



BRITISH
COLUMBIA

Quarterly Report

April to September 1998





Ministry of Finance and Corporate Relations

Second Quarterly Report

on the Economy, Fiscal Situation and Crown Corporations

Fiscal Year 1998/99
Six Months
April – September 1998

Honourable Joy K. MacPhail
Minister of Finance and Corporate Relations

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(250) 387-3347
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British Columbia Cataloguing in Publication Data

British Columbia. Ministry of Finance and Corporate Relations.

Quarterly report on the economy, fiscal situation and Crown corporations. — ongoing—

Quarterly.

Title on cover: Quarterly report.

Continues: British Columbia. Ministry of Finance and Corporate Relations. Quarterly financial report. ISSN 0833-1375.

ISSN 1192-2176 — Quarterly Report on the economy, fiscal situation and Crown corporations.

1. Finance, Public — British Columbia — Accounting — Periodicals. 2. British Columbia — Economic conditions — 1945— — Periodicals.* 3. Corporations, Government — British Columbia — Accounting — Periodicals. I. Title.

HJ13.B77 354.711'007231'05



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

**Minister of Finance and
Corporate Relations**

I am pleased to present the Second 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 six months ended September 30, 1998, compared to budget. Part Three provides information on the debt of the provincial government and its Crown corporations and agencies as of September 30, 1998. Part Four provides interim financial statements of provincial Crown corporations for the period ended nearest to September 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

- British Columbia employment grew at an annual rate of 3.4 per cent in the third quarter of 1998 following growth of 4.4 per cent in the second quarter.
- The unemployment rate fell to 7.9 per cent in November, below the national average and its lowest level since July 1990.
- Lower consumer confidence and in-migration and slow growth in labour income continued to hold down retail spending, housing starts and home sales.
- The resource sector is also suffering from a severe downturn. However, exports and manufacturing shipments appear to be turning up.
- Private sector forecasts for 1998 remain mixed, with the average at -0.3 per cent, within the Ministry of Finance and Corporate Relations forecast range of $+0.5$ to -0.8 per cent.
- Growth is expected to resume in 1999. Private sector forecasts average 0.7 per cent, and range from 1.9 per cent to -1.0 per cent. The Ministry of Finance expects growth in the range of 1.5 per cent to 0.5 per cent.

Fiscal — 1998/99

- Results for the first half of the fiscal year were weaker than expected, due to lower-than-budgeted revenues and higher-than-anticipated spending.
- The government is monitoring its finances closely in light of the first half results and current economic trends. A series of expenditure reduction measures have been implemented to offset emerging fiscal pressures.
- Revenue totalled \$9.8 billion in the first six months of 1998/99, \$109 million or 1.1 per cent below budget. The decline was caused by weaker-than-expected revenue from taxation, forests, and other sources.
- Spending at \$10.4 billion was \$202 million above budget. This included \$107 million in higher-than-budgeted spending for forest fighting, plus increased spending in the Ministries of Health and Children and Families, partially offset by lower-than-budgeted spending in nine of the 19 ministries.
- Lower-than-planned revenue and higher-than-anticipated spending resulted in a \$659-million shortfall in the first half of the fiscal year, \$311 million more than expected.

Debt

- As of September 30, 1998, total provincial net debt was \$31,135 million, up \$952 million from March 31, 1998.
- Taxpayer-supported debt accounted for \$22,765 million of this total, showing an increase of \$786 million from the beginning of the year.
 - Direct operating debt totalled \$12,339 million, up \$866 million from March 31, 1998.
 - Other taxpayer-supported debt totalled \$10,426 million, down \$80 million from March 31, 1998.
- Commercial and other self-supporting debt totalled \$8,370 million, up \$166 million from March 31, 1998.

Crown Corporations

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

- The Insurance Corporation of British Columbia reported net income of \$129 million for the first nine months, compared to a \$82-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 2.5 per cent drop in the number of claims reported.
- British Columbia Ferry Corporation reported net income of \$20 million, up \$8 million from the same period last year.
- British Columbia Hydro and Power Authority reported net income of \$167 million, up \$22 million from the same period last year mainly due to increased revenue from electricity trade and large industrial customers.
- British Columbia Lottery Corporation reported net income of \$205 million, up \$82 million from last year due to expanded activities.
- Net income from the British Columbia Railway Company totalled \$16 million, \$14 million lower than last year, mainly due to lower freight revenue.
- British Columbia Transit's net expenditure was \$222 million, up \$6 million from last year, mainly due to increased service hours.

PART ONE — ECONOMIC REPORT

Overview¹

The third quarter of 1998 saw further upheavals in world financial markets, and these were reflected in British Columbia's economy. However, there were positive signs locally:

- Employment continued to grow in the third quarter, October and November.
- The unemployment rate was below the national average in October and November.
- Exports and manufacturing shipments began to move higher in the third quarter.

Consumer spending and housing activity remained sluggish. Commercial and industrial construction continued on a number of projects started last year and earlier in 1998.

Economic conditions to date in 1998 have varied widely across the province and across sectors and industries. The resource sector, the housing industry and retailing are under pressure, while non-resource manufacturing is expanding. The service sector, which accounts for three-quarters of provincial output and employment, appears to be expanding overall, offsetting the downturn in goods-producing industries. The Lower Mainland, southern Vancouver Island and much of the Okanagan are faring better than other regions.

British Columbia's Current Situation

The Domestic Economy

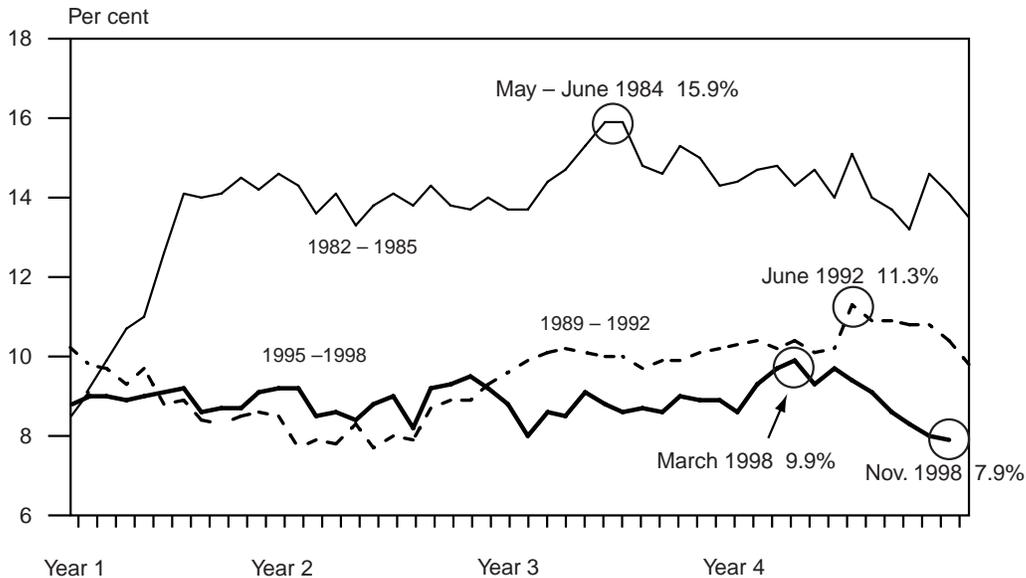
Data on British Columbia's economy continued to send mixed signals in the third quarter and early in the fourth quarter. One of the most important and timely economic indicators, employment, continued the uptrend that began in January. During the third quarter, seasonally adjusted employment rose at an annual rate of 3.4 per cent following a 4.4 per cent annualized gain in the second quarter. There was a further increase in employment in October and November.

The unemployment rate in November 1998 was 7.9 per cent, down from its recent peak of 9.9 per cent, below the national average of 8.0 per cent and the lowest level since July 1990. The current unemployment rate is far below the peak of 15.9 per cent reached in mid-1984 during the recession of the early 1980s and the early 1990s peak of 11.3 per cent recorded in June 1992 (see Chart 1).

¹ The *Economic Report* incorporates data available as of December 4, 1998.

Chart 1

B.C. Unemployment Rate



Source: Statistics Canada

Although overall employment continues to grow, there have been job losses in the resource sector due to mill closures and longer-than-normal seasonal shutdowns. Conditions are also poor in the housing sector where starts have fallen each quarter, declining 27 per cent to date.

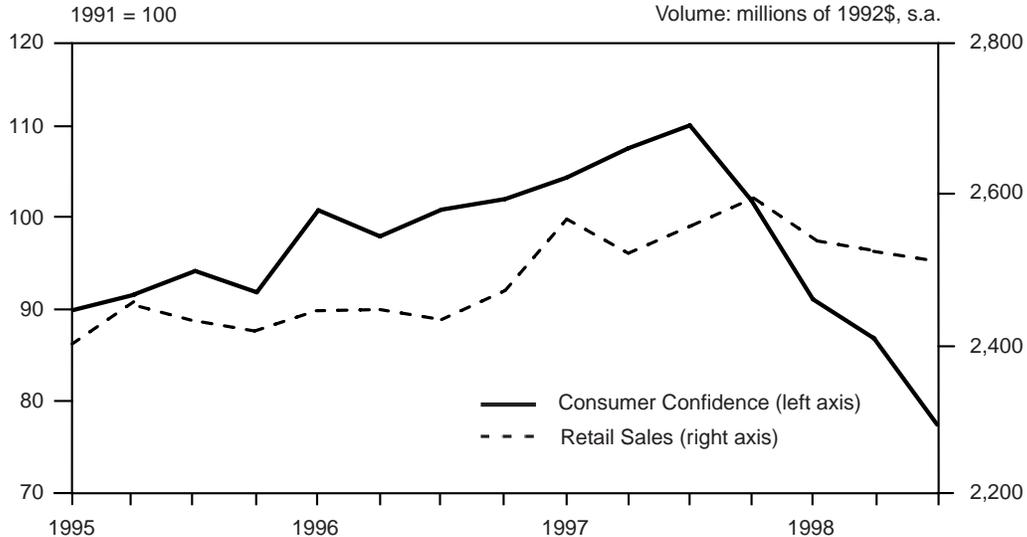
As a result, smaller communities dependent on forestry and mining and related activities have experienced significant job and income losses, particularly in the northern Interior, parts of Vancouver Island, the Kootenays and on the north coast. This has also affected retailers, restaurants and other businesses providing services in these regions.

