
Provincial Debt Summary



Overview of Provincial Debt (Unaudited)

The provincial government, its Crown corporations, agencies and government organizations incur debt to finance operations and capital projects. Borrowing for operations was required to finance deficits prior to the province balancing its budget in 2004/05 as required by the *Balanced Budget and Ministerial Accountability Act* and to meet other working capital requirements such as loans and advances or changes in accounts receivable/payable. Debt for government direct operating purposes has declined with surpluses achieved in 2004/05 through 2007/08. Borrowing for capital projects finances the building of schools, hospitals, roads, public transit and other social and economic assets. As these investments provide essential services over several years, the government, like the private sector, borrows to fund these projects and amortizes the cost over the asset's useful life.

Provincial debt is reported using two basic classifications: (1) taxpayer-supported debt; and (2) self-supported debt.

Taxpayer-supported Debt—includes government direct debt, which is incurred for government operating and capital purposes, and the debt of Crown corporations, agencies, school districts, universities, colleges, institutes and health authorities that require an operating or debt service subsidy from the provincial government, and that are fully consolidated in the Summary Financial Statements. The BC Transportation Financing Authority is an example of a taxpayer-supported Crown corporation.

Self-supported Debt—includes the debt of commercial Crown corporations and agencies as well as the Warehouse Borrowing Program. Commercial Crown corporations and agencies generate sufficient revenues to cover interest costs and repay principal and may pay dividends to the province. The British Columbia Hydro and Power Authority is an example of a commercial Crown corporation. The Warehouse Borrowing Program is used to take advantage of borrowing opportunities in advance of requirements. Eventually, this debt is allocated to the province or Crown corporations and agencies. In the interim, the funds are invested at market rates.

The following provincial debt summary provides additional detailed information and related key indicators and benchmarks to allow a more informed assessment of the debt totals. A reconciliation is also provided to explain the differences between the Summary of Provincial Debt and the Summary Financial Statements.

The total provincial debt as at March 31, 2008 was \$34,627 million, which consists of \$34,185 million (net of \$2,649 million sinking fund investments) in the Summary Financial Statements, together with \$336 million in additional debt of self-supported Crown corporations and agencies, and \$106 million in additional guaranteed debt.

Provincial Debt as at March 31, 2008 (Unaudited)

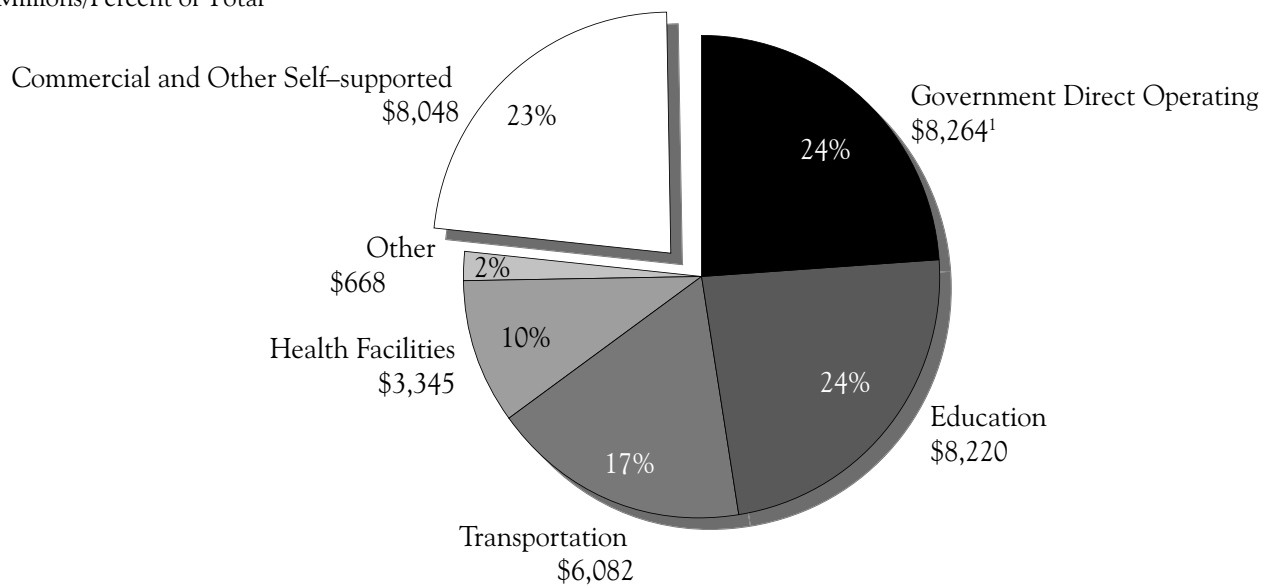
The accumulated provincial debt of \$34,627 million has been incurred for various purposes as shown in Chart 1 below. Over the years, the proceeds from borrowing have contributed to economic development in the province and have provided resources to deliver health, education and social programs, and transportation infrastructure.

