F-39 F-39

ISSN 1180-4386

Legislative Assembly
of Ontario
First Session, 38th Parliament

Assemblée législative
de l'Ontario
Première session, 38e législature

Official Report of Debates (Hansard)

Tuesday 18 January 2005

Journal des débats (Hansard)

Mardi 18 janvier 2005

Standing committee on finance and economic affairs

Pre-budget consultations

Comité permanent des finances et des affaires économiques

Consultations prébudgétaires

Chair: Pat Hoy
Clerk: Trevor Day

Président : Pat Hoy
Greffier : Trevor Day

Hansard on the Internet

Hansard and other documents of the Legislative Assembly can be on your personal computer within hours after each sitting. The address is:

Le Journal des débats sur Internet

L'adresse pour faire paraître sur votre ordinateur personnel le Journal et d'autres documents de l'Assemblée législative en quelques heures seulement après la séance est :

http://www.ontla.on.ca/

Index inquiries

Reference to a cumulative index of previous issues may be obtained by calling the Hansard Reporting Service indexing staff at 416-325-7410 or 325-3708.

Renseignements sur l'index

Adressez vos questions portant sur des numéros précédents du Journal des débats au personnel de l'index, qui vous fourniront des références aux pages dans l'index cumulatif, en composant le 416-325-7410 ou le 325-3708.

Copies of Hansard

Information regarding purchase of copies of Hansard may be obtained from Publications Ontario, Management Board Secretariat, 50 Grosvenor Street, Toronto, Ontario, M7A 1N8. Phone 416-326-5310, 326-5311 or toll-free 1-800-668-9938.

Exemplaires du Journal

Pour des exemplaires, veuillez prendre contact avec Publications Ontario, Secrétariat du Conseil de gestion, 50 rue Grosvenor, Toronto (Ontario) M7A 1N8. Par téléphone : 416-326-5310, 326-5311, ou sans frais : 1-800-668-9938.

Hansard Reporting and Interpretation Services
Room 500, West Wing, Legislative Building
111 Wellesley Street West, Queen's Park
Toronto ON M7A 1A2
Telephone 416-325-7400; fax 416-325-7430
Published by the Legislative Assembly of Ontario

Service du Journal des débats et d'interprétation
Salle 500, aile ouest, Édifice du Parlement
111, rue Wellesley ouest, Queen's Park
Toronto ON M7A 1A2
Téléphone, 416-325-7400; télécopieur, 416-325-7430
Publié par l'Assemblée législative de l'Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Tuesday 18 January 2005

Mardi 18 janvier 2005

The committee met at 0900 in committee room 1.

PRE-BUDGET CONSULTATIONS

CANADIAN WIND ENERGY ASSOCIATION

The Chair (Mr. Pat Hoy): The standing committee on finance and economic affairs will please come to order.

Our first presentation this morning will be from the Canadian Wind Energy Association. Would you please come forward. You have 10 minutes for your presentation. There may be up to five minutes of questioning following that. I would ask you to identify yourself for the purposes of Hansard. You may begin.

Mr. Glen Estill: Thank you very much. I am Glen Estill, past president of the Canadian Wind Energy Association. Good morning, on this very cool morning with a wind chill—you've got to realize that somebody who owns a wind turbine likes to hear the phrase "wind chill." It means electricity prices are high and we have good production from the wind turbines.

Ontario's electricity sector has been a vital tool for the economic development of the province. The recent request for proposals for renewable energy resources is continuing in this tradition and will attract over $600 million worth of investment in new renewable energy resources, primarily in the wind energy sector.

The request for proposals for wind energy attracted 40 bidders. It had over 4,000 megawatts of expressions of interest. It had over 1,000 megawatts of bids submitted, and 395 megawatts of tenders were awarded. The average price of power on this tender was about eight cents per kilowatt hour. Although I will say that I believe the next tender may be somewhat higher due to steel and copper price increases rolling through to the cost of turbines, I believe eight cents is a tremendous value for ratepayers.

One thing you need to understand is, yes, we sell to consumers at 5.5 cents a kilowatt hour, but you have to compare the price of energy from renewable sources with the price of energy from other new sources, not from existing sources. The 5.5 cents we charge to consumers includes the price of power from projects like Niagara Falls that were built 70 to 80 years ago and have fully depreciated plants and obviously produce their power at a very low rate. So the blended price of 5.5 cents can work well with new sources of power in the eight-cent range. You will find that eight cents is very competitive with other sources such as gas and, I believe, with new nuclear installations as well.

We also need to keep in mind that when we talk about electricity, 0.7 cents a kilowatt hour is paid to the debt recovery charge, much of which was used to fund the development of generation capacity in the province.

In Ontario, we have to add substantial sources of new power over the next 15 to 20 years, simply because our fleet of existing generation stations is aging. So we will need to be making investments in new sources of energy.

The request for proposals and the bids awarded for renewable energy will result in no smog, with the associated health care costs and productivity costs associated with smog; will result in no acid rain; and will result in no climate change. There will be no Kyoto carbon-trading risk now or in future compliance periods. There's no fuel price risk and no fuel depletion risk; you'll never run out of wind.

There's insignificant price escalation. The discounted value of those contracts drops by 35%, if you assume a 2% inflation rate over the next 20 years.

There's no long-term waste storage risk, and there's no risk of cost overruns that must be borne by the ratepayers of Ontario, because the contracts are with private sector developers and will not be reopened if there is a cost overrun.

Currently, the government has committed to purchase 1,350 megawatts of renewables by 2007, and 2,700 megawatts by 2010. The Canadian Wind Energy Association suggests that the finance committee request that the government consider increasing those levels because of the great deal for the ratepayers and the taxpayers of Ontario as a result of the first round of RFPs.

What's the result of increasing the commitment to renewable energy in Ontario? In addition to the benefits of stabilization of price, smog, acid rain, Kyoto trading and so on, Ontario also has a significant economic development opportunity. We will have new industries develop here and jobs in the fabrication industry, the steel industry etc. In Germany, the steel business's second-largest customer is the wind business, to build the towers for the wind turbines. So it's a significant economic development opportunity.

Ontario, as Canada's industrial heartland, is uniquely positioned to capture the benefits of a growing wind energy sector in North America. So our first recommendation is that the finance committee ask the government to consider increasing the purchases from renewable energy sources in Ontario.

The second recommendation: Wind energy is a very capital-intensive but very low operating cost business. Capital-intensive businesses suffer more than operating-cost-intensive businesses from the capital tax—the large corporations tax that is in place. Currently, this is 0.175% of capital deployed above $50 million. It is scheduled to be increased and eventually phased out at some point, but certainly the wind industry would urge you to consider either making renewable energy sources exempt from the large capital tax—the large corporations tax—or accelerating the phase-out of the large corporations tax.

I can take any questions that somebody may have.

The Chair: Thank you. This rotation will go to the official opposition.

Mr. John O'Toole (Durham): Thank you very much, Glen. It's a pleasure to meet you again. I appreciate the work your industry does in uncertain times in the electricity sector. I'm a little bit surprised that Mike Crawley's not here this morning, but there may be other reasons for that that maybe I won't go into.

You'd be familiar, of course, with the work that was done by the alternate fuels committee, and the fact that they did recommend very strongly the renewable contribution to the generation side of electricity. I for one do support the establishment of a renewable portfolio standard, which would make for more certainty for investors as well as for those who are bidding into the price system.

I would say that there's always been a lot of conversation about the real cost of power, and I guess that is yet to be determined. When in government, we found that the market showed that power was probably more in the eight-cent range than we were prepared to tolerate.

It's my understanding that the minister will announce the new price regime this spring. One of the questions would be, how much is that in your contract, at eight cents, variable to future changes in the price regime?

Mr. Estill: Well, it's actually a contract that will eventually be signed by the Ontario Power Authority. The contract is for 20 years, and includes an inflation adjustment for 15% of the increase in the consumer price index, so you're not getting 100% inflation protection. It's unrelated to the future price of electricity, so if the OEB decides to raise the price of electricity, the cost of the renewables contract essentially drops because the government's OPA commitment stays constant or rises by a very small amount.

Mr. O'Toole: There's a lot of discussion—I wouldn't want to dampen my enthusiasm for all forms of renewable, including wind, biomass and other forms. My concern is the reliability factor. Often, wind is referred to as an intermittent power source. I've heard and seen some equations that say it's a 1 to 3 ratio; in other words, for every three wind turbines that are up, maybe only one is working. That's about a one-third delivery capacity. That's my understanding.

Mr. Estill: There's something called the capacity factor. You have the rated capacity of a wind generator—for example, mine is 1,800 kilowatts—and the average production from that may be 30%, so I suspect that's the number you're getting. But that does not mean it's producing only 30% of the time. It means that sometimes it's producing nothing, when there's no wind. In the case of my generator, it might be about 15% of the time that it is producing nothing, where I'm located, and then it would be producing 10% capacity in light winds and 20%, 50% and then 100%. So one of the things we have a study underway on with the IMO is to determine the nature of the intermittency of wind energy, because if you have a diversified resource across the province, it's unlikely that the wind will stop in Thunder Bay at the same time it does in Lake Erie.

0910

Mr. O'Toole: That's the point. I guess I'm interested in following through on the initial 300 or 400 megawatts that they're going to have on the grid. But when you look at the geographic location and locating in wind areas, and also the ability to establish what's the reliability factor, that's absolutely important, because this will never be baseload power, it's my understanding. It will always be supporting the system or maybe some peak capacity. Is that—

Mr. Estill: You will never run your whole system on wind. If hydrogen becomes big and you want to use the peak production times to produce hydrogen and then let it run the grid at other times, you could do it. It also works very well with water power.

Mr. O'Toole: Pump storage—

Mr. Estill: Pump storage or even just let the water accumulate behind the dam. When the wind is blowing, let the water build up and let the water flow through when the wind isn't blowing.

Mr. O'Toole: One of the things that I'm concerned about is, I think Quebec did a much better rollout of their RFP, sizing it so that it would build the economic infrastructure that you talked about. Were any of our RFPs mandated so some of the manufacturing of the equipment, technology and manufacturing infrastructure was part of the bid? Or are you just going to buy it all from Vestas?

Mr. Estill: We don't know who has won the contracts for supply of turbines yet. That's going to be up to the developers to choose, so that decision hasn't been made.

No, there were no specific tie-ins that said it must be built in Ontario or a percentage must be built in Ontario. Although the contract was smaller—there's 355 megawatts of wind awarded in Ontario, and Quebec has ordered 1,000 megawatts—the 1,000 megawatts is between 2006 and 2012, and the 355 is for delivery before the end of 2007. They're talking about a new RFP in February, which will meet the 1,350 commitment that they have. So I think you'd have to say that Ontario is moving even quicker than Quebec, although both are moving at a fairly rapid pace.

Mr. O'Toole: Would you encourage them in the RFP—

The Chair: Thank you. And thank you for your submission this morning. We appreciate it.

ONTARIO FEDERATION OF LABOUR

The Chair: I call on the Ontario Federation of Labour. Good morning. You have 10 minutes for your presentation. There may be up to five minutes of questions following that. I would ask you to identify yourselves for the purposes of our recording Hansard.

Mr. Wayne Samuelson: Thank you very much. My name is Wayne Samuelson. I'm president of the Ontario Federation of Labour, and with me is Chris Schenk, who is the director of research at the federation.

Let me begin by thanking you for giving me a few minutes to talk to you about some of the important challenges we face as a province and say right off the bat that I note that we're now down to 15 minutes. I think last year it was 20. It won't be long before, at this rate, we'll be down to five minutes.

However, I want to begin by saying to you that we're early in the process, and at the federation we're working with a broad range of organizations through the Ontario alternative budget group to try to come up with some kind of a plan on what we think the most important are. But my first point is to say to you that, as much as I enjoyed the process last year, I'm really interested in knowing where this brain trust—wherever they're located in this building—came up with this scam around the employer health tax/premium, and how frankly upsetting it is to see that, after we go through this long process of all this consultation, along comes this idea that someone cooked up somewhere that not only imposed a tax on low-income and working people but then went so far as to try to prevent unions from exercising the language they have in their collective agreements to ensure that employers pay for it, as had been done under previous Liberal governments. I have to say to you that I do wonder exactly what this little group of people who make these decisions is thinking up for us this time around.

Having said that, our initial look at the finances of the province and the situation we find ourselves in tells us a couple of things. First of all, it appears to us from our analysis that the government is spending a lot of time talking about how difficult and how bad things are when the reality is that they do have a lot more money than they're talking about. When we look at the reserve allocation, the contingencies, we find that there will be over $1.7 billion in unused money. We find that because of reduced debt financing costs and interest rate reductions, there will be over $1 billion in money there. In short, what we see is that even a fiscally prudent government has considerable room to take initiatives in the coming year and to ensure that some of the financing goes back into the dire need to repair and upgrade public services in Ontario.

Let me remind the committee again this year that you did run on a platform of change and a platform that talked about moving away from the previous government's cutbacks, underfunding and privatization. Therefore, it seems to me you have some responsibility to ensure that when you look through your budget, you work to find money to put back into the services.

The reality is that you promised in the election that you would rebuild public services to the tune of $5.9 billion on one hand and then you said you'd balance the books and not raise taxes on the other. We argued last year that in fact you can't do that, that you need to find more revenue. We argued last year that you should simply go out there and roll back some of the Tory tax cuts. The reality is that the Conservatives provided $10.5 billion in tax cuts, and what we find is that you didn't touch that. What you did, really, was leave those tax breaks to high-income earners in place and then you came up with this scheme around the employer health tax, which actually put a tax burden on working people and their families. So quite frankly, we think if you really want to change things in the province, you not only need to change it on the expenditure side but you need to change it for all of those people who already have lots of money and are getting huge tax breaks because of the Tories, not to mention the loopholes that were expanded under the previous government. We think you should be moving to remove those, and even our conservative estimates put that at over $800 million in taxes you could claim.

I did mention the employer health tax credit, but let me say this: We also have urged you for some time to get rid of the provision that provides for the first $400,000 in payroll for self-employed individuals and ensure that everybody pays into the system. Why you would have a system that gives a break to people in this area is hard to understand, especially when it provides an opportunity for you to get over $1 billion in income.

We've gone through it and looked at a number of areas where you can find extra revenue. We've identified areas where you have extra revenue, which you don't seem to want to talk about. We've provided it to you in a brief that you are all reading while I am talking.

I look forward to any questions you might have.

The Chair: This round of questioning will go to the NDP.

Mr. Michael Prue (Beaches–East York): In a nutshell, what I'm hearing is that you think there is sufficient money out there if this government goes out and looks for it. If they go out and find a couple of billion dollars, where would you like them to spend it?

0920

Mr. Samuelson: Well, I guess the short form, Mr. Prue, would be that I'd like to spend it on the things they promised they would do, to spend it on things like rebuilding our health care system and our education system. There is a long list of promises, which most people around here—except for the Liberals, of course—have tacked in their offices. There is certainly no shortage of places to spend it. I would say this: You can't have it both ways. You can't say that the Tories were wrong in how they raised money and how they spent money, and then say that we're not going to change the way the government brings revenues in. Ultimately, that's what needs to happen. If you say the Tories shouldn't have cut taxes so much because it has an impact on services, then they should be willing to stand up and go after those changes. There's a long list of places to spend it. I'm sure that's not a problem.

Mr. Prue: In this morning's papers, the big, screaming headlines, in all of the Toronto dailies anyway, were that the government yesterday promised some $200 million to hospitals, but most of that's going to end up in severance money to lay off nurses, while the same government goes around looking for 8,000 new nurses for the province. Would you be spending money there?

Mr. Samuelson: Absolutely. It's interesting to see the commitment this government made to hiring nurses turn into an actual situation where people are losing their jobs. But every nurse is not only someone who's working in the hospital; it also has a direct impact on the services people require when they go to the hospital. I think that's what we need to look at when we think about this.

If you look at the health care system, it was starved under the previous government. You need significant investment in order to make up for that.

Mr. Prue: You write here, on page 3, a paragraph: "The government also chose not to touch the $3 billion in corporate tax cuts granted" by the Conservatives. "Less visible, but a further opportunity to raise revenue for public investment, is the more than 50 corporate tax loopholes created or expanded by successive Tory budgets. Some of the corporate tax changes parallel the Federal Income Tax Act and should be kept. But ... an additional $800 million ... would be generated."

From where did you get the figures? I imagine from Chris Schenk.

Mr. Samuelson: Chris and a working group we've had within the labour movement and the left, the broader community looking at the finances. But these are not new numbers, frankly, and I don't think they surprise anybody.

Clearly, the previous government had a bent toward giving more money to those people who already had lots. We really would have expected that, if you were going to change things, if you wanted to change things, that would be the first place you would start. You would, in fact, recoup some of that money from those people who've already got lots and are getting more, and put that money back into the services that the rest of us need and require every single day.

We're not even looking at where it matches up with the federal laws. These are simply areas where the province could move on its own.

The Chair: Thank you for your presentation this morning.

Mr. Samuelson: That's it? It's been a peach.

ONTARIO CONFEDERATION OF UNIVERSITY FACULTY ASSOCIATIONS

The Chair: I call on the Ontario Confederation of University Faculty Associations, please. Good morning. You have 10 minutes for your presentation. There may be up to five minutes of questioning following that. I would ask you to identify yourselves for the purposes of Hansard. You may begin.

Mr. Michael Doucet: Thank you, Mr. Chair. Good morning. I'm Michael Doucet. I'm the president of the Ontario Confederation of University Faculty Associations, which is quite a mouthful, so I'll hereforth refer to us as OCUFA. We represent 13,000 faculty and academic librarians in Ontario's universities.

On my right is our executive director, Henry Mandelbaum, and on my left, our associate executive director, Mark Rosenfeld.

OCUFA has been a longstanding and consistent advocate of a well-funded, high-quality, public post-secondary education system. We welcome this invitation to present our vision to the standing committee on finance and economic affairs.

Let me begin by applauding the Ontario government's desire to examine post-secondary education funding through what is widely known as the Rae review, and of course we all eagerly anticipate Mr. Rae's recommendations later this month. The review process has drawn submissions from many quarters, all united in highlighting the critical need for major investments in our universities.

We are encouraged that both the Premier and the Minister of Training, Colleges and Universities have stated their commitment to public education, and we are hopeful this budget year will reflect that commitment. Last year's budget did little to reverse the pattern of underfunding that has been characteristic of Ontario universities in the last decade. Premier Dalton McGuinty promised during the 1999 provincial campaign to raise post-secondary education per capita funding to the national average over the course of his first term in government. This would require an increase of $860 million a year. But consensus is emerging that an even greater funding commitment is required if Ontario is to achieve the goal of a first-class university system that rivals or surpasses top-notch universities in the rest of Canada and in our peer jurisdictions in the US.

No other province in Canada boasts as expansive a university and college system as Ontario, yet the provincial government invests less per student than all other Canadian jurisdictions. Ontario's per-student operating grant is more than $2,200 below the national average. We need to reverse that statistic.

The call for reinvestment in higher education has come from many quarters outside of the university community. For instance, the April 2004 report of the government-appointed Panel on the Role of Government in Ontario stated the province "should increase the amount of public money spent on university education until its spending is, on average, the highest per capita in Canada on a per-student basis." This recommendation would cost well over $1 billion annually, but it would help to close the funding gap between Ontario and the rest of Canada.

We frequently talk about the need to maintain competitiveness with the United States, but research shows public universities in peer jurisdictions in the US spend twice as much as we do. The province' s Task Force on Competitiveness, Productivity and Economic Progress concluded that, by investing $450 per capita more in universities than Ontario does, our "peer group" of 14 US states plus Quebec produces $965 per capita more in GDP at purchasing power parity prices. Closing the prosperity gap by investing an extra $1 billion in our universities could well yield more than $2 billion in GDP growth in Ontario.

In lieu of funding increases, some would entertain alternative options, such as income-contingent loan repayment schemes and more private-public partnerships, or P3 arrangements. OCUFA is opposed to these approaches; they are not the solution to the problems that we face in the post-secondary sector.

There is a reason why no Canadian provincial or federal government has created a full-fledged income, contingent loan repayment system. The estimated start-up costs are too great, the administrative requirements too complex, the banks as partners too uncooperative, and federal government support too uncertain. In Australia, the introduction of such a scheme resulted in reduced funding for universities, dramatically increased tuition fees and mounting student debt loads. In New Zealand, concern is rising that its income-contingent student loan scheme is spurring a brain drain of graduates looking to avoid repayment. These are problems we don't want to create in Ontario; we have enough of our own.

0930

For instance, student tuition is at record high levels. Average undergraduate tuition fees have more than doubled in Ontario over the past decade. Increased tuition has been accompanied with the problem of a more restrictive Ontario student assistance program, or OSAP. Changes over the past decade to the program have made it more difficult for students to qualify for a loan. OCUFA encourages significant reform to OSAP—a system Mr. Rae describes, by the way, as broken—to increase student access to grants and loans.

Even in the face of this escalating tuition and rising student debt, the demand for post-secondary education in the province keeps growing. University enrolment is projected to increase by 33% by the 2010-11 academic year. In the face of this, we are concerned about high tuition fees and insufficient government operating grants.

The quality of a university education is being jeopardized by chronic underfunding. Enrolments in Ontario's universities increased by 14% between 1992-93 and 2002-03. At the same time, provincial operating grants were cut by 25% in real terms. Typically, universities have cut departmental budgets, dropped programs, increased class sizes and deferred maintenance as a response.

As I just suggested, as enrolment rises, so do class sizes in Ontario. As a result, teaching loads have grown heavier and more duties have shifted to part-time faculty and graduate students. Ontario, sadly, has the highest student-faculty ratio in Canada, and it is 35% higher than in peer jurisdictions in the United States. There are many ways to measure quality within an education system, but the student-teacher ratio is the gold standard. Reducing that ratio is a direct investment in quality education.

There is a further and unfortunate wrinkle to the mix of challenges faced by Ontario's post-secondary education system. Within this decade, one third of Ontario's faculty members are due to retire. Eliminating mandatory retirement will help alleviate this problem, but only modestly. OCUFA strongly supports the elimination of mandatory retirement. There is no time to waste in implementing this policy change. Yet more will need to be done to address the pending faculty shortage in our universities.

The Rae review has suggested that we will need 11,000 new full-time faculty by the end of this decade. While new hiring is finally taking place, it does not yet come close to meeting our needs. A concerted and sustained initiative now is required. The government has to provide the resources to allow universities to implement a creative faculty recruitment and retention strategy—a "brain gain" recruitment strategy, if you will. Furthermore, funding is required immediately to double enrolment in graduate programs, which are the primary source of future faculty. I hasten to add that Ontario produces 50% fewer master's students than in the US and only 75% of the Ph.D.s that are produced in the US.

We need to deal with the declining quality of our buildings in terms of deferred maintenance, which now stands at $1.5 billion.

The Chair: You have about a minute left for your presentation.

Mr. Doucet: A minute left? OK.

We have a full text in our report, so let me just go to a concluding comment. We are a prosperous province, and we have the economic capacity to build a rich educational environment in which the best and brightest can flourish. Ontarians can be confident that any investment in universities will yield significant and long-lasting benefits to our economy for today's generation and for generations to come. All it takes now is a plan, and that plan starts with budget 2005.

Thank you, Mr. Chair.

The Chair: Thank you very much. The questioning goes to the government in this round.

Mr. Mike Colle (Eglinton–Lawrence): Thank you very much for your presentation. It's certainly been brought home loud and clear to this committee that investing in the post-secondary sector is a true investment that really brings back multiple returns.

We were told yesterday that McMaster is the number one employer, the Hamilton Health Sciences centre is the number one employer, in Hamilton. The London Health Sciences Centre, associated with the University of Western Ontario, is the number one employer in London, Ontario. So we understand the economic benefits of investing in post-secondary education.

The thing that strikes me when you emphasize the word "prosperous," that Ontario is the most prosperous province: How have we gotten to the point where the most prosperous province is so behind the rest of the poorer provinces in funding its universities? How did we get to this point where Ontario is not able to fund its own universities, its own post-graduate schools? Our per capita funding is the lowest. Our student-to-professor ratio is the highest. Our capital needs are probably the greatest. How did we get to this point? How do we get the rest of Canada to appreciate the fact that Ontario maybe can't continue to underwrite the rest of Canada to the tune of $23 billion net every year when we can't invest in our own ability to generate wealth in our universities, for instance? How do we get this across to our federal partners and to the federal government in Ottawa, that we have to maybe keep some of that $23 billion in Ontario so that we can generate more wealth to help the rest of Canada? How can we do that?

Mr. Doucet: That's an excellent question. If I had the answer, I think I would be a very wealthy individual.

Part of the problem is the way federal transfers were changed in the mid-1990s. Some money used to be targeted for post-secondary education. Then we got the Canada health and social transfer that blended everything, and universities lost out, as did many other areas funded by the provincial government, because of that blending. I think we all know where the money has gone. It has gone into health care. So it's very important for the provincial government to look at the health care envelope and try to get some control over the increases that are occurring there. We all want a very good health care system.

Mr. Colle: Maybe the problem is that we don't spend enough on health care—that, again, we take money that should be spent on health care in Ontario and subsidize health care systems across Canada.

Mr. Doucet: It is a matter of political priorities, clearly. Those are always tough decisions.

Mr. Colle: The other question I had was about commercialization. I notice that your association questions the movement toward commercialization of research. We heard the president of McMaster say it's a good trend. The founder of RIM in Kitchener is on your side. Why are you so worried about the trend toward commercialization when it allows for reinvestment in research and attracts the best and the brightest?

Mr. Doucet: We're not opposed to commercialization as such. We're opposed to an overemphasis on commercialization at the expense of funding basic research. Who knows at this moment what is going to be commercially viable? People throughout university history have done what's called basic research, thinking about important issues. I know one of the classic examples is people doing research on prime numbers in mathematics, which a century ago seemed absolutely worthless. But a knowledge about prime numbers is basic to computing today, so over the century it has become commercially viable. By all means, let's commercialize what we can, but our concern is that this will somehow distort research activity and interfere with academic freedom, which is very important in universities. As I say, we don't know what is going to be commercially viable at some point in the future. What we're calling for is balance.

Mr. Colle: I guess that's why—

The Chair: Thank you. And thank you for your presentation.

0940

COUNCIL OF ACADEMIC HOSPITALS OF ONTARIO

The Chair: I would ask the Council of Academic Hospitals of Ontario to please come forward. Good morning. You have 10 minutes for your presentation. There may be up to five minutes of questioning following that. I would ask you to identify yourselves for the purposes of our recording Hansard.

Mr. Murray Martin: Thank you very much for the opportunity this morning. My name is Murray Martin. I'm the president and CEO of Hamilton Health Sciences, and on my right is Mary Catherine Lindberg, who is the executive director of our association.

The Council of Academic Hospitals of Ontario is a not-for-profit organization representing 22 teaching hospitals in this province that provide primary, secondary and tertiary patient care services, as well as carrying out significant research and education in affiliation with five of our provincial universities. Our members provide acute care services, complex continuing care, mental health and rehabilitation services, and manage budgets that range from $25 million for our smallest member to $1 billion a year for our largest member. Our total membership of 22 consumes about $4.5 billion of the hospital funding envelope.

In recent years, many of our members have been subjected to external reviews to determine why our costs are increasing rapidly and what can be done to make us more efficient. The conclusion arising from these reviews has been that we are indeed operating efficient and effective hospitals. Academic hospitals in Ontario have met the challenge of doing more for less. The national benchmarking study done by the Hay Health Care Consulting Group and the Canadian Institute for Health Information shows that Ontario academic hospitals are the most efficient academic hospitals in Canada.

We struggle to balance the complex interactions that arise from the three key roles of our members: We perform as providers of much of the specialized health care services in the province; we are educators and trainers of the next generation of health care professionals; and we are leaders in conducting and supporting health research to advance new health care discoveries and establish leading-edge innovation practices in care.

While academic hospitals are similar to other hospitals trying to survive in an environment of escalating costs and growing demand, we are unique in that we also have the added responsibilities associated with our academic mission. In addition to providing a large full range of health care services, for example, our hospitals support growing clinical programs and serve as the laboratory for developing and testing new diagnostic and therapeutic techniques that translate into new and often expensive ways of treating and curing disease more effectively.

Today, our members are being confronted with unprecedented pressures to perform. Many of these demands have arisen from the marked changes that have taken place in our patient population. We care for the most gravely ill and for those who are difficult to diagnose and treat because of their age or multiple health problems. In many cases, our hospitals have become the place of last resort for difficult cases and are sought after because of the unique expertise of our clinicians and scientists. The complex care being provided is highly coordinated between major academic health centres that collectively provide 95% of the complex or specialized care in our province and 100% of transplants in Ontario.

A further layer of complexity arises from the multiple but distinct roles performed by our members within their communities. In many cases—as an example, in London or Hamilton—our members serve as the community hospital within their local area as well as the regional provider of specialty programs such as specialized cancer care or cardiac surgery through the broad catchment area of their region. In some cases, our members also serve as the provincial provider of highly specialized, low-volume services such as transplantation. The complexity and interconnectedness of these many and varied roles explains in part why we are unique and why our 22 members consume approximately 45% of the province's hospital resource budget.

No one is disputing that a large amount of money is being spent on care within our organizations. The reality, however, is that there continues to be a significant shortfall in the money needed to serve very ill patients, in spite of our success in achieving high levels of efficiency. Of the 4.3% increase allocated to hospitals this year, the majority was spent on funding growth to service a growing and aging population. It is important to understand that our costs are not rising at double-digit numbers, but are inflating at 4% to 5% per year. Given the tremendous efficiencies achieved in recent years, we no longer have the room to absorb this level of inflation. For each of the next five years, our real need is 7% to 8%, factoring in 3% for growth and 4% to 5% for inflation.

The current funding gap is hampering our members' ability to continue to deliver the required volume of care and to maintain the exceptional services that residents of Ontario expect. At the same time, we are faced with a number of pressures that have to be met:

We are dealing with significant increases in costs arising from the growing specialization and acuity of our caseload that demands more aggressive drug therapy, and more and higher utilization of lab and imaging tests;

We are confronted with growing funding requirements to offset pressures of increases in the number of students we train;

We face growing competition to recruit and retain the best and brightest doctors, nurses and scientists to work in our organizations during a period of increased global competition to attract top calibre candidates to senior clinical, research and teaching positions;

We are challenged to constantly try and create new treatments on the basis of new knowledge through building and supporting strong hospital-based research departments, conducting drug trials and advancing experimentation of new surgical techniques and instruments; and

We are attempting to implement the best-practice models being developed through research in our facilities and transfer that knowledge to other hospitals throughout the province.

As we consider how best to respond to these pressures, we realize that we have an important leadership role that we must employ to help the government transform the health care system and a responsibility to work collaboratively with others to implement the transformation agenda that will sustain our health care system in the long term.

