CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
BC Office

CCPA Submission to BC Budget Consultations 2019

SUBMISSION TO THE SELECT STANDING COMMITTEE ON FINANCE AND GOVERNMENT SERVICES OF THE LEGISLATIVE ASSEMBLY OF BC

Canadian Centre for Policy Alternatives, BC Office

OCTOBER 15, 2018

Introduction

We are pleased to offer this submission to the 2019 BC Budget Consultations on behalf of the BC Office of the Canadian Centre for Policy Alternatives. This submission highlights key findings from our research[1] and outlines our recommendations for the 2019 provincial budget.

Established over 20 years ago, the BC Office of the Canadian Centre for Policy Alternatives investigates key challenges facing our province—the high rate of poverty, economic insecurity, extreme concentration of wealth and threats to our environment and climate—providing independent research, analysis and expertise. We work with a team of over 50 staff and volunteer research associates to develop workable solutions and share our findings as widely as possible to advance social, economic and environmental justice in BC.

[1] All publications available at: https://www.policyalternatives.ca/offices/bc/publications.

BC Budget 2019 priorities and outline of submission

CCPA's top three priority recommendations for BC Budget 2019 are:

1. Implement a comprehensive poverty reduction plan.
2. Expand climate action initiatives to reflect the urgency of the crisis.
3. Make major new investments in dedicated affordable housing.

In several other important policy areas, we make further recommendations:

4. Accelerate investment in public transit.
5. Strengthen public education and health care.
6. Continue building a universal, affordable, quality child care plan.
7. Review and reform natural resource revenues.
8. Create a fairer provincial tax system.

These action items represent a detailed and demonstrably affordable plan for how the BC government can tackle poverty and climate change, make life more affordable, provide the services that people need, and build a strong, sustainable and innovative economy that works for all British Columbians.

In the remainder of this submission, we first offer an analysis of the economic and fiscal outlook for BC. This analysis serves as context for our full set of budget recommendations, which follow.

Economic and fiscal outlook

ECONOMIC OUTLOOK

BC has seen real GDP growth of well over 3 per cent for four consecutive years, including an impressive 3.9 per cent in 2017. Unfortunately, this growth was largely driven by the out-of-control urban real estate boom in Metro Vancouver and Victoria and flagged by many, including the CCPA, as unsustainable. Real estate and residential construction accounted for 22 per cent of provincial GDP in 2017 and has driven about 30 per cent of GDP growth over the last four years (more if you also include financial activities in support of real estate), making BC's economy more reliant on real estate than Alberta is on oil.

Growth in real estate and residential construction has slowed down slightly since 2017 as federal and provincial policies designed to cool the market (such as the foreign buyers tax) began to take effect. Despite the significant slow-down, real estate remained one of the largest drivers of GDP growth in 2017, accounting for 17 per cent of growth. Going forward, any slack in the residential construction sector that results from the cooling of the real estate market can and should be taken up by much-needed additional public investments in affordable housing.

Strong GDP growth in 2017 was also significantly buoyed by trade (both retail and wholesale) and engineering construction in support of the oil and gas sector, which accounted for 19 and 18 per cent of overall growth, respectively. Expanding oil and gas infrastructure may create short-term jobs but it imposes serious environmental costs and locks the province into fossil-fuel producing infrastructure at a time when we should be reducing our reliance on fossil fuels and investing in greening our economy.

It is also concerning that retail trade has grown much faster than wages for a number of years, bolstered by wealth effects from the housing market and increased borrowing (which is also propping up the real estate market). We have started to see a moderation in retail spending growth since 2017.

While boosting GDP numbers, BC's real estate boom has also led to a serious housing affordability crisis with tremendous social and economic consequences. Budget 2018 implemented a number of measures aimed at curbing speculation in real estate and cooling the overheated housing market, which, combined with stricter mortgage rules imposed by the federal government starting in January 2018, have succeeded in cooling the market. The Canadian Real Estate Association is forecasting a drop in housing sales across the country in 2018 with the largest decline in BC (22 per cent compared to a national average of 10 per cent).[2]

Whether the decline in sales translates into lower prices remains to be seen. While Vancouver home prices have declined at the high end of the market, condo prices have increased somewhat, although the data point to growing inventories of new units amid continued high construction activity. In August 2018, average home prices in Metro Vancouver were up 4 per cent compared to the same month last year. Prices rose faster on Vancouver Island (14 per cent compared) and the Fraser Valley (11 per cent) over the last 12 months.[3] Most of the speculative forces that have pushed up the market in recent years have abated, and there is a possibility of a correction in the real estate market as a short- to medium-term risk for the BC economy.

A related factor slowing down BC's housing market and economy is higher interest rates, as the Bank of Canada has raised its overnight rate four times since July 2017. While interest rates remain near historic lows, higher rates mean increased debt service costs for families and businesses and less income available for consumer spending or investment.

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[2] Canadian Real Estate Association. 2018. "CREA Updates Resale Housing Market Forecast." *News Release.* September 17, 2018.

[3] Based on statistics from the Canadian Real Estate Association's September 2018 report.

The vulnerability posed by escalating levels of household debt is another concern for the BC economy and for families. BC consumer debt levels per capita continued to climb in 2017, and remain the highest in the country (19 per cent higher than the Canadian average).[4] The Bank of Canada estimates that about 14 per cent of indebted households in BC owe 350 per cent or more of their income, the highest share of heavily indebted households in the country (for reference, the Canadian average is 8 per cent).[5] These heavily indebted households are the ones that would be most affected by increases in interest rates and face higher risks if they experience a sudden decline in their income (for example, a job loss).

In spite of these downside risks, BC GDP growth is expected to be at or slightly above the Canadian average with the growth drivers changing from consumer spending and real estate to business investment and exports. There is an opportunity for the BC government to take leadership and use targeted regulation and investment policies to tackle climate change and address other pressing challenges, including improving sustainable public transportation across the province, building affordable homes as part of complete communities, developing alternative energy generation capacity and retrofitting commercial and residential buildings.

EMPLOYMENT OUTLOOK

BC's unemployment rate remains the lowest in the country and recent job growth has been concentrated in full-time positions. However, strong GDP growth and job creation have not resulted in broad-based wage increases. We have seen stronger wage growth over the last year but median weekly wages were barely higher in 2017 than 2013, after adjusting for inflation.[6] Since January, median weekly wages have finally surpassed 2013 levels but there is a lot of catching up to do for workers to meaningfully share in the benefits of recent strong growth.

Another worrying sign for the BC economy is that employment growth has slowed down in 2018 – as was forecast by private sector economists – and is lower than average in Canada (0.8 per cent, compared to a Canadian average of 1.4 per cent).

BC's economy looks very different in rural and urban areas. The good news is that job growth in 2018 has not been as concentrated in Metro Vancouver as in previous years. Instead, a number of regions of the province have seen net new job growth so far this year, with Vancouver Island the North Coast and Nechako area, and the Cariboo leading the way. However, the Kootenay

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4 Chartered Professional Accountants of BC. 2017. *BC Check-Up*.

5 Note that this is based on data for household debt in 2012-14 and the numbers may be even higher today. Source; Cateau, Gino Tom Roberts and Jie Zhou. 2015. "Indebted Households and Potential Vulnerabilities for the Canadian Financial System: A Microdata Analysis." Bank of Canada *Financial System Review* (December): 49–58.

6 Authors' calculations based on data from Statistics Canada's Labour Force Survey adjusted for inflation with the Consumer Price Index.

region and Thompson/Okanagan have experienced job losses and unemployment rates in the North Coast and Nechako and the Thompson/Okanagan regions remain much higher than the provincial average of 4.9 per cent. The bad news is that some parts of the province, including the Kootenay and North Coast and Nechako regions have yet to recover the jobs lost in the recession nine years ago, while Thompson/Okanagan and the Cariboo have practically the same number of jobs today as in 2008.

With much attention for many years ill-advisedly devoted to encouraging a dramatically expanded natural gas sector, BC's most important natural resource industry—forestry—has been left to languish. There is an urgent need for the government to address current trends in BC's forests and forest industry in order to better protect the provincial economy as a whole and the economy of rural, resource-dependent communities in particular.

