CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
BC Office

CCPA Submission to BC Budget Consultations 2016

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

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Introduction

We are pleased to offer this submission to the 2016 BC Budget Consultations on behalf of the BC Office of the Canadian Centre for Policy Alternatives, outlining some of our views and recommendations on the 2016 provincial budget. This submission highlights key findings and directions from our research.[1]

Established nearly 20 years ago, the BC Office of the Canadian Centre for Policy Alternatives investigates the key challenges facing our province—the high rate of poverty, economic insecurity, the 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 and put forward real, workable solutions, and share our findings as widely as possible to advance social, economic and environmental justice in our province—and to challenge the message that there is no alternative.

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

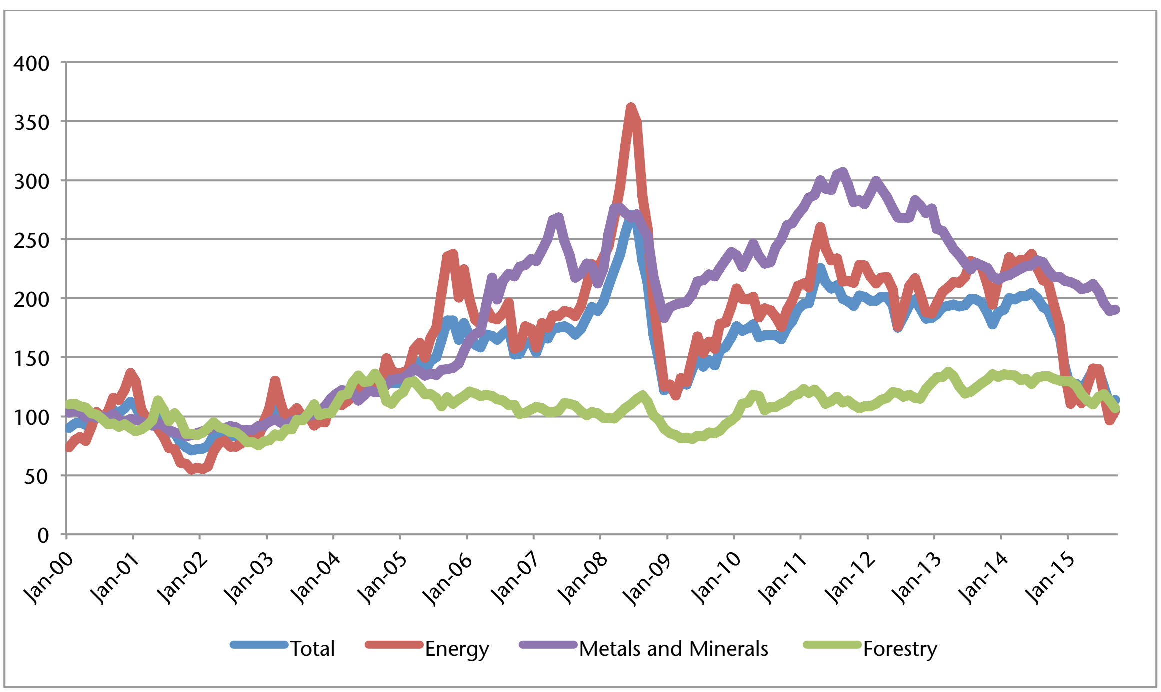
Economic and fiscal outlook

ECONOMIC OUTLOOK

The International Monetary Fund (IMF) recently downgraded its projections for global economic growth by 0.5 percentage points from what was expected this time last year (in its October World Economic Outlook). With the notable exception of the US, the global economy is slowing down. The IMF's forecast for Canada was downgraded even more dramatically, to a measly 1 per cent growth in 2015 compared to the 2.4 per cent growth forecasted this time last year.

Weakness in emerging economies has driven down prices for energy, metals and minerals, taking a toll on resource-producing countries like Canada. The Bank of Canada's commodity price index has plunged since last spring and is now at levels below those seen during the 2008/09 recession (approaching levels of the early 2000s). Energy prices have seen the sharpest decline, with oil tumbling from over $100 a barrel in early 2014 to just over $40 a barrel in August 2015. This has significant ramifications for BC's plan to launch a liquefied natural gas (LNG) export industry, as current prices for landed LNG in Asia are far below the break-even price for exporters. Prices of metals and minerals are also down, as are forestry commodity prices.

Figure 1: Commodity price index, 2000–2015 (200=100)



