2018 PRE-BUDGET SUBMISSION

ontario chamber of commerce

A Comprehensive Plan to Build Prosperity in Ontario

ABOUT THE ONTARIO CHAMBER OF COMMERCE

For more than a century, the Ontario Chamber of Commerce has been the independent, non-partisan voice of Ontario business. Our mission is to support economic growth in Ontario by defending business priorities at Queen's Park on behalf of our network's diverse 60,000 members.

From innovative SMEs to established multi-national corporations and industry associations, the OCC is committed to working with our members to improve business competitiveness across all sectors. We represent local chambers of commerce and boards of trade in over 135 communities across Ontario, steering public policy conversations provincially and within local communities.

Through our focused programs and services, we enable companies to grow at home and in export markets. The OCC provides exclusive support, networking opportunities and access to policy insight and analysis to our members. We also work alongside the Government of Ontario on the delivery of multiple programs, and leverage our network to connect the business community to public initiatives relevant to their needs.

ontario chamber of commerce

The OCC is Ontario's business advocate.

ISBN: 978-1-928052-48-7

LETTER FROM THE PRESIDENT AND CEO

Dear Minister Sousa,

The Ontario Chamber of Commerce (OCC) is pleased to have this opportunity to present our recommendations to you as part of the Government of Ontario's annual Pre-Budget consultations.

Industry is the backbone of our economy; a thriving private sector is the most important source of employment, greater living standards, and well-being for all. Businesses provide opportunities, foster individual well-being, contribute to the development of skills, and promote the creation and dissemination of knowledge.

As we enter 2018, it is clear that the continued economic growth and competitiveness of this province is challenged. Despite improved economic projections and stronger than anticipated economic performance, contributing to higher revenue growth that outpaces all the G7,[1] Ontario faces significant risks stemming from uncertainty about U.S. economic policies, notably on trade, taxation and migration. Ontario's fiscal policies must confront these challenges in order to maximize economic growth.

This province possesses tremendous advantages, but we must seek to further leverage them to ensure our economic prosperity.

Ontario needs a strategic plan for long-term economic growth—one that includes a competitive tax system that encourages investment by both businesses and individuals. The tax system should be as simple as possible to minimize administration and compliance costs. Fiscal policy must also focus on reducing government debt as savings realized from lower interest payments would make room for budget initiatives that can improve Ontarians' standard of living and quality of life. On the spending side, government must improve the efficiency and effectiveness of programs/services and focus on areas that enhance productivity and competitiveness.

Amidst mounting costs for businesses, the OCC has focused our 2018 Pre-Budget submission on reforms that restore competitiveness, spending that increases our productivity, and initiatives that stabilize the balance sheet for the benefit of all Ontarians. The Province needs to tax smarter and spend better in order spur economic growth and foster competitiveness for Ontario business.

We look forward to working with the Government of Ontario on the successful implementation of its 2018 Budget in support of a prosperous province.

Sincerely,

Rocco Rossi

President and CEO
Ontario Chamber of Commerce

TABLE OF CONTENTS

1. TAX REFORMS FOR INCREASED COMPETITIVENESS

In a highly competitive world, the Government of Ontario must design tax policies that create equal opportunities for all sectors and regions of the province. In situations where taxes result in differential treatment between sectors, there is a risk that government policy will stifle economic activities that could otherwise give rise to new and dynamic competitive advantages.[2] In Ontario, the tax challenge is two-fold: both the amount of taxes paid and the mechanisms through which businesses are taxed create impediments to competitiveness.

Ontario's current tax environment does not instill confidence in its business community. As revealed by a recent survey, 61 percent of Ontario businesses attribute their lack of confidence in Ontario's economic outlook to high business tax rates.[3] This past December, the U.S. Senate voted 51 to 49 to pass an amended version of its tax reform bill, which includes liberalization of both the Corporate Income Tax rates and Personal Income Tax rates.[4] Due to these reforms, Ontario may soon face significant challenges to its ability to attract investment and economically compete against U.S. states as the once favourable tax position held by our province is lost.[5]

These challenges require real action. Tax reform would not only improve Ontario's tax competitiveness, but also stimulate economic activities such as saving, investment, entrepreneurship, and employment. By reducing the complexity of the tax system and compliance costs, the government can reduce marginal tax rates for a wider range of households.[6]

For these reasons, the OCC is proposing a variety of tax measures that we believe will enhance competitiveness and spur business growth. These recommendations are subdivided into four categories: **Restoring** Ontario business competitiveness, **Reducing** the cumulative burden of rising input costs, **Preserving** current exemptions for sustained growth, and **Creating** avenues to help restore business confidence.

RESTORE

To increase Ontario business competitiveness by providing the right incentives to encourage business growth and scaling.

REDUCE

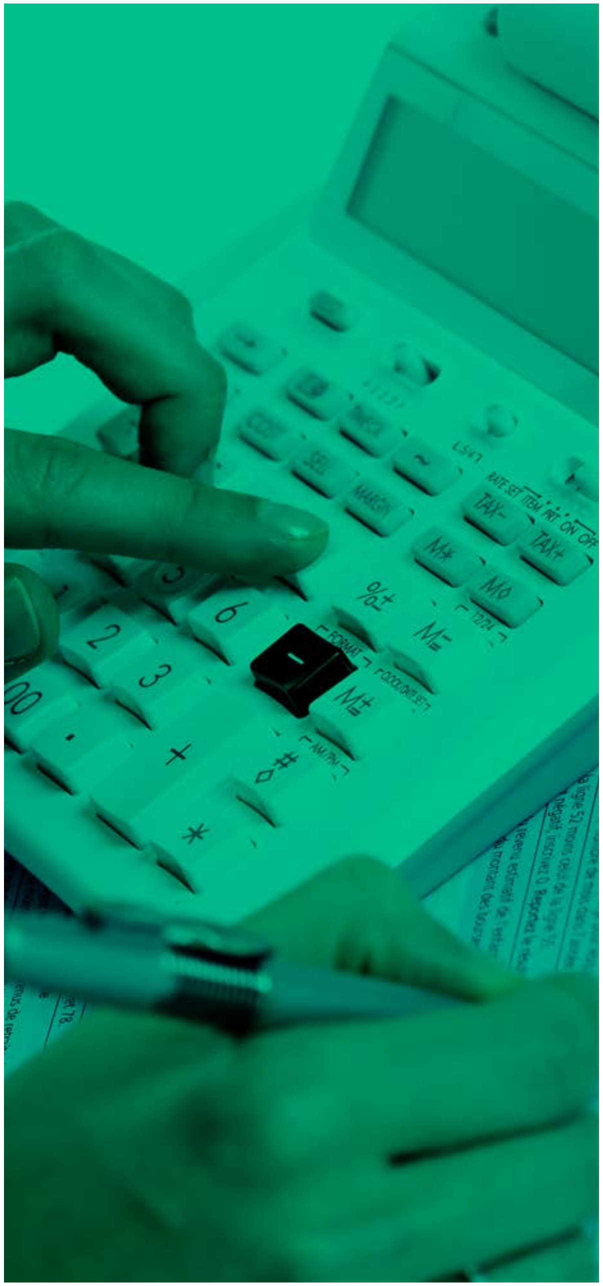
To offset the impact of public policy changes which have increased the cost of doing business in Ontario.

