 9.5 per cent to 5.5 per cent and reducing the general corporate income tax rate from 15.5 per cent to 12.5 per cent have delivered growth and prosperity.

Together these measures helped foster an economic environment that created one million net new jobs, lowered welfare dependency, and fueled economic growth stronger than any other Canadian province and any other G-7 nation.

[1] 2002 Ontario Economic Outlook and Fiscal Review, page 1, December 4, 2002.

Economic Growth: Ontario and the G-7
Average Real GDP Growth, 1996 – 2001 (Per Cent)



Source: Statistics Canada, Organization for Economic Co-operation and Development, and Ontario Ministry of Finance.

Yet there is growing concern the government has turned its back on tax relief and debt reduction in favour of increased spending. In the past year, a legislated tax relief schedule was delayed and the prospect of additional debt relief looks unlikely. A malaise has caused the provincial government to drift away from meeting its stated public policy objectives. A backlog of reforms on tax relief, energy, education, privatization, municipal issues and a core services review is undermining the government's reputation as a responsible manager.

It is hoped this submission will help nudge the government back on track with its ambitious, yet manageable, reform agenda.

2002 CTF Supporter Survey Questionnaire

Question: In terms of budget priorities, should the Ontario government be required by law to balance its budget annually or over a 3 or 4-year cycle?

- Annual balanced budget 86%
- Balanced budget over cycle 7%

The commitment to a balanced provincial budget in 2002/03 has the full endorsement of the CTF. Yet there is unease that the flurry of spending announced in the final weeks of 2002 and the recent decision not to sell any part of Hydro One could derail the budget plan and put the province's finances back in the red. The June budget and the December Economic Outlook both counted $2.4-billion in revenues from the sales of government enterprises." Where this money will be found is unclear and should be identified.

Under no circumstance should the Ontario government return to deficit financed spending. If Ontario politicians need an example of why debt undermines prosperity, they need only consider this:

- If there was no provincial debt and no interest to pay on it, provincial income tax could be slashed by 49 per cent — without a corresponding reduction in programme spending. Alternatively, the health care budget could be hiked by 34 per cent — without a corresponding tax increase. Debt interest has resulted in higher taxes and restricted programme spending options.

Debt Servicing as a Percentage of Personal Income Tax Revenues and as a Percentage of Health Spending: 2001-2002 ($ Million)

Year	Personal Income Tax Revenue	Debt Servicing Costs	Debt Servicing as a percentage of PIT Revenue	Health Spending	Debt Servicing Costs	Debt Servicing as a percentage of Health Spending
2001-2002	19,114	9,424	49%	27,938	9,424	34%

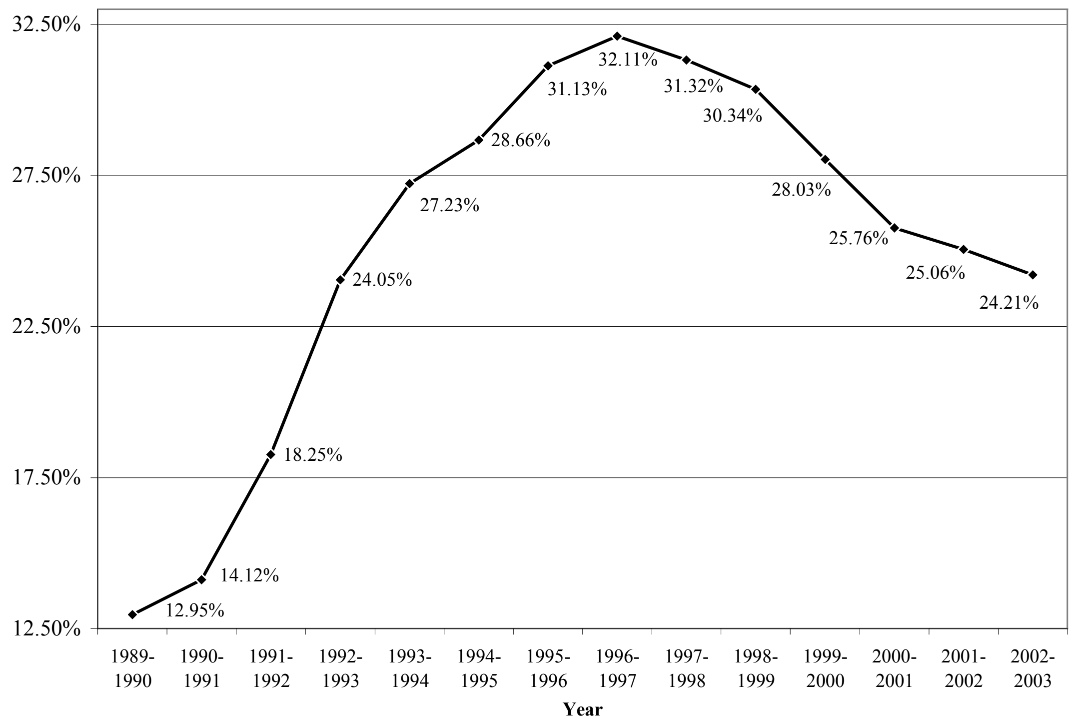
Source: Tax Me I'm Canadian, pages 46 and 47, based on Statistics Canada FMS Data.