Despite the downturn in these regions, there are plans for value-added wood products mills in Terrace and Cranbrook, a multi-million dollar project to modernize and improve a pulp mill is underway in Prince George and a major ski development and recreation/convention centre are being planned in Kimberley. In the northeast, 563 oil and gas wells were completed in the first three quarters of 1998, a 31 per cent increase from the same period last year. Last year's strong cash flows sharply boosted oil and gas drilling rights leases from the provincial government, which in turn translated into this year's big increase in drilling. The provincial government's recent reduction of oil and gas royalty rates is expected to boost activity in the northeast.

With the upheaval in world and domestic financial markets and the resource sector downturn, it is not surprising that consumer confidence and the volume of retail spending have fallen (see Chart 2). For the same reasons, housing starts and home sales have fallen to date in 1998. Reduced numbers of in-migrants, slow growth in total wage and salary income, and the year-to-date decline in stock markets have also affected housing market activity and retail trade.

Chart 2

Consumer Spending Under Pressure



Source: Conference Board and Statistics Canada

A small increase in business non-residential investment was anticipated in Statistics Canada's mid-year intentions survey, largely in machinery and equipment. Planned investment in structures was expected to fall, reflecting softness in the value of non-residential building permits issued in the first half of the year. However, the value of permits issued rose in the third quarter and Colliers International reported that office space absorption in Vancouver picked up. As a result, the downtown office vacancy rate fell from 6.8 per cent in June to 6.5 per cent at the end of the third quarter. A Michigan-based shopping centre developer recently obtained an option to buy a five-acre site in downtown Vancouver for its first major Canadian mall development. In Victoria's western communities, several "big-box" retail developments are in the planning stage and two recently opened. As well, a major residential development is about to get underway in Metchosin, just west of Victoria.

With the slowdown in the resource sector and Asian economies affecting some of the province's largest publicly-traded companies, their profits and stock prices have been under pressure. There has been a recovery in the share prices of British Columbia's largest publicly-traded firms since the stock market plunge in August and September (see Chart 3).

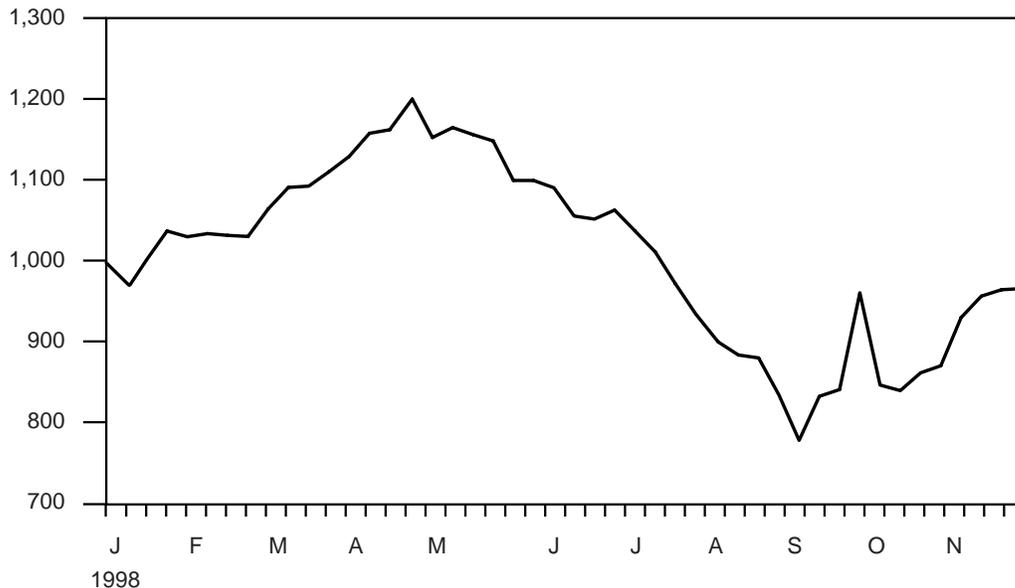
In the public sector, provincial expenditures were ahead of plan to the end of the second fiscal quarter, in part due to major forest fire-fighting expenditures. The provincial government plans to accelerate construction of needed infrastructure, such as rapid transit, to help boost the economy.

Reflecting developments in the British Columbia economy, the province's year-over-year inflation rate remains close to zero.

Chart 3

B.I.V. Top-100 Index

An Index of B.C.'s Biggest Public Companies



Source: *Business in Vancouver*, "TOP-100 INDEX"

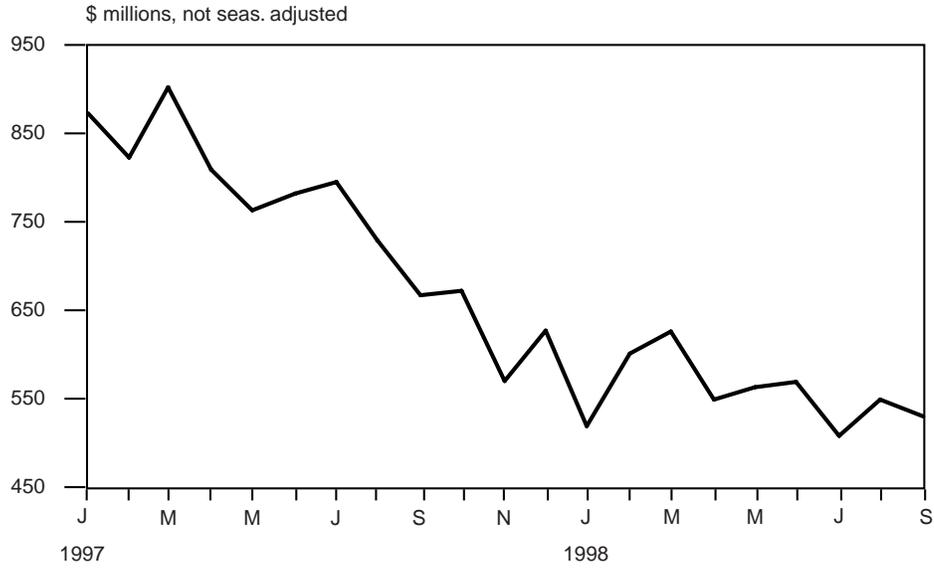
The External Sector

From British Columbia's perspective, solid growth in the rest of North America and Europe continued to provide a foundation for exports, even though most export prices have been soft since last year.

Overseas was a different story as conditions in British Columbia's key Asian export markets continued to worsen through the summer. Demand contracted at double-digit rates in countries such as Indonesia and South Korea and the value of exports from the province to Asia continued to fall, despite relatively stable export prices (see Chart 4). Toward the end of the third quarter, export prices slumped in the wake of the upheavals in Russia and Latin America.

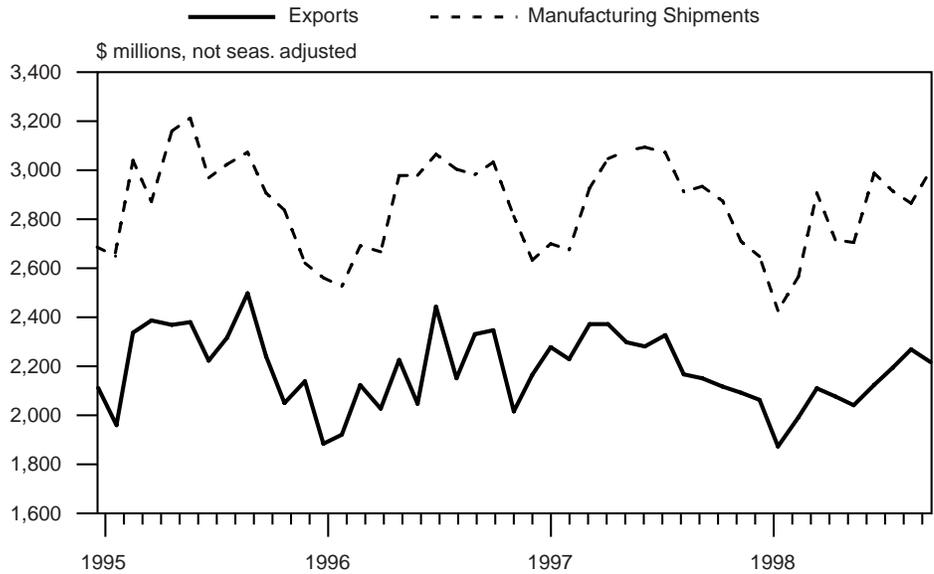
Despite the difficulties in Asia, the total value of British Columbia's exports and manufacturing shipments began to pick up in the third quarter (see Chart 5) with positive year-over-year growth rates in recent months. Some of this was due to volume increases, reflecting the resumption of production at Fletcher Challenge mills during the quarter. As well, the depreciation of the Canadian dollar more than offset the decline in U.S.-dollar-denominated prices, so that British Columbia commodity export prices rose slightly in Canadian dollar terms. In September, seasonally adjusted manufacturing shipments rose another 2.1 per cent. Contrary to recent evidence of a manufacturing recovery, Statistics Canada's third-quarter business conditions survey indicated that British Columbia manufacturers were expecting excess inventories and lower new orders to reduce production levels over the coming months.

