GREATER VANCOUVER
BOARD OF TRADE

Greater Vancouver Board of Trade
World Trade Centre
400 – 999 Canada Place
Vancouver, B.C. Canada V6C 3E1
T. 604-681-2111 F. 604-681-0437
E. contactus@boardoftrade.com
boardoftrade.com

President and CEO
Iain J.S. Black, ICD.D

October 12, 2018

DELIVERED VIA EMAIL**: FIN.Minister@gov.bc.ca**

Honourable Carole James, Minister of Finance
BC Ministry of Finance
PO Box 9048 Stn Provincial Government
Victoria, B.C. V8W 9E2

Dear Minister James,

RE: 2019-20 Pre-Budget Submission to the Province of British Columbia (the "Province")

On behalf of the Board of Directors and more than 5,000 Members of the Greater Vancouver Board of Trade (the "GVBOT"), we respectfully submit the following priorities and recommendations to the Provincial Government for consideration in the 2019-20 B.C. Budget.

The Board of Trade's priorities for the 2019-20 Provincial Budget are:

- Fiscal Prudence
- Shifting Burden on Businesses
- Human Capital
- The Gateway

These priorities and our recommendations are discussed in greater depth in the attached Appendix. Immediately below are our priorities in brief:

Fiscal Prudence

- The GVBOT is concerned about the potential risks to the fiscal health of British Columbia. The Final Investment Decision made by LNG Canada could have a material impact on economic growth, which could alleviate softening growth forecasts for 2019-20. However, we remain concerned about significantly increased public spending commitments, many of whose fiscal impacts will not be recorded in the present or next fiscal year. We strongly emphasise that Government should present **a viable fiscal plan that includes a route to credibly preserve the Province's balanced budget**.

Shifting Burden on Businesses

- Businesses face a myriad of impediments to growing their businesses: increasing regulatory burdens and transaction costs, rising fixed and variable costs, such as corporate income taxes, minimum wage and the Employer Health Payroll Tax. At multiple levels of government the cumulative impact of taxes and regulations means small and large job creators in the Greater Vancouver region will reconsider making decisions like increasing their workforces, investing in new capital and equipment or otherwise growing their businesses.
- The GVBOT recommends that the Province **reduce the unbudgeted (by business) fixed-cost burden on small and medium sized enterprises from the Employer Health Payroll Tax** by lifting the double taxation in 2019 for those employers presently paying MSP premiums on their employees' behalf, and raising the minimum payroll threshold for tax eligibility from $500,000.

Human Capital

- The GVBOT believes that Government has an important role to play in preparing Greater Vancouver's and British Columbia's workforce for the economy of tomorrow. Labour shortages today across many occupations, together with a shift in needed occupations for the economy of tomorrow, call for an **emphasis on investment in trades and technologist training, and a more focused investment in training for STEM occupations**.
- Further, GVBOT Members face mounting difficulties in retaining talent due to housing affordability challenges: 73% of our Members note their business' ability to recruit or retain employees has been affected by the cost of housing (91% among businesses with 50 or more employees). The GVBOT believes that appropriate solutions to alleviate the affordability crisis lie on the supply side, and that all levels of government should concentrate their efforts on **increasing and diversifying the supply of market and non-market housing in Greater Vancouver**. In our view, the Province has a significant role to play in **establishing common service standards for fees, permitting and regional planning approaches** among the municipalities of Metro Vancouver.

Canada's Pacific Gateway

- Greater Vancouver remains a crucial entrepot for Canadian goods and services exports to increasingly significant overseas markets, particularly in light of our multilateral free trade agreements and major resource projects. It is a priority of the GVBOT that Greater Vancouver's role as Canada's Pacific Gateway continues to accommodate our trading potential through **significant capacity and capability enhancements, and the protection of vital industrial lands.**

- In terms of transit funding, while we are encouraged by the recent progress on public transit expansion and improvement, we remain concerned that our region's families, businesses, and overall economy will be negatively impacted should the Province's continued dedication to meaningful, timely transit investments waver. Specifically, we encourage the Province to work with other levels of government to develop a **sustainable funding strategy to guarantee long-term stability in the financing of crucial projects**. Finally, to alleviate bottlenecks, improve passenger choice and bring Greater Vancouver and British Columbia into line with every other major city region in North America, the Province should **immediately implement ridesharing** in British Columbia.

