



**GREATER CHARLOTTETOWN AREA
CHAMBER OF COMMERCE**

***Province of Prince Edward Island
Pre-Budget Submission
2017***

**Submitted to Hon. Allen F. Roach
Minister of Finance**

January 2017

1. Introduction

The Greater Charlottetown Area Chamber of Commerce appreciates the opportunity to present its views on the province's economic situation, and the fiscal and policy direction of the Provincial Government. The Chamber believes that ongoing consultation with the business community is essential. Meaningful consultation can bring 'real time', 'real world' information to the development of the budget and its implementation, and to its impact on the provincial economy and the business environment.

As the Chamber has stressed on other occasions, a thriving business community is essential to increasing the tax base, upon which the growth of provincial own-source revenues rests. Without that growth, there are additional fiscal pressures to fund the social services and infrastructure so central to the province. Government spending is not sustainable without a thriving private sector base.

It is clear to the Chamber that the economic development of the province involves a two sided, but integrated, partnership between the public and private sectors. We believe this is well recognized by our members (employing some 18,000 Islanders) and by all three levels of government. The economic policies and programming of the Province, ACOA, and the three municipalities making up the capital region, all contribute to growth, either through direct financial assistance or through improving the environment in which business operates. However, in the final analysis it is the drive, acumen, and risk taking by the private sector that will lead to increases in the production of goods and services, moving the economy forward.

2. A Review of Economic Trends

A review of recent economic and fiscal events reveals some interesting trends and developments that have a direct bearing on the impact of the public and private sectors in sustaining and expanding the economy. There is no debating that the PEI economy, as measured by Real Gross Domestic Product, performed well through and after the recession of 2008/09. Table 1 illustrates, and benchmarks, the province's performance.

Table 1	% Real GDP Growth (Chained 2007 \$), (Source Statistics Canada)								
Benchmark Jurisdictions	2008	2009	2010	2011	2012	2013	2014	2015	2007 to 2015
PE	1.1	0.3	2.2	2.0	1.2	2.0	1.5	1.3	12.2
NB	0.8	-1.5	2.0	0.2	-1.0	-0.3	-0.1	2.3	2.3
NS	2.0	0.3	2.8	0.5	-0.9	-0.1	0.8	1.0	6.6
Canada	1.0	-2.9	3.1	3.1	1.7	2.5	2.6	0.9	12.5

Between 2007 and 2015, Prince Edward Island's GDP (2007 Chained \$) increased by 12.2% compared to NB at 2.3% & NS at 6.6%. This is quite a remarkable outcome, given the challenges faced during that period. When the sources of this economic performance are examined by industry, however, it seems clear that there are two distinct phases, 2008-11 & 2012-15. (See Appendix 1 for details.)

PEI appears to have weathered the 2008/09 downturn primarily through increased public sector activity at all levels of government. The impact in 2008 and 2009 was most significant, declining in 2010 and 2011. In 2009, it was the Education, Health & Social Assistance and Public Administration industry grouping that kept the economy from going into serious negative growth. An abrupt change occurred in 2012, with negative contributions by the 'public sector' to GDP growth in 2012, 2013 and 2014, followed by a small positive contribution of 2.6% in 2015. (See last row in Appendix 1.)

As the public sector retrenched, the private sector, in both goods and services, was responsible for the strong growth of the past four years. Manufacturing was exceptionally strong in 2012 through 2014, as was real estate from 2008 through 2015. Real estate alone accounted for 28% of all GDP growth by industry in the period 2008 through 2015, probably reflecting increased demand from international newcomers, as well as low financing costs.

The Chamber presents this information to illustrate the importance of continuing to develop a private sector driven economy. While the public sector can stabilize the economy in the face of a challenging downturn, it is the private sector which must provide the base for continued economic growth and employment creation. Moving forward, the Chamber suggests that provincial budgets, tax policy and development programming all focus on creating an economic and business environment that encourages continued private sector expansion. This is critical, given i) the decrease in the growth rate of real GDP as indicated in Table 1, and ii) predictions that growth in the provincial economy may be "slower for longer"¹.