Chart 4
B.C.'s Asian Exports



Source: Statistics Canada

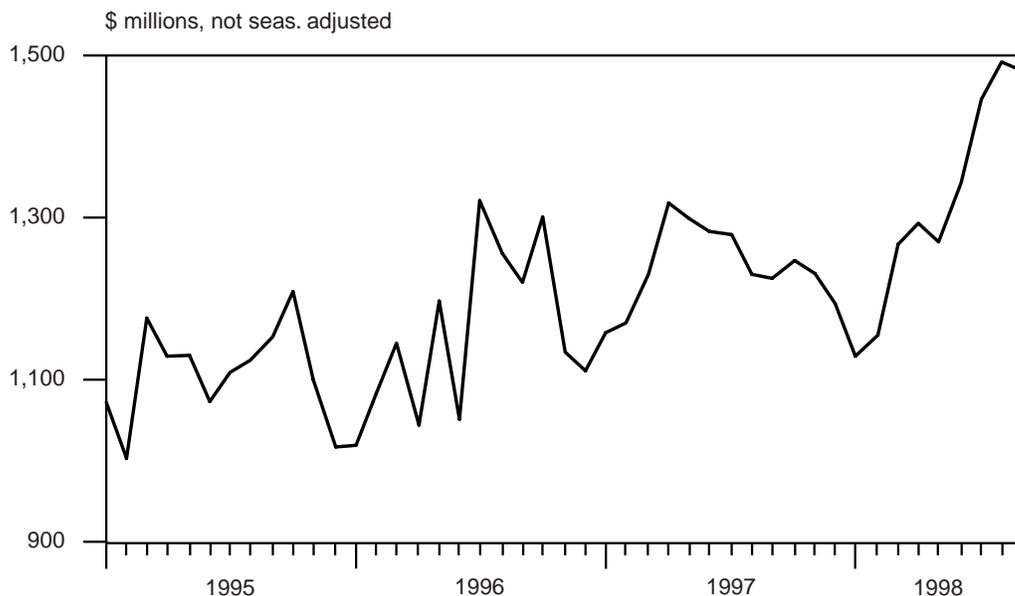
Chart 5
Exports and Manufacturing Shipments



Source: Statistics Canada

Exports to the United States, the province's single largest market have risen sharply, reflecting a still-buoyant economy (see Chart 6). The 6.1 per cent year-to-date growth in exports to the U.S. has been driven by a diverse range of products, including agricultural goods, energy products, transportation equipment, plastics and other goods. The value of forest product exports to the U.S. has declined.

Chart 6
B.C. Exports to U.S. Turning Up



Source: Statistics Canada

Evidence of the market shifts caused by the Asian downturn and the domestic slowdown also can be seen at the Vancouver International Airport and the Port of Vancouver. Air passenger volumes to and from other parts of Canada grew slowly during the January-to-August period, while traffic inside the province slumped. Transborder passenger volumes continued to increase, while growth in overseas activity was held back by the Asian slowdown. Nevertheless, the airport reports that it has suffered less from the Asian downturn than its West Coast competitors.

At the Port of Vancouver, the number of cruise ship passengers originating in Vancouver rose 6 per cent during the 1998 season. Cargo tonnage was up slightly during the first eight months of 1998 from the previous year, with increases in coal and petroleum products and general cargo offsetting declines in grain and forest products. Inbound tonnage was up 3 per cent while outbound tonnage was unchanged. Inbound container traffic was up 10 per cent, reflecting a surge in imports of now-inexpensive goods from Asia. A large imbalance in container traffic has developed between Asia and North America, with eastbound freight rates rising and westbound rates falling.

External Outlook

During the second half of August and through September, global financial markets were in turmoil as the Asian upheaval continued to spread to other emerging economies. The situation worsened with the Russian debt moratorium, concerns about Brazil and the rest of Latin America, and revelations of large bank losses on lending to emerging economies and failed hedge funds. Interest rates paid by less credit-worthy borrowers and the premium paid for more liquid securities rose sharply. In response, the U.S. Federal Reserve and other central banks lowered short-term interest rates, but market sentiment continued to deteriorate. Talk began to spread of the growing likelihood of a global credit crunch caused by increased perceptions of risk and a consequent shift from aggressive to conservative lending practices. As a result, most forecasters revised down their 1999 growth forecasts and many noted the increased possibility of a global recession.

However, by mid-November, financial market conditions had calmed, aided by another interest rate cut by the U.S. Federal Reserve that was followed soon after by the Bank of Canada and several other central banks. Stock markets rose sharply in several countries and volatility fell. Bond yields also rose as the future economic outlook seemed more positive, but the premium on credit quality and liquidity began to narrow. On November 17, the Federal Reserve cut interest rates by another quarter of a percentage point. The Bank of Canada also lowered its Bank Rate a quarter of a percentage point to 5.25 per cent.

Despite the improvement in market sentiment, the consensus outlook is for relatively slow world growth. After falling from about 4 per cent in 1997, the world economy will manage about 2 per cent growth in 1998. The slowdown is mainly due to weakness in Asia and other emerging markets that have accounted for a disproportionate share of world growth in recent years. The main sources of strength in the global economy are North America and Europe. In its September outlook, the International Monetary Fund projected that the world economy would grow 2.5 per cent in 1999. (See Chart 7.)

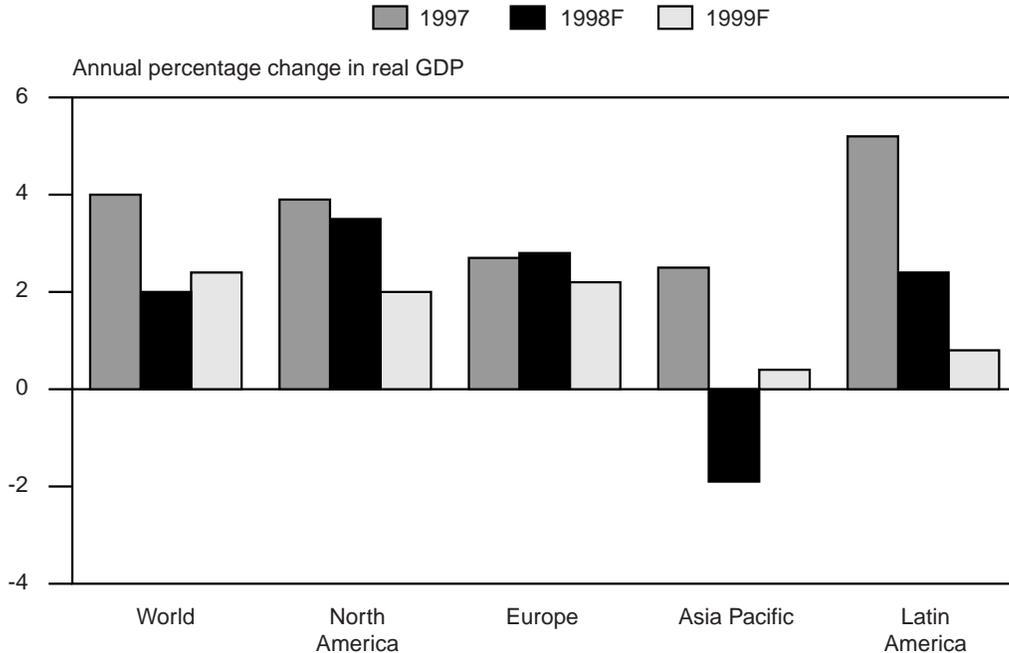
The Canadian economy grew at an annual rate of 2.6 per cent in the first half of 1998. Growth slowed to 1.8 per cent in the third quarter with growth in consumer spending and net exports offsetting a drawdown in business inventories. Canada's external trade is increasingly with the United States due to the slowdown in the formerly fast-growing Asian economies. Inside Canada, strong growth in Ontario and Alberta has attracted many job-seekers from British Columbia and other provinces. The consensus outlook is for 2.9 per cent real GDP growth for all of 1998 and 2.0 per cent in 1999.

The United States economy grew at an annual rate of 3.9 per cent in the third quarter of 1998, similar to the 4 per cent pace during the first half. Strong growth in consumer spending and business inventories offset a deteriorating trade balance during the third quarter. Manufacturing activity has slowed sharply from a year ago. Therefore, while the U.S. economy is expected to record growth of 3.6 per cent for the full year, it is anticipated to slow to 2 per cent in 1999.

The 11 economies making up the new Euro currency area grew an annualized 0.8 per cent in the second quarter of 1998. Their combined real GDP was up 2.2 per cent from a year ago and is expected to grow 2.8 per cent in 1998 and 2.2 per cent in 1999.

Chart 7

The World Economy



Source: IMF, *World Economic Outlook* (September 1998), *Consensus Economics* (November 1998)

Asia has been the big negative for the world economy in 1998 with the region expected to shrink 1.9 per cent in 1998. Despite positive signs in some countries such as Thailand and South Korea, including strengthening currencies, falling interest rates and rising stock markets, economic conditions are likely to remain difficult in the region. Only marginal growth is anticipated in 1999. The economy of Japan, British Columbia's largest Asian trade partner, is expected to shrink nearly 3 per cent in 1998 and record little or no growth next year. Exports from British Columbia to Japan remain weak.

British Columbia Outlook

The Ministry of Finance and Corporate Relations expects economic growth in British Columbia to be in the +0.5 to -0.8 per cent range in 1998. Current private sector forecasts on average anticipate that the economy will shrink 0.3 per cent this year.

The 1999 British Columbia outlook depends on a number of important, but as yet highly uncertain factors:

- The path of commodity prices.
- Consumer and business confidence.
- The extent of the economic recovery in Japan.

-
- Whether there are further currency devaluations in Asia.
 - The extent of restructuring in British Columbia's resource sector.

