

Assessing the Equalization Options of Budget 2007 for the Atlantic Provinces

An APEC Press Release

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Presentation Outline

- Introduction
- Options Explained
- Equalization Calculations Under Each Option
- Results
- Conclusion

Introduction

- This is meant to be an independent, non-partisan assessment of the equalization options for the four Atlantic Provinces contained in Budget 2007
- Rather than being a definitive estimate of the specific impact on each province, the estimates should be considered indicative of the relative order of magnitudes of the status quo and the new equalization approaches
- Are each of the Atlantic Provinces better off by the switch from the Fixed Framework to the New Equalization Program (either the 50% or 0% resource inclusion)?

Equalization Options in 2007 Budget

- **Fixed Framework (Status Quo)**
 - An option still available to NL and NS, but not to other provinces
- **50% Resource Inclusion Option**
- **0% Resource Inclusion Option**

Equalization Options in 2007 Budget

■ Fixed Framework (Status quo) – Key Features

■ Fiscal capacity

- The level of revenue that a province could raise in per capita terms by applying the national average tax rate for each of the 33 revenue categories to the size of the base that exists within the province. **(100% of oil revenue counts)**

■ Equalization standard

- The standard is determined **residually**. That is, given the fiscal capacities of all ten provinces how large would the standard have to be in order to ensure that total equalization payments matched exactly the pool of funds available for distribution in that particular year

■ Equalization pool

- Funds available for equalization that **grow at 3.5% per year**, starting at \$10.9 B in 2005. This has a value of \$11.7 B in 2007.

■ Atlantic Accords

- Both 1985 and 2005 Accords still operate **so long as the province is receiving equalization**

Equalization Options in 2007 Budget

■ 50% Resource Inclusion Option – Key Features

■ Fiscal capacity

- The revenue that a province could raise in per capita terms by applying the national average tax rate for each of the 5 broad revenue categories to the base that exists within the province but only **50% of resource revenues count**.

■ Equalization standard

- The standard is a **10-province standard** – it is the average across 10 provinces of the per capita fiscal capacity as determined above

■ Equalization pool

- It is determined by whatever comes out of the formula. after the cap **(no fixed pool)**.

■ Equalization cap

- **Equalization is reduced** to ensure that no equalization-receiving province has, by the virtue of receiving equalization, a fiscal capacity that exceeds any non-receiving province

