



DESTINY SSM PROGRESS REPORT

Prepared by

Brent Krmpotich

Under the Direction of

Dr. Krishna Kadiyala

May 2007



Agriculture, Food and Rural Affairs
Agriculture, Alimentation et Affaires Rurales



Acknowledgements

Jody Rebek.....Destiny Sault Ste. Marie

Susie Lauzon.....Destiny Sault Ste. Marie

Don McConnell.....City of Sault Ste. Marie

Bruce Strapp.....Economic Development Corporation

Raymond RunningServices Canada

Brian IrwinCommunity Development Corporation

Finance Department.....City of Sault Ste. Marie

Destiny SSM Steering Committee.....Destiny Sault Ste. Marie

Disclaimer: the views expressed in this report are those of the author and do not necessarily reflect those of the project funding partners.

Cover Letters

May 31, 2007

The Destiny Sault Ste Marie Project was initiated in 2002, and the City Council approved the Project in 2003. Destiny's goal is to "develop, facilitate, implement, and manage a specific set of targeted growth and diversification initiatives and projects that will create employment to support a growing population base in Sault Ste. Marie and the Region".

In its short existence, Destiny has made a tremendous progress in meeting and exceeding the objectives of its strategic priorities in a number of areas. Destiny continues to make progress in diversifying the employment base in Sault Ste Marie; meeting the community needs in the growing knowledge-based economy; promoting Sault Ste Marie's business in the international market; provide support to existing business, and attract new business partners in various sectors.

Normally it takes a long time to realize the benefits of our projects, but there is ample evidence to realize that Destiny's projects are paying dividends and they are moving in the right direction.

When the Destiny Project started, local unemployment was much higher than the Provincial unemployment rate, and today the unemployment rate in Sault Ste Marie is same as that of Ontario. The current Help Wanted Index in Sault Ste Marie is 142% higher than what it was in 2002. Employment Insurance Claimants have declined by 23% since 2003. Ontario Works caseloads are 14% lower than what they were in 2003. In 2003 Sault Ste Marie's population was at its lowest level since 1971, but for the first time in nearly 20 years we have seen a positive change in Sault Ste Marie's population.

I am very optimistic and happy to note that there is a lot of positive energy in the community. Business needs a welcome mat and it takes time and energy to create that type of environment. The dedicated staff and management of Destiny, its partners, and the City of Sault Ste Marie are creating that type of friendly environment with their hard work. Credit also goes to the Destiny's hard working Steering Committee and a number of groups and individuals working on various projects, and all three levels of governments for their financial and moral support.

It is my pleasure to submit this report. I would like to thank the Destiny Team members, and a number of individuals for providing various statistical information for this report.

Dr. Jong You shared his valuable experience in finalizing this report. This report would not have been completed without the hard work and excellent skills of Brent Krmptich.

Based on the evidence, Destiny Sault Ste. Marie is meeting and exceeding the targets in a number of areas, but Destiny/Sault Ste Marie has a long way to go. I strongly support the moral and financial support that Destiny receives from all levels of government.

Sincerely,

Dr. Krishna Kadiyala
Professor, Department of Business and Economics
Algoma University College

May 31, 2007

On behalf of Destiny Sault Ste. Marie, it is with great privilege that we present our progress report for 2006. This report has been compiled through a third party consulting team from Algoma University College. Brent Krmpotich and Dr. Kadiyala have been a pleasure to work with and have diligently worked with Destiny SSM to prepare this report.

Destiny SSM has served the community of Sault Ste. Marie from its inception in 2003 to today. Its primary mandate is to provide the City of Sault Ste. Marie with strategic direction and priorities that support economic diversification. The efforts of Destiny SSM do not go unnoticed, as the community has risen to one of the best economic positions it has ever experienced in the past several decades. This is due to the efforts of a solid economic diversification strategy that is being implemented by our many private and public sector partners.

Many thanks go out to the Destiny Sault Ste. Marie champions who implement projects that support our economic diversification strategy. It is this passion for hard work that has brought back our economic vitality. Destiny SSM recognizes the champion organizations that have made a difference:

- City of Sault Ste. Marie
- Sault Ste. Marie Economic Development Corporation
- Community Development Corporation of Sault Ste. Marie and area
- Sault Ste. Marie Chamber of Commerce
- Sault Ste. Marie Innovation Centre
- Science Enterprise Algoma
- Algoma University College
- Sault College of Applied Arts and Technology
- Algoma Workforce Investment Committee
- Private Sector Champions

Our strategic focus and developing priorities with our champions have occurred as a result of the efforts of the Steering Committee and staff team. Under the leadership of Bill Therriault, former Managing Director, the current Managing Director and Susie Lauzon, the staff team has provided superb facilitation, strategic implementation, and monitoring, to deliver Destiny Sault Ste. Marie priorities.

Destiny SSM is directed and lead by a Steering Committee with the following individuals:

- Mike Marinovich (Chair), Sault Ste. Marie Chamber of Commerce representative
- Bruce Strapp, CEO, Sault Ste. Marie Economic Development Corporation
- Don McConnell, City Planner, City of Sault Ste. Marie
- Brian Irwin, Executive Director, Sault Ste. Marie Community Development Corp.
- Jeff Elgie, President, Lucidia Studios
- Richard Rosset, Board Member, Sault Ste. Marie Community Development Corp.
- Ralph Barker, Board Member, Sault Ste. Marie Economic Development Corp.

Resource Members:

- Dan Hollingsworth, FedNor
- Christine Kucher, Ministry of Northern Development and Mines
- Judy Montague, Service Canada

Destiny SSM is grateful to its funding supporters: the City of Sault Ste. Marie, Industry Canada - FedNor, and the Ontario Ministry of Agriculture, Food, and Rural. The value of this support showcases the three levels of government commitment to economic diversification and tremendously benefits from Destiny SSM's successes.

It is through community champions and partnerships that Destiny SSM will continue to have success in diversifying our City. Our strategy and priorities are set for the next couple of years and this will support our *naturally gifted* city and area as the best place to live, learn, work, and play.

Sincerely,

Michael Marinovich
Chairman of Steering Committee

Jody Rebek
Managing Director

Key Destiny SSM Strategic Priorities 2006/07



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Executive Summary

Destiny Sault Ste. Marie (Destiny) was implemented in 2003 to breathe new life into a dying local economy. Destiny's mission is to stabilize the local economy through a diversification strategy aimed at lessening Sault Ste. Marie's reliance on Algoma Steel. In its brief existence, Destiny and its partners have been successful in changing the economic landscape of the community, and contributing to the diversification of the local economy by facilitating collaborative initiatives between private and public sector players. Destiny's initial focus on its six Growth Engines and more recent concentration on key strategic priorities have provided the community with direction in its quest for economic diversification.

Since Destiny was implemented in 2003, economic conditions in Sault Ste. Marie have changed dramatically. Algoma Steel has transformed itself into one of the most profitable steelmakers in North America, the unemployment rate is the lowest it has been in decades, and employers are struggling to find qualified employees to meet their demand for labour. As the local economy has changed, so have the challenges facing Destiny. Destiny is no longer forced to concentrate on projects with immediate economic returns; it is now focused on strategic planning so that Sault Ste. Marie can capitalize on future opportunities in growing industries. In the past year Destiny has been successful in facilitating the development of community strategies in a number of fields considered to have high growth potential. These include:

- ♦ driving the Multi-modal study
- ♦ facilitating the development of an energy strategy

- ♦ coordinating the process towards the establishment of a clinical research network in Northern Ontario
- ♦ encouraging collaboration amongst life science researchers
- ♦ establishing an immigration strategy
- ♦ focusing on enhancing tourism efforts through a visitor's strategy.

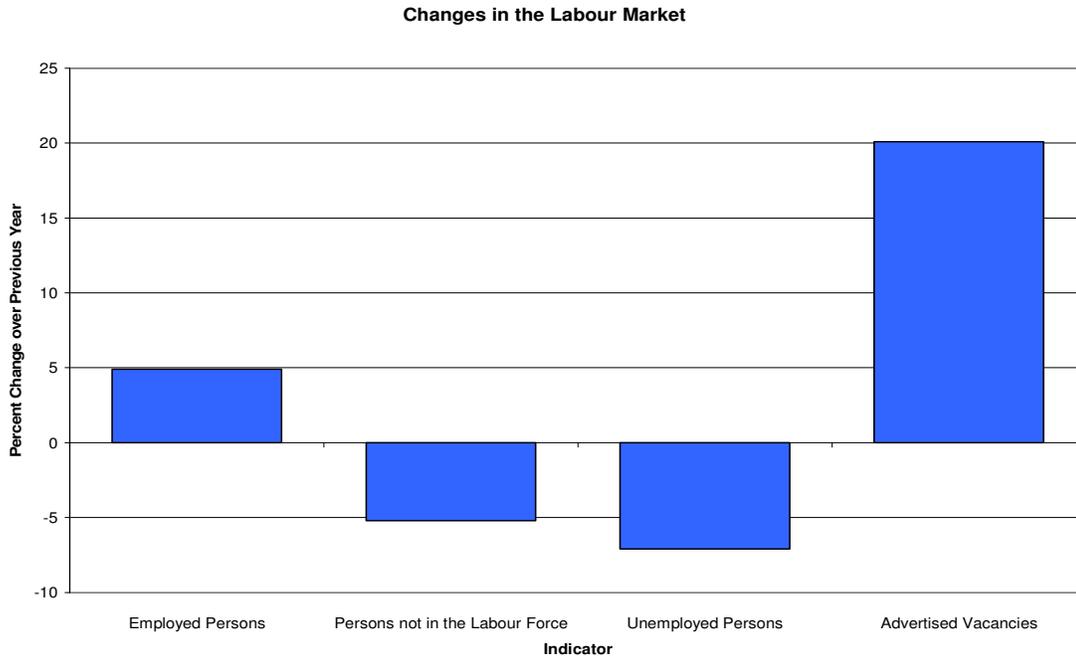
Strategies in and of themselves do not benefit the economy. In order for a strategy to be considered a success it must be implemented. In 2006 the Sault Ste. Marie Innovation Centre (SSMIC) accepted the responsibility to implement Destiny SSM's Community IT Strategy. In its first year since adopting the strategy, the SSMIC was responsible for the creation of 20 IT jobs in Sault Ste. Marie. For Destiny's current set of strategies to be considered successful they must also have a tangible impact on the economic diversification process.

The benefits of diversification are best seen over a period of several years. This is partially due to the time it takes to fully implement a project as well as realize the multiplier effect. The multiplier effect states that any economic change, positive or negative, will have an ultimate impact greater than the initial change. For example, jobs created as part of Algoma Steel's expansion will result in an increase in spending throughout the community creating additional jobs in the retail and service sectors and thus creating more disposable income. Because of the multiplier effect, the total impact of job creation can only be measured after several years, and will be much greater than the initial job creation figures.

The very nature of the benefits of diversification requires a long-term assessment. A proper evaluation of whether a diversification strategy has

been successful cannot be made until the economy has experienced the ups and downs of a business cycle. A diversified economy should perform consistently over time, maintaining a steady growth

well for Sault Ste. Marie's immediate future. The following graph provides a synopsis of changes that have taken place in Sault Ste. Marie's labour market in the past year.



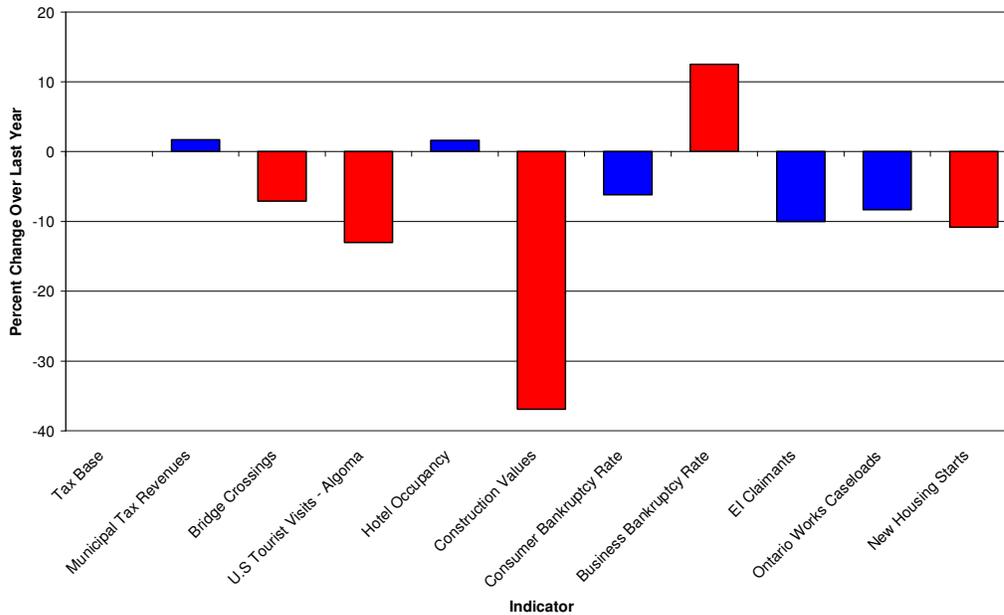
rate in the face of external shocks.

In order to effectively measure the state of the economy we must have a basis from which to measure progress. The economic indicators in the section “The Economy of Sault Ste. Marie: A Basis for Measuring Success” provide such a basis. The labour market indicators were particularly impressive in 2006. Notable gains were made over the previous year in employment, labour force participation, unemployment, and advertised vacancies. The growth in the number of advertised vacancies since 2001 has been exciting. In 2001 there were a total of 2,431 advertised job vacancies in Sault Ste. Marie. By 2006 that figure had risen to 7,739. This indicates that unemployment is low and employers are forced to seek out employees rather than having a surplus of available labour from which to hire. The increase in advertised vacancies bodes

A quick examination of the above graph reveals that all four labour market indicators improved in 2006. A decline in the number of persons not in the labour force and the number of unemployed persons represents a positive change in those two indicators. While not all of the economic indicators analyzed in this report improved in 2006, these four indicators have been deemed to provide the most accurate representation of the local economy.

The next graph illustrates the percent change in eleven other indicators tracked in this year's report. Population data was not included in the graph because it is based on census information compiled every five years. When reading the following graph keep in mind that the magnitude of the change is less important than whether or not the change was positive or negative when compared with the previous year. The indicators shaded

Economic Indicators



“blue” improved in the past year, while those in “red” worsened.

Since last year’s report five of the indicators included in the above graph improved, five worsened, and one (tax base) showed little change. Of the five indicators that worsened in the past year, two (International Bridge Crossings and U.S. Visitors to the Algoma District) are more indicative of the regional economy than the local one. Construction Values and New Housing Starts both suffered from exceptional years in 2005 and should be buoyed by major projects on the horizon.

The fact that there is still room for improvement suggests that there is a continued role for Destiny and its partners to play in the diversification process. Although the economy is doing well now, there is a continued need to ensure the community is well positioned to weather economic downturns. The community is wise to take this proactive, rather than reactive approach to ensuring its sustainability.

With the help of its private and public sector partners Destiny SSM has played a

vital role in the economic recovery that has taken place in Sault Ste. Marie since 2003. Many of the strategic priorities that Destiny has been focusing on are beginning to come to fruition with rewarding results: a labour market that is as strong as it has been in decades, and a sense of optimism in the community that is beginning to draw people back to Sault Ste. Marie.

In its brief existence Destiny has proven its merit as an effective facilitator. Destiny has successfully created a collaborative environment in which private and public sector leaders pool their expertise, working towards achieving the common goal of economic diversification. While it is difficult to quantify the effect that Destiny has had on the local economy, the economic indicators verify that Destiny has not hindered economic development. In the future Destiny will be most valuable to the community by continuing to focus its resources on being a masterful facilitator, making exciting opportunities like Multimodal and Clinical Research possible.

Introduction

A strong economy is essential to preserving a high quality of life in a community. None of the amenities that people find so appealing such as parks and recreation facilities, museums and art galleries, shops and restaurants, would be possible without a vibrant economy. A strong economy provides the impetus for citizens to develop these institutions that benefit the entire community. It is also the taxes generated by a strong economy that enables the community to afford adequate social services. For over a century Sault Ste. Marie was a single industry town, with the fortunes of the city reliant on the success of Algoma Steel. This reliance on a single industry worked for many years; but by 2002 the economy of Sault Ste. Marie was in a state of crisis. Algoma Steel was in bankruptcy protection, local businesses were nervous about the future, houses were not selling and house prices were extremely depressed, and youth were forced to leave town to seek employment. It was clear that if Sault Ste. Marie wanted to improve its fortunes a new approach to economic development was needed. Rather than wait for help from afar, community leaders decided to take matters into their own hands. In 2003, with funding from the Federal Development Initiative for Northern Ontario (FedNor), and support from the City of Sault Ste. Marie, Sault Ste. Marie Economic Development Corporation (EDC), Community Development Corporation of Sault Ste. Marie and Area (CDC), Sault Ste. Marie Chamber of Commerce, Human Resources Skills Development Canada (HRSDC), Northern Ontario Heritage Fund Corporation (NOHFC), and many others, Destiny Sault Ste. Marie (Destiny), the

community's economic diversification strategy, was implemented.

Economic diversification is a lengthy process that requires a vast investment of time, energy, and financial resources. In order for diversification to be effective, strong leadership is required to coordinate actions and focus resources on the most rewarding opportunities. For Sault Ste. Marie, Destiny provides this leadership. Since its inception, the efforts of Destiny in combination with its public and private sector partners have laid the groundwork for future economic growth and diversification in the community. The collaborative nature of these efforts underlies the importance of Destiny in helping to form dynamic partnerships that benefit all parties involved.

