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Fiscal Pulse

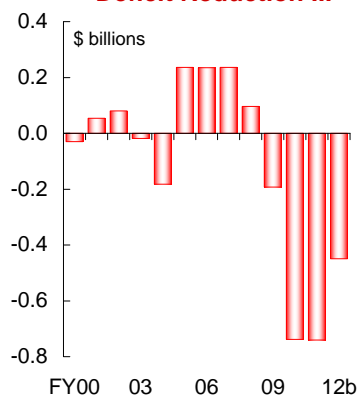
FY2011-12 Highlights

New Brunswick

- New Brunswick reports marked progress in shrinking its deficit for fiscal 2011-12 (FY12) by almost 40% to \$449 million (-1.5% of GDP), as revenues advance 2.1% and expenditures drop 1.6%.
- This follows the government curtailing its FY11 deficit to \$740 million (-2.6% of GDP), \$80 million narrower than the November *Update* and a \$9 million improvement on the *Budget* estimate.
- With the FY12 deficit scaled back alongside a 37% drop in the government's FY12 capital expenditures, the forecast increase in the Province's net debt is approximately halved from the estimated FY11 surge. In FY12, a debt service of \$680 million is forecast, up 21½% (+\$121 million) from the FY07 low.
- For FY12, a combination of broadly based expenditure savings totalling \$220 million, deferring personal income tax relief scheduled by the previous administration and raising selected taxes is planned as the first year of a multi-year deficit-reduction effort. Reflecting this government's short time in power, a detailed deficit reduction plan will be forthcoming, but balanced books are still targeted for FY15.
- New Brunswick's total long-term borrowing is expected to edge up to \$2.6 billion, including \$0.2 billion of financing postponed from FY11 to FY12.

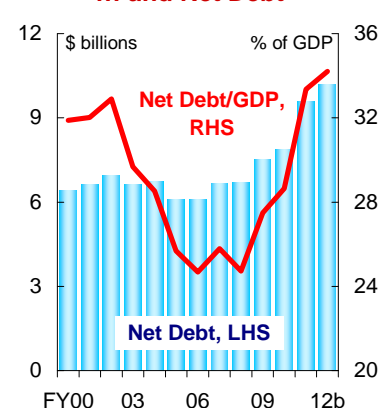
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New Brunswick's Deficit Reduction ...



Source: New Brunswick Finance.

... and Net Debt



Source: historical net debt data - Moody's Investor Service; Statistics Canada; Forecasts - Scotia Economics.

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Overview

Revenues in FY11 have surprised on the upside.

The annual increase, initially estimated at 4.5%, is now expected to be about 7% as New Brunswick's own-source receipts surge 10.4% given higher federal estimates of the Province's income tax and Harmonized Sales Tax receipts and a rise in the Metallic Minerals Tax. As well, during the latter months of FY11, provincial Departments' efforts to find savings of 1% shaved \$43 million off expenditures that would have otherwise occurred.

Growth of the New Brunswick economy picked up to 2% in 2010, according to the government. Higher energy prices, a rebound in potash shipments, production from the Canaport LNG terminal and a pick-up in forestry output all contributed to the largest upswing in exports and manufacturing shipments among the provinces last year. A 0.9% decline in provincial employment, however, dampened domestic demand, and the Province expects its real growth in 2011 to slip to 1.5%.

Revenue growth in FY12 is forecast to slow to 2.1%, with federal transfers falling as Ottawa's two-year stimulus ends. The drop in transfers would be steeper without the federal top-up to ensure that major transfers to each Province in FY12 are at least equal to FY11 levels. N.B.'s own-source receipts in FY12 are expected to climb 6.2%, with more than \$100 million added by a series of revenue measures such as sharp hikes in tobacco and fuel taxes, the phasing out of N.B.'s Film Tax Credit and a slated annual \$10 million increase in NB Liquor Corporation's net income. For the New Brunswick Electric Finance Corporation, positive net income is anticipated for FY12 after breaking even in FY11.

The prior administration's partially implemented multi-year tax reform is being amended. The personal income tax rate cuts slated for 2012 will be delayed and the general corporate income tax (CIT) rate, after falling from 11% to 10% this July, will not drop to 8.0% in mid-2012 as planned by the previous administration, saving \$18 million in FY13. Conversely, the government's commitment to halve the small business CIT rate will begin with a modest drop from 5.0% to 4.5% for 2012.

