BRITISH COLUMBIA

Budget '98 Reports

100 Years Parliament Buildings
BRITISH COLUMBIA

Ministry of Finance and Corporate Relations
Joy MacPhail, Minister

1998 BUDGET REPORTS

Report A: ECONOMIC REVIEW AND OUTLOOK

Introduction

In the first half of 1997, British Columbia's economic growth picked up after the slowdown in 1996. Since then, the provincial economy has been growing at a slow pace. Economic activity has been dampened by an economic slowdown in the Japanese and other Asian economies, a fall in some key commodity prices through the year and declines in net in-migration to the province. Output has also been reduced by a labour dispute affecting three pulp and paper mills and production disruptions at other operations in the resource sector.

The pace of provincial economic activity is expected to remain subdued during the remainder of 1998 and into 1999. British Columbia's longer-term prospects remain positive with growth expected to recover as the economic problems in Asia subside and the provincial government's tax and regulation initiatives spur new investment and jobs.

The Asian financial upheaval has added considerable uncertainty to British Columbia's economic outlook. However, while much attention has been focused on Asia's problems, other important factors affecting the provincial economic outlook are also worth noting. For example:

- the North American and European economies are healthy, with steady growth anticipated for at least the next two years;
- Canadian interest rates remain at historically low levels; and
- the Canadian dollar is at competitive levels compared to its U.S. counterpart, helping British Columbia exporters in markets south of the border.

Economic Consultation

The Minister of Finance and Corporate Relations once again received comments on the provincial outlook from several Canadian economic experts at an economic outlook conference held in January 1998. At this gathering, the average prediction was that British Columbia's economy would grow 1.4 per cent in 1998. (A topic box starting on page 13 provides a summary of the discussions at this conference.) Since the conference was held in January, some participants have revised down their forecasts of British Columbia economic growth.

While the diverse views expressed at the conference have been a valuable contribution to the development of the provincial economic outlook, the Ministry of Finance and Corporate Relations is responsible for all aspects of the budget's economic forecast.

1997 in Review

Last year began with the province experiencing a moderate recovery in economic activity after recording sluggish growth in both 1995 and 1996. However, initial signs of strength gave way to a more mixed performance during the remainder of 1997. The pace of growth slowed during the second half of the year as a contraction in the Japanese economy and production disruptions at a number of British Columbia forest industry operations reduced exports.

Real gross domestic product (GDP) rose an estimated 2.0 per cent in 1997, close to the 2.2 per cent projected in the 1997 budget economic outlook (see Table A1).

The British Columbia economy continued to produce jobs in 1997, albeit at a slower pace than in 1996. Job growth was sluggish earlier in the year after large increases in the fourth quarter of 1996. A subsequent jump in employment in the summer months was followed by declines in the fourth quarter. Overall, employment increased 1.8 per cent in 1997, equal to 32,000 new jobs.

This growth was in line with the 1.9 per cent increase in employment at the national level. Part-time jobs accounted for two-thirds of the increase in British Columbia employment. The provincial unemployment rate averaged 8.7 per cent in 1997, down from 8.9 per cent in 1996.

Net in-migration to the province totalled an estimated 49,700 in 1997. Net interprovincial in-migration to British Columbia totalled 7,400, compared to 21,150 in 1996, as the strong recovery in economic activity and employment growth in the rest of Canada reduced the flow of job seekers to British Columbia. Net international in-migration fell only 2 per cent to 42,300 persons in 1997.

TABLE A1
CONTRIBUTIONS TO BRITISH COLUMBIA 1997 REAL GDP[1] GROWTH

	Change,* $1986 billions	% change from 1996
Consumer expenditure	1.6	3.1
Investment	0.5	2.6
Non-residential investment	0.1	1.0
Residential investment	0.3	5.6
Government expenditure	0.0	0.2
Final domestic demand	2.0	2.5
Net exports	−0.6	−0.8**
Inventory investment	0.0	0.0**
Real GDP	1.4	2.0

* Totals do not add due to rounding.
** Change as a percentage of 1996 real GDP.
[1] Ministry of Finance and Corporate Relations estimates.

Consumer expenditures on goods and services, buoyed by purchases of big ticket items such as appliances and motor vehicles, grew an estimated 3.1 per cent in real terms in 1997. The number of motor vehicles sold was up 14.2 per cent. Spending was spurred by low interest rates and a rebound in consumer confidence from low levels reached in 1995. The value of retail sales rose 4.9 per cent in 1997, or 4.2 per cent after adjusting for inflation.

Inflation in British Columbia remained subdued in 1997 with the province's consumer price index rising only 0.7 per cent, the second consecutive year of overall price increases below one per cent. British Columbia's inflation rate was half the national average and the lowest among the provinces.

British Columbia housing affordability improved in 1997 due to low interest rates and decreases in house prices from peaks reached in recent years. Sales of existing homes fell 5.5 per cent while housing starts increased 6.2 per cent to 29,351 units.

The volume of British Columbia's goods and service exports to other countries and the rest of Canada rose an estimated 3.3 per cent in 1997. The average price of British Columbia's exports was unchanged in Canadian dollar terms. Most of the increase in exports was due to strength early in the year. Exports to Japan began to soften in the second quarter after an increase in the Japanese consumption tax dampened house construction activity and overall economic growth. Exports were also affected by the labour dispute at Fletcher Challenge pulp and paper operations, which halted production at three mills, and a shutdown at the Skeena Cellulose pulp mill and its related operations. Weak export earnings cut into corporate profits in 1997, leading to slow growth in business investment.

Real capital investment rose an estimated 2.6 per cent in 1997, largely due to increased residential construction and business purchases of machinery and equipment. Growth in non-residential construction investment, on the other hand, was relatively weak.

Ongoing restraint measures at all three levels of government held down growth in government spending. At the provincial level, significant cuts were made in the size of the civil service and a capital freeze reduced total capital spending. The federal government also reduced program spending as it moved toward achieving its balanced budget goal.

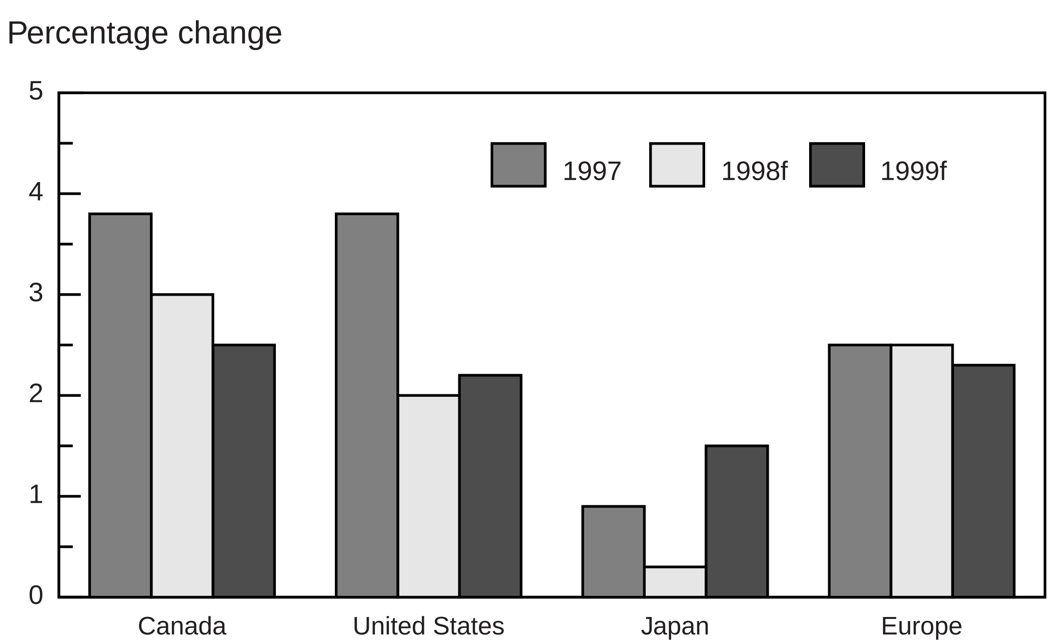
British Columbia Economic Outlook

The pace of provincial economic growth is expected to slow in 1998, mainly due to continuing sluggish growth in the Japanese economy and a sharp slowdown in other Asian economies. Softening international commodity prices and declining population growth will also hold down growth in 1998. However, the ongoing strength in the North American economy, together with relatively low interest rates and a competitively priced dollar, should help the economy avoid a recession in 1998. British Columbia real GDP is forecast to increase 0.9 per cent in 1998 and 1.7 per cent in 1999.

Major Markets

The North American economy was stronger than expected in 1997 with both Canada and the United States growing 3.8 per cent. Asia's economic problems are expected to have only a limited negative impact on the United States economy. Indeed, the popular view is that any slowdown resulting from the "Asian Flu" will help dampen potential inflation pressures and

CHART A1
REAL GDP GROWTH IN MAJOR MARKETS



Source: National sources and Ministry of Finance and Corporate Relations forecasts(f) .

reduce the likelihood of a significant increase in interest rates. Growth in the U.S. economy is expected to slow to a more sustainable pace, with real GDP increasing 2.0 per cent in 1998 and 2.2 per cent in 1999. U.S. housing starts, which are a major source of demand for British Columbia lumber products, are expected to remain at relatively high levels, totalling 1.45 million units in 1998 and 1.4 million in 1999.

Asia's economic difficulties are expected to have a modest impact on growth in the rest of Canada. The national economy is benefiting from a rebound in domestic demand, which is being spurred by increased employment growth, low interest rates and high levels of consumer confidence. The ice storm in central Canada dampened economic activity in the first quarter of 1998, but rebuilding efforts will likely boost growth in the remainder of the year. Canadian real GDP is forecast to rise 3.0 per cent in 1998 and 2.5 per cent in 1999.

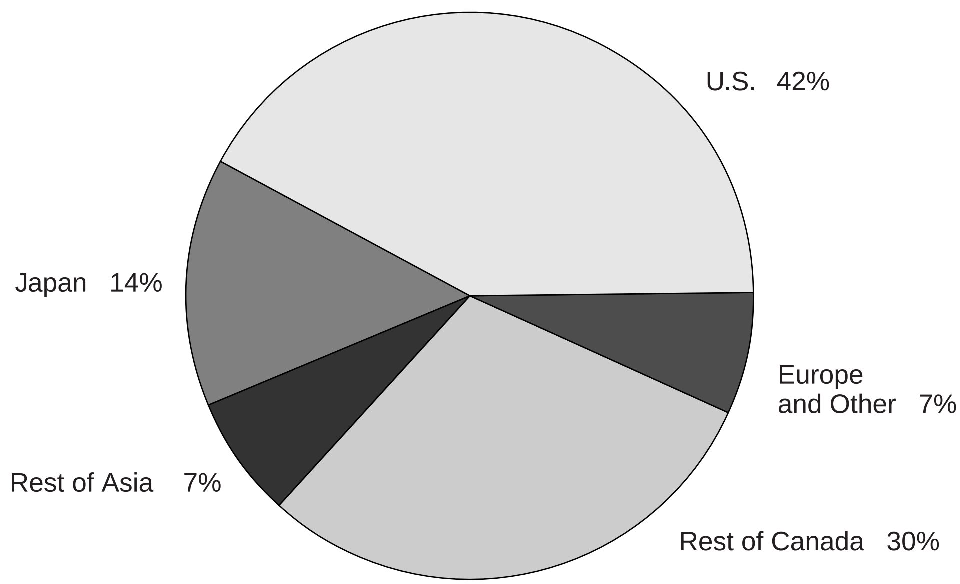
The Japanese economy is expected to show little growth in 1998 with real GDP rising only 0.3 per cent. Japan is the main conduit through which Asia's economic troubles will affect British Columbia. Japan and other Asian countries together account for 21 per cent of British Columbia's total goods and service exports. Economic growth in Japan is expected to reach 1.5 per cent in 1999.

Growth in the European economy is expected to average 2.5 per cent in 1998 and 2.3 per cent in 1999.

CHART A2

BRITISH COLUMBIA EXPORT MARKETS

1997 TOTAL: $46.7 billion[1]



[1] Includes goods and service exports. Shares are based on 1996 economic accounts and 1997 merchandise export data.
Source: Statistics Canada and Ministry of Finance and Corporate Relations estimates.

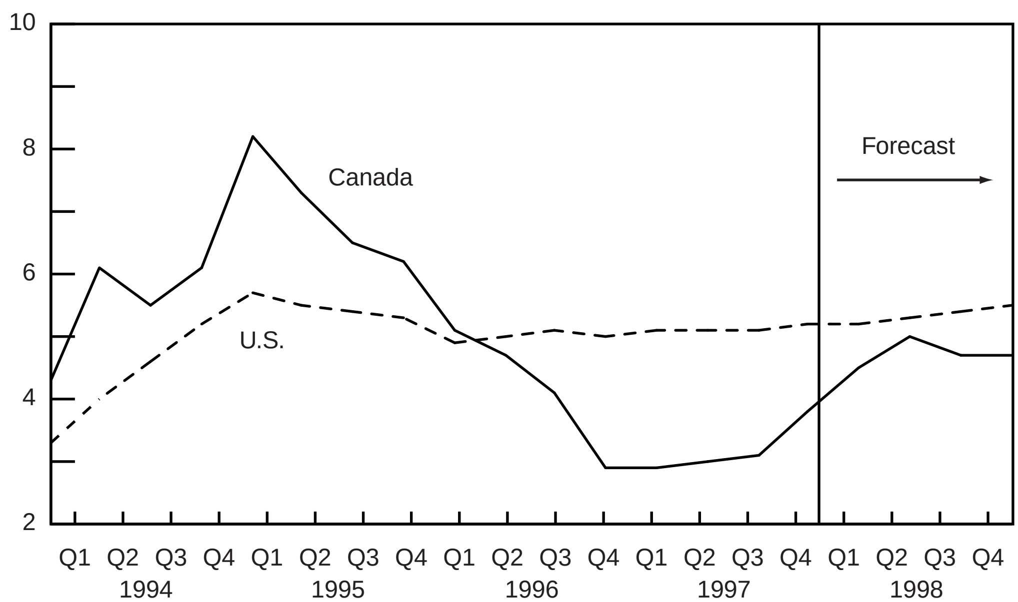
Financial Markets

While Canadian short-term interest rates have been rising since mid-1997, they remain below comparable U.S. interest rates. Long-term Canadian bond yields, on the other hand, drifted down during 1997 and remain on par with comparable U.S. yields. Stronger growth in the national economy and exchange rate weakness prompted the Bank of Canada to raise its Bank rate to 5 per cent early in 1998 from its mid-1997 low of 3.25 per cent. The forecast assumes that short-term interest rates average 4.7 per cent in 1998, up from 3.2 per cent in 1997. Canadian bond yields are expected to remain close to recent levels with long-term government bond yields averaging 6.0 per cent in 1998 compared to 6.4 per cent in 1997.

CHART A3

CANADA AND U.S. SHORT-TERM INTEREST RATES

3-month treasury bills; per cent



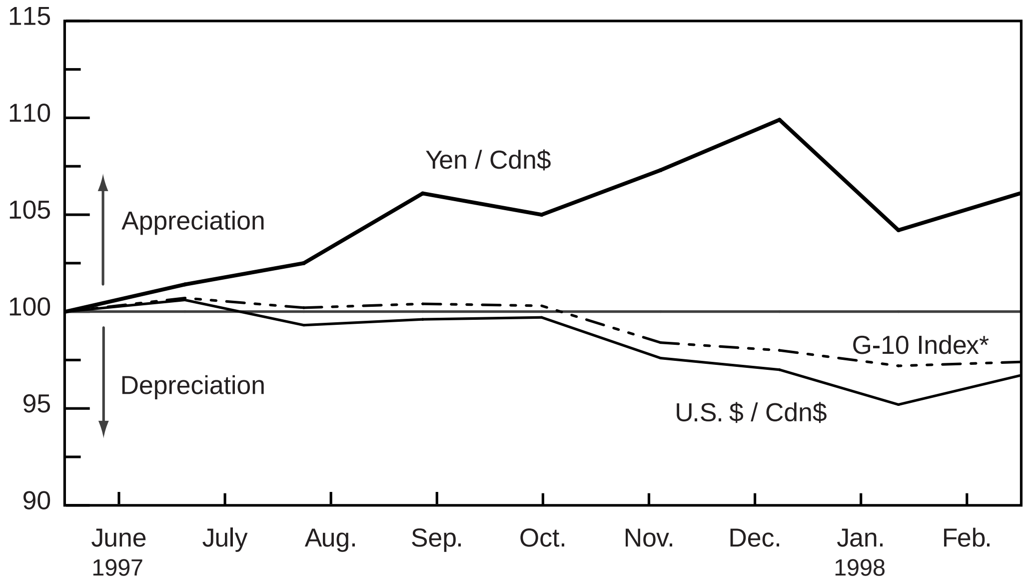
Source: Bank of Canada and Ministry of Finance and Corporate Relations.

The dollar came under increasing pressure in late 1997 and early 1998, in part due to uncertainty in international financial markets about the effect of the Asian crisis on commodity-producing economies such as Canada. The dollar fell to the 69 U.S. cent range in early February before interest rate increases by the Bank of Canada, together with positive national economic news, pushed it above 70 U.S. cents later in the month. In March, political developments in Quebec caused the dollar to rise almost a full cent. The dollar has been appreciating against the Japanese yen and other Asian currencies caught up in the recent financial crisis, adding to competitive difficulties in those markets.

CHART A4

CANADIAN DOLLAR EXCHANGE RATE

June 1997 = 100



* Weighted average of the value of the Canadian dollar against major foreign currencies.
Source: Bank of Canada.

The forecast assumes the Canadian dollar will average slightly over 70 U.S. cents in 1998 and then appreciate gradually over the next few years.

Export Prices

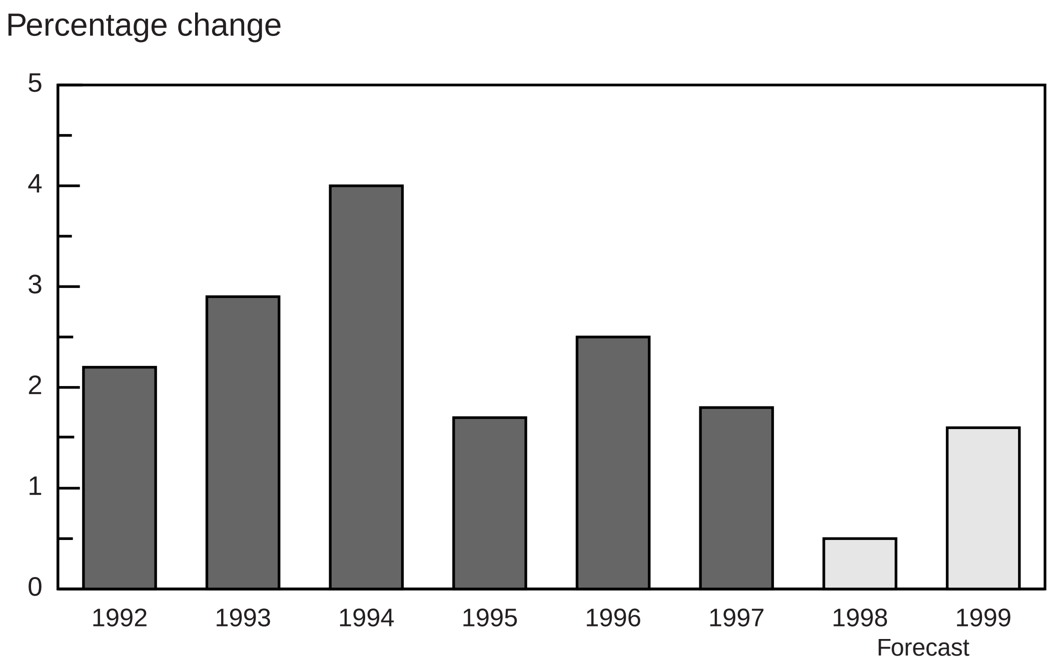
Prices for several of British Columbia's export commodities, such as lumber, pulp and metals, have been falling in recent months. One bright spot in commodity markets is newsprint, which is less affected by Asian market developments. Newsprint prices have been on an upward trend since early 1997 and producers are proposing further price increases in coming months. British Columbia goods and service export prices are forecast to fall 1.3 per cent in 1998 before rebounding by 3.0 per cent in 1999.

Population, Labour Market and Incomes

Net in-migration is forecast to total 40,700 persons in 1998, down from 49,700 in 1997. Both international and interprovincial net in-migration are expected to decline as improving employment prospects in other parts of Canada continue to attract job seekers. However, British Columbia immigration levels could receive a boost from individuals seeking a "safe haven" from Asian economic uncertainty. With in-migration expected to remain relatively subdued, overall population growth is forecast at 1.7 per cent in both 1998 and 1999.

Employment is forecast to increase 0.5 per cent in 1998, equal to 9,000 jobs. The labour force is projected to increase 1.6 per cent, resulting in an unemployment rate of 9.6 per cent. In 1999, employment is expected to rise 1.6 per cent and the unemployment rate is forecast to average 9.7 per cent.

CHART A5
BRITISH COLUMBIA EMPLOYMENT



Source: Statistics Canada and Ministry of Finance and Corporate Relations forecast.

Growth in average weekly earnings of about 1 per cent plus the forecast growth in employment should result in an increase in total labour income of 1.5 per cent in 1998 and 2.6 per cent in 1999. Personal income is expected to increase 1.7 per cent in 1998 and 2.6 per cent in 1999.

The Consumer Sector

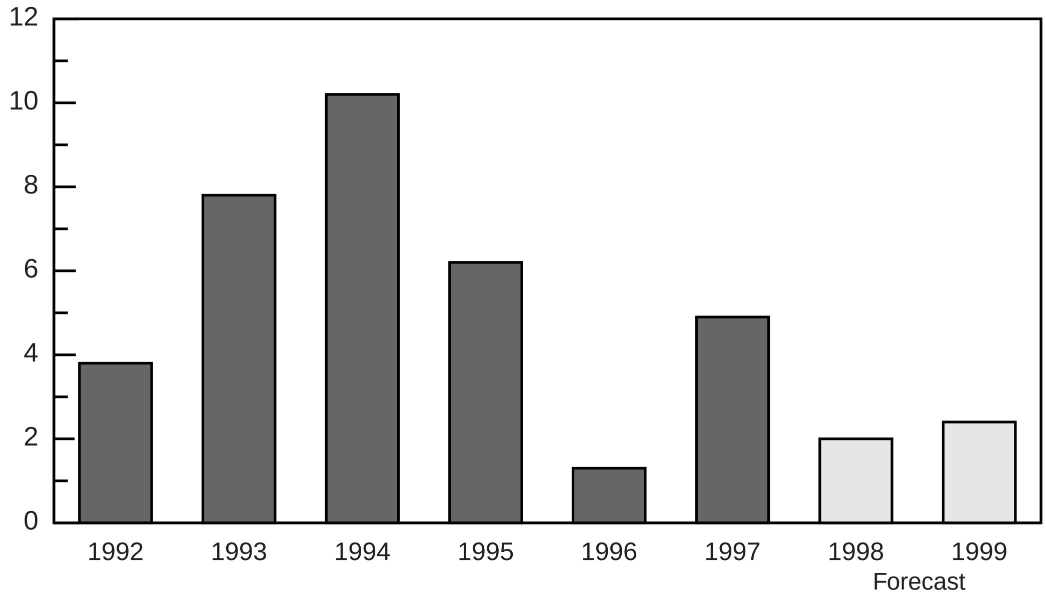
Slower employment growth and the rise in short-term interest rates in recent months have dampened consumer confidence in British Columbia, according to recent surveys.
This, together with slower population growth, will lead to slower growth in consumer spending this year. Real consumer spending is forecast to increase 1.5 per cent in 1998 and 1.6 per cent in 1999. Tourism spending should be boosted by the low Canada-U.S. exchange rate, which will attract more U.S. visitors to the province. This likely will be offset by a drop in Asian tourists.

Housing starts are projected to fall 4.9 per cent in 1998 to 27,900 units. However, many home owners continue to upgrade their houses rather than moving up. A recent Statistics Canada survey indicates that 50 per cent of British Columbia’s renovation businesses are expecting an increase in activity in 1998. In 1999, housing starts are forecast to rise 1.4 per cent to 28,300 units.

Inflation is expected to remain low with consumer prices forecast to rise 0.7 per cent in 1998 and 1.1 per cent in 1999.

CHART A6
BRITISH COLUMBIA RETAIL SALES

Percentage change; current dollars



Source: Statistics Canada and Ministry of Finance and Corporate Relations forecast.

The Business Sector

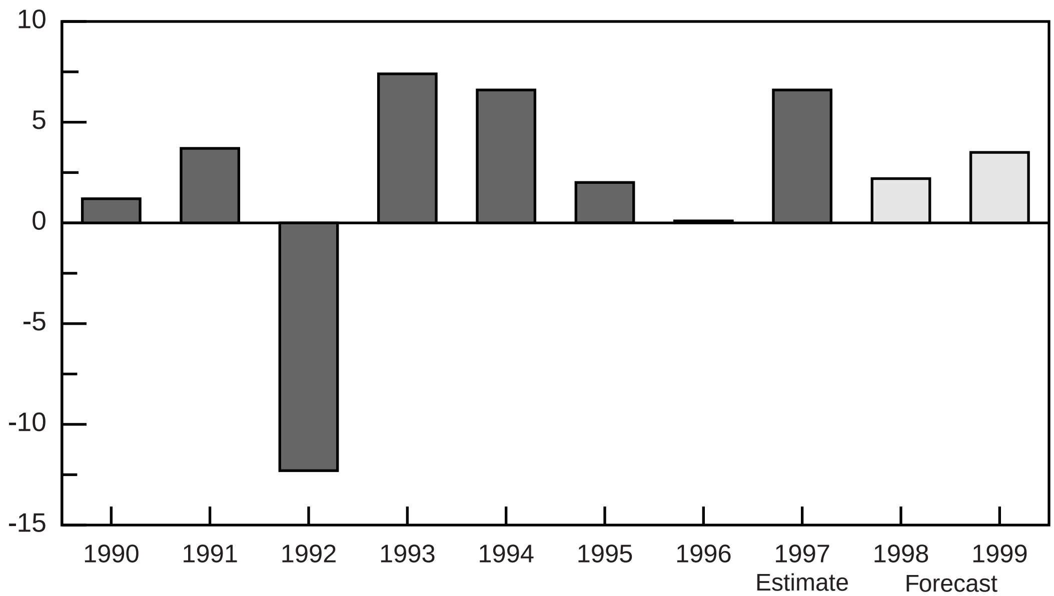
The corporate profit outlook for British Columbia is clouded by Asia's economic problems and weakness in commodity prices. With most of the province's resource exporters facing low prices for their products, overall pre-tax corporate profits are forecast to fall in 1998 before rebounding in 1999. As a result, investment in the resource sector will be weak. Outside the resource sector, however, the investment picture is relatively good. This is reflected in a recently-released Statistics Canada survey of private and public investment which suggests a 1.3 per cent current-dollar increase in planned capital investment in 1998; investment in the primary and manufacturing industries is expected to decline by $127 million, more than offset by a $391-million increase in the rest of the economy.

Non-residential construction is being boosted by current and planned hotel construction projects in the Lower Mainland and Victoria areas. In addition, the Vancouver International Airport is planning to expand its terminal capacity and a cruise ship terminal and new convention centre are planned for downtown Vancouver. Also, low office vacancy rates and relatively high rents in Greater Vancouver are likely to lead to new office construction over the next two years. Falling prices for computers and other office equipment and expenditures on "Year 2000" solutions will continue the boom in machinery and equipment and related software spending. Statistics Canada reports that Canadian firms will spend $12 billion to deal with the Year 2000 problem. Government efforts to promote business investment are also expected to generate stronger growth in non-residential construction and machinery and equipment purchases over the next few years.

Total capital investment is forecast to increase 1.4 per cent in real terms in 1998 and 2.2 per cent in 1999.

CHART A7
MACHINERY AND EQUIPMENT INVESTMENT IN B.C.

Percentage change; $1986



Source: Statistics Canada and Ministry of Finance and Corporate Relations estimate and forecast.

The Government Sector

Spending by all levels of government is expected to remain virtually unchanged in real terms in 1998. The provincial government is holding down expenditure growth in recognition of its financial targets. The federal government has announced reductions in program spending over the next year despite achieving a balanced budget. Total government spending is expected to increase 0.2 per cent in real terms in 1998 and 0.9 per cent in 1999.

Risks to the Outlook

The economic forecast for British Columbia is built upon assumptions about interest rates, exchange rates, growth in the province's trading partners and movements in commodity prices. All of these assumptions are subject to risk.

As mentioned above, the general view of those attending the Minister's pre-budget economic consultation was that the provincial outlook faces greater external risks than usual over the next two years, mainly due to the uncertainty of the Asia economic situation. These views were based on fears that Asia's economic downturn could be broader, deeper or more prolonged than currently anticipated. A further deterioration in the Asian situation would result in lower-than-forecast growth in British Columbia. Alternatively, Asian countries could pull out of the current malaise much sooner than forecast with some countries' growth rates returning to near pre-crisis levels within the next two years.

Other risks to the outlook include:

- Interest rates could be higher than assumed in the forecast. Higher interest rates would dampen consumer spending and capital investment. Lower-than-expected interest rates, on the other hand, would boost domestic spending.
- The Canadian dollar could once again come under downward pressure relative to its U.S. counterpart. A lower dollar would benefit British Columbia exporters by increasing the competitiveness of their products but could also prompt an increase in interest rates.
- Growth in the U.S. economy could be lower than forecast, reducing British Columbia exports. Alternatively, U.S. economic activity could remain strong in 1998 rather than moderating, as expected by most forecasters.
- Net in-migration to British Columbia could decline more than anticipated. Stronger-than-expected growth in the rest of Canada in 1998, for example, could result in an outflow of migrants to other provinces. A positive risk is that international in-migration could be higher than expected as some observers believe British Columbia could become a "safe haven" destination for some Asians. Changes to federal immigration policies may also affect future immigration levels.

TABLE A2

BRITISH COLUMBIA ECONOMIC OUTLOOK

	Budget Forecast	Actual/ Estimate	Forecast	
	1997		1998	1999
Gross Domestic Product (percentage change in current dollars)	3.6	3.0[1]	1.1	3.9
Real Gross Domestic Product (percentage change in 1986 dollars)	2.2	2.0[1]	0.9	1.7
Consumer Expenditure	2.2	3.1	1.5	1.6
Government Expenditure	0.8	0.2	0.2	0.9
Capital Investment	3.2	2.6	1.4	2.2
Exports of Goods and Services	2.4	3.3	1.0	1.9
Imports of Goods and Services	2.5	4.0	1.6	1.8
Inventory Investment (change in billions of 1986 dollars)	−0.1	0.0	0.1	0.1
Population (percentage change)	2.2	2.0	1.7	1.7
Net In-migration	57,400	49,700[1]	40,700	48,500
Interprovincial	19,000	7,400[1]	3,000	12,200
International	38,400	42,300[1]	37,700	36,300
Labour Force (thousands)	2,019	2,012	2,044	2,079
(percentage change)	1.9	1.6	1.6	1.7
Employment (thousands)	1,846	1,838	1,847	1,877
(percentage change)	2.2	1.8	0.5	1.6
Unemployment Rate (per cent)	8.6	8.7	9.6	9.7
Retail Sales (millions of current dollars)	32,230	32,771	33,430	34,230
(percentage change)	3.0	4.9	2.0	2.4
Labour Income[2] (millions of current dollars)	60,750	60,731	61,640	63,240
(percentage change)	3.5	3.3	1.5	2.6
Corporate Pre-tax Profits (millions of current dollars)	5,050[3]	4,675[1]	3,740	4,935
(percentage change)	15.0	−13.2	−20.0	32.0
Housing Starts (units)	30,200	29,351	27,900	28,300
(percentage change)	9.3	6.2	−4.9	1.4
Consumer Price Index (1992=100)	110.6[4]	109.7	110.5	111.7
(percentage change)	0.8	0.7	0.7	1.1

[1] Ministry of Finance and Corporate Relations estimates.
[2] Wages, salaries and supplementary labour income.
[3] Level is not comparable to 1997 budget document due to Statistics Canada data revisions.
[4] Level is not comparable to 1997 budget document due to re-basing of index.