Destiny's stated goal is to "develop, facilitate, implement, and manage a specific set of targeted growth and diversification initiatives and projects that will create employment to support a growing population base in Sault Ste. Marie and the region". In order to achieve this goal, Destiny and its partners have been developing strategies that capitalize on short-term opportunities while maintaining their focus on the long-term stabilization and diversification of the economy.

With Destiny's help, Sault Ste. Marie has seen many positive changes since 2002. Unemployment is down, jobs have been created across several sectors of the economy and youth are beginning to return to the community. This economic recovery has not occurred without any setbacks. There have been several bumps along the road and a lot of work remains to be done if Destiny is to meet its 10 year goals. But in evaluating Destiny's progress we must keep in mind that

economic diversification is a long process, and results cannot always be seen immediately. The creation of Destiny was a huge step in the right direction for the community. It has played an important role in supporting or facilitating numerous small steps that have brought Sault Ste. Marie closer to achieving its economic diversification goals.

Each year Destiny commissions a third party review of its operations by a local economist. The reviewers, an economics professor from Algoma University College and a student researcher, are charged with evaluating Destiny as an agent of economic diversification. Our evaluation is based on the effectiveness of the strategies in diversifying the economy as well as an analysis of broader economic conditions in Sault Ste. Marie. This year's report proceeds as follows. In the next section we will discuss how Destiny has evolved since its inception. This will be followed by an analysis of the progress made in each of Destiny's six Growth Engines: Traditional and New Industry Development; Tourism Development; Small Business Development; Knowledge-Based Development; Health and Public Sector Development; and Export and Trade Development. We then proceed with an examination of 16 economic indicators: tax base and municipal tax revenues; International bridge crossings; tourist visits to the Algoma District; hotel occupancy; construction values; consumer and business bankruptcy rates; census population data; labour force statistics including employment, participation, and unemployment rates; employment insurance claimants; Ontario Works caseloads; advertised job vacancies; and new housing starts. The final section offers concluding remarks.

The Evolution of Destiny Sault Ste. Marie

Since 2002, Destiny has grown from a list of over 100 projects with 31 key priorities to a strategic framework for economic progress. In April 2004, Destiny sponsored and facilitated an economic forum. The forum panel consisted of 12 prominent representatives with a broad base of economic and community development expertise from government, private sector and academia. Forum attendees represented a cross section of community economic development players. At the conference it was recommended that Destiny SSM reduce the number of initiatives that it focused on and become more strategic in how it applied its efforts. As a result of this recommendation Destiny's Steering Committee has been holding strategic planning sessions once a year to evaluate goals and progress and decide on Destiny's focus for the upcoming year. In June 2006, the steering committee identified eight strategic priorities that would be Destiny's focus for 2006/07. The selections are based on feasibility, economic impact and association with our natural strengths and existing assets. The eight strategic priorities identified were:

- ◆ Energy Strategy
- ◆ Multi-Modal Study
- ◆ Health Related Business Opportunities
- ◆ Community Recruitment/Immigration Strategy
- ◆ Aboriginal Economic Partnerships
- ◆ Applied Science Opportunities
- ◆ Community IT Strategy
- ◆ Comprehensive Tourism Development Strategy

The **Energy Strategy** aims to capitalize on current and future energy related opportunities in the community by developing a business model that prioritizes, promotes and develops key opportunities in both the private and public sectors.

The **Multimodal** project hopes to capitalize on Sault Ste. Marie's strategic location at the centre of North America, on the Great Lakes and adjacent to the U.S. border to become a transportation hub for international shipping.

Health Related Business Opportunities focus on economic development opportunities within the health sector that encompass research, commercialization, and Northern Ontario Medical School (NOSM) partnership opportunities.

The **Community Recruitment/Immigration Strategy** will present a comprehensive strategy that embraces local and regional needs and addresses operational approaches to dealing with current and future needs affecting all sectors of the local economy.

Aboriginal Economic Partnerships focuses on developing and implementing a strategy to build community economic partnerships with the First Nations communities in close proximity to Sault Ste. Marie. The partnerships will be designed to provide economic benefits to Sault Ste. Marie and area, and the Aboriginal partners.

Applied Science Opportunities build on the fact that a number of key science related institutions, including the Great Lakes Forest Research Centre (GLFRC), Ontario Forest Research Institute (OFRI) and Department of Fisheries and Oceans (DFO) are stationed in the community. These institutions provide a framework from which we can develop a thriving scientific community for the development

of research and applied science opportunities.

The **Community IT Strategy** provides a framework for the advancement of IT related opportunities within the community. The Strategy identifies opportunities for development as well as a plan to build the local IT sector.

The **Comprehensive Tourism Development Strategy** will compliment the efforts of Tourism Sault Ste. Marie by focusing on infrastructure improvements and establishing collaborative business models for increased efficiency and success of tourism operators in Sault Ste. Marie.

Although not a strategic priority for economic development, the creation of a **Best Practices Guide** is one of Destiny's objectives. As a result of Destiny's success it has been asked to produce a Best Practices Guide to share the knowledge gained in its brief existence with other communities and organizations. The guide will be used by other communities as they strive to diversify and strengthen their economies.

The refocusing of the Destiny vision on these key strategic priorities does not mean that other areas are not deserving of attention, but rather that the chosen areas hold the greatest promise for future growth and diversification. In the earlier efforts of Destiny, projects were categorized under six Growth Engines utilized to identify "best bets" to focus the economic diversification efforts of the community. These Growth Engines are: Traditional and New Industry Development; Tourism Development; Small Business Development; Health, Social, and Public Sector Development; and Trade and Export Development. Each of the Key Strategic Priorities mentioned above fall under at least one of the growth engines. In this report,

Destiny's diversification efforts will be analyzed under the framework of the original Growth Engines; highlighting both its associated strategic priorities, as well as other significant local economic efforts that are also contributing to the growth of these sectors.

Measuring the Success of Destiny Sault Ste. Marie

The success of Destiny Sault Ste. Marie cannot be separated from the success of the community. Destiny was conceived as a means to improve economic conditions in the community as a whole. If the successes of Destiny SSM's initiatives are not accompanied by improvements in the broader local economy, then Destiny has not achieved its purpose. In its inception, Destiny selected a set of long-term objectives to be used as a measure of its effectiveness. These objectives are:

- ◆ Restoring Sault Ste. Marie's population to at least its peak of approximately 82,000 that was reached by the mid 1980's.
- ◆ Enhance municipal infrastructure and services through an increased municipal tax base.
- ◆ Ensuring that limited municipal and other public resources, including financial, are dedicated to initiatives that support the timely achievement of a stabilized and ultimately diversified local economy and workforce that supports population restoration and an increased tax base.

- ◆ Creating an environment wherein the private sector becomes the lead and/or primary driver with respect to the financing of economic development initiatives.

Destiny has since shifted its focus from specific economic development initiatives to a more strategic approach to economic diversification. Destiny is concentrating on the exploration of diversification opportunities in various sectors with sector specialists. Once opportunities are identified, Destiny facilitates the development of a strategy and or business case, dependant on the type of opportunity, which is then passed on to private or public sector champions to lead their implementation.

Investments in infrastructure and diversification are long-term projects whose success can only be evaluated over a period of several years. The true test of Destiny will be to look back in 10 to 20 years and examine how well Sault Ste. Marie's economy handled fluctuations in the business cycle.

In order to accurately measure Destiny's short-term success we will examine the progress the community has made towards these long-term targets, as well as evaluate Destiny's efficacy as a leader of strategic planning in Sault Ste. Marie. This will be accomplished by a thorough analysis of 16 key economic indicators as well as quantifying the results of specific strategies Destiny and its partners have collaborated on.

The Progress of Destiny Sault Ste. Marie

Growth Engine #1 - Traditional and New Industry Development

The past year saw some major developments occur under the Traditional and New Industry Growth Engine in Sault Ste. Marie. Despite the temporary closures of St. Mary's Paper and the shutdown of Boniferro Mill Works the industrial sector in Sault Ste. Marie appears to be strong. Major projects in the energy sector are creating hundreds of construction jobs in the community and injecting millions of dollars into the local economy. Algoma Steel's appetite for talent has enticed many young people to move back to the community. While the economy of Sault Ste. Marie is becoming more diversified, Algoma Steel is still the driving force behind the local economy. Their profitability has injected millions of dollars into Sault Ste. Marie contributing to historically low levels of unemployment.

The local energy sector has been extremely active in Sault Ste. Marie with private corporations investing millions of dollars in energy generation projects.

Canada's largest commercial wind farm is now fully operational just west of Sault Ste. Marie in Prince Township. Phase two of the Prince Township Wind Energy Farm was commissioned on November 19, 2006 adding 90 mega watts (MW) of generating power to the existing 99 MW. Brookfield Power invested close to \$400 million into the development creating 300 person/years of construction work. The wind farm is expected to employ 15 full-time employees.

Algoma Steel has committed to construct a 70 megawatt co-generation facility at its current plant site. The plant will use

waste products from the steelmaking process to generate electricity and steam. This will reduce Algoma Steel's reliance on the grid by half, making it less vulnerable to fluctuations in the price of electricity. The new facility will also reduce nitrous-oxide emissions from the steel producer by 15%. Construction of the \$135 million project is slated to begin this year with the facility expected to be operational by the end of 2008. Construction of the facility is expected to create 150 person/years of construction work. The co-generation plant will be staffed from the existing labour pool at Algoma Steel.

As the price of traditional fuels continues to rise alternative sources of energy become more viable. Enquest Power Corp. has received Ministry of Environment approval to launch a 12 – month pilot project converting garbage into energy. The project which has been supported by the EDC and the City is expected to be up and running sometime in June. In the first year 1,000 tonnes of garbage from the municipal landfill will be converted into energy through steam reformation. If the project is successful there is potential for Enquest to set up a permanent operation creating 12 jobs.

Two major occurrences shook the local manufacturing sector this year: Algoma Steel's purchase by a foreign company and the temporary shutdown of St. Mary's Paper.

Algoma Steel continues to be one of North America's most profitable steel mills recording a net income of \$222 million in 2006. As a result of its success, Algoma became a sought after asset and has recently entered into an agreement to be purchased by the Indian industrial conglomerate Essar Global Ltd.

This purchase is consistent with the trend of consolidation taking place across the global steel industry. Essar Global Ltd. has agreed to purchase Algoma Steel for \$1.85 billion or \$56 per share. This is a heavy premium over the level the shares have historically traded at. The purchase is expected to be approved by Algoma's shareholders in a June 11th vote.

Algoma's executive is confident that the deal will be beneficial to Algoma's employees and the city of Sault Ste. Marie as it will result in new ownership that appears committed to investment in Algoma to support its growth and sustainability. Essar has indicated that it plans to invest \$500 million to improve production facilities and hire over 300 new workers to accommodate the expansion of operations. Algoma's current workforce stands at just under 3,000.

Last year we reported that Algoma Steel had formed a partnership with a German firm to construct a wind turbine fabricating facility in Sault Ste. Marie. Construction of the \$35 million facility has been postponed due to the German firm not being able to commit to the project at this time. Officials at Algoma Steel have indicated that they are still interested in pursuing this venture. Talks are ongoing between Algoma and interested parties. A wind turbine fabricating facility would open up new markets for Algoma and diversify its product base as well as generate additional construction and permanent positions in the community.

The success of Algoma Steel has been offset by the difficulties faced by the forest products sector. Both St. Mary's Paper and Boniferro Mill Works felt the effects of a strong Canadian dollar and increased foreign competition and were forced to temporarily shutdown operations.

After failing to reach a labour agreement with members of the Communications, Energy and Paperworkers Union, St. Mary's Paper was forced to declare bankruptcy. The move resulted in the loss of 380 jobs at the mill. The closure of St. Mary's Paper one of Sault Ste. Marie's oldest employers, will have negative economic and social consequences for the community. Businesses throughout Sault Ste. Marie will feel the effects of the closure as former employees of the mill will have less money to spend in the community. There will also be a loss of income associated with the lack of suppliers and contractors servicing the plant. The social consequences could be more difficult to deal with than the economic ones as families could be forced to relocate to seek employment. Hopefully growing companies like Algoma Steel and Flakeboard will be able to absorb most of St. Mary's former employees.

Boniferro Mill Works, a hardwood sawmill, shutdown its business operations on April 30th, 2007 for an indefinite period of time. The shutdown affects 41 full-time employees. Boniferro Mill Works cited high energy costs and residual value charges by the Ontario Ministry of Natural resources for the cash flow problems. Residual value charges are fees levied by the Crown to ensure that they share in the financial rewards of strong end-product markets. These fees continue to be assessed even though a strong end-product market has not existed in the forest products industry for some time. The mill does feel that it is well-positioned to take advantage of opportunities in the future and expects to resume operations once market conditions improve. The Sault Ste. Marie Economic Development Corporation (EDC) has taken an active role in expediting the start-up process. The EDC successfully requested that the City

provide Boniferro Mill Works with a \$60,000 loan from the Economic Diversification Fund (EDF) to upgrade the rail spur on the Boniferro Mill Works site. Utilization of this rail linkage is essential to Boniferro Mill Works reducing the finished inventory on site, a key factor in the resumption of operations.

The expansion of the Flakeboard site continues to be one of Sault Ste. Marie's greatest success stories. Already employing over 150 people, Flakeboard announced in September of 2006 that it would invest a further \$16.5 million at its MDF (medium density fiberboard) plant in a move designed to improve the mill's competitiveness. The company's investment will consist of an energy recovery system, press line upgrades to broaden the range of products, and installation of a resin application technology. Through its investment in technology, Flakeboard is hoping to maintain its position as the most efficient producer of MDF in North America.

Destiny's Impact

Destiny's focus under the Traditional and New Industry Growth Engine has been on facilitating the development of a Community Energy Strategy and on driving the Multimodal initiative.

Since 2004, Destiny has been working with a group of stakeholders and specialists to establish an energy strategy for Sault Ste. Marie that will allow the city to take advantage of current and future opportunities. Energy has become a top priority for business as swelling demand has led to escalating prices and disruptions in supply. After carefully examining the results of an independent study, Destiny and its partners have come up with an Energy vision which sees Sault Ste. Marie as "a model energy community that practices energy

conservation, employs renewable options, facilitates development of renewable energy business opportunities, and sponsors training, development, and education programs." This year the focus of the energy committee will be to establish a Sault Ste. Marie energy profile and develop a strategy and business model to take advantage of areas of opportunity. The profile will include opportunities for renewable energy resources as well as an energy conservation plan. The Energy Steering Committee will be responsible for developing and implementing a process for pursuing these opportunities.

Energy conservation is just as important as increasing supply. In order to establish meaningful targets for energy consumption, Destiny and its partners are in the process of completing a benchmark assessment of local energy usage. Based on this assessment the Energy Steering Committee will decide on targets for reduction and develop a strategy to meet these targets. Efficient energy use will have several long-run economic and environmental benefits for Sault Ste. Marie.

The Multimodal initiative continues to be one of Destiny's key strategic priorities. The Multimodal initiative aims to take advantage of Sault Ste. Marie's strategic location at the centre of North America, in the heart of the Great Lakes. An increase in the flow of goods to North America from Asia is placing new stress on the existing transportation infrastructure. This is particularly evident in Southern Ontario and Chicago where congestion and long delays are causing an increase in shipping times. The Multi-modal initiative, if successful, would transform Sault Ste. Marie into a shipping hub utilizing rail and road transportation links. Phase 1 of the project, a market analysis assessing all

four modes of transportation: air, rail, water and road, was completed in January 2007. The goal of Phase 1 was to determine if there was sufficient demand to support further research into infrastructure issues and the financial feasibility of a multi-modal development in Sault Ste. Marie (Phase 2). Based on strong levels of interest from certain logistics companies and their customers, the recommendation was made to move ahead with Phase 2 of the study. The consultants also recommended concentrating on the rail and road modes of transportation only. The market was not deemed to be able to support an air and water hub in Sault Ste. Marie. The recommendation to move ahead with Phase 2 of the study included an estimate of the potential economic benefits of \$95 million annually and the creation of up to 500 direct and indirect jobs from the development of the Multi-modal initiative. Phase 2 of the study is presently underway with completion anticipated by the end of May. If it is deemed that developing a multimodal transportation link in Sault Ste. Marie is feasible, Phase 3, a business case, will be completed by the end of September. In addition to the economic benefits listed above, the multi modal initiative will increase commercial traffic raising the number of customers for local businesses to draw from, as well as providing exporting firms currently located in the community a competitive advantage. Multimodal would also increase Sault Ste. Marie's attractiveness as a place to do business. To date, Phases 1 and 2 of the Multi-modal study have generated \$351,750 in funding from: FedNor, Northern Ontario Heritage Fund, Transport Canada, and the City of Sault Ste. Marie.

The Traditional and New Industry growth engine continues to be a foundation for economic development in Sault Ste.

Marie. Continued development of the city's industrial base plays a key role in the diversification of the local economy.

Growth Engine #2 – Tourism Development

If there was a weak spot in the local economy in 2006 it was the tourism sector. Tourism is important to a city's economy because it attracts money to the region from outside its boundaries. Tourism also contributes to economic diversity because the tourism industry is not directly related to local economic conditions. The tourism industry in Sault Ste. Marie can be broken down into two categories: Waterfront/Downtown Development and All-Season Tourism.