I will now take a couple of minutes to make some comments about our concerns related to research. In recent years, we've seen unprecedented increases in federal government investments in health research through the Canadian Institutes of Health Research and other new funding programs. These investments have invigorated the health research enterprise and have allowed Canadians to aggressively compete in the international world of excellent researchers.

Academic hospitals have made great strides in recent years that have contributed to enriching the research enterprise dramatically. Many of us have research institutes that carry out world-class research for discovery and commercialization. We attract some of the best and the brightest scientists from around the world. We initiate much of the innovation that takes place in our health care system today.

Despite these successes, there are dark clouds forming. For example, the impact of the recent CIHR decision to withdraw mid and senior career investigator awards has placed an immediate strain on academic health science centres to establish ongoing, sustainable sources of funding to enhance and support the research agenda. The CIHR decision is significant for Ontario, given that our province lags behind others such as Alberta and Quebec, which have well-established provincial career support awards. Compared with other provinces, Ontario has placed itself at a disadvantage in being able to build research capacity and to address the issues of stability, continuity and sustainability with respect to our research programs.

It is also becoming increasingly difficult for Ontario academic hospitals to retain the world-class scientists we are training because of a lack of money from the Ontario government to assist in the development of the research agenda. For example, the Canada Foundation for Innovation/CIHR research fund provides research funding for infrastructure, but requires matching grants from the province of 40% and additional from the organization. The federal government recently awarded $28 million to Ontario hospitals, but we are to date unable to obtain matching funds from the province.

0950

In light of the foregoing comments, the Ontario council makes the following recommendations:

That the standing committee review and assure that appropriate funding is allocated to academic hospitals in Ontario in order to ensure that we provide the kind of quality services expected of us from the people of Ontario;

That the Ontario government work with the hospital sector to address immediate investment in infrastructure and develop strategies to address the issue of negative working capital;

That the Ontario government demonstrate its commitment to ensuring stability and sustainability in health research programs by providing immediate funding to match CFI; and

That the government put forward a statement of strong support for health research in our province in supporting funding.

Finally, we'd like to acknowledge the announcement yesterday of an additional $200 million of one-time transitional funding, and we look forward to working with our ministry to deal with the ongoing issues facing our health care system. Thank you very much.

The Chair: Thank you. The questioning will go to the official opposition.

Mr. O'Toole: Thank you very much for your presentation. As you said, there are dark clouds forming. I think members of the media here have done quite a good job of holding the government's feet to the fire. Richard Brennan, in an article last Saturday, I guess it was, forecast basically ahead of the announcement that there was going to be $200 million. Many in the sector have been saying it—not just Hilary Short, but others. As Ian Urquhart said in this morning's article, it's waiting for the inevitable, because—

Mr. Colle: Stop name-dropping, will you?

Mr. O'Toole: Well, the point is, they're holding you accountable here, and that's part of the job that I respect they're doing, and you are as well; you're just doing it more politely because you've been shackled almost by the Minister of Health, furious George.

I would say that in our hearings—

Interjection.

Mr. O'Toole: Pardon me, Mr. Wilkinson; in our hearings across the province, it is the number one priority. The Ottawa Hospital told us that they had a $10-million deficit, growing to $45 million, and that they were going to have to lay off 300 front-line providers. Another hospital told us there were 169 positions on the line and $10 million. The actual realization of the savings would not occur because of the severance requirements. It would cost $8 million in severance in the first year, so you wouldn't realize the savings. The bailout yesterday is all severance money; we all know that.

If I look at their own election and budget documents, it says, "8,000 new nursing positions." Which is it? I'm listening to you this morning and you're not just talking about that. I'm looking at $2.6 billion in the new health premium and additional dollars from the federal government. They simply aren't managing the system. They're simply not working with the system—that's you, the teaching hospitals especially. What message would you give Richard Brennan, the media, us and the government for them and this budget, to send the right signal for stability and security for the patients and our constituents in the province of Ontario? What message do you want to leave?

This is the headline story here today; it really is. I can tell you that in every section of the province, there's concern and there's demoralization amongst the persons working in the hospitals. I can tell you, I'm getting the calls in my constituency office. I don't ignore them, unlike perhaps the government members. I'm asking and I'm pleading that you give us the message that we want to see in the budget. The promising days are over with. The dark clouds are forming. What's the plan? What would you like to see them do? Give them stable funding? Admit their election promises?

Mr. Martin: I think the reality we recognize is that funding for health care has been very difficult for the previous decade and it's going to be very difficult for the decade ahead. We do acknowledge that there are other funding priorities. We do appreciate the money that was announced yesterday. We do know it's going to take more to get us back into the black. But as teaching hospitals, we're certainly committed to working very closely with the ministry. We applaud the investment in the community sector. Eventually that's going to have a payback. What we believe is needed, though, is additional funding to support us in this bridging period as we try to see more of our system provided at the community level as opposed to in our hospitals. That's certainly going to take additional funding, and it's going to take a close working relationship among hospitals with the ministry.

The Chair: Thank you for your presentation.

Is there a representative of the Ontario Public Service Employees Union present? York University? Is there anyone in the room who is scheduled to present?

We will recess until a presenter arrives. I would ask committee members to stay close to the room, please.

The committee recessed from 0955 to 1002.

YORK UNIVERSITY

The Chair: The standing committee on finance and economic affairs will come to order once again. It's my understanding that York University is prepared to make their presentation. Would you please come forward.

Mr. John Wilkinson (Perth–Middlesex): On a point of order, Mr. Chair: I have a research request. I'd be interested in knowing, on the employer health premium that's currently being brought in—I think it's about $2.4 billion. I wonder if research could figure out, if that were to be eliminated, as has been suggested by the opposition, exactly how many full-time-equivalent nursing positions that would be in Ontario. If you could look into that for me, Larry, I'd appreciate that.

The Chair: Good morning, gentlemen. On behalf of the committee, let me say I appreciate your being here a bit early so that we can continue our work this morning. You have 10 minutes for your presentation. There may be up to five minutes of questions following that. I would ask you to identify yourselves for the purposes of our recording Hansard. You may begin.

Mr. Gary Brewer: Good morning. I'm Gary Brewer, vice-president of finance and administration at York University. With me is Professor Ted Spence, senior policy adviser to the president.

I'd like to thank you for providing York University the opportunity to outline issues of particular concern to us. We will leave you with copies of our submission, but I would like to outline the essential elements of our brief to the committee and, along with Professor Spence, try to answer any questions you might have.

We are here because we anticipate that 2005 will be a critical year for the relationship between the government of Ontario and the province's publicly assisted universities. The forthcoming recommendations of the post-secondary education review headed by the Honourable Bob Rae will be important input to the next provincial budget.

Before turning to our specific areas of comment, I think it would be helpful to provide the committee with a brief overview of York University, which provides relevant context for our comments.

From its inception, the hallmark of York's programs has been excellence in interdisciplinary research and teaching at both the undergraduate and graduate levels. There's a strong synergy between research and teaching across all of York's 10 faculties. York now has almost 50,000 students, including the second-largest graduate student population in the province. Some 12% percent of all university students in Ontario and 33% of university students studying in the GTA are students at York. At the graduate level, York is a major source of highly qualified personnel for the GTA, Ontario and Canadian economies, with 4,800 graduate students enrolled in 25 doctoral and 43 master's programs.

York is committed to listening to our communities and responding to their needs within the limits of our resources. In the coming 10 years, we plan to respond to emerging needs of students and the community, including continued diversification of our programs in professional and applied fields, and a major focus on health and medicine, ultimately leading to the establishment of a new medical school to serve the growing and diverse communities around us.

York has over 180,000 alumni, 75% of whom live in the GTA. We have estimated that York already has an annual economic impact of more than $3.4 billion in the GTA.

I'll now turn to the substance of our comments on four key elements which we feel should be addressed in the 2005 budget. These elements include: funding to ensure student opportunity and excellence; accountability to demonstrate achievement of outcomes; mandatory retirement, specifically referring to the impact on the university sector; and support for municipal infrastructure.

We have always been a leader in advocating for access to post-secondary education for all Ontario students and continue to believe strongly that this principle must remain a fundamental value underpinning tuition and financial assistance policies, not just at York but at all Ontario universities.

The cost of a university degree is high. Our studies have indicated that the total annual cost for a full-time undergraduate student in a regulated program ranges from at least $10,000 if they're living at home to $15,000 if they're living in residence or accommodation. The costs for graduate students are at least 25% higher. Longer-term planning is essential in meeting those challenges and improving the quality of education for Ontario students.

With respect to tuition, it is our view that tuition should be as affordable as possible, as predictable as possible for the length of a degree, and as accessible as possible through grants, scholarships, bursaries and loans.

York has traditionally opposed high tuition fees for undergraduates, and we continue to do so. We do not support full tuition deregulation and instead favour regulated increases consistent with inflation for tuition in most undergraduate programs. We regard the high cost of deregulated programs as a deterrent to free career choice for many students. In programs with deregulated tuition, government needs to ensure that there is predictability in fees as well as putting in place accessible forms of assistance and guidelines to protect students from tuition shocks.

With respect to student assistance, we ask that the debt burden of students be mitigated in the fairest possible ways. We urge the Ontario government to ensure that the student financial aid system is revised and improved, including harmonizing the federal and provincial systems and reducing the paper burden on students and institutions.

We urge you to reinstitute the Ontario student opportunity trust scholarship program, but in a revised format to ensure an equitable distribution of funds among institutions in order to support students who are truly in need. We call for better support for graduate students by continuing the OGS and the OGSST programs and through extending the length of time institutions receive grant funding for doctoral students to better reflect the normal time for degree completion, and also through additional doctoral scholarship funding for students at the dissertation stage.

With respect to operating grants, the level of provincial government support to Ontario universities on a per-student or per capita basis is now the lowest among Canadian provinces. For more than a decade, quality has been eroded by a lack of inflation adjustments and by periods in which not all students were funded. Discounted or diluted funding reduces the quality of education for all students. York urges the Ontario government to recognize as a top priority the need to adjust per-student grant levels to redress the lack of adjustments over the past decade, followed by regular adjustments in grant levels to offset the impact of inflation. This funding is essential if we are to hire the faculty required to enhance the quality of university education in Ontario. We recognize that additional funding will come with expectations for a higher degree of results measurement. We are ready to work with government to help develop mechanisms to provide the necessary tracking of quality improvements.

1010

With respect to support for university research, basic and applied university research play an essential role in the transfer of knowledge within Ontario and is a critical part of innovation across all aspects of society. The economic and social impacts of university innovation are a tremendous asset to all Ontarians. For Ontario universities to attract the best students, we must attract and retain the best researchers, and to attract and retain the best researchers, we must first ensure that we provide the resources necessary to fund their labs and their research.

We urge the Ontario government to increase its investments in basic and applied university research, including programs that will allow Ontario universities to attract and retain the world's best researchers. We also ask you to recognize that research support from the government of Ontario is required to allow our universities and researchers to compete successfully for our full share of federal dollars.

With respect to capital, the availability of high-quality university facilities is closely linked to the quality of student experience. In spite of our recent building programs, York University is still at the low end of built space available on a per-student or per-faculty-member basis and certainly well below the average for all Ontario universities. We fully support the case made by the Council of Ontario Universities for expanded support for deferred maintenance and capital funding.

With respect to stability in post-secondary funding, university planning is long-term, and there needs to be stability and predictability in funding. Recruitment of a new faculty member takes 18 to 24 months, and it takes even longer to put in place new academic programs.

York urges the Ontario government to move to a multi-year funding environment to support long-term investments in our institutions. We understand the very tight fiscal situation in Ontario but feel strategic investments in the post-secondary sector are crucial at this time, and we stand ready to ensure that government receives a full accounting of the quality improvement associated with increased and predictable funding.

Building on that point of accountability, as I said, we acknowledge the importance of accountability and our obligations in this regard as publicly assisted institutions. We think it important to emphasize the need for accountability measures and processes that reflect institutional autonomy and the differentiated roles and missions among universities. We recommend that each university be required to set accountability measures consistent with its own mission and goals and report on these annually to government through its board of governors.

The Chair: You have about a minute left.

Mr. Brewer: I'm just about there. Thank you.

We also recommend that the reporting burden be reduced and simplified.

A final critical element is mandatory retirement. As Canada's third-largest university, employing over 5,000 faculty and staff, it's our view that the elimination of mandatory retirement would have a far more acute impact on universities than any other sector in Ontario.

We are opposed to age discrimination of any kind and, as such, not opposed to the direction taken by government, but we have many complex issues related to labour relations, finance, faculty, complement planning and our collective agreement, and we need to deal with so many complex issues that we suggest a transition period in the implementation of up to five years.

Finally, I'll close with comments concerning support for municipal infrastructure. York's location in the centre of the GTA, but near the edge of the city of Toronto, means we are located in an area of the GTA which has not always received the attention deserved for public infrastructure investment. The university is the most significant transit hub in Toronto without subway service, with 1,100 buses a day on campus.

We urge the province to show leadership to ensure transit priorities are set at the level of the GTA and that the subway extension through York University to York region is funded as part of the next phase of transit development for the GTA.

Those are my comments and, again, thank you for having us here today.

The Chair: Thank you. This round of questioning will go to the NDP.

Mr. Prue: You've made a number of points which other universities across Ontario have made, but I want to skip to the last two, because this is the first time I think we've heard these two arguments, one being the need to grandfather or put in a transition period, should the mandatory retirement laws change. Could you explain to me in a little bit more detail than you did in your statement why this is going to cause such problems in a university, more than any other factory or office?

Mr. Brewer: I want to emphasize that we're not opposed to the elimination of mandatory retirement. In the university context, our faculty members have tenure, and this means that they essentially can continue to work past 65, 70 or 75 without having a set mandatory retirement age. As such, some of the normal mechanisms for assessing quality of performance and dealing with performance issues may be more difficult to use in that tenured environment.

As well, at a university, faculty complement planning, as we've said, has lead times of anywhere from 18 to 24 months. Without some kind of predictability—in other words, a set age, like age 65—we may well find ourselves with significant disruption in our complement planning processes. In other words, we could find out at 65, 66, 70, 75 or 80—many faculty members could continue to work into their 80s—never knowing when exactly they would retire, and suddenly finding out, with a month's notice, that that's when they were electing to go. Then you're left with an 18-month to 24-month gap in order to have that person replaced.

Finally, on the financial side, within the university we have something called progress through the ranks, where faculty members receive an annual increment for every year that they continue to serve. It's standard across most universities. So typically, the salaries of faculty members at the end of their careers are substantially higher than those at the beginning of their careers. When a faculty member retires, the university often can hire, at half the cost, a new faculty or replacement faculty member. Obviously, to the extent that you have people staying longer, working longer at those much higher salary levels, the financial impacts can be significant. At York, I've estimated that impact to be perhaps as high as $5 million annually. For us to adjust our budgets in order to reflect a different faculty planning and salary paradigm, we would have to take some time to deal with that.

Mr. Prue: My second question is about the subway. Both Mr. Colle and I were on Metro council when Metro council struggled with four subways and which ones. We wanted to build them all. Then the government of the day was defeated and the Conservatives came in and cancelled them all except one. The one they chose was the fourth choice.

Mr. Colle: Actually, it was the fifth.

Mr. Prue: Yes, and I think a special deal was made at that time with the then mayor. But the difficulty with building this, as I see it at this point, is that the city of Toronto now has been given the gas tax for its use. The gas tax is mostly for maintenance, as I see it. There's not much money. This would involve the province spending hundreds of millions or maybe a billion dollars to put a subway line into there. I still think it was the first or second choice. I think Metro council chose it as the first or second choice, that or Eglinton; those were the two biggies.

I don't know whether this government is going to find the money, quite frankly, to do this in the foreseeable future. Is the dedicated bus line going to work? Would you like to see something equivalent to the light rapid transit that goes up into Scarborough as an alternative or a short-term alternative to the building of a subway? Do you have some other alternative that doesn't cost so much that they might consider?

Mr. Brewer: If I could, I would ask Professor Spence to take that question.

Mr. Ted Spence: The dedicated bus line that was always intended as an interim measure will certainly greatly improve the situation for York University commuters. What it won't do is address the transportation issues in the northwest quadrant of the city, where we have some of the worst congestion in all of the GTA, with the traffic coming back and forth between the 905 and the 416.

There is an opportunity at York to extend the subway to a major transit gateway north of the university that would serve York region, more or less at the intersection of the 400 and 407 highways and at a point where many of the commuter buses come in. We already have almost 300 GO buses coming in and out of the university every day packed with students, but not with other commuters.

We actually believe that the subway extension through the university to the York region gateway is a key part of an overall transportation network for the GTA. We would certainly support light rail and other express bus routes, but it has to be an integrated system.

1020

I think most of the transportation planners who have taken the big-picture look at the GTA see the extension of the Spadina subway, which now ends at the Downsview station, across from a more or less empty air base and a furniture store, where it was never intended to end, and getting it up past Steeles Avenue is really an opportunity to help Jane and Finch, to help the northwest quadrant, to open the gateway to the 905, and I should say to also off-load the Yonge subway so that more of the traffic from the northeast of the city can be directed toward the Finch subway station and the York region transit system that's developing on Yonge Street.

There are alternatives that might be less expensive, but I think most people who look at the overall GTA picture for transit see that extending that subway up just through York to that gateway is really essential to make the rest of it work. It is expensive, but it's also an area of the city that has considerable area ready for either development or redevelopment. If you know that part of the city, many of the major social and economic issues of the city are concentrated in the northwest, and there's an opportunity to turn a whole area of the GTA around with the subway. So we've continued to advocate for the subway, recognizing that it's more expensive, but because of the impact it has beyond York University, not just because of the impact on the university.

The Chair: Thank you for your presentation and for appearing somewhat early. I appreciate it.

ONTARIO PUBLIC SERVICE EMPLOYEES UNION

The Chair: I would call on the Ontario Public Service Employees Union to come forward, please. Good morning.

Ms. Leah Casselman: Good morning.

The Chair: You have 10 minutes for your presentation. There may be up to five minutes of questioning following that. I would ask you to state your name for the purposes of our recording Hansard. You may begin.

Ms. Casselman: Thank you very much. My name is Leah Casselman. I'm the president of the Ontario Public Service Employees Union. With me is Tim Little, who's our legislative liaison—and I love traffic.

OPSEU represents 100,000 public and private sector workers, including most direct government employees, full-time staff of Ontario's colleges and more than 50,000 workers in the broader public service. Obviously, the fiscal decisions of the provincial government have a direct impact on our members, their quality of life and the quality of the services that they provide to the public. As a result, we again look with anticipation and some concern toward the upcoming provincial budget.

On election night, the Premier-elect made a special commitment to our members, a commitment to work with us to rebuild public services in this province. Last March, the Minister of Finance repeated this commitment by admitting, "We were elected to ensure high-quality public services. That's what the election was about. That's what we got elected to do."

After 10 years of Conservative rule, this public positioning is a welcome change. However, we've been waiting now for a year and a half for the government to make good on its promise of change.

As the Provincial Auditor noted in November of last year, the challenges facing public sector renewal are huge. Over 10 years of Harris-Eves cutbacks, 20,000 jobs were slashed from the Ontario provincial government. As a result, the auditor reports that staff overtime has doubled and the use of temporary staff has almost doubled since 1995 to almost 18% of the entire OPS workforce. This is having a serious and ongoing impact on employee morale, with over half of those surveyed by the auditor reporting departmental understaffing and fully a third of employees feeling dissatisfied with their jobs. Poor morale is hardly surprising, given the fact that our members have suffered through the first Ontario government in modern history to refuse its responsibilities to the people and future of our great province.

Finally, the auditor called on the government to address the lack of serious training programs in the Ontario public service and to prepare for the upcoming wave of baby boomer retirements.

It is difficult for the Ontario government to lead the way in public sector renewal when it spends two thirds less on training than other public sector employers.

There are, of course, similar challenges facing the broader public sector. We need serious reinvestment in our college system so that we can meet the growing demand for education and so that we can rebuild the apprenticeship programs that are so critical to our provincial economy.

We need a real commitment to those with mental health challenges and profound physical disabilities. Ontario has witnessed the continuing shell game of removing institutional care options while failing to deliver on promised community supports. We and they deserve better.

We need long-term investment in health care, not more experiments with so-called private-public partnerships, so that we can attract and retain nurses, paramedics, technologists and other medical professionals.

We need funding increases in sectors like child care, children's mental health, community living programs and family services that have been starved for over a decade.

Another critical challenge facing the broader public sector is pay equity. At the end of this calendar year, an agreement that stems from a charter challenge is due to expire. It sets out proxy pay equity payments for female employees at a number of transfer payment agencies. In the absence of adequate funding in the forthcoming budget, by 2006 those employers are going to be running afoul of the pay equity law and will be cutting services and laying off front-line workers. The province must ensure there is continuing dedicated funding to enable employers to fulfill their pay equity obligations under the law.

There are, of course, employers who obeyed the pay equity law in the first place and are not getting funds under that agreement. For these workplaces, mostly in children's mental health and developmental services, there must be catch-up funding.

The truth is that as a society we do have the collective resources to meet these and other needs. We just need to find the political will to make the right choices.

You will be hearing from the Ontario Alternative Budget Working Group regarding the government's revenue and expenditure estimates, so I will not repeat their findings except to say that we share their frustration with the continuing practice of overestimating expenses and underestimating revenues. The provincial government has a responsibility to its citizens to be honest and forthright with its fiscal projections. Instead, the government seems to be all too willing to follow the existing pattern of manipulating the numbers, and we all know the cupboard is not bare.

I believe, as do our members, that this government is different. The Liberals will be judged in October 2007 on the concrete measures they have taken to rebuild public services, not on some fictional story of deficits encountered and wrestled to the ground.

While OPSEU recognizes the need to restore provincial revenues in order to support public services, we were not alone in criticizing the regressive nature of last year's health premium increase. Instead, we strongly support the Ontario alternative budget case for progressive tax increases. The five following changes would raise almost $4.8 billion per year:

(1) Harmonizing federal and provincial taxes by increasing the top Ontario tax bracket for those earning more than $100,000 per year;

(2) Restoring corporate tax rates to where they were in 2000;

(3) Tightening the administration of the tax system;

(4) Harmonizing the federal and provincial corporate income tax systems; and

(5) Eliminating corporate exemptions from the employer health tax.

This last suggestion is only fair, given the unfair impact of last year's health premium on lower- to middle-income taxpayers.

Not only are these five suggested changes relatively conservative; they are also politically safe moves for a government that pledged to substantially improve our public services. We know that the government has a real opportunity to work with our members and with the public to rebuild our public services. OPSEU will do whatever it takes to make sure you take that opportunity.

Thank you very much. I'll now answer any questions.

The Chair: In this rotation, the questioning will go to the government.

Mr. Colle: Thank you for your presentation.

Ms. Casselman: You're welcome.

Mr. Colle: The item I want to ask you about first, which caught my eye, is number 5, "Eliminating corporate exemptions from the employer health tax." I don't think the Ontario Federation of Labour was specific. They just said, eliminate the employer health tax for the self-employed. One of the concerns that worries us about eliminating the employer health tax is that you might be impacting individuals who have their own little business—it could be a nurse, a plumber. Do you go as far as the Ontario Federation of Labour in saying it should be eliminated for everybody? In other words, should all self-employed pay the employer health tax or just the corporate entities?

1030

Ms. Casselman: We support the federation's position on that.

Mr. Colle: So you would ask that everybody pay the health tax; if they're self-employed, they should pay that?

Ms. Casselman: Yes.

Mr. Colle: OK. I just wanted to clear that up.

Ms. Casselman: They take advantage of the system, and maybe it would also be a deterrent for this government to stop following the Tories' direction to divest everyone into independent business to provide quality public services.

Mr. Colle: As you know, we are before the courts as we speak with the professional sports teams on that very issue. Some of them tried to claim they are exempt from the employer health tax because they operate their business outside the province and—

Ms. Casselman: Please don't get me started on million-dollar hockey players. We don't have time for that today.

Mr. Colle: Just to let you know we have that.

The other item I have to ask about is in terms of the reference you made that overtime usage has almost doubled.

Ms. Casselman: Yes.

Mr. Colle: Where is that starting from? Can you give a time frame on that? I'm just interested in finding that out.

Ms. Casselman: It was in the Provincial Auditor's report, so I'd refer you to that. I would suggest it was probably after the first wave of layoffs under the Tories. They still wanted the work done, but there were half the workers.

Mr. Colle: Is that continuing now, as far as the information you're getting?

Ms. Casselman: Yes.

Mr. Colle: At the same level?

Ms. Casselman: What we've seen since the Liberals were elected is that a number of consultants have been let go, because $800 million was going into consultants' pockets as opposed to full-time workers. But that has been replaced by what we call "unclassified" in the public service or by additional overtime. So that's still an issue for us right across the public service.

Mr. Colle: So it's still a driver. I'll pass it over to Mr. Wilkinson.

Mr. Wilkinson: This idea about the five changes—I know Mr. Mackenzie is going to be coming in and speaking to us about the alternative budget. Are you saying that if we got rid of the new premium, which is about $2.4 billion, and did these five things, that would raise $4.8 billion?

Ms. Casselman: Those five options would raise $4.8 billion.

Mr. Wilkinson: You're suggesting that, but you're also saying we should get rid of the premium we instituted last year. Are you saying—I just want to make sure—that we keep the $2.4 billion and here's another $4.8 billion to spend on increasing public service? It's just not clear to me. Are you saying, "Get rid of what you did last year but do this $4.8 billion instead," or is it in addition—just so I'm clear on where you are on that?

Ms. Casselman: I would suggest that what you implemented last year was a regressive tax and it impacted the lower-middle-class folks clearly more than folks who make over $100,000. If you are going to keep that, you should make it a more progressive tax.

In relation to what we've presented here, you can get $4.8 billion by doing these five things, and we would suggest that you probably wouldn't require that additional tax on people for the health care system.

Mr. Wilkinson: We'll be going over expenses and revenues, because there will also be suggestions on where we should spend that money under the alternative budget. I'm just trying to get an idea of whether that's a net figure, because you want the other thing off and these five put in, or whether it's in addition. That will help us when we talk to Hugh.

The Chair: Thank you for your presentation.

UNITED STEELWORKERS OF AMERICA

The Chair: Would the United Steelworkers of America come forward, please. Good morning, gentlemen. You have 10 minutes for your presentation. There may be up to five minutes of questioning following that. I would ask you to identify yourselves for the purposes of Hansard.

Mr. Wayne Fraser: My name is Wayne Fraser, and beside me is Charlie Campbell, director of research for the Steelworkers union. Let me begin by thanking you for the opportunity to say a few words to you today—hopefully words that will be listened to and acted upon when you release your budget this spring.

I'm the director of the Steelworkers union, representing over 95,000 members in Ontario and the Atlantic provinces. Our union represents 250,000 workers across Canada, and we're the largest industrial union. Our members work in every sector of the economy, including universities, health care, security, banking, transportation, hospitality and many others, as well as the steel and mining industries, for which we are best known.

After the 2003 budget, widely acknowledged to have been a fiasco that badly damaged the McGuinty government's credibility, the finance minister does not have an easy task in this year's budget. Ontario voters, despite the growing pile of broken shards that represent Liberal election promises, still are looking to the government to get a start on its central promise: to rebuild our province's public services. The outrage that greeted the appallingly regressive health premium or health tax—one day it's a premium; the next day it's a tax—will make even harder what is never an easy task: establishing a progressive source of revenue for vital government services.

We're calling on the government today to show some courage; first, to admit your mistake and announce that you will repeal the health tax and work to regain the confidence of Ontario citizens. Why is the health premium tax so bad? How would you describe a new tax that increased the income tax burden on someone making $30,000 a year by 24% but increased the burden on someone making $150,000 a year by barely 3%? It's unfair and, as I said, it's very regressive.

Also, the government's semantic game about "premium" and "tax" has meant that, unlike the OHIP premium, which was eliminated in 1989 and which was paid mostly by employers, most of these new premiums will be paid directly by individuals, many of whom just can't afford it. I am proud to say that the Steelworkers union has led the way to try to negotiate in contracts that this premium be paid by the employers. I am just as proud that our union, as an employer in this province, has taken the step to provide coverage for our members to pay this premium. We just think it's the right thing to do under the circumstances.

Do not believe for a second that backtracking on the health premium will give the government any licence to fall short on its promises to restore and improve health care services. Throughout this sector, particularly in nursing homes, the need for reinvestments is greater than ever. It's clear to everybody that there was no relationship last year between the new revenues produced by the premium and increased health care spending. You shouldn't expect Ontarians to take seriously the government's projections of nearly empty cupboards. Independent projections from the Ontario alternative budget suggest that between understated revenues and overstuffed cushions of contingencies, the government should be able to make a real, if belated, start on keeping its promises.

Your government's announcement yesterday to lay off hundreds of nurses clearly demonstrates your government's lack of commitment to and understanding of our enormously underfunded and underserviced health care sector. Patient care is at an all-time low and will soon be getting much worse.

How can you ignore the pleadings of the hospitals, of the nurses and of the doctors about the crisis in health care today? Waiting lists are increasingly longer. Emergency rooms are a joke; people have to wait in there for hours on end to see a doctor. Your announcement of a $200-million supplement to the hospitals, most of it going to severance pay, is as bad a joke as your announcement to let them do the layoffs.

It's clear to me that this Liberal government, its ministers and its MPPs have not been in a hospital lately to take care of them or their family members. You need to reverse this decision about laying off nurses. It's one of the first things the Tories did when they took power, and it has been a disaster ever since. You need to reverse it. You need to commit to the people of Ontario that your government supports health care. I believe, and our union believes, that health care is a right for all Canadians and can't be sabotaged by privatization or by governments.

1040

Let me now turn to an area where today's problems truly are not this government's fault—post-secondary education—but where there's an opportunity to step up to an historic challenge. Soaring tuition, slashed government funding and squeezed university budgets have been tough on students, on faculty, and especially tough on a group of usually unsung heroes: the thousands of university administrative and technical staff who ensure the day-to-day functioning of some of the provinces' most prestigious institutions. These include business officers, highly trained technicians and department secretaries, just to name a few.

The result of budget cuts has been fewer workers trying to do more with a lot less. The result is not enough time, inadequate money for preventive maintenance, inadequate money for specialized training, and too little time for the front-line staff in the libraries, in the registrar's offices, or in the academic departments and residences to spend with the students.

The Steelworkers are proud to represent workers at the University of Toronto, Victoria University, St. Michael's College and the University of Guelph. We also represent security guards and food service workers whose direct employers are contractors but who also deliver important services on college and university campuses.

