



GREATER KITCHENER WATERLOO
Chamber of Commerce

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**2008 PROVINCIAL PRE-BUDGET
SUBMISSION**

PRESENTATION TO THE

**STANDING COMMITTEE ON
FINANCE AND ECONOMIC AFFAIRS
OF THE ONTARIO LEGISLATURE**

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Executive Summary

As one of the largest chambers in Ontario, the Greater Kitchener Waterloo Chamber of Commerce serves over 1,900 members representing all sectors of the local business community. Our membership includes small, medium, and large employers who provide approximately 70,000 jobs in one of Ontario's most progressive, innovative, entrepreneurial, and economically diverse regions.

Our Chamber's mission is to serve the local business sector and be their advocate on the advancement of a regional agenda for prosperity. We believe that the prosperity of our community originates from the productivity of our members.

This submission has been divided into two sections dealing with the provincial significance of our local economy and recommendations for economic prosperity in Waterloo Region and Ontario.

1. *Waterloo Region: An Economic Profile*

This section highlights the contribution our local economy makes to national and provincial prosperity. Our growing population base, economic diversity, and the attractiveness of our region to international investment are important factors to consider within the enclosed recommendations.

2. *Recommendations for Economic Prosperity*

As the current provincial government commences a new mandate following the October 2007 election, we have proposed a series of recommendations that are critical for sustained economic growth and prosperity throughout Waterloo Region. Our priority portfolios for 2008 include physician recruitment, human capital development, infrastructure, and the delivery of municipal services.

Section 1: Waterloo Region: An Economic Profile

The Waterloo Region is one of the largest Census Metropolitan Areas (CMA) in Canada with a population of approximately 500,000 projected to grow to more than 729,000 within the next 25 years. Our labour force is now estimated at more than 265,000. The region is ranked as the tenth largest urban area in the country and fourth largest in the province of Ontario.

We are well positioned as an international centre of excellence originating from our universities, high-profile companies, and significant technological advancements. The Intelligent Community Forum (ICF) named the City of Waterloo as recipient of the 2007 Intelligent Community of the Year award.

Recognized as one of the pre-eminent technology centres in Canada, our region boasts close to 500 technology companies that employ more than 30,000 people. Key firms include Research In Motion, Com Dev International, Open Text, DALSA Corporation, Desire2Learn, ATS Automation Tooling Systems, and Sandvine Incorporated.

Not only a high-tech centre, Waterloo Region has developed a diversified economy, home to such international “think tanks” as the Perimeter Institute for Theoretical Physics and The Centre for International Governance Innovation, Conestoga College, the University of Waterloo, and Wilfrid Laurier University. The head offices of Manulife Financial, Equitable Life Insurance, The Economical Insurance Group and other important firms make our region an insurance and financial services centre. We are home to Toyota and 450 automotive/transportation related companies. Food manufacturing, including Schneiders, Piller’s and Dare Foods, is also a key industrial sector.

Through Oktoberfest, along with the Elmira Maple Syrup Festival and its many community events, Waterloo Region’s tourism sector is also very vibrant. St. Jacobs Country, one of Ontario’s finest destinations, welcomes more than three million visitors each year.

Waterloo Region plays an important role in fuelling the Canadian economy. With a regional Gross Domestic Product of \$21.5 billion, our productivity is a key contributor to provincial and national prosperity.

Section 2: Recommendations for Economic Prosperity

Fiscal Measures

Ontarians deserve a tax system that is simple, efficient, and fair. The system should minimize compliance and administrative costs while facilitating job creation and long-term economic growth. The focus for the future must be to reduce our reliance on high-cost sources of government revenue such as profit taxes that undermine sustained economic growth.

Cuts in corporate taxes allow businesses to lower prices for their goods and services, increase wages paid to workers, hire more employees, or increase dividends paid to shareholders for the benefit of many Canadians, including those who own corporate equity through pension plans, RRSPs and mutual funds.

