

Government stays the course in Budget 2019

In a budget relatively light on announcements, the government maintained its focus on addressing affordability challenges for families with the introduction of the B.C. Child Opportunity Benefit as its main policy announcement, while also addressing environmental policy through investments in CleanBC. Modest enhancements were also made to existing programs related to income and disability assistance, support for childcare and measures focused on health care. There were no new tax hikes or cuts introduced in the budget.

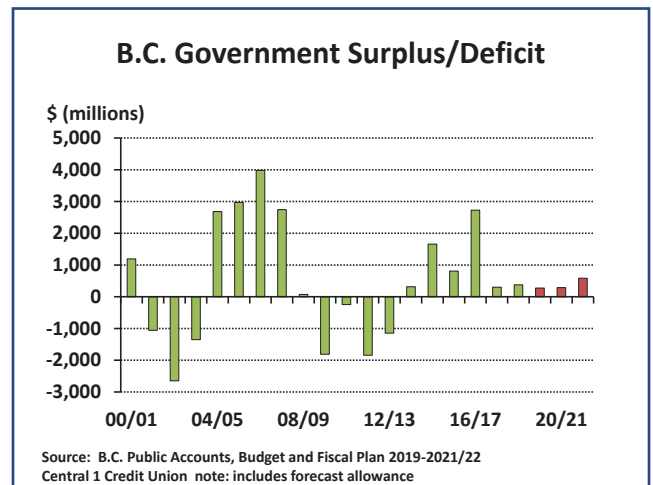
As expected, the government projects small surpluses to continue throughout the fiscal plan. Including forecast allowance, a surplus of \$374 million is expected for fiscal 2018/19, with the surplus declining to \$274 million in 2019/20 and increasing to \$287 million in 2020/21. A surplus of \$585 million is projected for 2021/22. If achieved, this would mark nine consecutive budget surpluses for a B.C. government.

Significantly higher capital spending plans are maintained owing in large part to investments in health, transportation and education infrastructure. These investments will contribute to economic growth, providing some offset to slowing consumer demand. Total capital spending over the 2019/20 to 2021/22 fiscal period will reach \$20.1 billion. Provincial debt will rise by more than 20 per cent but levels remain relatively low in comparison to the size of the economy.

Key Budget 2019 announcements

B.C. Child Opportunity Benefit

- Effective October 1, 2020, the benefit will combine with the BC early childhood tax benefit to provide support for children up to the age of 18 and support for family budgets.
- Refundable tax credit that provides \$380 million annually for families with children under the age of 18
- The maximum benefit is \$1,600 for the first child; \$1,000 for a second child; and \$800 for each subsequent child under the age of 18



- *Benefit reduced by four per cent of family net income over \$25,000 until it hits \$700 for the first child, \$680 for the second child and \$600 for each subsequent child. The net benefit is phased out at a rate of four per cent for family net incomes above \$80,000, but final phase-out income depends on number of children.*

Student Loans Interest Elimination

- *Interest charges on B.C. new and existing student loans provided through the British Columbia Student Loans Program are eliminated and will no longer accrue.*

Income Assistance and Disability

- *Increased income assistance and disability assistance rate. Effective April 19, 2019, rates will increase by \$50 per month.*

Northern Capital and Planning Grant

- *\$100 million in 2018/19 to 26 local governments in the north to the LNG corridor to support needed infrastructure.*

CleanBC

- *Additional funding of \$679 million for the CleanBC plan. This broad investment, which addresses transportation; energy efficient buildings; and other facets, includes \$42 million for continued incentives for battery and electric vehicles purchased at point of sale.*

Education

- Additional funding of \$550 million to support the public education system, including \$58 million over three years for the Classroom Enhancement Fund.

