CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
BC Office

CCPA Submission to BC Budget Consultations 2018

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 12, 2017

Introduction

We are pleased to offer this submission to the 2018 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 2018 provincial budget.

Established 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.

Economic and fiscal outlook

ECONOMIC OUTLOOK

The Canadian economy has picked up steam this year and is expected to outperform other G7 countries.[2] This is a welcome development after two years of disappointing economic performance in the aftermath of the oil-price drop and in part because of the federal government's increased investments in infrastructure and public services, which constitute expansionary fiscal policy.

As a result of the recent strong economic performance, the Bank of Canada has begun to remove monetary stimulus, raising its overnight rate target twice this year (in July and September). Interest rates remain at historic low levels, however, going forward higher interest rates are expected to withdraw monetary stimulus and slow down the economy. Higher interest rates are likely to result in lower consumer spending as a higher share of household incomes goes towards debt payments.

Canada's strong growth is not expected to continue. Private sector forecasters, including the Economic Forecast Council, expect a slow-down to a more modest 2 per cent growth in 2018 and slightly lower growth going forward. The major risk is housing. After a decade of defying gravity, the possibility of a major correction in overheated real estate markets in Metro Vancouver and Toronto remains a significant risk to the Canadian economy as a whole according to the Bank of Canada's latest *Financial System Review*.

BC has managed to record real GDP growth of over 3 per cent for three consecutive years since 2014 and is on track to do so again in 2017. However, BC's recent economic performance is fundamentally unsustainable because it has largely been driven by out-of-control urban housing markets in Metro Vancouver and Victoria. Real estate and residential construction accounted for over a third of GDP growth in 2016. These two sectors have been responsible for between 29 per cent and 40 per cent of GDP growth over the last five years. Strong retail spending is another driver of growth, with household spending growing much faster than wages, bolstered by the wealth effects from recent housing price gains and by increased borrowing.

BC's real estate boom has created winners and losers, and has resulted in a growing housing affordability crisis with tremendous social and economic consequences. When the previous BC government brought in a 15 per cent foreign buyer tax in August 2016, Metro

[2] According to forecasts by the Organizaiton of Economic Co-operation and Development (OECD) in its September 2017 *Interim Economic Outlook* and the International Monetary Fund (IMF) in its July 2017 *World Economic Outlook Update*.

Vancouver's housing market saw a drop in real estate transactions and prices dipped at the high end of the market. More recently, however, average home prices have returned to their upward trajectory: a 9.4 per cent increase in Metro Vancouver in August 2017 compared to August 2016. Prices rose even faster in Victoria at 16 per cent and on Vancouver Island, 20 per cent over the last year.[3]

A related concern is the vulnerability posed by escalating household debt. Per capita BC consumer debt levels continued to climb in 2016 and remain the highest in the country at 16 per cent higher than the Canadian average.[4] Canadian household debt hit a new record in the second quarter of 2017, nearing 170 per cent of disposable income nationally. Provincial data is not available. Growing debt levels are thus propping up both consumer spending and overheated real estate markets.

Recent interest rate increases may help slow additional household borrowing and cool housing markets in Vancouver and Toronto. The downside of higher rates, of course, is that highly indebted households may find themselves vulnerable to a sudden decline in income (for example after job loss).

Aside from real estate and household spending, the provincial economy has benefitted from slightly higher commodity prices that have boosted BC exports. However, a higher Canadian dollar and the ongoing softwood lumber dispute with the US may slow down export growth over the next year or two.

EMPLOYMENT OUTLOOK

Employment growth in BC has been very strong so far in 2017 with the province posting the highest employment growth in the country (3.7 per cent compared to an average 1.8 per cent). However, the strong employment growth over the last two years comes on the heels of slow labour market recovery since the 2008/09 recession. It took eight and a half years for BC to return to the pre-recession employment rate of working-age (15-64) British Columbians—meaning, the share of working-age people who have jobs today is on par with levels seen in the mid 2000s.

A number of regions have experienced net new job growth so far this year in contrast to 2016, when most new jobs were located in Metro Vancouver and Greater Victoria. However, there continue to be job losses in the North Coast and Nechako as well as in the Northeast. Unemployment rates remain at 7 per cent or higher in the Cariboo, Kootenay and

[3] Based on statistics from the Canadian Real Estate Association's September 2017 report.

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

Thompson/Okanagan regions, which is much higher than the provincial average of 5.3 per cent. The Cariboo, North Coast and Nechako regions have yet to recover the jobs lost in the recession eight years ago, and most regions outside the Lower Mainland have only this year reached the number of jobs they had before recession hit.

The previous government's attention was ill-advisedly devoted to encouraging a dramatically expanded natural gas sector and 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.

At the end of 2016, nearly 60,000 people worked in BC's forest industry, down by 30 per cent from the 84,000 that worked in the sector 10 years ago.[5] 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 processed. Ontario currently generates one forest industry job for every 275 cubic metres of wood harvested compared to one forest industry job in BC for every 1,038 cubic metres harvested.[6] There is more product diversity in Ontario. In BC, exporting raw logs makes up a larger portion of the industry, which accounts for the lower number of jobs per unit of wood harvested.

Another worrying sign is that recent strong GDP growth and job creation have not resulted in meaningful wage increases. Median weekly wages are roughly at the same levels as they were at the end of 2013 after adjusting for inflation. Average weekly wages have similarly not increased in real terms in the last three years.[7]

Finally, a closer look at job quality reveals that many of the new jobs available in BC are part-time, temporary or low paid. 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 six paid average wages of $15/hour or less, and four paid under $12/hour. These are not family-supporting wages.

