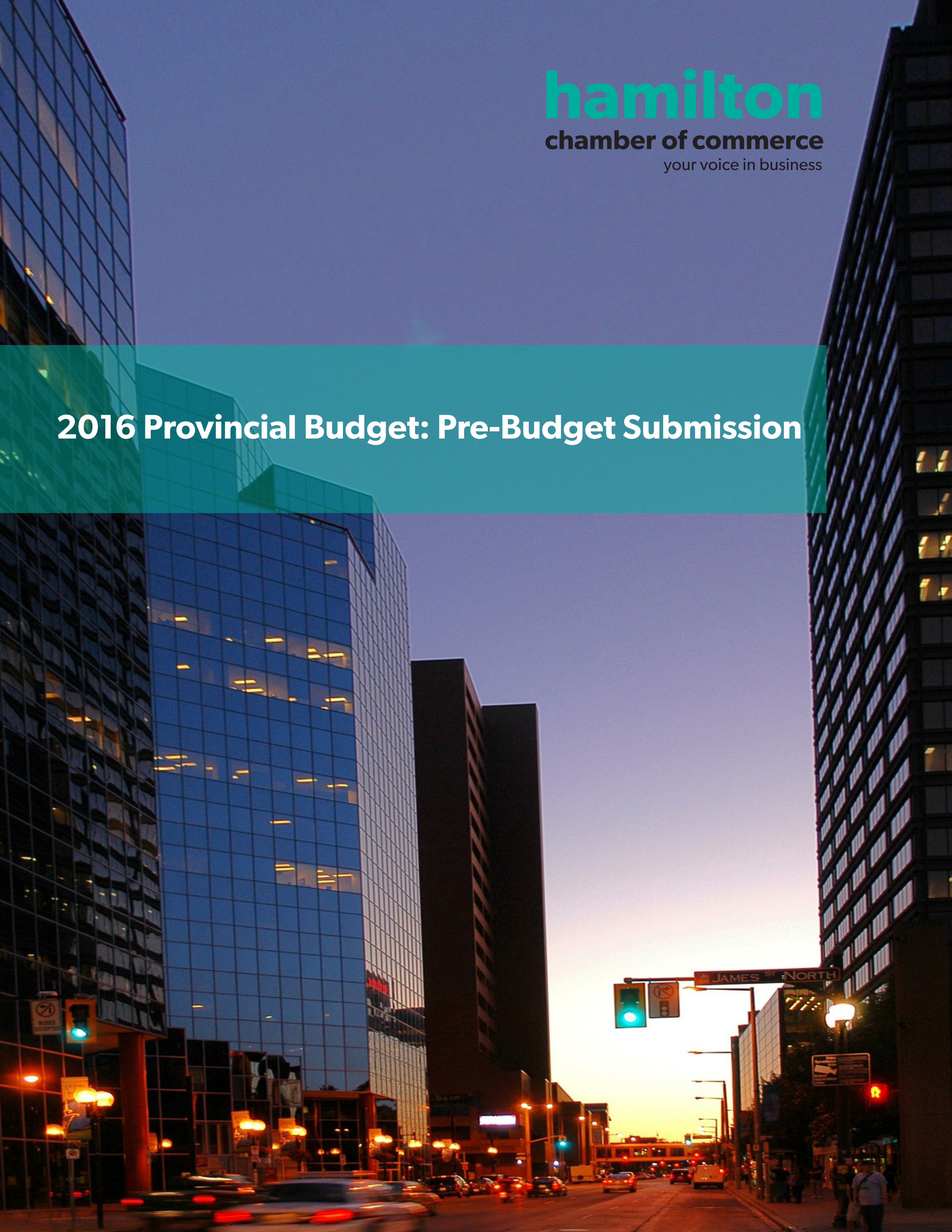
hamilton
chamber of commerce
your voice in business

2016 Provincial Budget: Pre-Budget Submission



TO:

The Honourable Charles Sousa
Minister of Finance
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SUBMITTED BY:

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ABOUT US:

Established in 1845, the Hamilton Chamber of Commerce is the definitive "Voice of Hamilton Business". Representing over 1000 members and 75,000 employees, it champions the interests of free enterprise by effectively engaging business, community, and government leaders in the promotion of the long-term economic prosperity of our region.

INTRODUCTION & OVERVIEW

I would like to thank the Ontario Ministry of Finance for inviting our pre-budget recommendations as part of the 2016 Provincial Budget process.

As President & CEO of the Hamilton Chamber of Commerce, I have the privilege of speaking for our 1,000+ members that employ over 75,000 people in this community.

