

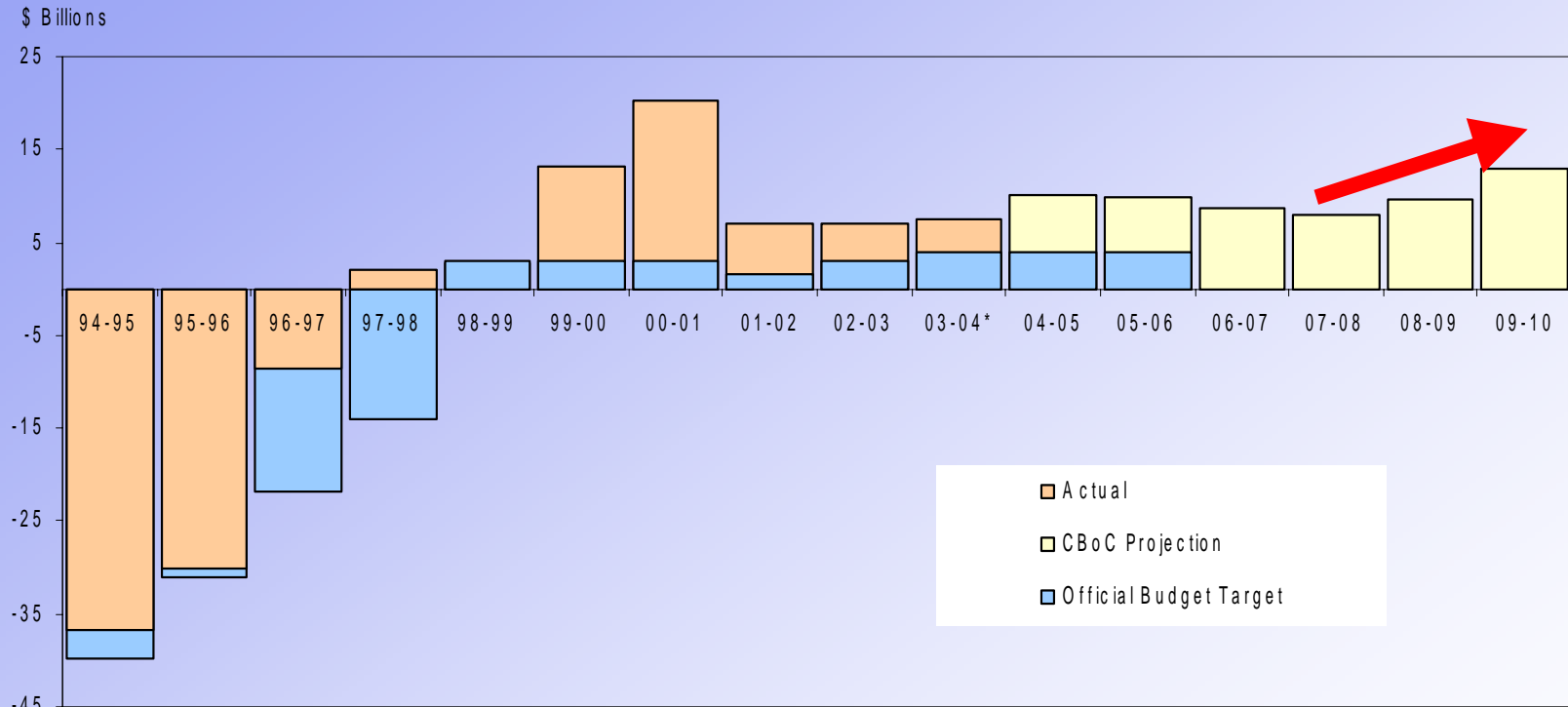
Presentation to the Public Accounts Committee Equalization Discussion

Honourable Mitch Murphy
Provincial Treasurer
October 7, 2004



Provincial
Treasury

Federal Surpluses Exceed Forecasts



Source: Department of Finance Canada, Federal Budgets and October 2003 Fiscal Reference Tables.

Conference board of Canada, Fiscal Prospects for the Federal and Provincial/Territorial Governments, February 2004.

