
Second Quarterly Report

on the Economy, Fiscal Situation,
and Outlook

Fiscal Year 2004/05
Six Months
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SUMMARY

Second Quarterly Report 2004/05

November 2004



2004/05 Updated Financial Forecast

(\$ millions)	Budget	Updated Forecast	Variance
Revenue	30,577	32,619	2,042
Expense	(30,377)	(30,375)	2
Surplus before forecast allowance	200	2,244	2,044
Forecast allowance	(100)	(300)	(200)
Surplus	100	1,944	1,844
Provincial debt:			
Taxpayer-supported debt	32,172	29,451	(2,721)
Taxpayer-supported debt as a per cent of GDP	21.9%	19.2%	(2.7%)
Total debt	39,452	37,018	(2,434)
Total debt as a per cent of GDP	26.8%	24.1%	(2.7%)

- The 2004/05 surplus is now forecast to be \$1.9 billion, \$1.1 billion higher than the \$865 million surplus forecast in the first *Quarterly Report*. The higher forecast is mainly due to a net \$805 million increase in federal transfer revenues, resulting from changes to the equalization program confirmed at the First Ministers' October 26, 2004 meeting.
- Other revenue changes since the first *Quarterly Report* reflect increases in corporate income tax and forest revenues and ICBC net income, offset by reductions in energy revenue and lower BC Hydro net income. The BC Hydro reduction includes approximately \$35 million in refunds resulting from a rate reduction ordered by the BC Utilities Commission, which will be credited to customer bills in January 2005. The forecast also includes the effect of reducing the provincial sales tax rate to 7.0% from 7.5% (\$120 million).
- The consolidated revenue fund spending forecast is little changed from the first *Quarterly Report*. Debt interest and fire fighting forecasts are slightly lower than expected at the time of the first *Quarterly Report*. Ministries continue to forecast on-budget spending, except for this summer's fire fighting costs and the distribution of BC Rail investment partnership proceeds.
- Recently announced new government initiatives that cannot be accommodated within existing ministry budgets, and require funding in 2004/05, have been included as commitments against the contingencies vote. Any additional ministry commitments will be funded out of existing ministry budgets, the contingencies vote or, if required, additional legislative authorization in the form of *Supplementary Estimates* that would be tabled when the Legislature reconvenes in the spring.
- Total government debt is forecast to be \$37 billion at year end, \$2.4 billion less than budget. The total debt-to-GDP ratio is expected to fall to 24.1%, and the key taxpayer-supported debt-to-GDP ratio is forecast at 19.2%.
- The BC economy has continued to turn in positive results. For January to September of this year, annual growth rates for major economic indicators signal a strong performance for 2004 as a whole, providing upside potential to the 2004 real GDP growth forecast of 2.9%. The 2005 growth forecast of 3.0% remains prudent, given risks to the outlook created by exchange rate fluctuations and higher oil prices.
- In early November, Standard and Poor's upgraded its BC credit rating to AA with a stable outlook from AA-. In making this decision, the rating agency noted BC's record for consistently meeting annual budgetary targets.
- In preparation for the next budget, the Minister of Finance will be consulting with the independent Economic Forecast Council on December 3, 2004. An updated economic forecast, the third *Quarterly Report* for 2004/05 and an updated three-year fiscal plan will be released with the next budget on February 15, 2005. The plan will set out allocations reflecting British Columbians' priorities identified in budget consultations undertaken this fall.

PART ONE — UPDATED FINANCIAL FORECAST ¹

Second Quarterly Report 2004/05

November 2004

Introduction

The 2004/05 forecast received another major boost since the first *Quarterly Report* primarily as a result of a net \$805 million increase in federal transfer revenues, resulting from interim changes to the equalization program confirmed at the First Ministers' Meeting held on October 26, 2004 (see the topic box at the end of this chapter for more details).

The 2004/05 surplus is now forecast to be \$1.9 billion, an increase of \$1.1 billion compared to the \$865 million surplus forecast in the first *Quarterly Report*. As in the first *Quarterly Report*, a forecast allowance of \$300 million is included in the forecast surplus, as continued protection against revenue volatility.

In addition to the additional federal transfers, revenue changes since the first *Quarterly Report* include increases in corporate income tax and forest revenues and ICBC net income, offset by reductions in energy revenue and lower BC Hydro net income. The BC Hydro reduction includes approximately \$35 million in refunds resulting from a rate reduction ordered by the BC Utilities Commission. The rebate will be credited to customers in January 2005. The revenue forecast also includes the effect of reducing the provincial sales tax rate to 7.0 per cent from 7.5 per cent (\$120 million).

The Consolidated Revenue Fund spending forecast is little changed from the first *Quarterly Report*. Debt interest and fire fighting forecasts are slightly lower than expected at the time of the first *Quarterly Report*. Ministries continue to forecast on-budget spending, except for this summer's fire fighting costs and the distribution of BC Rail investment partnership proceeds.

Recently announced new government initiatives that require funding in 2004/05, but cannot be accommodated within existing ministry budgets, have been included as commitments against the contingencies vote. Any additional 2004/05 ministry commitments will be funded out of existing ministry budgets, the contingencies vote or, if required, additional legislative authorization in the form of *Supplementary Estimates* tabled in the spring legislative session.

The forecast for the schools, universities, colleges and health authorities (the SUCH sector) has also improved since the first *Quarterly Report* mainly due to lower than anticipated net spending by health authorities and school districts.

Total government debt is forecast to be \$37 billion at year end, \$2.4 billion less than budget. The total debt-to-GDP ratio is forecast to fall to 24.1 per cent, the lowest since 1990/91. The key taxpayer-supported debt-to-GDP ratio is forecast at 19.2 per cent, the same level as for 2000/01.

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

¹ Reflects information available and government policy as at November 19, 2004.

Federal Health Care Funding

Federal-provincial negotiations on future health care funding at the First Ministers Meeting of September 15, 2004, will result in an additional \$2.3 billion in federal transfers to British Columbia over six years. The government will reinvest all additional federal health care contributions into the provincial health care system. Planning for the use of the funds is underway and will be reflected in the upcoming provincial budget to be released on February 15, 2005.

Table 1.1 2004/05 Forecast Update

(\$ millions)	Changes	Updated Forecast
Budget 2004 Fiscal Plan (February 17, 2004)		100
First Ministers' Accord on Health Care Renewal:		
Additional revenues from the federal government	148	
Additional BC commitments to health care	(148)	-
Fiscal Plan (May 20, 2004 Supply Act)		100
First Quarterly Report forecast updates: ¹		
Total revenue increases	1,173	
Total expense increases	(208)	
Forecast allowance increase	(200)	
Net change		765
2004/05 surplus – first Quarterly Report		865
Second Quarterly Report forecast updates:		
Revenue increases (decreases):		
Corporate income tax – mainly higher 2003 tax assessments	148	
Social service tax – rate reduction to 7.0% from 7.5%	(120)	
Energy and mineral sources – mainly weaker sales of Crown land leases and lower electricity prices affecting sales under the Columbia River Treaty	(75)	
Forest revenue – higher harvest volumes	31	
Impact of restoring the Columbia Basin power projects to commercial status	(63)	
Federal transfers – impact of new framework for equalization (up \$941 million) net of health and social transfers (down \$136 million).....	805	
All other taxpayer supported sources	67	
Commercial Crown corporation net income:		
BC Hydro – reflects BCUC decision, including rate increase rebates	(66)	
ICBC – primarily lower claims cost projections	137	
Other Crown corporation changes – primarily Columbia Power Corporation net income	5	
Total revenue changes		869
Less expense increases (decreases):		
Forest fire and related costs	(10)	
Interest costs – mainly reduced debt levels	(23)	
CRF expense changes	(33)	
Taxpayer-supported Crown corporations and agencies (net of internal transfers):		
Impact of restoring the Columbia Basin power projects to commercial status	(51)	
School districts – lower net spending estimates due to updated enrolment figures	(23)	
Health authorities – lower net spending estimates	(87)	
Other taxpayer-supported Crown corporation and agency changes	(16)	
Total expense changes		(210)
Net change		1,079
2004/05 surplus – second Quarterly Report		1,944

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

Revenue

The 2004/05 updated revenue forecast incorporates year-to-date results for the first six months, preliminary tax assessments from the federal government for 2003 and prior years, updated forecasts from ministries and Crown corporations, and changes to the equalization program confirmed at the First Ministers' Meeting on October 26, 2004. The forecast does not include BC's share of federal health funding announced on September 15, 2004 at the First Ministers' Meeting, pending finalization of the accounting treatment.

The revenue forecast is \$869 million higher than the first *Quarterly Report* forecast and \$2,042 million higher than budget. The main changes from the first *Quarterly Report* forecast for 2004/05 are:

- Corporate income tax revenue is up \$148 million mainly due to higher than forecast preliminary results for the 2003 tax year received from the Canada Revenue Agency as of September 30, 2004.
- Social service tax revenue is forecast to be \$120 million lower reflecting the tax rate reduction to 7.0 per cent from 7.5 per cent, effective October 21, 2004.
- Revenue from energy and mineral sources is down \$75 million reflecting weaker bonus bid sales (\$62 million) due to lower auction volumes and reduced electricity sales under the Columbia River Treaty (\$30 million) due to lower prices. These reductions are partially offset by a \$17 million increase in revenue from minerals and other sources.
- Forests revenue is forecast to be up \$31 million mainly due to higher harvest volumes. The updated forecast assumes a 1.8 million cubic metre volume increase over the first *Quarterly Report* forecast, and up 5.8 million cubic metres from budget. In the first six months, year-to-date harvest volumes were 6.6 million cubic metres higher than budget.
- The effect of restoring the Columbia Basin power projects to commercial status reduces other natural resource revenue by \$63 million. The decrease is partially offset by a \$51 million reduction in taxpayer-supported Crown corporation expense. Under commercial status, half the power project net income is reported by Columbia Basin Trust (CBT) as investment income, while the other half is reported by Columbia Power Corporation (CPC) as commercial Crown corporation net income.
- Equalization revenue (net of health and social transfer revenue reductions) is up \$805 million. Changes to the equalization program confirmed at the First Ministers' Meeting on October 26, 2004 resulted in an increase in equalization revenues of \$941 million. Because of the interaction between the calculation of equalization transfers and the calculation of health and social transfers, the increase in equalization revenue is partially offset by a \$136 million decrease in health and social transfer revenues (see the topic box at the end of this chapter for more details). The forecast does not include BC's share of the new federal health funding announced at the First Ministers' Meeting on September 15, 2004, pending finalization of the accounting treatment.

- Revenue from all other taxpayer-supported sources is up \$67 million as higher corporation capital tax audit recoveries, new forecast information on school district revenues, and improved sales from the Crown Land Special Account are partly offset by lower health-care related fees and decreased revenues from water rentals.

Commercial Crown Corporations Net Income

In total, commercial Crown corporation net income projections improved by \$76 million since the first *Quarterly Report*, primarily due to changes affecting BC Hydro and ICBC.

- BC Hydro's current projected income before deferral account transfers for 2004/05 is \$66 million less than the forecast presented in the first *Quarterly Report*. The change reflects the BC Utilities Commission (BCUC) decision with respect to BC Hydro's rate application, which included a 7.23 per cent interim increase effective April 1, 2004 and a second increase of 1.67 per cent in the fall of 2004.

The BCUC decision reduced these increases to 4.85 per cent and provided additional direction on the cost aspects of BC Hydro's operations. The forecast assumes that the rate reduction ordered by the BCUC will result in approximately \$35 million in refunds, which will be credited to customer bills in January 2005.

On September 9, 2004, the U.S. Ninth Circuit Court of Appeals directed the U.S. Federal Energy Regulatory Commission (FERC) to revisit certain of its decisions related to the California power crisis of 2000/01. The ruling may impact a number of issues previously decided by FERC, including refunds that may be ordered and Powerex's settlement on allegations of unfair trading practices. Powerex and its legal counsel continue to monitor the situation. No adjustments to BC Hydro's financial statements and projections have been made as a result of this ruling.

- ICBC's impact on the government's bottom line is forecast to improve by \$137 million over the outlook presented in the first *Quarterly Report*. Claims trends continue to positively impact projections for settling claims costs. As well, ICBC is forecasting a higher number of premiums and investment income, as well as lower insurance operations costs.

For the first six months of the fiscal year total taxpayer-supported revenue and commercial Crown corporation net income was \$913 million ahead of budget (see Appendix Table A.3).

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/hospital societies). The total expense forecast of \$30.4 billion is on budget and \$210 million lower than the first *Quarterly Report* (see Table 1.1).

Consolidated Revenue Fund expense

CRF spending is forecast to be \$33 million less than the first *Quarterly Report* forecast, with debt interest and fire fighting costs slightly lower than previously forecast. Excluding fire fighting costs and the distribution of BC Rail partnership proceeds, ministries continue to forecast on budget spending.

The main changes to the 2004/05 forecast since the first *Quarterly Report* are:

- Forest fire costs – based on the latest information, the updated forecast for forest fire costs will be \$165 million, \$110 million above budget. This represents a \$10 million reduction from the estimated costs in the first *Quarterly Report*.
- Management of public funds and debt (debt interest) is forecast to be \$23 million lower than the first *Quarterly Report* and \$96 million below budget, reflecting lower debt balances at the start of the year and significantly lower borrowing requirements for government operating purposes.

Except for those areas noted earlier, ministries are forecast to be on budget at the end of 2004/05. As shown in Table 1.2, other pressures being managed total \$71 million for 2004/05 and include:

- Advanced Education – pressure reflects government’s commitment to invest in the creation of the Irving K. Barber BC Scholarship Program.
- Agriculture, Food and Fisheries – pressure reflects potentially higher than forecast payments for crop insurance.
- Human Resources – pressure reflects an increase in monthly benefits paid to persons with disabilities starting in December 2004.
- Public Safety and Solicitor General – pressure reflects potentially higher than forecast costs for emergency protection related to fires and floods.
- Corporate – pressure reflects potentially higher than forecast costs for the employer portion of employee benefits.

Table 1.2 2004/05 Pressures Being Managed

	(\$ millions)
Advanced Education – Irving K. Barber BC Scholarship Program	15
Agriculture, Food and Fisheries – crop insurance.....	7
Human Resources – persons with disabilities rate increase.....	18
Public Safety and Solicitor General – emergency protection.....	6
Corporate – employee benefits.....	25
Total pressures being managed.....	71

Spending commitments and pressures totaling \$109 million have been notionally allocated to the contingencies vote (see Table 1.3). These allocations include:

- \$32 million for government's commitment to return 100 per cent of net traffic fine revenue to municipalities starting in 2004/05.
- \$25 million for government's commitment to provide community grants to the Union of BC Municipalities.
- 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 forecast 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 \$14 million for the provincial response to avian flu and Bovine Spongiform Encephalopathy (mad cow disease).
- Up to \$10 million for 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 year when further information becomes available.
- \$14 million for government commitments to the BC Trust for Public Lands, Living Rivers, and Species at Risk (mountain caribou).
- \$3 million for government's commitment to the 2010 Olympics Live sites program.

