

Provincial Budget Roundup, 1994

David B. Perry, Karin Treff, and Ted Cook*

PRÉCIS

Les 10 budgets provinciaux et les deux budgets territoriaux déposés en 1994 pour l'exercice se terminant le 31 mars 1995 sont résumés dans cet article. Les trésoriers et les ministres des Finances, comme la plupart des économistes du secteur privé, avaient surestimé la vigueur de la reprise économique au Canada en 1993. Par conséquent, les recettes, en particulier les recettes fiscales, se sont élevées à 131,8 G\$, moins de un tiers de 1 pour cent sous les prévisions budgétaires de 1993, et les dépenses ont atteint 152,0 G\$, environ un demi de 1 pour cent au-dessus des prévisions originales. Combinés, ces écarts, quoique étonnamment peu élevés selon la plupart des normes, se traduisent par une augmentation de presque 6 pour cent du déficit par rapport aux estimations précédentes, soit de 19,0 G\$ à 20,2 G\$.

La relance économique semble plus ferme en 1994 et elle devrait aider à procurer des recettes additionnelles en 1994-95, sans la multitude d'augmentations d'impôts utilisée dans les budgets précédents. Nombre des hausses d'impôt annoncées l'an dernier ont pris effet graduellement, de sorte que l'incidence complète n'a pas été ressentie dans les recettes provinciales. Les recettes provinciales combinées augmenteront de 3,0 pour cent, passant à 135,8 G\$ en 1994-95 (seule l'Alberta prévoit une réduction des recettes totales). La compression des dépenses continue à préoccuper les gouvernements provinciaux : quatre provinces dépenseront moins que durant l'exercice précédent. En 1994-95, le total des dépenses progressera de 1,2 pour cent, soit moins que le taux d'inflation, pour passer à 153,9 G\$. Il en découlera un déficit combiné de 18,0 G\$, une baisse de 10,5 pour cent par rapport à celui de l'exercice dernier.

Les budgets de 1994 comportaient plus de réductions d'impôt qu'ils n'avaient comporté de hausses l'exercice précédent. Cependant, les diminutions étaient beaucoup moins importantes. Les modifications fiscales présentées dans le budget fédéral de 1994 ont donné lieu à une hausse de l'assiette fiscale, procurant un montant additionnel de 150 M\$ à 200 M\$ aux provinces en 1994-95. Toutefois, l'initiative fédérale de réduire la contrebande de cigarettes grâce à une réduction du taux de la taxe a plus qu'annulé l'augmentation. Toutes les provinces ont souffert dans la mesure où leur taxe de vente au détail s'appliquait sur le prix incluant la taxe fédérale. Les provinces qui ont été convaincues de diminuer le taux de leurs taxes pour correspondre aux réductions fédérales ont subi des pertes encore plus élevées.

* Of the Canadian Tax Foundation.

ABSTRACT

This article summarizes the 10 provincial and two territorial budgets presented in 1994 for the fiscal year ending March 31, 1995. The treasurers and ministers of finance, like most private sector economists, had overestimated the strength of the economic recovery in Canada in 1993. The result was that revenues, especially tax revenues, amounted to \$131.8 billion, less than one-third of 1 percent short of the 1993 budget forecasts, and expenditures reached \$152.0 billion, about one-half of 1 percent above the original estimates. While these errors were surprisingly low by most standards, they reinforced each other to raise the deficit by almost 6 percent above the previous estimate, from \$19.0 billion to \$20.2 billion.

Economic recovery seems more firmly established in 1994, and should help to produce additional revenue in 1994-95, without the plethora of tax increases used in previous budgets. Many of last year's tax increases were phased in so that the full effect was not reflected in provincial revenues. Combined provincial revenues will rise by 3.0 percent to \$135.8 billion in 1994-95 (only Alberta will contend with a decline in total revenue). Spending restraint continued to preoccupy provincial governments: four provinces will spend less than in the previous year. In 1994-95, total spending will increase by 1.2 percent to \$153.9 billion, which is less than the inflation rate. This will produce a combined deficit of \$18.0 billion, down 10.5 percent from last year.

There were more tax reductions in the 1994 budgets than there had been increases the year before, but the magnitude of the decreases was much smaller. The income tax changes introduced in the 1994 federal budget raised the tax base, providing an additional \$150 million to \$200 million to the provinces in 1994-95. However, the federal initiative to reduce cigarette smuggling by reducing its tax rate more than offset the increase. All provinces suffered to the extent that their retail sales taxes applied to the price including the federal tax; those who were persuaded to match the federal rate reductions with their own suffered even bigger losses.

INTRODUCTION

By May 12, all the provinces (including the territories) had presented their 1994 budgets. Analyses of these budgets are presented in chronological order.

The Economic Setting

In setting their 1993 budgets, the provincial ministers of finance based their projections on the assumption that the economy would grow at a real rate of 3.3 percent. They expected that inflation and interest rates would remain low, and the unemployment rate would continue to show little or no improvement because discouraged workers (those who had given up even looking for work) were returning to the labour force. Table 1 shows the economic growth projections for 1993, 1994, and 1995, as prepared by the Conference Board of Canada. Actual growth of the economy for 1993 is estimated at 2.9 percent.

The forecast for 1994 is slightly better than for 1993. Growth in real gross domestic product (GDP) is expected to increase to 3.0 percent for the year. It is anticipated to slow in Alberta and British Columbia and pick up in the other provinces. Newfoundland, the last province in decline, should experience growth in 1994. Inflation is expected to remain low. Increases in US interest rates, and political uncertainty surrounding the Quebec provincial election and the subsequent possibility of a referendum on its status in Confederation are likely to keep Canadian interest rates above the level indicated by Canada's inflation performance. These conditions also bode for continuing weakness in the Canadian dollar. The strong US expansion is expected to help maintain growth in Canadian exports in 1994.

The Fiscal Year 1993-94 in Review

Preliminary figures indicate that the adjusted total expenditures for all provinces will be \$152.0 billion in 1993-94, up 0.5 percent from the \$151.3 billion estimated in the 1993 budgets. Total revenues, at \$131.8 billion, are 0.3 percent lower than the estimated total of \$132.2 billion. The resulting preliminary deficit figure of \$20.2 billion is 5.9 percent higher than the \$19.0 billion deficit predicted in the 1993 budgets.

Budgetary Policy for 1994-95

As in 1993, the main theme of all the 1994 provincial budget speeches was deficit reduction. In contrast to last year, however, few provinces introduced tax increases; the emphasis was on expenditure control as the tool for deficit reduction. Prince Edward Island, New Brunswick, Manitoba, Alberta, and Yukon all anticipate an absolute decrease in budgetary expenditures in 1994-95. Wage freezes and reductions and cuts in the number of civil service positions were the most common restraint measures. The major expenditure functions most likely to escape spending cuts or receive increased funding were social services and health. There were relatively few new spending initiatives; the focus was on reorganizing and improving the delivery of current services.

The federal-provincial infrastructure works agreement was featured in the provincial budgets as a measure to stimulate employment. Some provinces, such as Ontario and British Columbia, also initiated capital projects as a means of job creation. These two provinces directed some of their capital spending into Crown corporations, which can borrow on their own and enter into partnership or joint venture arrangements with private sector firms.

The budgets contained few initiatives to increase revenues. The finance ministers held the line on tax increases and provided selected tax cuts to promote job creation and assist the economic recovery. The Quebec budget contained major tax reductions to stimulate the economic recovery.

Tax Changes

Quebec switched from a two rate provincial sales tax to a single rate of 6.5 percent and introduced a partial rebate of the sales tax paid on new

Table 1 Projections of Real Rates of Growth in Gross Domestic Provincial Product, 1993 to 1995

| | 1993 ^a | 1994 ^b | 1995 ^b |
|--------------------------------|-------------------|-------------------|-------------------|
| | | <i>percent</i> | |
| Newfoundland | -0.1 | 2.4 | 0.7 |
| Prince Edward Island | 0.6 | 4.3 | 3.8 |
| Nova Scotia | 0.9 | 0.6 | 2.6 |
| New Brunswick | 0.8 | 1.9 | 3.4 |
| Quebec | 2.3 | 3.4 | 3.7 |
| Ontario | 2.4 | 3.2 | 3.6 |
| Manitoba | 1.1 | 2.7 | 3.0 |
| Saskatchewan | 3.4 | 2.1 | 2.5 |
| Alberta | 5.4 | 3.0 | 3.2 |
| British Columbia | 4.9 | 4.3 | 4.4 |
| National | 2.9 | 3.0 | 3.6 |

^a Conference Board of Canada statistics, as quoted in "Improvement in Economic Growth Contingent on Creation of Jobs" (March 1, 1994), 22 *Ottawa Letter* 495-96. ^b Conference Board of Canada statistics, as quoted in "Upward Shift in Interest Rates Undermining Economic Recovery" (May 24, 1994), 22 *Ottawa Letter* 571-72.

homes. In British Columbia, the threshold for applying the luxury sales tax on automobiles was raised to \$32,000; the full rate is phased in between \$32,000 and \$34,000. The trade-in allowance for vehicles was also restored. British Columbia also exempted solar, wind, and microhydro power equipment from the provincial sales tax. Prince Edward Island eliminated the sales tax on incoming toll-free calls. Manitoba provided a temporary retail sales tax rebate for first-time homebuyers purchasing new homes. Nova Scotia provided new exemptions for business services, selected recreational services, and labour for landscaping services. It also introduced a rebate for outbound long-distance calls by call centres.

Nova Scotia introduced a low-income tax reduction for those with family income of less than \$15,000. The reduction is phased out at a rate of 5 percent for those with incomes above that level. Quebec also introduced a low-income tax reduction equal to \$10,000 minus tax payable after deductions, multiplied by 2 percent. Quebec introduced refundable tax credits for child care expenses and the cost of domestic help for those over the age of 65. The credit amounts were raised for housing direct ascendants and for second and subsequent children.

The Northwest Territories' general corporate tax rate was raised from 12 to 14 percent. New Brunswick introduced a 10 percent non-refundable research and development (R & D) credit for corporations. Effective January 1, 1995, Newfoundland will lower its manufacturing and processing corporate rate from 7.5 to 5.0 percent and its general corporate rate from 16 to 14 percent. The capital tax threshold in British Columbia was raised from \$1.25 million to \$1.5 million and the tax phased in from \$1.5 million to \$1.75 million. The threshold for the rate on financial institutions was raised from \$500 million to \$750 million. Employers in Ontario will not

have to pay the employer health tax on the amount by which their payroll exceeds the payroll for the previous calendar year. Ontario introduced a 10 percent refundable credit for scientific research and experimental development performed by small and medium-sized firms. Quebec reformed its mining duty system and extended several tax incentive deadlines relating to R & D.

Manitoba lowered its small business corporate rate from 10.0 to 9.5 percent effective January 1, 1994 and will lower it further to 9.0 percent effective January 1, 1995. The province extended its temporary manufacturing investment credit to June 30, 1995. The capital tax threshold was raised from \$1.0 million to \$2.0 million.

Nova Scotia's R & D credit was made fully refundable and its rate was increased from 10 to 15 percent. A credit for expenditures to obtain ISO 9000 certification was introduced. The film industry enhancement program will give a 30 percent refundable credit for salaries paid to Nova Scotians.

Newfoundland's gas and diesel fuel rates were equalized at 16.5 cents per litre, which raised the gas tax by 0.8 cent per litre and lowered the diesel tax by 1.1 cents per litre. British Columbia lowered the tax on jet fuel for international flights by 1.0 cent to 4 cents. Prince Edward Island's fuel taxes were switched from ad valorem to fixed rates: the rates are 12.0 cents per litre for gas and 12.5 cents per litre for diesel. Nova Scotia's fuel taxes also were switched from ad valorem to fixed rates: the rates are 13.5 cents per litre for gas and 15.4 cents per litre for diesel. Manitoba reduced its railway diesel fuel tax from 9.45 cents per litre to 7.45 cents per litre and will reduce it again, to 6.3 cents per litre, on January 1, 1995.

British Columbia raised the phaseout threshold for the homeowner grant from \$400,000 to \$450,000. In Quebec, to compensate for the reduction in sales tax on alcohol, gas, and tobacco, the applicable excise taxes were increased.

In February 1994, the federal government reduced its tax on cigarettes by \$5.00 per carton as part of an effort to stop smuggling. If the provinces reduced their taxes by more than \$5.00 per carton, the federal government agreed to match the excess, up to an additional \$5.00 per carton. Eventually, all the provinces east of Manitoba except Newfoundland reduced their rates, causing a significant reduction in provincial revenues from this source. While this move had a major impact on provincial revenue, few budget speeches commented directly, or provided estimates of the revenue loss. Also absent from all budgets was any mention of the personal and corporate income tax increases introduced in the federal budget of February 22, 1994. Because these measures increased the tax base, they also increased provincial tax collections in all provinces except Quebec. Although there are no official estimates of the additional tax accruing to the provinces, it could amount to \$150 million to \$200 million in 1994-95.

The main tax rates for all provinces as of July 1, 1994 are shown in table 2. Where tax changes are to be phased in over two years, the comparable rates for 1995 are also given.