At March 31, 2008, taxpayer-supported debt totalled \$26,579 million—including debt incurred for government operating purposes (\$8,264 million), educational facilities (\$8,220 million), health facilities (\$3,345 million), transportation infrastructure (\$6,082 million) and other debt (\$668 million). Other debt is comprised mainly of debt relating to social housing, service delivery agencies and various loan guarantee programs.

At March 31, 2008, self-supported debt relating to commercial Crown corporations and agencies totalled \$8,048 million. Commercial debt includes the debt incurred by British Columbia Hydro and Power Authority, debt relating to Columbia River power projects, and debt of commercial subsidiaries of certain post-secondary institutions.

Chart 1 – Provincial debt as at March 31, 2008

In Millions/Percent of Total



Total: \$34,627 million

Taxpayer-supported: \$26,579 million (77%)
 Self-supported: \$8,048 million (23%)

¹Operating debt includes a portion of highway infrastructure debt incurred prior to 1994/95, ferry infrastructure debt transferred in 1999/00 and amounts required to finance operating deficits prior to the province balancing its budget in 2004/05.

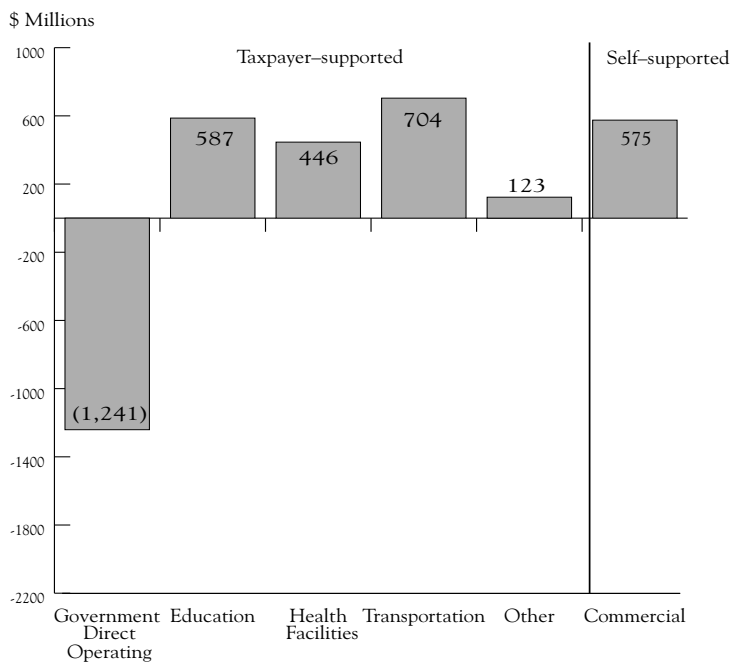
Change in Provincial Debt¹ (Unaudited)

Provincial debt increased by \$1,194 million in 2007/08 when compared to the prior year. This includes an increase in taxpayer-supported debt of \$619 million, and in self-supported debt of \$575 million (see Chart 2 below).

Taxpayer-supported Debt—The increase of \$619 million was due to increases in new capital financing requirements in the education sector (\$587 million), the health sector (\$446 million), the transportation sector (\$704 million), and other taxpayer-supported entities (\$123 million). This was offset by a decrease of \$1,241 million in government operating debt as a result of an operating surplus at the Consolidated Revenue Fund level, mainly due to revenue improvements and reduced working capital requirements.

Self-supported Debt—The increase of \$575 million consisted of a \$489 million increase in British Columbia Hydro and Power Authority debt, \$49 million increase in British Columbia Transmission Corporation and \$55 million increase in debt of commercial subsidiaries of certain post-secondary institutions, offset by decreases of \$17 million for Columbia River power projects and \$1 million for British Columbia Liquor Distribution Branch.

Chart 2 – Change in provincial debt for the year ended March 31, 2008



¹Includes gross new borrowings plus changes in sinking fund balances, less debt maturities.

