



BRITISH
COLUMBIA

Quarterly Report

April to June 1998





Ministry of Finance and Corporate Relations

First Quarterly Report

on the Economy, Fiscal Situation and Crown Corporations

Fiscal Year 1998/99

Three Months

April – June 1998

Honourable Joy K. MacPhail
Minister of Finance and Corporate Relations

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**Message from the
Honourable Joy K. MacPhail**

**Minister of Finance and
Corporate Relations**

I am pleased to present the First Quarterly Report for 1998/99.

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 three months ended June 30, 1998, compared to the budget. Part Three provides information on the debt of the provincial government and its Crown corporations and agencies as of June 30, 1998. Part Four provides interim financial statements of provincial Crown corporations for the period ended nearest to June 30, 1998.

Quarterly Reports are issued as part of our commitment to regular reporting to the public on the economy and government finances.

A handwritten signature in cursive script that reads "Joy K. MacPhail".

Joy K. MacPhail
Minister

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HIGHLIGHTS

Economic

- During the first half of 1998, most economic indicators were below levels recorded a year ago.
- However, seasonally-adjusted employment was up 0.5 per cent during the first seven months of 1998 compared to the same period in 1997. Employment has shown steady growth since January.
- The value of exports was down 12.2 per cent during the first half of 1998, reflecting general weakness in prices and volumes of forest products and metals accompanying the downturn in Asia.
- Retail sales fell 0.2 per cent during the first six months of the year from the same period in 1997, while the volume of new car and truck sales was down nearly 9 per cent.
- Housing starts were down 20.9 per cent during the first seven months of 1998, while existing home sales fell 25 per cent. The value of residential building permits was down 21.5 per cent during the first half of 1998.
- Inflation remains subdued, averaging 0.2 per cent during the first half of the year.
- British Columbia real GDP growth is expected to range from +0.5 to -0.8 per cent in 1998. This range reflects year-to-date developments, volatility in financial markets and uncertainty about the timing of an Asian recovery.

Fiscal — 1998/99

- Results for the first quarter were weaker than expected, due to lower-than-budgeted revenues. Spending however was below budget.
- The government is monitoring its finances closely in light of the first quarter results and current economic trends. It is implementing a series of expenditure reduction measures to meet its fiscal targets.
- Revenue totalled \$4.8 billion in the first three months of 1998/99, \$84 million or 1.7 per cent below budget. Weaker-than-expected revenue from forests, taxation and other sources caused individual sources to be \$116 million below budget, but the shortfall was partly offset by \$32 million of the full-year revenue allowance.
- Spending at \$5.2 billion was \$12 million below budget. Lower-than-budgeted spending in 14 of the 19 ministries offset above-budget spending in the Ministries of Health, Children and Families and Environment, Lands and Parks.
- Despite spending being below budget, the first quarter shortfall of \$402 million was \$72 million higher than expected due to weaker-than-planned revenues.

Debt

- As of June 30, 1998, total provincial net debt was \$30,723 million, up \$725 million from March 31, 1998.
- Taxpayer-supported debt accounted for \$22,448 million of this total, showing an increase of \$598 million from the beginning of the year.
 - Direct operating debt totalled \$12,098 million, up \$645 million from March 31, 1998.
 - Other taxpayer-supported debt totalled \$10,350 million, down \$47 million from March 31, 1998.
- Commercial and other self-supporting debt totalled \$8,275 million, up \$127 million from March 31, 1998.

Crown Corporations

The unaudited operating results of Crown corporations and agencies for their most recent reporting period ending June 30, 1998 show:

- British Columbia Ferry Corporation reported a net loss of \$6 million, \$1 million less than last year.
- British Columbia Hydro and Power Authority reported net income of \$50 million, down \$25 million from the same period last year mainly due to higher energy purchase costs, and lower domestic revenue.
- British Columbia Lottery Corporation reported net income of \$95 million, up \$30 million or 47 per cent from last year due to expanded sales.
- Net income from the British Columbia Railway Company totalled \$11 million, down \$6 million from last year.
- British Columbia Transit's net expenditure was \$112 million, up 4.8 per cent from last year, mainly due to increased service hours.
- The Insurance Corporation of British Columbia reported net income of \$71 million for the first six months, compared to a \$34-million loss in the same period last year. This significant improvement was mainly due to lower accident costs as a result of road safety programs and a 2.9-per-cent drop in the number of claims reported.

PART ONE — ECONOMIC REPORT

Overview¹

The crisis in Japan and Asia, which has had a greater economic impact in those regions than initially forecast, is now being felt in North America. This is partly behind the slowing growth in the Canadian and United States economies. U.S. real GDP growth fell from an annual rate of 5.5 per cent in the first calendar quarter of 1998 to 1.6 per cent in the second quarter, and Canada's second quarter GDP mirrored this trend, with growth slowing to 1.8 per cent in the second quarter from 3.4 per cent in the first quarter.

In British Columbia, those sectors of the economy dependent on resource exports have been most heavily affected by the Asian downturn, with commodity exports to Japan down 35 per cent. Partially offsetting the resource sector decline, areas in secondary manufacturing, high technology and the service industries are performing strongly while tourism has weathered the impact of reduced Asian visits. Employment growth has resumed following a decline at the turn of the year. Most other economic indicators were below levels recorded a year earlier.

Heightened volatility in financial markets, uncertainty over the recovery in Asia, and weak commodity prices have made it difficult to forecast GDP with certainty. Economic growth in British Columbia in 1998 should be in the +0.5 to -0.8 per cent range.

British Columbia Economic Developments

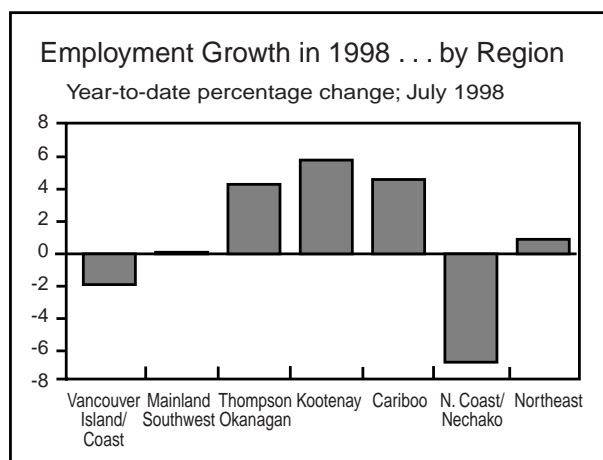
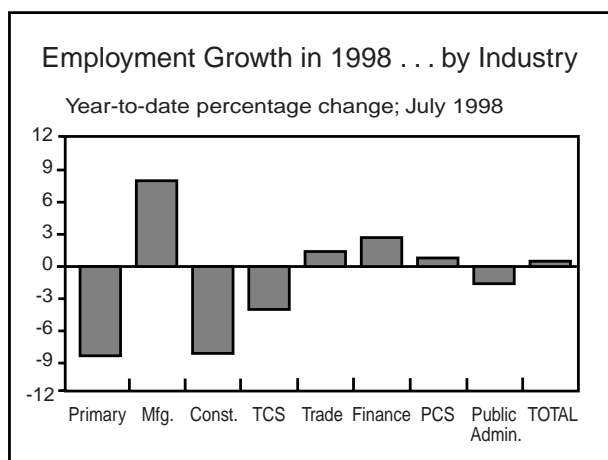
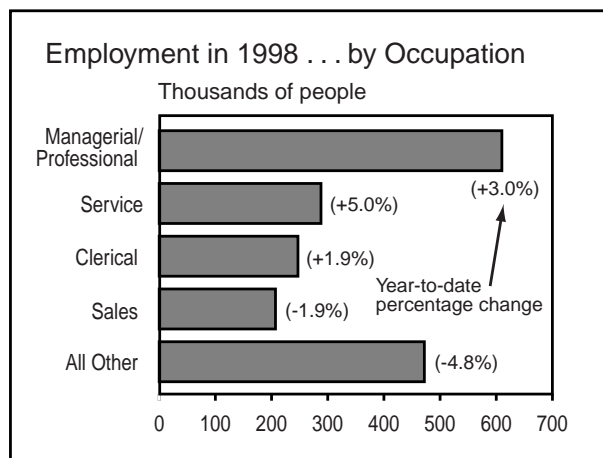
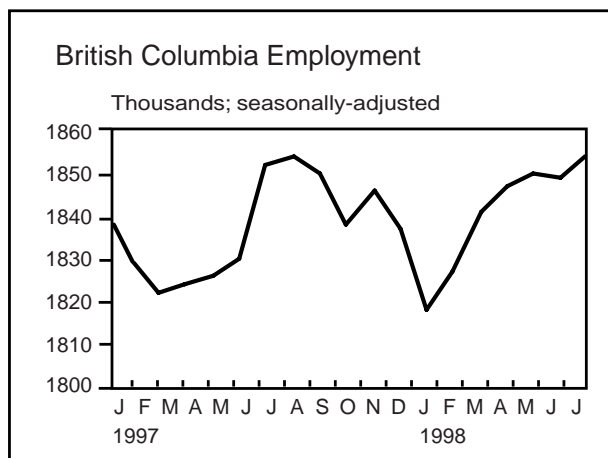
The Labour Market

Seasonally-adjusted employment fell in the fourth quarter of 1997 and the first calendar quarter of 1998 (mainly due to the large decline in January). However, employment grew 1.1 per cent in the second calendar quarter. Since January, employment has risen by 2.0 per cent or 36,000 jobs up to July. The level of employment has now reached its August 1997 peak. For the first seven months of 1998, employment was up 0.5 per cent from the same period in 1997.

