

Presentation to Directors' Forum

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Provincial Treasury

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1. Evolving Economy

- PEI experienced slow growth in 2003, moving to slower growth in 2004
- National growth is accelerating in 2004
- Rapid increase in value of Canadian dollar
- Interest rates are being moved up
- Inflation remains moderate, but oil prices are rising again

PEI Economy 2004

- Growth of 1.9% in 2003 slowing to 1.6%
- Employment growth slowing to 0.6%
- Unemployment rate creeping up, to 11.7%
- Energy prices are rising again
- Tourism down sharply
- Retail sales and car sales down
- Manufacturing and housing are the leading sectors in 2004

2. New Health Accord

- Reduced Wait Times
- Strategic Health Human Resources
- Home Care
- Primary Care Reform
- National Pharmaceuticals Strategy
- Prevention, Promotion and Public Health
- Health innovation
- Accountability

FMM 2004 Investments for Health and New Funding Levels (10-Year)

Current Track

(\$ million)	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	6-Year Total	2010-11	2011-12	2012-13	2013-14	10-Year Total
Canada Health Transfer (CHT)	12,650	13,000	13,400	13,750								
Health Reform Transfer (HRT)	1,500	3,500	4,500	5,500								
Transfer Levels	14,150	16,500	17,900	19,250	20,200	21,200		22,250	22,250	22,250	22,250	

FMM 2004 Investments

(\$ million)	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10		2010-11	2011-12	2012-13	2013-14	
Romanow Short-term gap (includes home care and catastrophic drug coverage)	1,000	2,000					3,000					3,000
for home care and catastrophic drug coverage ¹		500					500					500
New CHT base in 2005-06 ²		19,000										
Amount to achieve 6% escalator of the \$19B after 2005-06 ³			2,240	2,098	2,429	2,787	9,555	3,176	4,702	6,319	8,033	31,785
New CHT Levels		19,000	20,140	21,348	22,629	23,987		25,426	26,952	28,569	30,283	
Wait Times Reduction ⁴	625	625	1,200	1,200	600	250	4,500	250	250	250	250	5,500
Medical Equipment	500						500					500
Total New Funding	2,125	3,125	3,440	3,298	3,029	3,037	18,055	3,426	4,952	6,569	8,283	41,285
Total New Funding Levels	16,275	19,625	21,340	22,548	23,229	24,237		25,676	27,202	28,819	30,533	

¹ Additional funding of \$500 million in the CHT base in 2005-06 for home care and catastrophic drug coverage and escalated at 6% as of 2006-07.

² The new 2005-06 CHT base of \$19.0 billion includes existing CHT and HRT legislated levels for 2005-06, plus the proposed \$2 billion increase to close the short-term Romanow gap and an additional \$500 million for home care and catastrophic drug coverage. The new CHT base in 2005-06 corresponds to 25% of estimated provincial-territorial costs for services currently covered under the Canada Health Act, as well as amounts in respect of home care and catastrophic drug coverage, consistent with the Romanow Report. An escalator of 6% will also be applied to the \$19 billion base starting in 2006-07.

³ Impact shows new funding required beyond current funding track to achieve 6% escalator.

⁴ Extension of wait times funding starting in 2010-11 primarily for health human resources.

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2004 FMM Increased Funding for Health

Fiscal Year	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	6-Year Total	10-Year Total
	\$Millions							
Province/Territory	2,125.0	3,125.0	3,440.0	3,298.0	3,029.0	3,037.0	18,054.0	41,284.0
N.L.	34.651	50.517	55.138	52.420	47.745	47.477	287.947	642.796
P.E.I.	9.239	13.550	14.882	14.238	13.052	13.062	78.021	177.425
N.S.	62.531	91.510	100.276	95.711	87.523	87.387	524.939	1,185.875
N.B.	50.114	73.236	80.132	76.359	69.701	69.452	418.993	940.651
Que.	502.177	734.621	804.542	767.342	701.118	699.350	4,209.150	9,480.523
Ont.	823.454	1,214.769	1,341.089	1,289.431	1,187.627	1,194.097	7,050.467	16,254.741
Man.	78.011	114.102	124.939	119.163	108.895	108.655	653.765	1,473.974
Sask.	66.441	97.044	106.127	101.070	92.215	91.859	554.757	1,244.879
Alta.	212.551	313.037	345.133	331.374	304.786	306.023	1,812.904	4,161.550
B.C.	278.930	412.452	456.542	440.134	406.437	409.689	2,404.184	5,586.096
Y.T.	2.104	3.081	3.377	3.226	2.953	2.953	17.694	40.140
N.W.T.	2.823	4.149	4.567	4.380	4.025	4.039	23.983	54.981
Nvt.	1.974	2.932	3.258	3.153	2.923	2.957	17.197	40.367

