

**PROVINCE OF MANITOBA
NOTES TO THE QUARTERLY FINANCIAL REPORT
FOR THE NINE MONTHS - APRIL TO DECEMBER 1998**

This report presents the unaudited financial results of the Province of Manitoba for the third quarter of the 1998/99 fiscal year. These financial statements have been prepared on a cash basis without adjustments for normal year-end entries.

The comparative data provided for the 1997/98 fiscal year has been recast to reflect the organizational structure of departments established in the 1998/99 Estimates.

THIRD QUARTER - ACTUAL TO ESTIMATE

The third quarter deficit of \$57.0 million was \$94.3 million less than the \$151.3 million projected. The estimate represents cash flow projections for the period. Revenue was \$17.6 million higher than projected due to better than anticipated performance while expenditures were \$76.7 million less than planned for the nine month period as a result of timing differences between the planned cash flow and actual disbursements.

THIRD QUARTER COMPARED TO PREVIOUS YEAR'S RESULTS

The third quarter deficit was \$131.4 million lower than the same period last year. The decrease reflects a \$267.0 million increase in revenue primarily from differences in timing of transfer payments and growth in various own source revenues, partially offset by a \$135.6 million increase in expenditure.

The growth in own source revenue includes a \$107.8 million, or 10.3%, increase in individual income tax, and a \$36.9 million, or 6.6%, increase in retail sales tax. The increase in individual income tax primarily reflects the impact of the flood distortions as discussed below. Transfers from the federal government are also higher than for the same period last year mainly due to timing differences.

Expenditures have increased over the same period last year primarily due to increased health care and education spending as included in the 1998 Budget as well as subsequently announced health initiatives to reduce waiting lists and enhance services. Timing differences of certain payments result in differences in spending in other departments over the same period last year, particularly spending on highways which was greater than the same period last year due to a more favourable construction season. Expenditure increases also result from higher expenditures for flood proofing programs by the Department of Natural Resources.

YEAR END PROJECTION

The 1998/99 surplus is now projected to be \$20.7 million, a \$2.3 million decrease from the surplus projected in the 1998 Budget. This revised surplus is based on increased expenditures of \$147.0 million, or 2.6%, offset by a \$144.7 million, or 2.4%, increase in revenues.

The impact of flood-related adjustments has been reflected in the increases in expenditures and revenues noted above. There is a projected \$59.0 million decrease in 1998/99 flood-related expenditures and revenues. This results primarily from more 1997 flood disaster assistance flowing in 1997/98 rather than in 1998/99 as anticipated at the time the budget was prepared. Flood proofing measures are continuing in 1998/99 and subsequent years to protect individuals and businesses from future flooding.

Revenue is projected to increase primarily as a result of a \$203.7 million increase in non-flood-related revenue offset by the \$59.0 million reduction in 1997 flood related revenue as described above. This increase in revenue is partially due to the impact of revised population data as noted in the first quarterly report that increases federal transfers revenue by \$127.0 million (equalization \$118.0 million & CHST \$9.0 million).

YEAR END PROJECTION

As discussed in previous reports, federal data also confirms the flood-related data distortion that will result in 1998/99 individual income tax being \$290.0 million higher than budget. This increase is mostly offset by a corresponding \$290.0 million reduction in equalization revenue. The remaining \$74.7 million projected increase in revenue includes a \$44.0 million increase in individual income tax revenue resulting from higher than anticipated economic growth, a \$20.9 million, or 2.5% increase in retail sales tax (a 4.4% increase over last year) and a \$5.8 million, or 5.1% increase in corporation capital tax.

Expenditures are projected to increase due to the net impact of a \$206.0 million increase offset by a \$59.0 million reduction in flood costs as previously noted. Projected funding increases include \$110.0 million for health care, \$9.9 million mainly for capital projects through funding agreements with the City of Winnipeg, \$7.3 million for justice programs, \$4.5 million for family services grants to the Winnipeg Child and Family Services Agency and \$3.4 million for highways. The expenditure forecast includes all of the expenditure requirements that were recently approved by special warrant.

