

Province of Prince Edward Island
Budget Address
2004



Presented by
The Honourable Mitch Murphy
*Provincial Treasurer
and
Chair of Treasury Board*

Prince Edward Island

2004 Budget

Working Together For A Secure Tomorrow

**Presented to
The Members of the Legislative Assembly of Prince Edward Island**

by

Honourable Mitch Murphy

**Provincial Treasurer
and
Chair of Treasury Board**

March 30, 2004

The full texts of the Budget Address, Estimates of Revenue and Expenditure and supporting schedules for 2004-2005 and previous years are available on the Province of Prince Edward Island's website:

<http://www.gov.pe.ca/budget>

PRINCE EDWARD ISLAND 2004 BUDGET

TABLE OF CONTENTS

THE BUDGET ADDRESS

Working Together for a Secure Tomorrow	1
Fiscal Sustainability	2
Economic and Fiscal Performance	6
Revenue Measures	10
Agriculture, Fisheries, Aquaculture and Forestry	12
Health and Social Services	14
Education	18
Transportation and Public Works	21
Community and Cultural Affairs	22
Community Services Bursary	25
Development and Technology - Creating a Sustainable Economy ...	25
Environment and Energy - Investing in Our Natural Capital	26
Tourism	28
Conclusion	29

BUDGET SCHEDULES

BUDGET PAPER A: BACKGROUND NOTES ON THE ECONOMY

BUDGET PAPER B: FEDERAL FISCAL ISSUES

THE BUDGET ADDRESS

Working Together for a Secure Tomorrow

Mr. Speaker,

Members of the Legislative Assembly,

This is my first Budget as Provincial Treasurer, and I would like to say how proud I am to have been afforded this opportunity. Governments do not have money, but rather are the managers of the money that belongs to the taxpayers of the Province. I am acutely aware of the tremendous responsibility and expectation that accompanies the role of Provincial Treasurer. Islanders expect their governments to be prudent managers of their tax dollars and that's what we will continue to do.

It will come as no surprise that the fiscal position of the Province deteriorated significantly in the past year and this Budget will outline a responsible plan of action to deal with the situation. The task is a daunting one but our Government believes that this Budget keeps the Province moving on the right track.

Mr. Speaker, the provincial economy continues to perform well. Our estimates of economic growth indicate that growth in 2003 was somewhat better than what was expected at budget a year ago, and that we exceeded national growth both in terms of employment and Gross Domestic Product. This was despite BSE, SARS, Hurricane Juan, the power blackouts, forest fires and other negative impacts on the national economy. I will discuss the economy in more depth later in this address.



“Islanders expect their governments to be prudent managers of their tax dollars and that's what we will continue to do.”

“Mr. Speaker, the provincial economy continues to perform well.”

Mr. Speaker, budgets often contain a common thread or a theme. The theme of this address is sustainability. Sustainability in everything we do, from managing the finances, delivering programs and services, and developing policy.

Fiscal Sustainability

Mr. Speaker, I am convinced that our present fiscal arrangement with the Federal Government is significantly flawed, and this is the major contributor to our fiscal challenges.

The current federal/provincial dispute on fiscal imbalance was triggered by the 1995 Federal Budget, which was the centre-piece of Ottawa's strategy for restoring federal public finances. At that time, the federal minister of finance announced that two of the largest federal transfers to the provinces - Established Program Financing (EPF) and the Canadian Assistance Plan (CAP) would be rolled into a single block transfer, the CHST. The transfer would be conditional upon the provinces upholding the principles of the *Canada Health Act* and continuing to provide social assistance without minimum residency requirements.

In 1994-1995, the combined cash transferred to provinces and territories through CAP and EPF was \$18.7 billion. In 1996-1997, the new CHST delivered \$14.7 billion, falling to \$12.5 billion in 1997-1998. Recent infusions have restored some of the cuts, however, the federal contribution to overall health care spending remains at 16 per cent. We should all remember that publicly-funded health care started off on a 50/50 cost-shared basis between the federal and provincial levels of governments. The Federal Government simply contributes insufficient funding to sustain the ability and the right to play the role it has historically played.

“Mr. Speaker, I am convinced that our present fiscal arrangement with the Federal Government is significantly flawed...”

“The Federal Government simply contributes insufficient funding to sustain the ability and the right to play the role it has historically played.”

The audited Public Accounts for the Province of Prince Edward Island for fiscal year ending March 31, 2003 indicate a reduction of \$67 million in federal transfer payments from 2001-2002. I believe that when the Public Accounts are tabled for fiscal year ending March 31, 2004, we will still be \$30 million less than that year. This means we received close to \$100 million less in federal transfers over the last two years.

We have been told by the Federal Government that they will take steps to lessen the volatility and improve the stability of transfer payments. If this is the case, it will be helpful in managing the provincial budget.

Equalization is the largest federal transfer to the Province. Indeed it is the only federal program that is enshrined in the Constitution. Section 36(2) reads as follows:

"Parliament and the Government of Canada are committed to the principle of making equalization payments to ensure that the provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation."

During recent equalization renewal discussions we sought four main changes to the program. First, we wanted the Federal Government to strengthen the program by raising the standard to one based on all ten provinces. Second, we stressed the need to sustain revenue coverage in the program after 50 per cent reductions to the user fee revenues in the formula were imposed after 1999. Third, we wanted measures incorporated to reduce the volatility of entitlements and to allow for improved ability to predict payments. Fourth, serious technical problems that were recognized in some measures needed to be corrected. In addition, we wanted the clawback adjustments involving the Census to be removed.

"...we received close to \$100 million less in federal transfers over the last two years"

"During recent equalization renewal discussions we sought four main changes to the program."

Mr. Speaker, we are convinced that Equalization is not receiving the attention by the Federal Government that it deserves. The budgeted amount in 2004-2005 is \$245.8 million. This amount is substantially less than was received between 1998-1999 to 2001-2002. The Equalization Program for receiving provinces is estimated to decline by about \$3 billion or about 25 per cent from previous forecasts by the Federal Government.

Mr. Speaker, I might point out that the Equalization program involved federal expenditures in the order of \$11 billion in recent years. This amount has now dropped to about \$8 billion, in part because of savings from the reduced revenue coverage and the Census impacts. Notwithstanding this, the Federal Government claims that a move to a ten province standard is not affordable. It is difficult to accept this argument.

In terms of user fees, the federal response is that we have to live with 50 per cent coverage in this base.

In terms of technical changes, there are some improvements in the package, but the phase in provisions in the renewal will not begin until 2005-2006, and will take several years to occur, which means that present technical deficiencies will continue to cause serious inequities in entitlements in the coming years.

In terms of the Census impacts, the federal minister is insisting they are applied to present and past entitlements.

Mr. Speaker, there is a multitude of studies and analyses to support our position on federal/provincial fiscal imbalance. The Conference Board of Canada in their February 2004 report provides this summary:

"With current fiscal regimes in place, this discrepancy will widen in the future. Only the Federal Government will have the financial capacity to implement new initiatives, such as tax cuts and new discretionary spending. In contrast the provinces and territories will have no leeway to

“Mr. Speaker, we are convinced that Equalization is not receiving the attention by the Federal Government that it deserves.”

“The Equalization Program for receiving provinces is estimated to decline by about \$3 billion or about 25 per cent from previous forecasts by the Federal Government.”

implement new policy initiatives over the next two decades; as a collective group, they will neither be able to increase spending, nor cut taxes, without falling deeper into debt."

Mr. Speaker, there is only one taxpayer and those revenues collected through taxation must be distributed equitably to the provinces who have the constitutional obligation to provide the services.

We have been recently encouraged by the Prime Minister's acknowledgement that the Federal Government must contribute more than 16 per cent of the costs of health care spending.

I would like to thank Premier Binns, who as chair of Canada's Premiers, has led the charge for a more equitable distribution of tax dollars. In this regard, all Islanders indeed all Canadians, owe him a debt of gratitude.

Fiscal sustainability is a necessity for all governments. The logic is clear and the explanation straight forward. Continuing to spend in excess of revenues adds to the debt. Increased debt adds to debt service costs, increased debt service costs leads to less money for programs and services and an unfavorable position with financial markets. It is a top priority of this Budget for the Province to improve its fiscal sustainability.

During the course of this fiscal year a number of measures will be introduced. Changes will be introduced curtailing the use of special warrants.

Government departments, crown corporations and agencies will submit quarterly updates to Treasury Board on their budgets. For the purpose of transparency in government spending these updates shall be placed in the public domain.

"...Federal Government must contribute more than 16 per cent of the costs of health care spending."

"It is a top priority of this Budget for the Province to improve its fiscal sustainability."

Government must continue to focus on the priorities of Islanders.

To make sure these priorities continue to be met, a new expenditure review process will be undertaken to identify where savings can be realized. Indeed expenditure review must be a continuous ongoing process and to that end, Government will create a permanent expenditure review division from within existing resources.

Economic and Fiscal Performance

Mr. Speaker, I have already noted the series of events that negatively impacted the Canadian economy in 2003. Statistics Canada estimates that the national GDP increased by only 1.7 per cent last year, which was significantly below the 3.3 per cent achieved in 2002 and below the forecast of 3.2 per cent in the Federal 2003 Budget. In response to the growing evidence of economic weakness in 2003, the Bank of Canada lowered interest rates beginning in July 2003, the most recent change being made in March 2004 when the Overnight Rate was set at 2.25 per cent. In the USA the federal fund rate was reduced to 1 per cent in June 2003, where it has remained.

In contrast to Canada, the United States economy expanded strongly in 2003 with GDP growth up to 3.1 per cent from 2.2 per cent in 2002. Household spending, Federal Government expenditures, and private sector investment were the key factors behind the improved rate of growth in the USA. However the massive fiscal and trade balances that now exist have caused a depreciation in the US dollar.

In Canada, the main factor assisting the economy has been housing construction, which is a reflection of low interest rates. By contrast, export activity has been weak, reflecting in part the relatively high Canadian dollar and the special factors previously described.

“Government must continue to focus on the priorities of Islanders.”

“Statistics Canada estimates that the national GDP increased by only 1.7 per cent last year...”

Here on Prince Edward Island we estimate that the economy expanded by 2.1 per cent in 2003 and employment increased by 2.5 per cent. As occurred nationally, housing construction was at a very high level. Housing starts on Prince Edward Island have not been equalled since 1989. Virtually all our employment gains were in service industries such as trade and transportation. The unemployment rate fell to its lowest rate since 1980.

“...we estimate that the economy expanded by 2.1 per cent in 2003 and employment increased by 2.5 per cent.”

However, the primary sectors were beset by a series of problems in 2003. Beef, and to a lesser extent, dairy producers were impacted by the BSE problem. Potato farmers now face very low prices for a very good crop. Hog farmers again have low prices. The fall lobster fishery was sharply down from previous years. In addition the tourist sector fell into decline in 2003 on Prince Edward Island as it did across Canada. Fears of SARS, global uncertainty and the strong Canadian dollar all contributed.

“...the primary sectors were beset by a series of problems in 2003.”

Mr. Speaker Budget Paper A provides a more in depth look at the economy.

In terms of our fiscal position in 2003-2004, several own source revenues underperformed relative to budget, including the Personal Income Tax, Corporate Income Tax and the Health Tax on Tobacco. In total, own source revenues were \$8.4 million below budget.

It is unfortunate that our weak revenue situation was made considerably worse by the sharp decline in federal transfers.

All sources of revenue are now expected to be \$27.2 million below budget.

“All sources of revenue are now expected to be \$27.2 million below budget.”

The Province’s cost of borrowing (interest bite) has remained relatively stable over the past few years despite the decreases in revenues because of the ability to rollover debt at low interest rates.

Program expenditures were budgeted at \$911.8 million in the 2003 Budget, which represented an increase of \$44 million over actual spending in 2002-2003. This level of spending was regarded as affordable at the time although it was expected to leave a \$22.9 million deficit on the Operating Account and an \$11.5 million deficit on the Consolidated Account. Our present estimate of program expenditures for 2003-2004 is \$962.5 million.

The bottom line is that expenditures are now estimated to be in excess of revenues by \$85 million for 2003-2004.

Clearly this is not a situation that can be allowed to prevail.

Our own economic outlook suggests a slower growth of the provincial economy in 2004, largely in view of the difficulties being experienced in the primary sectors, coupled with the impact of reduced government expenditures on the economy. Clearly the Province must rationalize its programs and we estimate growth of 1.2 per cent in constant dollars in the coming year.

Mr. Speaker, this Budget is a responsible reaction to the loss of federal transfers. The situation has become so serious that we are forced to undertake both expenditure reductions and revenue measures. We feel it is better to take the medicine now rather than wait until major surgery becomes necessary. I wish it could be otherwise but this is the reality that we must face.

Looking forward to 2004-2005 we anticipate effectively no growth in total revenues from their 2003-2004 budgeted levels.

In other words it is impossible for revenue growth to solve the deficit problem. When we started the 2004-2005 Budget we forecasted a status quo deficit of \$107 million. Mr. Speaker, I am pleased to announce that the measures taken in this Budget will reduce that deficit to about \$33 million in 2004-2005 and it is our firm intention to continue to move towards balancing in subsequent years.

“Clearly the Province must rationalize its programs and we estimate growth of 1.2 per cent in constant dollars in the coming year.”

“Mr. Speaker, I am pleased to announce that the measures taken in this Budget will reduce that deficit to about \$33 million in 2004-2005 ...”

Mr. Speaker, the Province has faced a similar fiscal situation in the past. In 1993 and again in 1994 Federal transfer payments to Prince Edward Island were slashed.

In addressing the deficit, the provincial government of the day made decisions that were wrong. Mr. Speaker, those same decisions would be just as wrong today.

That is why collective agreements and contracts will be respected in this Budget and why we have consulted with representatives of our public sector and have asked that they work with us in addressing fiscal challenges.

Cuts in 1993 and 1994 had a negative impact on consumers and thus contributed to a slowing of the economy. Mr. Speaker, we have been very cognitive of this in our spending reductions.

Mr. Speaker, I wish to thank all of those Islanders who participated in the budget process. They were very clear in forming a concensus that Government must address its deficit through expenditure reductions and not by increasing the tax burden substantially.

Mr. Speaker, we agree.

Planned program expenditures in 2004-2005 represent a reduction of \$46 million from their projected path.

Some reductions include: \$8 million reduction in grants and subsidies; \$1 million in business grants; \$4 million in professional and contract services and \$20 million in program reductions from departments.

“...collective agreements and contracts will be respected in this Budget...”

“Planned program expenditures in 2004-2005 represent a reduction of \$46 million from their projected path.”

Mr. Speaker, the cost of health care continues to expand at about 7 per cent per year. That is at present \$30 million per year for the Province. It is becoming increasingly difficult for the Province to pay 84 per cent of the costs, as well as other programs and services and live within a budget.

During this Budget process, we asked Islanders about a Health Premium to help defray the costs.

Mr. Speaker, we received an unequivocal message. Islanders should not have to shoulder the burden of inadequate funding from the Federal Government. Mr. Speaker, there will be no Health Premium.

Revenue Measures

Mr. Speaker, it became evident that the solution to our fiscal problems could not all come from the expenditure side without causing extreme distress. Accordingly I am announcing the following revenue measures, which in total are estimated to be worth approximately \$12 million annually.

Gasoline tax will be raised 3 cents a litre as of midnight tonight. This increase leaves gasoline on Prince Edward Island at price levels below the average of the five eastern provinces. This is expected to raise \$7 million in additional revenues annually. Effective as of midnight tonight, tax on cigarettes will be raised \$5 per carton.

The Capital Tax on financial corporations will be raised from 3 per cent to 5 per cent, to generate approximately \$1.1 million. This tax only applies to deposit taking institutions.