[5] Based on data from Statistics Canada's Labour Force Survey on the Natural Resources Canada website available at https://cfs.nrcan.gc.ca/statsprofile/employment/bc

[6] Based on 2015 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

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

Table 1: Occupations with the highest number of vacancies in BC: 2017 first quarter

	Job vacancies Q1 2017	Average offered hourly wage
Food counter attendants, kitchen helpers and related support jobs	4,020	$11.70
Retail salespersons	3,495	$11.80
Motor vehicle and transit drivers	2,940	$21.70
Chefs and cooks	2,270	$14.80
Trades helpers and labourers	2,075	$17.65
Occupations in food and beverage service	2,055	$11.05
Computer and information systems professionals	1,965	$38.55
Agriculture and horticulture workers	1,930	$11.30
Professional occupations in nursing	1,725	$32.30
Cleaners	1,660	$15.00

Source: Statistics Canada. Job Vacancy and Wage Survey. 2017. CANSIM 285-0003.

This helps explain why having a job is no longer a guaranteed path out of poverty for many. One of nine British Columbians who used food banks last year (11.7 per cent) was working but not earning enough to afford groceries.[8] One in five homeless people in Metro Vancouver (21 per cent) had a part-time or full-time job.[9] A recent CCPA study found that over 100,000 working-age adults in Metro Vancouver alone are working but still stuck in poverty. This is not counting students or youth living at home with their parents.[10]

Unfortunately, the previous government largely wasted the opportunity to reinvest in key public services while economic growth was strong,[11] choosing instead to accumulate large budget surpluses (as high as $2.7 billion in 2016/17) to use paying down BC's already modest provincial debt.

In summary, the BC economy is facing some headwinds after several years of above-average GDP growth. BC's dependence on real estate is the major challenge going forward. An imbalanced job market, in combination with record-high household debt levels and a potential real estate market correction, points to weaker consumer spending and thus

8 Food Banks Canada. 2016. *HungerCount 2016.*

9 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.

10 Ivanova, Iglika. 2016. *Working Poverty in Metro Vancouver*. Vancouver: CCPA-BC.

11 One area where this is not the case is K-12 education: due to last year's Supreme Court ruling, the government was forced to increase funding for public education and create new teacher positions across the province.

weaker economic growth ahead. If new provincial policies manage to moderate skyrocketing housing prices, this may undercut BC's economic growth. The good news is that bold government action in strategic areas—as outlined in this submission—can create jobs and boost the economy as well as reducing poverty, improving equality and alleviating affordability pressures for families within a reasonable fiscal framework.

Both the previous BC government's February 2017 budget and the new government's September budget update committed to increased public spending. The shift in fiscal policy to use more of the current year's projected surplus for public expenditure and investment will contribute to stronger economic growth in 2017 and 2018. There is, however, more the government can do.

FISCAL OUTLOOK

Strong public investment is needed more than ever if our province is to tackle the large and pressing problems before us. Fortunately, BC has the economic and fiscal capacity to make significant reinvestments in our public sector and the critical services it provides.

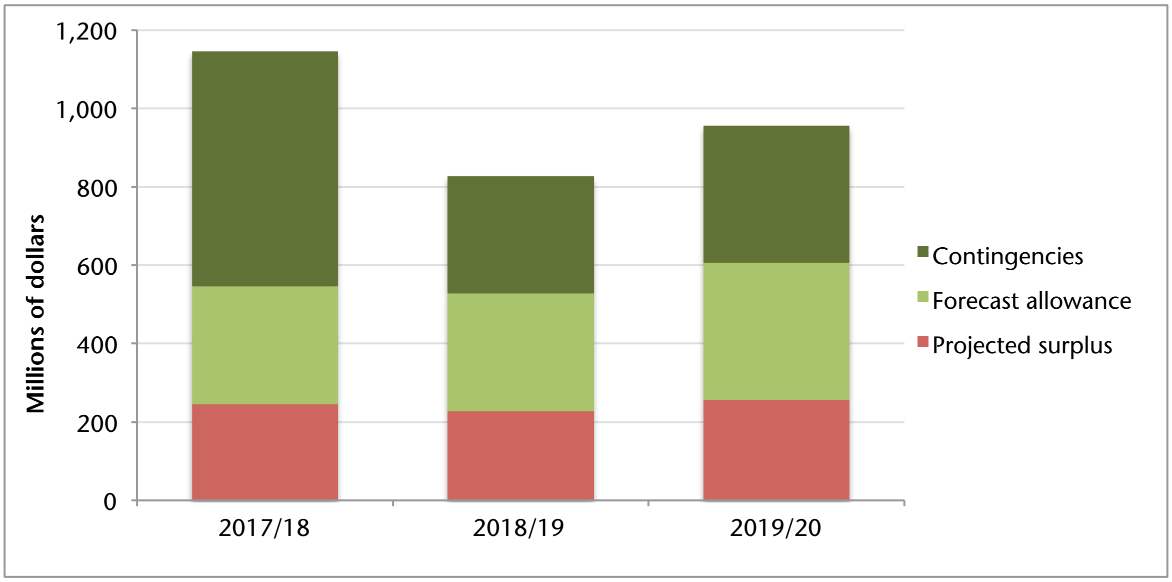
Budget 2017 September Update projects surpluses of at least $200 million per year over the three-year fiscal plan as well as contingency allocations ranging from $300 to $600 million per year and forecast allowances of at least $300 million per year. Together, these amount to combined underlying surpluses of $1.15 billion in 2017/18, $828 million in 2018/19 and $957 million in 2019/20 (see Figure 1).

