

British Columbia: 2018–19 Budget

MULTIPLE MAJOR INITIATIVES

- **To maintain modest surpluses** from fiscal 2017–18 (FY18) to FY21 (top chart, p.2), the government carefully manages its major election promises, phasing in initiatives over the forecast period. Assisting the new NDP government in its first full *Budget* is its revised estimates of stronger provincial economic growth in calendar 2017 and 2018. Projected receipts are further supplemented by a range of new revenue measures.
- **With lower-than-expected capital investment**, taxpayer-supported debt, as measured by the Province, is expected in March 2018 to be 15.7% of GDP, unchanged from a year ago. BC now looks to eliminate its direct operating debt a year earlier in FY19.
- **Borrowing requirements** climb by \$6 billion to almost \$8 billion in FY19, before subsiding to less than \$7 billion in FY20 and FY21 as refinancing declines.

OVERVIEW

British Columbia's new government committed to make life more affordable for the province's residents, invest in the services that they rely upon and further develop a strong, sustainable economy, while remaining fiscally responsible. The government started implementing substantive changes in the September *Update*, added more initiatives over the fall and winter and is now rolling out multi-year advances for priority objectives. Its agenda is a tall order. BC has weathered several setbacks to date in FY18, such as extensive wildfires and the subsequent recovery and prevention efforts and ICBC's deepening net loss (table, p.3).

Following BC's longstanding practice, the Budget's estimates incorporate considerable prudence. After raising provincial real GDP growth for calendar 2017 from the 2.9% September *Update* assumption to 3.4%, matching the average of the private-sector forecasts, projections of 2.3% growth for 2018 and 2.0% for 2019 are each 0.2 percentage points below the private-sector average. For 2020–22, the assumed 2.0% annual advances are 0.1 percentage points lower. Projected natural gas prices are constrained to the 20th percentile of private-sector estimates. For FY19 to FY21, forecast allowances of \$350 million, \$500 million and \$600 million are incorporated, together with a Contingencies vote allocation of \$550 million for the upcoming fiscal year and \$750 million for each of the next two years.

The financial difficulties of the Insurance Corporation of British Columbia (ICBC) that provides mandatory and optional auto insurance to the province's residents are a source of uncertainty and risk, as the government acknowledges in promptly proceeding with operating efficiencies and substantial product reforms. For ICBC, the estimated FY18 net loss of \$1.3 billion is forecast to narrow to \$1.1 billion in FY19 and to an average \$0.9 billion for FY20–21. Proposed product reforms are expected to provide a \$0.4 billion offset in FY19, rising to a \$1.0 billion saving by FY21 that results in modest black ink of \$80 million for the year.

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BC's Budget Balances

Fiscal 2016–17 (FY17)

Final: +\$2.7bn (+1.0% of GDP)

FY18

Sept.Update +\$246mn (+0.1% of GDP)

Q2: +\$190mn Q3: +\$151mn

FY19

Budget: +\$219mn (0.1% of GDP)

FY20

+\$281mn

FY21

+\$284mn

Taxpayer-Supported Debt

FY17

Final: \$41.5bn (+15.7% of GDP)

FY18

Sept.Update \$44.9bn Q2: \$44.7bn

Q3: \$43.7bn (+15.7% of GDP)

FY19

Budget: \$45.2bn (15.5% of GDP)

FY20

\$47.6bn

FY21

\$50.3bn (15.9% of GDP)

Borrowing Requirements

FY17

Final: \$2.0bn

FY18

Sept.Update \$3.48bn Q3: \$1.97bn

FY19

Budget: \$7.92bn

FY20

\$6.06bn

FY21

\$6.93bn

Source: BC Finance; Statistics Canada;
nominal GDP forecasts: Scotiabank Economics.

MAJOR INITIATIVES

The **Budget's two critical priorities**—increasing the supply of affordable housing and accelerating the number of affordable child care spaces—will receive provincial funding of \$1.6 billion and \$1.0 billion, respectively, over the three-year fiscal forecast.

The government's **"Homes for BC" plan** seeks by and large to improve affordability through a 30-point plan that ranges from taxing "speculators" and foreign investors, to building more affordable housing units, helping certain categories of renters and designing a number of measures to increase public- and private-sector collaboration in finding solutions to housing problems. While impressive in scope, we will be analyzing the potential impact of these measures in coming days. At first blush, some of these measures, such as efforts to build more affordable units, are likely to have considerable impact on certain segments of the market, but timing is critical given current needs. What appears absent at this time are measures to encourage municipalities to expedite the approval process for developers, which we know has been a major drag on new construction in the Vancouver area in particular.

