TORONTO REGION BOARD OF TRADE

2016 Federal Pre-Budget Submission

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ABOUT THE BOARD

Founded in 1845, the Toronto Region Board of Trade (the Board) is the chamber of commerce for Canada's largest urban centre, connecting more than 12,000 members and 250,000 business professionals throughout the Toronto region. The Board plays a vital role in elevating the quality of life and global competitiveness of Canada's largest urban centre.

Given the recent election and changing circumstances in Canada and the global economy, the Board appreciates the opportunity to provide this submission as an update to what we provided to the House of Commons Standing Committee on Finance in August, 2015.

EXECUTIVE SUMMARY

In this submission the Board is advancing the following four themes:

- Measures to promote and develop Canada's **talent** economy**;**
- The need for more federal investment in urban **transit**;
- Our call for a stronger national **trade** strategy; and
- Support for **fiscal responsibility** to preserve the government's long-term fiscal stability and flexibility.

Talent

Canada's unemployment rate has risen to 7.2% - yet there is hope, as urban economies here in Ontario are performing better than other economic regions when it comes to job creation in this uncertain period. More than ever, it is crucial that we position Canada as an effective competitor in urban industries like human health sciences, advanced manufacturing and global services.

> The Board is actively working to pair agile new technology firms with the public sector, and through our upcoming Digital Cities Summit and other initiatives, we are ready to work with all levels of government to help promote and harness Canadian technology talent and modernize government services.

The most urgent concern for the Board after the election of the new Government is the potential for new taxation policies on stock options. The Board's concern is specific to the potential impact of these tax policies on the startup sector. The 21st century venture capital, startup and tech sector ecosystem is built around closely-linked, competitive expectations in intellectual property, ROI, research and development, investment in talent and capital-gains. Competition in each of these

Founded by the Board in 2013, TO Health! is an industry-led initiative focused on raising the profile of the Toronto region Human Health and Sciences (HHS) cluster and highlighting the cluster's impressive economic potential. It spans the spectrum of health sciences, bringing together pharmaceuticals, medical devices, health IT, hospitals, colleges, universities, community labs, innovators, investors, and municipalities.

TO Health!'s objective is to tell the region's HHS success story, and the untapped potential that exists for Toronto to be home to one of the top 5 health science clusters in the world. Toronto has the skills, infrastructure and health sciences expertise but compared to other jurisdictions with similar advantages, Toronto's HHS industry has not reached its economic and job creation potential.

As our new federal government looks to diversify Canada's economy, an economic cluster strategy offers immense opportunity. Starting with the HHS cluster, seed funding will fuel economic growth and high-paying job creation in the Toronto region.

areas is fierce and international. The use of options as a key form of compensation is internationally accepted as a standard practice to help small firms attract and retain talent in a startup's most vulnerable stages of growth. The typical technology startup will set aside 15%-25% of equity for options for early-stage employees. We recognize that the Government is keen to promote the startup economy, and the Board is pleased that the Government recognizes the crucial value of entrepreneurship to Canada's future. However, any willingness to consider tax policies that attack the competitiveness of Canadian startup compensation models could offset progress on other fronts. This could be "the silent killer - the cholesterol of startup policy," in the words of one of our members.

In the broader economy, the Board is supportive of Government efforts to promote job experience and career path opportunities for unemployed and underemployed young workers, and we are focusing more resources in our own efforts to promote talent as a competitive asset. Through programs like the Board's Human Health Sciences (HHS) Cluster, we believe that there is an opportunity to accelerate investment into sustainable, high-wage, high-skill jobs in Canada's urban economy.

In line with this work, we believe the Government should:

- Retain competitive options taxation policies to help Canadian startup firms compete for capital, technology talent and management experience;
- Reconsider the prior government's changes to the Temporary Foreign Worker program, which have impeded efforts to draw foreign talent to Canada, in particular to Toronto's

financial and tech sectors, and consider the increased use of sector-specific pilot programs and reforms to improve the system in a way that is responsive to sector needs;
- Offer national leadership on the continuing challenge of credentialism for new Canadians, perhaps by identifying one sector (like engineering) to push for a pilot federal-provincial strategy with set, public targets to reduce the credentials gap in each province; and
- Consider reforms to further ease the transition for international students who wish to work in Canada, in line with legal changes underway in other competitive global labour markets.

Trade

Trade powers the Canadian economy, and Canada urgently needs a trade strategy to match this reality. On the one hand, Canada's new government has already been an aggressive promoter of Canada to the world, and government leaders have publicly identified greater trade with India and a free trade deal with China as medium-term goals.

Both objectives are laudable, but Canada must also remain competitive in existing markets, especially in the United States. We also face significant trade barriers here at home, and strong national leadership is needed to bring them down. Further, the Government has sent mixed signals with respect to the Trans-Pacific Partnership. Failure to ratify Partnership will only reduce the odds that either of the government's goals in Asia can be achieved. Many of the objections to the TPP will no doubt be raised to any Chinese deal, and several TPP members are key trading partners with India.