Nearly 60,000 people worked in BC's forest industry last year, down by 20 per cent from 2007 and nearly 50 per cent since 1997.[7] The sector's workforce is heavily weighted to logging and wood product manufacturing, notably commodity lumber. Other Canadian jurisdictions such as Ontario have higher overall employment figures per unit of wood harvested because they produce a mix of higher value-added forest products, while in BC row log exports make up a large portion of the industry, as has been documented in recent CCPA research.[8] Ontario currently generates one forest industry job for every 351 cubic metres of wood harvested compared to one forest industry job in BC for every 1,194 cubic metres harvested.[9] BC has the potential to leverage a lot more employment and value creation out of its forestry resources than it currently gets. More active forest management and policies that discourage raw log exports could serve as a key part of a sustainable regional development strategy.

Finally, BC has a polarized labour market with good, family-supporting jobs for some and precarious work and low pay for others. Statistics Canada's Job Vacancy and Wage Survey shows that among the ten occupations with the most job vacancies in BC in the first quarter of this year four paid average wages lower than $12.65 and would have been forced to increase their pay when the minimum wage went up in June. More than a quarter of all job vacancies in BC offered an average wage below $15 and the average wage for all new vacancies in the province was $19.90, a dollar below the Metro Vancouver living wage of $20.92. That is to say, many of the new jobs available in BC are not family-supporting jobs.

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7 Data from Statistics Canada's System of National Accounts on the Natural Resources Canada website available at https://cfs.nrcan.gc.ca/statsprofile/employment/bc

8 Parfitt, Ben. 2017. "The Great Log Export Drain: BC government pursues elusive LNG dreams as more than 3,600 forest industry jobs lost to raw log exports." *PolicyNote.ca.* Vancouver: CCPA-BC.

9 Based on 2016 data on forestry harvest volumes and forest industry employment from the Natural Resources Canada website available at https://cfs.nrcan.gc.ca/statsprofile/forest/bc

Table 1: Occupations with the highest number of vacancies in BC, first quarter of 2018

	Job vacancies Q1 2018	Average offered hourly wage
Food counter attendants, kitchen helpers and related support jobs	8,140	$12.30
Retail salespersons	5,465	$12.45
Motor vehicle and transit drivers	4,310	$21.40
Chefs and cooks	3,800	$15.55
Agriculture and horticulture workers	3,510	$12.05
Cleaners	3,040	$15.80
Trades helpers and labourers	2,930	$17.90
Occupations in food and beverage service	2,610	$11.75
Carpenters and cabinetmakers	2,410	$24.20
Paraprofessional occupations in legal, social, community and education services	1,940	$18.60

Source: Statistics Canada. Job Vacancy and Wage Survey. 2018. Table 14-10-0356-01.

This helps explain why having a job is no longer a guaranteed path out of poverty. One of nine British Columbians who used food banks in 2016 was working but not earning enough to afford groceries (11.7 per cent).[10] One in five homeless people in Metro Vancouver in 2017 had a part-time or full-time job (21 per cent).[11] A 2016 CCPA study found that over 100,000 working-age adults in Metro Vancouver alone are working but still stuck in poverty, not counting students or youth living at home with their parents.[12]

In summary, the BC economy is facing some headwinds after several years of above-average GDP growth. BC's economic dependence on real estate and the record-high levels of household debt are challenges the government will have to address going forward. We need to reshape BC's economy to be more sustainable and inclusive, and promote innovation directed towards solving the key challenges of our time.

The good news is that bold government action in strategic areas—as outlined in this submission—can create jobs and boost the economy at the same time as it reduces poverty,

[10] Food Banks Canada. 2016. *HungerCount 2016*.

[11] BC Non-Profit Housing Association and M. Thomson Consulting. 2017. *2017 Homeless Count in Metro Vancouver.* Prepared for the Metro Vancouver Homelessness Partnering Strategy Community Entity.

[12] Ivanova, Iglika. 2016. *Working Poverty in Metro Vancouver*. Vancouver: CCPA-BC.

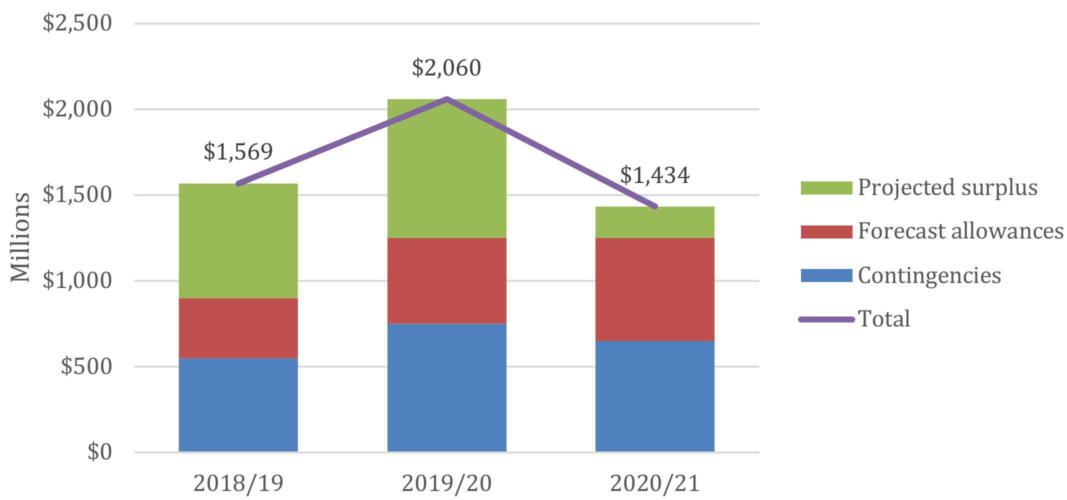
improves affordability and tackles climate change. And all of this can be accomplished within a reasonable fiscal framework.

FISCAL OUTLOOK

Strong additional public investment is needed to tackle the large and pressing challenges facing our province. Fortunately, BC has the economic and fiscal capacity to make significant investments in our public sector and the critical services it provides.

The Budget 2018 First Quarterly Report projects substantial surpluses over the next two years, including generous contingency allocations and forecast allowances over the remainder of the three-year fiscal plan. Together, these amount to combined underlying surpluses of $1.6 billion in 2018/19, $2.1 billion in 2019/20 and $1.4 billion in 2020/21 (see Figure 1). Considering that these projections are based on cautious assumptions about GDP growth, which are lower than the average private-sector forecast, it is likely that baseline surpluses over these three years may be higher still. This fiscal room is in addition to funding envelopes already set aside in the fiscal plan for 2019/20 ($1.37 billion) and 2020/21 ($1.25 billion) available for "priority spending initiatives to be developed for future budgets."

Figure 1. Fiscal room in the three-year plan

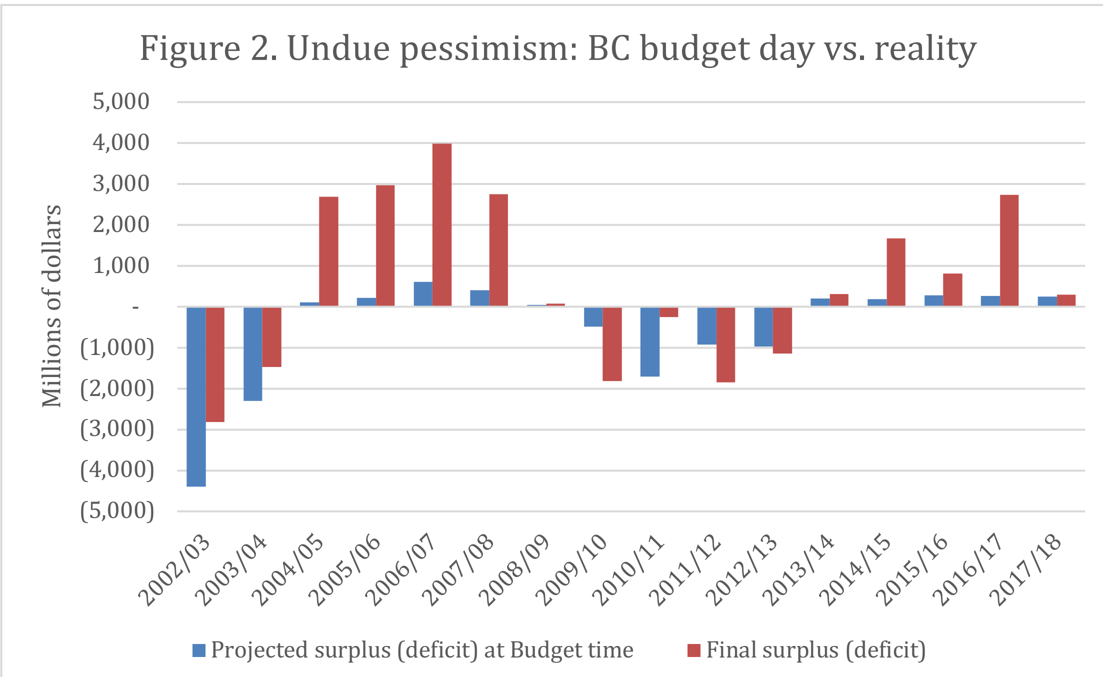


Source: BC Ministry of Finance. BC Budget 2018 First Quarterly Report.