TABLE A2

BRITISH COLUMBIA ECONOMIC OUTLOOK — *Continued*

	Budget Forecast 1997	Actual/ Estimate 1997	Forecast 1998	Forecast 1999
Key Assumptions:				
Economic Growth (per cent)				
Canada	2.9	3.8	3.0	2.5
United States	2.3	3.8	2.0	2.2
Japan	1.5	0.9	0.3	1.5
Europe	2.5	2.5	2.5	2.3
Canadian Interest Rates (per cent; annual average)				
3-month Treasury Bills	3.4	3.2	4.7	4.7
10-year and over Government of Canada bonds	6.5	6.4	6.0	6.1
U.S. cents/Canadian dollar	74.3	72.1	70.2	71.0
Export/Commodity Prices				
British Columbia goods and service export prices (percentage change)	1.0	0.0	−1.3	3.0
Spruce-Pine-Fir Lumber (U.S. $/1,000 board feet)	350	353	300	335
Pulp (U.S. $/tonne)	600	567	560	625
Newsprint (U.S. $/tonne)	620	559	615	630
Copper (U.S. $/lb.)	0.90	1.03	0.84	0.90
Lead (U.S. $/lb.)	0.36	0.28	0.29	0.30
Zinc (U.S. $/lb.)	0.52	0.60	0.50	0.50
Gold (U.S. $/oz.)	390	331	298	300
Aluminum (U.S. $/lb.)	0.75	0.72	0.66	0.72
Natural Gas (U.S. $/gigajoule)	1.13	1.40	1.10	1.16
Coal (Cdn. $/tonne)[1]	52	55	54	53

[1] Weighted average of metallurgical and thermal coal prices.

MINISTER'S ECONOMIC OUTLOOK CONFERENCE

On January 22, 1998, the former Minister of Finance and Corporate Relations, the Honourable Andrew Petter, met with economic experts from British Columbia and across Canada. The purpose of the meeting was to discuss the current conditions and prospects for the British Columbia economy. Thirteen participants tabled forecasts for the economy.

This is the second year in which the minister has sought the opinions and advice of independent professionals in preparation for the annual budget. As with last year's round table, the participants outlined their views of the province's economic outlook for the near term, as well as issues affecting the province's longer-term outlook.

The general view of the round table's participants was that British Columbia's economy is expected to grow at a moderate pace over the next one to two years while the longer-term outlook is more positive. An over-riding concern was the significant negative risks generated by the Asian economic upheaval. Most participants felt that policy adjustments were needed for the economy to achieve its full potential.

International Developments

Participants in the consultation agreed that Asia's financial and economic problems, which have overshadowed international economic developments since mid-1997, will play a dominant role in shaping events in British Columbia for the near term. Most agreed that British Columbia's extensive trade links with the Asian economic region will result in the province experiencing a disproportionate share of the impact from Asia's downturn compared to the rest of Canada.

The Japanese economy is expected to be significantly affected by problems in neighbouring economies, with exports reduced and its banking system shaken by bad external loans. Japan's economy is expected to record little or no growth in 1998.

The momentum in the United States economy is expected to be only modestly affected by Asia's economic problems. Some noted a positive side to the Asian problems with the reduction in U.S. growth caused by the Asian situation perhaps dampening inflation pressures enough to avoid an increase in short-term interest rates. Europe is also expected to avoid any major fallout from the Asian crisis with growth in 1998 picking up from relatively low levels in recent years.

Canadian Economy

The Canadian economy is expected to continue growing at a relatively brisk pace in 1998 with domestic demand the main source of growth. Most participants agreed that low interest rates and accelerating employment growth are expected to spur consumer spending on big ticket items, business investment on machinery and equipment, and residential housing construction. Canadian growth was generally expected to be in the 3.0 to 3.5 per cent range, although forecasts ranged as high as 4.0 per cent and as low as 0.2 per cent. A few participants raised concerns that Canadian economic growth could be dampened by an unexpected tightening of monetary policy or a significant slowdown in the U.S. economy.

Financial Markets

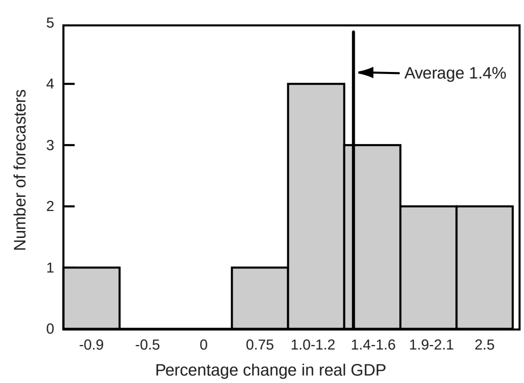
The recent weakness in the dollar has pushed short-term interest rates above 1997 levels. However, most participants expected Canada's low inflation and the gap between actual and potential growth to lead the Bank of Canada to resist significant increases in short-term interest rates. Short-term interest rates are expected to average around the mid-4-per cent range while long-term interest rates are expected to fall slightly from 1997 levels.

The recent depreciation in the Canadian dollar relative to its U.S. counterpart reflects international market concerns about the impact of the Asian crisis on Canada's growth prospects. However, some participants believed the dollar's weakness is only temporary with Canada's positive fundamentals, including the general improvement in government finances, likely to boost the dollar over the medium term. The general view was that the dollar will remain below its 1997 level in 1998.

British Columbia

Most participants expected the pace of growth in the British Columbia economy to slow in 1998. The dramatic reduction in growth prospects for the Asian economies was cited as the main cause of British Columbia's lower growth outlook, in view of the province's significant trade links with that region. On average, the British Columbia economy was expected to grow 1.4 per cent in 1998. Forecasts ranged from a high of 2.5 per cent to one participant projecting a 0.9 per cent fall in British Columbia real GDP in 1998.

MINISTER'S ECONOMIC OUTLOOK CONFERENCE
RANGE OF 1998 B.C. ECONOMIC GROWTH FORECASTS



Participants noted that the province's resource industries were struggling prior to the onset of Asia's problems. The general view at the meeting was that provincial exports will be adversely affected by reduced demand in Asian markets and the fall in most commodity prices. In addition, the province is expected to experience reduced in-migration flows, particularly from other provinces, as the rest of Canada continues to produce more job opportunities.

Domestic Developments

Several participants noted that a decline in employment opportunities in British Columbia is reducing the inflow of migrants from other parts of Canada. Others noted, however, that offshore in-migration should remain relatively high, especially if British Columbia is viewed as a safe haven for Asians moving to avoid the region's economic problems.

Slower population growth, together with declining consumer confidence and slower employment and income growth, were noted as factors likely to dampen consumer spending growth in 1998. Total wages and salaries are expected to grow 2.7 per cent in 1998, down slightly from 1997's pace. Retail sales growth is expected to slow to about 3.0 per cent in 1998, although the range of forecasts was wide. While some participants expected the tourism sector to do relatively well in 1998 due to the low Canada-U.S. exchange rate, one noted that the increased cost competitiveness of Asian destinations resulting from the depreciation in some Asian currencies could draw a significant proportion of the market away from British Columbia.

Business investment is expected to be dampened by falling business profits while the province's housing market is expected to weaken due to lower levels of net in-migration and low levels of consumer confidence. Although some participants expected housing starts to increase by as much as 7 per cent, most forecast housing construction to fall in 1998.

Some areas of strength were noted, including the province's oil and gas sectors, and the high technology, transportation (Vancouver International Airport, ports, etc.) and entertainment industries.

While British Columbia employment growth is expected to continue in 1998, all participants projected it will slow from its 1997 level. Similarly, most forecast the unemployment rate to average above the 1997 level, although a few expected lower labour force growth to generate a fall in the unemployment rate.

Inflation was expected to remain low in 1999 with participants expecting the annual increase in the consumer price index to be around 1.0 per cent.

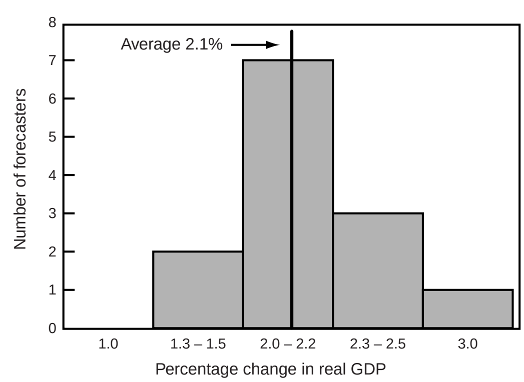
External Trade

Developments in Asian economies are expected to shape the pattern of British Columbia trade in the near term. While continued strength in the U.S., Canadian and European economies is forecast, reduced industrial activity in Japan and the rest of Asia will dampen overall exports. This decline in the volume of overall exports, together with a general decline in commodity prices, affects the outlook for provincial export earnings. Many at the meeting noted, however, that the depreciation of the Canadian dollar against the U.S. dollar has helped offset some of the negative impact of Asian developments.

Outlook for 1999

All participants were more optimistic for the province's economic prospects in 1999, with growth forecast to rebound to slightly over 2 per cent. The range of opinions regarding next year's growth was also narrower with a low forecast of a 1.3 per cent increase in provincial real GDP compared to a high of 3.0 per cent. One participant noted that the Asian economies will likely stabilize and improve in 1999, leading to increased overall growth for British Columbia.

MINISTER'S ECONOMIC OUTLOOK CONFERENCE
RANGE OF 1999 B.C. ECONOMIC GROWTH FORECASTS



Risks to the British Columbia Outlook

While many at the meeting emphasized that the province's long-term economic prospects were positive, most agreed that the risks to British Columbia's near term outlook were on the downside. A major risk to the outlook, especially for the short term, is the uncertainty about the depth, duration and scope of the Asian downturn. One participant noted that most forecasts assume the Asian situation will be "managed" to the extent that international financial assistance will be sufficient to prevent a further deterioration in economic conditions. If this assumption turns out to be wrong, then most current outlooks may prove to be overly optimistic. Others noted that the unfolding of the situation could be marked by "surprise" adjustments in financial markets.

Other risks included the possibility that growth in other major trading partners, especially the United States, could be weaker than expected; one participant suggested the United States is likely to experience a recession sometime before 2000. In addition, Canadian as well as British Columbia economic activity could be slower than expected if the Bank of Canada uses overly aggressive monetary policies to support the Canadian dollar. Finally, consumer spending could be at risk should individuals decide to reduce their borrowing and/or rebuild their depleted savings.

Medium-Term Issues

Many participants emphasized the need for the government to create conditions for stronger economic growth over the long term by improving the province's business climate. They identified possible measures to enhance the province's competitiveness, such as reducing regulation and costs in resource industries and cutting business and personal taxes, all with a view to stimulating business investment.

Several participants emphasized the importance for business and investor confidence of the government meeting its current fiscal targets, including balancing the budget in 1998/99 and meeting the debt-to-GDP targets. Similarly, the government should base its fiscal projections on very conservative economic forecasts and/or incorporate contingency reserves to ensure it will achieve its financial targets. Finally, the significant impact of the Asian economic crisis on British Columbia's resource sector prompted a few participants to comment on the need for increased industrial diversification.

The Ministry of Finance and Corporate Relations would like to thank all of the participants in the Minister's economic outlook conference.

Conference Participants:

- Rod Dobell (Conference Moderator) .... University of Victoria
- David Baxter .... Urban Futures Institute
- Teresa Courchene .... Toronto Dominion Bank
- John de Wolf .... CCG Consulting
- Paul Ferley .... Bank of Montreal
- Jock Finlayson .... Business Council of British Columbia
- Peter Hall .... Conference Board of Canada
- John Hansen .... Vancouver Board of Trade
- Joshua Mendelsohn Canadian Imperial Bank of Commerce
- Helmut Pastrick .... Credit Union Central of British Columbia
- George Pedersson .... G.A. Pedersson & Associates
- Carl Sonnen .... Informetrica Ltd.
- Ernie Stokes .... Stokes Economic Consulting
- Mary Webb .... Scotiabank
- Craig Wright .... Royal Bank

Forecast Survey

All figures are based on annual averages	*1998 Range of Participants' Opinions*	*1998 Average Participant's Opinion[1]*	*1999 Range of Participants' Opinions*	*1999 Average Participant's Opinion[1]*
Canada				
— Real GDP (% change) ...	0.2 – 4.0	3.0 (13)	2.3 – 4.0	3.0 (13)
— 3-month interest rates (%)	3.25 – 5.1	4.4 (12)	3.0 – 5.25	4.2 (12)
— 10-year (+ over) interest rates (%)	5.5 – 6.5	5.9 (13)	5.3 – 6.5	5.8 (13)
— Exchange rate (US¢/Can.$)	68.0 – 72.6	71.0 (13)	69.0 – 74.0	72.6 (13)
British Columbia				
— Real GDP (% change) ...	−0.9 – 2.5	1.4 (13)	1.3 – 3.0	2.1 (13)
— Employment (% change)	−0.9 – 2.1	1.2 (13)	0.4 – 2.2	1.6 (13)
— Unemployment rate (%)	8.3 – 9.25	8.9 (13)	7.7 – 9.2	8.7 (13)
— Total wage and salary income (% change)	1.5 – 4.2	2.7 (10)	1.8 – 3.9	3.1 (10)
— Consumer price index (% change)	0.5 – 1.6	1.0 (13)	0.6 – 1.8	1.2 (13)
— Housing starts (% change)	−16.0 – 7.1	−2.7 (13)	−8.5 – 6.3	0.7 (13)
— Retail sales (% change)	−1.0 – 4.4	3.0 (11)	2.0 – 5.5	3.8 (11)

[1] Based on responses from participants providing forecasts. Number of respondents is shown in parentheses.

REGIONAL ECONOMIC DEVELOPMENTS

There was considerable variety in economic performance in the province's regions in 1997. Employment grew in several regions, but poor markets for forest products and base metals boosted unemployment in other regions. Housing market strength varied across the province.

Population

British Columbia's population grew 2 per cent in 1997. All regions experienced population growth, with the Cariboo and the Thompson/Okanagan economic regions growing the fastest. The Mainland/Southwest continued to attract a majority of the people moving to British Columbia.

Employment and Labour Markets

Most regions experienced employment growth in 1997 (see chart). Growth was strongest in the Vancouver Island/Coast region, at 4 per cent, and the Northeast region, at 3.9 per cent. Employment declined 0.3 per cent in the Kootenays and 3.5 per cent in the Cariboo. The decline in the Cariboo was due to the completion of several major construction projects in Prince George in 1996. Changes in regional unemployment rates ranged from a decline of 2.5 percentage points in the Northeast to a 1.5 percentage point rise in the Cariboo and North Coast/Nechako regions.

Housing Starts and Sales

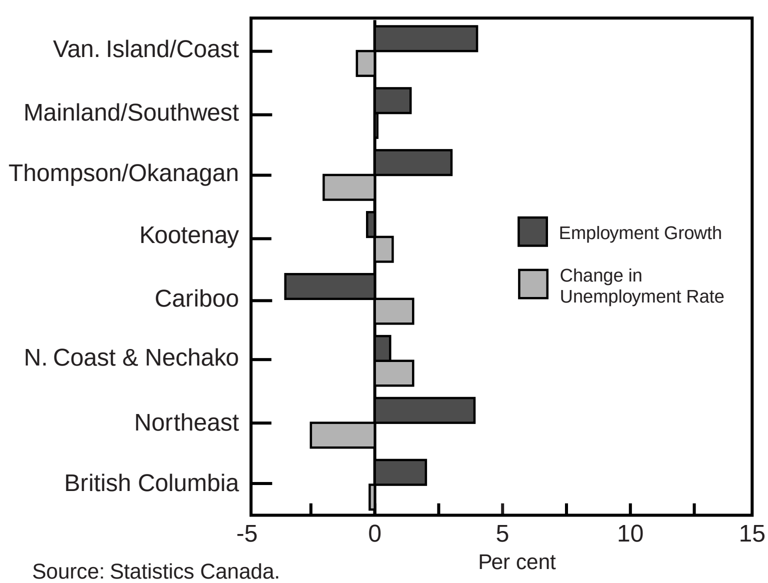
Lower levels of in-migration contributed to mixed housing markets in 1997. Provincial housing starts increased 6.2 per cent while urban housing starts increased 1.9 per cent. Sales of existing homes fell 5.5 per cent.

Housing starts in Victoria rose 14.8 per cent in 1997, while home sales fell 3.1 per cent. In Vancouver, housing starts increased 3.2 per cent, but home sales fell 5.6 per cent. Housing starts were strongest in the Okanagan. Although interest rates remain low, increased consumer uncertainty and reduced in-migration to the province point to a softer housing market in 1998.

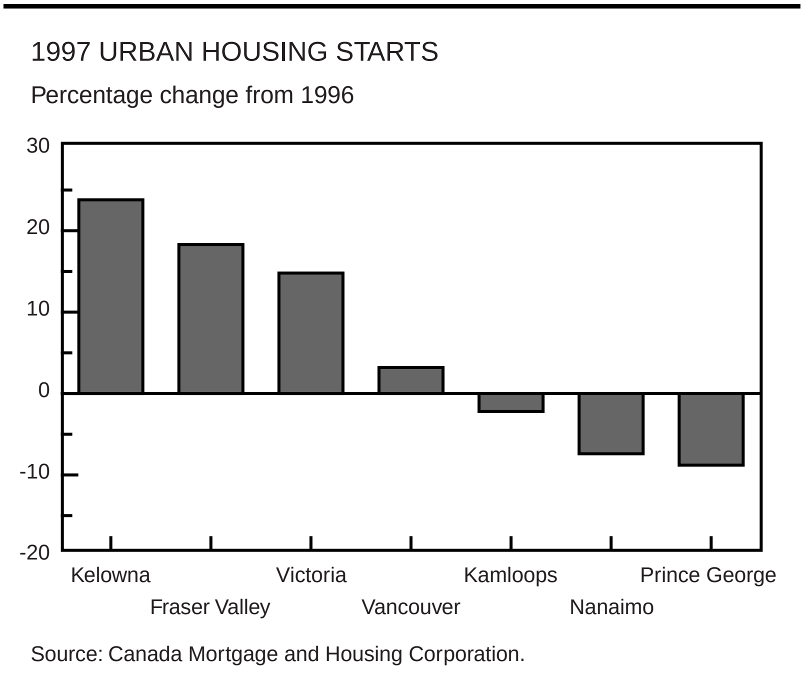
Other Regional Developments

Most resource-dependent regions saw slower growth in 1997, due to weaker commodity exports. The forest industry has been especially hard hit. Since coastal lumber mills are primarily geared to the Japanese market, they have been hurt the most. However, several sawmills in the Interior have been forced to shut down temporarily due to poor market conditions. In addition, workers at the Fletcher Challenge pulp and paper mills in Crofton, Elk Falls and Mackenzie have been on strike since mid-July.

REGIONAL LABOUR MARKETS IN 1997



Source: Statistics Canada.



The North Coast had a particularly difficult time in 1997. The Skeena Cellulose pulp mill and related logging and sawmilling operations were closed for several months and the Alaska ferry service was temporarily suspended in August. Many forest operations extended their normal winter shutdowns. Combined with a downturn in fishing activity, these events had a major impact on the Prince Rupert area. With ferry service resuming, talks underway to resolve fishing issues, and Alaska, British Columbia and the federal government working together on tourism promotion, the region's outlook for 1998 is better.

Low prices, weak demand and high inventory levels caused mining production to decline in 1997, hurting the Cariboo and the Thompson/Okanagan regions. Both the Northeast and the Kootenay regions benefitted from increased coal production. The Northeast mines recently signed contract extensions with Japanese steel producers, albeit at lower prices. The value of natural gas production in the Northeast soared 27 per cent in 1997. The region has also benefitted from increased natural gas exploration.

Agriculture and agri-food industries played a role in the strong economic performance in the Thompson/Okanagan region. While the grain harvest in the Northeast was worse than expected due to unusually wet weather, pork production in the region began to expand as changes to the grain transportation system made value-added industries more economical. Province-wide farm cash receipts rose 14.5 per cent in 1997.

Two new mines opened in 1997 — the Mount Polley copper mine in the Cariboo in September and the Huckleberry copper mine in the Nechako in October. The gross value of British Columbia mine production increased 2.6 per cent last year.

The Kemess South copper-gold mine in the Northeast is scheduled to begin production in 1998. However, Royal Oak Mines recently indicated that it will need a large cash infusion to complete construction on the Kemess mine. In addition, the Quesnel River gold mine suspended operations, while the Gibralter copper mine near Williams Lake is scheduled to shut down at the end of 1998.

Looking ahead, two proposed mines recently received provincial approval — the Willow Creek coal mine near Chetwynd and the re-opening of the Tulsequah Chief metal mine south of Atlin. In southwest British Columbia, hotel construction and more airport expansions are underway, while several office and commercial developments are planned.

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Review of 1997/98

Revenue for the year was on budget and 0.4 per cent higher than the comparable figure for 1996/97. Higher-than-budgeted revenue from taxation, natural resources, and federal transfers offset lower-than-budgeted revenue from Crown corporations, asset dispositions and other sources.

Expenditure was $16 million below budget and 0.5 per cent lower than comparable spending in 1996/97. Unexpected pressures occurred in the Ministries of Health, Children and Families, Attorney General, Employment and Investment, and Small Business, Tourism and Culture. These pressures were more than offset by in-year spending reductions and freezes in other areas. As a result, spending was on or below budget in fourteen of the nineteen government ministries.

The lower-than-expected expenditure resulted in the consolidated revenue fund having an estimated shortfall of $169 million in 1997/98, $16 million less than the expected level of $185 million and $183 million lower than in 1996/97.

TABLE B1

SUMMARY OF TRANSACTIONS
CONSOLIDATED REVENUE FUND

	Budget Estimate 1997/98	Revised Forecast 1997/98	**Budget Estimate 1998/99**
	($ millions)		
Revenue[2]	20,210.0[1]	20,210.0	**20,441.0**
Program Expenditure	19,566.0	19,540.0	**19,656.0**
Program Surplus (Deficit)	644.0	670.0	**785.0**
Management of Public Funds and Debt	829.0[1]	839.0	**880.0**
Surplus (Deficit)	(185.0)	(169.0)	**(95.0)**
Net Receipts (Disbursements) from Financing and Working Capital Transactions[3]	(345.0)	(215.4)	**(300.0)**
Decrease (Increase) in Cash and Short-Term Investments	—	(37.4)	**120.0**
Net (Increase) Decrease in Provincial Government Direct Operating Debt[4]	(530.0)	(421.8)	**(275.0)**

[1] To conform to the 1998/99 budget estimates, the estimated amounts for 1997/98 have been restated to reflect a change in accounting policy with respect to earnings of sinking funds held for government direct operating debt. The effect of this restatement is to reduce the estimated amounts of both revenue and expenditure (management of public funds and debt) by $76 million. There is no effect on the estimated deficit.

[2] Excludes dedicated revenue collected on behalf of, and transferred to, Crown corporations and agencies.

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

[4] Includes direct debt incurred for government operating purposes. (For information on total provincial debt, including Crown corporations and agencies, see Table H7.)

The government's financial requirements for 1997/98 included the deficit, net disbursements for financing and working capital transactions of $215 million, and a $37-million increase in cash and short-term investment balances (see Table B1). Requirements for financing and working capital transactions were lower than planned mainly due to additional cash received in 1997/98 as a result of a change to the schedule of personal income tax instalment payments received from the federal government. As a result, government direct debt increased $422 million for the year, $108 million lower than budgeted.

Revenue

Revenue totalled $20,210 million in 1997/98, on budget and up 0.4 per cent from the comparable figure for 1996/97. Higher-than-budgeted revenue from taxation, petroleum, natural gas, water rentals and federal transfers offset lower-than-budgeted revenue from Crown corporations, asset dispositions, fees and licences, forests and other sources (see Table B2).

Personal income tax revenue was $112 million above budget and 2.3 per cent higher than in 1996/97, due to growth in personal incomes and higher-than-expected final assessments for the 1996 tax year, partially offset by lower revenues due to provincial tax reductions introduced in 1996/97.

Corporation income tax revenue was $117 million above budget due to a higher federal estimate of the national corporate tax base for the 1997 tax year. However, revenue was 15 per cent lower than in 1996/97 due to a lower British Columbia share of the national tax base.

Social service tax revenue was up $100 million from budget, and 5.4 per cent higher than in 1996/97, due to strong retail sales earlier in the year and particularly strong collections during Christmas. In 1997, retail sales grew by 4.9 per cent compared to the budget forecast of 3.0 per cent.

Revenue from other tax sources was down $16 million from budget. Lower revenue from corporation capital tax, due to lower-than-expected instalments, and from property transfer tax, due to a weakening in housing re-sales, was partly offset by higher revenue from fuel and hotel room tax.

Overall, revenue from taxation sources was $313 million higher than budget. This was in part due to the use of prudent economic assumptions in preparing the 1997/98 budget forecast, and also due to the strengthening performance of collections which exceeded the budget economic forecast in certain key areas during the year.

Natural resource revenue was $75 million above budget overall, but 1.5 per cent lower than in 1996/97. Petroleum and natural gas revenue was $96 million higher than budget due to the effect of higher-than-expected prices on sales of Crown land drilling rights and natural gas royalties. Minerals revenue was up slightly from budget, mainly due to one-time assessments for current and previous years.

Forests revenue was $67 million below budget and 6.2 per cent lower than 1996/97. Lower-than-budgeted revenue from timber sales and the small business forest enterprise program (down $91 million), and logging tax (down $15 million) was partly offset by a $36-million payment received from the federal government for refunds of softwood lumber export fees collected in 1996/97. Overall harvest volumes fell 7 per cent in 1997/98. Factors contributing to the decline include weakening lumber prices; a slump in Japanese housing starts; large inventories and wet weather early in the fiscal year; low chip prices; and the Skeena Cellulose and Fletcher Challenge mill shutdowns. The lower logging tax revenue resulted from the effect of weaker pulp prices and higher refunds for previous years.

TABLE B2

REVENUE BY SOURCE[1]
CONSOLIDATED REVENUE FUND

	Budget Estimate 1997/98	Revised Forecast 1997/98	**Budget Estimate 1998/99**	Increase (Decrease)[2]
	($ millions)			(per cent)
Taxation Revenue:				
Personal income	5,297.0	5,409.0	**5,432.0**	0.4
Corporation income	1,023.0	1,140.0	**975.0**	(14.5)
Social service	3,142.0	3,242.0	**3,283.0**	1.3
Property	1,295.0	1,290.0	**1,330.0**	3.1
Fuel	623.0	643.0	**643.0**	—
Other	1,472.0	1,450.0	**1,475.0**	1.7
Less: commissions on collections of public funds	(27.0)	(25.0)	**(25.0)**	—
Less: allowances for doubtful accounts[3]	—	(11.0)	**(9.0)**	(18.2)
	12,825.0	13,138.0	**13,104.0**	(0.3)
Natural Resource Revenue:				
Petroleum, natural gas and minerals	395.0	496.0	**432.0**	(12.9)
Forests	1,387.0	1,320.0	**1,223.0**	(7.3)
Water and other	297.0	337.0	**316.0**	(6.2)
Less: commissions on collections of public funds	(2.0)	(1.0)	**(2.0)**	100.0
Less: allowances for doubtful accounts[3]	—	—	**(6.0)**	—
	2,077.0	2,152.0	**1,963.0**	(8.8)
Other Revenue[4]	2,128.0[4]	1,811.0	**2,069.0**	14.2
Contributions from Government Enterprises	1,401.0	1,288.0	**1,549.0**	20.3
Contributions from the Federal Government:				
Canada health and social transfer	1,580.0	1,620.0	**1,720.0**	6.2
Other	199.0	201.0	**166.0**	(17.4)
	1,779.0	1,821.0	**1,886.0**	3.6
***Less:* Revenue Allowance[5]**			**(130.0)**	—
TOTAL REVENUE	20,210.0	20,210.0	**20,441.0**	1.1

[1] Revenue amounts exclude dedicated revenue collected on behalf of, and transferred to, Crown corporations and agencies.
[2] Percentage change between the 1997/98 revised forecast and the 1998/99 budget estimate.
[3] To conform to the 1998/99 budget estimates, allowances for doubtful revenue accounts are shown as deductions from revenue. Previously, these amounts were recorded as expenditure.
[4] Includes revenue from fees and licences, asset dispositions, investment earnings, and other miscellaneous sources. To conform to the 1998/99 budget estimate, the 1997/98 estimate has been restated to reflect a change in accounting policy with respect to earnings of sinking funds held for government direct operating debt. The effect of this restatement reduces the 1997/98 revenue estimate by $76 million.
[5] For further information, see the *Revenue Forecast Based on Prudent Economic Assumptions* topic box on page 26.

Other revenue was down $317 million from budget. Delays in the finalization of a number of asset disposition initiatives caused revenue from asset dispositions to be $136 million less than planned. The government will be continuing these asset dispositions into 1998/99. Revenue from fees and licences was $72 million below budget due to lower revenue from Crown land sales, other fees and licences, and increased provisions for doubtful revenue accounts, partly offset by higher revenue from motor vehicle licences. Other miscellaneous revenue was $110 million below budget due to lower revenue from fines, and year-end recoveries from other sources.

Contributions from government enterprises were $113 million below budget. Net income of the Liquor Distribution Branch was $16 million above budget due to higher sales volumes. British Columbia Lottery Corporation profits were $32 million below budget due to lower ticket sales in response to smaller jackpots and delays in implementing expanded gaming activities. No dividend is expected from the British Columbia Railway Company in 1997/98, and the British Columbia Buildings Corporation will be contributing $29 million less than budgeted. These changes allow the corporations to continue the enhancement and completion of asset disposition initiatives commenced during the year.

Contributions from the federal government were $42 million above budget. The Canada health and social transfer (CHST) was $40 million above budget mainly due to entitlement revisions for prior years. However, CHST revenue was $155 million lower than in 1996/97 due to a continuation of federal transfer cuts, and an increase in the amount of the entitlement received through tax point transfers (CHST revenue is the amount remaining after deducting 13.5 points of personal income tax and one point of corporate income tax from the total provincial entitlement). Other federal government contributions were slightly above budget as lower-than-budgeted contributions for immigration services were offset by higher-than-expected contributions for flood relief and other federal/provincial cost-sharing programs.

Expenditure

Expenditure in 1997/98 was $16 million below budget at $20,379 million. This was $100 million or 0.5 per cent lower than comparable expenditure in 1996/97. During the year, unexpected spending pressures occurred in the Ministries of Health, Children and Families, Attorney General, Employment and Investment, and Small Business, Tourism and Culture. The government responded by introducing a series of specific measures including spending reductions and spending freezes to achieve savings in other areas.

During the year, a government reorganization resulted in the creation of three new ministries, increasing the number of ministries to nineteen. At year end, spending is expected to be on or below budget in fourteen of the nineteen ministries (see Table B3). The revised forecast includes a $30-million allowance for unexpected year-end adjustments.

Ministry of Health expenditure of $7,046 million was $32 million above budget mainly because of increased spending for higher-than-expected Pharmacare utilization.

Ministry of Education expenditure of $4,145 million was on budget reflecting an accurate forecast of enrolment growth in the school system.

Ministry of Human Resources expenditure of $1,659 million was $60 million below budget because of lower-than-expected spending for income support programs. In 1997/98, the average income assistance caseload decreased by an estimated 8.3 per cent due to the success of BC Benefits programs in removing transition barriers for clients moving from welfare to work, and other initiatives.

TABLE B3

EXPENDITURE BY MINISTRY
CONSOLIDATED REVENUE FUND

	Budget Estimate 1997/98[1]	Revised Forecast 1997/98	**Budget Estimate 1998/99**	Increase (Decrease)[2]
	($ millions)			(per cent)
Legislation	29.3	32.3	**32.0**	9.2
Auditor General	6.9	6.9	**6.9**	—
Office of the Child, Youth and Family Advocate	1.1	1.1	**1.2**	9.1
Conflict of Interest Commissioner	0.2	0.2	**0.2**	—
Elections B.C.	7.0	5.2	**7.0**	—
Information and Privacy Commissioner	2.4	2.4	**2.5**	4.2
Ombudsman	4.7	4.7	**4.7**	—
Office of the Premier	2.3	2.3	**2.3**	—
Aboriginal Affairs	30.2	29.2	**31.4**	4.0
Advanced Education, Training and Technology	1,651.4	1,636.0	**1,662.6**	0.7
Agriculture and Food	50.8	50.5	**62.5**	23.0
Attorney General	894.4	925.4	**891.9**	(0.3)
Children and Families	1,363.8	1,395.6	**1,427.4**	4.7
Education	4,145.7	4,145.2	**4,262.4**	2.8
Employment and Investment	132.9	141.7	**135.4**	1.9
Energy and Mines	77.4	77.3	**61.9**	(20.0)
Environment, Lands and Parks	192.0	188.4	**186.5**	(2.9)
Finance and Corporate Relations	404.8	394.9	**396.5**	(2.1)
Fisheries	16.6	16.5	**19.9**	19.9
Forests	503.2	477.8	**486.9**	(3.2)
Health	7,013.1	7,045.5	**7,241.7**	3.3
Human Resources	1,718.8	1,658.8	**1,563.3**	(9.0)
Labour	50.3	50.3	**49.9**	(0.8)
Municipal Affairs	276.4	270.0	**241.4**	(12.7)
Small Business, Tourism and Culture	92.4	93.7	**85.3**	(7.7)
Transportation and Highways	508.1	502.4	**470.7**	(7.4)
Women's Equality	38.0	37.3	**37.4**	(1.6)
Other Appropriations:				
Management of Public Funds and Debt	829.0[3]	839.0	**880.0**	6.2
Contingencies (All Ministries)	50.0	47.0	**75.0**	50.0
BC Benefits	300.3	306.4	**244.4**	(18.6)
Amortization of change in unfunded pension liability	(37.0)	(64.3)	**(64.3)**	73.8
Adjustment for capitalization of tangible capital assets	(27.0)	(13.0)	**(41.0)**	51.9
Other[4]	65.5	42.3	**70.1**	7.0
Allowance for year-end adjustments	—	30.0	**—**	—
TOTAL EXPENDITURE	20,395.0	20,379.0	**20,536.0**	0.7

[1] Restated to conform to the 1998/99 budget estimates.
[2] Percentage change between the 1997/98 budget estimate and the 1998/99 budget estimate.
[3] To conform to the 1998/99 budget estimates, the estimated amount for 1997/98 has been restated to reflect a change in accounting policy with respect to earnings of sinking funds held for government direct operating debt. The effect of this restatement reduces the 1997/98 expenditure estimate by $76 million.
[4] Other includes Commissions on Collection of Public Funds and Allowance for Doubtful Accounts Vote, the Corporate Accounting System Vote, the Environmental Assessment and Land Use Coordination Vote, the Environmental Boards and Forest Appeals Commission Vote, the Forest Practices Board Vote, the Police Complaints Commissioner Vote, the Public Sector Employers' Council Vote, the Public Service Employee Relations Commission Vote, the Insurance and Risk Management Special Account, the Purchasing Commission Working Capital Special Account, the Industry Training and Apprenticeship Commission Special Account, the Provincial Treasury Operations Special Account, and other appropriations.