Provincial Debt

The dividends from lower taxes and strong economic growth are paying off. The province's debt is $110-billion and the debt as a percentage of GDP (debt-to-GDP ratio) is 24.21 per cent. Although the ratio has declined — thanks to a strong economy and modest debt re-payments — from the record high 32.11 per cent set in 1996, by historical standards it is still too high. In 1989, the debt-to-GDP ratio was a mere 12.95 per cent.

So long as the economy grows and the government does not return to deficit spending, the province can claim some success in lowering the overall debt burden. To further this aim, we recommend that the government apply the contingency reserve against the debt at the end of each fiscal year and establish a debt-repayment schedule.

Ontario's Debt to GDP Ratio 1989 to 2002



A government budget is more than a catalogue of figures and forecasts. It is a public policy decision that affects the lives of individuals and families. Governments at all levels must strive to ensure the tax dollars they collect are allocated efficiently to programme and service areas that provide the greatest good at the lowest cost to taxpayers.

With this in mind the CTF makes the following recommendations:

- *To ensure the economy remains competitive and strong it is essential that the Ontario government re-commit to the fiscal formula voters twice elected it to enact. That is to say, modest tax relief combined with even-handed spending increases and some debt-repayment.*
- *The commitment to a balanced provincial budget in 2002/03 must be met. It has the full endorsement of the Canadian Taxpayers Federation. Under no circumstance should the Ontario government return to deficit financed spending.*
- *The government should apply the contingency reserve to pay down debt at the end of each fiscal year and establish a debt-repayment schedule.*

Competitive Taxation

The biggest fiscal blunder the Ontario government made in 2002 was amending the *Taxpayer Protection Act* to delay promised personal and corporate tax relief and freeze the education tax credit. The TPA law requires a province-wide referendum on most tax increases or a delay in legislated tax cuts. To evade this legal requirement the government amended the TPA, signaling tax relief is no longer a priority.

Despite past cuts to personal income taxes, CTF supporters are not convinced that the province's total tax burden is on the decline. The *2002 CTF Supporter Survey* shows that 43 per cent of respondents believe that Ontario's tax burden increased last year, and 43 per cent of respondents believed the tax burden decreased.

2002 CTF Supporter Survey Questionnaire

Question: Do you feel your provincial tax burden over the past two years has…?

• Increased	43%
• Decreased	43%
• Remained the same	14%

These sentiments likely stem from the mixed message taxpayers heard in 2002. On one hand, personal and corporate incomes taxes declined on January 1, 2002, and the education tax credit was introduced for 2002 and subsequent taxation years. On the other hand, the June budget delayed scheduled tax cuts until 2004 and increased other taxes:

- All personal income tax cuts for low and middle-income earners scheduled for 2003 were delayed until 2004. (On January 1, 2003, Ontario's first income tax bracket was set to fall to 5.65 per cent from 6.05 per cent; and the second bracket from 9.15 per cent to 8.85 per cent).
- Elimination of the 20 per cent surtax on middle-income earners was also delayed.
- The education tax credit will remain $700 for another year or 10 per cent of the first $7,000 per child for tuition fees at independent schools. (The government had scheduled the credit to increase to 20 per cent or $1,400.)
- The government put off implementing the final instalment of a cut to the business education property tax and the second half of a cut to residential education property tax. They are now scheduled to materialize in 2004.
- The scheduled corporate income tax cut from 12.5 per cent to 11 per cent was similarly postponed until 2004.
- The provincial tobacco tax rate increased by $5 per carton in 2002 ($520-million/year).