The projected 2.2% drop in FY12 program spending relies on \$220 million of identified spending restraint and program efficiencies, in part to cover some cost increases. With respect to economic development, Job Creation Funds of \$30 million for Northern New Brunswick and \$7 million for Miramichi will be created. Quality of life priorities in this *Budget* include continued implementation of the poverty reduction plan,

New Brunswick's Budget Arithmetic

\$ millions except where noted

	FY11		FY12
	Budget	Rev.	Budget
Tax Revenue	3,192	3,383	3,550
Royalties	84	83	86
Other Own-Source Revenue	1,060	1,051	1,161
Federal Transfers	2,969	2,967	2,845
Total Revenue	7,306	7,483	7,642
Program Spending	7,423	7,580	7,411
Debt Service*	632	643	680
Total Expenditures	8,054	8,223	8,091
Budget Balance	-749	-740	-449
Memo Items, %			
Own-Source Revenue / GDP	15.1	15.7	16.1
Program Spending / GDP	25.9	26.4	24.9
Budget Balance / GDP	-2.6	-2.6	-1.5
Debt Service* / Revenue	8.6	8.6	8.9
Annual Change, %			
Tax Revenue	-1.6	4.3	5.0
Total Own-Source Revenue	6.0	10.4	6.2
Federal Transfers	2.4	2.3	-4.1
Total Revenue	4.5	7.1	2.1
Program Spending	4.4	6.6	-2.2
Total Expenditures	4.2	2.1	-1.6

* Excludes net pension interest and interest on Student Loans. Source: New Brunswick Finance; nominal GDP forecast: Scotia Economics.

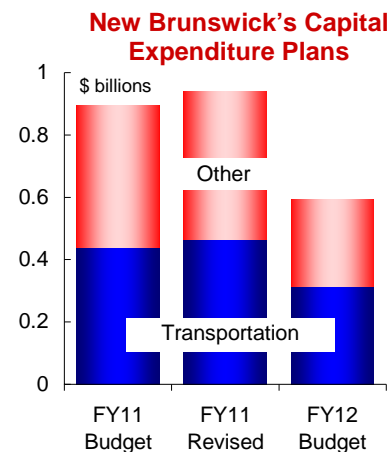
New Brunswick Long-Term Borrowing Requirements

	FY11		FY12
	Budget	Rev.	Budget
	\$ millions		
Government Borrowing*	2,200	1,865	1,889
NB Electric Finance Corporation	415	465	530
NB & NB Electric Finance Corp.	2,615	2,330	2,419
Municipal Finance Corporation	150	126	150
Total	2,765	2,456	2,569

* Includes Student Loans. FY12 also incorporates \$207 million of borrowing carried over from FY11. Source: New Brunswick Finance.

increased support for multiple sclerosis, diabetic and mental health patients and a rise in the hourly wages for home care workers.

Underpinning the savings measures are general efficiencies such as office space consolidation, Department-specific cutbacks, a 10% cut in the number of Deputy and Assistant Deputy Minister positions, the development of a generic drug pricing policy for the Prescription Drug Program and the reduction of agency overlap. Following tuition freezes for three years for universities and five years for colleges, tuition fees will rise by a maximum of \$200 per student and parental contributions for student financial assistance will be reinstated. Operating grants for public universities will rise 2% this year as discussions proceed on a four-year funding model. Maximizing the utilization of public-sector space raises the issue of many New Brunswick schools operating at less than 60% capacity. Invest NB will be the “one-stop” focal point for the Province’s efforts to attract new investment, with greater private-sector involvement and increased accountability and responsibility for government funding. For many indicators, such as nurses per capita, New Brunswick is at or above the national average.



Source: New Brunswick 2011-2012 Capital Estimates.

The two-year wage freeze introduced in 2009 will be applied to all public service employees who have not yet participated. Members of the Legislative Assembly have agreed to a third year of frozen salaries in FY12. A review of public-sector pension plans will be completed by FY12 and recommendations of the MLA Pensions Review Panel that found N.B.’s provisions more generous than other jurisdictions will be implemented. Encouraging is the participation of public-sector unions in the change process.

To address rising property assessments and taxes, consultations are planned on the property tax system, property tax relief for Seniors and municipal funding arrangements, with discussions already started with stakeholders on a new regional services delivery approach.

New Brunswick’s Capital Budget for FY12, presented late in 2010, indicated FY11 outlays 5.0% ahead of Budget at \$940 million. For FY12, a 37% drop in capital investment to \$593 million is planned. Investment in FY12 will be dominated by project completions and asset maintenance, with only 7% of the outlays directed to new projects. Notable is the Province’s decision as it reassesses capital projects to cancel the Mackay Highway widening after reviewing demand. A multi-year *Capital Spending Plan* is promised, beginning with the FY13 *Capital Estimates*.

