

Debt Statistics

1997/98



BRITISH
COLUMBIA

Ministry of Finance
and Corporate Relations

Honourable Joy K. MacPhail
Minister

Message from the Minister

I am pleased to present the fourth annual *Debt Statistics* report for fiscal year 1997/98.

This report provides a comprehensive and concise reference tool for British Columbians interested in knowing what makes up the provincial debt and how their government manages it.

Our Financial Management Plan is designed to balance the needs of a growing population for more schools, hospitals and other debt-supported projects, with the need to keep the province's debt manageable. By linking debt to provincial gross domestic product (GDP), the Plan ensures that the level of debt remains affordable.

Our plan is keeping British Columbia's ratio of debt to gross domestic product and debt per person among the lowest of all Canadian provinces. It is also maintaining British Columbia's credit rating among the highest of all Canadian provinces.

In 1997/98, British Columbia's performance exceeded the goals of the Financial Management Plan in the 1997 Budget.

The Report of the Auditor General, for the year ended March 31, 1998, is included in Section 1. The Auditor General has not been associated with the development of the Financial Management Plan. The Plan is the responsibility of the government.

I welcome your comments and suggestions on this edition of *Debt Statistics*.



Joy K. MacPhail
Minister of Finance and Corporate Relations

PROVINCE OF BRITISH COLUMBIA DEBT STATISTICS

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The Debt Statistics is also available on the Internet at <http://www.fin.gov.bc.ca>

Section I

**Province of
British Columbia
Debt Report**



Report of the Auditor General of British Columbia

ON THE SUMMARY OF PROVINCIAL NET DEBT, KEY INDICATORS OF PROVINCIAL DEBT, AND SUMMARY OF KEY BENCHMARKS

*To the Legislative Assembly
of the Province of British Columbia
Parliament Buildings
Victoria, British Columbia*

The government of British Columbia, in its Budget '95 (Report E), presented a debt management plan. In that plan the government stated that it will annually provide an audited report on its progress in meeting plan goals and benchmarks. Accordingly, I reported on the government's debt management progress reports for the years ended March 31, 1995 to 1997. In its Budget '97 (Report C), the government introduced a financial management plan, with new benchmarks, to replace its debt management plan, and asked me to provide an opinion to the Legislative Assembly on the completeness and accuracy of the Summary of Provincial Net Debt, Key Indicators of Provincial Debt and Summary of Key Benchmarks relating to the plan.

This, my fourth report, allows the reader to compare the 1997/98 fiscal year information to the prior year information on provincial debt and its indicators, and to the benchmarks published in Budget '97. The preparation of this information is the responsibility of the government. My responsibility is to express an opinion on the completeness and accuracy of such information.

Scope

I examined financial and other information included in the statements titled *Summary of Provincial Net Debt as at March 31, 1998*, *Key Indicators of Provincial Debt for the Fiscal Year ended March 31, 1998*, and *Summary of Key Benchmarks for the Fiscal Year ended March 31, 1998* in accordance with procedures I considered necessary in the circumstances. These procedures include the verification of financial information extracted from financial statements audited by myself or by other auditors whose work I have reviewed on a test basis. They also include confirming the statistical data used by the government on the Province's population and gross domestic product; however, I did not perform an audit of such data. I also assessed the appropriateness of the calculation and presentation of the information contained in the statements.

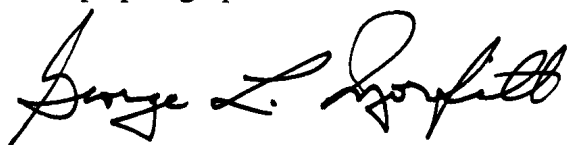
AUDITOR GENERAL'S REPORT
ON THE SUMMARY OF PROVINCIAL NET DEBT,
KEY INDICATORS OF PROVINCIAL DEBT, AND
SUMMARY OF KEY BENCHMARKS

Opinion

As a result of applying these procedures, I am of the opinion that the information included in the statements titled *Summary of Provincial Net Debt as at March 31, 1998*, *Key Indicators of Provincial Debt for the Fiscal Year ended March 31, 1998*, and *Summary of Key Benchmarks for the Fiscal Year ended March 31, 1998* are, in all significant respects, consistent with the sources from which they are extracted, and are presented in a manner consistent with the requirements of the financial management plan. The results are based on the entity used by the government in reporting on the financial operations of the Province.

Disclaimer

I have not been associated with the development of the financial management plan, nor have I audited the plan. The plan is the responsibility of the government. My responsibility is limited to examining the information included in the statements specifically referred to in the above scope paragraph.



Victoria, British Columbia

October 8, 1998

Summary of Provincial Net Debt, Key Indicators of Provincial Debt and Summary of Key Benchmarks

SUMMARY OF PROVINCIAL NET DEBT¹ As at March 31

	1998	1997
	(\$ millions)	
Taxpayer-supported Debt		
Provincial Government Direct.....	11,473.4	11,030.5
Economic Development Crown Corporations and Agencies		
BC Transportation Financing Authority.....	1,084.1	915.6
British Columbia Ferry Corporation.....	795.2	684.9
British Columbia Transit.....	1,578.5	1,537.2
Other ²	59.9	48.4
	<u>3,517.7</u>	<u>3,186.1</u>
Social and Government Services Crown Corporations and Agencies		
British Columbia Assessment Authority.....	4.8	6.2
British Columbia Buildings Corporation.....	734.9	735.4
British Columbia Educational Institutions Capital Financing Authority.....	1,308.8	1,345.7
British Columbia Regional Hospital Districts Financing Authority.....	1,377.5	1,373.0
British Columbia School Districts Capital Financing Authority.....	2,908.5	2,770.2
Capital project certificate of approval program ³	174.1	172.1
British Columbia Systems Corporation ⁴	—	19.3
	<u>6,508.6</u>	<u>6,421.9</u>
Other Fiscal Agency Loans		
Universities and colleges.....	144.2	154.3
Local governments.....	3.5	3.3
	<u>147.7</u>	<u>157.6</u>
Other Guarantees		
Student assistance loans.....	86.4	148.4
British Columbia home mortgage assistance and second mortgage programs.....	47.2	53.7
Other ⁵	65.9	33.9
	<u>199.5</u>	<u>236.0</u>
Non-Guaranteed Debt⁶	<u>131.6</u>	<u>120.4</u>
Less Internally Held Funds⁷	<u>—</u>	<u>0.8</u>
Total Taxpayer-supported Debt	<u>21,978.5</u>	<u>21,151.7</u>
Self-supporting Debt		
Commercial Crown Corporations and Agencies		
British Columbia Hydro and Power Authority.....	7,233.6	7,477.2
British Columbia Railway Company.....	487.8	390.6
552513 British Columbia Ltd. (Skeena Cellulose Inc.) ⁸	64.6	—
Columbia Power Corporation.....	—	3.1
	<u>7,786.0</u>	<u>7,870.9</u>
Warehouse Borrowing Program	<u>211.5</u>	<u>100.0</u>
Non-guaranteed Debt⁹	<u>206.3</u>	<u>124.9</u>
Total Self-supporting Debt	<u>8,203.8</u>	<u>8,095.8</u>
Total Provincial Debt	<u>30,182.3</u>	<u>29,247.5</u>

KEY INDICATORS OF PROVINCIAL DEBT For the Fiscal Year Ended March 31

	1998	1997
Debt to Revenue (per cent)		
Total Provincial.....	98.8	97.8
Taxpayer-supported.....	93.5	91.3
Debt per Capita (\$)		
Total Provincial.....	7,615	7,534
Taxpayer-supported.....	5,545	5,449
Debt to GDP (per cent)		
Total Provincial.....	27.6	27.6
Taxpayer-supported.....	20.1	20.0
Interest Bite (cents per dollar of revenue)		
Total Provincial.....	7.6	8.0
Taxpayer-supported.....	7.0	7.3
Interest costs (\$ millions)		
Total Provincial.....	2,313	2,386
Taxpayer-supported.....	1,656	1,692
Interest Rate (per cent)		
Taxpayer-supported.....	7.7	8.2
Background Information:		
Revenue (\$ millions)		
Total Provincial.....	30,540	29,919
Taxpayer-supported.....	23,516	23,174
Total Debt (\$ millions)		
Total Provincial.....	30,182	29,248
Taxpayer-supported.....	21,979	21,152
Provincial GDP (\$ millions)	109,347	105,843
Population (thousands at July 1)	3,964	3,882

SUMMARY OF KEY BENCHMARKS

For the Fiscal Year Ended March 31, 1998

	1998 Benchmark	1998 Actual
Taxpayer-supported Debt as a Per Cent of Provincial GDP	20.9	20.1
Taxpayer-supported Interest Expense per Dollar of Revenue (cents)	7.4	7.0

¹ Net debt is after deduction of sinking funds and unamortized discounts, and excludes accrued interest. Government direct and fiscal agency debt accrued interest is reported in the government's accounts as an account payable. Figures for 1997 have been restated to conform with the presentation used for 1998.

² Includes the British Columbia Housing Management Commission, Pacific Racing Association, and Victoria Line Ltd.

³ Short-term borrowings obtained by financing authorities under the capital project certificate of approval program are used as interim financing of capital construction and are eventually converted to long-term debt.

⁴ As of March 10, 1998, the provincial government assumed the debt of the British Columbia Systems Corporation.

⁵ Includes government vehicle leases (\$14.6 million), outstanding loan guarantees to agricultural producers and those issued under economic development assistance programs.

⁶ Includes debt of the Provincial Rental Housing Corporation, BC Transportation Financing Authority, Pacific National Exhibition, British Columbia Ferry Corporation, Okanagan Valley Tree Fruit Authority and British Columbia Transit, 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.

⁷ Amounts held as investments or cash for re-lending by the consolidated revenue fund and Crown corporations and agencies.

⁸ The debt of 552513 British Columbia Ltd. (Skeena Cellulose Inc.) is considered to be self-supporting. However, future profitability is uncertain due to the volatility of world pulp prices and their potential impact on Skeena Cellulose Inc.

⁹ Includes debt of the British Columbia Lottery Corporation, Liquor Distribution Branch, British Columbia Railway Company and Columbia Basin Power Company (a joint venture of the Columbia Power Corporation and the Columbia Basin Trust Power 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. Also includes debt of \$92.5 million for Skeena Cellulose Inc., a subsidiary of 552513 British Columbia Ltd. As the province is not the sole shareholder of Skeena Cellulose Inc., a portion of this debt may be attributable to the minority shareholder.

Section II
Debt Statistics
Report
(unaudited)

DEBT STATISTICS REPORT

Overview of Provincial Debt

The provincial government and its Crown corporations incur debt to finance operations and capital projects. The provincial government also provides financing to other organizations including some local government agencies. Borrowing for operations is required when revenues fall short of expenditures and to meet other cash requirements such as loans and investments. Borrowing for capital projects finances the building of schools, hospitals, roads and other social and economic capital assets. Similar to the private sector the government spreads the cost of these projects over the useful life of the assets.

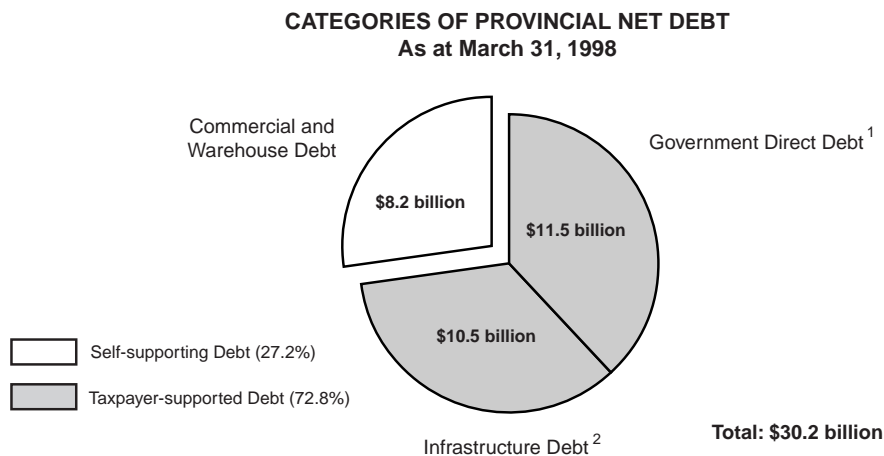
Provincial net debt falls into two categories: taxpayer-supported and self-supporting.

Taxpayer-supported debt includes government direct debt which is incurred for government operations, and the debt of Crown corporations and agencies which require an operating or debt service subsidy from the provincial government. Examples include British Columbia Ferry Corporation, British Columbia Buildings Corporation, schools and post secondary institutions. It should be noted that, commencing with the 1998/99 fiscal year, the government is winding up the British Columbia School Districts and the British Columbia Educational Institutions Capital Financing Authorities. These agencies were created as a vehicle to provide capital financing loans to the province's school districts and post-secondary institutions. This debt will now be included as part of the direct debt of the province. The existing outstanding loans to school districts and post-secondary institutions will be cancelled.

Self-supporting debt includes the debt of commercial Crown corporations and agencies as well as the warehouse borrowing program. Commercial Crown corporations generate sufficient revenues to cover interest costs and repay principal, and may pay dividends to the province. British Columbia Hydro and Power Authority and British Columbia Railway Company are examples of commercial Crown corporations. The warehouse borrowing program takes advantage of borrowing opportunities in advance of requirements.

Chart 1 indicates the breakdown among various categories of net provincial debt as at March 31, 1998. Provincial net debt totalled \$30.2 billion, equal to 27.6 percent of the province's gross domestic product (GDP). Taxpayer-supported debt was \$22.0 billion or 20.1 percent of GDP. Self-supporting debt, including the warehouse program, was \$8.2 billion. Debt of Crown corporations and agencies is primarily incurred to build provincial infrastructure, such as ferries, roads, hospitals and schools.

CHART 1



¹ Includes a portion of roads infrastructure debt incurred prior to 1994/95.

² Includes debt of taxpayer-supported Crown corporations and agencies to finance capital projects (e.g., schools, hospitals, roads, ferries).

The interest cost on total provincial debt was \$2.3 billion in 1997/98, of which \$1.7 billion was for taxpayer-supported debt.

Financing Process

The provincial government and its Crown corporations and agencies meet borrowing requirements through a number of different financing programs. Borrowing is undertaken in different currencies and markets, and offered in fixed- and floating-rate form. This diversity reflects the differing purposes and client needs for which funds are required.

The government borrows to fund its own operations and to relend proceeds to its Crown corporations and agencies. The government may also provide guarantees with respect to repayment of principal and interest. Most Crown corporation and agency borrowing is done through the Fiscal Agency Loan Program. Under this program, the provincial government borrows directly in financial markets and relends the funds to Crown corporations and agencies on matching terms. The borrowing and financing costs remain the responsibility of the Crown corporations and agencies except in certain cases when the province provides a contribution to pay for all or part of the debt service costs. The Fiscal Agency Loan program provides lower-cost financing because of the province's strong credit rating and its ability to borrow at lower interest rates.