The government deserves credit for appointing an independent review, headed by former Premier Bob Rae, to provide advice on how to make sure post-secondary education, including apprenticeship training, regains a leadership position in North America. Our union participated actively in Mr. Rae's consultation process, and we are hopeful that his recommendations will call for a significant increase in funding from the provincial and federal governments. If this happens, all eyes will be on Ontario's spring budget to see if our hopes will lead to a new beginning for the post-secondary education sector.

I want to take a moment to address an issue that relates only indirectly to the budget, but that's very important to thousands of workers in this province: the government's wretched failure to deliver on labour law reforms that would actually be fair to all workers in this province, not just a handful.

We've delivered our message loud and clear to the Minister of Labour over and over again. So I won't take a lot of time here today to discuss that with you much more, other than to say that we believe that your legislation's proposed changes to labour law reform are, at the most, sexist and very discriminatory.

There is no justification whatsoever for restoring the card-based certification system only in the construction sector, while other workers who make six bucks an hour working in the service industries, whether they be women or new Canadians, have to go through a reign of terror when they try to organize a workplace to get representation by a union.

The abolition of the card system has been an invitation to employers to interfere and intimidate, and without any effective sanction. That was a deliberate change to the law by the previous government. It's a disgrace that this Liberal government has refused to acknowledge and rescind the draconian legislation introduced by the Tories years ago.

That concludes my presentation.

The Chair: Thank you. In this rotation, the questioning will go to the official opposition.

Mr. O'Toole: Thank you very much, Mr. Fraser. It's good to see you again this year. You've advocated very strongly for health care and for the post-secondary institutions. The steel industry is still in some—

Mr. Fraser: Don't forget about labour law reform.

Mr. O'Toole: Oh, labour law, yes.

Anyway, there are important comments you've made on the health tax, the premium. I'm not sure if it's a tax or a premium, but you've made quite a compelling case that this is a regressive tax.

We've heard that in the House. I would compliment Michael Prue and certainly the NDP for making that point very early on of how regressive it really was. We're the only party on record that would eliminate that tax. We're upfront about it. They weren't upfront about it. They, dare I use the word, lied or misled—no, that's not legal, either. I'll retract those words. They were not straightforward about that tax. They never told anybody they were going to raise taxes to the extent they did.

I guess I would sort of say, would you think that the employer should be paying this premium?

Mr. Fraser: I don't think there should be a health care premium in Ontario. Listen, your government was responsible for the terrible shape education is in, for the terrible shape health care is in. Make no mistake about it; you ought not just to be pointing your fingers at the Liberal government. They have an opportunity to change it, but the reason it's in such difficult shape is because of the tax breaks you gave to the rich during your eight years of government.

I'm not opposed—I think, clearly, if there's a situation of financial difficulty for this government because of the shape you left it in, there ought to be tax increases to pay for the things we need; not tax increases that are regressive, like the health care tax, but tax increases that go to the folks who can afford to pay them. Those folks are making a lot more money than normal workers in this province.

Mr. O'Toole: We probably disagree on a couple of things, Wayne, and one of them would be that the shape of—

Mr. Fraser: Did you say we agree on a couple of things or disagree?

Mr. O'Toole: Well, we agree on a couple of things, yes. I've just got to make a couple of points, though. The condition we left the government in—even if you look at the alternative budget, Mr McKenzie said clearly they could balance the budget this year. I've seen his report. That's what he said. If you look at it, they've got $10 billion more in revenue this year. Just look at the numbers; it's in their own numbers. It's not a big surprise. They have a spending problem. They also have a lust for more revenue; there's no question about that.

I would say to you, if you really want to get into the nuts and bolts of it, your friend sitting beside you knows very well that Bob Rae left almost $12 billion, and we dealt with it.

Mr. Fraser: And you left billions of dollars of debt, and this government is trying to deal with it.

Mr. O'Toole: Governments, however they state or restate numbers, we don't need to talk about that. Would you agree with this: that you have to grow the revenue in excess of your expenditures?

Mr. Fraser: Your tax breaks have caused the problems.

Mr. O'Toole: No, no, that's the question: Would you agree that you have to grow your revenue in excess of your expenditures, and faster? Would you agree that you've got to have more income to get more cable channels or whatever your expenditures are?

Mr. Fraser: No, I agree that the health care premium ought to be dismantled, because it's regressive.

Mr. O'Toole: How are they going to replace that revenue?

The Chair: Let the gentleman answer, Mr. O'Toole.

Mr. Fraser: And I agree that you tax folks who are making a lot more money, who can afford to pay increased taxes, the same folks you gave a break to for eight years.

Mr. O'Toole: I understand that. The NDP were quite clear in the election that they would tax people—

Mr. Fraser: This isn't about the NDP. You're asking the question of the Steelworkers' union. You gave breaks to people. The rich got richer during your eight years and those folks now ought to be paying the price for what's happened to our public service in this province.

Mr. O'Toole: I'd say that we increased spending in this province hugely; in fact, in excess of the revenue. That's why we actually get into the problem. We understand there's a demand that exceeds the ability to pay, and that's the problem the province is in. I'm asking you, if you're going to—

Mr. Fraser: The problem this province is in—you know what? Just let me tell you a little story, and this is a true story. For the last month and a half, we had a very close friend of mine, my partner's dad, in the hospital, in St Joe's. He didn't want to stay in the hospital to die. He had about a month, a month and a half to live. They said to him, "Well, we can send you home but you've got 14 hours of care. Even though you need 7/24, you've got 14 hours of paid care. The rest you have to fend for yourself." That's the problem in this province right now. It's a joke.

Mr. O'Toole: Do you realize—

Mr. Fraser: And then you go to the waiting rooms and you've got four or five or six hours to see a doctor. And now you're laying off 200 more nurses. It's a joke.

Mr. O'Toole: Through the Chair, I just want to make it clear that prior to—Bob Rae had a study that was called the multi-service agencies. We instituted them. They were called CCACs. Prior to 1995—

Mr. Fraser: You destroyed this province.

Mr. O'Toole: —there was no home care support.

Mr. Fraser: You destroyed this province.

Mr. O'Toole: Well, that's your belief.

Mr. Fraser: You have destroyed this province. Never before has there been worse health care in this province than when your government took over.

Mr. O'Toole: Keep your eyes open.

The Chair: Thank you for your presentation this morning.

Before we go to our next presenter, indication has been made to me that they have signs they want to use. As you know, that's not allowed in the committee, as it's not allowed in the House. However, this is in lieu of a PowerPoint presentation and it is part of their presentation. Do we have consent to—

Interjection: Absolutely.

The Chair: Agreed. They may use their signs, then. Thank you.

1050

CANADIAN FEDERATION OF INDEPENDENT BUSINESS

The Chair: Therefore, I call upon the Canadian Federation of Independent Business to please come forward. Good morning. You have 10 minutes for your presentation. There may be up to five minutes of questioning following that. I would ask you to identify yourself for the purposes of our recording Hansard. You may begin.

Ms. Judith Andrew: Thank you. I'm Judith Andrew, vice-president, Ontario, with the Canadian Federation of Independent Business. I'm joined by my colleague Satinder Chera, who is CFIB's Ontario director.

Thank you for the opportunity to present today on behalf of CFIB's 42,000 small and medium-sized member businesses in Ontario. I'm going to speak mainly from the PowerPoint slides that are here. We're also putting a couple of them up for you to have a look at.

Our membership is very diverse and therefore you can see on the first pie chart of our profile that we have every type of business in our membership. We have, for example, about 600 beef producers in Ontario, who are certainly on tenterhooks these days vis-à-vis BSE. We have nearly 5,000 construction member businesses that may possibly be seriously impacted by the WSIB mandatory coverage proposal. There is some material in your kit about that. Those same construction firms will also be impacted by the loss of the vote under the card check system in the labour relations proposals—again, another challenge for them.

Turning to CFIB's quarterly business barometer, you will see that the index we construct of our members' expectations has actually over the years been a very good reflection of the Ontario economy, so much so that it is now picked up by Bloomberg business news on about 300,000 business terminals around the world. So we're glad to see this as part of the economic infrastructure that's out there.

If you look at Ontario versus Canada, I think it's a bit disturbing for Ontario in that Ontario's growth expectations have levelled off and at this point small businesses are entering 2005 with less confidence than they did in 2004. Confidence among small businesses to invest and grow is a particularly important factor. Certainly it's key to the provincial desire to grow our economy. In that context, we present for the committee's consideration a scorecard—that's the document on your left. You also have it in your kits. I think the big message from this scorecard is that small businesses need to feel that the government is indeed on their side. They are the job creators in the economy. They provide opportunity and hope for Ontarians. There have been quite a few things that have happened here in Ontario vis-à-vis promises that this government made to our members on a pre-election basis that haven't been fulfilled. In one case, the property tax promise on Bill 140 was actually broken. So there have been some challenges.

On the positive side, our members appreciate the increase to the small business corporate income tax threshold. It's not on here, just because of the room, but we also acknowledge that the government maintained the first $400,000 exemption on the employer health tax, which is a vital measure for small and medium-sized business to be able to establish and grow. I mention that given the testimony you heard earlier today to the contrary. Coming from small business, this is a very important item and must be maintained.

Looking at the scorecard, things are unbalanced, but it is definitely not too late. Certainly here in Ontario, about half of small businesses have expectations in 2005 for stronger performance. That's positive. For their hiring plans, 30% of them expect to increase full-time employment and only 7% expect to decrease, so there should be some job growth. But we think there's potential in our sector that is being dampened because they're just uncertain, and uncertainty does not breed confidence to invest.

On the factors affecting business performance, the biggest challenges, as you'll see from the chart, include energy, and of course squarely in that category is electricity. As well, insurance premiums—a lot has been said and done around auto insurance, but what we're talking about here is the business insurance coverage, which is a big problem for our members. Each year in the context of this committee, CFIB does attempt to table some weighty documentation from our members, and we have done so today. This is sort of part of a bigger piece that we will table with the government, but there are issue pages dealing with both electricity and insurance in here.

At this point, I'd like to turn to our priorities for 2005. Our members tell us continually that total tax burden is a big issue for them. It's very hard to get a small business off the ground when you're facing profit-insensitive taxes in those early months and years before you make a profit. Government regulation and paper burden has jumped up to second place from previously being third or fourth, depending on our survey. Regulation and paper burden is now a recorded concern for a greater number of businesses in Ontario than it was in the past. This is in the face of the Premier committing to our members to actually reduce the regulatory load.

The other issues are there. These are things that we continue to work on because they are key barriers to small business. The more that can be solved in all of these areas, the better it is for them.

I'll turn now to my colleague, Satinder Chera, who will take it from here.

Mr. Satinder Chera: Thank you, Judith. For purposes of time, I'm going to direct the members' attention to about the 12th slide into the presentation, entitled Property Taxes Payable on Properties Worth $200,000 in Toronto, 2004. My colleague, Judith Andrew, mentioned the fact that the promise by the Premier to our members around the Bill 140 hard cap was unfortunately broken last year. At the time, we made the case that, if you look at the property tax burden, small firms are the most ill-treated in this province. This is just one example. The city of Toronto, actually, is probably one of the worst culprits and, as a result of the suspension of the Bill 140 hard cap, they've actually increased taxes on small businesses again this year. So it's actually even worse than what's before you right now.

In last year's budget, there was a specific commitment to work with small firms to help address the property tax burden. I should say that so far we have seen very little evidence of any concrete measures or results coming out of that process, which is obviously disheartening for our members.

The next slide is Property Tax—Next Steps. We surveyed our members on a number of different options that could be pursued in order to address the property tax burden, and one of the measures that we've been following for a number of years now—and 82% of our members are in support of it—is instituting a small business threshold, where the first X-thousand dollars of business property would be taxed at the lower residential rate. We think this is doable. We've been in discussion with a number of folks in government, as well as with the Ministry of Finance, and this holds out the most promise. And our recommendation, on the next slide, would be to pursue the graduated property tax rate to make up for the Bill 140 hard cap, and also to help rebalance the property tax load.

The next slide, Runaway Business Insurance Premiums...: My colleague mentioned that this is a continuing issue. Including the next slide, which talks about written notification, I would simply say this to you: If you were in a position where your insurance company called you the night before and said to you that your insurance policy is expiring tomorrow and, "Oh, by the way, we're not going to cover you any more," how would you feel? In what kind of predicament would you find yourself and how would you address that? We've had thousands upon thousands of members call in with those types of horror stories. There are some members who don't even have insurance today because of the lack of coverage.

1100

The Premier had committed to doing a review of insurance premiums and the lack of coverage. We met with Minister Sorbara in late summer and we are hopeful that there will be some concrete measures in the upcoming months that will specifically follow through on the Premier's commitment to the review of insurance.

The Chair: You have about a minute left.

Mr. Chera: I have a minute? I'm going to go quickly.

The last issue I wanted to direct your attention to was that regulations hit SME hardest in Ontario versus OACD countries. Our analysis indicates that, again, if you look at Ontario versus the OACD world, Ontario's small businesses share a far greater percentage of costs when it comes to regulatory compliance than their colleagues or counterparts in other jurisdictions. I should say that this year, while some progress has been made on the announcement about corporate tax harmonization, as well as the workplace gateway portal by the Ministry of Labour, we've also seen a dramatic increase in the amount of regulations. In particular, the worst culprit has been the Ministry of Labour. Unnecessary regulatory reforms are being brought forward, whether around labour relations or hours of work. In each and every case, we have made the case to the government that there is no good reason for those changes to be made. I should say that in each of those instances, our calls have been ignored, and our members—Judith mentioned that regulations are now second. I think that speaks volumes about the concerns they have. Thank you.

The Chair: Thank you for your presentation. The questioning will go to the NDP.

Mr. Prue: In the 10 minutes you have been speaking, I've been trying to listen to you and to leaf through this document. I don't see anywhere in the document that you are asking for anything other than that your taxes be lowered. There's no government programs you would like to see, no improvements to health care, nothing for education; nothing for anybody else, just that your taxes be lowered. That's what I'm seeing here, in a nutshell. Is that your argument?

Ms. Andrew: We do a lot of work in other areas on education and health care, but we did not make presentations on those today, just because of the very limited time allowed. Also, our members tell us that total tax burden is their number one issue. We're asking the government to improve the property tax regime, which is primarily at the municipal level, although a big chunk of it is dealt with under the education portion. But those are our key recommendations.

Mr. Prue: In countries like the United States, where the property taxes are much lower, the municipalities have the option and get, in fact, money from state governments and federal governments and, in some cases, have the authority to tax from the income tax system. Property tax is very regressive. Is your organization stating that you would allow municipalities other forms, other than property tax, so they could have roads, sewers, water and everything else, or are you just saying you don't want to pay property taxes?

Ms. Andrew: What we're saying is that the property tax system is dreadfully unbalanced. It works against businesses getting started, it works against a small business graduating from a basement or a garage into a business premise, where they start to hire people and provide that gusher of extra taxes that comes into the government. We have made extensive recommendations around the municipal new deal. You'll find a document in the written material on the new deal.

But let me conclude by saying that our members, because they've been so ill-treated on the property tax front, are very concerned about giving municipalities additional taxing powers. They do support the notion of investing in infrastructure that supports economic development, but there has to be a fine balance in how this is done. We've set out some principles for that. We've done an extensive study across the country going back to first principles on what should be contained in a municipal new deal, but clearly coming out of that there's no desire to see municipalities have extra taxing powers.

Mr. Prue: You have taken quite a strong position against public employees in general, in terms of their wages and total compensation package. We had the president of OPSEU here asking that they be treated fairly. Do you have any instances where you think that the government or past governments have been overly generous to them, other than what they're paid? In terms of unionized workers, I think they're probably pretty much middle range.

Ms. Andrew: I think in your kits, there's a document entitled Wage Watch. The slide in your PowerPoint is a very small excerpt from that major study. It's quite an academic thing we do. We use census data for hundreds of occupations, thousands of incumbents in those occupations, and compare matched occupations in the public and private sector. When you take the same job in the two sectors, you find considerable advantages in the public sector for the incumbents there. This is statistically valid. It has been peer reviewed by labour economists like Morley Gunderson and so forth. We put it forward as evidence that Ontario's public servants are more than well paid, and as a consideration for everyone going into the bargaining scenario.

The Chair: Thank you for your presentation.

Mr. O'Toole: Mr. Chair, I have a motion.

The Chair: Mr. O'Toole.

Mr. O'Toole: I move that the Ministry of Finance respond to their election promise of upholding the hard cap on small business and work with small business to fix the property tax situation. This shifting of tax burden is a detriment to small business.

The Chair: That will be discussed at report-writing time.

Thank you for your presentation.

ONTARIO HOSPITAL ASSOCIATION

The Chair: I call on the Ontario Hospital Association to come forward, please. Good morning. You have 10 minutes for your presentation. There may be up to five minutes of questioning following that. I would ask you to identify yourself for the purposes of our recording Hansard. You may begin.

Ms. Sheila Jarvis: My name is Sheila Jarvis. I'm chair of the board of directors of the Ontario Hospital Association and president and CEO of Bloorview MacMillan Children's Centre here in Toronto. Joining me today are Hilary Short, next to me, president and CEO of the Ontario Hospital Association, and next to Hilary is Steve Orsini, vice-president, policy and public affairs at the Ontario Hospital Association.

We are here today to update this committee on the state of Ontario's hospitals and to offer our recommendations to you for the 2005 Ontario budget.

Constructing a sustainable health care system is one of Ontario's most urgent public policy challenges. Ontario's hospitals support the principles that underpin this government's health transformation agenda. Health transformation could ease pressure on our hospitals across the province, improve access to patient care, particularly the wait-times strategy, and enhance public confidence in our health care system. That said, transformation takes time and investment. Our patients expect to receive high-quality care every day, in every hospital, in every part of Ontario. Providing high-quality care is expensive.

Ontario hospitals' base operating costs increase by 6% to 8% every year, much more quickly than GDP growth or the standard measurement of inflation, the consumer price index. These unavoidable increases in base operating costs are caused by factors beyond the control of individual hospitals and include serving a population who cannot access alternative community-based health services, the cost of new drugs and medical technology, and of course staff compensation. Such yearly increases are not unique to Ontario's hospital sector and are not evidence of waste and inefficiency. By any measure, Ontario's hospitals are the most efficient in Canada.

Although the cost of operating Ontario's hospitals rose by approximately 7.9% this year, the hospital sector received only a 4.3% increase in funding. Because much of this 4.3% increase was for new initiatives—some of it for one-time initiatives—individual Ontario hospitals received an average operating funding increase this year of 1.8%. Many hospitals received only 1%. In the coming fiscal year, this average operating funding increase is expected to shrink to 1.5%.

1110

Hospitals are aware of the financial challenges facing the province of Ontario. We have worked for years—and certainly indeed months, recently—to identify significant additional savings in non-core patient service areas as we move to balance our budgets by the end of 2005-06. Hospitals have made some very difficult decisions, as we heard yesterday, decisions that will result in approximately 2,000 staff layoffs. These layoffs will include support personnel, clinical staff and some nursing positions.

I must stress that even with the new, one-time funding that was announced by our minister yesterday, and even after making these cuts, hospitals will begin the new fiscal year with a $440-million shortfall. Without a significantly revised multi-year funding plan, the shortfall will grow to $760 million by the end of 2005-06. This will leave hospitals with no choice but to cut core patient services, and we estimate up to 8,700 additional jobs next year, in order to balance hospital budgets.

The balanced budget process undertaken this year has been a shared learning experience. It has led to clearer understanding of the issues faced by hospitals and by our government. We hope that yesterday's announcement by Minister Smitherman signals a renewed willingness to work with hospitals to resolve our very serious funding challenges.

The following are the OHA's main recommendations for the 2005 Ontario budget.

First, because system transformation takes time, we recommend that the government provide hospitals with transitional funding to accommodate the needs of their patients until additional community-based alternatives to hospital care are in place. Without transitional funding, some communities may lose critical patient care services now offered only in their local hospitals.

Second, we recommend that the government revisit its current multi-year hospital funding plan. The existing three-year plan does not sufficiently account for the actual costs of providing hospital care and does not provide the stable fiscal environment necessary to hire and retain nurses and other health care professionals.

Thirdly, we recommend that academic health sciences centres and some of our high-growth hospitals be appropriately funded so that they can continue playing their key role in our communities.

Finally, we recommend that the government quickly flow promised funding for already-approved hospital capital projects and work with hospitals to quickly address the issue of the accumulated debt.

These recommendations are explained in greater detail in our written submission to you today.

We are confident that with time, commitment and appropriate funding, Ontarians can continue to expect the high-quality care that they deserve. Ontario's hospitals look forward to playing a key role in helping to build that system.

Thank you. We will now entertain your questions.

The Chair: Thank you. The questioning in this round will go to the government.

Mr. Colle: Thank you very much for the presentation. Earlier, we had a presentation that talked about the horrific state of our hospitals and emergency rooms. I should note, from personal experience, I had a visit forced upon me to Sunnybrook. I happened to be jogging on Yonge Street. I fell, hit my head and my ribs. Anyway, I was treated very well. I saw a doctor within two hours and went home. So there are some great hospitals, like Sunnybrook, all over this province. They're doing a fantastic job. On behalf of the whole committee, we want to thank all the hospital administrators, the volunteers, the doctors and nurses, the people who clean the hospitals, the orderlies, the mechanical staff. They're doing a fantastic job, I think, overall.

As members of this committee, sometimes we say that perhaps we should rename this committee the standing committee on financing the Ministry of Health. We see deputation after deputation—whether it be doctors, representatives, health practitioners, hospitals—saying that it's not enough money; huge demands for more funding.

As you know, through the Ministry of Finance, last year we approved $600 million for diverting people from hospitals into the community—long-term beds into community health centres, into community care—because we were told by the Ministry of Health that this would relieve pressures on the hospitals.

This year again, we saw the upfront $385-million amount we gave to hospitals to deal with that one-year deficit for 2003-04, another $107 million for reducing wait times, $60 million for capital—in all, about $469 million. We're up to $31 billion in health care. What's the problem?

We've heard the objections to the health premium etc. Is there a delay here? Why isn't that investment being seen in the hospitals being able to grapple with their challenges? Where's the obstacle here? What's happening with the money? Is it just not enough money, or is it just not going to the right places?

Ms. Jarvis: This year, there are probably two or three reasons for the fact that it isn't looking quite the way you might have anticipated.

First of all, when you look at funding overall for health care in Ontario as a percentage of our GDP, it's still not at the level of spending that we saw in the early 1990s. So just to put it into a much bigger context, that's a point that we would want to make.

Certainly, as we said in our presentation, we support the government's initiatives to provide more home care and more long-term-care services and community-based services, but most of those services aren't in place yet. So there hasn't been an opportunity for hospitals to devolve what services they might be able to devolve into the community at this point in time.

The increased costs that hospitals are experiencing in Ontario are not unique to Ontario. Those increases are characteristic of hospitals across this country and, indeed, in other countries. As I said, they're largely driven by factors that hospitals can't control, like drug costs and the costs of new medical technology and, of course, our labour costs.

Mr. Colle: Yesterday, we had the research-based pharmaceuticals. They were emphatic in saying that the investment they've made in new drugs has reduced costs in hospitals, has saved hospital time. They state just the direct opposite.

Ms. Jarvis: Certainly for some drugs, that would be quite true, but in the case of most of the drugs that we use for a lot of our clients and families and patients in our hospitals, the costs are increasing at a significant rate. Those are one of the key drivers of increased cost, particularly in our teaching hospitals, where our most complex patients in the province find themselves. Those costs are significant drivers of our need for more resources.

The Chair: Thank you for your presentation this morning.

Mr. O'Toole: Mr. Chair, a motion.

The Chair: A motion from Mr. O'Toole.

Mr. O'Toole: Yes, thank you, Chair. I move that the Premier, the Minister of Finance and the Minister of Health review the funding of hospitals. Our standing committee on finance and economic affairs, in our pre-budget consultations across the province, has heard from hospitals. They have called for multi-year funding, as promised by the government. Hospitals told us that a mandatory balanced budget process will mean 1,000 or more cuts to staff in our hospitals. The recent $200-million infusion of one-time funding is not a stable solution.

We request that: (1) the government set up an all-party committee to review hospitals' operating and capital budgets and examine options for the future; and (2) the government and the Ministry of Health introduce their plan for stable, multi-year funding of hospitals for a full, non-partisan debate and free vote in the Legislature.

The Chair: Thank you. That will be discussed at report-writing time.

Thank you for your presentation.

1120

CORE FEATURE ANIMATION

The Chair: I would ask persons in the room to turn off any electronic devices that they might have, and I would call on CORE animation to come forward, please.

Good morning. You have 10 minutes for your presentation, and there may be up to five minutes of questioning following that. I would ask you to identify yourself for the purposes of our recording Hansard.

Mr. Ron Estey: Thank you very much. My name is Ron Estey. I'm managing director of CORE Feature Animation, an animation studio located in Toronto. I am not going to repeat verbatim what's in the submission, but I will hit on what we consider the high points of that presentation.

I'm here to talk about computer animation and about establishing and maintaining the province's pre-eminent position as computer animation producers in the world. Specifically, I'm here to talk about the Ontario computer animation and special effects tax credit, affectionately known in our section of the industry as OCASE. In the last seven years since OCASE was instituted as an incentive to animation studios in the province, it has been a spectacular success. It has helped to create a 250% increase in project dollars, and it has helped increase employment income by almost 400% in that period of time.

However, seven years in any computer technology is a long time; in the computer animation industry, it is a generation, if not two or three. What is propelling the industry right now are the large-scale projects. Many of you have enjoyed them: Finding Nemo, Toy Story, Monsters Inc., The Incredibles. Hollywood studios and other producers around the world are aggressively initiating these new projects. The reason is compelling, and it shows at the box office: Shrek 2 has made US$912 million in box office receipts worldwide; Finding Nemo, $865 million. The Incredibles has been in theatres for about two and a half months, and it has garnered US$550 million in two and a half months. These are huge projects with huge potential.

We are asking at this time, on behalf of a number of the animation companies in Ontario, to modify slightly the OCASE regulations to react to these new realities. We're asking for two refinements to the regulations: (1) the elimination of the prior year residency requirement for labour qualification; and (2) the cap that labour must not be more than 48% of total production costs.

Let me give you a little bit of background about the computer animation industry in Ontario. The pre-eminent computer animation school in the world, known as the Harvard of computer animation schools, Sheridan

College in Oakville. Sheridan College graduates have worked on some of the most iconic films that we now know: Jurassic Park, The Mask, the Terminator, movies as well as Toy Story and virtually all of the other large feature films that include computer animation and special effects.

However, prior to 1994, if you were a young computer animator coming out of Sheridan College, you had to go to California to work. In 1994, four artists, my partners in the venture I'm involved in, decided that they could do better, that they could bring the work here rather than send the animators there. Now, 10 years later, those four animators have transformed themselves into a company that has 360 employees in two studios in Toronto doing computer animation and special effects. They are currently producing a major feature film like Finding Nemo for the Disney corporation and have built a studio that houses those 360 employees in Toronto. Not only does my company have a studio of that size, but there is another production studio in Toronto called DKP Effects, which also has 360 computer animators working for it. These are large projects, generating large employment for Canadian computer animators in Toronto and Ontario.

The combined budget for the projects these two studios are working on right now—there are just two studios in Toronto—is in excess of US$150 million. They're large projects. They last two or three years. They have long-term, high-skill requirements. They require substantial investment in facilities and computer technology, so much so that there aren't enough computer animators in the province or who have ever graduated from Sheridan College to fully staff these projects. So we need to reinforce that labour force with a large body of primarily itinerant specialists who basically wander the globe in search of projects they can work on. Certainly one of the initiatives that we feel is important is that this itinerant workforce that travels the globe bring their skills here and that our animators do not become part of that itinerant workforce but stay here.

That said, as you can expect, with the kind of background these projects have and the size of these projects, there are a number of pressures from low-wage jurisdictions such as China, the Philippines and Korea, which are also after the kinds of projects that I've just described.

Let met talk very briefly about the two refinements we're asking to have made to the regulations. Right now, the requirement is that an animator I hire is a resident of Ontario the year prior to when they do the work. Therefore, if I hire an animator in December, I will be able to claim that animator's wages the next year under the OCASE regulations. If I hire that employee on January 3, say, I cannot, because they have not fulfilled the prior-year residency requirement. We're asking that that residency requirement be dropped and that harmonization with the other federal tax credits and with the Quebec tax credits be made, in which the residency is required at the time the work is done, not in the prior period.

The other refinement we're asking for is the removal of the 48% wage cap. Certainly the wage cap does not come into play on small projects, but in multi-year, large-scale projects it does. In the first year of a project, when a project is ramping up with new equipment, new facilities, new software, the proportion of labour to the overall proportion of costs is generally less than the 48%. In the later years, however, all of the hard investment has been done and what is left is strictly wages, and our experience is that the wages will trend up to 55% or 60% in the subsequent two years. To eliminate this cap or at least apply the cap to the full project rather than on a somewhat artificial perspective in terms of the project, the year-by-year basis, would be preferable.

That's really all I have to say, except, in conclusion, we have the best animators in the world—it's acknowledged. Through the projects that we have been able to put in place in Ontario over the last two years, we have been able to repatriate about 30 animators who have gone to California. We're now starting to find that the ability to bring full-scale, large projects to Toronto, to Ontario, is certainly within our grasp, and these refinements will certainly continue the philosophy of OCASE to support and build the computer animation industry.

1130

The Chair: Thank you for your presentation. The questioning in this round will go to the official opposition.

Mr. Toby Barrett (Haldimand–Norfolk–Brant): As I'm wading through your brief, I find some of the tax and labour issues a little complex. You talk about, certainly, the growth in jobs and computer animation, and I'm pleased you attribute much of that to the Sheridan animation program. Twenty-five years ago or so, my sister graduated in animation.

You also attribute it to the 1997 Ontario government direction that created what I think you affectionately refer to it as OCASE, the Ontario computer animation and special effects refundable tax credit. Again, I understand much of that was to create domestic employment. I think of California and Australia—

Mr. Estey: We want to bring our boys and women back from the front, and certainly we've done that with some success.

Mr. Barrett: Bringing them back—now, is there a distinction between whether they're a Canadian citizen or a US citizen for tax purposes?

Mr. Estey: Not at all. The factor is their residency at the time, and residency under the tax act is based on an individual situation of where they are located in terms of their prime location of interest.

Mr. Barrett: OK. So as you indicated, OCASE worked. You talk about budgets growing by 250% and gross wages in the province of Ontario increasing by 400%, but you're suggesting that it could be working better in the future?

Mr. Estey: Yes, sir. Certainly, the landscape is changing. When you have a feature film that costs $90 million, as Shrek did, and brings in $900 million, there's a lot of attention applied to that. We have been able in Ontario to bring in two of these major feature films in production right now. It would be unfortunate if it was a blip on the radar and we saw that these jobs or these projects were not sustainable strictly because other jurisdictions were more aggressive in terms of their application of tax credits and/or that it was strictly based on low-cost labour, as we would get in jurisdictions such as China and the Philippines.