Meanwhile, some notable tax cuts did occur that will stimulate investment. Small businesses saw the tax rate cut to 5.5 per cent from 6 per cent on January 1, 2003. The tax rate on mining companies also dropped from 14 per cent to 12 per cent.

The decision to delay scheduled personal and corporate tax cuts and raise the education tax credit was regrettable. When the 2003/04 budget is delivered the provincial government should restore the original tax reduction schedule.

Tax Freedom Day in Ontario arrived in 2002 on June 27, two days later than in 2001. This means Ontarians fell further behind and had to work longer to pay the taxes levied by all governments.

Principles of Taxation

- The tax system should be simple. The accountability of government is enhanced when citizens understand their tax system. Complexity is an adversary of accountability.

- The tax burden should be low, since dollars multiply more rapidly in private hands than in government pockets. High rates retard wealth creation by discouraging risk-taking, saving, and investment.

- The tax system should be flatter. This is important because simplicity is enhanced with fewer tax brackets. As long as the province retains a generous basic personal exemption the tax system will remain progressive.

- The purpose of the tax system should be to calculate and collect taxes in the fairest, lowest and most efficient way possible for the operations of government.

- The tax system should generate revenues necessary to cover the cost of essential government programmes and services, no more, no less.

- The tax system should not be used as an instrument of social policy, designed as a means to political ends. Taxes are a vehicle for raising revenues. Social policy issues should be addressed through government programmes and services, not through the tax system.

- The tax system should enhance Ontario’s competitive standing with other provinces and states south of the border.

- A tax system that is simple, low, flat and fair will:
    1. Promote the incentive to work, save and invest.
    2. Increase disposable incomes and reduce personal debt levels.
    3. Generate better economic prosperity for all citizens.

Looking ahead — personal taxes

Because of the positive steps the government has taken to reduce income taxes on lower and middle-income earners since 1996 the tax gap with higher-income earners is widening. Currently, the personal income tax rate on workers who earn less than $32,121 is 6.05 per cent of wages. Those who earn between $32,121 and $64,306 pay 9.15 per cent. The top Ontario personal rate of 11.16 per cent applies to incomes above $64,306. Unlike the first two rates, there are no plans to reduce the top rate.

Ontario Personal Income Tax Rates and Thresholds: 2003 Tax Year

	1st Rate	2nd Rate	3rd Rate	Surtax	Surtax
	$0 $32,121	$32,121 $64,306	$64,306 +	Tax Payable: $3,710 $4,682	Tax Payable: $4,682 +
Rate	6.05%	9.15%	11.16%	20.00%	56.00% (20% + 36%)

Two levels of surtaxes cloud the tax picture — a 20 per cent rate on provincial income tax paid between $3,710 and $4,682, and a 56 per cent rate (the 20 per cent rate plus a second 36 per cent rate) on provincial income tax paid above $4,682. Measured in terms of earned income, the 20 per cent surtax is levied against workers who earn between $55,000 and $65,000[2].

These surtaxes are a ruse that allows Ontario to claim there are only three low rates. They make it difficult for taxpayers to know exactly how large the tax bite is or to compare tax rates with other jurisdictions. Ontario is in company with the high tax provinces of P.E.I., Nova Scotia and Newfoundland to impose surtaxes.

But the hidden truth of these surtaxes means individual Ontario taxpayers face four rates, and for individuals able to claim a spousal exemption there are five rates. The surtaxes raise the effective high-income tax rate to 17.41 per cent, a far cry from the posted 11.16 per cent rate. (See 2003 Tax Year Table, next page.)

Ontario's top marginal tax rate is high even by Canadian standards and puts this province on par with Quebec and Atlantic Canada — high tax and lower growth jurisdictions. Ontario's true top rate of 17.41 per cent is punitive, contributes to the brain drain, and is a disincentive to work. While the CTF strongly supports the government's tax relief programme, the top marginal rate should be given much greater attention and reduced.

[2] CTF estimate.

