British Columbia Budget Highlights

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Highlights and analysis of British Columbia's FY19/20 budget — **February 19, 2019, 4:30 pm**

Borrowing Boost

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The **Province of British Columbia is projecting a $274 million surplus** for FY19/20 (0.1% of GDP), which would mark the **seventh consecutive year in the black**. A $500 million forecast allowance is in place, along with $750 million for spending contingencies, providing plenty of wiggle room for the upcoming fiscal year, as is the norm for this province. The allowance shrinks to $300 million for the out years of the forecast. The FY18/19 surplus is now pegged at $374 million, down from $1.4 billion projected in the most recent fiscal update—tax revenues are tracking lower, while expenses related to BC Hydro, ICBC and student loan interest have lifted spending. Small surpluses extend over the three-year forecast horizon, but taxpayer-supported debt has begun to rise as a share of GDP, thanks to a hefty capital spending program. This continues a noteworthy turnabout after the ratio fell meaningfully in the four years through FY16/17. From a policy perspective, this budget makes much less of a splash than that of a year ago; instead, focusing modest new spending on priority areas such as clean energy and childcare.

Summary of Major Housing Measures

- **Child Opportunity Benefit** will provide up to $1,600 per year for a child up to age 18 (rises to $3,400 for three children) through a refundable tax credit. This will be income tested, fully phased out for a family with two children once household income reaches roughly $115k. The program will begin in October, 2020 (no fiscal impact this year).
- **Climate action tax credit** increased in 2019, 2020 and 2021, by $223 million total over that period.
- **B.C. student loans** will now stop accumulating interest.
- **Gross borrowing** of $7.5 billion for FY19/20, rising further over the next two years.

Total revenue is forecast to rise 4.3% to $59 billion in FY19/20, alongside modestly higher overall taxation revenues and stability at ICBC (recall that losses there meant a $1.2 billion accounting hit to consolidated revenues in FY18/19). Property transfer taxes (which account for roughly 3% of the total revenues) are expected to hold steady this year and through the forecast horizon—they've already fallen alongside a weaker resale housing market (both volumes and prices). All told, net new revenue measures announced in this budget come in at a modest $217 million reduction by FY19/20, but some previously-announced measures kicking in (i.e., the employer health tax) will add to the top line.

Table 1
Fiscal Summary

British Columbia (C$ mlns, except where noted)

	Est.	— Forecast —		
	18/19	19/20	20/21	21/22
Revenues	56,636	59,047	60,038	62,458
Expenditures	55,762	58,273	59,451	61,573
Forecast Allowance	(500)	(500)	(300)	(300)
Budget Balance	374	274	287	585
Taxpayer-Supported Debt	43,957	46,384	50,454	53,986
Total Provincial Debt	67,916	72,548	77,659	82,376
As a percent of GDP:				
Budget Balance	0.1	0.1	0.1	0.2
Taxpayer-Sup. Debt	14.9	15.0	15.7	16.1
As a percent of revenue:				
Resource Revenues	5.2	4.4	4.1	3.8
Federal Transfers	16.0	16.0	16.3	16.2
Key assumptions:				
Real GDP (% chng)	2.2	2.4	2.3	2.1
Nominal GDP (% chng)	4.6	4.4	4.3	4.0

Source: Provincial Budget ( ) = deficit
Note: GDP figures are for calendar year (FY18/19=CY18)

Table 2
Borrowing Requirements

British Columbia (C$ mlns)

	18/19	19/20	20/21
Operating (surplus)	(374)	(274)	(287)
Capital requirements	8,963	10,614	10,170
Refinancing	2,710	2,112	2,014
Other sources	(4,461)	(4,998)	(3,818)
Gross borrowing requirement	6,837	7,454	8,079

The **revenue outlook** is based on reasonable economic assumptions, as is usually the case with B.C. Real GDP is projected to grow 2.4% in 2019 and 2.3% in 2020. That forecast is almost right in line with our call for growth of 2.5% and 2.4%, respectively, and would be down from a five-year average growth clip of 3.0%. Despite a much weaker resale housing market backdrop, underlying unit demand (and construction activity) remains solid thanks to the job market and demographic flows. Meantime, the massive LNG project is set to break ground later this year. This should leave the province on course for still-solid growth, even if it is indeed backing down from the run rate over the past few years.

Total expenses are projected to rise a chunky 4.5% in FY19/20 to $58.3 billion. Health care and education will get meaningful boosts. Spending growth is then projected to soften to around 3% per year through FY21/22. In a nutshell, the clear shift toward stronger spending growth in the province doesn't appear to be tapering off yet.

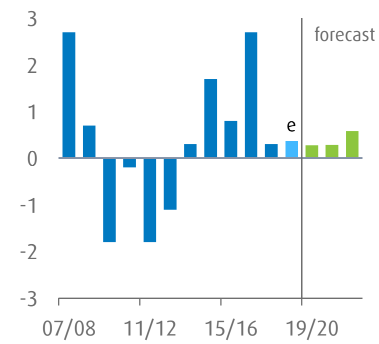
Meantime, **capital spending** will jump sharply again, rising by $1.6 billion to $10.6 billion in FY19/20 (combined taxpayer-supported and self-supported capex). It will then hold above the $10 billion mark in each of the subsequent two fiscal years (taxpayer-supported capex holds near $7 billion). A wide range of sectors have seen infrastructure investment boosted, including a number of the supply-side initiatives on the housing front.

The combination of higher capital spending and a small budget surplus will lift **taxpayer-support debt** by $2.4 billion in FY19/20, to $46.4 billion, or 15.0% of GDP (up a tick from the current fiscal year). Debt then rises above 16% of GDP by FY21/22, with the capital spending program remaining hefty. True, the level of taxpayer-supported debt and the ratio to GDP are lower than expected for FY19/20, a year ago, but after declining in recent years, the debt trajectory has turned up for the foreseeable future. While not as pleasing as seeing debt ratios fall year after year, the level remains highly favourable versus most of B.C.'s provincial peers and should keep the AAA rating intact for now—but the shift in priorities probably won't go unnoticed.

Gross provincial borrowing is estimated at $7.5 billion for FY19/20, up from $6.8 billion in FY18/19—the latter came in roughly $1 billion below expected due to lower refinancing and slightly undershoot in capital spending. Borrowing then rises further in each of the following two years, to $8.1 billion in FY20/21 and $8.6 billion in FY21/22, consistent with the themes discussed above.

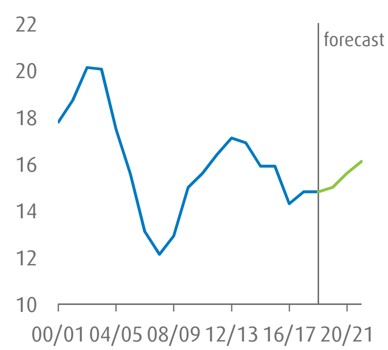
The Bottom Line: This budget largely stays the course charted a year ago, with a few new measures sprinkled on in priority areas. From a credit perspective, small surpluses and relatively low debt-to-GDP remain selling points, but more aggressive spending on the capital side has begun to lift debt and borrowing.

Chart 1
Steady Surplus
British Columbia (C$ blns)
Budget Balance



Source: Provincial Budget e = estimate

Chart 2
Debt Ratio Rises
British Columbia (% of GDP)
Net Debt



Source: Provincial Budget