



Ministry of Finance and Corporate Relations

Third Quarterly Report

on the Economy, Fiscal Situation and Crown Corporations

Fiscal Year 1997/98
Nine Months
April – December 1997

**Honourable Andrew Petter
Minister of Finance and Corporate Relations**



Message from the Honourable Andrew Petter

Minister of Finance and Corporate Relations

I am pleased to release the Third Quarterly Report for 1997/98.

Part One of the Quarterly Report reviews the current economic situation and outlook. Part Two provides details of the transactions of the Consolidated Revenue Fund for the nine months ended December 31, 1997, compared to budget. Part Three provides information on the debt of the provincial government and its Crown corporations and agencies as of December 31, 1997. Part Four provides interim financial statements of provincial Crown corporations for the period ended nearest to December 31, 1997.

Quarterly Reports provide regular updates on the economy and government finances. This reflects our commitment to open government and public accountability.

A handwritten signature in black ink, appearing to read 'Andrew Petter'.

**Andrew Petter
Minister**

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HIGHLIGHTS

Economic

- The British Columbia economy is estimated to have grown around 2 per cent in 1997. The economy appeared to slow in the fourth quarter of 1997.
- Retail sales were unchanged in October and November after a large gain in the third quarter. Auto and department store sales were strong in December.
- British Columbia employment fell 0.6 per cent, or 11,000 persons, in the fourth quarter.
- Despite Asia's economic problems, economic conditions in the rest of North America were good heading into 1998. Canadian economic activity remained strong in the fourth quarter while the United States economy continued to expand at a rapid pace.
- A strong North American economy and favourable Canada-U.S. exchange rate should help offset the effects of Asia's difficulties on British Columbia.

Fiscal — 1997/98

- Results to the end of the third-quarter show that the budget plan is on track. The government is continuing to monitor and manage finances closely and will continue to make the necessary adjustments to meet its fiscal target.
- Revenue totalled \$14.8 billion in the first three quarters of 1997/98, \$92 million above budget. Higher-than-expected revenue from various taxes, energy and water-use offset lower-than-expected revenue from forests and other sources.
- Spending at \$15.2 billion was \$94 million below budget. Lower-than-budgeted spending in 12 of the 16 ministries offset higher-than-expected spending in the Ministry for Children and Families and the Ministries of Health, Employment and Investment, and Environment, Lands and Parks.
- As expected, spending outpaced revenue during the first nine months of the year. The shortfall of \$431 million at the end of the third quarter was well below the planned level of \$616 million and \$187 million lower than the same period last year.

Debt

- As of December 31, 1997, total provincial net debt was \$30,332 million.
- Taxpayer-supported debt accounted for \$21,822 million of this total.
- Direct debt totalled \$11,466 million, up \$436 million from March 31, 1997.
- Other taxpayer-supported debt totalled \$10,356 million, up \$242 million from March 31, 1997, and includes borrowing for capital projects.

Crown Corporations

The unaudited operating results of Crown corporations and agencies for their most recent reporting period ending December 31 show:

- British Columbia Ferry Corporation reported a net loss of \$16 million, \$8 million less than last year.
- British Columbia Hydro and Power Authority reported net income of \$330 million, up \$96 million from the same period last year mainly due to higher electricity trade income.
- British Columbia Lottery Corporation reported net income of \$209 million, up \$7 million or 3.3 per cent from last year.
- Net income for the British Columbia Railway Company totalled \$40 million, up \$4 million or 11 per cent from last year.
- British Columbia Transit's net expenditure was \$321 million, up 2.2 per cent from last year.
- The Insurance Corporation of British Columbia reported net income of \$14 million, compared to a \$135-million loss in 1996, mainly due to lower accident costs as a result of road safety programs.

PART ONE — ECONOMIC REPORT

Overview

The pace of British Columbia economic activity slowed in the fourth quarter of 1997¹ (October to December), following a relatively strong third quarter. Export growth continued to slow from double-digit growth earlier in the year, largely the result of the sharp slowdown in the Japanese economy. Consumer spending growth eased during the fourth quarter but was above expectations for the year as a whole. In the labour market, employment declined in the fourth quarter, pushing the unemployment rate up slightly. (Quarterly developments in selected British Columbia economic indicators are outlined in the charts at the end of the *Economic Report*.)

Although the Asian economic crisis created considerable financial market volatility in the fourth quarter, the Canadian and U.S. economies continued to perform well. Strong growth in the rest of North America, low long-term interest rates and a favourable Canada-U.S. exchange rate for exporters should help offset the impact of Asia's economic problems on British Columbia.

External Environment

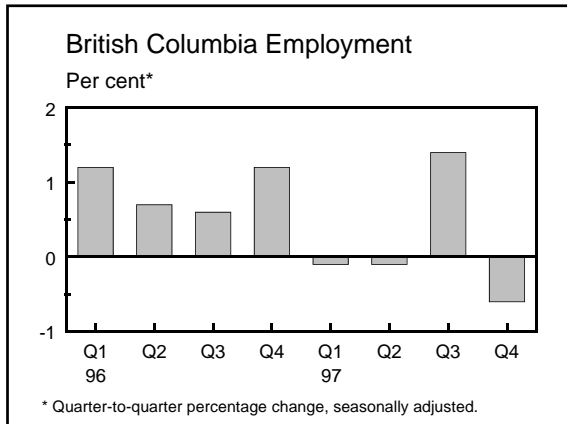
External developments in the fourth quarter of 1997 were dominated by the Asian financial crisis. The upheaval began in the summer with large currency depreciations in a few of the smaller Southeast Asian economies. In October, the "Asian flu" spread to other economies including South Korea and Indonesia. So far, however, its impact on the North American economy has been limited to financial market volatility and lower-than-expected profits of some corporations with large Asian operations.

In Canada, the source of growth has shifted from exports to domestic demand with relatively low interest rates and rising confidence boosting consumption spending and investment. Real GDP rose at an annual rate of 4.1 per cent in the third quarter of 1997. Growth appeared to decelerate in the fourth quarter.

The United States economy grew at a brisk pace in the fourth quarter with real GDP increasing at a 4.3 per cent annual rate. For 1997 as a whole, the economy grew 3.8 per cent with the unemployment rate remaining below 5 per cent during the second half of the year. Although labour markets were extremely tight through 1997, the rising value of the U.S. dollar helped reduce inflation to 1.7 per cent for the year.

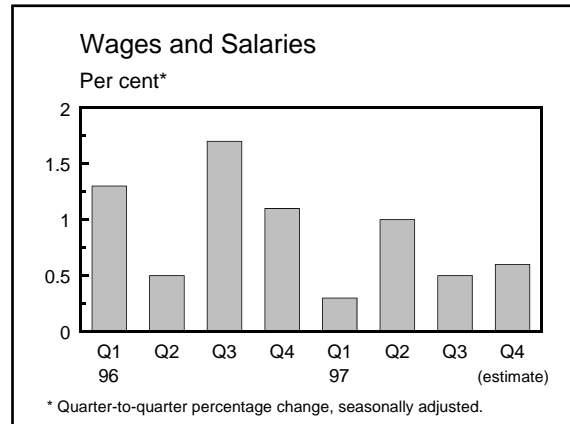
¹ In the *Economic Report*, all references are to calendar quarters. The *Economic Report* incorporates 1997 data received to February 13, 1998.

Recent Growth Patterns of British Columbia's Economy*



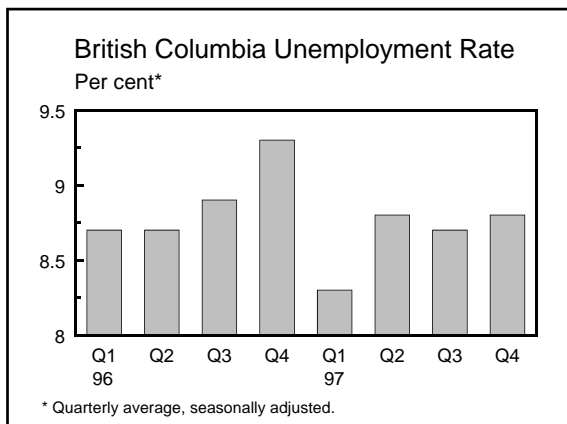
Employment

- British Columbia employment fell 0.6 per cent in the fourth quarter, equal to an 11,000-person decline. The decline followed a 1.4 per cent or 26,000-person rise in the third quarter.
- Employment in 1997 was up 32,000, or 1.8 per cent, compared to the 1996 average. About one-third of the increase in employment in 1997 was in full-time jobs.



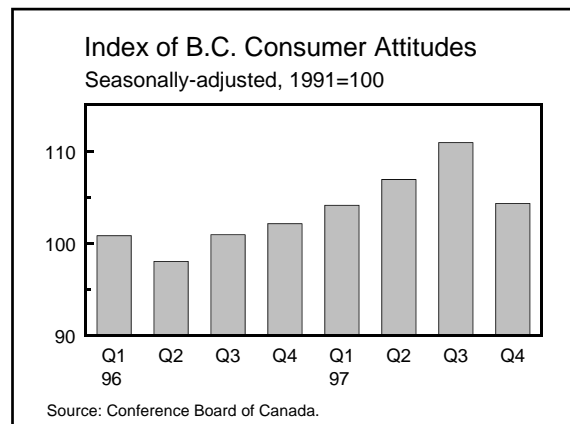
Wages and Salaries

- Aggregate wage and salary income in the January-to-November 1997 period was 3.5 per cent higher than a year ago.
- This reflects employment growth of just under 2 per cent and gains in average earnings of 1.3 per cent.



Unemployment Rate

- The provincial unemployment rate averaged 8.8 per cent during the October-to-December period, unchanged from the third quarter.
- The unemployment rate averaged 8.7 per cent during 1997, down from 8.9 per cent in 1996 and the lowest annual jobless rate since 1990.

