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# First Quarterly Report

on the Economy, Fiscal Situation,  
and Outlook

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*Fiscal Year 2004/05*

*Three Months*

*April – June 2004*



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# SUMMARY

## First Quarterly Report 2004/05

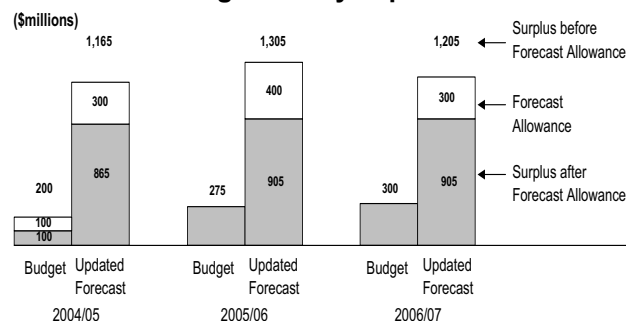
September 2004



| (\$ millions)  | 2003/04<br>Actual | 2004/05<br>Budget | 2004/05<br>Updated<br>Forecast | Updated Plan  |               |
|--|-------------------|-------------------|--------------------------------|---------------|---------------|
|  |                   |                   |                                | 2005/06       | 2006/07       |
| Revenue .....  | 28,987            | 30,577            | 31,750                         | 32,128        | 32,790        |
| Expense .....  | (29,976)          | (30,377)          | (30,585)                       | (30,823)      | (31,585)      |
| <b>Surplus (deficit) before forecast allowance .....</b> | <b>(989)</b>      | <b>200</b>        | <b>1,165</b>                   | <b>1,305</b>  | <b>1,205</b>  |
| Forecast allowance .....                                 | -                 | (100)             | (300)                          | (400)         | (300)         |
| <b>Surplus (deficit) .....</b>                           | <b>(989)</b>      | <b>100</b>        | <b>865</b>                     | <b>905</b>    | <b>905</b>    |
| <b>Provincial debt:</b>                                  |                   |                   |                                |               |               |
| Taxpayer-supported debt .....                            | <b>30,093</b>     | <b>32,172</b>     | <b>29,951</b>                  | <b>29,905</b> | <b>29,412</b> |
| Taxpayer-supported debt as a per cent of GDP .....       | 21.1%             | 21.9%             | 19.9%                          | 19.1%         | 18.0%         |
| Total debt .....   | <b>37,832</b>     | <b>39,452</b>     | <b>37,229</b>                  | <b>37,478</b> | <b>37,299</b> |
| Total debt as a per cent of GDP .....                    | 26.6%             | 26.8%             | 24.7%                          | 23.9%         | 22.8%         |

- Reflecting stronger revenues, the three-year fiscal outlook is significantly improved, with a positive overall change to the forecast surplus in each of the three years. Reflecting increased revenue volatility, the 2004/05 forecast allowance has been increased, and forecast allowances have been introduced for the following two years.

### Fiscal outlook significantly improved

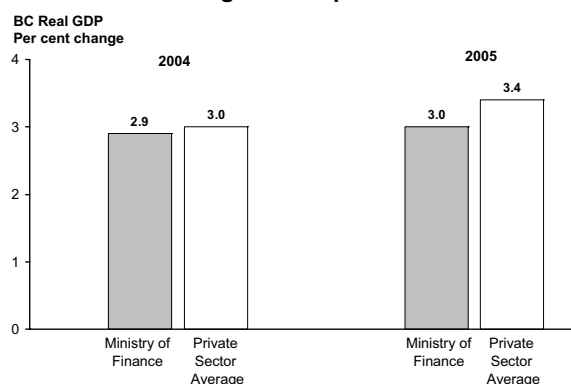


- Economic growth in British Columbia continues to be robust this year, reflecting solid employment gains, near record lumber prices, higher energy and mineral prices, sustained housing market activity and stronger retail sales.
- As a result, economic growth of 2.9 per cent is now expected for 2004. This is slightly lower than the latest private sector average of 3.0 per cent. For 2005 economic growth is forecast to be 3.0 per cent. This is lower than the private sector average of 3.4 per cent, reflecting the current balance of risks to the outlook.
- Although real economic growth is closely tracking the budget forecast, higher export prices have raised the dollar value of the economy. Nominal

GDP growth is now forecast to be 5.6 per cent in 2004, compared to 4.6 per cent at budget.

- Continued economic strength, higher-than-forecast commodity prices and an improved outlook for ICBC have translated into higher taxation and natural resource revenues and higher commercial Crown corporation net earnings. Partially offsetting these improvements are the loss of equalization revenues and reduced BC Hydro earnings due to lower than expected water levels.

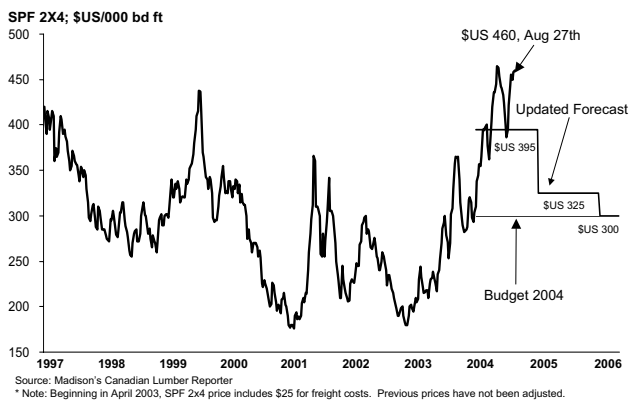
### Robust economic growth expected in 2004 and 2005



- In May 2004, the additional federal revenue contribution to health care was finalized. In keeping with government's commitment, all federal Health Accord funding will be re-invested into the provincial health care system and are added to the fiscal plan.
- Forest fire fighting costs are expected to total \$175 million in 2004/05, \$120 million higher than budget.

- Outside of forest fire fighting costs and additional Health Accord funding, the spending plan remains little changed from budget. Ministries are expected to be on or below budget for the 2004/05 year. Lower debt interest costs continue to be a source of savings.
- Commodity prices are expected to decline gradually from current high levels. However, the volatility of the commodity price cycle and the potential for a sudden slow-down in the US economy provide risks to the revenue outlook.

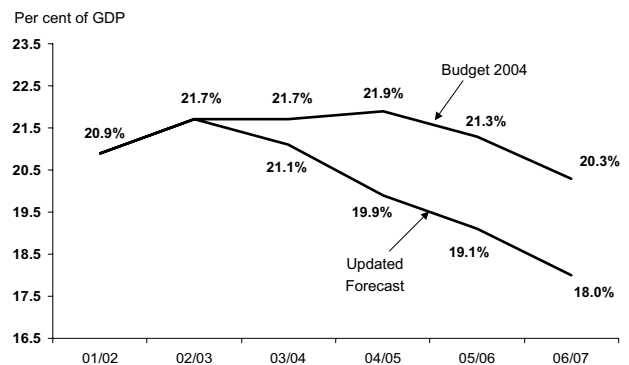
### Lumber prices near record levels



- To help manage these risks, the forecast allowance for 2004/05 has been increased to \$300 million from \$100 million at budget. As well, forecast allowances of \$400 million and \$300 million have been introduced for 2005/06 and 2006/07, respectively.
- The BC Rail Investment Partnership, which was delayed until 2004/05 pending completion of the federal Competition Bureau review, is now finalized. There is no impact on government's bottom line from this initiative, as the net income from the transaction is offset by commitments to the Northern Development Initiative, the BC Rail First Nations Benefits Trust, *Legacies Now* and other priority areas as announced by government in the February budget. Legislation to establish these commitments will be introduced this fall.

- Provincial debt at the end of the 2004/05 fiscal year is expected to be \$37.2 billion, \$2.2 billion lower than the February budget, mainly due to improvements in government's cash position and increased surpluses in the updated fiscal plan.
- The key taxpayer-supported debt-to-GDP ratio is forecast to fall to 19.9 per cent for 2004/05, lower than the 21.9 per cent *Budget 2004* forecast, and then decline over the next two years, reaching 18.0 per cent by the end of 2006/07.

### Taxpayer-supported debt-to-GDP ratio declines



- Increased surpluses provide more opportunities and choices for British Columbians. A Committee of the Legislature will be conducting consultations throughout the province over the next two months to seek advice on the government's three-year fiscal plan, as well as views on what changes should be made in terms of program priorities.
- In addition, government will be addressing existing priorities as it enters into the budget development process. Updates on these and other events, and their impacts on the surplus and debt projections, will be provided in the second *Quarterly Report* and in *Budget 2005*.

# PART ONE — UPDATED FINANCIAL FORECAST <sup>1</sup>

First Quarterly Report 2004/05

September 2004

## Introduction

The government's plan to balance the budget beginning in 2004/05 continues on track, receiving a major boost since *Budget 2004* due to robust economic performance and higher commodity prices.

Compared to budget, higher revenues from taxation and natural resources are expected in all three years of the fiscal plan. These increases will be partially offset by reductions in federal equalization transfers. The improvement is higher in 2004/05 as commodity prices are forecast to decline from current high levels.

Commercial crown corporation earnings also are projected to improve primarily due to a reduction in ICBC's claims cost projections. The 2004/05 improvements will be partially offset by lower BC Hydro earnings, primarily due to low reservoir water levels.

Total government spending is expected to exceed budget in 2004/05, primarily due to higher forest fire costs. This increase is partially offset by reductions in debt service costs, including costs recovered from external entities. Spending projections for 2005/06 and 2006/07 are lower when compared to the February 2004 budget, primarily due to lower interest costs.

The BC Rail investment partnership was completed in July 2004. This will increase both government revenue and expense by equal amounts, as the transaction gain will be reinvested in northern communities and related initiatives. There is therefore no impact on government's surplus.

Due to the volatility of commodity prices, there is a risk that the current price spike will decline more rapidly than expected. The forecast allowance for 2004/05 has been adjusted to reflect this risk, and additional forecast allowances have been introduced for 2005/06 and 2006/07.

The main changes to the fiscal plan are summarized in Table 1.1.

### *Federal Health Care Funding*

As anticipated, subsequent to the February 2004 provincial budget a further federal revenue contribution to the First Ministers' Accord on Health Care Renewal (Health Accord) and the new 2004 Public Health and Immunization Trust was finalized. As a result, spending targets for the Ministry of Health Services were increased \$148 million in 2004/05, \$148 million in 2005/06 and \$18 million in 2006/07. This is in addition to the Health Accord funding added to the previous year's budget. These adjustments reflect the government's commitment to reinvest all additional federal health care contributions received into the provincial health care system. These revenue and expense increases therefore have no net effect on the fiscal plan.

Since the additional funding was included in the final *Supply Act* passed by the Legislative Assembly on May 20, 2004, these amounts have now been added to the February 2004 budget amounts.

<sup>1</sup> Reflects information available and government policy as at September 1, 2004.

**Table 1.1 Fiscal Plan Update – Changes from Budget 2004**

| (\$ millions)   | 2004/05      | 2005/06      | 2006/07      |
|---|--------------|--------------|--------------|
| <b>Budget 2004 Fiscal Plan (February 17, 2004)</b> .....  | <b>100</b>   | <b>275</b>   | <b>300</b>   |
| <b>First Ministers' Accord on Health Care Renewal:</b>  |              |              |              |
| Additional revenues from the federal government .....   | 148          | 148          | 18           |
| Additional BC commitments to health care .....  | (148)        | (148)        | (18)         |
| <b>Fiscal Plan (May 20, 2004 Supply Act)</b> .....  | <b>100</b>   | <b>275</b>   | <b>300</b>   |
| <b>First Quarterly Report Forecast Updates:</b>   |              |              |              |
| <b>Revenue increases (decreases):</b>   |              |              |              |
| Personal income tax – stronger 2003 tax assessments .....   | 75           | -            | 10           |
| Corporate income taxes – improved corporate profit outlook .....                                      | 173          | 247          | 171          |
| Property transfer tax – strong housing market .....   | 168          | 75           | 25           |
| Social service tax and other taxes – mainly reflecting higher 2003/04 results .....                   | 89           | 94           | 113          |
| Natural gas royalties – higher prices .....   | 203          | 296          | 229          |
| Other energy and mineral sources – higher prices .....  | 117          | 117          | 64           |
| Forest revenue – higher lumber prices and harvest volumes .....                                       | 375          | 160          | 135          |
| Post-secondary fees – mainly impact of strategy to increase student spaces .....                      | 95           | 126          | 120          |
| Lower investment earnings – mainly lower Fiscal Agency Loan program revenues .....                    | (73)         | (124)        | (118)        |
| Federal transfers:  |              |              |              |
| – Equalization transfers – impact of higher natural resource revenues and formula change ..           | (363)        | (414)        | (422)        |
| – Health and social transfers – partial offset due to lower Equalization transfers .....              | 166          | 196          | 242          |
| – Other transfers .....   | 26           | 7            | 9            |
| All other taxpayer supported changes .....  | (139)        | (125)        | (110)        |
| Commercial Crown corporation net income:  |              |              |              |
| BC Hydro – mainly water level impacts and rate application revision .....                             | (112)        | (8)          | 28           |
| BC Rail – investment partnership .....  | 191          | -            | -            |
| ICBC – primarily claims cost projections .....  | 166          | 166          | 122          |
| Other Crown corporation changes .....   | 16           | 19           | (4)          |
| <b>Total revenue changes</b> .....  | <b>1,173</b> | <b>832</b>   | <b>614</b>   |
| <b>Less expense increases (decreases):</b>  |              |              |              |
| Education – change in accounting for contributions in support of First Nations .....                  | (52)         | (52)         | (52)         |
| Forest fire and related costs .....   | 120          | -            | -            |
| Children and Family Development – increased federal funding for<br>early learning and childcare ..... | -            | 10           | -            |
| Lower expenses for Free Crown Grants and leases .....   | (40)         | -            | -            |
| BC Rail investment partnership transfers .....  | 391          | -            | -            |
| Interest costs – mainly reduced debt levels .....   | (73)         | (84)         | (95)         |
| <b>CRF expense changes</b> .....  | <b>346</b>   | <b>(126)</b> | <b>(147)</b> |
| Grants and internal transfers:  |              |              |              |
| Higher funding for health authorities, primarily due to the Health Accord .....                       | (158)        | (205)        | (290)        |
| BC Rail investment partnership transfer to BCTFA .....  | (200)        | -            | -            |
| Revised CFD governance authorities implementation schedule .....                                      | (3)          | 320          | 544          |
| Other grant and internal transfer changes .....   | -            | (30)         | (91)         |
| CRF expense adjustments – mainly lower Fiscal Agency Loan program recoveries .....                    | (50)         | (109)        | (124)        |
| Taxpayer-supported Crown corporations and agencies:   |              |              |              |
| BCTFA – reduced spending, primarily lower interest costs .....  | (18)         | (26)         | (24)         |
| Other taxpayer-supported Crown corporation and agency changes .....                                   | (19)         | (34)         | (39)         |
| SUCH sector and regional authorities:   |              |              |              |
| School districts – revised spending estimates .....   | 96           | (25)         | 72           |
| Post-secondary institutions – mainly increased student spaces .....                                   | 124          | 201          | 143          |
| Health authorities – increases reflect additional funding .....                                       | 86           | 155          | 208          |
| CFD authorities – revised implementation schedule .....   | 4            | (319)        | (543)        |
| <b>Total expense changes</b> .....  | <b>208</b>   | <b>(198)</b> | <b>(291)</b> |
| <b>Net changes before forecast allowance adjustment</b> .....   | <b>965</b>   | <b>1,030</b> | <b>905</b>   |
| <b>Forecast allowance increase</b> .....  | <b>(200)</b> | <b>(400)</b> | <b>(300)</b> |
| <b>Total changes to Fiscal Plan</b> .....   | <b>765</b>   | <b>630</b>   | <b>605</b>   |
| <b>Updated Fiscal Plan</b> .....  | <b>865</b>   | <b>905</b>   | <b>905</b>   |



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## Revenue

As well as the additional federal Health Accord funding announced in the federal government's 2004 budget, the revenue forecast incorporates updated economic and commodity price forecasts. The forecast also includes the effects of final results for 2003/04 released in the *Public Accounts* on June 29, 2004 and actual revenue results recorded so far this year.

Government revenue, including commercial Crown corporation net incomes, is expected to be \$1,173 million, \$832 million and \$614 million higher than the budget forecast for 2004/05, 2005/06 and 2006/07, respectively. Higher revenues from taxation and natural resources and improved commercial Crown corporation net incomes are partially offset by reduced federal contributions and lower revenues from other taxpayer-supported sources.

The main changes to the three-year outlook by revenue source are:

- Personal income tax revenue is forecast to be \$75 million above budget in 2004/05 due to stronger 2003 tax assessments resulting in a one-time \$75 million prior year adjustment. The forecast is little changed over the next two years.
- Corporate income tax revenue is forecast to be higher than the budget plan by \$173 million in 2004/05, \$247 million in 2005/06 and \$171 million in 2006/07 mainly due to a higher BC corporate profit forecast. The forecast also incorporates expected changes to cash receipts under the terms of the tax collection agreement with the federal government due to increases in Canadian corporate profit forecasts.
- Property transfer tax revenue is forecast to be \$168 million higher than budget in 2004/05 reflecting the strong housing market. The improvement from plan for the next two years is \$75 million and \$25 million, respectively, as the forecast assumes property transfer tax revenue returns to trend.
- Social service tax revenue is forecast to be up \$55 million in 2004/05, \$53 million in 2005/06, and rising to a \$67 million improvement in 2006/07 mainly due to higher 2003/04 results.
- Other taxation revenue is expected to be up \$34 million, \$41 million and \$46 million over the three-year period mainly due to higher than expected 2003/04 results for insurance premium tax and corporation capital tax revenues.
- Energy revenues are the main increases to the revenue forecast:
  - Revenues from natural gas royalties are forecast to be \$203 million, \$296 million and \$229 million higher than planned due to higher prices, partially offset by reduced production volumes.
  - Other energy and mineral source revenue is expected to be \$117 million higher in 2004/05 and 2005/06 and up \$64 million in 2006/07 reflecting higher prices for electricity, petroleum, coal and minerals and the effect of a lower Canadian dollar. The improvement from plan is forecast to be lower by 2006/07 as current high prices are expected to fall. The 2004/05 updated forecast also includes a \$37 million lower outlook for sales of Crown land leases reflecting weaker year-to-date results.

- The effects of higher forest sector commodity prices, assumed increased harvest volumes and a lower Canadian dollar increases the forest revenue forecast by \$375 million, \$160 million and \$135 million over the three years of the plan. The improvement from plan declines over the three years as lumber prices are expected to fall from current high levels. The updated forecast for 2004/05 includes a 4.0 million cubic meter increase in harvest volumes reflecting stronger lumber demand. By 2006/07, harvest volumes are expected to be 2.0 million cubic meters higher than budget due to an improved outlook for Coastal operators. The bellwether spruce-pine-fir 2x4 price forecast at US \$395 per thousand board feet in 2004 is up 32 per cent from the budget assumption but expected to decline to US \$300 by the end of 2006/07.
- Fee revenue from post-secondary institutions is forecast to be \$95 million, \$126 million and \$120 million higher than budget mainly due to the impact of the strategy to provide additional student spaces in post-secondary education.
- Over the three years, revenue from investment earnings is down \$73 million, \$124 million and \$118 million. Because the government borrows on behalf of Crown corporations under its Fiscal Agency Loan program, it records interest payments from commercial Crown corporations as investment earnings revenue. The reduction in forecast investment earnings revenue mainly reflects lower interest costs in commercial Crown corporations.
- Equalization revenue is down \$363 million in 2004/05 mainly due to the effects of higher forest and natural gas revenues.

Over the next two years, higher revenues from these sources combined with the effects of changes to the federal government's equalization formula reduce revenue by \$414 million in 2005/06 and \$422 million in 2006/07. The main element of the formula change that adversely affects BC's entitlement is the change to incorporate market values in the residential property tax base.

BC's equalization revenue forecast now includes only one-time revenues of \$39 million in 2004/05 and \$6 million in 2005/06 announced in the federal government's 2004 budget. The forecast assumes BC is not entitled to normal equalization revenue over the three years. However, BC's equalization entitlements may change depending on relative economic growth with the rest of Canada, the strength of commodity prices, property values, possible additional formula changes and further federal government updates for 2004/05 and prior years.

- Excluding the additional federal health funding of \$148 million in 2004/05 and 2005/06 and \$18 million in 2006/07, health and social transfers are forecast to be \$166 million, \$196 million and \$242 million higher than the budget plan. Revenues are higher mainly reflecting the partial offsetting effect due to a lower equalization forecast.

- Other federal transfers are up \$26 million, \$7 million and \$9 million over the three years. The increase in 2004/05 primarily reflects a \$10 million additional contribution for Early Learning and Childcare announced in the federal government's 2004 budget and additional recoveries relating to the costs of forests fires in 2003/04.
- Revenue from all other taxpayer-supported sources is down \$139 million, \$125 million and \$110 million from the budget plan mainly due to lower taxpayer-supported Crown corporation fee revenues and reduced miscellaneous revenues in the SUCH sector.

The change in 2004/05 also includes a \$40 million reduction in revenue due to a lower forecast of the market value of Crown land transferred or leased at rates below market value. Due to the offsetting effect of both the non-cash revenue loss to government and the lower grant expense to beneficiaries, there is no effect on the government's bottom line or debt.

### *Commercial Crown Corporations Net Income*

- BC Hydro's three-year earnings projection in the February budget has been impacted by a number of factors. A combination of higher domestic demand, the rate application revision, higher energy costs and lower operating expenses will result in a \$112 million decline in earnings from budget in 2004/05, and an \$8 million decline in 2005/06. A \$28 million improvement in 2006/07 follows as higher revenue and lower operating expense overtake the increase in generation costs.

Higher than expected domestic demand has increased revenue in all three years. This increase is partially offset by a revision in BC Hydro's rate application to the BCUC since budget. The budget reflected a 7.23 per cent interim increase effective April 1, 2004 with a subsequent increase of 2.0 per cent effective April 1, 2005. The rate application revision reduced the second increase to 1.67 per cent and moved it forward to the fall of 2004 to be effective on the date of BCUC's decision. The impact of the revision is a slight improvement to revenue in 2004/05 with reductions in 2005/06 and 2006/07, due to a lower cumulative rate increase in those years. While the forecast assumes the rate increases will be approved, BCUC has not made its final determination on the application.

Energy costs are significantly higher in 2004/05 due to 7 per cent lower inflows into reservoirs, reducing production of less expensive hydro generated electricity. This reduction will be offset by increased purchases of more expensive natural gas generated electricity in order to meet demand. The increase in energy costs is expected to be lower in later years as the forecast assumes water levels return to normal and the prices for purchased energy decline.

Lower operating expenses are a result of reductions in interest costs due to lower debt levels and interest rates, and lower amortization expenses due to reduced capital spending.

- BC Rail's earnings during government's 2004/05 fiscal year will increase by a forecast \$208 million mainly due to the completion of the investment partnership with CN in July 2004. In *Budget 2004*, the transaction was forecast to be completed by March 31, 2004, which would have resulted in it being included in government's 2003/04 results. The increase reflects a projected \$191 million transaction gain plus additional earnings from rail operations during the longer than expected closing period. More information on developments in the investment partnership can be found in the topic box at the end of this chapter.

Further restructuring of BC Rail's remaining operations will result in a \$19 million improvement in 2005/06, and a \$4 million reduction to forecast earnings during 2006/07.

- ICBC's impact on the government's bottom line is expected to improve by \$166 million in 2004/05 and 2005/06, and by \$122 million in 2006/07. The improvement is primarily due to the impact of recent claims trends on projections for settling claims costs, which are now forecast to be lower than the projections used in the February 2004 budget. As well, ICBC is forecasting a reduction in projected operating and administration costs, and an increase in investment income. These improvements are partially offset by a reduction in revenues resulting from lower rate increase expectations.

For the first three months of the fiscal year total taxpayer-supported and commercial Crown corporation revenues were \$397 million ahead of budget (see Appendix Table A.2).