**Reconciliation of Summary Financial Statements' Surplus
to Change in Taxpayer-supported Debt and Total Debt
for the Fiscal Year Ended March 31, 2008
(Unaudited)**

	In Millions	
	2008	2007 ¹
	\$	\$
(Surplus) for the year.....	(2,886)	(4,079)
Taxpayer-supported debt decreased by:		
Non-cash expenses included in (surplus).....	(1,789)	(1,663)
Accounts receivable, accounts payable and other working capital net changes.....	479	249
	<u>(1,310)</u>	<u>(1,414)</u>
Taxpayer-supported debt increased by:		
Self-supported Crown corporation and agency earnings in excess of contributions to the Consolidated Revenue Fund.....	783	523
Tangible capital asset net acquisitions.....	3,588	3,403
Net increases in loans, advances and investments.....	444	330
	<u>4,815</u>	<u>4,256</u>
Net increase (decrease) in taxpayer-supported debt.....	619	(1,237)
Taxpayer-supported debt—beginning of year.....	25,960	27,197
Taxpayer-supported debt—end of year.....	26,579	25,960
Self-supported debt.....	8,048	7,473
Total debt².....	<u>34,627</u>	<u>33,433</u>

**Reconciliation of Total Debt to Summary Financial Statements Debt
as at March 31, 2008
(Unaudited)**

	In Millions	
	2008	2007 ¹
	\$	\$
Total debt.....	34,627	33,433
Debt included as part of equity in self-supported Crown corporations and agencies.....	(336)	(299)
Contingent liabilities for debt of individuals and organizations that have been guaranteed by the province.....	(106)	(111)
Sinking fund investments.....	2,649	3,798
Summary Financial Statements debt.....	<u>36,834</u>	<u>36,821</u>
Comprised of:		
Taxpayer-supported debt.....	28,537	28,924
Self-supported debt.....	8,297	7,897
Summary Financial Statement debt.....	<u>36,834</u>	<u>36,821</u>

¹Comparative figures for the previous year have been restated.

²See Summary of Provincial Debt, page 125.

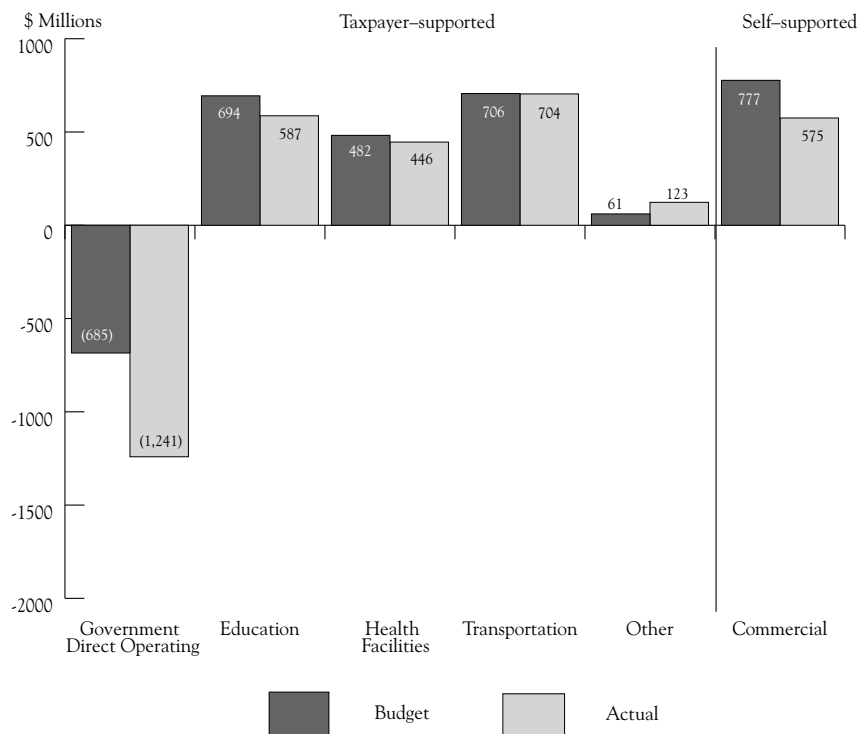
Change in Provincial Debt, Comparison to Budget (Unaudited)

Provincial debt increased by \$1,194 million, compared to a budgeted increase of \$2,485 million (per the Budget and Fiscal Plan presented in February 2007), for an improvement of \$1,291 million. Chart 3 below shows the difference between the actual change in provincial debt and the budgeted change by major category. In addition, the increase of \$450 million forecast allowance included in the budget was not required.