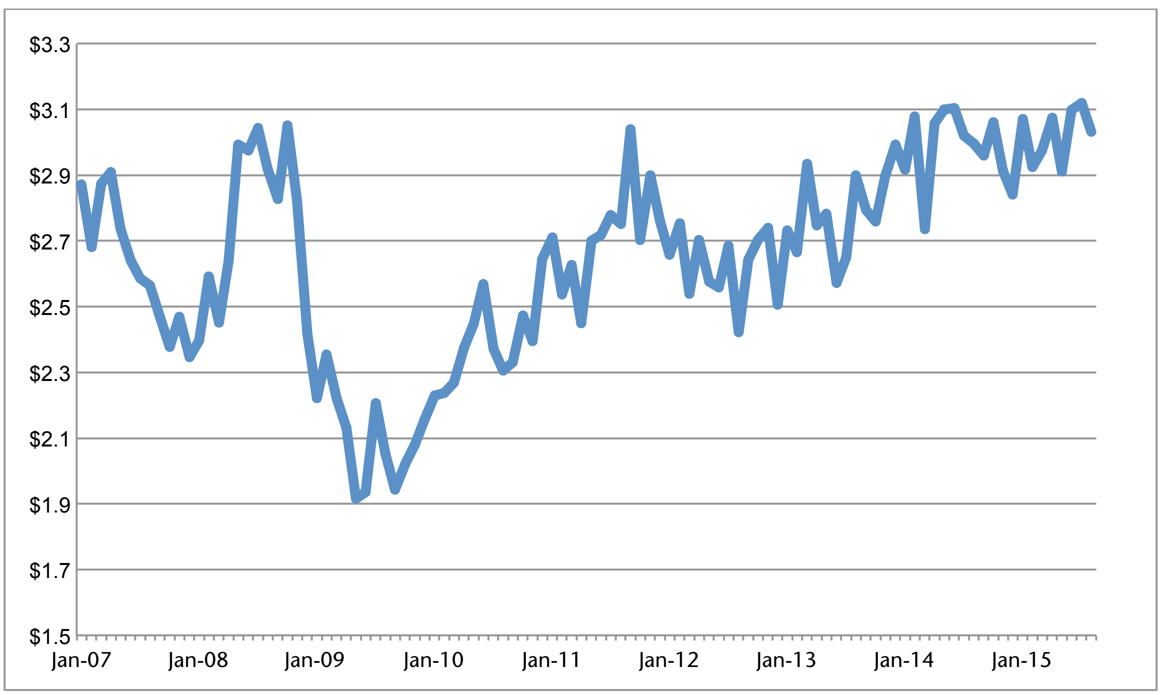
Source: Bank of Canada data, latest available is August 2015.

Not surprisingly, Canada's economy has disappointed in 2015, dipping into a recession in the first half of the year. BC's economy is expected to perform better than other provinces this year, but that's largely because of weakness elsewhere (especially in resource-dependent provinces). Private sector forecasters have lowered their projections for this year's economic growth in BC to 2.2 per cent (from 2.7 per cent this time last year).[2] Projections for next year are more optimistic (2.7 per cent) but they should be taken with a grain of salt, given the record of overly optimistic forecasts in the last few years.

Even before the current commodity price decline, BC's economy wasn't doing particularly well. Growth has been modest since the 2008/09 recession, and employment growth has been particularly slow.

A stronger US economy and low Canadian dollar are expected to boost exports and contribute to growth, but we have yet to see a significant increase in the value of BC exports. While exports have been a positive factor driving GDP growth post-recession, BC Stats data shows very slow—0.9 per cent—growth in BC commodity exports the first eight months of 2015, compared to the same period last year.

Figure 2: BC merchandise exports, monthly 2007–2015 ($ billions, not inflation-adjusted)



Source: BC Stats, seasonally adjusted, latest available is August 2015.

2 Based on BC Ministry of Finance First Quarterly Report September 2015 and 2014.

Domestically, economic conditions—and business investment in particular—remain weak. Statistics Canada's Annual Capital and Repair Expenditures Survey shows that BC businesses are intending to scale down capital investment (in construction, machinery and equipment) by over 6 per cent in 2015. Weak business investment is central to the problem of poor job growth and a slower economy.

In such economic conditions, governments can play a role to stimulate the economy and support demand by running deficits and increasing public investment in infrastructure. Unfortunately, however, at the provincial and federal level, an obsession with balanced budgets is acting as a drag on growth.

With fiscal policy on the sidelines, more effort has come from monetary policy. The Bank of Canada cut its overnight interest rate in January 2015 in an attempt to boost the economy. The interest rate cut seems to have had little effect in business investment in Canada, but it is further distorting real estate markets, particularly in cities like Vancouver where housing affordability is reaching record lows.

Some private sector economists point to the rise of retail spending as a beacon of light amidst negative economic news. Indeed, retail sales have grown by 7 per cent over the first seven months of the year (compared to the same period in 2014)—a faster rate of growth than we saw last year.

However, we are concerned that this consumer spending is being financed by increasing debt rather than by growing incomes. BC consumer debt levels per capita continued to increase in 2014 and remain the highest in the country, 18 per cent higher than the Canadian average.[3] Household debt rose faster than disposable income in the second quarter of 2015 (nationally; provincial data is not available).

Growing debt levels are thus propping up both consumer spending and real estate markets. After a decade of defying gravity, the possibility of a major correction in overheated real estate markets in BC and Ontario remains a significant risk to the Canadian economy as a whole, according to the Bank of Canada's latest *Financial System Review*.