PRESERVE

To maintain current exemptions and tax rates, as to not further strain Ontario businesses.

CREATE

To address the systemic tax challenges that are hindering Ontario's competitiveness, stalling business growth and limiting our ability to attract talent relative to our neighbouring jurisdictions.



In Budget 2018, the Government of Ontario should resume the Business Education Tax reductions, as per the 2012 Budget.

1.1 Restore efforts to standardize the Business Education Tax (BET)

The Business Education Tax (BET) rate varies throughout the province, depending on the municipality or region (Table 1). In 2007, the government announced they would reduce and harmonize rates until reaching a standard provincial threshold initially targeted for completion by 2014. This effort was halted in 2012, with the intention that reductions would continue following a balanced Budget in 2017. However, this pledge did not materialize.[7] As a result, some Ontario businesses specifically those in London, Waterloo, Hamilton, Toronto, Windsor/Middlesex, and Kingston are paying up to $5,200 more per $1 million in assessment, and $2,300 more than they would if cuts promised in 2007 had been implemented.[8]

Table 1: Sampling of Business Property Taxes from Various Municipalities

MUNICIPALITY	COMMERCIAL	INDUSTRIAL	PIPELINE
Guelph, City of	1.402212%	1.560000%	1.560000%
Halton, Region of	0.923215%	1.520618%	1.181050%
Hamilton, City of	1.300819%	1.338919%	1.220000%
London City, of	1.460000%	1.560000%	1.560000%
Northumberland, County of	1.460000%	1.560000%	1.302556%
Toronto, City of	1.292138%	1.339999%	1.531874%
Windsor, City of	1.439448%	1.560000%	1.560000%

Note: Any municipality with a 1.46 percent commercial rate is at the commercial ceiling. Any municipality with a 1.56 percent industrial or pipeline rate is at the industrial or pipeline ceiling as of 2014.

Commercial, Industrial and Pipeline are property class distinctions.

1.2 Reduce the Corporate Income Tax rate from 11.5 percent to 10 percent

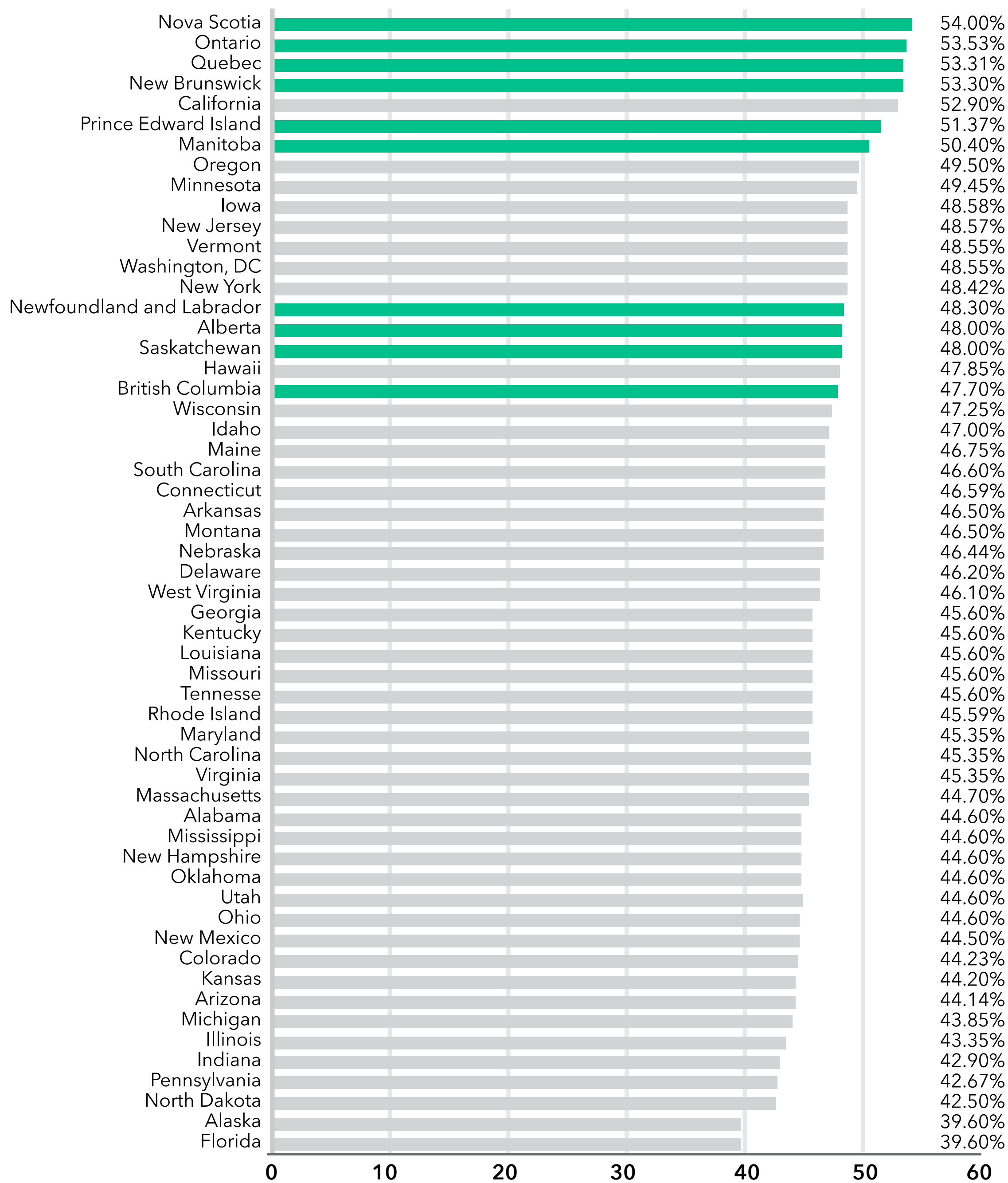
The U.S. tax reform bill decreases the federal Corporate Income Tax rate to 20 percent (from 35 percent) beginning in 2018. The bill also provides a special 25 percent tax rate on business income earned by "small and family-owned" businesses through pass-through entities.[9]

Under this new legislation, the combined U.S. federal and state corporate tax rate will approximate Canada's combined federal and provincial corporate tax rate for some businesses, a fundamental change from the current practice where the combined U.S. tax rate exceeds the combined Canadian tax rate. Because of this change, Ontario has instantly lost one of our central competitive advantages.