Mr. Barrett: So we have a problem here with the wage cap of 48%? Could you explain that again, this OCASE cap?

Mr. Estey: Right. The cap applies year by year, and so in a multi-year project, a large-scale project, which by definition has to be multi-year, the cap artificially impacts the years where, ironically, the wage costs are the highest. So when you are actually generating the most income for your employees, as well as the most tax for the province and the most spinoff for the community in general, that is the time when the cap tends to diminish the effect of the OCASE legislation.

Mr. Barrett: OK, and if I have a minute—

The Chair: Quickly.

Mr. Barrett: So you're asking for two changes to the existing OCASE regulations. How would that benefit Ontario's animation industry? How would it benefit Ontario taxpayers in general?

Mr. Estey: Certainly, the ultimate impact here, we feel, is to preserve the Canadian jobs in Ontario. Whether the employment goes to Ontario or goes to another jurisdiction with a more aggressive tax incentive program is really the issue. Producers are very sensitive to the tax credit situation in all jurisdictions. We can certainly stand on our own, but we just ask not to be put at a disadvantage compared to other jurisdictions.

The Chair: Thank you for the presentation.

ONTARIO ASSOCIATION OF NON-PROFIT HOMES AND SERVICES FOR SENIORS

The Chair: Would the Ontario Association of Non-Profit Homes and Services for Seniors please come forward.

Mr Greg Fougere: It's a pleasure to be here today and we welcome this opportunity. I see our colleagues, the Ontario Hospital Association, have cleared the room for us, but I want to assure you that there is great attention needed in long-term care also.

The Chair: I would ask you to identify yourself for the purposes of Hansard, and remind you that you have 10 minutes for your presentation and five minutes for questioning.

Mr. Fougere: Absolutely. My name is Greg Fougere, and I chair the Ontario Association of Non-Profit Homes and Services for Seniors. My colleague, Donna Rubin, is the CEO of the association. We represent the not-for-profit sector in long-term care. Our members represent approximately 26,000 residents who are cared for in facilities in Ontario, as well as more than 5,000 senior housing units.

Funding in long-term care is something that perhaps is not high-profile, and it's certainly very complex. We were very pleased to see that MPP Monique Smith, in a report, Commitment to Care, has identified a need to fix this. But I'm not going to spend my time here talking about the funding system and the fix; certainly we're presenting on that. What I want to talk about is the people we care for and why immediate funding of $367 million is required in this sector. This is required now in the full amount.

This funding is a shortfall that's been identified not only by the association but also by this government. The government's own assessment was that $6,000 per resident per year was needed, which amounts to $450 million, based on 75,000 residents in long-term care. This year, the government flowed $110 million, and that certainly has made an impact. But the funding remains well below our identified need for our residents, as well as the government's identified need. Indeed, over the past three years, long-term care has finally started to see some attention in terms of funding requirements for the care we provide.

There has been a lot done in the past year with the revolution in long-term care, and we can see that this government is moving on many fronts to improve care and services for seniors. However, the need now is to go the full way, and $367 million is required. That's our major ask, in terms of the 2005 provincial budget. We recognize the $110 million that has been put into the system this year, but one of the issues, one of the things that our members talk about, is that inflation is hardly being dealt with. To make a real impact, we have to flow the full $367 million now, and not over the four-year mandate of this government.

As well, we need to deal with inequities in funding. The reality is that although this government did partly deal with inequities between funds that are flowing to the not-for-profit long-term-care facility versus the for-profit facility, that balance has not yet been achieved, and that needs to be dealt with further this year.

What I want to do is talk about the people we care for, so that you understand why this money is needed. We care for people who on average are 86 years old. The majority are women. We've provided statistics in your package. Most of the people we care for, about 65%, have dementia. Most need total assistance when they get up in the morning for bathing, dressing and eating. On average, you have one registered nurse caring for 60 of these residents and one personal support worker caring for about 10 residents. Just imagine if that was you or your mother or your father. When you've provided one-on-one care and you're entrusting the health care system and long-term-care facilities to care for your relative, think of how you would do that, where 10 people need almost entire care and are dependent and you've got one person caring for them. It's a feat that's very difficult to achieve.

1140

Again, I emphasize that the funding is needed now. One of the issues that our members have told us is that even though the government has put in $110 million this year, and indeed our members are hiring staff—it was a requirement of the funding that they hire staff—they are not dealing with inflationary pressures. In collective agreement settlements in Ontario alone, 3.2% to 3.6% was the range of settlements. Eighty-five per cent of the cost of providing care in facilities is staff. We're a caring business; we're not a high-tech business. So this has a significant impact and hasn't been dealt with, but this is included in our ask of $367 million.

We're calling on government to honour the remaining part of the commitment of $6,000 per resident. The government has already stated that they will invest another $20 million as of April 1. So the $367-million ask is $20 million further but $347 million short.

In the end, it's a question of valuing our seniors. I encourage all members to visit your local long-term-care facility and really feel and see what I'm talking about. This is not a money grab; this is simply bringing care up to the basic standard. Indeed, a study in 2001 showed that Ontario was 10th compared to other jurisdictions in Europe and the States and other jurisdictions in Canada. We're on the road to improving, but we're far from improving. Without the money, we cannot achieve the revolution that the government has set as an objective.

Also, I would like the committee to know that we fully support the investment in community services. Supportive housing is critical, in terms of investment by this government in this budget, as well as investment in community services. This past year, $29 million was provided to community services, which is a 3.5% increase to the base funding. There were no new dollars for supportive housing.

In summary, our recommendations are:

Increase the operating funding for long-term-care homes by $367 million or $13.42 per resident per day in 2005-06—there can't be a delay in this—in order to provide appropriate and proper care in Ontario;

Adequately fund the continuum of long-term care, including community services and supportive housing, allowing seniors to get service in the right place at the right time;

Fully rectify the funding imbalance between for-profit nursing homes and not-for-profit homes for the aged and municipal homes; and

Extend funding to offer services in the community.

Thank you for your time. We'd certainly welcome questions.

The Chair: The questioning in this round will go to the NDP.

Mr. Prue: Thank you very much. A very good document and, I think, a point well taken.

I know this is the budget committee, but getting away from the economics of it all for a second, people in the homes for the aged and people in nursing homes today are much older and much sicker than they were 20 years ago—I think that's a truism. I know that in my own family, my mother-in-law, who died this past summer, was in a nursing home for a number of years. She had all of the things you describe: She had the on stages of dementia, she had a weak heart, she needed nursing care. The services that were provided, I think, were the best they could. But in that particular home, they were feeding them on about $3.50 or $4 a day. Can you describe how it would impact the frail elderly, being required to eat food that perhaps is not up to nutritional standards at that price?

Mr. Fougere: In fact, in the last 10 years, the level of acuity of residents in long-term care has increased 20%, so you're right on in terms of your first-hand knowledge. I assume many people around the table have first-hand knowledge, being family members or neighbours of those in long-term care.

The amount of money for food has increased, but it's still far from what is required. It's now $5.24, and in this paper—you'll see the details; I didn't go into detail—we are asking for $6. Just imagine feeding yourself three meals a day and all your snacks on just over $5 a day; it's impossible. In fact, our homes end up having to steal from Peter to pay Paul; they cannot provide appropriate nutrition on $5.24 a day. We have many that are taking from other services that residents need in order to do that.

I can assure you that our residents in long-term care are getting appropriate food, but not at $5.24. It could be at $7.50 or $8, but that means they have to cut other services, already where the services are below many other jurisdictions. So we're not compromising on the food, but we are taking from other services that residents need in order to provide appropriate food.

Mr. Prue: I do note that in some of these care facilities the number of volunteers is absolutely essential; in fact, volunteers are used in the place of staff. They are often well intended but they don't have the training. Can you elaborate a little bit on that? It seems to me that that's where some of the money is being saved, but often to the detriment of the people who live there.

Mr. Fougere: Our sector highly depends on volunteers. I'm also the executive director of a 450-bed long-term-care facility in Ottawa, the Perley and Rideau Veterans' Health Centre, and we have 400 volunteers. This is exactly what is occurring right across the sector. I would not say, though, that that is actually where money is being saved. Those volunteers are providing supplemental time—tender, loving care—and really the time with people that our health care workers cannot.

But the bottom line is that $367 million is required for basic care, not the care volunteers are doing. I'm talking about providing good care in terms of getting someone up in the morning, bathing them, changing them, toileting them and feeding them. Volunteers help in those areas, but certainly those are the areas that staff are responsible for and have the skills to do. We depend very much on our volunteers, but all the volunteers in the world will not provide the basic care we need with the $367 million.

Mr. Prue: I think you've hit it in the last paragraph on page 12 and on the top of page 13: $191 million was promised but $75 million of the amount was in fact to move people out of hospital, so the actual money that was given last year was about $110 million, which was not sufficient. How much extra do you require in this budget to get the level of food and the level of care we expect for our frail elderly? I sort of need a hard amount so I can stare those guys across there in the eye and tell them that's what we need to do.

Mr. Fougere: The very last page, page 25, summarizes that in a chart for you.

Mr. Prue: Thank you. I didn't get that far.

Mr. Fougere: That's fine; you just received the paper.

The total is $13.42, the last column, and you can see the increase in food: 76 cents per resident per day. We're talking about big numbers—$367 million—but when you're talking about feeding and caring for 75,000 people, this is a small investment for valuing our seniors. The details are provided in that table.

The Chair: Thank you for your presentation this morning.

ONTARIO HOMES FOR SPECIAL NEEDS ASSOCIATION

The Chair: I call on the Ontario Homes for Special Needs Association. Good morning. You have 10 minutes for your presentation. There may be up to five minutes for questioning. I would ask you to identify yourself for the purposes of Hansard.

Ms. Sheri Levy-Abraham: I'm Sheri Levy-Abraham, treasurer of the Ontario Homes for Special Needs Association. I'd like to thank the standing committee for the opportunity to speak with you today.

We represent residential care facilities where our clients are subsidized to reside with us so that we may provide the accommodation, care and meals they require. Our member facilities receive funding under two different ministries, yet provide services to the same clientele: the Ministry of Health and Long-Term Care, through the homes for special care program, Habitat and approved homes; and the Ministry of Community and Social Services, through the domiciliary hostel program. For the domiciliary hostel program, the costs are shared, with 80% being covered by the Ministry of Community and Social Services and 20% by the municipality or region. We represent approximately 500 facilities caring for over 6,000 individuals, with a current maximum per diem of $41.20. This includes the client's contribution as well as the funding top-up.

1150

Who are our residents? Our residents include young adults and the frail elderly, suffering with mental illnesses, acquired or organic brain injury and cognitive impairments. We continue to be a cost-effective solution for providing necessary housing and care to these individuals, plus many who are homeless or at risk of being homeless and who in many instances have chronic and severe issues.

When clients reside at our facilities, the readmission rate to hospital is greatly reduced. In most cases they do not return to the streets or to the court system where repeat offenders who suffer with mental illnesses clog the dockets.

We are a vital part of the continuum of services for mental health. Ontarians benefit from our services in both measurable and immeasurable ways. The services we provide through our facilities are comfortable accommodations; three meals a day and snacks; recreational and life skills programs; networking in our communities, so our residents may avail themselves of other day or work programs; housekeeping and laundry; arranging doctor appointments; assistance with activities of daily living; medication administration; case management and counselling; budgeting assistance; and family liaison. The above do not comprise all the individualized services that we may provide to enhance our residents' quality of life.

What are our challenges? The per diem of $41.20 is obviously too low to allow us to continue to maintain the quality of services and act in the due-diligence manner that is required of us and still remain a viable business. We must compete for staff—registered nurses, personal support workers and social workers—against the wages of hospitals and long-term-care facilities. We are less able to respond to the accelerated financial changes in insurance, energy, property taxes, food costs and much more. Other costs incurred to ensure that we meet the changes in the fire code, privacy laws, the Tenant Protection Act, and labour and health and safety acts become increasingly difficult for us to support.

We are governed by two ministries with different standards and parameters. As well, the discretionary nature of the domiciliary hostel program has extreme challenges. Many homes have been unable to obtain fair financing, be that mortgage refinancing or operating loans. Domiciliary hostels must cater to municipal or regional standards, which vary across the province, and these municipalities and regions may decline to participate in the program or may decide not to allow the maximum per diem of $41.20.

What are our recommendations? Governments need to recognize the essential services that we provide, and protect our clients. The per diem must be increased to $51 a day so that we can continue to operate. A day at the hospital for our clients costs over $650; nursing homes, $120; and our jails, $140. Make the funding of these programs a line item in the ministry's annual estimates. We need to ensure that uniform standards and guidelines are developed. The scattered programs should be under one ministry. We would also recommend that governments consult with OHSNA in the development of such standards.

I'd like to talk on behalf of the residence that I operate. Many of the people we have at Bethany have been homeless. We have taken individuals directly from the street and provided care and services to them, and they have remained with us for eight to 10 years. For some people—I don't want to talk specifically of individuals—their family thought they were dead for 10 years and we've been able to put them together with their family. We also have individuals who for 25 years have lived on the streets and are with us and have remained with us.

I think that as a society, we are all concerned with homelessness and with the issues of mental health, yet you have cost-effective programs that have been around for about 30 years that are getting ignored. What is happening is, as taxpayers, when governments implement good homelessness initiatives, when they have good programs out there, can we trust them to maintain them and maintain the integrity of them being able to provide the services? We are a clear example of this not happening. I think one of the reasons is because we are small in terms of your total overall budget and it's too easy to lose sight of us. That's all I have to say.

The Chair: This round will go to the government.

Mr. Wilkinson: Thank you for coming in. We really appreciate it. It's a great comment you made at the end, because it's a $75-billion government and it seems that the smaller something is, the harder it is to deal with. The government is so focused on the big picture—and they have to be. We're the only people who actually do that.

I believe one of your members is in my riding, the Crest Centre, just outside of Lucan. I visited them just a few weeks ago. This idea about the dual ministries—they had a problem about wage disparity between the two groups, and that seems to have been settled over time, which I was glad to hear. Can you make a more specific recommendation about which ministry? This place runs by ministries—who's accountable for the money?—and that's fair.

Ms. Levy-Abraham: I think one of the major impediments to the two programs coming together is the fact that for the domiciliary hostel program, which I think is the larger of the programs, it is cost-shared with the municipalities and regions. They don't really want to give up on that cost-sharing ability. I would make the recommendation, however, that we come under health, because we are dealing with health issues and with the continuum of mental health services. So very often what happens is that the domiciliary hostels get totally lost in the shuffle. When you did the task force report on mental illnesses, it was very difficult to speak. You have to push yourself in there, although you really are part of that continuum. To me, the recommendation would be that it come under health.

Mr. Wilkinson: So make it under health, make them responsible for it, and make the other ministries report to them so that from your point, where you're providing the service, it's seamless. Instead of having to deal with two different ministries and the cost-sharing municipality, you just deal with one ministry. That would make your life a lot better, I'm assuming, just from an administrative point of view.

Ms. Levy-Abraham: Yes. I think the municipalities would prefer that as well.

Mr. Wilkinson: Right, because it would be easier for them.

Ms. Levy-Abraham: Yes.

Mr. Wilkinson: I just want to get back to your case about the costs and the need for an increase. We get this all the time: For the lack of a nail, the kingdom is lost. You're actually providing a valued service that is keeping people out of the more expensive parts of the system.

Ms. Levy-Abraham: Absolutely.

Mr. Wilkinson: And it just seems that your voice, like so many cases, is not heard when we had, for example, the $11.5-billion hospital sector come today.

We see the cost side, but it would help if you could flesh out the benefit side. In other words, "An increase from $40 to $50 is specifically this amount of money, and this is what it's going to save you or this is what it is saving you in the system." Have you got any numbers on that?

Ms. Levy-Abraham: I can only talk from the facility that we operate. I do know that our recidivism rate to hospitals is less than 0.5%.

Mr. Wilkinson: Wow.

Ms. Levy-Abraham: So right there you have a huge savings in the fact that we are here and we can maintain services. We also run a facility that is full to capacity, has a waiting list and is looking to expand.

Mr. Wilkinson: So if you were under health, you'd be falling under the whole idea about the local health integration network.

Ms. Levy-Abraham: Absolutely.

Mr. Wilkinson: The idea about trying to get money invested upstream to reduce our costs downstream in the hospitals, where it's so expensive.

Ms. Levy-Abraham: Absolutely. Most of our referrals do come from hospitals, from CCACs, and they may come from supportive housing. So they come from those services within the Ministry of Health.

The Chair: Thank you for your presentation.

This committee is recessed until 1 o'clock this afternoon.

The committee recessed from 1159 to 1305.

DON DRUMMOND

JACK MINTZ

HUGH MACKENZIE

The Chair: The standing committee on finance and economic affairs will please come to order.

We have three gentlemen who will be presenting shortly. For the committee, it was determined that each party would invite someone of their choosing to present today. They would give a 10-minute presentation, and it was suggested that those three gentlemen—as it happens, they are all gentlemen—would discuss for 20 minutes amongst themselves what they have just presented. That, taking 20 minutes, would leave approximately 40, so we would divide the time between each party equally, roughly 13 minutes each for questioning in rotation.

Are we agreed on that? Agreed. Very good, then.

Our first presenter this afternoon will be Don Drummond. You have 10 minutes for your presentation. I would simply ask that you state your name for the purposes of our recording Hansard.

Mr. O'Toole: Just for clarification, I want to make sure that the first presenter is Don Drummond, the second one is Jack Mintz and the third one is Hugh Mackenzie, and then we go into the round table.

The Chair: I will be calling their names for those presentations, but you are right.

Mr. Don Drummond: I'm Don Drummond. I'm the chief economist, TD Bank Financial Group. Thanks very much. It's an honour to give a presentation, especially centred by these two gentlemen. I don't know if we'll find out later in the day that the guy on the left should be on the right and the guy on the right should be on the left, but that may come out. Anyhow, I'll start off from the middle. I'm going to talk briefly about the economic outlook, what that means for the fiscal outlook for Ontario, and then get into a couple of specific issues for the budget.

First, on the economic outlook, you'll see on page 4 of my handout that I just replicated the assumptions that were in the 2004 budget and then compared that on the second line to the current Toronto Dominion Bank forecast. The major element will be a softer 2005 than was expected at the time of the budget. If you will, blame that on the exchange rate—that's the major change to the Canadian economy since the budget was done last spring—and, of course, the major impact of the exchange rates on the manufacturing sector. That's heavily concentrated in Ontario, so relative to 3.2% growth, for the current year we're expecting 2.5%, and basically similar growth rates afterwards. So that level of output stays lower throughout the piece. You can see that's translating into somewhat lower nominal GDP growth, which is directly relevant for the revenues.

Offsetting that somewhat, with a weaker economy, lower inflation pressures, a view that the central bank determine interest rates at the short term—and the longer-term bond yields will be somewhat lower than at the time of the budget, so there's a bit of an offset there.

The basic setting for this is a reasonable but not terribly robust growth scenario for the United States and somewhat stronger growth this year in Canada than in Ontario. Again, that's largely the exchange rate phenomenon, with the exchange rate hitting Ontario somewhat harder than the rest of Canada. You can see that our assumption is that we will be in the current 85-cent range of the exchange rate this year, and similar ranges going forward. While everybody's talking about a strong Canadian dollar, our view is that we're around the level that one would think we would sustain over time. It's not particularly high; we've just gone from terribly under value to one that's probably in the ballpark, and we'll stay roughly in that current range.

So on the top of page 5, what does that mean? Just using the rules of thumb from the Ontario budget, that would suggest, with nominal GDP down about half a percentage point, it would be about a \$250-million hit on revenues, with a slight offset from lower debt charges, but more or less, looking at fiscal 2005-06 and forward, there will be a hit to that budget track, and also a hit to the revenue track that was produced in the fiscal update of about \$250 million.

So at the bottom, I just replicated the projections that were in the budget, and in the update, basically a track going from a deficit of \$6.2 billion last year to a balanced budget which, I argued at the time, was a reasonable track, although one would obviously like to see the budget be balanced sooner than that, but I thought that that itself was going to be quite a difficult task, and I certainly wasn't pressing to have it go faster than that. I'll tell you, I think there are a lot of pressures against that. Let's talk about those at the top of page 6.

I think the key feature of the budget and the one that concerns me is that it does involve program spending growth of only 1.9% a year. That may not seem all that draconian, but put that in context: Since 1997, program spending in Ontario has increased almost 6% a year, and the average of this year and last year is almost 9%. So it is very much of a different kind of era that will be required to hit those budget targets.

If you look at it in different terms, 1.9% might seem a little on the generous side, but that's basically just the rate of inflation. So if you look at the program spending track in real terms per capita, it would actually need to decline from now through 2007. I think that would feel different. It would be a very different operational level for the government to uphold this program spending from that 6% to 9% range into that.

On top of that, there were a number of pressures that were not identified in the budget that would have to be dealt with as well. One—a move I'm never in favour of—is booking savings before they're secured. There were substantial savings booked on so-called program efficiency targets that amounted to \$800 million by 2007 that were not identified, where those savings would come in the budget.

There are a number of elements as well which I suspect, although without having all the details in the budget, you can't be quite sure—we haven't got an OMA agreement yet, but I suspect that that has not fully been provisioned in the budget. I think some of the likely compensation increases are not there. Some of the election promises are not—the funding has not been set aside for reducing class size and whatnot.

Wearing my other hat, we will be coming to you shortly with the Bob Rae task force on post-secondary education with some recommendations, and while we're very cognizant of the fiscal situation, I think you're not expecting that those recommendations will be free. Again, no money has been set aside for that.

We're in the process of bids on Stelco. I suspect anybody who's bidding on that won't completely take care of the pension problem, and there's already a deficit in the pension benefits guarantee fund. So even with additional Canada health transfer money, I think that already, with the requirement to get that program spending down very tight, there's a number of pressures that are encompassed.

The solutions aren't that easy. People always recommend to you to do asset sales. I say if it makes sense, if it can run more efficiently, sure, put it into the private domain, but from a fiscal sense, it really shouldn't count. Really, all you're getting is just the net present value of the future dividend stream. That really should not be the "solution."

Certainly, if you look back to the corresponding period, the federal government—it's no secret that one of the keys for getting program spending was cutting the transfers to other partners, including the provinces, but, of course, on our consolidated accounts, if you cut the transfers to the schools and the hospitals and the school boards and whatnot, if that incurs a deficit on their part, that doesn't help your bottom line. It's difficult because, I would argue, you can't go back to the income tax well after having done it once.

Just briefly, on the top of page 7, then, in addition to these pure fiscal—we just released a report today emphasizing what little progress has been made in real per capita incomes of people in Ontario. In fact, it's not that dissimilar from the rest of Canada. That needs to be addressed through higher productivity and, I would argue, ultimately through tax cuts. So I'm not so unrealistic just to think that that's something that could be addressed in the next budget.

It was interesting when we had the meeting sponsored by the Ontario Chamber of Commerce recently, in September. When they listed the things that were of most concern to them, it wasn't just taxes and taxes and taxes that were there; border infrastructure and the processes were ranked up very high. Future supply and hence the price of electricity were very common. In fact, the number one concern was the shortage of apprenticeships available in the province. I'll show in a moment the heavy tax reliance on income and capital.

My point on the income is that, while we're used to seeing measures like real gross domestic product per capita or even per worker go up, if you look at what really matters to people, what personal disposable after-tax income is per worker, it actually hasn't gone up in Ontario since the late 1980s. In fact, since its peak in 1992, it has come down. So this is a bit of a reconciliation. When you speak to constituents, they might say, "It doesn't mean very much to read that gross domestic product has gone up because we don't feel any better off." If they are valuing their economic well-being from their disposable income, they're absolutely right; they aren't any better off.

I would argue—and again, I'll borrow two seconds here to make a pitch for what will be coming to you in early February on the post-secondary education side—there does need to be an additional allocation of resources there within the need for lower program spending. Ontario, as you know, ranks ninth in terms of its operating grants to post-secondary education per student. Just bringing that to the national average will be $1 billion a year. It's not just about money. We have a totally dysfunctional student financing system; it needs a major overhaul as well.

Interestingly enough, when I put together this presentation, all I knew was I was going to be one of a three-party panel; I didn't know who else was going to be here. So I'm going to skip over these next two charts really quickly because the author of them is sitting right next to me. I would just point out that the constant refrain of the Ontario government that our corporate tax system is competitive because our statutory rates look favourable compared to the US is a bit tiresome. It has been well documented, led by Jack, that if you look at the all-inclusive tax on capital, we're very high relative to the United States and to virtually every competitor we have. Of course, it's not just the statutory tax rates, it's Ontario's capital tax, the property taxes, the fact that the provincial sales tax hits capital inputs and a variety of other factors as well.

When you look at the bottom of page 9, on the personal income tax side, I've always argued we need to get the marginal personal income tax rates down. People always assume I'm talking about people who make over $100,000 a year. This will show those aren't the people who are being hit by the really high marginal tax rates. It's people in the $20,000 to $45,000 income range. In fact, while this chart shows people with very low marginal tax rates, in the zero to $15,000 tax range, it actually doesn't correctly encompass how welfare works and the loss of a whole host of in-kind benefits when you come off welfare. So those people actually face very high marginal tax rates as well.

To summarize, I agree with the balanced budget schedule. I think it's going to be very difficult to get there. Quite frankly, I'm puzzled about where we are. I don't think Ontario citizens have a sense of the difficulty in that fiscal plan and the need for the austerity that's going to come forward. In fact, the first signs we've seen in the public have been a couple of headlines just in the last couple of days about some cuts in the budgets to the hospitals. I think a different era will have to be put into place and Ontarians are going to have to buy into that, but before they can buy into that, they're going to have to be more aware of it. The easy solutions are basically out, and one of them that I think has to be out is going back on the income tax side. Thank you very much.

The Chair: Thank you. Now, for the committee's benefit, we'll hear from Mr. Mintz. You have 10 minutes.

Mr. Jack Mintz: Thank you very much. It's a pleasure to be back before this committee. I provided copies of my notes and, if you don't mind, I'm actually going to read them since I did spend time early this morning writing them. I thought it would help, given the time limit, to organize my thoughts in the best way. I'm going to have a very similar theme as my colleague to the right of me, Don Drummond.

Let me begin by saying that one cannot envy the position of Ontario's Minister of Finance at this time. To keep promises of balancing a budget by the end of the government's mandate, avoiding further increases in uncompetitive taxes and increasing spending on education, infrastructure and social services, never mind the endless demands of the health care system, makes budget-making an impossible task. With a rising Canadian dollar that especially hits the manufacturing sector in Ontario, his most important task is to change the expectations that people have of his government for new spending. He needs the support of his fellow ministers, as the upcoming budget will have to include some painful decisions.

Indeed, last year's budget forecasted an increase in expenditures of only 2% a year for the following three years—3.5% for health care—an impossible task when public expectations have been fanned that spending will be enhanced in several areas. Even in the case of health care—new spending supposedly to be funded by $1.6 billion in the new Ontario health premium and close to $1 billion in new federal funding for health—the public's expectation is to see significant new spending on health. Yet the headlines are different, as the Minister of Health is trying to contain costs and reform the system, much like the past nine years.

1320

With inflation and population growth at a combined annual rate of 3%, even the most conservative fiscal planners would not expect expenditures to be held below that amount. Add on the aging of Ontario's population and the cost of new medical technologies, and it is hard to see health care spending being capped at 3.5% per year. Further, with Ontario's nominal growth likely falling to 4.5% in the coming year, and I mean 2005—I should say I didn't see Don's numbers until I just heard them now, so, Don, I didn't run the macro model, but that was just my intuition—it is hard to see how spending increases beyond 2% can be accommodated without giving up on a fiscal plan to balance the budget by 2007.

So what can the minister do? One action is to give up on the promise to balance the books. This is not a good long-run strategy for a province that currently has close to $140 billion in debt—about $48,000 for a family of four. While the fiscal pain of spending more than revenues can be put off to the future, it will be Ontario workers who will have to bear the brunt of an already gathering tax burden as society ages within two decades.

The second strategy is to increase taxes further, as seen with last year's health premium, of which the second-stage increase is implemented this coming year. If Ontario were a low-tax jurisdiction in North America, tax increases would be sensible to consider. But Ontario is not fiscally competitive at all. In work for the Institute for Competitiveness and Prosperity, Duanjie Chen and I have shown that Ontario is fiscally disadvantaged, compared to five important US states, for most industries. Taking into account income, sales and payroll taxes, and subtracting subsidies related to health, education, social security and insurance, research and infrastructure expenditures, federal and provincial fiscal measures increased the cost of doing business in Ontario by 29% in 2004, compared to roughly 16% in the United States. Even after accounting for fiscal deficits in the United States and Ontario and planned tax changes in both countries, the differential suggests that Ontario has little room to increase taxes without impairing its economic prospects further. If anything, further cuts to taxes to improve the climate for investments are warranted if Ontario is to enjoy better economic growth in the future.

Let me add that I did provide you with some tables that were taken from that report that Duanjie and I did. Of course, if you have any questions later to ask me about them, I'll be happy to answer them.

The last strategy is to hold the line on expenditures, which is a difficult task, for sure. But some savings can be achieved to accommodate growth in other areas. Holding the line on salary increases and transfers to public bodies at 2% could be one strategy.

Other, more difficult, strategies could also be pursued. First, it must be recognized that additional spending on programs should take into account demographic trends that would lead to less growth in spending. Take, for example, education, and here I'm really talking about elementary and secondary education. With falling student populations in elementary grades, sharply rising per student spending on education will not necessarily lead to better quality, as demonstrated by the lack of relationship between education spending and OECD test scores across provinces and countries. Instead, Ontario should look at education reform as Alberta has successfully done: school choice, school-based budgeting and open borders within the public sector.

Second, sizable public sector companies should be considered for sale to the public. The LCBO need not operate as a public company. In fact, additional competition would improve efficiency and revenues in the long run.

Third, new approaches to funding health care should be considered beyond using general revenues, of which its incidence falls on all groups in society already. Certainly, an insurance-based approach, by reforming the health premium to include deductibles and other user-pay-related approaches, can help increase Ontarians' awareness that health care costs money and that measures are needed to improve effectiveness.

Fourth, the government should stay away from industrial subsidies and tax preferences, like film tax credits, that are targeted to specific industries. It is far better to accelerate capital tax cuts, reform the antiquated provincial sales tax and cut corporate income taxes further as an alternative to targeted subsidies.

There are no silver bullets to solve the finance minister's problem. However, one thing can be done to help him, and that is for the government to communicate clearly to the public that it is in a fiscal dilemma. It cannot spend much, cut taxes or balance the books unless difficult fiscal decisions are made. That fiscal reality must sink into the minds of Ontario's public.