The Provincial Sales Tax will be extended to cover green fees at Island golf courses. This is expected to raise an additional \$1.3 million.

“Mr. Speaker, there will be no Health Premium.”

“Accordingly I am announcing the following revenue measures, which in total are estimated to be worth approximately \$12 million annually.”

In addition, we will apply fee increases to a variety of services which is expected to generate a further \$2.2 million.

Mr. Speaker, we believe that a taxation system must be more than simply collecting taxes to provide programs and services. Taxation regimes should be major catalysts for economic activity, drive revenues from new or higher income jobs, develop and expand key sectors and overall broaden the tax base.

We believe we need to be bold and innovative and during this fiscal year we will complete a comprehensive overhaul of our taxation regime as part of an economic development strategy.

Taxation can also play a role to influence consumer decisions on sustainability. News events remind us daily of the fragility of our environment. Government will ask the Legislative Assembly to hold public hearings on ways we can use the tax system to influence sustainability.

Prince Edward Island will apply the same exemption as the Federal Government to military and police personnel who serve their country on high risk international operations. Prince Edward Island will mirror the new federal deduction for the costs of disability supports. Mr. Speaker, the Federal Government made several adjustments to the corporate tax base which we will pass through to our own corporate system to provide an added benefit to Island business.

I am announcing a Provincial Sales Tax rebate of up to \$3,000 dollars on hybrid motor vehicles and an elimination of the Provincial Sales Tax on low-flush toilets. This initiative alone has the potential of saving tens of millions of litres of H₂O annually. These are but two of the many initiatives that can influence our decisions. Mr. Speaker, we will become leaders in this area, because we must.

“...we will complete a comprehensive overhaul of our taxation regime as part of an economic development strategy.”

“Prince Edward Island will apply the same exemption as the Federal Government to military and police personnel who serve their country on high risk international operations.”

“Provincial Sales Tax rebate of up to \$3,000 dollars on hybrid motor vehicles...”

Agriculture, Fisheries, Aquaculture and Forestry

The Provincial Government remains fully committed to the continued and sustainable growth and development of the primary resource industries. This is reflected in a number of initiatives over the past year.

In response to the crisis facing the beef industry following the detection of BSE in Alberta, the Provincial Government moved swiftly. In cooperation with the Federal Government, a BSE recovery program was put in place to compensate producers for some of their losses. Following the expiry of that program, the Provincial Government on its own made a further commitment to a compensation program.

The total expenditure under these and other initiatives is close to \$5.9 million.

The Government of Prince Edward Island has provided financial support for the new beef processing facility through the purchase of additional hooks to support further expansion in the industry. In addition, financial support has been provided for the construction of a waste treatment facility to be utilized by the plant. The combined total of these investments is \$4.9 million, which support the long-term growth and expansion of the beef industry in this province.

Government will be releasing the details of some assistance for the hog industry in the coming days.

In 2003 the Sustainable Resources Conservation Program was expanded to provide support for the development of forest management plans and the carrying-out of certain silviculture operations. Over the past year, approximately \$1.6 million was invested in conservation projects, bringing the total to more than \$15 million since the program was established. Ongoing support will be provided over the coming year.

“...a BSE recovery program was put in place to compensate producers for some of their losses.”

“The Government of Prince Edward Island has provided financial support for the new beef processing facility ...”

“Government will be releasing the details of some assistance for the hog industry in the coming days.”

Improving the quality of Prince Edward Island seed potatoes is a priority for both government and the potato industry. The Government provided support of some \$500,000 last year to continue the post-harvest testing of seed potatoes.

Developing new and expanded markets is vital to the continued success of the potato industry. Over the past year, a total of \$250,000 was allocated to the Potato Board to support its efforts in promotion and market development. The Provincial Government also worked closely with the Board and exporters to establish new off-shore export market sales.

The Provincial Government, in co-operation with the Federal Government, continues to provide protection to producers who suffer losses beyond their control. During the 2003-2004 fiscal year, a total of \$6.8 million has been provided to producers under safety net programs.

The "State of the Forest Report" was released over the past year. It forecasts that the present level of the softwood harvest is not sustainable in the future. That is why reforestation on private land continues to be a key element in overall forest management strategies. Over the past year, close to \$1.0 million was allocated to reforestation on private land.

To encourage greater awareness of and participation in forest management activities, a new Greening Spaces Program was introduced in the past year. Under this program, communities, schools and volunteer groups have been encouraged to submit proposals for tree planting projects. These projects will provide many benefits to the environment, landscape, sense of community and stewardship. In the first year, a total of \$209,000 was provided to 19 projects. It is hoped to expand this program in the coming year.

"Over the past year, a total of \$250,000 was allocated to the Potato Board to support its efforts in promotion and market development."

"...close to \$1.0 million was allocated to reforestation on private land."

Our experience operating the North Cape Wind Farm has demonstrated that electricity generated from wind is cost competitive with some of the electricity currently being produced from conventional energy supplies.

The Department of Environment and Energy will release a Renewable Energy Strategy within the next few months to establish the appropriate legislative and investment environment to enable the Province to maximize the benefits from its favourable wind resource.

Health and Social Services

In terms of wellness and chronic disease, a monthly increase of \$14 was added to the Healthy Child Allowance in 2003-2004. This allowance is designed to give families the ability to allow their children to participate in community sporting or cultural activities. The Strategy for Healthy Living for Prince Edward Island, through a partnership of community organizations, health regions, and several government departments, continues to support initiatives that focus on reducing the major risk factors for chronic disease including tobacco use, physical inactivity, poor diet and obesity.

Funding of \$260,000 was provided for four Regional Healthy Living Coordinator positions in 2003-2004. Coordinators have been hired for East and West Prince Regions, and selection is underway for Queens and Kings Regions. The coordinators will support implementation of the Strategy for Healthy Living in Island communities.

To prevent occurrences of Meningitis in our province, public health officials began a Meningococcal C Vaccination Program last year, at an annual cost of \$262,000.

The *Smoke-free Places Act* became law in June 2003 to provide the legislative framework to protect the public and workers from

“The Department of Environment and Energy will release a Renewable Energy Strategy within the next few months...”

“...a monthly increase of \$14 was added to the Healthy Child Allowance in 2003-2004.”

“The Smoke-free Places Act became law in June 2003...”

the harmful effects of second-hand smoke by creating smoke-free work and public environments.

Healthy eating initiatives were undertaken through partnerships with the community organizations in the Healthy Eating Alliance. The Healthy Eating Guidelines Project, which involves working with local schools in developing and adopting healthy eating guidelines in Island elementary schools, was also initiated this year. A total of \$80,000 was committed to these projects.

Through the Healthy Child Development Strategy (HCDS), the Premier's Council on Healthy Child Development, the Children's Secretariat and the Children's Working Group, the Province, in partnership with community organizations, continues to place a priority on supporting families and children. The Partnerships for Childrens Program, another HCDS initiative, saw the allocation of \$110,000 to the Children's Action Networks to implement a series of priority projects for children and families.

A list of other initiatives undertaken by our health sector include:

- New equipment for the implementation of the Universal Newborn Auditory Screening Program.
- Increased funding of \$300,000 for full time Speech Language Pathologists (SLP).
- A joint project with the Early Childhood Development Association (ECDA) involving the measuring and the improving kids environment program was established.
- An investment in the development of a core program for early intervention/treatment of pre-school Autism Spectrum Disorder (ASD).
- Fees for childhood immunization were eliminated.

“The Partnerships for Childrens Program, another HCDS initiative, saw the allocation of \$110,000 to the Children’s Action Networks ...”

“Fees for childhood immunization were eliminated.”

- An Accelerated Training Program, negotiated with HRDC, Holland College and ECDA, to allow 15 people to work in early childhood centres.
- The Seniors Emergency Home Repair Program of \$200,000 was implemented to keep low income seniors safe and secure in their own homes.
- An additional \$1 million was provided to fund increasing Provincial Drug Program costs for seniors, low income families and specific diseases.
- The establishment of the first Magnetic Resonance Imaging (MRI) in the Province was completed at the Queen Elizabeth Hospital, along with an expansion to the Cancer Treatment Center which included a Linear Accelerator. Expanded services became available to the public in the fall of 2003.
- An additional \$500,000 was directed to Primary Health Care Redesign initiatives, including the establishment of another Family Health Center.
- Approximately 78 new registered nurses were brought into the Health and Social Services system between January 1, 2003 and December 31, 2003.

Today, there are more nurses registered to work in Prince Edward Island than ever before. Registration with the Association of Nurses of PEI (ANPEI) is now at an all-time high. As of the annual registration date in October 2003, there were 1,476 registered nurses registered with ANPEI. Success in this area is clearly the result of a system-wide concerted effort to ensure Islanders have continued access to quality health care and the result of a four-year PEI Nursing Recruitment and Retention Strategy (\$1.1 million annually).

“The Seniors Emergency Home Repair Program of \$200,000 was implemented...”

“The establishment of the first Magnetic Resonance Imaging (MRI) in the Province was completed at the Queen Elizabeth Hospital...”

“Today, there are more nurses registered to work in Prince Edward Island than ever before.”

The Health Care Futures Program completed its fourth year, providing 120 Island students with employment and experience in a health-care career.

A budget of \$1.1 million was provided for Physician Recruitment in 2003-2004. Eight family physicians and 12 specialists were recruited along with 53 physicians who provided locum services.

An additional \$500,000 will be invested in the Tyne Valley Child Youth Developmental Health Center for high-risk children and youth.

Patients will move into the new Prince County Hospital starting April 4, 2004. The new facility will offer programs and services to improve the long-term health of Islanders, while ensuring essential acute-care services are maintained and improved.

An additional \$1.8 million is allocated for blood services to accommodate the increasing cost of blood services.

The Province will invest in the PEI Home Oxygen Program (HOP) to provide Island residents with a demonstrated need for home therapy. The Province will also provide assistance to defray part of the costs associated with Flolan drugs.

Government is committed to providing an income-based portion of the costs of Remicade and Enbrel medications used for the treatment of severe Rheumatoid Arthritis and some forms of Crohn's disease.

An additional \$800,000 will be invested in the Provincial Drugs Program.

Government recognizes that the ability of the Queen Elizabeth Hospital to meet its mandate is being significantly hampered by the physical design of this 22 year old building.

“Eight family physicians and 12 specialists were recruited along with 53 physicians who provided locum services.”

“Patients will move into the new Prince County Hospital starting April 4, 2004.”

“The Province will invest in the PEI Home Oxygen Program...”

As a result, the Department of Health and Social Services is currently working on the renewal of the Queen Elizabeth Hospital to include facility upgrades for emergency room and ambulatory care.

Education

Major advances were made to improve the quality of our education system in 2003-2004.

Education funding increased by \$16 million, or 8.2 per cent, the largest single increase in the education budget ever. Base funding was increased substantially to provide school boards and learning institutions with adequate funding to address rising costs and demand. Major investments continued in new school construction and renovations. Several new and innovative initiatives were introduced such as a new instructional staffing model and science curriculum, which over time, will have a major positive impact on the quality of our teaching and learning environments and student outcomes.

Mr. Speaker, new investments were made in several key areas:

- Salary budgets increased by \$7.3 million to fund salary increments and new positions added in 2002-2003.
- Kindergartens received additional operational funding, and the minimum wage of certified kindergarten instructors was increased to at least \$12 per hour in salary and benefits.
- Approximately \$1.7 million was spent on capital repair projects at 27 schools.
- The new Investing In Island Classrooms strategy, announced in May, will enable the Province to maintain 140 teachers and add 40 new teachers over the next six-

“...working on the renewal of the Queen Elizabeth Hospital to include facility upgrades for emergency room and ambulatory care..”

“Major investments continued in new school construction and renovations.”

“Approximately \$1.7 million was spent on capital repair projects at 27 schools.”

year period. This will enable us to improve class sizes, address the challenges of class composition, increase access to specialized teachers and bring student-teacher ratios in line with the best in the country. This fiscal year, \$500,000 was invested to hire 6 additional teachers.

- Implementation of a new \$1.2 million science curriculum began this year. The curriculum is based on well-grounded principles and standards in science education, which are key to developing scientific literacy and a strong future for Island students.
- A French first language education program began in Eastern Kings in September.
- The services of three autism teacher-leaders were made available to the school boards to provide individual support for students, and to train more teachers to become autism specialists.
- A new Equal Chances at Learning program was introduced to assist lower income families.
- As a major partner in the new PEI Healthy Living Strategy, the Department of Education continues to work closely with schools and partners to develop an Active Healthy School Communities initiative which will support the creation of a healthy living culture in Island school communities.
- The Province committed \$25 million over ten years to the UPEI Building A Legacy campaign which will result in high quality learning opportunities in Prince Edward Island.

“...add 40 new teachers over the next six-year period.”

“The services of three autism teacher-leaders were made available to the school boards...”

“The Province committed \$25 million over ten years to the UPEI Building A Legacy campaign ...”

- New investments of \$8.5 million were made to expand the Justice Institute at Slemon Park and enhance this state-of-the-art institute, which provides training for law enforcement officers and other Justice personnel.
- An investment of \$3.5 million was made to purchase new technology and improve teaching and learning facilities at the Holland College Marine Centre in Summerside.
- A new Bachelor's Degree in Education with specialization in French Immersion was introduced at the University of Prince Edward Island in collaboration with the Université de Moncton.
- Several initiatives were introduced to assist students with the cost of their post-secondary education such as a 50 per cent increase in the weekly student loan limit, and major increases in annual exemptions for scholarships and income earned by students.
- Additional investment of \$150,000 was made in the Reading Recovery™ program and the Summer Tutoring Program for Kids.
- Funding of \$1.4 million was provided by the provincial and federal governments to the Adult and Community Education Program at Holland College which assists adult Islanders in improving their education and literacy levels.

The Department of Education is currently completing the analysis on a further school improvement program valued at \$30 million. This Budget will allow the planning process for the School Boards' top priorities to commence.

“Additional investment of \$150,000 was made in the Reading Recovery™ program and the Summer Tutoring Program for Kids.”

“...is currently completing the analysis on a further school improvement program valued at \$30 million”

Planning will begin for a new gymnasium and required repairs at Parkside Elementary School in Summerside. In addition, Tracadie Cross Consolidated School will begin planning for a new gymnasium.

Mr. Speaker, in addition to the planning process for the capital program I am pleased to announce, we are increasing school boards' operational budgets by \$1.9 million to help them meet increased costs.

Keeping the cost of post-secondary education sustainable is a concern to all. Government is pleased to announce an additional \$750,000 grant to the University of Prince Edward Island and an additional \$750,000 grant to Holland College.

Holland College will also receive \$665,000 to improve facilities at the Marine Centre and Justice Institute as well as \$1 million for adult and community education programs through the Labor Market Development Fund.

I am pleased to report that the budget contains funding to complete the final projects of Phase Two of our multi-year school capital construction program. These projects at Bluefield High School and Summerside Intermediate School will be substantially complete in time for the start of classes in September 2004. The completion of these two projects will mark the end of two phases of our school construction program which began in 1997 and resulted in investments of more than \$65 million in major school construction and renovations.

Transportation and Public Works

Over the past year the Department has managed capital repair and enhancement projects at two dozen health, education and government facilities across the Island. These upgrades help extend the life of the facilities for the benefit of Islanders.

“...we are increasing school boards’ operational budgets by \$1.9 million to help them meet increased costs.”

“...an additional \$750,000 grant to the University of Prince Edward Island and an additional \$750,000 grant to Holland College.”

These include projects such as replacement of the emergency power generator at the QEH, roof replacement at Kensington High School, waste water treatment upgrade at Northumberland Park, and renovation of the Tignish Liquor Store.