A private sector driven economy is key to ongoing fiscal success, growing the overall economy and providing enhanced employment opportunities for youth and newcomers.

¹ Atlantic Provinces Economic Council
GCACC 2017-18 Provincial Pre-budget Submission

3. Fiscal Developments

The Chamber has been consistent in advocating that the provincial budget return to balance, and continue so into the future. Such action will limit further increases in net debt², but equally as important, will signal to the business community and potential investors that fiscal discipline and integrity are essential to maintaining a positive business environment.

The Chamber congratulates and supports the Province for the steps that it has taken in managing expenditures. While Table 2 indicates that PEI's Net Debt as a % of Own Source Revenues is favourable when benchmarked against NS and NB, concerns continue regarding the upward trend. With anticipated slower growth in revenues, it is essential that expenditure restraint continue to be accompanied by strategic economic development programming to help secure the future tax base.

Year	PE	NS	NB
2007-08	171.6%	235.0%	160%
2008-09	170.1%	237.4%	170.3%
2009-10	182.1%	261.7%	206.4%
2010-11	191.8%	226.0%	210.3%
2011-12	199.6%	240.0%	205.3%
2012-13	203.6%	243.1%	231.6%
2013-14	201.8%	266.3%	253.4%
2014-15	201.7%	245.1%	241.6%
2015-16 Interim	212.6%	241.8%	251.4%
Source: Fed. Finance Fiscal Reference Tables			

4. Upcoming Provincial Budgets

While annual Provincial Budgets are important events in themselves, equally as important is the pattern of revenues and expenditures that occurs over the medium term. Therefore, our comments, suggestions and recommendations, while focusing on the 2017-18 Provincial Budget, also have implications for future budgets and the developing economic and fiscal situation.

4.1 Taxation and Tax Policy

In November 2015, the Chamber, after much study and deliberation, submitted a working paper entitled *Encouraging Business Growth Through a Competitive Tax System* to The Standing Committee on Education and Economic Development. We repeated the recommendations in our last pre-budget submission, stressing that a competitive corporate tax system is a key component of a sound and effective economic development strategy.

Overall, there is evidence that our provincial corporation tax regime is not competitive. While our relatively higher rates may be offset by other tax provisions (e.g. specific and

² Net Debt increased by \$836 million or 62% between 2007-08 and 2015-16

directed tax holidays), gaps and weaknesses remain (e.g. equity tax credits and research and development offsets). The Chamber would welcome a formal opportunity to review the analysis and recommendations of the working paper with the Department of Finance, to determine how the Province's tax regime could be adjusted to better spur private sector investments.

While the Chamber has addressed the implementation of a carbon tax in separate correspondence, further elaboration and discussion follows. The decision has been taken to implement a carbon tax. Since implementation will probably require changes to legislation or regulation, at this time it is not possible for the Chamber to precisely estimate the full impact on the business community. The Federal Government has placed a floor of \$50 /ton of CO₂ for 2022, just five years out. B.C. and Alberta are already at \$30 /ton.

It is a given, however, that additional revenues will flow into Provincial coffers. Each \$10 /ton of CO₂ carbon tax translates into approximately 2.5 cents/liter. As the levy rises to \$50 /ton of CO₂, the tax increase will approximate an average increase of 12.5 cents per liter. As there are upwards of 500 million liters of refined petroleum products sold in the province, the carbon tax could raise an amount of additional revenue to make it a significant component of Provincial own-source revenues.

This is our concern - if this additional revenue is not offset by other tax reductions, the relative burden of Prince Edward Island's tax regime may have a negative impact on the economic development of the province.

This is particularly true, given the relatively high tax burden now faced by residents and businesses alike. For example, to recognize impacts of a carbon tax, B.C. has implemented a significant tax shift, the majority of which was aimed at business to ensure that competitiveness is not jeopardized. (See Appendix 2.)

The implementation of a carbon tax presents an opportunity to address the recommendations of the Chamber's Working Paper - *Encouraging Business Growth Through a Competitive Tax System*.

An increasing carbon tax should be accompanied by reductions in other taxes if the province's competitiveness is to remain unaffected. This applies not only to economic and business competitiveness, but also to "A PEI where people will want to live, learn and work".

