1995 BUDGET REPORTS

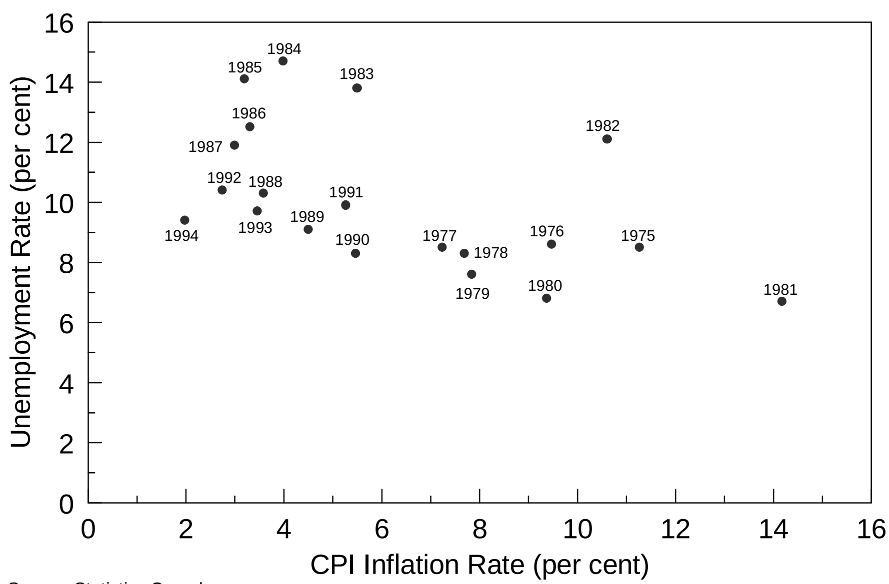
Report A: ECONOMIC REVIEW AND OUTLOOK

Overview and Summary

The British Columbia economy grew an estimated 4.3 per cent in 1994, up from 3.1 per cent in 1993. Strong export growth led the way, benefiting from rising commodity prices and strengthening economies overseas. On the domestic side of the economy, a pickup in consumer spending and business capital investment boosted 1994 growth. Employment increased 4 per cent and the unemployment rate fell to 9.4 per cent. The combination of unemployment and inflation was the most favourable in several years (see Chart A1).

Looking ahead, exports are expected to remain strong, aided by the combination of stronger growth in the world economy, high commodity prices, a lower-valued Canadian dollar and continued low inflation. Higher interest rates will affect demand for housing and big-ticket consumer goods such as furniture, appliances, cars and trucks. Economic growth in British Columbia is forecast at 3 per cent in 1995 and 2.5 per cent in 1996.

CHART A1
B.C. UNEMPLOYMENT AND INFLATION, 1975-94



Source: Statistics Canada

The World Economy

Over the last six months, economic conditions improved significantly as recessions ended in Japan and Germany. The economies of the United States, Britain, Canada and Australia strengthened in the second half of 1994, creating fears of higher inflation. Late in 1994 and early in 1995, several events combined to create uncertainty about the global financial and economic outlook:

— financial market upheavals, including the devaluation of the Mexican peso and the sharp drop in the value of the Canadian and U.S. dollars against the yen and deutschemark;

— the earthquake in Kobe, Japan; and

— mounting concerns at home and abroad about Canada's fiscal situation and possible Quebec independence.

Canada

The Canadian economy performed well in 1994, growing 4.5 per cent. Employment finally began increasing, having lagged well behind output during the current recovery. Full-time employment rose by 266,000, a 2.5 per cent gain. The number of part-time jobs rose only 0.5 per cent, a reflection of the stronger job market.

Economic growth in 1994 was driven by exports and non-residential investment. Export volumes were up 14.4 per cent while imports rose 9.6 per cent. Stronger growth abroad contributed to increased demand for key Canadian exports such as automotive and resource products. In contrast, domestic demand was held back by declines in government spending and slow growth in consumer spending on services. Other areas of consumer spending grew relatively strongly, although rising interest rates reduced demand for housing during the second half of the year. Business investment rose sharply during the year, led by strong growth in machinery and equipment spending and a rebound in non-residential construction after three years of depressed activity. Despite strong growth, the underlying rate of consumer price inflation remained in the 1.5 per cent range and a broader measure of inflation, the GDP implicit price index, rose only 0.6 per cent.

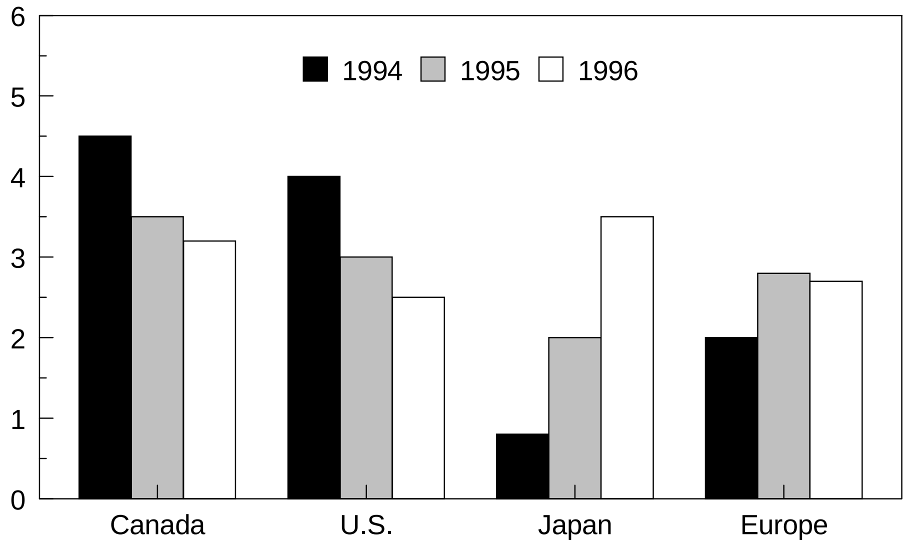
The Canadian economy is expected to grow 3.5 per cent in 1995 and 3.2 per cent in 1996. Domestic demand will grow more slowly due to higher interest rates. External trade should continue to benefit from a strong competitive position resulting from low inflation and the low value of the Canadian dollar.

United States

Canada's largest export market grew 4 per cent in 1994. Growth was strong in all areas of the economy but external trade. However, even here, a deteriorating trade position was more a reflection of strong domestic spending boosting imports; export volumes rose 8.7 per cent. The value of British Columbia's merchandise exports to the U.S. increased 22 per cent in 1994, mainly due to rising lumber exports and higher prices for pulp and paper.

The U.S. economy is expected to grow 3 per cent in 1995. Interest rate increases already in the pipeline are expected to help slow the expansion by the second half of the year. Growth is expected to slow to 2.5 per cent in 1996.

CHART A2
ECONOMIC GROWTH
Percentage change in real GDP



Source: Ministry of Finance and Corporate Relations

All regions of the U.S. except California have been growing strongly. California is one of British Columbia's key markets and its economy has only recently emerged from a severe recession and the after-effects of natural disasters. The Mexican financial crisis will affect the southern region of the state, but overall, the prospects for significantly increased exports of goods, services and tourism from British Columbia to California are good.

Japan

Until the Kobe earthquake in January, Japan's economy was recovering from a two-year recession. Overall activity remained weak as 1994 ended, due to a continuing overhang of manufacturing capacity and commercial office space. In addition, the strong yen caused a deterioration in the trade balance. Public-sector capital projects were one of the main sources of growth in 1994. Consumer spending also strengthened during the year and housing starts continued to expand. The value of British Columbia's exports to Japan increased nearly 15 per cent in 1994, due largely to higher prices received for forest and other resource products. Japan is British Columbia's second-largest export market.

Before the earthquake, economic growth in 1995 was expected to be in the 2 to 2.5 per cent range, held down by slower growth in public investment, the continued migration of manufacturing overseas and balance-sheet restructuring by banks and large corporations.

The damage caused by the earthquake is still being tallied, but forecasters guess that it will shave 0.3 to 0.5 percentage points from 1995 growth. The earthquake is likely to have a negative effect initially on some of British Columbia's exports to Japan. However, the Industrial Bank of Japan estimates that 87,000 homes suffered damage (although a row of Canadian-style model homes came through with flying colours). As a result, rebuilding may boost demand for lumber and other building materials in the second half of the year.

The Japanese economy is expected to grow 3.5 per cent in 1996.

Europe

Economic conditions in Europe improved noticeably during 1994 as Germany emerged from recession and growth in Britain accelerated. In the fourth quarter of 1994, western Germany's real GDP had grown 2.5 per cent and industrial production was 7.3 per cent above year-earlier levels. Britain's economy advanced nearly 4 per cent over this period. France and Italy also grew faster, aided by the pickup in the rest of Europe.

The value of British Columbia's exports to Europe declined 40 per cent between 1990 and 1993, due to falling prices for pulp and paper and market access problems. However, this trend was reversed in 1994 as exports rose 24 per cent. The gains were the result of higher forest product prices.

British Columbia's exports to Europe should continue to expand this year. Europe's economy is expected to grow 2.8 per cent in 1995, up from 2 per cent last year.

China

China's economy received considerable attention in 1994 because of its sheer size and potentially huge consumer market. The economy grew about 12 per cent last year.
British Columbia exported $305 million worth of merchandise to China in 1994, an increase of 7.4 per cent from 1993. China accounted for 1.3 per cent of the province's exports, a share that has not changed much in recent years. China has the potential to become one of British Columbia's largest export markets in the future.

Financial Markets

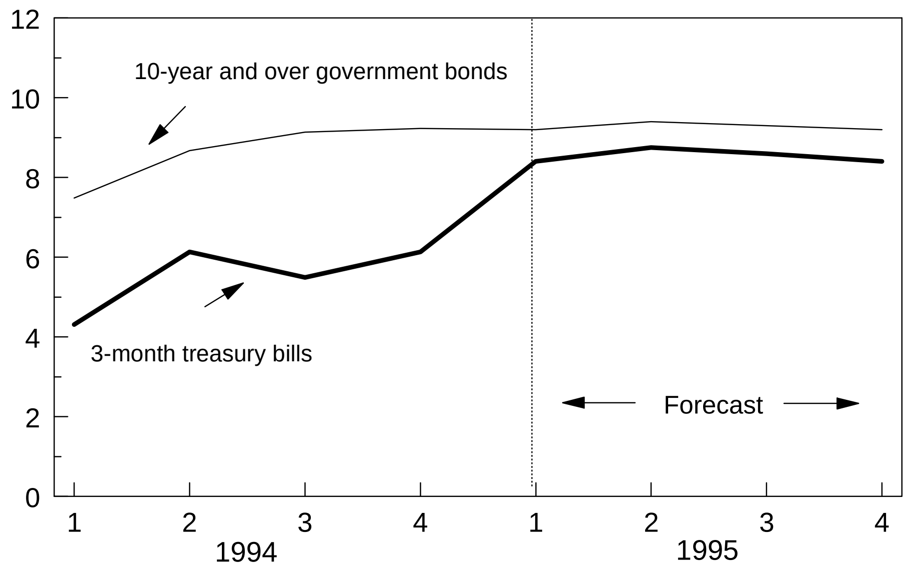
In 1994, Canadian financial markets were characterized by periods of turmoil interrupted by brief periods of calm. The country's stock and bond markets were among the worst performers in the world. Money managers and investors at home and abroad ignored Canada's strong economic performance and focussed on the fiscal problems of governments and the election of a pro-sovereignty provincial government in Quebec. Overlaid on these domestic concerns were worries about above-potential growth in the United States.

As a result of these developments, Canadian and foreign interest rates rose much more than had been predicted at the beginning of 1994. Many forecasters had expected that interest rates would remain stable due to Canada's low inflation. However, short-term interest rates rose from 4 per cent at the end of 1993 to over 7 per cent at the end of 1994. Five-year mortgage rates and long-term government bond rates rose 3 and 2 percentage points, respectively, over this period. The impact of rising interest rates on the economy was offset by a 6 per cent decline in the value of the Canadian dollar against the currencies of major trading partners.

Late in 1994, the devaluation of the Mexican peso and fiscal concerns put pressure on the Canadian dollar and led to sharp increases in short-term interest rates. Financial market sentiment improved briefly and long-term interest rates fell in February, as inflation concerns abated on signs of slower U.S. growth. However, the sharp drop in the value of the U.S. and Canadian dollars against the yen and deutschemark precipitated another round of interest rate increases. This has left the spread between short- and long-term interest rates much narrower than it was at the end of 1994.

The consensus view in financial markets is that U.S. interest rates will continue to rise at least until mid-year and that Canadian rates will move in lock-step. As yet, there are no clear signs that the U.S. economy is cooling off and that inflation concerns will disappear. Therefore, this budget forecast assumes that interest rates will remain high through most of 1995 and begin to decline gradually in 1996. Even so, real short-term interest rates will remain very high in Canada. A further small depreciation of the Canadian dollar is expected in 1995 followed by a small rebound in 1996 (see Table A1). The combination of continued high real interest rates and the low value of the Canadian dollar will boost the export sector and dampen demand for imports and interest-sensitive goods.

CHART A3
CANADIAN INTEREST RATES
Per cent; quarterly averages



Source: Bank of Canada and Ministry of Finance and Corporate Relations

British Columbia: 1994 Performance and 1995-96 Outlook

Recent economic indicators suggest that the British Columbia economy slowed in the fourth quarter of 1994 and that this slower growth will carry over into 1995. Domestic spending will not grow as rapidly as in 1994 due to high interest rates. However, the export sector will continue to benefit from higher prices and a lower dollar, generating more jobs, investment and income. As a result, another year of solid growth in British Columbia is expected, with the economy forecast to expand 3 per cent in 1995.

The Domestic Economy

Growth in 1994 was led by strong consumer spending and non-residential investment. Residential investment declined and total spending by all three levels of government increased less in 1994 than in 1993. In 1995, interest rates are expected to be considerably higher, on average, than in 1994. This will lower housing affordability and discourage consumer spending on big-ticket items, reducing growth on the domestic side of the economy. This will be offset by technology-driven capital investment.

Consumer spending surged in 1994 reflecting more jobs and higher consumer confidence. Population growth due to continued high in-migration helped boost retail sales to $28.9 billion, a 9.7 per cent increase from 1993. However, not all the increase in consumer spending was due to population growth as the volume of retail sales per person rose last year. Some of the strength was fuelled by pent-up demand for autos. In the second half of the year, higher interest rates had an effect on major consumer purchases; car and truck sales fell in July and August before recovering at the end of the year.

Consumer spending outgrew incomes for most of 1994 as people borrowed or dipped into savings to finance purchases (see Chart A4). The gap between spending and income growth will not continue indefinitely. In 1995, higher interest rates and moderate growth in incomes will slow the growth in consumer spending. Consumers are likely to spend less on furniture and appliances, reflecting a decline in housing starts. Current-dollar retail sales are expected to grow 5.5 per cent in 1995 and 4.1 per cent in 1996. Total consumer spending on goods and services is forecast to increase 2.7 per cent in real terms in 1995 and 2.5 per cent in 1996 (see Table A1 for forecast details).

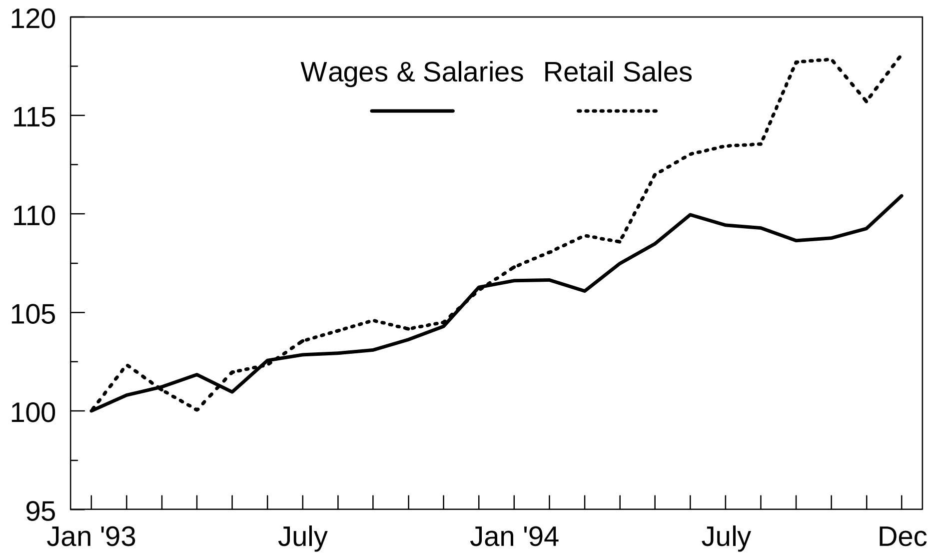
In 1994, **capital investment** in the province contributed significantly to economic growth. Rising interest rates had little effect on capital investment, which rose 14.4 per cent in current-dollar terms, according to Statistics Canada's investment survey. Non-residential capital investment rose 23.5 per cent, reflecting increased corporate profits, forest-sector investment in new technology and a strong market for office space. Residential investment rose only 1.1 per cent last year as the housing market began to cool.

The increase in non-residential capital investment was due to strength in commodity prices, as well as demand for office space. High commodity prices helped return the resource sector to profitability. As a result, many forest-sector companies are investing in new machinery and equipment. There are currently two medium density fibreboard plants under construction in British Columbia. Fibreboard is used extensively in furniture and interior finishing products such as kitchen cabinets and mouldings. Other capital spending in the forest sector included technology-intensive investment in pulp and paper manufacturing and sawmills.

Last year, there was substantial investment in the natural gas sector as a result of high prices in 1993. The current weakness in natural gas prices will likely depress exploration and development spending in 1995.

In Vancouver and Victoria, office vacancy rates were the lowest in Canada in 1994 and are still declining. New supply in the Greater Vancouver region accounted for half of the national increase in office space last year. New supply is not expected to meet demand, driving vacancy rates down further and lease rates up.

CHART A4
B.C. INCOME AND RETAIL SALES
January 1993 = 100



Source: Statistics Canada and Ministry of Finance and Corporate Relations

Some examples of projects underway or planned in the province include:

- The Vancouver Island Highway, a $1.2 billion investment.
- By the end of the decade, $750 million will be invested in terminal, runway, and other improvements at the Vancouver International Airport. The recently-signed ‘‘open skies’’ agreement between Canada and the United States solidifies Vancouver’s position as a gateway between North America and the Asia-Pacific region.
- The new $230-million Deltaport container terminal is under construction and is expected to open at the end of 1996.
- Canfor Corporation will build a $120-million medium density fibreboard plant and an $80-million co-generation plant at Prince George.
- In partnership with CP Rail System, BC Transit plans to construct and operate a commuter rail system, the West Coast Express, between Mission and downtown Vancouver. Station stops with passenger amenities and park-and-ride facilities will be built along the route. Estimated capital construction costs are $103 million.
- Nanaimo’s Northbrook Centre will undergo an $80-million re-development that will turn it into a park, condominium, office and retail space over the next five years.
- Timber West Forest Ltd. is set to spend $12.5 million on capital improvements at its Elk Falls lumber mill in Campbell River. The project is expected to take a year to complete and will improve log recovery rates and increase production by 16 per cent annually, without an increase in log consumption.

REGIONAL DEVELOPMENTS

Most regions benefited from British Columbia's robust economic performance in 1994. Population increases boosted employment growth in the regions, as did an improving resource sector and increased tourism and consumer spending. However, weaker housing markets point to a possible slowdown in economic activity in most regions in 1995.

Population

British Columbia's population expanded by 2.6 per cent in 1994 as net in-migration from overseas and other provinces reached record levels. All regions experienced population increases with the Interior and Vancouver Island growing the fastest. However, the majority of people moving to the province continued to settle in the Lower Mainland.

Employment and Labour Markets

Employment growth in 1994 was strongest in areas outside the Lower Mainland, particularly in the Interior and northern regions (see chart). Employment growth in the Vancouver Island/Coastal region slowed to 4.7 per cent while the Lower Mainland improved on slow 1993 growth to post a gain of 3.7 per cent. Because of its size, the Lower Mainland accounted for over half of all new jobs created in 1994.

Labour markets slowly absorbed the record number of in-migrants entering the province, and as a result the 1994 unemployment rate fell in all but three regions (see chart). The largest decline was in the Okanagan/Boundary region where the unemployment rate fell 2.5 percentage points to 8.7 per cent. The unemployment rate fell 0.6 percentage points to 9.4 per cent in the Vancouver Island/Coastal region, and declined slightly from 9.3 per cent to 9.1 per cent in the Lower Mainland.

Resource Industries

Resource-dependent regions gained in 1994 from rising commodity prices, a lower-valued Canadian dollar and faster growth in the United States and overseas. The northeast benefited from increased natural gas exploration and drilling activity. While this activity is expected to slow considerably in 1995, future investment is planned in the region to expand gas pipeline capacity to tap new export markets.

Coal production expanded in the southeast, following mine shutdowns in 1992 and early 1993. The re-opening of the former Byron Creek mine is one of several planned re-openings or expansions in the region.

Higher timber, pulp and paper prices benefited the coastal and Interior regions. However, the industry is faced with ongoing shortages of wood chips and timber. Mills have responded by buying logs from Alberta and Alaska.

The northwest, southern Interior and Vancouver Island regions benefited from stronger markets for copper, molybdenum, zinc and lead. The Similco mine in the Okanagan and Vancouver Island's Myra Falls mine were two of several base and precious metals operations to re-open. Export prices are expected to soften somewhat as additional worldwide supply is brought on-line, but British Columbia producers are well positioned to compete in the fast-growing Pacific Rim market.

Tourism and Sales Tax Revenue

Higher tourism revenues, helped by the lower-valued dollar, benefited most parts of the province. Room revenues for accommodation were up in all regions, including the Lower Mainland and Vancouver Island regions, which accounted for two-thirds of total revenue.

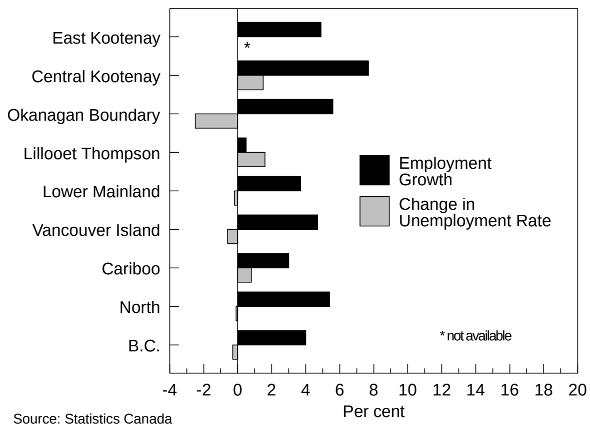
Provincial sales tax revenue, an indicator of the strength of consumer and business spending, increased by 6.5 per cent (after adjustment for tax changes) in 1994 to $2.9 billion. Revenue increases occurred in all regions and ranged from 3.6 per cent in the Vancouver Island/Sunshine Coast region to over 20 per cent in the Thompson/Okanagan and Nechako/Northeast regions.

Housing Starts and Sales

Higher interest rates and rising house prices during 1994 combined to depress housing affordability in all regions of the province. By the end of the year, existing home sales and housing starts were falling. For all of 1994, housing starts fell 7.9 per cent to 39,408 units, while existing home sales dropped 9.3 per cent to 73,400 units.

In Vancouver, housing starts were off 3.9 per cent and home sales 3.6 per cent. Victoria was harder hit with a 12.5 per cent decline in housing starts and a 14.8 per cent fall in home sales. Sales and starts were also off sharply in the fast-growing Fraser Valley and east coast of Vancouver Island. With interest rates expected to remain high, the housing market is expected to continue to soften in 1995.

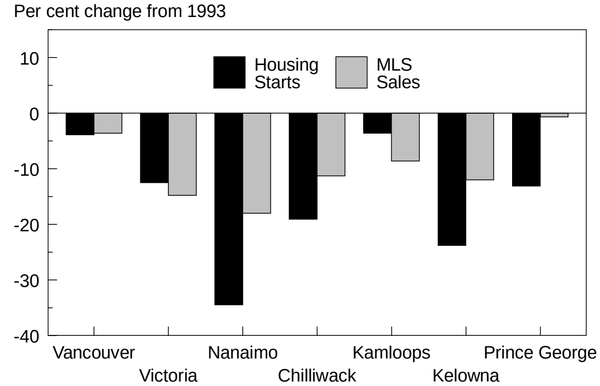
REGIONAL LABOUR MARKETS IN 1994



Source: Statistics Canada

1994 HOUSING STARTS AND MLS* SALES

Per cent change from 1993



Source: Canadian Real Estate Association and Canada Mortgage & Housing Corporation
* Multiple Listing Service

Housing starts in British Columbia fell 7.9 per cent to 39,408 units last year from a record high in 1993. Continued high in-migration helped to maintain demand for housing; however, most of the growth in housing starts occurred early in the year. By the end of 1994, starts and sales volumes had fallen in most regions of the province (see *Regional Developments* topic box). Despite the drop in housing starts, residential investment was supported by renovation expenditures, which were up significantly last year. With housing prices relatively high in most areas of the province, many people chose to make changes to their homes rather than sell and move. Weakness in the housing market is expected to continue into 1995 as high prices and high interest rates reduce affordability. As a result, housing starts are expected to total 31,000 units in 1995 and 28,000 units in 1996. Housing investment is expected to decline almost 10 per cent this year, reflecting the lower level of housing starts.

Statistics Canada's private and public investment intentions survey, conducted between November 1994 and early February 1995, showed that planned investment in British Columbia is expected to increase $1.2 billion in current-dollar terms, or 6.1 per cent, in 1995. The Ministry of Finance and Corporate Relations projects that total investment will rise 2.6 per cent in real terms this year and 2.2 per cent in 1996. The rise in planned capital spending in 1995 is largely due to an increase in machinery and equipment investment. Construction investment is expected to increase only slightly, as strong growth in business non-residential construction is offset by a sharp decline in residential investment.

Current spending by all three levels of **government** rose 1.2 per cent in real (inflation-adjusted) terms in 1994. Reductions in spending growth at the federal and provincial levels are expected to reduce total real government spending in 1995 and 1996.

External Trade

In 1994, strong growth in the United States, economic recovery in Japan and Europe, a lower Canadian dollar and rising commodity prices boosted the value of British Columbia merchandise exports by nearly 20 per cent. In 1995, higher interest rates and a lower Canadian dollar will shift some of the growth away from interest-sensitive sectors of the economy, such as housing and consumer durables, to the export sector.

