

# Year End Forecast Update

Fiscal 1999-2000. Released December 22, 1999

Honourable Neil J. LeBlanc. Minister of Finance

## OVERVIEW 1999-2000

The Department of Finance is revising its deficit forecast for 1999-2000. The October provincial budget estimated a deficit of \$496.6 million for this period, but that figure is now forecast to be \$489.0 million, \$7.6 million less than estimated. The primary reason for this is an increase of \$44.5 million in provincial personal income tax revenues.

The increase in revenues offsets increases in program spending and net debt servicing costs.

The Nova Scotia economy continues to perform at the national average as forecast in the budget. Key economic indicators such as employment, personal income and retail sales continue the growth forecast in the October budget. With these underlying assumptions confirmed, the Department of Finance is maintaining its forecast of real GDP growth of 3.4% in 1999 and 3.0% in 2000.

FISCAL SUMMARY ( <i>\$ thousands</i> )	1998-1999 Actual	1999-2000 Budget	1999-2000 Forecast	Per Cent (%) Change from 1999-2000 Budget
<b>Consolidated Fund</b>				
Revenue	4,550,623	4,622,985	4,667,447	0.96%
Net Program Expenditures *				
Health	1,632,042	1,770,630	1,767,161	-0.20%
Education and Universities	1,086,817	1,070,978	1,080,166	0.86%
Community Services	565,829	580,173	576,298	-0.67%
Other Net Program Expenditures	721,072	809,396	830,325	2.59%
Total - Net Program Expenditures	4,005,760	4,231,177	4,253,950	0.54%
Net Debt Servicing Costs	805,733	799,552	813,600	1.76%
Total Expenditures	4,811,493	5,030,729	5,067,550	0.73%
	(260,870)	(407,744)	(400,103)	
<b>Consolidation Adjustments for Government Service Organizations</b>				
School Boards Operations and Pension Obligations	(33,657)	---	---	
Health and Hospital Boards Debt and Deficits	(106,349)	---	---	
Other Organizations	(145,258)	---	---	
	(285,264)	---	---	
<b>Net Income (Losses) for Government Business Enterprises</b>				
Nova Scotia Resources Limited	(75,784)	(65,100)	(65,100)	
Sydney Steel Corporation	(31,331)	(31,800)	(31,800)	
Other Enterprises	267,853	8,000	8,000	
	160,738	(88,900)	(88,900)	
<b>Provincial Surplus (Deficit)</b>	<b>(385,396)</b>	<b>(496,644)</b>	<b>(489,003)</b>	

\*Net Program Expenditures include both Current and Capital Account Expenditures and Restructuring Costs.



## REVENUES

The Province is currently forecasting a revenue increase of \$44.5 million over the original budget estimate for the fiscal year ending March 2000. A major reason for this improvement is updated information for Provincial Personal Income Taxes. Revised national forecasts show personal income levels and resulting Basic Federal Tax (the base upon which Nova Scotia income is forecast) to have increased from 1998 onward. This has resulted in forecasted 1999-2000 personal income tax revenues for Nova Scotia to be \$55.2 million higher than estimate. Corporate income taxes are forecasted to increase by \$2.0 million due to upward revisions of national levels of corporate taxable income.

Nova Scotia Gaming Corporation profits are also forecasted to be up slightly by \$1.8 million. Nova Scotia Liquor Commission profits are anticipated to be up \$1.0 million due to stronger sales through the summer and early fall. All other own source revenues remain on target with the budget estimate.

Federal transfers have responded to the increases in provincial income tax revenues. Equalization is expected to decrease by \$13.0 million for 1999-2000 as Nova Scotia's economic performance, relative to the five province standard, has remained strong. At the same time, the Canada Health and Social Transfer (CHST) forecast increased by \$5.7 million over the 1999-2000 estimate as the equalization associated with the tax portion of the transfer, began to decrease for Nova Scotia. In total, federal transfers are forecast to be \$7.3 million lower in 1999-2000.

Previous years estimates for equalization are down as well, resulting in an overall negative Prior Years' Adjustment of \$8.4 million. Miscellaneous other items of approximately \$200,000 account for the remainder of the positive changes to Revenues.

