Canadian Taxpayers Federation

A Taxpayer-Friendly Path Forward

2008-09 Provincial Budget Recommendations

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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 68,000 supporters nation-wide with approximately 18.5%, or 12,500, in Ontario.

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 working partnership with the Montreal-based Quebec Taxpayers League. Provincial offices and the League conduct research and advocacy activities specific to their provinces in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries 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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Introduction

The 2007 election platform document for the Liberal Party of Ontario was "Moving Forward Together".

Too often over the past years 'moving forward' has meant 'moving spending forward'.

Spending in Ontario has been climbing at alarming rates; more than double the combine inflation and population growth rates. Not only has spending been growing but the government is spending beyond even what it budgets from year to year.

This over-spending robs taxpayers of the tax relief they deserve. It must come to an end through a two year freeze on spending followed by a spending cap limiting program spending growth to a maximum of the combined inflation and population growth rate.

Despite this revenues continue to soar. Surpluses are now being run and taxpayers should see the benefits through the elimination of the Health Tax.

Ontario total debt continues to climb placing a mortgage on the future. Interest on the debt erodes government's ability to spend where necessary and to provide meaningful tax relief. To resolve this, starting in 2009/2010, 1% of total revenue should be mandated to go to debt repayment. The interest relief should be paid back to taxpayers in a 'Tax Back Guarantee', similar to the policy advanced by the federal government.

The government continues to believe that intervening in the economy by channeling cash directly to firms in corporate welfare schemes creates jobs. It does not. The practice should end. The government would save $942 million per year in the process.

Municipalities are clamouring for new taxes and money for infrastructure. With the average family in Ontario paying 46% of their income in taxes, new municipal taxes are not the way to go. Instead, to fund infrastructure in a principled manner, there should be a *Gas Tax Accountability Act* which would increase spending for roads, bridges and highways by $1.897 billion per year.

Each year, billions of tax dollars flow through crown corporations with little transparency or accountability. Mechanisms must be introduced to strengthen the protection of these funds.

Finally, spending by ministers, ministerial staff and senior civil servants has also gone too long with too little transparency and accountability. Posting their expenses and travel on the internet every quarter would improve this situation. This applies equally for grants and contributions which should be posted quarterly for each ministry.

Summary of Recommendations

Limit Government Spending

Recommendation 1: Freeze then Cap Program Spending
Freeze spending for the 2008/09 and 2009/10 budgets and introduce a legislated spending cap so that annual program spending starting in 2010/2011 cannot increase by more than the combined growth rates of Ontario's population and inflation.

Recommendation 2: End March Madness
Pass legislation making illegal for any in-year unbudgeted spending, with the exception of a declared emergency.

Tax Relief for Individuals

Recommendation 3: Eliminate the Health Tax
Provide meaningful broad-based tax relief to all Ontario taxpayers through immediate elimination of the health tax.

Stop the Digging: Fill In The Debt Hole

Recommendation 4: Stop Debt Financing and Begin Debt Repayment
End the practice of borrowing today against future revenues and legislate an annual debt repayment requirement of 1% of total provincial revenue starting in 2009/2010.

Recommendation 5: Tax Back Guarantee
Implement legislation requiring savings from lower debt interest be returned to taxpayers in the form of lower personal taxes.

End Corporate Welfare

Recommendation 6: End Corporate Welfare
Eliminate corporate welfare programs, including:
- the Venture Capital Fund;
- the Next Generation Jobs Fund;
- the Advanced Manufacturing Investment Strategy;
- the Advanced Automotive Investment Strategy; and,
- the Forest Products Sector Support.

No New Municipal Taxes

Recommendation 7: No New Municipal Taxes
Do not extend new direct taxing powers to other Ontario municipalities unless they are approved via a municipal referendum.

Recommendation 8: Take Back Toronto Taxing Powers
Remove from the city of Toronto its new taxing powers that were used to implement a new garbage tax, a new land transfer tax and a new vehicle registration tax, requiring the city to seek public approval of new taxes through a referendum.

Principled Infrastructure Spending

Recommendation 9: Gas Tax Accountability Act
Implement a Gas Tax Accountability Act that would return 100% of provincial fuel tax revenues to infrastructure funding; including roads, bridges and highways.

Selling Crown Assets

Recommendation 10: Asset Sales for Debt Relief
Revenues from the disposition of government assets must be applied wholly to debt reduction.

Greater Accountability for Crown Corporations

Recommendation 11: Make Crown Corporation Annual Reports Public Directly
Amend reporting legislation to require crown corporations to issue annual reports directly to the public and to the responsible minister at the same time.

Recommendation 12: Require Timely Annual Reports
Establish employment contract requirements for Presidents, CEO, Chairs of Boards, and CFOs requiring publication of annual reports for crown corporations no later than three months after respective fiscal year ends.

Recommendation 13: End Ministerial Interference in Annual Reporting
Disallow ministerial or departmental involvement in the preparation of annual reports for crown corporations.

Recommendation 14: Annual Public Meetings
Hold annual public meetings for each crown corporation as is done for publicly traded companies.

Transparency: Shedding Light on Government Spending

<u>Recommendation 15</u>: Shed Light on Personal Expenses
Require cabinet ministers and their staff, as well as senior public servants, to post their office expenses: travel, hospitality, and supply and services online on a quarterly basis.

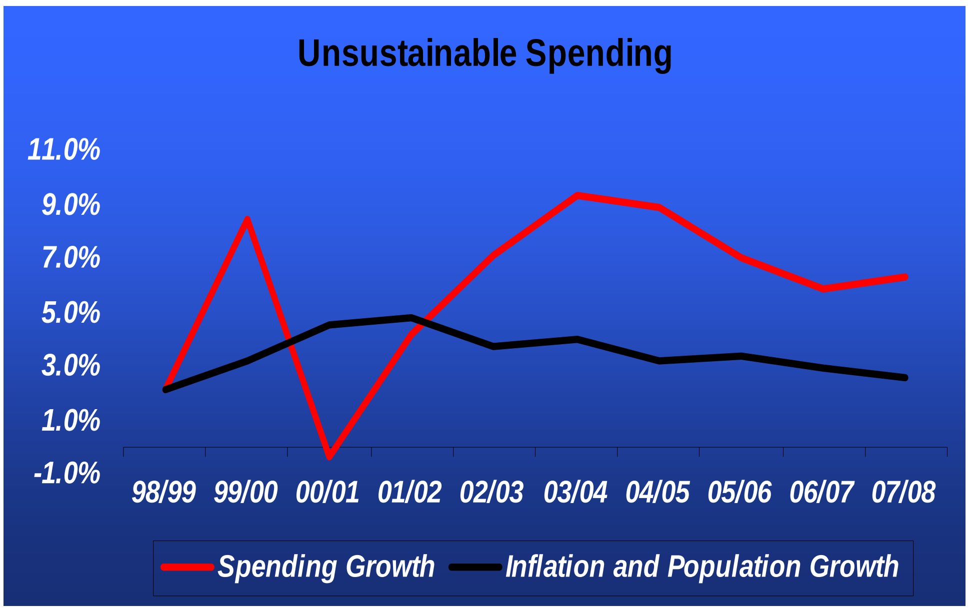
<u>Recommendation 16</u>: Shed Light on Government Spending
Post every quarter on the internet lists of grants and contributions by department.

<u>Recommendation 17</u>: Shed Light on Ministerial Flights
Publish online every quarter the flight manifests (including cost, destination, reason, and passenger names) for all ministerial plane travel when using government or private planes.