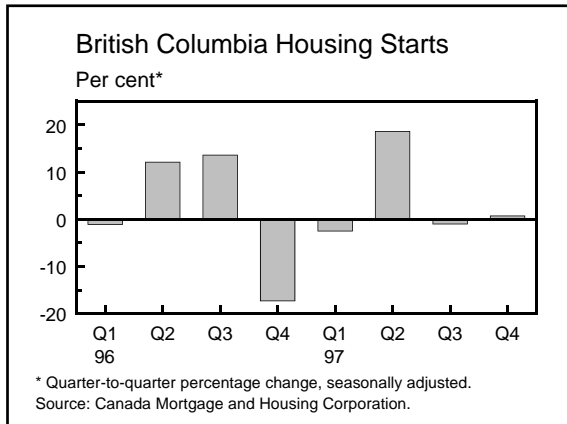


Conference Board Index of B.C. Consumer Confidence

- After five consecutive quarterly increases, the Conference Board of Canada's index of consumer attitudes for British Columbia declined in the fourth quarter.
- The decline in the fourth quarter likely reflects the downturn in employment growth.
- The index had been rising steadily since early 1995.

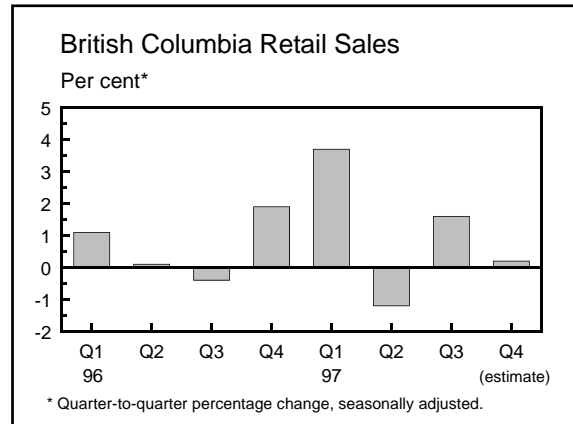
* All data in charts are from Statistics Canada unless noted.

Recent Growth Patterns of British Columbia's Economy — Continued



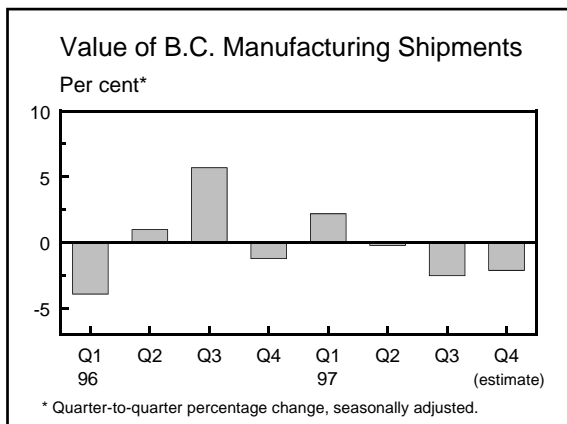
Housing Starts

- Continued low mortgage rates and stable prices helped boost new home construction during 1997.
- Short-term mortgage rates have increased recently, but 5-year mortgage rates remain low by historical standards.



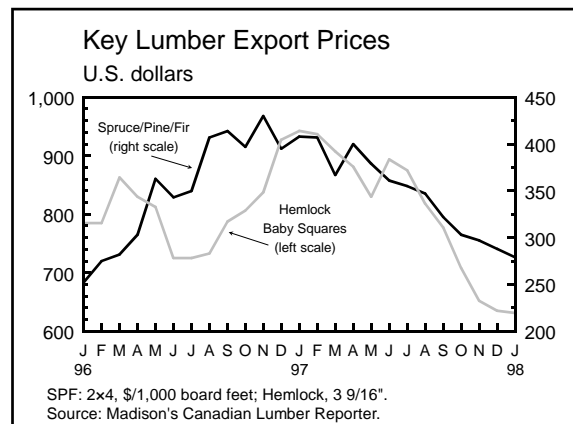
Retail Sales

- Data for October and November, and strong auto and department store sales figures in December, suggest retail spending increased in the final quarter of 1997 after a 1.6 per cent rise in the third quarter.
- December 1997 sales should significantly exceed those in December 1996 when a large winter storm shut down much of southwestern British Columbia for five days.
- Retail sales are estimated to have grown about 5 per cent for all of 1997.



Manufacturing Shipments

- After rising in the first quarter of 1997, the value of British Columbia manufacturing shipments fell over the remainder of the year.
- From January through November 1997, the value of shipments was 2.6 per cent higher than in the same period of 1996.
- The weakness in shipments in 1997 reflects the lost production at the Fletcher Challenge and Skeena Cellulose pulp and paper mills and the general softness in the province's resource industries. In contrast, the value of shipments of electronic/electrical products, clothing, plastics and beverages was up sharply in 1997.



Key Lumber Export Prices

- Lumber prices have been sliding from the high levels reached in late 1996, reflecting the slowdown in the Japanese housing market and increased production at mills in the U.S. and the rest of Canada.
- Prices for Western spruce-pine-fir 2X4s, produced mainly by B.C. Interior mills, fell to \$279 U.S. in January 1998. This was down 35 per cent from the recent high of \$430 reached in November 1996. Average prices in 1997 (\$353) were the same as in 1996.
- Hemlock baby squares are used in traditional Japanese housing and are produced mainly by coastal mills. Prices have fallen by one-third since peaking at \$942 U.S. in January 1997. Prices averaged \$822 in 1997, up slightly from 1996.

In Japan, continuing weakness in consumer spending and housing investment in the fourth quarter was offset by strong growth in exports. Domestic spending has been weak since the hike in the nation's consumption tax on April 1. The fallout from the regional economic crisis has added to the country's economic troubles. Japanese banks, facing losses on their Asian loan portfolios, have been cutting domestic lending activity, particularly to small- and medium-size enterprises. Japan is British Columbia's largest Asian trade partner and the effects of its slowdown on the province's forest exports began to appear in mid-1997.

The British Columbia Economy

The Labour Market

Employment rose 1.8 per cent in 1997 but the quarterly pattern of this growth was quite volatile. Employment fell in the fourth quarter, after increasing at an annual rate of almost 6 per cent in the third quarter. The unemployment rate was unchanged at 8.8 per cent in the fourth quarter.

During the third quarter of 1997, there was a net inflow of 13,600 people to the province, compared to 19,200 people in the third quarter of 1996. Net in-migration of about 50,000 people is expected for all of 1997. This means that in-migration will add more than 1 per cent to the province's population.

The Consumer Sector

Consumer spending grew more rapidly than expected during 1997 and appeared to finish the year strongly. Retail sales posted strong gains in the third quarter and are estimated to have grown about 5 per cent for the year. Grocery, clothing and furniture and appliance stores recorded above-average growth in sales during the first three quarters of 1997.

Retail sales in October and November were unchanged from the third quarter average. However, December sales appear to have grown rapidly due to strong activity at department stores and auto dealers. Although auto sales volumes often rise in December due to year-end dealer promotions, December 1997 volumes were 44 per cent above December 1996 levels. (Statistics Canada will release December retail sales figures on February 20.)

Housing starts were unchanged in the fourth quarter but were up over 6 per cent for the year as a whole. The number of existing home sales was down 8 per cent in the fourth quarter, and 5.5 per cent for the entire year. Average prices rose 0.8 per cent in 1997, reflecting gains in the Fraser Valley, the north Okanagan and on Vancouver Island.

The reasonably strong growth in retail spending across the country in the face of high consumer debt burdens has been the subject of much commentary. According to a study by the Canadian Imperial Bank of Commerce, British Columbia consumers had the highest personal debt-to-income levels in the country in 1996. However, this was entirely due to the size of British Columbians' mortgage debt, reflecting higher house prices than elsewhere in the country. Whether or not the high debt-to-income ratio is a problem in British Columbia must be considered in light of several factors:

- Personal disposable income per person in British Columbia in 1996 was higher than anywhere else in Canada, indicating a greater ability to carry debt.

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- The substantial decline in mortgage rates over the last few years has reduced debt service costs.
 - Compared to most provinces, British Columbia likely has a greater concentration of retirees and new Canadians who have substantial net worth (i.e. their financial assets exceed any liabilities by a wide margin).
 - High house prices and rising stock markets in 1997 suggest that many British Columbians would have ample assets backing their mortgage and consumer loans.

The Business Sector

Year-to-date growth in the Canadian-dollar value of British Columbia merchandise exports was above 4 per cent through November. Above-average growth in the value of exports to the United States, Asia (excluding Japan) and Latin America offset small declines in exports to Japan and Europe. Most of the effect of Asia's difficulties has been and will be transmitted to British Columbia through trade with Japan, the province's largest trading partner in the region.

U.S. dollar-denominated export prices were mixed in the fourth quarter. Lumber prices continued to decline during the fourth quarter, reflecting weak housing markets in Japan and increased lumber production in the U.S. and the rest of Canada. Pulp and newsprint prices rose slightly during the quarter. Prices for most of the key metals and minerals exported from British Columbia declined during the October-to-December period, largely the result of the Asian turmoil. A depreciation in the value of the Canadian dollar relative to its U.S. counterpart helped offset the impact of these price changes on export earnings.

The labour dispute at three Fletcher Challenge pulp and paper mills, which began in July, continued through the fourth quarter. The Skeena Cellulose pulp mill and its related operations were also closed for much of the quarter; in January, an agreement was reached allowing the mill to resume operations. Many smaller forestry operations on Vancouver Island and the Interior extended their normal winter shutdowns in response to weaker market conditions.

The number of business bankruptcies in the January-to-October 1997 period was down 8.3 per cent from the same period in 1996.

On the investment front, Statistics Canada's 1997 mid-year investment intentions survey projected a 10.9 per cent increase in the total value of business non-residential investment in the province in 1997 (up from 3.7 per cent in the initial survey conducted last January). Actual data for 1997 and the results of the 1998 intentions survey are scheduled to be released on February 25.