Table 1.3 2004/05 Pressures Allocated to the Contingencies Vote

	(\$ millions)
Traffic fine sharing.....	32
Community grants.....	25
Vancouver Island Gas Pipeline Assistance Agreement – higher payments due to higher natural gas prices.....	11
BSE assistance.....	11
Avian flu response.....	3
Pickton trial.....	3
Air India and other trials.....	7
BC Trust for Public Lands.....	8
Living Rivers.....	5
Species at Risk.....	1
2010 Olympics Live sites.....	3
Subtotal.....	109
Unallocated.....	131
Total contingencies budget.....	240

During the first six months of the fiscal year, total CRF spending (ministries, special offices and other programs) was \$140 million lower than budget, reflecting below-budget spending in most programs and lower debt interest costs, partially offset by higher forest fire costs (see Appendix Table A.4).

Other expense

In total, taxpayer-supported Crown corporation and agency expense (net of internal transfers) is \$177 million lower than the projection in the first *Quarterly Report*. The main changes are:

- The effect of restoring the Columbia Basin power projects to commercial status reduces taxpayer-supported Crown corporation expense by \$51 million. This expense is now reflected in the power project net income amounts reported by CBT and CPC.
- School district expenses, net of transfers from government, are down \$23 million from the first *Quarterly Report*. This change reflects known enrolment numbers and revised salary and benefit cost estimates.
- Health authorities expenses, net of transfers from government, are down \$87 million from the first *Quarterly Report*.

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 authorities – is down 210 FTEs from the February budget and the first *Quarterly Report* (see Appendix Table A.9).

FTE projections for ministries and special offices are down 175 FTEs from budget. This is primarily due to lower than expected staffing levels in a number of ministries, partially offset by increases for forest fire fighting and clearing highway meridians. The reduction includes a transfer of 15 FTEs to the interim children and family development authorities.

FTE projections for taxpayer-supported Crown corporations are down 50 FTEs, primarily reflecting the impact of moving the Organized Crime Agency of BC Society under the umbrella of the Combined Forces Special Enforcement Unit.

Provincial Capital Spending

Capital spending is used to build, acquire or replace assets such as roads, schools, post-secondary facilities, hospitals and related major equipment. Generally accepted accounting principles require the cost of capital to be spread out over the useful lives of the related assets through annual amortization expenses.

Total capital spending is forecast to be \$3.1 billion in 2004/05, \$150 million higher than the *Budget 2004* projection and \$125 million higher than the first *Quarterly Report* forecast (see Table 1.4 and Appendix Table A.10).

Excluding the effect of restoring the Columbia Basin power project spending to commercial status, taxpayer-supported capital spending is up \$120 million from the first *Quarterly Report*. The main changes are a \$50 million increase in health facilities spending (reflecting updated capital plans of health authorities and commencement of the Academic Ambulatory Care Centre project) and a \$109 million increase in transportation infrastructure (reflecting accelerated spending on a number of projects including the *Sea-to-Sky* Highway, the Okanagan Lake Bridge, and the Gateway strategy). These increases are partially offset by a \$39 million reduction in other areas.

Table 1.4 2004/05 Capital Spending Update

(\$ millions)	Changes	Updated Forecast
Budget 2004 capital spending		2,934
First Quarterly Report forecast updates:		
Taxpayer-supported first <i>Quarterly Report</i> changes	99	
Self-supported first <i>Quarterly Report</i> changes	(74)	
Net change		25
Updated capital spending – first Quarterly Report		2,959
Second Quarterly Report forecast updates:		
Taxpayer-supported changes:		
Education facilities	(12)	
Health facilities – updated health authorities capital plans and commencement of the Academic Ambulatory Care Centre project	50	
BC Transportation Financing Authority – accelerated highway projects	109	
Government operating (ministry minor capital)	(12)	
Columbia River power projects – impact of restoring the projects to commercial status	(92)	
Other	(15)	
Total taxpayer-supported changes		28
Self-supported changes:		
BC Hydro – delayed generation and transmission projects	(32)	
Columbia River power projects – impact of restoring the projects to commercial status	96	
Other	33	
Total self-supported changes		97
Net change		125
Updated capital spending – second Quarterly Report		3,084

Total self-supported Crown corporation capital spending is little changed from the first *Quarterly Report*. Increased expenditures by BC Lotteries for gaming equipment (\$48 million) will be offset by lower spending on BC Hydro (\$32 million), BC Rail (\$8 million) and ICBC (\$7 million) projects. Forecast spending on the Columbia Basin power projects is \$4 million higher than the first *Quarterly Report*.

On November 3, 2004, BC Hydro announced that Duke Point Power Limited Partnership was the successful proponent in the call for tenders to provide electricity to Vancouver Island, subject to BCUC approval. As such, BC Hydro will not proceed with its Vancouver Island Generation project. Some of the costs already incurred will be recovered from the private sector proponent. The Georgia Strait Crossing pipeline project has been deferred pending the BCUC review of the Duke Point project and alternative natural gas supply options.

Significant capital projects (those with multi-year budgets totaling \$50 million or more) are shown in Appendix Table A.11. The table reflects the transfer of responsibility for BC Hydro's Vancouver Island Generation project to the private sector, tenant improvements at Surrey Central City for a Simon Fraser University satellite campus, and commencement of the Academic Ambulatory Care Centre project.

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 be \$37 billion at March 31, 2005. This amount is \$2.4 billion lower than the *Budget 2004* projection (see Table 1.5 and Appendix Table A.12). The updated debt forecast is \$211 million lower than the first *Quarterly Report* mainly reflecting the improved operating surplus forecast and reduced working capital requirements for health facilities. These are partially offset by additional borrowing for road construction, a higher take-up of Homeowner Protection Office loan guarantees, and additional working capital requirements for BC Buildings and BC Hydro.

Although the 2004/05 operating surplus forecast is \$1.1 billion higher than the first *Quarterly Report*, total debt is only expected to be \$0.2 billion lower. This is because the debt forecast assumes that \$0.6 billion of the expected 2004/05 operating surplus will be temporarily invested and applied to offset debt requirements in future years rather than the current fiscal year, and that \$0.3 billion will be used for additional capital spending and working capital requirements. However, should the government allocate some of this surplus to other areas, the debt forecast would change accordingly.

Table 1.5 2004/05 Provincial Debt Update

(\$ millions)	Changes	Updated Forecast
Budget 2004 total debt		39,452
First Quarterly Report forecast updates:		
Taxpayer-supported debt changes:		
Opening balance adjustment	(487) ¹	
First Quarterly Report changes	<u>(1,734)</u>	(2,221)
Self-supported debt changes:		
Opening balance adjustment	478 ¹	
First Quarterly Report changes	<u>(680)</u>	(202)
Forecast allowance increase		200
Net change		<u>(2,223)</u>
Updated total debt – first Quarterly Report		37,229
Second Quarterly Report forecast updates:		
Taxpayer-supported debt changes:		
Government operating – higher operating surplus partially offset by higher cash balances	(291)	
Health facilities – mainly lower working capital requirements	(48)	
BC Transportation Financing Authority – mainly higher highway capital spending	34	
BC Buildings – mainly delayed sinking fund contributions	43	
Homeowner Protection Office – higher demand for third-party loan guarantees	23	
Columbia River power projects – impact of restoring the projects to commercial status	(252)	
Other	<u>(9)</u>	
Total taxpayer-supported changes		<u>(500)</u>
Self-supported debt changes:		
BC Hydro – mainly impact of BCUC decision on electricity rates	37	
Columbia River power projects – impact of restoring the projects to commercial status	<u>252</u>	
Total self-supported changes		<u>289</u>
Net change		<u>(211)</u>
Updated total debt – second Quarterly Report		<u>37,018</u>

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

The total debt to GDP ratio is forecast to fall to 24.1 per cent, the lowest since 1990/91. The key taxpayer supported debt-to-GDP ratio¹ is forecast at 19.2 per cent, the same level as for 2000/01.

The debt forecast incorporates the current capital spending plan and includes the Academic Ambulatory Care Centre. The Abbotsford Regional Hospital and Cancer Centre project is not included in the forecast, as an agreement had not been finalized when the second *Quarterly Report* forecast was completed.

Risks to the Fiscal Plan

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.

Since September, lumber prices have fallen more quickly than forecast and energy prices have been volatile. The forecast surplus could decline should commodity prices decline further. The forecast allowance is available 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:

- final personal and corporate income tax assessments for the 2003 taxation year, which could affect the bases in subsequent years; and
- the outcome of the softwood lumber dispute with the United States. The NAFTA panel ruling of August 31, 2004 was favourable to the Canadian industry, thereby creating upside potential for revenue. The forecast assumes no resolution to the current softwood dispute.

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. Severe winter weather could also affect ICBC's results by impacting the claims trend.

Spending risks include:

- Utilization rates for government services such as health care or community social services.
- Current trends in interest rates that 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.

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

A New Framework for Equalization

Summary

Fundamental changes to the Equalization program were confirmed at the First Ministers' Meeting held on October 26, 2004. These changes are expected to result in a \$941 million increase in Equalization revenue for BC for 2004/05 and a \$590 million increase in 2005/06, compared to what was forecast in the first *Quarterly Report*.

2004/05 Equalization Entitlement Changes

(\$ millions)	Entitlement at first <i>Quarterly Report</i>	Entitlement at second <i>Quarterly Report</i>	Difference
2001/02.....	195	240	45
2002/03.....	-	70	70
2003/04.....	176	320	144
Sub-total.....	371	630	259
2004/05 ¹	39	721	682
Total equalization.....	410	1,351	941

¹ Includes one-time top-up of \$39 million.

2005/06 Equalization Entitlement Changes

(\$ millions)	Entitlement at first <i>Quarterly Report</i>	Entitlement at second <i>Quarterly Report</i>	Difference
2005/06 ¹	6	596	590

¹ Includes one-time top-up of \$6 million.

Because of the interaction between the calculation of Equalization transfers and the calculation of health and social transfers, this increase in Equalization revenue will be partially offset by decreases in health and social transfer revenue – the net revenue impact of these Equalization changes will be \$805 million in 2004/05, and \$384 million in 2005/06.

Net Revenue Impact of Equalization Entitlement Changes

(\$ millions)	2004/05	2005/06
Equalization revenue.....	941	590
Health and social transfers.....	(136)	(206)
Net revenue impact.....	805	384

The New Equalization Framework

Starting in 2005/06, total Equalization entitlements for all (Equalization-recipient) provinces combined will be set in advance

for the subsequent five-year period. This is a significant departure from the current Equalization program, since the total size of the program will no longer be based on the size of relative provincial disparities.

For 2005/06, total Equalization entitlements will be set at \$10.9 billion, the level of 2000/01 total entitlements, and an historic high level for the program. From 2006/07 through 2009/10, total Equalization entitlements will be increased by 3.5 per cent per year. This will mean total entitlements of \$11.3 billion in 2006/07, \$11.7 billion in 2007/08, \$12.1 billion in 2008/09 and \$12.5 billion in 2009/10. The growth rate for the subsequent five-year period will be set some time in advance of 2010/11.

An independent panel of experts will be established to provide advice to the federal government on how these pre-set total amounts of Equalization will be allocated among “have-not” provinces for 2006/07 onward; they will also advise on how “have not” status is to be determined. The panel is to provide its advice by December 2005.

Interim arrangements have been established for 2004/05 and 2005/06. These are outlined below.

Interim Arrangements for 2004/05

A “double-floor” approach will be used for Equalization entitlements for 2004/05:

- A total floor, to ensure that total entitlements for all recipient provinces combined will not fall below \$10 billion; and
- Individual province floors, to ensure that no individual province will see the total sum of entitlements for the four “open years”¹ fall below the levels forecast in the 2004 federal budget.

¹ This refers to “open years” at the time of the federal 2004 budget (March 23, 2004), namely 2001/02 through 2004/05. Entitlements for 2001/02 have since been finalized, at the end of September 2004 (i.e. 2001/02 is no longer an “open year”).

It is expected that there will be no more federal calculations of Equalization entitlements for 2004/05 and prior years; that is, entitlements for all open years will be finalized according to calculations based on the latest (October 2004) official federal estimates².

Allocation for 2005/06

The Expert Panel will look at allocation of the total Equalization quantum for 2006/07 onward. As such, an interim (one-time) allocation approach is required for 2005/06. The \$10.9 billion in total Equalization entitlements for 2005/06 will be allocated as follows:

- Current recipient provinces will receive “base entitlements” calculated as the average level of entitlements produced by the current Equalization formula for 2002/03, 2003/04 and 2004/05, using the most recent (October 2004) official federal estimates.
- These “base entitlements” will be topped up by an additional \$2.2 billion to reach the total \$10.9 billion quantum. One-half of this \$2.2 billion top-up will be allocated on a per capita basis, with the other half allocated on the basis of relative shares of average 2002/03, 2003/04 and 2004/05 Equalization entitlements (October 2004 official federal estimates).

As with 2004/05 and prior years, it is expected that 2005/06 will be finalized according to calculations based on the October 2004 official estimates; there will be no more estimates of Equalization entitlements for 2005/06.

Impact on British Columbia’s Equalization Revenues

At the time of the first *Quarterly Report*, BC was forecast to receive no “normal”, or formula-driven, Equalization revenue for

² Under the current system, there are eight estimates provided over a 3.5 year period for each fiscal year. This means that Equalization entitlements for any given year are not finalized until 30 months after the end of that fiscal year. In other words, 2002/03 entitlements would not be finalized until September 2005, 2003/04 entitlements until September 2006, and 2004/05 entitlements until September 2007.

2004/05, 2005/06 or 2006/07, due to improved relative economic and fiscal performance and changes to the formula that were to be phased in over three years, starting in 2005/06.

Under the new Equalization framework, BC will receive considerable Equalization amounts in both 2004/05 and 2005/06.

Equalization Revenue

(\$ millions)	2004/05	2005/06
Changes to prior years (2001/02 – 2003/04).	259	-
Current year.....	721	596
Total.....	980	596

The change in the method of calculating Equalization for 2004/05 (and prior years) has a large impact on BC primarily because entitlements are being frozen at the relatively high levels estimated by the federal government in February 2004 for the four open years, particularly 2004/05. These February estimates are based on old data which would have gradually been updated and finalized over time, had the current system of eight estimates over 3.5 years been allowed to follow its course.