NETWORK SPOTLIGHT

Reinstate scheduled Corporate Income Tax rate reductions by 2017-18 is a resolution authored by Halton Hills and the Greater Kitchener Waterloo Chamber of Commerce. Passed in 2015, the resolution urges the government of Ontario reinstate scheduled Corporate Income Tax reductions by promised upon a balanced provincial budget.

Figure 1: Top Combined Statutory Marginal Income Tax Rate in Canadian Provinces and US States in 2016



1.3 Reduce Ontario's marginal income tax rate

On top of the federal income tax, all of Canada's provinces have also introduced significant Personal Income Taxes (PIT). The combination of high federal and provincial income tax rates has hurt Ontario's competitiveness in the global economy.[10]

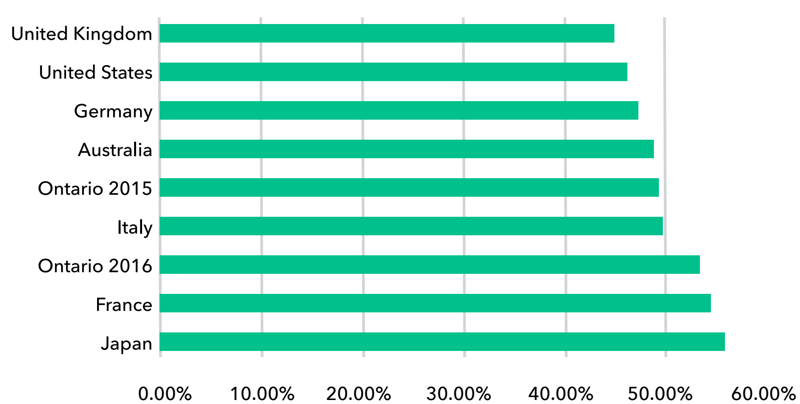
Ontario's top combined (federal + provincial) PIT rate stands at 53.5 percent—that's the second highest rate in North America (Figure 1), and one of the highest rates in the developed world (Figure 2).[11]

Importantly, Figure 1 does not account for the fact that Canada's and Ontario's top tax rates tend to apply at lower levels of income than in the United States. The U.S. federal top marginal tax rate applies to incomes over US$415,050 whereas by comparison, Canada's federal top marginal tax rate applies to income over CA$200,000 with state-to-state top income tax rates being even more diverse. For example, New York's top personal income tax rate applies to income above US$1.1 million. When we compare these to Ontario's income thresholds (as seen in Table 2), our province becomes increasingly uncompetitive.[12]

In Budget 2018, the Government of Ontario should reduce Ontario's PIT rates and restore them to their 2014 levels, when the top marginal tax rate was 49.53 percent, to increase Ontario's competitiveness relative to neighbouring jurisdictions.

Historically, Ontario and Canada have lost highly skilled workers to the United States, often referred to as "brain drain". When it comes to attracting high-income earners (and therefore major contributors to provincial tax revenue), a higher marginal income tax rate, as seen in Figures 1 and 2 and Table 2, demonstrate Ontario's PIT tax burden. This increased tax burden places Ontario businesses at a competitive disadvantage relative to neighbouring jurisdictions as it directly impacts a business' ability to attract highly skilled talent. In a recent study of 84 graduates from the University of Waterloo's System Design Engineering Program found that by the final co-op term, 40 percent of the class was working in the US due to higher wages and better financial outcomes.[13] Furthermore, empirical analysis indicates high marginal income tax rates reduce economic growth by distorting individual behaviour and choices.[14]

Figure 2: Top Combined Statutory Marginal Income Tax Rates in Selected OECD Countries in 2015



Source: Canada's Rising Personal Tax Rates and Falling Tax Competitiveness

Table 2: Ontario's Personal Income Tax Rates by Income Threshold, 2017

	MARGINAL RATE		
Taxable Income ($)	Federal (%)	Ontario (%)	Total
5,000	0,00	0,00	0,00
10,171	0,00	0,00	0,00
11,635	15,00	0,00	15,00
14,824	15,00	5,05	20,05
20,000	15,00	5,05	20,05
25,000	15,00	5,05	20,05
30,000	15,00	5,05	20,05
40,000	15,00	5,05	20,05
42,201	15,00	9,15	24,15
45,916	20,50	9,15	29,65
50,000	20,50	9,15	29,65
60,000	20,50	9,15	29,65
70,000	20,50	9,15	29,65
74,320	20,50	10,98	31,48
84,404	20,50	13,40	33,90
87,561	20,50	17,41	37,91
91,831	26,00	17,41	43,41
100,000	26,00	17,41	43,41
142,353	29,00	17,41	46,41
150,000	29,00	18,97	47,97
202,800	33,00	18,97	51,97
220,000 and Over	33,00	20,53	53,53

Source: Desjardins Personal Income Tax Rates Ontario - https://www.desjardins.com/ressources/pdf/table-impot-p-ontario-2017-e.pdf?resVer=1484857791000

Notes: Table takes into account federal basic personal amount of $11,635 and Ontario basic personal amount of $10,171.
Table does not take into account health tax deductions.

In Budget 2018, the Government should reduce the EHT rate by a minimum of 21 percent for businesses in sectors most impacted by a rising minimum wage and other labour and employment standards changes.

1.4 Targeted reductions in the Employer Health Tax (EHT)

The Employer Health Tax (EHT) is a payroll tax on remuneration paid to employees and former employees which provides partial funding for the Ontario Health Insurance Plan.

In Ontario, the amount of EHT paid by business owners, is calculated by multiplying an employer's payroll for the year, after deducting any tax exemption, by the applicable tax rate (Table 3). For example, an employer with $175,000 of Ontario payroll, and who does not have any tax exemption, would have a tax rate of 0.98%, and would pay EHT of $1,715 for the year.[15]All employers with an annual gross Ontario payroll in excess of $400,000 and with permanent establishments in Ontario must pay the EHT at a rate of 1.95 percent.

Increases in the minimum wage as a result of Ontario's recent labour reforms will lead to more businesses in Ontario contributing higher premiums through EHT. This represents another cost increase for business, above and beyond the immediate 21 percent wage increase.

An economic impact study from the Canadian Centre for Economic Analysis revealed that Ontario's labour reforms will create a $23 billion hit to businesses over the next two years, [16] in part due to increased premiums on the Canadian Pension Plan, Employment Insurance, Employer Health tax, workers' compensation premiums, training costs, sick leave, and increased vacation pay. Therefore, to help offset these new reforms Ontario must address the extraneous costs for businesses associated with its policies, especially for those industries most impacted by a rising minimum wage and other labour and employment standards changes.