## 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 and the SUCH sector (schools, universities, colleges and health authorities/societies).

Before distributions resulting from the BC Rail investment partnership, total expense is expected to be \$17 million above budget for the full fiscal year. After including the BC Rail investment partnership distributions, total expenses are forecast to be \$208 million higher than budget.

### *Consolidated Revenue Fund expense*

In total before the BC Rail investment partnership, spending for ministries and other programs in the consolidated revenue fund (CRF) is forecast to be \$45 million below budget for the full 2004/05 fiscal year. This includes an additional \$120 million to reflect higher expected costs of this year's forest fires, offset by lower spending in other areas.

Subsequent to the February 2004 budget, additional funding of \$148 million, as part of the Health Accord and the 2004 Public Health and Immunization Trust, was included in the *Supply Act* passed by the legislature on May 20, 2004. This funding has been included in addition to the original budgeted amount for Ministry of Health Services spending.

The BC Rail investment partnership was finalized in July 2004, resulting in additional one-time revenue of \$191 million. Legislation will be introduced in the fall to provide for the allocation of the \$191 million to the BC Rail First Nations Benefits Trust and other initiatives outlined in *Budget 2004*. As well, the legislation will provide for a cash transfer of \$200 million from the partnership proceeds to the BC Transportation Financing Authority (BCTFA), for a total CRF expense of \$391 million. The transfer to BCTFA has no impact on the surplus, as BCTFA is part of the government's reporting entity. Further information on the status of the BC Rail partnership is provided in a topic box at the end of this chapter.

Spending targets are expected to increase \$106 million for 2005/06 and decrease by \$34 million in 2006/07 (see Table 1.1). This mainly reflects the pass-through of additional federal funding for health and childcare programs, offset by the effect of a change in provincial accounting for federal contributions received on account of K-12 education for aboriginal children.

The main changes to the three-year spending plan are:

- Health spending – as noted above, additional federal funding of \$148 million, as part of the Health Accord and the 2004 Public Health and Immunization Trust, is added to the original budget for the Ministry of Health Services in 2004/05.

In 2005/06, the province will receive a further \$148 million of federal health care funding; however this contribution will fall to \$18 million by 2006/07. Since both revenue and expenses in the budget and three-year fiscal plan have been adjusted by equal amounts, there is no impact on government's bottom line targets.

Provinces are continuing discussions with the federal government to expand the federal commitment to health care. However, no further federal revenues have been assumed in this forecast.

- Education – spending targets have been reduced by \$52 million in each of the three years due to a change in provincial accounting for federal contributions received on account of K-12 education for aboriginal children. Previously, the province recorded, as CRF revenue and expenditure, amounts transferred directly to school boards from the federal government and First Nations for the education of aboriginal children. As shown in the 2003/04 *Public Accounts*, CRF revenue and expense no longer reflect federal or First Nation funding directly received by school boards. Total funding received by school boards is unaffected by this change and there is no impact on the government's bottom line targets.
- Forest fire costs – as of August 31, 2004, forest fire costs totaled \$149 million compared to \$221 million for the same period last year. Between April 1 and August 31, 2004, there have been 2,317 fires covering 214,245 hectares, compared with 2,272 fires covering 184,580 hectares during the same period last year. Although there are more fires covering a larger area, costs to fight the fires are lower than last year as there are fewer urban interface fires (forest fires that threaten homes and communities).

Based on the latest information, the updated forecast for 2004/05 assumes that full year forest fire costs will be \$175 million, \$120 million above budget. In addition, the Ministry of Forests has identified further fire cost pressures of \$25 million, reflecting the estimated upper range to the forecast depending on assumptions. Costs in 2004/05 are expected to be significantly lower than the record \$437 million cost for the 2003/04 fire season.

- Early Learning and Childcare funding – the spending target for the Ministry of Children and Family Development is increased by \$10 million in 2005/06 to reflect additional federal funding for early learning and childcare announced after the February 2004 provincial budget. There is no impact on the government's bottom line targets from this change.
- Sustainable Resource Management – with the transition to full application of generally accepted accounting principles in 2004/05, the ministry's budget was increased significantly to fully recognize as non-cash revenue and expense, the market value of Crown lands transferred or leased free of charge, or at rates below market value by various ministries. Based on updated information, the ministry has now lowered its requirements by \$40 million.

Due to the offsetting effect of both the non-cash revenue loss to government and the lower grant expense to beneficiaries, there is no effect on the government's bottom line or debt.

- Management of public funds and debt (debt interest) is forecast to be \$73 million below budget in 2004/05 mainly because of lower debt balances at the start of the year and significantly lower borrowing requirements for government operating purposes (see Table 1.5). Debt interest is also forecast to be below budget by \$84 million in 2005/06 and \$95 million in 2006/07.

Except for those areas noted earlier, ministries are expected to be on budget at the end of 2004/05. As shown in Table 1.2, other pressures being managed total \$28 million for 2004/05 and include:

- Attorney General – pressures relate to potentially higher-than-expected costs for potential settlements of claims under the *Crown Proceeding Act*.
- Forests – pressures reflect a potential upper range to the forest fire spending forecast depending on assumptions.

**Table 1.2 2004/05 Pressures Being Managed**

|  | (\$ millions) |
|--|---------------|
| Attorney General – higher claims costs under the <i>Crown Proceeding Act</i> ..... | 3             |
| Forests – higher forest fire costs.....  | 25            |
| <b>Total pressures being managed</b> .....   | <b>28</b>     |

Spending commitments and pressures totaling \$21 million have been notionally allocated to the Contingencies vote. These allocations include:

- As part of the 1995 Vancouver Island Gas Pipeline Assistance Agreement, the province is required to make payments to Terasen Inc. for the value of a volume of natural gas set out in the agreement. Higher-than-assumed natural gas prices are expected to increase the estimated payment required for 2004/05 by \$11 million. However, this is more than offset by increased provincial revenues resulting from the higher natural gas prices.

- Up to \$10 million for expected costs related to the Pickton, Air India and Eron trials. Potential costs were unknown at the time of the budget and will be reviewed later in the fall when further information becomes available.

While Table 1.3 shows that \$219 million remains available to offset unforeseen events over the rest of the year, it may not be enough to fund potential forest fire costs should the Contingencies Vote be needed to absorb other pressures. However, funding for forest fire related costs is statutorily provided for under the authority of the *Forests Practices Code* and *Emergency Program Act* and does not require additional approval of the legislature.

**Table 1.3 2004/05 Pressures Allocated to the Contingencies Vote**

|  | (\$ millions)            |
|--|--------------------------|
| Vancouver Island Gas Pipeline Assistance Agreement – higher payments |                          |
| due to higher natural gas prices.....                                | 11                       |
| Pickton trial.....   | 4                        |
| Air India and other trials.....                                      | 6                        |
| Subtotal .....   | <u>21</u>                |
| Unallocated .....  | 219                      |
| <b>Total contingencies budget .....</b>                              | <b><u><u>240</u></u></b> |

During the first three months of the fiscal year, total CRF spending (ministries, special offices and other programs) was \$116 million lower than expected, reflecting below-budget spending in most programs and lower debt interest costs, partially offset by higher forest-fire costs (see Appendix Table A.3).

#### *Other expense*

To determine total government spending, the expenses of taxpayer-supported Crown corporations and the SUCH organizations are combined with CRF expense as follows:

- Grants and other internal transfers from the CRF to taxpayer-supported Crowns and the SUCH sector are removed to avoid double counting.
- CRF costs recovered from external agencies are added to expense and revenue so that the financial statements reflect all the activities of the CRF.

The subtotal of the above amounts – i.e. the CRF, less transfers, plus recoveries – reflects the cost of services provided to the public directly by ministries. Total government spending is this amount plus the expenses of taxpayer-supported Crown corporations and agencies and the SUCH sector, which reflect the costs of services provided by these organizations.

CRF cost recoveries are forecast to be down \$50 million, \$109 million and \$124 million over the three-year plan. Because the government borrows on behalf of Crown corporations under its Fiscal Agency Loans (FAL) program, it records interest payments received from commercial Crown corporations as recoveries to the CRF. The reduction in forecast recoveries mainly reflects lower than budgeted interest costs in commercial Crown corporations for FALs received from government.

Transfers to health authorities are projected to increase over all three years of the fiscal plan when compared to the February 2004 budget. These

increases mainly reflect the additional Health Accord funding. In 2004/05, the BC Transportation Financing Authority will receive \$200 million of the BC Rail partnership transaction proceeds. In 2005/06 and 2006/07, reductions in transfers primarily reflect the revised implementation schedule for the children and family development governance authorities.

In 2004/05, school districts forecast that they will be spending funding carried forward from prior years in addition to their current year budget. Spending in 2005/06 and 2006/07 has been adjusted to reflect revisions in timing and cost projections. The spending projections for post-secondary institutions now reflect the additional student spaces announced in the February 2004 budget.

As well, the health sector spending projections in the February 2004 budget preceded the final determination of additional federal health funding in May 2004. This additional funding contributes to the projected spending increase reported by health authorities. Some of the increase in funding will be also used for equipment and other capital purchases, whose costs will be spread out in future years.

The timing for the transfer of certain operations by the Ministry of Children and Family Development to regional authorities has been revised, resulting in reduced grants by the ministry and therefore reduced spending by the authorities. This funding will be redirected to maintain services within the ministry, so there will be no effect on total expense from this change.

For the April to June quarter of the 2004/05 fiscal year, total expense was \$284 million below budget.

### **Full-Time Equivalents (FTEs)**

The updated projection for taxpayer-supported FTEs – including ministries and special offices, taxpayer-supported Crown corporations and agencies, and children and family development governance authorities – is unchanged from the February 2004 budget in 2004/05, and is slightly below budget in 2005/06 and 2006/07 (see Appendix Table A.11).

The revised forecast reflects further delays in the implementation of the children and family development governance authorities, resulting in fewer FTEs being transferred from the ministry to the authorities. This delay has no impact on the overall number of FTEs. The updated forecast also reflects a slight reduction in taxpayer-supported Crown corporation and agency FTEs in 2005/06 and 2006/07 when compared to the February 2004 budget.

### **Provincial Capital Spending**

Capital spending is needed to build, acquire or replace assets such as roads, schools, post-secondary facilities, hospitals and related major equipment. Capital spending is not directly counted in the government's annual surplus or deficit. Instead, generally accepted accounting principles require capital costs to be spread out over the useful lives of the related assets through annual amortization expenses.



**Table 1.4 Capital Spending – Changes from Budget 2004**

| (\$ millions)                                      | 2004/05             | 2005/06             | 2006/07             |
|--|---------------------|---------------------|---------------------|
| <b>Budget 2004 capital spending</b> .....          | <b>2,934</b>        | <b>2,933</b>        | <b>2,888</b>        |
| <b>Taxpayer-supported changes:</b>                 |                     |                     |                     |
| Education.....                                     | 172                 | 293                 | 115                 |
| Health.....  | 24                  | 93                  | 64                  |
| Government operating (ministries).....             | (57)                | -                   | -                   |
| Vancouver Convention Centre Expansion Project..... | (32)                | (33)                | 30                  |
| Other.....   | (8)                 | (23)                | 2                   |
| Total taxpayer-supported.....                      | <u>99</u>           | <u>330</u>          | <u>211</u>          |
| <b>Self-supported changes:</b>                     |                     |                     |                     |
| BC Hydro.....                                      | (78)                | (206)               | (186)               |
| Other.....   | 4                   | (7)                 | 35                  |
| Total self-supported.....                          | <u>(74)</u>         | <u>(213)</u>        | <u>(151)</u>        |
| <b>Total changes</b> .....                         | <b>25</b>           | <b>117</b>          | <b>60</b>           |
| <b>Updated capital spending</b> .....              | <b><u>2,959</u></b> | <b><u>3,050</u></b> | <b><u>2,948</u></b> |

Total capital spending is forecast to be \$3.0 billion in 2004/05, \$3.1 billion in 2005/06 and \$2.9 billion in 2006/07. These amounts are \$25 million, \$117 million and \$60 million higher than the *Budget 2004* projections (see Table 1.4 and Appendix Table A.12).

Taxpayer-supported capital spending is forecast to be:

- \$99 million higher than budget in 2004/05 mainly due to an increased scope for existing projects and updated planning assumptions for education and health facilities, partially offset by lower spending on the Vancouver Convention Centre Expansion Project and reduced expenditures for government operating (ministry) capital;
- \$330 million higher than projected in 2005/06 reflecting the updated capital spending plans of health authorities and post-secondary institutions, partially offset by lower spending on the Vancouver Convention Centre Expansion Project; and
- \$211 million higher than projected in 2006/07 reflecting the updated capital spending plans of health authorities and post-secondary institutions and increased spending on the Vancouver Convention Centre Expansion Project delayed from previous years.

Self-supported commercial Crown corporation capital spending is forecast to be \$74 million lower than budget in 2004/05, \$213 million lower in 2005/06 and \$151 million lower in 2006/07. These lower forecasts mainly reflect postponed capital expenditures for the Georgia Strait pipeline crossing and Vancouver Island generation projects. A final decision on these projects and revised capital requirements will be made after completion of the Call-for-Tender process to solicit proposals from the private sector for supplying Vancouver Island with additional power.

Significant capital projects (those with multi-year budgets totaling \$50 million or more) are shown in Appendix Table A.13. Total spending for these projects over the next three years is forecast at \$0.8 billion, down \$0.4 billion from the *Budget 2004* projections. The lower forecast mainly reflects postponed spending on the Georgia Strait pipeline crossing and Vancouver Island generation projects, partially offset by new power generation and transmission projects.

## Provincial Debt

The government and its Crown corporations borrow to finance their own operations, to finance construction of capital projects or other investments and to refinance maturing debt.

Total provincial debt is projected to total \$37.2 billion at March 31, 2005 (24.7 per cent of provincial GDP), \$37.5 billion at March 31, 2006 (23.9 per cent of GDP) and \$37.3 billion at March 31, 2007 (22.8 per cent of GDP). These amounts are all significantly lower than the *Budget 2004* projections (see Table 1.5 and Appendix Table A.14), mainly due to the higher expected revenues over the next three years and reduced cash needs in 2004/05.

**Table 1.5 Debt Summary – Changes from *Budget 2004***

| (\$ millions)  | 2004/05               | 2005/06               | 2006/07               |
|--|-----------------------|-----------------------|-----------------------|
| <b>Budget 2004 total debt</b> .....  | <b>39,452</b>         | <b>40,518</b>         | <b>40,578</b>         |
| <b>Taxpayer-supported debt changes:</b>                                      |                       |                       |                       |
| Opening balance adjustment.....  | (487) <sup>1</sup>    | (2,221)               | (2,911)               |
| Government operating:  |                       |                       |                       |
| Consolidated revenue fund:   |                       |                       |                       |
| – Higher taxation revenue.....   | (506)                 | (421)                 | (321)                 |
| – Higher energy revenue.....   | (320)                 | (413)                 | (293)                 |
| – Higher forestry revenue.....   | (375)                 | (160)                 | (135)                 |
| – Lower federal transfers.....   | 104                   | 124                   | 212                   |
| – Other changes.....   | (6)                   | (31)                  | (73)                  |
| Early repayment of BC Ferry Services Inc. loan receivable.....               | (427)                 | -                     | -                     |
| Higher cash balances at the start of the year.....                           | (76)                  | -                     | -                     |
| Higher working capital requirements (equalization repayment schedule).....   | -                     | 120                   | 120                   |
| Other working capital changes.....   | (155)                 | 14                    | (82)                  |
| Reduced ministry minor capital purchases.....                                | (57)                  | -                     | -                     |
| Education and health facilities (mainly capital financing requirements)..... | (27)                  | 111                   | 90                    |
| Transportation (mainly working capital requirements).....                    | (134)                 | (50)                  | (12)                  |
| BC Rail tax attributes indemnity.....  | 255                   | -                     | -                     |
| Other.....   | (10)                  | 16                    | (10)                  |
| Total taxpayer-supported.....  | <u>(2,221)</u>        | <u>(2,911)</u>        | <u>(3,415)</u>        |
| <b>Self-supported debt changes:</b>  |                       |                       |                       |
| Opening balance adjustment.....  | 478 <sup>1</sup>      | (202)                 | (429)                 |
| BC Hydro changes in capital spending and working capital requirements.....   | (204)                 | (233)                 | 369                   |
| BC Rail debt – repayment of fiscal agency loan.....                          | (477)                 | -                     | -                     |
| Other.....   | 1                     | 6                     | (4)                   |
| Total self-supported.....  | <u>(202)</u>          | <u>(429)</u>          | <u>(64)</u>           |
| <b>Forecast allowance changes</b> .....                                      | <b>200</b>            | <b>300</b>            | <b>200</b>            |
| <b>Total changes</b> .....   | <b><u>(2,223)</u></b> | <b><u>(3,040)</u></b> | <b><u>(3,279)</u></b> |
| <b>Updated total debt</b> .....  | <b><u>37,229</u></b>  | <b><u>37,478</u></b>  | <b><u>37,299</u></b>  |

<sup>1</sup> March 31, 2004 year-end changes between the February 2004 budget forecast and the 2003/04 *Public Accounts*.

Total provincial debt includes a borrowing allowance to mirror the operating statement forecast allowance. The borrowing allowance has been changed from the original budgeted \$100 million in 2004/05 to \$300 million, to \$400 million in 2005/06, and to \$300 million in 2006/07. This borrowing forecast allowance is not cumulative – only the relevant year forecast allowance is included in the debt forecast for each of the fiscal years.

### *Taxpayer-supported Debt*

In 2004/05, taxpayer-supported debt is forecast to be \$2.2 billion below budget and total \$30.0 billion at year-end (19.9 per cent of GDP), due to:

- lower-than-forecast debt balances at the end of the 2003/04 fiscal year;
- higher-than-forecast taxation and natural resource revenues;
- early repayment of the BC Ferry Services loan receivable; and
- reduced working capital requirements.

The impact of the lower debt requirements will carry forward into 2005/06 and 2006/07 and will be enhanced by the stronger taxation and natural resource revenue forecasts in these years. The lower debt forecasts will be partially offset by lower federal equalization transfers and cash/accrual timing differences for health accord spending.

The debt forecast incorporates the current capital spending plan. However, the forecast does not include the Academic Ambulatory Care Centre or the Abbotsford Health and Cancer Centre projects as agreements with potential proponents had not been finalized when the first *Quarterly Report* forecast was completed. In addition, the debt forecast assumes that the expected surpluses will be fully applied to debt reduction. However, should the government allocate some of these surpluses to other areas, the debt forecast would change accordingly. Based on these assumptions, taxpayer-supported debt is projected to decline to \$29.9 billion (19.1 per cent of GDP) at the end of 2005/06 and \$29.4 billion (18.0 per cent of GDP) at the end of 2006/07.

### *Self-supported Debt*

In 2004/05 and 2005/06, self-supported debt is forecast to be \$0.2 billion and \$0.4 billion below budget respectively. This is mainly due to reduced working capital requirements and postponed capital spending for BC Hydro. These improvements will be partially offset in 2006/07 by additional cash requirements to support BC Hydro's operations. Self-supported debt is projected to total \$7.0 billion at March 31, 2005, \$7.2 billion at March 31, 2006 and \$7.6 billion at March 31, 2007.

### **Risks to the Fiscal Plan**

The main changes to the three-year fiscal plan risk profile described in the February 2004 budget are summarized below.

The major risks to the fiscal plan stem from changes to economic variables, including the economic growth of BC's trading partners, commodity prices (especially natural gas, lumber and electricity), exchange rate fluctuations and domestic demand in the province.

Commodity prices for certain lumber and energy products may be near cyclical highs. The forecast assumes a graduated decline in prices to historical average levels over the term of the fiscal plan. However, commodity prices can be volatile and the fiscal plan faces a risk should they decline more sharply than projected. The increase in forecast allowance is intended to mitigate this risk.

In addition to the detailed description of ongoing risks to the fiscal plan found in the February budget document, other risks include:

- higher or lower-than-expected final personal and corporate income tax assessments for the 2003 taxation year, which could increase or decrease the forecast income tax bases in subsequent years; and
- the outcome of the softwood lumber dispute with the U.S. The NAFTA panel ruling of August 31, 2004 was favourable to the Canadian industry, thereby creating upside potential for revenue.

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. As well, BC Hydro's results may be impacted by the outcome of its rate application to the BC Utilities Commission.

ICBC's claims review in May was based in large part on claims experience in the first four months of 2004. Actual experience during the remainder of the year may be different than expected, and could impact the projections for 2005 and 2006.

Currently, provincial premiers are seeking additional federal funding for health care. While the timing and amount of new federal contributions remain uncertain, B.C. would allocate new funds to health care, and there would be a negligible impact on the surplus.

Spending risks include:

- Utilization rates for government services such as health care or community social services.
- Potential costs for pending litigation.
- Actuarial valuations of vested and non-vested employee benefits in the SUCH sector. (The liability for health and social service sector employees was established in the government's financial statements in 2003/04. Currently, the government is conducting reviews of the potential liability in the education and post-secondary sectors.).
- Current trends in interest rates are resulting 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.

In addition, changes in accounting treatment or revised interpretations of generally accepted accounting principles could have impacts on the bottom line.

## BC Rail Investment Partnership Update

### **Transaction Status**

In November 2003, the provincial government outlined the objectives and structure of the BC Rail investment partnership. *Budget 2004* included a topic box outlining the financial details of the transaction, including the investments in jobs and opportunities that would result from the restructuring initiative.

At the time, the investment partnership was under review by the federal government's Competition Bureau and could not be concluded until the review was complete. The Competition Bureau completed its review and gave the go-ahead on July 2, 2004; and the partnership transaction concluded on July 14, 2004. As the review took longer than anticipated in the February budget, the transaction now occurs in the 2004/05 fiscal year instead of the prior year as was earlier expected.

### **Financial Developments since Budget 2004**

During the period that the transaction was under review by the Competition Bureau, BC Rail's auditors reviewed the accounting treatment of the transaction and Standard and Poors finalized the valuations of the assets being transferred to CN. In addition, BC Rail's debt was repaid to government instead of into a debt defeasance with an external agency. These led to the following adjustments to the transaction, resulting in a \$9 million increase to the transaction gain:

- \$52 million of the transaction gain relates to the operating lease for the right of way and rail bed assets, and will be spread out over the term of the lease, instead of being booked at the time of the transaction.
- The value of the assets being transferred to CN is determined to be \$8 million less than originally estimated.
- At the same time, the repayment of BC Rail's debt was made directly to government instead of being defeased with an external agency. The alternate approach resulted in \$53 million

savings on defeasance costs, and reduced government's borrowing requirements for the year, resulting in a modest reduction in total provincial debt and related interest expense.

As a result of these changes, the transaction gain is now estimated to be \$191 million. However, the final amount of the gain will not be known until November when the accounting for the transaction is completed.

### **Distribution of Proceeds**

In keeping with government's commitment to allocate the entire transaction gain to investing in northern communities and First Nations, the additional \$9 million of transaction gain will be added to the funding that has already been announced.

In summary, the transaction gain will be distributed as follows:

- \$135 million for the Northern Development Initiative;
- \$15 million for the BC Rail First Nations Benefits Trust;
- \$13 million contribution to *Legacies Now*;
- \$6 million invested in Asia Pacific Market Outreach initiatives and fuel cell research; and
- up to an additional \$22 million for projects/initiatives to be identified once the transaction gain from the investment partnership has been finalized.

On July 22, 2004, BC Rail applied \$510 million of the proceeds towards repayment of all loans outstanding from the province. Legislation will be introduced in October to effect the transfer of the remaining cash proceeds to the Province (except for \$50 million to be retained by the corporation for its internal needs), and to create both the Northern Development Initiative and the BC Rail First Nations Benefits Trust. The legislation will authorize the payments to the initiatives identified above and transfer \$200 million of the proceeds to the BC Transportation Financing Authority (BCTFA) transportation program.