Table 2 Main Provincial Tax Rates, 1994 and 1995

| | Personal income tax | | | Corporate income tax | | | Retail sales tax, % | Tax on cigarettes, cents/cig. | Tax on unleaded gasoline, cents/litre |
|-----------------------|---------------------------------|------------------------------|---------------------------|--|---------------------------------------|--------------------|---------------------|-------------------------------|---------------------------------------|
| | Basic rate, % of basic fed. tax | Surtax, % of prov. basic tax | Flat tax, % of net income | Small business rate, ^a % income | Pref. rate for large corps., % income | Top rate, % income | | | |
| Newfoundland | | | | | | | | | |
| 1994 | 69 | — | — | 5 | 7.5 | 16 | 12 | 10.3 | 16.5 |
| 1995 | | | | | 5 | 14 | | | |
| Prince Edward Island | 59.5 | 10 | — | 7.5 | 7.5 | 15 | 10 | 5.2 | 12.0 |
| Nova Scotia | 59.5 | 20/30 | — | 5 | 16 | 16 | 10 | 3.3 | 13.5 |
| New Brunswick | 64 | 8 | — | 9 | 17 | 17 | 11 | 3.3 | 10.7 |
| Quebec | na | na | na | 5.75 | 8.9 | 16.25 | 6.5 | 1.5 | 15.2 |
| Ontario | 58 | 20/30 | — | 9.5 | 13.5 | 15.5 | 8 | 1.7 | 14.7 |
| Manitoba | | | | | | | | | |
| 1994 | 52 | 2% net income | 2 | 9.5 | 17 | 17 | 7 | 8.0 | 11.5 |
| 1995 | | | | 9 | | | | | |
| Saskatchewan | | | | | | | | | |
| 1994 | 50 | 10/25 ^b | 2 | 8.5 | 17 | 17 | 9 | 8.0 | 15.0 |
| 1995 | | | | 8 | | | | | |
| Alberta | 45.5 | 8 | 0.5% tax. inc. | 6 | 14.5 | 15.5 | — | 7.0 | 9.0 |
| British Columbia | 52.5 | 30/50 | — | 10 | 16.5 | 16.5 | 7 | 11.0 | 11.0 |
| Northwest Territories | 45 | — | — | 5 | 14 | 14 | — | 12.4 | 9.6 |
| Yukon | 50 | 5 | — | 6 | 2.5 | 15 | — | 8.2 | 6.2 |

— nil. na not applicable.

^a Some provinces provide tax holidays for new small businesses. ^b Imposed on the sum of provincial basic tax and flat tax payable.

Summary

The financial information contained in the budget documents has been adjusted to eliminate, where possible, the major differences in accounting systems. Where figures differ from those shown in the budgets, the adjusted figures should not be regarded as a better measure of the financial performance of each government because the accounting systems used by each province have been developed to reflect their own particular circumstances. The adjusted figures do, however, permit more valid comparisons and aggregations of the main components than the unadjusted data. Statistics Canada produces the best compilation of provincial financial data on a fully comparable basis, but it will be some time before it is available because the adjustment process is very detailed. The data will be summarized in the Fiscal Figures feature of the journal when the compilation is released.

The estimated total adjusted revenue for all provinces for 1994-95 is \$135.8 billion, up 3.0 percent from the preliminary figure for 1993-94. Total adjusted expenditures are expected to rise by 1.2 percent to \$153.9 billion. The resulting total budgetary deficit of \$18.0 billion will be a 10.5 percent decrease from the 1993-94 forecast figure of \$20.2 billion.

NORTHWEST TERRITORIES

John Pollard, the minister of finance for the Northwest Territories, presented the first budget of 1994 to the legislative assembly on February 14. By imposing strict controls on spending and increasing the corporate income tax rate, he was able to present a balanced budget for 1994-95. No major spending initiatives were introduced.

The Economic Setting

Employment in the Territories improved in 1993, increasing by 4.4 percent or about 900 new jobs. It is estimated that in 1993 real domestic final demand grew by 1.8 percent; real consumer expenditures by 2.8 percent; and real total investment remained unchanged. The consumer price index (CPI) for Yellowknife went up by 1.7 percent during the year.

In 1994, real domestic final demand should grow by 2.7 percent, stimulated by a 5.0 percent increase in total investment. Consumer expenditures are expected to grow by 2.5 percent and employment by 2.6 percent. Inflation will remain low with the CPI increasing by 1.8 percent in 1994.

The Fiscal Year 1993-94 in Review

The 1993 budget forecast revenues of \$1,167.3 million and expenditures of \$1,165.9 million, producing a small surplus of \$1.4 million for 1993-94. Non-budgetary transactions were expected to reduce the accumulated surplus from \$3.4 million at the end of 1992-93 to \$1.7 million at the end of 1993-94.

Preliminary figures for 1993-94 show budgetary revenues of \$1,175.5 million and budgetary expenditures of \$1,198.5 million, both higher than

forecast, which resulted in a \$23.0 million deficit instead of a surplus. The budget attributes the deficit to unexpected expenditures of \$10.0 million for forest fire fighting, \$1.0 million for dealing with an anthrax outbreak in the wood buffalo population, and \$10.0 million for social housing needs due to the reduction in federal funding. The budget projects an accumulated surplus by the end of 1993-94 of \$32.2 million, down from \$56.1 million a year earlier.

Budgetary Policy for 1994-95

As can be seen in table 3, spending will be reduced for all major departments except Education, Culture and Employment, which will spend 2.5 percent more in 1994-95. Personal income tax revenues are expected to decline for 1994-95, reflecting the first full year of the cost-of-living credit (which is deducted from personal income tax revenues).

Corporate income tax revenues are forecast to be lower because of declining profits in 1992. Tax returns for that year were not completely assessed until well into 1993 so payments from Revenue Canada were not lowered commensurately until late 1993 and 1994. Revenues from the government's payroll tax are expected to increase by 48.1 percent as 1994-95 will be the first full year of collections.

Two areas under study with an eye to future reform are social services and public sector management. Social services is being examined to determine areas in which services can be offered more effectively with less duplication and overlap. The minister is concerned about the levels of overall compensation, training, and the relationship of pay to performance in the public sector. Members of the legislative assembly will have their salaries frozen for 1994-95.

The minister also discussed the federal-territorial formula financing agreement, which is due to expire March 31, 1995. The present arrangement limits growth in base funding to economic growth in southern Canada, a provision that has cost the territory significant amounts of revenue. The formula reduces federal payments by \$1.30 for every additional dollar of tax revenue generated by improved economic conditions in the territory. The NWT government will begin negotiations with the federal government to modify the agreement in these two areas.

The minister noted that \$5.3 million of the national infrastructure program has been allocated to the Northwest Territories over two years and will be administered by the territorial government.

Tax Changes

Effective January 1, 1994 the general corporate income tax rate is raised from 12 to 14 percent. This change is expected to raise \$5.0 million in extra revenue in the 1994-95 fiscal year. The minister noted that the reduction in federal tobacco taxes will erode territorial revenues because the Northwest Territories tobacco tax is levied as a percentage of retail price. The health and revenue implications of the federal cut are being

Table 3 Financial Highlights—Northwest Territories

| | 1994-95 (est.) | 1993-94 (prelim.) | 1992-93 |
|--|----------------------------|----------------------|---------|
| | <i>millions of dollars</i> | | |
| Operating and capital revenue | 1,201.1 | 1,175.5 | 1,133.3 |
| Operating and capital expenditure | 1,200.8 | 1,198.5 | 1,127.4 |
| Surplus or deficit (–) | 0.3 | –23.0 | 5.9 |
| <i>Main revenue sources</i> | | | |
| Personal income tax | 64.5 | 66.4 | 62.4 |
| Corporate income tax | 28.9 | 30.2 | 53.6 |
| Fuel taxes | 10.9 | 9.8 | 9.4 |
| Tobacco taxes | 12.0 | 11.4 | 12.8 |
| Payroll tax | 11.7 | 7.9 | — |
| Federal government transfers | | | |
| Formula financing | 877.6 | 844.7 | 780.9 |
| Established programs financing | 21.3 | 21.3 | 26.2 |
| Other transfers | 95.7 | 97.7 | 103.8 |
| <i>Principal expenditure functions</i> | | | |
| Education, culture, and employment | 249.9 | 243.9 | 220.5 |
| Public works | 139.9 | 145.3 | 138.0 |
| Health | 186.4 | 190.2 | 188.6 |
| Municipal and community affairs | 99.8 | 102.7 | 97.2 |
| Housing | 88.6 | 95.4 | 86.5 |

— nil.

examined and the minister will report back to the assembly with a plan for dealing with the problem.

Summary

For 1994-95, budgetary revenues are expected to total \$1,201.1 million, up 2.2 percent from 1993-94. Budgetary expenditures are projected to increase by 0.2 percent to \$1,200.8 million. The resulting budgetary surplus of \$0.3 million is in contrast to the 1993-94 deficit of \$23.0 million. In spite of the budgetary surplus, the accumulated surplus is expected to decline further to \$31.4 million because of non-budgetary transactions.

SASKATCHEWAN

Saskatchewan's provincial budget was brought down on February 17 by Janice MacKinnon, minister of finance. She announced that the province was on track to meet its target of a balanced budget by 1996-97 with no major tax increases or service reductions in this budget. Saskatchewan's improving fiscal situation allowed the minister to begin reflecting the government's policy priorities in the 1994 budget.

The Economic Setting

Saskatchewan's economy performed better than the national economy in 1993. Real GDP grew by 3.5 percent for the year while retail sales grew by 5.5 percent. At the same time the unemployment rate was 8.0 percent, well under the national average. However, inflation, at 3.0 percent, was higher than in the rest of the country.

Growth is expected to slow in 1994, with real GDP increasing by only 2.0 percent. Retail sales, up 2.2 percent, will not be as buoyant this year. Inflation is forecast at 2.4 percent; the unemployment rate to decline further to 7.7 percent.

The Fiscal Year 1993-94 in Review

The 1993 budget anticipated that total revenues in Saskatchewan for 1993-94 would be \$4,631.8 million. Total expenditures were expected to be \$4,928.1 million, which would result in a budgetary deficit for the year of \$296.3 million. It was expected that the total provincial debt would grow to \$15.5 billion by March 31, 1994 from \$14.9 billion a year earlier.

As seen in table 4, preliminary figures in the 1994 budget indicate that budgetary revenues for 1993-94 will be \$4,689.3 million, slightly higher than estimated. Budgetary expenditures for the year are \$4,983.7 million, which are also slightly higher than previously budgeted. The resulting \$294.4 million deficit is lower than originally estimated. Total borrowing requirements amounted to \$1.2 billion, down from the original forecast of \$1.5 billion, but non-budgetary transactions and reductions in cash balances allowed the province to repay \$75 million more than it borrowed in 1993-94. During the year, new issues of Saskatchewan savings bonds raised \$238.0 million, and long-term borrowing produced \$786.1 million. The remaining \$223.9 million was expected to be raised by the sale of short-term instruments.

Budgetary Policy for 1994-95

The budget provided little in the way of new initiatives, and instead concentrated on containing expenditures while maintaining service levels. Some small targeted increases in spending to support economic development and job creation were provided in the budget.

The province and its Crown corporations will spend more than \$700 million on capital projects in 1994-95. The new Saskatchewan Opportunities Corporation received \$6 million in funding in the budget while \$4 million was allocated for the economic renewal of northern Saskatchewan. New initiatives were announced to promote Saskatchewan's agri-food and beef industries.

A \$10 million rural health initiatives fund was introduced that will enable community-based services in rural Saskatchewan to expand. The province continues to move toward community-based delivery of health services through the amalgamation of local health boards into district boards and the direct provision of funding to the district boards.

The budget confirmed previously announced funding for third parties—that is, school boards, universities and colleges, hospitals, and local governments. The minister indicated that for 1995-96, there will be no further reductions in revenue-sharing grants and funding for education, but district health boards will get a 1.6 percent increase in funding.

Spending on both education and health is expected to increase by slightly more than 2 percent in 1994-95. At the same time, expenditures on high-

Table 4 Financial Highlights—Saskatchewan^a

| | 1994-95 (est.) | 1993-94 (prelim.) |
|--|----------------------------|----------------------|
| | <i>millions of dollars</i> | |
| Budgetary revenue | 4,841.7 | 4,689.3 |
| Budgetary expenditure | 5,030.4 | 4,983.7 |
| Surplus or deficit (–) | –188.7 | –294.4 |
| Net non-budgetary transactions | 266.4 | 175.3 |
| Net cash requirements | 455.1 | 119.0 |
| New borrowing | 455.1 | –74.7 |
| <i>Main revenue sources</i> | | |
| Personal income tax | 1,104.2 | 1,066.4 |
| Corporate income tax and capital taxes | 283.9 | 299.7 |
| Sales tax | 685.6 | 672.0 |
| Resource revenue | 393.0 | 433.8 |
| <i>Federal government transfers</i> | | |
| Equalization | 605.0 | 522.0 |
| Established programs financing | 394.3 | 388.0 |
| Specific purpose | 336.1 | 308.8 |
| <i>Principal expenditure functions</i> | | |
| Health | 1,509.8 | 1,478.5 |
| Education | 888.7 | 869.5 |
| Social services | 509.5 | 506.2 |
| Highways | 171.2 | 186.5 |
| Interest on public debt | 842.5 | 860.7 |

^a Data for 1992-93 are not available.

ways and interest on the public debt are anticipated to drop by 8.2 and 2.1 percent, respectively. On the revenue side, equalization transfers are forecast to increase by 15.9 percent for the year while personal income tax revenues will grow by 3.5 percent. Resource revenues are forecast to drop by 9.4 percent and corporate income tax and capital taxes, by 5.3 percent.

Tax Changes

The budget contained no new tax changes. However, as announced in previous budgets, the small business corporate income tax rate was reduced from 9 to 8.5 percent on January 1, 1994 and will be further reduced to 8 percent on January 1, 1995. The sales tax on direct agents used in manufacturing and processing continues to be phased out, dropping to zero on July 1, 1994.

Summary

Budgetary revenues for 1994-95 are projected to grow by 3.3 percent, reaching \$4,841.7 million. Budgetary expenditures are expected to reach \$5,030.4 million, an increase of 0.9 percent. The deficit for 1994-95 is estimated at \$188.7 million, a decrease of almost 36 percent from 1993-94.

Total provincial direct and guaranteed debt is forecast to reach \$14.9 billion by March 31, 1995, an increase of 1.3 percent from the \$14.7 billion at March 31, 1994. The amount of debt guaranteed by the province is expected to decline by 17.8 percent to \$848.0 million during the year.