Table 3 Ontario Employer Health Tax

TOTAL ONTARIO REMUNERATION	RATE
Up to $200,000.00	0.98%
$200,000.01 to $230,000.00	1.101%
$230,000.01 to $260,000.00	1.223%
$260,000.01 to $290,000.00	1.344%
$290,000.01 to $320,000.00	1.465%
$320,000.01 to $350,000.00	1.586%
$350,000.01 to $380,000.00	1.708%
$380,000.01 to $400,000.00	1.829%
Over $400,000.00	1.95%

Source: Government of Ontario. *Employer Health Tax*. Ministry of Finance, 2017

In Budget 2018, the Government of Ontario should create a bracketed small business deduction rather than a flat rate for all businesses with an annual income less than $500,000. The Government of Ontario should also delay taxation on a business' annual incremental income from the SBD or CIT and set conditions to qualify for the exemption to target higher-growth firms.

1.5 Create a bracketed small business deduction and delay taxation on corporate income growth to overcome Ontario's scale-up challenge

Ontario has above-average early stage entrepreneurial activity among similar innovation-driven economies, however, this activity has not resulted in comparable growth and innovation in the Ontario economy.[17] This is troubling, as high-growth firms are responsible for a large proportion of economic growth and job creation. Over the past ten years, 71 percent of the jobs created in the private sector can be attributed to the activities of small and medium-sized enterprises (SMEs).[18]

The OCC applauds the government's recent decision to reduce the small business Corporate Income Tax from 4.5 percent to 3.5 percent. This change will help provide small businesses compensation for their limited access to capital financing. However, the current structure of the Small Business Deductions (SBD) continues to discourage Ontario small business owners from seeking opportunities that will encourage growth or investment. This is due to a substantial rise in the tax rate as annual income increases above $500,000. To address this challenge, the OCC recommends the creation of a bracketed small business deduction, rather than a flat rate, for all businesses with an annual income less than $500,000.

Ontario's tax system also contains few incentives to encourage firm growth. Presently, 53 percent of programs provide firms with resources to increase their general inputs (financial assistance and human/physical capital), such as the Strategic Jobs and Investment Fund and the Ontario Venture Capital Fund, while fewer initiatives support international trade or other specific factors found to increase firm size and productivity.[19]

To rectify this, in the short term we encourage the government to exempt firms' incremental income from Corporate Income Tax in a given year. With this exemption, firms that are growing can reinvest their retained income into their business. Conditions to qualify for the exemption could be set to target higher-growth firms. For example, it could require a minimum rate of income growth over the previous year.

In Budget 2018, the Government of Ontario should pledge to maintain tax exemptions of private health and dental plans.

1.6 Preserve tax exemptions of private health and dental plans

This past year, the federal government considered the implementation of a tax on employer-paid health benefits. Ultimately, the federal government did not move forward with this tax, acknowledging that such a provision would harm the middle class and business owners.[20] The OCC would like to ensure that the Ontario government is aware of these harms, and will preserve the current exemptions so that Ontarians can continue to receive the affordable coverage they need.

As noted in our report *Care in Our Control: Managing Innovation in Ontario's Multi-Payer Health Care System*, public and private health coverage work in tandem to provide a broad range of treatment to Canadians. Employer-paid benefit plans play a critical role in expanding coverage to medication, physical therapy, and other health needs. Currently, 13.5 million employees participate in employer-sponsored supplementary health benefit plans, which collectively cover over 22 million Canadians.[21]

Provincial taxation of private and employer health and dental plans could potentially place a heavy cost on the already strained primary health care system. When the government of Quebec began to tax benefits in the early 1990s, there was a 20% reduction in benefits by employers, and a nearly 50% decrease among small businesses.[22] Most individuals did not purchase individual health insurance to compensate for the loss in coverage. In Ontario, this would translate into a loss of coverage for approximately one million workers, plus their dependents.[23]

Taxing benefit plans would not only result in millions of Ontarians losing access to their health insurance coverage, it would, in turn, shift billions of dollars of health care costs onto the provincial government.

NETWORK SPOTLIGHT

Maintaining Provincial Tax Exemptions on Employer Health and Dental Plans is a resolution authored by the Greater Kitchener Waterloo Chamber of Commerce, which urges the Government of Ontario to maintain tax exemptions of private health and dental plans, as a change to the current tax system would place a heavy burden on an already strained public health care system.

2. SPENDING TO MAXIMIZE GROWTH

Government spending is financed through taxation; therefore, an increase in government spending increases the tax burden on citizens and businesses—either now or in the future—which can lead to a reduction in private spending and investment. This effect is known as "crowding out." [24] Alternatively, increased government spending may create a multiplier effect, in which public outlay boosts economic growth.[25]

In Ontario, the government has chosen infrastructure spending as its primary policy lever to maximize economic growth, pledging to spend approximately $190 billion over 13 years.[26] Of this investment, public transit will receive the biggest portion of the funding at 34 percent, followed by health with 19 percent, and highways and other transportation with 17 percent.[27] Hedging economic growth on infrastructure spending is supported by a considerable amount of evidence. Research demonstrates that for every $1 billion in infrastructure spending, 16,700 jobs are supported for one year[28] and for every $1 billion in infrastructure spending, GDP is boosted by $1.14 billion, resulting in a multiplier effect of 1.14.[29]

However, despite its best intentions, problems have plagued Ontario's committed infrastructure spending, with the primary challenge being getting projects metaphorically out the door. The Province's infrastructure spending in 2016–17 was $12.9 billion (Table 4). This total was lower than the $16.2 billion set out in the 2016 Budget.[30] The Province also underspent in 2015-2016, outlaying $12.8 billion, instead of the $13.9 billion set out in the 2015 Budget.[31] The underspend trend was also present in 2014-2015 when infrastructure spending was $12.8 billion, which was lower than the $14.5 billion set out in the 2014 Budget.[32]

This pattern of underspending, however, presents the government with an opportunity to make large investments in 2018 towards the kind of growth-enabling projects identified in our recent report, *Building Better: Setting up the Next Ontario Long-Term Infrastructure Plan for Success*, and outlined in **our on-going calls for improved broadband internet access.**

As Ontario's population will grow approximately 30 percent by 2041, our infrastructure needs will grow with it. [33] Modernizing communications infrastructure and building a seamless transportation network will help Ontario meet the needs of a growing population and strengthen our economy. This section explores where Ontario should spend this money to maximize returns.