Some of the BCTFA funding will be used for program initiatives such as expansion of the Prince George Airport (\$4 million) and development of the container terminal at the Port of Prince Rupert (\$17.2 million). The BCTFA transfer represents the redistribution of cash from one part of the government reporting entity to another, and has no impact on the government's bottom line.

### Financial Comparison to Budget 2004

The cash proceeds and gross transaction value remain unchanged from the amounts reported in the February budget – i.e. cash proceeds of \$1.0 billion and gross transaction value of \$1.005 billion. However, the transaction gain and distribution of the proceeds are different.

**Table 1: Impact on Government Operating Statement**

| (\$ millions)  | Budget 2004 | First Quarterly Report |
|--|-------------|------------------------|
| Gross transaction value .....  | 1,005       | 1,005                  |
| Less: Net book value of disposed assets .....  | (765)       | (757)                  |
| Deferred revenue .....   | (5)         | (57)                   |
| Transaction gain.....  | 235         | 191                    |
| Cost of debt repayment .....   | (53)        | -                      |
| BC Rail net income after debt defeasance costs .....   | 182         | 191                    |
| <b>Reinvestment in Northern and First Nations Communities</b>                                  |             |                        |
| Northern Development Initiative .....  | (135)       | (135)                  |
| BC Rail First Nations Benefits Trust .....   | (15)        | (15)                   |
| Legacies Now , Asia Pacific Market Outreach,<br>fuel cell research and other initiatives ..... | (32)        | (41)                   |
| Total operating budget changes .....   | 0           | 0                      |

Table 1 shows the changes since the February budget in how the gain has been determined and how the positive impact on BC Rail net income is offset by an equal amount of expenditures reinvested in northern and First Nations' communities.

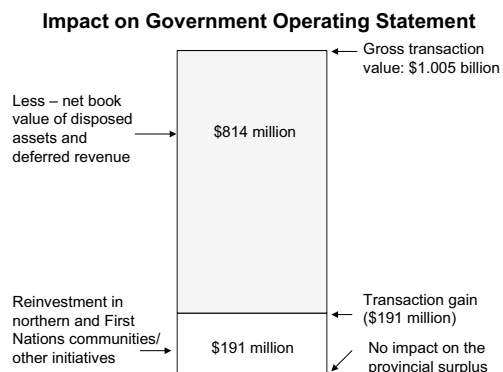
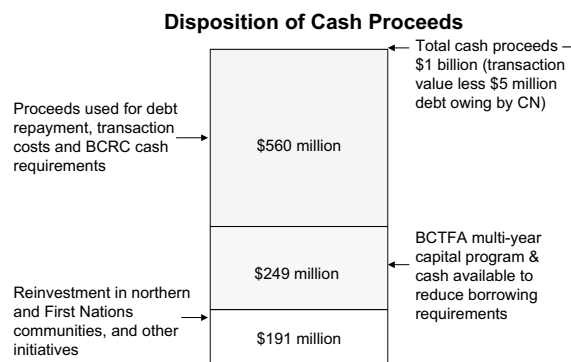


Table 2 outlines the changes in the disposition of the \$1 billion cash proceeds. An additional \$25 million has been left with BC Rail to cover transaction costs that could not be estimated at the time of the February budget, and to meet additional future requirements. The additional transaction costs have not impacted the gain, and at 5 per cent of the value of transaction, are within the norm for similar commercial transactions of this complexity.

**Table 2: Disposition of Cash Proceeds**

| (\$ millions)  | Budget 2004 | First Quarterly Report |
|--|-------------|------------------------|
| Cash proceeds.....   | 1,000       | 1,000                  |
| Transaction costs/BCRC cash requirements .....   | (25)        | (50)                   |
| Proceeds used to repay BC Rail debt.....   | (532)       | (510)                  |
| BCTFA multi-year capital program & cash available<br>to reduce borrowing requirements..... | (261)       | (249)                  |
| Reinvestment in Northern and First Nations Communities<br>and other initiatives.....       | (182)       | (191)                  |
|  | 0           | 0                      |

The province has provided a number of indemnities to CN with respect to the partnership. Most of the indemnities are a normal part of this type of commercial transaction. However, some of the indemnities are for tax attributes that added \$255 million to the gross value of the transaction. Under generally accepted accounting principles, these indemnities were added to the government's financial statements as a non-cash debt guarantee that does not incur interest. This amount is now part of the total taxpayer-supported debt reported in the government's financial statements and forecasts. The other indemnities are reported as contingent liabilities in the notes to the Summary Financial Statements.



# PART TWO — ECONOMIC REVIEW AND OUTLOOK<sup>1</sup>

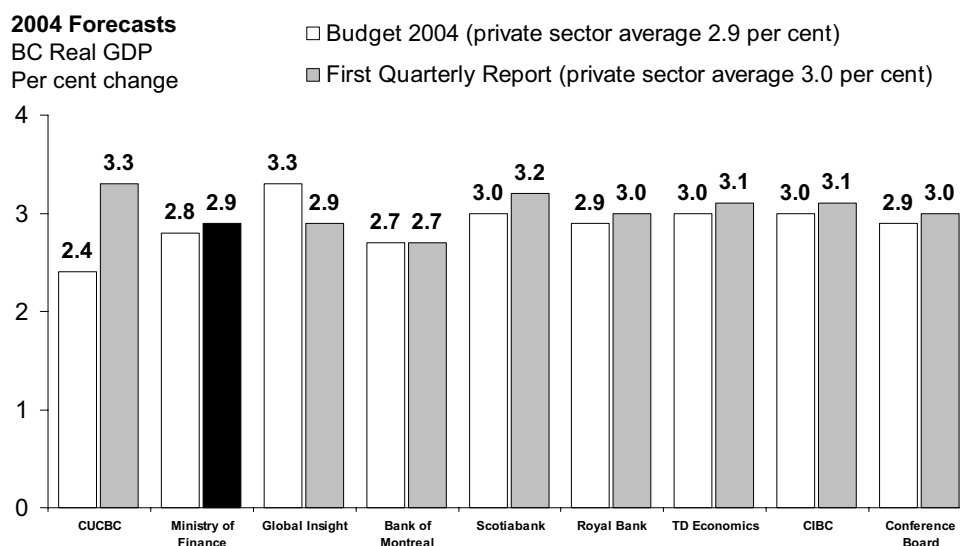
First Quarterly Report 2004/05

September 2004

## Overview

Economic growth in British Columbia is expected to be robust this year, reflecting solid employment gains, a recovery in exports, high commodity prices, sustained housing market activity and stronger retail sales. Charts 2.1 and 2.2 compare recent private sector forecasts for British Columbia with those made at budget time.

**Chart 2.1 Evolution of 2004 growth forecasts for BC**



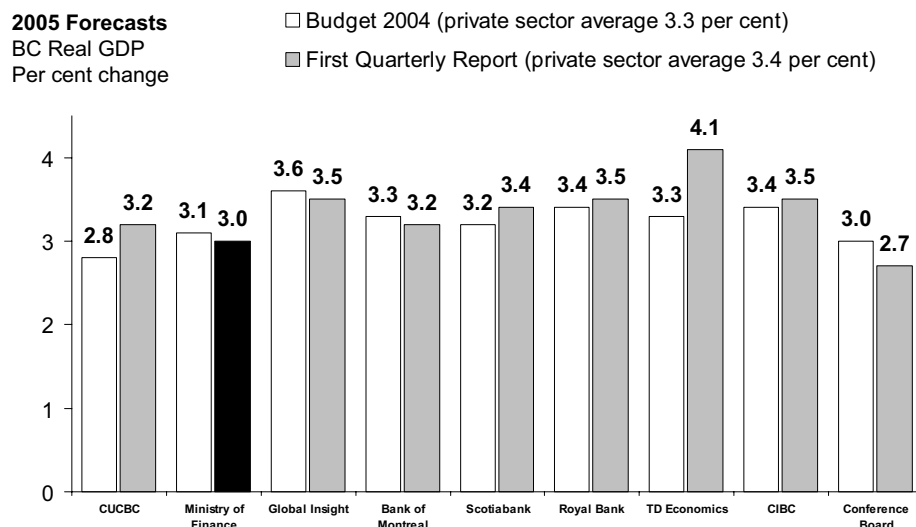
Sources: B.C. Ministry of Finance and various financial institutions

There has been little change in private sector forecasts for 2004 since the budget, with the main exception of the Credit Union Central of BC (CUCBC). CUCBC now has the highest forecast for BC after raising their economic outlook 0.9 percentage points from budget time, when they had the lowest forecast. The average of the eight private sector forecasters is 3.0 per cent in 2004 compared to 2.9 per cent at budget time.

Private sector forecasters also expect provincial economic growth to be stronger next year with private sector forecasts averaging 3.4 per cent, up from 3.3 per cent at the time of the budget.

The Ministry of Finance has also updated its economic outlook for British Columbia and is forecasting growth of 2.9 per cent for 2004 and 3.0 per cent for 2005. The updated forecast reflects the performance of provincial economic indicators to date as well as external factors including the performance of the Canadian and U.S. economies.

<sup>1</sup> Reflects information available as of September 1, 2004.

**Chart 2.2 Evolution of 2005 growth forecasts for BC**

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

There is considerable uncertainty surrounding the durability of the U.S. economic recovery, which poses a risk to the economic outlook for Canada and British Columbia. The Ministry of Finance forecast includes prudent U.S. and Canada growth assumptions, resulting in a lower forecast of 3.0 per cent for the British Columbia economy compared to the private sector average of 3.4 per cent in 2005.

Indicators of economic performance so far in 2004 confirm that British Columbia is experiencing robust growth this year. The six major indicators shown in Table 2.1 rose in the April to June period with exports and housing starts showing particularly rapid growth in the quarter.

**Table 2.1 British Columbia Economic Indicators**

|                                       | Jan. to Mar. 2004                | Apr. to Jun. 2004                | Year-to-Date  |
|---------------------------------------|----------------------------------|----------------------------------|---|
|                                       | change from<br>Oct. to Dec. 2003 | change from<br>Jan. to Mar. 2004 | Jan. to Jun. 2004<br>change from<br>Jan. to Jun. 2003 |
| All data seasonally adjusted          |                                  |                                  |   |
|                                       | Per cent change                  |                                  |   |
| Employment.....                       | -0.4                             | +0.4                             | +2.4  |
| Manufacturing Shipments.....          | +5.4                             | +6.4                             | +9.7  |
| Exports.....                          | +2.9                             | +14.7                            | +5.5  |
| Retail Sales.....                     | +2.1                             | +3.2                             | +5.6  |
| Housing Starts.....                   | +8.7                             | +12.8                            | +40.7   |
| Non-Residential Building Permits..... | +17.7                            | +3.5                             | +16.1   |

## External Environment

### *United States and Canada*

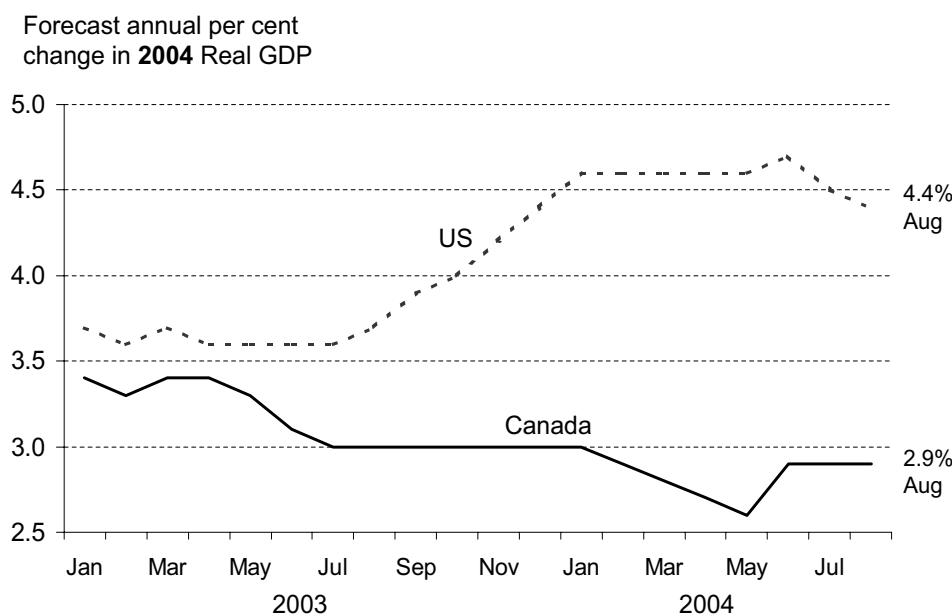
In the United States, real GDP rose 4.5 per cent on an annualized basis in the first quarter of this year and a more modest 2.8 per cent in the second quarter. The performance of several recent U.S. economic indicators signals that U.S. economic growth has softened.



Labour market conditions in the U.S. remain disappointing, with stagnant job creation in recent months. High energy prices and weak job creation have hurt consumer confidence, causing consumer sentiment indices to fall in August. In addition, weak income growth and high levels of consumer debt are a concern for continued strength in consumer spending.

Dealer incentives have continued to drive auto sales in the U.S. Retail sales of autos are up 4.5 per cent year to date through July. Meanwhile, the housing market continues to be red hot, with housing starts up almost ten per cent in the first seven months of this year. However, rising interest rates and tapering demand could see a correction in the housing sector.

### Chart 2.3 Consensus reflects second thoughts on the US recovery

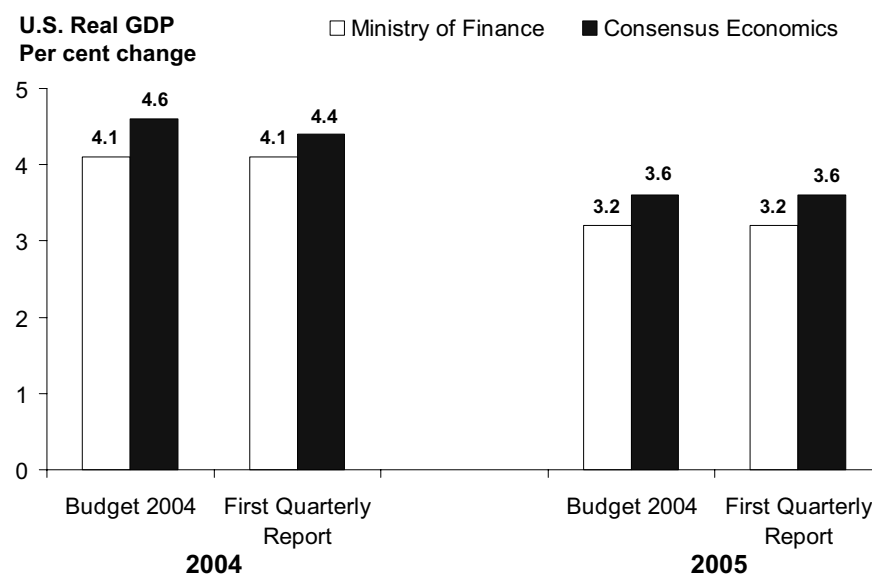


Expectations for U.S. economic growth in 2004 picked up in the second half of last year as forecasters expected a rebound in economic activity. After reaching a peak of 4.7 per cent in June, the Consensus Economics August survey reported a drop off in growth expectations to 4.4 per cent, reflecting soft economic data in recent months, including weaker than expected second quarter real GDP and much slower job growth. In addition, confidence in the durability of the economic recovery has waned due to high oil prices, expectations of higher interest rates and fiscal tightening.

While most analysts expect third quarter growth to be sluggish, there are two main views on the subsequent performance of the U.S. economy. One view, expressed by the Federal Reserve is that the recent weakness in economic indicators, such as employment, is a temporary "soft patch" and that the moderation in economic growth is mainly due to a temporary rise in energy prices. In their last policy statement the Fed stated, "The economy nevertheless appears poised to resume a stronger pace of expansion going forward."

The second viewpoint is one of continued weakness in the U.S. economy resulting in a period of somewhat slower growth. Weak job creation, high energy prices, rising interest rates, tighter fiscal policy and the lingering twin deficits could all hamper a renewed acceleration of economic growth. The Ministry of Finance forecast is consistent with this view, assuming 4.1 per cent growth this year and 3.2 per cent for 2005. This is more prudent than the Consensus, reflecting the Ministry's view of the current balance of risks to the outlook.

**Chart 2.4 US GDP assumptions**



Sources: *Budget 2004* and *Consensus Economics Forecast* (January and August 2004 issues)

The Canadian economy has posted steady growth despite the softness in the United States. Canada has seen job gains of about 277 thousand year to date to July, all of which were full-time jobs. The unemployment rate has dropped to 7.3 per cent year to date to July, compared to 7.6 per cent over the same period in 2003.

High commodity prices and demand from the U.S. housing market continues to support a strong performance in the export sector. The housing sector in Canada remains a source of economic strength, with housing starts up 8.3 per cent in the first half of this year relative to the same period last year.

**Table 2.2 First Quarterly Economic Forecast: Key Assumptions\***

|   | 2004            |                          | 2005            |                          |
|---|-----------------|--------------------------|-----------------|--------------------------|
|   | Budget Forecast | First Quarterly Forecast | Budget Forecast | First Quarterly Forecast |
| Annual per cent change unless otherwise noted |                 |                          |                 |                          |
| Canada Real GDP.....                          | 2.7             | 2.6                      | 3.0             | 3.0                      |
| U.S. Real GDP.....                            | 4.1             | 4.1                      | 3.2             | 3.2                      |
| Japan Real GDP.....                           | 1.5             | 4.0                      | 1.0             | 1.8                      |
| Europe Real GDP.....                          | 1.5             | 1.5                      | 2.5             | 2.0                      |
| U.S. Housing Starts.....                      | -9.2            | 0.4                      | -4.8            | -8.6                     |
| Canada 3-month Treasury Bill Rate.....        | 2.5             | 2.2                      | 3.5             | 3.4                      |
| US cents / Canadian \$.....                   | 79.0            | 75.2                     | 80.0            | 77.8                     |

\* More details on the five-year outlook are available in Tables 2.6.1 through 2.6.5 at the end of Part Two.

Forecasters downgraded their outlook for the Canadian economy during the first half of this year, as the effects of the rapid dollar appreciation worked through the economy and expectations of a high Canadian dollar continued. Growth expectations have stabilized recently, with Consensus Economics predicting economic growth this year of 2.9 per cent for the past three months.

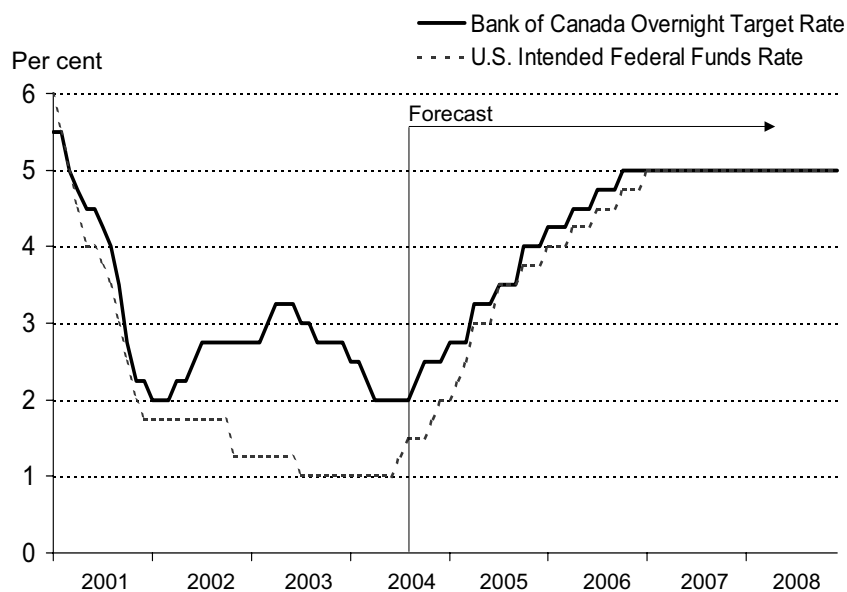
Canadian GDP grew 3.0 per cent on an annualized basis in the first quarter of this year. In the second quarter, GDP posted annualized growth of 4.3 per cent. A surge in exports, continued strength in the housing market and robust investment in plant and equipment boosted economic growth. The Ministry of Finance forecast assumes annual growth of 2.6 per cent this year and 3.0 per cent in 2005.

The 2004 economic outlook for Japan has improved noticeably in recent months on the back of higher-than-expected January-to-March GDP results. Japanese growth is being led by the export sector, and supported by strengthening consumer demand. The Consensus Economics August survey predicted economic growth of 4.3 per cent in 2004, followed by 1.9 per cent in 2005.

### Financial Markets

The Bank of Canada reduced its key target overnight rate three times by 25 basis points in the first four months of this year, lowering the rate to 2.0 per cent. Expectations of above potential growth in the second and third quarter as well as a rise in inflation have most analysts predicting several rate increases by year-end.

**Chart 2.5 Interest rates are forecast to rise**



Sources: Bank of Canada, U.S. Federal Reserve Bank, B.C. Ministry of Finance forecast.

The U.S. Federal Reserve Board has already raised its key interest rate twice this year to 1.5 per cent. Despite weakness in the job market, high oil prices and moderate growth the Federal Reserve appears willing to continue to raise rates as they see the current softness in the U.S. economy as temporary. In

addition, many analysts have pointed out that the federal funds rate is still very low and remains in the range of stimulative monetary policy. The Fed has signaled that it would like interest rates to move to a more neutral range, which would give them more flexibility and policy options.

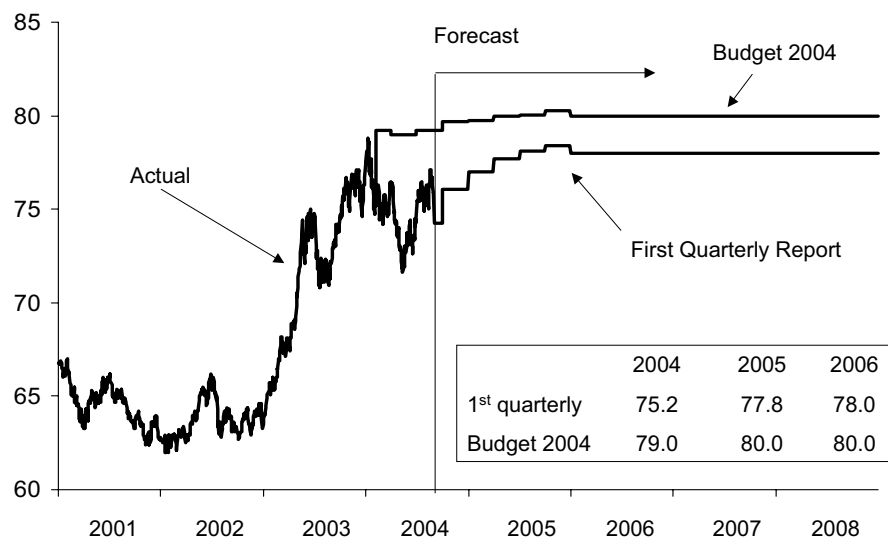
The Canadian dollar averaged 75.0 cents US so far in 2004, picking up in the past two months to average 76.2 cents US in August. The recent rise in the Canadian dollar has been much smaller and more gradual than the rapid appreciation seen in 2003 and therefore should not adversely impact economic growth.

### Outlook

The Ministry of Finance outlook assumes that the Bank of Canada begins raising its target overnight rate during the remainder of this year. The Bank of Canada is forecast to gradually raise the overnight target rate over the next two years until a neutral monetary policy setting is achieved.

The U.S. Federal Reserve Board is expected to raise the federal funds rate a total of 50 basis points by the end of 2004 to 2.0 per cent. Interest rates are forecast to rise steadily until 2007 when they stabilize at 5.0 per cent.

**Chart 2.6 Canadian dollar forecast lowered**



Sources: Bank of Canada and B.C. Ministry of Finance forecasts

The strength of the Canadian economy, combined with high commodity prices, are expected to support the Canadian dollar to average 75.2 cents US in 2004. The dollar is expected to appreciate gradually to average 77.8 cents US next year. Table 2.3 shows that the Ministry of Finance exchange rate outlook is consistent with the average of six private sector forecasters.

