

Pre-Election Economic and Fiscal Outlook

2014-15 to 2017-18

Pre-Election Economic and Fiscal Outlook, 2014-15 to 2017-18

Published by:

Department of Finance
Province of New Brunswick
P.O. Box 6000
Fredericton, New Brunswick
E3B 5H1

Internet: www.gnb.ca/finance

Tuesday, June 24, 2014

ISBN # 978-1-4605-0485-7

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Minister's Foreword

Our government has consistently illustrated its commitment to being open, transparent and accountable. In fact, the C.D. Howe Institute gives New Brunswick high marks for being one of the most fiscally transparent governments in Canada.

The *Pre-Election Economic and Fiscal Outlook 2014-15 to 2017-18* has been prepared in compliance with the *Fiscal Transparency and Accountability Act* that, among other provisions, requires the Minister of Finance to publish a multi-year economic and fiscal outlook at least 90 days prior to a fixed election date.

For added transparency, the Act also stipulates the province's audited financial statements for fiscal year 2013-14 and a 1st Quarter economic and fiscal update to the 2014-15 Budget be publicly available in the coming months.

The outlook elaborates on economic and fiscal projections included with the 2014-15 Budget. The report outlines the following information:

- The macroeconomic forecasts used to prepare the plan.
- Estimates of revenues and expenses as set out in the plan.
- Risks and assumptions used in preparing the plan.

This report fulfills government's commitment to provide more information about the financial situation of the province to make the election process more accountable and transparent to the people of New Brunswick. It also includes general baseline information to assist political parties in preparing election commitment costs as defined under the *Fiscal Transparency and Accountability Act*.

Additional information on the province's economic outlook and fiscal situation is available on the internet at <http://www.gnb.ca/finance>.

Blaine Higgs

Minister of Finance

Executive Summary

The *Fiscal Transparency and Accountability Act (FTAA)* provides for greater transparency, accountability and responsible management of the province's finances. In this regard, the Act requires the release of a pre-election, multi-year economic and fiscal outlook at least 90 days in advance of a fixed election date.

The report elaborates on economic and fiscal projections from the 2014-15 Budget including assumptions, risks and sensitivities, providing New Brunswickers with more detailed understanding of the province's financial picture and a basis to help political parties in the costing of election promises.

Regarding the economy:

- The New Brunswick economy is expected to report increased activity and gain momentum in 2014 and 2015.
- There is upside potential for the New Brunswick economy with a number of potential energy and natural resource projects and developments on the horizon.
- Global conditions, including the performance of our major trading partner the U.S., represent risk to the provincial economy.
- For 2014 to date, a number of key indicators including employment, investment, consumer inflation and income are tracking in line with expectations.
- Wholesale and retail trade have shown stronger-than-expected growth to start the year but manufacturing sales have experienced a slow start to the year despite gains from wood products manufacturing.
- Weakness in the mining sector continues to limit growth in the export sector, but modest gains for New Brunswick's exporters overall should become more evident during the second half of the year.
- A current review of private sector forecasts for 2014 points to growth in the 1.2% range for New Brunswick, consistent with Department of Finance expectations (1.1%).
- Currently available information reaffirms economic growth projections contained in the 2014-15 Budget.

Regarding the fiscal situation:

- The multi-year fiscal plan included in the 2014-15 Budget calls for a balanced budget by 2017-18.
- The plan makes transparent that returning to balance will require further initiatives by government over the next three years, as well as maintaining responsible fiscal management and the continued seeking of operational efficiencies.

- Revenue projections are consistent with the economy gaining momentum and growth in the federal transfer envelope, but will remain modestly below historical trend growth in the near term.
- Key revenue risks include the performance of the economy, possible prior-year adjustments to revenue sources collected or estimated by the federal government, world commodity prices for natural resources and financial results for entities such as NB Power.
- Expense projections reflect policy decisions of government and reflect modest pressure on program/service growth, wage adjustments, costs of servicing the public debt and amortization of various capital projects.
- Key expense risks include unexpected events such as weather-related incidents that impact government spending or major increases in demand for programs and services.
- The multi-year fiscal plan is consistent with the provisions of the *FTAA* that require a deficit reduction of at minimum \$125 million annually and improvement in the net debt-to-GDP ratio.

Economic Outlook

The following sections provide details on the external environment and the key drivers of the international, U.S. and national economies that impact New Brunswick. The information provides additional details behind the economic projections included in the 2014-15 Budget and focuses on the key factors in the performance of the provincial economy and their potential implications on the fiscal situation.

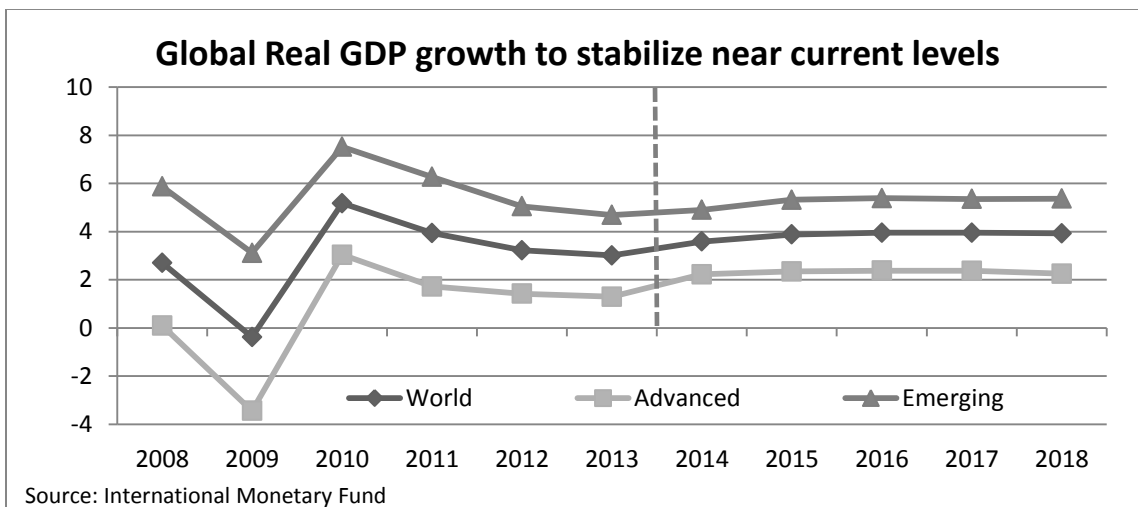
The economic projections are as reported in the 2014-15 Budget unless supplemented by more recent information, such as the performance thus far in 2014. Any updated information will be clearly indicated.

Global Economy

Real Gross Domestic Product (GDP) growth will again be led by emerging market economies in 2014. As indicated by the International Monetary Fund (IMF) in its spring world economic outlook, global output is set to expand by 3.6% in 2014, with emerging economies advancing by 4.9%, on par with the IMF's expectations in its outlook released in January 2014.