The Chair: Thank you. Now we'll hear from Mr. Mackenzie. You have up to 10 minutes

Mr. Hugh Mackenzie: Thank you, Mr. Chair and members of the committee. It's always a pleasure to be here. It's nice to see some people continuing from year to year. I always enjoy these conversations. I'm tempted to start with the Monty Python line: "Now for something completely different."

What I'd like to do today is take you through some of the key insights that I'd like to share with you from the analysis that I've done of Ontario's budgetary situation, and that's detailed in the paper that I handed out to you. What I'm going to do is direct your attention to just a few of the sets of numbers in here to give you a sense of where we go.

Let me give you the top-of-the-line headline first. The top-of-the-line headline is that my read of the fiscal situation of the province is that there's a great deal more flexibility in the hands of the Minister of Finance than the numbers that the government has published at budget time and in the November update would have us believe. That's true both of the forecast for the current fiscal year, 2004-05, and also for the four-year forecast looking out.

Let me just say, before I get into it, that there is one area where I think the three of us will agree. I have difficulty imagining a scenario in which the four-year projection of spending is realized. I think where we may differ is that I don't think the government should be trying to do that, but I think we would all agree that a forecast based on 1.9% growth is not going to happen.

Let me talk first about the current fiscal year. The budgetary balance numbers for this fiscal year are a little bit screwy anyway because the $2.1 billion that was forecast at budget time, much of that improvement from the year before—in fact, more than all of the improvement from the year before—was accomplished through accounting, not through any change in the fiscal circumstances of the province. I'm referring to the $3.81 billion that the government decided to count as revenue for this year as a result of the electricity restructuring and the transfer of some financial obligations from taxpayers to electricity consumers that took place as a result.

Starting from the perspective that the numbers for this year are a little bit fanciful anyway, let me suggest that there are a number of areas where I think we can look realistically at a more favourable fiscal situation than is projected. I'll focus on three specific areas.

One is in the forecast of revenue. I have a little model of the provincial revenue system, and when I take the growth rates that, according to the government, it's relying on from the November statement and plug those in, I get forecast revenue of nearly $1 billion higher for 2004-05 than is being projected.

The second area of additional flexibility that I see is that we commonly think of the provincial budget as providing for a reserve against contingencies of $1 billion, because that's the number that appears on the front page of the fiscal outline as the reserve amount. In fact, the reserve that's held by the government is about $2.1 billion. It consists of the $1 billion plus another $850 million as a reserve that's built in to the estimates for Management Board and $150 million that's built in to the estimates—I think it's for finance—for capital.

1330

In the six months ending September 30, that $2.1-billion reserve was only drawn down to the extent of $24 million. When I look at what has happened in terms of either program spending or transfers from the federal government or other revenue sources, I don't see anything having happened between then and now that is going to eat substantially into that. I include in that observation the implications of the OMA deal and the implications of the announcement yesterday of the additional funding for hospitals, both of which easily get absorbed by the increase in federal government transfers for health that are incorporated in the September 30 numbers.

You'll have to forgive me because this is a bit pointy-headed, but the third area in which there is additional flexibility—and it really starts to show in the numbers when you look at the four-year estimate—is in the government's estimates of its debt servicing costs. I will mention that now; I'll want to get into it in a bit more detail when I turn to the four-year numbers.

Looking at the four-year numbers, my contention of the underestimate of revenue for this year telescopes its way through the four-year forecast. Incidentally, one of the things I find interesting is that the revenue forecast for those four years, internally to the four-year forecast, I think is pretty reasonable, given the growth assumptions. The problem is that the starting point is lower than I think is going to happen.

The second area of discrepancy that I see has to do with estimates of transfers from the federal government. This is always a little bit of a murky area because we don't get reliable forecasts from the federal government's end of what it intends to do. But let me just share with you the numbers exercise I went through to come to the conclusion that I have.

There is one area of federal government transfer revenue that we know about, because the federal government takes great pains to let us know exactly what it is forecasting to transfer to provincial governments for health care. There is another one of those detailed reconciliations announced as a result of the September accord. If you take those numbers and then take the government's forecast in the November statement for transfer payment revenue from the federal government, what you find is that the province's forecast requires there to be a $1-billion cut in federal government transfers in areas other than health in the third and fourth years of the four-year forecast. I don't know about anybody else, but I don't think that's a reasonable assumption. If you make what I think is probably a pretty conservative assumption that federal transfers in areas other than health will stay flat, you've got $1 billion in extra flexibility in the two out-years of this forecast that aren't taken into account in the four-year numbers.

The last area that I want to talk about here is going back to the point I was making about debt servicing costs. The four-year forecast shows debt servicing costs going up substantially over the four-year period. In fact, if you go underneath the deficit forecast to look at how much is actually going to have to be financed in new debt and compare that with the rate of growth of interest payments, what you find is that the government is forecasting that its debt service costs are going to be increasing more rapidly than the underlying debt that it's financing. That, in turn, implies an assumption that the percentage debt servicing cost is going to go up over this period. Frankly, that's patently unreasonable. So on the surface, that's an unreasonable assumption.

I'm going to illustrate how anally retentive I can be by saying that I went back and looked at the tables for coupon rates and debt service costs for the securities that are coming up for refinancing that Ontario has out over the next four years and looked at what the likely refinancing cost would be for those. When you take everything into account, including some securities coming due that were financed in Japan and elsewhere at very low rates—but amalgamating them all together—you get very substantial reductions in the cost of servicing Ontario's debt because the debt that's maturing was incurred in the early 1990s at coupon rates in the range of between 10% and 15%, some of them as high as 15% and 16%, and most of them in the range of 11%. Those will be refinanced at current long-term bond rates in the range of 4.5% to 5%. So we're talking about quite substantial reductions in debt service costs, which has a significant impact on the likely fiscal flexibility that the government has.

I know I'm getting close to the end, so I'm going to wind up. Bottom line, the starting point for our discussion is a great deal more fiscal flexibility at the end of this four-year period than the government is letting on.

I wouldn't be holding up my end of the spectrum if I didn't also draw attention to my view that, even if you take the view that there's no room to move in generating additional revenue through increased tax rates, there are some areas of tax expenditure in which the government could generate significant additional revenue. The two that I think are the most significant are the exemptions in the employer health tax, which reduce Ontario's revenues extremely significantly, and the other thing is—

The Chair: You have about 30 seconds.

Mr. Mackenzie: Yes. The other key one—and this may be something that the three of us might get into a discussion about. I estimate that, even when you net out some of the tax subsidies that we might like, such as those for film and television production, if you were to harmonize Ontario's corporate tax provisions to federal tax provisions—in other words, if you got rid of the Ontario-only tax loopholes and had a single corporate tax system at the federal-provincial level, harmonized to the federal structure—we'd generate something in the order of $800 million a year in additional revenue from our corporate income tax.

The final point I'll conclude with is the point of agreement, and I'll just throw another number out on to the table. Implicit in the government's four-year forecast of expenditures, if you play it all out, is the assumption that programming capital spending in Ontario, by the end of this government's four-year term in office, will be lower as a share of GDP than any of the years that the Harris and Eves governments were in power, except for one.

The Chair: Thank you. The committee has invited you to make comment on one or the other presentation. As Mr. Mackenzie has just finished, perhaps one or both of the other two gentlemen would like to make a comment.

Mr. Drummond: I went first; I guess I'll go first again. The presentations that Jack and I made were quite similar. Don't be alarmed by this. It has happened to us before. Perhaps that's why we're not usually invited together on panels.

Mr. Mackenzie: They should neither be alarmed nor surprised.

Mr. Drummond: Interestingly enough, both of us focused almost exclusively on policy issues. The only reference was when we took as a starting point the forecasts that were in the government's spring budget and then were updated in the fiscal update. So you'll recall that my references to the outlook were sensitivities off that; I didn't go back and question those base assumptions, and I'll come back to that.

In terms of policy prescriptions, we're fairly similar that there still are issues on the revenue and the tax side, and there are a number of structural changes that should be made on the spending side.

Let me just come back, then, to the forecast side. Hugh has opened up an area that I didn't get into, and that is questioning the projections in the budget and the fiscal update, most particularly on the revenue side and the public debt charge side. I find particularly what he's saying on the public debt charge side to be very interesting. Again, I've accepted the budget's forecast of that. Forecasting interest on the public debt, if you have the interest rate in Ontario, should be child's play. It's mechanical: You track the number of issues that are outstanding; you know what the coupons rate are; you know when they're retiring; you know when they're turning over. You could be off, but you can only really be off because you've got the interest rate forecast off. While my forecast of the interest rates is somewhat lower than was used in the budget and the update, it's not that much lower.

1340

There are very fascinating things going on in bond markets right now. I'll admit that I don't quite understand why longer-term bond rates are as low as they are, but I'm sticking to my story: They will go back up to more normal levels. So these savings that are occurring right now won't be saved over time. Now, Hugh seems to be suggesting something different, that somehow there is not a proper accounting for the cost of the bond programs. That would flabbergast me if that were true, because I know I've done that on the federal side.

Forecasting public debt charges with a given interest rate is not a very difficult thing to do.

On the revenue side, basically Hugh was saying, "Well, count on doing better," in part because in the starting year, the revenues are coming in stronger. Even if that were true, recall, in my forecast—and Jack and I, coincidentally, even had the same number. Our gross domestic product forecasts are lower than was used in the budget and lower than was used in the fiscal update. So some of that revenue—a premium, if indeed that was the case, was coming in stronger—would go down.

I'm interested in that. I would be interested to see a reconciliation of what Hugh was saying, particularly on the public debt charges, with the budget assumption. I guess my generic point would be, don't count on closing your eyes and hoping things will turn out better. That approach hasn't served governments very well in the past. If that budget forecast is a reasonable base, I still come back that that's going to require a very tough and austere expenditure regime to hit those targets.

Mr. Mintz: I'll just be brief about two points. I hate to pick on Hugh, since he's a good friend and we've worked many years in the past, but I just want to raise two questions, I think, on Hugh's calculations on the debt service costs. Hugh's exercise, which is quite an interesting exercise, is fascinating, but I'm afraid that he might be missing some important information that would be very hard for him to get, I would assume, in making these calculations, and that is to take into account swaps going from long-term interest rates to short-term interest rates. That, of course, could affect the servicing costs that are being estimated. So even though you may look at those bonds that were in the past, they may have been swapped into short-term interest rates, and as a result, the costs are not exactly what you think you're measuring. It's not entirely clear. So I would go by the government's forecast and not necessarily question that, as Don would.

The other point is, actually, Hugh and I do have some common views on the value of base broadening under the tax system, in that, like Hugh, I would argue that I don't like special targeted preferences. I made that comment on film tax credits. Hugh, I think, was willing to go ahead with film tax credits. I'm a little disappointed in that, Hugh, but that may be for good reason.

Mr. Mackenzie: Actually, not to put too fine a point on it—and this may be a bit arch of a point—but I think, unfortunately, that's the game. I wouldn't do it through the tax system. I would be up front and give them a grant.

Mr. Mintz: Well, I'm not sure. The problem I have is that when the dollar falls again, I can assure you the film tax credits won't go down.

I don't like these targeted—because what happens, actually, over time is that all sorts of industries are going to need help, and when you start the process of giving help to one and then somebody else comes along and says, "I need something," then soon the tax system and expenditures look like Swiss cheese, in that we have all sorts of holes in the system.

My preference, by the way, if you ever do base broadening, is to do it in terms of financing rate cuts; in other words, it all stays within the tax system and does not go into new expenditures.

Mr. Mackenzie: One observation—since Jack and I are flying on a level of agreement on something, let me just carry it on a little bit further.

Mr. Mintz: I'm not sure you agreed on that last point.

Mr. Mackenzie: Well, I'm going to finesse that. My concern about tax expenditures is partly a similar kind of philosophical view to the view that Jack has expressed. I also am very skeptical that they work, and that observation applies in spades, I think, to tax preferences in the corporate tax system which you attempt to deliver at a subnational level.

In fact, where Jack and I encountered each other the first time was when I was the executive director of the Ontario Fair Tax Commission. We spent a fair amount of time in that work looking at management of corporate taxes and corporate tax planning. I came away from a lot of that work with a view that the consequence of creating a variety of different corporate tax regimes, particularly at a subnational level, is that you simply increase the range of opportunities, the number of factors that you have to play with in tax planning. So the net effect of it is that you don't get any additional economic activity; what you get is less public revenue.

These additional tax preferences that we have in Ontario, first of all, are operating on a relatively small corporate tax rate in the great scheme of things, so they're not delivering a huge amount of money in relative terms. As I said, I'm quite skeptical that they actually achieve anything. One of the things we do know they achieve is that they reduce the government's revenue take from corporate taxes.

The Chair: Any further comment on presentations among the three of you? Hearing none, we'll move to questioning. I will endeavour to divide the remaining time equally among the three parties, and we'll begin with the official opposition.

Mr. Jim Flaherty (Whitby–Ajax): Thank you for doing this this afternoon. We all appreciate it.

In my new role as a visionary, given that David Miller now agrees with my view on homelessness and Jean Charest agrees with my view on independent schools and the funding of religious schools—the other Liberal government in central Canada—what I see in my vision now is 1972: Robert Stanfield, Pierre Trudeau, wage and price controls.

I've listened carefully to what you've said today. We know that about 80% of provincial spending is in the form of transfer payments to hospitals, schools, universities, municipalities and the broader public sector, and more than 70% of that is spent on salaries, wages and benefits. Given the picture that is painted today, I'm mindful of the letter that the Minister of Education sent not long ago to some of the union leaders in the education sector asking them to restrain their spending demands to 2% in the next fiscal year; I think 2%, 2% and 3%, or something like that, going forward. Quite frankly, I'm looking for another way that the minister could balance the budget in Ontario going forward, other than restraint in wages, and I'm having trouble finding that, other than the tradition of going to Ottawa for a bailout and expecting Ottawa to be very generous in its funding to the province of Ontario from its substantial surplus.

I'd be interested in your views, any of you, on how, on the spending side, you could see the necessary restraint being accomplished, other than in restraint in the area of wages in the public sector and the broader public sector.

Mr. O'Toole: If I could just add to that to supplement what Jim is saying, if I look at the minister's own assumptions, he is assuming that 1% in OHIP is $58 million; for every 1% in the OHIP agreement, $58 million. For nurses, for every 1%, it's $34 million. For elementary and secondary school teachers, for every 1%, it's $115 million. In the broader public sector, it's about $50 million for every 1%. Each of them has an expectation level of about 3%. There's $1 billion right there.

That's what Jim and I are concerned about. That's the drive here. That's what we heard from the hospitals. How do you control it?

The Chair: If one of the panellists wants to answer, if you would indicate by a show of hands. Although all three of you can answer, it would help the Chair to recognize one of you. Mr. Mintz will go first.

1350

Mr. Mintz: First of all, I did try to provide some things, Mr. Flaherty, but I do agree with you: I feel that simple wage restraint is not the way of trying to deal with the long-term issues Ontario faces, and the importance of the fiscal situation in Ontario could impact in terms of its overall economic growth over time. I am a very strong believer in seeing restructuring of government and seeing some major changes. Some of the things I indicated in my notes were really trying to point toward changes that I think are required; for example, the way we run the education system.

I'm a great believer in school choice in the public system. In fact, after spending a lot of time reading material about Alberta, the United States and other educational systems, I can see that it is not a matter of spending; it is a matter of restructuring the system, and we can achieve quite a bit along with that. In fact, if you look at what could potentially happen following that approach, I think you would find that in Alberta, for example, per-student spending is less than here in Ontario and yet they get much better results associated with school choice.

Certainly I don't believe we need as many public sector bodies owned by governments. I think that some important efficiencies could be achieved. Although I purposely stayed away from talking about power in my notes, I think that power is an area that needs vast reform. Although I think the government has made some interesting progress over the past year in trying to move to marginal cost pricing, there are, in my view, too many rigidities still in the system. Of course, we have put on some significant taxes in that area, like the debt retirement charge, which is trying to make up for some of those costs. So I do think that restructuring is very important.

Let me lay out one other point, and that's the importance of fiscal responsibility and accountability. I believe that at times you need transfers between government bodies—federal to provincial and provincial to local etc.—but I also think the best kind of accountability is when people, if they have to spend money, have to raise the taxes themselves. I don't believe that simply having a gas tax transferred to the cities is a very good way of trying to accomplish political accountability. I'd rather see the cities—if they want, they can raise taxes from their own voters in order to pay for their public expenditures.

I also believe there's a significant gain to the federal government's considering a tax cut, and if the provinces want to raise taxes in order to fund public services that they need, I would prefer that route as opposed to going the route of transferring revenues all the time. The reason is that I think we get a much better and more efficient government operating where people can really express their desire for the kinds of services they want. Instead, we get into a mug's game, where all of a sudden the provinces blame the federal government for not giving enough money and the federal government is saying, "Well, it's not our responsibility, because you're spending the money and you're doing what you're doing," whether it's the health care system or other things we're funding. Similarly, we get the cities blaming the upper levels of government for not giving them enough money, and yet the upper levels of government, seeing what kinds of decisions are being made by the cities, start saying, "Why would I want to give more money to you when you're not necessarily acting responsibly?"

I think those are areas that could be looked at in terms of restructuring over time. Whether that will deal with the immediate issues in the budget in this coming year is another issue, but certainly I think that a number of things need to be done vis-à-vis restructuring government and making it more effective and more efficient.

The Chair: You have about seven minutes left. Do you want to make a comment, Mr. Mackenzie?

Mr. Mackenzie: I just wanted to make one observation on that point. I guess it shouldn't surprise you to hear that I think that one of the keys for dealing with this problem—and I do accept that it is a problem; I think we're going to see how complex it is to deal with collective bargaining in the public sector by sending letters out. I don't think it quite works that way. I think that one of the critical tasks that any government in Ontario faces is addressing the problems with the revenue system.

There are two issues in that respect. One is that if you look at the responsibilities for public services relative to fiscal capacity, Ontario needs more fiscal capacity and local governments need more fiscal capacity. In principle, I agree with Jack: In an ideal world, we would have revenues better matched with expenditures in the three orders of government in Canada so we don't have this buck-passing and trotting back and forth from one place to another. Failing that, though, there has to be some recognition, both in transfers from the provincial government to municipalities and in transfers from the federal government to the provincial governments, that there is this fiscal imbalance that has emerged, and that is evident in the fiscal issues.

My second point about revenue, and this is pretty adventurous on my part, I have to say: One of the things we need to think about as a country is how we've divided up revenue-raising responsibilities and revenue capacity among the levels of government, in particular between provincial governments and the federal government. It probably wouldn't surprise you, given the point I made about corporate taxes, that I actually don't think it makes any sense at all for provincial governments to levy corporate taxes. I think it's just an invitation to tax avoidance. If somebody made me czar for a day, I'd engineer some sort of trade of revenue responsibilities between federal and provincial governments, so that provincial governments were able to rely more heavily on tax bases that they could defend against avoidance and the federal government took responsibility for tax bases that are more difficult for subnational jurisdictions to defend.

The Chair: Mr. Drummond, do you care to make a comment?

Mr. Drummond: I'm cognizant that the more we speak, the fewer questions we'll get. I guess I'll come back to the original question: What are the different ways of balancing the budget? Certainly, I'll draw upon my experience. I was the bureaucrat leading the program expenditure exercise at the federal level in the mid-1990s, and certainly there are a number of successes and a number of things we could have done better at that time that stick in my mind.

I think the worst thing we did was focus on particular employment targets and say, "We're going to lose X thousand employees." That just ends up being extraordinarily inefficient. Of course, we went further than what you're talking about: We actually froze wages for a while. And while you get an immediate saving, it didn't take very long to realize that the end result was that the good employees left and we were ending up with the ones we probably didn't need. We offered extraordinarily generous early retirement packages, completely waiving any penalties. We basically lost the whole experienced 50-plus cohort. You saw that within three years the government went on a massive hiring spree and had to replace those people with inexperienced people. So that wasn't so brilliant.

That being said, though, there's no way you're going to get a program spending profile like 1.9% if wages go up in real terms; in other words, higher than inflation. It's just too big a portion of the wage bill. Hopefully you don't have to do it in artificial ways through legislation.

I guess the other error we made was that while we did differentiate our cuts according to programs and what the value of those programs was, there was still too much of an across-the-board element. This is really a generic point around Jack's point about restructuring. It's not a good thing to just take 5% off everybody's budget, because some programs aren't any good and 100% should be taken off them, and some programs are probably very good and are not being funded properly, so perhaps they should be increased—so a fair bit of discretion. It's more difficult, in a sense. Certainly it's much more difficult as a political exercise—it's really easy to say to every minister, "You've got a budget that's cut by 5%," or 10%, whatever the amount is—than it is to differentiate and appear to pick winners and losers, but I think it absolutely has to be done that way.

The Chair: We have just about one minute left, if you want to make a general comment.

Mr. Flaherty: I certainly agree with what I'm listening to. We need fundamental health care reform. Looking at the longer term, it would not be possible to balance the budget in Ontario without massive tax increases or phenomenal economic growth, unless we have reform in the delivery of health care in the province. It's a sine qua non, it seems to me. Any rational person looking at the spending increases in the province—you referred to them as 6% and 9% and so on earlier, Mr. Drummond.

In terms of our standard of living and productivity and innovation—I know you're not going to have a chance to answer this right now, but I hope you get a chance to comment at some time in the next 10 or 15 minutes—I'd like to get your views on what the government of Ontario could do in order to enhance innovation and productivity in the Ontario economy, looking at the longer run. I think it's safe to say that most of us agree and understand now, through the work of the competitiveness and productivity working group, that if we do not increase our innovative capacity and become more productive, our standard of living will decline.

1400

The Chair: Now we'll move to the NDP.

Mr. Prue: A number of questions. I'm going to try to make them fast. I hope the answers can be fast too.

First of all, Mr. Drummond, on page 9 you have a chart that shows the marginal effective tax rate. I just want to know if I'm reading this correctly. Couples between $29,000 and about $55,000 a year pay a higher tax rate than those who earn $60,000 to $120,000, which appears to be quite flatlined.

Mr. Drummond: Yes. Bear in mind that this is not your average tax rate; this is the tax rate you'd pay on your last dollar earned. So if you're earning $30,000 a year and somebody asks you to work an extra hour, you're going to get a bit more income. What I'm measuring here is the taxes you'll pay on that incremental income. The reason it's higher in that group is because you would lose some portion of your low-income GST credit, you would lose some portion of your Canada child tax benefit and you would lose a variety of other programs like that, which are income-tested.

We've created a situation that's a bit unique in Canada. We've tried, both at the federal and the provincial levels, to be fairly generous in a number of these programs and give adequate support at low incomes, but we've also tried to be parsimonious and contain the costs of the programs. So as people's income goes up, we take them back—we literally claw them back—and that, of course, drives up the marginal tax rate. So as you can see, in some circumstances, if you were to earn some additional money, you would only keep 20 cents on the dollar of that money, a much smaller percentage than a millionaire would keep, for example.

Mr. Prue: There's no sense in the government planning any programs, no matter what government, because every time they stand up and say they're going to do something for this group, if they were to earn any more money, they don't get it.

Mr. Drummond: Actually, the way you put it is what has happened a number of times. We have had a number of initiatives over the last 10 years at the provincial and federal levels that have done exactly that. An example would be in the 1997 budget, when the federal government increased a low-income tax credit and then clawed it back. It gave a low-income group of people some additional money and raised the marginal tax rate for the people right above that threshold, making them worse off.

Mr. Prue: OK. Mr. Mintz—you didn't number the pages, but I think it's on page 2—you give a whole bunch of "for-instances" that the government might do, none of which I think they will: everything from adopting education reform like Alberta and school-based budgeting and school choice and all those things to selling off the LCBO and user-pay for health. I don't think they're going to do any of it. But then you come and say there are other ways to do it, like accelerating capital tax cuts, which, quite frankly, I don't agree with.

Then you talk about reforming "the antiquated provincial sales tax." That's 8%, currently. How do you see doing that? Harmonizing it with the GST, or do you see doing away with it altogether and raising funds through income tax?

Mr. Mintz: There are several approaches that could be used. The first approach would be for Ontario to wholly adopt the GST. If you did that, the revenue cost is actually not very much—at a 7% rate, if I recall.

Mr. Mackenzie: That's right. It's 7%.

Mr. Mintz: If you do it at an 8% rate, you can actually raise some money. That's because of the way the input tax credits work, and particularly the way that people like where Don Drummond works, in banks, don't get the input tax credit used for financial services, which is a significant part of the Ontario economy. But that calculation is actually pretty easy to use.

I've also taken the view that if you move to an Ontario-based value-added tax—in other words, not fully harmonized with the federal GST but something like Quebec did, which was to move to a value-added tax that had a lot of aspects of the federal GST but then they did some of their own things; for example, they didn't give input tax credits for certain types of inputs and things like that. That would be a very good move forward in order to move in that direction. Of course, that could allow for actually somewhat of a rate cut relative to the 8% rule, if you moved in that direction.

The third option is to do something that British Columbia did, which is not to adopt a value-added tax, but about three years ago, they had cut some of the sales taxes on capital inputs in order to encourage more investment. In fact, they had three different policies in British Columbia: (1) to lower the corporate income tax rate to 13.5%; (2) to eliminate capital taxes on non-financial businesses; and (3) to cut sales taxes on capital inputs.

Mr. Mackenzie: Can I just make an observation?

Mr. Prue: OK, but I wanted to get some questions in to you too; so we've asked.

Mr. Mackenzie: The problem with the GST move is that this is one of those things—actually, it's a little bit like the marginal tax rate question. It's the kind of thing that economists think makes a lot of sense. The problem is it's very difficult to imagine how you would do this in practical political terms. The reason why is that moving from the retail sales tax to a value-added tax in Ontario, while on a rate basis it looks like it's neutral, on an incidence basis, it's not.

The analysis that we did of this precise issue in the Fair Tax Commission in the early 1990s concluded that about 30% of the retail sales tax is in fact levied on goods that are exported. In a GST-style system, that tax isn't borne on goods that are exported. So as a result, you end up with basically a shifting of burden toward individuals when you make that move.

That's the practical problem that you run into: It will be perceived—correctly—as an increase in tax burdens on individuals. It's not as felicitous a change as the change that gave rise to the GST, because the old manufacturers' sales tax had a different pattern of incidence.

Mr. Mintz: Just very quickly, the number is now 40%, which is the tax on business inputs, including capital inputs, not 30% any more, and it's not on just exported goods; it's on domestically consumed production. So I just wanted to correct that number.

Mr. Prue: I'd like to ask Mr. Mackenzie—how much time do I have?

The Chair: About seven minutes left.

Mr. Prue: OK. Good. I'm still on target.

You gave us some incidences of where you want to go and what you think the government can do, but I want to know specifically how much extra program capital spending there would be with the government still trying to hold on to its deficit target. They have a deficit target this year of $2.1 billion. How much extra spending could they do and still hold on to that deficit target, using your figures?

Mr. Mackenzie: It's difficult to answer the question because it really depends on what they do with that $3.8 billion, almost $3.9 billion, in accounting change. My own view is that if things continue the way they do, the government is going to change the way it flows that. When they finally decide to book that in March, they will book it differently from how they announced it in the budget. That's their balancing item, in a sense, to produce their deficit target for this year.

I think there's flexibility of at least a couple of billion dollars. The question is, how are they going to use that flexibility? My guess is that the way they're going to use that flexibility is to change the way they're booking that windfall so that it's booked over a long period of time and so that it helps the government when it really needs it, toward the end of its planning period, rather than at the beginning of its planning period, when it seems pretty clear they don't need it now.

Mr. Prue: You don't think they'd be crassly political and come up at the end of the mandate saying, "Look, we've balanced the books and we're giving you all these goodies"?

Mr. Mackenzie: It's inconceivable anything as crass as that could happen.

Mr. Prue: I have a second question, related, I guess, in part, to the first. How much could the treasury net by eliminating the EHT exemption?

1410

Mr. Mackenzie: A little over $1 billion.

Mr. Prue: I've still got time, so I'm going to go back to Mr. Drummond, because I only asked him one question. You talked about students. It was quite a strong statement: "Time to Make PSE a Priority.... Profound improvements needed in other respects as well (ex. student financing, deterioration in graduate studies)," and that the province would need over $1 billion per year. The province had $1 billion, if we were to adopt Mr. Mackenzie's view that some money could be raised in a number of areas. Would this be a financially prudent thing for the government to do, to invest it in higher education as opposed to other areas?

Mr. Drummond: You put the question as a package deal and I'm not buying the package. My position would be the same as Jack's. If you address some of these tax expenditures, I would put that back as a general tax cut, so there wouldn't be a net $1 billion.

Within the overall $80 billion or so that the province spends, should it allocate more to post-secondary education? Absolutely. I think we all accept we're in a knowledge-based era. If you look at Ontario on a real per-student basis, we've cut spending on post-secondary education by 30% since 1980. That doesn't sound like a terribly smart move. It's one of the many areas that got sideswiped in the need to address fiscal imbalances and the increase in health care spending.

I point out here just one example. On the student financing, I think there are things that, yes, probably require money, but some don't. Our student financing system in Ontario is an absolute disaster. It's totally uncoordinated with the federal level. It's not recognizing the true costs. You could argue about whether the students should borrow it and their debt levels and stuff, but if a student has a $12,000 program, they can't borrow against that. There are all kinds of students who get caught in those kinds of issues. You'd need to be a rocket scientist to figure out the various different avenues between what's available at the federal and provincial levels. The federal government actually made some pretty important improvements in its last budget of March. As a minimum, Ontario would have to match that. Again, there would be a net cost to that, but I think it needs to go far beyond that.

Mr. Prue: Some of the literature suggests that countries like Ireland, which has all but eliminated the cost for post-secondary education—to the student at least, if not to the state—have made wise decisions in terms of their long-term economic gain and benefit. Would you concur with that?

Mr. Drummond: First of all, let's be realistic here. Given the fiscal dimensions, even if you have some additional room that Hugh was talking about, you have nowhere near the capacity to talk about free education. So I'm not sure that's even worthwhile spending any time on.

Second, I would argue that conceptually that doesn't make any sense. There's a very strong private rate of return from post-secondary education. I don't think students should have to pay the full bill because there is a social rate of return, but the private rate of return is higher than the social rate of return, so there has to be a split. We could certainly get into a debate of exactly what that split is, but students should be making some contribution. We have to bear in mind, only 40% of Canadians go to university. Why should the 60% who don't go to university pay the entire bill for the ones who do? We all know the numbers. Their wages and salaries are about 60% higher over their lifetime because of that degree. The carpenter who just built your house didn't go; should he pay for it? No, I don't think so.

