

2016 BC Budget: Summary for BCEDA

FEBRUARY 16, 2016

Please find below a summary of the economic development highlights of the 2016 BC Budget, released today by the provincial government in Victoria.

Rural Dividend Program

The most significant announcement for economic developers in BC communities is the creation of a **Rural Dividend Program**. It will be funded with \$25 million per year for the next three years to support communities with populations under 25,000 to diversify their economies.

The details of the program will be finalized over the next few months, with the intent to receive applications from communities starting in the summer and the first funding decisions made in the fall. While exact program guidelines have not been finalized, it is expected that funding will be restricted to projects focused on economic diversification, not infrastructure or other possible spending priorities. There is not expected to be a fixed cap on the size of the application, but the government will be conscious of regional equity. Applications are expected to be evaluated by a committee of assistant deputy ministers, unless certain funding thresholds are reached and it needs to be evaluated by deputy ministers or even more senior authorities.

Other Industry and Economic Development Announcements

A variety of initiatives were announced relating to particular sectors, including several that are simply the continuation of existing initiatives. These include:

- **Marketing BC forest products in India.** An additional \$5 million over three years is being provided to Forest Innovation Investment Ltd. (FII), a Crown corporation, to enhance forest product marketing in India. The intent is to repeat the recent success of FII in expanding BC forest product sales in China, which have increased from \$15 million fifteen years ago to \$1.5 billion now.
- **Rural tourism maintenance.** An additional \$2 million per year for three years is committed to helping rural communities maintain historic sites.
- **Expansion of tax relief for rural tourism accommodations.** The *Tourist Accommodation (Assessment Relief) Act* provides financial support to tourism accommodations located outside municipalities. It currently provides for up to a \$150,000 reduction in the assessed value of a property, thus lowering its property tax bill, but this will be increased to \$500,000. The threshold at which the benefit is reduced is also increased from \$2 million to \$4 million.

- **Agricultural Land Commission funding increase.** An extra \$1 million per year for three years is committed to support more efficient application reviews, enhanced compliance and enforcement activities and increased support for the operation of regional panels.
- **Continued investment in the aerospace industry.** The government will continue its partnership with the Aerospace Industries Association of Canada by continuing to fund its Pacific division. This will be the third year of a five-year commitment of \$1 million per year.
- **Continued funding of the International Maritime Centre.** The second \$1 million installment of a three-year commitment is provided to support the attraction of shipping and related companies to Vancouver.
- Other announcements potentially of interest to economic developers include:
 - Although not new to the budget, a \$15 million commitment to Create BC was recently announced to support the music industry.
 - Expansion of the Small Business Venture Capital Tax Credit budget by \$5 million.
 - Introduction of a Farmers' Food Donation Tax Credit
 - Mining Flow-Through Share Tax Credit extended for one year.
 - Mining Exploration Tax Credit extended for three years.

General Headlines

These are the items likely to attract the most general attention from today's budget presentation.

- **Balanced budget and Canadian fiscal leadership.** Finance Minister de Jong placed a lot of emphasis in his budget presentation on the achievement of a fourth consecutive balanced budget. The province's strong fiscal performance is contrasted with other jurisdictions in Canada, where only Quebec is intending to have a balanced budget in the next fiscal year.

When the government talks about a balanced budget, they are referring only to the "operating budget." Total provincial debt continues to increase due to borrowing for capital spending, but this is managed by keeping the total debt to GDP ratio in decline (it has declined from .

Total investment in capital spending is expected to be \$12 billion in the next fiscal year, of which \$8.2 billion is borrowed. This is used to fund \$3.1 billion in transportation improvements, \$2.9 billion for major health care projects, \$2.5 billion for post-secondary education facilities and \$1.7 billion for K-12 school facilities, including seismic upgrading.

Total provincial debt is expected to be \$42.7 billion after the current fiscal year. Almost all of this (\$34.6 billion) is now due to capital spending and the amount of accumulated operating debt from past deficits is being reduced with each successive budget surplus. The plan is to

completely eliminate this operating debt by 2020, which would be the first time that has been achieved in BC since 1975.

BC has maintained its AAA credit rating, which Alberta recently lost and Saskatchewan has been put on watch for a downgrade. That would make BC the only province in Canada with a AAA rating. The Minister explained the value of this rating by contrasting it to Ontario. If BC had Ontario's fiscal situation and credit rating, the Province's interest payments this year would increase from \$1.6 billion to more than \$4 billion.

- **Medical Services Plan (MSP) Premium Change.** The formula for calculating MSP premiums has changed. All children are now exempt and premium assistance has been enhanced for low-income individuals and seniors. Premiums will increase for some adults to compensate for the reductions elsewhere, particularly couples making more than \$45,000.
- **Enhanced data collection on real estate purchases.** Purchasers of BC real estate will be required to state their citizenship, and corporations and bare trusts must disclose the citizenship of their directors and beneficiaries. The Minister emphasized that this should not be interpreted as a change in the Province's ongoing interest in encouraging foreign investment in BC and migration to BC. How the data on the role of foreign money on the housing market will be used will depend on what the data shows. Data collection is expected to begin in the summer once the necessary legislative changes and modifications to forms have been completed.
- **Housing affordability initiatives.** A variety of tax changes were announced, including exemptions for property transfer tax on new homes up to \$750,000. This is funded by an increase in the PTT from 2% to 3% for homes valued above \$2 million. Capital funding of \$355 million over five years was announced for construction and renovation of affordable housing.
- **Establishment of a BC Prosperity Fund.** The Fund will receive an initial \$100 million from the forecast 2015-16 surplus. The long-term purpose of the fund is to eliminate BC's debt, to make investments in priority areas like health care, education, transportation and more generally, to preserve a share of today's prosperity for future generations. This fund was previously discussed in connection with the establishment of a liquefied natural gas (LNG) industry, but the achievement of multiple balanced budgets has prompted the creation of the fund without a connection to any particular industry.
- **Establishment of a commission on tax competitiveness.** The Commission will be tasked with studying ways to modernize the existing tax structure, with explicit instructions not to consider a harmonized sales tax. The Chair and members of this commission will be announced at a future date.

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