4.2 Population Growth, Demographics and Immigration

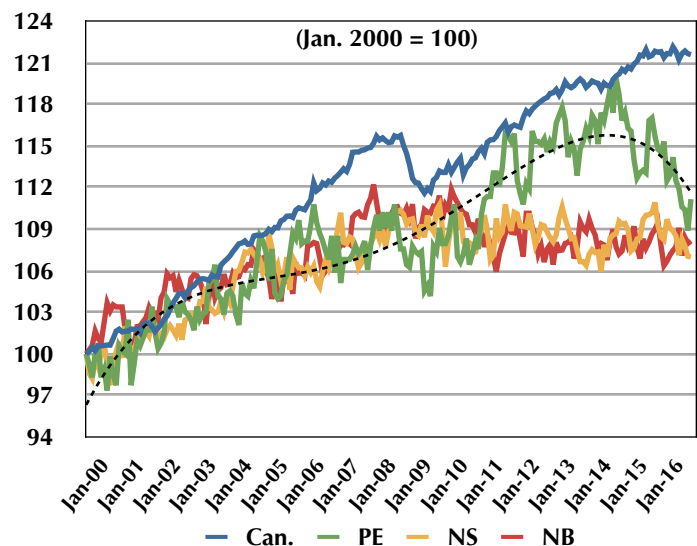
The Province's leadership in driving population growth is admirable in its design and success to date. As has been well documented, with the number of deaths now greater than the number of births, and with this gap projected to increase in future years, the logical approach forward is to attempt to reduce net losses to other provinces, and to continue to boost international immigration.

The Chamber fully supports the strategy of Recruit, Retain, Repatriate and looks forward to continuing its partnership with the Province in connecting newcomers to the business community and advancing the Island economy. As Government has stressed, a deliberate, action/results oriented strategy on recruitment, retention and repatriation is essential. While this is necessary, the Chamber believes it is not sufficient in itself. Our experience suggests that there are underlying success factors that need to be recognized and addressed. Profitable investment opportunities and meaningful employment opportunities must exist, and these will best occur, no doubt, within an expanded private sector. Without this focus, the probability of success may be limited.

Expanding employment may prove to be a challenge given that provincial employment has been in decline. For example, in November of 2016 there were 2,700 fewer people employed in the province than in November 2014³. This, in spite of strong population growth. The Chamber has, in previous Pre-budget submissions, raised concerns over lack of employment growth.

Chart 1 benchmarks PEI's growth in full-time employment against Canada, Nova Scotia and New Brunswick. Coming out of the 2009 recession, PEI experienced strong growth in full-time employment. By 2014, PEI's growth from 2000 matched that of Canada, much higher than that of NS and NB which have not shown any growth since 2008. However, since 2014, PEI's full-time employment has plummeted.

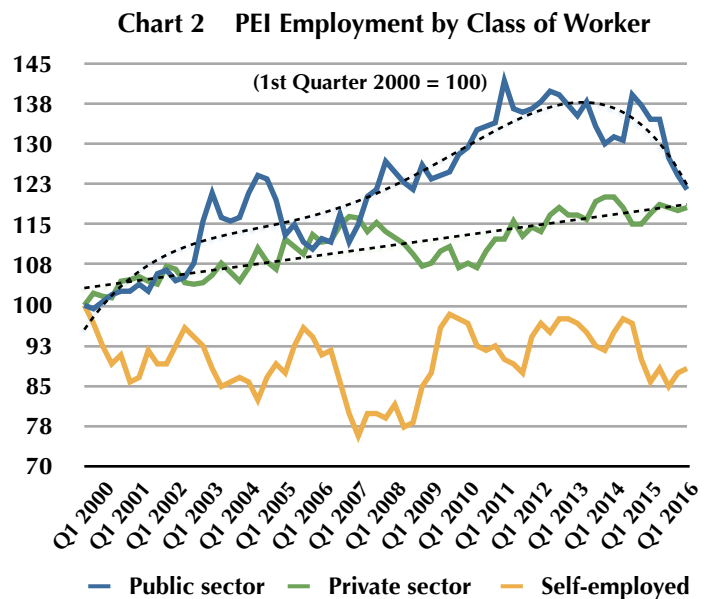
Chart 1 Benchmarking Growth in Full-time Employment



³ Full-time employment was down 4,000., and part-time employment up 1.3 (Cansim Table 282-0087)

Chart 2 helps explain why.