COMPLIANCE WITH BALANCED BUDGET LEGISLATION

The Balanced Budget, Debt Repayment and Taxpayer Protection Act requires the government to achieve a balanced budget in every fiscal year commencing on or after April 1, 1995. The Act includes a requirement for the Minister of Finance to report on compliance with the Act in the government's Third Quarter Financial Report (for the period ending December 31). Based on the year-end projection of a \$20.7 million surplus, the government will be in compliance with the requirements of this Act.

PROGRESS REPORT ON ACCOUNTING FOR CAPITAL ASSETS

The 1998 Budget indicated that the province intends to implement an accounting change with respect to tangible capital assets in accordance with new accounting standards issued by the Canadian Institute of Chartered Accountants. This change will occur in the fiscal year 1999/2000.

Tangible capital assets are a significant economic resource of governments and a key component of the delivery of many government programs. Traditionally, governments have absorbed the cost of these assets in the fiscal year in which they were acquired. The change in reporting being addressed next year will result in the expenditure on tangible assets being amortized "on an expense basis" over the useful life of the asset.

Extensive work is currently being undertaken to adapt the 1999/2000 budget and subsequent public accounts to this improved accounting practice.

BORROWING ACTIVITY

The original borrowing requirement for the 1998/99 fiscal year of \$1,345.2 million has increased to \$2,067.2 million to accommodate refunding Manitoba Hydro promissory notes, refunding of issues called for early maturity as part of the Province's strategy to take advantage of lower interest rates and to fund an allocation to the Provincial Sinking Fund for the repurchase of foreign debt. This estimate includes \$1,450.0 million for refinancing maturing debt issues with the balance required for sinking funds and self-sustaining programs, including Manitoba Hydro. The increase in borrowing requirements for the 1998/99 fiscal year will not have an impact on net general government purpose debt.

For the period April 1, 1998 to December 31, 1998, \$1,554.5 million has been borrowed; \$187.9 million was raised through the issue of Builder Bonds Series 4 with the remainder raised in the public market.

**PROVINCE OF MANITOBA
OPERATING FUND
STATEMENT OF REVENUE AND EXPENDITURE
FOR THE NINE MONTHS ENDED DECEMBER 31, 1998
(with comparative figures for December 31, 1997)
(UNAUDITED)**

1997/98 ACTUAL (thousands of dollars)	1998/99 ACTUAL (thousands of dollars)	INCREASE (DECREASE)		1998/99 ACTUAL ESTIMATE VARIANCE (thousands of dollars)		
Revenue						
2,774,125	2,897,726	123,601	Own Source Revenue	2,897,726	2,881,938	15,788
1,140,270	1,283,681	143,411	Government of Canada	1,283,681	1,281,859	1,822
<u>3,914,395</u>	<u>4,181,407</u>	<u>267,012</u>	Total Revenue	<u>4,181,407</u>	<u>4,163,797</u>	<u>17,610</u>
Program Expenditure						
3,412,761	3,494,409	81,648	Current	3,494,409	3,558,234	(63,825)
193,830	247,421	53,591	Capital	247,421	259,722	(12,301)
<u>3,606,591</u>	<u>3,741,830</u>	<u>135,239</u>	Total Program Expenditure	<u>3,741,830</u>	<u>3,817,956</u>	<u>(76,126)</u>
496,234	496,598	364	Public Debt Costs	496,598	497,134	(536)
<u>4,102,825</u>	<u>4,238,428</u>	<u>135,603</u>	Total Expenditure	<u>4,238,428</u>	<u>4,315,090</u>	<u>(76,662)</u>
<u>(188,430)</u>	<u>(57,021)</u>	<u>(131,409)</u>	Budgetary Deficit	<u>(57,021)</u>	<u>(151,293)</u>	<u>(94,272)</u>

**PROVINCE OF MANITOBA
OPERATING FUND
STATEMENT OF REVENUE
FOR THE NINE MONTHS ENDED DECEMBER 31, 1998
(with comparative figures for December 31, 1997)
(UNAUDITED)**