Growth in the euro area is expected to increase modestly in 2014, driven by a smaller fiscal drag, stronger external demand and gradual improvement in private sector lending conditions. The euro area's core economies – Germany, France, Italy and Spain – are all expected to post stronger growth in 2014 than in 2013. The United Kingdom's economy is also showing signs of progress.

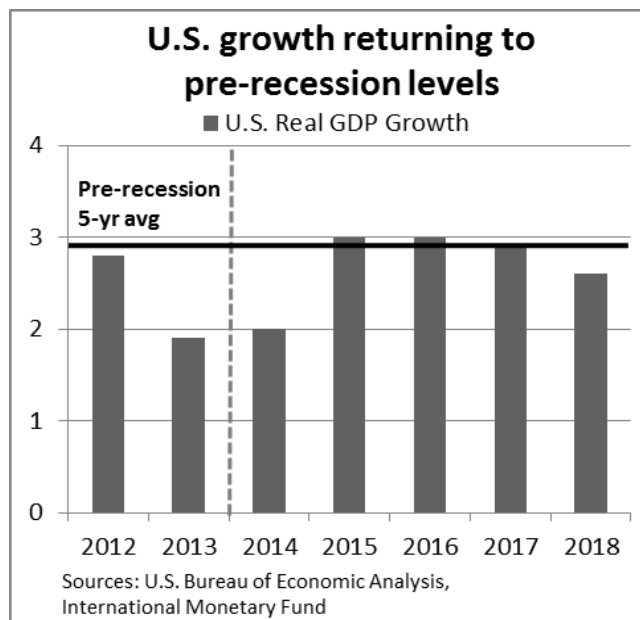
China and India will be the main drivers of growth among emerging and developing economies in 2014. However, the pace of economic activity in these countries will be tempered due to sluggish growth among their trading partners and dampened domestic activity.



United States

In its annual review of the U.S. economy, the IMF lowered its forecast by 0.8 percentage points to 2.0% growth for 2014, citing a harsh winter, a struggling housing market and weak international demand. Despite the downgrade, the IMF noted that the economic recovery is well underway and growth should exceed potential for the rest of this year and into 2015.

Risks to the U.S. recovery stem mainly from weaker private domestic demand if the effects of automatic federal government spending cuts, tax increases and recent tightening in financing conditions are stronger than anticipated.



Although the housing market has shown some weakness recently, activity should continue its upward trend. The National Association of Home Builders expects housing starts to reach 1.1 million in 2014, up roughly 25% over the 2013 level but still well below pre-recessionary levels. These improved housing construction conditions should have positive implications for exports of New Brunswick’s wood products industries.

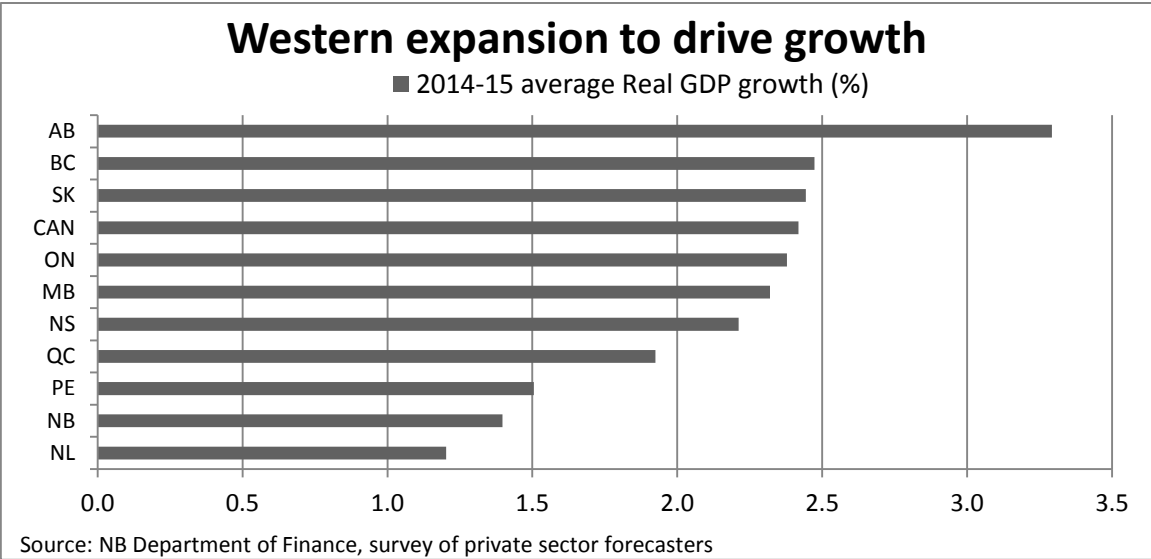
Canada

According to the Bank of Canada, the Canadian economy is set to grow by 2.3% in 2014, down marginally from the 2.5% projection in the 2014-15 Budget. Following a weaker-than-expected performance in 2013, the Bank anticipates economic momentum will continue to build through 2014 and 2015 as improved global growth and the recent depreciation of the Canadian dollar support improved growth prospects.

Household consumption is expected to be a positive contributor to growth in 2014, owing to growth in disposable income. Credit conditions remain supportive of household expenditures with effective borrowing rates at low levels and stabilizing debt-to-income ratios among Canadian households.

Fiscal consolidation among governments is expected to be scaled back somewhat in 2014, thereby increasing the contribution of public expenditures to economic activity. However, it will be 2015 before governments’ contribution to overall economic growth begins to pick up. A return to fiscal balance over the medium-term and increased business investment are expected to support stronger growth prospects and will offset a slowdown in housing activity.

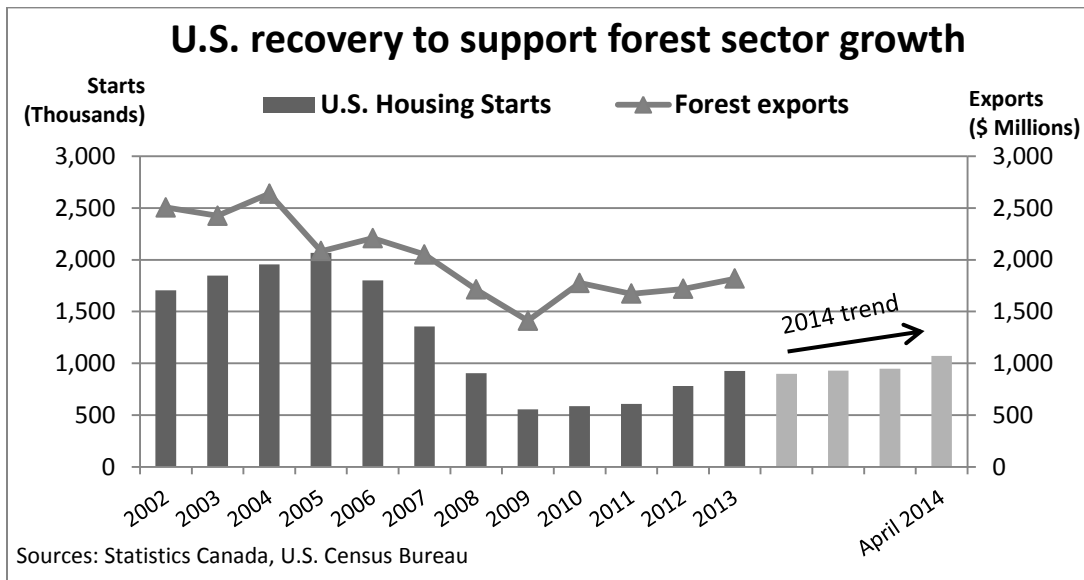
Elevated commodity prices, particularly for energy products, will continue to support a two-stage economic growth path among Canadian provinces. According to private sector forecasts, economic growth is expected to be strongest among energy producing provinces. Improved global growth prospects will also lead to increased growth among the non-resource rich provinces, albeit at a lower level.



