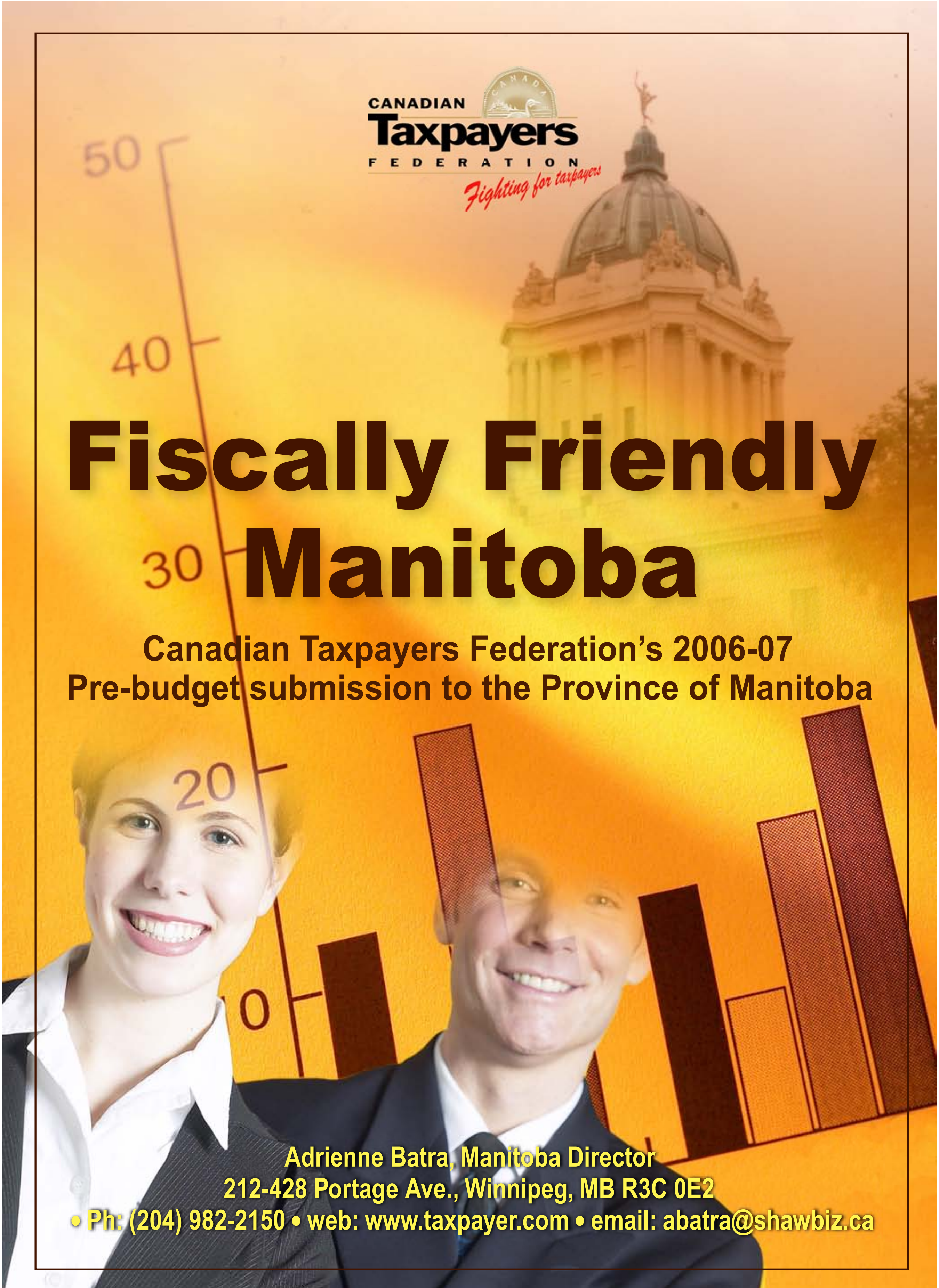

CANADIAN
Taxpayers
FEDERATION
Fighting for taxpayers

Fiscally Friendly Manitoba

Canadian Taxpayers Federation's 2006-07 Pre-budget submission to the Province of Manitoba

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About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit and non-partisan, advocacy organization dedicated to lower taxes, less waste and accountable government. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national taxpayers organization. Today, the CTF has over 72,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and offices in the five provincial capitals of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. In addition, the CTF has a Centre for Aboriginal Policy Change in Calgary dedicated to monitor, research and provide alternatives to current aboriginal policy and court decisions. Provincial offices and the Centre conduct research and advocacy activities specific to their provinces or issues in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries and publications to advocate the common interest of taxpayers. The CTF's flagship publication, *The Taxpayer* magazine, is published six times a year. An issues and action update called *TaxAction* is produced each month. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets and personalities nationally.

CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to effect public policy change.

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

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Part I: Recommendations

1. Set provincial income tax rates as follows – first rate from 10.9 percent to 10 percent, middle rate from 14 percent to 12.5 percent and third rate from 17.4 percent to 14.5 percent. Phasing in the last two reductions over five years.

2. Raise the Basic Personal Exemption in the 2006 tax year to $9,000.

3. Fully index Manitoba's tax brackets, BPE and spousal exemption to the rate of inflation and end bracket creep.

4. Reduce the size and costs of the public service. Re-examine salaries paid to the public service, contractual relationships, as well as the total number of employees currently on the government payroll. Public sector wages must be reviewed in all sectors.

5. Eliminate business subsidy programs which would result in $11.5 million in annual savings.

6. In conjunction with the next provincial election, hold a provincial referendum on the question of opening up Manitoba Public Insurance to competition.

7. Privatize Manitoba Liquor Control Commission and use the proceeds of the sale to pay down debt.

8. Introduce competitive tendering for services within the health system. The government should further consider public-private partnerships for all health services – including ownership and operation of hospitals. Further, the province should place no impediments to market forces in the form of a parallel public/private system.

9. Establish a long-term solution to increase the provincial share of education funding to 75 percent in order to curb school board taxes to fund education.

10. Expand the scope of the Balanced Budget, Taxpayers Protection and Debt Retirement Act to school boards and municipalities.

11. Continue to phase out school taxes on farmland.

12. Continue to phase out the Education Support Levy.

13. The CTF recommends the adoption of a mandated debt retirement payment based on 2.5 percent of own source revenues (total revenues less any federal transfers).

14. increase the budget for Manitoba's Provincial Auditor by $500,000

Part II: Introduction

The Canadian Taxpayers Federation would like to take this opportunity to commend the provincial government for adopting Generally Accepted Accounting Principles (GAAP). Under the old accounting rules, Manitobans were not given a complete picture of the fiscal health of our province. Now, summary financial statements will help the Legislature and public understand what the government's financial plans are for publicly funded crowns, for example. The move to GAAP is a step in the right direction and the CTF hopes the Manitoba government will continue down a path of fiscal transparency in the upcoming budget.

This provincial budget represents an important opportunity for this government and for Manitoba taxpayers. With both the deficit and crown debt on the rise, we must get serious about streamlining government. The CTF's plan for a fiscally friendly Manitoba is built on the pillars of debt reduction, tax relief and redefining the role of government.

Taxpayers' demand for tax relief is real and warranted. Tax cuts are essential for sustained economic growth. In the immediate term, improved and efficient delivery of government services and through the divestiture of some crown corporations can help offset foregone tax revenue over the next few years. Experience with balanced across the board tax cuts in other jurisdictions, such as the federal government's 2000 tax cuts, shows that within five years government revenues rise. By 2005, despite $45 billion in tax cuts, Ottawa's revenues were actually higher. Ottawa's fiscal success was a reflection of economic growth.

Unlike our neighbours to the west, this provincial government cannot bank on natural resources royalty revenues to help swell government coffers. Therefore, it is essential that Manitoba's government get its own affairs in order before it increases spending. Any increased spending must be planned and financed by a growing economy and tax base. It is critical that the right balance be struck so that both continue to grow in step with pressures on government spending. Unfortunately, past performance shows that Manitoba is lagging on both counts.

Economic prospects for the next few years are positive. However, Manitoba's government must play a role in fostering and not hampering economic growth. Table 1 illustrates a few projected economic indicators.

Table 1: Selected Economic Indicators
Projections for 2005 to 2007 - Manitoba

Year	Real GDP	Nominal GDP	Consumer Price Index	Employment (increase)	Retail Sales
2005	2.7%	4.6%	1.9%	1.0%	7.2%
2006	2.9%	5.6%	1.9%	0.7%	4.2%
2007	2.7%	4.2%	1.5%	0.6%	4.3%

Source: TD Economics, Regional Outlook, BMO Regional Outlook, RBC Regional Outlook, Scotiabank Regional Outlook, Laurentian Bank – Average of most recent projections

Overall economic growth is expected to be slightly lower than the 3.0 percent national average. More troublesome is continued flat growth in employment. Weak employment growth reflects the relatively high levels of taxation experienced in Manitoba. Stronger employment growth is the key to economic prosperity, but this will only occur if the provincial government keeps spending under control and finds room for meaningful tax relief.

