
Second Quarterly Report

on the Economy, Fiscal Situation,
and Outlook

Fiscal Year 2003/04
Six Months
April – September 2003



BRITISH
COLUMBIA

Ministry of Finance

www.gov.bc.ca

British Columbia Cataloguing in Publication Data

British Columbia. Ministry of Finance.

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

Quarterly.

Title on cover: Quarterly report.

Continues: British Columbia. Ministry of Finance.

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

TABLE OF CONTENTS

Second Quarterly Report 2003/04

November 2003

Summary	3
Part One — Updated 2003/04 Financial Forecast	
Introduction	5
Revenue	6
Expense	8
Full-Time Equivalents (FTE's)	10
Provincial Capital Spending	11
Provincial Debt	11
Risks to the Forecast	12
Topic Box: British Columbia's Equalization Revenue	14
Tables:	
1.1 2003/04 Forecast Update	7
1.2 2003/04 Pressures Allocated to the Contingencies Budget	9
1.3 2003/04 Pressures Being Managed	10
1.4 Capital Spending Update	11
1.5 Provincial Debt Update	12
Part Two — Economic Report	
Overview	19
International Economic Developments.....	19
Provincial Outlook	21
British Columbia Economic Developments	23
British Columbia Economic Forecast	27
Risks to the Economic Outlook.....	28
Tables:	
2.1 Private Sector Exchange Rate Forecasts	23
2.2 British Columbia Economic Indicators	24
2.3 Current Economic Statistics	30
Charts:	
2.1 Consensus outlook for 2003 growth	20
2.2 Consensus expects strong U.S. growth in 2004	20
2.3 Interest rates remain low	22
2.4 Rapid appreciation of the Canadian dollar	22
2.5 Provincial accounts 2002 GDP revisions: improvement for B.C.	23
2.6 Exports increase led by energy	24
2.7 Natural gas prices moderate in 2003	25
2.8 Lumber prices peak in September.....	25
2.9 Robust employment growth in 2003	26
2.10 Strong housing starts continue in October	27
2.11 2004 BC real GDP forecasts average 2.8 per cent	28

Appendix
Financial Results: For the Six Months Ended September 30, 2003 and 2003/04 Full-Year Forecast

Tables:

A.1	Operating Results	32
A.2	Operating Results – Changes from <i>Budget 2003</i>	32
A.3	Revenue by Source	34
A.4	Expense by Ministry, Program and Agency	35
A.5	Revenue Assumptions – Changes from <i>Budget 2003</i>	36
A.6	Expense Assumptions – Changes from <i>Budget 2003</i>	38
A.7	Expense by Function	39
A.8	Full-Time Equivalents	39
A.9	Capital Spending	40
A.10	Capital Expenditure Projects Greater Than \$50 Million	41
A.11	Provincial Debt	42
A.12	Statement of Financial Position	43

SUMMARY

Second Quarterly Report 2003/04

November 2003



Updated 2003/04 Financial Forecast

(\$ millions)	Budget	Forecast	Variance
Revenue	26,319	26,421	102
Expense.....	(28,119)	(28,271)	(152)
Deficit before forecast allowance	(1,800)	(1,850)	(50)
Forecast allowance	(500)	(450)	50
Deficit	(2,300)	(2,300)	-
Provincial debt:			
Total debt	40,966	38,745	(2,221)
Total debt as a per cent of GDP	29.4%	27.5%	(1.9%)
Taxpayer-supported debt	32,046	30,497	(1,549)
Taxpayer-supported debt as a per cent of GDP	23.0%	21.6%	(1.4%)

- The B.C. economy picked up in the July to September quarter, as high forest product and energy prices helped to offset the impacts of the rapid rise of the Canadian dollar. Most sectors of the B.C. economy, in particular construction, posted positive growth during the quarter. Strong third quarter U.S. GDP results caused analysts to increase their U.S. growth forecasts for both 2003 and 2004.
- The positive B.C. results for the quarter translated into an improved jobs market, with employment rising by 30,100 jobs in October bringing B.C.'s unemployment rate down to 7.8%.
- The current Ministry of Finance forecast, prepared in September, for B.C. real GDP growth is 1.5% in 2003 and 2.6% in 2004. This compares with private sector consensus forecasts of 1.5% in 2003 and 2.8% in 2004.
- The 2003/04 fiscal plan continues to weather the effects of economic and fiscal shocks, and the forecast deficit remains unchanged from budget at \$2.3 billion. This includes a \$450 million forecast allowance, unchanged from the first *Quarterly Report*.
- The new forecast includes updated forest fire costs, costs for October's floods, the \$418 million sale of drilling rights in September, higher estimates of personal income tax revenues for 2002, and higher Crown corporation income, offset by lower equalization transfers. However, the forecast does not include any impact of the BC Rail investment partnership, as it had not been completed at the time that this forecast was finalized.
- Forest fire fighting and related costs are expected to total \$497 million, \$439 million higher than budgeted. Flood related costs are forecast to total \$29 million, \$16 million above budget. These costs are partially offset by federal disaster funding of \$140 million; discussions as to additional federal funding are continuing.
- Outside of forest fire and flood costs, ministries are expected to be on budget for the year. An unallocated contingencies budget of \$85 million is also in place to protect against spending pressures over the rest of the year.
- Provincial debt at the end of the 2003/04 fiscal year is expected to be \$2.2 billion lower than in the February budget, mainly due to a stronger financial position at the end of the 2002/03 fiscal year, lower capital spending and lower requirements for BC Hydro.
- The key taxpayer-supported debt-to-GDP ratio is forecast to reach 21.6% for 2003/04, lower than the 23.0% forecast in *Budget 2003* and well below the 25.0% forecast in *Budget 2002*.
- An updated five-year economic forecast, the third *Quarterly Report* for 2003/04 and an updated three-year fiscal plan will be released with the next budget on February 17, 2004. The plan will include balanced budgets for 2004/05 to 2006/07 and reflect the BC Rail investment partnership.

PART ONE — UPDATED 2003/04 FINANCIAL FORECAST

Second Quarterly Report 2003/04

November 2003

Introduction

The government's forecast for 2003/04 remains unchanged from budget despite the fiscal impact of numerous significant challenges including natural disasters such as the summer forest fires and fall floods, slower than expected economic growth, and reductions to equalization entitlements. The deficit remains at \$2.3 billion, with the forecast allowance unchanged from the first *Quarterly Report* at \$450 million. However, the forecast does not include any impact of the BC Rail investment partnership, as it had not been completed at the time that this forecast was finalized.

The revenue forecast is \$64 million lower than the first *Quarterly Report*. Substantially lower equalization entitlements were partially offset by improvements in personal income tax revenue and commercial Crown corporation net income, plus increased federal disaster relief funding.

Total spending is \$64 million below the first *Quarterly Report* forecast. Of this, projected consolidated revenue fund (CRF) spending for 2003/04 is \$37 million lower due to reduced estimates for forest fire related expenses and lower interest costs for direct operating debt. Other expenses are forecast to be \$27 million lower than the first *Quarterly Report* forecast, mainly due to lower interest costs for borrowing on behalf of commercial Crown corporations.

The forecast allowance for 2003/04 at \$450 million is unchanged from the first *Quarterly Report* recognizing the potential volatility of revenue sources (see Risks to the Forecast section at the end of this chapter).

The main changes to the 2003/04 fiscal forecast in the second quarter are summarized in Table 1.1.

An updated five-year economic forecast, the third *Quarterly Report* for 2003/04 and an updated three-year fiscal plan including balanced budgets for 2004/05 to 2006/07 will be released with the next budget on February 17, 2004. The impact of the BC Rail investment partnership will also be included in the third *Quarterly Report*.

Operating results for the first six months of 2003/04 show a deficit of \$530 million, a \$328 million improvement from budget largely due to better-than-expected revenue and Crown corporation net income during the first half of the fiscal year. Details are provided in Appendix Tables A1, A3 and A4.

Revenue

The 2003/04 updated revenue forecast incorporates year-to-date results for the first six months, preliminary tax assessments from the federal government for 2002 and prior years, new estimates of equalization and Canada health and social transfer entitlements, and updated forecasts from ministries and Crown corporations. The revenue forecast is \$64 million lower than the first *Quarterly Report* forecast, \$102 million higher than budget. The main changes from the first *Quarterly Report* forecast for 2003/04 are:

- Personal income tax revenue is up \$200 million reflecting higher-than-expected 2002 tax assessments. The forecast assumes that revenue arising from changes to 2002 and prior years is up \$129 million, and 2003/04 revenue is \$71 million higher.
- The forecast for corporation income tax revenue is \$11 million lower due to a lower average tax rate as a result of an increased proportion from small businesses, partially offset by an improved 2002 BC tax base, a higher forecast of the national tax base, and higher assessments for 2001 and prior years.
- Property transfer tax revenue is up \$65 million reflecting the strong housing market this year due in part to low mortgage rates, and federal and provincial tax cuts.
- Revenue from energy and mineral sources is up \$151 million due to higher sales of drilling rights (including the record \$418 million September sale) and improved mineral prices, partially offset by reduced revenue from natural gas and petroleum royalties and Columbia River Treaty entitlements due to lower energy prices.
- Forests revenue is down \$58 million mainly due to a lower forecast for harvest volumes.
- Equalization revenue is down \$669 million due to lower 2003/04 entitlement and a negative prior-year adjustment. Entitlement for 2003/04 is estimated at \$468 million, down \$249 million due to updated federal estimates, an improved B.C. personal income tax base, a lower Ontario personal income tax base and higher sales of drilling rights. However, the 2003/04 entitlement is completely eroded by updated information resulting from prior year assessments. See the topic box at the end of this chapter for further details on federal equalization payments.
- Canada health and social transfer (CHST) entitlements are up \$86 million. Revenue for prior years is \$107 million higher mainly due to the offsetting interaction between the CHST and equalization programs when equalization entitlement is relatively low. Current year CHST revenue is \$21 million lower reflecting reduced population estimates and higher tax point deductions due to an improved personal income tax base.
- The forecast for other federal contributions is \$120 million higher due to increased federal government contributions toward forest fire fighting costs.
- All other taxpayer-supported revenue is \$16 million lower due to weaker revenue from investment earnings and fees and licences, partially offset by an improved outlook for revenues from water resources, motor vehicle licences and permits, and miscellaneous sources.

Table 1.1 2003/04 Forecast Update

(\$ millions)	2003/04
2003/04 deficit - Budget 2003 Fiscal Plan (February 18, 2003)	(2,300)
First Ministers' Accord on Health Care Renewal:	
Additional revenues from the federal government	319
Additional BC commitments to health care	(319)
2003/04 deficit - Fiscal Plan (May 29, 2003 Supply Act)	(2,300)
First Quarterly Report Forecast Updates:¹	
Total revenue increases	166
Total expense increases	(216)
Forecast allowance reduction	50
Net change	-
2003/04 deficit - first Quarterly Report	(2,300)
Second Quarterly Report Forecast Updates:	
Revenue increases (decreases)	
Personal income tax revenue - mainly due to higher 2002 tax assessments:	
- prior year adjustment (higher 2002/03 and earlier revenue)	129
- higher 2003/04 revenue	71
Corporation income tax revenue - lower average tax rates, partially offset by improved prior year tax entitlements	(11)
Property transfer tax revenue - strong housing market	65
Energy revenue - mainly higher sales of drilling rights, partially offset by lower energy prices	151
Forests revenue - mainly lower timber harvest volumes	(58)
Federal transfers - mainly impact of revised 2002 tax and natural gas bases on CHST and equalization entitlements:	
- prior year adjustment (lower 2002/03 and earlier entitlements)	(313)
- lower 2003/04 entitlement	(270)
Federal transfers - fire relief funding	120
All other taxpayer-supported revenue - mainly lower cost recoveries	(16)
Commercial Crown corporation net income:	
BC Hydro - mainly additional interest savings	31
BC Rail - mainly operating efficiencies and increased railcar rental revenue	25
ICBC - reserve for potential legal tariff increase, partially offset by lower claims and insurance operations costs	(25)
Other Crown corporation changes - primarily LDB operating results	37
Total revenue decreases	(64)
Less : expense increases (decreases)	
Lower forest fire costs	(65)
Higher disaster response costs including floods	33
Lower interest and other costs - mainly due to delayed borrowing	(5)
CRF expense decreases	(37)
Taxpayer-supported Crown corporation and agency expenses and adjustments - mainly lower cost recoveries	(27)
Total expense decreases	(64)
Net change	-
2003/04 deficit - second Quarterly Report	(2,300)

¹ Further details on the first *Quarterly Report* forecast updates are provided in Appendix Table A.2.

Commercial Crown Corporations Net Income

- BC Hydro's projected operating results for 2003/04 continue to improve since the update presented in the first *Quarterly Report*. At \$146 million, the current forecast is \$31 million higher than the previous forecast and a total \$216 million improvement over budget. The second quarter change is primarily due to lower interest costs on outstanding debt as a result of reduced borrowing for capital needs and lower interest rates.
- The Liquor Distribution Branch (LDB) forecasts a \$36 million improvement to its bottom line for 2003/04. Estimated costs for the transition of retail outlets have been reduced by \$33 million. As well, overall sales are higher than expected, resulting in a \$3 million increase in net income.
- BC Rail forecasts an additional \$25 million improvement to its 2003 operating results projection since the first *Quarterly Report*, reflecting increased railcar rental revenue, operating efficiencies, and reduced amortization costs. The forecast does not include any impact of the BC Rail investment partnership, as it had not been completed at the time that this forecast was finalized.
- ICBC's projected result for the 2003 calendar year is \$25 million lower than the forecast reported in the first *Quarterly Report*, as the forecast now includes a reserve for a potential increase in tariff rates for litigation. The total improvement over budget is now \$52 million. Dry weather conditions during the first nine months of 2003 is expected to result in a 5.2 per cent reduction in projected claims costs and insurance operations expenses for the full year.

