



BRITISH
COLUMBIA

Quarterly Report

April to December 1998





Ministry of Finance and Corporate Relations

Third Quarterly Report

on the Economy, Fiscal Situation and Crown Corporations

Fiscal Year 1998/99
Nine Months
April – December 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 Third 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 nine months ended December 31, 1998, compared to budget. Part Three provides information on the debt and capital spending of the provincial government and its Crown corporations and agencies as of December 31, 1998. Part Four provides interim financial statements of provincial Crown corporations for the period ended nearest to December 31, 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

- The British Columbia economy generated large increases in employment in the fourth quarter of 1998 and January 1999.
- The unemployment rate is close to cyclical lows.
- Exports and manufacturing shipments improved in the last quarter of 1998.
- Commodity prices have come under renewed pressure due to upheavals in emerging markets.
- Retail spending remained sluggish through November. Housing starts and sales continued to deteriorate through year-end.
- Forecasters participating in the Minister of Finance's economic conference estimate that, on average, real GDP contracted 0.5 per cent in 1998. They expect zero growth in 1999 and a 1.3 per cent increase in real GDP in 2000.

Fiscal — 1998/99

- Results for the first nine months of the fiscal year were weaker than budget, due to lower-than-expected revenues and higher-than-anticipated spending.
- Revenue totalled \$14.8 billion in the first nine months of 1998/99, \$122 million or 0.8 per cent below budget. The decline from budget was caused by weaker-than-expected revenue from taxation, natural resources, and other sources.
- Spending at \$15.5 billion was \$179 million or 1.2 per cent above budget. This included \$114 million in higher-than-budgeted spending for forest fire fighting, plus increased spending of \$180 million in the Ministries of Health, Children and Families and Human Resources, partially offset by lower-than-budgeted spending in 11 of the 19 ministries.
- Lower-than-planned revenue and higher-than-anticipated spending resulted in a \$666-million shortfall in the first three quarters of the fiscal year, \$301 million more than expected.
- The year-end deficit is expected to be in the \$500 to \$600 million range due to reduced revenues, spending pressures in the Ministries of Health and Children and Families, and forest fire fighting costs.

Debt

- As of December 31, 1998, total provincial net debt was \$31,961 million, up \$1,779 million from March 31, 1998.

- Taxpayer-supported debt accounted for \$22,862 million of this total, showing an increase of \$884 million from the beginning of the year.
 - Direct operating debt totalled \$11,762 million, up \$289 million from March 31, 1998.
 - Other taxpayer-supported debt totalled \$11,100 million, up \$595 million from March 31, 1998.
- Commercial and other self-supporting debt, including the warehouse borrowing program, totalled \$9,099 million, up \$895 million from March 31, 1998.

Crown Corporations

The unaudited operating results of Crown corporations and agencies for their most recent reporting period ending December 31, 1998 show:

- British Columbia Ferry Corporation reported a net loss of \$9 million, down \$6 million from the same period last year.
- British Columbia Hydro and Power Authority reported net income of \$319 million, down \$11 million from the same period last year mainly due to increased energy costs, partially offset by increased revenue from electricity trade and large industrial customers.
- British Columbia Lottery Corporation reported net income of \$324 million, up \$114 million from last year due to expanded gaming activities.
- Net income from the British Columbia Railway Company totalled \$27 million, \$13 million lower than last year, mainly due to lower freight revenue.
- British Columbia Transit's net expenditure was \$330 million, up \$10 million from last year, mainly due to increased service hours.
- The Insurance Corporation of British Columbia reported net income of \$73 million for the year ending December 31, 1998, after taking into account a \$47-million road safety dividend for policyholders. Net income for 1998 was about \$60 million higher than the previous year mainly due to lower accident costs as a result of road safety programs and a 1.0-per-cent drop in the number of claims reported.

PART ONE — ECONOMIC REPORT¹

Review of 1998

The British Columbia economy closed the year with a stronger quarterly performance than recorded during the previous three quarters. Employment rose 1.4 per cent in the final quarter of 1998 and the unemployment rate dropped 0.6 percentage points to 8.0 per cent. Most of the job growth in the final three months was full time, in contrast to the previous three quarters. Exports and manufacturing strengthened although the housing market continued to weaken.

The charts on the following pages summarize recent trends in key domestic and external economic indicators. Conditions are beginning to improve in the export sector, while the resource and construction industries continue to hold down domestic growth.

At a recent economic conference hosted by the Minister of Finance, participants estimated that, on average, British Columbia real GDP declined 0.5 per cent in 1998. (Real GDP estimates from Statistics Canada for 1998 will be available in the fall of 1999.)

Early 1999 Developments

The labour market continued to strengthen, as 32,000 new jobs were created in January. This boosted employment 5.7 per cent above its January 1998 level. While employment data have been running counter to other indicators for the last year, the data suggest that growth in the service sector is now more than offsetting weakness in the resource and construction sectors.

The External Outlook

As 1999 began, the consensus was for slower growth in North America, continued weakness in Asia and a possible slowdown in Europe. Commentators said this would be compounded by greater uncertainty and risks to financial markets from problems in emerging markets such as Brazil, Russia and China.

However, as of the middle of February, external conditions are generally better than had been expected. The U.S. economy, still British Columbia's largest export market, continues to post strong, non-inflationary growth. Europe's economy continues to grow moderately, and the launch of the new Euro currency occurred smoothly. The world economy and financial markets encountered more emerging-market turbulence from Brazil in January but so far have weathered

¹ The *Economic Report* and accompanying charts and table incorporate information received to February 8, 1999. "Quarter" references are for the calendar year.

the storm. Japan's economy remains the weak link among the major industrial economies. Its economy shrank nearly 3.0 per cent in the first three quarters of 1998, despite government efforts to boost demand with tax cuts and public capital expenditures.

Although countries such as Korea, Thailand and Singapore are beginning to show signs of a turnaround, Asia as a whole has a long way to go until recovery can be declared to be underway. The weak near-term growth prospects in the region continue to hold down global commodity prices.

Prospects for 1999 and 2000

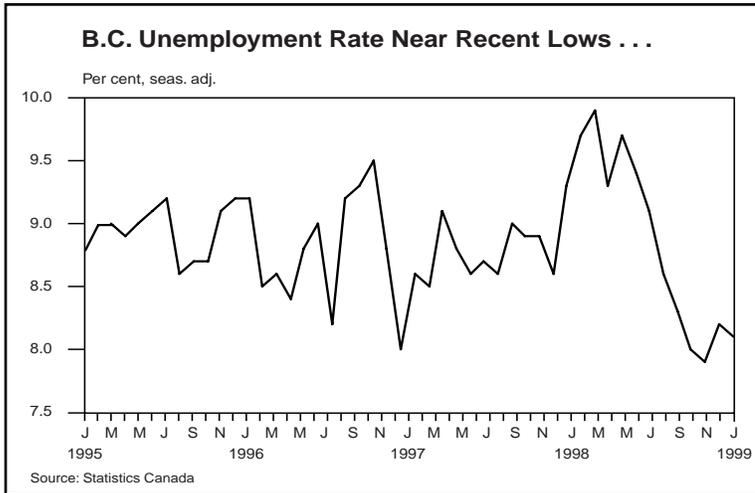
The second quarterly report released in December 1998 stated that "With some recovery emerging in export markets, growth should be in the 0.5 to 1.5 per cent range" in 1999. It noted that the average of published private sector forecasts at that time projected 0.7 per cent growth in real GDP.

On February 4, 1999, the Honourable Joy MacPhail hosted the Ministry of Finance's annual pre-budget economic outlook conference. Eighteen economists from British Columbia and other parts of Canada were invited to submit their projections and participate in discussions on the provincial economy.

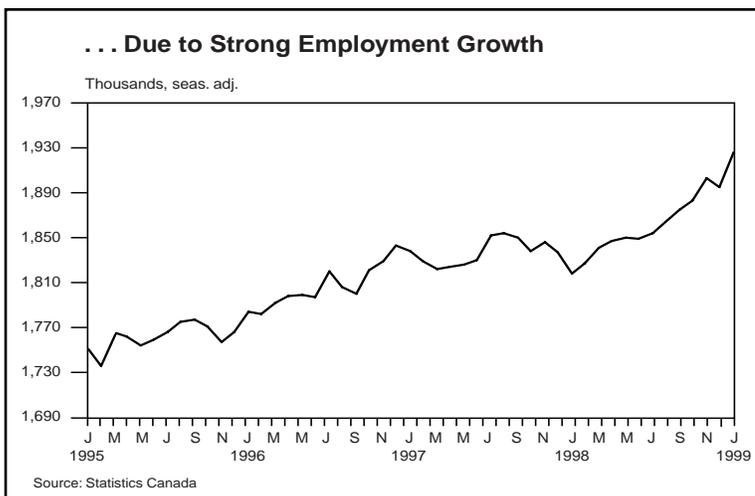
This group on average expects that real GDP will be unchanged in 1999 and will grow about 1.3 per cent in 2000. Reflecting the heightened uncertainty and diverging opinions about British Columbia's short-term prospects, the group's forecasts for 1999 ranged from +2.0 per cent to -2.0 per cent. The range for 2000 was much narrower: from zero to 2.3 per cent real GDP growth.

RECENT ECONOMIC PERFORMANCE

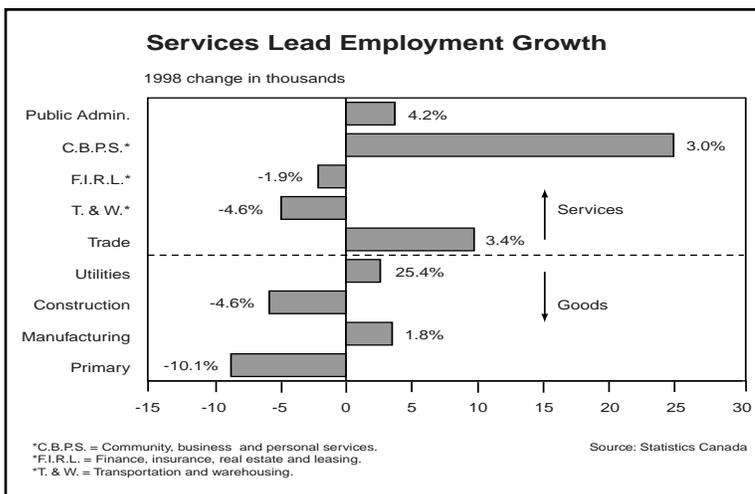
The B.C. Labour Market



The current unemployment rate is 8.1 per cent, just slightly above its recent cyclical low.