Our 2007 pre-budget submission to this Committee focused on the local manufacturing sector and advanced proposals for increasing competitiveness and productivity. Manufacturing remains a vital industry in Waterloo Region as approximately 25 per cent of the local workforce is engaged in this sector, providing Canada’s second-most manufacturing intensive economy after Windsor, Ontario.

A report issued by Canada’s Technology Triangle (CTT)¹ noted that the value added by local manufacturing totalled \$7.2 billion in 2003. Value added in this context is a measure of worker generated productivity utilizing the land and capital employed in production, including wages and return from capital/equipment.

The total value of shipments in 2003 was \$16.9 billion, while the sector was comprised of 1,175 establishments employing 48,092 production workers and 15, 014 administrative staff. In total, \$3.1 billion in salaries and wages were paid to these employees, while \$9.4 billion was spent on material and supplies.

¹ *Manufacturing Industry Characteristics*. Canada’s Technology Triangle, July 2006

Despite the relative strength and importance of the Waterloo Region manufacturing sector, owners are facing a series of issues in their operations on a daily basis, including increased competition from abroad and a rising Canadian dollar. In response, our Chamber has established the Manufacturing Action Group Network, or MAGNet, to advance sector concerns. The group has proposed a series of recommendations to all levels of government which, if implemented, will maintain a viable industry in Waterloo Region.

Our January 2007 submission recommended the immediate elimination of the Ontario Capital Tax to expand investment and job creation within the manufacturing sector. Therefore, we are strongly supportive of the proposed January 1, 2008 elimination of the Capital Tax for the manufacturing and resource sectors as outlined in the Ontario Economic Outlook and Fiscal Review presented on December 13, 2007. We also commend Minister Duncan for a commitment to cut the Capital Tax rate for all businesses by 21 per cent retroactive to January 1, 2007.

We support the recommendation advanced by the Canadian Manufacturers & Exporters (CME) Ontario Division in their submission to this Committee on January 21, 2008, that the general tax rate on businesses be reduced to 8 per cent. This measure will provide a more competitive corporate tax structure, particularly with American jurisdictions, and allow more financial resources for investment in training and research.

In our Chamber's submission before the House of Commons Standing Committee on Finance in December of 2007, we recommended that the Federal Minister of Finance extend, in his 2008 Budget, the Accelerated Capital Cost Allowance provision beyond the current two-year time frame. We are therefore supportive of the Ontario government's position, as stated in the Economic Outlook and Fiscal Review from last December, to urge the federal government to "quickly commit to extend this incentive for three more years to 2012."

Our Chamber has long recognized that Canadians are relatively overtaxed and the recent Economic Outlook provides significant measures to address current conditions in an aggressive manner. These measures are particularly critical as global pressures intensify and focus on international tax competitiveness.

Recommendation:

1. As proposed by the Canadian Manufacturers & Exporters, the general corporate tax rate should be reduced to 8 per cent for Ontario businesses.

Physician Recruitment

An increasing number of Waterloo Region residents do not have access to a family physician. The doctor shortage is not only a serious community concern for all citizens, it is also an economic issue impacting the business sector. Human resource officials inform us that the local presence of family doctors is critical for attracting and hiring new staff. Operations managers note that time-off required for workers to wait in clinics or emergency wards is negatively impacting productivity.

A recent news release from the Ontario Medical Association (OMA)² notes that a province-wide shortage of 2,000 doctors has left one million adults and 130,000 children without access to a family physician. In addition to this deficit, 19 per cent of practising physicians are over the age of 60 and 11 per cent are over the age of 65, leading to the imminent loss of an additional 2,500 practitioners to retirement.

The latest survey of Ontario doctors conducted by the College of Physicians and Surgeons of Ontario (CPSO)³ noted that in 2006, the number of family doctors accepting new patients dropped to 9.6 per cent, down from 39 per cent seven years earlier.