Ministry of Advanced Education, Training and Technology expenditure of $1,636 million was $15 million below budget mainly because of reduced spending for skills development and ministry administration.

Ministry for Children and Families expenditure of $1,396 million was $32 million above budget because of higher-than-planned spending for residential and support programs for children and youth, and for services to adults with multiple handicaps.

Spending by the Ministry of Attorney General was $31 million above budget due to increased payments for flood and blizzard damage compensation, and criminal injury compensation.

Ministry of Employment and Investment expenditure was $9 million above budget because of additional provisions for doubtful loans and payments of loan guarantees.

Ministry of Finance and Corporate Relations' spending was $10 million below budget mainly due to lower contributions for British Columbia Transit debt servicing.

Ministry of Forests expenditure was $25 million below budget because of lower-than-expected spending on forest fire suppression, and spending reductions in other areas.

Spending by the Ministry of Municipal Affairs was $6 million below budget because of lower-than-expected conditional grant disbursements to local governments.

Ministry of Transportation and Highways expenditure was $6 million below budget because of lower spending for highway rehabilitation.

Spending from other appropriations included a $16-million reduction in expenditures through the Purchasing Commission Working Capital special account, as a result of a government-wide freeze on vehicle purchases.

BC Benefits was $6 million above budget because of higher-than-expected utilization of the BC Family Bonus program.

Management of Public Funds and Debt was $10 million above budget because of higher-than-budgeted interest costs. The 1997/98 budget estimate and revised forecast reflect a change in accounting policy to deduct earnings of sinking funds held for government direct operating debt from related interest expense. Because this change also reduces revenue, there is no effect on the estimated or revised forecast deficit for the year.

The reduction of consolidated revenue fund expenditures due to government's accounting policy of capitalizing capital assets was $14 million less than expected. Because of in-year expenditure reduction measures, fewer capital asset purchases were made in 1997/98. Further information is provided in the *Financial Statement Reporting Issues* topic box on page 31, and in Schedule F of the *1998/99 Estimates.*

There was an unexpected negative adjustment of $28 million reflecting the amortization of a reduction in the estimated unfunded pension liability of the Teachers' Pension Plan. The latest actuarial valuation shows a liability of $1,420 million, down $359 million from $1,779 million. In accordance with the government's accounting policy, the reduction in the unfunded pension liability is being amortized over the expected remaining service life of the related employee group. A similar annual adjustment will be recorded in future years until the full amount of the reduction has been amortized.

1998/99 Fiscal Plan

The budgetary transactions of the consolidated revenue fund are summarized in Table B1.

Despite the effects of slower economic growth, the consolidated revenue fund is projected to have a deficit of $95 million in 1998/99, down $74 million from the 1997/98 revised forecast and $257 million lower than in 1996/97.

Revenue for 1998/99 is estimated at $20.4 billion, an increase of 1.1 per cent from the 1997/98 revised forecast. The forecast includes a revenue allowance of $130 million to provide a cushion against lower growth than the Ministry of Finance and Corporate Relations' economic forecast. Consistent with the introduction of prudent economic assumptions in the 1997/98 budget, this caution provides greater certainty that total revenues will be on or above budget (see the *Revenue Forecast Based on Prudent Economic Assumptions* topic box on page 26).

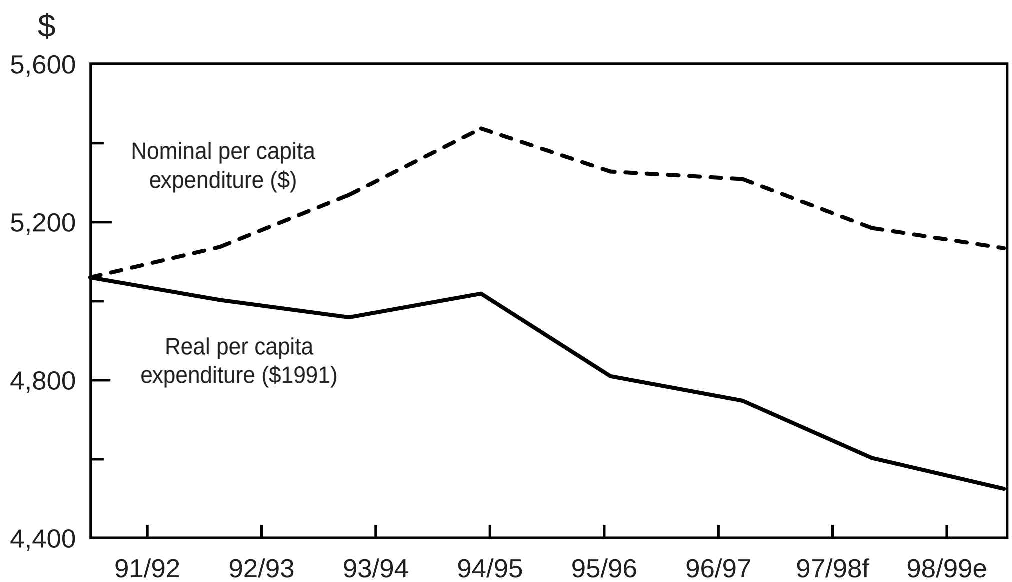
Expenditure will total $20.5 billion in 1998/99, an increase of $141 million or 0.7 per cent from the 1997/98 budget estimate and $157 million higher than the 1997/98 revised forecast.

The following chart shows that in real per capita terms (total expenditure divided by the British Columbia population and adjusted for inflation), government spending continues to decline. By 1998/99, real per capita spending is projected to have declined over 10 per cent since 1991/92 — and 1.7 per cent from the 1997/98 budget. The chart also shows that without adjusting for inflation, nominal spending per capita will have declined over 5 per cent between 1994/95 and 1998/99. This reflects the various efficiencies and program reductions that government has implemented.

CHART B1

CONSOLIDATED REVENUE FUND

EXPENDITURE PER CAPITA



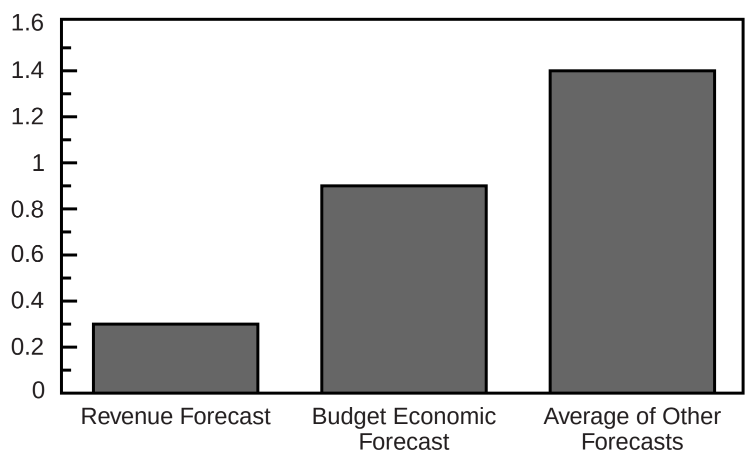
e: estimate
f: forecast

REVENUE FORECAST BASED ON PRUDENT ECONOMIC ASSUMPTIONS

The 1998/99 budget has been built with an explicit element of caution introduced into the revenue forecast. The purpose is to provide a buffer against economic risk: primarily, adverse economic developments that could reduce taxation and natural resource revenues. The reason for introducing this caution is to provide greater certainty that total revenues will be on or above budget. This will help ensure that government's fiscal targets are met.

In the 1998/99 budget, the revenue forecast is $130 million lower than the revenue forecast that would correspond to the budget economic forecast. As a result, the revenue forecast is consistent with real economic growth of 0.3 per cent. This is about 0.6 percentage points less than the budget economic forecast and just over 1 percentage point lower than the average of forecasts from the Minister's economic conference held on January 22, 1998 (see chart).

LOWER ECONOMIC ASSUMPTIONS
UNDERLYING REVENUE FORECAST
1998 B.C. real GDP growth



In the 1997/98 budget, all components of the revenue forecast were based on a lower economic growth scenario. However, the presentation of the revenue forecast in the 1998/99 budget includes an explicit revenue allowance of $130 million, while individual revenue components are based on the budget economic forecast. In addition to explicitly presenting the actual total amount of the revenue allowance, this aggregate approach better reflects the various ways that revenue components are subject to economic risk.

For example, the revenue allowance is roughly equal to:

- 7 per cent of natural resource revenue, if prices and exports are less than forecast; or
- 2 per cent of personal income tax revenue, should income and employment grow less than anticipated; or
- 13 per cent of corporate income tax revenue if profits are below expectations; or
- 4 per cent of sales tax revenue, if consumers pause to re-build their savings; or
- 8 per cent of Crown corporation contributions, if their financial performance weakens.

Program expenditure, which excludes spending on debt interest (management of public funds and debt), is estimated at $19.7 billion, an increase of 0.6 per cent from the 1997/98 revised forecast. As a result, revenue will exceed program expenditures by $785 million in 1998/99 — resulting in the largest program surplus since 1989/90. A program surplus means that revenue exceeds spending on government programs and that debt interest accounts for the deficit in 1998/99.

The government's financial requirements will total $395 million in 1998/99. This includes the deficit and net disbursements from financing and working capital transactions of $300 million. These requirements will be financed by reducing cash and short-term investment balances by $120 million, and by increasing government direct debt by $275 million. Report C provides more information on the government's financing plan.

The summary financial statement provides estimates of the combined financial results of the government and its Crown corporations and agencies. In 1998/99, the summary financial statement shows a deficit of $949 million, compared to the revised forecast deficit of $551 million in 1997/98 (see *Summary Financial Statement* topic box on page 33).

1998/99 Revenue

Revenue of the consolidated revenue fund for 1998/99 is estimated at $20,441 million, an increase of 1.1 per cent from the revised forecast for 1997/98. Without the revenue allowance of $130 million, revenue would be 1.8 per cent higher than 1997/98.

The forecast includes the effects of provincial budget tax reduction measures totalling $95 million in 1998/99 (see Report D for details). The forecast also includes additional revenue from asset dispositions, and higher revenue from Crown corporations resulting from the completion of various strategic initiatives.

Taxation revenue, the largest source of provincial government revenue, is expected to total $13,104 million in 1998/99, down slightly from the 1997/98 revised forecast.

Personal income tax revenue is expected to increase slightly in 1998/99. This reflects modest growth in personal incomes partially offset by federal and provincial budget measures, which reduce provincial income tax revenue by $48 million and $37 million respectively ($85 million in total). Provincial budget measures include a one-point reduction in the personal income tax base rate effective January 1, 1999, and a reduction in the personal income tax surtax rate effective January 1, 1999.

Lags in the corporation income tax system, coupled with the effects of declines in corporate profits of 10 per cent in 1996 and 13 per cent in 1997, mean that the province will receive lower instalment payments and will also have to return overpayments of corporation income tax revenue to the federal government. The effects of the reduction in the small business corporate income tax rate on January 1, 1999 and the new Film Incentive BC tax credit will also reduce revenue. As a result, corporation income tax revenue is expected to drop 15 per cent in 1998/99.

Social service tax revenue, estimated at $3,283 million, will increase a modest 1.3 per cent, mainly due to the effect of slower growth in retail sales and machinery and equipment investment spending. Tobacco tax revenue will increase slightly due to a rate increase announced in the budget.

Property tax revenue is expected to increase 3.1 per cent in 1998/99, due to increased assessments for new construction, higher assessed values, and the setting of non-residential rates (school and rural) at 1997 levels as detailed in Report D.

Property transfer tax revenue will increase slightly, reflecting modest growth in housing sales. Corporation capital tax revenue will fall slightly due to the budget measure to increase the exemption threshold effective January 1, 1999. Although insurance premium tax revenue will increase $17 million, this will be offset by an $11-million reduction in fees collected under the *Fire Services Act.*

Revenue from natural resources is expected to fall almost 9 per cent in 1998/99, mainly due to lower commodity prices and exports.

Forests revenue will decline about $100 million or 7.3 per cent from 1997/98. Harvested volumes on Crown land are expected to fall about 1 per cent (following a 7 per cent decline in 1997/98), reflecting continuing weakness in Asian market demand. Commodity prices are expected to remain weak throughout the year, picking up slightly in 1999. Logging tax revenue will increase $15 million due to fewer refunds in respect of prior years. In 1998/99, refunds of softwood lumber export fees are expected to be about $30 million lower than received in 1997/98. Revenue does not include $370 million of dedicated stumpage revenue to be received by Forest Renewal BC during 1998/99. The forecast does not include potential changes to provincial stumpage rate policies that may occur after April 1, 1998.

Revenue from petroleum and natural gas will decrease by $54 million, mainly reflecting a return to more normal levels of sales of Crown land drilling rights. Water rental revenue, which is based on the previous year's water use, will decrease 6.5 per cent due to lower amounts of electricity generated in 1997/98.

Other revenue, at $2,069 million, is expected to increase 14 per cent. This reflects higher demand for government services, a number of minor adjustments to fee and licence rates, increased sales of Crown land, increased fines revenue from continued speed monitoring enforcement, and higher proceeds from asset dispositions.

The government expects to finalize the asset disposition initiatives undertaken in 1997/98. These include vehicle sales, the sale of BC Online, the final wind up of the British Columbia Systems Corporation, and other initiatives. In addition, as part of the government's ongoing review and evaluation of its assets and service delivery programs, a number of new initiatives will be undertaken to dispose of surplus assets. In total, the government expects to realize $183 million of proceeds from the disposition of government assets in 1998/99.

Contributions from government enterprises are expected to increase 20 per cent in 1998/99. Liquor Distribution Branch profits are expected to increase 4.4 per cent, reflecting growth in sales volumes. Dividends from the British Columbia Hydro and Power Authority will increase slightly from 1997/98, while British Columbia Lottery Corporation profits are expected to increase due to higher ticket sales and expanded gaming activity. Other Crown corporations, including the British Columbia Railway Company and the British Columbia Buildings Corporation are expected to provide $155 million of dividends in 1998/99. These dividends include the return of expected accumulated profits resulting from efficiencies and the completion of sales of properties and other assets.

Contributions from the federal government will increase 3.6 per cent in 1998/99. Revenue from the Canada health and social transfer will be $100 million higher than in 1997/98 because of the federal government's introduction of a national floor for cash payments to the provinces. Other federal contributions will decrease $35 million mainly due to non-recurring payments received in 1997/98 for flood relief. The forecast includes $47 million of federal contributions to help offset the costs of provincial immigration programs ($22 million) and infrastructure projects in the Lower Mainland under the Asia-Pacific Initiative agreement ($25 million).

1998/99 Expenditure

Expenditure of the consolidated revenue fund is estimated at $20,536 million in 1998/99. This is $141 million or 0.7 per cent higher than the 1997/98 budget estimate and $157 million higher than the 1997/98 revised forecast (see Table B3).

The Ministry of Health budget will increase to $7,242 million, up $228 million or 3.3 per cent from last year's budget. The budget provides a $93-million increase for acute and continuing care programs, including a $63-million increase for hospitals. It also includes a $66-million increase for Pharmacare, and a $31-million increase for the Medical Services Plan. Adult mental health will increase $37 million, including $10 million for new and enhanced services during the first year of the Mental Health Plan.

The Ministry of Education's budget of $4,262 million provides an increase of $117 million or 2.8 per cent over the 1997/98 budget. Funding for K-12 education programs will increase by $123 million or 3.0 per cent from last year's budget. This increase includes $102 million for public school operating grants, $4 million for independent schools, and $16 million for capital and debt financing.

Ministry of Advanced Education, Training and Technology spending will total $1,663 million, an increase of $11 million. Operating contributions to universities, colleges and institutes are budgeted to increase $27 million or 2.5 per cent to $1,100 million, while student financial assistance will increase $14 million or 13 per cent. The total capital and debt financing budget will be $34 million lower than last year, mainly due to a change in the method of financing capital debt.

Ministry of Human Resources expenditure is estimated at $1,563 million, down 9.0 per cent from last year's budget. The budget is based on a projected continuing decline in the caseload as a result of successful programs to encourage transition from income assistance to work.

Budgeted spending for the Ministry for Children and Families of $1,427 million will be $64 million or 4.7 per cent higher than last year's budget. Services for families and children will increase $44 million, and services for adults will increase $9 million. These increases help respond to the higher-than-expected demand for services experienced by the ministry in 1997/98.

Spending by the Ministry of Attorney General will be slightly lower than last year's budget due to administrative savings and efficiencies. Budgeted funding levels for major programs (courts, corrections and policing) will increase.

The budget for the Ministry of Agriculture and Food will increase $12 million or 23 per cent mainly due to increased funding for the Agriculture Renewal Initiative. Additional funding is also provided for the Grazing Enhancement Fund and the Sterile Insect Release Program.

Ministry of Energy and Mines expenditure of $62 million is $16 million lower than last year due to reduced funding for the Kemess mine. In 1998/99, the British Columbia Ferry Corporation will receive an additional $19 million. The budget also includes additional funding for the Northern Agency, to stimulate economic development and job creation in northern British Columbia, and for the Northern Development Fund to promote sustainable economic development in northwestern British Columbia.

The budget for the new Ministry of Fisheries has been set at $20 million, an increase of $3 million, due to the province's enhanced role in the management of the Pacific salmon fishery.

The Ministry of Forests budget will decrease $16 million, reflecting reduced expenditures for administration and forest resources management.

Ministry of Municipal Affairs expenditure of $241 million is $35 million lower than last year due to reduced requirements for disbursements on conditional infrastructure commitments made to local governments, and the ending of the 1994 Canada/British Columbia Infrastructure Works Agreement.

Ministry of Transportation and Highways expenditure will decrease $37 million to $471 million. A larger portion of highway rehabilitation projects will now be funded by the BC Transportation Financing Authority (BCTFA). In total, ministry spending for highway rehabilitation and construction, including amounts recovered from the BCTFA, will increase 14 per cent to $418 million in 1998/99.

BC Benefits expenditure of $244 million will be $56 million less than in 1997/98, primarily due to changes to the BC Family Bonus in response to the introduction of the federal National Child Benefit system. These savings will be reinvested in helping low and modest income families with children to enter and remain in the labour force. A major component of the new initiatives will be an employment incentive program to support families with children.

Management of Public Funds and Debt will increase $51 million due to higher interest rates and increased debt outstanding.

The reduction of consolidated fund expenditures due to the capitalization of capital assets is estimated at $41 million in 1998/99. This reflects the effect of an increase in the amount of capital assets to be acquired during 1998/99. Further information is provided in Schedule F of the *1998/99 Estimates*.

FINANCIAL STATEMENT REPORTING ISSUES

The Auditor General has qualified his audit report on the government's 1996/97 financial statements. Two of the qualifications relate to the accounting and reporting treatment of capital assets of the Consolidated Revenue Fund (CRF), and loans to finance capital assets of other entities. This topic box addresses these issues. The third qualification relates to the appropriate reporting entity. This issue has been referred to the Public Accounts Committee of the Legislature for comment and advice.

A. *Capital Assets of the Consolidated Revenue Fund*

The Auditor General has recommended that the provincial government capitalize all of its capital assets. Capitalization of assets and the expensing of the costs of those assets over their estimated useful life, as opposed to expensing the costs in the year of acquisition, provides a more accurate reflection of the annual cost of programs and is consistent with private sector accounting.

In the 1996/97 budget, the government announced it would capitalize land, buildings and other fixed assets held by all Crown entities, other than highway infrastructure expenditures of the BC Transportation Financing Authority. In the 1997/98 budget, the government announced the extension of this policy to certain capital assets held by the CRF. The asset classes to be capitalized were vehicles, buildings and computer systems.

In the 1996/97 Summary Statement Public Accounts, the Auditor General qualified his opinion, noting that the government was capitalizing land held by most Crown entities but was not capitalizing land acquired by the CRF, and that the accounting policy with respect to land was therefore being applied in an inconsistent manner.

The 1998/99 *Estimates* reflect the extension of the capitalization accounting policy to parkland and ferries and landings. With this change, and the application of capitalization to a wider range of assets, it is expected that this qualification will be removed from the financial statements. These extensions of the capitalization policy decrease the deficit by $2 million in the 1997/98 budget forecast amount, and by $2 million in the 1998/99 budget estimate amount.

The adoption of the policy to capitalize assets has no impact on the government's total taxpayer-supported debt.

B. *Loans to Finance Capital Assets of Other Entities*

The government has, for more than 20 years, accounted for loans to school districts and post-secondary institutions for the acquisition of capital assets by those public bodies, as assets of the Province. These loans have been made from borrowed funds using certain Crown agencies as financing intermediaries.

Grants have been provided to school districts and post-secondary institutions, as annual budgetary expenditures in the Estimates, (i) to pay the annual interest costs on the debt incurred to make the loans, and (ii) to make annual sinking fund instalments to the Crown agencies, which over time, together with the earnings of those invested funds, are sufficient to retire the debt associated with each loan. The term of the debt was generally 20 years. In this way, the capital costs of schools and post-secondary institutions were effectively amortized over the term of the related debt and thus charged to taxpayers over several years, rather than having the costs written off and charged to the taxpayer in the year the assets were acquired.

In 1995, the Canadian Institute of Chartered Accountants issued a policy statement that loans made by governments, the repayment of which is provided through future appropriations by that government, should not be reported as assets.

The government has maintained its long-standing position that although these loans are repaid through future appropriations, these loans should be accounted for as public assets since the loans represent the underlying value of the schools and post-secondary institutions that are used to deliver essential public programs. Therefore, it is equitable and appropriate to expense the cost of those assets over several years, rather than to have all of the costs charged to budgetary expenditures in the year the asset is acquired.

The Auditor General qualified his opinion on both the CRF and Summary Financial Statements in 1995/96 and 1996/97 in respect of the loans to school districts and post-secondary institutions, and in respect of similar loans, also repayable through future appropriations, made to regional hospital districts and for capital financing to BC Transit.

Commencing with the 1998/99 fiscal year, the government is winding up the two financing agencies used to provide capital financing loans to the school districts and post-secondary institutions.

These entities, the British Columbia School Districts and the British Columbia Educational Institutions Capital Financing Authorities, which were created in 1963 and 1976 respectively, also hold the related sinking funds used to retire the debt. The amount of the outstanding loans and offsetting debt (net of sinking funds) at March 31, 1998 is estimated at $4.3 billion. This debt will now be included as part of direct debt of the CRF. The existing outstanding loans to school districts and post-secondary institutions will be cancelled.

The amount of those loans and new capital funding provided to school districts and post-secondary institutions will now be treated, for financial statement reporting purposes, as prepaid capital advances (assets of the CRF) and amortized over the useful life of the underlying assets. The amortization period will, on average, approximate 30 years. Borrowing for schools and post-secondary capital projects will now be raised directly through the CRF and included in the annual *Supply Act*.

The impact of this initiative on the 1998/99 *Estimates* is to reduce budgetary expenditures by an estimated $30 million in the Ministry of Advanced Education, Training and Technology and to increase budgetary expenditures by an estimated $5 million in the Ministry of Education. The impact on 1998/99 financing (non-budgetary) transactions is to increase *Supply Act* requirements by $423 million and to decrease capital requirements previously borrowed through statutory borrowing provisions under the financing authorities legislation by an equal amount. There is, therefore, no impact on the government's total taxpayer-supported debt.

The Auditor General has indicated he is in support of the winding up of the two financing authorities, the replacement of the loans with prepaid capital advances as assets of the CRF, and the amortization period for those advances, as a means of addressing the qualification for the loans.

The government anticipates extending this treatment to the remaining loans repayable through future appropriations to regional hospital districts and BC Transit. This will necessitate the winding up of the British Columbia Regional Hospital Districts Financing Authority. When these steps have been completed, it is expected the qualification in respect of these loans will be removed from the financial statements.

SUMMARY FINANCIAL STATEMENT

Commencing with the 1995/96 budget, the government presented a financial statement that combines the estimated annual surplus or deficit of government ministries and special offices with Crown entities.

The statement provides an estimate of the overall surplus or deficit of the government and its Crown corporations and agencies. The Summary Financial Statement of Revenue and Expenditure, like the Consolidated Revenue Fund Statement of Revenue and Expenditure, is prepared on a basis consistent with the government's accounting policies.

The following table provides the estimated deficit on the summary statement basis for the 1997/98 and 1998/99 fiscal years.

	1997/98 Budget Estimate	1997/98 Revised Forecast	1998/99 Budget Estimate
		($ millions)	
Consolidated Revenue Fund (CRF) Surplus (Deficit)	(185)	(169)	(95)
Government Organizations and Enterprises			
• Net earnings of Crown Organizations and Enterprises providing contributions to CRF revenue[1]	1,453	1,420	1,577
• *Less* contributions included in CRF revenue	(1,401)	(1,288)	(1,549)
	52	132	28
• Net Earnings (Losses) of Other Crown Organizations and Enterprises[2]	(315)	(157)	(442)
• Accounting Policy and Other Adjustments[3]	(438)	(357)	(440)
Net Adjustment to CRF Surplus (Deficit)	(701)	(382)	(854)
Summary Financial Statement Surplus (Deficit)	(886)	(551)	(949)

[1] Represents, primarily, earnings of the British Columbia Lottery Corporation, British Columbia Liquor Distribution Branch, British Columbia Hydro and Power Authority, British Columbia Railway Company and British Columbia Buildings Corporation.

[2] Represents, primarily, estimated losses of Forest Renewal BC and the British Columbia Ferry Corporation.

[3] Represents, primarily, the write-off of highway infrastructure expenditures of the BC Transportation Financing Authority.

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Report C: ***FINANCIAL MANAGEMENT PLAN REVIEW AND OUTLOOK***

Introduction

The provincial government and its Crown corporations and agencies borrow funds to finance operations and capital projects. 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 forms of infrastructure. These investments provide essential services for today and benefit future generations of British Columbians.

The government has met and exceeded the targets established for 1997/98 in the 1997 Financial Management Plan. The deficit will be lower than the $185 million set out in the 1997/98 budget. As of March 31, 1997, the level of taxpayer-supported debt was $110 million lower than forecast, and at March 31, 1998, the level of taxpayer-supported debt is expected to be $781 million lower than forecast. As a result, at March 31, 1998, the province's taxpayer-supported debt-to-GDP ratio is estimated at 20.5 per cent, below the 20.9 per cent target. The province's cost of interest per revenue dollar is forecast to be 7.5 per cent, well below the 9.0 per cent cap.

At March 31, 1998, total provincial debt is estimated at $30.0 billion, an increase of $758 million from March 31, 1997. Taxpayer-supported debt, the portion of debt that is wholly or partially funded by the provincial tax base, will be $21.9 billion, an increase of $706 million from March 31, 1997. Table C2 provides an estimate of changes in provincial debt in 1997/98 and a forecast for 1998/99, while Tables H7 and H8 provide more detailed information on the levels of debt and debt indicators from March 31, 1995, to March 31, 1999.

The annual *Debt Statistics Report* provides an update on the plan as well as a variety of measures to help understand and assess the province's long-term performance.

Further information on the categories of debt is provided in the topic box.

Financial Management Plan Update

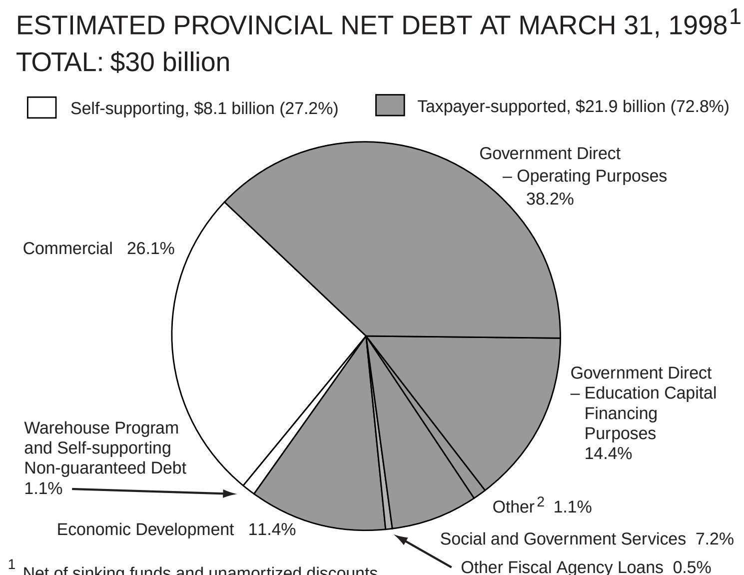
The Financial Management Plan provides a framework for guiding the provincial government's financial performance and debt position. The plan brings together all the elements of the province's financial picture including both government operating and educational capital debt as well as debt arising from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

Financial Management Plan Targets

In the 1997/98 budget the government introduced the Financial Management Plan. The objective of this plan was 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 future increases in debt to the growth in provincial gross domestic product (GDP), the plan ensures that the level of debt remains affordable. The constraints imposed by the Financial Management Plan and its predecessor have helped to reduce the level of capital spending from a high of $1.8 billion in 1991/92 to an expected average of $1.1 billion per year.

CATEGORIES OF DEBT

The following chart provides a breakdown by category of estimated provincial net debt outstanding at March 31, 1998. Further details are provided in Tables C2 and H7.



[1] Net of sinking funds and unamortized discounts.
[2] Includes taxpayer-supported non-guaranteed debt.

Taxpayer-Supported Debt:

Provincial government direct debt funds government operations, including refinancing of maturing debt and other financing transactions, as well as capital advances for the construction of school and post-secondary education facilities. These advances are amortized over the expected life of the underlying assets.

Economic development Crown corporations and agencies finance ferry terminal and fleet expansions, public transit construction and maintenance projects, and highway construction projects around the province. Although these corporations and agencies sell services directly to the public or receive dedicated revenue, their revenue may not totally cover their operating expenses. In these cases, the government may provide grants or other forms of assistance.

Social and government service Crown corporations and agencies finance construction of health facilities, justice facilities, and other accommodation requirements. Debt service requirements are met through provincial grants or rental payments and, for hospitals, partly through local property taxes.

Other fiscal agency loans finance the construction and maintenance of post-secondary residence and parking facilities. Debt service requirements are met through user fees.

Loan guarantees to private sector firms and individuals are provided by the provincial government through various programs including student financial assistance. Loan guarantees do not represent direct obligations of the government except in the event of default by the borrowers who received the guarantees.

Non-guaranteed debt consists primarily of mortgages which were incurred by a government body without a provincial guarantee. Debt service requirements are met through user fees.

Self-Supporting Debt:

Commercial Crown corporations 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 own operating expenses, including debt service charges.

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.

Non-guaranteed debt represents debt which was incurred by a self-supporting government body without a provincial guarantee. Debt service requirements are met through sales of services at commercial rates.

