2015-16
Budget Priorities

Presented to the Honourable Roger Melanson
Minister of Finance,
Province of New Brunswick

Fredericton Chamber of Commerce
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FREDERICTON CHAMBER OF COMMERCE
The Voice of Business

Table of Contents

I.	Introduction	Page 3
II.	Executive Summary	Page 4
III.	Natural Resources	Page 5
IV.	Employment/Skills	Page 7
V.	Education	Page 9
VI.	Community/Health	Page 11
VII.	Tax Burden / Fiscal Policy	Page 13
VIII.	Conclusion	Page 15

Introduction

With Finance Minister Melanson's first budget coming in early 2015, the Fredericton Chamber of Commerce encourages the current government to act decisively early in their mandate to make decisions and take appropriate actions that are critical for the province's future economic sustainability. Chamber members recognize that economic growth and prosperity cannot be viewed in a vacuum separate from social programs, healthcare, education and the like. All of these elements are essential to enabling a functioning economy and a jurisdiction where businesses can prosper. However, being able to fund all aspects of government services does require an emphasis on positioning the economic environment for sustainable growth. All programs cost money and the economy is the source of those funds.

Sustained funding for a full spectrum of government services will require sustained economic growth in New Brunswick. This suggests public policy adaptations and the 2015-16 budget should aim to:

1. enhance the positive impact and productivity of existing economic activity;
2. create significant new economic opportunities and activity; and
3. introduce policies and investment that maximize New Brunswick's future potential.

If, as a province, we can incrementally work towards these three goals we will be able to provide the services New Brunswickers can afford, grow our population and make progress toward becoming a self-sustainable province. Strategically reducing costs in the public sector will also help. Flat cuts across the board will lead to missed opportunities and a reduction in services - there are some areas where spending more will be worth the investment.

Executive Summary

The Fredericton Chamber of Commerce's 2015-16 pre-budget brief for the Province of New Brunswick attempts to bring a fulsome business community perspective to many of the province's current fiscal challenges. Our leadership team would be pleased to discuss the document further with any interested member of the provincial government at anytime. For convenience, the major highlights of the brief include:

Natural Resources

- ➔ New Brunswick requires a responsible, holistic, and long-term natural resource development strategy.
- ➔ Political rhetoric regarding potential natural resource projects hinder the public discourse and the province's economic development.
- ➔ Infrastructure spending should, in part, support the development of natural resources.

Employment / Skills

- ➔ In order to take advantage of potential opportunities, job creation and upskilling must be a singular strategy.
- ➔ New Brunswick is already competing on a global stage in the knowledge sector and has room to grow with the right investments.
- ➔ Narrowing our recent graduates' experience gap will retain more skilled young people in the province.

Education

- ➔ New Brunswick benefits from a sustained focus on innovation as an economic driver.
- ➔ A high quality and accessible post-secondary education system grows our communities and builds talent in our workforce.
- ➔ Secondary education that provides life skills produces more engaged and productive citizens.

Community / Health

- ➔ A transparent and equitable Community Funding Model builds trust and cooperation between the Province and our communities.
- ➔ Arts and culture investments can be drivers of economic development.
- ➔ The province doesn't need 50 net new doctors to provide primary healthcare to all of our citizens - other investments can be more effective.
- ➔ The chamber supports the comprehensive review of the New Brunswick Drug Plan and will continue with the consultation process on behalf of the business community.

Tax Burden / Fiscal Policy

- ➔ The Province's tax regime and fiscal policies should consider the entire burden for businesses and individuals.
- ➔ The Province can increase its revenue with a less burdensome tax regime.
- ➔ Preferential procurement policies can lead to negative unintended consequences.

Natural Resources

Natural resource development has been a cornerstone of the New Brunswick economy for centuries. The province has a long history of using our natural resources to propel ourselves forward. We have not been a self-sufficient province for sometime and the decline has coincided with the decline in the forestry industry and depletion of our base metal ore bodies. An unsustainable percentage of our provincial budget comes from the wealth generated by other provinces in the form of transfer payments - in particular Alberta, Saskatchewan and British Columbia - all of which have one thing in common - a sustained commitment to developing their natural resources to the full responsible extent. We need the natural resource sector to provide the financial foundation to grow our population. Of course, this must not preclude fully investing in other sectors such as the knowledge industry, post-secondary education, and renewable energy.

