

BC Budget 2020 was a quiet affair, with little in the way of new announcements and continuation of the government's theme of tackling affordability issues in the province. As expected, the government plans to keep its fiscal position in the black, with a forecast of \$203 million for 2019/20, followed by surpluses of \$227 million in 2020/21, \$179 million in 2021/22 and \$374 million in 2022/23.

The fiscal outlook remains attainable, if not overly prudent given cautious economic expectations underpinning the revenue outlook and generous cushions for forecast allowances and contingencies. B.C. is the envy of many provinces, with 2019/20 marking the seventh straight surplus and more likely to come.

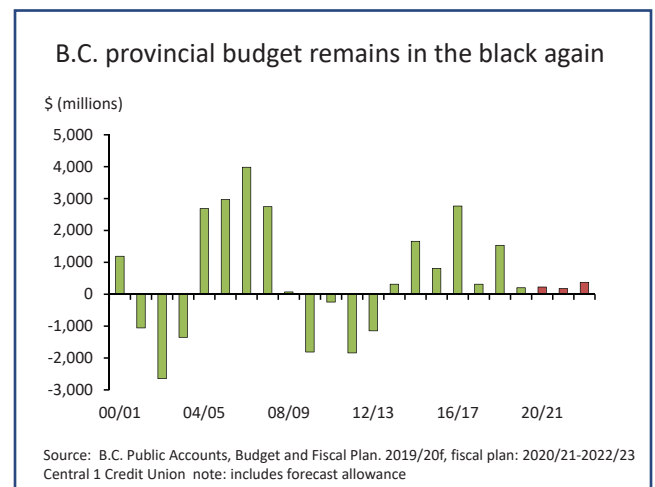
Capital investment is projected to remain elevated at an average of \$7.6 billion over the planning period as the government delivers on its plans to address investments in school, hospitals and transportation outlined in previous budgets. Debt will continue to rise, with tax-supported debt reaching \$87.6 billion at the end of the fiscal plan but remaining very manageable at 17.1 per cent of Gross Domestic Product (GDP).

Budget 2020 was light on new spending measures as the government largely aligned spending with previous spending initiatives. The main policies highlighted were the BC Child Opportunity Benefit, the BC Access Grant, and a personal tax rate hike on the highest income earners. There was a mild increase in support for the province's beleaguered forestry sector.

Highlights include:

**BC Child Opportunity Benefit** – Announced in Budget 2019, provision of a monthly tax-free payment affecting up to 300,000 families with children under the age of 18 comes into effect in October 2020. Families with children under 18 can receive up to \$1,600 for the first child, \$2,600 for families with two children and \$3,400 for three children. The existing program ends at age six, while the new benefit extends to 18 years of age. The measure is income-based.

**BC Access Grant** – Education grant that provides up to \$4,000 for low and middle-income students enrolled in



a program leading to a degree, diploma or certificate. This program reflects \$24 million in spending by the government and a re-design of existing grant structures.

**Personal Taxation** – New tax rate of 20.5 per cent on taxable income above \$220,000 effective January 1, 2020.

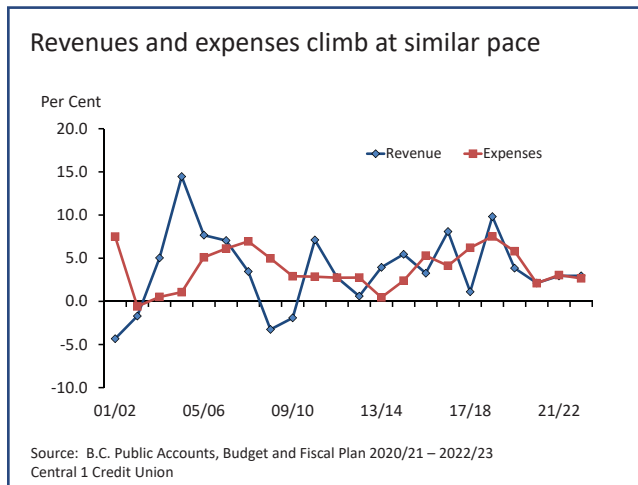
**Support for jobs in technology sector** – Increased support for technology programs at public post-secondary institutions to reach \$42 million annually.

**Income assistance** – Monthly earnings exemption for persons on temporary assistance increased by \$100 and further exemptions for those with disabilities.

**Childcare** – The government continues to increase spending on childcare programs into 2020/21 at about \$674 million before spending crests thereafter through the fiscal plan.

**Forestry** – Spending of \$13 million over three years to develop bio economy and invest in the forestry sector. This is in addition to the \$69 million Forestry Worker Support Program from the 2019/20 fiscal year. There will be fire management and emergency management funding of \$195 million to support wildfire and natural disaster response.

**Housing** – Increased funding for social housing operations and more capital funding for housing and homelessness of \$1.1 billion over three years.