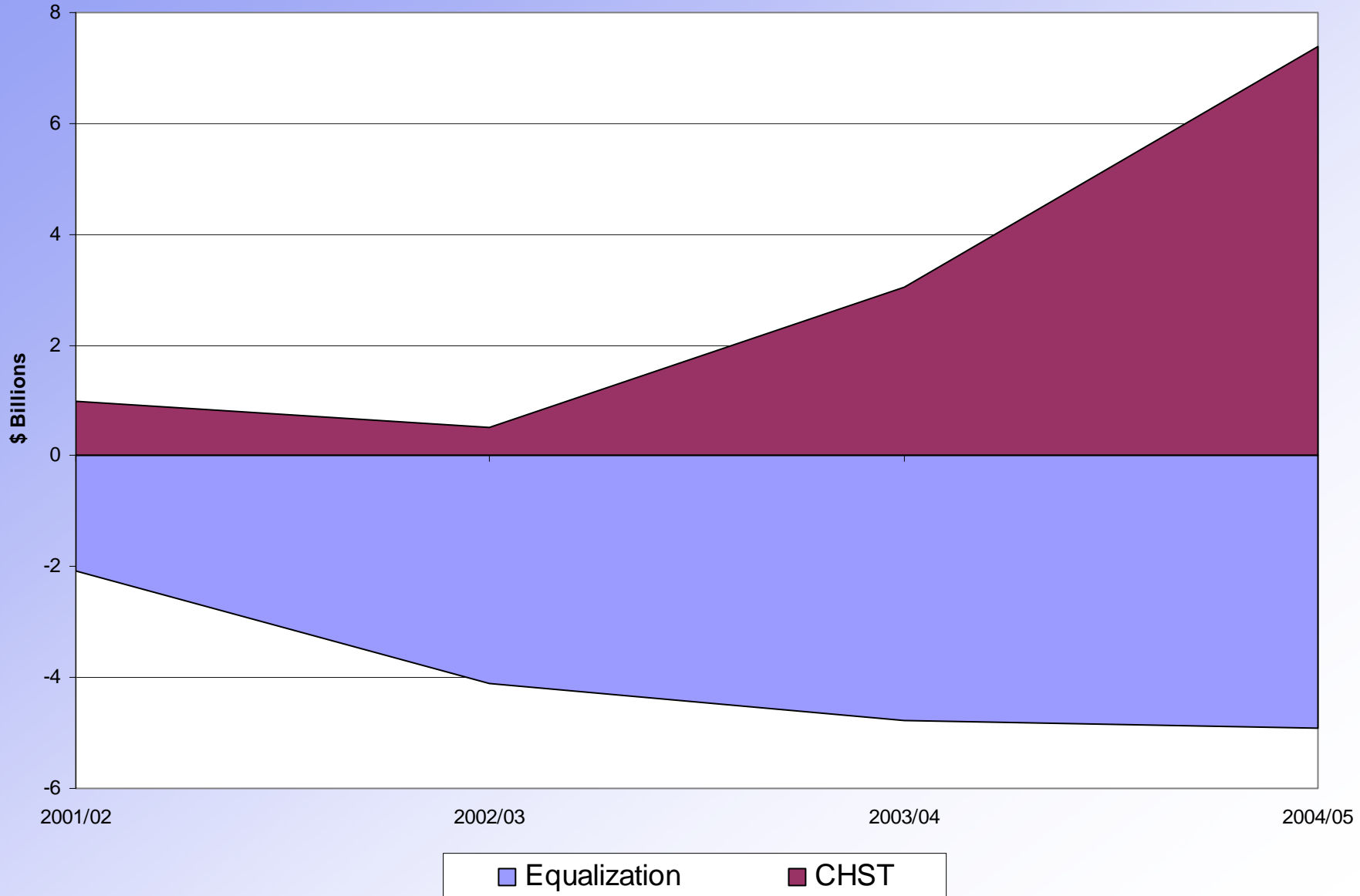
* Actual figure for 2003-04 is from the June 2004 Federal Fiscal Monitor. It does not include regular end-of-year adjustments.

Beginning with the 2003 Federal Budget, the financial results are presented on a full accrual basis of accounting. The *Official Budget Target* before 2003-04 are on a modified accrual basis. However, the actual surplus figures have been restated to take into account the change of accounting rules.

Federal Priorities and Equalization

- Blocked enhancements to the program.
- Using Equalization to Fund Health Care.
- Focus on Municipalities.

