

Prince Edward Island

2001 Budget

Keeping the Balance in Uncertain Times

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

by

Honourable Patricia J. Mella

Provincial Treasurer
and
Chair of Treasury Board

March 29, 2001

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

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PRINCE EDWARD ISLAND 2001 BUDGET

TABLE OF CONTENTS

THE BUDGET ADDRESS

Keeping the Balance in Uncertain Times	1
Public Input	2
Economic and Fiscal Performance	3
Economic Outlook	5
Fiscal Outlook	6
The Year Ahead	8
Health Care	8
Education	10
Job Creation and Development	12
Communities	14
Agriculture	14
Fisheries, Aquaculture and Environment	16
Tourism	17
Conclusion	18

BUDGET SCHEDULES

BUDGET PAPER A: BACKGROUND NOTES ON THE ECONOMY

BUDGET PAPER B: FEDERAL FISCAL ISSUES

BUDGET PAPER C: PERSONAL INCOME TAXES

THE BUDGET ADDRESS

Keeping the Balance in Uncertain Times

Madame Speaker, Members of the Legislative Assembly.

I am most pleased to present the Budget for the year 2001, whose theme is *Keeping the Balance in Uncertain Times*. I believe that this is a very appropriate message in view of the increasingly uncertain economic situation that is developing.

At the outset I wish to repeat the message of the 2000 Budget that our policies have placed the Island in a strong position as we begin the 21st Century.

We believe that the people of Prince Edward Island want straightforward, sound government that is cost effective and maximizes the use of the hard-earned tax dollars for which we are responsible.

In that respect, managing the Province is no different from managing the finances of any family household or business. You do what you can afford and you invest wisely in programs and projects that you judge will pay off in future years. I believe that we are now reaping the rewards of that approach.

Madame Speaker, it was not so long ago that Islanders were on the treadmill of out-of-control spending, rising deficits, rising borrowing and rising taxes. I wish to assure Islanders, that our Government, through this Budget, will stay committed to a fiscal strategy that will not go down that path.

"... our policies have placed the Island in a strong position as we begin the 21st Century."

In contemplating this Budget, it became increasingly evident that financial markets and the economic times have become very turbulent compared to a year ago.

Madame Speaker, it is the Government's responsibility to keep a solid financial house.

I believe that our record in moving to a balanced fiscal position, accompanied by sensible programming and affordable tax reductions have placed us in a strong position to weather the potentially harsher conditions that might lie ahead.

Public Input

The Provincial Budget is developed on the basis of the best advice we can find and draw upon from many sources. But fundamentally we must interpret the needs and priorities of Islanders. An important aspect of the Budget process is to hear the views of our taxpayers directly and to act on ideas on what should be the Government's priorities. I was most encouraged by the many individuals and groups who took the time to come to advance Budget meetings to advise on steps that Government should be taking.

I can assure all Islanders, from all parts of the Province, and from all walks of life, that my door is always open. We listen and we care about your concerns and any observations that might be helpful to us in developing the Budget.

Madame Speaker, in the final analysis, the Provincial Budget involves use of taxpayers' money and as such it must be representative of the wishes of the people of the Province.

I believe that the Budget that I have the privilege of presenting this evening appropriately reflects the priorities of Islanders.

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Economic and Fiscal Performance

The past year was marked by three developments: first, by extraordinary economic growth both nationally and locally; second, by rising financial pressures and mounting energy costs; and finally by the chaos created in our potato-producing sector from the closure of the US border to our products.

I will outline the events of the past year because they are important in understanding our finances.

The Canadian economy expanded by some 4.7 per cent in 2000, following significant growth in the previous four years. The Prince Edward Island economy increased by approximately 2.9 per cent, which marked three consecutive years of rapid expansion. Most significantly, employment on the Island was up by 5.2 per cent, the highest growth rate in Canada.

Madame Speaker, this is the greatest increase in employment the Province has ever witnessed in its history. There were on average 3,200 more employed persons in 2000 than 1999. The most recent statistics, for February 2001, show that there were 66,000 Islanders employed, the greatest number ever.

