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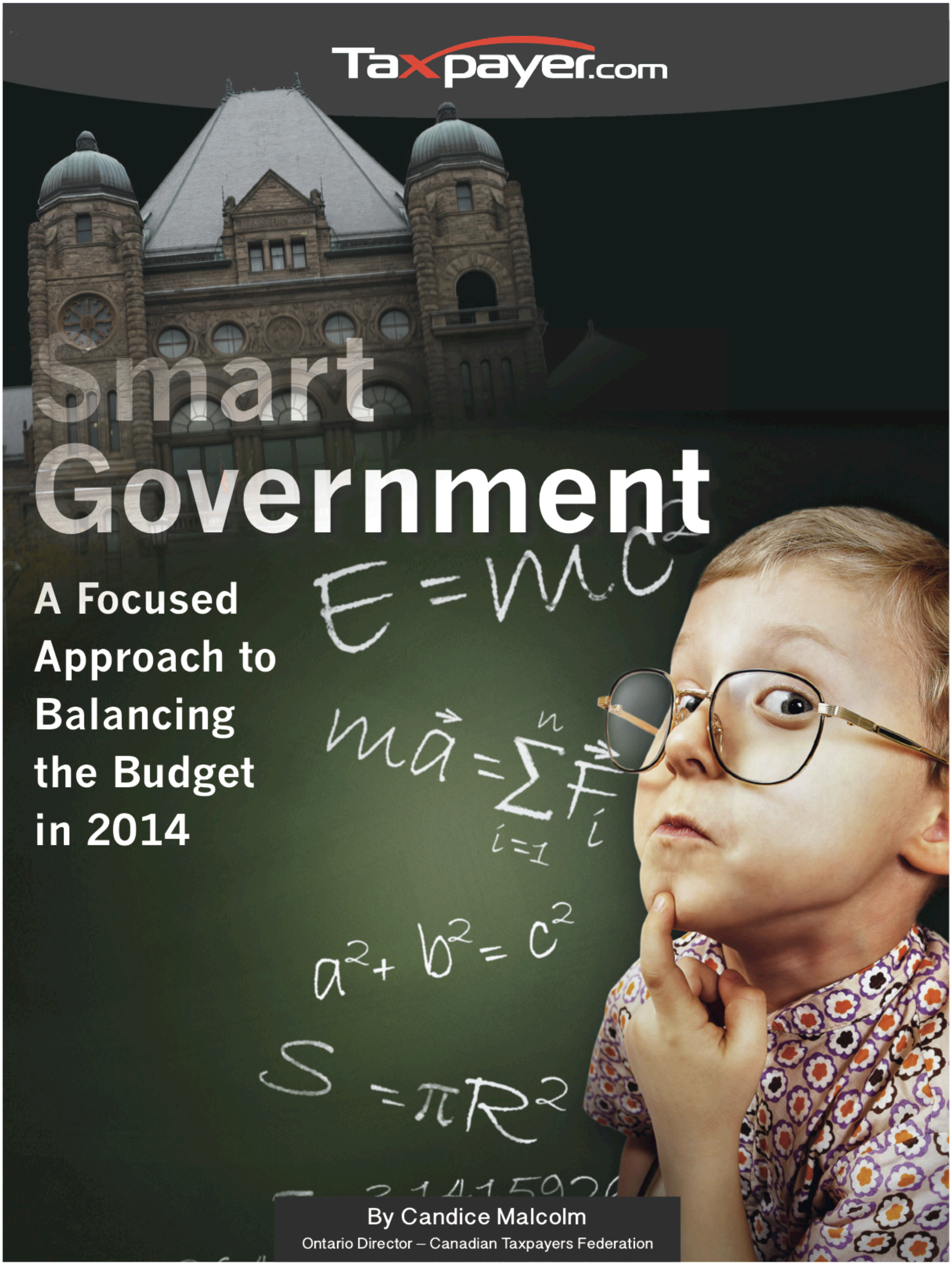

Smart Government

A Focused Approach to Balancing the Budget in 2014

By Candice Malcolm
Ontario Director – Canadian Taxpayers Federation

About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit and non-partisan advocacy organization dedicated to lower taxes, less waste and accountable government. The CTF was founded in 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 more than 84,000 supporters from coast-to-coast.

The CTF maintains a federal office in Ottawa as well as provincial and regional offices in British Columbia, Alberta, the Prairies, Ontario and Atlantic Canada. Provincial and regional offices conduct research and advocacy activities specific to their provinces in addition to acting as local organizers of nation-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences, utilize social media like twitter, Facebook, YouTube and the CTF blog, as well as issuing regular news releases, commentaries and publications to advocate on behalf of CTF supporters. The CTF's flagship publication, The Taxpayer magazine, is published four times a year. Action Update e-mails on current issues are sent to CTF supporters regularly. CTF offices also send out weekly Let's Talk Taxes commentaries to more than 800 media outlets and personalities nationwide.

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.

All CTF staff and board directors are prohibited from holding a membership in any political party. The CTF is independent of any institutional affiliations. Contributions to the CTF are not tax deductible.

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Part I: Introduction

The Canadian Taxpayers Federation (CTF) is calling on the government of Ontario to take a focused approach to the budget by emphasizing core programs over pet projects to balance the budget in 2014. The government must focus to ensure that Ontario residents receive the highest level of service possible for their tax dollars. In order to do this, the government must work to eliminate waste in non-vital services. It's past time for Ontario to get its fiscal house in order; this must be the first priority and accomplished before starting new projects. Until taxpayers stop spending tens of billions each year in interest payments on the provincial debt, the government should not even consider new projects, new spending or new debt.

We call this approach *smart government.*

People across the province are struggling. They are making tough decisions and forgoing necessities in order to pay their soaring energy bills, ever-growing tax bills, and trying to save for retirement without a government pension plan. Everyday Ontario families are being responsible with their money; the same however, cannot be said of their government. Instead of buckling down on core government commitments, this government has instead opted to fill the budget with targeted goodies for well-connected interest groups and unions. They have decided to hand out corporate welfare cheques to multi-national corporations in a desperate attempt to create jobs. They have wasted countless billions on one scandal after another, showing a blatant disregard for taxpayers. And now, as energy rates soar, the government announced its intention to grow government even further with a new Ontario pension and an expansive new public transit system in Toronto. The government expects taxpayers to open their wallets even further to fund these new pet projects.

Taxpayers in Ontario are tired of seeing the numbers on Ontario's debt clock spiral upwards, while reading about government waste in the newspaper on a regular basis. It's time for the government to finally start demonstrating fiscal restraint and respect for the taxpayer. The government should do this by taking immediate steps to balance the budget in 2014. It will not be easy, but it is possible. As this report shows, it is possible to stop running deficits in Ontario and to start paying off the principal of the provincial debt instead of just shoveling tens of billions each year towards interest.

Part II: Summary of Recommendations

- No new payroll taxes. Instead of calling for higher payroll taxes and greater CPP contributions or a new Ontario pension scheme, call on the Feds to use the $4.2 billion EI surplus to help fund retirement shortfalls. To really address retirement security, give taxpayers a break by letting them keep more of their own money to manage their personal retirement savings.

- Ontario deserves a better deal with Equalization. The current formula has Ontario sending $11 billion more to the rest of Canada than it receives back through federal transfers. This despite our status as an official "have-not" province. As Equalization is being renegotiated in 2014, it's time for the government to stand up for taxpayers in Ontario.

- Reject the Metrolinx tax hikes and debt plan, and instead implement a *Gas Tax Accountability Act,* tying gas tax revenues to transportation infrastructure spending.

- Scrap the $1.04 billion Ontario Clean Energy Benefit, a 10 per cent household rebate from taxpayers. This discount is nothing more than a cynical tactic to hide the soaring costs of green energy in Ontario. The real costs of green energy should be out in the open.

- Given the perpetual waste at organizations like Ontario Power Generation (OPG) and scandals like the cancelled gas plants, there is no excuse for hiking energy prices another 43 per cent after years of skyrocketing rates. The CTF calls on the government to end the ill-advised *Green Energy and Green Economy Act*, end the practice of handing out inflated 20-year contracts under the illegal feed-in-tariff program, and stop using taxpayers money to subsidize energy production.

- End the misguided full-day kindergarten initiative, which has no positive effect on children, and save taxpayers $1.5 billion annually.

- Eliminate Ontario's Youth Funds, which are nothing more than corporate welfare disguised as economic opportunities. The government cannot buy jobs for young people.

- Scrap the 30 per cent tuition credit for post-secondary education. Tuition scholarships should be based on merit and grades, not handed out to anyone who applies. The province should focus on connecting young people towards industries where they will find employment, not contributing to the education bubble and tuition rate increases. Stop spending $420 million a year to cover up tuition increases.

- Follow the Alberta flat tax model on income taxes that helped secure Alberta as the number one jurisdiction in the Economic Freedom on North America rankings, and made the Calgary Flames and Edmonton Oilers the top two NHL teams by franchise in CTF's Stanley Cup income tax ratings.

- No new taxes. Do not to introduce new taxes that destroy jobs and bankrupt taxpayers. This government does not have a revenue problem; it has a spending problem. They key to balancing the budget is through spending restraints and not shaking down taxpayers.

- Ontario spends $63.8 billion per year on employee salaries. By implementing a full wage freeze, without loopholes or signing bonus exemptions, the government will save $2 billion in 2014.