The British Columbia export commodity price index rose 15 per cent in 1994, reflecting increases in forest product and mineral prices (see Chart A5). This increase in commodity prices was much higher than expected. The one area of weakness was energy prices, due in part to reduced demand as a result of above-average winter temperatures in North America. Most commodity prices, except natural gas, are expected to continue to rise in 1995 but not as much as in 1994 (see *Outlook for Resource Exports* topic box). Commodity prices are expected to level off in 1996.

Strong demand for British Columbia commodities resulted in an 11.3 per cent increase in cargo shipments through the Port of Vancouver last year, despite a two-week longshore workers strike. Tonnage increases were recorded for every type of cargo, led by strong gains in bulk commodities like coal, grain, sulphur and potash, and substantial increases in container and forest product shipments. Containers shipped were a record for the port and the figures for January show the trend is continuing.

CHART A5
B.C. EXPORT COMMODITY PRICE INDEX
C$ basis; 1986=100

Source: Ministry of Finance and Corporate Relations

A lower Canadian dollar not only helped boost British Columbia's goods exports last year, it also helped to lure many foreign visitors to British Columbia holiday destinations. Cruise passenger volumes through Vancouver increased to a record level in 1994. The rising popularity of the Vancouver-Alaska cruise market and capacity increases by the major cruise lines contributed to the increase. The Commonwealth Games held in August in Victoria gave British Columbia worldwide exposure and drew visitors from around the world. BC Ferries' fleet carried more than 22 million passengers last year, a 4 per cent increase from 1993.

Export volumes are expected to rise 3.8 per cent in 1995 and 3.3 per cent in 1996. Import growth is expected to slow to 2.1 per cent in both years, reflecting the impact of higher prices caused by the depreciation of the Canadian dollar versus other major currencies.

The Labour Market

Labour market conditions improved in 1994 as the number of new jobs exceeded the increase in the labour force. As a result, the unemployment rate fell to 9.4 per cent.

Most of the job growth occurred early in the year as shown in Chart A6. A large increase in employment in May was followed by slower growth in the summer and declining employment in the fall. Job growth was evenly split between part-time and full-time employment — unlike 1993 when most of the job growth was in full-time employment.

OUTLOOK FOR RESOURCE EXPORTS

Commodity prices rose much faster than expected in 1994, led by gains in copper, pulp and newsprint. This topic box discusses price trends in markets for British Columbia's key resource exports.

The forest sector rebounded in 1994 on strength in pulp and paper. Strong demand and a shortage of wood chips drove **pulp** prices up last year and this pressure is expected to continue through 1995. The value of pulp exports was up 50 per cent in 1994. Pulp is currently selling for $825 U.S. per tonne and is expected to rise to $910 in June.

Newsprint prices have also been on the rise as the result of the chip shortage and strong world demand. Some newspapers have cut back on the size of their publications to reduce consumption of costly newsprint.

Lumber prices fell slightly below the record high set in 1993, although the value of lumber exports surged based on strength in the U.S. and Japanese housing markets. U.S. housing starts were at their highest level since 1988. As land prices fell in Japan, housing affordability increased and with it, the demand for high quality British Columbia lumber. In 1995, lumber prices are expected to decline slightly because of a 7 per cent decline in U.S. housing starts. However, British Columbia could benefit from higher demand caused by rebuilding in Japan following the earthquake in early January.

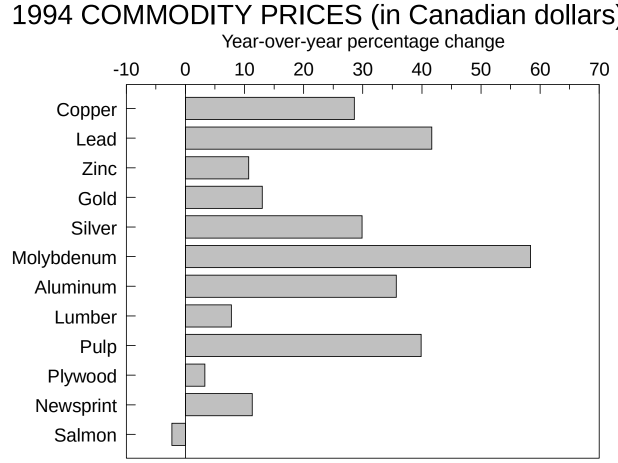
Metal prices were boosted by strengthening activity in the industrialized countries last year. Rapid growth in the U.S. was accompanied by a pickup in Germany and Japan in the second half of 1994. **Copper**, which is widely used in residential construction and auto production, benefited from strong growth in both these sectors. As a result, copper prices rose almost 30 per cent from their 1993 average. **Zinc** prices have lagged the recovery in metal prices. High inventories of zinc kept U.S.-dollar prices from rising although British Columbia producers benefited from the depreciation of the Canadian dollar. **Molybdenum** prices rose sharply due to supply shortages and rising steel output. Molybdenum is used as a strengthening agent in steel.

Buoyed in part by increases in copper and gold prices, three British Columbia mines re-opened in 1994. Also in response to higher metal prices, exploration activity totalled an estimated $100 million in 1994, a 30 per cent increase from 1993. More than half of the exploration activity was in the northwest region of the province in pursuit of base and precious metals.

Metal prices are expected to rise in 1995, but level off in 1996 as new supplies become available. Copper capacity is expected to increase almost 25 per cent between 1994 and 1998. Demand for copper is expected to increase but price increases will not match the large rise in 1994. U.S. residential construction and auto production, which provided a boost to metal demand last year, will probably be dampened in 1995 by rising interest rates. However, further production increases in machinery and equipment will offset some of the slowdown in demand from the housing sector. Inflation pressures in the United States and continued instability in financial markets could drive up gold prices as investors hedge against uncertainty.

British Columbia's two key **energy** exports are natural gas and coal. High prices in 1993 led to extensive exploration and drilling activity in 1994. As a result, natural gas prices fell sharply due to abundant supply

1994 COMMODITY PRICES (in Canadian dollars)



and weak demand. Natural gas prices are not expected to increase in the near future and exploration and development activity has slowed. Coal production returned to pre-1992 levels as some mines re-opened following labour disputes and financial restructuring in 1993. Many coal operations are still running below capacity and production is expected to increase in 1995. Coal prices fell slightly in 1994 and are expected to be unchanged in 1995.

Salmon accounts for over half of the wholesale value of British Columbia's fish production. Despite a lower-than-expected return of salmon to British Columbia waters in 1994, prices fell 2.3 per cent due to ample world supplies of farmed salmon.

CHART A6

B. C. LABOUR MARKET: RECENT TRENDS

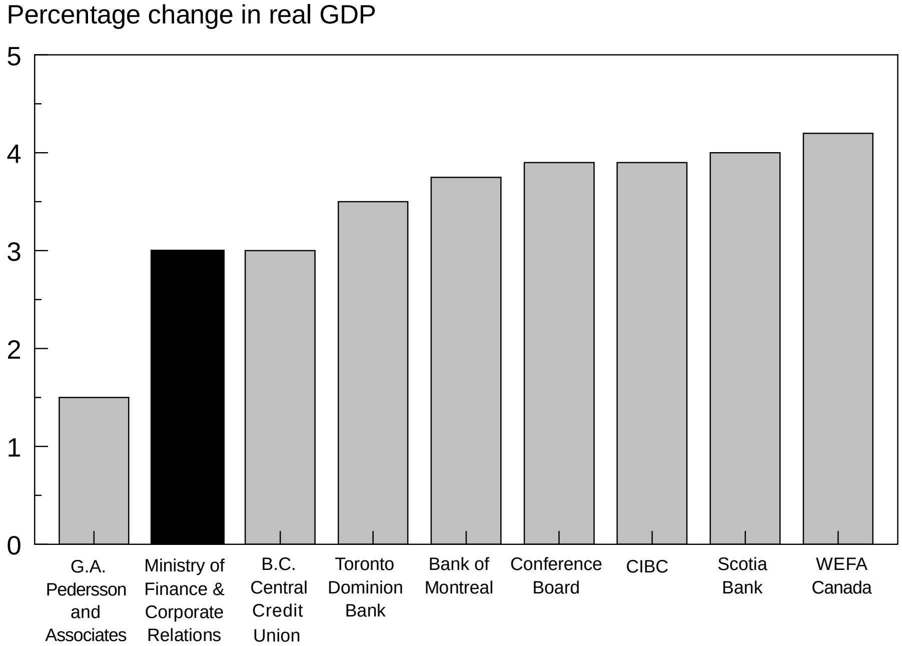
Per cent change from previous quarter; seasonally adjusted annual rates

Source: Statistics Canada

Employment growth is expected to slow to 2.5 per cent, or about 43,000 jobs, in 1995. Improving labour market conditions in the rest of Canada and reduced national immigration quotas will cut the province's labour force growth to 2.3 per cent. The unemployment rate is expected to fall to 9.2 per cent in 1995 and 9.1 per cent in 1996.

Despite strong employment growth in 1994, income growth was more modest. Labour income grew 5.9 per cent. This reflects the impact of relatively low wage settlements, which averaged only 1.9 per cent for the year. Private-sector settlements averaging 2.2 per cent surpassed public-sector settlements at 1.6 per cent, due to above-average pay awards in the pulp and paper sector. Low wage growth helped reduce inflation to just 2 per cent last year. Inflation is expected to increase to 2.7 per cent in 1995 due in part to the lower value of the Canadian dollar which makes imports more expensive. Inflation is forecast at 2.4 per cent in 1996.

CHART A7
FORECASTS OF B.C. ECONOMIC GROWTH, 1995



Other Forecasts

Overall, economic growth in British Columbia is expected to be 3 per cent in 1995. As shown in Chart A7, this is lower than most private-sector forecasts.

Medium-term Outlook

The economy is expected to grow 2.5 per cent in 1996 and average 2.7 per cent from 1997 through 1999.

Key contributions to economic growth over the medium term come from external trade early in the period and from business investment and the consumer sector later in the decade. Government spending is expected to decline in real terms through the entire forecast. The forecast also recognizes that commodity prices, in-migration and the provincial timber harvest are probably close to their peaks.

Growth could well turn out to be stronger over the next five years, as the forecast incorporates cautious but realistic assumptions about interest rates and the economic performances of British Columbia's key trading partners.

Risks to the Outlook

The economic forecast is based on several assumptions about future Canadian and international developments. These are shown in Table A1. An error in these assumptions could affect the British Columbia economic outlook. There are a number of risks to the forecast:

- Growth in the United States and Japan could be lower than forecast, reducing British Columbia export growth. Some forecasters now think the U.S. is due for much slower growth or even a recession in 1996. For example, the recent federal budget assumes U.S. growth will be just 1 per cent in 1996. In Japan, the sharp appreciation of the yen against the U.S. dollar may weaken the economic recovery.
- Interest rates and the value of the Canadian dollar could turn out to be much different in 1995 and 1996 than assumed here, as happened in 1994. Current volatility in financial markets makes these predictions difficult.
- Labour disputes in the transportation sector could seriously disrupt exports if they last more than a few weeks.
- In a positive vein, a low-inflation environment in Canada, confidence that the nation's fiscal affairs are in order and an end to political uncertainty about Quebec could lead to lower interest rates than forecast. As a result, business non-residential investment, housing starts and consumer spending could be stronger than forecast.

TABLE A1

BRITISH COLUMBIA ECONOMIC OUTLOOK

	Budget Forecast	Actual/ Estimate*	Forecast	
	1994		1995	1996
Gross Domestic Product (GDP: percentage change in current dollars)	6.5	7.1	5.1	4.6
Economic Growth — Real GDP (percentage change in 1986 dollars)	3.4	4.3	3.0	2.5
Consumer Expenditure	3.7	4.8	2.7	2.5
Government Expenditure	0.8	1.2	20.2	20.6
Capital Investment	1.5	4.1	2.6	2.2
Exports of Goods and Services	4.3	6.7	3.8	3.3
Imports of Goods and Services	2.8	6.9	2.1	2.1
Population (percentage change)	2.9	2.6	2.6	2.4
Net In-migration	67,600	80,315	66,100	60,000
Interprovincial	36,000	38,800	36,100	30,500
International	31,600	41,515	30,000	29,500
Labour Force (thousands)	1,900**	1,913	1,957	2,004
(percentage change)	3.0	3.7	2.3	2.4
Employment (thousands)	1,716**	1,733	1,776	1,821
(percentage change)	3.0	4.0	2.5	2.5
Unemployment Rate (per cent)	9.7	9.4	9.2	9.1
Retail Sales (millions of current dollars)	27,925	28,899	30,490	31,740
(percentage change)	6.0	9.7	5.5	4.1
Labour Income*** (millions of current dollars)	54,420	54,425	57,530	60,810
(percentage change)	5.9	5.9	5.7	5.7
Housing Starts (units)	39,500	39,408	31,000	28,000
(percentage change)	27.7	27.9	221.3	29.7
Consumer Price Index (19865100)	134.2	134.2	137.8	141.2
(percentage change)	2.0	2.0	2.7	2.4

Key Assumptions:

	Budget Forecast 1994	Actual/ Estimate* 1994	Forecast 1995	Forecast 1996
Economic Growth (per cent)				
Canada	3.5	4.5	3.5	3.2
United States	3.0	4.0	3.0	2.5
Japan	0.0	0.6	2.0	3.5
Europe	1.2	2.0	2.8	2.7
Canadian Interest Rates (per cent; annual average)				
3-month	4.0	5.4	8.5	8.3
10-year and over	6.8	8.6	9.3	8.9
U.S. cents/Canadian dollar	75.2	73.2	71.2	72.0

* British Columbia GDP data for 1994 are Ministry of Finance and Corporate Relations estimates.

** Statistics Canada revised its labour force data in January 1995 to reflect revised population estimates. The 1994 budget forecast has been re-stated to reflect these historical changes.

*** Wages, salaries and supplementary labour income.

Review of 1994/95

In 1994/95, the government's deficit was $370 million, $528 million below budget and $545 million lower than in 1993/94. Revenue in 1994/95 was $524 million higher than budget, mainly due to stronger-than-expected growth in natural resource revenue and corporation income, sales and tobacco taxes. Spending was slightly below budget as savings in a number of ministries exceeded pressures in forest fire suppression, hospitals, the Medical Services Plan, corrections and criminal injury compensation.

The government financed its deficit using higher-than-expected cash balances at the end of 1993/94, higher net cash receipts in 1994/95 and $200 million from the British Columbia Endowment Fund. Net debt declined $75 million (see Table B4).

TABLE B1

BUDGETARY TRANSACTIONS
CONSOLIDATED REVENUE FUND

	Budget Estimate 1994/95	Revised Forecast 1994/95	Budget Estimate 1995/96
	($ millions)		
Revenue	18,720.0	19,244.0	20,300.0
Program Expenditure	18,637.0	18,650.0	19,207.0
Program Surplus (Deficit)	83.0	594.0	1,093.0
Management of Public Funds and Debt	981.0	964.0	979.0
Surplus (Deficit)	(898.0)	(370.0)	114.0

Revenue

Revenue totalled $19,244 million in 1994/95, $524 million or 2.8 per cent higher than the 1994/95 budget estimate and up 6.9 per cent from the comparable figure for 1993/94. Table B2 shows the major changes from budget.

Forests revenue was $245 million or 21 per cent above budget due to higher revenues from timber sales, the small business forest enterprise program and logging tax. The increase in revenue mainly resulted from high lumber prices, the effects of a depreciating Canadian dollar, and the stumpage rate increases, under the Forest Renewal Plan, that took effect May 1, 1994. Although lumber prices fell sharply in the latter part of the fiscal year, they had little effect on stumpage rates because of the lags between prices and stumpage rates. Forests revenue does not include $430 million of stumpage revenue under the Forest Renewal Plan, received by Forest Renewal BC during 1994/95.

TABLE B2

REVENUE CHANGES FROM BUDGET, 1994/95

	Higher (Lower) $ millions
Higher forests revenue	245
Higher corporation income tax revenue	125
Higher Established Programs Financing revenue	80
Higher social service tax revenue	64
Higher tobacco tax revenue	51
Higher petroleum and natural gas revenue	47
Higher other sources	103
Lower personal income tax	(62)
Lower property transfer tax revenue	(60)
Lower investment earnings	(35)
Lower British Columbia Hydro dividends	(34)
Revenue increase	524

Corporation income tax revenue was $125 million or 14 per cent above budget, mainly as a result of a higher federal forecast of national corporate profits and a larger-than-expected positive prior-year adjustment for the 1993 tax year.

Established Programs Financing revenue was $80 million or 6.2 per cent above budget mainly due to higher population estimates from Statistics Canada for the 1992 to 1994 years.

The $64-million increase in social service tax revenue resulted from higher-than-expected consumer and investment spending. During 1994, retail sales grew by 9.7 per cent, compared to the budget forecast of 6 per cent.

Revenue from tobacco tax was up $51 million or 11 per cent from budget due to higher taxed consumption volumes. Despite the introduction of lower federal tobacco taxes in central and eastern Canada, enforcement measures introduced by provincial governments have helped curb sales of untaxed cigarettes. Compared to 1993/94, taxed consumption volumes rose by almost 4 per cent, a reversal of the steady volume decline experienced over the previous eight years.

Petroleum and natural gas revenue was up $47 million or 13 per cent from budget mainly due to higher sales and leases of Crown land drilling rights. In 1994/95, this revenue totalled $219 million — the highest level in 15 years.

Revenue from other sources was $103 million above budget.

- The $24-million increase in fuel tax revenue was due to higher fuel sales volumes. The depreciation of the Canadian dollar helped domestic gasoline sales by reducing cross-border purchases.
- Miscellaneous revenue was $21 million above budget. Included in the total are proceeds from the sale of government aircraft and higher one-time recoveries of prior-year expenditures.
- Mineral tax revenue was $19 million above budget due to increased industry profits, resulting from high copper prices and the fall in the value of the Canadian dollar, and some one-time tax assessments for prior years.

Personal income tax revenue was $62 million or 1.3 per cent lower than budget due to lower final assessments for the 1993 tax year and slower growth in taxable personal incomes in 1994. Increased RRSP contributions and slower growth in full-time employment contributed to slower growth in the tax base.

Property transfer tax revenue fell $60 million or 16 per cent from budget due to a slowdown in the housing market, caused by higher interest rates. Sales volumes declined about 20 per cent from 1993/94 levels, but were partly offset by a 12 per cent increase in average selling prices.

Investment earnings were $35 million below budget due to lower-than-expected gains from sales of sinking fund investments due to higher interest rates.

The dividend from British Columbia Hydro and Power Authority was down $34 million from budget. The British Columbia Utilities Commission denied B.C. Hydro's application for a 2.8 per cent rate increase effective April 1, 1994. As a result, the drawdown from the rate stabilization account was higher-than-expected.

Expenditure

Expenditure of $19,614 million in 1994/95 was down $4 million from budget and 3.7 per cent higher than comparable spending in the previous year. Table B3 shows that expenditure pressures in some ministries are offset by savings in other programs.

TABLE B3

EXPENDITURE CHANGES FROM BUDGET, 1994/95

	Over (Under) $ millions
Ministry of Health	110
Ministry of Attorney General	61
Ministry of Forests	22
Ministry of Education	16
Ministry of Municipal Affairs	(44)
Ministry of Employment and Investment	(25)
Ministry of Social Services	(20)
Debt interest	(17)
Other savings	(107)
Expenditure decline	(4)

Ministry of Health expenditure was $110 million above budget mainly because of higher spending for contributions to hospitals and the Medical Services Plan.

Spending by the Ministry of Attorney General was $61 million above budget mainly due to increased expenditures for provincial correctional services and criminal injury compensation payments.

Ministry of Forests expenditure was $22 million above budget because of higher forest fire suppression costs partially offset by savings in other ministry programs.

Ministry of Education expenditures were $16 million above budget due to higher-than-expected public school enrolments.

Expenditure by the Ministry of Municipal Affairs was $44 million below budget due to lower spending for grants to local governments under the Canada-British Columbia infrastructure works program.

Ministry of Employment and Investment expenditure was $25 million below budget mainly because of underspending in the Build BC special account.

Expenditure by the Ministry of Social Services was $20 million below budget because of a lower-than-expected income-assistance caseload. The number of income-assistance cases increased an estimated 5.4 per cent in 1994/95, down from 10.9 per cent in 1993/94.

Debt interest costs were $17 million below budget. Borrowing requirements were lower and occurred late in the year, offsetting the effect of higher-than-expected interest rates.

Other spending was down $107 million due to reductions in a number of programs and year-end lapses anticipated because of low year-to-date spending.

1995/96 Fiscal Plan

Table B1 summarizes the budgetary transactions of the consolidated revenue fund.

Revenue for 1995/96 is estimated at $20.3 billion, an increase of 5.5 per cent from the 1994/95 revised forecast.

Expenditure will total $20.2 billion in 1995/96, up 2.9 per cent from both the 1994/95 budget estimate and revised forecast.

Program expenditure, which excludes spending on debt interest (management of public funds and debt), is estimated at $19.2 billion, an increase of 3.1 per cent from the 1994/95 budget estimate.

There will be a program surplus of $1.1 billion in 1995/96, almost $500 million higher than the 1994/95 revised forecast. A program surplus means that government revenues exceed spending on government programs.

Because the program surplus is greater than the debt interest costs on direct debt, the consolidated revenue fund will have a surplus of $114 million in 1995/96. This is the first surplus since 1989/90.

At March 31, 1996, the accumulated deficit of the consolidated revenue fund is expected to total $9,251 million, a decrease of $114 million from March 31, 1995 due to the budget surplus in 1995/96.

The government will complete the wind up of the British Columbia Endowment Fund, announced in last year's budget. Proceeds from the sale of fund assets will help to reduce government direct debt by $414 million in 1995/96 (see Table B4 and Report D — *Government Financing Plan*).

This report includes a topic box that provides summary estimates of the combined financial results of the government and its Crown corporations and agencies. In 1995/96, the summary estimates show a combined surplus of $31 million compared to a deficit of $202 million in 1994/95 (see Topic Box at the end of this report).

TABLE B4

SUMMARY OF TRANSACTIONS
CONSOLIDATED REVENUE FUND

	Budget Estimate 1994/95	Revised Forecast 1994/95	Budget Estimate 1995/96
	($ millions)		
Consolidated Revenue Fund Surplus (Deficit)	(898.0)	(370.0)	114.0
Net Receipts (Disbursements) from Financing and Working Capital Transactions[1]	(200.3)	(21.0)	(100.0)
Decrease (Increase) in Cash and Short-Term Investments	160.0	266.0	—
British Columbia Endowment Fund Proceeds	300.0	200.0	400.0
Net (Increase) Decrease in Provincial Government Direct Debt[2]	(638.3)	75.0	414.0

[1] Financing and working capital transactions represent either a source or use of funds, such as the payment or collection of loans and accounts payable/receivable, or non-cash transactions including allowances for doubtful accounts. They do not cause a change in the annual surplus (deficit) but only a change in the composition of the provincial government's assets and liabilities.

[2] Includes direct debt incurred for government operating purposes and does not include debt incurred by, or on behalf of, Crown corporations and agencies.

1995/96 Revenue

Revenue of the consolidated revenue fund for 1995/96 is estimated at $20,300 million, an increase of 5.5 per cent from the revised forecast for 1994/95.

Taxation revenue, the largest source of provincial government revenue, is expected to total $12,753 million in 1995/96, up 7.4 per cent from the 1994/95 revised forecast (see Table B5).

Personal income tax revenue is expected to increase 7.1 per cent to $5,040 million. This reflects growth in personal incomes and federal budget measures such as the elimination of the capital gains exemption in 1994, and the limitation of RRSP contributions for 1996. Because personal income tax revenue is recorded on an accrual basis, current-year revenue is the estimated tax due to the province for the fiscal year regardless of when cash is actually received from the federal government.

Corporation income tax revenue is estimated at $1,325 million, an increase of 33 per cent, mainly due to growth in corporate profits. The forecast is based on the latest federal budget forecast of national corporate taxable income and includes additional tax assessments arising from the refund to British Columbia companies of about $650 million of softwood lumber duties collected by the U.S. government beginning in March 1992. The duty was removed in August 1994, and refunds are still being processed.

Social service tax revenue, estimated at $3,034 million, will increase 5.5 per cent, due to growth in retail sales and investment spending.

Property tax revenue is expected to increase 3.1 per cent in 1995/96, due to increased assessments from new construction.

Fuel tax revenue will rise 2.7 per cent in 1995/96 due to increased consumption volumes. Tobacco tax revenue will increase 1 per cent from the 1994/95 revised forecast reflecting a slight increase in the volume subject to tax.

Property transfer tax revenues will decrease 10.8 per cent as high interest rates are expected to cause declines in housing prices and the number of sales. Corporation capital tax revenue will rise 6.1 per cent because of growth in the tax base as a result of increased investment activity and corporate profits growth. Revenue from insurance premium tax is expected to rise 4.6 per cent, due to higher motor vehicle insurance rates and people buying more insurance.

Natural resource revenue is expected to increase 15 per cent to $2,451 million due to a one-time payment for Columbia River downstream benefits. Forests revenue will increase 8.9 per cent mainly due to higher timber sales under the small business forest enterprise program. The forecast assumes that spruce-pine-fir lumber prices — the market bellwether — average $335 U.S. per thousand board feet in 1995. The revenue forecast does not include $430 million of stumpage revenue that will be received by Forest Renewal BC during 1995/96.

Revenue from petroleum, natural gas and minerals will decline by $65 million. An anticipated $86-million decline in sales of Crown land drilling rights from the record levels in 1994/95, and a $14-million decline in natural gas royalties in response to weaker natural gas prices, will be partly offset by a $29-million increase in mineral revenues due to higher copper prices, the re-opening of some mines in 1994, and a modest improvement in coal prices.

Water rental revenue is based on the previous year's water use. In 1995/96, this will increase 3.5 per cent due to increased electricity generated in 1994/95. In addition, the provincial government expects to receive a $250-million payment from U.S. power producers related to the renegotiation of the Columbia River Treaty.

Other revenue is expected to rise only slightly to $1,783 million.

- Medical Services Plan premium revenue will increase 2.5 per cent, reflecting increased subscription levels due to continued in-migration.
- Revenue from other fees and licences will decline slightly as higher revenue due to volume increases and modest rate increases are offset by lower revenue from Crown land sales and from the British Columbia Securities Commission. The commission will be established as an independent Crown agency in 1995/96 and will retain its own revenue.
- British Columbia Endowment Fund revenue will decrease by $54 million. The wind up of the fund will be completed in 1995/96 with the proceeds used to pay down debt.
- Investment earnings will rise by $23 million due to higher interest income from sinking funds, while miscellaneous revenue will increase by $21 million.

