

**Presentation to the Select Standing Committee on Finance and Government
Services 2002**

Held in Smithers, B.C. on October 17, 2002.

Thank you for this opportunity to address your committee.

My name is Brian Edmison. I am a Chartered Accountant who has lived and worked in the Bulkley Valley for thirty-one years.

This morning I intend to make three points.

- I Policy makers who reside in large urban centres don't fully appreciate how vulnerable small communities are to a loss of quality jobs. This is due to the critical mass or threshold effect, which is rarely an issue for a large urban centre.
- II Well intended cuts to government expenditure might inadvertently lead to an even greater loss of revenues. The full impact of cost cutting has to be better understood, especially for small resource communities.
- III Small communities with natural amenities can be a growth engine for B.C.'s future.

My first point is the vulnerability of small communities to a loss of quality jobs.

When jobs are lost in a small community, there is a much greater likelihood than in a large urban centre that specific services can no longer be supported. A loss of several good jobs can lead to the closure of a retail store, a professional office, the loss of a

carpenter, medical clinic, hospital or school. These subsequent closures can perpetuate a downward spiral. Lack of confidence and anxiety for one's family can incite those who are skilled and mobile to seek employment elsewhere. Lack of opportunity can discourage young persons from locating in the community. These further continue the downward spiral.

Without the diversity of a large urban centre, the closures can become catastrophic for the community and lead to a permanent impairment to future growth. The residents lose employment income, profit margins, equity and opportunity for new investment. Businesses and communities lose the knowledge and skills of those who emigrate from B.C. For the Provincial Government, these closures may initially appear to be a benefit resulting from centralization and economy of scale. However there is a huge hidden cost to the province, namely the loss of existing infrastructure. Closed schools and empty houses lead to underutilized streets, water and sewer systems, recreation facilities, airports and land base. The province loses the economic value of capital. Is this happening in the Bulkley Valley? *Yes*. The provincial government is in the process of eliminating 150 - 175 direct jobs. The preliminary job losses and the spinoff effect has resulted in the loss of construction, an exodus of trades people, reduced school enrollment, decreases in commercial and residential occupancy, and the closure of some businesses. The current oversupply of houses has reduced their market value over the last 1 ½ years by at least \$30,000. There are about 1,000 homes in the Bulkley Valley. A \$20,000 price drop, attributed directly to the government cutbacks, times 1,000 homes equates to \$20 million of lost personal equity. This is a huge cost to our community and a deterrent to investment in rural B.C. In comparison 150 - 175 jobs lost in a large urban centre would be insignificant. The frightening issue for the Bulkley Valley is that the March 2003 closure of the Regional Forest office and the other 2003 and 2004 job eliminations have yet to occur. The Bulkley Valley is an example of a small resource

community vulnerable to a loss of critical mass. I expect the repercussions will be far worse than initially contemplated by government policy makers.

My second point - Loss in provincial revenues resulting from job cuts.

In addressing the challenge of the provincial deficit I observe the main government action has been to cut expenditures. What has not been fully calculated is the impact of these cuts on the province's revenues. The obvious revenue reduction from the elimination of a job is the loss of personal income tax, PST, GST and other expenditure taxes. The economic spinoff will vary, depending on the community. Additional revenue loss can therefore be minimal; or it can be so substantial that the loss of revenues actually exceeds any cost saving.

In my first point I suggest there is a much greater spinoff effect from the job reductions in smaller communities than in the large urban centres. I would expect the impact on business profits from job reductions is also greater in small communities. Refunds arising from the three-year carry back provisions may further exacerbate a loss of business income taxation.

The challenge for our social and fiscal economists is, through empirical analysis, to predict the total loss of revenues resulting from the government job cuts. It may very well follow that if the provincial government does not take a proactive approach to the support and development of rural B.C., then any cost savings generated by its fiscal actions will be offset by the cumulative losses in revenues.

My third point is small towns can be a growth engine for B.C.

Is there a vibrant future for rural B.C.? Does rural B.C. have more to offer than wood fibre, agriculture and mining? Clean air and water, space, a small community

environment and mountains to recreate in are scarce and sought after. In fact the “New Western Economy” is well documented. It involves the development of small towns with natural amenities. It is driven by discretionary movement of retirees and independently well-off persons, and business decisions such as Microsoft’s move to Oregon. Small communities can be economic drivers for B.C., not for the extraction of, but attraction for their natural resources. People will bring skills, energy, creativity and funds for investment to attractive small resource communities. Where in the world is there a better place to live than rural British Columbia?

In closing.

The present government’s implementation policy appears to support an urbanization of government services. This may be appropriate for the profit centred, private sector Wallmarts and Costcos, but our government should have a vision which maximizes opportunities for the whole province. It should also attempt, where possible, to provide a base which mitigates the impact of market cycles like the current softwood lumber situation.