■ Atlantic Accords

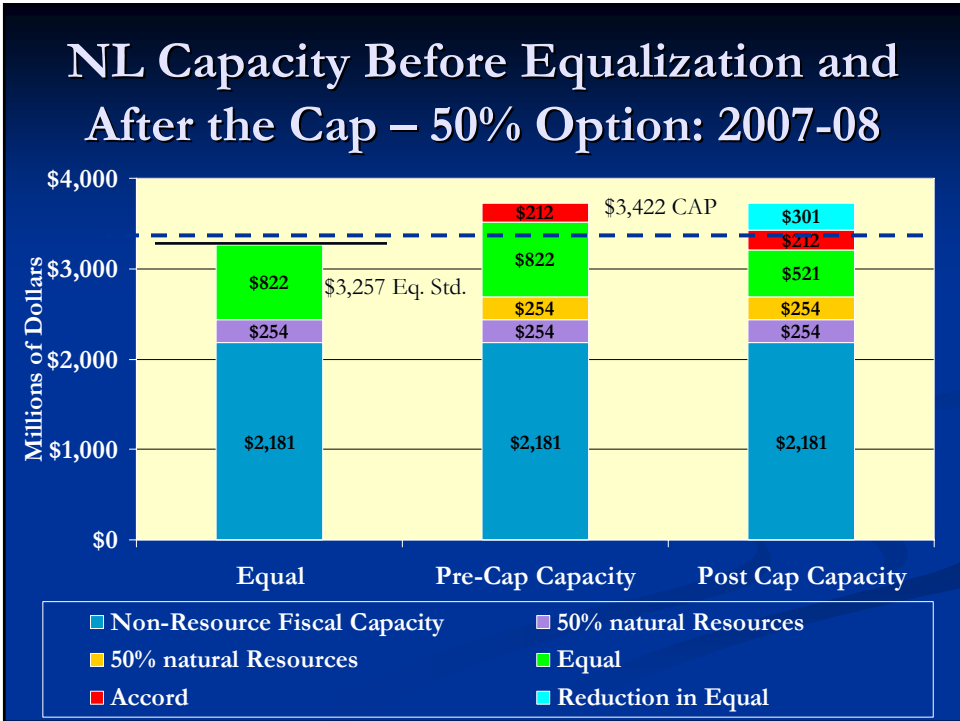
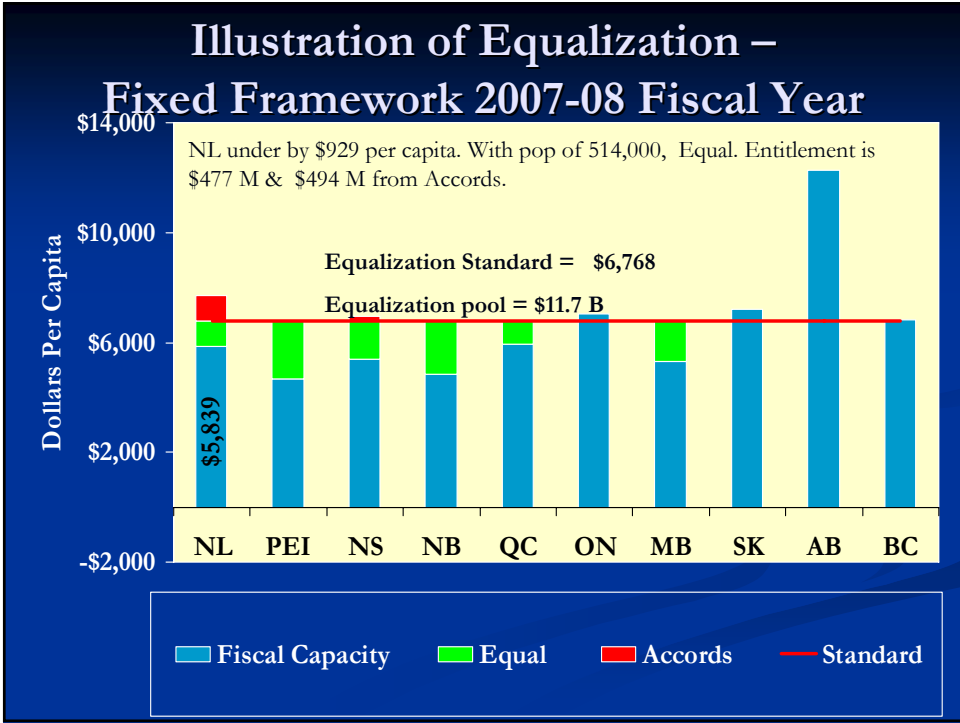
- Both 1985 and 2005 Accords still operate **as long as equalization-receiving province and new qualifying trigger satisfied**

Equalization Options in 2007 Budget

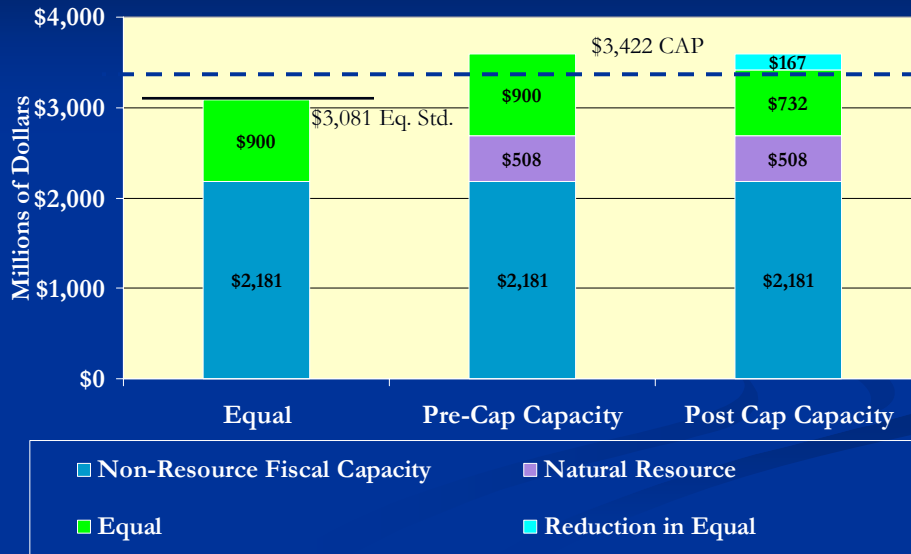
- **0% Resource Inclusion Option**
 - Identical to the 50% option except:
 1. 100% of natural resource revenues are excluded rather than 50%
 2. **Atlantic Accords function, but no longer relevant**
 - (i.e., 100% of resources excluded, “including oil revenue” so recalculating assuming zero oil revenue does not change the result)