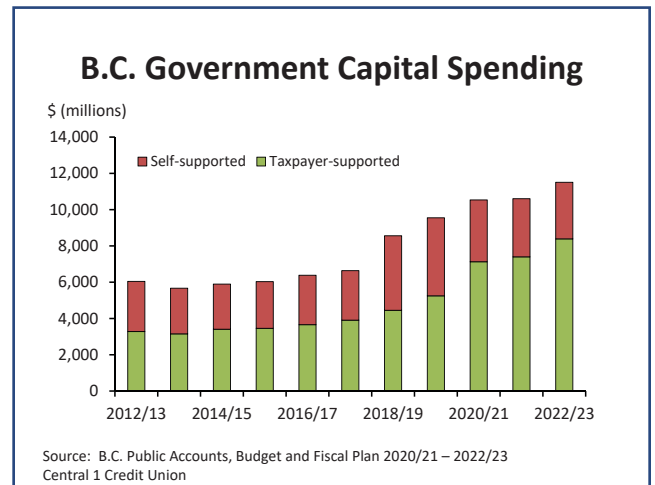


*CleanBC* – New funding of \$419 million (new program and capital funding) over the next three years.

Balanced budget plans are underpinned by a relatively close match in expense and revenue generation. After a stronger increase in the current fiscal year, growth slows though the fiscal plan. Relative to forecast 2019/20, program expenses are projected to rise 2.6 per cent annually. Forecast expenses in 2019/20 are \$58.8 billion, rising to \$63.5 billion in 2022/23. Stronger spending growth in the health services and social services is underpinning expense growth. Resources, economic development and general government services are seeing lower expenses after a spike in 2019/20. Unexpected costs such as those related to wildfires or other natural disasters could throw off the budget, but contingencies alleviate some of this risk.

Government revenues are forecast to rise at a similar rate. Total revenue climbs from \$59.3 billion in 2019/20 to \$64.2 billion in 2022/23. This includes a 2.1 per cent increase in 2020/21 before accelerating thereafter.

The main driver behind this is higher tax revenues which are set to rise at a 4.2 per cent pace. Specifically, personal income tax growth rises at a five per cent rate over the fiscal plan relative to 2019/20, albeit with one-time adjustments lowering front-end values. Higher tax rates for high income earners, which adds about \$215 - \$225 million annually over the fiscal plan, is a driver alongside growth from an expanding economy and household incomes. Corporate income taxes are impacted by prior years' cash instalments and settlement adjustments, which contributes to a decline in 2020/21, before a return to growth of 3.9 per cent in 2021/22 and 6.2 per cent in 2022/23. Property tax transfer revenue is projected to hold steady in 2020/21 before heading higher thereafter.



In contrast, natural resource revenues are projected to remain fragile, owing to weakness in the commodities. Revenue comes in at \$2.15 billion in 2020/21 and is projected to hold steady, down from \$3.1 billion and \$2.3 billion the prior two years. Declines reflect weakness in low natural gas prices, low coal prices, low forestry prices and a decline in stumpage rates.

Revenue outlooks partly depend on the economic outlook, and from this vantage point, are attainable. The provincial government builds in a cushion into the economic forecast underlying the budget, lopping off 0.2 percentage points from 2019 real GDP compared to private sector consensus and 0.4 points of 2020 and 2021 growth expectations. Government assumptions for real GDP growth are 2.0 per cent in 2020 and 1.9 per cent thereafter. Employment is forecast to trend at a one per cent rate through 2022, while housing starts are forecast to decline 22 per cent in 2020, with further declines thereafter. Residential sales volume is forecast to rise by about 4.6 per cent this year and five per cent in 2021. Despite some concerns related to the impact of the Coronavirus on growth, and current disruptions to transportation networks due to recent protests, we see these forecasts as low.

Central 1 forecasts growth near 2.5 per cent for 2020, with employment growth near 1.5 per cent which will lift revenues. A positive housing cycle is likely to boost PTT revenues as resale housing activity climbs. Commodity markets will continue to struggle. The government should comfortably maintain a balanced budget.

Government capital investment remains elevated. Driven by the health and transportation sectors, annual taxpayer supported debt climbs from \$5.3 billion in 2019/20 to nearly \$8.4 billion in 2022/23. Capital spending in the fiscal plan is \$22.9 billion. This largely reflects previous approved project but

also is increased due to health, schools and shifting of capital expense timelines. Major projects include the Broadway Subway line, Pattullo Bridge replacement, and various hospitals including the Royal Columbian redevelopment, Cariboo Memorial and St. Paul's.

B.C. debt levels climb 24 per cent over the planning period to \$87.6 billion, owing to capital investment commitments. This will lift the taxpayer-supported debt to GDP ratio to 17 per cent from about 14.6 per cent in 2019/20. While this seems like a large increase, B.C.'s debt remains more than manageable. Debt-to-GDP ratio is among the lowest among provinces, and the province is in a strong fiscal position. Outside of Alberta and Saskatchewan (which are currently hurting economically), B.C.'s debt-to-GDP is far below other provinces where ratios are in the range of 30 to 50 per cent. B.C. has significant room to increase spending on productivity enhancing projects.