- Ontario needs substantial pension reform for government workers. The government must address retirement inequality by clawing back *defined-benefit* pension plans for its employees and begin redirecting more money to non-government workers through tax cuts and an *Employment Insurance Savings Account.*

- Crack down on sick day abuse in provincial government departments and eliminate all remaining "sick day banks."

- Stop the practice of handing out corporate welfare in the form of "grants" and "investments" to bribe companies to create jobs in Ontario. The province should create a level playing field for all companies, and attract businesses and economic development by cutting red tape and creating a more competitive business climate. Ending the practice of corporate welfare will save the province $2.7 billion.

- Get out of the business of running businesses. It's time for Ontario to review its holdings and sell all unnecessary assets in order to address the debt.

- The government should not be in the business of selling wine, beer and spirits. It's 2014, and time for Ontario to catch up to the rest of the world. The government must modernize alcohol distribution in Ontario by breaking up the Beer Store monopoly and selling the LCBO, a move that would produce an additional $1.27 billion.

- The federal and provincial governments in Ontario lose an estimated $1.1 billion in forgone revenues thanks to the thriving contraband tobacco market. Bill 186 has not been implemented in a meaningful way, and instead tobacco revenues continue to fall. The CTF estimates an additional $616 million for by addressing contraband and recouping this lost revenue.

Part III: Smart Government

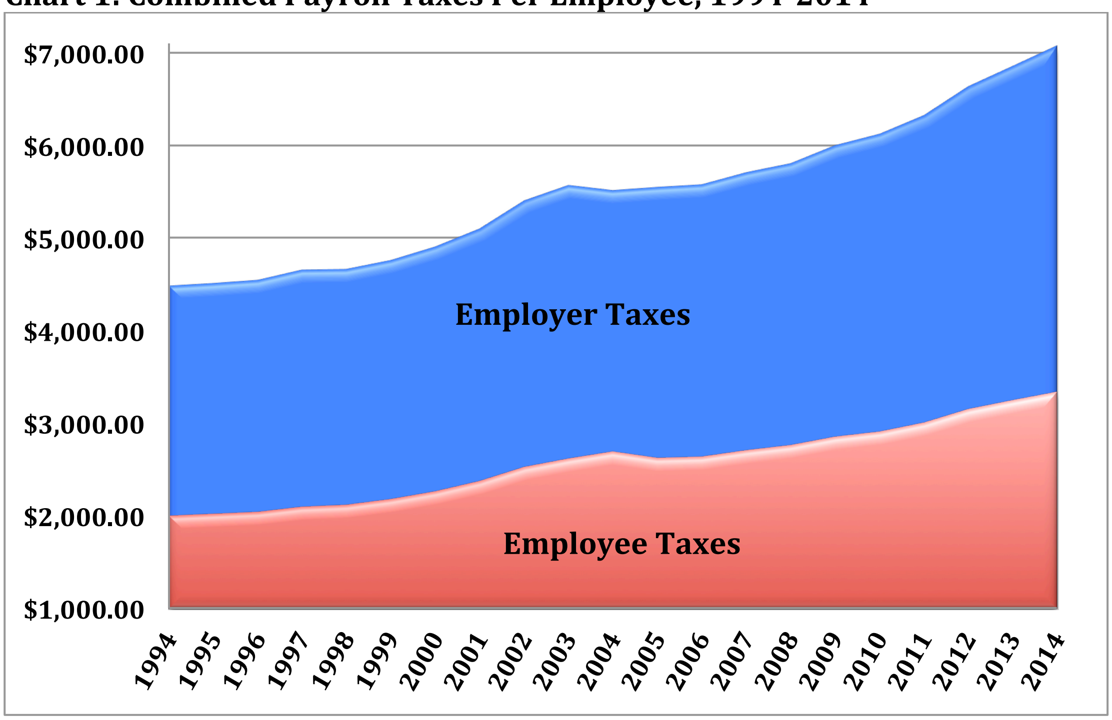
Focus Government

Economic downturns and recessions are times of uncertainly, and times when we should be especially careful with our money and deliberate with our spending. This is not the time to be undertaking risky and unproven social experiments. The government of Ontario needs to focus on its primary role and work to provide the highest levels of service in its core functions, namely health care, education and infrastructure. It should rollback failed policies and remove its heavy hand from other areas of our lives, and especially, from the economy.

Rework Retirement and Payroll Taxes

The Wynne government must resist the urge to build a new "made-in-Ontario" pension plan[1] by imposing higher payroll taxes through increased contributions. Payroll taxes destroy economic development and prevent businesses from expanding and creating employment. To quote former Prime Minister and current advisor on retirement security Paul Martin, payroll taxes are "a cancer on job creation."[2] Our economy is not strong enough to withstand more taxes on businesses. Ontario families are nickel-and-dimed to the limit, and are already paying $193 more in combined employee and employer payroll taxes in 2014 than in 2013[3]. We are paying 67 per cent more payroll taxes than in 1994.

Chart 1: Combined Payroll Taxes Per Employee, 1994-2014



This is the wrong time to raise payroll taxes and impose mandatory contributions.

The Canadian Taxpayers Federation has a better solution. Payroll taxes go to two programs: Employment Insurance (EI) and the Canadian Pension Plan (CPP,) and while the latter is feared to eventually become unfunded, the former is chronically overfunded. According to the Mowat Centre at the University of Toronto, the cumulated EI surplus value in 2008 was $57 billion,[4] and the forecasted surplus in 2014 will be $4.2 billion.

Instead of this money being engulfed by the federal government, it should be returned to hardworking Canadians. An *Employment Insurance Savings Account* (EISA), where contributions are held in trust for individuals to use if they face temporary unemployment or cashed out at retirement, would address the problem of some Canadians not having enough saved to retain their standard of living after retirement.

By using an EISA to replace the current scheme, a two-income family that starts contributing at age 25 and are fortunate enough to remain employed throughout their careers could save over $1.06 million by the time they retire, should they retire at age 65. Not a bad nest egg.

Table 1: Size of EISA by Household and Year

Years Contributing	Single Income	Dual Income
10	$33,555.00	$67,111.00
20	$104,646.00	$209,292.00
30	$248,542.00	$497,083.00
40	$532,446.00	$1,064,892.00

The Canadian Taxpayers Federation also recommends that the government give the people of Ontario more opportunities to save. Taxpayers need a break. High taxes and soaring energy rates are a large reason why many struggle to save in Ontario. The province should relieve taxpayers and give them more opportunities to keep their own hard-earned money.

Instead of meddling with the CPP – something that has long fallen in the jurisdiction of the federal government – Ontario focus on getting its own fiscal house in order. If the government of Ontario is interested in making reforms to retirement security and pensions, they should focus on the pension funds they are responsible for: Ontario government employee pensions. These plans face far more severe funding shortages that the CPP; in fact, taxpayers are already on the hook for bailing out wealthy government employee pensions.

Equalization changes

Despite Ontario's status as a "have-not" province under the federal Equalization program, Ontario is still a net donor to confederation. According to the Mowatt Centre at the University of Toronto, Ontario sends about $11 billion more to the rest of Canada than it receives back in federal transfers[5]. This messy redistribution of tax dollars costs millions to administer and punishes taxpayers in provinces with fiscally responsible governments while rewarding mismanagement and big government in "have-not" provinces.

Simply put, with record deficits, debt, and unemployment, Ontario simply cannot afford to prop up other basket-case economies across Canada. We've got our own to fiscal mess here at home to deal with. Under no circumstances should Ontario taxpayers contribute to a broken system that pays Quebec not to develop its rich natural resources, and rewards Nova Scotia and Newfoundland and Labrador with a bonus for having the highest debt load in the country.

When the Equalization scheme is renegotiated in 2014, Premier Wynne should stand up for Ontario taxpayers and demand a better deal where Ontario is not forced to send so much to the federal government.

Gas Taxes & Metrolinx

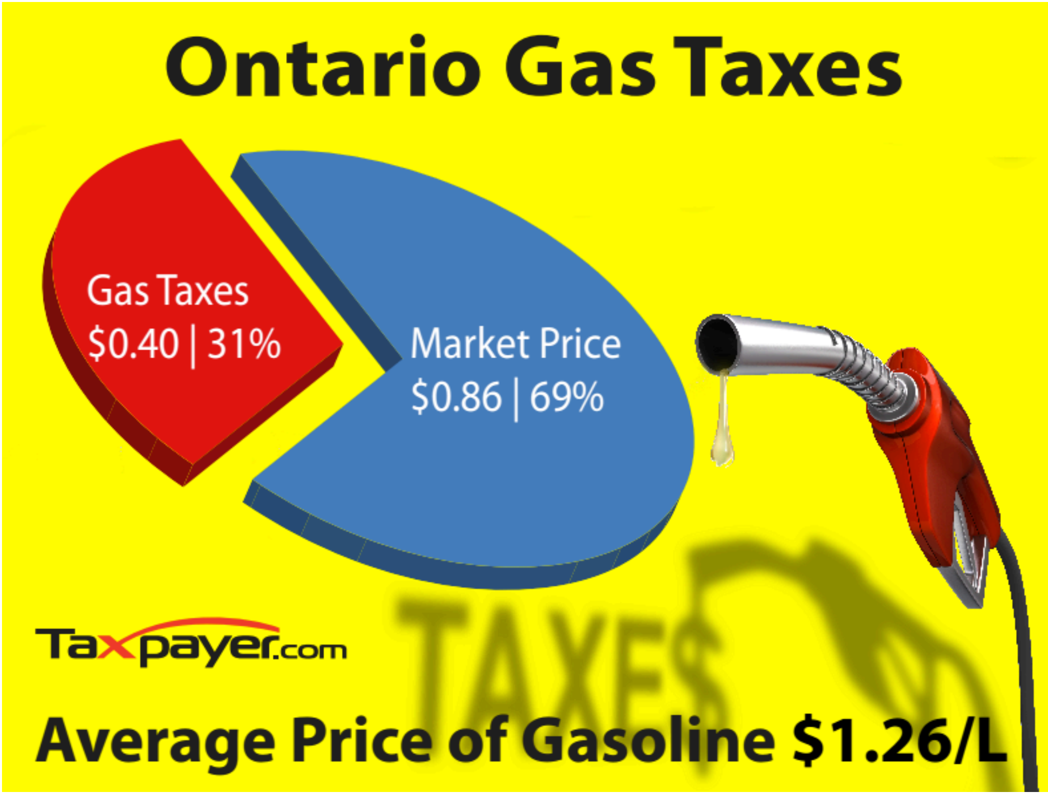
Ontario has run six consecutive deficits, and will have accumulated $272.8 billion in net debt by the end of the fiscal year. We've seen billions flushed down the toilet with the botched Ornge program eHealth fiasco, run-away compensation at the OPG and other government agencies, and of course, the cancelled gas plants. This government has a serious credibility problem with taxpayers. Now is not the time to introduce grand new schemes and pet projects that will increase the debt burden for Ontario or the tax burden for citizens.

