



B.C. Budget 2024

February 23, 2024

B.C. Budget 2024: Affordability, Deficits and Debt

It was a light B.C. Budget 2024 for new announcements but building on past spending decisions the message was clear. There is no urgency on the part of the government to rein in spending and return to a balanced budget for the near future. Spending will continue unabated with policies focused on affordability, health, and education.

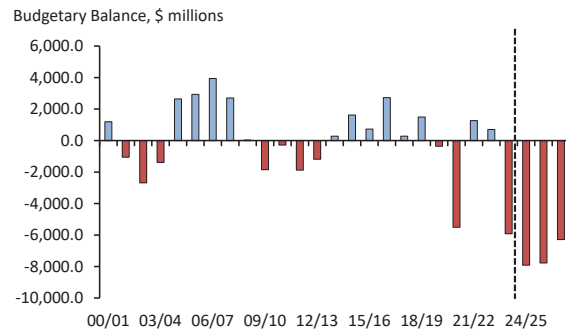
The B.C. government's Budget and Fiscal Plan points to red ink through the fiscal planning period of 2026/27 with deficits substantially higher than pegged in last year's budget. The deficit is projected to rise to a record \$7.9 billion in fiscal year 2024/25 after a \$5.9 billion shortfall in the current year. Levels are not much different in 2025/26 at \$7.8 billion, and \$6.29 billion by 2026/27. Budget 2023 deficit projections were half of these levels. In relation to the size of the economy, the deficits in the coming fiscal year will be higher than those observed in the pandemic impacted 2020/21 and the largest going back at least the last several decades. Moreover, there is a risk that these deficits will prove low as economic assumptions for GDP growth are higher than the average of private sector forecasts.

As higher expenditure spending dwarf the expected growth in revenue, B.C. will see its debt balloon over the coming years leading to an increased share of revenue required to service the borrowing which could limit future spending on priority areas.

Key policy announcements

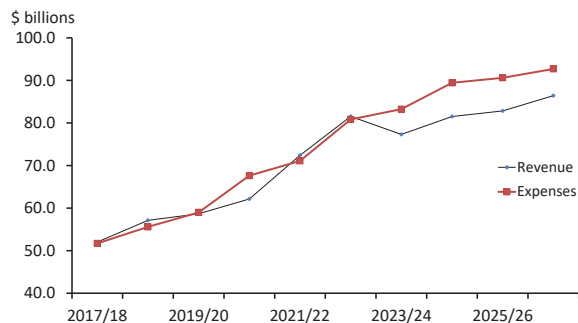
The focus for the government messaging was affordability. Specifically, the key announcements related to temporarily enhancing the B.C. Family Benefit with a one-year bonus to families receiving the benefit. This will significantly increase the benefit for families by \$445 on average for the year, at a cost of \$248 million. Similarly, there was the Electricity Affordability Credit which could save households \$100 per year. A higher carbon tax also contributes to an increase to the climate action tax credit. Small businesses also received some relief from increased exemption thresholds in the Employer Health Tax from \$500,000 to \$1 million. The notch rate above \$1 million and below \$1.5 million rises from 2.925 per cent to 5.850 per cent

A sea of red: B.C. government spending to continue, large deficits persist



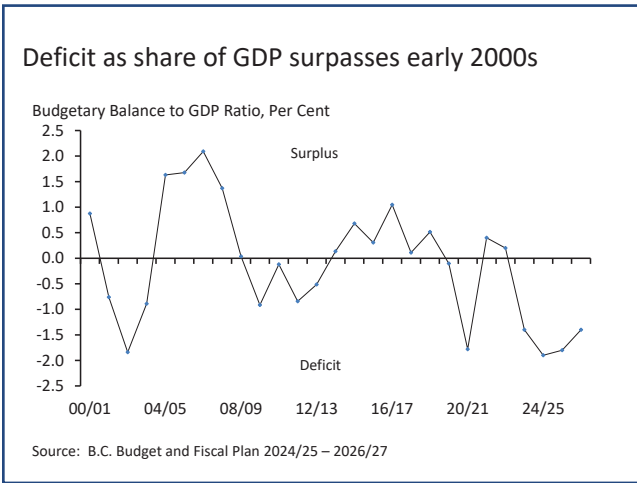
Source: B.C. Budget and Fiscal Plan 2024/25 – 2026/27
Central 1 Credit Union

Gap between revenue and expenses widen



Source: B.C. Budget and Fiscal Plan 2024/25 – 2026/27

On the housing front and building on the Homes for People Plan, the government provided more details on the introduction of a flipping tax. As of January 1, 2025, a flipping tax of 20 per cent will apply if a residential property is resold in the first year and a linear run off through year two, reaching zero tax if sold after two years. This is a tax on housing units and properties zoned for residential use, and income on assignment on contracts. The tax applies to contract assignments but there are exemptions related to job relocation, involuntary job loss, death, disability and other factors. This is anticipated to generate \$11 million in 2024/25 and \$43 million in 2025/26. In other moves, the government is increasing the PTT exemption threshold for first time buyers of new properties. The government also highlighted its low-cost financing programs for new construction.