A remarkably consistent feature of the BC budget process over the past two decades has been underestimating budget surpluses – often by well over $1 billion (see Figure 2). In 13 of the past

16 years, the predicted budget balance on budget day has been more pessimistic than the actual year-end balance, usually by hundreds of millions of dollars.[13]

We reject this overly cautious – and indeed inaccurate – approach to budgeting. When governments systematically underestimate the available budgetary resources, this distorts the scope of public debate on what is possible for a budget to achieve. The long-running, multi-government fixation on booking an operating surplus may make for good media headlines, but in economic terms, a small operating surplus is not meaningfully different from a small operating deficit.

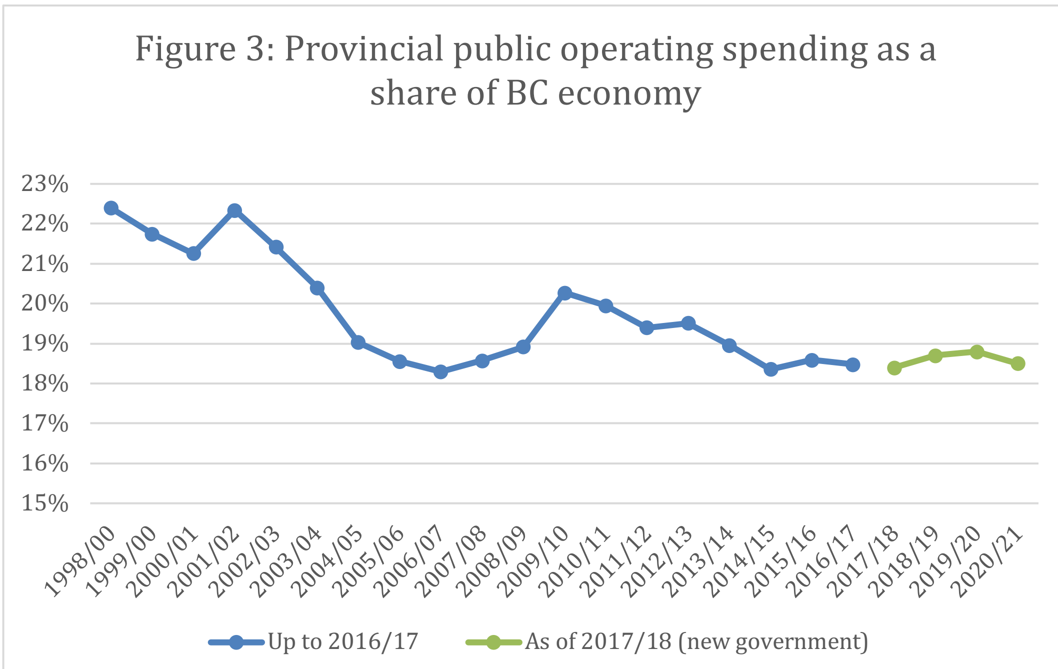


Source: BC Ministry of Finance. BC Budgets 2002 through 2017.

Ultimately, what matters for BC's fiscal health is not whether a year ends with a budget surplus but the debt-to-GDP ratio (i.e., the debt relative to the annual income of the economy) and debt service costs (i.e., the debt interest payments relative to the size of the budget). BC's debt-to-GDP ratio is a healthy 15.3 per cent for 2018/19, down from the post-recession peak of 17.9 per cent in 2013/14, and is the second lowest in the country, which leaves considerable room for addressing a backlog of important capital investments in the province. Debt servicing costs are at historic lows with less than five cents of every dollar of revenue going to these costs.

[13] The only three cases in which budget day projections were more optimistic than the actual year-end balance were in the wake of the global financial crisis (in fiscal 2009/10) and after the HST referendum when the government had to repay federal funds.

When measured as a share of the economy, provincial operating spending has declined markedly since the late 1990s (see Figure 3). Under the new government, this decline has levelled off but not been reversed (over the three-year fiscal plan). In concrete terms, if BC dedicated the same share of our forecasted $293 billion of economic output to public operating spending in 2018/19 as we did in 2000/01, this would mean making additional expenditures of about $7.5 billion per year. It is entirely within our economic and fiscal capacity to make bold new investments in British Columbia, over and above the important and welcome ones announced in Budget 2018.



Source: Ministry of Finance, including BC Financial and Economic Review and Budget 2018 First Quarterly Report.

BC's fiscal situation has been bolstered by revenue measures announced over the past year, including restoration of the top tax bracket on individual income above $150,000 to 16.8%, and a one percentage point increase to the general corporate income tax rate (from 11% to 12%). The Speculation Tax, and additional School Tax on properties over $3 million are also welcome steps in this respect. By requiring corporations and the wealthy to contribute more, these steps also enhance the fairness of the tax system.

The 50 per cent reduction this year and forthcoming elimination of Medical Services Plan (MSP) premiums—BC's least fair tax—represent a very positive step towards a more progressive tax system. The Employer Health Tax is a fairer replacement for MSP, but it is only projected to replace $1.9 billion of the total forgone $2.6 billion of MSP revenue. We recommend additional steps to fully replace this revenue, which can help ensure better-funded public services for all British Columbians (see the section on fair taxation for further discussion of revenue-generating possibilities).

Given pressing economic, social and environmental needs facing BC, as well as historically low interest rates, we recommend the government boost borrowing to make additional public capital investments in affordable housing, transportation and expanding health and education facilities (including new child care spaces). These investments would strengthen the provincial economy and set the stage for balanced and inclusive growth moving forward. A strong, well-resourced public sector goes hand-in-hand with a healthy economy. In fact, it is often public spending—including ensuring staffing levels that create and enforce appropriate regulation—that creates the conditions for communities and businesses to thrive.

Recommendations

1. IMPLEMENT A COMPREHENSIVE POVERTY REDUCTION PLAN

The BC government deserves credit for finally moving forward a poverty reduction plan, and for formally committing to legislated poverty reduction targets. That said, the targets themselves—to reduce the overall poverty rate by 25 per cent and child poverty by 50 per cent in 5 years (over 2016 levels)—lack ambition and the aim should be to exceed them.

BC Budget 2019 is expected to table new spending measures to achieve these targets, the culmination of an extensive public consultation process. BC now has a chance to deliver a plan that is bold and ambitious, that will produce meaningful results and that will stand the test of time. Indeed, BC has the economic and fiscal capacity to reduce poverty on a faster timeline and to exceed the legislated targets.

The need is clear: tolerating high rates of poverty and homelessness is unfair and unnecessary in a wealthy country like Canada. It is also very expensive because we all pay for the negative consequences of poverty and homelessness. The CCPA has calculated that poverty costs BC between $8.1 and $9.2 billion annually in higher costs to the criminal justice system, in lost productivity, lower school success, and higher health costs.[14] We have highlighted priorities for immediate action in our March submission to the poverty reduction consultation.[15]

The BC government has already taken steps to assist low-income residents, including a modest increase in welfare and disability rates in September 2017 (breaking a 10-year freeze), a schedule to raise the minimum wage to $15/hour, and measures to improve access to child care, housing and dental care for lower-income families. A panel of academics has been appointed to study basic income and whether and how it could work in BC.

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[14] Ivanova, Iglika. 2011. *The Cost of Poverty in BC*. Vancouver: CCPA-BC.

[15] Klein, Seth, Marjorie Cohen, T Garner, Iglika Ivanova, Marc Lee, Bruce Wallace and Margot Young. 2008. *A Poverty Reduction Plan for BC.* Vancouver: CCPA-BC. and Klein, Seth. 2018. *CCPA-BC Submission on the Development of a BC Poverty Reduction Plan*. Vancouver: CCPA-BC.

