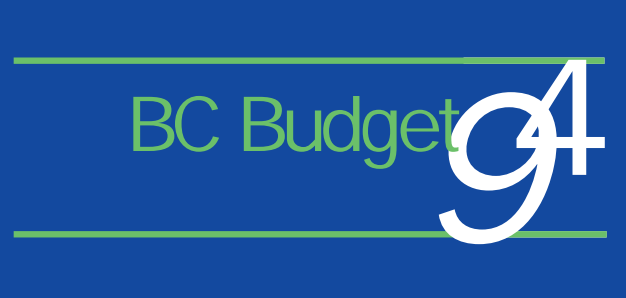


# BC Budget 94

Delivered in the Legislative Assembly  
March 22, 1994  
by Honourable Elizabeth Cull  
Minister of Finance and Corporate Relations





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## BUDGET SPEECH

### INTRODUCTION

I am pleased to present the third budget of this New Democrat administration — a budget that builds a prosperous and secure British Columbia.

In our first two budgets, we had to respond to some serious problems — we had to cut spending growth and reduce the deficit.

We met these challenges, and British Columbia now has a firm fiscal foundation.

Thanks to the efforts of all British Columbians, our economy has turned around.

We now have one of the strongest economies and best job creation records in North America.

We have one of the best deficit reduction records in Canada.

We have the second-lowest overall taxes in Canada.

We have the lowest debt, in relation to the size of our economy, of any province.

And we have the highest credit rating of any province.

In preparing this 1994 Budget, I consulted extensively with groups and individuals across British Columbia.

In these meetings, British Columbians clearly told me their concerns.

They want us to hold the line on taxes, to be tough on spending, and to eliminate the deficit as quickly as possible.

They are concerned about their own job security and about their children's future in a rapidly changing economy.

And they want us to focus on building the future — investing in people and ensuring that British Columbians have the skills they need to prosper in the new economy.

Honourable Speaker, this budget responds to these concerns and puts forward our plan for British Columbia's economic future.

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***Fiscal house  
in order***

We recognize that government alone cannot build our economy and create stable long-term jobs.

This is a challenge which requires the initiative of many groups and individuals — in the private sector as well as the public sector.

But it is government's job to focus on the future — to make sure prosperity today leads to economic security tomorrow — with new jobs and new business opportunities everywhere in British Columbia.

We as a government have two key goals.

One is to eliminate the deficit and ensure that British Columbia remains on a sound financial footing.

The other is to build British Columbia's economic foundations for the 21st century.

Over the last two years, we have made substantial progress in getting British Columbia's fiscal house in order — cutting spending growth in half and reducing the deficit by over \$1 billion.

But, equally important, we have done it while protecting the health of our families and the education of our children.

And we have avoided the economic nose dive that would have occurred had we repeated the radical restraint of a decade ago.

Honourable Speaker, this 1994 budget builds on the progress we have already achieved.

- It reduces the deficit significantly for the third year in a row.
- It puts forward a plan to achieve a balanced budget by 1996/97.
- It continues to reduce the rate of spending growth by cutting waste and finding new efficiencies.
- It continues to make the tax system fairer for ordinary people and business.
- And it puts the lid on taxes for three years.

Honourable Speaker, our most important goal is to build British Columbia's economic foundations for the 21st century.

That means:

- Making the new public investments required for private sector growth.
- Maintaining quality health care and education for B.C.'s families and children.
- Putting new skills in the hands of British Columbians.

***Building for the  
future***

- Ensuring a long-term future for forest workers and their communities.
- And providing support for small- and medium-sized businesses in the forefront of B.C.'s transition to a new economy.

In our first two budgets, we began moving towards these goals.

Our economy performed well last year, but it would be irresponsible to sit back now and take our long-term future for granted.

Unless we continue to lay the foundations for longer-term progress, we will not be able to pass on a prosperous and sustainable economy to our children.

Honourable Speaker, this budget introduces new initiatives to help ordinary people, communities and business all over British Columbia — initiatives to increase skills training, build roads and public facilities, and revitalize forest communities.

## **ECONOMIC REVIEW AND OUTLOOK**

Let me now review our economic performance and prospects in a bit more detail.

British Columbia's economy grew by 3.2 per cent in 1993 — our strongest performance in four years.

As a result, Honourable Speaker, we now have one of the healthiest economies in North America.

In 1993:

- Exports grew by over 16 per cent.
- Retail sales were up by 8 per cent.
- Capital investment was up by over 8 per cent.
- Housing starts reached 42,800 units, an all-time record.
- And business bankruptcies fell by 20 per cent.

Over the last 12 months, 76,000 new jobs have been created in British Columbia — almost half the jobs created in all of Canada.

That's more than 200 new jobs every day.

And, in 1993, 63 new businesses were incorporated every day.

British Columbia's strong performance is expected to continue next year as the global economy recovers. Overall, our economy is forecast to grow by 3.4 per cent in 1994.

***Canada's  
strongest  
economy***

## **MANAGING BRITISH COLUMBIA'S FINANCES**

### ***A Commitment to Eliminate the Deficit***

However, sustaining economic growth over the longer term requires continued strong management of the province's finances.

Unless we can reduce and eliminate the deficit, we will not be able to continue providing first-rate education for our children or quality health care for all of us.

In 1991 we inherited a financial mess.

We faced government spending that was growing at a rate of 12 per cent each year — far in excess of growth in the economy.

And we faced a federal government refusing to honour its funding commitments to our hospitals, colleges and universities.

Spending exceeded revenue by \$2.4 billion, and an independent audit showed the deficit soaring to \$3.4 billion by this year if no action was taken.

When this government took office, the Premier pledged to cut the deficit each and every year — until finally eliminated.

Honourable Speaker, our first two budgets recorded steady progress.

This budget continues that progress and lays out a plan to achieve a balanced budget by 1996/97.

### ***Progress to Date***

Let me first summarize the financial results for fiscal 1993/94, the year just ending.

I am pleased to announce that this government's spending will be right on budget — at just under \$19 billion.

And, because our economy is prospering, revenue will be almost \$17.7 billion.

That is \$220 million higher than projected in last year's budget.

Every penny of this new revenue has been used to cut the deficit and hold down debt.

Therefore, the 1993/94 deficit will be \$1.28 billion — well below our budget target of \$1.54 billion.

That's a cut of over \$1 billion in our first two budgets.

## **Reducing the Deficit in 1994/95**

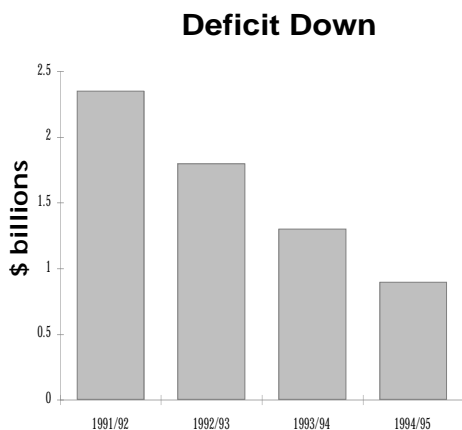
In this budget, Honourable Speaker, we are building on our record of sound financial management.

British Columbia's continued strong economic growth means that provincial government revenues for 1994/95 will total \$18.73 billion — an increase of 5.9 per cent.

Spending will total \$19.63 billion.

That represents an increase of 3.5 per cent — the smallest increase in nine years.

In three budgets, we have cut the rate of spending growth by almost three-quarters.



Honourable Speaker, in this budget British Columbia is taking another major step forward — bringing the deficit well under the \$1 billion mark.

The deficit for 1994/95 will be \$898 million — the third significant drop in three years.

By the end of the coming fiscal year, we will have cut the deficit by \$1.5 billion — a reduction of over 60 per cent since we took office.

**Deficit down  
60 per cent  
in three years**

## **The Debt Management Plan**

Honourable Speaker, I am also putting forward this government's debt management plan.

In recent years, Canadians have become increasingly concerned about the growth of government debt.

British Columbia is fortunate to have the lowest debt in relation to the size of its economy of any jurisdiction in Canada.

However, the accumulation of debt — if not controlled — raises the amount we must spend on interest payments, and reduces our longer-term ability to fund key programs for people.

A workable debt plan must recognize that the debt supported by B.C. taxpayers has two major components.

One component is the accumulation of government operating deficits — called the direct debt.

That's the equivalent of buying the groceries with your credit card.

When the government spends more than it takes in, this type of debt increases.

**Addressing  
the debt**

**Building assets  
for today and  
tomorrow**

Halting the growth of direct debt requires a balanced budget.

The second major component of British Columbia's debt is the amount the province borrows to build key assets like schools, hospitals and roads.

Unlike the direct debt, this debt generates real economic returns over time — for example, an efficient transportation system and a healthy, well-educated population.

This is similar to taking out a mortgage to buy a house.

Money is borrowed to buy a valuable asset and the debt is gradually repaid on a fixed schedule.

A high level of in-migration to British Columbia in recent years has increased the need for public assets of all kinds.

And the radical restraint of a decade ago created a backlog of unfilled needs for new schools, justice facilities, colleges, universities, and hospitals.

The debt incurred to build these facilities is backed by the value of the assets.

The total replacement value of British Columbia's public assets is \$60 billion, more than double the level of outstanding public sector debt.

Honourable Speaker, our debt management plan has two goals.

One is to eliminate the province's deficit.

The other is to ensure that the level of total tax-supported debt reflects the province's ability to repay through increased economic growth and revenues.

The progress we have made in reducing the deficit in this and previous budgets has slowed the growth of British Columbia's direct debt.

And we will build on this progress by eliminating the deficit by 1996/97.

In preparing this budget and the longer-term plan to eliminate the deficit, the Premier directed that further progress be made by reducing spending growth — not by increasing taxes.

Like most other provinces, this government's deficit reduction over the last two years relied on a combination of expenditure controls and tax increases.

But taxpayers have done enough to help the government put our province's fiscal house in order.

Therefore, for the next three years, there will be no new taxes and no increase in existing tax rates.

- No increase in personal income tax rates.
- No increase in sales tax rates.

**A balanced  
budget by  
1996/97**

**Taxes frozen**



- No increase in fuel tax rates.
- No increase in corporation income and capital tax rates.
- No increase in Medical Services Plan premiums.
- No increase in average school and rural property tax levels.
- No increase in property transfer tax rates.

Reaching our balanced budget goal without tax increases requires a further reduction of spending growth to the two-per-cent level in the next two budgets — well below inflation and population growth.

And in this budget, we are taking a further step to help cap and reduce the growth in debt.

Honourable Speaker, the British Columbia Endowment Fund will be wound up, and most of its assets sold to pay down government debt.

This action will generate approximately \$600 million for debt reduction.

### ***Increasing the Fairness of British Columbia's Tax System***

Honourable Speaker, in addition to freezing taxes we are introducing a number of tax cuts to increase the fairness of British Columbia's tax system.

Together, these tax cuts total \$112 million: half to improve fairness for individuals and half for B.C. business.

FIRST, we are fulfilling a promise made during the last election campaign and eliminating the property transfer tax for first-time home buyers.

British Columbia's housing prices are the highest in Canada, and this measure will help to make the dream of home ownership a reality for thousands of young families.

The first-time home buyers' exemption will replace the existing high-ratio tax relief program, and will be available to qualifying home buyers who have resided in British Columbia for at least one year.

The maximum qualifying purchase price will be \$250,000 in the Lower Mainland and Capital regions, and \$200,000 elsewhere in the province.

SECOND, we are increasing the home owner grant phase-out threshold by \$50,000 — now the grant will be phased out only for properties valued above \$450,000.

This adjustment will ensure that 95 per cent of B.C. homeowners are not affected by the phase-out of the home owner grant.

THIRD, we are restoring the trade-in allowance on purchases of automobiles.

***Tax break  
for first-time  
home buyers***

Consultations over the last year have shown that this measure has had unintended effects for both buyers and sellers.

We are also raising the threshold for the tax on luxury vehicles to \$32,000.

This change reflects both price increases and concerns that higher-priced vehicles needed to live and work in many northern and rural parts of the province are not luxuries.

Honourable Speaker, this budget also ensures tax fairness for municipalities.

During my pre-budget consultations, municipal governments expressed concern over the level of municipal grants as well as grants paid to municipalities in lieu of property taxes.

I am pleased to announce that this budget maintains the level of unconditional grants to municipalities.

In addition, we will implement a new approach to determining unconditional grants in future years which provides greater predictability.

We will also undertake a thorough review of grants in lieu of property taxes for provincial institutions such as universities, hospitals and Crown corporations.

And we will take steps to improve fairness for communities which bear the burden of providing services to these institutions.

This budget also introduces a package of measures to increase fairness for business and help the private sector create jobs.

I will outline the details of these initiatives later on in this budget address.

### ***Controlling Costs and Cutting Waste***

Honourable Speaker, bringing down the spending growth rate over the last two years has challenged the public sector.

Adjusting for population and inflation, real government spending per person declined last year.

This government's decision to rely solely on spending controls to continue reducing the deficit creates an even greater challenge to the public sector.

This year's spending growth of 3.5 per cent is well below last year's growth, and only a fraction of the 12-per-cent growth rate inherited from the previous administration.

And it represents another cut in real spending per person of 1.3 per cent.

Honourable Speaker, cutting waste and duplication means ensuring that all government agencies are fulfilling a valid public purpose.

In 1992, we launched an initiative to reduce the large number of government boards, agencies and commissions.

This year, we continued to review each government body — asking some basic questions.

We asked if the public body was still performing a useful function.

Or whether the service was performed more appropriately by the private sector.

We asked whether there were other ways of providing the service more efficiently, and at less cost to the taxpayer.

And we asked whether the public body was duplicating a service provided elsewhere.

Honourable Speaker, as a result of this review, I am announcing today the elimination of five major government entities.

- FIRST, as I have already announced, the British Columbia Endowment Fund will be wound up with the proceeds used to reduce the province's debt.
- SECOND, the Round Table on the Environment and the Economy will be eliminated. This advisory body has undertaken valuable work, but other government initiatives in environmental protection and economic development have made its role redundant.
- THIRD, the British Columbia Petroleum Corporation will be wound up. The deregulation of the natural gas industry has eliminated the need for this body, and its remaining functions can be more efficiently performed by the Ministry of Energy, Mines and Petroleum Resources.
- FOURTH, the British Columbia Energy Council will be wound up during the coming year. Its remaining consultative and policy advisory functions can now be performed within the existing mandates of the B.C. Utilities Commission and the Ministry of Energy, Mines and Petroleum Resources.
- FIFTH, Government Air Services will be wound up. Its air fleet will be sold and the government will contract with the private sector for emergency response, air ambulance, and other air travel requirements. An evaluation has shown that contracting these services to the private sector can achieve cost-savings.

Over the coming months, I am looking forward to receiving the support of Members for additional steps to eliminate waste and duplication.

Honourable Speaker, both elected and non-elected officials must continue to do their part to hold down the cost of government.

We are continuing the salary freeze for MLAs and senior public servants, as well as the five-per-cent cabinet pay cut announced last year for the Premier and ministers.

***Eliminating waste  
and duplication  
in government***

**Greater  
accountability  
in the  
public sector**

We are also moving to ensure greater control and accountability for salary costs in the broader public sector.

These costs account for about 50 cents of every dollar spent by the provincial government.

But, until now, the government has had limited responsibility for collective bargaining and executive compensation in schools, hospitals, universities, and colleges.

Last year we established the Public Sector Employers' Council to increase the effectiveness of public sector labour management relations.

And we have instructed the new council to undertake a comprehensive review of management compensation in the broader public sector.

We have also taken specific measures to control costs and improve efficiency in the provision of education and health services.

This year, additional funding for public schools will be dedicated directly to children in classrooms.

These grants provide no new funds for salary increases, and put a cap on school district administrative costs.

And over the coming year, we will implement a province-wide teacher bargaining system to improve cost-effectiveness for B.C. taxpayers and provide greater stability for students.

Health care is our largest single budget item, accounting for one-third of government program spending.

A key goal of our New Directions initiative is to find more cost-effective ways of providing high-quality health care.

As part of a new regional management structure for health care, we are developing a series of new management arrangements to achieve greater efficiency in purchasing, administration, payroll, and executive compensation.

A recent audit identified potential savings of up to \$50 million from better hospital purchasing practices alone.

Honourable Speaker, taxpayers expect that income assistance will be targeted to those in need, without fraud and abuse.

In January of this year, we announced a series of new measures to combat welfare fraud and improve accountability.

These initiatives are expected to save \$20 million annually, and we will strengthen them in the coming year.

Honourable Speaker, we are also taking measures to improve tax enforcement, minimize fraud, and ensure that everyone pays their fair share.

We will increase our auditing and collection efforts, and there will be higher penalties for tax evaders.

To help businesses comply, effective midnight tonight we are introducing an amnesty period during which they can remit overdue consumer taxes without penalty.

It will end on June 30th, 1994.

After the amnesty period, we will step up tax enforcement and collection.

Honourable Speaker, some would like us to go further than the measures I have just outlined.

They would like us to slash spending, eliminate the deficit this year, and freeze our debt immediately.

However, eliminating the deficit immediately would mean:

- long waiting lists for health care;
- crowded classrooms;
- a lower level of law enforcement; and
- more young people turned away from universities and colleges.

Freezing our debt would mean an immediate halt to construction of badly needed schools, hospitals, colleges, roads and other vital infrastructure.

The experience of radical restraint right here in B.C. during the early 1980s shows it doesn't work.

Not only would it make us less healthy, less well-educated and less well off — it would also reduce our ability as a province to compete in a global economy.

### ***Achieving Fairness in Federal-Provincial Cost-Sharing***

Honourable Speaker, although we are well on our way to eliminating the deficit and stabilizing our debt, a major source of uncertainty remains.

This uncertainty relates to essential programs for people, cost-shared between our province and the new federal government in Ottawa — health care, post-secondary education, and income support.

The previous federal government attempted to deal with its deficits by offloading its financial responsibilities for these programs onto the provinces.

The result has been a steady decline in the federal share of funding for essential services in our province.

That means British Columbia taxpayers have had to pay more and more each year just to keep our essential programs from deteriorating.

***Tax amnesty  
period for small  
business***

**The burden of federal offloading**

The impact on our deficit has been dramatic.

In the absence of federal offloading we would have recorded a budget **surplus** of almost \$900 million last year and a surplus of almost \$1.6 billion for this coming year.

That's \$2.5 billion we could have used to reduce B.C.'s accumulated debt.

Let me repeat — British Columbia would have been in the black last year and in the black this year, with no budget deficit, if the federal government had lived up to its responsibilities.

The new Liberal government in Ottawa has stated that federal-provincial cost-shared programs will be included in its major review of social programs over the coming year.

However, even before undertaking this review, it has announced its intention to continue offloading costs onto the provinces.

In its recent budget, the Liberal government announced that by 1996 it will reduce its payments for income support and post-secondary education to 1993 levels.

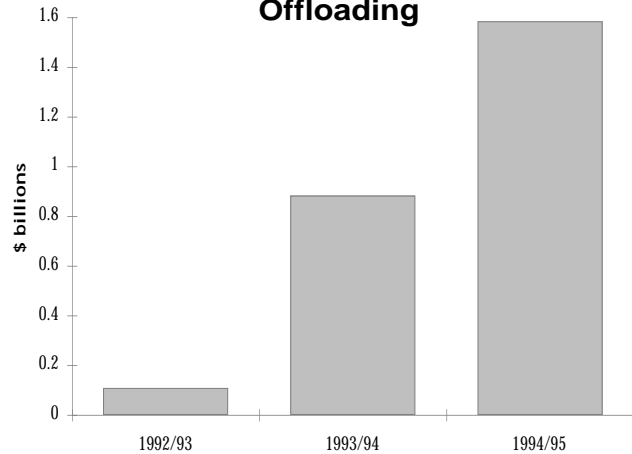
If this happens, the provinces will have to assume even more of the costs of providing these programs.

The funding problem for Canada's key social programs cannot be resolved by a continuation of unilateral federal offloading.

A lasting solution requires a new, cooperative approach with the provinces — one which ensures that provincial responsibility to provide key services is matched by access to adequate revenue sources.

British Columbia has offered to play a positive and constructive role in rebuilding a federal-provincial partnership that will preserve our national social programs for the 21st century.

**B.C.'s Budget Surplus Without Federal Offloading**



**New cooperative approach required**

## **INVESTING IN LONG-TERM ECONOMIC GROWTH**

Honourable Speaker, British Columbia's economy must create jobs with a future.

Our economy is changing.

In the old economy we relied on a small number of well-established markets for our products.

In the new economy, we must learn to compete in a wide range of specialized global markets.

In the old economy, our competitive advantage lay in the high quality of our natural resources.

In the new economy, it will be based on the quality and skills of our workforce.

Honourable Speaker, we face challenges in building the new economy.

- The challenge of reconciling competing demands while getting the greatest social and economic value from a limited natural resource base.
- The challenge of helping workers and their communities adapt to a changing economy.
- And the challenge of creating a climate that encourages new private sector investment and growth.

Unless we take action now to meet these challenges, we will not realize our full economic potential.

Our plan for long-term economic growth and job creation has five key elements:

- **FIRST**, providing the new public investments in infrastructure required to support private sector growth.
- **SECOND**, making investments in people. That means giving priority to the health of our families and the education of our children.
- **THIRD**, putting new skills in the hands of British Columbia's workers and young people.
- **FOURTH**, ensuring a long-term future for British Columbia's forest workers and their communities.
- And **FIFTH**, encouraging the growth of small- and medium-sized businesses to lead the transition to a new economy.

***Investing in  
people, investing  
in our future***

**Providing job opportunities for all British Columbians**

**BC 21: Building BC for the 21st Century**

Honourable Speaker, a strong, diversified private sector requires an effective public sector investment strategy.

A strategy that will meet the needs of communities across the province for key investments like roads, communications networks, water and sewer systems, and educational facilities.

Public investment creates jobs in the short term and tangible economic benefits in the long term.

Last year this government introduced BC 21, a major initiative to increase the effectiveness of public investment and job creation activities.

- BC 21 meets vital needs for new public facilities — in health care, education, child care, research and development, transit and ferries.
- It ensures the maximum level of regional benefits from all public sector investment — jobs, opportunities for private sector suppliers, and training for workers.
- BC 21 plans and builds important transportation links using the B.C. Transportation Financing Authority.
- It funds innovative regionally-based job creation and training opportunities.
- And it supports community initiatives to build or improve neighbourhood facilities.

Honourable Speaker, we will continue to build on the success of BC 21 during the coming year.

Public investment in schools, health care facilities, post-secondary institutions, and justice facilities will total \$1 billion in 1994/95.

To enable working families to take full advantage of education and job opportunities, we will continue our three-year initiative to create 7,500 new child care spaces.

And we will be introducing new initiatives to support quality child care that meets the needs of families at a cost they can afford.

A new consolidated capital planning process, put in place this year, will ensure that major capital investments are made in the most cost-effective way.

It will also ensure that British Columbians obtain the greatest possible benefit from capital expenditures in terms of job creation, training, skills development and regional economic impact.

**Building highways**

The B.C. Transportation Financing Authority will invest \$300 million in 1994/95.

This investment will keep the Vancouver Island Highway on schedule and allow us to make a start on other long-overdue transportation projects during the coming months.



The Build BC Special Account will be continued with a budgetary allocation of \$100 million.

Priorities for the fund will include:

- a continuation of the Community Grants Program;
- new initiatives to support affordable housing; and
- new partnerships with the private sector to help expand science and technology industries.

Honourable Speaker, the BC 21 initiative will be supplemented in 1994/95 by a new Canada-British Columbia infrastructure program.

This new federal-provincial-municipal program provides for a total investment of \$675 million over two years.

The provincial contribution will be \$225 million over two years.

Funding will be targeted mainly to priorities set by local government, with an emphasis on water, sewer, and local transportation projects.

### ***Protecting Health and Education***

Our investment in people is even more important than our investment in physical assets.

A healthy, well-educated population enhances both our quality of life and our long-term economic performance.

In our first two budgets we gave the highest priority to maintaining the quality of health and education services in the face of a growing population and serious fiscal constraints.

This budget continues to reflect that priority.

Expenditures on health care for 1994/95 will be \$6.4 billion.

That represents an increase of \$200 million or 3.3 per cent over the previous year.

