

**Prince Edward Island**

# **1998 Budget**

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

**by**

**Hon. Patricia J. Mella**

**Provincial Treasurer  
and  
Chair of Treasury Board**

**March 26, 1998**

The full text of the Budget Address is available on the Internet at the Prince Edward Island Information Centre located at the following World Wide Web address:

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

Files containing the Budget Address, associated tables and supporting materials are also available for download in several popular word processor formats at the same address.

# **PRINCE EDWARD ISLAND 1998 BUDGET**

## **TABLE OF CONTENTS**

### **THE BUDGET ADDRESS**

|  |    |   |
|--|----|---|
| Introduction: Meeting Our Objectives . . . . . | 1  |   |
| People Make It Work . . . . .                  | 2  |   |
| Principles . . . . .                           |    | 2 |
| Fiscal Responsibility . . . . .                |    | 3 |
| Fiscal Performance . . . . .                   | 4  |   |
| Budget Estimate for 1998-99 . . . . .          | 8  |   |
| Priorities . . . . .                           | 9  |   |
| Conclusion . . . . .                           | 12 |   |

### **BUDGET SCHEDULES**

#### **BUDGET PAPER A: BACKGROUND NOTES ON THE ECONOMY**

#### **BUDGET PAPER B: FEDERAL FISCAL ISSUES**

#### **BUDGET PAPER C: BUSINESS PLANS 1998/99 - 2000/2001**

## THE BUDGET ADDRESS

### Introduction: Meeting Our Objectives

Mr. Speaker, Members of the Legislative Assembly.

This is the second occasion that I have had the privilege of presenting the Provincial Budget, and the Three Year Financial Plan for our Province. It has provided me the opportunity to reflect on the financial administration of our Government, and I am pleased to say it is all good news.

Fiscal year 1997-98 stands in contrast to the deficit roller coaster ride of the last decade.

Over the past year, we have maintained prudent management over expenditures while at the same time:

- We have corrected some long standing issues;
- We have invested in education and health care; and
- We have fostered job creation and community development.

A clear direction has been established which reflects the priorities of Islanders.

In short, Mr. Speaker, *we did what we said we would do.*

I take great pride in saying that we have exceeded our target in terms of the deficit, reflecting solid fiscal management and good economic performance.

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it is all good news.”*

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This is a Budget that recognizes our social responsibilities and provides for the educational and health needs of Islanders within the principles of sound financial prudence. Our Government will plan carefully and achieve our goals. We are willing to make the right decisions and do what is necessary to build a better place for the people of this Province.

### **People Make It Work**

At the outset, I want to thank the many who are involved in the Budget Process and who work year round to maintain the integrity of the Budget and the Three Year Plans. The Budget sets the framework, but it is the daily direction and decisions of individual government employees in departments, agencies, and crown corporations which determine the true success of government's fiscal plan. I know the pressure is always there for additional expenditures, and financial management often requires difficult decisions. Many times small decisions seem remote from the overall financial performance, but it is the combination of those small decisions that help us achieve our common objective. I want to thank all those employees of government who by the wise use of resources help us to control costs.

I thank my government colleagues for their support and commitment to the principle of sound fiscal management. The result is a better fiscal future for our Province and Islanders. Fundamentally, we are more able to effectively address the needs of Islanders without undue pressure on future generations.

### **Principles**

Mr. Speaker, effective decision making requires guidance. We came to office with a clear mandate and a determination to offer direction to the decision making process.

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This Budget marks another step forward in that mandate. We told Islanders we would be guided by the priorities of education, health care, job creation and communities. Both our financial and our policy decisions reflect those priorities.

This is the basis for the Budget process we have undertaken.

We told Islanders we would be guided by the principles of fairness, openness, accountability and fiscal responsibility.

This Budget meets those principles.