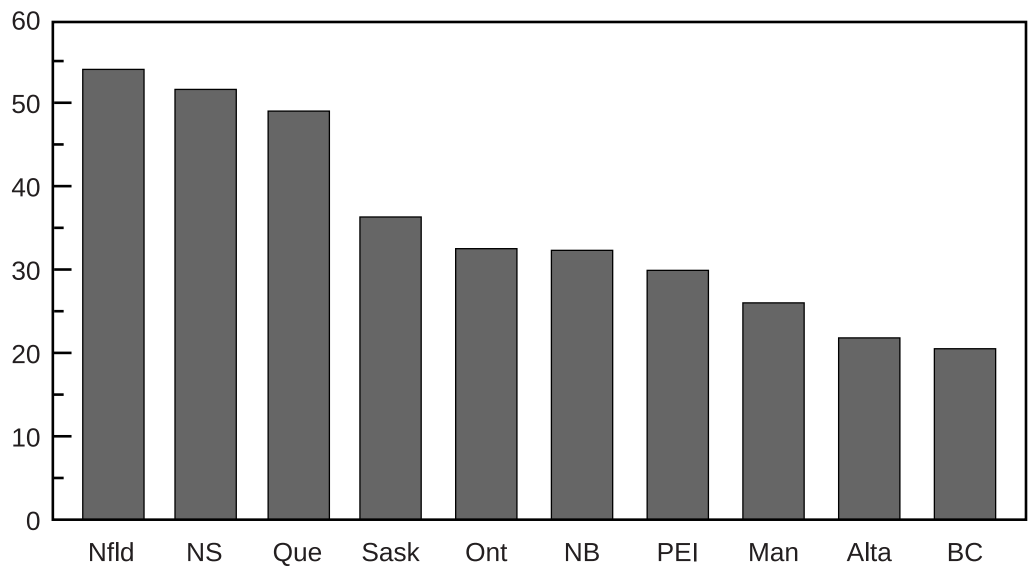
As at March 31, 1998, taxpayer-supported debt relative to GDP is expected to be 20.5 per cent, 0.4 per cent lower than the target of 20.9 per cent. The level of debt is expected to be $781 million lower than was forecast in the previous budget. Lower than anticipated capital spending, a lower deficit, and reduced working capital requirements contributed to the lower level of debt.

During 1997, British Columbia's rate of economic growth was slower than anticipated, due in large part to the Asian financial crisis which directly affected provincial exports and lowered inflation. The current estimate for provincial GDP in 1997 is $1.5 billion lower than was anticipated in the 1997/98 budget. This is attributable to both lower economic growth and inflation in 1997/98, and to Statistics Canada's historical revisions to provincial GDP. Despite this, British Columbia will continue to have one of the lowest debt-to-GDP ratios among the provinces in Canada.

CHART C1

Interprovincial Comparison of Taxpayer-Supported Debt

Per cent of GDP, at March 31, 1998



Source: Moody's Investors Service, September 1997.

To address the current period of slower economic growth, the government has modified the Financial Management Plan. While the debt-to-GDP ratio remains a good measure of long-term affordability, the unpredictability of the rate of economic growth makes it prudent for government to retain some flexibility when establishing targets based on GDP. Accordingly, the government has added a three-year target range to guide the management of its debt-to-GDP ratio.

The new target range will ensure that over time the level of debt is linked to the size of the provincial economy and remains affordable. By employing a target range, the government is able, during periods of economic slow-down, to accelerate capital investments to stimulate the economy. Advancing capital projects in times of slower growth can also help to avoid the higher costs of construction in boom periods. This notion of counter-cyclical leverage is actually precluded by the present structure of the Financial Management Plan, which further restricts capital investments and other necessary spending when the economy slows.

The modified Financial Management Plan will allow flexibility for counter-cyclical capital investment planning and minimize the effects of unexpected changes in provincial GDP. The government has set the following targets:

- **Limit the taxpayer-supported debt-to-GDP ratio to a target range of 19 per cent to 22 per cent over the next three years.** The target range will be reviewed annually to ensure that the limits remain appropriate and will be lowered as the level of debt-to-GDP declines.
- **Limit the debt-to-GDP ratio at March 31, 1999 to 21.2 per cent.**
- **Balance the operating budget in 1999/2000.**
- **Maintain the 9.0 per cent cap on the cost of debt interest relative to provincial revenue.**

Operating Plan

Provincial government direct debt for operating purposes is incurred to finance deficits in the province's operating account, and to pay for other financing transactions requiring cash, including loans and investments. As at March 31, 1998, government operating debt is estimated to total $11.5 billion, an increase of $422 million from March 31, 1997. This increase was used to finance a lower-than-expected deficit of $169 million in 1997/98 (as compared to the original forecast of $185 million), and other financing requirements such as cash management, loans, and investments, totalling $253 million.

In order to reduce direct debt for operating purposes, the government needs to eliminate its operating deficit and generate surpluses large enough to cover its other financing and working capital requirements. Chart C2 shows that since 1991/92, the government has significantly reduced its operating deficit.

The government is forecasting a deficit of $95 million in 1998/99, down from $169 million in 1997/98. The budget will be balanced in 1999/2000.

TABLE C1
OPERATING PLAN FORECASTS

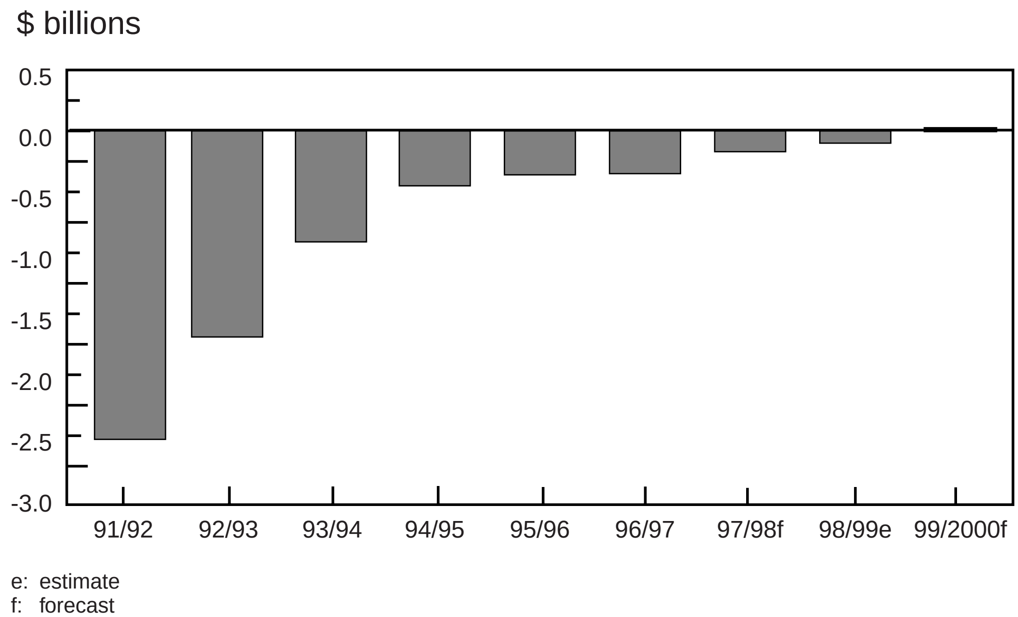
	1997/98 Budget	1997/98 Revised Forecast	1998/99 Budget	1999/00 Forecast
	($ millions)			
Consolidated Revenue Fund Surplus (Deficit)	(185)	(169)	(95)	0

In order to minimize annual financing and working capital requirements, the government has begun to identify options to improve its sources of cash and reduce its cash disbursements. These options will include reviews of the collection process for accounts receivable, outstanding fines, and loans to businesses and individuals.

CHART C2

BRITISH COLUMBIA OPERATING RESULTS

SURPLUS/DEFICIT



Capital Plan

The province builds schools, hospitals, roads and other forms of infrastructure with financing provided through the province’s fiscal agency loan program. Financing by this method enables Crown corporations and agencies to benefit from the province’s superior credit rating through the lowest cost of debt available. Capital spending leads to an increase in net debt and is offset, to some degree each year, by previous debt that has matured, by sinking fund contributions, and by investment earnings on the sinking funds.

Further information on the province’s capital plan is provided in the topic box.

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 and changing population all require capital spending. The Financial Management Plan provides discipline to ensure that only the highest-priority capital projects proceed, and that government pursues innovative and cost-effective mechanisms to provide capital infrastructure.

Review of 1997/98 Capital Spending

In 1997/98, approximately $975 million was spent to finance capital projects including the building of schools, hospitals, roads and other forms of provincial infrastructure. Specific examples of projects undertaken in 1997/98 include:

— 7,300 new spaces were constructed 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 Diagnostic and Treatment Centre in Hudson's Hope;

— construction of the new cancer treatment centre in Kelowna;

— continued construction of the Vancouver Island Highway; and

— completion of the TRIUMF laboratory in Vancouver.

1998/99 Capital Spending

For 1998/99, government will be increasing the level of capital spending to approximately $1.25 billion, an increase of about $275 million from 1997/98. The increase in capital spending, including the carry-over of delayed projects from 1997/98, will provide some economic stimulus during 1998/99. The major portions of capital spending will be on education, and on highway construction and upgrades. Examples of projects for 1998/99 include:

— a new 650-student Summit Middle School in Coquitlam;

— a new 425-student Somerset Elementary School in Pitt Meadows;

— other school expansion projects to reduce the number of portables;

— major renovations to the University College of the Cariboo in Kamloops;

— expansion of the Centre for Molecular Medicine and Therapeutics in Vancouver;

— replacement of the Royal Jubilee Hospital Diagnostic and Treatment Centre in Victoria;

— construction of the Juan de Fuca Priory (75 multi-level care bed facility) in Victoria;

— construction of Trans Canada Highway high-occupancy vehicle lanes in Burnaby;

— road improvement projects (rehabilitation) throughout the province;

— widening of the Trans Canada Highway from Hospital Road to 30th Street in Salmon Arm and from the Tumbleweed Interchange to Senora in Kamloops;

— continued construction on the Vancouver Island Highway;

— continued construction of the new fast ferries with the first ferry to be completed in 1998; and

— purchase of additional and replacement buses throughout the province.

Economic Growth

As well as meeting the capital needs of the province, capital spending also assists in stimulating the economy. Capital spending in 1997/98 created an estimated 12,400 person-years of employment in the design and construction industry. In 1998/99, the additional $275 million in capital spending will create an estimated 3,700 more jobs than in 1997/98.

Capital Review Update

In June 1996, the government announced a review of capital expenditures to determine the appropriate levels of investment and to improve the planning, construction, and maintenance of infrastructure. The review concluded in January 1997 and identified over 100 potential cost containment strategies, falling into four 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 possible; and
- pursuing alternative financing options.

For 1997/98, the projected value of the cost containment strategies totalled $200 million. The value of the cost containment strategies is projected to approach $275 million in savings in 1998/99.

Examples of cost containment strategies and their savings value in 1997/98 include:

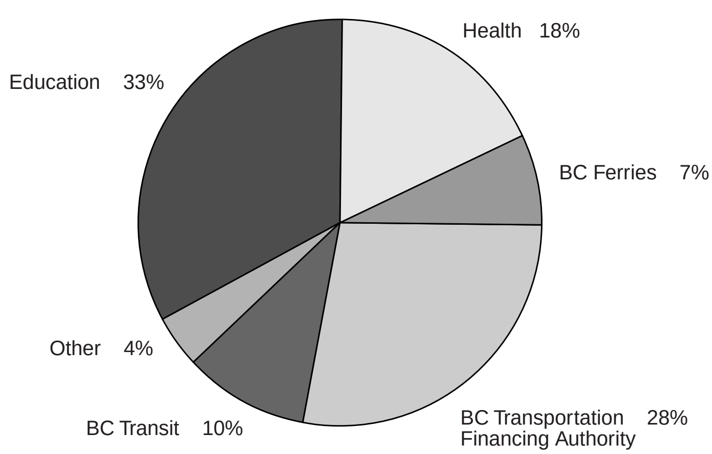
- $57 million as a result of space standard and unit rate reductions in the kindergarten to grade 12 system;
- $53 million through increased utilization of existing space in the post-secondary system;
- $4 million through alternative financing of long-term care beds;
- $4 million through group purchasing of hospital equipment; and
- $11 million through intergovernmental cost-shared highway projects.

In 1997/98, the government also began pursuing several alternative procurement methods including:

- design-build of the Penticton Hospice and the Sechelt Area Elementary School;
- construction management of the Summit Middle School in Coquitlam; and
- integrated project management of the North Fraser Pre-trial Correctional Centre in Port Coquitlam.

The government is reorganizing the way social capital projects are delivered in 1998/99. While needs assessment and planning remain the responsibility of individual ministries, project management, financing, and project delivery are consolidated in the Ministry of Finance and Corporate Relations. The objective of this new model is to achieve greater savings by increasing joint and multi-use facilities, public-private partnership opportunities and utilization of existing facilities, and undertaking more cost-effective and efficient procurement methods.

1998/99 FORECAST CAPITAL SPENDING
TOTAL: $1.25 billion



Financing Plan

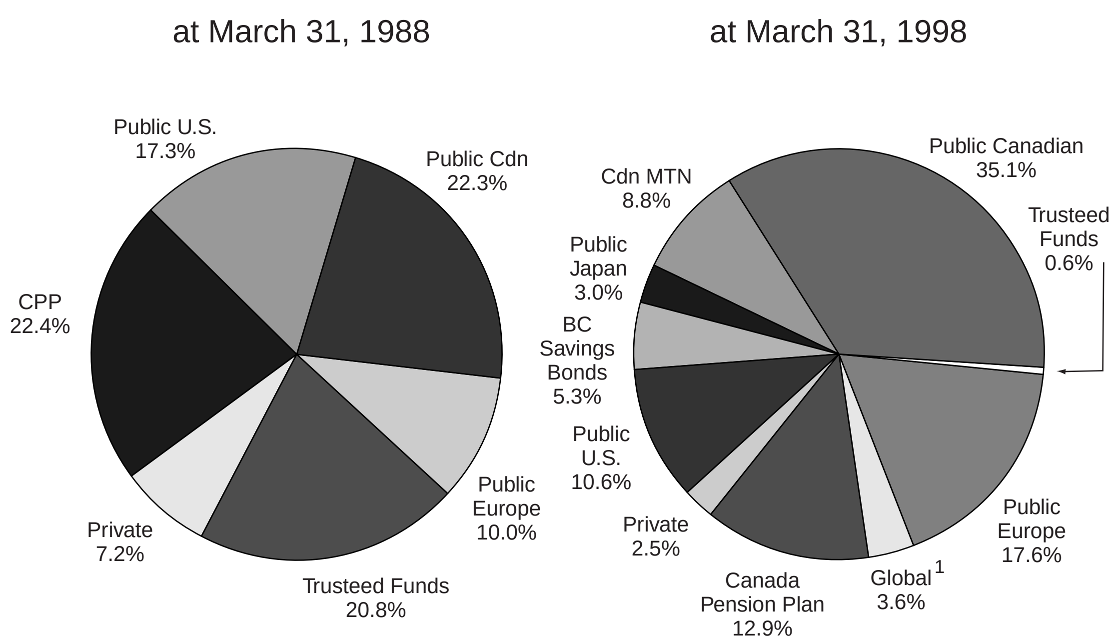
Borrowing Process

Almost all 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. Borrowing and financing costs remain the responsibility of the Crown corporation or agency. This fiscal agency program provides lower-cost financing to Crown corporations due to the province's strong credit rating and its ability to borrow at lower interest rates.

To address concerns raised by the Auditor General in his review of the government's financial statements, the government will be changing the way that it finances and records capital expenditures for educational facilities. These include schools and post-secondary institutions (similar changes are being considered for health facilities and regional transit). Beginning in 1998/99, the government will replace existing fiscal agency loans to schools and post-secondary institutions with pre-paid capital advances that will allow the government to amortize the cost of capital assets over their useful life. These changes do not affect the amounts of total provincial or taxpayer-supported debt. Tables C2 and H7 reflect these changes and provide historical figures for comparison purposes.

CHART C3

DEBT OUTSTANDING BY SOURCE



[1] A global debt security is offered simultaneously to investors in Canada, the U.S., Europe and Asia.
Source: Ministry of Finance and Corporate Relations.

Sources of Funds

Funding has come from a variety of sources, including public financial markets in Canada, the United States, Europe and Asia, the Canada Pension Plan Investment Fund, private institutional lenders and provincial trusteed funds. Chart C3 shows the 10-year shift in the source of funds from private placements, such as the provincial trusteed funds and Canada Pension Plan (CPP), towards public markets, particularly in Canada and Europe, including BC Savings Bonds and issues under the Canadian and Euro medium-term note (MTN) programs.

Diversification of borrowing sources is a key factor in lowering financing costs and maintaining investor interest in and demand for British Columbia bonds and notes. A broad investor base is important given increased competition for funding.

Review of 1997/98

In 1997/98, gross financing for the government and its Crown corporations and agencies totalled \$4.3 billion. However, total provincial net debt is expected to increase by \$758 million since some new borrowing was used to repay debt maturities, including several issues which were called, and the defeasance of some school and hospital district debt.

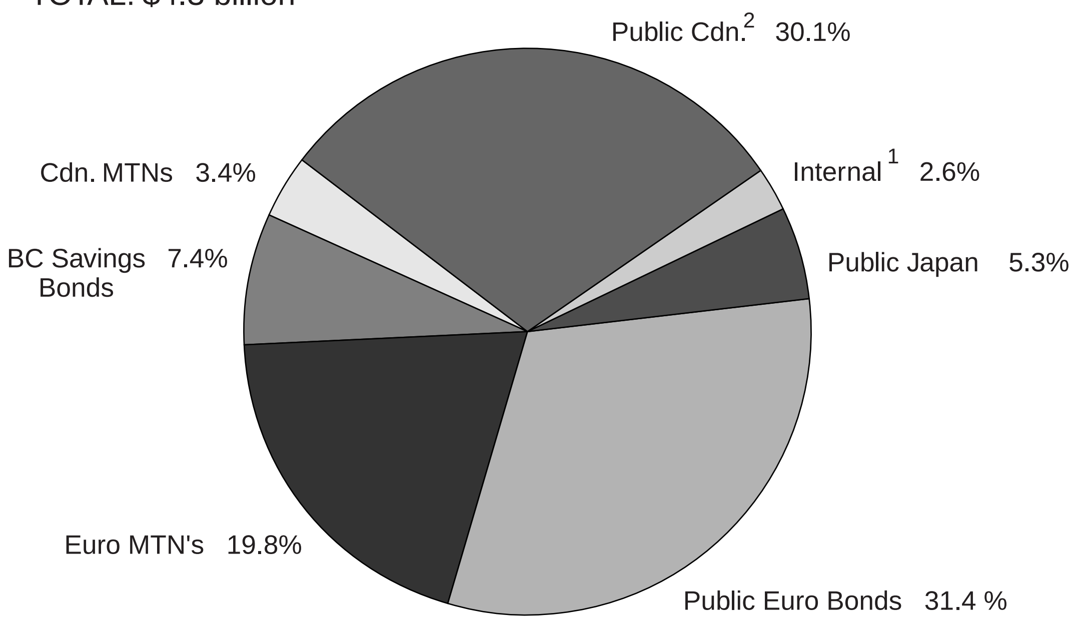
Taxpayer-supported debt will increase by \$706 million in 1997/98, including a \$422-million increase in government operating debt and a \$284-million increase in the debt of other taxpayer-supported Crown corporations and agencies.

The increase in direct operating debt is due in large part to the protection of health care and education programs during a year of slow economic growth, particularly in the forest sector.

CHART C4

1997/98 BORROWING ACTIVITY

TOTAL: \$4.3 billion



[1] Includes draw downs from Warehouse borrowing program.
[2] Includes funding for Warehouse borrowing program.

TABLE C2
PROVINCIAL FINANCING PLAN

	Net Debt[1] Outstanding at March 31, 1997	1997/98 Net Debt Change	Forecast Net Debt[1] Outstanding at March 31, 1998	1998/99 Transactions New Borrowing[2]	1998/99 Transactions Retirement Provision[3]	1998/99 Transactions Net Change	Forecast Net Debt[1] Outstanding at March 31, 1999
	($ millions)						
Taxpayer-supported debt							
Provincial government direct[4]							
Operating purposes	11,030.5	421.8	11,452.3	2,882.3	2,607.3	275.0	11,727.3
Education capital financing purposes	4,229.8	101.4	4,331.2	423.2	262.1	161.1	4,492.3
Total provincial government direct	15,260.3	523.2	15,783.5	3,305.5	2,869.4	436.1	16,219.6
Economic development Crown corporations and agencies	3,186.1	239.4	3,425.5	974.6	473.6	501.0	3,926.5
Social and government services Crown corporations and agencies	2,192.1	(39.7)	2,152.4	307.7	192.8	114.9	2,267.3
Other fiscal agency loans	157.6	(6.4)	151.2	1.3	6.7	(5.4)	145.8
Other guarantees[5]	228.5	(18.2)	210.3	4.2[6]	—	4.2	214.5
Non-guaranteed debt[7]	120.4	7.6	128.0	7.8	—	7.8	135.8
Less Internally held funds[8]	(0.8)	—	(0.8)	—	—	—	(0.8)
Total taxpayer-supported debt	**21,144.2**	**705.9**	**21,850.1**	**4,601.1**	**3,542.5**	**1,058.6**	**22,908.7**
Self-supporting debt							
Commercial Crown corporations and agencies	7,870.9	(44.1)	7,826.8	807.7	616.1	191.6	8,018.4
Warehouse borrowing program	100.0	100.0	200.0	—	—	—	200.0
Non-guaranteed debt[9]	124.9	(4.3)	120.6	—	4.3	(4.3)	116.3
Total self-supporting debt	**8,095.8**	**51.6**	**8,147.4**	**807.7**	**620.4**	**187.3**	**8,334.7**
TOTAL PROVINCIAL DEBT	**29,240.0**	**757.5**	**29,997.5**	**5,408.8**	**4,162.9**	**1,245.9**	**31,243.4**

[1] Net debt is after deduction of sinking funds and unamortized discounts, and excludes accrued interest. Government direct and fiscal agency accrued interest is reported in the government's accounts payable. Figures for earlier years have been restated to conform with the presentation used for 1998/99.

[2] New long-term borrowing plus net change in short-term debt.

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

[4] Effective April 1, 1998, debt of the British Columbia School Districts Capital Financing Authority, the British Columbia Educational Institutions Capital Financing Authority and debt of the capital project Certificate of Approval Program related to education capital financing is included as part of provincial government direct debt. Figures for earlier years have been restated to conform with the presentation used for 1998/99.

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

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

[7] Includes debt of the Pacific National Exhibition, Provincial Rental Housing Corporation, BC Transportation Financing Authority, British Columbia Ferry Corporation 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] 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.

The province raised about 57 per cent of its 1997/98 financial requirements from international sources including issuance in the Euro Canadian, Euro U.S., French franc, and Japanese yen markets (see Chart C4). To hedge against any foreign currency risk, these financings were fully converted to Canadian dollar liabilities. International financings generated savings to the province, compared to the domestic market, of $3 million annually. In the last half of the year, the domestic market emerged as a cost-effective funding source and responded well to the province's public bond and medium-term note programs, as well as the annual BC Savings Bond offering.

In 1997/98, the province took advantage of low short-term interest rates by increasing the floating rate debt exposure of the government operating and capital financing debt portfolios from 24 per cent to about 40 per cent. The province did not add any unhedged U.S. dollar debt to its portfolio, largely because of the sizeable interest cost differential in favour of Canada over the U.S. and assessment of the related foreign exchange risks.

1998/99 Financing Plan

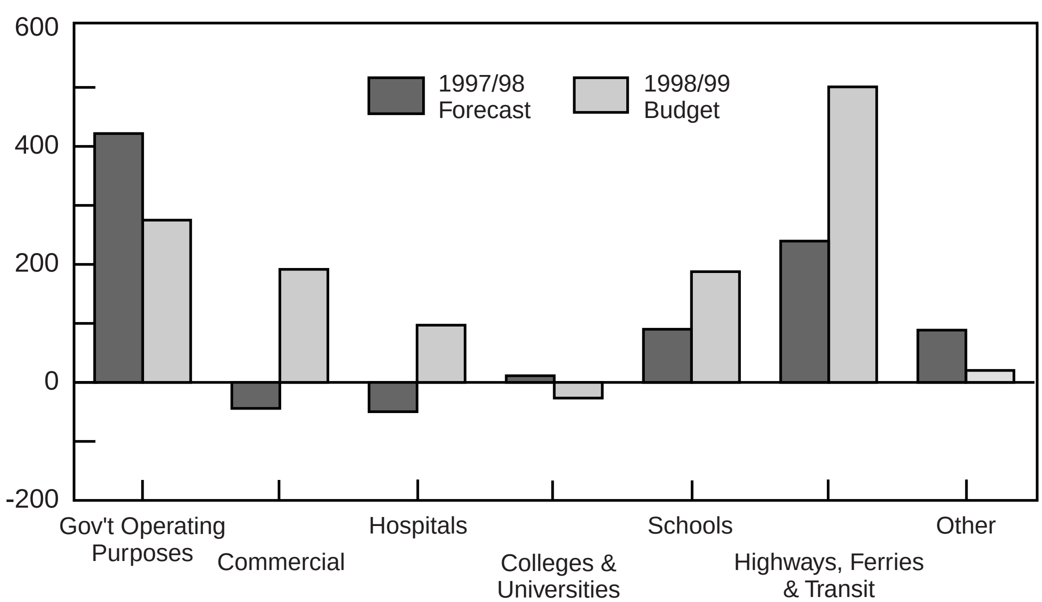
Table C2 and Chart C5 outlines the 1998/99 financing plan for the government and its Crown corporations and agencies.

In 1998/99, the provincial government and its Crown corporations and agencies expect financial requirements totalling $5.4 billion, including $3.9 billion for net maturities (including BC Savings Bonds) and almost $500 million for sinking fund contributions. Most debt issues with maturities of greater than five years are required to have sinking funds to provide for the orderly repayment of debt.

CHART C5

CHANGE IN TOTAL PROVINCIAL DEBT

$ millions



Provincial net debt is estimated to total $31.2 billion at March 31, 1999, an increase of $1.2 billion from March 31, 1998, while taxpayer-supported net debt will total $22.9 billion, an increase of $1.1 billion.

Self-supporting debt is expected to increase by $187 million to total $8.3 billion at March 31, 1999. The British Columbia Hydro and Power Authority will use cash balances and new lower-cost debt to retire high interest-rate debt issues.

The 1998/99 requirements will be met through new borrowing in the domestic and international markets. With an expectation that interest rates on long term debt will remain relatively low, the government's strategy in 1998/99 will be to lower the floating rate exposure and lock-in these favourable interest rates.

Other Financing Initiatives

The government continues to explore new and innovative ways of meeting the growing demand for public infrastructure that do not depend on taxpayer support, as well as ways to make the most productive use of funds that must be borrowed. This includes better use of existing facilities, partnerships with the private sector and the sale of non-essential assets.

The government will continue to rely on advice from an external panel of representatives from the business, labour, and academic communities on the use of public-private partnerships for the development of public infrastructure in the province. The panel recently assisted with the drafting and publication of *The Best Practices Guide to Public-Private Partnerships,* which provides step-by-step advice to interested parties throughout the planning, approval, and implementation stages of a public-private partnership.

There are several major projects currently underway that could benefit from partnerships with the private sector including:

- Negotiations are proceeding with a selected developer for expansion of the Vancouver Trade and Convention Centre. The government is also working with the City of Vancouver, the federal government, industry and other stakeholders on this project.
- The government is evaluating private sector responses for a new or rehabilitated Lion's Gate Bridge. The project is in its early stages and may be suitable for a partnership arrangement.
- The British Columbia Ferry Corporation has issued a two-part request for expression of interest to determine private sector interest in lease financing up to three fast ferry vessels, and a long-term business relationship to build, own, finance and potentially operate and maintain up to ten vessels (including the fast ferry vessels).

The government is proceeding with a restructuring of BC Transit, including the transfer of planning and governance for transit services in the Lower Mainland to the Greater Vancouver Regional District. This initiative will allow greater local control over the future expansion of transit in this rapidly growing region.

Report D: **REVENUE MEASURES**

Introduction

During the 1990's all provincial governments in Canada have struggled to address the fiscal difficulties created in large part through reductions in federal transfers. While many governments chose to cut essential social programs, the British Columbia government focussed on reducing the deficit while protecting health and education programs. Thanks in part to the strength of the provincial economy, this approach was successful. The deficit fell from $2.5 billion in 1991/92 to $169 million in 1997/98. Although this achievement has required significant program cuts, health and education programs have not been compromised.

At the same time, since 1995, the government has been able to reduce taxes for average British Columbians and, through the BC Family Bonus program, significantly reduce the depth and breadth of child poverty.

The government will continue to lower taxes for low and middle income families. But in light of recent events in Asia, it must also ensure that British Columbia businesses are able to thrive in an increasingly competitive world economy.

Recent Tax and Rate Freeze Measures

Since 1995, provincial tax cuts and rate freezes, including provincial tax reductions initiated by the federal government, have significantly lowered the tax burden for British Columbia individuals and families. For example, the provincial personal income tax rate has decreased in each of the last three years. Total savings for British Columbians from these reductions and freezes in 1998/99 will be $846 million of which $809 million or 95 per cent will go to low and middle income families.

Looking Forward

Despite the growth of the service sector and high technology industries, British Columbia remains an export dependent economy. The diversification of provincial exports that occurred during the late 1980s and early 1990s helped to buffer the province from the North American recession that hurt the rest of Canada for several years. As a result, British Columbia led the rest of the country in economic growth for much of this period.

In recent months, the outlook for the British Columbia economy has shifted. The Asian crisis will substantially reduce economic growth in 1998. The situation in Asia and the increasing competition British Columbia firms face in other markets presents a challenge that must be met. The government has been consulting widely on how best to respond to this challenge.

After weighing all the advice gathered through these consultations, it became clear that the appropriate response is to adopt a measured, targeted approach that includes:

- continuing to reduce taxes for low and middle income families;
- revitalizing British Columbia's traditional industries;
- providing additional assistance for small business;
- ensuring the province is prepared to meet the challenges of the knowledge-based economy of the future; and
- reducing red tape and regulation.

Table D1 summarizes the tax reductions associated with these initiatives. These reductions will inject $95 million into the provincial economy in 1998/99 and more than $400 million in 2001/02 when they are fully implemented. The tax reductions are an integral part of the government's strategy for revitalizing the province's traditional industries and ensuring that British Columbia is able to compete successfully in the knowledge-based economy of the future.

TABLE D1
SUMMARY OF *BUDGET 98* TAX REDUCTIONS

	Revenue Cost ($ millions) 1998/99
Personal Income Tax	
Reduce the British Columbia personal income tax rate by one percentage point to 49.5 per cent of federal tax, effective January 1, 1999	25
Reduce the top marginal rate by 1.5 percentage points to 52.7 per cent effective January 1, 1999	12
Medical Services Plan premium assistance enhanced	7
Corporation Capital Tax (CCT)	
Increase the CCT threshold to $2.5 million from $1.5 million effective January 1, 1999	5
Corporate Income Tax	
Reduce the small business tax rate to 8.5 per cent from 9 per cent, effective January 1, 1999	3
Film Incentive BC refundable income tax credit introduced	7
Provincial Sales Tax	
Exempt 1-800 and equivalent services and introduce selected exemptions to assist the hi-tech sector	7
Provincial Fuel Tax	
Reduce the international jet fuel tax rate by 1 cent per litre to 3 cents per litre effective April 1, 1998	6
Exempt *bona fide* farmers from the coloured fuel tax, effective June 1, 1998	3
Other Initiatives under development	20
TOTAL	95

Cutting Taxes for British Columbians

Tax reductions increase consumers' take-home pay and spending, providing a direct stimulus to private sector growth and job creation. *Budget 98* reduces the basic personal income tax rate to 49.5 per cent from 50.5 per cent of federal tax, effective January 1, 1999. This will be the fourth year in a row that British Columbia personal income tax has been lowered for a total reduction of 6 per cent since 1995.

In addition, the Medical Service Plan premium assistance program will be enhanced to reduce premiums for 80,000 low income individuals and families.

In 1999, the combined impact of the tax cuts and rate freezes introduced since 1995 will be to reduce taxes and other costs for a single parent family of two with income of $30,000 by $1,200 annually.

TABLE D2
TAX CUTS AND RATE FREEZES INTRODUCED SINCE 1995
TYPICAL SAVINGS FOR BRITISH COLUMBIA FAMILIES

	Single Parent with two young children $30,000 family income	Two Parent family with two children* $55,000 family income
	Full year savings	Full year savings
Income tax cut		
Basic rate reductions	$68	$190
Reductions due to federal low income supplement credit	$13	$1
Reductions due to federal enhancements to tuition and education credits	—	$216
Family Bonus	$856	—
Medical Services Plan		
Premium assistance enhancements	$173	—
Rate freezes		
ICBC rate freeze	$70	$70
BC Hydro rate freeze and rebate	$20	$20
University/college tuition freeze	—	$552
Total savings	$1,200	$1,049

* Both children attending university.

Revitalizing Traditional Industries

The forestry, agriculture, mining and oil and gas sectors will continue to play a key role in British Columbia's economic success, particularly in the areas outside the Lower Mainland. The government has entered into discussions with each of these sectors to develop initiatives aimed at improving competitiveness and spurring additional investment and job creation.