BC Equalization revenue for 2005/06 is considerably higher than forecast in the first *Quarterly Report* because it is calculated using historical entitlements, rather than expected (relative) economic and fiscal performance in 2005/06.

BC Equalization revenue for 2006/07 onward is uncertain at this time, since allocation decisions will not be made by the federal government until after the Expert Panel reports in early 2006.

Note: Although this new Equalization framework was confirmed at the October First Ministers’ Meeting, changes to the Equalization program will not be finalized until legislation is passed by the federal government to bring them into effect.

PART TWO — ECONOMIC REVIEW AND OUTLOOK¹

Second Quarterly Report 2004/05

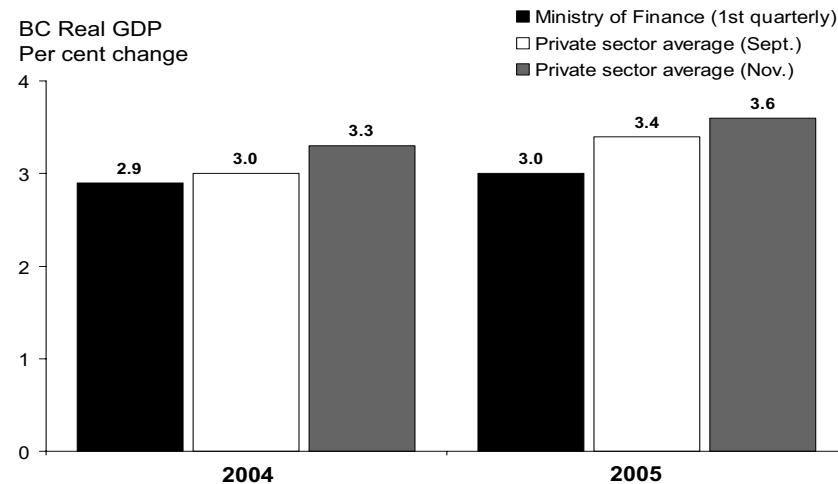
November 2004

Overview

Based on the Ministry of Finance's September economic outlook, BC real GDP is forecast to grow by 2.9 per cent in 2004 and 3.0 per cent in 2005. However, robust growth rates in economic indicators over the first nine months of this year now suggest that stronger results for 2004 may be attained.

Private sector forecasters have raised their outlook on average for the BC economy since the first *Quarterly Report*. The private sector average now calls for growth of 3.3 per cent in 2004 and 3.6 per cent in 2005, compared to 3.0 and 3.4 per cent at the time of the first *Quarterly Report*.

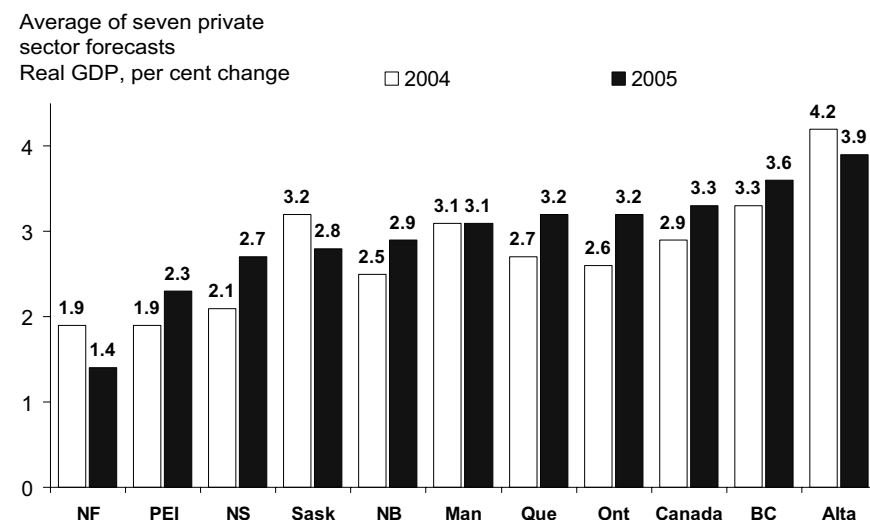
Chart 2.1 Private sector upgrades BC forecast



Sources: BC Ministry of Finance and various financial institutions

Among the provinces BC is expected to have the second highest growth after Alberta in both 2004 and 2005.

Chart 2.2 BC expected to post the second highest growth among provinces



Source: Various financial institutions, as of November 18, 2004

¹ Reflects information available as of November 18, 2004.

While growth in the main economic indicators for British Columbia over the first nine months of 2004 was robust, the majority of these indicators posted more moderate growth in the July to September quarter relative to the April to June period of 2004. Oil prices and the Canadian dollar remain at high levels, and have the potential to dampen expectations of stronger economic growth across Canada next year if they are sustained. This risk that economic forecasts for Canada and the U.S. could be downgraded in coming months reinforces the need for a prudent approach in setting growth assumptions for 2005.

In preparation for the 2005 budget, the Minister of Finance will be meeting with the independent Economic Forecast Council on December 3, 2004 to obtain their views on the North American and British Columbia economic outlook. An updated five-year economic forecast, incorporating their advice, will be developed for the February 15, 2005 budget.

International Economic Developments

United States and Canada

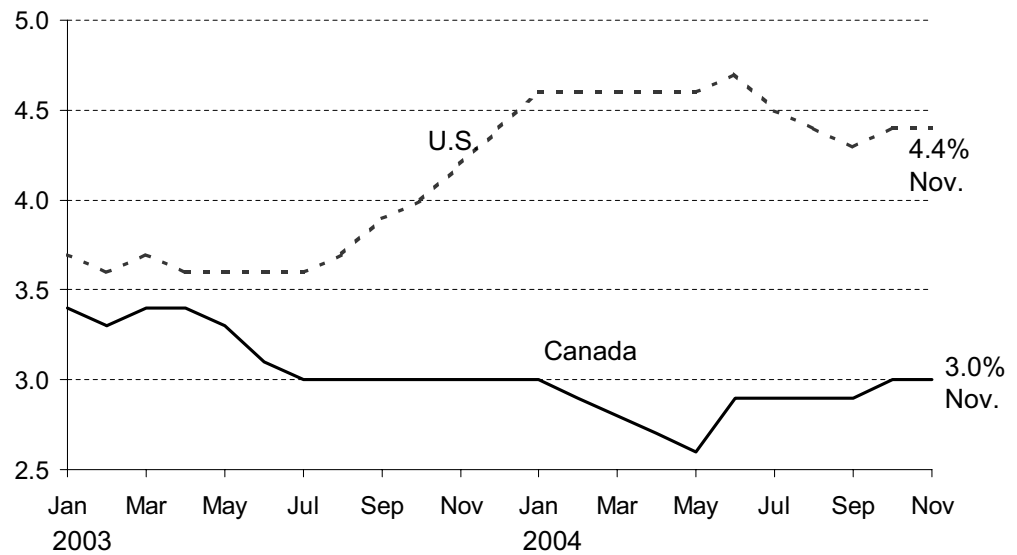
The U.S. economy posted annualized growth of 3.7 per cent during the July to September quarter, according to advance estimates. This is up from 3.3 per cent growth during the April to June quarter of this year. Consumer spending was the main contributor to growth with auto incentives boosting durable goods consumption.

Job creation in the U.S. picked up at the beginning of this year but was quite disappointing during the summer months. However, October saw a rebound with 337,000 new jobs created. Rebuilding efforts after the hurricanes helped boost construction jobs in October, though manufacturing jobs were disappointing with a decline of 5,000 jobs.

Despite low interest rates, the red hot housing sector in the U.S. appears to be cooling somewhat this year. Housing starts in the U.S. declined in the first two quarters of 2004, increasing only moderately during the July to September period. However, U.S. housing starts remain at a high level relative to historical values with October posting 2.0 million starts.

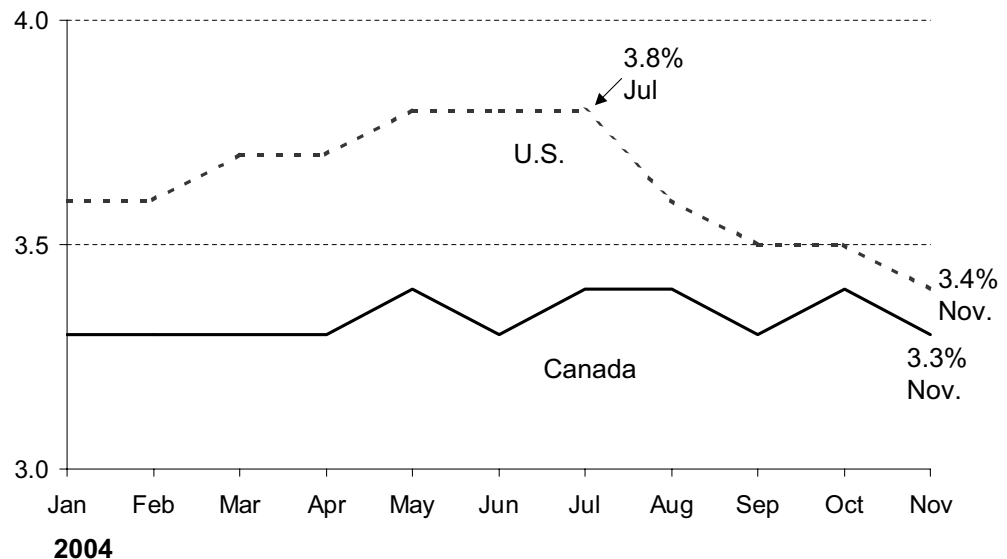
Continued sluggishness in the manufacturing sector, uneven employment growth, high energy prices, falling consumer confidence, expectations of higher interest rates and fiscal tightening have contributed to forecasters downgrading their outlook for the U.S. economy. The November *Consensus Economics* forecast is 4.4 per cent in 2004 compared to a peak of 4.7 per cent reached in the June survey.

The outlook for U.S. growth in 2005 has also weakened since the summer. In their November survey, *Consensus Economics* predicted growth of 3.4 per cent next year compared to 3.8 per cent in June. The Ministry of Finance assumed growth of 3.2 per cent for the U.S. in 2005 in the first *Quarterly Report*. Given the uncertainty surrounding the sustainability of U.S. economic growth in 2005, this lower than consensus assumption remains prudent.

Chart 2.3 Consensus outlook for 2004 growthForecast annual per cent change in **2004** real GDP

Source: Consensus Economics

The outlook for the Canadian economy has been steady over the past several months. The November *Consensus Economics* survey expects Canada to post slower growth than the U.S. in 2004 at 3.0 per cent, accelerating to 3.3 per cent in 2005. In 2004, growth in the Canadian economy was dampened by the further appreciation of the Canadian dollar, as well as higher interest rates in Canada relative to the U.S.

Chart 2.4 Consensus outlook for US growth in 2005 downgradedForecast annual per cent change in **2005** real GDP

Source: Consensus Economics

Canada's real GDP grew at an annual rate of 3.7 per cent in the first half of 2004. Growth was broadly based with strength in exports, consumer spending and business investment driving the increase. The Bank of Canada stated in their October *Monetary Policy Report* that the Canadian economy is expected to post growth of about 3 per cent in the third quarter on the strength of recent economic indicators.

Employment in Canada is up 1.8 per cent over the January to October period of this year, an increase of 286,080 jobs over the same period in 2003. Domestic demand in Canada remains healthy. During the first nine months of this year, retail sales posted robust growth of 4.0 per cent compared to the same period last year.

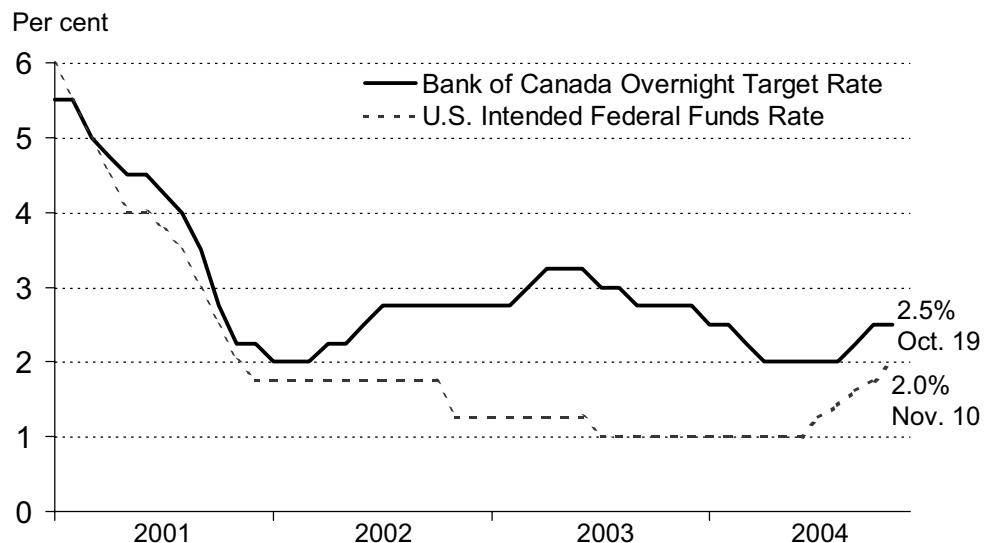
Economic conditions in Europe are expected to improve somewhat this year after poor growth in 2003. *Consensus Economics* predicted euro zone growth of 1.9 per cent for 2004 in their November survey. However, the German economy continues to underperform and the impact of high oil prices as well as a soft manufacturing sector in the U.K. are concerns.

The Japanese economy is expected to experience its highest growth in fourteen years in 2004. The November *Consensus Economics* survey predicts growth of 4.3 per cent this year, and 1.8 per cent for 2005. Domestic demand remains subdued in Japan, raising concerns about the sustainability of strong economic growth.

China is expected to post exceptional growth in 2004 easing off slightly in 2005. Some analysts predict growth averaging 9.1 per cent this year and 7.8 per cent in 2005.

Financial Markets

Chart 2.5 Central banks start tightening cycles



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

The U.S. Federal Reserve Board has raised its key interest rate 100 basis points so far this year, to 2.00 per cent. Despite these increases the Federal Funds rate remains historically very low and monetary policy remains accommodative. In their November 10th statement the Federal Open Market Committee (FOMC) expressed their perception of the risks to their outlook as balanced and reiterated that policy accommodation can be removed at a measured pace.

The Bank of Canada raised its key target overnight rate 25 basis points in both September and October, resulting in an overnight target rate of 2.50 per cent. Most analysts are predicting that the Bank of Canada will continue to remove monetary stimulus from the economy at a moderate pace, as long as economic growth is sustained and inflation remains low.

Chart 2.6 Canadian dollar hits a ten year high



The Canadian dollar averaged 76.5 cents US over the July to September period. The Canadian dollar broke through the 80 cent US mark near the end of October and hit a high of 83.9 cents US on November 17th.