Asia's economic problems and the resulting weakness in commodity prices probably mutes the investment outlook for the resource sector. However, several developments during the fourth quarter suggested investment prospects are reasonable in other sectors:

- The office vacancy rate in Greater Vancouver fell from 7.3 per cent to 6.5 per cent between December 1996 and December 1997, resulting in a jump in rents and expectations of some new office construction in 1998.

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- A significant amount of hotel construction is planned or underway in the Lower Mainland and Victoria in response to strong demand and rising room rates.
 - The Vancouver International Airport is spending over \$100 million to further expand its terminal facilities.
 - An expanded convention centre and cruise ship terminal are planned for Vancouver.

Outlook

The British Columbia economy is estimated to have grown at around 2 per cent in 1997. The Ministry of Finance and Corporate Relations forecast published in September projected economic growth of 2.5 per cent in 1998. However, the Ministry now expects slower growth as a result of Asia's problems and their effect on provincial exports. The consensus of economic forecasts presented at the Minister of Finance and Corporate Relations' recent pre-budget consultation was for economic growth of 1.4 per cent for 1998.

Despite Asia's problems, North American and European economic growth prospects remain sound, providing a solid platform for the majority of British Columbia's exports. In addition, long-term interest rates remain low by historical standards and the Canadian dollar is at a very competitive level against the U.S. dollar. These fundamentals should support continued, albeit modest, economic growth in the province.

Table 1 Current Economic Statistics

	Latest Period	Year-to-Date Average			Change
		1996	1997		
BRITISH COLUMBIA					
LABOUR MARKET					
Employment (s.a., thousands).....	Dec./97	1,838	1,806	1,838	+1.8%
Male (3-month moving averages).....	Dec./97	1,009	982	1,001	+1.9%
Female (3-month moving averages).....	Dec./97	833	817	837	+2.4%
Unemployment rate (s.a., per cent).....	Dec./97	8.6	8.9	8.7	-0.2
Male (3-month moving averages).....	Dec./97	9	9.1	8.9	-0.2
Female (3-month moving averages).....	Dec./97	8.6	8.7	8.4	-0.3
Net in-migration.....	Q3/97	13,586	16,692	13,161	-21.2%
Wages and salaries (s.a., \$ millions)	Nov./97	4,450	4,260	4,407	+3.5%
Average weekly earnings	Nov./97	615	607	615	+1.3%
CONSUMER SECTOR					
Retail sales (s.a., \$ million).....	Nov./97	2,731	2,609	2,732	+4.7%
Car and truck sales (units)	Dec./97	16,095	11,975	13,702	+14.4%
Housing starts (all areas, s.a., annual rate).....	Dec./97	28,700	27,600	29,400	+6.5%
Existing home sales	Dec./97	4,054	6,015	5,682	-5.5%
Building permits (s.a., \$ thousands)	Dec./97	461	506	463	-8.5%
British Columbia consumer price index (annual per cent change)	Dec./97	0.4	0.9	0.8	-0.1
INDUSTRIAL ACTIVITY					
Foreign merchandise exports (\$ million).....	Nov./97	2,055	2,138	2,229	+4.3%
Manufacturing shipments (s.a., \$ million).....	Nov./97	2,816	2,828	2,903	+2.6%
Lumber production (thousand cubic metres).....	Nov./97	2,244	2,754	2,668	-3.1%
Pulp and paper production (thousand tonnes)	Nov./97	559	611	602	-1.5%
Coal production (thousand tonnes).....	Oct./97	2,071	2,132	2,241	+5.1%
Natural gas production (million cubic metres).....	Oct./97	2,024	1,839	1,880	+2.2%
Copper production (million kg)	Oct./97	16.9	19.1	17.3	-9.4%
TOURISM					
Entries of U.S. and overseas residents (thousands)	Nov./97	390	596	626	+5.0%
B.C. Ferry passengers to/from Vancouver Island (thousands).....	Dec./97	794	978	965	-1.3%
COMMODITY PRICES					
Lumber (U.S.\$/thousand board feet).....	Dec./97	288	352	353	+0.3%
Pulp (U.S.\$/tonne).....	Dec./97	595	591	567	-4.1%
Newsprint (U.S.\$/tonne).....	Dec./97	600	652	559	-14.3%
Copper (U.S.\$/lb.).....	Dec./97	0.80	1.04	1.03	-1.0%
B.C. export commodity price index (Cdn.\$ Index: 1990=100).....	Q3/97	135.3	130.7	136.5	+4.4%
FINANCIAL DATA					
Canadian dollar (U.S. cents).....	Dec./97	70.1	73.4	72.2	-1.20
Canadian prime rate (per cent).....	Dec./97	5.75	6.18	4.92	-1.26
Canadian treasury bills (per cent).....	Dec./97	4.12	4.28	3.15	-1.13
Treasury bill spread — Canada minus U.S. (per cent).....	Dec./97	-1.05	-0.72	-1.91	-1.19

s.a. — seasonally adjusted.

PART TWO — FISCAL REPORT

Overview

For the nine months ended December 31, 1997, revenue totalled \$14,794 million. This was \$92 million above budget as higher-than-expected revenue from various taxes, petroleum, natural gas and water rentals offset lower revenue from forests and other sources.

Expenditure was \$94 million below budget at \$15,224 million. Lower-than-budgeted spending in 12 of the sixteen ministries at the end of the third quarter was partially offset by higher-than-budgeted spending in the Ministry for Children and Families and the Ministries of Health, Employment and Investment, and Environment, Lands and Parks.

Table 2 Consolidated Revenue Fund
Summary of Transactions
for the Nine Months Ended December 31, 1997
(Unaudited)

	Budget 1997 ¹ (\$ millions)	Actual 1997 (\$ millions)	Actual 1996 ² (\$ millions)	Increase (Decrease) ³ (\$ millions)
Revenue.....	14,701.8	14,793.5	14,562.1	91.7
Expenditure.....	15,318.0	15,224.2	15,179.8	(93.8)
Nine month deficit.....	<u>(616.2)</u>	(430.7)	(617.7)	<u>185.5</u>
Net receipts (disbursements) from financing/ working capital transactions ⁴		(45.6)	(537.3)	
Decrease (increase) in cash and short-term investments.....		40.7	271.2	
Net decrease (increase) in provincial government direct debt ⁵		<u>(435.6)</u>	<u>(883.8)</u>	

¹ Figures reflect the nine-month allocation of the full-year budget, based on planned activities and seasonal patterns.

² Figures for 1996/97 have been restated to conform with the presentation used for 1997/98.

³ 1997/98 actual less 1997/98 budget.

⁴ Financing and working capital transactions represent either a source or use of funds, such as the payment or collection of loans and accounts payable/receivable. They do not cause a change in the annual surplus (deficit) but only a change in the composition of the provincial government's assets and liabilities.

⁵ Includes direct debt incurred for government operating purposes and does not include debt incurred by or on behalf of Crown corporations and agencies.

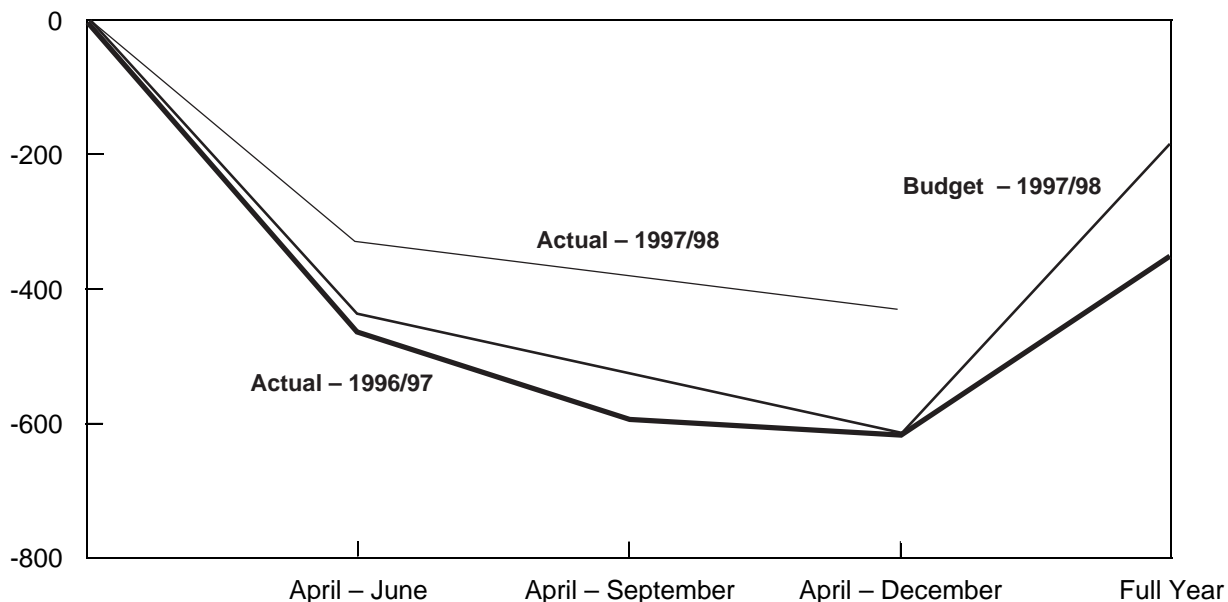
Compared with the first three quarters of 1996/97, revenue increased 1.6 per cent as higher revenue from taxation, Crown corporations and natural resources offset a decline in federal transfers. Expenditures rose 0.3 per cent, up slightly from the same period last year. Current trends continue to reflect progress towards the government's fiscal target.