- **Oil and Gas** — The government is working together with the Canadian Association of Petroleum Producers, the Peace River Regional District, and with First Nations to formulate an incentive package of fiscal and regulatory initiatives that will:
  - — stimulate exploration and development activities within the province;
  - — respond to local government's request for provincial assistance in funding the region's basic infrastructure requirements; and
  - — build upon the recent Memorandum of Understanding negotiated with the Treaty 8 Tribal Association.

  In exchange, the government will be seeking a commitment from the oil and gas sector to undertake the investment required to sustain strong levels of employment and economic growth in the energy sector.

- **Mining** — The government is working closely with mining industry officials to develop regulatory and tax changes that will stimulate mineral exploration in the province, encourage the development of new mines and allow existing mines to compete more effectively in world markets.

- **Forestry** — The government continues to work with the forestry industry to review the stumpage and regulatory framework and develop long-term solutions. The goal is to reduce costs and generate investment in forest jobs in forest-based communities, without eroding environmental standards.

- **Agriculture** — Effective June 1, 1998 qualified farmers will be exempt from the coloured fuel tax. This will bring British Columbia's fuel tax for farmers more into line with the other Western provinces.

Assistance for Small Business

Small business has been a continuing source of strength in British Columbia, creating many of the new jobs in the economy and providing first jobs for many young people. In 1996, the small business corporate income tax rate was reduced by 10 per cent, and a two-year tax holiday was introduced for qualifying new small businesses.

The government will encourage further development and growth in the small business sector by:

- Reducing the small business income tax rate by a further 11 per cent over two years, beginning in 1999, to a rate of 8 per cent by January 1 2000. This will reduce the corporate income tax burden for approximately 40,000 small businesses by $20 million and will be the lowest rate in the province since 1986.

- Reducing by 10,000, or 40 per cent, the number of firms required to pay corporation capital tax by increasing the tax exemption threshold from $1.5 million to $5 million over three years starting in 1999.

Knowledge-Based Economy

A key to British Columbia's future economic success is its people. The government is committed to ensuring that the province has a world class education system and that its taxation policies do not detract from British Columbia's natural advantages as a place to live and work.

- Access to ongoing education and life-long learning will be critical. In response, the government has extended the tuition freeze for a third year, provided funding for 2900 new post secondary spaces, and announced the development of a new technical university in the Lower Mainland.

- According to recent polls, British Columbia is the most attractive place in Canada to live. It has an excellent climate, world class amenities, infrastructure, and health care. But the province does face challenges in attracting and keeping highly skilled professionals and entrepreneurs because housing costs and living costs are relatively high.

  To improve British Columbia's competitiveness as a place to live and work, the top marginal rate will be lowered from 54.2 per cent to 52.7 per cent in 1999, to 51.3 per cent in 2000, and to 49.9 in 2001. This will restore the competitiveness of British Columbia's personal income tax system, without compromising the principle that taxes should be based on ability to pay. Even with this change, the top 4 per cent of taxpayers will pay over 28 per cent of personal income tax.

- In October 1997, the government announced Film Incentive BC — a series of tax credits designed to stimulate the domestic film industry and encourage filming outside the Lower Mainland. In addition, the government is currently exploring further options with the film and television industry that will enhance British Columbia's position as a preferred shooting location for foreign producers.
- Call centres are a high growth source of new, relatively well-paying jobs. For this reason competition for call centre jobs is intense. To cultivate British Columbia's attractiveness as a call centre location, the sales tax on 1-800 and equivalent services will be removed. In addition, modest new sales tax exemptions will be provided to reduce the cost of research and development.
- The Vancouver International Airport has been extremely successful in establishing itself as a gateway between Asia and North America. To support this strategy, as announced in the 1997/98 budget, the government will lower international fuel taxes by one cent per litre in each of the next two years.

Reducing Red Tape and Regulation

To be successful, businesses must strive to keep administrative costs to a minimum. The government recognizes that, in some cases, the regulatory framework can contribute to raising the cost of doing business. Government is initiating a review of provincial regulations which will focus on reducing unnecessary red tape and paperwork, while protecting environmental and workplace standards.

Revenue Measures by Category

INCOME TAX ACT

PERSONAL INCOME TAX RATE REDUCTIONS

The British Columbia personal income tax rate, calculated as a percentage of basic federal tax, is decreased to 49.5 per cent from 50.5 per cent of basic federal tax effective January 1, 1999. In addition, the high income surtax is reduced to 19 per cent, from 26 per cent, of provincial tax in excess of $8,660 effective January 1, 1999.

The basic rate reduction will reduce basic provincial personal income tax liabilities for all taxpayers by 2 per cent. For taxpayers who pay the high-income surtax, the basic rate reduction also reduces surtax liabilities due to the fact that surtax thresholds are set in terms of basic provincial tax. Taxpayers who pay the second tier high-income surtax because their income exceeds roughly $80,000, will also have lower surtax liabilities from the reduction in the surtax rate.

The following table shows the impact on taxpayers of the reduction in the basic provincial tax rate and the reduction in the surtax rate in 1999. The table shows the changes for a single individual with employment income claiming basic tax credits.

SUMMARY OF REVENUE MEASURES

	Effective Date	Revenue Effects 1998/99	Revenue Effects Fully Implemented Impact
		($ millions)	
Income Tax Act			
• The British Columbia personal income tax rate is decreased to 49.5 per cent from 50.5 per cent effective January 1, 1999	January 1, 1999	(25)	(110)
• The British Columbia personal income tax surtax is decreased to 19 per cent from 26 per cent of British Columbia income tax in excess of $8,660 effective January 1, 1999	January 1, 1999	(12)	(42)
• The British Columbia corporate income tax small business rate is decreased to 8.5 per cent from 9 per cent effective January 1, 1999 and to 8 per cent effective January 1, 2000	January 1, 1999	(3)	(20)
• Refundable corporate income tax credit provided for Film Incentive BC	April 1, 1998	(7)	(15)
Corporation Capital Tax Act			
• Exemption threshold increased to $2.5 million from $1.5 million of net paid-up capital effective January 1, 1999, to $3.5 million effective January 1, 2000 and to $5 million effective January 1, 2001	January 1, 1999	(5)	(46)
• High-rate threshold for financial institutions increased to $1 billion from $750 million of net paid-up capital effective April 1, 1998	April 1, 1998	*	*
School Act			
• Average gross residential school taxes are maintained at 1997 levels; rates will vary by school district. Non-residential school property tax rates are unchanged from 1997	1998 tax year	*	*
Taxation (Rural Area) Act			
• Average gross residential taxes are maintained at 1997 levels by reducing the residential tax rate. Non-residential rural area property tax rates are unchanged from 1997	1998 tax year	*	*
Home Owner Grant Act			
• Home owner grant reduction threshold unchanged	1998 tax year	*	*
Social Service Tax Act			
• Exemptions provided for "1-800" and equivalent telephone service, software source code, and tangible personal property incorporated into copies of prototypes for testing purposes	May 1, 1998 and March 31, 1998	(7)	(7)
• List of items that can be purchased exempt by *bona fide* farmers is expanded	March 31, 1998	*	*

* denotes measures that have no or minimal revenue impacts.

SUMMARY OF REVENUE MEASURES — *Continued*

	Effective Date	Revenue Effects 1998/99	Revenue Effects Fully Implemented Impact
		($ millions)	
Motor Fuel Tax Act			
• Exemption provided for coloured fuel used by *bona fide* farmers	June 1, 1998	(3)	(3)
• Tax rate on jet fuel used for international flights is reduced to 3 cents per litre from 4 cents per litre effective April 1, 1998 and to 2 cents per litre effective April 1, 1999	April 1, 1998	(6)	(11)
Tobacco Tax Act			
• The tax rate imposed on tobacco sticks is increased to the cigarette equivalent	March 31, 1998	5	5
• The maximum tax paid on cigars is increased to $5.00 from $2.50	March 31, 1998	*	*
Insurance Premium Tax Act			
• Taxing authority is consolidated under the *Insurance Premium Tax Act* and the 1 per cent tax under the *Fire Services Act* is repealed	April 1, 1998	4	4
International Financial Business (Tax Refund) Act			
• International financial institutions are required to be members of the IFC Society of Vancouver, allowing IFC Vancouver to increase self-funding	April 1, 1998	*	*
• Captive insurance companies and export financing companies are allowed access to the refund	April 1, 1998	*	*
Medicare Protection Act			
• Medical Services Plan premium assistance enhanced	July 1, 1998	(7)	(9)
Other Revenue			
• Various fees and licences adjusted	various	14	17
Total		(52)	(237)

* denotes measures that have no or minimal revenue impacts.

TABLE D3
IMPACT OF PERSONAL INCOME TAX CHANGES

Annual Taxable Income $	Total BC Income Taxes Before Changes $	Basic Rate Reduction $	Surtax Rate Reduction $	Total Reduction $	Per Cent Change %	Total BC Income Taxes After Changes $
$20,000	$1,069	(21)	n/a	(21)	−2%	$1,048
$25,000	$1,474	(29)	n/a	(29)	−2%	$1,445
$30,000	$1,897	(38)	n/a	(38)	−2%	$1,859
$35,000	$2,528	(50)	n/a	(50)	−2%	$2,478
$50,000	$4,486	(89)	n/a	(89)	−2%	$4,397
$80,000	$9,793	(245)	0	(245)	−3%	$9,548
$100,000	$14,362	(360)	(195)	(555)	−4%	$13,807

The marginal tax rate is the rate of tax paid on an additional dollar of income earned. The top marginal tax rate is the marginal tax rate applicable in the highest income bracket.

The following table shows top marginal tax rates, including federal and provincial tax rates, in effect for 1995, 1998 and the rates that will be in effect for 1999 and 2001.

TABLE D4
PERSONAL INCOME TAX TOP MARGINAL TAX RATES FOR 1995, 1998, 1999 AND 2001

	Province									
Tax year	BC	Alta	Sask	Man	Ont	Que	NB	NS	PEI	Nfld
1995	54.2	46.1	52.0	50.4	53.2	52.9	51.4	50.3	50.3	51.3
1998	54.2	45.6	51.7	50.1	50.9	52.5	50.4	49.7	50.3	53.3
1999	52.7	45.6	51.3	49.8	49.6	52.5	49.3	49.7	50.3	53.3
2001	49.9	45.6	51.3	49.8	49.6	52.5	49.3	49.7	50.3	53.3

Includes tax rates known as of March 20, 1998.

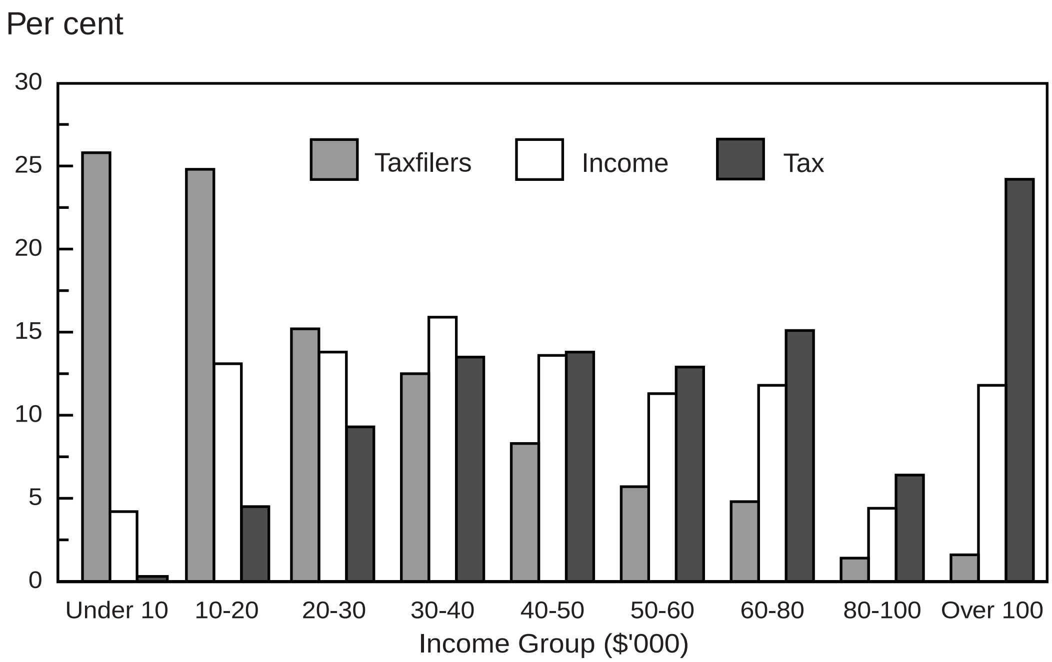
The table clearly shows the competitive pressures facing British Columbia. Seven provinces have reduced their top marginal rates since 1995.

Over the next three years the government will reduce the top marginal income tax rate to 49.9 per cent. The reduction in the basic British Columbia tax rate and the reduction in the surtax rate will reduce the top marginal rate in the province by about 1.5 percentage points to 52.7 per cent in 1999. The rate will be reduced to 51.3 per cent in 2000 and 49.9 per cent in 2001. This will reduce British Columbia's top marginal rate by a total of 8 per cent and will bring the province's rate into line with most provinces. Even with these changes, the top four per cent of tax filers will contribute 28.5 per cent of total provincial income tax revenue. In contrast, the 50 per cent of tax filers with the lowest incomes pay only about 5 per cent of total provincial personal income tax.

The following chart illustrates the distribution by income group of tax filers, income and provincial income tax for the 1995 tax year.

CHART D1

TAXFILERS, INCOME AND TAX PAID BY INCOME GROUP
BRITISH COLUMBIA, 1995



SMALL BUSINESS CORPORATE INCOME TAX RATE REDUCED

Effective January 1, 1999, the small business income tax rate for Canadian-controlled private corporations will be reduced to 8.5 per cent from 9 per cent. The rate will be further reduced to 8 per cent on January 1, 2000. When fully implemented, this change will reduce corporate income tax liabilities by 11 per cent for about 40,000 small businesses in British Columbia.

FILM INCENTIVE BC — REFUNDABLE CORPORATE INCOME TAX CREDIT

As announced in October 1997, a refundable corporate income tax credit is introduced for qualifying film and television productions with principal photography commencing on or after April 1, 1998. Film Incentive BC will be jointly administered by British Columbia Film and Revenue Canada.

Key features of Film Incentive BC include:

- a basic tax credit of 20 per cent of qualifying British Columbia labour expenditures for British Columbia-controlled production;
- a regional tax credit offering 12.5 per cent of qualifying British Columbia labour expenditures for shoots outside Vancouver; and
- a training tax credit offering up to 3 per cent of qualifying British Columbia labour expenditures for providing training opportunities for workers.

Qualifying British Columbia labour expenditures are capped at 48 per cent of total production costs. There are no project caps or corporate caps.

To access the basic tax credit, a production company must be British Columbia-controlled and have copyright ownership of the project. The regional and training incentives are available to production companies that are British Columbia-based and Canadian-controlled. All projects must incur a minimum of 75 per cent of total production and post-production costs in British Columbia, and must meet a minimum level of Canadian content.

In addition to the above tax credits, the government is currently exploring various other options with the film and television industry that will enhance British Columbia's position as a preferred shooting location for foreign producers.

CORPORATION CAPITAL TAX ACT

EXEMPTION THRESHOLD INCREASED

The threshold below which corporations are exempt from the tax will be increased from $1.5 million of net paid up capital. The increases will be effective for taxation years ending on or after the dates shown below:

- $2.5 million effective January 1, 1999;
- $3.5 million effective January 1, 2000; and
- $5.0 million effective January 1, 2001.

When fully phased in, these changes will eliminate corporation capital tax liabilities for approximately 10,000 additional corporations, representing a reduction of 40 per cent in the number of corporations required to pay capital tax.

HIGH-RATE THRESHOLD APPLICABLE TO FINANCIAL INSTITUTIONS INCREASED

Effective for taxation years ending on or after April 1, 1998, the threshold above which large financial institutions start to pay the higher 3 per cent rate is raised to $1 billion from $750 million of net paid-up capital.

SCHOOL ACT

SCHOOL TAX RATES SET

A separate residential tax rate is set for each school district. For the 1998 taxation year, the average of residential school taxes, before application of the home owner grant, will be maintained at 1997 levels. This will be done by adjusting residential school property tax rates to reflect changes in average assessed values. This rate-setting policy complies with the requirements of the *Tax and Consumer Rate Freeze Act*. There will be a small revenue increase due to the addition of new residential properties to the tax base.

Individual 1998 school district residential tax rates will be set in April, when authenticated assessment roll data are available to calculate the rates according to the provincial residential school tax rate formula.

Even with the freeze on average residential tax levels, individual tax bills may change. Some homeowners will experience an increase in their school taxes, while others will have offsetting reductions. The variation in individual tax bills will occur because changes in the assessed value of any individual property are likely to differ from changes in the average provincial and school district assessed values.

For each of the eight non-residential property classes, a single, province-wide rate is set. Non-residential school tax rates will remain unchanged from 1997 levels. Average non-residential school property taxes will rise by about 3 per cent due to increases in assessed values. Changes to individual property tax bills for non-residential property owners are likely to differ from the provincial average because changes in the value of individual properties will differ from changes in average assessed values.

TAXATION (RURAL AREA) ACT

PROVINCIAL RURAL AREA TAX RATES

For the 1998 taxation year, the average of residential rural area property taxes will be maintained at its 1997 level consistent with the *Tax and Consumer Rate Freeze Act.* This will be done by reducing the residential rural area tax rate to reflect the roughly 3.5 per cent increase in average residential assessed values in the rural areas. The residential tax rate will be set in April, when authenticated assessment roll data are available. There will be a small revenue increase due to the addition of new residential properties to the tax base.

Some rural area residential property owners will still experience an increase in their rural area property taxes, while others will have offsetting tax reductions. Home owners whose property values have increased by more than 3.5 per cent will see increases in their rural area property tax levies, while those whose property values have fallen or risen less than 3.5 per cent will have tax reductions.

The tax rates for the eight non-residential property classes will remain unchanged for 1998. Tax revenues will increase by about 4 per cent due to the combination of increases in assessed values and new construction. Owners of non-residential properties that have increased in value will see their rural area taxes rise, while those owning properties that have fallen in value will have tax reductions.

HOME OWNER GRANT ACT

Effective for the 1998 taxation year, the home owner grant phase-out threshold is unchanged at $525,000. The grant is phased out at the rate of $10 of grant for each $1,000 of assessed value in excess of $525,000. As a result, the grant is eliminated for most homeowners having a home assessed at more than $572,000. For homeowners who are seniors, handicapped or recipients of war veterans allowances, the grant is eliminated for homes assessed in excess of $599,500. The threshold of $525,000 means that, as in previous years, roughly 96 per cent of homeowners are not affected by the phase-out.

SOCIAL SERVICE TAX ACT

EXEMPTION PROVIDED FOR "1-800" AND EQUIVALENT TELEPHONE SERVICE

Effective for calls made on or after May 1, 1998, "1-800" and equivalent telephone and facsimile services are exempt from provincial sales tax. This will help to level the playing field in British Columbia with other provinces and encourage the retention and development of call centres in the province. Tourism, manufacturing, communications, entertainment and other sectors will benefit from this initiative.

EXEMPTION PROVIDED FOR SOFTWARE SOURCE CODE

Software source code is the underlying language in which a software program is written. The source code cannot be read by a computer and must be converted into executable code before it can operate in a computer. The provincial sales tax currently applies to packaged and prewritten software but does not distinguish between source code and executable code. As a result, source code is subject to tax.

Effective March 31, 1998, an exemption is provided for purchases of software source code in non-executable form. This exemption will contribute to the ongoing growth and development of the software industry in British Columbia by facilitating the purchase of software source code by British Columbia based software developers and businesses.

EXEMPTION PROVIDED FOR COPIES OF PROTOTYPES PRODUCED AND USED SOLELY FOR TESTING PURPOSES

An exemption is currently provided for purchases of tangible personal property incorporated into prototypes. As defined, the exemption only applies to one prototype, i.e., the "first full scale functional form of a new type or a new construction of tangible personal property". As a result, the exemption does not apply to tangible personal property incorporated into copies of prototypes produced to test the prototype under different conditions.

Effective March 31, 1998, the exemption is expanded to include tangible personal property incorporated into copies of prototypes produced solely for testing purposes.

ADDITIONAL EXEMPTIONS FOR *BONA FIDE* FARMERS

Effective March 31, 1998, the following are added to the list of items that can be purchased exempt from the provincial sales tax by *bona fide* farmers for farm purposes:

- greenhouse and nursery boilers;
- automated product handling and packaging systems;
- adhesive pest management materials;
- tree wound and grafting compounds; and
- tree pruning paint.

MOTOR FUEL TAX ACT

EXEMPTION PROVIDED FOR COLOURED FUEL USED BY *BONA FIDE* FARMERS

Effective June 1, 1998, *bona fide* farmers will not be subject to tax on coloured fuel used for farming purposes. This will help to reduce the costs of operating farms and will be of particular benefit to field crop producers.

TAX RATE ON INTERNATIONAL JET FUEL TAX REDUCED

As announced in the 1997/98 budget, effective April 1, 1998, the tax rate on international jet fuel is reduced to 3 cents per litre from 4 cents per litre. The rate will be reduced to 2 cents per litre effective April 1, 1999. This will bring the tax rate closer to current rates in neighbouring jurisdictions and will support Vancouver International Airport's strategy of becoming a major gateway between North America and Asia.

TOBACCO TAX ACT

TAX RATE ON TOBACCO STICKS SET AT CIGARETTE EQUIVALENT

Effective March 31, 1998, the tax on tobacco sticks is changed to be equivalent to the tax rate for cigarettes on a per unit basis. The tobacco stick tax rate of 11 cents per gram is changed to 11 cents per stick. Pre-formed tobacco sticks are structurally much like manufactured cigarettes. This measure ensures that the developing trend for tobacco companies to produce tobacco sticks that resemble cigarettes will not erode the tobacco tax base.

MAXIMUM TAX RATE FOR CIGARS INCREASED

Effective March 31, 1998, cigars will be taxed at 77 per cent of the purchase price of any cigar to a maximum level of $5.00 per cigar. The single tax rate replaces a more complicated tax schedule that includes eight tax categories. The new tax scheme simplifies calculating tax rates for cigar retailers and government tax collectors. The higher maximum tax payable accounts for the fact that cigar prices have escalated over time and more smokers are buying higher-priced cigars. A maximum tax level of $5.00 per cigar is more appropriate based on today's prices.

INSURANCE PREMIUM TAX ACT AND *FIRE SERVICES ACT*

Effective April 1, 1998, the fire insurance tax is merged with the insurance premium tax for property, pleasure craft and liability insurance. This means the fire insurance premium tax paid by insurance companies is eliminated. As well, the tax rate paid by insurance companies on property, pleasure craft and liability insurance premiums is increased to 4 per cent from 3 per cent. In effect, the insurance premium tax structure is simplified by reducing the number of tax rates from four to two.

INTERNATIONAL FINANCIAL BUSINESS (TAX REFUND) ACT

PROVIDE IFC SOCIETY OF VANCOUVER SUPPORT FOR SELF-FUNDING

The *International Financial Business (Tax Refund) Act* is amended to require that international financial institutions be members of the IFC Society of Vancouver (IFC Vancouver) to be eligible to register and receive refunds on corporate income tax related to international financial business activities. This allows IFC Vancouver to expand its membership and negotiate membership fees which will increase the degree to which the organization is self-funding. Increased self-funding will increase IFC Vancouver's independence and strengthen its ability to effectively represent the membership.

ALLOW INTERNATIONAL CAPTIVE INSURANCE AND EXPORT FINANCING ACTIVITIES TO QUALIFY FOR TAX REFUNDS

To promote Vancouver as an international financial centre and attract new international business activity, the act will be amended to:

- allow international financial institutions to receive tax refunds on corporation income earned from captive insurance business activity; and
- expand the list of financial institutions eligible for corporate income tax refunds to include institutions engaged in export financing.

These changes will be effective for taxation years commencing on or after April 1, 1998.

MEDICARE PROTECTION ACT

MEDICAL SERVICES PLAN PREMIUM ASSISTANCE

Premium assistance will be enhanced by providing greater benefits to current recipients and by making more individuals and families eligible for the program.

Monthly Medical Services Plan premiums are currently $36 for singles, $64 for families of two and $72 for families of three or more. Premium assistance is available to lower income individuals and families at five levels, ranging from 20 per cent to 100 per cent of the premiums otherwise payable. Adjusted family income is used to determine the level of assistance and is defined as net income from an applicant's (and spouse's) income tax return, less $3,000 for each dependent and $3,000 for each person in the family over age 65 or disabled. The highest level of assistance is currently available to those individuals and families with adjusted net incomes of less than $11,000.

Effective July 1, 1998, the adjusted net family income thresholds, above which the five levels of assistance apply, will increase by $1,000 each. These enhancements will mean reduced premiums for 100,000 people currently benefitting from premium assistance including 35,000 people who will no longer have to pay premiums. In addition, 10,000 more people will be eligible for premium assistance.

The following table shows the impact of these changes for a single person, a senior couple and a family of four at various income levels. For example, a family of four with an income of $28,000 will be eligible for premium assistance at the 20 per cent level and will have their annual premiums reduced by $173.

TABLE D5

IMPACT OF MEDICAL SERVICES PLAN PREMIUM CHANGES
(for premium assistance changes effective in 1998)

Annual Net Family Income $	Annual Premiums Before 1998 Budget Changes $	Annual Premiums After 1998 Budget Changes $	Decrease $
Single			
11,000	86.40	—	(86.40)
15,000	172.80	86.40	(86.40)
19,000	432.00	345.60	(86.40)
Senior Couple			
20,000	153.60	—	(153.60)
24,000	460.80	307.20	(153.60)
28,000	768.00	614.40	(153.60)
Family of Four			
20,000	172.80	—	(172.80)
24,000	518.40	345.60	(172.80)
28,000	864.00	691.20	(172.80)

OTHER REVENUE

FEES AND LICENCES

A number of changes to fees and licences will be introduced during the 1998/99 fiscal year. These changes help cover the government's cost to provide existing or new services. Changes to fees and licences include:

- introducing payment default fees for orders under the Family Maintenance Enforcement Program (effective May 1998);
- increasing civil court filing fees (effective May 1998);
- increasing land title fees (effective May 1998);
- increasing corporate, society, personal property and manufactured home registry fees (effective May 1998); and
- increasing safety inspection fees for elevators, electrical and gas installations (effective April 1998), and boiler and pressure vessels (effective November 1998).

Administrative Measures by Category

SOCIAL SERVICE TAX ACT

EXEMPTION PROVIDED FOR CHEMICALS USED IN THE PULP AND PAPER INDUSTRY TO MAKE CHLORINE DIOXIDE OR SODIUM HYDROSULFITE

An exemption is currently provided for direct agents used in the transformation or manufacture of a product for sale or lease. Chlorine, long used in the pulp industry to bleach pulp, was a direct agent and qualified for exemption. However, more stringent environmental standards in recent years have required pulp mills to replace chlorine with chlorine dioxide and sodium hydrosulfite, which are more environmentally friendly.

SUMMARY OF ADMINISTRATIVE MEASURES

	Effective Date
Social Service Tax Act	
• Exemption provided for chemicals used in pulp and paper industry to make chlorine dioxide or sodium hydrosulfite	March 31, 1998
• Energy conservation exemption expanded to include eligible window insulation systems	March 31, 1998
• Period during which purchasers may obtain a proportional tax refund for defective motor vehicles extended where the vehicle buy-back is awarded through an impartial, independent, third party dispute resolution process	March 31, 1998
• Timing for payment of $1.50 per day short-term vehicle rental tax clarified	March 31, 1998
• Application of tax to motor vehicles leased from out-of-province clarified	March 31, 1998
• Exemption for energy conservation materials and equipment clarified	March 31, 1998
• Exemptions for tangible personal property clarified	March 31, 1998
• Application of tax to change-of-use clarified	March 31, 1998
• Definition of purchase price clarified	March 31, 1998
• Exemption for fertilizer eliminated when purchased by other than an individual for non-agricultural purposes	March 31, 1998
• Transitional refund provision clarified to exclude contracts of indefinite quantity or duration	March 31, 1993
Property Transfer Tax Act	
• Maximum pay down provision for the First Time Home Buyer Exemption Program relaxed	March 31, 1997
• Exemption for transfers of recreational properties between related individuals clarified and maximum allowable value increased	March 31, 1998
• Exemption for transfers to and from trustees clarified	March 31, 1998
• Definition of settlor introduced	March 31, 1998
• Exemption for transfers of eligible property between related individuals clarified	March 31, 1998
Income Tax Act	
• General anti-avoidance rule introduced	March 31, 1998
Insurance Premium Tax Act	
• Filing due date extended	April 1, 1998
Consumption Tax Statutes	
• Interest payments excluded from purchase price when calculating bad-debt refunds	March 31, 1998
Audit and Enforcement	
• Audit and enforcement resources enhanced	1998 tax year

Although these products would also qualify as direct agents if purchased in the form of chlorine dioxide or sodium hydrosulfite, difficulties transporting the product in this form require mills to purchase the chemicals to make the compounds separately. The purchase of the separate chemicals disqualifies them as direct agents and from the exemption.

Effective March 31, 1998, an exemption is provided for chemicals used in the pulp and paper industry to make the more environmentally-friendly chlorine dioxide or sodium hydrosulfite when they are used as direct agents.

ENERGY CONSERVATION EXEMPTION EXPANDED TO INCLUDE ELIGIBLE WINDOW INSULATION SYSTEMS

Certain materials used primarily to prevent heat loss from buildings are exempt from provincial sales tax. Materials that primarily serve a structural or decorative function are taxable, even if they also prevent heat loss from buildings.

Effective March 31, 1998, the exemption for energy conservation equipment is expanded to include eligible window insulation systems. Such systems generally consist of a transparent film installed over a window to conserve energy by reducing heat loss from a building. As such, the systems serve a similar function to multi-glazed and storm windows which are currently exempt.

PROPORTIONAL TAX REFUND PERIOD FOR DEFECTIVE MOTOR VEHICLES EXTENDED WHEN VEHICLE BUY-BACKS ARE AWARDED THROUGH AN IMPARTIAL, INDEPENDENT, THIRD PARTY DISPUTE RESOLUTION PROCESS

Where a defective motor vehicle is returned to a motor vehicle dealer within one year after the date of purchase, the purchaser is eligible for a refund of provincial sales tax paid on the refunded amount. When a vehicle is returned after the one-year period, a tax refund is only provided if the purchaser receives a refund of the full purchase price.

Effective March 31, 1998, the period during which a proportional refund may be obtained is extended when a vehicle buy-back is awarded through an impartial, independent, third-party dispute resolution process.

TIMING FOR PAYMENT OF $1.50 PER DAY PASSENGER VEHICLE RENTAL TAX CLARIFIED

Effective March 31, 1998, the timing for the payment of the $1.50 per day passenger vehicle rental tax is clarified to be the earlier of the date the lease price is paid or becomes payable. This makes the timing of the payment of this tax consistent with the timing of the payment of tax on leases generally under the act.

APPLICATION OF TAX TO MOTOR VEHICLES LEASED FROM OUT-OF-PROVINCE CLARIFIED

Where a person leases a motor vehicle for use in British Columbia from an unregistered lessor located outside of the province, the lessee is required to pay provincial sales tax on the value (the tax rate value as defined in the act) of the vehicle at the time the vehicle is registered in British Columbia. When the lease expires or is terminated the lessee may obtain a refund of any excess tax paid.

Effective March 31, 1998, this application of tax is confirmed.

EXEMPTION FOR ENERGY CONSERVATION MATERIALS AND EQUIPMENT CLARIFIED

Certain items used to conserve energy, primarily but not exclusively insulating materials used to prevent heat loss from buildings, are exempt from the provincial sales tax.

Effective March 31, 1998, the exemption is clarified to exclude from exemption generic parts purchased to make or build such equipment. Parts purchased to make or build goods for sale or lease remain exempt.

EXEMPTION FOR TANGIBLE PERSONAL PROPERTY CLARIFIED

A wide variety of goods, and parts specifically designed to repair or recondition those goods, are exempt from provincial sales tax.

Effective March 31, 1998, the act is clarified to exclude from the exemption tangible personal property used to make exempt tangible personal property.

Purchases of tangible personal property to be incorporated into goods for sale or lease remain exempt from tax.

APPLICATION OF TAX TO CHANGE-OF-USE CLARIFIED

Certain goods are exempt from the provincial sales tax when acquired for specific uses. For example, *bona fide* farmers are able to purchase certain goods exempt from tax when the goods are purchased and used for farming. If a farmer subsequently uses an item purchased exempt for farm use for a taxable use, the farmer is required to pay tax on the item at that time.

Effective March 31, 1998, a general provision is introduced to clarify that tax is payable in all situations where goods acquired exempt by reason of their use are subsequently transferred to a taxable use.

DEFINITION OF PURCHASE PRICE CLARIFIED

Provincial sales tax is imposed on the purchase price of tangible personal property and is intended to include the total consideration paid for the property.