The Department also continues to invest in maintaining and upgrading Island roads.

During the last year a total of \$10 million was invested in improvements for safety and traffic flow to Route 2. A further \$2.5 million was invested in the Trans-Canada Highway. A total of 113 kilometers of secondary roads were resurfaced during the past year as well. In addition to ongoing road maintenance and snow removal operations, the Department also invested nearly \$6 million to repair, upgrade or replace 125 bridge structures across the Island last year.

Mr. Speaker, the Department will work with the Department of Education on the new school construction program and has budgeted for a new waste treatment plant in Mill River and a re-design of Reads Corner in Summerside.

Community and Cultural Affairs

This Budget includes \$100,000 for the development of the 2009 Canada Summer Games Hosting Plan. It is expected that these games will have a significant impact on the Island economy. The economic impact of the last summer games in London Ontario was more than \$90 million.

Government continues its commitment to the implementation of the Prince Edward Island Sport Strategy and the Bilateral Agreement on Sport Development. Over the next five years, the Province will contribute \$475,000 each year toward the implementation of the PEI Sport Strategy. This enabled us to enter into a three-year agreement with the Federal Government for an additional \$200,000.

“A total of 113 kilometers of secondary roads were resurfaced during the past year as well.”

“...has budgeted for a new waste treatment plant in Mill River and a re-design of Reads Corner in Summerside.”

“Over the next five years, the Province will contribute \$475,000 each year toward the implementation of the PEI Sport Strategy.”

The Department will also invest \$10.2 million in the Canada-P.E.I. Infrastructure Program and the Strategic Infrastructure Program.

The Sports Facility Fund will participate with Island rinks to enhance the safety of spectators.

Mr. Speaker, during this the 400th anniversary of the founding of Acadie, with the Acadian flag flying outside Province House, I would like to take this opportunity to highlight the value-added nature of the Acadian and Francophone community. These communities contribute greatly to the social and economic fabric of the Island. From one tip of the Island to the other, communities will be celebrating their acadian ties through numerous activities. The provincial and federal governments have joined to provide the funding necessary to make these celebrations a success. The cultural and economic impact of these investments will be felt throughout the province.

One major activity which will be taking place this summer concerns the Legislative Assembly. The Island will host the 30th annual gathering of members of the Assemblée parlementaire de la Francophonie. Representing 73 parliaments from 5 continents, this gathering of some 250 french-speaking parliamentarians will be discussing issues of concern from around the world namely the promotion and defence of democracy, the rule of law, the respect of human rights and cultural diversity.

Mr. Speaker, nationally, Prince Edward Island is seen as a leader in relation to support for the development and enhancement of the Acadian and Francophone community. During the year, the Provincial Government will be renegotiating the Canada/Prince Edward Island General Agreement on the Promotion of Official Languages. This agreement with the Department of Canadian Heritage was originally negotiated in 1988. It continues to facilitate the planning and provision of French-language services as well as support to numerous groups of the Acadian and Francophone community. We are confident that our significant

“...invest \$10.2 million in the Canada-P.E.I. Infrastructure Program and the Strategic Infrastructure Program..”

“During the year, the Provincial Government will be renegotiating the Canada/Prince Edward Island General Agreement on the Promotion of Official Languages.”

success in this area will ensure a successful conclusion to these negotiations.

M. Le président, pendant le 400^e anniversaire de la fondation de l'Acadie, et avec le drapeau acadien qui flotte à l'extérieur de Province House, j'aimerais profiter de l'occasion pour souligner la valeur ajoutée de la communauté acadienne et francophone. Ces communautés contribuent grandement au tissu social et économique de l'Île. D'un bout de la province à l'autre des communautés célèbreront leur liens acadiens par de nombreuses activités. Les gouvernements provincial et fédéral ont uni leurs efforts pour fournir les ressources financières nécessaires à l'organisation des activités. L'impact culturel et économique de ces investissements se fera sentir à travers la province.

L'Assemblée législative mènera une activité majeure durant l'été. L'Île sera hôte de la 30^e rencontre annuelle des membres de l'Assemblée parlementaire de la Francophonie. Regroupant 73 parlements répartis sur les cinq continents, la rencontre de 250 parlementaires d'expression française portera sur les grandes questions du jour, notamment la promotion et la défense de la démocratie, de l'état de droit, du respect des droits de l'homme et de la diversité culturelle.

Monsieur le président, sur la scène nationale, l'Île-du-Prince-Édouard est vue comme un chef de file en ce qui concerne l'appui à l'épanouissement et l'essor de la communauté acadienne et francophone. Pendant l'année, le gouvernement provincial renégociera l'Entente cadre Canada / Île-du-Prince-Édouard sur la promotion des langues officielles. Cette entente avec le ministère du Patrimoine canadien est en vigueur depuis 1988. Elle continue à faciliter la planification et la prestation de services en français ainsi que l'appui à de nombreux organismes de la communauté acadienne et francophone. Nous sommes confiants que nos succès importants dans ce domaine assureront un aboutissement favorable aux négociations.

“L’Assemblée législative mènera une activité majeure durant l’été. L’Île sera hôte de la 30^e rencontre annuelle des membres de l’Assemblée parlementaire de la Francophonie.”

Community Services Bursary

The Provincial Government has provided a community services bursary to help students with education costs, while at the same time providing much-valued volunteer support to Island non-profit organizations. Students in Grade 11 and 12 who do volunteer work for community organizations can earn up to \$500 credit for post secondary programs. Approximately 1,796 have enrolled to date, and 335 organizations have benefited through volunteer support by students.

“The Provincial Government has provided a community services bursary to help students with education costs, while at the same time providing much-valued volunteer support to Island non-profit organizations.”

Development and Technology - Creating a Sustainable Economy

Through such initiatives as the Atlantic Technology Centre and the Food Technology Centre the Government has shown its commitment to cutting edge, new economy business. In the coming years we intend to increasingly rely on tax credits to assist business develop innovative products, rather than continue with the more traditional direct supports.

Government is committed to expanding our province’s ability to take advantage of the growing business of bio-technology. In May, we announced a \$4.5 million contribution to establish a new National Research Council facility, located on the UPEI campus, which will study nutri-science and its effects on our health. This facility has the potential to create new and lucrative markets for our agricultural and fisheries products.

“In the coming years we intend to increasingly rely on tax credits to assist business develop innovative products, rather than continue with the more traditional direct supports.”

In November, a tender was awarded for the expansion of the Food Technology Centre in Charlottetown. The \$1.5 million contribution will help to build an extraction plant which will aid scientists in determining the further nutritive value of products such as various raw materials such as lobster shell waste, seaweeds, apples and wild plants.

The Atlantic Technology Centre continues to provide jobs for Islanders. A recent survey concluded there were 1,800 Islanders currently employed in this growing industry.

The sustainability of Island communities has been a cornerstone of this Government.

Island communities have achieved significant gains in sustaining their communities through participation with the Community Development Fund. A five year summary of the program indicates that 144 capital projects have been implemented across the Province with a value of over \$28 million. This Budget continues our investment in Island communities.

Environment and Energy - Investing in Our Natural Capital

As part of the Drinking Water Strategy, a dedicated Drinking Water Section was created in the Department in 2003 and an additional \$343,500 was invested to continue to implement the Drinking Water Strategy and more effectively meet the increased demand for water testing. In total, approximately \$750,000 has been invested over the last three years to manage, protect and enhance our groundwater and surface water resources.

The Province has extended the term of Watershed Management Coordinators who provide technical support to organizations and community groups that carry out more than \$1 million worth of conservation and enhancement work on Island watersheds each year.

A freshwater fisheries biologist was hired to strengthen the capacity of the Province to respond to fish kills and better understand the short and long term impacts of human activity on both groundwater and surface water resources so that, ultimately, we can minimize negative impacts.

“The sustainability of Island communities has been a cornerstone of this Government.”

“...approximately \$750,000 has been invested over the last three years to manage, protect and enhance our groundwater and surface water resources.”

Prince Edward Island produced its first *State of the Environment* report in June 2003.

In November of 2003, Prince Edward Island became the first province to sign a Climate Change Memorandum of Understanding with the Government of Canada. We have agreed to explore cooperation in six priority areas: increasing use of wind, demonstrating hydrogen systems, implementing energy efficient practices, encouraging individual reduction of greenhouse gas emissions, developing adaptation strategies, and reducing and removing greenhouse gases in the agricultural sector.

Prince Edward Island doubled its wind energy capacity in 2003 with the expansion of the North Cape Wind Farm which provides approximately five per cent electricity through this clean and renewable energy source, displacing 30,000 tonnes of carbon dioxide emissions and other harmful pollutants each year.

The Province of Prince Edward Island passed legislation giving regulatory authority to the Island Regulatory and Appeals Commission to oversee electricity pricing. The legislation gives IRAC the authority to determine that the rates Maritime Electric charges its customers are just and reasonable. This is an important step in ensuring Islanders are properly protected and that adequate service is maintained at the lowest possible cost.

The Atlantic Energy Ministers will be meeting in Prince Edward Island in June of 2004 to discuss options for increasing cooperation in the generation and transmission of electricity in the region. Officials are currently working on an options paper which will include recommendations on ways the Atlantic Region can improve its current electricity situation.

“In November of 2003, Prince Edward Island became the first province to sign a Climate Change Memorandum of Understanding with the Government of Canada.”

“Prince Edward Island doubled its wind energy capacity in 2003 with the expansion of the North Cape Wind Farm ...”

Tourism

A new Tourism Marketing model is being proposed following the Partnership Forum of last November. This will allow for the necessary integration of research, product development and marketing and provide a vehicle for greater industry participation and further strengthen the relationship of government and industry - all deemed necessary to improve the sustainability of the industry.

The new model will be called the Tourism Advisory Council. The mandate will be to provide advice to the Minister of Tourism on all matters related to the growth and competitiveness of Prince Edward Island's tourism industry.

The implementation of this model will require amendments to the *Tourism Industry Act* which would broaden the Minister's ability to appoint an advisory council to provide input on matters related to research, product development and marketing. Amendments will be brought forward for the Spring sitting of the House.

Occupancy reporting is a proposed program whereby accommodation operators would collect occupancy data and file this information with Tourism PEI. Tourism PEI would be responsible for analysis and report preparation.

As a mechanism to further strengthen industry relations, the Prince Edward Island office of the Atlantic Canada Opportunities Agency, Tourism PEI and TIAPEI signed a Memorandum of Understanding (MOU) on March 1, 2004. The MOU signifies the commitment of the three industry stakeholders, to collaborate on the establishment of future tourism policy and investment priorities.

This partnership will focus its efforts on how government policy and programs can be better developed to foster an environment of positive tourism growth.

“A new Tourism Marketing model is being proposed...”

“The implementation of this model will require amendments to the Tourism Industry Act which would broaden the Minister's ability to appoint an advisory council...”

Conclusion

Mr. Speaker, it is not possible to detail the numerous initiatives of the Government in the service of Islanders in the Budget Address, and I would refer Members to the respective Ministers regarding specific actions being contemplated in this Budget concerning their areas of responsibility.

The focus of the 2004 Budget is to firmly steer the finances of the Province onto a path to fiscal balance. It is evident that the severe loss of revenues, particularly federal revenues, must result in structural changes to our programs. We frankly cannot afford to sustain expenditures that create deficits in the order of \$100 million.

We also saw the need to raise own source revenues which we believe are affordable and which we believe will not negatively impact the provincial economy. I realize that this is not a popular thing to do but it is in my opinion the right thing to do.

Sustainability has been and will continue to be the focus of our Government.

Mr. Speaker, to achieve sustainability, our Government will continue to make the choices which reflect the priorities of Islanders. At the same time, we cannot and will not compromise the best interests of fiscal prudence.

Mr. Speaker, I should like to finish this address by thanking the staff of the Provincial Treasury Department and all other persons who assisted me in the preparation of this report, and those who support me in the responsible financial management of the Province.

Thank you.

“The focus of the 2004 Budget is to firmly steer the finances of the Province onto a path to fiscal balance.”

“Sustainability has been and will continue to be the focus of our Government.”

BUDGET SCHEDULES

- 1. Budget Summary**
 - 2. Gross Revenue**
 - 3. Gross Expenditure**
 - 4. Capital Revenue and Expenditure - Transportation & Public Works**
 - 5. Summary of Budgeted Surplus (Deficit) of Crown Entities**
 - 6. Where the Money Comes From**
 - 7. Where the Money Goes**
 - 8. Net Effect of Change in Tangible Capital Assets Policy**
 - 9. Cash Requirements**
 - 10. Summary Comparison - Provincial Tax Rates**
 - 11. Federal and Provincial Personal Income Tax Rates**
-
-

Schedule 1 Budget Summary

	2004-05 Budget Estimate	2003-04 Forecast	2003-04 Budget Estimate
	\$	\$	\$
REVENUE			
Provincial Own Sources	625,081,200	601,798,300	610,225,100
Federal Sources	391,622,500	380,560,500	404,107,600
Sinking Fund Earnings	13,975,000	14,700,000	13,225,000
Capital Revenue	<u>1,905,000</u>	<u>4,780,000</u>	<u>1,457,500</u>
Total Revenue	<u>1,032,583,700</u>	<u>1,001,838,800</u>	<u>1,029,015,200</u>
EXPENDITURE			
Program Expenditures	933,467,700	962,476,400	911,805,200
Interest Charges on Debt	106,635,000	103,521,500	105,408,600
Capital Expenditures	26,250,000	42,471,900	34,750,000
Net (Surplus) Deficit of Crown Entities	<u>(949,500)</u>	<u>(2,881,900)</u>	<u>1,103,200</u>
Total Expenditure	<u>1,065,403,200</u>	<u>1,105,587,900</u>	<u>1,053,067,000</u>
CONSOLIDATED DEFICIT AND CHANGE IN NET DEBT			
	(32,819,500)	(103,749,100)	(24,051,800)
Net Effect of Change in Tangible Capital Assets Policy	<u>(257,100)</u>	<u>18,647,100</u>	<u>12,559,800</u>
CONSOLIDATED DEFICIT AFTER CHANGE IN TANGIBLE CAPITAL ASSETS POLICY			
	<u>(33,076,600)</u>	<u>(85,102,000)</u>	<u>(11,492,000)</u>

Schedule 2 Gross Revenue

	2004-05 Budget Estimate \$	2003-04 Forecast \$	2003-04 Budget Estimate \$
PROVINCIAL OWN SOURCES			
Taxes	524,618,200	504,204,300	513,412,000
Investments	13,795,000	14,526,200	14,809,900
Fees and Services	29,768,300	29,603,400	29,218,600
Licenses and Permits	17,238,700	16,760,800	16,174,200
Sales	<u>39,661,000</u>	<u>36,703,600</u>	<u>36,610,400</u>
Sub-Total	<u>625,081,200</u>	<u>601,798,300</u>	<u>610,225,100</u>
GOVERNMENT OF CANADA			
Equalization	245,783,000	242,738,000	270,000,000
Canada Health and Social Transfer	105,704,500	102,164,800	104,700,000
Health Reform Funding	6,511,800	4,358,000	4,435,100
Infrastructure Program Agreements	5,557,000	2,496,000	2,496,000
Canada Employment	5,552,000	5,541,400	4,552,000
Diagnostic Equipment Funding	2,207,500	2,217,500	2,217,500
Young Offenders Services	2,152,100	2,243,600	2,243,600
Minority and Second Language	1,844,000	1,857,700	1,709,000
Housing Programs	1,800,000	2,300,000	1,842,600
French Services Agreement	1,151,400	1,442,500	1,280,500
Other	<u>13,359,200</u>	<u>13,201,000</u>	<u>8,631,300</u>
Sub-Total	<u>391,622,500</u>	<u>380,560,500</u>	<u>404,107,600</u>
TOTAL CURRENT REVENUE	1,016,703,700	982,358,800	1,014,332,700
Sinking Fund Earnings	<u>13,975,000</u>	<u>14,700,000</u>	<u>13,225,000</u>
TOTAL OPERATING REVENUE	1,030,678,700	997,058,800	1,027,557,700
Capital Revenue	<u>1,905,000</u>	<u>4,780,000</u>	<u>1,457,500</u>
GROSS REVENUE	<u>1,032,583,700</u>	<u>1,001,838,800</u>	<u>1,029,015,200</u>