EMPLOYMENT OUTLOOK

The lack of meaningful recovery in the labour market is a significant challenge facing households and, in turn, the domestic economy. Employment growth to date in 2015 has been slow: only 0.8 per cent since the same period last year, slightly lower than the Canadian average. When it comes to job creation since the recession, BC ranks eighth

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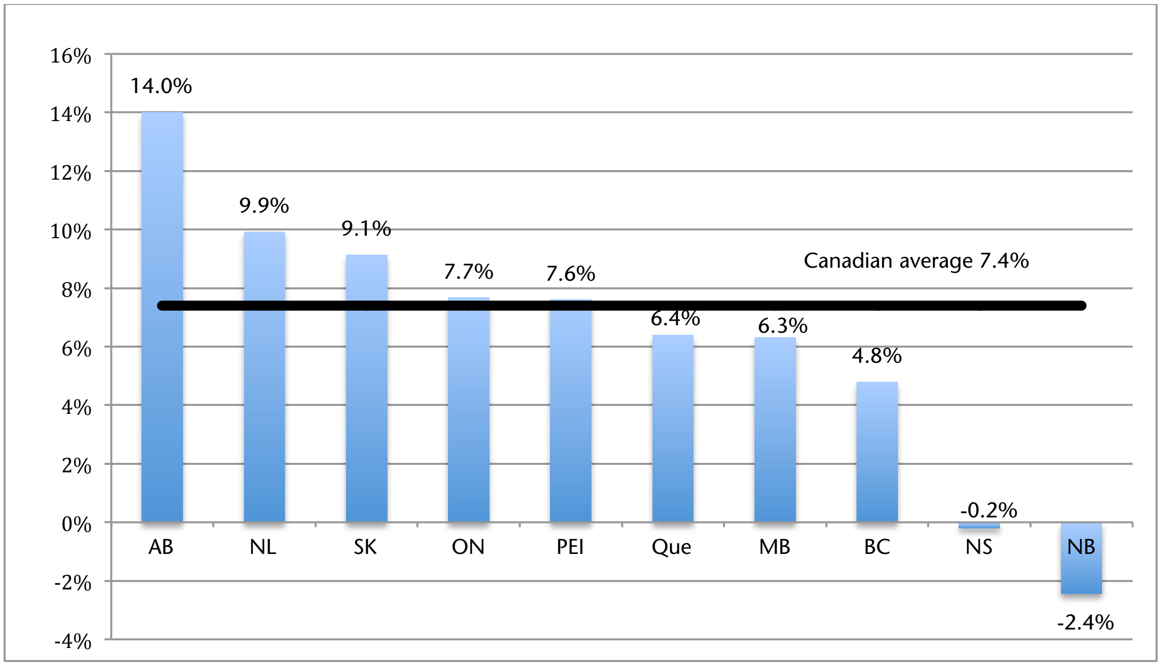
[3] Chartered Professional Accountants of BC. 2015. *BC Check-Up*.

among provinces, ahead only of Nova Scotia and New Brunswick. In this light, the 2011 BC Jobs Plan, predicated on growing BC resource exports, has proven to be a failure.

Figure 3: Employment growth by province since the recession



Source: BC Stats. *Labour Force Statistics Data, September 2015*. Tables 3a and 3c. Employment growth by province since 2009, including the first nine months of 2015 (seasonally adjusted), as a share of employment in 2009.

The employment rate of working-age (15-64) British Columbians—the share of people who have jobs—averaged 71.2 per cent in the first nine months of 2015. This is much lower than the 74 per cent employment rate in 2007 and 2008. It's also lower than the Canadian average of 72.6 per cent. This indicates that new jobs created in BC since the 2008/09 recession have not kept up with population growth.

BC would need 87,000 more jobs just to return to the province's pre-recession employment rate. This is equivalent to the total number of jobs created in BC from 2010 to 2014.

The type of job growth also matters. BC's job growth so far this year has been concentrated in self-employment (15,600 jobs). Since the 2008/09 recession, self-employment has tended to fall in years of solid growth of paid employment and rise in years of weak growth. A big part of the recent growth of self-employment may simply be an attempt to cobble together enough contract work to make a living in the absence of actual job opportunities. In other words, the growth in self-employment in 2015 should be interpreted as a sign of job market weakness, not strength.

A job market with stagnant incomes, in combination with record high household debt levels and potential interest rate hikes in the future, points to weaker consumer spending ahead.