## NET PROGRAM EXPENDITURES

All departments, with the exceptions of Education and Economic Development, have been spending at or less than the amounts estimated in the October budget. The over-expenditure at Education (\$9.2 million) is primarily due to increased applications under the Student Assistance Program.

Economic Development had entered into an agreement with Stora Enso of Port Hawkesbury to assist with training once certain performance targets were met. This target has been met and Economic Development completed its part of the agreement by making a final payment of \$10.2 million to Stora Enso. The over-expenditure was not reflected in the recent budget as a plan to spread this payment over future years had been initiated by the previous government. After a subsequent review, it was determined that the company met all conditions of the agreement and that the payment should be made now.

The government also increased the amount budgeted to provide for possible loan losses. Economic Development was asked to review its valuation allowances, the amount reserved to manage provincial exposure. In order to provide for a more prudent reserve for possible loan losses, the forecast includes an additional \$11.1 million.



These over-expenditures have been partially offset by spending reductions (\$7.7 million) in other departments, most notably Community Services and Health. Community Services reported \$3.9 million savings due to lower income assistance payments. Health recorded \$3.5 million savings because of lower Y2K costs.

<b>NET PROGRAM EXPENDITURES SUMMARY</b> <i>(\$ thousands)</i>	<b>1998-1999</b> <b>Actual</b>	<b>1999-2000</b> <b>Budget</b>	<b>1999-2000</b> <b>Forecast</b>	Favourable/ (Unfavourable) <b>Change from Budget</b>
Agriculture and Marketing	35,626	42,238	42,238	---
Business and Consumer Services	31,318	33,135	33,135	---
Community Services	565,829	580,173	576,298	3,875
Economic Development	77,268	60,268	81,591	(21,323)
Education and Universities	1,086,817	1,070,978	1,080,166	(9,188)
Environment	15,480	15,678	15,676	2
Finance	8,332	9,941	9,941	---
Fisheries and Aquaculture	5,863	9,396	9,362	34
Health	1,632,042	1,770,630	1,767,161	3,469
Housing and Municipal Affairs	106,328	101,938	101,938	---
Human Resources	3,983	4,334	4,334	---
Justice	80,118	82,582	82,582	---
Labour	10,328	11,040	10,940	100
Natural Resources	53,886	56,707	56,707	---
Public Service	67,389	86,015	85,918	97
Tourism and Culture	---	40,456	40,456	---
Transportation and Public Works	236,468	239,568	239,407	161
Unallocated Recoveries	(14,099)	---	---	---
Restructuring Costs	2,784	16,100	16,100	---
<b>Total - Net Program Expenditures</b>	<b>4,005,760</b>	<b>4,231,177</b>	<b>4,253,950</b>	<b>(22,773)</b>

## DEBT MANAGEMENT

Net debt servicing costs are calculated by subtracting sinking fund earnings from debt servicing costs. Debt servicing costs are forecasted to be \$2.4 million more than budgeted due to unfavourable changes in the U.S. dollar and Japanese Yen exchange rates. Sinking fund earnings are forecasted to be \$11.6 million less than budget. Therefore, net debt servicing costs are now forecasted to be \$14.0 million higher than originally budgeted. The current assumption for the Canadian dollar is \$1.4826 (\$0.674491), for Canadian treasury bills 4.80% and for the Japanese Yen 103.5.





## **RATING AGENCY REVIEWS**

The rating agency review process was completed for fiscal 1999-2000 on November 26, 1999. The ratings of the province remain unchanged at A(low) by Moodys' Investor Service, Standard and Poor's Inc. and Canadian Bond Rating Service, and BBB(high) by Dominion Bond Rating Service. The rating outlook for the Province remains at stable for all agencies except Canadian Bond Rating Service which moved the Province's rating outlook from stable to negative.

## **BORROWING PROGRAM**

Once again the Province has had a very successful borrowing program. The Province has issued \$830 million to date this fiscal year. In early December the Province raised \$675 million with three transactions: a five-year Canadian \$300 million debenture in the Canadian domestic market with a coupon of 6.25%, a six-year Canadian \$250 million debenture in the Euro-Canadian market with a coupon of 6.25% and a three-year Canadian \$125 million private placement with a coupon rate of 6.25%.

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