On the plus side, the consensus is that the North American economy should continue to expand about 2 per cent in 1999. In British Columbia, employment continues to grow and should end the year well above 1997 levels. With some recovery emerging in export markets, British Columbia growth should be in the 1.5 to 0.5 per cent range next year. Current private sector forecasts for 1999 average 0.7 per cent.

Table 1 Current Economic Statistics

	Latest Period	Year-to-Date Average			Change
		1997	1998		
BRITISH COLUMBIA					
LABOUR MARKET					
Employment (s.a., thousands).....	Nov./98	1,903	1,837	1,856	+1.0%
Male (3-month moving averages).....	Nov./98	1,008	1,000	994	-0.6%
Female (3-month moving averages).....	Nov./98	879	837	857	+2.1%
Unemployment rate (s.a., per cent).....	Nov./98	7.9	8.7	9.0	+0.3
Male (3-month moving averages).....	Nov./98	8.7	8.9	9.9	+1.0
Female (3-month moving averages).....	Nov./98	7.3	8.5	8.2	-0.3
In-migration.....	Q2/98	3,306	25,896	7,305	-71.8%
Wages and salaries (s.a., \$ millions).....	Sept./98	4,524	4,408	4,493	+1.9%
Average weekly earnings.....	Aug./98	617	615	617	+0.4%
CONSUMER SECTOR					
Retail sales (s.a., \$ million).....	Sept./98	2,765	2,800	2,781	-0.7%
Car and truck sales (units).....	Sept./98	12,358	13,657	12,541	-8.2%
Housing starts (all areas, s.a., annual rate).....	Oct./98	16,500	29,080	21,280	-26.8%
Existing home sales (s.a.).....	Oct./98	3,845	5,806	4,391	-24.4%
Building permits (s.a., \$ thousands).....	Oct./98	318	465	407	-12.6%
British Columbia consumer price index (annual per cent change).....	Oct./98	0.4	0.8	0.2	-0.6
INDUSTRIAL ACTIVITY					
Foreign merchandise exports (\$ million).....	Sept./98	2,217	2,275	2,100	-7.7%
Manufacturing shipments (s.a., \$ million).....	Sept./98	2,864	2,919	2,767	-5.2%
Lumber production (thousand cubic metres).....	Sept./98	2,748	2,713	2,533	-6.6%
Pulp and paper production (thousand tonnes).....	Sept./98	629	615	561	-8.8%
Coal production (thousand tonnes).....	Sept./98	2,205	2,291	2,164	-5.5%
Natural gas production (million cubic metres).....	Aug./98	1,830	1,866	1,939	+3.9%
Copper production (million kg).....	Aug./98	21.5	17.6	22.7	+29.0%
TOURISM					
Entries of U.S. and overseas residents (thousands)	Sept./98	836	671	713	+6.2%
B.C. Ferry passengers to/from Vancouver Island (thousands).....	Oct./98	862	1,014	979	-3.5%
COMMODITY PRICES					
Lumber (U.S.\$/thousand board feet).....	Nov./98	291	359	285	-20.6%
Pulp (U.S.\$/tonne).....	Nov./98	461	564	521	-7.6%
Newsprint (U.S.\$/tonne).....	Nov./98	600	556	595	+7.0%
Copper (U.S.\$/lb.).....	Nov./98	0.71	1.05	0.76	-27.6%
B.C. export commodity price index (Cdn.\$ Index: 1992 = 100).....	Q3/98	131.7	142.6	131.1	-8.0%
FINANCIAL DATA					
Canadian dollar (U.S. cents).....	Nov./98	64.9	72.4	67.7	-4.70
Canadian prime rate (per cent).....	Nov./98	6.88	4.85	6.65	+1.80
Canadian treasury bills (per cent).....	Nov./98	4.69	3.07	4.69	+1.62
Treasury bill spread — Canada minus U.S. (per cent).....	Nov./98	0.30	-1.98	-0.09	1.89

s.a. — seasonally adjusted.

PART TWO — FISCAL REPORT

Overview

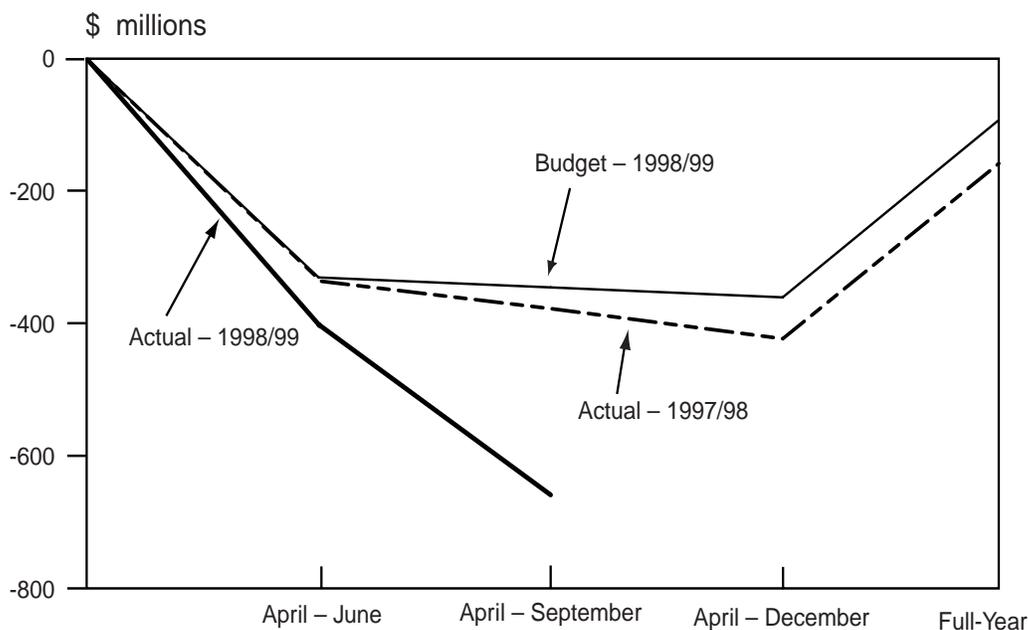
For the first six months of 1998/99, revenue was \$109 million below budget, at \$9,773 million.

Lower-than-budgeted revenue from taxation, natural resources and other revenue sources was partly offset by a \$65-million allocation of the full-year revenue budget allowance of \$130 million.

Expenditure of \$10,432 million was \$202 million above budget. This included \$107 million in unanticipated forest fire costs, plus higher-than-budgeted spending in the Ministries of Health and Children and Families, partially offset by budget management measures to reduce spending in other programs.

Year-to-Date Fiscal Balance by Quarter

Fiscal Years 1997/98 and 1998/99



Compared to the first half of 1997/98, revenue increased 0.4 per cent as higher revenue from the federal government, government enterprises and other revenue sources was partially offset by lower revenue from natural resources and taxation. Expenditure was up 3.1 per cent from the same period last year.

During the first six months of 1998/99, spending from the consolidated revenue fund exceeded revenues, resulting in a shortfall of \$659 million, \$311 million more than expected. However, 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. Although the government's spending normally tends to be relatively stable over the full year, unforeseen developments, such as severe forest fire seasons, can alter this pattern.

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

	Budget 1998 ¹ (\$ millions)	Actual 1998 (\$ millions)	Actual 1997 ² (\$ millions)	Increase (Decrease) ³ (\$ millions)
Revenue.....	9,882.4	9,773.4	9,738.8	(109.0)
Expenditure.....	10,230.8	10,432.3	10,116.7	201.5
Six month deficit.....	<u>(348.4)</u>	<u>(658.9)</u>	<u>(377.9)</u>	<u>(310.5)</u>
Net receipts (disbursements) from financing/ working capital transactions ⁴		618.1	211.9	
Decrease (increase) in cash and short-term investments.....		<u>(825.0)</u>	<u>(481.9)</u>	
Net decrease (increase) in provincial government direct debt ⁵		<u>(865.8)</u>	<u>(647.9)</u>	

¹ Figures reflect the six-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.

The provincial government financed the deficit and increased its cash balances by using net receipts from financing and working capital transactions and increasing direct debt. Government direct operating debt increased \$866 million in the first half of 1998/99 compared to a \$648-million increase in the same period last year (see Table 2). Government direct debt borrowing requirements tend to be higher in the first half of the fiscal year due to settlements of year-end liabilities of the previous year, as well as timing delays in the collection of certain revenue sources (e.g. dividends from Crown corporations). Details on the borrowing of the government and its Crown corporations and agencies are shown in Part Three — Borrowing Report.

Revenue

For the first six months of 1998/99, total revenue of \$9,773 million was \$109 million or 1.1 per cent below budget. Lower-than-expected revenue from social service, property transfer and personal income taxes, forests, and fees and licences was partially offset by higher-than-budgeted revenue from corporation capital tax, petroleum and natural gas, federal contributions and a \$65-million allocation of the full-year revenue budget allowance of \$130 million.