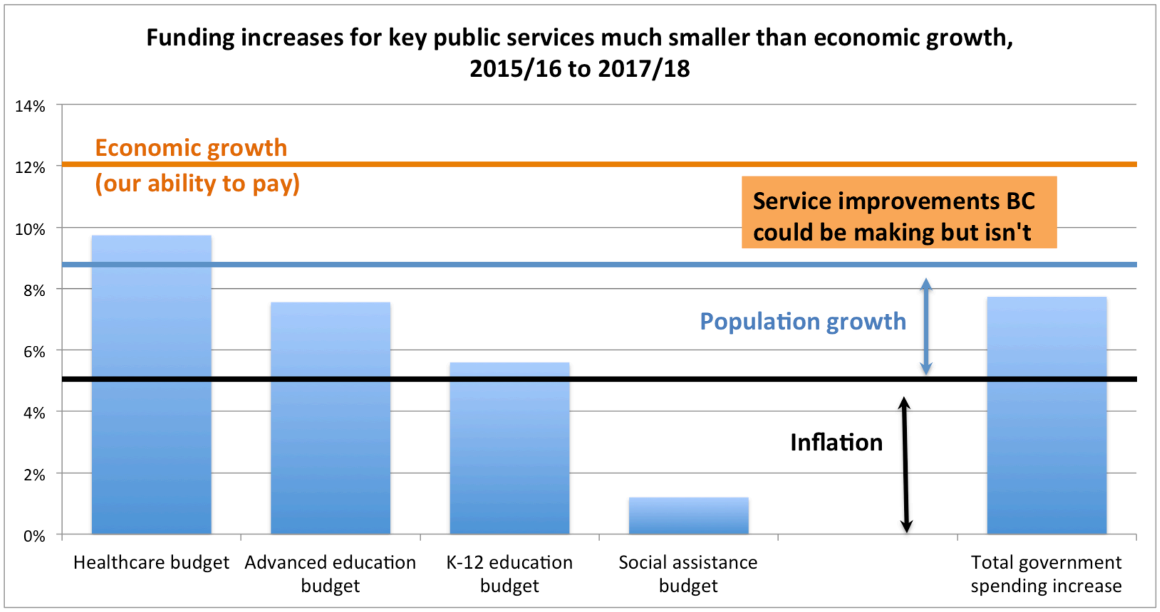
FISCAL OUTLOOK

As noted above, public sector spending restraint aimed at producing operating budget surpluses in the last two fiscal years has dampened economic growth. We urge the government to reconsider its austerity policies that are weakening the provincial economy and deepening the hardship of the most vulnerable British Columbians.

Real government spending per person is currently budgeted to decline over the near term (2016/17 and 2017/18), despite anticipated steady improvements in real GDP growth per person (a reflection of our province's ability to pay for public services). For the province, this reduction in fiscal capacity is reflected in: reduced ability to provide proper regulation and oversight, including the risk of disasters like the Mount Polley spill; reduced access to public services like seniors' care and community health services; larger class sizes in schools and higher education institutions, and a growing reliance on foreign students who pay higher fees; less protection for vulnerable children in care, which increases the likelihood of abuse and neglect.

The evidence is clear: BC does not have an "overspending" problem. In fact, when measured as a share of the economy, provincial government spending has declined significantly since the late 1990s and is projected to continue going down. Budgeted increases for key public services (with the notable exception of health care) are significantly lower than the growth in projected government revenues, and in many cases represent actual cuts, once inflation and population growth are considered. Even the health care budget is projected to grow by less than the rate of economic growth.

Figure 4: Increases to key public services compared to expected economic growth



Source: Authors' calculations based on BC Ministry of Finance forecasts in *First Quarterly Report, September 2015*.

A strong, well-resourced government is not in contradiction with a healthy economy. In fact, it is often government spending, including on adequate staffing levels that create and enforce appropriate regulation, that creates the conditions for businesses and communities to thrive.

Heading into Budget 2016, the province is in a strong fiscal position to improve the well-being of British Columbians. A large surplus was delivered in 2014/15, and while projected surpluses seem relatively modest in the next three fiscal years, that is partly because of increasingly generous forecast allowances and contingency allocations—about $1 billion in each of 2016/17 and 2017/18, double the $500 million budgeted from 2013/14 and 2014/15.

Future surpluses are also projected to be lower due to a tax cut for the richest British Columbians. This is due to the expiry of a higher top personal income tax bracket brought in for 2014 and 2015, which increased the tax rate on income above $150,000 of individual income, to 16.8 per cent from 14.7 per cent. If the BC government instead maintained the higher top rate, it would increase full-year revenues by about $235 million, and contribute to reducing income inequality in the province.

BC is also not getting fair value for its natural gas resources due to a flawed royalty regime. Lower natural gas prices are having an adverse impact on royalty revenues, but royalty credits for fracking operations have dramatically lowered the amount companies pay to the province for exploiting this public resource. In spite of record-high levels of production in recent years, the public return has continued to fall. Natural gas royalties in 2015/16 are now expected to total $220 million, one-fifth of the royalties received in 2007/08 and 2008/09, when total gas production was actually one-third less.

Notably, government revenues are projected to grow by a total of 5.7 per cent over the next three years, or half as fast as the provincial economy, which is anticipated to grow by 12 per cent (nominal GDP). The significant gap between the projected rates of growth of the provincial economy and government revenues is of concern and is affecting BC's ability to invest in much-needed public programs and services. We recommend that the government consider revenue measures to bring growth in provincial revenues closer to the growth in the economy (which represents our ability to pay).

We are concerned that tax reforms over the last 15 years have significantly reduced provincial fiscal capacity and made our tax system a lot less fair. BC now collects a smaller share of tax revenues from corporations than it used to, and a larger share from households. As our 2013 report, *Progressive Tax Options for BC,* observed, there is room to increase BC taxes without undermining our economy, and there is public support for changes to the provincial tax system to ensure everyone pays a fair share and to enable new or enhanced public services.