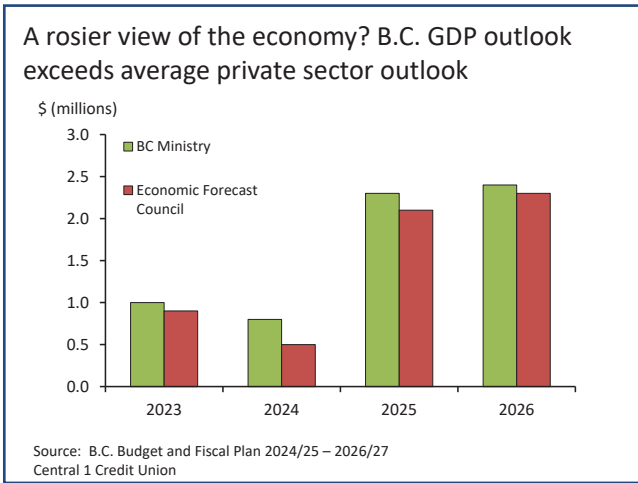
There was not much in the way of improving B.C.’s competitive future. Highlights included additional funding (\$318 million) allocated to CleanBC and rebate programs for clean energy, buildings and other related items. The critical minerals plan or lack thereof received an additional \$24 million over three years. There were no new measures directed at B.C. credit unions.

B.C. Fiscal Position

While the stream of policy announcements in Budget 2024 was underwhelming, the increase in government expenses and by extension, deficits was not. With \$13 billion in additional operating funding over the fiscal plan, Budget 2024 expenses for 2024/25 are projected to rise 7.5 per cent to \$89.4 billion, following a three per cent increase in the current fiscal year. Growth slows to 1.3 and 2.3 per cent in the following two fiscal years but marks a 7-8 per cent lift from projected expenses in the 2023 budget.

The upswing is in part due to population expansion, aging demographics, and inflationary pressures but even so, real per capita expenses are projected to increase 1.7 per cent in 2024/25 after a drop in 2023/24 as the government adds to underlying spend, before turning lower again in future years. Driving top line expense growth is health services costs with a 14 per cent increase in 2024/25 before growth of 3 and 2 per cent in the following two years. This reflects capacity needs, higher wages, and additional funding for in-vitro fertilization funding, cancer care, seniors care and mental health support. Education delivery expenses also increase sharply by 9 per cent in 2024/25 due to higher enrollments, while public safety expenses have also ballooned.

Not surprisingly, debt-servicing costs are soaring, reflecting both the rising cumulative deficits and higher interest rates. Debt servicing climbs 24.4 per cent in the



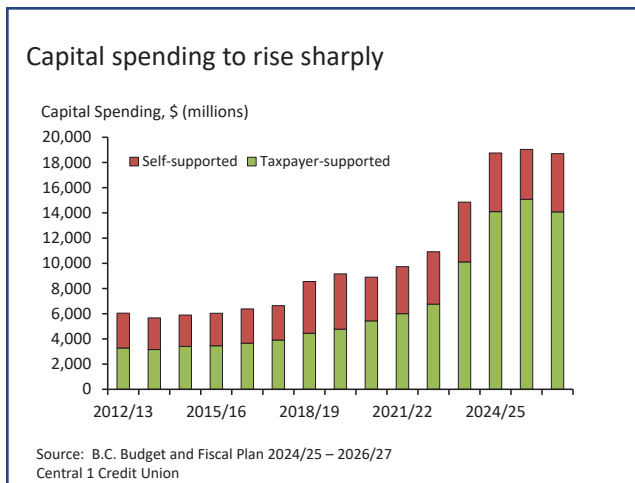
coming fiscal year to \$4.1 billion, with growth of 17.3 and 17.9 per cent in 2025/26 and 2026/27, marking an increasing share of total operating expenses. By the end of the fiscal plan, debt servicing represents 6 per cent of operating expenses compared to 4.0 per cent in 2023/24.