Madame Speaker, the provincial unemployment rate dropped to 12 per cent in 2000 as a result of the expanding job market and was 11.7 per cent last month. Economic growth was widespread as housing construction expanded, manufacturing grew and retailing jumped in value. Exports of Island products to other countries valued \$680 million, up from 1999 by 20 per cent. Retail sales increased by approximately 7 per cent and are now valued at \$1.24 billion.

This good news, however, did not extend to our traditional sectors. Tourism numbers were off slightly from 1999 consistent with a region-wide trend. Lobster volumes were up but lobster prices reduced the

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value of the catch consistent with a region-wide trend. But clearly the largest difficulty was faced by Island farmers with the value of potato sales down by 20 per cent. Even before the trade embargo, prices for North American potatoes were in a slump and obviously we are all aware of the consequences of the trade ban.

Given the strength of the manufacturing and services sectors, personal incomes were up sharply in 2000, and this was augmented by relatively strong growth in our population. Total labour income increased by 8.4 per cent on Prince Edward Island, surpassing national growth of 7.2 per cent.

During 2000, energy costs increased sharply around the world which impacted on the Island economy because of our dependence on oil.

The price of furnace oil and gasoline increased by 49 per cent last year. This pushed the consumer price index up to 4.1 per cent on Prince Edward Island compared to 2.7 per cent nationally.

Madame Speaker, more details on the Island's economic performance can be found in Budget Paper A.

The result of the strong economy, both nationally and provincially was that revenues performed well. We exceeded budget in sales tax, corporate income tax and Equalization entitlements. Personal income tax is the sole major revenue source that is below budget, caused by a negative adjustment from prior years. I might note that this was also impacted by the reductions in personal income tax rates in each of the past two budgets.

Overall revenues in 2000-01 are up from budget by \$64.7 million, of which \$24.8 million was in Equalization, \$17.4 million from Special Projects Fund, approximately \$14 million from federal support for farmers and the balance from other modest revenue improvements. The Province will have a modest deficit of \$6.7 million for 2000-01 which represents less than 1 per cent of total expenditures. Increased

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investments in health and education and assistance to the potato sector were the major sources of additional spending in 2000-01.

Our deficit would have been larger had it not been for the cooperation of my colleagues and government staff. In November, we asked all departments and government agencies to reduce expenditures by 1 per cent. I wish to express my appreciation for their ability to respond while not impacting on important services and programs.

While the Province would have preferred to have maintained a small surplus in 2000-01 this became increasingly impractical toward year end in view of the uncertainties created by the potato crisis.

Economic Outlook

Madame Speaker, looking forward to the new fiscal year, only four months ago there was a general expectation that continued strong economic growth would occur in the coming year.

The distinct slow down in the US economy this winter, coupled with the severe reductions in world stock markets have caused a serious reassessment of the economy. The economic uncertainties have also caused a severe drop in the Canadian dollar in recent weeks. Economic forecasters have trimmed their projections but still feel confident that economic growth will continue. However, the Canadian rate of growth will be significantly less, down from the upper 4 per cent range to the lower 2 per cent range.

Most economists believe that action by central banks to reduce interest rates will prevent serious economic weakness from taking hold.

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I am confident that by maintaining a balanced approach, the Prince Edward Island Government is sufficiently strong to move through these choppy waters without cause for serious concern.

One reason for this confidence is that others view us as a very good credit risk. I was most proud last summer to receive the upgrade of the Province's long-term bonds by the Dominion Bond Rating Service Limited, Canada's pre-eminent Bond Rating organization. It indicated that the Province's economic and financial management resulted in a strong fiscal performance, which permitted an increased credit rating, from BBB high to A low.

Fiscal Outlook

The fiscal outlook is predicated on the belief that the Prince Edward Island economy will experience modest growth, at about 1.5 to 2 per cent in 2001.

During the Budget preparation, difficult decisions were required to rationalize our spending commitments, in view of the emerging revenue picture.

We have been helped somewhat in our fiscal planning by the commitment of additional dollars by the Federal Government for Health and Early Childhood Development. In September 2000 Canada's First Ministers secured agreement for the restoration of funds through the Canada Health and Social Transfer, which raised our revenue from that source from \$75.2 million in 2000-01 to \$87.7 million in 2001-02.

