



Provincial Budget Briefs

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PRINCE EDWARD ISLAND BUDGET 2008

PEI ran a smaller than expected deficit in 2007/08, projected at \$37 mn vs last October's plan for a \$42 mn shortfall. Despite cuts to business and personal taxes, own-source revenue is still projected to grow 6.2% in 2008/09, although a 7% rise in program spending, particularly in health care and education, will see the province run another small deficit. After using cash balances and short term funding in 2007/08, PEI is planning \$100 mn in long term borrowing this fiscal year, of which all but \$7 mn will be offset by maturities, leaving the outstanding stock of bonds little changed.

Table 1 \$Millions	Fiscal Summary				
	2006/07	2007/08			2008/09
	<u>Actual</u>	<u>07 Budget</u>	<u>08 Budget</u>	<u>Change</u>	<u>08 Budget</u>
Revenue	1,231	1,257	1,267	10	1,352
Own Source	738	715	726	12	771
<i>% change</i>	<i>4.1</i>	<i>-3.1</i>	<i>-1.6</i>	<i>1.6</i>	<i>6.2</i>
Federal Transfers	474	518	516	-1	556
Sinking Fund Earnings	17	19	17	-2	17
Net Surplus (Deficit) of Crown Corporations	1	6	7	2	8
Expenditures	1,207	1,299	1,303	4	1,387
Programs	1,050	1,139	1,148	9	1,229
<i>% change</i>	<i>3.4</i>	<i>8.5</i>	<i>9.4</i>	<i>0.9</i>	<i>7.0</i>
Public Debt Interest	120	121	116	-5	117
Depreciation Expense	36	39	39	0	41
Consolidated Budget Balance	24	-42	-37	6	-35

Prince Edward Island saw real GDP growth of 1.8% in 2007, buoyed by strong public and private investment expenditures, mainly in construction and machinery, which offset declines in farming, fishing and manufacturing. Exports, which were significantly impacted by the strong currency and a slower US economy, also fell from the prior year. Private sector forecasts show PEI growing at a 1.9% pace in 2008. That outlook is based on increased government spending and ongoing strength in investment and employment growth.

In 2007/08, own-source revenues improved from October's budget plan, but were still lower than in the previous year. Although program spending was also higher than planned, it overshoot the target to a lesser extent than revenue did, which allowed for a slightly smaller than expected deficit of \$37 mn for the fiscal year.

Similar Fiscal Balance for 2008/09

PEI is expected to remain in the red in 2008/09, with the consolidated deficit improving marginally to \$35 mn. Despite cuts to business and personal taxes, as well as the continuation of last year's gasoline tax cut, own-source revenue is still projected to grow by 6.2%, helped a bit by an increase in the cost of cigarettes. The personal tax cuts were delivered through another adjustment in income tax brackets, with the cutoffs at which various rates begin to apply now 4% higher than in 2006. The small business tax rate was lowered from 4.3% to 3.2%, with plans for further reductions to reach a 1% target tax rate by 2010. In addition, PEI extended the gasoline tax cuts into the current fiscal year which will save Islanders \$8.8 mn (versus \$6.6 mn gasoline savings in the prior year). While Crown Corporations are expected to continue contributing to revenue growth via another surplus year, close to half of total revenue growth will come from a \$40 mn increase in federal transfer payments to the province.

Program expenditures are expected to rise at a slower 7% pace in 2008/09, with spending geared towards health, education, the environment and resources. The province will also invest \$2.5 mn/year in communities and infrastructure with the objective of strengthening municipalities via improved infrastructure and more effective fund transfers.

PEI Borrowing Requirement to Rise in 2008/09

Net financing requirements for 2007/08 came in lighter than planned, primarily because Crown Corporations, included in "sinking funds and loans", turned into a source of funds as opposed to a planned net requirement. PEI financed its borrowing requirements through its operating cash account and \$25 mn of short term borrowing (Table 2).

For 2008/09, sinking funds and CPP refinancing will only partly offset gross maturities, leaving the province with a \$171 mn borrowing requirement (or \$161 mn excluding CPP debt rolled over). Of that, \$21 mn will be transferred to the pension fund, as in the prior year. Net borrowing on behalf of Crown Corporations is projected at \$21.5 mn. PEI also plans \$100 mn in long term borrowing, but after deducting maturities, the stock of outstanding bonds and MTN's will rise by only \$7 mn in 2008/09.

Table 2 \$Millions	Financing Plan	
	2007/08P	2008/09F
<i>Borrowing Requirements:</i>		
Consolidated (Surplus) Deficit	37	35
Capital Adjustments	17	26
Sinking Funds and Loans	-61	-14
Transfer to Pension Fund	21	21
Gross Maturities and Calls ¹	45	102
Total	59	171
<i>Sources:</i>		
Cash Balances	24	0
Short-term Paper	25	61
Bonds and MTNs	0	100
CPP	10	10
Total	59	171
Net New Issues		
Bonds & MTNs	-35	7

¹ Includes CPP maturities

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