In Waterloo Region, the number of physicians (family doctors and specialists) per 100,000 residents was 128 (2004). This represents 73 per cent of the provincial average of 176 physicians per 100,000 (2005).⁴ Generally, the number of new physicians has fallen behind the Region's population growth of 8.9 per cent over the last five years. In total, Waterloo Region has approximately 600 doctors responsible for the primary health care requirements of 500,000 residents. The on-going shortage has caused an increasing number of clients to depend on walk-in clinics, hospital emergency departments, or avoid seeking any medical attention.

The Underserved Area Program (UAP) of the Ministry of Health and Long-Term Care (MOHLTC) was established in 1969 in response to a need for more health professionals in Northern Ontario. The initiative has gradually expanded to address health care human resources in southern Ontario. A variety of components, including financial incentives, are offered to providers agreeing to locate in underserved areas.

After re-acquiring an underserved area designation in September of 2006, Kitchener Waterloo again lost the status this past spring, significantly placing our community at a disadvantage in terms of financial incentives offered to potential new physicians. Local estimates indicate that 30,000 residents do not have access to a family doctor, translating to a requirement for 22 new practitioners.

Several communities across Ontario, particularly those where teaching facilities are located, are disadvantaged due to an antiquated and inaccurate mechanism for calculating the family doctor to population ratio now established by the province at 1:1380 – or one family doctor for every one thousand, three hundred and eighty people in a community. This standard fails to consider that some municipalities are regional health centres and have assumed the responsibility for the provision of health care services beyond their local population.

Specialty services such as a regional cancer centre or children's hospital require large physician staff complements who are not practicing family medicine. These individuals are considered as specialists and included in aggregate totals for calculations on underserved area designations. Furthermore, provincial standards fail to recognize that while teaching hospitals have doctors on

² *Fixing Doctor Shortage Must Be Top Priority for Provincial Government.* Ontario Medical Association News Release, October 11, 2007

³ *Record number of doctors licensed by College in 2006.* The College of Physicians and Surgeons of Ontario News Release, March 29, 2007

⁴ *Waterloo Region's Vital Signs.* Kitchener and Waterloo Community Foundation and Cambridge and North Dumfries Community Foundation, October 2007

duty, they are not practicing primary care family medicine. Their focus is on specialty or teaching roles in relation to tertiary care facilities.

While some indicators are showing progress, the chronic shortage of family physicians will not disappear in the short term. The provincial government must continue to accelerate efforts to graduate more doctors, retain physicians currently in practice, and repatriate those who have left for the United States and other jurisdictions.

In the short term the Ministry of Health and Long-Term Care can correct the inequitable situation that exists between those communities that are designated as underserved and those that are not. Communities that are designated as underserved carry a significant advantage over those who do not from both a health care and economic development perspective.

In Waterloo Region, the shortage of health care professionals extends beyond physicians. A recent report from the Waterloo Wellington Training and Adjustment Board (WWTAB) indicated that at least 1,893 new health care workers will be required across Waterloo Region and Wellington County from 2008 to 2012. The potential shortage is the result of retirees and local population growth. In the period from 2013 to 2017, approximately 2845 additional workers will be necessary, including 1,421 new nurses and 701 personal support staff.⁵

Recommendation:

The Greater Kitchener Waterloo Chamber of Commerce recommends that the provincial government initiate an extensive and wide-ranging review of the Underserved Area Program, encompassing consultations with impacted stakeholders from across Ontario. As an immediate interim measure to address current inequities, we propose that the Ministry of Health and Long-Term Care:

1. Re-calibrate the formula used to determine underserved area designations while maintaining the current ratio of one doctor to every thirteen hundred and eighty residents (1:1380);
2. In calculating the number of doctors in any given community, exclude doctors who are fully employed in a teaching capacity with universities or colleges as they are not available for service as a family physician;
3. Similarly, specialists in areas such as cancer research, children's hospitals, transplant programs, pediatrics, anaesthesia, radiology and nuclear medicines, surgery, orthopaedic surgery, internal medicine, neurology, emergency, psychiatry, palliative, Ob/Gyn, and doctors working in regional health units, WSIB, regional coroners offices, dentists, Extendicare, ear clinics, and retirees should also be excluded as they are not available for family practice;
4. The most current population statistics must be utilized in determining physician/population ratios.

