



Budget 2005 Highlights

Budget Overview

In 2004-2005, Government planned for a deficit of \$33.1 million. The actual deficit is \$39.5 million. It includes \$5 million to allow for one-time Workforce Renewal costs.

The most important budget indicator is the difference in Net Debt, which indicates how much money has been added or reduced from the debt. Government projected an increase of \$32.8 million last year. Today it is projecting an increase of only \$24.7 million, or a decrease of \$8.1 million in net debt from budget.

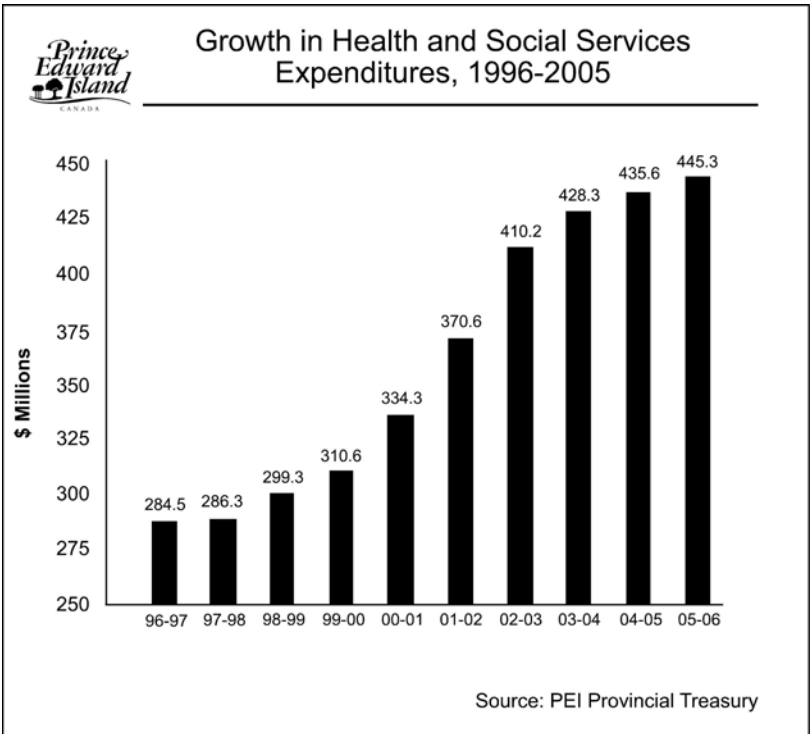
The deficit for 2005-2006 is projected to be \$22 million. The increase in Net Debt will only be \$9.9 million, which represents less than 1 percent of total expenditures.

Budget 2005 is a plan to protect the priorities of Islanders: health care, education, jobs and communities.

Expenditures are growing higher than revenue as a result of escalating program costs, decreased federal funding and increased spending on social safety nets to help Islanders respond to unforeseen events.

The budget includes a balanced mix of expenditure reductions and revenue measures, as well as some economic incentives. It contains strict short term spending targets, structural improvements and fiscal responsibility. Fee increases have been kept to a minimum.

The budgets for Health and Social Services and Education are increased. Cost savings will be found in every