The Greater Vancouver Board of Trade's recommendations are made in the spirit of encouraging the Province to continue to build on the relative strength of our provincial economy and to pursue the benefits that a strong economy brings to all citizens. We support fiscal policy and performance that appropriately balance the needs of businesses with those of the residents who rely on the goods and services from both the public and private sectors.

We look forward to the opportunity to work with you to further strengthen our provincial economy and meaningfully address the critical challenges outlined in this letter.

Sincerely,

Greater Vancouver Board of Trade, per;

Hon. Iain J. S. Black ICD.D
President and CEO

Appendix

Every year, in consultation with our Members and our Board of Directors, the Greater Vancouver Board of Trade identifies priorities we believe should be addressed, and provide policy recommendations for the Provincial Government to undertake.

Based on consultation with our Membership and the findings of our *Greater Vancouver Economic Scorecard 2018*, (the "Scorecard") (which ranks the Greater Vancouver region against 19 other international metropolitan regions across 38 economic and social indicators[1]), we respectfully present the following recommendations as needed steps in ensuring that, in the face of a highly uncertain external setting, our Province is resilient and flexible, fiscally sound, economically competitive, and environmentally and socially responsible.

1. Fiscal Prudence

The GVBOT is concerned about the potential risks to the fiscal health of British Columbia. The Final Investment Decision made by LNG Canada could have a material impact on economic growth, which could alleviate softening growth forecasts for 2019-20[2]. However, we remain concerned about significantly increased public spending commitments, many of whose fiscal impacts will not be recorded on the public books in the present or next fiscal year. We strongly emphasise that Government should present a viable fiscal plan that includes a route to credibly preserve the Province's balanced budget.

Procurement of Public Infrastructure

The Government's new framework for developing public sector infrastructure projects presents challenges to responsibly managing the public accounts. We see two aspects of risk in the Government's new Community Benefits Agreement approach to public project development: the cost risk, and the project management risk. The GVBOT notes with particular concern that the Province's announcement in July 2018 gave no framework for potential cost escalation of projects under the new model.

In terms of cost risk, in the midst of B.C.'s construction labour shortage, the new restrictive arrangements embodied in the Community Benefits Agreement - which amount to "Project Labour Agreements" - are estimated to eliminate roughly 85% of construction workers who are not affiliated with the traditional building trades unions from working on such projects. By reducing the degree of competition in public sector contracting, the new model does not guarantee the most cost-efficient procurement

[1] The report, produced in partnership with the Conference Board of Canada ranks Greater Vancouver against its competitor city regions using a letter grade system.
[2] Forecasts for softening growth in BC for 2018 and subsequent years include Conference Board of Canada, Business Council of BC, Central 1 Credit Union, and TD Economics.

practices. This approach will almost certainly cause projects to be more expensive and cumbersome, and costs will likely be passed on to taxpayers.

Further, GVBOT is troubled by the decision to require employers bidding on projects to recruit their workforce through a central agency, the Crown corporation B.C. Infrastructure Benefits Inc. (BCIB). Such public policy that reduces market entry and restricts competition risks compromising the public interest.

The second area of concern is project management risk. Given the constrictive framework for labour on major public projects, the GVBOT is concerned that a consequence (possibly unintended) is that experienced private sector project developers, builders and operators will *not* bid on such projects because they would not have cost-control levers on projects if labour costs escalate. This leaves the public interest worse off in two ways: projects become more expensive to procure and deliver, and they lose the benefit of experienced firms with substantial technical expertise in complex projects such bridge and road construction, as well as other types of public infrastructure projects developed by the Province.

Preserving our Strong Fiscal Setting

The GVBOT recognizes that B.C.'s taxpayer-supported debt–to-GDP ratio and AAA credit rating compare favourably to those of the other big Canadian provinces. It is our view that this enviable position must be safeguarded to ensure that taxpayers do not have to bear an increased deficit and debt burden due to elevated public spending. The worrying steps taken in Budget 2018-19 to mandate commensurate increases in revenues to the Crown through increased taxes are not, in our view, an acceptable way to maintain balanced budgets.