BC's current fiscal position is solid, with surpluses projected annually in the near term, and a manageable debt-to-GDP ratio of 17.2 per cent this fiscal year, which is lower than projected earlier this year after the "surprise" surplus of $1.7 billion in 2014/15 was used to reduce the debt. BC's debt-to-GDP ratio is one of the lowest in the country and provincial debt is projected to decline going forward.

Lower interest rates are generating savings in debt servicing costs. Given current record-low interest rates, sluggish business investment and weak labour market, we recommend government consider borrowing to make strategic public investments necessary to address the pressing economic, social and environmental deficits facing the province. Government leadership can play an important role in a major effort to diversify the economy and green our infrastructure, making BC less dependent on the swings of international commodity markets and setting BC on a path for good jobs and sustainable income growth.

BC Budget 2016 priorities

The Canadian Centre for Policy Alternatives recommends that the 2016 BC Budget should prioritize measures to set the foundation of a more just and sustainable economy, which is less dependent on resource extraction and commodity exports (thus less vulnerable to swings in global commodity prices) and where prosperity is broadly shared with all residents in the province.

We recommend the following seven priorities for BC Budget 2016. Taken together, these action items represent a bold and effective jobs plan.

1. Investment in the widely-endorsed $10 a Day Child Care Plan.
2. A comprehensive poverty reduction plan.
3. Infrastructure investments for municipalities, including transit investments.
4. Carbon action initiatives, including reinstituting annual $5 per tonne increases of the carbon tax and reforming the Low-Income Climate Action Credit.
5. Adequate funding for education, skills training and youth employment programs.
6. Measures to improve the fairness of the tax system, including striking a Fair Tax Commission, freezing MSP premiums and making permanent the new top personal income tax rate.
7. Natural resource royalties reform to ensure the province receives a fair return on its publicly owned natural resources.

1. INVESTMENT IN THE WIDELY-ENDORSED $10 A DAY CHILD CARE PLAN

BC families are facing an affordability crisis with child care, with fees that can run upwards of $10,000 per year—higher than university tuition—and regulated spaces are available for only 27 per cent of BC children under five. There's no question that the status quo—a fragmented patchwork of child care programs with exorbitant prices, inadequate spaces and inconsistent quality—fails to meet the needs of BC families.

There is a large body of international and Canadian evidence that demonstrates that affordable, high quality child care and early education programs yield large social and economic benefits. High-quality early childhood education promotes healthy child development and increases educational achievement for all children, with particular benefits to the most vulnerable. It also promotes social inclusion, advances gender equality by allowing mothers to return to work, and strengthens the economy.

Yet BC and Canada are laggards by international standards, investing far less than what is required to ensure all children can thrive. Small enhancements to the status quo (like the BC Early Years Strategy) are just not cutting it—we need a change in priorities.

We recommend that BC Budget 2016 provide the investment needed to put in place the widely-endorsed $10 a Day Child Care Plan.[4] The call to increase public investment in

[4] The $10 a Day Child Care Plan refers to the community plan for a public system of integrated early care and learning developed by the Coalition for Child Care Advocates and the Early Childhood Educators of BC. For more information

quality, affordable child care is neither new, nor controversial. It has been supported by a diverse group of organizations, from child care advocates to family physicians, early childhood development experts, TD Bank's chief economist and many others.[5] During the most recent provincial budget consultation, the bipartisan (and government-dominated) committee of elected representatives unanimously recommended that BC "provide funding and support for the development and implementation of a child care plan."[6] The time has come to adopt the $10 a Day Plan.

Investing in more accessible and affordable quality child care will have ripple effects across the provincial economy: it will take some pressure off of young working families, freeing up resources to pay off their student and mortgage debt; it will provide a good start for all BC children; it will allow more mothers to participate in the workforce, increasing tax revenues almost immediately (as BC has low female labour force participation compared to the rest of the country); and it will create new jobs.

A recently published CCPA study shows that the $10 a Day Child Care Plan is entirely affordable either as a federal-provincial partnership or as a BC-only program like the one in place in Quebec. Drawing on research from Quebec, which has had a provincial child care plan since the 1990s, Iglika Ivanova estimates that $10 a day child care in BC would be largely self-financing, through the considerable boost to provincial and federal government revenues from more women participating in the workforce.[7]

2. A COMPREHENSIVE POVERTY REDUCTION PLAN

Tolerating high rates of poverty and homelessness is unfair and unnecessary in a wealthy country like Canada. It is also very expensive both for the BC government and for society as a whole. We spend between $8.1 to $9.2 billion annually in higher costs to the criminal justice system, in lost productivity, lower school success, and higher health costs.[8] This represents close to 5 per cent of the total value of our economy.

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and lists of the individuals, organizations and academics who have endorsed the $10 a Day Plan, see http://www.cccabc.bc.ca/plan.

5 TD Economics published a report on the benefits of early childhood education, co-authored by their chief economist (TD Economics. 2012. *Early Childhood Education Has Widespread and Long-Lasting Benefits*) and titled its accompanying press release "Make Early Childhood Education a High Priority." In 2014, the Royal College of Physicians and Surgeons of Canada called for more public investment in early childhood programs (RSPSC. 2014. Early Childhood Development. Royal College position statement). A number of families, businesses and organizations have endorsed $10 a day child care in BC.