¹ The cut-off date for data used in this report is August 31, 1998.

The unemployment rate was 9.1 per cent in July. During the first seven months of the year, the unemployment rate averaged 9.5 per cent, up from 8.6 per cent during the same period in 1997. The charts below show employment growth in British Columbia to date in 1998 by occupation, by industry and by region. The charts depict a diverse labour market across the province:

- Manufacturing employment grew 8.0 per cent in the first seven months of the year, even though nearly half of the jobs in this sector are resource related. This reflects the strong performance of non-resource manufacturing.
- Financial services employment also grew strongly.
- Employment in managerial and service occupations has grown rapidly this year, although employment in construction, resource processing and transportation occupations has declined.



TCS = Transportation, communications and storage.
 PCS = Personal and community services.

-
- The downturn in the resource sector appears to have hit hardest in the Vancouver Island/Coast and North Coast/Nechako regions. In the Northeast, employment rose in the first seven months, and the region's unemployment rate remains very low, averaging 3.3 per cent in the January to July period. Employment growth has been relatively strong in the province's Interior.

In-migration slowed in the first quarter of 1998 but remained positive with international net in-migration more than offsetting a decline in interprovincial net in-migration. Total net in-migration fell from 12,900 persons in the first quarter of 1997 to 4,000 in the first quarter of 1998. Interprovincial in-migration went from a net *inflow* of 1,150 to a net *outflow* of 3,560, while international net in-migration fell from 10,700 to 7,500. Indications are that interprovincial out-migration continued in the second quarter of 1998.

The Consumer Sector

Retail sales fell sharply in the first quarter of 1998, but were up marginally in the second quarter. On a year-to-date basis, sales were down only 0.2 per cent. The major reason for the slight year-to-date decline is the sharp fall in motor vehicle sales — down nearly 9 per cent in the January to June period, after having increased 14.4 per cent in 1997. Auto sales incentives and rebates at the end of last year left sales weak early in 1998. A survey by the Conference Board of Canada indicates that British Columbia consumer confidence declined in the first and second quarters of 1998.

While retail sales have been weak, some areas of the service sector have shown strength. For example, estimates for restaurant caterer and tavern receipts for the second quarter were up 8.9 per cent from the first quarter.

Tourism has been an important contributor to the province's service sector in the last few years. Conditions appear positive this year, with increased numbers of American and European visitors offsetting a decline in the number of Asian visitors. Year-to-date foreign visitor entries to British Columbia were up 6.1 per cent from 1997 levels. In the first six months of 1998, the number of international passengers traveling through Vancouver International Airport was up 7.2 per cent from the same period last year. The decline in the value of the Canadian dollar has made Canada an attractively-priced destination for many visitors.

Lower consumer confidence and lower levels of in-migration have combined to weaken the province's housing sector. Housing starts declined 20.9 per cent on a year-to-date basis through July and the value of residential building permits, a leading indicator, was down 21.5 per cent during the first half of the year. Over the January-to-July period, sales of existing homes fell 25 per cent from a year ago, continuing a downward trend that started at the end of 1996. Prices of new and existing homes are down between 3 and 5 per cent.

Inflation remains low in British Columbia with a year-to-date increase of 0.2 per cent in the consumer price index through July. The province's low inflation reflects falling housing costs and lower gasoline prices.

Business and Industrial Activity

The dollar value of British Columbia's exports and manufacturing shipments declined during the first half of the year. The main factor underlying the decline was the general weakness in prices

for forest products and metals accompanying the downturn in Asia. These declines have been larger than had been expected at the time of the budget, when it had been anticipated that exports to Asia would drop from \$10.5 billion to between \$9.5 and \$10 billion, or about 10 per cent.

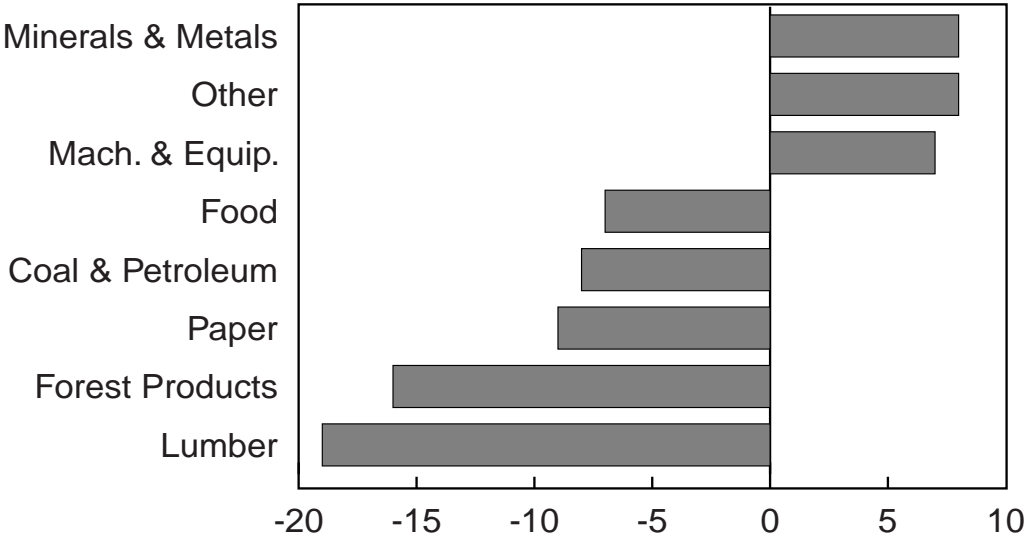
The value of British Columbia merchandise exports fell 12.2 per cent on a year-to-date basis through June. Exports to Japan are down about 35 per cent while those to the rest of Asia are down 25 per cent. The Fletcher Challenge strike, lower prices and lower volumes shipped in the wake of the Asian crisis contributed to the decline in exports.

Manufacturing shipments were down 7.1 per cent on a year-to-date basis through June. However, manufacturing employment is up some 8 per cent to date in 1998, reflecting considerable strength in non-resource manufacturing.

The decline in manufacturing shipments was due to lower commodity prices as well as lower volumes shipped. The Ministry of Finance and Corporate Relations export commodity price index (ECPI) shows that Canadian dollar prices for the province's key exports were down 8.4 per cent in the first half of 1998 compared to the first half of 1997.

British Columbia Manufacturing Shipments

Year-to-date percentage change; June 1998



Forest products, which account for 45 per cent of total manufacturing shipments, have fallen 15.6 per cent to date as a result of lower prices and volumes shipped. Forest product shipments should recover in coming months as the three Fletcher Challenge mills resume production (they account for 20-25 per cent of British Columbia pulp and paper production capacity).

Non-resource sectors have performed strongly in 1998. Manufacturers of machinery, transportation equipment and electronics have increased shipments 7.0 per cent on a year-to-date basis. The value of clothing and plastics shipments is up 9.1 and 7.4 per cent, respectively.

Statistics Canada's private and public investment intentions July survey showed planned investment in British Columbia is expected to increase 2.1 per cent in 1998, up from the initial 1.3 per cent reported in February. Business non-residential investment is planned to decrease 1.0 per cent from 1997 levels, while residential investment is expected to increase 0.7 per cent in 1998.

The Vancouver office market was quite strong early in 1998 with a vacancy rate around 6 per cent. However, the vacancy rate has risen and developers who were optimistic at the beginning of the year appear to be taking a wait-and-see attitude to new office construction.

The province-wide value of non-residential building permits, a leading indicator of future construction activity, was up 13.6 per cent in the first six months of 1998 compared to the same period in 1997. Areas enjoying strong construction activity include Burnaby, where a number of office and retail projects are underway, and Richmond, where investors plan to develop a \$500-million high-technology industrial park. A \$180-million entertainment complex has also recently been approved in Richmond. The Vancouver International Airport is planning a \$250-million expansion to accommodate cross-border flights. The provincial government has recently taken steps to accelerate planned capital projects, including transit, schools and the Vancouver Trade and Convention Centre, in part to offset the slowdown in other areas of the economy.

Other Economic and Financial Developments

Economic growth in North America slowed in the second quarter, while economic conditions in Asia continued to deteriorate. Even so, the strong performance early in the year means that North American growth will still exceed expectations.

U.S. real GDP grew at a 1.6 per cent annual rate in the second quarter, following a revised 5.5 per cent annual rate in the first quarter of 1998. Strong consumer and investment spending offset the negative effect of the labour dispute at General Motors Corporation, a scaling back of inventories and lower exports due to continued weakness in the Asian economies.

In Canada, growth slowed to 1.8 per cent in the second quarter from 3.4 per cent in the first quarter. Residential investment was weak due to labour disputes in Ontario's construction industry, although consumer spending and machinery and equipment investment rebounded from the first quarter.

The Japanese economy contracted at an annualized rate of 5.3 per cent in the first quarter of 1998 with banking problems and the Asian crisis dampening demand. The unemployment rate was 4.1 per cent in July and is expected to climb further. The *Consensus Economics* average of forecasters is projecting a 1.4 per cent contraction in the Japanese economy in 1998 followed by growth of 0.6 per cent in 1999.

Other Asian countries also posted slower growth to date in 1998. Hong Kong real GDP declined at a 2.8 per cent annual rate in the first quarter due to a slowdown in domestic demand, moderate export performance and weakness in tourism. The economies of Korea, Indonesia, Malaysia and Thailand all suffered sharp declines in output. China's economy grew 7 per cent in the first half of 1998, partially offsetting declines in other Asian economies.