Waterfront/Downtown Development

The decline in local tourist numbers in 2006 was most dramatic at our downtown attractions: Agawa Canyon Tour Train, Canadian Bushplane Heritage Centre, Art Gallery of Algoma, and Sault Ste. Marie Museum.

The Agawa Canyon Tour Train, operated by the Algoma Central Railway (ACR), has long been the city's top tourist attraction with an estimated economic impact of \$25 million annually. Less than 10 years ago in 1998 over 80,000 people boarded the Tour Train for the day long excursion through the Northern Ontario wilderness. Last summer ridership barely reached 38,000. The dramatic decline in ridership can be attributed to a number of factors including the strong Canadian dollar, tightened border security, Michigan's weak economy, declining infrastructure, and greater competition in the tourism industry. For the Tour Train to be successful in the future it cannot afford to be complacent and offer the same riding experience as it has in the past.

Understanding this, the Sault Ste. Marie Economic Development Corporation (EDC) has submitted a proposal to the provincial government and CN Rail to invest \$11 million into the Tour Train. Proposed improvements include newer, more comfortable cars and enhancements to the canyon infrastructure. The proposal is currently awaiting approval by both the Northern Ontario Heritage Fund (NOHFC) and CN Rail. Hopefully, if effective changes are made, ridership on the Tour Train will rebound as quickly as it has declined.

While not of the same magnitude as the Tour Train, the Art Gallery of Algoma and Canadian Bushplane Heritage Centre have also experienced declines in visitors of 9.1% and 7.8% respectively in 2006.

Tourist visits to the downtown attractions tend to move in unison. Tourists are drawn to Sault Ste. Marie by the Tour Train and visit the complimentary attractions while they are here. Because of how closely linked our tourist attractions are, improving the overall appeal of the community would benefit all of the tourism partners. Development of the waterfront coupled with a revitalized downtown would generate a vibrant feel in the community as well as increase the city's stature as a tourist destination. With this goal in mind the City of Sault Ste. Marie has developed a Downtown Community Improvement Plan (DCIP). The DCIP is based on a physical development plan which recommends selected improvements to public infrastructure and amenities, recognizes the development potential of key sites, and promotes improved linkages between commercial and tourist amenities. As part of the strategy, the boundaries of the "Downtown" area have been extended to encompass a larger area. The infrastructure development plan includes the following key priorities:

streetscape improvements, improvements to pedestrian traffic, and revised signage in the "Downtown". The plan also emphasizes private investment in the "Downtown" through the use of tax incentives and grants for such things as building restoration and façade improvements. The implementation budget for the plan is \$1.124 million and will be contributed by the City, FedNor, and the Ontario Ministry of Agriculture, Food and Rural Affairs. The plan will take effect in 2007 and is expected to take 3 years to complete.

In an effort to increase traffic between tourist and commercial sites, the City of Sault Ste. Marie has undertaken a boardwalk extension from the existing boardwalk to the Bushplane Centre. Construction of the project is expected to be completed by mid-summer 2007. The \$2.144 million extension will increase the flow of tourists between the Bushplane Centre/Old Stone House and dining and retail establishments.

The most anticipated tourism related project on the horizon is the development of the Gateway site. Construction of the \$55 million project is expected to begin before the end of the summer with completion slated for fall 2008. The development, called "Borealis" includes plans for a 144 room Radisson hotel, a performing arts theatre, new ACR Tour Train Station, space for retail outlets, restaurants, and a 35,000 square foot bio-dome featuring exotic tropical plants. Once complete, Borealis is expected to attract tourists from across Canada and the mid-western United States. In addition to attracting tourists the Gateway project is expected to have many spin-off benefits including the creation of 600 construction jobs with an additional 600 permanent positions starting in fall 2008 when Borealis opens.

Destiny's Impact

Destiny is currently developing a Comprehensive Tourism Strategy that will compliment the efforts of Tourism SSM by focusing on infrastructure improvements and establishing collaborative business models for greater success amongst local tourism agencies. Destiny and its partners are evaluating the benefits of undertaking the Premiere Ranked Destination Process (PRDP) and the creation of a Non-Profit Tourism Agency Conglomerate. A community assessment through the PRDP process would assist Tourism SSM and other tourism agencies in making decisions on how to improve the tourist experience in Sault Ste. Marie. The PRDP process will identify specific areas that the community as a whole can improve on to enhance the tourism experience offered in Sault Ste. Marie. As part of the Comprehensive Tourism Strategy, Destiny will also be encouraging collaboration among the local non-profit tourist operators as a means to increase efficiency. Destiny's tourism strategy is still in its infancy, but similar models have proved successful in boosting tourism in other municipalities.

Destiny continues to be supportive of Downtown/Waterfront institutions in their bids for government funding. Destiny's support is based on the notion that by improving key sites such as the Parks Canada National Historic Site and the museum ship Norgoma so that they meet the standard of the rest of the Downtown/Waterfront, the community as a whole will be perceived as a more attractive destination.

Destiny recently recommended to council that the Norgoma receive funding of \$5,000 per year for five years, with the stipulation that the Norgoma make changes to its governance structure and continue to meet specific performance

targets. In its 2007 budget, the City of Sault Ste. Marie decided instead to grant the Norgoma one-time funding of \$10,000.

All Season Tourism

The operation of Searchmont Resort is critical to maintaining Sault Ste. Marie's status as an all-season tourist destination. After several years of financial struggles Searchmont Resort finally appears to have gained some stability. The Searchmont Ski Association has found a private-sector partner who will guarantee the purchase of the resort ensuring its long-term viability. While the purchaser will hold the mortgage, the Association will be responsible for financing capital expenditures as well as generating enough income to cover the mortgage payments. An unseasonably mild winter paired with unease over its financial status caused skier visits to drop by 24% at Searchmont in 2006/07 compared to the previous ski season. The Ski Association was able to successfully operate the Resort through these difficult times thanks in part to a couple of successful fundraising initiatives. Thousands of dollars were raised through the sale of "Mountain Memberships" which gave members the opportunity to participate in the decision making process at Searchmont. Sponsorship of chairlifts also provided much needed capital for the Ski Association. Searchmont is extremely important to the region, employing over 125 people each winter and contributing approximately \$8 million to the area economy.

Destiny's Impact

Destiny realizes that Searchmont's importance to the region reaches far beyond its economic impact. In addition to the employment and spending that Searchmont generates, it contributes to our quality of life by providing

recreation, increasing activity levels, and assisting in the recruitment of professionals to the community. Destiny in cooperation with the Searchmont Ski Association has drafted a strategy document to assist Searchmont in its transition from private to non-profit status. The plan is based on feedback from brainstorming sessions with stakeholders. It provides a clear vision of what the community would like Searchmont to become, and outlines a specific set of strategies and objectives to help attain it. Now that the purchase of Searchmont Resort has been secured, focus can shift to expanding the user base and developing a fresh culture of downhill skiing in Sault Ste. Marie. Destiny is committed to assisting Searchmont in building its stature as one of the north's biggest tourist attractions.

The external factors (exchange rate, weather, border security, Michigan economy) affecting tourism in Sault Ste. Marie are out of our control. Destiny and its partners are focusing on the factors that we can influence by providing support for infrastructure improvement,

facilitating strategic planning, and coordinating development efforts amongst the tourism partners. Destiny's efforts should place the Searchmont Ski Association in a good position to capitalize on tourism related opportunities when the external factors turn in our favour.

Growth Engine #3 – Small Business Development

The small business sector is an important piece of the local economy because it provides many of the goods and services that larger employers require in order to conduct their day-to-day operations. Most of today's large businesses began as small businesses. The success of the small business sector provides a good indication of the strength of the local economy. Small businesses typically do not have access to as much credit as larger firms to weather slow downs in the economy. A diversified local economy less susceptible to cyclical shocks will provide the small business sector with a stable environment in which to operate.

Chart 1: Small Business Comparison – Sault Ste. Marie vs. Canada and Ontario 2006

	Canada	Ontario	SSM	SSM
	2006	2006	2006 ¹	2005 ²
Number of firms ³	1,070,139	356,619	2,949	2,927
Number of firms with less than 50 workers	1,011,673	332,725	2,813	2,798
Percent of firms with less than 50 workers	94.5%	93.3%	95.4%	95.6%
Total Employment ⁴	13,808,742	5,314,185	44,316	42,322
Employment by firms with less than 50 workers	4,025,118	1,514,368	16,270	15,508
Percent of total employment at firms with less than 50 workers	29.1%	28.5%	36.7%	41.5%

¹ SSMECD Business Directory 2006. Employment numbers are an estimate, some double counting may exist.

² SSMECD Business Directory 2005. Employment numbers are an estimate, some double counting may exist.

³ Number of firms for Ontario and Canada from Industry Canada's *Key Small Business Statistics* January 2007.

⁴ Total employment for Ontario and Canada from Industry Canada's *Key Small Business Statistics*, January 2007.

The data in Chart 1 indicates that the small business sector makes up a larger proportion of the economy in Sault Ste. Marie, both in terms of the number of firms and employment than in Ontario or Canada. This is to be expected as large firms tend to congregate around major population centres. Based on the data collected for 2005 and 2006 Sault Ste. Marie appears to be moving towards the provincial and national rates of employment in the small business sector. In 2006 the number of small businesses in the community increased from 2,798 to 2,813. At the same time the proportion of people working in the small business sector dropped from 41.5% to 36.7%. This indicates that it is the large firms in the community that are driving job creation.

Small Business Portal

Sault Ste. Marie's economy is very dynamic with entry and exit of firms taking place on a regular basis. One of Destiny's partners, the Community Development Corporation, of Sault Ste. Marie and Area is developing a small business portal to provide assistance to firms in each phase of the business cycle. The portal will be specific to the local economy and provide continuity to the various small business assistance programs currently delivered by local organizations. The portal will also link to the Ontario Business Gateway, a provincial business support website. The Ontario Business Gateway offers a wide-range of government information relevant to small business owners. The small business portal will be a valuable tool for entrepreneurs, taking the legwork out of accessing important information, government forms and services. The portal should produce efficiency gains by streamlining the small business assistance model currently in place locally. The

resulting time savings will allow entrepreneurs to spend more time executing their business plans, strengthening the small business sector in our community. Statistics confirm how vital small businesses are to our local economy.

Growth Engine #4 – Knowledge Based Development

Economic growth is no longer reliant on the traditional inputs of land, labour and capital. The limiting factor in a region's rate of growth is the growth of the knowledge within it. Knowledge is defined as understanding gained through experience or study. Destiny and its partners are taking steps to ensure that Sault Ste. Marie and the Algoma district will be poised to take advantage of any knowledge-based opportunities that present themselves whether they are health related, science-based or require innovative technologies.

Because of the nature of knowledge-based industries, new developments are more difficult to track than in traditional industries. Firms in the knowledge based sector often begin with only 1 or 2 employees and operate out of a home or small office; whereas traditional industries require a large workforce and a plant with manufacturing facilities in order to operate.

Four of Destiny's key strategic priorities fall under this Growth Engine: Information Technology, Applied Science Opportunities, Post-Secondary Infrastructure, and Immigration.

Information Technology

Lucidia Studios is a perfect example of a small firm relying on its expertise to excel in the knowledge economy. Lucidia Studios is an integrated communications agency specializing in developing

innovative web solutions. Lucidia was created in 2000 and from day one has been sought after for their dynamic approach to serving their client's needs. In its short existence Lucidia Studios has already received a number of awards from the business community including: Sault Ste. Marie Chamber of Commerce Business/Entrepreneur of the Year, One of the Best Places to Work in Northern Ontario, and the Ontario Global Traders Award of Merit. Lucidia Studios services clients across North America proving that in the knowledge economy location is not nearly as important as expertise.

Success stories like Lucidia are the reason it is important for the community to embrace the information technology sector, providing new firms with the necessary resources and environment to succeed. The Sault Ste. Marie Innovation Centre (SSMIC) has been extremely successful in aiding the development of firms in the information technology sector. Since 2004 the SSMIC has been responsible for the creation of 137 IT sector jobs in Sault Ste. Marie. A thorough discussion of the Innovation Centre's impact on the local economy follows in the section titled "Community IT Strategy".

The call centre industry has been the main driver of employment in the knowledge based sector in Sault Ste. Marie. As of January 2007, employment at Sault Ste. Marie's four major call centres totaled 3,320. As a whole, the call centre industry in Sault Ste. Marie now employs more people than Algoma Steel, the city's largest employer. The arrival of the call centre industry in Sault Ste. Marie is a major reason our unemployment rate is at a 20-year low. As long as the community has the pool of labour to support its growth, the call

centre industry in Sault Ste. Marie is likely to continue expanding.

Destiny's Impact - Community IT Strategy

The Destiny "IT Strategy for Economic Development" completed in February 2006 validated the pursuit of the information technology (IT) sector for economic development in Sault Ste. Marie. The IT Strategy provides an organized approach to economic development in the IT sector with a balance between early results and long-term success. The Sault Ste. Marie Innovation Centre (SSMIC) has entered into an agreement with Destiny confirming its responsibility for coordinating the IT Strategy Action Plan. As part of the agreement, the Innovation Centre must provide regular progress updates to Destiny. The IT Strategy recommended proceeding on two broad fronts: "Drive Niche Opportunities" and "Establish the Environment" to ensure IT economic diversification.

Drive Niche Opportunities

As a result of the IT Strategy the Innovation Centre has focused its efforts on driving growth in four key areas: Health Informatics, Geographic Information Systems, Gaming Opportunities and Life Sciences.

The health informatics field is the first priority among niche opportunities. In 2007 the Innovation Centre coordinated the formation of a Health Informatics Cluster Committee to identify and prioritize IT economic development possibilities. The Innovation Centre has secured funding from FedNor to hire a Health Informatics Development Manager. Projects that the Innovation Centre is pursuing in the health informatics field include developing a patient portal and forming a partnership with Sault Area Hospitals to work with

their Meditech system. The committee hopes to establish an Industrial Research Chair in Health Informatics in Sault Ste. Marie to build on the research potential that exists in the city.

A GIS system is a specific type of information system in which information is specifically referenced to a location on the Earth. The geographically referenced data is then used to support an array of business opportunities including infrastructure management, land use/planning and business communications. A major focus of the SSMIC is to grow the GIS sector in Sault Ste. Marie. They plan to accomplish this through its Community Geomatics Centre (CGC). The CGC and its partner's share data and infrastructure allowing them to benefit from the inventive service delivery solutions being developed. The CGC also collects local data relating to environmental issues, social and public safety, economics, education, recreation and tourism. The CGC operates as a self-sustaining department of the Innovation Centre funded directly by clients accessing its services. The CGC received a number of accolades in 2006 (ESRI Canada Award of Excellence, URISA Best Municipal GIS in Ontario) confirming its effectiveness.

The third niche that the SSMIC is working to develop is computer gaming applications. Algoma University College (AUC) is currently recruiting to offer the first Masters of Computer Game Technology course in Canada in 2007. The program, affiliated with the University of Abertay in Scotland, provides the opportunity to develop a local gaming cluster. The SSMIC, located within AUC, is a natural place for this cluster to assemble. The SSMIC has been involved in supporting the computer gaming industry in Sault Ste. Marie by hosting the Dare to be Digital computer

gaming competition and completing an application for gaming equipment from the Ontario Trillium Foundation.

With its success in the first three niches, the SSMIC is now beginning to develop a fourth niche in the life sciences. They are exploring a partnership with Science Enterprise Algoma (seA) and ULERN that will link IT with the scientific potential in the community. The initiative is to take advantage of the considerable life sciences activities occurring in the community at the Great Lakes Forest Research Center (GLFC), Ontario Forest Research Institute (OFRI), and other private and public sector partners to capitalize on commercialization potential. An Innovation Council has been formed consisting of board members and executives from SSMIC, seA and ULERN to explore ways that these organizations can work together to provide innovative services to the region.

Establish the Environment

A second focus of the IT Strategy is to ensure that the SSMIC creates an environment of support to promote growth and collaboration in the IT sector. The SSMIC has been building this environment through: the establishment of a Champions Network, business incubator, networking events and monitoring funding opportunities.

A network of champions will be established with a mandate that involves all aspects of the community including: government, education, IT consumers and IT producers. This Champions Network will ensure that continued focus and effort is placed on growing the IT community and identifying IT opportunities as they emerge. An Opportunities Committee has been formed utilizing members from the Destiny IT Committee. The

Opportunities Committee will discuss emerging opportunities and progress on existing opportunities.

The Innovation Centre's business incubator provides support to SME's (small/medium sized enterprises) in the critical start-up period. Incubation provides tenants with business mentoring services, affordable rental space, and office facilities. Business incubation has been recognized as an important tool for supporting the development of SME's in the community. The SSMIC business incubator currently has 4 tenants. Two companies which began as incubator clients, E-Tribe and Sault Business, have successfully moved out of the incubator and contribute to the growth of the local IT sector.

Networking events, seminars, and training workshops play an important role in establishing a vibrant IT community. These events allow IT companies to interact with members of the private and public sectors, building relationships that often lead to business partnerships, which include: monthly Technology Advisory Group meetings in conjunction with AdNet and the EDC, monthly technology breakfast series and ongoing training workshops on relevant IT and business topics. Information Technology is such an isolated profession that these networking events also provide a venue for members of the IT community to get to know one another.

The SSMIC monitors and works to obtain funding opportunities (government, angel, and venture) for IT SME's. The Northern Ontario Enterprise Gateway (NOEG) has been established through funding from FedNor to help entrepreneurs to become investor ready. The SSMIC will continue to ensure that SME's are aware of new programs that can support their research and development and business growth.