Limit Government Spending

Ontario government program spending is growing at unsustainable rates and beyond what is budgeted every year. Spending and budgeting controls must be put in place to end this practice.

In order to maintain consistent and sustainable levels of spending, the Ontario government should not increase program spending[1] beyond the combined growth rates for inflation and population.



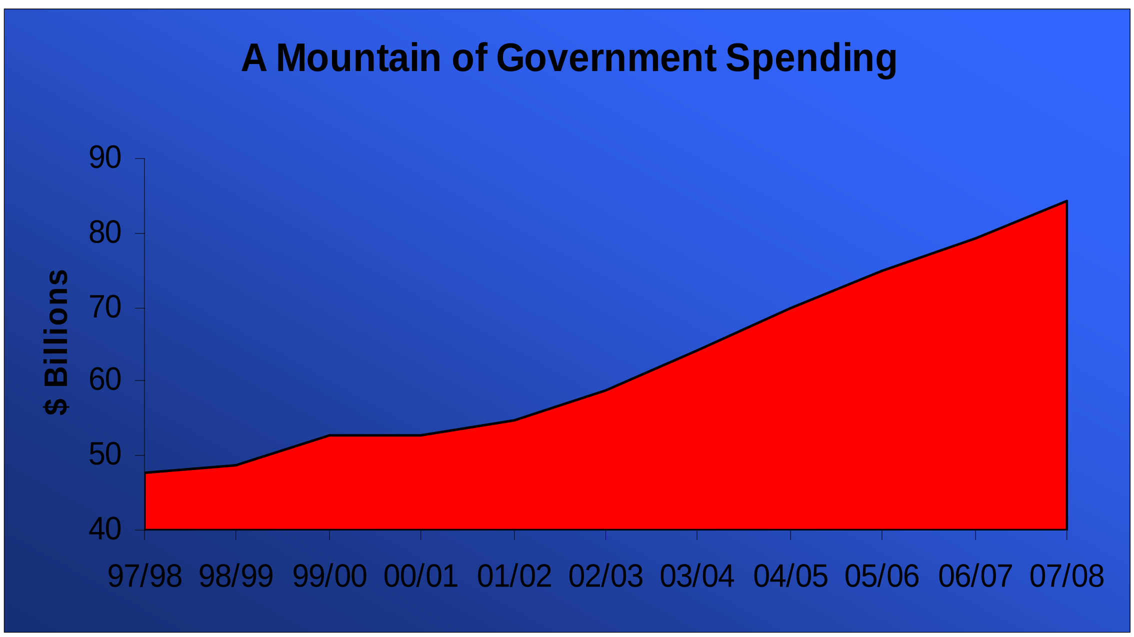
Over the last ten years program spending has been consistently higher than this benchmark. Every year during this government's mandate program spending has more than doubled the combined rate of inflation and population growth.

[1] For the purposes of the report, program spending is defined as total government spending less debt interest payments.

Year	Budgeted ($ billions)	Spending Growth	Combined CPI and Inflation
98/99	48.8	2.1%	2.1%
99/00	52.9	8.4%	3.2%
00/01	52.7	-0.4%	4.5%
01/02	54.9	4.2%	4.8%
02/03	58.8	7.1%	3.7%
03/04	64.3	9.4%	4.0%
04/05	70.0	8.9%	3.2%
05/06	74.9	7.0%	3.4%
06/07	79.3	5.9%	2.9%
07/08	84.3	6.3%	2.6%

Source: Fiscal Outlook, November 2007 and the Ontario Public Accounts

The current government is spending $20 billion more per year than it did just five years ago when it took office. As the table shows above, annual program spending is up from $64.3 billion to $84.3 billion in just five years. The Ontario government is 31% larger than it was 5 years ago.



The chart above provides a visual representation of the rate of growth of government spending in Ontario.

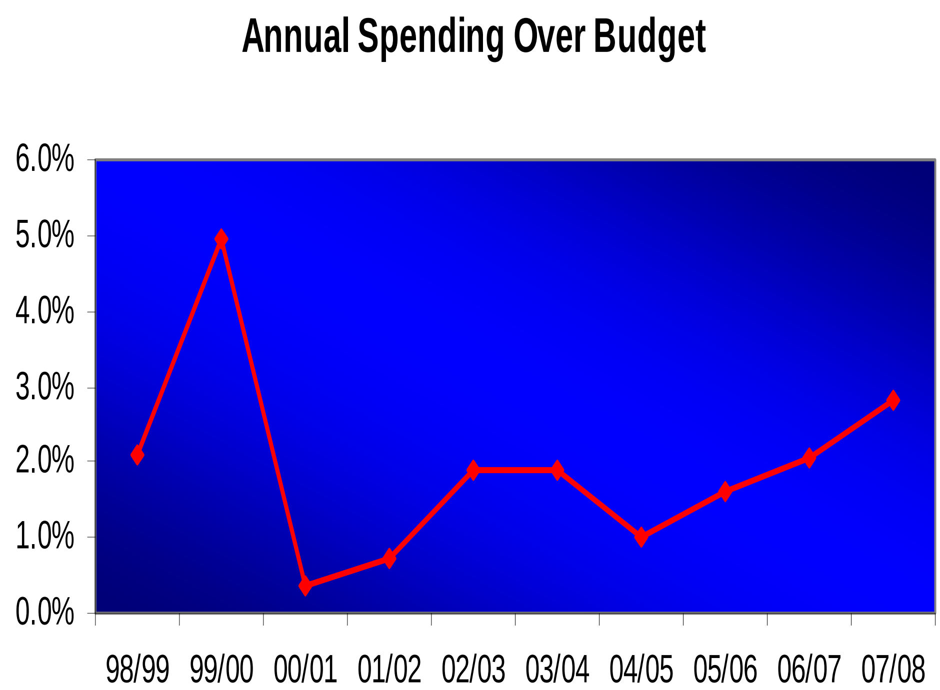
This large growth rate in spending has eaten away at budget sustainability, and has driven up reliance on personal taxes and federal transfers. Moreover, not just fast-growing spending but also over-spending has made tax cuts appear to be less sustainable, when in fact, they are easily achievable if the government implements a legislated spending cap.

Year	Budgeted ($ billions)	Spent ($billions)	Over Budget
98/99	47.8	48.8	2.1%
99/00	50.4	52.9	5.0%
00/01	52.5	52.7	0.4%
01/02	54.5	54.9	0.7%
02/03	57.7	58.8	1.9%
03/04	63.1	64.3	1.9%
04/05	69.3	70.0	1.0%
05/06	73.7	74.9	1.6%
06/07	77.7	79.3	2.1%
07/08	82.0	84.3	2.8%

Source: Public Account of Ontario

Not only has government program spending been increasing at alarming rates, but it has been exceeding the government's own forecasts. For every one of the last ten years, the government published and legislatively approved a level of program spending. In each of these ten years the government spent more than was budgeted.

What is of special concern is the current government's increasing trend of overspending budget forecast by greater and greater amounts. When it took office it spent 1% over budget. This increased year over year where in fiscal year 05/06 it was 1.6%; in 06/07 it was 2.1%; and, its currents outlook is to overspend the 2007 budget forecast by 2.8%. This trend of increased spending and spending over budget projections proves that the more revenue this government generates, the more it will spend regardless of its budgeted plans.



