GREATER KITCHENER WATERLOO
CHAMBER OF COMMERCE
BUSINESS BUILDING COMMUNITY

2018 PRE-BUDGET SUBMISSION

TO THE

STANDING COMMITEE ON FINANCE

AND ECONOMIC AFFAIRS OF THE

ONTARIO LEGISLATURE

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The Greater Kitchener Waterloo Chamber of Commerce and Waterloo Region – A Profile

The Greater Kitchener Waterloo Chamber of Commerce serves over 1700 members representing all sectors of the Waterloo Region economy. Our membership includes small, medium and large employers in one of Canada's most progressive and innovative regions.

Our economy is among the most diverse in Canada, with concentration across advanced manufacturing, financial services, automotive, post-secondary education and information technology. Industry analysts have frequently cited this diversity as the fundamental strength of Waterloo Region's globally successful and entrepreneur-driven business sector.

Economic Projections for Ontario and Waterloo Region

The recent Provincial Economic Forecast from TD Economics[1] indicates that nationally, activity is consistent with previous projections that growth will decelerate in all regions of Canada during 2018-19.

In 2017, heavy activity over the first half of the year in Ontario, Quebec, Alberta and B.C. preceded a third-quarter slowdown particularly in provinces that are dependent on exports. However the past year closed with renewed housing activity in Ontario and B.C. and increased manufacturing exports across Ontario.

Any changes to NAFTA present risks to exporters and the auto sector in particular given that significant changes have been proposed. The pace of current negotiations makes it highly unlikely that any revisions will be effective for the current calendar year with 2019 more likely for implementation. Overall, TD Economics observes, the Ontario economy is strong despite some slowdowns.

Similarly RBC Economics[2] notes that rising interest rates and an uncertain trade environment with the United States present challenges for Ontario to maintain the strong growth rates of the past four years. Their prediction is that provincial GDP growth will drop from a seven-year high of 2.9 percent in 2017 to 2.1 percent in 2018, followed by 1.8 percent in 2019.

RBC also predicts that heavy investment into infrastructure by all levels of government will continue to fuel provincial growth, primarily through public transit and road projects.

The Conference Board of Canada conducted their 2017 Waterloo Region Business Outlook event in Kitchener on September 7 of last year. The analysis provided by Senior Vice President and Chief Economist Craig Alexander noted that economic growth across Waterloo Region has outpaced the provincial level for ten of the past eleven years. However, growth has slipped to approximately 2 percent annually between 2016 and 2018, down from a three percent average over the previous six years.

Even in the midst of this slowdown, Waterloo Region continues to attract newcomers. Net immigration reached a ten-year high of 4,200 people in 2016 and another 3,600 were

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[1] Provincial Economic Forecast. TD Economics. December 14, 2017

[2] Provincial Outlook. RBC Economics. December 2017

anticipated for 2017. Slower manufacturing activity was expected in 2017 with acceleration predicted for 2018.

Corporate Tax Reductions

The 2009 Ontario Budget introduced a schedule of tax cuts to decrease the general Corporate Income Tax (CIT) rate from 14 percent in that year to ten percent in 2013. However in 2012 former Finance Minister Dwight Duncan froze the CIT rate at 11.5 percent and promised to resume the scheduled reductions when the budget reached a balanced position.

As the provincial budget according to Minister Sousa is balanced we recommend that the CIT rate be reduced to ten percent as promised by Minister Duncan.

Recommendation

The Ontario government, in the 2018 Budget, should reduce the general Corporate Income Tax rate to ten percent.

Talent Attraction and Land Use Planning

Over the past year, our membership has become increasingly engaged on new provincial policy initiatives related to rental accommodation, housing affordability and land use planning.

There is a concern over the cost of local and southern Ontario urban housing and the ability to attract skilled talent for current and future employer requirements. The Toronto Region Board of Trade, in collaboration with the Toronto Real Estate Board and Environics, recently surveyed over 800 individuals between the ages of 18 and 39 living in the Greater Toronto ï Hamilton Area regarding their insights on the housing market. The results generally and statistically reflect the concerns that have been emerging across Waterloo Region.

Four of five respondents indicated that high rents and home prices are impacting their capacity to save for retirement while a further 65 percent agreed that shelter costs prevent them from adequately addressing their debt. Over 80 percent of respondents were **not** interested in purchasing a condominium unit.

A November 1, 2017 Toronto Star[3] article indicated the Toronto Region Board of Trade initiated the survey in response to their member concerns regarding talent retention, the supply of appropriate housing, and the perceived prospects of home ownership. The issue is not a crisis however demands government attention if Toronto is to continue to attract and retain globally competitive employers and employees. The average price of a re-sale home in the Toronto region in August 2017 was approximately $732,000, rising to $775,546 in September.

In Waterloo Region, the average sale price of all residential properties increased 12 percent from September 2016 to September 2017. The market has been characterized by a relatively low level of listings which in turn inflates the limited supply of housing that arrives on the market.

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[3] How Torontoô s housing costs are hampering the cityô s ability to attract talent. Tess Kalinowski. The Toronto Star. November 1, 2017

We would agree with the Toronto Region Board of Trade that a crisis is not evident at present however could be created locally without effective government action.

Last March the Ontario Home BuildersôAssociation (OHBA) and the Ontario Real Estate Association (OREA) issued a media release urging ñthe Provincial Government to create a housing experts task force to provide ideas for increasing housing supply in Ontario, thus alleviating the growing home affordability challenges facing Ontarians.òThe two organizations noted that population growth and a strong economy in the Greater Toronto and Hamilton Area (GTHA) has created a high demand housing market where supply is critically low and home prices are out of reach for many families and first time home buyers.