Ontario Personal Income Tax Rates and Thresholds: 2003 Tax Year

Attenuating Surtax on Tax Payable as Revised Thresholds and Rates

	Basic Personal Exemption	Spousal Exemption	1st Rate	2nd Rate	3rd Rate	4th Rate	5th Rate
Single	$7,746	n/a	$0 $32,121	$32,121 $55,000 (aprx.)	$55,000 $65,000 (aprx.)	n/a	$65,000 + (aprx.)
Rate			6.05%	9.15%	10.98%	n/a	17.41%
Married	$7,746	$6,586	$0 $32,121	$32,121 $60,000 (aprx.)	$60,000 $65,000 (aprx.)	$65,000 $68,000 (aprx.)	$68,000 + (aprx.)
Rate			6.05%	9.15%	10.98%	13.39%	17.41%

In the 2001/02 budget the government announced it would eliminate the 20 per cent surtax currently levied against workers who earn between $55,000 and $65,000. It will be welcome news when this tax change is finally implemented in 2004. Yet this change will widen the tax inequality and strengthen the disincentive on individuals with higher incomes to work longer hours. Once the lower and middle brackets fall again in 2004, the tax gap will expand further for people earning more than $65,000 a year.

Ontario Personal Income Tax Rates and Thresholds: 2004 Tax Year
As Promised in the 2001 Budget

	Basic Personal Exemption	Spousal Exemption	1st Rate	2nd Rate	3rd Rate Incl. Surtax
	$7,989	$6,784	$0 $33,085	$33,085 $66,235	$67,000 + (aprx.)
Rate			5.65%	8.85%	17.41%

Note: 2004 tax year assumes 3% indexation factor and is based on the tax reductions outlined in the 2001 Budget, Page C 93.

To ensure the tax system does not discourage the incentive to work the government of Ontario must eliminate the 20 per cent surtax on all income earners in the upcoming budget and begin to phase out the 36 per cent rate.

If the government is not prepared to provide tax relief to all income earners, it should at least be honest about what the tax rates really are. Therefore, as an interim step, the government should fix the rates so they represent the true levels of taxation:

- Lower the threshold of the 9.15 per cent second rate to $55,000.
- Create a new third rate of 10.98 per cent between incomes of $55,000 and $70,000.
- Start the true top rate of 17.41 per cent on incomes above $70,000. (Note: Income earners do not pay the top federal income tax rate until their taxable income exceeds $104,648)

These changes are meant to reflect the real rates taxpayers already pay and provide greater transparency to Ontario's tax system. Under no circumstance should the government change its rates to collect additional revenue from taxpayers.

Looking ahead — corporate & payroll taxes

High taxes cause businesses to seek more attractive investment climates in other jurisdictions. Until recently, Ontario's general combined corporate income tax rate was one of the highest in the industrialized world. And in 1997 Ontario had the highest provincial small business tax rate in Canada.

Ontario's business tax rates have and continue to move in the right direction — down. The small business income tax rate has been cut by some 36 per cent; the general corporate income tax rate has been reduced by nearly 20 per cent; and there has been a 40 per cent increase in the income level eligible for the small business tax rate.

The tax changes made by the government have provided employers with the incentive to expand employment. They have made the province a more competitive place to do business and help raise our standard of living. Indeed, investor friendly tax changes on both small and large businesses are one reason why a super-charged Ontario economy has created one million net new jobs since 1995.

Reforming the province's business tax regime to ensure long-term growth and competitiveness must not stop.

The Ontario government announced in the 2001/02 budget that it would work to reduce capital taxes. This was welcome news since these taxes retard the economy by increasing the cost of business and discouraging investments in plant, machinery and equipment, which are all essential ingredients for long-term growth and job creation.

Capital taxes are a particularly insidious form of taxation because every dollar spent on plant, machinery and equipment becomes part of the taxation base. The tax is unrelated to profits and becomes an annual cost to business. In times of slow or even negative profitability, companies are required to pay the capital tax even if they are losing money. And because the tax is levied repeatedly each year over the productive life of an investment, the cumulative effect of the tax is significant. The burden of capital taxes falls disproportionately on financial services and capital-intensive industries — key contributors to Ontario's economy and providers of high wage jobs.

It is a unanimous belief that eliminating capital taxes would increase productivity and attract investment. Alberta has eliminated all capital taxes, British Columbia has just completed a two-year phase out of its general capital tax, and Quebec announced in its previous budget a phased reduction of more than 50 per cent in its capital tax rates. The Ontario government should abolish its capital tax.