The problem of over-spending budgets is highlighted in the C.D. Howe's report, *Missed Targets: Canada's 2007 Fiscal Accountability Rankings*:

> On a political level, legislators and citizens alike should insist that their governments exercise better discipline in hitting spending targets. They should also recognize that practices such as the "end-of-March burnoff" — the rush to spend at, or even after, the end of the fiscal year — have lasting, negative effects on the taxes they pay and the public debts they must support. We find that the direction of errors in spending is remarkably consistent across the country — overruns are much more common than shortfalls. Moreover, over time, average overruns have been large enough that government spending has grown considerably faster than legislators promised. It is one thing for high levels of taxes or deficits to exist as a result of commitments made and debated at budget time. It is quite another to get them because of overruns during or, worse, right at the end of the fiscal year (p. 5).

This "end-of-March" burnoff is what caused the problems referred to in 'SlushGate' when $32 million in grants were issued over two years through the Department of Citizenship and Immigration. The province's auditor general (AG) delivered a special report on the matter.

In his report the AG notes that "for the 2005/06 fiscal year, the government made the decision toward the end of the fiscal year to flow $1.6 billion in monies that were not needed to meet its budgetary targets to various ministries for awarding as grants…A similar decision was made to flow $1.1 billion in year-end grants toward the end of the 2006/07 fiscal year".[2]

Why legislate a spending cap?

A 2003 *Fraser Institute* study entitled, "Tax and Expenditure Limitations – The Next Step in Fiscal Discipline," looked at the experience of 27 American states which have laws specifically targeting growth in government spending and taxes. The study considers taxation and spending over long time periods and concludes they are effective in constraining the growth of government and reducing taxes.

Expenditure limitation laws have worked wonders for taxpayers in the state of Washington. From 1980 to 1995, Washington's population grew an average of 1.2 per cent per year while inflation averaged 4.5 per cent per year, yet government spending rose by 8 per cent per year. Since 1995, government spending has increased at a steady, reliable rate to keep pace with Washington's inflation and population growth, and taxes have come down – permanently.

Recommendation 1: Freeze then Cap Program Spending

Freeze spending for the 2008/09 and 2009/10 budgets and introduce a legislated spending cap so that annual program spending starting in 2010/2011 cannot increase by more than the combined growth rates of Ontario's population and inflation.

Recommendation 2: End March Madness

Pass legislation making illegal for any in-year unbudgeted spending, with the exception of a declared emergency.

[2] Jim McCarter, Auditor General of Ontario; *Special Review for the Premier of Ontario: Year End Grants Provided by the Ministry of Citizenship and Immigration*, p. 10.

Tax Relief for Individuals

The personal income tax burden in Ontario is too high and needs to come down through broad-based tax relief.

Ontarions pay more in tax today than they did when this government came to power despite years of economic prosperity. The economy has been running well for a decade and taxes have been lowered at the federal level and by successive governments in other provinces. Unfortunately, the average taxpayer has seen increases in property taxes beyond the combined inflation and population growth rates. They have seen new taxes introduced in the City of Toronto, thanks to the so-called "*Stronger City of Toronto Act*". Finally, Ontario taxpayers suffered the single largest tax increase in their history with the imposition of the Health Tax.

Although Premier McGuinty campaigned in 2007 promising not to reduce taxes, businesses have seen some tax relief as announced in the 2007 Economic Update. This about turn on tax relief is welcome and must be extended to Ontario individuals and families.

The Fraser Institute's 2007 'Tax Freedom Day'[3] report shows that Ontarions still pay tax until June 20 and that the day has not moved ahead despite federal tax relief. The report further shows that Ontario families with two or more individuals pay the second highest total tax rate of all Canadian provinces, only behind Quebec.

Province	Tax Rate	Rank
QC	48.0%	1
ON	46.1%	2
NS	45.2%	3
MB	45.1%	4
NF	44.7%	5
PE	44.7%	6
SK	44.5%	7
NB	44.3%	8
BC	43.8%	9
AB	37.7%	10

Broad based tax relief provides tax relief to the most people in the most fair manner. This is in contrast to 'boutique' tax cuts targeted to certain interest groups which are expensive to administer, complicated for all to understand, and often are used more for media and partisan benefit than real economic benefit. A bicycle helmet PST exemption is a good example of a boutique tax cut.

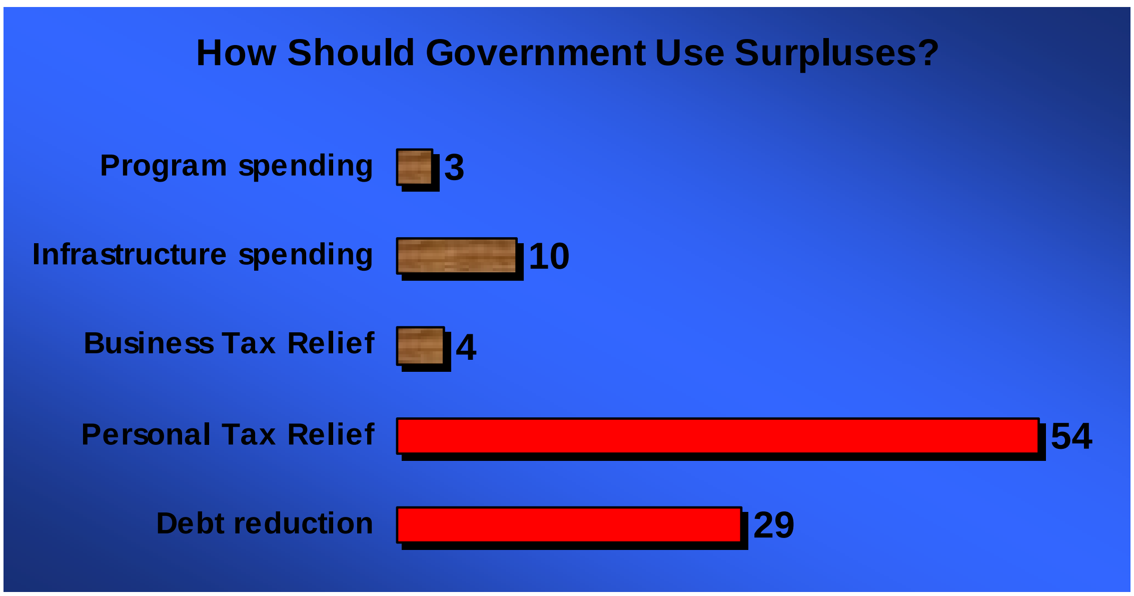
[3] Fraser Institute, *Canadians Celebrate Tax Freedom Day June 20*, June 2007, page 6.

Instead, the provincial government should eliminate the health tax it introduced in the 2004 budget under questionable circumstances.

In the 2007 CTF annual survey, supporters were asked:

"What should the provincial government's top priority be with regard to any budgetary surplus?"

Overwhelmingly, CTF supporters in Ontario first selected personal tax relief as their top priority with debt reduction as their second.



The government budgeted $21.6 billion in personal tax revenue for fiscal year 2007/2008. The outlook for the year is that it will instead collect $23.6 billion. This is $2 billion more than forecast. It is almost equal to the amount of the provincial surplus of $2.3 billion and close to the $2.6 billion generated by the Health Tax. It is structured over-taxation and should be returned to the taxpayers of Ontario in the form of reduced tax levels.

The Ontario Health Premium is tremendously convoluted and paid by individuals resident in Ontario on the last day of the taxation year. The Ontario Health Premium amounts are:

- Zero for taxable income of up to $20,000;
- 6% of taxable income in excess of $20,000 for taxable income between $20,000 and $25,000;

- $300 for taxable income from $25,000 to $36,000;
- $300 plus 6% of taxable income in excess of $36,000 for taxable income between $36,000 and $38,500;
- $450 for taxable income from $38,500 to $48,000; $450 plus 25% of taxable income in excess of $48,000 for taxable income between $48,000 and $48,600;
- $600 for taxable income from $48,600 to $72,000;
- $600 plus 25% of taxable income in excess of $72,000 for taxable income between $72,000 and $72,600;
- $750 for taxable income from $72,600 to $200,000;
- $750 plus 25% of taxable income in excess of $200,000 for taxable income between $200,000 and $200,600; and,
- $900 for taxable income of $200,600 or more.

