New Brunswick: 2018–19 Budget

- New Brunswick is deferring balanced books from fiscal 2020–21 (FY21) to FY22 (side table and chart).
- Following the estimated $77 million improvement in the FY18 deficit to $115 million (-0.3% of GDP, discussed here), the cumulative FY19–FY21 shortfall widens from last year's projected $120 million to $392 million in this *Budget*. The new FY19 deficit, however, is held to 0.5% of GDP and the budget gap then narrows.
- Net debt, as calculated by the Province, is estimated to fall from the March 2016 peak of 41.4% of GDP to 40.0% by the end of FY18, and then stabilizes relative to GDP in FY19.
- FY18 borrowing is trimmed by the $196 million of remaining financing (largely for NB Power) that is now included in the $2.3 billion FY19 requirement.

REVENUE AND EXPENDITURE DETAILS

In the shadow of an election, New Brunswick is benefitting from a return to significant positive economic growth. For calendar 2018, the government's assumption of 1.1% real GDP growth marks the fourth consecutive year of advances exceeding 1.0%. In response, FY18 revenue growth is revised to a buoyant 4.2% (table, p.2), and though the projected FY19–FY21 increases average just 2.2% annually, cumulative receipts over the three years are still $401 million ahead of last year's estimates. Expenditures, building on an estimated 4.1% jump in FY18, are expected to climb 2.1% annually from FY19 to FY21, representing a cumulative $673 million rise over last year's Budget.

In calendar 2019, the Province looks for its real GDP growth to ease to 0.9% and then average 0.7% annually from 2020 to 2022, reflecting the slowing expansion expected for the Canadian and US economies and the aging of its older population. Nominal GDP increases assumed by NB for the three outer forecast years average a modest 1.9%.

This Budget (here) identifies three key challenges: preparing for NB's expanding Seniors cohort; addressing the Province's 13.5% youth unemployment rate; and reinforcing its economic development efforts given current elevated uncertainty on issues such as the NAFTA renegotiations and softwood lumber.

Remedial measures include an additional $23 million allocation to informal and formal caregivers for Seniors, a multi-year nursing home plan, increased job opportunities to retain students, subsidized child care for low- and middle-income families beginning in March 2019, and a $40 million 2018–19 investment to further innovation. New Brunswick's small business corporate income tax rate, lowered from 3.5% to 3.0% on April 1, 2017, will be reduced, as planned, to 2.5% this April 1.

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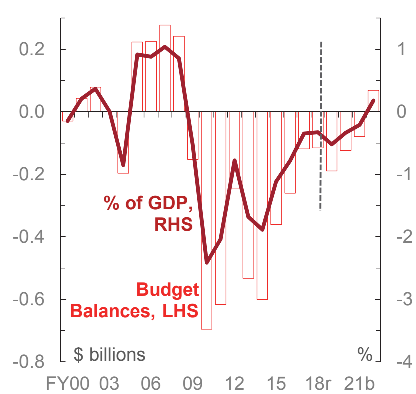
NB's Budget Balances

Fiscal 2016–17 (FY17)
Budget: -$246mn *(-0.7% of GDP)*
Final: -$119mn *(-0.3% of GDP)*
FY18
Budget: -$192mn *(-0.5 % of GDP)*
Q3: -$115mn *(-0.3% of GDP)*
FY19
Budget: -$189mn *(-0.5 % of GDP)*
FY20
Budget: -$124mn *(-0.3 % of GDP)*
FY21
Budget: -$79 mn *(-0.2 % of GDP)*
FY22
Budget: +$69mn (+0.2% of GDP)

Borrowing Requirements*
FY18
Budget: $2.43bn **Revised: $2.23bn**
FY19
Budget: $2.31bn
* Ex NB Municipal Finance Corporation funding.

New Brunswick's Budget Balances



Source: NB Finance, Statistics Canada; nom. GDP forecasts: Scotiabank Economics

The *Budget* initiates a careful accounting of a core element of its climate change program. Each year, a rising share of existing revenues from its gasoline and motive fuel taxes will be re-profiled to a dedicated *Climate Change Fund* beginning with $37 million in FY19. The current plan for these monies in FY19 is allocating $1½ million to a Climate Change Secretariat, $2 million to a *Low-Income Energy Efficiency Program* and $30 million to 'green' capital investments in areas such as infrastructure. This leaves almost $4 million in the *Fund* for climate change initiatives after FY19, though other Provinces have experienced significant delays in initially deploying funds in their climate change programs.

CAPITAL SPENDING, BORROWING REQUIREMENTS AND NET DEBT

Capital outlays for FY18, as of Q3, are expected to be $30 million less than *Budget* at $746 million. NB's *Capital Estimates,* discussed here, then outline a substantive two-year increase, in part to take advantage of available federal funding, with a 9.3% surge in FY19 and a further 6.2% hike in FY20 to $866 million (2.3% of GDP), before easing to $850 million in FY21.

In addition to capital priorities such as upgrading schools, early learning centres and nursing homes, NB is accelerating tourism infrastructure investment to $27 million in FY20, alongside a strategy to promote the Province, in order to achieve the 2025 goal of growing tourism-related GDP to $2.0 billion.

Net debt, as calculated by New Brunswick, was initially expected to rise by $362 million in FY18, and a more modest $273 million increase is now anticipated. In FY19, with the wider deficit plus stepped-up capital investment, the projected rise in net debt rebounds to $372 million.

Net new direct government borrowing and related refinancing are forecast to shift lower in FY19. Conversely, borrowing on behalf of NB Power is expected to rise from $300 million in FY18 to $780 million in FY19, the latter amount including unfinished FY18 funding of $170 million.