**Table 2.3 Private Sector Exchange Rate Forecasts**

| Average annual exchange rate (US cents/Can \$) | 2004        | 2005        |
|--|-------------|-------------|
| Global Insight.....                            | 75.4        | 77.1        |
| Nesbitt Burns.....                             | 75.1        | 76.3        |
| RBC Capital Markets*.....                      | 74.9        | 78.4        |
| Scotiabank*.....                               | 75.1        | 80.3        |
| TD Economics*.....                             | 75.7        | 78.7        |
| BMO.....                                       | 75.2        | 76.1        |
| <b>Average (as of August 18, 2004).....</b>    | <b>75.2</b> | <b>77.8</b> |
| <b>First Quarterly Report Forecast.....</b>    | <b>75.2</b> | <b>77.8</b> |

\* End of period forecasts have been adjusted for consistency

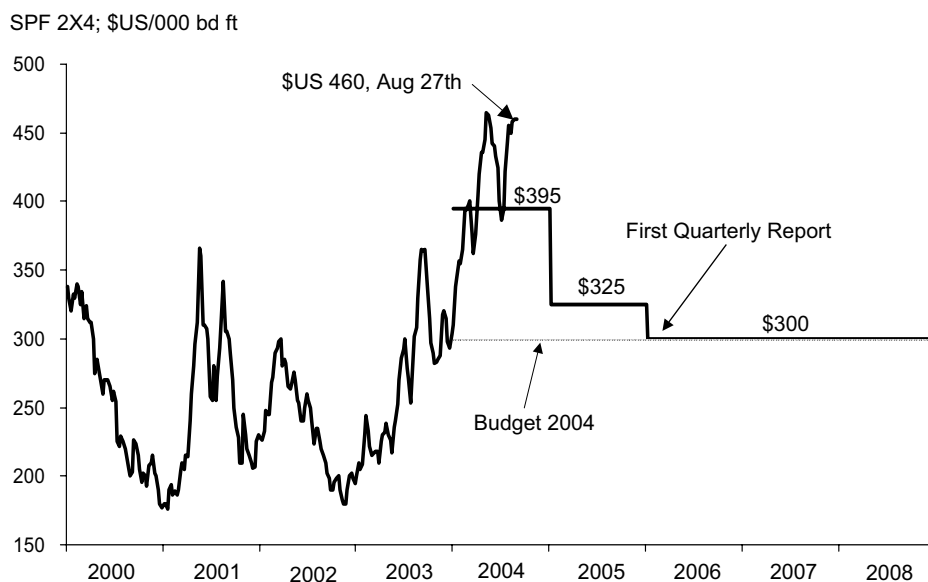
## Commodity Markets

Commodity prices have been strong in 2004, particularly lumber, energy and mineral prices. Lumber prices have been trending upwards this year and hit a peak of \$465 US in the first week of May. For the first eight months of this year lumber prices averaged \$410 US.

Increased demand and high oil prices have supported higher natural gas prices this year. Oil prices have been very high due to supply concerns, the geopolitical situation and strong demand. The West Texas Intermediate oil price has been above \$40 US per barrel since mid-July and has averaged \$38 US per barrel so far this year.

## Outlook

The average price of British Columbia exports of goods and services is expected to rise 4.7 per cent in 2004, mainly due to higher energy and wood prices. In 2005, the export price of goods and services is forecast to decline 1.5 per cent as commodity prices return to more historical trend levels.

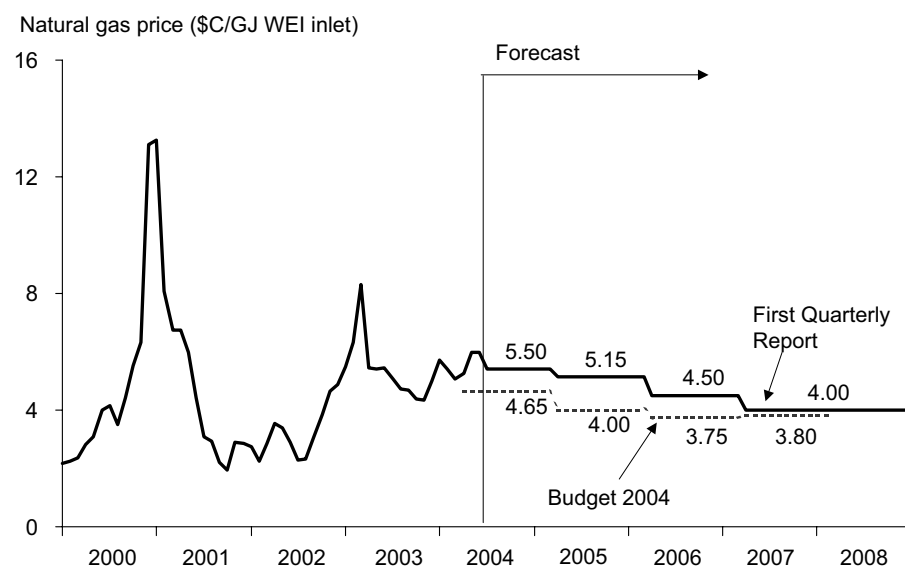
**Chart 2.7 Lumber prices near record levels**

Source: Madison's Lumber Reporter

\* Note: Beginning in April 2003, SPF 2x4 price includes \$25 for freight costs. Previous prices have not been adjusted.

Natural gas prices are forecast to maintain somewhat higher levels than expected at the time of the budget. Increased North American demand will support natural gas prices over the medium term.

**Chart 2.8 Natural gas price forecast has increased**



Source: B.C. Ministry of Energy and Mines

### British Columbia Economic Forecast

The British Columbia economy is forecast to grow 2.9 per cent this year and 3.0 per cent in 2005. A pick-up in exports is expected to drive economic growth this year and remain a source of strength throughout the forecast period.

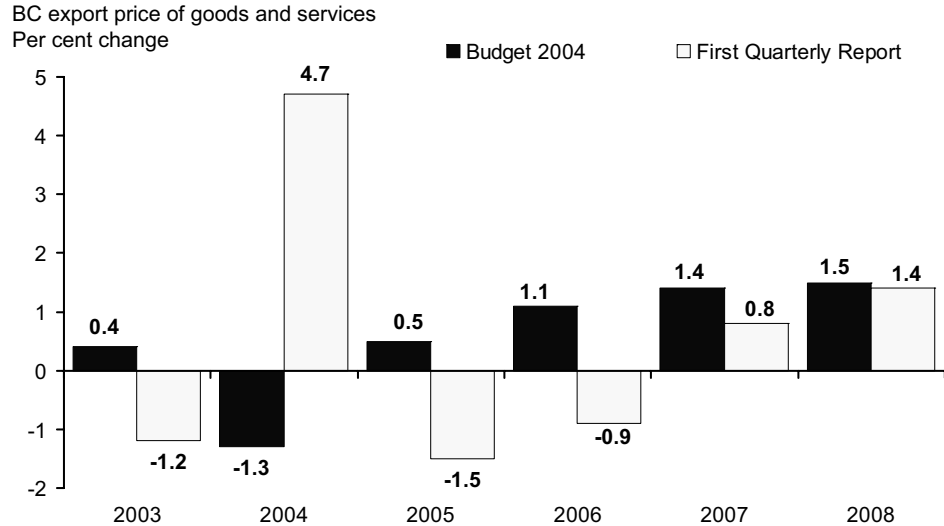
**Table 2.4 First Quarterly Economic Forecast: Key Indicators\***

|                                      | 2004  |                             | 2005                    |                             |
|--------------------------------------|---|-----------------------------|-------------------------|-----------------------------|
|                                      | Budget 2004<br>Forecast                       | First Quarterly<br>Forecast | Budget 2004<br>Forecast | First Quarterly<br>Forecast |
|                                      | Annual per cent change unless otherwise noted |                             |                         |                             |
| Real GDP.....                        | 2.8   | 2.9                         | 3.1                     | 3.0                         |
| Nominal GDP.....                     | 4.6   | 5.6                         | 4.7                     | 4.3                         |
| Employment.....                      | 1.8   | 2.1                         | 1.8                     | 1.9                         |
| Unemployment Rate.....               | 7.9   | 7.7                         | 7.7                     | 7.7                         |
| Net In-Migration ('000 persons)..... | 28.7  | 32.5                        | 34.4                    | 34.5                        |
| Personal Income.....                 | 4.0   | 3.8                         | 4.3                     | 4.3                         |
| Corporate Pre-tax Profits.....       | 6.8   | 17.2                        | 8.1                     | 6.0                         |
| Housing Starts ('000s).....          | 26.9  | 31.0                        | 27.0                    | 31.4                        |
| Retail Sales.....                    | 4.4   | 5.6                         | 4.9                     | 4.7                         |

\* More details on the five-year outlook are available in Tables 2.6.1 through 2.6.5 at the end of Part Two.

The Ministry of Finance forecast of real GDP in 2004 has increased 0.1 percentage points to 2.9 per cent from the Budget 2004 outlook of 2.8 per cent. However, the outlook for current dollar (nominal) GDP has increased much more substantially from the budget forecast, rising from 4.6 per cent to the current outlook of 5.6 per cent in 2004 (see Table 2.4).

### Chart 2.9 Export price of goods and services up in 2004

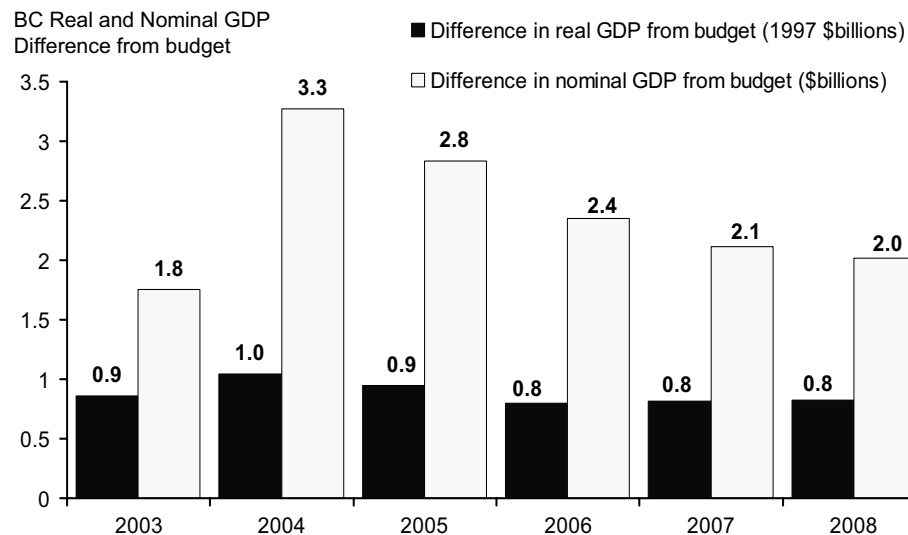


Source: BC Ministry of Finance Forecast, historical data from Statistics Canada.

The increased strength in the economy is more apparent on the current dollar side than the real side due to two main factors.

First, prices for BC exports are much higher than previously forecast. The Ministry of Finance is currently forecasting growth of 4.7 per cent in the export price of goods and services in 2004, up from a decline of 1.3 per cent forecast at budget time (see Chart 2.9).

### Chart 2.10 BC real and nominal GDP



Source: BC Ministry of Finance Forecast, historical data from Statistics Canada.

Secondly, at \$150 billion current dollar GDP in 2004 is expected to be \$3.3 billion higher than the forecast at budget time of \$147 billion (see Chart 2.10). The provincial economic accounts data for 2003 explains

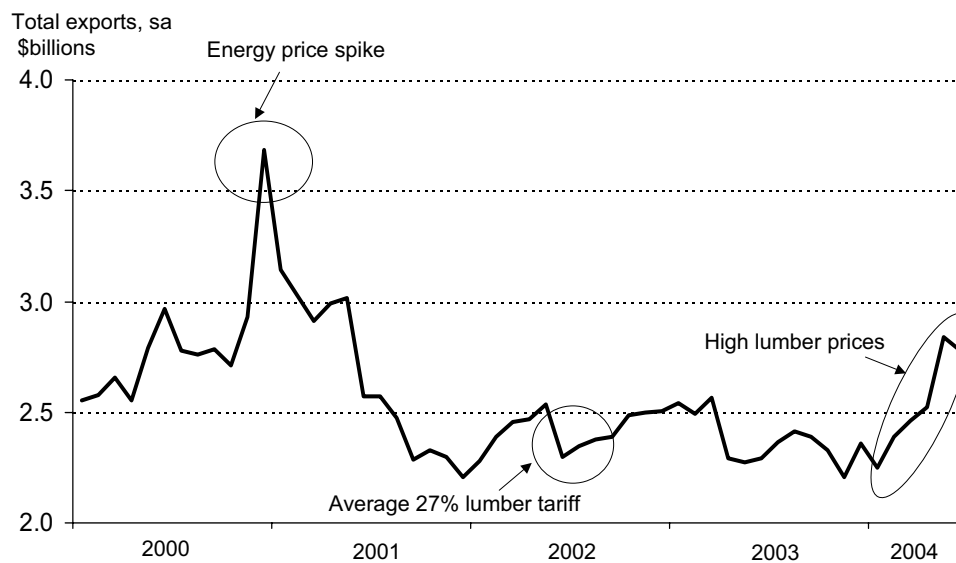
\$1.8 billion of the increase, as this prior year adjustment is carried through to 2004. The remaining \$1.5 billion change from budget is largely the result of higher commodity prices for 2004.

### External Trade

Exports from British Columbia have benefited from high commodity prices and the recovery in the U.S. economy this year. Wood exports have been driven up in 2004 by high lumber prices and the hot housing market in the U.S., despite the continuing softwood lumber tariffs. Tourism appears to be rebounding this year as well, with overseas visitors to BC up 20 per cent in the first half of this year relative to the same period in 2003, and nearly back to 2001 levels.

Values of international merchandise exports from British Columbia were up 5.5 per cent year to date through June. Forest products were the main contributor to export growth for the first half of this year, rising 15.7 per cent relative to the first six months of 2003. In other sectors, growth in mineral exports, agricultural shipments and plastics were partially offset by declines in energy and fish products. Energy exports declined 17.9 per cent over the first six months of this year compared to January through June of 2003.

**Chart 2.11 Exports reflect high commodity prices**



Source: BC Stats

### Outlook

The outlook for 2004 is for continued strength in exports of both goods and services over the rest of this year. Strong demand from the U.S. housing market as well as high commodity prices will outweigh the negative factors of a higher Canadian dollar and the softwood lumber tariff. Real exports from British Columbia are forecast to rise 4.4 per cent in 2004 and 3.5 per cent the following year.



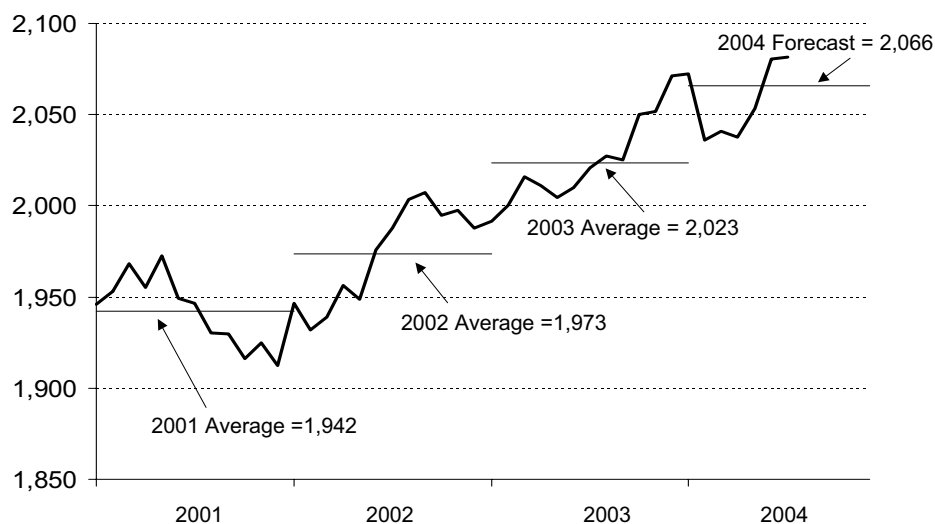
## Labour Market

Despite a significant drop in February, employment posted growth of 2.5 per cent over the first seven months of this year and added almost 50,000 jobs to the BC economy. All of the employment gains were in full-time jobs, which increased by 60,600 jobs and were partially offset by a drop of 10,900 part-time jobs.

Job gains over the first seven months of this year were concentrated in the construction and service industries such as accommodation and food services. These industries are expected to continue to contribute to job growth given the strong housing market and the rebound in the tourism sector.

### Chart 2.12 Employment picks up in the second quarter

Thousands of jobs; seasonally adjusted



Source: Statistics Canada

The unemployment rate was 7.6 per cent in the January to July period, down 0.6 percentage points from the same period in 2003. The labour force grew 1.8 per cent over the first seven months of this year, resulting in a drop in the unemployment rate as employment growth outpaced labour force growth.

Wages and salaries in BC rose 3.9 per cent in the January to June period of 2004 relative to the same period last year. This is slightly higher than the year to date growth for Canadian wages and salaries to June of 3.5 per cent.

## Outlook

Employment in British Columbia is expected to grow 2.1 per cent in 2004, adding nearly 43,000 jobs. Much of the strength this year is expected to be in the goods sector of the economy, particularly the construction industry. For 2005, the economy is forecast to create over 39,000 jobs for a 1.9 per cent increase in employment. The unemployment rate is expected to average 7.7 per cent in both 2004 and 2005.

## Demographic Developments

Following two quarters of net gain from other provinces, British Columbia saw a small net outflow of 250 people in the January to March period of 2004. International migration was up by 7,667 people for an overall net migration gain of 7,417 people in the first quarter of this year.

## Outlook

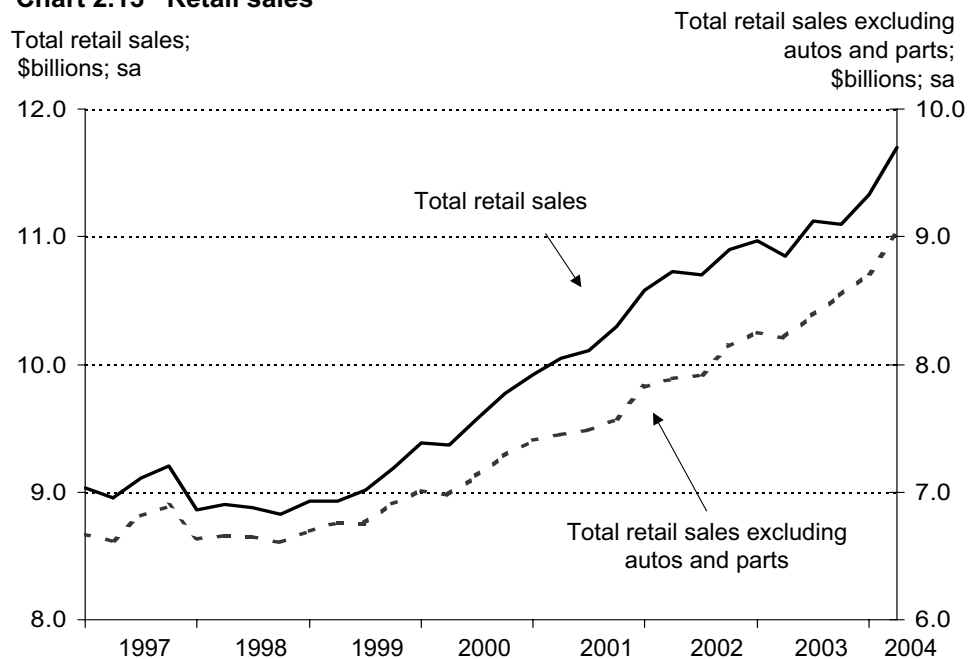
The forecast calls for British Columbia to gain 32,486 people this year on a net basis, as international migration declines slightly from the previous year and interprovincial migration picks up. In 2005, an increase in interprovincial migration to BC results in a rise in total net migration to 34,463 people.

## Domestic Demand

### Consumer Spending and Housing

Retail sales showed strong growth in the February to April period but have tapered off somewhat in recent months. Year to date through June retail sales are up 5.6 per cent. Low financing rates and the strong housing market supported sales of furniture and other household appliances as well as sales from hardware stores and garden centers during the first half of this year. Retail sales of autos and parts fell 0.4 per cent during the January to June period of 2004 relative to the same period last year.

**Chart 2.13 Retail sales**



Source: Statistics Canada and Ministry of Finance; seasonally adjusted

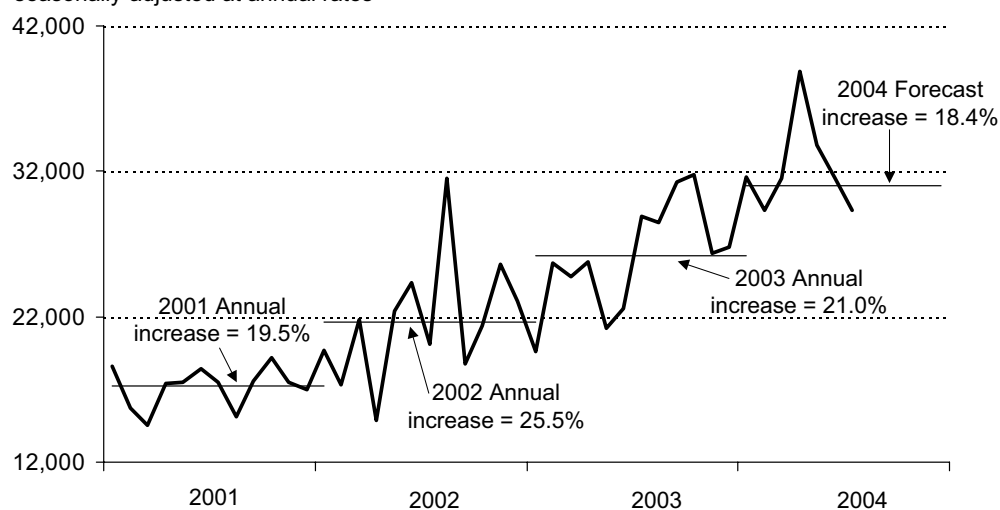
British Columbia housing starts hit a peak of 38,900 units in April of this year, and even though they have fallen off in subsequent months starts remain high in historical terms. For the first seven months of this year housing starts are 34 per cent higher than the same period last year, averaging over 32,000 units.

## Outlook

Retail sales are expected to grow at a brisk pace in the next two years, increasing 5.6 per cent in 2004 and growing 4.7 per cent in 2005. Housing starts are forecast to total 31,000 units for 2004 and 31,412 units in 2005. The gradual rise in interest rates and exhaustion of demand will slow the pace of housing start growth next year. The Ministry of Finance's forecast is similar to the Canadian Mortgage and Housing Corporation's August forecast of 31,700 units in 2004 and 32,400 units in 2005. However, the Ministry's forecast is lower than the Credit Union Central of BC's forecast of 32,400 units and 35,200 units in 2004 and 2005 respectively.

### Chart 2.14 BC housing starts remain high

Housing starts; number of units  
seasonally-adjusted at annual rates



Source: Statistics Canada

## Business and Government Activity

Along with general growth in the economy, business investment has picked up. Corporate profits rebounded from a decline in 2002 to post an increase of 12.4 per cent in 2003. Non-residential building permits are up 16.1 per cent in the first half of this year compared to the same period in 2003. Business incorporations are up 5.1 per cent in the January to March period of this year relative to the first three months of 2003. In addition, business bankruptcies continue to decline and have fallen 11.2 per cent year to date through May compared to the first five months of last year.

## Outlook

Corporate pre-tax profits are forecast to grow 17.2 per cent in 2004 before moderating to 6.0 per cent growth in 2005. Real business investment is expected to increase 7.7 per cent this year as confidence improves and the economy strengthens.