While this increase is below those of the last few years, it is significantly higher than those in other provinces.

For example, Alberta's budget contains a 10-per-cent cut in health expenditures.

While British Columbians give the highest priority to maintaining a first-rate health care system, they also know that rising costs cannot simply be passed on to the taxpayer.

We must find better ways of providing first-class care.

Last year we introduced the New Directions initiative — to develop more cost-effective ways of ensuring a healthy population.

***Health funding  
increased***

**Education  
funding  
increased**

We also introduced a landmark labour-management accord that allows the necessary transition from expensive acute care to more effective community-based care.

And we negotiated a settlement with British Columbia's doctors that protects universal access to care within the means of taxpayers.

This year, we are taking a number of measures to protect those health programs experiencing the most serious cost pressures.

The cost of the Pharmacare program has grown from \$215 million five years ago to \$365 million today.

To protect the viability of this important program we have launched a new Therapeutics Initiative.

It will provide an independent scientific evaluation of new and existing prescription drugs, and make recommendations on coverage and use.

And the Minister of Health will be announcing a number of additional measures to ensure the continued viability of the Pharmacare program.

Honourable Speaker, during the coming fiscal year, we will spend \$3.38 billion on operating grants to elementary and secondary schools.

That represents an increase of \$130 million or four per cent over last year's grant.

This increase provides full funding for enrolment increases, an additional one per cent for operating cost pressures, and \$30 million for children with special needs.

Operating grants for universities and colleges will be \$1.06 billion — up 3.4 per cent.

***New Skills For a Changing Economy***

Honourable Speaker, over the coming decades British Columbia's economic success will depend on the skills of its workforce.

High skill levels are a critical factor in our ability to provide knowledge-based industries and jobs with a future for ordinary British Columbians.

We are at a crossroads where failure to move ahead decisively would create a widening gap between the skills of our workforce and those needed in the changing economy.

And the result of this failure would be increasing unemployment and rising costs for social assistance.

Last summer, the Premier's Summit on Skills Development brought together British Columbians from all walks of life to help chart a plan of action.

In the coming days we will announce a comprehensive new skills and training initiative.

This initiative will provide young people and working British Columbians with the skills they need for jobs in a changing economy.

We are making skills training programs more accessible.

And we are making improvements to high school and post-secondary education to meet the needs of the real world.

In addition to the \$34-million-grant increase for post-secondary education, we are providing \$90 million in new expenditures to implement the new skills initiative in 1994/95.

Over the next two years, we are committing \$200 million to this important new initiative.

Together with the grant increase for post-secondary institutions, this funding will create over 8,100 additional full-time post-secondary spaces in 1994/95.

### ***Revitalizing our Forest Sector***

Honourable Speaker, the health of our forest industry is critical for the survival of communities across British Columbia.

Yet our forests and the communities that depend on them are facing serious problems.

Years of overcutting and poor management practices have led to a decline in both the quantity and quality of the remaining resource.

Employment in the forest industry has been declining for over a decade, due to both mechanization and resource limits.

And the disputes over the use of our forest land base are intense.

Taking action to overcome these problems and revitalize our forest sector is one of this government's highest priorities.

In 1992, we launched the CORE process — appointing an independent commissioner to develop regional land-use plans on the basis of community participation.

We initiated a province-wide Timber Supply Review to address the legacy of overcutting and set harvest levels that are sustainable.

We launched a \$40-million Forest Worker Development initiative under BC 21 to increase the level of silviculture in forest communities while creating jobs and improving worker skills.

And we provided new funding through BC 21 to increase the Small Business Forest Enterprise Program.

***Skills and  
training for the  
21st century***

***Sustaining our  
forest communities***

**Support for  
small- and  
medium-sized  
businesses**

Honourable Speaker, we will continue to give priority to renewing our forests over the coming year.

Despite the budgetary pressures we face, we are maintaining our total silviculture spending at \$275 million to ensure the long-term viability of our wood supply.

We are increasing our funding for the Small Business Forest Enterprise Program from \$109 million to \$140 million.

This new funding will increase the wood supply to smaller manufacturers of high value-added products, and the cost will be offset by new forest revenues.

Honourable Speaker, during this legislative session, we will introduce the new Forest Practices Code.

And we are providing new funding of \$20 million to ensure implementation of this vital initiative.

Finally, over the coming months, we will be announcing a comprehensive package of initiatives to ensure future jobs and the sustainability of forest communities.

It will focus on investing in forest lands, protecting the forest environment, ensuring higher levels of value-added manufacturing, and assisting forest-based communities and workers in the face of change.

### ***Encouraging Private Sector Investment***

While the public sector can provide essential support through its investment in areas such as infrastructure, natural resource management and skills, most job creation occurs in the private sector.

It is the private sector, particularly small- and medium-sized businesses, that is playing the lead role in British Columbia's transition from the old to the new economy.

During my pre-budget consultations across the province, business groups made it clear they were not looking for handouts.

They want better access to investment capital, less government red tape, and a fair tax system.

Over the last two years we have already taken a number of initiatives to help the private sector grow and create jobs.

- We opened the B.C. Investment Office to match private sector investment with new opportunities and cut the red tape sometimes faced by new businesses.
- We introduced the BC Focus program to assist new, innovative B.C. businesses.

- We launched a BC Buy Smart program to help more B.C. businesses get government contracts.
- And last year we lowered or eliminated corporation capital taxes for 3,500 small businesses.

In this budget, I am pleased to introduce a number of measures to help small business grow and create jobs.

FIRST, we are increasing the threshold for the corporation capital tax to \$1.5 million of paid-up capital and the tax will now be phased-in between \$1.5 million and \$1.75 million of paid-up capital.

This change will eliminate or reduce the tax for another 2,000 small businesses.

SECOND, we are exempting cooperatives and incorporated family farms from the corporation capital tax.

This change will reduce taxes by approximately \$4 million and help another 500 businesses.

THIRD, we are introducing measures to reduce the costs that small businesses face in collecting and remitting taxes to government.

The required frequency for remitting sales and hotel room taxes will be reduced, and the commissions paid to businesses for collecting these taxes will be increased.

FOURTH, we are allocating another \$10 million to the successful BC Focus program.

This new funding will help innovative B.C. businesses raise the equity capital they need to start up or expand.

Honourable Speaker, we are also introducing a package of tax reductions and other measures to support the growth of key sectors of British Columbia's economy.

FIRST, we are introducing an \$18-million package to improve the competitiveness of the mining industry.

British Columbia's mining industry is a vital part of our overall economy and a major economic base for many communities.

It accounts for 16 per cent of our exports and many thousands of skilled jobs.

Specific measures I am announcing today include a reduction of the mineral tax rate for coal mines, an enhanced allowance for capital expenditures on new or expanded mines, a new exploration program, and funding to continue the Canada/BC Mineral Development Agreement.

SECOND, we are spending \$5 million more to help make tourism marketing more effective. Programs will be cost-shared with the private sector, and will provide an important boost to this key regional industry.

***Corporation  
capital tax  
cuts to support  
small business***

THIRD, we are increasing support for British Columbia's cultural sector by \$1.8 million.

Part of this expenditure will be allocated to creating a new funding partnership with the federal government and the private sector.

FOURTH, we are reducing the jet fuel tax by one cent per litre for international flights to advance the Vancouver International Airport as a major North American gateway to the Pacific Rim.

Additional tax reduction measures are outlined in the budget appendix.

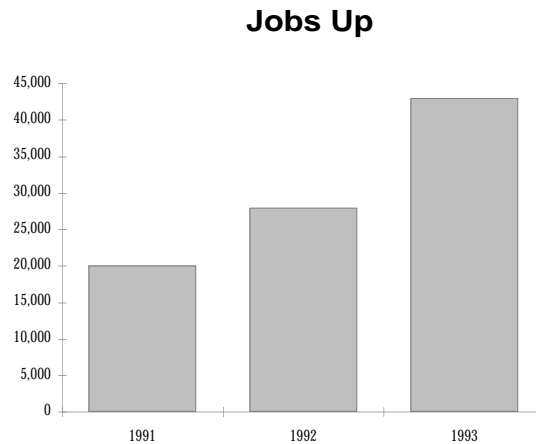
## CONCLUSION

Honourable Speaker, British Columbians have reason to feel good about our province and its future.

British Columbia has come through a challenging economic period, and we have emerged as Canada's strongest economy.

### **Jobs up**

We have created more jobs than any other province.



We have the second lowest taxes of all Canadian provinces.

This government has the highest credit rating.

And we have the lowest government debt as a per cent of our economy of all Canadian provinces.

This budget builds on that strength.

It is a practical and pragmatic budget with clear goals.

It focuses on areas where government can make a real difference, and it recognizes that our economic future depends on the initiative and talent of the private sector, the public sector, and all British Columbians.

Honourable Speaker, this budget shows that our fiscal plan is on track, and the sound fiscal management of the last two-and-a-half years is starting to pay off.

It cuts the deficit for the third year in a row.

It puts forward our plan to balance the budget in two years.

It freezes taxes for the next three years.

And it includes \$112 million in tax cuts to make the tax system more fair and to encourage private sector growth.

But there is much more to be done if British Columbia is going to maintain its position as the best place in Canada to live, work, and do business.

This budget is focused on the tasks ahead.

It places a high priority on skills training, job creation and the long-term health of our forest sector.

It recognizes the challenges we face as our province makes the transition to a diversified value-added economy.

And it protects vital health and education services.

With this budget, we are taking concrete action to invest in the future and make sure all British Columbians have a fair chance to participate in the new economy.

Honourable Speaker, this budget proves that we've been listening to British Columbians.

And we will continue listening and working with people all over this province to build a healthy economy and a secure future for everyone.

Thank you.

***Deficit down***

***Taxes frozen***



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**APPENDICES**

**Appendices**

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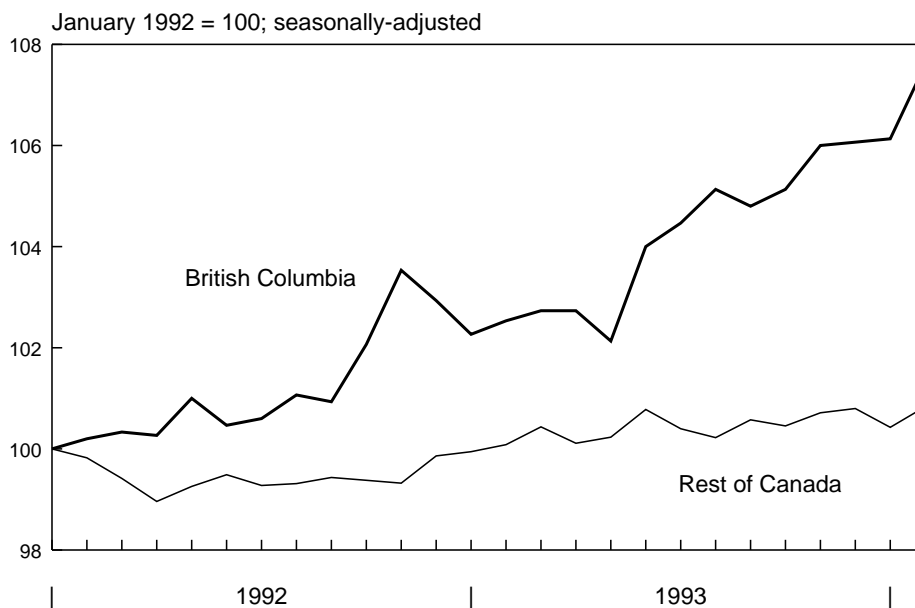
## Economic Review and Outlook

### Overview and Summary

The British Columbia economy grew an estimated 3.2 per cent in 1993. Growth was broadly based compared to recent years. The main sources of growth were consumer spending, machinery and equipment and residential investment. Exports also rebounded sharply from 1992 levels, which were depressed by shutdowns in the pulp, paper and coal mining industries. However, import volumes grew faster than exports due to the strength of domestic demand.

The labour market also improved in 1993 and was quite robust compared to the rest of Canada. Employment rose 2.9 per cent, compared to 0.9 per cent in the rest of the country (see Chart A1). In British Columbia, 44,000 new jobs were created, 38,000 of them full-time positions. Much of the private-sector job growth was in self-employment rather than paid employment. Employment declined 0.6 per cent in Vancouver, but rose 3.2 per cent in Victoria and 7.9 per cent in the rest of the province.

**CHART A1**  
**EMPLOYMENT:**  
**B.C. AND THE REST OF CANADA**



Source: Statistics Canada

During the first half of 1993, the number of people available for work grew more slowly than employment, causing the unemployment rate to dip to 8.6 per cent in October. However, by the beginning of 1994, growth in employment and the labour force were running neck and neck, and the unemployment rate rose to about 10 per cent in January and February. The rapid growth in the labour force was due, in part, to record levels of in-migration. In 1993, there was a net inflow of 80,435 people to British Columbia from other countries and the rest of Canada, up nearly 11,000 from the previous record in 1992.

Looking ahead to 1994 and 1995, conditions in the world economy should improve as recessions come to an end in Europe and Japan. Despite recent interest rate increases due to fears of renewed inflation in the United States, monetary conditions should remain conducive to economic expansion, given the large amount of excess capacity in the Canadian economy.

British Columbia's exports should continue to expand with recovery overseas, and the North American economy still in the early to middle stages of an expansion. In-migration to British Columbia is likely to slow over the next few years as economic conditions improve in the rest of Canada. This will reduce housing pressures in areas that are popular destinations for new residents. Nevertheless, annual population and employment growth in excess of 2 per cent should keep consumer markets expanding. Several major investments in the province that have been announced recently will also provide a solid foundation for economic growth.

The provincial economy is expected to grow 3.4 per cent in 1994 and just under 3 per cent over the 1994-98 period.

## **The External Environment**

### ***The International Economy***

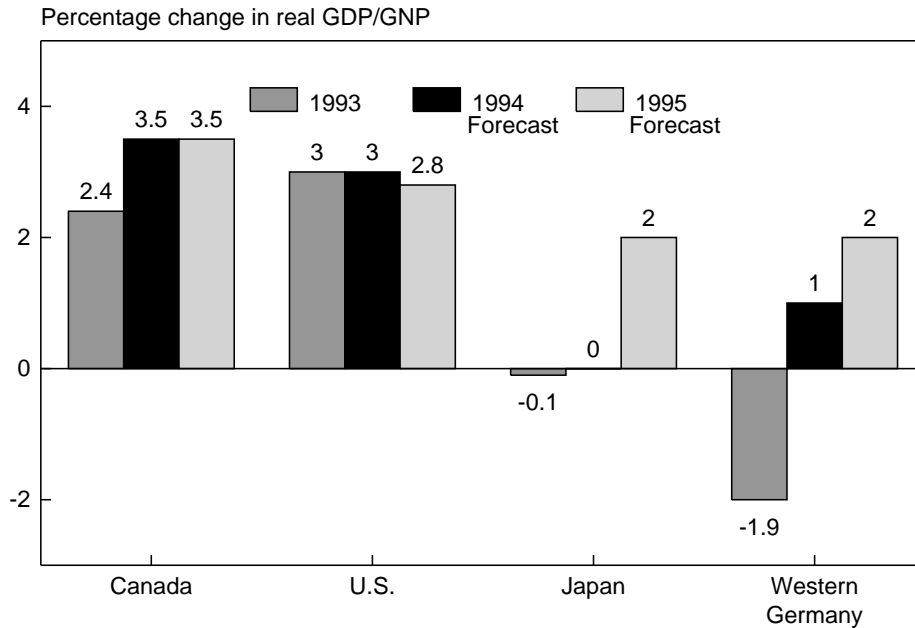
The North American economy grew rapidly in the fourth quarter of 1993, but the Japanese and German economies remained in a slump. The Canadian and United States economies are expected to lead the major industrial countries in economic growth in 1994. Conditions in Japan and most of Europe are not expected to improve much until well into 1994.

A broadly-based pickup in domestic demand helped to strengthen economic activity in the **United States** in 1993. Growth was dampened by slow growth in exports, surging imports and falling government spending caused largely by defence cutbacks. Residential repair and construction, a key market for British Columbia wood products, was spurred by declining interest rates and rebuilding following extensive flooding in the Midwest. Housing starts rose 7.2 per cent to 1.29 million units in 1993 and are expected to total 1.37 million in 1994 and 1.42 million in 1995. The strength of the United States economy resulted in the value of British Columbia's exports south of the border growing 26 per cent in 1993. The U.S. economy is expected to grow 3.0 per cent in 1994 and 2.8 per cent in 1995 (see Chart A2).

In **Japan**, both domestic and external demand were weak in 1993. Japanese real gross domestic product (GDP) shrank in the fourth quarter and was unchanged for the year. Consumer spending was sluggish due to weak growth in employment and income. The higher value of the yen adversely affected export growth and investment spending, but excess industrial capacity and office space, and depressed profits also took their toll. The only bright spot in the Japanese economy has been housing starts, an important market for British Columbia lumber. Starts rose about 5.9 per cent, partly due to government loan programs. The value of the province's wood exports to Japan rose over 60 per cent in 1993 due to consumption and price increases. Total exports to Japan increased 19 per cent.

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## CHART A2 ECONOMIC GROWTH



Source: Ministry of Finance & Corporate Relations

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Japan's coalition government faces three major economic policy problems: implementing its fiscal stimulus program, finding a way for the over-valued yen to depreciate against major currencies and at the same time satisfying U.S. demands for reduced trade barriers. With domestic demand likely to decline (even with the fiscal stimulus program) and the high value of the yen dampening exports, no growth is expected in the Japanese economy in 1994. In 1995, growth is expected to be 2.0 per cent, weak by historical standards.

Other countries in the **Asia-Pacific** region currently form small, but rapidly-growing potential markets for British Columbia and Canada. Most countries in the region expanded rapidly in 1993. Hong Kong, South Korea, Thailand and Singapore grew at rates of between 5 and 10 per cent. China recorded another year of 13 per cent growth and the government is trying to reduce growth to a more sustainable rate of 9 per cent in 1994. Rapid growth is expected to continue in the other countries.

**Europe** is in recession. The European economy shrank 0.6 per cent in 1993, mainly due to recessions in Germany and France. Domestic demand declined in most countries but the United Kingdom. The west German economy shrank 1.9 per cent, which was partly offset by growth in east Germany. Consumer demand stagnated as a result of lower real incomes and lower employment. As a result of the recession, British Columbia's exports to Europe declined in 1993.

The west German economy is expected to grow 1.0 per cent in 1994 and 2.0 per cent next year. Despite the expansion in the United Kingdom, weak performances by Germany and France will hold economic growth in Europe to just 1.2 per cent in 1994 and 2.1 per cent in 1995.

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## ***The Canadian Economy***

The performance of the Canadian economy improved significantly in 1993, with real gross domestic product growing 2.4 per cent, more than three times the 0.7 per cent growth rate in 1992. The major contributor to Canadian economic growth was the expansion in exports of goods and services, reflecting continued strong demand from the United States and the depreciation of the Canadian dollar against its U.S. counterpart.

Although economic growth has picked up, the economy continues to operate well below potential. In the fourth quarter of 1993, the industrial capacity utilization rate was 79.7 per cent, well below its most recent peak of 86.9 per cent in the fourth quarter of 1987. It is estimated that the Canadian economy is running between 6 and 9 per cent below potential. This compares to an "output gap" of 1 to 1.5 per cent in the United States.

Employment growth has barely kept up with labour force growth in 1993, keeping the national unemployment rate near 11 per cent. Concerns about job security were reflected in the modest 1.6 per cent increase in the volume of consumer spending. The housing market remained weak east of the Rockies, with Canadian housing starts falling to an eight-year low of 155,000 units. As a result, residential investment fell 3.8 per cent. Plant closures and corporate downsizing contributed to a 9.2 per cent drop in the volume of non-residential construction. The one bright spot in the economy, in addition to exports, was machinery and equipment investment, which rose 8.5 per cent.

The weak economy pushed Canada's inflation rate down last year. Consumer prices rose 1.8 per cent and average hourly earnings were up 1.5 per cent. Wage settlements averaged 0.7 per cent in 1993, the second consecutive year that a record low was reached. The rate of inflation slowed further as 1994 began, falling to 1.3 per cent in January. Inflation in Canada is expected to decline further in 1994, with the one-time effect of federal and provincial tobacco tax reductions lowering inflation to about 0.8 per cent. Also, there is considerable slack in the economy so that even with stronger growth, inflation is unlikely to rise significantly.

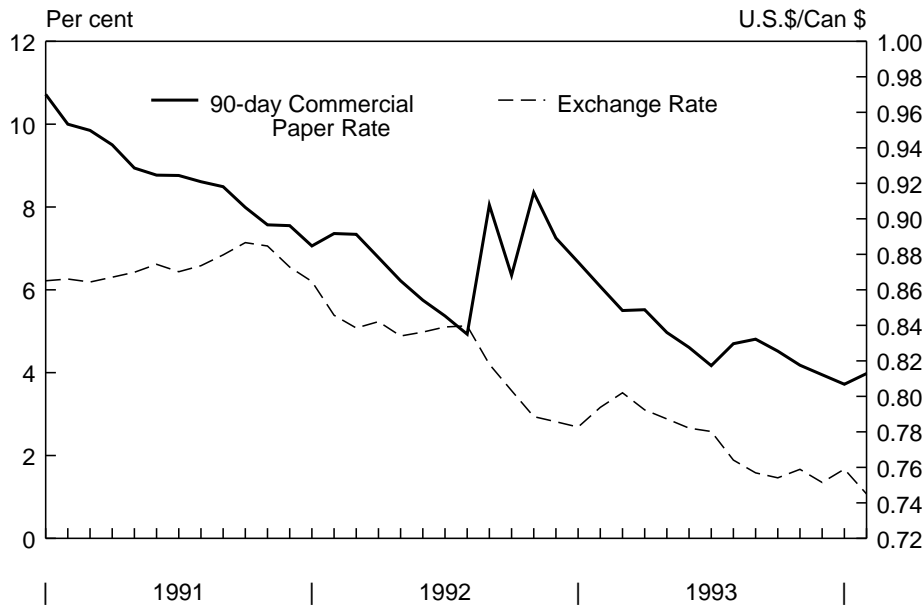
The Canadian economy is expected to grow 3.5 per cent in 1994 and 1995. Economic growth should accelerate due to stronger domestic and external demand. Faster employment growth will result in increased consumer spending. The recovery in Europe and Japan in the second half of the year, and higher commodity prices will boost exports and contribute to higher growth. Capital investment will remain relatively weak due to excess capacity in several sectors.

## ***Financial Markets***

Over the past year, the spread between Canadian and U.S. short-term interest rates has narrowed to its current 0.3 per cent in mid-March. Less than four years ago, the spread was more than 5 percentage points. Combined with the depreciation of the Canadian dollar, the drop in short-term interest rates and the narrowing spread represent a significant easing of monetary conditions in Canada. This has been possible because inflation stayed in the lower part of the target band set by the Bank of Canada. In December, the federal government and the Bank of Canada announced that monetary policy will aim at maintaining inflation in the 1 to 3 per cent range through 1998.

Monetary conditions in Canada continued to ease in the fourth quarter of 1993 and early in 1994 as the result of a lower currency and declining short-term interest rates (see Chart A3). In February and March, interest rates rose in the United States after the U.S. Federal Reserve raised its interest-rate target for overnight loans from 3.0 to 3.25 per cent and signalled that further increases were likely. The subsequent rise in market-determined U.S. interest rates appears to be the result of rising inflation expectations. Canadian interest rates rose in response to the U.S. increases, despite lower inflation in Canada.

## CHART A3 MONETARY CONDITIONS



Source: Bank of Canada

Because the Canadian economy continues to operate well below potential and inflation pressure is virtually non-existent, the outlook is for short-term interest rates to average about 4 per cent for the year. The favourable inflation outlook should allow long-term interest rates to continue the slow decline that was interrupted in February and March as rates rose about 0.7 percentage points. Rates on 10-year-and-over government bonds should average 6.8 per cent this year and 6.7 per cent in 1995. Even with these declines, real long-term interest rates would remain near 5 per cent next year.

The Canadian dollar started 1993 at 78 U.S. cents and finished the year at 75 cents. A number of factors contributed to the depreciation of the dollar.