Contributions from government enterprises total $970 million, down 5.9 per cent from the 1994/95 revised forecast. Liquor Distribution Branch profits are expected to increase 1.6 per cent, reflecting continued growth in sales volumes. Dividends from British Columbia Hydro and Power Authority are forecast at $146 million, down $55 million from 1994/95. The forecast assumes no rate increase in 1995 and a smaller drawdown from the rate stabilization account.

Contributions from the federal government are estimated at $2,343 million, a decrease of 3.7 per cent. Revenue from Established Programs Financing is expected to fall 3.9 per cent, mainly due to the effect of the prior-year payments in 1994/95. Recoveries under the Canada Assistance Plan (CAP) will remain unchanged in 1995/96, reflecting the freeze of the federal government's contribution, announced in its 1994 budget. Other federal contributions will decline by $37 million because of the expiry of the National Training Agreement in 1994/95, the federal government's termination of economic development agreements for forestry and mining and the removal of the federal coastal ferry subsidy from the provincial government's revenue. Beginning in 1995/96, the subsidy will be paid directly to the British Columbia Ferry Corporation.

TABLE B5

REVENUE BY SOURCE
CONSOLIDATED REVENUE FUND

	Budget Estimate 1994/95[1]	Revised Forecast 1994/95	Budget Estimate 1995/96	Increase (Decrease)[2]
	($ millions)			(per cent)
Taxation Revenue:				
Personal income	4,767.0	4,705.0	5,040.0	7.1
Corporation income	873.0	998.0	1,325.0	32.8
Social service	2,811.0	2,875.0	3,034.0	5.5
Property	1,212.0	1,212.0	1,250.0	3.1
Fuel	636.0	660.0	678.0	2.7
Other	1,421.0	1,424.0	1,426.0	0.1
	11,720.0	11,874.0	12,753.0	7.4
Natural Resource Revenue:				
Petroleum, natural gas and minerals	389.0	455.0	390.0	(14.3)
Forests	1,153.0	1,398.0	1,522.0	8.9
Water and other	277.0	278.0	539.0	93.9
	1,819.0	2,131.0	2,451.0	15.0
Other Revenue	1,780.0	1,776.0	1,783.0	0.4
Contributions from Government Enterprises	1,051.0	1,031.0	970.0	(5.9)
Contributions from the Federal Government:				
Established Programs Financing — Health	965.4	1,025.1	985.6	(3.9)
Established Programs Financing — Post-Secondary Education	329.6	349.9	336.4	(3.9)
Canada Assistance Plan	880.0	882.0	883.0	0.1
Other	175.0	175.0	138.0	(21.1)
	2,350.0	2,432.0	2,343.0	(3.7)
TOTAL REVENUE	18,720.0	19,244.0	20,300.0	5.5

[1] Restated to conform to the 1995/96 budget estimates.
[2] Percentage change between the 1994/95 revised forecast and the 1995/96 budget estimate.

1995/96 Expenditure

Expenditure of the consolidated revenue fund is estimated at $20,186 million in 1995/96, an increase of 2.9 per cent from the budget estimate and revised forecast for 1994/95 (see Table B6). This compares to actual spending growth of 3.7 per cent in 1994/95.

The budget of the Ministry of Health will increase to $6,643 million, up $252 million, or 3.9 per cent from last year's budget. Significant increases include $82 million for contributions to hospitals, $67 million for community support programs, $42 million for the Medical Services Plan and $26 million for Pharmacare.

TABLE B6

EXPENDITURE BY MINISTRY
CONSOLIDATED REVENUE FUND

	Budget Estimate 1994/95[1]	Revised Forecast 1994/95	Budget Estimate 1995/96	Increase (Decrease)[2]
	($ millions)			(per cent)
Legislation	24.4	25.4	25.3	3.7
Auditor General	7.6	7.5	7.7	1.3
Office of the Child Advocate	—	—	0.6	—
Commission on Resources and Environment	4.2	2.8	3.2	(23.8)
Conflict of Interest Commissioner	0.2	0.2	0.2	—
Information and Privacy Commissioner	2.2	1.9	2.6	18.2
Ombudsman	4.7	4.6	5.0	6.4
Office of the Premier and Cabinet Office	22.3	22.3	22.3	—
Aboriginal Affairs	32.2	27.2	33.7	4.7
Agriculture, Fisheries and Food	70.4	70.2	69.7	(1.0)
Attorney General	797.0	857.8	845.1	6.0
Education	3,778.0	3,794.0	3,989.9	5.6
Employment and Investment	445.7	420.4	381.5	(14.4)
Energy, Mines and Petroleum Resources	67.0	59.8	68.7	2.5
Environment, Lands and Parks	251.6	263.7	250.1	(0.6)
Finance and Corporate Relations	81.1	78.7	80.3	(1.0)
Forests	712.2	733.9	711.5	(0.1)
Government Services	95.2	90.0	87.5	(8.1)
Health	6,390.8	6,500.5	6,642.6	3.9
Housing, Recreation and Consumer Services	102.7	101.9	105.1	2.3
Municipal Affairs	361.2	317.6	381.4	5.6
Skills, Training and Labour	1,598.8	1,586.1	1,632.5	2.1
Small Business, Tourism and Culture	112.7	110.7	126.9	12.6
Social Services	2,736.5	2,716.1	2,781.5	1.6
Transportation and Highways	685.1	680.7	673.4	(1.7)
Women's Equality	201.5	187.0	212.5	5.5
Other Appropriations:				
Management of Public Funds and Debt	981.0	964.0	979.0	(0.2)
Contingencies and New Programs	28.3	25.9	57.0	101.4
Amortization of change in unfunded pension liability	(24.8)	(24.8)	(24.8)	—
Anticipated year-end lapses	—	(60.0)	—	—
Other[3]	48.2	47.9	34.0	(29.5)
TOTAL EXPENDITURE	19,618.0	19,614.0	20,186.0	2.9

[1] Restated to conform to the 1995/96 budget estimates.
[2] Percentage change between the 1994/95 budget and the 1995/96 budget estimate.
[3] Other includes the Corporate Accounting System Vote, the Public Sector Employers' Council Vote, the Public Service Employee Relations Commission Vote, the Environmental Appeal Board and Forest Appeals Commission Vote, the Forest Practices Board Vote, the Insurance and Risk Management Special Account, the South Moresby Implementation-Forestry Compensation Special Account and other appropriations.

Ministry of Education expenditure shows an increase of 5.6 per cent, mainly because of an expected 1.9 per cent increase in public school enrolment. Operating contributions to public schools will increase $145 million or 4.4 per cent from last year's budget.

Expenditure of the Ministry of Employment and Investment is estimated at $382 million, down $64 million or 14.4 per cent from the 1994/95 budget estimate, mainly because of a $60-million reduction in the budget for the Build BC special account.

Ministry of Attorney General expenditure of $845 million shows an increase of $48 million or 6 per cent from the 1994/95 budget estimate, due to higher spending on corrections, criminal justice and courts programs.

Ministry of Social Services expenditure is estimated at $2,782 million, up $45 million or 1.6 per cent. The income assistance budget will decrease 4.4 per cent due to a reduction in the income-assistance caseload and improved administration.

Spending of the Ministry of Skills, Training and Labour is estimated at $1,633 million, up $34 million or 2.1 per cent because of increased funding for colleges and universities, capital debt servicing and Skills Now initiatives.

Ministry of Municipal Affairs expenditure will increase $20 million or 5.6 per cent to $381 million due to increased expenditure under the Canada-British Columbia infrastructure works program.

Expenditure of $127 million by the Ministry of Small Business, Tourism and Culture is up 12.6 per cent from last year's budget in part due to new funding for cultural services, tourism and aboriginal initiatives.

Ministry of Women's Equality spending will increase 5.5 per cent to $213 million due to increased demand for day-care subsidies.

SUMMARY FINANCIAL STATEMENTS — ESTIMATES

Overview

Since 1981/82, the Public Accounts have provided information on the annual surplus (deficit) of the Consolidated Revenue Fund (CRF) and also on the annual surplus (deficit) of the CRF combined with government organizations and enterprises (Crown entities). This combination is referred to as the Summary Financial Statements.

The CRF is the operating account of the government and includes all special accounts and special funds. The annual Estimates and Budget reflect all budgetary transactions of the CRF. This topic box represents the first time budgetary information in respect of the forthcoming fiscal year has been provided on a Summary Financial Statements basis.

Transactions Between the CRF and Crown Entities

CRF budgetary revenue includes taxes, resource revenues, fees and licences, federal transfers and other revenues including dividends and other payments from profitable Crown entities including B.C. Hydro, the Liquor Distribution Branch and the British Columbia Lottery Corporation.

CRF budgetary expenditure includes all ministry expenses and other items, such as interest on the public debt. Also included in budgetary expenditures are grants to entities, such as B.C. Transit and B.C. Ferry Corporation, to help offset losses which those entities would otherwise incur.

Some Crown entities provide services to government ministries. These include B.C. Buildings Corporation (BCBC) and B.C. Systems Corporation (BCSC). BCBC and BCSC costs are funded through service charges to government ministries which are fully provided for in ministry expenditure budgets (e.g., rent in the case of BCBC and data processing charges in the case of BCSC). These corporations tend to earn a modest profit, some of which is returned to the CRF as dividends.

Other Crown entities, such as the capital financing authorities for schools, post-secondary institutions and hospitals, and the recently established BC Transportation Financing Authority (BCTFA), have been established to provide financing for long-term capital projects. These entities are funded through dedicated tax revenues, or through budgetary debt servicing grants from the CRF.

Accounting Policy Adjustments

In preparing the Summary Financial Statements, the government makes certain accounting adjustments to the reported results of some Crown entities to ensure consistency with accounting policies for the CRF. These adjustments are primarily to record as budgetary expenditure, certain fixed asset acquisitions. For example, new buildings acquired by BCBC or new highways constructed by the BCTFA are capitalized on the financial statements of those entities but, to be consistent with the government's accounting policy, are fully expensed on the Summary Financial Statements.

Fixed asset additions of entities that sell services outside of government (e.g., B.C. Transit, B.C. Hydro) are not written off on the Summary Financial Statements. Consistent with private sector treatment, these revenue producing assets are expensed over the useful life of the assets. Loans made by the capital financing authorities are also not written off on the Summary Financial Statements since these loans are made to third parties (school districts, post-secondary institutions and regional hospital districts) in respect of capital infrastructure owned by those districts and institutions.

For all but two years from 1981/82 to 1993/94 inclusive, the Summary Financial Statements have shown a higher annual surplus (or lower deficit) than the CRF.

The table shows the actual 1993/94 budgetary results on both a CRF and Summary Financial Statement basis. Forecast amounts for 1994/95 and the estimated amount for 1995/96 are also provided.

The increase in net earnings of government organizations and enterprises in 1994/95 reflects the creation of Forest Renewal BC. The firm received $430 million in revenue in 1994/95 , which will be used for long-term investment in the forest sector. The decline in net earnings in 1995/96 primarily reflects increased spending by that corporation in 1995/96.

The increase in accounting policy adjustments in 1994/95 and 1995/96 primarily reflects an increase in the fixed assets acquired by the BCTFA.

	1993/94 Actual	1994/95 Forecast	1995/96 Estimates
	($ millions)		
Consolidated Revenue Fund (CRF) Surplus (Deficit)	(915)	(370)	114
Government Organizations and Enterprises			
x Net Earnings	1,174	1,611	1,417
x Less Earnings Included as CRF Revenue	(1,049)	(1,031)	(970)
x Accounting Policy and Other Adjustments	(114)	(412)	(530)
Net Adjustment to CRF	11	168	(83)
Summary Financial Statements Surplus (Deficit)	(904)	(202)	31

Revenue Measures

C1: Summary of Revenue Measures

	Effective Date	Revenue Effects 1995/96	Full Year
		($ millions)	
Home Owner Grant Act			
c Threshold for home owner grant phase-out increased to $475,000 from $450,000	1995 tax year	(5)	(5)
School Act			
c School property tax rates for residential and some non-residential properties reduced in response to increases in assessed values. Rate adjustments will result in average gross school taxes equal to 1994 levels	1995 tax year	—	—
Taxation (Rural Area) Act			
c Some general purpose rural area property tax rates reduced in response to increases in assessed values. Rate adjustments will result in average gross taxes equal to 1994 levels	1995 tax year	—	—
Social Service Tax Act			
c List of items that can be purchased tax exempt by *bona fide* farmers expanded	March 29 and June 1, 1995	(3)	(3)
Other Revenue			
c Various fees and licences adjusted	various	3	10
Total		(5)	2

Other Issues

Grants in Lieu of Property Taxes

c Government will distribute about $2 million in grants to local governments for colleges and universities and negotiate with the Union of British Columbia Municipalities regarding grants for BC Rail.

Railway Property Taxation

c Recommendations will be developed to improve the fairness and competitiveness of railway property taxation.

Assessment of Intermittent Industrial Operations

c Task force to recommend ways to reduce the influence of the property tax system on closure of intermittent operations such as mines.

Revenue Measures: Supplementary Information

HOME OWNER GRANT ACT

Effective for the 1995 taxation year, the home owner grant phase-out threshold is increased to $475,000 from $450,000. This change is in response to increases in assessed values of residential properties. The grant will be phased out at the rate of $10 of grant for each $1,000 of assessed value in excess of $475,000. As a result, the grant will be eliminated for most homeowners with a home assessed at more than $522,000. For homeowners who are seniors, handicapped or recipients of war veterans allowances, the grant will be eliminated for homes assessed in excess of $549,500. Setting the threshold at $475,000 means that, as was the case in 1994, roughly 95 per cent of homeowners will not be affected by the phase-out.

SCHOOL ACT

School property tax rates for residential and some non-residential property classes will be reduced in response to increased assessed values. The rates for the 1995 tax year will be adjusted so that average gross school property taxes for residential and non-residential properties will be the same as 1994 levels.

Even with the freeze on average tax levels, there will be some changes to individual tax bills. For example, a family whose home had a below-average assessed value increase will likely see the school levy for its home drop. Correspondingly, the school levy will likely rise for a family whose home has increased in value by more than the average. Similar shifts will occur within the non-residential property classes. Rates will be set in April 1995.

TAXATION (RURAL AREA) ACT

The general purpose rural area property tax rates will be adjusted to compensate for higher assessed values in 1995. The rate changes will ensure that average rural area taxes levied by the province will be the same as in 1994. Because individual property value changes deviate from the average, some property owners will experience an increase in their rural area levy, while others will experience a reduction. Rates will be set in April 1995.

SOCIAL SERVICE TAX ACT

ADDITIONAL EXEMPTIONS FOR *BONA FIDE* FARMERS

The following are added to the list of items that can be purchased exempt from the provincial sales tax by *bona fide* farmers for farm purposes.

Effective March 29, 1995:

- artificial lighting systems used in greenhouse operations to extend the growing season;
- thermal curtains used in greenhouse operations to retain heat; and
- crop protection netting systems that protect crops from predators.

Electricity, natural gas, fuel oil and propane used by *bona fide* farmers for farm purposes, other than in internal combustion engines or to propel motor vehicles, are exempt from the provincial sales tax effective June 1, 1995.

OTHER REVENUE

A number of changes to fees and licences will be introduced during the fiscal year. These changes help cover the government's additional cost of providing existing or new services. Changes to fees and licences include:

- increasing angling licence fees — additional revenue will be dedicated to the Habitat Conservation Fund;
- increasing vital statistics fees;
- increasing mine health and safety inspection fees;
- increasing safety fees for electrical and gas installations, elevators and boilers;
- introducing and increasing fees for archive and records services, and for statistical publications;
- increasing the fee for providing written confirmation of rural area property tax account information (the fee for electronic access to the information is not affected);
- increasing certain manufactured home registry fees; and
- increasing fees for motor vehicle licences, drivers' licences and other motor-vehicle-related services.

The following fee and licence measures will be introduced by government, but revenue generated will not flow into the consolidated revenue fund:

- at the request of the Insurance Council of British Columbia, the fee for transferring, amending or reinstating licences for insurance agents, salespeople and adjusters will be increased. Revenue from the fee increase will be retained by the Insurance Council to help offset its costs; and
- a contribution fee will be introduced for deposit into the Motor Dealer Customer Compensation Fund — a trust fund administered by a board comprised of representatives from industry and consumer groups. The fund will be used to compensate customers for eligible losses resulting from a motor dealer's actions, including declarations of bankruptcy or insolvency.

Other Issues

GRANTS IN LIEU OF PROPERTY TAX

For the 1995 property tax year, the government will provide about $2 million in grants in lieu of property taxes to local governments where universities or colleges are located. The Union of British Columbia Municipalities (UBCM) will be consulted on how best to distribute these grants. A separate grant scheme will apply to the Royal Roads campus in 1995.

During 1995 the government will work with the UBCM and communities on the BC Rail line to develop proposals for the payment of grants in lieu of property taxes by BC Rail that are fair to these communities, while recognizing the fiscal constraints facing the provincial government and BC Rail.

The overall review of the payment of grants in lieu of property taxes by Crown entities will continue, with emphasis on grants paid by B.C. Hydro and BC Ferries.

RAILWAY PROPERTY TAXATION

The government recognizes that a competitive railway infrastructure is essential to the economic well-being of the province and, in particular, the province's seaports. In 1995, the government will review the report expected from the Railway-Municipal Liaison Committee on Property Tax and Assessment. The government will work with the railways and municipalities to develop specific options to create a property taxation system that is fair to railways and to communities and that will help ensure a competitive rail transportation system. If appropriate, changes will be introduced for the 1996 taxation year.

ASSESSMENT OF INTERMITTENT INDUSTRIAL OPERATIONS FOR PROPERTY TAX PURPOSES

Existing regulations, which determine the assessed value of industrial operations that operate intermittently in response to fluctuating resource prices, can have the effect of initiating premature shutdowns of these operations. Premature shutdowns have negative economic effects on employees, owners, service industries and governments. The provincial government will institute a task force to investigate methods of reducing property tax considerations from closure decisions, while maintaining revenue predictability in the property tax system.

C2: Summary of Administrative Measures

	Effective Date
Income Tax Act	
c Deduction permitted for contributions into mine reclamation trusts and taxation of income earned in the trust	February 22, 1994
Corporation Capital Tax Act	
c Investment allowance expanded to include mine reclamation trusts resident in any province	February 22, 1994
Social Service Tax Act	
c Period during which proportional tax refund is available to purchasers who return motor vehicles to vendors extended to one year	March 29, 1995
c Refund provided for *bona fide* farmers who purchase otherwise exempt farm equipment prior to obtaining farm land classification	March 29, 1995
c List of exempt safety equipment expanded	March 29, 1995
c Eight-month holding period for intercorporate relief on windups removed where corporations have been related for at least eight months	March 29, 1995
c Fifty per cent refund for eligible mineral exploration equipment increased to 100 per cent and list of eligible equipment expanded	March 29, 1995
c Application of tax to computer software clarified	March 29, 1995
Motor Fuel Tax Act	
c International Fuel Tax Agreement announced	January 1, 1996
Property Transfer Tax Act	
c First-time home buyers exempted from certain eligibility requirements where death or divorce occurs in the first year	March 29, 1995
c Provincial Capital Commission exempted on transfers of land for park purposes	March 29, 1995
c Transfers of principal residences from trustees in bankruptcy to spouses or former spouses of bankrupts exempted	March 29, 1995
School Act	
c Clarify that grants in lieu of school taxes paid to a municipality must be transferred to the province	1995 tax year

Administrative Measures: Supplementary Information

INCOME TAX ACT

DEDUCTION PERMITTED FOR CONTRIBUTIONS INTO MINE RECLAMATION TRUSTS

Effective for taxation years ending after February 22, 1994, contributions made into mine reclamation trusts will be deductible for corporation income tax purposes. Earnings in the trust will be taxed on an annual basis at the corporate rate in effect and a refundable credit will be provided to beneficiaries of the trust. This change, which was announced in a press release dated August 31, 1994, parallels the federal income tax legislation.

CORPORATION CAPITAL TAX ACT

INVESTMENT ALLOWANCE EXPANDED

Effective February 22, 1994, mine reclamation trusts established in any province will qualify as eligible investments for purposes of the investment allowance deduction.

SOCIAL SERVICE TAX ACT

PROPORTIONAL REFUND PERIOD EXTENDED FOR MOTOR VEHICLES

Effective March 29, 1995, the period during which a proportional refund of tax may be obtained on the return of a motor vehicle is extended from 90 days to one year. For example, where a motor vehicle dealer refunds $10,000 to a purchaser on the return of a motor vehicle purchased for $12,000 within the previous year, the purchaser is eligible for a refund of provincial sales tax paid on the refunded amount — in this case, 7 per cent of $10,000, or $700. The 90-day period remains applicable for proportional refunds on all other taxable goods.

REFUND PROVIDED FOR *BONA FIDE* FARMERS WHO PURCHASE OTHERWISE TAX EXEMPT FARM EQUIPMENT PRIOR TO OBTAINING FARM LAND CLASSIFICATION

Effective March 29, 1995, a refund of tax is provided for farmers who pay tax on otherwise exempt farm equipment used solely for farm purposes, or taxable services related to that equipment, during the two-year period prior to obtaining farm land classification.

LIST OF EXEMPT SAFETY EQUIPMENT EXPANDED

Effective March 29, 1995, the following are added to the list of items which can be purchased exempt from the tax as safety equipment:

- flares purchased for use on vessels to draw attention to the vessel when in distress; and
- gas detection monitors for commercial, residential and industrial use.

EIGHT-MONTH REQUIREMENT REMOVED FOR INTERCORPORATE RELIEF ON WINDUPS

Currently, corporations are required to remain related for an eight-month period following a transfer of assets to qualify for the exemption for transfers between related corporations. Effective March 29, 1995, this requirement is removed for windups where the corporations have been related for at least eight months.

FIFTY PER CENT REFUND FOR ELIGIBLE MINERAL EXPLORATION EQUIPMENT INCREASED TO 100 PER CENT

A 50 per cent refund of provincial sales tax is currently provided for purchases of certain equipment used for mineral exploration in British Columbia. To qualify, the equipment must be purchased and used for at least 12 months to drill, excavate, or directly receive excavated material during the search for mineral ore. Effective March 29, 1995, the 50 per cent refund is increased to 100 per cent and the list of eligible equipment is expanded to include backhoes, if used solely for trenching, and rock saws.

APPLICATION OF THE TAX TO COMPUTER SOFTWARE CLARIFIED

Effective March 29, 1995, the definition of *computer software* is replaced by a new definition of *software* to clarify the application of the tax. *Software*, which remains subject to the tax, is defined to include packaged or pre-written software programs and modifications to those programs.

Excluded from the definition of software, and therefore not subject to the tax, are:

- packaged or pre-written software programs that are modified for a specific purchaser to the point where the purchase price of the modified software is more than double the purchase price of the unmodified software; and
- custom software which is designed and developed solely to meet the requirements of a specific purchaser.

Software that is not taxable on initial purchase because it qualifies as custom software or software that has been significantly modified is taxable if copies are subsequently sold or leased to other purchasers.

MOTOR FUEL TAX ACT

INTERNATIONAL FUEL TAX AGREEMENT

British Columbia intends to join the International Fuel Tax Agreement (IFTA), effective January 1, 1996, to reduce administrative requirements for the trucking industry. IFTA is a multi-jurisdictional agreement establishing a single uniform system for administering and collecting fuel taxes from interjurisdictional carriers.

PROPERTY TRANSFER TAX ACT

FIRST-TIME HOME BUYERS EXEMPTED FROM CERTAIN ELIGIBILITY REQUIREMENTS WHERE DEATH OR DIVORCE OCCURS IN THE FIRST YEAR

Two of the eligibility requirements for the first-time home buyers' exemption are that first-time buyers:

- reside on the property for one year following the date of purchase; and
- not pay down the required registered financing by more than a certain amount in the first year.

Where a first-time buyer fails to meet either of these requirements, the exemption is nullified and tax is payable.

Under the existing legislation, the death or divorce of a first-time buyer in the first year after purchase may contravene these requirements.

Effective March 29, 1995, first-time buyers are not disqualified from receiving the exemption as a result of death, or divorce evidenced by a written separation agreement or court order, in the first year after purchasing a home. First-time buyers or their estates who have had their exemption nullified for these reasons, and have paid the tax, may apply for a refund before April 1, 1996.

PROVINCIAL CAPITAL COMMISSION EXEMPTED FROM TAX ON TRANSFERS OF LAND FOR PARK PURPOSES

Effective March 29, 1995, the Provincial Capital Commission is exempted from tax on the transfer of land to be used solely for park purposes.

EXEMPTION PROVIDED FOR TRANSFERS OF PRINCIPAL RESIDENCES FROM TRUSTEES IN BANKRUPTCY TO SPOUSES OR FORMER SPOUSES OF BANKRUPTS

An exemption is currently provided for the transfer of property to a trustee in bankruptcy, and from the trustee back to the bankrupt, provided the trustee receives no consideration for the transfer back to the bankrupt. However, where a bankrupt's principal residence is transferred from a trustee in bankruptcy back to the spouse or former spouse of the bankrupt, the exemption does not apply. Effective March 29, 1995, an exemption is provided for transfers of principal residences from trustees in bankruptcy to spouses or former spouses of bankrupts, provided no consideration is paid for the transfer. Individuals who have paid the tax in these situations may apply for a refund before April 1, 1996.

SCHOOL ACT

CLARIFY THAT GRANTS IN LIEU OF SCHOOL TAXES PAID TO A MUNICIPALITY MUST BE TRANSFERRED TO THE PROVINCE

The *School Act* currently requires that grants in lieu of school taxes paid to a municipality under the *Municipal Grants Act* (Canada) or the *Municipal Aid Act* must be transferred to the province on or before February 1 of the following year. The *School Act* will be amended to clarify that all grants paid in lieu of school taxes must be transferred to the province.

Report D: GOVERNMENT FINANCING PLAN

Overview

The provincial government and its Crown corporations and agencies incur debt to finance operations and capital projects.

Borrowing for operations is required when revenues fall short of total expenditures. These borrowings have declined over the past several years due to the government's commitment to deficit elimination.

Borrowing for infrastructure finances the building of schools, hospitals, roads and other social capital. Much like a private company, the province finances the cost of these projects over the useful life of the assets. By doing this, the province matches the project costs with the future benefits to be provided.

In 1994/95, gross borrowing requirements for the government and its Crown corporations and agencies totalled $3.4 billion, down from the budget estimate of $4.1 billion largely due to the provincial government's lower-than-expected deficit. These borrowings were met through long-term borrowings of $5.2 billion, some of which was used to replace $1.8 billion of short-term debt.

In 1995/96, gross borrowing requirements are estimated to total $2.8 billion, significantly lower than in 1994/95.