Higher levels of government spending will be unmatched by revenue growth reflecting softening condition in the economic base albeit modest nominal income growth. Total revenue is projected to rise 5.4 per cent in 2024/25 (compared to 7.4 per cent growth in expenses) to \$81.5 billion following a resource-sector driven decline of 5.2 per cent in the current fiscal year. Revenue increases 1.6 per cent in 2025/26 and jumps 4.3 per cent in 2026/27. Tax revenue is projected to rise 6.5 per cent in 2024/25 but owes in part to installment adjustments from the federal government in relation to corporate income taxes and other one-time adjustments, with a backtrack to 0.4 per cent in 2025/26. Property transfer tax revenue climbs 5 per cent in the coming year, followed by an acceleration to 10 per cent in 2025/26 as housing market volume climbs. Resource revenues are projected to rebound over the last two years of the fiscal plan by 10 per cent per year due to liquefied natural gas royalties and higher commodity prices.

Underpinning revenue expectations are the province’s economic assumptions. Real GDP growth is forecast to slow to 0.8 per cent in 2024, 2.3 per cent in 2025 and 2.4 per cent in 2026. Curiously, these assumptions exceed the average growth rates surveyed from the Economic Forecast Council in January. Typically, the government has set the rate below the EFC average as a measure of prudence which is missing in Budget 2024, which could mean downside risk to revenues although Central 1 has a more optimistic outlook than the broader Council. Broadly the government is forecasting a slowdown in employment in 2024 to 0.9 per cent, followed by 1.5 per cent growth in 2025 and 2026, with housing sales volumes moving higher. Commodity prices are also forecast to recover through the fiscal period.

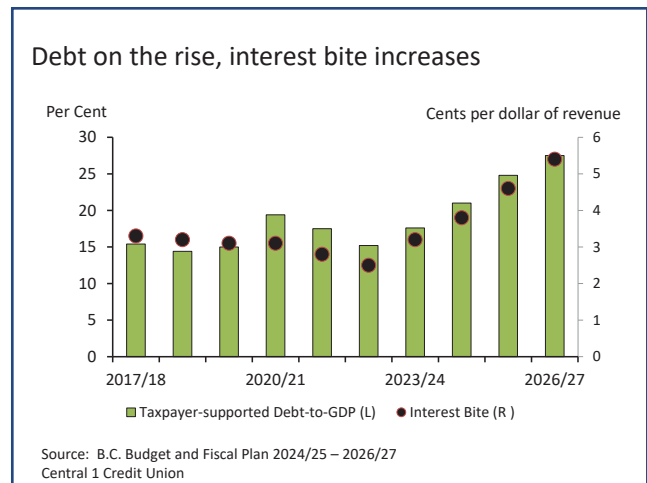
Capital Investment

Like expenses, capital spending is sharply higher relative to Budget 2023, although realized spending in 2023/24 is lower than previously planned. Total taxpayer capital spending sits at \$43.3 billion over the next three years. There is a year-over-year lift of 40 per cent lift in 2024/25 driven largely by health and transportation infrastructure related funding, and some housing projects. Health capital spending includes facility upgrades, increased long-term care beds and other investments.



Provincial Debt

Operational deficits and capital spending lifts provincial debt, with a particularly alarming rise in operating debt. Total taxpayer-supported debt climbs 23.3 per cent \$88.6 billion in 2024/25 following a 19.9 per cent increase in the current fiscal year. Further increases of 23 and 15 per cent are expected in the following two years. Operating debt



climbs from \$10.3 billion in 2024/25 to \$21.9 billion in 2026/27 as deficits continue which is much more difficult to wrestle down given it reflects ongoing spending rather than being project based. There was no operating debt leading into the pandemic. This pushes the taxpayer debt-to-GDP ratio up over the fiscal period to 27.5 per cent from 17.6 per cent in 2023/24. The cost of servicing this debt will rise, seen in rising debt service expense, and the interest rate bite (interest costs/provincial revenue) is set to jump from 3.2 cent per dollar in 2023/24 to 3.8 cent this coming fiscal year, and 4.6 and 5.4 cents by the end of the fiscal planning period. Past documentation suggests this will approach the highest levels seen since the early 2000s and could ultimately be a more severe constraint to government spending in priority areas.