Mr. Prue: Maybe the other gentlemen have a comment on that.

Mr. Mintz: Just quickly on the Irish thing, they actually had various strategies, and one was, of course, to spend money on education when a large portion of the population didn't even have secondary education, never mind tertiary. But the other thing they did is they said, "We're not just going to bring people to the job market with better skills; we're also going to create more jobs," and that was done through business tax cuts. A proposal that would raise payroll taxes while at the same time spend more money on post-secondary education has a rather amusing side to it in which we would be graduating people who will have a tougher time finding jobs.

Mr. Mackenzie: One of the conclusions I came to from some work I did on post-secondary financing in the fall is that it's pretty risky to grab examples from other jurisdictions. The critical point of distinction that has come to me is that differences between countries on how post-secondary education is financed have a lot to do with their attitude toward the responsibility of different generations for financing post-secondary education. Scandinavian countries, for example, treat students as if they're completely financially independent. In other words, there's no assumed parental financial contribution expected to post-secondary education. Other European countries have a similar kind of view, although maybe not as extreme as some of the Scandinavian countries.

For better or for worse, culturally we see paying at least a portion of the cost of post-secondary education as a responsibility of the students' parents to a greater or lesser extent. So for us to think about a way of financing post-secondary education that ignores that reality doesn't make much sense.

Having said that, I agree with Don: I think the system that we have now is a complete mess. The split between tuition and grants from senior levels of government is irrational, or maybe I should say non-rational in the sense that I don't think anybody ever sat down and said that the split ought to be one thing or another. Allowing tuition to go up just became the path of least resistance for governments facing fiscal constraints.

On the student assistance side, we have an incredible dog's breakfast. We've got several different programs that are delivered through the income tax system. Some of them are directed toward the generation of the students' parents, some of them are directed toward students, some of them are neutral with respect to income, and some of them deliver upside-down equity in that they deliver more money to wealthier families than they do to lower-income families.

On top of that, we've got this ridiculous system of dealing with student debt where we have a hidden program in the student financial assistance system of debt remission, which doesn't appear to have any transparent and understandable rules but exists and, in fact, according to the millennium scholarship foundation, now eats up about half of the money that Ontario spends. So it doesn't make any sense, and it needs to be fixed.

Mr. Colle: I just want to thank the three of you for making yourselves available in this format. I think the members of the committee agree that it's helpful to have experts in your field making yourselves available to us and to the public. It's valued input that this committee needs and appreciates.

On the issues you and some of the members have raised, I will ask for some written responses from ministry officials. Some of them are open to longer, detailed answers and analysis. I'll try and get as many of those responses back to you—just for your own information; not as a matter of argument. Some of them I find quite intriguing, and I'm sure members of the committee find them intriguing too.

From the Ministry of Finance's perspective, my heart wants to believe Mr. Mackenzie, that we are overly cautious and there is room and flexibility, but history tells me, whether it be previous governments or our government, that it's been the case over the last 10 years for the province of Ontario that things don't seem to be on our side. The factors seem to always be hitting us. Right now, as I think you've all pointed out, of all the provinces and jurisdictions, we are the one most impacted by the high value of the Canadian dollar. Therefore it seems that the province that produces the most wealth and produces the most manufacturing and is, I would say, one of the hardest-working provinces on a per-citizen basis—and certainly you've mentioned that the taxes paid in Ontario are quite significant and we pay more than our fair share. We seldom get any breaks, whether it be outside factors like the dollar and how many American dollars the Chinese are buying up or whatever. We don't seem to have these breaks. But I would hope that we can get a bit of direction from you.

The one hard issue to come to grips with is, you've all talked about the fact that there isn't any clear line or delineation of responsibility for taxes collected and revenues allocated toward government services or government expenditures. In other words, Ontarians pay federal income tax, they pay GST, PST, an assortment of taxes, yet it seems that despite the growing number of taxes paid by Ontario's corporations or Ontario's individuals, we don't seem to have the ability to invest in our infrastructure, whether it be social, whether it be R&D infrastructure, whether it be health infrastructure. Our per capita spending per student for post-secondary is the lowest across Canada. Our per capita spending on health care is the lowest. We can't even seem to fund our own basic infrastructure like sewer and water mains or fund our municipal transit systems.

1420

Don't you think the core problem is the basic financial relationship that Ontario has within this present federal framework, that no matter what we do in terms of the priorities we have before us and the ones that Don mentioned that were very challenging for us as a ministry, fundamentally, unless we change that relationship so that Ontarians might be able to keep more of their money here in Ontario to invest back into Ontario, unless we fix that fundamental paradigm, we're not going to get anywhere near making any substantive changes in the delivery of critical services that we all agree we need to deliver better in Ontario? I'll just leave it open to anybody who wants to comment

Mr. Mackenzie: Let me start. First of all, I have to say I'm interested in your little rehearsal to be Ontario's equivalent of Danny Williams: "We don't get no respect here in Ontario."

Let me say seriously, though, without wanting to break your stride at all, I think it is fair to say that Ontario did get a big break in the late 1990s when the exchange rate dropped and manufacturing boomed in Ontario. We used it to accelerate the rate at which we were destroying our fiscal capacity. As a result—I think one of the reasons why we are in the state of fiscal imbalance that we are in now is that relative to the needs for public services in the province, we significantly, to steal a phrase from previous budgets that I've seen, overachieved on the fiscal capacity reduction side and we're paying the price now.

That's why my view is that part of the long-term solution to the questions in front of this committee and the Minister of Finance is still measures needed to rebuild fiscal capacity. I'm sure everybody else at the table agrees.

Mr. Drummond: Sure, there's a net federal withdrawal of revenues out of Ontario, but of course if we're going to have income redistribution in Canada, it has to come out of Ontario. There's no precise point how much would come out of it.

I think one thing that has happened in the past couple of months that should be very upsetting to Ontarians—it's very upsetting to me—is the new era on equalization. In the space of a couple of hours, the first ministers of this country destroyed the 54-year-old program. They totally turned its principle on its head. It will be $10.9 billion a year, indexed at 3.5%, regardless of what the income disparities are. In fact, they might have a hard time discovering how to distribute it, because, in theory, if every province has the same revenue generating capacity, it will still be $10.9 billion, indexed at 3.5%. You know the argument with Newfoundland now. They seem to have a belief that even if they have the revenue-generating capacity of Ontario, there will not be any changes in equalization.

I'm not quite sure what one makes as an Ontarian about the fact that there is a net fiscal drag for the Ontario government. In Ontario it has to be that way. Maybe our system is too big, I don't know, but certainly on the specifics of the equalization program I think it's absolutely outrageous what just took place.

Mr. Mintz: First of all, I actually wrote down equalization as one of my comments. In fact, if I were Ontario, I would strongly object to what's going on right now. If you look at the past 20 years, there has been an equalization in per capita incomes across the provinces. Alberta is still sticking out there, but if you look at the Atlantic provinces, they've been going up to the national average; BC has gone down to the national average, and Ontario has, I think, actually gone a little bit closer to the national average. Of course, they're above the national average.

But the main point is that, if anything, equalization should be costing less today, not more. To put it in as though we're going to just keep increasing the amount—3.5% per year for the next five years—just what are we doing with this program? What are we trying to achieve?

Mr. Mackenzie: It's also lost its connection with the original.

Mr. Mintz: And that is a drag for Ontario. That's a significant drag, because the federal government has to raise taxes to pay for that, and of course it makes it harder for Ontario to have fiscal capacity associated with that. So these issues get interlinked for that reason.

But I want to also just mention—and this goes back to Mr. Flaherty's question—that one of the things we've learned about countries is that when you have high economic growth, these problems of fiscal capacity and everything else go away. From the point of view of the budget, I think there has to be a focus by the Minister of Finance on economic growth and what are the kinds of things that could be done to best generate economic growth.

I would actually suggest that there are a couple of things that could be done. One of them, I think, is in the area of education. I'll be looking forward to seeing what the post-secondary education report's about. I teach at a university. Frankly, I don't think the tuition fee levels are as problematical as people think, although I do think that, as Don has already pointed out, there may be some issues about the loan program and making it effective. But I also worry about secondary school students who are quitting school and not going on. I know that this government has interest in a higher age that's going to be required for people to be in school and, actually, I want to say that I endorse that position. I think some of those things could help. They help in the long run. They won't help in the immediate run, but I think they can help.

The other thing is, I really think you have to worry about the business environment and Ontario being viewed as an attractive place. Frankly, raising the corporate income tax rate—you've heard me on this before—from 12.5% to 14% was not a good announcement to the business community worldwide that Ontario was serious about attracting business investment. Things that were going on in the energy sector, in the power sector, were also not very conducive for generating, let's say, a more positive outlook about Ontario, although I will say that the recent changes with the RFPs and some of the things that are being done to try to attract private sector investments in power, I think, are positive. But I'm worried there because there's an issue of the distribution between risks and returns on some of those RFPs that I think you need to be concerned about as a government.

This actually goes to my final point. I do think that infrastructure is important in certain areas; for example, border infrastructure, which the federal government plays a role in, and not just the Ontario government. I also think that it's going to be very important to think about how to generate, let's say, a frictionless border in the long run. This is both a federal issue and, I think, something that Ontario should speak about, because that's going to be very important to Ontario's being able to move those goods and services across the border.

Finally, the business tax regime is still relatively high in Ontario compared to not just the United States but throughout the world. Tomorrow we'll be releasing a 20-country comparison of effective tax rates on capital—this is for Canada and aggregate—with the rest of the world. But since Ontario's a little bit higher than the Canadian average, it's not a good picture for Ontario in terms of what we look at relative to the rest of the world. When it comes to business investments, we are a high-tax country, which is why I'm very much in favour of tax reform, which isn't necessarily a cut in total taxes paid as much as getting rid of some of the ineffective credits and putting that into capital tax reductions and corporate rate reductions, which still result in relatively high burdens for businesses and undermines productivity and technological improvement in this province.

The Chair: We have less than two minutes, so if you could put your question to just one of the persons.

Mr. Colle: It doesn't really matter to me; anyone can comment. As you know, we did listen to some advice about phasing out the capital tax. We think that is one signal that we want to encourage employment investment.

I guess we're down to the real crunch here because, given Mr Drummond's bank's forecast, it assures me that we did the right thing to ensure we had enough money in contingency to cover such eventualities. It looks like, because of the high value of the Canadian dollar, the Ontario economy is not as buoyant as some other forecasters had predicted. We had forecasts in September of 3.5% growth for 2005, so there's been a dramatic difference there. But hopefully we can take care of that.

1430

In terms of what we have before us, we have to restrain costs, and that's going to be a challenge. If we had one priority, should we put it into revenue generation, should we put it into one of the other three areas or should we just emphasize balancing the budget as our number one priority? I know it's a difficult choice to make, but that's the choice we're going to have to make and recommend to the minister. So if we were to say one area of emphasis for this upcoming budget—

Mr. Drummond: I'm not sure what you mean by revenue generation. If by that you mean trying to raise more revenues by cutting taxes, that's easy—no.

Mr. Colle: No, no, not by cutting taxes—

Mr. Drummond: Or raising taxes.

Mr. Colle: —but by perhaps investing in R&D, investing in colleges and universities, investing in certain initiatives for cutting-edge venture capital initiatives.

Mr. Drummond: I don't think you can view it as one step; it's two steps. I think absolutely you have to balance the budget by 2007. I'd like to see it balanced earlier. I don't think that's feasible, but I don't want to see a deficit hang on longer than that. Within that constraint, coming back to Mr Flaherty's question, conceptually it's easy. You want to move things away from consumption and toward investment. So on the expenditure side you have to move toward things that will encourage R&D, infrastructure, education, and on the tax side you want to move away from the heavy emphasis on income and capital and more toward the consumption side.

The Chair: On behalf of the committee, I want to thank all three of you for appearing before the committee this afternoon for an hour and a half. We appreciate it very much.

Mr. O'Toole: Chair, I'd just like to put a question on the table. I'd ask the three experts to give us their view with respect to deficit financing.

The Chair: They can submit that if they care to. You're not compelled to answer the question, gentlemen, but you can talk to Mr O'Toole directly. If you care to put that answer to the committee, I would ask you to give it to the clerk so that all members can share in that answer. Thank you very much.

ONTARIO LAND TRUST ALLIANCE

The Chair: I call on the Ontario Land Trust Alliance to come forward, please. Good afternoon. You have 10 minutes for your presentation. There may be up to five minutes for questioning following that. I would ask you to state your name for the purposes of our recording Hansard.

Mr. Christopher Baines: My name is Christopher Baines. I'm the vice-chair of the Ontario Land Trust Alliance. I don't think I'll actually need 10 minutes. I'll try and keep this brief and quite simple. From the weighty matters that you've just been reviewing before you, what I have to say is relatively short, I would hope, and simple.

For those of you who don't know land trusts—I know Mr Flaherty, who I've met on many occasions; and Mr Colle knows this, because he's been very helpful to us—a land trust is essentially a charitable, non-profit organization dedicated to preserving and protecting environmentally significant land. There are 34 land trusts currently in Ontario, and my organization, OLTA, is the umbrella organization, like the trade organization, of those 34 land trusts. There are 103 land trusts in Canada and 1,600 in the United States, and the grandfather or grandmother—I keep jumping back and forth in generics here—is the National Trust in England, which caused the birth of all of us, if you will.

I'd just like to let you know that in Ontario we stretch from Rainy River to Kingston, from the Ottawa Valley right down to Sarnia. So we cover Ontario—well, I won't say that completely—geographically. We'd certainly like to, and we have many more land trusts in the formative stages happening.

Starting off, I'd like to say that we've run a program called the OLTA program—it started as the ONTA program—where we basically distributed $160,000 worth of grants to the small land trusts, those being somewhere in the neighbourhood of $3,000 to $5,000. We had a goal of securing 1,000 acres from that program, with a value of $500,000 a year. We did much better than that. We secured 3,171 acres, with a value of $4.2 million. On $160,000 in grants, that's a return on investment of about 69 to 1—not bad numbers as far as how a poor little organization like ours delivers the goods, if you will, in achieving objectives of saving Ontario's nature.

The reason I'm here today—if I could, I would have brought flowers and candy—is to say thank you, most particularly to this government; to the Minister of Natural Resources; to the Minister of Finance; to Mr Colle and his assistant, Arthur Lofsky; and I extend that to Mr Flaherty when he was sitting in government. For many years we've been dealing with Ontario governments in regard to the implementation of a program called the community conservation lands component of the conservation land tax incentive program—a mouthful. Essentially what it represents is those land trusts in Ontario meeting the criteria, and we had some discussions about what those criteria would be. They will now be exempt from paying municipal property taxes on those lands as long as they meet these criteria.

What this effectively realizes to the land trusts is that they can take and reallocate those precious donor dollars from having to pay property taxes to being able to use them in other operational capacities, such as the money required to acquire the land, the money for insurance, the money for monitoring etc. So in a real, tangible way, by implementing this program, the government has saved somewhere around $200,000, we believe, collectively, to the land trusts in the province, and we are most grateful for that.

With apologies to John Kennedy, asking what this government can do for us, we would come to the finance committee at this point and say, having said that and being most thankful for what we've received to this date, we would still like to propose to you that there are other manners in which particularly the finance committee and the government of Ontario can assist the land trust movement.

Specifically in the United States, there are 22 US states that take one small percentage of the land transfer tax, which in Ontario as you know is around $800 million a year. What we are suggesting is that 1% of the $800 million be allocated to a green fund, if you will, or a green conservation fund, the purpose of which is to be used to fund these conservation-minded initiatives of land trusts, of conservation authorities and of other like registered charitable organizations dedicated to preserving land.

Collectively in Ontario we have a very ambitious goal of preserving more green space. Our donor base, the people with whom we deal—and we put the touch on many different landowners at many different times to donate their land to a land trust—for whatever reason may not be comfortable in dealing with the government, either through the crown holding the land or indeed even selling it to the crown. Land trusts are much more efficient in the use of dollars. So what we would ask is that you assist us in the operational capacity to be able to further these goals of increasing the amount of green space saved.

"How can we do that?" you ask. We say by adopting the model of what 22 states currently do; that is, take a look at the land transfer tax, take one small percentage, 1%—it's not a new tax—and allocate that off into this green fund. It would all have to be peer-reviewed. We'd set up all the rules as to how you could access it, what the monies would be used for, but essentially you are tying development in Ontario to the preservation of green space, and there's a causal relationship. It's not a new tax, merely a slight allocation. In this case it would be $8 million. That would be negotiable if that's too much. It's better than what we've got right now. So we'd certainly like to take a look at that.

The second recommendation we would ask is that MPAC—and you must understand that the meat and potatoes of what land trusts deal with is planning, is assessment, is MPAC, if you will. Even with this program, we still have to deal with MPAC. We would request that MPAC be asked to establish a consistent practice of reducing property values by the value of the conservation easement registered on title. That sounds rather complicated but essentially, for the committee members' knowledge, there are two ways of donating land. One is you can give the land freehold right to the land trust, such as the Nature Conservancy of Canada or any one of our other 33 members, and you get a tax receipt for that donation. We own the land and we have to steward it in perpetuity. Such gifts, as I tell potential donors, are not actual gifts of assets, because you can sell an asset, and a land trust would not intend to sell an asset. In effect, a gift you are giving us is a liability in that we, in perpetuity, have to ensure that this land is properly stewarded. Nevertheless, what we would ask is that MPAC be directed that they not take the value of the conservation easement and then transfer that to the remaining part of your property.

1440

Specifically, if you owned 100 acres and you wanted to keep 10 acres for yourself freehold, and you wanted to donate a conservation easement, which is a restricted covenant registered on the title of the land that basically says, in perpetuity, the 90 acres can never be developed, you would receive a one-time tax receipt for the value of the diminution of that 90 acres. You still own the land, you would still pay property taxes on the land, but you could never develop that 90 acres. If you did, we would have to take you to court, because you'd signed a restrictive covenant.

At any rate, our challenge with MPAC is that we are concerned that they essentially transfer the value of the conservation easement on to the other portion of the land—in this case, the 10 acres—that does not have a conservation easement on it. If you will, these are sort of ground rules that we would like to have a discussion with MPAC about. We are doing that, but we need more of a clear direction through legislation we see that would ensure that that wouldn't happen.

Likewise, we would ask that MPAC ensure that the property tax reductions from the conservation land tax are not transferred. Actually, I indicated that already.

Land transfer tax: We'd ask if this committee could see its way through to making a recommendation to eliminate the land transfer taxes, the probate fees and the other forms of taxation on conservation land transactions to land trusts. Currently, if you donate your property to it, if it goes through an estate, we still have to pay all the other costs which any other body or individual would in regard to this land. Many jurisdictions in the States and in Canada have absented land trusts and charitable non-profits such as ourselves from these costs. As with the property tax exemption, by exempting us from these hard costs, you would again assist the land trusts in using those precious dollars toward more operational costs that they need to do.

In summary, I would just like to say, again, thank you very much for the conservation land tax incentive program and all who helped in doing it. We're most appreciative of it, but if there are any other little housekeeping matters we could do, such as this one, we would be pleased to discuss that with you.

The Chair: Thank you. The questioning will go to the official opposition.

Mr. O'Toole: Just quickly, as you know, before the legislative committee this session is Bill 135, the greenbelt legislation. It's huge, very contentious. It's a property rights issue. We look at the Oak Ridges moraine when we were government, and they did form a trust there, which was really not a land trust so much as a fund to acquire lands through various means, some of which were very much like what you're suggesting. Would you care to comment on how the government could move on Bill 135 with respect to some of that land as permanent agricultural?

In fact, it's really being used to its best and most optimal use to feed the people of Ontario. In many respects, it's sort of like a land trust, technically. If its ultimate use is going to be agriculture, perhaps you'd like to comment. I'm sure, since you look at the overall use of land and the preservation of sensitive lands, you'd like to comment on Bill 135.

Mr. Baines: I'm not going to get into the property rights issue. Certainly, our brothers in the United States are dealing with that in many cases in land trusts. I would say, however, that, again, like in England and in the United States, there are different types of land trusts in the natural progression. Most of the trusts that are currently here in Ontario are basically dealing with "environmentally sensitive lands."

What's now occurring in the States—and we will see this happening in Ontario very shortly—is agricultural land trusts, and soon, I would put it to you, there will probably be cultural land trusts as well. The field that's being used for baseball in a small community: It may be very important to that community to preserve that. Under the current legislation that we have, that baseball field, if it was owned by a land trust, would not be exempt from paying taxes under the conservation land tax incentive program. In the fullness of time, when agricultural land trusts finally do happen, hopefully those will address a lot of these issues.

On the specific point about how you ensure that this land and this way of life are preserved, an agricultural land trust would be a wonderful mechanism for doing that. It, however, will need, if you will, the extension of the current conservation land tax incentive program exemption to cover agricultural lands, because right now it's restricted specifically to the hard-core environmental. When we expand the horizon to allow these other land trusts in, as long as it's peer reviewed and it meets the criteria that the industry and the public demand, that, I would think, would go a long way toward helping the objectives of Bill 135.

Mr. O'Toole: I am dealing with it. As I said, the landowners may not be as comfortable as you, but as long as it remains in its primary use—that's the Christian Farmers Federation of Ontario position. Basically, they're in favour of it. Finding a mechanism under the challenges on their income side in agriculture today, with all the commodity prices tanking, they're concerned that the cost through the taxes—really the same question you raised, the MPAC issue. It's not going to be a very level playing field for them if they still have to pay, because it's class 1 land, a very high level of tax on it and it has no future use under the Planning Act. So what do you recommend?

There are going to be hearings, I think next Monday, in our area on that issue. Most of them want to maintain it in agriculture. It's been exempted from them, it's been pulled from them for any other potential use, severances and all these things. So it's very much in the field you work in. If you have any advice, I'd be happy to receive it and put some voice to it.

Mr. Baines: The agricultural domain is not my bailiwick actually, but as I said, it's complicated, particularly when MPAC is involved in it as well. But I see that an extension, and I hope we will see it shortly, of the conservation land tax incentive program—a paradigm shift essentially is what has to happen with Ontarians. First, you accept the concept of environmentally significant land that should be protected and exempted from tax. Then you must move to the area of agricultural and then presumably from there to cultural.

The Chair: Thank you for your submission this afternoon.

TORONTO DISASTER RELIEF COMMITTEE

The Chair: I'd ask the Toronto Disaster Relief Committee to come forward, please. Good afternoon. You have 10 minutes for your submission. There may be up to five minutes of questioning following that. I would ask you to state your names for the purposes of our recording Hansard. You may begin.

Ms. Cathy Crowe: My name is Cathy Crowe.

Mr. Michael Shapcott: I'm Michael Shapcott. I'm the research coordinator for the Toronto Disaster Relief Committee, and Cathy Crowe is a street nurse and is a steering committee member. Cathy will begin by making some opening comments and I'll conclude with a few brief remarks at the end.

Ms. Crowe: Since I was last here to present to you, two interesting things have happened in my life. One is I was given the Atkinson economic justice award, which has given me the privilege of travelling around the province, looking at homelessness and the housing crisis in different communities. The other is I was appointed to Toronto's board of health, which means I have a great understanding now of what it's like for you folks to be listening to deputation after deputation. I did that yesterday. I'm just going to try to speak off the cuff and tell you from the front line why we're obviously appealing for more housing money in the next budget.

The last time I was at Queen's Park, as you may know, I was arrested. Not something a nurse does every day, but I was. I was arrested for attempting to put up a tent-like structure with six other front-line workers to really demonstrate the need for the Ontario government to keep its promises to roll out some housing money to not just Toronto—I'm not just doing this for homeless people in Toronto, but for across the province.

A quick snapshot of what we're seeing now and why it's a problem is obviously an enormous number of people sleeping outside, whether it's in York region on farmlands or in cars or in Toronto. Everybody knows the visible homelessness in Toronto. I was in Windsor last week, and every city I go to, it's the same situation: not enough shelter beds for families, and for women in particular, and organizations that are dying to create housing. They're just waiting for the monies to do that.

1450

Our current emergency right now is that we've just had our seventh case of active tuberculosis diagnosed in the homeless community in Toronto. That has also infected two front-line workers. There's massive bedbug infestation. Cities just can't grapple with what to do next without some rent supplement monies or other ways to start leveraging monies to move people from shelters into housing. That can happen through helping people get on ODSP, because people do have serious health problems, but also the rent supplement monies that we learned worked in the tent city situation.

Just to give you a snapshot, the picture is very dire. We can only do so much outreach and provide so many sleeping bags to people without having the need for places to actually put people into. I have been shocked that I've been hearing that in other communities, like Sudbury, for example, London and my hometown of Kingston. Being in Toronto, you become very egocentric about the city. To realize that it's as severe in other communities has been quite shocking for myself.

I'll turn it over to Michael, who will articulate what our situation demands are.

Mr. Shapcott: I regret to say that we don't have anything new to bring in terms of messages this year. Our message this year is exactly the same as the message we delivered last year, and I see some of the same faces around the table. I do want to say to you that in light of the urgent situation that Cathy Crowe has just outlined to you, this year we would ask the committee, in its recommendations to the Legislature, to underline the urgency of real action on homelessness and real action to build new affordable housing.

We think two things need to be done, and they're outlined in our submission. First of all, we are asking the government to take very concrete steps to move ahead on the promises the government made back in the fall of 2003, when, as the Liberal Party, they were campaigning for election in Ontario. A number of very specific promises were made under the heading of rebuilding public services. We set out some of these promises on pages 4 and 5 of our written submission. The Liberal Party promised 20,000 new affordable housing units for needy families. They promised a housing allowance program for 35,000 families. They promised a provincial rent bank to help tenants with short-term arrears, to put a priority on the development of affordable housing on government-owned lands, to create a new mortgage facility to assist in the development of new affordable housing, and also to put a priority on 6,600 new supportive housing units for those with special needs.

At the time, we said that was a good start. It wouldn't be a complete program, but it would be a good step forward. Quite substantially later, we've had at least one budget, and we've seen virtually no movement on the key promises of new affordable housing, new supportive housing and new rent supplements. We've seen a small number of small announcements but nothing substantial. Therefore, our message today to the committee is to underline that we think those promises should form the basis of the first step forward.

On page 6, the final page of our presentation, is what we think is the program that the government should in fact adopt, and we'd ask the committee to adopt this program. It would be a program to increase the social housing supply in Ontario on an annual basis by 13,000 units, to fully match the federal affordable housing program, which would be a 2,000-unit-per-year commitment. We'd ask the province to reassume responsibility for funding existing social housing. This was a decision made starting in 1998 by the previous government, to download the cost and responsibility for administering social housing, and it's created a serious burden for municipalities. We also want the government to move ahead on its promise of rent supplements. We're proposing a minimum of 10,000 new rent supplement units annually and, in addition, 27,000 rent supplements to be tied to the new supply program, to ensure that new housing is truly affordable. Those are our very specific recommendations.

I want to end and allow time for discussion and questions.

We believe, in light of the disaster, that now is the time for this committee to take very concrete action to move ahead. I'd also point out that we are asking, although we haven't costed it out, that while the housing is being built there is a continuing need for emergency shelters, temporary shelters for homeless people in almost every part of the province. The province does provide a per diem but the per diem is lower than the actual operating cost, so we'd ask the committee to recommend an increase in that per diem.

You will be hearing in a couple of days from a network we're part of called the Low-Income Energy Network, which is setting out a comprehensive strategy to deal with energy poverty and the problems created for low-income households as energy costs are increasing. We'd ask you to give favourable consideration to that report when it's released on Thursday. Thank you very much.

The Chair: This round of questioning will go to the NDP.

Mr. Prue: Just to deal with the second-last point first, the cost of per diem right now is around $41, I think. We've had several groups come forward and ask that it be raised to $50 or $51. Is that sufficient?

Mr. Shapcott: I think it should cover the actual operating costs. The costs of running a shelter vary from place to place in the province, and they also vary based on the needs of the shelter clients. One of the reasons costs can go up is because some homeless people do have needs in addition to just the need to have a temporary warm, clean, safe and healthy place to live. They may have medical needs, mental health or other needs, and it requires money to support people with those needs. Certainly putting it up to $50 would be a step in the right direction, but we think what the government should be doing is covering the real costs of operating shelters across the province.

Mr. Prue: I'd just like to go through the promises that were made. I know there was one group—not you but another group—called ISARC, the Interfaith Social Assistance Review Committee. They gave the government an F in housing and said they'd done virtually nothing. I just ask if you can tell me what you are aware of that the government has done on its plan to build 20,000 new housing units for needy families. How many houses have been built in Ontario?

Mr. Shapcott: We've had some announcements but we've had very few new homes. The critical problem is that the government said it would accomplish that by fully cost-sharing, fully matching the federal contributions. The previous government offered $2,000 per unit. The current government has offered no more than $2,000 per unit, so they're doing no better than the previous government.

Mr. Prue: The housing allowance for low-income families?

Mr. Shapcott: We've had an announcement of a pilot project that was made a few weeks ago. Both Cathy Crowe and I were at that announcement. It was 400 rent supplement units and it was mainly because some landlords were willing to throw a bit of money in the pot and a charity was willing to organize it. It was not, by any means, a housing allowance for 35,000 families and nothing near the kind of program that was proposed by the Liberals.

Mr. Prue: So they're around 1%. They've done 400 families.

OK, the rent bank?

Mr. Shapcott: Yes, that has been implemented. That was only a one-year rent bank, though. Sad to say, the problem of short-term arrears is an annual problem and it does need to continue to be replenished, so that's a real concern.

Mr. Prue: So that will have to be in this year's budget if it's to continue?

Mr. Shapcott: Yes.

Mr. Prue: OK. Housing on Ontario-owned lands?

Mr. Shapcott: We've not seen any indication that policy has been put into practice in terms of committing funds or a mechanism to ensure that government-owned lands are in fact turned over for affordable housing.

Mr. Prue: Supportive housing, 6,600 units: How many have been built?

Mr. Shapcott: We've seen an announcement just recently from the health minister which apparently included a supportive component, but it's very hard to determine exactly the numbers and so on. So there have been some announcements but we haven't seen any substantial progress on that either.

Mr. Prue: No spades in the ground anywhere?

Mr. Shapcott: No.

Mr. Prue: I still have time, I trust?

The Chair: One minute.

Mr. Prue: What you've asked for is the expenditure of—it's quite a bit, but I guess it's not that much—1% of the budget of Ontario to build supportive housing. That would be $700,000—sorry, $700 million?

Mr. Shapcott: It's slightly more. Since we launched the 1% campaign back in 1998, governments at all levels have been cutting spending, so what was 1% back then is now, because of the math—we've stuck with our original numbers, so we're slightly more than $700 million, plus, of course, we're asking that the province reassume funding for social housing, which is another $850-million pot on top of that.