Table 4: 2016-17 Infrastructure Expenditures ($ Billions)

SECTOR	INVESTMENT IN CAPITAL ASSETS[1]	TRANSFERS AND OTHER INFRASTRUCTURE EXPENDITURES[2]	TOTAL INFRASTRUCTURE EXPENDITURES
Transportation and Transit	5.3	0.7	6.0
Health	2.2	0.4	2.7
Education	1.6	-	1.6
Postsecondary and training	0.6	0.3	0.9
Other Sectors[3]	0.3	1.5	1.7
Total Expenditures[4]	**10.00**	**2.9**	**12.9**

1 Includes adjustments for the net book value of assets disposed of during the year, as well as changes in valuation
2 Mainly transfers for capital purposes to municipalities and universities and expenditure for capital repairs.
3 Includes government administration, natural resources, social, culture and tourism sectors.
4 Includes third party capital investments in consolidated entities such as hospitals, school's boards and colleges.
Note: Numbers may not add due to rounding.
Source: Public Accounts of Ontario, Treasury Board Secretariat.

In Budget 2018, the Government of Ontario should demonstrate a commitment to dedicate a portion of its infrastructure spending to support *The Big Move*'s Next Wave projects.

2.1 Dedicate revenue for the Metrolinx The Big Move's Next Wave priority projects

Currently, traffic congestion in the Greater Toronto and Hamilton Area (GTHA) is estimated to cost the economy somewhere in the range of $7.5 billion to $11 billion per year.[34] This level of congestion, and lack of sufficient alternative transportation infrastructure impacts not only those directly commuting to and from the GTHA, but the entire provincial economy. Lack of public transit options leads to less choice for commuters and ultimately increased vehicular traffic, which results in costs to business supply chains such as movement of goods delays. The failure of our transportation infrastructure to keep pace in the face of population growth affects tourists and visitors to the wider region and contributes to air pollution and carbon emissions.

In 2008, Metrolinx released *The Big Move: Transforming Transportation in the Greater Toronto and Hamilton Area*, which outlined a 25-year plan to develop a multi-regional transportation system that would traverse the GTHA. With over $16 billion invested in projects currently in progress or complete, the province must now turn its attention to *The Big Move*'s Next Wave projects, which total over $22.6 billion in capital costs.[35]

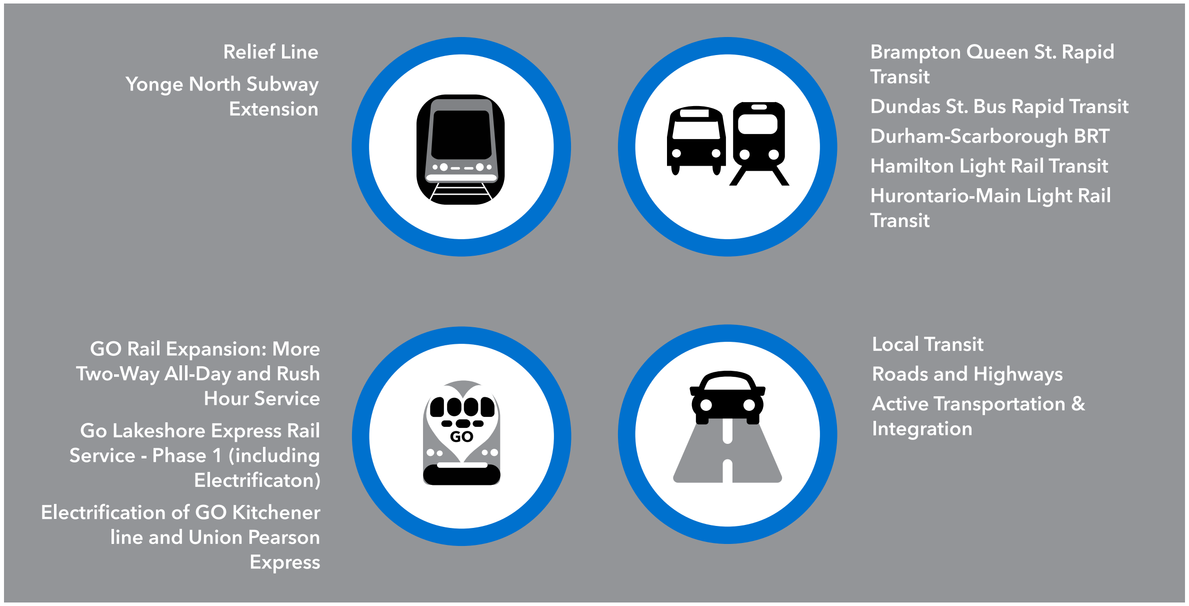
The Big Move's Next Wave priority projects will lead to new business and job creation, intensification, as well as significant environmental benefits. By eliminating the need for the 2,500 bus trips that currently service a stretch of Yonge Street each weekday, the Yonge North Subway Extension alone has significant potential to reduce carbon emissions and eliminate up to 28 tonnes of greenhouse gas (GHG) emissions each workday.[36]

As the provincial population continues to grow and communities intensify, there is an urgent need to create connected infrastructure for future generations that ensures for the greatest range of mobility options. Projects of this size and scope require the financial support of all levels of government, over an extended duration of time. The longer we wait, the more expensive projects of this magnitude become.

NETWORK SPOTLIGHT

Support for Metrolinx Big Move and 'Next Wave' Priority Projects is a resolution authored by the Richmond Hill Board of Trade, Newmarket Chamber of Commerce, and Vaughan Chamber of Commerce that urges the Government of Ontario to immediately allocate the appropriate resources for major transportation projects. It was passed in 2017.

Figure 3: Next Wave Projects



In Budget 2018, the Government of Ontario should continue to make expanding natural gas access in rural communities a priority to ensure Ontario remain competitive with respect to energy costs.

2.2 Make expanding natural gas access to rural communities a priority

Natural gas remains a reliable and clean option for many Ontarians and will continue to play an important role in the province's energy supply mix. Natural gas was used by approximately 3.6 million Ontario energy consumers in 2016 and generated approximately 10 percent of the province's electricity in 2015.[37] Homeowners and businesses alike use natural gas for space heating, domestic hot water, steam, and process heat.

Natural gas is accessible to less than 20 percent of Ontario rural households and farms but is available in over 90 percent of urban homes. The Ontario Federation of Agriculture (OFA) has long advocated for increased natural gas coverage in rural Ontario due to the spillover economic benefits and energy saving opportunities it would present.[38]

While we applaud the $100 million Natural Gas Grant Program, intended to support the expansion of natural gas pipelines and the construction of new infrastructure for liquefied or compressed natural gas,[39] further expansion enabling more communities to access natural gas will attract new industry, make commercial transportation and agriculture more affordable, and provide a cleaner source of energy for Ontario.

Continued innovation in the natural gas sector, including the discovery of renewable natural gas produced by the decomposition of organic materials, holds further opportunities for the expansion of natural gas services, creating significant economic development opportunities. Alternative fuels that do not incur cap and trade charges—like renewable natural gas—could be used to reduce emissions and mitigate cap and trade costs in the natural gas sector, further enhancing Ontario's economic growth.