Created in 1845, and this year celebrating our 171st anniversary, the Hamilton Chamber of Commerce is Hamilton's first institution, launched by this City's Founding Fathers to provide leadership in city-building.

And what a great city they built! Throughout our history, Hamilton has been one of Canada's preeminent economic and innovation engines, and a great city to live in.

We are in the midst of a rust-belt renaissance; with our inferiority complex behind us, we are proud to co-anchor the Greater Toronto Hamilton area, one of the world's strongest economic regions.

The provincial government and its various legislative instruments and funding programs have and will continue to be an integral part of our local economy. Our members are particularly appreciative of the Ontario government's support and belief in our city's renewal through its funding of the B-Line LRT project in Budget 2015.

Understanding the needs of our members, and informed by the leadership we provide locally, provincially (in conjunction with the Ontario Chamber of Commerce) and federally (with the Canadian Chamber of Commerce), we have highlighted a series of recommendations we urge the provincial government to prioritize in the 2016 budget.

We believe that these recommendations align well with the priorities of your government and that of the new federal government.

We look forward to continuing our dialogue with your government.

Sincerely,

Keanin Loomis
President & CEO
Hamilton Chamber of Commerce

Developing a National Urban Policy

In our increasingly globalized economy, cities and city-regions are increasingly the most prominent economic drivers of national economies, and they compete internationally. Cities in Canada house over 80% of our population and continue to grow rapidly due to immigration and continued urbanization within Canada. For example, by 2041, the Greater Toronto and Hamilton Area (GTHA) is expected to grow by 3.3 million people to over 9.6 million, an increase of nearly 50% in both cases. However Canadian cities are managed locally with sparse fiscal support from other levels of government. Modern infrastructure, notably rapid and predictable public transit and transportation (locally within cities and connecting cities within city-regions), and utilities, are essential to the efficient movement of people (employees) and commercial traffic, and to productivity.

The Greater Toronto and Hamilton area, in particular, has a growing infrastructure gap relative to many international competitors, even as our cities are mandated to achieve aggressive targets under the provincial Growth Plan for the Greater Golden Horseshoe. The City of Hamilton is facing a public infrastructure backlog of over $3.3 billion and growing. Our hospitals and educational institutions are also suffering from similar predicaments.

Recommendation One: In conjunction with the Federal Government, the Province of Ontario is encouraged to develop a dedicated urban policy. The policy should, in particular, have a plan for public infrastructure renewal in cities.

Supporting Hamilton-Burlington Bay Area as a Goods Movement Hub

The City of Hamilton has emerged as a regional multimodal goods movement hub. The transportation system in the Hamilton - Burlington Bay Area is crucial to the economic well-being of Ontario and to the country as a whole.

Hamilton is also conveniently located near major economic clusters on the eastern seaboard of the United States. Our port acts as a major terminus of the St. Lawrence Seaway system and the Hamilton International Airport is already a major cargo hub. Additionally, our community has significant other assets and a history of world-class manufacturing industries. Coupled with two renowned post-secondary institutions, we have the ingredients to emerge as an advanced manufacturing hub in North America.

According to a report from the Brookings Institute titled “Metros as Hubs of Advanced Industries and Integrated Goods Trade”, metropolitan areas within North America generate an overwhelming 86 percent of the combined GDP of Canada, Mexico, and the United States. They are an especially concentrated host of advanced manufacturing industries in the automotive, aerospace, agri-food, clean technology, pharmaceutical, and electronic industries. It is also estimated that over three-quarters of North American trade in advanced manufacturing occurs between metropolitan areas.

However, an infrastructure backlog and unfunded projects are throttling our potential. A 2015 Toronto Board of Trade report states that congestion costs in the Greater Toronto and Hamilton area could reach $15 billion annually if action is not taken to address it. In particular, our goods movement trips are choked on the 400 series highways and the Queen Elizabeth way. While upgrading these will be a major financial undertaking, our region has also identified a series of smaller projects that can alleviate throttling in the network.

For example, intersected by Highway 6, the Village of Morriston is host to a major bottleneck in the centre of a major transportation and trade corridor, impeding the movement of people and goods between Wellington County, Hamilton, Guelph, GTA and the United States. According to research estimates, by 2031, with the implementation of a bypass, the annual value of commuter and commercial time saved during peak periods is valued at over $30 million. A coalition of regional businesses, chambers, and municipalities have been actively advocating for the funding of this project with provincial and federal officials.

The efficient movement of goods and people, within Ontario and into the U.S. directly, affects business outcomes and impacts Ontario’s ability to compete with other jurisdictions.