During the first three quarters of 1997/98, spending from the consolidated revenue fund exceeded revenues resulting in a shortfall of \$431 million. The chart below shows that the shortfall was \$186 million less than the expected level of \$616 million and \$187 million lower than the same period last year. As noted in the last quarterly report, the government's fiscal balance is expected to improve significantly in the last quarter of the fiscal year. Although government's spending tends to remain relatively constant over the year, a larger portion of the government's revenue is received in the latter part of the year (eg. Crown corporation dividends and federal contributions).

Year-to-Date Fiscal Balance by Quarter

Fiscal years 1996/97 and 1997/98

\$ millions



The provincial government financed the deficit and net disbursements for financing and working capital transactions by reducing cash balances and increasing direct debt. Government direct debt increased \$436 million in the first nine months of 1997/98. This compares to an increase of \$884 million in the same period last year (see Table 2). Details on the borrowing of the government and its Crown corporations and agencies are shown in Part Three — Borrowing Report.

Revenue

For the first three quarters ending December 31, 1997, total revenue of \$14,794 million was \$92 million or 0.6 per cent above budget mainly due to higher revenue from taxation, petroleum, natural gas and water rentals, partially offset by lower revenue from forests and other sources. Revenue was 1.6 per cent higher than in the same period in 1996/97 as higher revenue from taxation, petroleum and natural gas, water rentals and Crown corporations offset declines in federal transfers and forest revenue. Last year at this time, revenue was \$476 million or 3.2 per cent below budget.

- Taxation revenue of \$10,010 million was \$213 million above budget and 3.8 per cent higher than in the first nine months of 1996/97. Personal income tax revenue was \$83 million above budget and 4.2 per cent higher than last year due to growth in personal incomes and higher final assessments for the 1996 tax year, which offset lower revenues due to the tax reductions introduced in 1996/97. These include the BC Family Bonus and one-point reduction in the personal income tax base rate, effective July 1, 1996, and a further one-point reduction in the base rate for 1997. Corporation income tax revenue was \$35 million above budget and up 4.8 per cent from last year mainly due to higher instalment payments resulting from a higher federal forecast of national corporate profits in 1997.
- Revenue from social service tax was \$103 million above budget and 7.7 per cent higher than last year due to strengthening retail sales earlier in the year and particularly strong collections in December. Higher consumption volumes caused motor fuel tax revenue to be \$16 million above budget, but 4.7 per cent lower than last year due to an additional one cent of tax that was transferred to the BC Transportation Financing Authority beginning April 1, 1997. Tobacco tax revenue was \$17 million below budget and 5.1 per cent lower than the previous year mainly due to a decline in volumes taxed during the second and third quarters. A weakening in housing re-sales resulted in property transfer tax revenue being \$7 million lower than budget, but up 2.0 per cent from the same period last year. Corporation capital tax revenue was \$13 million below budget but 3.4 per cent higher than last year due to higher instalment payments and lower refunds. Other tax revenue was \$11 million above budget due to higher revenue from hotel room and insurance premium taxes.
- Natural resource revenue of \$1,458 million was on budget overall and 1.6 per cent higher than in the same period in 1996/97. Petroleum and natural gas revenue was \$65 million above budget and 25 per cent higher than last year mainly due to the effect of higher-than-expected prices on sales of Crown land drilling rights and natural gas royalties. Minerals revenue was \$4 million below budget and 21 per cent lower than the previous year due to lower-than-expected assessments for the current and previous years. Water rental revenue was up \$33 million from budget and 33 per cent higher than last year mainly due to the effect of higher-than-expected power generation by BC Hydro. These gains were offset by lower-than-expected forests revenue.

Table 3 Revenue by Source
for the Nine Months Ended December 31, 1997
(Unaudited)

	Budget 1997 (\$ millions)	Actual 1997 (\$ millions)	Actual 1996 ¹ (\$ millions)	Increase (Decrease) ² (\$ millions)
Taxation:				
Personal income	3,937.1	4,020.1	3,856.6	83.0
Corporation income	873.3	908.3	867.1	35.0
Social service	2,421.5	2,524.7	2,344.6	103.2
Fuel	487.7	503.7	528.6	16.0
Tobacco	376.0	358.7	378.1	(17.3)
Property	966.2	966.2	950.3	—
Property transfer	258.6	252.0	247.1	(6.6)
Corporation capital	316.6	303.7	293.6	(12.9)
Other	180.9	191.8	194.9	10.9
Less commissions on collection of public funds ..	(20.8)	(19.3)	(18.9)	1.5
	<u>9,797.1</u>	<u>10,009.9</u>	<u>9,642.0</u>	<u>212.8</u>
Natural resources:				
Petroleum and natural gas:				
Natural gas royalties	86.3	98.7	86.6	12.4
Permits and fees	113.7	162.7	112.9	49.0
Petroleum royalties	56.5	59.8	57.9	3.3
	<u>256.5</u>	<u>321.2</u>	<u>257.4</u>	<u>64.7</u>
Minerals	<u>35.2</u>	<u>30.9</u>	<u>39.2</u>	<u>(4.3)</u>
Forests:				
Timber sales	753.1	646.2	727.1	(106.9)
Small Business Forest Enterprise Program	165.7	181.7	171.1	16.0
Logging tax	13.0	7.3	32.5	(5.7)
Other forests revenue	7.8	11.2	7.4	3.4
	<u>939.6</u>	<u>846.4</u>	<u>938.1</u>	<u>(93.2)</u>
Water rentals	213.8	246.8	185.5	33.0
<i>Wildlife Act</i>	15.2	14.0	16.3	(1.2)
Less commissions on collection of public funds ..	(1.5)	(1.1)	(0.8)	0.4
	<u>227.5</u>	<u>259.7</u>	<u>201.0</u>	<u>32.2</u>
	<u>1,458.8</u>	<u>1,458.2</u>	<u>1,435.7</u>	<u>(0.6)</u>

¹ Figures for 1996/97 have been restated to conform with the presentation used for 1997/98.

² 1997/98 actual less 1997/98 budget.

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Table 3 Revenue by Source — Continued
for the Nine Months Ended December 31, 1997
(Unaudited)

	Budget 1997 (\$ millions)	Actual 1997 (\$ millions)	Actual 1996 ¹ (\$ millions)	Increase (Decrease) ² (\$ millions)
Other revenue:				
Medical Services Plan premiums	659.9	657.9	650.6	(2.0)
Motor vehicle licences and permits	237.3	249.0	257.9	11.7
Other fees and licences	309.4	272.6	270.2	(36.8)
Investment earnings	84.3	77.6	89.6	(6.7)
Fines and penalties	88.4	70.6	60.1	(17.8)
Miscellaneous	124.1	78.2	66.3	(45.9)
Less commissions on collection of public funds ..	(61.0)	(56.3)	(33.8)	4.7
	<u>1,442.4</u>	<u>1,349.6</u>	<u>1,360.9</u>	<u>(92.8)</u>
Contributions from government enterprises:				
Liquor Distribution Branch income	478.6	495.4	471.6	16.8
British Columbia Lottery Corporation	226.5	204.3	197.7	(22.2)
Other	2.7	2.7	—	—
	<u>707.8</u>	<u>702.4</u>	<u>669.3</u>	<u>(5.4)</u>
Contributions from the Federal government:				
Canada health and social transfer	1,185.0	1,167.0	1,363.5	(18.0)
Other	110.7	106.4	90.7	(4.3)
	<u>1,295.7</u>	<u>1,273.4</u>	<u>1,454.2</u>	<u>(22.3)</u>
TOTAL REVENUE	<u>14,701.8</u>	<u>14,793.5</u>	<u>14,562.1</u>	<u>91.7</u>

¹ Figures for 1996/97 have been restated to conform with the presentation used for 1997/98.

² 1997/98 actual less 1997/98 budget.

- Forests revenue was \$93 million below budget and 9.8 per cent lower than last year. Most of the decline from budget was due to reduced timber sales revenue resulting from lower-than-expected harvest volumes and lower billed stumpage rates. Compared to the first nine months of last year, overall harvest volumes fell 12 per cent. Factors contributing to the decline include weakening lumber prices; market weakness in Japan; large inventories and wet weather earlier in the year; low chip prices; the Skeena Cellulose mill closure; and the pulp strike. However, revenue from the small business forest enterprise program was \$16 million above budget and up 6.2 per cent from last year reflecting higher harvest volumes in response to increased timber available to the program. The effect of lower activity, weaker pulp prices and higher refunds caused revenue from logging tax to be \$6 million below budget and \$25 million lower than last year. Forests revenue excludes \$298 million of stumpage revenue under the forest renewal plan received by Forest Renewal BC (see Table 15).
- Other revenue totalled \$1,350 million, down \$93 million from budget and slightly lower than last year. Lower-than-budgeted revenue from fees, licences, fines, other miscellaneous sources (mainly Crown land sales), and investment earnings were partly offset by higher revenue from motor vehicle licences and permits.

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- Contributions from government enterprises of \$702 million were \$5 million below budget but up 4.9 per cent from last year. Net income of the Liquor Distribution Branch was \$17 million above budget and 5.0 per cent higher than in 1996/97 because of higher sales volumes. Net income of the British Columbia Lottery Corporation was down \$22 million from budget, but up 3.3 per cent from last year. The decline from budget was due to lower ticket sales in response to smaller jackpots, delays in implementing expanded gaming and higher-than-expected operating expenses.
 - Federal government contributions of \$1,273 million were \$22 million below budget and \$181 million or 12.4 per cent lower than in the same period last year. Revenue from the Canada Health and Social Transfer was \$18 million below budget and \$197 million lower than last year due to the continuation of federal transfer cuts and an increase in the amount of the tax-point component of the transfer entitlement. Other federal contributions were \$4 million below budget due to slower-than-expected recoveries under various cost-shared programs.

Expenditure

Spending for the first nine months of the fiscal year was \$94 million below budget at \$15,224 million. This was slightly ahead of comparable spending for the same period last year, due in part to spending delays resulting from ministry reorganizations in the third quarter of 1996/97, and earlier spending in certain programs in 1997/98.