The September Budget Update includes cautious revenue forecasts relative to GDP so it is quite possible the baseline surpluses over these three years will be higher. A remarkably consistent feature of the BC budget process under the previous government was underestimating budget surpluses – often by well over $1 billion (see Figure 2). In 11 of the past 15 years, the predicted budget balance on budget day has been more pessimistic than the actual year-end balance by hundreds of millions or billions of dollars.[12]

We reject this overly cautious approach to budgeting, which focuses too narrowly on producing an operating surplus and making the books look good for media headlines. When governments systematically underestimate the available budgetary resources, this distorts the scope of public debate on what is possible for a budget to achieve.

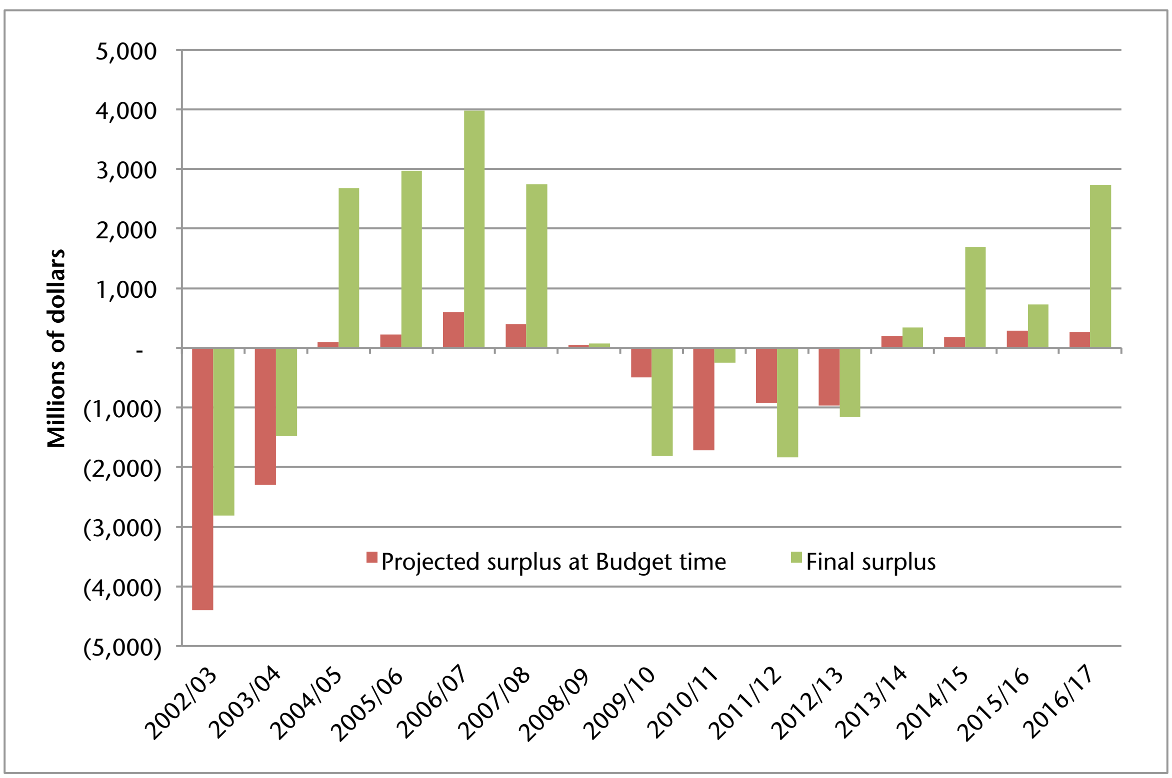
[12] In 2008/09, the projected surplus was very close to the year-end surplus. The only three cases in which budget day projections were more optimistic than the actual year-end balance happened in the wake of the recession (in fiscal 2009/10) and in the aftermath of the HST referendum when the provincial government had to repay federal funds.

Figure 1: Combined surplus, contingencies and forecast allowance



Source: BC Ministry of Finance. BC Budget 2017 September Update. Tables 1.1 and A11.

Figure 2: BC budget balance, budget day vs. year-end



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 manageable 16.2 per cent for 2017/18, down from the post-recession peak of 17.9 per cent in 2013/14. Debt servicing costs are at historic lows with just over five cents of every dollar of operating spending going to debt servicing. In fact, BC's debt-to-GDP ratio is one of the lowest in the country and leaves room for addressing a backlog of important capital investments.

A $2.7 billion surplus in 2016/17 is a clear indication that the previous government turned a blind eye to the pressing challenges facing our province. Years of under investment in public services leave BC's new government with significant accumulated social and environmental deficits to address. When measured as a share of the economy, provincial operating spending has declined markedly since the late 1990s. As currently budgeted, it will continue downward even after including new spending commitments made in the September Budget Update. In concrete terms, if BC dedicated the same share of our more than $270 billion economy to public operating spending this fiscal year as we did in 2000, that would mean making additional investments of about $6 billion per year.

Instead, the underfunding and neglect of public services has resulted in a range of service and regulatory shortcomings including: failure to address an opioid crisis that has claimed thousands of lives; large class sizes in schools and higher education institutions and a growing reliance on foreign students who pay higher fees; inadequate protection for vulnerable children in care, which increases the likelihood of abuse; reduced access to public services like seniors' care and community health services; and diminished ability to provide proper regulation and oversight, increasing the risk of disasters like the Mount Polley mine dam collapse.

BC's fiscal situation is bolstered by two welcome tax measures announced in the September Update: 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%). Together, these measures will raise a projected $579 million in 2018/19 and help to make our tax system fairer.

The 50 per cent reduction in Medical Services Plan (MSP) premiums—BC's least fair tax—is also very welcome, but will reduce revenues by a projected $1.2 billion in 2018/19. The previous government had opted to forego these revenues entirely instead of replacing the funds raised by MSP with a combination of fairer personal and business taxes. As the new BC government moves towards fully phasing out MSP premiums, it should ensure that all

MSP revenue is fully replaced. As our modelling has shown[13], this can be accomplished so that the vast majority of BC households have a lower total tax bill while also enjoying better-funded public services.