Part III: Cutting Taxes

Competitive Taxation

The CTF maintains that our tax system should be straight forward and understandable. Further, the tax system should promote economic prosperity for all Manitobans and not discourage the incentive to work, save or invest. Manitoba's current tax rates do not promote this in spite of marginally reduced personal and business tax burdens over the past three budgets. In the context of our supporter survey results and inter-provincial comparisons, the CTF urges the provincial government to further these measures in the 2006/2007 budget.

Although taxpayers have enjoyed a small reduction in personal income taxes in the middle tax bracket, rates in Manitoba are still significantly higher than those in other provinces. By all measures, Manitoba's personal income taxes are among the highest in the country.

The 2005/2006 CTF supporter survey shows that taxpayers remain cautious about Manitoba's economic future and competitive standing with other provinces. 68 percent of respondents believe that Manitoba's ability to compete with other provinces for new business development is still encumbered by current tax rates and taxation policies.

2005/06 CTF Supporter Survey

Do you feel current tax rates and taxation policies allow Manitoba to successfully compete with other provinces?

No	**68%**
Yes	14%
Undecided	13%
No answer	5%

Personal Income Taxes

While some progress has been made in lowering Manitoba's income taxes, more work needs to be done. In order for our province to grow and prosper, it should be the government's first priority to leave more money in the hands of families, workers, entrepreneurs and investors, earnings they have worked hard for. More importantly, the government must send the right long-term signal to workers and investors by embarking on a five year tax reduction plan.

The CTF recommends the following personal income tax rate reductions to be phased in over the next five years

- Increase the basic personal exemption to $11,000 by 2010
- Reduce the first rate from current 10.9 percent to 10 percent in the 2006 tax year
- Second rate – reduce from current 13.5 percent to 12.5 percent by 2008; and
- Third Rate – reduce from the current 17.4 percent to 14.5 percent by 2010.

The following table illustrates the timetable and impact in terms of forgone revenue. It is worth noting that forgone revenue is the one measure of a tax cut impact, albeit an important consideration when setting budgets. Previous experience in other jurisdictions with broad based tax cuts indicates that over time government revenues, through increasing economic activity, tend to increase offsetting foregone revenues. However for purposes of meeting budget requirements, the proposed 2006 tax reductions can be met by for instance adopting the CTF's proposal for lowering the size of government employment (see Table 6). Subsequent year's reductions can be gained through further economic growth.

Table 2: A five-year plan for tax reductions.

	2006	2007	2008	2009	2010	Cumulative
BPE	9,000	9,500	10,000	10,500	11,000	
impact $ million	-76.0	-27.7	-27.7	-27.7	-27.7	-186.8
First Rate	10.0%	n/a	n/a	n/a	n/a	
impact $ million	-73.7	n/a	n/a	n/a	n/a	-73.7
Second Rate	13.0%	12.5%	n/a	n/a	n/a	
Impact $ million	-35.8	-35.8	n/a	n/a	n/a	-71.7
Third Rate	16.5%	16.0%	15.5%	15.0%	14.50%	
Impact $ million	-38.2	-21.2	-21.2	-21.2	-21.2	-123.0
Total	-223.7	-84.7	-48.9	-48.9	-48.9	-455.2

When contrasted with current and planned reductions in other provinces, this proposal would put Manitoba on par with Ontario and British Columbia. Benefit to Manitoba's lower and middle income earners would be even greater.

When compared to BC, Alberta, Saskatchewan and Ontario, Manitoba's personal income tax regime is at the bottom of the pack. Lower and mid-income earners in particular suffer under a heavier burden than is the case in these other provinces.

It is essential that Manitoba adopt a more competitive personal income tax regime. Table 3 illustrates how Manitobans fare compared to residents of other provinces. When compared to western provinces, Manitoba ranks at the bottom of the four. It should be noted that Table 3 takes into account modest tax reductions introduced last year.

Table 3: Provincial Tax Comparisons 2005

Provinces / Territories	Rate(s)
Ontario	6.05% on the first $34,758 of taxable income, + 9.15% on the next $34,759, + 11.16% on the amount over $69,517 Basic Personal Exemption $8,377
Manitoba	10.9% on the first $30,544 of taxable income, + 13.5% on the next $34,456, + 17.4% on the amount over $65,000 Basic Personal Exemption $7,734
Saskatchewan	11% on the first $37,579 of taxable income, + 13% on the next $69,788, + 15% on the amount over $107,367 Basic Personal Exemption $8,589
Alberta	10% of taxable income Basic Personal Exemption $14,799
British Columbia	6.05% on the first $33,755 of taxable income, + 9.15% on the next $33,756, + 11.7% on the next $10,000, + 13.7% on the next $16,610, + 14.7% on the amount over $94,121 Basic Personal Exemption $8,858

*Source Revenue Canada, 2006 Income tax statistics

In addition, the CTF recommends the government continue to increase the basic personal and spousal exemption to $15,000. This would take over 61,000 people off the tax rolls while encouraging many marginal wage earners to earn more as low marginal tax rates would take affect at a higher level of income. It's likely that this modest tax reform would result in fewer claims for social services. We believe government should no longer tax the working poor. Moreover, the impact for low income Manitobans will be substantial, while also encouraging greater labour participation among this group.