1997/98 ACTUAL	1998/99 ACTUAL	INCREASE (DECREASE)	1998/99			
			ACTUAL	ESTIMATE	VARIANCE	
(thousands of dollars)			(thousands of dollars)			
			Taxation:			
			Consumer and Corporate Affairs			
26,938	27,671	733				
9,775	9,495	(280)	- Insurance Corporations Tax	27,671	26,748	923
			- Land Transfer Tax	9,495	10,004	(509)
			Energy and Mines			
3,029	1,688	(1,341)	- Oil and Natural Gas Tax	1,688	2,049	(361)
			Finance			
163,193	154,586	(8,607)	- Corporation Income Tax	154,586	158,913	(4,327)
1,051,329	1,159,117	107,788	- Individual Income Tax	1,159,117	1,160,222	(1,105)
87,318	90,956	3,638	- Corporation Capital Tax	90,956	86,244	4,712
106,782	105,034	(1,748)	- Gasoline Tax	105,034	105,177	(143)
160,969	147,463	(13,506)	- Levy for Health and Education	147,463	148,731	(1,268)
18,744	3,813	(14,931)	- Mining Tax	3,813	3,812	1
44,588	44,696	108	- Motive Fuel Tax	44,696	43,956	740
559,283	596,199	36,916	- Retail Sales Tax	596,199	585,490	10,709
30,137	31,342	1,205	- Revenue Act, 1964, Part I	31,342	30,667	675
76,153	77,013	860	- Tobacco Tax	77,013	75,878	1,135
2,069	2,373	304	- Environmental Protection Tax	2,373	1,842	531
39	103	64	- Other Taxes	103	104	(1)
<u>2,340,346</u>	<u>2,451,549</u>	<u>111,203</u>		<u>2,451,549</u>	<u>2,439,837</u>	<u>11,712</u>
			Government of Canada:			
760,122	888,021	127,899	Equalization	888,021	888,021	-
371,033	370,170	(863)	Canada Health and Social Transfer	370,170	365,189	4,981
			Other			
4,304	7,442	3,138	- Education	7,442	6,980	462
-	4,240	4,240	- Family Services	4,240	6,451	(2,211)
-	3,759	3,759	- Health	3,759	1,252	2,507
-	4,606	4,606	- Natural Resources	4,606	5,503	(897)
4,811	5,443	632	- Other Departments	5,443	8,463	(3,020)
<u>1,140,270</u>	<u>1,283,681</u>	<u>143,411</u>		<u>1,283,681</u>	<u>1,281,859</u>	<u>1,822</u>

**PROVINCE OF MANITOBA
OPERATING FUND
STATEMENT OF REVENUE
FOR THE NINE MONTHS ENDED DECEMBER 31, 1998
(with comparative figures for December 31, 1997)
(UNAUDITED)**

1997/98 ACTUAL	1998/99 ACTUAL	INCREASE (DECREASE)		1998/99		
(thousands of dollars)				ACTUAL	ESTIMATE	VARIANCE
				(thousands of dollars)		
			Other Revenue:			
5,771	3,845	(1,926)	Energy and Mines	3,845	4,046	(201)
3,455	1,015	(2,440)	Finance	1,015	1,169	(154)
47,385	49,480	2,095	Highways and Transportation	49,480	50,040	(560)
108,177	118,200	10,023	Crown Corporations	118,200	114,980	3,220
170,000	172,056	2,056	Revenue from Lotteries	172,056	170,056	2,000
98,991	101,581	2,590	Other Departments	101,581	101,810	(229)
<u>433,779</u>	<u>446,177</u>	<u>12,398</u>		<u>446,177</u>	<u>442,101</u>	<u>4,076</u>
 <u>3,914,395</u>	 <u>4,181,407</u>	 <u>267,012</u>	Total Revenue	 <u>4,181,407</u>	 <u>4,163,797</u>	 <u>17,610</u>

**PROVINCE OF MANITOBA
OPERATING FUND
STATEMENT OF EXPENDITURE
FOR THE NINE MONTHS ENDED DECEMBER 31, 1998
(with comparative figures for December 31, 1997)
(UNAUDITED)**