Estimates of Health and Social Transfers to Prince Edward Island

Year	Pre 2003 CHST	CHST Supplement & Additional	Health Reform	Diagnostic Medical Equipment	2004 Budget Public Health & Early Learning	Total	2004 FMM	New Total
2003-04	91.2	11	4.3	2.2	0	108.7	0.0	108.7
2004-05	95	8.7	6.5	2.2	2.1	114.5	9.2	123.7
2005-06	99.8	0	15.4	2.2	0.3	117.7	13.5	131.2
2006-07	100.1	2.6	19.5	0	0	122.2	14.9	137.1
2007-08	101.8	5.2	23.9	0	0	130.9	14.2	145.1

3. Major Changes to Equalization

- “Government’s regional objectives will be complemented by the most fundamental reform of the Equalization program in its 47 year history.”
- “Objective is to make more stable and predictable the total payments... to the less wealthy provinces in support of key public services”.
- From 2004 Throne Speech.

Moving away from a Formula to a Program based on Budget

- Federal deal is to provide \$10.9 billion in 2005-06 to escalate at 3.5% per year.
- Guarantee the 2004-05 initial entitlement
- Create a Panel of Experts to make recommendations on the provincial allocations and the need for a permanent commission.
- “Everything is on the table.”

How Numbers were Derived

- The second Equalization entitlement for 2004-05 for all provinces was \$8.9 billion, compared to \$9.5 billion for the first estimate
- Federal government wanted to ensure that no province would see its cash flow drop following the FMM
- So raised the 04-05 entitlement to \$10 billion from \$8.9 billion and overruled prior year adjustments that would have lowered the payout to below the first estimate. Provinces wanted the \$1.1 billion top up to be based on shares, which was agreed to for 2004-05.
- The cash guarantee was especially beneficial to BC and Saskatchewan as their entitlements were falling as their natural resource revenues were increasing.

Disagreement over the 05-06 allocation

- Federal proposal was to raise the 04-05 entitlement of \$8.9 billion to \$10.9 billion
- Some provinces wanted the \$2 billion top up allocated on a per capita basis, some on a shares basis.
- All agreed to use the average of the past three years.
- In end we split the difference.
- PEI's share of total dropped to 2.5%
- No province agreed that \$10.9 billion in 05-06 was appropriate.

Equalization Payments to Provinces / Impact of FMM Proposals
(millions of dollars)

	Entitlements 2004-05 Feb Est	Entitlements 2004-05 Oct Final Computation	\$10 Billion Floor Benefit in 2004-05	Entitlements 2004-05 after \$10 Billion Floor	Prior-Year Adjustments 01-02, 02-03 03-04	Payments for 2004-05 after prior year adjustments and before protection	Individual province protection*	Payments in 2004/05	Benefit of FMM package	Entitlements/ Payments in 2005-06
	(1)	(2)	(3)	(4) =(2) + (3)	(5)	(6) =(4) + (6)	(7)	(8) =(6) + (7)	(9) =(3) + (7)	(10)
Nfld	721	674	87	761	24	785	0	785	87	861
PE	245	246	32	278	(4)	274	0	274	32	277
NS	1,137	1,162	151	1,313	20	1,333	0	1,333	151	1344
NB	1,148	1,174	152	1,326	62	1,388	0	1,388	152	1348
PQ	3,691	3,678	477	4,155	(30)	4,125	0	4,125	477	4798
MA	1,330	1,422	184	1,606	82	1,688	0	1,688	184	1601
SK	452	62	8	70	(200)	(130)	582	452	590	82
BC	785	434	56	490	103	593	192	785	248	590
TOTAL	9,509	8,852	1,148	10,000	57	10,057	774	10,831	1,922	10,900

* Individual province protection works as follows: If the payment in column 6 is less than the February estimate amount (column 1), a province receives protection equal to the difference in order to bring payments in 2004-05 (column 8) to no less than the amount in column 1.