However, to achieve the targets outlined in the new BC Poverty Reduction Strategy Act (Bill 39), and to end deep poverty in BC (as we outlined in a recent article on CCPA's Policy Note blog[16]), Budget 2019 must introduce significant new measures in all seven of the core pillars of a comprehensive plan, as identified by the CCPA and the BC Poverty Reduction Coalition.

We strongly recommend prioritizing immediate and significant increases for social assistance and investment in low-income housing, policy measures aimed directly at eliminating the most extreme and severe forms of poverty—such as homelessness and hunger—and ending deep poverty (defined as income below 75% of the official poverty line). While reducing the depth of poverty was not one of the legislated targets embedded in the new *Act*, it would be unconscionable for a government committed to poverty reduction to risk leaving the poorest and most vulnerable British Columbians behind.

Our recommendations for Budget 2019 are:

- Increase social assistance rates so that all British Columbians receiving social assistance and disability benefits have an annual income at least 75 per cent of the poverty line within two years. Rates are currently thousands of dollars below the poverty line. For a single person in the *Expected to Work* category (those farthest away from the poverty line, and the second largest group of welfare recipients), this would mean increasing monthly assistance by approximately $548. We have estimated that the cost of getting all social assistance recipients to 75 per cent of the official poverty line—and essentially eliminating deep poverty—would be approximately $365 million a year, which is less than one per cent of the annual provincial budget.[17] In the medium term, income assistance rates must be set at a level that meets actual costs of living in this province—above the poverty line at a minimum—and be indexed to inflation to ensure that long freezes do not erode their value over time.
- Eliminate the administrative barriers that discourage, delay and deny access to social assistance to vulnerable British Columbians who need support. Seeking assistance should not harm a person's dignity. This will require simplifying the complex online application process and making the application form available in languages other than English, hiring additional Ministry staff to reduce wait times on BC's social assistance phone line, and restoring access to in-person application assistance by re-opening Ministry offices where they have been closed to provide alternatives to online and phone services for marginalized people who need them.

[16] Klein, Seth and Iglika Ivanova. 2018. "Deep poverty: BC government can—and should—end it." *PolicyNote.ca.* Vancouver: CCPA-BC.

[17] Ibid.

- Permit income assistance recipients to receive benefits while enrolled in post-secondary education and training programs, building on the success of the Single Parent Employment Initiative.
- Increase the earnings of those in the low-wage workforce through reducing the gap between the minimum wage and living wages and adoption of living wage policies by government ministries and agencies.
- Improve the working conditions of low-wage and vulnerable workers by strengthening and proactively enforcing workplace rights. We recommend increased funding for the Employment Standards Branch of the Ministry of Labour to hire more employment standards officers and begin pro-active enforcement of the Employment Standards Act. We are also concerned that the current review of BC's Employment Standards undertaken by the BC Law Institute is under-resourced and has not engaged vulnerable workers and their advocates in meaningful consultation, and as a result is likely to produce recommendations that do not fully reflect the realities of vulnerable workers in today's changing workplaces. We outline our recommendations for reforms to workplaces rights in recent submissions made to the Labour Relations Code Review Panel and the BC Law Institute.[18]
- Invest in a large-scale expansion of social and co-op housing (we have called for 10,000 units per year). See our Housing section on below for specific recommendations.
- Strengthen rent control by tying it to the unit and not the tenant. Ensure that reforms to the Residential Tenancy Act (RTA) are backed up with sufficient funds for staff to ensure the RTA is meaningfully enforced. Escalating housing costs represent the greatest threat not only to the poverty reduction plan but to the government's overall policy agenda. Given rising rental costs, there is a grave risk that all the improvements and gains experienced for low-income people due to minimum wage increases, welfare rate increases, child care fee reductions and more will be wiped out by rent increases.
- Continue to boost investment in child care, moving towards the goal of building a universal, affordable and quality public child care system.
- Expand community health services for seniors, people with disabilities, and those with mental health illnesses and addictions, and enhance dental and eye care for low-income people, including both the working poor and those on social assistance. Gaps in the accessibility of these services puts pressure on the most-expensive component of the health care system—emergency rooms and hospitals—costing BC more in the long term.

[18] Ivanova, Iglika. 2018. *Strengthen the Labour Relations Code to Improve Fairness in a Changing Workplace: Presentation to the BC Labour Relations Code Review Panel*. Vancouver: CCPA-BC and Ivanova, Iglika. 2018. *Building a Stronger Foundation of Basic Workplace Rights for BC Workers: CCPA-BC Response to the BC Law Institute Consultation Paper on the Employment Standards Act*. Vancouver: CCPA-BC.

- Improve access to post-secondary education and training for low-income people (including more generous financial support for low-income students) and improved services for special needs students in the K-12 education system.
- Invest in programs that tackle poverty among populations and communities where poverty is most acute, including Indigenous people, new-immigrants and refugees, people of colour, single-parent families (and particularly, single-mother families), single seniors (particularly women), people with disabilities, people with mental health or addiction issues and others.
- Increase legal aid funding and specifically, fund expanded family law services, poverty law services and First Nations legal services to improve access to justice for lower-income and otherwise marginalized communities.

Many of the recommendations outlined above would boost the incomes of those at the bottom of the income ladder—a group of people who spend their income purchasing goods and services because they don't have the luxury of saving. Most of these expenditures occur in local communities, and thus, would provide a boost to the local economy (a much stronger one than personal or corporate tax cuts, for example, can provide).

2. EXPAND CLIMATE ACTION INITIATIVES TO REFLECT THE URGENCY OF THE CRISIS

BC Budget 2019 provides an opportunity to get serious about climate leadership. The decision of the BC government to support LNG Canada's investment on the north coast is a troubling one, as it will make it much harder for BC to meet its new legislated emission reduction targets. In place of LNG Canada's investment, a fiscal engine for change lies in improving and expanding BC's carbon tax to facilitate new public investment that drives complementary climate actions.

Two priority areas for climate action include using increased carbon tax revenues to fund climate investments, and making the costs of climate change adaptation more transparent.

Increase carbon tax to fund climate action

BC's carbon tax increased $5/tonne in April 2018 to $35 per tonne, and is scheduled to rise for the next three years at the same rate, hitting $50/tonne by 2021. Arguably too much attention has been placed on the carbon tax for its ability to reduce emissions, for even at $35 per tonne it amounts to only 8 cents per litre at the pump. Less attention has been given to the tax's revenue potential: carbon tax revenues will hit $1.5 billion in 2018/19. BC should be more aggressive and re-assert leadership on carbon pricing with new annual increases of $10 per tonne starting in 2019.

New carbon tax revenues can support an ambitious capital/infrastructure plan to facilitate new climate action investments:

- *Retrofitting buildings*: Re-invest in the LiveSmart BC home retrofit program with emphasis on multi-unit buildings, including rental housing, and older (less energy efficient) housing stock. In addition, there should be funding for energy retrofits of public buildings, including schools and hospitals.
- *Low-carbon transportation:* Large new investments in public transit for Metro Vancouver and other BC cities are needed to improve the quantity and quality of services to give people more and better options for getting around (more on this below).
- *Renewable energy*: The province needs to shift to 100 per cent renewable energy as quickly as possible. Measures that can insert small and community-scale renewables should be supported, including efforts by First Nations to move off diesel power. Another key strategy is expanding low-carbon district energy in urban areas modeled on the City of Vancouver's Neighbourhood Energy Utility, which taps waste heat from sewers to provide space and water heating in Southeast False Creek.
- *Zero waste:* Invest to develop new capabilities for processing recycled materials in BC. Bring in deposit-and-return systems for consumer packaging and containers. And, use provincial procurement power and minimum recycled content requirements to boost the domestic market for recycled materials.
- *Forest conservation and stewardship:* Focus on sustainable forestry and value-added activities to create good jobs in rural areas.
- *Just transition:* Develop and support just transition policies to ensure BC resource industry workers and their communities are not left behind.

Half of new carbon tax revenues would fund climate action initiatives and the other half a reformed carbon credit, to ensure lower and modest-income households are not facing additional costs. The 2018 increase in the low-income carbon credit to a maximum of $135 per adult and $40 per child is a step in the right direction, and will help to address the regressive nature of the carbon tax for low-income households. Moving forward, we recommend (and have modeled) a reformed carbon credit system that would reach a larger share of BC households.[19] This credit would gradually phase out as income rises, but overall, 80 per cent of households would receive at least a partial credit.