### **Fiscal Responsibility**

Mr. Speaker, we are cognizant of the need for a high level of fiscal responsibility notwithstanding the difficult decisions that this requires. We have maintained a strong emphasis on expenditure control and rationalization of programs, without effecting the delivery of services. We are mindful of the needs of Islanders and while keeping education and health foremost in our plans, we realize there is a widespread consensus that our deficit and debt must be reduced. We are well aware that too much of the debt we incurred in the past has resulted from operating deficits year after year and a high burden of debt is a major obstacle to economic growth and stability.

Our strategy has two objectives. One objective is to provide good government while consistently managing our financial affairs with the objective of balancing our accounts. While we are committed to living within our means, we do recognize that some degree of flexibility is necessary and a blind focus on deficit reduction does not always lead to good government.

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Our second objective is to encourage the private sector to be the engine for our economy. We have to be expansive in our thinking and must partner with the private sector to build a better economy.

Successful public/private partnering offers us the opportunity to improve services for Islanders, expand our economic base, and create employment opportunities.

Combining Government resources with the private sector must take into account two important factors. One is respect for the rights of employees of Government. Our employees are one of our most important resources as it is through them that government services are largely designed, planned and ultimately delivered. I wish to publicly acknowledge the outstanding work and dedication they bring to their positions in Government and thank them for their significant contribution.

The second factor is that we must always practise sound fiscal management taking into account both economic and social circumstances. We must strive to maintain our existing programs while at the same time meeting our existing credit requirements without increasing the debt burden on our economy.

### **Fiscal Performance**

Mr. Speaker, I am pleased to report that in our first full year as government, our provincial economy has performed well. A major factor was of course the completion and opening of the Confederation Bridge. An immediate consequence of this was an upsurge in tourist traffic. The level of tourism on Prince Edward Island in 1997 was at an all time high. Expenditures by tourists brought in \$246 million, which represents an increase of 63% from 1996. Retail activity on the Island in 1997 was also at an all time high, valued at over \$1 billion, up by 8% over 1996.

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The renewed confidence of Islanders in the economy was apparent in the 14.5% increase in the number of new motor vehicles sold in 1997. In addition, the value of shipments of manufactured products reached \$881.4 million in 1997, also an all time record, up by 18% over 1996.

These statistics are indicative of the vitality and strength of the provincial economy going into 1998. It should be pointed out that in 1997 employment statistics for the Island were weakened somewhat as a direct consequence of the completion of the Bridge, with resulting loss of construction work and ferry activity. Last month, the unemployment rate for this Province was 13.6% which compares very favourably with the 16.0% rate of employment in early 1997.

Despite the loss of these major work generators, our provincial economy grew overall by some 0.7 per cent in 1997. Inflation in 1997 remained extremely low, at 1.3%. Going into 1998, the unemployment rate has averaged 14.4% which compares with 16.0% in early 1997.

In terms of the crucial primary sectors, farm cash receipts were down in 1997, the result of weak potato prices, but the value of the fish harvest was up, at \$111.9 million in 1997, from \$104.7 million in 1996.

Mr. Speaker, I should like to draw the attention of the Members to Budget Paper A "Background Notes on the Economy" which provides more details on the economic situation for fiscal year 1997-98 and other years.

Also, assisting the finances of the Province was the strong performance of our national economy which feeds through to the Province in the form of increased Equalization payments.



Mr. Speaker, last November our government took an innovative step in support of our provincial economy with the removal of the sales tax on clothing and footwear purchases over \$100. This was very well received by the retail sector and Islanders in general. Preliminary assessments by the Department of the Provincial Treasury indicate that this measure has had a positive impact on sales in our Province. I recognize that Government alone cannot determine the course of the economy, but as this measure demonstrates, government working in co-operation with the private sector can have a positive impact.

I should also point out such a change would not have been possible if the Province had agreed with the federal request to harmonize the GST and PST.

The improved economic and financial situation has permitted us to make some additional investments in this budget to address outstanding public needs.