Just as the growth in PEI's employment between 2009 and 2014 was heavily driven by the public sector, the decline since 2014 is primarily due to public sector retrenchment. Setting the 2008/09 downturn aside, the number of private sector employees has shown moderate but steady growth. The number of self-employed has not shown any growth since 2000⁴.



It follows that an employment strategy should underlie a population strategy if monies flowing into the economy from population growth are to be directed into production and not just consumption.

In addition to investment and employment, however, social and human services must meet expectations. Our business contacts continue to tell us that in order to attract and retain an ever mobile adult workforce, our education system must be viewed by parents and businesses as 'high performing'.

4.3 Education: K-12 and Post-Secondary

The Chamber continues to advocate for improvements in the K-12 system. Of the two main issues facing the K-12 system (structure and performance), it is the performance issue that is important in the long haul. Our concerns center on ensuring that academic performance begins to approach levels comparable to the best performing provinces as measured via pan-Canadian and international instruments.

Structure, however, must eventually reflect the changing demographics of the province. Granted, projections of population growth and the distribution of that growth across the province are subject to variability. But as long as international migration is the substantive driver of population growth, and given the high probability that the vast majority of international newcomers will settle either temporarily or permanently within the greater Charlottetown area, the structure of the K-12 must accommodate to that reality.

⁴ Statistics Canada. Table 282-0087

The present debate over structure and rezoning may be diverting attention away from performance measurement and performance standards. We stress that it is in the best interests of all to bring the debate on structure to a conclusion that will support demographic realities and student learning. Structure is not an end in itself, but more a means to enhancing student learning and academic achievement.

While some improvements in academic performance are visible, there is obviously more to be done. Our members suggest that high school graduates who do not proceed to post-secondary could be better prepared for entrance to the work force. For those proceeding to post-secondary, concerns have been raised over the apparent large numbers of Island students who drop out of university before their second year. This, coupled with the apparent significant remedial effort required at UPEI to ensure that students are 'academically ready' for first year courses, adds further credence to perceived and measurable shortcomings in the performance of the K-12 system.

While post-secondary education has a number of objectives, the Chamber stresses that linkages to the local labour market has to be of high priority, particularly in directly applicable skills. The Chamber is encouraged by the directions of Work PEI to match labour supply with available demand. But again, it is the creation of additional demand for employment that will take up existing slack in the labour market and create enhanced opportunities for youth and 'repatriates'. The Chamber offers any assistance it can give to the development of an employment strategy that recognizes the central role of the private sector in developing and creating employment opportunities.

Our post-secondary institutions do have another significant economic impact, and that is acting as an 'export industry' via educating foreign students. Foreign students now make up more than 18% of the total enrollment at UPEI. This is a significant source of income for the University and has broad, positive economic impacts on the greater Charlottetown area. The Chamber encourages the Province through both UPEI and Holland College to further enhance foreign student enrollment to the extent that capacity exists.

4.4 Infrastructure

The Chamber continues to stress the importance of infrastructure spending toward building a strong provincial economy. The economic and social benefits of infrastructure spending are well documented, from increased GDP and employment to enhanced community services essential for economic and social well-being. The impact on the business community is substantial.

“On a sectoral basis, half of the short-term gains in GDP accrue to the construction sector, with the other half distributed across other private-sector industries. In the long run, the construction sector still makes the largest gains, but the overwhelming majority of gains accrue to other private-sector industries. Gains to the broader public sector are minimal in both the short and long run”⁵.

Table 3 shows the magnitude of expenditures over the past decade or so. In total, over half a billion dollars of projects have been approved, with a Federal contribution of over \$212 million. Green Energy is the largest component of PEI’s infrastructure spending (29%) because of the Federal contribution to the cable interconnection upgrade. Obviously, infrastructure programming is a significant economic stimulus. It is essential that projects continue to be strategic if the impact on the economic and employment base of the province is to be maximized.