Taxpayer-supported debt increased by \$619 million, compared to a budgeted increase of \$1,258 million. The improvement of \$639 million is due to reduced government operating debt (\$556 million) primarily because of higher than forecast revenues and reduced working capital requirements; lower than forecast capital spending on education, health and transportation infrastructure (\$145 million), and offset by higher than expected debt of other taxpayer-supported Crown corporations and agencies (\$62 million).

Self-supported debt increased by \$575 million, compared to a budgeted increase of \$777 million, for an improvement of \$202 million. The improvement is a result of reduced debt for British Columbia Hydro and Power Authority (\$96 million) and for Columbia River power project (\$162 million). This is offset by an increase in debt for commercial subsidiaries of certain post-secondary institutions (\$55 million) and for British Columbia Transmission Corporation (\$1 million).

Chart 3 – Change in provincial debt¹ (actual vs budget) for the year ended March 31, 2008



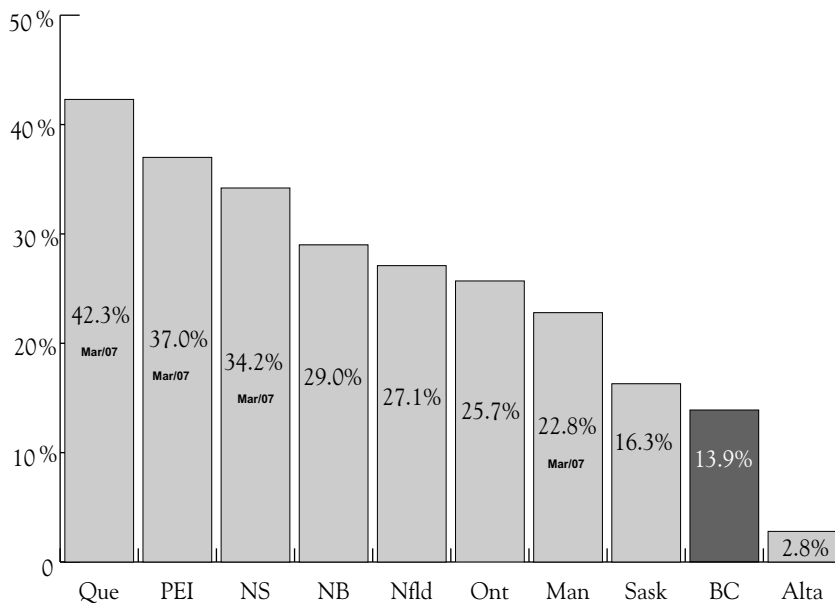
¹The change in forecast allowance is not included in this chart.

Interprovincial Comparison of Taxpayer-supported Debt as a Percentage of Gross Domestic Product (Unaudited)

Chart 4 below shows the ratio of each province's taxpayer-supported debt as a percentage of their gross domestic product (GDP). The ratio of a province's taxpayer-supported debt relative to its GDP highlights the ability of a province to service its debt load. This ratio is often used by investors and credit rating agencies when assessing a province's investment quality. According to the Moody's Investors Service Inc. (Moody's), British Columbia's taxpayer-supported debt ratio is one of the lowest in Canada and this translates into a strong credit rating and relatively low debt servicing costs.

Chart 4 – Interprovincial comparison of taxpayer-supported debt as a percentage of GDP

Percent of GDP¹ at March 31, 2008



Source: Moody's Investors Service Inc., based on April 2008 estimates.