- In August, turmoil in the European monetary system spilled over to North America.
- The October federal election caused some volatility, although less than many expected.
- The increase in trade tensions between the United States and Japan and the resulting currency swings side-swiped the Canadian dollar.
- Public discussion of government deficits and debt and Canada's growing external indebtedness created nervousness among foreign investors.
- Canada-U.S. interest rate differentials narrowed.

The Canadian dollar is expected to average about 75 cents U.S. this year and next. The effect of narrower Canada-U.S. interest rate spreads and foreign concerns about Canada's fiscal problems should be offset by the country's favourable inflation performance. Rising commodity prices and exports would also lend support to the currency.

## British Columbia: 1993 Performance and 1994-95 Outlook

The British Columbia economy continued to outpace growth in the rest of Canada during 1993. Most indicators suggest the province remained the country's growth leader into 1994. The provincial economy grew an estimated 3.2 per cent in 1993 compared to 2.4 per cent for Canada as a whole. (See Table A1 for forecast details and Table G1 for general economic indicators.)

### *The Domestic Economy*

Economic activity in 1993 was driven by strong population growth, which boosted consumer spending and residential investment, and growth in machinery and equipment investment. A record level of net in-migration to British Columbia in 1993, totalling 80,435 persons, supported growth in domestic demand. As well, the depreciation of the Canadian dollar helped British Columbia merchants as cross-border shopping trips dropped 15 to 20 per cent last year. Real **consumer spending** (i.e. adjusted for inflation), which accounts for about two-thirds of total GDP, rose an estimated 2.9 per cent in 1993, following growth of 2.3 per cent in 1992. Real consumer spending is expected to grow 3.7 per cent in 1994 and 3.4 per cent in 1995. The pickup in 1994 is the result of faster growth in spending on consumer services.

**Capital investment** increased 8.4 per cent in nominal terms in 1993, according to Statistics Canada. This represents an inflation-adjusted increase of approximately 5.5 per cent. In 1994, the focus of investment growth is expected to shift away from residential construction. Total capital investment is forecast to rise 1.5 per cent in real terms in 1994 and 3.9 per cent in 1995.

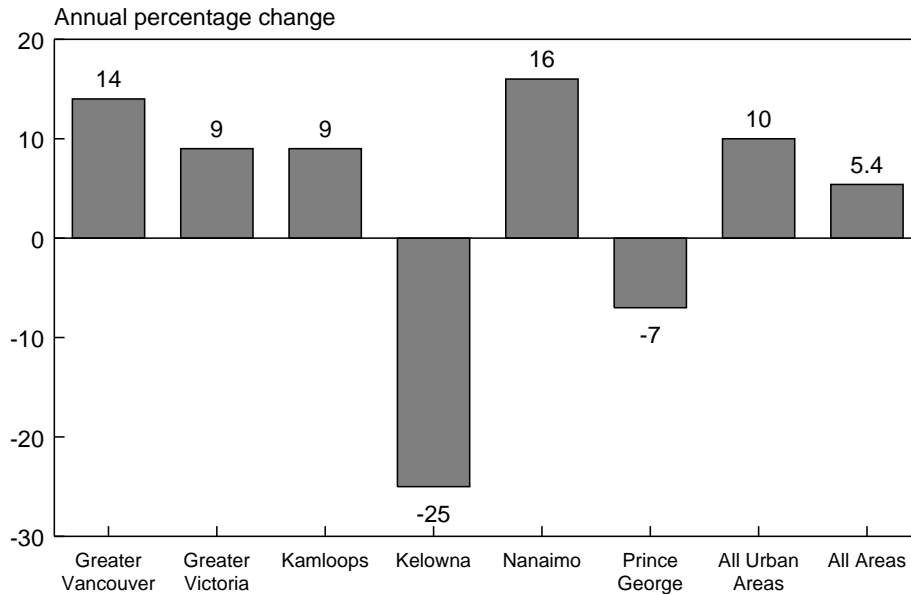
Residential construction investment rose 3.7 per cent in real terms in 1993, reflecting the increase in housing starts to a record 42,807 units. Housing starts are forecast to fall to 39,500 units in 1994, as in-migration slows and the market pauses to absorb large numbers of multiple-unit projects started recently. (Chart A4 shows growth in housing starts in the province's major cities.)

The introduction of a first-time home buyers' exemption from the provincial property transfer tax will add support to the market for new and existing homes. Housing supply has not kept pace with demand in recent years and prices in many areas of British Columbia have risen well above levels in other parts of Canada. Based on Multiple Listing Service data, recent sales prices for existing homes in Victoria and Vancouver are the highest in Canada. Not surprisingly, British Columbia housing is the least affordable in Canada; according to the Royal Bank, a typical starter home will absorb 50 per cent of the purchaser's monthly pre-tax income in mortgage, tax and utility payments, compared to under 35 per cent in the rest of the country.

Non-residential construction investment rose 1.5 per cent in real terms last year and is expected to increase 6.9 per cent in 1994 and 4.5 per cent in 1995. The slowdown in new office construction helped reduce the Greater Vancouver vacancy rate by 0.9 percentage points in 1993 to 12.2 per cent. Meanwhile, Victoria continued to have one of the lowest office vacancy rates in North America at 2.9 per cent. The provincial government is hoping to reach agreement with the city on its proposal to develop new office, residential and commercial space on provincially-owned land in and around the Legislative precinct. This would help improve the quality of service to the public and bring greater efficiency to government ministries' operations, many of which are scattered around the Capital.

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## CHART A4 HOUSING STARTS – 1993



Source: Canada Mortgage and Housing Corporation

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Significant new investments in the province are underway or were announced recently:

- MacMillan Bloedel will spend \$200 million at Port Alberni to build a facility that will produce light-weight coated magazine paper.
- Cominco will spend \$145 million to upgrade its lead smelter at Trail.
- Vancouver appears close to winning a National Basketball Association (NBA) franchise. A new \$145-million arena to house both the Vancouver Canucks of the National Hockey League and the NBA team is under construction and will be completed next year.
- At Prince Rupert, the Port Corporation is expanding its facilities to handle recent large increases in pulp shipments. North Coast Timber is spending \$24 million to re-construct a sawmill that has been inactive since 1990.
- Doman Industries is building an \$11-million wood re-manufacturing plant at Chemainus on Vancouver Island.

**Government spending** — federal, provincial, local and hospital — in British Columbia rose an estimated 1.9 per cent in real terms in 1993. Most of the increase was at the local government level, where employment was up from 27,000 in 1992 to 34,000 in 1993, according to Statistics Canada. In contrast, federal employment in British Columbia was up 1,000 while provincial government employment was unchanged. Ongoing federal and provincial spending restraint is expected to hold growth in total government spending to 0.8 per cent in 1994 and result in a decline in 1995.

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## **External Trade**

### **— Overview**

The pickup in the U.S. economy and the depreciation of the Canadian dollar helped generate a large increase in British Columbia exports in 1993. The *value* of foreign exports rose 16.2 per cent while exports to the rest of Canada grew slowly. Foreign exports benefited from the rise in lumber prices during 1993. Judging by the experience of Canada as a whole, where exports and imports grew over 10 per cent in real terms, strong import growth likely offset the province's export gains. The *volume* of exports is estimated to have grown 5.5 per cent in 1993 while imports grew an estimated 6.8 per cent. An anticipated acceleration of export volumes and slower import growth in 1994 will result in an improvement in the province's trade position in 1994. Both imports and exports are forecast to rise 3.5 per cent in 1995.

Excess capacity and inventories held down prices for many of British Columbia's exports in 1993. Prices for pulp and paper and metals such as copper, zinc and lead probably hit bottom late in 1993 and should rise during 1994. Recent upturns in various commodity price indexes suggest that demand for industrial commodities will rise through 1994.

### **— Forest Products**

Wood products remain the star performer on the commodity front. Prices were high on average but very volatile during 1993. Just-in-time inventory management, summer floods in the U.S. Midwest, unusually bad winter weather east of the Rocky Mountains and the earthquake in Los Angeles whipsawed the lumber market. Lumber prices started 1993 at \$304 U.S. per thousand board feet, peaked at \$470 in March, fell to a low of \$235 in May and finished the year at \$448. Timber supply shortages combined with rising housing starts and lumber consumption in the United States are supporting the high level of lumber prices. In early March, lumber was selling for \$438, compared to last year's average of \$337.

The prolonged slump in pulp and newsprint prices has taken a toll on forest company earnings. In January 1993, pulp was selling for \$535 U.S. per tonne. By the end of the year, the price had fallen to \$400 per tonne. However, Canadian pulp producers succeeded in raising prices by between \$30 and \$50 per tonne for northern bleached softwood kraft in February. This puts the price at around \$440 per tonne in both North America and northern Europe.

### **— Mining**

Metal prices were weak during most of 1993 but picked up toward year end and early in 1994. Demand for metals should increase in North America this year, but will be offset by weakness in Europe and Japan. Exports of zinc, aluminum and nickel from the former Soviet republics are levelling off, but it will take some time to absorb high inventories. Copper prices have been rising due to stronger demand from the housing and automotive industries in North America.

After a difficult 1992, coal mines in the southeast returned to production and regained some financial stability. However, contract prices for southeast coal were reduced late in 1993. The longer-term outlook for coal prices is not much different than it has been for the past few years. Prices will remain under pressure due to more-than-ample supplies and the adoption of new steel-making technologies that use less coal.

In recent years, the focus of mining exploration and development activity has shifted from North to South America, due partly to the presence of much richer ore bodies. The mining tax relief initiatives announced in the budget will help British Columbia's mining industries compete with lower-cost operations in other parts of the world.



## — Energy

British Columbia's two largest energy exports, after coal, are natural gas and electricity.

The posted minimum price for British Columbia natural gas price rose from \$1.19 per gigajoule in January 1993 to \$1.50 at the end of the year, while oil prices fell from \$19 U.S. per barrel in January to a low of \$14.35 in December 1993. Growth in natural gas exports and prices created considerable interest in exploration in British Columbia as shown by the 233 per cent jump in sales of Crown land drilling rights in 1993/94.

World energy demand continues to grow slowly while the potential supply remains large. OPEC continues to have difficulty setting and enforcing production quotas. Consequently, price increases will be limited in 1994.

Electricity exports from the province fell by over 50 per cent in 1993 because low levels of precipitation reduced generating capacity. Heavy snowfalls in late February 1994 boosted the snowpack to over 90 per cent of normal levels in some areas of the province. This will help to raise electricity production capacity this year.

## — Fishing

British Columbia's fishing industry accounted for about \$600 million or about 4 per cent of the province's merchandise exports in 1993, an 8 per cent increase from 1992. The salmon harvest rose significantly from 1992 as it approached the peak in its natural cycle. However, prices were held down by the size of the catch and a glut of farmed salmon on world markets. The herring catch also increased from 1992 levels. Both the salmon and herring harvest are expected to be large in 1994 as well. However, a dispute over a new West Coast salmon treaty is brewing between Canada and the United States. The treaty would renew a 1985 agreement that set catch levels for Canadian and U.S. boats.

## — Secondary Manufacturing

Activities in this diverse group of industries include printing, publishing, food and beverage processing, and manufacturing of transportation, communications and other high-technology equipment. The value of secondary manufacturing exports totalled over \$1 billion in the first 10 months of 1993, a 45 per cent increase from 1992. Secondary manufacturing employed over 100,000 people in 1993, accounted for about half the province's total manufacturing activity and represented nearly 7 per cent of the province's GDP.

## — Tourism

Tourism generates "exports" of retail trade, food and accommodation services. It accounts for an estimated 3.6 per cent of British Columbia's GDP and is responsible for over 100,000 jobs in the province. The depreciation of the Canadian dollar helped boost the number of international visitors to British Columbia by 3.1 per cent in 1993. Hotel occupancy rates averaged 62.6 per cent in 1993, down slightly from 1992. Accommodation and food service employment declined in 1993. Tourism activity and employment should get a significant boost from the Commonwealth Games in the summer of 1994 and the return of ferry service between Victoria and Seattle.

## ***The Labour Market***

Labour market indicators reflect the province's relatively good economic performance in 1993 and early 1994. British Columbia employment grew 2.9 per cent in 1993 compared to a 0.9 per cent increase in the rest of Canada. About four out of five of the new jobs created in 1993 were full-time positions. In January and February 1994, employment was 4.4 per cent higher than in the same period last year.

Two notable job market developments in 1993 were the rapid growth in self-employment and employment outside Vancouver and Victoria:

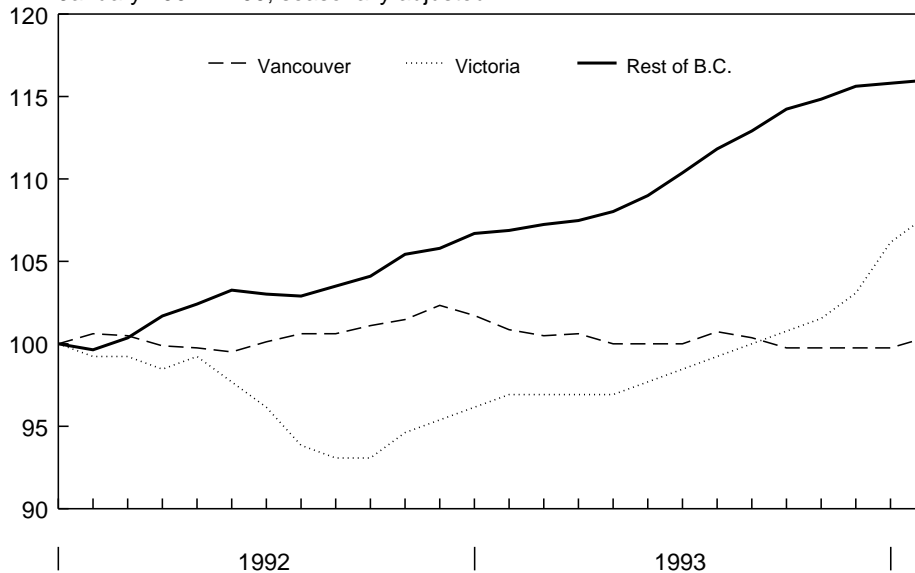
- Self-employment grew 7.3 per cent compared to a 0.5 per cent rise in private-sector paid employment.
- Employment fell 0.6 per cent in Vancouver (5,000 jobs), but rose 3.2 per cent in Victoria (4,000 jobs) and 7.9 per cent in the rest of the province (45,000 jobs — see Chart A5). Unemployment rates are still higher outside the two largest cities, but the gap has narrowed (see Table G1).

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## CHART A5 BRITISH COLUMBIA EMPLOYMENT

3-Month Moving Average

January 1992 = 100; seasonally adjusted



Source: Statistics Canada

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The growth in self-employment may be a “push-pull” phenomenon. Corporate downsizing during the recent recession and the trend toward out-sourcing of legal, accounting and other services by larger corporations has resulted in many professionals setting up their own businesses to serve former employers. The “pull” factor is the strength of the British Columbia economy and the appeal of setting up a business to take advantage of the province’s rapidly-growing population and market for consumer and business services.

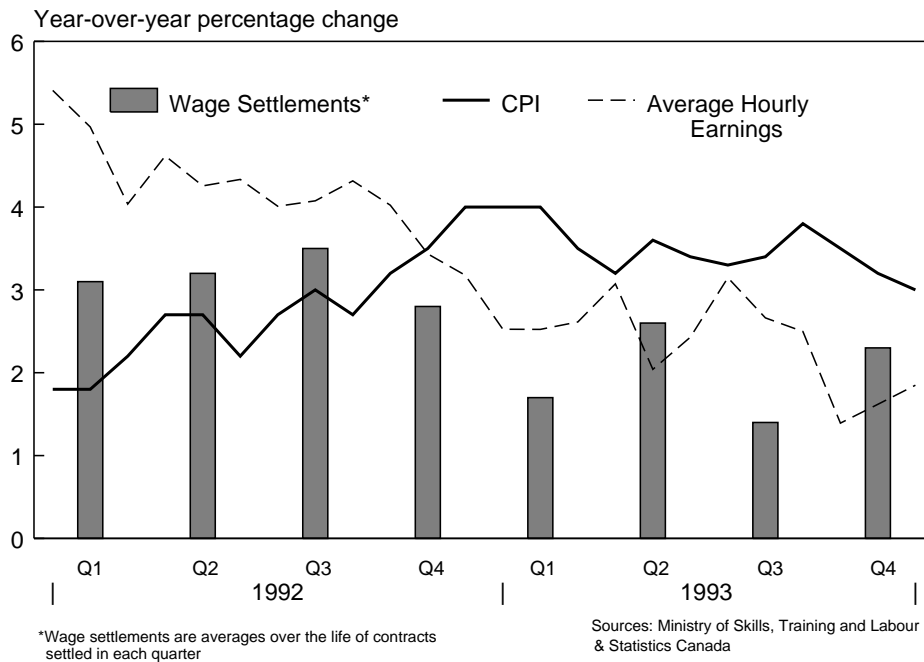
A 2.1 per cent rise in the province’s labour force limited the fall in the unemployment rate to 9.7 per cent in 1993, compared to 10.4 per cent in 1992. In-migration increased significantly in

the second half of 1993, resulting in a net inflow of 80,435 people for the full year. As a result, the provincial labour force grew rapidly in the last quarter of 1993 and early in 1994. In January and February, the labour force was 4.7 per cent larger than a year earlier. While in-migration is expected to decline to 67,600 people in 1994, rapid labour force growth will continue through most of the year. As a result, a projected 3 per cent rise in employment is expected to be offset by a 3 per cent increase in the labour force, leaving the unemployment rate unchanged. In 1995, both employment and the labour force are forecast to rise 2.3 per cent, leaving the unemployment rate at 9.7 per cent.

### Wages and Prices

Inflation rose from 2.7 per cent in 1992 to 3.5 per cent in 1993, but the monthly year-over-year inflation rate fell from 4.0 per cent at the beginning of 1993 to 3.0 per cent in December (see Chart A6). In January 1994, the inflation rate fell to 2.5 per cent. Low inflation held down wage settlements in 1993 as increases averaged 2.3 per cent. Statistics Canada's fixed-weighted hourly earnings index, which covers both union and non-union workers, rose 2.4 per cent in 1993. Further declines in inflation are likely in 1994 due to the recent decline in federal tobacco taxes and smaller increases in government-regulated prices this year. Inflation is forecast at 2 per cent in 1994 and 1.8 per cent in 1995. Wage settlements are expected to remain low over the next two years and unit labour cost increases should fall in line with inflation.

**CHART A6  
B.C. WAGES AND PRICES**



While the number of work-stoppages due to labour disputes rose from 52 in 1992 to 73 in 1993, days not worked due to disputes fell 55 per cent to 345,850. This represented only 0.1 per cent of the total time worked by paid employees, down from 0.2 per cent in 1992.

The collective bargaining calendar is heavier in 1994, with 536 major collective agreements expiring. The agreements cover 209,000 employees, representing about 40 per cent of the province's unionized workforce. Agreements up for negotiation in 1994 include contracts covering provincial government employees, forest workers and teachers.

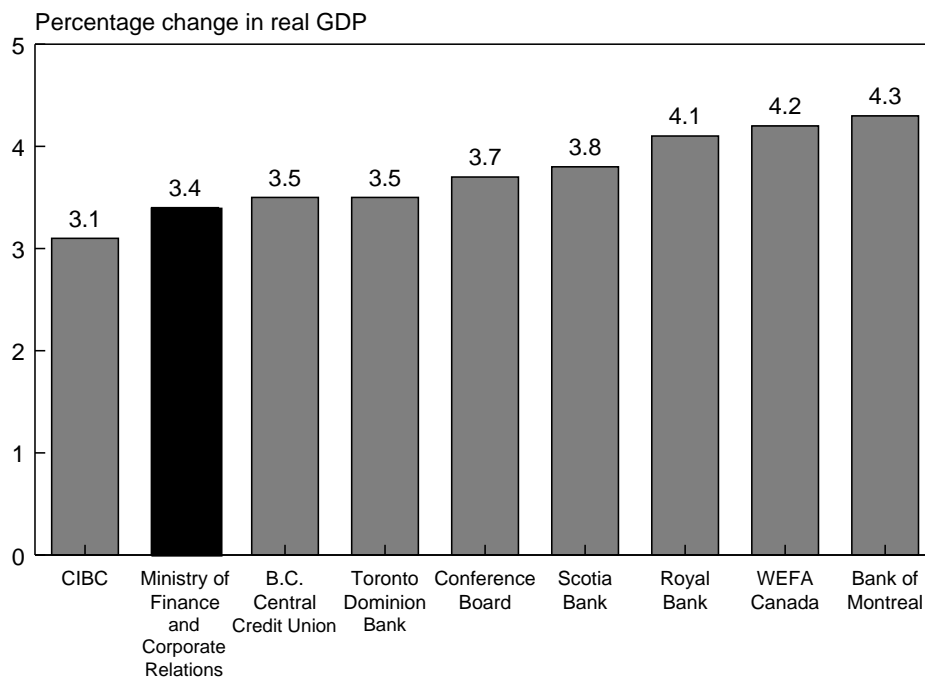
## Medium-Term Outlook

Chart A7 compares the Ministry of Finance and Corporate Relations 1994 economic growth forecast to projections by the major financial institutions and economic forecasting firms.

Growth in the British Columbia economy is expected to slow over the medium term with real GDP increasing at an annual average rate of 2.7 per cent between 1994 and 1998. A recovery in the central Canadian economy is expected to reduce net in-migration to British Columbia from recent record levels, causing slightly slower growth in consumer spending and housing investment. However, steady growth in the United States economy, together with an anticipated recovery in Japan and Europe in 1995, should help boost provincial exports.

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**CHART A7**  
**FORECASTS OF B.C. ECONOMIC GROWTH – 1994**



## Risks to the Outlook

The forecast is based on several assumptions about future Canadian and international economic developments. Errors in these external assumptions could affect the economic outlook. For example:

- While net in-migration to British Columbia is projected to slow from recent high levels, a stronger-than-expected economic recovery in central Canada could cause a larger decline in net in-migration than is currently forecast. This would translate into slower growth in consumer spending and housing starts. In-migration could be higher than forecast if Alberta or central Canada grow slowly. This would boost the consumer sector but might also push the unemployment rate higher.
- Growth in the United States economy could be much stronger than forecast. Similarly, Germany and Japan could pull out of their economic slumps sooner and with greater strength than expected. In either case, growth in provincial exports would be stronger than currently forecast.
- Canadian interest rates may defy economic fundamentals of low inflation and slow growth and continue to rise, either as a result of larger-than-expected increases in U.S. interest rates, or in response to financial market perceptions about Canada's political and fiscal situation.
- Labour disruptions in some industries that are negotiating new collective agreements in 1994 could have a negative impact on the economy.

TABLE A 1  
BRITISH COLUMBIA ECONOMIC OUTLOOK

	Budget Forecast	Actual/ Estimate*	Forecast	
		1993	1994	1995
Gross Domestic Product (percentage change in current dollars).....	7.1	6.3	6.5	5.5
Real Gross Domestic Product (percentage change in 1986 dollars).....	3.2	3.2	3.4	2.8
Consumer Expenditure.....	3.0	2.9	3.7	3.4
Government Expenditure.....	1.2	1.9	0.8	-0.5
Capital Investment.....	2.9	5.5	1.5	3.9
Exports.....	2.8	5.5	4.3	3.5
Imports.....	1.7	6.8	2.8	3.5
Population (percentage change).....	2.8	2.4	2.9	2.5
Net In-migration.....	62,400	80,435	67,600	64,500
Interprovincial.....	32,300	42,001	36,000	34,100
International.....	30,100	38,434	31,600	30,400
Labour Force (thousands).....	1,733	1,729	1,781	1,822
(percentage change).....	2.4	2.1	3.0	2.3
Employment (thousands).....	1,552	1,561	1,608	1,645
(percentage change).....	2.3	2.9	3.0	2.3
Unemployment Rate (per cent).....	10.4	9.7	9.7	9.7
Retail Sales (millions of current dollars).....	25,878	26,350	27,925	29,460
(percentage change).....	6.1	7.8	6.0	5.5
Housing Starts (units).....	43,700	42,807	39,500	40,500
(percentage change).....	7.6	5.4	-7.7	2.5
Consumer Price Index (1986=100).....	131.9	131.6	134.2	136.6
(percentage change).....	3.7	3.5	2.0	1.8

Key Assumptions:

Economic Growth (per cent)

Canada.....	2.7	2.4	3.5	3.5
United States.....	3.0	3.0	3.0	2.8
Japan.....	2.0	-0.1	0.0	2.0
Europe.....	0.5	-0.6	1.2	2.1

Canadian Interest Rates (per cent; annual average)

3-month.....	5.9	5.0	4.0	3.9
10-year and over.....	8.0	7.9	6.8	6.7

U.S.¢/Canadian\$.....	79.0	77.6	75.2	75.4
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\* British Columbia GDP data for 1993 are Ministry of Finance and Corporate Relations estimates.