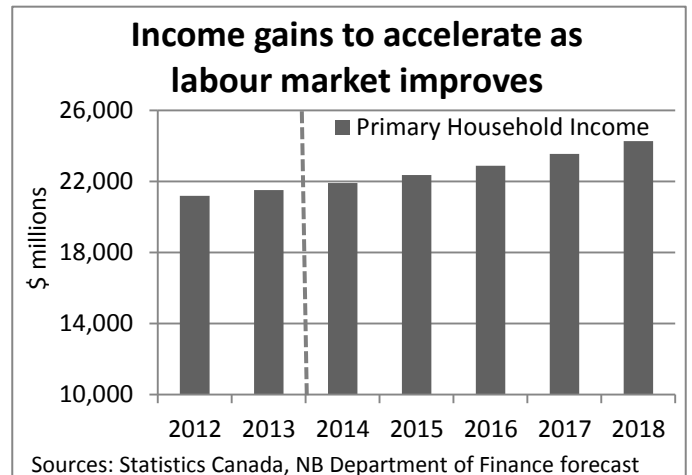
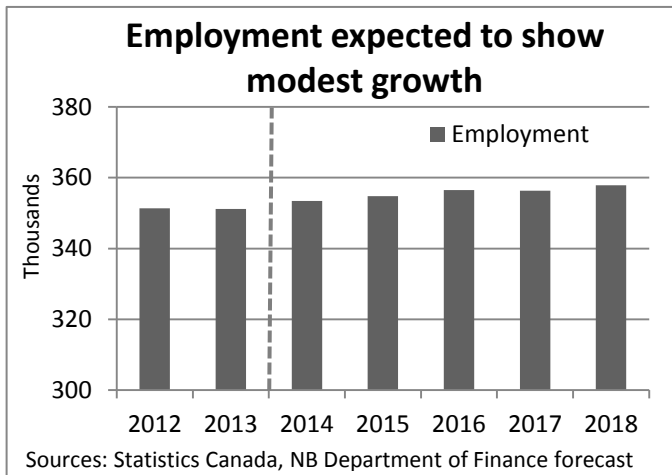
New Brunswick

In the 2014-15 Budget, the Department of Finance anticipated an improvement in real GDP growth of 1.1% in 2014, consistent with the consensus among private sector forecasters (1.2%). A stronger domestic economy in 2014 will be supported by a modest improvement in investment activity – led by gains in the primary and agriculture sectors – and a pickup in natural resource exports.

With U.S. housing starts expected to top 1.1 million and 1.5 million in 2014 and 2015 respectively, forestry exports should post healthy gains. Overall, international trade should be further strengthened by a weaker Canadian dollar.



Building on upward momentum over the second half of 2013, employment in New Brunswick should improve in 2014. Job gains will be supported by increased activity in the forestry and trade sectors but employment growth will still be relatively stable until proposed major projects materialize.



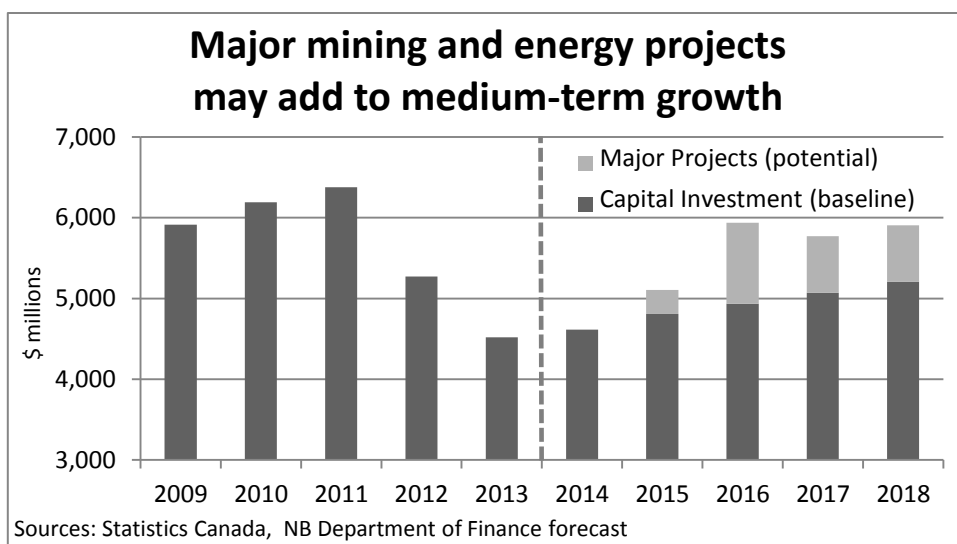
Primary household income growth is expected to remain constrained until the provincial labour market shows sustained improvement, resulting in moderate growth in consumer spending over the medium-term.

The need for sustainable budget balances will limit the extent to which all levels of government contribute to economic growth in the near-term. However, the resulting economic impact is expected to be diminished as governments return to fiscal balance.

Looking ahead to 2015, renewed strength in the U.S. and Canada should continue to enhance the province's exports. Upward potential also exists in the mining sector through increased production by small base metal producers. With this anticipated pickup in activity, expectations are for real GDP growth to advance to 2.1%.

Construction of the Sisson Brook tungsten mine is expected to contribute to growth over the 2014-2016 period should the project receive the necessary regulatory approval. An endorsement would signify considerable investment at the development and construction phases, and production would maintain jobs and substantial economic activity throughout its 27-year lifespan.

Additionally, Trevali is hiring former staff of the closed Brunswick Mine for its Caribou Mine near Bathurst. The projected life of the zinc-lead-silver mine is about 6.3 years and the company plans to hire about 300 workers. The mine is projected to open in full force by March 2015.



The proposed Energy East Pipeline represents significant economic potential pending regulatory approval in 2015. The construction phase alone carries with it \$2 billion in investment spending over its three-year horizon.

The Comprehensive Economic and Trade Agreement (CETA) will open up the European Union market to New Brunswick exporters, particularly within the seafood and forest products industries, allowing for further trade growth.

Natural gas development over the medium-term could boost investment spending, job creation and government revenues if the project is economically viable.