Table 3 Revenue by Source
for the Six Months Ended September 30, 1998
(Unaudited)

	Budget 1998 (\$ millions)	Actual 1998 (\$ millions)	Actual 1997 ¹ (\$ millions)	Increase (Decrease) ² (\$ millions)
Taxation:				
Personal income.....	2,710.0	2,675.3	2,644.8	(34.7)
Corporation income.....	592.4	592.4	575.5	—
Social service.....	1,698.2	1,622.2	1,671.9	(76.0)
Fuel.....	334.0	332.3	340.1	(1.7)
Tobacco.....	249.5	246.5	245.1	(3.0)
Property.....	664.6	664.6	644.2	—
Property transfer.....	174.9	128.7	173.9	(46.2)
Corporation capital.....	201.6	230.6	206.9	29.0
Other.....	140.0	131.7	134.2	(8.3)
Less commissions on collection of public funds.....	(13.0)	(12.7)	(12.7)	0.3
Natural resources:	6,752.2	6,611.6	6,623.9	(140.6)
Petroleum and natural gas:				
Natural gas royalties.....	60.4	72.8	57.3	12.4
Permits and fees.....	54.5	57.7	129.4	3.2
Petroleum royalties.....	36.6	33.8	40.6	(2.8)
	151.5	164.3	227.3	12.8
Minerals.....	22.5	22.3	21.9	(0.2)
Forests:				
Timber sales.....	365.2	332.9	397.4	(32.3)
Small Business Forest Enterprise Program.....	115.4	75.2	109.3	(40.2)
Logging tax.....	8.4	9.3	4.5	0.9
Other forests revenue.....	10.8	43.3	12.6	32.5
	499.8	460.7	523.8	(39.1)
Water rentals.....	150.4	163.7	163.2	13.3
Wildlife Act.....	9.6	9.1	9.4	(0.5)
	160.0	172.8	172.6	12.8
Less commissions on collection of public funds.....	(0.8)	(0.7)	(0.7)	0.1
	833.0	819.4	944.9	(13.6)

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 Six Months Ended September 30, 1998
(Unaudited)

	Budget 1998 (\$ millions)	Actual 1998 (\$ millions)	Actual 1997 ¹ (\$ millions)	Increase (Decrease) ² (\$ millions)
Other revenue:				
Medical Services Plan premiums.....	447.8	433.3	442.6	(14.5)
Motor vehicle licences and permits.....	173.9	172.9	170.3	(1.0)
Other fees and licences.....	202.2	182.4	195.1	(19.8)
Investment earnings.....	22.0	22.9	17.5	0.9
Fines and penalties.....	55.7	57.0	45.7	1.3
Miscellaneous.....	44.3	52.1	52.2	7.8
Asset dispositions.....	26.0	26.0	—	—
Less provision for doubtful accounts.....	(7.8)	(11.2)	—	(3.4)
Less commissions on collection of public funds.....	(37.3)	(37.1)	(37.0)	0.2
	<u>926.8</u>	<u>898.3</u>	<u>886.4</u>	<u>(28.5)</u>
Contributions from government enterprises:				
Liquor Distribution Branch income.....	320.5	319.8	314.7	(0.7)
British Columbia Lottery Corporation.....	193.0	190.1	120.3	(2.9)
Other.....	—	—	2.8	—
	<u>513.5</u>	<u>509.9</u>	<u>437.8</u>	<u>(3.6)</u>
Contributions from the Federal government:				
Canada health and social transfer.....	860.0	870.0	784.7	10.0
Other.....	62.1	64.2	61.1	2.1
	<u>922.1</u>	<u>934.2</u>	<u>845.8</u>	<u>12.1</u>
Less: Revenue Allowance.....	(65.2)	—	—	65.2
TOTAL REVENUE.....	<u>9,882.4</u>	<u>9,773.4</u>	<u>9,738.8</u>	<u>(109.0)</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.

Revenue was 0.4 per cent higher than in 1997/98, as higher contributions from the federal government, government enterprises and other revenue sources were partly offset by lower revenue from natural resources and taxation. Last year at this time, revenue was \$29 million or 0.3 per cent above budget.

- Taxation revenue of \$6,612 million was \$141 million below budget and 0.2 per cent lower than in the first six months of 1997/98. Personal income tax revenue was \$35 million below budget due to lower-than-anticipated personal income growth, but 1.2 per cent higher than last year. Corporation income tax was on budget and 2.9 per cent higher than last year due to higher federal instalment payments.

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- Revenue from social service tax was \$76 million below budget and 3.0 per cent lower than last year due to weak retail sales during the first half of the fiscal year. Fuel and tobacco tax revenues were slightly below budget due to lower consumption volumes. A weak housing market in the first half of the year resulted in property transfer tax revenue being \$46 million below budget. Corporation capital tax revenue was \$29 million above budget and 11.5 per cent higher than last year due to higher instalment payments and lower refunds. Other tax revenue was \$8 million below budget and 1.9 per cent lower than last year due to lower-than-expected collections of insurance premium and hotel room taxes.
 - Natural resource revenue of \$819 million was \$14 million below budget, or 13 per cent lower than in the same period in 1997/98. Petroleum and natural gas revenue was \$13 million above budget mainly due to higher-than-expected natural gas prices. However, revenue was 28 per cent lower than last year mainly due to lower sales of Crown land drilling rights. Minerals revenue was on budget and 1.8 per cent higher than a year ago.
 - Forest revenue was \$39 million below budget and 12 per cent lower than in the first half of last year. Revenue from timber sales and the small business forest enterprise program was \$73 million below budget due to lower-than-expected harvest volumes and stumpage rates. The expected positive effects of the stumpage rate reductions which took effect June 1, 1998, were more than offset by continued weakness in offshore markets. The decline in stumpage revenues in the first half was partly offset by higher-than-expected collections of other forests revenue. This included a \$28-million payment received from the federal government for softwood lumber export fees collected in 1997/98.
 - Revenue from water resources was \$13 million above budget due in part to additional sales of electricity received through the Columbia River Treaty.
 - Other revenue of \$898 million was \$29 million below budget but up 1.3 per cent from last year. The decline from budget was mainly due to lower revenue from other fees and licences and Medical Service Plan premiums.
 - Contributions from government enterprises of \$510 million were \$4 million below budget but 16 per cent higher than last year due to higher net income of the BC Lottery Corporation resulting from expanded gaming activities.
 - Federal government contributions of \$934 million were \$12 million above budget and 10.5 per cent higher than in the same period last year. Revenue from the Canada health and social transfer was \$10 million above budget (reflecting the effect of lower personal income tax revenue) and 10.9 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 \$2 million above budget due to earlier-than-expected federal recoveries under various cost-shared programs.
 - A revenue allowance of \$130 million was included in the 1998/99 budget to provide a cushion corresponding to real economic growth 0.6 percentage points lower than the 0.9 per cent growth forecast for 1998. The six-month revenue budget includes an allocation of \$65 million from the full-year allowance, which partially offsets the shortfall of \$174 million from individual revenue sources. This results in overall revenue being \$109 million below budget.

Expenditure

At \$10,432 million, spending for the first six months of the fiscal year was \$202 million above budget. This included \$107 million in higher-than-budgeted spending for forest fire fighting, plus increased spending in the Ministries of Health and Children and Families, partially offset by lower-than-budgeted spending in nine of the 19 ministries. Spending for the first six months was 3.1 per cent higher than comparable spending for the same period last year.

- Ministry of Forests expenditure of \$343 million was \$100 million above budget — and 48 per cent higher than last year — due to higher-than-expected forest fire fighting expenditures. 1998 was one of the worst fire seasons on record. At the end of September, direct fire fighting costs exceeded \$130 million, \$107 million higher than budget. This was partially offset by below-budget spending in other areas.
- Spending by the Ministry of Advanced Education, Training and Technology of \$788 million was \$8 million below budget mainly due to slower-than-expected expenditures through the Science and Technology special account. Ministry spending was \$6 million lower than last year as lower spending for capital debt servicing was partially offset by higher spending for educational institutions and organizations, and skills development.
- Ministry of Agriculture and Food expenditure was below budget, but 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 \$704 million was \$32 million above budget mainly because of higher-than-planned expenditures for residential services for children, youth, and disabled adults. Ministry spending rose 6.7 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 \$2,226 million was \$13 million above budget mainly due to higher-than-budgeted expenditures for the Education Plus initiative. Public school operating contributions increased \$73 million from last year due to higher enrolments, funding-per-pupil increases and earlier payments this year. Other education spending for school support was \$18 million lower than last year due to earlier spending in the first half of last year.
- Ministry of Employment and Investment expenditure of \$99 million was \$10 million below budget, but \$50 million higher than last year due to earlier spending for housing programs.
- Ministry of Energy and Mines expenditure was \$5 million below budget, but 15 per cent higher than last year mainly due to increased contributions to the British Columbia Ferry Corporation (up \$15 million), partly offset by reduced spending for the Kemess mine project.
- Ministry of Finance and Corporate Relations spending was on budget and \$18 million higher than last year due to earlier contributions to BC Transit.
- Expenditure of the Ministry of Health of \$3,628 million was \$101 million above budget and 2.9 per cent higher than last year. Acute and continuing care programs were \$105 million above budget due to earlier-than-expected disbursements to regional health boards and higher-than-expected costs to establish the new Canadian Blood Services agency. Other programs above budget included emergency health services, Pharmacare, adult mental health, and the Medical Services Plan. These increases were partially offset by reduced spending for capital debt servicing and corporate services.