Given the appreciation of the Canadian dollar over the past couple of months, private sector forecasts for 2004 have moved up to average 76.6 cents US from 75.2 cents US in the *First Quarterly Report*. For 2005, the average of the private sector currency forecasts is currently 81.8 cents US compared to 77.8 cents US at the time of the first quarterly. See Table 2.1 for more details on exchange rate forecasts.

Table 2.1 Private Sector Exchange Rate Forecasts

Average annual exchange rate (US cents/Can \$)	2004	2005
Global Insight.....	76.8	82.7
Nesbitt Burns.....	77.1	86.0
RBC Capital Markets*.....	76.9	82.7
Scotiabank*.....	76.4	81.2
TD Economics*.....	76.7	80.4
BMO.....	75.9	77.7
Average (as of November 18, 2004).....	76.6	81.8
Average (as of August 18, 2004).....	75.2	77.8

* End of period forecasts have been adjusted for consistency

British Columbia Economic Developments

Although growth in several indicators moderated in the July to September quarter, the year-to-date growth rates for the first nine months of the year point to strong results for the year as a whole (see Table 2.2).

Table 2.2 British Columbia Economic Indicators

All data seasonally adjusted	Apr. to June 2004	July to Sept. 2004	Year-to-Date
	change from Jan. to Mar. 2004	change from Apr. to June 2004	Jan. to Sept. 2004 change from Jan. to Sept. 2003
	Per cent change		
Employment.....	+0.4	+0.9	+2.4
Manufacturing Shipments.....	+7.6	+3.2	+12.1
Exports.....	+15.9	+2.5	+10.1
Retail Sales.....	+3.3	+1.8	+6.1
Housing Starts.....	+12.8	-2.3	+30.6
Non-Residential Building Permits.....	+5.5	+6.7	+6.4

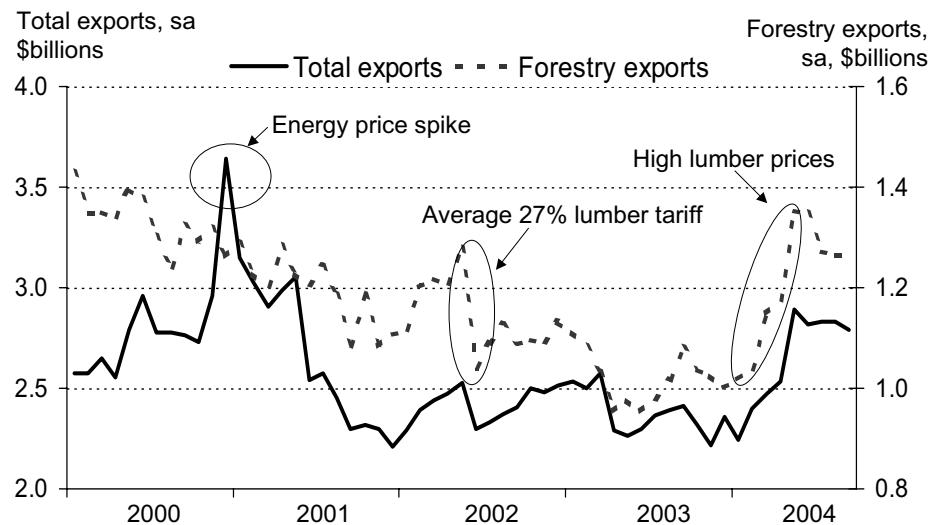
Sources: Statistics Canada; BC Stats

Employment growth for the first nine months is 2.4 per cent, the strongest among Canadian provinces. Exports are up 10.1 per cent year-to-date through September with robust forestry exports driving much of the increase. Retail sales increased 6.1 per cent during the January to September period of 2004 compared to the same period of 2003. Housing starts are up 30.6 per cent year-to-date through September.

External Trade

Over the January to September period of this year, the value of merchandise exports have increased 10.1 per cent compared to the same period of 2003. Much of the increase was driven by robust lumber exports due to high lumber prices and strong U.S. demand fueled by the housing sector. Forestry exports increased 18.4 per cent over the January to September period of 2004 relative to the same period last year.

Chart 2.7 Exports

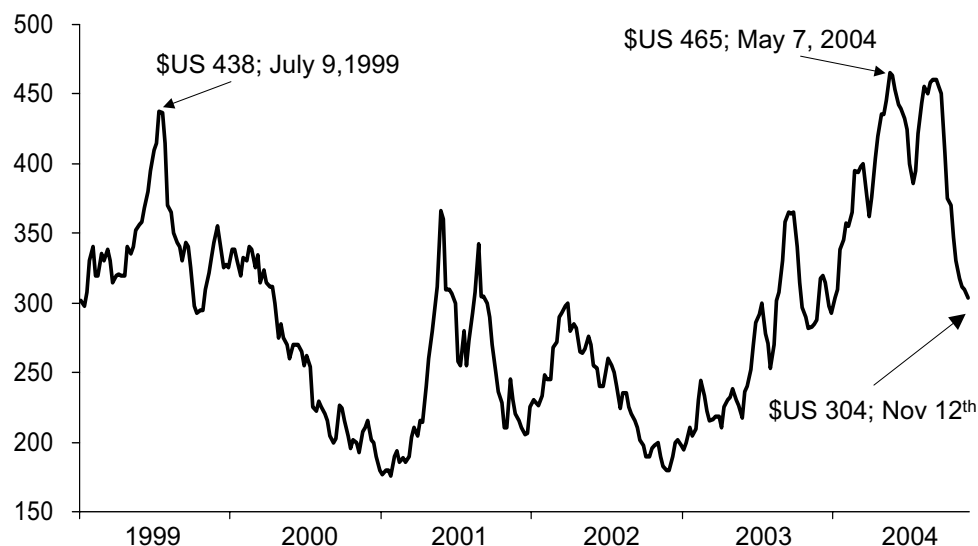


Source: BC Stats

The value of British Columbia's exports increased 2.5 per cent in the July to September period of 2004 compared to the previous three months. More moderate export growth was seen in all sectors during the July to September quarter relative to the April to June quarter but forestry contributed the most significantly to the slower growth.

Chart 2.8 Lumber prices

SPF 2X4; \$US/000 bd ft

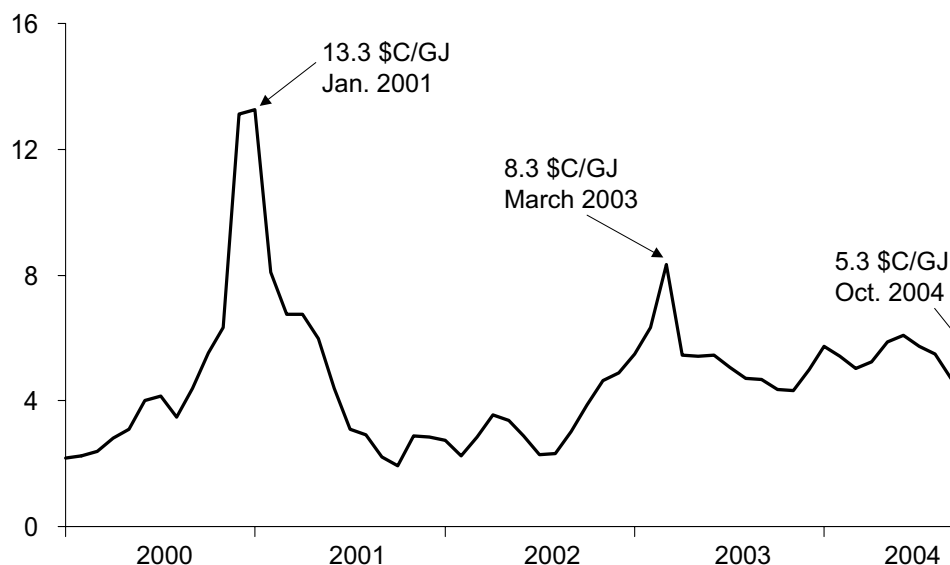


Source: Madison's Lumber Reporter

Lumber prices climbed in early 2004, rising above US\$400 in April and remaining high throughout the summer. High lumber prices and robust U.S. demand combined to drive forestry exports higher. Over the first nine months of this year, forestry exports have increased 18.4 per cent from a year earlier. In September lumber prices began falling off and were down to US\$304 on November 12th, from a peak of US\$465 on May 7th.

Chart 2.9 Natural gas prices

Natural gas price (\$C/GJ plant inlet)



Source: B.C. Ministry of Energy and Mines

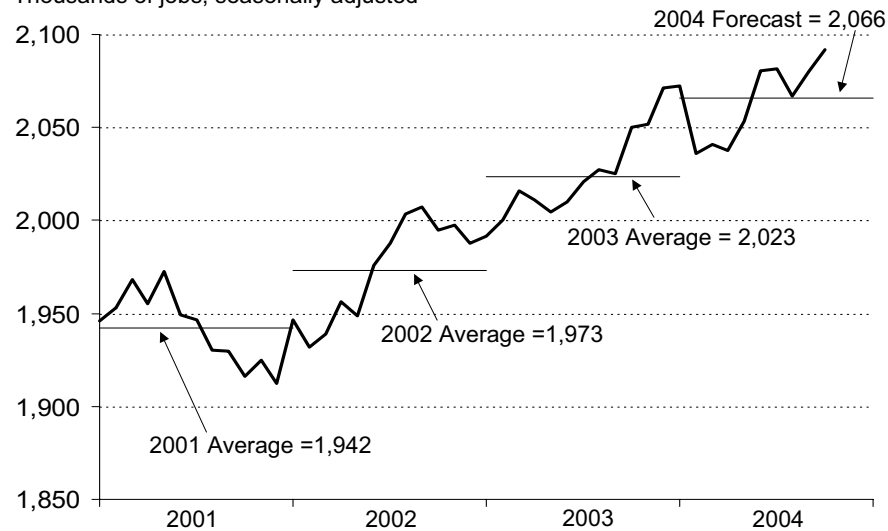
Energy exports have fallen 7.8 per cent year-to-date to September, although they posted robust growth in the months of July and August, resulting in an increase of 12.3 per cent during the July to September period. In part the decline in energy exports compared to 2003 reflects the decline of natural gas prices to more historical levels from a peak of \$8.3 C/GJ in March of last year.

Labour Market

On a year-to-date basis to October, the British Columbia economy added 48,370 jobs, a growth rate of 2.4 per cent, compared to the January to October period of 2003. All of the gains over this period were in full-time employment, which increased by 65,570 jobs. The increase in full-time employment was partially offset by the loss of 17,200 part-time jobs over the first ten months of this year.

Chart 2.10 Employment

Thousands of jobs; seasonally adjusted



Source: Statistics Canada

Employment increased by 19,033 jobs during the July to September quarter relative to the previous quarter, or 0.9 per cent. Job gains over the quarter were seen in both full-time and part-time employment as well as self-employment. Employment growth outpaced labour force growth during the quarter, resulting in an unemployment rate of 7.4 per cent, down from 7.7 per cent in the April to June period.

Domestic Demand

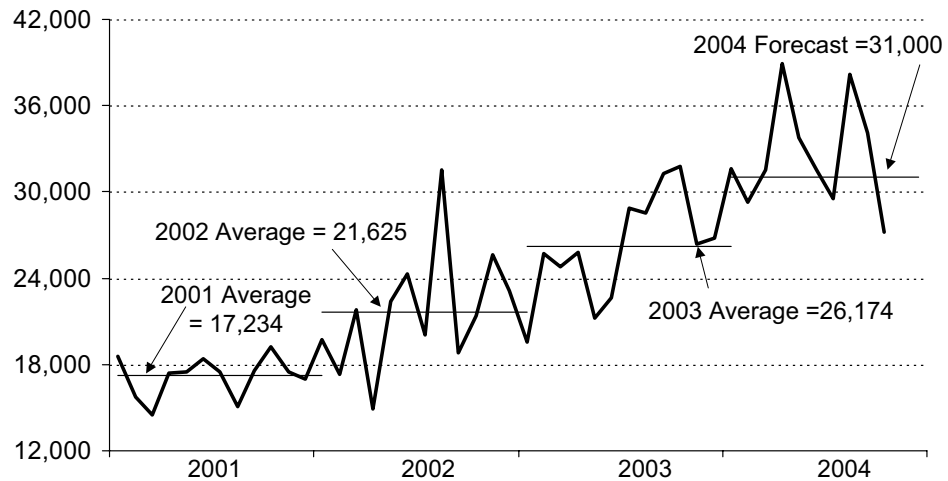
Over the first nine months of 2004 retail sales in BC have risen 6.1 per cent compared to the same period in 2003. This compares favourably to Canada's 4.0 per cent growth. In BC, sales of home-related products have driven much of the increase with furniture, home building and garden centers and home electronics stores posting robust growth.

Retail sales rose 1.8 per cent in the July to September quarter relative to the April to June period of 2004. Low financing rates and the strong housing market are expected to continue supporting sales for the remainder of this year.

Housing starts compared to last year have increased 25.1 per cent year-to-date to October. After strong growth earlier in the year, housing starts fell 2.3 per cent in the July to September quarter. In October, housing starts declined for the second consecutive month, falling 20.2 per cent to their lowest level this year at 27,200 units. The recent volatility in housing starts data reflects multiple unit construction activity, mainly in Vancouver.

Chart 2.11 Housing starts

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



Source: Canada Mortgage and Housing Corporation

Residential building permits also fell 20.9 per cent during the July to September quarter compared to the previous three months, indicating that home construction may have reached its peak.

Non-residential building permits have also shown robust growth for the first nine months of this year, and rose 6.7 per cent during the July to September period from the previous three months. Institutional and government permits jumped 25.0 per cent in the third quarter while industrial permits rose 14.2 per cent. These increases were partially offset by a decline of 1.9 per cent in commercial permits. Overall, the strength in non-residential building permits over the July to September quarter was outweighed by the drop in residential permits, causing the total value of building permits to fall 14.4 per cent during the quarter.

British Columbia Economic Forecast

In the first *Quarterly Report*, the British Columbia economy was forecast to expand 2.9 per cent in 2004 and 3.0 per cent in 2005. This forecast was based on U.S. growth assumptions of 4.1 per cent in 2004, compared to the August *Consensus Economics* forecast of 4.4 per cent. The Consensus outlook for U.S. growth in 2004 remained unchanged at 4.4 per cent in their November survey.