In Europe, momentum is shifting from the United Kingdom to the Continent. The United Kingdom's economy grew at a 2.2 per cent annual rate in the first half of 1998. The German economy expanded at a 2.5 per cent annual rate in the first half of 1998 and is expected to grow at the same rate in the second half.

The Canadian dollar plummeted to record lows in July and August, falling 2.5 cents against the U.S. dollar in a one-month span. While a lower dollar provides some added revenue for firms selling products abroad, it boosts the cost of imports and reduces Canadians' global purchasing power. The Bank of Canada intervened to reduce the downward momentum of the Canadian dollar, raising the Bank rate by one percentage point on August 27. By the end of August, the currency had strengthened slightly and was trading just below 64 cents U.S.

The Outlook

The Asian downturn has had a larger effect on British Columbia's exports and resource sector than had been anticipated, due to the significant reduction in Japanese housing activity and the resulting impacts on commodity markets, including British Columbia's coastal forest industry. Although there are indications that Japan's economy has bottomed, other countries in the region are only now beginning to feel the most serious effects of the downturn. Consumer and business confidence may continue to be weak until the Japanese financial sector problems are resolved. As a result, the recovery in the Asian and Japanese economies may be delayed somewhat.

British Columbia's economy paused in the first half of 1998, due to weaker exports and commodity prices resulting from the Asia crisis, lower net migration, and lower housing starts.

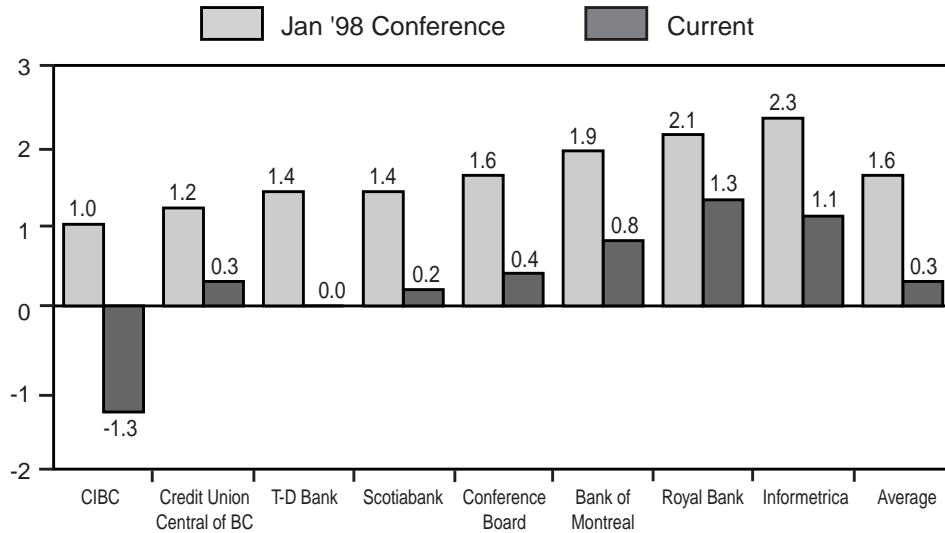
The budget economic forecast projected 0.9 per cent growth in 1998. This forecast and those made by other organizations at the Minister of Finance's January 1998 economic conference are shown in the chart at the top of page 15.

As a result of the weak first-half performance, volatility in financial markets and uncertainty about the timing of a recovery in Asia, economic growth in British Columbia this year should be in the range of +0.5 to -0.8 per cent. The downturns in the resource and construction sectors should be roughly offset by continued growth in other sectors.

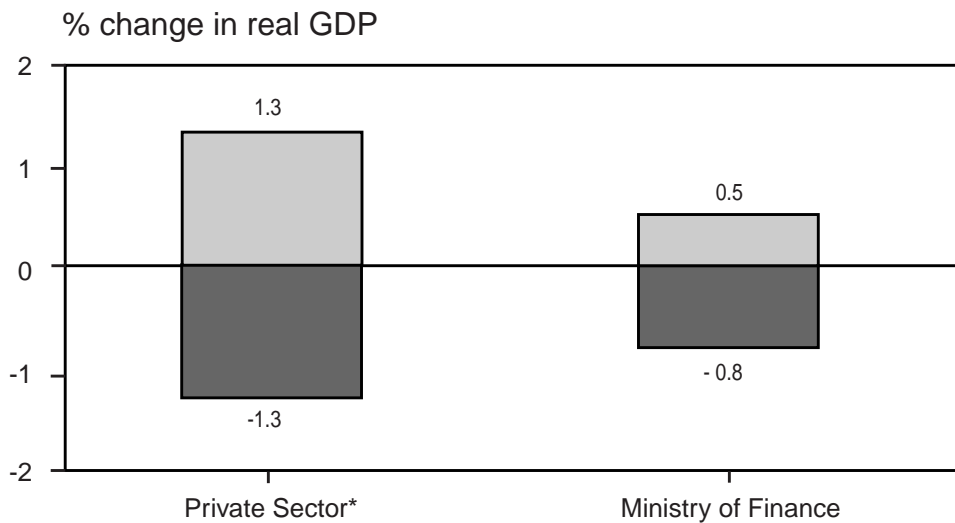
Other organizations' forecasts have also been revised down since January. As of the end of August, these forecasts ranged from +1.3 to -1.3 per cent (see chart at bottom of page 15).

The Ministry of Finance forecast range is below the budget forecast of 0.9 per cent economic growth, but encompasses the 0.3 per cent growth assumed for the budget revenue forecast. This assumption provided a revenue reserve of \$130 million against the possibility of lower-than-expected economic growth.

Recent Forecasts of B.C. Economic Growth, 1998



B.C. Economic Forecast Ranges, 1998



* as of August 31

Table 1 Current Economic Statistics

	Latest Period	Year-to-Date Average			
		1997	1998	Change	
BRITISH COLUMBIA					
LABOUR MARKET					
Employment (s.a., thousands).....	July/98	1,854	1,832	1,841	+0.5%
Male (3-month moving averages).....	July/98	993	996	989	-0.7%
Female (3-month moving averages).....	July/98	858	835	850	+1.8%
Unemployment rate (s.a., per cent).....	July/98	9.1	8.6	9.5	+0.9
Male (3-month moving averages).....	July/98	10.5	8.8	10.2	+1.4
Female (3-month moving averages).....	July/98	8.2	8.5	8.5	0.0
In-migration.....	Q1	3,999	12,896	3,999	-69.0%
Wages and salaries (s.a., \$ millions).....	June/98	4,466	4,366	4,454	+2.0%
Average weekly earnings (s.a.)	June/98	616	615	617	+0.3%
CONSUMER SECTOR					
Retail sales (s.a., \$ millions).....	June/98	2,775	2,793	2,787	-0.2%
Car and truck sales (units).....	June/98	15,423	84,629	77,366	-8.6%
Housing starts (all areas, s.a., annual rate).....	July/98	20,500	28,514	22,557	-20.9%
Existing home sales (units).....	July/98	5,092	6,105	4,580	-25.0%
Building permits (s.a., \$ millions).....	June/98	416	459	409	-10.8%
British Columbia consumer price index (annual per cent change).....	July/98	0.0	0.8	0.2	-0.6
INDUSTRIAL ACTIVITY					
Foreign merchandise exports (\$ millions).....	June/98	2,074	2,305	2,023	-12.2%
Manufacturing shipments (s.a., \$ millions).....	June/98	2,742	2,945	2,736	-7.1%
Lumber production (thousand cubic metres).....	May/98	2,393	2,792	2,550	-8.7%
Pulp and paper production (thousand tonnes).....	June/98	622	651	538	-17.4%
Coal production (thousand tonnes).....	May/98	2,328	2,193	2,312	+5.4%
Natural gas production (million cubic metres).....	May/98	2,041	1,889	1,974	+4.5%
Copper production (million kg).....	May/98	21.5	17.7	22.4	+26.6%
TOURISM					
Entries of U.S. and overseas residents (thousands).....	June/98	855	515	547	+6.1%
B.C. Ferry passengers to/from Vancouver Island (thousands).....	July/98	1,426	931	893	-4.1%

s.a. — seasonally adjusted.

... Table continued on next page

Table 1 Current Economic Statistics — *Continued*

	Latest Period	Year-to-Date Average			
		1997	1998	Change	
COMMODITY PRICES					
Lumber (U.S. \$/thousand board feet).....	Aug./98	307	378	287	-24.1%
Pulp (U.S. \$/tonne).....	Aug./98	525	552	539	-2.4%
Newsprint (U.S. \$/tonne).....	Aug./98	590	547	594	+8.6%
Copper (U.S. \$/lb.).....	Aug./98	0.74	1.10	0.77	-30.0%
B.C. export commodity price index (Cdn. \$ Index: 1992=100).....	Q2/98	130.4	143.2	131.1	-8.4%
FINANCIAL DATA					
Canadian dollar (U.S. cents).....	Aug./98	65.2	72.7	68.7	-4.00
Canadian prime rate (per cent).....	Aug./98	6.75	4.75	6.46	+1.71
Canadian treasury bills (per cent).....	Aug./98	5.06	3.00	4.64	+1.64
Treasury bill spread — Canada minus U.S. (per cent).....	Aug./98	0.20	-2.07	-0.33	+1.74

s.a. — seasonally adjusted.