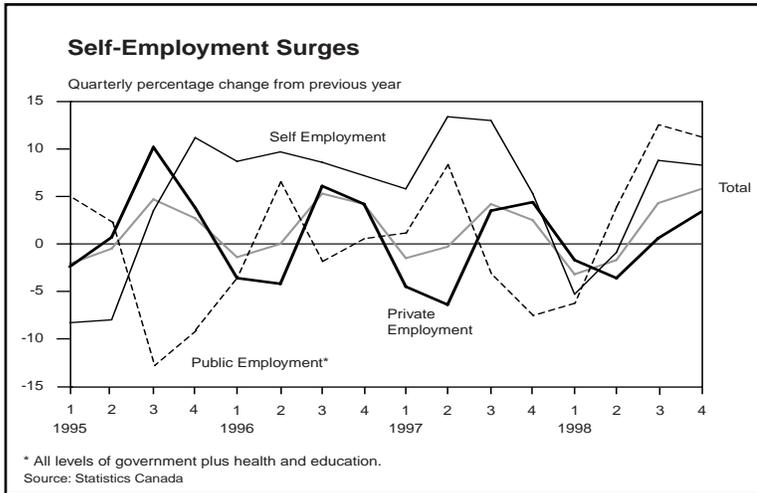
The economy added nearly 105,000 jobs over the last 12 months. The 5.7 per cent increase was the largest in any province.



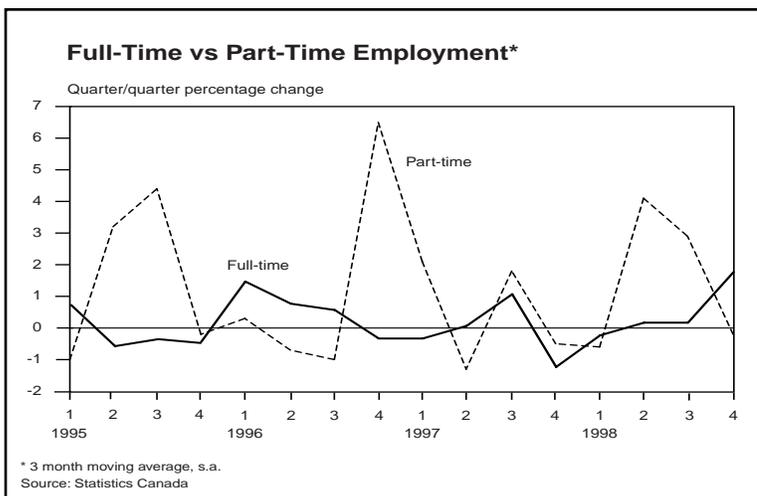
Most of the employment growth in 1998 occurred in the service sector. Manufacturing employment rose nearly 2 per cent despite the downturn in lumber and pulp and paper production.

RECENT ECONOMIC PERFORMANCE

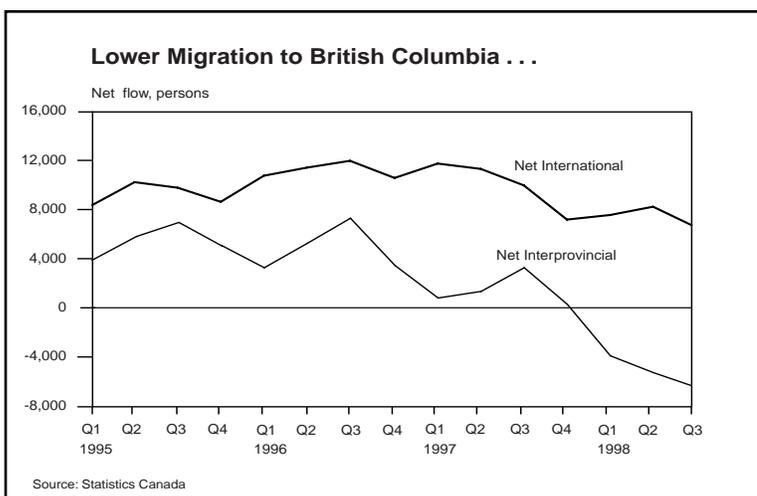
The B.C. Labour Market — *(continued)*



Self-employment grew rapidly in 1996 and 1997. Private sector paid employment has grown little since 1994. Public sector restraint efforts caused employment to fall between 1994 and 1997.



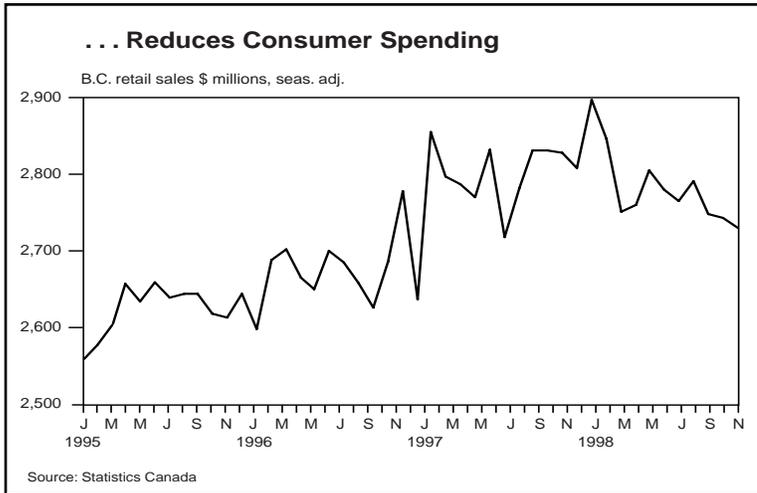
Although much of the job creation in 1997 and the first three quarters of 1998 was part-time, full-time employment rose significantly in the fourth quarter of 1998.



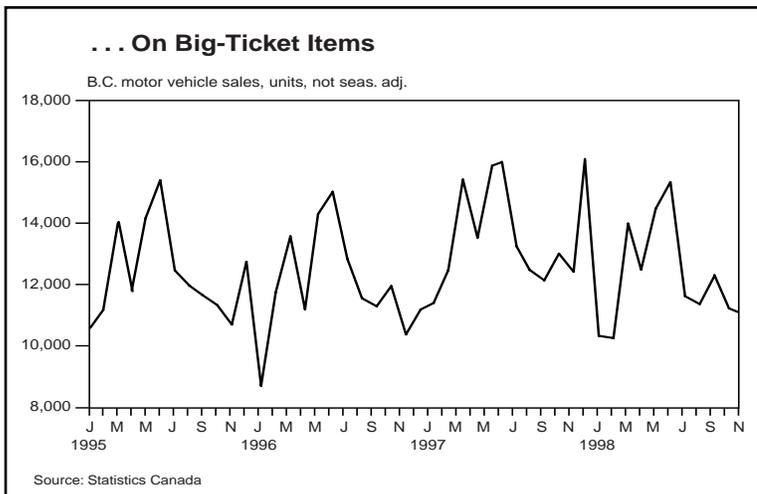
B.C. continued to receive a net inflow of people from outside the province in 1998. Although interprovincial in-migration was negative, the provincial labour force still grew 1.5 per cent in 1998.

RECENT ECONOMIC PERFORMANCE

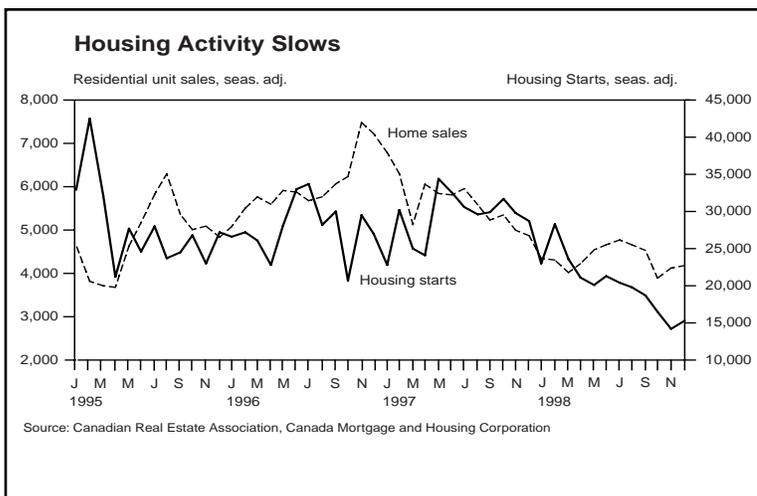
Consumer and Business Activity



Although net in-migration to B.C. continues, its decline from recent peaks has contributed to lower levels of consumer spending.



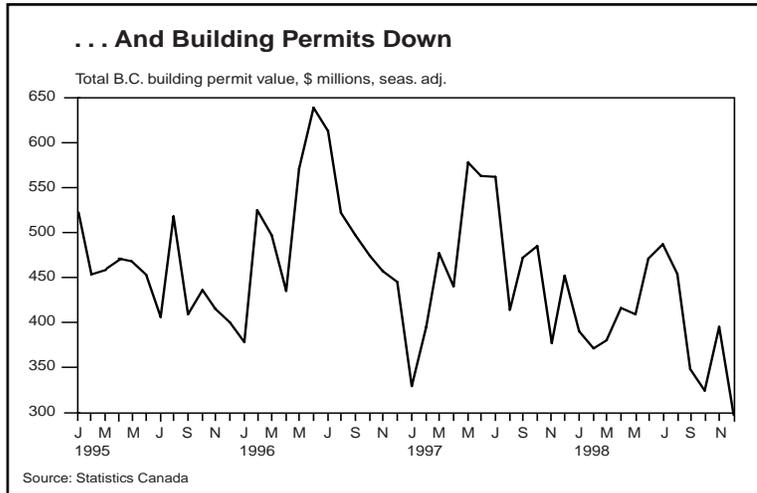
1998 motor vehicle sales volumes were down 8.9 per cent to date through November. Sales peaked in 1997, rising 14.4 per cent.