NETWORK SPOTLIGHT

Expanding Natural Gas Service in Rural Ontario is a resolution authored by the Greater Kitchener-Waterloo Chamber of Commerce and the Chatham-Kent Chamber of Commerce passed in 2016, which highlights the importance of natural gas in communities across the province.

3. SPENDING REFORMS TO BENEFIT ALL OF ONTARIO

The Province projects its revenue to grow from $140.7 billion in 2016–17 to $158.2 billion in 2019–20 (an average annual growth rate of 4.0 percent)[40] while at the same time total expenses are projected to grow from $141.7 billion in 2016–17 to $157.4 billion in 2019–20 (an average annual growth rate of 3.6 percent) (Table 5).

Despite improved economic projections contributing to higher revenue and steady employment gains, Ontario's net debt remains at precariously high numbers with a projection this year of $312 billion, or roughly $22,000 for every Ontarian.[41]

At the same time, Ontario's municipalities are arguably in a more precarious position. Following the downloading of many responsibilities in the late 1990s and early 2000s, the ability of municipalities to pay for essential services and infrastructure has been challenged. The current system in which municipalities collect eight cents of every tax dollar, creates a fiscal imbalance that is eroding Ontario's competitiveness by placing a growing burden on taxpayers, straining local services, and forcing municipalities to delay essential infrastructure projects.[42]

Ontario should capitalize on strong fiscal projections and begin downward payment on the debt. Failure to do so will place a

Table 5: Ontario's Fiscal Outlook[1] ($ Billions)

	ACTUAL OUTLOOK 2016-17	CURRENT OUTLOOK 2017-18	MEDIUM-TERM OUTLOOK 2018-19	MEDIUM-TERM OUTLOOK 2019-20
Revenue				
Taxation Revenue	94.3	99.9	105.1	110.0
Government of Canada	24.5	26.2	26.0	25.4
Income from Government Business Enterprises	5.6	5.1	5.9	6.2
Other Non-Tax Revenue	16.3	19.0	16.5	16.6
Total Revenue	**140.7**	**150.1**	**153.6**	**158.2**
Expense				
Programs	130.0	137.4	140.4	144.2
Interest on Debt	11.7	12.2	12.7	13.3
Total Expense	**141.7**	**149.6**	**153.1**	**157.4**
Surplus/(Deficit) Before Reserve	**(1.0)**	**0.5**	**0.5**	**0.8**
Reserve	**-**	**0.5**	**0.5**	**0.8**
Surplus/(deficit)	**(1.0)**	**0.0**	**0.0**	**0.0**
Net Debt as a Percent of GDP	38.0	37.3	37.1	37.0
Accumulated Deficit as a Percent of GDP	24.3	23.1	22.2	21.3

[1] Amounts reflect a presentation change for hospitals, school boards and colleges. Third-party revenue for these organizations, previously netted against sector expenses is now classified as revenue. This does not impact the Province's annual surplus/deficit results, net debt or accumulated deficit.

Note: Numbers may not add due to rounding.
Source: *A Strong and Fair Ontario.* Ministry of Finance, 2017. https://www.fin.gov.on.ca/en/budget/fallstatement/2017/fes2017.pdf

In Budget 2018, the Government of Ontario should formally adopt value-based procurement to more effectively use government dollars, inject innovation into government services, and save money in the long term.

tremendous fiscal burden on future generations and considerable pressure on future economic planning. To help facilitate smarter spending and ease the financial pressure on Ontario municipalities, the OCC proposes the following spending reforms.

3.1 Use value-based procurement to more effectively use government dollars, inject innovation into government services, and save money in the long term

In a context of fiscal restraint, public procurement is one of the foundational tools with which government can have a material impact on growth and innovation in the broader economy. The Government of Ontario continues to view most public procurement through a narrow lens, resulting in a transactional approach that favours immediate low-cost purchases over long-term value creation. This short-term thinking is inadequate to maximize value across the range of goods and services that government procures and to drive outcomes-based purchasing and decision-making.

In *Spend Smarter, Not More: Leveraging the Power of Public Procurement,* the OCC championed the modernization of procurement practices across all government ministries. The report highlighted six steps necessary for the successful implementation of strategic procurement.

By some measures, the Government of Ontario is the single largest contributor to the provincial economy; government spending represents about 20 percent of the province's economic output.[43]

The provincial government has the potential to leverage this spending to create value in the economy in the form of job creation, long-term savings and investment, innovation, and cluster growth.

STEPS	
1	Build internal capacity by creating a centralized, independent body with the goal of improving government's capacity to undertake strategic and complex procurement
2	Develop evaluative tools that can be employed to differentiate between simple and strategic procurement based on the complexity of desired outcomes
3	Actively collaborate with industry to define the problems, outcomes, and solutions necessary to meet complex needs throughout the procurement process
4	Improve access to procurement opportunities for small and medium enterprises (SMEs)
5	Integrate local knowledge as a criterion in strategic procurement
6	Designate a portion of procurement funds to assist the development of innovative products and services in response to complex public needs

SIMPLE PROCUREMENT	STRATEGIC PROCUREMENT
transaction-based contracts	collaboration-based contracts
output-focused	outcome and solution-focused
"shopping" for lowest cost good or service	assessing public need and desired outcomes to decide 'what to buy and how'
arm's length commercial relationships with vendors	active engagement with industry and vendors
government as contract monitor	government as market steward

In Budget 2018, the Government of Ontario should take three important steps to address the current challenges with the interest arbitration system:

1. **Reform the system to reflect the current capacity of Ontario municipalities to pay for increased service costs;**
2. **Improve efficiency by requiring that arbitration decisions be delivered in less than 12 months; and**
3. **Improve accountability and transparency for the taxpayer.**

3.2 Reform the provincial interest arbitration system to reflect the current capacity of Ontario municipalities to pay for increased service costs

The OCC and our members value the contributions and protections that emergency services personnel provide to our communities. We recognize, however, that the cost of these services have increased at over three times the rate of inflation annually since 2002, contributing to a fiscal crisis in many municipalities.[44]

In certain regions of the province, particularly rural or remote areas, the awards granted by arbitrators are disproportionate to existing revenue sources available to local governments. For instance, a recent Owen Sound municipal budget reveals that 46 percent of the tax dollars allocated to managing city affairs were absorbed by police and fire services in 2016.[45] Since interest arbitration is the only legal mechanism available to Ontario municipalities for settling disputes from contract negotiations with essential services such as police and fire, we believe it is time to reform the provincial arbitration system to reflect the current capacity of Ontario municipalities to pay for increased service costs.