Schedule 3 Gross Expenditure

	2004-05 Budget Estimate	2003-04 Forecast	2003-04 Budget Estimate
	\$	\$	\$
CURRENT			
Agriculture, Fisheries, Aquaculture and Forestry	38,473,800	39,979,100	34,448,600
P.E.I. Grain Elevators Corporation	165,000	165,000	165,000
Community and Cultural Affairs	30,364,700	22,951,500	22,160,200
Development and Technology	5,553,900	7,331,900	7,348,800
Prince Edward Island Business Development Inc.	22,043,900	28,427,100	28,427,100
Employment Development Agency	3,038,900	5,323,500	3,275,500
Education	222,661,400	222,309,100	218,537,600
Island Regulatory and Appeals Commission	1,200,000	1,065,100	1,065,100
Office of the Attorney General.	32,152,500	33,572,800	32,408,800
Executive Council	2,750,700	3,211,600	3,025,300
Tourism	136,400	103,900	103,900
Tourism PEI	18,030,500	18,007,400	17,571,400
Health and Social Services	428,319,300	421,083,500	414,591,200
Legislative Assembly	3,480,300	4,297,500	3,317,500
Provincial Treasury	19,642,600	20,747,400	19,045,300
Council of Atlantic Premiers	123,500	173,500	173,500
General Government	13,916,500	25,730,900	5,879,900
P.E.I. Lending Agency.	746,200	806,400	806,400
Technology Asset Management.	2,700,700	2,228,000	2,228,000
Environment and Energy	6,346,600	6,843,500	6,741,400
P.E.I. Energy Corporation	600,600	607,000	673,600
Transportation and Public Works	72,395,200	72,085,200	71,373,600
Interministerial Women's Secretariat	300,100	300,300	299,800
Auditor General	1,248,200	1,174,800	1,271,300
P.E.I. Public Service Commission	5,073,800	5,562,200	5,512,500
Employee Benefits	11,502,400	18,388,200	11,353,900
Program Review	(9,500,000)	-	-
PROGRAM EXPENDITURE	933,467,700	962,476,400	911,805,200
Interest Charges on Debt	106,635,000	103,521,500	105,408,600
OPERATING EXPENDITURE	1,040,102,700	1,065,997,900	1,017,213,800
Capital Expenditures	26,250,000	35,472,100	28,250,000
East Prince Health Facility	-	6,999,800	6,500,000
CAPITAL EXPENDITURE	26,250,000	42,471,900	34,750,000
Net (Surplus) Deficit of Crown Entities	(949,500)	(2,881,900)	1,103,200
GROSS EXPENDITURE	1,065,403,200	1,105,587,900	1,053,067,000

Schedule 4
Capital Revenue and Expenditure
Transportation and Public Works

	2004-05 Budget Estimate	2003-04 Forecast	2003-04 Budget Estimate
	\$	\$	\$
REVENUE			
Land	250,000	270,000	270,000
Federal Cost Shared Infrastructure Programs	1,500,000	4,330,000	1,007,500
Miscellaneous	<u>155,000</u>	<u>180,000</u>	<u>180,000</u>
Total Capital Revenue	<u>1,905,000</u>	<u>4,780,000</u>	<u>1,457,500</u>
EXPENDITURE			
Highways	23,270,000	32,466,100	25,323,000
Buildings	<u>2,980,000</u>	<u>3,006,000</u>	<u>2,927,000</u>
Total Capital Expenditure	<u>26,250,000</u>	<u>35,472,100</u>	<u>28,250,000</u>
NET CAPITAL EXPENDITURE	<u>24,345,000</u>	<u>30,692,100</u>	<u>26,792,500</u>

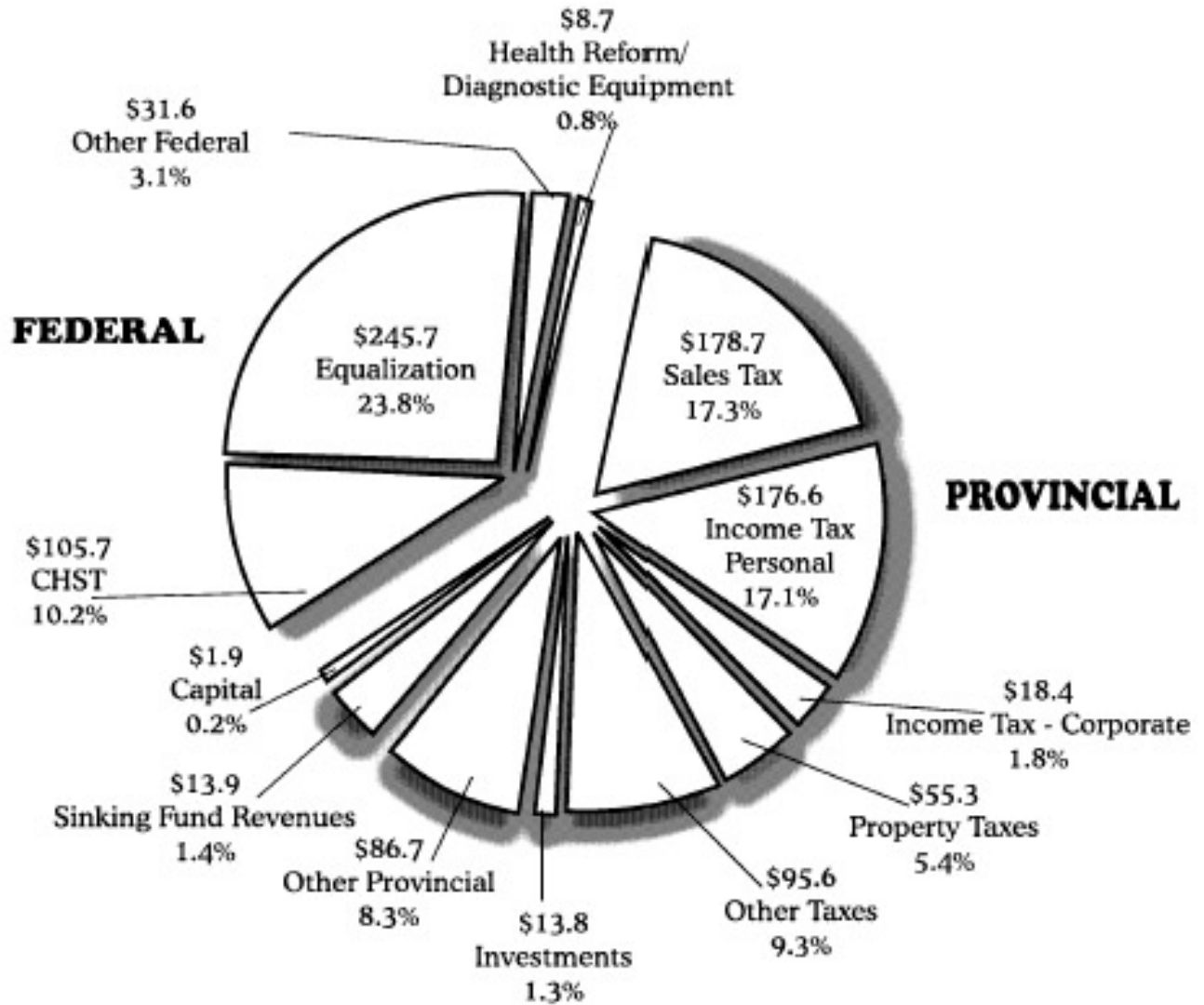
Schedule 5
Summary of Budgeted Surplus (Deficit)
of Crown Entities

	2004-05 Budget Estimate	2003-04 Forecast	2003-04 Budget Estimate
	\$	\$	\$
Agriculture Research Investment Fund Corporation	(198,800)	(174,300)	(337,300)
Charlottetown Area Development Corporation ¹	(265,200)	(581,400)	10,500
Island Investment Development Inc.	-	-	-
Island Waste Management Corporation	(465,300)	(1,192,000)	(80,000)
P.E.I. Aquaculture and Fisheries Research Initiative Inc.	(212,000)	(89,000)	(180,000)
P.E.I. Lending Agency	-	-	-
P.E.I. Museum and Heritage Foundation	-	(12,000)	-
Prince Edward Island Agricultural Insurance Corporation	1,354,700	6,307,000	760,800
Prince Edward Island Business Development Inc.	-	-	(70,900)
Prince Edward Island Energy Corporation	808,000	641,000	663,000
Prince Edward Island Grain Elevators Corporation	48,500	79,500	468,400
Prince Edward Island Human Rights Commission.	-	-	(27,800)
Prince Edward Island Liquor Control Commission	-	-	-
Prince Edward Island Lotteries Commission	-	-	-
Prince Edward Island Self Insurance and Risk Management Fund.	204,400	381,300	(215,600)
Prince Edward Island Special Projects Fund	(125,000)	(2,097,400)	(1,908,100)
Summerside Regional Development Corporation Ltd. ¹	<u>(199,800)</u>	<u>(380,800)</u>	<u>(186,200)</u>
NET SURPLUS (DEFICIT) OF CROWN ENTITIES	<u>949,500</u>	<u>2,881,900</u>	<u>(1,103,200)</u>

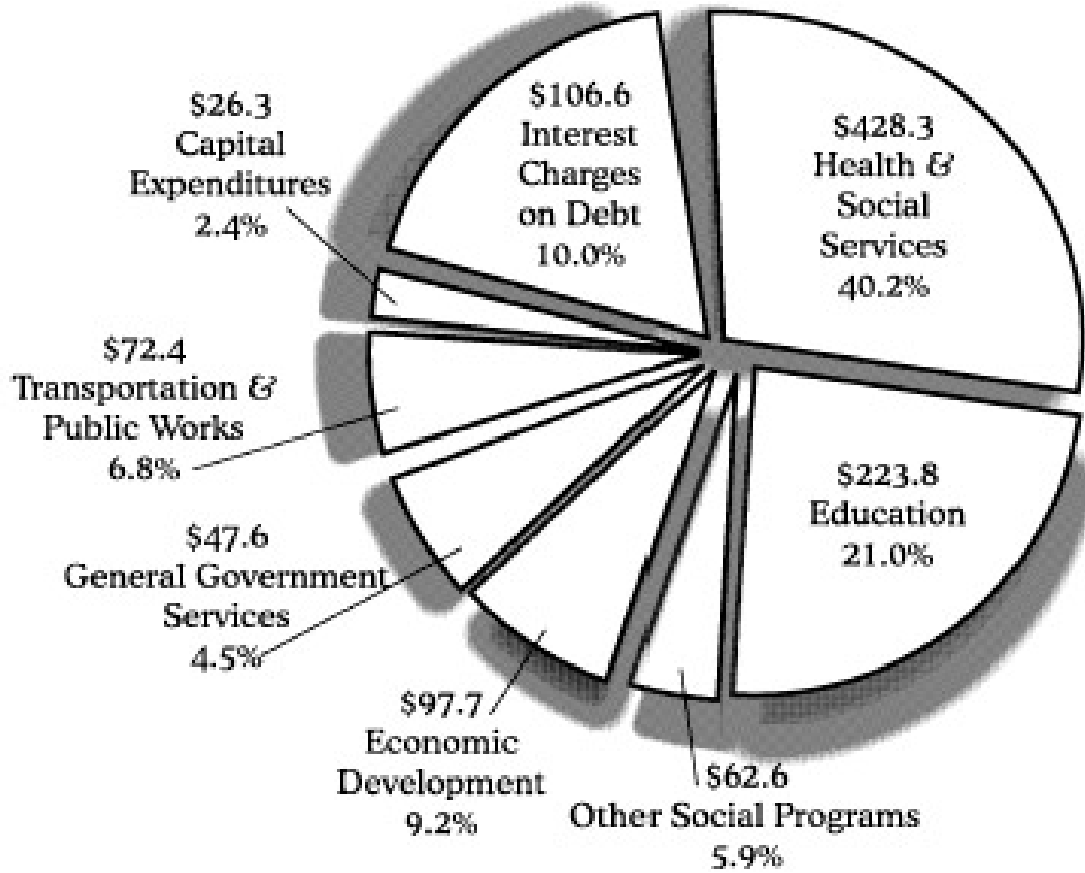
Notes:

¹ Budget Estimates include 85% of the total surplus of the Charlottetown Area Development Corporation; and 75% of the total deficit of the Summerside Regional Development Corporation Ltd., to reflect the Province's ownership of these entities.

Schedule 6 Where the Money Comes From 2004/2005



Schedule 7
Where the Money Goes
2004/2005



Schedule 8
Net Effect of Change in
Tangible Capital Assets Policy

	2004-05 Budget Estimate	2003-04 Forecast	2003-04 Budget Estimate
	\$	\$	\$
ACQUISITION OF TANGIBLE CAPITAL ASSETS			
Transportation and Public Works:			
Capital Expenditure	26,250,000	35,472,100	28,250,000
Less: Culverts	(400,000)	(300,000)	(300,000)
Provincial Paving	(5,500,000)	(7,462,000)	(5,530,000)
Federal Cost Share Revenue	<u>(1,500,000)</u>	<u>(4,330,000)</u>	<u>(1,007,500)</u>
Net Capital Expenditures	18,850,000	23,380,100	21,412,500
East Prince Health Facility	-	6,999,800	6,500,000
Education: School Construction	4,047,300	9,797,000	8,097,000
Bus Purchases	1,163,200	1,202,500	1,202,500
Health and Social Services: MRI/Linear Accelerator	<u>-</u>	<u>624,100</u>	<u>790,100</u>
TOTAL ACQUISITION OF			
TANGIBLE CAPITAL ASSETS	<u>24,060,500</u>	<u>42,003,500</u>	<u>38,002,100</u>
AMORTIZATION OF TANGIBLE CAPITAL ASSETS			
Roads	16,211,000	16,175,500	16,533,700
Bridges	1,717,400	1,609,500	1,642,300
Buildings	1,823,500	1,773,500	1,597,800
Lease Improvements	200,000	174,000	200,000
Heavy Equipment	1,292,000	1,179,500	1,050,000
Other	<u>2,336,200</u>	<u>2,225,000</u>	<u>3,000,000</u>
	23,580,100	23,137,000	24,023,800
Crown Corporations (Net)	<u>737,500</u>	<u>219,400</u>	<u>1,418,500</u>
TOTAL AMORTIZATION OF TANGIBLE			
CAPITAL ASSETS	<u>24,317,600</u>	<u>23,356,400</u>	<u>25,442,300</u>
NET EFFECT OF CHANGE IN			
TANGIBLE CAPITAL ASSETS POLICY	<u>(257,100)</u>	<u>18,647,100</u>	<u>12,559,800</u>

Schedule 9 Cash Requirements

	2004-05 Budget Estimate ('000 \$)	2003-04 Forecast ('000 \$)	2003-04 Budget Estimate ('000 \$)
CASH REQUIREMENTS			
Budgetary Consolidated Deficit	32,819	103,749	24,052
Net Surplus (Deficit) of Crown Entities	950	2,882	(1,103)
Net Borrowings on behalf of Crown Corporations	43,280	39,740	21,210
Sinking Fund Earnings	13,975	14,700	13,225
Sinking Fund Provisions	12,910	12,924	12,924
Decrease in Special Projects Fund	125	2,159	1,970
Change in Short-term Payables/Receivables	2,700	(34,800)	400
Transfer to Pension Funds	18,000	18,000	18,000
Maturing Debt			
Canada Pension Plan	10,500	11,360	11,135
Refinancing of Canada Pension Plan	(10,500)	(11,360)	(11,135)
Public Debentures	66,627	39,461	39,461
Maturities Financed by Sinking Fund Proceeds	(55,761)	(35,665)	(35,665)
TOTAL CASH REQUIREMENTS	<u>135,625</u>	<u>163,150</u>	<u>94,474</u>
SOURCES OF CASH			
Short-term Borrowing	35,625	63,150	(5,526)
Long-term Borrowing	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
TOTAL SOURCES OF CASH	<u>135,625</u>	<u>163,150</u>	<u>94,474</u>

Schedule 10
Summary Comparison - Provincial Tax Rates^{1,2}

	Sales	Tobacco	Fuel Tax		Corporate Income Tax	
	Tax	Tax	Gasoline	Diesel	General ³	Small
	(%)	(\$/pk 25)	(¢/litre)	(¢/litre)	(%)	(%)
British Columbia	7.5	4.48	14.5	15.0	13.5	4.5
Alberta	0.0	4.00	9.0	9.0	12.5	4.0
Saskatchewan	6.0	4.00 ⁴	15.0	15.0	17.0	5.5
Manitoba	7.0	3.88 ⁴	11.5	10.9	15.5	5.0
Ontario	8.0	2.46	14.7	14.3	14.0	5.5
Quebec	7.5	2.58	15.2 ⁴	16.4 ⁴	16.3/8.9 ⁵	8.9
New Brunswick	8.0	2.94 ⁴	14.5 ⁴	16.9 ⁴	13.0	3.0
Nova Scotia	8.0	3.88 ⁴	15.5 ⁴	15.4 ⁴	16.0	5.0
Newfoundland	8.0	4.13 ⁴	16.5 ⁴	16.5 ⁴	14.0	5.0
Prince Edward Island	10.0	4.37	17.0	16.5	16.0	7.5
Atlantic Average	8.5	3.83	15.9	16.3	14.8	5.1
National Average	7.0	3.67	14.3	14.6	14.8	5.4

¹ For personal income tax rates and thresholds see Schedule 11.