In some circumstances, Crown corporations and agencies borrow directly from lenders with a guarantee provided by the government (e.g. student assistance loans) or on a non-guaranteed basis; the authority for these borrowings is provided by the government.

In addition to the "traditional" borrowing methods discussed above, the province has begun to actively pursue alternative financing, including public-private partnerships, as a means of meeting the growing demand for public infrastructure. One advantage of using alternative methods is that support from taxpayer revenues can be minimized (see discussion on Alternative Financing below).

Historical Summary

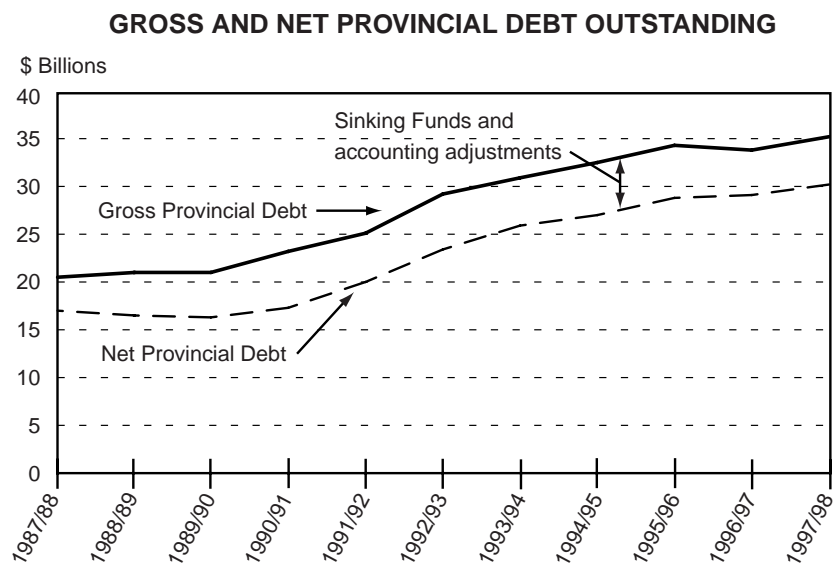
The provincial government reports debt in two ways — on a gross and on a net basis.

Gross debt: Gross debt is the aggregate principal amount of all outstanding debt, including notes, bonds, commercial paper, capital leases, loans with provincial guarantees, and non-guaranteed debt of Crown corporations and agencies in Canadian dollars.

Net debt: Net debt equals gross debt less accumulated sinking funds and other accounting adjustments, including unamortized discount and premium balances resulting from the pricing of debt issues.

Chart 2 provides an historical perspective of the government's gross and net debt outstanding.

CHART 2

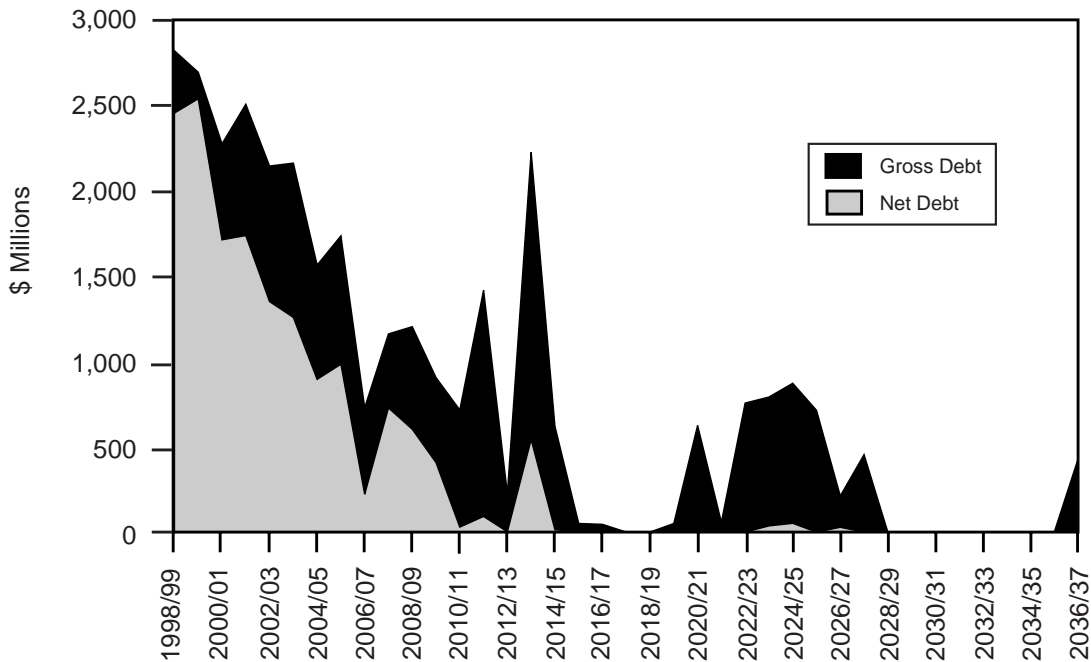


Sinking Funds

In order to retire debt in an orderly fashion, the provincial government has adopted a conservative sinking fund policy. The provincial government and its Crown corporations and agencies make annual sinking fund contributions for virtually all debt with a term of five or more years. Debt with a remaining term of one year or longer will, on average, be 51.2 percent covered by sinking funds at maturity. At March 31, 1998, gross provincial debt totalled \$35.2 billion. After deducting sinking funds of \$4.8 billion and other accounting adjustments of \$0.2 billion, net provincial debt totalled \$30.2 billion (see Appendix E).

CHART 3

**PROVINCE OF BRITISH COLUMBIA NET DEBT MATURITIES¹
AS AT MARCH 31, 1998**



¹ Does not include short term or non guaranteed debt.

Review of 1997/98 Debt by Category

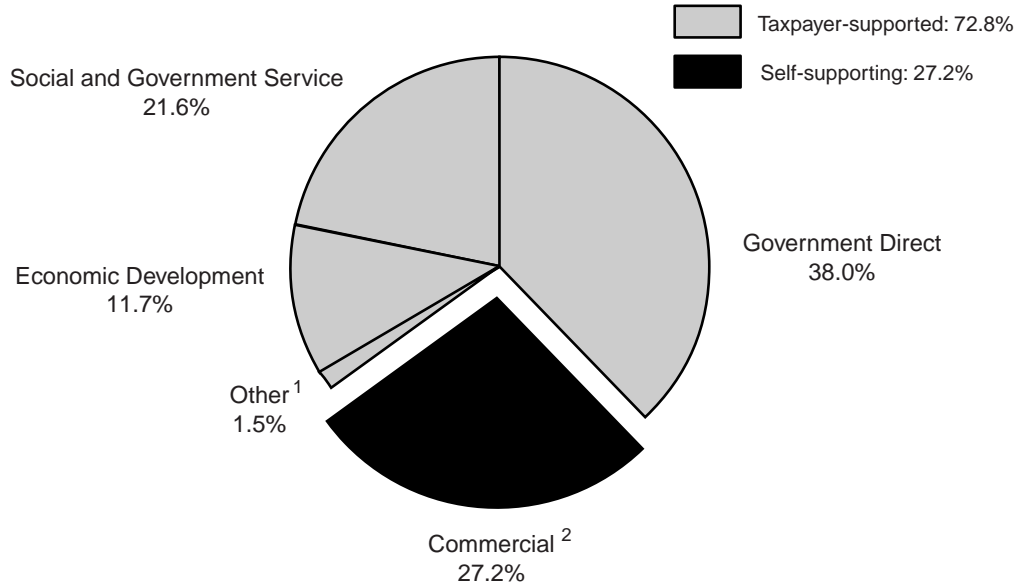
The province incurs debt for a variety of uses as shown in Charts 4 and 5. Table 1 provides a five-year provincial net debt summary comparison.

During 1997/98, total and taxpayer-supported net debt grew less than anticipated in the 1997 Budget estimate, explained as follows:

- taxpayer-supported debt was \$652.1 million below budget including \$549.6 million from lower-than-anticipated net borrowing requirements and \$102.5 million from lower actual debt at the beginning of the fiscal year; and
- total net debt was \$184.7 million below the budget 1997 estimate including \$225.5 million from lower-than-anticipated net borrowing during the year which was offset by the actual debt as at March 31, 1997 being \$40.8 million higher.

CHART 4

**PROVINCIAL NET DEBT
At March 31, 1998**

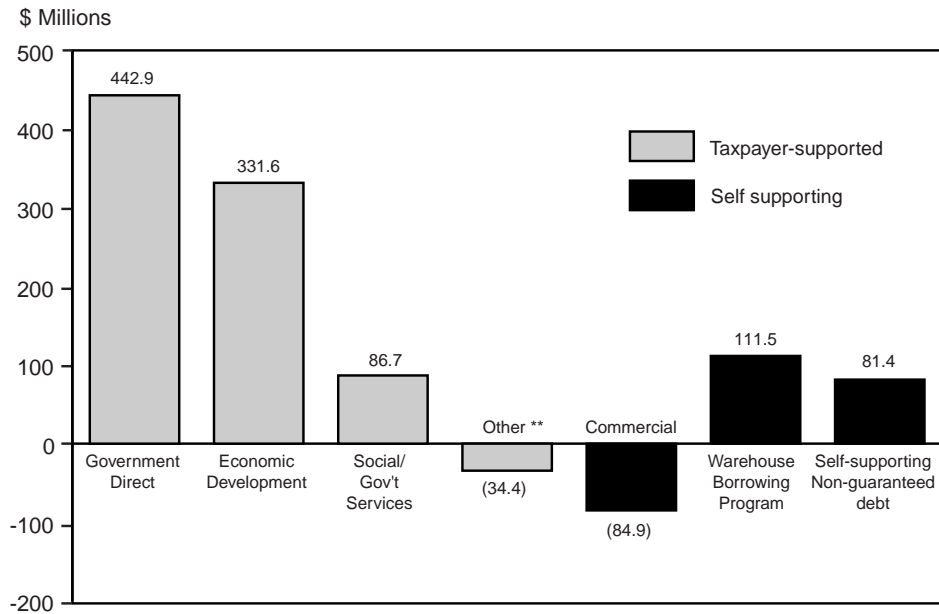


¹ Includes other fiscal agency loans, other guarantees and taxpayer-supported non-guaranteed debt.

² Includes commercial crown corporations, warehouse borrowing program and self-supporting non-guaranteed debt.

CHART 5

*** CHANGE IN TOTAL PROVINCIAL NET DEBT: \$934.8 Million
March 31, 1997 to March 31, 1998**



* Change is affected by new debt, retirements, changes in sinking funds, foreign exchange rates and amortization of discounts and premiums.

** Other includes other guarantees, other fiscal agency loans and taxpayer-supported non-guaranteed debt.

TABLE 1
PROVINCIAL NET DEBT SUMMARY¹
For Fiscal Years Ended March 31

	1994	1995	1996	1997	1998	Total Provincial Debt
			(\$ millions)			(Per Cent)
Taxpayer-Supported Debt						
Provincial Government Direct	10,257.1	10,181.1	10,237.1	11,030.5	11,473.4	38.01
Economic Development Crown Corporations and Agencies:						
BC Transportation Financing Authority	73.0	275.9	590.4	915.6	1,084.1	
British Columbia Ferry Corporation	418.0	432.8	502.0	684.9	795.2	
British Columbia Transit	1,370.5	1,449.5	1,505.5	1,537.2	1,578.5	
Other ²	20.4	24.1	32.0	48.4	59.9	
	1,881.9	2,182.3	2,629.9	3,186.1	3,517.7	11.66
Social and Government Services Crown Corporation and Agencies:						
British Columbia Assessment Authority	5.9	5.5	7.0	6.2	4.8	
British Columbia Buildings Corporation	612.3	698.1	719.1	735.4	734.9	
British Columbia Educational Institutions Capital Financing Authority	958.1	1,117.1	1,240.4	1,345.7	1,308.8	
British Columbia Regional Hospital Districts Financing Authority	1,079.7	1,255.6	1,331.1	1,373.0	1,377.5	
British Columbia School Districts Capital Financing Authority	1,787.3	2,257.0	2,506.5	2,770.2	2,908.5	
Capital Project Certificate of Approval Programs ³	409.6	319.0	311.0	172.1	174.1	
British Columbia Systems Corporation ⁴	26.0	25.9	21.6	19.3	—	
	4,878.9	5,678.2	6,136.7	6,421.9	6,508.6	21.56
Other Fiscal Agency Loans:						
Greater Vancouver Sewerage and Drainage District ⁵	197.5	187.0	175.1	—	—	
Greater Vancouver Water District ⁵	130.2	137.1	131.1	—	—	
Universities and Colleges	148.3	173.6	164.3	154.3	144.2	
Local Governments	3.1	3.3	3.3	3.3	3.5	
	479.1	501.0	473.8	157.6	147.7	0.49
Other Guarantees:						
Student assistance loans	193.1	205.5	173.5	148.4	86.4	
British Columbia home mortgage assistance and second mortgage programs	162.3	122.4	76.2	53.7	47.2	
Other ⁶	70.1	70.8	37.9	33.9	65.9	
	425.5	398.7	287.6	236.0	199.5	0.66
Non-guaranteed debt⁷	88.2	96.6	101.4	120.4	131.6	0.44
Less Internally held funds ⁸	29.6	0.7	0.8	0.8	—	
Total Taxpayer-Supported Debt	17,981.1	19,037.2	19,865.7	21,151.7	21,978.5	72.82
Self-Supporting Debt						
Commercial Crown Corporations and Agencies						
British Columbia Hydro and Power Authority	7,614.8	7,662.3	7,592.3	7,477.2	7,233.6	
British Columbia Railway Company	287.9	310.9	326.1	390.6	487.8	
552513 British Columbia Ltd. (Skeena Cellulose Inc.) ⁹	—	—	—	—	64.6	
Other ¹⁰	1.5	—	—	3.1	—	
	7,904.2	7,973.2	7,918.4	7,870.9	7,786.0	25.80
Warehouse Borrowing Program	—	—	895.2	100.0	211.5	0.70
Non-Guaranteed Debt ¹¹	41.6	39.4	33.4	124.9	206.3	0.68
Total Self-Supporting Debt	7,945.8	8,012.6	8,847.0	8,095.8	8,203.8	27.18
Total Provincial Net Debt	25,926.9	27,049.8	28,712.7	29,247.5	30,182.3	100.00

¹ Net debt is after deductions of sinking funds and unamortized discounts, and excludes accrued interest. Government direct and fiscal agency debt accrued interest is reported in the government's accounts as an accounts payable. Figures for earlier years have been restated to conform with the presentation used for 1998.

² Includes the British Columbia Housing Management Commission, the Pacific Racing Association and Victoria Line Ltd.

³ Short-term borrowings obtained by financing authorities under the Certificate of Approval Program are used for interim financing and are eventually converted to long-term debt.

⁴ As of March 10, 1998, the provincial government assumed the debt of the British Columbia Systems Corporation.