Awards are often based on comparisons to provincial, not regional, emergency services, challenging rural and remote municipalities that possess a significantly smaller tax base in comparison to large urban centres. As a result, many rural and remote municipalities are forced to contend with cost increases that are disproportionate to available revenue. Given the current economic and business climate, it is insufficient and inappropriate to suggest that this issue should be resolved through municipal tax increases.

Additionally, to improve accountability and transparency, arbitrators should be required to publicly release a written explanation of their decision that indicates consideration given to the fiscal health of a community. As evidenced by the recent experience of Owen Sound, core needs of the community are at serious risk of being compromised because of disproportionate spending on emergency services. Government should take action to ensure that taxpayer dollars are allocated efficiently and sustainably.

As part of reforming the provincial interest arbitration system, the OCC also recommends that arbitration decisions be delivered in less than 12 months. Although both the *Fire Protection Act 1997* and the *Police Service Act 1990* stipulate a time for decision, timelines are often extended by the parties involved.[46] Significant inefficiencies and costs result from the fact that there is no limit to the length of time for which a decision can be delayed.

NETWORK SPOTLIGHT

Fixing the Arbitration System for Fire and Police Services in Ontario is a resolution authored by the Greater Kitchener-Waterloo Chamber of Commerce and passed in 2016, which highlights the impact of rising arbitration costs on Ontario municipalities. Similarly, a resolution authored by the Newmarket Chamber of Commerce and passed in 2015, *Essential Service Designation for Provincially Funded Transit Services,* urges the Ontario government to reform the current arbitration system in order to mitigate the cost increases inherent in interest arbitration.

In Budget 2018, the Government of Ontario should gradually increase the "Heads and Beds Levy" to $100 per student/bed and then tie future yearly increases to the Consumer Price Index (CPI).

3.3 Increase the "Heads and Beds Levy" on institutions to $100 per bed and then tie future yearly increases to the Consumer Price Index (CPI)

There has been a prolonged period of inaction to raise the annual payment in lieu of taxes or "Heads and Beds Levy" (Section 323 of the *Municipal Act 2001*) on specified public institutions (i.e. provincial correctional facilities, hospitals, and universities). As a result, municipalities are forced to compensate for this lost revenue in other ways, including raising property taxes.

The payment in lieu of taxes made by the Province of Ontario on behalf of all public institutions was $50 per bed in 1973. This rate changed to $75 in 1987 and has not changed since.[47] In 2012, the OCC asked to increase these payments to $140 per bed to reflect inflation. However, given the current provincial financial pressures, we suggest an increase to $100 per bed, then match future increases to the CPI.

The economic impact of this increase to municipalities would be immediate. Thanks to a levy held at 1987 levels, Ontario municipalities with post-secondary institutions, hospitals, and correctional facilities face significant competitive disadvantages vis-à-vis other municipalities.

NETWORK SPOTLIGHT

Unrealized "Heads and Beds Levy" hurts Ontario's Economic Competitiveness is a resolution authored by the Greater Kingston Chamber of Commerce and the Greater Peterborough Chamber of Commerce. Passed in 2015, this resolution urges the government to raise the annual payment in lieu of taxes or "heads and beds levy" on specified public institutions.

CONCLUSION

The purpose of this submission has been to provide recommendations on how to utilize Ontario's fiscal policy to maximize our economic growth and ensure our prosperity.

The 2018 Ontario Budget must give consideration to increasing Ontario's competitiveness in an environment of mounting costs for business and tax reform in the United States. In support of this goal, the Ontario Chamber of Commerce has presented 11 recommendations that, if adopted, will allow Ontario to address these challenges.

These recommendations include a competitive tax system to encourage investment by businesses and spending reforms to improve the efficiency and effectiveness of government initiatives. Together, strategic taxation and investment by will support productivity and prosperity across Ontario.

Thank you for your consideration of the OCC's 2018 provincial Pre-Budget submission. We firmly believe that these recommendations will strengthen Ontario's economy and ensure that Ontario remains an attractive environment for investment.

WORKS CITED

1 Government of Ontario. *A Strong and Fair Ontario.* Ministry of Finance, 2017. https://www.fin.gov.on.ca/en/budget/fallstatement/2017/fes2017.pdf

2 Ontario Chamber of Commerce. *Taxation and Fiscal Governance.* 2012. http://www.occ.ca/Publications/OCC-Taxation-and-Fiscal-Governance-Policies_2011.pdf

3 Survey of n=1046 OCC members conducted online by Fresh Intelligence between September 20, 2017 and November 3, 2017.

4 PWC. *Tax Insights: Senate Approves Tax Reform Bill with Amendments.* 2017. https://www.pwc.com/us/en/tax-services/publications/insights/assets/pwc-senate-approves-tax-reform-bill-with-amendments.pdf

5 KPMG. *Tax News Flash Canada.* 2017. . https://assets.kpmg.com/content/dam/kpmg/ca/pdf/tnf/2017/ca-us-releases-proposed-tax-reform-changes.pdf

6 Fraser Institute. *Canada's Personal Income Tax Rates: Time for Reform.* 2014. https://www.fraserinstitute.org/sites/default/files/canadas-personal-income-tax-rates-time-for-reform.pdf

7 Found, Adam and Peter Tomlinson. *Ontario's Business Education Tax: Analysis of Policy Options.* 2015. https://toronto-bia.com/images/stories/2015_PressReleases/2015_BET_Report_Update.pdf

8 IBID.

9 KPMG. *Tax News Flash Canada.* 2017. https://assets.kpmg.com/content/dam/kpmg/ca/pdf/tnf/2017/ca-us-releases-proposed-tax-reform-changes.pdf

10 Eisen, Ben. Ontario's *Uncompetitive Personal Income Tax Hurting Ontarians*. Fraser Institute, 2017. https://www.fraserinstitute.org/article/ontarios-uncompetitive-personal-income-tax-hurting-ontarians

11 IBID.

12 IBID.

13 Chaudhury, Atef and Joey Loi. *Systems Design Engineering 2017 Class Profile.* University of Waterloo 2017. http://joeyloi.com/SYDE2017classprofile.pdf

14 Lamman, Charles, Hugh MacIntyre. Feixue Ren, Ben Eisen, and Milagros Palacios. *Canada's Rising Personal Tax Rates and Falling Tax Competitiveness.* Fraser Institute, 2016. https://www.fraserinstitute.org/sites/default/files/canadas-rising-personal-tax-rates-and-falling-tax-competitiveness.pdf

15 Government of Ontario. *Employer Health Tax*. Ministry of Finance, 2017. https://www.fin.gov.on.ca/en/tax/eht/index.html

16 Canadian Centre for Economic Analysis (CANCEA). *Economic Impact of Bill 148*. 2017. http://www.occ.ca/mediarelease/185000-ontario-jobs-at-risk-from-bill-148-independenteconomic-impact-analysis/