The new government has developed an ambitious platform for fixing public services and making life more affordable for British Columbians. To implement this platform and, as we recommend, to accelerate and expand it in key areas will require additional fiscal capacity. This can be created by further progressive tax increases. In an analysis earlier this year, we demonstrated that personal tax cuts between 2000 and 2016 overwhelmingly benefited the wealthiest British Columbians while reducing provincial fiscal capacity.[14] There is certainly room to raise additional revenue fairly and there is public support for changes to the provincial tax system to enable new or enhanced public services.[15] Areas where additional revenues could be generated include measures to curb speculation and tax excessive windfall gains from the housing market, a review of natural resource royalties and the taxation of cannabis, which the federal government is in the process of legalizing.

Given pressing economic, social and environmental deficits facing BC, as well as historically low interest rates and regionally imbalanced job creation, we recommend the government boost borrowing to make strategic public capital investments in affordable housing, transportation and expanding health and education facilities, including investment in the facilities required to launch a universal, publicly funded system of early learning and child care.

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.

BC Budget 2018 priorities

The Canadian Centre for Policy Alternatives recommends that the 2018 BC Budget prioritize measures to reduce poverty, enhance public services and help green our infrastructure, which would diversify our economy and set us on a path towards good jobs, balanced growth and shared prosperity.

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

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

[15] Daub, Shannon, 2017. "As the BC election starts, where's our collective head at?" Policy Note. April 4, 2017.

We recommend the following seven priorities for BC Budget 2018:

1. Fund the implementation of a universal, affordable, quality child care plan.
2. Introduce a comprehensive poverty reduction plan.
3. Strengthen public education and health care.
4. Make major investments in housing affordability.
5. Expand climate action initiatives beyond the carbon tax.
6. Provide stable, long-term funding for public transit.
7. Improve the fairness of the provincial tax system.

These action items represent a detailed and eminently affordable plan for how the BC government can deliver on its promise to make life more affordable, provide the services that people need and build a strong, sustainable and innovative economy that works for all British Columbians.

1. FUND THE IMPLEMENTATION OF A UNVERSAL, AFFORDABLE, QUALITY CHILD CARE PLAN

There is a massive affordability crisis for BC families that need child care, as fees have risen nearly three times faster than inflation over the last decade.[16] The median annual child care fees for a toddler in Vancouver added up to $15,900 in 2016[17] and are prohibitively expensive for many lower- and modest-income families, especially those headed by single mothers. 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. It is beyond time to extend our public education system to cover early education and care.

Investing in a system of affordable, high-quality child care that is accessible to all BC families who need it will positively affect the provincial economy because it will create new jobs and will allow more mothers to participate in the workforce, which will increase tax revenues almost immediately.[18] It should be noted that BC has low female labour force participation compared to the rest of the country. In addition, affordable, high-quality child care will remove pressure from young working families, freeing resources to pay off student loan and mortgage debt and it will provide a good start for all BC children.

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[16] See p. 35 in Klein, Seth, Iglika Ivanova and Andrew Leyland, 2017, *Long Overdue: Why BC Needs a Poverty Reduction Plan.* Vancouver: CCPA-BC.

[17] Macdonald, David and Martha Friendly, 2016, *A Growing Concern: 2016 Child Care Fees in Canada's Big Cities*. Ottawa: CCPA.

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

We were pleased to see that the 2017 Confidence and Supply Agreement between the BC New Democrat Caucus and BC Green Caucus included the commitment to "invest in childcare and early childhood education to improve quality, expand spaces, increase affordability and ensure childcare is accessible to all families, with a focus on early childhood education."

We urge that the 2018 BC Budget provide sufficient funding to begin building a new universal, affordable, quality child care system based on 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.[19] The *Community Plan* was developed by the Early Childhood Educators of BC and the Coalition of Child Care Advocates of BC, and builds on the large body of international evidence on what works in this field. The Plan provides a framework for transforming BC's existing early education and child care services into a universal, affordable, high-quality child care system that integrates early learning and care and is accessible to all BC families that want it. Since its release in 2011, the *Community Plan* was fine-tuned after an extensive, province-wide community consultation process and is endorsed by a large number of community groups, non-profit organizations, businesses, social policy experts, local governments, boards of education and concerned citizens.

While full implementation of a universal, quality child care system will take time because new spaces must be built throughout the province and additional Early Childhood Educators trained and recruited, BC needs to move as fast as possible on this file. Budget 2018 must provide stable funding over the next three years in four main areas: improving affordability, increasing the number of available licensed child care spaces, enhancing quality and investing in the Early Childhood Education workforce. All new child care funding provided in Budget 2018 should flow only to licensed programs that meet quality standards and accountability requirements such as those recommended in the *Community Plan*.

Using new public funding as a lever to enhance the quality of child care services in BC is critical because of international evidence and evidence from Quebec, demonstrating that quality matters significantly for early learning and child care and that low quality programs may be harmful for some children.[20] Yet, quality is where policy-makers have been tempted

[19] 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.

[20] In Quebec, researchers have documented that family-based caregivers and full-fee private *garderies* tend to provide lower quality care than subsidized early childhood centres (CPEs). See Fortin, Pierre, 2017, "You must by kidding: Confronting key myths about Quebec's childcare system" available at http://behindthenumbers.ca/2017/04/25/must-kidding-confronting-key-myths-quebecs-childcare-system/. For a review of the international evidence on the importance of quality child care, see OECD. 2012. Starting Strong III: A Quality Toolbox for Early Childhood Education and Care.

to cut corners in order to contain costs. In fact, the failure of the Quebec government to sufficiently invest in the quality of the child care services it publicly funds explains why some studies have found little evidence of positive educational or child development outcomes for Quebec children since affordable child care was introduced.[21]

Quality can be ensured by: setting evidence-based standards of service; staffing programs with well-educated early childhood educators; ensuring fair compensation; strengthening monitoring and accountability mechanisms that are currently in place. The *Community Plan* outlines some of the necessary measures including raising educational standards for staff and providing ongoing funding for professional development and fair wages. Budget 2018 should provide funding for an early childhood education workforce development strategy, including funding more post-secondary spaces for early childhood educators and bursaries to unlicensed child care providers to help them become early childhood educators.