Finally, the additional carbon offset fee of $25 per tonne paid by public sector organizations should be phased out. The government should abandon its offset purchases in the name of "carbon neutral government," and instead aim to achieve real emission reductions across the economy. Some offset projects may fund worthwhile objectives, like forest conservation, and those could instead be funded from carbon tax revenues. They should not be used, however, to pretend emissions are being reduced elsewhere.

[19] Lee, Marc, 2017. "Fixing the carbon tax: A closer look at the BC NDP's climate plan". Policy Note, March 14, 2017.

Make costs of climate change adaptation more transparent

Climate change is no longer something that might occur far in the future but is costing BC a lot of money today. BC's 2018 wildfire season set another record for hectares burned, topping the previous 2017 record. In budget terms the cost for 2018 has been less, but nonetheless about $1 billion has been spent fighting fires over the two years. In addition, flood management costs were $162 million over budget in the current fiscal year, according to the First Quarterly Report for 2018/19. The costs of all these extreme events add up fast, and highlight the growing future costs of our collective inaction.

In 2018/19 the BC Budget allocated only $64 million towards fire fighting, while costs as of the First Quarterly Report are now estimated at $541 million. Even though actual costs in recent years have been much higher – a record $648 million in 2017/18 – the same $64 million has been repeatedly budgeted. Between 2001 and 2016, BC has spent just shy of $3 billion on fire response, triple what has been budgeted. And this is not counting public costs associated with repair of infrastructure, much less private insured and uninsured losses.

This represents a budgetary form of climate change denial, a belief that an extreme wildfire season only happens rarely, when they seem to be a "new normal" for the province. This ongoing need for fire fighting should be reflected in the budget, not suppressed to make the budget balance look better when tabled in February. Other elements of climate change adaption need to be funded in the budget. Over the coming years dykes will need to be raised, storm water systems upgraded to handle extreme precipitation events, and systems will need to be implemented to mitigate the impact of extreme heat.

3. MAKE MAJOR NEW INVESTMENTS IN DEDICATED AFFORDABLE HOUSING

The 2018 BC Budget took some major new steps towards housing affordability, in particular on the taxation side, with new progressive tiers of property tax, the speculation tax and an expanded foreign buyer tax. These are important initiatives towards shifting housing away from being viewed primarily as an investment and back towards being a home.

The budget also makes new commitments to build affordable units, with a commitment to 33,700 units over 10 years. Most of these will be affordable rental stock (19,200 units) and student housing (5,000 "beds"). The remainder goes towards marginalized groups: modular housing for the homeless (3,700 units), supportive housing (2,500 units), housing for women and children fleeing abuse (1,500 units) and housing for indigenous people (1,750 units).
Our estimates, as well as that of the BC Non-Profit Housing Association, suggest much more than this is needed: between 5,000 and 10,000 units per year in Metro Vancouver alone to keep up with growing population, and address the broad range of housing needs in BC – housing for the homeless, supportive housing, seniors' housing and assisted living, and immigrant and refugee

settlement – as well as more broad-based non-market rental housing for low-income British Columbians.

Thus, Budget 2019 should increase new investment to get to the full 114,000 units over 10 years promised during the election, with a focus on new rental, social and co-op housing. This investment would also help counter the recessionary impact of a slowdown in housing activity by keeping new construction levels high.

A housing commitment to build 11,400 units per year for a decade translates into an annual public investment of about $3 billion per year ($250,000 per unit construction and related cost), assuming public land owned by local governments or the BC government is contributed. This upfront capital cost, however, would be more than paid back through the flow of rental income over the lifespan of the buildings.

Governments have done similar things before. BC should look to its own history of building dedicated affordable housing in the post-war years. In partnership with the federal government and non-profit community groups, between the early 1970s and the early 1990s, BC used to bring on stream approximately 2,000 units of new social or co-op housing *each year*. This legacy of social and cooperative housing is more than 50,000 units in Metro Vancouver.[20]

Funding for this build-out should come from taxing some of the windfall gains received by home owners through higher property values. We support the 2018 BC Budget shift to more progressive property taxation (the "school tax") and taxes on speculative activities at the provincial level. Further steps could be taken, including enabling municipalities to levy their own such taxes so that local politicians can take on affordability more directly.

Conspicuously absent from the 2018 budget was the $400 renters' rebate, proposed in the election. While we support a more level playing field between owners and renters, we believe it is necessary for government to find another way to extend support to low-income renters struggling with recent rapid rent increases. To accomplish this and to make the property tax system more progressive we recommend reformulating the $824 million per year Home Owner Grant (HOG) into an income-tested housing grant that would go to owner and renter households alike. That is, it should be redesigned to provide greater help to low-income households, then phased out gradually as household income rises (as is the case for Old Age Security or the Canada Child Benefit). This new housing grant would essentially transfer income from the wealthiest homeowners to renters.

The cost of the renters' rebate was estimated at $265 million. A revenue-neutral way of funding this additional amount could be to eliminate the property transfer tax exemptions for first time

[20] Metro Vancouver, *Housing Data Book 2018*.

buyers, new homes and transfers between related individuals (with the exception of certain cases like divorces).

BC should also develop a more comprehensive system of rental supports, linking to the federal government's Canada Housing Benefit (CHB), which will begin in 2020. BC's rental assistance is only available to working families with children not on social assistance and low-income seniors (approximately 30,000 households). BC should seek to broaden accessibility to its current rental assistance programs, and integrate them with the new CHB. A combined benefit would provide significant gains for households at the low end of the income spectrum where the most assistance is needed.

A concern around rental supports is that they simply enable landlords to raise rents, particularly in a tight rental market like Metro Vancouver's. An innovative policy response to this situation is Manitoba's Rent Assist program, which began in 2015. By design, qualifying renters (below a specified income threshold or on social assistance) in the private market do not pay more than 30% of their gross income in rent (based on 75% of the median market rent), with the rental assistance subsidy bridging the gap between that amount and actual rent.[21] This program raised housing benefits for people on social assistance without the increase going to landlords in increased rent; it is also an income-tested benefit for those not on social assistance, so there is no loss of benefits when moving off of social assistance. The benefit is based on income not rent, so it is portable should the person or family move.

4. ACCELERATE INVESTMENT IN PUBLIC TRANSIT.

Expanding public transit is a win-win for the province: it reduces costs for households, improves mobility, creates good jobs and supports long-term economic prosperity, while helping reduce GHG emissions and air pollution. BC's current auto-dominated transportation system also imposes costs in other ways: injury and death from accidents, time wasted due to idling on congested roads and highways, and noise pollution.

There is an urgent need for stable, long-term capital funding for public transit in Metro Vancouver, and related infrastructure deficits facing BC municipalities. After lengthy delays the final approval of Phase 2 of the Mayors' Plan, with includes the Broadway subway to Arbutus and two lines of light rail in Surrey, along with other upgrades and service enhancements, is good news for the region.

With dedicated funding for transit expansion the Broadway subway could keep shovels in the ground and get to a final destination of UBC, while Skytrain could be extended from Surrey to Langley. Just as the BC government decided to fully fund the $1.4 billion capital cost of replacing

[21] Josh Brandon, Jesse Hajer and Michael Mendelson, *What does an actual housing allowance look like? Manitoba's Rent Assist program*, Caledon Institute, October 2017.

the Pattullo Bridge, so should the BC government commit 100% of the capital costs of new transit infrastructure (as it did for the Millennium line, for example).

Other high-capacity transit networks could be built in Metro Vancouver, and be extended out to the Fraser Valley, and up to Whistler. This need not all be rail: there are many good opportunities for new marine transit options within Metro Vancouver, in particular the Burrard inlet, and between Vancouver, Squamish and the Sunshine Coast.

The BC government has also enabled Metro Vancouver's TransLink with new self-financing options, including a 1.5 cent per litre increase in the regional fuel tax and a new development cost charge. This has prompted some outrage by anti-tax groups in the face of record high gas prices at the pump. However, as our analysis reveals, the vast bulk of high gas prices is due to market forces and gas gouging, which merit price regulation at the provincial level.[22]

Fuel tax revenues are also projected to decline in the future as low- and zero-emission vehicles become more common. TransLink's Mobility Pricing Independent Commission points to alternative means of funding the transportation network and managing congestion through new pricing mechanism. These merit consideration by the BC government, although equity issues need to be front and centre.[23]

Public transit is not just an urban issue. The decision by Greyhound to pull service from Western Canada means low-income households across BC will be faced with diminished mobility. More coherent regional and long-haul transit services should be supported through BC Transit. BC's infamous Highway of Tears shows that a build-out of public transit capacity across the province cannot be put off any longer. This is a central transportation justice issue.