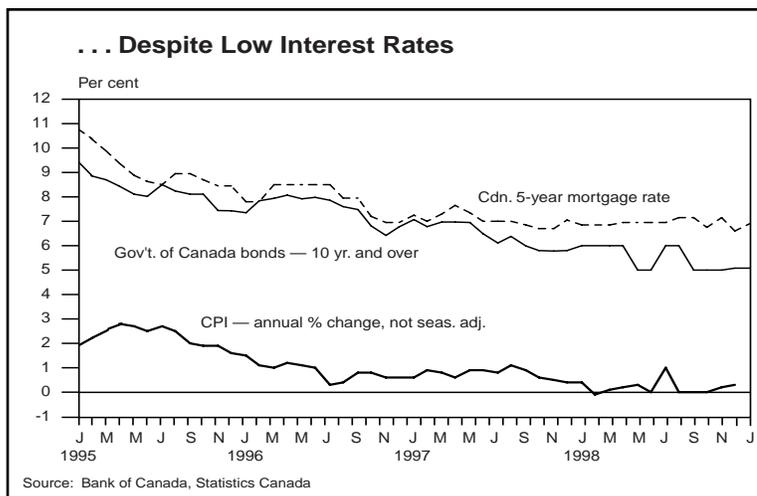
Slower population growth has contributed to lower demand for housing. Housing is one of the most cyclical sectors in the economy.

RECENT ECONOMIC PERFORMANCE

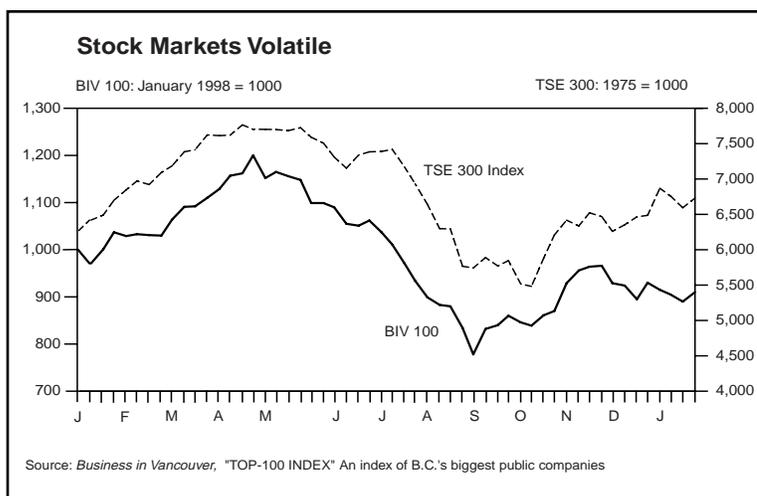
Consumer and Business Activity — *(continued)*



Despite a 3 per cent increase in the value of non-residential permits, overall permits fell 15 per cent due to weakness in the residential sector.



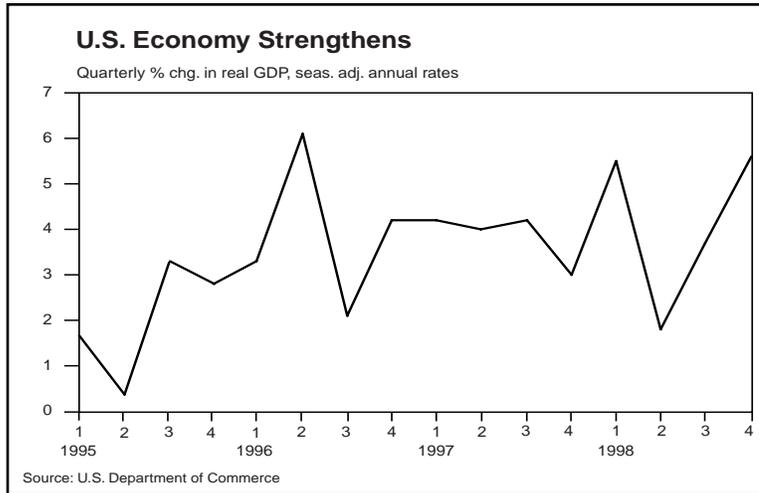
Minimal inflation and some excess capacity in Canada's economy suggest that low interest rates will contribute to an eventual recovery in housing and spending on consumer durables.



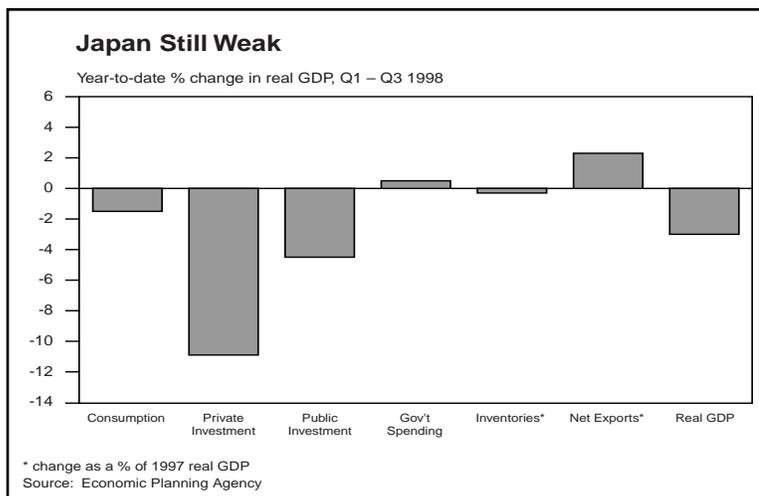
1998 was a poor year for the Canadian and B.C. equity markets with the TSE 300 down 3 per cent and the BIV 100 index down 11 per cent. Financial markets were extremely volatile, particularly in the spring and fall.

RECENT ECONOMIC PERFORMANCE

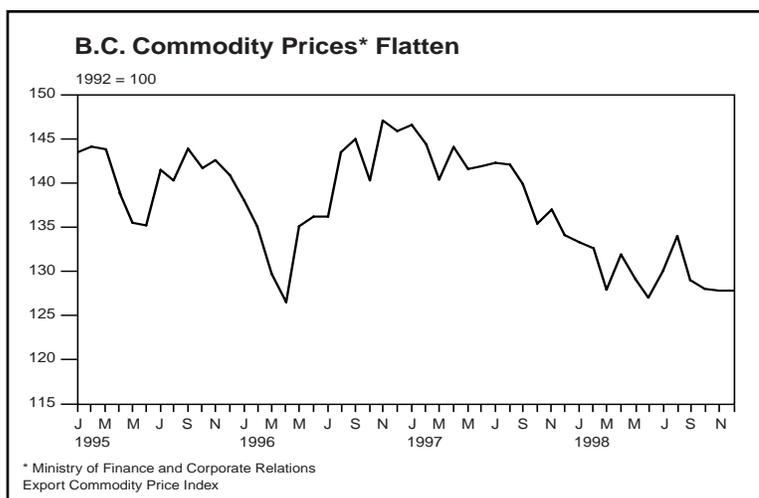
Foreign Economies and Trade



The U.S. economy grew strongly in the fourth quarter of 1998. Manufacturing showed signs of a recovery and stock markets rose sharply early in 1999. Now in its 95th month, the U.S. expansion is the longest ever in peacetime.



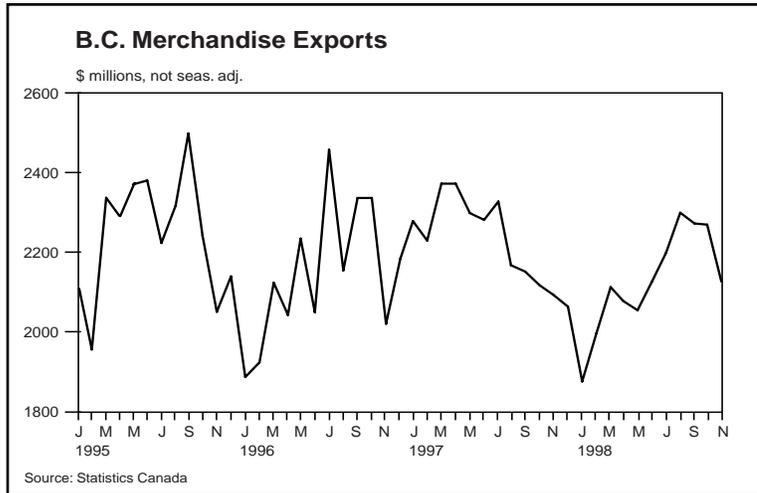
Japan's economy shrank almost 3 per cent in 1998. Government efforts to stimulate the economy made little contribution to overall growth.



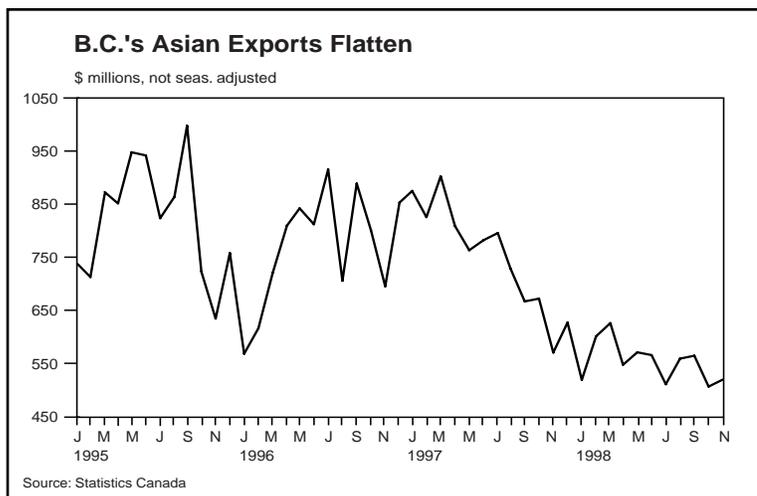
Commodity prices have fallen steadily since late 1996. The downturn in Asia and problems in other emerging markets have reduced demand for commodities and boosted supply.

RECENT ECONOMIC PERFORMANCE

Foreign Economies and Trade — *(continued)*



Falling commodity prices and reduced export volumes depressed the value of B.C.'s exports through the end of 1997. Since then, exports have recovered most of their losses.



The monthly value of B.C. exports to Asia fell nearly 40 per cent during 1997, and then flattened out in 1998. For the year, 1998 exports were almost 30 per cent below 1997 levels.



The recovery in total exports during 1998 was fueled by a strong U.S. economy. A low-valued Canadian dollar also helped boost exports to the U.S.