The additional **Property Transfer Tax on non-residents' home purchases**, effective February 21, will rise from 15% to 20% and it will be expanded beyond the initial Greater Vancouver area to include the Capital Regional District, and the Regional Districts of Fraser Valley, the Central Okanagan, and Nanaimo. For roughly the same geographic area, a Speculation Tax is introduced on foreign and domestic home owners not paying income tax in BC. It will be an additional property tax per \$1000 of assessed value set at \$5 for calendar 2018, climbing to \$20 starting in 2019.

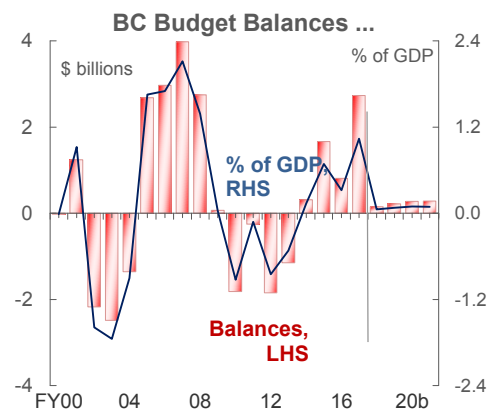
In total, the tax measures in this **Budget** add \$0.8 billion to FY19 revenues and \$2.1 billion to FY20 receipts. As promised, after a 50% reduction in *Medical Services Plan* premiums this past January 1, the premiums are fully eliminated as of January 2020. Starting in calendar 2019, an employer health tax of 1.95% will apply to payrolls of \$1.5 billion and over, (with a gradually rising rate from 0% to 1.95% for payrolls from \$0.5 billion to \$1.5 billion), generating a hefty \$1.85 billion in FY20, the first full fiscal year.

REVENUE AND EXPENDITURE DETAILS

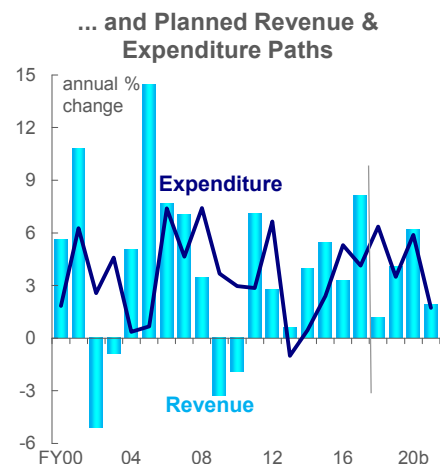
Revenue growth for FY18, as of Q3, was set to pick up from the September *Update* estimate of 1.8% to 3.7%, apart from ICBC's loss. Growth in FY18 tax receipts is expected to edge up to 4.2% as the combined \$314 million shortfall in personal and corporate income tax revenues relative to the September outlook is more than offset by in-year gains in the Property Transfer Tax and the Provincial Sales Tax as retail sales surged and the housing market revived during 2017. With the ICBC correction, Commercial Crown corporation net income is lowered by \$1.0 billion, scaling back the forecast increase in BC's total FY18 revenues to 1.2% as program spending climbs 6.5% (bottom chart).

In **FY19 and FY20**, forecast tax receipts jump 8.4% and 9.5%, respectively, reflecting the January 2018 introduction of a new top personal income tax rate and a rise in the general corporate income tax rate from 11% to 12%, as well as the multiple tax adjustments in this *Budget*. The pick-up in total revenue growth in both FY19 and FY20 slightly exceeds planned expenditure increases of 3.5% and 5.9%, permitting slightly bigger surpluses protected by larger forecast allowances and Contingencies vote allocations. Forecast revenues for FY21 rise only 1.9% as *Medical Services Plan* premiums are completely removed, limiting the planned program spending increase to 1.6%.

Natural resource receipts are expected to account for only 5.0% of BC's own-source revenues forecast in FY18. Although the FY18 decrease in resource receipts was less than half the 11.0% decline projected in September, a cumulative 15½% fall is anticipated over the next three years.



Sources: BC Finance; Statistics Canada; nominal GDP forecasts: Scotiabank Economics.



* Revenues net of ICBC's forecast net losses and the estimated impact of product reforms. Source: BC Finance.