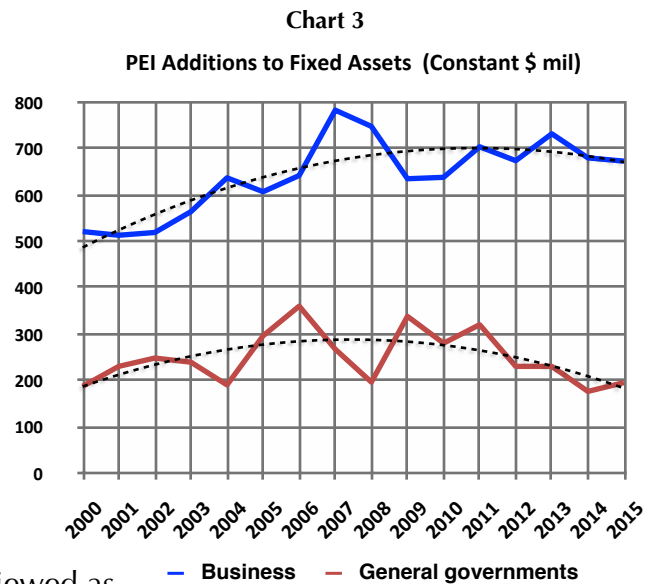
Category	Federal Contribution	Total Eligible Costs	Category Share of Total Eligible
Green Energy (1)	76,542,868	160,670,817	28.9%
Highways and Roads	49,657,708	114,892,038	20.7%
Wastewater	36,226,307	105,911,834	19.1%
Sport	10,708,571	62,006,884	11.2%
Drinking Water	15,388,646	37,491,577	6.7%
Tourism	8,656,054	24,321,133	4.4%
Recreation	7,541,875	23,848,373	4.3%
Marine	4,500,000	15,797,684	2.8%
Culture	1,393,245	5,181,585	0.9%
Regional and Local Airports	711,926	2,135,778	0.4%
Disaster Mitigation	463,216	1,696,848	0.3%
Public Transit	668,713	1,353,384	0.2%
Collaborative Projects	174,291	450,867	0.1%
Others	13,137	43,800	0.0%
	212,646,557	555,802,602	100.0%
Source: Infrastructure Canada			
(1) does not include recently announced additional Federal contribution for Cable			

Federal/Provincial/Municipal infrastructure investments, however, are only part of total additions to capital assets in the province. Additions to fixed assets (including physical plant, machinery, equipment etc.) are central to the economic development of the province, and as shown below, the contribution by the business sector is most significant.

⁵ The Economic Benefits of Public Infrastructure Spending in Canada, Prepared for the Broadbent Institute by The Centre for Spatial Economics* | September 2015, p 5

As has been recently stated, “Greater capital investment increases the capacity of an economy to produce goods and create employment opportunities for residents. By increasing its capital per worker rate, a jurisdiction improves labour productivity, and will consequently realize higher wages.”⁶

Chart 3 compares the relative contribution and relative growth of the PEI business sector to overall capital investments in the province. In 2015, expenditures by the business sector (including residential) were more than three times that of the government sector. Trend-wise, the annual amount by the business sector had been increasing up to the 2008-09 downturn, but has since leveled off.⁷ The trend for general government since 2009 is downward. This again supports the assertion that the private sector should be viewed as a key driver of recent and future economic growth.



While recent economic performance, as measured by growth in exports, auto sales and wages, is strong, longer term growth may be affected by weak and less than adequate investments in the capital stock of the province. This, in turn, may be influenced by the overall tax burden faced by businesses and individuals.