The OHBA and OREA provided a series of proposed measures to address the housing supply issue in Ontario including:

- Fixing the current ñOne Size Fits AllòGrowth Plan by allowing local municipalities more flexibility in creating choices in housing apart from high-densities across the downtown core areas:
- Addressing the ñMissing Middleòof the housing supply - there exists a huge opportunity to modernize outdated zoning laws and build the ñmissing middleòof the housing supply in existing communities that are connected to transit and closer to jobs. This includes laneway housing and other multi-unit structures;
- Targeting infrastructure to support new housing supply and starting the process of moving homes to the market for buyers at an affordable price.

a) Rental Housing

A September 2017 report from the Federation of Rental-housing Providers of Ontario (FRPO)[4] noted that rental demand in Ontario has reached a multi-decade high, driven primarily by robust economic and population growth, job creation, and a decline in home ownership and affordability. At the same time, supply growth for rentals has been almost entirely comprised of secondary units offered by investors in the condominium market.

The report concludes that the factors supporting growth in rental demand are projected to strengthen over the decade while supply will be restricted due to the recently introduced policy to extend rent controls affecting purpose built construction and condominium investors. Market trends clearly require a policy approach that promotes new rental development and continued investment in purpose built units and condominiums.

Waterloo Region has traditionally maintained strong rental housing opportunities demonstrated by the construction of large complexes over the past decade, as the market is supported by university faculty seeking short-term accommodations and recent graduates with new jobs entering the rental market before housing. However, we would also ask the provincial government to analyze the impacts on talent attraction of rental housing policies.

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[4] Ontario Rental Market Study: Measuring the Supply Gap. Prepared for the Federation of Rental-housing Providers of Ontario by Urbanation Inc. September 2017

b) Bill 139

An October 20, 2017 media release from a coalition of construction and environmental groups including the OHBA, BILD and the Canadian Environmental Law Association indicated a widespread concern with the rush to dismantle the Ontario Municipal Board and pass Bill 139.

The OHBA has indicated that proposed reforms will undermine evidence-based land use planning and decision making across the province and will reduce the appeal rights for developers, ratepayers other stakeholders. The correspondence further argues the changes will have a negative impact on transparency, accountability and fairness over the way Ontario communities are planned and built.

Recommendation

In future decisions on planning legislation and regulations, we ask the government to consider all changes in relation to their impact on attracting and maintaining employees to meet provincial workforce requirements in a competitive global economy.

Taxation of Private Health and Dental Plans

Our submission last year extensively addressed discussions and proposals related to the federal government's consideration of taxing private health and dental plans.

National media reports in early 2017 indicated that federal Finance Minister Bill Morneau and staff were analyzing these measures which could generate approximately $3 billion annually. Estimates indicate 24 million Canadians have private health insurance that provides access to prescription medicines, dentists, optometrists, mental health professionals and other services not covered by provincial health plans.

In February of 2017, during question period, Prime Minister Trudeau announced that his government would not be taxing private plans, noting he and his government are alternatively committed to protecting the middle class from increased taxes.

The Ontario government followed the federal lead and has not taxed benefits similar to Quebec, where 20 percent of workers and their families lost coverage due to employers scaling back from increased costs.

Recommendation

That the Ontario government not consider the taxation of private health and dental plans in the 2018 or future budgets.

Restrictive Municipal Tendering

A provision in the Ontario Labour Relations Act inadvertently restricts tendering in many Ontario municipalities, school boards, and crown corporations to a small subset of unionized contractors.

A December 2017 report from Hamilton-based think tank Cardus[5] compiled data from Ontario municipalities and concluded that restricting tendering to a select group of construction companies based on worker affiliation will lead to higher costs for municipalities than if they tendered the projects to all qualified bidders.

It is now estimated that 70 percent of qualified construction companies are prevented from working on public projects. Approximately one-third of Ontarians live in restricted municipalities, where one billion worth of construction work is affected annually and costs are increasing up to 40 percent. These designated municipalities include Toronto, Hamilton, the Region of Waterloo and Sault Ste. Marie.

Recommendation

The Ontario government amend the Ontario Labour Relations Act to exclude municipalities as construction employers.

Rural School Closures

At the 2017 Annual General Meeting of the Ontario Chamber of Commerce conducted in Sarnia, the Greater Kitchener Waterloo, North Bay & District, Owen Sound & District and Tillsonburg District Chambers of Commerce tabled and passed a resolution asking for a Moratorium on school closures until the Pupil Accommodation Review Guidelines (PARG) are revised to require the consideration of the economic impact of planned and potential closures prior to final board of education decisions.

Our Chamber was therefore highly supportive of Minister Hunterọs announcement in late June of 2017 of a province-wide moratorium. A subsequent release from the Ministry of Education last December indicated that the proposed revisions to the PARG will ñbetter recognize the impact of school closures on rural communities.ò

Recommendation

Future Pupil Accommodation Review Guidelines should require Boards of Education to consider the economic impacts of school closures before final decisions on facilities under review.

We thank the committee for the opportunity to advance our priorities for the 2018 Ontario Budget.

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5 Up, Up, and Away. The Impact of Restrictive Tendering in Municipal Contracting in Ontario. Cardus Construction Competitiveness Monitor: Research Paper. December 2017