17 An innovation-driven economy is defined as one exhibiting sufficient reliance on business sophistication and innovation despite its engagement with basic resources. Langford, C. and P. Josty. 2015. 2014 GEM Canada national report. Global Entrepreneurship Monitor. http://thecis.ca/wp-content/uploads/2016/04/GEM-Canada-Report-5.2015.pdf

18 Boutilier, Scott. Closing the Tourism Gap: Creating a Long-Term Advantage for Ontario. Ontario Chamber of Commerce, 2016. http://www.occ.ca/wp-content/uploads/2013/05/Report_Closing-the-Tourism-Gap.pdf

19 Institute for Competitiveness & Prosperity (ICP). A Place to Grow: Scaling up Ontario's Firms. 2016. https://www.competeprosper.ca/uploads/WP23_Long_Version_Final.pdf

20 Campion Smith, Bruce. "Health benefits tax off the table, Trudeau says." *Toronto Star* 2017. https://www.thestar.com/news/canada/2017/02/01/health-benefits-tax-off-the-table-prime-minister-justin-trudeau-says.html

21 Challinor, Ashley. *Care in our Control.* Ontario Chamber of Commerce. 2016. http://www.occ.ca/wp-content/uploads/2013/05/Care-in-our-Control_Report.pdf

22 Canadian Chamber of Commerce. 2017 http://www.chamber.ca/advocacy/taxation-of-employer-paid-benefits/170117_Letter_Morneau_TaxationOfHealthBenefits.pdf

23 Canadian Life and Health Insurance Association inc. *Implications of Taxing Employer-Paid Benefit Plans.* 2016. https://www.clhia.ca/

24 Stratmann, Thomas and Gabriel Lucjan Okolski. *Does Government Spending Affect Economic Growth?* Mercatus Center, 2010. https://www.mercatus.org/publication/does-government-spending-affect-economic-growth

25 http://www.economicsonline.co.uk/Global_economics/Fiscal_policy_government_spending.html

26 Government of Ontario. *Building Ontario: Our Infrastructure Plan.* Ministry of Infrastructure, 2017. https://www.ontario.ca/page/building-ontario

27 Government of Ontario. *2017 Infrastructure Update.* Ministry of Infrastructure, 2017. https://files.ontario.ca/infrastructure_update_2017-_eng_0.pdf, pg. 11

28 Broadhead, J., Darling J., Mullin, S., *Crisis and Opportunity: Time for a National Infrastructure Plan for Canada, 2014.* http://canada2020.ca/crisis-opportunity-time-national-infrastructure-plan-canada/

29 IBID.

30 Government of Ontario. *Public Accounts of Ontario: Annual Report and Consolidated Financial Statements: 2016 – 2017.* Treasury Board Secretariat, 2017. https://files.ontario.ca/en_publicaccounts_annualreport_cfs_2017-9.pdf, pg. 26

31 Government of Ontario. Public Accounts of Ontario: Annual Report and Consolidated Financial Statements: 2015-2016. Treasury Board Secretariat, 2016. https://files.ontario.ca/web_2015-2016_annual_report_eng_0.pdf, pg. 26

32 Government of Ontario. *Public Accounts of Ontario: Annual Report and Consolidated Financial Statements, 2014-2015.* Treasury Board Secretariat, 2015. https://www.fin.gov.on.ca/en/budget/paccts/2015/15_arcfs.pdf, pg.14

33 Government of Ontario. *Building Ontario: Our Infrastructure Plan.* Ministry of Infrastructure, 2017. https://files.ontario.ca/ltip_technical_appendix_aoda_english.pdf

34 Dachis, Benjamin. *Cars, Congestion and Costs: A New Approach to Evaluating Government Infrastructure Investment.* Fraser Institute, 2013. https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Commentary_385_0.pdf

35 Metrolinx. *2015-2020: Five Year Strategy.* 2015. http://www.metrolinx.com/en/aboutus/publications/Metrolinx_Five_Year_Strategy_2015-2020_EN.pdf

36 Vivanext. *Yonge Subway Extension.* 2017. http://www.vivanext.com/project_YongeSubway

37 Government of Ontario. *Delivering Fairness and Choice: Ontario's Long-Term Energy Plan 2017.* Ministry of Energy, 2017. https://files.ontario.ca/books/ltep2017_0.pdf

38 Ontario Federation of Agriculture. *2017 Pre-budget Submission.* 2017. https://ofa.on.ca/issues/submission/ofa-2017-ontario-pre-budget-submission

39 Government of Ontario. *Expanding Natural Gas to More Communities Across Ontario.* https://news.ontario.ca/moi/en/2017/01/expanding-natural-gas-to-more-communities-across-ontario.html

40 Government of Ontario. *A Strong and Fair Ontario.* Ministry of Finance, 2017. https://www.fin.gov.on.ca/en/budget/fallstatement/2017/fes2017.pdf

41 Government of Ontario. *A Stronger, Healthier Ontario.* Ministry of Finance, 2017. https://www.fin.gov.on.ca/en/budget/ontariobudgets/2017/budget2017.pdf

42 Federation of Canadian Municipalities. *Cities and Communities Partners in Canada's Future.* 2016. https://fcm.ca/Documents/reports/FCM/FCM_Roadmap_EN.pdf

43 Deyanska, Anjela and Josh Hjartarson. *Spend Smarter Not More: Leveraging the Power of Public Procurement.* Ontario Chamber of Commerce, 2015. http://www.occ.ca/Publications/SpendSmartNotMore_online.pdf

44 *Association of Municipalities Ontario 2016 Pre-Budget Submission.* 2016. 41 City of Owen Sound. 2016 *Operating and Capital Budget.* 2016. https://www.amo.on.ca/AMO-PDFs/Reports/2016/2016AMOPreBudgetSubmission20160119.aspx

45 City of Owen Sound. 2016 *Operating and Capital Budget.* 2016. https://owensound.civicweb.net/document/71179

46 Note: In accordance to the Fire Protection and Prevention Act 1991, the board of arbitration shall give a decision within 90 days after the last (or only) member of the board is appointed. See *Collective Bargaining, Time for a Decision.* S.O. 1997, c.4. https://www.ontario.ca/laws/statute/97f04#BK69. In accordance to the Police Service Act 1990, the arbitration board shall give a decision within 90 days after the chair is appointed or, if the arbitration board consists of one person, within 90 days after that person is appointed. See Part VIII *Labour Relations: Time for a Decision.* https://www.ontario.ca/laws/statute/90p15#BK153.

47 City of Toronto. 2016 *Heads and Beds Levy on Institutions.* 2016. https://www.toronto.ca/legdocs/mmis/2016/ex/bgrd/backgroundfile-94357.pdf