⁵ Outstanding debt of the Greater Vancouver Sewerage and Drainage District and the Greater Victoria Water District was defeased on April 1, 1996. Funding requirements for these districts are provided through the Municipal Finance Authority of British Columbia.

⁶ Includes government vehicle leases (\$14.6 million), outstanding loan guarantees to agricultural producers and those issued under economic development assistance programs.

⁷ Includes debt of the Pacific National Exhibition, Provincial Rental Housing Corporation, BC Transportation Authority, British Columbia Ferry Corporation, British Columbia Transit and Okanagan Valley Tree Fruit Authority, 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.

⁸ Amounts held as investments or cash for relending by the consolidated revenue fund and Crown corporations and agencies.

⁹ The debt of 552513 British Columbia Ltd. (Skeena Cellulose Inc.) is considered to be self-supporting. However, future profitability is uncertain due to the volatility of world pulp prices and their potential impact on Skeena Cellulose Inc.

¹⁰ Includes WLC Developments Ltd. and the Columbia Power Corporation.

¹¹ Includes debt of the British Columbia Lottery Corporation, Liquor Distribution Branch, British Columbia Railway Company and Columbia Basin Power Company (a joint venture of the Columbia Power Corporation and the Columbia Basin Trust Power 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. Also includes debt of \$92.5 million for Skeena Cellulose Inc., a subsidiary of 552513 British Columbia Ltd. As the province is not the sole shareholder of Skeena Cellulose Inc., a portion of this debt may be attributable to the minority shareholder.

1. Taxpayer-Supported Debt:

- **Provincial government direct debt** was \$11,473.4 million (on a net basis) as at March 31, 1998, an increase of \$442.9 million from March 31, 1997. Borrowing for government direct purposes includes government operations, as well as, refinancing of maturing debt and other financing transactions. The increase was primarily due to the province's operating deficit which was \$152.5 million (\$32.5 million below budget) and other financing requirements, such as loans, investments and pre-borrowing for 1998/99, totalling \$290.4 million.

Other taxpayer-supported debt categories include the following:

- **Economic development Crown corporations and agencies** finance ferry terminal and fleet expansion, public transit, highway construction projects and maintenance and rehabilitation of these assets throughout the province. These corporations and agencies sell services directly to the public and/or receive dedicated revenue, but revenue does not cover all their expenses. Because they do provide some form of economic benefit to the province, the government provides grants or other forms of assistance. The net debt of all entities in this category increased \$331.6 million from March 31, 1997 to March 31, 1998. This was due to increasing needs for infrastructure expansion in all areas of the province's transportation system. For example, the BC Transportation Financing Authority used net new borrowings of \$168.5 million to help finance the construction of highways. The British Columbia Ferry Corporation increased its debt by \$110.3 million to finance ferry terminals and fleet expansion and British Columbia Transit increased its debt by \$41.3 million primarily to finance public transit projects.
- **Social and government services Crown corporations and agencies** finance capital 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 tax levies. During 1997/98, net debt for this category increased \$86.7 million compared to \$285.2 million in 1996/97. The net debt of the British Columbia's School Districts Capital Financing Authority increased \$138.3 million due to the building of new spaces to accommodate growth in student enrollment at the primary and secondary levels. However, this was offset by declining capital requirements for post-secondary institutions, and the transfer of British Columbia Systems Corporation debt to the province as part of the wind up of the corporation.
- **Other fiscal agency loans** are provided to universities and colleges to finance the construction and maintenance of residence and parking facilities which are 100 percent funded through user fees. Loans are also provided to local governments and improvement districts to help finance local water and sewer projects; debt service requirements are met through local property taxes. Debt in this category declined \$9.9 million due mainly to the growth in sinking fund assets.
- **Other guarantees** have decreased \$36.5 million due to a decline in student loans (\$62.0 million). This was partly offset by an increase of \$17.4 million for loan guarantees to agricultural producers and guarantees issued under economic development assistance programs, and \$14.6 million for government vehicle leases.
- **Taxpayer-supported non-guaranteed debt** represents debt assumed by a government body without a provincial government guarantee. From March 31, 1997 to March 31, 1998, this category of debt increased \$11.2 million mainly due to an increase in mortgages for the Provincial Rental Housing Corporation.

2. Self-Supporting Debt:

- **Commercial Crown corporations and agencies** finance the construction and maintenance of electricity transmission lines and generating facilities, a rail system and dock facilities, and a forest products mill. These entities are self-sufficient as they generate revenue from the sale of services at commercial rates and pay their operating expenses, including debt interest, sinking fund contributions (where required) and redemptions. Debt of commercial Crown corporations declined \$84.9 million, due to the early retirement of British Columbia Hydro debt (\$243.6 million), partially offset by \$97.2 million increase in the debt of British Columbia Railway Company and \$64.6 million increase in debt of 552513 British Columbia Ltd. (Skeena Cellulose Inc.).

- **Warehouse borrowing program** takes advantage of market opportunities to borrow money in advance of actual requirements. This debt will eventually be allocated to either the provincial government or its Crown corporations and agencies to meet future requirements. In the interim, warehouse money is invested and earns market returns. During 1997/98, \$111.5 million was added to the warehouse borrowing program, leaving a balance of \$211.5 million at March 31, 1998.
- **Self-supporting non-guaranteed debt** is debt issued by a self-supporting government body without a provincial government guarantee. This category of debt increased \$81.4 million when compared to 1996/97. The change consisted of a \$92.5 million increase in debt of Skeena Cellulose Inc., a subsidiary of 552513 British Columbia Ltd., partially offset by reductions in the debt of other self-supporting entities. Although this debt is not guaranteed, it is reported here because it is debt incurred by a government body.

1998/99 Reporting Changes:

The government is planning to reorganize the way social capital projects are financed from 1998/99 onwards. This, in turn, means reclassification of the debt of schools and post-secondary institutions for which it has full responsibility, as well as the government's share of debt for the health care system; in 1998/99 this debt will be included with government direct debt. These reclassifications will not change the province's taxpayer-supported debt total.

By March 31, 1999, debt of the British Columbia Transit Authority, which is related to supporting transportation services in the Greater Vancouver area will be transferred to the Greater Vancouver Transportation Authority. This change in 1998/99 will reduce the province's obligations because the associated liabilities will be taken over by the local government authority. Further, the portion of transit debt for which the government has responsibility will be reclassified as government direct debt.

Consolidated Capital Plan

Borrowing for capital projects finances the building of schools, hospitals, roads and other forms of provincial infrastructure. These investments provide essential services for today and will also benefit future generations of British Columbians.

The need for capital infrastructure in British Columbia is substantial. Maintaining the existing asset base, replacing aging infrastructure, and meeting the needs of a growing population all require capital spending. The province's Consolidated Capital Plan provides discipline to ensure that only the highest priority, taxpayer-supported capital projects proceed and that government pursues innovative and cost-effective mechanisms to provide capital infrastructure.

Capital Review Update

The government continues to review capital expenditures to determine the appropriate levels of investment and to improve the planning, construction and maintenance of capital. A review which concluded in January 1997, identified over 100 potential cost containment strategies, falling into four major categories:

- developing program delivery models which require less capital investment;
- maximizing the use of existing assets;
- acquiring capital in the most efficient and cost-effective manner; and
- pursuing alternative financing options.

For 1997/98, the projected value of the cost containment strategies totalled \$200 million. The value of these containment strategies is projected to generate another \$75 million in savings in 1998/99. Specific examples of cost containment over these two fiscal years include \$57 million as a result of space standard and unit rate reductions in the kindergarten to grade 12 system; \$4 million through group purchasing of hospital equipment and \$11 million through intergovernmental cost-shared highway projects. Identifying new cost containment strategies is an ongoing process.

Review of 1997/98 Capital Spending

In 1997/98, approximately \$965 million was spent on taxpayer-supported capital projects including the building of schools, hospitals, roads and other forms of provincial infrastructure. Specific examples of projects undertaken in 1997/98 included:

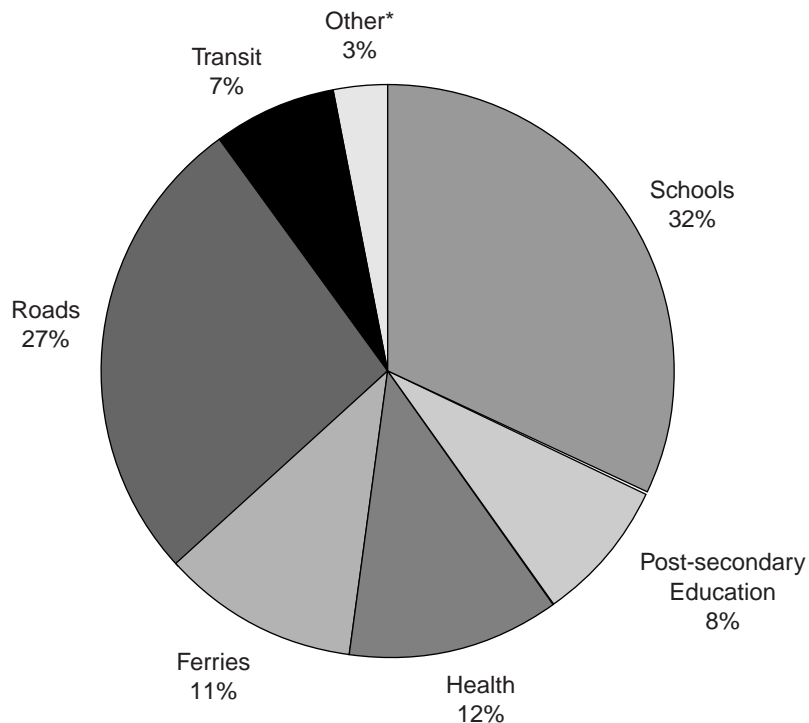
- 7,300 new spaces for children in the kindergarten to grade 12 system;
- construction of the Kiwanis Care Centre (192 multi-level care bed facility) in North Vancouver;
- construction of the new cancer treatment centre in Kelowna;
- continued construction of the Vancouver Island Highway; and
- completion of the TRIUMF laboratory in Vancouver.

Chart 6 provides an overview of the purposes for which \$965 million was borrowed for capital expenditure in 1997/98. These investments were necessary to provide services for a growing British Columbia population and support economic growth. (Between July 1, 1991 and July 1, 1997, the province's population increased 17.5 percent compared to 5.6 percent for the rest of Canada.)

The commercial Crown corporations spent another \$285 million for capital projects including building new and upgrading existing transmission facilities, dam maintenance, and maintenance of rail lines and cars.

CHART 6

1997/98 CAPITAL SPENDING BY PURPOSE \$965 million on Taxpayer-supported Capital Projects



* Includes British Columbia Buildings Corporation (government office space), and Ministry of Attorney General (jails and courthouses).

Alternative Financing

Combined with the cost containment strategies discussed above, the government encourages use of innovative and cost-effective alternatives to the traditional methods of financing public infrastructure.

The government imposes criteria for use of alternative financing methods by government-controlled agencies. These criteria ensure that alternative financing proposals on a risk-adjusted basis, are less expensive than the use of the province's traditional financing methods.

The objectives for alternative financing are to:

1. Lower the government's life-cycle cost for delivering public infrastructure. This is achieved by establishing partnerships with private sector entities which are better able to bear certain project risks (e.g. construction, operations, financing and/or ownership) and by adding value by reducing project costs and increasing provincial tax revenues.
2. Reduce taxpayer-supported debt which can be achieved by multiple means including:
 - (i) structuring projects as fully self-supporting with the related debt serviced by external user-pay revenues;
 - (ii) in situations where a portion of provincial debt is serviced by non-government controlled agencies transferring that debt to the responsible entities (e.g. local government);
 - (iii) structuring non-government controlled joint ventures with the private sector and/or other governments and each of the partners assuming responsibility for their respective portions of the project debt; and
 - (iv) transferring the risk of asset ownership to third parties through off-balance sheet arrangements, e.g. operating leases in accordance with generally accepted accounting standards.

In 1996/97, the province initiated several major projects which may prove suitable for alternative financing:

- public-private partnership for the development, financing and ownership of a new trade and convention centre in Vancouver; and
- request for expressions of interest in lease financing the British Columbia Ferry Corporation's fast ferry vessels and/or a longer term public-private partnership for the fast ferry vessels as well as future additions to the fleet.

The government also issued expressions of interest for an expanded or new Lions Gate Bridge. Based on local stakeholder responses to the project and cost considerations, the government declined to proceed with the project and decided on a refurbishment of the bridge.

Finally in 1997/98, the government and the Greater Vancouver Regional District negotiated an agreement to transfer responsibility for managing transportation in the region to the Greater Vancouver Transportation Authority (GVTA). The government will continue to retain responsibility for funding debt related to certain transportation assets (e.g. SkyTrain and 60 percent of the Rapid Transit 2000 project). As part of the enabling legislation enacted in 1998, the GVTA will receive certain transportation assets and assume the related debt which is currently recorded as taxpayer-supported debt of the province.

Financial Management Plan

The Financial Management Plan provides a framework for guiding the provincial government's financial performance and debt position. The plan brings together all the elements of the province's financial picture including both government operating and debt arising from capital spending and other requirements for Crown corporations and agencies.

In 1995, the government sought advice from a panel of business and labour representatives to design a debt management plan. The government received the panel's advice but adopted debt benchmarks which exceeded those suggested by the panel. The subsequent slowdown in the provincial economy demonstrated that the benchmarks adopted by the government were not sustainable. As a result, the government again consulted with the business panel. The panel repeated its earlier advice and recommended that the government adopt the benchmarks originally proposed.

The budget for the 1997/98 fiscal year introduced a financial management plan which incorporated some of the panel's recommendations.

- balance the provincial government's operating budget (consolidated revenue fund);
- reduce the provincial government's direct debt over 20 years;
- cap taxpayer-supported debt as a share of the provincial economy at 20 percent and reduce taxpayer-supported debt as a share of the provincial economy to 15 percent by 2015; and
- cap annual interest costs on taxpayer-supported debt at 9 percent of revenue.

1997/98 Progress Report

Table 2 shows key debt indicators for the five fiscal years 1993/94 to 1997/98.