When analyzing the province's debt and investment quality, international investors and credit rating agencies often focus on the taxpayer-supported portion of provincial debt. Taxpayer-supported debt excludes the self-supporting debt of commercial Crown corporations, such as the British Columbia Hydro and Power Authority and British Columbia Railway Company. These Crown corporations finance their debt from revenue generated from the sale of services at commercial rates.

Taxpayer-supported net debt is expected to increase to $19.5 billion at March 31, 1996, equal to 18.8 per cent of GDP.

Chart E7 in Report E shows that according to Moody's Investors Service, a major bond rating agency, British Columbia has the lowest net public debt to GDP ratio of all provinces at March 31, 1995.

Financing Process

The provincial government and its Crown corporations and agencies incur debt by various financing methods, including:

- debt issued by the government for its own purposes;
- fiscal agency debt borrowed directly by the government with proceeds re-lent to Crown corporations and agencies; and
- debt incurred by Crown corporations and others with a provincial government guarantee as to the payment of principal and interest.

All Crown corporation and agency borrowing is now done through the fiscal agency program. Under this program, the provincial government borrows directly in financial markets and relends the funds to Crown corporations and agencies. Borrowing and financing costs remain the responsibility of the Crown corporation or agency, except in cases where the provincial government provides a contribution to pay for all or part of the debt service costs.

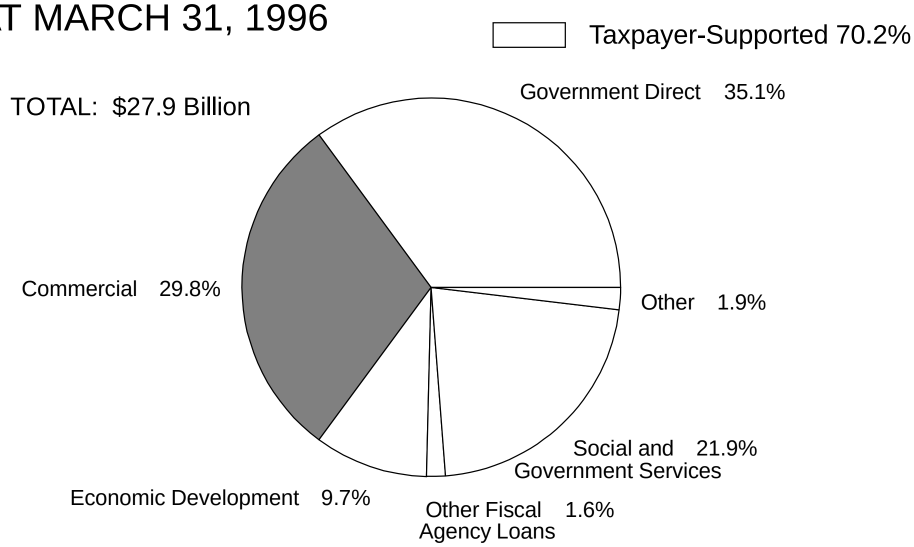
The fiscal agency program provides lower-cost financing to Crown corporations due to the province's strong credit rating (the best of all Canadian provinces) and its ability to borrow at lower interest rates.

In order to provide for the orderly repayment of debt, the provincial government and Crown corporations establish sinking funds for all debt with a term of five or more years. At March 31, 1995, sinking fund investments are expected to total $4.9 billion. Debt with a term of one year or longer will be 60 per cent covered by sinking funds at maturity.

Categories of Debt

Chart D1 provides a breakdown by category of estimated provincial net debt outstanding at March 31, 1996. Further details are provided in Table H7.

CHART D1
TOTAL PROVINCIAL NET DEBT*
AT MARCH 31, 1996



*Net of sinking funds and unamortized discounts.

The provincial government issues debt for the following purposes.

- **Provincial government direct debt** to fund government operations, including refinancing of maturing debt and other financing transactions.

- **Commercial Crown corporations**, including British Columbia Hydro and Power Authority and British Columbia Railway Company. These corporations are self-supporting as they generate revenue from the sale of services at commercial rates and pay their own operating expenses, including debt service charges. Debt is incurred to finance the construction and maintenance of transmission lines and generating facilities for British Columbia Hydro and Power Authority and rail system and dock facilities for British Columbia Railway Company.

- **Economic development Crown corporations and agencies**, including British Columbia Ferry Corporation, British Columbia Transit and the BC Transportation Financing Authority. Debt is incurred by these corporations to finance ferry terminal and fleet expansions, public transit construction and maintenance projects, and highway construction projects around the province, including the Vancouver Island Highway. Although these corporations and agencies sell services directly to the public, their revenue may not cover their operating expenses. As these corporations provide economic benefits to the province, the government may provide grants or other forms of assistance to them.

- **Social and government service Crown corporations and agencies** incur debt largely to finance construction of hospitals, schools, post-secondary educational institutions and justice facilities. Debt service requirements are met through provincial grants or rental payments and, for hospitals, partly through local property taxes.

- **Other fiscal agency loans** include loans made by the provincial government to other public bodies including universities, colleges and various local governments and improvement districts. These loans are used to finance the construction and maintenance of residence and parking facilities, and sewer and water infrastructure projects. Debt service requirements are met through local property taxes and, for universities and colleges, through revenue raised from residence and parking fees.

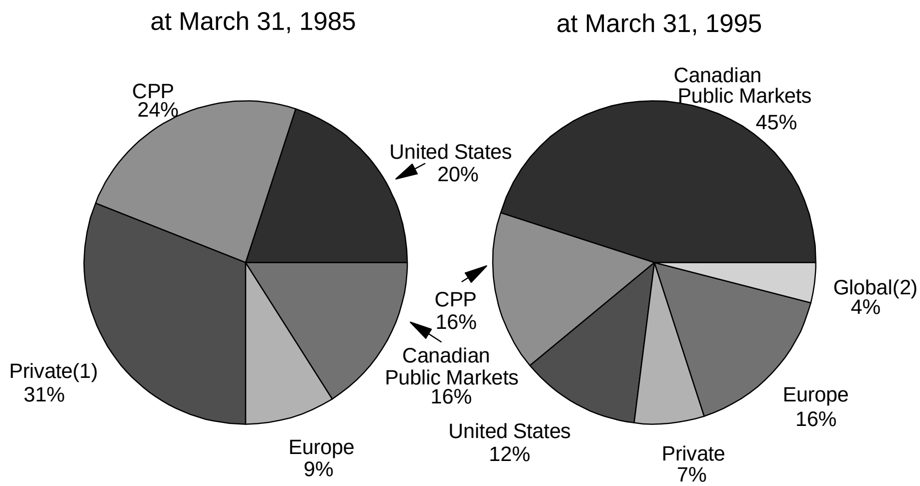
- **Loan guarantees to private sector firms and individuals** are provided by the provincial government through various programs. These include student financial assistance, loan guarantees to agricultural producers and guarantees issued under economic development assistance programs. These guarantees do not represent direct obligations of the government except in the event of default by the borrowers who received the guarantee.

- **Non-guaranteed debt**, includes debt of the British Columbia Lottery Corporation, Pacific National Exhibition, Provincial Rental Housing Corporation and the debt assumed by British Columbia Railway Company as a result of its acquisition of Vancouver Wharves Ltd. These corporations generate revenue from the sale of services to cover their debt servicing payments. This category of debt consists primarily of mortgages and are not an obligation of the provincial government.

Source of Funds

Funds borrowed by the province have come from a variety of sources, including public financial markets, the Canada Pension Plan Investment Fund (CPP), private institutional lenders and provincial trusteed funds. Chart D2 shows that since 1985, borrowing sources have shifted away from private placements toward public bond issues.

CHART D2
OUTSTANDING DEBT BY SOURCE



(1) Includes borrowings from provincial trusteed funds.

(2) A global debt security is offered simultaneously to investors in Canada, the United States, Europe and Asia.

To date, most of the province's funds have been obtained through medium and long-term debt issues in public markets in Canada, the United States and Europe. To a lesser extent, private placements in North America, Europe and Japan have also been important. In all cases, the province's obligations are either payable in or converted to Canadian or U.S. dollars.

The province continues to actively diversify its borrowing sources to cultivate strong domestic and international investor demand for British Columbia debt securities; strong demand helps minimize financing costs for the province. A broad investor base is also important given increased competition for funding and the need for multiple funding sources in the face of sometimes difficult and volatile capital markets.

Review of 1994/95

At March 31, 1995, total provincial debt reached $26.9 billion, an increase of $983 million from the previous year. Taxpayer-supported debt increased $821 million as a $75 million decline in government direct debt was offset by increases in other categories (see Table D1). The increase in taxpayer-supported debt was due to capital spending on a number of projects, including:

- construction of facilities at the University of Northern British Columbia in Prince George;
- upgrade of the ferry terminal at Swartz Bay, north of Victoria;
- the Vancouver Island Highway construction project;
- upgrades to highways in the Lower Mainland and Interior;
- Prince George Regional Correctional Centre and various courthouse facilities; and
- construction of schools and health facilities necessary to keep up with the demands of a growing population.

During 1994/95, commercial debt increased $165 million due to capital expenditures of British Columbia Hydro and Power Authority and the redemption of preferred shares by British Columbia Railway Company. B.C. Hydro capital projects in 1994/95 included a 500-kilowatt transmission line from Williston to Kelly Lake, the Burrard thermal upgrade project and additional investments in the Power Smart program.

1995/96 Financing Plan

Table D1 outlines the 1995/96 financing plan for the government and its Crown corporations and agencies. Further details on provincial net debt are provided in Table H7.

During 1995/96, gross borrowing of the provincial government and its Crown corporations and agencies of $2.8 billion will be partly offset by retirement provisions of $1.8 billion. As a result, total provincial debt is expected to rise to $27.9 billion at March 31, 1996, an increase of $956 million from 1994/95.

Taxpayer-supported debt is expected to increase $727 million or 3.9 per cent to total $19.5 billion at March 31, 1996. This includes a $414 million reduction in government direct debt offset by increases in other taxpayer-supported categories.

Major capital projects in 1995/96 include:

- construction of buildings at Malaspina University-College in Nanaimo;
- new BC Cancer Agency clinics in Victoria and Kelowna;
- expansion of Cariboo Memorial Hospital in Williams Lake and Dunrovin Lodge for seniors in Quesnel;
- purchase of 75 additional buses and 25 natural-gas-powered buses for the Vancouver Regional Transit System; and
- a number of public educational facilities in the Lower Mainland and other high growth areas of the province.

Commercial debt is expected to increase $234 million or 2.9 per cent to total $8.3 billion at March 31, 1996.

For information on debt management activities, see Report E — *Debt Management Plan*.

TABLE D1

GOVERNMENT, CROWN CORPORATION AND AGENCY FINANCING PLAN

	Net Debt Outstanding at March 31, 1994	1994/95 Net Debt Change	Forecast Net Debt Outstanding at March 31, 1995	1995/96 Transactions New Borrowing[1]	1995/96 Transactions Retirement Provision[2]	1995/96 Transactions Net Change	Forecast Net Debt Outstanding at March 31, 1996
	($ millions)						
PURPOSES:							
Provincial Government Direct	10,257.1	(75.0)	10,182.1	696.6	1,110.6	(414.0)	9,768.1
Crown Corporations And Agencies:							
Commercial	7,904.2	164.7	8,068.9	495.0	260.7	234.3	8,303.2
Economic Development	1,881.9	305.6	2,187.5	649.7	76.3	573.4	2,760.9
Social and Government Service	4,878.9	597.0	5,475.9	940.4	312.2	628.2	6,104.1
	14,665.0	1,067.3	15,732.3	2,085.1	649.2	1,435.9	17,168.2
Other Fiscal Agency Loans	479.1	19.2	498.3	0.2	55.6	(55.4)	442.9
	15,144.1	1,086.5	16,230.6	2,085.3	704.8	1,380.5	17,611.1
Less Amounts Held as Investments/ Cash for Relending by the Consolidated Revenue Fund and Crown Corporations and Agencies	29.6	7.7	37.3	—	(11.9)	11.9	49.2
GOVERNMENT, CROWN CORPORATION AND AGENCY DEBT TOTAL	25,371.6	1,003.8	26,375.4	2,781.9	1,827.3	954.6	27,330.0
Other Guarantees[3]	425.5	(18.5)	407.0	—	(4.5)[4]	4.5	411.5
TOTAL DIRECT AND GUARANTEED DEBT	25,797.1	985.3	26,782.4	2,781.9	1,822.8	959.1	27,741.5
Non-Guaranteed Debt[5]	119.6	(2.5)	117.1	—	2.9	(2.9)	114.2
TOTAL PROVINCIAL DEBT	25,916.7	982.8	26,899.5	2,781.9	1,825.7	956.2	27,855.7
TAXPAYER-SUPPORTED DEBT[6]	17,981.1	821.4	18,802.5	2,286.9	1,560.3	726.6	19,529.1

[1] Gross new long-term borrowing plus net change in short-term debt.

[2] Sinking fund contributions, sinking fund interest earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues).

[3] Includes student assistance loans, loan guarantees to agricultural producers and guarantees issued under economic development assistance programs and the British Columbia mortgage assistance program. Includes loan guarantee provisions.

[4] Other guarantees do not represent direct obligations of the government except in the event of default by the borrowers who received the guarantee. There is no actual borrowing requirement until a default occurs. A net increase in the government's potential liability is expected because new guarantees issued will more than offset expiring ones.

[5] Includes debt of British Columbia Lottery Corporation, British Columbia Railway Company (Vancouver Wharves Ltd.), the Pacific National Exhibition and Provincial Rental Housing Corporation that is not guaranteed by the provincial government. Although not a direct obligation of the provincial government, this debt is included as part of total provincial debt because it is incurred by a government body.

[6] Excludes guaranteed and fiscal agency debt of commercial Crown corporations and agencies, and non-guaranteed debt of British Columbia Lottery Corporation and British Columbia Railway Company (Vancouver Wharves Ltd.).

SUMMARY[1]

The Need for a Debt Management Plan

Debt financing plays an important role in making our economy work. It allows businesses to make key investments in plant and equipment, investments that serve new customers and generate increased sales. It allows consumers to buy durable goods like houses, automobiles, and appliances, paying for them over their useful lives. However, debt can play a negative role. Debt that is not affordable and cannot be repaid causes bankruptcy for both business and consumers.

The same is true of government. Debt can play a positive role in financing the infrastructure necessary for continued economic growth. But consistent borrowing to finance government deficits can lead to the accumulation of debt, with more tax dollars going to banks to pay interest, and less to provide services for people.

Public awareness of federal and provincial debt levels has increased significantly over the last several years. Canadians are concerned about escalating debt at both the federal and provincial levels, and are looking to their governments for action.

British Columbia has the best debt position of any province in Canada. Data compiled by the bond rating agency, Moody's Investors Service, show that the province has the lowest debt as a per cent of provincial gross domestic product (GDP) as well as the lowest debt interest cost as a per cent of government revenue. However, like other provinces, British Columbia's debt has risen in recent years.

In its 1994 budget, the British Columbia government put forward a fiscal plan that focussed on the first essential step — eliminating the provincial deficit. The government committed to eliminate the budget deficit by 1996/97 while freezing taxes for three years.

The 1995 budget achieves this goal one year ahead of schedule. With the deficit eliminated, a longer-term plan is needed to pay down accumulated direct debt and control the growth of total taxpayer-supported debt.

British Columbia Debt Trends

As of March 31, 1995, the total debt owed or guaranteed by the Government of British Columbia, including BC 21, stands at $26.9 billion. This debt can be broken down into two types, debt incurred by commercial Crown corporations and taxpayer-supported debt.

Commercial Debt

Commercial debt represents amounts owed by commercial Crown corporations which operate without government subsidy — B.C. Hydro and BC Rail. This debt is guaranteed by government. However, the Crown corporations cover debt servicing and repayment requirements from revenues gained from the sale of their services, not from tax dollars.

[1] The full Debt Management Plan begins on p. 45.

Commercial Crown corporation debt totalled $8.1 billion as of March 31, 1995, accounting for 30.1 per cent of total provincial debt. The debt of B.C. Hydro and BC Rail has grown at about 2 per cent per year over the last four years — well below growth in the British Columbia economy. Like any private corporation, this debt has been used to expand plant and equipment to meet the growth in demand for the Crown corporations' services.

Taxpayer-Supported Debt

The second key component of debt is called taxpayer-supported debt because interest and principal repayments are made, at least in part, with tax dollars. Bond rating agencies usually assess and compare government debt on this basis. As of March 31, 1995, British Columbia's taxpayer-supported debt totalled $18.8 billion.

There are two types of taxpayer-supported debt — debt to fund operating deficits and debt to fund provincial infrastructure.

- **Debt to Fund Operating Deficits**

  This debt is created when the government records a deficit in its operating accounts, and is also known as direct debt. Total direct debt is the accumulation of past budget deficits.

  Debt to fund operating deficits grew by $3.6 billion between 1991/92 and 1994/95. However, the annual deficit has now been eliminated. As a result, direct debt has stopped growing and will decline by $414 million in 1995/96. Further progress in reducing this debt will be made as budget surpluses are recorded in future years.

- **Debt to Fund Provincial Infrastructure**

  This debt represents amounts borrowed by government agencies and non-commercial Crown corporations to build capital facilities such as schools, health facilities, and transportation networks, which are coordinated through BC 21.

  The practice of funding infrastructure investments by long-term borrowing has been followed in British Columbia for nearly 30 years. It is not new. Successive governments have decided that the cost of such assets should be spread over their useful life, rather than paid for in advance.

  If the benefits of public infrastructure occur over several decades, it is appropriate that the costs be evenly spread among all those who benefit over that time period. This approach has been recently re-affirmed by the Premier's Summit on the Economy.

  Taxpayer-supported debt to fund infrastructure grew by $2.7 billion between 1991/92 and 1994/95[2]. The increase is the result of two factors:

  - The need to maintain basic service for a rapidly growing population. British Columbia's population has grown by 700,000 people over the last decade.

  - The need to catch up in building public infrastructure because of sharp capital spending cutbacks in the mid-1980s. The impact of these cutbacks included a proliferation of portable classrooms, a shortage of long-term care homes, transportation gridlock and an aging ferry fleet.

  The government believes borrowing to catch up on this backlog was essential. However, recent borrowing requirements to fund capital investment cannot be sustained over the longer term. This plan takes steps to significantly reduce them.

[2] A further $1.7 billion in infrastructure was financed over this period from operating deficits.

Debt Management Principles

The government believes that a long-term plan to manage debt should be based on the following principles:

1. Affordability — The level of debt must be based on the ability of the taxpayer to service and repay it.
2. Equity — Debt financing policies should treat all British Columbians fairly. Future taxpayers should not pay for current services. Neither should current taxpayers bear the entire capital costs of providing future services.
3. Wise Capital Decisions — Debt incurred to build new facilities should focus on high-priority needs of British Columbians. Projects should be managed to achieve maximum value for money.
4. Sound Management — All outstanding provincial debt should be effectively managed to minimize risk and achieve the lowest possible interest costs.
5. Innovation — New, more creative ways should be developed to reduce the need for debt and to make the most productive use of borrowed funds. These include better use of existing facilities, partnerships with the private sector, and the sale of non-essential assets.

Summary of the Debt Management Plan

The Debt Management Plan represents a major government commitment to repay the province's direct debt and to cap and reduce the overall cost of debt.

It follows extensive consultations with British Columbians. The Premier's Forum on Jobs and Investment identified a general lack of understanding of the province's financial situation, and the need for a longer-term fiscal plan. The Premier's Summit on the Economy recommended the adoption of objective and easily understood benchmarks to measure the province's fiscal and debt situation. Follow-up meetings achieved consensus on these benchmarks and the consensus is reflected in this plan.

The Debt Management Plan adopts four key goals. Based on the recommendations of the Premier's Summit participants, it also establishes specific benchmarks against which progress in achieving these goals can be measured over time.

Goals and Benchmarks

1. **Maintain British Columbia's credit rating as the highest of any province in Canada.**
2. **Eliminate over 20 years, the $10.2 billion in debt incurred from previous budget deficits, by using budget surpluses to pay down debt.**
3. **Reduce total taxpayer-supported debt as a share of British Columbia's gross domestic product from its current level of 19.1 per cent, the lowest in Canada, to 10.2 per cent within 20 years.**
4. **Cap the interest cost of taxpayer-supported debt to ensure that this cost does not exceed 8.5 per cent of provincial revenue in any year over the next 20 years.**

Table S1 summarizes the specific benchmarks established for every five-year period over the life of the plan. Table S2 shows projected targets for the medium term — the first five-year period of the plan.

Reporting on the Province's Debt Position

The government is committed to full disclosure of the province's debt situation. Each year the provincial government will issue a provincial Debt Management Progress Report. It will update the plan annually and record progress made in meeting each of its goals. If progress is not being made, it will identify the reasons and identify actions that are needed to put the plan back on track.

The Auditor General will be requested to review the annual Debt Management Progress Report, and provide an opinion to the Legislative Assembly on its completeness and accuracy.

TABLE S1

DEBT MANAGEMENT PLAN
SUMMARY OF KEY BENCHMARKS

Goal/Benchmark	Year Ending March 31 1996	2000	2005	2010	2015
Maintain B.C. Credit Rating					
Credit Rating Relative to Other Provinces	Highest	Highest	Highest	Highest	Highest
Repayment of Direct Debt					
Debt at Year End ($ billions)	9.8	8.9	5.9	2.9	0.0
Taxpayer-Supported Debt					
Debt as a Per Cent of Provincial GDP	18.8	18.1	15.2	12.5	10.2
Debt Interest Bite					
Interest Expense per Dollar of Revenue (cents)	7.4	7.9	7.0	6.0	5.0

Note: The plan is based on certain underlying economic assumptions set out in Appendix E2. The plan commits the government to achieve these benchmarks, regardless of actual economic performance.

TABLE S2

DEBT MANAGEMENT PLAN
SUMMARY OF MEDIUM-TERM PROJECTIONS

Year	1995/96	1996/97	1997/98	1998/99	1999/2000
	($ millions, unless otherwise indicated)				
Revenue before Federal Funding Cuts	20,353	20,750	21,410	21,810	22,690
Expenditures	20,186	20,210	20,510	20,820	21,330
Budget Surplus before Federal Funding Cuts[1]	167	540	900	990	1,360
Budget Surplus after Federal Funding Cuts	114	25	40	125	500
Debt Repayment from Investments[2]	300	200	0	0	0
Total Direct Debt Repayment	414	225	40	125	500
Total Taxpayer-Supported Debt as a Per Cent of GDP	18.8	18.7	18.7	18.6	18.1
Interest Bite (cents)	7.4	7.6	7.9	8.0	7.9

[1] Only federal cuts announced in 1994 and 1995 are counted here. These are on top of significant federal offloading that took place beginning in 1982.
[2] Includes sale of British Columbia Endowment Fund assets and cash management transactions.

DEBT MANAGEMENT PLAN

Introduction

Canadians have become increasingly concerned about government debt. Canada's total public-sector debt now exceeds $700 billion (73 per cent of which is owed by the federal government). This amount is equivalent to Canada's annual gross domestic product (GDP). Canada's debt position is 60 per cent higher than the United States, and is the second highest of any member of the G7 group of industrialized countries.

British Columbia's debt position is the best of any jurisdiction in Canada. Data compiled by the bond rating agency, Moody's Investors Service, shows that the province has by far the lowest debt as a percentage of provincial gross domestic product (see Chart E7) and the lowest debt service cost. British Columbia's debt service cost is 7 cents of every dollar of revenue compared to 13 cents for Alberta and 34 cents for the federal government. However, like other provinces, British Columbia's debt has risen in recent years.

Canada's growing government debt creates a number of problems. As debt accumulates, interest on debt becomes an ever larger share of government spending. Every year, less money is available for programs and more goes to banks and investors.

A growing public sector debt also makes Canada more reliant on foreign investment and reduces the country's economic sovereignty. In addition, debt incurred to finance the day-to-day operations of government shifts the bill away from today's consumer of government services and on to future generations.

What is the Deficit?

A government runs a deficit when its spending exceeds the revenue it takes in from taxes and other sources in any one year. A surplus occurs when a government spends less than the revenue it takes in. When a deficit is incurred, it becomes a debt owed by the government. Interest on this debt must then be budgeted each year until it is repaid. Repayment can only occur if the government collects more revenue than it spends in a subsequent year. If the government continues to run deficits over a number of years, government debt will continue to increase.

In British Columbia, reporting of revenues, expenditures, and deficits is done in two ways. The first method, called the Consolidated Revenue Fund (CRF), covers all expenditures made directly by government and all revenues collected to fund them.

The provincial government's budget surplus or deficit has been reported on a CRF basis since Confederation.

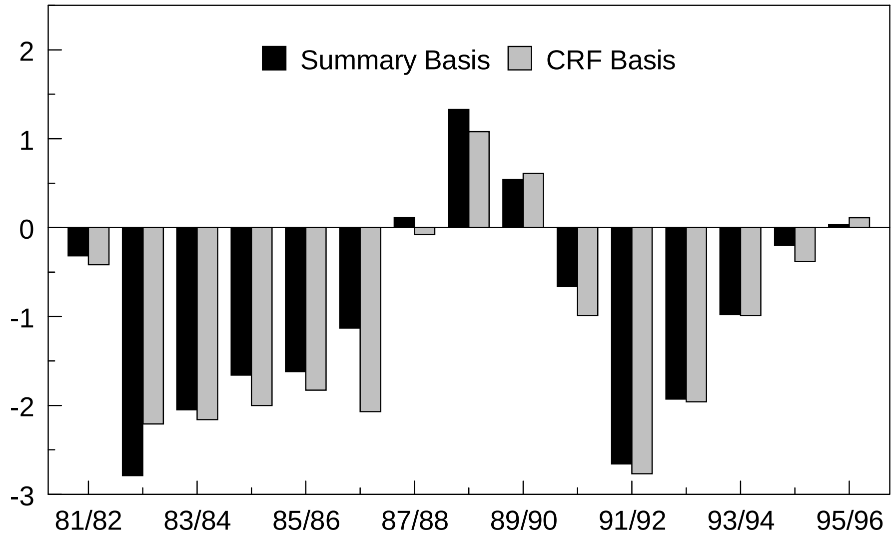
The second method, called the Summary Financial Statements, covers both direct government financial operations and the financial results of all agencies and enterprises owned by the provincial government.

The government's public accounts report financial results on both a CRF and Summary Financial Statements basis. As shown in Chart E1, the choice of reporting method does not markedly alter the surplus/deficit position.