New Brunswick must develop a natural resources strategy that is responsible, holistic and long-term. Value-added opportunities must be central to this plan - simply exporting raw materials will not create the sustainable and high-paying jobs that are needed. For example, our natural gas should flow to our large industrial enterprises before it is exported.

New Brunswick Benefits When the Natural Gas Development Conversation is Measured

We must understand that we are competing in a global marketplace and need to move as quickly as possible in attempting to satisfy the five conditions announced as part of the hydraulic fracturing moratorium. The oil and gas industry and the credit-rating agencies are watching[1]. Making the wrong decisions with either of these groups could have lasting negative consequences. The civic conversation surrounding this industry has become extreme - too politicized. The intertwining risks and benefits, economics and environment are much more nuanced than what the current public discourse suggests. For example, there is widespread agreement about the existence of climate change and its impacts upon us all. However, there is little talk about how to manage the transition from today's oil and gas dependent economy to the future of renewable energy. In the interim, the New Brunswick government must focus on policy to enable expanded infrastructure assets to allow growth of industries - accessing world markets and receiving global prices for all our goods will grow the economy. This means we need strong leadership with a long-term vision for the province. As stated in the 2014 throne speech 'Plans should be designed for the next generation, not the next election'.

Strategic Investments Should Support Economic Development

In addition to the work of the to-be-announced panel reviewing the five conditions of lifting the hydraulic fracturing moratorium, the Province should also invest time and effort into gathering qualitative and quantitative background/baseline data on water quality, such as the occurrence of natural methane.

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[1] http://www.aims.ca/site/media/aims/AIMS2014-NB%20Debt%20Study,%20Final%20%28prepared%20for%20publication%29%281%29.pdf

If the province is financially able to follow through with the promised $900 million in additional infrastructure funding over six years, it makes strategic sense to invest some of to support the development of natural and intellectual resources. As the 2014 Liberal platform states that the government will “Direct these funds to the most needed strategic projects to create conditions for long-term job growth based on evidence-based assessments[2].” Where reasonable, the government should be investing public funds into projects and developments with the greatest chance of producing an quantifiable return.

[2] 2014 New Brunswick Liberal Party platform, page 13

Employment / Skills

New Brunswick's high unemployment rate and lack of skilled workers in some sectors would appear on its surface to be contradictory issues. However, this highlights perhaps our greatest challenge as a province - a stagnant or declining population due in part to a weak economy. Unfortunately there is no easy answer to this problem - it is difficult to grow the economy with our current demographics and and difficult to grow the population without a more robust economy. Particularly with several large natural resource projects and increased infrastructure spending on the horizon, having tradespeople ready to contribute to these ventures will be important to leverage the full potential value for New Brunswick.

The platform commitment calling for "Improving the recognition of professional credentials from other provinces and countries to allow us to attract and retain skilled workers" has great potential in this regard[3]. We recommend studying the memorandum of understanding between New Brunswick, Ontario, Alberta and British Columbia regarding transferability of university credits as a model for applying to credentials in the trades[4].

Support for the Knowledge Sector Allows New Brunswick to Compete on the World Stage

It is well known that Fredericton has distinguished itself in recent years with its growing and vibrant information and communications technology and startup sectors. These areas are providing the Fredericton community with both entrepreneurial growth and well paid employment. The chamber was pleased with the Liberal government's early investment in the startup sector, with investments in innovative homegrown startup companies such as Hot Spot Parking.