Key Economic Indicators, 2014-15 Budget
Growth Rates (%)

	2011	2012	2013*	2014*	2015*	2016-2018*
Economic Accounts						
Gross Domestic Product (Nominal)	4.0	0.8	0.5	2.0	3.4	3.6
Household Final Consumption	4.7	1.9	0.9	2.4	2.4	2.3
Gross Fixed Capital Formation	5.7	-5.7	-5.1	3.2	4.2	2.7
Gross Domestic Product (Real) ¹	0.3	-1.1	0.0	1.1	2.1	1.8
Income						
Primary Household Income	4.2	2.2	1.5	1.8	2.1	2.8
Net Operating Surplus: Corporations	4.9	-12.6	-5.6	2.0	11.2	10.4
Population and Labour						
Population (July 1)	0.3	0.2	-0.1	0.0	0.0	0.1
Labour Force	-0.8	0.6	0.2	0.3	0.0	-0.2
Employment	-1.2	-0.2	-0.1	0.6	0.4	0.3
Unemployment Rate (%)	9.5	10.2	10.4	10.3	10.0	9.1
Participation Rate (%)	62.8	63.1	63.2	63.2	63.1	62.7
Other Indicators						
Retail Sales ¹	4.8	-0.7	0.7	2.4	2.5	2.3
Consumer Price Index	3.5	1.7	0.8	1.4	1.5	1.6
Housing Starts	-15.8	-4.4	-13.8	-8.3	4.5	-1.3

Per cent change unless indicated.

¹2013 actual as of June 24, 2014

Sources: Statistics Canada; *2013-2018 Department of Finance.

Key Economic Outlook Risks and Assumptions

The Department of Finance consults regularly with private sector economic forecasters to ensure reasonable, prudent and accountable economic projections. Over the past number of years, projections of the Department of Finance have generally been more prudent than the private sector.

Changes to the external and internal New Brunswick economic environment could have notable impacts on revenues as well as demand for public services. The following outlines basic economic risks and assumptions included in the fiscal outlook:

- No major, sustained global economic or financial disruptions.
- U.S. and Canadian economies continue to move towards longer-term trend economic growth rates.
- The Bank of Canada starts modest tightening of its interest rate policy in the latter half of 2014 and 2015.
- Canadian dollar remains in the 90-95 cents U.S. range.
- Household income is projected to continue to report below-trend growth but improve along with the economic outlook.
- Retail sales growth is expected to pick-up modestly with income and the economy.
- Inflation is expected to gravitate towards the mid-point of the Bank of Canada's 1-3% target range as the economy improves.
- Prices for major export commodities (e.g. lumber, pulp, potash, base metals, petroleum products, food and fish) remain near current levels.
- Impacts of proposed significant energy investment projects such as the Energy East Pipeline or natural gas development are not explicitly included in the economic forecast and could represent upside potential. That said, general growth within the natural resource sector related to economic conditions is projected.

Developments Since the 2014-15 Budget

A period of unusually harsh weather in the U.S. and Canada early in 2014 led to disappointing first quarter results for these two economies. However, more recent indications are that both economies are performing closer to expectations and posting solid economic results in the second quarter.

A review of New Brunswick's key economic indicators to date suggests that there has been little material change since budget that would impact the economic projections prepared at that time. Employment, investment, consumer inflation and income are all tracking in line with expectations based on year-to-date results. Wholesale and retail

trade have shown stronger-than-expected growth to start the year and should level off to more sustainable levels as the year progresses.

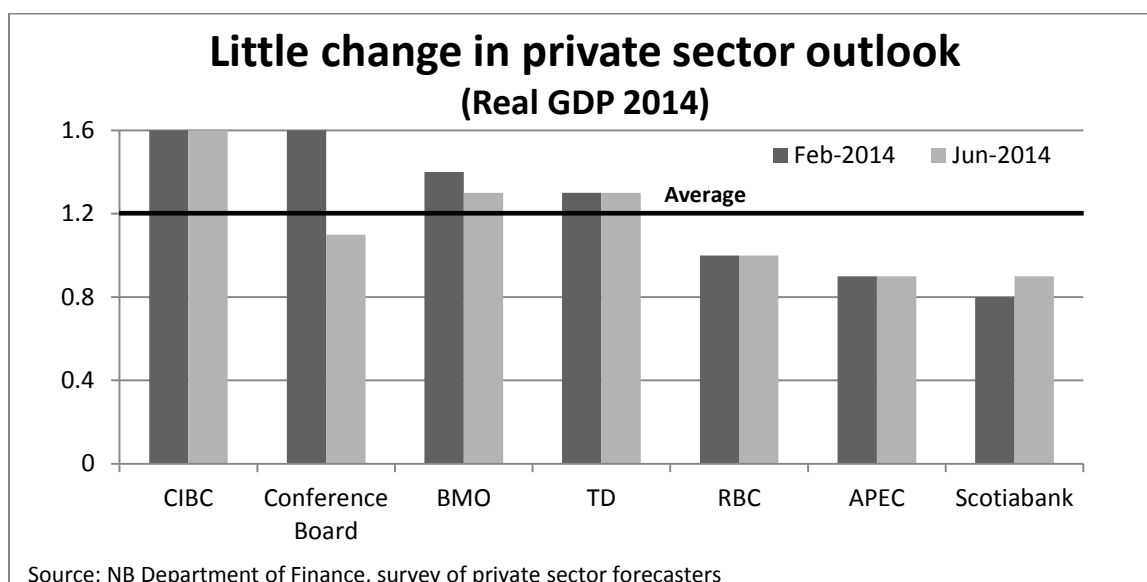
Manufacturing sales have experienced a slow start to the year, but should show some improvement as the year progresses largely building on gains from wood products manufacturing. Weakness in the mining sector largely resulting from the Brunswick Mine closure continues to limit growth in the export sector. However, modest gains for New Brunswick's exporters overall should become more evident during the second half of the year.

Key New Brunswick Economic Indicators for 2014		
	% change	Year-to-date compared to previous year
Employment	0.4%	Jan-May
Investment*	2.1%	
CPI	1.5%	Jan-April
Average Weekly Earnings	2.2%	Jan-March
Retail Trade	2.8%	Jan-March
Manufacturing	-11.4%	Jan-April
Exports	-15.0%	Jan-April

Source: Statistics Canada

*2014 investment intentions

A review of the most recent private sector forecasts points to modest growth in the 1.2% range for New Brunswick, comparable to the Department of Finance expectations (1.1%) and consistent with information available in Budget 2014-15.



Sensitivity Analysis

The following provides estimates of the impact of sustained changes in key components of growth on New Brunswick's real GDP, assuming other factors remain unchanged. The relatively wide range for the impacts reflects uncertainty regarding the factors driving the changes in growth.

Impact of a 1% change on key variables on real GDP growth			
	\$ (millions)	Growth rate (%)	\$ (millions of 2007)
Labour Income	150-200	0.4-0.6	120-180
Household Final Consumption Expenditures	175-225	0.4-0.8	120-240
Investment	50-75	0.2-0.4	50-100
Employment*	3,400	0.8-1.2	220-330

*Person-years

There are both positive and negative risks to the economic projections underlying the revenue forecast. The following table highlights some of the key sensitivities that could arise from unexpected changes in economic conditions. These estimates are only guidelines and actual results will vary depending on contributing factors.