Health

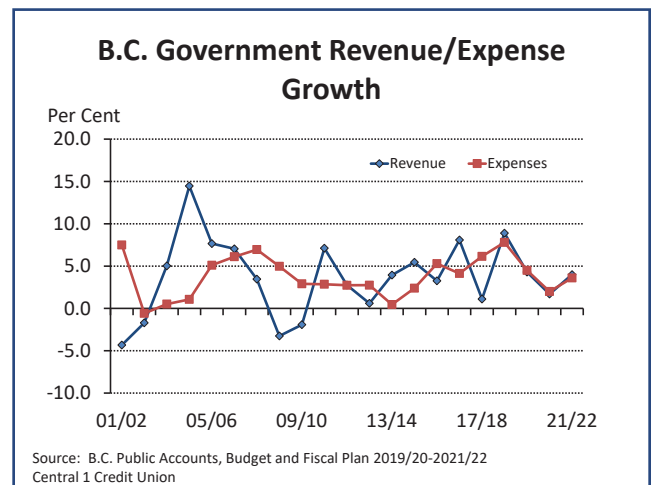
- Re-commitment to fully eliminate MSP premiums on January 1, 2020, made up mostly by the Employer Health Tax
- \$74 million towards mental health and addictions services for children, youth and young adults
- Additional \$30 million over three years to increase efforts related to the opioid crisis

Fiscal Plan

Underlying the government's balanced budget is close alignment of program spending and revenue growth.

Following a gain of 7.8 per cent in 2018/19, expense growth eases to 4.5 per cent in 2019/20 and to 2.0 per cent and 3.6 per cent in the latter two years. Over the three-year period, expense growth averages 3.4 per cent which is relatively mild compared to recent years, rising from \$55.8 billion in 2018/19 to \$61.6 billion in 2021/22. Health expenses, which makes up nearly 40 per cent of total expenses rise by 4.5 per cent in 2018/2019 and slows to 2.6 and 2.9 per cent thereafter. Social services expenses rise at an average rate of 5.8 per cent. General government services, which is currently about three per cent of expenses surges by nearly 30 per cent over the fiscal plan to five per cent of expenses although it is unclear what drives this. Governments are generally able to meet expense projections given these are policy choices, while contingency funds are also a source of cushion for unexpected expenses. Contingency fund allocation—used to manage unexpected expense pressure and fund priorities—is at \$750 million in 2019/20 and \$400 million thereafter.

On the revenue front, projected growth remains healthy at an average annual clip of 3.3 per cent per cent over the fiscal plan. Growth is stronger in 2019/20 at 4.3 per cent before slowing temporarily in 2020/21 on elimination of the Medical Services Plan premiums. Tax revenue in 2019/20 climbs 3.4 per cent owing largely to Employer Health Tax revenues which offsets declines in personal and corporate income tax. Growth rotates back towards personal and corporate taxes in the latter two years of the plan. Property transfer tax



revenues are projected to hold steady at \$1.91 billion. The government anticipates a drag from resource revenues due to bonus bids on drilling licenses and leases. An increase in federal government transfers will also fund growth in health expenses.

While various factors contribute to revenue projections, economic growth forecasts are a key driver. The provincial government generally takes a cautious approach to economic outlook, incorporating the average forecast obtained from its Economic Forecast Council (EFC) which is a panel of private-sector economists including Central 1, and discounting it. The current outlook is for economic growth to slow to a range of 2.0 to 2.5 per cent, reflecting global growth uncertainties, a weak housing market and slower consumer spending growth. Investment in the liquefied natural gas terminal in northern B.C. provides support.

The Budget assumes growth of 2.4 per cent in 2019, which is 0.1 percentage points less than the EFC, with growth of 2.3 per cent in 2020 (0.3 percentage points lower than the EFC). Growth is forecast to trend near 2.0 per cent thereafter to 2023 or 0.2 points below the EFC estimate. Normally, the budget shaves 0.2 percentage point off each year, making this year's estimates somewhat peculiar. Nevertheless, this growth outlook remains prudent, while also assuming below consensus commodity prices. This modest outlook alongside the forecast allowance and contingency funds, provide some buffer for the budget. The forecast allowance is \$500 million in 2019/20 and falls to \$300 million thereafter.