Total borrowing, including funds to retire debt, will increase by \$606.8 million in 1994-95 to \$1,854.8 million. Of the total borrowing, \$598.0 million will be for Crown corporations. Provincial savings bonds should provide \$150.0 million, and medium- and long-term bonds a further \$979.8 million. The balance, \$725.0 million, will come from the sale of short-term promissory notes.

ALBERTA

Provincial Treasurer Jim Dinning presented Alberta's 1994 budget on February 24, 1994. He continued to focus on expenditure restraint as the means to meet his government's four-year plan to balance the budget by 1996-97 as required by the Deficit Elimination Act. The budget document contained a detailed examination of the business plan for each department for 1994-95 and the next two fiscal years.

The Economic Setting

Alberta's economy performed better than the nation's as a whole, recording a 3.4 percent increase in real GDP for 1993. The unemployment rate was well under the national figure, averaging 9.6 percent for the year, despite employment growth of 1.0 percent. Natural gas led the resource sector with a sales increase of roughly 9 percent to almost 4.1 trillion cubic feet in 1993. Over 21,000 new businesses were incorporated during the year, the highest number since 1981, and retail sales are estimated to have increased by 4.5 percent. Inflation remained low, at 1.2 percent in 1993.

Real GDP growth will slow to 2.8 percent in 1994. The unemployment rate is expected to improve, averaging 9.1 percent for the year and employment should grow by 1.4 percent. Retail sales are forecast to increase by 4.5 percent again in 1994. Inflation is expected to drop even further to 1.1 percent. Natural gas sales are predicted to grow by 6.5 percent in 1994. Oil prices are expected to be lower in 1994-95 due to strong exports from the former Soviet Union, the failure of OPEC to adjust for the return of Kuwaiti production, and the possible return of Iraqi oil production.

The Fiscal Year 1993-94 in Review

Net budgetary revenues for 1993-94 are forecast at \$11,520.0 million while budgetary expenditures are anticipated to be \$13,489.7 million, as illustrated in table 5. Both budgetary revenues and expenditures are 0.5 percent higher than originally estimated. As a result, the \$1,969.7 million deficit forecast for 1994-95 is \$10.3 million higher than estimated in the September 1993 Alberta budget.

Net debt is expected to increase by \$2,467.9 million in 1993-94, which is 1.0 percent higher than anticipated. A one-time increase in net debt of \$350.0 million was attributable to the province's assumption of school board capital liabilities, but it was largely offset by the surplus from funds and agencies, which was \$254.0 million over estimate. Total borrowing requirements of \$31.1 billion were slightly above the

original forecast, reflecting slightly lower cash requirements and higher debt retirements.

Budgetary Policy for 1994-95

The treasurer continued strict expenditure controls, extending the cuts begun in the 1993 budget, and complementing the major reform measures introduced earlier in 1994. The public service is expected to be reduced by 1,800 positions in 1994-95. A key part of the province's cost restraint plans is a 5 percent reduction in compensation.

Funding for payroll costs at health care facilities was cut by 5 percent on January 1, 1994. A similar cut will be applied to school boards, post-secondary institutions, and government departments on April 1, 1994. Fees paid by the Alberta health care insurance plan have been reduced by 5 percent for pharmaceutical, allied health, and extended health programs. The province has entered into negotiations with the Alberta Medical Association for a similar reduction in compensation to physicians.

The treasurer noted that as of January 1, 1994, the province has assumed full responsibility for funding public and separate schools. School boards will be amalgamated, budgeting and decision making will be concentrated at the school level, and uniform provincial mill rates for education will be in place by 1996-97. The treasurer also announced the establishment of an access fund, which will use a competitive bidding process to expand programs and improve access to education. Health services are being reorganized on a regional basis.

A new program, the Alberta seniors benefit, will consolidate five existing programs into a single benefit delivered by the Department of Community Development. The benefit will be phased out for those with incomes over old age security and guaranteed income supplement levels. Welfare reform is attempting to turn the current system into an active re-employment program.

Farm support will shift from a commodity specific basis to a whole farm approach. The tripartite stabilization programs will be terminated and the gross revenue insurance plan reviewed. Farm distribution allowance grants on gasoline are eliminated and the grant on diesel fuel is lowered from 8 to 6 cents per litre.

Under the province's net budgeting approach, fuel taxes, vehicle registrations, and driver's licence revenues are dedicated to the Department of Transportation and Utilities. A new environmental protection and enhancement fund receives a portion of revenue from timber fees, environment-related user's fees, and cost-recovery programs to cover the costs of natural resource and environmental emergencies.

The province is abolishing 13 funds at the end of fiscal 1993-94, including the capital fund, the health care insurance fund, and the land purchase fund. Effective March 31, 1994, the Agriculture Financial Services Corporation is formed by merging the Hail and Crop Insurance Corporation and the Agricultural Development Corporation. Four major municipal grants will be consolidated into one unconditional grant.

Table 5 Financial Highlights—Alberta

| | 1994-95 (est.) | 1993-94 (prelim.) | 1992-93 |
|--|----------------------------|----------------------|----------|
| | <i>millions of dollars</i> | | |
| Budgetary revenue ^a | 10,594.0 | 10,615.0 | 10,460.1 |
| Heritage fund interest transferred to budgetary revenue | 835.0 | 905.0 | 1,001.8 |
| Net budgetary revenue | 11,429.0 | 11,520.0 | 11,461.9 |
| Budgetary operating expenditure ^b | 12,634.4 | 13,489.7 | 14,203.7 |
| Deficit (-) | -1,205.4 | -1,969.7 | -2,741.8 |
| Consolidated position | | | |
| Capital investment | 682.9 | 808.3 | 974.2 |
| To or from (-) other funds and agencies . . | -147.4 | -481.7 | -155.1 |
| Less amortization charged to operating | 190.4 | 178.4 | 152.0 |
| Increase in net debt | 1,550.5 | 2,117.9 | 3,408.9 |
| <i>Main revenue sources</i> | | | |
| Personal income tax | 2,982.0 | 2,748.0 | 2,793.8 |
| Corporate income tax | 665.0 | 665.0 | 636.8 |
| Non-renewable resource revenues ^c | 2,519.0 | 2,779.0 | 2,428.8 |
| Less royalty tax credit | 275.0 | 255.0 | 245.7 |
| Net non-renewable resource revenues | 2,244.0 | 2,524.0 | 2,183.1 |
| Federal government transfers | | | |
| Established programs financing | 1,011.0 | 1,022.0 | 1,082.3 |
| Canada assistance plan | 584.0 | 636.0 | 608.0 |
| Other | 134.0 | 138.7 | 136.9 |
| <i>Principal expenditure functions</i> | | | |
| Health ^d | 3,765.0 | 4,052.2 | 4,166.1 |
| Education ^e | 3,001.0 | 3,334.8 | 3,303.4 |
| Social services | 1,430.4 | 1,569.7 | 1,694.8 |
| Transportation and utilities | 615.4 | 653.4 | 776.2 |
| Debt servicing costs | 1,435.0 | 1,335.0 | 1,218.6 |

^a Includes revenue of health care insurance fund and school foundation program. ^b Includes expenditures of health care insurance fund and school foundation program. ^c The 1994-95 estimate of non-renewable resource revenue has been reduced by \$190.0 million to the average of actual revenue over the five years from 1987-88 to 1991-92. ^d Includes expenditures of health care insurance program. ^e Includes expenditures of school foundation program.

Tax Changes

Alberta plans to increase fees and charges to reflect the cost of providing certain services to users, but no specifics were given in the budget. The maximum benefit under the Alberta royalty tax credit is reduced by 20 percent, effective January 1, 1995.

Health care insurance premiums will increase by 6.7 percent on July 1, 1994. The rate for singles rises from \$30 to \$32 per month and for families, from \$60 to \$64. Premiums are scheduled to increase by the same amount in each of the next two years. Under the Alberta seniors benefit program, seniors with incomes above the thresholds of \$18,200 for individuals and \$27,600 for couples will begin paying full health care premiums.

The rebates of two cents per litre on gasoline and diesel fuel used by farmers was eliminated as of February 24.

The province is negotiating with the federal government to turn over the collection of corporate income taxes beginning with the 1995 tax year.

The budget contained no estimate of the additional revenue to be gained from these changes.

Summary

In 1994-95, net budgetary revenues are anticipated to decline by 0.8 percent, to \$11,429.0 million. Budgetary expenditures are expected to drop by 6.3 percent, to \$12,634.4 million, despite a 7.5 percent increase in debt-servicing costs. The resulting deficit would be \$1,205.4 million, a decrease of 38.8 percent from 1993-94's deficit of \$1,969.7 million.

After taking account of capital spending, net operations of other agencies, and amortization allocations, the increase in the province's net debt falls to \$1,550.5 million, a decrease of 37.2 percent from 1993-94. Total borrowing will be slightly below \$3.2 billion in 1994-95, after taking into account \$1.2 billion in debt retirements.

NEW BRUNSWICK

On February 25, 1994, New Brunswick's minister of finance, Allan Maher, introduced his government's seventh budget. To reduce the combined deficit, he concentrated on controlling public service expenditures and enforcing existing tax provisions rather than raising taxes or introducing new ones. The minister kept the province on target to achieve and maintain a cumulative surplus on its ordinary account in the period from 1993-94 to 1995-96, thus meeting the requirements of the province's balanced budget legislation, despite an overrun in the 1993-94 deficit.

The Economic Setting

Real GDP growth in New Brunswick for 1993 was 2.1 percent, slightly below the 1993 budget forecast. Although overall growth was moderate, there were several bright sectors. Manufacturing shipments increased by 14.4 percent, and the number of housing starts grew by 11.6 percent, in contrast to the national decline. Inflation, at 1.3 percent, remained under the national average. The number of unemployed in New Brunswick dropped by 1.6 percent during 1993 while the number of employed increased by 0.6 percent.

Growth will continue to improve in 1994, with real GDP expected to grow by 2.8 percent, still below the national rate. Forestry, transportation, communications, and trade and finance are forecast to be the strongest sectors during the year. Personal incomes are expected to rise by 3.9 percent, which, along with increased employment, low inflation, and low interest rates, should increase consumer spending.

The Fiscal Year 1993-94 in Review

As shown in table 6, ordinary account revenues will be \$3,779.7 million in 1993-94, down from the budgeted figure of \$3,900.3 million. The dif-

Table 6 Financial Highlights—New Brunswick^a

| | 1994-95 (est.) | 1993-94 ^b |
|--|-------------------|----------------------|
| <i>millions of dollars</i> | | |
| <i>Ordinary account</i> | | |
| Total revenue | 3,922.6 | 3,779.7 |
| Total expenditure | 3,917.8 | 3,911.2 |
| Surplus or deficit (–) | 4.8 | –131.5 |
| <i>Capital and special purpose accounts</i> | | |
| Total revenue | 91.4 | 99.2 |
| Total expenditure | 366.3 | 405.8 |
| Deficit (–) | –274.9 | –306.6 |
| Combined deficit (–) | –270.1 | –438.1 |
| Net loans and advances | –31.5 | 18.3 |
| Provision for debt retirement and sinking fund (net of internal transactions) | –76.5 | –69.3 |
| Financial requirements | –378.1 | –489.1 |
| <i>Main revenue sources</i> | | |
| Personal income tax | 770.0 | 734.0 |
| Corporate income tax | 97.0 | 79.0 |
| Provincial property tax | 234.0 | 220.5 |
| Sales tax | 697.5 | 655.0 |
| Motor vehicle and fuel tax | 155.0 | 152.0 |
| Federal government transfers | | |
| Equalization | 948.0 | 898.0 |
| Established programs financing | 245.0 | 254.0 |
| Other | 343.1 | 359.8 |
| <i>Principal expenditure functions</i> | | |
| Health and community services | 1,201.8 | 1,175.2 |
| Education | 776.7 | 787.9 |
| Income assistance | 292.6 | 305.2 |
| Transportation | 317.7 | 340.9 |
| Debt charges | 572.0 | 565.0 |

^a Figures for 1992-93 are not available. ^b Third-quarter results.

ference is largely due to lower than expected equalization payments from the federal government, which fell \$99 million below the original forecast, and sales tax revenues, which were \$27 million less than first expected. Previous equalization projections were revised to reflect poorer than expected economic performance by Canada in general and by some of the larger provinces in particular.

Capital account revenues will be \$99.2 million instead of the \$61.3 million budgeted. Ordinary account expenditures will be \$3,911.2 million, down from the \$3,941.8 million budgeted, and capital account expenditures will be \$405.8 million instead of \$368.9 million. The province's combined budgetary deficit for 1993-94, at \$438.1 million, is significantly higher than the \$349.1 million estimated in the 1993 budget.

The province's financing requirements are expected to be \$489.1 million, up from the \$445.4 million originally estimated, while net debt is expected to increase by \$290.0 million in 1993-94 instead of \$201.0 million.

Budgetary Policy for 1994-95

Because the 1993-94 results fell short of the original plan, the minister was forced to increase his efforts to reduce current account spending in order to stay within the legislated guideline of a balanced budget over the three years 1993-94 to 1995-96, inclusive. The 1994-95 capital budget, which was presented in the fall of 1993, provided for net spending of \$274.9 million, down from \$306.6 million in the previous year.

The 1994 budget concentrated on two major policy areas: controlling civil service expenditures and enforcing existing tax provisions. The province intends to reduce expenditures and improve service delivery. New Brunswick will eliminate 450 full-time equivalents directly and an additional 150 through privatization. Salaries for Cabinet ministers, MLAs, management, and non-bargaining unit employees remain frozen. The province is maintaining current wage levels for employees whose contracts expire during the fiscal year. Offices will be closed where possible between Christmas and the new year and a voluntary leave without pay program will be put in effect. A new performance management system will be in place by January 1, 1995 to provide a stronger link between performance and pay levels.