Real (inflation-adjusted) government expenditures for all levels of government (federal, provincial and local) are forecast to rise 1.2 per cent in 2004 and 1.3 per cent in 2005. Over the medium term government spending is expected to average growth of around 1.7 per cent.

## *Inflation*

Consumer price inflation averaged 1.9 per cent in the first seven months of 2004. Lower prices for consumer durables such as automobiles were somewhat offset by higher prices in the non-durables sector, reflecting higher energy prices. Inflation in British Columbia has roughly been keeping pace with Canada as a whole, which averaged 1.6 per cent year to date to July.

## *Outlook*

Inflation for BC is expected to average 2.3 per cent this year reflecting the continued effect of high energy prices through year-end, falling to 1.9 per cent in 2005 as energy prices moderate to trend levels. Over the medium term inflation is forecast to increase about 2.0 per cent per year, in line with the Bank of Canada's target range.

## **Medium-Term Outlook**

Over the medium term, both the U.S. and Canadian economies are expected to grow around 3.0 per cent per year. This is in line with estimates of potential output growth for these countries. The Japanese economy is expected to grow at half that pace over the medium term.

Economic growth in British Columbia is expected to follow a medium term trend of about 3.0 per cent, reflecting the economic strength of the province's major trading partners and continued growth in domestic economic activity.

British Columbia's population is forecast to grow about 1.1 per cent per year over the medium term, as more people move to the province from other parts of Canada and from other countries.

Detailed tables of the five-year outlook are provided at the end of Part Two (see Tables 2.6.1 through 2.6.5).

## **Risks to the Forecast**

The economic outlook has both upside and downside risks associated with it. The most significant risks to the British Columbia economic outlook remain the strength of the U.S. economic recovery and the volatility of commodity prices. As a result, the economic outlook for the province includes prudent U.S. and Canadian growth assumptions for the current year and 2005.

The British Columbia economy could grow faster than forecast if:

- The soft patch being experienced by the U.S. economy ends quickly and the U.S. resumes a higher growth path.
- A resolution to the softwood lumber dispute is reached; alongside growing U.S. demand, this would provide an opportunity for further growth in British Columbia's forest industry.
- British Columbia business confidence and investment strengthen further; this would provide a base for stronger economic growth in the province.

- Interprovincial net in-migration strengthens significantly; this would generate additional demand for goods and services and boost economic growth.
- Visitors to BC increase as Vancouver gains further international recognition as a tourism destination through promotion of the 2010 Winter Olympics.
- The Canadian dollar and interest rates increase less than forecast.

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

- The recent weakness in U.S. growth reflects a sudden shift to a lower growth path.
- Commodity prices decline more sharply than forecast or become more volatile.
- The Canadian dollar movements become increasingly volatile or the dollar appreciates rapidly.
- Interest rates in the U.S. and Canada rise despite evidence of slowing economic growth.
- Geopolitical uncertainty in the U.S. accelerates due to events in the Middle East.

**Table 2.5 Current Economic Statistics**

|  | Latest Period | Year-to-Date Average |        |        | Change |
|--|---------------|----------------------|--------|--------|--------|
|  |               | 2003                 | 2004   |        |        |
| <b>BRITISH COLUMBIA</b>  |               |                      |        |        |        |
| <b>LABOUR MARKET</b>   |               |                      |        |        |        |
| Employment (s.a. <sup>1</sup> , thousands).....                  | July          | 2,082                | 2,008  | 2,058  | 2.5%   |
| Unemployment rate (s.a., per cent).....                          | July          | 7.3                  | 8.3    | 7.6    | -0.6   |
| Total net in-migration (persons).....                            | Jan.-Mar.     | 7,417                | 6,028  | 7,417  | 1,389  |
| Interprovincial (persons).....                                   | Jan.-Mar.     | (250)                | (980)  | (250)  | 730    |
| International (persons).....                                     | Jan.-Mar.     | 7,667                | 7,008  | 7,667  | 659    |
| Wages and salaries (s.a. \$millions).....                        | June          | 5,681                | 5,408  | 5,620  | 3.9%   |
| Average weekly wage rate.....                                    | July          | 683                  | 683    | 678    | -0.7%  |
| <b>CONSUMER SECTOR</b>   |               |                      |        |        |        |
| Retail sales (s.a., \$ million).....                             | June          | 3,914                | 3,636  | 3,838  | 5.6%   |
| Car and truck sales (s.a., units).....                           | June          | 15,123               | 14,744 | 14,664 | -0.5%  |
| Housing starts (all areas, s.a., annual rate).....               | July          | 29,300               | 24,086 | 32,271 | 34.0%  |
| Existing home sales (s.a.).....                                  | July          | 7,739                | 7,489  | 8,292  | 10.7%  |
| Building permits (s.a., \$ millions).....                        | June          | 1,046                | 489    | 691    | 41.4%  |
| B.C. consumer price index (annual per cent change)....           | July          | 2.4                  | 2.5    | 1.9    | -0.6   |
| <b>INDUSTRIAL ACTIVITY</b>                                       |               |                      |        |        |        |
| Foreign merchandise exports (s.a., \$ million).....              | June          | 2,779                | 2,409  | 2,541  | 5.5%   |
| Manufacturing shipments (s.a., \$ million).....                  | June          | 3,493                | 3,079  | 3,378  | 9.7%   |
| Lumber production (thousand cubic metres).....                   | May           | 3,154                | 3,248  | 3,285  | 1.1%   |
| Pulp and paper shipments (s.a, \$ million).....                  | June          | 610                  | 629    | 634    | 0.7%   |
| Copper production (million kg).....                              | June          | 18.3                 | 19.8   | 18.6   | -6.2%  |
| <b>TOURISM</b>   |               |                      |        |        |        |
| Entries of U.S. and overseas residents (thousands).....          | June          | 640.8                | 607.3  | 618.1  | 1.8%   |
| BC ferry passengers<br>to/from Vancouver Island (thousands)..... | July          | 1,450                | 867    | 888    | 2.5%   |
| <b>COMMODITY PRICES</b>  |               |                      |        |        |        |
| Lumber (U.S.\$/thousand board feet).....                         | August        | 457                  | 248    | 410    | 65.6%  |
| Pulp (U.S. \$/tonne).....  | July          | 659                  | 514    | 617    | 20.1%  |
| Newsprint (U.S.\$/tonne).....                                    | July          | 550                  | 489    | 542    | 10.7%  |
| Copper (U.S.\$/lb.).....   | July          | 1.28                 | 0.75   | 1.24   | 65.1%  |
| <b>FINANCIAL DATA</b>  |               |                      |        |        |        |
| Canadian dollar (U.S. cents).....                                | August        | 76.2                 | 69.7   | 75.0   | 5.3    |
| Canadian prime rate (per cent).....                              | August        | 3.75                 | 4.78   | 3.91   | -0.87  |
| Canadian treasury bills (per cent).....                          | August        | 2.14                 | 2.99   | 2.08   | -0.91  |
| Treasury bill spread - Canada minus U.S. (per cent).....         | July          | 0.75                 | 1.96   | 1.02   | -0.94  |

<sup>1</sup> s.a. - seasonally adjusted

**Table 2.6.1 Gross Domestic Product: British Columbia and Canada**

|   | 2002    | 2003    | Forecast |         |         |         |         |
|---|---------|---------|----------|---------|---------|---------|---------|
|   |         |         | 2004     | 2005    | 2006    | 2007    | 2008    |
| <b>BRITISH COLUMBIA:</b>                      |         |         |          |         |         |         |         |
| <b>Gross Domestic Product</b>                 |         |         |          |         |         |         |         |
| <b>at Market Prices:</b>                      |         |         |          |         |         |         |         |
| - Real (1997 \$ million; chain-weighted)      | 128,151 | 130,914 | 134,750  | 138,748 | 142,825 | 147,192 | 151,577 |
| (% change).....                               | 2.4     | 2.2     | 2.9      | 3.0     | 2.9     | 3.1     | 3.0     |
| - Current Dollar (\$ million).....            | 135,552 | 142,418 | 150,431  | 156,872 | 163,740 | 171,237 | 179,396 |
| (% change).....                               | 2.7     | 5.1     | 5.6      | 4.3     | 4.4     | 4.6     | 4.8     |
| - GDP Price Deflator (1997 = 100).....        | 105.8   | 108.8   | 111.6    | 113.1   | 114.6   | 116.3   | 118.4   |
| (% change).....                               | 0.3     | 2.8     | 2.6      | 1.3     | 1.4     | 1.5     | 1.7     |
| Real GDP Per Person                           |         |         |          |         |         |         |         |
| (1997 \$; chain-weighted).....                | 31,143  | 31,572  | 32,206   | 32,835  | 33,448  | 34,091  | 34,715  |
| (% change).....                               | 1.5     | 1.4     | 2.0      | 2.0     | 1.9     | 1.9     | 1.8     |
| Real GDP Per Employed Person                  |         |         |          |         |         |         |         |
| (% change).....                               | 0.8     | -0.4    | 0.8      | 1.0     | 0.9     | 1.0     | 1.1     |
| Unit Labour Cost <sup>1</sup> (% change)..... | 0.2     | 1.1     | 1.0      | 1.5     | 1.7     | 1.8     | 1.8     |
| <b>CANADA:</b>                                |         |         |          |         |         |         |         |
| <b>Gross Domestic Product</b>                 |         |         |          |         |         |         |         |
| <b>at Market Prices:</b>                      |         |         |          |         |         |         |         |
| - Real (1997 \$ billion; chain-weighted)..... | 1,075   | 1,096   | 1,124    | 1,159   | 1,193   | 1,229   | 1,266   |
| (% change).....                               | 3.4     | 2.0     | 2.6      | 3.0     | 3.0     | 3.0     | 3.0     |
| - Current Dollar (\$ billion).....            | 1,158   | 1,219   | 1,283    | 1,344   | 1,408   | 1,476   | 1,548   |
| (% change).....                               | 4.5     | 5.3     | 5.3      | 4.8     | 4.8     | 4.9     | 4.9     |
| - GDP Price Deflator (1997 = 100).....        | 107.8   | 111.2   | 114.1    | 116.0   | 118.0   | 120.1   | 122.2   |
| (% change).....                               | 1.0     | 3.2     | 2.6      | 1.7     | 1.7     | 1.8     | 1.8     |
| Real GDP Per Person (1997 \$).....            | 34,265  | 34,662  | 35,229   | 35,979  | 36,752  | 37,566  | 38,399  |
| (% change).....                               | 2.3     | 1.2     | 1.6      | 2.1     | 2.1     | 2.2     | 2.2     |
| Real GDP Per Employed Person                  |         |         |          |         |         |         |         |
| (% change).....                               | 1.2     | -0.1    | 0.7      | 1.2     | 1.2     | 1.4     | 1.7     |

<sup>1</sup> Unit labour cost is the nominal cost of labour incurred to produce one unit of real output.

**Table 2.6.2 Components of British Columbia Real GDP at Market Prices**

|                                       | 2002         | 2003         | Forecast     |              |              |              |              |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                       |              |              | 2004         | 2005         | 2006         | 2007         | 2008         |
| 1997\$ billion; chain-weighted        |              |              |              |              |              |              |              |
| Personal Expenditure on               |              |              |              |              |              |              |              |
| Goods and Services.....               | 83.0         | 85.7         | 88.0         | 90.7         | 93.2         | 96.0         | 98.8         |
| (% change).....                       | 3.1          | 3.2          | 2.7          | 3.1          | 2.8          | 3.0          | 2.9          |
| - Goods.....                          | 36.1         | 36.6         | 37.5         | 38.7         | 39.8         | 40.9         | 42.1         |
| (% change).....                       | 4.0          | 1.5          | 2.5          | 3.0          | 2.8          | 2.9          | 2.8          |
| - Services.....                       | 47.0         | 49.1         | 50.5         | 52.0         | 53.5         | 55.1         | 56.7         |
| (% change).....                       | 2.4          | 4.5          | 2.8          | 3.1          | 2.8          | 3.0          | 3.0          |
| Government Current Expenditures       |              |              |              |              |              |              |              |
| on Goods and Services.....            | 25.1         | 25.5         | 25.8         | 26.2         | 26.7         | 27.1         | 27.6         |
| (% change).....                       | 2.1          | 1.7          | 1.2          | 1.3          | 1.9          | 1.7          | 1.7          |
| Investment in Fixed Capital.....      | 25.0         | 27.0         | 29.1         | 30.4         | 31.8         | 33.4         | 35.2         |
| (% change).....                       | -0.9         | 8.1          | 7.7          | 4.5          | 4.5          | 5.2          | 5.3          |
| <b>Final Domestic Demand.....</b>     | <b>133.2</b> | <b>138.2</b> | <b>142.7</b> | <b>147.0</b> | <b>151.4</b> | <b>156.2</b> | <b>161.1</b> |
| (% change).....                       | <b>2.1</b>   | <b>3.8</b>   | <b>3.3</b>   | <b>3.0</b>   | <b>3.0</b>   | <b>3.2</b>   | <b>3.2</b>   |
| Exports Goods & Services.....         | 56.6         | 56.9         | 59.4         | 61.5         | 63.4         | 65.5         | 67.8         |
| (% change).....                       | -0.1         | 0.5          | 4.4          | 3.5          | 3.1          | 3.4          | 3.6          |
| Imports Goods & Services.....         | 61.9         | 64.6         | 67.6         | 69.7         | 71.8         | 74.0         | 76.5         |
| (% change).....                       | 0.7          | 4.3          | 4.8          | 3.1          | 2.9          | 3.2          | 3.3          |
| Inventory Change.....                 | 0.4          | 0.7          | 0.5          | 0.4          | 0.5          | 0.4          | 0.3          |
| Statistical Discrepancy.....          | 0.0          | -0.1         | -0.1         | -0.1         | -0.1         | -0.1         | -0.1         |
| <b>Real GDP at Market Prices.....</b> | <b>128.2</b> | <b>130.9</b> | <b>134.8</b> | <b>138.8</b> | <b>142.8</b> | <b>147.2</b> | <b>151.6</b> |
| (% change).....                       | <b>2.4</b>   | <b>2.2</b>   | <b>2.9</b>   | <b>3.0</b>   | <b>2.9</b>   | <b>3.1</b>   | <b>3.0</b>   |

**Table 2.6.3 Components of Nominal Income and Expenditure**

|   | 2002    | 2003    | Forecast |         |         |         |         |
|---|---------|---------|----------|---------|---------|---------|---------|
|   |         |         | 2004     | 2005    | 2006    | 2007    | 2008    |
| Labour Income <sup>1</sup> (\$ million).....          | 72,790  | 75,334  | 78,286   | 81,816  | 85,613  | 89,797  | 94,149  |
| (% change).....                                       | 3.9     | 3.5     | 3.9      | 4.5     | 4.6     | 4.9     | 4.8     |
| Personal Income (\$ million).....                     | 111,852 | 114,547 | 118,935  | 124,033 | 129,649 | 135,571 | 141,715 |
| (% change).....                                       | 1.8     | 2.4     | 3.8      | 4.3     | 4.5     | 4.6     | 4.5     |
| Corporate Profits Before Taxes (\$ million)...        | 10,563  | 11,878  | 13,925   | 14,755  | 15,333  | 15,801  | 16,527  |
| (% change).....                                       | -5.8    | 12.4    | 17.2     | 6.0     | 3.9     | 3.1     | 4.6     |
| Retail Sales (\$ million).....                        | 42,906  | 44,034  | 46,500   | 48,707  | 50,953  | 53,346  | 55,824  |
| (% change).....                                       | 6.3     | 2.6     | 5.6      | 4.7     | 4.6     | 4.7     | 4.6     |
| Housing Starts.....                                   | 21,625  | 26,174  | 31,000   | 31,412  | 30,953  | 30,569  | 31,131  |
| (% change).....                                       | 25.5    | 21.0    | 18.4     | 1.3     | -1.5    | -1.2    | 1.8     |
| Residential Investment <sup>2</sup> (\$ million)..... | 9,012   | 10,758  | 11,832   | 12,400  | 12,973  | 13,828  | 14,848  |
| (% change).....                                       | 19.6    | 19.4    | 10.0     | 4.8     | 4.6     | 6.6     | 7.4     |
| B.C. Consumer Price Index (1992 = 100)....            | 117.9   | 120.4   | 123.2    | 125.5   | 128.0   | 130.7   | 133.3   |
| (% change).....                                       | 2.3     | 2.1     | 2.3      | 1.9     | 2.0     | 2.1     | 2.0     |

<sup>1</sup> Domestic basis; wages, salaries and supplementary labour income.<sup>2</sup> Includes renovations and improvements.



**Table 2.6.4 Labour Market Indicators**

|  | 2002   | 2003   | Forecast |        |        |        |        |
|--|--------|--------|----------|--------|--------|--------|--------|
|  |        |        | 2004     | 2005   | 2006   | 2007   | 2008   |
| Population (on July 1) (000's).....          | 4,115  | 4,147  | 4,184    | 4,226  | 4,270  | 4,318  | 4,366  |
| (% change).....                              | 0.9    | 0.8    | 0.9      | 1.0    | 1.1    | 1.1    | 1.1    |
| Labour Force Population, 15+ Years (000's).. | 3,325  | 3,366  | 3,416    | 3,465  | 3,516  | 3,568  | 3,619  |
| (% change).....                              | 1.4    | 1.2    | 1.5      | 1.4    | 1.5    | 1.5    | 1.4    |
| Net In-Migration                             |        |        |          |        |        |        |        |
| - International <sup>1</sup> .....           | 27,576 | 27,251 | 25,486   | 25,463 | 26,500 | 28,085 | 28,364 |
| - Interprovincial.....                       | -7,117 | 2,094  | 7,000    | 9,000  | 12,000 | 14,000 | 14,588 |
| - Total .....                                | 20,459 | 29,345 | 32,486   | 34,463 | 38,500 | 42,085 | 42,952 |
| Participation Rate <sup>2</sup> (%) .....    | 64.9   | 65.4   | 65.5     | 65.8   | 66.0   | 66.2   | 66.3   |
| Labour Force (000's).....                    | 2,158  | 2,202  | 2,238    | 2,280  | 2,322  | 2,363  | 2,401  |
| (% change).....                              | 2.6    | 2.1    | 1.6      | 1.9    | 1.8    | 1.8    | 1.6    |
| Employment (000's).....                      | 1,973  | 2,023  | 2,066    | 2,105  | 2,148  | 2,192  | 2,232  |
| (% change).....                              | 1.6    | 2.5    | 2.1      | 1.9    | 2.0    | 2.0    | 1.8    |
| - Goods Sector Employment (000's).....       | 387    | 408    | 428      | 444    | 458    | 471    | 481    |
| (% change).....                              | 1.7    | 5.7    | 4.7      | 3.8    | 3.1    | 2.9    | 2.1    |
| - Service Sector Employment (000's).....     | 1,587  | 1,615  | 1,638    | 1,661  | 1,690  | 1,720  | 1,751  |
| (% change).....                              | 1.6    | 1.8    | 1.4      | 1.4    | 1.7    | 1.8    | 1.8    |
| Unemployment Rate (%).....                   | 8.5    | 8.1    | 7.7      | 7.7    | 7.5    | 7.2    | 7.1    |

<sup>1</sup> International migration includes net non-permanent residents and returning emigrants less net temporary residents abroad.

<sup>2</sup> Percentage of the population 15 years of age and over in the labour force.

**Table 2.6.5 Major Economic Assumptions**

|  | 2002    | 2003    | Forecast |         |         |         |         |
|--|---------|---------|----------|---------|---------|---------|---------|
|  |         |         | 2004     | 2005    | 2006    | 2007    | 2008    |
| <b>Real GDP (billions)</b>                         |         |         |          |         |         |         |         |
| Canada (1997 \$; chain-weighted).....              | 1,075   | 1,096   | 1,124    | 1,159   | 1,193   | 1,229   | 1,266   |
| (% change).....                                    | 3.4     | 2.0     | 2.6      | 3.0     | 3.0     | 3.0     | 3.0     |
| U.S.A. (1996 U.S.\$; chain-weighted).....          | 10,075  | 10,381  | 10,811   | 11,152  | 11,492  | 11,831  | 12,188  |
| (% change).....                                    | 1.9     | 3.0     | 4.1      | 3.2     | 3.0     | 3.0     | 3.0     |
| Japan (1990 Yen).....                              | 533,256 | 546,582 | 568,203  | 578,274 | 586,990 | 595,550 | 604,533 |
| (% change).....                                    | -0.3    | 2.5     | 4.0      | 1.8     | 1.5     | 1.5     | 1.5     |
| Europe <sup>1</sup> (% change).....                | 0.9     | 0.5     | 1.5      | 2.0     | 2.5     | 2.5     | 2.5     |
| <b>Housing Starts<sup>2</sup> (000's)</b>          |         |         |          |         |         |         |         |
| Canada.....  | 205     | 218     | 220      | 191     | 181     | 181     | 181     |
| (% change).....                                    | 26.0    | 6.5     | 0.6      | -13.1   | -5.0    | 0.0     | 0.0     |
| U.S.A.....   | 1,710   | 1,853   | 1,860    | 1,700   | 1,650   | 1,600   | 1,600   |
| (% change).....                                    | 6.8     | 8.3     | 0.4      | -8.6    | -2.9    | -3.0    | 0.0     |
| Japan.....   | 1,151   | 1,160   | 1,180    | 1,180   | 1,150   | 1,150   | 1,150   |
| (% change).....                                    | -1.9    | 0.8     | 1.7      | 0.0     | -2.5    | 0.0     | 0.0     |
| <b>Consumer Price Index</b>                        |         |         |          |         |         |         |         |
| Canada (1992=100).....                             | 119.0   | 122.3   | 124.6    | 126.7   | 129.2   | 131.8   | 134.4   |
| (% change).....                                    | 2.2     | 2.8     | 1.9      | 1.7     | 2.0     | 2.0     | 2.0     |
| <b>Canadian Interest Rates (%)</b>                 |         |         |          |         |         |         |         |
| 3-Month Treasury Bills.....                        | 2.6     | 2.9     | 2.2      | 3.4     | 4.6     | 5.0     | 5.0     |
| Long-Term Government Bonds (10 year).....          | 5.3     | 4.8     | 4.8      | 5.5     | 5.9     | 6.0     | 6.0     |
| <b>United States Interest Rates (%)</b>            |         |         |          |         |         |         |         |
| 3-Month Treasury Bills.....                        | 1.6     | 1.0     | 1.4      | 3.1     | 4.4     | 5.0     | 5.0     |
| Long-Term Government Bonds (10 year).....          | 4.6     | 4.0     | 4.5      | 5.4     | 5.9     | 6.0     | 6.0     |
| <b>Exchange Rate (U.S. cents / Canadian \$) ..</b> |         |         |          |         |         |         |         |
|  | 63.7    | 71.4    | 75.2     | 77.8    | 78.0    | 78.0    | 78.0    |
| <b>British Columbia Goods and Services</b>         |         |         |          |         |         |         |         |
| Export Price Deflator (% change).....              | -5.2    | -1.2    | 4.7      | -1.5    | -0.9    | 0.8     | 1.4     |

<sup>1</sup> Euro zone (12) is Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain.

<sup>2</sup> British Columbia housing starts appear in Table 2.6.3.