In 2006 the Innovation Center was responsible for the creation of 20 new IT jobs in the community. SSMIC goals for 2007 include:

- ◆ create an additional 15 IT jobs in Sault Ste. Marie
- ◆ provision of value-added services (referral, advice, business plan review) to 30 – 45 existing businesses in the community
- ◆ attract \$500,000 in program funding to support expanded SSMIC operations

Development of the Community IT Strategy has been one of Destiny's greatest successes. The first year of this plan has been fruitful with the creation of 20 IT jobs in Sault Ste. Marie. As the size of the IT sector in Sault Ste. Marie expands all members of the community will benefit through increased job opportunities (direct and indirect) and an improved quality of life.

Applied Science Opportunities

Applied science is another of Destiny's key strategic priorities. Sault Ste. Marie has a great opportunity to establish itself as a science cluster. The city is already home to a number of key scientific research organizations including the Great Lakes Forest Research Centre (GLFRC), Ontario Forest Research Institute (OFRI) and the Department of Fisheries and Oceans (DFO). These institutions represent a mass of scientific knowledge and experience.

Science Enterprise Algoma (seA) was established to take advantage of economic development and commercialization opportunities that exist in the natural resource and life science industries in the Algoma region. seA currently has 3 full-time staff and one volunteer seeking funding and other opportunities to increase research

capacity in natural resources in Sault Ste. Marie. In February 2007 seA entered into a collaboration agreement with BioEnterprise Corporation, a commercialization agent and technology accelerator. The goal of the agreement is to promote the commercialization of innovative technologies across the province of Ontario. This agreement will provide Northern Ontario with access to small business mentorship skills as well as opening the door to investors from across the province to consider bio-based commercial development opportunities in our region. The seA/BioEnterprise collaboration will result in the identification of innovative technologies that can be successfully commercialized with the help of their joint services.

seA is currently working towards the creation of an Invasive Alien Species Centre (IAS) in Sault Ste. Marie. An alien species is an organism that is not indigenous to a given area and has instead been introduced either deliberately or accidentally by humans. Invasive alien species are often harmful to the ecosystem as well as the economy. For example, right here in the Great Lakes tens of millions of dollars has already been spent repairing damage caused by zebra mussels to locks and other waterway structures. Total Canadian cost estimates of invasive alien species vary from \$13 to \$35 billion. In spite of improvements in the treatment of alien invasive species, much more needs to be done in response to the increasing threat. Our location is ideal for an IAS Centre because of our scientific resources, geographic location, and political will. Scientifically, the expertise is already in place to set up an IAS centre in Sault Ste. Marie. Between the federal and provincial governments there are currently 36 primary and 33 support positions involved in invasive species research and management.

Geographically, Sault Ste. Marie's location in the centre of Canada and the Great Lake region provides the opportunity to study both aquatic and terrestrial invasive species. Politically, the provincial government is dedicated to creating jobs in Northern Ontario and the Ministry of Natural Resources has pledged its support for the IAS project. A business case for the Invasive Species Management Centre (IAS) was completed in 2006. seA is currently working on an operating plan and budget estimate for the centre while waiting on funding decisions from both the provincial and federal governments. It is estimated that 30 new positions would be created initially to establish the IAS centre with an operating budget of \$15 million per year over the first 3 years, and \$7.5 million per year thereafter.

Destiny's Impact – Applied Science

Destiny SSM is facilitating the development of a partnership with the SSM Innovation Centre and ULERN to establish a cluster for sustainable technologies to encourage an improved bio-based economy for Northern Ontario. There is substantial evidence that clusters create jobs, attract and retain leading scientists and create commercial opportunities that benefit the region. The science cluster would likely include an Invasive Alien Species Management Centre (IAS), Science Campus for Algoma University College and a Commercialization Office that provides support services to local entrepreneurs.

Strong Educational Infrastructure

In order for Sault Ste. Marie's knowledge sector to continue to grow our educational institutions must grow in stride with it. Sault Ste. Marie is home to

two post-secondary institutions, Sault College and Algoma University College (AUC). Both institutions have experienced growth in enrollment in recent years; full-time enrollment at Sault College currently stands at 2,300 while there are approximately 900 full-time students at AUC. Sault College and AUC have both added programs aimed at developing highly skilled graduates able to meet the demands of the labour market. Sault College has developed a Wind Energy Training Program while AUC will begin offering a Master's of Science in Computer Gaming Technology in the fall. For Sault Ste. Marie to be able to take full advantage of knowledge based opportunities it is essential that Sault College and AUC continue to provide the community with a supply of highly skilled graduates.

Algoma University College (AUC) is quickly becoming a force in the local economy. Since 1999 enrollment at AUC has increased by 73% to its current level of approximately 1,300 students. The increase in enrollment is a result of an increase in local and out-of-town students. In 2005 over 70% of local university-bound high school graduates chose to pursue post-secondary studies at Algoma University. There are currently 160 international students from 20 different countries studying at AUC. Algoma has added several four year programs as well as a Master's of Science in Computer Games Technology. This program, the first of its kind to be offered in North America, is being offered at AUC in conjunction with the University of Abertay, Dundee, Scotland.

These successes have encouraged Algoma University College to pursue independence. AUC currently operates as an affiliate college of Laurentian University. An independent Algoma University will have the ability to

develop academic programs and target student support programs more quickly and effectively than its current organizational structure allows. AUC has set a long-term target of 3,000 full-time students. Algoma University hopes to achieve this goal by focusing on its current strengths as well as key areas of academic development. An independent AUC with a growing enrollment will have positive effects on the city's economy in terms of direct employment and productivity. It is for these reasons Destiny support's Algoma University College's bid for independence.

Destiny's Impact

Destiny Sault Ste. Marie is currently working with both Sault College and Algoma University College (AUC) to meet the needs of today's labour market as well as building the knowledge base for the future.

Destiny put together a collaborative effort with AUC, Sault College and the Sault Ste. Marie Economic Development Corporation (EDC) to explore growth and business opportunities for the two institutions. The project is being coordinated by the EDC. A project manager has been contracted to identify joint ventures mutually beneficial to both Sault College and AUC and build a strong post-secondary infrastructure in the community. Research has been conducted on joint marketing of post-secondary programs, linkages of potential funding sources, and implementation of shared services between the two institutions. One such program is the concurrent aviation-business diploma/degree program. Sault College and AUC's joint fund recently approved \$5,000 for funding of the concurrent program so that it could be promoted, during recruitment, to potential students for both institutions. Student profiles have been identified for comparative

purposes with other universities and colleges across the country to better identify areas for growth.

Community Recruitment/Immigration Strategy

Post-secondary infrastructure is not the only way to develop a skilled labour force that is able to meet the demands of the labour market. Understanding this, Destiny facilitated the development of the Algoma Workforce Investment Committee (AWIC). Made up of representatives from Sault College, East Algoma Community Futures Development Corporation, Superior East Community Futures Development Corporation and the Community Development Corporation of Sault Ste. Marie, AWIC is working with area industries that face current or future labour shortages. AWIC released its Trends, Opportunities and Priorities (TOPS) Report in January 2007. The report identified labour shortages in three key areas: skilled trades, the construction sector and the hospitality industry. Expansion at Algoma Steel, construction of the new Sault Area Hospital, and completion of the Borealis project could turn these labour shortages into a crisis. AWIC with help from industry, service providers and government representatives is designing and implementing a Regional Labour Force Development Strategy to address labour shortage issues. The strategy will provide a forecast of human resource requirements over the next 3 – 5 years, assess gaps between future labour force requirements and skills the current workforce possess, and provide an assessment of current human resource practices in bridging these gaps. By more clearly identifying needs in the regional labour market the strategy will allow Destiny and its

partners to work more effectively towards meeting those needs.

Destiny is also taking steps to supplement the current pool of workers in the Sault Ste. Marie by attracting new workers to the area. Destiny is working with public and private sector partners to build an immigration portal that will streamline the relocation process for job seekers from out of town. The City of Sault Ste. Marie working in partnership with the EDC, Community Career Information Centre, and the private sector has received \$350,000 in provincial government funding to set up an immigration portal to attract and support the settlement and integration of people into the community. Destiny is involved in assembling a team which will begin development of the portal by the end of summer. Easing the relocation and integration process by making it easier for potential migrants to find work and appropriate housing should attract more skilled labour and professionals to Sault Ste. Marie by eliminating several hurdles in the relocation process.

Growth Engine #5 - Health, Social and Public Sector Development

The development of strong health, social and public sectors in a community not only increases economic diversity but also has a positive impact on the standard of living in the community. The public sector is responsible for the provision of many services that contribute to our quality of life including medical services, public infrastructure and recreational venues. Additionally, the provision of high quality services makes a community a more attractive place for people and businesses to locate.

Construction of the new Sault Area Hospital (SAH) is one of the most exciting developments taking place under this Growth Engine. The new hospital

will increase the level of health care available to citizens as well as making Sault Ste. Marie a more enticing destination for healthcare professionals. Construction of the new hospital is slated to begin in August 2007. Construction is expected to take 2 years at a total cost of \$220 million; \$155 million for construction of the facility and \$65 million to purchase specialized equipment for the new hospital. In addition to improving the quality of health care in the community, construction of the new hospital will create hundreds of construction jobs and inject millions of dollars into the local economy.

The public sector has been a beleaguered sector of Sault Ste. Marie's economy in recent years. Public sector employment in the community has been decreasing for several years as the federal and provincial governments centralize their operations. This trend may be reversing. In the past two years the provincial government has announced the creation of several jobs in Sault Ste. Marie. Construction of a new Youth Detention Centre is nearing completion. This \$7 million dollar facility has resulted in 60 person/years of construction work, with 20 full-time positions expected upon opening in 2007.

In April the provincial government of Dalton McGuinty announced that it will be creating an additional 15 Ministry of Labour positions in Sault Ste. Marie to speed up the resolution of Employment Standards Claims. This funding is part of the provincial government's strategy to bring more jobs to Sault Ste. Marie and Northern Ontario. The EDC worked with the Ministry of Labour to develop a business plan that made the case for Sault Ste. Marie to be the location for these jobs. Data on government jobs created is easily accessible, unfortunately information pertaining to the loss of

government jobs in a community is much more difficult to attain. The government jobs being created today far from makeup for the losses that Sault Ste. Marie has endured over the past decade.

Destiny's Impact

In 2005, an independent consulting report commissioned by the City of Sault Ste. Marie identified, that the location of a clinical research initiative in Sault Ste. Marie, Ontario was feasible and had logistical advantages. The feasibility study completed by SHI Consultants in July 2006 stated that there is both global and regional demand for a clinical research network in Northern Ontario. As a result of the feasibility study, NOSM hired a research coordinator to draft a business plan for the proposed clinical research network. The network will be a pan-Northern initiative that will provide services on a distributed grid model. In this type of arrangement, clinical research would be conducted across Northern Ontario with researchers using information technology systems to collaborate with one another. The Northern Ontario Clinical Research Network (NOCRN) would provide existing clinical researchers with additional training opportunities and peer review services to facilitate publication of their findings in reviewed scientific journals. A clinical research network would also have numerous positive research, health, social and economic benefits for the region and would increase collaboration and networking opportunities for health care providers and communities that would like to engage in participatory research. NOCRN would increase the quality of health services provided across the North by focusing on diseases such as diabetes that are more prevalent in Northern Ontario. The network would increase the region's attractiveness to academics

interested in scientific research and may help attract physicians who value the opportunity for professional development. Economically, NOCRN may lead to the creation of research positions in Sault Ste. Marie, although the extent of these jobs is not yet known. A letter of intent has been submitted to the Canadian Institutes for Health Research for funding for the research portion of the project. The business plan currently being developed will be completed by the end of 2007. Destiny played an important role facilitating the process and creating local enthusiasm for NOCRN. Destiny was successful in bringing the proper people together to get the project off of the ground. Its role in facilitating meetings and distributing information has been praised by the research coordinator for the project. Being part of NOCRN would strengthen Sault Ste. Marie's standing as an important component of the research grid in Northern Ontario and will provide benefits to the community beyond the measurable job and investment figures.

Developments under the Health, Social and Public Sector Growth Engine tend to provide benefits to the community over a long period of time. The new Sault Area Hospital provides a perfect example of this type of project. Destiny supports community initiatives that enhance the quality of life in Sault Ste. Marie because sound provision of public services inevitably leads to economic development. The establishment of a Northern Ontario Clinical Research Network has the potential to have this kind of effect on our community.

Growth Engine #6 – Trade and Export Development

Like small business development, trade and export development occurs in many sectors of the economy. Because the

many businesses that trade or export fall under other growth engines such as Traditional and New Industry Development, Knowledge-Based, or Small Business Development, it is difficult to limit the overview of Trade and Export Development to just those firms that are involved with export and trade. Like the rest of Canada and Ontario, many of the goods produced in Sault Ste. Marie are destined for export markets. The community's biggest employer, Algoma Steel, in particular is heavily dependant on export markets.

The Community Development Corporation of Sault Ste. Marie and area (CDC) and the Sault Ste. Marie Economic Development Corporation (EDC), both Destiny partners, have undertaken initiatives to increase the amount of trade flowing in and out of Sault Ste. Marie.

The Northeast Network of Community Futures Development Corporations is sponsoring a pan-Northeastern Ontario trade assistance and development program. The project will span a two-year period. As part of the project a trade advisor will be located in Sault Ste. Marie and be based out of the CDC offices. The focus of the project will be on increasing the number of export ready firms in Northeastern Ontario. The increased trade is expected to result in job and revenue growth in exporting firms. The project will work strategically and cooperatively with CFDC offices and staff across Northeastern Ontario

The EDC has recently undertaken an initiative of its own to increase exporting opportunities for local firms. The International Relations and Global Logistics department, part of their Development Sault Ste. Marie division, was established at the end of 2006 to be the EDC's lead on import/export related economic growth opportunities. The

focus of International Relations and Global Logistics is to increase the community's tax base, and identify and support economic growth opportunities related to exporting opportunities based on the export of locally produced goods and services to international markets. International Relations & Global Logistics plans to accomplish this through a variety of activities including developing economic partnerships with Sault Ste. Marie's sister cities, assisting local firms in evaluating international markets, and maintaining accurate information on the export readiness of local firms. In 2007 International Relations & Global Logistics will be facilitating a number of in-bound and out-bound trade missions with China, Portugal, Italy, Finland, India, Romania and Israel.

The most recent data on local exports obtained from FedNor and the EDC in 2005 indicated that 97 firms in Sault Ste. Marie were exporting goods and services. Total employment in exporting firms in 2005 was 5,782⁵, 15.8% of the local workforce at the time. Exporting firms in Sault Ste. Marie vary in size from sole proprietorships to Algoma Steel which employs close to 3,000 people, with the majority of exporting firms involved in natural resources and primary manufacturing.

Unfortunately these data sets are no longer maintained by FedNor or the EDC. This makes comparison to other years impossible, however the proportion of the population employed in exporting industries today is likely similar to 2005.

Destiny's Impact

Destiny understands that in order to maintain a strong economy, export

⁵ Employment in exporting firms was calculated by cross-referencing the list of exporting firms with the 2005 EDC business directory.

markets must be easily accessed by local firms. The multimodal project is a huge step in the right direction. By transforming Sault Ste. Marie into a transportation hub, new exporting and importing opportunities will become available to local businesses. The ability to access external markets allows firms to diversify their customer base, and therefore become more resistant to fluctuations in the local economy. For more information on the multimodal initiative read the section on Traditional and New Industry Development.

Overall Progress of Destiny Sault Ste. Marie

Since Destiny's inception it has been working to increase the levels of job creation and investment in the community. In order to measure Destiny's success we must assess how Destiny SSM's efforts have related to the community targets laid out in its inception. There is evidence that Destiny SSM and its partners have made a great deal of progress toward achieving both their long and short-term goals.

Restore Population to 82,000 by 2012

This is a very ambitious target for the community. We are now halfway to 2012 and the recent census indicated that Sault Ste. Marie's population has grown modestly to 74,948. Although Sault Ste. Marie has only experienced a slight increase in population, it is not insignificant. The 2006 census was the first in 15 years that did not report a decline in population for Sault Ste. Marie. The strong local economy coupled with a community Recruitment/Immigration Strategy will attract people to Sault Ste. Marie. While it is unlikely the population of Sault Ste. Marie will reach 82,000 by 2012, the

community has been successful in stemming the tide of out-migration.

Increasing Municipal Tax Revenues Through an Expanded Tax Base

In 2002 when Destiny was conceived municipal tax revenues stood at \$88,588,814. The municipal tax levy for 2007 is \$101,618,238. In the five years since Destiny's existence municipal tax revenues have grown by \$13,029,424. The community has achieved its target of increasing municipal tax revenues by \$2 million per year. While it is important for tax revenues to keep pace with the rate of growth of the city in order for infrastructure to be maintained, a city's tax base is a better measure of the sustainability of a municipality. The tax base is one of the most useful measures of a city's ability to maintain and develop infrastructure. After declining for 5 consecutive years from 2000 to 2004, the city's tax base has since grown for 3 straight years. The municipal tax base has grown despite the efforts of Algoma Steel to reduce their assessment by tearing down vacant or unused structures on their property. Growth in the city's tax base generates increased tax revenues without raising the mill rate. The growth in Sault Ste. Marie's tax base is one of the key reasons the goal of increased tax revenues has been met.