On a go-forward basis, the chamber looks forward to the Liberal government's continued interest and investment in this sector, including the source of many innovations - our post-secondary institutions. Continued support for the New Brunswick Innovation Foundation, Fredericton's Knowledge Park and Planet Hatch, and other entrepreneurial start-up groups will facilitate sustainable growth. Specifically, the chamber recommends easing of the process surrounding startup businesses by reducing and consolidating regulations and permits. We also look forward to the Liberal government's long-term plan of investing in computer technology education, such as coding, both at the secondary and post-secondary level. This will ensure the startup and knowledge based industry will have the skilled workers it needs for years to come and can reduce the skills gap.

New Brunswick Benefits When Infrastructure Investments are Made Strategically

Keeping promises made by the Liberal Party regarding increased infrastructure spending over the next six years will obviously have a positive short-term effect on job creation in the province[5]. However, it is also imperative that this additional funding is truly seen as an

[3] 2014 New Brunswick Liberal Party platform, page 11
[4] http://www2.gnb.ca/content/gnb/en/news/news_release.2014.10.1206.html
[5] 2014 New Brunswick Liberal Party platform, page 13

investment as it relates to stimulating long-term economic growth. The government has an obligation to provide adequate infrastructure across the province, but beyond this, the priority should be adding or enhancing infrastructure strategically to create the greatest economic benefit for the province, regardless of location. In short, infrastructure that supports our greatest chances of economic success, such as the natural resource industries, ICT sector and exporting opportunities will grow the economy and provide opportunities for all New Brunswickers beyond the construction phase itself. This may mean focusing the infrastructure spending in areas where some level of economic success is clearly evident.

Youth Unemployment is a Symptom and a Cause of a Weak Economy

With the most recent figures showing youth unemployment in New Brunswick at a staggering 17%[6], the importance of helping our young people find gainful employment cannot be overstated. The chamber was encouraged by the Liberal commitment in its 2014 election platform to providing young people with training and work experience here in New Brunswick in order to keep them in the province through the Youth Employment Fund[7].

A major pillar of New Brunswick's population growth must be the retention of our young people. Helping match New Brunswick's youth with education and training that aligns with the needs of the province's labour force is crucial to our economic prosperity and sustained collective wellbeing.

Too many qualified and highly-skilled young people are unable to secure gainful employment directly out of school due to a lack of direct experience in their field. With this in mind, the province should work to provide experiential learning opportunities for post-secondary students to gain real-world experience during their studies.

[6] http://www.esdc.gc.ca/eng/jobs/lmi/publications/bulletins/nb/lmb-2014-10.pdf
[7] 2014 New Brunswick Liberal Party platform, page 10

Education

Higher Education is of fundamental importance to economic vitality and quality of life in the Fredericton Region and to New Brunswick. Our publicly funded colleges and universities are deeply integrated with our communities, our industries, and our people. We encourage the new government to adopt a strategic approach to investment and public policy in this sector, to create new opportunities for the region and province.

New Brunswick benefits from a sustained focus on innovation as an economic driver

New Brunswick's knowledge-based businesses are an important source of new opportunities. Our university and college campuses are critical infrastructure in our provincial innovation ecosystem. New discoveries, research, and development activity are driving gains in wealth creation, productivity, new enterprise creation, and economic growth. Innovation fuels exporting jobs - some prominent examples include Malley Industries, LuminUltra, Green Imaging Technologies and Atlantic Industries Ltd. The new budget should reflect these priorities, striving to enhance NB's culture of entrepreneurship.

Post-Secondary education grows our community, and builds talent in our workforce

Higher education services are an important and valuable economic export for New Brunswick, and attract significant spending and capital investment to our region. Student recruitment by our institutions is complementary to New Brunswick's population growth strategies, and brings new talent to our workforce development efforts. New public policy should seek to maximize the attraction and retention of prospective students to New Brunswick from outside the province and country.

New Brunswick benefits from accessibility and quality in post-secondary education

Accessibility and quality are the twin cornerstones of a high-performing post secondary education system. New Brunswick's publicly funded institutions offer significant differentiation and articulation opportunities, and seek to offer flexibility and choice to students. A balanced approach to investment in higher education would include predictability through multi-year funding frameworks for institutions, student aid that is focused on those with the greatest need, and policies that allow colleges and universities to respond quickly to changing circumstances.