Ontario Health Premium revenue received is net of administration fees charged by the Government of Canada, which amounted to $183,639 in 2005/06 and $44,060 in 2006/07.

Recommendation 3: Eliminate the Health Tax

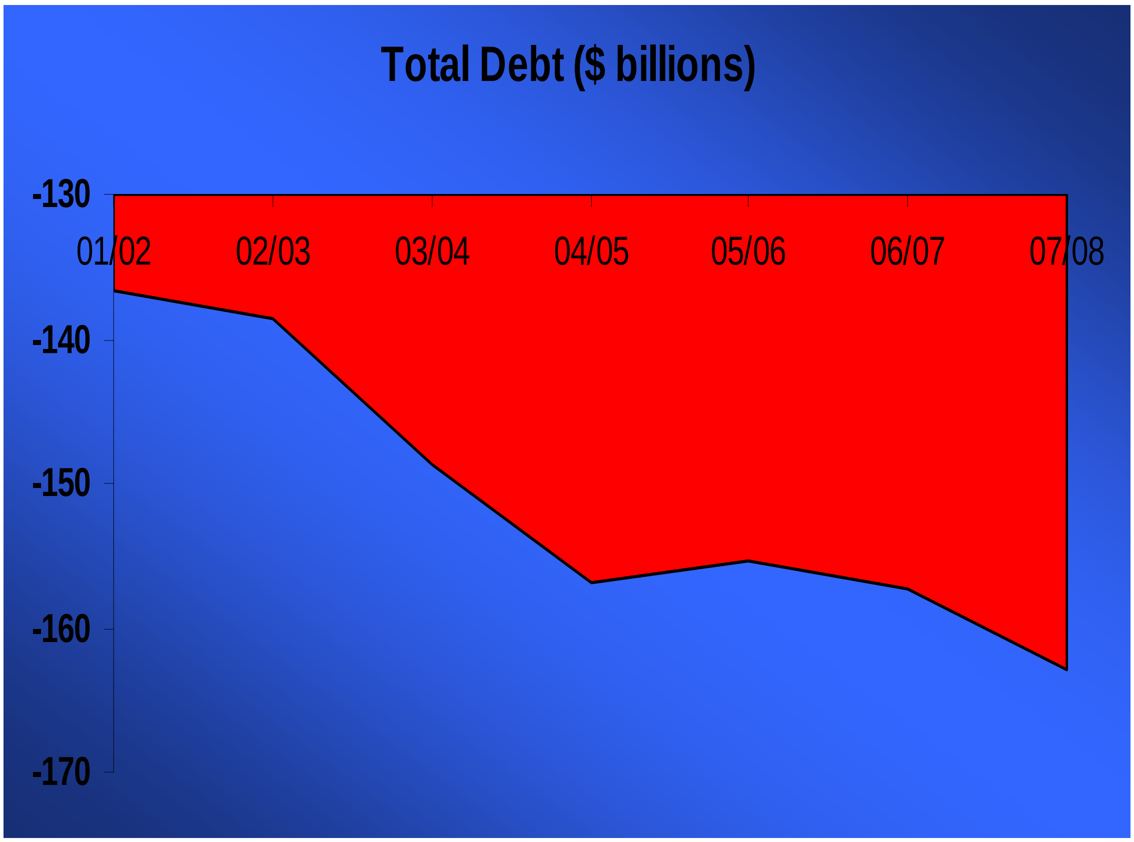
Provide meaningful broad-based tax relief to all Ontario taxpayers through immediate elimination of the health tax.

Eliminating the Health Tax will reduce provincial revenue by $2.6 billion in fiscal year 2008/09.

<u>Stop the Digging: Fill In the Debt Hole</u>

Ontario's debt should be reduced and the interest savings returned to taxpayers through personal income tax reductions.

Ontario's total debt is projected to be $162.9 billion by March 2008. With Ontario's population in 2008 at approximately 12.8 million people, Ontario's debt stands at $12,656 for each man, woman and child in the province.



Source: Ontario Public Accounts

To service the province's debt, each year over $9 billion is taken away from revenue and spent on interest charges. Further, debt service charges are again beginning to climb. With debt interest for 2007/08 of $9.067 billion, this amounts to just under $25 million a day in payments to service the debt.

Fiscal Year	Total Debt ($ billions)	Debt Interest ($ billions)
01/02	-136.7	10.337
02/03	-138.5	9.694
03/04	-148.7	9.604
04/05	-156.8	9.368
05/06	-155.3	9.019
06/07	-157.3	8.831
07/08	-162.9	9.067
08/09	N/A	9.2*
09/10	N/A	9.4*

*Projected

Source: *Ontario Economic Outlook and Fiscal Review 2007* and Ontario Public Accounts

Debt reduction is important because reduced debt yields reduced interest payments, which in turn, provides available cash for tax relief or priority spending.

Alberta's debt servicing costs once consumed 12% of its tax revenues. By Budget 2005/06, 100% of Alberta's provincial tax revenues were available for roads, bridges, schools, and hospitals. Instead of going to bondholders, that money could fund hospitals, schools, infrastructure, and lessen the burden on taxpayers. As can be seen with the Alberta example, a legislated debt reduction plan is required to keep the reduction plan on track; vague promises won't work. Debt freedom is achievable, but only if legislation is put in place to oblige the government to follow through.

Again, as shown earlier in the section on tax relief, the 2007 CTF supporter survey, the second priority for the use of surpluses is debt repayment.

Ontario needs to move to debt reduction by accident to debt reduction by design.

<u>Recommendations 4:</u> Stop Debt Financing and Begin Debt Repayment

End the practice of borrowing today against future revenues and legislate an annual debt repayment requirement of 1% of total provincial revenue starting in 2009/2010.

Now is the time to begin debt repayment when times are still relatively good – before a substantial slowdown limits options.

Debt repayment should yield reductions in annual debt interest payments (assuming interest rates do not climb large enough year over year to consume the benefits). This interest relief should not be eaten up by program spending but instead returned to taxpayers in the form of structured tax relief. A dollar is better left in the hands of the taxpayer than in the hands of government.

A debt repayment requirement would cost the treasury $957 million in fiscal year 2008/09.

<u>Recommendation 5:</u> Tax Back Guarantee

Implement legislation requiring savings from lower debt interest be returned to taxpayers in the form of lower personal taxes.

Corporate Welfare

Government programs that channel cash directly to individual businesses through cash grants and contributions, conditionally repayable contributions, subsidies, low or no interest loans, and loan guarantees are corporate welfare. Such intervention into the marketplace by government amounts to governments picking winners and losers in business. This practice must stop.

> "The problem with government intervention is not picking winners and losers; the problem is governments can never shake the losers. They sink big money into something and then they keep throwing good money after bad."
>
> Hon. John Manley, Minister of Industry
>
> *Financial Post,* October, 25, 1997

Here are eight reasons[4] why government should not undertake corporate welfare.

I. Market decisions should be made by investors, NOT by politicians and bureaucrats.

The proper function of the private capital market is to direct investment to projects, industries or firms that offer investors the best and/or most secure rate of return. The difference between a sound and poor investment for an individual can have profound implications, yet there is no similar discipline for government officials when using other peoples' money.