On November 12, 2003 the BC Utilities Commission approved a 0.4 per cent increase in ICBC's premium rates for mandatory insurance. In addition, ICBC has announced a 0.4 per cent increase in optional insurance rates. Both of these decisions take effect January 1, 2004 and will not affect the corporation's 2003 results.

Expense

Government expense includes spending for ministries and other programs of the consolidated revenue fund (CRF), combined with the expense of taxpayer-supported Crown corporations and agencies. Total expense for the first six months of the 2003/04 fiscal year reflected approximately \$340 million in unforeseen forest fire-related costs. However, the total April to September expense is only \$69 million above budget due to under-spending in the first quarter of this fiscal year.

Before adding the unforeseen cost of natural disasters, total expense for the full fiscal year is expected to be \$303 million below budget. After including these costs, total expenses are forecast to be \$152 million higher than budget.

Consolidated Revenue Fund Expense

During the first half of the fiscal year, CRF spending (ministries, special offices and other programs) was \$174 million higher than expected, reflecting forest fire-related costs that were partially offset by below-budget spending in most programs and lower debt interest costs (see Appendix Table A.4).

In total, spending for ministries and other programs is forecast to be \$136 million below budget for the full 2003/04 fiscal year before including the unprecedented high costs of this year's forest fires and additional costs for flooding. After taking into account additional forest fire and flood related costs, CRF spending is forecast to be \$319 million higher than budget for the full 2003/04 fiscal year.

The main changes to the 2003/04 forecast since the first *Quarterly Report* are:

- Forest fire, flood and related costs – the Ministry of Forests projection for fire fighting and rehabilitation costs is \$65 million lower than estimated in the first *Quarterly Report*. This reduction is partially offset by a \$33 million increase in projected fire and flood-related costs by the Ministry of Public Safety and Solicitor General. In total, projected spending for these areas decreased by \$32 million, resulting in total disaster spending being \$455 million higher than budgeted.
- The management of public funds and debt (debt interest) forecast has been reduced an additional \$6 million since the first *Quarterly Report*, mainly due to delayed borrowing.
- Officers of the Legislature – higher spending is expected for the Information and Privacy Commissioner's office, to carry out its mandate under the new *Personal Information Protection Act*, and for Elections BC due to additional costs related to recall petitions. The additional spending for the Information and Privacy Commissioner has been recommended by the Select Standing Committee on Finance and Government Services, and is provided for in a Supplementary Estimate recently approved by the Legislature.

Certain spending commitments and pressures totaling \$85 million have been notionally allocated to the Contingencies budget. These allocations include:

- Up to \$27 million for potentially higher-than-expected costs for litigation in various areas and potential settlements of claims under the *Crown Proceeding Act*. In the first *Quarterly Report*, these items were included as pressures in the Ministry of Attorney General.
- Up to \$22 million for expected costs related to the Port Coquitlam missing persons investigation (known as Project Evenhanded), a decrease of \$4 million from the forecast in the first *Quarterly Report* based on updated information.
- \$15 million as part of the 1995 Vancouver Island Gas Pipeline Assistance Agreement. The province is required to make payments to Terasen Inc. for

Table 1.2 2003/04 Pressures Allocated to the Contingencies Budget

	(\$ millions)
<i>Crown Proceeding Act</i> payments and other litigation costs.....	27
Port Coquitlam missing persons investigation.....	22
Vancouver Island Gas Pipeline Assistance Agreement.....	15
Bovine spongiform encephalopathy (BSE) assistance.....	11
Air India trial.....	7
Pickton trial.....	3
Subtotal	<u>85</u>
Unallocated	85
Total contingencies budget	<u>170</u>

the value of a volume of natural gas set out in the agreement. Higher-than-assumed natural gas prices have increased the estimated payment required for 2003/04. This is a new allocation since the first *Quarterly Report*, and was previously shown as a pressure in the Ministry of Energy and Mines.

- \$11 million to provide assistance to cattle producers and packers affected by the U.S. export ban on beef resulting from the discovery of bovine spongiform encephalopathy (BSE) in one animal in Alberta. This is an increase of \$9 million since the first *Quarterly Report*.
- Up to \$10 million for expected costs related to the Pickton and Air India trials, a decrease of \$6 million from the forecast in the first *Quarterly Report* based on updated information.

Funding for the significant costs of various natural disasters to hit B.C. this year are provided for by statute under the *Forests Practices Code* and *Emergency Program Act* and does not require additional approval of the Legislature. Nevertheless, once the full costs for disasters are known for 2003/04, the government intends to bring in Supplementary Estimates next spring.

Except for forest fire-related program areas, ministries are expected to be on budget at year-end. As shown in Table 1.3, in addition to the pressures allocated to the contingencies budget, the Ministry of Attorney General is managing pressures related to higher costs for legal counsel services, the Human Rights Tribunal and the Human Rights Clinics.

Table 1.3 2003/04 Pressures Being Managed

	(\$ millions)
Attorney General - higher costs for legal counsel, the Human Rights Tribunal and Human Rights Clinics.....	3

Other expense

To determine total government spending, the expenses of taxpayer-supported Crown corporations are combined with CRF expense. Accounting adjustments are used to eliminate double counting of expenses and to record, as revenues, costs recovered from external agencies. The main change to the forecast for these expenses from the first *Quarterly Report* is a reduction in debt interest costs for borrowing on behalf of commercial Crown corporations.

Full-Time Equivalents (FTEs)

Taxpayer-supported FTEs include those of ministries and special offices, taxpayer-supported Crown corporations and agencies, and children and family development governance authorities. The forecast for 2003/04 is largely unchanged since the update in the first *Quarterly Report*, with only an increase of 13 FTEs in taxpayer-supported Crown corporations. Overall, total FTEs are expected to decline by 257 from the February budget (see Appendix Table A.8), primarily due to changes in the timing of restructuring in various taxpayer-supported Crown corporations.

Provincial Capital Spending

Total capital spending is forecast to be \$2.2 billion in 2003/04, \$274 million lower than the *Budget 2003* projection and \$144 million lower than the first *Quarterly Report* forecast (see Table 1.4 and Appendix Table A.9).

Taxpayer-supported capital spending is down \$91 million from the first *Quarterly Report* mainly reflecting lower-than-forecast expenditures for education and health facilities and ministry capital.

Self-supported Crown corporation capital spending is down \$53 million from the first *Quarterly Report*, mainly reflecting deferred spending for the Vancouver Island generation project as a result of the regulatory approval process.

Table 1.4 Capital Spending Update

(\$ millions)	2003/04
Budget 2003 Capital spending	2,513
Taxpayer-supported first <i>Quarterly Report</i> changes.....	(154)
Self-supported first <i>Quarterly Report</i> changes.....	24
Updated capital spending - first <i>Quarterly Report</i>	2,383
Taxpayer-supported changes:	
Education facilities.....	(28)
Health facilities.....	(20)
Government operating (ministry minor capital).....	(29)
Other.....	(14)
Total taxpayer-supported changes	(91)
Self-supported changes:	
BC Hydro.....	(51)
Other.....	(2)
Total self-supported changes	(53)
Total second <i>Quarterly Report</i> changes	(144)
Updated capital spending - second <i>Quarterly Report</i>	2,239

Significant capital projects (those with multi-year budgets totaling \$50 million or more) are shown in Appendix Table A.10. The table reflects delayed completion of the Vancouver Island generation project and the Georgia Strait pipeline crossing, as well as higher costs for the pipeline resulting from the delay. These projects are currently included in the table; however, BC Hydro has initiated a Call-for-Tender process to solicit proposals for supplying Vancouver Island with additional power.

Provincial Debt

Total provincial debt is projected to total \$38.7 billion at March 31, 2004. This amount is \$2.2 billion lower than the *Budget 2003* projection (see Table 1.5 and Appendix Table A.11). The updated debt forecast is \$235 million lower than the first *Quarterly Report* reflecting:

- lower-than-forecast capital spending on education and health projects;

Table 1.5 Provincial Debt Update

(\$ millions)	2003/04
Budget 2003 total debt	40,966
Taxpayer-supported debt changes:	
Opening balance adjustment.....	(221) ¹
First <i>Quarterly Report</i> changes.....	(1,194)
Self-supported debt changes:	
Opening balance adjustment.....	(190) ¹
First <i>Quarterly Report</i> changes.....	(331)
Forecast allowance reduction.....	(50)
Total first <i>Quarterly Report</i> changes	(1,986)
Updated total debt - first <i>Quarterly Report</i>	38,980
Taxpayer-supported debt changes:	
Education and health facilities - mainly lower capital spending.....	(52)
Transportation - mainly lower working capital requirements.....	(19)
BC Buildings - lower working capital requirements	(56)
Other.....	(7)
Total taxpayer-supported changes	(134)
Self-supported debt changes:	
BC Hydro - improved operating results and lower capital spending.....	(100)
Other.....	(1)
Total self-supported changes	(101)
Total second <i>Quarterly Report</i> changes	(235)
Updated total debt - second <i>Quarterly Report</i>	38,745

¹ March 31, 2003 year-end changes between the February 2003 budget forecast and the 2002/03 *Public Accounts*.

- lower-than-forecast working capital requirements for BC Buildings; and
- improved operating results and lower-than-forecast capital spending for BC Hydro.

Total provincial debt is forecast at 27.5 per cent of provincial GDP at March 31, 2004, while taxpayer-supported debt is forecast at 21.6 per cent of GDP¹. These ratios have improved from the *Budget 2003* projections due to the lower debt forecast and a higher estimate for current dollar GDP.

Risks to the Forecast

The major revenue risks to the forecast stem from changes to economic variables, including the economic growth of B.C.'s trading partners, commodity price fluctuations (especially natural gas, lumber and electricity), and consumer spending and tourism activity in the province.

Some of the ongoing risks to the 2003/04 forecast detailed in the first *Quarterly Report* are reflected in the current update. The major ongoing risks include:

- the outcome of the softwood lumber dispute with the U.S. which could have both an economic and fiscal impact on B.C. depending on the terms of any settlement and industry's response;

¹ The ratio of a province's taxpayer-supported debt relative to its GDP is a measure of a province's ability to manage its debt load. B.C.'s taxpayer-supported debt-to-GDP ratio is one of the lowest in Canada, and this translates into a strong credit rating and lower debt service costs.

- the effect of higher exchange rates on the Canadian and B.C. economies;
- commercial Crown corporation operating results; and
- B.C.'s equalization entitlements.

The federal government's equalization formula is very sensitive to economic developments in other provinces as well as in B.C. Additionally, changes to the equalization program as the federal government revises the formula to be used over the next five years could have significant effects on expected equalization revenues. Some options being considered by the federal government could eliminate B.C.'s equalization entitlements entirely. The topic box at the end of this chapter provides more information on the calculation of equalization payments and the related volatility.

BC Hydro's net income is significantly affected by weather patterns, which can change both reservoir levels and demand for power, and in turn BC Hydro's energy costs for domestic consumption as well as electricity trade margins.

The risk to BC Hydro of a potential negative ruling by the U.S. Federal Energy Regulatory Commission (FERC) on the trading practices of Powerex, a BC Hydro subsidiary, is significantly reduced as FERC staff are recommending full exoneration of Powerex's trading activities during the California power crisis. Other proceedings related to the recovery of amounts owing from California are ongoing.

The single largest spending variance to the forecast for 2003/04 has been the result of natural disasters in the province. The current forecast assumes moderation in activity and costs starting in the latter part of the fall, however weather, primarily precipitation levels, remains a key risk. Government has initiated a review of the 2003 forest fire season and Treasury Board will be reviewing the future year budget allocations for these costs as part of the development of *Budget 2004*.

Other spending risks include:

- Potential caseload trends in the ministries of Human Resources and Children and Family Development.
- Potential costs for pending litigation and settlement. These types of costs are difficult to forecast as to amounts and timing of settlements.
- Actuarial valuations of the larger public sector pension plans. These valuations are under way and could change the estimated liabilities of these plans. Key parameters which affect these valuations are the recent history and forecasts for investment returns on assets held by pension plans, inflation and salary growth.
- Current trends in interest rates have resulted in lower debt service costs for the health and education programs as well as the rest of government. These could change in the event of unexpected developments in financial markets.

British Columbia's Equalization Revenue

British Columbia's equalization revenue estimates have changed significantly since the first *Quarterly Report*. Forecasts of equalization revenue for 2003/04 have fallen from \$717 million to \$468 million. At the same time, revenues estimates for prior fiscal years for which BC was entitled to receive equalization (2001/02 and 2002/03) have been reduced by \$468 million. As a result, equalization revenue for 2003/04, including the reductions for prior years (2001/02 and 2002/03), is now estimated to be zero.

The purpose of this topic box is to explain this significant reduction in BC's equalization revenue in the current fiscal year (2003/04), and the estimation of equalization revenues more generally.