Effective March 31, 1998, the definition of purchase price is clarified to ensure that consideration in the form of royalty payments and licence fees is included.

EXEMPTION FOR FERTILIZER ELIMINATED WHEN PURCHASED BY OTHER THAN AN INDIVIDUAL FOR NON-AGRICULTURAL PURPOSES

An unconditional exemption from provincial sales tax is provided for purchases of fertilizer to facilitate agricultural production. However, the unconditional nature of the exemption allows fertilizer to be purchased tax exempt even when it is used for non-agricultural purposes.

Effective March 31, 1998, the exemption for purchases of fertilizer is eliminated when purchased by other than an individual for a non-agricultural purpose. Mines remain eligible for the exemption if purchased and used for an eligible purpose under the act.

TRANSITIONAL REFUND PROVISION CLARIFIED TO EXCLUDE CONTRACTS OF INDEFINITE DURATION OR QUANTITY

A transitional provision was provided in the 1993 provincial Budget when the provincial sales tax rate was increased from 6 per cent to 7 per cent to provide a 1 per cent refund of tax paid by purchasers on goods purchased before the rate change, but on which the higher rate of tax was paid, because the goods were delivered and paid for after that date.

Effective March 31, 1993, the refund provision is amended to clarify that relief is only available to purchasers who were obligated to acquire specific quantities of tangible personal property within a specific time frame. This amendment ensures that purchases under contracts of indefinite duration or quantity will not benefit from the 6 per cent rate in perpetuity.

PROPERTY TRANSFER TAX ACT

MAXIMUM PAY DOWN PROVISION FOR THE FIRST TIME HOME BUYER EXEMPTION PROGRAM RELAXED

The First Time Home Buyer Exemption Program requires applicants to have financing registered against the property for at least 70 per cent of the value of the property. This is to ensure that the exemption is targeted to those most in need. Purchasers are allowed to reduce the amount of registered financing during the first year after transfer by a maximum of $11,000 in the Greater Vancouver Regional District, the Central Fraser Valley Regional District or the Capital Regional District and $9,000 in all other areas of the province. Purchasers who reduce their registered financing by more than the maximum amount in the first year forfeit their right to the exemption and are required to pay the tax.

Because the maximum pay down amount is a fixed amount, purchasers with very high-ratio mortgages (e.g., 95 per cent financing) may pay down the maximum amount and still have financing far in excess of the 70 per cent required to qualify for exemption.

For transfers registered on or after March 31, 1997, the maximum pay down amount is relaxed to allow first time buyers to reduce their registered financing during the first year after purchase by the greater of:

- $11,000 or $9,000 depending on where they reside in the province; and
- the amount required to reduce the registered financing to no less than 70 per cent of the fair market value of the property as determined on the date the property was purchased.

EXEMPTION FOR TRANSFERS OF RECREATIONAL PROPERTIES BETWEEN RELATED INDIVIDUALS CLARIFIED AND MAXIMUM ALLOWABLE FAIR MARKET VALUE INCREASED

An exemption from property transfer tax is provided for transfers of eligible recreational properties between related individuals where the fair market value of the property is less than $200,000.

Effective March 31, 1998, the maximum allowable fair market value for eligible recreational properties is increased to $275,000 and the maximum allowable value is clarified to apply to the value of the entire property rather than to an interest in the property.

EXEMPTION FOR TRANSFERS TO AND FROM TRUSTEES CLARIFIED

An exemption is provided for transfers of property between a settlor of a trust and the Public Trustee, or a trust company authorized to carry on trust business under the *Financial Institutions Act,* if the settlor is a natural person, the administration of the trust is for the sole benefit of the settlor, and on termination of the trust the land reverts to the settlor or the executor of the settlor's estate. The intent of this exemption is to allow for the tax-free transfer of a person's land to a trustee and then back to the person or the person's estate. However, as drafted, the exemption could be used to purchase property from a third party without payment of tax.

Effective March 31, 1998, the exemption is clarified to require that the settlor must be the registered owner of the property immediately before the transfer to qualify for the exemption. This will ensure that the exemption cannot be used to purchase property tax-free from third parties.

DEFINITION OF SETTLOR INTRODUCED

The term settlor, as used in a number of different exemptions under the *Property Transfer Tax Act* in relation to property being transferred to or from a trust, is not defined in the act and is subject to various interpretations.

Effective March 31, 1998, settlor is defined to mean the person who contributed the property, or the assets used to acquire the property, to the trust.

EXEMPTION FOR TRANSFERS OF ELIGIBLE PROPERTY BETWEEN RELATED INDIVIDUALS CLARIFIED

Exemptions are provided for transfers of family farms, recreational residences and principal residences between related individuals, as defined under the act. The intent of the exemptions is to provide for the tax-free transfer of eligible properties between related individuals. Exemptions are also provided with respect to the transfer of these types of properties from a trustee. Although not intended, it is possible to use the exemptions involving trustees in combination with the exemptions not involving trustees to transfer property tax-free to related individuals of the trustee.

Effective March 31, 1998, the *Property Transfer Tax Act* is amended to prevent these exemptions from being used in combination to obtain an exemption not intended under the act.

INCOME TAX ACT

GENERAL ANTI-AVOIDANCE RULE INTRODUCED

Effective March 31, 1998, a general anti-avoidance rule is introduced to give Revenue Canada the authority to challenge abusive tax avoidance arrangements and deny any tax benefit that may result. This measure is consistent with the federal general anti-avoidance rule and similar to the rules in most other provinces.

INSURANCE PREMIUM TAX ACT

Effective April 1, 1998, the tax return due date is changed from March 15 to March 31.

CONSUMPTION TAX STATUTES

INTEREST PAYMENTS EXCLUDED FROM PURCHASE PRICE WHEN CALCULATING BAD-DEBT REFUNDS

Provincial consumption taxes are payable by purchasers at the time a purchase is made and sellers are responsible for remitting the tax collected to the province. When sellers make sales on credit they are required to remit the tax due with their next tax return even if the customer has not yet paid for the item. If an account is subsequently written off as a bad debt, sellers may submit a refund claim for tax remitted on the portion of the account which has been written off.

In some cases, sellers apply customer payments to outstanding interest charges before applying them to the sale or lease price. Because payments are first applied against the interest charge, all or a substantial portion of the sale or lease price may remain unpaid even though the purchaser has made payments towards the purchase or lease of the item. This results in the province retaining little, if any, of the tax due on the transaction.

Effective March 31, 1998, interest payments may not be used to reduce the amount paid towards the sale or lease price for purposes of calculating a bad-debt refund under the *Social Service Tax Act, Motor Fuel Tax Act, Hotel Room Tax Act* and *Tobacco Tax Act.*

AUDIT AND ENFORCEMENT

Audit and enforcement programs encourage voluntary compliance with provincial taxation statutes and reduce competitive inequities which can result when businesses or individuals fail to comply.

The government will hire an additional 68 auditors and support staff to help ensure that all businesses pay their fair share of taxes.

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Report E: TAX EXPENDITURES

Introduction

A tax expenditure is defined as the reduction in tax revenues that results when government programs or benefits are provided through the tax system rather than reported as budgetary expenditures. Tax expenditures are usually made by offering special tax rates, exemptions, or tax credits to program beneficiaries. Governments introduce tax expenditures primarily to achieve social policy objectives such as transfers to lower income families or to promote economic development and job creation.

The major reason for reporting tax expenditures is to improve government accountability by providing a more complete picture of government spending. It is for this reason that British Columbia's major tax expenditures are presented in the following tables. Reporting tax expenditures is also consistent with recommendations contained in the 1994/95 Report of the Auditor General.

Tax expenditure reporting is relatively common. The Canadian federal government, the U.S. federal government, some states, several European national governments, and, on occasion, some Canadian provinces issue reports on tax expenditures. This is the fourth year in a row that the British Columbia government has reported tax expenditures.

The Role of Tax Expenditure Programs

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

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

Tax Expenditure Reporting

Three criteria were used to choose those features of the tax system that should be reported as tax expenditures. First, the emphasis is on tax reductions, exemptions and refunds that are close equivalents to spending programs. Under this approach, the focus is on items that would not be out of place on a list of spending programs. By implication, the list does not include tax measures designed to meet broad tax policy objectives such as improving fairness in the tax system, or measures designed to simplify the administration of the tax. The list also does not include items that are generally excluded from a particular tax base. An example is the non-taxation of most services under provincial sales taxes, which are primarily designed to apply to purchases of goods. Finally, tax remission orders are not included, because they are not equivalent to an expenditure program, but are granted on a case-by-case basis.

Second, revenues raised under provincial government authority that are turned over to agencies outside of government are not reported as tax expenditures in this report. This includes, for example, horse racing tax revenues transferred to the Racing Commission and fuel tax revenues transferred to the BC Transportation Financing Authority.

Third, smaller items of less than $2 million are not included. Where practical, smaller items have been presented together as an aggregate figure. For example, sales tax exemptions for farmers, fishers and aquaculturists are reported on a combined basis.

As a result, in this report, tax expenditures include major government programs delivered through the tax system, but do not include all items commonly considered to be tax expenditures in other reports. Many items, such as the basic personal income tax credit, are excluded because they are designed primarily to improve fairness in the tax system and are not comparable to spending under budgetary programs.

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

British Columbia Tax Expenditure Programs

The following tables report 1997/98 tax expenditure estimates. No major new tax expenditures were introduced in the 1997 Provincial Budget.

For presentation purposes, British Columbia tax expenditures have been broken into three broad categories.

- *Social and Income Transfer Programs (Table E1):* These mainly include tax expenditures that are offered as part of the government's mix of health, education, housing and income transfer programs. Examples include the BC Family Bonus, the home owner grant, the sales tax exemption for school supplies and the income tax credit for medical expenses.
- *Economic Development and Business Assistance Programs (Table E2):* This category mainly includes tax preferences for farmers and small businesses, and measures to encourage new investments.
- *Environmental Protection Programs (Table E3):* There are relatively few tax expenditures in this category because environmental protection is now generally based on the principle of "polluter pay." However, environmental tax expenditures include, for example, a sales tax exemption for bicycles and a fuel tax exemption for certain alternative fuels.

Each category has its own table of tax expenditure estimates. Within each table, the list of tax expenditures delivered through the income tax system has been separated into two sub-categories.

- *Provincial Measures:* This includes all major tax expenditures that are under provincial policy control.
- *Federal Measures:* British Columbia shares the cost of some federal income tax expenditure programs because, under the tax collection agreement between British Columbia and the federal government, the province has agreed to give up policy control of the income tax base in the interest of reducing administration and compliance costs, and maintaining a consistent income tax system across the country.

  This means the province has no direct control over income tax preferences delivered through changes to the income tax base or in the calculation of basic federal tax. As a result, federal measures to provide tax relief for very low income individuals, students, and other measures announced in the 1998 federal budget, will automatically reduce provincial income tax revenues and increase provincial tax expenditures in current and future years.

The personal income tax expenditures that have been included in the following tables cover a range of policy objectives, including support for charitable activities, health care and education. Meanwhile, most corporation income tax expenditures are intended to achieve economic development objectives.

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

TABLE E1 — SOCIAL AND INCOME TRANSFER PROGRAMS TAX EXPENDITURE		1997/98 Estimated Cost
		($ millions)
PROVINCIAL SALES TAX		
Exemptions for the following items:		
• Food (basic groceries, snack foods, candies, soft drinks and restaurant meals)		627
• Residential fuels (electricity, natural gas, fuel oil, etc.)		110
• Prescription and non-prescription drugs, vitamins and certain other health care products and appliances		58
• Children's clothing and footwear		26
• Clothing patterns, fabrics and notions		7
• Specified school supplies		11
• Books, magazines and newspapers		52
• Basic telephone and cable service		50
• Exempt safety equipment		8
• Labour to repair major household appliances, clothing and footwear		6
• Miscellaneous consumer exemptions (e.g. used clothing under $100)		3
PERSONAL INCOME TAX		
Provincial Measures		
BC Family Bonus[1]		120
Sales tax credit		43
Political contributions tax credit		2
Federal Measures[2]		
Deduction and inclusion of alimony and child support payments		19
Charitable donations tax credit		92
Tax credits for tuition and education		48
Tax credits for disabilities and medical expenses		48
Pension income tax credit		28
Credit for persons older than 65 years		101
Exemption from capital gains up to $500,000 for small businesses and family farms		77
Deduction for residents of northern and isolated areas		15
Non-taxation of employer-paid insurance premiums for group private health and welfare plans		114
Registered Retirement Savings Plans[3]:		
exemption for — contributions	505	
— investment earnings	400	
taxation of — withdrawals	(162)	
Total		743
Registered Pension Plans[3]:		
exemption for — contributions	449	
— investment earnings	893	
taxation of — withdrawals	(434)	
Total		908

TABLE E1 — SOCIAL AND INCOME TRANSFER PROGRAMS — *Continued*

TAX EXPENDITURE	1997/98 Estimated Cost
	($ millions)
CORPORATION INCOME TAX[4]	
Charitable donations deduction	8
SCHOOL AND RURAL AREA PROPERTY TAXATION[5]	
Home owner grant	456
Exemption for places of worship	8
Municipal discretionary exemptions	15
PROPERTY TRANSFER TAX	
Exemption for first-time home buyers	32
Exemptions for the following items:	
• Property transfers between related individuals	34
• Property transfers to municipalities, regional districts, hospital districts, library boards, school boards, water districts and educational institutions	14
• Property transfers to charities registered under the *Income Tax Act* (Canada)	3

[1] The above estimate of $120 million represents the tax expenditure portion of the program's cost. The tax-expenditure portion represents family bonus payments that effectively reduce the recipient's personal income tax. The remaining cost of the program, including recoveries and administration costs, $274 million for 1997/98, is presented in the BC Benefits Vote because it represents payments to families which exceed their provincial income tax liabilities.

[2] The estimates show provincial revenue losses only. They are based on estimates of projected federal losses contained in *Government of Canada: Tax Expenditures, 1997.* British Columbia personal income tax expenditures for the federal measures are estimated by applying British Columbia's share of basic federal tax to the federal estimates for the relevant period and then applying the relevant provincial tax rates. (Previous federal tax expenditure reports did not include projections; previous estimates of provincial revenue losses were based on historical federal estimates.) Certain tax expenditure items have been excluded where no data were available or the amounts were immaterial.

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

[4] The deduction offered for corporate charitable donations is a federal measure, but the estimate shows only the provincial revenue loss. The provincial revenue loss estimate is based on the estimate of the federal loss contained in *Government of Canada: Tax Expenditures, 1997.* The federal estimate is based on 1997 estimated incomes. The provincial loss is estimated by applying British Columbia's share of corporate taxable income to the federal estimate, and then applying the relevant tax rates. (Prior year's federal tax expenditure reports did not include projections; previous estimates of provincial revenue losses were based on historical federal estimates.)

[5] The property tax estimates, except for the home owner grant amount, are for the 1997 calendar year, and include only school and rural area property taxes levied by the province.

TABLE E2 — ECONOMIC DEVELOPMENT AND BUSINESS ASSISTANCE PROGRAMS

TAX EXPENDITURE	1997/98 Estimated Cost
	($ millions)
PROVINCIAL SALES TAX	
Commissions paid to retailers and hotel operators	24
Exemptions for the following items:	
• Livestock for human consumption and agricultural feed, seed and fertilizer	35
• Exempt purchases by farmers, fishers and aquaculturists	20
• Magnetite for processing coal, eligible exploration equipment and drill bits for mineral exploration and production	2
FUEL TAX	
Tax exemption for international flights carrying cargo	10
Lower rate for family farm trucks (on road)	3
PERSONAL INCOME TAX	
Venture capital tax credit	6
Employee venture capital tax credit	6
CORPORATION INCOME TAX	
Provincial Measures	
International financial business tax refund[1]	4
Two-year corporate income tax holiday for small business	1
Federal Measures[2]	
Earned depletion	3
Allowable business investment loss	4
CORPORATION CAPITAL TAX	
Exemption for family farm and cooperative corporations	3
Two-year tax holiday for eligible British Columbia investment expenditures	21
SCHOOL AND RURAL AREA PROPERTY TAXATION[3]	
School tax assessment reduction on current values for farm buildings and farm land, and residences in the agricultural land reserve	16
Assessment of farm land at farm use values[4]	84
Assessment exemption of $10,000 for industrial and business properties	6
Overnight tourist accommodation assessment relief	3
Managed forest land classification	8
OTHER TAXES	
Oil and gas royalty holiday	6

[1] Includes employee income tax refunds.

[2] The provincial revenue loss estimates for federal measures are based on estimates of the federal losses contained in *Government of Canada: Tax Expenditures, 1997*. The federal estimates are based on 1997 estimated incomes. British Columbia corporate income tax expenditures are estimated by applying British Columbia's share of corporate taxable income to the federal estimates, and then applying the relevant tax rates. Certain tax expenditure items have been excluded where no data were available. (Prior year's federal tax expenditure reports did not include projections; previous estimates of provincial revenue losses were based on historical federal estimates.)

[3] Estimates are for the 1997 calendar year and include only school and rural area property taxes levied by the province.

[4] Currently, the values of farm land and residential land in the Agricultural Land Reserve are reduced by 50 per cent for school tax purposes. The $84 million estimate assumes the 50 per cent reduction to value would not be applied to farm land assessed at market value. If, on the other hand, this reduction were applied, the tax expenditure of not assessing farm land at market value would be only $43 million.

TABLE E3 — ENVIRONMENTAL PROTECTION PROGRAMS TAX EXPENDITURE

TAX EXPENDITURE	1997/98 Estimated Cost
	($ millions)
PROVINCIAL SALES TAX	
Exemptions for the following items:	
• Bicycles	4
• Specified energy conservation equipment	10
FUEL TAX	
Tax exemption for alternate fuels	17
SCHOOL AND RURAL AREA PROPERTY TAXATION[1]	
Exemption for property used for pollution abatement[2]	8

[1] Estimates are for the 1997 calendar year and include only school and rural area property taxes levied by the province.
[2] The property tax exemption for most land and improvements used in pollution abatement equipment was removed for 1997, but existing properties which were exempt in 1996 remain exempt under grandparenting provisions.

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Report F: ***FEDERAL SPENDING POWER, FISCAL IMBALANCE AND RISKS TO HEALTH CARE AND EDUCATION***

Overview

The federal government's practice of delivering funding or programs in areas of provincial jurisdiction stems from its "spending power". This is the product of a vertical fiscal imbalance in Canada — the outcome of federal government decisions over several decades to collect for itself more revenues than needed to fund programs for which the federal government has constitutional responsibility. This excess has traditionally been returned to the provinces in the form of transfers.

This fiscal imbalance has given the federal government two budgetary advantages: access to Canada's highest-yield revenue sources and the ability to cut transfers to provinces as a first resort in times of fiscal difficulty. The federal government has made full use of these advantages over the past several years and they have made possible the achievement of a balanced federal budget. However, there has been a disturbing consequence: the vitality of the provincially-delivered programs Canadians value most — health care and education — is seriously at risk.

The Federal Spending Power

Spending power is not specifically mentioned in the Constitution of Canada but there is little doubt that it exists in law. Through its spending power, the federal government can make gifts or transfers to any recipient, including another government. As well, the federal government may attach conditions to the transfer.

Federal use of the spending power has, over the years, become a method of effecting significant changes in confederation — particularly in establishing Canada-wide programs. Many of these have been in fulfilment of national policy goals and were instituted with broad public support. However, exercise of the spending power has also caused significant problems between the federal government and the provinces.

1. The Problem of Overlap and Distorted Priorities

The spending power has come to rival constitutionally-allocated jurisdiction as a tool of governmental power, enabling the federal government to "compete" in provincial areas of jurisdiction. This intrusion has a tendency to cause program overlaps and complexities that can interfere with efficient program delivery.

Federal spending in areas of provincial jurisdiction can also distort provincial priorities through the attachment of program conditions to provincial transfers that provinces must meet in order to maintain federal funding.

2. The Accountability Problem

With more than one level of government providing funding and/or programming in major policy areas, it becomes difficult for the public to know which government to hold accountable when program performance is inadequate. Because provincial governments have primary responsibility in major social areas — such as health care and education — and are closer to hand, they are often blamed for program results caused by federal funding changes.

3. The Problem of Financial Insecurity for Provinces

Over the past several years, the insecurity of federal transfers has become, for the provinces, the most prominent consequence of the federal use of its spending power. Provincial governments are very vulnerable to reductions in intergovernmental transfers. The federal government can, at its sole discretion, reduce or eliminate any federal spending power program. Further, as judicial decisions have reinforced, this power to terminate spending arrangements cannot be fettered by contracts or federal-provincial agreements.

The essential question that governments in Canada are currently endeavouring to address is the extent to which it remains appropriate for the federal government to use spending as a mechanism for controlling programs — such as health care and education — in areas of provincial constitutional jurisdiction[1].

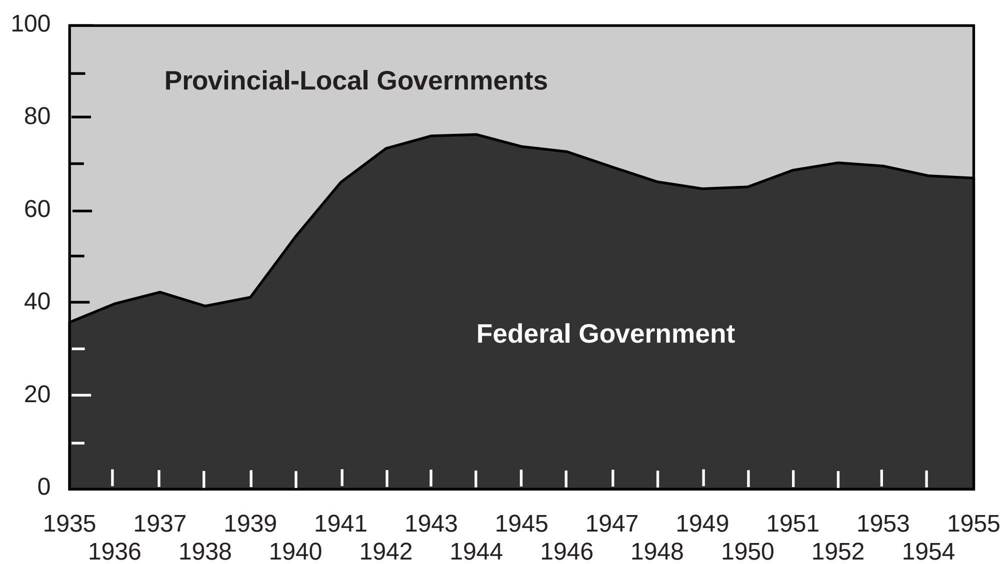
The Foundation of the Spending Power: Federal Control of More Revenue Sources than Needed for Federal Programs

What has given the spending power its meaning is the financial capability to exercise it. For this reason, the history of the spending power is intimately connected to the history of taxation and the division of tax room. The order of government that has a meaningful spending power is the order of government which sets out to raise revenues higher than necessary to fulfil its own jurisdictional responsibilities.

CHART F1

THE WORLD WAR II CHANGE IN REVENUE SHARING

Per cent of total revenue



Source: National Income and Expenditure Accounts.

[1] This is one of the main agenda items in the current attempt by the provinces to negotiate a framework agreement with the federal government on planning and managing the social union in Canada.

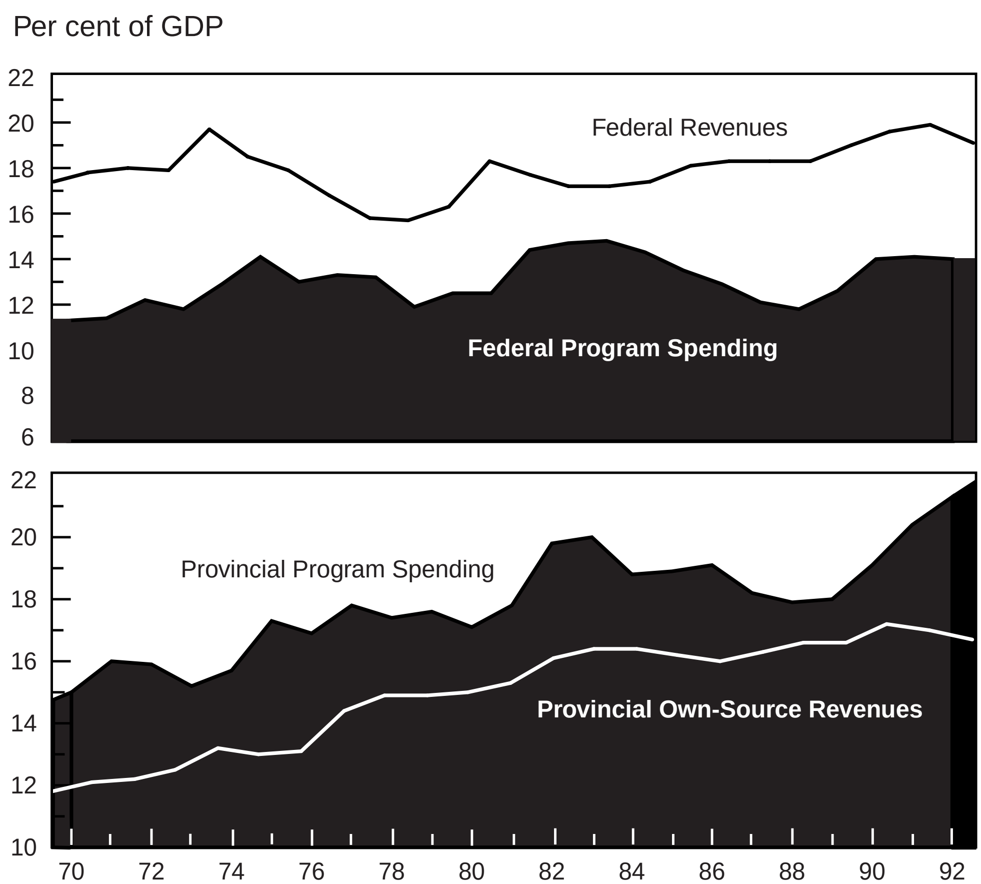
The federal government's dominance of the spending power in Canada can be traced back to World War II when, as shown in Chart F1, the federal government dramatically increased its tax effort to meet the wartime emergency. In support of the war effort, the provinces ceded to the federal government all of their revenues from two major tax sources: personal and corporate income tax.

After the war, the federal government did not allow its tax collection efforts to fall back to pre-war levels. Its post-war vision was that it would keep its tax revenues high, use cash transfer payments to support the provinces, and become a major presence in both social policy, and provincial government finances. This vision was not supported by the provinces at the *Dominion-Provincial Conferences on Reconstruction* of 1945 to 1946. It was nonetheless gradually implemented over the post-war decades. The federal government continued to occupy most of the available tax room and maintain a position of fiscal dominance. It used the spending power this generated to develop national social programs, and to entice reluctant provinces into a series of tax rental agreements and subsequent transfer payment arrangements.

CHART F2

THE FEDERAL-PROVINCIAL FISCAL IMBALANCE

"Own-Source" Revenues Compared with Own Programming



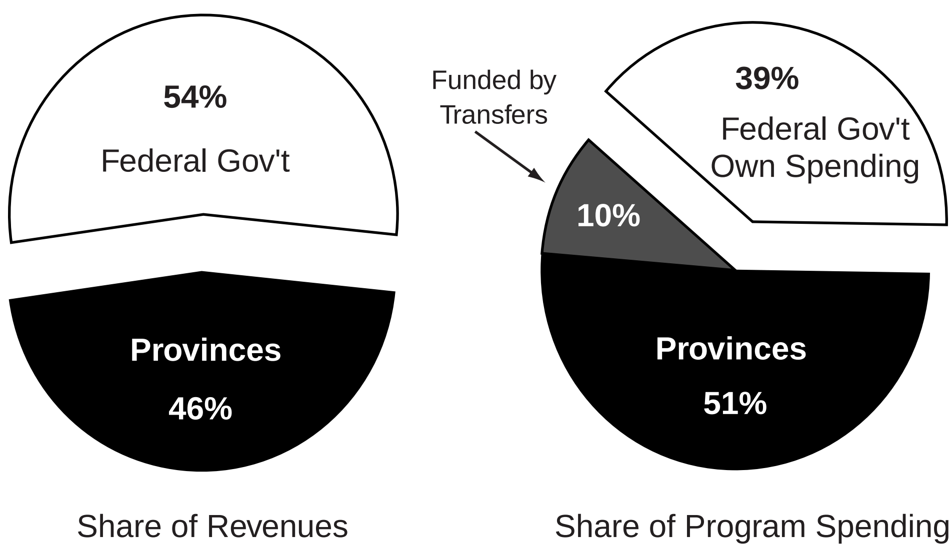
Note: Intergovernmental transfers excluded.
Source: National Income and Expenditure Accounts and Public Accounts.

Spending Power and Vertical Fiscal Imbalance

Federal revenue dominance created a federal-provincial fiscal imbalance in Canada. This is often called a *vertical* fiscal imbalance and denotes a situation in which the federal government's access to revenues exceeds its spending responsibilities. Conversely, provincial own-source revenues are not sufficient to meet provincial spending responsibilities. Chart F2 illustrates a recent history of the federal-provincial fiscal imbalance in Canada[2].

Chart F3 shows this imbalance in 1997/98.

CHART F3
THE FISCAL IMBALANCE BETWEEN REVENUES
AND PROGRAM SPENDING — 1997/98



Source: Federal and Provincial/Territorial Budgets.

The existence of a vertical fiscal imbalance is not necessarily detrimental to a federation. Indeed, until about fifteen years ago, the shortfall in provincial ''own-source'' revenue raising capacity was adequately offset by federal transfers.

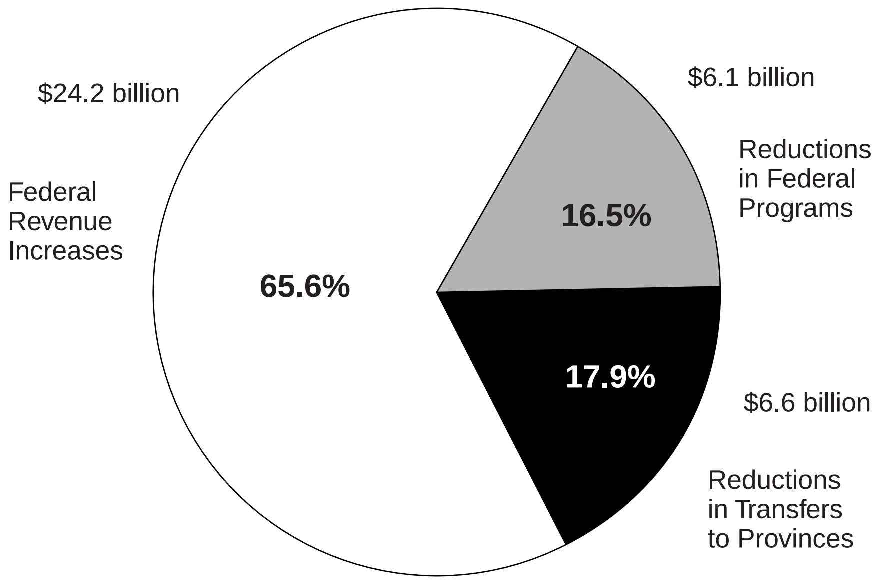
The Recent Effect of Fiscal Imbalance

What has made vertical fiscal imbalance a rising Canadian issue is the manner in which the federal government has attacked its fiscal problems over the past fifteen years, and particularly

[2] Historical revenue and spending data cannot provide an exact measure of the underlying fiscal imbalance since they already incorporate governments' responses to the imbalance itself. Hence, the data series in Chart F2 is terminated in 1992 because in the years since then many provinces have made significant reductions in social program spending in response to major cuts in federal transfers.

since 1990. The federal government has admitted that the provinces were not implicated in the creation of federal fiscal problems. However, the fiscal imbalance has created a situation in which the provinces have been made major, involuntary contributors to the federal government's balanced budget.

CHART F4
FEDERAL GOVERNMENT — COMPONENTS OF DEFICIT ELIMINATION
1994/95 to 1997/98



Source: 1998 Federal Budget.

Chart F4 shows — in order of magnitude — the three main factors contributing to the achievement of a federal budget balance over the three year period from 1994/95 to 1997/98:

1. revenue growth;
2. cuts in transfers to provinces; and
3. federal restraint applied to its own programs.