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### Budget 2019 Summary Table - 2020/21– 2022/23

(\$ millions)	2016/17 2016/17	2017/18	2018/19	Forecast		Fiscal Plan	
				2019/20	2020/21	2021/22	2022/23
Revenue	51,449	52,020	57,128	59,326	60,585	62,366	64,211
Expense	48,683	51,706	55,593	58,823	60,058	61,887	63,537
Surplus (deficit) before forecast allowance	2,766	314	1,535	503	527	479	674
Forecast allowance				300	300	300	300
Surplus (deficit)	2,766	314	1,535	203	227	179	374
Capital spending:							
Taxpayer-supported	3,659	3,908	4,452	5,248	7,126	7,399	8,390
Self-supported	2,725	2,729	4,106	4,301	3,409	3,204	3,119
Total	6,384	6,637	8,558	9,549	10,535	10,603	11,509
Provincial debt:							
Taxpayer-supported debt	41,499	43,607	42,681	44,569	49,202	53,929	58,598
Self-supported debt	24,338	21,312	23,281	25,769	26,890	27,834	28,697
Total debt (including forecast allowance)	65,837	64,919	65,962	70,638	76,392	82,063	87,595
Taxpayer-supported debt-to-GDP ratio (%)	16	15	14	15	16	16	17
Total debt-to-GDP ratio	25	23	22	23	24	25	26

Source: Budget and Fiscal Plan 2020/21 - 2022/23

### Revenue By Source, Budget and Fiscal Plan 2020/21 - 2022/23

(\$ millions)	2016/17	2017/18	2018/19	Forecast		Fiscal Plan	
				2019/20	2020/21	2021/22	2022/23
Taxation	27,093	28,321	32,714	34,001	35,344	36,922	38,434
Natural resource revenue	2,711	2,695	3,108	2,326	2,149	2,171	2,143
Other revenue	10,953	10,893	10,249	10,384	9,712	9,773	9,797
Federal government contributions	8,167	9,055	9,052	9,418	9,963	10,094	10,328
Comm. Crown Corporation net income	2,525	1,056	2,005	3,197	3,417	3,406	3,509
Total revenue	51,449	52,020	57,128	59,326	60,585	62,366	64,211

Source: Budget and Fiscal Plan 2020/21 - 2022/23

### Expense by Function, Budget and Fiscal Plan 2020/21-2022/23

(\$ millions)	2016/17	2017/18	2018/19	Forecast		Fiscal Plan	
				2019/20	2020/21	2021/22	2022/23
Health	19,689	20,927	22,151	22,987	24,285	25,253	25,938
Education	12,468	13,091	14,085	14,793	15,178	15,382	15,539
Social Services	4,243	4,737	5,343	5,753	6,201	6,458	6,518
Protection of persons and property	1,655	1,930	2,004	1,851	1,817	1,830	1,849
Transportation	1,784	1,931	2,021	2,288	2,228	2,166	2,217
Resources and economic development	2,465	3,374	3,825	3,374	3,097	3,352	3,331
Other	2,260	1,553	1,810	1,662	2,033	2,140	2,220
Contingencies	-			1,102	600	400	400
Contingencies - Sustainable Services Negotiating Mandate				121	466	706	653
Priority spending initiatives - caseload expenditures							600
General government	1,532	1,540	1,670	2,197	1,430	1,423	1,419
Debt servicing	2,587	2,623	2,684	2,695	2,723	2,777	2,853
Operating expense	48,683	51,706	55,593	58,823	60,058	61,887	63,537

Source: Budget and Fiscal Plan 2020/21 - 2022/23

### Capital Spending, Budget and Fiscal Plan 2020/21 - 2022/23

(\$ millions)	2016/17	2017/18	2018/19	forecast		Fiscal Plan	
				2019/20	2020/21	2021/22	2022/23
Education	1,266	1,546	1,650	1,780	1,971	2,012	1,864
Health	1,004	890	904	1,201	1,862	1,723	2,776
Transportation	864	832	938	1,295	2,054	2,584	2,729
Government direct (ministries)	301	430	421	601	569	455	430
Social Housing	40	41	56	54	92	146	196
Other	184	169	483	317	578	479	395
Taxpayer-supported	3,659	3,908	4,452	5,248	7,126	7,399	8,390
BC Hydro	2,444	2,473	3,826	3,045	3,092	2,970	2,905
Others	281	256	280	1,256	317	234	214
Self-supported	2,725	2,729	4,106	4,301	3,409	3,204	3,119
Total capital spending	6,384	6,637	8,558	9,549	10,535	10,603	11,509

Source: Budget and Fiscal Plan 2020/21 - 2022/23