Table 4 Expenditure by Ministry
for the Six Months Ended September 30, 1998
(Unaudited)

	Budget 1998 (\$ millions)	Actual 1998 (\$ millions)	Actual 1997 ¹ (\$ millions)	Increase (Decrease) ² (\$ millions)
Legislation	16.0	15.9	15.2	(0.1)
Auditor General	3.5	3.5	3.6	—
Office of the Child, Youth and Family Advocate	0.6	0.5	0.5	(0.1)
Conflict of Interest Commissioner	0.1	0.1	0.1	—
Elections B.C.	3.4	2.3	2.2	(1.1)
Information and Privacy Commissioner	1.2	1.1	1.2	(0.1)
Ombudsman	2.3	2.2	2.1	(0.1)
Office of the Premier	1.1	1.1	1.1	—
Aboriginal Affairs	12.4	12.5	13.5	0.1
Advanced Education, Training and Technology				
Educational institutions and organizations	551.8	548.8	536.8	(3.0)
Other	244.3	239.5	257.8	(4.8)
Total	796.1	788.3	794.6	(7.8)
Agriculture and Food	39.7	37.9	24.7	(1.8)
Attorney General	442.7	443.4	440.9	0.7
Children and Families	671.9	703.6	659.5	31.7
Education				
Public school operating contributions	1,922.8	1,933.5	1,861.0	10.7
Other	289.8	292.4	310.2	2.6
Total	2,212.6	2,225.9	2,171.2	13.3
Employment and Investment	109.5	99.1	49.5	(10.4)
Energy and Mines	38.8	33.9	29.5	(4.9)
Environment, Lands and Parks	95.3	92.9	94.3	(2.4)
Finance and Corporate Relations	193.7	192.9	175.1	(0.8)
Fisheries	10.0	10.6	8.3	0.6
Forests	242.7	343.1	231.6	100.4
Health				
Acute and continuing care	1,945.6	2,050.1	1,946.3	104.5
Other	1,581.1	1,577.5	1,578.0	(3.6)
Total	3,526.7	3,627.6	3,524.3	100.9
Human Resources	775.9	780.0	818.7	4.1
Labour	23.8	24.0	21.4	0.2
Municipal Affairs	138.3	132.8	144.6	(5.5)
Small Business, Tourism and Culture	43.1	43.4	49.6	0.3
Transportation and Highways	233.5	228.9	252.0	(4.6)
Women's Equality	19.4	19.1	19.3	(0.3)

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 Six Months Ended September 30, 1998
(Unaudited)

	Budget 1998 (\$ millions)	Actual 1998 (\$ millions)	Actual 1997 ¹ (\$ millions)	Increase (Decrease) ² (\$ millions)
Other Appropriations:				
Management of Public Funds and Debt	444.3	439.2	415.8	(5.1)
Contingencies (All Ministries)	—	0.1	—	0.1
BC Benefits	134.0	135.7	150.2	1.7
Corporate Accounting System	5.6	5.3	3.6	(0.3)
Environmental Assessment and Land Use Coordination	8.5	4.6	5.2	(3.9)
Environmental Boards and Forest Appeals Commission	1.1	0.7	0.5	(0.4)
Forest Practices Board	2.4	2.1	2.2	(0.3)
Office of the Police Complaints Commissioner	0.4	0.3	—	(0.1)
Public Sector Employers' Council	1.7	1.0	0.8	(0.7)
Public Service Employee Relations Commission	3.9	3.9	4.1	—
Insurance and Risk Management	0.6	3.6	3.1	3.0
Purchasing Commission Working Capital Account	5.8	1.9	0.6	(3.9)
Industry Training and Apprenticeship Commission	—	(0.9)	—	(0.9)
Amortization of Change in Unfunded Pension Liability	(31.8)	(31.8)	(18.0)	—
TOTAL EXPENDITURE	10,230.8	10,432.3	10,116.7	201.5

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 Human Resources expenditure of \$780 million was \$4 million above budget due to higher-than-expected expenditures for income assistance. However, expenditure was \$39 million or 4.7 per cent lower than last year due to a decline in the caseload. In the first six months of 1998/99, the caseload was down 6.6 per cent from the same period last year due to the success of caseload reduction initiatives and early intervention programs.
- Ministry of Small Business, Tourism and Culture spending was 13 per cent lower than last year. This reflects the assumption of tourism development and marketing programs by the Tourism BC agency, and various managed program reductions.
- Management of public funds and debt spending of \$439 million was \$23 million higher than last year because of higher interest rates and borrowing requirements (see Part Three — Borrowing Report for more information).
- Other ministries and agencies were a total of \$18 million below budget, with three ministries, Environment, Lands and Parks; Municipal Affairs; and Transportation and Highways accounting for \$13 million of the underexpenditure.

Fiscal Outlook

The government is facing some difficult challenges due to the economic slowdown, unexpectedly high forest fire fighting costs, and emerging demand and other pressures in the Ministries of Health and Children and Families.

Although revenue in the first half of the year was weaker than expected, a number of the tax reduction measures announced in the 1998 budget should help provide a positive stimulus to the economy when they take effect on January 1, 1999. In addition, the government now expects to receive about \$150 million of additional revenue from the Canada health and social transfer as a result of recent revisions to population estimates from Statistics Canada.

The government has initiated further expenditure management measures in order to reduce administrative and overhead costs during the remainder of the year.

PART THREE — BORROWING REPORT

Overview

- At September 30, 1998, provincial net debt totalled \$31,135 million. Taxpayer-supported debt accounted for \$22,765 million of this total, while self-supported debt accounted for \$8,370 million. These amounts incorporate the final audited results for 1997/98.
- During the six months ended September 30, 1998, total government, Crown corporation and agency net debt increased \$952 million. The increase in net debt was mainly due to increases in government direct operating debt, and in the debt of commercial and economic development Crown corporations and agencies. These increases were partially offset by reductions in the debt of social and government services Crown corporations and agencies, and debt for education capital financing purposes. During the same period last year, there was a \$755-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 \$786 million through the first six months of 1998/99. This compares to a \$705-million increase in same period last year.

Taxpayer-supported debt

- *Provincial government direct operating debt* — up \$866 million as new borrowing of \$1,648 million (\$1,920 million long-term offset by a \$272-million reduction in short-term) was partially offset by retirement provisions (including sinking fund contributions, sinking fund earnings and debt maturities) totalling \$782 million. The \$866-million increase in direct debt was used to help finance the six-month deficit of \$659 million, while the remainder was borrowed to meet expected requirements later in the year. At September 30, 1998, provincial government direct operating net debt totalled \$12,339 million.
- *Education capital financing debt* — down \$24 million as new borrowing of \$137 million was more than offset by retirement provisions totalling \$161 million. At September 30, 1998, education capital financing net debt totalled \$4,328 million.
- *Economic development Crown corporations and agencies* — up \$109 million as new net borrowing by the BC Transportation Financing Authority (up \$84 million), BC Ferries (up \$52 million) and BC Transit (up \$21 million) was partially offset by a decrease in the net debt of the BC Housing Management Commission (down \$48 million). At September 30, 1998, economic development Crown corporation net debt totalled \$3,627 million.
- *Social and government services Crown corporations and agencies* — down \$160 million mainly due to reduced net debt of BC Buildings (down \$95 million) and the hospital financing authority (down \$60 million, net of its related short-term financing debt under the capital project certificate of approval program). Debt of the BC Assessment Authority decreased \$5 million. At September 30, 1998, social and government services Crown corporation net debt totalled \$1,997 million.

Capital Spending

- Taxpayer-supported debt includes borrowing for capital projects such as schools, hospitals, ferries, roads, transit and other infrastructure. These investments provide essential services for today and will also benefit future generations of British Columbians. As well as meeting the infrastructure needs of the province, capital spending also assists in stimulating the economy. As part of the 1998/99 budget, the provincial government set a capital spending target of \$1.25 billion. The target has been increased to \$1.5 billion, primarily as a result of the decision to accelerate the construction of the Sky Train extension.
- During the first six months of 1998/99, capital spending totalled \$528 million.
- Education, health and justice facilities capital spending totalled \$194 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;
 - Phoenix Middle School in Campbell River — addition and renovations;
 - Alexis Creek Elementary/Secondary — school replacement construction;
 - South Newton Area Secondary in Surrey — new school construction;
 - Rutland Senior Secondary in Kelowna — addition and renovations;
 - 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;
 - Zion Park Manor in Surrey — construction;
 - Juan de Fuca Priory Hospital in Victoria — construction of 75 multi-level care beds;
 - Bulkley Lodge in Smithers — upgrading;
 - St. George's General Hospital in Alert Bay — replacement planning; and
 - Vancouver Provincial Court — expansion construction.
- Transportation capital spending totalled \$333 million, including:
 - Highway 1 in Salmon Arm and Kamloops — four-laning and frontage road construction;
 - Highway 1 in Burnaby and Coquitlam — high occupancy vehicle lane construction;
 - Highway 97 in McLeod Lake (Honeymoon Creek to Bijoux Falls) — reconstruction;
 - 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.
- Capital spending in the first six months 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 last year; and new borrowing in the current year as summarized in the previous section and in Table 5.

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

Six Months Ended September 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.....	1,647.8	782.0	865.8	12,339.2	647.9
Education capital financing purposes					
Schools.....	118.7	91.4	27.3	3,017.5	38.0
Post-secondary institutions.....	18.5	69.8	(51.3)	1,310.4	(32.4)
	137.2	161.2	(24.0)	4,327.9	5.6
Total provincial government direct.....	1,785.0	943.2	841.8	16,667.1	653.5
Economic development					
Crown corporations and agencies					
British Columbia Ferry Corporation.....	103.9	51.6	52.3	847.5	(1.4)
BC Transportation Financing Authority	200.0	116.4	83.6	1,167.7	100.6
British Columbia Transit.....	144.0	123.5	20.5	1,599.0	0.5
Other ⁶	(47.1)	0.4	(47.5)	12.4	24.9
	400.8	291.9	108.9	3,626.6	124.6
Social and government services					
Crown corporations and agencies					
British Columbia Assessment Authority.....	(4.8)	—	(4.8)	—	(6.2)
British Columbia Buildings Corporation.....	(43.9)	51.1	(95.0)	639.9	(42.4)
British Columbia Regional Hospital Districts Financing Authority.....	—	112.5	(112.5)	1,265.0	4.9
Capital project certificate of approval program.....	52.4	—	52.4	91.9	(21.6)
British Columbia Systems Corporation ⁷	—	—	—	—	(0.9)
	3.7	163.6	(159.9)	1,996.8	(66.2)

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 outstanding debt at March 31, 1998 (based on the 1997/98 *Public Accounts*) 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 1997 have been restated to conform with the presentation used for 1998.

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 Provincial Rental Housing Corporation, BC Transportation Financing Authority, Pacific National Exhibition, British Columbia Ferry Corporation, Okanagan Valley Tree Fruit Authority and British Columbia Transit that is not guaranteed by the provincial government.