² P.E.I. rates are effective as of March 31, 2004, and all other rates are as of March 25, 2004.

³ Prince Edward Island, Newfoundland, Ontario and Saskatchewan have special rates for manufacturers and processors.

⁴ Provincial sales tax applies.

⁵ Quebec has two general corporate income tax rates, the higher of which applies to non-active business income.

Schedule 11
Federal and Provincial Personal Income Tax Rates,
Thresholds and Surtaxes - 2004 ¹

	Tax Rates (%)	Thresholds	Surtax Rates (%)	Surtax Thresholds
Federal	16.0	\$8,012.01 – 35,000		
	22.0	35,000.01 – 70,000		
	26.0	70,000.01 – 113,804		
	29.0	113,804.01 and over		
Newfoundland	10.57	\$7,410.01 – 29,590	9	\$7,032
	16.16	29,590.01 – 59,180		
	18.02	59,180.01 and over		
Prince Edward Island	9.8	\$7,412.01 – 30,754	10	\$5,200
	13.8	30,754.01 – 61,509		
	16.7	61,509.01 and over		
Nova Scotia	8.79	\$7,231.01 – 29,590	10	\$10,000
	13.58	29,590.01 – 59,180		
	15.17	59,180.01 and over		
New Brunswick	9.68	\$7,756.01 – 32,183		
	14.82	32,183.01 – 64,368		
	16.52	64,368.01 - 104,648		
	17.84	104,648.01 and over		
Ontario	6.05	\$8,044.01 – 33,375	20	\$3,856
	9.15	33,375.01 – 66,752	36	\$4,864
	11.16	66,752.01 and over		
Manitoba	10.9	\$7,634.01 – 30,544		
	14.0	30,544.01 – 65,000		
	17.4	65,000.01 and over		
Saskatchewan	11.0	\$8,264.01 – 36,155		
	13.0	36,155.01 – 103,300		
	15.0	103,300.01 and over		
Alberta	10.0	\$14,337.01 and over		
British Columbia	6.05	\$8,523.01 – 32,476		
	9.15	32,476.01 – 64,954		
	11.70	64,954.01 – 74,575		
	13.70	74,575.01 – 90,555		
	14.70	90,555.01 and over		

¹ P.E.I. rates and thresholds are effective January 1, 2004, and other provincial rates and thresholds are as of March 25, 2004.



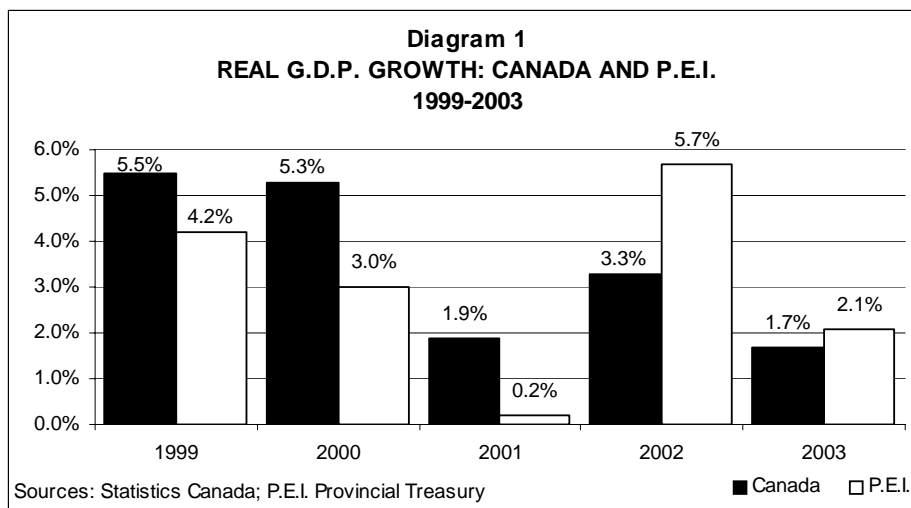
BUDGET PAPER A:
BACKGROUND NOTES ON THE ECONOMY



BUDGET PAPER A: BACKGROUND NOTES ON THE ECONOMY

Introduction

Both the national and provincial economies experienced a reduced level of growth in 2003 following their strong performance in 2002. Diagram 1 shows real G.D.P. growth for Canada and Prince Edward Island from 1999 to 2003. Statistics Canada estimates that the national economy expanded by only 1.7 per cent last year. Official estimates of provincial growth are not yet available but the Department of the Provincial Treasury estimates that the Prince Edward Island economy increased



by 2.1 per cent in 2003. This was similar to that projected in the 2003 Provincial Budget, and follows robust expansion in 2002. That year's growth was primarily driven by a return to a normal potato harvest following the drought in 2001, and strong growth in manufacturing and business services activity.

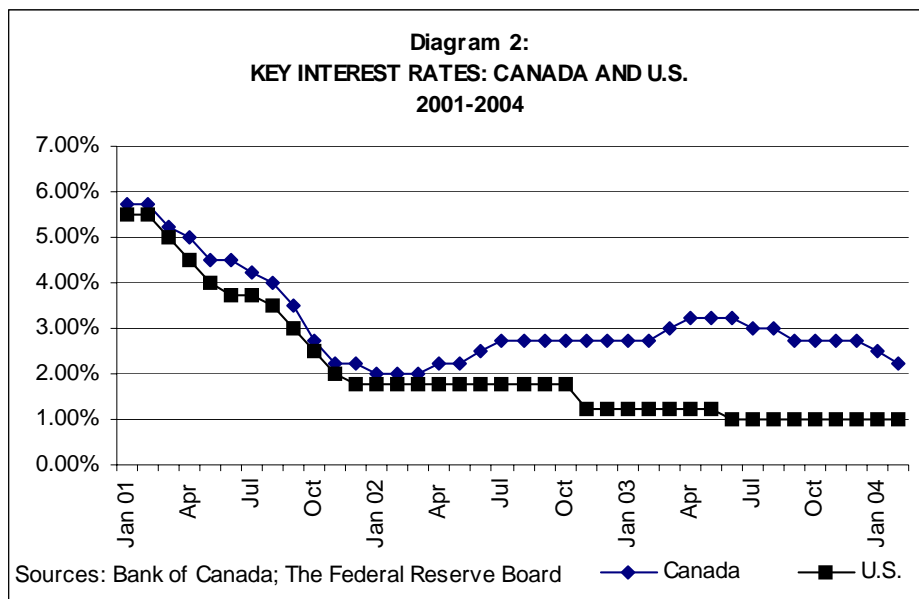
The Prince Edward Island economy in 2003 benefitted from positive employment growth, concentrated primarily in the services-producing sector, gains in labour income, and strong residential construction activity. Weak retail sales, a decline in export activity, and lower tourist numbers were offsetting factors.

National and International Economic Review

The Canadian economy slowed considerably in 2003 from its performance in 2002. Annual growth of 1.7 per cent for 2003 was significantly below the 3.2 per cent forecast anticipated in the 2003 Federal Budget. A number of unforeseen developments in 2003 resulted in the reduced rate of growth, including: the outbreak of Severe Acute Respiratory Syndrome (SARS) in March; the discovery of an isolated case of Bovine Spongiform Encephalopathy (BSE) in May; the rapid appreciation of the Canadian dollar relative to the U.S. dollar; the power blackout in August; forest fires and floods in British Columbia; and Hurricane Juan in the East.

The U.S. economy showed substantial improvement in 2003 in contrast to Canada, posting growth of 3.1 per cent for the year, as estimated by the U.S. Bureau of Economic Analysis. This compares to 2.2 per cent growth in 2002 and 0.5 per cent in 2001. Growth of the U.S. economy accelerated in the second half of 2003, with gains of 8.2 per cent in the third quarter and 4.1 per cent in the fourth. Economic performance of the U.S. economy in 2003 was highlighted by increases in consumer demand, federal spending on national defense, and private investment. However, employment in the U.S. declined by 0.3 per cent in 2003. The U.S. unemployment rate increased to 6.0 per cent in 2003, up from 5.8 per cent in 2002.

Diagram 2 shows movements in the key policy interest rates for both Canada and the U.S. from 2001 to 2004. It is evident that both countries have adopted accommodative monetary policies in response to challenging economic developments since 2001. The last rate reduction by the Bank of Canada



was in March 2004 when the bank lowered its target overnight lending rate by 25 basis points to 2.25 per cent, where it currently stands. In 2003, the Bank lowered its target rate twice: first in July, by 25 basis points to 3.0 per cent, and second in September, to 2.75 per cent. The U.S. Federal Reserve Bank lowered its target lending rate only once in 2003 and that was in June, from 1.25 per

cent to 1.0 per cent, where it presently stands. There was a sharp appreciation of the Canadian dollar against the U.S. dollar in 2003. The Canadian exchange rate with the U.S. dollar, measured by the noon spot rate, reached 77.1 cents on December 8 from a low point of 63.5 cents on January 2, 2003.

Employment in Canada increased by 2.2 per cent in 2003, which matched its growth in 2002. The national unemployment rate fell slightly, to 7.6 per cent from 7.7 per cent in 2002. Consumer price inflation in Canada was 2.8 per cent last year, and compares to 2.2 per cent in 2002. Total labour income rose by 3.4 per cent in 2003 and retail sales were 3.1 per cent higher last year. Low interest rates and positive gains in employment and labour income spurred a 6.5 per cent increase in new housing construction. The value of manufacturing shipments however declined by 1.0 per cent in 2003, and the value of international exports of goods also fell, by 3.2 per cent.

With respect to provincial performances, Newfoundland and Labrador led the country according to the Conference Board of Canada, with GDP growth of 5.9 per cent. Expansions in retail sales and manufacturing shipments of 5.1 per cent and 14.5 per cent respectively were recorded there. Alberta experienced the highest rate of growth in both employment (2.9 per cent) and export activity (16.5 per cent) according to Statistics Canada.

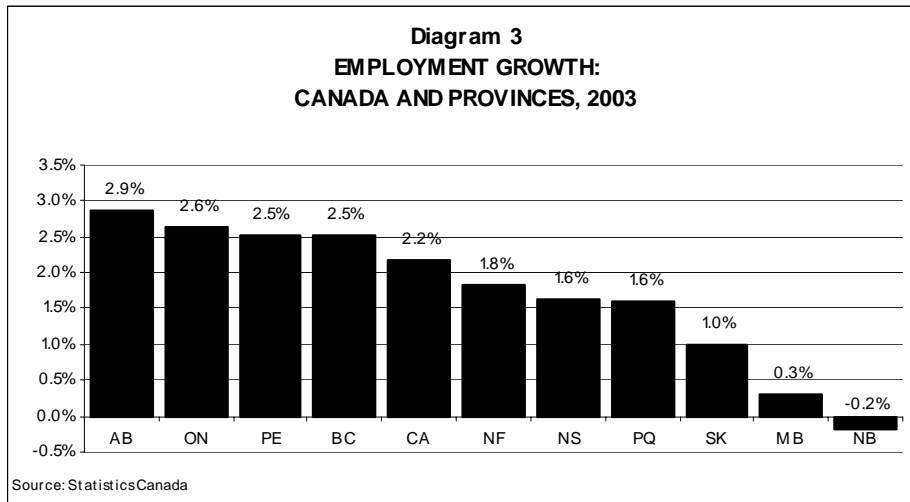
Provincial Highlights 2003

- The P.E.I. Department of the Provincial Treasury estimates that the Prince Edward Island economy expanded by 2.1 per cent in 2003, as measured by constant dollar Gross Domestic Product. This compares to the national growth rate of 1.7 per cent.
- The average level of employment on Prince Edward Island reached 68,800 in 2003, an increase of 2.5 per cent over 2002. This represents the third highest growth rate among all the provinces and compares to 2.2 per cent nationally. The unemployment rate on Prince Edward Island was 11.1 per cent last year, down from 12.1 per cent in 2002.
- Total Labour Income valued \$1,959.2 million, expanding by 3.7 per cent in 2003. Employment growth was the primary factor behind this increase.
- There were 814 new housing starts on Prince Edward Island in 2003, the highest level since 1989 when 815 new units were built. In 2002, 775 new units were constructed. Positive gains in employment and labour income, coupled with low mortgage rates, were the key contributors to the strong performance in residential construction in 2003.
- Lobster landings in 2003 totaled 20.0 million pounds, which valued approximately \$110 million-an all-time high for Prince Edward Island. This compares to 19.9 million pounds landed in 2002, valued at \$105.4 million.
- Potato production in 2003 was 29.0 million cwts., down slightly from the 30.1 million cwts. produced in 2002. Weak potato prices however led to a 2.8 per cent decline in potato receipts for 2003.