The Federal Estimates

The federal government produces official estimates of equalization entitlements for each province, including BC, on two occasions each year – in late February/early March (Spring), and in late September/early October (Fall). At each of these points in time, an estimate is produced for each "open year" – the current fiscal year, and three prior fiscal years. In the latest Fall 2003 estimates (released on October 14, 2003) for example, equalization estimates were produced for the current fiscal year (2003/04) and each of the "open years" of 2000/01, 2001/02 and 2002/03.

The first federal equalization estimate for any given fiscal year is produced each Spring immediately prior to the start of that fiscal year. For example, the first estimate for fiscal year 2003/04 was produced in Spring 2003. For the purposes of the equalization program and the estimate of what each province is owed, a total of eight estimates, at a rate of

two per year (Spring and Fall), are generated by the federal government for any given fiscal year. This means that the amount of equalization owed by the federal government to any given province for any given fiscal year is not finalized until 30 months *after* the end of that fiscal year. To illustrate:

- the first federal estimate of BC's equalization entitlement for fiscal year 2000/01 was produced in Spring 2000; the final amount owed to BC for fiscal year 2000/01 was not known until Fall 2003 (eight estimates and three and one-half years later);
- the first federal estimate of BC's equalization entitlement for fiscal year 2001/02 was produced in Spring 2001; the final amount owed to BC for fiscal year 2001/02 will not be finalized until the Fall of 2004;
- the first federal estimate of BC's equalization entitlement for fiscal year 2002/03 was produced in Spring 2002; the final amount owed to BC for fiscal year 2002/03 will not be finalized until the Fall of 2005; and
- the first federal estimate of BC's equalization entitlement for 2003/04, the current fiscal year, was produced in Spring 2003; the final amount owed to BC for fiscal year 2003/04 will not be finalized until the Fall of 2006.

The large lag between when a fiscal year ends and when the equalization entitlement for that year is finalized is necessitated by the length of time required to finalize all of the information that goes into the calculation of an equalization entitlement. There are over 30 revenue sources in the equalization formula, and numerous pieces of information/data are required to calculate each individual revenue source. With few exceptions, data is not included by the federal government in the calculation of equalization entitlements until it is final.

The extensive use of this lagged data in the federal estimates makes all but the final few estimates highly unreliable for fiscal planning purposes. Furthermore, large swings often occur between one estimate and the next as new final data becomes available and are incorporated into the equalization calculation.

- For example, in the federal February 2003 estimates for fiscal year 2002/03 and 2003/04, the natural gas component of the equalization formula was calculated using information for 2001. New (2002) information subsequently became available and was used in the October 2003 estimates for fiscal years 2002/03 and 2003/04. The use of this new information resulted in a \$280 million *decrease* in BC's equalization entitlement for 2002/03, and a further \$330 million decrease for 2003/04.
- In contrast, an update between February and October in several of the data elements used to calculate the property tax component of the equalization formula produced a \$145 million *increase* in BC's equalization entitlement for fiscal year 2003/04.

Figures 1 and 2 demonstrate the volatility in the federal estimates. As shown in Figure 1, BC was almost \$1 billion below the point at which it would have received equalization in the early estimates for the fiscal year 1999/00. In the end, BC received \$125 million in equalization for that fiscal year. Similar

volatility is displayed in the 2001/02, 2002/03 and 2003/04 fiscal years (Figure 2).

British Columbia's Own Estimates of Equalization Revenue

The goal of BC's own estimates of equalization revenue is to predict what the final equalization entitlement will be for any given fiscal year. Our goal is NOT to predict each of the first seven (interim) federal estimates; it is to predict the final (eighth) estimate. For example, for the 2003/04 fiscal year, the goal is not to try to predict what the federal government's second (October 2003) or third (February 2004) estimate of our equalization entitlement will be for that year, but what the final or eighth (Fall 2006) estimate will be. This is consistent with the government's accrual accounting policy and Generally Accepted Accounting Principles (GAAP).

In producing estimates of equalization revenue for BC budgets, year-end audited financial statements (the *Public Accounts*) and quarterly reports, adjustments are made by the BC Ministry of Finance to the federal estimates, focusing primarily on key variables such as population and GDP, and key revenue sources such as personal and corporate income taxes.

Trying to predict the final estimate for equalization is a daunting task, since it

Figure 1: Federal Estimates of BC Equalization Entitlements, 1999/00

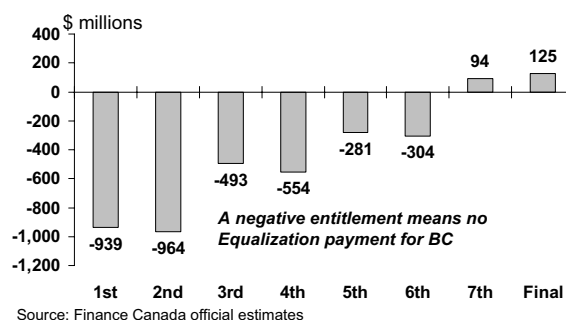
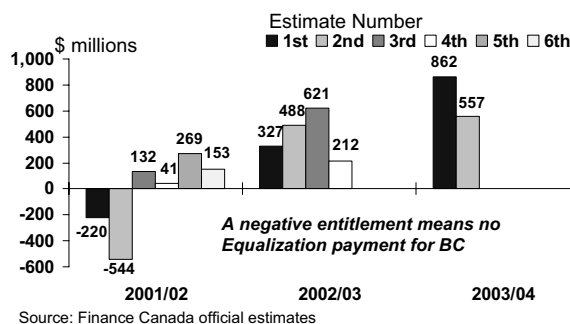


Figure 2: Federal Estimates of BC Equalization Entitlements



involves predicting not only what will happen in the 30-plus revenue sources (personal income tax, corporate income tax, sales tax, forestry, natural gas, property tax, etc.) in BC, but also predicting what will happen in these same 30-plus revenue sources in all (or at least most) other provinces. Focusing on key variables and key revenue sources makes the task more manageable.

Current Year versus Prior Year Adjustments

The concept of "prior year adjustments" is relevant in the case of both the federal equalization estimates and BC's equalization estimates.

A prior year adjustment refers to a change in the equalization estimate for any year other than the current fiscal year. For example, changes in the federal estimates of equalization for fiscal years 2001/02 and 2002/03 between the February estimates and the October estimates are referred to as "prior year adjustments". Similarly, changes in BC estimates for fiscal years 2001/02 and 2002/03 between the February budget and subsequent financial reports such as the 2002/03 *Public Accounts* (released in June 2003) and the *Quarterly Reports* (issued in September and November 2003) are referred to as "prior year adjustments".

If the province's financial books for any given fiscal year are still open (i.e. we have not yet finalized the *Public Accounts* for that year), these prior year adjustments must be recognized in that fiscal year; otherwise, they must be applied to the current fiscal year. For example, changes made to BC's equalization revenue estimates for the 2002/03 fiscal year any time before the 2002/03 *Public Accounts* were finalized in June 2003 were deducted or added to the 2002/03 fiscal year. Changes

made since must be applied to the new fiscal year, 2003/04.

- For example, in BC's first *Quarterly Report* (released September 2003), equalization revenue for 2003/04 was reported to be \$669 million. In fact, BC's estimate for 2003/04 equalization revenue was \$717 million, but this was reduced to accommodate a decrease of \$48 million in equalization revenue estimates for prior fiscal years (2001/02 and 2002/03).
- Similarly, in this second *Quarterly Report*, BC's estimate for fiscal year 2003/04 equalization revenue is \$468 million, but this amount is completely offset by reductions in estimates of BC's equalization revenues for prior fiscal years (primarily 2002/03).

What Caused the Significant Change Between the First and Second Quarterly Reports?

The decrease in the estimate of equalization revenue from \$669 million in the first *Quarterly Report* released in September to zero in the second *Quarterly Report* has several components (see Table 1).

Table 1: Changes from First Quarterly Report

(\$ millions)	Prior		Total
	Years	2003/04	
First Quarterly Report Estimate	(48)	717	669
Changes:			
- Census impacts.....	(40)	(19)	(59)
- Updated federal estimates.....	(214)	1	(213)
- Increased BC Crown lease revenues...	-	(33)	(33)
- Revisions to personal income tax.....	(166)	(198)	(364)
Total changes	(420)	(249)	(669)
Second Quarterly Report Estimate	(468)	468	-

1. Census data (-\$59 million)

Population is a key variable in the calculation of equalization. Any changes up or down in a province's population will have an impact on the amount of

equalization that province will receive. 2001 Census population figures, and associated adjustments to population figures for 2002 and 2003, were finalized in September 2003 by Statistics Canada. The BC Ministry of Finance had already assumed a downward adjustment in population for BC and had lowered the province's equalization revenue estimates in anticipation of this data release. The total negative impact of this Statistics Canada Census revision on BC's equalization revenue was about \$360 million. In the 2002/03 *Public Accounts* (issued June 2003) and the first *Quarterly Report* for 2003/04 (issued September 2003), about \$300 million of this negative impact was accounted for, leaving a further \$59 million decrease to be reflected in this second *Quarterly Report*.

2. Updated Federal Estimates (-\$213 million)

New federal equalization estimates for fiscal years 2001/02, 2002/03 and 2003/04, containing updated information for most of the 30-plus revenue sources, were released in October 2003. BC's estimates for most of these revenue sources (not personal income tax, for example – see #4 below) were updated accordingly, resulting in further downward adjustment in BC equalization revenue of \$213 million. As noted previously, the change resulting in the largest (negative) impact was the \$280 million reduction due to updated natural gas information; this change was offset somewhat by positive impacts of data changes in respect of other revenue sources.

3. Increased Crown Lease Revenues (-\$33 million)

Higher revenue from the sale of petroleum and natural gas drilling rights, including record sales of \$418 million in the month of September 2003 alone, reduces BC's

equalization entitlement for fiscal year 2003/04 by an estimated \$33 million.

4. Revisions to Personal Income Tax (-\$364 million)

In respect of personal income taxes, and compared to the first *Quarterly Report*, BC is predicted to perform better than expected while Ontario is predicted to perform worse than expected. These two factors combined result in a \$364 million decrease in equalization revenues for BC for 2002/03 (-\$166 million) and 2003/04 (-\$198 million). What happens in Ontario matters for BC's equalization entitlements because equalization is a program that looks at the relative performance of a province compared to the combined performance of five provinces – Ontario, BC, Quebec, Manitoba and Saskatchewan.

The "\$600 million" Overpayment

At the time the federal October equalization estimates were released, there were media reports that BC owed the federal government \$600 million in equalization overpayments. In fact, the correct figure is \$525 million. This amount reflected a *cash* overpayment issue related to prior fiscal years only (2001/02 and 2002/03), which does not translate directly into a \$525 million negative impact on BC's fiscal plan.

In February 2003, the federal government overestimated the amount of equalization BC was owed for fiscal years 2001/02 and 2002/03, and paid BC on the basis of this (over)estimate. In October 2003, the federal estimates for 2001/02 and 2002/03 were adjusted downward by some \$525 million, an amount that now must be paid back to the federal government.

Note that a downward adjustment was also made by the federal government to its equalization estimate for BC for 2003/04, the

current fiscal year (-\$305 million). This is not included in the \$525 million figure.

Recognizing that the federal estimates were too high, BC's estimates of 2001/02 and 2002/03 equalization revenues, as used in the 2002/03 *Public Accounts* (June 2003) and the 2003/04 first *Quarterly Report* (September 2003), were some \$235 million lower than the federal February equalization estimates (see Table 2). In other words, some of the \$525 million reduction was expected and had already been included in the fiscal plan (i.e. by lowering the expected amount of revenue).

Table 2: Comparing BC and Federal Estimates

(\$ millions)	2001/02	2002/03	2003/04
BC Estimates at the time of...			
BC Budget 2003	153	616	675
2002/03 <i>Public Accounts</i>	159	543	n/a
First <i>Quarterly Report</i>	183	470	717
Second <i>Quarterly Report</i>	153	81	468
Federal Estimates at the time of...			
BC Budget 2003	41	488	n/a
2002/03 <i>Public Accounts</i>	269	621	862
First <i>Quarterly Report</i>	269	621	862
Second <i>Quarterly Report</i>	153	212	557

Furthermore, as noted previously, the goal of BC's estimates of equalization revenue is not to predict each of the first seven (interim) federal estimates, but to predict what the final (eighth) estimate will be for each fiscal year. In other words, the goal was never to predict the \$525 million reduction, especially since we know this number will change with each subsequent federal estimate.

At the end of the day, BC's own estimates for prior years continue to be lower than the current federal estimates (\$234 million for fiscal years 2001/02 and 2002/03 combined, compared to the federal estimate of \$365 million for the same years) due primarily to our different assumptions with respect

to personal income taxes. Our estimate of equalization revenues for the current fiscal year (2003/04) is also lower than the federal estimate (\$468 million compared to \$557 million) for similar reasons.

Looking Ahead

The equalization formula is inherently volatile and difficult to predict, and the federal estimates schedule and extensive use of lagged data further contributes to this volatility. BC makes numerous adjustments to the federal estimates in an effort to predict final equalization entitlements, but these efforts are not sufficient to eliminate all of the volatility. Continued efforts are underway to improve BC's equalization forecasting methodology, such as trying to better predict the volatile natural resource revenue sources.