Table 1 Current Economic Statistics¹

	Latest Period	Year-to-Date Average			Change
		Previous Year	Latest Year		
BRITISH COLUMBIA					
LABOUR MARKET					
Employment (s.a., thousands).....	Jan./99	1,925.7	1,821.2	1,925.7	+5.7%
Male (3-month moving average).....	Jan./99	1,016.7	993.0	1,016.7	+2.4%
Female (3-month moving average).....	Jan./99	889.9	838.4	889.9	+6.1%
Unemployment rate (s.a., per cent).....	Jan./99	8.1	9.5	8.1	-1.4
Male (3-month moving average).....	Jan./99	8.7	9.6	8.7	-0.9
Female (3-month moving average).....	Jan./99	7.3	8.5	7.3	-1.2
In-migration.....	Q3	466	39,482	7,771	-80.3%
Wages and salaries (s.a., \$ millions).....	Nov./98	4,534	4,417	4,503	+1.9%
Average weekly earnings (s.a., \$).....	Nov./98	621.72	614.08	618.32	+0.7%
CONSUMER SECTOR					
Retail sales (s.a., \$ million).....	Nov./98	2,724	2,804	2,768	-1.3%
Car and truck sales (units).....	Nov./98	11,110	13,485	12,291	-8.9%
Housing starts (all areas, s.a., annual rate).....	Jan./99	13,000	23,000	13,000	-43.5%
Existing home sales (s.a.).....	Dec./98	4,181	5,682	4,409	-22.4%
Building permits (s.a., \$ thousands).....	Dec./98	297	462	395	-14.5%
British Columbia consumer price index (annual per cent change).....	Dec./98	0.3	0.8	0.2	-0.6
INDUSTRIAL ACTIVITY					
Foreign merchandise exports (\$ million).....	Nov./98	2,126	2,244	2,127	-5.2%
Manufacturing shipments (s.a., \$ million).....	Nov./98	2,868	2,897	2,790	-3.7%
Lumber production (thousand cubic metres).....	Nov./98	2,537	2,668	2,551	-4.4%
Pulp and paper production (thousand tonnes).....	Dec./98	669	591	589	-0.3%
Coal production (thousand tonnes).....	Dec./98	740	2,317	2,011	-13.2%
Natural gas production (million cubic metres).....	Oct./98	1,953	1,871	1,939	+3.6%
Copper production (million kg).....	Aug./98	21.5	17.6	22.7	+29.0%
TOURISM					
Entries of U.S. and overseas residents (thousands)	Nov./98	426	626	669	+6.9%
B.C. Ferry passengers to/from Vancouver Island (thousands).....	Dec./98	738	967	932	-3.6%
COMMODITY PRICES					
Lumber (U.S.\$/thousand board feet).....	Jan./99	315	279	315	+12.9%
Pulp (U.S.\$/tonne).....	Jan./99	460	560	460	-17.9%
Newsprint (U.S.\$/tonne).....	Jan./99	565	600	565	-5.8%
Copper (U.S.\$/lb.).....	Jan./99	0.65	0.77	0.65	-15.6%
B.C. export commodity price index (Cdn.\$ Index: 1992 = 100).....	Q4/98	127.8	140.8	129.9	-7.7%
FINANCIAL DATA					
Canadian dollar (U.S. cents).....	Jan./99	65.8	69.5	65.8	-3.70
Canadian prime rate (per cent).....	Jan./99	6.75	6.0	6.75	+0.75
Canadian treasury bills (per cent).....	Jan./99	4.62	4.15	4.62	+0.47
Treasury bill spread — Canada minus U.S. (per cent).....	Jan./99	0.29	-0.87	0.29	1.16

s.a. — seasonally adjusted.

PART TWO — FISCAL REPORT

Overview

For the first nine months of 1998/99, revenue was \$122 million below budget, at \$14,790 million. Lower-than-budgeted revenue from taxation, natural resources and other revenue sources was partly offset by higher contributions from the federal government and Crown corporations, and a \$98-million allocation of the full-year revenue budget allowance of \$130 million.

Expenditure of \$15,456 million was \$179 million above budget. This included \$114 million in unanticipated forest fire costs, plus higher-than-budgeted spending of \$180 million in the Ministries of Health, Children and Families, and Human Resources, partially offset by budget management measures to reduce spending in other areas.

Table 2 Consolidated Revenue Fund
Summary of Transactions
for the Nine Months Ended December 31, 1998
(Unaudited)

	Budget 1998 ¹ (\$ millions)	Actual 1998 (\$ millions)	Actual 1997 ² (\$ millions)	Increase (Decrease) ³ (\$ millions)
Revenue.....	14,912.2	14,790.1	14,741.0	(122.1)
Expenditure.....	15,277.4	15,456.3	15,171.7	178.9
Nine month deficit.....	<u>(365.2)</u>	(666.2)	(430.7)	<u>(301.0)</u>
Net receipts (disbursements) from financing/ working capital transactions ⁴		(69.1)	(45.6)	
Decrease (increase) in cash and short-term investments.....		446.6	40.7	
Net decrease (increase) in provincial government direct debt ⁵		<u>(288.7)</u>	<u>(435.6)</u>	

¹ Figures reflect the nine-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.

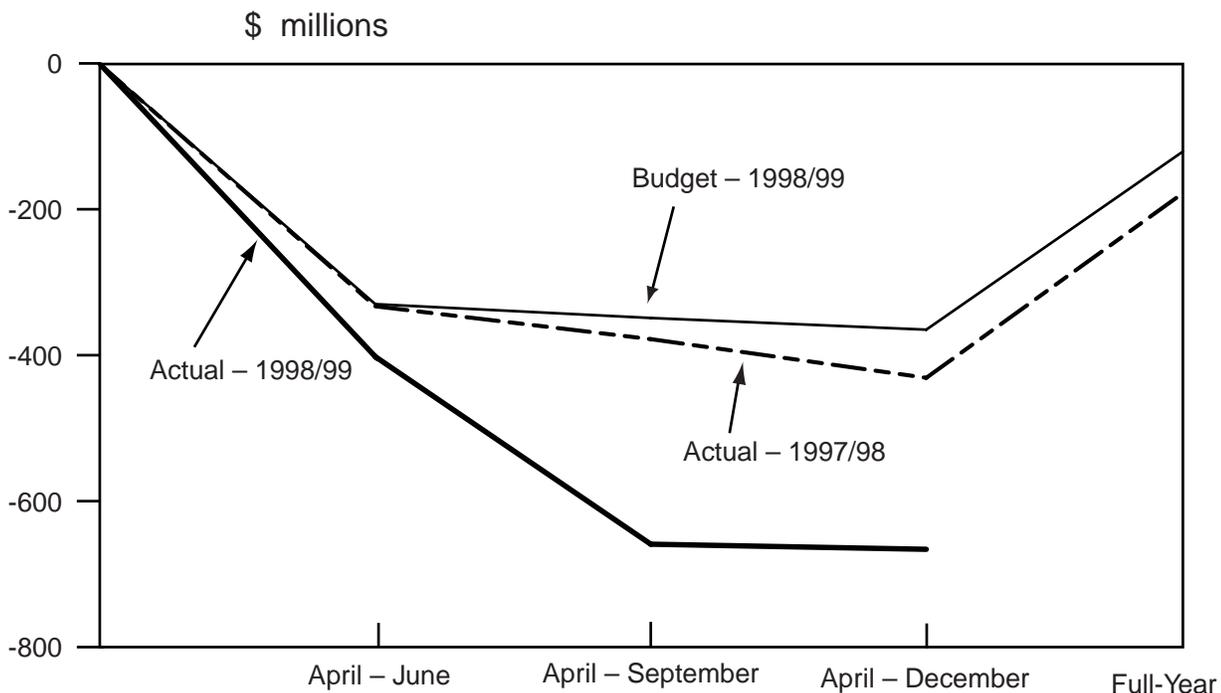
³ 1998/99 actual less 1998/99 budget.

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 for education capital purposes or debt incurred by or on behalf of Crown corporations and agencies.

Compared to the first three quarters of 1997/98, revenue increased 0.3 per cent as higher revenue from federal and government enterprise contributions was partially offset by lower revenue from natural resources and taxation. Expenditure was up 1.9 per cent from the same period last year, mainly due to higher spending for the Ministries of Health, Forests and Education.

Year-to-Date Fiscal Balance by Quarter Fiscal Years 1997/98 and 1998/99



During the first nine months of 1998/99, spending from the consolidated revenue fund exceeded revenues, resulting in a shortfall of \$666 million, \$301 million more than expected. As shown in the chart above, most of the shortfall occurred in the first half of the fiscal year.

The provincial government financed the nine-month deficit and net disbursements for financing and working capital transactions by reducing its cash and short-term investment balances and increasing direct debt. Government direct operating debt increased \$289 million in the first nine months of 1998/99 compared to a \$436-million increase in the same period last year (see Table 2). Details on the borrowing of the government and its Crown corporations and agencies are shown in Part Three — Borrowing Report.

Revenue

For the first nine months of 1998/99, total revenue of \$14,790 million was \$122 million or 0.8 per cent below budget. Lower-than-budgeted revenue from social service, property transfer, personal income, fuel and tobacco taxes, forests, and fees and licences was partially offset by higher-than-budgeted revenue from federal and government enterprise contributions, and corporation capital tax.

Revenue was 0.3 per cent higher than in 1997/98, as higher revenue from federal and government enterprise contributions was partly offset by lower revenue from natural resources and taxation. Last year at this time, revenue was \$92 million or 0.6 per cent above budget.

- Taxation revenue of \$9,914 million was \$190 million below budget and 1.0 per cent lower than in the first nine months of 1997/98. Personal income tax revenue was \$17 million below budget due to lower-than-anticipated personal income growth, but 0.7 per cent higher than last year. Corporation income tax revenue was \$5 million below budget and 2.7 per cent lower than last year due to lower federal instalment payments in the third quarter.
- Revenue from social service tax was \$104 million below budget and 2.9 per cent lower than last year, reflecting weak retail sales during the first nine months of the fiscal year. Fuel tax revenue was \$10 million below budget and 4.5 per cent lower than last year due to weaker-than-expected sales. Tobacco tax revenue was \$11 million below budget. A weak housing market resulted in property transfer tax revenue being \$74 million below budget and 30 per cent lower than last year. Corporation capital tax revenue was \$29 million above budget and 9.0 per cent higher than last year due to higher instalment payments and lower refunds. Other tax revenue was on budget due to higher-than-expected collections of insurance premium tax, which offset lower hotel room and horse racing tax revenue.
- Natural resource revenue of \$1,274 million was \$73 million below budget, and 13 per cent lower than in the same period in 1997/98. Petroleum and natural gas revenue was \$3 million above budget mainly due to strong natural gas prices. However, revenue was 18 per cent lower than last year mainly due to lower sales of Crown land drilling rights. Minerals revenue was slightly below budget and 8.1 per cent higher than a year ago.
- Forest revenue was \$97 million below budget and 15 per cent lower than in the same period of 1997/98. Revenue from timber sales and the small business forest enterprise program was \$129 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 commodity markets. The nine-month decline in stumpage revenues 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 \$22 million above budget mainly due to higher revenue from water rentals and additional sales of electricity received through the Columbia River Treaty.