If the government had a rainy day fund or was willing to prioritize transportation infrastructure over other programs to make room in the budget, then taxpayers could entertain the idea of funding Metrolinx's *Big Move* plan, but that is not the case. The government does not want to compromise. It just wants to get its hands on more taxpayer cash to waste away or spend as it pleases.

The Canadian Taxpayers Federation and its Ontario supporters unequivocally reject the new revenue tools proposed by Metrolinx and echoed in Anne Golden's report.

Instead, we point to the revenue already collected from gasoline and diesel taxes in Ontario, as well as through the HST on gas taxes. While the pre-tax market price of gasoline in Ontario averaged $0.86 per litre in 2012, the average final pump price was $1.26[6]. That includes $0.15 in provincial gas taxes, $0.10 in federal excise taxes, and $0.14 in combined sales taxes[7]. When Ontario drivers fill up at the pump, the tax portion makes up 31 per cent of the total price. The average two-car family in Ontario pays an astonishing $1,239 in gas taxes annually, including $72 in the repugnant practice of tax-on-tax, as we pay HST on top of gasoline taxes[8].

Chart 2: Ontario Gas Taxes, 2012



In last year's budget, Ontario projected to raise $2.94 billion in combined fuel taxes. According to CTF's annual Gas Tax report[9], however, Ontario will collect $3.68 billion in gasoline taxes (including HST) and $1.18 in diesel taxes (with HST), including $694 million from government taxing their own taxes. Vehicle and Driver Registration Fees bring in an additional $1.27 billion. This totals $6.13 billion in revenue directly from Ontario drivers 2013, and yet, according to the Ministry of Transportation, only about $2.7 billion is spent on all roadway spending, including "design, engineering, property, construction and rehabilitation to repair and expand highways, roads and bridges across Ontario." This leaves a $3.43 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. The CTF calls the government to 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. We also call on both the federal and provincial government to eliminate the tax-on-tax portion of gas taxes, and to dedicate and transfer 50 per cent of all fuel tax revenues to municipalities for roadway development and maintenance, or to reduce taxes.

Table 2: Annual Ontario Provincial Revenue from Drivers ($ Millions)

	Gas Tax	HST	Total
Gasoline	$2,295	$1,381	$3,676
Diesel	$718	$466	$1,184
Vehicle & Driver Registration Fees			$1,270
Total Driving Taxes			**$6,130**

The provincial government must take responsibility for its core role of maintaining and improving public infrastructure; it must work to make commutes more manageable and Ontario cities more livable.

Total Savings: $3.43 billion

Part IV: Scrap Dumb Policies

Ontario Clean Energy Benefit (OCEB)

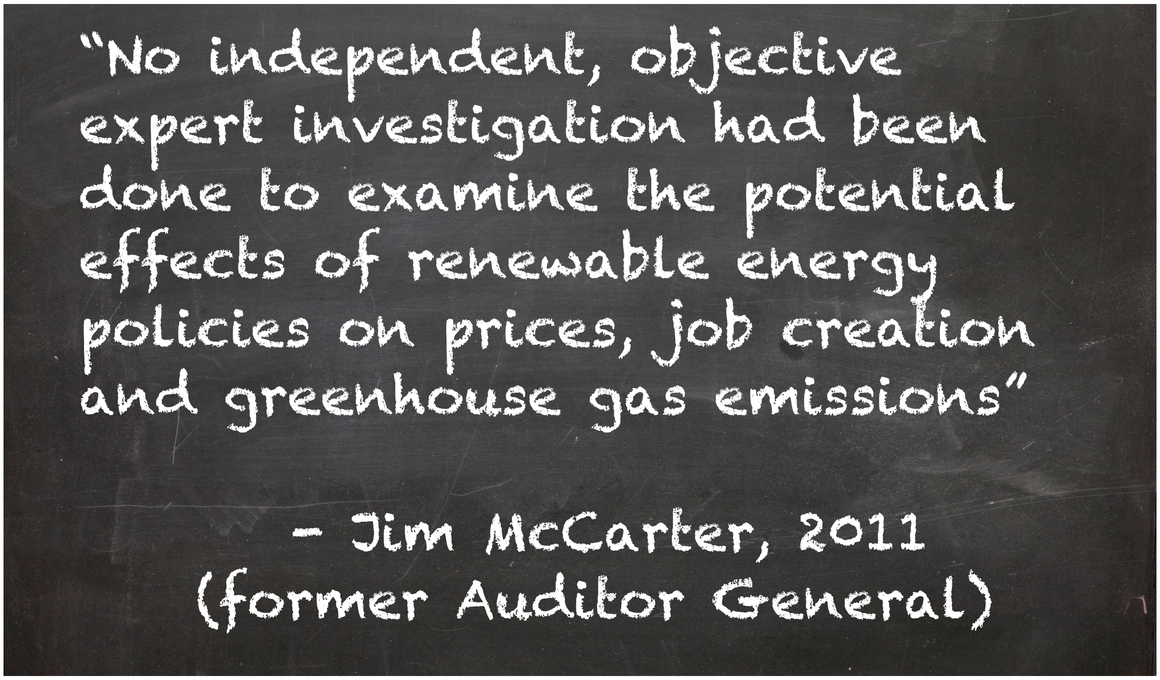
The government bribes us with our own money to cover up its incompetence in green energy. Every month, Ontario hydro ratepayers receive a rebate called the *Ontario Clean Energy Benefit* that knocks 10 per cent of their monthly hydro bill to help compensate for the rising costs of subsidizing green energy. This movement of cash out of the right pocket of taxpayers into the left pocket of ratepayers comes at a cost of $1.04 billion per year. The government must end this pitiful charade, and come clean about the real costs of its clean energy schemes.

Total Savings: $1.04 billion

Green Energy and Green Economy Act

Given the perpetual waste at organizations like the Ontario Power Generation (OPG), which produces 60 per cent of Ontario's power[10], and through decisions like cancelling two gas-fueled power plants, the recent hikes to hydro rates are a particularly tough pill to swallow for taxpayers. Especially after years of skyrocketing rates. Energy costs in Ontario have become completely unmanageable for the average family.

The Green Energy and Green Economy Act were hastily introduced in Ontario without sufficient research or analysis on the economic impact these policies would have on our province. Ontario was sold a false bill of goods, the outcome of which has resulted in a ridiculously costly and inefficient energy system.



Ontario taxpayers and ratepayers deserve better. Our energy distribution system needs an overhaul. The CTF calls on the government to end the misguided and ill-advised *Green Energy and Green Economy Ac*t, end the practice of handing out inflated 20-year contracts under the illegal Feed-in-tariff program, and stop using taxpayers money to subsidize energy production. We are calling on the government to make the following changes:

- Scrap the Feed-in-tariff (FIT) scheme of subsidizing corporations through artificially high, 20-year energy price guarantees. This program has been deemed an "illegal subsidy" by the World Trade Organization[11], and its inflated payment structure means ratepayers are being gouged and paying well-above market rates in order to subsidize corporations and entice them to develop risky and untested energy sources in Ontario.

- Follow the Drummond Report recommendation to use "off-ramps" built into existing FIT contracts so ratepayers don't continue to pay for corporate subsidies through set prices. As the government proved with its TransCanada contract to build gas plants in Oakville and Mississauga, it is not afraid to breach and cancel contracts with energy companies. To be clear, unlike with the botched TransCanada deal, the government should not needlessly pay out contracts for energy not produced to win seats during an election.

- Eliminate the Ontario Clean Energy Benefit, where taxpayers pay $1.04 billion annually in the form of a 10 per cent rebate on household energy bills to hide soaring rates.

- Allow the consolidation of Ontario's 80 Local Distribution Companies (LDCs), as suggested in Don Drummonds report[12] by eliminating the restrictive 33 per cent transfer tax.