Reducing fees should be another top priority for government because they have grown nearly three times faster than inflation over the last decade. At a minimum, Budget 2018 should immediately freeze fees at current levels, eliminate fees for lower-income families and develop a strategy for reducing fees. We recommend aiming to reduce fees to $10/day for full-time programs and $7/day for part-time programs, starting with infants and toddlers over the three-year budget cycle and phasing in fee reductions for pre-school children and then for children in before and after school care over the next five to sever years. To make up for the reductions in fees, Budget 2018 should increase the Child Care Operating Fund grants to licensed child care providers accordingly. Extra funding must be allocated to ensure social, physical and cultural inclusion.

Finally, capacity planning must include collaboration with local communities to make child care available to all families who want to access a program either full- or part-time. Researchers working with the Coalition of Child Care Advocates of BC estimate that over 122,000 new licensed spaces are required to make early education and child care accessible to all families. This would require ambitious capital investment in new facilities and funding to retrofit existing informal or unlicensed spaces so they could become a part of the new provincial child care system. Existing capital funding programs must be immediately expanded so that a minimum of 22,500 new licensed spaces can be added over the next three years. This will also facilitate fully implementing the plan in five to sever years.

Resource and capacity planning for Indigenous child care and early learning on and off reserve must be done in partnership with local First Nations.

[21] Fortin, Pierre, 2017, “You must by kidding: Confronting key myths about Quebec’s childcare system” available at http://behindthenumbers.ca/2017/04/25/must-kidding-confronting-key-myths-quebecs-childcare-system/.

The federal government has committed to provide provinces and territories with $1.2 billion over three years to support early learning and child care programs consistent with the Early Learning and Child Care Framework negotiated in June 2017. BC can expect about $51 million per year for the next three years. Although the federal Framework has a narrower vision than the *Community Plan*, the BC government must ensure the available federal funds flow quickly and provide additional funds to implement a truly universal and high quality child care system. We recommend a new provincial investment of $175 million in 2018/19 ramping up to $400 million in 2020/21 over and above the federal funds.

2. IMPLEMENT A COMPREHENSIVE POVERTY REDUCTION PLAN

BC is the only province in Canada without a poverty reduction plan despite having the highest poverty rate in the country. This is about to change as BC's new government has committed to implementing one. 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.[22]

Our 2008 report *A Poverty Reduction Plan for BC* outlines a comprehensive set of recommendations that policy-makers can draw on.[23] We recognize that meaningful input from civil society, particularly from those most affected by poverty, is essential for the development of a robust poverty reduction plan. However, fulsome public consultations will be a long process. Urgent actions need not wait. The BC government has committed to provide funding for a basic income pilot project in its first budget. We recommend that Budget 2018 also provide funding for immediate implementation of key policy actions to directly and significantly improve the lives of low-income British Columbians and that are vital to create a path out of poverty. These include:

- Immediate increase to income assistance and disability rates by $200 to $400 a month depending on family size. In its first week in office, the new government announced a $100 per month increase in welfare rates (breaking a 10-year freeze). However, welfare rates remain thousands of dollars below the poverty line and fail to meet the actual costs of living in BC. In the longer term, income assistance rates must be set at a level that meets actual costs of living in this province and be indexed to inflation.

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

[23] 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.

- Ensuring income assistance can be accessed by those who need it by removing arbitrary barriers that discourage and delay applications, including simplifying the online application process and making the form available in languages other than English. Reduce wait times on BC's welfare phone line by properly staffing the Ministry's call centre. The welfare system must also do a better job of appropriately categorizing people with disabilities into the PWD category in a timely manner, ensuring people get the additional benefits to which they are entitled.
- Rescinding the rule that does not permit income assistance recipients to receive benefits while enrolled in post-secondary education programs.
- Expediting implementation of recommendations that emerge from the newly launched Fair Wages Commission.
- Increasing funding to the Employment Standards Branch of the Ministry of Labour to increase the number of employment standards officers and begin pro-active enforcement of the Employment Standards Act. Eliminate the "self-help" kit so that workers can more readily report workplace violations and access the earnings to which they are entitled. Fund a fulsome public consultation process to review employment standards so that worker protections in BC's changing workplace are improved. The current review of BC's Employment Standards undertaken by the BC Law Institute is dramatically under-resourced for the task at hand, which is the reason it has taken so long to produce a report.
- Immediately increase the availability of post-secondary grants for low-income students.

Many of these recommendations would boost the incomes of those at the bottom of the income ladder who spend all 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 much-stronger boost to the local economy than personal or corporate tax cuts.

Investments in child care, as noted above, are also consistent with poverty reduction measures. Other priority investments discussed elsewhere in this Submission include increasing the stock of BC's social and affordable housing, adequately funding mental health and addictions services so they are accessible to British Columbians who need them, boosting child protection services, and enhancing seniors' community care services. Gaps in the accessibility of these services put pressure on the most-expensive component 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 well-being of British Columbians in addition to reducing future health care costs.

3. STRENGTHEN PUBLIC EDUCATION AND HEALTHCARE

As expected in light of last year's Supreme Court of Canada ruling, the Budget 2017 September Update included significant new funding for K-12 education, which is vital after years of chronic underfunding by the previous government.[24] This funding to restore class size and composition provisions illegally stripped from teachers' contracts means that thousands of new teachers have been hired and class sizes are being reduced across the province.