The payroll tax is nothing but a tax on jobs. While it is Ontario employers who foot the payroll bill, these taxes hurt workers and damage our economy. They punish middle and lower-income workers. The Ontario government should send a signal to Ottawa and other job-taxing jurisdictions that it is time to get serious about taking the tax off job creation by lowering and establishing a schedule to eliminate the provincial payroll tax.

Finally, it is important that business taxes are collected. The provincial auditor reported that due to mismanagement some 355,000 businesses were able to evade filing income-tax returns. Over the past two years, corporate income taxes paid to the province declined by 33 per cent, a third higher than the decline in corporate income taxes paid to Ottawa (federal corporate income tax revenues dropped by 20.2 per cent between 2000/01 and 2002/03). Lost revenue means the government has less scope for general tax relief and funding other programme priorities.

Recommendations:

- *The Ontario government should restore the tax relief measures that were delayed in the 2002/03 budget.*
- *To ensure the tax system does not discourage the incentive to work the government of Ontario must eliminate the 20 per cent surtax on all income earners in the upcoming budget and begin to phase out the 36 per cent rate. As an interim step, our truth in taxation recommendation is for the government to lower the threshold of the 9.15 per cent second rate to $55,000, create a new third rate of 10.98 per cent between incomes of $55,000 and $70,000, and start the true top rate of 17.41 per cent on incomes above $70,000. These changes are meant to reflect the real rates taxpayers already pay and provide greater transparency to Ontario's tax system. Under no circumstance should the government change its rates to collect additional revenue from taxpayers.*
- *It is a virtual unanimous belief that eliminating capital taxes would increase productivity and attract investment. The Ontario government should abolish its capital tax.*
- *The Ontario government should send a signal to Ottawa and other job-taxing jurisdictions that it is time to get serious about taking the tax off job creation by lowering and establishing a schedule to eliminate the provincial payroll tax.*
- *The Ontario government should make a greater effort to collect outstanding business taxes.*

Streamline Spending

When the government presented its last budget and announced a delay in the tax relief schedule it said a slowing economy forced it to be prudent. Yet the tax freeze was not accompanied by a corresponding freeze in programme spending. Total spending is budgeted to reach at least $65.6-billion in the 2002/03 fiscal year and is up approximately $2.2-billion over the previous year.

The government was twice elected to make the tough decisions special interest groups seldom consider. It is important that the successful fiscal formula championed since 1995 be re-instated. That is to say, modest tax relief combined with even-handed spending increases and a touch of debt pay down.

When every last penny is being spent, it is difficult for government to cut taxes or pay down debt. We recommend that the government appoint an all-powerful committee to review departmental spending with the mandate of rooting out waste and ending programmes that no longer serve the public interest. Departments such as Citizenship (a federal responsibility), Enterprise, Opportunity and Innovation, and Intergovernmental Affairs are ripe for closure. These bureaucracies are budgeted at $340-million, shutting them down could yield savings of $200/$250-million a year.

To ensure that the province operates within its means the Ontario government should meet increased expenditures through re-allocation within existing budget envelopes. In the post-deficit era, the province must remain as vigilant in controlling expenditures as it was during its effort to eliminate the deficit.

Contrary to what has become a congenial truth for critics of the present government, programme expenditures have not declined on a per capita basis. In fact, they have climbed by 9.27 per cent over the past four years.

Twelve year Record of Program Spending ($ Million)

Year	Program Spending	Population	Per Capita	Annual growth in Per Capita Expenditures
1991-1992	47,487	10,428	4,553.96	14.00%
1992-1993	48,942	10,570	4,630.07	1.67%
1993-1994	47,747	10,690	4,466.32	-3.54%
1994-1995	48,336	10,828	4,464.19	-0.05%
1995-1996	49,798	10,965	4,541.58	1.73%
1996-1997	47,748	11,101	4,301.27	-5.29%
1997-1998	47,755	11,250	4,245.08	-1.31%
1998-1999	48,772	11,387	4,283.02	0.89%
1999-2000	52,412	11,523	4,548.59	6.20%
2000-2001	52,524	11,685	4,494.88	-1.18%
2001-2002	54,413	11,874	4,582.38	1.95%
2002-2003	56,575	12,068	4,687.90	2.30%

Ontario taxpayers can take comfort in the fact that programme spending is not running out of control throughout the government. Total expenditures in areas other than health and education actually remained flat. ($18.595-billion in 2001/02 and $18.285-billion in 2002/03).