As of December 31, 1997, 12 of the sixteen ministries were below budget. This was partially offset by higher-than-budgeted spending in the Ministry for Children and Families and the Ministries of Health, Employment and Investment, and Environment, Lands and Parks.

- Ministry of Attorney General expenditure of \$668 million was slightly below budget as higher-than-expected payments for flood and blizzard damage compensation were offset by slower-than-expected expenditures in other programs.
- Ministry for Children and Families expenditure of \$1,015 million was \$26 million above budget mainly because of higher-than-planned expenditures for residential and related programs for children and youth, and for handicapped and disabled adults residential services. Ministry spending rose 2.3 per cent from last year reflecting expanded services under the new *Child, Family and Community Services Act*.
- Ministry of Education, Skills and Training expenditure of \$4,298 million was \$16 million below budget due to reduced spending for administration and skills development programs. Ministry spending was \$67 million or 1.6 per cent higher than in the same period last year, reflecting the government's commitment to education. Public school operating contributions increased \$20 million from last year primarily due to higher enrolments, while expenditures for educational institutions and organizations were unchanged.
- Ministry of Employment and Investment expenditure of \$116 million was \$5 million above budget because of earlier-than-planned program expenditures. Spending was \$28 million higher than last year because of additional expenditures for Kemess mine development.
- Ministry of Environment, Lands and Parks expenditure was slightly ahead of budget, but \$18 million or 10.3 per cent lower than last year due to reduced spending for park acquisitions and savings resulting from ministry restructuring.

Table 4 Expenditure by Ministry
for the Nine Months Ended December 31, 1997
(Unaudited)

	Budget 1997 (\$ millions)	Actual 1997 (\$ millions)	Actual 1996 ¹ (\$ millions)	Increase (Decrease) ² (\$ millions)
Legislation.....	22.0	22.4	21.1	0.4
Auditor General.....	5.2	5.4	5.7	0.2
Office of the Child, Youth and Family Advocate.....	0.8	0.7	0.7	(0.1)
Conflict of Interest Commissioner.....	0.1	0.1	0.1	—
Elections B.C.	5.2	3.6	17.4	(1.6)
Information and Privacy Commissioner.....	1.8	1.8	1.8	—
Ombudsman.....	3.5	3.4	3.4	(0.1)
Office of the Premier	1.7	1.6	2.0	(0.1)
Aboriginal Affairs.....	20.2	17.6	21.0	(2.6)
Agriculture, Fisheries and Food.....	42.3	39.6	43.1	(2.7)
Attorney General.....	671.6	667.5	653.9	(4.1)
Children and Families	989.3	1,015.2	992.7	25.9
Education, Skills and Training				
Public school operating contributions.....	2,674.6	2,675.6	2,656.0	1.0
Educational institutions and organizations	803.3	803.5	803.8	0.2
Other	836.0	818.9	771.6	(17.1)
Total	4,313.9	4,298.0	4,231.4	(15.9)
Employment and Investment.....	111.2	116.2	88.1	5.0
Environment, Lands and Parks.....	151.3	154.0	171.6	2.7
Finance and Corporate Relations.....	80.3	77.7	72.6	(2.6)
Forests.....	405.4	354.9	477.4	(50.5)
Health				
Acute and continuing care.....	2,950.5	2,921.0	2,783.0	(29.5)
Contribution to BC Transit	202.7	227.3	223.4	24.6
Other	2,353.2	2,368.8	2,230.0	15.6
Total.....	5,506.4	5,517.1	5,236.4	10.7
Human Resources	1,259.5	1,232.6	1,315.6	(26.9)
Labour	30.4	30.2	37.4	(0.2)
Municipal Affairs and Housing.....	282.7	278.4	326.9	(4.3)
Small Business, Tourism and Culture	72.6	70.0	96.4	(2.6)
Transportation and Highways.....	391.3	375.5	502.4	(15.8)
Women's Equality.....	28.7	27.2	26.9	(1.5)

¹ Figures for 1996/97 have been restated to conform with the presentation used for 1997/98.

² 1997/98 actual less 1997/98 budget.

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Table 4 Expenditure by Ministry — *Continued*
for the Nine Months Ended December 31, 1997
(Unaudited)

	Budget 1997 (\$ millions)	Actual 1997 (\$ millions)	Actual 1996 ¹ (\$ millions)	Increase (Decrease) ² (\$ millions)
Other Appropriations:				
Management of Public Funds and Debt.....	685.4	677.8	719.9	(7.6)
Contingencies and New Programs.....	—	3.9	0.8	3.9
BC Benefits.....	224.8	228.8	96.4	4.0
Corporate Accounting System.....	8.1	6.1	5.3	(2.0)
Environmental Assessment and Land Use Coordination.....	11.0	7.3	7.7	(3.7)
Environmental Boards and Forest Appeals Commission.....	1.5	0.7	0.8	(0.8)
Forest Practices Board.....	3.8	3.5	2.4	(0.3)
Office of the Police Complaints Commissioner ..	—	0.1	0.1	0.1
Public Sector Employers' Council.....	1.2	1.2	1.2	—
Public Service Employee Relations Commission.	5.9	5.7	9.2	(0.2)
Office of the Transition Commissioner for Child and Youth Services.....	—	—	1.0	—
Insurance and Risk Management.....	5.9	5.4	7.0	(0.5)
Amortization of Change in Unfunded Pension Liability.....	(27.0)	(27.0)	(18.0)	—
TOTAL EXPENDITURE.....	15,318.0	15,224.2	15,179.8	(93.8)

¹ Figures for 1996/97 have been restated to conform with the presentation used for 1997/98.

² 1997/98 actual less 1997/98 budget.

- Ministry of Forests expenditure of \$355 million was \$51 million below budget and \$123 million lower than last year mainly because of lower-than-expected spending for forest fire suppression, program reductions and a restructuring of field and headquarters operations.
- Expenditure of the Ministry of Health of \$5,517 million was \$11 million ahead of budget. Increased spending caused by higher-than-expected utilization of the Medical Services Plan and adult mental health services was partially offset by lower-than-budgeted spending for acute and continuing care services and for debt servicing contributions. Contributions to BC Transit were \$25 million higher than budget due to earlier-than-planned payments. Ministry spending rose \$281 million or 5.4 per cent from last year mainly due to increased expenditures for the Medical Services Plan, Pharmacare and acute and continuing care.
- Ministry of Human Resources expenditure of \$1,233 million was 2.1 per cent below budget and \$83 million or 6.3 per cent lower than last year mainly due to lower expenditures for income assistance. Caseloads in the first nine months of 1997/98 were down 9.0 per cent from the same period last year due to the success of the new BC Benefits program, caseload reduction initiatives and early intervention programs.

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- Expenditure of the Ministry of Municipal Affairs and Housing of \$278 million was down \$49 million or 15 per cent from last year because of a reduced and restructured unconditional grant program for local government.
 - Ministry of Small Business, Tourism and Culture spending was \$26 million lower than last year mainly because of ministry budget reductions which included a transfer of tourism development and marketing to the new Tourism BC agency, reduced sport, culture, heritage and community grants and restructuring of other ministry functions.
 - Ministry of Transportation and Highways spending of \$376 million was \$16 million below budget because of slower-than-expected highways expenditures. Spending was \$127 million or 25 per cent lower than last year due to the transfer of motor vehicle branch responsibilities to the Insurance Corporation of British Columbia in late 1996/97, and lower spending for highway rehabilitation and secondary highways assistance.
 - Management of public funds and debt spending of \$678 million was \$8 million below budget and \$42 million lower than last year because of lower interest rates (see Part Three — Borrowing Report for more information).
 - BC Benefits spending of \$229 million was \$132 million higher than the same period last year as the BC Family Bonus program did not commence until July 1, 1996.

Fiscal Outlook

Results for the first nine months of the fiscal year indicate that the government's fiscal performance has remained on track with the budget. As noted earlier, revenue for the first nine months was \$92 million above budget, mainly due to higher-than-budgeted revenue from taxes and other sources.

Because British Columbia's economic performance in 1997 has been generally consistent with the Ministry of Finance and Corporate Relations' forecast, and because overall year-to-date revenues are generally in line with expectations, the 1997/98 revenue outlook remains unchanged. However, recent problems in Asia, including declines in the Japanese housing market, have contributed to weakness in British Columbia exports, and in particular, to forestry revenue. The government is continuing to closely monitor this area.

In the final quarter of the year, forestry revenues are expected to pick up, reflecting the significant volumes normally harvested in the Interior during the winter months. Other revenue increases expected in the final quarter include dividends from Crown corporations, which are typically received in March, and the recent federal announcement regarding an additional Canada Health and Social Transfer payment.

Spending for the first nine months of the fiscal year was \$94 million less than expected mainly due to delayed spending in most ministries. As planned, spending was slightly higher than in the same period last year. However, expenditure growth is expected to fall in the last quarter of 1997/98. As in other years, pressures have emerged in a number of spending areas, including utilization pressures in the Ministry for Children and Families and the Ministries of Health, and Attorney General. Treasury Board and ministries continue to manage expenditures in order to meet the overall 1997/98 fiscal target.

Combined, the above factors are expected to reduce the deficit from the third quarter level of \$431 million to the \$185-million target for the full year.

PART THREE — BORROWING REPORT

Overview

- At December 31, 1997, provincial net debt totalled \$30,332 million. Taxpayer-supported debt accounts for \$21,822 million of this total, while the remainder is self-supporting.
- During the nine months ended December 31, 1997, total government, Crown corporation and agency net debt increased \$1.1 billion. The increase in total net debt is mainly due to increases in debt held under the warehouse borrowing program, government direct debt, and debt of economic development, social and government services Crown corporations. These increases were partially offset by a reduction in the debt of commercial Crown corporations. During the same period last year, there was a \$483-million decrease in total debt, largely due to the drawdown of funds in the government's warehouse borrowing program and the defeasance of some outstanding debt.
- Taxpayer-supported debt, which excludes the self-supporting debt of commercial Crown corporations and the warehouse borrowing program, increased \$678 million in the first nine months of 1997/98. The increase includes a \$436-million increase in direct debt and a \$242-million net increase in other taxpayer-supported debt, including borrowing for capital projects. During the first nine months of last year, taxpayer-supported debt increased \$451 million.