The Carbon Tax, as announced in September, will be raised by \$5 per tonne of carbon dioxide equivalent each April from \$30 currently to \$50 by April 2022. Revenue from this tax is expected to climb 58% from an estimated \$1.25 billion in FY18 to nearly \$2.0 billion by FY21. The receipts now will be focused on three broad areas: enhancing the low income climate action tax credit with an initial \$40 million boost and future reviews; supporting industry to limit carbon leakage and incent lower emissions; and adopting new clean initiatives to be determined by the Province's Climate Solutions and Clean Growth Advisory Council.

CAPITAL EXPENDITURES AND THE BALANCE SHEET

The taxpayer-supported share of the *Capital Plan* for FY19–FY21 totals \$15.8 billion, with the first two years a combined \$0.7 billion higher than the September *Update Plan*. For this three-year investment, cash and working capital cover \$5.4 billion (34%) of the FY19–FY21 total, while \$7½ billion (48%) must be borrowed. In addition to assuming the \$3½ billion debt related to the Port Mann Bridge when the tolls were removed, the Province is shouldering the \$1.4 billion rebuilding of the Pattullo Bridge.

Taxpayer-supported debt is projected to rise by a cumulative \$6.6 billion over the three fiscal years to FY21. In each fiscal year, the increase is limited by the projected surpluses before this *Budget's* expanded forecast allowances. As well, in FY19, similar to FY18, cash balance and working capital adjustments help to restrain the rise in debt.

OUTLOOK

A portion of the social program deficits that the government seeks to remedy are a result of BC's fast-paced growth, particularly in the Lower Mainland, outstripping the expansion of services. The Province now has the challenge of closing these program gaps as economic growth cools. Efforts such as fully leveraging federal funding to meet BC's needs are likely to become increasingly important.

The government's objectives are diverse and significant, from a referendum vote on electoral reform to a basic income pilot. Incorporating additional funding of \$1.37 billion in FY20 and \$1.25 billion in FY21 is prudent to accommodate items not yet fully defined, such as the reconciliation commitments to First Nations and a new provincial employee compensation mandate as the current five-year mandate ends with FY19.

Ongoing risks to BC's fiscal plan include the uncertainties surrounding the softwood lumber and NAFTA negotiations, the higher interest rates expected and potential cost pressures. With the tax hikes in this *Budget* and the September *Update*, options are more limited for further sizeable revenue measures, particularly in the shadow of recent tax and regulatory reform in the US. BC's plan thus depends upon the province's continuing economic momentum and careful expenditure management.

British Columbia's Budget Arithmetic			
\$ millions except where noted			
	FY18		FY19
	Sept.		
	Update	Q3	Budget
Tax Revenue	28,180	28,224	30,592
Natural Resource Revenue	2,413	2,586	2,413
Commercial Crown Corp. Net Inc.	2,959	1,966	2,564
Other Own-Source Revenue	10,483	10,745	9,694
Total Own-Source Revenue	44,035	43,521	45,263
Federal Transfers	8,372	8,548	8,930
Total Revenue	52,407	52,069	54,193
Health	20,747	20,819	21,651
Education, K-12&Post-Secondary	13,376	13,291	13,897
Social Services	4,745	4,723	5,317
Other Program Spending	11,224	11,295	10,914
Program Spending	50,092	50,128	51,779
Debt Service*	1,769	1,690	1,845
Total Expenditure	51,861	51,818	53,624
Forecast Allowance	300	100	350
Surplus	246	151	219
ICBC Net Loss Pre Product Reform	-225	-1,296	-1,076
ICBC Product Reform: Est. Impact	-	392	780
Capital Outlays: Taxpayer-Supp.	4,956	4,197	5,174
Self-Supported	2,701	2,614	4,061
Taxpayer-Supported Debt	44,853	43,680	45,198
Absolute Annual Increase	3,347	2,174	1,518
Gross Borrowing Requirement	3,484	1,966	7,918
Refinancing	2,707	2,712	3,239
Annual Change, %			
Tax Revenue	4.0	4.2	8.4
Natural Resource Revenue	-11.0	-4.6	-6.7
Total Own-Source Revenue	1.7	0.5	4.0
Federal Transfers	2.5	4.7	4.5
Total Revenue	1.8	1.2	4.1
Health	5.4	5.7	4.0
Education	7.3	6.6	4.6
Social Services	11.8	11.3	12.6
Other Program Spending	5.1	5.8	-3.4
Program Spending	6.4	6.5	3.3
Total Expenditure	6.4	6.4	3.5
Memo Items, %			
Own-Source Revenue / GDP	15.8	15.6	15.5
Program Spending / GDP	18.0	18.0	17.8
Total Expenditure / GDP	18.6	18.6	18.4
Budget Balance/ GDP	0.1	0.1	0.1
Taxpayer-Supported Debt / GDP	16.1	15.7	15.5
Taxpayer-Supp. Debt / Revenue*	87.8	84.3	84.9
Debt Service* / Revenue*	3.5	3.3	3.5
Resource Price Assumptions			
Natural Gas, Plant Inlet, C\$/GJ	1.60	0.96	1.08
Production, % ch	11.3	5.4	11.2
Western Lumber**2x4s, US\$/mfbm	377	410	403

