

April 19, 2004

## BUDGET 2004 BALANCED WITH NO DRAW FROM THE FISCAL STABILIZATION FUND

For the first time in the history of balanced budget legislation (BBL), the Manitoba government has introduced a budget that is balanced under the law and commits to paying down \$96 million in debt and pension liabilities without a planned draw from the Fiscal Stabilization Fund (FSF).

Budget 2004 notes that one of Manitoba's ongoing challenges has been upholding BBL and reducing debt and pension liabilities without relying on the FSF. Since BBL's introduction in 1995, Manitoba has never had a budget that projected a debt payment without an FSF draw.

The budget also notes that the province has had to deal with the impact of a slowdown in national economic growth as well as a reduction of \$104 million in federal funding for Manitoba health care for 2004. Budget 2004 addresses these three fiscal challenges.

"Today's budget keeps our promise to work within balanced budget legislation, pay down debt, reduce taxes and make strategic investments. This budget follows this course without reliance on the rainy day fund," said Finance Minister Greg Selinger. "We believe this approach is critical to addressing today's challenges while building for the future."

Budget 2004 follows a year of challenges that included the BSE crisis, severe drought in some regions, the second worst forest fire season in Manitoba history and a rising Canadian dollar.

Selinger said with all the challenges facing Manitoba, it was more important than ever to stick to the long-term plan that has earned Manitoba two credit rating upgrades.

Budget 2004 continues a five-budget track record of reducing taxes,

paying

down debt, upholding BBL, and investing in key services and infrastructure.

Today's budget:

\* is balanced under BBL and dedicates another \$96 million to pay down

the debt and pension liability with no draw from the FSF;

\* continues with personal income tax, property tax and business tax

cuts that have totalled \$385 million annually since 2000;

\* continues with strategic health care investments to address wait times, improve emergency room service, and ensure an adequate supply of health care professionals;

\* features new infrastructure investments such as funding for significant new highways projects such as the full twinning of the Perimeter

Highway;

\* promotes new efficiencies with the merger of driver and vehicle licensing and Manitoba Public Insurance;

\* maintains affordability with the elimination of 400 civil service

positions through attrition and keeps 12 departments holding the line below

inflation or reducing spending;

\* supports growing industries through measures like extending and enhancing Manitoba's successful Film and Video Production Tax Credit; and

\* creates new opportunities for youth through a new graduate scholarship program and by continuing the tuition rebate at colleges and universities, keeping tuition 10 per cent lower than 1999.

#### Fiscal Challenges in Health and Infrastructure

Recently, the Conference Board of Canada indicated that only Alberta and the

federal government will run surpluses over the next decade. Meanwhile, the

provinces collectively will struggle to fund health care and education, and

local governments will face serious infrastructure deficits. The board said

the national health care system will become unsustainable without additional

federal support.

In 2004, federal expenditures for Manitoba health care will be \$104 million

less than in 2003. Budget 2004 stressed that the province's first priority is to seek a new federal funding partnership for health. Once this is in place, Manitoba will work with Ottawa and municipalities to further address infrastructure needs.

The budget noted the City of Winnipeg has made a significant contribution in placing the infrastructure issue on the national stage. It also noted the province has a unique tax sharing agreement with its municipalities and remains committed to significant infrastructure investments that are either underway or were unveiled in today's budget.

Overall in 2004, the province will provide over \$140 million in revenue sharing and grants to the City of Winnipeg. The federal government will provide approximately \$11 million to the city, the speech noted.

Upcoming infrastructure discussions must consider current funding arrangements and include all levels of government, Selinger said.

#### Building Manitoba

Infrastructure has been a priority for the province since 1999, with focus on health, education, road renewal, community and downtown revitalization, and water management, the speech stated.

The first job was a strategic rebuilding of health care facilities and diagnostic equipment-and significant investments are underway throughout Manitoba. A state-of-the-art redevelopment of the Brandon Regional Health Centre is complete and a major expansion of Winnipeg's Health Sciences Centre is under way.

In education, \$288 million has been allocated to capital funding for public schools since 1999-resulting in 33 major renovation projects, 11 replacement schools, and eight new schools. Capital improvements are underway at every

college and university, including the completion of the third phase of Red River College's downtown campus and the construction of the new engineering building at the University of Manitoba.

Other infrastructure commitments in today's budget include:

- \* a new infrastructure agreement-currently under negotiation with Ottawa-with a focus on rural and northern Manitoba;
- \* Manitoba's five-year \$600 million highways program-the largest in the province's history-now in its third construction season;
- \* boosting of the highways program by \$10 million in 2004 and an additional \$10 million in 2005; and
- \* the new highways funding to allow for the twinning of the Trans-Canada Highway a year earlier, a major resurfacing of portions of Highway 6 and the extended twinning of Highway 59 south.

To help finance new and upcoming infrastructure projects, the tax rate on diesel fuel will be synchronized with gasoline-remaining the second lowest in Canada; vehicle registration fees will increase by \$23 effective July 1; and an additional levy will be applied for land transfers in excess of \$200,000.

#### Promises Kept on Personal Tax Reductions

Since 2000, the province has reduced personal taxes by \$301 million annually, while tax reductions for businesses add up to another \$74 million annually.

Budget 2004 continues the phase out of the residential education support levy. Manitobans will pay \$10 million less this year-bringing total property tax relief to \$92 million annually since 2000. The budget also announces a five per cent reduction in farm education property taxes for 2005.

"We are following through on our promises to reduce education property taxes. These measures continue to reverse the trend of the 90s when property taxes went up an average of 65 per cent," Selinger said.

Today's budget also funds a six per cent middle income tax break that will save Manitobans \$39 million this year and provides new personal tax cuts

including tax breaks to help persons with disabilities and their families as well as military and police personnel deployed on high-risk assignments outside Canada.

Budget 2004 also contains new tax incentives for businesses. These include expanding the Manitoba Film and Video Production Tax Credit and extending the non-capital loss carry-forward provision from seven to 10 years.

The budget also reiterates the province's commitment to a long-term plan for sustainable business tax reductions.

\* In 2001, the province made the first cut in the corporation tax rate since the Second World War. The rate fell in stages from 17 per cent in 2001 to 15.5 per cent in January 2004. It will fall again to 15 per cent in 2005 and 14.5 per cent after 2005.

\* The small business tax threshold will increase for the third straight year. It will rise to \$400,000 in 2005. And the small business rate will be reduced from five per cent to 4.5 per cent after 2005.

To help fund these general business tax reductions, deal with the federal health funding reduction, and meet the requirements of BBL, retail sales tax will be applied to some professional services-bringing Manitoba in line with many other provinces. And the capital tax base for banking, trust and loan companies will be more closely aligned with neighbouring provinces and the federal government.

Overall, the tax changes in Budget 2004 are revenue neutral when combined with new tax reductions and reductions that are funded in this budget.