The province plans to reduce sick leave, eliminate unproductive work practices, and accelerate the re-engineering of existing service delivery. New Brunswick aims to become a model user of advanced technology to improve service delivery and reduce costs. It is examining the feasibility of "electronic storefronts" to receive payments, issue permits and licences, and provide information in high-traffic areas. The minister confirmed the province's zero tolerance approach to tax evasion. He announced that the province recently signed a formal agreement with Revenue Canada to exchange tax-related information. New Brunswick also has information-sharing agreements with all provinces. Revenue Canada will begin collecting sales tax on postal imports to New Brunswick. The Ministry of Finance and Revenue Canada will be implementing joint audits and investigations, joint communication to ensure that taxpayers are aware of their obligations, and measures to encourage voluntary compliance, as well as quickening efforts to share information for both income and consumption taxes. The province plans to pursue back taxes aggressively and to ensure that taxes collected on behalf of the government are remitted.

Funding for political parties was cut by 10 percent for 1994-95 and a further 10 percent in 1995-96. The minister confirmed that as previously announced, municipal grants will be reduced by \$8 million for 1995.

Health and community services is expected to be the fastest growing expenditure area, increasing by 2.3 percent in 1994-95. Expenditures on education, income assistance, and transportation are all projected to decline on a year over year basis. Corporate income tax revenues are anticipated to increase by 22.8 percent for the year, while provincial property tax and sales tax revenues are both estimated to increase by more than 6 percent in 1994-95.

The provincial government has an unfunded pension liability of \$1.6 billion, which is being amortized over 25 years. The government's pen-

sion expenditures are the currently earned pension benefits plus interest on the unfunded liability. However, the province has also experienced a \$600 million gain on investments and other factors, which serves to reduce pension expenditures by \$49 million in 1994-95.

Tax Changes

The minister of finance introduced a 10 percent non-refundable New Brunswick research and development tax credit for corporate taxpayers. Expenditures in New Brunswick that qualify for the federal scientific research and development tax credit will be eligible for the credit. It will reduce the amount of New Brunswick corporate income tax otherwise payable.

The budget introduced a sales tax exemption for the purchase of machinery and equipment for ventilation shafts used in mining where the major use is to provide breathable air, or remove dust or fumes. The expected cost in forgone revenues of these tax measures was not provided in the budget.

Summary

Ordinary account revenues are expected to rise by 3.8 percent in 1994-95 to \$3,922.6 million. Ordinary account expenditures remain virtually unchanged from the previous year at \$3,917.8 million. The resulting \$4.8 million surplus would be a \$136.3 million improvement over 1993-94. Capital account revenues and expenditures are expected to decline to \$91.4 million and \$366.3 million, respectively. The total budgetary deficit is forecast to drop by 38.3 percent to \$270.1 million.

The government's financial requirements are forecast at \$378.1 million in 1994-95, a drop of 22.7 percent from the previous year's requirement of \$489.1 million. New Brunswick's net debt is expected to increase by \$120.0 million, less than half the 1993-94 increase.

NEWFOUNDLAND

The provincial budget delivered on March 18 was the sixth to be brought down by the current Newfoundland administration. The budget was delivered by Winston Baker, minister of finance and president of the treasury board. The minister introduced additional expenditure restraint and selected tax and fee increases to lower the 1994-95 deficit and put the province back on track to balance the current account in 1995-96.

The Economic Setting

The Newfoundland economy continued to be hard hit in 1993 by the problems in the fishery. Real GDP grew by 0.4 percent while real personal income declined by 1.6 percent. Retail sales shrank by 2.4 percent. One bright spot was investment, which rose by 11.9 percent in real terms during the year. Unemployment remained high, at 20.2 percent, and employment decreased by 1.1 percent. As in the rest of the country, inflation was low, only 1.7 percent.

The economy will continue to be troubled in 1994. Real GDP is anticipated to grow by 0.6 percent while real personal income should continue to decline, dropping another 1.0 percent. Real retail sales are also expected to decrease by 1.0 percent in 1994. Investment is forecast to increase by 4.6 percent, after adjusting for price changes. Employment is anticipated to stop declining in 1994 and the unemployment rate is projected to improve slightly to 20.1 percent. Inflation is expected to stay at 1.7 percent.

The Fiscal Year 1993-94 in Review

The 1993 provincial budget forecast an adjusted current account deficit of \$51.0 million and net capital spending of \$172.3 million for a combined budgetary deficit of \$223.3 million in 1993-94. As shown in table 7, the 1994 budget indicates that the actual current account deficit was \$70.9 million and net capital expenditures \$151.7 million for a combined budgetary deficit of \$222.6 million, \$0.7 million lower than originally estimated. The reduction in the capital account balance was achieved by reducing gross capital expenditures from the \$282.1 million shown in the 1993 budget to \$245.7 million.

The government's financial requirements totalled \$425.0 million, an increase of \$16.8 million from the original budget estimate. No details were provided in the budget on the government's borrowing operations during the year. The provincial net debt outstanding is expected to reach \$6,497.5 million by March 31, 1994, up from \$6,179.0 million at March 31, 1993.

Budgetary Policy for 1994-95

The minister's overall budgetary projections are contingent on a 3 percent reduction in total compensation costs for 1994-95, to generate savings of \$50 million. The government is entering into negotiations with the public sector unions to achieve this cost reduction. In general, there will be no salary increases or inflationary increases in departmental operating budgets. The two fastest growing expenditure areas are debt charges and health, which are anticipated to increase by 5.5 percent and 4.3 percent, respectively. Expenditures on transportation and education are expected to decline by 4.1 and 2.6 percent, respectively.

Health care delivery in Newfoundland is being reorganized by establishing a network of health boards at the regional level. A significant number of health care boards will be dissolved as a result. The province is also moving toward short stay, same-day admissions, and out-patient and home care. There will be some bed closures and job losses as a result of the change in focus. Expenditures include \$9 million to continue implementing pay equity in the health care sector.

Student aid in Newfoundland will be converted from a grant-based to a loan-based program. A portion of the loan will be forgiven upon graduation. This measure is expected to make more funds available to students. The budget provides \$10.7 million for school construction projects.

Table 7 Financial Highlights—Newfoundland^a

| | 1994-95 (est.) | 1993-94 (prelim.) |
|--|-------------------|----------------------|
| <i>millions of dollars</i> | | |
| <i>Current account</i> | | |
| Gross revenue | 3,146.6 | 3,061.0 |
| Gross expenditure | 3,171.3 | 3,131.9 |
| Surplus or deficit (-) | -24.6 | -70.9 |
| <i>Capital account</i> | | |
| Gross revenue | 127.9 | 94.0 |
| Gross expenditure | 300.0 | 245.7 |
| Deficit (-) | -172.0 | -151.7 |
| Combined deficit | -196.7 | -222.6 |
| Debt redemption and sinking fund | 220.4 | 202.5 |
| Financial requirements | 417.1 | 425.0 |
| <i>Main revenue sources</i> | | |
| Personal income tax | 510.0 | 506.3 |
| Corporate income tax | 41.4 | 39.3 |
| Sales tax | 550.0 | 543.8 |
| Gasoline tax | 122.0 | 118.4 |
| <i>Federal government transfers</i> | | |
| Equalization | 925.0 | 881.6 |
| Established programs financing | 217.0 | 229.3 |
| Shared-cost programs | 242.4 | 245.3 |
| <i>Principal expenditure functions</i> | | |
| Education | 800.2 | 821.3 |
| Health | 912.8 | 874.8 |
| Social services | 339.0 | 328.9 |
| Transportation | 176.3 | 183.9 |
| Debt expenses | 524.3 | 497.2 |

^a Public Accounts for 1992-93 were not available at time of publication.

Newfoundland and its municipalities will be spending \$52.5 million in 1994-95 as part of the federal infrastructure works and Newfoundland Municipal Finance Corporation programs. The province will spend \$50.0 million on road/highway projects under Canada-Newfoundland transportation initiatives. An additional \$20.0 million will be dispersed on provincial roads by the Department of Works, Services, and Transportation under the provincial roads program.

The budget establishes an independent commission to review all existing regulations that apply to business and to abolish those found to be unnecessary. The minister announced that the interest subsidy program for fishermen is being eliminated due to the current low level of interest rates. The province will no longer subsidize the collection of parking and traffic tickets for municipalities.

Personal income tax revenues are expected to increase only marginally in 1994-95, by 0.7 percent, to \$510.0 million. Corporate income taxes will exhibit stronger growth, rising by 5.3 percent to \$41.4 million. Gasoline taxes should increase by 3.0 percent due to the equalization of fuel tax rates discussed below.

Tax Changes

Effective January 1995, the corporate income tax rate on manufacturing and processing income is reduced from 7.5 to 5.0 percent. At that time, the general corporate income tax rate will be reduced from 16 to 14 percent.

Gasoline and diesel fuel tax rates are equalized at 16.5 cents per litre. This increases the gasoline tax rate by 0.8 cent per litre and lowers the diesel fuel tax rate by 1.1 cents per litre. The net effect of these measures is to raise revenues by \$3.0 million in 1994-95.

The commission rate paid to operators of video lottery machines is reduced from 35 to 20 percent. This measure is expected to raise \$6.0 million in additional revenue in 1994-95.

For renewals commencing in April 1994, the cost of a driver's licence is increased by \$5 per year, and the cost of registering a car or light truck is increased to \$120 per year. In 1994-95, these increases will raise \$11.0 million in extra revenue.

The retail sales tax exemption for manufacturing and processing equipment is expanded to include pollution control equipment.

Summary

Current account revenues are expected to increase by 2.8 percent to \$3,146.6 million in 1994-95, as shown in table 7, and current expenditures to increase by 1.3 percent to \$3,171.3 million (after taking into consideration the compensation measure), leaving a current account deficit of \$24.6 million. Capital account revenues are estimated at \$127.9 million and expenditures at \$300.0 million, thus producing a 13.4 percent rise in net capital spending. The two elements combine for a deficit of \$196.7 million in 1994-95, compared with a forecast deficit of \$222.6 million for 1993-94.

Net financial requirements for 1994-95 will be reduced to \$417.1 million from the \$425.0 million required in 1993-94. No details were given on the government's borrowing plans for 1994-95.

BRITISH COLUMBIA

On March 22, 1994, British Columbia's minister of finance and corporate relations, Elizabeth Cull, brought down her first budget. She introduced a three-year freeze on major taxes and a plan to balance the provincial budget by 1996-97. The strength of British Columbia's economy allowed the minister to pursue these objectives and reduce taxes slightly, without instituting major expenditure restraints.

The Economic Setting

British Columbia's economy continued to perform well in 1993, growing by 3.2 percent in real terms. The upswing in the US economy and the depreciation of the Canadian dollar led to a 16.2 percent increase in provincial exports. Employment was also strong, growing by 2.9 percent in 1993. The unemployment rate, at 9.7 percent, was considerably below the

national average. Because of the strong economy, inflation, at 3.5 percent, was higher than elsewhere in the country. Housing starts reached a record 42,807.

British Columbia's economy is expected to continue its relatively strong performance in 1994. Real GDP is forecast to grow by 3.4 percent. The unemployment rate is expected to remain at 9.7 percent for the year but employment is forecast to increase by 3.0 percent. Inflation is projected to slow this year to 2.0 percent. Housing starts in 1994 are expected to decline to 39,500 due to the number of projects already under way and an anticipated decline in net migration into the province in 1994.

The Fiscal Year 1993-94 in Review

Higher than expected corporate income taxes and petroleum and natural gas revenues brought 1993-94 budgetary revenues to \$17,681.0 million (as shown in table 8), \$221 million above the amount estimated in the 1993 budget. Budgetary spending was \$18,965.0 million, \$30 million below estimates, thereby producing a deficit of \$1,284 million in 1993-94, \$251 million lower than predicted in the 1993 budget.

The government's forecast for total direct and guaranteed debt at March 31, 1994 was \$25,395.9 million instead of the \$26,379.0 million estimated in the 1993 budget. Its financial requirements for 1993-94 were \$1,019.7 million, down from the original forecast of \$1,579.0 million. Borrowing was spread over a variety of sources, including provincial savings bonds, US and Euro-US bond issues, and interest rate swaps and forward rate agreements.

Budgetary Policy for 1994-95

In outlining her budgetary plans, the minister made commitments to invest in new public infrastructure, to maintain health care and education, and to provide support for small and medium-sized businesses through tax reductions. The two fastest growing areas of expenditure are expected to be public debt charges and education, which will grow by 7.4 and 6.1 percent, respectively. The finance minister provided a \$34 million increase for post-secondary education and \$90 million for a new skills training initiative for 1994-95. In total, funds are being provided to create an additional 8,100 post-secondary spaces in 1994-95.

The province is continuing with the BC 21 initiative announced in last year's budget. BC 21 funds capital investment and job creation activities. Capital spending on schools, health care facilities, post-secondary institutions, and justice facilities will be \$1 billion in 1994-95. British Columbia's contribution to the Canada-British Columbia infrastructure program is \$225 million over two years.

Overall, spending will rise by 3.5 percent for 1994-95. With the exception of transportation, expenditures on all principal functions will be increased in 1994-95. Wages of MLAs and senior public servants will remain frozen in 1994-95.