Impact of selected economic indicators on key revenue sources		
Indicator	Estimated impact	Potential revenue change
Nominal GDP	\$325 million for each percentage point change. Can vary depending on the components of growth.	\$50-60 million depending on source of growth.
Primary Household Income	\$225 million for each percentage point change.	\$15-\$20 million in personal income tax depending on which income tax bracket drives change.
Retail Sales	\$100 million for each percentage point change.	\$5-\$10 million in HST.

These "rules of thumb" are high-level estimates only and may only materialize over a period of time. A notable percentage of the province's revenues are received via federal transfers or administered by the federal government, and are calculated based on lagged economic data. Furthermore, impacts could be offset by changes in the province's Equalization entitlements related to the performance of the economy.

Fiscal Outlook

This section discusses the fiscal situation as set out in the 2014-15 Budget, building on the economic outlook. It also provides additional detail on own-source and federal transfer revenues by major category.

2014-15 Fiscal Outlook

The fiscal plan presented in the 2014-15 Budget was based on the information available prior to the February 4, 2014 Budget. Governments adjust and update their fiscal plans regularly depending on new information, commitments, unforeseen events and economic developments. New Brunswick provides regular quarterly updates of the economic and fiscal situation during the year.

The 2014-15 Budget continued the trend of closely managing spending to ensure delivery of responsible, efficient government services. The budget recognized the provincial economy is showing signs of recovery and supports an environment of increased growth, which will lead to improved revenue growth.

For 2014-15, a deficit of \$391.1 million is budgeted.

By closely managing expenses, growth in spending will be below historical norms. Growth in total expenses will be limited to 1.9%, representing an increase of \$155.9 million over revised 2013-14 third quarter estimates. In total, expense is estimated at \$8.4 billion.

Government revenues have been challenged in recent years due to the weak economic environment and, in fact, declined on an annual basis in the previous two fiscal years. For 2014-15, improved economic conditions combined with the maturation of previously announced tax changes and growth in the major federal transfer envelope for the first time in a number of years are expected to lead to a 4.3% increase in revenues over revised 2013-14 estimates and surpassing \$8.0 billion.

Revenues in 2013-14 reported a significant decline from budget projections due to economic challenges and negative prior year adjustments to income and consumption taxes which are administered by the federal government on behalf of the province and are one-time in nature. These conditions served to inflate year-over-year revenue growth rate estimates for major income sources in 2014-15. Removing prior year adjustments, growth in revenues is a more modest 2.9%.

New Brunswickers can view the various budget documents and economic and fiscal updates at the Department of Finance website at <http://www.gnb.ca/finance>.

Multi-Year Fiscal Plan

In the 2014-15 Budget, government set out a multi-year plan that outlines a continued path of improvement to a surplus of \$119 million projected for 2017-18.

Growth in revenues will reflect a balance of improved taxation revenues related to an expanding economy and growth in the major transfer envelope. Revenue projections in the plan reflect an economy that will begin to gain momentum in 2014, the maturation of tax changes implemented in recent budgets and growth in the major federal transfer envelope after a period of no growth. Over the 2015-16 to 2017-18 period, overall revenue growth is projected to be relatively consistent with nominal economic growth in the 3.0% to 3.5% range. While this level of revenue growth is a marked improvement over recent years, it will remain below the longer term historical average.

Expense projections reflect policy decisions of government and growth pressures. Some examples of expense pressures over the course of the multi-year plan include wage adjustments required under various collective agreements, select program/service growth, costs of servicing the public debt, and amortization expense related to various capital projects.

In recent years, the trend in expense growth has been sharply reduced with considerable savings achieved across government. In fact, from 2011-12 to 2014-15, spending is expected to increase by an average of just 0.8% per year. This compares to average growth of 5.9% per year in the previous four-year period. However, in order for the province to achieve sustainable budget balances moving forward, both revenues and expenses must continue to be closely and responsibly managed.

Under the status quo, revenues and expense are not in balance. Over the next three years, additional revenue and savings initiatives will need to be identified to achieve the multi-year plan's objectives. These have been identified as part of the multi-year plan for transparency purposes. It is incumbent upon government, as part of its due diligence and commitment to sound fiscal management, to continually seek opportunities and efficiencies as a normal course of action during the annual budget process and in managing the budget in-year.

	Multi-Year Plan			
	(\$ millions)			
	2014-2015	2015-2016	2016-2017	2017-2018
	<u>Budget</u>	<u>Plan</u>	<u>Plan</u>	<u>Plan</u>
Revenue	8,036	8,281	8,564	8,865
Expense	8,427	8,668	8,918	9,046
Revenue / Expense reductions to be identified:				
2015-2016		125	125	125
2016-2017			100	100
2017-2018				75
Surplus (Deficit)	(391)	(262)	(129)	119
Source: 2014-2015 Budget Speech				

There are several large investment projects that could become viable in the next several years. Should these or other major projects proceed, and the New Brunswick economy performs beyond current projections, there could be upside to the provincial revenue projections, which would in turn reduce the need for new initiatives to meet the multi-year targets.

Conversely should the economy perform weaker than anticipated, there could be downside pressure on revenue which could result in additional need for new initiatives to meet the targets of the multi-year plan.

Fiscal Transparency and Accountability Act

A new *Fiscal Transparency and Accountability Act* received Royal Assent in May 2014 to replace the *Fiscal Responsibility and Balanced Budget Act*. The provisions of the Act set new ground in ensuring government takes appropriate action to return to sustainable balanced budgets and begins to reduce net debt, while respecting the government's strategic themes of a stronger economy and an enhanced quality of life while living within our means.

The *FTAA* includes return to balance provisions requiring that, if the province incurs a deficit in the previous fiscal year, that the deficit be reduced by \$125 million in the subsequent year, or be returned to a surplus position. And if the province is in a surplus position, it is to remain in a surplus position the following year. Should the return to balance provisions not be respected, each minister that served as a member of the Executive Council during that fiscal year will be subject to an administrative penalty of \$2,500 related to the year in question.

The multi-year fiscal plan respects the deficit reduction provisions of the Act.