Recommendation 1:
Set provincial income tax rates as follows – first rate from 10.9 percent to 10 percent in 2006, middle rate from 13.5 percent to 13 percent in 2006 and 12.5 percent in 2007, third rate from 17.4 percent to 16.5 percent for 2006 and phase in to 14.5 percent by 2010.

Recommendation 2:
Raise the Basic Personal Exemption in the 2006 budget to $9,000 as part of a 10 year plan to move it to $15,000.

Bracket Creep

Only four jurisdictions in Canada have failed to re-index their income tax system for inflation. In fact, federal tax savings are being eroded by Manitoba's failure to index the income tax system. For instance, after the latest round of federal income tax adjustments, an individual earning $45,000 in Manitoba will save $103; the same income earner in Saskatchewan will save $139.

To reverse this problem, the province should institute full indexation. Outlawing bracket creep today would not restore the personal credits and tax brackets to their fully indexed values, but it would restore fairness, transparency and accountability to the tax system.

Table 4: 2006 Bracket Creep Status Chart

Province	Indexation of Tax Brackets	Indexation of Non-Refundable Tax Credits
Federal Government	Yes	Yes
British Columbia	Yes	Yes
Alberta	No brackets to index	Yes
Saskatchewan	Yes	Yes
Manitoba	No Announcement	No Announcement
Ontario	Yes	Yes
Quebec	Yes	Yes
New Brunswick	Reversed policy	Reversed policy
Nova Scotia	No Announcement	No Announcement
Prince Edward Island	No Announcement	No Announcement
Newfoundland	No Announcement	No Announcement

Recommendation 3:
Fully index Manitoba's tax brackets, BPE and spousal exemption to the rate of inflation and end bracket creep.

Part IV: Spending

Size of Manitoba's Public Sector

Over the past four years, CTF-Manitoba supporters have expressed an overwhelming desire for reduced public payroll costs. In addition, we cannot discount finding efficiencies in areas such as health care and education, as these are the provinces two largest spending envelopes. The number and cost of provincial government employees is a starting point.

Apart from reviewing the performance of each individual ministry and department, the government has to take a look at the cost and performance of the public service as a whole. To date, the Manitoba government has not given any indication that public sector salaries and benefits will be reviewed. Reviewing both public sector employment levels and salaries can go a long way to reducing these costs to taxpayers.

Table 5: Provincial Public Sector Employment 1989 to 2005

Year	Public Sector Employment	Total Wages – Public Sector ($ million)	Average Public Sector Wages	Public Sector as a % of Total Employment	Public Sector Wages as a% of Total Provincial Spending
1989	73,398	2,345	31,952	14.5%	48.8%
1990	74,734	2,515	33,653	14.7%	49.5%
1991	75,517	2,580	34,165	15.0%	49.2%
1992	76,021	2,703	35,556	15.0%	49.8%
1993	75,224	2,645	35,162	14.4%	49.4%
1994	73,176	2,620	35,806	14.3%	48.9%
1995	72,721	2,605	35,824	14.0%	47.7%
1996	72,759	2,569	35,303	13.3%	53.7%
1997	69,002	2,371	34,365	13.3%	44.7%
1998	70,087	2,462	35,123	13.3%	42.5%
1999	71,009	2,605	36,682	13.3%	40.5%
2000	72,348	2,784	38,476	14.0%	41.9%
2001	77,347	3,023	39,089	14.6%	47.7%
2002	81,284	3,233	39,776	14.7%	50.1%
2003	83,322	3,347	40,170	14.3%	45.3%
2004	82,389	3,512	42,631	14.2%	45.1%
2005 Q	82,339	3,496	42,461	14.5%	43.4%

Source: Statistics Canada, Public Sector Employment

Q Quarterly Average denotes a projection for the year based on the most recent quarterly results.

When comparing the size of government employment over the last eighteen years (see Table 5), it is clear that it has ebbed and flowed over time. Two measures of the size of government stand out: public sector employment as a percentage of total provincial employment and public sector wages as a percentage of total spending. In 2003, public sector wages accounted for

45 percent of all government spending – not the highest level ever, and a drop from the previous level of 50 percent – this was a step in the right direction.