We do see some risks to the revenue forecast. Specifically, the government's housing outlook and property transfer tax (PTT) revenue projection seems high considering sector trends. The government expects residential investment growth to average 3.6 per cent in 2019 and 2020, with acceleration to 5.6

per cent in 2021. The value of home sales is forecast to rise three per cent in 2019 with further acceleration above four per cent thereafter. At the same time, housing starts are expected to contract 16.7 per cent this year, with further declines thereafter. Central 1 expects residential investment to contract in 2019 and 2020 as housing starts drive investment spending lower. Housing sales volume are contracting in early 2019 on decline sales and prices and forecast to be lower than 2018 on a full-year basis. We see this as a negative risk for PTT revenue which will trim the expected surplus.

Capital Investment and Debt

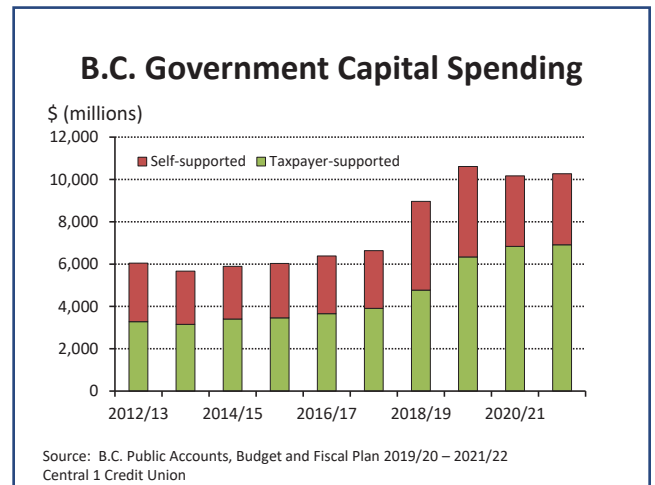
Capital spending climbs over the budget period. Taxpayer-supported investment climbs from \$4.77 billion to \$6.3 billion in 2019/20 with growth to near \$6.9 billion thereafter. Much of this growth is driven by growth in health, education and transportation investments. Self-supported spending (largely crown corporations) declines. Combined, total capital investments are expected to climb from \$8.96 billion to \$10.6 in 2019/20 and ease thereafter. As a share of nominal-GDP, taxpayer-supported capital spending hovers near 2.1 per cent, which is well above the 1.4 per cent rate observed 2012-2017 highlighting the scope of the current investment cycle.

Key taxpayer-supported capital spending projects includes:

- Pattullo Bridge Replacement
- Broadway Subway
- Kicking Horse Canyon Phase 4
- Royal Columbian Hospital Redevelopment
- St. Paul's Hospital

Operating debt has been eliminated and it is expected to continue through the fiscal horizon. However, total debt, which is mostly capital will continue to rise with capital spending plans.

Tax-payer supported debt climbs from about \$44 billion in 2018/19 to \$46.4 in 2019/20, before climbing to \$50.4 and \$54.0 billion in 2020/21 and 2021/22. This is about \$10 billion over the period. Tax-payer supported debt-to-GDP climbs over the fiscal plan to 16.1 per cent from about 15 per cent in 2018/19 but remains low historically in comparison to other provinces. Total debt-to-GDP, which includes self-supported debt, climbs to 24.6 per cent in 2021/22 from 23 per cent in 2018/19.



Credit Unions

There were no credit union specific measures in Budget 2019, though the reduction in the small business tax rate to 2.0 per cent from 2.5 per cent will reduce their tax bill by an estimated \$22 million in 2019/20.

