

Economic Development Highlights of 2017 BC Budget

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Today's BC Budget 2017 contained a variety of relevant initiatives for provincial economic development.

Some of the new funding commitments and policy changes have previously been announced, but all are included in this summary.

Economic Development Funding

Several key programs that provide funding support for economic development projects in BC communities have received additional support or had original support continued.

- **\$10 million in new funding for Island Coastal Economic Trust**, which provides funding assistance and supports regional economic collaboration for central and north Vancouver Island and south coast north of Greater Vancouver.
- **Continuation of the annual \$25 million in funding for the Rural Dividend Program**, to 2019/20.
- **Increased funding for international trade offices in Southeast Asia**. An additional \$2 million per year for the next three years is committed to support offices in Jakarta, Manila and Johor Bahru in Malaysia.

Business Competitiveness

Initiatives aimed at improving the competitive environment for businesses include:

- **Reduction, and eventual elimination, of the Provincial Sales Tax (PST) on business electricity purchases**. Residential and farm customers are already exempt from the PST on electricity, but the rate for business customers will be reduced to 3.5% from the current 7% effective Oct. 1, 2017. It will be fully eliminated on April 1, 2019.

The PST issue was identified by the Commission on Tax Competitiveness (announced in last year's budget) as a competitive disadvantage for BC companies relative to other jurisdictions in North America, none of which have an equivalent tax. The benefit will be substantial for certain energy-intensive industries like mining and some types of manufacturing.

PST payments by sector in the 2015-16 fiscal year were \$46 million by the manufacturing sector, \$21 million by primary industry (forestry, mining, etc.), \$21 million by wholesale and retail businesses and \$11 million by the accommodation and food services sector. The public sector will also benefit from the exemption, including municipalities, hospitals and schools.

- **Reduced small business taxes.** The small business corporate income tax rate will fall from 2.5% to 2.0%.
- Various tax credits for both companies and individuals have been extended, including the Scientific Research and Experimental Development Tax Credit (extended five years to 2022), the BC Mining Flow-Through Share Tax Credit (extended to the end of 2017), training tax credits (extended three years to 2020). The budget for the small business venture capital tax credit is increased to \$38.5 million from \$35 million.

Industry-Specific Initiatives

These initiatives are targeted at supporting specific BC industries.

- **\$87 million for an enhanced technology strategy**, details of which will be announced at the BC TECH Summit on March 14-15.
- **\$2 million per year for the Buy Local program** over the next three years to support local demand for BC agrifoods.
- The **Interactive Digital Media Tax Credit**, worth 17.5% of qualifying BC labour expenses, is extended to companies producing **augmented reality and virtual reality** products. The credit is also now available for companies whose principal business is not interactive digital media products.
- The **Mining Exploration Tax Credit is expanded** to include costs incurred for environmental studies and community consultations.

Regional Infrastructure Investment

Communities need modern infrastructure to accommodate growth and attract investment. Some of the key funding initiatives to support community infrastructure include:

- **\$40 million in additional funding for the Connecting British Columbia program**, which extends high-speed internet access to rural and remote communities. The intent is for this funding to be leveraged by other levels of government and the private sector.
- While perhaps not as directly relevant for economic development, the Province is adding **\$10 million for the New Building Canada Fund: Small Communities Component**, which is a partnership with the federal government to support infrastructure projects in communities with less than 100,000 population. The total allocation for this program is about \$109 million over 10 years.

The following investments are included in the Province's \$2.6 billion in funding for post-secondary infrastructure (many have previously been announced):

- A new Industrial Training and Technology Centre at Thompson Rivers University in Kamloops
- A new Heavy Duty Mechanics building at the College of New Caledonia in Prince George
- A new trades training facility at the Vernon campus of Okanagan College
- Replacement trades facilities at North Island College in Campbell River
- A replacement trades campus at Northern Lights College in Dawson Creek
- Renewed trades facilities at Northwest Community College in Terrace
- Renovated and renewed trades facilities at Selkirk College in Nelson
- Renewed trades facilities at College of the Rockies in Cranbrook
- A new Sustainable Energy and Environmental Engineering building at the Surrey campus of Simon Fraser University