If average wages increase by the consumer price index of 1.5 percent, then next year public sector wages would continue to account for 43 percent of all spending. It would be difficult to lower this ratio much in a short one or two year cycle. However, the number of public sector employees has steadily increased by approximately 10,000 employees since 1989. This has been accompanied by modest growth in average public sector wages. When combined, the cost of the public sector payroll has risen by a whopping $1.1 billion. The following table provides three scenarios for reducing the size of the public sector in 2006 and illustrates the overall savings that result from each scenario.

Table 6: Three Scenarios for Reducing Manitoba's Public Sector Employment

Year	Public Sector Employment	Total Wages – Public Sector ($ million)	Average Public Sector Wages	Public Sector as % of Total Employment	Public Sector Wages as % of Total Provincial Spending	Savings ($ million)
2006 CTF	75,636	3,274	43,282	12.9%	40.6%	223
2006 H	74,734	3,453	46,207	12.8%	42.8%	43
2006 HL	69,002	2,977	43,138	11.8%	36.9%	520

CTF reduces government employment to 15 year average and increases 2005 wages with inflation

H reduces government employment to 1990 levels with average wages indexed for inflation

HL (Historical Low) reduces government employment to 1997 levels and adjusts 2002 average wages for inflation

Since 2003, public sector employment has declined by 1,000 employees, while projections for 2005 show a paltry decline of 50 employees over the previous year. The former government failed to make substantial reductions to the size of Manitoba's public sector while, the current government has only achieved modest reductions.

Rather than simply trying to reducing wages, it is more appropriate to set targets for public sector employment based on previous levels. In Table 6, the CTF has prepared three target scenarios for reducing both the size and cost of public sector employment.

Depending on which of the three approaches are adopted, between $43 and $520 million could be saved on public sector employment costs alone. Opting to reduce employment to 1990 levels (with the average wage indexed to inflation) would produce a manageable target. It is worth noting that under this scenario wages would increase beyond projected levels based on more recent wage rates. By contrast, aiming for 1997 levels with more modest wage growth could save $520 million. But any combination of these scenarios would deliver substantial savings to Manitoba's taxpayers.

Recommendation 4:

Reduce costs of the public service. Re-examine salaries paid to the public service, as well as the number of employees currently on the government payroll. Public sector wages must be reviewed in all sectors with the goal of raising $223 to $520 million.

Reduce Spending: Eliminating Corporate Welfare

According to 2005 budget estimates, the provincial government allocated $11.5 million for industry development programs, including Manitoba Industrial Opportunities, Vision Capital and Manitoba Business Development Fund.

CTF supporters have long supported elimination of business grants, loans and other special concessions to individual businesses. Better to provide lower taxes that apply to *all* businesses. Corporate welfare is dolled out at the expense of actual public goods and services.

The most obvious example where taxpayers and investors were the end losers was the Crocus Investment Fund. Over $30 million provincial tax dollars went to support the Fund since its inception in 1992, yet there is little to nothing to show for it. A full 69% of CTF supporters believe the Manitoba government should call a public inquiry into the failed venture, further illustrating the point that particular consideration given to select businesses is not in the best interest of the public purse.

Business subsides create a distorted playing field where the government selects winners and losers. In essence, government takes tax dollars from one business and gives these to another – most galling in some cases when the recipient is a competitor. There is little evidence to support the efficacy of corporate welfare, but there is a litany of failed ventures and wasted tax dollars. A recent example is Maple Leaf Distillers; since it has gone into receivership, taxpayers will likely be out another $700,000.

Recommendation 5:
Eliminate business subsidy programs which would result in $11.5 million annual in savings.

Privatization

In 2004 the province passed legislation that would ensure a referendum is held prior to opening up Manitoba Public Insurance to competition. The CTF suggests that in conjunction with the next provincial election, this question be put to Manitobans as revenues generated from potential crown divestiture could be used to pay down debt.

The CTF is pleased the province has embarked upon a strategy to sell its resorts and we encourage the same course of action for Manitoba Liquor Control Commission. Selling our publicly-owned liquor stores and allowing the free market to sell liquor in Manitoba would result in real economic growth in the province. Hundreds of new private businesses and jobs would be created. Consumers would have more choice, convenience and better prices than ever before.

Above all, more people would experience the satisfaction and freedom that comes with business ownership. It signals a new way of thinking – something the province desperately needs.

The age of government ownership and control of the economy has come to an end almost everywhere in North America, except in Manitoba and Saskatchewan. Most of the services provided by the crowns could easily be delivered by a competitive private sector. The private sector would be equally capable of running tourist resorts, selling liquor and auto insurance as they do for any other industry where competition prevails.