Bryan Yu

Deputy Chief Economist

byu@central1.com / P 604.742.5346

Mobile: 604.649.7209

Budget 2019 Summary Table - 2019/20 – 2021/22

(\$ millions)	2016/17	2017/18	Forecast		Fiscal Plan	
	2016/17		2018/19	2019/20	2020/21	2021/22
Revenue	51,449	52,020	56,636	59,047	60,038	62,458
Expense	48,722	51,719	55,762	58,273	59,451	61,573
Surplus (deficit) before forecast allowance	2,727	301	874	774	587	885
Forecast allowance			500	500	300	300
Surplus (deficit)	2,727	301	374	274	287	585
Capital spending:						
Taxpayer-supported	3,659	3,908	4,771	6,340	6,837	6,911
Self-supported	2,725	2,729	4,192	4,274	3,333	3,361
Total	6,384	6,637	8,963	10,614	10,170	10,272
Provincial debt:						
Taxpayer-supported debt	41,499	43,607	43,957	46,384	50,454	53,986
Self-supported debt	24,338	21,312	23,459	25,664	26,905	28,090
Total debt (including forecast allowance)	65,837	64,919	67,916	72,548	77,659	82,376
Taxpayer-supported debt-to-GDP ratio (%)	15.7	15.5	14.9	15.0	15.7	16.1
Total debt-to-GDP ratio	24.9	23.0	23.0	23.5	24.1	24.6

Source: Budget and Fiscal Plan 2019/20 - 2021/22

Revenue By Source, Budget and Fiscal Plan 2019/20 – 2021/22

(\$ millions)	2016/17	2017/18	Forecast		Fiscal Plan	
			2018/19	2019/20	2020/21	2021/22
Taxation	27,093	28,321	32,637	33,732	35,179	37,080
Natural resource revenue	2,711	2,695	2,970	2,623	2,438	2,380
Other revenue	10,953	10,893	9,996	9,958	9,153	9,260
Federal government contributions	8,167	9,055	9,062	9,423	9,765	10,118
Comm. Crown Corporation net income	2,525	1,056	1,971	3,311	3,503	3,620
Total revenue	51,449	52,020	56,636	59,047	60,038	62,458

Source: Budget and Fiscal Plan 2019/20 - 2021/22

Expense by Function, Budget and Fiscal Plan 2019/20-2021/22

(\$ millions)	2016/17	2017/18	Forecast		Fiscal Plan	
			2018/19	2019/20	2020/21	2021/22
Health	19,689	20,927	21,996	22,983	23,572	24,266
Education	12,468	13,091	14,273	14,609	14,781	14,918
Social Services	4,243	4,737	5,329	5,760	6,098	6,307
Protection of persons and property	1,655	1,930	1,960	1,706	1,712	1,716
Transportation	1,784	1,931	2,158	2,300	2,310	2,275
Resources and economic development	2,504	3,387	3,378	3,270	3,042	3,309
Other	2,260	1,536	1,936	1,486	780	114
Contingencies	-	17	550	750	400	400
Contingencies - Sustainable Services Negotiating Mandate				553	1,183	1,827
General government	1,532	1,540	1,567	2,059	2,622	3,325
Debt servicing	2,587	2,623	2,615	2,797	2,951	3,116
Operating expense	48,722	51,719	55,762	58,273	59,451	61,573

Source: Budget and Fiscal Plan 2019/20 - 2021/22

Capital Spending, Budget and Fiscal Plan 2019/20-2021/22

(\$ millions)	2016/17	2017/18	Forecast		Fiscal Plan	
			2018/19	2019/20	2020/21	2021/22
Education	1,266	1,546	1,564	1,877	2,067	2,049
Health	1,004	890	1,147	1,255	1,406	1,692
Transportation	864	832	1,070	2,075	2,278	2,235
Government direct (ministries)	301	430	492	672	497	447
Other	224	210	498	461	589	488
Taxpayer-supported	3,659	3,908	4,771	6,340	6,837	6,911
BC Hydro	2,444	2,473	3,923	2,999	3,115	3,153
Others	281	256	269	1,275	218	208
Self-supported	2,725	2,729	4,192	4,274	3,333	3,361
Total capital spending	6,384	6,637	8,963	10,614	10,170	10,272

Source: Budget and Fiscal Plan 2019/20 - 2021/22