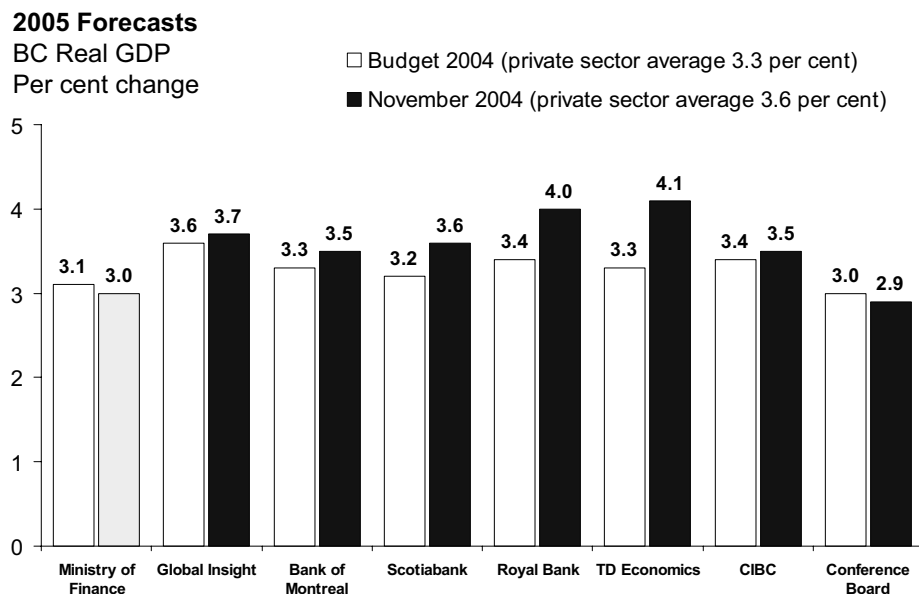
Recently released economic indicators, including robust third quarter U.S. growth and healthy year-to-date growth in the housing and retail trade sectors, suggest economic growth in BC this year could be stronger than forecast at the time of the first *Quarterly Report*. However, a higher than expected Canadian dollar and falling lumber prices could dampen BC exports for the remainder of 2004 and into 2005.

The Ministry of Finance's 3.0 per cent real GDP forecast for BC in 2005 in the first *Quarterly Report* was based on an assumption of 3.2 per cent growth in the U.S. next year. Concerns about the sustainability of U.S. economic growth in 2005 suggest that this lower than Consensus assumption remains prudent.

For Canada, the Ministry of Finance assumed growth of 2.6 per cent in 2004 and 3.0 per cent in 2005 in the first *Quarterly Report*. These assumptions remain below the current *Consensus Economics* forecast of 3.0 per cent in 2004 and 3.3 per cent in 2005. The recent strength of the Canadian dollar continues to imply that a prudent approach to 2005 growth assumptions is appropriate.

Private sector forecasters have raised their outlook on average for the BC economy. The private sector average now calls for growth of 3.3 per cent in 2004 and 3.6 per cent in 2005, compared to 2.9 and 3.3 per cent at the time of the budget. Private sector forecasts of growth next year range from a low of 2.9 per cent to a high of 4.1 per cent (see Chart 2.12).

Chart 2.12 2005 BC real GDP forecasts



Sources: BC Ministry of Finance and various financial institutions

The Minister of Finance will be meeting with the independent Economic Forecast Council on December 3, 2004 to obtain their views on the North American and British Columbia economic outlook. An updated five-year economic forecast, incorporating their advice, will be developed for the February 15, 2005 budget.

Risks to the Forecast

The economic outlook for 2005 and beyond 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.

The British Columbia economy could grow faster than forecast if:

- The U.S. economy 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.

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

- Oil prices are sustained at a high level and dampen North American growth prospects.
- The Canadian dollar movements become increasingly volatile or the dollar appreciates rapidly.
- Interest rates in the U.S. and Canada rise more quickly than forecast.
- Commodity prices decline more sharply than forecast or become more volatile.
- The recent monetary tightening, as well as the effects of high oil prices on China, slows the Chinese economy significantly.
- Geopolitical uncertainty in the U.S. accelerates due to events in the Middle East.

Table 2.3 Current Economic Statistics

	Latest Period	Year-to-Date			
		2003	2004	Change	
BRITISH COLUMBIA					
LABOUR MARKET					
Employment (s.a. ¹ , thousands).....	October	2,092	2,016	2,064	2.4%
Unemployment rate (s.a., per cent).....	October	6.9	8.3	7.5	-0.8
Total net in-migration (persons).....	Apr. - Jun.	10,249	15,651	17,656	2,005
Interprovincial (persons).....	Apr. - Jun.	3,369	(467)	3,119	3,586
International (persons).....	Apr. - Jun.	6,880	16,118	14,537	-1,581
Wages and salaries (s.a. \$millions).....	June	5,681	32,450	33,718	3.9%
Average weekly wage rate.....	October	704	684	684	0.0%
CONSUMER SECTOR					
Retail sales (s.a., \$ million).....	September	4,001	32,934	34,956	6.1%
Car and truck sales (s.a., units).....	September	14,984	136,419	133,193	-2.4%
Housing starts (all areas, s.a., annual rate).....	October	27,200	26,020	32,560	25.1%
Existing home sales (s.a., units).....	September	7,875	68,954	73,024	5.9%
Building permits (s.a., \$ millions).....	September	652	4,742	6,067	27.9%
B.C. consumer price index (annual per cent change)....	September	1.9	2.4	1.9	-0.5
INDUSTRIAL ACTIVITY					
Foreign merchandise exports (s.a., \$ million).....	September	2,791	21,627	23,819	10.1%
Manufacturing shipments (s.a., \$ million).....	September	3,669	27,913	31,281	12.1%
Lumber production (thousand cubic metres).....	August	3,114	24,077	25,971	7.9%
Pulp and paper shipments (000's of tonnes).....	September	630	5,697	5,623	-1.3%
Copper production (million kg).....	August	19.3	161.0	150.5	-6.5%
TOURISM					
Entries of U.S. and overseas residents (s.a., thousands)	September	644	5,493	5,592	1.8%
BC ferry passengers					
to/from Vancouver Island (thousands).....	October	905	9,497	9,707	2.2%
COMMODITY PRICES					
Lumber (U.S.\$/thousand board feet).....	October	335	263	405	53.9%
Pulp (U.S. \$/tonne).....	October	595	517	619	19.8%
Newsprint (U.S.\$/tonne).....	October	558	496	545	10.0%
Copper (U.S.\$/lb.).....	October	1.36	0.78	1.27	63.5%
FINANCIAL DATA					
Canadian dollar (U.S. cents).....	October	80.2	70.5	75.7	5.3
Canadian prime rate (per cent).....	October	4.25	4.73	3.95	-0.77
Canadian treasury bills (per cent).....	October	2.58	2.91	2.16	-0.75
Treasury bill spread - Canada minus U.S. (per cent).....	October	0.82	1.89	0.94	-0.95

¹ s.a. - seasonally adjusted

2003 Provincial Economic Accounts Update

2003 Provincial Economic Accounts

Statistics Canada released new estimates of provincial GDP for 2000 to 2003 on November 9, 2004. Economic growth in British Columbia for 2003 was revised up to 2.5 per cent from the preliminary estimate of 2.2 per cent released in April. The majority of provinces had their 2003 growth revised upwards from the preliminary estimate (see Chart 1). British Columbia tied for fourth place among the provinces in 2003, and grew faster than Canada as a whole.

Chart 1 – 2003 real GDP growth revised up in most provinces

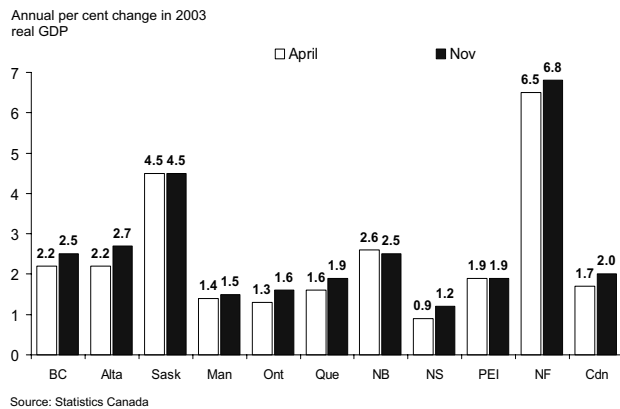
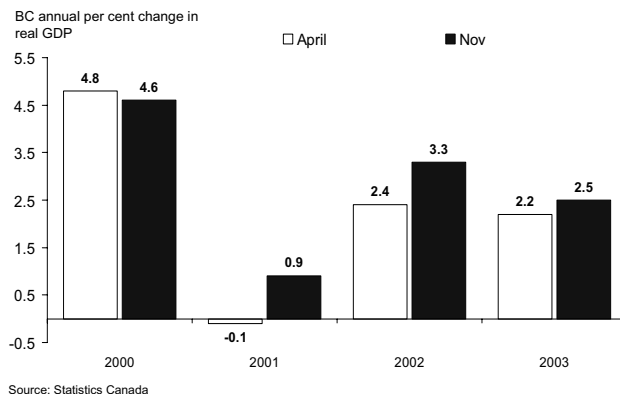


Chart 2 shows the revisions to real GDP from 2000 to 2003. The most significant revision was to 2001 where the previous estimate of a small decline in growth was revised up to a 0.9 per cent increase. Upward revisions to growth estimates were also seen in 2002 and 2003.

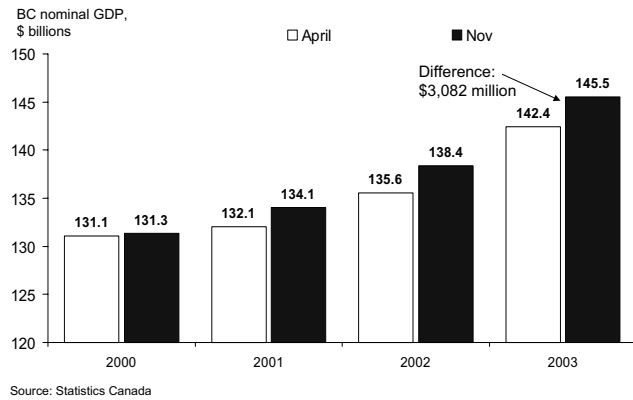
Chart 2 – BC real GDP



Nominal GDP

Nominal GDP growth for British Columbia was revised up in each year from 2000 to 2003 with the largest change in growth rates in 2001. Cumulatively, the upward revisions result in an increase of \$3.1 billion in the level of nominal GDP by 2003.

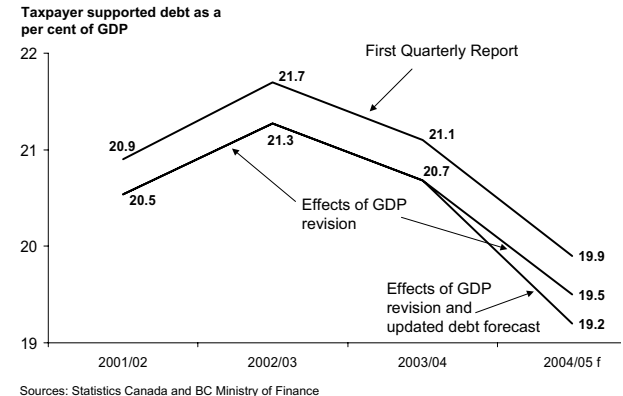
Chart 3 – BC nominal GDP



Debt to GDP ratio

The upward revisions to nominal GDP will lower the ratio of taxpayer-supported debt to GDP for 2000 to 2003. Chart 4 shows the effect of the revision on the taxpayer-supported debt to GDP ratio. The effect of the GDP changes is to reduce the taxpayer-supported GDP ratio by 0.4 percentage points for 2001/02 through 2004/05. In 2004/05, this lowered the ratio from 19.9 per cent to 19.5 per cent. The forecast for taxpayer-supported debt in 2004/05, which includes the lower debt forecast, is currently 19.2 per cent relative to 19.9 per cent in the first *Quarterly Report* and 21.9 per cent at budget.

Chart 4 – Lower debt to GDP ratio



Factors Affecting the Economic Outlook

Introduction

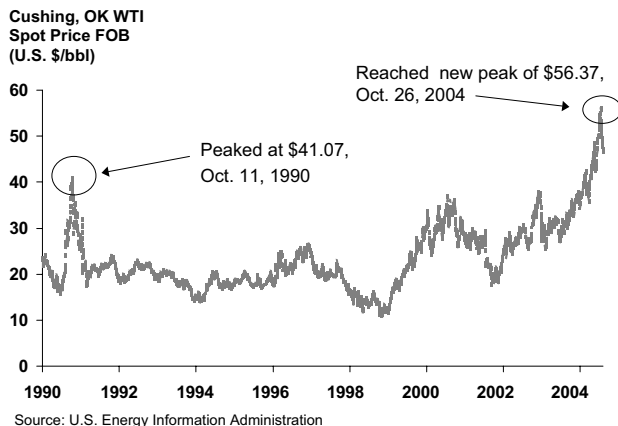
Both the price of oil and the Canadian dollar have risen significantly since the publication of the first *Quarterly Report*. This topic box looks at the potential impact of these changes on the North American and British Columbia economic outlooks.

Recent Oil Price Developments

World oil prices have risen to new highs in 2004 due to increased demand, supply disruptions, tight inventories and geopolitical uncertainty. There has been much debate recently about the impacts that these higher oil prices will have on the Canadian, U.S. and world economies. Countries that are net oil importers will be hurt by higher oil prices, while countries that are net exporters may benefit from higher prices. According to the U.S. Energy Information Administration, the U.S. imports over 50 per cent of the oil it consumes, while Canada is a net exporter of oil.

Below is a chart of a benchmark price, the Cushing, Oklahoma West Texas Intermediate Spot price in U.S. dollars. The price recently peaked at \$56.37 US on October 26th. In real dollar terms though, according to the Bank of Canada, the price of oil is still about 20 per cent below the historical peak reached in 1981.

Chart 1 – Oil prices hit new peak



Economic Impacts

High oil prices impact the economy in several ways. Higher gasoline and energy costs will have a direct negative impact on consumers

and businesses, while the oil sector and related service industries will be positively impacted. Also, higher oil prices will impact the U.S. economy with a subsequent indirect impact on the Canadian and BC economies.

Canadian economists vary in their opinion of the direct impact of higher oil prices on the economy. Some view the impact as being positive, since Canada is a net exporter of oil; others view the negative impact of higher oil prices as outweighing the positive economic benefits.

According to the Energy Information Association (EIA), a "rule of thumb" suggests that a 10 per cent increase in the price of oil could lower the U.S. GDP growth rate by between 0.05 and 0.1 percentage points over time. Therefore, if the average price of oil remained at \$50 U.S. through to the end of 2005, this would represent an increase of almost 20 per cent compared to the average 2004 price of \$42.20 U.S. This could therefore lower U.S. economic growth by between 0.1 to 0.2 percentage points in 2005.