Servicing B.C.'s debt costs B.C.'s taxpayers: in 2018-19 B.C.'s debt servicing costs are $2.9 billion, representing five percent of operating expenses, more than the amount budgeted for transportation (3.7 percent), natural resources and economic development (4.4 percent), and almost half of what has been budgeted for social services and housing (9.9 percent). Combined federal and B.C. debt servicing costs amount to $5.6 billion, the same amount B.C. spent ($5.6 billion) on post-secondary education. This is funding that the government must either raise from the taxpayer or secure by cutting services or deferring investment in the economy.

Although we note the Province introduced a balanced budget in 2018-19, GVBOT is concerned about our future fiscal health in two ways: that any significant downturn or shock in the B.C. economy could adversely impact future Government revenues and lead to a scenario of increased debt-servicing and potentially a credit downgrade. In addition, we are concerned that public expenditures in the present and the coming fiscal years will adversely affect our ability to maintain healthy public finances.

The GVBOT is particularly concerned about the following risks to the Province's fiscal health:

1. Although diversified, the B.C. economy remains reliant on the real estate and rental leasing industry which represents almost 20 percent of provincial GDP[3]. If the housing affordability initiatives (discussed below) have the effect of excessively cooling the real estate market, it will affect the Government's ability to achieve a balanced budget and could increase the debt to revenue ratio.

2. Rating agency Moody's identified high debt burden due to financing capital expenditures as another factor that could lead to a downgrade[4]. The Province eliminated bridge tolls in the summer of 2017 and has also committed to financing the $1.37 billion Pattullo Bridge replacement.[5] These assets become added to taxpayer-supported debt.

    a. Rating agencies consider BC Hydro a "self-supporting entity" (rather than taxpayer supported). However, there is concern regarding BC Hydro's ability to support future operations and remain sustainable.

    b. The annual net loss at BC's public auto insurer (ICBC), reported in BC's fiscal plan, was estimated at $1.3 billion for the current fiscal year, and has exerted a drag on the Province's financial results. While the Government has implemented reforms to bolster the financial health and long term sustainability of ICBC, as it stands the balance sheet at the Crown Corporation remains a risk to the B.C.'s healthy finances.

    c. Most B.C. public sector collective agreements expire in 2019. The Government's mandate for the present round of public sector collective bargaining, called "Sustainable Services" appears to be in the two percent (2%) per year range, based on agreements ratified to date. According to the Public Sector Employers' Council Secretariat, "An increase of 1% in total compensation for all employees, including unionized, non-union, and management employees costs approximately $291 million."[6] The diverse services delivered to the public are valued by all taxpayers. However, the GVBOT urges the Government to maintain a measured approach to

[3] https://www150.statcan.gc.ca/n1/daily-quotidien/170501/dq170501a-eng.htm
[4] http://mfa.bc.ca/sites/default/files/Investors/Credit%20Reports/01_moodys.pdf
[5] Implications include a one-time shift of $3.5 billion in fiscal 2018-19 to taxpayer supported debt of the Port Mann Bridge toll elimination. Source: BC Budget 2018-19.
[6] https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/services-policies-for-government/public-sector-management/psec/2019-bargaining-update.pdf

negotiating new collective agreements with the 326,000-plus unionized employees of the provincial public service.

Recommendations:

1. Concerning procurement of public infrastructure:

    a. We advise the Government to pause the implementation of the CBA/PLA model until a thorough investigation of potential unintended consequences is completed, including a fully transparent costing estimate – publicly released in advance - for each project.

    b. We urge the Government to continue to evaluate public projects through a P3 (public-private partnership) lens, a model that can reduce project risk and provide value for taxpayers.

2. The Province should take prudent steps to manage potential liabilities that could drive taxpayer-supported debt higher and adversely affect the financial health of the B.C. economy.

3. The Province should produce and publicly release full estimates of public sector procurement costs and anticipated public expenditures on services and programs committed in Budget 2018-19 and the forthcoming Budget 2019-20.