⁵ *Demand for Healthcare Workers in Waterloo Wellington 2008 to 2017*. Larry Smith, Essential Economics Corporation, January 2008. Compiled for the Waterloo Wellington Training and Adjustment Board.

Investment in Human Capital

The Task Force on Competitiveness, Productivity and Economic Progress report *Path to the 2020 Prosperity Agenda* notes that Ontarians are not investing adequately for their future prosperity. The Task Force notes that “we continue to urge business leaders to invest more in productivity enhancing equipment and technology. And we reinforce our call for more investment in people’s education and skills.”⁶

These observations have been supported by series of reports which note a looming shortage of skilled workers and the need to better coordinate and utilize existing resources, particularly related to the immigrant workforce.

In October of 2006, the Ontario Chamber of Commerce released a report *Retooling for a Prosperous Ontario: A Global Perspective on Skilled Trades*. This study noted that over the next fifteen years, Ontario will face a shortage of about 100,000 skilled trades workers in the manufacturing sector alone.⁷

The Conference Board of Canada’s report *Ontario’s Looming Labour Shortage Challenges*, released on September 25, 2007, estimates that by 2020, Ontario could face a total shortfall of 190,000 workers, increasing to 364,000 in 2025 and 564,000 by 2030. The report suggests that that one way in which Ontario can relieve these pressures is to continue to implement strategies that develop skills and encourage higher labour force participation, especially by underrepresented populations within the province.

The Conference Board further notes that “immigrants are not yet able to make their full contribution to the workforce. Given the 5-10 years required for immigrants to be employed in positions commensurate with their foreign experience or qualifications, immigrants are functionally inhibited from participating in Ontario’s economy at an appropriate level. Immigrants are generally underemployed.”⁸

A report issued by Region of Waterloo Public Health noted that the local unemployment rate for recent immigrants was nearly 14 per cent, compared to 5 per cent for Canadian-born residents.⁹ In a 2003 survey of 198 recent immigrants across Waterloo Region conducted by the Centre for Research and Education in Human Services, over half were highly educated in professions needed locally but were unable to find employment due to issues in transferring credentials or lack of Canadian experience.

In response to these issues, our region is establishing a leadership position on integrating immigrants into the local workforce. The Waterloo Region Immigrant Employment Network, or WRIEN, was formally launched in June of 2006. The organization is composed of a steering

⁶ *Path to the 2020 Prosperity Agenda*. Task Force on Competitiveness, Productivity and Economic Progress. The Institute for Competitiveness & Prosperity, November 2007

⁷ *Retooling for a Prosperous Ontario: A Global Perspective on Skilled Trades*. Ontario Chamber of Commerce, October 2006

⁸ *Ontario’s Looming Labour Shortage Challenges. Projections of Labour Shortages in Ontario, and Possible Strategies to Engage Unused and Underutilized Human Resources*. Conference Board of Canada, September 25, 2007

⁹ *Immigrants and Growth: A Look at Health and Employment in Waterloo Region*. Region of Waterloo Public Health, September 2006

committee and five working groups that provide a forum for local strategies to help ensure that the skills of immigrants are more optimally used to benefit immigrants and their families, our economy, and community as a whole.

To address on-going worker shortages and training gaps in Waterloo Region, Conestoga College Institute of Technology and Advanced Learning has drafted an expansion proposal that includes a new technology campus to be constructed in Cambridge, Ontario.