5. STRENGTHEN PUBLIC EDUCATION AND HEALTH CARE

The court-mandated restoration of class size and composition provisions in the K-12 education system, illegally stripped from teachers' contracts by the previous government, means that thousands of new teachers have been hired and class sizes are being reduced across the province. This is an extremely welcome development after years of chronic underfunding.[24]

But there is much more work to do. We look forward to the results of the funding formula review, which we hope will go some way to fixing what is a broken per student funding formula in BC. However, the size of the education funding envelope itself must be increased, as well.

[22] Lee, Marc, 2018. "Gas gouging in Metro Vancouver: Blame Big Oil, not taxes", Policy Note. June 11, 2018.

[23] Lee, Marc, 2018. *Getting Around Metro Vancouver: A closer look at mobility pricing and fairness*, CCPA, April 16, 2018.

[24] Hemingway, Alex, 2016. "What's the real story behind BC's education funding crisis?" Policy Note. August 24, 2016.

Most urgently, Budget 2019 should make substantial new investments to ensure that students with learning disabilities and special needs receive the supports they need to reach their full potential. BC saw the number of special education teachers decline almost 25% between 2000 and 2016, and the ratio of special needs students to special education teachers has also increased. Just two weeks into the current school year, parents of kids with disabilities had already reported nearly 100 incidents of these students being asked to stay home, sent home early, or separated from their class, among other types of exclusion.[25] Parents of kids with special needs have made it clear that they are being left behind.

As one source of additional funds for this purpose, we recommend that public funding to elite private schools be immediately eliminated, with the savings redirected to students with special needs. This would represent an approximately $43 million boost to special needs funding, or an 8% increase. (Note this represents only a fraction of the over $400 million in public funding flowing to private schools, all of which should be reviewed with an eye to eliminating the practice in the medium-term.)

On the capital side, progress has been made in fast-tracking seismic upgrades and building new schools to relieve overcrowding in some districts. After so many years of delays to seismic upgrading, it's critical that the pace of investment be maintained and accelerated. Capital investment is also needed to cover deferred maintenance needs that have piled up during the long period of underfunding.

In terms of post-secondary education, there is a pressing need to increase funding for colleges and universities. For public post-secondary institutions, provincial operating grants have plummeted as a share of revenue, and institutions have been forced to increase reliance on tuition fees, which is pushing student debt to new heights and eroding the public nature of these institutions. Relatedly, funding and action is needed to reduce the increasing reliance on precarious academic labour.

Budget 2019 should also boost financial supports available for post-secondary students, and move to fulfil the promise of eliminating interest on student loans. We recommend a comprehensive grants program to make post-secondary education free for lower-income families with the aim of moving towards a universal reduction and ultimately elimination of tuition fees.

Over the past year, the government has taken the welcome step of eliminating or waiving tuition fees in some important areas, including Adult Basic Education and English language learning programs, as well as for youth aging out of the foster care system. We recommend that Budget 2019 build on this by extending eligibility for tuition waivers from the current age limit of 26 to

[25] Vikander, 2018. "BC parents have reported 98 incidents of students with disabilities being excluded since start of school year." The Star Vancouver. September 18, 2018.

30 and eliminating fees for all adult developmental education programs, which were also tuition-free prior to 2014.

Regarding the universal public health care system, a number of encouraging and important new policies have been rolled out over the past year. These include substantial increases in funding for seniors' residential care, providing free pharmacare coverage for the lowest-income British Columbians, investing in new team-based primary care centres, adopting best practices to reduce hip and knee surgical wait times, significantly increasing public MRI capacity and service levels, and clamping down on private clinics illegally billing patients. We welcome this impressive pace of action.

Provincial health spending as a share of our economy has been relatively steady in recent years, and is projected to fall from 7.8 per cent of GDP in 2009 to 7.3 per cent by 2020 (according to the Budget 2018 First Quarterly Report). There is certainly fiscal room to make additional investments.

Last year's budget included a significant commitment to fight the opioid emergency and establish the new Ministry of Mental Health and Addictions. As overdose deaths accelerate, Budget 2019 should provide any and all additional resources needed to save lives, including ensuring those suffering with addictions have access to a safe, reliable supply of opioids (as opposed to toxic, unpredictable street supply).

The budget should complement the laudable new investments in seniors' residential care staffing levels with increased access to home support services like home nursing and help with cooking and bathing. Capital investments are also needed to support the expansion of public and non-profit residential care, which evidence shows provide superior quality of care to private, for-profit facilities. Strong investments in the public senior care system will also pay dividends by freeing up hospital beds and emergency rooms, with positive downstream effects on surgical wait times.

Recent investments to increase public hip and knee surgeries, using evidence-based approaches, are a very important step to address the backlog and strengthen our public health care system. Budget 2019 should expand this approach to reduce wait times in other backlogged surgical categories.[26]

Major new investments in primary care centres announced this year should be complemented by secure, dedicated funding for community health centres, with an explicit emphasis on addressing

[26] Longhurst, Andrew, Cohen, Marcy and Margaret McGregor, 2016. *Reducing Surgical Wait Times: the Case for Public Innovation and Provincial Leadership*. Vancouver: CCPA-BC.

social determinants of health through team-based health and social care.[27] Further to the social determinants of health, a comprehensive poverty reduction plan in Budget 2019 will be crucial to creating a healthier British Columbia and a more efficient use of resources by helping prevent serious health problems.

Budget 2019 should also build on the enhancements of pharmacare for low-income families announced earlier this year to move towards universal pharmacare coverage, which a growing body of evidence demonstrates would reduce drug costs dramatically.[28] BC should build universal pharmacare in collaboration with the federal government if possible, but independently if necessary.

Finally, for capital expenditures—including hospitals, residential care facilities and urgent care centres—Budget 2019 should end its reliance on wasteful Public Private Partnerships (P3s). The P3 model has been repeatedly shown to increase costs while unnecessarily privatizing public goods and frequently diminishing the quality of services across sectors, including health care.[29] As a matter of good public policy, the infrastructure of our health care system should be owned collectively by British Columbians.

Each of these recommended policies has the dual benefit of increasing quality of care and helping contain health care costs. In contrast, failing to make proper long-term investments in the public universal health system will mean that British Columbians spend more to get less.[30]

6. CONTINUE BUILDING A UNVERSAL, AFFORDABLE, QUALITY CHILD CARE SYSTEM

We were pleased to see that Budget 2018 committed $1 billion over three years to lay the foundation of a new universal, affordable, quality child care system. This milestone investment has already benefitted thousands of BC families in its first year through the child care fee reduction initiative and the new Affordable Child Care Benefit.

Investing in a universal, affordable, quality child care system in BC is a smart use of public resources that will have ripple effects across the provincial economy: it will take some pressure off young working families freeing resources to pay off their student loan and mortgage debt; it will

[27] Cohen, Marcy, 2014. *How Can We Create a Cost-Effective System of Primary and Community Care Built around Interdisciplinary Teams?* Vancouver: CCPA-BC.

[28] CCPA and Canadian Doctors for Medicare, 2017. *Cost Savings Resulting from a National Pharmacare Program.* Ottawa: CCPA.

[29] Reynolds, Keith, 2017. "The enormous cost of public-private partnerships." Policy Note. August 3, 2017. See also: McGregor, Margaret and Lisa Ronald, 2016. "For-profit care of seniors proven to be inferior." Policy Note. October 11, 2016.

[30] Hemingway, Alex, 2016. "The biggest source of waste in Canadian health care? The private, for-profit sector." Policy Note. November 21, 2016.

provide a good start for all BC children; it will allow more mothers to participate in the workforce, increasing tax revenues almost immediately; and it will create new jobs.

Much of the focus of last budget's investment in child care was on improving affordability for families and Budget 2019 should build on this foundation and also boost investment in program expansion with a focus on supporting high quality child care services.

Recent research by CCPA has mapped child care coverage rates at the neighbourhood level across Canada, revealing widespread shortages of licensed child care spaces across the country and large geographical disparities in access to child care both across provinces and within individual municipalities.[31] Although all provinces have waitlists of child care services, Metro Vancouver families are particularly poorly served compared to families living in other large urban areas in Canada. Almost all postal codes in both Surrey and Burnaby are child care deserts (that is, areas with more than three children under 5 for every licensed child care space), despite the large number of young children living there.