In addition, the Act addresses the government's commitment to increase transparency and accountability in election commitments. The *FTAA* will require registered political

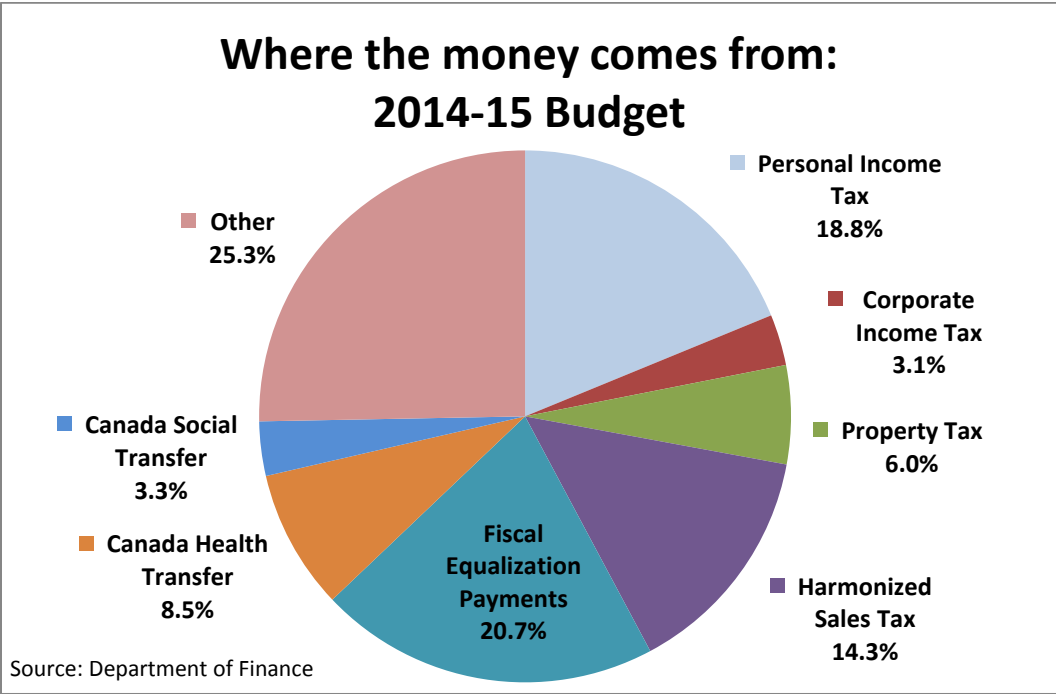
parties to publish and file cost estimates for their election promises. Each registered political party will be required to do this in order to qualify for its annual allowance under the *Political Process Financing Act*.

Sources of Provincial Revenues

This section provides information on the major sources of provincial revenue. These revenues come from a variety of sources but are concentrated in two main groups:

- **Own-source revenues** which include income and consumption taxes, royalties, return on investments of such organizations as NB Power and NB Liquor, sales of goods and services, and lotteries and gaming revenues.
- **Federal Transfer Payments.**

The following chart outlines the key revenue sources in the 2014-15 Budget:



Own-Source Revenue

Provincial own-source revenues are projected at \$5.1 billion or 63.6% of total revenues in 2014-15. This proportion is slightly above the average of the last several years and indicates the province is more reliant on its own-source revenues.

The province can influence revenue through its tax rates and fiscal policy, but has little direct control over the economy. Furthermore, prior-year adjustments for major tax

revenues collected and administered by the federal government can have material impacts on annual revenues, as can the performance of entities such as NB Power.

Key own-source revenues include:

- **Personal income tax** is the largest provincial own-source revenue, representing approximately \$1.5 billion and is administered and collected by the federal government. In 2014-15, growth is attributable to the maturation of the personal income tax changes announced in the 2013-14 Budget, modestly stronger economic growth and a large negative prior-year adjustment reflected in 2013-14.
- **Corporate income tax** revenue is estimated at \$251 million and is one of the most variable own-source revenues of the province. Growth in 2014-15 is related to the maturation of the increase in the General Corporate Income Tax rate announced in the 2013-14 Budget as well as a negative prior-year adjustment that impacted 2013-14. This tax is collected and administered by the federal government.
- The **Harmonized Sales Tax (HST)** is expected to total approximately \$1.2 billion in 2014-15 and is administered and collected by the federal government. The province is paid based on the federal HST allocation formula. Revenue is increasing in 2014-15 reflecting growth in the tax base and a large negative prior-year adjustment that adversely affected 2013-14 revenue.
- **Provincial property tax** revenue is projected at \$481.3 million in 2014-15 and is based on the value of properties.
- **Gasoline and motive fuel** taxes are based on the volume of sales of these products that are used or consumed in New Brunswick. Revenue is projected at \$240 million in the current fiscal year.
- **Tobacco tax** revenues are based on the volume of sales of all tobacco products consumed in the province. Revenue is estimated at \$150.7 million in 2014-15.
- Revenues from **royalties** on the production and sale of various mineral and forest commodities are estimated at \$94.3 million in 2014-15.
- **Return on investment** or the net income of outside agencies that affect the province's financial situation (e.g. NB Power, NB Liquor) can be a significant variable in influencing revenues from year to year. For 2014-15, revenue from these sources is estimated at \$254 million, based on estimates provided by these agencies.
- **Other own-source revenues** include sales of goods and services, lotteries and gaming and fines and penalties.

Federal Transfers

Transfer revenues are comprised of conditional and unconditional grants. Total federal transfers are estimated at \$2.9 billion in 2014-15, or 36.4% of total revenue. In recent years, major unconditional federal transfers have been flat, whereas conditional funding has varied with stimulus funding now winding down. In 2014-15, revenue from major unconditional transfers will grow for the first time in a number of years.

Major unconditional transfer programs include:

- **Equalization Program** payments of \$1.7 billion are the largest single source of revenue for the province. Equalization entitlements are determined based on calculations of the province's revenue-raising capacity relative to that of the national average using the latest available population, economic and fiscal data.
- The **Canada Health Transfer** and **Canada Social Transfer** are expected to provide approximately \$949.9 million of the province's revenue this fiscal year. Beginning in 2014-15, cash entitlements under these programs will both be on a per capita basis.

Key Revenue Risks and Assumptions

This section provides details on the key risks and assumptions that have been used in forming the revenue estimates for the 2014-15 Budget and multi-year projections. Specific fiscal risks may be positive or negative in nature.

Key revenue assumptions include:

- Major federal transfers are projected to grow in the range of 4.0% annually over the next few years, based on legislated growth rates for the Canada Health Transfer and Canada Social Transfer, and the expectation that Equalization entitlements will increase as economic data reflecting recent weakness in the New Brunswick economy feeds into the formula.
- Projections also assume there will be no federal policy changes to federal transfers beyond those already announced.
- Taxation revenues will reflect the modest upturn expected in the economy.
- NB Power estimates are reflective of their business plan.

Key revenue risks include:

- Changes to economic conditions.
- The possibility of prior-year adjustments to various revenue sources collected by or estimated by the federal government.
- Commodity tax revenues that are vulnerable to world prices.

- Financial results for entities included in the province's revenues such as NB Power.
- Accounting-related changes.