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Summary Table: B.C. Budget and Fiscal Plan 2024/25 - 2026-27

(\$ millions)	2019/20	2020/21	2021/22	2022/23	2023/24 Forecast	Budget & Fiscal Plan		
						2024/25	2025/26	2026/27
Revenue	58,660	62,156	72,392	81,536	77,320	81,523	82,838	86,408
Expense	58,981	67,624	71,086	80,832	83,234	89,434	90,611	92,696
Fiscal Balance	-321	-5,468	1,306	704	-5,914	-7,911	-7,773	-6,288
Capital spending:								
Taxpayer-supported	4,772	5,428	6,002	6,755	10,107	14,104	15,082	14,083
Self-supported	4,386	3,475	3,730	4,165	4,752	4,652	3,955	4,623
Total	9,158	8,903	9,732	10,920	14,859	18,756	19,037	18,706
Provincial debt:								
Taxpayer-supported debt	46,229	59,750	62,341	59,934	71,863	88,639	109,182	126,499
Self-supported debt	25,932	27,350	28,325	29,492	31,920	34,628	36,078	38,474
Total debt (including forecast allowance)	72,161	87,100	90,666	89,426	103,783	123,267	145,260	164,973
Taxpayer-supported debt-to-GDP ratio (%)	15.0	19.4	17.5	15.2	17.6	21.0	24.8	27.5
Total debt-to-GDP ratio	23.4	28.3	25.5	22.6	25.4	29.2	33.0	35.8

Source: B.C. Budget and Fiscal Plan 2024/25 - 2026-27

Revenue By Source, B.C. Budget and Fiscal Plan 2024/25 - 2026-27

(\$ millions)	2019/20	2020/21	2021/22	2022/23	2023/24f	Budget & Fiscal Plan		
						2024/25	2025/26	2026/27
Taxation	33,266	34,166	40,717	49,025	46,219	49,214	49,394	52,655
Natural resource revenue	2,268	2,403	4,471	6,198	3,015	3,150	3,432	3,769
Other revenue	10,673	8,729	9,800	10,689	10,851	11,400	11,382	11,516
Federal government contributions	9,535	12,894	11,980	12,526	14,028	14,446	14,889	14,674
Comm. Crown Corporation net income	2,918	3,964	5,424	3,098	3,207	3,313	3,741	3,794
Total revenue	58,660	62,156	72,392	81,536	77,320	81,523	82,838	86,408

Source: B.C. Budget and Fiscal Plan 2024/25 - 2026-27

Expense by Function, B.C. Budget and Fiscal Plan 2024/25 - 2026-27

(\$ millions)	2019/20	2020/21	2021/22	2022/23 2022/23	2023/24f	Budget & Fiscal Plan		
						2024/25	2025/26	2026/27
Health	23,449	25,605	27,584	30,322	31,466	35,944	36,880	37,453
Education	14,735	14,943	15,795	16,991	17,858	19,479	19,824	20,035
Social Services	5,887	7,789	7,268	9,652	9,145	10,473	10,740	10,748
Protection of persons and property	2,126	2,258	2,937	3,483	2,797	2,557	2,568	2,573
Transportation	2,126	3,360	4,453	3,319	2,457	2,775	2,931	2,816
Resources and economic development	3,778	4,191	5,213	6,284	5,447	4,441	4,224	4,189
Other	2,501	2,841	3,058	5,736	3,380	3,707	3,628	3,492
Contingencies					5,500	3,885	2,020	1,730
General government	1,653	3,915	2,040	2,326	1,884	2,068	1,981	1,984
Debt servicing	2,727	2,722	2,742	2,719	3,300	4,105	4,815	5,676
Operating expense	58,981	67,624	71,086	80,832	83,234	89,434	90,611	92,696

Source: B.C. Budget and Fiscal Plan 2024/25 - 2026-27

Capital Spending, B.C. Budget and Fiscal Plan 2024/25 - 2026-27

(\$ millions)	2019/20	2020/21	2021/22	2022/23 2022/23	2023/24f	Budget & Fiscal Plan		
						2024/25	2025/26	2026/27
Education	1,813	1,848	1,900	2,005	2,455	3,383	3,427	3,380
Health	1,009	1,162	1,555	1,915	3,235	4,397	4,560	4,051
Transportation	1,028	1,392	1,431	1,923	2,909	4,576	5,674	5,234
Government direct (ministries)	520	389	386	470	610	707	519	575
Social Housing	355	572	642	357	758	811	780	766
Other	47	65	88	85	140	230	122	77
Taxpayer-supported	4,772	5,428	6,002	6,755	10,107	14,104	15,082	14,083
BC Hydro	3,082	3,207	3,475	3,919	4,573	4,430	3,595	4,399
Others	1,304	268	255	246	179	222	360	224
Self-supported	4,386	3,475	3,730	4,165	4,752	4,652	3,955	4,623
Total capital spending	9,158	8,903	9,732	10,920	14,859	18,756	19,037	18,706

Source: B.C. Budget and Fiscal Plan 2024/25 - 2026-27