## APPENDIX B

### *Fiscal Review and Outlook*

#### **Review of 1993/94**

In 1993/94, the deficit was \$251 million below budget, and down \$477 million from 1992/93. Revenue in 1993/94 was \$221 million higher than budget, due to stronger-than-expected growth in natural resource revenue and corporate income taxes. Spending was \$30 million below budget as savings in income assistance and debt interest costs more than offset pressures in other programs (see Table B1).

TABLE B1  
BUDGETARY TRANSACTIONS  
CONSOLIDATED REVENUE FUND

	Budget Estimate 1993/94	Revised Forecast 1993/94	Budget Estimate 1994/95
	(\$ millions)		
Revenue .....	17,460.0	17,681.0	18,732.0
Program Expenditure .....	18,007.0	18,052.0	18,649.0
Program Surplus (Deficit) .....	(547.0)	(371.0)	83.0
Management of Public Funds and Debt .....	988.0	913.0	981.0
Surplus (Deficit) .....	<u>(1,535.0)</u>	<u>(1,284.0)</u>	<u>(898.0)</u>

The provincial government's financial requirements totalled \$1,020 million in 1993/94. This included the Consolidated Revenue Fund deficit less net receipts from financing and working capital transactions which totalled \$264 million (see Table B4).

Financial requirements were \$559 million lower than the budget estimate due to the lower deficit and to additional net receipts because personal income tax cash instalments from the federal government were \$200 million higher than the estimated tax due to the province.

Because of the lower financial requirements, the increase in provincial government direct debt was \$484 million lower than budget and cash balances were \$75 million higher.

#### **Revenue**

Revenue totalled \$17,681 million in 1993/94, 1.3 per cent higher than the 1993/94 budget estimate and up 9.4 per cent from the comparable figure for 1992/93. Table B2 shows the major changes from budget.

Petroleum and natural gas revenue was \$169 million above budget due to higher sales of Crown land drilling rights as a result of a pickup in natural gas prices and the favourable outlook for natural gas demand over the longer term.

TABLE B2  
REVENUE CHANGES FROM BUDGET, 1993/94

	Higher (Lower) \$ millions
Higher petroleum and natural gas revenue .....	169
Higher corporation income tax .....	102
Lower Established Programs Financing revenue .....	(75)
Higher forests revenue .....	66
Lower personal income tax .....	(55)
Lower British Columbia Hydro dividends .....	(50)
Higher revenue from the British Columbia Endowment Fund and investment earnings .....	48
Higher corporation capital tax .....	47
Lower other sources .....	(31)
<b>Total revenue</b> .....	<u>221</u>

Corporation income tax revenue was \$102 million or 16.8 per cent above budget, mainly as a result of a higher federal forecast of national corporate profits and a larger-than-expected positive prior-year adjustment for the 1992 tax year.

Established Programs Financing revenue was \$75 million or 5.6 per cent below budget because of the reimbursement to the federal government of an overpayment in 1992/93.

The \$66-million increase in forests revenue was due to timber sales under the Small Business Forest Enterprise Program being \$52 million above budget and logging tax revenue increasing \$17 million. Strong lumber prices were the major contributor to the increase from budget.

Personal income tax revenue was down \$55 million or 1.2 per cent from budget. While the estimate of 1993 national basic federal tax (BFT) declined 2.8 per cent, this was partly offset by an increase in British Columbia's share of BFT. The revised forecast incorporates an accounting change to record personal income tax on an accrual basis as recommended by the Auditor General. As a result, current-year revenue is the estimated tax due to the province for the fiscal year regardless of the timing of actual cash receipts from the federal government.

The dividend from British Columbia Hydro and Power Authority was down \$50 million from budget as low water levels in 1993 caused a reduction in net income due to lower electricity exports and increased energy purchases.

Revenue from the B.C. Endowment Fund and investment earnings increased \$48 million from budget due to higher-than-expected returns on investments.

Corporation capital tax revenue was 16.3 per cent above budget due to a higher-than-expected number of companies paying the tax. Currently, there are about 25,000 companies registered for the tax.

Revenue from other sources was \$31 million below budget.

- Property tax revenue was \$40 million lower than budget because of the government's decision to cancel the property tax surtax that was announced in the 1993 budget.
- Liquor Distribution Branch net income was \$25 million or 4.8 per cent higher than budget mainly due to higher volumes sold. The lower Canadian dollar and the federal collection of provincial liquor markups at the border caused an increase in domestic liquor purchases.



- Fuel tax revenue was \$20 million or 3.3 per cent higher than budget due to higher consumption volumes, partly reflecting the decline in cross-border fuel purchases.
- Tobacco tax revenue was down \$20 million or 4 per cent from budget due to a larger-than-expected decline in consumption volumes. Consumption volumes declined about 7 per cent in 1993/94, compared to the budget assumption of a 4 per cent decline.
- Social service tax was slightly above budget. Higher-than-expected growth in retail sales and business investment spending offset the impact of the government's decision to only partially implement the 1993 budget measures.

### **Expenditure**

Expenditure of \$18,965 million in 1993/94 was down \$30 million from budget and 5.8 per cent higher than comparable spending in the previous year. Table B3 shows that expenditure pressures in some ministries were offset by savings in other programs.

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TABLE B3  
EXPENDITURE CHANGES FROM BUDGET, 1993/94

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	Over (Under) \$ millions
Ministry of Social Services .....	(87)
Debt interest .....	(75)
Ministry of Health .....	63
Ministry of Attorney General .....	60
Ministry of Skills, Training and Labour .....	38
Ministry of Environment, Lands and Parks .....	32
Other programs .....	(61)
<b>Total expenditure</b> .....	<b>(30)</b>

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Expenditure by the Ministry of Social Services was \$87 million below budget because of a lower-than-expected income-assistance caseload. The number of income-assistance cases increased an estimated 10.9 per cent in 1993/94. In 1992/93, the caseload increased 17.1 per cent.

Debt interest costs were \$75 million below budget as borrowing and interest rates were lower than forecast.

Ministry of Health expenditure was \$63 million above budget mainly because of higher spending on the Medical Services Plan and Pharmacare.

Spending by the Ministry of Attorney General was \$60 million above budget, mainly due to increased expenditures for provincial correctional services and higher criminal injury compensation payments.

Ministry of Skills, Training and Labour expenditure was \$38 million above budget mainly due to increased provisions for doubtful student loans.

Expenditures by the Ministry of Environment, Lands and Parks were \$32 million above budget mainly because of increased land purchases related to the Protected Areas Strategy.

Changes in other programs resulted in net savings of \$61 million:

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- Ministry of Forests expenditure was \$22 million below budget because of underspending in silviculture and other activities. Due to cool, wet weather last summer, forest fire suppression costs were down 42 per cent from 1992/93.
- The Ministry of Energy, Mines and Petroleum Resources was \$13 million below budget because of lower expenditures for Vancouver Island natural gas pipeline assistance.
- The Ministry of Transportation and Highways was \$12 million above budget because of increased land acquisition costs.
- Ministry of Women's Equality spending was \$10 million higher than budget, mainly because of increased demand for day-care subsidies.
- There was a negative adjustment of \$25 million to reflect the amortization of the reduction in the unfunded pension liability of the Public Service Superannuation Fund. The latest actuarial valuation shows a liability of \$140 million, down from \$438 million.

## 1994/95 Fiscal Plan

Table B1 summarizes the budgetary transactions of the Consolidated Revenue Fund.

Revenue for 1994/95 is estimated at \$18.7 billion, an increase of 5.9 per cent from the 1993/94 revised forecast. This includes a net reduction of \$92 million due to revenue measures introduced in the 1994 budget (see Appendix C).

Expenditure will total \$19.6 billion in 1994/95, up 3.5 per cent from the 1993/94 revised forecast and the lowest rate of spending growth since 1985/86. The Consolidated Revenue Fund deficit is estimated at \$898 million in 1994/95. This is \$386 million or 30 per cent lower than the revised forecast for 1993/94.

Program expenditure, which excludes spending on debt interest costs (management of public funds and debt), is estimated at \$18.6 billion, an increase of 3.3 per cent from the 1993/94 revised forecast.

As a result, there will be a program *surplus* of \$83 million in 1994/95, compared to a program *deficit* of \$371 million for 1993/94. This is the first program surplus since 1989/90. A program surplus means that revenue exceeds spending on government programs and that debt interest accounts for the entire deficit in 1994/95.

The government's financial requirements, consisting of the deficit and net disbursements from financing and working capital transactions, will total \$1,098 million in 1994/95. Net disbursements from financing and working capital transactions include disbursements relating to an overpayment of personal income tax in 1993/94.

The government is winding up the British Columbia Endowment Fund and using the proceeds to pay down debt (see Appendix E). Financial requirements in 1994/95 will be met by reducing cash and short-term investments by \$160 million, by using \$300 million obtained from the sale of endowment fund assets, and by increasing government direct debt by \$638 million (see Table B4).

## 1994/95 Revenue

Revenue of the Consolidated Revenue Fund for 1994/95 is estimated at \$18,732 million, an increase of 5.9 per cent from the revised forecast for 1993/94. This includes the impact of revenue measures introduced in the 1994 budget, which reduce revenue by \$92 million.

TABLE B4  
SUMMARY OF TRANSACTIONS  
CONSOLIDATED REVENUE FUND

	Budget Estimate 1993/94	Revised Forecast 1993/94	Budget Estimate 1994/95
	(\$ millions)		
Consolidated Revenue Fund Surplus (Deficit) .....	(1,535.0)	(1,284.0)	(898.0)
Net Receipts (Disbursements) from Financing and Working Capital Transactions <sup>1</sup> .....	(44.0)	264.3	(200.3)
Decrease (Increase) in Cash and Short-Term Investments .....	5.0	(70.0)	160.0
British Columbia Endowment Fund Proceeds .....	—	—	300.0
<b>Net (Increase) Decrease in Provincial Government Direct Debt<sup>2</sup> .....</b>	<b>(1,574.0)</b>	<b>(1,089.7)</b>	<b>(638.3)</b>

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

<sup>2</sup> Includes direct debt incurred for government operating purposes and does not include debt incurred by, or on behalf of, Crown corporations and agencies.

Taxation revenue, the largest source of provincial government revenue, is expected to total \$11,720 million in 1994/95, up 7.2 per cent from the 1993/94 revised forecast (see Table B5).

Personal income tax revenue is expected to increase 8.3 per cent to \$4,767 million. This reflects growth in personal incomes, the increase to the high income surtax rate in 1994 as announced in the 1993 budget, and the impact of 1994 federal budget measures, which broadened the tax base. Because personal income tax revenue is now recorded on an accrual basis, current-year revenue is the estimated tax due to the province for the fiscal year regardless of the timing of actual cash receipts from the federal government.

Corporation income tax revenue is estimated at \$873 million, an increase of 23.1 per cent, mainly due to growth in corporate profits.

Social service tax revenue, estimated at \$2,811 million, will increase 7.5 per cent, due to growth in retail sales and investment and the full-year impact of 1993 budget measures, which extended the tax to certain labour services. The forecast includes a revenue loss of \$32 million from the 1994 budget measures, which introduce a vehicle trade-in allowance and raise the threshold for the tax on luxury vehicles.

Property tax revenue is expected to increase 3.1 per cent in 1994/95, due to increased assessments from new construction, partly offset by the impact of increasing the threshold for the phase out of the home owner grant. Property transfer tax revenues will increase 1 per cent as the effect of continued strength in real estate markets will be partly offset by the introduction of a tax exemption for first-time home buyers.

Fuel tax revenue will rise 1.9 per cent in 1994/95 due to increased consumption volumes, partly offset by the impact of reducing the tax rate on jet fuel used on international flights. Tobacco tax revenue will decline 6 per cent, reflecting lower volumes subject to tax.

Corporation capital tax revenue will rise 8.7 per cent because of growth in the tax base, partly offset by an \$18 million revenue loss from budget measures. Revenue from insurance premium

TABLE B5  
REVENUE BY SOURCE  
CONSOLIDATED REVENUE FUND

	Budget Estimate 1993/94 <sup>1</sup>	Revised Forecast 1993/94	Budget Estimate 1994/95	Increase (Decrease) <sup>2</sup>
	(\$ millions)			(per cent)
<b>Taxation Revenue:</b>				
Personal income.....	4,458.0	4,403.0	4,767.0	8.3
Corporation income.....	607.0	709.0	873.0	23.1
Social service.....	2,605.0	2,615.0	2,811.0	7.5
Property.....	1,216.0	1,176.0	1,212.0	3.1
Fuel.....	604.0	624.0	636.0	1.9
Other.....	1,372.0	1,405.0	1,421.0	1.1
	<u>10,862.0</u>	<u>10,932.0</u>	<u>11,720.0</u>	7.2
<b>Natural Resource Revenue:</b>				
Petroleum, natural gas and minerals.....	263.0	431.0	389.0	(9.7)
Forests.....	913.0	979.0	1,153.0	17.8
Water and other.....	305.0	301.0	277.0	(8.0)
	<u>1,481.0</u>	<u>1,711.0</u>	<u>1,819.0</u>	6.3
<b>Other Revenue</b> .....	<u>1,673.0</u>	<u>1,731.0</u>	<u>1,792.0</u>	3.5
<b>Contributions from Government Enterprises</b>	<u>1,079.0</u>	<u>1,026.0</u>	<u>1,051.0</u>	2.4
<b>Contributions from the Federal Government:</b>				
Established Programs Financing.....	1,350.0	1,275.0	1,295.0	1.6
Canada Assistance Plan and other.....	1,015.0	1,006.0	1,055.0	4.9
	<u>2,365.0</u>	<u>2,281.0</u>	<u>2,350.0</u>	3.0
<b>TOTAL REVENUE</b> .....	<u>17,460.0</u>	<u>17,681.0</u>	<u>18,732.0</u>	5.9

<sup>1</sup> Restated to conform to the 1994/95 budget estimates.

<sup>2</sup> Percentage change between the 1993/94 revised forecast and the 1994/95 budget estimate.

tax is expected to rise 6.3 per cent, due to higher motor vehicle insurance rates and people buying more insurance.

Natural resource revenue is expected to increase 6.3 per cent to \$1,819 million due to higher forests revenue.

Revenue from petroleum, natural gas and minerals will decline by \$42 million. An anticipated \$50-million decline in sales of Crown land drilling rights from the record levels in 1993/94, and the \$12 million in mineral tax relief measures announced in the budget are partly offset by a \$22 million increase in natural gas royalties due to higher natural gas prices and production.

Water rental revenue is based on the previous year's water use. In 1994/95, this will decline 9.5 per cent mainly due to reduced electricity generation in 1993/94 and the effect of the budget measure to reduce water rental charges for companies generating power for their own use.

Other revenue is expected to rise 3.5 per cent to \$1,792 million. Medical Services Plan premium revenue will increase 2.5 per cent, reflecting increased subscription levels due to continued in-migration. Revenue from other fees and licences, including motor vehicle licences and fees, will rise 7.3 per cent. Just over half of the increase is due to volume increases, with the rest from rate adjustments to be introduced during the year. British Columbia Endowment Fund revenue will increase 12.3 per cent. The fund is being wound up with the proceeds used to pay down debt.

Contributions from government enterprises will total \$1,051 million, up 2.4 per cent from the 1993/94 revised forecast. Liquor Distribution Branch profits are expected to increase 1.8 per cent, reflecting continued growth in sales volumes. Dividends from British Columbia Hydro and Power Authority are forecast at \$235 million, down slightly from 1993/94.

Contributions from the federal government are estimated at \$2,350 million, an increase of 3.0 per cent. Revenue from Established Programs Financing (EPF) is expected to grow 1.6 per cent from the 1993/94 level, which was artificially low due to the effect of a repayment made in that year. EPF revenue declines 2.3 per cent, excluding this payment. Recoveries under the Canada Assistance Plan (CAP) will rise to \$880 million, reflecting the federal government's 5-per-cent growth limit on contributions.

### ***1994/95 Expenditure***

Expenditure of the Consolidated Revenue Fund is estimated at \$19,630 million in 1994/95, an increase of \$665 million or 3.5 per cent from the revised forecast for 1993/94 (see Table B6). This compares to expenditure growth of 5.8 per cent in 1992/93.

Ministry of Social Services expenditure is estimated at \$2,736 million, an increase of \$173 million or 6.7 per cent from the 1993/94 revised forecast. Income-assistance spending will increase \$113 million or 6.6 per cent, due to a slowing in the growth of caseloads.

Ministry of Health spending is estimated to increase to \$6,414 million, up \$141 million or 2.3 per cent from the revised forecast for 1993/94. Significant spending increases include \$86 million for community support programs and \$45 million for the Medical Services Plan.

Ministry of Education expenditure shows an increase of 3.6 per cent from the 1993/94 revised forecast. In 1994/95, operating contributions to elementary and secondary schools will increase \$130 million or 4 per cent.

Spending by the Ministry of Skills, Training and Labour is projected to total \$1,557 million, an increase of \$127 million or 8.9 per cent from the 1993/94 revised forecast. The increase includes \$84 million for new initiatives to strengthen skills training. Spending for the educational institutions and organizations program will increase \$34 million in 1994/95.

Ministry of Forests expenditure is estimated to increase \$76 million or 11.9 per cent to \$712 million. Most of the increase results from changes that will be required to implement the new Forest Practices Code, and increased spending in the Small Business Forest Enterprise Account.

Ministry of Aboriginal Affairs expenditure is estimated at \$32 million, an increase of \$13 million mainly because of increased expenditures for treaty negotiations.

TABLE B6  
EXPENDITURE BY MINISTRY  
CONSOLIDATED REVENUE FUND

	Budget Estimate 1993/94 <sup>1</sup>	Revised Forecast 1993/94 <sup>1</sup>	Budget Estimate 1994/95	Increase (Decrease) <sup>2</sup>
	(\$ millions)			(per cent)
Legislation.....	24.0	25.0	24.4	(2.4)
Auditor General.....	6.9	6.9	7.6	10.1
Commission on Resources and Environment.....	4.2	4.2	4.2	—
Conflict of Interest Commissioner.....	0.2	0.2	0.2	—
Information and Privacy Commissioner.....	1.2	1.2	2.2	83.3
Ombudsman.....	4.4	4.4	4.6	4.5
Office of the Premier and Cabinet Office.....	22.2	22.1	22.3	0.9
Aboriginal Affairs.....	17.9	19.3	32.2	66.8
Agriculture, Fisheries and Food.....	89.0	87.5	80.1	(8.5)
Attorney General.....	766.7	826.4	793.4	(4.0)
Education.....	3,650.1	3,649.4	3,782.0	3.6
Employment and Investment.....	429.8	432.1	447.5	3.6
Energy, Mines and Petroleum Resources.....	69.0	55.7	66.7	19.7
Environment, Lands and Parks.....	250.1	281.9	264.3	(6.2)
Finance and Corporate Relations.....	98.3	99.4	101.0	1.6
Forests.....	657.8	636.3	711.8	11.9
Government Services.....	112.6	112.1	85.9	(23.4)
Health.....	6,210.1	6,272.6	6,414.0	2.3
Housing, Recreation and Consumer Services.....	98.0	98.2	102.4	4.3
Municipal Affairs.....	355.5	353.6	360.4	1.9
Skills, Training and Labour.....	1,392.2	1,429.7	1,557.1	8.9
Small Business, Tourism and Culture.....	104.9	103.6	112.1	8.2
Social Services.....	2,650.6	2,563.5	2,736.0	6.7
Transportation and Highways.....	776.2	788.3	684.0	(13.2)
Women's Equality.....	160.2	170.2	203.7	19.7
Other Appropriations:				
Management of Public Funds and Debt.....	988.0	913.0	981.0	7.4
Contingencies and New Programs.....	30.0	3.3	45.0	—
Other <sup>3,4</sup> .....	24.9	4.9	3.9	(20.4)
<b>TOTAL EXPENDITURE.....</b>	<b>18,995.0</b>	<b>18,965.0</b>	<b>19,630.0</b>	<b>3.5</b>

<sup>1</sup> Restated to conform to the 1994/95 budget estimates.

<sup>2</sup> Percentage change between the 1993/94 revised forecast and the 1994/95 budget estimate.

<sup>3</sup> Other includes the Corporate Accounting System Vote, the Public Sector and Public Service Human Resource Management Vote, the Insurance and Risk Management Special Account, the South Moresby Implementation — Forestry Compensation Special Account and other appropriations.

<sup>4</sup> The revised forecast and the budget estimate each include a \$24.8 million negative adjustment to reflect the amortization of a reduction in the unfunded pension liability of the Public Service Superannuation Fund.

Ministry of Government Services expenditure is estimated at \$86 million, a decrease of \$26 million or 23.4 per cent mainly because of decreased requirements for GO BC community grants and lower payments to the Victoria Commonwealth Games. The Build BC Special Account in the Ministry of Employment and Investment will fund the community grants program.

Ministry of Women's Equality expenditure of \$204 million is expected to increase \$34 million or 19.7 per cent from the 1993/94 revised forecast mainly because of increased demand for day-care subsidies.

Ministry of Transportation and Highways spending, estimated at \$684 million, will decrease \$104 million due to reduced capital spending. The BC Transportation Financing Authority is now responsible for highway capital construction in British Columbia.

Expenditure on Management of Public Funds and Debt is estimated to rise to \$981 million, up 7.4 per cent from the 1993/94 revised forecast due to higher debt outstanding.

### **1994/95 Financing Plan**

Gross borrowing for government purposes is estimated at \$1,659 million in 1994/95. Gross borrowing will be partly offset by debt maturities and sinking fund contributions and earnings totalling \$1,021 million. As a result, net government direct debt is expected to increase \$638 million to \$10.7 billion at March 31, 1995 (see Tables B4 and D1).

Gross borrowing requirements for Crown corporations and agencies are estimated at \$2,451 million. This increase will be partially offset by repayment provisions of \$1,021 million, resulting in net borrowing of \$1,430 million in 1994/95. Other guarantees are expected to decrease \$44 million. See Appendix D for details.

### **Accumulated Deficit**

At March 31, 1995, the accumulated deficit of the Consolidated Revenue Fund is expected to total \$10,573 million, up \$898 million from March 31, 1994.