But, Madame Speaker, I was most disappointed with the stand of the Federal Minister of Finance on the issue of the Equalization program, our largest single revenue source. Whereas Equalization revenues for the Province have improved, their future growth is

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seriously compromised by a ceiling, or cap, that he has imposed. I have repeatedly told Mr. Martin that this cap should be removed, as this program must be permitted to fully function to allow poorer provinces access to adequate funds, to provide public services comparable to other provinces. That is a Constitutional obligation of the Government of Canada.

The Government of Prince Edward Island believes that the Finance Minister is not honouring the agreement between the Prime Minister and the provincial Premiers of last September, to allow the program to expand with national GDP.

Budget Paper B describes Federal Fiscal Issues in more depth and I invite Honourable Members and the interested public to review this section.

Madame Speaker, I have emphasized in this, as well as our past Budgets, that the Government would lower taxes when we could afford it. The buoyant economy allowed us to implement significant personal income tax reductions in 1999 and 2000. We also removed sales tax on clothing and footwear. The effect of those measures will continue in 2001.

Madame Speaker, I have no new tax increases to announce this evening.

In supporting Island enterprises, we remain committed to assisting our business sector by narrowing the number of taxable inputs subject to sales tax. We also intend to carry through with our commitment to provide tax incentives to encourage business to locate in West Prince and other rural areas of the Province. A program will be announced shortly. I should also note that in 2001, the Province moved to a Tax on Income regime. The provincial *Income Tax Act* was amended in the Fall of 2000 to put this into effect. I should emphasize that the Tax on Income system effectively lowers our annual personal income tax

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revenue, resulting in a further saving of \$3.9 million, for Island taxpayers. This is because we include higher income thresholds for 2001 than were in effect in 2000 and the effective rate for the middle income bracket is reduced from 14.4 per cent to 13.8 per cent.

The Year Ahead

Madame Speaker, as I emphasized at the beginning of this Address, we will only undertake new programs that we can afford. It is our view that the Province must focus on the need for fiscal prudence and priority-spending needs. This is a budget that reflects the unpredictable economic circumstances that we now face.

Madame Speaker, I am pleased to report that the Budget for 2001-02 that I am tabling this evening, has a surplus of \$1.6 million. Total expenditures are set at \$959.1 million in the coming fiscal year and it is our firm resolve to hold fast to expenditures in order to achieve this surplus.

Program Expenditures

Priorities

Reflecting the needs of Islanders, health care, education, jobs and community development are the priorities of this Government.

Health Care

Madame Speaker, given the importance of health care to Islanders, this Budget commits more dollars to the Department of Health and Social Services than ever before. Health and Social Services will receive \$340 million in 2001-02, up \$23.3 million from Budget 2000.

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This department receives 42 per cent of all provincial program expenditures.

Tenders for the construction of the East Prince Health Facility are currently being awarded. The new facility will occupy 180,000 square feet, significantly more than the existing Prince County Hospital. Government contributed \$2.5 million in 2000 to establish the equipment fund for the new facility.

The multi-year Physician Recruitment Strategy is beginning to produce positive results as ten physicians relocated to Prince Edward Island to practice in 2000-2001, including seven family physicians and three specialists. A dedicated physician recruiter was hired and nine new physician positions were established and funded by the Government in 2000-2001.

The Province's Nursing Recruitment and Retention Strategy continues to attract new nurses and retain existing nurses in the Prince Edward Island health system. Initiatives of the already announced \$9.5 million multi-year strategy include the creation of 27 new permanent registered nurse positions to provide relief support in hospitals and long-term care facilities. Thirteen new nurses were recruited to Prince Edward Island last year and an additional 13 new nursing graduates were hired last year. Through the new Student Summer Employment program, 28 Bachelor of Nursing students were employed in Island health facilities.

An integrated Provincial Autism Policy will be implemented to provide improved access to early intervention for children with Autism. This is the result of the collaborative efforts of the Department of Health and Social Services, the Department of Education and non-government Autism support groups.

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As part of this new program, support will be increased for Applied Behavioural Analysis therapy, recognizing that early intervention can have a very positive impact for these children.