Table 8 Financial Highlights—British Columbia

| | 1994-95 (est.) | 1993-94 (prelim.) | 1992-93 |
|--|----------------------------|----------------------|----------|
| | <i>millions of dollars</i> | | |
| Budgetary revenue | 18,732.0 | 17,681.0 | 16,167.6 |
| Budgetary expenditure | 19,630.0 | 18,965.0 | 17,928.9 |
| Surplus or deficit (–) | –898.0 | –1,284.0 | –1,761.3 |
| Non-budgetary receipts | –200.3 | 264.3 | na |
| BC endowment fund | 300.0 | — | — |
| Net financial requirements | 798.3 | 1,019.7 | na |
| Net new borrowing, government | 1,574.0 | 1,089.7 | 2,359.0 |
| Net new borrowing by or on behalf of Crown corporations | 1,388.2 | 969.2 | 1,000.5 |
| <i>Main revenue sources</i> | | | |
| Personal income tax | 4,767.0 | 4,403.0 | 4,177.0 |
| Corporate income tax | 873.0 | 709.0 | 545.0 |
| Sales tax | 2,811.0 | 2,615.0 | 2,085.3 |
| Motor vehicle and fuel oil | 636.0 | 624.0 | 591.1 |
| Natural resource revenue | 1,819.0 | 1,711.0 | 1,245.0 |
| <i>Federal government transfers</i> | | | |
| Established programs financing | 1,295.0 | 1,275.0 | 1,463.0 |
| Canada assistance plan | 880.0 | 838.0 | 793.7 |
| Other | 175.0 | 168.0 | 179.1 |
| <i>Principal expenditure functions</i> | | | |
| Health | 6,474.3 | 6,324.9 | 6,002.9 |
| Social services | 2,837.9 | 2,737.9 | 2,366.5 |
| Education | 5,317.0 | 5,009.3 | 4,803.8 |
| Transportation | 909.8 | 1,011.6 | 1,077.6 |
| Public debt charges | 981.0 | 913.0 | 813.5 |

— nil. na not available.

Spending by the BC Transportation Financing Authority is not included in budgetary expenditures. The authority will invest \$300 million in highways and other transportation infrastructure during 1994-95. These expenditures will be offset, at least partly, by dedicated car rental and fuel taxes.

The BC endowment fund will be wound up and the proceeds used to reduce the province's debt. Other bodies being wound up include the Round Table on the Environment and the Economy, the British Columbia Petroleum Corporation, the British Columbia Energy Council, and Government Air Services.

Tax Changes

The minister announced a three-year tax rate freeze that applies to provincial personal and corporate income tax, sales tax, average school and rural area tax levels, property transfer tax, corporation capital tax, health care premiums, mineral land tax, mineral tax, mining tax, logging tax, fuel taxes, insurance premium tax, tobacco tax, hotel room tax, and the horse racing tax.

Effective April 1, 1994 the exemption threshold for the corporation capital tax is raised from \$1.25 million to \$1.5 million of paid-up capital. The tax

will be phased in for firms with paid-up capital between \$1.5 million and \$1.75 million. As of the same day, cooperatives and incorporated family farms are exempted from the tax. The threshold at which financial institutions pay the 3 percent rate was raised from \$500 million to \$750 million of paid-up capital. These two measures are expected to cost \$18 million in forgone revenues in 1994-95.

The budget exempts eligible first-time home buyers from the property transfer tax. This measure will save taxpayers \$20 million in 1994-95.

The threshold for applying the luxury sales tax on the purchase of an automobile is raised from \$30,000 to \$32,000 and is phased in for automobiles costing less than \$34,000. As well, the trade-in allowance on the purchase of passenger vehicles is restored. Sales tax is payable on the difference between the cost of the purchased vehicle and the trade-in. Solar, wind, and microhydro power generating equipment is exempt from the sales tax. For 1994-95, these changes will cost \$32 million in forgone revenue.

The tax on jet fuel used for international flights is reduced to 4 cents per litre from 5 cents per litre, effective July 1, 1994. The annual maximum fuel tax rebate for persons with disabilities is raised from \$300 to \$400. In 1994-95, \$8 million will be lost in government revenues due to these measures.

Beginning with the 1994 tax year, the phaseout threshold for the homeowner grant is raised from \$400,000 to \$450,000. Due to increases in assessed values, school property tax rates for residential and some non-residential property classes will be reduced so that average gross property taxes will remain at 1993 levels. A similar adjustment will be made to the general-purpose rural area property tax rates. Taxpayers will save \$10 million in 1994-95 from these measures.

The budget reduced the mineral tax rates for coal mines to match those rates paid by other mines. The province will forgo \$12 million in revenues due to this measure in 1994-95.

The budget indicated that a number of changes to fees and licences will be introduced during the fiscal year. The changes to fees and licences were expected to generate \$20 million in revenue in this fiscal year. Revenue measures contained in the budget were expected to reduce revenue by \$92 million in 1994-95 and by \$91 million in a full year.

The budget introduced a tax amnesty lasting until June 30, 1994, during which businesses can remit overdue consumer taxes without penalty.

Summary

For 1994-95, revenues are expected to increase by 5.9 percent to \$18,732.0 million and expenditures by 3.5 percent to \$19,630.0 million, as shown in table 8. The resulting budgetary deficit is estimated at \$898.0 million in 1994-95, down from the 1993-94 deficit of \$1,284.0 million. In addition to the budgetary spending, special agencies such as the BC Ferry Corporation, the BC Transit Authority, and the BC Transportation Financing

Authority will borrow an additional \$452 million (included in total debt, below) in 1994-95, up from \$151 million in the previous year. Under the Statistics Canada financial management system of accounting for governments, most of this borrowing is added to the budgetary deficit.

Net financial requirements of the government will be \$798.3 million, after taking into account the \$300 million to be recovered from the BC endowment fund, and provincial net borrowing for governmental purposes is expected to be \$638.3 million in 1994-95. Direct provincial debt was \$10,059.2 million on March 31, 1994, while total government, Crown corporation, and agency debt was \$25,395.9 million. By March 31, 1995, provincial direct debt is expected to be \$10,697.5 million, representing a 6.3 percent increase. Total government, Crown corporation, and agency debt should reach \$27,422.4 million as of the same date.

PRINCE EDWARD ISLAND

Wayne D. Cheverie, provincial treasurer and chairman of the Management Board, presented his second budget on June 17. The 1994 budget furthers the province's plan to eliminate its current account deficit by 1995-96. The treasurer relied almost exclusively on a 7.5 percent across-the-board spending cut and an increase in the gasoline tax to lower the deficit.

The Economic Setting

Although recovery began in 1993, the PEI unemployment rate was still 17.7 percent, well above the national average. The CPI grew by 1.9 percent in Charlottetown-Summerside during the year. Farm cash receipts grew by 4.4 percent in 1993. In particular, the value of the potato crop was the highest ever, at over \$140 million. Because the Island fishery relies heavily on shellfish and lobsters, PEI fishermen fared better than those in other provinces.

The economy should register stronger growth, with real GDP increasing by 4.2 percent in 1994, the highest growth for any province. The construction of the fixed link is expected to create up to 1,000 direct and indirect jobs in 1994-95. Overall, construction is expected to exhibit real growth of 20.0 percent in 1994. The Revenue Canada taxation centre will come into full operation in 1994, which is expected to provide a significant boost to the economy.

The Fiscal Year 1993-94 in Review

Current account revenues for 1993-94 are forecast at \$703.5 million (as shown in table 9), \$25.1 million lower than estimated in the 1993 budget. The shortfall is explained by downward revisions to federal payments of equalization and established programs financing (EPF). Current account expenditures of \$770.9 million are \$13.6 million above estimate. The resultant operating deficit is \$67.4 million instead of the \$28.7 million predicted in the 1993 budget.

Preliminary figures show that the capital account deficit, at \$35.4 million, is \$5.4 million higher than budgeted. The combined deficit of \$102.8

Table 9 Financial Highlights—Prince Edward Island

| | 1994-95 (est.) | 1993-94 (prelim.) | 1992-93 |
|--|-------------------|----------------------|---------|
| <i>millions of dollars</i> | | | |
| <i>Current account</i> | | | |
| Total revenue | 718.5 | 703.5 | 676.0 |
| Total expenditure | 742.1 | 770.9 | 763.9 |
| Surplus or deficit (-) | -23.6 | -67.4 | -87.9 |
| <i>Capital account</i> | | | |
| Total revenue | 13.2 | 3.4 | 3.4 |
| Total expenditure | 44.2 | 38.8 | 41.9 |
| Deficit (-) | -31.0 | -35.4 | -38.5 |
| Combined surplus or deficit (-) | -54.6 | -102.8 | -126.4 |
| <i>Non-budgetary transactions</i> | | | |
| Sinking fund appropriations and interest | 35.5 | 33.4 | 43.8 |
| New long-term debt issues | 135.0 | 60.0 | 159.0 |
| Canada Pension Plan | — | — | 7.0 |
| <i>Main revenue sources</i> | | | |
| Personal income tax | 109.5 | 116.0 | 97.9 |
| Corporate income tax | 14.7 | 15.5 | 9.2 |
| Retail sales tax | 105.3 | 99.9 | 94.1 |
| Gasoline tax | 25.6 | 23.2 | 23.4 |
| Property tax | 42.5 | 41.3 | 34.8 |
| <i>Federal government transfers</i> | | | |
| Equalization | 169.0 | 162.9 | 173.3 |
| Established programs financing | 43.9 | 43.5 | 58.6 |
| Development plans and agreements | 14.5 | 17.1 | 14.1 |
| Canada assistance plan | 36.9 | 37.8 | 35.3 |
| Other | 26.8 | 16.9 | 22.0 |
| <i>Principal expenditure functions</i> | | | |
| Health and social services | 271.2 | 286.8 | 263.9 |
| Education | 164.9 | 179.3 | 166.1 |
| Transportation and public works | 87.1 | 87.6 | 96.4 |
| Public debt charges | 81.3 | 78.1 | 69.4 |

— nil.

million, shown in table 9, is almost double the originally budgeted \$58.7 million. The treasurer estimated that Prince Edward Island's structural deficit amounted to \$50 million in 1993-94. The province issued \$60.0 million in new long-term debt in 1993-94 instead of the \$120.0 million originally planned.

Budgetary Policy for 1994-95

The treasurer addressed the problem of the structural deficit, estimated at \$50 million for 1993-94, which he attributed largely to the reductions in federal transfers. While he could do nothing to change the level of those transfers, he took the unusual step of using his own estimates of federal payments to the province in 1994-95, rather than the higher estimates provided by the federal Department of Finance.

The amounts budgeted for labour costs were reduced by 7.5 percent for all departments, agencies, and many of the institutions and organizations

that receive government funding. The salaries of the premier, Cabinet ministers, and MLAs were all reduced by 7.5 percent, effective April 1, 1994.

The minister stated that, as previously announced, the non-salary accounts of all departments and agencies have been reduced by an average of 7.5 percent. As well, the government will renegotiate contracts to save 7.5 percent.

Spending on all principal expenditure functions will decline in 1994-95 with the exception of debt charges, which are expected to increase by 4.1 percent. Revenues from the personal income tax and the corporate income tax are expected to decline by 5.6 percent and 5.2 percent, respectively. The loss of these revenues is offset by a 5.4 percent increase in retail sales tax revenues and a 4.6 percent increase in federal transfers.

Tax Changes

The fuel tax was converted from an ad valorem tax to a per litre levy. It will be charged at 12.0 cents per litre for gasoline and 12.5 cents per litre for diesel fuel, effective April 12, 1994. The ad valorem system had produced rates of 10.7 cents and 11.1 cents per litre for gasoline and diesel fuel, respectively, before the budget.

The provincial sales tax on incoming toll-free calls was eliminated. The minister provided no estimate of impact of these tax measures on budgetary revenue.

Summary

In 1994-95, current account revenue is expected to grow by 2.1 percent, reaching \$718.5 million. Current account expenditures are anticipated to decline by 3.1 percent to \$742.1 million. The current account net position is expected to improve in 1994-95, showing a deficit of \$23.6 million. The budgeted capital account deficit of \$31.0 million would be a 12.4 percent improvement over the previous year.

The combined deficit for 1994-95 is estimated at \$54.6 million, a significant reduction from the preliminary figure of \$102.8 million for 1993-94. New long-term debt issues are expected to decline to \$135.0 million for the year.

MANITOBA

On April 20, 1994, Finance Minister Eric Stefanson tabled his first budget for Manitoba. The budget emphasized the progress the province has made to date in decreasing its deficit, and slightly reduced overall expenditures in 1994-95 to lower the shortfall still more. The minister expects that with an annual revenue growth of 3 percent and virtually no change in spending, he can produce an operating surplus of \$18 million in 1994-95 and a balanced budget, including capital spending, in 1996-97.

The Economic Setting

Real growth in Manitoba's economy amounted to 1.9 percent in 1993, lower than the national average. The provincial growth was slowed by a

fall in the value of nickel and a cool, wet summer that hurt agriculture and housing starts. Even so, housing starts rose 5.0 percent for the year in contrast to a national decline. The unemployment rate for the year was 9.2 percent, while employment rose by 1.2 percent. Retail sales were up 4.0 percent. Mineral and petroleum exploration rose sharply for the year. Inflation, at 2.7 percent, was higher than the national average. Total exports grew by only 0.9 percent, and exports to the United States increased by 18.6 percent.

Real GDP growth is expected to be stronger in 1994, at 2.8 percent, but still below the national average. Employment is anticipated to increase by 1.3 percent, dropping the unemployment rate to 9.0 percent. Housing starts are forecast to increase by 4.1 percent for the year. Agricultural prospects are good for 1994, particularly for wheat, canola, cattle, and hogs. Mineral and petroleum exploration is anticipated to continue to be strong in 1994.

The Fiscal Year 1993-94 in Review

In the 1993 budget, revenues for 1993-94 were estimated at \$4,962.4 million while expenditures were anticipated to be \$5,359.2 million. The resulting budgetary deficit would have been \$396.8 million. Preliminary figures, as presented in table 10, show that revenues are now expected to come in 1.4 percent below estimate, at \$4,892.0 million. Expenditures are forecast to be 0.4 percent higher than budgeted, at \$5,382.8 million. The preliminary deficit of \$490.8 million is, therefore, 23.7 percent higher than originally estimated. The minister stated that the deficit slippage was due entirely to lower than anticipated federal transfer payments (\$134 million) and higher than expected debt charges (\$36 million). The lower federal transfer payments were partially offset by higher than budgeted lottery and other revenues.