New Brunswick benefits from Post-Secondary Education investment that reflects its role in our economic development

Post-Secondary Education is a driving force transforming New Brunswick's economic and human potential, though this opportunity is impeded by the province's necessary fiscal austerity measures. New Brunswick's fiscal strategy should include development of new

revenues, with a focus on investment in areas that will change our future potential, including post-secondary education.

Secondary education that provides life skills leads to more engaged and productive citizens

On the other end of the skills spectrum, New Brunswick has one of the lowest adult literacy rates in the country[8]. These rates drag down our productivity and potential. We agree that a comprehensive literacy strategy is needed and that the public education system, employers and community agencies play a large role[9] - but we also recommend that learning at home should also be included with this list as well. Financial literacy and entrepreneurship are two other critically important subjects that would better prepare current students for life in the labour market.

[8] http://www4.hrsdc.gc.ca/.3ndic.1t.4r@-eng.jsp?iid=31
[9] 2014 Liberal Party Platform, page 10

Community / Health

New Brunswick's businesses are inextricably linked to the larger community. Their owners, employees and the businesses themselves fit into the socio-economic fabric of New Brunswick at both the municipal and provincial level. The relationship between governments, a thriving business economy and robust social programs is symbiotic and we must keep open lines of communication - at the end of the day we are all pulling in the same direction.

A Transparent Community Funding Model Builds Better Relationships

New Brunswick's Community Funding Model (formerly the unconditional grant), has been a source of conflict and confusion between the Province and municipalities for many years. The issue has been at the forefront in Fredericton since the Province announced a reduction in the City's grant totalling $3.9 million over three years. Fredericton's increasing tax base has been cited as a primary reason for the reduction in funding. This growth is already slowing (the 2.70% increase for 2015 is the lowest increase since 2001)[10] and cannot be reasonably be expected to continue indefinitely and one would expect a quick adjustment to the funding amounts should growth no longer be the norm. In the spirit of this government's focus on transparency and accountability throughout the 2014 election campaign and as contained in the Liberal Party platform[11], we recommend that the government undertake a review of the model and *publicly disclose* the formula used to determine each municipality's grant amount.

Arts and Culture Investment Provides Dividends

Arts and tourism are an important part of New Brunswick's economy. The statements made in the 2014 Liberal Party platform regarding increasing investment in this area and ensuring that the province's tourism strategy maximizes the value of this sector are particularly encouraging [12]. In Fredericton, the Playhouse is at the very heart of our vibrant cultural sector and is in need of replacement or major refurbishment imminently. We encourage the government to strongly consider future funding requests by the Playhouse board of directors and City of Fredericton as the structure plays a central role in the province's arts community and the economic vibrancy of the provincial cultural network.

Efficient and Effective Healthcare is Important to Economic Success

The Fredericton chamber appreciates the statements made in the 2014 Liberal Party platform regarding access to primary healthcare through maximizing the use of non-physician health professionals and a focus on preventative healthcare[13]. These positions make social and economic sense. We are unsure, however how these foci fit with the plan to add 50 net new general practitioners over the four year mandate. The Fredericton Area currently has seven vacant billing numbers and Horizon's entire Fredericton Region has 12. The estimated $12.5 million cost of this plan could be put to better use by:

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[10] http://www.fredericton.ca/en/citygovernment/resources/Budget2015_BudgetBook_Final.pdf, page 58.
[11] 2014 New Brunswick Liberal Party Platform, Page 36
[12] 2014 New Brunswick Liberal Party Platform, Page 17
[13] 2014 New Brunswick Liberal Party Platform, Pages 26-27

(a) establishing a competitive recruitment incentive policy to fill the current (and future) vacancies; and
(b) maintaining a focus on the establishment of community health clinics.

For example, in Fredericton the current no-physician registry sits at around 9,000 patients. Filling these vacancies and continuing with the plan to move our community health clinic to a permanent location would essentially provide a primary care access point to all of these orphaned patients.