2. Shifting Burden on Businesses

Businesses face a myriad of impediments to growing their businesses: increasing regulatory burdens and transaction costs, rising fixed and variable costs, such as corporate income taxes, minimum wage and the Employer Health Payroll Tax. At multiple levels of government the cumulative impact of these taxes and regulations mean small and large job creators in the Greater Vancouver region will reconsider making decisions like increasing their workforces, investing in new capital and equipment or otherwise growing their businesses.

B.C's pathway to a minimum wage of $15.20 by 2021 causes financial stress to businesses, and could have adverse consequences for workforces. According to our April 2018 survey, 50% of GVBOT members say they are likely to reduce their staff to address the wage increase[7]. Rising minimum wages tend to place upward wage pressure on employees making several dollars more per hour. In an expensive jurisdiction, all parties need to strive to find an appropriate balance for incomes to improve affordability. However, minimum wage increases tend to apply financial pressure disproportionately on small businesses. Incremental increases in the

[7] Business association survey conducted by Mustel Group, April 2018.

provincial minimum wage can discourage investment in people by the province's employers, of which 98% are small businesses.

In Budget 2018-19, the surprise announcement of a new Employer Health Payroll Tax creates a new tax burden on business. 70% of GVBOT Members will be impacted by the new Employer Health Payroll Tax and will pay, on average, more than $137,000 annually. Further, as the tax will take effect January 1, 2019 while MSP premiums (although reduced) remain in place until 2020, ***40% of GVBOT member businesses that currently cover the premiums for their employees will essentially be double taxed for all of 2019***. Nearly 30% of GVBOT Members are not currently covering employee health costs but will face new costs as of January 1, 2019 with the Employer Health Payroll Tax. In response to these unbudgeted (to business) fixed cost increases, more than a third (36%) of GVBOT respondents will either reduce staff (18%) or reduce benefits (18%) as a result of the new Employer Health Payroll Tax.[8]

Recommendations

1. Take steps to encourage a competitive tax environment, through:

    a. Complete a cost assessment on small to medium sized businesses that takes account of the entire provincial tax burden, and acknowledges both federal and local taxes and fees.

    b. Reduce the unbudgeted fixed-cost burden on small and medium sized businesses from the Employer Health Payroll Tax by lifting the double taxation in 2019 for those employers presently paying MSP premiums on behalf of their employees, and raising the minimum payroll threshold for tax eligibility from $500,000. The minimum threshold should be based on a formula that takes account of the average payroll of small businesses (defined in B.C. as having fewer than 50 employees), with reference to examples of the other provinces who have similar employer health payroll tax schemes.

2. Take a leadership role in reducing inter-municipal trade barriers for small and medium sized businesses, including encouraging the wide scale adoption of multi-jurisdictional business licensing.

3. Human Capital

The GVBOT believes that Government has an important role to play in preparing Greater Vancouver's and British Columbia's workforce for the economy of tomorrow. This includes preparing for the widespread deployment of artificial intelligence across many dimensions of economic activity. Promising initiatives in which B.C. is

[8] Business association survey conducted by Mustel Group, April 2018.

participating include Canada's digital supercluster, encouraging digital literacy, teaching coding in schools, and some support for STEM occupations. However, labour shortages today across many occupations, together with a shift in needed occupations, call for an emphasis on investment in trades and technologist training, and a more focused investment in training for STEM occupations.

STEM

British Columbia has a booming technology sector with Vancouver at its centre. The sector has over 10,000 companies and employs more than 106,000 people. Demand for STEM skilled workers is expected to increase in B.C. and Canada, leading to a concerning shortage of talent. Employment in STEM occupations is expected to grow at 1.8% annually - faster than any other occupations in the province (1.1%) over the next decade. By 2021, BC's tech sectors will face a shortage of 30,000 workers. It should be noted that, on average, tech companies in B.C. are small businesses employing approximately 10 people. As such, the broad sector is susceptible to the cost burden increases noted in Part 2 above.

Only 23.8% of British Columbia's postsecondary graduates were from STEM fields[9]. Within this group, women were significantly underrepresented.

We acknowledge the Government's investment of $4.4 million over the next five years into postsecondary institutions to increase the number of STEM students.[10] However, the "brain drain" of Canadian graduates is well documented: one in four Canadian STEM graduates take jobs outside the country.[11] Higher salaries, more lucrative career growth and vast amounts of venture capital into STEM start-ups makes the U.S. an attractive place for highly skilled workers, especially in technology-focused fields. The brain drain also risks the flight of the next generation's intellectual property.