Ensure Municipal and Public Resources are Committed to Economic Diversification

Examination of Destiny's strategic priorities provides evidence that Destiny has been successful in directing public funds towards initiatives that have aided in the diversification of the local economy. Destiny and its partners have attracted government funding to support projects such as the Multi-modal study, the Community IT Strategy and Science

Enterprise Algoma which have all added to the diversity of the local economy.

Create an Environment in which the Private Sector drives Economic Development

The majority of economic development in the community is being driven by the private sector. The strength of Sault Ste. Marie's economy in recent years has been a result of the expansions at Algoma Steel and Flakeboard, the growth of the call centre industry and the local construction boom. The private sector has been the catalyst in all of these instances. The efforts of Destiny and its partners have played a part in creating a stable economic environment in which the private sector feels confident to invest in the community.

Where Do We Go From Here?

Since its inception in 2003 Destiny SSM has grown from a wish list of over 100 projects and initiatives to a diversification strategy focused on a set of key strategic priorities. The priority areas are under constant re-evaluation; because a certain sector is not given priority status now, does not preclude it from becoming a priority in the future. This dynamism has enabled Destiny SSM to drive economic diversification in Sault Ste. Marie.

Economies are not static; they are in a constant state of flux, changing in response to external shocks. Due to the fluid nature of economies, organizations such as Destiny SSM must be capable of rapidly adjusting their strategies in order to focus their resources as efficiently as possible. Destiny and its steering committee have proven themselves adept at adapting to the changing needs of the community; re-evaluating their focus on a yearly basis in order to best serve the citizens of Sault Ste. Marie.

As economic conditions in the community change, Destiny's challenges change with them. When Destiny SSM was established, the major problems it was faced with were those of a weakened economy: its largest employer was in receivership, unemployment was high, youth were forced to leave town to find work, and people were reluctant to invest in the community. In the five years since Destiny's inception those trends have been reversed: Algoma Steel is earning record profits and expanding operations, the labour market is the strongest it has been in decades, youth are returning to the community, and investors have shown renewed faith in the local economy.

Today Destiny SSM is faced with a new set of challenges associated with a robust economy. Issues that will test Destiny SSM and its partners as they move forward include a developing labour shortage and the identification of new priority areas that address the needs of a growing economy.

In the past year Destiny has shifted its approach to economic diversification. Whereas in the past Destiny focused on specific initiatives, Destiny is now taking a broader, more strategic approach to economic diversification. This change in direction will be a positive move for both Destiny and the community. It will assist the community in defining the roles of Destiny and other community organizations involved in economic

development. While other community organizations continue to concentrate on developing specific business opportunities; Destiny can focus its resources on strategies to drive economic diversification in areas where champions can drive specific programs and projects. This report has already touched on a number of areas that exemplify this new strategic approach to economic diversification including the Comprehensive Tourism Strategy, Energy Strategy, and the Recruitment and Immigration Strategy.

Thus far Destiny SSM has been effective in advancing initiatives that have contributed to the diversity of the economic base of Sault Ste. Marie. The continued success of Destiny SSM and its partners will depend on how quickly strategies can be implemented to meet the demands of the ever-changing economic landscape. The problem many publicly funded organizations are plagued with is the lag that exists between the time a problem is first diagnosed and the time a strategy is implemented to deal with the problem. This issue is not unique to Destiny, it occurs throughout all levels of government. The time lag results from both the collaborative decision making process and the need to gain funding approval from an outside organization. In order to be effective as a driver of economic diversification, Destiny must focus on implementing its strategic initiatives in a timely fashion.

The Economy of Sault Ste. Marie: A Basis for Measuring Success

Earlier in the report we stated that Destiny SSM's success would be assessed based on the results of specific Destiny SSM initiatives as well as the influence Destiny and its partners have had on general economic conditions in the community. In this section of the report we focus on the economic progress of Sault Ste. Marie and have selected 16 economic indicators to quantify changes in the local economy. Economic indicators provide a valuable measuring stick because they allow us to compare current economic conditions to those from the past. This enables us to examine long-term trends in the economy. Because economic development is a process that occurs gradually over many years, often the long-term trend is more beneficial than the value of an indicator at given point in time. Additionally, by selecting universally accepted economic indicators, comparisons can be made between local economic conditions and conditions in other locations across the region, province, and country.

The economic indicators we have chosen to use as a basis for measuring success are:

- ◆ Municipal Tax Base
- ◆ Municipal Tax Revenue
- ◆ International Bridge Crossings
- ◆ Tourist visits to the Algoma District
- ◆ Hotel Occupancy
- ◆ Construction Values
- ◆ Consumer/Business Bankruptcy Rates
- ◆ Census Population Data
- ◆ Labour Force Statistics
 - Employment Rate
 - Unemployment Rate
 - Participation Rate
- ◆ EI Claimants
- ◆ Ontario Works Caseloads

- ◆ Advertised Job Vacancies
- ◆ Housing starts.

Our analysis of these indicators compares current conditions in the community to the long-term trend as well as the rest of Ontario and Canada.

It should be noted that the data included in the economic indicators section is for 2006. Since then some major events have taken place in Sault Ste. Marie (St. Mary's Paper shutdown, Algoma Tubes lay-offs, Algoma Steel expansion) whose effects will appear in next year's set of economic indicators.

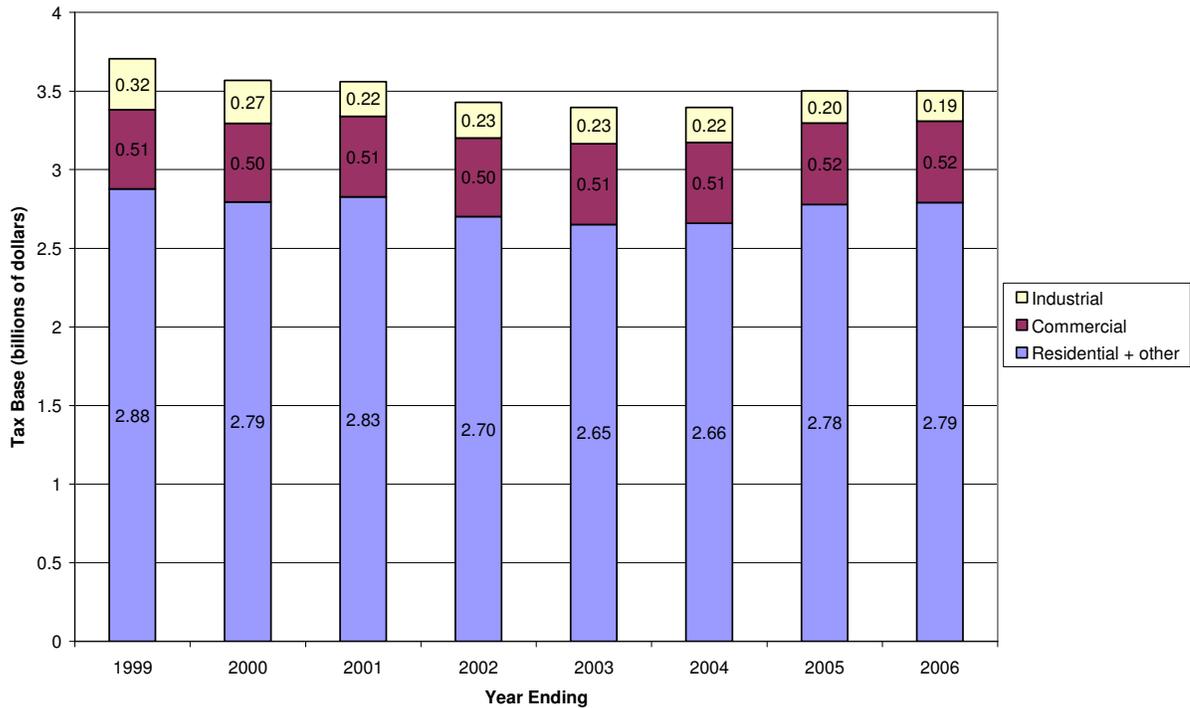
The indicators provide evidence that Sault Ste. Marie's economy maintained its strength in 2006. A number of indicators including labour force statistics, population change and EI claimants illustrate the tremendous changes that have taken place in the local economy since Destiny SSM's inception. The local unemployment rate, once well above the provincial average is now on par with the rest of the province.

Although the majority of the indicators suggest the local economy has changed for the better, tourism remains a weak spot in the local economy. While Hotel Occupancy rates in Sault Ste. Marie increased for the first time in several years in 2006, tourist visits to most local attractions continued to suffer. As Destiny moves forward working with local tourism partners to attract more visitors to Sault Ste. Marie must be one of its focal points.

The following pages provide a more detailed analysis of the economic indicators. The charts and data included provide confirmation of what many believed; Sault Ste. Marie's economy is as strong as it has been in two decades.

Economic Indicators

Tax Base Assessment

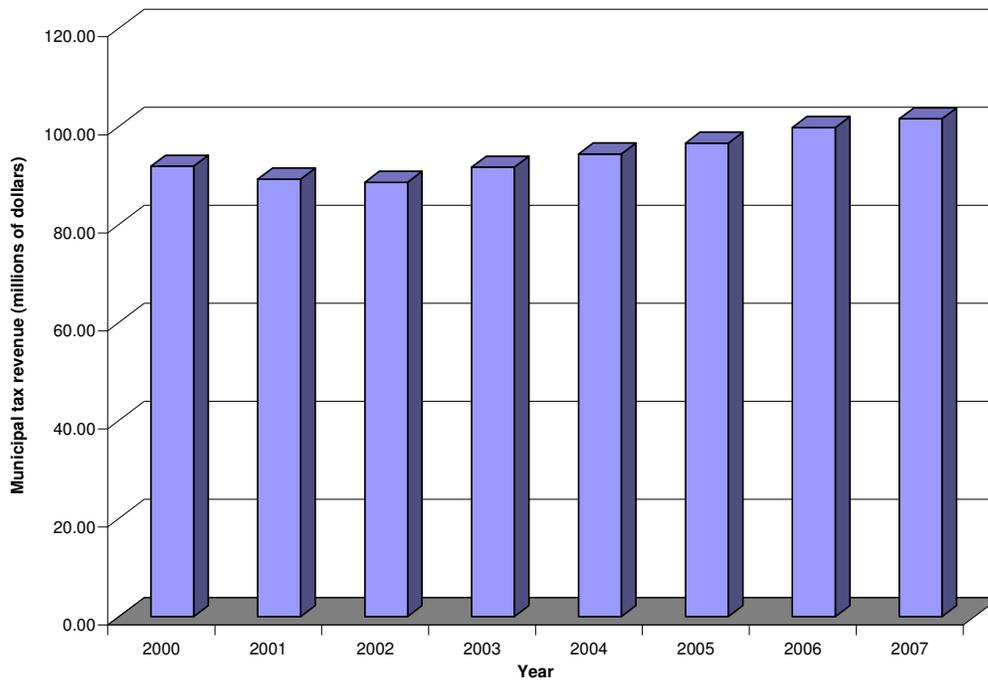


Source: City of Sault Ste. Marie

The tax base is the assessed value of properties within the City of Sault Ste. Marie, on which taxes are levied. The tax base is one of the most useful measures of a city's ability to maintain and develop infrastructure. A growing tax base allows a city to increase revenues without having to boost the mill rate. For comparison purposes we have broken tax base down into three categories: residential, commercial and industrial. Summing all three categories gives the city's total tax base for any given year. After experiencing a substantial increase in 2005, the city's tax base showed little growth in 2006, rising by only \$953,745.

The city's total tax base at the end of 2006 was \$3,501,631,640. The growth in the residential tax base of \$11,159,570 was offset by a decline of \$12,562,497 in the industrial tax base. The decline in the industrial tax base is due largely to the demolition of buildings on the Algoma Steel property. The increase in residential assessments can be attributed to growing demand which resulted in an increase in the assessed value of properties as well as new homes being built. A growing tax base is essential to Destiny achieving its goal of increasing municipal tax revenues by \$2 million annually.

Municipal Tax Revenues 2000 – 2007

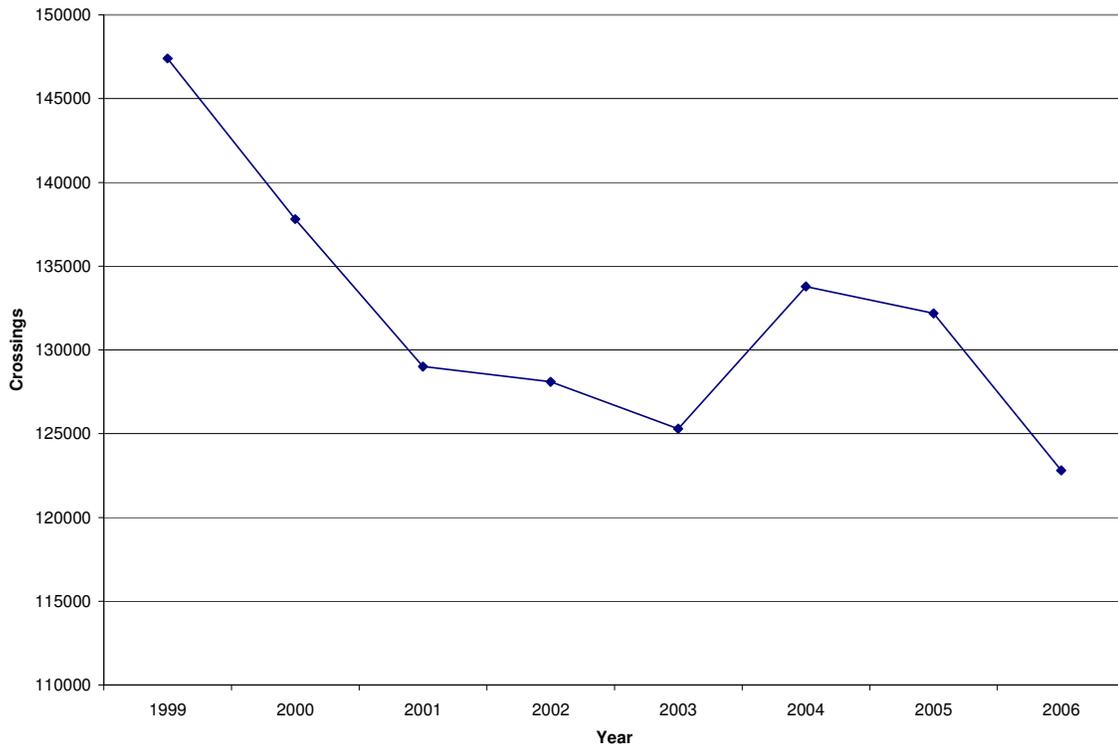


Source: City of Sault Ste. Marie

Examination of the above chart reveals that municipal tax revenues reached a low point in 2002, and have increased every year since. The increase in municipal tax revenues is a result of a growing tax base as well as hikes to the mill rate. At its inception, Destiny set a long-term goal of increasing municipal tax revenues by \$2 million annually. An increase in tax revenues of \$2 million per year corresponds to an annual increase of around 2 percent; this approximates the rate of inflation in Canada. Therefore, an increase in tax revenues of \$2 million per year is required for the municipality to maintain the same level of infrastructure

and services as in the past. Between 2002 and 2007 municipal tax revenues have increased by \$13,029,424; an average increase of \$2.6 million per year, surpassing Destiny's target. The extra tax revenues can be used to further economic growth through the maintenance of municipal infrastructure and services. It should be noted that although municipal tax revenues are increasing, many provincial services have been downloaded to municipal governments vastly increasing the amount of money municipalities require to operate.

Commercial Truck Traffic



Source: International Bridge Authority

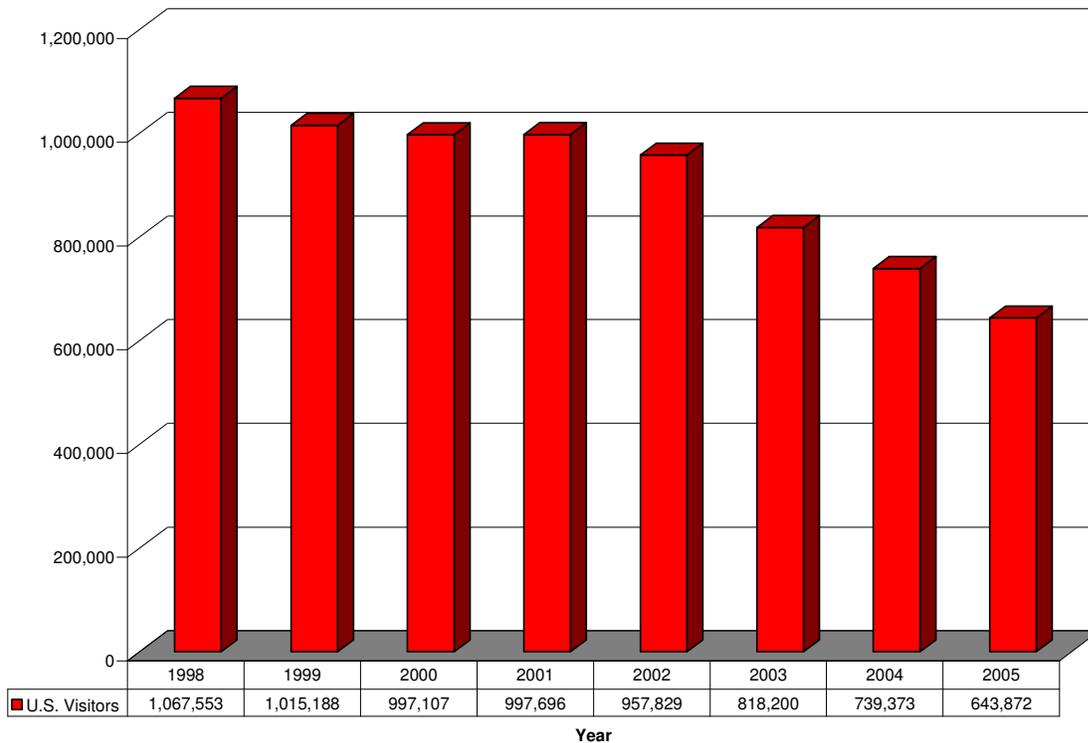
Commercial truck traffic across the international bridge continued its downward trend in 2006. The number of commercial truck crossings in 2006 was 122,804, down from 132,172 in 2005, a decline of 7.1%. When averaged out over the course of a year this amounts to a decline of almost 26 (25.6) trucks per day. Since Destiny began tracking commercial truck traffic in 1999 yearly crossings have fallen by 24,599. This represents a decline of 16.7% or 68 trucks per day.