Roughly half of this negative impact on the U.S. economy could pass through to BC¹. At the same time, the direct impact of the elevated oil price on the BC economy is likely similar to the direct impact on the U.S., between -0.1 and -0.2 per cent. This suggests a total impact of at most -0.3 per cent on BC real GDP in 2005 if oil prices stayed at \$50 through to the end of 2005.

However, this impact could be mitigated if higher oil prices are coupled with higher natural gas prices. This would bolster BC's rapidly growing natural gas sector.

The rise of the Canadian dollar

The Canadian dollar has risen from a low of 62 cents US in late January of 2002 to 83.9 cents on November 17th of this year, an increase of approximately 35 per cent. The increase has been due to a number of factors including: weakness in the U.S. dollar, high prices for commodities, strong economic growth in

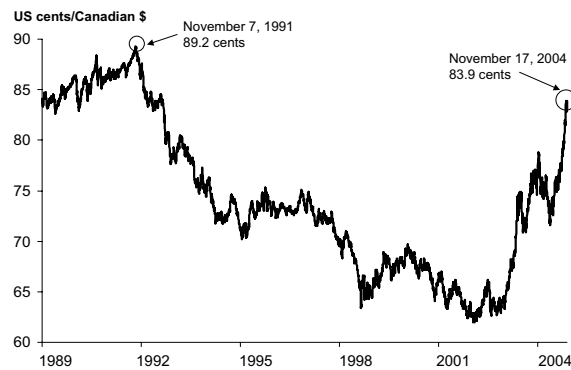
¹ Ministry of Finance estimated impact

Canada relative to the world economy and strong Canadian fiscal and international trade balances. Since late January 2002, the U.S. dollar, on a trade-weighted basis with major currencies including Canada, has declined almost 28 per cent. A higher Canadian dollar carries both positive and negative implications for the Canadian and BC economies.

Impacts of a higher dollar

A higher Canadian dollar generally hurts the Canadian and BC economies. Consumers benefit from increased purchasing power, but generally imports rise and exports fall as foreign goods become cheaper. Businesses investing in machinery and equipment from the U.S. will benefit with lower costs.

Chart 2 – Canadian dollar



Source: Bank of Canada

For example, Global Insight estimates that each 1 per cent appreciation in the Canadian dollar versus the U.S. dollar, holding other factors constant and holding the loonie constant against other currencies, would lower Canadian real GDP growth by 0.25 to 0.3 percentage points by the second year. Other economists, along with the Ministry of Finance have similar estimates for Canada and BC. If the dollar stays at 84 cents US through to the end of the year, the dollar would average approximately 77.0 cents US for the year. This would represent about a 2 cent US, or 2.4 per cent increase from the private sector average around the time of the first Quarterly Report of 75.2 cents. Using Global Insight's estimates, Canadian real GDP growth for 2005 could be 0.6 to 0.7 percentage points lower, assuming no other changes.

However, strong world and U.S. demand, along with stronger than previously anticipated commodity prices have supported Canadian and BC exporters. Also, it appears that Canadian and BC producers have been able to mitigate the impact of the higher dollar through increased investment and productivity gains.² The general U.S. dollar depreciation against its trading partners should provide a boost to U.S. economic growth going forward. As such, the Canadian dollar's appreciation has not occurred in isolation, and therefore the estimated impacts shown above most likely overstate the effect the dollar is having on the Canadian economy.

This is emphasized by the private sector average for BC real GDP growth rising from 3.0 per cent at the time of the first *Quarterly Report* to 3.3 per cent for 2004, and from 3.4 per cent to 3.6 per cent for 2005. This has occurred despite the fact that the private sector forecast average for the exchange rate went from 75.2 cents to 76.6 cents US for 2004, and from 77.8 cents to 81.8 cents US for 2005.

Conclusion

As can be seen from the analysis above, both higher oil prices and the recent strengthening of the Canadian dollar may have a negative effect on BC's growth prospects. As a result, prudent assumptions for BC's economic outlook remain appropriate.

Private sector forecasters are currently expecting growth of 3.3 per cent on average for 2004 and 3.6 per cent for 2005. This compares to the Ministry of Finance forecast of BC real GDP growth of 2.9 per cent for 2004 and 3.0 per cent for 2005 in the first *Quarterly Report*. The difference between the Ministry of Finance's outlook and the private sector average appears sufficient at this point to absorb the potential impacts of the recent high oil prices and rising Canadian dollar.

² For example the interior wood industry consolidated, invested heavily in new machinery and technology, and is seen to have become more efficient than other jurisdictions.

APPENDIX: FINANCIAL RESULTS

For the Six Months Ended September 30, 2004 and 2004/05 Full-Year Forecast

Second Quarterly Report 2004/05

November 2004

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Table A.1 2004/05 Operating Statement

(\$ millions)	Year-to-Date to September 30				Full Year			
	2004/05			Actual 2003/04	2004/05			Actual 2003/04
	Budget	Actual	Variance		Budget	Forecast	Variance	
Taxpayer-supported programs and agencies:								
Revenue	14,004	14,561	557	13,567	28,505 ¹	30,210	1,705	27,093
Expense	(14,311)	(13,973)	338	(14,530)	(30,377) ¹	(30,375)	2	(29,976)
Taxpayer-supported balance	(307)	588	895	(963)	(1,872)	(165)	1,707	(2,883)
Commercial Crown corporation net earnings	908	1,264	356	880	2,072	2,409	337	1,881
Surplus (deficit) before forecast allowance	601	1,852	1,251	(83)	200	2,244	2,044	(1,002)
Forecast allowance	-	-	-	-	(100)	(300)	(200)	-
Surplus (deficit)	601	1,852	1,251	(83)	100	1,944	1,844	(1,002)

¹ Includes additional \$148 million federal Health Accord and 2004 Public Health and Immunization Trust funding finalized after *Budget 2004*.

Table A.2 2004/05 Forecast Update – Changes from Budget 2004

(\$ millions)	Changes	Updated Forecast
Budget 2004 Fiscal Plan (February 17, 2004)		100
First Ministers' Accord on Health Care Renewal:		
Additional revenues from the federal government	148	
Additional BC commitments to health care	(148)	-
Fiscal Plan (May 20, 2004 Supply Act)		100
First Quarterly Report forecast updates:		
Revenue increases (decreases):		
Personal income tax – stronger 2003 tax assessments	75	
Corporate income taxes – improved corporate profit outlook and higher instalments	173	
Property transfer tax – strong housing market	168	
Social service tax and other taxes – mainly reflecting higher 2003/04 results	89	
Natural gas royalties – higher prices	203	
Other energy and mineral sources – higher prices	117	
Forest revenue – higher lumber prices and harvest volumes	375	
Post-secondary fees – primarily reflects higher than anticipated enrolment figures	45	
Lower investment earnings – mainly lower Fiscal Agency Loan program revenues	(73)	
Federal transfers:		
– Equalization transfers – impact of higher natural resource revenues and formula change	(363)	
– Health and social transfers – partial offset due to lower equalization transfers	166	
– Other transfers	26	
All other taxpayer supported changes	(89)	
Commercial Crown corporation net income:		
BC Hydro – mainly water level impacts and rate application revision	(112)	
BC Rail – investment partnership	191	
ICBC – primarily claims cost projections	166	
Other Crown corporation changes	16	
Total revenue changes		1,173
Less expense increases (decreases):		
Education – change in accounting for contributions in support of First Nations	(52)	
Forest fire and related costs	120	
Lower expenses for Free Crown Grants and leases	(40)	
BC Rail investment partnership transfers	391	
Interest costs – mainly reduced debt levels	(73)	
CRF expense changes	346	
Grants and internal transfers:		
Higher funding for health authorities, primarily due to Health Accord	(158)	
BC Rail investment partnership transfer to BCTFA	(200)	
Other grant and internal transfer changes	(3)	
CRF expense adjustments – mainly lower Fiscal Agency Loan program recoveries	(50)	
Taxpayer-supported Crown corporations and agencies:		
BCTFA – reduced spending, primarily lower interest costs	(18)	
Other taxpayer-supported Crown corporation and agency changes	(19)	
SUCH sector and regional authorities:		
School districts – revised spending estimates	96	
Post-secondary institutes – mainly increased student spaces	124	
Health authorities – increases reflect additional funding	86	
CFD authorities – revised implementation schedule	4	
Total expense changes		208
Forecast allowance increase		(200)
Net change		765
2004/05 surplus – first Quarterly Report		865



Table A.2 2004/05 Forecast Update – Changes from Budget 2004 – (continued)

(\$ millions)	Changes	Updated Forecast
Second Quarterly Report forecast updates:		
Revenue increases (decreases):		
Corporate income tax – mainly higher 2003 tax assessments	148	
Social service tax – rate reduction to 7.0% from 7.5%	(120)	
Energy and mineral sources – mainly weaker sales of Crown land leases and lower electricity prices affecting sales under the Columbia River Treaty	(75)	
Forest revenue – higher harvest volumes	31	
Impact of restoring the Columbia Basin power projects to commercial status	(63)	
Federal transfers – impact of new framework for equalization (up \$941 million) net of health and social transfers (down \$136 million)	805	
All other taxpayer supported sources	67	
Commercial Crown corporation net income:		
BC Hydro – primarily lower electricity trade revenue	(66)	
ICBC – primarily lower claims cost projections	137	
Other Crown corporation changes – primarily Columbia Power Corporation net income	5	
Total revenue changes		869
Less expense increases (decreases):		
Forest fire and related costs	(10)	
Interest costs – mainly reduced debt levels	(23)	
CRF expense changes	(33)	
Taxpayer-supported Crown corporations and agencies (net of internal transfers):		
Impact of restoring the Columbia Basin power projects to commercial status	(51)	
School districts – lower net spending estimates due to updated enrolment figures	(23)	
Health authorities – lower net spending estimates	(87)	
Other taxpayer-supported Crown corporation and agency changes	(16)	
Total expense changes		(210)
Net change		1,079
2004/05 surplus – second Quarterly Report		1,944

Table A.3 2004/05 Revenue by Source

(\$ millions)	Year-to-Date to September 30				Full Year			
	2004/05			Actual	2004/05			Actual
	Budget ¹	Actual	Variance	2003/04	Budget ¹	Forecast	Variance	2003/04
Taxation								
Personal income	2,466	2,478	12	2,289	5,005	5,080	75	4,877
Corporation income	473	490	17	447	893	1,214	321	775
Social service	2,131	2,152	21	1,986	4,156	4,091	(65)	4,001
Fuel	459	457	(2)	451	891	891	-	875
Tobacco	353	370	17	333	676	676	-	647
Property	821	814	(7)	778	1,655	1,647	(8)	1,576
Property transfer	234	370	136	267	432	600	168	518
Other	249	303	54	250	477	540	63	539
	7,186	7,434	248	6,801	14,185	14,739	554	13,808
Natural resources								
Natural gas royalties	565	720	155	622	1,213	1,419	206	1,230
Columbia River Treaty	93	134	41	115	215	260	45	230
Other energy and minerals	323	283	(40)	640	603	597	(6)	878
Forests	373	555	182	342	999	1,405	406	1,007
Water and other resources	172	155	(17)	147	402	302	(100)	308
	1,526	1,847	321	1,866	3,432	3,983	551	3,653
Other revenue								
Medical Services Plan premiums	698	708	10	704	1,398	1,407	9	1,409
Post-secondary education fees	310	327	17	319	763	832	69	781
Other health-care related fees	98	92	(6)	94	195	178	(17)	222
Motor vehicle licences and permits	190	197	7	187	370	377	7	363
Other fees and licences	408	443	35	385	852	838	(14)	765
Investment earnings	404	396	(8)	435	826	754	(72)	687
Sales of goods and services	333	379	46	402	681	687	6	629
Miscellaneous	636	593	(43)	576	1,309	1,300	(9)	1,157
	3,077	3,135	58	3,102	6,394	6,373	(21)	6,013
Contributions from the federal government²								
Health and social transfers	1,677	1,677	-	1,519	3,372	3,402	30	3,044
Equalization	201	155	(46)	33	402	980	578	(330)
Other federal contributions	337	313	(24)	246	720	733	13	905
	2,215	2,145	(70)	1,798	4,494	5,115	621	3,619
Taxpayer-supported programs and agencies								
	14,004	14,561	557	13,567	28,505	30,210	1,705	27,093
Commercial Crown corporation net income								
BC Hydro (before deferral account transfers) ³	107	19	(88)	33	388	210	(178)	77
Liquor Distribution Branch	390	393	3	359	760	760	-	724
BC Lotteries (net of payments to the federal government)	365	374	9	342	842	842	-	719
BC Rail ⁴	8	239	231	34	29	236	207	51
ICBC ⁵	37	235	198	107	52	355	303	302
Other	1	4	3	5	1	6	5	8
	908	1,264	356	880	2,072	2,409	337	1,881
Total revenue	14,912	15,825	913	14,447	30,577	32,619	2,042	28,974

¹ \$226 million budgeted as health-care related fees has been reclassified as miscellaneous revenue. \$50 million budgeted as miscellaneous revenue has been reclassified as post-secondary fee revenue. These reclassifications have no impact on total budgeted revenue or the budget bottom-line.

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

³ Reflects the BCUC direction to BC Hydro on the accounting treatment for asset retirement obligations.

⁴ The year to date figures reflect BC Rail's budget and results for the April to September 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): \$256 million.

⁵ The year to date figures reflect ICBC's budget and results for the April to September 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): \$389 million.