Recommendation Two: The provincial government should fund (with or without the federal government) a proposed highway bypass near the Village of Morriston, connecting Highway 6 to Highway 401.

Recommendation Three: The provincial and federal governments must work to develop a coordinated infrastructure investment strategy that prioritizes investment in trade-enabling infrastructure.

Developing a Long-Range Transportation Plan for the Province of Ontario

Ontario's various regions do not exist in isolation. Regions and economic clusters throughout the province are unique and are interconnected. For example, in the auto manufacturing cluster in Southern Ontario, there may be steel parts sourced from plants in Hamilton, Sarnia or Pittsburgh, with electrical components manufactured in Toronto and final assembly occurring in Windsor or Markham with eventual shipping to markets across Canada and the Northeastern United States. Facilitating the efficient movement of these goods between regions is critical for economic sustainability, increased investment and economic growth. The need is made more urgent by the increasing value of trade across the North American advanced manufacturing value chain.

To help facilitate the movement of goods and people, transportation planning at the local, regional and provincial levels is critical. At the present time, Ontario does not have a province-wide transportation plan, and current regional plans do not adequately address the inter-regional movement of goods and people.

A province-wide Long Range Transportation Plan (LRTP) is needed to address the movement of goods and people between regions and across borders. We believe a province-wide LRTP will contribute to employment and economic growth by:

- Improving linkages between transportation modes and between freight hubs, which make up over 70% of goods traded in Ontario;
- Enabling the province to effectively develop and implement policies that improve and better utilize Ontario's extensive network of road, rail, marine and airport facilities; and
- Placing Ontario on a level playing field with competing U.S. jurisdictions, enhance the ability of businesses in Ontario to latch onto North American manufacturing value chains.

Recommendation Four: The Province of Ontario should develop a 30-50 year long range transportation plan by 2018. Through stakeholder consultations, the plan should map out short, medium and long-term planning and investment objectives for the province. The plan should also work in conjunction with the infrastructure investment ambitions of the Federal Government.

Mitigating Regulatory Burden on Ontario's businesses

Businesses in Ontario are increasingly under pressure to absorb new and higher regulatory costs.

As a principle, our organization is committed to working alongside government throughout the policy process to develop regulations that are both responsive to the public interest and contribute to the economic competitiveness of the province and the bottom line of our membership.

However, the ongoing rise in the "cost of doing business" will put Ontario businesses at a disadvantage relative to their counterparts in other provinces and around the world.

In collaboration with the Ontario Chamber of Commerce, we have held multiple consultative processes with our members who have shared a concern about the cumulative impact of the rising cost of electricity, labour regulations and the upcoming cap - and - trade and ORPP implementations.

Recommendation Five: The government adopt the 'better regulation' approach like that recently implemented by the European Commission to ensure more targeted, quantitative and inclusive decision-making in Ontario.

Support the Growth of Hamilton's Life Science Innovation Cluster

Economic development based on targeted knowledge cluster funding within cities and regions is an important policy tool to enhancing Canada's economic future. The Province of Ontario should increase its investment in regional innovation centres and post-secondary institutions to create ecosystems around areas of regional strength. The province must also continue to provide funding for targeted infrastructure programs and venture capital grants to help accelerate development of such clusters.

Clusters by definition are geographic concentrations of interconnected companies, specialized suppliers, service providers, and associated institutions in a particular field that are present in a nation or region. They emerge from regions that have achieved critical mass in a particular area of expertise and are often anchored by strong research universities, industrial laboratories and/or entrepreneurial companies with human capital to match.

In Hamilton, the Chamber, City of Hamilton and other stakeholders have been actively working on supporting cluster development in a variety of sectors. We believe that our life sciences sector, in particular, has tremendous potential. In 2014, the Hamilton Chamber of Commerce released a report titled "Building a Life Sciences Cluster: A Case for Hamilton". The report documents Hamilton's broad strengths and assets in life sciences and looks at other regions around the world that have become economic powerhouses by successfully creating industry clusters.

We have been actively working as a community to achieve alignment between our educational institutions, hospitals and the private sector. However, the success of a cluster is also dependent on adequate investment into infrastructure and research and development funding.

Recommendation Six: As part of its ongoing cluster development strategy, the Province of Ontario would be wise to invest in the potential of Hamilton's life science cluster through targeted funding for:

1. **Physical and organizational infrastructure;**
2. **Research and development funding for our post-secondary institutions**
3. **Support for commercialization and investment attraction for start-up companies in the life sciences sector.**

Optimizing the Ontario Retirement Pension Plan (ORPP)

On January 26th, 2016, the province of Ontario announced the finalized details for the ORPP. Our Chamber, as part of the Ontario Chamber of Commerce network, has been actively engaged in the ORPP discussion over the last year, providing membership feedback and policy recommendations at every available opportunity.