The drop in commercial truck traffic has taken place despite the fact that Algoma Steel has doubled the number of orders in ships to the United States by transport since 2000. The decline in commercial

truck traffic locally can be attributed to the slowdown in the pulp and paper industry in northern Ontario. A study conducted in the late 1990's indicated that 20 percent of truck traffic on the international bridge was related to the pulp and paper industry. In the past 3 years 12 paper mills in Ontario have closed. Michigan's weak economy is also partly to blame. A slowdown in construction in Michigan has meant fewer imports from Northern Ontario.

Road transportation is one of the focuses of the multimodal initiative that Destiny is championing. This data set confirms that there is excess capacity on the international bridge to support an increase in commercial truck traffic.

U.S. Visits to the Algoma District

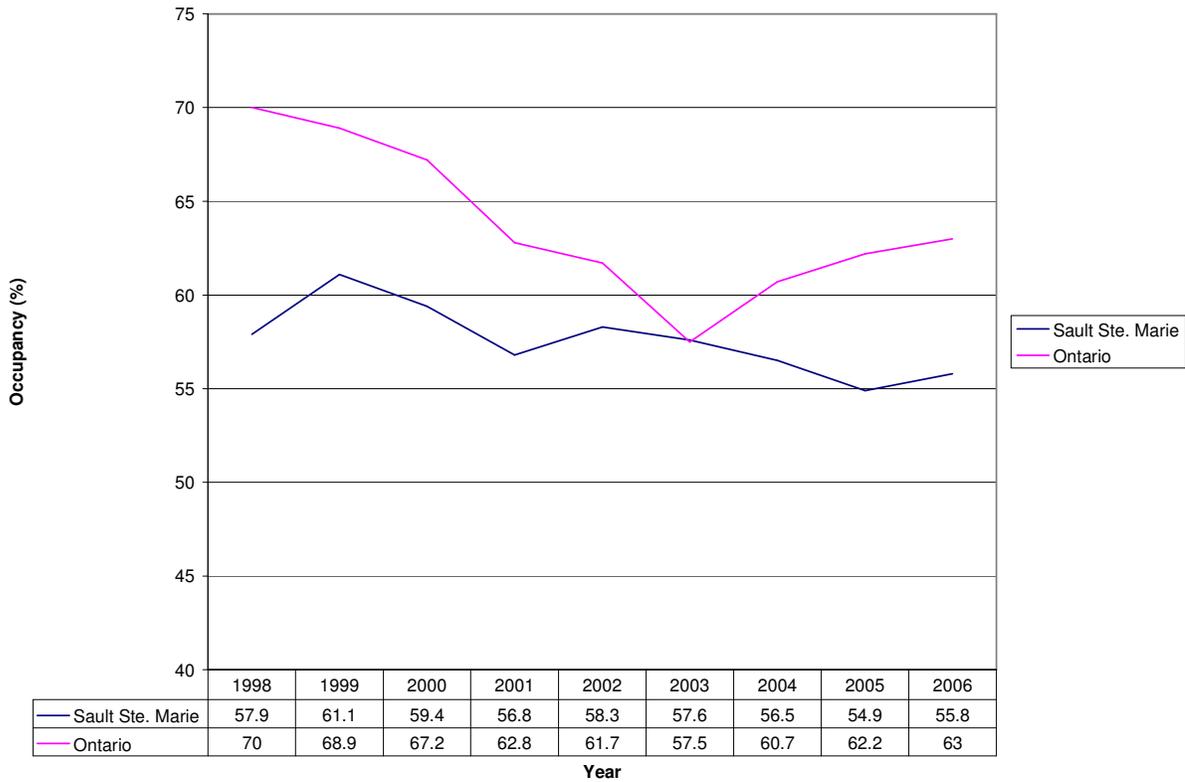


Source: Ontario Ministry of Tourism

Due to change in the methodology used to track tourist visits by the Ontario Ministry of Tourism we were unable to include the same tourism indicator as in previous reports. Efforts to more accurately track domestic tourism by the Ministry of Tourism have delayed the release of domestic tourism figures for 2005. Since U.S. visitors comprise a large proportion of the tourist market in the Algoma District we have decided to include data on American visitors in its place this year. The above graph illustrates how dramatically the number of U.S. visitors to the Algoma District has fallen since 1998. The 2005 figure of

643,872 U.S. visitors represents only 60% of the 1998 total. The appreciation of the Canadian dollar, high gas prices, the weak Michigan economy, and the perception of heightened border security have all contributed to the decline in the number of American visits to the Algoma District. In 2005, the average daily spending by U.S. visitors to the Algoma District was \$86.60. When we multiply this amount by the drop in the number of U.S. visitors since 1998 (413,681), we arrive at \$36,724,635. This provides evidence of how much the drop in tourist visits has hurt the economies of Sault Ste. Marie and the Algoma District.

Hotel Occupancy

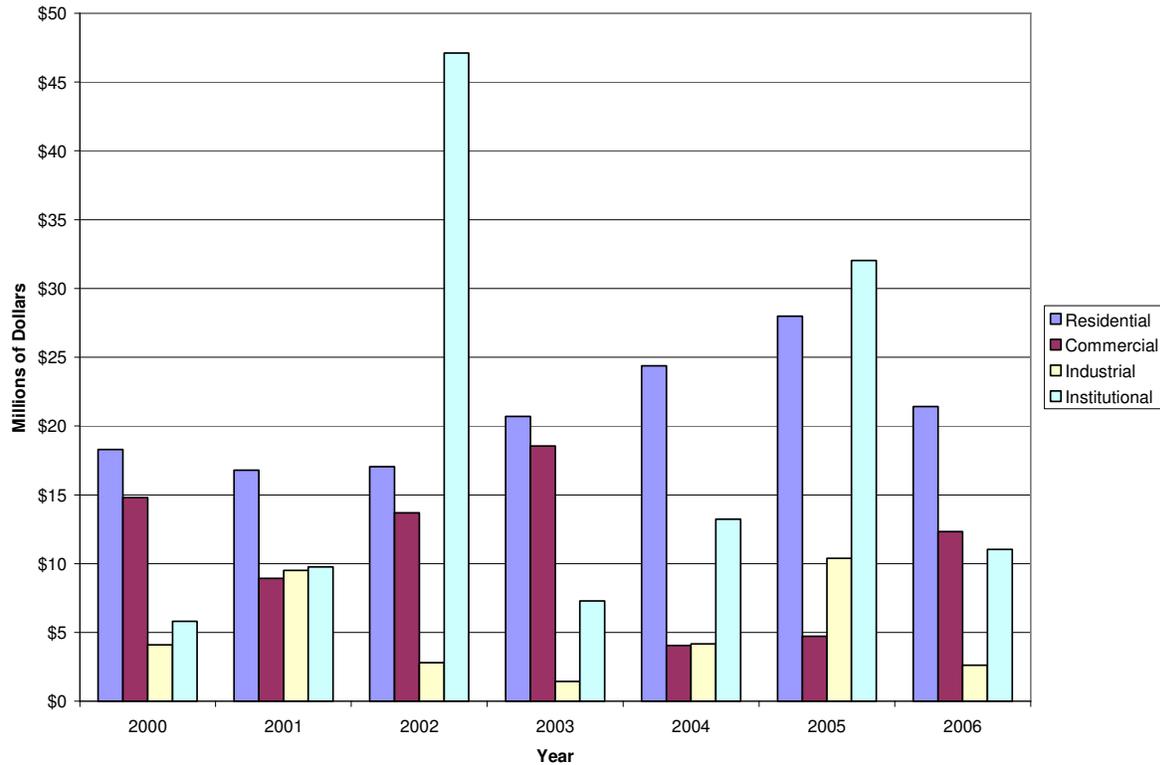


Source: Pannell Kerr Forster

Hotel occupancy increased to 55.8% in 2006, up 0.9 percentage points from 2005. Although only a minor increase, it is the first time Sault Ste. Marie's hotel occupancy rate has improved since 2002. The increase in the occupancy rate is particularly impressive when we consider that visitor numbers to local tourist attractions declined once again in 2006. The Agawa Canyon Tour Train, long one of the city's top tourist attractions drew just over 38,000 riders last year. As recently as the late 1990's, the train attracted 80,000 visitors a summer. The

increase in the hotel occupancy rate is due primarily to an increase in commercial stays. Local hotels are experiencing some of the benefits of the strong local economy as contractors come to town to work on one of the major construction projects underway locally. Destiny is currently involved in several initiatives aimed at attracting more tourists to Sault Ste. Marie. Should these initiatives be successful, occupancy levels in the city could experience dramatic growth in the coming years.

Construction Values



Source: City of Sault Ste. Marie

After a busy 2005, construction values were back to normal in 2006. The total value of construction taking place in Sault Ste. Marie in 2006 was \$47,388,236, down substantially from just over \$75 million in 2005.

Residential, institutional, and industrial construction were all down markedly in 2006. Construction values in 2005 were exceptionally high due to a few major projects. These projects included the Steelback Centre (\$23,205,000), Algoma Tubes office building (\$5,100,000), and multi-modal warehouse (\$2,800,000). A highlight of 2006 was the jump in commercial construction. The 2006

commercial construction value of \$12,329,934 was the highest level of commercial construction Sault Ste. Marie since 2003, and represents an increase of 260% from 2005. Most commercial construction in town is taking place along the Great Northern Road corridor. The construction of the Davey Home in 2002 is responsible for the disproportionate amount of institutional construction that year. Major projects on the horizon that will boost construction values include the new hospital and Borealis. Construction of the new hospital is expected to cost \$155 million. Figures for Borealis are unknown at this time.

Bankruptcy Statistics

Consumer Bankruptcies

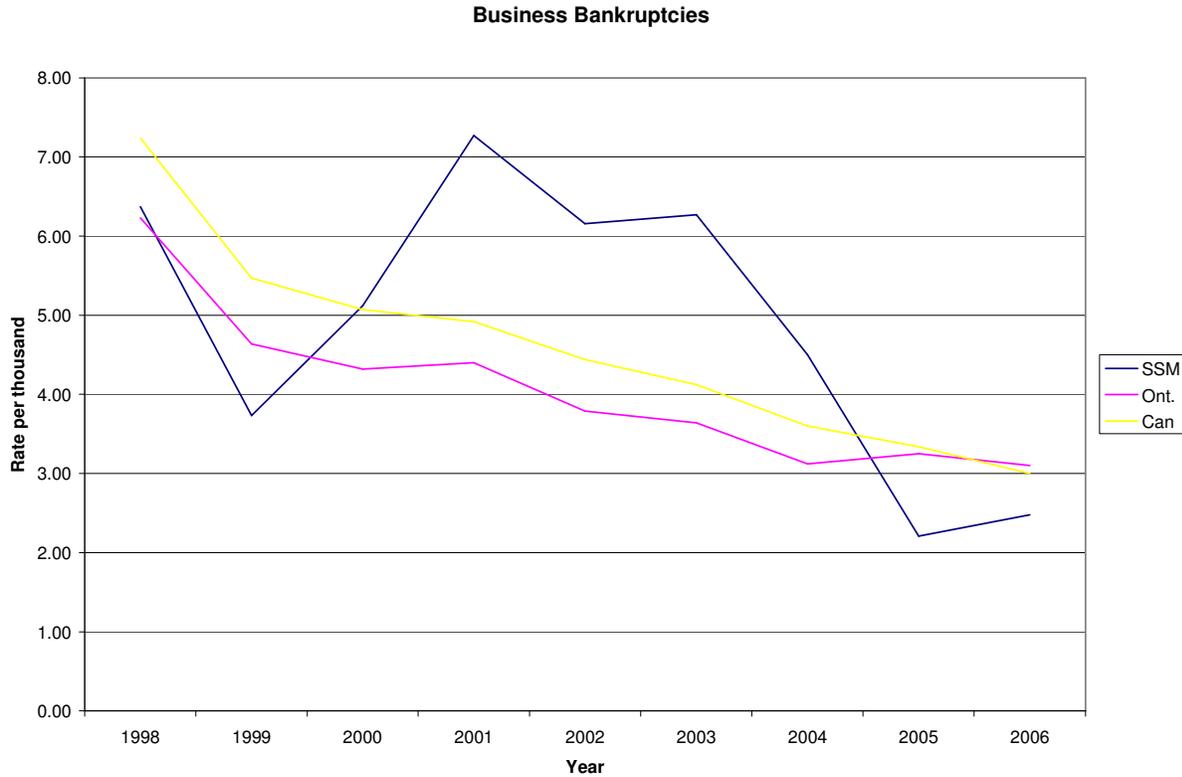


Source: Industry Canada

The consumer bankruptcy rate is defined as the number of personal bankruptcies per thousand individual 18 years of age and older. As one would expect local consumer bankruptcies are much more volatile than both the provincial and national averages. Prior to 2000, Sault Ste. Marie's consumer bankruptcy rate seemed to follow provincial and national trends. Since 2000, the local consumer bankruptcy rate has increased much more rapidly than either Ontario or Canada's. The gap between Sault Ste. Marie's

consumer bankruptcy rate and Ontario's was greatest in 2004 when the local rate was 78% higher than the provincial one. Since 2004 the local consumer bankruptcy rate has declined for two successive years. In 2006 Sault Ste. Marie's consumer bankruptcy rate stood at 4.03, down 6.2 percent from 2005 but still well above the provincial average of 2.40. The drop in consumer bankruptcies locally can be attributed to the low unemployment rate the community is currently enjoying.

Bankruptcy Statistics (cont.)

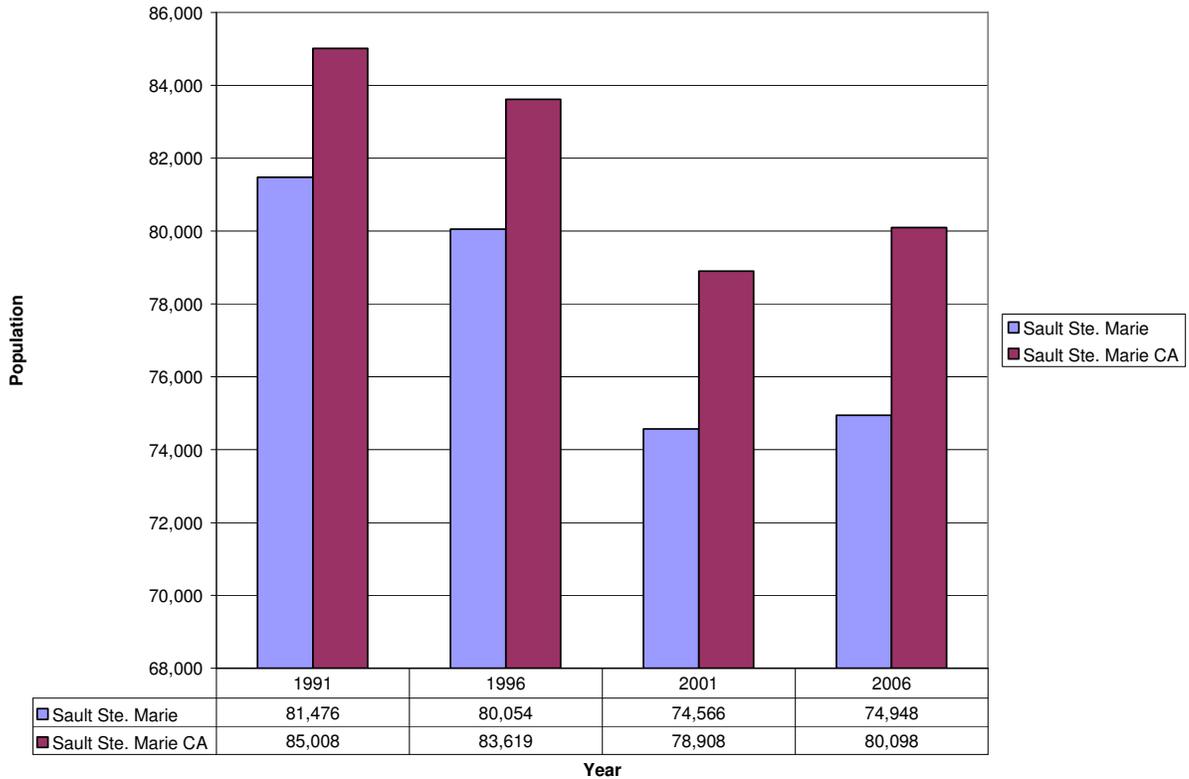


Source: Industry Canada

The business bankruptcy rate is defined as the number of commercial bankruptcies per thousand establishments. Business bankruptcies provide a good indication of the health of a community. Business bankruptcies tend to increase during economic slowdowns and decrease during periods of economic stability and growth. Examination of the business bankruptcy rate for Sault Ste. Marie shows just how far the economy has come since 2001.