II. Corporate welfare is NOT driven by market imperatives.

Investment decisions should be based on financial reward versus risk. Government investment decisions are driven by political and geographical imperatives. The top concern when offering subsidies is a preoccupation with the number of jobs created before the next election with little concern for profitability or sustainability.

A good example of this is the FibraTECH fiasco. FibraTECH is a wood product manufacturer in Atkokan.

Despite a $2 million provincial loan guarantee and a $400,000 grant handed out on the eve of the 2007 election in July, FibraTECJ went into receivership. *Northern Ontario Business* reports the firm refuses to pay workers for their last three weeks of pay. As well, FibraTECH owes Atikokan $1 million in unpaid local taxes. In 2005 the federal government also gave it $2.75 million from FedNor and a grant of an undisclosed amount through the Softwood Industry Community Economic Adjustment Initiative (SICEAI). Further, a search of the public accounts of Ontario reveals a loan guarantee of $2,000,000 was already on the books in 2005. It is unclear whether the firm had two loans guaranteed for $2 million each of if there was one which was extended and re-announced.

[4] The eight reasons are reprinted from a CTF Report, *On the Dole*, 10 January 2007.

The firm repeatedly received corporate welfare, including just prior to the election. Then just after the election it went into receivership. The local incumbent, a Liberal, was returned by a margin of 36 votes.

III. Most corporate welfare has more to do with WANTS, rather than NEEDS.

Program criteria will contain provisions to the effect that a contribution is necessary to ensure that a particular project will proceed with the desired scope, timing, or location. This kind of terminology provides considerable leeway in terms of which projects can be funded, and would only work if program personnel had in-depth knowledge of the projects that one company or another might be contemplating.

IV. Picking market winners and losers is NOT a task to which government officials are well suited.

Corporate welfare decisions are most often made by individuals with little experience in private investing. Moreover, decisions are often made in a politically-charged environment. As a result, ensuring taxpayer-financed projects meet geographical, industrial, equity, and politically saleable criteria often become an end in themselves. Governments have an abysmal record of picking winners, whereas corporate losers have a stellar record of finding government handout programs. This is aptly demonstrated when repayment provisions are linked to project results rather than a fixed repayment schedule. The repayment numbers on conditionally-repayable contributions reflect poorly upon the decision-making process, especially when the same trends appear in program after program.

V. Corporate welfare is inherently unfair, runs contrary to free and open markets, and creates a culture of dependency.

Business subsidies create an uneven playing field as money is diverted away from successful companies to less successful, but politically-connected ones. Worse still, many other Canadian firms and their workers which do not receive government grants, end up subsidizing their government-supported competitors through their taxes. Business owners lose sight of their competencies, namely to provide customers with a good or service and earn a profit. To their detriment, their investment and business decisions may be made to fit a program, and to comply with policies designed by bureaucrats. They become better lobbyists than businesspeople and morph from entrepreneurs into “grantrepreneurs.” Many funding organizations have “regulars,” whose names show up year after year, and program after program. It would appear as though many companies’ appetite for tax dollars is insatiable and know how to work the system to gain maximum financial advantage.

VI. Corporate welfare creates a culture of dependency.

Business owners become so reliant on government assistance they build expectations of handouts into financial plans. This has the perverse effect of directing resources to less productive investment projects, which slows economic growth rather than enhancing it.

VII. Corporate welfare leads to higher taxes and forces successful businesses to subsidize their competitors.

Someone must pay for years of corporate welfare, which is amplified by the paltry repayment record of recipients. Inevitably, it is taxpayers who foot the bill.

Employees of the Hershey's plant in Smith Falls may find it hard to understand why their firm went under and yet their competitor, the chocolate maker Ferrero Rocher, received a $5.5 million interest free loan.

VIII. Corporate welfare is an ineffective job creation or job maintenance tool.

Proponents of corporate welfare make claims of job creation to justify providing businesses with tax dollars, yet the very companies that receive this financial assistance continue to eliminate jobs and in some cases move jobs out of Canada. Using tax dollars born in Canada to create jobs in Mexico is not an effective industrial strategy. Politicians and bureaucrats like to take credit for any jobs that might have been created or maintained, but will attribute layoffs to market conditions.

The Public Accounts for 2007 show a payment of $55,061,011 to Ford Motor Company of Canada. Ford is cutting shifts in St. Thomas.

The Public Accounts for 2007 show a loan receivable to General Motors of Canada for $29,096,192. GM is reportedly cutting shifts in Oshawa despite hundreds of millions of dollars in corporate welfare from multiple levels of government.

Magna firms have received tens of millions of dollars in government aid while its CEOs, Donald Walker and Siegfried Wolf, each have received over $5 million making them some of Canada's best compensated executives, according to the *Globe and Mail's* Executive Compensation Report, 2006.

The government has a myriad of programs shelling out corporate welfare which do not report who receives the money. Nor is it reported if, when, or how much of the money gets repaid. Even the federal government has cleaned up its reporting requirements on corporate welfare – including repayment records. Ontario should follow suit.

<u>Recommendation 6:</u> End Corporate Welfare

Eliminate corporate welfare programs, including:
- **the Venture Capital Fund;**
- **the Next Generation Jobs Fund;**
- **the Advanced Manufacturing Investment Strategy;**
- **the Advanced Automotive Investment Strategy; and,**
- **the Forest Products Sector Support.**

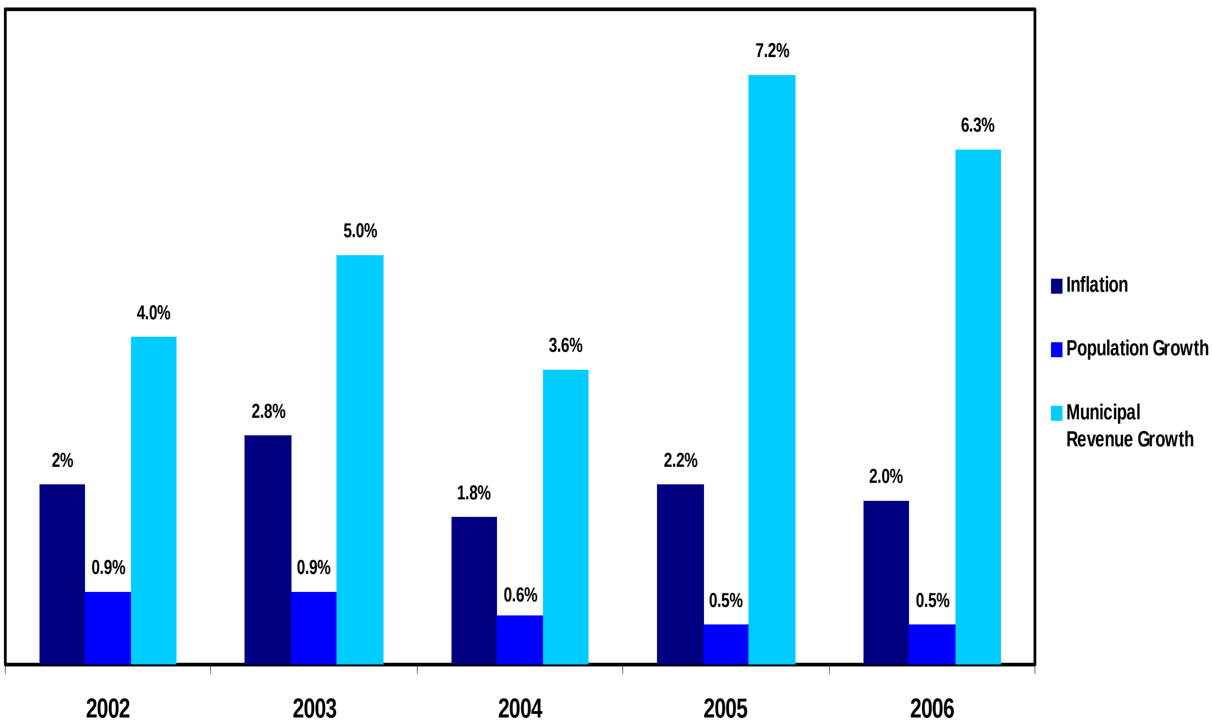
Eliminating these programs will save the Ontario treasury

$942 million per year.