The CTF supports and agrees that every source of safe and clean energy should be produced in Ontario, and we believe all forms of energy should be able to compete on a level playing field. But the government needs to stop picking winners and losers in the energy economy and stop using taxpayer dollars to subsidize big corporations' R&D. In order to have an energy market that protects consumers and taxpayers, the CTF calls on the government to reduce its intervention and allow different sources to be subject to the same tax rates and regulations. When all forms of energy are able to compete fairly for market share, competition will drive rates down and Ontario taxpayers will win.

Total Savings: $1.04 billion + household energy savings

Full-Day Kindergarten

Full-day kindergarten is a costly social experiment with unproven results.[13] The government should come clean about the failure of its full-day kindergarten program and scrap the program before it does more harm to Ontario's children and more damage to our pocketbooks.

For a government that is desperately drowning in debt and struggles to maintain its credit rating, this is not the time to undertake new and costly spending commitments that offer very little, if any, social benefit. The government should focus on resources to improve test scores, especially in fields of growing importance like math and science, and not through ideologically driven social justice campaigns that have questionable objectives and faulty reasoning.

> "Full-day kindergarten does nothing to permanently improve academic performance. It may stunt the emotional and social development of many kids. And it does no favours to those with special needs."
>
> –Maclean's, 2013

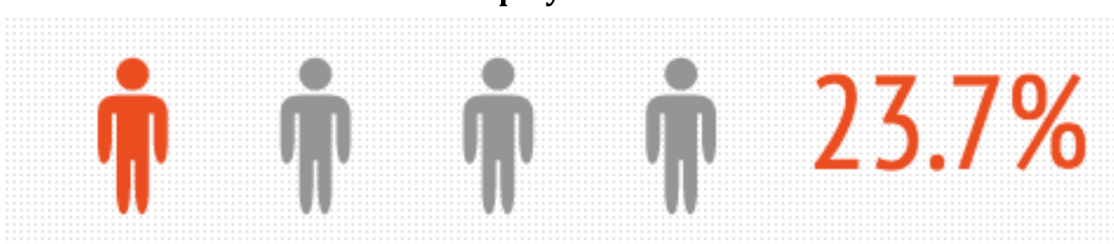
Instead of shaking down taxpayers for the last remaining change in our pockets, the government should do away with full-day kindergarten, echoing the recommendations in Don Drummond's report[14], and follow the guidance of education and development psychologists like Dr. Gordon Neufeld, who believes full-day kindergarten "upsets the development of children, resulting in behavioural problems down the line.[15]"

Total Savings: $1.5 Billion

Ontario Tuition

Canada has the highest number of unemployed and underemployed University graduates in the developed world. This is partially because the government pays students to pursue fields with little or no career opportunities, and drive up the cost of tuition in doing so. Instead of subsidizing choices that will lead students into poverty, the government should focus on providing opportunities for young people that align with the labour market shortages and opportunities in Canada. Much like we use immigration program to admit new Canadians who hold skills in need in our economy, our secondary education system should direct young people to areas where their skills are in demand. Canada and Ontario need more high skilled workers, like engineers and scientists. Six-year arts degrees that lead to careers as coffee baristas should be discouraged. Recent studies suggest that almost a quarter of Canadians already feel over-qualified for their jobs.[16]

Chart 3: Overeducated + Underemployed



The Canadian Taxpayers Federation recommends eliminating several programs that incentivize poor economic choices for students, starting with the 30 per cent tuition credit. Tuition scholarships should be based on merit and grades, not handed out to anyone who applies. Only high-achieving academic performances should be rewarded with government scholarships. Our post-secondary education system needs an overhaul, and scrapping the tuition benefit would be a good place to start. In helping to properly prepare young people for their economic futures, scrapping this subsidy would also save taxpayers $420 million annually.

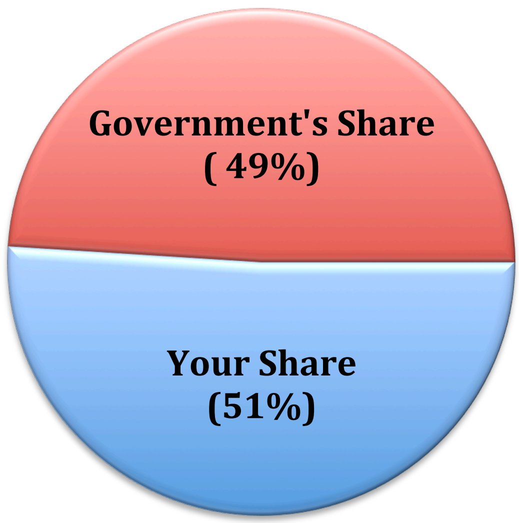
Total Savings: $420 million

Part V: Provide Tax Relief

Flatten and Simplify Taxes

Ontario taxpayers pay some of the highest income tax rates in North America. This was illustrated in the CTF's recent report: *Shutout: How High Taxes are Keeping the Stanley Cup out of Canada*, which showed that the Toronto Maple Leafs and the Ottawa Senators players face some of the highest taxes in the NHL[17]. In 2012, the Ontario Liberals created a new tax bracket, taxing top earners at a rate of 12.16 per cent. In 2013, that rate jumped to 13.16, meaning that this top bracket imposes an effective tax rate of 49 per cent including federal taxes.

Chart 4: Top Effective Income Tax Rate in Ontario



This has a negative affect on Ontario's ability to recruit top global talent, and not only to our sports teams but also to Ontario firms and institutions.

The Canadian Taxpayers Federation calls for the implementation of a single rate income tax in Ontario, or a flat tax, as was brought in Alberta in 2001. Alberta is now ranked the most economically free jurisdiction in North America[18], has some of the highest levels of government services per capita, and imposes the lowest tax burden in Canada. (Ontario now ranks 54th on the same ranking, thanks to its growing government and increases in taxes).

Alberta levies a flat 10 per cent tax on personal income, regardless of income level, with a generous exemption of $17,593[19], meaning that average income tax rates are much lower. This has led to higher income levels in Alberta, which then produce higher per capita tax revenues.

Ontario should aim to bring simplicity, fairness and efficiency to its income tax collection system. The cost of compliance with our complicated tax system is cumbersome for individuals, and acts as red tape to businesses. If the government is serious about reversing the trend of fleeing industry and manufacturing, it should take steps to create a more economically free market place and reestablish itself as a place to come and do business.

By eliminating many of the complex and confusing tax rules, Ontario businesses could help do away with redundancies and free up capital to invest and expand operations in our province. If we want job creation in our province, the government should take steps to make Ontario a more business-friendly place.

Lower the HST

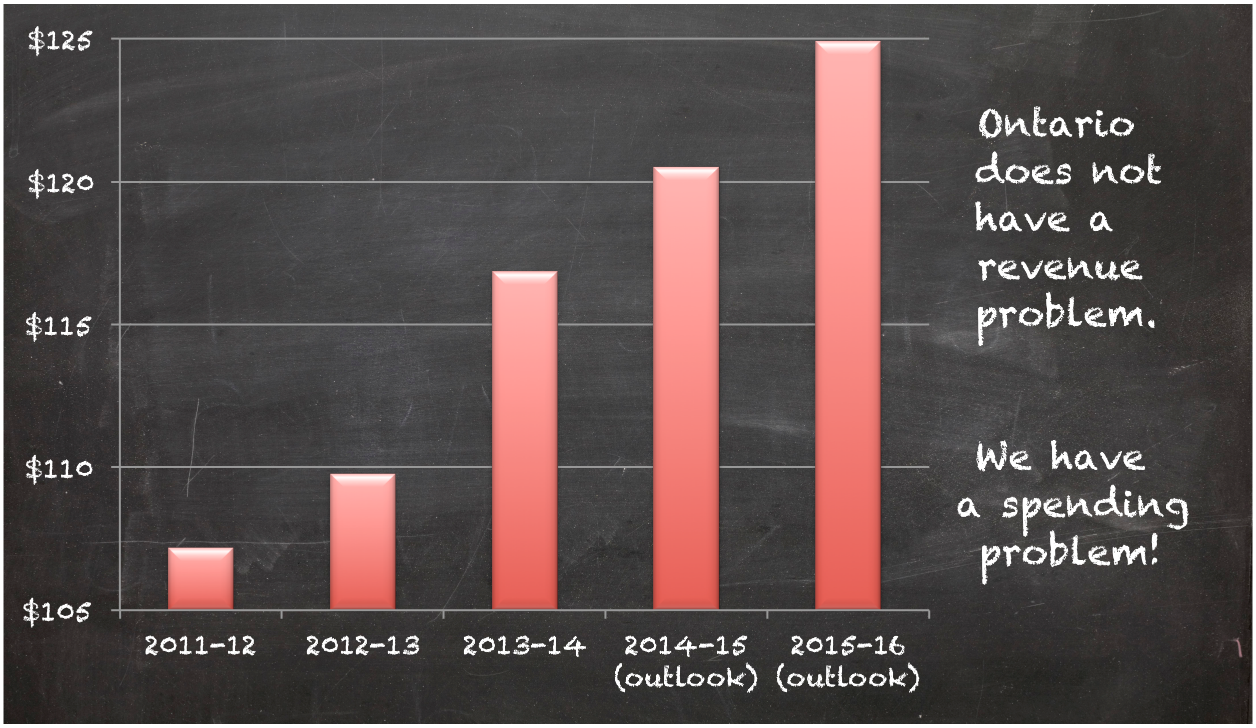
When the Harmonized Sales Tax (HST) came into effect on July 1, 2010, the cost of many items were increased by 8 per cent. These items include gasoline, diesel, home electricity, television services, home Internet, home phone, and cellular phone services to name a few. These new taxes came at the worst time, just as Ontario was suffering in the depth of the global recession. Instead of tacking on new taxes, the government should work to reduce excise taxes that disproportionately affect low-income earners in the province.