⁶ Atlantic Institute for Market Studies, *Private Sector Investment in Atlantic Canada*, Nov. 2016

⁷ Statistics Canada, CANSIM table 384-0038

5. In Summary

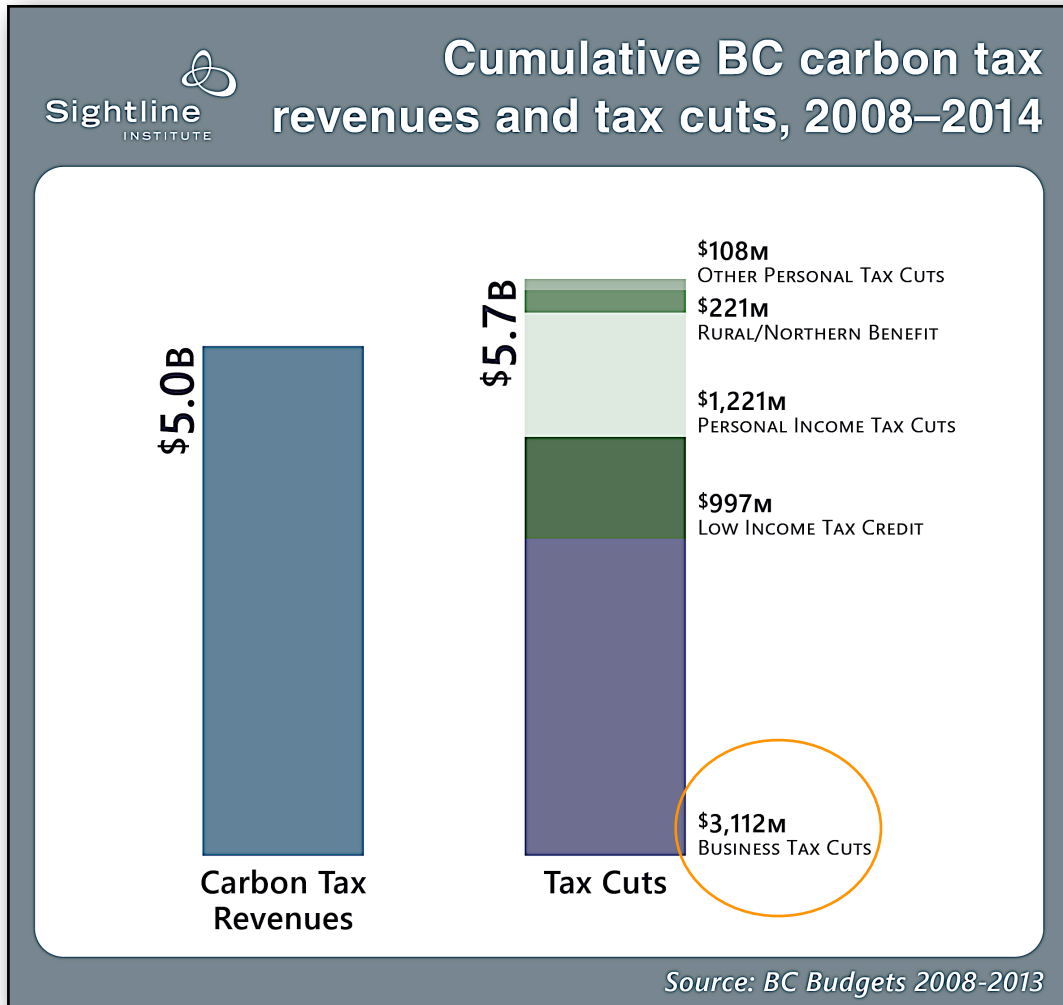
The Chamber believes the provincial economy would be well served if the Province:

- continues to pursue increased population, with the strategy based on developing enhanced investment and employment opportunities
- balances its Budget now and into the medium term, with continued expenditure restraint being the operative budgetary policy
- reviews and changes the provincial tax regime to ensure that residents and businesses alike do not face a growing competitive disadvantage, particularly in light of the introduction of an increasing carbon tax
- continues to address the academic standards and performance of the K-12 education system, based on measurable targets and outcomes
- continues infrastructure funding at the overall levels of recent years, with emphasis on strategic investments that may enhance private sector investment and employment opportunities
- fully supports the business sector as the principal driver of economic growth and employment creation

On behalf of our membership, the Chamber thanks you for the opportunity to contribute to the development of the 2017-18 Provincial Budget. The Chamber is always open to dialogue on these and other matters that affect and influence the business community and the provincial economy.