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## APPENDIX C

### *Revenue Measures*

#### **C1: Summary of Revenue Measures**

	Effective Date	Revenue Effects	
		1994/95	Full Year
		(\$ millions)	
<b><i>Corporation Capital Tax Act</i></b>			
<ul style="list-style-type: none"> <li>● Exemption threshold increased to \$1.5 million from \$1.25 million of paid-up capital, and incorporated family farms and cooperatives exempted from the tax .....</li> </ul>	April 1, 1994	(10)	(10)
<ul style="list-style-type: none"> <li>● Threshold at which large financial institutions start to pay the 3 per cent rate raised to \$750 million from \$500 million of worldwide paid-up capital .....</li> </ul>	April 1, 1994	(8)	(8)
<b><i>Property Transfer Tax Act</i></b>			
<ul style="list-style-type: none"> <li>● Targeted first-time home buyers' exemption introduced and existing high-ratio tax relief program phased out .....</li> </ul>	March 23, 1994	(20)	(20)
<b><i>Social Service Tax Act</i></b>			
<ul style="list-style-type: none"> <li>● Luxury tax threshold for passenger vehicles increased to \$32,000 from \$30,000 .....</li> </ul>	March 23, 1994	(2)	(2)
<ul style="list-style-type: none"> <li>● Trade-in allowance restored on purchase of passenger vehicles .....</li> </ul>	March 23, 1994	(30)	(30)
<ul style="list-style-type: none"> <li>● Exemption introduced for certain solar, wind and micro-hydro power generating equipment .....</li> </ul>	March 23, 1994	—	—
<b><i>Motor Fuel Tax Act</i></b>			
<ul style="list-style-type: none"> <li>● Tax rate on jet fuel used on international flights reduced to 4 cents per litre from 5 cents per litre and exemption for international cargo flights expanded .....</li> </ul>	July 1, 1994	(8)	(11)
<ul style="list-style-type: none"> <li>● Fuel tax rebate limit increased to \$400 from \$300 annually for eligible persons with disabilities .....</li> </ul>	August 1, 1993	—	—
<b><i>Home Owner Grant Act</i></b>			
<ul style="list-style-type: none"> <li>● Home owner grant phase-out threshold increased to \$450,000 from \$400,000 .....</li> </ul>	1994 tax year	(10)	(10)
<b><i>School Act</i></b>			
<ul style="list-style-type: none"> <li>● School property tax rates for residential and some non-residential properties reduced in response to increases in assessed values. Rate reductions will result in average gross school taxes equal to 1993 levels .....</li> </ul>	1994 tax year	—	—

## C1: Summary of Revenue Measures — *Continued*

	Effective Date	Revenue Effects	
		1994/95	Full Year
		(\$ millions)	
<b>Taxation (Rural Area) Act</b>			
<ul style="list-style-type: none"> <li>General-purpose rural area tax rates reduced in response to increases in assessed values. Rate reductions will result in average general-purpose rural area taxes equal to 1993 levels .....</li> </ul>	1994 tax year	—	—
<b>Water Act</b>			
<ul style="list-style-type: none"> <li>Companies generating power for their own industrial use moved to commercial category .....</li> </ul>	March 23, 1994	(9)	(9)
<b>Other Revenue</b>			
<ul style="list-style-type: none"> <li>Various fees and licences adjusted .....</li> </ul>	various	20	25
<b>Fairness Package</b>			
<ul style="list-style-type: none"> <li>Measures introduced to assist small business, improve enforcement and improve fairness .....</li> </ul>	March 23, 1994	(2)	(2)
<b>Assistance for the Mining Industry</b>			
<b>Income Tax Act</b>			
<ul style="list-style-type: none"> <li>Mineral tax made deductible against provincial corporate income tax .....</li> </ul>	January 1, 1995	(1)	(2)
<b>Mineral Tax Act</b>			
<ul style="list-style-type: none"> <li>Mineral tax rates reduced for coal mines and pooling of exploration costs allowed .....</li> </ul>	March 23, 1994	(12)	(12)
<ul style="list-style-type: none"> <li>A premium allowance is introduced for new eligible capital expenditures .....</li> </ul>	January 1, 1995	—	—
<b>Total .....</b>		<u>(92)</u>	<u>(91)</u>

## Revenue Measures: Supplementary Information

### **CORPORATION CAPITAL TAX ACT**

#### **EXEMPTION THRESHOLD INCREASED AND FAMILY FARMS AND COOPERATIVES EXEMPTED**

Effective April 1, 1994, the exemption threshold is increased to \$1.5 million from \$1.25 million of paid-up capital, and the tax will now be phased in between \$1.5 million and \$1.75 million of paid-up capital. This change eliminates the corporation capital tax liability for approximately 1,000 corporations and reduces the tax liabilities for a further 1,000 corporations.

Cooperatives and incorporated family farms are exempt from corporation capital tax effective April 1, 1994. This change eliminates the tax for about 500 corporations.

## **THRESHOLD FOR 3 PER CENT TAX RATE APPLICABLE TO FINANCIAL INSTITUTIONS INCREASED**

The threshold at which large financial institutions start to pay the 3 per cent rate is raised to \$750 million from \$500 million of worldwide paid-up capital, effective April 1, 1994.

## ***PROPERTY TRANSFER TAX ACT***

### **TARGETED FIRST-TIME HOME BUYERS' EXEMPTION INTRODUCED**

Eligible first-time home buyers are exempted from property transfer tax effective March 23, 1994 on the purchase of eligible residential property.

Application to register the purchase of the eligible residential property in the land title system must be made on or after March 23, 1994 to qualify for the exemption. Refunds will be provided where first-time buyers pay tax in error on transfers registered on or after March 23, 1994.

Eligible first-time home buyers are individuals who:

- have not previously held a registered interest in a residence in which they lived;
- have resided in British Columbia for at least one year prior to applying for the exemption;
- are Canadian citizens or lawfully admitted to Canada for permanent residence; and
- have registered financing for an amount equal to 70 per cent or more of the fair market value of the property.

Eligible residential properties are:

- properties acquired for and used as the purchaser's principal residence for at least one year following the application for exemption;
- properties with a fair market value not exceeding \$250,000 in the Greater Vancouver Regional District, the Central Fraser Valley Regional District, the Dewdney-Alouette Regional District, the Fraser-Cheam Regional District and the Capital Regional District; and
- properties with a fair market value not exceeding \$200,000 in the rest of the province.

Applicants will be required to sign a declaration that they meet all eligibility requirements and provide access to certain personal information for verification purposes.

The current high-ratio financing tax relief program will be phased out. Applications for tax relief under this program will be accepted for registrations made before July 1, 1994.

## ***SOCIAL SERVICE TAX ACT***

### **LUXURY SALES TAX THRESHOLD INCREASED**

The threshold for the luxury tax on the purchase, lease or rental of expensive passenger vehicles is increased to \$32,000 from \$30,000, effective March 23, 1994. As of that date, the tax rates applicable to passenger vehicles are as follows:

- 7 per cent on passenger vehicles valued at less than \$32,000;
- 8 per cent on passenger vehicles valued at \$32,000 or more but less than \$33,000;
- 9 per cent on passenger vehicles valued at \$33,000 or more but less than \$34,000; and
- 10 per cent on passenger vehicles valued at \$34,000 or more.

"Passenger vehicles" are motor vehicles designed primarily for the transportation of individuals and include trucks and vans up to and including three-quarter ton. Excluded from the definition

are trucks and vans larger than three-quarter ton, motorhomes, trailers, buses, ambulances and camperized vans designed primarily for accommodation during travel or recreation.

The tax rate on vehicles for which lease agreements were entered into prior to March 31, 1993, is based on the value of the vehicle on March 31, 1993. For all other leased and rented vehicles, the tax rate is based on the value of the vehicle on the date the lessor first leases the vehicle to a lessee.

The new luxury tax threshold applies to all passenger vehicles purchased on or after March 23, 1994. For leased vehicles, the new luxury tax threshold applies to payments for lease periods that begin on or after March 23, 1994.

### **TRADE-IN ALLOWANCE RESTORED ON PURCHASES OF PASSENGER VEHICLES**

Effective March 23, 1994, the trade-in allowance on the purchase of a passenger vehicle is restored. Social service tax is only payable on the purchase price of a passenger vehicle less the value of tangible personal property taken in trade as partial payment for the vehicle.

Purchasers of passenger vehicles that are subject to the luxury tax are required to pay the applicable luxury tax rate on the difference between the purchase price of the luxury vehicle and the value of tangible personal property accepted in trade by the seller as partial payment for the vehicle.

The trade-in allowance applies to all passenger vehicles purchased on or after March 23, 1994, regardless of when an agreement to purchase was entered into.

As a partial offset to these changes, the motor vehicle transfer fee will be increased to \$28 from \$18 on July 1, 1994. This fee increase is expected to raise \$6 million in 1994/95 and \$8 million in a full year.

### **EXEMPTION INTRODUCED FOR SOLAR, WIND, AND MICRO-HYDRO POWER GENERATING EQUIPMENT**

Effective March 23, 1994, purchases and leases of eligible wind, solar, and micro-hydro power generating equipment are exempt from social service tax.

Purchases of services to install, assemble, dismantle, repair, adjust, restore, recondition, refinish, or maintain such equipment are also exempt.

### ***MOTOR FUEL TAX ACT***

#### **TAX RATE ON JET FUEL USED ON INTERNATIONAL FLIGHTS REDUCED**

Effective July 1, 1994, the tax rate on jet fuel used on international flights is reduced to 4 cents per litre from 5 cents per litre. The reduction is designed to help advance the Vancouver International Airport as a major North American gateway to the Pacific.

Also effective July 1, 1994, the jet fuel tax exemption for dedicated international freighters is expanded to include all eligible international flights carrying cargo on a pro-rated basis. As a result, for passenger flights carrying cargo, the fuel tax rebate will be based on the ratio of cargo weight to the total payload weight of the aircraft.

#### **FUEL TAX REBATE LIMIT INCREASED FOR ELIGIBLE PERSONS WITH DISABILITIES**

The annual maximum fuel tax rebate available to eligible persons with disabilities who own or lease vehicles is raised to \$400 from \$300. The new maximum is effective for the current benefit year which began August 1, 1993 and in subsequent years.

## **HOME OWNER GRANT ACT**

Effective for the 1994 taxation year, the home owner grant phase-out threshold is increased to \$450,000 from \$400,000. This change is in response to increases in assessed values of residential properties. The grant is phased out at the rate of \$10 of grant for each \$1,000 of assessed value in excess of \$450,000. As a result, the grant is eliminated for most homeowners having a home assessed at more than \$497,000. For homeowners who are seniors, handicapped or recipients of war veterans allowances, the grant is eliminated for homes assessed in excess of \$524,500. Setting the threshold at \$450,000 means that, as was the case in 1993, roughly 95 per cent of homeowners are unaffected by the phase-out of the home owner grant.

## **SCHOOL ACT**

School property tax rates for residential and some non-residential property classes will be reduced in response to increased assessed values. The rates for the 1994 tax year will be adjusted such that average gross school property taxes for residential and non-residential properties will be the same as 1993 levels.

Even with the freeze on average tax levels, there will be some changes to individual tax bills. For example, homeowners who had a below-average increase in assessed value can expect a reduction in school property tax. Correspondingly, the school levy will likely rise for homeowners whose property has increased in value by more than the average. Similar shifts will occur within the non-residential property classes.

## **TAXATION (RURAL AREA) ACT**

The general-purpose rural area property tax rates will be adjusted to compensate for higher assessed values in 1994. The rate for residential properties will be reduced by almost 14 per cent from the 1993 level of \$1.45 per \$1,000 of assessed value. The rates for other classes of property will be adjusted appropriately. Rates will be set in April 1994. The rate changes ensure that average rural area taxes levied by the province will be the same as in 1993. Nevertheless, due to relative assessment changes, some property owners will experience an increase in their rural area levy, while others will face a corresponding reduction in their levy.

## **WATER ACT**

Companies currently in the general water rental category will move to the commercial category for that portion of power which is generated for their own industrial use. Water rental payments made in September 1994 and subsequent payments are affected.

## **OTHER REVENUE**

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

- increasing licence fees for companies and their employees providing security services;
- raising hunting and angling licence fees (angling fee increases will be dedicated to the Habitat Conservation Fund);
- reducing lease fees for specified commercial and recreational docks on Crown land;
- increasing vital statistics fees;
- amending fees of the British Columbia Securities Commission;
- increasing safety inspection fees for electrical and gas installations, elevators and boilers;

- introducing direct sellers licences, manufactured homes and residential tenancy mediation and review fees, and changing other fees of the Ministry of Housing, Recreation and Consumer Services;
- increasing Motor Carrier Commission fees; and
- as noted earlier, raising the motor vehicle transfer fee.

### **FAIRNESS PACKAGE**

The following measures are introduced to assist small business, enhance the fairness of the tax system, and improve enforcement.

### **Assistance to Small Business**

#### **● Tax Remittance Frequencies**

Businesses collecting an average of \$50 or more in provincial sales tax or hotel room tax each month are currently required to file monthly tax returns. Effective April 1, 1994, businesses collecting between \$50 and \$200 of tax each month will have the option of filing tax returns quarterly, semi-annually, or on some other basis that is more compatible with the nature of their business.

The change in filing frequency will reduce compliance costs for about 8,500 small businesses. All businesses affected by the change will be contacted to determine the filing frequency most compatible with their business.

#### **● Commissions**

Businesses that collect provincial sales tax and hotel room tax receive a commission to help offset collection costs. The maximum commission is currently \$90 per reporting period, or \$1,080 annually.

Effective with tax returns filed for sales made in April 1994, the commission rate is increased by 10 per cent to a maximum of \$99 per reporting period or \$1,188 annually.

Approximately 90,000 businesses will benefit from the increased commission.

#### **● Boats Purchased by Aquaculturists**

*Bona fide* aquaculturists are currently eligible for a refund of tax paid on purchases of boats up to 11 metres in length, motors, and related parts acquired for use in their aquaculture business. Effective March 23, 1994, *bona fide* aquaculturists may purchase qualifying boats, motors and component parts exempt from the tax at the point of sale.

### **Improved Enforcement**

#### **● Amnesty Program**

Effective March 23, 1994 to June 30, 1994, businesses that voluntarily disclose tax liabilities and pay, or make arrangements to pay, these tax liabilities plus interest will not be subject to penalties or prosecution. Penalties range from 10 per cent to 100 per cent of tax due.

#### **● Enforcement of Current Penalties**

After the expiration of the amnesty program, a 10 per cent penalty will be applied to all second and subsequent errors in tax payments and remittances.

Currently, the 10 per cent penalty is only applied where tax is collected and not remitted or is remitted late. Effective July 1, 1994, the penalty will also be applied to all second-time errors, including tax due on purchases and the calculation of tax collected.

Penalties of 25 per cent and 100 per cent of the tax due will continue to apply where there is evidence of willful failure to pay the tax due or willful non-remittance of tax collected.

- **Expanded Audit Coverage**

Additional auditors will be hired to increase the number of businesses that can be audited each year. The expanded audit coverage will reduce inequities that occur when some businesses do not comply with tax legislation.

- **Sellers of Motor Vehicles — Licensing Requirement**

Effective March 23, 1994, persons who intend to regularly sell motor vehicles at retail must be registered as dealers under the *Motor Dealer Act* before registration under the *Social Service Tax Act*. This requirement will prevent persons who are not licensed motor dealers from purchasing vehicles for resale exempt from the provincial sales tax.

## **Improved Fairness**

- **Appeal Period Extended**

Effective for assessments issued on or after March 23, 1994, the appeal periods under the *Social Service Tax Act*, *Hotel Room Tax Act*, *Motor Fuel Tax Act*, and *Tobacco Tax Act* are extended from 60 to 90 days.

- **Proportional Refund for Bad Debts**

Effective March 23, 1994, sellers are eligible for a proportional refund of tax remitted on all bad debt accounts. For example, where \$14 of social service tax is remitted on a \$200 credit sale and the seller subsequently receives only \$20 before writing it off as a bad debt, the province will retain only \$1.31 — 7/107 of the \$20 payment received by the seller — and the seller will receive a refund of \$12.69.

This change in bad debt refunds applies to the *Social Service Tax Act*, *Hotel Room Tax Act*, *Motor Fuel Tax Act*, and *Tobacco Tax Act*. It is fairer to businesses and is consistent with bad debt provisions of most other provinces and the federal government.

- **Deemed Purchase Provision Repealed**

Currently, where a lease agreement contains an option-to-purchase for an amount less than 10 per cent of the item's fair market value, the lease is deemed to be a purchase.

Effective March 23, 1994, this provision is repealed and tax applies to such leases in the same manner as to other leases.

## **ASSISTANCE FOR THE MINING INDUSTRY**

### ***INCOME TAX ACT***

- Effective January 1, 1995, mineral tax payments will be deductible in calculating a mining company's provincial corporate income tax.

## **MINERAL TAX ACT**

### **MINERAL TAX RATES REDUCED FOR COAL MINES AND POOLING OF EXPLORATION COSTS ALLOWED**

- Effective March 23, 1994, mineral tax rates for coal mines are reduced from the current 7.5 per cent (net current proceeds tax) and 17.5 per cent (net revenue tax) to 2 per cent and 13 per cent to match the rates paid by other mines. All coal mines in the province will benefit from this change.
- Effective March 23, 1994, mining companies are allowed to pool exploration costs rather than having to assign these costs to an existing mine.

### **PREMIUM ALLOWANCE IS INTRODUCED FOR ELIGIBLE NEW CAPITAL EXPENDITURES**

- Capital expenditure on new, reopened or expanded mines after December 31, 1994, and before January 1, 2000, will be grossed up by one-third for purposes of calculating mineral tax. This will provide a significant benefit for new mines developed during the next five years.

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## **C2: Summary of Administrative Measures**

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	Effective Date
<b><i>Social Service Tax Act</i></b>	
● Exemption provided for certain items purchased by interprovincial and international airlines .....	March 23, 1994
● Refund provisions for goods purchased and stored, but not used, in British Columbia clarified .....	March 23, 1994
● Definition of "purchase price" clarified .....	March 23, 1994
● Definition of "use" clarified .....	March 23, 1994
● Refund provided for tax paid on materials to construct portable buildings for export .....	March 23, 1994
● List of items that can be purchased tax exempt by <i>bona fide</i> farmers expanded .....	March 23, 1994
<b><i>Tobacco Tax Act</i></b>	
● Tobacco tax commission increased .....	1994 tax collection year
<b><i>Hotel Room Tax Act</i></b>	
● Exemption provided for purchase of accommodation by Indians and Indian Bands on reserve .....	March 23, 1994
<b><i>Corporation Capital Tax</i></b>	
● Various technical changes made to clarify the application of the tax ...	April 1, 1992, 1993 and 1994
<b><i>Property Transfer Tax</i></b>	
● Tax imposed on consecutive leases to prevent tax avoidance .....	January 31, 1994

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## **Administrative Measures: Supplementary Information**

### ***SOCIAL SERVICE TAX ACT***

#### **EXEMPTION PROVIDED FOR CERTAIN ITEMS PURCHASED BY INTERPROVINCIAL AND INTERNATIONAL AIRLINES**

Effective March 23, 1994, liquor and certain other tangible personal property purchased or leased by commercial airlines for use or consumption in serving their passengers on international or interprovincial flights are exempt from tax. Examples include cutlery, dishes, trays, towels and headphones.

#### **REFUND FOR GOODS PURCHASED AND STORED, BUT NOT USED, IN BRITISH COLUMBIA**

Effective March 23, 1994, the legislation is clarified to ensure that businesses operating both inside and outside of British Columbia are eligible for a refund of tax paid on goods purchased and stored in the province, but not otherwise used in the province before being sent out of the province.

#### **DEFINITION OF PURCHASE PRICE CLARIFIED**

Effective March 23, 1994, the definition of “purchase price” on which tax is payable is amended. The amendment clarifies that, for purchases in the province, charges for installation, transportation, interest, finance, service, customs and excise are only subject to tax if such charges are incurred before title to the goods passes to the purchaser.

#### **DEFINITION OF USE CLARIFIED**

Effective March 23, 1994, the definition of “use” is amended to clarify that the purchase of goods for resale by both retailers and wholesalers is exempt from the social service tax.

#### **REFUND OF TAX PAID ON MATERIALS USED TO CONSTRUCT PORTABLE BUILDINGS FOR EXPORT**

Effective March 23, 1994, a refund is provided for the sales tax paid on materials used to construct portable buildings that are subsequently exported.

Portable buildings are buildings designed to be moved from location to location (e.g., portable classrooms, portable bunkhouses) but do not include manufactured homes used for residential purposes or buildings designed for use on residential property.

#### **ADDITIONAL EXEMPTIONS FOR FARMERS**

Effective March 23, 1994, the following are added to the list of items that *bona fide* farmers may purchase exempt from provincial sales tax provided that they are used for a farm purpose.

- Soil anchors;
- Sanitizing products and chemicals; and
- Automatic gate openers.

## ***TOBACCO TAX ACT***

### **TOBACCO TAX COMMISSION INCREASED**

Tobacco wholesalers collect the provincial tobacco tax and remit the tax to the government. Effective for the 1994 tax collection year, the maximum commission payable is increased to \$10,000 from \$5,000 per year.

## ***HOTEL ROOM TAX ACT***

### **TAX EXEMPTION FOR STATUS INDIANS**

Effective March 23, 1994, Indians and Indian Bands buying hotel accommodation on reserve land are exempt from paying the hotel room tax.

## ***CORPORATION CAPITAL TAX ACT***

### **TECHNICAL CHANGES**

Various technical changes will clarify the application of the tax. Some of these changes are retroactive to April 1, 1992 or April 1, 1993. The remainder are effective April 1, 1994.

## ***PROPERTY TRANSFER TAX ACT***

### **TAX IMPOSED ON CONSECUTIVE LEASES TO PREVENT TAX AVOIDANCE**

As announced on January 28, 1994, amendments are introduced retroactive to January 31, 1994 to prevent tax avoidance through the inappropriate use of the exemption for leases of 30 years or less.

The *Act* is amended to aggregate the terms of all leases registered against a property within a six-month period for purposes of calculating the tax payable.

## ***Provincial Government and Crown Corporation Financing Plan***

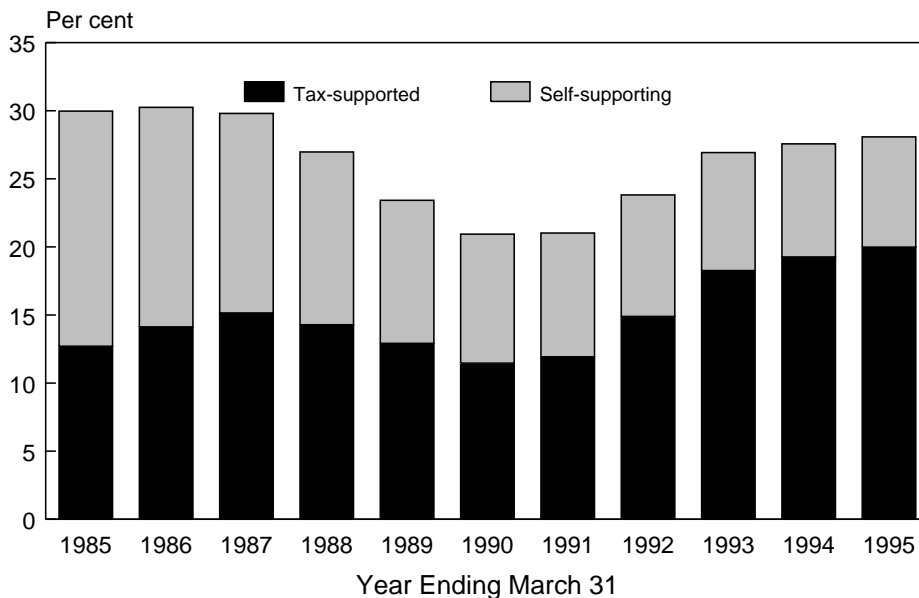
### **Overview**

The provincial government and its Crown corporations and agencies incur debt to finance operations and capital projects. The provincial government also provides some financing to other organizations, including local government agencies. Total borrowing requirements in 1994/95 for the government and its Crown corporations and agencies are estimated at \$4.1 billion. This compares to total borrowing of \$4.8 billion in 1993/94.

In the early 1990s, large deficits and borrowing to fund schools, hospitals and other social capital investment caused both tax-supported debt and total debt to rise relative to GDP. The government's efforts to reduce the deficit have moderated this increase (see Chart D1). The government's debt management strategy will slow the growth in debt relative to GDP (see Appendix E).

At March 31, 1995, total provincial direct and guaranteed net debt is expected to total \$27.4 billion, equal to 28.1 per cent of gross domestic product (GDP). Tax-supported debt, which excludes the self-supporting debt of the British Columbia Hydro and Power Authority and British Columbia Railway Company, is expected to total \$19.5 billion or 20 per cent of GDP.