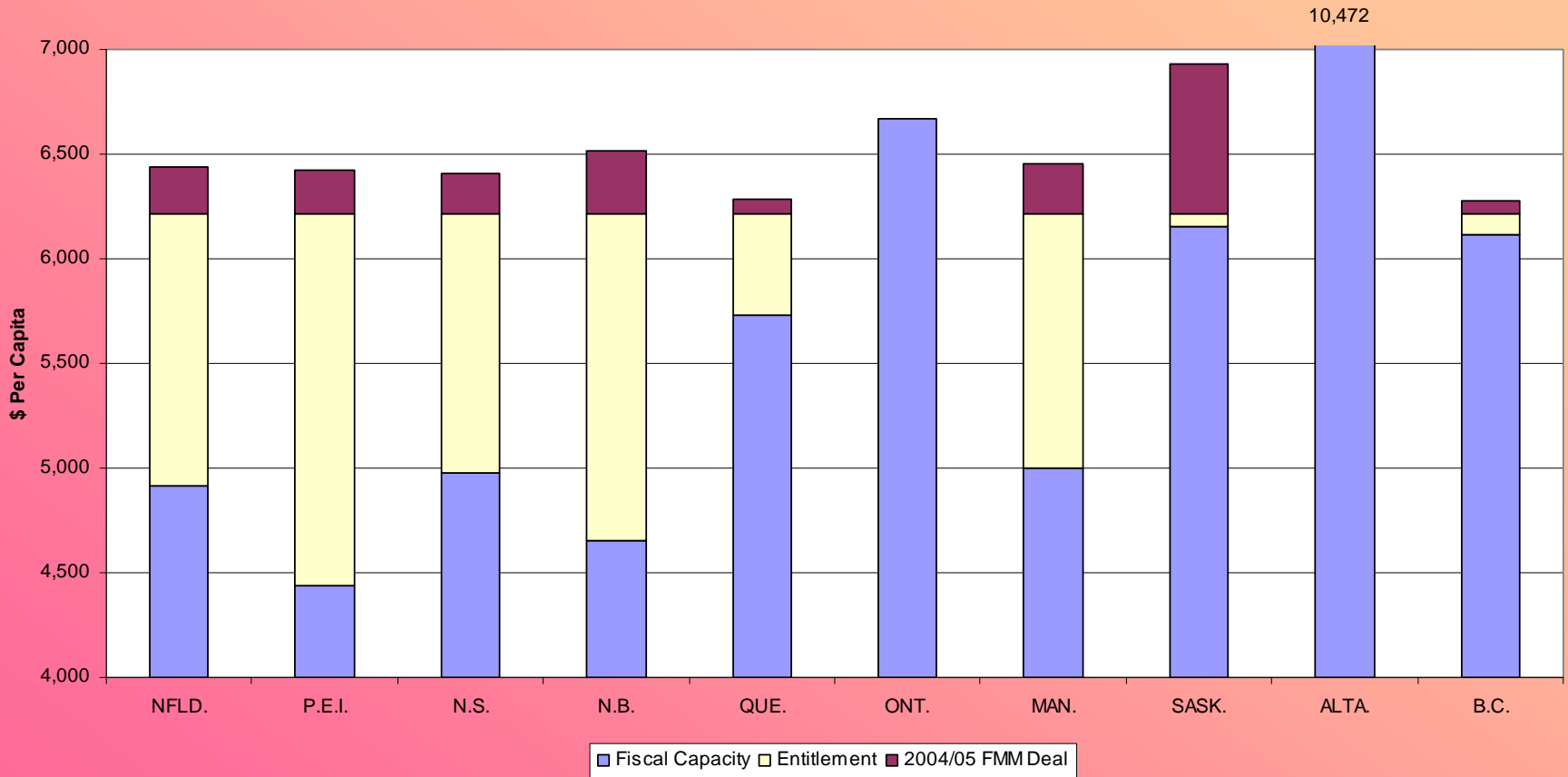
Advantages of New System

- Entitlements will be fixed in advance
- Federal supplements have stopped the erosion in entitlements in the current year
- Panel will be open to suggested changes concerning the formula itself
- Panel will likely make recommendations on inclusion of natural resource revenues

But many aspects worrisome

- Present formula is based on the Representative Tax System and alternatives are likely to do rough justice to PEI's entitlements.
- The predetermined growth rate is very low and arbitrary.
- Sustaining entitlements to provinces with improving fiscal resources destroys the basis of Equalization.
- The powers of the Panel are immense.
- Important technical changes in the April renewal are on the back burner.
- Principle of Equalizing fiscal capacities across provinces appears to have been abandoned