To start off, we appreciate the willingness of the government to consider the feedback of the Ontario Chamber of Commerce. We applaud the concession of expanding the comparability rules based on OCC advocacy. For those employers who offer a Defined Contribution (DC) or Defined Benefit (DB) plan that is now considered comparable, the announcement will ensure their employees can continue to benefit from their plan.

While this is an important concession, we hope we can continue working together to optimize the ORPP legislation that balances our support for workers in Ontario and the increasing regulatory burden on businesses.

According to feedback collected through the Ontario Chamber network, employers are unable to determine whether they will have to participate in the ORPP, which implementation wave would apply to them, or whether they will have to update their current compensation and retirement savings plans. In addition, there has been no indication from the government as to when employers would receive this information.

Recommendation Seven: Province of Ontario should continue to engage employers through 2017 and delay Wave 1 implementation until 2018

While the government's cost-benefit analysis concluded that in the long-term, the ORPP will have a moderately positive impact on Ontario's economy, it also predicts a negative effect on the economy over the first twenty years of the plan's lifespan. At its height, real household spending is projected to decline to $2.9 billion below the base scenario, resulting in an annual GDP loss of $2.3 billion by 2023.

Recommendation Eight: Evaluate the full breadth of regulatory burden in Ontario and provide businesses targeted relief (e.g.: efforts to combat rising electricity costs, targeted tax relief, regional economic development funds and expanded support for businesses looking to export globally).

Recommendation Nine: The Province of Ontario must work toward implementing an expanded Canada Pension Plan with the federal government and the other provinces.

Mitigating the impact of the US Steel Bankruptcy Process

Stelco, a long time anchor employer in the City of Hamilton, was purchased by US Steel (USSC) in 2007 after approval by the Government of Canada under the Investment Canada Act. Federal approval was secured through a mutual agreement of over 31 items, including provisions aimed at protecting local jobs and employee pension fund solvency. Over the next few years the business suffered through several economic downturns, applying for creditor protection in September 2014.

A City of Hamilton analysis in 2015 uncovered some of the detrimental impacts to the local economy. Amongst the US Steel list of creditors (trade payables), there were 127 companies with business addresses in the City of Hamilton, and they are collectively owed a total of $22.3 million. The businesses affected in Hamilton will potentially be receiving fractional value under receivership settlements. While there will be an obvious negative impact from that, it is largely unavoidable under a bankruptcy process.

However, what will have even greater impacts to our local economy will be the challenges facing USSC pensioners and ex-employees. There are an estimated 7,050 USSC pensioners with Hamilton mailing addresses according to

City of Hamilton analysis. As of October 2015, reports claim that USSC has also suspended health benefits, which will have an additional impact on our residents.

Those people cannot absorb this impact like our businesses likely will. The previously projected total income loss (and associated expenditure reduction) for USSC pensioners living in Hamilton is over $28 million prior to any support from the Pension Benefits Guarantee Fund (PBGF) and would be projected to be over $8.7 million if the PBGF applied. Additionally, pensioners are also expected to lose $43 million in retirement health benefits. It is expected that these projected totals will rise based on the latest legal filings by USSC concerning its debt.

While the bankruptcy of USSC will have various negative impacts on our local economy, one silver lining is the availability of soon-to-be vacant portions of land from the 328-hectare estate of US Steel in a prime waterfront location.

Despite the heavy contamination of the brownfields, there is potential for the lands to be adapted into greenhouses, warehouses, advanced manufacturing, parks and hotels. Fueling our optimism are examples from former rust belt cities in the United States like Pittsburgh, where financial collaboration amongst all three levels of government generated significant revitalization on the former industrial lands. It is also possible for the federal government to support a revitalization of steel production through a potential worker buyout.

We acknowledge efforts by the provincial government over the last year to support the stakeholders in this issue. In particular, the announcement of a transition fund to cover benefit costs till March 2016 and pursuing legal negotiation with USSC to ensure a stable future for the PBGF.

Recommendation Ten: While many aspects of the issue remain in the hands of Canadian courts, we urge the provincial government to:

1. Work with the Federal Government to ensure that USSC pensioners continue to have full access to PBGF in the short and long term;

2. Work with the federal government and municipality to explore all options related to reincorporation or selling of US Steel assets in Hamilton if its bankruptcy is finalized;

3. Explore funding envelopes that will support remediation of US Steel lands towards alternative economic uses.