Federal Spending Priorities

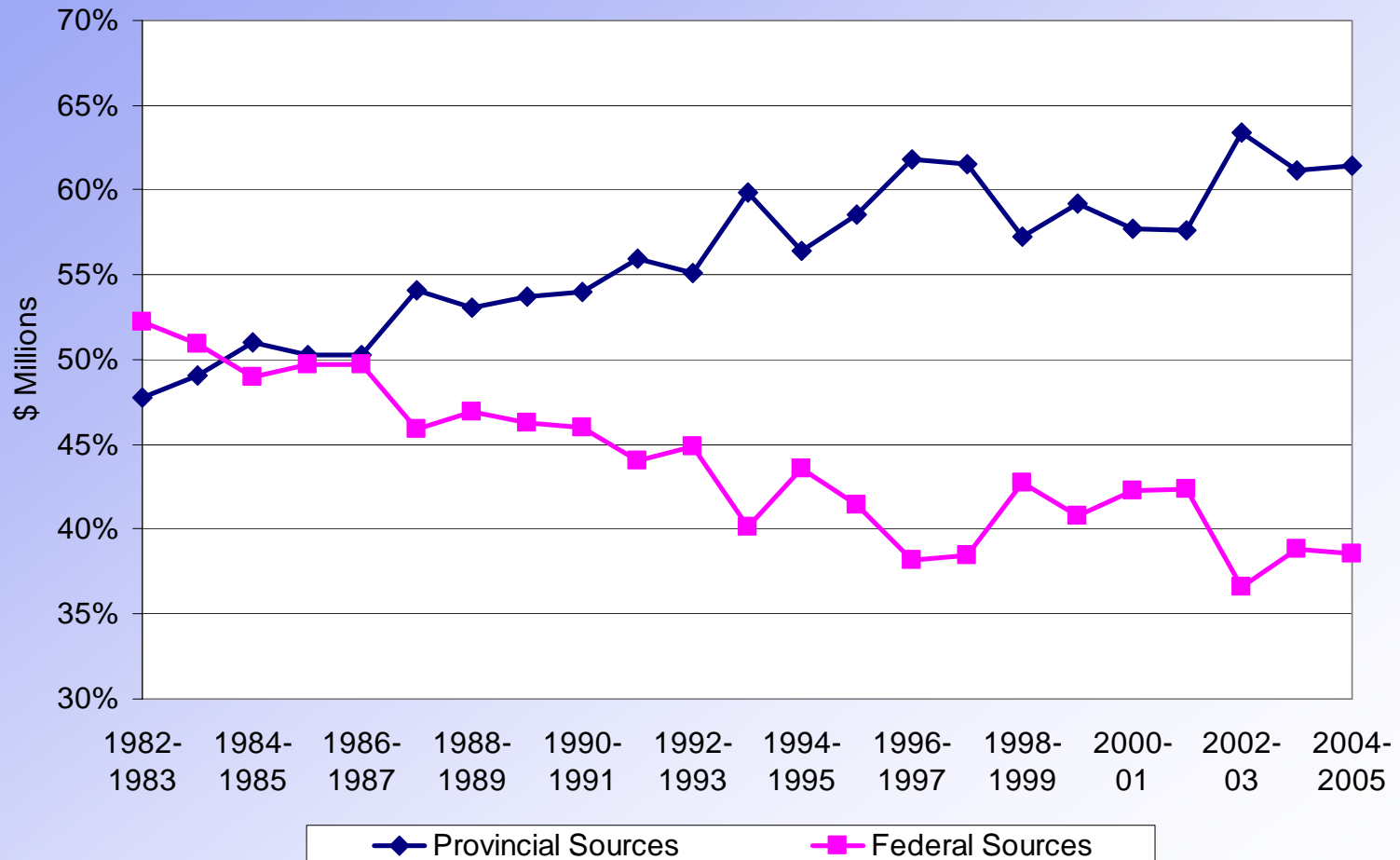


Equalization and CHST Funding to PEI 2001-02 to 2004-05

			Forecast	Estimate
\$ Millions	2001-02	2002-03	2003-2004	2004-2005
Equalization	282.3	222.4	242.7	245.8
CHST + Funds	88.9	89.5	108.7	114.4
Total	371.2	311.9	351.5	360.2