Mr. Prue: And you'd like a significant portion of that to come forward in this year's budget?

Mr. Shapcott: When we launched our 1% campaign, 1% of the provincial budget was about $900 million, and that was the amount we asked for. That's roughly what we're asking for now, plus the province reassuming funding for existing social housing.

Mr. Prue: To date, how much do you think the government has spent?

Mr. Shapcott: They've announced something in the range of $60 million, but we have some difficulty confirming those dollars exactly. I would say it's quite considerably less than that.

The Chair: Thank you for your presentation this afternoon.

1500

RETAIL COUNCIL OF CANADA

The Chair: I would ask the Retail Council of Canada to come forward, please. Good afternoon.

Mr. Doug DeRabbie: Good afternoon.

The Chair: You have 10 minutes for your presentation. There may be up to five minutes of questioning following that. I would ask you to state your name for the purposes of Hansard.

Mr. DeRabbie: My name is Doug DeRabbie. I'm the director of government relations for the Retail Council of Canada. Thank you for the opportunity to appear before you today. I will try to move through the presentation quickly so that we have some opportunity for questions.

The Retail Council of Canada has been the voice of retail since 1963. We represent an industry that touches the daily lives of most people in the province. Like most associations, we are not-for-profit and are funded through dues revenues. Our 9,000 members represent all retail formats: mass merchants, independents, specialty stores and on-line merchants. You will notice from our presentation that 90% of our members are small, independent retailers and over 40% of our membership is based in

Ontario, which is consistent with industry averages that you'll see later.

The retail industry is a dynamic and fast-paced industry. Nationally, it contributes more than $330 billion annually to the economy. That represents about 5.6% of the GDP. In Ontario, we're currently posting about $105 billion as of October, but we expect that to push up to about $125 billion when the final numbers for last year are in. This represents more than 5% of the provincial GDP.

The retail sector touches every corner of the province and, as I said, there are two charts in your presentation today that give a little bit of a breakdown of what the retail sector looks like in some of the major cities across the province, both by number of establishments and by number of employees.

Despite its significant size and scope, retail really is dominated by small business. The majority of our members employ fewer than four people. When you see the "indeterminate" sector in graph 3, indeterminates are actually companies with no payroll; they are sole proprietorships, mom and pops. They don't have a payroll; they don't employ a single person.

Approximately 70% of the retail sector has sales of less than $500,000, and about 89% of the retail sector has sales of less than $2 million. So this is really small business we're talking about. We talk about the Wal-Marts or the Bays or the Sears, but they are really in the minority, at about 3% of the industry.

Retail is Ontario's second-largest employer, with almost 750,000 employees in the province. I think it's actually a little-known fact, but we rank right behind manufacturing—you can see that in the scale—and well ahead of health care, the tourism industry and others. It's just a huge industry in terms of employment.

Taking a look at the economic review and outlook, for Canadian retailers 2004 was a welcome return to a more normal environment after the Old Testament afflictions of 2003. Statistics Canada data indicate that retail sales in 2004 have continued the solid trend established in the last months of 2003, with sales advancing steadily most months. Results for Ontario, however, are significantly lower. Year-to-date sales show Ontario's growth at 2.3%, lagging significantly behind the national average. Also of interest is that Ontario's relative performance appears to have weakened over the course of 2004.

In RCC's opinion, it is the new tax levied in last year's budget, the Ontario health care premium, that is likely the main reason for the drop in Ontarians' spending. An analysis done for RCC by Statistics Canada provides a measure of the impact of the new tax on household disposable income. On average in 2004, Ontarians lost 0.3% of disposable household income due to the new tax. When the tax is fully phased in, this loss will jump to an average loss of 0.5% of disposable income in 2005.

Ontarians hit the hardest have household disposable incomes between $35,000 and $100,000. For these families, the average loss of disposable income amounts to 0.8%, which is between $403 and $871 each year. This is a significant amount of money for many households. Moreover, these households may not have felt the full impact of the health care premium during the last months of 2004, as their other legislated deductions such as CPP and EI had maxed out and been stopped. Coupled with post-holiday debt, it is likely that many Ontarians will suddenly face reduced circumstances in the new year and may well rein in their spending for at least the first few months.

As a result, RCC expects sales performance in Ontario to grow slowly this year, at a rate lagging behind the rest of the country. Retailers may also see hits to their margins and profits as competition intensifies to serve consumers searching even more aggressively for the best deal.

In terms of trends in the industry, consolidation continues as consumer preferences are still shifting toward the larger companies and formats. Mass merchants are taking considerable market share away from independents. Meanwhile, independents are really struggling at this point in time, and their success is going to hinge on finding that niche marketplace where a large retailer can't attack. They're really struggling with that.

Just to move on to some general fiscal policy advice: Retailers are encouraged by the finance minister's commitment not to increase taxes in this year's budget, and they also appreciate the government's plan to keep spending under control. However, retailers are looking to the government to follow through on its promise to encourage economic growth. Since October 2003, retailers have been grappling with a rash of government policies that are hindering their ability to remain competitive, including increases in energy prices, increases in the minimum wage, increases in blue box program fees and increases in red tape. If Ontario is to be the engine of the nation's economy, then it must work immediately to improve its performance of the past 18 months.

When the finance minister appeared before the committee last month, he suggested a list of seven questions to be asked of witnesses during pre-budget consultations. The proposals that RCC is bringing forward today effectively respond to each of these questions. Specifically, our proposals will help constrain spending and modernize government; eliminate duplication and waste; streamline regulation and enforcement and improve service to the public; inspire economic growth; improve transparency and accountability; and offer ideas for partnerships with the federal government.

In order for these proposals to have a positive impact, the government has to lay the necessary foundation. So in terms of some advice, we think the most important thing the government can do right now is sustain consumer confidence. That needs to be done by removing impediments to job growth, not adding them. It needs to be done, obviously, by balancing the increases that have already been done with stabilizing spending. We think the budget needs to be balanced sooner rather than later, because deficit budgets certainly do have a seriously negative impact on consumer confidence, which is going to affect the economy.

Moving on to something that we think you can do: As I mentioned, we're the second-largest employer, and the employer health tax, EHT, is a profit-incented tax that hits employers—large employers more adversely than others. We supported the elimination of the EHT on the first $400,000 of payroll back in 1996. Ontario is currently one of only five provinces that has this kind of tax, along with Newfoundland, Manitoba, Quebec and the Northwest Territories. In fact, Manitoba exempts the first $1 million of payroll. The exemption level helped us create over 84,000 new jobs between 1996 and 2003, and our message to you today is that it's time to increase the exemption threshold to at least the first $600,000 of payroll in order to increase jobs, improve income levels and stimulate domestic spending.

Next, I would like to talk about training tax credits. Our industry is facing a severe labour shortage in the coming years. We as a sector have identified this as one of our top priorities, and we've thrown considerable resources, both staff and financial, at dealing with it. We've launched what we call the "retail as a career" initiative, which has training models such as first-level managers and sales associates. This is really to help people who enter the retail workforce work their way up to management positions.

As you know, the government late last year adopted its employee training tax credit. This is an important initiative; however, it is geared primarily to the construction, industrial and manufacturing sectors. We're asking today that you consider extending the training tax credit to the service sector, and particularly to the retail sector, so that more employers can benefit from those training programs and really help to develop the skill sets within the retail sector. We encourage you to move forward with that. We think that's a really positive thing that the government can do.

1510

Regarding energy conservation, I am pleased to say that this is an area that our members are actively involved with. In fact, all retailers recognize the value of conserving energy, both from a responsible corporate citizen perspective and from an economic perspective. What we are asking for today is help from the government to allow our members to build upon their successes. Specifically, we would like to see the government offer a number of financial incentives, as well as develop a variety of education and awareness programs. This would also go a long way to helping the government achieve its objective of reducing energy demand by 5% by 2007.

Moving on to environmental levies, this is increasingly becoming a concern for retailers, as governments look to industry to fund all the various recycling programs that are out there. Our members support these programs and, in fact, are actively engaged in each and every program across the country. Given the significant impact these programs have on both businesses and consumers, we feel that the Ministry of Finance should play an active role in developing, approving and implementing recycling programs here in Ontario. Moreover, we are calling on the ministry to advocate for the harmonization of these programs in order to ensure that they are administratively efficient for businesses to implement. To ensure transparency, we're calling upon the ministry to recommend that retailers be allowed to show environmental levies on the sales receipt.

For many years, RCC has pressed for harmonization of provincial sales taxes with the GST. We believe the value-added nature of the GST is much superior to the retail sales tax model. As well, harmonization of commodity taxation into one system would bring important economic benefits and savings to governments and taxpayers. Accordingly, we are urging the Ontario government to work with the federal government to pursue harmonization. The one caveat we have here, however, is that any such system must allow retailers to display prices tax-out in order to ensure that consumers receive the benefits of harmonization.

The Chair: You have about a minute left.

Mr. DeRabbie: OK. Looking at the taxation of business software, Ontario levies the PST on the full cost of software that is loaded on the server located in the province, regardless of where the software is used. This policy is not consistent with what is followed in other provinces. They tax the purchase of such software because it is used in the jurisdiction. The amount of tax required to be paid is proportional to the relative use of the software in the jurisdiction. So basically, we are looking for Ontario to bring its policy into line with that of the other provinces.

In closing, I'll note that there are two other briefings in your book. Both are tax simplification issues: one on bottled water and one on herbals and naturals. The issue with those is that Ontario applies PST differently to those products than other provinces or than the federal government does with GST. We'd ask, just for simplification, that Ontario move to streamline the application of PST on those items. We're not going to say whether you should exempt them or tax them. We're just going to say, make it simple and streamline it so retailers know what they're charging PST on and what they're not, because there's a lot of confusion in the marketplace about that.

Thank you again for your time today, and I hope that leaves time for questions.

The Chair: Thank you, and this round of questioning will go to the government.

Mr. Wilkinson: Great. Hi, Doug. Thanks for coming in today. We appreciate it. This is a great brief you've put together, because you're one of the few people who actually listened to what the minister said back in the beginning of December when we started this process and actually tailored your remarks to those things. So all of the members of the committee really appreciate that.

I just want to go over a couple of things that you were talking about. Of course, your sector is very important to the health of our province. That's without question.

I guess my concern is a couple of things, some comments you were saying. Balance the budget this year: That would be ahead of plan. I can assure you that would not be done without massive job layoffs, which I would assume would depress the retail market in Ontario substantially. So I'm sure the minister is going to stay his course on getting us in balance over the mandate, as we stated.

I guess my other concern is to just let you know there have been quite a few people in here lately telling us that we should scrap the $400,000 on the employer health tax. You'd like the exemption on that raised to $600,000. They're very unhappy with that. So just so you know, it's good that you came and mentioned that. We're hearing the other side of the argument, because we've heard quite a bit of that today.

I just wanted to talk to you about the training tax credit on the retail sector. We are very committed to trying to build up apprenticeship, the skilled labour side. I think traditionally we've all thought of that as mechanics and carpenters and bricklayers, but could you kind of flesh that out for us a bit?

Mr. DeRabbie: Sure. Actually, we had a very good meeting this morning with the Minister of Training, Colleges and Universities to look at ways we can work together to develop skills in the retail sector. We see ourselves as the portal to the world of work, and what we'd like to be able to do is get the government to the table on this important initiative.

It's quite interesting. With retailers, you still have people who can start off as a cashier or as a clerk and end up as the president or CEO of a company, as is the case with the president of Wal-Mart Canada. So I think what we're really looking for is recognition by the government that this is important and then looking at ways we can work together to certify workers, to train them, to work with internationally trained workers and, through doing so, improve the economy of the province.

Mr. Wilkinson: And then build up those skill sets and identify that. If we're able to successfully sign a labour market agreement with the feds, I think there are some great possibilities here in Ontario for that.

We face a tremendous challenge in the province in regard to energy and a renewed focus on conservation after all of these years, and you're saying retailers in Ontario want to play a part in that. Can you be a bit more specific about how you see that working?

Mr. DeRabbie: We had actually appeared before the Conservation Action Team last fall and talked about the initiatives that our members are working on, as well as looking at the barriers they face and the incentives they would like to see. We certainly would like to see financial incentives. I think that would be important for energy-efficient technology, looking at incentives for new buildings to put in energy-saving controls and incentives for retailers to purchase energy-efficient equipment. But I think we can also work together on having education and awareness programs, both for businesses and for the public. I think if we can have some sort of a program that identifies and promotes companies as power-smart consumers, that would go a long way to engaging retailers in this area and having them build upon the successes that we have achieved already to date.

Mr. Wilkinson: That's great. The material that you could get specifically, you're seeing that more from a branding and maybe an exemption on the PST type of idea?

Mr. DeRabbie: Certainly. It's interesting because, of course, it's different when you look at large retailers versus small retailers. Large retailers see this as an economic benefit for them because they can substantially reduce their energy costs. With smaller retailers, it's engaging them on other levels, and one of them is through marketing. As I mentioned, it's a tough world out there right now. Independent retailers are struggling with a lot of different pressures, and one of the things they can use to stand out from their competitors is being environmentally friendly or power smart. I think if a program comes up geared to small retailers, that would help them buy into this.

The Chair: Thank you for your submission this afternoon.

CO-OPERATIVE HOUSING FEDERATION OF CANADA, ONTARIO REGION

The Chair: I call on the Co-operative Housing Federation of Canada, Ontario region, to come forward, please. Good afternoon. You have 10 minutes for your presentation. There may be up to five minutes of questioning following that. I would ask you to state your names for the purposes of our recording Hansard.

Ms. Lori-Anne McDonald: I'm Lori-Anne McDonald.

Mr. Harvey Cooper: I'm Harvey Cooper.

Ms. McDonald: I would begin by thanking you all for allowing us to make this presentation on behalf of more than 125,000 members living in 550 housing co-operatives in Ontario.

Housing co-operatives want to continue helping to meet the affordable housing needs of Ontarians. In our presentation today, we'll focus on a number of key housing issues that the Ontario government should consider as it prepares its 2005 budget: (1) meeting the government's housing commitments; (2) the state of housing in Ontario, a dilemma of supply and demand; (3) the affordable housing crisis, which is unaffected by increased vacancy rates; (4) improving the federal/provincial affordable housing program; and (5) protecting the viability of existing community-based housing.

We'll start with (1), meeting the government's housing commitments. Co-operative housing members applauded the new government's housing commitments, especially the promise to match federal funding under the affordable housing program to create 20,000 units of affordable housing in its first term. Together with the Ontario Liberals' pledge to fund housing allowances for 35,000 households, this was heartening news. Unfortunately, in the 2004 budget, the province decided not to fund these commitments.

Was this decision due to a misreading of the current rental housing market, in particular the increasing vacancy rates? In fact, the recent easing of vacancy rates is caused by a combination of extraordinary and temporary factors that should not mask the underlying need for more affordable housing supply.

1520

Let's talk about the state of housing in Ontario, a dilemma of supply and demand. In July 2004, the Ontario region of CHF Canada and the Ontario Non-Profit Housing Association, ONPHA, jointly published Where's Home? 2004: A Picture of Housing Needs in Ontario. This report takes a comprehensive look at housing issues across Ontario and in 21 selected municipalities. Where's Home? illustrates trends in rents and vacancy rates, rental housing development, tenant incomes and housing affordability. It is based on data provided by CMHC, Canada Mortgage and Housing Corp., and Statistics Canada. We have on hand copies of the full report, which I was waving in the air, that can be provided to any committee member interested. Although it gives you all the detail, some of the highlights include:

Many households simply cannot afford available rents. Social housing waiting lists across the province remain long and continue to grow. Households on these waiting lists are conservatively estimated to number over 160,000.

An incredible 270,000 Ontario renter households, or 20% of all renter households in the province, pay over 50% of their income on rent.

Rental production in the late 1980s and early 1990s averaged more than 14,000 units annually. With the exit of senior governments from the housing field, this figure has declined to just over 2,000 units per year since 1995.

CHMC estimates demand for additional rental housing in Ontario to be about 16,000 households per year.

Let's talk about the affordable housing crisis, which is unaffected by the increased vacancy rates. While it's tempting to embrace this as good news, that there is an increase in the vacancy rates, there is more to the picture. Many years of low vacancy rates and rent increases higher than inflation have distorted the market fundamentals for renters. A variety of factors are at work in the loosening of vacancy rates, including the following:

There has been a dramatic increase in rents in recent years, particularly because of vacancy decontrol, with increases at double the rate of inflation in some municipalities.

Conditions for owning homes or condominiums have improved. Low, stable mortgage rates have temporarily reduced demand for rental housing. The current principal and interest carrying costs on Ontario's average-priced resale home remain very low by historical standards.

Net migration to Ontario has come off its 2001 peak, reducing pressure on rental demand. This may well change with the arrival of immigrants from tsunami-ravaged southern Asia.

Many young adults who would normally rent their own apartments are staying at home longer, due to relatively high youth unemployment.

Overall, it is important to remember that vacancy rates are cyclical. One can envision rates dropping as rapidly as they recently rose with increased interest rates from today's historic lows, return of normal immigration levels, and the slowing of graduation to home ownership as the pool of tenants with down payments dries up.

Let's talk about improving the federal-provincial affordable housing program, and I know you heard about this a little bit earlier.

Over three years ago the federal and provincial governments formally committed to the affordable housing program in Ontario. Because of serious program flaws and the lack of a matching provincial financial commitment, only a fraction of the promised units have been allocated under the program. The affordable housing program was planned by the previous Ontario government as a short-term, private rental supply program.

In the past year, we have made two submissions to the province proposing changes to the program that would help ensure that the public investment results in permanently affordable housing. As the province plans for the 2005 budget year, we are asking it to consider the recommendations that we set out in our report and that I'm going to review with you.

The province should provide capital grants to fully match the federal funding now available under the affordable housing program. The AHP was designed as a cost-shared program of the federal and provincial governments providing up to a total $50,000 per unit in capital grants. The previous provincial government was willing to fund only about 10% of the provincial share, relying on municipalities, the private sector and other community partners to come up with the remaining 90%. The Ontario Liberal government has not yet increased its contribution beyond the $2,000 per unit committed by their predecessors.

The Ontario government should redesign the affordable housing program to focus on developing not-for-profit housing to ensure long-term affordability and value for the public investment. New supply initiatives by the province should focus on developing permanently affordable, non-profit housing. Co-operative and other forms of non-profit housing have proven over time to provide the best return on public investment. Many earlier government housing programs, based in the private sector, have been unsuccessful. The poorest households have had little access to the housing, the units have not remained affordable and there has been little accountability to the taxpayers.

Provincially funded rent supplements should be provided for at least half of the 20,000 units to be developed under the program. The most glaring fault of the current affordable housing program is that it does not serve the hundreds of thousands of Ontario households on social housing waiting lists. As designed, the program sets the market rents to match CMHC's average local rent. To be considered affordable, at least half of the promised 20,000 units in the program must be accessible to low-income households on a rent-geared-to-income basis. We suggest that the government use a portion of their proposed $100-million housing allowance program, merged with the affordable housing program, to provide these rent supplements.

The government must produce a mix of not-for-profit housing, including co-operatives, private and municipal non-profits, and supportive housing. The province should produce a mix of affordable housing to meet a range of needs. For the past three decades, most government housing programs have been designed to achieve this goal. Unless the province clearly targets a range of housing solutions for funding, underresourced community housing options, including co-operative housing, will continue to be marginalized.

The province should redesign the affordable housing program to ensure that the program works for smaller community-based housing organizations. Under the affordable housing program, non-profit and co-op proponents struggle with lack of equity and front-end cash flow. These problems must be addressed, and we have a few suggestions listed in our report.

We must protect the viability of existing community-based housing. The Ontario government should provide funding in the 2005 budget to top up the capital reserves of all co-op and non-profit housing providers operating under the Social Housing Reform Act to a level that will enable them to pay for the future replacement of their capital needs.

The Vice-Chair (Mr. Phil McNeely): You have one minute left.

Ms. McDonald: Thank you. The long-term viability of the social housing stock administered by municipalities is at serious risk. While the housing was still under provincial administration, the province imposed a moratorium for several years on the funding of reserves. We are now estimating that this shortfall is anywhere from $500 million to $1 billion. One immediate measure the province should consider is leveraging the government's preferred interest rate under the proposed mortgage partnership or the infrastructure financing authority to allow providers easier access to capital financing for significant repairs.

The province should and must commit to a comprehensive review of the Social Housing Reform Act and include the co-operative housing sector as a key stakeholder. Unfortunately, the Social Housing Reform Act has failed to deliver the more businesslike and reliable operating framework that co-ops had hoped for. In fact, in some respects, the funding arrangement under the act is less secure than ever. These problems must be addressed as part of a comprehensive review of the act. This is the number one priority for Ontario housing co-ops. The SHRA is undermining the community-based housing model that government turned to more than 30 years ago as an alternative to large-scale, government-owned and managed housing. Of course, we have put these recommendations forward to the Honourable John Gerretsen as well.

In closing, the co-operative housing in Ontario is a well-documented success story. I am proud to be the president of the Ontario council for CHF, and I am proud of our history. For more than three decades, co-ops have provided good quality affordable housing owned and managed by community residents who live there. We look forward to working with the provincial government to strengthen these communities and develop more co-op housing to meet the needs of Ontario citizens.

Once again, I'd like to thank all the members of the committee for this opportunity, for giving me a chance to express my views today. Thank you very much.

The Vice-Chair: Thank you for your presentation. We'll now go to the official opposition.

Mr. Flaherty: How much time do we have?

The Vice-Chair: Five.

Mr. Flaherty: Five minutes. What's the growth like in the co-op world in Ontario? How much new co-op development is there?

Ms. McDonald: Virtually none, but—

Mr. Cooper: In the last, I guess, 10 years, since the federal government and the provincial government exited from the field, we've seen a handful of co-op units without government assistance come on board across the province, but it's very small in number.

Mr. Flaherty: I know in one of my own communities, in Whitby, that we have a significant co-op presence that's popular and well-run and serves significant housing needs. What's the resale market like?

1530

Mr. Cooper: Well, these are non-profit in perpetuity, so when residents move out of the co-operative, they don't pass their units on to anyone. It goes to somebody else on the waiting list.

Mr. Flaherty: I didn't put that properly. I meant to say "demand." What is the demand like in terms of waiting lists?

Mr. Cooper: The waiting lists, as noted in our brief, are quite lengthy. It would probably take, in different areas of the province, five years, six years, seven years; maybe in some of the smaller communities two or three years, but certainly in the major urban areas, including Oshawa, I think five years would be a reasonable expectation for perhaps somebody to wait to get in.

Mr. Flaherty: What makes up the demand? Are we talking about families with children?

Mr. Cooper: Most of it is family housing, although we have a range, everything from bachelors to four-bedroom townhouses. Probably two and three bedrooms are in the greatest demand right now.

Mr. Flaherty: In what areas of the province do you see the greatest demand?

Mr. Cooper: Again, most of our co-ops are concentrated in the urban areas, so Toronto; Ottawa; the Kitchener-Waterloo area is booming; Hamilton; certainly the Pickering-Ajax area is doing fairly well. There isn't a problem in terms of trying to have new residents move in; the problem is the lack of units available.

The Vice-Chair: That's the end of the questions. Thank you very much for the presentation.

ONTARIO RESTAURANT HOTEL AND MOTEL ASSOCIATION

The Vice-Chair: We'll now hear from the Ontario Restaurant Hotel and Motel Association. Thank you very much for being here. You have 10 minutes for your presentation. Please state your name for the purpose of our recording Hansard when you start.

Mr. Terry Mundell: My name is Terry Mundell and I'm the president and CEO of the Ontario Restaurant Hotel and Motel Association. The ORHMA is the largest provincial hospitality association in Canada and represents an industry comprising more than 3,000 accommodation properties and over 22,000 food service establishments, 17,000 of which are licensed to serve alcohol in Ontario.

Our industry is one of the most dynamic and competitive sectors of the provincial economy, yet it continues to struggle from a number of uncontrollable factors, such as 9/11 and the resultant border delays, SARS, mad cow, the NHL strike, high gas and oil prices, rising insurance costs, the high Canadian dollar, and increased food costs due to weather conditions in the southern states.

Many of these factors and other factors have affected the travel patterns into and out of Ontario. US tourists to Ontario accounted for more than 20% of Ontario's tourism in 2004. Only 21 million Americans traveled to Ontario in 2004, compared to 28 million in 2001, a decline of 25%. Tourism projections indicate a slight increase in American tourism to Ontario over the next four years, but 2008 estimates—25 million—remain lower than 2001 statistics.

In order to support the sustainability of the industry, the government must take action to ensure that both fiscal and social policy foster and support business growth and do not jeopardize investment, competitiveness and employment.

Recognizing the challenges the government faces, ORHMA recommends a number of policies to support the sustainability of our industry and to leverage Ontario's hospitality industry as a tax revenue and employment generator for the provincial economy.

I've put forward to you a detailed submission outlining some of the priority areas of concern and several specific recommendations, but I wanted today to simply provide you with an overview of these concerns as time permits. The focus of our recommendations is the sustainability of the hospitality industry.

The ORHMA was pleased with the recent announcement by the finance minister that an advisory panel has been established to undertake a comprehensive review of Ontario's beverage alcohol system. This is an important initiative, as the alcohol pricing structure in Ontario is very complex. Unlike other consumer products, prices not only reflect the manufacturer's cost, the wholesale and retail markups and the federal and provincial taxes, but there is also an intricate system of additional fees and levies that drives up the licensee's costs of serving wine, beer and spirits.

To create efficiencies, lower costs and make our industry more competitive, licensees require more options regarding selection and purchasing. To accomplish this, the ORHMA recommends that the government eliminate the gallonage fee, implement a true wholesale pricing regime for licensees and establish a transparent and accountable system for beer pricing in Ontario.

Moreover, as part of the discussion on the beverage alcohol system, the government must examine the roles and responsibilities of the Alcohol and Gaming Commission of Ontario, which acts as both the adjudicative body as well as the enforcement agent. This creates great concern for Ontario's licensees. The ORHMA recommends that government separate the enforcement and prosecution functions from the adjudicative functions of the AGCO.

Ontario's licensee community is about to be further hurt by the Smoke-Free Ontario Act. Let me be clear: The ORHMA supports provincial legislation to do away with the existing patchwork of municipal bylaws. However, the Ontario tobacco strategy has implemented measures to assist Ontarians with smoking cessation programs and has put in place measures to assist Ontario's tobacco farmers, but it has failed to examine an exit strategy for the hospitality industry. The ORHMA therefore recommends that the government prepare a phase-out strategy specific to the hospitality sector. This may include such supportive measures as the elimination of the gallonage fee, the establishment of a wholesale liquor pricing structure and dedicated support for the more than 700 operators who have invested in municipally approved designated smoking rooms and will lose that investment due to the Smoke-Free Ontario Act.

From a broader perspective, the whole of Ontario's hospitality industry requires the government's support through sustained investment in tourism marketing. Dedicated investment in tourism marketing is fundamental to the success of the tourism and hospitality industries. The Ontario Tourism Marketing Partnership Corp. works collaboratively with the private sector to promote Ontario as a four-season destination through the development of research-driven campaigns. The ORHMA recommends that the government support the promotion of tourism within and to Ontario through a $20-million increase in permanent annual funding to the OTMPC, with some funds specifically allocated to attracting more US visitors to Ontario. Windsor, Niagara, areas in northern Ontario and of course Toronto count on these funds and those visitors to increase their businesses.

Furthermore, to support the promotion of destination marketing, the ORHMA continues to support industry-led destination marketing fees. The 2004 provincial budget announced a one-year RST exemption for DMFs The ORHMA recommends that the RST exemption on DMFs be made permanent, and further recommends that the government reject municipal requests to levy a hotel room tax to fund municipal infrastructure and programming costs.

Ontario's hospitality sector is already paying exorbitant municipal fees. Commercial property taxes in Ontario remain unfairly and uncompetitively high. Property taxes make up 17% of a food service establishment's net income before taxes, and Ontario's accommodation properties pay almost 80% more in property taxes than the national average. The ORHMA recommends that the provincial government introduce legislation requiring municipalities to be within the ranges of fairness by 2006, and that the provincial government maintain existing commercial property tax rate caps.

As well, the provincial government should not permit new revenue-generating powers to municipalities that would levy new taxes on business, thus negatively impacting investment, private sector revenues and subsequently job losses.

The ORHMA is also concerned with Waste Diversion Ontario. Only two years ago, stewards paid $30 million toward municipal blue box programs. The 2005 rates have just recently been approved and stewards will remit more than $64 million to fund their share of the municipal blue box costs. Stewards require real and immediate assurances that the fees they submit are used specifically for this program, and that the programs are operated in an efficient and accountable manner.

In order to assure both cost containment and cost certainty for stewards, the ORHMA recommends that the government establish a standard municipal model for waste diversion, specifying the types of materials collected and the costs and revenues associated with each, as well as a standard reporting model, to assure stewards that remitted funds are directed to approved costs and expenditures.

The ORHMA further recommends that, using the standard municipal waste diversion model, the government compel municipalities to implement cost containment strategies.

As a closing comment, the ORHMA was pleased with the government's focus on northern Ontario in the 2004 budget. Unfortunately, our members in the north continue to struggle and have seen little action on the positive initiatives previously announced. We urge the government to revisit their earlier commitments to northern Ontario and to take action immediately to provide economic development opportunities in northern Ontario, which in turn will help provide a sustainable hospitality industry.

Thank you very much for your time.

The Vice-Chair: Thank you for your presentation. We will now go to questions by the NDP.

1540

Mr. Prue: Terry, a pleasure to see you again, as always. You've got a number of recommendations here; let me just go down through some of them.

You are recommending that the government separate the enforcement-prosecution function from the adjudicative function. This committee just recommended something very similar with the Ontario Securities Commission. Are you aware of that one and is it the same rationale?

Mr. Mundell: It is in fact the exact same rationale, Mr. Prue.

Mr. Prue: Why do you find it difficult the way it's set up now? Do you think the appearance of fairness is not there because the prosecutor and the adjudicator are one and the same?

Mr. Mundell: It is very much that, that there is an issue around the appearance of fairness. In terms of the last decision and the announcement by the government to change the other commission, I think the principles are exactly the same. You have an enforcement agency and an adjudication process that are twins, are in the same organization. In my mind, there is no transparency in that process, and to our members I think there is no sense of fairness in that. Those who lay the charges get to decide whether they did the right thing or not.

Mr. Prue: OK. You've made a recommendation here on the designated smoking rooms, 700 such operators in the province of Ontario. Of course, living in Toronto, I am most familiar with what Toronto did: Those are all grandfathered until the year 2006, at which time they're not to be there any more. I know other municipalities have deadlines. Most of them have the same deadline or approximately the same year. You want a lump sum payment. I'm just wondering why the province or anyone would pay. Why wouldn't you just wait until 2006 when they phase out all by themselves anyway?