Provincial Government Direct Debt

- Provincial government direct debt increased \$436 million as new borrowing of \$1,759 million was partially offset by sinking fund contributions, sinking fund earnings and debt maturities totalling \$1,323 million. The increase was about the same level as the nine-month deficit.
- New borrowing consisted of a \$1,928-million increase in long-term debt (swapped into floating-rate debt), partially offset by a \$169-million decrease in short-term debt. At December 31, 1997, provincial government direct debt totalled \$11,466 million.

Crown Corporation and Agency Net Debt

- Crown corporation and agency debt increased \$176 million as new borrowing of \$1,000 million was partially offset by retirement provisions totalling \$824 million. New borrowing consisted of a \$1,449 million increase in long-term debt, partially offset by a \$449-million reduction in short-term debt outstanding. Last year at this time, Crown corporation and agency net debt decreased \$572 million. More than half of this decrease was due to the defeasance of the outstanding debt of the Greater Vancouver Sewerage and Drainage and Water Districts. Borrowing requirements of these agencies are now met through the Municipal Finance Authority of British Columbia.

At December 31, 1997, Crown corporation and agency net debt totalled \$17,812 million. Changes in the first nine months include:

- *Commercial Crown corporations* — down \$66 million, including a \$113-million decrease in the British Columbia Hydro and Power Authority's debt, partially offset by a \$47-million increase in the debt of the British Columbia Railway Company. New borrowing consisted of a \$450-million increase in long-term debt, partially offset by a \$126-million decrease in short-term debt. Retirement provisions totalled \$391 million. At December 31, 1997, commercial Crown corporation net debt totalled \$7,805 million.
- *Economic development Crown corporations* — up \$218 million. New long-term borrowing by British Columbia Transit (up \$265 million), the BC Transportation Financing Authority (up \$247 million) and the British Columbia Ferry Corporation (up \$116 million) was used to retire some short-term debt and finance new capital projects. Short-term borrowing by the British Columbia Housing Management Commission increased to meet temporary cash requirements. At December 31, 1997, economic development Crown corporation net debt totalled \$3,404 million.
- *Social and government services Crown corporations* — up \$30 million mainly due to increased borrowing by the British Columbia School Districts Capital Financing Authority, partially offset by a reduction in short-term debt outstanding of the British Columbia Buildings Corporation and the certificate of approval program. At December 31, 1997, social and government services Crown corporation net debt totalled \$6,452 million.

Warehouse Borrowing Program

- Long-term debt held under the warehouse borrowing program totalled \$581 million at December 31, 1997. Under this program, funds are borrowed in advance of actual requirements to take advantage of favourable market conditions. This debt will be allocated to the provincial government or its Crown corporations and agencies when funding is required.

Table 5 Change in Provincial Net Debt and Total Net Debt Outstanding, 1997/98¹

Nine Months Ended December 31 (Unaudited)	1997			Total Net Debt Outstanding	1996
	New Borrowing ²	Retirement Provision ³	Net Change (\$ millions)		Net Change
Provincial Government Direct	<u>1,758.5</u>	<u>1,322.9</u>	<u>435.6</u>	<u>11,466.1</u>	<u>883.8</u>
Crown Corporations and Agencies:					
Commercial					
British Columbia Hydro and Power Authority.....	230.0	343.0	(113.0)	7,364.2	(107.3)
British Columbia Railway Company.....	94.2	47.6	46.6	437.2	(31.2)
Columbia Power Corporation.....	—	—	—	3.1	—
	<u>324.2</u>	<u>390.6</u>	<u>(66.4)</u>	<u>7,804.5</u>	<u>(138.5)</u>
Economic Development					
British Columbia Ferry Corporation.....	74.9	22.8	52.1	737.0	100.0
British Columbia Transit.....	182.4	152.6	29.8	1,567.0	25.9
BC Transportation Financing Authority.....	114.8	(1.8)	116.6	1,032.2	218.4
Other ⁴	19.6	0.4	19.2	67.6	2.3
	<u>391.7</u>	<u>174.0</u>	<u>217.7</u>	<u>3,403.8</u>	<u>346.6</u>
Social and Government Services					
British Columbia Assessment Authority.....	(6.2)	—	(6.2)	—	(7.0)
British Columbia Buildings Corporation.....	(35.8)	11.7	(47.5)	687.9	3.2
British Columbia Educational Institutions Capital Financing Authority.....	62.3	71.8	(9.5)	1,336.2	15.2
British Columbia Regional Hospital Districts Financing Authority.....	89.7	86.7	3.0	1,376.0	(240.4)
British Columbia School Districts Capital Financing Authority.....	213.6	81.3	132.3	2,902.5	(221.0)
Capital Project Certificate of Approval Program.....	(41.3)	—	(41.3)	130.8	(16.9)
British Columbia Systems Corporation.....	0.3	1.5	(1.2)	18.1	(1.7)
	<u>282.6</u>	<u>253.0</u>	<u>29.6</u>	<u>6,451.5</u>	<u>(468.6)</u>
Total Crown Corporations	<u>998.5</u>	<u>817.6</u>	<u>180.9</u>	<u>17,659.8</u>	<u>(260.5)</u>
Other Fiscal Agency Loans ⁵	<u>1.0</u>	<u>6.2</u>	<u>(5.2)</u>	<u>152.4</u>	<u>(311.1)</u>
Total Crown Corporations and Agencies	<u>999.5</u>	<u>823.8</u>	<u>175.7</u>	<u>17,812.2</u>	<u>(571.6)</u>

¹ Net debt includes provincial government direct debt, fiscal agency loans, other debt that has been guaranteed by the provincial government, and certain other debt which is not provincially guaranteed.

² Gross new long-term borrowing plus net change in short-term debt outstanding.

³ Sinking fund contributions, sinking fund interest earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues). Also includes reallocations from the warehouse borrowing program.

⁴ Includes the British Columbia Housing Management Commission, Pacific Racing Association and Victoria Line Ltd.

⁵ Includes local governments, universities and colleges.

⁶ Includes debt of the British Columbia Lottery Corporation, Liquor Distribution Branch, British Columbia Railway Company, Columbia Basin Power Company, Pacific National Exhibition, Provincial Rental Housing Corporation, BC Transportation Financing Authority, British Columbia Ferry Corporation, and the Okanagan Valley Tree Fruit Authority that is not guaranteed by the provincial government.

⁷ Excludes debt of commercial Crown corporations and agencies, funds held under the province's warehouse borrowing program and non-guaranteed debt of the British Columbia Lottery Corporation, Liquor Distribution Branch, British Columbia Railway Company and Columbia Basin Power Company.

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Table 5 Change in Provincial Net Debt and Total Net Debt Outstanding, 1997/98¹ — *Continued*

Nine Months Ended December 31 (Unaudited)	1997			Total Net Debt Outstanding	1996
	New Borrowing ²	Retirement Provision ³	Net Change (\$ millions)		Net Change
Warehouse Borrowing Program	645.4	164.2	481.2	581.2	(795.2)
<i>Less: Amounts held as investments/cash for relending by the consolidated revenue fund and Crown corporations</i>	—	—	—	0.8	—
Government, Crown Corporations and Agencies	3,403.4	2,310.9	1,092.5	29,858.7	(483.0)
Other Guarantees.....	—	—	—	228.5	—
Total Direct and Guaranteed Debt	3,403.4	2,310.9	1,092.5	30,087.2	(483.0)
Non-Guaranteed Debt ⁶	—	—	—	245.2	—
Total Provincial Debt	3,403.4	2,310.9	1,092.5	30,332.4	(483.0)
Taxpayer-Supported Net Debt ⁷	2,433.8	1,756.1	677.7	21,821.9	450.7

¹ Net debt includes provincial government direct debt, fiscal agency loans, other debt that has been guaranteed by the provincial government, and certain other debt which is not provincially guaranteed.

² Gross new long-term borrowing plus net change in short-term debt outstanding.

³ Sinking fund contributions, sinking fund interest earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues). Also includes reallocations from the warehouse borrowing program.

⁴ Includes the British Columbia Housing Management Commission, Pacific Racing Association and Victoria Line Ltd.

⁵ Includes local governments, universities and colleges.

⁶ Includes debt of the British Columbia Lottery Corporation, Liquor Distribution Branch, British Columbia Railway Company, Columbia Basin Power Company, Pacific National Exhibition, Provincial Rental Housing Corporation, BC Transportation Financing Authority, British Columbia Ferry Corporation, and the Okanagan Valley Tree Fruit Authority that is not guaranteed by the provincial government.

⁷ Excludes debt of commercial Crown corporations and agencies, funds held under the province's warehouse borrowing program and non-guaranteed debt of the British Columbia Lottery Corporation, Liquor Distribution Branch, British Columbia Railway Company and Columbia Basin Power Company.

PART FOUR – CROWN CORPORATIONS

The unaudited operating results of Crown corporations and agencies for their most recent reporting period are presented in this section.

British Columbia Ferry Corporation reported a net loss of \$16 million for the nine months ended December 31, 1997, \$8 million lower than in the same period last year. Although average traffic volumes were unchanged, operating revenues rose 7.0 per cent compared to last year. Operating expenses increased 4.0 per cent, including a 21-per-cent increase in repair and maintenance expenses due to ship refits. New initiatives including the introduction of a new interactive voice response reservation system, promotion of the new Duke Point terminal and expanded marketing of the Discovery Coast service resulted in most of the 33-per cent increase in professional and computer services. Amortization expense increased 17 per cent because of new capital assets brought into service this year, including the opening of the Duke Point terminal in June 1997, and the startup of the Skeena Queen vessel in May 1997.