Recommendation 6:
In conjunction with the next provincial election, hold a referendum on the question of opening up Manitoba Public Insurance to competition.

Recommendation 7:
Privatize the Manitoba Liquor Control Commission and use the proceeds of the sale to pay down debt.

Controlling Spending on Health Care

2006 CTF Supporter Survey - Manitoba

Do you believe that the government should utilize the private alternative or force people on wait lists in the public system?

Yes – utilize the private alternative	**84%**
No – public is the best model	8%
Undecided/no answer	9%

When the Maples Surgical Centre began operating an MRI machine at a cost of $695 a scan, there was a great deal of pushback from the Health Minister in allowing Manitobans this option. Fortunately, the province and the Maples have been able to find common ground and the CTF is recommending the province not only contract with the Maples, but encourage more private sector alternatives.

Allowing a choice of private service delivery is not an option, but a necessity as is evidence by a growing number of polls, patients seeking private alternatives and the Supreme Court ruling deeming government wait lists a violation of human rights. Health care as currently funded is unsustainable and the recent Conference Board of Canada report on health care just adds fuel to the fact Manitobans are not getting the care they need, despite multi-million dollar annual increases in health care spending.

The portion of the provincial budget dedicated to health care spending (more than 42%) increases every year. These increases come without a noticeable long term improvement in the length of surgical waiting lists, the availability of advanced medical technology, the accessibility and affordability of pharmaceuticals, the length of the queue for long term care or assisted living spaces, and the number of services/practitioners covered by provincial health plans. It also doesn't take into consideration the amount of money set aside for future health care needs, which will be expensive as the Canadian population ages.

Table 7: Health Care Spending in Manitoba 1989 to 2005

Year	Total Spending	Total Health Care Spending	Health Care Spending as % of Total
1989-1990	4,802	1,524	31.7%
1990-1991	5,081	1,671	32.9%
1991-1992	5,241	1,760	33.6%
1992-1993	5,425	1,864	34.4%
1993-1994	5,359	1,859	34.7%
1994-1995	5,361	1,855	34.6%
1995-1996	5,458	1,849	33.9%
1996-1997	4,786	1,812	37.9%
1997-1998	5,301	1,826	34.4%
1998-1999	5,789	1,926	33.3%
1999-2000	6,438	2,301	35.7%
2000-2001	6,643	2,505	37.7%
2001-2002	6,338	2,686	42.4%
2002-2003	6,456	2,843	44.0%
2003-2004	7,391	3,045	41.2%
2004-2005	7,791	3,273	42.0%
2005-2006	8,064	3,390	42.0%

While the ultimate solution is to allow for a parallel private health sector to co-exist along side the public system, there are some steps that can be taken in the interim. Beginning with the 2006 budget, Manitoba must begin a long-term program of finding new efficiencies in the health care system. The first step should be to introduce competitive tendering. The government should further consider public-private partnerships for all health services – including the ownership and operation of hospitals.

In both the health care and education sectors, spending is largely dictated by salaries to public sector employees. In health care alone, 51 percent of spending goes to salaries and benefits – up 2 percent over the previous year. Every time wages increase, taxpayers are paying more without receiving more services in return.

The largest single expense in the health system is the health care worker pay roll. At nearly one and a half billion dollars annually, we can not address rising health costs without paying close attention to the payroll. However, we do not recommend reductions in salary or staffing levels for doctors, nurses, or technologists as this would only worsen the current shortage. All other expenditures however, must be intensely scrutinized.

Table 8: Labour Costs as a Percentage of Health Spending

	Average Payment Dollars	Average Number	Total Cost ($ million)
Family Medicine	202,081	649	131
Medical Specialists	209,805	483	101
Surgical Specialists	325,469	228	74
Total Fee for Service MDs	n/a	1,360	307
Health Care Workers	30,637	39,954	1,435
Total Payroll as Percentage of Health Care Budget			51%

Based on 2003/04 CIHI National Physician Database & Statistics Canada Public Sector Employment Database

At some point in the near future, the province's failure to provide timely health services will cease being an economic issue and become a civil liberties issue. The province must not restrict an individual's ability to obtain medically necessary health services. As the Supreme Court stated in its historic ruling in *Chaoulli v. Quebec*: *"Democracies that do not impose a monopoly on the delivery of health care have successfully delivered ... services that are superior to and more affordable than the services that are presently available in Canada. This demonstrates that a monopoly is not necessary or even related to the provision of quality public health care."*

Monopolies don't work. Canadians should not be denied choice. It's absurd that Manitobans can spend whatever they want on the health care of their cat or dog: but not for a sick child or a loved one. Denying citizens this right is, simply put, inhumane.