Conestoga College is undersized for its community and catchment area, and could easily double in size from 7,000 to 12,000 full-time students and from 3,000 to 4,500 apprenticeships. The increased capacity at Conestoga will provide skills training and career services for new graduates, immigrants, and displaced manufacturing sector workers. Significant training opportunities will be provided for the existing workforce, including skills-based programs in technology and business. The plan also proposes 1,000 new apprenticeship spaces in transportation, construction, culinary, and industrial trades; and expansion of the current health care training capacity.

Recommendation

1. The Greater Kitchener Waterloo Chamber of Commerce strongly supports the proposed expansion of Conestoga College. The plan developed by the College focuses on the training and skills requirements of the local business community, and we seek a provincial financial commitment for this important initiative.

Support for Tourism

According to a recent report issued by the Conference Board of Canada,¹⁰ the outlook for U.S. travel to Canada remains weak, largely due to the escalation of the Canadian dollar. The slowdown of the American economy is eroding consumer confidence and travel sentiment. Therefore, the Conference Board expects U.S. travel to Canada to decline by another 1.9 per cent during the first quarter of 2008 compared with the previous year.

Our Chamber strongly supports the provincial commitment, outlined in the 2007 Ontario Economic Outlook and Fiscal Review, of an additional \$30 million to extend the Travel Ontario campaign and promote economy-boosting cultural festivals. As noted by the Ontario Restaurant Hotel & Motel Association, the industry has been hit hard by a series of events that have resulted in continuously declining American tourism including the SARS crisis, the National Hockey League lockout, escalating gas prices, restrictive border security, and the current inflated Canadian dollar.¹¹ Continued marketing and promotional support across this sector is urgently required.

¹⁰ *Domestic, U.S. and Overseas Travel to Canada: Short-Term Markets Outlook First Quarter 2008*. Conference Board of Canada. December 2007. Prepared for the Canadian Tourism Commission.

¹¹ *ORHMA Applauds Provincial Government Funding for Tourism*. Ontario Restaurant Hotel & Motel Association Press Release, December 20, 2007

Addressing the Infrastructure Deficit – Municipal / Provincial Funding Gap

As Ontario municipalities finalize their budgets for the upcoming year, there is no question that fiscal pressures and responsibilities are reaching unprecedented levels. The combination of deteriorating infrastructure, inflated mandates for program delivery, and shifting demographics have stretched municipal finances to their limits and beyond.

Our Chamber, and business organizations across Ontario, view the current municipal fiscal relationship with the provincial and federal levels of government as unsustainable and ineffective for meeting local priorities, particularly in relation to infrastructure development. Immediate changes are required to ensure opportunities are not lost and municipalities are capable of reaching their economic potential.

In November 2007, at the annual Ontario Chamber of Commerce Ontario Economic Summit, approximately 91 per cent of business leaders surveyed indicated that infrastructure was the most critical current issue to be addressed, with roads and transportation as the most important element (41%). Respondents overwhelmingly (80%) believe infrastructure issues will become increasingly important for the provincial economy in the future and more than half (57%) consider the issue the responsibility of the public sector.¹²

A recent report issued by the Federation of Canadian Municipalities (FCM) highlights the significant infrastructure “deficit” across Canada. The report *Danger Ahead: The Coming Collapse of Canada’s Municipal Infrastructure*¹³ notes that the cost of repairing existing structures above current funding commitments is \$123 billion, an estimate which does not incorporate new infrastructure required to meet the demands of growing urban populations. In areas such as Waterloo Region, where it is anticipated that 729,000 people will reside by 2031, the infrastructure portfolio and the completion of new projects is critically important.

This report and a similar analysis of bridges issued by the Residential and Civil Construction Alliance of Ontario (RCCAO)¹⁴, noted that a significantly high proportion of infrastructure was constructed during the period from 1950 to the 1970s and currently requires major reconstruction or replacement.

The FCM study concluded that if Canada is to prosper, municipal infrastructure investments must support the economic potential of our cities and communities. For this to happen, financing must reflect the long-term nature of infrastructure investments, which will require a long-term strategy with agreed-upon priorities. This plan must bring long-term certainty to infrastructure funding, which will promote new efficiencies, technologies, and best practices in delivery.