Adding to the challenge of forecasting equalization revenues is the prospect of changes to the equalization formula when the program is renewed for the next five-year period (2004/05 through 2008/09). Of particular concern to BC is a change being contemplated for the property tax component of the equalization formula that, once fully implemented, would likely permanently reduce BC's equalization entitlements to zero. It is unclear at this point in time if this change will be adopted (the provincial government is continuing its efforts to convince the federal government that the contemplated change is unfair to BC and inconsistent with the purposes of equalization) and, if it is, when and how it will be implemented. As such, predicting BC's equalization revenue for 2004/05 and beyond is clouded by the potential formula change.

PART TWO — ECONOMIC REPORT¹

Second Quarterly Report 2003/04

November 2003

Overview

In the July to September quarter, many British Columbia economic indicators strengthened after a relatively weak performance in the April to June period of this year. British Columbia's exports of goods rose 10.4 per cent in the July to September quarter of 2003, due to a strong contribution from the energy sector and a pick up in the value of forest product exports. Housing starts remain robust, with July to September starts up 32.5 per cent from the previous quarter. Employment rose by 30,100 jobs or 1.5 per cent in October, bringing B.C.'s unemployment rate down to its current 7.8 per cent. Strong third quarter GDP growth of 7.2 per cent in the U.S. led an upturn in the international environment.

The Canadian provinces have been hit by numerous shocks this year including the SARS outbreak, Bovine Spongiform Encephalopathy (BSE), forest fires, recent floods in B.C., the eastern power outage and the rapid rise in the Canadian dollar. Most provincial economic forecasts have been significantly downgraded since the start of the year.

Based on the Ministry of Finance's September economic outlook, B.C. real GDP is forecast to grow by 1.5 per cent in 2003 and 2.6 per cent in 2004. Since that forecast was developed, recently released economic indicators suggest that stronger results for 2004 may be attained if the U.S. economic recovery continues.

In preparation for the 2004 budget, the Minister of Finance will be meeting with the independent Economic Forecast Council on December 8, 2003 to obtain their views on the North American and British Columbia economic outlook. An updated five-year economic forecast, incorporating their advice, will be developed for the February 17, 2004 budget. Currently, private sector forecasters expect B.C.'s economic growth to increase to 2.8 per cent in 2004.

International Economic Developments

The economic performance in the U.S. during July to September suggests that the economic recovery is on firmer ground than previously anticipated. The advance² release of third quarter U.S. GDP surpassed expectations, posting annualized growth of 7.2 per cent. Growth was broadly based, with consumer spending, investment and exports producing strong results.

Net employment in the U.S. increased in August for the first time since January 2003. The labour market is slowly improving, with further job gains in September and October. Low interest rates continue to boost the housing sector, with U.S. housing starts rising 7.9 per cent during July to September compared to the previous quarter.

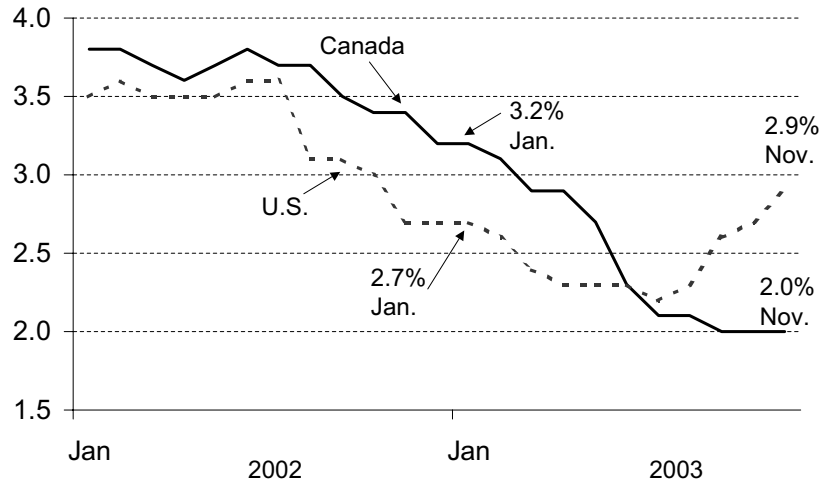
¹ Reflects information available as of November 24, 2003.

² The advance third quarter U.S. GDP was released on October 30, 2003. This is the first look at quarterly U.S. GDP and will be revised with the preliminary release on November 25, 2003 and finalized on December 23, 2003

The positive indicators out of the U.S. have resulted in forecasters raising their outlook for the U.S. economy. The November *Consensus Economics* forecast is 2.9 per cent in 2003, up from 2.3 per cent in August.

Chart 2.1 Consensus outlook for 2003 growth

Forecast annual per cent change in 2003 Real GDP

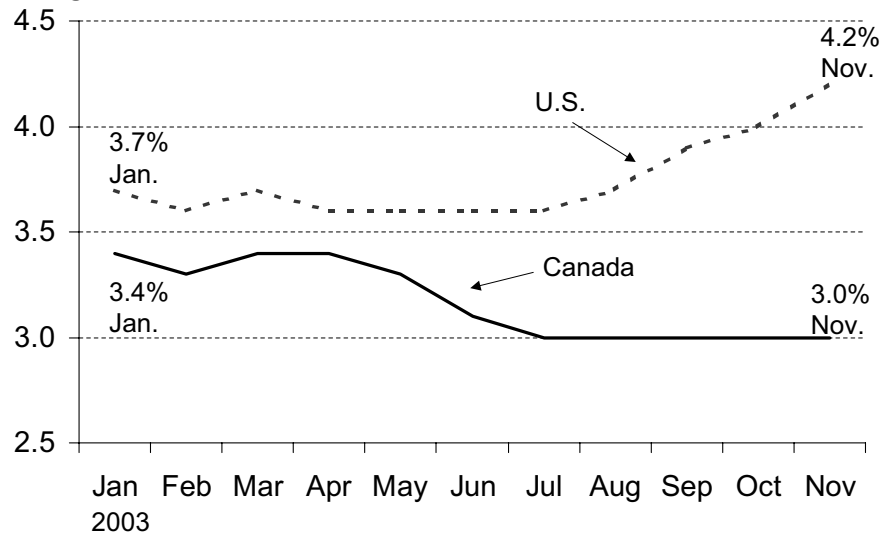


Source: Consensus Economics, various private sector forecasters
 The chart above represents forecasts for real GDP growth in 2003 as polled on specific dates. For example, forecasters surveyed on November 10, 2003 had an average U.S. growth forecast of 2.9 per cent. On August 11, 2003 these forecasters had a lower outlook averaging 2.3 per cent.

The outlook for U.S. growth in 2004 also gained strength since the beginning of this year. *Consensus Economics* forecast 4.2 per cent U.S. growth for 2004 in their November survey, up from 3.7 per cent in August.

Chart 2.2 Consensus expects strong U.S. growth in 2004

Forecast annual per cent change in 2004 Real GDP



Source: Consensus Economics, various private sector forecasters
 The chart above represents forecasts for real GDP growth in 2004 as polled on specific dates. For example, forecasters surveyed on November 10, 2003 had an average U.S. growth forecast of 4.2 per cent. On August 11, 2003 these forecasters had a lower outlook, averaging of 3.7 per cent.

The Canadian economy is expected to post a weaker performance than the U.S. In their November survey, *Consensus Economics* forecast Canadian economic growth of 2.0 per cent and 3.0 per cent for 2003 and 2004 respectively. Canada's more moderate economic growth in 2004 relative to the U.S. is expected to result from the rapid appreciation of the Canadian dollar and higher interest rates in Canada relative to the U.S. Significant fiscal stimulus in the U.S. is also a contributing factor.

In the July to September quarter, the Canadian economy was weakened by various factors. Canadian GDP was down 0.7 per cent in August, largely due to the Ontario electric power blackout. The rapid appreciation of the Canadian dollar also dampened economic growth, particularly in the trade sector.

Employment in Canada rose 0.3 per cent in September after declining in July and August. Domestic demand remains solid with retail sales rising 3.7 per cent in the first nine months of 2003, over the same period last year.

Economic conditions are mixed elsewhere around the globe. In Europe, the outlook for 2003 remains weak mainly due to poor economic conditions in Germany, where there are expectations of zero growth this year. The pessimistic outlook for Europe is somewhat muted by the strong economic performance in the United Kingdom where interest rates were raised this month in an attempt to curb consumer demand.

Meanwhile, Japan is expected to see stronger economic growth this year compared to the previous two years. *Consensus Economics* expects average real GDP growth of 2.4 per cent in 2003, before dropping down to 1.3 per cent in 2004. Industrial production picked up in September and businesses in the manufacturing sector that rely heavily on external demand are becoming increasingly optimistic. However, there is concern over domestic activity as consumer demand in Japan remains weak. Therefore, there is still considerable uncertainty about whether this economic recovery is sustainable over the medium term.

Provincial Outlook

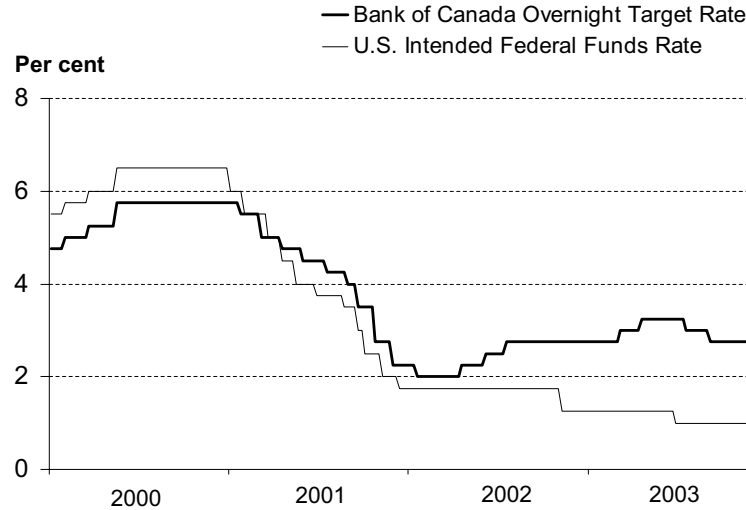
The Canadian provinces have been hit by numerous shocks this year including the SARS outbreak, Bovine Spongiform Encephalopathy (BSE), forest fires, recent floods in B.C., the eastern power outage and the rapid rise in the Canadian dollar. Economic forecasts for all provinces except Saskatchewan and Newfoundland have been significantly downgraded since the start of the year. The private sector average 2003 outlook for B.C. has fallen over a percentage point from January to November, to 1.5 per cent. Growth expectations in 2003 have been reduced the most for Ontario, which fell 1.6 percentage points to 1.8 per cent.

Financial Market Developments

In the July to September quarter, the U.S. Federal Reserve Board held interest rates steady at 1.0 per cent in order to provide ongoing support to economic activity. At their October 28th meeting, the Federal Open Market Committee stated their intention to maintain this accommodative monetary policy stance for a considerable period.

Easing inflationary pressures and a national economy buffeted by shocks prompted the Bank of Canada to cut 50 basis points from its target overnight rate to 2.75 per cent over the July to September period, reversing the increases earlier in the year. In their October *Monetary Policy Report*, the Bank of Canada indicated that they would continue to closely monitor the impacts of the exchange rate and global developments on output and inflation in Canada.

Chart 2.3 Interest rates remain low



Sources: Bank of Canada and U.S. Federal Reserve Bank.

The Canadian dollar averaged 72.5 cents US over the July to September period. With the release of strong third quarter GDP for the U.S., the dollar lost some ground, but it quickly recovered and hovered around the 76-77 cent range in recent weeks. Many analysts are forecasting further appreciation of the Canadian dollar, reflecting the continuation of a large U.S. current account deficit and lingering doubt about the resilience of the U.S. economic recovery.

Chart 2.4 Rapid appreciation of the Canadian dollar



Source: Bank of Canada

Table 2.1 Private Sector Exchange Rate Forecasts

Average annual exchange rate (US cents/Can \$)	2003	2004	Change
CIBC World Markets.....	71.4	75.2	3.8
Nesbitt Burns.....	71.7	78.7	7.0
RBC Capital Markets.....	71.8	78.8	7.0
Scotiabank.....	71.8	78.9	7.1
TD Economics.....	71.3	77.3	5.9
Royal Bank.....	71.3	78.2	6.9
Average (as of November 24, 2003).....	71.5	77.8	6.3
Average (as of August 20, 2003).....	71.1	74.9	3.8

British Columbia Economic Developments

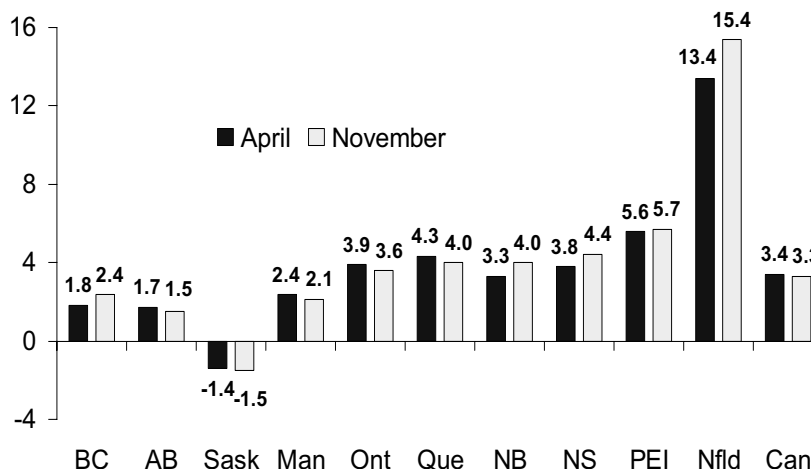
British Columbia's Economic Performance in 2002

On November 6, 2003 Statistics Canada released new estimates of provincial GDP for 1999 to 2002. Economic growth in British Columbia for 2002 was updated to 2.4 per cent. This was an upward revision from the 1.8 per cent estimate of 2002 growth released in April. A number of other provinces including Ontario, Quebec, Manitoba, Saskatchewan and Alberta had their 2002 real GDP growth revised downwards. The reductions in Ontario, Quebec, Manitoba and Saskatchewan (the provinces that, together with B.C., make up the five-province standard for determining equalization funding) combined with B.C.'s improved economic performance, are consistent with the lower 2002 equalization entitlement (see topic box on equalization in Part One).