- One million dollars has been directed towards needed maintenance and improvements to health care facilities across the Province.
- One million dollars has also been allocated towards addressing compensation for Hepatitis C victims.
- Various school improvements have also been financed.

A strategic investment was possible in support of the Government's emphasis on the knowledge economy as an economic development tool. The Computer Home Purchase Program assisted several thousand Islanders in buying or upgrading home computers and improving access to the Internet.

Also included in the accounts for the 1997-98 year is an expenditure for approximately two-thirds of the construction cost of the Hillsborough Bridge. Financing for the project was

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originally set up through an operating lease. However we have now decided to account for the financing of the Bridge as a capital lease, and to record the costs on a percentage of completion basis. This is a clear indication that we intend to purchase the Bridge at the option date in the year 2001, and put to rest the question of allowing tolls to be charged. This accounting and reporting treatment is a cautious approach and was completed in consultation with the Auditor General of Prince Edward Island.

In view of the improved economy, provincial source revenues increased in some areas though they were partly offset by reductions in other areas. The strong national economic performance has meant that Equalization entitlements were greater than anticipated. The overall financial result is good news for the Province.

I should like to emphasize that I remain concerned about our ability to accurately predict federal transfer entitlements, but I am sure we all agree that it is better to err on the side of caution. As history has demonstrated, the fluctuations can be extensive and in the case of a negative fluctuation the resulting impact on the Province's financial picture can be devastating.

In making a statement on provincial finances to this Assembly last Fall I informed members that I expected the deficit for the fiscal year 1997-98 to be lower than the Budget figure of \$17.1 million.

Tonight, I am pleased to report that the Budget deficit for the fiscal year 1997-98 is in fact significantly lower and will be \$9.2 million. That is 46 percent lower than originally forecast.

It represents a major turn around from the status quo \$55 million deficit that we faced after assuming office in November of 1996.

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### **Budget Estimate for 1998-99**

Our forecast for the 1998-99 fiscal year is a Budget deficit of \$3.4 million. Combining the two years, we expect to be about \$4.0 million ahead of the original forecasts. This has also permitted us to ease some of the pressure for further reductions in key areas of government service.

Total expenditures for the next fiscal year will be \$782.2 million. We will continue to be guided by the priorities of Islanders in planning these expenditures.

Mr. Speaker, I am also pleased to report to the Assembly and to Islanders that this Budget does not contain any tax increases.

I wish to emphasize:

- tax rates for personal income taxes remain unchanged;
- tax rates for corporate income taxes are unchanged; and
- property tax rates are unchanged.

Government is mindful of the importance of holding the line on taxes. That has also meant holding the line on increased expenditures. We are still facing deficits and dealing with a high level of debt, so it is far too early to begin discussions on where to reinvest any fiscal dividend that may result from meeting that challenge. It appears that there is no end to the possible areas of increased expenditure. Our government is faced with new or additional requests almost on a daily basis. While recognizing the value of those requests, our priority is to maintain necessary existing services, before contemplating expansion into new areas.

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**Priorities**

Mr. Speaker, this government places a high priority on education and health care. Over the past year this has involved working to correct the misdirection initiated by the decisions of the previous administration.

Mr. Speaker, each day approximately 32,000 students attend one of our educational facilities. They carry with them, not only their own hopes and aspirations, but the future of our Province. We have an obligation to ensure the education system meets their needs by properly preparing them for the future. It is a demanding task, one that has been complicated by a variety of demands, conflicting interests, and constraints placed on the system.

The Minister of Education with the support of his colleagues has developed a four year business plan to meet the critical construction needs across this Province. Fundamentally, we need to improve our facilities and by working together, parents, teachers, communities and business leaders can revitalize our educational institutions. We cannot allow the existing capital infrastructure to inhibit our ability to educate Island students.