No New Municipal Taxes

The government should not provide mayors across Ontario new taxing powers like the ones granted to Toronto under the *Stronger City of Toronto Act.* Instead, mayors should get their own fiscal houses in order, as they have a spending problem not a revenue problem.

Tracking Inflation, Population Growth and Municipal Revenues



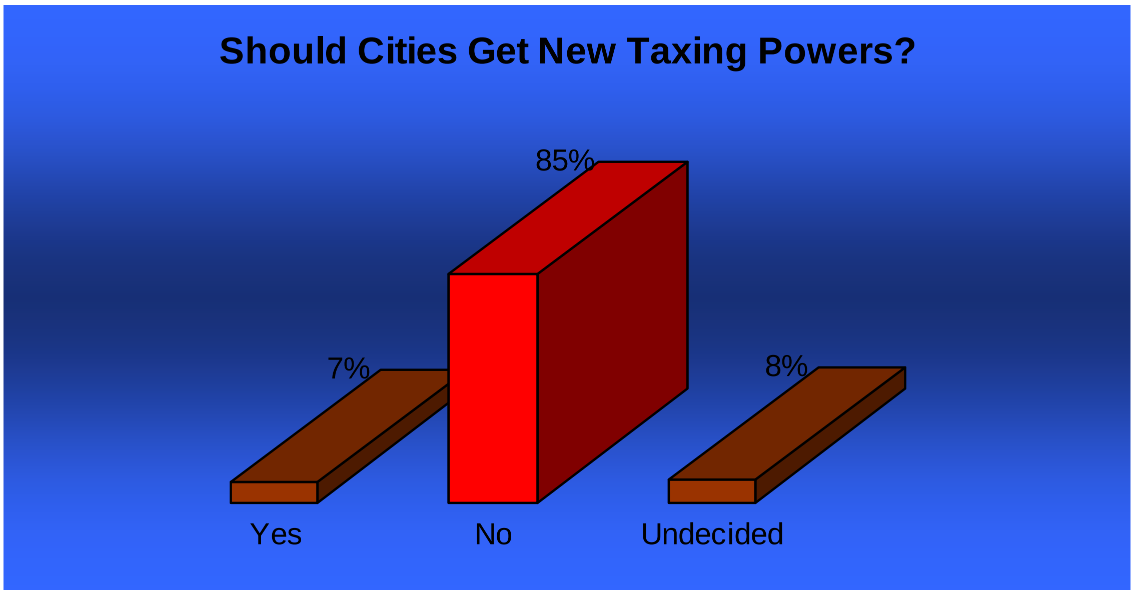
Source: Statistics Canada

Municipal revenue growth is more than doubling combined rates of inflation and population growth. With this kind of revenue pouring in, the provincial government should not give cities greater powers to tax directly.

So far, the city of Toronto has used its new taxing powers to implement a new garbage tax, a new vehicle registration tax, and a new land transfer tax. When fully implemented, these taxes will collectively take another $420 million a year from Toronto taxpayers. Still under consideration are a host of other new taxes including; a new tax on billboards, a new liquor tax, a new sidewalk tax, a new bottled water tax, a new garbage bag tax, a new battery tax, and new big box retailer tax.

Seeing how the city of Toronto is using its taxing powers, in the 2007 annual survey the CTF asked its supporters:

The city of Toronto is trying to impose new taxes (land transfer tax, vehicle registration tax, and garbage tax) using its new taxing powers granted by the province. Do you support other municipalities getting the same taxing powers?



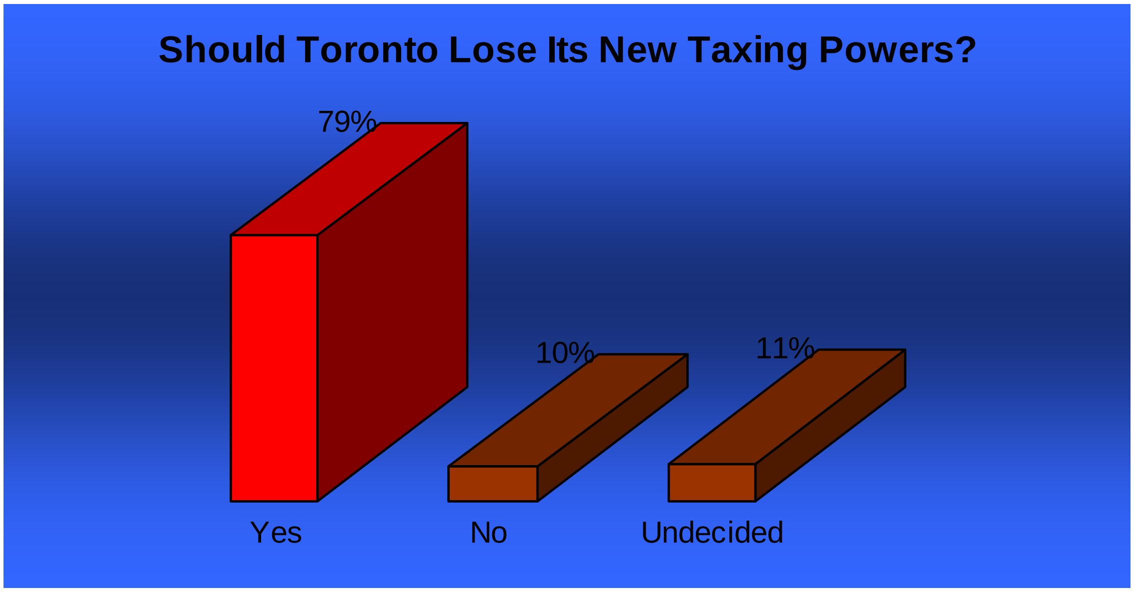
CTF supporters overwhelmingly oppose the spread of new taxing power to other Ontario municipalities.

<u>Recommendation 7:</u> No New Municipal Taxes

Do not extend new direct taxing powers to other Ontario municipalities unless they are approved via a municipal referendum.

In an effort to determine how to deal with the fact that Toronto has new powers and is exercising them vigorously, the 2007 annual CTF supporter survey also asked:

Should the CTF undertake to remove from the city of Toronto its new taxing powers?



CTF supporters in large numbers want the province to remove from the city its new taxing powers.

<u>Recommendation 8:</u> Take Back Toronto Taxing Powers

Remove from the city of Toronto its new taxing powers that were used to implement a new garbage tax, a new land transfer tax and a new vehicle registration tax, requiring the city to seek public approval of new taxes through a referendum.

Principled Infrastructure Spending

Mayors are receiving more infrastructure funds as the federal government is transferring huge amounts of cash to cities and the provinces. When Prime Minster Harper took office, only 17% of federal fuel tax revenues were transferred to municipalities. By 2009-2010 that will be up to 52%.

If the Ontario government won't provide motorists some relief by reducing the 14.7 cents a litre provincial tax on gas, then the least they can do is dedicate the revenue to fixing our roads.