Table A.4 2004/05 Expense by Ministry, Program and Agency

(\$ millions)	Year-to-Date to September 30				Full Year			
	2004/05			Actual 2003/04 ¹	2004/05			Actual 2003/04 ¹
	Budget ¹	Actual	Variance		Budget ¹	Forecast	Variance	
Advanced Education.....	946	942	(4)	907	1,899	1,899	-	1,897
Education.....	2,513	2,470	(43)	2,434	4,943	4,891	(52)	4,787
Health Services ²	5,237	5,214	(23)	5,144	10,706	10,706	-	10,453
Subtotal	8,696	8,626	(70)	8,485	17,548	17,496	(52)	17,137
Office of the Premier.....	22	22	-	18	44	44	-	50
Agriculture, Food and Fisheries.....	23	12	(11)	28	45	45	-	79
Attorney General.....	259	250	(9)	261	489	489	-	520
Children and Family Development.....	777	751	(26)	793	1,555	1,555	-	1,591
Community, Aboriginal and Women's Services.....	149	154	5	200	333	333	-	449
Energy and Mines.....	33	30	(3)	28	64	64	-	77
Finance.....	26	21	(5)	30	46	46	-	53
Forests.....	250	352	102	576	530	640	110	839
Human Resources.....	657	636	(21)	696	1,301	1,301	-	1,394
Management Services.....	25	41	16	37	61	61	-	61
Provincial Revenue.....	29	22	(7)	21	52	52	-	49
Public Safety and Solicitor General.....	253	247	(6)	291	503	503	-	599
Skills Development and Labour.....	9	8	(1)	9	19	19	-	20
Small Business and Economic Development.....	100	98	(2)	103	143	143	-	256
Sustainable Resource Management.....	125	111	(14)	41	281	241	(40)	91
Transportation.....	408	387	(21)	411	811	811	-	820
Water, Land and Air Protection.....	67	65	(2)	58	148	148	-	129
Subtotal	3,212	3,207	(5)	3,601	6,425	6,495	70	7,077
Total ministries and Office of the Premier...	11,908	11,833	(75)	12,086	23,973	23,991	18	24,214
Legislation.....	23	19	(4)	20	46	46	-	41
Officers of the Legislature.....	14	10	(4)	10	27	27	-	23
BC Family Bonus.....	33	32	(1)	40	59	59	-	80
Management of public funds and debt.....	397	340	(57)	381	800	704	(96)	738
Government restructuring (ministries).....	-	-	-	24	-	-	-	168
Contingencies and new programs.....	-	2	2	-	240	240	-	-
Other appropriations.....	(4)	(5)	(1)	3	12	12	-	14
Subtotal	12,371	12,231	(140)	12,564	25,157	25,079	(78)	25,278
BC Rail investment partnership.....	-	-	-	-	-	391	391	-
Consolidated revenue fund expense	12,371	12,231	(140)	12,564	25,157	25,470	313	25,278
Less: Grants to agencies and other internal transfers:								
Taxpayer-supported Crown corporations and agencies.....	(367)	(397)	(30)	(486)	(735)	(981)	(246)	(947)
School districts.....	(2,245)	(2,245)	-	(2,092)	(4,314)	(4,271)	43	(4,219)
Universities.....	(458)	(458)	-	(461)	(817)	(806)	11	(861)
Colleges, university colleges and institutes...	(433)	(433)	-	(402)	(772)	(813)	(41)	(880)
Health authorities and hospital societies.....	(3,681)	(3,681)	-	(3,511)	(6,912)	(7,128)	(216)	(7,319)
CFD governance authorities.....	-	(1)	(1)	(1)	-	(2)	(2)	(3)
Add: Expenses recovered from external entities.....	785	751	(34)	712	1,569	1,510	(59)	1,538
	5,972	5,767	(205)	6,323	13,176	12,979	(197)	12,587
Taxpayer-supported Crown corporations and agencies (net of adjustments).....	952	905	(47)	987	1,904	1,856	(48)	2,111
SUCH sector and regional authorities (net of adjustments)								
School districts.....	2,021	1,979	(42)	1,922	4,446	4,505	59	4,371
Universities.....	968	1,016	48	923	1,935	2,023	88	1,899
Colleges, university colleges and institutes.....	599	610	11	632	1,318	1,355	37	1,299
Health authorities and hospital societies ³	3,799	3,695	(104)	3,742	7,598	7,655	57	7,706
CFD governance authorities.....	-	1	1	1	-	2	2	3
	7,387	7,301	(86)	7,220	15,297	15,540	243	15,278
Total taxpayer-supported expense.....	14,311	13,973	(338)	14,530	30,377	30,375	(2)	29,976

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

² The budget includes an additional \$148 million federal Health Accord and 2004 Public Health and Immunization Trust funding finalized after Budget 2004.

³ Excludes \$697 million of inter-entity transactions between health authorities and hospital societies.

Table A.5 2004/05 Revenue Assumptions – Changes from Budget 2004

Revenue Source and Assumptions (\$ millions unless otherwise specified)	Budget	1 st Quarter Forecast	2 nd Quarter Forecast
Personal Income Tax	\$5,005	\$5,080	\$5,080
BC personal income growth	4.0%	3.8%	3.8%
BC tax base growth	4.7%	4.3%	4.3%
Average tax yield	5.50%	5.50%	5.50%
Prior-year adjustment	\$0	\$75	\$75
2003 personal income growth	2.9%	2.4%	2.7%
Corporate Income Tax	\$893	\$1,066	\$1,214
National tax base (\$ billions)	\$129.9	\$139.1	\$141.5
BC instalment share	8.74%	8.74%	8.74%
Prior-year adjustment	-\$49	\$35	\$154
BC tax base (\$ billions)	\$10.1	\$11.9	\$12.5
BC tax base growth	7.0%	15.0%	15.0%
BC corporate profits growth	6.8%	17.2%	17.2%
2003 BC tax base (\$ billions)	\$9.5	\$10.3	\$10.9
2003 BC corporate profits growth	1.0%	12.4%	11.2%
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 BC'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.			
Social Service Tax	\$4,156	\$4,211	\$4,091
Consumer expenditure growth	4.8%	4.9%	4.9%
Business investment growth	5.7%	5.0%	5.0%
Other expenditure growth	3.0%	8.1%	8.1%
Tax rate reduced from 7.5% to 7.0%, effective October 21, 2004. There are no changes to the 10% rate on liquor and the 8%, 9% and 10% surtax rates on passenger vehicles.			
Natural gas, petroleum, minerals and Columbia River Treaty export electricity sales	\$2,031	\$2,351	\$2,276
Natural gas price (\$Cdn/gigajoule at plant inlet)	\$4.65	\$5.50	\$5.50
Natural gas volumes (annual per cent change)	8.1%	4.8%	4.8%
Oil price (\$US/barrel at Cushing, Oklahoma)	\$27.75	\$37.00	\$41.50
Auctioned land base (000 hectares)	954	873	683
Average bid price/hectare (\$)	\$400	\$391	\$407
<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)	\$41	\$51	\$46
<u>Components of revenue (\$ millions)</u>			
Natural gas royalties	\$1,213	\$1,416	\$1,419
Bonus bids, permits and fees	\$435	\$398	\$336
Petroleum royalties	\$77	\$106	\$110
Columbia River Treaty electricity sales	\$215	\$290	\$260
Mineral revenue	\$66	\$116	\$124
Oil and Gas Commission fees	\$25	\$25	\$27
Forests	\$999	\$1,374	\$1,405
<u>Prices (calendar year average)</u>			
SPF 2x4 price (\$US/thousand board feet)	\$300	\$395	\$390
Hemlock price (\$US/thousand board feet)	\$563	\$635	\$619
Pulp (\$US/tonne)	\$574	\$639	\$616
Exchange rate (\$US/\$Cdn)	\$0.790	\$0.752	\$0.766
<u>Crown harvest volumes (million cubic metres)</u>			
Interior harvest volumes	48.5	50.5	51.8
Coastal harvest volumes	15.0	17.0	17.5
Total harvest volumes	63.5	67.5	69.3



Table A.5 2004/05 Revenue Assumptions – Changes from Budget 2004

Revenue Source and Assumptions (\$ millions unless otherwise specified)	Budget	1st Quarter Forecast	2nd Quarter Forecast
Health and social transfers	\$3,224	\$3,538	\$3,402
Equalization	\$402	\$39	\$980
<u>National health and social transfers (\$ billions) excluding trust funds</u>			
Canada Health Transfer	\$12.650	\$12.650	\$13.650
Canada Social Transfer	\$7.750	\$7.750	\$7.750
Health Reform Transfer	\$1.5	\$1.5	\$1.5
Early Learning and Child Care Services	\$0.150	\$0.150	\$0.150
Wait Times Reduction			\$0.625
BC basic federal tax (BFT) (\$ billions)	\$11.9	\$11.9	\$12.0
National BFT (\$ billions) (includes estimate of prior years)	\$98.8	\$97.7	\$98.6
BC share of national population	13.1%	13.1%	13.1%
<u>Components of BC health and social transfers (\$ millions)</u>			
Canada Health Transfer	\$1,778	\$1,874	\$1,773
Canada Social Transfer	\$1,089	\$1,149	\$1,086
Health Reform Transfer	\$195	\$195	\$195
Early Learning and Child Care Services	\$10	\$20	\$20
Wait Times Reduction			\$0
CHST - Prior years			\$28
Diagnostic/Medical Equipment Trust (\$200 million total)	\$19	\$19	\$19
2003 CHST Supplement Trust (\$333 million total)	\$133	\$133	\$133
2004 Public Health and Immunization Trust (\$52 million total)		\$17	\$17
2004 CHST Supplement Trust (\$262 million total)	\$0	\$131	\$131
	\$3,224	\$3,538	\$3,402
Forecast does not include a preliminary \$279 million (\$66 million capital and \$213 million operating) of additional federal funding from the First Ministers' Meeting (September 15, 2004), pending finalization of accounting treatment as deferred revenue			
<u>Components of Equalization revenue (\$ millions)</u>			
Current-year base	\$402	\$0	\$682
Prior years			\$259
One-time (federal government 2004 budget)		\$39	\$39
SUCH sector direct revenue	\$2,606	\$2,668	\$2,700
School Districts	\$193	\$280	\$315
Universities	\$1,171	\$1,291	\$1,269
Colleges, University Colleges, and Institutes	\$545	\$565	\$571
Health Authorities and Hospital Societies	\$697	\$531	\$545
Children and Family Governance Authorities	\$0	\$1	\$0
Commercial Crown corporation net income	\$2,072	\$2,333	\$2,409
BC Hydro (before deferral account transfers)	\$388	\$276	\$210
reservoir water inflows (per cent of normal) (August 1, 2004 forecast)	94%	87%	87%
mean gas price (\$US/MMbtu at Sumas)	5.09	5.62	5.51
rate application to BCUC	7.23%	8.90%	–
rate increase awarded by BCUC	–	–	4.85%
ICBC (projected earnings during government's fiscal year)	\$52	\$218	\$355
investment income	\$330	\$370	\$395
adjustment to prior-year claims	–	-\$49	-\$89
premium revenue trend	+3.6%	+4.3%	+5.0%
claims-incurred trend	+6.2%	+1.5%	-2.3%

Table A.6 2004/05 Expense Assumptions – Changes from Budget 2004

Ministry Programs and Assumptions (\$ millions unless otherwise specified)	Budget	1st Quarter Forecast	2nd Quarter Forecast
Children and Family Development	1,382	1,555	1,555
Increased federal funding for early learning and child care programs	–	– ¹	– ¹
Transfer child care programs from Community, Aboriginal and Women's Services	–	173	173
Community, Aboriginal and Women's Services	506	333	333
Transfer child care programs to Children and Family Development	–	(173)	(173)
Education	4,943	4,891	4,891
Federal funding for First Nations students sent directly to school districts	–	(52)	(52)
Forests	530	650	640
Direct Fire Fighting			
Assumes normal activity in the fall of 2004	55	175	165
Health Services	10,558	10,706	10,706
<i>Budget 2004</i>	–	10,558	10,558
Additional federal health funding in May 20, 2004 <i>Supply Act</i>	–	148	148
Sustainable Resource Management	281	241	241
Reduction in free Crown grants	–	(40)	(40)
BC Rail Investment Partnership	–	391	391
Completion of partnership in July 2004			
BC Transportation Financing Authority infrastructure plan	–	200	200
Regional initiatives	–	191	191
Management of Public Funds and Debt	800	727	704
Interest rates for new provincial borrowing:			
Short-term	2.81%	2.50%	2.50%
Long-term	5.68%	5.65%	5.65%
Exchange rate (\$US/\$Cdn)	\$0.794	\$0.7539	\$0.7539
Taxpayer-supported Crown corporations and agencies			
Updated net expense	1,904	1,867	1,856
SUCH sector expenses in excess of grant funding	2,482	2,640	2,520
School Districts	132	257	234
Universities	1,118	1,217	1,217
Colleges, University Colleges, and Institutes	546	549	542
Health Authorities and Hospital Societies	686	616	527
Children and Family Governance Authorities	–	1	–
¹ \$10 million will flow through the Ministry of Children and Family Development through a <i>Financial Administration Act</i> section 25 account in 2004/05.			

Table A.7 2004/05 Expense By Function

(\$ millions)	Year-to-Date to September 30				Full Year			
	2004/05			Actual	2004/05			Actual
	Budget ¹	Actual	Variance	2003/04 ¹	Budget ¹	Forecast	Variance	2003/04 ¹
Health ²	5,608	5,441	(167)	5,585	11,935	11,776	(159)	11,333
Social services	1,345	1,300	(45)	1,434	2,678	2,669	(9)	2,867
Education	4,008	3,980	(28)	3,885	8,788	8,952	164	8,516
Protection of persons and property	591	586	(5)	632	1,166	1,212	46	1,567
Transportation	635	601	(34)	661	1,265	1,408	143	1,272
Natural resources and economic development ...	654	694	40	820	1,321	1,377	56	1,511
Other	433	365	(68)	441	908	858	(50)	916
Contingencies (all ministries)	-	2	2	-	240	240	-	-
General government	241	238	(3)	238	478	463	(15)	518
Debt servicing	796	766	(30)	834	1,598	1,420	(178)	1,476
Total taxpayer-supported expense	14,311	13,973	(338)	14,530	30,377	30,375	(2)	29,976

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

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

Table A.8 2004/05 Taxpayer-supported Entity Operating Statements ¹

(\$millions)	2004/05			Actual
	Budget	Forecast	Variance	2003/04
Taxpayer-supported Crown Corporations and Agencies:				
BC Transportation Financing Authority				
Revenue	601	810	209	604
Expense	(520)	(509)	11	(479)
	81	301	220	125
<i>Accounting adjustments</i>	(171)	(171)	-	(182)
Net impact	(90)	130	220	(57)
British Columbia Buildings Corporation				
Revenue	409	419	10	517
Expense	(366)	(374)	(8)	(470)
	43	45	2	47
<i>Accounting adjustments</i>	(5)	(3)	2	(4)
Net impact	38	42	4	43
British Columbia Housing Management Commission				
Revenue	290	289	(1)	279
Expense	(290)	(289)	1	(279)
	-	-	-	-
<i>Accounting adjustments</i>	1	(4)	(5)	8
Net impact	1	(4)	(5)	8
British Columbia Transit				
Revenue	143	143	-	138
Expense	(143)	(143)	-	(138)
	-	-	-	-
<i>Accounting adjustments</i>	-	-	-	(3)
Net impact	-	-	-	(3)
Vancouver Convention Centre Expansion Project				
Revenue	72	1	(71)	1
Expense	-	-	-	-
	72	1	(71)	1
<i>Accounting adjustments</i>	5	71	66	67
Net impact	77	72	(5)	68
Other taxpayer-supported Crown corporations and agencies				
Revenue	612	679	67	780
Expense	(594)	(664)	(70)	(754)
	18	15	(3)	26
<i>Accounting adjustments</i>	(27)	7	34	4
Net impact	(9)	22	31	30
Total net impact	17	262	245	89