Table 3 Revenue by Source
for the Nine Months Ended December 31, 1998
(Unaudited)

	Budget 1998 (\$ millions)	Actual 1998 (\$ millions)	Actual 1997 ¹ (\$ millions)	Increase (Decrease) ² (\$ millions)
Taxation:				
Personal income.....	4,065.0	4,048.1	4,020.1	(16.9)
Corporation income.....	888.6	883.8	908.3	(4.8)
Social service.....	2,554.5	2,450.5	2,524.7	(104.0)
Fuel.....	490.6	481.1	503.7	(9.5)
Tobacco.....	376.8	365.8	358.7	(11.0)
Property.....	996.8	996.8	966.2	—
Property transfer.....	250.5	176.5	252.0	(74.0)
Corporation capital.....	301.5	330.9	303.7	29.4
Other.....	198.5	198.4	191.8	(0.1)
Less: commissions on collection of public funds...	(19.5)	(18.2)	(19.3)	1.3
	<u>10,103.3</u>	<u>9,913.7</u>	<u>10,009.9</u>	<u>(189.6)</u>
Natural resources:				
Petroleum and natural gas:				
Natural gas royalties.....	105.4	127.9	98.7	22.5
Permits and fees.....	101.3	84.7	162.7	(16.6)
Petroleum royalties.....	55.6	52.4	59.8	(3.2)
	<u>262.3</u>	<u>265.0</u>	<u>321.2</u>	<u>2.7</u>
Minerals.....	<u>33.6</u>	<u>33.4</u>	<u>30.9</u>	<u>(0.2)</u>
Forests:				
Timber sales.....	583.2	525.2	633.1	(58.0)
Small Business Forest Enterprise Program....	196.4	125.8	181.7	(70.6)
Logging tax.....	10.6	9.5	7.3	(1.1)
Other forests revenue.....	23.1	55.4	24.3	32.3
	<u>813.3</u>	<u>715.9</u>	<u>846.4</u>	<u>(97.4)</u>
Water rentals.....	224.9	247.2	246.8	22.3
<i>Wildlife Act</i>	13.8	13.6	14.0	(0.2)
Less: commissions on collection of public funds...	(1.1)	(1.0)	(1.1)	0.1
	<u>1,346.8</u>	<u>1,274.1</u>	<u>1,458.2</u>	<u>(72.7)</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 Nine Months Ended December 31, 1998
(Unaudited)

	Budget 1998 (\$ millions)	Actual 1998 (\$ millions)	Actual 1997 ¹ (\$ millions)	Increase (Decrease) ² (\$ millions)
Other revenue:				
Medical Services Plan premiums.....	673.3	653.8	657.9	(19.5)
Motor vehicle licences and permits.....	253.9	252.3	249.0	(1.6)
Other fees and licences.....	296.7	243.1	272.6	(53.6)
Investment earnings.....	33.1	35.9	25.1	2.8
Fines and penalties.....	85.5	85.0	70.6	(0.5)
Miscellaneous.....	69.9	63.1	78.2	(6.8)
Asset dispositions.....	26.0	34.2	—	8.2
Less: provision for doubtful accounts.....	(14.6)	(21.4)	—	(6.8)
Less: commissions on collection of public funds..	(56.0)	(46.2)	(56.3)	9.8
	<u>1,367.8</u>	<u>1,299.8</u>	<u>1,297.1</u>	<u>(68.0)</u>
Contributions from government enterprises:				
Liquor Distribution Branch income.....	504.8	499.8	495.4	(5.0)
British Columbia Lottery Corporation.....	289.5	267.8	204.3	(21.7)
Other.....	—	40.0	2.7	40.0
	<u>794.3</u>	<u>807.6</u>	<u>702.4</u>	<u>13.3</u>
Contributions from the Federal government:				
Canada health and social transfer.....	1,290.0	1,395.0	1,167.0	105.0
Other.....	108.0	99.9	106.4	(8.1)
	<u>1,398.0</u>	<u>1,494.9</u>	<u>1,273.4</u>	<u>96.9</u>
Less: Revenue Allowance.....	(98.0)	—	—	98.0
TOTAL REVENUE.....	<u>14,912.2</u>	<u>14,790.1</u>	<u>14,741.0</u>	<u>(122.1)</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.

- Other revenue of \$1,300 million was \$68 million below budget mainly due to lower revenue from other fees and licences, including land sales and registry fees, and Medical Service Plan premiums.
- Contributions from government enterprises of \$808 million were \$13 million above budget and 15 per cent higher than last year. An earlier-than-expected dividend from BC Rail offset lower-than-budgeted net income from the BC Lottery Corporation due to lower levels of expanded gaming activities.
- Federal government contributions of \$1,495 million were \$97 million above budget and 17 per cent higher than in the same period last year. Revenue from the Canada health and

social transfer was \$105 million above budget and 20 per cent higher than last year, due to higher cash entitlements as a result of revisions to population estimates by Statistics Canada. Other federal contributions were \$8 million below budget due to delays in 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 economic growth of 0.3 per cent, 0.6 percentage points lower than the 0.9 per cent growth forecast for 1998. The nine-month revenue budget includes an allocation of \$98 million from the full-year allowance, which partially offsets the shortfall of \$220 million from individual revenue sources. This results in overall revenue being \$122 million below budget.

Expenditure

At \$15,456 million, spending for the first three quarters of the fiscal year was \$179 million above budget. This included \$114 million in higher-than-budgeted spending for forest fire fighting, plus \$180 million of higher-than-budgeted spending in the Ministries of Health, Children and Families, and Human Resources, partially offset by lower-than-budgeted spending in 11 of the 19 ministries. Spending for the first nine months was 1.9 per cent higher than for the same period last year.

- Spending by the Ministry of Advanced Education, Training and Technology of \$1,197 million was slightly below budget. Spending was \$17 million below last year as lower capital debt servicing and student financial assistance costs were partially offset by higher spending for educational institutions and organizations.
- Ministry of Agriculture and Food expenditure was below budget but up \$14 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 \$1,069 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 \$51 million or 5.0 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 \$3,190 million was \$8 million above budget mainly due to higher-than-budgeted expenditures for the Education Plus initiative. Public school operating contributions increased \$87 million from last year due to funding-per-pupil increases, earlier payments this year, and additional classes resulting from reduced teacher-student ratios.
- Ministry of Employment and Investment expenditure of \$109 million was \$11 million below budget, but \$28 million higher than last year due to earlier spending for housing programs.
- Ministry of Energy and Mines expenditure was \$3 million below budget. Spending was 25 per cent lower than last year mainly due to reduced spending for the Kemess mine project, partly offset by increased contributions to the British Columbia Ferry Corporation (up \$19 million).

Table 4 Expenditure by Ministry
for the Nine Months Ended December 31, 1998
(Unaudited)

	Budget 1998 (\$ millions)	Actual 1998 (\$ millions)	Actual 1997 ¹ (\$ millions)	Increase (Decrease) ² (\$ millions)
Legislation.....	24.0	24.6	22.4	0.6
Auditor General.....	5.2	5.1	5.4	(0.1)
Office of the Child, Youth and Family Advocate.....	0.8	0.7	0.7	(0.1)
Conflict of Interest Commissioner.....	0.1	0.1	0.1	—
Elections B.C.	5.2	4.0	3.6	(1.2)
Information and Privacy Commissioner.....	1.8	1.8	1.8	—
Ombudsman.....	3.5	3.4	3.4	(0.1)
Office of the Premier	1.7	1.7	1.6	—
Aboriginal Affairs.....	19.7	19.4	19.8	(0.3)
Advanced Education, Training and Technology				
Educational institutions and organizations	826.4	828.3	803.5	1.9
Other	372.3	368.5	410.0	(3.8)
Total	1,198.7	1,196.8	1,213.5	(1.9)
Agriculture and Food.....	51.4	49.6	35.7	(1.8)
Attorney General.....	675.4	673.9	666.7	(1.5)
Children and Families	1,036.7	1,068.5	1,017.3	31.8
Education				
Public school operating contributions.....	2,754.3	2,762.6	2,675.6	8.3
Other	428.1	427.7	432.8	(0.4)
Total	3,182.4	3,190.3	3,108.4	7.9
Employment and Investment.....	120.1	108.7	80.5	(11.4)
Energy and Mines.....	53.3	50.0	66.9	(3.3)
Environment, Lands and Parks.....	145.9	140.1	145.4	(5.8)
Finance and Corporate Relations.....	296.8	297.5	305.0	0.7
Fisheries.....	15.2	15.4	12.5	0.2
Forests.....	369.5	473.4	354.9	103.9
Health				
Acute and continuing care.....	3,004.2	3,124.4	2,919.0	120.2
Other	2,370.3	2,382.9	2,367.6	12.6
Total.....	5,374.5	5,507.3	5,286.6	132.8
Human Resources	1,159.1	1,174.7	1,233.6	15.6
Labour	36.5	36.5	30.3	—
Municipal Affairs.....	205.5	191.1	221.3	(14.4)
Small Business, Tourism and Culture	61.5	59.1	70.2	(2.4)
Transportation and Highways.....	351.7	351.4	375.5	(0.3)
Women's Equality.....	28.2	27.7	27.2	(0.5)

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.