* Taxpayer-supported basis. ** Spruce-pine-fir, calendar year. Sources: BC Finance; Statistics Canada; nom. GDP forecasts: Scotiabank Economics.

Other Policy Developments

BC's minimum wage is to rise each July 1 beginning this year with a \$1.30 hike (+11.5%) from \$11.35 to \$12.65, followed by increases of \$1.20 (+9.5%) in 2019; \$0.75 (+5.4%) in 2020 and \$0.60 (+4.1%) in 2021 to \$15.20, aligned with the *Fair Wages Commission's* recommendations. BC also is reviewing its labour code. In assessing the impact in BC on hiring, hours worked and inflation, BC notes that its minimum wage presently covers only 4.8% of its workers. For the more than 20% of BC employees presently receiving less than \$15/hour, 52% are over 25 years, more than 75% are not students, over 51% have gone to college or university and 46% work for firms with less than 100 staff.

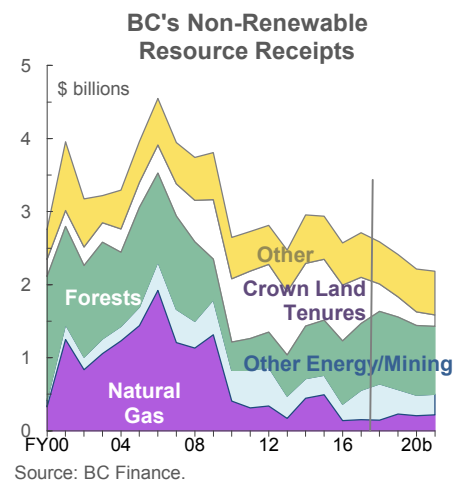
The ten-year plan for Child Care BC, a system of affordable child care to be available in all regions, is kick-started in this *Budget*. Over the next three fiscal years, \$237 million will be directed to creating over 22,000 licensed child care spaces and \$136 million will be allocated to training new Early Childhood Educators. And to make child care more affordable, \$630 million will be used to replace the current child care subsidy with a new benefit incorporating expanded eligibility and greater benefits that is tapered off for families with incomes from \$45,000 to \$111,000. It will also cover a fee reduction program to be introduced as of April 2018 for parents using licensed facilities.

Public consultation on BC's first Poverty Reduction Strategy is under way. Also proceeding are discussions for a more inclusive rural development strategy. Revitalization of the Agricultural Land Reserve and the Agricultural Land Commission raises the issue of competing demands for land. In Greater Vancouver, the recent decline in the industrial vacancy rate to less than 2½% underlines the current pressures on existing farmland in the Fraser Valley.

In Education, the government's expert task force indicated that since March 2017, public schools have filled more than 3,500 of the 3,700 full-time teaching positions laid out in the memorandum of agreement (MOA) with the BC Teachers' Federation to restore class size and composition limits. For the third consecutive year, BC's public school enrolment is rising, and this year's jump of almost 5,000 will be fully funded with an extra \$107 million for school district budgets. New programs include "Find-your-fit" to broaden career counselling.

Health Generics 2.0 is a five-year plan beginning this April, in collaboration with the pan-Canadian Pharmaceutical Alliance (pCPA) and the Canadian Generic Pharmaceutical Association (CGPA) that is expected to save nearly \$3 billion across Canada and \$110 million for BC's pharmacare plan.

BC's first Innovation Commissioner will serve as an advocate for the province's tech sector in Ottawa and overseas to better tap federal programs and expand the sector's strategic network. An initial responsibility is the Digital Technology Supercluster, one of Ottawa's chosen superclusters. It was developed by a BC-led consortium of industries and institutions across Canada to build global leadership in big data to raise productivity, initially in health, natural resources and industrial applications. Virtual environments will be created to enable design, experimentation and testing. The Innovation Commissioner also will be involved in the *Cascadian Innovation Corridor* with the State of Washington. The *Interactive Digital Media Tax Credit* is extended for five years through August 2023 with an FY20 estimated revenue cost of \$56 million.



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