¹⁰ Includes debt of the British Columbia Lottery Corporation, Liquor Distribution Branch, British Columbia Railway Company, Columbia Basin Power Company and 552513 British Columbia Ltd. (Skeena Cellulose Inc.) 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*

Six Months Ended September 30 (Unaudited)	1998			1997	
	New Borrowing ²	Retirement Provision ³	Net Change (\$ millions)	Total Net Debt Outstanding ⁴	Net Change
Other fiscal agency loans⁸	<u>(0.5)</u>	<u>4.2</u>	<u>(4.7)</u>	<u>143.0</u>	<u>(6.5)</u>
Other guarantees	<u>—</u>	<u>—</u>	<u>—</u>	<u>199.5</u>	<u>—</u>
Non-guaranteed debt⁹	<u>—</u>	<u>—</u>	<u>—</u>	<u>131.6</u>	<u>—</u>
Total taxpayer-supported debt	<u>2,189.0</u>	<u>1,402.9</u>	<u>786.1</u>	<u>22,764.6</u>	<u>705.4</u>
Self-supporting debt					
Commercial Crown corporations and agencies:					
British Columbia Hydro and Power Authority.....	812.1	699.6	112.5	7,346.1	44.8
British Columbia Railway Company.....	54.6	5.2	49.4	537.2	104.6
552513 British Columbia Ltd. (Skeena Cellulose Inc.).....	0.9	—	0.9	65.5	—
Columbia Power Corporation.....	3.6	—	3.6	3.6	—
	<u>871.2</u>	<u>704.8</u>	<u>166.4</u>	<u>7,952.4</u>	<u>149.4</u>
Warehouse borrowing program	<u>—</u>	<u>—</u>	<u>—</u>	<u>211.5</u>	<u>(100.0)</u>
Non-guaranteed debt¹⁰	<u>—</u>	<u>—</u>	<u>—</u>	<u>206.3</u>	<u>—</u>
Total self-supporting debt	<u>871.2</u>	<u>704.8</u>	<u>166.4</u>	<u>8,370.2</u>	<u>49.4</u>
Total provincial debt	<u>3,060.2</u>	<u>2,107.7</u>	<u>952.5</u>	<u>31,134.8</u>	<u>754.8</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 outstanding debt at March 31, 1998 (based on the 1997/98 *Public Accounts*) 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 1997 have been restated to conform with the presentation used for 1998.

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 Provincial Rental Housing Corporation, BC Transportation Financing Authority, Pacific National Exhibition, British Columbia Ferry Corporation, Okanagan Valley Tree Fruit Authority and British Columbia Transit that is not guaranteed by the provincial government.

¹⁰ Includes debt of the British Columbia Lottery Corporation, Liquor Distribution Branch, British Columbia Railway Company, Columbia Basin Power Company and 552513 British Columbia Ltd. (Skeena Cellulose Inc.) that is not guaranteed by the provincial government.

Self-supporting debt

- *Commercial Crown corporations and agencies* — up \$166 million mainly due to increased debt of BC Hydro (up \$113 million) and BC Rail (up \$49 million). At September 30, 1998, commercial Crown corporation and agency net debt totalled \$7,952 million.
- *Warehouse borrowing program* — debt held under the warehouse borrowing program totalled \$212 million at September 30, 1998 (unchanged 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.

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:

Insurance Corporation of British Columbia (Table 16)

- The corporation reported net income of \$129 million for the nine months ended September 30, 1998, compared to a net loss of \$82 million from the same period last year.
- In the third year of a premium freeze, vehicle premium revenue increased 3.4 per cent, with additional sales of Autoplan policies and higher coverage sold through Autoplan 12 financing.
- Claims costs fell 9.3 per cent. Increased spending in road safety programs, in motor vehicle driver and vehicle operations, and the mild winter at the start of the year contributed to reduced costs and a 2.5-per-cent drop in the number of claims reported — last year at this time, there was a 7.3-per-cent increase. Year-to-date claims cost information is preliminary and may change later in the year based on claims trends.
- Operating expenses rose 8.7 per cent mainly due to increased commissions and premium taxes resulting from higher premium revenue, and increased costs for licensing operations and computers. Investment income increased \$37 million due to higher returns on the corporation's investment portfolio.

British Columbia Ferry Corporation (Table 7)

- The corporation reported net income of \$20 million for the six months ended September 30, 1998, up \$8 million from the same period last year. The six-month results reflect the seasonally higher activity that typically occurs during the summer months.
- Although traffic volumes were down 2.2 per cent for vehicles and 1.7 per cent for passengers from last year, toll revenues increased 4.6 per cent mainly due to a tariff increase in November 1997.
- Operating expenses rose 4.7 per cent, mainly due to higher labour and financing costs, partially offset by lower fuel costs. Labour costs increased 6.0 per cent due to the operation of the new Duke Point terminal, changes to the collective agreement, and increased ferry utilization. Interest costs rose 32 per cent because of higher debt outstanding to finance construction of new vessels and terminals. Fuel costs dropped 16 per cent due to declining diesel fuel prices.
- A \$10-million increase in the provincial operating grant also contributed to the improvement in the first half compared to last year.

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

- BC Hydro reported net income of \$167 million for the six months ended September 30, 1998. This was up \$22 million from the same period last year, primarily due to increased revenue from electricity trade and large industrial customers. These factors were partially offset by increases in energy, finance and operations, maintenance and administration costs.
- Domestic revenues increased by 2.4 per cent mainly due to the ending of the strike at Fletcher Challenge in April 1998, and the addition of three new mining customers. Electricity trade revenue increased \$343 million from last year due to increased volumes and higher average sales prices.
- Energy costs rose \$312 million due to increased energy purchases, higher U.S. transmission costs resulting from increased electricity trade activity, and higher short-term energy purchase prices which more than doubled from last year.
- Operations, maintenance and administration expenses were \$15 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 6.9 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 \$205 million for the first six months ended September 26, 1998, up 66 per cent from last year.
- Lottery sales revenue increased \$157 million because of higher sales of traditional lottery products and the introduction of casino and electronic bingo operations. Sales of Lotto 6/49 and BC/49 rose \$26 million from last year due to a higher number of large jackpots. Sales from the introduction of casino operations were \$119 million, while electronic bingo operations added sales of \$17 million.
- Direct costs rose \$63 million in response to higher sales. Other expenses increased \$13 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 \$16 million for the nine months ended September 30, 1998, down \$14 million from the same period last year.
- Operating revenue decreased 5.3 per cent mainly due to reduced rail traffic from forest products and coal. Vancouver Wharves revenue dropped \$4 million or 7.0 per cent due to a 24-per-cent reduction in tonnage handled, mainly in potash volumes. The sale of Westel on July 31, 1998 also contributed to reduced revenues compared to 1997. Improved rent revenues from building acquisitions and developments in BCR Properties partially offset the revenue reductions.

-
- Total operating expenses were unchanged from 1997. Equipment, road maintenance and operation expenses were lower than last year due to reduced freight traffic. Administration and general expenses increased 6.0 per cent due to higher group insurance and telecommunications costs. Depreciation expense increased 3.2 per cent due to the purchase of additional capital assets, while interest expense decreased 1.5 per cent due to reduced interest rates. A 43-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 six months of the fiscal year totalled \$222 million, up \$6 million or 2.9 per cent from the same period last year.
- Revenue increased 3.5 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 0.7-per-cent decline in ridership.
- Expenditures increased \$10 million 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.

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

	Estimated 1998 (\$000)	1997 (\$000)	Increase (Decrease) (Per cent)
Gross revenues	222,287	211,685	5.0
Expenses:			
Operations, maintenance and administration	64,665	61,944	4.4
Lease costs	68,952	71,252	(3.2)
Client requested projects	14,737	9,016	63.5
Depreciation and amortization	25,731	23,577	9.1
Interest, net	29,716	30,374	(2.2)
	<u>203,801</u>	<u>196,163</u>	3.9
Income before gain on disposals	18,486	15,522	19.1
Gain on disposals	827	4,424	(81.3)
Net income	<u>19,313</u>	<u>19,946</u>	(3.2)

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

	Estimated 1998 (\$000)	1997 (\$000)	Increase (Decrease) (Per cent)
Operating revenues:			
Tolls.....	188,843	180,566	4.6
Catering and other income.....	41,158	40,926	0.6
Federal coastal ferry contract.....	11,020	10,965	0.5
	<u>241,021</u>	<u>232,457</u>	3.7
Operating expenses:			
Salaries, wages and benefits.....	120,895	114,075	6.0
Fuel.....	17,563	20,868	(15.8)
Cost of food and goods sold.....	14,629	15,114	(3.2)
Repair and maintenance.....	11,429	10,970	4.2
Materials and supplies.....	10,346	8,996	15.0
Net financing expense.....	20,906	15,815	32.2
Professional, computer and other.....	10,519	11,788	(10.8)
Insurance, taxes, utilities.....	4,882	4,469	9.2
Amortization.....	21,862	20,423	7.0
	<u>233,031</u>	<u>222,518</u>	4.7
Income from operations.....	7,990	9,939	(19.6)
Provincial operating grant ¹	12,000	2,350	—
Net income ²	<u>19,990</u>	<u>12,289</u>	62.7

¹ As at September 30, 1998, the corporation received \$18 million of its annual subsidy from the provincial government. Of this total, \$12 million has been allocated to the first six months of the year.

² Historically, British Columbia Ferry Corporation carries about 61 per cent of its passenger load volumes during the April 1 to September 30 period. This results in the corporation receiving more of its revenue during the first half of the year.