**APPENDIX: FINANCIAL RESULTS**  
**For the Three Months Ended June 30, 2004**

**UPDATED FINANCIAL PLAN**  
**For the Three Years 2004/05 - 2006/07**

First Quarterly Report 2004/05

September 2004

**Three Months Ended June 30, 2004 and 2004/05 Full-Year Forecast**

|           |   |
|-----------|---|
| Table A.1 | 2004/05 Operating Statement                     |
| Table A.2 | 2004/05 Revenue by Source                       |
| Table A.3 | 2004/05 Expense by Ministry, Program and Agency |
| Table A.4 | 2004/05 Capital Spending                        |
| Table A.5 | 2004/05 Provincial Debt                         |

**Updated Financial Plan: 2004/05 - 2006/07**

|            |  |
|------------|--|
| Table A.6  | Revenue by Source                                      |
| Table A.7  | Revenue Assumptions – Changes from <i>Budget 2004</i>  |
| Table A.8  | Expense by Ministry, Program and Agency                |
| Table A.9  | Expense Assumptions – Changes from <i>Budget 2004</i>  |
| Table A.10 | Expense by Function                                    |
| Table A.11 | Full-Time Equivalents                                  |
| Table A.12 | Capital Spending                                       |
| Table A.13 | Capital Expenditure Projects Greater Than \$50 Million |
| Table A.14 | Debt Summary   |
| Table A.15 | Statement of Financial Position                        |

**Table A.1 2004/05 Operating Statement**

| (\$ millions)  | Year-to-Date to June 30 |              |            |                                | Full Year             |                |            |                                |
|--|-------------------------|--------------|------------|--------------------------------|-----------------------|----------------|------------|--------------------------------|
|  | 2004/05                 |              |            | Actual<br>2003/04 <sup>1</sup> | 2004/05               |                |            | Actual<br>2003/04 <sup>1</sup> |
|  | Budget                  | Actual       | Variance   |                                | Budget                | Forecast       | Variance   |                                |
| <b>Taxpayer-supported programs and agencies:</b>             |                         |              |            |                                |                       |                |            |                                |
| Revenue .....  | 6,916                   | 7,247        | 331        | 6,813                          | 28,505 <sup>2</sup>   | 29,417         | 912        | 27,093                         |
| Expense .....  | (7,799)                 | (7,515)      | 284        | (7,457)                        | (30,377) <sup>2</sup> | (30,585)       | (208)      | (29,976)                       |
| <b>Taxpayer-supported balance .....</b>                      | <b>(883)</b>            | <b>(268)</b> | <b>615</b> | <b>(644)</b>                   | <b>(1,872)</b>        | <b>(1,168)</b> | <b>704</b> | <b>(2,883)</b>                 |
| Commercial Crown corporation<br>net earnings .....           | 419                     | 485          | 66         | 428                            | 2,072                 | 2,333          | 261        | 1,894                          |
| <b>Surplus (deficit) before forecast<br/>allowance .....</b> | <b>(464)</b>            | <b>217</b>   | <b>681</b> | <b>(216)</b>                   | <b>200</b>            | <b>1,165</b>   | <b>965</b> | <b>(989)</b>                   |
| Forecast allowance .....                                     | -                       | -            | -          | -                              | (100)                 | (300)          | (200)      | -                              |
| <b>Surplus (deficit) .....</b>                               | <b>(464)</b>            | <b>217</b>   | <b>681</b> | <b>(216)</b>                   | <b>100</b>            | <b>865</b>     | <b>765</b> | <b>(989)</b>                   |

<sup>1</sup> Commercial Crown corporation net earnings for 2003/04 have been restated to reflect an accounting policy change affecting BC Hydro. The impact is a \$13 million increase (\$4 million for the year to date results) in revenue resulting in an equivalent reduction in the deficit for the year.

<sup>2</sup> Includes additional \$148 million federal Health Accord and 2004 Public Health and Immunization Trust funding finalized after *Budget 2004*.

Table A.2 2004/05 Revenue by Source

| (\$ millions)  | Year-to-Date to June 30 |              |             |                      | Full Year           |               |              |                      |
|--|-------------------------|--------------|-------------|----------------------|---------------------|---------------|--------------|----------------------|
|  | 2004/05                 |              |             | Actual               | 2004/05             |               |              | Actual               |
|  | Budget <sup>1</sup>     | Actual       | Variance    | 2003/04 <sup>2</sup> | Budget <sup>1</sup> | Forecast      | Variance     | 2003/04 <sup>2</sup> |
| <b>Taxation</b>  |                         |              |             |                      |                     |               |              |                      |
| Personal income .....  | 1,233                   | 1,223        | (10)        | 1,149                | 5,005               | 5,080         | 75           | 4,877                |
| Corporation income .....                                       | 236                     | 238          | 2           | 221                  | 893                 | 1,066         | 173          | 775                  |
| Social service .....   | 1,052                   | 1,061        | 9           | 972                  | 4,156               | 4,211         | 55           | 4,001                |
| Fuel .....   | 228                     | 220          | (8)         | 213                  | 891                 | 891           | -            | 875                  |
| Tobacco .....  | 174                     | 179          | 5           | 157                  | 676                 | 676           | -            | 647                  |
| Property .....   | 411                     | 409          | (2)         | 387                  | 1,655               | 1,648         | (7)          | 1,576                |
| Property transfer .....  | 119                     | 173          | 54          | 121                  | 432                 | 600           | 168          | 518                  |
| Other .....  | 123                     | 153          | 30          | 114                  | 477                 | 518           | 41           | 539                  |
|  | <b>3,576</b>            | <b>3,656</b> | <b>80</b>   | <b>3,334</b>         | <b>14,185</b>       | <b>14,690</b> | <b>505</b>   | <b>13,808</b>        |
| <b>Natural resources</b>                                       |                         |              |             |                      |                     |               |              |                      |
| Natural gas royalties .....                                    | 310                     | 389          | 79          | 369                  | 1,213               | 1,416         | 203          | 1,230                |
| Columbia River Treaty .....                                    | 46                      | 63           | 17          | 50                   | 215                 | 290           | 75           | 230                  |
| Other energy and minerals .....                                | 129                     | 144          | 15          | 117                  | 603                 | 645           | 42           | 878                  |
| Forests .....  | 118                     | 162          | 44          | 166                  | 999                 | 1,374         | 375          | 1,007                |
| Water and other resources .....                                | 95                      | 75           | (20)        | 73                   | 402                 | 403           | 1            | 308                  |
|  | <b>698</b>              | <b>833</b>   | <b>135</b>  | <b>775</b>           | <b>3,432</b>        | <b>4,128</b>  | <b>696</b>   | <b>3,653</b>         |
| <b>Other revenue</b>   |                         |              |             |                      |                     |               |              |                      |
| Medical Services Plan premiums .....                           | 350                     | 349          | (1)         | 369                  | 1,398               | 1,398         | -            | 1,409                |
| Post-secondary education fees .....                            | 143                     | 135          | (8)         | 140                  | 713                 | 808           | 95           | 781                  |
| Other health care-related fees .....                           | 49                      | 47           | (2)         | 48                   | 195                 | 191           | (4)          | 222                  |
| Motor vehicle licences and permits .....                       | 91                      | 95           | 4           | 92                   | 370                 | 376           | 6            | 363                  |
| Other fees and licences .....                                  | 252                     | 249          | (3)         | 192                  | 852                 | 772           | (80)         | 765                  |
| Investment earnings .....                                      | 201                     | 198          | (3)         | 217                  | 826                 | 753           | (73)         | 687                  |
| Sales of goods and services .....                              | 116                     | 123          | 7           | 127                  | 681                 | 683           | 2            | 629                  |
| Miscellaneous .....  | 327                     | 462          | 135         | 433                  | 1,359               | 1,295         | (64)         | 1,157                |
|  | <b>1,529</b>            | <b>1,658</b> | <b>129</b>  | <b>1,618</b>         | <b>6,394</b>        | <b>6,276</b>  | <b>(118)</b> | <b>6,013</b>         |
| <b>Contributions from the federal government <sup>3</sup></b>  |                         |              |             |                      |                     |               |              |                      |
| Health and social transfers .....                              | 841                     | 841          | -           | 744                  | 3,372               | 3,538         | 166          | 3,044                |
| Equalization .....   | 101                     | 111          | 10          | 169                  | 402                 | 39            | (363)        | (330)                |
| Other federal contributions .....                              | 171                     | 148          | (23)        | 173                  | 720                 | 746           | 26           | 905                  |
|  | <b>1,113</b>            | <b>1,100</b> | <b>(13)</b> | <b>1,086</b>         | <b>4,494</b>        | <b>4,323</b>  | <b>(171)</b> | <b>3,619</b>         |
| <b>Taxpayer-supported programs and agencies</b>                |                         |              |             |                      |                     |               |              |                      |
|  | <b>6,916</b>            | <b>7,247</b> | <b>331</b>  | <b>6,813</b>         | <b>28,505</b>       | <b>29,417</b> | <b>912</b>   | <b>27,093</b>        |
| <b>Commercial Crown corporation net income</b>                 |                         |              |             |                      |                     |               |              |                      |
| BC Hydro (before RSA/Heritage Contract transfers).....         | 37                      | 8            | (29)        | -                    | 388                 | 276           | (112)        | 90                   |
| Liquor Distribution Branch .....                               | 183                     | 189          | 6           | 175                  | 760                 | 760           | -            | 724                  |
| BC Lotteries (net of payments to the federal government) ..... | 174                     | 176          | 2           | 169                  | 842                 | 842           | -            | 719                  |
| BC Rail <sup>4</sup> .....                                     | 5                       | 27           | 22          | 12                   | 29                  | 237           | 208          | 51                   |
| ICBC <sup>5</sup> .....  | 20                      | 85           | 65          | 72                   | 52                  | 218           | 166          | 302                  |
| Other .....  | -                       | -            | -           | -                    | 1                   | -             | (1)          | 8                    |
|  | <b>419</b>              | <b>485</b>   | <b>66</b>   | <b>428</b>           | <b>2,072</b>        | <b>2,333</b>  | <b>261</b>   | <b>1,894</b>         |
| <b>Total revenue</b> .....                                     | <b>7,335</b>            | <b>7,732</b> | <b>397</b>  | <b>7,241</b>         | <b>30,577</b>       | <b>31,750</b> | <b>1,173</b> | <b>28,987</b>        |

<sup>1</sup> \$226 million budgeted as health-care related fees has been reclassified as miscellaneous revenue. This reclassification has no impact on total budgeted revenue or the budget bottom-line.

<sup>2</sup> BC Hydro's earnings for 2003/04 have been restated to reflect an accounting policy change for asset retirement obligations. The impact is a \$13 million increase (\$4 million for the year to date results) in BC Hydro earnings and therefore total government revenue.

<sup>3</sup> Includes additional \$148 million federal Health Accord and 2004 Public Health and Immunization Trust funding finalized after *Budget 2004*.

<sup>4</sup> The year to date figures reflect BC Rail's budget and results for the April to June period. The full-year forecast represents BC Rail's earnings during government's fiscal year. On BC Rail's fiscal year basis (December), the outlook is - 2004 (budget): \$211 million; 2004 (forecast): \$246 million.

<sup>5</sup> The year to date figures reflect ICBC's budget and results for the April to June period. The full-year forecast represents ICBC's earnings during government's fiscal year. On ICBC's fiscal year basis (December), the outlook is - 2004 (budget): \$52 million; 2004 (forecast): \$252 million.

**Table A.3 2004/05 Expense by Ministry, Program and Agency**

| (\$ millions)   | Year-to-Date to June 30 |              |              |                      | Full Year           |               |             |                      |
|---|-------------------------|--------------|--------------|----------------------|---------------------|---------------|-------------|----------------------|
|   | 2004/05                 |              |              | Actual               | 2004/05             |               |             | Actual               |
|   | Budget <sup>1</sup>     | Actual       | Variance     | 2003/04 <sup>1</sup> | Budget <sup>1</sup> | Forecast      | Variance    | 2003/04 <sup>1</sup> |
| Advanced Education.....   | 464                     | 457          | (7)          | 437                  | 1,899               | 1,899         | -           | 1,897                |
| Education.....  | 1,423                   | 1,401        | (22)         | 1,382                | 4,943               | 4,891         | (52)        | 4,787                |
| Health Services <sup>2</sup> .....  | 2,757                   | 2,737        | (20)         | 2,677                | 10,706              | 10,706        | -           | 10,453               |
| Subtotal  | 4,644                   | 4,595        | (49)         | 4,496                | 17,548              | 17,496        | (52)        | 17,137               |
| Office of the Premier.....  | 11                      | 9            | (2)          | 8                    | 44                  | 44            | -           | 50                   |
| Agriculture, Food and Fisheries.....  | 17                      | 10           | (7)          | 13                   | 45                  | 45            | -           | 79                   |
| Attorney General.....   | 132                     | 130          | (2)          | 120                  | 489                 | 489           | -           | 520                  |
| Children and Family Development.....  | 393                     | 375          | (18)         | 391                  | 1,555               | 1,555         | -           | 1,591                |
| Community, Aboriginal and Women's Services.....                                     | 73                      | 69           | (4)          | 115                  | 333                 | 333           | -           | 460                  |
| Energy and Mines.....   | 17                      | 15           | (2)          | 15                   | 64                  | 64            | -           | 77                   |
| Finance.....  | 9                       | 8            | (1)          | 16                   | 46                  | 46            | -           | 53                   |
| Forests.....  | 98                      | 125          | 27           | 93                   | 530                 | 650           | 120         | 839                  |
| Human Resources.....  | 331                     | 321          | (10)         | 348                  | 1,301               | 1,301         | -           | 1,394                |
| Management Services.....  | 15                      | 14           | (1)          | 35                   | 61                  | 61            | -           | 61                   |
| Provincial Revenue.....   | 12                      | 11           | (1)          | 10                   | 52                  | 52            | -           | 49                   |
| Public Safety and Solicitor General.....  | 126                     | 123          | (3)          | 128                  | 503                 | 503           | -           | 599                  |
| Skills Development and Labour.....  | 4                       | 4            | -            | 4                    | 19                  | 19            | -           | 20                   |
| Small Business and Economic Development.....  | 86                      | 81           | (5)          | 85                   | 143                 | 143           | -           | 245                  |
| Sustainable Resource Management.....  | 100                     | 95           | (5)          | 22                   | 281                 | 241           | (40)        | 91                   |
| Transportation.....   | 200                     | 194          | (6)          | 206                  | 811                 | 811           | -           | 820                  |
| Water, Land and Air Protection.....   | 30                      | 29           | (1)          | 28                   | 148                 | 148           | -           | 129                  |
| Subtotal  | 1,654                   | 1,613        | (41)         | 1,637                | 6,425               | 6,505         | 80          | 7,077                |
| <b>Total ministries and Office of the Premier.....</b>                              | <b>6,298</b>            | <b>6,208</b> | <b>(90)</b>  | <b>6,133</b>         | <b>23,973</b>       | <b>24,001</b> | <b>28</b>   | <b>24,214</b>        |
| Legislation.....  | 11                      | 10           | (1)          | 10                   | 46                  | 46            | -           | 41                   |
| Officers of the Legislature.....  | 7                       | 5            | (2)          | 5                    | 27                  | 27            | -           | 23                   |
| BC Family Bonus.....  | 20                      | 19           | (1)          | 21                   | 59                  | 59            | -           | 80                   |
| Management of public funds and debt.....  | 196                     | 175          | (21)         | 193                  | 800                 | 727           | (73)        | 738                  |
| Government restructuring (ministries).....  | -                       | -            | -            | -                    | -                   | -             | -           | 168                  |
| Contingencies and new programs.....   | -                       | -            | -            | -                    | 240                 | 240           | -           | -                    |
| Other appropriations.....   | 9                       | 8            | (1)          | 11                   | 12                  | 12            | -           | 14                   |
| Subtotal  | 6,541                   | 6,425        | (116)        | 6,373                | 25,157              | 25,112        | (45)        | 25,278               |
| BC Rail investment partnership.....   | -                       | -            | -            | -                    | -                   | 391           | 391         | -                    |
| <b>Consolidated revenue fund expense.....</b>                                       | <b>6,541</b>            | <b>6,425</b> | <b>(116)</b> | <b>6,373</b>         | <b>25,157</b>       | <b>25,503</b> | <b>346</b>  | <b>25,278</b>        |
| <i>Less: grants to agencies and other internal transfers:</i>                       |                         |              |              |                      |                     |               |             |                      |
| Taxpayer-supported Crown corporations and agencies.....                             | (236)                   | (253)        | (17)         | (279)                | (735)               | (1,019)       | (284)       | (947)                |
| School districts.....   | (1,242)                 | (1,229)      | 13           | (1,271)              | (4,314)             | (4,283)       | 31          | (4,219)              |
| Universities.....   | (204)                   | (196)        | 8            | (193)                | (817)               | (806)         | 11          | (861)                |
| Colleges, university colleges and institutes.....                                   | (193)                   | (187)        | 6            | (199)                | (772)               | (730)         | 42          | (880)                |
| Health authorities and hospital societies.....                                      | (1,728)                 | (1,885)      | (157)        | (1,785)              | (6,912)             | (7,070)       | (158)       | (7,319)              |
| CFD governance authorities.....   | -                       | (1)          | (1)          | (1)                  | -                   | (3)           | (3)         | (3)                  |
| <i>Add: Expenses recovered from external entities.....</i>                          | 392                     | 337          | (55)         | 375                  | 1,569               | 1,519         | (50)        | 1,538                |
|   | <b>3,330</b>            | <b>3,011</b> | <b>(319)</b> | <b>3,020</b>         | <b>13,176</b>       | <b>13,111</b> | <b>(65)</b> | <b>12,587</b>        |
| <b>Taxpayer-supported Crown corporations and agencies (net of adjustments).....</b> | <b>476</b>              | <b>455</b>   | <b>(21)</b>  | <b>445</b>           | <b>1,904</b>        | <b>1,867</b>  | <b>(37)</b> | <b>2,111</b>         |
| <b>SUCH sector and regional authorities:</b>  |                         |              |              |                      |                     |               |             |                      |
| School districts.....   | 1,280                   | 1,294        | 14           | 1,254                | 4,446               | 4,542         | 96          | 4,371                |
| Universities.....   | 484                     | 549          | 65           | 448                  | 1,935               | 2,022         | 87          | 1,899                |
| Colleges, university colleges and institutes.....                                   | 329                     | 308          | (21)         | 301                  | 1,318               | 1,355         | 37          | 1,299                |
| Health authorities and hospital societies.....                                      | 1,900                   | 1,897        | (3)          | 1,988                | 7,598               | 7,684         | 86          | 7,706                |
| CFD governance authorities.....   | -                       | 1            | 1            | 1                    | -                   | 4             | 4           | 3                    |
|   | <b>3,993</b>            | <b>4,049</b> | <b>56</b>    | <b>3,992</b>         | <b>15,297</b>       | <b>15,607</b> | <b>310</b>  | <b>15,278</b>        |
| <b>Total taxpayer-supported expense.....</b>  | <b>7,799</b>            | <b>7,515</b> | <b>(284)</b> | <b>7,457</b>         | <b>30,377</b>       | <b>30,585</b> | <b>208</b>  | <b>29,976</b>        |

<sup>1</sup> Budget amounts and prior year comparative figures have been restated to reflect government's current organization and accounting policies.

<sup>2</sup> Includes additional \$148 million federal Health Accord and 2004 Public Health and Immunization Trust funding finalized after Budget 2004.

**Table A.4 2004/05 Capital Spending**

| (\$ millions)  | Year-to-Date to June 30 |            |             |                   | Full Year    |              |             |                   |
|--|-------------------------|------------|-------------|-------------------|--------------|--------------|-------------|-------------------|
|  | 2004/05                 |            |             | Actual<br>2003/04 | 2004/05      |              |             | Actual<br>2003/04 |
|  | Budget                  | Actual     | Variance    |                   | Budget       | Forecast     | Variance    |                   |
| <b>Taxpayer-supported</b>                                    |                         |            |             |                   |              |              |             |                   |
| Education.....   | 151                     | 171        | 20          | 181               | 604          | 776          | 172         | 831               |
| Health <sup>1</sup> .....                                    | 82                      | 84         | 2           | 135               | 326          | 350          | 24          | 420               |
| BC Transportation Financing Authority.....                   | 86                      | 111        | 25          | 58                | 500          | 477          | (23)        | 370               |
| Rapid Transit Project 2000 <sup>1</sup> .....                | 5                       | 4          | (1)         | 7                 | 19           | 18           | (1)         | 14                |
| Vancouver Convention and Exhibition<br>Centre expansion..... | 8                       | 14         | 6           | 32                | 70           | 38           | (32)        | 44                |
| Columbia River power projects <sup>2</sup> .....             | -                       | -          | -           | -                 | 90           | 92           | 2           | -                 |
| Government operating (ministries).....                       | 40                      | 9          | (31)        | 12                | 257          | 200          | (57)        | 185               |
| Other <sup>3</sup> .....                                     | 19                      | 17         | (2)         | 12                | 77           | 91           | 14          | 19                |
| <b>Total taxpayer-supported.....</b>                         | <b>391</b>              | <b>410</b> | <b>19</b>   | <b>437</b>        | <b>1,943</b> | <b>2,042</b> | <b>99</b>   | <b>1,883</b>      |
| <b>Self-supported</b>  |                         |            |             |                   |              |              |             |                   |
| BC Hydro.....  | 186                     | 135        | (51)        | 132               | 821          | 743          | (78)        | 636               |
| BC Rail.....   | 2                       | 11         | 9           | 10                | 17           | 33           | 16          | 33                |
| Columbia River power projects <sup>2</sup> .....             | 16                      | 14         | (2)         | 24                | -            | -            | -           | 100               |
| ICBC <sup>4</sup> .....                                      | 10                      | 7          | (3)         | 5                 | 66           | 42           | (24)        | 26                |
| BC Lotteries.....  | 21                      | 17         | (4)         | 17                | 75           | 87           | 12          | 49                |
| Liquor Distribution Branch.....                              | 3                       | -          | (3)         | 1                 | 12           | 12           | -           | 2                 |
| <b>Total self-supported.....</b>                             | <b>238</b>              | <b>184</b> | <b>(54)</b> | <b>189</b>        | <b>991</b>   | <b>917</b>   | <b>(74)</b> | <b>846</b>        |
| <b>Total capital expenditures.....</b>                       | <b>629</b>              | <b>594</b> | <b>(35)</b> | <b>626</b>        | <b>2,934</b> | <b>2,959</b> | <b>25</b>   | <b>2,729</b>      |

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

<sup>2</sup> A joint venture of the Columbia Power Corporation (CPC) and Columbia Basin Trust (CBT). By the end of the 2004/05 fiscal year, the venture will be reclassified as taxpayer-supported to reflect CBT's expected merger with CPC.

<sup>3</sup> 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.

<sup>4</sup> Includes ICBC Properties Ltd.