Nominal GDP growth in B.C. for 2000 was revised upwards significantly from 7.3 per cent to 8.4 per cent. In 2001, nominal GDP growth in B.C. was revised down to 0.7 per cent from the previous estimate of 1.2 per cent and was unchanged at 2.7 per cent for 2002. The higher level of nominal GDP (now expected to be \$135,552 million for 2002, updated from \$134,365 million previously) has helped reduce B.C.'s 2002/03 taxpayer-supported debt-to-GDP ratio to 21.4 per cent from 21.6 per cent previously.

Chart 2.5 Provincial accounts 2002 GDP revisions: improvement for B.C.

**Annual per cent change
in 2002 real GDP**



Source: Statistics Canada

British Columbia Economic Developments in 2003

In the July to September quarter, many economic indicators strengthened after a weaker performance in the April to June period of this year (see Table 2.2).

Table 2.2 British Columbia Economic Indicators

All data seasonally adjusted	Apr. to Jun. 2003	July to Sept. 2003	Year-to-Date
	change from Jan. to Mar. 2003	change from Apr. to Jun. 2003	Jan. to Sept. 2003 change from Jan. to Sept. 2002
	Per cent change		
Employment.....	+0.2	+0.6	+2.3
Manufacturing Shipments.....	-3.1	+3.7	-1.6
Exports.....	-6.9	+10.4	+2.5
Retail Sales.....	-0.7	+0.8	+2.3
Housing Starts.....	-4.6	+32.5	+21.0
Non-Residential Building Permits.....	+4.3	+41.8	+11.7

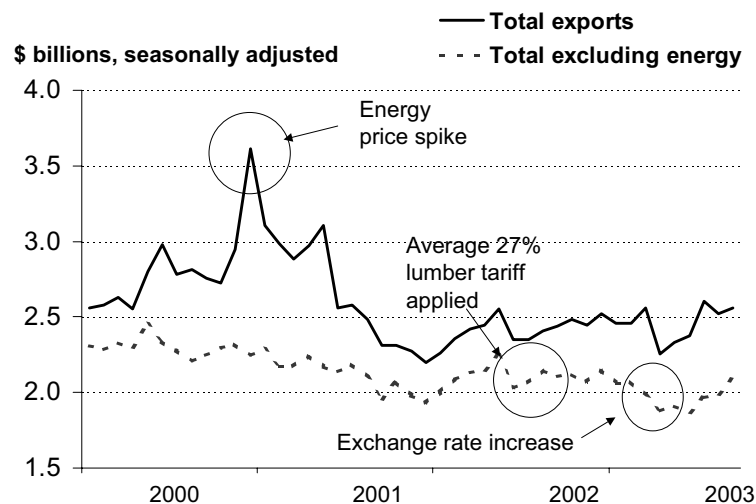
Source: Statistics Canada; BC Stats

British Columbia's exports of goods rose 10.4 per cent in the July to September quarter of 2003, due to a strong contribution from the energy sector and a pick up in the value of forest product exports. The British Columbia economy added 30,100 jobs in October, an increase of 1.5 per cent from the previous month. Housing starts remain robust, with July to September starts averaging 30,067, up 32.5 per cent from the previous quarter. In addition, non-residential building permits rose 41.8 per cent during the July to September quarter.

External Trade

The value of B.C.'s exports increased 10.4 per cent in the July to September period of 2003 compared to the April to June period. Energy exports remained robust and forest product exports picked up. Non-energy exports rose by 6.7 per cent.

Chart 2.6 Exports increase led by energy

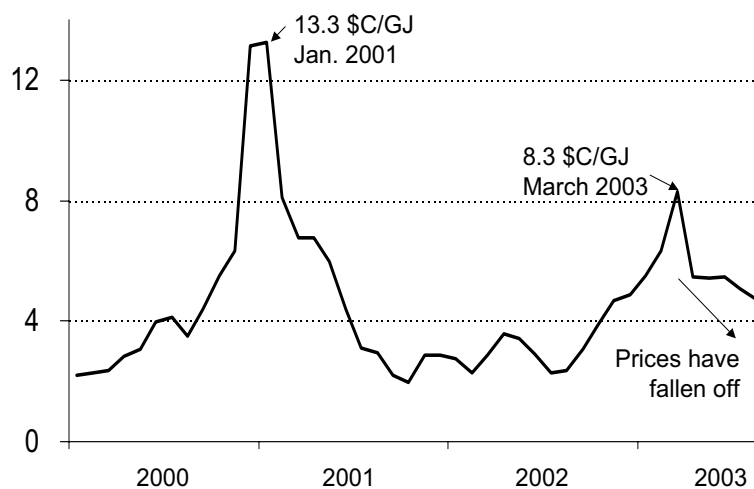


Source: B.C. Stats

In the first nine months of 2003, the value of merchandise exports was up 2.5 per cent from the same period last year. This increase was almost entirely due to higher energy exports, as non-energy exports declined 6.1 per cent in the January to September period of 2003 from the previous year.

Chart 2.7 Natural gas prices moderate in 2003

Natural Gas Price
(\$Cdn/GJ WEI inlet)

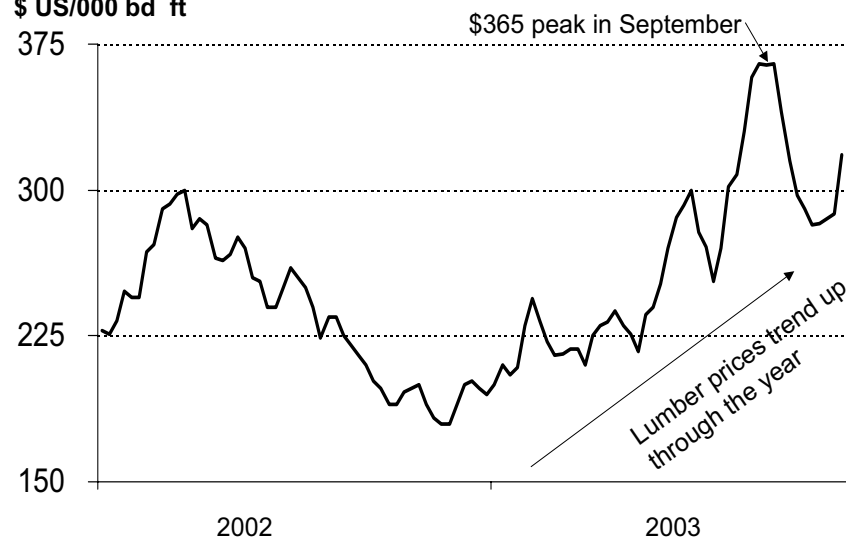


Source: B.C. Ministry of Energy and Mines

Energy exports contributed significantly to the province's export performance in the July to September period of 2003, rising 26.2 per cent from the previous three months. Natural gas prices were elevated late last year and earlier this year due to concerns of a gas shortage. Prices have been falling in recent months as inventories are rebuilt and shortage concerns dissipated. However, they were still at historically high levels over the summer, coming in at \$C4.7/giga-joule in August.

Chart 2.8 Lumber prices peak in September

Spruce-pine-fir 2X4;
\$ US/000 bd ft



Source: Madison's Lumber Reporter

*Beginning in April 2003, SPF 2x4 price includes freight. Previous prices have not been adjusted to reflect this change. This has the effect of increasing the price by \$23 - \$26 per thousand board feet.

Exports of forest products in the July to September quarter rose 7.4 per cent, reflecting higher lumber prices. While year to date forest exports are down due to weaker prices earlier in 2003, by September forest product exports had reached year-earlier levels, due to the sudden run up in prices. Lumber prices reached a high of US\$365 in September, reflecting strong demand and inventory shortages. After falling back to US\$283 by the end of October, spruce-pine-fir prices have risen above US\$300 again in November.

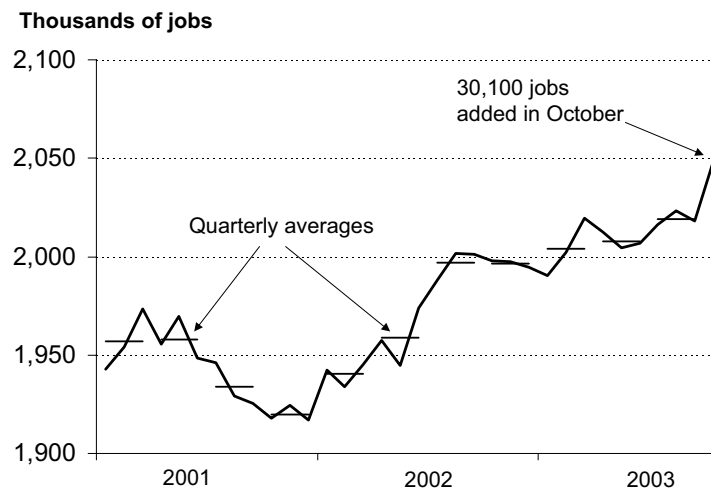
Labour Market

Employment rose 0.6 per cent in the July to September period, an increase of 11,400 jobs from the previous three months. All of the job gains over the quarter were in part-time employment, offsetting a decline in full-time employment. Self-employment also rose over the July to September period, adding 17,700 jobs. The labour force increased 1.1 per cent during the July to September quarter. Consequently, the unemployment rate averaged 8.8 per cent, up from 8.3 per cent in the April to June period.

The positive B.C. results for the quarter translated into an improved jobs market, with employment rising by 30,100 jobs in October, bringing B.C.'s unemployment rate down to 7.8 per cent. The strong October numbers were fuelled by an increase of 28,000 full-time jobs.

On a year to date basis, the British Columbia economy added 45,500 jobs in total, compared to the January to October period of 2002. The majority of the gains were in full-time employment, which increased by 39,500 jobs. Part-time employment also increased in the January to October period, adding 6,000 jobs compared to the same period last year.

Chart 2.9 Robust employment growth in 2003



Source: Statistics Canada

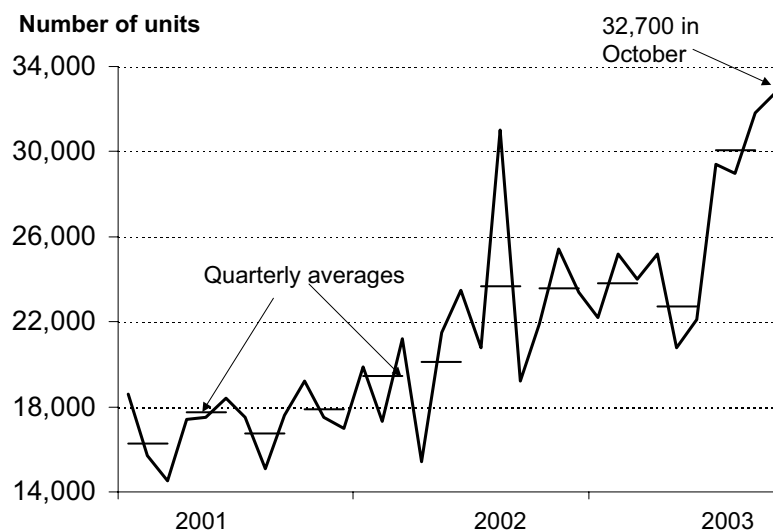
Domestic Demand

Retail sales grew in the July to September period, rising 0.8 per cent from the previous three months. Low interest rates and dealer incentives helped boost sales of motor vehicles by 21.1 per cent in July from the previous month.

However, vehicle sales fell off by 0.7 per cent in August, and 3.5 per cent in September.

Housing starts remain an area of strength in the British Columbia economy, due in part to low mortgage rates, as well as federal and provincial tax cuts. In the July to September period, starts rose 32.5 per cent from the previous quarter. In October, housing starts jumped to 32,700 units, their highest level since June 1997, with much of the growth in the multiples category.

Chart 2.10 Strong housing starts continue in October



Source: Canadian Mortgage and Housing Corporation; seasonally adjusted at annual rates.

Non-residential building permits climbed 41.8 per cent in the July to September period from the previous three months. Institutional and government permits jumped 70.2 per cent in the quarter while commercial permits rose 35.5 per cent, and industrial permits grew 14.2 per cent. This signals a pick up in non-residential construction investment in coming months.