The current vertical fiscal imbalance has greatly helped the federal government by making possible, or facilitating, the two main components of its balanced budget efforts:

1. Federal Revenue Growth

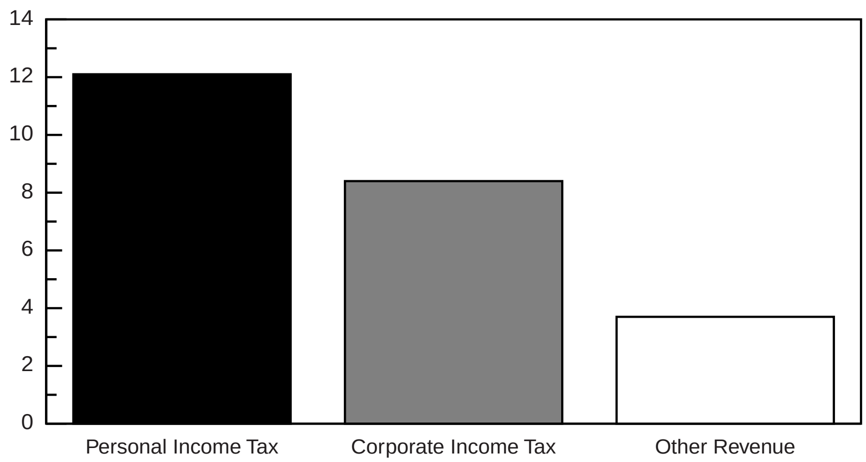
About two-thirds of the deficit reduction since 1994/95 is attributable to federal revenue growth. As Chart F5 shows, this primarily reflects personal income taxation growth, and the recovered vitality of corporate income tax, following the recession of the early 1990s.

CHART F5

CHANGE IN FEDERAL REVENUES

1994/95 to 1997/98

$ billions



Source: 1998 Federal Budget.

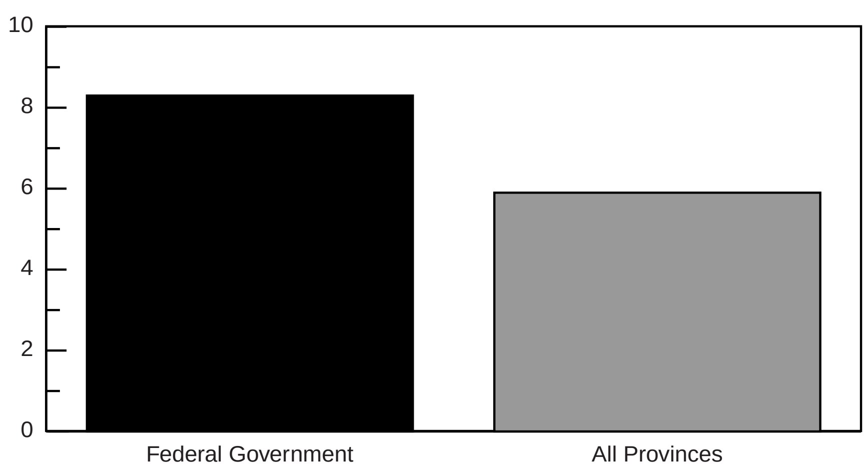
In other words, the income tax dominance gained by the federal government is conferring special fiscal benefits. Chart F6 illustrates the effect of the dominant federal share of personal and corporation income tax revenues on the federal total mix of revenues. In contrast, the revenue mix of provinces means that fiscally, these governments are significantly less buoyant.

CHART F6

THE HIGHER YIELDING FEDERAL REVENUE MIX

Average Annual Growth in Revenues — 1993/94 to 1996/97

Per cent



Source: Federal Provincial Revised Budget Estimates.

2. Cuts in Transfers

The most visible effect of the vertical fiscal imbalance is that it created a situation whereby the federal government could compel provinces to bear a significant proportion of federal deficit reduction efforts on the spending side. This was accomplished through the simple expedient of making steep reductions in federal transfers to provinces.

For provinces and territories, the federal government's introduction of the Canada Health and Social Transfer (CHST)[3], was accompanied by reductions in major social transfers of 33 per cent or $6.2 billion between 1994/95 and 1997/98[4]. The reduction for British Columbia was $670 million, and followed several years of discriminatory Canada Assistance Plan (CAP) transfers in which British Columbia was prevented from receiving its fair share[5].

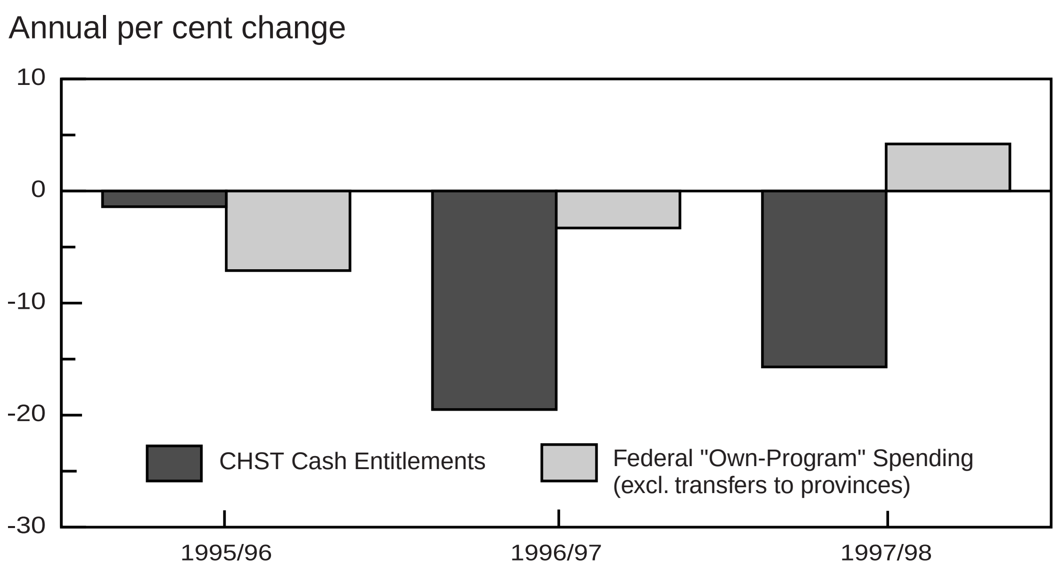
Further, by the time the CHST was introduced all provinces had endured over a decade of growing restrictions on transfers (in addition to the discriminatory CAP restrictions).

All in all, major social transfers from the federal government have declined from 2.9 per cent of GDP in 1985/86 to only 1.4 per cent of GDP in 1998/99.

CHART F7

FEDERAL SPENDING CUTS HAVE FOCUSED ON TRANSFERS

Cuts in CHST Compared to Federal "Own-Program" Spending



Source: CHST entitlements based on Finance Canada Official Estimates, February 1998.

[3] The CHST combined the previous Established Programs Financing (EPF) arrangement for health care and post-secondary education, and the Canada Assistance Plan for social assistance.

[4] This amount differs from the size of the reduction noted in Chart F4 because the latter includes equalization, territorial financing and other transfers, and was calculated on a public accounts, not entitlements, basis.

[5] Ontario and Alberta were similarly discriminated against.

Chart F7 compares the large reductions in the CHST with changes to federal "own-program" spending (i.e. federal program spending excluding all transfers to provinces) since 1994/95.

This emphasizes the disproportionate role of transfer cuts in federal deficit reduction. Between 1994/95 and 1997/98, the CHST was reduced by 33 per cent, while federal "own-program" spending fell by only 6 per cent. In other words, cuts to the CHST have been proportionately almost six times deeper than cuts to other federal programs.

Conclusion — Fiscal Imbalance and National Priorities

Current trends are exacerbating the inconsistency between access to revenues and program responsibilities of the federal and provincial orders of government.

The federal government is the main beneficiary of these trends by:

- retaining the fastest-growing revenue sources;
- having programs with generally lower cost pressures; and
- increasing eligibility requirements or reducing benefit levels for those programs where cost pressures remain a problem, while being able to rely on provinces — as providers of "last resort" social programming — to fill in any gaps created (the additional provincial social assistance needed to offset weaker Employment Insurance protection is a prominent example).

In contrast, the provinces have to deal with a quadruple disadvantage:

- having to operate with lower-yield revenue sources than the federal government;
- having to cope with significant cuts in federal transfers;
- having to bear most of the cost of social stabilizers — income supports which provide transfers to people to help them weather economic downturns; and
- having to shoulder most of the major rising spending challenges. Cost pressures fall disproportionately on provincial areas of responsibility — pressures that will, moreover, intensify with time — making it difficult to maintain program quality, particularly in health care.

Failure to address the fiscal imbalance is having a very serious consequence: key national priorities are being overlooked or distorted. As federal budgetary surpluses produce a "fiscal dividend", the following unfortunate results are becoming especially conspicuous:

- continued pressure to shrink core health care, education and other priority programming delivered by the provinces; and
- renewed federal use of its spending power to introduce new "boutique" programs — programs which involve the expenditure of modest amounts of money in various areas of provincial jurisdiction, motivated mainly by a desire to increase federal visibility.

Until fifteen years ago, a federal-provincial fiscal imbalance was generally accepted in that the imbalance essentially consisted of transfers to provinces, transfers which maintained an adequate federal contribution to major social programs. This system has now failed. In future, addressing this imbalance will have to involve a fundamental redesign of federal-provincial fiscal arrangements, including the division of revenues. This would go a long way toward resolving problems associated with the federal spending power. The remaining issues could be addressed by much more precise rules governing the application of this spending power.

At stake is whether the provinces collectively will be able to maintain programming in keeping with the very high priority given by Canadians to health care and education.

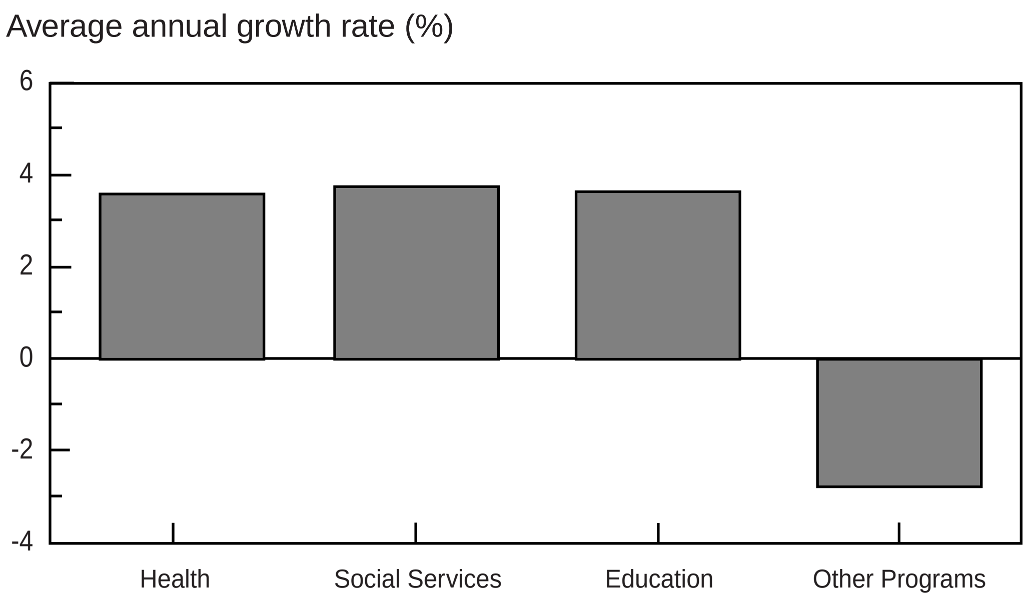
Health care expenditures account for approximately one-third of total provincial spending, and education expenditures represent over one-quarter of the total.

The provincial government is committed to protecting the province's health, education and social service programs while meeting its fiscal objectives. Despite reduced federal transfer payments, and freezes on taxes, medical service premiums and tuition fees, the deficit has declined from a peak of $2.5 billion in 1991/92 to a budgeted $95 million in 1998/99. During this same period, funding for education, health care and social services has increased.

Balancing fiscal objectives with health and education priorities has required the government to make some difficult choices. Whenever possible, government has sought to improve efficiency and reduce administration. However, expenditures for other desirable programs have been reduced or eliminated to protect essential services (see Chart G1).

CHART G1

FUNDING GROWTH IN PRIORITY AREAS VERSUS OTHER PROGRAMS
1992/93 – 1998/99

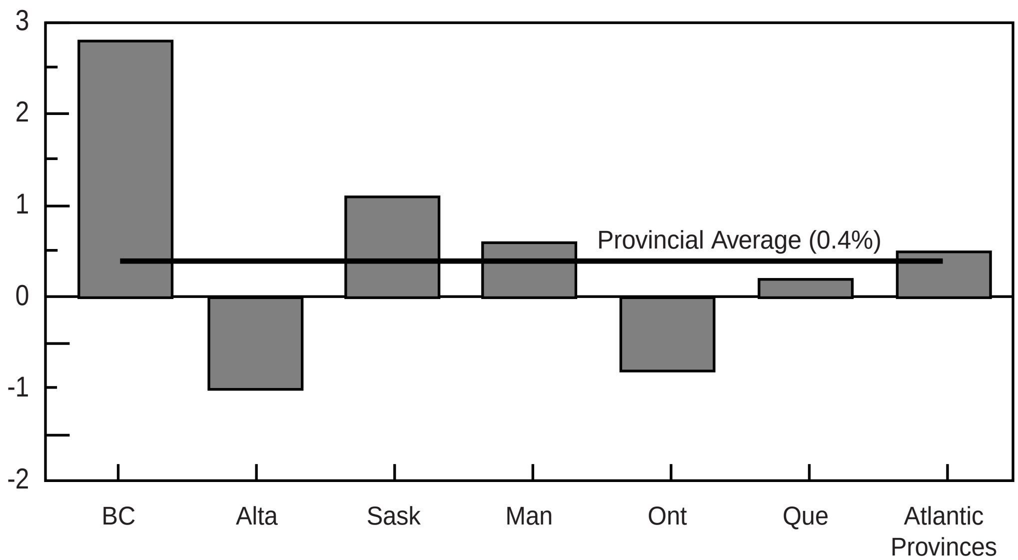


Source: Ministry of Finance and Corporate Relations.

Investing in K-12 Education

Increased funding for education programs supports one of government's top priorities — investing in youth. A highly skilled and educated workforce is critical to competing in a global economy. During the period 1992/93 to 1996/97, British Columbia had the highest average annual rate of spending growth per student in the kindergarten to grade 12 (K-12) system of any province in Canada. The rate of spending growth in this sector was several times the average for all provinces (see Chart G2).

CHART G2
K-12 SPENDING GROWTH (PER STUDENT)
By Province, 1992/93 to 1996/97
Average annual growth rates (%)



Source: Interprovincial Education Statistics Report, Ministry of Education. Data include capital and operating expenditures.
Note: Full year data for New Brunswick were not available for 1996/97. Estimates were based on year-to-date data.

In fiscal 1998/99, an additional $102 million has been committed. The funds will allow for an additional 400 classroom teachers and 300 librarians, counsellors and teacher aides. This increase will also enable school districts to meet enrolment pressures, provide sufficient funding for special education, English as a Second Language, and aboriginal education needs in the coming year.

While factors other than per student expenditures affect the quality of education, British Columbia students consistently rank among the top achievers in national and international assessments in mathematics and the sciences. Government's focus in 1998/99 and beyond is to ensure all students attain basic literacy and numeracy skills during the primary years (K-3), to reduce class size and to enhance the progression into the work force and/or post-secondary education.

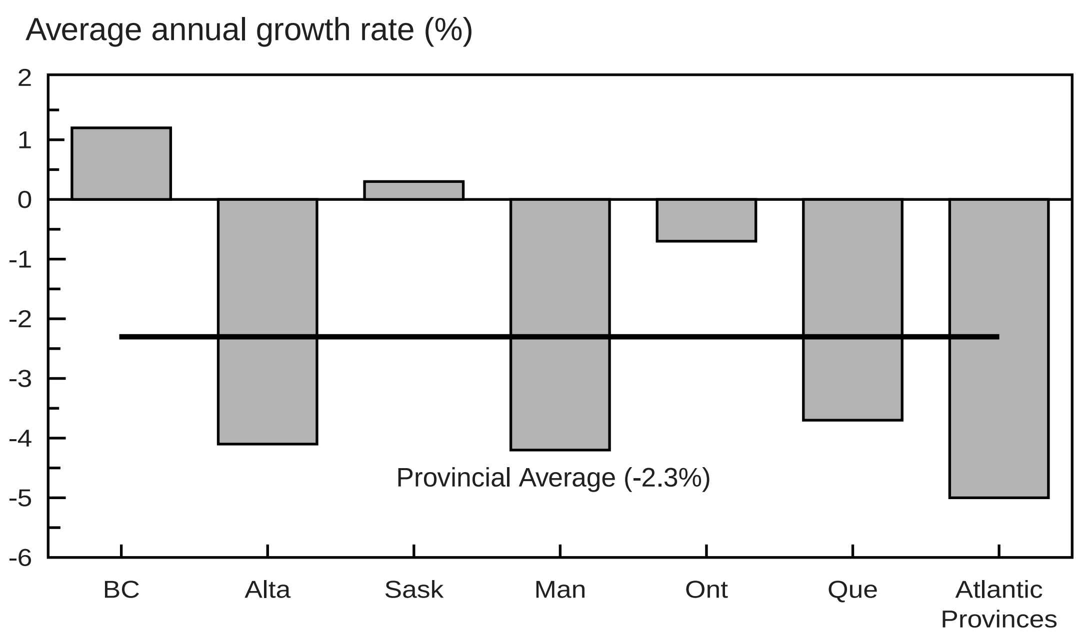
Investing in Post-secondary Education

In the post-secondary education sector, British Columbia is one of the few provinces to preserve and increase spending. Between 1992/93 and 1997/98, total expenditures increased by $200 million, to $1.2 billion[1]. On a total per capita basis, this equates to an average annual *increase* of 1 per cent compared to a 2.3 per cent annual average *reduction* across Canada (see Chart G3). The increase enabled the province to expand access to, and protect the affordability of, post-secondary education. At the same time, efficiency savings were made through the use of educational technologies (e.g. the Electronic Library Network) and other measures.

CHART G3

POST-SECONDARY SPENDING GROWTH (PER CAPITA)

By Province, 1992/93 to 1997/98

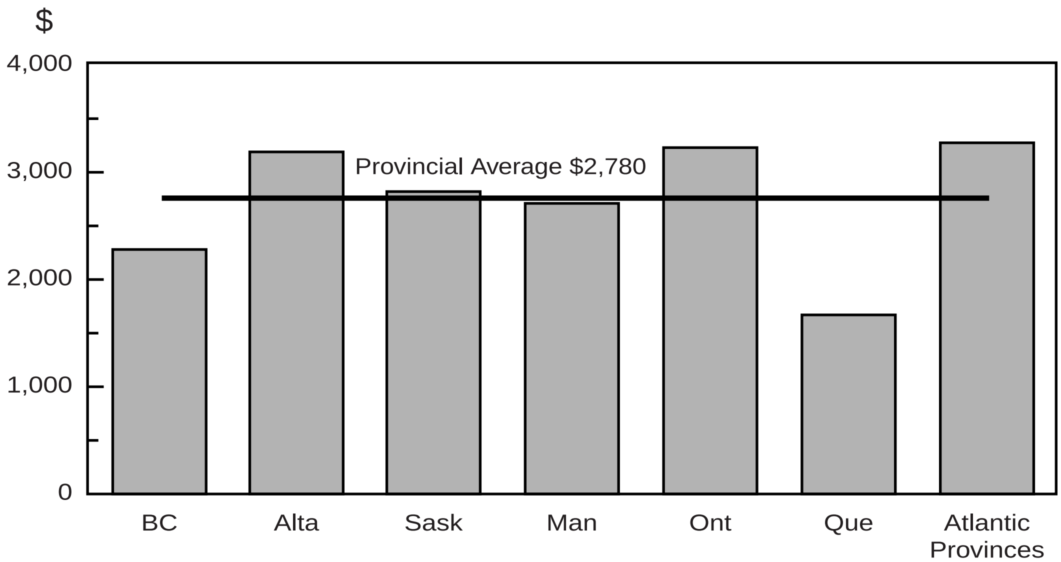


A tuition freeze was introduced in 1996/97 and has been extended through 1998/99 to protect the affordability of education. British Columbia tuition fees are about 20 per cent lower than the average of other provinces (see Chart G4). After adjusting for inflation, tuition fees have actually fallen over the past three years.

[1] Expenditure information in this section is from the office of the federal Secretary of State. Data includes operating grants, matching grants, student financial assistance and debt servicing. 1996/97 and 1997/98 estimates are based on provincial sources, therefore data may not be fully comparable.

CHART G4

UNIVERSITY UNDERGRADUATE TUITION FEES
1996/97



Source: Ontario Ministry of Education Telephone Survey, Statistics Canada, and the Ministry of Advanced Education, Training and Technology. Quebec fees are $1,670 for provincial residents but $2,900 for out-of-province students. Note: The Council on Post-Secondary Education estimate that education tax credits provide significant tax relief in all provinces. The reduction is estimated to be 45 per cent in British Columbia.

Investment in Health Care

British Columbia continues to have one of the highest average annual growth rates for health care spending in Canada (see Chart G5).

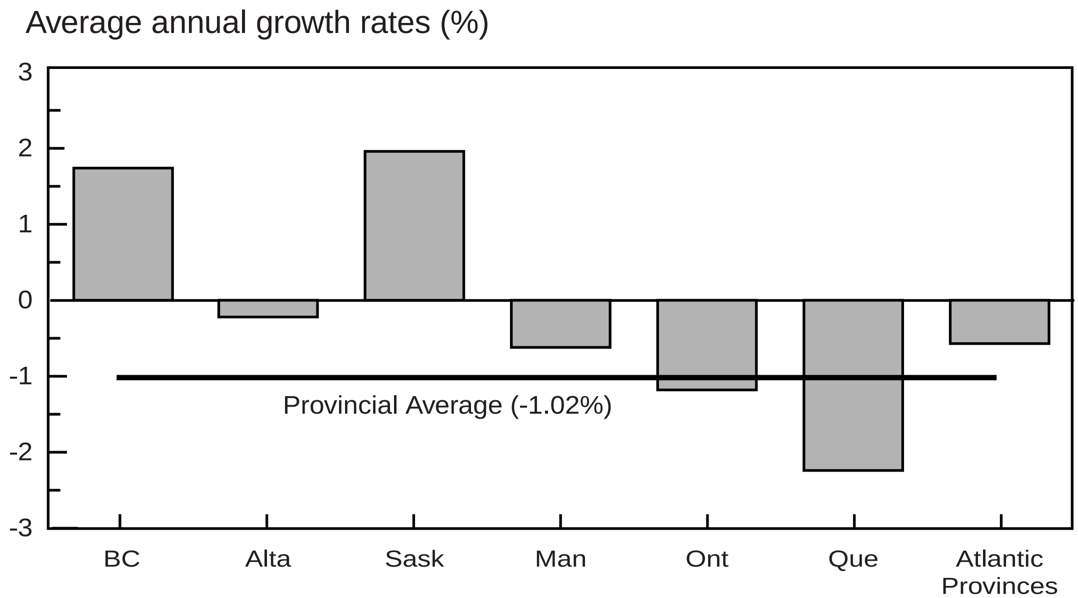
While British Columbia's growth is slightly behind that of Saskatchewan, per capita spending on health care in 1997/98 is significantly higher than that of Saskatchewan and all other provinces. Based on data from the Canadian Institute for Health Information, per capita spending is $1,907 in British Columbia compared with $1,688 in Saskatchewan and $1,618 across all provinces.

Government continues to ensure that the high level of funding results in the best possible value for money in health care delivery. Government has tried to maximize service delivery by working with the health sector to identify efficiency measures such as reference-based pricing, creation of the BC Council on Clinical Practice Guidelines and the Therapeutics Initiative, and peer grouping of hospitals. These efficiency measures have helped to control costs within an environment of population growth, an aging population, new medical technology and pharmaceuticals, and measures to ease or improve waiting times for procedures such as cancer treatment and heart surgery.

The province's overall goal is to protect and enhance British Columbia's health system, considered by many to be one of the best health care systems in the world. The latest data from Statistics Canada ranks British Columbia as having the highest life expectancy in Canada (79 years versus the Canadian average of 78.3 years in 1995).

CHART G5

HEALTH SPENDING GROWTH (PER CAPITA)
By Province, 1992/93 to 1997/98



Source: Canadian Institute of Health Information (CIHI), Public Accounts and provincial estimates.
Note: Estimates for 1996/97 and 1997/98 are preliminary.

Ministry of Health[2] data shows that the province has also been successful in keeping waiting lists stable in most areas and in making considerable progress in reducing waiting times for cancer treatment, hip and knee replacements, cornea transplants and coronary angioplasty. One of the main reasons for this success is the ability of the province to attract highly qualified health sector employees.

The charts presented in this report clearly show that government has been successful in protecting and enhancing health and education funding. With the measures in this budget, British Columbia will maintain its high standing in the health and education areas in 1998/99. Government will continue to monitor its success against other provinces as independent results become available.

[2] Waiting List Report, Fall 1997, Ministry of Health and Ministry Responsible for Seniors.

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Report H: **SUPPLEMENTARY TABLES**

TABLE H1

GENERAL ECONOMIC INDICATORS

	Unit or Base Period	1994	1995	1996	1997
Population and Labour Force:					
Population (July 1)	thousands	3,671	3,766	3,858	3,933
Net In-migration	number	80,627	61,972	64,292	49,700[e]
Interprovincial	number	38,649	24,894	21,150	7,400[e]
International	number	41,978	37,078	43,142	42,300[e]
Labour force	thousands	1,913	1,935	1,982	2,012
Labour force participation rate*	per cent	66.7	65.7	65.5	64.9
Male	per cent	74.5	73.0	72.6	71.8
Female	per cent	59.1	58.5	58.6	58.2
Employment**	thousands	1,733	1,762	1,806	1,838
Male	thousands	946	963	986	1,001
Female	thousands	787	799	820	836
Full-time	thousands	1,374	1,413	1,444	1,454
Part-time	thousands	359	349	362	384
Unemployment rate	per cent	9.4	9.0	8.9	8.7
Male	per cent	10.2	9.2	9.0	8.9
Female	per cent	8.5	8.6	8.7	8.4
Main Economic Indicators:					
Provincial gross domestic product	$ millions	98,555	101,945	103,631	106,710[e]
Capital investment (new)	$ millions	20,403	19,227	19,013	19,956
Retail sales	$ millions	29,032	30,837	31,252	32,771
New motor vehicle sales	units	155,966	148,069	143,696	164,041
Housing starts	dwelling units	39,408	27,057	27,641	29,351
Building permits	$ millions	6,318	5,415	6,053	5,536
Foreign merchandise exports	$ millions	22,834	26,911	25,742	26,566
Incomes:					
Personal income	$ millions	85,610	89,730	91,970	94,820[e]
Labour income	$ millions	54,018	56,795	58,777	60,731
Average weekly earnings	$	578	595	608	614
Prices:					
Consumer price index, B.C. (urban)	1992=100	105.5	107.9	108.9	109.7
Consumer price index, Vancouver	1992=100	105.7	108.4	109.2	109.8
Consumer price index, Victoria	1992=100	105.1	107.7	108.7	109.7
Industrial product price index, Canada	1992=100	109.9	118.1	118.6	119.6
B.C. export commodity price index ($Cdn.)	1992=100	131.4	141.0	138.1	141.3

e: Estimate.
 * Per cent of the working-age population in the labour force.
** Totals may not add due to rounding.

TABLE H1

GENERAL ECONOMIC INDICATORS — *Continued*

	Unit or Base Period	1994	1995	1996	1997
Financial Indicators:					
Business incorporations	number	25,774	23,846	22,848	22,958
Business bankruptcies	number	822	972	946	898
Vancouver Stock Exchange					
Shares traded	$ millions	5,783	6,422	11,986	8,670
Composite indicator (Dec. 31)		767.4	795.9	1,190.4	618.5
Personal savings deposits at chartered banks	$ millions	38,997	41,497	42,724	41,900[e]
Personal loans outstanding at chartered banks	$ millions	10,408	11,414	12,535	13,900[e]
Sector Indicators:					
Manufacturing shipments	$ millions	31,048	35,040	33,933	34,641
Timber scaled	thousand cubic metres	75,649	76,472	75,213	68,628
Lumber production	thousand cubic metres	33,671	32,611	32,671	31,562
Pulp and paper production	thousand tonnes	7,710	7,608	7,287	7,099
Gross value of mineral production	$ millions	2,677	3,437	3,095	3,176[e]
Petroleum and natural gas production	$ millions	1,227	951	1,196	1,518[e]
Electric power generation (net)	million kilowatt hours	61,015	58,006	71,747	66,729
Farm cash receipts	$ millions	1,521	1,565	1,643	1,881
Foreign visitors	thousands	5,999	6,577	6,907	7,323
Regional Data:					
Housing Starts					
Vancouver		20,473	14,992	15,453	15,950
Victoria		2,303	1,299	1,142	1,311
Abbotsford		1,600	886	865	871
Chilliwack		1,187	588	396	621
Kamloops		1,029	663	555	543
Kelowna		1,496	1,205	1,406	1,741
Prince George		370	292	411	402
Nanaimo		996	642	887	821
Campbell River		548	318	419	336
Courtenay		1,309	506	517	488
Duncan		495	242	383	242
Penticton		552	277	300	244
Vernon		656	432	400	346

Labour Markets	Employment 1996	Employment 1997	Unemployment Rate (%) 1996	Unemployment Rate (%) 1997
Greater Vancouver	933,000	941,000	8.1	8.5
Greater Victoria	146,000	151,000	8.9	8.1
Vancouver Island/Coast	314,000	326,000	9.7	9.0
Mainland/Southwest	1,056,000	1,071,000	8.4	8.5
Thompson-Okanagan	203,000	210,000	10.6	8.6
Kootenay	65,000	64,000	8.9	9.6
Cariboo	82,000	79,000	8.8	10.3
North Coast and Nechako	53,000	53,000	7.7	9.2
Northeast	34,000	35,000	7.4	4.9

e: Estimate.

Sources: Statistics Canada, Bank of Canada, Government of British Columbia, other federal and provincial agencies and industry associations.

TABLE H2
INTERPROVINCIAL COMPARISONS OF TAX RATES
(Rates as of March 15, 1998)[1]

Tax	**British Columbia**[2]	Alberta	Saskat- chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New- foundland
Personal income tax										
Percentage of Basic Federal Tax[3]	50.5	44.0	50.0	51.0	45.0	n/a	61.0	57.5	59.5	69.0
Flat Tax[4]	n/a	0.5	2.0	2.0	n/a	n/a	n/a	n/a	n/a	n/a
Surtax[5] Rate	30/26	8	10/15	2	20/30	n/a	8	10	10	10
Threshold	$5,300/ $8,660	$3,500	$1/ $4,000	Net Income >$30,000	$4,270/ $5,635	n/a	$13,500	$10,000	$5,200	$7,900
Provincial personal income tax (per cent of family income)[6]	5.8	5.5	7.9	7.1	5.2	8.3	7.0	6.6	6.8	7.9
Corporation income tax (per cent of taxable income)[7]										
General Rate	16.5	15.5	17	17	15.5	9.15	17	16	16	14
Small Business Rate	9	6	8	9	9.5	5.91	7	5	7.5	5
Corporation capital tax[8]										
Non-financial	0.3	*Nil*	0.6	0.3/0.5	0.3	0.64	0.3	0.25	*Nil*	*Nil*
Financial	1.0/3.0	2.0	3.25	3.0	0.6/0.99	1.32	3.0	3.0	3.0	4.0
Health care premiums[9]										
Individual/family	36/72	34/68	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*	*Nil*
Payroll tax[10] (per cent)	*Nil*	*Nil*	*Nil*	2.25	1.95	4.26	*Nil*	*Nil*	*Nil*	2.0
Insurance premium tax (per cent)[11]	2-4	2-3	2-3	2-3	2-3.5	2-3	2-3	3-4	3	4
Fuel tax (cents per litre)										
Gasoline[12]	11.0	9.0	15.0	11.5	14.7	19.0	10.7	13.5	13.0	16.5
Diesel	11.5	9.0	15.0	10.9	14.3	19.6	13.7	15.4	13.5	16.5
Sales tax (per cent)										
General rate	7	*Nil*	7	7	8	7.5	8	8	10	8
Liquor	10	*Nil*	7	7	12	7.5	8	8	37.5	8
Meals	*Nil*	*Nil*	*Nil*	7	8	7.5	8	8	10	8
Accommodation	8	5	7	7	5	7.5	8	8	10	8
Tobacco tax (dollars per carton of 200 cigarettes)[13]	22.00	14.00	20.00	19.25	6.51	7.70	10.15	10.84	12.65	25.96

[1] Rates shown are those known as of March 15, 1998, and that are in effect for 1998.
[2] British Columbia tax rates are shown as announced in the 1998 Budget.
[3] Quebec has its own income tax system which is not directly comparable. Alberta, Saskatchewan, Manitoba, Ontario, Quebec and Nova Scotia provide general tax reductions at low income levels.
[4] Percentage of taxable income in Alberta and percentage of net income in Saskatchewan and Manitoba.
[5] Provincial high income surtaxes: the surtax rate is applied to provincial tax in excess of the threshold level (the Manitoba surtax applies to net income over $30,000). British Columbia and Ontario have two-tiered surtaxes. Saskatchewan's Deficit Surtax is 10 per cent of basic provincial tax.
[6] Calculated for a two income family of four with one spouse earning $35,000 and the other earning $20,000, both with employment income and claiming basic personal credits and typical major deductions.
[7] Alberta, Saskatchewan, Ontario, Prince Edward Island and Newfoundland have lower rates for manufacturing and processing. Rates include Quebec surtax of 2.8 per cent, which contributes to the province's Anti-Poverty Fund.
[8] The British Columbia non-financial rate applies to corporations with paid-up capital in excess of $1.5 million; Ontario has lower rates for corporations with less than $2.3 million in taxable capital; Manitoba has a $3 million exemption level and the higher rate applies to paid-up capital in excess of $10 million; Saskatchewan has a $10 million deduction. Large Saskatchewan resource corporations are assessed a surcharge on the value of Saskatchewan resource sales. New Brunswick has a $5 million deduction from paid-up capital. Nova Scotia has a $5 million deduction, but only for firms with under $10 million in paid-up capital. Ontario and Quebec rates for financial institutions include additional surcharges. A compensation tax may also apply in Quebec.
[9] British Columbia has a two person rate of $64. British Columbia and Alberta offer premium assistance in the form of lower rates or an exemption from premiums for lower income individuals and family.
[10] Manitoba, Ontario and Newfoundland provide payroll tax relief for small businesses.
[11] The lower rate applies to premiums for life, sickness and accident insurance; the higher rate applies to premiums for property insurance. The rate on automobile insurance is 4 per cent in British Columbia and Saskatchewan, and 3 per cent in Ontario. Sales tax applies to insurance premiums, except those related to individual life and health, in Ontario (8 per cent), Quebec (9 per cent) and Newfoundland (12 per cent). The sales tax is reduced to 5 per cent for automobile insurance in Quebec and Ontario.
[12] Tax rate is for regular fuel used on highways. The British Columbia rate includes two cents per litre dedicated to the BC Transportation Financing Authority. The rates do not include regional taxes. The Quebec rate includes estimated sales tax.
[13] Includes estimated provincial sales tax where applicable.