No New Taxes

Ontario does not have a revenue problem. It has a spending addiction that has led to a runaway budget and burgeoning debt. The solution is not to go after Ontario taxpayers, or to impose job-destroying new taxes. This strategy will simply chase away the provinces tax base and exasperate the problem. The government must resist the urge to impose new taxes – as it did in 2003 with the Ontario Health Premium – and instead focus on reducing spending. These spending recommendations were highlighted in Don Drummonds 2012 *Commission on the Reform of Ontario's Public Services,* a document that has been largely ignored.

Again, the Canadian Taxpayers Federation calls on the government to reject new taxes and reject tax hikes currently being discussed in Ontario, such as the Metrolinx Gas Tax, CPP contribution payroll taxes, and new sugar and fat taxes[1].

Chart 4: Government of Ontario Revenue ($ billions)



Part VI: Restrain Spending

Sunshine List & Employee Compensation

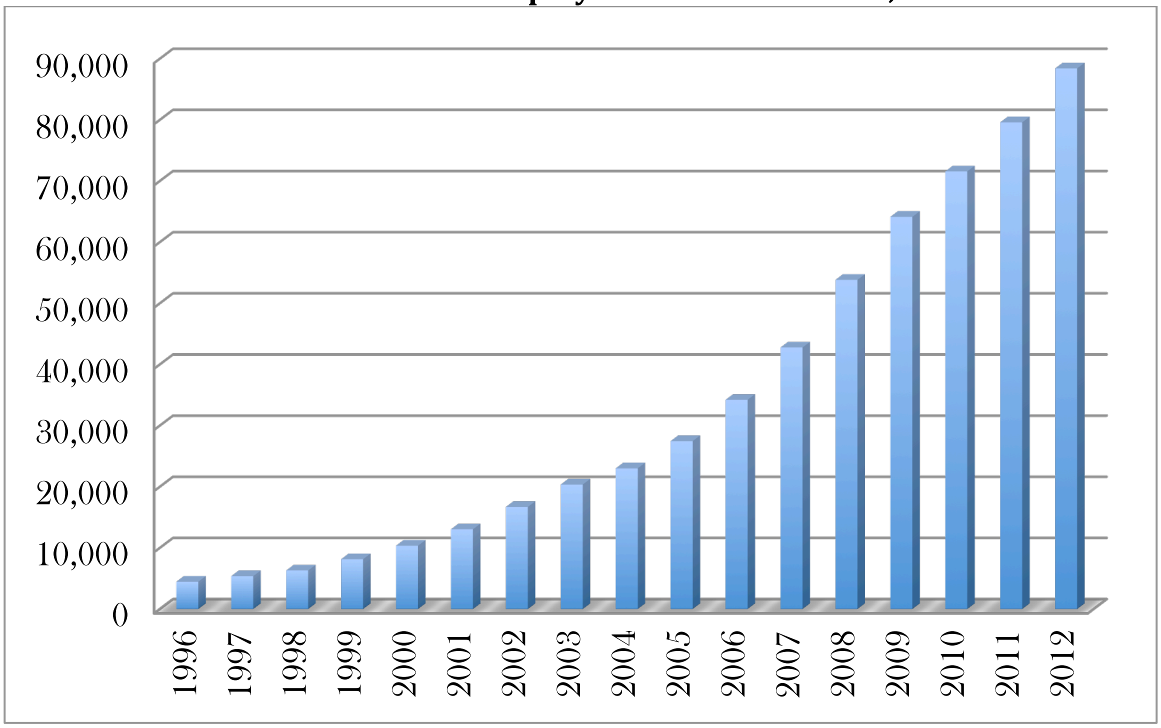
One of the primary recommendations in the government's 2012 Drummond Report was to get wages under control and bring work place incentives closer in-line with realities of the economy. Mr. Drummond recommended tying compensation, especially raises and bonuses, to performance. Bureaucracies should always be searching for ways to cut waste and eliminate redundancies; any raise in salary should come only as a result of finding departmental savings.

This recommendation has not been followed. In fact, since the Drummond Report was released, the annual list of government employees earning over $100,000 per year, known as the *Sunshine List*, grew by 11 per cent. Over 9,000 bureaucrats joined

[1] For more on fat & sugar taxes, see CTF's latest report by Peter Shawn Thomas, *Tax on the Menu: Why taxing food and drink won't make Canadians thinner. But will make their governments much, much fatter*, 2013

the exclusive club in 2012, which expanded to include 88,9412 names. This is a microcosm of the every growing wages within the government, and the increasing inequality between those working for the government compared to those employed elsewhere. Taxpayers pay government employees for perks they themselves do not receive, including superior pensions, more sick leave and vacation days, higher levels of job security, and earlier retirement.

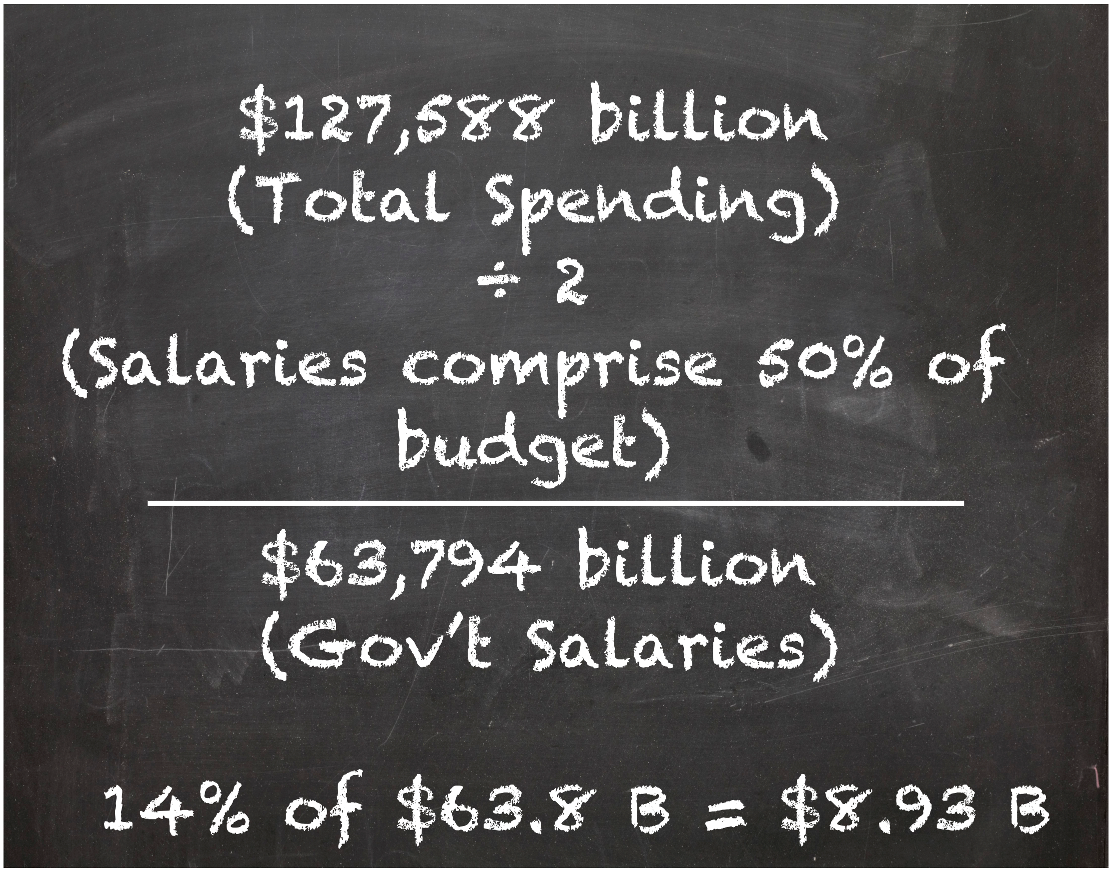
Chart 5: Number of Government Employees on Sunshine List, 1996-2012



According to last year's budget, about 50 per cent of the entire budget is spent on salaries. One out of every two dollars that taxpayers send to Queen's Park goes to pay the overpriced salary of government sector workers. As noted in the 2012 Drummond report, in the ministry of education, more than 76 per cent of funding is spent on salaries and benefits. This is startling, considering that government sector employees earn, on average, 14 per cent more than private sector counterparts doing the same job[20].

Bonuses should also be tied to performance, and not simply part of the compensation package regardless of performance, as was uncovered with PanAm Games and Ontario Power Generation employees[21]. Similarly, signing bonuses, as were given to LCBO employees, should not be given in lieu of wage increases.

The government must make deliberate efforts to bring government sector wages back in-line with those in the rest of the province. It should start by immediately introducing a wage freeze. Unlike the wage freeze introduced in 2012, this wage freeze should actually freeze wages, including bonuses.