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Table 4 Expenditure by Ministry — *Continued*
for the Nine Months Ended December 31, 1998
(Unaudited)

	Budget 1998 (\$ millions)	Actual 1998 (\$ millions)	Actual 1997 ¹ (\$ millions)	Increase (Decrease) ² (\$ millions)
Other Appropriations:				
Management of Public Funds and Debt.....	665.9	647.4	625.3	(18.5)
Contingencies (All Ministries).....	—	0.2	3.9	0.2
BC Benefits	188.9	190.3	229.2	1.4
Corporate Accounting System	8.1	8.2	6.1	0.1
Environmental Assessment and Land Use Coordination.....	12.1	7.5	5.0	(4.6)
Environmental Boards and Forest Appeals Commission.....	1.6	1.0	0.8	(0.6)
Forest Practices Board	3.9	3.6	3.5	(0.3)
Office of the Police Complaints Commissioner ...	0.6	0.5	0.1	(0.1)
Public Sector Employers' Council	2.5	2.0	1.2	(0.5)
Public Service Employee Relations Commission.	7.5	6.5	5.7	(1.0)
Insurance and Risk Management.....	0.8	1.2	5.4	0.4
Purchasing Commission Working Capital Account.....	8.8	2.0	2.2	(6.8)
Amortization of Change in Unfunded Pension Liability	(47.7)	(86.9)	(27.0)	(39.2)
TOTAL EXPENDITURE	<u>15,277.4</u>	<u>15,456.3</u>	<u>15,171.7</u>	<u>178.9</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.

- Ministry of Finance and Corporate Relations spending was slightly above budget, and \$8 million lower than last year due to earlier contributions to BC Transit in the third quarter of 1997/98.
- Ministry of Forests expenditure of \$473 million was \$104 million above budget — and 33 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 December, direct fire fighting costs of about \$146 million were \$114 million higher than budget. This was partially offset by below-budget spending in other areas.
- Expenditure of the Ministry of Health of \$5,507 million was \$133 million above budget and 4.2 per cent higher than last year. Acute and continuing care programs were \$120 million above budget due to higher-than-expected disbursements to regional health authorities and higher-than-expected costs to establish the new Canadian Blood Services agency. Other programs

above budget included the Medical Services Plan, Pharmacare and adult mental health. These increases were partially offset by reduced spending for capital debt servicing and corporate services.

- Ministry of Human Resources expenditure of \$1,175 million was \$16 million above budget due to higher-than-expected expenditures for income assistance. However, expenditure was \$59 million or 4.8 per cent lower than last year due to a decline in the caseload. In the first nine months of 1998/99, the caseload was down 6.5 per cent from the same period last year due to the success of caseload reduction initiatives and early intervention programs.
- Expenditures in the Ministry of Municipal Affairs were \$14 million below budget due to delays in cash disbursements for existing commitments under the Canada/BC Infrastructure program. Ministry spending was 14 per cent lower than last year because of reduced conditional grants to local governments.
- Ministry of Small Business, Tourism and Culture spending was 16 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.
- Ministry of Transportation and Highways expenditure of \$351 million was on budget, but \$24 million below last year as a larger portion of highway rehabilitation was funded by the BC Transportation Financing Authority.
- Management of public funds and debt spending of \$647 million was \$19 million below budget, due to lower-than-assumed interest rates, but \$22 million higher than last year because of higher debt outstanding (see Part Three — Borrowing Report for more information).
- Other ministries and agencies were a total of \$21 million below budget. Spending for the Ministry of Environment, Lands and Parks, the Environmental Assessment and Land Use Coordination Office and the Purchasing Commission Working Capital Account accounted for \$17 million of the underexpenditure.
- Nine-month spending included an \$87-million reduction to reflect the amortization of a reduction in the government's share of unfunded liabilities of public sector pension plans. The nine-month amortization was \$39 million higher than budget due to a reduction in the government's share of the unfunded liability of the municipal pension plan.

Fiscal Outlook

As noted earlier, results for the first nine months of the fiscal year were weaker than budget, due to lower-than-expected revenues and higher-than-anticipated spending.

Revenue in the first nine months of 1998/99 was \$122 million below budget due to weaker-than-expected revenue from taxation, forests, and other sources. Although a number of revenue sources are likely to be below budget by year end, this is partially offset by about \$170 million of additional revenue from the Canada health and social transfer as a result of revisions to population estimates from Statistics Canada.

Spending was \$179 million above budget. This included \$114 million in higher-than-budgeted spending for forest fire fighting, plus increased spending of \$180 million in the Ministries of Health, Children and Families and Human Resources, partially offset by lower-than-budgeted spending in 11 of the 19 ministries.

The year-end deficit is expected to be in the \$500 to \$600 million range, due to reduced revenues, spending pressures in the Ministries of Health and Children and Families, and forest fire fighting costs.

A revised year-end forecast will be presented in the 1999 budget.

PART THREE — BORROWING REPORT

Overview

- At December 31, 1998, provincial net debt totalled \$31,961 million. Taxpayer-supported debt accounted for \$22,862 million of this total, while self-supported debt accounted for \$9,099 million.
- During the first nine months, total government, Crown corporation and agency net debt increased \$1,779 million. The increase in total net debt was mainly due to early borrowing of funds through the warehouse borrowing program, and increases in the debt of economic development Crown corporations and agencies, in government direct operating and education capital financing debt, and in BC Rail debt. These increases were partially offset by reductions in the debt of BC Hydro, social and government services Crown corporations and agencies, and in other fiscal agency loans. During the same period last year, there was a \$1,093-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 \$884 million through the first nine months of 1998/99. This compares to a \$678-million increase in the same period last year.

Taxpayer-supported debt

- *Provincial government direct operating debt* — up \$289 million as net new borrowing of \$2,626 million (\$2,928 million long-term offset by a \$302-million reduction in short-term) was partially offset by retirement provisions (including sinking fund contributions, sinking fund earnings and debt maturities) totalling \$2,337 million. The increase in direct debt was used to help finance the nine-month deficit of \$666 million. At December 31, 1998, provincial government direct operating net debt totalled \$11,762 million.
- *Education capital financing debt* — up \$68 million as net new borrowing of \$110 million for schools was partially offset by a net reduction of \$42 million for post-secondary institutions. At December 31, 1998, education capital financing net debt totalled \$4,420 million.
- *Economic development Crown corporations* — up \$599 million as net new borrowing for the BC Transportation Financing Authority (up \$272 million), Rapid Transit Project 2000 (up \$172 million for the Sky Train extension), BC Ferries (up \$114 million), and BC Transit (up \$73 million) was partially offset by a decrease in other net debt which included the BC Housing Management Commission (down \$32 million). At December 31, 1998, economic development Crown corporation net debt totalled \$4,117 million.

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- *Social and government services Crown corporations* — down \$67 million. Reduced net debt of BC Buildings Corporation (down \$76 million) and the BC Assessment Authority (down \$5 million), was partially offset by an \$8-million debt increase for the Homeowner Protection Office and increased debt for the hospital financing authority (up \$6 million, net of its short-term debt reduction under the capital project certificate of approval program). At December 31, 1998, social and government services Crown corporation net debt totalled \$2,090 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 nine months of 1998/99, capital spending totalled \$1 billion.
- Education, health and justice facilities capital spending totalled \$371 million, including:
 - *new school construction* — Skidegate Elementary School, O.K. Landing Elementary School (Vernon), Frank J. Ney Elementary School (Nanaimo), Somerset Elementary School (Pitt Meadows), and South Newton Area Secondary (Surrey);
 - *school planning, replacement, additions and renovations* — Highland Secondary School (Comox), Shuswap Junior Secondary School (Salmon Arm), Walter Moberly Elementary School (Vancouver), Bowen Island Elementary School, Kanaka Creek Elementary School (Maple Bay), Williams Lake Secondary School, Fernie Secondary School, Phoenix Middle School (Campbell River), Alexis Creek Elementary/Secondary, and Rutland Senior Secondary (Kelowna);
 - *hospital and health-care facilities planning, construction, upgrading and equipment purchases* — Surrey Memorial Hospital, Richmond Hospital, Zion Park Manor (Surrey), Royal Arch Masonic Home (Vancouver), Vancouver General Hospital radiology project, Normanna Rest Home (Burnaby), Juan de Fuca Priory Hospital (Victoria), Royal Jubilee Hospital (Victoria), Bulkley Lodge (Smithers), and Mill Site Lodge (100 Mile House).
 - *justice facilities expansion construction* — Vancouver Provincial Court.
- Transportation capital spending totalled \$630 million, including:
 - Monte Creek interchange in Kamloops — construction;
 - Highway 1 in Salmon Arm and Kamloops — frontage road construction and four-laning;
 - 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;
 - Vancouver Island Highway — construction;

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- fast-ferry construction, ferry maintenance and terminal improvements;
 - Sky Train extension planning and car purchases; and
 - Langford Transit Centre — new construction.
- Capital spending in the first nine 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.

Self-supporting debt

- *Commercial Crown corporations* — up \$15 million mainly due to increased debt of BC Rail (up \$98 million) partially offset by decreased debt for BC Hydro (down \$86 million). At December 31, 1998, commercial Crown corporation net debt totalled \$7,801 million.
- *Warehouse borrowing program* — up \$881 million as the province borrowed funds in advance of actual requirements to take advantage of favourable market conditions. At December 31, 1998, the warehouse borrowing program totalled \$1,092 million. 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

Nine Months Ended December 31 (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.....	2,625.8	2,337.1	288.7	11,762.1	435.6
Education capital financing purposes					
Schools.....	233.3	123.2	110.1	3,100.3	114.5
Post-secondary institutions.....	44.2	86.2	(42.0)	1,319.7	(22.7)
	277.5	209.4	68.1	4,420.0	91.8
Total provincial government direct.....	2,903.3	2,546.5	356.8	16,182.1	527.4
Economic development					
Crown corporations and agencies					
BC Transportation Financing Authority	390.0	117.6	272.4	1,356.5	116.6
British Columbia Ferry Corporation...	193.9	80.3	113.6	908.8	52.1
British Columbia Transit.....	259.8	186.8	73.0	1,651.5	29.8
Rapid Transit Project 2000.....	171.9	—	171.9	171.9	—
Other ⁶	(31.4)	0.3	(31.7)	28.2	19.2
	984.2	385.0	599.2	4,116.9	217.7
Social and government services					
Crown corporations and agencies					
British Columbia Assessment Authority.....	(4.8)	—	(4.8)	—	(6.2)
British Columbia Buildings Corporation.....	(8.4)	67.7	(76.1)	658.8	(47.5)
British Columbia Regional Hospital Districts Financing Authority.....	91.0	80.1	10.9	1,388.4	3.0
Capital Project Certificate of Approval Program.....	(4.5)	—	(4.5)	35.0	(10.3)
Homeowner Protection Office.....	8.0	—	8.0	8.0	—
British Columbia Systems Corporation ⁷	—	—	—	—	(1.2)
	81.3	147.8	(66.5)	2,090.2	(62.2)

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).