British Columbia Hydro and Power Authority reported net income of \$330 million for the nine months ended December 31, 1997. This was \$96 million higher than the same period last year mainly due to higher-than-expected electricity trade income. Domestic revenues decreased 1.6 per cent due in part to the effects of the strike at Fletcher Challenge which commenced July 14, 1997, and warmer weather this year. Electricity trade revenue increased \$119 million from last year due to higher average sale prices and increased marketing. Energy costs rose 13 per cent due to higher energy purchases and increased use of the Burrard thermal generating station. Last year, high reservoir levels and water inflows, and the draw down of the Williston reservoir, resulted in greater use of low-cost hydro generation. Operations, maintenance and administration expenses were \$29 million lower than last year. This was due to significant expenditures related to the sinkholes discovered at the W.A.C. Bennett dam in the previous year, lower pension costs and earlier spending in 1996/97. Finance charges fell 8.9 per cent mainly due to lower short-term interest rates and lower debt outstanding.

British Columbia Lottery Corporation reported net income of \$209 million for the first nine months of the fiscal year, up \$7 million from last year. Lottery ticket sales revenue increased 8.1 per cent including an \$81-million increase in Club Keno sales due to an expanded network of retailers, and a \$20-million increase due to slot machine and electronic bingo activity. These increases were partially offset by a \$47-million decline in 6/49 and BC/49 sales, due to fewer jackpot rollovers. Direct costs rose 8.5 per cent mainly due to higher prize expenses, while other expenses increased 26 per cent due to higher amortization and operating expenses associated with the Club Keno retail network and expanded gaming for slot machines and electronic bingo.

Net income of the British Columbia Railway Company for the year ended December 31, 1997 totalled \$40 million, up \$4 million from last year. Operating revenue increased 2.2 per cent due to improved freight revenues from increased coal traffic, the new Pacific Starlight passenger service

which commenced operations in 1997, and leasing income from buildings. Overall operating expenses rose slightly due to higher rail traffic levels, the new passenger service, additional buildings available for lease, and higher depreciation charges resulting from the acquisition of rental properties and other capital assets. These increases were partly offset by lower road maintenance expense due to fewer rail mishaps, the effect of severance costs paid in 1996, and lower wage and pension costs in 1997. Interest expense increased 18 per cent due to an increase in debt outstanding.

British Columbia Transit's net expenditure for the first nine months of the fiscal year was \$321 million, up 2.2 per cent from the same period last year. Revenue increased 6.2 per cent mainly due to a 2.5-per-cent increase in ridership and the effect of fare increases in Victoria starting July 1, 1997, and in Vancouver effective October 1, 1997. Expenditures increased 3.5 per cent due to a 4.2-per-cent increase in service hours, higher maintenance costs resulting from a backlog caused by the severe weather in early 1997, increased engine/transmission overhauls, lower warranty recoveries from manufacturers and higher property tax assessments.

The Insurance Corporation of British Columbia recorded net income of \$14 million for the year ended December 31, 1997, compared to a \$135-million loss last year. In the second year of a premium freeze, 1997 premium revenue rose 1.2 per cent, with additional sales of optional coverage due to higher enrollment in the corporation's premium financing plan. Costs for claims incurred decreased 4.7 per cent due to savings resulting from lower estimates of costs for outstanding claims in previous years, and the effect of road safety programs which reduced the frequency and severity of crashes causing injuries. The number of injury claims fell 3.4 per cent while the average cost per claim dropped 2.1 per cent. Other expenses showed a 2.9-per-cent increase as higher administrative spending for commercial vehicle safety and other areas was partly offset by reduced spending for software development. Investment income of \$387 million, was up 11 per cent from last year.

Table 6 British Columbia Buildings Corporation
Income Statement
for the Nine Months Ended December 31, 1997
(Unaudited)

	Estimated 1997 (\$000)	1996 (\$000)	Increase (Decrease) (Per cent)
Gross revenues.....	314,018	307,617	2.1
Expenses:			
Operations, maintenance and administration.....	95,075	93,258	1.9
Lease costs.....	104,673	98,374	6.4
Client requested projects.....	11,065	12,597	(12.2)
Depreciation and amortization.....	37,075	35,589	4.2
Interest, net.....	46,122	46,696	(1.2)
	294,010	286,514	2.6
Income before gain on disposals.....	20,008	21,103	(5.2)
Gain on disposals.....	5,886	142	—
Net income.....	25,894	21,245	21.9

Table 7 British Columbia Ferry Corporation
Income Statement
for the Nine Months Ended December 31, 1997
(Unaudited)

	Estimated 1997 (\$000)	1996 ¹ (\$000)	Increase (Decrease) (Per cent)
Operating revenues:			
Tolls.....	239,087	219,890	8.7
Catering and other income.....	54,949	53,815	2.1
Federal coastal ferry contract	16,448	16,350	0.6
	<u>310,484</u>	<u>290,055</u>	7.0
Operating expenses:			
Salaries, wages and benefits	169,453	168,285	0.7
Fuel.....	30,223	31,295	(3.4)
Cost of food and goods sold	20,456	19,551	4.6
Repair and maintenance	15,978	13,199	21.1
Materials and supplies.....	13,975	13,584	2.9
Interest, net	24,650	24,992	(1.4)
Professional and computer	17,187	12,941	32.8
Insurance, taxes, utilities.....	6,600	6,735	(2.0)
Amortization.....	30,987	26,400	17.4
	<u>329,509</u>	<u>316,982</u>	4.0
Income (loss) from operations.....	(19,025)	(26,927)	(29.3)
Provincial operating grant ²	3,525	3,525	—
Net income (loss).....	<u>(15,500)</u>	<u>(23,402)</u>	(33.8)

¹ Figures for 1996 have been restated to conform to the presentation for 1997.

² As at December 31, 1997, the corporation received a \$4.7 million annual subsidy from the provincial government. Of this total, \$3.5 million has been allocated to the first nine months of the year.

Table 8 British Columbia Hydro and Power Authority
Income Statement
for the Nine Months Ended December 31, 1997
(Unaudited)

	Estimated 1997 (\$ millions)	1996 ¹ (\$ millions)	Increase (Decrease) (Per cent)
Revenues:			
Residential.....	586	602	(2.7)
Light industrial and commercial	613	599	2.3
Large industrial.....	325	355	(8.5)
Other energy sales and miscellaneous.....	44	45	(2.2)
Miscellaneous.....	28	21	33.3
Total domestic	1,596	1,622	(1.6)
Electricity trade ²	254	135	88.1
	<u>1,850</u>	<u>1,757</u>	5.3
Expenses:			
Energy costs	425	376	13.0
Operations, maintenance and administration.....	270	299	(9.7)
Taxes.....	134	128	4.7
Depreciation	250	236	5.9
	<u>1,079</u>	<u>1,039</u>	3.8
Income before finance charges.....	771	718	7.4
Finance charges.....	(441)	(484)	(8.9)
Net income.....	<u>330</u>	<u>234</u>	41.0

¹ Certain figures for 1996 have been restated to conform to the presentation used for 1997.

² Electricity trade includes short-term contract and interruptible sales of surplus energy to customers outside the province.

Table 9 British Columbia Lottery Corporation
Income Statement
for the Nine Months Ended December 27, 1997
(Unaudited)

	Estimated 1997 (\$000)	1996 (\$000)	Increase (Decrease) (Per cent)
Lottery sales.....	682,258	631,325	8.1
Direct costs:			
Prizes.....	357,257	331,391	7.8
Retailer commissions.....	46,370	40,183	15.4
Direct supplies.....	11,816	11,424	3.4
	415,443	382,998	8.5
Sales less direct costs.....	266,815	248,327	7.4
Expenses:			
Operating.....	40,019	33,860	18.2
Amortization.....	8,204	3,993	—
Goods and services tax.....	9,122	7,741	17.8
	57,345	45,594	25.8
Net income.....	209,470	202,733	3.3
Allocation of net income:			
Province of British Columbia ¹	204,323	197,718	3.3
Government of Canada.....	5,147	5,015	2.6
	209,470	202,733	3.3

¹ Net income allocated to the province of British Columbia is also included as part of revenue in Table 3.

Table 10 British Columbia Pavilion Corporation
Income Statement
for the Nine Months Ended December 31, 1997
(Unaudited)

	Estimated 1997 (\$000)	1996 (\$000)	Increase (Decrease) (Per cent)
Revenue from operations.....	20,471	19,176	6.8
Direct event costs.....	10,137	9,947	1.9
Gross margin.....	10,334	9,229	12.0
Facility costs:			
Administration.....	1,235	1,394	(11.4)
Operations and fees.....	4,100	3,482	17.7
Staffing costs.....	5,175	5,068	2.1
Business development.....	741	592	25.2
Depreciation.....	3,143	3,168	(0.8)
	14,394	13,704	5.0
Net operating income (loss).....	(4,060)	(4,475)	(9.3)
Province of British Columbia subsidy ¹	917	1,307	(29.8)
Net income (loss).....	(3,143)	(3,168)	(0.8)

¹ The corporation receives an annual subsidy from the provincial government to compensate for its operating losses excluding depreciation.