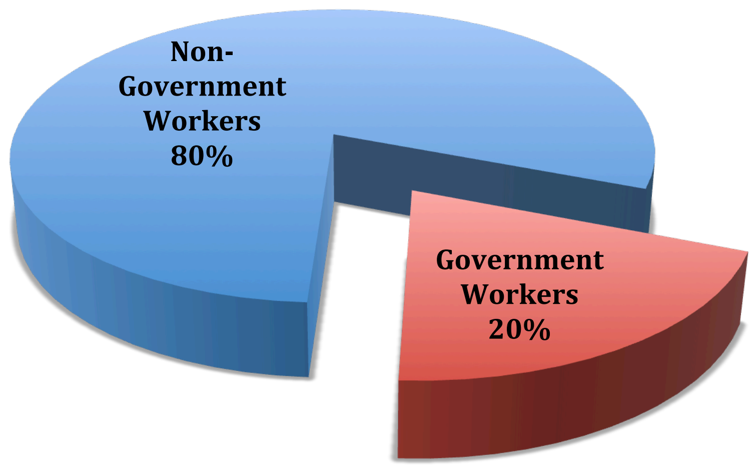
Using these figures, the government could save an estimated $8.93 billion per year if it were able to simply pay its employees at a comparable rate to what everyone else in the province earns. While it is not realistic to cut wages by 14 per cent in one year, an across the board, loophole-free wage freeze on government workers would save the province an estimated $2 billion[22].

Total Savings: $2 billion

If the government is serious about balancing its budget, it must look at the very heart of its budget: government employee compensation. The human resources associated with employing over 1 million provincial government sector employees – including crowns, school boards, higher learning, health, and so on – is substantial.

The CTF encourages a public discussion about how a smart and nimble government can better serve the people of this province, rather than a bloated and ever-expanding bureaucracy. Currently, government sector employees, including federal workers, as a percentage of Ontario's total workforce make up 19.95 per cent.

Chart 6: Government Employment in Ontario (March 2012)[23]



Pensions

The government must take corrective measures to contain the public costs of retirement benefits for those in the government sector. While only 26 per cent of private sector employees have a registered pension plan, 76 per cent of government workers do, and the vast majority of which are the most lucrative and costly: *defined-benefit* pension plans. These plans guarantee stated retirement benefits despite the health of the pension fund. Any shortfalls to the fund are then topped up and paid by taxpayers.

Taxpayers are scheduled to pay $142 million per year for the next 15 years in "special contributions" to bail out the Public Service Pension Plan, on top of the $416 million forked over since 2008.[24]

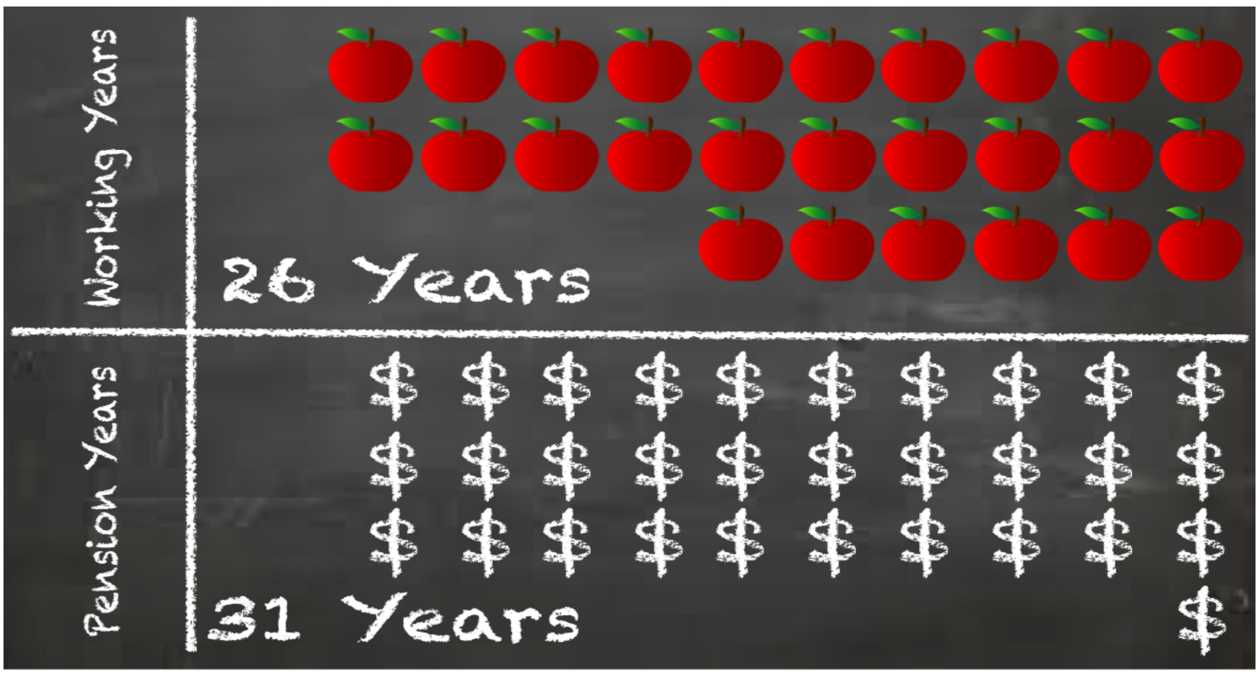
Taxpayers and non-government workers should not be responsible for the lavishing retirement funds and golden parachutes of the government class.

We are heading full steam towards insolvency for many of these pension funds. The government must take responsibility for this risk and begin to rollback pension benefits and manage the unrealistic expectations of government sector entitlement. The Canadian Taxpayers Federation recommends replacing all *defined-benefit* plans for more manageable *defined-contribution* plans, and demands the government stop bailing out Ontario's Public Service Pension Plan.

Total Savings: at least $142 million

Taxpayers aren't just topping up pension shortfalls; they're also matching original contributions. For instance, provincial taxpayers and the Ontario Teachers' Federation co-sponsor the Ontario Teachers' Pension Plan, meaning the province matches members' contributions despite the fact that school boards employ teachers, not the provincial government. In 2005, it was revealed that the pension plan faced a shortfall, so contributions were increased[25]. And taxpayers continue to fork over more and more. In 2011-12, taxpayers contributed $523 million to the Teachers' Pension Plan, and just two years later, in 2013-14 that number jumped to $939 million[26]. This represents a 79.5 per cent increase!

It's no wonder why this pension plan is so out of whack. The typical teacher retires at age 59, after having worked for 26 years. That teacher then collects a defined-benefit pension for 31 years[27]. That just doesn't make sense, economically or socially.

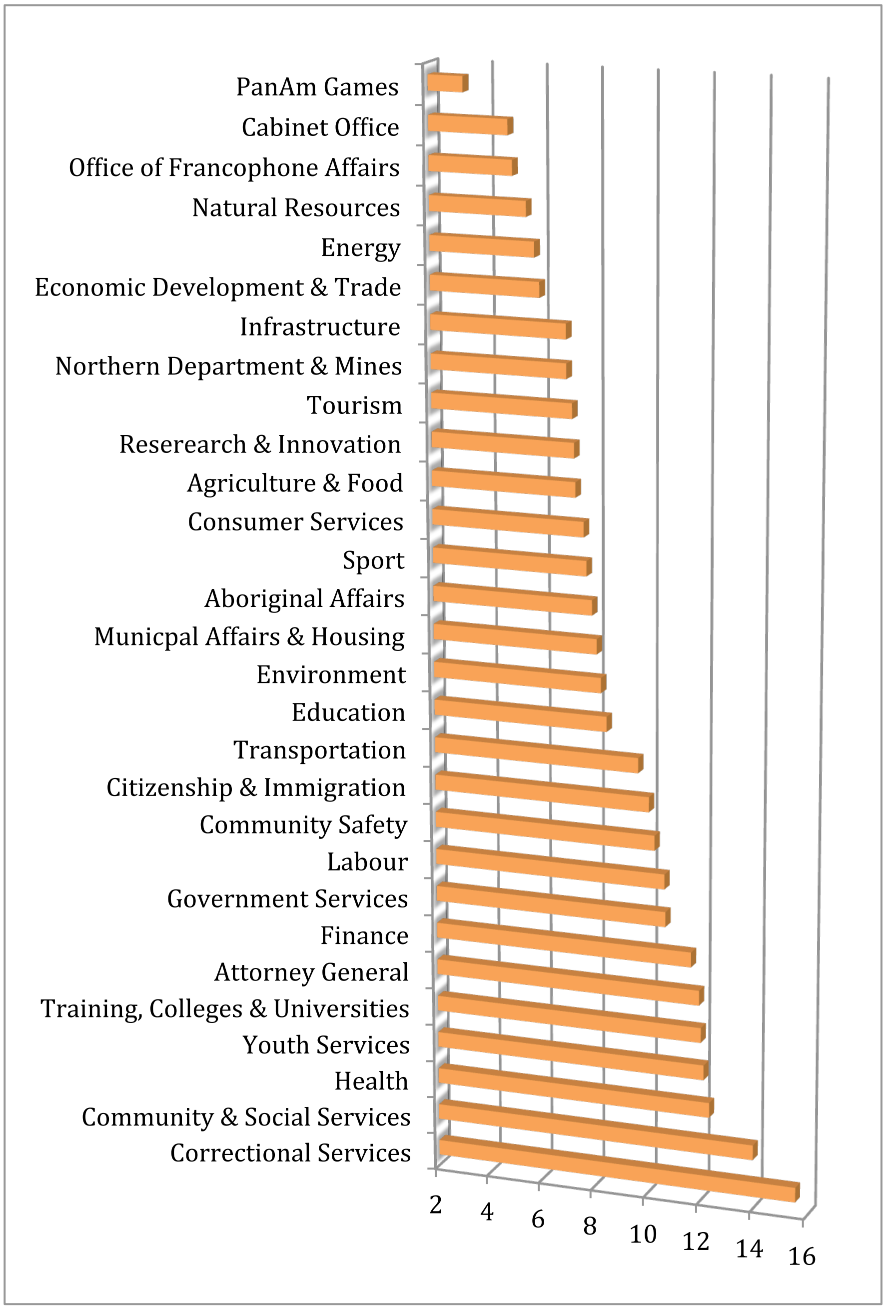


The government should take steps to reverse these troublesome trends. The province must roll back pension benefits, increase the retirement age, and switch from *defined-benefit* to *defined-contribution* pension plans. The Canadian Taxpayers Federation also calls for an overhaul to the current EI scheme, and replacing it with an *Employment Insurance Savings Plan*, which will not only help build a retirement nest egg for taxpayers, but also incentivize higher levels of personal savings.