A total of \$4.7 billion has been committed to transportation infrastructure, including highway improvements in several BC communities that will support more safe and efficient goods movement, tourist access and personal travel for local residents. These include:

- Four-laning 3.4 km of Highway 16 to the west of Prince George
- Four-laning 6.3 km of Highway 1 to the west of Salmon Arm
- Six-laning 4.5 km of Highway 97 in Kelowna
- Four-laning 5 km of Highway 1 through the Malahat Village
- A new 7th lane on the Alex Fraser Bridge in the Lower Mainland and new interchange on Highway 91 at 72nd Avenue
- New interchanges on Highway 1 at Admirals Rd. and McKenzie Ave. in Victoria, and at Highway 1 and 216th St. in Langley (as well as six-laning the highway between 202nd St. and the new interchange)
- Okanagan Valley corridor and Cariboo connector programs

Other Items of Interest

The following items may have an indirect connection to economic development, or will be among the main highlights of the budget that will be picked up by the news media.

- **Reduction, and eventual elimination, of Medical Services Plan (MSP) premiums.** Effective Jan. 1, 2018, MSP premiums will be cut in half for residents with a net household income up to \$120,000. This will affect about 2 million British Columbians, in addition to the 2 million who already pay no premiums.

While primarily a personal benefit, it will also reduce payroll expenses for companies that pay MSP for their staff, increasing competitiveness with other Canadian provinces and indirectly supporting employment and wage growth.

- **A 5th consecutive balanced budget.** The third-quarter forecast for the current fiscal year is for a budget surplus of about \$1.5 billion, to be followed by small surpluses in the next three years in the range of \$200-\$300 million. BC maintains the only AAA credit rating among

Canadian provinces (Alberta has recently been downgraded from AAA to AA). This is a significant benefit to the province in minimizing debt servicing costs and maintaining fiscal flexibility moving forward.

The Province's "operating debt," which was accumulated from past annual budget deficits, is on course to be eliminated early in the 2020s. The "infrastructure debt," which is accounted for separately and represents the investments in major capital projects, will rise by about \$10 billion over the next three years. This is due to the large investments that are planned across various infrastructure categories in recent and coming years.

The debt-to-GDP ratio is currently about 16% in BC and is on track to remain the same over the next three years.

- **Uncertainty regarding softwood lumber.** The current budget and three-year fiscal plan contains no explicit assumptions about duties or other trade actions that may be imposed by the US government on softwood lumber exports. The Province supports a negotiated settlement by the two national governments but acknowledges there is a risk of adverse economic outcomes from potential countervailing or anti-dumping duties.

Growing protectionist sentiment in the US is most evident with softwood lumber, but there is a general concern about the continued openness of the US economy given that 54% of BC exports went to the US in 2016.

- **Liquefied National Gas (LNG) update.** The Province views the long-term outlook for global LNG trade to be positive as demand continues to grow in China and the Middle East and as older LNG facilities around the world wind down production. The efforts of the last few years to prepare a taxation and regulatory environment, to negotiate benefits agreements with affected First Nations, and to create incentives for electrification of the liquefaction process, are all viewed as laying the groundwork for final investment decisions when the right market conditions are achieved.
- **Housing market initiatives.** There are various spending and taxation changes aimed at the housing market, including funding for affordable and social housing units, more than \$700 million in support for the BC HOME Partnership program (providing repayable down payment assistance for first-time buyers), an increase in the property transfer tax exemption for first-time buyers to \$500,000, and an increase in the home owner grant phase-out from \$1.2 million to \$1.6 million.
- **Significant funding increases also announced for health care, children and families, and education.** Health care funding will increase by about \$650 million per year over the next three years, rising from the current \$18 billion to \$19.9 billion in 2019-20.

Funding for K-12 education will increase from the current \$5.6 billion to \$6 billion in 2019-20.

Funding for children and families, which includes increased disability assistance rates, funding to begin to implement the recommendations of Grand Chief Ed John on Indigenous Child Welfare, more child care spaces, reduced wait lists and strengthened children and youth programs, and improved community living services, will increase by a total of nearly \$800 million over the next three years.

SUMMARY PREPARED BY:

Jamie Vann Struth
Vann Struth Consulting Group Inc.