Total net direct and guaranteed debt for Manitoba is forecast to reach \$14,147.5 million by March 31, 1994. This is an increase of \$1,032.1 million over the 1993 budget. General purpose government debt is \$801.4 million higher than first estimated, and Manitoba Hydro debt is \$415.3 million higher.

Budgetary Policy for 1994-95

Although overall expenditures are expected to be slightly lower in 1994-95, the minister introduced a number of initiatives (for example, a five-year pilot program to expand capital for existing small businesses in the service and manufacturing sectors). The small business expansion fund will require a partnership by financial institutions, entrepreneurs, and the provincial government. An advisory panel on business regulation was established to report on ways to reduce government red tape.

A one-year, \$10 million program was introduced to help Manitobans renovate their homes. The Manitoba home renovation program will give grants of up to \$1,000 to homeowners to make structural improvements on older homes valued at less than \$100,000, if the total cost of the renovation exceeds \$5,000.

Table 10 Financial Highlights—Manitoba

| | 1994-95 (est.) | 1993-94 ^a (prelim.) | 1992-93 ^b |
|--|-------------------|-----------------------------------|----------------------|
| <i>millions of dollars</i> | | | |
| <i>Budgetary</i> | | | |
| Total revenue ^c | 5,045.2 | 4,892.0 | 4,697.9 |
| Total expenditure | 5,361.5 | 5,382.8 | 5,463.9 |
| Surplus or deficit (-) ^c | -316.3 | -490.8 | -766.0 |
| Net transfer from fiscal stabilization fund ... | 20.0 | 30.0 | 200.0 |
| <i>Main revenue sources^c</i> | | | |
| Personal income tax | 1,254.0 | 1,221.9 | |
| Corporate income tax | 123.5 | 116.8 | |
| Retail sales tax | 660.6 | 630.4 | |
| Payroll tax | 194.0 | 190.8 | |
| Motor fuel tax | 214.5 | 213.3 | |
| Federal government transfers | | | |
| Equalization | 954.0 | 970.0 | |
| Established programs financing | 420.0 | 436.0 | |
| Other | 349.2 | 349.6 | |
| <i>Principal expenditure functions^c</i> | | | |
| Health | 1,854.5 | 1,858.8 | |
| Education and training | 990.5 | 1,020.4 | |
| Family services | 660.2 | 661.9 | |
| Highways and transportation | 229.6 | 236.3 | |
| Public debt charges | 566.9 | 550.5 | |

^a For 1993-94, total figures are preliminary but detail figures are based on original estimates.

^b Specific revenue and expenditure data for 1992-93 are not available. ^c Excludes transactions of budget stabilization fund.

The minister announced that several more school divisions will be offering distance education, and that by the 1995 school year, Manitoba will have a province-wide system of interactive television, video conferencing, and library access. University tuition fees will be increased by a maximum of 5 percent in 1994-95. University capital funding is increased from \$6 million to \$10 million while operating funding is reduced by 2.7 percent. Community college budgets will increase by 3.3 percent.

In the health field, home care services will be expanded in rural and northern Manitoba. The province is introducing regulated midwifery, and enhancing the breast cancer and cervical cancer screening program. A lung transplant pilot project will be established. The minister announced an agreement with the Manitoba Medical Association to manage overall doctors' fees and improve access to services in rural areas.

The federal infrastructure works program will spend \$205 million in Manitoba over two years. The provincial commitment to the program is \$68 million. The province's total capital spending in 1994-95 will include \$329 million in spending by the provincial government and \$682 million in spending by provincial Crown corporations.

To promote entrepreneurship in government, the province is establishing two more special operating agencies: the Organization and Staff

Development Branch of the Civil Service Commission, and the Vital Statistics Branch of Consumer and Corporate Affairs. These agencies are expected to be financially self-supporting.

In total, the budget reduces the civil service staff by 393 positions. The reduced work-week program was extended to 1994-95. The administrative functions of the departments of Housing and Urban Affairs were consolidated.

Tax Changes

First-time homebuyers buying new homes between April 20, 1994 and April 1, 1995 are eligible for a rebate of the sales tax paid on materials used in the construction of their homes. The rebate has a maximum value of \$2,500 per home. The sales tax charged on electricity used in mining and manufacturing was reduced by one half to 3.5 percent, effective June 1, 1994. The sales tax exemption on direct agents consumed in a manufacturing process, currently for those consumed within a three-month period, was replaced by an outright exemption for qualifying items on June 1, 1994. These changes will reduce 1994-95 tax revenues by an expected \$6.1 million.

The railway diesel fuel tax was reduced from 9.45 to 7.45 cents per litre, effective May 1, 1994 and will be reduced to 6.3 cents per litre on January 1, 1995. This reduction lowers anticipated revenues by \$3.2 million in 1994-95.

Manitoba's income tax rate for small businesses was dropped from 10.0 percent to 9.5 percent, effective January 1, 1994, and will be lowered further to 9.0 percent on January 1, 1995. The temporary manufacturing investment tax credit, originally announced in the 1992 budget, was extended. Investments in new manufacturing plant and equipment before June 30, 1995 will be eligible for the credit. These measures are expected to reduce provincial revenues by \$6.0 million in 1994-95.

From April 21, 1994 until December 31, 2003, a credit of 7 percent on investments in new mines and processing facilities is available. The credit is deductible from mining taxes, to a maximum of 30 percent of taxes payable. As well, the processing allowance was raised from 10 to 20 percent of the cost of assets bought for new mines or major expansions of existing facilities. The 1994 budget reduced the special tax on mining profits from 1.0 to 0.5 percent of profits. The measures are anticipated to have a negligible impact on revenues in 1994-95.

The exemption threshold for the capital tax was raised from \$1.0 million to \$2.0 million of taxable capital for corporate fiscal years starting after July 1, 1994. The minister rescinded the capital tax exemptions for Manitoba Hydro and Manitoba Telephone System. The net effect of these measures will be to raise an additional \$14.2 million in 1994-95.

For the Manitoba tax reduction, claims for a dependent child must now be made by the spouse with the higher net income. For the cost-of-living tax credit, age eligibility is raised from 16 to 18 unless the taxpayer is married, a parent, or claiming a property tax credit.

The net effect of the tax changes is to reduce government revenues by an anticipated \$1.1 million in 1994-95 and \$4.4 million in a full year.

Summary

Revenues for 1994-95 are estimated at \$5,045.2 million (including \$90 million to be transferred from lottery revenues), up 3.1 percent over comparable figures for 1993-94, and expenditures at \$5,361.5 million, down 0.4 percent, as shown in table 10. The deficit should then drop to \$316.3 million for 1994-95. The minister will transfer \$20 million from the budget stabilization fund to bring his reported deficit down to \$296.3 million. The province's total net direct and guaranteed debt is expected to decrease by \$52.2 million in the year to March 31, 1995, when the debt is expected to be \$14,095.3 million. The budget provided no details on the government's borrowing plans for 1994-95.

YUKON

On April 21, 1994, John Ostashek, minister of finance for Yukon, presented his government's second budget. The minister concentrated on expenditure control to increase Yukon's budgetary surplus and eliminate its accumulated deficit.

The Economic Setting

The minister did not provide an economic review or forecast for the territory but did state that the prospects for the Yukon economy are positive. Retail trade increased by 10.4 percent in 1993. Employment in Yukon has grown from 11,400 in March 1992 to 11,700 in March 1993 and 12,400 in March 1994 despite the closing of two hard rock mines during this period. Other developments in mining are more encouraging: more mines are in the planning stage in 1994-95 than in the last decade; and from 1992 to 1993, mining exploration doubled to \$20 million.

The Fiscal Year 1993-94 in Review

Preliminary figures for 1993-94, as shown in table 11, reveal that total operating and capital revenue for Yukon, at \$473.2 million, is down slightly from the \$483.7 million estimated in the 1993 budget. Preliminary operating and capital expenditures are \$11.6 million lower than budgeted, at \$471.7 million, which results in a surplus of \$1.5 million instead of the budgeted \$0.4 million. The budget did not include preliminary figures for the territory's financial requirements. The territory's accumulated deficit position at March 31, 1994 is forecast at \$11.8 million.

Budgetary Policy for 1994-95

Expenditure restraint was a major theme in the budget. The government plans to save between \$13 million and \$18 million in personnel costs over the next three years. In 1994-95, 13 of the 16 departments will have budgets equal to or lower than their 1993-94 forecasts. Of the principal expenditure areas, community and transportation services will have the biggest increase,

Table 11 Financial Highlights—Yukon^a

| | 1994-95 (est.) | 1993-94 (prelim.) |
|---|----------------------------|----------------------|
| | <i>millions of dollars</i> | |
| Operating and capital revenue | 479.8 | 473.2 |
| Operating and capital expenditure | 468.6 | 471.7 |
| Surplus | 11.2 | 1.5 |
| <i>Main revenue sources</i> | | |
| Personal income tax | 36.5 | 37.0 |
| Corporate income tax | 9.1 | 7.1 |
| Fuel taxes | 5.9 | 5.3 |
| Federal government transfers | | |
| Formula financing | 275.8 | 280.2 |
| Established programs financing | 12.0 | 10.3 |
| <i>Principal expenditure functions</i> | | |
| Health and social services | 115.8 | 109.3 |
| Community and transportation services | 123.2 | 113.3 |
| Education | 78.9 | 82.2 |
| Housing | 23.8 | 31.1 |

^a Public Accounts for 1992-93 were not available at time of publication.

8.7 percent. Spending on housing and education will drop by 23.5 percent and 4.0 percent, respectively. Personal income tax revenues are expected to decline by 1.4 percent while corporate income tax revenues are projected to grow by 28.2 percent.

The budget provides for \$121.7 million in capital expenditures in 1994-95. Continuing projects include the Whitehorse general hospital project, the south Alaska highway project, and the Shakwak project on the north Alaska highway.

The minister expressed Yukon's disappointment that responsibility for forestry has not yet been transferred to the territorial government. Yukon will attempt to enter into a memorandum of understanding with the federal government to transfer Yukon land and resources to the territorial government. The minister also touched on the problems inherent in the financial arrangements with the federal government, detailed above in the discussion of the Northwest Territories' budget.

Negotiations for Yukon Indian land claims are continuing with five Yukon first nations: Kwan Dun, Ta'an Kwachan, Little Salmon Carmacks, Selkirk, and Dawson. In summer or fall of 1994 the government hopes to enter into negotiations with two more Yukon first nations: Kluane, and Carcross. The minister responsible for the Yukon Development Corporation is also holding talks with the Yukon first nations, to discuss ways they could acquire an equity position in the Yukon Energy Corporation.

The Department of Tourism is establishing an anniversaries enhancement program to raise awareness and promote tourism for the territory's "decade of anniversaries," which includes the territory's centennial.

Tax Changes

The budget contained no tax changes.

Summary

As illustrated by table 11, gross operating and capital revenue is expected to improve slightly to \$479.8 million in 1994-95. Operating and capital expenditure should decline by 3.1 percent to \$468.6 million. The resulting surplus of \$11.2 million would be an increase of \$9.7 million over 1993-94. The budget does not give an estimate of Yukon's financial requirements for the year. The minister reported that after net adjustments for future supplementary estimates are made, the accumulated deficit on March 31, 1995 would be \$6.2 million.

NOVA SCOTIA

On April 29, J. Bernard Boudreau, minister of finance, introduced Nova Scotia's budget for 1994-95. The minister adhered to the four-year fiscal recovery plan laid out in Nova Scotia's 1993 budget. The plan calls for expenditure reduction over the four years ending 1997-98 in order to ensure that Nova Scotia has a current account surplus by 1996-97.

The Economic Setting

Real GDP in Nova Scotia grew by a slim 0.3 percent in 1993 as the province moved into a fragile recovery. The unemployment rate remained high, 14.6 percent, during the year. Personal income grew by only 1.8 percent while corporate profits grew by 11.8 percent. Retail sales rose 4.5 percent in the year and exports grew by 5.0 percent. Inflation remained low in 1993, at 1.2 percent.

The recovery will remain slow, with real GDP growing by only 0.9 percent in 1994. The unemployment rate is expected to decline slightly during the year to 14.5 percent. Exports are projected to grow more slowly in 1994, at 3.2 percent. Inflation should drop even lower to 1.0 percent. Personal income is forecast to increase by another 1.8 percent in 1994 while corporate profits are anticipated to increase by 11.5 percent. Retail sales are predicted to grow more moderately, 3.2 percent, due to the slow growth in personal income. Housing starts are expected to decline by 6.6 percent.

The Fiscal Year 1993-94 in Review

Current account revenues for Nova Scotia in 1993-94 are forecast to be 0.5 percent higher than estimated in the September 1993 budget, at \$3,523.8 million. Current account net expenditures are projected to be 0.2 percent lower, at \$3,895.8 million, as shown in table 12. This should allow the current account deficit to come in at \$372.0 million or 6.3 percent lower than estimated. Capital account net expenditures, at \$328.3 million, are slightly above budget. The forecast combined deficit of \$700.3 million is \$20.3 million below the 1993 budget estimate. The province's forecast net financial requirements, \$820.2 million, are down 8.7 percent from the 1993 budget estimate.