Unfortunately for taxpayers, the government's solution for dealing with its two priority areas has been to break open the treasury. In the last budget, health care received a further $1.7-billion spending boost — a 6.99 per cent increase. Ontario is anything but remiss in health care funding. The education budget recorded a 6.71 per cent jump in spending.

The growth in these priority expenditure areas is unsustainable. A quick survey of Ontario government web sites — especially the Ministry of Long-Term Care — indicates an alarming frequency of funding announcements.

Growth in Per Capita Health Spending ($ million)

Year	Health Spending	Per Capita	Growth
1995-1996	$17,607	$1,605.76	n/a
1996-1997	17,760	1,599.87	-0.37%
1997-1998	18,389	1,634.65	2.17%
1998-1999	19,743	1,733.77	6.06%
1999-2000	22,001	1,909.36	10.13%
2000-2001	22,993	1,967.69	3.05%
2001-2002	24,108	2,030.25	3.18%
2002-2003	25,794	2,137.33	5.27%
4 year Av.			**5.41%**

Over the past four years, health expenditures have increased at 5.41 per cent per year, more than doubling the annual increase (2.32 per cent) in programme spending during the same four-year period.

Health care expenditures for fiscal 2002/03 are projected to reach $25.8-billion or 45.6 per cent of programme costs (39.3 per cent of the total provincial budget). Demographic pressures, technology and pharmaceutical costs, and patient utilization pressures (patients over-consuming a product they perceive as "free") will put continued pressure on demands for increases to the health budget envelope.

At current spending levels, it is estimated health care spending will consume 50 per cent per cent of the provincial budget by 2014 and 99 per cent by 2043. Two years ago, the CTF reported these dates would be 2012 and 2035 respectively. Although the picture has improved slightly, long-term health funding is simply not sustainable.

It is frequently said that the public is ahead of lawmakers when it comes to thinking outside of the health care box. CTF supporters overwhelmingly support alternative health care delivery methods.

2002 CTF Supporter Survey Questionnaire

Question: Do you support or oppose the establishment of private medical services and insurance to co-exist alongside the public system?

• Support	86%
• Oppose	12%
• Undecided	2%

Ontario must continue to exert its autonomy in setting health care policy. Ottawa now provides a mere 14 cents for every government dollar allocated to health care in Ontario. Solutions must come from Queen's Park. Outcomes analysis, restructuring health care governance, primary care reform and other initiatives are necessary. Modernization of the *Canada Health Act* must include the principles of Choice, Sustainability, Quality and Accountability. Increasingly, the challenge for government is to measure its commitment in key areas by outcomes instead of simple factor inputs like dollars spent.

Unless Ontario initiates an expenditure prioritization and management plan, future choices will see public service programmes competing with each other for funding. Politicians will be forced to choose between public services such as health care and education or health care and infrastructure. Once health care spending starts to consume half of all provincial expenditures, public policy choices could become impossible to make. We could conceivably end up with two Ontario ministries: Finance to collect money and Health to spend it. This scenario is avoidable if Ottawa and the provinces lock arms to bring *the Canada Health Act* into the 21st Century. Opening up health care to innovation and private service providers, as European countries have done, can save money and improve on quality service delivery.

Recommendations:

- *We recommend that the government appoint an all-powerful committee to review departmental spending with the mandate of rooting out waste and ending programmes that no longer serve the public interest.*
- *Departments such a Citizenship (a federal responsibility), Enterprise, Opportunity and Innovation, and Intergovernmental Affairs are ripe for closure. These bureaucracies are budgeted at $340-million; shutting them down could yield savings of $200/$250-million a year.*
- *The Ontario government should meet increased expenditures through re-allocation within existing budget envelopes. In the post-deficit era, the province must remain as vigilant in controlling expenditures as it was during its effort to eliminate the deficit.*
- *The government should open up health care to innovation and private service-providers, as European countries have done, to save money and improve on quality service delivery.*
- *Ontario must continue to exert greater autonomy in setting its health care policy.*

Privatization & Private-Public Partnerships

Privatization, public-private partnerships, and alternative service delivery are widely used throughout the world. Privatization (or "re-privatization" as some have more correctly labeled the transferring of government enterprises to the private sector) has increased over the last two decades. 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.

