

NEW BRUNSWICK BUDGET

March 28, 2006

BALANCED FOR AN ELECTION

- In 2005-06 New Brunswick ran a surplus of \$116.8 million or 0.5% of GDP, \$17.9 million over budget.
 - The energy relief package and tax cuts reduce the budgeted 2006-07 surplus to \$22.2 million.
 - Household energy bills are relieved to the tune of \$101 million over a full year.
 - The low-income tax reduction is increased.
 - The small-business tax rate will fall from 2% to 1.5% on July 1 and to 1% in 2007. The eligibility threshold will increase from \$450,000 to \$475,000 on July 1 and to \$500,000 on July 1, 2007.
 - The general corporate tax rate will fall from 13% to 12% in 2007.
 - Debt service will take 9.2% of gross revenues in 2006-07, the lowest ratio in more than 20 years. In 1994-95 it was 15%.
 - The ratio of net debt to GDP is budgeted to fall to 27.8% in 2006-07, the seventh consecutive decline.
 - The government has tabled legislation requiring balanced budgets and reduction of the debt-to-GDP ratio in future years.
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Opinion

New Brunswick ran a surplus in 2005-06 for a second straight year. Operating revenue was \$152 million or 2.5% over budget as a result of N.B. Electric Finance Corporation net income of \$93 million and higher-than-budgeted revenue from personal income taxes. The extra revenue funded \$134 million in new operating spending (2.2% over budget), including a one-time amount of \$60 million for acceleration of grants to universities.

The budget assumption of 2.5% economic growth is consistent with the average private-sector forecast. Operating revenue is budgeted to be flat in 2006-07 as a result of reduced income from electric power. Among the five objectives of the premier's "five in five" program of five-year targets is reduction of the poverty rate. The budget pursues this aim primarily by relief of household energy bills. Electricity rate increases are capped at 8% in 2006 and, effective July 1, the province will refund its share of the harmonized sales tax on household energy spending. These measures will cost \$101 million over a full year. A second objective is to make the provincial tax burden the lowest east of Alberta. To this end the budget raises the low-income tax reduction, eliminating provincial income tax for families earning up to \$22,000. Continued indexation of tax brackets and tax credits brings the total personal income tax relief to \$20.8 million. The small-business tax rate, already the country's lowest at 2%, will be further reduced. The eligibility threshold for this rate, already the country's highest at \$450,000, will be further increased. Total corporate tax relief will amount to \$20 million annually.

Operating spending is budgeted to increase \$102 million in 2006-07 (\$212 million or 3.2% before university grants were moved up to the 2005-06 year). Spending on health and elder care rises \$136 million or 5.8%. Spending on K-12 education increases \$37.5 million or 4.4%, essentially to hire more teachers and reduce class size. Other government spending rises less than \$40 million.

Balanced budget notwithstanding, net debt will increase \$87 million to \$6.9 billion by the end of the 2006-07 year to finance investment in tangible capital assets, which is excluded from operating spending. Debt service will amount to 9.2% of consolidated gross revenues, the lowest percentage in more than 20 years. The debt-to-GDP ratio will fall to 27.8% over a seventh consecutive year of decline.

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In sum, a government about to seek reelection has committed part of its option room to tax relief. However, any assessments of the risk to the province's financial position in the years ahead should take into consideration the Fiscal Responsibility and Balanced Budget Act, tabled December 7, which requires the government to balance its budget over designated fiscal periods and to reduce the net-debt-to-GDP ratio in successive fiscal years.

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New Brunswick

\$000	Budget	Forecast	Budget
	2005/06	2005/06	2006/07
Gross consolidated revenue	6,109,314	6,250,259	6,258,292
Taxes	2,771,930	2,821,215	2,879,065
Other Revenue	825,435	902,030	771,035
Transfers from the Government of Canada	2,284,949	2,300,514	2,378,492
Sinking Fund Earnings	227,000	226,500	229,700
Gross consolidated expenditure	6,105,325	6,236,890	6,345,284
Program Spending	5,504,325	5,641,990	5,770,141
Debt Servicing	601,000	594,900	575,143
Decrease (Increase) in Net Debt	3,989	13,369	(86,992)
Gross Consolidated Revenue	6,109,314	6,250,259	6,258,292
Capital Revenues Related to Tangible Capital Assets	(37,983)	(26,972)	(27,590)
Operating Revenue	6,071,331	6,223,287	6,230,702
Gross Consolidated Expenditure	6,105,325	6,236,890	6,345,284
Amortization Expense	211,564	198,437	209,123
Investment in Tangible Capital Assets	(344,438)	(328,858)	(345,928)
Operating Expense	5,972,451	6,106,469	6,208,479
Surplus (Deficit)	98,880	116,818	22,223
Debt Servicing / Gross Consolidated revenue	9.8%	9.5%	9.2%

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