Table 12 Financial Highlights—Nova Scotia

| | 1994-95 (est.) | 1993-94 (prelim.) | 1992-93 |
|--|-------------------|----------------------|---------|
| <i>millions of dollars</i> | | | |
| <i>Current account</i> | | | |
| Total revenue ^a | 3,636.3 | 3,523.8 | 3,510.6 |
| Total net expenditure | 3,933.9 | 3,895.8 | 3,981.9 |
| Deficit (-) | -297.6 | -372.0 | -471.3 |
| <i>Capital account</i> | | | |
| Total net expenditure | 302.1 | 328.3 | 297.7 |
| Combined deficit (-) | -599.7 | -700.3 | -769.0 |
| <i>Non-budgetary transactions</i> | | | |
| Sinking fund and debt retirement | 182.3 | 184.2 | 109.2 |
| Investments and advances (net) | 30.2 | -106.2 | -110.5 |
| Net cash requirements | -812.2 | -820.2 | na |
| <i>Main revenue sources</i> | | | |
| Personal income tax | 951.2 | 909.6 | 866.8 |
| Corporate income taxes | 74.0 | 73.4 | 83.1 |
| Sales and tobacco taxes | 783.3 | 765.0 | 717.5 |
| Motive fuel tax | 193.0 | 172.0 | 168.6 |
| <i>Federal government transfers</i> | | | |
| Equalization, current year | 918.6 | 863.6 | 811.9 |
| Established programs financing | 352.6 | 358.1 | 395.2 |
| Stabilization | — | — | 55.3 |
| Other general purpose | 2.3 | 2.3 | 2.3 |
| Specific purpose | 263.0 | 262.0 | 241.0 |
| <i>Principal expenditure functions</i> | | | |
| Education | 1,004.3 | 998.1 | 1,017.4 |
| Health | 1,239.2 | 1,271.8 | 1,326.8 |
| Transportation and communication | 244.5 | 264.4 | 291.5 |
| Social services | 279.3 | 269.1 | 242.6 |
| Public debt expenses | 1,083.3 | 1,050.0 | 912.7 |

— nil. na not available.

^a Includes prior year adjustments.

Figures in the 1994 budget are presented on a net basis and are not directly comparable to those presented in Nova Scotia's 1993 budget. In several areas expenditures are net of related revenues such as fees and charges. Netting lowers both expenditures and revenues by the same amount but does not change the province's reported deficit.

Budgetary Policy for 1994-95

Budgetary policy concentrated on expenditure restraint. The minister froze public sector wages and eliminated previously deferred pay increases. The budget introduced a 3 percent reduction in public service salaries: a temporary 2 percent reduction is currently in place, so salaries will be 1 percent lower than currently earned when the reduction comes into effect on November 1, 1994. Merit pay and incremental pay increases are frozen for one year, beginning May 1, 1994. These measures affect all provincial and municipal employees and elected representatives, Crown corporations, school

boards, universities, community colleges, homes for special care, and provincial court judges. The wage reduction will not affect those earning less than \$25,000 per year or reduce any wages below that level.

Total payments to physicians are capped at \$254 million, \$10 million lower than 1993-94. The 3 percent wage reduction is then applied to payments to physicians for salaries.

The province's expenditure control legislation reduces capital expenditures by 5 percent per year for the four years starting in 1994-95. Over \$200 million will be spent in Nova Scotia under the federal-provincial infrastructure agreement. The government is actively seeking private/public sector partnerships for infrastructure projects.

The government's four-year plan for reform is expected to result in closure and/or conversion of hospital facilities, consolidation of school boards, rationalization of universities, reductions in housing grants and subsidies, increased tuition fees in community colleges, and extensive rationalization of court and correctional facilities.

Tax Changes

The budget changed the province's gasoline and fuel taxes from an ad valorem rate to a fixed rate of 13.5 cents per litre for gasoline and 15.4 cents per litre for diesel. The ad valorem rate had produced a tax of 12.2 cents per litre on gasoline and 15.0 cents on diesel fuel.

The minister noted that cigarette taxes were reduced by \$7 per carton on April 14, 1994; a matching reduction was made by the federal government. Rate reductions were also made for other tobacco products.

The retail sales tax was removed from business services, selected recreational services, and labour associated with landscaping services. A retail sales tax rebate has been extended to all outbound long-distance calls by call centres that exceed 360,000 minutes per year. The 2 percent deed transfer tax on residential and commercial sales was discontinued.

Commencing with the 1994 tax year, Nova Scotia's research and development tax credit is made fully refundable and its rate increased from 10 to 15 percent. A corporate income tax credit of 25 percent was introduced on eligible annual expenditures (up to \$150,000) associated with ISO 9000 certification. The film industry enhancement program will provide a refundable credit of 30 percent of eligible Nova Scotia salaries to local firms, to a maximum of 15 percent of total production costs.

The minister introduced a low-income tax reduction program for Nova Scotia. For individuals and families with incomes of less than \$15,000, a personal income tax reduction of \$200 for individuals, \$200 for spouses, and \$105 per dependent child will be given. The reduction will be phased out at a rate of 5 percent of family net income over \$15,000. Full reductions will be granted in 1995 but in 1994 the reductions will be a maximum of \$150 for individuals and spouses, and \$80 per dependent child. The Nova Scotia home ownership savings plan was extended to December 31, 1998.

The net effect of the tax measures announced in the budget will be to reduce provincial revenues by \$48 million in 1994-95.

Summary

Current account revenues are expected to rise by 3.2 percent in 1994-95 to reach \$3,636.3 million while current account net expenditures should grow by 1.0 percent to \$3,933.9 million. The resulting current account deficit of \$297.6 million would be a \$74.4 million reduction from 1993-94. Capital account net expenditures are anticipated to be \$302.1 million. The combined deficit of \$599.7 million estimated in the 1994 budget is a 14.4 percent improvement from the combined deficit forecast for 1993-94.

The budget does not provide any information on the government's planned borrowing activities for 1994-95 but its net financial requirements are estimated at \$812.1 million, down 1.0 percent from 1993-94.

ONTARIO

Floyd Laughren, the minister of finance for Ontario, presented his fourth budget on May 5, 1994. Although Ontario's economy is expected to grow strongly over the next several years, the minister felt it was necessary to introduce a number of infrastructure initiatives to increase employment. Economic growth along with previously announced expenditure control initiatives are expected to push the government's operating balance into a surplus in 1998-99.

The Economic Setting

In 1993, real GDP in Ontario grew by 2.4 percent as the recovery began to take hold. Unemployment dropped 0.2 percentage points to 10.6 percent for the year while employment grew by 1.7 percent, or 79,000 jobs. Exports rose by 8.7 percent and imports rose by 5.5 percent. Recovery was impeded by declines in the construction industry. Real residential construction dropped by 12.8 percent and real non-residential construction by 33.6 percent. Inflation stood at 1.7 percent for the year.

The recovery will continue to gain strength and real GDP is predicted to grow by 3.3 percent in 1994. Inflation should drop to 0.4 percent for the year due to lower tobacco taxes and continuing slack in the economy. Employment should increase by 1.3 percent while the unemployment rate is expected to decrease to 10.3 percent. Exports are projected to rise by 10.4 percent and imports to rise by 9.7 percent. The construction industry is anticipated to rebound in 1994: real residential construction should increase by 8.2 percent and real non-residential construction by 2.2 percent.

The Fiscal Year 1993-94 in Review

Preliminary operating revenue for 1993-94 amounted to \$44.1 billion, or 0.1 percent higher than the 1993 budget estimate. Part of this increase is attributable to the \$227 million received from the federal government as final settlement of the province's claim for stabilization in 1990-91. Preliminary figures for operating expenditure show it to be \$50.9 billion, 1.7

percent higher than the estimate. The resulting operating deficit of \$6.8 billion, as seen in table 13, is \$767 million larger than budgeted for in 1993. Capital expenditures for the year are 11.6 percent below estimate at \$2.9 billion. They include capital spending by Crown corporations, such as the Ontario Clean Water Agency, Ontario Realty Corporation, and Ontario Transportation Capital Corporation, that in the Statistics Canada definition of provincial spending would be included in budgetary expenditures. The preliminary combined deficit for Ontario for 1993-94 is \$9.7 billion, which is 4.1 percent above the 1993 budget estimate.

Sales and rentals in 1993-94 accounted for \$1,158 million in revenues, up from \$512 million in 1992-93. Included in this amount for 1993-94 are proceeds from the sale of Skydome and GO Transit rolling stock. The switch by the province from capital grants to loan-based financing for schools, universities, colleges, and hospitals reduced provincial capital expenditures for education and training from \$543 million in 1992-93 to \$16 million in 1993-94.

Net debt issues by the province during the year amounted to \$11.5 billion, 14.8 percent higher than estimated. The total budgetary and non-budgetary deficit for Ontario is forecast at \$10.6 billion, \$366 million higher than estimated. The budget papers noted that all but \$0.9 billion of the \$12.9 billion in total borrowing came from domestic and international capital markets.

Budgetary Policy for 1994-95

The minister's two major concerns addressed in the budget were job creation and expenditure control. JobsOntario will promote job creation in Ontario by investing in infrastructure, and by making training and work experience available for Ontarians. Through the Ontario Transportation Capital Corporation, the \$1 billion Highway 407 will be built by 1999. The province is providing \$1.5 billion of the \$2.5 billion total cost of building four new Metro subway lines and the Mississauga transitway. The Ontario Clean Water Agency will spend \$350 million on 190 water and sewer projects over the next two years. During the same period, the Canada-Ontario infrastructure works agreement will make \$2.1 billion in expenditures.

JobsOntario will spend \$1 billion in 1994-95 on training, adjustment, and work experience for an estimated 370,000 people. In particular, the province plans to overhaul social assistance and replace welfare with a program to help people obtain long-term private sector jobs. The government will move forward with jobLink and increase the job placements and training available to social assistance recipients.

The minister noted that in 1993-94 program costs were lower than in the previous year for the first time since 1942. Program costs are expected to decline again in 1994-95. He felt that reducing the deficit any further in 1994-95 would slow economic recovery and job creation. The minister plans to produce a balanced operating budget by 1998-99.

Table 13 Financial Highlights—Ontario

| | 1994-95 (est.) | 1993-94 (prelim.) | 1992-93 |
|--|-------------------|----------------------|---------|
| <i>millions of dollars</i> | | | |
| <i>Operating fund</i> | | | |
| Total revenue | 45,140 | 44,050 | 41,807 |
| Total expenditure | 51,488 | 50,880 | 50,643 |
| Deficit (-) | -6,348 | -6,830 | -8,836 |
| <i>Capital fund</i> | | | |
| Total expenditure ^a | 3,555 | 2,909 | 3,592 |
| Deficit (-) | -3,555 | -2,909 | -3,592 |
| Combined deficit (-) | -9,903 | -9,739 | -12,428 |
| <i>Non-budgetary transactions</i> | | | |
| Net loans and investments (-) | -546 | -901 | -309 |
| Total budgetary and non-budgetary deficit (-) | -10,449 | -10,640 | -12,737 |
| CPP and teachers' superannuation fund retirements | -766 | -859 | -1,043 |
| Net public debt issues | 10,069 | 11,470 | 15,483 |
| <i>Main revenue sources</i> | | | |
| Personal income tax | 15,770 | 15,233 | 13,978 |
| Less credits | 960 | 920 | 435 |
| Net personal income tax | 14,810 | 14,313 | 13,543 |
| Corporate tax | 3,780 | 3,100 | 2,713 |
| Retail sales tax | 8,610 | 8,020 | 7,316 |
| Gasoline and motor vehicle fuel tax | 2,450 | 2,364 | 2,273 |
| Federal government transfers | | | |
| Established programs financing | 3,657 | 3,824 | 4,316 |
| Canada assistance plan | 2,602 | 2,421 | 2,283 |
| Stabilization | — | 227 | 300 |
| Other | 993 | 653 | 655 |
| <i>Principal expenditure functions</i> | | | |
| Health | 17,565 | 17,694 | 17,758 |
| Education | 9,177 | 9,347 | 10,439 |
| Community and social services | 9,456 | 9,178 | 8,597 |
| Transportation | 2,489 | 2,520 | 2,575 |
| Public debt charges | 7,945 | 6,990 | 5,293 |

— nil.

^a Includes capital spending by special Crown corporations and project specific agencies.

The Ontario public service has been reduced by 4,500 positions and the government expects to reach its target of 5,000 in 1994-95. The social contract between the government and public sector employees remains in effect this year, providing savings of approximately \$2 billion in compensation costs. The minister stated that these savings are permanent and will not be recouped once the social contract legislation expires.

To increase access to capital for small and medium-sized businesses, the minister will introduce legislation removing barriers that discourage loan and trust companies and labour-sponsored investment funds from lending

money to and investing in new businesses. Rules for co-operatives will also be changed to improve their capacity to raise capital from both members and non-members.

By September 1, 1994, the province will have one-stop registration for new businesses. In 1995, businesses will be able to use a single form to remit retail sales tax and the employer health tax. By early 1996, corporate income tax instalments will be included on the form.

The government is establishing a \$50 million housing loan guarantee fund to help lower-income families buy homes through community-based initiatives. The fund will guarantee second mortgages provided by private investors and will help those families who can carry mortgage payments but do not have access to conventional financing.

The minister revised the method by which property taxes from non-residential assessment are shared between separate and public school boards. The new basis of sharing will be the number of pupils served by each board.

Of the principal expenditure functions, public debt charges, which are expected to increase by 13.7 percent, shows the fastest growth. Expenditures on education and health are projected to decrease by 1.8 percent and 0.7 percent, respectively. Transportation expenditures will grow by 10.7 percent mainly due to Highway 407 costs. The fastest growing revenues will be corporate income taxes, which are expected to increase by 21.9 percent. Federal transfers, at 1.8 percent, are anticipated to be the slowest growing main revenue source.

Tax Changes

The minister made selected tax decreases in the budget to stimulate job creation. Effective May 1, 1994, private sector employers will not have to pay the employer health tax on the amount by which their current payroll exceeds that for the previous calendar year. This measure is intended to allow employers to hire new employees without incurring additional payroll taxes. New employers will be free of the tax in their first year. It is expected to cost the government \$200 million in forgone revenues in 1994-95 and \$295 million over the course of a full year.