TABLE 2
KEY DEBT INDICATORS

	For fiscal year ending March 31				
	1994	1995	1996	1997	1998
Debt to Revenue (per cent)					
Total Provincial.....	97.3	94.0	97.4	97.8	98.8
Taxpayer-supported.....	87.0	85.0	87.0	91.3	93.5
Debt per Capita (\$)¹					
Total Provincial.....	7,259	7,347	7,588	7,534	7,615
Taxpayer-supported.....	5,035	5,171	5,250	5,449	5,545
Debt to GDP (per cent)²					
Total Provincial.....	27.7	26.9	27.4	27.6	27.6
Taxpayer-supported.....	19.2	18.9	19.0	20.0	20.1
Interest Bite (cents per dollar of revenue)³					
Total Provincial.....	8.2	8.8	8.9	8.0	7.6
Taxpayer-supported.....	7.2	7.6	7.7	7.3	7.0
Interest costs (\$ millions)					
Total Provincial.....	2,186	2,546	2,609	2,386	2,313
Taxpayer-supported.....	1,494	1,711	1,749	1,692	1,656
Interest Rate (per cent)⁴					
Taxpayer-supported.....	9.4	8.9	8.9	8.2	7.7
Background Information:					
Revenue (\$ millions)					
Total Provincial ⁵	26,653	28,774	29,474	29,919	30,540
Taxpayer-supported ⁶	20,665	22,392	22,843	23,174	23,516
Total Debt (\$ millions)					
Total Provincial.....	25,927	27,050	28,713	29,248	30,182
Taxpayer-supported ⁷	17,981	19,037	19,866	21,152	21,979
Provincial GDP (\$ millions)	93,490	100,672	104,786	105,843	109,347
Population (thousands at July 1)	3,572	3,682	3,784	3,882	3,964

¹ The ratio of debt to population (e.g. 1997/98 debt divided by population at July 1, 1997).

² The ratio of debt outstanding at fiscal year end to provincial nominal gross domestic product (GDP) for the calendar year ending in the fiscal year.

³ The ratio of interest costs (less sinking fund interest) to revenue. Figures for 1995 and onward include capitalized interest expense in order to provide a more comparable measure to outstanding debt.

⁴ Weighted average for all outstanding debt issues.

⁵ Includes revenue of the consolidated revenue fund plus revenue of all Crown corporations and agencies.

⁶ Excludes revenue of commercial Crown corporations and agencies.

⁷ Excludes debt of commercial Crown corporations and agencies, funds held under the province's warehouse borrowing program, and non-guaranteed debt of the British Columbia Lottery Corporation, Liquor Distribution Branch, British Columbia Railway Company, Columbia Basin Power Company (a joint venture of the Columbia Power Corporation and the Columbia Basin Trust Power Corporation) and 552513 British Columbia Ltd. (Skeena Cellulose Inc.).

Compared to the debt targets set in the 1997/98 budget, taxpayer-supported debt as a percent of provincial GDP was 0.8 percentage points lower than planned in 1997/98 (20.1 percent compared to 20.9 percent). Most of the improvement from budget (0.6 percentage points) was due to lower-than-expected provincial borrowing for the government and its taxpayer-supported Crown corporations and agencies. At March 31, 1998, total taxpayer-supported debt was \$652.1 million lower than expected. Government direct operating debt was \$130.7 million less than planned, while other taxpayer-supported debt was \$521.4 million less than planned.

Higher than expected provincial GDP contributed to the remainder (0.2 percentage points) of the improvement in the taxpayer-supported debt-to-GDP ratio.

The interest bite ratio (total interest divided by total revenue) for provincial taxpayer-supported debt was 0.4 percentage points lower than the benchmark (7.0 percent compared to a benchmark of 7.4 percent). Lower interest costs, primarily due to lower-than-expected borrowing and interest rates, were partially offset by lower-than-planned revenue due to fewer agencies being included in the provincial accounts (e.g. schools and hospital districts/societies and post-secondary institutions).

Taxpayer-supported debt per capita (person) was also lower than expected. At March 31, 1998, taxpayer-supported debt per capita was \$200 or 3.5 percent lower than expected, at \$5,545.

In the spring of 1998, Moody's Investors Service (Moody's) and Standard & Poor's Corporation affirmed the province's credit rating at Aa2 and AA respectively. Dominion Bond Rating Service also affirmed the province's AA credit rating, with a change in the outlook to negative from stable. The Canadian Bond Rating Service (CBRS) rated the province at AA, in line with the other rating agencies, and one level lower than its previous rating at AA+ (negative); in September 1998 CBRS changed the outlook on the province's AA rating from stable to negative.

British Columbia still retains one of the highest credit ratings among the provinces in Canada, reflecting its strong balance sheet and the depth and diversity of its economy. Among the provinces, Moody's calculates the province's taxpayer-supported debt per capita as the lowest and the taxpayer-supported debt to GDP ratio as the second lowest.

TABLE 3
CREDIT RATINGS*

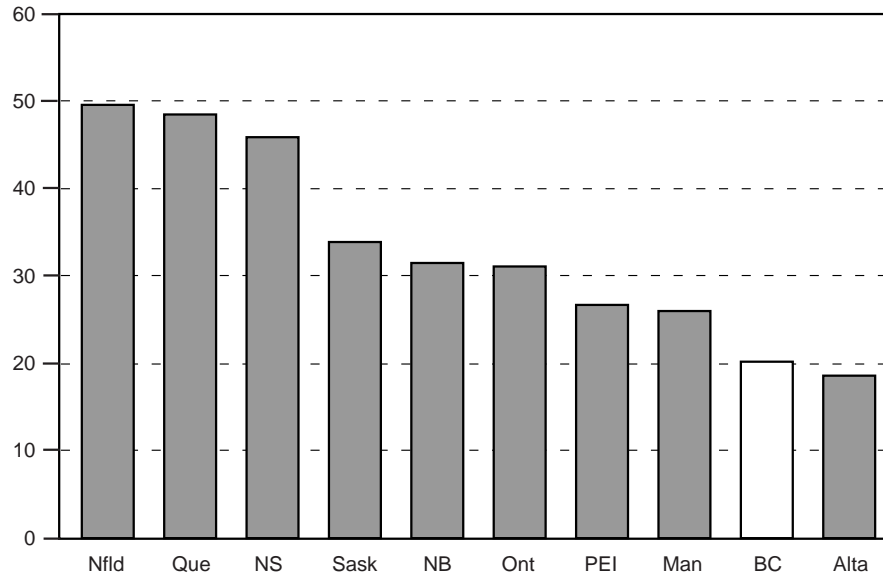
Province	Moody's Investors Service	Standard and Poor's	Dominion Bond Rating Service	Canadian Bond Rating Service
British Columbia	Aa2	AA	AA	AA
Alberta	Aa2	AA+	AA (high)	AA+
Saskatchewan	A2	A	A (low)	A
Manitoba	Aa3	AA-	A	A+
Ontario	Aa3	AA-	A (high)	AA
Quebec	A2	A+	A (low)	A
New Brunswick	A1	AA-	A	A+
Nova Scotia	A3	A-	BBB (high)	A-
Prince Edward Island	A3	Not Rated	BBB (high)	BBB
Newfoundland	Baa1	BBB+	BBB (low)	BBB
Canada**	Aa1/Aa2	AAA/AA+	AAA/AA (high)	AA+

* As of September 30, 1998.

** Domestic/foreign debt.

CHART 7

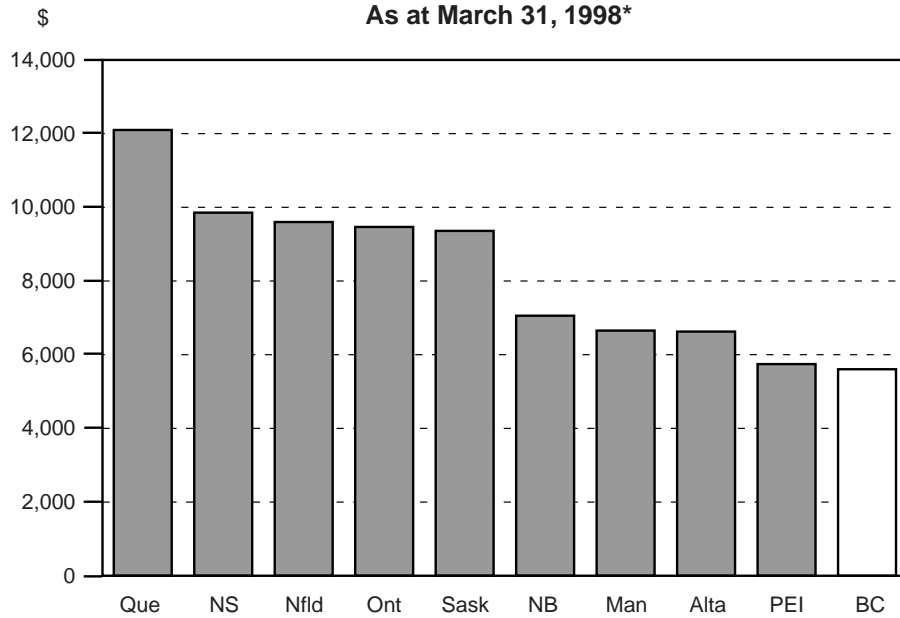
**INTERPROVINCIAL COMPARISON OF TAXPAYER-SUPPORTED
NET DEBT AS A % OF GDP
As at March 31, 1998***



* Source: Moody's Investors Service; compiled October 1998.

CHART 8

**INTERPROVINCIAL COMPARISON OF TAXPAYER-SUPPORTED
NET DEBT PER CAPITA
As at March 31, 1998***



* Source: Moody's Investors Service; compiled October 1998.

Debt Management Operations: Management Discussion

Overview

Management of the province's debt portfolio is overseen by a Risk Committee to ensure that liability management is based on sound financial principles and is conducted in a prudent manner, balancing costs and risks within acceptable control standards. The Risk Committee is comprised of the Deputy Minister of Finance and Corporate Relations, the Assistant Deputy Minister, Provincial Treasury and an external member (currently a finance professor). The Debt Management Branch of Provincial Treasury manages the province's debt.

The Committee sets risk policies and parameters for compliance by the Debt Management Branch, including: portfolio management authority matrix, term structure of debt, floating rate exposure, foreign currency exposure, liquidity risk, authorized derivative transactions and counterparty credit exposure. (For more details, see Appendix G.)

1997/98 Borrowing

Borrowing is undertaken for a wide variety of purposes, but mainly for refinancing maturing debt, to meet sinking fund obligations and for new capital acquisitions. During the fiscal year ended March 31, 1998, the government and its Crown corporations and agencies refinanced \$2.4 billion of maturing debt, made sinking fund installments of \$0.5 billion and spent approximately \$1.3 billion on new capital acquisitions. In addition, the warehouse borrowing program balance was increased \$0.1 billion and the short-term program was paid down approximately \$0.1 billion. The government partially met total requirements of \$4.4 billion through long-term borrowing of \$4.2 billion; the remainder was financed through internally generated funds.

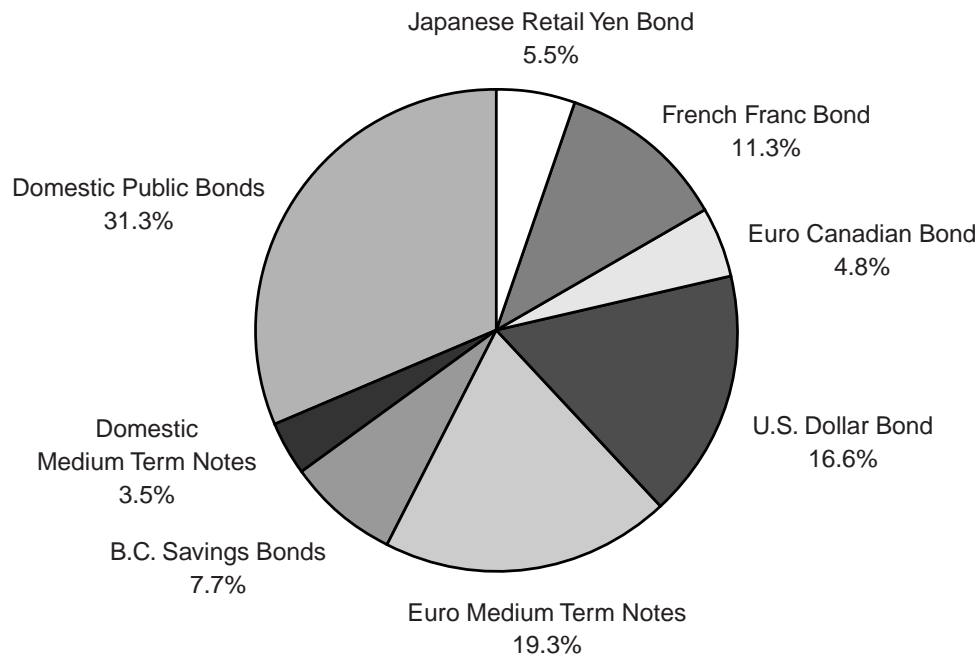
During the fiscal year, the province borrowed from a variety of capital market sources; \$3.0 billion was funded in terms equal to or greater than 10 years (see Table 4 and Chart 9).

TABLE 4
1997/98 MARKET SUMMARY

	Number of Issues	Amount Raised	Amount Raised (C \$ Millions)
Domestic Public Bonds.....	3	C 1,300 million	1,300.0
Domestic Medium Term Notes.....	3	C 145 million	145.0
B.C. Savings Bonds.....	1	C 320 million	320.0
Euro Canadian Bond.....	1	C 200 million	200.0
Euro Medium Term Notes.....	5	US 409 million	
		Yen 25 billion	796.0
Japanese Retail Yen Bond.....	1	Yen 20 billion	228.0
French Franc Bond.....	1	F franc 2 billion	471.0
U.S. Dollar Bond.....	1	US 500 million	691.0
Total.....	<u>16</u>		<u>4,151.0</u>
Matched Book — Domestic Medium Term Note.....	1	C 60 million	60.0
Grand Total.....	<u>17</u>		<u>4,211.0</u>

CHART 9

BORROWING SOURCES 1997/98



Similar to past years, the foreign capital markets offered the province very favourable financing costs compared to the domestic alternative. As a result, 57 percent or \$2.4 billion of its financing needs were sourced from offshore capital markets, reflecting the province's strong credit rating and the favourable valuation of the province accorded by international investors. These foreign financings were completed under the province's Euro Debt Issuance Program and a filing with Japan's Ministry of Finance.

Foreign currency issues were fully converted into Canadian dollar liabilities using derivative products, generating annual debt service cost savings of C\$3.0 million over the government's comparable cost of funds at the time in the domestic capital market.

The balance of the borrowing requirement (\$1.8 billion) was completed in the domestic market. This included:

- \$1.3 billion from three domestic public bond issues at the 10- and 30-year terms;
- \$320 million from the annual BC Savings Bond program. Savings bonds offer an exclusive opportunity to residents of British Columbia to invest in their province. The program also serves to effectively diversify the government's investor base beyond the traditional institutional sources; and
- \$145 million from notes offered under the Medium Term Note Program (MTN). MTNs offer the province an attractive alternative to domestic public bond issues, often saving commission costs. MTNs issued in 1997/98 saved the province \$167,500 in annual debt services costs, relative to comparable financings in the domestic public issue market.

The 1997/98 borrowing strategy for the government's direct debt portfolio was premised on the view that interest rates would fall over the course of the year, and favoured increasing floating-rate debt in order to refinance at lower fixed rates in the future. All borrowings for this portfolio in 1997/98 were swapped to floating rate using derivatives. Over the course of the fiscal year, interest rates across the yield curve fell with the result that interest costs for the direct debt portfolio was reduced year-over-year by \$48 million to \$903 million.