Budget 2018 allocated funding for 22,000 new regulated spaces over the next three years.[32] The BC government must ensure the funding is utilized and these new child care spaces are built, and table a plan for a further ramp up in new child care spaces in 2021/22. Capacity planning must be done in collaboration with local communities, with the goal to make child care available for all families who would like to access a program, whether full-time or part-time. It goes without saying that resource and capacity planning for Indigenous child care and early learning on and off reserve must be done in partnership with local First Nations.

Instead of simply making grants to providers to invest in building new child care spaces, as it currently does, Budget 2019 should include a capital funding allocation for publicly-owned child care spaces so that the public can retain (at least some) ownership in the capital assets our public funds pay to build. Just like schools, child care facilities represent a crucial element of social infrastructure and the BC government can and should play a bigger role in getting new spaces online. As we have previously recommended, all new capital and operating funding for child care should flow only to licensed programs that operate on a not-for-profit basis. We support the Coalition of Child Care Advocates of BC's recommendation that participation in the Child Care Fee Reduction Initiative be made a condition for receiving public funding (as opposed to being an optional program).

Budget 2019 should build on the recently announced Early Childhood Education workforce development strategy and provide additional funding earmarked to increase wages by an

[31] Macdonald, David, 2018. *Child Care Deserts in Canada*. Ottawa: CCPA.

[32] An additional 2,000 spaces by 2019/20 were funded through the federal Early Learning and Child Care Agreement.

additional $1 per hour in 2019/20. Increasing wages in this notoriously low-paid sector and providing ongoing funding for professional development is urgently needed to improve the quality of child care services in BC. The widely endorsed *Community Plan for a Public System of Integrated Early Care and Learning*, also known as the $10-a-Day Child Care Plan,[33] outlines other measures necessary to ensure child care programs provide high quality care and early childhood education services, including high ratios of early educators to children, raising the educational standards for providers and funding ongoing professional development.

Building on the universal child care fee reduction should be another top priority for government as fees continue to be unaffordable for many. Budget 2019 should build in funding to expand the universal child care fee reduction program over the next three years to move fees towards the goal of $10/day for full-time programs and $7/day for part-time programs. As in Budget 2018, the reductions should be larger for infants and toddlers until fees are equalized across all age groups. Without a sustained effort to reduce fees across the board, the BC government risks having the costs of the new affordable child care benefit balloon over time as providers raise their fees and more families qualify for higher benefit amounts.

To fund these recommendations, BC would need to ramp up public investment in child care to approximately $750 million in 2021/22 from the currently budgeted $464 million in 2020/21, with some additional funds budgeted for new child care capital projects.

7. REVIEW AND REFORM NATURAL RESOURCE REVENUES

Natural resource revenues account for $2.7 billion or 5.2 per cent of provincial revenues. Resource revenues are generally not taxes, but royalty, rental or stumpage payments that major industries pay the Province for harvesting or extracting natural resources on publicly-owned lands.

In the forest sector revenues are up, but sustaining or growing those revenues in future years appears unlikely. Successive, historic wildfire seasons in 2017 and 2018 wiped out vast areas of Crown forest.
Aggravating matters, the continued export of unprocessed logs from coastal BC (6 million cubic metres exported last year) means that B.C. loses out on foregone domestic manufacturing opportunities and the increased payroll and corporate taxes such activity generates.

The Province needs a coordinated plan to generate more forest revenues that:

- Squarely addresses years of forest mismanagement that have increased wildfire risks.
- Charges exporters higher taxes on raw log exports to stimulate domestic production.

[33] For more information and lists of the individuals, organizations and academics who have endorsed the $10-a-Day Plan see http://www.cccabc.bc.ca/plan.

- Generates new carbon tax revenue by extending the tax to waste wood-burning.
- Encourages maximum substitution of concrete, steel and brick with wood in buildings.

The ongoing decline in natural gas royalties shows that the Province continues to heavily subsidize an industry that must, for the sake of our climate and environment, be rapidly wound down. To incentivize increased natural gas production, the Province allows companies to dramatically reduce their royalty payments. "Credits" can be claimed for drilling deep, horizontal and marginal gas wells. Companies can also claim back a portion of infrastructure costs as well.

In 2018, such reductions allowed the industry to reduce royalty payments by $447 million, a 23 per cent increase over the $363 million in discounts in 2017. The same year, the outstanding balance in BC's "deep well credit account" – the value of future credits that the industry can claim back, thereby reducing royalty payments – rose by nearly 21 per cent to $2.6 billion. The credit account's growth has mirrored a steady decline in royalty revenues. In 2008, net natural gas royalty payments were $1.2 billion. By 2017, in stark contrast, they stood at just under $147 million.[34]

The decline in royalty revenues plays out against the notable backdrop of a two-thirds increase in marketable gas production in BC over the same 10 years and a nearly seven-fold increase in the production of valuable natural gas "liquids" such as condensate. How much royalties are paid on the condensate, in particular, is not disclosed in current provincial financial reports.

To safeguard the interests of British Columbians, more information must be made publicly available on the Province's credit programs and royalty revenue streams. The Province should:

- Publish a comprehensive strategy to wind-down all natural gas and liquids production in the province by mid-century and identify future revenue streams to replace all revenues associated with current gas production in the province.
- Publish annual reports on the number of gas wells that qualify for credits and the credits claimed by individual companies on gas produced at qualifying wells.
- Publish revenues on all natural gas liquids produced. This is essential because the most attractive financial returns to the gas industry are for liquids, not gas.
- Publicize royalty revenues collected as a percentage of the natural gas and gas liquids produced to allow for comparison with other fossil fuel producing jurisdictions.

Water revenues represent a third, less-discussed, revenue stream, and are likely to grow. It is a revenue stream that will be influenced significantly by the water used by major industrial consumers, of which the natural gas industry is increasingly significant. Water use in the gas sector is on a sharp rise due to the need to use enormous quantities of water in hydraulic

[34] Figures provided by Cathy Mou, senior economist with BC's Ministry of Energy, Mines and Petroleum Resources' Upstream Development Division. Figures for the current year are unavailable.

fracturing or fracking operations. A key concern is that shared, publicly-owned water resources are adequately valued and adequately tracked.

To ensure that this is the case, the government should:

- Require full metering of all water withdrawals, placing a priority on industrial users.
- Publish water use reports by company (precedent is set for doing so in other resource sectors; for example, the forest industry where the volume and value of publicly-owned Crown timber logged by company is publicly available).
- Conduct a quick review to determine whether current water rental rates are sufficiently high enough to capture the full value and encourage maximum conservation and reuse.

8. CREATER A FAIRER PROVINCIAL TAX SYSTEM

Between 2000 and 2016, BC's tax system became remarkably less fair. CCPA analysis showed that personal tax changes over this period—including income, sales, property, carbon and MSP taxes—overwhelmingly benefited the wealthiest British Columbians.[35] These changes in BC's overall tax system meant the bottom 90 per cent of households actually paid a higher overall provincial tax rate (what economists refer to as *effective tax rate*) as a share of their income than the top 1 per cent of households.

