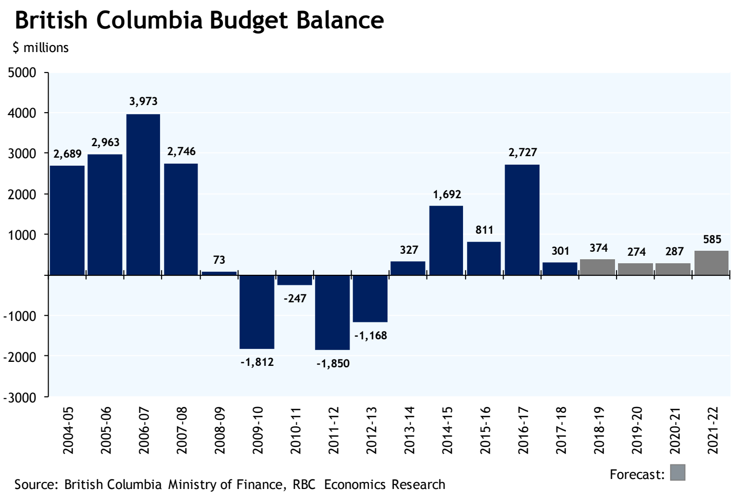
# BRITISH COLUMBIA BUDGET 2019

February 20, 2019

## Making life more affordable...while taking on a little more debt

### Overview

The B.C's NDP government tabled a second straight budget showing a small surplus, sticking to its mandate of improving affordability while building a sustainable economy. The province's strong economy has provided a significant boost to government revenues in the last few years. The 2019 budget is banking on more of this growth to fund new spending without any new taxes. The government is forecasting a surplus of $274 million in FY19/20, rising to $585 million by FY20/21. The provincial debt however is also projected to increase through the fiscal plan– by $14.5 billion to $82.4 billion by FY21/22 to fund capital infrastructure investments.



Source: British Columbia Ministry of Finance, RBC Economics Research

The B.C. economy is poised to outperform every other province in 2019, with work on the massive LNG facility in Kitimat providing a significant boost to the province. The province enjoys an enviable fiscal position, with three more budget surpluses projected over the next three years. This provided the NDP government with room to deliver on several campaign promises. The current budget built on issues that are core to the government, including childcare and clean energy.

### Affordability measures

One of the big ticket items in this budget is the B.C. Child Opportunity Benefit, which will provide $380 million annually to families with children under the age of 18. This program, which starts in October 2020, will replace the Early Childhood Tax Benefit and offer up to $1,600 per year for one child – with payments incrementally increasing thereafter based on the number of children.

The government also eliminated interest charges on new and existing B.C. student loans – a $318 million investment over four years to make post-secondary education more affordable.

**Table 1: Budget Summary and Fiscal Plan**

| | Forecast | Estimate | Plan | |
|---|---|---|---|---|
| ($ millions) | 2018-19 | 2019-20 | 2020-21 | 2020-21 |
| Revenue | **56,636** | **59,047** | **60,038** | **62,458** |
| Total Expenses | **(55,762)** | **(58,273)** | **(59,451)** | **(61,573)** |
| Forecast Allowance | (500) | (500) | (300) | (300) |
| **Surplus (Deficit)** | **374** | **274** | **287** | **585** |
| Taxpayer-supported Capital Spending | 4,771 | 6,340 | 6,837 | 6,911 |
| Self-supported Capital Spending | 4,192 | 4,274 | 3,333 | 3,361 |
| **Total Capital Spending** | **8,963** | **10,614** | **10,170** | **10,272** |

Source: British Columbia Minsitry of Finance

### CleanBC

This initiative, developed in consultation with the B.C. Green Party, fulfills a campaign promise to build a sustainable economy. The CleanBC plan received $902 million over three years to reduce carbon pollution and promote clean energy. Initiatives include extending the $6000 rebate to consumers on new zero-emission vehicles, funding to make homes and buildings energy efficient, and assistance to indigenous and remote communities to reduce their reliance on diesel powered electricity.

**Ramya Muthukumaran**
Economist | 416-974-7577 | ramya.muthukumaran@rbc.com

## Chart-topping capital spending

Capital spending is projected to total $31.1 billion over the three-year fiscal plan with taxpayer supported infrastructure spending at a record $20.1 billion. The elimination of operating debt in FY18/19 allows for the government's cash surplus to be redirected towards capital spending, with investments in health, education and transportation. The amount includes $4.4 billion for health facilities, $6.6 billion towards transportation projects, $2.7 billion towards maintaining K-12 facilities, and $3.3 billion to build capacity in post-secondary education.

## Revenues

Without new tax measures, overall government revenues are projected to be $59 billion in FY19/20, up 4.2% from the previous year. The government expects that higher revenues from existing taxation measures, federal government transfers and other sources will more than offset lower projected natural resource revenues and an expected decline in corporate income tax revenue. Weakening coal and lumber prices resulted in the decrease in natural resource revenues, while a decrease in settlement payment from previous years will affect corporate income tax revenues.

## Debt

Although the government expects to run surpluses over the next three years, the total provincial debt (taxpayer-supported debt and self-supported commercial crown corporations debt) is set to jump from $67.9 billion at the end FY18/19 to $72 billion in FY19/20 and $82.4 billion by FY21/22. This will represent an increase of $14.5 billion (21%) over the three-year fiscal plan. Still, at a projected 16.1% of GDP by FY21/22, taxpayer-supported debt will remain one of the lowest debt burdens among the provinces. The government's gross borrowing requirements over the next three years will total $24.6 billion (including $7.4 billion in FY19/20). Taxpayer supported capital investments will account for $10.1 billion, self-supported capital investments for $9.6 billion and refinancing existing debt maturities $4.9 billion.

**Table 2: Provincial Debt Summary**

| | Forecast | Estimate | Plan | |
|---|---|---|---|---|
| ($ millions) | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
| Taxpayer-supported Debt | 43,957 | 46,384 | 50,454 | 53,986 |
| Self-supported Debt | 23,459 | 25,664 | 26,905 | 28,090 |
| Forecast Allowance | 500 | 500 | 300 | 300 |
| **Total debt (including forecast allowance)** | **67,916** | **72,548** | **77,659** | **82,376** |
| **Debt as a percent of GDP** | | | | |
| Taxpayer-supported (%) | 14.9 | 15 | 15.7 | 16.1 |
| **Total (%)** | **23** | **23.5** | **24.1** | **24.6** |

Source: British Columbia Minsitry of Finance

## Fiscal prudence

The underlying assumptions in the budget are conservative. The BC government uses real GDP forecasts of 2.4% for 2019 and 2.3% for 2020, which is 0.1 and 0.3 percentage points lower than private-sector forecasts. They are also lower than RBC Economics' forecast of 2.6% for both 2019 and 2020. Forecast allowances of $500 million in FY19/20 and $300 million annually thereafter provide further fiscal prudence. One of the risks identified in the budget stems from a provincial crown corporation: the Insurance Corporation of British Columbia's losses, which were $1.18 billion in 2018 but are expected to shrink to $50 million in 2019 and to be eliminated in 2020.