For debt portfolio management purposes, the Debt Management Branch combines government debt with debt of schools, post-secondary institutions and the health care system. This combined portfolio represents debt for which the government has almost exclusive responsibility for the associated debt service costs. As at March 31, 1998, floating-rate exposure for the combined portfolio was 39 percent, reflecting the 1997/98 borrowing strategy, U.S. dollar exposure was 4.6 percent of net debt, well within the 10 percent limit set by the Risk Committee and the weighted average term to maturity was 8.3 years.

The Debt Management Branch manages the Provincial Treasury Revenue (Matched Book) Program. The purpose of the program is to generate low-risk arbitrage profit for the government. This involves borrowing money at a cost which locks in net revenue from the related investments which are netted against the program debt (\$220.2 million as at March 31, 1998). As at March 31, 1998, the program had generated profits of \$5.5 million since its commencement in 1990. In 1997/98, net revenue was \$0.7 million.

Debt Management Performance Measurement

The Debt Management Branch has been working with a major investment bank since 1997 to develop techniques and software for enhancing debt management performance.

The primary objective of debt management is to manage the cost of debt and associated risk in a manner that is consistent with the long-term financial objectives of the government. This entails managing the debt portfolio to minimize the total cost of existing and new debt, subject to an acceptable level of risk.

Portfolios vary in terms of expected costs and risk depending on their makeup in terms of exposure to interest rates and to exchange rates. In general, as the expected cost of a portfolio is reduced, the variability of cost, "risk", increases.

In order to carry out their task, debt managers require guidance as to portfolio objectives and the bounds of acceptable results. In other words, they require a target or benchmark debt management portfolio. The benchmark portfolio provides operational guidelines for debt management, as well as a reference point for monitoring risk and performance measurement. The benchmark is selected by quantifying the cost and risk of many portfolios, and choosing one that minimizes cost subject to an acceptable level of risk.

In measuring the cost of debt over a given period of time, it is important to recognize the period-to-period change in the market value of existing and new debt. The cost measure, which is referred to as the "total cost" of debt, includes interest paid plus changes in market value. This is analogous to the "total return" of investment portfolios (earnings plus changes in market value).

Once a benchmark has been selected, the total costs of the actual and benchmark portfolios are compared to judge performance. Implementation of a fully operational performance measurement system for the government portfolio is expected in April 1999.

The Debt Management Branch's preliminary conclusions favour constructing the benchmark portfolio with regard to two debt management indicators: duration and foreign currency exposure.

Duration measures the price volatility of a debt portfolio to a change in interest rates (price moves in the opposite direction to an interest rate change). The longer the duration of a portfolio, the greater is the price-sensitivity to interest rate changes and the lower the risk that interest costs will exceed budgeted amounts. For example, if interest rates are expected to rise, then the portfolio which will have the lowest total cost will be the one with longer duration; the reverse is true if interest rates are expected to fall, however, the risk is higher that interest costs may exceed budget.

The province is currently limited to U.S. dollar foreign currency exposure, which is expected will reduce debt portfolio costs over the long run. However, if the Canadian dollar weakens, the cost of servicing the foreign debt will increase, all of which poses year-to-year interest cost risks to the portfolio.

Section III
APPENDICES
(unaudited)

Appendix A: Glossary of Terms

Arbitrage — refers to trading to generate a risk-free profit without investment. For purposes of the province's Matched Book Program, arbitrage refers to borrowing funds at one rate and investing the same funds at a higher rate with minimal risk.

Benchmark portfolio — represents the debt manager's neutral liability position and represents the minimum cost subject to an acceptable level of risk. The manager may make active decisions to deviate from the neutral position with the intention of adding value to the actual portfolio. The performance of the manager is judged by comparing the total cost of the actual portfolio with the total cost of the benchmark portfolio.

Call — an option which gives the holder the right but not the obligation to purchase a financial instrument at a set price at some point in the future.

Commercial Crown corporations — corporations which generate revenue from the sale of services at commercial rates and pay their own operating expenses, including debt service charges.

Commercial debt — self-supporting debt.

Debt per capita — the ratio of debt to total population.

Debt to GDP — the ratio of debt outstanding at year end to provincial nominal gross domestic product (GDP) for the calendar year ending in the fiscal year.

Debt to revenue — the ratio of debt outstanding at fiscal year end compared to revenue from all sources during the year.

Defeasance — is an accounting term meaning extinguishment of debt by setting aside sufficient assets/ investments in an irrevocable trust to satisfy future interest payments and principal repayment.

Derivative product — a swap or other financial instrument that is used to hedge interest rate or foreign currency exposure.

Discount — the difference between the par value of an issue and its actual price. Discounts, which occur when the price is below par, are amortized over the life of a bond/note.

Duration — a measure of the price volatility of a security, to a change in interest rates, defined as the weighted average term-to-maturity of all the cash flows, including interest and principal payments. The weights are the present values of each of the cash flows as a percentage of the present value of all cash flows. For example, the longer the duration of a debt portfolio, the greater is the price-sensitivity to interest rate changes and the lower is the risk that interests costs will exceed budgeted amounts; depending on the interest rate environment, however, this portfolio may not be the optimal (i.e. lowest cost).

Economic development Crown corporations — corporations which sell services directly to the public, but their revenues may not cover their operating expenses. Because these corporations provide economic benefits to the province, the government provides some grants or other forms of assistance to them.

Fiscal agency loans — debt borrowed directly by the government with proceeds relent to Crown corporations and agencies.

Guaranteed debt — debt incurred by Crown corporations and others with a provincial government guarantee as to the payment of principal and interest.

Hedging — using derivative products to reduce exposure to interest rate and foreign currency fluctuations.

Infrastructure — includes roads, water and sewer services, ferry and transit systems, schools, hospitals, universities and other capital works.

Interest bite — how much of each dollar of provincial revenue is used to pay for debt service costs.

Market Value — The market value of a portfolio is the sum of the market values of the individual securities comprising the portfolio. The market value of a security is the amount one would reasonably expect to pay for it on the open market. In particular, the market value of a debt instrument is the present value of its future cash flows. The market value of debt is negative because the cash flows are negative (interest and maturity payments made by the province to the investor). The market value of a derivative instrument is also the present value of its future cash flows. However, a derivative may have both negative and positive cash flows, and hence its market value may be either negative or positive.

Matched Book Program — a portfolio of offsetting assets and liabilities with equal maturities. The program is designed to generate low-risk arbitrage profit for the government. Also called the Provincial Treasury Revenue Program.

MTN — domestic medium term note — is often placed directly with investors, much like a private placement.

Non-guaranteed debt — debt which is incurred by a government body but which is not guaranteed by the province.

Premium — the difference between the par value of an issue and its actual price. Premiums, which occur when the price is above par, are amortized over the life of a bond/note.

Provincial government direct debt — funds borrowed for government operations and capital spending, refinancing of maturing debt and other financing transactions.

Put — an option which gives the holder the right but not the obligation to sell a financial instrument at a set price at some point in the future.

Self-supporting debt — includes debt of entities which generate sufficient revenues from external sources to cover their operating expenses including debt interest costs and redemptions. It also includes debt of the warehouse borrowing program.

Sinking fund — a trust account established by policy to provide for the orderly repayment of debt obligations. Sinking funds accumulate through annual payments and retain all investment earnings. Sinking funds are deducted from gross debt to yield net debt.

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

Swap — a derivative product used to hedge interest rate and currency exposure. Swaps involve an exchange of cash flows.

Taxpayer-supported debt — includes direct debt incurred for government operations and debt of Crown corporations and agencies, which undertake capital projects that provide essential services to the province, but require an operating or debt service subsidy from the provincial government.

Warehouse borrowing program — takes advantage of receptive markets to borrow money in advance of actual requirements. Funds are invested until required. This debt is eventually allocated to either the provincial government or its Crown corporations and agencies.

Weighted average term-to-maturity — the average term-to-maturity of principal due within a portfolio of debt securities, weighted by the principal amounts.

Appendix B: Provincial Borrowing Programs

Canadian Promissory Notes and U.S. Commercial Paper

These forms of short-term financing are based on notes that pay to the bearer an agreed amount at the end of a specified term that does not exceed one year. Under these programs, debt managers meet short-term borrowing requirements by contacting designated members of the financial community to solicit bids for required funds and choosing the one with the lowest total costs.

Domestic Medium Term Notes (MTNs)

MTNs have, until recently, been used as a way of raising funds for periods from one to five years. More recently, the use of this type of borrowing has grown and MTNs now include terms between 10 and 30 years. This type of financing is arranged on a periodic basis through investment dealers who work with staff to design securities in response to specific investor demands. MTNs typically range in size from \$25 to \$150 million.

Syndicated Public Bond Issues

When financing in large size is needed, the government issues public bonds. The government agrees to sell a specified amount of marketable bonds to a syndicate of underwriters, which then markets the bonds to investors. Syndicate members are selected according to a number of criteria such as market distribution capabilities and track record, previous service, reputation and interest rates offered.

A separate syndicate is established for each market in which securities are issued from time to time, including the Canadian, Euro-Canadian, Global Canadian dollars, U.S. (Yankee), Euro-U.S., Euro-yen, Euro-French franc, Euro-sterling and Swiss franc markets.

BC Savings Bonds (BCSBs)

BCSBs are sold to individual British Columbia investors. Generally, BCSBs provide a source of funds that would not otherwise be easily accessible to the government. BCSBs are part of an overall strategy to diversify funding sources and encourage local investor participation in the government's financing program. It is also part of the government's strategy to support growth of British Columbia's financial community.

Euro Debt Issuance Program (EDIP)

EDIP provides for borrowing in 23 approved currencies. The program permits syndicated bond issues and notes tailored to specific investor demands called Euro Medium Term Notes (EMTNs). EDIP is currently limited to a maximum of US \$5.0 billion, or its equivalent, in outstanding debt.

Private Placements

The government will sometimes undertake private placements with investors to supplement its debt financing program. Examples of such financings are smaller sized debt securities placed directly with a fixed income investor or leases of equipment on behalf of government and Crown agencies (for example, ferry and transit vehicles).

Canada Pension Plan (CPP)

From time to time, the federal government has offered to lend CPP funds at attractive rates in return for provincially-issued securities. However, since 1992, the federal government has not provided funding opportunities for new borrowing or for refinancing under this program. Opportunities to borrow CPP funds are expected over the next 12 months as a result of federal reform of CPP investment strategy.

Provincial Trusteed Funds

Pension funds and/or sinking funds are managed by the government's Office of the Chief Investment Officer as trustee. Occasionally the Debt Management Branch may arrange to borrow from provincial trusteed funds. From time to time, these funds are prepared to lend money to the province subject to prevailing market terms and in accordance with the fiduciary responsibilities of the trustee.

Appendix C: Schedule of Debt Maturities

PROVINCE OF BRITISH COLUMBIA DEBT MATURITIES As at March 31, 1998

Fiscal Year	Net Debt*	Gross Debt*
	(\$ millions)	
1998/99	2,436.5	2,797.6
1999/00	2,519.0	2,673.4
2000/01	1,699.4	2,257.4
2001/02	1,724.1	2,486.8
2002/03	1,339.7	2,128.2
2003/04	1,247.7	2,144.8
2004/05	888.0	1,551.9
2005/06	976.0	1,721.9
2006/07	220.3	722.8
2007/08	721.9	1,152.1
2008/09	598.4	1,193.9
2009/10	403.6	897.5
2010/11	29.0	709.5
2011/12	91.3	1,406.2
2012/13	2.3	222.6
2013/14	537.6	2,207.5
2014/15	14.4	615.0
2015/16	0.1	50.0
2016/17	0.1	45.0
2017/18	0.0	0.0
2018/19	0.0	0.0
2019/20	0.1	50.0
2020/21	0.1	619.8
2021/22	0.0	57.2
2022/23	0.3	750.0
2023/24	36.1	785.0
2024/25	51.1	865.0
2025/26	0.0	708.3
2026/27	28.3	210.0
2027/28	0.0	450.0
2028/29	0.0	0.0
2029/30	0.0	0.0
2030/31	0.0	0.0
2031/32	0.0	0.0
2032/33	0.0	0.0
2033/34	0.0	0.0
2034/35	0.0	0.0
2035/36	0.0	0.0
2036/37	0.2	425.0

* Excludes short-term, non-guaranteed debt, perpetual bonds and investments/cash for relending, certified debt and related sinking funds. It is assumed that sinking fund installments will continue to be made according to current policy. Sinking fund balances are projected to grow at 8%. Any foreign denominated debt has been re-stated at the foreign exchange rate on March 31, 1998:

French Franc = .2286

Sterling = 2.3714

US = 1.4166

Yen = .01063

Swiss Franc = .9292

Appendix D: Historical Debt Table

HISTORICAL PROVINCIAL NET DEBT SUMMARY FOR FISCAL YEARS ENDED MARCH 31¹

Year	Taxpayer-Supported Debt					Total Taxpayer-Supported Debt	Self-Supporting Debt ³	Total Provincial Debt	Total Provincial Debt as a Per Cent of GDP ⁴	Taxpayer-Supported Debt as a Per Cent of GDP ⁴
	Provincial Government Direct	Economic Development	Social and Government Services	Other ²						
1970	—	141.5	480.4	—	621.9	1,661.3	2,283.2	25.7	7.0	
1971	—	172.2	525.3	—	697.5	1,807.5	2,505.0	26.9	7.5	
1972	—	233.4	559.1	—	792.5	1,948.1	2,740.6	26.5	7.7	
1973	—	288.2	600.2	—	888.4	2,061.8	2,950.2	24.8	7.5	
1974	—	401.6	625.9	—	1,027.5	2,227.7	3,255.2	22.1	7.0	
1975	—	442.2	710.4	—	1,152.6	2,649.9	3,802.5	21.8	6.6	
1976	—	596.2	827.9	—	1,424.1	3,144.3	4,568.4	23.4	7.3	
1977	261.4	694.8	1,035.8	—	1,992.0	3,787.4	5,779.4	25.1	8.7	
1978	261.4	715.8	1,156.2	—	2,133.4	4,464.0	6,597.4	25.7	8.3	
1979	261.4	709.5	1,311.9	(165.5)	2,117.3	4,837.6	6,954.9	24.2	7.4	
1980	235.3	824.1	1,542.1	(205.2)	2,396.3	5,704.3	8,100.6	24.3	7.2	
1981	209.2	823.4	1,715.9	(161.0)	2,587.5	5,956.1	8,543.6	22.3	6.8	
1982	183.1	972.6	2,104.9	(314.9)	2,945.7	7,227.5	10,173.2	23.0	6.7	
1983	883.1	1,194.1	2,724.5	(136.4)	4,665.3	7,691.4	12,356.7	27.8	10.5	
1984	1,596.1	1,784.1	2,810.6	4.5	6,195.3	8,440.3	14,635.6	31.2	13.2	
1985	2,475.9	1,234.1	2,695.0	63.3	6,468.3	9,082.0	15,550.3	31.4	13.0	
1986	3,197.1	1,646.0	2,606.6	113.6	7,563.3	8,989.5	16,552.8	31.3	14.3	
1987	4,801.9	1,286.5	2,374.7	196.8	8,659.9	8,485.2	17,145.1	30.9	15.6	
1988	5,016.7	1,192.7	2,434.9	218.5	8,862.8	8,148.8	17,011.6	27.4	14.3	
1989	4,919.2	1,213.5	2,553.7	372.7	9,059.1	7,396.4	16,455.5	24.0	13.2	
1990	4,208.6	1,245.1	2,804.3	661.4	8,919.4	7,339.9	16,259.3	21.7	11.9	
1991	4,725.9	1,288.0	3,078.7	725.8	9,818.4	7,444.0	17,262.4	21.9	12.5	
1992	6,610.5	1,534.1	3,554.8	848.1	12,547.5	7,493.3	20,040.8	24.6	15.4	
1993 ⁽⁴⁾	8,969.5	1,728.5	4,179.9	1,018.0	15,895.9	7,526.1	23,422.0	26.9	18.2	
1994	10,257.1	1,881.9	4,878.9	963.2	17,981.1	7,945.8	25,926.9	27.7	19.2	
1995	10,181.1	2,182.3	5,678.2	995.6	19,037.2	8,012.6	27,049.8	26.9	18.9	
1996	10,237.1	2,629.9	6,136.7	862.0	19,865.7	8,847.0	28,712.7	27.4	19.0	
1997	11,030.5	3,186.1	6,421.9	513.2	21,151.7	8,095.8	29,247.5	27.6	20.0	
1998	11,473.4	3,517.7	6,508.6	478.8	21,978.5	8,203.8	30,182.3	27.6	20.1	

¹ Net debt is after deducting sinking funds and amortized discounts. Government purpose and fiscal agency debt excludes accrued interest, which is reported in the government's accounts as an account payable.