Recommendations:

1. Continue the commitment to increase grants and spaces at post secondary institutions in B.C. for STEM disciplines.

2. Increase funding for training instructors at the high school level; Train Advanced Placement (AP) and International Baccalaureate (IB), and pre-AP or pre-IB in

[9] https://www12.statcan.gc.ca/census-recensement/2016/dp-pd/hlt-fst/edu sco/Table.cfm?Lang=E&T=41&Geo=00&View=2&Age=2&Education=3

[10] When combining B.C.'s $4.4 million announcement with other B.C. government STEM-focused funding (including $10 million for tech co-op spaces and $12 million for STEM graduates), a rough comparative estimate yields a general equivalence (subject to varying definitions of "STEM") on a *per-capita basis* between B.C., Washington state and California in terms of public funding for STEM training ($10-$12 per person). However, simply increasing funding in B.C. does not address the problem of high-skilled human capital flight ("brain drain"), which calls for more complex public policy and private sector solutions.

[11] https://brocku.ca/social-sciences/political-science/wp-content/uploads/sites/153/Reversing-the-Brain-Drain.pdf

addition to K-12 instructors to teach advanced courses in sciences and mathematics.

3. Work with the private sector whose firms employ STEM graduates to encourage them to remain in B.C. to pursue their careers, including mitigating the cost burden shift which limits small firms' ability to competitively compensate their employees.

Housing Affordability

The Government's 30 Point Housing Plan, announced together with Budget 2018-19, has begun to impact some aspects of the affordability crisis. While the housing sales data are beginning to reflect significant softening at some levels of the housing market, many *supply side* issues remain, particularly in terms of the diversity of available housing stock at reasonable prices. The GVBOT believes that most of the appropriate solutions to alleviate the affordability crisis lie on the supply side, and that all levels of government should concentrate their efforts on increasing and diversifying supply of market and non-market housing in Greater Vancouver.

GVBOT members note they face mounting difficulties in retaining talent as a result of housing affordability: 39% of GVBOT members believe 'Affordable Housing' is the most important issue business issue they are facing[12]. 73% of respondents state that their business' ability to recruit or retain employees has been affected by the cost of housing (91% among businesses with 50 or more employees) and 37% of respondents also considered relocating away from Greater Vancouver region due to affordability concerns.

Supply side measures to increase the diversity and quantity of market housing options for Greater Vancouver residents are to some extent the responsibility of the local level of government. However, in our view, the Province has a significant role to play in establishing common service standards and regional planning approaches among the municipalities of Metro Vancouver, and ensuring transparency (and thus accountability) in the assessment of traditionally hidden/buried municipal taxes that impact housing costs (e.g., Development Cost Charges (DCCs), Community Amenity Contributions (CACs), etc.).

Recommendations:

1. Rescind piecemeal measures such as the speculation tax to address housing unaffordability. The expected effect of the speculation tax is that it will be distortionary in the select communities where it is targeted.

---

[12] The results of the *VoteLocal* survey, conducted in partnership by the Greater Vancouver Board of Trade, Mustel Group, and FleishmanHillard HighRoad, September 2018.

2. Review and amend its 30 Point Housing Plan and accompanying housing taxation measures to take account of unintended consequences from policies implemented in 2018, such as the increased school tax and potentially the new speculation tax being applied to development lands suitable for housing construction, and take steps to restore predictability in the overall housing market.

3. Revise the housing strategy to address affordability through the lens of attracting and retaining high skilled human capital.

4. Establish a smart regulatory environment that encourages greater supply and diversity in housing form and tenure.

5. Work with municipalities to:

    a. Implement provincial standards to remove barriers to development, such as inconsistent, lengthy and opaque permitting processes, and

    b. Incentivize growth, density, and diversity in the housing stock.

4. Canada's Pacific Gateway

In the recently released Regional Export Framework by the World Trade Centre Vancouver, a subsidiary of the GVBOT, the analysis considered the impact of the Gateway on the provincial economy. It was estimated that the B.C. Gateway supports over 248,000 jobs in British Columbia, produces $27.5 billion in GDP for the Province, and contributes $2.7 billion to provincial tax revenue.