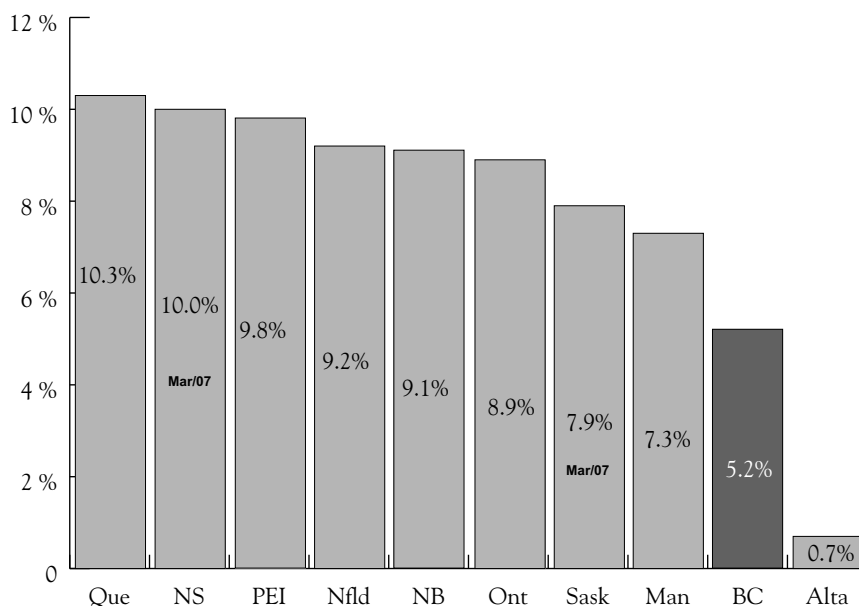
¹ Since the percent of GDP for the province of Quebec, Prince Edward Island, Nova Scotia and Manitoba are not available, prior year figures have been used for the comparison.

Interprovincial Comparison of Taxpayer-supported Debt Service Costs as a Percentage of Revenue (Unaudited)

Chart 5 shows the ratio (interest bite) of each province's taxpayer-supported debt servicing costs as a percentage of revenue. The interest bite indicates how much of each dollar of provincial revenue is used to pay for taxpayer-supported debt service costs. According to Moody's, British Columbia has the second lowest taxpayer-supported debt service costs as a percentage of revenue of all provinces.

Chart 5 – Interprovincial comparison of taxpayer-supported debt service costs as a percentage of revenue

Percent of revenue¹, at March 31, 2008



Source: Moody's Investors Service Inc., based on April 2008 estimates.

¹ Since the percent of revenue for the province of Nova Scotia and Saskatchewan are not available, prior year figures have been used for this comparison.

Moody's definition of taxpayer-supported debt is modestly different from the definition used by the Ministry of Finance. The financial community has not agreed upon a definition for taxpayer-supported debt. The definition which Moody's uses is the closest to that employed by the ministry but, even then, there are small differences. The value of presenting Moody's debt indicators is that it provides an interprovincial comparison from a third party source, which is helpful for readers to understand the province's relative performance and ranking.

More comprehensive information on the debt of the province and its Crown corporations and agencies is provided on the Debt Management Branch website. This detailed information can assist readers in assessing the province's debt position. The website is available on the Internet at: www.fin.gov.bc.ca/PT/dmb/index.shtml.



Report of the Auditor General of British Columbia

ON THE SUMMARY OF PROVINCIAL DEBT, KEY INDICATORS OF PROVINCIAL DEBT, AND SUMMARY OF PERFORMANCE MEASURES

*To the Legislative Assembly
of the Province of British Columbia*

Introduction

I have audited the debt-related statements of the Government of the Province of British Columbia consisting of the summary of provincial debt as at March 31, 2004 through 2008, the key indicators of provincial debt for the five fiscal years then ended, and the summary of performance measures for the fiscal year ended March 31, 2008. Through these statements, the Government reports on its debt management by presenting five years of information on provincial debt and debt indicators, and compares its actual results of performance measures to its target measures for the fiscal year ended March 31, 2008. The preparation of the debt-related information and the setting of performance targets are the responsibility of the Government. My responsibility is to express an opinion on this debt-related information based on my audit.

The debt-related statements are prepared using financial information that supports the Government's summary financial statements, which are prepared in accordance with Canadian generally accepted accounting principles. However, in the debt-related statements there are some differences in the methods of compilation and presentation compared to generally accepted accounting principles. In the debt-related statements, debt is calculated net of sinking fund assets, includes debt directly incurred by modified equity enterprises and other commercial subsidiaries of taxpayer-supported entities, and includes debt incurred by others outside the government reporting entity where there is a provincial government guarantee as to the payment of principal and interest. Also, total provincial revenue and interest costs include the gross revenue and interest costs of modified equity enterprises, and total provincial interest costs are net of sinking fund earnings.

REPORT OF THE AUDITOR GENERAL OF BRITISH COLUMBIA
ON THE SUMMARY OF PROVINCIAL DEBT,
KEY INDICATORS OF PROVINCIAL DEBT, AND
SUMMARY OF PERFORMANCE MEASURES

Scope

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance whether the debt-related statements are free of material misstatement. My audit included examining, on a test basis, evidence supporting the amounts and disclosures in the debt-related statements. My audit also included evaluating the overall presentation of the debt-related statements.