**CHART D1  
DIRECT AND GUARANTEED NET DEBT  
AS A PER CENT OF GDP**



## Financing Process

The provincial government and its Crown corporations and agencies incur debt by one of three financing methods:

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

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

TABLE D1  
GOVERNMENT, CROWN CORPORATION AND AGENCY FINANCING PLAN

	Forecast Net Debt Outstanding at March 31, 1994	1994/95 Transactions			Forecast Net Debt Outstanding at March 31, 1995
		New Borrowing <sup>1</sup>	Retirement Provision <sup>2</sup>	Net Change	
(\$ millions)					
<b>PURPOSES:</b>					
<b>Provincial Government Direct</b> .....	10,059.2	1,659.3	1,021.0	638.3	10,697.5
<b>Crown Corporations and Agencies:</b>					
Commercial.....	7,649.8	711.0	456.8	254.2	7,904.0
Economic Development.....	1,879.4	493.3	41.1	452.2	2,331.6
Social and Government Service.....	4,854.1	1,083.0	458.7	624.3	5,478.4
	14,383.3	2,287.3	956.6	1,330.7	15,714.0
<b>Other Fiscal Agency Loans</b> .....	478.6	164.0	64.5	99.5	578.1
	14,861.9	2,451.3	1,021.1	1,430.2	16,292.1
<i>Less Amounts Held as Investments/Cash for Relending by the Consolidated Revenue Fund</i> .....	7.1	—	2.2	(2.2)	4.9
<b>GOVERNMENT, CROWN CORPORATION AND AGENCY DEBT TOTAL</b> .....	24,914.0	4,110.6	2,039.9	2,070.7	26,984.7
<b>Other Guarantees<sup>3</sup></b> .....	481.9	—	44.2 <sup>4</sup>	(44.2)	437.7
<b>TOTAL DIRECT AND GUARANTEED DEBT..</b>	<u>25,395.9</u>	<u>4,110.6</u>	<u>2,084.1</u>	<u>2,026.5</u>	<u>27,422.4</u>

<sup>1</sup> Gross new long-term borrowing plus net change in short-term debt.

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

<sup>3</sup> Includes student assistance loans, loan guarantees to agricultural producers and guarantees issued under economic development assistance programs and the British Columbia Mortgage Assistance Program. Includes loan guarantee provisions.

<sup>4</sup> Guarantees do not represent direct obligations of the government except in the event of default by the borrowers who received the guarantee. There is no actual borrowing requirement until a default occurs. A net reduction in the government's potential liability is expected because new guarantees will be more than offset by expiring ones.

In order to provide for the orderly repayment of debt, the provincial government and Crown corporations establish sinking funds for virtually all debt with a term of five or more years. At March 31, 1994, sinking fund investments are expected to total \$4.3 billion. Debt with a term of one year or longer will be 60 per cent covered by sinking funds at maturity.

## 1994/95 Financing Plan

Table D1 outlines the 1994/95 financing plan for the government and its Crown corporations and agencies. Further details on net direct and guaranteed debt are provided in Table G7.

The government issues debt for the following purposes:

- **Provincial government direct debt** to fund government operations and capital spending, including the refinancing of maturing debt and other financing transactions. The government expects that its own gross borrowing requirements will total \$1.7 billion in 1994/95, of which \$828 million will be used to refinance maturing debt.
- **Commercial Crown corporations**, including British Columbia Hydro and Power Authority and British Columbia Railway Company. These corporations are self-supporting as they generate revenue from the sale of services at commercial rates and pay their own operating expenses, including debt service charges. Gross borrowing requirements for commercial Crown corporations are expected to total \$711 million in 1994/95, of which \$309 million will be used to refinance maturing debt.
- **Economic development Crown corporations and agencies**, including the BC Transportation Financing Authority, British Columbia Ferry Corporation and British Columbia Transit. These corporations and agencies sell services directly to the public, but their revenues may not cover their operating expenses. Because these corporations provide economic benefits to the province, the government provides grants or other forms of assistance to them. Total borrowing requirements for the economic development Crown corporations and agencies are expected to be \$493 million in 1994/95, including \$290 million for the BC Transportation Financing Authority, \$129 million for British Columbia Transit and \$66 million for British Columbia Ferry Corporation.
- **Social and government service Crown corporations and agencies** incur debt largely to finance construction of hospitals, schools and post-secondary educational institutions. Debt service requirements are met through provincial grants or rental payments and, for hospitals, partly through local property taxes. Gross borrowing requirements for these entities are expected to total \$1.1 billion in 1994/95, including \$469 million for the British Columbia School Districts Capital Financing Authority, \$227 million for the British Columbia Regional Hospital Districts Financing Authority and \$226 million for the British Columbia Educational Institutions Capital Financing Authority.
- **Other fiscal agency loans** include loans made by the provincial government to other public bodies including universities, colleges and various local governments and improvement districts. Borrowing requirements for these entities are expected to total \$164 million in 1994/95, including \$117 million for the Greater Vancouver Sewerage and Drainage District and Greater Vancouver Water District. Debt service requirements are met through local property taxes and, for universities and colleges, through revenue raised from residence and parking fees.

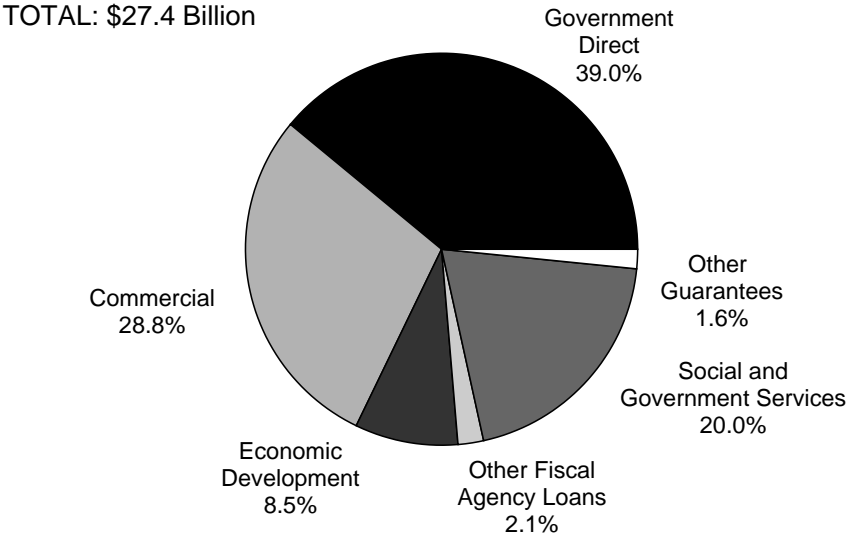
Direct and fiscal agency borrowing in 1994/95 will be partly offset by debt maturities and other retirement provisions, resulting in an increase of \$2.1 billion in the net debt of the government, Crown corporations and agencies. Table D1 provides a breakdown of the increase in net debt by category.

The provincial government also provides loan guarantees to private sector firms and individuals through various programs. These include student financial assistance, loan guarantees to agricultural producers and guarantees issued under economic development assistance programs. These guarantees do not represent direct obligations of the government except in the event of default by the borrowers who received the guarantee. In 1994/95, guarantees are expected to decline by \$44 million, as potential new guarantees of \$97 million are more than offset by expiring ones.

Chart D2 gives a breakdown by category of estimated provincial direct and guaranteed net debt at March 31, 1995.

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**CHART D2**  
**DIRECT AND GUARANTEED NET DEBT\***  
**AT MARCH 31, 1995**



\*Net of sinking funds and unamortized discounts

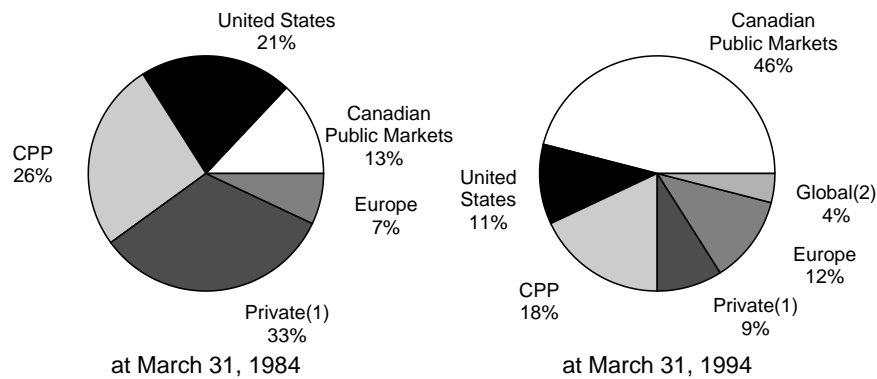
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**Source of Funds**

Funds borrowed by the British Columbia public sector have come from a variety of sources, including public financial markets, the Canada Pension Plan Investment Fund (CPP), private institutional lenders and provincial trustee funds. Chart D3 shows that since 1984, borrowing sources have shifted toward public bond issues.

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## CHART D3 OUTSTANDING DEBT BY SOURCE



(1) Includes borrowings from provincial trustee funds.

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

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

The province actively diversifies its borrowing sources to cultivate strong domestic and international investor demand for British Columbia debt securities; strong demand helps minimize financing costs for the province. A broad investor base is also important when other governments are competing for domestic funds.

Measures have also been taken to diversify the province's borrowing sources within the domestic market. In 1992, the province introduced a domestic medium-term note program and a British Columbia Savings Bond Program:

- The medium-term note program was the first for a Canadian province and raises funds primarily in one to ten-year terms. To date, about \$600 million has been borrowed under this program.
- The savings bond program is restricted to residents of British Columbia and ensures that they have an opportunity to participate in the provincial government's financing program. In total, the two savings bond campaigns in 1992 and 1993 have raised over \$1 billion.

## Ongoing Debt Management Initiatives

The government is taking measures to ensure the best possible management of new and existing debt. These initiatives include:

- refining debt management parameters and performance benchmarks;
- working with major international investment firms to establish appropriate debt strategies for the province and the major Crown corporations to balance interest rate costs and risk;
- increasing use of sophisticated financial products to improve management of debt and associated risks; and
- continuing diversification of the borrowing program to markets in Canada, the United States, Europe and Asia to search out the lowest-cost sources of financing.

The province continues to focus on the global capital market, including North America, Europe and the Far East, to take advantage of favourable market conditions:

- in June 1993, the province launched a successful \$1.25 billion (Canadian) global bond issue; and
- in 1994/95, the province will launch a special Euro-debt issuance program, similar to the domestic medium-term note program, to gain more efficient and cost-effective access to European financial markets.

The Ministry of Finance and Corporate Relations has been working with a major international investment bank to implement a state-of-the-art, debt-management performance measurement system. Results indicate that active management of the province's direct debt portfolio generated savings (in present-value terms) of \$63 million through the first 11 months of 1993/94.

Examples of initiatives that produced savings for the province's total debt portfolio include:

- Pro-active use of sophisticated financial instruments as part of regular financing activity. Use of derivative products, such as interest rate swaps, allowed the province to take advantage of declining interest rates in 1993/94, thereby reducing its long-term debt costs.
- The province's first global bond issue in June 1993, which saved \$9 million compared to the domestic market.
- The provincial medium-term note program, which has saved \$2.5 million to date.

As shown above, the government is using sophisticated techniques to minimize the costs of provincial borrowing. These actions will help the government achieve its debt management objectives (see Appendix E).



## ***Fiscal Strategy and Debt Management Plan***

### **Summary and Highlights**

- Taxes frozen. No new taxes.
- Budget balanced in 1996/97.
- Debt management plan introduced.
- Spending continues to decelerate.
- British Columbia Endowment Fund used to reduce debt.

**This paper describes the progress made to date in achieving the British Columbia government's objective of a balanced budget. It outlines a fiscal strategy that balances the budget, including a timetable and guidelines for achieving this objective. Finally, it discusses the role of public debt in financing public investment in British Columbia and outlines the impact of the debt management plan on provincial tax-supported debt.**

### **A Balanced Budget for British Columbia: A Progress Report**

When the government took office, it pledged to eliminate the deficit and ensure that British Columbia remains on a sound financial footing.

Since taking office, the government has made considerable progress in reducing the large \$2.4 billion deficit it inherited for the 1991/92 fiscal year.

In 1992/93, the deficit was reduced by \$594 million.

In 1993/94, it was reduced by \$477 million.

Today's budget chops off another \$386 million,

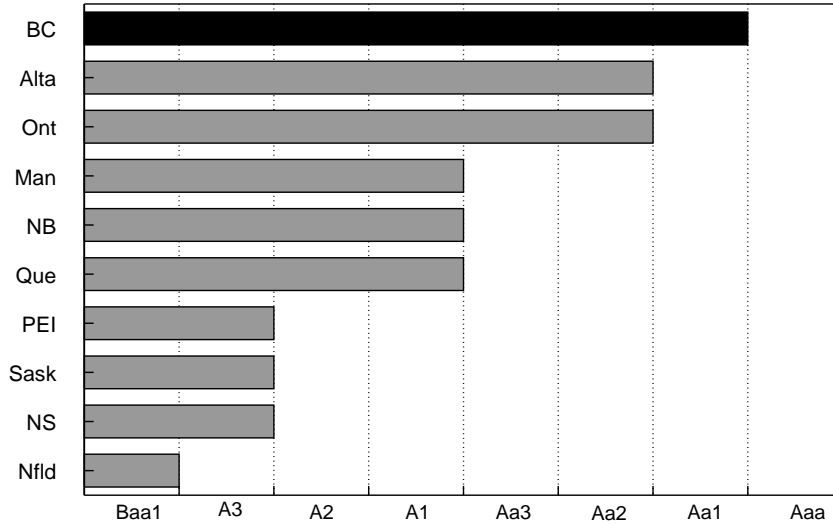
In three budgets, the deficit has been reduced by nearly \$1.5 billion to under \$900 million.

**Much of this progress has been made by cutting spending growth; program spending per person, after adjusting for inflation, rose by a cumulative 16.2 per cent in the last three budgets of the previous government. In contrast, it has declined a cumulative 2.9 per cent in the three most recent budgets.**

The 1994 budget achieves a program surplus for the first time in five years. This means that revenue exceeds program expenditure. As a result, the budget deficit is entirely the result of interest payments on the debt that was largely accumulated by previous administrations.

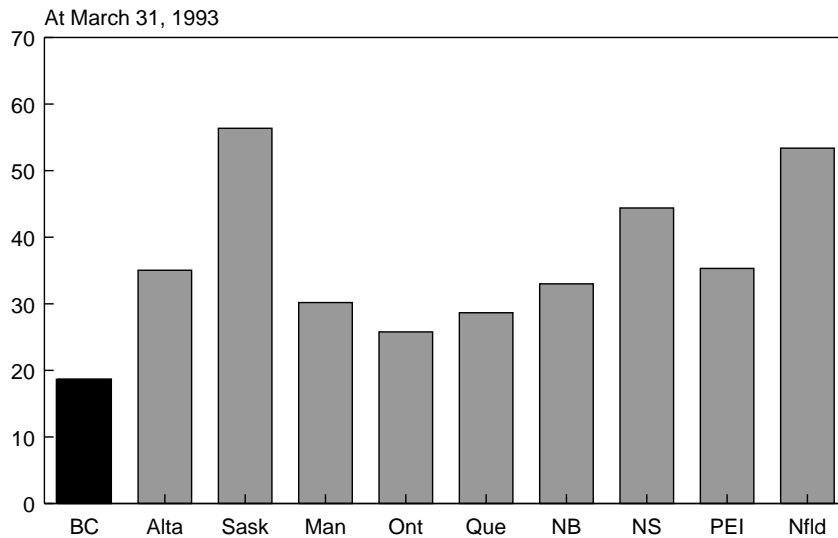
British Columbia is in the best fiscal position of any of the provinces. It has the highest credit rating (see Chart E1) and the lowest level of tax-supported debt relative to provincial gross domestic product or GDP (see Chart E2). GDP measures the size of the economy and is a generally-accepted benchmark for assessing governments' ability to meet their debt obligations. British Columbia's comparatively low debt-to-GDP ratio means its debt service costs are also proportionately the lowest of any province.

**CHART E1**  
**PROVINCIAL CREDIT RATINGS**  
**AS OF MARCH 1994**



Source: Moody's Investors Service

**CHART E2**  
**PROVINCES' TAX-SUPPORTED NET DEBT**  
**AS A PERCENTAGE OF GDP**



Source: Moody's Investors Service (October 1993)

## Consequences of Deficits and Debt

The deterioration of government finances caused by the recent recession in Canada has sparked growing concern among the public and financial experts. A number of potential implications of rising public sector indebtedness have been noted:

- Higher debt may require higher taxes in Canada in the future.
- The cost of debt-financed government spending is being passed on to future generations.
- Canada's foreign indebtedness is rising because the public sector is consuming a larger share of national savings. The diversion of national income to pay interest to foreign lenders implies a lower standard of living in the future than would otherwise be the case.
- High levels of debt result in foreign investors demanding a risk premium when lending to Canadian companies and governments.

On the other hand, public capital investment is essential for continued economic growth, private-sector job creation and rising living standards. Most academic and private-sector economists would agree that capital spending in the public sector should be debt-financed rather than paid for out of current operating budgets.

Nevertheless, the potentially negative consequences of rising debt levels makes it important for governments to plan for the orderly reduction of deficits and repayment of debt. While deficit elimination is within reach for British Columbia and some other provinces, debt repayment is a much longer-term proposition — for all provinces and the federal government<sup>1</sup>.

## Fiscal Strategy and Debt Management Plan

In order to control the growth of debt and protect taxpayers, the government is adopting a three-pronged fiscal strategy:

- Tax rates are frozen for the next three years and no new taxes will be introduced.
- The government will balance the budget in 1996/97 and introduce a debt management plan.
- In addition to eliminating the deficit, the government will wind up the British Columbia Endowment Fund and use the proceeds to pay down debt.

## Tax Freeze

- **Tax rates will be frozen at current levels for three years. There will be no new taxes.**

A tax freeze was announced by Premier Mike Harcourt on March 8. The three-year freeze will apply to all the taxes listed in the table on the next page. Medical Services Plan premiums will also be frozen.

The tax freeze means that the government will generate additional revenue mainly through growth in employment, wages and profits. For example, individuals and companies will pay more taxes as business expands, and profits and employees' wages rise.

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<sup>1</sup> For a review of these issues, see Richard G. Harris, ed., *Deficits and Debt in the Canadian Economy*, Proceedings of a Policy Forum (Kingston, Ontario: John Deutsch Institute for the Study of Economic Policy, Queen's University, 1993).

**Tax Rate Freeze Applies To:**

- Provincial personal and corporate income tax
- Sales tax
- Average school and rural area property tax levels
- Property transfer tax
- Corporation capital tax
- Medical Services Plan (health care) premiums
- Mineral land tax
- Mineral tax
- Mining tax
- Logging tax
- Fuel taxes
- Insurance premium tax
- Tobacco tax
- Hotel room tax
- Horse racing tax

Fees, licences and other charges for government or Crown corporation services or products are not frozen. Such charges are intended to reflect the costs of goods or services provided and to ensure that the government does not compete unfairly with the private sector.

## Balancing the Provincial Budget: A Debt Management Plan

Under the government's debt management plan, the deficit is reduced to \$898 million in 1994/95, to \$450 million in 1995/96 and the budget is balanced in 1996/97. "The Debt Management Plan" is outlined in the box and illustrated in Charts E3 and E4.

TABLE E1  
THE DEBT MANAGEMENT PLAN

	Actual		Revised	Budget	Plan	
	1991/92	1992/93	Forecast 1993/94	Estimate 1994/95	1995/96	1996/97
	(\$ millions)					
Revenue .....	14,745	16,168	17,681	18,732	19,575	20,425
Total expenditure .....	17,100	17,929	18,965	19,630	20,025	20,425
— Program expenditure .....	16,457	17,115	18,052	18,649	19,025	19,400
— Public debt interest .....	643	814	913	981	1,000	1,025
Program surplus (deficit) .....	(1,712)	(947)	(371)	83	550	1,025
Total surplus (deficit) .....	(2,355)	(1,761)	(1,284)	(898)	(450)	—

*KEY ELEMENTS:*

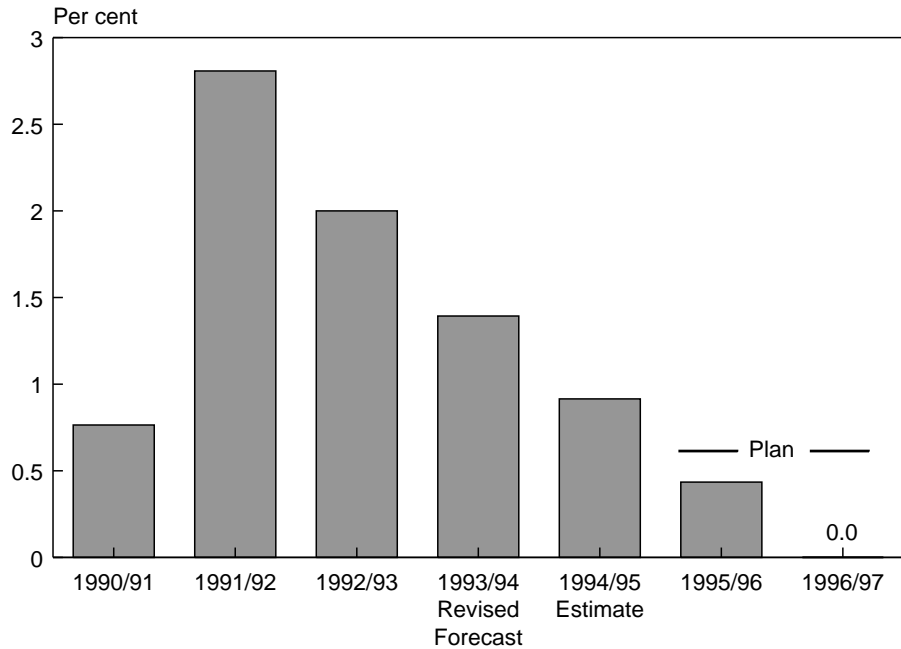
- The debt management plan incorporates the tax freeze.
- Growth in expenditure will be reduced to 2 per cent in 1995/96 and 1996/97, considerably less than the growth in population and inflation.
- Meeting these targets means that inflation and population growth will not be fully funded in ministry budgets. There will be no money for public sector wage increases.

It is important to note that Table E1 is a plan, not a forecast. Plans can be knocked off track by unexpected events. In particular, revenue growth depends on how the economy performs.<sup>2</sup> **In the event that revenue is lower than in the plan, the government will reduce spending from the planned levels shown in order to achieve the deficit/balanced budget target.**

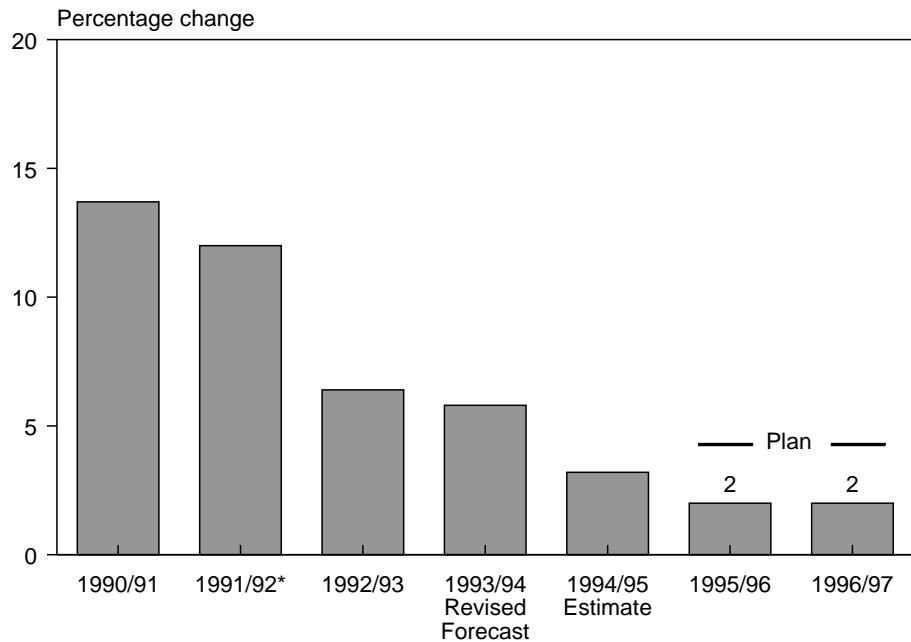
<sup>2</sup> There are also uncertainties about the level of federal transfer payments. In the recent federal budget, the federal Minister of Finance stated that social security reform "will enable the federal government to secure a minimum of \$1.5 billion in savings in 1996/97"\* relative to current projections of federal transfers to the provinces for social assistance and post-secondary education.

\* See Department of Finance Canada, *The Budget Plan* (Ottawa, February 1994) p. 38.

**CHART E3**  
**B.C. DEFICIT AS A PER CENT OF GDP**



**CHART E4**  
**EXPENDITURE GROWTH RATE**



\* Excludes one-time accounting adjustments in 1991/92.

## The Provincial Debt

Many people are concerned about the growth in government debt in Canada in recent years. However, British Columbia is in a stronger fiscal position than other jurisdictions, due to proportionately lower levels of debt and debt service costs.