Trends in Provincial and Federal Revenues

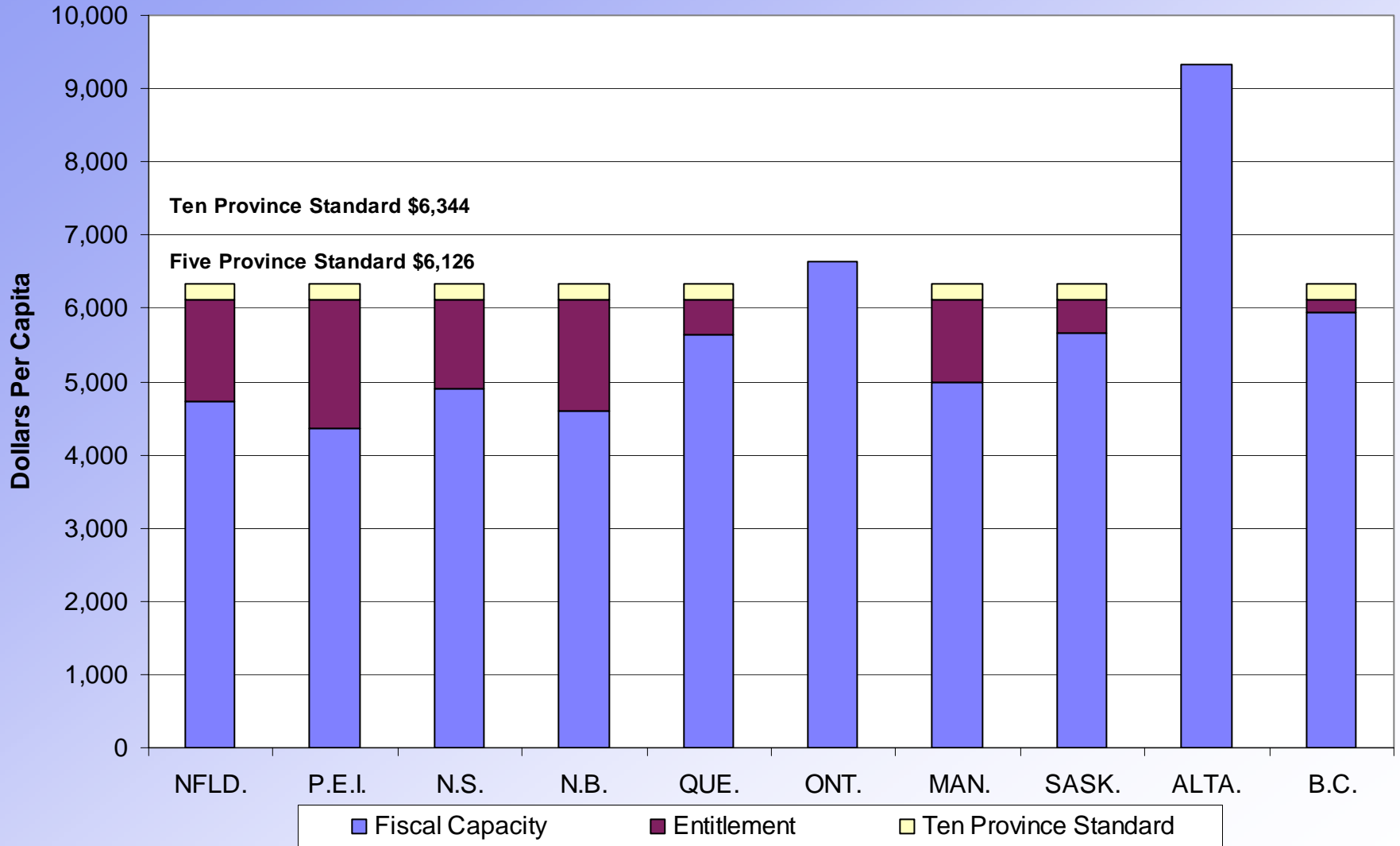
Provincial and Federal Revenues: 1982-83 to 2004-05



2004 Renewal Package

- Retained the five province standard.
- User fee coverage remains restricted.
- Focused on stability of payments.
- Necessary reforms were delayed
 - Mining Tax Base
 - Property Tax Base
- Special arrangements to favoured provinces.

Equalization-Provincial Fiscal Capacity and Entitlements: 2004/05



New Federal Proposal at September FMM

- Fix the federal payout annually
- Grow the payout by 3.5% after 2005/06
- Eliminate the program in favour of panel of experts to advise on allocation after 2005/06.
- Adding money in 04/05 and 05/06 as an offset to long term restrictions on the program.

Where are We Now?

- Federal proposal for Equalization is public.
- First Ministers' Meeting October 26.
- Finance officials are discussing allocation of the 2005/06 payout.