² Includes other fiscal agency loans, other guarantees and taxpayer-supported non-guaranteed debt, less amounts held as investments or cash for relending by the consolidated revenue fund and Crown corporations and agencies. Also includes loan guarantees that have been provided for.

³ Includes debt of commercial Crown corporations and agencies, funds held under the province's warehouse borrowing program, and non-guaranteed debt of the British Columbia Lottery Corporation, Liquor Distribution Branch, British Columbia Railway Company, Columbia Basin Power Company (a joint venture of the Columbia Power Corporation and the Columbia Basin Trust Power Corporation) and 552513 British Columbia Ltd. (Skeena Cellulose Inc.).

⁴ In May 1998, as part of its periodic re-basing of the national economic accounts, Statistics Canada revised provincial nominal GDP back to calendar year 1992 (fiscal year 1992/93). Debt-to-GDP ratios prior to 1992/93 are based on the previously published economic accounts calculations.

Appendix E: Provincial Debt Summary

As at March 31, 1998

	Gross Debt ¹ (Maturity Value)	Unamortized Discount	Sinking Funds	Net Debt ¹	
	(\$ millions)				(Per Cent)
Taxpayer-supported debt					
Provincial Government Direct	<u>12,734.6</u>	<u>77.0</u>	<u>1,184.2</u>	<u>11,473.4</u>	38.01
Economic Development Crown corporations and agencies					
BC Transportation Financing Authority.....	1,101.5	1.8	15.6	1,084.1	
British Columbia Ferry Corporation.....	843.3	5.9	42.2	795.2	
British Columbia Transit.....	1,921.8	12.4	330.9	1,578.5	
Other ²	61.2	0.2	1.1	59.9	
	<u>3,927.8</u>	<u>20.3</u>	<u>389.8</u>	<u>3,517.7</u>	11.66
Social and government services Crown corporations and agencies					
British Columbia Assessment Authority.....	4.8	0.0	0.0	4.8	
British Columbia Buildings Corporation.....	898.9	(0.6)	164.6	734.9	
British Columbia Educational Institutions Capital Financing Authority.....	1,827.6	13.4	505.4	1,308.8	
British Columbia Regional Hospitals Financing Authority.....	2,049.1	10.5	661.1	1,377.5	
British Columbia School Districts Capital Financing Authority.....	3,649.0	36.0	704.5	2,908.5	
Capital project certificate of approval programs ³	174.6	0.5	0.0	174.1	
	<u>8,604.0</u>	<u>59.8</u>	<u>2,035.6</u>	<u>6,508.6</u>	21.56
Other fiscal agency loans					
Universities and colleges.....	172.9	2.1	26.6	144.2	
Local governments.....	4.3	0.0	0.8	3.5	
	<u>177.2</u>	<u>2.1</u>	<u>27.4</u>	<u>147.7</u>	0.49
Other guarantees					
Student assistance loans.....	86.4	0.0	0.0	86.4	
British Columbia home mortgage assistance and second mortgage programs.....	47.2	0.0	0.0	47.2	
Other ⁴	68.8	0.0	2.9	65.9	
	<u>202.4</u>	<u>0.0</u>	<u>2.9</u>	<u>199.5</u>	0.66
Non-guaranteed debt⁵	<u>131.6</u>	<u>0.0</u>	<u>0.0</u>	<u>131.6</u>	0.44
Total taxpayer-supported debt	<u>25,777.6</u>	<u>159.2</u>	<u>3,639.9</u>	<u>21,978.5</u>	<u>72.82</u>
Self-supporting debt					
Commercial Crown corporations and agencies					
British Columbia Hydro and Power Authority.....	8,403.7	46.2	1,123.9 ⁸	7,233.6	
British Columbia Railway Company.....	502.1	2.0	12.3	487.8	
552513 British Columbia Ltd. (Skeena Cellulose Inc.) ⁶	64.6	0.0	0.0	64.6	
	<u>8,970.4</u>	<u>48.2</u>	<u>1,136.2</u>	<u>7,786.0</u>	25.80
Warehouse Borrowing Program	<u>209.5</u>	<u>(2.0)</u>	<u>0.0</u>	<u>211.5</u>	0.70
Non-guaranteed debt⁷	<u>206.3</u>	<u>0.0</u>	<u>0.0</u>	<u>206.3</u>	0.68
Total self-supporting debt	<u>9,386.2</u>	<u>46.2</u>	<u>1,136.2</u>	<u>8,203.8</u>	<u>27.18</u>
Total provincial debt	<u>35,163.8</u>	<u>205.4</u>	<u>4,776.1</u>	<u>30,182.3</u>	<u>100.00</u>

¹ Includes hedged foreign currency denominated debt converted at hedged exchange rates prevailing at the time of the hedged transaction and unhedged foreign currency denominated debt converted at exchange rates at March 31, 1998.

² Includes the British Columbia Housing Management Commission, the Pacific Racing Association and Victoria Line Ltd.

³ Short-term borrowings obtained by financing authorities under the Certificate of Approval Program are used for interim financing of capital construction and are eventually converted to long-term debt.

⁴ Includes government vehicle leases (\$14.6 million), outstanding loan guarantees to agricultural producers and those issued under economic development assistance programs.

⁵ Includes debt of Pacific National Exhibition, Provincial Rental Housing Corporation, BC Transportation Financing Authority, British Columbia Ferry Corporation, British Columbia Transit and Okanagan Valley Tree Fruit Authority, 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 The debt of 552513 British Columbia Ltd. (Skeena Cellulose Inc.) is considered to be self-supporting. However, future profitability is uncertain due to the volatility of world pulp prices and their potential impact on Skeena Cellulose Inc.

⁷ Includes debt of the British Columbia Lottery Corporation, Liquor Distribution Branch, British Columbia Railway Company and Columbia Basin Power Company (a joint venture of the Columbia Power Corporation and the Columbia Basin Trust Power 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. Also includes debt of \$92.5 million for Skeena Cellulose Inc., a subsidiary of 552513 British Columbia Ltd. As the province is not the sole shareholder of Skeena Cellulose Inc., a portion of this debt may be attributable to the minority shareholder.

⁸ Includes \$149.1 million in repurchased debt of British Columbia Hydro and Power Authority held in trust.

Appendix F: Summary of Outstanding Debt Issues

GROSS DIRECT AND FISCAL AGENCY DEBT OF THE PROVINCE OF BRITISH COLUMBIA At March 31, 1998

Series	Date of Maturity	Year of Issue	Interest Rate	Amount Outstanding March 31, 1998	References (see p. 43)
Long-Term and Medium-Term Debt					
Issued by Province of British Columbia:					
			(per cent)	(thousands of Cdn. dollars)	
PRS	April 9, 1998	1987	8.25	1,987	(2)
BCCD-E	May 1, 1998	1991	9.85	400,000	(2)
BCCMTN-16	June 30, 1998	1993	6.85	15,000	(2) (32)
BCCMTN-19	August 13, 1998	1993	6.25	30,000	(2)
BCCMTN-11	October 9, 1998	1993	7.70	35,250	(2)
BCEC-10	October 9, 1998	1991	10.00	500,000	(1) (10)
BCSB-D	October 15, 1998	1995	6.00	1,204,557	(1) (6) (14)
BCJC-1	December 1, 1998	1983	11.125	50,000	(1) (10)
PRX	December 16, 1998	1988	10.50	14,413	(2)
BCCMTN-21	January 18, 1999	1994	5.40	55,000	(2)
BCR-R15	June 8, 1999	1984	10.02	28,876	(2)
BCCD-R	June 9, 1999	1994	7.00	500,000	(2)
BCR-R16	September 10, 1999	1984	10.22	12,500	(2)
BCSBNR-E	October 15, 1999	1996	5.625	105,401	(1)
BCCMTN-32	November 15, 1999	1994	9.00	50,000	(1) (5) (21)
BCCMTN-14	December 1, 1999	1993	7.75	75,000	(2)
BCCMTN-37	December 1, 1999	1994	8.00	50,000	(3)
BCCMTN-7	December 22, 1999	1992	8.125	23,550	(2)
BCCMTN-42	January 24, 2000	1995	8.75	35,000	(3)
BCCMTN-43	February 1, 2000	1995	9.00	35,000	(3)
BCCMTN-17	August 3, 2000	1993	7.00	25,000	(2)
BCCD-B	August 16, 2000	1990	11.25	620,000	(2)
BCCMTN-54	August 16, 2000	1995	7.25	35,000	(2)
BCCMTN-61	August 16, 2000	1995	6.75	50,000	(2)
BCSBNR-F	October 15, 2000	1997	4.875	147,118	(1)
BCEC-8	February 19, 2001	1991	10.75	500,000	(1) (10)
BCCD-F	May 15, 2001	1991	9.75	242,829	(2) (20)
S1	June 10, 2001	1981	15.69	14,007	(2)
BCCD-H	August 29, 2001	1991	10.15	496,500	(2) (32)
BCSBR-E	October 15, 2001	1996	4.00	182,508	(1) (6) (14)
BCCD-J	January 9, 2002	1992	9.00	786,000	(2) (32)
BCEC-14	March 4, 2002	1998	5.25	200,000	(1) (10)
CPS-2	March 10, 2002	1982	16.10	12,500	(2)
BCSBR-F	October 15, 2002	1997	3.35	173,154	(1) (6) (14)
BCCG-1	June 16, 2003	1993	7.75	1,235,000	(2) (10) (32)
BCCP-1	November 10, 2003	1983	11.65	10,000	(2) (9)
BCCMTN-22	February 3, 2004	1994	6.50	30,000	(2) (32)
BCCP-2	April 2, 2004	1984	12.60	32,073	(2) (9)
BCCP-3	May 10, 2004	1984	13.48	59,292	(2) (9)
BCCP-4	June 8, 2004	1984	13.70	52,871	(2) (9)
BCCD-S	June 21, 2004	1994	9.00	692,000	(2) (32)
BCCMTN-28	June 21, 2004	1994	9.60	275,000	(2)
BCCMTN-47	June 21, 2004	1995	9.25	50,000	(2)
BCCP-5	July 10, 2004	1984	13.80	29,402	(2) (9)
BCCP-6	August 7, 2004	1984	14.06	24,732	(2) (9)
BCCP-7	September 10, 2004	1984	13.20	16,950	(2) (9)
BCCP-8	November 7, 2004	1984	12.96	16,923	(2) (9)

GROSS DIRECT AND FISCAL AGENCY DEBT OF THE PROVINCE OF BRITISH COLUMBIA
Continued
 At March 31, 1998

Series	Date of Maturity	Year of Issue	Interest Rate	Amount Outstanding March 31, 1998	References (see p. 43)
			(per cent)	(thousands of Cdn. dollars)	
BCCMTN-67	December 10, 2004	1997	5.25	50,000	(2)
BCCP-9	April 10, 2005	1985	12.57	36,790	(2) (9)
BCCP-10	May 10, 2005	1985	12.15	50,612	(2) (9)
BCCMTN-45	June 9, 2005	1995	9.50	50,000	(2)
BCCP-11	July 10, 2005	1985	10.86	37,748	(2) (9)
BCCP-12	August 9, 2005	1985	10.99	24,490	(2) (9)
BCCD-U	August 23, 2005	1995	8.00	650,000	(2)
BCCMTN-55	August 23, 2005	1995	8.00	50,000	(2)
BCCMTN-57	August 23, 2005	1995	9.25	50,000	(2) (18)
BCCMTN-58	August 24, 2005	1995	9.25	50,000	(2) (23)
BCEC-12	September 21, 2005	1993	7.25	400,000	(1) (10)
BCCMTN-59	September 29, 2005	1995	3.87	50,000	(4) (24)
BCCMTN-49	February 24, 2006	1995	9.00	50,000	(2)
BCCP-13	August 8, 2006	1986	9.50	19,257	(2) (9)
BCCP-14	September 10, 2006	1986	9.54	31,472	(2) (9)
BCCP-15	October 10, 2006	1986	9.36	15,091	(2) (9)
BCCP-16	November 10, 2006	1986	9.64	33,400	(2) (9)
BCCMTN-48	March 1, 2007	1995	8.875	40,000	(3) (7) (17)
BCCP-17	March 10, 2007	1987	9.04	28,752	(2) (9)
BCCP-18	April 10, 2007	1987	9.12	25,055	(2) (9)
BCCP-19	May 8, 2007	1987	9.13	59,286	(2) (9)
BCCP-20	June 10, 2007	1987	9.88	68,932	(2) (9)
BCCP-21	July 10, 2007	1987	9.83	22,187	(2) (9)
BCCP-22	August 10, 2007	1987	9.72	14,430	(2) (9)
BCCP-23	September 1, 2007	1987	10.42	4,763	(2) (9)
PRW	December 10, 2007	1987	10.14	746	(2)
PRP-1	March 31, 2008	1996	8.14	38,179	(2) (16)
BCCP-24	April 8, 2008	1988	9.62	7,666	(2) (9)
BCCP-25	May 10, 2008	1988	10.07	68,239	(2) (9)
BCCD-V	June 9, 2008	1997	6.00	900,000	(2)
BCCP-27	July 8, 2008	1988	10.15	17,919	(2) (9)
BCCP-28	December 9, 2008	1988	9.93	780	(2) (9) (32)
BCJC-2	January 15, 2009	1984	8.75	25,000	(1) (10)
BCCP-29	May 10, 2009	1989	10.17	81,389	(2) (9)
BCCP-30	June 9, 2009	1989	10.01	83,188	(2) (9)
BCCP-31	July 10, 2009	1989	9.61	36,940	(2) (9)
BCCMTN-66	July 10, 2009	1997	6.10	45,000	(2) (28)
BCCP-32	August 10, 2009	1989	9.41	17,586	(2) (9)
BCCP-33	September 8, 2009	1989	9.15	3,604	(2) (9)
BCCP-34	October 10, 2009	1989	9.35	6,519	(2) (9)
BCCP-35	November 10, 2009	1989	9.62	35,861	(2) (9)
BCCP-36	December 8, 2009	1989	9.26	7,349	(2) (9)
BCCMTN-68	January 13, 2010	1998	5.75	50,000	(2) (29)
BCCP-37	March 9, 2010	1990	9.78	37,162	(2) (9)
BCCP-38	April 10, 2010	1990	10.36	55,755	(2) (9)
BCCP-39	May 10, 2010	1990	10.81	79,290	(2) (9)
BCCP-40	June 8, 2010	1990	11.33	93,059	(2) (9)
BCCP-41	July 10, 2010	1990	10.47	49,403	(2) (9)
BCCP-42	August 10, 2010	1990	10.46	2,811	(2) (9)
BCCP-43	November 9, 2010	1990	11.04	18,527	(2) (9)
BCCP-44	December 10, 2010	1990	10.93	10,695	(2) (9)
BCCD-D	February 21, 2011	1991	10.75	250,000	(2)
BCCP-45	April 10, 2011	1991	10.01	78,385	(2) (9)