To address the on-going municipal fiscal imbalance in Ontario and across Canada, the FCM, through their Big City Mayor’s’ Caucus, has proposed that the Government of Canada share the equivalent of one cent of GST revenues. This initiative would result in an additional \$5 billion to support municipalities in upgrading declining infrastructure and program delivery. Under a

¹² *Ontario Economic Leaders Say Infrastructure Deficit Can’t Wait: Survey*. Ontario Chamber of Commerce News Release, November 12, 2007

¹³ *Danger Ahead; The Coming Collapse of Canada’s Municipal Infrastructure*. A report for the Federation of Canadian Municipalities, November 2007

¹⁴ *Ontario’s Bridges-Bridging the Gap*. Residential and Civil Construction Alliance of Ontario, November 2007

distribution formula proposed in *Sharing the Wealth for a Strong and Prosperous Canada*¹⁵, the eight municipal governments in Waterloo Region would receive approximately \$76 million annually, encompassing \$16 million to the City of Kitchener and \$38 million to the Region of Waterloo.

Under the current legislative and regulatory regime, Ontario municipalities are generally restricted in their ability to raise revenues to support their often massive operations and responsibilities. Their primary sources of revenue are property taxes and user fees in areas such as sewer and water rates.

The Waterloo Region business community is disproportionately impacted by the current dependency of municipalities on property taxes. In 2007, industrial property taxpayers paid approximately 2.45 times the rate of residential owners. Combined with a rising Canadian dollar, increased foreign competition, and declining American demand, the local business sector cannot absorb any additional costs at this time.

In 2006, the provincial government passed the new City of Toronto Act, which provided the municipality with authority to levy taxes and fees in areas such as vehicle registrations, land transfers, and parking. Our Chamber contends that expanding municipal taxation powers is not the solution to the current municipal fiscal deficit. Additional charges on businesses will not enhance competitiveness and provide an attractive location for new investments. Therefore, we strongly oppose extending these provisions to other municipalities across Ontario.

As municipalities, and increasingly the provincial business sector, have lobbied for a public review of the provincial-municipal service delivery structure, our Chamber commends the implementation of *The Provincial-Municipal Fiscal and Service Delivery Review* as an imperative first step in addressing the current unsustainable arrangement. We anticipate that initiatives originating from this review process will be moving forward in 2008.

Recommendations:

The Greater Kitchener Waterloo Chamber of Commerce recommends that the provincial government:

1. Ensure that, following the completion of *The Provincial-Municipal Fiscal and Service Delivery Review*, all relevant legislation and regulations are enacted within the following twelve months;
2. Do not grant additional municipalities broader powers of taxation similar to the provisions of the 2006 City of Toronto Act.

Conclusion

The Waterloo Region makes a strong contribution to Ontario's economy. Growth in its economic performance over the past decade has led the nation and it is now one of the pre-eminent technology centres in Canada. The strength and diversity of this region can play an even larger role in improving Ontario's economy with specific and strategic government initiatives.

¹⁵ *Sharing the Wealth for a Strong and Prosperous Canada: A Proposal to the Government of Canada for Sharing Revenues with Canada's Big Cities*. Federation of Canadian Municipalities Big City Mayors' Caucus, May 2007

Our Chamber is encouraged by the support provided from the province to the local business sector through the recent elimination of the Capital Tax for manufacturers, increased funding for the tourism industry, and cuts to Business Education Tax rates in the 2007 Ontario Budget. As we move forward, investments in human capital development and municipal infrastructure are critical for maintaining sustained economic growth and productivity.

Productivity growth promotes prosperity and allows centres such as the Waterloo Region to thrive and become more globally competitive. With the inherent economic challenges of new markets, businesses require a strong government partner for ensuring stability and profitability. We appreciate the opportunity to advance our recommendations.