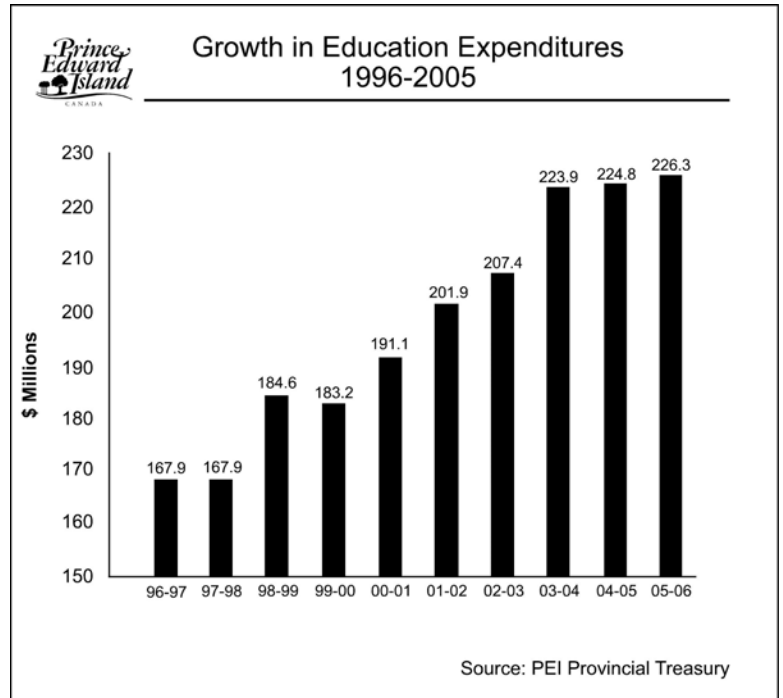


department of government while maintaining a strong focus on the preservation of front line services. The budget contains targeted measures to reduce spending in areas where under-utilized programs are not cost effective.

The five health authorities will be brought together into one system under the *Department of Health*. This will result in cost savings of \$9 million each year. A new *Department of Social Services and Seniors* will be dedicated to children, social services and the special needs of the growing seniors population.

New Investments

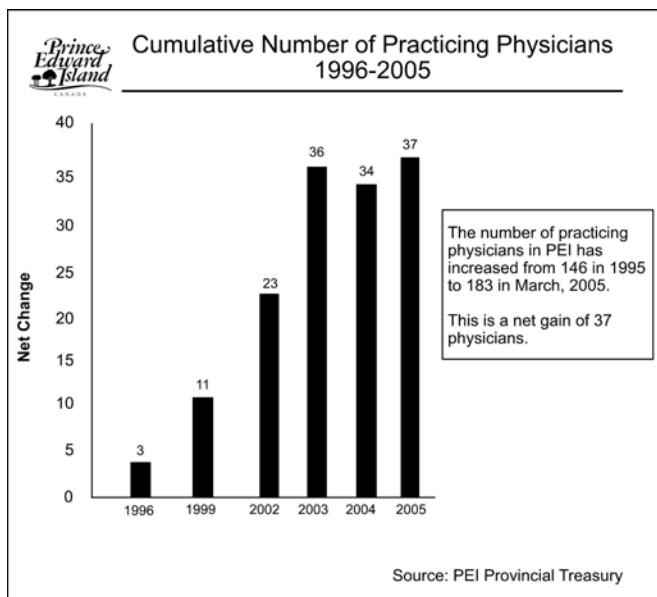
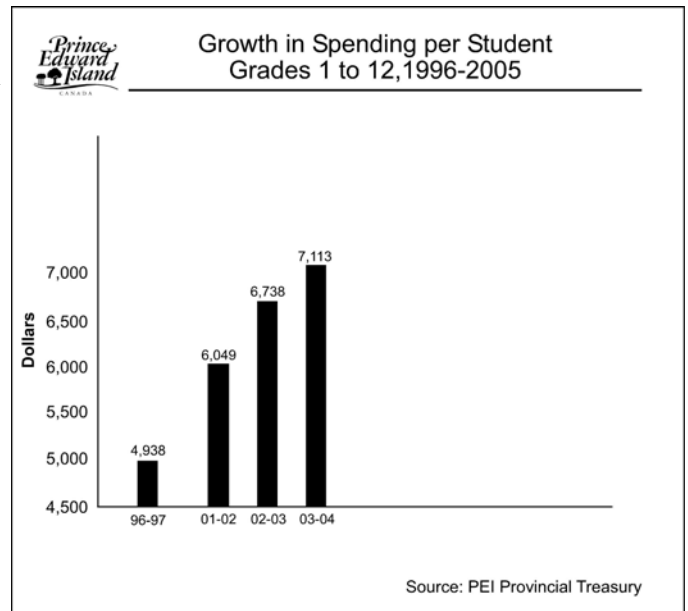
- \$15.8 increase in the Health and Social Services budget
- \$2.6 million for physician and hospital services
- \$3.3 million for increased health and social services operating costs
- \$837,000 for the Disability Support Program
- \$600,000 for the Early Learning and Child Care initiative
- \$2.7 million for drug programs
- \$1 million for subsidies to residents in private nursing homes
- \$465,000 for a new pneumococcal vaccine to immunize infants against meningitis
- \$400,000 for Alzheimer’s medications
- \$155,000 to restore Best Start program funding to \$720,000 this year
- \$100,000 for family violence prevention and support in rural areas
- \$2.4 million increase in the Education budget
- \$1 million for UPEI and \$500,000 for Holland College
- \$2.5 million for a new French first language school in West Prince
- \$1 million for tourism marketing
- \$88,000 for electrical, elevator, plumbing and fire inspection services
- \$437,400 for start-up costs for the 2009 Canada Summer Games
- \$138,000 for *Best Ever* program to prepare coaches and athletes to compete at the Games
- \$500,000 has been redirected to develop facilities to host the Canada Summer Games
- \$3 million for highway and bridge reconstruction
- \$1.7 million to reconstruct Basin Head (\$1.2 million from the capital budget and \$500,000 from risk management)
- \$400,000 to protect and preserve the Panmure Island causeway