The Minister of Education will present to this Assembly a detailed plan for addressing the capital construction needs of the education system. It is unfortunate that needed improvements have not been carried out on a more regular basis. We intend to correct that. While investing millions in capital improvements, we will also continue to invest in ongoing maintenance services so that facilities are not permitted to deteriorate in the manner that has occurred in the past.

We recognize, as do Islanders, that because the situation did not occur over night, it cannot be corrected over night. Our Premier has stressed the need for long-term planning. The renovation of our school facilities will involve the expenditure of many millions

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of dollars over a four year period.

We also recognize the need to enrich our programs to include modern technology. The private sector will be encouraged to work with government in providing a better educational system. Business leaders are interested in working towards a better educated workforce, and will assist government in bringing needed technology to the classroom.

Through the provincial Broadband network, Island schools will be able to share resources electronically which will better prepare our students to enter the knowledge economy. Computer based learning is active, contemporary, and promotes the skills that businesses value most which is problem solving, teamwork, and familiarity with technology.

Mr. Speaker, we are also committed to a three year funding plan for post-secondary education. These institutions are a tremendous resource and play a major role in the development of our youth. We must work in cooperation with our post secondary institutions so that as many Islanders as possible will have the opportunity to pursue post secondary education. I am pleased to announce that this Budget includes additional targeted funding for UPEI, Holland College, and the Atlantic Veterinary College to partially offset increases in tuition fees.

We continue to pressure the federal government to restore funding to post-secondary education and to address the student debt situation.

Mr. Speaker, while Canadians applaud the Federal Government's efforts to balance the Budget, as an Islander and Provincial Treasurer I disagree with the method they have chosen to accomplish their goal. A large share of the federal spending cuts have come at the expense of the provinces.

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Nowhere have those federal cuts been more damaging than in the health care system. While the demand for services, and the costs of providing those services continue to increase, the Federal Government has reduced its support through the Canada Health and Social Transfer (CHST). We now receive \$28.6 million less per year than we received in 1995-96.

While the federal cuts have been dramatic, it is very difficult for the Province to hold the line on health services let alone increase them. The Prince Edward Island Government, and I believe all Canadian provinces and territories are extremely distressed by the failure of the Federal Government to reinvest in health care. The most disappointing aspect of the recent Federal Budget was that nothing was done in this regard. This failure does nothing to help chart a positive course for health care services into the new millennium. I draw attention of the Members to Budget Paper B "Federal Fiscal Issues".

While struggling to address the federal funding cuts in health, government has been able to respond to many needs.

In 1997, our Minister of Health and Social Services with the support of her colleagues has:

- amalgamated the Province's Health and Community Services Agency with the Department of Health and Social Services to make services more efficient and accountable;
- returned the GST rebate to low income Islanders receiving social assistance;
- established a neonatal intensive care unit at the Queen Elizabeth Hospital;
- reversed the previous administration's plans to eliminate on-Island oncology services;

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- worked with the Federal Government in the development of a National Child Benefit Program;
- established a new Provincial Patient Registry system to assist Islanders in finding a family doctor;
- recruited eight new physicians to Prince Edward Island in 1997; and
- maintained our hospitals during the year with no reductions in beds, staff or services.

### **Conclusion**

Mr. Speaker, a year ago I presented the first Budget of the new administration, a Budget that required difficult measures to deal with the severe fiscal challenges that we inherited. At that time, I concluded that the 1997-98 Budget would meet the challenges and put Prince Edward Island on the road to a better tomorrow.

It is evident that our strategy has worked, that our fiscal and economic situation has improved and will continue to improve. There can be no doubt that our vision of Prince Edward Island, as a prosperous and generous society, with a strong spirit of community, holds us in a good stead. Our vision for the coming century continues to be to help create the best province in Canada in which to live. It is with this in mind that I present this Budget to the Legislature and the people of Prince Edward Island.

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***“Our vision for the coming century continues to be to help create the best province in Canada to live in.”***

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