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*

Nine Months Ended December 31 (Unaudited)	1998			1997	
	New Borrowing ²	Retirement Provision ³	Net Change (\$ millions)	Total Net Debt Outstanding ⁴	Net Change
Other fiscal agency loans⁸	<u>(1.0)</u>	<u>4.9</u>	<u>(5.9)</u>	<u>141.8</u>	<u>(5.2)</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>3,967.8</u>	<u>3,084.2</u>	<u>883.6</u>	<u>22,862.1</u>	<u>677.7</u>
Self-supporting debt					
Commercial Crown corporations and agencies:					
British Columbia Hydro and Power Authority.....	623.2	708.8	(85.6)	7,148.0	(113.0)
British Columbia Railway Company..	104.6	6.9	97.7	585.5	46.6
552513 British Columbia Ltd. (Skeena Cellulose Inc.).....	1.1	—	1.1	65.7	—
Columbia Power Corporation.....	1.3	—	1.3	1.3	—
	<u>730.2</u>	<u>715.7</u>	<u>14.5</u>	<u>7,800.5</u>	<u>(66.4)</u>
Warehouse borrowing program	<u>885.9</u>	<u>5.4</u>	<u>880.5</u>	<u>1,092.0</u>	<u>481.2</u>
Non-guaranteed debt¹⁰	<u>—</u>	<u>—</u>	<u>—</u>	<u>206.3</u>	<u>—</u>
Total self-supporting debt	<u>1,616.1</u>	<u>721.1</u>	<u>895.0</u>	<u>9,098.8</u>	<u>414.8</u>
Total provincial debt	<u>5,583.9</u>	<u>3,805.3</u>	<u>1,778.6</u>	<u>31,960.9</u>	<u>1,092.5</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).

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.

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 \$9 million for the nine months ended December 31, 1998, down \$6 million from the same period last year.
- Although traffic volumes were down 2.6 per cent for vehicles and 2.1 per cent for passengers from last year, toll revenues increased 3.4 per cent due to a tariff increase in November 1997.
- Operating expenses rose 4.4 per cent, mainly due to higher labour and financing costs, partially offset by lower fuel costs. Labour costs increased 4.7 per cent due to the operation of the new Duke Point terminal, work related to the high-speed ferry program, changes to the collective labour agreement, and increased vessel utilization. Interest costs rose 27 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 \$14-million increase in provincial operating grants also contributed to the improvement in the first three quarters compared to last year.

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

- BC Hydro reported net income of \$319 million for the nine months ended December 31, 1998. This was down \$11 million from the same period last year, primarily due to increases in energy, finance and operations, maintenance and administration costs. These changes were partially offset by increased revenue from electricity trade and large industrial customers.
- Domestic revenues increased by 3.5 per cent mainly due to higher revenues from large industrial customers resulting from the ending of the strike at Fletcher Challenge in April 1998, and the addition of new mining customers.
- Electricity trade revenue more than doubled at \$631 million, reflecting increased purchase and resale activity, and higher market prices in B.C.'s West Coast trading area. These market conditions also contributed to higher energy costs.
- Energy costs rose \$408 million due to increased reliance on energy purchases to support expanded electricity trade activities and domestic demand. A 29-per-cent decrease in water inflows to reservoirs compared to the previous year necessitated reduced use of low-cost hydro generation and increased reliance on higher-priced energy purchases.
- Operations, maintenance and administration expenses were \$18 million higher than the previous year, due to increased trouble calls resulting from severe winter storms, and additional expenditures for developing and implementing new initiatives, programs and services.

-
- Finance costs increased by 5.9 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 \$324 million for the first nine months of the fiscal year, up 55 per cent from last year.
- Lottery sales revenue increased 32 per cent from last year 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 \$17 million from last year due to a higher number of large jackpots. Revenue from casino operations increased \$193 million, while electronic bingo operations rose \$20 million, partially offset by lower Breakopen ticket sales.
- Direct costs rose \$84 million in response to higher sales. Other expenses increased \$19 million due to higher spending for development and infrastructure in support of expanded gaming activities.

British Columbia Railway Company (Table 11)

- The company reported unaudited net income of \$27 million for the year ended December 31, 1998, down \$13 million or 34 per cent from 1997.
- Operating revenue decreased \$8 million or 1.8 per cent mainly due to reduced rail traffic from forest products, coal and sulphur. Vancouver Wharves revenue dropped \$4 million or 5.5 per cent due to a 20-per-cent reduction in tonnage handled, mainly potash. The sale of Westel on July 31, 1998 also contributed to reduced revenues compared to 1997. These reductions were partially offset by improved rent revenues from building acquisitions and property development, property sales in BCR Properties, and additional revenues from Canadian Stevedoring Company, purchased on October 30, 1998.
- Total operating expenses increased 2.2 per cent from 1997. Operations expenses were up 10 per cent as additional expenditures of the newly acquired stevedoring operations were offset by expenditure reductions in BC Rail and Vancouver Wharves. Administration and general expenses increased 9.0 per cent due to higher spending for group insurance, severance, telecommunications and information systems. Equipment maintenance expenses were 7.7 per cent lower than last year due to reduced freight traffic. Depreciation expense decreased 5.9 per cent following a review of corporate assets during 1998.
- Interest expense decreased 1.6 per cent while the 22-per-cent drop in capital and income taxes resulted from a corporate reorganization in late 1997.

British Columbia Transit (Transit) (Table 13)

- Transit's net expenditure for the first nine months of the fiscal year totalled \$330 million, up 3.0 per cent from the same period last year.
- Revenue increased 2.0 per cent, mainly due to an increase in fares in Victoria on July 1, 1997, and in Vancouver on October 1, 1997.
- Expenditures increased \$13 million mainly due to a 4.1-per-cent increase in service hours, and higher administration and maintenance costs, partly offset by lower expenditures for interest, property leases and taxes.

Insurance Corporation of British Columbia (Table 16)

- The corporation reported net income of \$73 million for the year ended December 31, 1998, after taking into account a \$47-million road safety dividend benefiting nearly two million policyholders.
- After the dividend, net income for 1998 was about \$60 million higher than the previous year mainly due to lower accident costs as a result of road safety programs and a drop in the number of claims reported.
- In the third year of a premium freeze, vehicle premium revenue increased 2.9 per cent mainly due to a growing vehicle population and increased purchases of higher-coverage policies.
- Net costs for claims incurred fell 5.5 per cent. Continuous efforts in road safety and a favourable resolution of prior years' injury claims contributed to reduced claims costs. The number of claims reported dropped by 1.0 per cent and the average cost per claim decreased by 1.3 per cent.
- Spending on traffic and commercial vehicle safety increased \$35 million reflecting the first full year of responsibility for commercial vehicle compliance operations, and increased spending on traffic safety.
- Operating expenses rose 9.7 per cent mainly due to increased commissions and premium taxes resulting from higher premium revenue, increased costs for licensing operations, and Year 2000 computer modifications. Investment income increased \$25 million due to higher returns on the corporation's investment portfolio.

Table 6 British Columbia Buildings Corporation
Income Statement
for the Nine Months Ended December 31, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 (\$000)	Increase (Decrease) (Per cent)
Gross revenues.....	332,607	314,018	5.9
Expenses:			
Operations, maintenance and administration.....	99,802	95,075	5.0
Lease costs.....	100,380	104,673	(4.1)
Client requested projects.....	20,734	11,065	87.4
Depreciation and amortization.....	37,813	37,075	2.0
Interest, net.....	43,807	46,122	(5.0)
	302,536	294,010	2.9
Income before gain on disposals.....	30,071	20,008	50.3
Gain on disposals.....	1,848	5,886	(68.6)
Net income.....	31,919	25,894	23.3

Table 7 British Columbia Ferry Corporation
Income Statement
for the Nine Months Ended December 31, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 (\$000)	Increase (Decrease) (Per cent)
Operating revenues:			
Tolls.....	247,324	239,087	3.4
Catering and other income.....	53,123	54,949	(3.3)
Federal coastal ferry contract	16,530	16,448	0.5
	<u>316,977</u>	<u>310,484</u>	2.1
Operating expenses:			
Salaries, wages and benefits.....	177,384	169,453	4.7
Fuel.....	25,391	30,223	(16.0)
Cost of food and goods sold.....	18,899	20,456	(7.6)
Repair and maintenance.....	18,641	15,978	16.7
Materials and supplies.....	15,636	13,975	11.9
Net financing expense.....	31,393	24,650	27.4
Professional, computer and other.....	16,364	17,187	(4.8)
Insurance, taxes, utilities.....	7,333	6,600	11.1
Amortization.....	33,063	30,987	6.7
	<u>344,104</u>	<u>329,509</u>	4.4
Income from operations.....	(27,127)	(19,025)	42.6
Provincial operating grant ¹	18,000	3,525	—
Net income (loss).....	<u>(9,127)</u>	<u>(15,500)</u>	(41.1)

¹ As at December 31, 1998, the corporation received a \$24-million annual subsidy from the provincial government. Of this total, \$18 million has been allocated to the first nine months of the year.