- \$122,000 for the Sex Offender Registration Centre
- \$500,000 for skills development under the Canadian Agriculture Skills Service program

Policy Measures

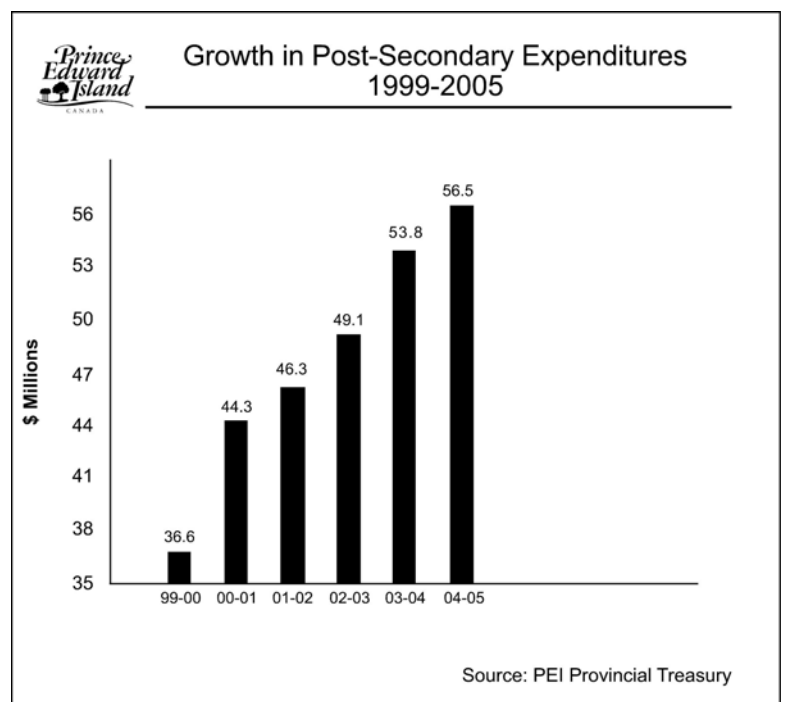
- The capital budget for highway and bridge work will move from the spring to the fall
- Tourism operators will have access to a new tourism research platform.
- A Student Achievement Task Force will make recommendations to improve student achievement
- School improvement planning initiative will provide data to improve accountability for education outcomes and improve student achievement
- Development of a strategy to improve literacy and learning in the province
- Government will lead by example in energy conservation through the **Greening Government** initiative.
- Potential for biodiesel is being explored
- Legislative Committee on Climate Change to report their findings
- Government-wide services will be streamlined, including pension administration, payroll, finance, human resources, policy and planning services
- Planning will begin to improve the utilization of health professionals by examining scope of practice.



