

Prince Edward Island: 2018–19 Budget

TIGHT MANAGEMENT TO ENABLE MULTIPLE PRIORITIES

- Following a decade of deficits and almost accomplishing balanced books in fiscal 2016–17 (FY17), PEI affirms black ink for FY18 through FY21 totalling \$10 million (side table and chart).
- Personal and business tax relief are carefully balanced with targeted program spending initiatives and increased infrastructure investment, the latter to accommodate stepped-up population and economic growth.
- The FY18 estimated rise in net debt, as measured by the Province, is less than *Budget* at 1.6% (+\$35½ million). Although net debt continues to trend lower relative to GDP, a larger absolute upturn is expected during FY19 with this year's more ambitious *Capital Plan*. Subsequent growth in the net debt is expected to subside during FY20 and FY21.
- Similar to FY18, no long-term borrowing is currently planned for FY19. Short-term borrowing of \$81 million is expected for FY19, following a \$20 million drawdown of short-term obligations in FY18.

OVERVIEW

Prince Edward Island's deficit elimination is supported by growth in this small but diversified economy that has outperformed expectations. Over the last two years, annual increases have averaged 2.7% for real GDP and 1¾% for population (PEI's economic outlook is discussed [here](#)). Over the medium term, the government expects 1.3% annual population increases and real GDP gains in the plus 2% range, with balanced books key to government measures to stimulate further prosperity.

In this *Budget*, the government aims to: distribute some benefits to Islanders from the fiscal repair; address the stepped-up service demands stemming from robust growth; and sustain further economic expansion. Consequently, the government's plans this year are more ambitious than a year ago.

REVENUE DETAILS

Revenues in FY18 are now expected to advance 3.3%, propelled by a 4.3% rise in own-source receipts, nearly double the *Budget* estimate (table, p.2). Tax receipts are now expected to jump 5.7% as Harmonized Sales Tax (HST) receipts surge almost 24% with a full-year of the October 2016 rate hike from 9.0% to 10.0%, strong retail sales and an upbeat tourism season.

The rise in own-source receipts is expected to moderate in FY19 to 2.1%, partly due to this *Budget's* tax relief. However, with federal revenue growth expected to accelerate from 1.7% last year to 8.8%, total receipts are projected to rise 4.6%.

Personal income tax relief is delivered with a \$500 rise in the Basic Personal Amount for 2018 and again in 2019. Taking the opportunity to trim the tax burden

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PEI's Budget Balances

Fiscal 2016–17 (FY17)

Final: -\$1.3 mn (-0.02% of GDP)

FY18

Budget: +\$0.6mn

Rev.: +\$1.2mn (+.02% of GDP)

FY19

Budget: +\$1.5mn

FY20 FY21

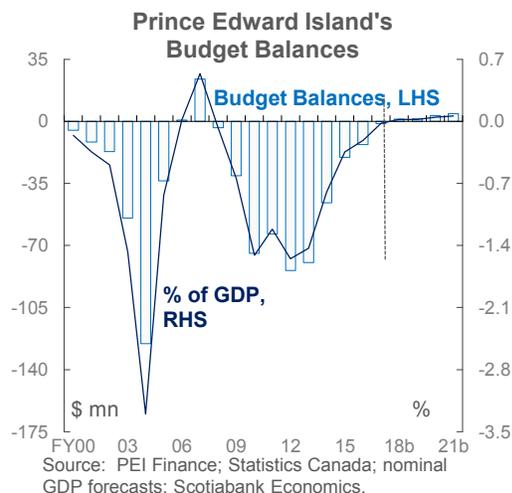
+\$3.1mn +\$4.2mn (+.06% of GDP)

Long-Term Borrowing Requirements

FY18 and FY19

Zero for both fiscal years

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



is an encouraging measure because PEI remains a higher-tax jurisdiction relative a number of other Provinces. Its 51.37% top effective personal income tax rate is effective at a low taxable income threshold of \$64,000 and its general corporate income tax rate is 16.0%.

PEI is trimming its small business corporate income tax rate from 4.5% to 4.0% as of January 2018, and further declines are promised. A Small Business Investment Grant is announced offering a 15% rebate on eligible direct investments up to \$25,000 to improve the business.

Like other Provinces, PEI expects no net revenues during the first year of legalized cannabis given the public safety, health and education services it is planning in response to this change. As the government plans four retail locations, one licensed grower and a firm making equipment for cannabis oil extraction are expanding.

As part of its climate change strategy, to incent residential heating with lower greenhouse gas emissions, a credit rebate for the provincial HST will be offered on the first block of residential electricity and on purchases of propane, pellets and firewood.

EXPENDITURE DETAILS

Program spending growth shifted higher over FY18 to an estimated 3.5% as revenue gains strengthened and for FY19, a pick-up to 4.7% is planned. In part, the FY19 spending is leveraging federal funding.

To assist families and encourage youth to remain on the Island, Island Advantage Bursaries will be introduced. When combined with the existing George Coles Bursaries, the Island Student and Skills Awards and other supports, the Province will effectively provide free university and college tuition for its residents. The Graduate Mentorship Program will receive further funding and existing provincial aid for student debt will be escalated. As of the 2018–19 academic year, PEI post-secondary students staying in the Province and residents returning to PEI within three years of graduation will receive debt reduction grants of \$3,500 per year of study.