The Board recommends that:

- The federal government should embed trade officials directly with boards of trade and chambers of commerce in major centers, including Toronto, to take advantage of our unique ability to identify and mentor export-ready firms and facilitate trade growth.
- Canada should announce a timeline for ratification of the Trans-Pacific Partnership as soon as possible;
- If objections to the TPP exist, the Federal Government should identify those urgently and seek to address them separately so as to avoid jeopardizing the deal itself;

In May 2015, the Board launched its multi-year Trade Accelerator Program (TAP GTA) to assist companies with developing export market plans and tapping into new international markets. The Board has already successfully accepted over 50 companies to the program.

- Resolution of ongoing negotiations for a new Agreement on Internal Trade should be a priority for 2016 to facilitate the development of a competitive economic culture for Canadian firms; and
- In the medium-term, Ottawa should consider promoting a trade infrastructure strategy to complement its urban infrastructure strategy, with consistent federal policy to support investment in key air, sea, lake, road and rail gateways.

Transit

During and after the general election, the Government clearly signalled its intention to invest heavily in infrastructure. In the Toronto area, the focus for this investment must be on improved transit infrastructure, as transit capacity growth is lagging demand, and lagging capacity in other major metros. Notably, 2015 was the second year in a row that the Toronto Transit Commission had to reduce projected increases in ridership – not because of a lack of demand, but because existing transit capacity was insufficient to capture growing demand.

Recently, Infrastructure Minister Amarjeet Sohi honoured the Board by making his first podium presentation as a Minister to the Board. TRBOT members learned that the federal government is considering frontloading repair funding in the earliest stages of its new infrastructure funding. On the understanding that this will not deter the federal government from adopting a long-term approach to financing new municipal and urban infrastructure, this could be an extremely positive step. Previous infrastructure programs often focused on community projects chosen for their political benefits, effectively diverting matching provincial and municipal dollars to new construction at the expense of urgent repairs.

The City of Toronto's backlog of unfunded transit projects is $13b - and that figure does not include provincial or agency investments in regional transit to serve the Toronto area. While some infrastructure funding will inevitably be used for social housing and other Toronto priorities, it is essential that that federal dollars make urban transit the top priority to address commuter demand.

Based on these changes and conclusions of our recent Transportation Summit, we recommend:

- Rehabilitation needs are very important – and so the Board is enthusiastic about the possibility of repair funding at the earliest stages of any new funding program.
- Overall, any federal funding strategy should coordinate pre-existing and new federal funding programs wherever possible so that funds from one can complement investments from other sources.
- We recommend that the overall federal plan to invest in infrastructure should take a two-stage approach, with 1-2 years of investment in repairs and in projects that expand the

capacity of existing transit routes and systems, followed by a long-term, flexible program to support the construction of new transit infrastructure.

- Given TRBOT's concern about public debts and deficits, Minister Sohi's announced intention to reconsider traditional 1/3-1/3-1/3rd funding ratios is a positive step, as federal debt-to-GDP ratios are falling while provincial and municipal debt-to-GDP ratios are rising quickly enough to drive total government debt-to-GDP ratios higher. Federal funding can and should reflect the fact that Ottawa is better placed to carry larger infrastructure project costs than lower orders of government.
- A sound business case analysis for all projects is essential, whether that case is locally-driven or not. TRBOT members believe that the use of private risk capital brings discipline into the construction of heavy infrastructure. With this in mind, loss of the Federal P3 screen is likely to reduce the use of innovative bid models. TRBOT hopes that the Federal Government will either reconsider this step or consider other means to promote innovative infrastructure procurement models by local and provincial governments.

Fiscal Responsibility

For the first time in recent memory, Canada's new government was elected on an explicit promise to maintain deficit spending until the final fiscal year of its term. Due to concerns about lagging growth, the Prime Minister and his government believe that deficit spending – some of it targeted at infrastructure investment – is needed to stimulate the economy.

While our members remain concerned about this policy, the government has a clear mandate from Canadian voters to spend into a deficit position, especially if that spending is targeted at urban infrastructure investments that the Board has long supported. With this in mind, the Board hopes the Government will consider several steps to maximize any expected benefits and minimize potential risks from the government's chosen direction to run annual deficits around $10 billion over the next three years.

The fiscal crises of the 1980s and early 1990s arose in part because of structural deficits, where spending commitments and debt interest costs outran the government's own plans to constrain them. Even in a low interest rate environment, this risk remains. Even in a deficit environment, the Board believes it is crucial that the government select and enforce financial targets now to help the government achieve its goal of fiscal balance by FY 2019-2020.
These measures should include:

- Constant - and public - tracking of both current and projected scenarios for the federal debt-to-GDP ratio, ideally in cooperation with the Parliamentary Budget Office. The new government explicitly promised that this ratio will continue to drop even as the government runs deficits. Transparently maintaining this commitment will help to manage anxiety about the government's long-term debt position.

- The use of clear, public, multi-year planning budgets for departments to hold individual ministers accountable for their role in the fiscal plan and to their goals as outlined in the Prime Minister's mandate letters. Without long-term targets, individual ministers may be tempted to make substantial new spending commitments on an ad hoc basis, and the deliberate use of deficit spending increases the likelihood that the government might support those commitments after the fact.
- Initiation of service reviews, asset reviews and other measures now to identify savings strategies including investments in technology to modernize services and monetization of assets. Setting these measures in motion now can help the government reach balance as promised in FY 2019-2020.