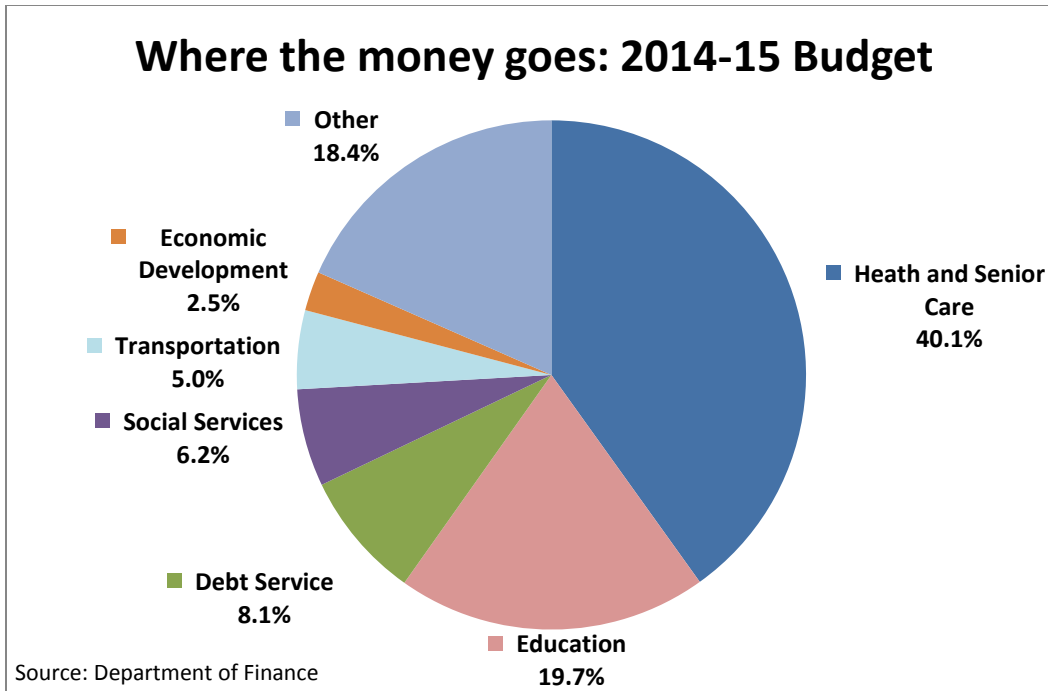
Expenses

The 2014-15 Budget forecasts total spending of \$8.4 billion. Spending in the major functional areas includes:

- **Health and senior care** is the largest category of government spending. At nearly \$3.4 billion, it represents more than 40% of total expenses in the 2014-15 Budget. Recent initiatives to more efficiently manage health and senior care have helped to reduce spending growth in these areas compared to historical levels.
- **Education** spending, which includes both K-12 and post-secondary, totals \$1.7 billion and represents almost one-fifth of total expenses.
- **Debt service** expenses are projected to be \$685 million in 2014-15. This consists of the interest that is paid on the province's debt and is equal to 8.1% of total expenses.
- **Social services** expenses include programs that provide assistance to individuals, families and children in need. This area represents 6.2% of total government spending.
- **Transportation** related expenses, including ordinary, capital and amortization expenses, total \$419 million and represent 5% of total government spending.
- **Economic development** expenses, which include the operations of the Department of Economic Development, Invest NB and the Regional Development Corporation, represent 2.5% of government's total expenses.

All other government operations, which includes pensions and employee benefits and departmental spending in areas such as Natural Resources, Public Safety and Justice, represents the remaining 18.4% of government spending.

The following chart outlines the key expense functional areas in the 2014-15 Budget:



Key Expense Risks

This section provides details on the key risks that have been identified in forming the expense estimates for the 2014-15 Budget and multi-year projections.

Key expense risks include:

- Unexpected events that could lead to an increase in government spending, such as major floods or other natural disasters.
- Major increases in demand for existing government programs and services.
- Increases in borrowing costs.
- Accounting-related changes.

Net Debt

Net debt is an indication of the extent to which provincial government liabilities exceed financial assets. Net debt has been increasing since 2007 and is expected to have reached \$11.7 billion in 2013-14. The 2014-15 Budget estimates an increase in net debt of \$530.7 million.

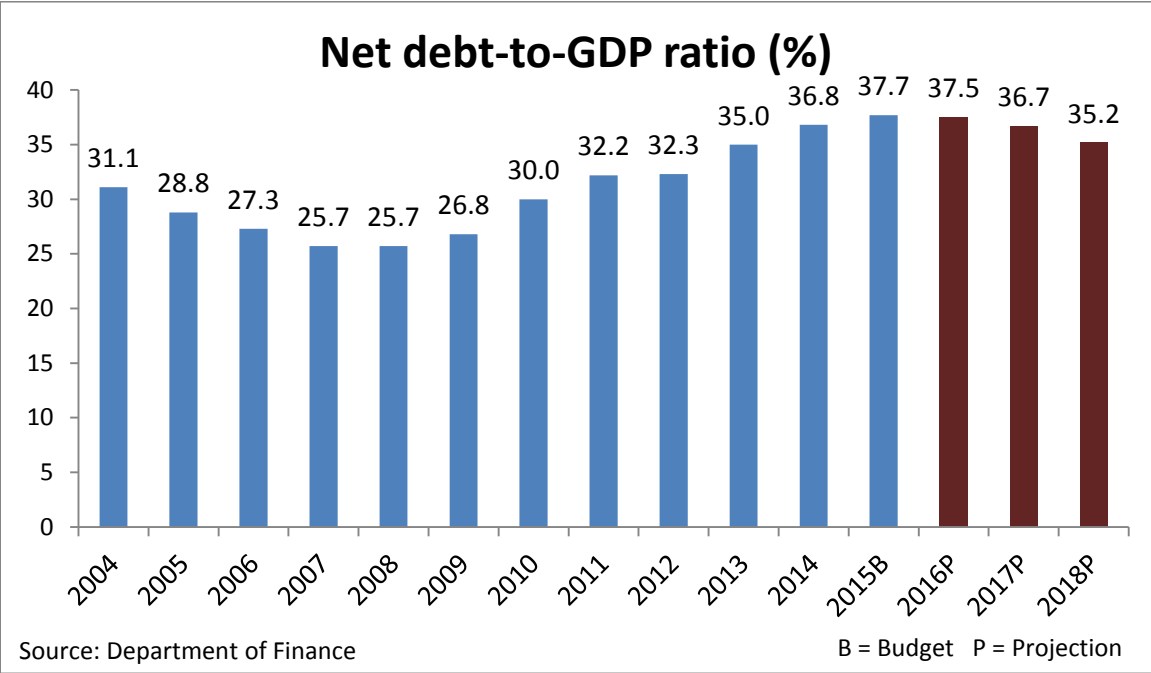
The province's net debt has increased over the last number of years largely the result of an extended period of weak economic performance, investment in capital projects, revenue measures and continued cost pressures from health and social programs.

The net debt-to-GDP ratio is one of the most accepted fiscal indicators among analysts and credit rating agencies and illustrates the relationship between net debt and the economy. With the onset of the economic downturn, the net debt-to-GDP ratio increased considerably, but is expected to start trending downward under the current multi-year fiscal plan.

The net debt-to-GDP ratio is impacted both by the growth of net debt as well as growth in GDP.

In the *FTAA*, a target net debt-to-GDP ratio of 35% is set for March 31, 2019. The current multi-year plan, which extends to March 31, 2018, would lead to a decline in the net debt-to-GDP ratio into the target range.

Achieving this level will require fiscal targets in the multi-year plan to be met. This will require diligence on behalf of government in terms of undertaking the necessary initiatives to ensure that the plan is respected.