Table A.8 2004/05 Taxpayer-supported Entity Operating Statements¹ – (continued)

(\$millions)	2004/05			Actual
	Budget	Forecast	Variance	2003/04
SUCH Sector and Regional Authorities:				
School Districts				
Revenue	4,467	4,557	90	4,455
Expense	(4,451)	(4,505)	(54)	(4,167)
	16	52	36	288
<i>Accounting adjustments</i>	45	29	(16)	(153)
Net impact	61	81	20	135
Universities				
Revenue	1,944	2,066	122	1,948
Expense	(1,936)	(2,023)	(87)	(1,901)
	8	43	35	47
<i>Accounting adjustments</i>	45	9	(36)	71
Net impact	53	52	(1)	118
Colleges, University Colleges, and Institutes				
Revenue	1,325	1,359	34	1,362
Expense	(1,324)	(1,355)	(31)	(1,298)
	1	4	3	64
<i>Accounting adjustments</i>	(2)	25	27	10
Net impact	(1)	29	30	74
Health Authorities				
Revenue	7,605	7,834	229	7,703
Expense	(7,604)	(7,769)	(165)	(7,755)
	1	65	64	(52)
<i>Accounting adjustments</i>	11	(45)	(56)	103
Net impact	12	20	8	51
Hospital Societies				
Revenue	561	582	21	649
Expense	(562)	(583)	(21)	(665)
	(1)	(1)	-	(16)
<i>Accounting adjustments</i>	-	(1)	(1)	(25)
Net impact	(1)	(2)	(1)	(41)
Children and Family Development Governance Authorities²				
Revenue	-	2	2	4
Expense	-	(2)	(2)	(3)
	-	-	-	1
<i>Accounting adjustments</i>	-	-	-	-
Net impact	-	-	-	1
Total net impact	124	180	56	338



Table A.8 2004/05 Taxpayer-supported Entity Operating Statements¹ – (continued)

(\$millions)	2004/05			Actual
	Budget	Forecast	Variance	2003/04
Net operating statements of taxpayer-supported Crown corporations and agencies				
Revenue	2,127	2,341	214	2,319
<i>Accounting adjustments</i>	(206)	(223)	(17)	(119)
Net revenue	<u>1,921</u>	<u>2,118</u>	<u>197</u>	<u>2,200</u>
Expense	(1,913)	(1,979)	(66)	(2,120)
<i>Accounting adjustments</i>	9	123	114	9
Net expense	<u>(1,904)</u>	<u>(1,856)</u>	<u>48</u>	<u>(2,111)</u>
Net fiscal plan impact	<u>17</u>	<u>262</u>	<u>245</u>	<u>89</u>
Net operating statements of SUCH sector and regional authorities				
Revenue	15,902	16,400	498	16,121
<i>Accounting adjustments</i>	(481)	(680)	(199)	(505)
Net revenue	<u>15,421</u>	<u>15,720</u>	<u>299</u>	<u>15,616</u>
Expense	(15,877)	(16,237)	(360)	(15,789)
<i>Accounting adjustments</i>	580	697	117	511
Net expense	<u>(15,297)</u>	<u>(15,540)</u>	<u>(243)</u>	<u>(15,278)</u>
Net fiscal plan impact	<u>124</u>	<u>180</u>	<u>56</u>	<u>338</u>
Total net operating statements of taxpayer-supported entities				
Revenue	18,029	18,741	712	18,440
<i>Accounting adjustments</i>	(687)	(903)	(216)	(624)
Net revenue	<u>17,342</u>	<u>17,838</u>	<u>496</u>	<u>17,816</u>
Expense	(17,790)	(18,216)	(426)	(17,909)
<i>Accounting adjustments</i>	589	820	231	520
Net expense	<u>(17,201)</u>	<u>(17,396)</u>	<u>(195)</u>	<u>(17,389)</u>
Net fiscal plan impact	<u>141</u>	<u>442</u>	<u>301</u>	<u>427</u>

¹ Revenue and expense are shown as reported in the entity financial statements and service plans, before consolidation and accounting adjustments.

² 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 2004/05 Full-Time Equivalents (FTEs)¹

FTEs	2004/05			Actual
	Budget	Forecast	Variance	2003/04
Ministries and special offices (consolidated revenue fund).....	27,160	26,985	(175)	28,684
Taxpayer-supported Crown corporations and agencies.....	3,940	3,890	(50)	4,570
Regional authorities	-	15	15	-
Total FTEs	31,100	30,890	(210)	33,254

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

Table A.10 2004/05 Capital Spending

(\$ millions)	Year-to-Date to September 30				Full Year			
	2004/05			Actual 2003/04	2004/05			Actual 2003/04
	Budget	Actual	Variance		Budget	Forecast	Variance	
Taxpayer-supported								
Education.....	302	460	158	442	604	764	160	831
Health.....	163	185	22	161	326	400	74	420
BC Transportation Financing Authority.....	292	292	-	196	500	586	86	370
Rapid Transit Project 2000.....	9	9	-	9	19	18	(1)	14
Vancouver Convention and Exhibition Centre expansion.....	14	18	4	37	70	38	(32)	44
Columbia River power projects ¹	-	-	-	-	90	-	(90)	-
Government operating (ministries).....	92	30	(62)	43	257	188	(69)	185
Other ²	22	17	(5)	20	77	76	(1)	19
Total taxpayer-supported.....	894	1,011	117	908	1,943	2,070	127	1,883
Self-supported								
BC Hydro.....	415	283	(132)	301	821	711	(110)	636
BC Rail.....	4	22	18	22	17	25	8	33
Columbia River power projects ¹	58	52	(6)	60	-	96	96	100
ICBC ³	21	12	(9)	7	66	35	(31)	26
BC Lotteries.....	38	42	4	26	75	135	60	49
Liquor Distribution Branch.....	6	1	(5)	2	12	12	-	2
Total self-supported.....	542	412	(130)	418	991	1,014	23	846
Total capital expenditures.....	1,436	1,423	(13)	1,326	2,934	3,084	150	2,729

¹ Joint ventures of the Columbia Power Corporation (CPC) and Columbia Basin Trust (CBT). This capital spending has reverted to self-supported status.

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

³ Includes ICBC Properties Ltd.

Table A.11 2004/05 Capital Expenditure Projects Greater Than \$50 million¹**Note: Information in bold type denotes changes from the 2004/05 first Quarterly Report.**

(\$ millions)	Start Date	Forecast	Cumulative	Spending	Cumulative	Total	Total
		Completion Date	Spending at Mar. 31, 2004 ² +	April 1 to Sept. 30	Spending at =Sept. 30, 2004	Project Budget ³	Project Forecast ³
Advanced Education facilities⁴							
UBC – Life Sciences Centre.....	Apr. 2002	Mar. 2005	72	24	96	110	110
SFU – Surrey Central City Campus.....	Mar. 2004	Sept. 2007	35	2	37	70	70
Total advanced education.....			107	26	133	180	180
Health facilities⁴							
Vancouver General Hospital, redevelopment project.....	Sept. 2000	Jan. 2007 ⁵	83	6	89	156	156
Academic Ambulatory Care Centre.....	Fall 2004	Summer/06	-	-	-	95	95
Total health facilities.....			83	6	89	251	251
Transportation							
Trans Canada Highway – 5 Mile (Yoho) Bridge	May 1999	Fall 2006	27	5	32	42 ⁶	42 ⁶
Nisga'a Highway.....	Aug. 1998	Fall 2005	38	4	42	52	52
Sea-to-Sky Highway.....	April 2003	Winter 2009	11	22	33	TBD ⁷	TBD ⁷
SkyTrain extension - phase 1.....	Sept. 1998	June 2006	1,062	9	1,071	1,167	1,107
Total transportation.....			1,138	40	1,178	1,261	1,201
Power generation							
BC Hydro							
– Georgia Strait pipeline crossing ⁸	April 2000	TBD	27	-	27	131	209
– Vancouver Island generation project.....	Project responsibility transferred to the private sector⁹						
– Seven Mile Dam safety improvements.....	June 1999	Mar. 2005	42	10	52	100	62
– Mica Dam – generator stator replacement....	Feb. 2004	July 2009	-	1	1	52	63
– Peace Canyon Dam – generator stator replacement and rotor modification.....	Feb. 2004	July 2009	-	-	-	64	64
Brilliant Expansion Power Corporation ¹⁰							
– Brilliant Dam power expansion.....	Oct. 2002	Aug. 2006	84	51	135	205	205
Total power generation.....			153	62	215	552	603
Other							
ICBC Properties Ltd.							
– Surrey Central City Mall Ltd.....	Sept. 1999	Dec. 2005 ¹¹	230	6	236	312	269
Vancouver Convention and Exhibition							
Centre expansion	2003	2008	44	-	44	230	230 ¹²
Total other.....			274	6	280	542	499

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

² Total expenditures since commencement of each project.

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

⁴ Amounts shown exclude interest costs incurred during construction.

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

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

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

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

⁹ Duke Point Power Limited Partnership was the successful proponent to provide electricity to Vancouver Island, subject to BC Utilities Commission approval. Some of the costs already incurred by BC Hydro will be recovered from the private sector proponent.

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

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

¹² Amount represents the provincial portion of this cost-shared project with the federal government and the tourism industry.

Table A.12 2004/05 Provincial Debt ¹

(\$ millions)	Balance March 31, 2004	Balance at September 30, 2004				Forecast at March 31, 2005			
		Net Change ²	Debt Outstanding		Net Change ²	Debt Outstanding		Variance	
			Actual	Budget		Forecast	Budget		
Taxpayer-supported debt									
Provincial government operating.....	15,754	(968)	14,786	16,836	(2,050)	(1,516)	14,238	16,615	(2,377)
Education facilities									
Schools.....	4,409	13	4,422	4,507	(85)	92	4,501	4,557	(56)
Post-secondary institutions.....	2,114	125	2,239	2,201	38	196	2,310	2,344	(34)
	6,523	138	6,661	6,708	(47)	288	6,811	6,901	(90)
Health facilities.....	2,218	8	2,226	2,413	(187)	175	2,393	2,479	(86)
Highways and public transit									
BC Transportation Financing									
Authority.....	2,764	94	2,858	2,803	55	131	2,895	2,874	21
BC Transit.....	83	(3)	80	83	(3)	4	87	88	(1)
Public transit.....	914	(7)	907	914	(7)	(4)	910	915	(5)
SkyTrain extension.....	1,119	8	1,127	1,132	(5)	19	1,138	1,141	(3)
	4,880	92	4,972	4,932	40	150	5,030	5,018	12
Other									
BC Buildings.....	317	(15)	302	283	19	(21)	296	247	49
Social housing ³	156	(22)	134	179	(45)	21	177	180	(3)
Homeowner Protection Office.....	129	16	145	130	15	15	144	126	18
Columbia River power projects ⁴	-	-	-	-	-	-	-	262	(262)
Other ⁵	116	269	385	348	37	246	362	344	18
	718	248	966	940	26	261	979	1,159	(180)
Total taxpayer-supported debt.....	30,093	(482)	29,611	31,829	(2,218)	(642)	29,451	32,172	(2,721)
Self-supported debt									
Commercial Crown corporations and agencies									
BC Hydro.....	7,040	134	7,174	7,238	(64)	(31)	7,009	7,174	(165)
BC Rail.....	477	(365)	112	-	112	(477)	-	-	-
Columbia River power projects ⁴	215	(4)	211	239	(28)	37	252	-	252
Liquor Distribution Branch.....	7	(1)	6	7	(1)	(1)	6	6	-
	7,739	(236)	7,503	7,484	19	(472)	7,267	7,180	87
Warehouse borrowing program.....	-	171	171	-	171	-	-	-	-
Total self-supported debt.....	7,739	(65)	7,674	7,484	190	(472)	7,267	7,180	87
Forecast allowance.....	-	-	-	-	-	300	300	100	200
Total provincial debt.....	37,832	(547)	37,285	39,313	(2,028)	(814)	37,018	39,452	(2,434)

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

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

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

⁴ Joint ventures of the Columbia Power Corporation (CPC) and Columbia Basin Trust (CBT). This debt has reverted to self-supported status.

⁵ 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.13 2004/05 Statement of Financial Position

(\$ millions)	Actual March 31, 2004	Year-to-Date September 30, 2004	Forecast March 31, 2005
Financial Assets			
Cash and temporary investments	2,547	4,189	3,248
Other financial assets	6,492	6,045	7,129
Sinking funds	3,730	3,382	3,550
Investments in commercial Crown corporations:			
Retained earnings	2,989	3,444	3,027
Recoverable capital loans	7,512	7,169	7,004
	<u>10,501</u>	<u>10,613</u>	<u>10,031</u>
	23,270	24,229	23,958
Liabilities			
Accounts payable and accrued liabilities	6,786	6,587	6,859
Deferred revenue	2,683	3,526	3,328
Debt:			
Taxpayer-supported debt	30,093	29,611	29,451
Self-supported debt	7,739	7,674	7,267
Forecast allowance.....	-	-	300
Total provincial debt	<u>37,832</u>	<u>37,285</u>	<u>37,018</u>
Add: sinking funds presented as assets	3,730	3,382	3,550
Less: guarantees and non-guaranteed debt	<u>(401)</u>	<u>(768)</u>	<u>(679)</u>
	41,161	39,899	39,889
	50,630	50,012	50,076
Net Liabilities	(27,360)	(25,783)	(26,118)
Capital and Other Assets			
Tangible capital assets	22,253	22,543	22,954
Other assets	364	367	383
	<u>22,617</u>	<u>22,910</u>	<u>23,337</u>
Accumulated surplus (deficit)	(4,743)	(2,873)	(2,781)

Changes in Financial Position

(\$ millions)	Year-to-Date September 30, 2004	Forecast March 31, 2005
Change in accumulated deficit:		
Surplus for the period	(1,852)	(1,944)
Accounting policy equity adjustments	(18)	(18)
	<u>(1,870)</u>	<u>(1,962)</u>
Capital asset changes:		
Taxpayer-supported capital investments	1,011	2,070
Less: amortization and valuation adjustments	(718)	(1,350)
	<u>293</u>	<u>720</u>
Increase (decrease) in net liabilities	(1,577)	(1,242)
Investment and working capital changes:		
Increase (reduction) in cash and temporary investments	1,642	701
Increase in total investment in commercial Crown corporations	270	890
Less: loan repayments and valuation adjustments	(158)	(1,360)
	112	(470)
Other working capital changes	(1,091)	(81)
	<u>663</u>	<u>150</u>
Increase (decrease) in guarantees and non-guaranteed debt	367	278
Increase (decrease) in total provincial debt	(547)	(814)