As a general rule, most governments and jurisdictions are better off the less debt they have. Debt service costs are lower and government has greater fiscal flexibility as a result.

However, the public debate on deficits and debt has tended to blur important distinctions between various kinds of public debt incurred for different purposes. Two distinctions can be made:

- Debt that is tax-supported and debt that is self-supporting.
- Within the tax-supported category, debt that funds operating expenditures and debt that finances capital spending.

**Tax-supported vs. Self-supporting Debt:** Credit-rating agencies and other analysts of government finances make a distinction between debt that is “tax-supported” and debt that is incurred by provincial Crown corporations and agencies that are self-supporting. Tax-supported debt includes “direct” debt incurred for government operations and debt of government agencies that require an operating or debt service subsidy from the provincial government. As the term implies, tax-supported debt is a direct burden on taxpayers. In contrast, self-supporting Crown corporations and agencies such as BC Hydro and BC Rail generate sufficient revenues to at least cover interest costs and re-pay principal. They may also pay dividends to the provincial government.

**Tax-supported Direct/Operating Debt vs. Tax-supported Capital Debt:** It is also important to distinguish between tax-supported debt incurred to fund operations and capital expenditures. In general, capital debt creates an offsetting physical asset, unlike operating or “direct” debt. Most of the non-direct debt incurred by Crown corporations and other government agencies funds capital expenditures.

An analogy to the household is the distinction between people’s mortgage debt and their credit-card debt. A house is an investment that provides ongoing benefits, while credit-card debt is often used to pay for day-to-day consumption expenditures.

With the budget balanced in 1996/97, the need to borrow to fund government program spending will disappear. However, the provincial government and its agencies will need to continue to finance construction of schools, hospitals, roads and other long-lived assets. In much of the public sector, as in the private sector, debt financing is the standard practice for investments that provide benefits over a long period of time.

**Public Investment May Raise Private-Sector Productivity:** Another reason for distinguishing between different types of public debt is that public projects deliver varying types and levels of service. Recent research suggests that there is a link between some types of public-sector capital and growth in productivity and the economy as a whole<sup>3</sup>. For example, public investment in roads, airports and harbours may raise the productivity of private investment. If so, under-investment in public capital could result in an under-performing economy.

**Public Debt vs. Public Assets:** A final issue in considering whether public debt levels are too high is to consider the other side of the public-sector balance sheet: the value of assets owned by the Crown. Table E2 provides estimates of the assets owned by the provincial government and its agencies. The net-book-value figures are based on the historical cost at which the assets

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<sup>3</sup> For a survey, see Alicia H. Munnell, “Infrastructure Investment and Productivity Growth”, *Journal of Economic Perspectives* (Fall 1992).

were acquired and therefore understate their true economic value or replacement cost. For example, it is estimated that the provincial road network, with a net book value of \$4.6 billion in the *Public Accounts*, would cost upwards of \$12 billion to replace. Similarly, the replacement cost of schools, universities, colleges and hospitals is estimated to exceed \$20 billion. However, both the net book value and replacement costs of provincial assets exceeded the \$23 billion in total net debt of the province in 1993.

TABLE E2  
VALUE OF PROVINCIAL ASSETS, 1993

	Net Book Value	Estimated Replacement Cost
	— (\$ billions) —	
Value of Provincial Government Assets.....	7	15
Value of Crown Corporation Assets.....	14	25
Value of Assets of Institutions (includes schools, universities, hospitals).....	9*	20
<b>Total</b> .....	<u>30</u>	<u>60</u>

\* Current value of depreciated capital stock from Statistics Canada.

Source: Province of British Columbia, *1992-93 Public Accounts*; Statistics Canada, Investment and Capital Stock Division; and Ministry of Finance and Corporate Relations estimates of replacement costs.

To sum up:

- Debt incurred because the government budget was not balanced is similar to a household running up credit-card debt. In contrast, government debt used to finance long-lived capital assets is like taking out a mortgage to build a house.
- Debt-financed public investment may raise private-sector productivity and overall economic growth.
- The value of provincial public assets exceeds total provincial debt by a considerable margin.

### **British Columbia Endowment Fund Dedicated to Debt Reduction**

The third element in the government's debt management plan is the use of the British Columbia Endowment Fund (BCEF) to pay down debt.

In the 1992 budget, the government set up the BCEF to invest in a range of diversified financial assets. Over the last two years, the fund has generated significant earnings. The fund produced \$65 million in earnings for the government's Consolidated Revenue Fund in 1993/94. In addition, the market value of BCEF investments has risen significantly; at March 31, 1994, it is estimated that the BCEF's assets will be worth over \$700 million, up from \$550 million on March 31, 1992.

The government has decided to wind up the BCEF. With the exception of the "BC Focus" component that is creating jobs by making equity investments in British Columbia businesses,

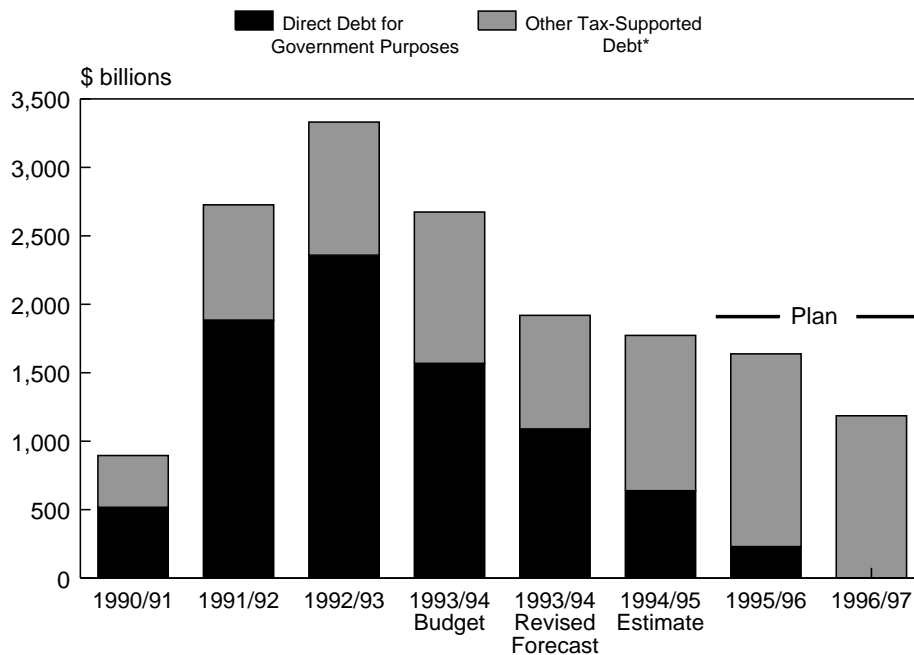


BCEF assets will be sold and used to reduce provincial tax-supported debt. For planning purposes, it is assumed that debt will be reduced by \$300 million in each of 1994/95 and 1995/96. The cumulative reduction in debt of \$600 million will reduce provincial borrowing requirements and debt service costs.

### Effect of Debt Management Plan on Provincial Debt

The next chart shows the annual change in tax-supported debt under the debt management plan outlined above. The chart splits the tax-supported debt into two components: “direct debt for government purposes” resulting from budget deficits and “other tax-supported debt”, much of which is used to finance capital investment in schools, hospitals and roads. As discussed earlier, the two self-supporting Crown corporations, BC Hydro and BC Rail, are not included in these figures.

**CHART E5**  
**TAX-SUPPORTED DEBT – ANNUAL CHANGE**



\*Excludes change in debt of commercial Crown corporations (BC Hydro, BC Rail)

As the chart indicates, achieving a balanced budget in 1996/97 will halt growth in “direct debt for government purposes”. “Other tax-supported debt” will increase to fund public capital construction to meet the demands of a growing population. Total tax-supported debt growth will slow to less than half the rate seen in recent years. Meanwhile, the capital assets financed by debt will deliver health, education and transportation services to current and future generations.

## **Conclusion**

The provincial budget will be balanced in 1996/97. This will be accomplished without raising taxes. Tax rates will be frozen for three years. The government will reduce the rate of spending growth, but will not make drastic cuts to services; this would harm those most in need and could de-rail the continued expansion of the province's economy. In order to balance the budget in 1996/97, spending growth will be reduced to 2 per cent in 1995/96 and 1996/97. This is a much slower rate of growth than in recent years, so public sector unions and agencies receiving provincial funding should incorporate the government's fiscal strategy and debt management plan in their planning.

The achievement of a balanced budget will stop direct debt accumulation. Other tax-supported debt, used mainly to fund long-lived capital assets, will be prudently managed in relation to growth in the provincial economy.

This fiscal strategy will help ensure that British Columbians continue to enjoy a high standard of living and an appropriate balance between public services and taxation.

## ***BC 21 — Building B.C. for the 21st Century***

In 1993, the government introduced BC 21, a comprehensive, multi-year initiative to lay the foundation for British Columbia's economy in the 21st century. The primary goal of BC 21, as defined in the *Build BC Act*, is to facilitate the expansion and diversification of the British Columbia economy. BC 21 is a government-wide initiative with all ministries and Crown corporations taking an active role to increase the effectiveness of economic development, public investment and job creation activities.

BC 21 has four key components:

**Capital Investment** — Building for the future by meeting vital community needs for health care, education, training and justice facilities.

The BC 21 strategy provides the framework to coordinate the government's capital expenditure program to provide a solid foundation for future growth and development, and to ensure that government spending delivers benefits today, through increased economic activity, training and jobs throughout the province.

As the population grows, schools, health-care centres and other public facilities must be built. By coordinating how, when, and where these expenditures are made, BC 21 helps British Columbians gain the maximum benefits in both the short and long term.

Projects are financed by long-term borrowing, with fixed repayment schedules. Debt is borrowed through the provincial government and is part of provincial tax-supported debt. Debt servicing costs are covered by provincial grants and rental payments and, for hospitals, partly through property taxes.

**Economic Development** — BC 21 ensures that existing public resources are coordinated and provides a dedicated special account to promote sustainable economic growth, new jobs and expanded training opportunities in British Columbia's regions.

Innovative programs with specific investment and job creation benefits are funded from the \$100-million Build BC Special Account. Projects are managed and delivered through partnerships with other ministries, Crown corporations and the private sector.

**Transportation** — Planning and paying for new roads, highways and other transportation links essential to the long-term growth of B.C. communities and regions.

The BC Transportation Financing Authority will take a long-term approach to planning and developing transportation initiatives to support economic growth. Car rental taxes and gas levies provide dedicated funding. Other financing options include innovative partnerships with private capital and other investment sources. This allows matching of benefits and costs over the life of the assets.

The Ministry of Transportation and Highways undertakes construction of highway projects and recovers the costs from the financing authority.

**Crown Corporations** — Ensuring the maximum benefit from public sector investment — jobs in the regions, opportunities for private sector suppliers and training for workers.

BC Hydro, B.C. Ferries, B.C. Transit, B.C. Buildings Corporation and other Crown corporations make substantial investments in the British Columbia economy each year. Crown corporation capital construction is being coordinated so that the substantial resources

of these publicly-owned entities are directed toward the goals of the BC 21 strategy. These include greater use of B.C. based businesses, products and services, more emphasis on job training and skills development, and greater benefits for local economies.

## **Public Investment**

Public investment encompasses three categories outlined above – capital investment, transportation and Crown corporations.

### ***Progress in 1993/94***

In 1993/94, the province invested \$1 billion in schools, hospitals, universities, colleges, courthouses and corrections facilities.

During 1993/94, a consolidated approach to capital planning was initiated within the Ministry of Employment and Investment. Its purpose is to ensure that major public investments are made in a cost-effective way, with maximum benefits for British Columbia's regions.

The BC Transportation Financing Authority was established to undertake longer-term transportation planning and financing.

Crown corporations have been directed to take into account the full range of economic and social objectives in their planning.

Examples of the new capital projects initiated through BC 21 in 1993/94 include:

- A three-year program to build 7,500 new child care spaces in schools, hospitals and other public workplaces across the province;
- New research and development facilities at the University of British Columbia and the University of Victoria;
- Expanded public transit in the Lower Mainland and southern Vancouver Island.

### ***Plans For 1994/95***

For 1994/95, the Ministry of Employment and Investment has developed the first consolidated capital plan for government. The plan takes account of the government's debt management plan, while advancing its social and economic goals.

Social capital investment in schools, health-care facilities, post-secondary institutions and justice facilities will total \$1 billion. This level of social capital expenditure is equal to last year's spending and will keep social capital investment at a level that maintains facilities and meets growth requirements. It also recognizes that spending growth must be reduced and is consistent with the government's overall fiscal targets.

The BC Transportation Financing Authority will invest \$300 million in 1994/95. This will allow construction of the Vancouver Island Highway to continue, and a start to be made to other important transportation projects to be announced during the coming months.

The province's BC 21 initiatives will be supplemented in 1994/95 by a new federal-provincial infrastructure agreement. The Canada-British Columbia Infrastructure Program creates a new program to cost-share infrastructure investment totalling \$675 million over two years.

The program is based on partnerships between municipalities, the private sector and the federal and provincial governments. The province's contribution to the program will be \$225 million. Funding will be targeted mainly to priorities set by local governments and will emphasize water, sewer and local transportation projects.

## Economic Development

### *Progress in 1993/94*

During the 1993 legislative session, the Build BC Special Account was established under the *Build BC Act*. The special account supports a range of initiatives that:

- Promote sustainable growth and long-term job creation, particularly in regions;
- Build partnerships among the public sector, private sector and community stakeholders; and
- Emphasize employment opportunities and training for traditionally disadvantaged groups.

Using the \$100-million Build BC Special Account, BC 21 undertook a number of innovative regional initiatives in 1993/94 that combined economic development, training and job creation. Initiatives included:

- Creation of 15 innovative regional job creation and investment programs across the province, including job training in forest communities, salmonid enhancement, student summer employment and heritage preservation;
- Establishment of a regional export development program;
- Establishment of the Community Projects Program to help develop new and expanded community-based facilities; and
- Investment in a new ferry service between Victoria and Seattle.

### *Plans for 1994/95*

For 1994/95, the Build BC Special Account received a further injection of \$100 million. Spending priorities include:

- **Community Enhancement Programs** — These programs will assist communities to respond to development challenges and opportunities and will provide direct employment opportunities for traditionally disadvantaged groups.

As a major component of the Community Enhancement Programs, new housing initiatives will help communities respond to development and growth pressures. These initiatives will include a replacement for the Renter's Tax Reduction, which was eliminated in 1993.

- **BC 21 Community Grants** — This community-based initiative will provide funding to build or improve neighbourhood facilities around the province.
- **Environment and Resource Programs** — These programs will support environmental management and conservation, and resource enhancement throughout the province in support of government priorities.
- **Science and Technology Projects/Programs** — These science and technology related programs will assist with the development of new competitive advantages and opportunities for industry and help build new partnerships between publicly-funded educational and research facilities and private-sector high-technology industries.

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## APPENDIX G

### Supplementary Tables

TABLE G 1  
GENERAL ECONOMIC INDICATORS

	Unit or Base Period	1990	1991	1992	1993
<b>Population and Labour Force:</b>					
Population (July 1).....	thousands	3,300	3,377	3,451	3,535
Net In-migration.....	number	61,243	57,322	69,679	80,435
Interprovincial.....	number	38,704	32,263	41,240	42,001
International.....	number	22,539	25,059	28,439	38,434
Labour force.....	thousands	1,601	1,652	1,693	1,728
Labour force participation rate*.....	per cent	66.0	66.4	66.3	65.7
Male.....	per cent	74.3	74.7	74.0	73.7
Female.....	per cent	58.1	58.5	59.0	57.9
Employment.....	thousands	1,469	1,489	1,517	1,561
Male.....	thousands	810	815	824	858
Female.....	thousands	660	674	693	703
Full-time.....	thousands	1,224	1,221	1,245	1,283
Part-time.....	thousands	245	268	273	277
Unemployment rate.....	per cent	8.3	9.9	10.4	9.7
Male.....	per cent	8.2	10.3	10.9	9.8
Female.....	per cent	8.4	9.3	9.8	9.6
<b>Main Economic Indicators:</b>					
Provincial gross domestic product.....	\$ millions	81,875	83,978	86,669	92,150 <sup>1</sup>
Capital investment (new).....	\$ millions	17,202	16,959	17,368	18,832
Retail sales.....	\$ millions	24,200	23,537	24,433	26,350
New motor vehicle sales.....	thousand units	161	162	151	148
Housing starts.....	dwelling units	36,720	31,875	40,621	42,807
Building permits.....	\$ millions	4,976	5,132	6,256	6,389
Exports.....	\$ millions	16,648	15,215	16,353	18,996
<b>Incomes:</b>					
Personal income.....	\$ millions	72,007	75,457	77,547	81,030 <sup>1</sup>
Wages and salaries.....	\$ millions	39,775	41,140	42,688	45,357
Average weekly earnings.....	\$	514.65	534.88	549.09	561.02
<b>Prices:</b>					
Consumer price index, B.C. (urban).....	1986=100	117.6	123.8	127.2	131.6
Consumer price index, Vancouver.....	1986=100	117.6	123.7	127.4	132.0
Consumer price index, Victoria.....	1986=100	117.1	123.8	126.4	130.2
Industrial product price index, Canada.....	1986=100	109.7	108.6	109.1	112.7
B.C. export commodity price index <sup>2</sup> .....	1986=100	116.6	101.6	109.4	122.7

<sup>1</sup> Per cent of the working-age population in the labour force.



TABLE G 1

GENERAL ECONOMIC INDICATORS — *Continued*

	Unit or Base Period	1990	1991	1992	1993
<b>Financial Indicators:</b>					
Business incorporations.....	number	19,550	18,528	20,406	22,953
Business bankruptcies.....	number	1,128	1,262	1,031	830
Shares traded (Vancouver Stock Exchange)	\$ millions	4,062	3,465	3,572	6,781
Personal savings deposits at chartered banks.....	\$ millions	29,340	31,868	33,521	36,716
<b>Sector Indicators:</b>					
Manufacturing shipments.....	\$ millions	25,329	23,553	24,322	26,892
Timber scaled.....	thousand cubic metres	78,318	73,677	74,006	79,239
Lumber production.....	thousand cubic metres	33,515	31,406	33,396	33,935
Pulp and paper production.....	thousand tonnes	6,712	6,677	6,646	7,041
Gross value of mineral production.....	\$ millions	2,971	2,755	2,534	2,282 <sup>3</sup>
Petroleum and natural gas production.....	\$ millions	900	859	883	1,029 <sup>3</sup>
Electric power generation (net).....	million kilowatt hours	60,662	62,981	64,058	58,586
Farm cash receipts.....	\$ millions	1,215	1,247	1,357	1,427
Foreign visitors.....	thousands	5,130	5,285	5,312	5,477
<b>Regional Data:</b>					
Housing Starts					
Vancouver.....		17,970	14,769	18,684	21,307
Victoria.....		2,588	2,129	2,421	2,633
Chilliwack.....		976	990	1,428	1,468
Kamloops.....		417	564	980	1,067
Kelowna.....		2,061	2,218	2,612	1,963
Matsqui.....		1,866	1,847	1,678	2,045
Nanaimo.....		1,747	942	1,313	1,520
Prince George.....		258	366	460	426
Campbell River.....		339	260	421	416
Courtenay.....		740	642	1,096	1,471
Duncan.....		349	415	507	625
Penticton.....		783	773	1,018	885
Vernon.....		582	802	794	742
<b>Labour Markets</b>					
		Employment		Unemployment Rate (%)	
		1992	1993	1992	1993
Greater Vancouver.....		821,000	816,000	9.2	9.3
Greater Victoria.....		125,000	129,000	8.4	8.6
East Kootenay.....		20,500	23,100	n.a.	12.4
Central Kootenay.....		37,900	42,100	12.1	9.8
Okanagan-Boundary.....		109,500	117,500	12.7	11.2
Lillooet-Thompson.....		51,700	58,600	12.8	10.4
Lower Mainland.....		913,900	909,700	9.3	9.3
Vancouver Island and Coast.....		250,500	267,800	11.0	10.0
Cariboo-Fort George.....		80,800	86,500	13.1	10.4
North.....		52,500	55,100	12.9	8.8

<sup>1</sup> Ministry of Finance and Corporate Relations estimate.<sup>2</sup> Developed by BC Stats, Ministry of Government Services.<sup>3</sup> Ministry of Energy, Mines and Petroleum Resources estimate.



**TABLE G2**  
**INTERPROVINCIAL COMPARISONS OF TAX RATES**  
**(RATES AS OF MARCH 8, 1994)<sup>1</sup>**

Tax	British Columbia <sup>2</sup>	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	Newfoundland
Personal income tax										
Per cent of basic federal tax <sup>3</sup> .....	52.5	45.5	50.0	52.0	58.0	N/A	64.0	59.5	59.5	69.0
Flat tax <sup>4</sup> .....	N/A	0.5	2.0	2.0	N/A	N/A	N/A	N/A	N/A	N/A
Surtax <sup>5</sup> rate.....	30/20	8	10/15	2	20/10	N/A	8	20/10	10	N/A
Threshold.....	\$5,300/ \$9,000	\$3,500	\$1/ \$4,000	Net Income >\$30,000	\$5,500/ \$8,000	N/A	\$13,500	\$7,000/ \$10,500	\$12,500	N/A
Provincial personal income tax (per cent of family income) <sup>6</sup> .....										
	6.0	5.7	8.4	7.3	6.7	8.4	7.4	6.9	6.9	7.9
Corporation income tax (per cent of taxable income) <sup>7</sup>										
General rate.....	16.5	15.5	17	17	15.5	8.90	17	16	15	16
Small business rate.....	10	6	9.5	10	9.5	5.75	9	5	7.5	5
Corporation capital tax <sup>8</sup>										
Non-financial.....	0.3	<i>Nil</i>	0.6	0.3	0.3	0.56	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
Financial.....	1.0/3.0	2.0	3.25	3.0	1.12	1.12	3.0	3.0	3.0	3.0
Health care premiums <sup>9</sup>										
Individual/family.....	36/72	32/64	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
Payroll tax (per cent) <sup>10</sup> .....	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>	2.25	1.95	3.75	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>	1.5
Insurance premium tax (per cent) <sup>11</sup> .....	2-3	2-3	2-3	2-3	2-3	2-3	2-3	3-4	3	4
Fuel taxes (cents per litre)										
Gasoline <sup>12</sup> .....	11.0	9.0	15.0	11.5	14.7	18.5	10.7	12.2	10.7	15.7
Diesel.....	11.5	9.0	15.0	10.9	14.3	16.5	13.7	15.0	11.2	17.6
Retail sales tax (per cent) <sup>13</sup>										
General rate.....	7	<i>Nil</i>	9	7	8	8	11	11	10	12
Liquor.....	10	<i>Nil</i>	7	12	12	8	11	11	37.5	12
Meals.....	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>	7	8	8	11	11	10	12
Accommodation.....	8	5	9	7	5	4	11	11	10	12
Tobacco tax (dollars per carton of 200 cigarettes) <sup>14</sup> .....	22.00	14.00	19.20	18.60	5.05	4.45	9.80	17.90	10.35	26.35

<sup>1</sup> Rates shown are for the 1994 taxation year.

<sup>2</sup> British Columbia tax rates are shown as announced in the March 22, 1994 Budget.

<sup>3</sup> Quebec has its own personal income tax system which is not directly comparable. Alberta, Saskatchewan, Manitoba, Ontario and Quebec provide general tax reductions at low income levels.

<sup>4</sup> Per cent of taxable income in Alberta and per cent of net income in Saskatchewan and Manitoba.

<sup>5</sup> 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, Ontario and Nova Scotia have two-tiered surtaxes. Saskatchewan's Deficit Surtax is 10 per cent of basic provincial tax.

<sup>6</sup> 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.

<sup>7</sup> Alberta, Ontario, Prince Edward Island and Newfoundland have lower rates for manufacturing and processing.

<sup>8</sup> 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. Large Saskatchewan resource corporations are assessed a 3 per cent surcharge on the value of Saskatchewan resource sales.

<sup>9</sup> British Columbia has a two person rate of \$64. British Columbia and Alberta offer premium assistance in the form of lower rates or an exemption from premiums for lower income individuals and families.