The chamber is fully supportive of Health Minister Boudreau's decision to comprehensively review the New Brunswick Drug Plan and repeal sections of the *Prescription and Catastrophic Drug Insurance Act* that would have made participation mandatory on April 1, 2015. As active participants in the consultation process since 2011, we intend to continue to do so moving forward so that we can provide the business community's perspective and add value to the discussion.

Tax Burden / Fiscal Policy

One of the goals of any government's tax regime and fiscal policies is to create an attractive environment where businesses and citizens are able to thrive.

We agree with the response provided by the Liberal Party to our 2014 "Questions That Count" regarding the small business tax rate in the province:

> "*We believe the small business tax rate should be set at the rate which allows our small businesses to be competitive and ensure that New Brunswick is a jurisdiction in which small businesses can prosper. Taxes are an important revenue stream for government, but they need to be fair and balanced for both businesses and individuals..."*

The government has a legitimate need to bring in revenue, but an overly burdensome tax policy is counterproductive to business, the economy and government. Careful thought must be paid to find the right balance, especially in a province with a shaky economy and a need to eliminate the deficit and reduce the debt.

The Economy Benefits When the Costs of Doing Business in New Brunswick is Competitive

Lowering the small business tax rate to 2.5% by the end of the mandate[14] is a substantive step in this direction and we were pleased to see the initial 0.5% increment towards this promise was the first official announcement by this government[15]. The promised enhancement of the Small Business Investor Tax Credit is also a logical method of creating more private sector investment in our local businesses[16]. Of course, the entire tax burden must be viewed in context and we are concerned that any advantage to business provided by a competitive small business tax rate will be nullified in other areas such as raising the minimum wage and the reversal of the commercial property tax cuts.

The commercial property tax regime is particularly concerning as returning to the pre-2012 system amounts to double taxation on commercial properties and discourages investment in the province as well as property owners to reinvest in their properties. The 2012 changes have been mischaracterized in the political discourse as a tax break for big business[17], whereas in reality it affects all types of business - the majority of which are small businesses. Not only does the move back to pre-2012 tax levels make New Brunswick business less competitive, but it also increases the costs to tenants of rental properties.

[14] 2014 New Brunswick Liberal Party platform, page 11
[15] http://www2.gnb.ca/content/gnb/en/news/news_release.2014.10.1174.html
[16] 2014 New Brunswick Liberal Party platform, page 11
[17] Ex:
http://www.cbc.ca/news/canada/new-brunswick/big-businesses-win-with-new-property-tax-cut-1.1247593

It must also be noted that to mitigate the loss of revenue through the reduction in commercial property tax, the previous government raised the Land Transfer Tax and there has been no public statement about this factor by the current government.

Preferential Procurement Policies Should be Viewed Holistically

We agree that local businesses should be given a fair opportunity to bid and receive government contracts, as appears to be the intent behind the plan to introduce "...industrial and regional benefits to procurement scoring."[18] With this in mind however, careful thought must be put into the unintended consequences of such a policy. In order to grow our economy and the wealth in the province, New Brunswick must maintain a focus on increasing our exports and attracting investment from outside of our borders. Instituting protectionist policies that may produce similar responses from our closest trading partners could hurt the economy and local businesses in the long-term.

[18] 2014 New Brunswick Liberal Party platform, page 11-12

Conclusion

The Fredericton Chamber of Commerce appreciates the opportunity to be part of the Province's budgeting process. We hope that our recommendations are clear and helpful to the Minister of Finance asa the Liberal government prepares its first budget for the current mandate. Now is the time to make tough, perhaps unpopular, decisions for the good of the province and our struggling economy.

Overall, it is our position that enhanced economic development is a more effective and sustainable method of increasing revenue that the government needs to provide services to the citizens of the province than increasing taxes and other costs. We also submit that flat cuts across departments and programs are not as effective as targeted and strategic spending decisions.

Please feel free to follow-up with our CEO, Krista Ross at anytime to arrange further discussions. She can be reached at (506) 451-9744 or kristar@frederictonchamber.ca.

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