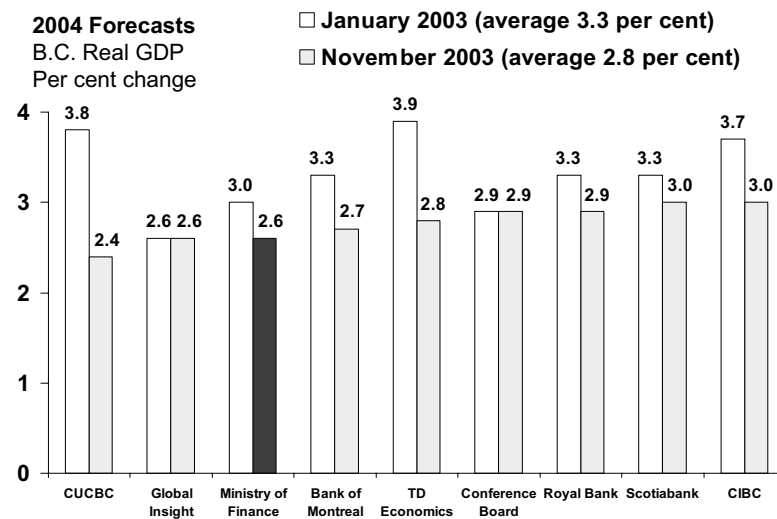
British Columbia Economic Forecast

In the first *Quarterly Report*, the British Columbia economy was forecast to expand 1.5 per cent in 2003, and 2.6 per cent in 2004. This forecast was based on U.S. growth assumptions of 2.1 per cent for 2003, compared to the August *Consensus Economics* forecast of 2.3 per cent. Subsequently the Consensus outlook has risen to 2.9 per cent for 2003. While this improved U.S. forecast has a positive effect for the B.C. outlook, the stronger than expected dollar plus ongoing challenges in the province's forest sector continue to hinder economic growth this year.

The Ministry of Finance's 2.6 per cent forecast for 2004 in the first *Quarterly Report* was based on an assumption of 3.0 per cent growth in the U.S. next year. Stronger growth in the U.S. is now expected next year, with *Consensus Economics* forecasting growth of 4.2 per cent in 2004. This higher-than-expected U.S. growth, combined with positive trends in British

Columbia, suggests B.C. real GDP growth could now exceed the current forecast of 2.6 per cent in 2004.

Chart 2.11 2004 BC real GDP forecasts average 2.8 per cent



Sources: B.C. Ministry of Finance and various financial institutions

For Canada, the Ministry of Finance assumption in the first *Quarterly Report* was for growth of 1.8 per cent in 2003, and 2.7 per cent in 2004. These assumptions remain below the current *Consensus Economics* forecast, which is for growth of 2.0 per cent and 3.0 per cent in 2003 and 2004, respectively.

In 2004, private sector forecasters are expecting the British Columbia economy to pick up to an average growth rate of 2.8 per cent.

The Minister of Finance will be meeting with the independent Economic Forecast Council on December 8, 2003 to obtain their views on the North American and British Columbia economic outlook. An updated five-year economic forecast, incorporating their advice, will be developed for the February 17, 2004 budget.

Risks to the Economic Outlook

The economic outlook has risks on both the upside and downside. The most significant risks to the British Columbia economic outlook remain the strength of the U.S. recovery and the exchange rate.

The British Columbia economy could grow slower than forecast if:

- The loonie rises sharply.
- The economic recovery in the U.S. is not sustained and the U.S. returns to sluggish growth, reflecting a shift to a lower long-term productivity growth path.
- Geopolitical uncertainty accelerates due to increased tensions in the Middle East and other global hot spots.
- Tourism in B.C. does not recover as anticipated.

Alternatively, the British Columbia economy could grow faster than forecast if:

- Canada and the U.S. return to the high-productivity fuelled growth recorded in the late 1990s, generating stronger demand for goods and services.
- A resolution of the softwood lumber dispute is reached, which, alongside growing U.S. demand, would provide an opportunity for growth in British Columbia's forest industry.
- Visitors to B.C. increase as Vancouver gains further international recognition as a tourism destination through promotion of the 2010 Winter Olympic Games. The successful Vancouver/Whistler bid will boost the outlook in the longer-term as infrastructure spending gets underway.
- British Columbia business confidence and investment strengthen further; this would provide a base for stronger economic growth in the province.
- Interprovincial net in-migration to British Columbia turns around more quickly than forecast; this would generate additional demand for goods and services and housing that would boost economic growth.

Table 2.3 Current Economic Statistics

		Latest Period	Year-to-Date Average		
			2002	2003	Change
BRITISH COLUMBIA					
LABOUR MARKET					
Employment (s.a. ¹ , thousands).....	October	2,048	1,969	2,014	2.3%
Unemployment rate (s.a., per cent).....	October	7.8	8.6	8.3	-0.3
Total net in-migration (persons).....	Apr.-Jun.	7,143	6,704	6,586	-119
Interprovincial (persons).....	Apr.-Jun.	-1,140	-2,323	-1,060	1,263
International (persons).....	Apr.-Jun.	8,283	9,027	7,646	-1,382
Wages and salaries (s.a. \$millions).....	June	5,401	5,192	5,394	3.9%
Average weekly wage rate.....	October	683.06	665.45	683.87	2.8%
CONSUMER SECTOR					
Retail sales (s.a., \$ million).....	September	3,395	30,076	30,758	2.3%
Car and truck sales (s.a., units).....	September	15,784	16,263	15,214	-6.4%
Housing starts (all areas, s.a., annual rate).....	October	32,700	21,170	26,240	23.9%
Existing home sales (s.a.).....	September	8,416	6,943	7,688	10.7%
Building permits (s.a., \$ millions).....	September	680	452	531	17.5%
B.C. consumer price index (annual per cent change)....	October	1.6	2.1	2.3	0.2
INDUSTRIAL ACTIVITY					
Foreign merchandise exports (s.a., \$ million).....	September	2,558	2,397	2,458	2.5%
Manufacturing shipments (s.a., \$ million).....	September	2,903	2,843	2,799	-1.6%
Lumber production (thousand cubic metres).....	August	2,459	2,974	3,034	2.0%
Pulp and paper shipments (s.a., \$ million).....	August	644	609	635	4.2%
Coal production (thousand tonnes).....	August	1,478	2,076	1,876	-9.7%
Copper production (million kg).....	September	20.6	20.3	20.2	-0.4%
TOURISM					
Entries of U.S. and overseas residents (thousands).....	September	618.5	655.8	607.4	-7.4%
BC ferry passengers					
to/from Vancouver Island (thousands).....	October	833	960	950	-1.1%
COMMODITY PRICES					
Lumber (U.S.\$/thousand board feet).....	September	359	249	260	4.5%
Pulp (U.S. \$/tonne).....	September	521	465	514	10.7%
Newsprint (U.S.\$/tonne).....	September	510	465	494	6.1%
Copper (U.S.\$/lb.).....	October	0.87	0.70	0.78	10.2%
FINANCIAL DATA					
Canadian dollar (U.S. cents).....	October	75.7	63.6	70.5	6.8
Canadian prime rate (per cent).....	October	4.50	4.15	4.73	0.57
Canadian treasury bills (per cent).....	October	2.65	2.56	2.91	0.35
Treasury bill spread - Canada minus U.S. (per cent).....	October	1.73	0.88	1.88	1.01

¹ s.a. - seasonally adjusted

APPENDIX: FINANCIAL RESULTS

**For the Six Months Ended September 30, 2003
and 2003/04 Full-Year Forecast**

Second Quarterly Report 2003/04

November 2003

- Table A.1 Operating Results
- Table A.2 Operating Results – Changes from *Budget 2003*
- Table A.3 Revenue by Source
- Table A.4 Expense by Ministry, Program and Agency
- Table A.5 Revenue Assumptions – Changes from *Budget 2003*
- Table A.6 Expense Assumptions – Changes from *Budget 2003*
- Table A.7 Expense by Function
- Table A.8 Full-Time Equivalents
- Table A.9 Capital Spending
- Table A.10 Capital Expenditure Projects Greater Than \$50 Million
- Table A.11 Provincial Debt
- Table A.12 Statement of Financial Position

Table A.1 2003/04 Operating Results

(\$ millions)	Year-to-Date to September 30				Full Year			
	2003/04		Actual 2002/03	Budget	2003/04		Actual 2002/03	
	Budget	Actual			Variance	Forecast		Variance
Taxpayer-supported programs and agencies:								
Revenue	12,183	12,371	188	11,723	24,938	24,732	(206)	23,419
Expense	(13,713)	(13,782)	(69)	(13,529)	(28,119)	(28,271)	(152)	(28,354)
Taxpayer-supported balance	(1,530)	(1,411)	119	(1,806)	(3,181)	(3,539)	(358)	(4,935)
Commercial Crown corporation net income	672	881	209	887	1,381	1,689	308	1,766
Deficit before forecast allowance	(858)	(530)	328	(919)	(1,800)	(1,850)	(50)	(3,169)
Forecast allowance	-	-	-	-	(500)	(450)	50	-
Deficit	(858)	(530)	328	(919)	(2,300)	(2,300)	-	(3,169)

Table A.2 2003/04 Operating Results – Changes from Budget 2003

(\$ millions)	2003/04
2003/04 forecast deficit - Budget 2003 Fiscal Plan (February 18, 2003)	(2,300)
First Ministers' Accord on Health Care Renewal:	
Additional revenues from the federal government	319
Additional BC commitments to health care	(319)
2003/04 forecast deficit - Fiscal Plan (May 29, 2003 Supply Act)	(2,300)
First Quarterly Report Forecast Updates:	
Revenue increases (decreases)	
Tax revenue - mainly lower social service tax, updated economic outlook	(107)
Energy revenue - increased activity / higher prices	246
Forestry revenue - impact of higher Canadian dollar	(50)
Federal transfers - mainly impact of updated population and economic forecasts on CHST and equalization entitlements:	
- impact on 2003/04 entitlement	20
- prior year adjustment (2002/03 and earlier entitlements)	(53)
Federal transfers - primarily fire relief funding	26
Federal transfers - cost recoveries: mainly accounting for federal highway funding	(31)
Other cost recoveries - mainly lower interest charges on self-supported debt	(113)
All other taxpayer-supported revenue	(12)
Commercial Crown corporation net income:	
BC Hydro - improved water levels and interest savings	185
Other Crown corporation changes - mainly ICBC	55
Total revenue increases	166
Less: expense increases (decreases)	
Forest fire and related costs	487
BC Family Bonus - reduced provincial funding requirements	(6)
Interest costs - mainly reduced debt levels	(125)
CRF expense increases	356
Taxpayer-supported Crown corporation and agency expenses and adjustments - mainly lower cost recoveries	(140)
Total expense increases	216
Forecast allowance reduction	50
Net change	-
2003/04 forecast deficit - first Quarterly Report	(2,300)

Continued ⇨

Table A.2 2003/04 Operating Results – Changes from Budget 2003 – Continued

(\$ millions)	2003/04
Second Quarterly Report Forecast Updates:	
Revenue increases (decreases)	
Personal income tax revenue - mainly due to higher 2002 tax assessments:	
- prior year adjustment (higher 2002/03 and earlier revenue)	129
- higher 2003/04 revenue	71
Corporation income tax revenue - lower average tax rates, partially offset by improved prior year tax entitlements	(11)
Property transfer tax - strong housing market	65
Energy revenue - mainly higher sales of drilling rights, partially offset by lower energy prices	151
Forests revenue - lower volumes	(58)
Federal transfers - mainly impact of revised 2002 tax and natural gas bases on CHST and equalization entitlements:	
- prior year adjustment (lower 2002/03 and earlier entitlements)	(313)
- lower 2003/04 entitlement	(270)
Federal transfers - fire relief funding	120
All other taxpayer-supported revenue - mainly lower cost recoveries	(16)
Commercial Crown corporation net income:	
BC Hydro - mainly additional interest savings	31
BC Rail - mainly operating efficiencies and increased railcar rental revenue	25
ICBC - reserve for potential legal tariff increase, partially offset by lower claims and insurance operations costs	(25)
Other Crown corporation changes - primarily LDB operating results	37
Total revenue decreases	(64)
Less: expense increases (decreases)	
Lower forest fire costs	(65)
Higher disaster response costs including floods	33
Lower interest and other costs - mainly due to delayed borrowing	(5)
CRF expense decreases	(37)
Taxpayer-supported Crown corporation and agency expenses and adjustments - mainly lower cost recoveries	(27)
Total expense decreases	(64)
Net change	-
2003/04 forecast deficit - second Quarterly Report	(2,300)