After peaking in 2001 at 7.27, the business bankruptcy rate has fallen steadily to its current rate of 2.48. Sault Ste. Marie's rate of 2.48% is faring much better than both Ontario (3.10) and Canada (3.00). This confirms the strength of Sault Ste. Marie's economy. Few could have envisioned in 2001 that five short years later we would be outperforming the rest of Ontario and Canada.

Population Change

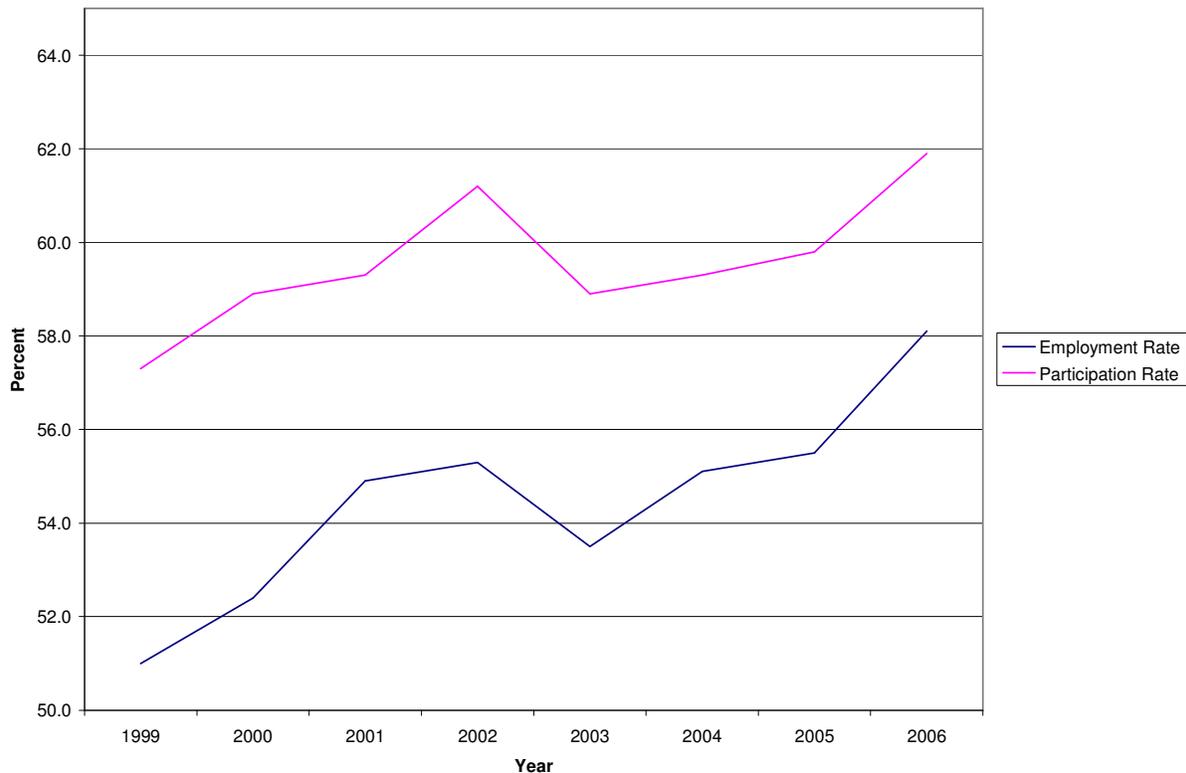


Source: Statistics Canada

In its inception, one of Destiny’s objectives was to restore the population base of Sault Ste. Marie to its peak level of 82,000. Five years into the project there has been little increase in the population of Sault Ste. Marie. The 2006 census estimated the population of Sault Ste. Marie to be 74,948. This represents an increase of 382 citizens over the 2001 total. A census agglomeration (CA) is defined by Statistics Canada as one or more adjacent municipalities centered on an urban core where the adjacent municipalities have a high degree of integration with the urban core as measured by commuting flows. When

we examine the entire CA for Sault Ste. Marie the rate of growth is slightly higher: it grew by 1,190 between 2001 and 2006. The census agglomeration total may actually be a more accurate reflection of the city’s population base as more and more people choose to live outside of the city limits and commute to work each day. Although population growth has been slow the fact that Sault Ste. Marie’s population is no longer declining is exciting. Census 2006 was the first census in 20 years that saw a positive change in Sault Ste. Marie’s population.

Employment and Participation Rates



Source: Services Canada

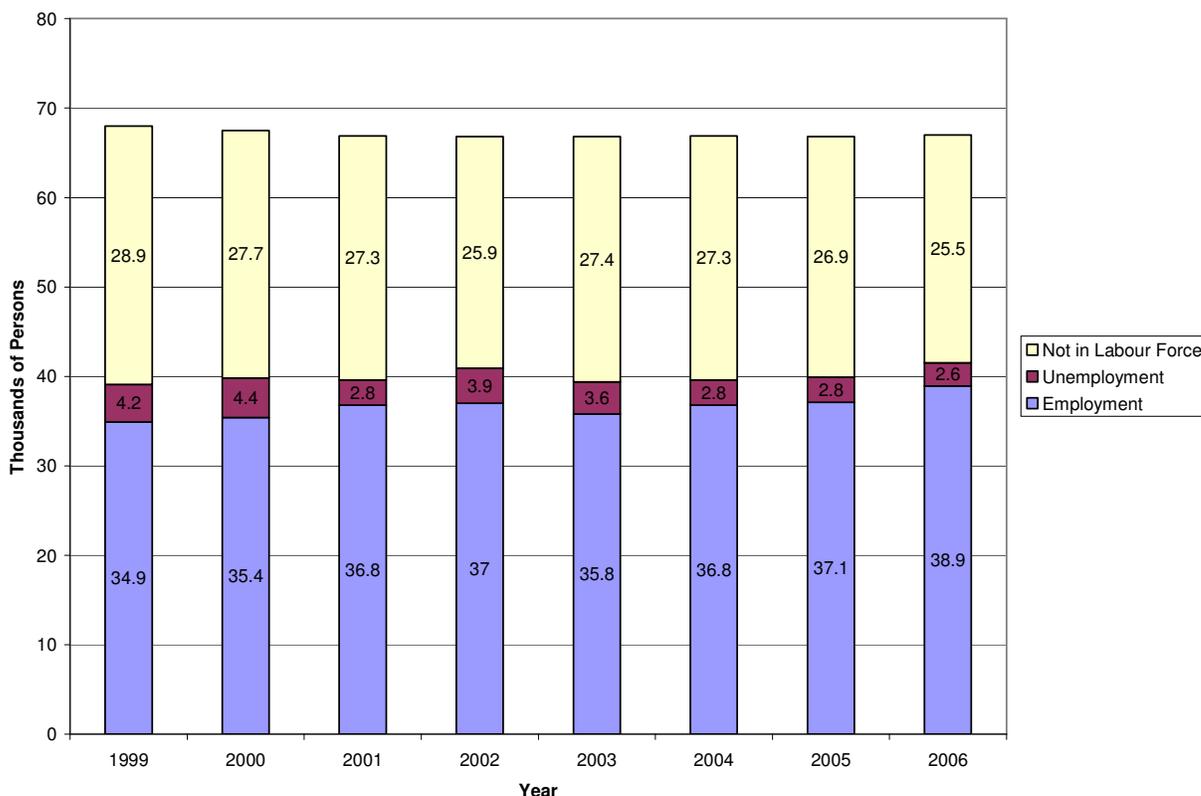
The employment rate is defined as the number of employed persons divided by the working aged population (ages 15 and up), while the participation rate is the total of employed and unemployed persons divided by the working aged population.

In 2006 both the participation and employment rates continued to climb. The employment rate is now at its highest level in over 7 years at 58.1%. That is 7.1 percentage points higher than the employment rate in 1999, and represents an increase of 4,000 people. The labour force participation rate also experienced a dramatic increase in the past year climbing from 59.8% to 61.9%. While the participation rate in Sault Ste. Marie is at a historically high level, as a

community we still lag far behind the rest of Canada and Ontario. In 2006 Canada's participation rate stood at 67.2% while Ontario's was 67.7%. Closing the gap between Sault Ste. Marie's participation rate and the province's would dramatically increase our community's standard of living.

The increase in Sault Ste. Marie's participation rate to date, signals a confidence in the labour market that has persuaded people to enter the workforce. Even more impressive is the fact that the employment rate is increasing at a greater rate than the participation rate. This indicates that the majority of people entering the labour force have been successful in obtaining employment.

Labour Force Statistics



Source: Services Canada

The above chart breaks down the local labour market into three categories, employed, unemployed, or not in the labour force. The total of all three categories is the working aged population (aged 15 and up) of Sault Ste. Marie. The year 2006 saw continued improvement in the labour force statistics. The total number of employed people grew from 37,100 in 2005 to 38,900 in 2006. This is the largest increase in the number of employed persons in Sault Ste. Marie in over 7 years. While the working aged population of Sault Ste. Marie has

remained fairly constant over the past seven years, the number of people taking part in the labour force has grown. The total number of individuals taking part in the labour force grew by 1,500 people in 2006. Equally encouraging is the drop in the number of people not taking part in the labour force. At 25,500, the number of non-participants is at its lowest point since 1991. This data clearly illustrates that the strengthening labour market in the city is drawing people back into the labour force, increasing the productive capacity of the local economy.

Unemployment Rates

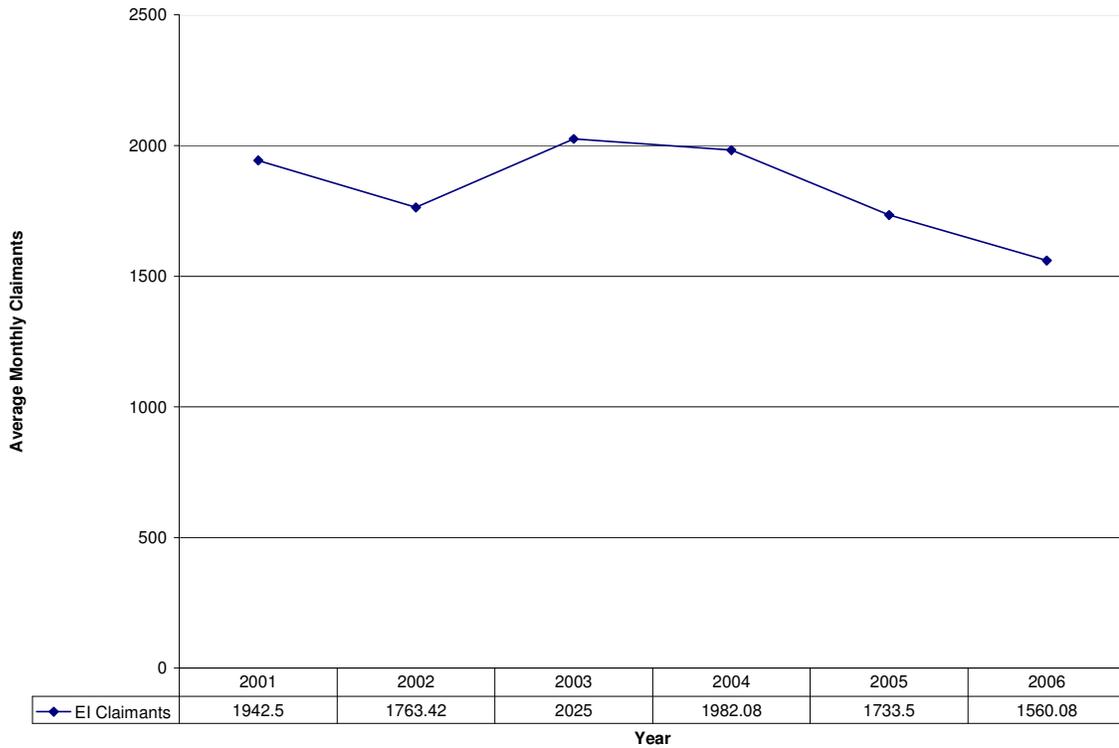


Source: Services Canada

As would be expected Sault Ste. Marie's unemployment rate is much more volatile than the provincial average. After being above the provincial average since 1999, Sault Ste. Marie's unemployment rate converged with that of the province in 2006. Since 2002 the community has experienced successive drops in the local unemployment rate. The 2006 unemployment rate of 6.3 percent is 3.3 percentage points lower than the unemployment rate in 2002 when the Destiny Sault Ste. Marie economic diversification strategy was initiated. It is difficult to make comparisons between Sault Ste. Marie and the rest of the

province because of geographic and structural differences in the economies. The most natural comparison with Sault Ste. Marie is our Northern Ontario neighbour Sudbury. In 2000 Sault Ste. Marie's unemployment rate was 2.8 percentage points higher than Sudbury's. After years of steady improvement, by 2006 our unemployment rate was 0.9 percentage points below Sudbury's. The fact that the labour force is growing, the employment rate is increasing, and the unemployment rate is decreasing proves the economy of Sault Ste. Marie is becoming more robust.

EI Claimants

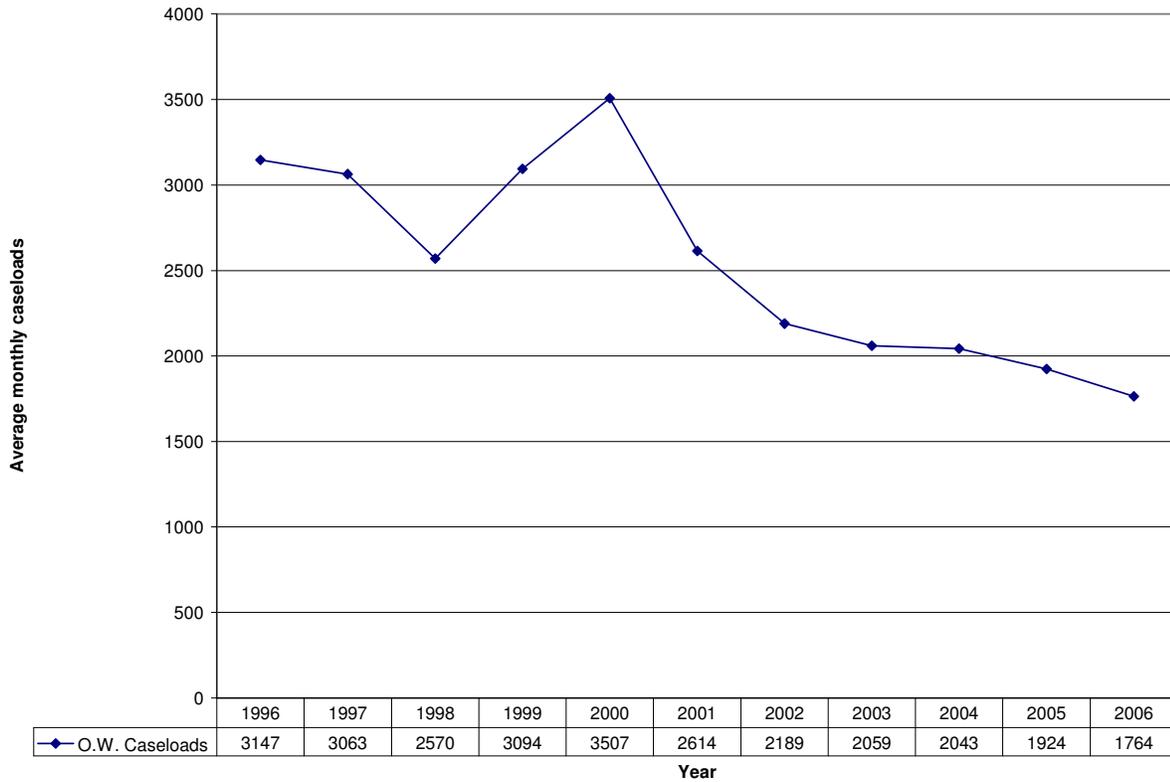


Source: Services Canada

Average monthly EI claimants were obtained by adding the number of claimants for each month in a given year and dividing by 12. Last year had the lowest average monthly EI claimants locally since Destiny began tracking this data in 2001. EI claimants are a good indicator of the strength of an economy. A steadily declining number of EI

claimants indicate that businesses in Sault Ste. Marie are operating at or near capacity and have to hire new employees to meet the demands for their products. While 2006 was an exceptional year we may see a spike in the number of EI claimants in 2007 due to layoffs at Algoma Tubes and the closure of St. Mary's Paper.