However, there are significant bottlenecks in our trade corridors and infrastructure that threaten to impede the growth of Canada's Pacific Gateway.

Trade-Enabling Infrastructure and Land

Greater Vancouver remains a crucial entrepot for Canadian goods and services exports to increasingly significant overseas markets. It is a priority of the GVBOT that Greater Vancouver's role as Canada's Pacific Gateway continues to accommodate our trading potential through significant capacity and capability enhancements and protection of vital industrial lands. Adequate and sustainable development of the necessary infrastructure will be critical to our country's economic competitiveness in the coming years. Growing pressures on the stock of industrial land from residential and retail will continue to conflict with Greater Vancouver's burgeoning role as a gateway. Metro Vancouver forecasts the region could run out of available industrial land by 2038, and embeds the protection of industrial land in its Regional Growth Strategy 2040[13].

As Metro Vancouver is presently undergoing a review of industrial lands, the Board of Trade notes the wide acknowledgement among operators and local government representatives that the supply of industrial land is already at critically low levels. We encourage the Province to work with incoming local governments to aggressively pursue an integrated industrial land protection strategy. To protect our position as a robust, efficient and sustainable gateway, protection of these lands must be coupled with projects such as port expansion at Roberts Bank, the Massey Tunnel Replacement, increased rail capacity accessing the Lower Mainland, and increase cargo transport corridors through the region.

Transit and Road

The GVBOT acknowledges the Province's role in securing agreement with other levels of government to deliver funding for Phase 2 of the Mayors' Plan to advance regional transportation initiatives. While we are encouraged by the recent progress on public transit expansion and improvement, we remain concerned that our region's families, businesses and overall economy will be negatively impacted should the Province's continued dedication to meaningful, timely transit investments waver.

An insufficient transit network compounds Greater Vancouver's housing affordability crisis by limiting housing choices and transportation options.

In the coming years, an adequate public transit system that is well-prepared for population growth will be critical in ensuring a high quality of life and business competitiveness within Greater Vancouver. The GVBOT's Scorecard finds that the region currently lags in this area, earning only a "C" grade for its proportion of non-car commuters and a "B" for its average commuting time.[14]

More generally, there are worsening bottlenecks in the movement of goods and people in our region. We encourage the Province to work with other levels of government, private sector operators and users to develop a sustainable funding strategy to guarantee long-term stability in the financing of crucial projects. Finally, to alleviate bottlenecks, improve passenger choice and bring Greater Vancouver and British Columbia into line with every other major city-region in North America, the Province should immediately implement ridesharing in British Columbia.

---

[13] http://www.metrovancouver.org/services/regional-planning/PlanningPublications/RGSAdoptedbyGVRDBoard.pdf
[14] Greater Vancouver Economic Scorecard 2018.

Recommendations:

1. Partner with other levels of government and Gateway entities to champion strategic and appropriate investments in trade-enabling infrastructure, including:
    a. Port expansion at Roberts Bank Terminal 2; and
    b. Increased rail capacity in the Lower Mainland;
2. Work with Metro Vancouver and incoming local governments to develop a comprehensive land use strategy which includes protection of industrial land in the Lower Mainland, including cargo ground transportation, within an overall economic strategy.
3. Modernize and harmonize municipal regulations to remove unnecessary red tape and establish a regulatory regime which fosters innovation and competition.
4. Build on the momentum from the Mayors' Council Phase 2 transit funding with continued investment in road and transit expansion and improvements, with projects such as:
    a. Rapid transit expansion in Surrey and to Langley
    b. Broadway Millennium Line extension to the University of British Columbia
    c. 10-lane bridge to replace the Massey Tunnel
    d. More frequent Seabus service between North Vancouver and downtown Vancouver
5. The GVBOT recommends the Government of British Columbia, together with local governments as applicable:
    a. Immediately implement a new provincial regulatory framework which introduces ridesharing and provides residents with greater access to safe and reliable passenger transportation options.
    b. Review and update taxi regulations to enable the industry to effectively compete against new services and provide consumers with the benefits of a more competitive ride-for-hire market.