OUTLOOK

Unmet priorities are to be expected after New Brunswick's anemic post-recession recovery, with its real GDP contracting by a cumulative 1.0% over the four years to calendar 2014 and employment falling growth 2.6% from 2009 to 2016. Future dividends are anticipated from many of the government's initiatives, such as upgrading its K-12 curriculum, raising literacy, expanding employment opportunities for youth up to 29 years old and supporting export-oriented business expansion. The plans in this *Budget* in some instances also reflect the Province stepping up to fully access federal funding across multiple policy areas.

But challenges as well as opportunity are inherent in New Brunswick's FY19–FY22 plan. As of its FY18 Q3 *Update*, the government estimated that the expenditure reductions to be accomplished by this March through administrative efficiencies, centralizing services and other measures would be $32 million behind target, an amount that may have to be made up over the remaining three years of the *Strategic Program Review.*

NB's forecast of slowing economic growth through 2022 suggests less room for upside surprises in revenues. The Province's current tax structure offers little scope for additional revenue measures. In the

New Brunswick's Budget Arithmetic
$ billions except where noted

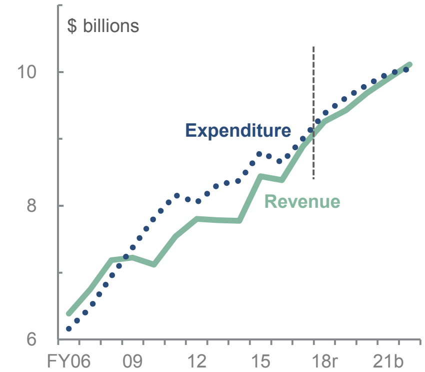
	FY18		FY19
	Budget	Q3	Budget
Personal Income Tax	1,681	1,605	1,682
Corporate Income Tax	334	437	312
Harmonized Sales Tax	1,419	1,450	1,493
Metallic Minerals Tax	1	3	2
Other Taxes	1,084	1,076	1,048
Total Taxes	**4,519**	**4,571**	**4,537**
Resource Royalties	70	74	70
Gov't Business Ent. Income	246	220	240
Other Own-Source Rev.	1,127	1,180	1,187
Own-Source Revenue	**5,962**	**6,045**	**6,034**
Federal Transfers	3,227	3,218	3,394
Total Revenue	**9,189**	**9,263**	**9,427**
Program Spending	8,680	8,695	8,941
Debt Service*	701	683	675
Total Expenditure	**9,381**	**9,378**	**9,616**
Budget Balance	**-192**	**-115**	**-189**
Long-Term Borrowing**	**2,430**	**2,234**	**2,308**
Direct Government: New	980	954	797
Refinancing	980	980	731
For: NB Power	470	300	780
Memo Items, %			
Own-Source Revenue / GDP	16.9	17.2	16.7
Program Spending / GDP	24.6	24.7	24.7
Budget Balance / GDP	-0.5	-0.3	-0.5
Debt Service*/ Revenue	7.6	7.4	7.2
Annual Change, %			
Personal Income Tax	*2.4*	*-2.2*	*4.8*
Corporate Income Tax	*1.9*	*33.2*	*-28.7*
Harmonized Sales Tax	*13.1*	*15.6*	*2.9*
Total Taxes	*5.3*	*6.5*	*-0.8*
Total Revenue	***3.4***	***4.2***	***1.8***
Program Spending	*4.1*	*4.3*	*2.8*
Total Expenditure	***4.1***	***4.1***	***2.5***

* Ex government enterprises' debt service. ** Ex NB Municipal Finance Corporation funding of $150 mn in both FY18 & FY19.
Sources: NB Finance; Statistics Canada; nominal GDP forecasts: Scotiabank Economics.

upcoming era of slower North American growth, competitive pressures and stepped-up demand for each taxpayer dollar are anticipated.

The strategy underlying New Brunswick's *Climate Change Act* is considered prudent with its focus on reducing GHG emissions while limiting new levies (discussed here). Yet the increasing diversion of the Province's gasoline and motive fuels tax receipts to the *Climate Change Fund* represents a substantive loss in general revenues for other programs. In FY22, the *Budget's* plan to achieve balanced books relies upon revenues rising 2.2% as total expenditure growth is constrained to 0.7%.

NB's Revenue Path vs. Expenditures



Source: New Brunwick Finance.

Selected Revenue and Expenditure Initiatives

Three programs are designed to attract and retain domestic and international students. The *Youth Employment Fund* helps employers hire unemployed individuals between 18–29 years for six months to give them work experience and facilitate their entry into the work force. The *Student Employment Experience Development (SEED)* program provides summer jobs to eligible students. And finally, an internship program aims to hire qualified students into the civil service.

To encourage Seniors' participation in the work force, funding for a wage supplement program is provided, focused on positions related to tourism to extend the season beyond August after summer student workers return to school.

Industry-specific assistance includes New Brunswick's $4 million investment in the *Atlantic Fisheries Fund,* a joint Federal-provincial program to help producers take advantage of expanding global markets for seafood.

The forest products sector will continue to receive provincial assistance to combat the spruce budworm. Once again, softwood lumber producers in Newfoundland and Labrador, Nova Scotia and PEI have been deemed exempt from US tariffs. New Brunswick, however, faces US concerns that it subsidizes its softwood industry. Its softwood lumber interests, historically exempt from US tariffs, this time round face a combined countervailing and anti-dumping levy of close to 10% for the largest producer and roughly 20% for its other producers.

For NB's *Innovation Agenda,* the Province will invest over $40 million in 2018–19. Support for research & development will be enhanced; assistance to start-ups, commercialization and business scaling will expand; innovation labs will be promoted and funding will continue for Smart Province initiatives.