TABLE H3

COMPARISON OF PROVINCIAL AND FEDERAL TAXES BY PROVINCE — 1998

Tax	**British Columbia**	Alberta	Saskat- chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New- foundland
	($)									
Two Income Family of Four — $90,000										
1. Provincial Income Tax	6,722	6,271	8,975	8,849	5,990	10,809	8,120	7,654	7,920	9,185
Net Child Benefits	0	0	—	—	—	0	0	—	—	—
2. Property Tax										
— Gross	2,142	2,300	4,000	4,264	3,850	2,900	2,500	2,672	2,400	1,100
— Net	1,672	2,300	4,000	4,014	3,850	2,900	2,500	2,672	2,400	1,100
3. Retail Sales Tax	1,064	15	1,003	1,173	1,460	1,602	1,706	1,727	1,604	1,660
4. Fuel Tax	165	135	225	173	221	285	161	203	195	248
5. Provincial Direct Taxes	9,623	8,721	14,203	14,209	11,521	15,596	12,487	12,256	12,119	12,193
6. Health Care Premiums/ Payroll Tax	864	816	—	2,025	1,755	3,375	—	—	—	1,350
7. Total Provincial Tax	10,487	9,537	14,203	16,234	13,276	18,971	12,487	12,256	12,119	13,543
8. Federal Income Tax	13,511	13,511	13,511	13,511	13,511	13,511	13,511	13,511	13,511	13,511
9. Net Federal GST	1,525	1,645	1,473	1,478	1,574	1,390	1,493	1,511	1,458	1,452
10. Total Tax	25,523	24,693	29,187	31,223	28,361	33,872	27,491	27,278	27,088	28,506
Two Income Family of Four — $55,000										
1. Provincial Income Tax	3,189	3,036	4,321	3,924	2,842	4,587	3,852	3,631	3,757	4,357
Net Child Benefits	0	101	—	—	—	(157)	0	—	—	—
2. Property Tax										
— Gross	1,975	1,600	2,700	2,964	2,500	1,900	1,400	2,003	1,500	850
— Net	1,505	1,600	2,700	2,714	2,500	1,900	1,400	2,003	1,500	850
3. Retail Sales Tax	795	11	770	909	1,094	1,279	1,302	1,312	1,221	1,279
4. Fuel Tax	165	135	225	173	221	285	161	203	195	248
5. Provincial Direct Taxes	5,654	4,883	8,016	7,720	6,657	7,894	6,715	7,149	6,673	6,734
6. Health Care Premiums/ Payroll Tax	864	816	—	1,238	1,073	2,063	—	—	—	825
7. Total Provincial Tax	6,518	5,699	8,016	8,958	7,730	9,957	6,715	7,149	6,673	7,559
8. Federal Income Tax	6,409	6,409	6,409	6,409	6,409	6,409	6,409	6,409	6,409	6,409
9. Net Federal GST	1,140	1,223	1,130	1,146	1,180	1,109	1,139	1,148	1,110	1,119
10. Total Tax	14,067	13,331	15,555	16,513	15,319	17,475	14,263	14,706	14,192	15,087
Two Income Family of Four — $30,000										
1. Provincial Income Tax	1,211	940	1,302	881	239	(690)	1,463	1,379	1,427	1,654
Net Child Benefits	(718)	(741)	—	—	—	(237)	(52)	—	—	—
2. Property Tax										
— Gross	1,975	1,600	2,700	2,964	2,500	1,900	1,400	2,003	1,500	850
— Net	1,505	1,600	2,700	2,714	2,500	1,900	1,400	2,003	1,500	850
3. Retail Sales Tax	531	8	560	644	773	968	921	928	865	961
4. Fuel Tax	165	135	225	173	221	285	161	203	195	248
5. Provincial Direct Taxes	2,694	1,942	4,787	4,412	3,733	2,226	3,893	4,513	3,987	3,713
6. Health Care Premiums/ Payroll Tax	691	816	—	675	585	1,125	—	—	—	450
7. Total Provincial Tax	3,385	2,758	4,787	5,087	4,318	3,351	3,893	4,513	3,987	4,163
8. Federal Income Tax	2,434	2,434	2,434	2,434	2,434	2,434	2,434	2,434	2,434	2,434
9. Net Federal GST	307	370	368	358	380	386	353	358	333	329
10. Total Tax	6,126	5,562	7,589	7,879	7,132	6,171	6,680	7,305	6,754	6,926
Unattached Individual — $25,000										
1. Provincial Income Tax	1,359	1,302	1,850	1,557	1,068	2,172	1,642	1,547	1,601	1,857
2. Property Tax	—	—	—	—	—	—	—	—	—	—
3. Retail Sales Tax	388	5	369	482	594	638	653	658	734	643
4. Fuel Tax	110	90	150	115	147	190	107	135	130	165
5. Provincial Direct Taxes	1,857	1,397	2,369	2,154	1,809	3,000	2,402	2,340	2,465	2,665
6. Health Care Premiums/ Payroll Tax	432	408	—	563	488	938	—	—	—	375
7. Total Provincial Tax	2,289	1,805	2,369	2,717	2,297	3,938	2,402	2,340	2,465	3,040
8. Federal Income Tax	2,732	2,732	2,732	2,732	2,732	2,732	2,732	2,732	2,732	2,732
9. Net Federal GST	266	308	265	277	292	246	269	273	247	259
10. Total Tax	5,287	4,845	5,366	5,726	5,321	6,916	5,403	5,345	5,444	6,031

TABLE H3

COMPARISON OF PROVINCIAL AND FEDERAL TAXES BY PROVINCE — 1998 — *Continued*

Tax	British Columbia	Alberta	Saskat-chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New-foundland
	($)									
Unattached Individual — $80,000										
1. Provincial Income Tax	8,570	7,443	10,765	10,241	7,902	12,888	9,441	8,899	9,609	10,956
2. Property Tax										
— Gross	1,380	1,650	2,700	2,704	2,200	2,400	1,250	2,500	1,500	1,200
— Net	910	1,650	2,700	2,454	2,200	2,400	1,250	2,500	1,500	1,200
3. Retail Sales Tax	860	10	774	1,008	1,293	1,270	1,411	1,437	1,572	1,340
4. Fuel Tax	165	135	225	173	221	285	161	203	195	248
5. Provincial Direct Taxes	10,505	9,238	14,464	13,876	11,616	16,843	12,263	13,039	12,876	13,744
6. Health Care Premiums/ Payroll Tax	432	408	—	1,800	1,560	3,000	—	—	—	1,200
7. Total Provincial Tax	10,937	9,646	14,464	15,676	13,176	19,843	12,263	13,039	12,876	14,944
8. Federal Income Tax	16,089	16,089	16,089	16,089	16,089	16,089	16,089	16,089	16,089	16,089
9. Net Federal GST	1,261	1,397	1,191	1,213	1,294	1,093	1,235	1,257	1,177	1,173
10. Total Tax	28,287	27,132	31,744	32,978	30,559	37,025	29,587	30,385	30,142	32,206
Senior Couple with Equal Pension Incomes — $30,000										
1. Provincial Income Tax	667	237	960	98	(57)	589	805	759	786	911
2. Property Tax										
— Gross	1,975	1,600	2,700	2,964	2,500	1,900	1,400	2,003	1,500	850
— Net	1,230	1,600	2,700	2,714	2,500	1,900	1,400	2,003	1,500	850
3. Retail Sales Tax	679	15	640	763	915	1,198	1,204	1,179	1,077	1,225
4. Fuel Tax	110	90	150	115	147	190	107	135	130	165
5. Provincial Direct Taxes	2,686	1,942	4,450	3,690	3,505	3,877	3,516	4,076	3,493	3,151
6. Health Care Premiums/ Payroll Tax	768	816	—	—	—	—	—	—	—	—
7. Total Provincial Tax	3,454	2,758	4,450	3,690	3,505	3,877	3,516	4,076	3,493	3,151
8. Federal Income Tax	1,340	1,340	1,340	1,340	1,340	1,340	1,340	1,340	1,340	1,340
9. Net Federal GST	852	920	813	847	852	850	862	840	828	879
10. Total Tax	5,646	5,018	6,603	5,877	5,697	6,067	5,718	6,256	5,661	5,370

Personal Income Tax

- Income tax is based on basic personal credits, applicable provincial credits, and typical major deductions at each income level. Quebec residents pay federal income tax less an abatement of 16.5 per cent of basic federal tax. This abatement has been used to reduce Quebec provincial tax rather than federal tax, for comparative purposes. The two income family of four with $55,000 annual income is assumed to have one spouse earning $35,000 and the other $20,000, the family with $90,000 income is assumed to have one spouse earning $50,000 and the other $40,000, the family with $30,000 is assumed to have each spouse earning $15,000 and each senior is assumed to receive $15,000. All representative families are assumed to have employment income except the senior couple. Contributions to the Quebec Health Services Fund are included in Quebec personal income tax.

Net Child Benefits

- Net child benefits are provincial measures affecting payments to families with children. Provincial child benefit measures are available in British Columbia (BC Family Bonus), Alberta (Family Employment Credit), Quebec (Integrated Child Allowance) and New Brunswick (Child Tax Benefit). In addition, the Alberta and Quebec governments have chosen to vary the amount of the basic federal child tax benefit that their residents receive (shown as a net amount on those two provinces).

Property Tax

- Estimates of property taxes are from Royal LePage Summer 1997 Survey of Canadian House Prices. It is assumed that the individual at $25,000 rents accommodation; the family at $30,000 and at $55,000 and the senior couple own bungalows; the family at $90,000 owns a two-storey executive style home; and the single at $80,000 owns a luxury condominium, in a major city for each province. Net property taxes are estimated as taxes owing after credits provided through the property tax system are subtracted.

Sales and Fuel Tax Estimates

- Includes sales tax on meals, liquor and accommodation. Estimates are based on expenditure patterns from the 1992 Survey of Family Expenditures. In estimating individual and family taxable consumption, disposable income is reduced by 20 per cent to reflect housing (mortgage and property taxes or rent) costs. The senior couple is assumed to own their home and have no mortgage costs. For each province, disposable income is further reduced by estimated federal income taxes, estimated provincial income taxes and health care premiums if applicable. In addition, the single individual with $80,000 annual income and the family with $90,000 annual income are assumed to have savings equal to 5 per cent of their disposable income. For each family, disposable income is distributed among expenditures using the consumption pattern of a typical family with the relevant characteristics as estimated by the family expenditure survey. The provincial retail sales tax and the federal goods and services tax (GST) components of these expenditures are then calculated. GST estimates have been reduced by the GST credit, where applicable.
- Fuel tax is based on annual consumption: 1,000 litres of unleaded fuel for the single at $25,000, the family at $30,000 and the senior couple; others are assumed to consume 1,500 litres.

Health Care Premiums/Payroll Tax

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

Effective Tax Rates

- British Columbia taxes have been calculated using rates in effect for 1998. Taxes for other provinces were calculated using rates that were announced prior to March 2, 1998, and come into effect during 1998.

TABLE H4

SUMMARY OF OPERATING AND FINANCING TRANSACTIONS
CONSOLIDATED REVENUE FUND

	Actual 1994/95[1]	Actual 1995/96[1]	Actual 1996/97[1]	Revised Forecast 1997/98	Budget Estimate 1998/99
	($ millions)				
Revenue[2]	19,512.2	19,712.0	20,126.9	20,210.0	20,441.0
Expenditure	19,958.6	20,067.4	20,479.1	20,379.0	20,536.0
Surplus (Deficit)	(446.4)	(355.4)	(352.2)	(169.0)	(95.0)
Net Receipts (Disbursements) from Financing and Working Capital Transactions[3]	272.2	145.4	(420.0)	(215.4)	(300.0)
Decrease (Increase) in Cash and Short-Term Investments	250.2	154.0	(21.2)	(37.4)	120.0
Net (Increase) Decrease in Government Direct Operating Debt	76.0	(56.0)	(793.4)	(421.8)	(275.0)
Net Debt at Year End:[4]					
Provincial Government Direct[5]					
Operating Purposes	10,181.1	10,237.1	11,030.5	11,452.3	11,727.3
Education Capital Financing Purposes	3,631.1	3,990.3	4,229.8	4,331.2	4,492.3
Total Provincial Government Direct	13,812.2	14,227.4	15,260.3	15,783.5	16,219.6
Crown Corporation and Agency[5]	12,201.9	12,693.9	13,248.3	13,403.9	14,211.4
Other Fiscal Agency Loans	501.0	473.8	157.6	151.2	145.8
Warehouse Borrowing Program	—	895.2	100.0	200.0	200.0
Other Debt[6]	534.7	422.4	473.8	458.9	466.6
Total Net Debt at Year End	27,049.8	28,712.7	29,240.0	29,997.5	31,243.4

[1] To conform to the 1998/99 estimates presentation, revenue and expenditure amounts have been restated to reflect changes to accounting policy with respect to earnings of sinking funds held for government direct operating debt; non-cash exchanges of Crown land; and allowances for doubtful revenue accounts. The effect of these restatements reduces revenue and expenditure by $35.1 million in 1994/95; $88.6 million in 1995/96; and $124.5 million in 1996/97. These restatements do not cause a change in the annual deficits.

[2] Revenue amounts exclude dedicated revenue collected on behalf of, and transferred to, Crown corporations and agencies.

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

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

[5] Effective April 1, 1998, debt of the British Columbia School Districts Capital Financing Authority, the British Columbia Educational Institutions Capital Financing Authority, and debt of the capital project certificate of approval program related to education capital financing, is included as part of the provincial government direct debt. Figures for earlier years have been restated to conform with the presentation used for fiscal 1998/99.

[6] Includes student assistance loans, loan guarantees to agricultural producers and guarantees issued or debt assumed under economic development assistance programs and the former British Columbia mortgage assistance program. Also includes non-guaranteed debt of the Columbia Basin Power Company, British Columbia Railway Company, Provincial Rental Housing Corporation, BC Transportation Financing Authority, and other agencies.

TABLE H5

REVENUE BY SOURCE[1]
CONSOLIDATED REVENUE FUND

	Actual 1994/95	Actual 1995/96	Actual[2] 1996/97	Revised Forecast 1997/98	Budget Estimate 1998/99	Annual Rate of Growth 1994/95 to 1998/99
	($ millions)					(per cent)
Taxation Revenue:						
Personal income	4,707.2	4,993.1	5,289.8	5,409.0	5,432.0	3.6
Corporation income	997.8	1,225.2	1,347.3	1,140.0	975.0	(0.6)
Social service	2,884.4	2,999.6	3,076.4	3,242.0	3,283.0	3.3
Fuel	666.7	678.4	688.1	643.0	643.0	(0.9)
Tobacco	516.7	482.3	487.9	478.0	483.0	(1.7)
Property — residential (school purpose)	469.6	480.5	493.1	505.0	515.0	2.3
Property — business (school purpose)	690.0	701.6	701.8	722.0	751.0	2.1
Property — rural area	52.0	63.3	62.3	63.0	64.0	5.3
Property transfer	339.1	266.1	313.3	308.0	310.0	(2.2)
Corporation capital	399.6	380.2	402.9	410.0	409.0	0.6
Insurance premium	156.7	175.7	168.6	175.0	192.0	5.2
Hotel room	76.0	81.7	87.6	74.0[3]	75.0	(0.3)
Horse racing	6.9	6.4	5.4	5.0	6.0	(3.4)
Less: commissions on collections of public funds	(25.8)	(24.6)	(25.2)	(25.0)	(25.0)	(0.8)
Less: allowances for doubtful accounts	—	—	(5.4)	(11.0)	(9.0)	—
Total taxation revenue	11,936.9	12,509.5	13,093.9	13,138.0	13,104.0	2.4
Natural Resource Revenue:						
Petroleum and natural gas:						
Natural gas royalties	130.8	94.1	173.4	150.0	155.0	4.3
Permits and fees	219.5	168.1	205.8	222.0	163.0	(7.2)
Petroleum royalties	49.8	52.7	74.3	75.0	75.0	10.8
	400.1	314.9	453.5	447.0	393.0	(0.4)
Minerals	65.5	77.5	47.2	49.0	39.0	(12.2)
Forests:						
Timber sales[4]	1,031.0	871.5	1,019.3	945.0	873.0	(4.1)
Small business forest enterprise program	374.8	312.6	323.1	298.0	289.0	(6.3)
Logging tax	69.1	134.1	40.4	10.0	25.0	(22.4)
Other forests revenue[4]	24.0	29.7	25.1	67.0	36.0	10.6
	1,498.9	1,347.9	1,407.9	1,320.0	1,223.0	(5.0)

TABLE H5

REVENUE BY SOURCE[1] — *Continued*

CONSOLIDATED REVENUE FUND

	Actual 1994/95	Actual 1995/96	Actual[2] 1996/97	Revised Forecast 1997/98	Budget Estimate 1998/99	Annual Rate of Growth 1994/95 to 1998/99
	($ millions)					(per cent)
Water resources	261.8	267.7	264.1	321.0	300.0	3.5
Wildlife Act	18.6	19.0	13.8	16.0	16.0	(3.7)
	280.4	286.7	277.9	337.0	316.0	3.0
Less: commissions on collection of public funds	(1.1)	(1.1)	(1.1)	(1.0)	(2.0)	16.1
Less: allowances for doubtful accounts	—	—	(0.3)	—	(6.0)	—
Total natural resource revenue	2,243.8	2,025.9	2,185.1	2,152.0	1,963.0	(3.3)
Other Revenue:						
Medical Services Plan premiums	805.2	822.4	853.3	887.0	898.0	2.8
Motor vehicle licences and permits	306.1	326.3	321.9	331.0	337.0	2.4
Other fees and licences	380.0	333.5	365.6[5]	368.0	419.0	2.5
Investment earnings[6]	28.0	50.8	50.1	45.0	46.0	13.2
British Columbia Endowment Fund[7]	80.2	27.7	—	—	—	—
Miscellaneous	266.1	277.7	218.7	247.0	292.0	2.3
Asset dispositions[8]	—	—	—	34.0	183.0	—
Less: commissions on collection of public funds	(24.5)	(23.5)	(45.1)	(76.0)	(77.0)	33.1
Less: allowances for doubtful accounts	—	—	(19.7)	(25.0)	(29.0)	—
Total other revenue	1,841.1	1,814.9	1,744.8	1,811.0	2,069.0	3.0
Contributions from Government Enterprises:						
Liquor Distribution Branch	568.5	567.1	587.8	608.0	635.0	2.8
British Columbia Hydro and Power Authority	198.0	114.8	279.3	369.0	373.0	17.2
British Columbia Lottery Corporation	235.4	244.2	266.2	291.0	386.0	13.2
Other[9]	26.0	41.5	14.8	20.0	155.0	56.3
Total contributions from government enterprises	1,027.9	967.6	1,148.1	1,288.0	1,549.0	10.8

TABLE H5

REVENUE BY SOURCE[1] — *Continued*

CONSOLIDATED REVENUE FUND

	Actual 1994/95	Actual 1995/96	Actual[2] 1996/97	Revised Forecast 1997/98	Budget Estimate 1998/99	Annual Rate of Growth 1994/95 to 1998/99
	($ millions)					(per cent)
Contributions from the Federal Government:						
Canada health and social transfer[10]	2,242.7	2,222.1	1,775.0	1,620.0	1,720.0	(6.4)
Other[11]	219.8	172.0	180.0	201.0	166.0	(6.8)
Total contributions from the federal government	2,462.5	2,394.1	1,955.0	1,821.0	1,886.0	(6.5)
***Less:* Revenue Allowance:**					(130.0)	—
TOTAL REVENUE	19,512.2	19,712.0	20,126.9	20,210.0	20,441.0	1.2

[1] Unless otherwise indicated, figures for prior years have been restated to be consistent with the presentation used in 1998/99. Revenue amounts exclude dedicated revenue collected on behalf of, and transferred to, Crown corporations and agencies.
[2] Revenues for 1996/97 have been restated to reflect a change in accounting policy to show allowances for doubtful collection of revenue accounts as deductions from revenue. Previously, these amounts were recorded as expenditures. The effect of this change reduces 1996/97 revenue by $25.4 million. Amounts for prior years have not been restated. This change does not affect the annual deficit.
[3] Beginning in 1997/98, a portion of hotel room tax is dedicated to the Tourism BC Crown corporation.
[4] Figures have been restated to reclassify revenue received from waste penalties as part of other forests revenue. Previously, these amounts were included as part of timber sales. This change does not affect total forests revenue.
[5] Revenue for 1996/97 has been restated to reflect a change in accounting policy to exclude from revenue and expenditure, non-cash exchanges (of equivalent value) of Crown lands to third parties. The effect of this change reduces revenue by $17.5 million in 1996/97. Amounts for prior years have not been restated. This change does not affect the annual deficit.
[6] Revenue amounts for 1994/95 to 1996/97 have been restated to reflect a change in accounting policy with respect to earnings of sinking funds held for government direct operating debt. Revenue earned from sinking fund investments is now recorded as a deduction from related interest expenditure. The effect of this change reduces revenue by $35.1 million in 1994/95, $88.6 million in 1995/96, and $81.6 million in 1996/97. This change does not affect the annual deficits.
[7] The British Columbia Endowment Fund was dissolved effective June 30, 1995.
[8] Includes estimated revenue to be realized through dispositions of assets resulting from reviews of government properties, agencies and other assets to identify those assets surplus to government's needs.
[9] Includes British Columbia Buildings Corporation, British Columbia Railway Company, British Columbia Systems Corporation, WLC Developments Ltd. and other Crown corporations and agencies.
[10] In 1996/97, the federal government introduced the Canada health and social transfer, replacing the former established programs financing and Canada assistance plan programs.
[11] Includes education for native children, *Young Offenders Act*, *National Training Act*, and other federal/provincial cost sharing agreements.

TABLE H6

EXPENDITURE BY FUNCTION[1]
CONSOLIDATED REVENUE FUND

	Actual 1994/95	Actual 1995/96	Actual 1996/97[2]	Revised Forecast 1997/98	Budget Estimate 1998/99	Annual Rate of Growth 1994/95 to 1998/99
	($ millions)					(per cent)
Health	6,586.4	6,789.9	7,064.0	7,219.4	7,415.7	3.0
Social services	2,890.1	3,035.9	3,020.5	3,076.4	2,950.7	0.5
Education	5,251.8	5,495.2	5,758.4	5,819.2	5,953.8	3.2
Protection of persons and property	1,043.1	1,090.4	1,091.1	1,062.6	1,026.2	(0.4)
Transportation	909.0	856.4	863.9	787.1	783.4	(3.6)
Natural resources and economic development	1,497.3	1,174.2	1,065.2	857.9	856.9	(13.0)
Other	602.2	480.3	495.6[3]	468.8[4]	417.6	(8.7)
General government	246.7	256.3	251.3	248.6	251.7	0.5
Debt servicing[5]	932.0	888.8	869.1	839.0	880.0	(1.4)
TOTAL EXPENDITURE	19,958.6	20,067.4	20,479.1	20,379.0	20,536.0	0.7

[1] Expenditure by function is presented on a basis to more closely follow the presentation used by Statistics Canada. Unless otherwise indicated, figures for previous years have been restated to be consistent with the presentation used for 1998/99.

[2] Figures for 1996/97 have been restated to reflect a change in accounting policy to exclude from expenditure, allowances for doubtful revenue accounts. These amounts are now recorded as deductions from revenue. The effect of this change reduces 1996/97 expenditure by $25.4 million. Amounts for prior years have not been restated. This change does not affect the annual deficit.

[3] Other expenditure for 1996/97 has been restated to reflect a change in accounting policy to exclude from revenue and expenditure, non-cash exchanges (of equivalent value) of Crown lands to third parties. The effect of this change reduces expenditure by $17.5 million in 1996/97. Amounts for prior years have not been restated. This change does not affect the annual deficits.

[4] Effective in 1997/98 other expenditure includes a $28.3 million reduction for the amortization of the change of the unfunded teachers' pension plan liability.

[5] Debt servicing has been restated to reflect a change in accounting policy with respect to earnings of sinking funds held for government direct operating debt. Earnings from sinking fund investments are now recorded as deductions from related interest expenditure. The effect of this change reduces expenditure by $35.1 million in 1994/95; $88.6 million in 1995/96; and $81.6 million in 1996/97. This change does not affect the annual deficit.

TABLE H7
NET DEBT SUMMARY[1]

As at March 31,	Actual 1995	Actual 1996	Actual 1997	Revised Forecast 1998	Budget Estimate 1999
	($ millions unless otherwise indicated)				
Taxpayer-supported debt					
Provincial government direct[2]					
Operating purposes	10,181.1	10,237.1	11,030.5	11,452.3	11,727.3
Education capital financing purposes					
Schools	2,393.6	2,658.5	2,835.1	2,925.2	3,112.9
Post-secondary institutions	1,237.5	1,331.8	1,394.7	1,406.0	1,379.4
	3,631.1	3,990.3	4,229.8	4,331.2	4,492.3
Total provincial government direct	**13,812.2**	**14,227.4**	**15,260.3**	**15,783.5**	**16,219.6**
Economic development Crown corporations and agencies:					
British Columbia Ferry Corporation	432.8	502.0	684.9	801.2	913.1
BC Transportation Financing Authority	275.9	590.4	915.6	1,009.7	1,350.9
British Columbia Transit	1,449.5	1,505.5	1,537.2	1,566.2	1,614.2
Other[3]	24.1	32.0	48.4	48.4	48.3
	2,182.3	**2,629.9**	**3,186.1**	**3,425.5**	**3,926.5**
Social and government services Crown corporations and agencies:[2]					
British Columbia Assessment Authority	5.5	7.0	6.2	6.2	6.2
British Columbia Buildings Corporation	698.1	719.1	735.4	764.7	782.6
British Columbia Regional Hospital Districts Financing Authority	1,255.6	1,331.1	1,373.0	1,359.3	1,456.3
Capital project certificate of approval program[2]	62.0	67.6	58.2	22.2	22.2
British Columbia Systems Corporation	25.9	21.6	19.3	—[4]	—
	2,047.1	**2,146.4**	**2,192.1**	**2,152.4**	**2,267.3**
Other fiscal agency loans:					
Greater Vancouver Sewerage and Drainage District	187.0	175.1	—[5]	—	—
Greater Vancouver Water District	137.1	131.1	—[5]	—	—
Universities and Colleges — fiscal agency loans	173.6	164.3	154.3	147.9	142.5
Local Governments	3.3	3.3	3.3	3.3	3.3
	501.0	**473.8**	**157.6**	**151.2**	**145.8**
Other guarantees[6]	**398.7**	**287.6**	**228.5**	**210.3**	**214.5**
Non-guaranteed debt[7]	**96.6**	**101.4**	**120.4**	**128.0**	**135.8**
***Less* Internally held funds[8]**	**(0.7)**	**(0.8)**	**(0.8)**	**(0.8)**	**(0.8)**
Total taxpayer-supported debt	**19,037.2**	**19,865.7**	**21,144.2**	**21,850.1**	**22,908.7**
Self-supporting debt					
Commercial Crown corporations and agencies:					
British Columbia Hydro and Power Authority	7,662.3	7,592.3	7,477.2	7,253.5	7,235.5
British Columbia Railway Company	310.9	326.1	390.6	453.3	537.9
Skeena Cellulose	—	—	—	120.0	245.0
Columbia Power Corporation	—	—	3.1	—	—
	7,973.2	**7,918.4**	**7,870.9**	**7,826.8**	**8,018.4**
Warehouse borrowing program	**—**	**895.2**	**100.0**	**200.0**	**200.0**

TABLE H7

NET DEBT SUMMARY[1] — *Continued*

As at March 31,	Actual 1995	Actual 1996	Actual 1997	Revised Forecast 1998	Budget Estimate 1999
	($ millions unless otherwise indicated)				
Non-guaranteed debt[9]	**39.4**	**33.4**	**124.9**	**120.6**	**116.3**
Total self-supporting debt	**8,012.6**	**8,847.0**	**8,095.8**	**8,147.4**	**8,334.7**
Total provincial debt	**27,049.8**	**28,712.7**	**29,240.0**	**29,997.5**	**31,243.4**
Total provincial debt as a per cent of GDP	27.4%	28.2%	28.2%	28.1%	29.0%
Taxpayer-supported debt as a per cent of GDP	19.3%	19.5%	20.4%	20.5%	21.2%

[1] Net debt is after deduction of sinking funds and unamortized discounts, and excludes accrued interest. Government direct and fiscal agency accrued interest is reported in the government's accounts as an accounts payable. Figures for earlier years have been restated to conform with the presentation used for 1999.

[2] Effective April 1, 1998, debt of the British Columbia School Districts Capital Financing Authority, the British Columbia Educational Institutions Capital Financing Authority and debt of the capital project certificate of approval program related to education capital financing is included as part of provincial government direct debt. Figures for earlier years have been restated to conform with the presentation used for 1999.

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

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

[7] Includes debt of the Pacific National Exhibition, Provincial Rental Housing Corporation, BC Transportation Financing Authority, British Columbia Ferry Corporation 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] 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.

TABLE H8
KEY DEBT INDICATORS

	For fiscal year ending March 31				
	1995	1996	1997	Revised Forecast 1998	Budget Estimate 1999
Debt to revenue (per cent)					
Total provincial	94.0	97.4	97.7	99.9	103.0
Taxpayer-supported	85.0	87.0	91.1	94.9	99.0
Debt per capita ($)[1]					
Total provincial	7,369	7,624	7,579	7,627	7,811
Taxpayer-supported	5,186	5,275	5,481	5,556	5,727
Debt to GDP (per cent)[2]					
Total provincial	27.4	28.2	28.2	28.1	29.0
Taxpayer-supported	19.3	19.5	20.4	20.5	21.2
Interest bite (cents per dollar of revenue)[3]					
Total provincial	8.8	8.9	8.0	7.9	8.1
Taxpayer-supported	7.6	7.7	7.3	7.5	7.8
Interest costs ($ millions)					
Total provincial	2,546	2,609	2,388	2,369	2,460
Taxpayer-supported	1,711	1,749	1,691	1,728	1,802
Interest rate (per cent)[4]					
Taxpayer-supported	8.9	8.9	8.2	8.0	7.9
Background Information:					
Revenue ($ millions)					
Total provincial[5]	28,774	29,474	29,940	30,021[7]	30,340
Taxpayer-supported[6]	22,392	22,843	23,199	23,028[7]	23,134
Total debt ($ millions)					
Total provincial	27,050	28,713	29,240	29,998	31,243
Taxpayer-supported[8]	19,037	19,866	21,144	21,850	22,909
Provincial GDP ($ millions)	98,555	101,945	103,631	106,710	107,870
Population (thousands at July 1)	3,671	3,766	3,858	3,933	4,000

[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.
[4] Weighted average of 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] Effective 1997/98, a change in the basis of financing education capital and related loans results in a permanent reduction in revenue.
[8] 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 and Columbia Basin Power Company (a joint venture of the Columbia Power Corporation and the Columbia Basin Trust Power Corporation).