To support communities and limit local tax increases, the Province over the past year has provided new funding to municipalities.

Reflecting the Island's growth, Charlottetown's apartment rental vacancy rate in CMHC's October 2017 survey was a tight 0.9%, well below the 3.0% rate indicative of a balanced market. Shortages in available and affordable housing prompted a *Housing Supply Task Force* in PEI last year. The Province is responding with \$17 million over the next two years for new affordable units, rent supports, and a decrease in chronic homelessness, building on its \$7 million FY18 investment. A plan is anticipated by mid-2018 that assesses PEI's longer-term housing needs.

With input from the Regional Economic Advisory Councils, the Province's economic development initiatives continue. The "Start-Up Zone" is an example with 22 firms graduated and another 40 firms resident.



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

Prince Edward Island's Budget Arithmetic

\$ millions except where noted

	FY18		FY19
	Budget	Rev.	Budget
Personal Income Tax	373	367	380
Corporate Income Tax	60	70	70
Harmonized Sales Tax	275	291	298
Other Tax	215	218	223
Tax Revenue	924	947	970
Gov't Business Enterprises	68	70	69
Other Own-Source Revenue	175	174	176
Total Own-Source Revenue	1,166	1,191	1,215
Federal Transfers	710	708	770
Total Revenue	1,877	1,899	1,985
Program Spending	1,750	1,773	1,857
Debt Service*	126	124	127
Total Expenditures	1,876	1,897	1,984
Surplus (Deficit)	0.6	1.2	1.5
Capital Expenditure	97	111	134
Memo Items, %			
Own-Source Revenue / GDP	17.6	18.0	17.7
Own-Source Rev./ Total Rev.	62.1	62.7	61.2
Program Spending / GDP	26.4	26.8	27.0
Budget Balance / GDP	0.01	0.02	0.02
Debt Service*/ Revenue	6.7	6.6	6.4
Annual Change, %			
Personal Income Tax	6.6	4.8	3.5
Corporate Income Tax	-24.9	-12.0	-0.1
Harmonized Sales Tax	17.2	23.8	2.3
Tax Revenue	3.1	5.7	2.5
Total Own-Source Revenue	2.2	4.3	2.1
Federal Transfers	2.1	1.7	8.8
Total Revenue	2.1	3.3	4.6
Program Spending	2.2	3.5	4.7
Total Expenditures	2.0	3.2	4.6

* Ex Crown corporations' interest costs. Source: PEI Finance; Statistics Canada; nom.GDP fcsts: Scotiabank Economics.

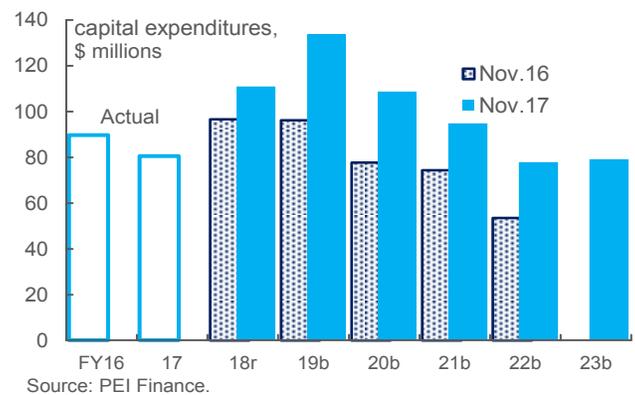
PEI's Capital Plan reveals revised FY18 outlays almost 15% ahead of *Budget*, representing an increase of nearly 38% over FY17. In FY19, a further 20½% rise in infrastructure is planned. The surge mirrors higher investments in areas such as Education to meet the needs of a rising population. Roughly two-thirds of the immigrants arriving in PEI are under the age of 40, causing the median age on the Island to edge down to 43.5 years as of July 1, 2017. PEI also is maintaining steady investment in long-term care facilities to accommodate an expanding Seniors cohort in the future. Capital spending to support industry expansion include a range of Tourism PEI projects totalling \$1.4 million for FY19, almost double the usual annual outlay of \$750,000.

After FY19, capital spending is forecast to ease from the peak of nearly \$134 million this fiscal year to an average \$78½ million annually in FY22 and FY23. Yet the trajectory still implies a very substantial increase from the November 2017 *Five-Year Capital Plan* as the government provides for the greater population growth now anticipated.

OUTLOOK

For FY20 and FY21, PEI prudently assumes annual revenue growth of 2.6% and then restrains increases in total expenditures to 2.5%, allowing the surplus to edge up to \$4 million by FY21. The caution is well-advised given the general expectation of North American growth slowing significantly after calendar 2019. While PEI continues to broaden its export markets, it is still dependent upon the rest of Canada and the United States, particularly in areas such as tourism. Thus the government's commitment to sustaining balanced books will likely continue to depend upon the careful management of multiple priorities.

PEI's Five-Year Capital Budget Shifts Higher



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