PART TWO — FISCAL REPORT

Overview

For the first three months of 1997/98, revenue totalled \$4,788 million. This was \$84 million below budget as lower-than-expected revenue from forests, social service and property transfer taxes, fees and licences and other miscellaneous sources offset higher-than-budgeted revenue from fuel and corporation capital taxes. Revenue was \$116 million below budget, but the shortfall was partially offset by a \$32-million allocation of the full-year revenue budget allowance of \$130 million.

Expenditure of \$5,190 million was \$12 million below budget as budget management measures to reduce spending in most ministries offset higher-than-budgeted spending in the Ministries of Health, Children and Families, and Environment, Lands and Parks.

Table 2 Consolidated Revenue Fund
Summary of Transactions
for the Three Months Ended June 30, 1998
(Unaudited)

	Budget 1998 ¹ (\$ millions)	Actual 1998 (\$ millions)	Actual 1997 ² (\$ millions)	Increase (Decrease) ³ (\$ millions)
Revenue	4,871.9	4,787.9	4,792.6	(84.0)
Expenditure	<u>5,202.4</u>	<u>5,190.3</u>	<u>5,125.5</u>	<u>(12.1)</u>
Three month deficit	<u>(330.5)</u>	(402.4)	(332.9)	<u>(71.9)</u>
Net receipts (disbursements) from financing/ working capital transactions ⁴		(723.6)	(499.1)	
Decrease (increase) in cash and short-term investments		<u>481.0</u>	<u>189.8</u>	
Net decrease (increase) in provincial government direct debt ⁵		<u>(645.0)</u>	<u>(642.2)</u>	

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

² Figures for 1997/98 have been restated to conform with the presentation used for 1998/99.

³ 1998/99 actual less 1998/99 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 to the first quarter of 1997/98, revenue decreased 0.1 per cent as lower revenue from natural resources was partially offset by higher revenue from taxation and contributions from government enterprises and the federal government. Expenditure was up 1.3 per cent from the same period last year.

During the first three months of 1998/99 spending from the consolidated revenue fund exceeded revenues, resulting in a shortfall of \$402 million. It is normal for the government's fiscal balance to improve significantly in the last half of the fiscal year. This is because a larger portion of the government's revenue is received in the latter part of the year. In contrast, the government's spending is relatively stable over the full year.

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 \$645 million in the first quarter of 1998/99 compared to a \$642-million increase in the same period last year (see Table 2). Government direct debt borrowing requirements tend to be higher in the first quarter of the fiscal year due to settlements of year-end liabilities of the previous year, as well as timing delays in the collection of property tax revenue. 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 months of 1998/99, total revenue of \$4,788 million was \$84 million or 1.7 per cent below budget. Total revenue from individual revenue sources was \$116 million below budget mainly due to lower revenue from forests, taxation and other revenue sources, partly offset by a \$32-million allocation of the full-year revenue budget allowance of \$130 million.

Revenue was 0.1 per cent lower than in 1997/98, as lower revenue from natural resources was partly offset by higher revenue from taxation, government enterprises and the federal government. Last year at this time, revenue was \$42 million or 0.9 per cent above budget.

- Taxation revenue of \$3,335 million was \$36 million below budget but 1.8 per cent higher than in the first three months of 1997/98. Personal income tax revenue was on budget and 3.2 per cent higher than last year, mainly due to growth in personal incomes. Corporation income tax was on budget and 5.6 per cent higher than last year due to higher federal instalment payments.
- Revenue from social service tax was \$30 million below budget and 2.1 per cent lower than last year due to weak retail sales during the first quarter. Fuel tax revenue was \$13 million above budget and 8.6 per cent higher than last year due to higher consumption volumes. Weakness in housing re-sales in the first quarter resulted in property transfer tax revenue being \$23 million below budget and 26 per cent lower than last year. Corporation capital tax revenue was \$10 million above budget and 12.5 per cent higher than last year due to higher instalment payments and lower refunds. Other tax revenue was \$6 million below budget but 12.3 per cent higher than last year due to higher revenue from hotel room tax.

Table 3 Revenue by Source
for the Three Months Ended June 30, 1998
(Unaudited)

	Budget 1998 (\$ millions)	Actual 1998 (\$ millions)	Actual 1997 ¹ (\$ millions)	Increase (Decrease) ² (\$ millions)
Taxation:				
Personal income.....	1,355.0	1,355.0	1,312.4	—
Corporation income.....	296.2	296.2	280.4	—
Social service.....	846.0	816.4	834.3	(29.6)
Fuel.....	163.0	175.9	161.9	12.9
Tobacco.....	124.6	124.1	124.6	(0.5)
Property.....	332.3	332.3	322.1	—
Property transfer.....	92.1	69.0	93.4	(23.1)
Corporation capital.....	97.0	107.2	95.3	10.2
Other.....	70.7	65.0	57.9	(5.7)
Less: provision for doubtful accounts.....	—	—	—	—
Less: commissions on collection of public funds.....	(6.4)	(6.4)	(6.1)	—
	<u>3,370.5</u>	<u>3,334.7</u>	<u>3,276.2</u>	<u>(35.8)</u>
Natural resources:				
Petroleum and natural gas:				
Natural gas royalties.....	31.0	30.8	35.9	(0.2)
Permits and fees.....	22.9	26.9	76.7	4.0
Petroleum royalties.....	17.9	15.9	22.0	(2.0)
	<u>71.8</u>	<u>73.6</u>	<u>134.6</u>	<u>1.8</u>
Minerals.....	<u>11.7</u>	<u>13.5</u>	<u>22.6</u>	<u>1.8</u>
Forests:				
Timber sales.....	145.7	100.0	157.1	(45.7)
Small Business Forest Enterprise Program.....	36.1	20.6	39.3	(15.5)
Logging tax.....	2.6	6.5	2.3	3.9
Other forests revenue.....	3.4	5.6	3.7	2.2
	<u>187.8</u>	<u>132.7</u>	<u>202.4</u>	<u>(55.1)</u>
Water rentals.....	75.4	75.4	79.2	—
Wildlife Act.....	5.3	3.7	3.1	(1.6)
	<u>80.7</u>	<u>79.1</u>	<u>82.3</u>	<u>(1.6)</u>
Less: provision for doubtful accounts.....	—	—	—	—
Less: commissions on collection of public funds.....	(0.5)	(0.3)	(0.3)	0.2
	<u>351.5</u>	<u>298.6</u>	<u>441.6</u>	<u>(52.9)</u>

¹ Figures for 1997/98 have been restated to conform with the presentation used for 1998/99.

² 1998/99 actual less 1998/99 budget.

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Table 3 Revenue by Source — Continued

for the Three Months Ended June 30, 1998

(Unaudited)

	Budget 1998 (\$ millions)	Actual 1998 (\$ millions)	Actual 1997 ¹ (\$ millions)	Increase (Decrease) ² (\$ millions)
Other revenue:				
Medical Services Plan premiums.....	224.5	219.2	221.6	(5.3)
Motor vehicle licences and permits.....	88.8	88.1	87.9	(0.7)
Other fees and licences.....	86.9	78.5	89.6	(8.4)
Investment earnings.....	10.7	9.1	4.9	(1.6)
Fines and penalties.....	25.4	25.8	21.7	0.4
Miscellaneous.....	23.7	18.5	27.7	(5.2)
Asset dispositions.....	26.0	26.0	—	—
Less: provision for doubtful accounts.....	(0.9)	(0.3)	—	0.6
Less: commissions on collection of public funds.....	(18.6)	(18.2)	(18.7)	0.4
	<u>466.5</u>	<u>446.7</u>	<u>434.7</u>	<u>(19.8)</u>
Contributions from government enterprises:				
Liquor Distribution Branch income.....	153.7	152.6	152.8	(1.1)
British Columbia Lottery Corporation.....	96.5	93.0	62.6	(3.5)
Other.....	—	—	2.8	—
	<u>250.2</u>	<u>245.6</u>	<u>218.2</u>	<u>(4.6)</u>
Contributions from the Federal government:				
Canada health and social transfer.....	430.0	430.0	395.0	—
Other.....	35.1	32.3	26.9	(2.8)
	<u>465.1</u>	<u>462.3</u>	<u>421.9</u>	<u>(2.8)</u>
Less: Revenue Allowance.....	(31.9)	—	—	31.9
TOTAL REVENUE.....	<u>4,871.9</u>	<u>4,787.9</u>	<u>4,792.6</u>	<u>(84.0)</u>

¹ Figures for 1997/98 have been restated to conform with the presentation used for 1998/99.² 1998/99 actual less 1998/99 budget.

- Natural resource revenue of \$299 million was \$53 million below budget and 32 per cent lower than in the same period in 1997/98. Petroleum and natural gas revenue was slightly higher than budget but 45 per cent lower than last year due to the effect of lower commodity prices on royalties and sales of Crown land drilling rights. Minerals revenue in the first quarter was 40 per cent lower than a year ago due to weaker commodity exports.
- Forest revenue was \$55 million below budget and 34 per cent lower than last year. Most of the decline from budget was due to lower-than-expected harvest volumes (down 28 per cent). Lower-than-expected stumpage rates were also a factor. The weaker timber harvest reflects the weak export markets in Asia (particularly in Japan), as well as some delayed logging activity by industry in anticipation of the significant stumpage rate reductions which took effect June 1, 1998.