**Table A.5 2004/05 Provincial Debt <sup>1</sup>**

| (\$ millions)                                    | Balance<br>March 31,<br>2004 | Balance as at June 30, 2004 |                  |               |                | Balance as at March 31, 2005 |                  |               |                |
|--|------------------------------|-----------------------------|------------------|---------------|----------------|------------------------------|------------------|---------------|----------------|
|  |                              | Net<br>Change <sup>2</sup>  | Debt Outstanding |               |                | Net<br>Change <sup>2</sup>   | Debt Outstanding |               |                |
|  |                              |                             | Actual           | Budget        | Variance       |                              | Forecast         | Budget        | Variance       |
| <b>Taxpayer-supported debt</b>                   |                              |                             |                  |               |                |                              |                  |               |                |
| Provincial government operating.....             | 15,754                       | (512)                       | 15,242           | 16,839        | (1,597)        | (1,225)                      | 14,529           | 16,615        | (2,086)        |
| Education facilities                             |                              |                             |                  |               |                |                              |                  |               |                |
| Schools.....                                     | 4,409                        | (3)                         | 4,406            | 4,474         | (68)           | 91                           | 4,500            | 4,557         | (57)           |
| Post-secondary institutions.....                 | 2,114                        | 56                          | 2,170            | 2,154         | 16             | 200                          | 2,314            | 2,344         | (30)           |
|  | 6,523                        | 53                          | 6,576            | 6,628         | (52)           | 291                          | 6,814            | 6,901         | (87)           |
| Health facilities.....                           | 2,218                        | 2                           | 2,220            | 2,364         | (144)          | 223                          | 2,441            | 2,479         | (38)           |
| Highways and public transit                      |                              |                             |                  |               |                |                              |                  |               |                |
| BC Transportation Financing                      |                              |                             |                  |               |                |                              |                  |               |                |
| Authority.....                                   | 2,764                        | 33                          | 2,797            | 2,772         | 25             | 97                           | 2,861            | 2,874         | (13)           |
| BC Transit.....                                  | 83                           | (2)                         | 81               | 84            | (3)            | 9                            | 92               | 88            | 4              |
| Public transit.....                              | 914                          | (4)                         | 910              | 916           | (6)            | (3)                          | 911              | 915           | (4)            |
| SkyTrain extension.....                          | 1,119                        | 4                           | 1,123            | 1,127         | (4)            | 19                           | 1,138            | 1,141         | (3)            |
|  | 4,880                        | 31                          | 4,911            | 4,899         | 12             | 122                          | 5,002            | 5,018         | (16)           |
| Other  |                              |                             |                  |               |                |                              |                  |               |                |
| BC Buildings.....                                | 317                          | (11)                        | 306              | 287           | 19             | (64)                         | 253              | 247           | 6              |
| Social housing <sup>3</sup> .....                | 156                          | (17)                        | 139              | 178           | (39)           | 21                           | 177              | 180           | (3)            |
| Homeowner Protection Office.....                 | 129                          | 15                          | 144              | 132           | 12             | (8)                          | 121              | 126           | (5)            |
| Columbia River power projects <sup>4</sup> ..... | -                            | -                           | -                | -             | -              | 252                          | 252              | 262           | (10)           |
| Other <sup>5</sup> .....                         | 116                          | 17                          | 133              | 350           | (217)          | 246                          | 362              | 344           | 18             |
|  | 718                          | 4                           | 722              | 947           | (225)          | 447                          | 1,165            | 1,159         | 6              |
| <b>Total taxpayer-supported debt.....</b>        | <b>30,093</b>                | <b>(422)</b>                | <b>29,671</b>    | <b>31,677</b> | <b>(2,006)</b> | <b>(142)</b>                 | <b>29,951</b>    | <b>32,172</b> | <b>(2,221)</b> |
| <b>Self-supported debt</b>                       |                              |                             |                  |               |                |                              |                  |               |                |
| Commercial Crown corporations<br>and agencies    |                              |                             |                  |               |                |                              |                  |               |                |
| BC Hydro.....                                    | 7,040                        | 187                         | 7,227            | 7,062         | 165            | (68)                         | 6,972            | 7,174         | (202)          |
| BC Rail.....                                     | 477                          | (3)                         | 474              | -             | 474            | (477)                        | -                | -             | -              |
| Columbia River power projects <sup>4</sup> ..... | 215                          | (4)                         | 211              | 228           | (17)           | (215)                        | -                | -             | -              |
| Liquor Distribution Branch.....                  | 7                            | -                           | 7                | 7             | -              | (1)                          | 6                | 6             | -              |
|  | 7,739                        | 180                         | 7,919            | 7,297         | 622            | (761)                        | 6,978            | 7,180         | (202)          |
| Warehouse borrowing program.....                 | -                            | 363                         | 363              | -             | 363            | -                            | -                | -             | -              |
| <b>Total self-supported debt.....</b>            | <b>7,739</b>                 | <b>543</b>                  | <b>8,282</b>     | <b>7,297</b>  | <b>985</b>     | <b>(761)</b>                 | <b>6,978</b>     | <b>7,180</b>  | <b>(202)</b>   |
| <b>Forecast allowance.....</b>                   | <b>-</b>                     | <b>-</b>                    | <b>-</b>         | <b>-</b>      | <b>-</b>       | <b>300</b>                   | <b>300</b>       | <b>100</b>    | <b>200</b>     |
| <b>Total provincial debt.....</b>                | <b>37,832</b>                | <b>121</b>                  | <b>37,953</b>    | <b>38,974</b> | <b>(1,021)</b> | <b>(603)</b>                 | <b>37,229</b>    | <b>39,452</b> | <b>(2,223)</b> |

<sup>1</sup> 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.

<sup>2</sup> 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).

<sup>3</sup> Includes the BC Housing Management Commission and the Provincial Rental Housing Corporation.

<sup>4</sup> A joint venture of the Columbia Power Corporation (CPC) and Columbia Basin Trust (CBT). By the end of the 2004/05 fiscal year, this venture will be reclassified as taxpayer-supported to reflect CBT's expected merger with CPC.

<sup>5</sup> Includes other taxpayer-supported Crown corporations and agencies, student loan guarantees, loan guarantees to agricultural producers, guarantees issued under economic development and home mortgage assistance programs, and loan guarantee provisions. Starting in 2004/05, it also includes a \$255 million indemnity to CN related to tax attributes with respect to the BC Rail investment partnership.



**Table A.6 Revenue by Source: 2004/05 – 2006/07**

| (\$ millions)  | Actual               | Forecast             | Updated Plan         |                      |
|--|----------------------|----------------------|----------------------|----------------------|
|  | 2003/04 <sup>1</sup> | 2004/05              | 2005/06              | 2006/07              |
| <b>Taxation:</b>   |                      |                      |                      |                      |
| Personal income .....  | 4,877                | 5,080                | 5,302                | 5,616                |
| Corporation income .....                                       | 775                  | 1,066                | 1,023                | 1,130                |
| Social service .....   | 4,001                | 4,211                | 4,406                | 4,613                |
| Fuel .....   | 875                  | 891                  | 909                  | 937                  |
| Tobacco .....  | 647                  | 676                  | 676                  | 676                  |
| Property .....   | 1,576                | 1,648                | 1,718                | 1,788                |
| Property transfer .....  | 518                  | 600                  | 475                  | 425                  |
| Other <sup>2</sup> .....                                       | 539                  | 518                  | 527                  | 532                  |
|  | <u>13,808</u>        | <u>14,690</u>        | <u>15,036</u>        | <u>15,717</u>        |
| <b>Natural Resources:</b>                                      |                      |                      |                      |                      |
| Natural gas royalties .....                                    | 1,230                | 1,416                | 1,381                | 1,292                |
| Columbia River Treaty .....                                    | 230                  | 290                  | 255                  | 205                  |
| Other energy and minerals .....                                | 878                  | 645                  | 632                  | 590                  |
| Forests .....  | 1,007                | 1,374                | 1,172                | 1,171                |
| Water and other resources .....                                | 308                  | 403                  | 395                  | 420                  |
|  | <u>3,653</u>         | <u>4,128</u>         | <u>3,835</u>         | <u>3,678</u>         |
| <b>Other Revenue</b>   |                      |                      |                      |                      |
| Medical Services Plan premiums .....                           | 1,409                | 1,398                | 1,412                | 1,428                |
| Post-secondary education fees .....                            | 781                  | 808                  | 905                  | 957                  |
| Other health care-related fees .....                           | 222                  | 191                  | 189                  | 189                  |
| Motor vehicle licences and permits .....                       | 363                  | 376                  | 385                  | 394                  |
| Other fees and licences .....                                  | 765                  | 772                  | 648                  | 670                  |
| Investment earnings .....                                      | 687                  | 753                  | 749                  | 798                  |
| Sales of goods and services .....                              | 629                  | 683                  | 702                  | 720                  |
| Miscellaneous <sup>3</sup> .....                               | 1,157                | 1,295                | 1,253                | 1,232                |
|  | <u>6,013</u>         | <u>6,276</u>         | <u>6,243</u>         | <u>6,388</u>         |
| <b>Contributions from the federal government <sup>4</sup></b>  |                      |                      |                      |                      |
| Health and social transfers .....                              | 3,044                | 3,538                | 3,881                | 3,979                |
| Equalization .....   | (330)                | 39                   | 6                    | -                    |
| Other federal contributions <sup>5</sup> .....                 | 905                  | 746                  | 715                  | 694                  |
|  | <u>3,619</u>         | <u>4,323</u>         | <u>4,602</u>         | <u>4,673</u>         |
| <b>Taxpayer-supported programs and agencies</b> .....          | <b><u>27,093</u></b> | <b><u>29,417</u></b> | <b><u>29,716</u></b> | <b><u>30,456</u></b> |
| <b>Commercial Crown corporation net income</b>                 |                      |                      |                      |                      |
| BC Hydro (before RSA/Heritage Contract transfers) .....        | 90                   | 276                  | 440                  | 412                  |
| Liquor Distribution Branch .....                               | 724                  | 760                  | 793                  | 802                  |
| BC Lotteries (net of payments to the federal government) ..... | 719                  | 842                  | 942                  | 1,002                |
| BC Rail <sup>6</sup> .....                                     | 51                   | 237                  | 70                   | 13                   |
| ICBC <sup>7</sup> .....  | 302                  | 218                  | 163                  | 100                  |
| Other .....  | 8                    | -                    | 4                    | 5                    |
|  | <u>1,894</u>         | <u>2,333</u>         | <u>2,412</u>         | <u>2,334</u>         |
| <b>Total revenue</b> .....                                     | <b><u>28,987</u></b> | <b><u>31,750</u></b> | <b><u>32,128</u></b> | <b><u>32,790</u></b> |

<sup>1</sup> BC Hydro's earnings for 2003/04 have been restated to reflect an accounting policy change for asset retirement obligations. The impact is a \$13 million increase in BC Hydro earnings and therefore total government revenue.

<sup>2</sup> Composed of revenue from corporation capital tax, insurance premium tax and hotel room tax.

<sup>3</sup> Includes asset dispositions, reimbursements for health care and other services provided to external agencies, and other recoveries.

<sup>4</sup> Includes additional \$148 million federal Health Accord and 2004 Public Health and Immunization Trust funding finalized after *Budget 2004*.

<sup>5</sup> Includes contributions for health, education, housing and social service programs, and transportation projects.

<sup>6</sup> The projections represent BC Rail's earnings during government's fiscal year. On BC Rail's fiscal year basis (December), the outlook is – 2004: \$246 million; 2005: \$78 million; 2006: \$13 million.

<sup>7</sup> The projections represent ICBC's earnings during government's fiscal year. On ICBC's fiscal year basis (December), the outlook is – 2004: \$252 million; 2005: \$163 million; 2006: \$100 million.

**Table A.7 Revenue Assumptions: 2004/05 – 2006/07**  
**Changes from Budget 2004**

| Revenue Source and Assumptions<br>(\$ millions unless otherwise specified)  | Forecast<br>2004/05 | Updated Plan   |                |
|---|---------------------|----------------|----------------|
|   |                     | 2005/06        | 2006/07        |
| <b>Personal Income Tax</b>  | <b>\$5,080</b>      | <b>\$5,302</b> | <b>\$5,616</b> |
| BC personal income growth   | 3.8%                | 4.3%           | 4.5%           |
| BC tax base growth  | 4.3%                | 4.9%           | 5.0%           |
| Average tax yield   | 5.50%               | 5.54%          | 5.58%          |
| <b>Corporation Income Tax</b>   | <b>\$1,066</b>      | <b>\$1,023</b> | <b>\$1,130</b> |
| National tax base (\$ billions)   | \$139.1             | \$148.5        | \$158.4        |
| BC instalment share   | 8.74%               | 8.42%          | 8.53%          |
| Prior-year adjustments  | \$35                | -\$20          | \$6            |
| BC tax base (\$ billions)   | \$11.9              | \$12.4         | \$12.9         |
| BC tax base growth  | 15.0%               | 5.0%           | 4.0%           |
| BC corporate profits growth   | 17.2%               | 6.0%           | 3.9%           |
| 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, 2004/05 instalments from the federal government are based on B.C.'s share of the national tax base for the 2002 tax-year (assessed as of December 31, 2003) and a forecast of the 2004 national tax base. |                     |                |                |
| <b>Social Service Tax</b>   | <b>\$4,211</b>      | <b>\$4,406</b> | <b>\$4,613</b> |
| Consumer expenditure growth   | 4.9%                | 5.0%           | 4.8%           |
| Business investment growth  | 5.0%                | 9.5%           | 8.9%           |
| Other expenditure growth  | 8.1%                | 2.0%           | 2.4%           |
| <b>Fuel Tax</b>   | <b>\$891</b>        | <b>\$909</b>   | <b>\$937</b>   |
| Real GDP growth   | 2.9%                | 3.0%           | 2.9%           |
| <b>Petroleum, natural gas, minerals and Columbia River Treaty export electricity sales</b>  | <b>\$2,351</b>      | <b>\$2,268</b> | <b>\$2,087</b> |
| Natural gas price (\$Cdn/gigajoule at plant inlet)  | \$5.50              | \$5.15         | \$4.50         |
| Natural gas volumes (annual per cent change)  | 4.8%                | 4.0%           | 4.1%           |
| Oil price (\$US/barrel at Cushing, Oklahoma)  | \$37.00             | \$32.50        | \$29.00        |
| Auctioned land base (000 hectares)  | 873                 | 891            | 888            |
| Average bid price/hectare (\$)  | \$391               | \$400          | \$405          |
| <u>Columbia River Treaty electricity sales</u>  |                     |                |                |
| Annual quantity set by treaty (million mega-watt hours)   | 4.5                 | 4.5            | 4.5            |
| Mid-Columbia electricity price (\$US/mega-watt hour)  | \$51                | \$48           | \$42           |
| <b>Forests</b>  | <b>\$1,374</b>      | <b>\$1,172</b> | <b>\$1,171</b> |
| <u>Prices (calendar year average)</u>   |                     |                |                |
| SPF 2x4 price (\$US/thousand board feet)  | \$395               | \$325          | \$300          |
| Hemlock price (\$US/thousand board feet)  | \$635               | \$650          | \$650          |
| Pulp (\$US/tonne)   | \$639               | \$700          | \$650          |
| Exchange rate (\$US/\$Cdn)  | \$0.752             | \$0.778        | \$0.780        |
| <u>Crown harvest volumes (million cubic metres)</u>   |                     |                |                |
| Interior harvest volumes  | 50.5                | 50.5           | 49.0           |
| Coastal harvest volumes   | 17.0                | 17.0           | 17.0           |

**Table A.7 Revenue Assumptions: 2004/05 – 2006/07**  
**Changes from Budget 2004**

| Revenue Source and Assumptions<br>(\$ millions unless otherwise specified) | Forecast<br>2004/05 | Updated Plan   |                |
|--|---------------------|----------------|----------------|
|  |                     | 2005/06        | 2006/07        |
| <b>Health and social transfers</b>   | <b>\$3,538</b>      | <b>\$3,881</b> | <b>\$3,979</b> |
| <b>Equalization</b>  | <b>\$39</b>         | <b>\$6</b>     | <b>\$0</b>     |
| <u>National CHST cash (\$ billions) excluding trust funds</u>              |                     |                |                |
| Base before 2003 Health Accord   | \$20.4              | \$21.0         | \$21.6         |
| Health Reform Transfer   | \$1.5               | \$3.5          | \$4.5          |
| Early Learning and Child Care Services                                     | \$0.150             | \$0.225        | \$0.300        |
| BC basic federal tax (BFT) (\$ billions)                                   | \$11.9              | \$12.5         | \$13.2         |
| National BFT (\$ billions)<br>(includes estimate of prior years)           | \$97.7              | \$103.8        | \$111.2        |
| BC share of national population  | 13.1%               | 13.1%          | 13.2%          |
| BC nominal GDP/capita (\$ 000)   | \$35.95             | \$37.12        | \$38.35        |
| Canada nominal GDP/capita (\$ 000)   | \$40.20             | \$41.74        | \$43.38        |
| <u>Components of BC CHST revenue (\$ millions)</u>                         |                     |                |                |
| Canada Health Transfer   | \$1,874             | \$1,952        | \$2,053        |
| Canada Social Transfer   | \$1,149             | \$1,200        | \$1,257        |
| Health Reform Transfer   | \$195               | \$455          | \$596          |
| Early Learning and Child Care Services                                     | \$20                | \$30           | \$39           |
| Diagnostic/Medical Equipment Trust (\$200 million total)                   | \$19                | \$25           | \$16           |
| 2003 CHST Supplement Trust (\$333 million total)                           | \$133               | \$71           | \$0            |
| 2004 Public Health and Immunization (\$52 million total)                   | \$17                | \$17           | \$18           |
| 2004 CHST Supplement Trust (\$262 million total)                           | <u>\$131</u>        | <u>\$131</u>   | <u>\$0</u>     |
|  | \$3,538             | \$3,881        | \$3,979        |
| <u>Components of Equalization revenue (\$ millions)</u>                    |                     |                |                |
| Current-year base  | \$0                 | \$0            | \$0            |
| One-time (federal government 2004 budget)                                  | \$39                | \$6            | \$0            |
| <b>SUCH sector direct revenue</b>  | <b>\$2,668</b>      | <b>\$2,753</b> | <b>\$2,832</b> |
| School Districts   | \$280               | \$258          | \$259          |
| Universities   | \$1,291             | \$1,403        | \$1,499        |
| Colleges, University Colleges, and Institutes                              | \$565               | \$575          | \$553          |
| Health Authorities and Hospital Societies                                  | \$531               | \$516          | \$520          |
| Children and Family Governance Authorities                                 | \$1                 | \$1            | \$1            |
| <b>Commercial Crown corporation net income</b>                             | <b>\$2,333</b>      | <b>\$2,412</b> | <b>\$2,334</b> |
| <b>BC Hydro (before RSA and Heritage Contract transfers)</b>               | <b>\$276</b>        | <b>\$440</b>   | <b>\$412</b>   |
| reservoir water inflows (per cent of normal)<br>(August 1, 2004 forecast)  | 87%                 | 100%           | 100%           |
| mean gas price<br>(\$US/MMbtu at Sumas)                                    | 5.62                | 5.47           | 5.15           |
| interim rate increase awarded by BCUC (April 1, 2004)                      | 7.23%               |                |                |
| application to BCUC for additional increase (Fall 2004)                    | 1.67%               | nil            | nil            |
| <b>ICBC (projected earnings during government's fiscal year)</b>           | <b>\$218</b>        | <b>\$163</b>   | <b>\$100</b>   |
| investment income  | \$370               | \$354          | \$367          |
| adjustment to prior-year claims  | -\$49               | -              | -              |
| premium revenue trend  | +4.3%               | +1.2%          | +0.3%          |
| claims-incurred trend  | +1.5%               | +4.1%          | +3.6%          |

**Table A.8 Expense by Ministry, Program and Agency: 2004/05 – 2006/07**

| (\$ millions)   | Actual               | Forecast      | Updated Plan  |               |
|---|----------------------|---------------|---------------|---------------|
|   | 2003/04 <sup>1</sup> | 2004/05       | 2005/06       | 2006/07       |
| Advanced Education.....   | 1,897                | 1,899         | 1,929         | 2,004         |
| Education.....  | 4,787                | 4,891         | 4,951         | 5,121         |
| Health Services <sup>2</sup> .....  | 10,453               | 10,706        | 10,933        | 11,276        |
| Subtotal  | <u>17,137</u>        | <u>17,496</u> | <u>17,813</u> | <u>18,401</u> |
| Office of the Premier.....  | 50                   | 44            | 46            | 46            |
| Agriculture, Food and Fisheries.....                                      | 79                   | 45            | 45            | 45            |
| Attorney General.....   | 520                  | 489           | 482           | 482           |
| Children and Family Development.....                                      | 1,591                | 1,555         | 1,585         | 1,610         |
| Community, Aboriginal and Women's Services.....                           | 460                  | 333           | 384           | 396           |
| Energy and Mines.....   | 77                   | 64            | 55            | 56            |
| Finance.....  | 53                   | 46            | 46            | 46            |
| Forests.....  | 839                  | 650           | 629           | 696           |
| Human Resources.....  | 1,394                | 1,301         | 1,347         | 1,347         |
| Management Services.....  | 61                   | 61            | 57            | 58            |
| Provincial Revenue.....   | 49                   | 52            | 52            | 52            |
| Public Safety and Solicitor General.....                                  | 599                  | 503           | 501           | 498           |
| Skills Development and Labour.....  | 20                   | 19            | 19            | 19            |
| Small Business and Economic Development.....                              | 245                  | 143           | 242           | 148           |
| Sustainable Resource Management.....                                      | 91                   | 241           | 119           | 140           |
| Transportation.....   | 820                  | 811           | 812           | 812           |
| Water, Land and Air Protection.....                                       | 129                  | 148           | 148           | 148           |
| Subtotal  | <u>7,077</u>         | <u>6,505</u>  | <u>6,569</u>  | <u>6,599</u>  |
| <b>Total ministries and Office of the Premier.....</b>                    | <b>24,214</b>        | <b>24,001</b> | <b>24,382</b> | <b>25,000</b> |
| Legislation.....  | 41                   | 46            | 48            | 46            |
| Officers of the Legislature.....  | 23                   | 27            | 41            | 20            |
| BC Family Bonus.....  | 80                   | 59            | 39            | 32            |
| Management of public funds and debt.....                                  | 738                  | 727           | 771           | 790           |
| Government restructuring.....   | 168                  | -             | -             | -             |
| Contingencies and new programs.....                                       | -                    | 240           | 240           | 240           |
| Other appropriations.....   | 14                   | 12            | 8             | 8             |
| Subtotal  | <u>25,278</u>        | <u>25,112</u> | <u>25,529</u> | <u>26,136</u> |
| BC Rail investment partnership.....                                       | -                    | 391           | -             | -             |
| <b>Consolidated revenue fund expense.....</b>                             | <b>25,278</b>        | <b>25,503</b> | <b>25,529</b> | <b>26,136</b> |
| <i>Less: grants to agencies and other internal transfers:</i>             |                      |               |               |               |
| Taxpayer-supported Crown corporations and agencies.....                   | (947)                | (1,019)       | (810)         | (781)         |
| School districts.....   | (4,219)              | (4,283)       | (4,313)       | (4,429)       |
| Universities.....   | (861)                | (806)         | (848)         | (868)         |
| Colleges, university colleges and institutes.....                         | (880)                | (730)         | (745)         | (695)         |
| Health authorities and hospital societies.....                            | (7,319)              | (7,070)       | (7,136)       | (7,238)       |
| Children and family development governance authorities <sup>3</sup> ..... | (3)                  | (3)           | (260)         | (576)         |
| <i>Add: expenses recovered from external entities.....</i>                | <i>1,538</i>         | <i>1,519</i>  | <i>1,505</i>  | <i>1,557</i>  |
|   | <u>12,587</u>        | <u>13,111</u> | <u>12,922</u> | <u>13,106</u> |
| <b>Taxpayer-supported Crown corporations and agencies.....</b>            | <b>2,111</b>         | <b>1,867</b>  | <b>1,864</b>  | <b>1,900</b>  |
| <b>SUCH sector and regional authorities:</b>                              |                      |               |               |               |
| School districts.....   | 4,371                | 4,542         | 4,460         | 4,577         |
| Universities.....   | 1,899                | 2,022         | 2,179         | 2,287         |
| Colleges, university colleges and institutes.....                         | 1,299                | 1,355         | 1,380         | 1,307         |
| Health authorities and hospital societies.....                            | 7,706                | 7,684         | 7,757         | 7,831         |
| Children and family development governance authorities <sup>3</sup> ..... | 3                    | 4             | 261           | 577           |
|   | <u>15,278</u>        | <u>15,607</u> | <u>16,037</u> | <u>16,579</u> |
| <b>Total taxpayer-supported expense.....</b>                              | <b>29,976</b>        | <b>30,585</b> | <b>30,823</b> | <b>31,585</b> |

<sup>1</sup> Prior year comparative figures have been restated to reflect government's current organization and accounting policies.

<sup>2</sup> Includes additional \$148 million federal Health Accord and 2004 Public Health and Immunization Trust funding finalized after *Budget 2004*.

<sup>3</sup> The amount of funding to be transferred, and the timing of the transfer, will be based on an assessment of Authority readiness.