Many Ontario motorists feel they are being soaked at the pumps as gasoline prices hover over the $1.00 a litre mark. Not only do many feel that big oil is generating huge profits at their expense, they also resent driving on roads and over bridges that are poorly maintained by their provincial and municipal governments.

Ontario's poorly maintained roads are the result of governments more concerned with program spending than long-term investments in infrastructure. To address this problem, Premier McGuinty should follow the lead of the NDP governments in Manitoba and Saskatchewan and introduce a *Gas Tax Accountability Act* which would dedicate fuel tax revenue to capital spending on transportation, most of it at the municipal level.

Since the Manitoba government passed their *Gas Tax Accountability Act* in 2004 spending on transport capital has never fallen below the amount generated in gas tax revenues and fees from licensing. This is because it is now law that over every four year period 100% of gas tax revenue must be reinvested into roads, bridges, highways, and transportation. Further, the accounting for this money must be disclosed in the pubic accounts.

Manitoba's example has recently been followed in Saskatchewan where the government has introduced similar legislation. To date, Saskatchewan has been spending only between 50% to 65% of its gas tax revenues on transport capital; not a great record until you look at Ontario.

For 2007-2008 Ontario transport capital spending is projected to reach only 47% of the projected $4.174 billion in fuel tax and license revenue. The rest goes into general revenue. With a *Gas Tax Accountability Act* this amount would rise to 100% - an increase of $2.197 billion for transport capitol spending per year. Such an increase would, in part, direct funds to municipalities so they can properly invest in crumbling road infrastructure.

In 1997-1998 the province transferred responsibility for over 5,000 km of roadways to municipalities. This puts added pressure on lower levels of government to maintain the infrastructure. As well, reports also show a deterioration of rural roads. With increased agricultural yields and manufacturing moving into rural areas, rural roads and bridges are requiring increased attention. Stable, transparent funding, as may be provided by a *Gas*

Tax Accountability Act, would provide capital to ensure Ontarians are driving on well-maintained roads and tax dollars better dedicated to services they were meant for.

Assuming 80% of Ontario roads are municipally managed, cities should expect to see an increase in transfers for transport capital of approximately $1.758 billion. Cities would need only to auditably demonstrate that this increased transport revenue goes to transport capital and is not used for general revenue. The table below shows how some municipalities transport and infrastructure budgets would benefit on an annual basis when fully implemented.

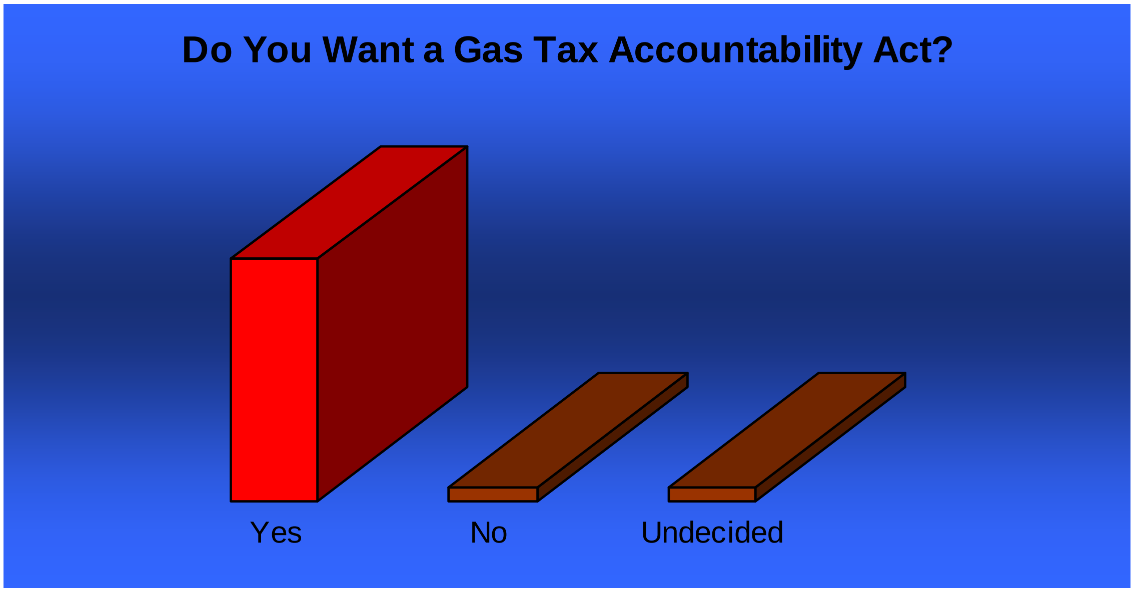
New Infrastructure Funding: *Gas Tax Accountability Act*

Recipient	Population (000's)	% of ON Population	New Capitol ($ millions)
Toronto	2,500	20	360
Ottawa	812	7	117
Mississauga	669	5	96
Hamilton	505	4	73
Brampton	434	4	63
London	352	3	51
Ontario	12,200	100	1,758

It is fair for municipalities to demand a share of provincial fuel tax revenues; after all, 80% of roads in the province are municipal roads. But municipalities need to get their own fiscal houses in order too. If politicians spent a fraction of the time looking for savings and efficiencies as they do new revenue sources, taxpayers would all be better off.

The CTF annual survey asked supporters about a *Gas Tax Accountability Act*:

The provinces of Manitoba and Saskatchewan have a Gas Tax Accountability Act which requires 100% of fuel tax revenue to be spent on roads, bridges, highways and transit. Do you believe the Ontario government should institute a Gas Tax Accountability Act?



CTF supporters have seen in Manitoba and now Saskatchewan the benefits of a *Gas Tax Accountability Act* and want one in Ontario.

<u>Recommendation 9:</u> Gas Tax Accountability Act

Implement a Gas Tax Accountability Act that would return 100% of provincial fuel tax revenues to infrastructure funding; including roads, bridges and highways.

A *Gas Tax Accountability Act* provides for a government to allocate 100% of fuel tax revenue over a four year period. This allows for the flexibility of under-funding one year and over-funding the next. Such a practice would be required in Ontario upon adopting such an Act.

The following table shows how much increased spending would be required both to maintain a balanced budget and to comply with the Act.

Gas Tax Accountability Act Increased Spending for Roads, Bridges and Highways			
Years	**2008/09**	**2009/10**	**2010/2011**
Spending ($ billions)	$0.559	$2.669	$2.463

Selling Crown Assets

When the government disposes of a crown asset, instead of directing it towards discretionary spending, the proceeds of the sale of crown assets should go back to the taxpayers as debt relief.

A one-time gain of $573 million resulted from the initial public offering in 2006 of Teranet, the company that operates the electronic land registration system in Ontario. Although the Province sold its 50 per cent interest in Teranet in 2003, it retained the right to share in the value of any future sale. This increased revenue for the province was directed into program spending, effectively turning a government capital asset into operating cash to be used at the government's discretion. As a result, taxpayers were deprived of the benefits of an asset they had paid for.

Recommendation 10: Asset Sales for Debt Relief

Revenues from the disposition of government assets must be applied wholly to debt reduction.

Greater Accountability For Crown Corporations

Checks and balances for wasteful and inefficient spending exist in the private sector and are increasingly required by law as a result of Arthur Anderson, Enron and Nortel financial disasters. Unfortunately, similar protections do not exists in the public sector.

Crown corporations are required by law to submit annual reports to be tabled in the Legislature for public assessment. These reports are often late in development and publication by responsible ministers.