CHART E1

B.C. DEFICIT/SURPLUS

Per cent of GDP



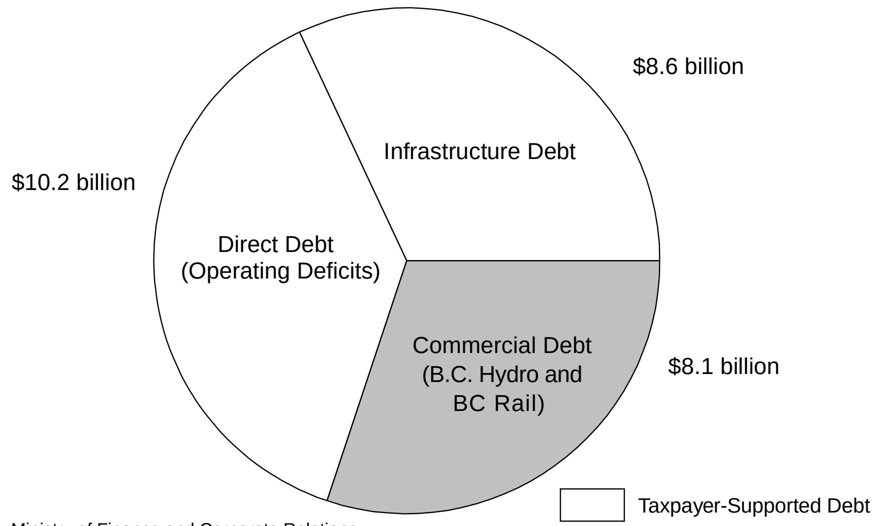
Source: Ministry of Finance and Corporate Relations

What is Government Debt?

Government debt is the total amount of money owed by government to those who have lent it money. It includes both amounts borrowed directly by government and amounts borrowed by other entities but guaranteed by government. As of March 31, 1995, the total debt owed or guaranteed by the Government of British Columbia stood at $26.9 billion.

British Columbia’s public sector debt can be broken down into two types, commercial debt and taxpayer-supported debt (see Chart E2).

CHART E2
CATEGORIES OF DEBT
AS OF MARCH 31, 1995



Source: Ministry of Finance and Corporate Relations

Commercial Debt

Commercial debt represents amounts owed by commercial Crown corporations that operate without government subsidy — B.C. Hydro and BC Rail. This debt is borrowed on behalf of or guaranteed by government. However, these Crown corporations cover servicing and repayment requirements from revenues gained from the sale of their services, not from tax dollars.

The debt of commercial Crown corporations totalled $8.1 billion as of March 31, 1995, accounting for 30 per cent of total provincial debt.

Taxpayer-Supported Debt

The second key component of debt is called taxpayer-supported debt because interest and principal repayments are made, at least in part, with tax dollars. Bond rating agencies usually assess and compare government debt on this basis. As of March 31, 1995, taxpayer-supported debt totalled $18.8 billion.

There are two types of taxpayer-supported debt:

- **Debt to Fund Operating Deficits**

  This debt is created when the government records a deficit in its operating accounts, and is also known as direct debt. Total direct debt is the accumulation of past budget deficits.

c **Debt to Fund Provincial Infrastructure**

This debt represents amounts borrowed by government agencies and subsidized Crown corporations to build capital facilities such as schools, health facilities, and transportation networks.

The practice of funding infrastructure investments by long-term borrowing has been followed in British Columbia for nearly 30 years. It is not new. Successive governments have decided that the cost of such assets should be spread over their useful life, rather than paid for in advance.

Public Sector Assets

Much of British Columbia's government debt is offset by two types of assets — physical assets and financial assets.

Physical assets include the value of such things as roads, buildings, plant and equipment, and other public facilities. These assets are owned either by government directly or by its Crown corporations and other agencies. As shown in Table E1, British Columbia public-sector physical assets have a book value of $32 billion and a replacement value of $62 billion.

The government will review the potential sale of assets, the proceeds of which could be used to reduce debt.

TABLE E1
VALUE OF PROVINCIAL ASSETS, 1994

	Net Book Value	Estimated Replacement Cost
	($ billions)	
Value of Provincial Government Assets	8	16
Value of Crown Corporation Assets	14	26
Value of Assets of Institutions (includes schools, universities, hospitals)	10*	20
Total	32	62

* Current value of depreciated capital stock from Statistics Canada.

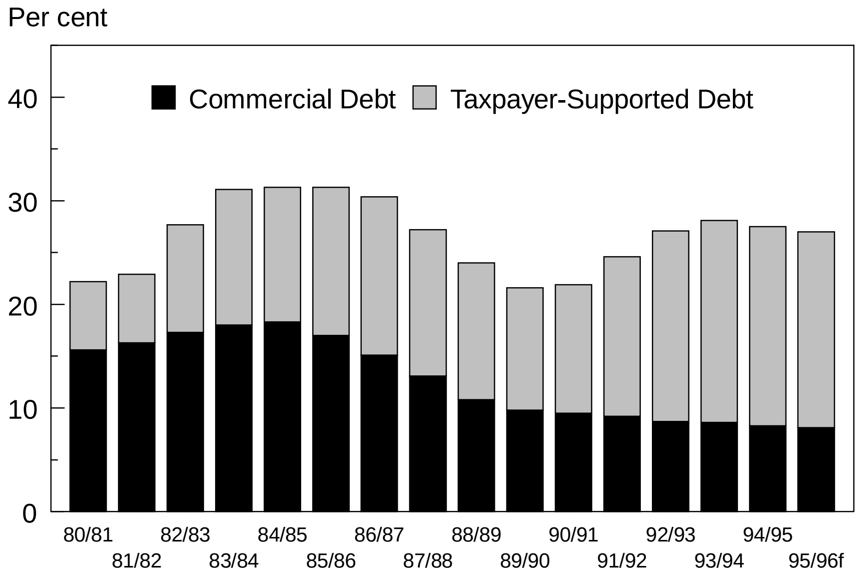
Source: Province of British Columbia, *1993/94 Public Accounts*; Statistics Canada, Investment and Capital Stock Division; and Ministry of Finance and Corporate Relations estimates.

Financial assets are instruments which could be converted to cash — bank balances, accounts receivable, mortgages, stocks and bonds, and investments in Crown enterprises on the province's Summary Financial Statements. As of March 31, 1994, $26 billion in government liabilities were offset by $14 billion in financial assets for a net liability of $12 billion.

British Columbia's Debt Trends

Overall government debt levels have shown a cyclical pattern over the last 15 years. Chart E3 shows the trend in total government debt since 1981 as a share of the total British Columbia economy. Debt levels rose sharply in the 1980s, peaking at just over 30 per cent of GDP in 1986. Debt levels declined to just over 20 per cent in 1990 before climbing again to just under 30 per cent in 1994.

CHART E3
TOTAL DEBT AS A PER CENT OF GDP



Source: Ministry of Finance and Corporate Relations

Commercial Debt

While the debt of commercial Crown corporations represents a significant share of British Columbia's total debt, this debt has grown relatively slowly over last four years. The annual increase in debt for B.C. Hydro and BC Rail has averaged under 2 per cent — well below growth in the economy. Like any private corporation, this debt has been used to expand plant and equipment to meet the growth in demand for the Crown corporations' services.

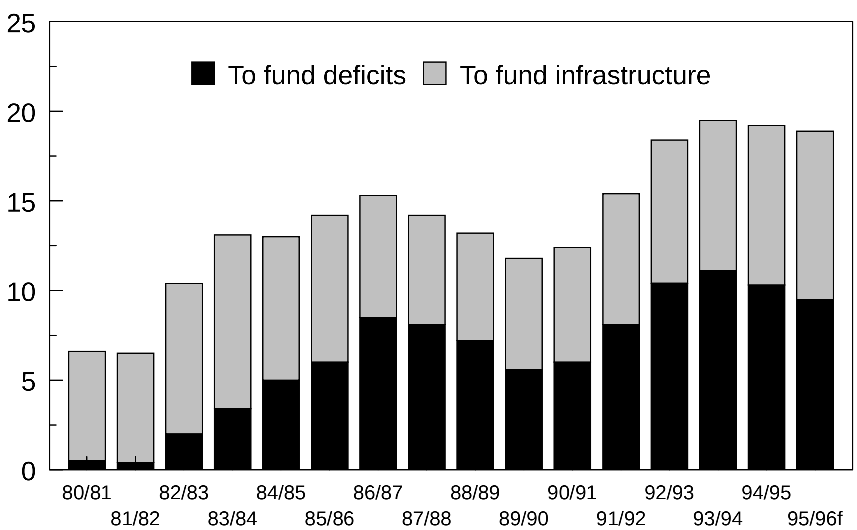
Taxpayer-Supported Debt to Fund Operating Deficits

Chart E1 shows that British Columbia has recorded budget deficits in all but two of the last 14 years. As shown in Chart E4, continuous operating deficits following the recession of the 1980s led to a rapid build-up of debt. Debt was reduced as the economy improved in the late 1980s and budget surpluses were recorded. However, an economic slowdown in the early 1990s, and budget surpluses were recorded. However, an economic slowdown in the early 1990s, combined with high spending growth between 1989 and 1991 led to a return to deficit financing.

This trend was aggravated by the federal government's offloading of its responsibilities for health, post-secondary education and social services on to the provinces. Between 1991/92 and 1994/95 federal government offloading cost British Columbia $6.5 billion, accounting for more than the $3.6 billion increase in direct debt during that period.

Between 1991/92 and 1994/95, the province's operating deficit was brought down from $2.4 billion to under $400 million. In 1995/96 the province will run an operating surplus of $114 million. With this operating surplus and the sale of British Columbia Endowment Fund assets, the direct debt will fall by $414 million by the end of the 1995/96 fiscal year. Further progress in reducing direct debt will be made as budget surpluses are recorded in future years.

CHART E4
B.C. TAXPAYER-SUPPORTED DEBT
Per cent of GDP



Source: Ministry of Finance and Corporate Relations

Taxpayer-Supported Debt to Fund Provincial Infrastructure

This debt represents amounts borrowed by government agencies and subsidized Crown corporations to build capital facilities such as schools, health facilities, colleges and transportation networks. The provincial government either borrows directly, or guarantees the borrowing of other agencies. The resulting interest and principal repayments are recorded as provincial expenditures.

The practice of funding infrastructure investments by long-term borrowing has been followed in British Columbia for nearly 30 years. It is not new. Successive governments have decided that the cost of such assets should be spread over their useful life, rather than paid for in advance. The issue is one of fairness. If the benefits of public assets occur over several decades, it is appropriate that the costs be evenly spread among all those who benefit over that period.

This policy of borrowing to finance major investments has also been influenced by the rapid growth of the British Columbia economy and a high population growth rate. Paying in advance for capital investment would place a large burden on the current population and make it difficult to provide basic facilities to support new businesses and new residents.

Making a distinction between day-to-day operating expenses and large up-front capital investments is common practice in the private sector. While the former are recorded as they occur, the costs of the latter are spread over the useful life of the asset. Similarly, using long-term borrowing to finance large new investments in plant and equipment is common in the private sector.

In 1993, the government added highway capital construction to the list of infrastructure amortized. Previously highways represented the only major long-term capital spending still expensed. This change was made to ensure consistency with other types of transportation funding and provide for better capital planning to meet growing transportation needs. It also provided for the use of dedicated revenue sources to finance highway capital construction.

Some have argued that government should not incur any debt at all, regardless of what it is used for. All debt is bad and all capital investments should be made on a pay-as-you-go basis. If British Columbia were to follow this approach, the entire cost of building capital facilities for the future would be borne by today's taxpayers. This added burden on taxpayers would likely lead to lower rates of public investments and increased backlogs in key areas like education and transportation.

Again, the private sector is a useful comparison. Most businesses could not operate this way. Without debt financing, businesses would find it much more difficult to finance inventory or make the new investments in plant and equipment necessary to expand their operations.

British Columbia's infrastructure debt increased rapidly in the early 1980s, reflecting provincial population and economic growth. Fiscal pressure in the mid-1980s resulted in sharply lower levels of capital investment and infrastructure debt dropped. Renewed growth and population inflow resulted in a resumption of debt growth in the 1990s.

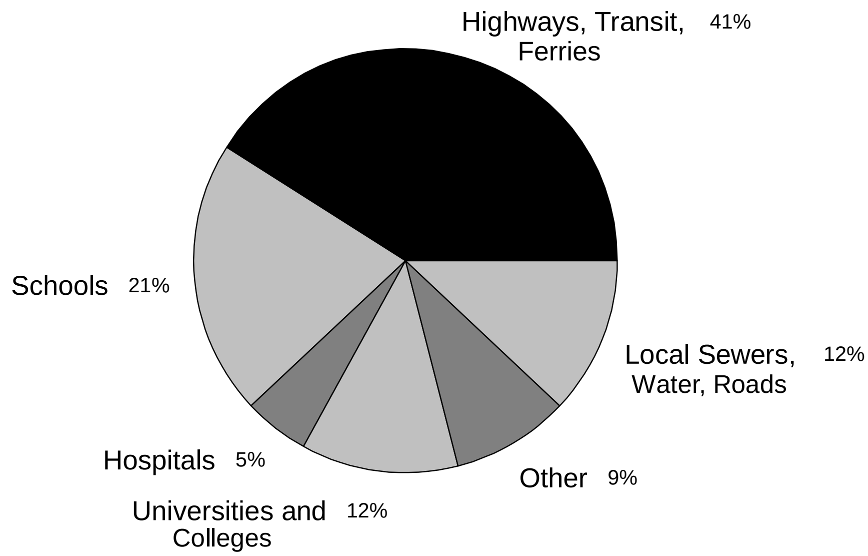
British Columbia's infrastructure debt has increased by $2.7 billion over the last three years.[3] As shown in Chart E5, new transportation investments accounted for 41 per cent of this increase, health and educational facilities for 38 per cent, and municipal infrastructure (roads, sewers and water) for 12 per cent.

The growth of infrastructure debt during the 1990s has been due to two factors.

- The need to provide services for a rapidly growing population.
- The need to catch up in building infrastructure following sharp capital spending cutbacks in the mid-1980s.

[3] A further $1.7 billion in infrastructure was financed over the period from operating deficits.

CHART E5
BORROWING TO FUND LONG-TERM INVESTMENTS
THREE YEARS 1992/93 TO 1994/95



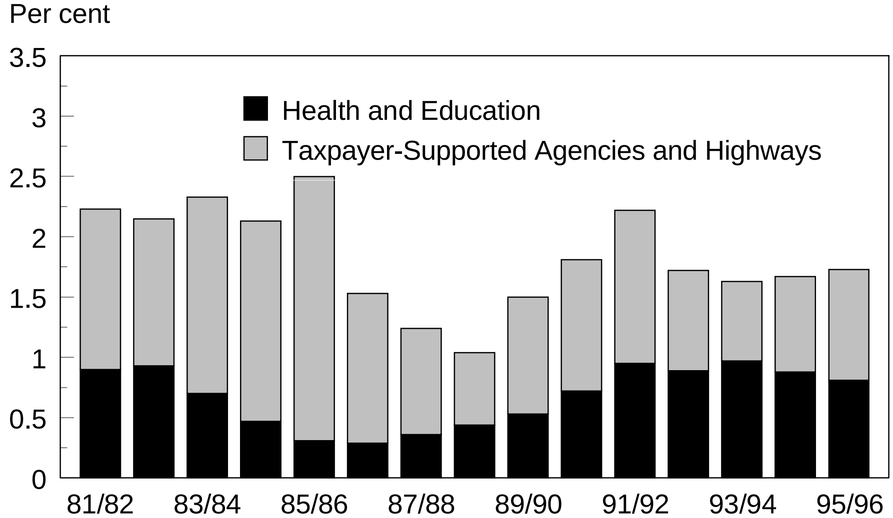
Between 1985 and 1995, British Columbia's population grew at an average annual rate of 2.2 per cent per year, much faster than Canada as a whole. This rapid growth added 700,000 people to British Columbia's population, creating new demands for public facilities. New ferries and buses had to be added, roads became congested, new schools had to be built, and new housing development created the need for new water and sewer lines.

The growth of British Columbia's economy and population began to accelerate at a time of greatly reduced capital funding. As shown in Chart E6, capital budgets were cut sharply in the mid-1980s to control debt growth, and significant backlogs emerged. Therefore, during the 1990s the provincial government was faced with both providing for the needs of current growth and catching up with past growth.

Some of this backlog has been now been addressed by increased capital spending over the last four years, but pressures for new investments remain strong. For example:

- 15,000 new students are added to British Columbia's school system every year, and the provincial government is legally obligated to provide Kindergarten to Grade 12 instruction.
- 24,000 students are still in portable classrooms.
- Ferry traffic is increasing with one million new passengers and 350,000 more vehicles in 1993/94, and further growth in 1994/95.
- Traffic congestion on the roads and bridges of the Lower Mainland remains a serious problem.

CHART E6
INFRASTRUCTURE SPENDING
AS A PER CENT OF GDP



Source: Ministry of Finance and Corporate Relations

Despite these pressures, debt to finance new capital needs cannot grow indefinitely at the rates of the last four years. Therefore, capital spending allocations will be cut over the next four years, and spending will be targeted to areas where backlogs remain a serious problem.

For the longer term, the provincial government is investigating new, innovative ways of meeting the growing demand for public infrastructure. One approach is to increase the use of existing public buildings. For example, the government recently introduced a year-round schooling pilot project which will help make more effective use of our school buildings. Other options include cutting costs through more effective building designs, and entering into financing arrangements with private-sector partners. However, difficult trade-offs must continue to be made to balance investment requirements with the need to keep infrastructure debt affordable.

HOW MUCH DEBT IS AFFORDABLE?

There is no universally accepted method for determining whether any given level of government debt is affordable, and opinions differ. Bond rating agencies and investors assess the ability of borrowers to repay debts when making credit rating and investment decisions. Taxpayers ultimately communicate their views on affordability at the ballot box.

A number of key indicators have been used to put debt levels into perspective, make comparisons among jurisdictions, and help make judgements about affordability. Indicators recommended by British Columbia's Auditor General include:

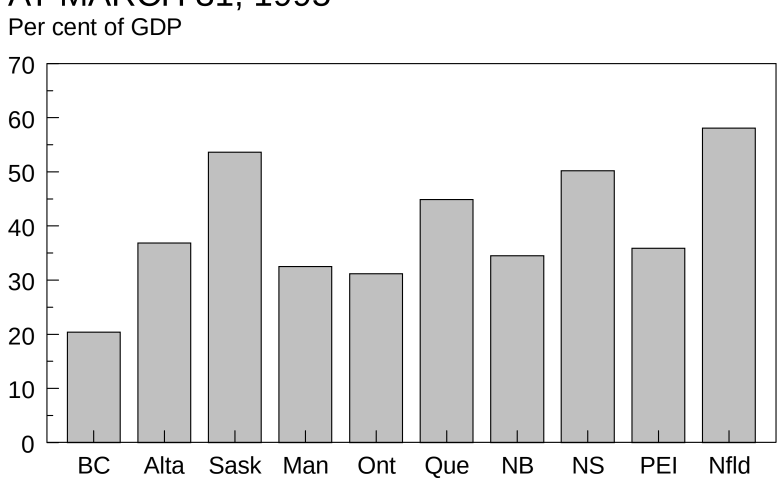
- **Debt to Revenue** — the ratio of debt outstanding at year end compared to revenue from all sources during the year.
- **Debt per Capita** — the ratio of debt to total population.
- **Interest Bite** — how much of each dollar of provincial revenue is used to pay for debt service costs.
- **Total Cost of Borrowing** — the sum of interest paid on debt, plus associated borrowing costs minus investment income from sinking funds.
- **Debt to GDP** — the ratio of debt outstanding at year end to provincial gross domestic product (GDP).

Historical data on these and other indicators is contained in Appendix E1.

One way of assessing affordability of debt is to compare it to other jurisdictions using the above indicators. As shown in Chart E7, British Columbia has the lowest debt to GDP ratio in Canada. It also has the lowest interest bite on its outstanding debt.

Ultimately, the best means of assessing affordability is to look at the relative credit ratings given by major bond rating agencies. A high credit rating means that rating agencies consider a jurisdiction's debt to be relatively affordable with a low probability of default. As shown in Chart E8, British Columbia has the highest credit rating of any Canadian province.

CHART E7
PROVINCIAL TAXPAYER-SUPPORTED NET DEBT
AT MARCH 31, 1995



Source: Moody's Investors Service (January 1995)

The Need for a Debt Management Plan

Debt financing plays an important role in making our economy work. It allows businesses to make key investments in plant and equipment, investments that serve new customers and generate increased sales. It allows consumers to buy durable goods like houses, automobiles, and appliances, paying for them over their useful lives. However, debt can play a negative role. Debt that is not affordable and cannot be repaid causes bankruptcy for both business and consumers.

The same is true of government. Debt can play a positive role in financing the infrastructure necessary for continued economic growth. But consistent borrowing to finance government deficits can lead to the accumulation of debt, with more tax dollars going to banks to pay interest, and less to provide services for people.

Over the last several years, public awareness of federal and provincial debt levels has increased significantly. Canadians are concerned about the escalation of debt at both the federal and provincial levels, and are looking to their governments for action.

In response to these concerns, a number of provinces have introduced balanced budget requirements, either in the form of policy commitments or as legislation. Some provinces have achieved, or are close to achieving, a balanced budget, and have put forward plans to repay accumulated debt.

In its 1994 budget, the British Columbia government put forward a fiscal plan which focussed on the first essential step — eliminating the provincial deficit. The government committed to eliminate the budget deficit by 1996/97 while freezing taxes for three years. The 1995 budget achieves this goal one year ahead of schedule. With the deficit eliminated, a longer term plan is needed to pay down accumulated direct debt and control the growth of total taxpayer-supported debt.

Debt Management Principles

The government believes that a long-term plan to manage debt should be based on the following principles:

1. Affordability — The level of debt must be based on the ability of the taxpayer to service and repay it.
2. Equity — Debt financing policies should treat all British Columbians fairly. Future taxpayers should not pay for current services. Neither should current taxpayers bear the entire capital costs of providing future services.
3. Wise Capital Decisions — Debt incurred to build new facilities should focus on high priority needs of British Columbians. Projects should be managed to achieve maximum value for money.
4. Sound Management — All outstanding provincial debt should be effectively managed to minimize risk and achieve the lowest possible interest costs.
5. Innovation — New, more creative ways should be developed to reduce the need for taxpayer-supported debt and to make the most productive use of funds which must be borrowed. These include better use of existing facilities and partnerships with the private sector. The province will consider selling non-essential assets and using the proceeds for debt reduction.

Summary of the Debt Management Plan

The Debt Management Plan represents a major government commitment to repay the province's direct debt and to cap and reduce the overall cost of debt.

It follows extensive consultations with British Columbians. The Premier's Forum on Jobs and Investment identified a general lack of understanding of the province's financial situation, and the need for a longer-term fiscal plan. The Premier's Summit on the Economy recommended the adoption of objective and easily understood benchmarks to measure the province's fiscal and debt situation. Follow up meetings achieved consensus on these benchmarks and the consensus is reflected in this plan.

The Debt Management Plan adopts four key goals. Based on the recommendations of the Premier's Summit participants, it also establishes specific benchmarks against which progress in achieving these goals can be measured over time.

Goals and Benchmarks

1. **Maintain British Columbia's credit rating as the highest of any province in Canada.**
2. **Eliminate over 20 years, the $10.2 billion in debt incurred from previous budget deficits, by using budget surpluses to pay down debt.**
3. **Reduce total taxpayer-supported debt as a share of British Columbia's gross domestic product from its current level of 18.8 per cent, the lowest in Canada, to 10 per cent within 20 years.**
4. **Cap the interest cost of taxpayer-supported debt to ensure that this cost does not exceed 8.5 per cent of provincial revenue in any year over the next 20 years.**

Table E2 summarizes the specific benchmarks established for every five-year period over the life of the plan.

TABLE E2

DEBT MANAGEMENT PLAN
SUMMARY OF KEY BENCHMARKS

	Year Ending March 31				
Goal/Benchmark	1996	2000	2005	2010	2015
Maintain B.C. Credit Rating					
Credit Rating Relative to Other Provinces	Highest	Highest	Highest	Highest	Highest
Repayment of Direct Debt					
Debt at Year End ($ billions)	9.8	8.9	5.9	2.9	0.0
Taxpayer-Supported Debt					
Debt as a Per Cent of Provincial GDP	18.8	18.1	15.2	12.5	10.2
Debt Interest Bite					
Interest Expense per Dollar of Revenue (cents)	7.4	7.9	7.0	6.0	5.0

Table E3 shows projected targets for the medium term — the first five-year period of the Debt Management Plan.

The economic and financial assumptions underlying Tables E2 and E3 are presented in Appendix E2.

TABLE E3

DEBT MANAGEMENT PLAN
SUMMARY OF MEDIUM-TERM PROJECTIONS

Year	1995/96	1996/97	1997/98	1998/99	1999/2000
	($ millions, unless otherwise indicated)				
Revenue before Federal Funding Cuts	20,353	20,750	21,410	21,810	22,690
Expenditures	20,186	20,210	20,510	20,820	21,330
Budget Surplus before Federal Funding Cuts[1]	167	540	900	990	1,360
Budget Surplus after Federal Funding Cuts	114	25	40	125	500
Debt Repayment from Investments[2]	300	200	0	0	0
Total Direct Debt Repayment	414	225	40	125	500
Total Taxpayer-Supported Debt as a Per Cent of GDP	18.8	18.7	18.7	18.5	18.1
Interest Bite (cents)	7.4	7.6	7.9	8.0	7.9

[1] Only federal cuts announced in 1994 and 1995 are counted here. These are on top of significant federal offloading that took place beginning in 1982.
[2] Includes sale of British Columbia Endowment Fund assets and cash management transactions.

1. Maintaining British Columbia's High Credit Rating

As shown in Chart E8, British Columbia currently enjoys the highest credit rating of any province in Canada. This high credit rating allows the provincial government and its agencies to borrow at lower interest rates, thereby reducing debt servicing costs.