Table 11 **British Columbia Railway Company¹**
 Consolidated Income Statement
 for the Year Ended December 31, 1997
(Unaudited)

	Estimated 1997 (\$000)	1996 (\$000)	Increase (Decrease) (Per cent)
Operating revenue.....	427,957	418,669	2.2
Expenses:			
Operations.....	120,997	117,701	2.8
Equipment maintenance.....	81,826	80,629	1.5
Road maintenance.....	42,230	45,453	(7.1)
Depreciation.....	63,122	60,132	5.0
Administration and general.....	41,506	44,650	(7.0)
	349,681	348,565	0.3
Operating income.....	78,276	70,104	11.7
Interest expense.....	(32,197)	(27,200)	18.4
Capital and income taxes.....	(5,931)	(6,607)	(10.2)
Net income.....	40,148	36,297	10.6

¹ This statement shows the consolidated results of the British Columbia Railway Company, BCR Properties Ltd., BC Rail Ltd., Westel Telecommunications Ltd., Vancouver Wharves Ltd., BCR Leasing (US) Inc. and BCR Ventures Inc.

Table 12 British Columbia Securities Commission
Statement of Operations
for the Nine Months Ended December 31, 1997
(Unaudited)

	Estimated 1997 (\$000)	1996 ¹ (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Fees	16,109	13,707	17.5
Administrative penalties	84	30	—
Interest income	486	377	28.9
	<u>16,679</u>	<u>14,114</u>	18.2
Expenditures:			
Salaries and benefits	6,923	6,265	10.5
Contract services	746	615	21.3
Building occupancy	444	440	0.9
General	646	611	5.7
Securities Fraud Office pilot project contribution	750	777	(3.5)
Depreciation	450	460	(2.2)
Systems operating and communication	483	264	83.0
Travel	222	114	94.7
Information systems development	259	126	—
	<u>10,923</u>	<u>9,672</u>	12.9
Net income	<u>5,756</u>	<u>4,442</u>	29.6

¹ 1996 figures have been restated to conform to the presentation used for 1997.

Table 13 British Columbia Transit
Revenue and Expenditure Statement
for the Nine Months Ended December 31, 1997
(Unaudited)

	Estimated 1997 (\$000)	1996 ¹ (\$000)	Increase (Decrease) (Per cent)
Revenue	154,073	145,127	6.2
Expenditures:			
Operations	202,159	194,987	3.7
Maintenance	71,703	65,093	10.2
Administration	38,481	37,609	2.3
Interest	126,215	124,982	1.0
Depreciation and amortization	28,000	28,255	(0.9)
Property leases and taxes	8,016	7,654	4.7
Total expenditure	474,574	458,580	3.5
Net expenditure	320,501	313,453	2.2
Recoveries:			
Contribution from the Province of British Columbia ²	215,633	210,386	2.5
Contributions from participating municipalities	102,065	100,264	1.8
Other ³	2,803	2,803	—
	320,501	313,453	2.2

¹ 1996 figures have been restated to conform to the presentation used for 1997.

² The contribution from the Province of British Columbia is included as part of expenditure in Table 4. The amounts shown differ from Table 4 because of accounting differences between the corporation and the province.

³ Other is the portion of net expenditure which relates to depreciation for contributed assets.

Table 14 BC Transportation Financing Authority¹
 Consolidated Statement of Income
 for the Nine Months Ended December 31, 1997
 (Unaudited)

	Estimated 1997 (\$000)	1996 (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Dedicated revenue ²	90,110	47,264	90.7
Other ³	3,986	1,296	—
	<u>94,096</u>	<u>48,560</u>	93.8
Expenditures:⁴			
Operations and administration ⁵	15,404	15,624	(1.4)
Grant programs ⁶	2,112	1,607	31.4
Amortization	13,400	3,070	—
Interest ⁷	20,059	7,098	—
	<u>50,975</u>	<u>27,399</u>	86.0
Net Income	<u>43,121</u>	<u>21,161</u>	—

¹ Includes results of Highway Constructors Ltd., a wholly-owned subsidiary.

² Dedicated revenue includes two cents per litre in 1997 (one cent in 1996) of motor fuel tax, and a provincial social service sales tax on car rentals.

³ Includes investment revenue recorded net of related interest expense.

⁴ During the first nine months of 1997/98, the authority undertook \$167 million of transportation/infrastructure projects. These capital expenditures are accounted for in the authority's balance sheet. Completed infrastructure is amortized on a straight-line basis over its estimated useful life, generally 30 years.

⁵ Includes \$12.4 million in 1997 (1996 — \$12.4 million) paid to the Ministry of Transportation and Highways for general operating expenses not specifically related to individual capital projects.

⁶ Includes grants paid under the air transport assistance program, the cycling network program, the alternative transportation program and the newly incorporated municipalities road program.

⁷ Interest on borrowing used to finance construction work in progress is capitalized. Upon project completion, interest capitalization ceases, and related interest costs are expensed.

Table 15 **Forest Renewal BC**
Statement of Income and Equity
for the Nine Months Ended December 31, 1997
(Unaudited)

	Estimated 1997 (\$000)	1996 (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Statutory revenue ^{1,2}	297,572	293,139	1.5
Investment income	40,068	27,216	47.2
	<u>337,640</u>	<u>320,355</u>	5.4
Cost of Services:			
Project expenditures	368,917	230,046	60.4
Salaries, wages and benefits	8,783	5,941	47.8
Professional services	2,735	2,175	25.7
General administration	4,804	4,916	(2.3)
Board fees and expenses	204	182	12.1
	<u>385,443</u>	<u>243,260</u>	58.4
Net income (loss)	(47,803)	77,095	—
Unappropriated surplus, beginning of period	451,112	345,746	—
Unappropriated surplus, end of period	<u>403,309</u>	<u>422,841</u>	—

¹ Consists of increases in stumpage and royalties resulting from changes in rates introduced under the provincial government's Forest Renewal Plan on May 1, 1994.

² Statutory revenue is net of the annual recovery by the provincial government of \$50 million for expenditures relating to the administration of the Forest Practices Code, as provided for under the *BC Forest Renewal Act*.

Table 16 Insurance Corporation of British Columbia
Statement of Operations and Retained Earnings
for the Year Ended December 31, 1997
(Unaudited)

	Estimated 1997 (\$000)	1996 ¹ (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Vehicle premiums earned.....	2,283,817	2,253,076	1.4
Driver premiums earned.....	19,639	23,490	(16.4)
	<u>2,303,456</u>	<u>2,276,566</u>	1.2
Claim costs:			
Claims incurred ²	2,025,923	2,125,476	(4.7)
Claims operations expense.....	219,255	212,776	3.0
Road safety programs.....	14,570	15,644	(6.9)
Traffic safety and other initiatives ³	26,563	25,245	5.2
Grants and funding.....	6,968	8,449	(17.5)
	<u>2,293,279</u>	<u>2,387,590</u>	(4.0)
Expenses:			
Administration ³	96,169	83,937	14.6
Commissions.....	170,496	159,788	6.7
Premium taxes.....	98,447	90,948	8.2
Software development.....	18,030	37,678	(52.1)
	<u>383,142</u>	<u>372,351</u>	2.9
Total claims and expenses.....	<u>2,676,421</u>	<u>2,759,941</u>	(3.0)
	(372,965)	(483,375)	(22.8)
Investment Income.....	<u>386,950</u>	<u>348,498</u>	11.0
Net income (loss).....	<u>13,985</u>	<u>(134,877)</u>	—
Retained earnings, beginning of year.....	210,304	345,181	
Retained earnings, end of year.....	<u>224,289</u>	<u>210,304</u>	

¹ 1996 figures have been restated to conform to the presentation used for 1997.

² Claims incurred includes a reduction of \$163 million in 1997 (1996 — \$104 million) due to a re-estimate of final claims costs relating to previous years.

³ Effective November 18, 1996 and December 14, 1997, certain functions were transferred from the provincial Motor Vehicle Branch to the corporation.

As a result, the mandate of the corporation has been broadened to include traffic safety development and operations, and related licensing and regulatory fields.

Table 17 **Liquor Distribution Branch**
Income Statement
for the Third Quarter Ended January 3, 1998
(Unaudited)

	Estimated 1997 (\$000)	1996 (\$000)	Increase (Decrease) (Per cent)
Sales:			
Provincial liquor sales	1,278,221	1,232,070	3.7
Less: Discounts and commissions	(33,314)	(32,330)	3.0
Net sales	1,244,907	1,199,740	3.8
Cost of sales	(625,854)	(602,570)	3.9
Gross profit	619,053	597,170	3.7
Operating expenses	(126,135)	(126,736)	(0.5)
Net operating income	492,918	470,434	4.8
Other income	2,526	1,185	—
Net income ¹	495,444	471,619	5.1

¹ Net income of the Liquor Distribution Branch is also included as part of revenue in Table 3.

Table 18 Okanagan Valley Tree Fruit Authority
Statement of Income and Retained Earnings
for the Nine Months Ended December 31, 1997
(Unaudited)

	Estimated 1997 (\$000)	1996 (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Provincial contribution.....	2,000	2,880	(30.6)
Investment and miscellaneous income.....	167	279	(40.1)
	<u>2,167</u>	<u>3,159</u>	(31.4)
Expenditures:			
Orchard renovation program.....	2,766	2,094	32.1
Transition production adjustment program.....	5	1,135	(99.6)
Operating and other programs.....	340	1,034	(67.1)
	<u>3,111</u>	<u>4,263</u>	(27.0)
Surplus (deficit) for the period.....	(944)	(1,104)	(14.5)
Retained earnings, beginning of period.....	1,483	4,266	—
Retained earnings, end of period.....	<u>539</u>	<u>3,162</u>	—

Table 19 Provincial Capital Commission
Statement of Revenue, Expenditure and Surplus
for the Nine Months Ended December 31, 1997
(Unaudited)

	Estimated 1997 (\$000)	1996 (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Rent and other	1,994	1,876	6.3
Interest	130	174	(25.3)
	<u>2,124</u>	<u>2,050</u>	3.6
Expenditure:			
Operating	1,602	1,449	10.6
Surplus for the period	522	601	(13.1)
Unappropriated surplus, beginning of period	3,396	3,124	—
Unappropriated surplus, end of period	<u>3,918</u>	<u>3,725</u>	—