The Prince Edward Island Economy

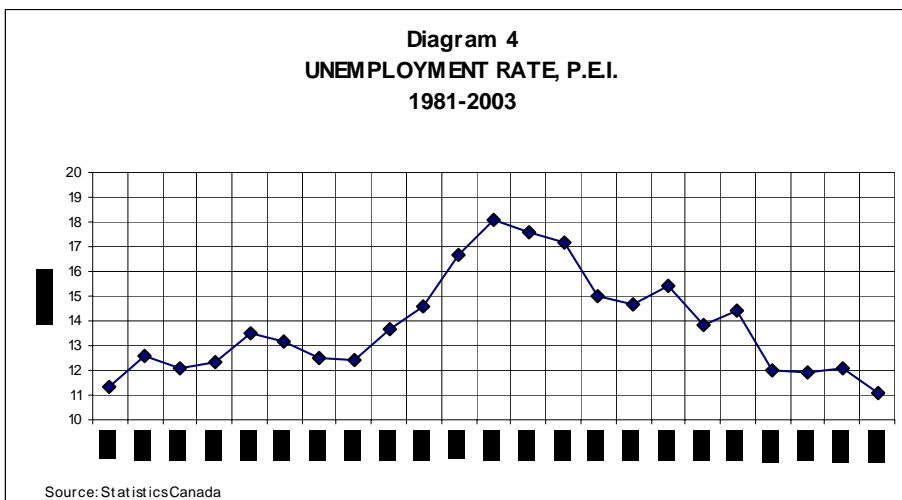
Employment

Employment on Prince Edward Island expanded by 1,700 persons last year, which is an increase of 2.5 per cent over 2002. This compares to growth of 1.8 per cent in 2002, and 2.2 per cent in 2001. Diagram 3 shows employment growth by province in 2003 which indicates that Prince Edward



Island and British Columbia had the third highest rate of increase. Growth in Prince Edward Island was led by employment in the services-producing sector which expanded by 2,000 persons, the bulk being in trade, public administration, and transportation and warehousing. Employment in the goods-producing sector declined by 300.

Diagram 4 shows the annual rate of unemployment on Prince Edward Island from 1981 to 2003. The unemployment rate was 11.1 per cent in 2003, the lowest since 1980. In 2002, Prince Edward



Island's jobless rate averaged 12.1 per cent. The vast improvement in the unemployment rate last year was largely the result of the strong employment gains in 2003. The unemployment rate was 9.5 per cent in June. That month witnessed a large increase in services employment, according to Statistics Canada.

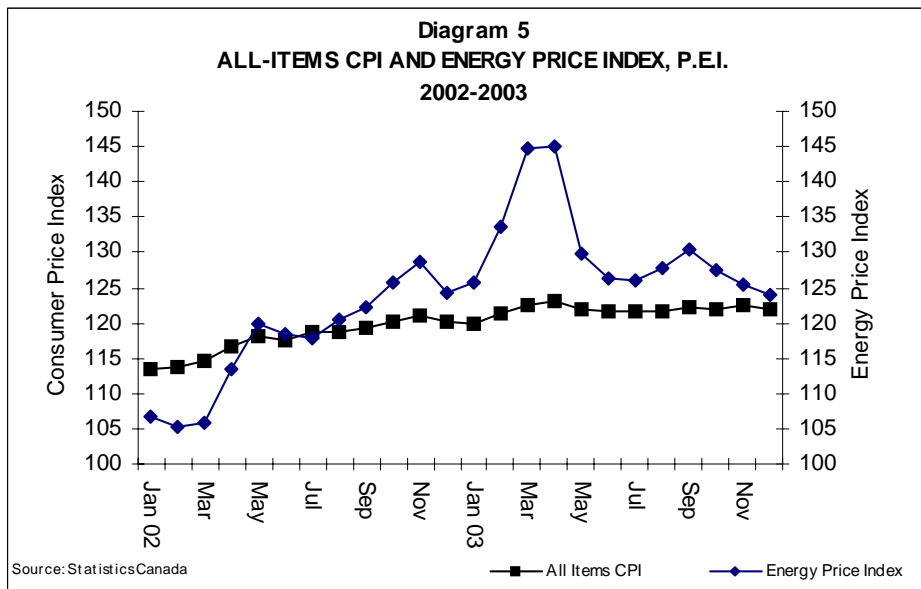
Personal Income

Provincial Treasury estimates that personal income on Prince Edward Island was \$3,356 million, an increase of 2.5 per cent in 2003. Labour income, investment income and federal government transfers to persons were the main contributors to this growth. Total labour income on Prince Edward Island increased by 3.7 per cent in 2003 due to positive employment growth, and compares to the national growth rate of 3.4 per cent. Investment income also improved in 2003 following the declines experienced in 2002. Positive financial market conditions and signs of a recovering global economy were key contributors. Federal government transfers to persons are estimated to have been 2.8 per cent higher in 2003 on Prince Edward Island due to increases in Canada Pension Plan benefits and Old Age Security benefits.

Growth in personal income was hurt by falling net farm income, which Agriculture and Agri-Food Canada estimates at \$15 million for 2003, a major drop from \$88 million in 2002.

Consumer Prices

The All-Items Consumer Price Index for Prince Edward Island rose by 3.6 per cent in 2003 which compares to 2.7 per cent in 2002 and 2.6 per cent in 2001. Nationally, consumer price inflation was 2.8 per cent in 2003. Diagram 5 shows the All-Items Consumer Price Index and the Energy Price Index for Prince Edward Island on a monthly basis. As can be observed, energy prices rose



considerably during the first quarter of 2003. Rising oil prices in response to the U.S. led war in Iraq, coupled with increasing automotive vehicle insurance premiums, resulted in inflation of 6.5 per cent for Prince Edward Island, measured from the first quarter of 2002 to the same in 2003. Energy prices have moderated since April of last year and reduced the year-over-

year inflation to 2.6 per cent between April and December 2003. However, on average energy prices on Prince Edward Island were 11.2 per cent higher in 2003 than in 2002, and automotive insurance premiums rose on average by 26.9 per cent last year.

Detailed Industry Analysis

Agriculture

Prince Edward Island's agricultural industry faced considerable challenges in 2003 which resulted in lower receipts for producers. Table 1 presents annual farm cash receipts from 2000 to 2003. Total farm cash receipts valued \$353.1 million in 2003, down 3.4 per cent from 2002. Lower receipts for potatoes, livestock and direct payments led the overall decline in farm receipts last year. By contrast, dairy receipts were \$55.0 million in 2003, an increase of 3.2 per cent.

Table 1
FARM CASH RECEIPTS, P.E.I.
(\$ Millions)

Year	Potatoes	Other	Total Crops	Cattle	Hogs	Dairy	Other	Total Livestock	Direct Payments	Total Receipts
2000	154.5	31.9	186.4	26.8	29.5	51.0	12.4	119.7	17.0	323.1
2001	123.9	28.1	151.9	27.0	33.5	52.5	13.3	126.3	58.5	336.8
2002	190.9	31.6	222.4	24.6	27.7	53.3	13.2	118.8	24.4	365.6
2003	185.5	32.8	218.3	16.9	26.6	55.0	13.5	112.0	22.8	353.1

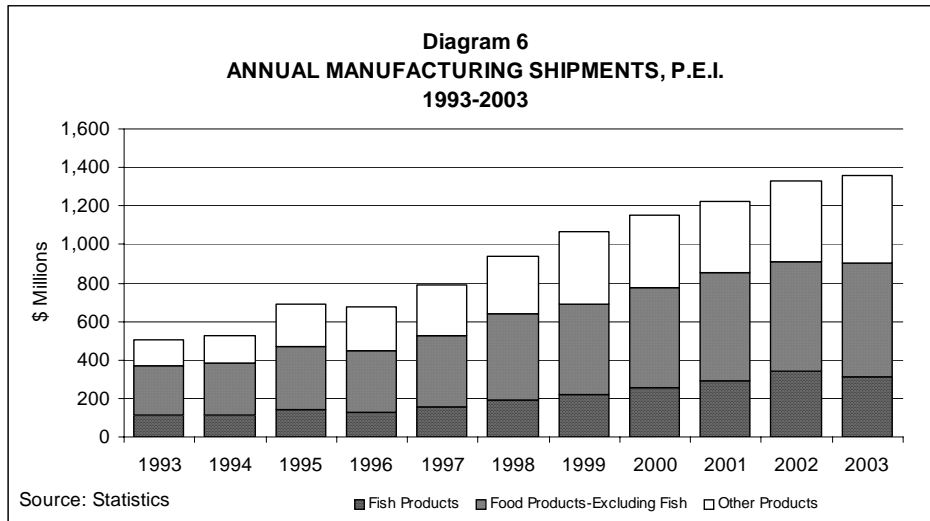
Source: Statistics Canada

Potato receipts valued \$185.5 million in 2003, a decrease of 2.8 per cent over 2002. During the first three quarters of 2003, receipts from potato sales were 11.2 per cent higher relative to the same period in 2002, reflecting good prices and positive market conditions. By contrast, fourth quarter sales of potatoes fell substantially reflecting challenging market conditions as evidenced by a sharp decrease in receipts in that quarter. From October to December, potato receipts were 37.5 per cent below their level from the same period in 2002.

Livestock receipts totaled \$112.0 million in 2003, down 5.7 per cent compared to 2002. Cattle receipts were \$16.9 million for the year, the lowest level since 1977, and declined by 31.3 per cent over 2002. Hog receipts valued \$26.6 million, a decrease of 4.0 per cent. The discovery of BSE in Alberta in May 2003 led to an international ban on Canadian beef and cattle exports, though since May, some border restrictions by the U.S. have been relaxed. In December 2003, a case of BSE was found in a cow in the U.S. which testing confirmed originated from Canada. The outlook regarding the current border restrictions remains uncertain. Consumption of processed beef products in Canada increased considerably since the discovery of BSE, however demand for other processed meat products declined. Lower demand for pork kept hog prices down.

Manufacturing

The value of manufacturing shipments on Prince Edward Island was \$1,356.2 million in 2003, up by 2.2 per cent from 2002. Shipments of food products, which make up over 70.0 per cent of total manufacturing on Prince Edward Island, valued \$901.9 million in 2003, down by 1.0 per cent from 2002. The value of processed fish products was \$313.0 million last year, a decrease of 8.5 per cent from 2002. The high value of the Canadian dollar relative to the U.S. dollar was one factor stalling lobster processing activity. The value of shipments of food products excluding fish, which is predominantly made up of processed potato products, was \$588.9 million in 2003, up 3.5 per cent



over 2002. Diagram 6 shows the composition of manufacturing shipments by value from 1993 to 2003. Food product manufacturing continues to dominate manufacturing activity, however there has been considerable growth in the value of manufacturing of non-food products over this period.

Shipments of non-food manufacturing products valued \$454.3 million in 2003, an increase of 9.2 per cent over 2002. Higher values in shipments of printing and publishing, machinery, and wood industries contributed to growth in non-food manufacturing shipments.

Fishing

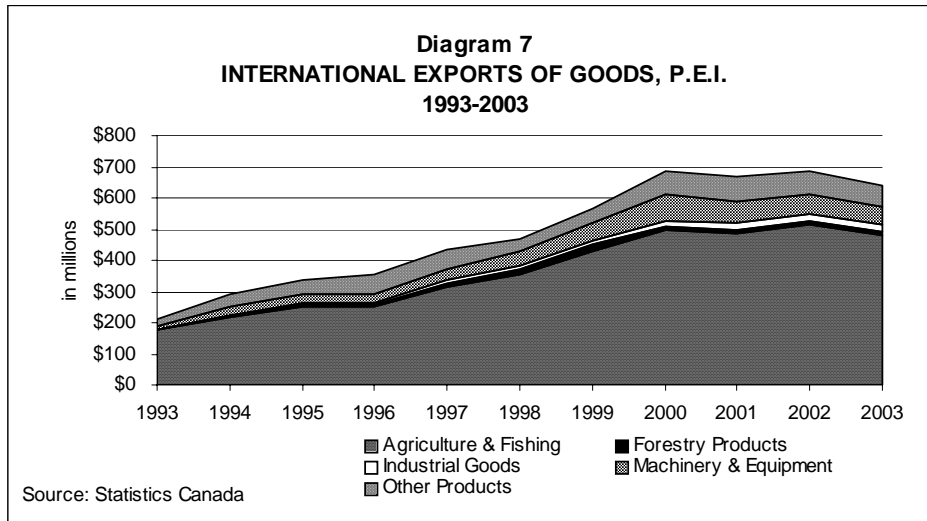
Preliminary estimates from the Prince Edward Island Department of Agriculture, Fisheries, Aquaculture and Forestry indicate that the total value of fish landings in 2003 was down slightly from the \$168.7 million recorded in 2002. Lobster, mussels and snow crab represent the fishery's top three species by value (respectively) and made up \$140.2 million, or 83.1 per cent, of the total value of the Island fishery in 2002. Lobster landings in 2003 totaled 20.0 million pounds, up slightly from the 19.9 million pounds landed in the previous year. Spring lobster landings amounted to 17.6 million pounds in 2003, up by 3.0 per cent from 2002, and 2.4 million pounds were landed during the Fall lobster season, a decrease of 16 per cent. The value of lobster landings was in the order of \$110.0 million in 2003, up from \$105.4 million recorded in 2002.

Mussel production in 2003 was similar to the 37.0 million pounds landed in 2002. The value of mussel landings was also similar at \$22.2 million. Snow crab landings in 2003 totaled 3.5 million pounds, a 30.0 per cent decline from the 5.0 million pounds landed in 2002, as a result of a reduced quota set by the federal Department of Fisheries and Oceans for last year. The value of snow crab

landings was in the order of \$10.4 million, down 17.0 per cent from 2002.

International Export Performance

According to Industry Canada, international exports of goods from Prince Edward Island were valued at \$649.6 million in 2003, a decrease of 6.4 per cent over 2002. Diagram 7 shows the trend of international exports by value for various products from 1993 to 2003. It is evident that food



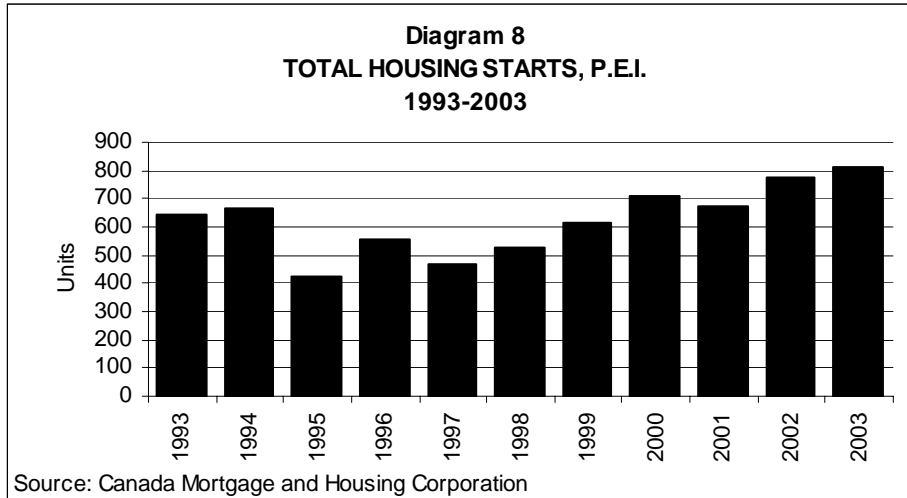
products continue to dominate total export activity on Prince Edward Island. However, the proportion of total exports that is made up of food products has declined over the past decade, from 84.0 per cent in 1993 to 74.8 per cent in 2003. There has been significant growth in the value of exports of non-food products since 1993 as

illustrated. The value of aerospace product and parts manufacturing exports totaled \$18.6 million in 2003, a decrease of 25.5 per cent. Exports of sawmill and wood preservation products were valued at \$12.0 million last year, down 12.2 per cent.

Construction and Investment

Canada Mortgage and Housing Corporation estimates that there were 814 new housing starts on Prince Edward Island in 2003, a 14-year high. Diagram 8 shows the total number of housing units constructed on Prince Edward Island from 1993 to 2003. Low mortgage rates coupled with positive employment and labour income gains were the major factors behind the increased level of construction last year.