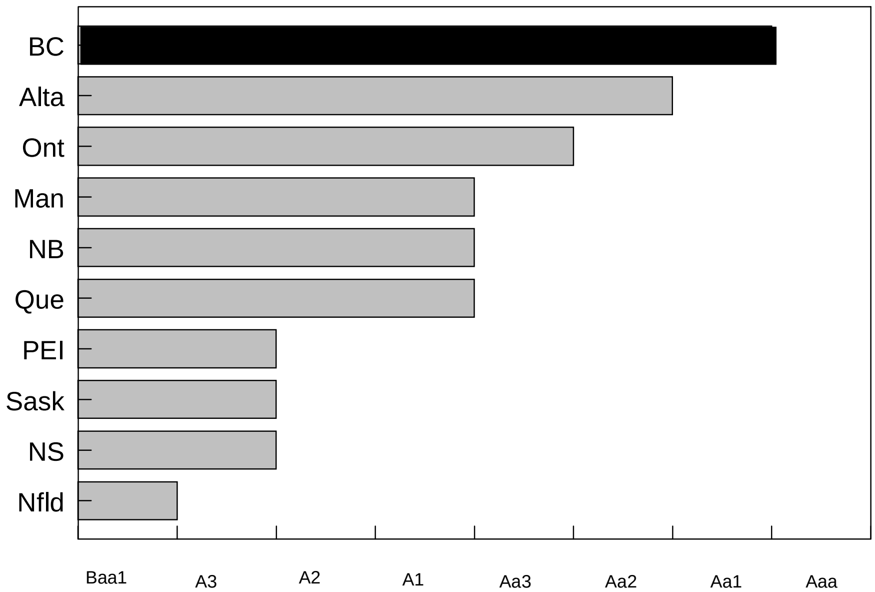
The Government of British Columbia is committed to maintaining its credit rating relative to other provinces, and has established this benchmark as a key component of the Debt Repayment Plan.

2. Paying Down Debt From Previous Deficits

With the elimination of the budget deficit, the government can begin to pay down the debt accumulated to fund previous deficits. A combination of operating surpluses and assets from the British Columbia Endowment Fund will allow repayment of $414 million in 1995/96.

The Columbia River downstream benefits to the province will total over $5 billion over the next 30 years. The government recently announced a Columbia Basin Accord, which includes an investment in the region of $1 billion over the next decade. The remainder of the downstream benefits will be fully allocated to debt reduction.

CHART E8
PROVINCIAL CREDIT RATINGS, MARCH 1995



Source: Moody's Investors Service

The Debt Management Plan commits the government to repaying, over a 20-year period, $10.2 billion in outstanding direct debt. The repayment schedule is summarized in Table E4. It is based on four five-year periods commencing April 1, 1995. It should be noted that government is required to do significantly better than simply balancing the budget over each five-year period. The debt repayment requirements mean that it must also take in significantly more money than it spends.

TABLE E4
20-YEAR DIRECT DEBT REPAYMENT SCHEDULE

Five-Year Period	1996–2000	2001–2005	2006–2010	2011–2015
	($ millions)			
Average Debt Repayment	260	600	600	580
Total Five-Year Repayment	1,300	3,000	3,000	2,900
Total Direct Debt at End of Period	8,900	5,900	2,900	0

Table E4 is based on average values for five-year intervals over the 20-year life of the plan. Year-to-year values will fluctuate with movements in factors such as interest rates over the economic cycle.

Over the last two years real per capita spending by the provincial government has been declining. If the above targets for debt repayment are to be met without increasing taxes, the level of real per capita spending must continue to decline.

The federal government's recent decision to offload the costs of health and education programs increases the pressure to reduce the cost of government. Two years from now, the provincial government will see its revenues reduced $860 million or 4 per cent. Therefore, the government will continue to cut spending in real per capita terms and to reduce the size of the provincial government relative to the economy as a whole.

3. Reducing Taxpayer-Supported Debt Relative to the Provincial Economy

Meeting the debt repayment targets set out in this plan will lead to an overall reduction of total taxpayer-supported debt as a share of economic activity. The Debt Management Plan sets out benchmarks for reducing this debt relative to provincial GDP. As shown in Table E2, the debt to GDP ratio will fall from 18.8 per cent in 1995/96 (the lowest in Canada) to 15.2 per cent in 2004/05, to 10.2 per cent in 2014/15.

4. Capping Debt Interest Costs

Interest payments on taxpayer-supported debt now account for 7.4 cents of every dollar of revenue collected from taxpayers — the lowest level in Canada. (The direct debt accounts for 4.8 cents of this amount.) The Debt Management Plan caps interest payments to ensure that they remain below 8.5 cents per dollar of revenue. By the end of 20 years, it is forecast that interest payments on taxpayer-supported debt will fall to 5 cents.

As shown in Tables E2 and E3, debt interest costs do not rise above 8 cents per dollar of revenue over the period of the plan. The 8.5-cent ceiling is adopted to account for uncontrollable factors such as interest rates.

Interest costs will also be contained through effective debt management (see Appendix E3).

Reporting on the Province's Debt Position

The government is committed to a full disclosure of the province's debt situation. The regular reporting of reliable information is essential to determine whether targets are being met.

Each year, the provincial government will issue a provincial Debt Management Progress Report. It will update the medium-term plan shown in Table E3, and record progress made in meeting each of the five-year targets set out in Table E2. If progress is not being made, it will identify the reasons and identify actions that are needed to put the plan back on track.

The Debt Management Progress Report will cover not only the four key benchmarks set out above, but will bring together, in one document, a comprehensive picture of the province's debt situation. It will include the debt indicators recommended by the Auditor General in his review of the 1993/94 *Public Accounts*. These indicators include:

- Total Provincial Debt
- Overall Changes in Debt
- Why Debt Changed
- Sources of Borrowing
- Interest Rates on Debt
- Total Debt Service Costs

The Auditor General will be requested to review the annual Debt Management Progress Report and provide an opinion to the Legislative Assembly on its completeness and accuracy. The first report will be released in conjunction with the 1994/95 *Public Accounts*.

APPENDIX E1

KEY DEBT INDICATORS

The Auditor General recommended in his 1993/94 report that at a minimum, 10 measures and indicators relating to debt be disclosed in the *Public Accounts*. This table provides an historical summary of the financial indicators. Unless noted otherwise, debt indicators refer to taxpayer-supported debt, which excludes the debt of B.C. Hydro, BC Rail, WLC Developments Ltd. and B.C. Lottery Corporation.

	1991/92	1992/93	1993/94	1994/95	1995/96
Debt to Revenue[1] (per cent)	73.0	85.3	87.7	84.3	83.2
Debt per Capita ($)	3,713	4,569	5,031	5,126	5,187
Interest Bite (cents per dollar of revenue)					
— Taxpayer-Supported Debt	6.4	6.9	7.0	7.2	7.4
— Total Debt[2]	7.7	8.8	8.5	8.6	8.6
Total Cost of Borrowing[3] ($ million)	1,096	1,293	1,437	1,609	1,740
Debt to GDP (per cent)	15.4	18.4	19.5	19.1	18.8
Debt at Year End ($ billion)					
— Taxpayer-Supported	12.5	15.9	18.0	18.8	19.5
— Total Provincial	20.0	23.4	25.9	26.9	27.9
Interest rate (per cent)					
— On Taxpayer-Supported Debt	10.4	9.7	9.4	8.9	9.0
Background Information:					
Revenue ($ billion)	17.2	18.6	20.5	22.3	23.5
Nominal GDP ($ billions)	81.3	86.3	92.1	98.7	103.7
Population (thousands)	3,380	3,479	3,574	3,668	3,765

[1] Includes revenue of the CRF plus revenue of the government agencies whose debt is taxpayer-supported.
[2] As calculated by the Auditor General for 1991/92 to 1993/94; 1994/95 and 1995/96 are Ministry of Finance and Corporate Relations estimates.
[3] For taxpayer-supported debt.

APPENDIX E2

KEY ECONOMIC AND FINANCIAL ASSUMPTIONS

It is difficult to predict economic and financial conditions on a year-by-year basis over 20 years. However, reasonable assumptions can be made about the values of key variables, on average, based on historical trends and forecasts of the Ministry of Finance and Corporate Relations.

These assumptions should, therefore, be seen as mid-points in a range of possible outcomes. The Debt Management Plan commits the government to achieving the stated benchmarks, notwithstanding potential variability in the underlying economic and financial assumptions.

1. *Nominal Economic Growth*

   Ministry forecast of 5.1 per cent in 1995 and an average of 4.2 per cent from 1996 to 1999 — followed by a 4 per cent nominal growth projection for the rest of the period (2 per cent real, 2 per cent inflation). This base case is lower than historical experience.

2. *Revenue*

   Ministry forecast to 1999/2000, then 3 per cent annually, based on revenue growth at three-quarters the growth of nominal GDP. This relationship is consistent with historical experience.

3. *Expenditures*

   Expenditure growth is held below revenue growth, generating increasing surpluses which are capped at approximately 3 per cent of revenue.

4. *Interest Rates*

   An average interest rate of 8.5 per cent is assumed over 20 years.

APPENDIX E3

EFFECTIVE DEBT MANAGEMENT

Prudent and effective management of the province's debt portfolio depends, significantly, on being able to readily and cost-effectively source funds from domestic and international investors. This task is complicated by a market environment that is subject to often volatile interest rate and currency fluctuations over which the province has little or no control. Further, the province is in direct competition for limited funds with other major Canadian and international issuers.

The challenges posed by the market environment require the province's debt management program to be streamlined, efficient and sufficiently flexible to respond to the lowest-cost financing opportunities afforded by the domestic and international capital markets. It also entails instituting policies and controls which establish the appropriate framework for undertaking debt management in the province.

The primary objective of the province's debt management program is to achieve the lowest cost financing at an acceptable level of risk. The province accepts only low levels of risk which are judged appropriate for a risk-averse public-sector borrower.

The province's debt management program is operated centrally by Provincial Treasury of the Ministry of Finance and Corporate Relations, on behalf of the government, Crown corporations and agencies. As fiscal agent, the government borrows directly in the financial markets and relends the proceeds to Crown corporations and agencies. This centralized borrowing program provides lower-cost financing to Crown corporations by taking maximum cost advantage of the province's superior credit rating (AA1 with Standard & Poor's Corporation and Aa1 with Moody's Investors Service). The province is also able to respond in a timely way to changes in market conditions without risk of market competition from its own agencies. Further, a centralized debt management function eliminates duplication among treasury departments in Crown corporations and agencies.

Provincial Treasury's implementation of the debt management program is subject to control by the ministry's senior executive risk committee. The committee sets risk and policy parameters, ensures compliance within these parameters, and approves the annual debt management strategy and quarterly updates.

The following discussion reviews the key risk and policy parameters which form the framework for conducting debt management in the province.

Avoid having to fund under unfavourable market conditions

Provincial Treasury will typically manage its funding program ahead of actual requirements, thus mitigating against the risk of having to finance when interest rates are high or market conditions are not receptive to new financings. While Provincial Treasury relies on its outlook for interest rates and foreign exchange to guide timing decisions for financings, the general bias is to lock-in fixed rate debt costs by ''averaging-in'' over the course of a year. It is judged imprudent to risk financing a large annual borrowing requirement strictly in accordance with a market outlook which may prove to be incorrect.

In 1994/95, the government instituted prudent measures to help safeguard against the possibility of severe financial market volatility impairing the province's financing ability. These measures included:

- Arranging a U.S. $1.0 billion internationally-syndicated backup line of credit. This is a standby facility as backup to the province's short-term borrowing program. The federal government and the Provinces of Ontario and Quebec have set up similar facilities and other provinces are following suit; and

- Replacing $1.8 billion of outstanding short-term debt with long-term floating rate debt, thereby increasing the province's capacity for short-term financing should markets become unfavourable for issuing long-term debt.

Minimize risk of refinancing maturing debt

The orderly retirement of future debt obligations without incurring undue refinancing risk is important for minimizing interest rate costs. To this end, the province relies on the following policies:

- The province has adopted one of the most conservative sinking fund policies among the provinces. Sinking funds are used to retire maturing debt. Sinking fund instalments are made each year for essentially all borrowings with terms of five years or more; current sinking fund balances of $4.9 billion will cover an estimated 60 per cent of the province's maturing debt with a remaining life of one year or longer; and
- The province deliberately issues its debt securities across the full range of terms from one to 30 years. A broad mix of debt maturities avoids "crowding" of refinancings in any year and further reduces the province's exposure to future interest rate risk.

As a result of these policies, the province's refinancing schedule is well-balanced, with an average level of annual net maturities over the next 10 years of $1.2 billion.

Diversify funding sources to reduce debt costs

Provincial Treasury actively diversifies its borrowing sources to cultivate strong domestic and international investor demand for British Columbia debt securities; strong demand helps minimize financing costs for the province. A broad investor base is also important, given the increased competition for funding and the need for multiple funding sources in the face of sometimes difficult and volatile capital markets.

On May 10, 1994, the province launched its Euro-debt issuance program (EDIP), which allows the province to gain more efficient and cost-effective access to European financial markets. EDIP has raised about $1.6 billion to date, all of which was in the form of yen-denominated notes fully converted back to Canadian dollar obligations by use of financial products. Compared to the cost of borrowing these funds domestically, EDIP saved the province $1.7 million.

The province also actively diversifies its financing program in Canada by attracting investors who are looking for alternatives to domestic public bond issues:

- The domestic medium-term note program, established in 1992 and the first of its kind for a province in Canada, has raised $2.1 billion through 51 separate offerings, saving $92 million compared to the cost of funds available from the domestic public bond market; and
- Another issue of savings bonds was offered exclusively to residents of British Columbia in 1994, raising $558 million. Savings bonds enable British Columbians to participate in the government's financing program. In total, the savings bond campaigns in 1992, 1993 and 1994 have raised $1.7 billion from local investors.

Foreign currency exposure is managed within conservative limits

From time to time the province borrows by issuing debt denominated in foreign currencies. The cost of repaying and servicing foreign currency denominated debt varies, in Canadian dollar terms, with the changes in the value of the Canadian dollar vis-a-vis these other currencies. Appreciation of the Canadian dollar vis-a-vis the U.S. dollar, for example, decreases the cost, in Canadian dollar terms, of repaying and servicing U.S. dollar obligations, whereas depreciation of the Canadian dollar increases such costs. The exposure of the province's debt portfolio to changes in the value of the Canadian dollar can be effectively offset and reduced to conservative levels through various hedging vehicles, including currency swaps.

Neither the government nor its Crown corporations has debt exposure to currencies other than U.S. or Canadian dollars.

The ministry's risk committee has set the maximum allowable U.S. dollar exposure for the government, excluding Crown corporations, at 10 per cent of net debt. U.S. dollar exposure was approximately 5 per cent as at February 28, 1995, or U.S. $554 million.

Among the Crown corporations, only British Columbia Hydro and Power Authority (B.C. Hydro) carries U.S. dollar debt exposure. B.C. Hydro's U.S. dollar debt obligations are largely hedged through B.C. Hydro's U.S. dollar revenue inflows, as well as through other financial hedges entered into over the past few years. B.C. Hydro's unhedged U.S. dollar debt exposure was 25.1 per cent of its gross debt as at February 28, 1995, or U.S. $1.7 billion, well within B.C. Hydro's 30 per cent authorized limit.

Prudent use of financial products

Subject to risk parameters set by the ministry's risk committee, Provincial Treasury uses financial products for hedging interest rate and currency risks associated with the existing debt portfolio and new borrowings. These financial products, or financial derivatives,[4] are not used in a speculative manner, but rather are matched against specific debt obligations to balance the overall mixes of fixed- and floating-rate debt and currency exposure for the debt portfolios. In this manner, Provincial Treasury affords itself a sufficient degree of flexibility for raising financing, while ensuring that variation in the annual costs of debt servicing and repayment is maintained within a tolerable range.

The ability to offset or hedge exposures through the use of financial products lends flexibility to the funding program by:

- Providing access to cost-effective Canadian dollar funding from foreign currency debt issues. Often, for example, foreign currency denominated notes issued through the province's EDIP are effectively converted to Canadian dollar obligations at substantial savings compared with Canadian dollar financings in the domestic market; and
- Allowing the province to "average-in" the timing and cost of its fixed-rate funding. Such financial products allow the province to tap the market for funds when the market is most receptive, without having to immediately incur large amounts of fixed-rate financing. Fixed-rate financing is thus averaged-in gradually rather than incurred intermittently in large amounts.

The province is subject to risk of default by the counterparty under the terms of a financial products transaction. For this reason, the ministry risk committee sets restrictive and high credit criteria for qualifying acceptable counterparties.

Looking ahead

The province will continue to take measures that ensure the best possible management of new and existing debt. These initiatives include:

- Refining debt management parameters and performance benchmarks;

[4] Derivatives are financial agreements whose returns are linked to, or derived from, the performance of some underlying asset, such as bonds, currencies or commodities.

- Working with major domestic and international investment banking firms to establish appropriate debt strategies for the province and the major Crown corporations to balance interest rate costs and risk;
- Prudent use of financial products to improve management of debt and associated interest rate and foreign exchange risks; and
- Ongoing diversification of the borrowing program to markets in Canada, the United States, Europe and Asia to search out the lowest-cost sources of financing.

Further, as a new initiative, the Ministry of Finance and Corporate Relations will consult with the Office of the Auditor General, credit rating agencies and investment banking firms on the contents of the annual Debt Management Progress Report to be produced in conjunction with the 1994/95 *Public Accounts*. The purpose of the report will be to improve the public's understanding of the province's debt and how it is managed. The report will consolidate all pertinent information on debt and debt management.

Tax Expenditures

Introduction

A tax expenditure is defined as using the tax system to provide a benefit to a specific group of taxpayers. This usually occurs by offering reduced tax rates, exemptions, or tax credits to the group receiving the benefit. Governments introduce tax expenditures primarily to implement social policy objectives such as transfers to lower income taxpayers or to promote economic development.

The major reason for reporting tax expenditures is to improve government accountability by providing a more complete picture of government spending. To meet this objective, British Columbia's major tax expenditures are presented in the following tables. Reporting on tax expenditures is also consistent with recommendations contained in the latest report of the Auditor General.

Tax expenditure reporting is relatively common. The Canadian federal government, the American federal government, some American states, several European national governments, and on occasion some Canadian provinces issue reports on tax expenditures. British Columbia last reported on tax expenditures in 1982.

The Role of Tax Expenditure Programs

The main reason governments use the tax system to deliver programs is to reduce administration costs for government and compliance costs for recipients. In certain situations, the tax system allows intended beneficiaries to be readily identified from information that is already collected. In these cases setting up a separate expenditure program would result in costly overlap and duplication of effort. An example is the provincial sales tax credit, which is delivered through the income tax system. If this were a direct provincial expenditure program, a provincial agency or office would have to be established to duplicate much of the work already done by Revenue Canada. In addition, it would require individuals to undergo a separate time-consuming application process in order to qualify for the benefit.

There are, however, several drawbacks to tax expenditure programs. First their overall cost receives less public scrutiny than is the case for spending programs because annual budget approvals are not typically required. Second, some tax expenditure programs confer the greatest benefits on those who pay the most taxes, which means that the major beneficiaries are often high-income earners. Sales tax exemptions, for example, often provide a greater absolute benefit to those with higher incomes because they have more to spend on consumer products. This can create the perception that the tax system is unfair. Finally, costs are often more difficult to control under a tax expenditure program because the benefits tend to be more open ended and enforcement is often more difficult than for spending programs.

Tax Expenditure Reporting

Two criteria were used to choose which tax expenditures to report. First, the emphasis is on tax preferences that are close equivalents to spending programs. This approach focuses on items that would not be out of place on a list of spending programs. By implication, the list does not include tax measures designed specifically to ensure fairness in the tax system, or simplify the administration of the tax. The list does not include items that are generally excluded from a particular tax base. For example, the revenue loss from not extending provincial sales tax to additional services is not included because most services are not subject to the sales tax.

Second, smaller items of less than $2 million were not included.

As a result, in this report, tax expenditures include major government programs delivered through the tax system, but do not include all items traditionally considered to be tax expenditures. Items such as the basic personal income tax credit are excluded because they are designed primarily to improve fairness in the tax system.

As with any definition of tax expenditures, these criteria leave some grey areas. Future tax expenditure reports will continue to refine and clarify the criteria used to define provincial tax expenditures.

British Columbia Tax Expenditure Programs

For presentation purposes, British Columbia tax expenditures are separated into two categories.

- *Provincial Tax Preferences:* This includes all major tax expenditures that are under provincial policy control.

- *Federal Tax Preferences:* British Columbia shares the cost of some federal income tax expenditure programs because, under the tax collection agreement between British Columbia and the federal government, the province has agreed to give up policy control of the income tax base in the interest of maintaining a consistent income tax system across the country. However, this also means the province has no direct control over income tax preferences delivered through changes to the income tax base.

The personal income tax expenditures that are included cover a range of policy objectives, including support for charitable activities, health care and education. Most corporation income tax expenditures, such as accelerated write-offs for Canadian development and exploration expenses, are intended to achieve economic development objectives.

The individual tax preferences should not be added together to reach a total for provincial tax expenditures for two reasons. First, in some cases the preferences interact with one another so that eliminating one preference could increase or decrease the cost of another preference. Second, eliminating certain preferences could change the choices taxpayers make, which in turn would affect the cost estimates.

TABLE F1 TAX EXPENDITURE	1994/95 Cost
	($ millions)
PROVINCIAL SALES TAX	
Provincial Tax Preferences	
Commissions paid to retailers and hotel operators	22
Exemptions for the following items:	
c Food (basic groceries, snack foods, candies, soft drinks and restaurant meals)	520
c Residential fuels (electricity, natural gas, propane, etc.)	100
c Prescription and non-prescription drugs, vitamins and certain other health care products and appliances	55
c Children's clothing and footwear	25
c Clothing patterns, fabrics and notions	7
c Specified school supplies	10
c Books, magazines and newspapers	50
c Basic telephone and cable service	35
c Two-wheeled bicycles	4
c Exempt energy conservation equipment	10
c Exempt safety equipment	8
c Labour to repair major household appliances, clothing and footwear	6
c Livestock for human consumption and agricultural feed, seed and fertilizer	25
c Exempt purchases by farmers, fishers and aquaculturalists	16
FUEL TAX	
Provincial Tax Preferences	
Tax exemption for alternative fuels	26
Tax exemption for international flights carrying cargo	5
Lower rate for family farm trucks (on road)	2
PERSONAL INCOME TAX	
Provincial Tax Preferences	
Sales tax credit	50
Venture capital tax credit	10
Employee venture capital tax credit	4
Political contributions tax credit	2
Federal Tax Preferences[1]	
Deduction and inclusion of alimony and child support payments	16
Charitable donations tax credit	71
Tax credits for tuition and education	30
Tax credits for disabilities and medical expenses	40
Pension income tax credit	24
Credit for persons older than 65 years	111
Exemption from capital gains of up to $500,000 for small businesses and family farms	84

TABLE F1 TAX EXPENDITURE — *Continued*		1994/95 Cost
		($ millions)
Tax deduction for residents of northern and isolated areas		15
Non-taxation of employer-paid insurance premiums for group private health and welfare plans		92
Registered retirement savings plans[2]:		
exemption for — contributions	302	
— investment earnings	226	
taxation of — withdrawals	(77)	
Total		451
Registered pension plans[2]:		
exemption for — contributions	409	
— investment earnings	630	
taxation of — withdrawals	(375)	
Total		664
CORPORATION INCOME TAX		
Provincial Tax Preferences		
International financial business tax refund[3]		5
Federal Tax Preferences[1]		
Charitable donations deduction		5
Accelerated write-offs for Canadian development and exploration expenses[4]		55
Accelerated write-off for capital equipment used in research and development[4]		3
Non-taxation of life insurance companies' world income		5
CORPORATION CAPITAL TAX		
Provincial Tax Preferences		
Exemption for family farm corporations		2
Exemption for cooperative corporations		2
Two-year tax holiday for eligible British Columbia investment expenditures		17
SCHOOL AND RURAL AREA PROPERTY TAXATION[5]		
Provincial Tax Preferences		
Home owner grant		417
Assessment of farm land at farm use values		78
School tax assessment reduction for farm buildings and farm land, and residences in the agricultural land reserve		15
Exemption for places of worship		7
Assessment exemption of $10,000 for industrial and business properties		2
Pollution equipment abatement		8
Overnight tourist accommodation assessment relief		3
Managed forest land classification		7
Municipal discretionary exemptions		12

TABLE F1 TAX EXPENDITURE — *Continued*	1994/95 Cost
	($ millions)
PROPERTY TRANSFER TAX	
Provincial Tax Preferences	
Exemption for first-time home buyers	26
Exemptions for the following items:	
c Property transfers between related individuals	23
c Property transfers to municipalities, regional districts, hospital districts, library boards, school boards, water districts and educational institutions	3
c Property transfers to charities registered under the *Income Tax Act* (Canada)	2
OTHER TAXES	
Horse racing tax — transfer of revenues to the British Columbia Racing Commission	9

[1] Provincial revenue loss based on estimates of the federal loss contained in Government of Canada, *Tax Expenditures,* December 1994. Certain items have been excluded where no data were available.

[2] Registered retirement savings plans and registered pension plans are treated in the same way as in the federal tax expenditure report. The tax expenditure associated with these schemes is presented as the amount of tax that would otherwise be paid in the year of deferral, were the deferral not available. However, this type of estimate overstates the true costs of these preferences because taxes are eventually paid, including tax on investment earnings. An estimate that does not overstate these costs would, however, be difficult to develop and would require some largely speculative assumptions.

[3] Includes employee income tax refunds.

[4] The accelerated write-offs for Canadian development and exploration expenses and for capital used in research and development are also reported in the same way as in the federal tax expenditure report. Since the write-offs allowed for income tax purposes are generally faster than would be reported on financial statements, there is a deferral of tax. Other tax deferrals, such as the difference between CCA rates and book depreciation are not reported because of the difficulty in measuring the value of the tax expenditure. (See Government of Canada, *Tax Expenditures,* December 1994 for details.)

[5] Estimates are for the 1994 calendar year, and include only school and rural area property taxes levied by the province.

Report G: IMPACT OF FEDERAL OFFLOADING

Overview and Summary

The 1995 federal budget announced the federal intention to introduce a single new block transfer, called the *Canada Social Transfer* (CST), that will replace the two existing major social transfers which fund health care, post-secondary education and social assistance.

The CST has been designed to effect a considerable reduction in provincial social transfer revenue. In 1996/97 and 1997/98, the province will receive $457 and $801 million *less*, respectively, than in 1994/95. The $801 million shortfall represents a 36 per cent reduction from 1994/95. These amounts build upon earlier federal transfer restrictions.

The cash transfers once paid for about a third of British Columbia health care, post-secondary education and income assistance expenditures. This will fall to 11 per cent in 1997/98.

Federal spending on social transfers to provinces will decline much more steeply than federal program spending when the actual cash transfers are considered.

The Government of British Columbia has not attempted to make local governments share in the added burden from the federal government.

It appears that the federal government wishes to drastically diminish its social policy funding relationship with the provinces. This poses difficult questions for British Columbia:

- How can the province ensure that British Columbians receive the quality health care, education and social services they need?
- What new arrangements could overcome the weak public accountability for federal spending decisions embodied in current transfers to provinces?
- How can desirable national standards for social benefits and services be maintained?