6 Legislative Assembly of BC 2014. Select Standing Committee on Finance and Government Services. 2014. Report on the Budget 2015 Consultation.

7 Ivanova, Iglika. 2015. *Solving BC's Affordability Crisis in Child Care: Financing the $10 a Day Plan*. Vancouver: CCPA-BC.

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

For years, the BC government has insisted that its economic development measures would automatically take care of poverty. This has not happened. BC has one of the highest rates of poverty in Canada, ranking among the worst three provinces since 2002 (when Statistics Canada's Market Basket Measure was introduced). BC's higher-than-average poverty rates have persisted during both an economic boom and a recession. In 2013, the latest year for which data is available, one in seven BC children lives in a family with income below Statistics Canada's Market Basket Measure. Half of all children living with single mothers (46 per cent) lived in poverty in 2013.

Our 2008 report titled *A Poverty Reduction Plan for BC* outlines a comprehensive set of recommendations that policy-makers can draw on.[9] Many of these recommendations would boost the incomes of those at the bottom of the income ladder, who spend all their incomes purchasing goods and services (because they don't have the luxury of saving). Most of those expenditures occur in their local communities, and thus would provide a much stronger boost to the local economy than personal or corporate tax cuts.

Funding priorities for BC Budget 2016 include immediately increasing income assistance rates, which have been frozen for eight years, during which time inflation has significantly eroded their purchasing power. Eventually, income assistance rates must be set to a level that meets actual costs of living in the province and be indexed to inflation.

Investments in child care, as noted above, are also consistent with poverty reduction measures. Other priority investments include increasing the stock of BC's affordable housing, making mental health services more accessible to British Columbians who need them, supporting community-based health initiatives focused on prevention, and enhancing seniors care services. Gaps in the accessibility of these services puts pressure on the most expensive part of the health care system—emergency rooms and hospitals—costing us more in the long term. Well-targeted investments in these areas have the potential to tremendously improve the health and wellbeing of British Columbians, in addition to reducing future health care costs.

3. INFRASTRUCTURE INVESTMENTS FOR MUNICIPALITIES, INCLUDING TRANSIT INVESTMENTS

Current funding models for municipalities and for TransLink do not meet BC's need for modern transportation infrastructure that is essential for communities and businesses.[10] The failure of the recent transit referendum should not be used as an excuse to continue with business as usual. With a growing population, expanding transit infrastructure and improving service levels are essential to Metro Vancouver's economy.

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[9] 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.

[10] As identified in the 2013 report of the UBCM Select Committee on Local Government Finance *Strong Fiscal Futures: A Blueprint for Strengthening BC Local Governments' Finance System*.

We reject the idea of having to make transit investment decisions by referendum. This is particularly egregious when other transportation infrastructure investments are not required to face such hurdles. Take for example the Port Mann bridge, which cost $3.7 billion—equivalent in cost to 40 per cent of the transportation package included in the referendum—or the new Massey Bridge to replace the tunnel, which will have a similar cost, and neither was subjected to a referendum.

Budget 2016 must begin to address the urgent need for rapid transit investment in Surrey and Vancouver, and related infrastructure deficits facing BC municipalities. BC needs a long-term infrastructure investment plan to ensure that all communities have access to viable transportation options. Investing in convenient, high-quality transit can save money for many households, and may even make car ownership unnecessary for some (households without a car save several thousand dollars per year from less money spent on vehicle purchases, insurance, maintenance and parking).[11]

Transit investments are good for business, improve air quality, boost public health and help reduce the greenhouse gas emissions causing climate change. Our current auto-dominated transportation system also imposes costs in other ways: the injury and death due to accidents; time wasted due to idling on congested roads and highways; and noise pollution.

A first-class transportation system is also a matter of justice. Transit is particularly important to low-wage and immigrant workers, who often have to commute long distances for work, and who frequently work night shifts when transit options are limited. And it's also of special importance to youth, seniors and people with disabilities, all of whom rely more heavily on transit.

The infrastructure we build today will serve BC over the next 30 to 50 years, so it is crucial to make it is as sustainable as possible. Skytrain and trolley buses, powered by clean BC Hydro electricity, are the lowest carbon forms of transportation in the province. Other Translink buses use fossil fuels, but these account for only a little more than 1 per cent of transportation emissions in the region.[12] We integrate climate change considerations with transportation and land use planning in our 2011 study, *Transportation Transformation: Building Complete Communities and a Zero-Emission Transportation System in BC*.[13]

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[11] Transport Policy Institute. 2010. *Raise My Taxes, Please! Evaluating Household Savings From High Quality Public Transit Service*.

[12] Government of British Columbia. 2014. Community Energy & Emissions Inventory (CEEI), Metro Vancouver Regional District, 2010 year (updated Feb 20, 2014).

[13] Condon, Patrick, Eric Doherty, Kari Dow, Marc Lee, Gordon Price. 2011. *Transportation Transformation: Building Complete Communities and a Zero-Emission Transportation System in BC*. Vancouver: CCPA-BC.