According to Statistics Canada, the total value of non-residential construction on Prince Edward Island was \$182.6 million in 2003, and investment in machinery and equipment valued \$265.5 million. This compares to \$205 million and \$236.9 million respectively in 2002. Major construction projects in 2002 included the Atlantic Technology Centre and construction of the East Prince Health Facility. For 2003, investment was highlighted by the construction of the University of Prince



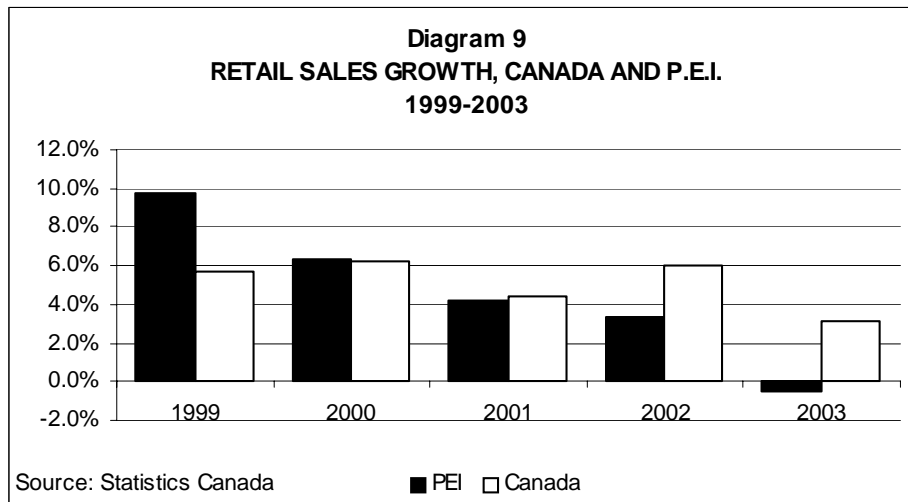
Edward Island aquatic and arena complex and the expansion of Master Packaging Inc. in Borden-Carleton.

According to Statistics Canada's *2004 Private and Public Investment Intentions*, total capital expenditures for Prince Edward Island are estimated to be \$665.7 million in 2004, an increase of 1.4 per cent

over 2003. The value of construction is estimated at \$418.5 million, up 7.0 per cent, while investment in machinery and equipment, at \$247.2 million, is 6.9 per cent lower. Major construction projects this year include the new federal building in Charlottetown and the beef processing plant in Borden-Carleton.

Retail Trade

Retail sales on Prince Edward Island valued \$1,317.9 million in 2003, a slight decrease of 0.5 per cent over 2002. Diagram 9 compares growth rates of retail sales for both Canada and Prince Edward Island from 1999 to 2003. Retail sales growth on Prince Edward Island has been trending downward since 1999. In 2003, national growth was 3.1 per cent.



The value of all new motor vehicle sales on Prince Edward Island was \$127.5 million in 2003, a decline of 2.8 per cent from 2002. This compares to an 8.7 per cent expansion in 2002. Nationally, the value of new motor vehicle sales decreased by 3.3 per

cent, however the decline was offset by strong consumer spending on semi-durable and non-durable goods. Notwithstanding the reduced value of retail sales in 2003, employment in retail and wholesale trade on Prince Edward Island increased significantly. Statistics Canada estimates that employment in trade rose by 800 in 2003.

Tourism

The P.E.I. Department of Tourism estimates that from May to October 2003, a total of 1.1 million visitors came to Prince Edward Island, which was a decrease of 3.8 per cent relative to the same period in 2002. The number of Canadian tourists from other provinces that visit Prince Edward Island represents nearly 75.0 per cent of all Island tourists. That group declined slightly, but there were also 13.4 per cent fewer visitors from the U.S.. Adverse economic developments in 2003 dampened tourism activity across Canada.

Government

Government services include the public service sector (i.e. federal, provincial and municipal public administration), education services and health and social services. According to Statistics Canada's *Labour Force Survey*, employment in public administration increased in the order of 9.8 per cent in 2003, to reach 6,700. Employment levels in education were up 2.1 per cent and in health and social services, 4.0 per cent.

A provincial General Government Election was held on September 29th, 2003, and the Progressive Conservative Government was awarded a third consecutive majority government. The Honourable Mitchell Murphy was sworn in as Provincial Treasurer on October 9th.

Summary and Outlook for 2004

Adverse developments in 2003 have resulted in reduced levels of economic growth for both Canada and Prince Edward Island. A robust housing sector on Prince Edward Island led provincial growth. Retail sales, manufacturing, export activity, and tourism however, moderated growth. Provincial Treasury estimates that the value of Gross Domestic Product in 2003 was \$3,865 million. In real terms, this represents growth of 2.1 per cent.

In their *Monetary Policy Report*, January 2004, the Bank of Canada expects that the Canadian economy will increase by 2.75 per cent in 2004. The Bank expects that growth will come from domestic demand and a stronger global economy resulting in improved exports. A high Canadian dollar relative to the U.S. dollar will be an offsetting factor.

The Department of the Provincial Treasury projects that the rate of expansion of the Prince Edward Island economy will again slow, to about 1.2 per cent. This is largely the consequence of poor markets in the agriculture sector, and reduced government spending. Growth of 2.0 per cent is projected for the services-providing sector.

**SUMMARY STATISTICS
PRINCE EDWARD ISLAND ECONOMY**

	1997	1998	1999	2000	2001	2002	2003
Population on 1 July (in '000s) * . . .	136.1	135.8	136.3	136.5	136.7	137.0	137.8
Personal Income per capita (\$) * . . .	19,197	19,861	20,949	22,287	22,591	23,898	24,357 ¹
<i>As % of Canadian Personal Income</i> . . .	80.5	80.3	81.3	81.4	80.2	83.0	83.0 ¹
Employment (in '000s)	59.2	60.4	61.3	64.5	65.9	67.1	68.8
Unemployment rate (%)	15.4	13.8	14.4	12.0	11.9	12.1	11.1
<i>Unemployment Rate - Canada</i>	9.1	8.3	7.6	6.8	7.2	7.7	7.6
CPI - annual change P.E.I. (%)	1.2	-0.5	1.2	4.1	2.6	2.7	3.6
<i>CPI - annual change (%) Canada</i>	1.6	0.9	1.7	2.7	2.6	2.2	2.8
Retail trade (\$ millions)	1,007.9	1,053.7	1,156.6	1,230.1	1,281.3	1,324.2*	1,317.9
New Motor Vehicle Sales (units)	4,717	4,556	4,802	4,902	4,635	4,996	4,731
Farm Cash Receipts (\$ millions) *	283.1	324.5	349.6	323.1	336.8	365.6	353.1
Potato Receipts (\$ millions)	128.8	173.3	192.2	154.5	123.9*	190.9*	185.5
Lobster Landings (\$ millions)	73.2	80.6	88.9	87.8	104.8	105.4	110.0
<i>Lobster Landings (lbs - millions)</i>	17.8	18.9	18.5	19.1	19.4	19.9	20.0
Housing Starts (units)	470	524	616	710	675	775	814
Investment (\$ millions) *	467.8	482.7	541.4	555.0	596.2	639.2	656.5
Manufact. shipments (\$ millions) *	788.8	935.6	1,063.4	1,150.6	1,222.0	1,327.1	1,356.2
Tourist visitations (thousands) ²	1,189	1,240	1,208	1,132	1,139	1,104	1,065
International exports (\$ millions)	435.2	466.0	566.5	682.9	666.4	683.0*	639.4
GDP at market prices (\$ millions) *	2,800	2,981	3,159	3,349	3,474	3,748	3,865 ¹

* revised data

Note 1: Provincial Treasury estimate

Note 2: Visitations do not include business travel

Sources: Statistics Canada; C.M.H.C.; P.E.I. Department of Agriculture, Fisheries, Aquaculture and Forestry; Tourism P.E.I.

BUDGET PAPER B:
FEDERAL FISCAL ISSUES

BUDGET PAPER B: FEDERAL FISCAL ISSUES

“Mr. Speaker, I am convinced that our present fiscal arrangement with the Federal Government is fatally flawed, and this is the major contributor to our fiscal challenges.”

Hon. Mitch Murphy - March 30, 2004

The fiscal relationship between the federal and provincial level of government plays an important role in the provision of public services on Prince Edward Island. Federal transfers to Prince Edward Island are budgeted to be \$360 million or 40 per cent of total revenues in 2004-05. Equalization and the Canada Health and Social Transfer make up the bulk of federal transfers. This annex provides a summary of the recent events affecting the Equalization Program and developments in health care funding.

EQUALIZATION

Equalization plays a critical role in financing provincial programs and services to citizens on Prince Edward Island. It is easily Prince Edward Island's largest single revenue source budgeted at \$245.8 million in 2004-05. The Equalization program is intended to ensure that all provinces are able to deliver reasonably comparable services at reasonably comparable rates of taxation as described in section 36.(2) of the Canadian Constitution.

36.(2) Parliament and the government of Canada are committed to the principle of making equalization payment to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

Equalization entitlements are calculated according to a formula set out in federal legislation, the Federal Provincial Fiscal Arrangements Act and regulations. Provinces with revenue raising ability (fiscal capacity) below a threshold or standard amount receive an entitlement from the Federal Government to bring their revenues up to the standard. This is measured on a per capita basis.

HOW EQUALIZATION WORKS

Equalization measures a province's fiscal capacity or what a province *could* raise from its own sources, using national average tax rates and commonly defined tax bases. The total fiscal capacity of a province is the sum of its ability to raise revenues from 33 revenue sources including personal income tax, corporate income tax, property tax, retail sales tax, resources and other sources.

The concept of fiscal capacity can be illustrated using a simple example using the Retail Sales Tax Base. Federal Equalization estimates for 2003-04 show that on average the standard provinces could

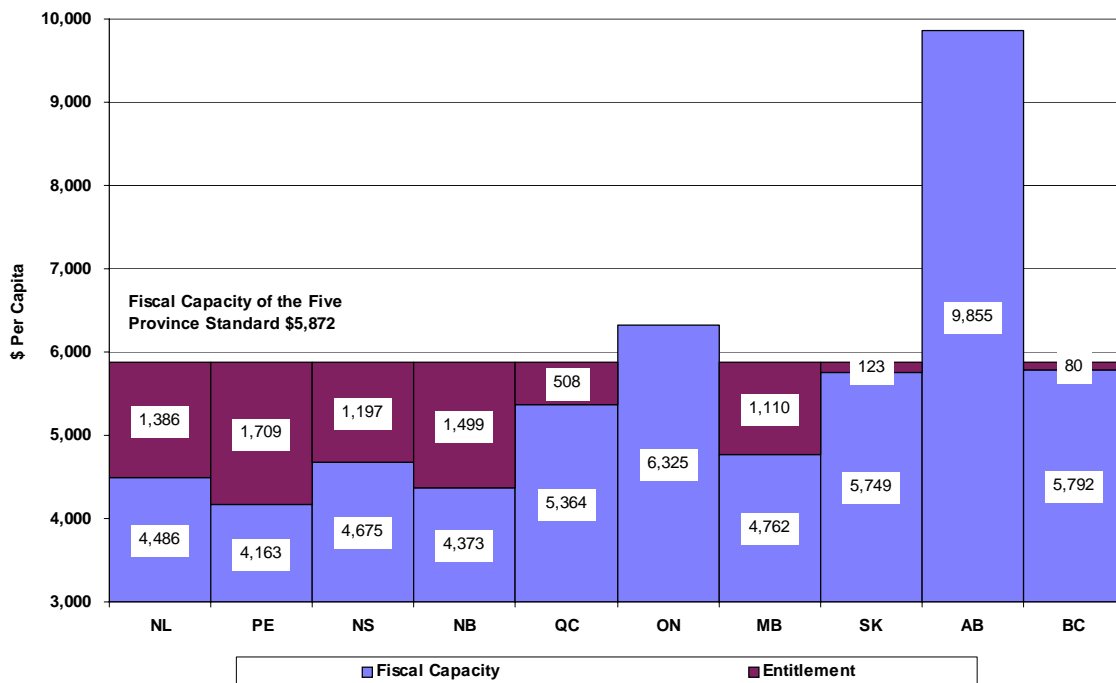
raise \$995 per capita from their provincial sales tax using a common definition of the tax base and national average tax rates. The equivalent calculation for Prince Edward Island shows that our tax base could raise \$868 per capita, largely reflecting the lower incomes here. This result produces a \$127 per capita deficiency from what we could raise from retail sales taxes relative to the standard. Multiplying our per capita deficiency by the provincial population of 137,713 people yields an entitlement of \$17.5 million for the Retail Sales Tax Base. A similar calculation is made for each of the remaining tax bases and is summed to give a province's total entitlement.

Using a commonly defined tax base across provinces and national average tax rates effectively excludes the possibility of any one province manipulating the program for their own benefit.

The current Equalization program uses the average of five provinces as the standard, namely British Columbia, Saskatchewan, Manitoba, Ontario and Quebec and was put in place in 1982. The standard is measured by using provincial revenue and economic data. Provincial entitlements are calculated twice a year and for any given year there are eight calculations over a period of three and a half years. The recalculations of entitlements are necessary because of the time for accurate data for an entitlement year to become available. Figure B.1 shows the per capita amounts for the 2003-04 estimate.

Figure B.1

Equalization-Provincial Fiscal Capacity and Entitlements: 2003-04



Source: Federal Department of Finance

One can see that the per capita fiscal capacity of provinces ranges from a low of \$4,163 in Prince Edward Island to a high of \$9,855 in Alberta. Our total entitlement of \$1,709 per capita is the highest of any province as Prince Edward Island has the lowest fiscal capacity of any province. This per capita amount multiplied by the population yields our total entitlement of \$235.3 million for the 2003-04 estimate.

The Federal Government pays each provinces an entitlement if their total fiscal capacity is less than the standard amount. Provinces that have a fiscal capacity higher than the standard do not receive an entitlement. One can see that Equalization entitlements raise the receiving provinces to the standard amount of \$5,872 per capita.

One of the hallmarks of Canada's Equalization program is that it is based on a Representative Tax System that mimics actual provincial taxing practices. The Equalization formula requires periodic maintenance to stay current or representative of provincial tax practices and to take advantage of new information that can be used to model provincial tax systems. Changes to the formula are proposed during the Equalization renewal.

EQUALIZATION RENEWAL

The Federal-Provincial Fiscal Arrangements Act includes both the Equalization and the Canada Health and Social Transfer programs. The Equalization program is set in the Act on a five-year cycle, with the current legislation set to expire after March 31, 2004. Recently the federal Finance Minister introduced legislation to permit payments to be made beyond March 31 in the event that new legislation had not been enacted in time.

A committee of federal and provincial officials thoroughly reviews the Equalization program between renewal periods to examine ways to improve its operation and management.

Provincial Ministers of Finance were given their first opportunity to review the federal proposal for changes to the formula when they met with federal Finance Minister Ralph Goodale on February 20, 2004.

Provincial Premiers and Finance Ministers have repeatedly called on the Federal Government to strengthen the Program. Prince Edward Island's Provincial Treasurer has pressed the Federal Government to strengthen the program by moving to a ten-province standard and restoring revenue coverage. The Province is also seeking a reduction in the volatility in the program, forgiveness of Census impacts and improved Base measures.

The recent federal budget outlines the response of the Federal Government to our concerns.

EQUALIZATION STANDARD

The Government of Prince Edward Island believes the current standard has become inadequate to sufficiently reduce fiscal disparities across provinces. The average fiscal capacity of all ten provinces is proposed as a more meaningful standard for the renewal.

Several Equalization standards have been used in the past including the average of the top two provinces, a national average standard and now a five-province standard. The five-province standard was adopted in 1982 to replace the national average or ten-province standard that was in use at that time.

When the five-province standard was adopted, the population of Alberta was approximately equal to that of the Atlantic provinces and the high fiscal capacity in Alberta was largely offset by the relatively low fiscal capacity found in the Atlantic provinces. By 2003 there were 35 per cent more people living in Alberta than in the Atlantic region causing a significant downward bias in the calculation of the five-province standard.