Submitted by: Pam Williams
President, Greater Charlottetown Area Chamber of Commerce

Appendix 1	\$ Change in GDP (Chained 2007 \$) (millions)							
	2008	2009	2010	2011	2012	2013	2014	2015
All industries	47.9	7.9	90.3	83.4	40.2	84.2	65.4	60.7
Agriculture, forestry, fishing and hunting	-17.7	5.6	14.3	-12.9	17.9	4.7	3.7	2.6
Mining, quarrying, and oil and gas extraction	1.5	-1.3	-0.4	0.1	0.3	-0.1	-0.10	-0.1
Utilities	4.2	6.4	7.7	4.9	-0.6	1.1	4.6	3.0
Construction	-9.7	0.6	-5.2	25.8	-30.0	9.1	-32.9	1.8
Manufacturing	1.4	-18.0	-17.2	5.0	16.8	29.8	51.9	-4.6
Wholesale trade	1.0	-6.6	1.1	9.1	5.3	14.7	5.0	2.3
Retail trade	3.0	2.2	14.7	-3.0	7.3	5.6	12.1	6.8
Transportation and warehousing	-3.4	1.0	-1.4	5.6	1.5	1.2	2.5	3.4
Information and cultural industries	0.10	-6.5	2.4	0.2	0.4	0.3	-0.5	-0.6
Finance and insurance	-0.8	-3.9	-0.9	1.8	3.1	6.2	2.8	7.8
Real estate and rental and leasing	16.9	18.3	17.8	17.6	21.1	9.6	9.1	25.8
Professional, scientific and technical services	3.8	-6.8	1.7	1.3	0.9	2.0	2.3	5.3
Management of companies and enterprises	4.5	0.7	1.3	-2.7	-0.2	-1.4	-3.2	0.3
Administrative and support, waste management and remediation	2.8	-9.2	19.8	-1.0	6.0	2.8	3.5	-3.3
Educational services	6.2	11.4	14.1	11.8	0.9	0.3	1.8	2.6
Universities	1.8	3.1	5.3	5.2	0.9	3.0	0.4	1.8
Educational services (except universities)	4.4	8.3	8.7	6.6	0.0	-2.5	1.4	0.9
Health care and social assistance	8.3	5.9	12.6	7.8	-6.4	-3.0	1.6	4.0
Arts, entertainment and recreation	0.8	1.3	-3.7	-0.6	-1.9	4.9	-2.0	4.2
Accommodation and food services	0.9	-2.6	-0.9	1.3	1.9	8.2	3.5	4.7
Other services (except public administration)	1.7	-2.1	1.3	0.6	3.5	-4.4	3.3	1.3
Public administration	22.2	15.2	15.0	9.0	-5.0	-3.4	-5.1	-5.0
Federal government public administration	10.7	2.7	2.7	-0.9	-9.5	-4.8	-3.3	1.9
Provincial and territorial public administration	9.2	7.4	7.8	6.5	3.1	1.2	-2.0	-5.1
Local, municipal, regional and aboriginal public admin.	2.2	5.2	4.6	3.2	1.7	0.3	0.2	-1.7
Sum of Education, Health Care & Social Services, & Public Admin.	36.7	32.5	41.7	28.6	-10.5	-6.1	-1.7	1.6
% Contribution of Education, Health Care & Social Services, & Public Admin. to Total \$ Change in GDP by Industry	76.6%	411.4%	46.2%	34.3%	-26.1%	-7.2%	-2.6%	2.6%



The British Columbia model of carbon tax was deemed to be 'revenue neutral'. The additional revenue raised from the implementation of the B.C. carbon tax was used to reduce other taxes, most notably business taxes. The B.C. carbon tax is, in effect, a tax shift and not an overall tax increase, thus protecting the competitiveness of the B.C. economy.

⁸ http://sightline.wpengine.netdna-cdn.com/wp-content/uploads/2015/10/BC_Carbon_Tax_5_Tax_Revenues_v_Tax_Cuts-082015-300ppi.png