- Improvements will be made in the provision of school bus maintenance
- Planning will begin to improve the utilization of government facilities and non-essential capital assets.
- Plans will proceed to pursue a 30-megawatt wind development in eastern PEI in 2005.
- New forest policy is being developed
- By making special payments of \$16 million a year to the Teachers' Superannuation Fund, the Province will save \$3 million per year.

Revenue Measures

- The Corporate Income Tax rate on small business will be lowered by one percentage point.
- A Progressive Tax Rebate program provides tax incentives to companies and individuals who invest in innovation, growth and development of targeted sectors. The tax credits apply to six strategic areas: aerospace; bio- science; interactive, information and communications technology; renewable energy; financial services (except share purchase) and export-focussed manufacturing and processing.
- The special corporate tax rate reduction for manufacturers and processors has been eliminated.
- The annual income threshold that allows seniors to defer their property tax for as long as they live in their own homes has been raised from \$22,000 or less to \$30,000.
- Small-scale renewable energy equipment and technology is now exempt from provincial sales tax
- The tire tax will increase from \$2 per tire to \$4 per tire.
- A 10 per cent tax will be applied to the wholesale price of motor fuels. The tax on gasoline will drop from 17 cents per liter to 11.5 cents. The tax on diesel fuel will drop from 16.5 cents per liter to 11.5 cents.

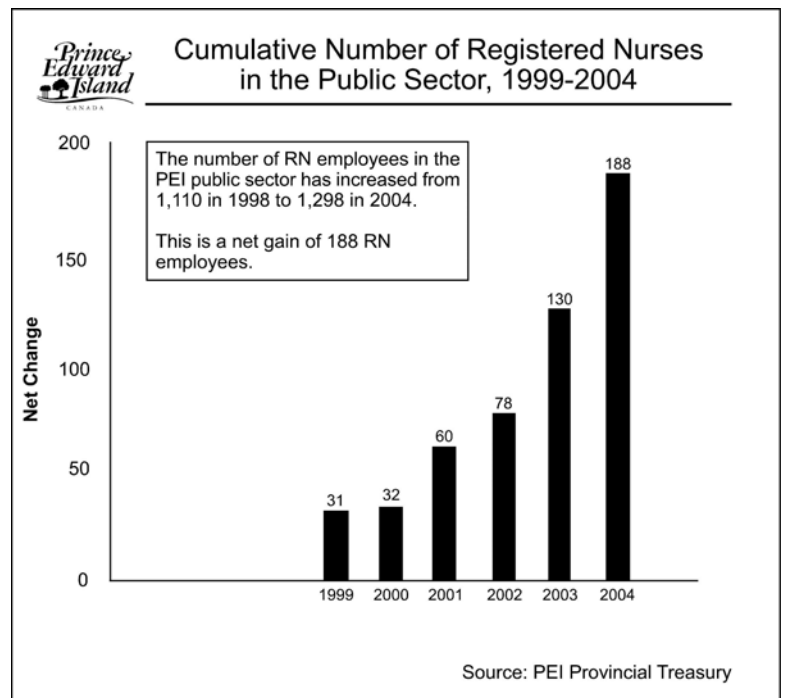


This means Islanders will pay 2.7 cents more per litre of gas, still less than mainland prices.

- A new Land Transfer Tax will be applied on property sales
- The driver abstract fee will increase from \$15 to \$20.
- The licensing fees for real estate agents and salespersons will increase by \$100 for a two-year license.
- Insurance companies, adjusters and salespersons will pay \$50 to \$300 more for their operating license.
- Fees for services provided by the Office of the Public Trustee and fees to incorporate a co-operative will increase.