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- Other revenue of \$447 million was \$20 million below budget but up 2.8 per cent from last year. The decline from budget was mainly due to lower revenue from other fees and licences, Medical Service Plan premiums, and other miscellaneous revenue.
 - Contributions from government enterprises of \$246 million were \$5 million below budget but 12.6 per cent higher than last year due to higher BC Lottery Corporation profits resulting from expanded gaming activities.
 - Federal government contributions of \$462 million were slightly below budget but up 9.6 per cent from the same period last year. Revenue from the Canada health and social transfer was on budget and 8.9 per cent higher than last year due to the effect of the federal government's introduction of a national cash floor for cash payments to provinces. Other federal contributions were \$3 million below budget due to slower-than-expected federal recoveries under various cost-shared programs.
 - \$32 million of the full-year revenue budget allowance of \$130 million was allocated to the first quarter of 1998/99 offsetting declines in various revenue sources. This revenue allowance was included in the 1998/99 budget to provide a cushion corresponding to economic growth 0.6 percentage points lower in 1998 than the 0.9 per cent growth forecast in the 1998/99 budget.

Expenditure

Spending for the first three months of the fiscal year was \$12 million below budget at \$5,190 million. This is \$65 million or 1.3 per cent higher than comparable spending for the same period last year.

As of June 30, 1998, 14 of the 19 ministries were on or below budget.

- Spending by the Ministry of Advanced Education, Training and Technology of \$396 million was slightly below budget and about the same as last year as higher spending for capital debt servicing was offset by lower-than-expected expenditures through the Science and Technology special account.
- Ministry of Agriculture and Food expenditure was up \$13 million from last year due to additional spending for the agriculture renewal initiative introduced in the 1998 budget.
- Ministry for Children and Families expenditure of \$339 million was \$5 million above budget mainly because of higher-than-planned expenditures for residential services for children and youth, and disabled adults. Ministry spending rose 9.9 per cent from last year due to expanded services and increased demand under the *Child, Family and Community Services Act*.
- Ministry of Education expenditure of \$1,232 million was slightly below budget. Public school operating contributions increased \$39 million from last year due to higher enrolments, funding-per-pupil increases, teacher contract changes and earlier payments this year. School support contributions were \$17 million lower than last year due to earlier spending in the first quarter of last year.
- Ministry of Employment and Investment expenditure of \$52 million was \$26 million higher than last year due to earlier spending for housing programs.

Table 4 Expenditure by Ministry
for the Three Months Ended June 30, 1998
(Unaudited)

	Budget 1998 (\$ millions)	Actual 1998 (\$ millions)	Actual 1997 ¹ (\$ millions)	Increase ² (Decrease) (\$ millions)
Legislation.....	8.0	7.0	8.0	(1.0)
Auditor General.....	1.8	1.8	1.9	—
Office of the Child, Youth and Family Advocate.....	0.3	0.2	0.2	(0.1)
Conflict of Interest Commissioner.....	—	—	—	—
Elections B.C.....	1.7	1.0	1.0	(0.7)
Information and Privacy Commissioner.....	0.6	0.6	0.6	—
Ombudsman.....	1.2	1.1	1.1	(0.1)
Office of the Premier.....	0.6	0.6	0.5	—
Aboriginal Affairs.....	5.7	6.2	6.4	0.5
Advanced Education, Training and Technology				
Educational institutions and organizations.....	272.7	272.4	272.1	(0.3)
Other.....	124.5	123.3	122.9	(1.2)
Total.....	397.2	395.7	395.0	(1.5)
Agriculture and Food.....	29.3	27.9	14.6	(1.4)
Attorney General.....	224.9	220.4	221.4	(4.5)
Children and Families.....	333.8	339.2	308.7	5.4
Education				
Public school operating contributions.....	1,071.4	1,072.1	1,032.9	0.7
Other.....	162.2	159.9	196.5	(2.3)
Total.....	1,233.6	1,232.0	1,229.4	(1.6)
Employment and Investment.....	56.2	51.7	26.1	(4.5)
Energy and Mines.....	21.8	20.1	10.0	(1.7)
Environment, Lands and Parks.....	44.7	50.1	44.5	5.4
Finance and Corporate Relations.....	101.4	101.8	82.2	0.4
Fisheries.....	5.2	4.2	4.2	(1.0)
Forests.....	108.2	96.8	90.5	(11.4)
Health				
Acute and continuing care.....	893.3	925.5	955.4	32.2
Other.....	829.5	813.5	801.0	(16.0)
Total.....	1,722.8	1,739.0	1,756.4	16.2
Human Resources.....	388.6	386.3	413.7	(2.3)
Labour.....	11.0	11.0	6.6	—
Municipal Affairs.....	64.5	61.6	65.1	(2.9)
Small Business, Tourism and Culture.....	20.8	19.9	24.9	(0.9)
Transportation and Highways.....	114.7	113.7	112.7	(1.0)
Women's Equality.....	8.0	7.8	8.0	(0.2)

¹ Figures for 1997/98 have been restated to conform with the presentation used for 1998/99.

² 1998/99 actual less 1998/99 budget.

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Table 4 Expenditure by Ministry — *Continued*
for the Three Months Ended June 30, 1998
(Unaudited)

	Budget 1998 (\$ millions)	Actual 1998 (\$ millions)	Actual 1997 ¹ (\$ millions)	Increase ² (Decrease) (\$ millions)
Other Appropriations:				
Management of Public Funds and Debt.....	219.1	220.3	211.2	1.2
Contingencies (All Ministries).....	—	—	—	—
BC Benefits.....	77.9	76.9	79.7	(1.0)
Corporate Accounting System.....	3.1	2.5	1.6	(0.6)
Environmental Assessment and Land Use Coordination.....	5.3	2.0	1.4	(3.3)
Environmental Boards and Forest Appeals Commission.....	0.6	0.3	0.1	(0.3)
Forest Practices Board.....	1.0	0.8	0.7	(0.2)
Office of the Police Complaints Commissioner....	0.2	0.1	—	(0.1)
Public Sector Employers' Council.....	0.4	0.4	0.4	—
Public Service Employee Relations Commission.....	0.9	0.6	2.8	(0.3)
Insurance and Risk Management.....	0.3	3.2	2.3	2.9
Purchasing Commission Working Capital Account.....	2.9	1.4	0.6	(1.5)
Industry Training and Apprenticeship Commission.....	—	—	—	—
Amortization of Change in Unfunded Pension Liability.....	(15.9)	(15.9)	(9.0)	—
TOTAL EXPENDITURE	5,202.4	5,190.3	5,125.5	(12.1)

¹ Figures for 1997/98 have been restated to conform with the presentation used for 1998/99.

² 1998/99 actual less 1998/99 budget.

- Ministry of Energy and Mines expenditure was \$10 million higher than last year mainly due to increased contributions to the British Columbia Ferry Corporation.
- Ministry of Environment, Lands and Parks expenditure was \$5 million above budget due to slower-than-expected expenditure recoveries from other ministries and special offices.
- Ministry of Finance and Corporate Relations spending was on budget and \$20 million higher than last year due to earlier contributions to BC Transit.
- Ministry of Forests expenditure of \$97 million was \$11 million below budget mainly due to reduced expenditures through the Small Business Forest Enterprise Account.

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- Expenditure of the Ministry of Health of \$1,739 million was \$16 million ahead of budget because of earlier-than-expected spending for acute and continuing care, public and preventive health, and the Medical Services Plan. This was partially offset by below-budget spending for capital debt servicing, corporate services, Pharmacare and adult mental health services. Ministry expenditure was 1.0 per cent lower than last year mainly due to a timing change in the schedule of disbursements for acute and continuing care and lower spending for corporate services, partially offset by increased spending for adult mental health services and capital debt servicing.
 - Ministry of Human Resources expenditure of \$386 million was \$2 million lower than budget and 6.6 per cent lower than last year mainly due to lower expenditures for income assistance. Caseloads in the first three months of 1998/99 were down 6.9 per cent from the same period last year due to the success of caseload reduction initiatives and early intervention programs.
 - Ministry of Labour expenditure was 67 per cent higher than last year due to earlier spending for industry training and apprenticeship programs.
 - Ministry of Small Business, Tourism and Culture spending was 20 per cent lower than last year mainly because of managed program reductions, including the transfer of tourism development and marketing programs to the Tourism BC agency.
 - Management of public funds and debt spending of \$220 million was \$9 million higher than last year because of higher interest rates and borrowing requirements (see Part Three — Borrowing Report for more information).

Fiscal Outlook

As noted earlier, British Columbia's economic performance was weaker than expected during the first half of 1998. As a result, revenue for the first three months of the fiscal year was \$84 million below budget and 0.1 per cent lower than the same period in 1997/98.

The Asian downturn had a larger-than-expected effect on British Columbia's exports and resource sector. The significant reduction in the Japanese housing sector and the resulting impacts on commodity markets contributed to forests revenue being \$55 million below budget and 34 per cent lower than last year. In addition, lower consumer confidence, lower population growth and a weakened housing market have led to weaker-than-expected collections from social service and property transfer taxes.

Although revenue in the first quarter was weaker than expected, these results do not yet show the stimulative effects of recent policy changes targeted to the resource sector. The forest stumpage rate reductions introduced on June 1, 1998, together with changes to streamline the regulatory process, should help to improve the cost competitiveness of the industry. The government has also announced incentives to promote oil and gas exploration that should help boost investment and activity in this industry. In addition, a number of the tax reduction measures announced in the 1998 budget should provide positive stimulus when they take effect on January 1, 1999.

Spending in the first three months was \$12 million below budget with 14 of the 19 ministries being underspent. As planned, spending in the first quarter was up slightly at 1.3 per cent compared to last year.