4. CLIMATE ACTION INITIATIVES

BC's renewed interest in climate action in the lead up to the Paris conference in December is welcome. The BC government never tabled a plan to show how the province will meet its 2020 legislated greenhouse gas reduction target. We anticipate that the Climate Leadership Team will propose new GHG reduction and carbon pricing measures.[14] With the fall in commodity prices, now is an excellent time to increase BC's carbon tax, as it will be less noticeable at the pump.

We recommend that Budget 2016 increase the carbon tax to $40 per tonne, and reinstitute the carbon tax annual increases of $5 per tonne, which were in place for the first four years after the introduction of the tax. This would take the current carbon tax to $60 per tonne by 2020—equivalent to 13 cents per litre of gasoline.[15]

However, we note that the existing carbon tax is regressive—lower-income households are paying more as a share of their income than higher-income households—because the Low-Income Climate Action Credit has not increased in line with the carbon tax.[16] Assigning half of the income raised by the carbon tax to an expanded tax credit—instead of personal and corporate income tax cuts—would greatly improve the fairness of the tax. A better-designed credit could be extended more broadly to the bottom 80 per cent of households, fully compensating the bottom half for the carbon tax they pay and making them net beneficiaries of the tax. Some of the credit could also be used to redress regressive rural impacts, or for business tax credits for businesses making climate action investments.

Moreover, given the need for new transit investments cited above, and other climate action initiatives to get to our 2020 GHG target, we urge the province to break with the revenue neutrality requirement of the carbon tax regime. The remaining half of funds raised by the carbon tax should support a new provincial climate action plan. Providing a new round of subsidies for energy retrofits for homes, building on the LiveSmart BC program, is one immediate priority.

Funding should also be made available to make schools, hospitals and other public buildings more energy efficient, in addition to the small amounts available through the Carbon Neutral Capital Program for the K–12, post-secondary education and health sectors. Such initiatives will create jobs in construction province-wide, reduce energy consumption and help the province meet its climate goals. As the carbon tax increases, the current $25

[14] For details on the state of play in BC and recommendations, see *Envisioning a Good, Green Life in BC: Lessons from the Climate Justice Project: Submission to the BC Climate Leadership Team*, Marc Lee, August 2015.

[15] Lee, Marc. 2012. *Building a Fair and Effective Carbon Tax to Meet BC's Greenhouse Gas Targets: Submission to the BC Carbon Tax Review*. Vancouver: CCPA-BC.

[16] Lee, Marc. 2011. *Fair and Effective Carbon Pricing: Lessons from BC*. Vancouver: CCPA-BC.

per tonne offset fee paid only by public sector organizations should be phased out, such that by 2020 public and private sectors face the same carbon price.

5. ADEQUATE FUNDING FOR EDUCATION, SKILLS TRAINING AND YOUTH EMPLOYMENT PROGRAMS

We recommend BC Budget 2016 invest the needed funds in education to not just maintain a constant level of funding but to expand access to programs in high demand and make training programs more affordable for students.

Last year's BC teachers' strike exposed deep problems in our public education system—overall funding that is $1,000 per student less than the national average, and class size and composition issues that have reached unacceptable levels. A year after the strike ended and a $75 million "Education Fund" was created to better support children who need additional supports to learn, there's very little improvement. One in four classes in the public school system had four or more children with special needs during the last school year, essentially unchanged since the previous year. The numbers are a lot worse that they were even a few years ago.[17]

Budget 2016 must make the necessary investments in our public schools to ensure that students with learning disabilities, ESL, or other special needs receive the support they need to reach their full potential. This means education funding that does more than keep up with expected inflation, which is all that's currently budgeted.

Skills training has nominally been a priority for government since the Jobs Plan was announced in September 2011, but very little new funding has been allocated to improving training so far. The 10-year education strategy launched last year, titled "BC's Skills for Jobs Blueprint," comes without an additional funding commitment. Indeed, BC Budget 2015 sets out education funding increases that fail to keep up with inflation and expected student enrolment over the next three years. This represents a cut to education funding in real terms. The Ministry of Advanced Education is budgeted to receive $2 million less this fiscal year than it received in 2011/12 (not adjusted for inflation). What is even more worrisome, the 2015 Budget counts on funding 5,000 *fewer* spaces for students in public institutions of advanced education than were funded in 2013/14, in other words reducing access instead of expanding it.

And last but not least, Budget 2016 must restore funding for tuition-free adult basic education. The BC government's recent decision to allow colleges and universities to charge tuition for high-school level courses has seriously undermined access to education. The vast

[17] For a more detailed discussion of these issues, see Seth Klein and Tyson Schoeber's piece "One year after the BC teachers' strike, what's happening for kids with special needs?" posted on the PolicyNote blog on September 7, 2015.

majority of basic education students are low-income earners who enroll because their high-school marks or courses do not qualify them for entry into trades or other college and university programs, programs which allow them to get jobs that pay a living wage.

Funding cuts announced in December 2014 are estimated to save the province $15.9 million per year. The one-time reinstatement of $6.9 million as transition funding for 2015/16 is a bandaid, not a solution. The full funding should be permanently reinstated in Budget 2016. The new adult upgrading grant that is supposed to assist low-income students is flawed—it starts getting clawed back at income levels well below Statistics' Canada's LICO before tax for Vancouver, meaning that many students who cannot afford the tuition will not qualify for the grant.