“Rules of Thumb” for the Costing of Election Commitments

The *Fiscal Transparency and Accountability Act* requires the inclusion in the pre-election economic and fiscal outlook of general information to assist political parties in complying with their obligations relating to the costing of election commitments. This section includes baseline “rule of thumb” revenue and expense guidelines that can help inform the process.

This selection is by no means exhaustive and cannot cover all potential commitments. Expense and revenue estimates are high-level and are subject to change based on assumptions and the economy.

Revenue Indicators

The table below estimates the approximate tax revenue resulting from changes in tax rates. It should be cautioned that these estimates, while useful, are only guidelines and impacts can vary depending on the composition and interaction of the potential changes.

These estimates do not take into account economic impacts and should be viewed as “rules of thumb” for the value of small rate changes for each particular tax. Since economic impacts are not taken into account, the values will overstate both the additional revenue from a tax rate increase and the cost of a tax rate decrease. The table cannot be used for larger changes in tax rates.

Larger tax changes (i.e. greater than a one percentage point change) will generally have significantly different revenue effects from the estimates provided in the table due to the greater economic impacts arising from behavioural responses.

The effect of multiple tax changes on revenues will not equate to the sum of the individual tax changes. For example, a one percentage point change in both personal income tax rates and the Harmonized Sales Tax (HST) will not be equal to the sum of the individual revenue impacts. This is due to the interaction of the taxes and the combined impact such changes would have on the overall economy and revenues.

To raise a given amount of revenue, the specific tax or combination of taxes chosen will impact the economy in different ways. Short-run and long-run impacts can be very different since there is more time for behavioural changes and for markets to adjust in the long term.

Estimated Revenue Effect of Changes to Key Tax Rates

	2014 TAXATION YEAR *	
	CURRENT RATES	APPROXIMATE VALUE ^[1] (\$ million)
REVENUE SOURCE: [All values refer to a 1 percentage point change except: tobacco tax is a 1 cent per cigarette/stick/gram change; gasoline tax and diesel tax are a 1 cent per litre change.]		
PERSONAL INCOME TAX		
1st Bracket (up to \$39,305)	9.68%	64.0
2nd Bracket (\$39,305 up to \$78,609)	14.82%	38.9
3rd Bracket (\$78,609 up to \$127,802)	16.52%	10.5
4th Bracket (above \$127,802)	17.84%	6.2
Total (1 percentage point on all brackets)		119.6
GENERAL CORPORATE INCOME TAX	12%	17.0
SMALL BUSINESS CORPORATE INCOME TAX [2]	4.5%	9.0
FINANCIAL CORPORATION CAPITAL TAX	4%	7.0
INSURANCE PREMIUM TAX	3%/2%	19.0
3% for property and casualty; 2% for life insurance premiums		
HARMONIZED SALES TAX [3]	8%	140.0
TOBACCO TAX (¢ per cigarette/stick/gram)	19¢	8.0
GASOLINE TAX (¢ per litre)	13.6¢	10.0
DIESEL TAX (¢ per litre)	19.2¢	5.0

Notes

* The above estimates are based on information available as of May 1, 2014 and are subject to further revisions.

[1] The estimated revenue impacts do not include the resulting economic impacts.

[2] The small business corporate income tax rate applies to the first \$500,000 of active business income of Canadian Controlled Private Corporations (CCPCs).

[3] Provincial portion of the HST.

Expense Indicators

The table below estimates the approximate impact on expenses resulting from specific changes in programs or capital expenses. It should be cautioned that these estimates are only guidelines and impacts can vary depending on the design, composition and implementation of the potential changes.

Expense indicator	Estimated cost
Wildlife fencing per kilometer of fencing	\$80,000-\$100,000
Brush cutting per kilometer	\$2,000-\$3,500
Road construction per kilometer – grading and paving (excluding structures; costs can increase depending on the design, land requirements, condition of terrain, etc.)	
Arterial (highways #'s 1-99), 4-lane with interchanges	\$2.9-\$4.2 million
Collector (roads #'s 100-199), 2-lane	\$600,000-\$1.2 million
Local (roads #'s 200-299)	\$500,000-\$1.0 million
Paving (rehabilitation of existing road) per kilometer	\$250,000-\$400,000
1% increase in the Community Funding and Equalization Grant	\$660,000 per year
Cost to decrease the pupil / educator ratio by 1.0	\$51 million per year
Facilities operating cost / school (heat, snow removal, etc.)	\$335,000 per year
Preschool Autism Interventions – cost per child	\$27,500 per year
Increasing the operating grant to universities by 1%	\$2.2 million per year
Increasing the operating grant to NBCC and CCNB by 1%	\$950,000 per year
1% increase in social assistance rates	\$2 million per year
Increasing the wages of home care workers by \$1.00 an hour	\$6.3 million per year
Public schools average construction costs (excluding land costs)	
Grades K-5 facility	\$10-\$15 million
Grades K-8 facility	\$15-\$22 million
High School facility	\$30 million+
Health facilities average construction costs (excluding land costs)	
Health Centre (small, rural)	\$2 million
Health Centre (large, urban)	\$5 million
Hospital (45 inpatient beds)	\$100 million
Hospital (302 inpatient beds)	\$500 million+
Nursing home average construction costs (excluding land costs)	
30-bed facility	\$9 million
60-bed facility	\$15 million

Conclusion

The *Fiscal Transparency and Accountability Act* provides for greater transparency, accountability and responsible management of the province's finances. It was also designed to put additional rigour into the costing of election promises by political parties.

The Act has provisions to increase accountability and transparency including tabling multi-year fiscal plans with the budget each year, fixed timelines for fiscal reporting and in-year fiscal management provisions.

It also includes return to balance provisions such that the deficit must be reduced by a minimum of \$125 million from the previous year, or a surplus be attained. If the province is in a surplus position, it is to remain in a surplus position the following year. Ministers of the Executive Council will be held accountable for such performance. The multi-year fiscal plan included with the 2014-15 Budget and in this report is consistent with this provision.

For election years, it also increases accountability and transparency by establishing timelines for the release of the Public Accounts on which the Auditor General has given an opinion and the release of a pre-election, multi-year economic and fiscal outlook in advance of a fixed election date. This ensures the electorate has timely information on the province's fiscal position, and an understanding of the fiscal situation, leading into the election.

The Act also lays out rules for political parties to become more diligent and transparent in their election promises by requiring the costing of campaign promises and allowing New Brunswickers to assess for themselves their impact on the province's fiscal situation.

The *Pre-Election Economic and Fiscal Outlook* provides details to New Brunswickers on the economic and fiscal projections included with the 2014-15 Budget and multi-year fiscal plan. It includes a discussion of risks and assumptions for both the economic and fiscal situation as well as additional details on key indicators. It also provides "rules of thumb" to support costing of election commitments.

In summary, this report should afford New Brunswickers a better understanding of the province's economic and fiscal situation as we head into a fall election, as well as provide a baseline forecast and costing "rules of thumb" to aid political parties during the process.