Throwing an endless stream of tax dollars at a bad system is irresponsible. The consequence of inaction on health spending is obvious. Within the next decade our health system will deteriorate further. Economic situations beyond our control (such as drought, trade disputes, and the cyclical nature of oil and gas prices) will negatively impact Manitoba's ability to finance the health system. Public confidence in the system will wane as a result of declining services and dangerous waiting times. Overworked and over-regulated health professionals will seek better career opportunities in other provinces or foreign countries.

Recommendation 8:
Introduce competitive tendering for services within the health system. The government should further consider public-private partnerships for all health services – including ownership and operation of hospitals. Further, the province should place no impediments to market forces providing alternatives in the form of a parallel public/private system.

Controlling Spending on Education

As with health care, the majority of education dollars are spent on salaries. If we are to ensure as many tax dollars as possible go the classroom and help address rising school taxes on property, we must look closely at salaries. Between 1995 and 2002, the average salary rose by 24 percent, resulting in an increase in the overall cost of education. Taxpayers are paying more each year for the exact same service as they had in previous years. The difference is that school board staff are getting paid more and enrollment is decreasing.

As the Table 9 illustrates, salaries account for about 63 per cent of all provincial spending on education. That means annual increases in spending often don't reflect new initiatives, but rather reflect increasing wages for those working in the sector.

Table 9: School Board Wages as a Percentage of Education Spending

Year	Employees	Total Wages	Average Wages	Total Education Spending (in millions)	Wages as % of Spending
1995	27,289	842	30,847	1,004	83.9%
1996	26,754	840	31,414	1,019	82.5%
1997	26,364	847	32,114	1,030	82.2%
1998	26,517	867	32,678	1,130	76.7%
1999	27,174	894	32,895	1,322	67.6%
2000	27,920	924	33,109	1,449	63.8%
2001	26,088	957	36,694	1,486	64.4%
2002	24,953	994	39,827	1,521	65.3%
2003	24,352	1,023	41,994	1,594	64.2%
2004	25,886	1,066	41,184	1,698	62.8%

***Source Statistics Canada, Public Sector data 2004**

Only five provinces raise school revenues from the property tax base. The long-term solution to reverse this trend is to establish a measurable plan to increase the provincial share of education funding.

Table 10: Property Tax Revenues as a Percentage of School Board Spending

Year	NL	PEI	NS	NB	PQ	ON	MB	SK	AB	BC
2000-2001	0.00%	0.00%	0.00%	0.00%	12.68%	39.48%	33.50%	51.12%	4.56%	0.00%
2001-2002	0.00%	0.00%	0.00%	0.00%	12.64%	39.54%	33.40%	50.99%	4.58%	0.00%
2002-2003	0.00%	0.00%	0.00%	0.00%	12.67%	39.49%	33.40%	50.98%	4.60%	0.00%
2003-2004	0.00%	0.00%	0.00%	0.00%	12.66%	39.49%	33.41%	50.97%	4.61%	0.00%

*Source: Statistics Canada, Public Sector date 2004

Because taxpayers foot the bill, knowing what's being spent on each pupil is an important part of the accountability chain. Higher spending does not necessarily equal better results, but it does carry costs for each province's taxpayers. According to Statistics Canada, in 2003 Manitoba spent $7,290 per pupil, the second highest per pupil spending in the country.

Relatively small changes in real education spending reflect the reality that rising wages for school board employees are driving costs. From a taxpayer standpoint, cutting costs or striving to get more results from existing spending levels can only occur if the percentage of costs consumed by wages begins to decline.

Recommendation 9:
Establish a long-term solution to increase the provincial share of education funding to 75 percent in order to curb school board taxes to fund education.

Property Tax

Small reductions that the province has made in past budgets to ease the property tax burden is laudable. However, discrepancies still exist from one RM to another regarding the portion of school taxes generated from farmland and the impact of school taxes on individual farmers.

The same can be said for property taxpayers at large. Previously announced property tax credits ease the burden slightly but still leaves Manitoba with some of the highest property taxes in Canada. The other draw back to the property tax credit is that it insolates municipalities and school boards from the obligation to control spending.

2006 CTF Supporter Survey

Do you support extending the *Balanced Budget/Taxpayer Protection/Debt Reduction Act* to municipalities and schools?