Ontario Northlands (ONTC), for example, by late 2007 had not issued annual reports since 2002.   While financials are made public late each year in the Public Accounts this is neither sufficient nor provides useful information to the *de faecto* owners of the corporation – namely, the taxpayers of Ontario.

In late 2007 Ontario Lottery and Gaming (OLG) was missing two annual reports. Calls to the corporation and freedom of information requests were not successful in generating a copy of either. Ironically, an inside source one day advised the CTF that one of the reports had been quietly posted online, despite the Freedom of Information request.

The last publicly available annual report for the OLG is for fiscal year 2005/2006. If pubic finances rules were being followed then the report for 2006/07 should have been issued by the end of June 2007. This makes the OLG report seven months late.

The corporation deals with over $6 billion in annual revenues and remits approximately $1.5 billion back to the province. It is a substantial financial entity to which taxpayers have little access. Instead of having to comb through over a thousand pages in the Public Accounts to find out financial information it should be made easily available in a timely fashion on the internet as all public companies do. This way the media and taxpayers would know that despite increased revenues, the OLG earned less money and remitted $150 million less to the government year over year.

In the private sector such an approach to the disclosure of an annual report would be met with the suspension of trading of the firm and the prosecution of the CFO and/or the CEO.

<u>Recommendation 11:</u> Make Crown Corporation Annual Reports Public Directly

Amend reporting legislation to require crown corporations to issue annual reports directly to the public and to the responsible minister at the same time.

Regarding the disclosure of the annual reports for ONTC when the office of the responsible ministry was contacted by the media the staff responded, "what is the big deal? Their financials are out." This attitude demonstrates a lack of understanding of the fiduciary responsibility that elected officials and civil servants have for taxpayers money. The law states reports should be issued. However, there are other reasons why timely publication matters.

An annual report would provide forward looking statements regarding corporate strategy and financial issues. The OLG, for example, has been a scandal-plagued institution which was the focus of a damning report by Andre Marin entitled *A Game of Trust*. The report states the OLG is more concerned with profits than customer service and that over $100 million was paid out to insider wins over ten years. Mr. Marin says the OLG has lost sight of its public trust. An annual report would provide details of how the corporation is responding to this crisis.

As well, given the nature of its business, the OLG is an institution that carries substantial cash and equivalent short term instruments. An annual report would comment on exposure to risks associated with investments in Asset Back Commercial Paper (ABCP). Taxpayers should have a right to know in a timely fashion if or how much of their money is lost due to such investments. Without timely annual reports such information is not available.

<u>Recommendation 12:</u> Require Timely Annual Reports

Establish employment contract requirements for Presidents, CEO, Chairs of Boards, and CFOs requiring publication of annual reports for crown corporations no later than three months after respective fiscal year ends.

OLG insiders confirm privately to the CTF that the issuance of annual reports is a practice that has become political and drafts of reports are run by ministerial staff prior to completion and publication. This is a practice that must end. Annual reports should not be cleansed by ministers prior to release in an effort to make results politically appealing.

<u>Recommendation 13:</u> End Ministerial Interference in Annual Reporting

Disallow ministerial or departmental involvement in the preparation of annual reports for crown corporations.

Calls into the OLG's CFO, Jack Black, to investigate the status of annual reports and financial exposure to ABCP were not returned and were redirected to VP Finance, Lisa Bell-Murray who also did not return repeated calls.

Governments should not be running crown corporations. However, in the absence of that policy, safeguards must be put in place to protect owners' – taxpayers' - interests.

Crown Corporation seldom, if ever, hold public meetings as their publicly-traded counterparts are required to do. As a result the Ontario public is unable to obtain information about or to publicly question leaders of crown corporations on performance and planning of the organization. This practice of operating in the dark should change.

Recommendation 14: Annual Public Meetings

Hold annual public meetings for each crown corporation as is done for publicly traded companies.

Transparency: Shedding Light on Government Spending

Reforms implemented in the wake of the federal Sponsorship scandal resulted in the federal government requiring cabinet ministers, their staff, and senior public servants to post their office expenses online each quarter. The change in dining habits of many in Ottawa changed dramatically, even forcing some upscale Ottawa establishments to go out of business.

Recommendation 15: **Shed Light on Personal Expenses**

Require cabinet ministers and their staff, as well as senior public servants, to post their office expenses: travel, hospitality, and supply and services online on a quarterly basis.

Because transparency breeds accountability, increasingly governments are using the internet to disclose government spending, not just personal expenses. The federal government posts quarterly lists of grants and contributions spending by department. This is an inexpensive way to increase government transparency.

Recommendation 16: **Shed Light on Government Spending**

Post every quarter on the internet lists of grants and contributions by department.

Freedom of information documents reveal that Premier McGuinty was flying around the province on private jets at taxpayer expense. This wouldn't be a problem if it was reasonable travel, for government purposes and fully transparent. Unfortunately for taxpayers, the travel meets none of these criteria.

Instead, the premier often travels for partisan purposes and hides this fact by not using his own budget. He buries the expenses in other departments and forces the public to submit freedom of information requests to discover what he is 'up' to.

Apologists suggest that the premier is so important that he should be able to fly around to save his precious time. There is some truth to this. However, partisan flights at taxpayers' expense are not acceptable. The Liberal Party should pay back all that was spent on travel by the Premier for politicking. When Premier McGuinty flew to Windsor to be on stage with then Prime Minster Paul Martin during the 2006 election, for example, that wasn't legitimate government business. That was Liberal Party business and the taxpayers of Ontario shouldn't be on the hook for the $6,000 bill.

Premier McGuinty made a very big deal about banning partisan advertising saying, ‘every dollar spent on partisan advertising is a dollar wasted.’ He should take his own advice. Every dollar spent on partisan flying is a dollar wasted too.

As well, flights on government business should be reasonable and transparent. Is flying his plane around empty 194 times reasonable? Of those empty flights, 62 were moving his empty plane from Pearson Airport minutes away to the Island Airport in Toronto. That is $124,000 worth of flights just so the premiere’s limousine can save ten or fifteen minutes in travel time. Further, there are 78 flights to Ottawa. Is this legitimate? What about all of these photo-ops? We ask civil servants to make do with video conferencing. Wouldn’t that save money and use less fossil fuels?

There is an important transparency issue here that the premier seems happy to avoid. It is difficult to determine how much the Liberal Party should pay back to taxpayers as we don’t really know why any of these flights were taken and we don’t know who was on them. For all anyone knows, the premier was flying the Liberal campaign team around.

In Alberta they avoid this mess by publishing the flight manifests for all government flights. This lets taxpayers know who was flying where and when. The Ontario government should do the same for all ministerial flights.

Recommendation 17: Shed Light on Ministerial Flights

Publish online every quarter the flight manifests (including cost, destination, reason, and passenger names) for all ministerial plane travel when using government or private planes.

Conclusion

It is time that the Ontario government slows the rate of growth of government and provides needed tax relief to tax-weary Ontarions. This can be accomplished with little impact to the budget as may be seen below where the financial impacts of the recommendations contained in this report are assessed.

Budget Item	08/09	09/10
Projected Revenue	95.7	99.0
Eliminate the Health Tax	2.6	2.6
New Projected Revenue	93.1	96.4
Expenses		
Freeze Program Spending 07/08 Levels	84.283	84.283
Debt Interest	9.2	9.4
New Gas Tax Accountability Act	0.559	2.669
Eliminate Corporate Welfare	-0.942	-0.942
Debt Payment of 1% of Revenue		0.99
Total Expenses	93.1	96.4
Revenue Less Expenses	0	0

There is room to reduce the growth of government, increase accountability and transparency and provide meaningful tax relief for Ontarions.