Budget 2018 should also invest the resources necessary to ensure that students with learning disabilities, special needs, and those for whom English is not a first language receive the supports they need to reach their full potential. One in four classes in the public school system had four or more children with special needs during recent school years—marking a dramatic increase over the past decade.[25] The restoration of class composition contract provisions will go a long way to addressing the problem, but there was room for improvement in the level of supports for students available before the contract stripping of the early 2000s. Dedicated resources are also needed to properly fund implementation of the recent curriculum overhaul, and to increase the number of educational assistants and other support staff in schools.

On the capital side, investment plans should be fast tracked to relieve overcrowded schools in some districts and complete necessary seismic upgrading to keep all BC kids safe. Capital funds are also needed to cover deferred maintenance needs that have piled up during the long period of underfunding.

Public funding of private schools should also be reviewed with an eye to eliminating the practice, particularly in the case of elite private schools, which currently receive funding of 35% of the public per student rate. The total public funding of private schools in BC is nearly $400 million this budget year.

On the post-secondary side, the September Update takes the welcome step of funding the elimination of tuition fees for Adult Basic Education and English language learning programs as well as tuition waivers for youth aging out of the foster care system. We recommend that Budget 2018 build on this by extending eligibility for tuition waivers from the current age limit of 26 to 30 as well as eliminating fees for other important adult developmental education programs like Adult Special Education and Career Choices, which were also tuition-free prior to 2014.

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

[25] Klein, Seth and Tyson Schoeber, 2015. "One year after the BC teachers' strike, what's happening for kids with special needs?" Policy Note. September 7, 2015.

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. Budget 2018 must also increase financial supports available for post-secondary students. We recommend a comprehensive grants program to make post-secondary education free for lower-income families with the future aim of a universal reduction and ultimately elimination of tuition fees.

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 7.4 per cent in 2019 (according to the September Update). If, however, we want to tackle the opioid crisis, enhance seniors care, reduce surgical wait times and decrease drug costs, government leadership and investment are needed.

The September Update included a three-year commitment to fight the opioid emergency, and fund the establishment of a new Ministry of Mental Health and Addictions, both of which are welcome and urgently needed. Budget 2018 should ensure funding is available to bring programs and supports online as rapidly as possible.

Earlier this year the previous government, after failing to meet its own minimum staffing guidelines in more than 90 per cent of seniors' residential care facilities, promised $500 million to begin meeting those minimums. The new government should move quickly to turn this promise into reality and aim to accelerate the original four-year timeline so that staffing levels at least match the minimum standards.

The substantial cuts[26] to BC's home and residential care system by the previous government forced seniors to rely more heavily on emergency room visits and increased the need for inpatient hospital beds. These pressures, in turn, lead to overcrowded hospitals and longer wait times for surgeries. This demonstrates that it's crucial to follow through on reinvestment in residential care as well as for home support services like home nursing and help with cooking and bathing.

Other key measures to reduce surgical wait times include actively managing wait lists and adopting best practices in surgical procedures and patient care like those already developed by local surgical teams here in BC and by public health systems in other provinces and countries.[27]

[26] Cohen, Marcy, 2012. *Caring for BCs Aging Population: Improving Health Care for All*. Vancouver: CCPA-BC.

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

We also recommend that Budget 2018 include measures to improve patient care by developing interdisciplinary teams of healthcare professionals who work closely together.[28] These could include physicians working with dieticians, physiotherapists and nurse practitioners. This dovetails with both commitments in the Confidence and Supply Agreement as well as the election commitment of the government to invest in new urgent care centres around the province.

Budget 2018 should fast-track the development of an essential drugs program to increase access to needed medicines and reduce costs. We recommend making this the first phase in the development of a universal pharmacare program, which a growing body of evidence demonstrates would reduce drug costs dramatically.[29]

Finally, for capital expenditures—including hospitals, residential care facilities and urgent care centres—Budget 2018 should end the use of 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 including in the health sector.[30] 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 means that British Columbians will spend more to get less.[31]

4. MAKE MAJOR INVESTMENTS IN HOUSING AFFORDABILITY

Budget 2018 needs to launch a comprehensive housing affordability plan for Metro Vancouver and other parts of BC facing affordability challenges. The September BC Budget Update committed to building a total of 3,700 units (1,700 affordable rental and 2,000 modular units to house people who are homeless). This half-billion dollar investment in new housing is much needed, but these amounts are spread over three to four years and cover the entire province not just Metro Vancouver.

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

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

[30] 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.

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

The February budget must make stronger annual investments toward the government's commitment to build 114,000 new units over ten years. A diverse range of housing options, from housing for people who are homeless to assisted living and residential care for seniors and innovative tenure arrangements like community land trust models, could be financed. This build-out should focus primarily on rental housing and include a spectrum of housing options for people with different incomes and at different stages of life. The lion's share, however, should focus on social and co-op housing.

A housing commitment to build 11,400 units per year translates into an annual public investment of about $3 billion although this amount could decrease if 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.

In addition, Budget 2018 should support and upgrade existing affordable housing stock through a Housing Renewal Fund. In particular, cooperatives and social housing run by non-profits and interventions in the private rental market are needed and could be combined with energy-efficiency retrofit programs.

To finance these essential housing investments, and to make the tax system fairer, we call for a progressive property surtax of 0.5 per cent on home values between $1 million and $1.5 million, 1 per cent between $1.5 million and $2 million, 1.5 per cent between $2 million and $3 million and 2 per cent above $3 million. Such a progressive property tax on all residential properties, regardless of whether the owner resides in BC or not, would raise substantial revenues—about $1.7 billion per year In Metro Vancouver alone—and support an ambitious affordable/social housing construction plan while tackling growing wealth inequality.