GROSS DIRECT AND FISCAL AGENCY DEBT OF THE PROVINCE OF BRITISH COLUMBIA
Continued
 At March 31, 1998

Series	Date of Maturity	Year of Issue	Interest Rate	Amount Outstanding March 31, 1998	References (see p. 43)
			(per cent)	(thousands of Cdn. dollars)	
BCCP-46	May 10, 2011	1991	9.81	82,537	(2) (9)
BCCP-47	June 10, 2011	1991	9.86	91,464	(2) (9)
BCCP-48	July 10, 2011	1991	10.04	60,793	(2) (9)
BCCD-K	January 9, 2012	1992	9.50	1,093,000	(2) (32)
BCCP-49	May 8, 2012	1992	9.41	70,097	(2) (9)
BCCP-50	June 10, 2012	1992	9.45	97,715	(2) (9)
BCCP-51	July 10, 2012	1992	9.17	54,786	(2) (9)
BCCD-N	August 23, 2013	1993	8.50	1,085,036	(2) (32)
BCCMTN-44	August 23, 2013	1995	9.60	60,000	(2)
BCCMTN-50	August 23, 2013	1995	9.25	65,000	(2)
BCCMTN-53	August 23, 2013	1995	8.50	360,000	(2)
BCCD-Q	June 9, 2014	1994	7.50	400,000	(2)
BCCMTN-33	June 9, 2014	1994	9.625	25,000	(2)
BCCMTN-34	June 9, 2014	1994	9.625	50,000	(2)
BCCMTN-38	June 9, 2014	1994	9.60	90,000	(2)
BCCMTN-27	June 20, 2014	1994	8.50	50,000	(2)
BCCMTN-51	April 3, 2015	1995	9.83	50,000	(8) (25)
BCCMTN-25	October 3, 2016	1994	9.125	45,000	(2)
BCCMTN-26	June 17, 2019	1994	9.00	50,000	(2)
BCCD-C	September 5, 2020	1990	10.60	599,825	(2)
BCCMTN-46	September 5, 2020	1995	10.60	20,000	(2)
BCCD-G	May 15, 2021	1996	9.95	57,171	(2)
BCCD-L	June 9, 2022	1992	9.50	450,000	(2)
BCCD-M	August 19, 2022	1992	8.75	300,000	(2)
BCCD-P	September 8, 2023	1993	8.00	400,000	(2)
BCCMTN-60	September 8, 2023	1995	8.00	35,000	(2)
BCEC-13	November 30, 2023	1993	7.875	350,000	(1) (10)
BCCD-T	August 23, 2024	1994	9.00	400,000	(2)
BCCMTN-40	August 23, 2024	1995	9.00	35,000	(2)
BCCMTN-52	August 23, 2024	1995	9.00	200,000	(2)
BCCMTN-56	August 23, 2024	1995	8.50	30,000	(2)
BCCMTN-62	August 23, 2024	1996	7.875	200,000	(2)
BCCMTN-63	June 9, 2026	1996	8.00	110,000	(2)
BCCMTN-64	December 4, 2026	1996	5.40	100,000	(2) (26)
BCCMTN-65	June 9, 2027	1997	7.50	50,000	(2)
BCCD-W	November 19, 2027	1997	6.15	400,000	(2)
Other				2,095	(22)
Short-term Promissory Notes				1,535,770	
Exchange Premium (Including Hedge)				295	
Total Issues in Canadian Dollars				<u>22,399,294</u>	

At March 31, 1998, sufficient securities had been set aside in an irrevocable trust to satisfy the schedule interest and principal repayment requirements of Cdn. \$261,464,000 (1997: 308,464,000). For breakdown of the defeased debt, see page 43, reference 32.

GROSS DIRECT AND FISCAL AGENCY DEBT OF THE PROVINCE OF BRITISH COLUMBIA
Continued
 At March 31, 1998

Series	Date of Maturity	Year of Issue	Interest Rate	Amount Outstanding March 31, 1998	References (see p. 43)
			(per cent)	(thousands of Cdn. dollars)	
BCEUS-3	September 14, 1998	1995	6.125	300,000	(1) (10)
BCEMTN-17	September 9, 1999	1997	6.16	209,000	(1)
BCEMTN-19	October 30, 2000	1997	5.50	200,000	(2)
BCEUS-1	June 18, 2002	1992	7.750	500,000	(1) (10)
BCUSD-1	January 15, 2003	1993	7.000	500,000	(2) (10)
BCEUS-2	February 5, 2003	1993	5.50-8.00	100,000	(1) (10)
BCEUS-4	June 11, 2007	1997	7.125	500,000	(1) (10)
BCUSD-2	January 15, 2026	1996	6.50	500,000	(2) (10)
BCUSD-3	September 1, 2036	1996	7.25	300,000	(2) (10)
Short-term Promissory Notes				658,600	
Total Issues in U.S. Dollars *				US\$ 3,767,600	
Exchange Premium (Including Hedge)				1,483,776	
U.S. Issues at Cdn. Dollar Equivalent				CAN\$ 5,251,376	
EMTN-3	June 16, 1999	1994	Floating	5,000,000	(4) (10)
BCEJY-1	August 4, 1999	1994	4.00	50,000,000	(1) (10)
BCJYUS-1	September 9, 1999	1996	5.10	7,000,000	(1) (10) (27)
BCJYUS-2	February 29, 2000	1997	4.90	70,000,000	(2) (10) (27)
BCJYUS-3	September 18, 2000	1997	4.50	20,000,000	(2) (10) (27)
BCEMTN-18	September 25, 2000	1997	.20	10,000,000	(1)
EMTN-14	October 24, 2000	1996	1.68	5,000,000	(1) (10)
EMTN-1	May 31, 2004	1994	4.1048	5,000,000	(1) (10)
EMTN-2	June 15, 2004	1994	3.923	5,000,000	(2) (10)
EMTN-16	June 19, 2007	1997	3.50	5,000,000	(1) (31)
EMTN-20	February 19, 2008	1998	2.25	5,000,000	(1) (30)
Total Issues In Japanese Yen				¥ 187,000,000	
Exchange Premium (Including Hedge)				(184,735,430)	
Japanese Issues at Cdn. Dollar Equivalent**				CDN\$ 2,264,570	
BSCFR-2	February 20, 2002	1997	3.25	CHF 200,000	(1) (10)
Exchange Premium (Including Hedge)				(3,000)	
Swiss Franc Issue at Cdn. Dollar Equivalent**				CDN\$ 197,000	
BCES-1	December 31, 2003	1996	7.50	STG 200,000	(1) (10)
Exchange Premium (Including Hedge)				228,500	
Sterling Issue at Cdn. Dollar Equivalent**				CDN\$ 428,500	
BCEFF-1	January 30, 2007	1996	6.25	FFR 1,500,000	(1) (10)
BCEFF-2	July 15, 2009	1997	5.875	FFR 2,000,000	(1) (10)
Total Issues in French francs				FFR 3,500,000	
Exchange Premium (Including Hedge)				(2,634,012)	
French Franc Issue at Cdn. Dollar Equivalent**				865,988	
Gross Direct Debt issued by the Province (In Canadian Dollar Equivalents)				CDN\$ 31,406,728	

* Payable and expressed in U.S. dollars. Debt payable in US \$1,467 million has been hedged to Cdn \$1,992 million.

** Foreign currency debt other than U.S. has been fully hedged to Canadian dollars.

NET DIRECT AND FISCAL AGENCY DEBT OF THE PROVINCE OF BRITISH COLUMBIA
At March 31, 1998

	Amount Outstanding March 31, 1998	
	(thousands of Cdn. dollars)	
Gross Direct Debt issued by the Province (In Canadian Dollar Equivalents)		31,406,728
Less — Fiscal Agency Borrowings on behalf of:		
Warehouse Borrowing Program	209,509	
British Columbia Hydro and Power Authority	7,302,030	
British Columbia Railway Company	489,119	
British Columbia Ferry Corporation	800,321	
British Columbia Transit	1,731,964	
BC Transportation Financing Authority	1,101,493	
British Columbia Housing Management Commission	52,389	
Victoria Line	2,531	
British Columbia Assessment Authority	4,831	
British Columbia Buildings Corporation	740,749	
British Columbia Educational Institutions Capital Financing Authority	1,463,370	
British Columbia Regional Hospital Districts Financing Authority	1,356,383	
British Columbia School Districts Capital Financing Authority	3,053,825	
Certificate of Approval	174,512	
Improvement Districts	4,353	
Selkirk College	1,931	
Simon Fraser University	30,076	
University of British Columbia	61,700	
University of Victoria	10,565	
Okanagan University College	11,357	
College of the Rockies	2,800	
British Columbia Institute of Technology	25,974	
University of Northern British Columbia	15,851	
College of New Caledonia	2,575	
Cariboo College	6,269	
Malaspina College	2,274	
Douglas College	1,485	
Pacific Racing Association	6,276	
552513 British Columbia Ltd.	3,104	
	<u>18,460,107</u>	<u>18,669,616</u>
Gross Direct Debt		<u>12,737,112</u>
Less — Unamortized Discount	77,011	
— Government Sinking Funds	1,184,156	
— Bonds held in the Consolidated Revenue Fund	2,497	
	<u>1,263,664</u>	
Total Net Direct Debt		<u>11,473,448</u>
Gross Fiscal Agency Reloaned Debt		<u>18,669,616</u>
Less — Gross Fiscal Agency Debt		<u>18,460,107</u>
Gross Fiscal Agency Debt for Warehouse Borrowing Program Purposes		209,509
Less — Unamortized Discount/(Premium)	(2,036)	
Total Net Fiscal Agency Debt for Warehouse Borrowing Program Purposes		<u>211,545</u>
Gross Fiscal Agency Debt		<u>18,460,107</u>
Less — Unamortized Debt	130,386	
— Government Sinking Funds	1,825,074	
Total Net Fiscal Agency Debt		<u>16,504,647</u>
Total Net Direct and Fiscal Agency Debt, Warehouse Borrowing Program Debt		<u>28,189,640</u>
Less — Warehouse Borrowing Program Investments Available to Paydown Warehouse Borrowing Program Debt		<u>211,545</u>
Total Net Direct and Fiscal Agency Debt		<u>27,978,095</u>

At March 31, 1998, sufficient securities had been set aside in an irrevocable trust to satisfy the scheduled interest and principal repayment requirements of Cdn \$261,464,000 (1997: \$308,464,000). For breakdown of the defeased debt see Page 43 — reference (32).

NET GUARANTEED DEBT
At March 31, 1998

Issuer and Series	Date of Maturity	Year of Issue	Interest Rate	Amount Outstanding March 31, 1998	References (see p. 43)
				(thousands of Cdn. dollars)	
BRITISH COLUMBIA HYDRO AND POWER AUTHORITY					
Payable in Canadian Currency					
Issued by British Columbia Hydro and Power Authority:					
WM	June 9, 1998	1979	9.44	51,833	(2) (9)
WN	December 10, 1999	1980	10.58	17,000	(2) (9)
WO	November 10, 2000	1981	12.45	78,651	(2) (9)
FB	June 12, 2005	1980	11.75	100,000	(2) (18)
FC	April 14, 2006	1981	14.50	100,000	(2) (18)
FD	January 15, 2011	1981	13.50	150,000	(2) (18)
Issued by the former British Columbia Electric Company Limited					
Perpetual Callable Bonds:					
		1961	4.00–5.50	<u>177</u>	(2) (11)
Total Payable in Canadian Currency				<u>497,661</u>	
Payable in United States Currency ¹					
Issued by British Columbia Hydro and Power Authority:					
FN	September 1, 2013	1983	12.50	250,000	(2) (19)
FP	January 15, 2014	1984	12.50	200,000	(2) (19)
				US\$ 450,000	
Exchange Premium				<u>154,023</u>	
U.S. Issues at Canadian Dollar Equivalent				<u>604,023</u>	
Total Guaranteed Debt Outstanding				1,101,684	
Less — Sinking Funds			335,172		
— Repurchased Debt			<u>149,138</u>		
				<u>484,310</u>	
Total British Columbia Hydro and Power Authority net of Sinking Funds and Repurchased Debt				<u>617,374</u>	

¹ Debt of British Columbia Hydro and Power Authority which is payable in U.S. currency and which is unhedged is recorded at the exchange rate of March 31, 1998 as used by the corporation (1.4166 Canadian to 1.00 U.S.). Debt issues which have been hedged into Canadian dollars are recorded at the rates of exchange specified in the respective forward foreign exchange contracts.

NOTE: At March 31, 1998, British Columbia Hydro and Power Authority had sufficient guaranteed securities in an irrevocable trust to satisfy the scheduled interest and principal repayment requirements of Cdn \$ nil (1997: \$10,000,000).