Child protection services will be enhanced as we prepare for the proclamation of our new child protection legislation. Funding of \$250,000 will be used to enhance front line staffing requirements, staff training and policy development.

Madame Speaker, I am pleased to announce on behalf of the Government a new Prince Edward Island Disability Support Program. This is the first disability support program in Canada to remove all financial disincentives to disabled persons entering the labour market. It is budgeted at \$7.4 million, of which \$1.5 million is new money.

Madame Speaker, children in Prince Edward Island will become tomorrow's successful and enthusiastic parents, caregivers, workers, leaders and citizens if they are given the opportunity to develop their capacities to the fullest. Amendments to the *Prince Edward Island Employment Standards Act* to allow parents to take parental leave for up to 52 weeks demonstrates this Government's commitment to support working parents in balancing work and family life. It allows parents to spend more time with their new babies or adopted children, during the critical first year. This reaffirms our dedication to the development of Prince Edward Island children.

More details on Health initiatives will be forthcoming from the Minister of Health and Social Services.

Education

Madame Speaker, improved education at all levels is vital to our future growth and prosperity.

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“ Amendments to the Prince Edward Island Employment Standards Act ... reaffirms our dedication to the development of Prince Edward Island children.”

“This budget will invest \$3.2 million in year two for the kindergarten program.”

Implementation of the Province's first publicly-funded, community-based kindergarten system is on track and the first group of children to enter this program are completing their programs in the next few months. This budget will invest \$3.2 million in year two for the kindergarten program.

The Government's Capital Construction Plan for Schools is a multi-year strategy to enhance the infrastructure of 10 Island schools and provide for the on-going capital maintenance of all schools in Prince Edward Island. This is the most ambitious school construction plan in the Province's history, once again reaffirming our commitment to Island communities and our children's development.

Madame la présidente, le Gouvernement s'associe avec le ministère fédéral de Patrimoine Canadien pour assurer que les communautés francophones et acadiennes de l'Isle reçoivent éducation et programmes culturels de haute qualité.

Nous allons contribuer deux millions deux cents mille dollars vers la construction de la nouvelle école française à Summerside, ainsi que la somme additionnelle de quatre cents quinze mille dollars qui sera dirigée vers l'éducation française à l'Île-du-Prince-Édouard. Ces fonds vont à aider la continuation des projets-épreuve de langue française à Prince Ouest et à Rustico, des jardins d'enfants en français, et des allocations à la Commission scolaire de langue française.

Madame Speaker, the Government is partnering with the federal Department of Canadian Heritage to ensure quality education and cultural programs are offered to the Island Francophone and Acadian community. We will contribute \$2.2 million towards the construction of the new French school in Summerside, as well as an additional \$415,000 which will be directed towards French education on Prince Edward Island. This funding will assist with the continuation of French

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language pilots in West Prince and Rustico, French kindergarten and funding to *La Commission scolaire de langue française*.

This Government has contributed \$1.4 million to cover the operating deficits of the Western School Board and Eastern School District, as of June 30, 2000. These deficits were due, in large part, to the increasing cost of fuel. In addition, we also approved a further \$1.2 million to be directed to school boards to help them deal with the high cost of fuel in the current school year. An additional \$700,000 is being provided to school boards for staffing and funding, which includes \$140,000 for the classroom program materials budget.

Madame Speaker, the Department of Education's budget for 2001-02 is \$197.1 million, which is an increase of \$12.5 million from 2000-01.

Our Island schools are the envy of many provinces as they enjoy full access to the Internet. Government is increasing the budget for technology support for the school system by \$250,000 and has also funded a \$100,000 computer upgrade in intermediate schools.

Through a cost-shared \$1 million partnership with the Labour Market Development Agreement, 38 user-support specialist interns will work with the Island's three school boards to assist field technicians in addressing technology issues in Island schools.

Madame Speaker, the Government has committed \$12 million over three years for increased financial support to Holland College and the University of Prince Edward Island. This is year two of this three year commitment and this Budget contains the second instalment of \$2 million for each of these important institutions.

Job Creation and Development

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The Government continues to be committed to job creation and economic development.