Expenditure Reductions

- 500 positions are targeted to be reduced through the Workforce Renewal Program
- The Georgetown Youth Centre will be closed and the Prince Edward Island Youth Centre in Summerside will be designated as both an open and closed custody facility. Total capacity will remain unchanged
- The budget of the Human Rights Commission will be reduced by \$75,000 to reflect a decline in demand for services.
- The Orderly Payment of Debts Program will be phased out.
- Funding for the Dental Public Health Program will be reduced by \$250,000
- Funding will be delayed for one year for the Montague Family Health Centre renovation, the Seniors Home Repair program, and the Nursing Recruitment and Retention Strategy.
- The present teacher complement will be reduced in 2005-2006 in accordance with declining enrolments. The resulting level of service will not change from the level of service offered in the 2004-2005 school year.
- Grants for culture and heritage will decrease by 6 per cent.
- The operating grant to Confederation Centre will be reduced by 5 per cent.
- Grants will also be reduced in sport and recreation by less than 5 per cent.
- The Campbell's Cove and Strathgartney campgrounds; the Fisherman's Haven and Victoria day parks; and the Brackley and Poole's Corner Visitor Information Centres will be closed. The Province will work with the Summerside Regional Development Corporation to relocate the existing VIC in Summerside to the waterfront
- Fur Advance program eliminated
- Artificial Breeders grant to be phased out over two years
- Test production program in fisheries and aquaculture to be terminated
- Forest Improvement Association grant of \$25,000 is eliminated



Economic Highlights

- The Canadian economy grew last year by 2.8 per cent
- The provincial economy experienced modest growth. Provincial GDP increased by about 1.6 per cent.
- The main strengths in the provincial economy were in housing construction and manufacturing
- The record value of manufacturing shipments, at \$1.4 billion resulted from expansion in the aerospace sector and the continued growth of processed potato production.
- Employment expanded by 0.9 per cent. In November, there were more people employed than at any other time in the history of the Island.
- Hog sales reached a record value of \$33.7 million.
- The dairy sector, with \$59.7 million of receipts was a strong performer in 2004.
- While potato production improved in terms of volumes harvested, sales were hurt by poor prices. At \$152.7 million, potato sales were down 18 per cent from 2003.
- The value of beef sales, at \$14.5 million was only about half of what they were in 2001.
- Total farm incomes in 2004 were negative \$20 million, compared to \$5.9 million in 2003.
- Non-residential construction was down 16 per cent from 2003. The delay in construction of the new federal building in Charlottetown was a significant factor.
- Overall retail sales were unchanged from 2003, which indicates a drop in volume. Much of the decline stemmed from a drop in new car sales. Other contributing factors were the poor situation facing farmers, rising energy prices, a decline in tourist visitation and a modest rise in interest rates.
- Due to lower retail sales, sales tax revenues in 2004-05 are \$6.7 million below budget.
- Energy prices were 8.7 per cent higher than in 2003.
- Net debt is \$8.1 million lower than projected.

Economic Outlook

The provincial economy is expected to expand at a somewhat improved rate in 2005, at 1.8 per cent compared to 1.6 per cent growth in 2004. This expansion is expected to be driven by increased non-residential construction activity, an improvement in tourism and further increases in manufacturing shipments.



Economic Indicators

	2000	2001	2002	2003	2004
Gross Domestic Product (millions)	3,366	3,439	3,747	3,858	3,985
Income per capita (\$)	22,382	22,672	23,766	24,139	24,803
Employment (thousands)	62.8	63.7	64.6	66.1	66.7
Unemployment rate (%)	12.0	11.9	12.0	11.0	11.3
Retail sales (millions)	1,273.9	1,324.6	1,369.0	1,380.8	1,379.7
International exports (millions)	682.9	666.4	683.0	640.5	643.9
Manufacturing shipments (millions)	1,150.6	1,222.0	1,327.1	1,356.1	1,417.0
Farm cash receipts (millions)	323.1	336.2	364.0	355.6	348.9
Potato receipts (millions)	154.5	123.9	189.9	186.5	152.7
Lobster landings (\$ millions)	87.8	104.8	105.4	108.3	100.0
Tourist visitations (thousands)	1,087	1,104	1,068	1,038	864
New car sales (units)	4,902	4,635	4,996	4,731	4,700
Housing starts (units)	710	675	775	814	919
Population (thousands)	136.5	136.7	136.9	137.3	137.9