Mr. Mundell: I think that's the issue. You have a group of operators across Ontario who went out and put together a business plan to make a capital investment in their facilities. The payback time for that capital investment for many of them could have been five, seven, 10 years down the road. Having said that, they were complying with the municipal government and the municipal laws of the time. Essentially, you have a situation where on May 31, 2006, that capital investment and the business plan you had to recoup that revenue is no longer, because you can no longer use that facility. So in good faith, operators invested in their business, went to their banker and borrowed money with a longer payback period. Essentially you now have that payback period being shortened, so they won't have the revenue to pay for the capital costs and the loan they've got. Somehow, the government has looked at transition studies in that legislation, the Tobacco Control Act, where they've dealt with exit strategies for the farming community and have dealt with cessation programs for Ontarians, which all make sense. What they've not done yet is dealt with an exit strategy for the hospitality industry.

Mr. Prue: But the exit strategy would be—I'm trying to get a time frame.

Mr. Mundell: Well, if the legislation comes into place May 31, 2006, you need to start now to build revenues to be able to handle the dip. Since 1999, the bar and tavern sector has dropped 17% in revenues and their average profits went down to about 3.7% from 5.4%. We need to start now with that community to build revenues to sustain the initial hit they're going to have when that legislation goes into place on May 31, 2006.

Mr. Prue: This question has to do with the rejection of the municipal request to levy a hotel room tax. For years, the Ontario hotel association lobbied to have such a tax. When the province and the municipality were unable to do it, they, in the Toronto area anyway, levied their own. It seems that your association is diametrically opposed to the group that went ahead and did it and is generally responsible for hotel rooms.

Mr. Mundell: Actually, we're not opposed; we're 100% on the same page. The situation in Toronto with the Greater Toronto Hotel Association—and I know you'll hear from them in the morning—is that they went out and the industry initiated a voluntary destination marketing fee. That marketing fee raises a significant amount of money to be used toward marketing the city of Toronto and the GTA. What is happening in your discussions around the new City of Toronto Act and changes to the Municipal Act—the city of Ottawa requested the same type of authority—is to look at allowing the city of Toronto or other municipalities the authority to put a tax on hotels, the money from which would then be used to fund municipal infrastructure programs, bricks and mortar. The destination marketing fee in place right now in Toronto is used specifically to market Toronto and the GTA. That's the difference. It is a significant difference in terms of the end result, who uses it etc.; it is not to be used for municipal property tax or like property tax. We now pay 80% more in property tax on average than the national average.

The Vice-Chair: Thank you very much. That's the end of the question time. Thank you for your presentation.

INCOME SECURITY ADVOCACY CENTRE

The Vice-Chair: The next delegation is the Income Security Advocacy Centre, if you would just come to the front. You have 10 minutes for your presentation. There will then be five minutes for questions. When you begin your presentation, please state your name for the purposes of Hansard.

Ms. Carol Deacon: Thank you for inviting me here. My name is Carol Deacon, and I'm with ISAC, the Income Security Advocacy Centre. ISAC is a provincial test case and law reform clinic that is part of Legal Aid Ontario.

In discussions about budgets, we focus a lot on numbers. We must keep in mind that we are not just talking about numbers in isolation from people's lives. We must remember that numbers have consequences, especially for low-income people.

Last year's budget spoke to the need to revitalize Ontario's social services sector. Over the past year, the Ontario government has made some movement in this regard. However, the revitalizing process has stalled because of the government's insistence that no more money is available. The government must ensure that there is sufficient revenue to do what is necessary. Sufficient revenue to rebuild social services can be achieved either by earmarking existing revenue or raising additional revenue through taxation.

Social assistance is one of the key components of income security in Ontario. However, Ontario Works and Ontario disability support program benefits are failing to provide adequate income to low-income people simply because the rates are so low. People on social assistance, as you all well know, are living far below the poverty line. The government's 3% increase to social assistance rates will not be implemented until March 2005 and falls well short of providing an adequate level of income for individuals and families surviving on social assistance.

The reality is that the vast majority of people on social assistance are there for one of three reasons: loss of job, loss of spouse or loss of health. We need social assistance rates that enable people to have an adequate standard of living while they are dealing with a crisis that could happen to any one of us.

The March 2005 increase of 3% to social assistance is not adequate. For example, a two-parent family with two children under seven years of age will receive approximately an additional $12 per week from the Ontario disability support program or approximately an additional $8 per week from Ontario Works to meet all of that family's needs. That family is still living approximately 40% to 60% below the poverty line, depending on whether they receive Ontario disability support or Ontario Works benefits. Consider also that a single mother with one child will receive a shelter allowance of $526 from Ontario Works, while the average cost of a one-bedroom apartment in Ontario is $767. The 3% increase in March 2005 falls short of the mark.

It is ISAC's position that social assistance rates should be raised to reflect the real cost of living. That means shelter costs that are based on average rents as calculated by the Canada Mortgage and Housing Corp., a basic needs allowance that is based on the nutritional food baskets prepared by local health units, and the calculations for the costs of household operation, household furniture and equipment, clothing, transportation and health care reported in Statistics Canada's average household expenditures. ISAC's position is in keeping with the jury recommendations that examined the death of Kimberly Rogers.

Inadequate social assistance rates are compounded by the fact that the provincial government claws back the national child benefit supplement, or NCBS, from families receiving social assistance. Premier McGuinty promised to end the NCBS clawback. He has not yet kept his promise. Instead, the Premier has simply allowed families receiving social assistance to keep the July 2004 increase to the NCBS. Consequently, a single parent with two children receiving social assistance will receive a monthly NCBS benefit of $234 from the federal government. The Ontario government claws back $226 each month from that parent's social assistance. That means this family only gets to keep a total of $8 each month. This is a lot of money for any family to lose in a year, let alone a family that is trying to survive on income that is well below the poverty line.

1550

The clawed-back money is used to fund reinvestment programs for low-income families. In effect, the reinvestment programs are funded on the backs of families receiving social assistance, some of the poorest families in Ontario. To make matters worse, many families on social assistance cannot access the reinvestment programs.

Worthwhile though they may be, the reinvestment programs should not be funded this way. It's ironic that some food banks are partially funded by municipalities through NCBS clawback funds. Approximately three quarters of the Daily Bread Food Bank clients surveyed in 2004 who received social assistance and had children believed they would not need to use the food bank again or could reduce their food bank visits considerably if they did not have the NCBS clawed back from their social assistance cheques.

The reinvestment programs may be important, but these programs should not be funded at the expense of hungry children. In Ontario, the average monthly number of children affected by the NCBS clawback in 2003-04 was approximately 164,000. It is ISAC's position that ending the NCBS clawback from social assistance cheques is a crucial and necessary step that the government must take immediately.

The minimum wage effectively acts as a ceiling for social assistance rates. Provincial governments stubbornly refuse to set benefit levels higher than the minimum wage. An inadequate minimum wage means inadequate social assistance rates. As you know, the provincial government has raised the minimum wage. However, the minimum wage is still not adequate. A minimum-wage worker, as of February 1, 2005, will earn $7.45 an hour. That person will be living on wages that are approximately 32% below the poverty line. If the worker has dependants, the situation is even more dire.

Women, immigrants and visible minorities are overrepresented in Ontario's low-wage workforce. Canadian and American studies have shown that raising the minimum wage would have a minimal impact on employment levels. Factors such as the business cycle, economic growth and labour supply are far more important than the minimum wage in determining employment levels. These studies illustrate that raising the minimum wage will not automatically lead to job loss. Politicians have to resist the argument that minimum-wage workers have to choose between a decent wage and a job.

Politicians should also resist the argument that minimum-wage workers are concentrated in small businesses struggling to survive. In 2000, according to Statistics Canada data, 71% of low-wage jobs were in businesses with more than 20 employees and 40% of low-wage jobs were in businesses with over 500 employees. On the other hand, raising the minimum wage will put more money into the hands of low-income individuals and families, who in turn put millions of dollars into local economies. Raising the minimum wage means individuals, families and the broader community are all better off. It is ISAC's position that the minimum wage should be immediately raised to $10 per hour and thereafter indexed to the cost of living as an important first step toward ensuring the right of all workers to an adequate standard of living.

In December 2004, Deb Matthews released her review of employment assistance programs in Ontario Works and the Ontario disability support program. The Matthews report thoughtfully took into account the views expressed by low-income people and their advocates. It is the position of ISAC that people whose circumstances compel them to rely on social assistance will be well served by implementing all of the recommendations in the Matthews report.

In conclusion, the measure of any society is the manner in which it treats and responds to its most vulnerable people. Individuals do not choose or create poverty, states do. The question is one of political will.

On behalf of low-income Ontarians, we ask the committee to recommend that sufficient revenue, whether from existing or new sources, be allocated in the 2005 budget to achieve the following:

(1) an increase in social assistance rates reflecting actual costs of living in each community;

(2) an increase of the minimum wage to $10 an hour;

(3) an end to the NCBS clawback; and

(4) implementation of the Matthews report recommendations.

The Chair: Thank you. This round of questioning will go to the government.

Mr. Wilkinson: Thank you for coming in, Carol. We appreciate it. There are just a couple of things I wanted to go over with you. You have to be Solomon to be in this job nowadays to try to deal with all the competing interests and to help out.

I know you were very complimentary about Deb Matthews's work. She just poured her heart and soul into that. But you seem to criticize the minister for not acting on it. That report is relatively new and things are done on a budgetary cycle, so Minister Pupatello needed to get that information from my colleague Ms. Matthews to start building the case inside her own ministry and then subsequently to cabinet about how to address this. Again, I wouldn't discount the work that she did. I think it's been quite influential on the government, particularly, I know, with her colleagues. We all read it with a tremendous amount of interest because, as MPPs, all of us deal with this every day. People come to our offices, and their problems are compelling.

The national clawback is, I think, the most difficult of issues and something that we're just grappling with. Basically, you're saying, "Just raise taxes or get it from someplace else. Stop the clawback, but don't get rid of these other programs." In our ridings, we know where some of this money is going into these other programs, and they're valued programs as well. Really, it's a question of where we need to have both. I just want to get your opinion on that, just so we're clear: Get rid of the clawback, but maintain all the other programs that are being funded by that?

Ms. Deacon: Yes. I think it's possible. I think you have to look at the programs themselves to ensure that they're all worthwhile, that there's no duplication. I think, in terms of funding the programs, if you look at

Manitoba, they were able to phase out the clawback, and they maintained all of their programs.

Mr. Wilkinson: How long did it take for them to do that?

Ms. Deacon: I believe it was three years.

Mr. Wilkinson: So we're trying to come up with some type of a program that would allow us to get to the promised land. It's very difficult under the fiscal constraint that we have. We had three economists in here today. One said, "No, things are much better than you think," and we had two saying, "No, no, they're not nearly as rosy as you think. We're heading for an economic bruising in this province." All of us around the table, collectively, hope that things are better. Of course, you just never know. But you're saying that we'd be able to get this over the three years.

The other question is—

Ms. Deacon: Might I just go back to the other question?

Mr. Wilkinson: Yes.

Ms. Deacon: In terms of the programs as well, there's a substantial pot of money that's not even spent. When we looked at 2003 figures, I believe, from the various municipalities, there was over $20 million unspent that was carried over. So I think there's probably movement there, in terms of not necessarily needing the amount of money that's clawed back.

Mr. Wilkinson: You do have some concerns that perhaps there is some duplication and perhaps some programs that aren't as effective.

Ms. Deacon: Exactly.

Mr. Wilkinson: I know it's difficult for you, politically, to say which ones those are, but you do have concerns. That's the thing that we have to look at to be able to try to have both of those things. We definitely can't afford duplication; I can assure you of that. It's hard enough to come up with the money we need.

Ms. Deacon: I leave that to the government. I believe the government's doing a review now of the programs, so you would be in a better position to know if there's duplication.

The Chair: Thank you for your presentation this afternoon.

TORONTO BOARD OF TRADE

The Chair: I call on the Toronto Board of Trade to please come forward. Good afternoon. You have 10 minutes for your presentation. There may be up to five minutes of questioning following that. I would ask you to identify yourselves for the purposes of Hansard. You may begin.

Mr. Glen Grunwald: Thank you very much. My name is Glen Grunwald, and I am the president and CEO of the Toronto Board of Trade. With me today is Cecil Bradley, our director of policy. I'd like to begin by expressing our appreciation for the opportunity to give input on behalf of the board for the upcoming budget. Unfortunately, as you can tell, I have a very bad case of laryngitis, and I'm going to turn it over to Cecil for his comments. I've asked Cecil to deliver our thoughts today.

1600

Mr. Cecil Bradley: Thank you, Glen.

My name is Cecil Bradley, and I am director of policy with the Toronto Board of Trade. I'd like to reiterate Glen's thank you. We're really grateful for the opportunity to appear before the committee. It's fairly important work you do. The government needs input from a lot of sources as it prepares a budget, and looks to this committee for some real help. So we commend your work, and we're grateful for a chance to appear before you.

All budgets are important and, of course, the 2005 fiscal plan for Ontario has special significance for the city of Toronto. We believe this is a moment of unprecedented opportunity. For many years, senior governments have not provided Toronto with the kind of support, independence and recognition we believe it requires in order to reach its true potential, but we do see encouraging signs of change. Minds are opening and new relationships are being forged. Frankly, it's just in time.

Toronto is, of course, already the economic engine of Ontario and the nation, producing more jobs, more opportunity and more government revenue than any other city in Canada. However, even the best of engines can't run forever without fuel and maintenance.

No one should be surprised that Toronto is showing signs of losing its strength and vitality: 30,000 to 40,000 jobs lost in the last three years, even while our population has grown; major employers—a couple of recent examples are Kodak and Colgate—moving out, and no one of similar size or significance moving in to replace them. In a clear sign of danger for anyone who travels the city, Toronto's infrastructure is crumbling in places.

Our public transit system is struggling to maintain a state of good repair, never mind expanding to meet the needs of a growing population. Without such expansion, the TTC and GO are not able to attract and retain riders. People take their cars, adding to gridlock and pollution, which reduce our competitiveness and quality of life.

The waterfront remains a model of the power of stasis to stifle potential. Affordable housing remains an unaffordable dream for a growing number of Torontonians. But, amid all the troubles and challenges, we're also seeing important change.

In the past year or so, new leadership at the municipal, provincial and federal levels has woken up to the state of the city and its importance to the Ontario and Canadian economy. We've seen this rise of the so-called new deal for cities, with fresh support and fresh hope for Toronto.

On behalf of the Toronto Board of Trade, I'd like to acknowledge the important steps the Ontario government has taken in this regard:

The sensible sharing formula for the provincial gas tax revenue will provide an important new revenue stream for Toronto's transit system. It's a model and an example that the federal government would do well to follow.

Even more important is the province's willingness to rewrite the City of Toronto Act. The Toronto board has long held that that legislation must be updated and reformed. We were very pleased to hear the Premier, speaking at our annual dinner last night, agree that this is a priority for his government and that Toronto deserves less prescriptive legislation.

However, while we are encouraged, the actions taken to date have simply not been enough. Now is the time for more complete and permanent solutions, and this budget can be a starting point.

Budgets are about choices, especially when faced with a structural deficit that must be eliminated. Any investments must be strategic and yield measurable results. We understand and applaud the government's goal of good fiscal management. Torontonians and Ontarians are relying on the government of Ontario to make tough choices and spend their tax dollars where the return is greatest. No surprise, perhaps, we argue that choosing to invest in Toronto to improve the vibrancy and competitiveness of Ontario's economy will have greater impact than almost any other investment you can make.

In our submission, the board has outlined what it believes to be the key commitments needed from the province in budget 2005. I'd like to touch on three main points in our submission. Those are: address the issues of Toronto's autonomy and revenue; make strategic investments in Toronto's future; and ensure the fiscal competitiveness for a sustainable future.

First, Toronto needs the freedom and authority to better manage its own affairs and reach its potential. This will require allowing Toronto two things: a greater degree of autonomy, and the financial tools and resources required to deliver the services for which it is responsible.

The rewriting of the City of Toronto Act is a major step forward in this regard. The board of trade fully supports the government in this decision, and we will contribute our ideas and energy to the success of this project.

As our chair, Phil Evans, announced last night during our annual dinner, the board of trade is striking a new task force of leading business people in Toronto that will focus on the new act; in particular, governance, accountability and revenue tools. Our group will gather the best ideas from the business community and present a final report for the provincial and city governments by June.

The second of our major recommendations is a call for strategic investments in priority areas for Toronto. The list begins—no surprise—with transit. It is long past time for the creation of a greater Toronto transportation authority. The municipalities of the GTA and Hamilton need a unifying body to knit together policies, practices and services. If we fail to make it possible for people and goods to move freely into, out of and across the city, they will look for other places to live, do business and create jobs.

Another area of long-delayed action is the revitalization of our underused and idle land resources, namely, the waterfront and Toronto's extensive brownfields. The board has specific ideas in our submission for ways in which the province can rejuvenate the waterfront portfolio and end the waste of prime real estate, money and time. We also offer new suggestions for encouraging the revitalization of former industrial land and the creation of opportunity and vibrancy for Toronto, ideas such as tax increment financing, allowing site clear-up costs to be capitalized or expensed, and the acceleration of the funding flow to the Toronto Waterfront Revitalization Corp.

As you know, the Toronto Board of Trade looks beyond what some might think of as purely business issues. We also consider what adds to the quality of life in the city, because a great place to live is also a great place to do business. One of these issues is affordable housing. The availability of affordable housing is a major factor in creating an attractive, liveable and competitive city. It's a key determinant to business location decisions because it influences the willingness of employees and their families to move to or remain in a city. It's also important to business because housing costs are a major source of wage pressure, and a major cause of long commuting times and urban sprawl. While the board of trade holds that the property tax burden must become fairly balanced, over time, across all property classes, we also support direct provincial action to reduce the cost of housing in the city.

Another vital strategic investment is post-secondary education. Much has been said and written about the changing nature of our economy and the need for people with specialized skills and knowledge. I think everyone can agree that making those skills and that knowledge more accessible and available would be good for our society and our economy. Our submission offers specific ways in which some of the current barriers and limitations can be removed.

The last area of strategic investment we identify is tourism. The board would like to commend the government of Ontario, specifically the Ministry of Tourism, for responding to the serious impact on the tourism and hospitality sector caused by SARS. We all learned many lessons during that crisis, and the tourism and hospitality industries learned how much they can accomplish through joint co-operation. Their hard-earned progress should be supported and used as the basis for continued recovery and future growth. So we are calling on the government to maintain or grow the Ontario Tourism Marketing Partnership Corp.

Our third and final set of recommendations focuses on the province's fiscal policy. We're pleased to see the government working to balance the books. This is an essential step toward financial health and future flexibility and it should be continued.

Program spending should be strategically allocated to program areas where it will have the greatest impact. Such spending must also be controlled to ensure the structural deficit is eliminated. Going forward, program spending must be maintained at a constant level in real per capita terms to drive down the province's debt burden, allowing for future flexibility.

On taxation, our position on business property taxes and the current unfair burden on businesses in Toronto is spelled out in detail in our submission.

I'd also like to take a moment to touch on the topic of capital tax. In brief, I think we find the elimination of capital tax to be a good idea. The schedule for phase-out that was announced in the 2004 budget strikes us as too slow and we would strongly recommend it be accelerated.

1610

The Chair: You have about a minute left.

Mr. Bradley: Thank you. Our submission contains many other important ideas, such as reform of the Ontario tax appeals branch, the adoption of a realistic schedule for closing down coal-fired power plants and the creation of a single regulator for the securities industry. However, I know our time is limited, and I refer you to the submission for the details on these and our other recommendations.

Urban issues, whether it's deteriorating infrastructure, a need for greater municipal autonomy, better transit or affordable housing, have dominated public policy discussions over the last year. Clearly these are formidable challenges and will require collaborative and strategic solutions. The board believes all three orders of government and the private sector must work together if real solutions are to be found. We believe that a strong, strategic and city-focused 2005 budget will give the government of Ontario the tools it needs to lead the way.

The Chair: Thank you. In this rotation, we go to the official opposition.

Mr. Flaherty: How much time do we have, Chair?

The Chair: Five minutes.

Mr. Flaherty: Oh, just five minutes. Thank you for doing this this afternoon. I know, from reading the newspaper, that you had a busy time last night at the dinner, which I hope was very successful.

Did the Premier really say last night, "What's good for Toronto is good for the province of Ontario"? Did he really say that?

Mr. Bradley: Exactly.

Mr. Flaherty: Oh, my. What about what's good for Ottawa or Windsor or London or Cornwall or Whitby? Did he mention those places last night as being good for the province of Ontario as well?

Mr. Bradley: No.

Mr. Flaherty: No, he omitted them last night. Let me ask, what's good about this incredibly high taxation of the commercial-industrial base in the city of Toronto?

Mr. Bradley: I don't think we have ever argued or said that's good. In fact, our position is the contrary. Over the years, we've made many representations to government about the C and I rate in Toronto. The rate, or the tax burden, is unfair when it's compared between classes, and it's uncompetitive when you compare it on an intercity basis with the GTA.

Mr. Flaherty: This is not news, but it has caused an exodus of jobs, particularly from downtown Toronto but from the city of Toronto, to the adjoining municipalities. You've got that documented in here; I see in the past year a loss of—

Mr. Bradley: I believe the number is 37,000.

Mr. Flaherty: "Toronto has lost over 37,000 jobs over the last three years." And there's an increase in the vacancy rate in downtown class A. This has been a problem for years now, which the city has Toronto has failed to remedy on its own and which the province has been trying to remedy, including when we were the government and now the current government.

We had some economists here earlier this afternoon, and one of them, I think it was Jack Mintz, opined that he doesn't like one level of government going after another level of government for money—for bailouts or whatever you want to call them—on the basis that governments are more accountable when they actually have to raise the taxes themselves for their own expenditures from their own people.

I dare say that is an issue with the city of Toronto, coming to the province repeatedly for subsidies from the province overall, particularly when you see things like that commercial-industrial ratio being way out of line year after year and the city of Toronto not addressing the issue, and seeing the closed-shop policies with respect to bidding for the city of Toronto.

On that second point, is there anything in the submission—I looked for it quickly—about the closed-shop policy that excludes some members of your board, I believe, from bidding on city of Toronto projects?

Mr. Bradley: We don't address that topic in the brief to the province, but in our pre-budget brief to the city, we do speak to the question of the city looking at alternatives to service delivery other than own delivery. For a number of years, the board has now made recommendations to the city which look at alternative means of delivering services, up to putting out services for competitive bidding.

Mr. Flaherty: Right. I'm actually going one step further than that. I certainly agree with that, but also the step that whether a particular enterprise or business is unionized or not—being non-union would not disentitle the entrepreneur from bidding on a city of Toronto project.

Mr. Bradley: To the best of my knowledge, we haven't provided advice on that point to the city.

Mr. Flaherty: I commend it to you, because I certainly heard it often enough when I was dealing with finance matters vis-à-vis the city of Toronto, that it was something that quite frankly is not good for the province of Ontario, though some might think it's good for Toronto, including the Premier, I gather from his comments last night.

Have you looked at the bigger picture, and I mean this in all sincerity, looking forward in Ontario? If we look forward to the next 10, 20 or 30 years, southern Ontario is increasingly urbanized. This is not just about the city of Toronto; it's about the greater Toronto area, and also about the Hamilton-Niagara area, and then east of the city out to Cobourg and beyond. In your planning, are you taking the bigger picture into consideration, which I think is vital if our planning is going to be intelligent over the next generation in Ontario?

Mr. Bradley: I think we do. I think one of the reasons we're so strongly behind the establishment of a greater Toronto transportation authority is because the board recognizes how key transportation infrastructure is to the development of the region in a reasonable and rational way. You can only do that if you have an entity where you can plan and set priorities and coordinate projects on a regional basis. You can't continue to sort of grow in the uncoordinated way or provide transit services in the uncoordinated way which is currently the case.

The Chair: Thank you for your submission this afternoon. That concludes the presentations for this afternoon.

Interjection.

The Chair: Point of order?

Mr. Flaherty: Oh, yes, that's what I meant to say. I don't have my colleague Mr. O'Toole here to guide me in all things.

I want to, if I may, bring a motion quickly about the hearings and propose that the hearings of the committee be extended. The motion is as follows:

While the official opposition recognizes that all three parties unanimously agreed to the existing pre-budget hearing schedule, it must be noted that this decision was made prior to all requests for representation being received by the committee clerk.

During the past week and a half of committee hearings, it has become clear that many hard-working Ontarians are concerned about the content of the 2005 budget and wish to have their voices heard.

This is highlighted by the fact that 121 individuals, associations and interested parties applied for one of only 42 presentation spots in Toronto. As such, two thirds of those Ontarians who wished to be represented will be unable to be heard by the committee.

Because this committee is not scheduled to meet to deliberate its final report for an entire month, it only seems appropriate that we take some additional time to hear from as many of the presenters that have requested representation as possible.

Therefore, I propose that the standing committee on finance and economic affairs sit for an additional two to three days in Toronto during the week of January 24 to 28, 2005, in order to accommodate all those presenters who were designated as alternates by all three parties.

Any agreement reached by this committee would be subject to the subsequent approval of the revised time frame by all three party whips. On behalf of the official opposition, I'll provide the Chair with a signed letter from the official opposition whip in support of this motion.

I would ask that once this motion is approved, both the government and third party provide letters of support from their respective whips by noon tomorrow, January 19, 2005. This will ensure that the clerk can make the necessary arrangements.

This is in keeping with the government's commitment to more public consultation on all matters of provincial interest, and is keeping in good faith with those people in Ontario who wish to have their voices heard prior to the drafting of the 2005 budget.

I believe that this is a motion that should be supported by all members of this committee. When we as legislators are presented with an opportunity to hear directly from those individuals who we represent, it is our responsibility to do so.

This committee has unanimously made several accommodations for presenters in Ottawa, Kingston, London and Whitby, and I trust that everyone around this table will continue to act in good faith and support this motion.

That's the motion, Chair.

The Chair: Further debate?

Mr. Prue: I could vote for it, but it is literally impossible, I have to tell you, to find our whip. He is not in the country and I just don't know what to do with it. I don't know whether the government—they have the overwhelming majority—is going to vote for it or not, but I have no way of contacting the whip. I just wanted to let you know that.

Mr. Colle: It's not properly before us. Any motion has to be debated during the report-writing stage.

The Chair: I'm advised by the table officers that since it is procedural, it can go forward. Mr. Wilkinson?

Mr. Wilkinson: Mr. Chair, what's the—

Mr. Colle: Wait.

Mr. Prue: Perhaps, Mr. Chair, while they're looking at that, I could also advise the committee that, again, although I am not necessarily going to vote for it—I just don't know what to do at this particular stage. I do not know whether a member of the third party will be available—I certainly will not—during the time frame that has been set out. If it is amended to read "in February" or "after February 7," I would make every effort to accommodate the committee by attending.

Mr. Colle: The times, meetings, dates and length were all unanimously agreed upon so that all members and applicants could be informed. There was no disagreement. The dates, times and places were agreed to unanimously by the subcommittee. At this late date, to change the schedule is quite extraordinary, and certainly we are not in favour of changing the dates at this time.

Mr. Flaherty: Just quickly, Mr. Colle is absolutely right that there was agreement on the schedule and so on. That was, of course, before we had this overwhelming demand to be heard by the committee, particularly in Toronto.

With respect to the concerns of the third party, I'm sure there must be a deputy whip that you could get hold of. In any event, we're prepared, in terms of the timing of the motion, to go along with any reasonable timing concerns that Mr. Prue might have, if February is better and next week is not possible.

Mr. Wilkinson: Just a quick question to the clerk: The deadline for written submissions to this committee is what day?

The Clerk of the Committee (Mr. Trevor Day): This Thursday, 5 o'clock.

Mr. Wilkinson: Of course, that's been widely publicized right across Ontario.

I do note that there has been some duplication in those who have come to see us; less than last year, but there has been a certain duplication of the time we've spent. I know there was a concerted effort to try to eliminate that duplication so we'd have the greatest range of advice from the public for this committee. But to change rules at a late date, when people have been able to submit in writing—I read the reports that we get from the clerk. I trust that all members would do that. As a matter of fact, many presenters come here and just read the reports that they have prepared.

Mrs. Carol Mitchell (Huron–Bruce): The presenters the official opposition has made reference to, is there any way they could be notified next year prior to the budget discussions? That would give them a greater opportunity and make them also very much a part of the whole budget. So they'd know the process, how it went through, the subcommittee met, agreed unanimously, that they have the opportunity through the Legislature, as well as meeting with many of us, all sides. But if we have those names, then they can be notified of the process next year, and we would be pleased to hear their submissions in the next round.

Mr. Colle: This is normal. In every pre-budget consultation there are people who make submissions who aren't able to be scheduled. They can make written submissions and they're free to do so.

Those who have been on the road here for the last week and a half—and Mr. Flaherty has seen fit to join us today. There has been ample opportunity for people to come in different cities. You're not going to please everyone, but again, they can make written submissions. This is why you can't make these kinds of scheduling arrangements at the last minute. That's why you have the subcommittee meetings to make these arrangements. This year is quite unusual, because the fact is the House is returning much sooner than usual: February 15. So again, it's something everybody agreed to and I think it's open for submissions right up until budget time, in fact, if they want to make submissions on the budget.

The Chair: Further debate? Hearing none, I'll call the question. All in favour? Opposed? The motion is defeated.

We are now adjourned.

The committee adjourned at 1624.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Chair / Président
Mr. Pat Hoy (Chatham–Kent Essex L)

Vice-Chair / Vice-Président
Mr. Phil McNeely (Ottawa–Orléans L)

Mr. Toby Barrett (Haldimand–Norfolk–Brant PC)
Mr. Mike Colle (Eglinton–Lawrence L)
Mr. Pat Hoy (Chatham–Kent Essex L)
Ms. Judy Marsales (Hamilton West / Hamilton-Ouest L)
Mr. Phil McNeely (Ottawa–Orléans L)
Mrs. Carol Mitchell (Huron–Bruce L)
Mr. John O'Toole (Durham PC)
Mr. Michael Prue (Beaches–East York / Beaches–York-Est ND)
Mr. John Wilkinson (Perth–Middlesex L)

Substitutions / Membres remplaçants
Mr. Jim Flaherty (Whitby–Ajax PC)

Also taking part / Autres participants et participantes
Mr. Toby Barrett (Haldimand–Norfolk–Brant PC)

Clerk / Greffier
Mr. Trevor Day

Staff / Personnel
Ms Anne Marzalik, research officer,
Research and Information Services
Mr Larry Johnston, research officer,
Research and Information Services

CONTENTS

Tuesday 18 January 2005