The CTF recommends widespread privatization and public-private partnerships to promote competition, entrepreneurship, and efficient and cost-effective services. The provincial government should attempt to 'steer' the economy not 'row' it via direct involvement.

2002 CTF Supporter Survey Questionnaire

Question: Which of these Crown corporations should be privatized and/or made to face competition?

- Liquor Control Board 47%
- Provincial Convention Centres 46%
- Ontario Place 44%
- TV Ontario 43%

Sadly, the Ontario government abandoned the Office of the Ministry Responsible for Privatization shortly after the 1999 provincial election.

The Agency, Boards and Commissions (ABC) review committee provided the template for a continuous review of government services and operations. The ABC review studied the role and future of various agencies of government with an eye to either strengthening, divesting or simply winding-down their operations, depending on the public policy utility of each entity in question. The committee's report provided an overview that deserved follow-up. Regrettably, this never occurred.

Crown corporations like TV Ontario (TVO) and the Liquor Control Board of Ontario should be readied for divestiture or privatization. Other candidates such as fleet management, certain transit operations, and information technology servicing can also be identified.

The backtracking on Hydro One was one of the clumsiest policy retreats in Canadian history. With the stroke of a pen, the government reversed a decade of electricity market restructuring, froze consumer hydro prices at 1995 levels, and turned its back on harnessing the discipline of the private sector to control business costs and deliver electricity to consumers.

Exactly how much it will cost to keep consumer prices frozen at 4.3 cents a kilowatt-hour through 2006 is unknown. (When the wholesale price of electricity rises above 4.3 cents, the government will apply the money collected by Ontario Power Generation — the province's main power supplier — above 3.8 cents to subsidize the consumer rate.) Best guesses put the cost between $1-billion and $2-billion a year. Whether this amount is added to the old Ontario Hydro's $38-billion stranded debt or paid by the province, it is certain that taxpayers will end up paying the subsidy bill.

The Ontario government needs to go back to the drawing board and develop a plan to meet the needs of Ontario electricity consumers and ensure there is long-term investment by the private sector to meet the province's growing power demand. Privatization was not the cause of rising power prices, and wholesale electricity price will only decline with private investment and the additional supply of power it will provide. Investor confidence has been shattered and the quicker this is reversed the sooner investment dollars will flow into the province to create new generating capacity. Without added capacity wholesale prices will continue to rise as Ontario is forced to import power.

The government also erred in structuring the hydro debt retirement charge as a consumption charge, making it subject to the 7 per cent GST. Unless this charge is defined properly, hydro consumers will pay some $1.5-billion in GST as they repay debt left by Ontario Hydro. In effect, paying a tax on a tax. This is unacceptable.

Recommendations:

- *The CTF recommends widespread privatization and public-private partnerships to promote competition, entrepreneurship, and efficient and cost-effective services. The provincial government should attempt to 'steer' the economy not 'row' it via direct involvement.*
- *Crown corporations like TV Ontario (TVO) and the Liquor Control Board of Ontario should be readied for divestiture or privatization. Other candidates such as fleet management, certain transit operations, and information technology servicing can also be identified.*
- *The Ontario government needs to go back to the drawing board and develop a plan to meet the needs of Ontario electricity consumers and ensures there is long-term investment by the private sector to meet the province's growing power demand.*

Property Taxes & Current Value Assessment

If there is one tax issue simmering under the political radar screen it is growing resentment to linking education and municipal property taxes with real estate prices. The system, known in Ontario as Current Value Assessment (CVA), 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.

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 bureaucracy to administer.

Furthermore, 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 hidden from the public. Since taxes rise without a vote, local politicians can later blame, albeit disingenuously, the tax hike as being the result of a provincial system.

The government exempted business ratepayers from the ups-and-downs of CVA by capping commercial assessments in 1997. While the caps were meant to be a temporary measure they have since been extended. The government should provide homeowners the same protection it gave businesses by capping home assessments as an interim measure until a better system can be devised.

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.

Recommendations:

- *The government should establish an all-party committee to consider alternatives to the CVA scheme that focuses on usage and tax fairness, rather than property prices.*
- *The government should cap property assessments until a better system is devised.*