Sick Days

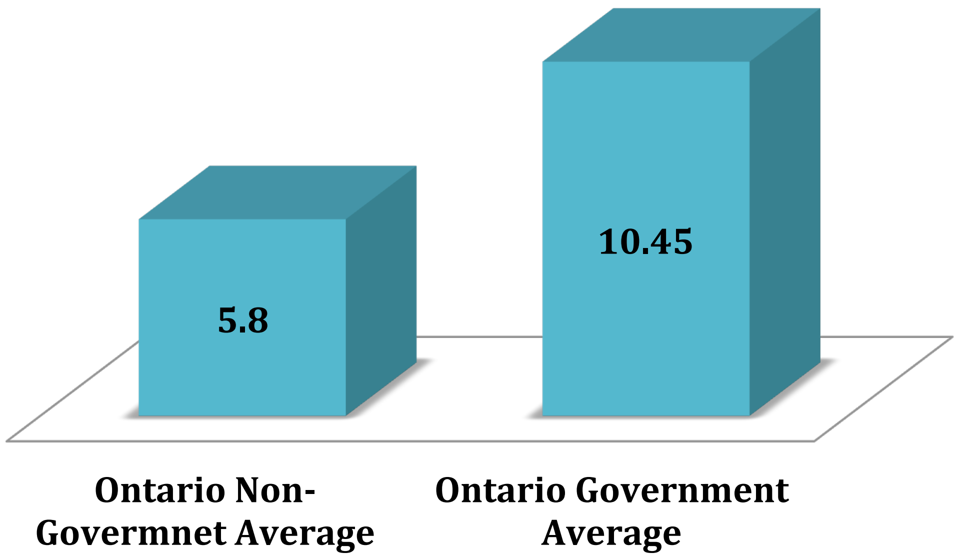
Ontario government employees take 81 per cent more sick days than those who don't work for the government[28]. While the average non-government worker calls in sick an average of a little less than six times per year, government workers employed by the province of Ontario took an average of 10.5 sick days in 2012[29] – the equivalent of over two work weeks – on top of any vacations and holidays. These figures do not include those on long-term disability leave, which would only make the gap larger.

Chart 8: Ontario Government Sick Day Averages, by Department, 2012



In the real world, sick days are taken when you're actually sick, and not simply to pad vacations or extend a long weekend. This trend of government employee absenteeism must be addressed. Ontario PC MPP John O'Toole introduced Bill 25, *Sick Days are for Sick People Act* in 2013 to crack down on sick day abuse. Liberal and NDP members – who evidently disagree with this definition of sick days – defeated the bill.

Chart 9: Ontario Sick Day Averages, 2012



In addressing the overall costs of government compensation, the cost of government absenteeism must be addressed, and especially the practice of compensating government workers for unused sick days, which accumulate in a bank and are cashed out at retirement. We simply cannot afford to pay government workers for sick days they did not need or take.

End Corporate Welfare

The government must end the nefarious practice of handing out corporate welfare. Not only is this a distasteful waste of taxpayer dollars, it also has negative economic effects in the province. By subsidizing some companies and not others, 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."

The government has no shame in forking out taxpayer money to big corporations. In the fall of 2013, the Canadian Taxpayers Federation exposed a half million-dollar cheque given to Maple Leaf Sports Entertainment, a multi-billion dollar corporation, to support the 2016 NBA All-Star Game to be held in downtown Toronto.[30]

These handouts don't even live up to their stated purpose of attracting and retaining employers in Ontario. As was well documented in the media[31], some of the manufacturing plants that closed shop and fled the province in 2013 had been recipients of corporate welfare. Both Kellogg and Novartis received government handouts, a fact that did not stop those companies from leaving the province, resulting in the loss of over 800 jobs.

Instead of learning from these mistakes, the government continues to send tax dollars to large corporations. In December we learned of government plans to hand over $220 million to Cisco, a multi-billion company, as part of an unenforceable deal to create 5,000 high tech jobs. The government should not bribe companies to do business in our province, and we should not spend about $130,000 per job to create employment in Ontario.

If the government were able 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. Between 1991-92 and 2008-09, the government of Ontario handed out $27.7 billion in direct corporate handouts. The Canadian Taxpayers Federation opposes corporate welfare and calls on the government to eliminate this expenditure from the books once and for all. Doing so will save the province at least $2.7 billion per year[32].

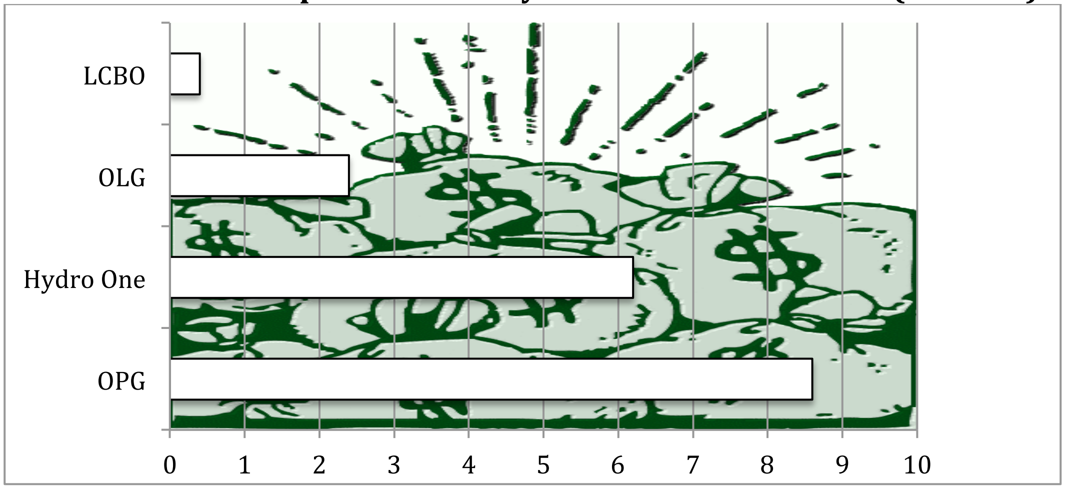
Total Savings: $2.7 billion

Part VII: Increase Revenue

Crown Policy

Given our record deficits and debt in Ontario, it no longer makes sense for the government of Ontario to hold on to assets that could be managed by free enterprise. Part of the CTF's *Smart Government* plan is to rid the province of all unnecessary assets. It makes no sense, for instance, for the province to own 7.7 million square feet of office space in downtown Toronto in more than 100 buildings[33]. The government should review all of its assets and sell all unnecessary holdings, dedicating all proceeds from these sales directly to paying off the province's public debt.

Chart 9: Value of Top Assets Held by Government of Ontario ($ billion)



Liquor Control Board

The CTF calls on the government to reduce its stranglehold over liquor distribution in Ontario. 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 own the means of production in order to protect us from ourselves. Ontarians are no less responsible than our neighbours in Quebec or New York, and it's time the government stopped treating its citizens like children.

According to Statistics Canada, Ontario brings in the third lowest net revenue from liquor in Canada. Despite claims that the LCBO's $1.73 billion in revenues is more than the government could generate through private sales, Ontario brings in less than all provinces but two in terms of both per capita and per volume of alcohol sold[34].

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.[35] Increasing choice and freedom was just the beginning of the benefits from disbanding a control board. Administrative costs disappeared and revenues from sales continued to grow. In fact, according to Statistics Canada, Alberta brings in 50 per cent more revenues per capita than Ontario.

Enough is enough. Ontario could increase revenues on alcohol sales by 50 per cent, which means an additional $874 million into the government's coffers by moving to Alberta's model of regulated sales by independent retailers.

Ontario should not be beholden to unions who threatened strike action, as witnessed over the Victoria Day long weekend, to demand higher salaries and signing bonuses. We should not allow our system to be held hostage by groups who manipulate the government to get their way. In 2013, 242 LCBO employees made Ontario's *Sunshine List* of government workers earning over $100,000 per year.

If the government were to sell all of its capital assets in the LCBO, it could raise an additional estimated $400 million, which should go towards Ontario's colossus public debt.