6. MEASURES TO IMPROVE THE FAIRNESS OF THE TAX SYSTEM

BC's overall tax system is now remarkably regressive, as we have documented in a CCPA report titled *Progressive Tax Options for BC: Reform Ideas for Raising New Revenues and Enhancing Fairness*.[18] When all personal taxes are considered in the province—income, sales, property, carbon, and MSP premiums—we find that higher income households pay a lower overall tax rate as a share of their income (what economists refer to as *effective tax rate*) than lower income households.

We recommend that BC strike a Fair Tax Commission to objectively review the BC taxation system and make recommendations for meeting provincial revenue needs in an equitable way, consistent with our economic development and climate action goals. The Commission should include a public engagement component, engaging with British Columbians from all walks of life and parts of the province about the services they want and how we can pay for them fairly. All taxes and natural resource royalty programs should be on the table.

As a priority item, we recommend Budget 2016 freeze MSP premiums, which have increased annually for the last seven years and have more than doubled since 2000, an increase much larger than both inflation and the increases in health care spending. As of January 2015, MSP costs $864 per year for a single individual, representing a much bigger bite out of the income of someone making $31,000 per year (considered too well-off for premium assistance) than for someone making $250,000.

We also recommend that Budget 2016 reinstate the top tax bracket of 16.8 per cent for individuals earning over $150,000, which is currently set to expire in December 2015. Making this tax bracket permanent is estimated to raise an additional $235 million per year, and would serve the dual purpose of tackling growing income disparities in BC.

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

A top tax bracket rate of 16.8 per cent is similar to what many other provinces charge on incomes in that range. Even with this top tax rate, BC's high-income earners would pay some of the lowest taxes in the country, because they will continue to benefit from lower tax rates on the first $150,000 of income they earn. Only in Alberta would an individual with taxable income between $150,000 and $250,000 pay less income tax than in BC, and the gap has narrowed since their new government moved away from Alberta's flat tax.

BC has the lowest income taxes in Canada for individuals earning up to $122,000, the lowest corporate income tax rate and the third-lowest small business tax rate (after Manitoba and Saskatchewan). If instead BC charged taxes closer to the average for other Canadian provinces, we would easily create the budgetary room to implement the types of investments our submission recommends.

7. NATURAL RESOURCE ROYALTIES REFORM

We believe there is room for collecting more rents and royalties from key public resources—our forests, natural gas and water. Furthermore, rents from non-renewable resources should be invested in a Norway-style Heritage Fund for future generations instead of being rolled into general revenues and used to cover current operating spending.

As noted in the fiscal outlook section, BC is not receiving a fair share of the proceeds of natural gas development. In spite of record production levels, royalty revenues are well short of historical levels when production was much lower.

A full review of the gas royalty regime is beyond the scope of this submission. However, we recommend that costly royalty credits that serve as a subsidy to fracking operations be ended. BC should shift to a gas royalty regime that ensures a minimum royalty to the province for each unit extracted, rather than the current approach, which only pays reasonable royalties when market prices are very high.

The introduction of an LNG Income Tax is an attempt to capture some of the economic rent from selling BC's gas in Asia. However, it too fails to provide a reasonable return to the public. The lowering of the tax from a proposed 7 per cent to only 3.5 per cent means any companies that go ahead will pay a pittance to the BC Treasury. This is because companies are able to deduct the full capital costs of their LNG plant investment before they pay the full (now 3.5 per cent) tax. This could take 6 to 12 years depending on what price they are able to get in Asia. If there are capital cost overruns, as in the case of Australian LNG or Canadian tar sands, it could be as many as 16 years before the full tax kicks in. In the early years, there is a "stage one" 1.5 per cent tax to get some funds into the Treasury, but those funds are deductible in future years from the full 3.5 per cent tax.[19]

Conclusion

The BC Budget measures outlined in this submission will help reduce a number of deficits facing our province: our large social deficit in poverty and inequality, the environmental deficit, the jobs deficit and the affordability deficit. Failing to make these investments now represents a false economy—it makes the books look good today, but it sets the province up on a path of lower productivity, increased social ills and higher total costs over the long run.

There is no better time to tackle the big social, economic and environmental challenges currently facing our province than now, when we are running surpluses, when interest rates are record low, when our debt level is manageable and our taxes are some of the lowest of all provinces. With sufficient revenue reform—as outlined in the above Recommendations 6 and 7—this could be achieved without incurring a large operating deficit.

In the current economic and fiscal environment, we believe that the narrow focus on accumulating budget surpluses and paying off debt at the expense of making strategic public investments is tremendously short-sighted and should be reconsidered.

The Canadian Centre for Policy Alternatives appreciates the opportunity to share our research and recommendations on BC Budget 2016 with the Legislative Standing Committee on Finance and Government Services.

[19] See Marc Lee's piece "A BC framework for LNG, part two: the LNG income tax" posted on the PolicyNote Blog on October 21, 2014.