As in other years, spending pressures have emerged in a number of areas, including utilization pressures in the Ministries of Health and Children and Families, increased borrowing costs and, in particular, forest fire fighting costs in the Ministry of Forests.

The government is monitoring its finances in light of the changing developments in the economy. Although the 1998 budget included a \$130-million revenue allowance to help cushion the effects of unfavourable economic developments, further actions are being taken to help offset emerging revenue and expenditure pressures.

Treasury Board has commenced a series of expenditure reduction measures to help ensure that its fiscal targets are achieved. These include a hiring freeze, travel restrictions and reductions in the auxiliary workforce. Further measures will be implemented depending on the fiscal and economic performance over the remainder of the year.

PART THREE — BORROWING REPORT

Overview

- At June 30, 1998, provincial net debt totalled \$30,723 million. Taxpayer-supported debt accounted for \$22,448 million of this total, while self-supported debt accounted for \$8,275 million. These amounts may change when audited results for 1997/98 become available.
- During the three months ended June 30, 1998, total government, Crown corporation and agency net debt increased \$725 million. The higher net debt total was mainly due to increases in government direct operating debt, the debt of the BC Transportation Financing Authority, BC Ferries, BC Transit, BC Assessment Authority, BC Rail and the warehouse borrowing program. These increases were partially offset by reductions in the debt of BC Hydro, BC Buildings, BC Housing Management Commission and the education and hospital financing authorities. During the same period last year, there was a \$517-million increase in total provincial net debt.
- Taxpayer-supported debt, which excludes the self-supporting debt of commercial Crown corporations and the warehouse borrowing program, increased \$598 million through the first three months of 1998/99. This compares to a \$636-million increase in same period last year.

Taxpayer-supported debt

- *Provincial government direct operating debt* — up \$645 million as new borrowing of \$1 billion (\$519 million long-term and \$492 million short-term) was partially offset by retirement provisions (including sinking fund contributions, sinking fund earnings and debt maturities) totalling \$365 million. The increase in net debt was larger than the three-month deficit due to other cash requirements (referred to as financing and working capital transactions — see Table 2) resulting from the settlement of outstanding liabilities at the end of 1997/98, as well as timing delays in the collection of property tax revenue which is usually collected in July and August. At June 30, 1998, provincial government direct operating net debt totalled \$12,098 million.
- *Education capital financing debt* — down \$49 million as new short-term borrowing of \$37 million was more than offset by retirement provisions totalling \$86 million. At June 30, 1998, education capital financing net debt totalled \$4,283 million.
- *Economic development Crown corporations* — up \$118 million as new net borrowing by the BC Transportation Financing Authority (up \$98 million), BC Ferries (up \$31 million) and BC Transit (up \$16 million) was partially offset by a decrease in the short-term debt of the BC Housing Management Commission (down \$26 million). At June 30, 1998, economic development Crown corporation net debt totalled \$3,544 million.

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- *Social and government services Crown corporations* — down \$115 million mainly due to the decreased debt of BC Buildings (down \$104 million) and the hospital financing authority (down \$26 million, net of its related short-term financing debt under the certificate of approval program). Debt of the BC Assessment Authority increased \$15 million. At June 30, 1998, social and government services Crown corporation net debt totalled \$2,037 million.

Capital Spending

- The \$598-million increase in taxpayer-supported debt in the first quarter was also used to finance capital spending for the construction of ferries, roads, transit and other infrastructure.
- During the first three months of 1998/99, capital spending totalled \$189 million. This was financed through internally-generated cash flows (for example, provincial/local transit contributions, ferry tolls, and earnings of sinking funds); surplus funds pre-borrowed at the end of the previous year; and new borrowing in the current year as summarized in the previous section and in Table 5.
- *Education, health and justice facilities capital spending* — totalled \$68 million, including:
 - Kanaka Creek Elementary School in Maple Bay — addition planning;
 - Williams Lake Secondary School — school replacement construction;
 - Fernie Secondary School — school replacement construction;
 - Somerset Elementary School in Pitt Meadows — new school construction;
 - Prince George Regional General Hospital — phase one redevelopment planning;
 - Surrey Memorial Hospital — phase three, stage two (tower) construction;
 - Vancouver General Hospital radiology project — site development and equipment; and
 - St. George's General Hospital in Alert Bay — replacement planning.
- *Transportation capital spending* — totalled \$121 million, including:
 - Highway 1 in Salmon Arm — four-lane and frontage road construction;
 - Highway 101 (Saltery Bay to Powell River) — upgrading;
 - Okanagan Lake bridge — four-lane design;
 - Ferry construction and maintenance, and terminal improvements; and
 - Langford Transit Centre — new construction.

Self-supporting debt

- *Commercial Crown corporations* — up \$29 million as an increase in the debt of BC Rail (up \$63 million) was partially offset by a decrease in the debt of BC Hydro (down \$34 million). At June 30, 1998, commercial Crown corporation net debt totalled \$7,856 million.
- *Warehouse borrowing program* — debt held under the warehouse borrowing program totalled \$298 million at June 30, 1998 (up \$98 million from the start of the year). 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, 1998/99¹

Three Months Ended June 30 (Unaudited)	1998			1997	
	New Borrowing ²	Retirement Provision ³	Net Change (\$ millions)	Total Net Debt Outstanding ⁴	Net Change
Taxpayer-supported debt					
Provincial government direct⁵					
Operating purposes	<u>1,010.4</u>	<u>365.2</u>	<u>645.2</u>	<u>12,097.5</u>	<u>642.2</u>
Education capital financing purposes					
Schools	<u>31.7</u>	<u>35.1</u>	<u>(3.4)</u>	<u>2,921.8</u>	<u>36.4</u>
Post-secondary institutions	<u>5.5</u>	<u>50.6</u>	<u>(45.1)</u>	<u>1,360.9</u>	<u>(23.9)</u>
	<u>37.2</u>	<u>85.7</u>	<u>(48.5)</u>	<u>4,282.7</u>	<u>12.5</u>
Total provincial government direct	<u>1,047.6</u>	<u>450.9</u>	<u>596.7</u>	<u>16,380.2</u>	<u>654.7</u>
Economic development					
Crown corporations and agencies:					
British Columbia Ferry Corporation	<u>33.8</u>	<u>2.4</u>	<u>31.4</u>	<u>832.6</u>	<u>(7.7)</u>
BC Transportation Financing Authority	<u>100.0</u>	<u>2.0</u>	<u>98.0</u>	<u>1,107.7</u>	<u>7.4</u>
British Columbia Transit	<u>91.0</u>	<u>75.4</u>	<u>15.6</u>	<u>1,581.8</u>	<u>(3.8)</u>
Other ⁶	<u>(26.4)</u>	<u>0.3</u>	<u>(26.7)</u>	<u>21.7</u>	<u>7.6</u>
	<u>198.4</u>	<u>80.1</u>	<u>118.3</u>	<u>3,543.8</u>	<u>3.5</u>
Social and government services					
Crown corporations and agencies					
British Columbia Assessment Authority	<u>15.0</u>	<u>—</u>	<u>15.0</u>	<u>21.2</u>	<u>15.7</u>
British Columbia Buildings Corporation	<u>(58.9)</u>	<u>45.4</u>	<u>(104.3)</u>	<u>660.4</u>	<u>(48.3)</u>
British Columbia Regional Hospital Districts Financing Authority	<u>—</u>	<u>54.3</u>	<u>(54.3)</u>	<u>1,305.0</u>	<u>30.7</u>
Capital Project Certificate of Approval Program	<u>28.6</u>	<u>—</u>	<u>28.6</u>	<u>50.8</u>	<u>(14.4)</u>
British Columbia Systems Corporation ⁷	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(0.7)</u>
	<u>(15.3)</u>	<u>99.7</u>	<u>(115.0)</u>	<u>2,037.4</u>	<u>(17.0)</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 Total net debt consists of the revised forecast amounts in Budget 98 plus the net change for the period.

⁵ Effective April 1, 1998, debt of the British Columbia School Districts Capital Financing Authority, the British Columbia Educational Institutions Capital Financing Authority and debt of the capital project certificate of approval program related to education capital financing is included as part of provincial government direct debt. Figures for 1998 have been restated to conform with the presentation used for 1999.

⁶ Includes the British Columbia Housing Management Commission, Pacific Racing Association and Victoria Line Ltd.

⁷ As of March 10, 1998 the provincial government assumed the debt of the British Columbia Systems Corporation.

⁸ Includes local governments, universities and colleges.

⁹ Includes debt of the 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.

¹⁰ Amounts held as investments or cash for relending by the consolidated revenue fund and Crown corporations and agencies.

¹¹ Includes debt of the British Columbia Lottery Corporation, Liquor Distribution Branch, British Columbia Railway Company and Columbia Basin Power Company that is not guaranteed by the provincial government.