Ontario Works Caseloads

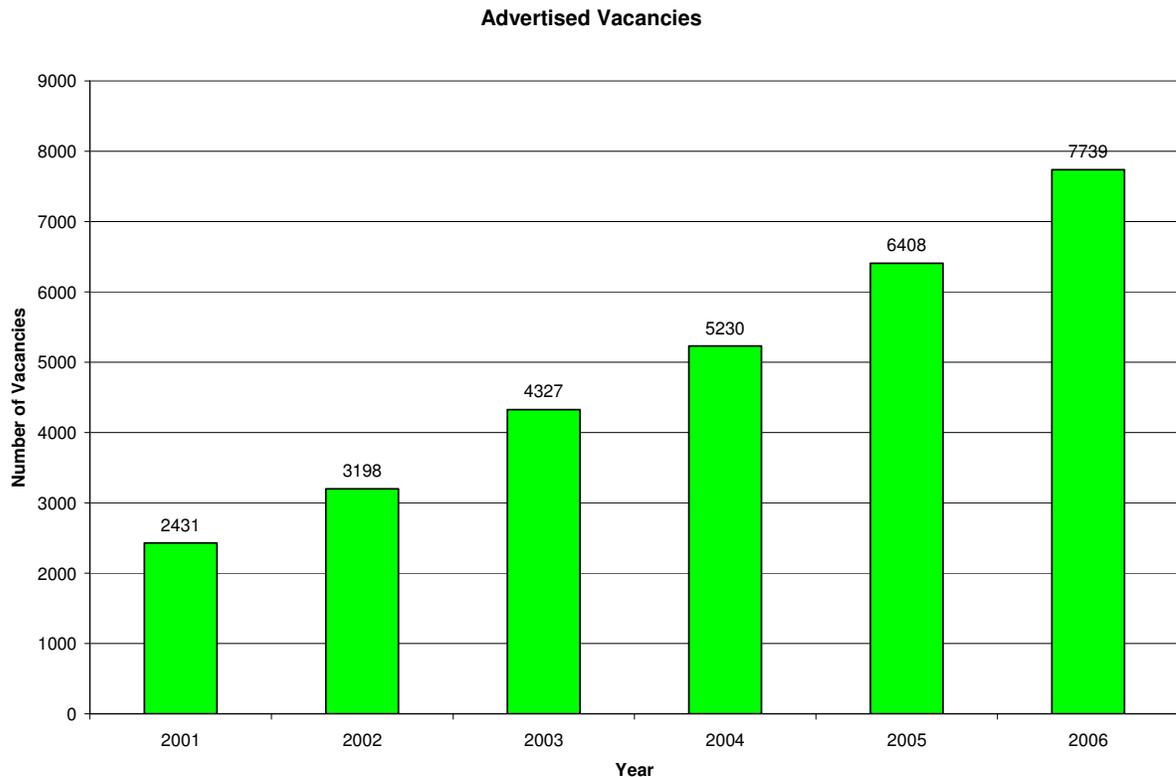


Source: Ontario Works

This is the first year that Destiny has included the number of Ontario Works caseloads in its annual report. Ontario Works provides employment and financial assistance to those in need of temporary help. The number of Ontario Works caseloads is primarily dependent on two factors: the economy of the region and government policy. We can see that the number of Ontario Works caseloads increased dramatically in 2000, in large part due to a downloading of support services from the province to district social services administration boards. Since then the number of Ontario Works caseloads has declined every year up to 2006 where we reached the lowest

number of average monthly caseloads in a decade. In the case of a major lay-off or shutdown as has just happened at St. Mary's Paper it is not usually those directly affected by the shutdown that seek assistance from Ontario Works, but the indirect job losses in the service and retail sectors as a result of the shutdown that result in an increase in Ontario Works Caseloads. The number of Ontario Works caseloads is also affected by people moving to the city from elsewhere in northern Ontario to seek employment. Presently approximately 28 recipients of Ontario Works assistance move to Sault Ste. Marie each month to seek employment.

Advertised Job Vacancies

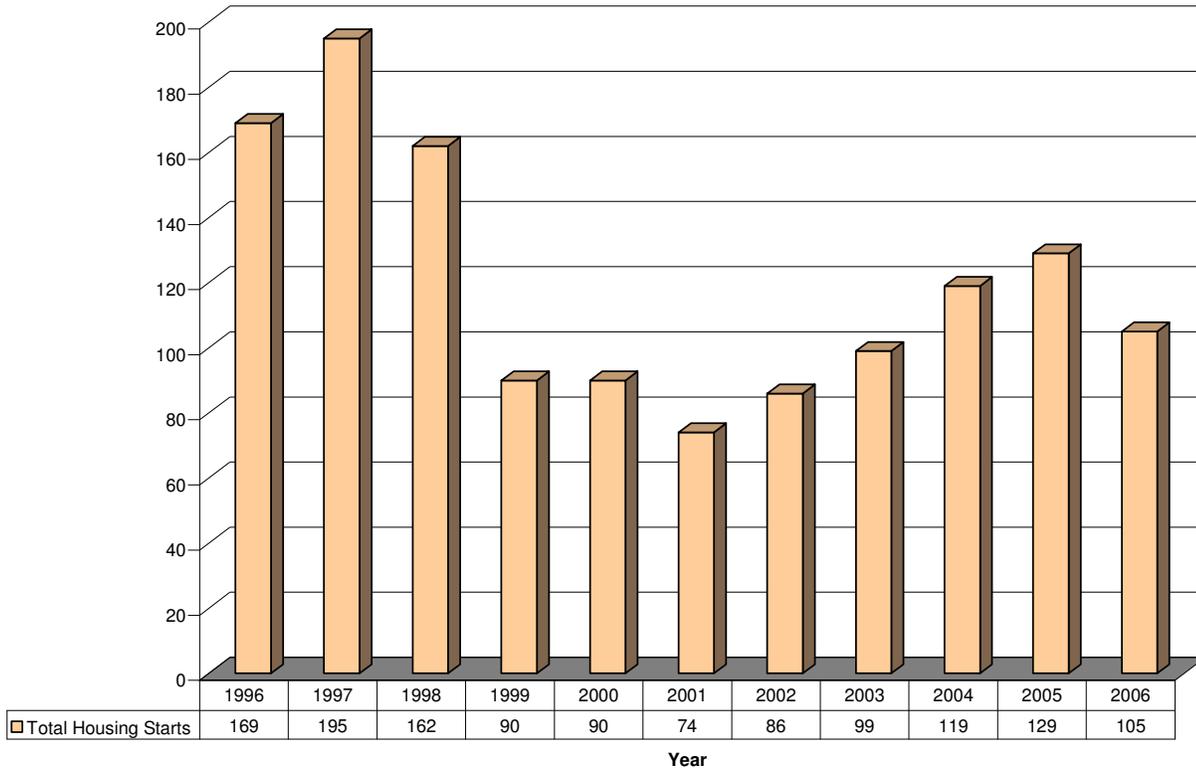


Source: Services Canada

This is the first year that Destiny has included advertised job vacancies as one of its economic indicators. The vacancy figures include job vacancies resulting from turnover in exiting positions such as workers changing jobs or retiring and from the creation of new jobs. It excludes non-advertised job vacancies. The number of advertised job vacancies is relevant to this report because it provides an indication of employer's hiring plans. Advertised job vacancies are inversely related to unemployment, when advertised vacancies are high unemployment is low, and when advertised vacancies are low unemployment is high. It is clear from the above chart that advertised vacancies

have shown consistent growth since 2001. In Destiny's first year of existence, 2002, there were a total of 3,198 advertised job vacancies in Sault Ste. Marie. By 2006 that figure had risen to 7,739. This indicates that unemployment is low and that employers are forced to seek out labour rather than having a surplus of available labour from which to hire. In addition to providing incentive for those currently not taking part in the labour market to seek employment, the increase in advertised vacancies will attract people to the community assisting Destiny in achieving its goal of restoring the population of Sault Ste. Marie to its peak of 82,000.

Housing Starts



Source: Canada Home Mortgage Corporation

The housing starts indicator tracks the beginning of construction of privately owned single-family dwellings, townhouses, and multi-family apartment buildings. New housing construction is important to the overall economy. Construction results in the hiring of workers, the production of construction materials, and the sale of large household appliances. The rate of housing construction is influenced by population growth in the long run and changes in real income and the level of mortgage interest rates in the shorter term.

The total number of housing starts in 2006 was 105, down 18.6% from the 2005 total of 129. The above chart

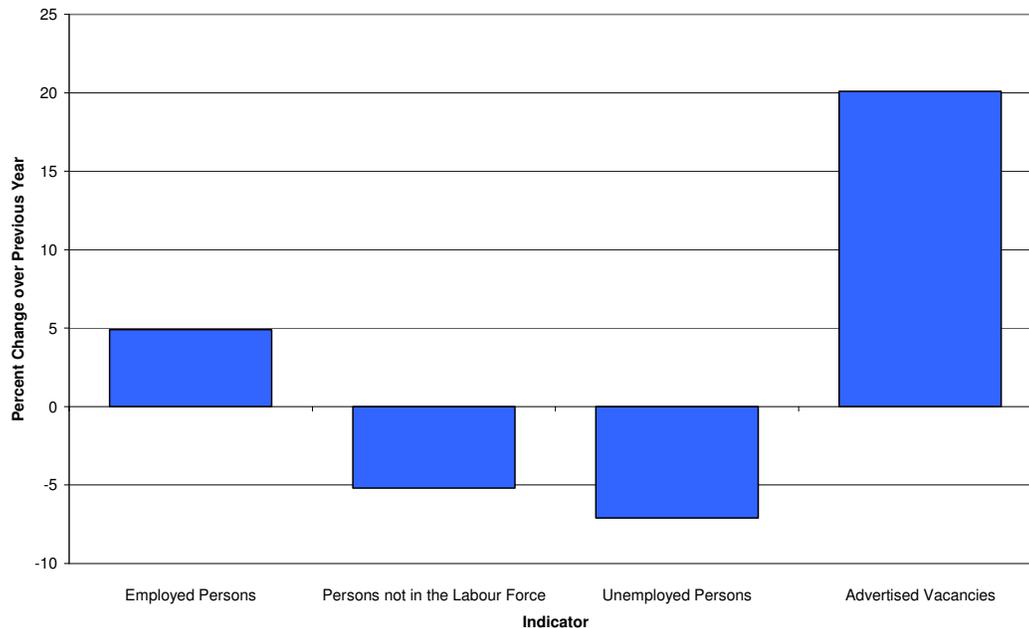
provides illustrates much housing starts fluctuate over the course of the business cycle. After peaking in the late 1990's housing starts hit a low point of 74 new starts in 2001. The decline in housing starts between 1997 and 2001 can be attributed to a declining population and deteriorating economy. Since 2001 housing starts have begun to rebound. The strong local economy, combined with low, stable interest rates has encouraged people to build new houses. If Destiny and its partners are successful in attracting people to Sault Ste. Marie we will likely see the upward trend continue.

Conclusion

Since its inception in 2003, Destiny and its partners have been driving economic diversification in the community. Sault Ste. Marie's economy has experienced a dramatic turnaround since Destiny was conceived in 2002. Today, the

development of specific business opportunities that would create immediate jobs for the community. With Destiny's support numerous initiatives moved forward, creating jobs, and helping lift Sault Ste. Marie out of its

Changes in the Labour Market



unemployment rate in Sault Ste. Marie is at its lowest level in two decades, Algoma Steel has turned itself into the most profitable steelmaker in the country, and the success of the local economy is beginning to draw people back to the community. This report is written to ascertain what role Destiny and its partners have played in this economic growth. In order to provide an accurate answer to this question we examined Destiny's priorities, their influence on the local economy, and compared the economy of Sault Ste. Marie to other centres not influenced by the Destiny process.

In Destiny's infancy the economy of Sault Ste. Marie was struggling. Destiny was forced to focus its efforts on the

economic slump. In the past couple years the local economy has undergone a significant transition, as has Destiny. With the positive turn in the economy, Destiny has been able to move from a reactive position (how to save the economy) to a more proactive role (how to ensure the community can ride future downturns). This has allowed Destiny to shift its focus to long-term strategic planning aimed at diversifying the local economy.

An examination of the above graph reveals that all four indicators advanced in 2006, signifying the robustness of the economy. When examining the graph it should be noted that a drop in the number of persons not participating in the labour force and the number of unemployed

persons are regarded as positive labour market developments.

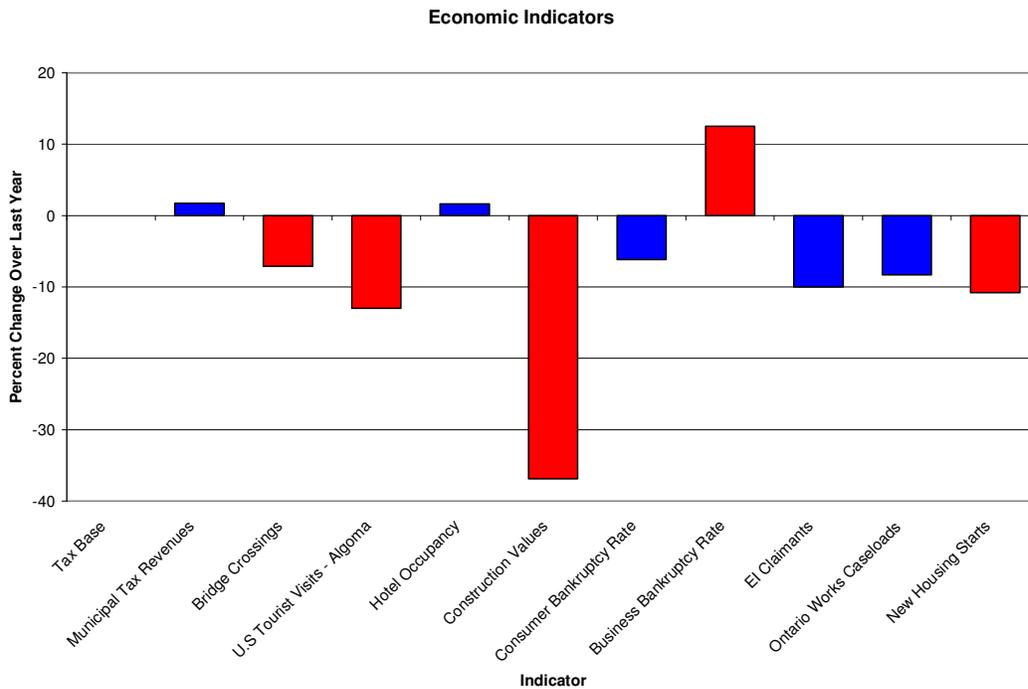
Sault Ste. Marie's labour force participation rate is slowly moving towards the provincial average increasing the productive capacity of the city and improving our standard of living. While not all of the economic indicators analyzed in this report recorded positive changes in 2006, these four indicators have been deemed to provide the most accurate representation of the local economy.

The next graph illustrates the percent

Since last year's report five of the indicators included in the above graph improved, five worsened, and one (tax base) showed little change. Of the five indicators that worsened in the past year, two (International Bridge Crossings and U.S. Visitors to the Algoma District) are more indicative of the regional economy rather than the local economy.

Construction Values and New Housing Starts both showed decreases due to exceptional years in 2005, but are still on par with local averages and should be buoyed by major projects on the horizon.

The economic indicators also allow us to



change in eleven other indicators tracked in this year's report. Population data was not included in the graph because it is based on census information compiled every five years. When reading the following graph keep in mind that the magnitude of the change is less important than whether or not the change was positive or negative when compared with the previous year. The indicators shaded "blue" improved in the past year, while those in "red" worsened.

compare the local economy to the rest of the province. In this report consumer bankruptcies, business bankruptcies and unemployment rates were compared to the rest of Ontario. While our consumer bankruptcy rate continues to hover above Ontario's, our business bankruptcy rate, a much better indication of the strength of an economy resides below the provincial average. In 2000 the unemployment rate in Sault Ste. Marie was almost double that of the rest of the province. In 2006

for the first time in decades the local and provincial unemployment rates were equal.

Destiny, however, can not take credit for the entire economic turnaround that has taken place in Sault Ste. Marie since 2002. The effect that several external factors have had on the economy cannot be discounted. Various factors such as increased steel prices, the arrival of the call centre industry and major construction projects (Steelback Centre, Prince Township Windfarm) have all made major contributions to the resurgence of the local economy. These developments have not only created jobs in the community but also played a part in the drop in bankruptcy rates, population growth, and increased tax base the community has witnessed in the past 5 years.

The fact that there is still room for improvement in many of the economic indicators suggests that there is a continued role for Destiny and its partners to play in the diversification process. Although the economy is doing well now, there is a continued need to ensure the community is well positioned to weather economic downturns. The community is wise to take this proactive, rather than reactive approach to ensuring its sustainability.

Destiny has found its niche as a facilitator and provider of support to the economic diversification process. Constrained by its inability to legislate change and limited budget, Destiny has concentrated its efforts on economic diversification through collaborative efforts with private and public sector partners. Destiny has successfully facilitated the development of a Community IT Strategy which has recently been implemented by the Sault

Ste. Marie Innovation Centre. In the past year Destiny has concentrated on driving the development of two exciting projects with significant potential benefits to the community: Multi-modal and the Northern Ontario Clinical Research Network. These two initiatives, combined with Destiny's continued focus on tourism (Visitors Strategy), energy (Energy Strategy), labour market issues (Immigration Strategy) and the development of the education and science sectors will leave the community well positioned to take advantage of opportunities in these important fields.

Based on the economic diversification that is beginning to take shape in the community and the improvement in the economic indicators studied in this report, we can state that Destiny has played a part in the economic revival that has taken place in Sault Ste. Marie. Destiny's efforts have provided a strategic framework from which to approach the economic diversification process in the community. In the past 5 years Sault Ste. Marie has narrowed the gap between itself and the rest of the province, and has become a model for stakeholder collaboration towards community economic diversification.

Although it is too early to measure the long-term impact of Destiny, positive steps have been taken that will result in a stronger economic base and a community better equipped to handle whatever economic shocks it encounters in the future. If Destiny maintains a consistent approach to economic diversification, concentrating on its role as a facilitator, it will be held in high regard as a community partnership that was able to foster economic diversification and create a community that citizens are proud to call home.