**Table A.9 Expense Assumptions: 2004/05 – 2006/07**  
**Changes from Budget 2004**

| Ministry Programs and Assumptions<br>(\$ millions unless otherwise specified) | Forecast<br>2004/05 | Updated Plan  |               |
|---|---------------------|---------------|---------------|
|   |                     | 2005/06       | 2006/07       |
| <b>Children and Family Development</b>  | <b>1,555</b>        | <b>1,585</b>  | <b>1,610</b>  |
| Increased federal funding for early learning and child care programs          | - <sup>1</sup>      | 10            | -             |
| Transfer child care programs from Community, Aboriginal and Women's Services  | 173                 | 181           | 202           |
| <b>Community, Aboriginal and Women's Services</b>                             | <b>333</b>          | <b>384</b>    | <b>396</b>    |
| Transfer child care programs to Children and Family Development               | (173)               | (181)         | (202)         |
| <b>Education</b>  | <b>4,891</b>        | <b>4,951</b>  | <b>5,121</b>  |
| Federal funding for First Nations students sent directly to school districts  | (52)                | (52)          | (52)          |
| <b>Forests</b>  | <b>650</b>          | <b>629</b>    | <b>696</b>    |
| Direct Fire Fighting  |                     |               |               |
| Assumes normal activity in the fall of 2004                                   | 175                 |               |               |
| 2005/06 and 2006/07 forecasts unchanged from plan                             |                     | 55            | 55            |
| <b>Health Services</b>  | <b>10,706</b>       | <b>10,933</b> | <b>11,276</b> |
| <i>Budget 2004</i>  | 10,558              | 10,785        | 11,258        |
| Additional federal health funding in May 20, 2004 <i>Supply Act</i>           | 148                 | 148           | 18            |
| <b>Sustainable Resource Management</b>  | <b>241</b>          | <b>119</b>    | <b>140</b>    |
| Reduction in free Crown grants  | (40)                |               |               |
| <b>BC Rail Investment Partnership</b>   | <b>391</b>          | <b>-</b>      | <b>-</b>      |
| Completion of partnership in July 2004  |                     |               |               |
| BC Transportation Financing Authority infrastructure plan                     | 200                 |               |               |
| Regional initiatives  | 191                 |               |               |
| <b>Management of Public Funds and Debt</b>                                    | <b>727</b>          | <b>771</b>    | <b>790</b>    |
| Interest rates for new provincial borrowing:                                  |                     |               |               |
| Short-term  | 2.50                | 3.99          | 5.06          |
| Long-term   | 5.65                | 6.26          | 6.63          |
| CDN/US exchange rate (\$)   | 0.7539              | 0.7791        | 0.7800        |
| <b>Taxpayer-supported Crown corporations and agencies</b>                     |                     |               |               |
| Updated net expense   | <b>1,867</b>        | <b>1,864</b>  | <b>1,900</b>  |
| <b>SUCH sector expenses in excess of grant funding</b>                        | <b>2,640</b>        | <b>2,661</b>  | <b>2,700</b>  |
| School Districts  | 257                 | 147           | 148           |
| Universities  | 1,217               | 1,331         | 1,419         |
| Colleges, University Colleges, and Institutes                                 | 549                 | 561           | 539           |
| Health Authorities and Hospital Societies                                     | 616                 | 621           | 593           |
| Children and Family Governance Authorities                                    | 1                   | 1             | 1             |

<sup>1</sup> \$10 million will flow through the Ministry of Children and Family Development through a *Financial Administration Act* section 25 account in 2004/05.

**Table A.10 Expense By Function: 2004/05 – 2006/07**

| (\$millions)                                    | Actual        | Forecast      | Updated Plan  |               |
|---|---------------|---------------|---------------|---------------|
|   | 2003/04       | 2004/05       | 2005/06       | 2006/07       |
| Health.....                                     | 11,333        | 11,860        | 12,101        | 12,441        |
| Social services.....                            | 2,867         | 2,668         | 2,704         | 2,717         |
| Education.....                                  | 8,516         | 8,984         | 9,084         | 9,386         |
| Protection of persons and property.....         | 1,567         | 1,213         | 1,198         | 1,193         |
| Transportation.....                             | 1,272         | 1,460         | 1,289         | 1,293         |
| Natural resources and economic development..... | 1,511         | 1,399         | 1,233         | 1,331         |
| Other.....                                      | 916           | 830           | 960           | 907           |
| Contingencies (all ministries) .....            | -             | 240           | 240           | 240           |
| General government.....                         | 518           | 463           | 472           | 448           |
| Debt servicing.....                             | 1,476         | 1,468         | 1,542         | 1,629         |
| <b>Total expense.....</b>                       | <b>29,976</b> | <b>30,585</b> | <b>30,823</b> | <b>31,585</b> |

**Table A.11 Full-Time Equivalents (FTEs)<sup>1</sup>: 2004/05 – 2006/07**

| FTEs  | Actual        | Forecast      | Updated Plan  |               |
|---|---------------|---------------|---------------|---------------|
|   | 2003/04       | 2004/05       | 2005/06       | 2006/07       |
| Ministries and special offices (consolidated revenue fund)..... | 28,684        | 27,145        | 26,690        | 26,215        |
| Taxpayer-supported Crown corporations and agencies.....         | 4,570         | 3,940         | 3,890         | 3,870         |
| Regional authorities <sup>2</sup> .....                         | -             | 15            | 200           | 650           |
| <b>Total FTEs .....</b>   | <b>33,254</b> | <b>31,100</b> | <b>30,780</b> | <b>30,735</b> |

<sup>1</sup> 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.

<sup>2</sup> Number of FTEs to be transferred and the timing of the transfers will be based on an assessment of authority readiness.

**Table A.12 Capital Spending: 2004/05 – 2006/07**

| (\$ millions)   | Actual       | Forecast     | Updated Plan |              |
|---|--------------|--------------|--------------|--------------|
|   | 2003/04      | 2004/05      | 2005/06      | 2006/07      |
| <b>Taxpayer-supported</b>                                 |              |              |              |              |
| Education.....  | 831          | 776          | 803          | 603          |
| Health <sup>1</sup> .....                                 | 420          | 350          | 400          | 350          |
| BC Transportation Financing Authority.....                | 370          | 477          | 489          | 408          |
| Rapid Transit Project 2000 <sup>1</sup> .....             | 14           | 18           | 14           | 13           |
| Vancouver Convention and Exhibition Centre expansion..... | 44           | 38           | 73           | 162          |
| Government operating (ministries).....                    | 185          | 200          | 218          | 211          |
| Columbia River power projects <sup>2</sup> .....          | -            | 92           | 32           | 30           |
| Other <sup>3</sup> .....                                  | 19           | 91           | 78           | 61           |
| <b>Total taxpayer-supported.....</b>                      | <b>1,883</b> | <b>2,042</b> | <b>2,107</b> | <b>1,838</b> |
| <b>Self-supported</b>                                     |              |              |              |              |
| BC Hydro.....   | 636          | 743          | 782          | 922          |
| BC Transmission Corporation.....                          | -            | -            | 34           | 81           |
| BC Rail.....  | 33           | 33           | 9            | 5            |
| Columbia River power projects <sup>2</sup> .....          | 100          | -            | -            | -            |
| ICBC <sup>4</sup> .....                                   | 26           | 42           | 46           | 30           |
| BC Lotteries.....   | 49           | 87           | 60           | 60           |
| Liquor Distribution Branch.....                           | 2            | 12           | 12           | 12           |
| <b>Total self-supported.....</b>                          | <b>846</b>   | <b>917</b>   | <b>943</b>   | <b>1,110</b> |
| <b>Total capital spending.....</b>                        | <b>2,729</b> | <b>2,959</b> | <b>3,050</b> | <b>2,948</b> |

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

<sup>2</sup> A joint venture of the Columbia Power Corporation (CPC) and Columbia Basin Trust (CBT). By the end of the 2004/05 fiscal year, the venture will be reclassified as taxpayer-supported to reflect CBT's expected merger with CPC.

<sup>3</sup> 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.

<sup>4</sup> Includes ICBC Properties Ltd.

**Table A.13 Capital Expenditure Projects Greater Than \$50 million<sup>1</sup>: 2004/05 – 2006/07****Note: Information in bold type denotes changes from the February 17, 2004 Budget and Fiscal Plan.**

| (\$ millions)   | Start Date | Forecast Completion Date | Estimated   |                    |                    |                    | Cumulative Spending at Mar. 31, 2007 | Total Project       |                       |
|---|------------|--------------------------|---|--------------------|--------------------|--------------------|--------------------------------------|---------------------|-----------------------|
|   |            |                          | Cumulative Spending at Mar. 31, 2004 <sup>2</sup> * | Spending 2004/05 * | Spending 2005/06 * | Spending 2006/07 * |                                      | Budget <sup>3</sup> | Forecast <sup>3</sup> |
| <b>Advanced Education facilities<sup>4</sup></b>                              |            |                          |   |                    |                    |                    |                                      |                     |                       |
| UBC – Life Sciences Centre.....   | Apr. 2002  | Sept. 2004               | 77  | 33                 | -                  | -                  | 110                                  | 110                 | 110                   |
| <b>Health facilities<sup>4</sup></b>  |            |                          |   |                    |                    |                    |                                      |                     |                       |
| Vancouver General Hospital, redevelopment project.....                        | Sept. 2000 | Jan. 2007 <sup>5</sup>   | 83  | 17                 | 45                 | 11                 | 156                                  | 156                 | 156                   |
| <b>Transportation</b>   |            |                          |   |                    |                    |                    |                                      |                     |                       |
| Trans Canada Highway –  |            |                          |   |                    |                    |                    |                                      |                     |                       |
| 5 Mile (Yoho) Bridge.....   | May 1999   | Fall 2006                | 27  | 7                  | 6                  | 2                  | 42                                   | 42 <sup>6</sup>     | 42 <sup>6</sup>       |
| Nisga'a Highway.....  | Aug. 1998  | Fall 2005                | 38  | 7                  | 7                  | -                  | 52                                   | 52                  | 52                    |
| Sea-to-Sky Highway.....   | April 2003 | 2009                     | 32  | 63                 | 69                 | 43                 | 207                                  | TBD <sup>7</sup>    | TBD <sup>7</sup>      |
| SkyTrain extension – phase 1.....   | Sept. 1998 | <b>June 2006</b>         | 1,062   | 18                 | 14                 | 13                 | 1,107                                | 1,167               | <b>1,107</b>          |
| Total transportation.....   |            |                          | 1,159   | 95                 | 96                 | 58                 | 1,408                                | 1,261               | 1,201                 |
| <b>Power generation</b>   |            |                          |   |                    |                    |                    |                                      |                     |                       |
| BC Hydro  |            |                          |   |                    |                    |                    |                                      |                     |                       |
| – Georgia Strait pipeline crossing <sup>8</sup>                               | April 2000 | TBD <sup>9</sup>         | 27  | <b>TBD</b>         | <b>TBD</b>         | <b>TBD</b>         | 27                                   | 131                 | 209                   |
| – Vancouver Island generation project.....                                    | April 2000 | TBD <sup>9</sup>         | 68  | <b>TBD</b>         | <b>TBD</b>         | <b>TBD</b>         | 68                                   | 370 <sup>10</sup>   | 370 <sup>10</sup>     |
| – Seven Mile Dam safety improvements.....                                     | June 1999  | Mar. 2005                | 42  | 17                 | 9                  | -                  | 68                                   | 100                 | <b>68</b>             |
| – Mica Dam – generator stator replacement.....                                | Feb. 2004  | July 2009                | -   | <b>1</b>           | <b>8</b>           | <b>12</b>          | <b>21</b>                            | <b>52</b>           | <b>52</b>             |
| – Peace Canyon Dam – generator stator replacement and rotor modification..... | Feb. 2004  | July 2009                | -   | <b>1</b>           | <b>3</b>           | <b>11</b>          | <b>15</b>                            | <b>64</b>           | <b>64</b>             |
| BC Transmission Corporation   |            |                          |   |                    |                    |                    |                                      |                     |                       |
| – System control centre modernization project.....                            | Nov. 2004  | Apr. 2009                | -   | <b>13</b>          | <b>23</b>          | <b>74</b>          | <b>110</b>                           | <b>134</b>          | <b>134</b>            |
| Brilliant Expansion Power Corporation <sup>11</sup>                           |            |                          |   |                    |                    |                    |                                      |                     |                       |
| – Brilliant Dam power expansion...  | Oct. 2002  | Aug. 2006                | 84  | 81                 | 22                 | 18                 | 205                                  | 205                 | 205                   |
| Total power generation.....   |            |                          | 221   | 113                | 65                 | 115                | 514                                  | 1,056               | 1,102                 |
| <b>Other</b>  |            |                          |   |                    |                    |                    |                                      |                     |                       |
| ICBC Properties Ltd.  |            |                          |   |                    |                    |                    |                                      |                     |                       |
| – Surrey Central City Mall Ltd. ....  | Sept. 1999 | Dec. 2005 <sup>12</sup>  | 230   | 17                 | 16                 | -                  | 263                                  | 312                 | <b>263</b>            |
| Vancouver Convention and Exhibition   |            |                          |   |                    |                    |                    |                                      |                     |                       |
| Centre expansion .....  | 2003       | 2008                     | 44  | 1                  | 30                 | 66                 | 141                                  | 230                 | 230 <sup>13</sup>     |
| Total other.....  |            |                          | 274   | 18                 | 46                 | 66                 | 404                                  | 542                 | 493                   |

<sup>1</sup> Amounts in this table only represent provincial spending on projects that have been approved by Treasury Board and/or Crown corporation boards. Ministry service plans may report amounts that include funding from other sources, and they may include projects that still require final approval.

<sup>2</sup> Total expenditures since commencement of each project.

<sup>3</sup> Represents sum of annual budgeted expenditures to complete each project.

<sup>4</sup> Amounts shown exclude interest costs incurred during construction.

<sup>5</sup> Individual components were completed starting in December 2000 and will continue to be completed before the end of the overall project.

<sup>6</sup> Amount represents the provincial portion of this cost-shared project with the federal government. Total project budget is \$65 million.

<sup>7</sup> The provincial and private sector portions of this cost-shared project are to be determined. Total project cost is estimated at \$600 million.

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

<sup>9</sup> Actual amounts represent initial planning, preliminary field work and engineering design costs. Physical construction is pending the outcome of the Vancouver Island generation project Call for Tender.

<sup>10</sup> In May 2002, a proposed private sector partnership to develop this project was terminated. Amounts now reflect BC Hydro's 100 per cent ownership.

<sup>11</sup> A joint venture of the Columbia Power Corporation and the Columbia Basin Trust.

<sup>12</sup> The base building was substantially completed in January 2003; however, work to prepare space for new tenants is still required.

<sup>13</sup> Amount represents the provincial portion of this cost-shared project with the federal government and the tourism industry.



**Table A.14 Debt Summary <sup>1</sup>: 2004/05 – 2006/07**

| (\$ millions)                                    | Actual        | Forecast      | Updated Plan  |               |
|--|---------------|---------------|---------------|---------------|
|  | 2003/04       | 2004/05       | 2005/06       | 2006/07       |
| <b>Taxpayer-supported debt</b>                   |               |               |               |               |
| Provincial government direct operating.....      | 15,754        | 14,529        | 13,566        | 12,472        |
| Education facilities                             |               |               |               |               |
| Schools.....                                     | 4,409         | 4,500         | 4,591         | 4,748         |
| Post-secondary institutions.....                 | 2,114         | 2,314         | 2,600         | 2,809         |
|  | 6,523         | 6,814         | 7,191         | 7,557         |
| Health facilities.....                           | 2,218         | 2,441         | 2,697         | 2,840         |
| Highways and public transit                      |               |               |               |               |
| BC Transportation Financing Authority.....       | 2,764         | 2,861         | 3,176         | 3,327         |
| BC Transit.....                                  | 83            | 92            | 92            | 87            |
| Public transit.....                              | 914           | 911           | 910           | 907           |
| SkyTrain extension.....                          | 1,119         | 1,138         | 1,152         | 1,165         |
|  | 4,880         | 5,002         | 5,330         | 5,486         |
| Other  |               |               |               |               |
| BC Buildings.....                                | 317           | 253           | 232           | 212           |
| Social housing <sup>2</sup> .....                | 156           | 177           | 182           | 175           |
| Homeowner Protection Office.....                 | 129           | 121           | 109           | 92            |
| Columbia River power projects <sup>3</sup> ..... | -             | 252           | 242           | 232           |
| Other <sup>4</sup> .....                         | 116           | 362           | 356           | 346           |
|  | 718           | 1,165         | 1,121         | 1,057         |
| <b>Total taxpayer-supported debt.....</b>        | <b>30,093</b> | <b>29,951</b> | <b>29,905</b> | <b>29,412</b> |
| <b>Self-supported debt</b>                       |               |               |               |               |
| Commercial Crown corporations and Agencies       |               |               |               |               |
| BC Hydro.....                                    | 7,040         | 6,972         | 7,070         | 7,453         |
| BC Transmission Corporation.....                 | -             | -             | 98            | 131           |
| BC Rail.....                                     | 477           | -             | -             | -             |
| Columbia River power projects <sup>3</sup> ..... | 215           | -             | -             | -             |
| Liquor Distribution Branch.....                  | 7             | 6             | 5             | 3             |
| <b>Total self-supported debt.....</b>            | <b>7,739</b>  | <b>6,978</b>  | <b>7,173</b>  | <b>7,587</b>  |
| <b>Forecast allowance.....</b>                   | <b>-</b>      | <b>300</b>    | <b>400</b>    | <b>300</b>    |
| <b>Total provincial debt.....</b>                | <b>37,832</b> | <b>37,229</b> | <b>37,478</b> | <b>37,299</b> |
| <b>Debt as a per cent of GDP</b>                 |               |               |               |               |
| Total provincial debt .....                      | 26.6%         | 24.7%         | 23.9%         | 22.8%         |
| Taxpayer-supported .....                         | 21.1%         | 19.9%         | 19.1%         | 18.0%         |

<sup>1</sup> Debt is after deduction of sinking funds and unamortized discounts, and excludes accrued interest. Government direct and fiscal agency accrued interest is reported in the government's accounts as an accounts payable.

<sup>2</sup> Includes the BC Housing Management Commission and the Provincial Rental Housing Corporation.

<sup>3</sup> A joint venture of the Columbia Power Corporation (CPC) and Columbia Basin Trust (CBT). By the end of the 2004/05 fiscal year, the venture will be reclassified as taxpayer-supported to reflect CBT's expected merger with CPC.

<sup>4</sup> Includes other taxpayer-supported Crown corporations and agencies, student loan guarantees, loan guarantees to agricultural producers, guarantees issued under economic development and home mortgage assistance programs, and loan guarantee provisions. Starting in 2004/05, it also includes a \$255 million indemnity to CN related to tax attributes with respect to the BC Rail investment partnership.

**Table A.15 Statement of Financial Position: 2004/05 – 2006/07**

| (\$ millions)                                  | Actual           | Year-to-Date    | Forecast         | Updated Plan     |                  |
|--|------------------|-----------------|------------------|------------------|------------------|
|  | March 31<br>2004 | June 30<br>2004 | March 31<br>2005 | March 31<br>2006 | March 31<br>2007 |
| <b>Financial Assets</b>                        |                  |                 |                  |                  |                  |
| Cash and temporary investments .....           | 2,547            | 2,768           | 2,180            | 2,092            | 2,202            |
| Other financial assets .....                   | 6,492            | 6,400           | 7,003            | 7,510            | 7,785            |
| Sinking funds .....                            | 3,730            | 3,405           | 3,547            | 3,317            | 3,227            |
| Investments in commercial Crown corporations:  |                  |                 |                  |                  |                  |
| Retained earnings .....                        | 3,002            | 3,363           | 2,676            | 2,952            | 3,156            |
| Recoverable capital loans .....                | 7,512            | 7,696           | 6,977            | 7,168            | 7,584            |
|  | <u>10,514</u>    | <u>11,059</u>   | <u>9,653</u>     | <u>10,120</u>    | <u>10,740</u>    |
|  | <b>23,283</b>    | <b>23,632</b>   | <b>22,383</b>    | <b>23,039</b>    | <b>23,954</b>    |
| <b>Liabilities</b>                             |                  |                 |                  |                  |                  |
| Accounts payable and accrued liabilities ..... | 6,786            | 6,653           | 6,947            | 7,175            | 7,738            |
| Deferred revenue .....                         | 2,683            | 2,832           | 2,863            | 3,065            | 3,199            |
| Debt:  |                  |                 |                  |                  |                  |
| Taxpayer-supported debt .....                  | 30,093           | 29,671          | 29,951           | 29,905           | 29,412           |
| Self-supported debt .....                      | 7,739            | 8,282           | 6,978            | 7,173            | 7,587            |
| Forecast allowance.....                        | -                | -               | 300              | 400              | 300              |
| Total provincial debt .....                    | <u>37,832</u>    | <u>37,953</u>   | <u>37,229</u>    | <u>37,478</u>    | <u>37,299</u>    |
| Add: sinking funds presented as assets .....   | 3,730            | 3,405           | 3,547            | 3,317            | 3,227            |
| Less: guarantees and non-guaranteed debt ..... | <u>(401)</u>     | <u>(401)</u>    | <u>(394)</u>     | <u>(370)</u>     | <u>(343)</u>     |
|  | <u>41,161</u>    | <u>40,957</u>   | <u>40,382</u>    | <u>40,425</u>    | <u>40,183</u>    |
|  | <b>50,630</b>    | <b>50,442</b>   | <b>50,192</b>    | <b>50,665</b>    | <b>51,120</b>    |
| <b>Net Liabilities</b> .....                   | <b>(27,347)</b>  | <b>(26,810)</b> | <b>(27,809)</b>  | <b>(27,626)</b>  | <b>(27,166)</b>  |
| <b>Capital and Other Assets</b>                |                  |                 |                  |                  |                  |
| Tangible capital assets .....                  | 22,253           | 22,222          | 23,557           | 24,279           | 24,726           |
| Other assets .....                             | 364              | 367             | 387              | 387              | 385              |
|  | <u>22,617</u>    | <u>22,589</u>   | <u>23,944</u>    | <u>24,666</u>    | <u>25,111</u>    |
| <b>Accumulated surplus (deficit)</b> .....     | <b>(4,730)</b>   | <b>(4,221)</b>  | <b>(3,865)</b>   | <b>(2,960)</b>   | <b>(2,055)</b>   |

**Changes in Financial Position**

| (\$ millions)  | Year-to-Date    | Forecast         | Updated Plan     |                  |
|--|-----------------|------------------|------------------|------------------|
|  | June 30<br>2004 | March 31<br>2005 | March 31<br>2006 | March 31<br>2007 |
| <b>Change in accumulated deficit:</b>                                  |                 |                  |                  |                  |
| Surplus for the period .....   | (217)           | (865)            | (905)            | (905)            |
| Accounting policy equity adjustments .....                             | (292)           | -                | -                | -                |
|  | <u>(509)</u>    | <u>(865)</u>     | <u>(905)</u>     | <u>(905)</u>     |
| <b>Working capital changes:</b>  |                 |                  |                  |                  |
| Increase (reduction) in cash and temporary investments .....           | 221             | (367)            | (88)             | 110              |
| Other working capital changes .....                                    | (105)           | 193              | 77               | (424)            |
|  | <u>116</u>      | <u>(174)</u>     | <u>(11)</u>      | <u>(314)</u>     |
| <b>Capital asset and investment changes:</b>                           |                 |                  |                  |                  |
| Increase in taxpayer-supported capital investments .....               | 410             | 2,042            | 2,107            | 1,838            |
| Less: amortization and valuation adjustments .....                     | (441)           | (738)            | (1,385)          | (1,391)          |
|  | <u>(31)</u>     | <u>1,304</u>     | <u>722</u>       | <u>447</u>       |
| Increase in total investment in commercial Crown corporations .....    | 270             | 890              | 1,219            | 1,314            |
| Less: loan repayments and valuation adjustments .....                  | 275             | (1,751)          | (752)            | (694)            |
|  | <u>545</u>      | <u>(861)</u>     | <u>467</u>       | <u>620</u>       |
|  | <b>514</b>      | <b>443</b>       | <b>1,189</b>     | <b>1,067</b>     |
| <b>Increase (decrease) in guarantees and non-guaranteed debt</b> ..... | -               | (7)              | (24)             | (27)             |
| <b>Increase (decrease) in total provincial debt</b> .....              | <u>121</u>      | <u>(603)</u>     | <u>249</u>       | <u>(179)</u>     |