The impact of adopting a ten-province standard on receiving provinces is shown in Table B.1. The difference between the five and ten-province standard is \$297 per capita in 2003-04. For Prince Edward Island the five-province standard delivers \$41 million less than the ten-province standard. Nationally the five-province standard is \$4.7 billion less to receiving provinces.

Table B.1.
Impact on Provincial Equalization Entitlements From a 10-Province Standard.

Province	\$ Millions
Newfoundland and Labrador	154
Prince Edward Island	41
Nova Scotia	278
New Brunswick	223
Quebec	2,221
Manitoba	345
Saskatchewan	295
British Columbia	1,230
<u>Total Receiving Provinces</u>	<u>4,786</u>

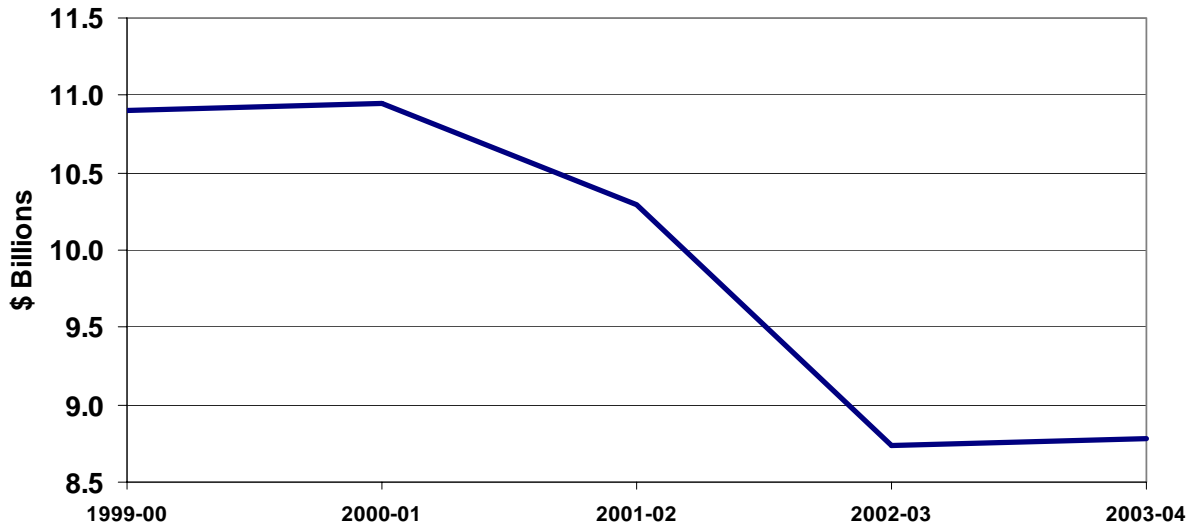
Source: Federal Department of Finance, PEI Treasury Calculations.

The federal response is to keep the current five-province standard. The Federal Government considers the proposed ten-province standard to not be affordable.

Provincial Finance Ministers are concerned that the combined impact of the cuts to revenue coverage in conjunction with the five province standard have contributed to the downturn in national entitlements during the 1990-00 to 2003-04 renewal period as shown in Figure B.2.

Figure B.2

National Equalization Entitlements 1999-00 to 2003-04.



Source: Federal Department of Finance.

National Equalization entitlements declined from \$10.9 billion to \$8.7 billion during this period. The reduction in Equalization is even more severe when compared to the overall size of the economy. Measured as a share of national Gross Domestic Product (GDP) Equalization represented 0.7 per cent in 2003-04 compared to 1.1 per cent in 1999-00.

The cost of restoring revenue coverage *and* using a ten-province standard would raise the program back to 1.1 per cent of GDP making it comparable to what it cost in 1999-00, and still be less than the 1.3 per cent of GDP recorded in 1982.

Prince Edward Island supports the view that the program has become inadequate and that the Federal Government can afford to take action to strengthen the program to reverse this trend.

RESTORE REVENUE COVERAGE

The Federal Government has arbitrarily reduced the amount of provincial revenue from “user fees” that are included in the formula by fifty per cent beginning in 1999-00. The reduction in revenue coverage eliminated an important revenue source that represents in total, approximately ten per cent of provincial revenues. By excluding a part of these revenues the Equalization formula is not fully measuring provincial fiscal capacity. This creates an inequitable situation for receiving provinces and has contributed to the growing inadequacy of the program. This has resulted in a significant decline in the entitlements from this revenue base.

Table B.2.

Impact on Provincial Entitlements by Reducing User Fees 50 Per Cent.

<u>Province</u>	<u>\$ Millions</u>
Newfoundland and Labrador	-40.6
Prince Edward Island	-10.0
Nova Scotia	-47.5
New Brunswick	-49.1
Quebec	-1,67.6
Manitoba	-57.0
Saskatchewan	-44.1
British Columbia	-96.4
<u>Total Receiving Provinces</u>	<u>-512.3</u>

Source Federal Department of Finance, PEI Treasury Calculations.

Table B.2 shows the impact the cut in revenue coverage had on provincial entitlements for 2003-04. For Prince Edward Island, the impact is a loss of \$10 million. For receiving provinces the measure removes over half a billion dollars from the program.

The federal renewal maintains the status quo for revenue coverage. The Federal Government had indicated that they wanted user fees to be eliminated from the program all together. Doing so would have reduced Prince Edward Island's entitlement by a further \$10 million per year while offering savings of an additional half billion dollars to the Federal Government. It is Prince Edward Island's view that these revenues should be restored in full.

REDUCE VOLATILITY

Provinces are concerned with the destabilizing effect on provincial finances of substantial and unpredictable fluctuations in Equalization revenues, caused by data shocks and methodological changes to tax bases that often have multi-year impacts. Provinces and territories proposed remedial measures in consultation with the Federal Government that also reflects the principles of adequacy, accuracy and responsiveness to changing fiscal circumstances.

Receiving provinces have witnessed significant volatility in their Equalization revenue in recent years and Prince Edward Island has felt this volatility more acutely than others. Equalization is the province's largest revenue source and it is also its most volatile, making budget targets difficult to reach.

The federal proposal is to base payments on a three-year moving average. This measure will be phased-in to have full effect in 2007-08. When fully implemented, payments to provinces will be delayed by two years on average compared to the current system. To compensate for the delay, payments will be increased by an adjustment factor of ten per cent.

Special treatment will be given to receiving provinces with significant resource revenues, such as

Saskatchewan, to allow them to move their Equalization payments forward in time in order to better manage in-year changes to those revenues.

Prince Edward Island supported the need to improve the predictability of entitlements. However, we feel that the federal proposal to stabilize payments by simply averaging entitlements from previous years does not address the underlying volatility of the program.

CENSUS FORGIVENESS

The Premier and Provincial Treasurer of Prince Edward Island have appealed to the Prime Minister and federal Minister of Finance to relieve the Province from having to repay the impact of the revised estimates of population. Prince Edward Island was one of several provinces that was severely effected by the revised estimates of populations that were released in the fall of 2003. These revised estimates were used to calculate provincial entitlements for Equalization and CHST. The decline in entitlements for the negatively effected provinces was over \$1 billion. The impact on Prince Edward Island's entitlements was a reduction of \$41.6 million.

The Federal Government will smooth out the repayment of the impact but insists that recoveries from provinces must occur. The details of this arrangement are described in the Technical Box B.1.

TAX BASE MEASURES

The Government of Prince Edward Island supports the federal proposals to change the Personal Income Tax Base to reflect provinces moving to tax on income and the decision to include market values to equalize residential Property Taxes. The technical changes to the Water Power Rentals, Commercial Vehicle Licenses and Medical Insurance Premium Tax Bases are also welcomed. The Province feels that the proposed improvements to the Mining Tax Base will mitigate, but not correct the inequitable results that this base will continue to generate.

The technical base changes are necessary to improve the Program, but their introduction has effectively been blocked from having an impact on entitlements until 2007-08 because of phase-in provisions that Prince Edward Island feels are unnecessary. To bridge the period between the current system and the proposed system the federal government is topping-up payments to receiving provinces by \$150 million in 2004-05 and by \$25 million in 2005-06. This top-up will be allocated on an equal per capita basis and is valued at \$1.28 million and \$0.2 million respectively for Prince Edward Island.

Technical Box B.1

IMPACT OF REVISED POPULATION ESTIMATES AND TAX DATA ON FEDERAL TRANSFERS

On September 25, 2003 Statistics Canada released estimates of provincial and territorial populations that incorporated information from the 2001 Census of Canada. The revised population estimates and more recent economic data were incorporated in the four years of entitlements for Equalization and CHST that were recalculated in the fall of 2003. Prince Edward Island's transfers were negatively affected by these revised population estimates.

Atlantic Premiers and Finance Ministers appealed to the Federal Government for relief from these recoveries. The Federal Government's response to the request for relief is to set up a deferral program that will offer the negatively affected provinces a five year interest free loan arrangement to smooth out the recoveries. A similar program was established to defer the impact of revised population estimates on Equalization after the 1991 and 1996 Census.

The deferral program was expanded by the federal Budget to include provinces that were affected by large changes to entitlements caused by personal Basis Federal Tax (BFT) and Corporate Taxable Income (CTI) assessments relating to the 2002 taxation year. The total impact for Prince Edward Island that is being deferred is the net amounts of the two impacts as shown in Table B.3.

Table B.3. Equalization and CHST Deferral Program - PEI

\$'000

Equalization	Population	BFT/CTI	Total
2000-01	6,509	0	6,509
2001-02	6,369	0	6,369
2002-03	12,303	-9,115	3,188
2003-04	10,527	-5,142	5,385
Subtotal	35,708	-14,257	21,451
CHST			
	Population	BFT/CTI	Total
2000-01	662	0	662
2001-02	1,436	0	1,436
2002-03	2,046	1,430	3,476
2003-04	1,771	732	2,503
Subtotal	5,915	2,162	8,077
Total	41,623	-12,095	\$29,528

Source: Federal Department of Finance

The impact of the revised population estimates is to reduce Prince Edward Island's Equalization and CHST entitlements by \$41.6 million over the four affected years. This amount was partially offset by gains relating to the 2002 BFT and CTI data such that net deferral loan is for \$29.5 million. The federal Budget has also extended the program to allow provinces to defer any recoveries if their payments in 2004-05 are less than what the province received on average between 1999-2000 and 2002-03. Affected provinces will begin making repayments of their loans in April 2005.

On the recommendation of the Provincial Auditor General the adjustments to the October estimates for the fiscal years 2000-01 to 2002-03 were recorded in the 2002-03 Public Accounts. The impact was to reduce Equalization and CHST revenue in 2002-03 by \$16.8 million and \$4.2 million respectively.

FEDERAL FUNDING FOR HEALTH CARE AND SOCIAL PROGRAMS

The Federal Government's contribution to provincial health care and social programming is through the Canada Health and Social Transfer (CHST), Health Reform Transfer and Diagnostic Medical Equipment Trust. In 2003-04 the Federal Government transferred \$22.3 billion to provinces/territories to support their health and social programs.

The 2004 Federal Budget announced one-time funding of \$400 million over three years to provinces for public health and immunization beginning in 2004-05. This funding is allocated on a per-capita basis and will be available to provinces as they require it. For Prince Edward Island this will provide an additional \$1.7 million in total. The Budget also announced an increase of \$150 million over two years for early learning and child care as part of CHST. Prince Edward Island's share of this is \$0.3 million per year beginning in 2004-05.

Provincial Premiers met with the Prime Minister in Ottawa on January 30, 2004 to discuss health care funding and other emerging issues. Prime Minister Paul Martin confirmed that the Government of Canada would provide to provinces and territories the one-time \$2 billion health supplement that was part of the February 2003 First Ministers' "Health Accord". This was again announced in the 2004 Federal Budget.

The supplement will be allocated on a per capita basis and placed in a third-party trust, in the words of the Prime Minister "with flexibility on when provinces and territories may choose to receive it." Prince Edward Island's allocation of the \$2 billion is \$8.7 million and is recorded as revenue in 2004-2005.

Prince Edward Island received \$108.7 million in 2003-04 from the federal government to support health and social services rising to \$114.5 million, including its share of the \$2 billion supplement in 2004-05 and the recently announced funding for public health and early learning.

On April 1, the CHST will be split into a Canada Health Transfer (CHT) and a Canada Social Transfer (CST). The revenue from these two transfers will be equal to what was previously committed under the CHST. The Medical Reform Fund that was announced as part of the 2003 "Health Accord" will be added to the CHT in 2008-09.

A schedule of federal health and social transfers to Prince Edward Island is shown in Table B.4. This table incorporates the revised estimates of population for the forecast years. On average federal funding for health and social programming on Prince Edward Island rises by \$5.5 million per year over the period 2003-04 to 2007-08.

Table B.4 Estimates of Health and Social Transfers to Prince Edward Island

Year	Pre 2003 CHST	CHST Supplement & Addition	Health Reform	Diagnostic Medical Equipment	2004 Budget Public Health & Early Learning	Total
2003-04	91.2	11.0	4.3	2.2	0.0	108.7
2004-05	95.0	8.7	6.5	2.2	2.1	114.5
2005-06	99.8	0.0	15.4	2.2	0.3	117.7
2006-07	100.1	2.6	19.5	0.0	0.0	122.2
2007-08	101.8	5.2	23.9	0.0	0.0	130.9

Source: Federal Budget 2004, Provincial Treasury Calculations

COUNCIL OF THE FEDERATION

First Ministers agree that health care is a shared responsibility. The Prime Minister stated that he is committed to working with the Provinces and Territories to put Canada's health care system on a sustainable footing. First Ministers have requested that their Ministers of Finance and Health work to identify the issues and develop options for sustaining the health care system prior to meeting later in the summer of 2004 to discuss the long-term sustainability of the health care system in Canada.

Provincial and Territorial Premiers formed the Council of the Federation when they met on 4-5 December 2003, in Charlottetown Prince Edward Island. This organization creates a formal structure for the Annual Premier's Conference. The work of the Council will reflect two themes: enhanced provincial-territorial collaboration and more effective relations with the Federal Government.

The Council of the Federation met February 23-24, 2004, in Vancouver to release a comprehensive work plan that affirmed their commitment to health care, the economy, strengthening the federation, Canada's youth, and helping those affected by emergencies. The Council members committed to work on establishing a framework for health care reform on a sound financial base for discussion with the Prime Minister at the First Ministers meeting later in the summer of 2004. The Council also established the Secretariat on Information and Cooperation on Fiscal Imbalance.

SECRETARIAT ON INFORMATION AND COOPERATION ON FISCAL IMBALANCE

The Secretariat on Information Cooperation on Fiscal Imbalance was created by the Council of the Federation on the initiative of Provincial-Territorial Finance Ministers. Its role is to analyze and foster an understanding of the issues relating to fiscal imbalance between federal and among provincial governments; to encourage the development of common positions by the provinces and territories in relation to fiscal imbalance; and to solicit support from non-government sources for the positions of the provinces and territories on fiscal imbalance.

The Secretariat began its mandate by commissioning the Conference Board of Canada to study the long-term fiscal projections of the federal and provincial governments. Finance Ministers released the report *Fiscal Prospects for the Federal and Provincial/Territorial Governments* on 8 March 2004. The report concludes that without significant policy changes, the Federal Government's fiscal surplus will rise steadily over the next 17 years, reaching \$78 billion by 2019-2020. Over the same period, the provincial and territorial governments as a group will run deficits in the order of \$10 billion per year. The report confirms the view held by provincial Finance Ministers' that the Federal Government has the fiscal room to increase its investment in health care and to strengthen the Equalization program without running into deficit.