Madame Speaker, to strengthen development in this Province, our Government is contributing \$6 million to Prince Edward Island Business Development Inc. to offset the loss of federal dollars from the Regional Economic Development Agreement.

The Province is initiating the development of a world class facility to support the Island's high technology industry. The Atlantic Technology Centre will be a key development tool in retaining and attracting leading technology partners to Island companies. The Centre will provide infrastructure and resources to help develop and grow strong technology companies.

Team Canada is an excellent vehicle to increase business potential for our Province. Manufacturing exports have soared in recent years, as previously indicated, in part, because of trade missions. As a government, we have a responsibility to market Prince Edward Island directly to the global marketplace. During the recent Trade Mission to China, Prince Edward Island's major focus was on education. Holland College entered into formal relationships with several Chinese colleges which will see Holland College business technology curriculum delivered in China.

As a result of the Team Canada Atlantic mission to New England, Atlantic companies achieved \$1.85 million of sales, growing to \$15.7 million over two years.

In terms of business expansions, the manufacturing sector continues to lead the way. Several aerospace companies at Slemon Park are expanding. Two new neutraceutical operations are coming to the Charlottetown Airport Business Park. Smoked fish products and potato chip production will be expanding. Production of fibre optic cable assemblies and employment in call centres is also rising.

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Communities

Madame Speaker, in support of community development, this Budget provides \$4.2 million through the Canada-P.E.I. Infrastructure Program. In addition, the Government is pleased to announce a \$6 million initiative to support recreational facilities across the Province over the next four years. We will fund \$2 million immediately and the remaining \$4 million will be paid in equal amounts over years 2003 to 2005.

The Community Development Fund, which was established two years ago, resulted in \$2 million going towards community projects. This budget commits an additional \$500,000 towards community development projects.

The latest Access PEI sites have opened in Stratford, North Rustico and Crapaud bringing the total number of sites across the Province to 12. Access PEI offers Islanders one-stop shopping for over 100 government services, including motor vehicle registrations and permits. Each site offers basic core services such as building permits, driver's license renewals, marriage licenses, program and job applications, business registrations and a number of the sites offer other services, depending on the needs of the area.

Funding of \$500,000 has been established in this Budget to begin the planning for the construction of the new Prince County Courthouse.

Agriculture

“... the Government is pleased to announce a \$6 million initiative to support recreational facilities across the Province over the next four years.”

Madame Speaker, we all know that this has been a particularly difficult period for Island potato farmers. In response to the closure of the United States border in October of 2000, and voluntary restrictions on shipments to the rest of Canada, the Provincial Government quickly committed \$15 million of financial support to the industry. The objective of this program is to provide much needed cash flow to producers.

Agricultural safety nets are important in ensuring a measure of stability to producers but contributions to farm safety net programs were not sufficient to address the disastrous impacts of the potato wart crisis. After a lengthy and difficult delay, the Federal Government subsequently announced a contribution of \$12.6 million for diversion and an additional \$1.5 million to help the movement of potatoes to food banks across Canada. Further discussions will be held to ensure federal support is expanded. We will continue to work closely together until this matter is resolved and the ban on exports is removed.

In support of the Food Strategy goals, financial and technical assistance of \$3.4 million has been committed to date under the Agriculture and Environmental Resources Conservation program for on-farm projects such as manure storage, hedgerow establishment and soil conservation.

In support of the sustainable management of the Province's forest resources, the level of seedling production was increased to three million seedlings over the past year. In recognition of the importance of our forests to present and future generations of Islanders, each newborn child in Prince Edward Island is being presented with a Red Oak seedling. As well, a special ceremony was held in the past year to mark the planting of the 50 millionth tree by the Provincial Government.

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“New funding of \$1.7 million will be allocated to the Seed Potato Quality Strategy...”

New funding of \$1.7 million will be allocated to the Seed Potato Quality Strategy and funding of \$1 million will be available for the Agriculture and Environmental Resources Conservation Program.

Fisheries, Aquaculture and Environment

The fastest growing sector in the Prince Edward Island fishery, aquaculture, continues to have a major impact on rural communities, creating new opportunities for steady, long-term employment. To strengthen the aquaculture industry in 2001, the Government will explore potential for growth in the finfish sector which builds upon one of Prince Edward Island's natural strengths, the high quality of our ground water. This Budget will provide increased funding and will support new initiatives to expand research and training and explore new technologies in the fishery.