<sup>10</sup> Manitoba, Ontario and Newfoundland provide payroll tax relief for small businesses.

<sup>11</sup> The lower rate applies to premiums for life, sickness and accident insurance; the higher rate applies to premiums for property insurance (excluding motor vehicles). Sales tax applies to insurance premiums, except those related to individual life and health, in Ontario (8 per cent), Quebec (9 per cent) and Newfoundland (12 per cent). The sales tax is reduced to 5 per cent for auto insurance in Quebec and Ontario.

<sup>12</sup> Tax rate is for regular fuel used on highways. The Quebec rate includes estimated sales tax.

<sup>13</sup> In Quebec, services and new house sales are taxed at 4 per cent.

<sup>14</sup> Includes estimated provincial sales tax where applicable.

TABLE G3

## COMPARISON OF PROVINCIAL AND FEDERAL TAXES BY PROVINCE — 1994

Tax	British Columbia	Alberta	Saskat- chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New- foundland
( \$ )										
<b>Unattached Individual — \$25,000</b>										
1. Provincial Income Tax ....	1,416	1,345	2,004	1,550	1,564	2,393	1,726	1,605	1,605	1,861
2. Property Tax .....	—	—	—	—	—	—	—	—	—	—
3. Retail Sales Tax .....	386	2	446	482	569	588	647	653	738	831
4. Fuel Tax .....	110	90	150	115	147	191	107	122	107	157
5. Provincial Direct Taxes ...	1,912	1,437	2,600	2,147	2,280	3,172	2,480	2,380	2,450	2,849
6. Health Care Premiums/ Payroll Taxes .....	432	384	—	563	488	938	—	—	—	375
7. Total Provincial Tax .....	2,344	1,821	2,600	2,710	2,768	4,110	2,480	2,380	2,450	3,224
8. Federal Income Tax .....	2,778	2,778	2,778	2,778	2,778	2,778	2,778	2,778	2,778	2,778
9. Net Federal GST .....	269	317	287	276	270	230	257	262	257	239
10. Total Tax .....	5,391	4,916	5,665	5,764	5,816	7,118	5,515	5,420	5,485	6,241
<b>Unattached Individual — \$80,000</b>										
1. Provincial Income Tax ....	8,981	7,699	10,923	10,402	9,778	13,030	9,912	9,659	9,216	10,687
2. Property Tax										
— Gross .....	1,660	1,600	1,550	1,950	2,700	2,500	825	1,996	1,453	1,423
— Net .....	1,190	1,600	1,550	1,700	2,700	2,500	825	1,996	1,453	1,423
3. Retail Sales Tax .....	851	5	944	961	1,211	1,189	1,389	1,403	1,606	1,755
4. Fuel Tax .....	165	135	225	173	221	287	161	183	161	236
5. Provincial Direct Taxes ...	11,187	9,439	13,642	13,236	13,910	17,006	12,287	13,241	12,436	14,101
6. Health Care Premiums/ Payroll Taxes .....	432	384	—	1,800	1,560	3,000	—	—	—	1,200
7. Total Provincial Tax .....	11,619	9,823	13,642	15,036	15,470	20,006	12,287	13,241	12,436	15,301
8. Federal Income Tax .....	16,102	16,102	16,102	16,102	16,102	16,102	16,102	16,102	16,102	16,102
9. Net Federal GST .....	1,259	1,372	1,187	1,209	1,220	1,079	1,202	1,212	1,218	1,144
10. Total Tax .....	28,980	27,297	30,931	32,347	32,792	37,187	29,591	30,555	29,756	32,547
<b>Two Income Family of Four — \$55,000</b>										
1. Provincial Income Tax ....	3,325	3,139	4,618	3,997	3,673	4,639	4,053	3,768	3,768	4,369
2. Property Tax										
— Gross .....	1,790	1,400	2,240	2,650	2,500	2,400	1,250	1,950	1,450	1,002
— Net .....	1,320	1,400	2,240	2,400	2,500	2,400	1,250	1,950	1,450	1,002
3. Retail Sales Tax .....	802	6	958	893	1,052	1,216	1,177	1,216	1,163	1,583
4. Fuel Tax .....	165	135	225	173	221	287	161	183	161	236
5. Provincial Direct Taxes ...	5,612	4,680	8,041	7,463	7,446	8,542	6,641	7,117	6,542	7,190
6. Health Care Premiums/ Payroll Taxes .....	864	768	—	1,238	1,073	2,063	—	—	—	825
7. Total Provincial Tax .....	6,476	5,448	8,041	8,701	8,519	10,605	6,641	7,117	6,542	8,015
8. Federal Income Tax .....	6,522	6,522	6,522	6,522	6,522	6,522	6,522	6,522	6,522	6,522
9. Net Federal GST .....	1,134	1,198	1,106	1,136	1,140	1,088	1,120	1,125	1,129	1,075
10. Total Tax .....	14,132	13,168	15,669	16,359	16,181	18,215	14,283	14,764	14,193	15,612



TABLE G3

COMPARISON OF PROVINCIAL AND FEDERAL TAXES BY PROVINCE — 1994  
— *Continued*

Tax	British Columbia	Alberta	Saskat- chewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	New- foundland
( \$ )										
<b>Two Income Family of Four — \$90,000</b>										
1. Provincial Income Tax ....	7,003	6,491	9,291	8,996	7,736	10,970	8,536	7,936	7,936	9,203
2. Property Tax										
— Gross .....	2,590	2,300	3,400	3,850	4,050	2,900	1,875	2,350	2,042	1,421
— Net .....	2,120	2,300	3,400	3,600	4,050	2,900	1,875	2,350	2,042	1,421
3. Retail Sales Tax .....	1,069	8	1,250	1,156	1,381	1,517	1,536	1,595	1,525	2,053
4. Fuel Tax .....	165	135	225	173	221	287	161	183	161	236
5. Provincial Direct Taxes ..	10,357	8,934	14,166	13,925	13,388	15,674	12,108	12,064	11,664	12,913
6. Health Care Premiums/ Payroll Taxes .....	864	768	—	2,026	1,756	3,376	—	—	—	1,350
7. Total Provincial Tax.....	11,221	9,702	14,166	15,951	15,144	19,050	12,108	12,064	11,664	14,263
8. Federal Income Tax .....	13,738	13,738	13,738	13,738	13,738	13,738	13,738	13,738	13,738	13,738
9. Net Federal GST .....	1,512	1,606	1,443	1,471	1,497	1,358	1,460	1,475	1,480	1,394
10. Total Tax .....	26,471	25,046	29,347	31,160	30,379	34,146	27,306	27,277	26,882	29,395
<b>Senior Couple with Equal Pension Incomes — \$30,000</b>										
1. Provincial Income Tax ....	725	308	1,120	143	171	710	884	822	822	952
2. Property Tax										
— Gross .....	1,790	1,400	2,240	2,650	2,500	2,400	1,250	1,950	1,450	1,002
— Net .....	1,045	400	2,240	2,400	2,500	2,400	1,250	1,950	1,450	1,002
3. Retail Sales Tax .....	649	8	815	757	991	1,099	1,037	1,032	1,010	1,440
4. Fuel Tax .....	110	90	150	115	147	191	107	122	107	157
5. Provincial Direct Taxes ..	2,529	806	4,325	3,415	3,809	4,400	3,278	3,926	3,389	3,551
6. Health Care Premiums/ Payroll Taxes .....	768	768	—	—	—	—	—	—	—	—
7. Total Provincial Tax .....	3,297	1,574	4,325	3,415	3,809	4,400	3,278	3,926	3,389	3,551
8. Federal Income Tax .....	1,422	1,422	1,422	1,422	1,422	1,422	1,422	1,422	1,422	1,422
9. Net Federal GST .....	850	939	808	843	833	808	845	820	841	826
10. Total Tax .....	5,569	3,935	6,555	5,680	6,064	6,630	5,545	6,168	5,652	5,799

**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, and each senior is assumed to receive \$15,000 each. All representative families are assumed to have employment income except the senior couple.

**Property Tax**

- Estimates of property taxes are from Royal LePage Winter 1994 Survey of Canadian House Prices. It is assumed that the individual at \$25,000 rents accommodation; the family at \$55,000 and the senior couple own bungalows; the family at \$90,000 owns a two-storey executive style home; and the single at \$80,000 owns a luxury condominium, in a major city for each province. Net property taxes are estimated as taxes owing after credits provided through the property tax system are subtracted.

**Retail Sales and Fuel Tax**

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

**Health Care Premiums/Payroll Tax**

- 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 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 on March 22, 1994. Taxes for other provinces were calculated using rates in effect on March 8, 1994.

TABLE G4

SUMMARY OF OPERATING AND FINANCING TRANSACTIONS  
CONSOLIDATED REVENUE FUND

	Actual 1990/91 <sup>1</sup>	Actual 1991/92 <sup>1</sup>	Actual 1992/93 <sup>1</sup>	Revised Forecast 1993/94 <sup>1</sup>	Budget Estimate 1994/95
	(\$ millions)				
Revenue.....	14,418.1	14,745.0	16,167.6 <sup>2</sup>	17,681.0	18,732.0
Expenditure.....	15,043.8	17,100.4	17,928.9 <sup>3</sup>	18,965.0	19,630.0
Surplus (Deficit).....	(625.7)	(2,355.4)	(1,761.3)	(1,284.0)	(898.0)
Net Receipts (Disbursements) from Financing and Working Capital Transactions <sup>4</sup> .....	(166.4)	342.0	(504.1)	264.3	(200.3)
Decrease (Increase) in Cash and Short-Term Investments.....	274.8	128.8	(93.6)	(70.0)	160.0
British Columbia Endowment Fund Proceeds.....	—	—	—	—	300.0
<b>Net (Increase) Decrease in Government Direct Debt</b> .....	<u>(517.3)</u>	<u>(1,884.6)</u>	<u>(2,359.0)</u>	<u>(1,089.7)</u>	<u>(638.3)</u>
Net Debt at Year End: <sup>5</sup>					
Government Direct.....	4,725.9	6,610.5	8,969.5	10,059.2	10,697.5
Crown Corporation and Agency.....	11,800.1	12,550.7	13,391.0	14,376.2	15,709.1
Other Fiscal Agency Loans.....	138.5	241.9	385.9	478.6	578.1
Other Guarantees.....	543.5	574.4	590.6	481.9	437.7
<b>Total Net Debt at Year End</b> .....	<u>17,208.0</u>	<u>19,977.5</u>	<u>23,337.0</u>	<u>25,395.9</u>	<u>27,422.4</u>

<sup>1</sup> Restated to conform to the 1994/95 budget estimates.

<sup>2</sup> For comparative purposes, 1992/93 revenue has been restated to reflect an accounting change to record personal income tax on an accrual basis. This change increases 1992/93 revenue by \$90.6 million. This accounting change also results in a negative prior-year adjustment of \$67.6 million in respect of 1991/92.

<sup>3</sup> For comparative purposes, 1992/93 expenditure has been restated to reflect an accounting change in respect of sewer and water grant commitments to municipalities. This change reduces 1992/93 expenditure by \$26 million.

<sup>4</sup> Financing and working capital transactions represent either a source or use of funds, such as the payment or collection of loans and accounts payable/receivable. They do not cause a change in the annual surplus (deficit) but only a change in the composition of the provincial government's assets and liabilities.

<sup>5</sup> Net of sinking funds and unamortized discount balances.

TABLE G5  
REVENUE BY SOURCE  
CONSOLIDATED REVENUE FUND

	Actual 1990/91	Actual 1991/92	Actual 1992/93	Revised Forecast 1993/94	Budget Estimate 1994/95	Annual Rate of Growth 1990/91 to 1994/95
	(\$ millions)					(per cent)
<b>Taxation Revenue:</b>						
Personal income.....	4,140.1	4,287.0	4,177.0 <sup>1</sup>	4,403.0	4,767.0	3.6
Corporation income.....	607.5	577.4	545.0	709.0	873.0	9.5
Social service.....	2,009.6	1,990.5	2,085.3	2,615.0	2,811.0	8.8
Fuel.....	555.0	538.8	591.1	624.0	636.0	3.5
Tobacco.....	346.5	433.0	483.2	478.0	449.0	6.7
Property — residential (school purpose).....	284.9	332.1	416.2	454.0	473.0	13.5
Property — business (school purpose).....	554.5	579.3	638.8	665.0	680.0	5.2
Property — rural area.....	52.4	54.5	55.0	57.0	59.0	3.0
Property transfer.....	211.4	282.4	353.1	381.0	385.0	16.2
Corporation capital.....	10.2	13.4	280.4	335.0	364.0	144.4
Insurance premium.....	104.1	115.4	128.7	142.0	151.0	9.7
Hotel room.....	57.0	58.6	58.7	63.0	66.0	3.7
Horse racing.....	6.1	5.9	6.0	6.0	6.0	(0.4)
Total taxation revenue.....	<u>8,939.3</u>	<u>9,268.3</u>	<u>9,818.5</u>	<u>10,932.0</u>	<u>11,720.0</u>	7.0
<b>Natural Resource Revenue:</b>						
Petroleum and natural gas:						
Natural gas royalties.....	74.5	73.8	76.4	110.0	132.0	15.4
Permits and fees.....	157.4	91.5	66.3	221.0	171.0	2.1
Petroleum royalties.....	47.8	43.4	54.1	50.0	55.0	3.6
	<u>279.7</u>	<u>208.7</u>	<u>196.8</u>	<u>381.0</u>	<u>358.0</u>	6.4
Minerals.....	<u>45.0</u>	<u>41.8</u>	<u>38.1</u>	<u>50.0</u>	<u>31.0</u>	(8.9)
Forests:						
Timber sales.....	418.8	428.4	490.1	672.0	776.0	16.7
Small Business Forest Enterprise Program.....	111.5	131.4	176.1	250.0	320.0	30.2
Logging tax.....	27.8	(24.5)	(6.3)	17.0	20.0	(7.9)
Other forests revenue.....	51.2	48.2	46.1	40.0	37.0	(7.8)
	<u>609.3</u>	<u>583.5</u>	<u>706.0</u>	<u>979.0</u>	<u>1,153.0</u>	17.3
Water resources.....	221.9	253.1	289.4	285.0	258.0	3.8
<i>Wildlife Act</i> .....	14.4	14.1	14.7	16.0	19.0	7.2
	<u>236.3</u>	<u>267.2</u>	<u>304.1</u>	<u>301.0</u>	<u>277.0</u>	4.1
Total natural resource revenue.....	<u>1,170.3</u>	<u>1,101.2</u>	<u>1,245.0</u>	<u>1,711.0</u>	<u>1,819.0</u>	11.7



TABLE G5  
REVENUE BY SOURCE — *Continued*  
CONSOLIDATED REVENUE FUND

	Actual 1990/91	Actual 1991/92	Actual 1992/93	Revised Forecast 1993/94	Budget Estimate 1994/95	Annual Rate of Growth 1990/91 to 1994/95
	(\$ millions)					(per cent)
<b>Other Revenue:</b>						
Medical Services Plan premiums..	660.3	742.2	776.4	786.0	806.0	5.1
Motor vehicle licences and permits.....	199.0	219.9	231.6	253.0	272.0	8.1
Other fees and licences.....	250.0	283.2	309.4	339.0	363.0	9.8
Investment earnings.....	110.3	131.9	122.6 <sup>2</sup>	115.0	110.0	(0.1)
British Columbia Endowment Fund.....	52.7	51.9	46.9	65.0	73.0	8.5
Miscellaneous <sup>3</sup> .....	194.2	143.0	164.3	173.0	168.0	(3.6)
Total other revenue.....	<u>1,466.5</u>	<u>1,572.1</u>	<u>1,651.2</u>	<u>1,731.0</u>	<u>1,792.0</u>	5.1
<b>Contributions from Government Enterprises:</b>						
Liquor Distribution Branch.....	446.7	454.1	517.1	550.0	560.0	5.8
British Columbia Hydro and Power Authority.....	114.2	—	237.6	240.0	235.0	19.8
British Columbia Lottery Corporation <sup>4</sup> .....	205.3	219.0	227.0	221.0	230.0	2.9
Other.....	68.3	27.3	35.4	15.0	26.0	(21.5)
Total contributions from government enterprises.....	<u>834.5</u>	<u>700.4</u>	<u>1,017.1</u>	<u>1,026.0</u>	<u>1,051.0</u>	5.9
<b>Contributions from the Federal Government:</b>						
Established Programs Financing..	1,110.3	1,156.0	1,463.0 <sup>1</sup>	1,275.0	1,295.0	3.9
Canada Assistance Plan.....	715.9	766.6	793.7	838.0	880.0	5.3
Other.....	181.3 <sup>5</sup>	180.4	179.1	168.0	175.0	(0.9)
Total contributions from the federal government.....	<u>2,007.5</u>	<u>2,103.0</u>	<u>2,435.8</u>	<u>2,281.0</u>	<u>2,350.0</u>	4.0
<b>TOTAL REVENUE</b> .....	<u><u>14,418.1</u></u>	<u><u>14,745.0</u></u>	<u><u>16,167.6</u></u>	<u><u>17,681.0</u></u>	<u><u>18,732.0</u></u>	6.8

<sup>1</sup> For comparative purposes, 1992/93 revenue has been restated to reflect an accounting change to record personal income tax on an accrual basis. This change increases 1992/93 revenue by \$90.6 million — personal income tax increases by \$159.1 million and revenue from Established Programs Financing decreases by \$68.5 million.

<sup>2</sup> Beginning in 1992/93, investment earnings resulting from prefunding of operations (early borrowing) are deducted from expenditure.

<sup>3</sup> For comparative purposes, revenue for 1992/93 and prior years has been restated to deduct allowances for uncollectible revenue. Previously these allowances were reported as expenditure.

<sup>4</sup> For comparative purposes, lottery proceeds revenue has been reclassified as a contribution from the British Columbia Lottery Corporation. Last year, lottery proceeds were shown under Other Revenue.

<sup>5</sup> For comparative purposes, revenue for 1990/91 has been restated to include federal contributions for education of aboriginal children and children of Department of National Defence personnel, which is included in Consolidated Revenue Fund revenue beginning in 1991/92. Previously, this revenue was deducted from expenditure.

TABLE G6  
EXPENDITURE BY FUNCTION<sup>1</sup>  
CONSOLIDATED REVENUE FUND

	Actual 1990/91	Actual 1991/92	Actual 1992/93 <sup>2</sup>	Revised Forecast 1993/94	Budget Estimate 1994/95	Annual Rate of Growth 1990/91 to 1994/95
	(\$ millions)					(per cent)
Health.....	5,027.5	5,616.7	6,002.9	6,324.9	6,474.3	6.5
Social services.....	1,669.1	1,993.7	2,366.5	2,737.6	2,837.9	14.2
Education.....	4,113.0	4,519.5	4,803.8	5,009.3	5,317.0	6.6
Protection of persons and property.....	720.0	786.6	878.2	944.6	956.4	7.4
Transportation.....	1,187.7	1,262.1	1,077.6	1,011.6	909.8	(6.4)
Natural resources and economic development.....	1,057.9	1,421.0	1,151.4	1,230.9	1,334.1	6.0
Other.....	505.4	572.0	549.3 <sup>3</sup>	523.9	558.6	2.5
General government.....	232.0	286.0	285.7	269.2	260.9	3.0
Debt servicing.....	531.2	642.8	813.5 <sup>4</sup>	913.0	981.0	16.6
<b>TOTAL EXPENDITURE.....</b>	<b>15,043.8</b>	<b>17,100.4</b>	<b>17,928.9</b>	<b>18,965.0</b>	<b>19,630.0</b>	<b>6.9</b>

<sup>1</sup> Expenditure by function has been restated to conform more closely to the presentation used by Statistics Canada.

<sup>2</sup> For comparative purposes, expenditure for 1992/93 and prior years has been restated to exclude allowances for uncollectible revenue. Beginning in 1993/94, these allowances are deducted from revenue.

<sup>3</sup> For comparative purposes, 1992/93 expenditure has been restated to reflect an accounting change in respect of sewer and water grant commitments to municipalities. This change reduces 1992/93 expenditures by \$26 million.

<sup>4</sup> Beginning in 1992/93, investment earnings resulting from prefunding of operations (early borrowing) are deducted from expenditure.

TABLE G7  
NET DEBT SUMMARY<sup>1</sup>

As at March 31,	Actual 1991	Actual 1992	Actual 1993	Revised Forecast 1994	Budget Estimate 1995
(\$ millions)					
<b>Purposes:</b>					
<b>Provincial Government Direct</b> .....	4,725.9	6,610.5	8,969.5	10,059.2	10,697.5
<b>Commercial Crown Corporations and Agencies:</b>					
British Columbia Hydro and Power Authority .....	7,151.8	7,226.1	7,259.7	7,404.0	7,546.6
British Columbia Railway Company .....	287.0	255.8	250.4	245.8	357.4
	<u>7,438.8</u>	<u>7,481.9</u>	<u>7,510.1</u>	<u>7,649.8</u>	<u>7,904.0</u>
<b>Economic Development Crown Corporations and Agencies:</b>					
British Columbia Ferry Corporation .....	59.8	200.9	348.7	419.9	470.5
British Columbia Transit .....	1,227.6	1,326.5	1,370.5	1,357.1	1,460.4
BC Transportation Financing Authority .....	—	—	—	83.0	373.0
Other <sup>2</sup> .....	0.6	12.9	9.3	19.4	27.7
	<u>1,288.0</u>	<u>1,540.3</u>	<u>1,728.5</u>	<u>1,879.4</u>	<u>2,331.6</u>
<b>Social and Government Services Crown Corporations and Agencies:</b>					
British Columbia Assessment Authority .....	6.4	8.0	5.5	0.9	0.9
British Columbia Buildings Corporation .....	514.2	537.6	578.8	622.0	698.8
British Columbia Educational Institutions Capital Financing Authority .....	480.7	606.7	755.7	962.4	1,120.6
British Columbia Regional Hospital Districts Financing Authority .....	916.4	978.2	1,049.4	1,093.7	1,206.9
British Columbia School Districts Capital Financing Authority .....	952.7	1,142.6	1,392.5	1,784.1	2,058.3
Capital Project Certificate of Approval Program <sup>3</sup> .....	174.5	251.2	369.5	365.0	365.0
British Columbia Systems Corporation .....	33.8	30.5	28.5	26.0	27.9
	<u>3,078.7</u>	<u>3,554.8</u>	<u>4,179.9</u>	<u>4,854.1</u>	<u>5,478.4</u>
<b>Other Fiscal Agency Loans:</b>					
Greater Vancouver Sewerage and Drainage District .....	26.4	93.4	161.5	197.4	226.3
Greater Vancouver Water District .....	61.9	69.8	102.2	130.3	162.0
Universities and Colleges .....	46.8	75.1	117.8	148.1	186.7
Local Governments .....	3.4	3.6	4.4	2.8	3.1
	<u>138.5</u>	<u>241.9</u>	<u>385.9</u>	<u>478.6</u>	<u>578.1</u>
Less Amounts Held as Investments/Cash for Relending by the Consolidated Revenue Fund .....	5.4	26.3	27.5	7.1	4.9
<b>Government, Crown Corporation and Agency Debt Total</b> .....	<u>16,664.5</u>	<u>19,403.1</u>	<u>22,746.4</u>	<u>24,914.0</u>	<u>26,984.7</u>
Other Guarantees <sup>4</sup> .....	543.5	574.4	590.6	481.9	437.7
<b>Total Direct and Guaranteed Debt</b> .....	<u><u>17,208.0</u></u>	<u><u>19,977.5</u></u>	<u><u>23,337.0</u></u>	<u><u>25,395.9</u></u>	<u><u>27,422.4</u></u>

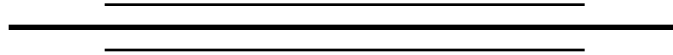
<sup>1</sup> Net debt is after deduction of sinking funds and unamortized discounts, and excludes accrued interest. Government direct and fiscal agency accrued interest is reported in the government's accounts as an accounts payable.

<sup>2</sup> Includes British Columbia Housing Management Commission, Pacific Racing Association and Whistler Land Developments Ltd.

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

<sup>4</sup> Includes student assistance loans, loan guarantees to agricultural producers and guarantees issued under economic development assistance programs and the British Columbia Mortgage Assistance Program. Includes loan guarantee provisions.





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