Yes	**63%**
No	8%
Undecided	24%
No Answer	5%

63 percent of CTF supporters favor spending restraints for both municipalities and school boards via the Balanced Budget, Taxpayer Protection and Debt Retirement Act. With schools boards currently setting their budgets, there are already reports of future school tax increases. A previous report conducted by the CTF highlighted that school taxes have increased on average 7.1 percent (three times the rate of inflation) between 1993 and 2002. Although it is encouraging that the province will continue to phase out the Education Support Levy, all Manitobans, particularly farmers continue to shoulder a heavy burden from school taxes.

Recommendation 10:
Expand the scope of the Balanced Budget, Taxpayers Protection and Debt Retirement Act to school boards and municipalities.

Recommendation 11:
Continue to reduce school taxes on farmland.

Recommendation 12:
Continue to phase out the Education Support Levy.

Part V: Debt Reduction

While Manitoba's debt situation has improved marginally over the past few years thanks to modest debt repayment, Manitoba needs debt reduction, not debt management.

There is no greater loss to Manitoba's taxpayers than $269 million in public debt servicing costs. Every day Manitoba's debt costs taxpayers $736,986 or $30,707 an hour. These do not add to services for Manitobans and are the result of irresponsible spending patterns which exceeded revenues. The current government should be working hard to keep Manitoba's budget balanced as a key first step, but real debt reduction will be essential for finding medium and long-term savings above and beyond any exercise in reducing and reallocating spending. The government must look to reduced Manitoba's $16.4 billion debt.

Keeping debt on the books has two pernicious effects on Manitoba's budget. First, it increases the cost of servicing the debt, which at present is the government's third largest spending envelope eating up 16.2 per cent of total spending. Second, it saddles future generations of Manitoba taxpayers with obligations that can only be paid with hard-earned tax dollars. As a result, money that could go to valuable programs is wasted while services, such as chiropractic care, eye exams and physiotherapy, are cut.

Mandated Debt Retirement

Under the existing balanced budget law, $110 million in debt will be paid down this year. The CTF urges the government to be more aggressive in its debt elimination efforts, and to that end proposes the adoption of a mandated debt retirement payment based on 2.5 percent of own source revenues (total revenues less any federal transfers).

Table 11: Debt Retirement schedule

Year	Debt	CTF Scenario 2.5% of Own Source Revenue
2006-2007	16,290	135
2007-2008	16,152	139
2008-2009	16,009	143
2009-2010	15,862	147
2010-2011	15,711	151
2011-2012	15,555	156
2012-2013	15,394	161
2013-2014	15,229	165
2014-2015	15,058	170
	Paid in Full 2057-2058	

It is clear that opting to pay back more debt early on and by increasing repayments each year, the goal of debt retirement can be within our grasp. By contrast, opting for lower rates of repayment, will keep this burden on future generations of Manitobans. The CTF's proposal is a modest one, if over time 3 or even 5 percent of own source revenues were devoted to debt repayment, years could be shaved off this estimate. And if like the federal government, strong fiscal surpluses are realized, over time an even greater portion of our debt could be paid down. The key is to build on the positive steps already taken, after all today's debts must be paid by future taxpayers, our children, grand children and even great grandchildren.

Recommendation 13:
The CTF recommends the adoption of a mandated debt retirement payment based on 2.5 percent of own source revenues (total revenues less any federal transfers).

Part VI: Increase Auditor General's Budget

It is not often when the CTF recommends increased spending to government, but in the case of the Office of the Auditor General (AG), we make this exception. Over the past two years, Manitoba's Auditor has produced some significant reports on wasteful spending and lack of accountability, most notably the AG's reports on Crocus, Worker's Compensation Board and Hydra House.

Unlike an extra-parliamentary interest group, the AG has no specific axe to grind or constituency to represent. Instead, as a servant of the legislature it is the AG's job to research government programs to ensure they are meeting their stated objectives and that taxpayers are receiving value for dollar.

In order to narrow Manitoba's accountability and transparency gap, greater resources should be devoted to the province's auditor general. In all jurisdictions in Canada, the auditor general is parliament's watchdog and by extension, taxpayers best friend. Quite often, scandals, improprieties, and questionable spending only become a real issue when it is revealed by a jurisdiction's auditor general. It is imperative that these offices have the necessary resources to do the job to their fullest and best ability. As guardian of the public purse and of the public trust, no other expenditure is worth every penny as these offices are. Manitoba's taxpayers, voters, and citizens deserve no less.

Currently the AG's office is working on 3 investigations, yet over 80 requests have come into the office which they likely will not have the opportunity to look at due to lack of resources. With such a significant backlog of potential investigations, the CTF is recommending a $500,000 increase to the AG's budget which will hire three more investigators and provide funds to expand the current office.

Recommendation 14:
Increase the budget for Manitoba's Provincial Auditor by $500,000.