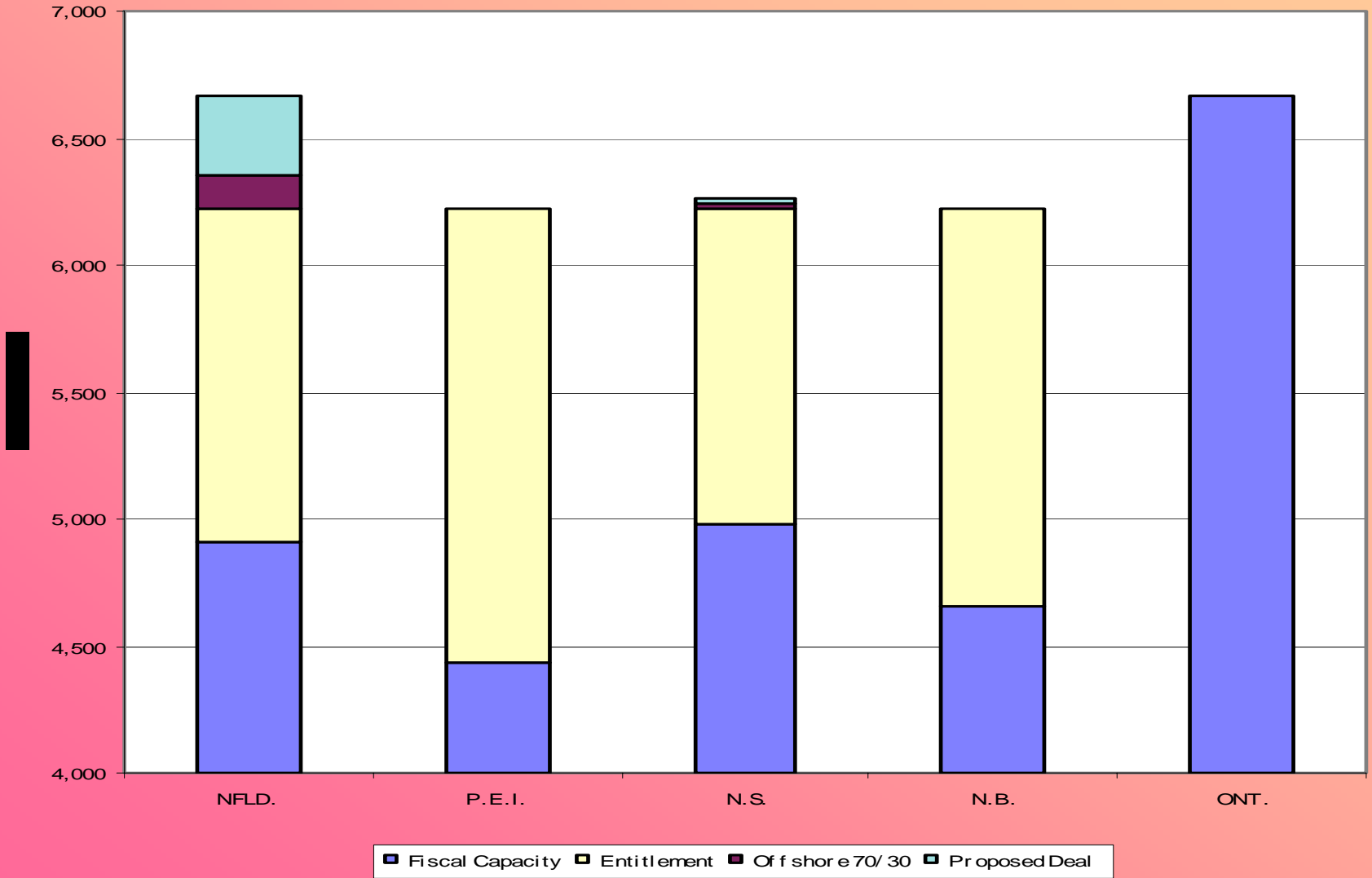
Impact of Federal Proposal on Post Equalization Fiscal Capacity: 2004/05 Second Estimate



The Offshore Accords

- Special arrangements for Newfoundland and Nova Scotia take us further away from Equalization principles
- Provoked further special arrangements for Saskatchewan
- Two tier Equalization program is developing, leaving non resource rich provinces at a big disadvantage fiscally

Impact of NF & NS OffShore on Equalization 2004/05 Second Estimate



Where are we now?

- The old Program is dead, Federal Finance has stopped making estimates based on the RTS system, following the October FMM.
- Panel membership is in discussion
- The Council of the Federation is constituting a separate Panel on Fiscal Imbalance
- Future entitlements for PEI after 2005-06 will be subject to Panel deliberations.