Introduction

In the 1960s and 1970s, the provinces and the federal government worked together to create a comprehensive social network of jointly-funded health care, post-secondary education and social assistance programs. The federal government committed to sharing approximately half the cost of these programs, which were administered by the provinces, through transfer payments.

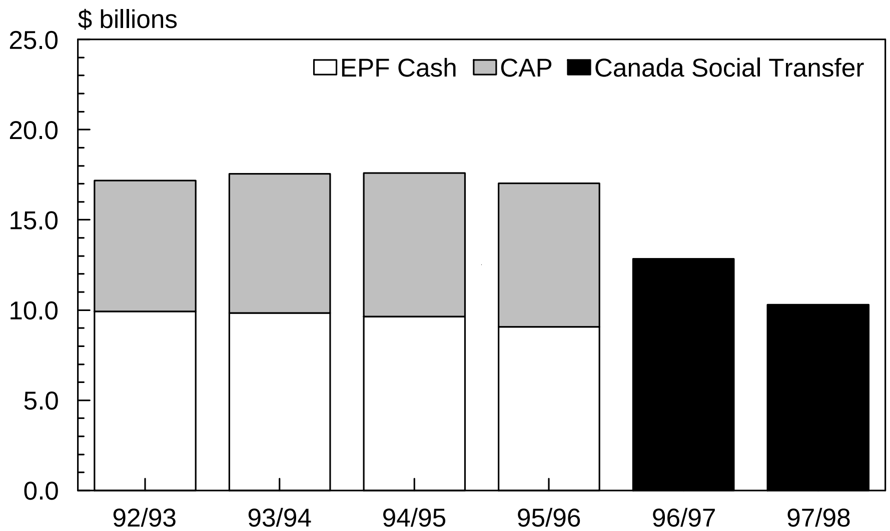
This system worked well until the early 1980s. Unfortunately, the federal fiscal position began to deteriorate rapidly at that time and the federal government reacted to its fiscal difficulties with the first of what would become a series of unilateral restrictions applied to its transfer payments.

This course of action was chosen even though social program costs (whether provincial or federal) were not the source of federal fiscal difficulties — a reality recently acknowledged by the federal government. Rather, the problem was created by a persistent federal failure over many years to balance its budgets, creating a need to borrow during a period when the rate of interest was high in real terms. The result was a vicious circle of high debt servicing costs, budgetary deficits and ever increasing federal debt. However, even though they have not been implicated in creating the federal fiscal problems, the provinces have borne the brunt of the main federal response to its fiscal difficulties: offloading.

Offloading

Federal transfer restrictions and reductions are called ‘‘offloading’’ because the federal portion of the ‘‘load’’ of financing health care, post-secondary education and social assistance programs is, in effect, transferred from the federal budget to provincial budgets. Because the provinces directly administer the major social programs, they are responsible for ensuring that specific social needs are adequately met. If there are fewer federal dollars to assist in providing this programming, provinces have to make difficult choices: reduce programming standards and benefit levels; reallocate their spending; raise revenues through increased taxation; or incur additional debt.

CHART G1
ESTIMATE OF MAJOR FEDERAL CASH TRANSFERS FOR SOCIAL PROGRAMS — ALL PROVINCES



Note: Equalization excluded. Source: 1995 Federal Budget

Offloading Measures Initiated in the 1995 Federal Budget

The 1995 federal budget announced the latest in a long series of federal offloading measures. Beginning in 1996/97, the federal government intends that a single new block transfer called the *Canada Social Transfer* (CST) will replace two existing transfers, currently funded under the Canada Assistance Plan (CAP) and the Established Programs Financing (EPF) arrangement. EPF and CAP have funded provincial health care, post-secondary education and income assistance programs for many years.

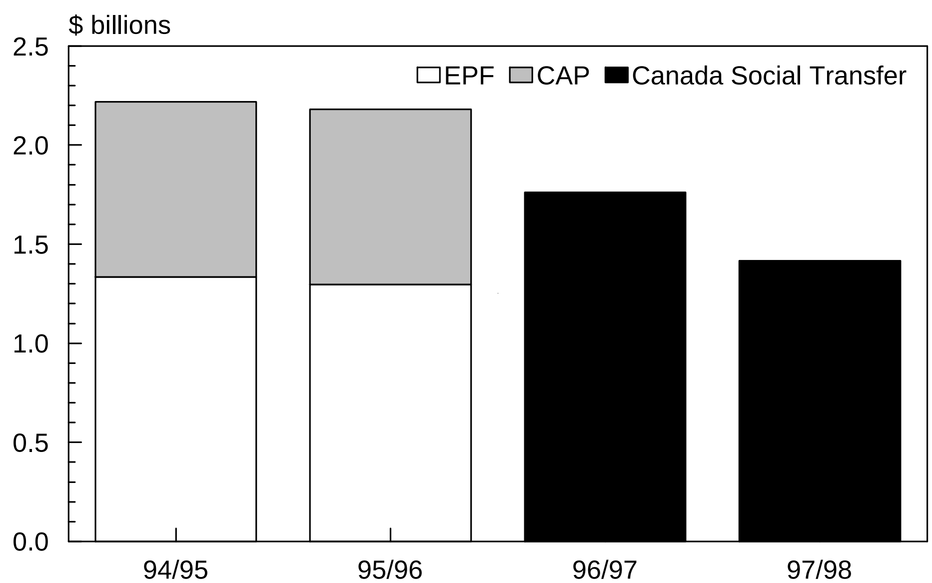
As Chart G1 illustrates, the CST has been designed to effect a considerable reduction in provincial social transfer revenue. When combined with the impacts of transfer restrictions introduced in the 1994 federal budget (which have yet to take effect), federal funding for all provinces' social programs will be reduced by approximately $4 billion in 1996/97 and $6 billion in 1997/98. The magnitude of these reductions is much larger than had been suggested by the federal government prior to its budget.

Impact on British Columbia

Chart G2 illustrates the negative impact of the CST arrangement on British Columbia.

In 1996/97, the province's major cash transfers will be $457 million *less* than the province received in 1994/95. The 1997/98 entitlement will be $801 million less — a reduction of 36 per cent from 1994/95.

CHART G2
REDUCTION IN FEDERAL CASH TRANSFERS — B.C.



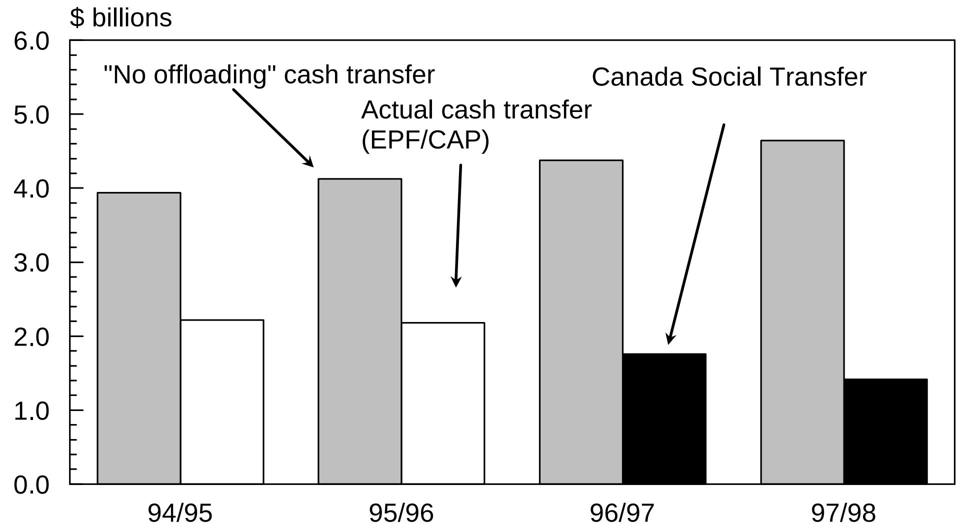
Source: B.C. Ministry of Finance and Corporate Relations; 1995 Federal Budget

Impact Combined with Previous Transfer Restrictions

The offloading totals calculated thus far build upon federal transfer restrictions introduced prior to 1994. Previous federal governments applied restrictions to provincial transfers beginning in 1982.

Chart G3 shows the considerable effect of *all* federal restraints, including those introduced in the 1994 and 1995 budgets, and illustrates the huge decline in the federal funding commitment to major social programs administered by the province.

CHART G3
MAJOR CASH TRANSFERS TO B.C. COMPARED TO ORIGINAL "NO OFFLOADING" AMOUNTS



Note: "No offloading" in this chart uses as a base reference what the EPF/CAP transfers would have been in a given year without federal offloading since 1982. Source - B.C. Ministry of Finance and Corporate Relations

If the transfer programs had not been altered from their original design (i.e., if the federal offloading measures since 1982 had not been imposed), British Columbia's major transfer entitlements would be higher by $1.5 billion in 1994/95, $1.7 billion in 1995/96, $2.4 billion in 1996/97 and $2.9 billion in 1997/98, than projected under current federal restraints[1].

[1] If federal restrictions to smaller transfer programs and the interest cost associated with previous offloading are added, the total negative fiscal impact of federal offloading on British Columbia rises to $2.4 billion in 1994/95, $3.2 billion in 1995/96, $4.0 billion in 1996/97 and $4.9 billion in 1997/98.

It should be emphasized again that the cost to the federal government of these transfers — as originally designed — should not have provided a justification for the high level of restraint that was imposed over the years. The largest transfer, EPF, could by formula grow no faster than the growth of nominal gross national product. The social assistance expenditures that were cost shared under the Canada Assistance Plan were growing more quickly than this, especially as the 1980s progressed. However, a considerable portion of the greater need for social assistance resulted from federal economic and monetary policies as the economy made adjustments to new trading patterns and very high real interest rates.

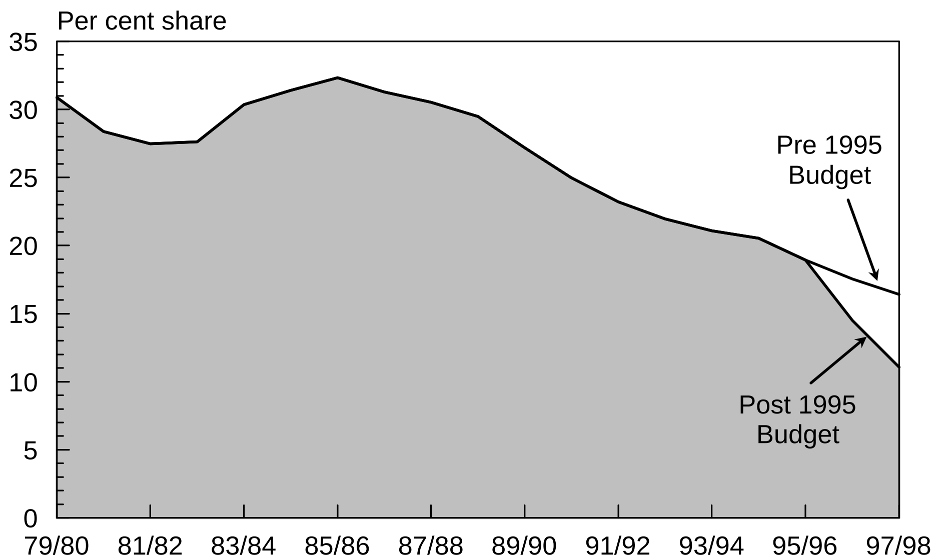
Declining Federal Partnership

Chart G4 shows, from another perspective, that the federal government's 1995 budget measures have escalated the long federal drift away from its social program funding partnership with the provinces.

The cash transfers once paid for about a third of British Columbia's health care, post-secondary education and income assistance expenditures.

This percentage share will fall to 11 per cent in 1997/98 and will very likely continue falling thereafter.

CHART G4
DECLINING FEDERAL CASH TRANSFERS - B.C.
TRANSFERS AS SHARE OF HEALTH CARE, POST-SECONDARY EDUCATION AND INCOME ASSISTANCE COSTS



Source: B.C.Ministry of Finance and Corporate Relations; 1995 Federal Budget

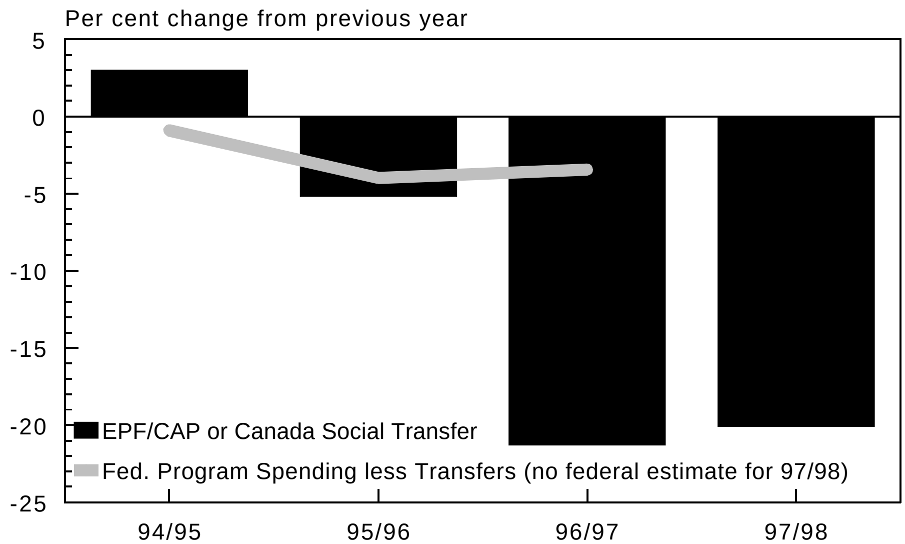
Undue Federal Restraint Emphasis on Provinces

The federal government claimed in its 1995 budget that it is not placing a greater burden on the provinces than it is on itself.

However, when one looks at estimated changes to the social *cash* transfers — the only real social transfers for provinces — this picture changes dramatically.

Chart G5 compares federal projections of rates of change in federal spending on purely federal programs to rates of change in spending on major social transfers (EPF and CAP or the Canada Social Transfer). It reveals that spending on social transfers is poised to decline *much* more steeply than federal program spending.

CHART G5
CHANGE TO MAJOR SOCIAL CASH TRANSFERS (EPF/CAP OR CANADA SOCIAL TRANSFER) FOR ALL PROVINCES COMPARED TO OTHER FEDERAL SPENDING



Source: 1995 Federal Budget

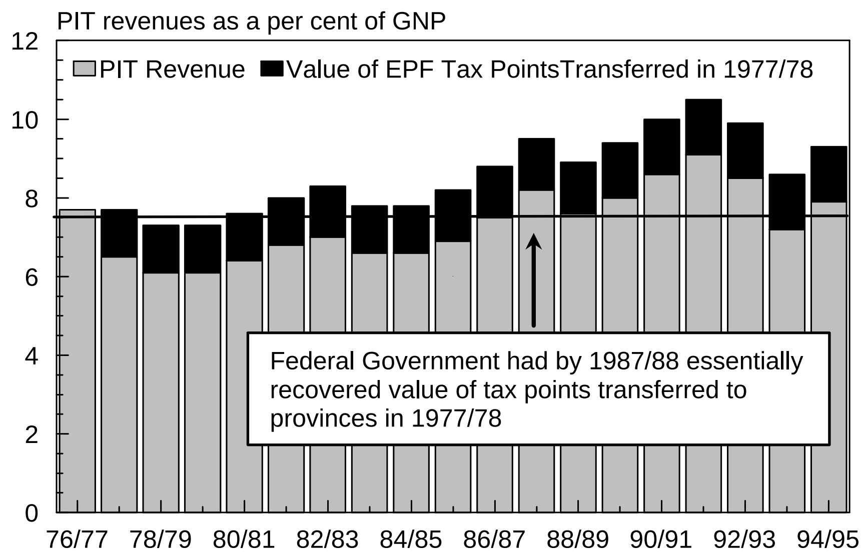
Calculations which show only a small year-to-year decrease in federal transfers for social programs can only be made through the use of an accounting anomaly: counting each year as a federal "transfer" the notional value of a federal vacating of tax room two decades ago. The federal government's 1977/78 arrangement for the largest transfer — EPF — was not that of a typical federal cash transfer. Rather, the federal "contribution" comprised two elements: a tax point transfer and a residual amount to be paid in cash.

Ever since that time, the federal government has counted the notional current year value of these tax points as part of its "contribution" to EPF. This accounting is questionable:

- In any budgetary sense, the tax point "transfer" is never actually transferred. In both federal and provincial budgets it shows up neither as a federal expenditure nor as provincial transfer revenue. In other words, the tax transfer has *no* budgetary impact on the federal government and is accounted for by provinces as "own source" revenue.

- Secondly, although the federal government undoubtedly did vacate a portion of its personal and corporate income tax base for the provinces in 1977/78, it managed to recapture this ''lost ground'' through tax increases imposed over the next decade (see Chart G6).

CHART G6
RECAPTURING THE TAX POINT TRANSFER



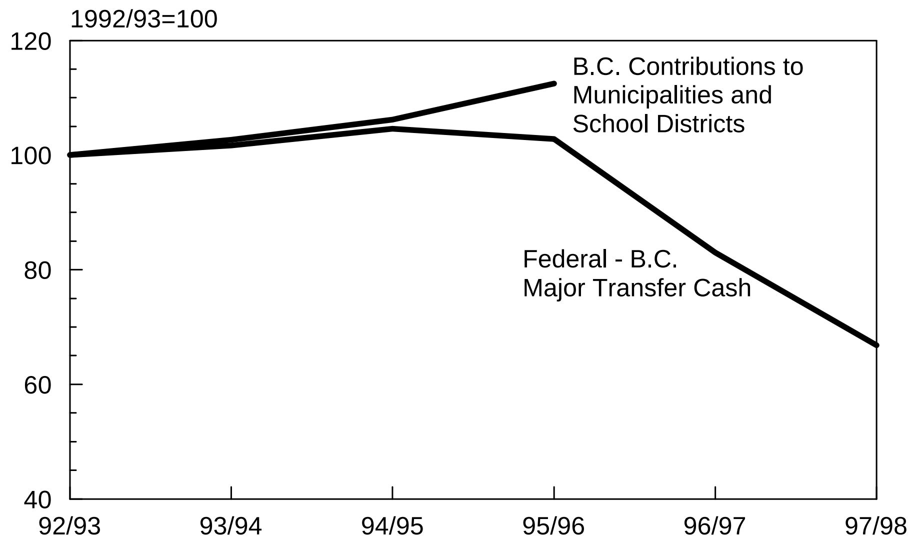
Source: Statistics Canada, FMS Survey

- Finally, is it appropriate for any order of government to claim in perpetuity that a transfer of tax room needed to rebalance the finances of the nation or fulfil some other national goal is a permanent contribution to the finances of the other order of government? In 1942, to aid the World War II effort, the provinces and municipalities transferred to the federal government the collection of all personal and corporate taxes. Provincial-local revenues dropped from 59 per cent of the Canadian total to 23 per cent. Yet the provinces did not count the transferred revenues as a permanent contribution to federal programs. Nor would it have been appropriate for them to do so. In the same vein it is not appropriate to envisage as a perpetual federal contribution the 1977 transfer of a much smaller portion of the federal tax base. This was a one time adjustment, not a permanent contribution.

Federal Offloading Not Mirrored in British Columbia Treatment of Local Governments

The weak public accountability of federal-provincial transfers has made it inviting for the federal government to pass on its fiscal troubles to the provinces. Chart G7 reveals that a parallel situation does *not* exist with regard to provincial-local relations in British Columbia. In contrast to the stagnant or declining levels of transfers received from the federal government, British Columbia's operating and capital contributions to local governments have been maintained at healthy levels.

CHART G7
COMPARING CHANGE IN FEDERAL-B.C. CASH TRANSFERS WITH B.C. GRANTS TO MUNICIPALITIES & SCHOOL DISTRICTS



Source: B.C. Ministry of Finance and Corporate Relations; 1995 Federal Budget

Conclusion

The federal government is intent on forcing the provinces to bear an unduly large share of the spending cuts announced in its 1995 budget. What aggravates this problem is that these cuts are being superimposed on top of a decade of progressively tighter restrictions applied to transfers. Further, the adverse fiscal impact of federal offloading on the provinces threatens to grow significantly in the coming years following the introduction of the CST block fund arrangement in 1996/97.

British Columbia can only conclude that the federal government wishes to withdraw from its social policy funding partnership with the provinces — a partnership that over the years has constructed a social programming mix that is highly appreciated at home and envied abroad. The breakdown of this funding partnership poses difficult questions for British Columbia:

- How can the province ensure that British Columbians, particularly those in need, receive the quality health care, education and social services they require?
- What new arrangements could overcome the weak public accountability for federal spending decisions embodied in current transfers to provinces?
- How can desirable national standards of social benefits and services be maintained in a world of declining federal influence? Such standards are essential if Canada is not to witness, in the name of competitiveness, an interprovincial "race for the bottom" in providing social benefits. In another light, they are also essential to prevent people from migrating between provinces simply to obtain social benefits, rather than to take advantage of economic opportunities.

Report H: SUPPLEMENTARY TABLES

TABLE H1
GENERAL ECONOMIC INDICATORS

	Unit or Base Period	1991	1992	1993	1994
Population and Labour Force:					
Population (July 1)	thousands	3,380	3,479	3,574	3,668
Net In-migration	number	59,702	69,452	77,634	80,315
Interprovincial	number	34,572	39,458	38,879	38,800
International	number	25,130	29,994	38,755	41,515
Labour force	thousands	1,761	1,809	1,845	1,913
Labour force participation rate*	per cent	67.2	67.1	66.3	66.7
Male	per cent	75.5	74.7	74.4	74.5
Female	per cent	59.1	59.6	58.5	59.1
Employment	thousands	1,585	1,619	1,666	1,733
Male	thousands	874	885	920	946
Female	thousands	711	735	745	787
Full-time	thousands	1,302	1,331	1,372	1,405
Part-time	thousands	283	288	294	328
Unemployment rate	per cent	10.0	10.5	9.7	9.4
Male	per cent	10.5	11.1	9.8	10.2
Female	per cent	9.4	9.8	9.6	8.5
Main Economic Indicators:					
Provincial gross domestic product	$ millions	81,344	86,337	92,127	98,660[1]
Capital investment (new)	$ millions	16,959	17,368	18,006	20,595
Retail sales	$ millions	23,537	24,433	26,349	28,899
New motor vehicle sales	thousand units	162	151	148	156
Housing starts	dwelling units	31,875	40,621	42,807	39,408
Building permits	$ millions	5,132	6,256	6,389	6,318
Exports	$ millions	15,215	16,353	19,016	22,807
Incomes:					
Personal income	$ millions	74,748	78,190	82,168	86,440[1]
Labour income	$ millions	45,453	48,256	51,388	54,425
Average weekly earnings	$	530.86	544.96	557.26	577.27
Prices:					
Consumer price index, B.C. (urban)	19865100	123.8	127.2	131.6	134.2
Consumer price index, Vancouver	19865100	123.7	127.4	132.0	134.7
Consumer price index, Victoria	19865100	123.8	126.4	130.2	132.8
Industrial product price index, Canada	19865100	108.6	109.1	112.7	119.1
B.C. export commodity price index	19865100	99	107	119	136

* Per cent of the working-age population in the labour force.

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TABLE H1

GENERAL ECONOMIC INDICATORS — *Continued*

	Unit or Base Period	1991	1992	1993	1994
Financial Indicators:					
Business incorporations	number	18,528	20,406	22,953	25,774
Business bankruptcies	number	1,262	1,031	830	827
Shares traded (Vancouver Stock Exchange)	$ millions	3,465	3,572	6,781	5,783
Personal savings deposits at chartered banks	$ millions	31,868	33,521	36,591	38,933
Sector Indicators:					
Manufacturing shipments	$ millions	23,259	24,852	27,124	30,668
Timber scaled	thousand cubic metres	73,677	74,006	79,239	75,649
Lumber production	thousand cubic metres	31,406	33,396	33,935	33,671
Pulp and paper production	thousand tonnes	6,677	6,646	7,048	7,629
Gross value of mineral production	$ millions	2,755	2,534	2,347	2,635[2]
Petroleum and natural gas production	$ millions	859	883	1,048	1,074[2]
Electric power generation (net)	million kilowatt hours	62,981	64,058	58,774	61,015
Farm cash receipts	$ millions	1,321	1,403	1,442	1,506
Foreign visitors	thousands	5,285	5,312	5,477	5,999
Regional Data:					
Housing Starts					
Vancouver		14,769	18,684	21,307	20,473
Victoria		2,129	2,421	2,633	2,303
Chilliwack		990	1,428	1,468	1,187
Kamloops		564	980	1,067	1,029
Kelowna		2,218	2,612	1,963	1,496
Matsqui		1,847	1,678	2,045	1,600
Nanaimo		942	1,313	1,520	996
Prince George		366	460	426	370
Campbell River		260	421	416	558
Courtenay		642	1,096	1,471	1,285
Duncan		415	507	625	498
Penticton		773	1,018	885	540
Vernon		802	794	742	650

Labour Markets	Employment 1993	Employment 1994	Unemployment Rate (%) 1993	Unemployment Rate (%) 1994
Greater Vancouver	866,100	899,700	9.3	9.0
Greater Victoria	139,000	145,700	8.6	7.6
East Kootenay	24,500	25,700	12.4	n.a.
Central Kootenay	42,800	46,100	9.8	11.3
Okanagan-Boundary	127,400	134,500	11.2	8.7
Lillooet-Thompson	62,300	62,600	10.4	12.0
Lower Mainland	969,800	1,005,500	9.3	9.1
Vancouver Island and Coast	285,600	299,000	10.0	9.4
Cariboo-Fort George	92,000	94,800	10.4	11.2
North	61,400	64,700	8.8	8.7

[1] Ministry of Finance and Corporate Relations estimate.
[2] Ministry of Energy, Mines and Petroleum Resources estimate.