Opinion

In my opinion, these statements present fairly, in all material respects, the summary of provincial debt as at March 31, 2004 through 2008, the key indicators of provincial debt for the five fiscal years then ended, and the summary of performance measures for the year ended March 31, 2008, in accordance with the basis of accounting referred to in the introduction.

*Victoria, British Columbia
July 2, 2008*



John Doyle, MBA, CA
Auditor General

Summary of Provincial Debt¹ as at March 31

	In Millions				
	2008 \$	2007 \$	2006 \$	2005 \$	2004 \$
Taxpayer-supported Debt					
Provincial government direct operating ^{2,3}	8,264	9,505	11,923	14,510	15,694
Education ⁴					
Schools.....	4,906	4,724	4,588	4,483	4,409
Post-secondary institutions ⁵	3,314	2,909	2,650	2,284	2,066
	<u>8,220</u>	<u>7,633</u>	<u>7,238</u>	<u>6,767</u>	<u>6,475</u>
Health facilities ^{4,6}	<u>3,345</u>	<u>2,899</u>	<u>2,459</u>	<u>2,119</u>	<u>2,217</u>
Highways, ferries and public transit					
BC Transportation Financing Authority.....	3,948	3,237	2,699	2,474	2,764
British Columbia Transit.....	84	96	80	78	83
Public transit ⁴	897	892	904	906	914
SkyTrain extension ⁴	1,153	1,153	1,145	1,135	1,119
	<u>6,082</u>	<u>5,378</u>	<u>4,828</u>	<u>4,593</u>	<u>4,880</u>
Other					
British Columbia Buildings Corporation ³			246	241	317
Social housing ⁷	218	216	189	133	156
Homeowner Protection Office.....	132	110	110	130	129
Other ⁸	318	219	204	158	116
	<u>668</u>	<u>545</u>	<u>749</u>	<u>662</u>	<u>718</u>
Total taxpayer-supported debt.....	<u>26,579</u>	<u>25,960</u>	<u>27,197</u>	<u>28,651</u>	<u>29,984</u>
Self-supported Debt					
Commercial Crown corporations and agencies					
British Columbia Hydro and Power Authority.....	7,633	7,144	6,892	6,906	7,040
British Columbia Transmission Corporation.....	86	37	37		
British Columbia Railway Company ²					477
Columbia River power projects ⁹	219	236	247	257	215
British Columbia Liquor Distribution Branch.....	2	3	5	6	7
Post secondary institutions' subsidiaries ⁵	108	53	19	26	14
Total self-supported debt.....	<u>8,048</u>	<u>7,473</u>	<u>7,200</u>	<u>7,195</u>	<u>7,753</u>
Total provincial debt.....	<u>34,627</u>	<u>33,433</u>	<u>34,397</u>	<u>35,846</u>	<u>37,737</u>

¹Debt is after deductions of sinking funds, unamortized discounts and unrealized foreign exchange gains/(losses), and excludes accrued interest. Government direct and fiscal agency debt accrued interest is reported in the government's accounts as an accounts payable.

²Effective July 19, 2004, the provincial government assumed responsibility for the fiscal agency loans of the British Columbia Railway Company (\$463 million).

³Effective April 1, 2006, the provincial government assumed responsibility for the fiscal agency loans of the British Columbia Buildings Corporation (\$246 million).

⁴Represents provincial direct debt incurred for capital financing of education and health facilities and public transit infrastructure.

⁵During fiscal 2006/2007, the University of Victoria and the University of British Columbia changed their accounting policy for recording the activities of their controlled for-profit entities from full consolidation to the equity method. The debt of these commercial entities was reclassified as self-supported debt from taxpayer-supported debt.

⁶Figures for prior years restated to include hospital's guarantees of \$2 million for fiscal years 2003/04 to 2006/07 and public-private partnership obligations of \$5 million for fiscal 2004/05, \$10 million for fiscal 2005/06 and \$84 million for fiscal 2006/07.

⁷Includes debt of the British Columbia Housing Management Commission and the Provincial Rental Housing Corporation.

⁸Includes debt of other taxpayer-supported Crown corporations and agencies and the fiscal agency loans to local governments. Also includes student loan guarantees, loan guarantees to agricultural producers, and guarantees under economic development and home mortgage assistant programs.