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Table 5 Change in Provincial Net Debt and Total Net Debt Outstanding, 1998/99¹ — *Continued*

Three Months Ended June 30 (Unaudited)	1998			1997	
	New Borrowing ²	Retirement Provision ³	Net Change (\$ millions)	Total Net Debt Outstanding ⁴	Net Change
Other fiscal agency loans⁸	(0.4)	1.8	(2.2)	149.0	(4.8)
Other guarantees	—	—	—	210.3	—
Non-guaranteed debt⁹	—	—	—	128.0	—
Less internally held funds¹⁰	—	—	—	0.8	—
Total taxpayer-supported debt	1,230.3	632.5	597.8	22,447.9	636.4
Self-supporting debt					
Commercial Crown corporations and agencies:					
British Columbia Hydro and Power Authority.....	315.8	349.9	(34.1)	7,219.4	(27.6)
British Columbia Railway Company.....	64.8	1.6	63.2	516.5	7.8
Skeena Cellulose.....	—	—	—	120.0	—
	380.6	351.5	29.1	7,855.9	(19.8)
Warehouse borrowing program	100.0	1.9	98.1	298.1	(100.0)
Non-guaranteed debt¹¹	—	—	—	120.6	—
Total self-supporting debt	480.6	353.4	127.2	8,274.6	(119.8)
Total provincial debt	1,710.9	985.9	725.0	30,722.5	516.6

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 Total net debt consists of the revised forecast amounts in Budget 98 plus the net change for the period.

⁵ Effective April 1, 1998, debt of the British Columbia School Districts Capital Financing Authority, the British Columbia Educational Institutions Capital Financing Authority and debt of the capital project certificate of approval program related to education capital financing is included as part of provincial government direct debt. Figures for 1998 have been restated to conform with the presentation used for 1999.

⁶ Includes the British Columbia Housing Management Commission, Pacific Racing Association and Victoria Line Ltd.

⁷ As of March 10, 1998 the provincial government assumed the debt of the British Columbia Systems Corporation.

⁸ Includes local governments, universities and colleges.

⁹ Includes debt of the 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.

¹⁰ Amounts held as investments or cash for relending by the consolidated revenue fund and Crown corporations and agencies.

¹¹ Includes debt of the British Columbia Lottery Corporation, Liquor Distribution Branch, British Columbia Railway Company and Columbia Basin Power Company that is not guaranteed by the provincial government.

PART FOUR – CROWN CORPORATIONS

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

British Columbia Ferry Corporation (Table 7)

- The corporation reported a net loss of \$6 million for the three months ended June 30, 1998, \$1 million lower than in the same period last year.
- Although traffic volumes were down 1.7 per cent for vehicles and 1.2 per cent for passengers from last year, operating revenues increased 4.2 per cent mainly due to a tariff increase in November 1997.
- Operating expenses rose 7.3 per cent, mainly due to higher labour and financing costs, partially offset by lower fuel costs. Labour costs increased 8.4 per cent due to the operations of the new Duke Point terminal, changes to the collective agreement and increased ferry utilization. Interest costs increased 37 per cent because of higher debt outstanding to finance construction of new vessels and terminals. Fuel costs dropped 17 per cent due to declining diesel fuel prices.

British Columbia Hydro and Power Authority (BC Hydro) (Table 8)

- BC Hydro reported net income of \$50 million for the three months ended June 30, 1998. This was \$25 million lower than the same period last year, primarily due to increased energy and finance costs, and a decrease in domestic revenues. These unfavourable factors were partially offset by an increase in electricity trade revenue.
- Domestic revenues decreased by 1.2 per cent mainly due to a slow recovery of production following the ending of the strike at Fletcher Challenge in April 1998. Warmer temperatures, which averaged 10 per cent higher than last year, also contributed to lower consumption. Electricity trade revenue increased \$79 million from last year due to increased volumes and higher average sales prices.
- Energy costs rose 64 per cent due to increased energy purchases and higher short-term energy prices. A 26-per-cent drop in water inflows into the reservoirs resulted in reduced use of low-cost hydro generation and increased reliance on higher-priced energy purchases.

-
- Operations, maintenance and administration expenses were \$5 million higher than the previous year, due to earlier spending this year and additional expenditures for developing and implementing new programs, products and services.
 - Finance costs increased by 7.0 per cent mainly due to higher short-term interest rates and higher interest payments on U.S. debt due to a weaker Canadian dollar.

British Columbia Lottery Corporation (Table 9)

- The corporation reported net income of \$95 million for the first three months of the fiscal year, up 47 per cent from last year.
- Lottery sales revenue increased \$61 million because of higher sales of traditional lottery products and the introduction of casino and electronic bingo operations. Sales of Lotto 6/49 and BC49 rose \$14 million from last year due to a higher number of large jackpots. Sales from casino operations sales totalled \$40 million, while electronic bingo operations added sales of \$7 million.
- Direct costs rose \$25 million in response to higher sales. Other expenses increased \$6 million due to increased spending for development and infrastructure in support of expanded gaming activities.

British Columbia Railway Company (Table 11)

- The company reported net income of \$11 million for the six months ended June 30, 1998, down \$6 million from the same period last year.
- Operating revenue increased slightly as higher revenue from Vancouver Wharves, Westel and BCR Properties partially offset lower revenue from freight operations.
- Operating expenses rose \$8 million or 4.4 per cent mainly due to growth in Westel operations, partly offset by reduced costs resulting from lower BC Rail traffic activity. Depreciation expense increased 7.7 per cent due to the purchase of additional capital assets, while interest expense rose 3.7 per cent due to higher debt outstanding. A 42-per-cent drop in capital and income taxes resulted from a reorganization of the corporate structure in late 1997.

British Columbia Transit (Transit) (Table 13)

- Transit's net expenditure for the first three months of the fiscal year totalled \$112 million, up 4.8 per cent from the same period last year.
- Revenue increased 3.6 per cent, mainly due to an increase in fares in Victoria on July 1, 1997 and in Vancouver on October 1, 1997, partly offset by a 3.8-per-cent decline in ridership.
- Expenditures increased 4.4 per cent mainly due to a 4.2-per-cent increase in service hours, and higher administration and maintenance costs, partly offset by lower expenditures for property leases and taxes.

Insurance Corporation of British Columbia (Table 16)

- The corporation reported net income of \$71 million for the six months ended June 30, 1998, compared to a net loss of \$34 million from the same period last year.
- In the third year of a premium freeze, premium revenue increased 3.4 per cent, with additional sales of Autoplan policies and higher coverage sold through Autoplan12 financing.
- Claims costs fell 5.8 per cent. Increased spending in road safety programs and the mild winter at the start of the year, contributed to reduced costs and a 2.9 per cent drop in the number of claims reported.
- Operating expenses rose 4.8 per cent mainly due to increased commissions and premium taxes incurred in response to higher premium revenue. Investment income increased \$24 million due to higher gains on investments.

Table 6 British Columbia Buildings Corporation
Income Statement
for the Three Months Ended June 30, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 (\$000)	Increase (Decrease) (Per cent)
Gross revenues.....	112,657	105,955	6.3
Expenses:			
Operations, maintenance and administration.....	33,275	29,640	12.3
Lease costs.....	32,336	33,345	(3.0)
Client requested projects.....	7,592	3,795	—
Depreciation and amortization.....	11,876	11,833	0.4
Interest, net.....	15,012	15,299	(1.9)
	<u>100,091</u>	<u>93,912</u>	6.6
Income before gain on disposals.....	12,566	12,043	4.3
Gain on disposals.....	296	3,290	(91.0)
Net income.....	<u>12,862</u>	<u>15,333</u>	(16.1)

Table 7 British Columbia Ferry Corporation
Income Statement
for the Three Months Ended June 30, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 ¹ (\$000)	Increase (Decrease) (Per cent)
Operating revenues:			
Tolls	76,878	73,316	4.9
Catering and other income	16,533	16,128	2.5
Federal coastal ferry contract	5,510	5,483	0.5
	<u>98,921</u>	<u>94,927</u>	4.2
Operating expenses:			
Salaries, wages and benefits	58,178	53,671	8.4
Fuel	8,134	9,799	(17.0)
Cost of food and goods sold	5,969	5,986	(0.3)
Repair and maintenance	5,383	5,270	2.1
Materials and supplies	5,024	4,293	17.0
Net financing expense	10,295	7,525	36.8
Professional, computer and other	4,732	4,785	(1.1)
Insurance, taxes, utilities	2,480	2,235	11.0
Amortization	10,820	9,858	9.8
	<u>111,015</u>	<u>103,422</u>	7.3
Income (loss) from operations	(12,094)	(8,495)	42.4
Provincial operating grant ²	6,000	1,175	—
Net income (loss)	<u>(6,094)</u>	<u>(7,320)</u>	(16.7)

¹ Figures for 1997 have been restated to conform to the presentation for 1998.

² As at June 30, 1998, the corporation received \$12 million of its annual subsidy from the provincial government. Of this total, \$6 million has been allocated to the first three months of the year.

Table 8 British Columbia Hydro and Power Authority
Income Statement
for the Three Months Ended June 30, 1998
(Unaudited)

	Estimated 1998 (\$ millions)	1997 ¹ (\$ millions)	Increase (Decrease) (Per cent)
Revenues:			
Residential	179	181	(1.1)
Light industrial and commercial	200	199	0.5
Large industrial	115	119	(3.4)
Other energy sales and miscellaneous	21	22	(4.5)
Total domestic	515	521	(1.2)
Electricity trade ²	107	28	—
	<u>622</u>	<u>549</u>	13.3
Expenses:			
Energy costs	207	126	64.3
Operations, maintenance and administration	89	84	6.0
Taxes	43	42	2.4
Depreciation	80	79	1.3
	<u>419</u>	<u>331</u>	26.6
Income before finance charges	203	218	(6.9)
Finance charges	(153)	(143)	7.0
Net income	<u>50</u>	<u>75</u>	(33.3)

¹ Certain figures for 1997 have been restated to conform to the presentation used for 1998.