Equalization Assumptions

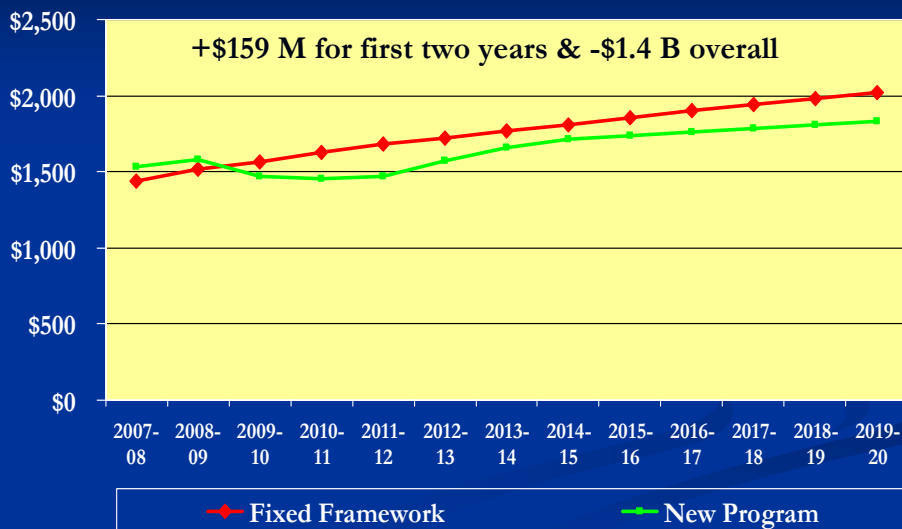
- Population assumed to remain constant at 2006 levels
 - Note: if population declines relative to other provinces, then this will affect the calculation, but for reasonable assumptions, the basic result should be unaltered
- NL oil revenue and NS gas revenue calculated separately
- Per capita fiscal capacity in all other provinces and non-oil and gas per capita fiscal capacity in NL and NS also grows at 1.4% per annum (2% also tested for sensitivity)
 - Over last 10 years, average per capita fiscal capacity has grown at 1.4% per year
 - Note: if per capita bases in each province change at different rates, then will affect the precise calculations, but for reasonable assumptions, the basic result should be unaltered.
- \$150 million per year added to NL mining revenue to reflect improved mining picture (higher prices, Voisey's Bay & new mines)



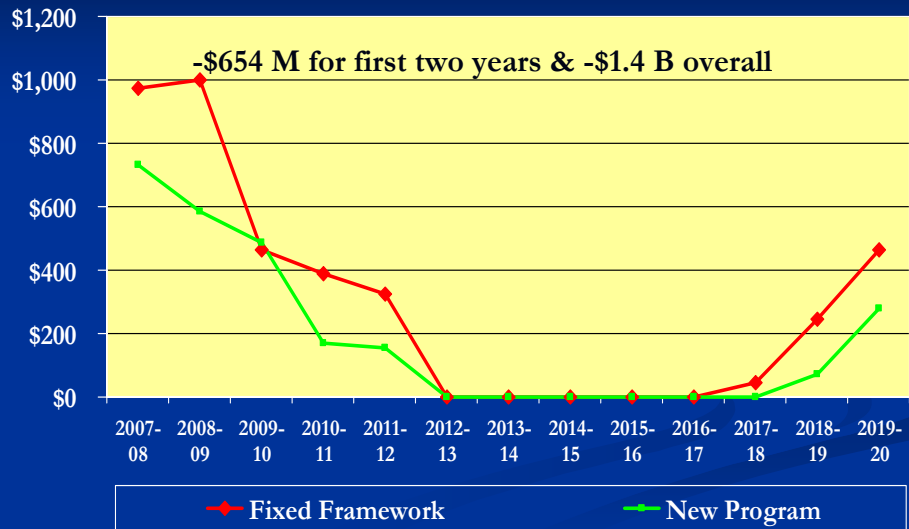
NL Capacity Before Equalization and After the Cap – 0% Option: 2007-08