⁹Joint ventures of Columbia Power Corporation and Columbia Basin Trust.

Key Indicators of Provincial Debt¹ for the Fiscal Years Ended March 31

	2008		2007	2006	2005	2004
	Budget Estimate	Actual	Actual	Actual	Actual	Actual
Debt to Revenue (percent)						
Total provincial.....	76.9	68.3	69.1	74.6	85.1	100.5
Taxpayer-supported.....	76.5	69.4	69.6	77.6	88.5	107.1
Debt per Capita (\$) ²						
Total provincial.....	8,451	7,906	7,739	8,074	8,527	9,082
Taxpayer-supported.....	6,378	6,068	6,009	6,384	6,815	7,216
Debt to GDP (percent) ³						
Total provincial.....	19.6	18.2	18.5	20.3	22.8	25.9
Taxpayer-supported.....	14.8	14.0	14.4	16.1	18.2	20.6
Interest Bite (cents per dollar of revenue) ⁴						
Total provincial.....	4.7	4.0	4.3	4.4	4.7	5.9
Taxpayer-supported.....	4.7	3.9	4.2	4.4	5.0	6.1
Interest Costs (\$ millions)						
Total provincial.....	2,244	2,005	2,068	2,012	1,999	2,231
Taxpayer-supported.....	1,691	1,482	1,569	1,546	1,635	1,706
Interest Rate (percent) ⁵						
Taxpayer-supported.....	6.2	5.6	5.9	5.5	5.6	5.7
Background Information:						
Revenue (\$ millions)						
Total provincial ⁶	47,900	50,678	48,416	46,096	42,141	37,540
Taxpayer-supported ⁷	36,333	38,287	37,280	35,029	32,391	27,997

Key Indicators of Provincial Debt¹ for the Fiscal Years Ended March 31—Continued

	2008		2007	2006	2005	2004
	Budget Estimate	Actual	Actual	Actual	Actual	Actual
Total Debt (\$ millions)						
Total provincial.....	36,837	34,627	33,433	34,397	35,846	37,737
Taxpayer-supported ⁸	27,803	26,579	25,960	27,197	28,651	29,984
Provincial GDP (\$ millions)⁹.....	187,789	190,214	180,328	169,404	157,365	145,642
Population (thousands at July 1)¹⁰.....	4,359	4,380	4,320	4,260	4,204	4,155

¹Figures for prior years and the 2007/08 budget have been restated to conform with the presentation used for 2008 and to include the effects of changes in underlying data and statistics.

²The ratio of debt to population (e.g., debt at March 31, 2008 divided by population at July 1, 2007).

³The ratio of debt outstanding at fiscal year end to provincial nominal gross domestic product (GDP) for the calendar year ending in the fiscal year (e.g., debt at March 31, 2008 divided by 2007 GDP).

⁴The ratio of interest costs (less sinking fund interest) to revenue. Figures include capitalized interest expense in order to provide a more comparable measure to outstanding debt.

⁵Weighted average of all outstanding debt issues.

⁶Includes revenue of the Consolidated Revenue Fund (excluding dividends from enterprises) plus revenue of all government organizations and enterprises.

⁷Excludes revenue of government enterprises, but includes dividends from enterprises paid to the Consolidated Revenue Fund.

⁸Excludes debt of commercial Crown corporations and agencies and funds held under the province's Warehouse Borrowing Program.

⁹GDP for the calendar year ending in the fiscal year (e.g., GDP for 2007 is used for the fiscal year ending March 31, 2008).

¹⁰Population at July 1st within the fiscal year (e.g., population at July 1, 2007 is used for the fiscal year ending March 31, 2008).

Summary of Performance Measures¹ for the Fiscal Year Ended March 31, 2008

	2008	2008	2007
	Target	Actual	Actual
Provincial credit rating ²	Aaa	Aaa	Aaa
Taxpayer-supported debt to GDP ratio ²	Declining trend	Target achieved 13.9%	14.1%
Taxpayer-supported debt service costs as a percentage of revenue ² ..	2nd lowest	2nd lowest	2nd lowest

¹Performance measures as presented in the Ministry of Finance Service Plan in *Budget 2007*.

²As per Moody's Investors Service Inc., ratios are based on April 2008 estimates. The debt to gross domestic product (GDP) and debt service costs as a percentage of revenue performance measures represent interprovincial comparisons.