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 Three Months Ended June 27, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 (\$000)	Increase (Decrease) (Per cent)
Lottery sales.....	273,055	211,596	29.0
Direct costs:			
Prizes.....	123,938	113,151	9.5
Retailer commissions.....	27,406	13,041	—
Direct supplies.....	3,631	3,807	(4.6)
	154,975	129,999	19.2
Sales less direct costs.....	118,080	81,597	44.7
Other expenses:			
Operating.....	15,358	11,895	29.1
Amortization.....	4,604	2,735	68.3
Goods and services tax.....	3,389	2,672	26.8
	23,351	17,302	35.0
Net income.....	94,729	64,295	47.3
Allocation of net income:			
Province of British Columbia ¹	93,001	62,581	48.6
Government of Canada.....	1,728	1,714	0.8
	94,729	64,295	47.3

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 Three Months Ended June 30, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 ¹ (\$000)	Increase (Decrease) (Per cent)
Revenue from operations.....	5,782	5,936	(2.6)
Direct event costs.....	2,578	3,094	(16.7)
Gross margin.....	<u>3,204</u>	<u>2,842</u>	12.7
Facility costs:			
Administration.....	427	423	0.9
Operations and fees.....	1,226	1,374	(10.8)
Staffing.....	1,948	1,694	15.0
Business development.....	132	226	(41.6)
Depreciation.....	1,054	1,051	0.3
	<u>4,787</u>	<u>4,768</u>	0.4
Net operating income (loss).....	(1,583)	(1,926)	(17.8)
Province of British Columbia subsidy ²	529	875	(39.5)
Net income (loss).....	<u>(1,054)</u>	<u>(1,051)</u>	(0.3)

¹ Figures for 1997 have been restated to conform to the presentation for 1998.

² 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 Six Months Ended June 30, 1998
 (Unaudited)

	Estimated 1998 (\$000)	1997 ² (\$000)	Increase (Decrease) (Per cent)
Operating revenue.....	213,644	212,360	0.6
Expenses:			
Operations.....	63,323	60,670	4.4
Equipment maintenance.....	42,131	41,044	2.6
Road maintenance.....	22,691	21,597	5.1
Depreciation.....	33,378	30,978	7.7
Administration and general.....	22,765	22,256	2.3
	<u>184,288</u>	<u>176,545</u>	4.4
Operating income.....	29,356	35,815	(18.0)
Interest expense.....	(16,143)	(15,565)	3.7
Capital and income taxes.....	(2,097)	(3,626)	(42.2)
Net income.....	<u>11,116</u>	<u>16,624</u>	(33.1)

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.

² Figures for 1997 have been restated to conform to the presentation for 1998.

Table 12 British Columbia Securities Commission
Statement of Operations
for the Three Months Ended June 30, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 ¹ (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Fees.....	8,642	6,018	43.6
Administrative penalties.....	61	15	—
Interest income.....	257	139	84.9
	<u>8,960</u>	<u>6,172</u>	45.2
Expenditures:			
Salaries and benefits.....	2,336	2,230	4.8
Contract services.....	200	295	(32.2)
Building occupancy.....	156	148	5.4
General.....	207	160	29.4
Securities Fraud Office.....	250	250	—
Depreciation.....	165	150	10.0
Systems operating and communication.....	136	62	—
Travel.....	62	74	(16.2)
Information systems development.....	131	128	2.3
	<u>3,643</u>	<u>3,497</u>	4.2
Net income.....	5,317	2,675	98.8
Operating surplus, beginning of year.....	15,652	9,361	67.2
Operating surplus, end of year.....	<u>20,969</u>	<u>12,036</u>	74.2

¹ Figures for 1997 have been restated to conform to the presentation for 1998.

Table 13 British Columbia Transit
Revenue and Expenditure Statement
for the Three Months Ended June 30, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 ¹ (\$000)	Increase (Decrease) (Per cent)
Revenue	51,646	49,851	3.6
Expenditures:			
Operations	70,988	66,979	6.0
Maintenance	25,101	23,933	4.9
Administration	13,749	12,501	10.0
Interest	41,860	41,222	1.5
Depreciation and amortization	9,823	9,386	4.7
Property leases and taxes	2,548	3,116	(18.2)
Total expenditure	164,069	157,137	4.4
Net expenditure	112,423	107,286	4.8
Recoveries:			
Contribution from the Province of British Columbia ²	73,549	71,384	3.0
Contributions from participating municipalities	37,992	34,968	8.6
Other ³	882	934	(5.6)
	112,423	107,286	4.8

¹ 1997 figures have been restated to conform to the presentation used for 1998.

² The contribution from the province of British Columbia is included as part of expenditure in Table 4.

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 Three Months Ended June 30, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Dedicated revenue ²	31,137	26,809	16.1
Other ³	440	701	(37.2)
	<u>31,577</u>	<u>27,510</u>	14.8
Expenditures⁴:			
Operations and administration ⁵	5,290	5,112	3.5
Grant programs ⁶	259	596	(56.5)
Amortization.....	7,623	4,467	70.7
Interest ⁷	16,577	6,066	—
	<u>29,749</u>	<u>16,241</u>	83.2
Net income	<u>1,828</u>	<u>11,269</u>	(83.8)

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

² Dedicated revenue includes two cents per litre 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 three months of 1998/99, the authority undertook \$64.5 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.

⁵ Includes \$4.2 million in 1998 (1997 — \$4.1 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 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 Three Months Ended June 30, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 ¹ (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Statutory revenue ^{2,3}	—	15,165	(100.0)
Investment income	17,262	9,879	74.7
	<u>17,262</u>	<u>25,044</u>	(31.1)
Cost of Services:			
Project expenditures	44,165	50,741	(13.0)
Administration	4,198	4,354	(3.6)
	<u>48,363</u>	<u>55,095</u>	(12.2)
Net income (loss)	(31,101)	(30,051)	3.5
Unappropriated surplus, beginning of period	293,972	451,112	(34.8)
	<u>262,871</u>	<u>421,061</u>	(37.6)
Net transfer to reserve for multi-year agreements	(210,283)	—	—
Unappropriated surplus, end of period	<u>52,588</u>	<u>421,061</u>	(87.5)

¹ 1997 figures have been restated to conform to the presentation used for 1998.

² 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, and the rate policy changes introduced on June 1, 1998.

³ Statutory revenue is net of the annual recovery by the provincial government of up to \$50 million for expenditures incurred by the province in the first quarter 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 Six Months Ended June 30, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 ¹ (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Vehicle premiums earned.....	1,153,665	1,113,571	3.6
Driver premiums earned.....	8,577	10,208	(16.0)
	<u>1,162,242</u>	<u>1,123,779</u>	3.4
Expenses:			
Claims costs:			
Claims incurred.....	1,000,524	1,068,979	(6.4)
Claims operations expense.....	105,857	105,084	0.7
	<u>1,106,381</u>	<u>1,174,063</u>	(5.8)
Traffic and commercial vehicle safety programs and operations.....	29,311	12,198	—
Operating Expenses:			
Administration.....	44,775	45,286	(1.1)
Commissions.....	82,897	77,135	7.5
Premium taxes.....	46,490	44,951	3.4
Software development.....	3,207	1,938	65.5
	<u>177,369</u>	<u>169,310</u>	4.8
Total expenses.....	<u>1,313,061</u>	<u>1,355,571</u>	(3.1)
	(150,819)	(231,792)	(34.9)
Investment income.....	221,472	197,628	12.1
Net Income (loss).....	70,653	(34,164)	—
Retained earnings, beginning of period.....	224,289	210,304	6.6
Retained earnings, end of period.....	<u>294,942</u>	<u>176,140</u>	67.4

¹ 1997 figures have been restated to conform to the presentation used for 1998.

Table 17 **Liquor Distribution Branch**
Income Statement
for the First Quarter Ended June 27, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 (\$000)	Increase (Decrease) (Per cent)
Sales:			
Provincial liquor sales	401,785	398,527	0.8
Less: Discounts and commissions	(11,109)	(10,649)	4.3
Net sales	390,676	387,878	0.7
Cost of sales	(199,288)	(197,109)	1.1
Gross profit	191,388	190,769	0.3
Operating expenses	(39,567)	(38,986)	1.5
Net operating income	151,821	151,783	—
Other income	824	983	(16.2)
Net income ¹	152,645	152,766	(0.1)

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 Three Months Ended June 30, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 ¹ (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Provincial contribution.....	2,000	2,000	—
Investment and miscellaneous income	33	49	(32.7)
	<u>2,033</u>	<u>2,049</u>	(0.8)
Expenditures:			
Orchard renovation program	1,126	1,861	(39.5)
Sterile insect release program.....	500	100	—
Operating and other programs.....	47	60	(21.7)
	<u>1,673</u>	<u>2,021</u>	(17.2)
Surplus (deficit) for the period.....	360	28	—
Retained earnings, beginning of period.....	263	1,483	(82.3)
Retained earnings, end of period.....	<u>623</u>	<u>1,511</u>	(58.8)

¹ 1997 figures have been restated to conform to the presentation used for 1998.

Table 19 Provincial Capital Commission
Statement of Revenue, Expenditure and Surplus
for the Three Months Ended June 30, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Rent and other	672	632	6.3
Interest	55	41	34.1
	<u>727</u>	<u>673</u>	8.0
Expenditure:			
Operating	567	524	8.2
Surplus for the period	160	149	7.4
Unappropriated surplus, beginning of period	3,614	3,396	6.4
Unappropriated surplus, end of period	<u>3,774</u>	<u>3,545</u>	6.5

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