Table 8 British Columbia Hydro and Power Authority
Income Statement
for the Nine Months Ended December 31, 1998
(Unaudited)

	Estimated 1998 (\$ millions)	1997 ¹ (\$ millions)	Increase (Decrease) (Per cent)
Revenues:			
Residential.....	592	586	1.0
Light industrial and commercial	619	613	1.0
Large industrial.....	370	325	13.8
Other energy sales and miscellaneous.....	71	72	(1.4)
Total domestic	1,652	1,596	3.5
Electricity trade.....	631	254	148.4
	<u>2,283</u>	<u>1,850</u>	23.4
Expenses:			
Energy costs	833	425	96.0
Operations, maintenance and administration.....	288	270	6.7
Taxes.....	130	134	(3.0)
Depreciation	246	250	(1.6)
	<u>1,497</u>	<u>1,079</u>	38.7
Income before finance charges.....	786	771	1.9
Finance charges.....	(467)	(441)	5.9
Net income.....	<u>319</u>	<u>330</u>	(3.3)

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

Table 9 British Columbia Lottery Corporation
Income Statement
for the Nine Months Ended December 26, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 (\$000)	Increase (Decrease) (Per cent)
Lottery sales.....	900,064	682,258	31.9
Direct costs:			
Prizes.....	369,486	357,257	3.4
Retailer commissions.....	118,699	46,370	—
Direct supplies.....	11,241	11,816	(4.9)
	<u>499,426</u>	<u>415,443</u>	20.2
Sales less direct costs.....	400,638	266,815	50.2
Other expenses:			
Operating.....	49,560	40,019	23.8
Amortization.....	15,232	8,204	85.7
Goods and services tax.....	11,879	9,122	30.2
	<u>76,671</u>	<u>57,345</u>	33.7
Net income.....	<u>323,967</u>	<u>209,470</u>	54.7
Allocation of net income:			
Province of British Columbia ¹	312,787	201,202	55.5
Other ²	5,942	3,121	90.4
Government of Canada.....	5,238	5,147	1.8
	<u>323,967</u>	<u>209,470</u>	54.7

¹ Net income figures differ from those shown in Table 3 primarily due to the inclusion of revenues dedicated to charities, which are deducted from provincial government revenue.

² Includes costs incurred for the Gaming Audit Investigation Office and the Gaming Policy Secretariat.

Table 10 British Columbia Pavilion Corporation
Income Statement
for the Nine Months Ended December 31, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 ¹ (\$000)	Increase (Decrease) (Per cent)
Revenue from operations.....	18,678	20,471	(8.8)
Direct event costs.....	8,500	10,137	(16.1)
Gross margin.....	10,178	10,334	(1.5)
Facility costs:			
Administration.....	1,331	1,235	7.8
Operations and fees.....	3,478	4,100	(15.2)
Staffing.....	5,683	5,175	9.8
Business development.....	605	741	(18.4)
Depreciation.....	3,115	3,142	(0.9)
	14,212	14,393	(1.3)
Net operating income (loss).....	(4,034)	(4,059)	(0.6)
Province of British Columbia subsidy ²	919	917	0.2
Net income (loss).....	(3,115)	(3,142)	(0.9)

¹ Certain figures for 1997 have been restated to conform to the presentation used 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 Year Ended December 31, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 ² (\$000)	Increase (Decrease) (Per cent)
Operating revenue.....	419,508	427,118	(1.8)
Expenses:			
Operations.....	132,796	120,672	10.0
Equipment maintenance.....	75,363	81,675	(7.7)
Road maintenance.....	44,202	42,391	4.3
Depreciation.....	59,414	63,124	(5.9)
Administration and general.....	45,415	41,677	9.0
	357,190	349,539	2.2
Operating income.....	62,318	77,579	(19.7)
Interest expense.....	(30,979)	(31,491)	(1.6)
Capital and income taxes.....	(4,609)	(5,890)	(21.7)
Net income.....	26,730	40,198	(33.5)

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., Canadian Stevedoring Company (effective October 30, 1998), 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 Nine Months Ended December 31, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 ¹ (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Fees	18,598	16,136	15.3
Administrative penalties	67	45	48.9
Interest income	1,072	497	—
	<u>19,737</u>	<u>16,678</u>	18.3
Expenditures:			
Salaries and benefits	7,356	6,811	8.0
Contract services	774	748	3.5
Building occupancy	553	444	24.5
General	705	645	9.3
Securities Fraud Office	481	672	(28.4)
Depreciation	473	450	5.1
Systems operating and communication	308	259	18.9
Travel	268	222	20.7
Information systems development	463	483	(4.1)
	<u>11,381</u>	<u>10,734</u>	6.0
Net income	8,356	5,944	40.6
Operating surplus, beginning of year	15,652	9,361	67.2
Operating surplus, end of year	<u>24,008</u>	<u>15,305</u>	56.9

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 Nine Months Ended December 31, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 ¹ (\$000)	Increase (Decrease) (Per cent)
Revenue	157,231	154,073	2.0
Expenditures:			
Operations	212,406	201,810	5.3
Maintenance	72,791	71,704	1.5
Administration	41,440	38,829	6.7
Interest	124,882	126,215	(1.1)
Depreciation and amortization	28,347	28,000	1.2
Property leases and taxes	7,591	8,016	(5.3)
Total expenditure	487,457	474,574	2.7
Net expenditure	330,226	320,501	3.0
Recoveries:			
Contribution from the Province of British Columbia ²	219,008	215,633	1.6
Contributions from participating municipalities	108,573	102,065	6.4
Other ³	2,645	2,803	(5.6)
	330,226	320,501	3.0

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

² As of December 31, 1998, the corporation received a \$222-million annual subsidy from the provincial government. Of this total, \$219 million has been allocated to the first nine months of the year.

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

Table 14 BC Transportation Financing Authority¹
Consolidated Statement of Income
for the Nine Months Ended December 31, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Dedicated revenue ²	94,546	90,110	4.9
Other ³	1,375	3,986	(65.5)
	<u>95,921</u>	<u>94,096</u>	1.9
Expenditures:⁴			
Operations and administration ⁵	16,113	15,404	4.6
Grant programs ⁶	4,561	2,112	—
Amortization	22,916	13,400	71.0
Interest ⁷	51,332	20,059	—
	<u>94,922</u>	<u>50,975</u>	86.2
Net Income	<u>999</u>	<u>43,121</u>	(97.7)

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 nine months of 1998/99, the authority undertook \$289 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 \$12.5 million in 1998 (1997 — \$12.4 million) paid to the Ministry of Transportation and Highways for general operating expenses not specifically related to individual capital projects.

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

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

Table 15 **Forest Renewal BC**
Statement of Income and Equity
for the Nine Months Ended December 31, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 ¹ (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Statutory revenue ^{2,3}	94,283	297,572	(68.3)
Investment income	35,554	40,068	(11.3)
	<u>129,837</u>	<u>337,640</u>	(61.5)
Cost of Services:			
Project expenditures	307,974	368,917	(16.5)
Administration	15,281	16,526	(7.5)
	<u>323,255</u>	<u>385,443</u>	(16.1)
Net income (loss)	(193,418)	(47,803)	—
Unappropriated surplus, beginning of period	293,972	451,112	(34.8)
	100,554	403,309	(75.1)
Net transfer to reserve for multi-year agreements	(76,700)	—	—
Unappropriated surplus, end of period	<u>23,854</u>	<u>403,309</u>	(94.1)

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 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 Year Ended December 31, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 ¹ (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Vehicle premiums earned.....	2,350,703	2,283,817	2.9
Driver premiums earned.....	18,226	19,639	(7.2)
Licences and fines.....	435,558	410,249	6.2
Payment of licences and fines to the Province.....	(394,590)	(361,364)	9.2
	<u>2,409,897</u>	<u>2,352,341</u>	2.4
Expenses:			
Claim costs:			
Claims incurred.....	2,134,604	2,189,128	(2.5)
Prior years' claims development.....	(219,456)	(163,205)	34.5
Net claims incurred.....	1,915,148	2,025,923	(5.5)
Claims operations expense.....	231,111	219,420	5.3
Traffic and commercial vehicle safety programs and operations.....	94,884	60,329	57.3
	<u>2,241,143</u>	<u>2,305,672</u>	(2.8)
Operating Expenses:			
Administration.....	170,529	148,662	14.7
Commissions.....	181,889	170,496	6.7
Premium taxes.....	100,708	98,447	2.3
Year 2000 software development.....	7,399	2,029	—
	<u>460,525</u>	<u>419,634</u>	9.7
Total claims and expenses.....	<u>2,701,668</u>	<u>2,725,306</u>	(0.9)
	(291,771)	(372,965)	(21.8)
Investment income.....	<u>412,236</u>	<u>386,950</u>	6.5
Income.....	120,465	13,985	—
Less Road safety dividend.....	(47,000)	—	—
Net income.....	73,465	13,985	—
Retained earnings, beginning of period.....	<u>211,813</u>	<u>197,828</u>	7.1
Retained earnings, end of period.....	<u>285,278</u>	<u>211,813</u>	35.2

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

Table 17 **Liquor Distribution Branch**
Income Statement
for the Third Quarter Ended January 2, 1999
(Unaudited)

	Estimated 1998 (\$000)	1997 (\$000)	Increase (Decrease) (Per cent)
Sales:			
Provincial liquor sales.....	1,307,175	1,278,221	2.3
Less: Discounts and commissions.....	(34,740)	(33,314)	4.3
Net sales.....	1,272,435	1,244,907	2.2
Cost of sales.....	(640,947)	(625,854)	2.4
Gross profit.....	631,488	619,053	2.0
Operating expenses.....	(134,053)	(126,135)	6.3
Net operating income.....	497,435	492,918	0.9
Other income.....	2,412	2,526	(4.5)
Net income ¹	499,847	495,444	0.9

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

Table 18 Okanagan Valley Tree Fruit Authority
Statement of Income and Retained Earnings
for the Nine Months Ended December 31, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 ¹ (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Provincial contribution.....	2,000	2,000	—
Investment and miscellaneous income	47	167	(71.9)
	<u>2,047</u>	<u>2,167</u>	(5.5)
Expenditures:			
Orchard renovation program	1,600	2,766	(42.2)
Transition production adjustment program	—	5	—
Sterile insect release program.....	650	150	—
Operating and other programs	137	190	(27.9)
	<u>2,387</u>	<u>3,111</u>	(23.3)
Surplus (deficit) for the period.....	(340)	(944)	(64.0)
Retained earnings, beginning of period.....	263	1,483	(82.3)
Retained earnings, end of period.....	<u>(77)</u>	<u>539</u>	—

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 Nine Months Ended December 31, 1998
(Unaudited)

	Estimated 1998 (\$000)	1997 (\$000)	Increase (Decrease) (Per cent)
Revenue:			
Rent and other	2,145	1,994	7.6
Interest.....	177	130	36.2
	<u>2,322</u>	<u>2,124</u>	9.3
Expenditure:			
Operating.....	1,740	1,602	8.6
Surplus for the period.....	582	522	11.5
Unappropriated surplus, beginning of period.....	3,614	3,396	6.4
Unappropriated surplus, end of period.....	<u>4,196</u>	<u>3,918</u>	7.1

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