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

	Estimated 1998 (\$ millions)	1997 (\$ millions)	Increase (Decrease) (Per cent)
Revenues:			
Residential.....	343	339	1.2
Light industrial and commercial.....	399	396	0.8
Large industrial.....	241	221	9.0
Other energy sales and miscellaneous.....	42	45	(6.7)
Total domestic.....	1,025	1,001	2.4
Electricity trade ¹	466	123	—
	<u>1,491</u>	<u>1,124</u>	32.7
Expenses:			
Energy costs.....	577	265	—
Operations, maintenance and administration.....	187	172	8.7
Taxes.....	86	92	(6.5)
Depreciation.....	163	159	2.5
	<u>1,013</u>	<u>688</u>	47.2
Income before finance charges.....	478	436	9.6
Finance charges.....	(311)	(291)	6.9
Net income.....	<u>167</u>	<u>145</u>	15.2

¹ 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 Six Months Ended September 26, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 (\$000)	Increase (Decrease) (Per cent)
Lottery sales.....	577,181	419,685	37.5
Direct costs:			
Prizes.....	243,837	224,894	8.4
Retailer commissions.....	70,397	26,115	—
Direct supplies.....	7,292	7,322	(0.4)
	<u>321,526</u>	<u>258,331</u>	24.5
Sales less direct costs.....	255,655	161,354	58.4
Other expenses:			
Operating.....	32,565	25,405	28.2
Amortization.....	10,155	5,469	85.7
Goods and services tax.....	7,456	6,754	10.4
	<u>50,176</u>	<u>37,628</u>	33.3
Net income.....	<u>205,479</u>	<u>123,726</u>	66.1
Allocation of net income:			
Government of British Columbia.....	202,015	120,296	67.9
Government of Canada.....	3,464	3,430	1.0
	<u>205,479</u>	<u>123,726</u>	66.1

Table 10 British Columbia Pavilion Corporation
Income Statement
for the Six Months Ended September 30, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 (\$000)	Increase (Decrease) (Per cent)
Revenue from operations.....	11,302	12,781	(11.6)
Direct event costs.....	5,114	6,360	(19.6)
Gross margin.....	6,188	6,421	(3.6)
Facility costs:			
Administration.....	859	825	4.1
Operations and fees.....	2,120	2,706	(21.7)
Staffing.....	3,839	3,386	13.4
Business development.....	377	468	(19.4)
Depreciation.....	2,063	2,093	(1.4)
	9,258	9,478	(2.3)
Net operating income (loss).....	(3,070)	(3,057)	0.4
Province of British Columbia subsidy ¹	1,007	964	4.5
Net income (loss).....	(2,063)	(2,093)	(1.4)

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 Nine Months Ended September 30, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 ² (\$000)	Increase (Decrease) (Per cent)
Operating revenue.....	306,029	323,041	(5.3)
Expenses:			
Operations.....	89,769	90,437	(0.7)
Equipment maintenance.....	59,844	61,933	(3.4)
Road maintenance.....	32,600	33,382	(2.3)
Depreciation.....	48,407	46,926	3.2
Administration and general.....	32,151	30,344	6.0
	262,771	263,022	(0.1)
Operating income.....	43,258	60,019	(27.9)
Interest expense.....	(23,672)	(24,023)	(1.5)
Capital and income taxes.....	(3,107)	(5,440)	(42.9)
Net income.....	16,479	30,556	(46.1)

¹ This statement shows the consolidated results of the British Columbia Railway Company, BCR Properties Ltd., BC Rail Ltd., Vancouver Wharves Ltd., BCR Leasing (US) Inc., BCR Ventures Inc. and Westel Telecommunications Ltd. until it was sold on July 31, 1998.

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

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

	Estimated 1998 (\$000)	1997 ¹ (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Fees	14,289	11,653	22.6
Administrative penalties	66	45	46.7
Interest income	594	317	87.4
	<u>14,949</u>	<u>12,015</u>	24.4
Expenditures:			
Salaries and benefits	4,843	4,580	5.7
Contract services	575	532	8.1
Building occupancy	369	296	24.7
General	369	321	15.0
Securities Fraud Office	481	500	(3.8)
Depreciation	315	300	5.0
Systems operating and communication	252	135	86.7
Travel	141	126	11.9
Information systems development	269	299	(10.0)
	<u>7,614</u>	<u>7,089</u>	7.4
Net income	7,335	4,926	48.9
Operating surplus, beginning of year	15,652	9,361	67.2
Operating surplus, end of period	<u>22,987</u>	<u>14,287</u>	60.9

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

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

	Estimated 1998 (\$000)	1997 ¹ (\$000)	Increase (Decrease) (Per cent)
Revenue	<u>103,888</u>	<u>100,422</u>	3.5
Expenditures:			
Operations	141,560	134,413	5.3
Maintenance	48,458	47,696	1.6
Administration	27,869	26,087	6.8
Interest	83,821	83,862	—
Depreciation and amortization	19,078	18,648	2.3
Property leases and taxes	5,080	5,436	(6.5)
Total expenditure	<u>325,866</u>	<u>316,142</u>	3.1
Net expenditure	<u>221,978</u>	<u>215,720</u>	2.9
Recoveries:			
Contribution from the Province of British Columbia ²	146,464	143,601	2.0
Contributions from participating municipalities	73,751	70,250	5.0
Other ³	1,763	1,869	(5.7)
	<u>221,978</u>	<u>215,720</u>	2.9

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 Six Months Ended September 30, 1998
 (Unaudited)

	Estimated 1998 (\$000)	1997 (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Dedicated revenue ²	63,245	60,998	3.7
Other ³	1,153	1,204	(4.2)
	<u>64,398</u>	<u>62,202</u>	3.5
Expenditures:⁴			
Operations and administration ⁵	10,586	10,152	4.3
Grant programs ⁶	678	1,167	(41.9)
Amortization	15,277	8,933	71.0
Interest ⁷	34,161	12,958	—
	<u>60,702</u>	<u>33,210</u>	82.8
Net Income	<u>3,696</u>	<u>28,992</u>	(87.3)

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 six months of 1998/99, the authority undertook \$204.2 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 \$8.4 million in 1998 (1997 — \$8.3 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 Six Months Ended September 30, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 ¹ (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Statutory revenue ^{2,3}	46,235	157,127	(70.6)
Investment income	23,202	31,193	(25.6)
	<u>69,437</u>	<u>188,320</u>	(63.1)
Cost of Services:			
Project expenditures	156,666	166,399	(5.8)
Administration	9,533	10,518	(9.4)
	<u>166,199</u>	<u>176,917</u>	(6.1)
Net income (loss)	(96,762)	11,403	—
Unappropriated surplus, beginning of period	293,972	451,112	(34.8)
	197,210	462,515	(57.4)
Net transfer to reserve for multi-year agreements	(144,929)	—	—
Unappropriated surplus, end of period	<u>52,281</u>	<u>462,515</u>	(88.7)

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 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 Nine Months Ended September 30, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 ¹ (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Vehicle premiums earned.....	1,763,144	1,705,880	3.4
Driver premiums earned.....	13,190	15,057	(12.4)
	<u>1,776,334</u>	<u>1,720,937</u>	3.2
Expenses:			
Claims costs:			
Claims incurred.....	1,478,792	1,654,332	(10.6)
Claims operations expense.....	162,164	155,485	4.3
	<u>1,640,956</u>	<u>1,809,817</u>	(9.3)
Traffic and commercial vehicle safety programs and operations.....	51,380	22,810	—
Operating expenses:			
Administration.....	78,410	65,906	19.0
Commissions.....	128,283	119,204	7.6
Premium taxes.....	71,053	68,837	3.2
Software development.....	5,180	6,384	(18.9)
	<u>282,926</u>	<u>260,331</u>	8.7
Total expenses.....	<u>1,975,262</u>	<u>2,092,958</u>	(5.6)
	(198,928)	(372,021)	(46.5)
Investment income.....	327,551	290,515	12.7
Net income (loss).....	128,623	(81,506)	—
Retained earnings, beginning of period.....	224,289	210,304	—
Retained earnings, end of period.....	<u>352,912</u>	<u>128,798</u>	—

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

Table 17 **Liquor Distribution Branch**
Income Statement
for the Six Months Ended September 26, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 (\$000)	Increase (Decrease) (Per cent)
Sales:			
Provincial liquor sales.....	847,756	826,402	2.6
Less: Discounts and commissions.....	(23,875)	(22,757)	4.9
Net sales.....	823,881	803,645	2.5
Cost of sales.....	(420,684)	(409,004)	2.9
Gross profit.....	403,197	394,641	2.2
Operating expenses.....	(84,903)	(81,743)	3.9
Net operating income.....	318,294	312,898	1.7
Other income.....	1,527	1,823	(16.2)
Net income ¹	319,821	314,721	1.6

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 Six Months Ended September 30, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 ¹ (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Provincial contribution.....	2,000	2,000	—
Investment and miscellaneous income	42	138	(69.6)
	<u>2,042</u>	<u>2,138</u>	(4.5)
Expenditures:			
Orchard renovation program.....	1,571	2,632	(40.3)
Transition production adjustment program	—	4	(100.0)
Sterile insect release program.....	650	100	—
Operating and other programs.....	92	133	(30.8)
	<u>2,313</u>	<u>2,869</u>	(19.4)
Surplus (deficit) for the period	(271)	(731)	(62.9)
Retained earnings, beginning of period.....	263	1,483	(82.3)
Retained earnings, end of period.....	<u>(8)</u>	<u>752</u>	—

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

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

	Estimated 1998 (\$000)	1997 (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Rent and other	1,502	1,489	0.9
Interest	121	83	45.8
	<u>1,623</u>	<u>1,572</u>	3.2
Expenditure:			
Operating	1,210	1,021	18.5
Surplus for the period	413	551	(25.0)
Unappropriated surplus, beginning of period	3,614	3,396	6.4
Unappropriated surplus, end of period	<u>4,027</u>	<u>3,947</u>	2.0

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