NET GUARANTEED DEBT
Continued
At March 31, 1998

Issuer and Series	Year of Maturity	Year of Issue	Interest Rate	Amount Outstanding ¹ March 31, 1998
			(per cent)	(thousands of Cdn. dollars)
British Columbia Railway Company Ltd. Capital Leases				13,013 ²
British Columbia Ferry Corporation	2003	1983	12.08	2,889 ³
Capital Leases	2005	1985	8.69	<u>28,187</u>
				<u>31,076</u>
British Columbia Transit	2002-2003	1982-1983	11.37-15.54	25,364
Capital Leases				<u>132,727</u>
				<u>158,091</u>
British Columbia Buildings Corporation	2000-2005	1980-1983	7.69-15.69	37,531 ⁴
Mortgages				<u>1,590</u>
				<u>39,121</u>
British Columbia Educational Institutions Capital Financing Authority	2000-2009	1980-1989	9.13-17.51	86,303 ⁵
British Columbia Regional Hospital Districts Financing Authority	2000-2009	1980-1989	9.04-17.51	228,324 ⁶
British Columbia School Districts Capital Financing Authority	2000-2009	1980-1989	9.04-17.51	220,466 ⁷
Municipalities, Improvement Districts and Other Local Government Entities	1998-2007	1976-1986	9.63-15.75	<u>2,906</u>
Sub-total Net Guaranteed Debt				1,396,674
Less Net Guaranteed Debt Held in the Province's General and Special Funds				<u>—</u>
Total Net Guaranteed Debt				1,396,674
Plus — Other Guaranteed Debt				258,081
Less — Provisions for Probable Payout				<u>18,431</u>
Total Net Guaranteed Debt				<u>1,636,324</u>

¹ Total net of sinking funds.

² At March 31, 1998, British Columbia Railway Company also had sufficient securities in an irrevocable trust to satisfy the scheduled interest and principal repayment requirements with respect to defeased debt of Cdn. \$41,376,000 (1997: Cdn. \$118,376,000).

³ At March 31, 1998, British Columbia Ferry Corporation also had sufficient securities in an irrevocable trust to satisfy the scheduled interest and principal repayment requirements with respect to defeased debt of Cdn. \$38,178,941 (1997: Cdn. \$39,667,916).

⁴ At March 31, 1998, British Columbia Buildings Corporation also had sufficient securities in an irrevocable trust to satisfy the scheduled interest and principal repayment requirements with respect to defeased debt of Cdn. \$53,386,000 (1997: \$58,386,000).

⁵ At March 31, 1998, British Columbia Educational Institutions also had sufficient securities in an irrevocable trust to satisfy the scheduled interest and principal repayment requirements with respect to defeased debt of Cdn. \$92,196,000 (1997: \$49,554,000).

⁶ At March 31, 1998, British Columbia Regional Hospital Districts also had sufficient securities in an irrevocable trust to satisfy the scheduled interest and principal repayment requirements with respect to defeased debt of Cdn. \$133,830,000 (1997: Cdn. \$181,370,000).

⁷ At March, 31, 1998, British Columbia School Districts also had sufficient securities in an irrevocable trust to satisfy the scheduled interest and principal repayment requirements with respect to defeased debt of Cdn. \$240,971,000 (1997: Cdn. \$262,263,000).

NON-GUARANTEED DEBT
As at March 31, 1998

	(thousands of Cdn. dollars)
Taxpayer-Supported Debt	
Economic Development Crown Corporations and Agencies	
BC Transportation Financing Authority	5,500
British Columbia Ferry Corporation	149
British Columbia Transit	258
Okanagan Valley Tree Fruit Authority	439
Pacific National Exhibition	<u>3,106</u>
	<u>9,452</u>
Social and Government Service Crown Corporations and Agencies	
Provincial Rental Housing Corporation	<u>122,198</u>
Total Taxpayer-Supported Non-Guaranteed Debt	<u>131,650</u>
Self-Supporting Debt	
Commercial Crown Corporations and Agencies	
British Columbia Railway Company	15,682
Skeena Cellulose Inc.	92,478
Columbia Basin Power Company	95,155
British Columbia Lottery Corporation	—
Liquor Distribution Branch	<u>2,931</u>
Total Self-Supporting Debt.....	<u>206,246</u>
Total Non-Guaranteed Debt.....	<u>337,896</u>

SUMMARY OF NET DEBT
Amount Outstanding at March 31, 1998

	(millions of Cdn. dollars)
Total Net Direct Debt	11,473.4
Total Net Fiscal Agency Debt	16,504.7
Total Net Fiscal Agency Debt for Warehouse Borrowing Program Purposes	211.5
Total Net Guaranteed Debt	1,636.4
Total Non-guaranteed Debt	337.9
Add back Provision for Probable payout	<u>18.4</u>
Total Net Debt	<u>30,182.3</u>

NOTES TO STATEMENTS OF DEBT

- (1) Interest payable annually.
- (2) Interest payable semi-annually.
- (3) Interest payable monthly.
- (4) Interest payable quarterly.
- (5) Interest rate reset annually.
- (6) Interest rate reset semi-annually.
- (7) Interest rate reset every two years.
- (8) Interest compounded semi-annually, payable on maturity.
- (9) Pursuant to provisions for investment of Canada Pension Plan Funds, this issue is redeemable as a whole or in part on six months notice at option of the Minister of Finance for Canada subject to certain restrictions.
- (10) Callable by the issuer if taxation laws requiring additional payments are imposed or levied.
- (11) The corporation is prepared to accept offers for the sale of the securities at par plus accrued interest at the applicable rates.
- (12) Callable on any semi-annual interest date beginning November 30, 1996 on 25 days notice.
- (13) Callable seven years prior to maturity or on any interest payment date thereafter at par on 90 days notice.
- (14) Redeemable on October 15 or April 15 prior to maturity at par upon presentation of the bond.
- (15) Annual principal repayment commences from December 1, 1986 to maturity.
- (16) Redeemable at option of issuer January 1, 2007 on 90 days notice.
- (17) Callable at par on March 1 and September 1 of each year on or after March 1, 2001 on 25 days notice (BCCMTN-48).
- (18) Callable seven years prior to maturity or anytime thereafter at par on 30 days notice (BCCMTN-57).
- (19) Callable 15 years prior to maturity or anytime thereafter at various rates on 30 days notice.
- (20) Extendible, at the option of the holder, to May 15, 2021 at 9.95%, from May 15, 1996 to 1999 exercisable March 15 to April 15, in the years 1996 to 1999.
- (21) Puttable at the option of the holder on November 15, 1997 at par plus accrued interest on 30 days notice (BCCMTN-32).
- (22) Assumption by province of debt obligations of David Thompson University Centre.
- (23) Callable at par August 24, 1998 only (BCCMTN-58).
- (24) Callable at par September 29, 1998 only (BCCMTN-59).
- (25) Callable annually beginning on and including April 3, 2000 (BCCMTN-51).
- (26) Puttable at the option of the holder December 4, 2002 (BCCMTN-64).
- (27) Payable in U.S. Currency at maturity.
- (28) Redeemable at par by the Province on any anniversary date from July 10, 2000 to July 10, 2008 on 25 days notice (BCCMTN-66).
- (29) Redeemable at par by the Province on any interest payment date from January 13, 1999 to July 13, 2009 (BCCMTN-68).
- (30) Redeemable at par by the Province on February 19, 1999 on 5 business days notice (EMTN-20).
- (31) Coupon is payable in U.S. Dollars.
- (32) A portion of this issue is defeased. (See following Table.)

DEFEASED DIRECT AND FISCAL AGENCY DEBT OF THE PROVINCE OF BRITISH COLUMBIA At March 31, 1998

Series	Date of Maturity	Year of Issue	Interest Rate	Amount Outstanding March 31, 1998	References (see above)
			(per cent)	(thousands of Cdn. dollars)	
BCCD-H	August 29, 2001	1991	10.15	3,500	(2) (32)
BCCD-K	January 9, 2012	1992	9.50	57,000	(2) (32)
BCCD-J	January 9, 2002	1992	9.00	64,000	(2) (32)
BCCG-1	June 16, 2003	1993	7.75	15,000	(2) (10) (32)
BCCD-S	June 21, 2004	1994	9.00	8,000	(2) (32)
BCCMTN-16	June 30, 1998	1993	6.85	15,000	(2) (32)
BCCMTN-20	December 22, 2003	1993	7.00	20,000	(2)
BCCMTN-22	February 3, 2004	1994	6.50	30,000	(2)
BCCMTN-29	August 16, 2004	1994	9.125	5,000	(2)
BCCMTN-30	August 16, 1999	1994	8.40	24,000	(3)
BCCD-N	August 23, 2013	1993	8.50	14,964	(2) (32)
BCCP-26	June 10, 2008	1988	10.31	3,000	(2) (9)
BCCP-28	December 9, 2008	1988	9.93	2,000	(2) (9) (32)
Total Defeased Direct and Fiscal Agency Debt				<u>261,464</u>	

Appendix G: Debt Management Parameters

The following is a discussion of debt management parameters which form key considerations in the management of the government's debt.

1. Avoid funding under unfavourable market conditions

Provincial Treasury will typically manage its funding program ahead of actual requirements, thus mitigating the risk of accessing the market 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 the timing of its decisions for financing, fixed rate debt costs are generally “averaged-in” over the course of a year. Financing a large annual borrowing requirement strictly in accordance with a market outlook which may prove to be incorrect is considered to be imprudent.

In addition, Provincial Treasury has instituted measures to help safeguard against the possibility of severe financial market volatility which could hinder the government's financing ability. These measures include:

- containing the size of outstanding short-term debt through use of long-term floating rate debt. This increases the government's capacity for short-term financing if long-term debt markets become unfavourable;
- using the warehouse borrowing program from time to time to take advantage of attractive borrowing opportunities in advance of actual requirements;
- arranging a US \$1.0 billion internationally-syndicated backup line of credit. This is a standby facility to backup the government's short-term borrowing program. The federal government and other major provinces have set up similar facilities; and
- using borrowing proceeds opportunistically to purchase high-quality investments and to generate profit for the government's matched book program. The investments are available to the government in the event of a capital market crisis.

2. Minimize risk of refinancing maturing debt

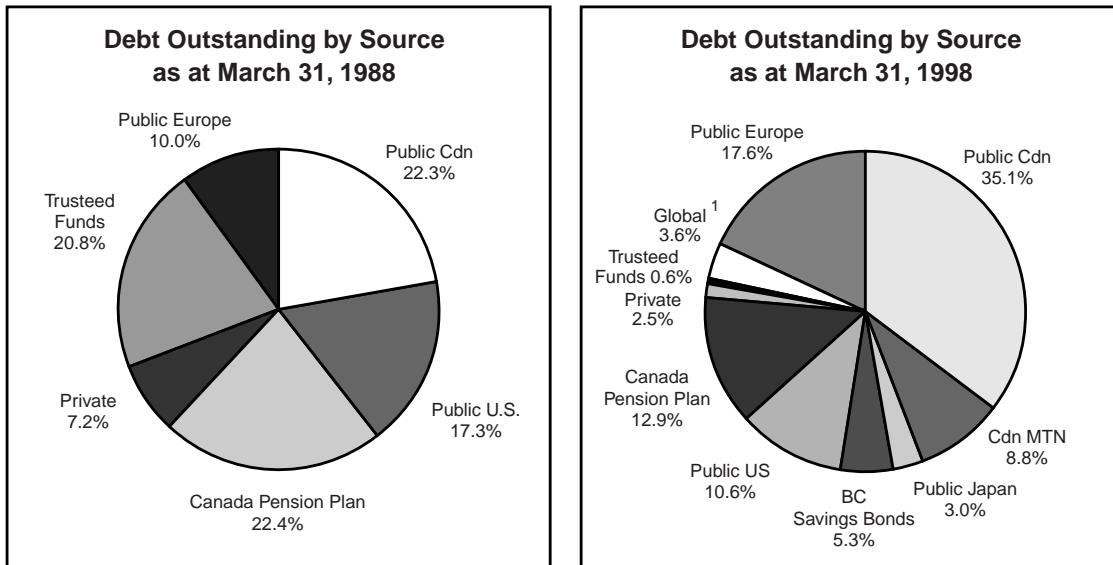
The orderly retirement of future debt obligations without incurring undue refinancing risk is important for minimizing interest costs. To this end, the government deliberately issues its debt securities across the full range of terms from one to 30 years. A broad mix of debt maturities avoids “crowding” of refinancings in any year and further reduces the government's exposure to future interest rate risk. As a result of this policy, the government's refinancing schedule is well-balanced, with an average level of annual net maturities over the next 10 years of C \$1.4 billion (see Chart 3).

3. Diversifying funding sources to reduce debt costs

Borrowing sources are diversified to cultivate strong domestic and international investor demand for British Columbia debt securities; strong demand helps minimize financing costs for the government. 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.

Funds borrowed by the government have come from a variety of sources, including public financial markets in Canada, the United States, Europe and Asia; the Canada Pension Plan Investment Fund (CPP); private institutional lenders; and provincial trustee funds. In all cases, the government liabilities are payable in either Canadian or U.S. dollars. Chart 10 shows that, compared to 1988, borrowing sources have shifted away from CPP and trustee funds towards issuance in public capital markets.

CHART 10



¹ A global debt security is offered simultaneously to investors in Canada, the U.S., Europe and Asia.

4. Foreign currency exposure is managed within conservative limits

From time to time, the government issues 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 relative to other currencies. The exposure of the government's debt portfolio to changes in the value of the Canadian dollar can be effectively offset through various financial instruments including currency swaps.

Neither the government nor its Crown corporations is currently permitted to incur liability exposures to currencies other than Canadian or U.S. dollars.

The Risk Committee has set the maximum allowable U.S. dollar exposure for government's direct debt and debt of the school districts, hospital districts and post-secondary institutions at 10 percent of net debt outstanding. U.S. dollar exposure was approximately 4.6 percent of net debt as at March 31, 1998 or US \$551.1 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 32.9 percent of its net debt as at March 31, 1998, within the 16 to 36 percent authorized limit set by B.C. Hydro's board of directors.

5. Prudent use of financial products

Subject to parameters set by the 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, 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 hedge

currency exposure. In this manner, the government provides a sufficient degree of flexibility for raising funds, 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 by the government are effectively converted to Canadian dollar obligations at substantial savings compared with Canadian dollar financings in the domestic market; and
- supporting the government's strategy to "average-in" the timing and cost of its fixed-rate funding. Such financial products allow the government to access the market for funds when the market is most receptive, without having to immediately incur large amounts of fixed-rate debt. Fixed-rate financing is thus averaged-in gradually rather than incurred intermittently in large amounts.

The market value of derivative instruments changes as the underlying hedged debt securities change in value, impacted by interest rate and foreign exchange movements. The change in value of hedged securities will move in an equal and opposite direction to the related derivatives. The market value of the derivative portfolio serves as a measure of the amount that would be paid or received to terminate or trade the derivative agreements. As at March 31, 1998, the province would have been paid \$82 million to sell its derivatives portfolio in the market; doing so, however, would have left the province exposed to financial risks for which it wanted protection.

The government is subject to risk of default by the counterparty under the terms of a financial products transaction. For this reason, the Risk Committee sets restrictive and high credit criteria for qualifying acceptable counterparties with due regard to the market value of derivative exposures. Further, the counterparty credit agreements which have been negotiated with financial institutions provide legal and business protection to mitigate risk in favour of the province.