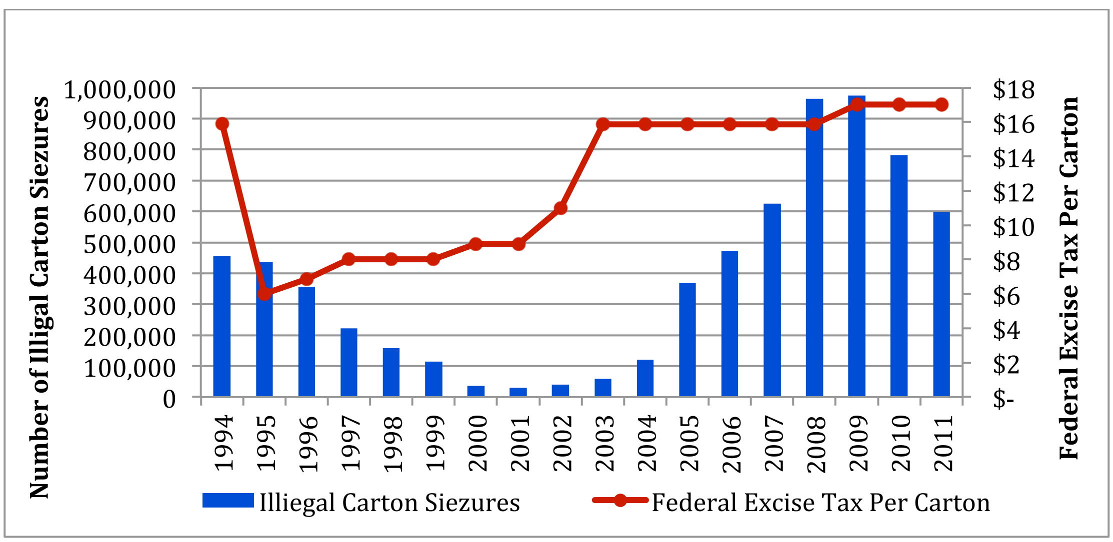
Total Savings: $874 million + $400 million = $1.274 billion

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.

In a recent report, the CTF illustrated the correlation between tax rates and illegal activity[36]. In 1994, Jean Chretien's government lowered tax rates and RCMP seizures plummeted by 93 per cent.

Chart 10: Tobacco Tax per Carton vs. Number of Illegal Carton Seizures



Instead of addressing the issue over high taxes driving a black market, the government of Ontario passed Bill 186 in 2011, which increased police powers in an attempt to cut off the contraband tobacco supply chains. Despite these strong new laws and policing powers, the government has failed to take corrective action to address this illegal market. In fact, they have since weakened their stance on the issue and instead focus on anti-smoking 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 government has now returned to the negotiating table to work alongside the very people who produce and distribute contraband tobacco. The government-commissioned *Facilitators Final Report* by Kathleen Lickers has led to the creation of new "pilot project" partnerships, which are vague and yet to be implemented or defined. These delay tactics undermine Bill 186 and have muddled the distinction between organized crime and economic development, exacerbated the sensitive relationship with native communities, and continues to promote and allow to asymmetrical policies, taxes, and legal standings in Ontario. While the CTF rejects heavy-handed methods like police raids and seizures as introduced in Bill 186, it also calls on the government to be clear and consistent with its contraband tobacco policies and strategies.

The CTF urges the government to make restoring lost tobacco tax revenue a top priority, and recommends striking a new tax deal with tobacco manufacturers on native reserves to help promote economic development and legitimize markets.

We estimate that by looking the other way as organized crime and black markets circumvent our laws, the government loses up to $1.1 billion in annual lost revenues for the provincial and federal governments. Given that the provincial tax component makes up 56 per cent of the total tax bill, an estimated $616 million of forgone revenue could be restored for the province.

Total Savings: $616 million

Part VIII: Conclusion

Debt and Balanced Budgets

The Liberal government went on a decade-long spending spree. The team of reckless spendthrifts added over $110 billion to the provincial debt in only nine years under former premier Dalton McGuinty, and have set Ontario on a path of big government waste, perpetual deficits, chronic over-spending, and the most irresponsible governance Ontario has ever experienced.

McGuinty may be gone, but his legacy lives on.

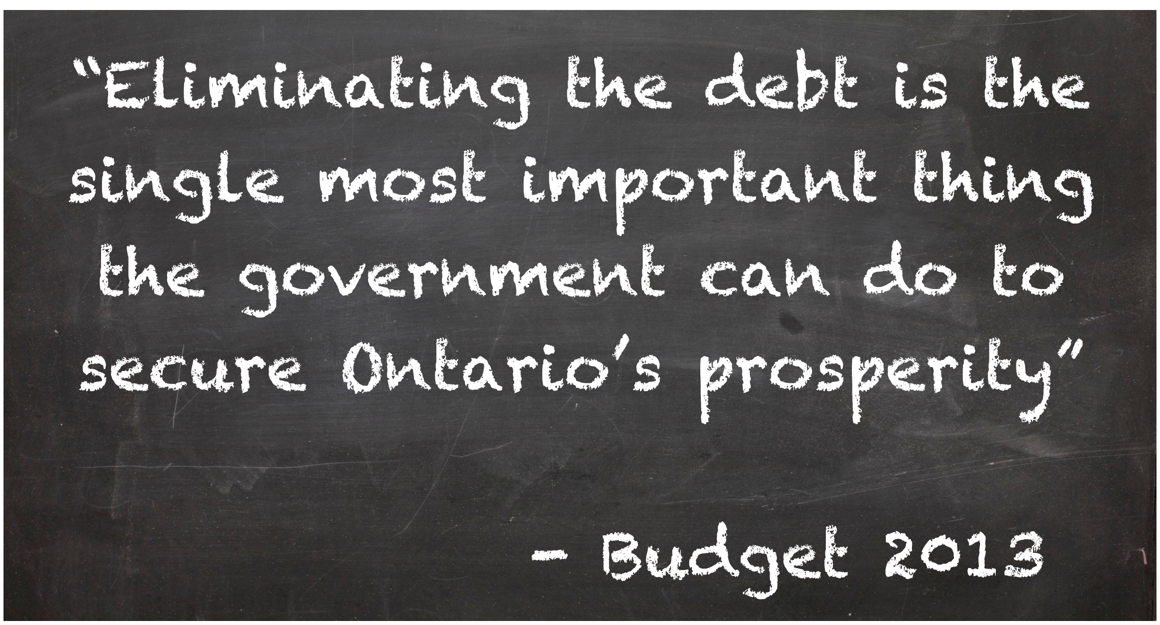
Premier Kathleen Wynne continues on the same path by tabling Ontario's 6th consecutive deficit last May, adding another $11.73 billion to our mounting public debt.

Ontario's debt grows by:

- Just shy of $1 billion per month – about $978.6 million;
- $225.8 million per week;
- $32.17 million per day;
- $1.34 million per hour;
- $22,342 per minute;
- $372 per second!

Debt carries consequences. Servicing this debt is the fastest growing expenditure in government, and at a cost of $10.6 billion per year, it is the third largest expense in the budget.

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 services, thanks to our choices. This is irresponsible. It is unfair. It is a shameful way to run a province and fundamentally wrong to pass the buck on our debt.



The government should mean what is says, and say what it means.

Currently, every man, woman, and child in Ontario are on the hook for $19,928 in provincial debt. It's only a matter of time before this economic house of cards comes crumbling down. It's time for the Wynne government to cut up its high-interest credit cards and start exercising the same fiscal prudence demonstrated by hard-working families and taxpayers across Ontario.

Ontario is heading full speed towards a fiscal cliff. This government has indicated it has no plans on slowing down, let alone reversing, its course or spending direction. The CTF urges the government to fast track its balanced budget commitment, and commit to a debt-reduction strategy like the one implemented under Ralph Klein in Alberta. Ontario's government has proven that it is unable to manage its finances and be responsible with taxpayer dollars; therefore, we need a law to force our politicians to balance the budget. A legislated debt-reduction calendar is the only way to insure future generations of taxpayers that they will not inherit hundreds of billions in debt or a bankrupt province.

Ontario deserves better.

Table 3: Canadian Taxpayers Federation's Balanced Budget Plan

Policy Change	Savings
Gas Tax Accountability Act	$3,430,000,000
Scrap the OCEB	$1,040,000,000
Scrap Full-Day Kindergarten	$1,500,000,000
Scrap the Tuition Credit	$420,000,000
Wage Freeze	$2,000,000,000
Break up the LCBO	$1,274,000,000
End Corporate Welfare	$2,700,000,000
Crack Down on Contraband	$616,000,000
Stop Pension Bailouts	$142,000,000
Total Savings	**$13,122,000,000**
Current 2013-14 Deficit	$11,743,000,000
DEBT REDUCTION	$1,379,000,000

[1]http://www.thestar.com/news/queenspark/2014/01/22/kathleen_wynne_turns_to_expm_paul_martin_for_pension_advice.html
[2] http://www.taxpayer.com/commentaries/about-that-cancer-mr.-martin
[3] http://www.taxpayer.com/news-releases/ontario-news-years-tax-changes-for-2014
[4] http://www.mowatcentre.ca/pdfs/mowatResearch/55.pdf
[5] http://mowatcentre.ca/federal-transfer-away-from-ontario-almost-11-billion-annually-according-to-new-research-from-mowat-centre/
[6] http://taxpayer.com/media/2013-GTHD-Report-CTF.pdf
[7] *ibid*
[8] *ibid*
[9] http://taxpayer.com/media/2013-GTHD-Report-CTF.pdf
[10]http://www.auditor.on.ca/en/news_en/13_newsreleases/2013news_3.05OPGhumanresources.pdf
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[23] http://www5.statcan.gc.ca/cansim/a26)
[24] https://www.fraserinstitute.org/publicationdisplay.aspx?id=20381&terms=pensions
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