Small and medium-sized businesses in Ontario will be eligible for a 10 percent refundable credit for scientific research and experimental development (SR & ED) expenditures, starting January 1, 1995. The Ontario innovation tax credit will be available to Ontario firms that qualify for the federal SR & ED investment tax credit for small Canadian-controlled private corporations. The credit will apply to 100 percent of qualifying current expenditures and to 40 percent of qualifying capital expenditures. The maximum qualifying expenditure in a year will be \$2 million. The government is forecast to lose \$1 million in 1994-95 due to this credit and \$35 million in a full year.

As was announced in December 1993, the Ontario home ownership savings plan (OHOSP) is extended indefinitely. It has been modified so that the

land transfer tax refund will not be available for those opening OHOSPs on or after January 1, 1994. The extension will not impact provincial revenues in 1994-95 but should save taxpayers \$25 million in a full year.

The minister introduced corporate income tax changes for Ontario to parallel those made by the federal government in its 1994 budget. These measures will raise an expected \$25 million in additional revenues in 1994-95 and \$30 million in a full year.

In total, the revenue measures introduced by the provincial government will reduce total collections by \$176 million in 1994-95 and \$325 million in a full year.

Summary

In 1994-95, operating revenues are expected to reach \$45.1 billion (a 2.5 percent increase) while operating expenditures should reach \$51.5 billion (a 1.2 percent increase). The resulting operating deficit of \$6.3 billion would be 7.1 percent lower than the previous year. Adjusted capital spending, however, is expected to grow by 22.2 percent to \$3.6 billion. This figure includes expenditures by certain Crown corporations and funding for specific projects (such as Highway 407) that were not considered budgetary expenditures in the budget. The resulting combined deficit of \$9.9 billion will be 1.7 percent higher than in 1993-94.

The total budgetary and non-budgetary deficit is predicted to be \$10.4 billion, or 1.8 percent lower than 1993-94. Net debt issues for the year are expected to be \$10.1 billion, 12.2 percent lower than in 1993-94.

QUEBEC

Quebec's last budget before the provincial election was presented by André Bourbeau, minister of finance, on May 12, 1994. The government's priority was job creation, and the budget introduced a number of tax cuts to further this objective, re-enforcing the extensive capital spending programs announced earlier in the year. As well, the minister froze total program spending to reduce the budgetary deficit. He outlined a plan that would permit the province to balance its current account in 1997-98 and achieve a budgetary surplus the following year.

The Economic Setting

In 1993, Quebec's economic performance was roughly comparable to the national average with real GDP growing by 2.7 percent. Due to the major productivity gains associated with the beginning of the economic recovery, employment growth was, however, only 0.2 percent. Increases in the size of the labour force caused the unemployment rate to move up slightly to 13.1 percent. Retail sales rose by 4.9 percent. Housing starts were down for the year by 11.0 percent because of a surplus of housing and high rental vacancy rates. Exports rode the solid US expansion to an increase of 15.3 percent in volume during the year. Corporate profits were up 15.1 percent, but personal income growth was limited to 1.6 percent. The CPI rose by 1.3 percent during 1993.

As Quebec's economy continues to improve, real GDP is expected to rise by 3.2 percent in 1994. Employment is anticipated to increase by 2.1 percent and the unemployment rate to drop to 12.4 percent. Retail sales should increase by 6.7 percent for the year as the labour market and consumer confidence improve. Exports are also expected to increase by 6.7 percent in real terms during the year. Housing starts are predicted to climb by more than 4 percent as the existing rental vacancy and housing surpluses are reduced. Corporate profits should continue to show strong growth, forecast at 25.3 percent, based on growing markets and the improved financial position of companies. Personal income is expected to increase by 2.7 percent in 1994.

The Fiscal Year 1993-94 in Review

The 1993 budget estimated 1993-94 total revenue at \$36.7 billion; the 1994 budget forecast that revenue will be 1.7 percent lower at \$36.1 billion, as almost all tax collections fell short of the original prediction. Total expenditures are forecast to be \$41.0 billion, 0.3 percent higher than estimated, because of higher than anticipated spending on social assistance and interest that more than offset shortfalls in other spending areas. The resulting deficit of \$4.9 billion is \$750 million higher than initially budgeted.

As illustrated by table 14, the province's net financial requirements for the year are forecast at \$3.8 billion while its net increase in long-term debt is forecast at \$4.0 billion. The government's initial estimates were for net financial requirements of \$3.1 billion and a net increase in long-term debt of \$1.1 billion. Of the \$8.3 billion in total borrowing, 8.7 percent was obtained from the sale of special bond issues to the Caisse de dépôt et placement du Québec, 32.8 percent from other securities denominated in Canadian dollars, 46.7 percent from US dollar securities, and the remaining 11.8 percent from securities issued in other currencies.

Budgetary Policy for 1994-95

The province's spending plans had been outlined earlier with the release of the main estimates for 1994-95. The minister cut \$520 million in spending from those estimates. Total program spending is frozen at 1994-95 levels until the government eliminates the budgetary deficit. The minister indicated that no new budget initiatives will be undertaken unless they are self financing.

The budget reduced by 2 percent the estimate figures for staff levels and payroll in departments, agencies, and special funds, excluding education, health, and social services. The reduction is equal to more than 750 full-time equivalents. Other operating expenditures in departments and agencies, including transfers for operating purposes (except those for education, health, and social services) are reduced by 30 percent. Grants are cut by 10 percent, except those for income security, education, health, and social services, and to municipalities.

The minister of finance is stepping up the process of privatizing government corporations. Plans for future privatization involve REXFOR, Société

Table 14 Financial Highlights—Quebec

| | 1994-95 (est.) | 1993-94 (prelim.) | 1992-93 |
|--|-------------------|----------------------|---------|
| <i>millions of dollars</i> | | | |
| <i>Budgetary transactions</i> | | | |
| Total revenue | 37,303 | 36,085 | 35,423 |
| Total expenditure | 41,728 | 40,980 | 40,355 |
| Deficit (-) | -4,425 | -4,895 | -4,932 |
| <i>Non-budgetary transactions</i> | | | |
| Investments, loans, and advances | -542 | -716 | -490 |
| Surplus in pension accounts | 1,774 | 1,739 | 1,525 |
| Other accounts | 263 | 59 | -16 |
| Net financial requirement (-) | -2,930 | -3,813 | -3,913 |
| Net increase in long-term debt | 2,653 | 3,997 | 5,176 |
| <i>Main revenue sources</i> | | | |
| Personal income tax | 12,394 | 11,746 | 11,434 |
| Corporate taxes | 2,266 | 1,923 | 1,848 |
| Payroll taxes | 3,202 | 2,906 | 2,816 |
| Retail sales tax | 5,787 | 5,686 | 6,001 |
| Motor vehicle fuel taxes | 1,348 | 1,257 | 1,222 |
| Federal government transfers | | | |
| Equalization | 3,723 | 3,812 | 3,572 |
| Established programs financing | 1,841 | 1,743 | 2,236 |
| Specific purpose (welfare) | 1,970 | 2,005 | 1,738 |
| Other | 199 | 212 | 248 |
| <i>Principal expenditure functions</i> | | | |
| Education | 9,477 | 9,167 | 9,359 |
| Health and social services | 12,923 | 12,754 | 12,535 |
| Transportation | 2,073 | 1,993 | 2,026 |
| Debt servicing | na | 5,316 | 4,764 |

na not available on basis consistent with previous years.

québécoise d'initiatives agro-alimentaires, Société québécoise d'initiatives pétrolières, Société des établissements de plein air du Québec, Société immobilière du Québec, and the Société générale de financement. The province will also re-examine the potential privatization of the Société des alcools du Québec.

The budget raised the level at which the subsidies for day care for children begin to phase out. The measure is intended to increase wages for day care workers by \$13 million, but it will not take effect until October 1, 1994. Another \$6.5 million was provided to increase wages until the new formula comes into effect. The province also provided \$3 million in assistance for prevention services for children in underprivileged families.

The minister introduced a number of measures to enhance the integrity of the provincial tax system. To eliminate the illegal trade in alcohol, wine costing less than \$12 a bottle was reduced by \$1 a litre. Beer sold in restaurants and bars will now have to be stamped. The budget also increased fines, enlarged the government's inspection powers, and eased evidence requirements. The federal government will begin collecting the provincial

markup and taxes on alcohol at the Canada-US border, in addition to the sales and tobacco taxes already collected by customs officials.

The parental wage assistance program was adjusted so that the rate at which benefits are reduced as work income increases, is dropped from 43 to 40 percent.

The government committed itself to developing an information highway tailored to meet the needs of Quebec and of French-speaking people. Spending on this initiative will total \$50 million over two years. A new forest protection strategy was introduced to limit the use of pesticides and reduce the areas of clear cutting. Over the next five years, \$100 million over and above the amounts provided in the 1994-95 estimates will be provided, \$39 million of which will come from the forestry industry.

The extensive projections provided in the budget papers outlined government revenue and expenditure policy up to the end of the fiscal year 1998-1999. The key element of the projections was freezing program spending (excluding debt interest) at the 1994-95 level up to the end of March 1999. This, along with reasonable growth in revenues, will balance the province's current revenue and expenditure by 1997-98, and provide an overall surplus the following year. Notes to the projections indicated that the revenue estimates for 1994-95 include \$282 million from the federal government to satisfy Quebec's claim for stabilization with respect to the 1991-92 fiscal year. The federal government must settle the claim by November 30, 1994. A similar claim of \$160 million for the fiscal year 1992-93 will be settled by November 30, 1995.

Tax Changes

The budget contained a number of personal income tax changes coming into effect beginning with the 1994 tax year. The minister introduced a low-income tax reduction calculated as \$10,000 minus tax payable after non-refundable credits, multiplied by 2 percent. Thus, at least some reduction will be available for all taxpayers having total tax of less than \$10,000. It is expected that this measure will remove 208,000 low-income taxpayers from the tax rolls. To make the reduction effective for the 1994 tax year, the decrease in payroll deductions will be doubled for the last six months of 1994. The measure is expected to cost the province \$497 million in forgone revenue in 1994-95.

A refundable tax credit for child care expenses was introduced. The credit ranges from 75 to 26.4 percent of eligible expenses, depending on income. This measure should have a revenue cost of \$15 million in 1994-95. The basic amount for the tax credit for second and subsequent children was raised from \$2,250 to \$2,400, with the credit rising from \$450 to \$480. This increase should save taxpayers \$13 million in 1994-95. The tax credit for lodging parents or other aged relatives was increased from \$440 to \$550. The impact of this increase will be negligible in 1994-95.

The budget provided a credit to assist those over 65 to hire domestic help. A maximum credit of \$3,000 is provided based on maximum eligi-

ble expenses of \$10,000 and a conversion rate of 30 percent. The credit is reduced by 10 percent of income over \$30,000. The province also assumed responsibility for paying payroll taxes on behalf of these taxpayers and will deduct those amounts from the credit. The impact of this credit will be negligible in 1994-95. The minister also announced that old age security payments would no longer be considered income in calculating the health services fund tax for any taxpayers. Seniors should save about \$8 million in 1994-95 due to this measure. The minister stated that Quebec would not harmonize with the federal clawback of the seniors' tax credit.

The Quebec sales tax (QST) was switched from a two-rate system of 8 percent for goods and 4 percent for services and immovable property to a single rate of 6.5 percent. Excise duties on alcohol, fuel, and tobacco were increased so that roughly the same amount of tax revenue will continue to be raised from these products as before the QST rate change. A rebate on part of the QST paid on new homes was introduced, equal to 36 percent on homes costing \$175,000 or less, with a diminishing rebate given for homes costing between \$175,000 and \$200,000. Purchasers of used cars will have to pay tax on the greater of the reported purchase price and the appraisal manual value less \$500. The net effect of the QST changes is to lower expected provincial revenues by \$144 million in 1994-95.

The preferential rates for the refundable training tax credit (40 percent for smaller corporations and 20 percent for large corporations) were extended until January 1, 1997. They were to be lowered to 20 percent and 10 percent, respectively, after December 31, 1994. Deadlines for the improved research and development (R & D) credit were also extended. The deadline for concluding contracts was moved from January 1, 1996 to December 31, 1996 and the deadline for performing the R & D was moved from January 1, 1998 to December 31, 1998. The minister extended by one year the increased tax credits for R & D with university entities, public research centres, and research consortia. These extensions are not expected to affect provincial revenues in 1994-95.

Tax incentives for the mining sector, particularly those relating to flowthrough shares were extended by two years, to the end of 1997. Quebec harmonized with the federal government by allowing the deduction of contributions to a mine sites restoration fund for income tax purposes. These changes should have a negligible effect on revenues in this fiscal year.

The previously promised reform of the mining duties system was provided in this budget. The reform simplifies the Mining Duties Act, focuses more directly on exploration expenses, lowers the credits available to firms, and drops the tax rate from 18 to 12 percent. The reform is expected to reduce the government's tax expenditures by \$13 million in 1995-96 and \$20 million in subsequent years.

Like the federal government, Quebec eliminated the small business deduction for Canadian-controlled private corporations with taxable capital of more than \$15 million and phased out the deduction for those with between \$10 million and \$15 million in taxable capital. In 1994-95, this change is expected to have a negligible effect on provincial revenues.

The budget gave municipalities the option of deferring property taxes for the elderly. The principal and interest on deferred taxes would be payable at death or on transfer of ownership. Principal and interest will be allowed to equal a maximum of 25 percent of the net value of the residence.

The total impact of the tax changes in the budget is to reduce provincial revenues by an estimated \$677 million in 1994-95.

Summary

In 1994-95, the government's total revenue is expected to increase by 3.4 percent to an estimated \$37.3 billion. Expenditures are anticipated to grow by 1.8 percent to \$41.7 billion. As seen in table 14, the resulting budgetary deficit of \$4.4 billion would be a \$470 million improvement over 1993-94.

Net financial requirements for the year are estimated at \$2.9 billion, while the net increase in long-term debt is expected to be \$2.7 billion.