Madame Speaker, water quality problems in many parts of Canada last year have given all Canadians a greater appreciation for this invaluable resource. Here in Prince Edward Island, we have seen evidence of that heightened awareness in the vast increase in the number of requests for water sampling and laboratory analysis of drinking water. The Department of Fisheries, Aquaculture and Environment processed approximately 11,000 ground water samples in the year 2000; double the figure from 1999.

Last year's budget included an investment of \$500,000 for new laboratory equipment to provide more efficient processing of water samples. As well, our Government provided additional resources to meet the increased demand for water testing that developed throughout the year. A further \$270,000 is committed towards a Drinking Water Strategy for Prince Edward Island.

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Research is a key component of economic development. Our Government is investing \$250,000 over five years in the Lobster Science Centre at the Atlantic Veterinary College. In addition, the Department of Fisheries, Aquaculture and Environment has hired a lobster biologist to assist in expanding lobster research initiatives in Prince Edward Island, in cooperation with the Federal Department of Fisheries and Oceans, the industry and the Lobster Science Centre.

Tourism

Madame Speaker, the 2001 Tourism Marketing campaign was recently announced and will continue to focus on the Island's primary markets of the Maritimes, Quebec, Ontario and the Eastern Seaboard of the US. Our emphasis will be on regaining market share in our traditional markets as we continue to promote the Island as a great vacation destination.

The Regional Economic Development Agreement between the Federal Government and the Province will expire on March 31, 2001, which would have resulted in a decrease in tourism funding of \$800,000 in the 2001-2002 budget year. Our Government has restored this funding, as tourism is a key component of our economy.

A committee comprised of representatives from Government, the private sector, the tourism industry and Island municipalities has been established to review the Province's signage policy and to make recommendations on future direction. It has been over 25 years since the current policies and programs for commercial signage were put in place and a great deal of development has occurred since these policies were first established.

This Government will contribute approximately \$625,000 towards upgrading Provincial Parks waste/water treatment facilities and

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\$525,000 to construct a new visitor information centre in West Prince.

This summer, Prince Edward Island will play host to the World Boy Scout Jamboree, which will be held at Cabot Provincial Park. Also, the Canadian men's golf tour will return to Prince Edward Island this year to play at Mill River.

Madame Speaker, we can take pride in the fact that, for such a small province, we have more than our fair share of world class sports athletes. I cannot name them all, but Lorie Kane's performance last year in the LPGA was outstanding. The Lorie Kane Island Challenge, here at Brudenell, commanded an international audience last summer. Who can forget the performance of Eli MacEachern in winning gold in the last Winter Olympics? The Canadian goal ball team, with Islanders Contessa Scott and coach Frank MacIntyre, returned from Sydney in 2000 with gold medals. Brad Richards of Murray Harbour is presently a prime candidate for the National Hockey League's rookie-of-the-year honours. I should note that Steve Edmonds from Stratford will be representing Canada in judo at the 2004 Olympics.

Now we are home to the World Junior Women's Curling Champions thanks to the superb performance of the Suzanne Gaudet rink in Utah.

The world attention that our ambassadors in sports have achieved can only add to the appeal of Prince Edward Island as a great vacation destination. We have every reason to believe that tourism will reach new heights in 2001.

Conclusion

Madame Speaker, a year ago I brought in a Budget that was based on the theme of a Balanced Agenda. I believe we delivered on that

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promise. We have kept to our basic priorities of improved Health Care, Education, Jobs and Community Development.

A balanced approach is key to sustained economic and social improvement. It is my belief that the 2001 Budget responds to the economic and social needs of Islanders in the coming year, while continuing to provide a foundation for future prosperity.

The strength of the Province lies in all the dedicated people who share our commitment to make this province a better place to live.

In closing Madame Speaker, I want to thank everyone who had a part to play in bringing forward this Budget, the staff in Provincial Treasury and other departments, the members of the Government and to those Islanders who brought forward their ideas and proposals in the past months.

Thank You.

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