

British Columbia's 2017 Election Points to Change

Yesterday's election delivers a potential minority government for British Columbia for the first time in more than half a century. Preliminary results indicate that the incumbent Liberals, with 43 of 87 possible seats, are one seat shy of a majority (side table). This is, however, a preliminary result given the very close race. From May 22nd to 24th, the outcome could be altered as absentee ballots are counted and judicial recounts are completed for several ridings where the outcome was very close. The Liberals or the NDP also could enter into a formal or informal coalition with the Green Party that now holds the balance of power.

Contrasting Party Objectives: Since their election in May 2001, the BC Liberals, first under Premier Gordon Campbell and then under Premier Christy Clark, have focused on prudent fiscal management and encouraged private-sector investment to assure the job creation and vibrant economy necessary to support social program and environmental priorities alongside competitive taxes. The NDP, led by John Horgan, propose policy changes to provide greater assistance to modest- and middle-income families, arguing that BC's economic expansion has posed considerable challenges, such as high housing prices, for households.

The Liberals' Bottom Line: The Liberals' campaign was anchored by their February *Budget* and additional campaign promises total just \$50 million in fiscal 2017-18 (FY18), \$129 million in FY19 and \$157 million in FY20. This would trim the surpluses outlined in the *Budget* to \$245 million this fiscal year, \$115 million in FY19 and \$66 million the following year, with the annual forecast allowances and Contingencies vote allocation untouched.

The NDP's Bottom Line: With sizeable social program initiatives such as subsidized daycare, the NDP's additional operating expenditures are more substantive at \$0.7 billion in FY18, \$1.3 billion in FY19 and \$1.5 billion in FY20. Offsets to this new spending in the NDP platform include drawing down the Liberals' *Prosperity Fund* and tax measures, such as reinstating the top personal income tax bracket (temporarily adopted by the Liberals to help eliminate the deficit), raising the general corporate income tax rate from 11% to 12% and a housing speculation tax.

The NDP's Infrastructure Boost: The NDP also would implement an additional \$10 billion of infrastructure investment over the next half decade. They plan a \$1.4 billion annual supplement beginning in 2018 and would leverage a further \$3 billion of capital outlays over five years from partnerships with the federal government, municipalities, the First Nations, pension funds, and BC's financial institutions and businesses. The NDP's research indicates that for every new dollar spent on public infrastructure, the government will gain extra revenue of \$0.29.

Potential Compromises for a Liberal Minority Government: We would expect the Liberals to move towards the greater remedial action outlined by the other two parties. Affordable child care stands out for the current shortage of spaces, a reported 35% cost escalation since 2007, and the assistance it gives to parents wishing to rejoin the work force. The Liberals are likely to find the room to more aggressively curtail households' daily expenses. Their proposed \$500 annual cap

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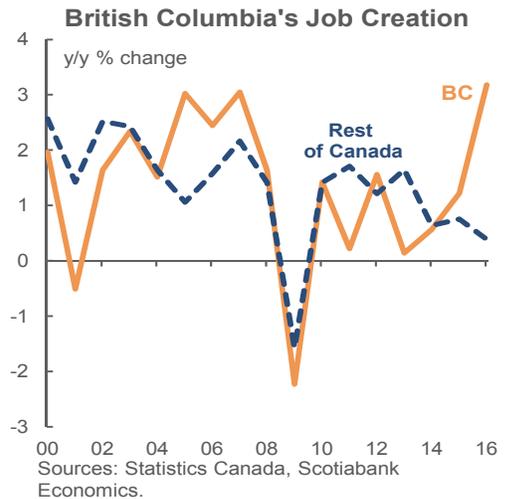
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BC's Election Results		
	Seats	Popular Vote, %
May 2017		
Liberals	43	41.2
NDP	41	39.8
Green	<u>3</u>	<u>6.5</u>
	87	87.5
May 2013		
Liberals	49	44.1
NDP	34	39.7
Green	1	8.1
Conservatives	0	4.8
Independent	<u>1</u>	<u>2.4</u>
	85	99.1

on bridge tolls for commuters, for example, is a more moderate version of the NDP's suggestion to completely remove existing tolls on the Port Mann and Golden Ears Bridges in the Lower Mainland. Conversely, we would look for a minority Liberal government to resist corporate and personal income tax hikes.

Contentious Issues: Front and centre is the Trans Mountain Expansion Project, approved by the federal government, with the BC Liberals supporting this pipeline expansion after its five conditions were met. The BC NDP and the Green Party, aligned on a number of issues, oppose the project. The Liberals also will face calls for a comprehensive review of fracking.

Outlook: For now, British Columbia has considerable momentum. Its annual real GDP growth from 2010 to 2016 averaged a robust 3.0% and last year, though part-time positions were a driver, the total number employed surged 3.2% (side chart). BC's cumulative budget surplus from FY14 to FY16 was \$2.8 billion and the projected FY17 balance in the February *Budget* is \$1½ billion. BC has maintained its triple A rating, and its taxpayer-supported debt, as defined by the Province, fell to an estimated 16% of GDP in March 2017 from a cyclical peak of almost 18% in March 2014.



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