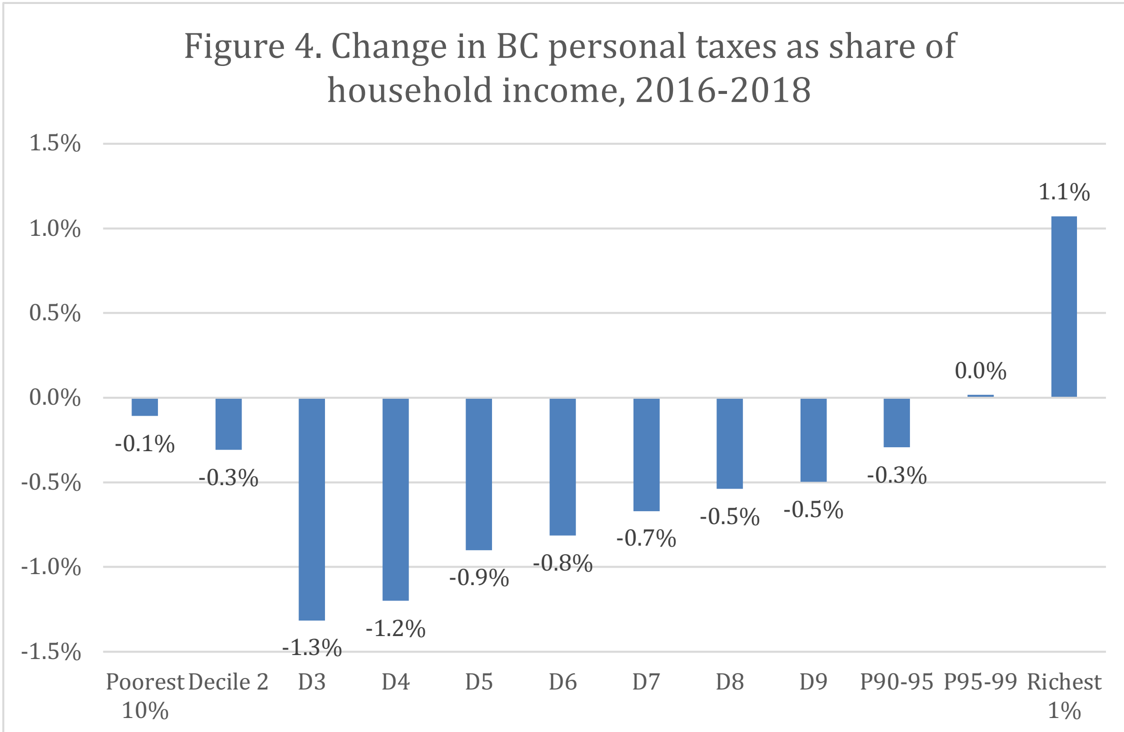
Over the past year, a suite of important tax policy changes have begun to meaningfully reverse this trend. These include: restoration of the top tax bracket on individual income above $150,000 to 16.8 per cent, the increase to the general corporate income tax rate to 12 per cent, and the 50 per cent reduction in MSP premiums—BC's least fair tax— and its replacement with the employer health tax. Our analysis shows that personal tax changes over the past year benefit modest and middle-income British Columbians most (see Figure 4). This represents a welcome reversal to the tax changes seen between 2000 and 2016, which disproportionately benefited the highest-income British Columbians.

As the new BC government takes the important step of entirely eliminating MSP premiums as of January 1, 2020, we recommend that the full MSP revenue of $2.6 billion in 2016/17 be replaced. Currently the Employer Health Tax is only projected to replace $1.9 billion of this forgone revenue. CCPA has previously modelled options for replacing the entirety of the MSP revenue,[36] and we also believe there are ideas in the final report of the MSP Task Force worth consideration.[37]

[35] Hemingway, Alex and Iglika Ivanova, 2017. "Tax fairness in BC? Hardly." Policy Note. February 16, 2017.

[36] Ivanova, Iglika. 2016. "BC should eliminate the MSP. Here are two better options." Policy Note. July 6, 2016.

[37] Tedds, Duff and Ramsey, 2018. "MSP task force: tax reform proposals." March 2018.



Note: Analysis uses Statistics Canada's SPSD/M database and model, and includes all taxes paid by households (including income tax, PST, MSP, tobacco and the carbon tax) except property taxes due to limitations of the Statistics Canada model.

The past year has also seen bold new progressive tax policies with respect to real estate, including the Speculation Tax and additional property tax on high-end properties over $3 million (in effect embedding new progressive tiers to the provincial portion of annual property taxes). These measures are crucial not only in addressing runaway housing prices, but also in tackling spiraling inequality. Real estate wealth in BC, including principal residences, is extremely concentrated among the richest households, as our research shows.[38] Province-wide, property wealth has grown by more than $1 trillion since 2007, and these incredible windfalls are flowing overwhelmingly to the wealthiest households.

Further steps are needed to enhance tax fairness and address this major source of inequality. Vancouver, which is at the centre of the real estate boom, has among the lowest property taxes in the country.[39] The new provincial real estate taxes are narrowly targeted, requiring only 1–2% of the wealthiest property owners in BC to pay more, according to government estimates. Building on the additional School Tax on properties over $3 million, we recommend that the full range of property taxes be redesigned to include additional progressive brackets, along the lines

[38] Hemingway, Alex, 2018. "Land wealth is a massive source of inequality in BC." Policy Note. September 4, 2018.

[39] Hemingway, Alex, 2018. "Low property taxes help fuel housing crisis." Policy Note. June 4, 2018.

of the income tax system, so that owners of higher-valued properties pay higher rates than those with properties that are more modest. Municipal governments should be granted the authority to create progressive property tax brackets along these lines (as the City of Vancouver has requested).

We also recommend eliminating the Home Owner Grant and replacing it with an income-tested grant that goes to renters and owners alike. In addition, when huge increases in private land wealth are created through major public investments like building the Broadway subway, this wealth should be captured for the public good instead of flowing to private landowners. The province should explore the best ways to capture this land lift, which is created collectively by all of us through our tax dollars.[40] Publicly captured land value rises can be used to fund even further investment in infrastructure like public transit and affordable housing.

More broadly, it's important to keep in mind that, as a share of GDP, provincial government revenue in British Columbia has been reduced substantially since 2000, in part as a result of successive tax cuts, as well as the decline in natural resource revenues. The tax changes taken under the new government have levelled off this trend, but not reversed it. To make additional social and environmental investments possible, BC's fiscal capacity should not only be maintained, but also enhanced.

In Budget 2019, we recommend adding an additional top income tax bracket of 22% on incomes above $200,000, which would add over $500 million in provincial revenue annually while only affecting the most affluent tax filers in the province.

Furthermore, we recommend that natural resource revenues be reviewed and reformed to ensure that British Columbians get a fair return on our collectively-owned resources (see section 7 for a detailed discussion of natural resource revenues). We also agree with the Auditor General that tax expenditures in BC—amounting to $7 billion year—should be subject to increased reporting transparency and reviewed in terms of their public policy objectives (including distributional implications).[41]

Reform of existing tax credits and expenditures could enhance tax fairness and have a strong anti-poverty impact by reallocating existing tax expenditures to households that truly need them.[42] The MSP task force highlighted some reforms along this line, in particular to the Home Owner Grant and to the credit for Provincial Sales Tax. In addition, reforms to the structure of the carbon tax credit could be considered. Such reforms could be accomplished in a revenue-neutral

[40] See BCGEU, 2017. *Building an affordable BC: taxing speculation and investing in our neighbourhoods to solve the housing affordability crisis.* November 2017.

[41] BC Auditor General, 2018. *Understanding tax expenditures*. October 2018.

[42] Lee, Marc, 2018. "Fighting poverty through tax credit reform". Policy Note. September 21, 2018.

manner, if desired. Combined, they could be considered a form of basic income—a topic now being studied by a provincially appointed panel.

Finally, we recommend convening a Fair Tax Commission to review the provincial tax system in its entirety—including natural resource royalties and all tax expenditures—to ensure we have the fiscal capacity to address urgent challenges facing BC. The Commission should meaningfully consult and engage with British Columbians from all walks of life in all regions of the province about the services they want and how we can fairly pay for them. Such a process could boldly propel the discussion on taxes at a time when income and wealth inequality have reached dizzying heights in our rich province and there is a growing need for renewed investment in the public good.

We detail a range of additional revenue-raising options in the CCPA report *Progressive Tax Options for BC: Reform Ideas for Raising New Revenues and Enhancing Fairness*.[43]

Conclusion

The recommendations for the 2019 BC Budget outlined in this submission will help reduce a number of deficits facing our province: a large social deficit in poverty and inequality, an environmental deficit, a deficit in family-supporting jobs and an affordability deficit. Our recommended investments would set the province on a path of higher productivity and sustainable economic growth over the long term.

There is no better time than now to tackle the big social, economic and environmental challenges currently facing our province. We are running surpluses, interest rates are at historic lows, our debt level is manageable and our taxes are some of the lowest of all provinces. With sufficient revenue reform—as outlined above—this could be achieved without incurring a fiscal deficit.

The Canadian Centre for Policy Alternatives appreciates the opportunity to share our recommendations on BC Budget 2019 with the Legislative Standing Committee on Finance and Government Services.

[43] Ivanova, Iglika and Seth Klein. 2013. *Progressive Tax Options for BC: Reform Ideas for Raising New Revenues and Enhancing Fairness*. Vancouver: CCPA-BC.