Another way to make the property tax system more progressive would be to reformulate the $800 million per year Home Owner Grant (HOG) into a housing grant for owner and renter households alike linked to income. The program could be designed to provide greater help to low-income households then phased out gradually as household income rises as is the case for Old Age Security and the Canada Child Benefit.

This new housing grant would level the playing field between renters and owners. For example, the government has promised a renter's rebate of $400 per year (at an estimated cost of about $200 million per year) while currently all homeowners receive $570 per year through the HOG. Shifting to a new housing grant would remove the HOG from wealthiest households in order to provide a grant to renters.

Finally, we recognize other actions taken by the previous BC government to address affordability. The February budget should maintain the 15-per-cent property transfer tax on foreign purchases of residential real estate in Metro Vancouver. This should be viewed as part of a broader, long-term plan to manage the local housing market in the interests of those who live and work in the city. This tax should be extended to all parts of BC.

On the other hand, Budget 2018 should end the HOME partnership program of interest-free loans to first-time buyers (for five years with the loan repaid with interest over the following 20 years). The new program was widely and rightly panned by economists when announced in December 2016 for the same reasons it won praise from developers and the construction industry: it artificially boosts the market by encouraging new buyers to take on increased household debt.

5. EXPAND CLIMATE ACTION INITIATIVES BEYOND THE CARBON TAX

BC needs a new Climate Action Plan. The previous government's climate "leadership" plan does little to reduce BC's greenhouse gas emissions as it was written hand-in-hand with the fossil fuel industry.[32] A good starting point for moving ahead is the report of the government's Climate Leadership Team although even their recommendations were greatly skewed by the mandate they were given to accommodate the growth of a liquefied natural gas (LNG) industry.

Too much of the discussion about climate action has centred around BC's carbon tax. In reality, the carbon tax is relatively small, only 6.7 cents per litre at the pump, and its effects are swamped by the swings in market price of gasoline. However, the carbon tax raises $1.2 billion per year—funds that should be allocated towards climate action initiatives in addition to an offsetting credit for low and middle-income households. To this end, we welcome the September Budget Update's break with the policy of revenue neutrality especially because about two-thirds of current carbon tax revenues go to corporate tax cuts.

The September Budget Update committed to a modest increase in the carbon tax of $5/tonne per year for four years starting in April 2018—an annual increase of just over one cent per litre at the pump. The BC carbon tax will therefore rise to $50/tonne by 2021.

This go-slow approach is inconsistent with the urgency of climate change. We argue that BC should reassert leadership on carbon pricing with new annual increases of $10 per tonne starting in 2018 with half of carbon tax revenues flowing into a reformed carbon credit and the other half available to fund climate action initiatives.

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[32] Daub, Shannon and Zoë Yunker, "BC's last Climate "Leadership" Plan was written in big oil's boardroom (literally)" in Policy Note blog, http://www.policynote.ca/climate-leadership-plan-big-oils-boardroom/

Carbon pricing must be sensitive to equity impacts. The September Budget Update's 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 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. This credit would gradually phase out as income rises, but overall, 80 per cent of households would receive at least a partial credit.

BC needs to say no to LNG and other proposals to expand fossil fuel production and infrastructure. In order to say no, an alternative investment agenda is needed and there are many opportunities available after many years of inaction. With additional carbon tax revenues and an ambitious capital/infrastructure plan, BC could pursue more aggressive 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. Institute 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.

BC's record wildfire season, estimated to cost the Treasury $500 million (not counting private insured and uninsured losses), highlights the growing future costs of our collective inaction. In recent years, the BC budget has routinely allocated only $63 million annually to fire fighting while costs have typically been much higher. This is a budgetary form of climate change denial—a belief that an extreme wildfire season only happens rarely—when, in fact, they seem to be occurring at least every couple of years. This ongoing need for fire fighting should be reflected in the budget.

Another issue relating to the record wildfire season—one with important budgetary implications—is the very large area of forest land burned in 2018 and the potential impact on future logging rates, and by extension, stumpage revenues. Nearly 9,000 square kilometres of forest land burned in 2017, the largest area affected by wildfires in BC in 60 years. Budget 2018 should properly reflect that this loss has economic implications that go beyond money spent to battle the fires. Two notable items that will potentially affect provincial revenues are the decline in available timber supplies in the short and medium terms, and escalating reforestation costs that will likely fall to the Crown to absorb, not the logging industry.

Declines in timber supply may mean reduced logging rates in future years and therefore reduced stumpage revenues. There will be increased reforestation costs for the large areas of young forest plantations that were successfully reforested at industry expense and subsequently burned. Because companies met their legal obligations under provincial reforestation rules, it will fall to the Crown to fund future rehabilitation efforts. Budget 2018 should allocate sufficient funds to conduct a rapid inventory of lands affected by the fires, quantify how much this will diminish future stumpage revenue streams and identify the additional reforestation investments needed to rehabilitate lands affected by the fires.

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, which could instead be funded from carbon tax revenues. They should not be used to pretend emissions are being reduced elsewhere.

6. PROVIDE STABLE, LONG-TERM FUNDING FOR PUBLIC TRANSIT

There is an urgent need for stable, long-term funding for public transit in Metro Vancouver and for related infrastructure deficits in other BC municipalities. With dedicated funding for transit expansion, efficient and high-capacity transit networks could be built in Metro Vancouver and other parts of BC.

Public investment in convenient, high-quality transit can reduce costs for many households, improve air quality, boost public health, and help reduce the greenhouse gas pollution that causes climate change. BC’s current vehicle-dominated transportation system also imposes costs in other ways: injury and death from accidents, time wasted from idling on congested roads and highways and noise pollution.