The Urban Futures Institute reports in “Spatial Origins of B.C.’s Economic Base” (Vancouver Sun September 10, 2002 copy attached) on the importance of B.C.’s small resource communities and their stimulation to economy and employment in urban centres. It concludes with the statement that to make sure that rural B.C. can continue to enrich the whole province; Victoria will have to pay a lot more attention to rural B.C.’s needs.

I believe our provincial government has a tremendous opportunity, by supporting small attractive communities, to generate economic prosperity for B.C.’s future. The required action is to take measures, wherever possible, to preserve the opportunity for a rural

lifestyle in B.C. The location of government employment outside of major urban areas is key to providing the needed support. In fact it is a wasted opportunity if B.C. does not aggressively act to capitalize on the natural potential of its smaller resource communities.

In Summary:

- I. Policy makers who reside in large urban centres do not fully appreciate how vulnerable small communities are to a loss of quality jobs because of a critical mass/threshold effect.

- II. Well-intended cuts to government expenditure may inadvertently lead to an even greater loss of revenue. The full impact of cost cutting has to be better understood, especially for small resource communities.

- III. Small communities with natural amenities can be a growth engine for B.C.'s future.

ADDENDUM - I

Response to Specific Questions

1. My recommendation for the 2003/2004 and 2004/2005 fiscal plan would be to incorporate the three points outlined in my speech. With new technologies, many government services can now be cost effectively delivered to all areas of the province from our smaller communities.
2. If additional funds are available in 2005/2006 they should be applied to debt reduction, as this will reduce the burden of future debt service costs (lower debt and better ratings) and provide the province with increased flexibility. Attached is a Historical Provincial Debt Schedule projected to 2005 based on the February 19, 2002 budget and fiscal plan summary. The debt is projected to climb by 21% from the current \$28.5 billion to \$43.9 billion in 2005. During the same period the GDP is only expected to climb 11%. This illustrates the importance of debt reduction.
3. Assuming government programs will continue to be rationalized I do not believe the government can afford to further reduce income taxes beyond what is already planned. 100% of the surplus should therefore be applied to debt reduction.

ADDENDUM - II

TAXATION

B.C. has total taxation similar to Ontario and many regions of the USA. It does not have Alberta's oil and gas but does have many other amenities to offset Alberta's subsidized tax rates.

For example:

Ontario's personal tax is higher than B.C.'s on the first \$103,000 of taxable income. Ontario has a payroll tax of 1.95% for payrolls exceeding \$400,000, where B.C. has no payroll tax. Attached are personal and corporate tax rate schedules for B.C., Alberta and Ontario.

The USA Federal tax rate is regularly quoted for comparison to the total Canadian personal tax rates. This is not a fair comparison as many American states and their cities also have an income tax. Capital gains are fully taxed in the USA, while only ½ are taxed in Canada. Social security tax in the USA is 15%, Canada's Canada Pension Plan is 9.4% and is calculated on a smaller base. The USA alternate minimum tax can be more onerous than Canada's. The USA has a gift and inheritance tax that can reach 50%. The USA medical system has minimal public subsidy compared to Canada's medical plans. We have to be reminded of the total picture.

For these reasons I do not see a necessity for B.C. to compete by the further reduction of tax rates.

EXAMPLES OF POSITIVE ACTION BY RESIDENTS OF THE BULKLEY VALLEY

1. Various members in our community are in the process of establishing the Bulkley Valley Centre of Excellence in Natural Resource Research and Management.

This centre will facilitate collaboration between the private sector, academia and government to help provide a basis for achieving ecological and economic sustainability. It is envisioned that the Bulkley Valley will become well known for

ADDENDUM - III

outstanding research in temperate, montane and boreal ecosystems, and support a consulting industry serving national and international communities. The Ministry of Forests has decided to temporarily retain the regional research personnel in the Bulkley Valley, which will be of great benefit to the Centre. See copy of attached proposal.

2. The residents of the Bulkley Valley have donated wonderful amenities to this community. They include but are not limited to a world class Nordic ski centre, equipment donated to the Alpine Ski area, community pool, multi purpose courts and climbing wall, Alpine ski huts and trail development, recreation halls and ball diamonds. It amazes me time and again what a small community can achieve.

PERSONAL BACKGROUND AND ATTRACTION TO B.C.

Raised in Ottawa, I obtained an economics degree from Queens and my CA with Pricewaterhouse in Toronto. Thirty-one years ago I chose Smithers, British Columbia over a job in Switzerland and a masters degree at the London School of Economics. In addition to my public accounting practice I have been involved in manufacturing (RSF Energy Ltd.), several mineral exploration projects and property development.

With mining I have traveled to Argentina, North Africa and El Salvador, and with lumber marketing I have traveled to China. Many of my friends and associates in our community are more formally educated and traveled than I. Many also possess wonderful trade skills necessary for B.C.'s future.

I am mentioning the above to illustrate that there are many qualified persons residing out of the lower mainland who contribute to the B.C. economy. Many others and I were and continue to be attracted to B.C.'s vibrant small town communities.