Table A.3 2003/04 Revenue by Source

(\$ millions)	Year-to-Date to September 30				Full Year			
	2003/04			Actual 2002/03	2003/04			Actual 2002/03
	Budget	Actual	Variance		Budget	Forecast	Variance	
Taxation								
Personal income	2,322	2,289	(33)	2,274	4,722	4,851	129	4,150
Corporation income	440	447	7	452	755	733	(22)	612
Social service	2,048	1,986	(62)	1,957	3,995	3,895	(100)	3,795
Fuel	449	451	2	340	866	862	(4)	684
Tobacco	327	334	7	330	635	635	-	606
Property	766	776	10	754	1,550	1,565	15	1,520
Property transfer.....	200	268	68	215	368	493	125	407
Corporation capital	51	59	8	162	101	101	-	198
Other	184	191	7	202	349	353	4	359
	6,787	6,801	14	6,686	13,341	13,488	147	12,331
Natural resources								
Natural gas royalties.....	514	622	108	376	1,289	1,296	7	1,056
Petroleum royalties, permits, fees & minerals.	218	640	422	230	477	867	390	532
Columbia River Treaty.....	110	115	5	31	240	240	-	100
Forests.....	409	342	(67)	509	1,102	994	(108)	1,323
Water resources, <i>Wildlife Act</i> and other.....	151	147	(4)	133	288	305	17	270
	1,402	1,866	464	1,279	3,396	3,702	306	3,281
Other revenue								
Medical Services Plan premiums	713	704	(9)	664	1,410	1,393	(17)	1,355
Motor vehicle licences and permits	184	187	3	183	352	360	8	351
BC Ferries tolls	-	-	-	195	-	-	-	315
Other fees and licences	252	306	54	284	500	516	16	595
Investment earnings	341	281	(60)	343	728	607	(121)	640
Sales of goods and services by taxpayer-supported Crown corporations ...	132	165	33	144	266	265	(1)	275
Miscellaneous	256	291	35	222	634	591	(43)	629
	1,878	1,934	56	2,035	3,890	3,732	(158)	4,160
Contributions from the federal government ¹								
Canada health and social transfer.....	1,530	1,519	(11)	1,298	3,082	3,141	59	2,606
Equalization - current year	338	336	(2)	203	675	468	(207)	543
- prior year adjustments	-	(303)	(303)	-	-	(468)	(468)	-
Other.....	248	218	(30)	222	554	669	115	498
	2,116	1,770	(346)	1,723	4,311	3,810	(501)	3,647
Taxpayer-supported programs and agencies								
	12,183	12,371	188	11,723	24,938	24,732	(206)	23,419
Commercial Crown corporation net income								
BC Hydro	(52)	33	85	141	(48)	167	215	418
Rate stabilization account transfer	-	-	-	-	(22)	(21)	1	(66)
BC Hydro net operating results	(52)	33	85	141	(70)	146	216	352
Liquor Distribution Branch	340	359	19	336	655	691	36	654
BC Lotteries	336	346	10	340	725	725	-	671
BC Rail	52	71	19	(39)	61	87	26	(84)
ICBC	47	112	65	24	45	97	52	45
Other	3	4	1	7	5	8	3	14
Accounting adjustments	(54)	(44)	10	78	(40)	(65)	(25)	114
	672	881	209	887	1,381	1,689	308	1,766
Total Revenue.....	12,855	13,252	397	12,610	26,319	26,421	102	25,185

¹ Includes additional federal contributions received under the First Ministers' Accord on Health Care Renewal.

Table A.4 2003/04 Expense by Ministry, Program and Agency

(\$ millions)	Year-to-Date to September 30				Full Year			
	2003/04			Actual 2002/03 ¹	2003/04			Actual 2002/03 ¹
	Budget	Actual	Variance		Budget	Forecast	Variance	
Advanced Education.....	933	907	(26)	901	1,899	1,899	-	1,897
Education.....	2,474	2,462	(12)	2,513	4,860	4,860	-	4,858
Health Planning.....	11	10	(1)	11	24	24	-	22
Health Services.....	5,139	5,130	(9)	4,966	10,504 ²	10,504	-	10,154
Subtotal	8,557	8,509	(48)	8,391	17,287	17,287	-	16,931
Office of the Premier.....	26	18	(8)	16	52	52	-	40
Agriculture, Food and Fisheries.....	29	28	(1)	37	49	49	-	72
Attorney General.....	249	261	12	246	506	506	-	532
Children and Family Development.....	724	719	(5)	754	1,451	1,451	-	1,567
Community, Aboriginal and Women's Services.....	332	288	(44)	284	665	665	-	638
Competition, Science and Enterprise.....	88	88	-	22	115	115	-	55
Energy and Mines.....	29	28	(1)	25	57	57	-	47
Finance.....	30	30	-	25	55	55	-	63
Forests.....	269	576	307	290	565	915	350	618
Human Resources.....	715	696	(19)	754	1,417	1,417	-	1,515
Management Services.....	25	37	12	27	47	47	-	63
Provincial Revenue.....	23	21	(2)	17	50	50	-	55
Public Safety and Solicitor General.....	257	291	34	254	507	612	105	528
Skills Development and Labour.....	10	9	(1)	12	26	26	-	24
Sustainable Resource Management.....	40	41	1	51	92	92	-	124
Transportation.....	417	410	(7)	350	834	834	-	744
Water, Land and Air Protection.....	52	58	6	60	130	130	-	149
Subtotal	3,315	3,599	284	3,224	6,618	7,073	455	6,834
Total Ministries and Premier's Office	11,872	12,108	236	11,615	23,905	24,360	455	23,765
Legislation.....	22	20	(2)	19	43	43	-	39
Officers of the Legislature.....	11	10	(1)	12	23	24	1	25
BC Family Bonus.....	43	40	(3)	51	85	79	(6)	88
Management of public funds and debt....	431	381	(50)	352	926	795	(131)	711
Government restructuring (ministries)....	27	24	(3)	65	190	190	-	212
Contingencies and new programs.....	-	-	-	-	170	170	-	-
Other appropriations	6	3	(3)	31	11	11	-	67
Subtotal	12,412	12,586	174	12,145	25,353	25,672	319	24,907
Forestry restructuring.....	-	-	-	-	-	-	-	275
CRF expense	12,412	12,586	174	12,145	25,353	25,672	319	25,182
Less: Grants/internal transfers	(432)	(441)	(9)	(491)	(1,087)	(855)	232	(1,107)
Add: Recoveries	779	645	(134)	768	1,615	1,418	(197)	1,737
	12,759	12,790	31	12,422	25,881	26,235	354	25,812
Taxpayer-supported Crown corporations and agencies (net of adjustments)	953	991	38	1,107	1,955	2,033	78	2,542
Children and family development governance authorities	1	1	-	-	283	3	(280) ³	-
Total taxpayer-supported expense	13,713	13,782	69	13,529	28,119	28,271	152	28,354

¹ Figures have been restated to reflect the government organization as of September 30, 2003.

² Includes additional federal contributions received under the First Ministers' Accord on Health Care Renewal.

³ Reflects a review of the timing for the transfer of operations by the Ministry of Children and Family Development to authorities. The updated fiscal plan assumes that the transfer to the authorities will occur beginning in the spring/summer of 2004.

Table A.5 2003/04 Revenue Assumptions – Changes from Budget 2003

Revenue Source and Assumptions (\$ millions unless otherwise specified)	Budget	1st Quarter Forecast	2nd Quarter Forecast
Personal Income Tax	\$4,722	\$4,651	\$4,851
BC personal income growth	3.1%	2.8%	2.8%
BC tax base growth	3.6%	3.3%	3.3%
Average tax yield	5.45%	5.47%	5.45%
BC 2002 tax base growth	2.4%	2.0%	3.8%
BC 2002 tax base growth - 2002/03 Public Accounts	1.5%		
Corporation Income Tax	\$755	\$744	\$733
National tax base (\$ billions)	\$118.3	\$117.7	\$120.7
BC instalment share	8.49%	8.49%	8.49%
Prior-year adjustments	-\$114	-\$114	-\$68
BC 2002 tax base growth	-2.5%	-2.5%	0.1%
BC 2001 and prior year income tax revenue	\$0	\$0	\$38
Revenue is recorded on a cash basis. Due to lags in the federal collection and instalment systems, changes to the BC corporate profits and tax base affect revenue in the succeeding year. For example, 2003/04 instalments from the federal government are based on B.C.'s share of the national tax base for the 2001 tax-year (assessed as of December 31, 2002) and a forecast of the 2003 national tax base.			
Social Service Tax	\$3,995	\$3,895	\$3,895
Consumer expenditure growth	5.4%	4.0%	4.0%
Business investment growth	3.5%	3.3%	3.3%
Other expenditure growth	2.1%	3.4%	3.4%
Petroleum, natural gas, minerals and Columbia River Treaty export electricity sales	\$2,006	\$2,252	\$2,403
Natural gas price (\$Cdn/gigajoule at plant inlet)	\$4.75	\$5.50	\$5.05
Natural gas volumes (petajoules)	1,080	1,038	1,043
Auctioned land base (000 hectares)	685	795	782
Average bid price/hectare (\$)	\$350	\$400	\$824
Mid-Columbia electricity price (\$US/mega-watt hour)	\$37	\$45	\$41
Exchange rate (\$US/\$Cdn)	\$0.645	\$0.711	\$0.715
Forests	\$1,102	\$1,052	\$994
<u>Prices (calendar year average)</u>			
SPF 2x4 price (\$US/thousand board feet)	\$244	\$253	\$270
Hemlock price (\$US/thousand board feet)	\$575	\$515	\$522
Pulp (\$US/tonne)	\$454	\$506	\$517
Exchange rate (\$US/\$Cdn)	\$0.645	\$0.711	\$0.715
Harvest volumes (million cubic metres)	63.0	63.0	59.5
Investment earnings	\$728	\$642	\$607
<u>Sources of investment earnings</u>			
Consolidated Revenue Fund revenue	\$64	\$53	\$56
Tax-payer supported Crown corporations and agencies	\$24	\$18	\$18
Fiscal agency loan recoveries	\$640	\$571	\$533
Fiscal agency loan recoveries reflect the reduction in interest costs for the debt incurred on behalf of commercial Crown corporations			

Continued ⇨

Table A.5 2003/04 Revenue Assumptions – Changes from Budget 2003 – Continued

Revenue Source and Assumptions (\$ millions unless otherwise specified)	Budget	1 st Quarter Forecast	2 nd Quarter Forecast
Canada health and social transfer (CHST)	\$3,082	\$3,055	\$3,141
Equalization	\$675	\$669	\$0
<u>National CHST cash (\$ billions) excluding trust funds</u>			
Base before 2003 Health Accord	\$19.3	\$19.3	\$19.3
Health Reform Fund	\$1.0	\$1.0	\$1.0
Early Learning and Child Care Services	\$0.025	\$0.025	\$0.025
BC basic federal tax (BFT) (\$ billions)	\$11.0	\$11.0	\$11.5
National BFT (\$ billions) (includes estimate of prior years)	\$95.7	\$95.5	\$96.4
BC share of national population	13.1%	13.1%	13.1%
<u>Components of BC CHST revenue (\$ millions)</u>			
Current year base before 2003 Health Accord	\$2,763	\$2,738	\$2,717
Prior year adjustments	\$0	-\$5	\$102
Health Reform Fund (base)	\$130	\$130	\$130
Diagnostic/Medical Equipment Trust (\$200 million total)	\$60	\$60	\$60
2003 CHST Supplement Trust (\$333 million total)	<u>\$129</u>	<u>\$129</u>	<u>\$129</u>
	\$319	\$319	\$319
Early Learning and Child Care Services	\$0	\$3	\$3
<u>Components of Equalization revenue (\$ millions)</u>			
Current-year base	\$675	\$717	\$468
Prior year adjustments	\$0	-\$48	-\$468
Commercial Crown corporation net income	\$1,381	\$1,621	\$1,689
BC Hydro (before RSA transfer)	(\$70)	\$115	\$146
reservoir water inflows (August 1, 2003 forecast)	87%	94%	93%
mean gas price (\$US/MMbtu at Sumas)	4.94	4.82	4.64
ICBC	\$45	\$122	\$97
investment income	\$335	\$302	\$303
adjustment to prior-year claims	-	(\$6)	(\$12)
premium revenue trend	+7.0%	+8.2%	+8.2%
claims-incurred trend	+2.4%	+6.3%	-2.3%
reserve for potential legal tariff increase	-	-	\$93

Table A.6 2003/04 Expense Assumptions – Changes from Budget 2003

Ministry Programs and Assumptions (\$ millions unless otherwise specified)	Budget	1st Quarter Forecast	2nd Quarter Forecast
Children and Family Development	1,451	1,451	1,451
Children-in-care caseload (#)	9,100	9,450	9,400
Average annual residential cost per child in care (\$)	26,300	26,300	26,300
Adult community living			
Residential services caseload (#)	5,277	5,245	5,245
Average cost per client (\$)	66,800	66,800	66,800
Training and support services (#)	9,200	9,450	9,450
Average cost per client (\$)	12,200	12,900	12,900
Forests	565	980	915
Direct Fire Fighting			
Fire fighting season finished by the end of October, 2003	55	410	375
Rehabilitation work is ongoing	<u>n/a</u>	<u>60</u>	<u>30</u>
	<u>55</u>	<u>470</u>	<u>405</u>
Health Services	10,185¹	10,504	10,504
Pharmacare	614	743	743
Demand/cost growth (per cent change)	-12.5%	6.0%	6.0%
Regional Health Sector Funding	6,419	6,609	6,609
Public Safety and Solicitor General	507	579	612
<i>Emergency Program Act</i>			
Fire fighting season finished by the end of October, 2003	3	75	92
Floods	<u>13</u>	<u>13</u>	<u>29</u>
	<u>16</u>	<u>88</u>	<u>121</u>
Management of Public Funds and Debt	926	801	795
Interest rates for new provincial borrowing:			
Short-term	3.94	3.15	3.15
Long-term	5.93	5.45	5.45
Exchange rate (\$US/CDN)	0.6475	0.7324	0.7324
Taxpayer-supported Crown corporations and agencies			
Updated net expense	1,955	2,029	2,033

¹ Does not include *Supplementary Estimates* from increased federal contributions received under the First Ministers' Accord on Health Care Renewal.