Outlook

The Auditor General’s report earlier in 2011 warned that New Brunswick’s current fiscal trends were not sustainable. This first budgetary response sets the stage for several years of fiscal repair. Influencing the process will be the considerable amounts of information forthcoming over the next year such as the review of the public-sector plans and the Energy Commission’s ten-year comprehensive energy plan. With provincial power rates currently frozen for three years, the Commission is mandated to balance energy affordability, environmental issues, efficient regulation and economic competitiveness. Additional restraint options that require longer consultation and planning will probably be considered, such as tolls on major highways, selling assets and restructuring natural resource royalties. For one alternative — raising New Brunswick’s portion of the Harmonized Sales Tax — the government has indicated that a provincial referendum would be required.

Many of the restraint measures outlined for FY12, such as the fuel and tobacco tax increases, though painful now, are likely less tough than the trade-offs that will be required in subsequent years. Going forward, New Brunswick’s advantages include the substantial bottom line progress for FY12 outlined in this *Budget* and the recognition that governments downsizing sooner rather than later will generally be better positioned to manage the aging of the baby boom generation.

Budget Highlights and Major Policy Developments

Revenues

(revenue impact of measures in brackets)

Personal Income Tax (PIT) rates for 2012 will be held at 2011 levels, except for the top bracket rate which is remaining at the 2010 rate of 14.3%. For the second half of 2011, the top bracket will witness higher rates due to the 12.7% rate applied in the first half (+\$21 million).

The Home Energy Assistance Program is re-instated by the new administration, providing a \$100 benefit for families with incomes less than \$28,000 as of January 2011.

The Corporate Income Tax (CIT) rate for small business will be reduced from 5.0% to 4.5% on January 1, 2012 (-\$1 million), the first step in the government's commitment to halve the rate.

The gasoline tax will climb from 10.7¢/litre to 13.6¢ as of March 23, and the motive fuel (diesel) tax will rise from 16.9¢/litre to 19.2¢ (+\$44 million). **The Tobacco Tax** will rise on several items as of March 23, including a 5.25¢ hike to 17¢ per cigarette (+\$25 million).

Residential property tax assessment increases will be capped at 3% for 2011 and 2012 for owner-occupied homes.

Expenditures

For K-12 Education, after two schools closed in October because of safety issues, a structural review of schools constructed before 1980 began in February. A record \$30 million is allocated for capital improvements to schools for FY12, recognizing that their average age is more than 40 years, with \$3 million set aside for immediate repairs stemming from the structural review.

Provincial assistance targeted to specific industries or regions continues. In January, the Province provided more than \$10 million towards a modular component metal fabrication facility at the Port of Belledune, building on the port's deep-water, ice-free advantages.

The minimum wage will rise to \$9.50 per hour this April 1. Discussion may proceed on the Province's minimum wage policy for the food services industry and new hires.

For the forest products sector, a task force will present its recommendations for timber objectives for Crown Land this July. The government is assessing innovation and transition opportunities such as wood pellets and the greater use of wood in provincial buildings.

In tourism, the Bay of Fundy is a finalist in the global competition for a New7Wonders of Nature. For the promising cruise ship business, the \$18 million expansion of the Port of Saint John will facilitate arrivals. In 1998, 25,000 passengers disembarked at Saint John; in 2010, passenger arrivals surpassed 200,000.

The Eider Rock Project, with the oil refinery not proceeding as of 2009 but other components of the \$8 billion project still planned, including the marine terminal and a pipeline connecting the existing refinery, received environmental approval from the Province subject to conditions with permission to begin construction over the next six years. Federal environmental approval is still pending.

Expenditure management initiatives will extend to the Province's network of agencies and its education, health care and social service institutions. Credible performance measures will be established across the government. In reviewing the possibilities for streamlining administration, further consolidating shared services and trimming senior management, the possible benefits of regionalizing services will be considered. With respect to compensation, the government wishes to ensure that employees' total remuneration is comparable to other jurisdictions. As well, the government proposes more effective management of the public's expectations in terms of service provision.

Personal Income Tax Brackets				
2008	2009	2010	2011	2012
Pre-Reform				
10.12%	9.65%	9.30%	9.10%	9.10%
(\$0 to \$34,836)	(\$0 to \$35,707)	(\$0 to \$36,421)	(\$0 to \$37,150)	(\$0 to \$37,893)
15.48%	14.50%	12.50%	12.10%	12.10%
(\$34,836 to \$69,673)	(\$35,707 to \$71,415)	(\$36,421 to \$72,843)	(\$37,150 to \$74,300)	(\$37,893 to \$75,786)
16.80%	16.00%	13.30%	12.40%	12.40%
(\$69,673 to \$113,273)	(\$71,415 to \$116,105)	(\$72,843 to \$118,427)	(\$74,300 to \$120,796)	(\$75,786 to \$123,212)
17.95%	17.00%	14.30%	14.30%	14.30%
(over \$113,273)	(over \$116,105)	(over \$118,427)	(over \$120,796)	(over \$123,212)

Source: New Brunswick Finance.