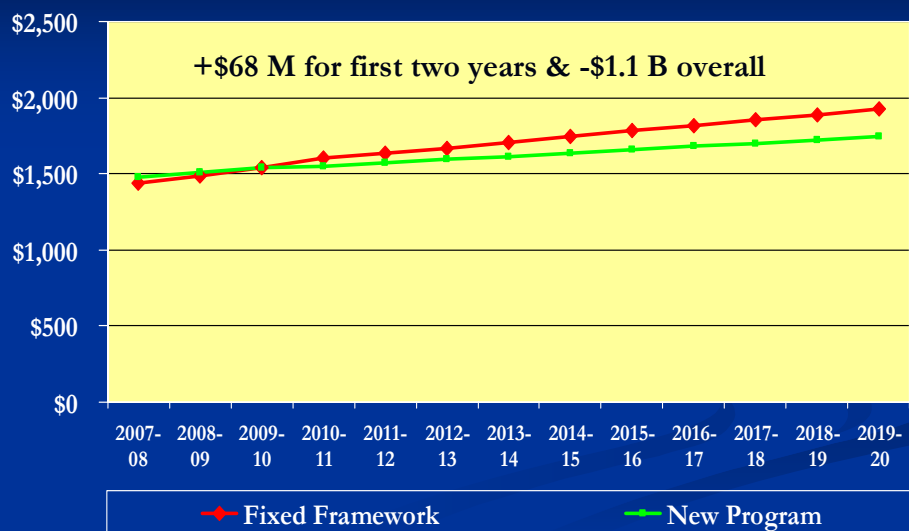
Treasury Impacts – Nova Scotia



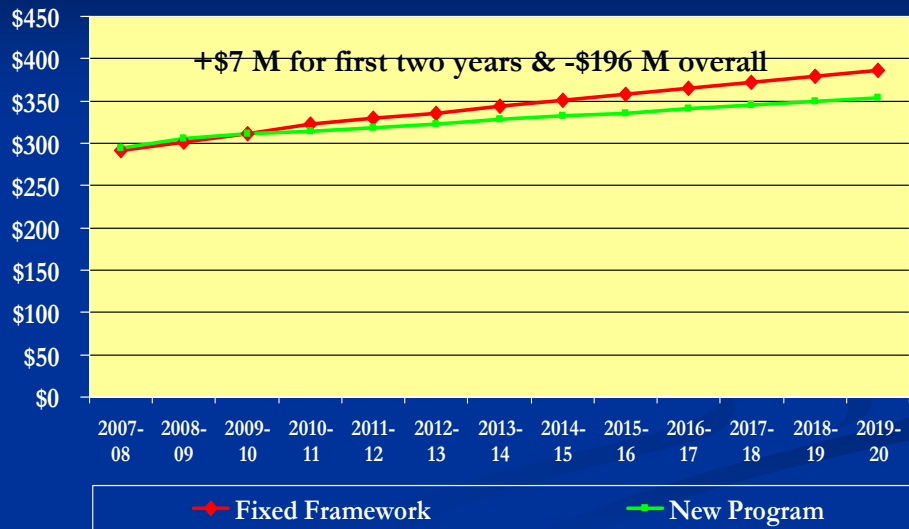
Treasury Impacts – Newfoundland and Labrador



Treasury Impacts – New Brunswick



Treasury Impacts – Prince Edward Island



Comparison of Relative Treasury Impacts for Atlantic Provinces of Switching from Status Quo

	2007/08 - 2008/09	2007/08 – 2019/20
NS	\$159 M	-\$1.4 B
NL	-\$654 M	-\$1.4 B
NB	\$68 M	-\$1.1 B
PEI	\$7 M	-\$196 M

Conclusion

- **Nova Scotia** - \$159 million increase for the first two years under the new Equalization program, and reduced revenues in each year thereafter, in aggregate, the province receives \$1.4 billion less under the new Equalization program than under the Fixed Framework;

Conclusion

- **New Brunswick** - \$68 million increase for the first two years under the new Equalization program, and reduced revenues in each year thereafter, in aggregate, the province receives \$1.1 billion less under the new Equalization program than under the Fixed Framework;

Conclusion

- **Prince Edward Island** - \$7 million increase for the first two years under the new Equalization program, and reduced revenues in each year thereafter, in aggregate, the province receives \$196 million less under the new Equalization program than under the Fixed Framework;

Conclusion

- **Newfoundland and Labrador** - \$654 million reduction for the first two years under the new Equalization program, an increase of \$22 million in the third year, and reduced revenues in each year thereafter, the province receives \$1.4 billion less under the new Equalization program than under the Fixed Framework. It should be noted that Newfoundland and Labrador will no longer be a recipient of Equalization after 2008-2009, under both the Fixed Framework and the new Equalization program.

Conclusion

- The Choice:
- Beyond 2007-2008, both Nova Scotia and Newfoundland and Labrador can choose to permanently opt into the new Equalization program or remain under the Fixed Framework.
- The results clearly indicate that both provinces should remain under the Fixed Framework.
- Since other provinces were not offered this choice, this would result in an unprecedented situation in which two distinct Equalization programs are operating simultaneously, a situation which is not likely to be sustainable.

Conclusion

- There are significant changes to the wording of the Accords
- The protection provided by the Accords is undermined by any equalization reductions caused by the total fiscal capacity cap, since any reduction amounts to a clawback of Accord payments.
- This violates both the letter and spirit of the Accords.

Conclusion

Thank You
Questions/Comments