Table A.7 2003/04 Expense By Function

(\$millions)	2003/04			Actual 2002/03
	Budget	Forecast	Variance	
Health.....	11,037	11,035	(2)	10,703
Social services.....	2,856	2,840	(16)	3,145
Education.....	6,936	6,936	-	6,958
Protection of persons and property.....	1,428	1,531	103	1,418
Transportation.....	1,354	1,328	(26)	1,743
Natural resources and economic development.....	1,127	1,479	352	1,532
Other.....	763	763	-	667
Government restructuring	190	190	-	169
Contingencies (all ministries)	170	170	-	-
General government.....	466	434	(32)	525
Debt servicing.....	1,792	1,565	(227)	1,494
Total expense.....	28,119	28,271	152	28,354

Table A.8 2003/04 Full-Time Equivalents (FTEs) ¹

FTEs	2003/04			Actual 2002/03
	Budget	Forecast	Variance	
Ministries and special offices (Consolidated Revenue Fund).....	29,049	29,199	150 ²	29,751
Taxpayer-supported Crown corporations and agencies.....	5,270	5,013	(257)	8,244 ³
Children and family development governance authorities	150	-	(150) ²	-
Total FTEs	34,469	34,212	(257)	37,995

¹ Full-time equivalents (FTEs) are a measure of staff employment. FTEs are calculated by dividing the total hours of employment paid for in a given period by the number of hours an individual, full-time person would normally work in that period. This does not equate to the physical number of employees. For example, two half-time employees would equal one FTE, or alternatively, three FTEs may represent two full-time employees who have worked sufficient overtime hours to equal an additional FTE.

² Reflects a review of the timing for the transfer of operations by the Ministry of Children and Family Development to authorities. The updated fiscal plan assumes that the transfer to the authorities will occur beginning in the spring/summer of 2004.

³ Includes third quarter forecasts for Canadian Blood Services and the Forensic Psychiatric Services Commission. No estimates for these organizations were included in the 2002/03 *Public Accounts*.

Table A.9 2003/04 Capital Spending

(\$ millions)	Year-to-Date to September 30				Full Year			
	2003/04			Actual 2002/03	2003/04			Actual 2002/03
	Budget	Actual	Variance		Budget	Forecast	Variance	
Taxpayer-supported								
Education.....	182	152	(30)	160	407	375	(32)	367
Health ¹	69	52	(17)	56	203	139	(64)	117
BC Transportation Financing Authority.....	224	196	(28)	169	298	290	(8)	255
BC Ferries.....	-	-	-	20	-	-	-	58
Rapid Transit Project 2000 ¹	20	9	(11)	24	42	21	(21)	59
Vancouver Convention and Exhibition Centre expansion.....	53	37	(16)	-	67	62	(5)	-
Government operating (ministries).....	72	43	(29)	43	325	260	(65)	183
Other ²	37	20	(17)	27	108	58	(50)	92
Total taxpayer-supported.....	657	509	(148)	499	1,450	1,205	(245)	1,131
Self-supported								
BC Hydro.....	433	301	(132)	357	820	769	(51)	741
BC Rail.....	19	22	3	28	39	35	(4)	52
Columbia River power projects ³	40	60	20	13	76	112	36	54
ICBC ⁴	35	7	(28)	33	71	57	(14)	41
BC Lotteries.....	26	26	-	18	52	59	7	28
Liquor Distribution Branch.....	3	2	(1)	3	5	2	(3)	9
Total self-supported.....	556	418	(138)	452	1,063	1,034	(29)	925
Total capital expenditures.....	1,213	927	(286)	951	2,513	2,239	(274)	2,056

¹ Net of spending by hospital districts for cost-shared projects and capital spending on behalf of, and recovered from, the Greater Vancouver Transportation Authority (*TransLink*).

² Includes BC Housing Management Commission, Provincial Rental Housing Corporation, BC Buildings Corporation, Ministry of Attorney General, Ministry of Public Safety and Solicitor General, Ministry of Children and Family Development and BC Transit.

³ Columbia Power Corporation and Columbia Basin Trust.

⁴ Includes ICBC Properties Ltd.

Table A.10 2003/04 Capital Expenditure Projects Greater Than \$50 million¹**Note: Information in bold type denotes changes from the 2003/04 first Quarterly Report.**

(\$ millions)	Start Date	Forecast Completion Date	Cumulative Spending at Mar. 31, 2003 ^{2 +}	Estimated Spending April 1 to Sept. 30	Estimated Cumulative Spending at =Sept. 30, 2003	Total Project Budget ³	Total Project Forecast ³
Advanced Education facilities							
UBC - Life Sciences Centre.....	Apr. 2002	Sept. 2004	22	28	50	110	110
Health facilities							
Vancouver General Hospital, redevelopment project.....	Sept. 2000	Jan. 2007 ⁴	61	13	74	156	156
Prince George Regional Hospital.....	Spring 2001	Mar. 2004	32	6	38	50	50
Total health facilities.....			93	19	112	206	206
Transportation							
Trans Canada Highway -							
5 Mile (Yoho) Bridge.....	May 1999	Fall 2006	19	6	25	42 ⁵	42 ⁵
Nisga'a Highway.....	Aug. 1998	Fall 2005	26	9	35	52	52
SkyTrain extension - phase 1.....	Sept. 1998	Dec. 2005	1,050	6	1,056	1,167	1,117
SkyTrain fleet expansion ⁶	Oct. 1998	Sept. 2003	65	3	68	68	68
Total transportation.....			1,160	24	1,184	1,329	1,279
Power generation							
BC Hydro							
- Burrard upgrade (including 6 selective catalytic reduction systems) ⁷	June 1993	Oct. 2003	191	5	196	222	199
- Georgia Strait pipeline crossing ⁸	April 2000 ⁹	Dec. 2006	25	3	28	131	209
- Vancouver Island generation project....	April 2000 ⁹	Jan. 2007	77	(10)	67	370 ¹⁰	370 ¹⁰
- Addition of fourth generating unit at Seven Mile Dam.....	Feb. 1995	Apr. 2003	81	3	84	97	89
- Seven Mile Dam safety improvements.....	June 1999	Mar. 2005	23	9	32	100	76
- Customer information system.....	July 2001	Dec. 2003	39	14	53	63	63
- Finance business transformation.....	Jan. 1999	May. 2003	49	3	52	61	57
Brilliant Expansion Power Corporation ¹⁰							
- Brilliant Dam power expansion.....	Oct. 2002	Aug. 2006	11	36	47	205	205
Total power generation.....			496	63	559	1,249	1,268
Other							
ICBC Properties Ltd.							
- Surrey Central City	Sept. 1999	Dec. 2005 ¹¹	216	4	220	312	312
Vancouver Convention and Exhibition							
Centre expansion	2003	2008	-	37	37	230	230 ¹²
Seymour water filtration plant.....	Dec. 2002	Mar. 2006	50	-	50	50	50 ¹³
Total other.....			266	41	307	592	592

¹ Only projects that have been approved by Treasury Board are included in this table. Ministry service plans may include projects that still require final approval.

² Total expenditures since commencement of each project.

³ Represents sum of annual budgeted expenditures to complete each project.

⁴ Individual components were completed starting in December 2000 and will continue to be completed before the end of the overall project.

⁵ Amount represents the provincial portion of this cost-shared project with the federal government. Total project budget is \$65 million.

⁶ Funds are fully recovered from the Greater Vancouver Transportation Authority (*TransLink*).

⁷ Burrard generating station upgrade includes installation of Selective Catalytic Reduction (SCRs) systems on all 6 generating units. SCRs reduce emissions from the units and are required to meet the air quality standards for the Greater Vancouver Regional District.

⁸ Project co-sponsored with a private sector company. The amounts shown represent BC Hydro's 50 per cent share of the costs; however, only partial funding has been approved to date.

⁹ Initial planning, preliminary field work and engineering design costs. Physical construction will begin at a later date.

¹⁰ A joint venture of the Columbia Power Corporation and the Columbia Basin Trust.

¹¹ The base building was substantially completed in January 2003; however, work to prepare space for new tenants is required.

¹² Provincial portion of this cost-shared project with the federal government and the tourism industry. Total project budget is \$550 million.

¹³ Provincial portion of this cost-shared project under the Canada/BC Infrastructure Program.

Table A.11 2003/04 Provincial Debt¹

(\$ millions)	Balance March 31, 2003	Balance as at September 30, 2003				Balance as at March 31, 2004			
		Net Change ²	Debt Outstanding		Net Change ²	Debt Outstanding		Budget	Variance
			Actual	Budget		Forecast	Budget		
Taxpayer-supported debt									
Provincial government operating.....	15,453	(143)	15,310	16,096	(786)	1,040	16,493	17,782	(1,289)
Education facilities									
Schools.....	4,294	43	4,337	4,385	(48)	138	4,432	4,468	(36)
Post-secondary institutions.....	1,499	70	1,569	1,585	(16)	183	1,682	1,702	(20)
	5,793	113	5,906	5,970	(64)	321	6,114	6,170	(56)
Health facilities.....	2,004	39	2,043	2,082	(39)	116	2,120	2,205	(85)
Highways, ferries and public transit									
BC Transportation Financing									
Authority.....	2,661	9	2,670	2,756	(86)	162	2,823	2,812	11
BC Transit.....	87	(3)	84	79	5	(2)	85	82	3
Public transit.....	930	(8)	922	927	(5)	(11)	919	923	(4)
SkyTrain extension.....	1,105	9	1,114	1,147	(33)	21	1,126	1,170	(44)
Rapid Transit Project 2000.....	3	(3)	-	-	-	(3)	-	-	-
	4,786	4	4,790	4,909	(119)	167	4,953	4,987	(34)
Other									
BC Buildings.....	456	(99)	357	408	(51)	(161)	295	372	(77)
Social housing ³	161	(6)	155	174	(19)	21	182	178	4
Homeowner Protection Office.....	123	5	128	131	(3)	11	134	134	-
Universities and colleges - fiscal agency loans.....	105	(12)	93	109	(16)	(13)	92	108	(16)
Other ⁴	179	(33)	146	121	25	(65)	114	110	4
	1,024	(145)	879	943	(64)	(207)	817	902	(85)
Total taxpayer-supported debt.....	29,060	(132)	28,928	30,000	(1,072)	1,437	30,497	32,046	(1,549)
Self-supported debt									
Commercial Crown corporations and agencies									
BC Hydro.....	6,829	325	7,154	7,659	(505)	270	7,099	7,689	(590)
BC Rail.....	494	(15)	479	480	(1)	(16)	478	478	-
Columbia River power projects.....	118	99	217	252	(35)	95	213	243	(30)
Columbia Power Corporation.....	47	(47)	-	-	-	(47)	-	-	-
Liquor Distribution Branch.....	9	-	9	11	(2)	(1)	8	10	(2)
	7,497	362	7,859	8,402	(543)	301	7,798	8,420	(622)
Warehouse borrowing program.....	-	68	68	224	(156)	-	-	-	-
Total self-supported debt.....	7,497	430	7,927	8,626	(699)	301	7,798	8,420	(622)
Forecast allowance.....	-	-	-	-	-	450	450	500	(50)
Total provincial debt.....	36,557	298	36,855	38,626	(1,771)	2,188	38,745	40,966	(2,221)

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

² Gross new long-term borrowing plus net change in short-term debt outstanding, less sinking fund contributions, sinking fund earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues).

³ Includes the BC Housing Management Commission and the Provincial Rental Housing Corporation.

⁴ Includes student assistance loan guarantees.

Table A.12 2003/04 Statement of Financial Position

(\$ millions)	Actual March 31 2003	Year-to-Date September 30 2003	Forecast March 31 2004
Financial Assets			
Cash and temporary investments	326	1,714	331
Other financial assets	4,093	3,930	4,544
Investments in commercial Crown corporations:			
Retained earnings	2,629	2,808	2,780
Recoverable capital loans	7,381	7,636	7,664
	<u>10,010</u>	<u>10,444</u>	<u>10,444</u>
	14,429	16,088	15,319
Liabilities			
Current and accrued liabilities	4,580	5,949	5,129
Debt:			
Taxpayer-supported debt	29,060	28,928	30,497
Self-supported debt	7,497	7,927	7,798
Forecast allowance.....	-	-	450
Total provincial debt	<u>36,557</u>	<u>36,855</u>	<u>38,745</u>
Less: guarantees and non-guaranteed debt	<u>(416)</u>	<u>(509)</u>	<u>(409)</u>
	<u>36,141</u>	<u>36,346</u>	<u>38,336</u>
	40,721	42,295	43,465
Net Liabilities	(26,292)	(26,207)	(28,146)
Capital and Other Assets			
Prepaid capital advances	7,108	7,097	7,184
Tangible capital assets	10,950	10,359	10,451
Other assets	280	267	257
	<u>18,338</u>	<u>17,723</u>	<u>17,892</u>
Accumulated surplus (deficit)	(7,954)	(8,484)	(10,254)

Changes in Financial Position

(\$ millions)	Actual September 30 2003	Forecast March 31 2004
Change in accumulated (surplus) deficit	530	2,300
Working capital changes:		
Increase (reduction) in cash and temporary investments	1,388	5
Other working capital changes	(1,545)	(121)
	<u>(157)</u>	<u>(116)</u>
Capital asset and investment changes:		
Increase in taxpayer-supported capital investments	509	1,205
Less: amortization and other accounting changes	(1,111)	(1,628)
	<u>(602)</u>	<u>(423)</u>
Increase in total investment in commercial Crown corporations	270	1,278
Less: loan repayments and other accounting changes	164	(844)
	<u>434</u>	<u>434</u>
	<u>(168)</u>	<u>11</u>
Increase (decrease) in guarantees and non-guaranteed debt	93	(7)
Increase (decrease) in total provincial debt	298	2,188