TABLE H2

INTERPROVINCIAL COMPARISONS OF TAX RATES (RATES AS OF MARCH 17, 1995)[1]

Tax	**British Columbia**[2]	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
Personal income tax										
Percentage of basic federal tax[3]	52.5	45.5	50.0	52.0	58.0	N/A	64.0	59.5	59.5	69.0
Flat tax[4]	N/A	0.5	2.0	2.0	N/A	N/A	N/A	N/A	N/A	N/A
Surtax[5] rate	30/20	8	10/15	2	20/10	N/A	8	10	10	N/A
Threshold	$5,300/ $9,000	$3,500	$1/ $4,000	Net Income . $30,000	$5,500/ $8,000	N/A	$13,500	$10,000	$12,500	N/A
Provincial personal income tax (per cent of family income)[6]	6.0	5.7	8.1	7.3	6.7	8.3	7.4	6.9	6.9	7.9
Corporation income tax (per cent of taxable income)[7]										
General rate	16.5	15.5	17	17	15.5	8.90	17	16	15	16
Small business rate	10	6	8	9	9.5	5.75	7	5	7.5	5
Corporation capital tax[8]										
Non-financial	0.3	*Nil*	0.6	0.3/.05	0.3	0.56	*Nil*	*Nil*	*Nil*	*Nil*
Financial	1.0/3.0	2.0	3.25	3.0	1.0/1.12	1.12	3.0	3.0	3.0	3.0
Health care premiums[9]										
Individual/family	36/72	34/68	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*
Payroll tax (per cent)[10]	*Nil*	*Nil*	*Nil*	2.25	1.95	3.75	*Nil*	*Nil*	*Nil*	1.5
Insurance premium tax (per cent)[11]	2-3	2-3	2-3	2-3	2-3	2-3	2-3	3-4	3	4
Fuel taxes (cents per litre)										
Gasoline[12]	11.0	9.0	15.0	11.5	14.7	18.6	10.7	13.5	12.0	16.5
Diesel	11.5	9.0	15.0	10.9	14.3	16.6	13.7	15.4	12.5	16.5
Retail sales tax (per cent)										
General rate	7	*Nil*	9	7	8	6.5	11	11	10	12
Liquor	10	*Nil*	7	7	12	6.5	11	11	37.5	12
Meals	*Nil*	*Nil*	*Nil*	7	8	6.5	11	11	10	12
Accommodation	8	5	9	7	5	6.5	11	11	10	12
Tobacco tax (dollars per carton of 200 cigarettes)[13]	22.00	14.00	19.20	18.45	5.05	5.05	9.60	9.60	10.35	26.20

[1] Rates for the provinces are those that were announced prior to March 17, 1995 and come into effect during 1995.
[2] British Columbia tax rates are shown as announced in the March 28, 1995 Budget.
[3] Quebec has its own personal income tax system which is not directly comparable. Alberta, Saskatchewan, Manitoba, Ontario, Quebec and Nova Scotia provide general tax reductions at low income levels.
[4] Percentage of taxable income in Alberta and percentage of net income in Saskatchewan and Manitoba.
[5] Provincial high income surtaxes: the surtax rate is applied to provincial tax in excess of the threshold level (the Manitoba surtax applies to net income over $30,000). British Columbia and Ontario have two-tiered surtaxes. Saskatchewan's Debt Reduction Surtax is 10 per cent of basic provincial tax, reduced by $75.
[6] Calculated for a two income family of four with one spouse earning $35,000 and the other earning $20,000, both with employment income and claiming basic personal credits and typical major deductions.
[7] Alberta, Saskatchewan, Ontario, Prince Edward Island and Newfoundland have lower rates for manufacturing and processing.
[8] The British Columbia non-financial rate applies to corporations with net paid-up capital in excess of $1.5 million. Large Saskatchewan resource corporations are assessed a 3 per cent surcharge on the value of Saskatchewan resource sales.
[9] British Columbia has a two person rate of $64. British Columbia and Alberta offer premium assistance in the form of lower rates or an exemption from premiums for lower income individuals and families.
[10] Manitoba, Ontario and Newfoundland provide payroll tax relief for small businesses.
[11] The lower rate applies to premiums for life, sickness and accident insurance; the higher rate applies to premiums for property and casualty insurance (excluding motor vehicles). Sales tax applies to insurance premiums, except those related to individual life and health, in Ontario (8 per cent), Quebec (9 per cent) and Newfoundland (12 per cent). The sales tax is reduced to 5 per cent for auto insurance in Quebec and Ontario.
[12] Tax rate is for regular fuel used on highways. The British Columbia rate includes one cent per litre dedicated to the Transportation Financing Authority. The Quebec rate includes estimated sales tax.
[13] Includes estimated provincial sales tax where applicable.

TABLE H3

COMPARISON OF PROVINCIAL AND FEDERAL TAXES BY PROVINCE — 1995

Tax	**British Columbia**	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
	($)									
Unattached Individual — $25,000										
1. Provincial Income Tax	1,416	1,345	1,928	1,625	1,500	2,249	1,726	1,604	1,604	1,860
2. Property Tax	—	—	—	—	—	—	—	—	—	—
3. Retail Sales Tax	386	4	449	479	575	556	675	672	733	842
4. Fuel Tax	110	90	150	115	147	186	107	135	120	165
5. Provincial Direct Taxes	1,912	1,439	2,527	2,219	2,222	2,991	2,508	2,411	2,457	2,867
6. Health Care Premiums/ Payroll Taxes	432	408	—	563	488	938	—	—	—	375
7. Total Provincial Tax	2,344	1,847	2,527	2,782	2,710	3,929	2,508	2,411	2,457	3,242
8. Federal Income Tax	2,777	2,777	2,777	2,777	2,777	2,777	2,777	2,777	2,777	2,777
9. Net Federal GST	263	305	252	274	273	247	246	252	246	236
10. Total Tax	5,384	4,929	5,556	5,833	5,760	6,953	5,531	5,440	5,480	6,255
Unattached Individual — $80,000										
1. Provincial Income Tax	8,973	7,694	10,840	10,396	9,769	12,567	9,905	9,208	9,208	10,679
2. Property Tax										
— Gross	1,500	1,670	1,650	2,100	2,600	2,300	825	1,996	1,500	1,533
— Net	1,030	1,670	1,650	1,850	2,600	2,300	825	1,996	1,500	1,533
3. Retail Sales Tax	849	10	946	1,002	1,216	1,130	1,447	1,459	1,594	1,775
4. Fuel Tax	165	135	225	173	221	279	161	203	180	248
5. Provincial Direct Taxes	11,017	9,509	13,661	13,421	13,806	16,276	12,338	12,866	12,482	14,235
6. Health Care Premiums/ Payroll Taxes	432	408	—	1,800	1,560	3,000	—	—	—	1,200
7. Total Provincial Tax	11,449	9,917	13,661	15,221	15,366	19,276	12,338	12,866	12,482	15,435
8. Federal Income Tax	16,089	16,089	16,089	16,089	16,089	16,089	16,089	16,089	16,089	16,089
9. Net Federal GST	1,244	1,386	1,169	1,206	1,217	1,117	1,177	1,205	1,193	1,136
10. Total Tax	28,782	27,392	30,919	32,516	32,672	36,482	29,604	30,160	29,764	32,660
Two Income Family of Four — $55,000										
1. Provincial Income Tax	3,323	3,138	4,466	3,995	3,671	4,463	4,050	3,766	3,766	4,367
2. Property Tax										
— Gross	1,800	1,368	2,400	2,750	2,400	1,800	1,504	2,003	1,500	1,100
— Net	1,330	1,368	2,400	2,500	2,400	1,800	1,504	2,003	1,500	1,100
3. Retail Sales Tax	790	11	957	906	1,062	1,127	1,237	1,237	1,220	1,595
4. Fuel Tax	165	135	225	173	221	279	161	203	180	248
5. Provincial Direct Taxes	5,608	4,652	8,048	7,574	7,354	7,669	6,952	7,209	6,666	7,310
6. Health Care Premiums/ Payroll Taxes	864	816	—	1,238	1,073	2,063	—	—	—	825
7. Total Provincial Tax	6,472	5,468	8,048	8,812	8,427	9,732	6,952	7,209	6,666	8,135
8. Federal Income Tax	6,518	6,518	6,518	6,518	6,518	6,518	6,518	6,518	6,518	6,518
9. Net Federal GST	1,133	1,217	1,104	1,142	1,145	1,123	1,094	1,105	1,108	1,072
10. Total Tax	14,123	13,203	15,670	16,472	16,090	17,373	14,564	14,832	14,292	15,725

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TABLE H3

COMPARISON OF PROVINCIAL AND FEDERAL TAXES BY PROVINCE — 1995

— *Continued*

Tax	British Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
	($)									
Two Income Family of Four — $90,000										
1. Provincial Income Tax	6,995	6,484	9,132	8,988	7,728	10,782	8,527	7,927	7,927	9,193
2. Property Tax										
— Gross	2,400	1,843	3,650	3,950	3,950	2,900	2,340	2,591	2,400	1,555
— Net	1,930	1,843	3,650	3,700	3,950	2,900	2,340	2,591	2,400	1,555
3. Retail Sales Tax	1,053	15	1,246	1,164	1,393	1,403	1,612	1,621	1,598	2,066
4. Fuel Tax	165	135	225	173	221	279	161	203	180	248
5. Provincial Direct Taxes	10,143	8,477	14,253	14,025	13,292	15,364	12,640	12,342	12,105	13,062
6. Health Care Premiums/ Payroll Taxes	864	816	—	2,025	1,755	3,375	—	—	—	1,350
7. Total Provincial Tax	11,007	9,293	14,253	16,050	15,047	18,739	12,640	12,342	12,105	14,412
8. Federal Income Tax	13,723	13,723	13,723	13,723	13,723	13,723	13,723	13,723	13,723	13,723
9. Net Federal GST	1,509	1,631	1,437	1,467	1,502	1,399	1,425	1,448	1,452	1,388
10. Total Tax	26,239	24,647	29,413	31,240	30,272	33,861	27,788	27,513	27,280	29,523
Senior Couple with Equal Pension Incomes — $30,000										
1. Provincial Income Tax	725	308	991	143	181	889	884	822	822	953
2. Property Tax										
— Gross	1,800	1,368	2,400	2,750	2,400	1,800	1,504	2,003	1,500	1,100
— Net	1,055	368	2,400	2,500	2,400	1,800	1,504	2,003	1,500	1,100
3. Retail Sales Tax	680	16	806	766	908	1,042	1,072	1,044	1,073	1,412
4. Fuel Tax	110	90	150	115	147	186	107	135	120	165
5. Provincial Direct Taxes	2,570	782	4,347	3,524	3,636	3,917	3,567	4,004	3,515	3,630
6. Health Care Premiums/ Payroll Taxes	768	816	—	—	—	—	—	—	—	—
7. Total Provincial Tax	3,338	1,598	4,347	3,524	3,636	3,917	3,567	4,004	3,515	3,630
8. Federal Income Tax	1,423	1,423	1,423	1,423	1,423	1,423	1,423	1,423	1,423	1,423
9. Net Federal GST	853	965	804	850	844	849	818	802	823	822
10. Total Tax	5,614	3,986	6,574	5,797	5,903	6,189	5,808	6,229	5,761	5,875

Personal Income Tax

c Income tax is based on basic personal credits, applicable provincial credits, and typical major deductions at each income level. Quebec residents pay federal income tax less an abatement of 16.5 per cent of basic federal tax. This abatement has been used to reduce Quebec provincial tax rather than federal tax, for comparative purposes. The two income family of four with $55,000 annual income is assumed to have one spouse earning $35,000 and the other $20,000, the family with $90,000 income is assumed to have one spouse earning $50,000 and the other $40,000, and each senior is assumed to receive $15,000 each. All representative families are assumed to have employment income except the senior couple.

Property Tax

c Estimates of property taxes are from Royal LePage Winter 1995 Survey of Canadian House Prices. It is assumed that the individual at $25,000 rents accommodation; the family at $55,000 and the senior couple own bungalows; the family at $90,000 owns a two-storey executive style home; and the single at $80,000 owns a luxury condominium, in a major city for each province. Net property taxes are estimated as taxes owing after credits provided through the property tax system are subtracted.

Sales and Fuel Tax Estimates

c Includes sales tax on meals, liquor and accommodation. Estimates are based on expenditure patterns from the 1992 Survey of Family Expenditures. In estimating individual and family taxable consumption, disposable income is reduced by 20 per cent to reflect housing (mortgage and property taxes or rent) costs. The senior couple is assumed to own their own home and have no mortgage costs. For each province, disposable income is further reduced by estimated federal income taxes, estimated provincial income taxes and health care premiums if applicable. In addition, the single individual with $80,000 annual income and the family with $90,000 annual income are assumed to have savings equal to five per cent of their disposable income. For each family, disposable income is distributed among expenditures using the consumption pattern of a typical family with the relevant characteristics as estimated by the family expenditure survey. The provincial retail sales tax and the federal goods and services tax (GST) components of these expenditures are then calculated. GST estimates have been reduced by the GST credit, where applicable.

c Fuel tax is based on annual consumption: 1,000 litres of unleaded fuel for the single at $25,000, and the senior couple; others are assumed to consume 1,500 litres.

Health Care Premiums/Payroll Tax

c Health care premiums are levied in British Columbia and Alberta only. Approximately 50 per cent of British Columbia premiums are paid by employers on behalf of their employees with the remainder paid by individuals, either by employees or by residents who are not employed. Payroll taxes, in the four provinces that levy them, are paid by the employer. The cost to employers of payroll taxes and health care premiums paid on behalf of employees is generally reflected in reduced wages.

Effective Tax Rates

c British Columbia taxes have been calculated using rates as presented in the 1995 provincial budget. Taxes for other provinces were calculated using rates that were announced prior to March 17, 1995, and that come into effect during 1995.

TABLE H4

SUMMARY OF OPERATING AND FINANCING TRANSACTIONS
CONSOLIDATED REVENUE FUND

	Actual 1991/92	Actual 1992/93	Actual 1993/94	Revised Forecast 1994/95	Budget Estimate 1995/96
	($ millions)				
Revenue[1]	14,620.0	16,243.0	17,997.8	19,244.0	20,300.0
Expenditure	17,154.4	17,935.7	18,912.9	19,614.0	20,186.0
Surplus (Deficit)	(2,534.4)	(1,692.7)	(915.1)	(370.0)	114.0
Net Receipts (Disbursements) from Financing and Working Capital Transactions[2]	521.0	(592.2)	22.2	(21.0)	(100.0)
Decrease (Increase) in Cash and Short-Term Investments	128.8	(74.1)	(394.7)	266.0	—
British Columbia Endowment Fund Proceeds	—	—	—	200.0	400.0
Net (Increase) Decrease in Government Direct Debt	(1,884.6)	(2,359.0)	(1,287.6)	75.0	414.0
Net Debt at Year End:[3]					
Government Direct	6,610.5	8,969.5	10,257.1	10,182.1	9,768.1
Crown Corporation and Agency	12,541.6	13,376.1	14,635.4	15,695.0	17,119.0
Other Fiscal Agency Loans	241.5	385.9	479.1	498.3	442.9
Other Debt[4]	647.2	679.6	545.1	524.1	525.7
Total Net Debt at Year End	20,040.8	23,411.1	25,916.7	26,899.5	27,855.7

[1] For comparative purposes, revenue has been restated to reflect an accounting change in 1993/94 to record personal income tax on an accrual basis. Revenue includes actual and estimated amounts due to the province regardless of when the cash is received.

[2] Financing and working capital transactions represent either a source or use of funds, such as the payment or collection of loans and accounts payable/receivable. They do not cause a change in the annual surplus (deficit) but only a change in the composition of the provincial government's assets and liabilities.

[3] Net of sinking funds and unamortized discount balances.

[4] Includes student assistance loans, loan guarantees to agricultural producers and guarantees issued under economic development assistance programs and the British Columbia mortgage assistance program. Also includes non-guaranteed debt of British Columbia Lottery Corporation, British Columbia Railway Company (Vancouver Wharves Ltd.), the Pacific National Exhibition and Provincial Rental Housing Corporation.

TABLE H5

REVENUE BY SOURCE
CONSOLIDATED REVENUE FUND

	Actual 1991/92	Actual 1992/93	Actual 1993/94	Revised Forecast 1994/95	Budget Estimate 1995/96	Annual Rate of Growth 1991/92 to 1995/96
	($ millions)					(per cent)
Taxation Revenue:						
Personal income[1]	4,013.1	4,212.1	4,477.2	4,705.0	5,040.0	5.9
Corporation income	577.4	545.0	719.4	998.0	1,325.0	23.1
Social service	1,990.5	2,085.3	2,643.3	2,875.0	3,034.0	11.1
Fuel	538.8	591.1	641.7	660.0	678.0	5.9
Tobacco	433.0	483.2	482.4	500.0	505.0	3.9
Property — residential (school purpose)	332.1	416.2	441.6	473.0	487.0	10.0
Property — business (school purpose)	579.3	638.9	685.7	680.0	700.0	4.8
Property — rural area	54.5	55.0	57.7	59.0	63.0	3.7
Property transfer	282.4	353.1	372.6	325.0	290.0	0.7
Corporation capital	13.4	320.3	359.1	374.0	397.0	133.3
Insurance premium	115.4	128.7	147.1	153.0	160.0	8.5
Hotel room	58.6	58.7	62.7	65.0	68.0	3.8
Horse racing	5.9	6.0	5.4	7.0	6.0	0.4
Total taxation revenue	8,994.4	9,893.6	11,095.9	11,874.0	12,753.0	9.1
Natural Resource Revenue:						
Petroleum and natural gas:						
Natural gas royalties	73.8	76.4	134.2	138.0	124.0	13.9
Permits and fees	91.5	66.3	214.0	219.0	133.0	9.8
Petroleum royalties	43.4	54.1	44.8	48.0	54.0	5.6
	208.7	196.8	393.0	405.0	311.0	10.5
Minerals	41.8	38.1	46.6	50.0	79.0	17.2
Forests:						
Timber sales	428.4	505.4	686.4	935.0	932.0	21.4
Small business forest enterprise program	131.4	176.1	282.5	350.0	473.0	37.7
Logging tax	(24.5)	(6.3)	21.9	66.0	70.0	—
Other forests revenue	48.2	46.1	40.8	47.0	47.0	(0.6)
	583.5	721.3	1,031.6	1,398.0	1,522.0	27.1
Water resources	253.1	289.4	284.8	260.0	269.0	1.5
Downstream benefits	—	—	—	—	250.0	—
Wildlife Act	14.1	14.7	15.7	18.0	20.0	9.1
	267.2	304.1	300.5	278.0	539.0	19.2
Total natural resource revenue	1,101.2	1,260.3	1,771.7	2,131.0	2,451.0	22.1

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TABLE H5

REVENUE BY SOURCE — *Continued*
CONSOLIDATED REVENUE FUND

	Actual 1991/92	Actual 1992/93	Actual 1993/94	Revised Forecast 1994/95	Budget Estimate 1995/96	Annual Rate of Growth 1991/92 to 1995/96
	($ millions)					(per cent)
Other Revenue:						
Medical Services Plan premiums	742.2	776.4	778.7	806.0	826.0	2.7
Motor vehicle licences and permits	219.9	231.6	268.7	288.0	297.0	7.8
Other fees and licences	283.2	309.4	334.9	346.0	334.0	4.2
Investment earnings	131.9	122.6[2]	128.4	75.0	98.0	(7.2)
British Columbia Endowment Fund	51.9	46.9	70.6	72.0	18.0	(23.3)
Miscellaneous	196.9	171.1	231.5	189.0[3]	210.0	1.6
Total other revenue	1,626.0	1,658.0	1,812.8	1,776.0	1,783.0	2.3
Contributions from Government Enterprises:						
Liquor Distribution Branch	454.1	517.1	554.8	570.0	579.0	6.3
British Columbia Hydro and Power Authority	—	237.6	244.7	201.0	146.0	—
British Columbia Lottery Corporation	219.1	227.0	233.8	234.0	230.0	1.2
Other	27.3	33.9	15.0	26.0	15.0	(13.9)
Total contributions from government enterprises	700.5	1,015.6	1,048.3	1,031.0	970.0	8.5
Contributions from the Federal Government:						
Established Programs Financing — Health[1]	935.8	1,070.2	932.7	1,025.1	985.6	1.3
Established Programs Financing — Post-Secondary Education[1]	315.1	372.4	315.4	349.9	336.4	1.6
Canada Assistance Plan	766.6	793.7	842.4	882.0	883.0	3.6
Other	180.4	179.2	178.6	175.0	138.0	(6.5)
Total contributions from the federal government	2,197.9	2,415.5	2,269.1	2,432.0	2,343.0	1.6
TOTAL REVENUE	14,620.0	16,243.0	17,997.8	19,244.0	20,300.0	8.6

[1] For comparative purposes, revenue has been restated to reflect an accounting change in 1993/94 to record personal income tax on an accrual basis. This change also effects Established Programs Financing (EPF) revenue as the amount of the EPF entitlement is determined by deducting a tax transfer of 13.5 points of personal income tax and one point of corporate income tax. Revenue includes actual and estimated amounts due to the province regardless of when the cash is received.
[2] Beginning in 1992/93, investment earnings resulting from prefunding of operations (early borrowing) are deducted from expenditure.
[3] Beginning in 1994/95, allowances for uncollectible accounts are deducted from revenue. Previously, these amounts were recorded as expenditure.

TABLE H6

EXPENDITURE BY FUNCTION[1]
CONSOLIDATED REVENUE FUND

	Actual 1991/92	Actual 1992/93	Actual 1993/94	Revised Forecast 1994/95	Budget Estimate 1995/96	Annual Rate of Growth 1991/92 to 1995/96
	($ millions)					(per cent)
Health	5,616.7	6,002.9	6,288.4	6,555.8	6,706.7	4.5
Social services	1,993.7	2,366.5	2,704.7	2,803.8	2,879.7	9.6
Education	4,521.5	4,803.8	4,983.7	5,364.0	5,597.7	5.5
Protection of persons and property	814.6	883.1	987.0	1,028.9	1,023.7	5.9
Transportation	1,262.1	1,077.6	1,030.0	902.5	890.6	(8.3)
Natural resources and economic development	1,404.3	1,154.9	1,135.9	1,291.7	1,252.7	(2.8)
Other	612.7	558.7	624.2	474.5	623.1	0.4
General government	286.0	274.7	243.3	228.8	232.8	(5.0)
Debt servicing	642.8	813.5[2]	915.7	964.0	979.0	11.1
TOTAL EXPENDITURE	17,154.4	17,935.7	18,912.9	19,614.0	20,186.0	4.2

[1] Expenditure by function has been restated to conform more closely to the presentation used by Statistics Canada.
[2] Beginning in 1992/93, investment earnings resulting from prefunding of operations (early borrowing) are deducted from expenditure.

TABLE H7
NET DEBT SUMMARY[1]

As at March 31,	Actual 1992	Actual 1993	Actual 1994	Revised Forecast 1995	Budget Estimate 1996
	($ millions)				
Purposes:					
Provincial Government Direct	6,610.5	8,969.5	10,257.1	10,182.1	9,768.1
Commercial Crown Corporations and Agencies:					
British Columbia Hydro and Power Authority	7,226.1	7,259.7	7,614.8	7,652.1	7,902.1
British Columbia Railway Company	255.8	250.4	287.9	416.8	401.1
Other[2]	6.2	—	1.5	—	—
	7,488.1	7,510.1	7,904.2	8,068.9	8,303.2
Economic Development Crown Corporations and Agencies:					
British Columbia Ferry Corporation	200.9	348.7	418.0	419.1	531.0
British Columbia Transit	1,326.5	1,370.5	1,370.5	1,473.1	1,597.9
BC Transportation Financing Authority	—	—	73.0	274.9	611.9
Other[3]	6.7	9.3	20.4	20.4	20.1
	1,534.1	1,728.5	1,881.9	2,187.5	2,760.9
Social and Government Services Crown Corporations and Agencies:					
British Columbia Assessment Authority	8.0	5.5	5.9	5.0	5.0
British Columbia Buildings Corporation	537.6	578.8	612.3	682.4	751.6
British Columbia Educational Institutions Capital Financing Authority	606.7	755.7	958.1	1,117.0	1,249.1
British Columbia Regional Hospital Districts Financing Authority	978.2	1,049.4	1,079.7	1,219.4	1,375.7
British Columbia School Districts Capital Financing Authority	1,142.6	1,392.5	1,787.3	2,178.2	2,450.0
Capital Project Certificate of Approval Program[4]	251.2	369.5	409.6	250.0	250.0
British Columbia Systems Corporation	30.5	28.5	26.0	23.9	22.7
	3,554.8	4,179.9	4,878.9	5,475.9	6,104.1
Other Fiscal Agency Loans:					
Greater Vancouver Sewerage and Drainage District	93.4	161.5	197.5	186.6	174.7
Greater Vancouver Water District	69.8	102.2	130.2	136.7	130.6
Universities and Colleges	74.8	117.8	148.3	172.2	134.6
Local Governments	3.5	4.4	3.1	2.8	3.0
	241.5	385.9	479.1	498.3	442.9
Less Amounts Held as Investments/Cash for Relending by the Consolidated Revenue Fund and Crown Corporations and Agencies	35.4	42.4	29.6	37.3	49.2
Government, Crown Corporation and Agency Debt Total	19,393.6	22,731.5	25,371.6	26,375.4	27,330.0
Other Guarantees[5]	574.8	590.6	425.5	407.0	411.5
Total Direct and Guaranteed Debt	19,968.4	23,322.1	25,797.1	26,782.4	27,741.5

TABLE H7
NET DEBT SUMMARY[1] — *Continued*

As at March 31,	Actual 1992	Actual 1993	Actual 1994	Revised Forecast 1995	Budget Estimate 1996
	($ millions)				
Non-Guaranteed Debt[6]	72.4	89.0	119.6	117.1	114.2
Total Provincial Debt	**20,040.8**	**23,411.1**	**25,916.7**	**26,899.5**	**27,855.7**
Taxpayer-Supported Debt[7]	**12,547.5**	**15,895.9**	**17,981.1**	**18,802.5**	**19,529.1**
Total Provincial Debt as a per cent of GDP	24.6%	27.1%	28.1%	27.3%	26.9%
Taxpayer-Supported Debt as a per cent of GDP	15.4%	18.4%	19.5%	19.1%	18.8%

[1] Net debt is after deduction of sinking funds and unamortized discounts, and excludes accrued interest. Government direct and fiscal agency accrued interest is reported in the government's accounts as an accounts payable.
[2] Includes WLC Developments Ltd.
[3] Includes British Columbia Housing and Employment Development Financing Authority, British Columbia Housing Management Commission and the Pacific Racing Association.
[4] Short-term borrowings obtained by financing authorities under the Certificate of Approval Program are used as interim financing of capital construction and are eventually converted to long-term debt.
[5] Includes student assistance loans, loan guarantees to agricultural producers and guarantees issued under economic development assistance programs and the British Columbia mortgage assistance program. Includes loan guarantee provisions.
[6] Includes debt of British Columbia Lottery Corporation, British Columbia Railway Company (Vancouver Wharves Ltd.), the Pacific National Exhibition and Provincial Rental Housing Corporation that is not guaranteed by the provincial government.
7 Excludes guaranteed and fiscal agency debt of commercial Crown corporations and agencies, and non-guaranteed debt of British Columbia Lottery Corporation and British Columbia Railway Company (Vancouver Wharves Ltd.).

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