The federal and BC governments have signaled support for the Metro Vancouver mayors' ten-year transportation investment plan. Both levels of government have committed support for Phase 1 of the 10-year plan, but funding is still uncertain for the bigger-ticket Phases 2 and 3, which include the Broadway subway in Vancouver and two lines of light rail in Surrey. The federal government has agreed to fund 40 per cent ($2.2 billion) of new rapid transit projects while the new BC government has promised to pay 40 per cent of all phases of the mayors' plan.

The region (TransLink) must still come up with its share of capital costs, and find new revenue sources to cover operating costs once these projects are built. The BC government should support TransLink's push for a new development cost charge on new construction. In addition, TransLink should be encouraged to use its existing authority to establish an area benefitting tax in the proximity of transit stations.

TransLink is also seeking provincial approval for new revenue streams to pay for the increased annual operating costs of new infrastructure and services. Similar to the discussion above on housing finance, a shift to progressive property taxation could provide much greater revenues to this end rather than across-the-board property tax increases. A shift to progressive property taxation would also allow lower transit fares, which will lead to higher ridership and less burden on low-income households.

The previous provincial government focused too much of its attention on new bridge mega-projects instead of regional transportation needs. We agree with the cancellation of the proposed $3 billion Massey bridge project especially given opposition by all of the region's mayors (save for Delta). These funds should be reallocated to support 100 per cent of the costs of a new Pattullo bridge—a top regional priority—as well as increasing the BC government share of capital costs for the mayors' plan. The Millennium Skytrain line, for example, had 100 per cent of capital costs paid by the BC government.

The provincial government decision to end tolling on two new bridges is expected to cost $479 million over three years according to the September Budget Update. While responsibility for the Port Mann bridge is provincial, funding from the BC government to TransLink to replace toll revenue from the Golden Ears bridge needs to be clarified in the February budget.

Other regions of BC would also benefit from new investment to improve mobility for citizens and to reduce greenhouse gas emissions. BC's infamous Highway of Tears is a sober reminder that improving public transit capacity across the province cannot be put off any longer.

7. IMPROVE THE FAIRNESS OF THE PROVINCIAL TAX SYSTEM

Over the past decade and a half, BC's tax system has become remarkably unfair. CCPA analysis[33] shows that personal tax changes between 2000 and 2016—including income, sales, property carbon and MSP taxes—overwhelmingly benefited the wealthiest British Columbians. Households with income over $400,000—the richest one per cent—received a tax cut of $39,000 per year on average (or 4.3 per cent of their income) compared to what they would have paid with 2000 effective tax rates. Households making less than $67,000 per year—those in the bottom 50 per cent—saved an average of just $53 from their tax reduction.

These changes in BC's overall tax system mean the bottom 90 per cent of households actually pays a higher overall tax rate (what economists refer to as *effective tax rate*) as a share of their income than the top 1 per cent of households.

We welcome tax measures announced in the Budget 2017 September Update that begin to restore some fairness to the system. 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.

As the new BC government moves to fully phase out MSP premiums, we recommend that all MSP revenue of $2.6 billion in 2016/17 be fully replaced with a combination of fairer personal and business taxes. This can be accomplished with small increases to personal income and business taxes (in recognition of the reality that a portion of MSP revenues are paid by employers) in a way that leaves the vast majority of BC households with a lower total tax bill.[34] This would be an important step to achieve greater tax fairness in BC while ensuring all British Columbians enjoy better-funded public services.

We also recommend that costly natural gas royalty credits that serve as a subsidy to fracking operations be reconsidered to ensure that British Columbians get a fair return for natural gas resources including natural gas liquids such as propane, butane and condensate. BC should consider a shift to a gas royalty regime that ensures a minimum royalty to the Province for

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

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

each unit extracted rather than the current approach that only pays reasonable royalties when market prices are very high.

In the past 10 years, natural gas production in BC has risen by 70 per cent, but the total net royalties paid on natural gas and gas byproducts (gas liquids) fell over that same time from $1.2 billion in 2007/2008 to $147 million in 2016/2017.[35] The most-recent year's low net royalty rate was affected dramatically by deductions including infrastructure credits, which totaled more than $400 million.

Major producers in northeast BC's Montney Basin predict sharp increases in conventional gas and gas liquids production in the years ahead. In just two years time, Encana hopes to double its conventional gas production in the Montney and increase gas liquids production by a factor of five to 70,000 barrels per day.[36] Projected increases in natural gas liquids, in particular, suggests that gas liquids are the most-valuable hydrocarbons being exploited in northeast BC and that they will be for some time to come. Budget 2018 should prioritize ensuring that royalty rates on gas liquids reflect the higher value of those resources.

Finally, we recommend convening a Fair Tax Commission to review the entire provincial tax system—including natural resource royalties—to ensure we have the fiscal capacity to address urgent problems 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 and there is a growing recognition of the need for redistribution and renewed investment in the public good.

Other areas where additional revenues could be generated, if required, include a broader review of natural resource royalties and the taxation of cannabis, which the federal government is in the process of legalizing. We detail a range of options in the CCPA report *Progressive Tax Options for BC: Reform Ideas for Raising New Revenues and Enhancing Fairness*.[37]

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[35] Statistics provided by the BC Ministry of Energy, Mines and Petroleum Resources in August 2017.

[36] Dan Healing. "Uptick in drilling in northeastern B.C. good sign for Alberta Producers." The Canadian Press. April 17, 2017.

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

Conclusion

The recommendations for the 2018 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 large operating deficit.

The Canadian Centre for Policy Alternatives appreciates the opportunity to share our recommendations on BC Budget 2018 with the Legislative Standing Committee on Finance and Government Services.