1997/98 ACTUAL	1998/99 ACTUAL	INCREASE (DECREASE)		1998/99		
				ACTUAL	ESTIMATE	VARIANCE
(thousands of dollars)				(thousands of dollars)		
11,427	13,369	1,942	Legislative Assembly	13,369	13,802	(433)
2,258	2,477	219	Executive Council	2,477	2,459	18
62,977	63,493	516	Agriculture	63,493	65,089	(1,596)
176	2,382	2,206	Children and Youth Secretariat	2,382	1,668	714
2,960	3,022	62	Civil Service Commission	3,022	3,068	(46)
5,450	5,501	51	Community Support Programs	5,501	5,504	(3)
6,609	6,909	300	Consumer and Corporate Affairs	6,909	7,136	(227)
37,925	37,477	(448)	Culture, Heritage and Citizenship	37,477	37,958	(481)
752,264	774,717	22,453	Education and Training	774,717	776,172	(1,455)
31,098	33,658	2,560	Employee Benefits and Other Payments	33,658	32,276	1,382
8,102	7,699	(403)	Energy and Mines	7,699	8,619	(920)
9,924	10,187	263	Environment	10,187	10,372	(185)
453,594	466,670	13,076	Family Services	466,670	468,123	(1,453)
696,526	697,039	513	Finance	697,039	698,297	(1,258)
30,674	53,208	22,534	Government Services	53,208	56,600	(3,392)
1,323,855	1,408,650	84,795	Health	1,408,650	1,436,158	(27,508)
169,313	200,046	30,733	Highways and Transportation	200,046	196,095	3,951
32,699	28,195	(4,504)	Housing	28,195	28,124	71
14,687	17,564	2,877	Industry, Trade and Tourism	17,564	21,731	(4,167)
112,902	122,703	9,801	Justice	122,703	126,043	(3,340)
9,041	9,306	265	Labour	9,306	9,240	66
67,610	97,083	29,473	Natural Resources	97,083	99,792	(2,709)
12,261	13,096	835	Northern Affairs	13,096	14,344	(1,248)
49,503	34,854	(14,649)	Rural Development	34,854	52,020	(17,166)
342	430	88	Seniors Directorate	430	411	19
8,763	12,784	4,021	Sport	12,784	12,787	(3)
579	634	55	Status of Women	634	649	(15)
58,983	69,559	10,576	Urban Affairs	69,559	76,034	(6,475)
1,344	1,302	(42)	Enabling Appropriations	1,302	1,304	(2)
128,979	44,414	(84,565)	Other Appropriations	44,414	53,215	(8,801)
<u>4,102,825</u>	<u>4,238,428</u>	<u>135,603</u>	Total Expenditure	<u>4,238,428</u>	<u>4,315,090</u>	<u>(76,662)</u>

**PROVINCE OF MANITOBA
OPERATING FUND
STATEMENT OF VALUATION AND PURPOSE OF
DIRECT AND GUARANTEED DEBT OUTSTANDING
DECEMBER 31, 1998
(with comparative figures for March 31, 1998)
(UNAUDITED)**

Canadian Dollar Equivalent at Date of Issue Dec 31/98	Canadian Dollar Equivalent at Date of Issue Mar 31/98	Increase (Decrease) Dec 31/98 over Mar 31/98		Canadian Dollar Valuation (Note 1) Dec 31/98	Canadian Dollar Valuation (Note 1) Mar 31/98	Increase (Decrease) Dec 31/98 over Mar 31/98
(thousands of dollars)				(thousands of dollars)		
			Direct Debt Payable in:			
9,808,203	8,575,028	1,233,175	Canadian Dollars	9,780,403	8,575,028	1,205,375
2,293,980	2,654,435	(360,455)	Issues Swapped to Canadian Dollars	2,382,930	2,746,411	(363,481)
4,308,044	4,074,490	233,554	U.S. Dollars	5,595,135	4,895,424	699,711
811,824	1,271,824	(460,000)	Issues Swapped to U.S. Dollars	978,624	1,363,002	(384,378)
<u>17,222,051</u>	<u>16,575,777</u>	<u>646,274</u>	Total Direct Debt	<u>18,737,092</u>	<u>17,579,865</u>	<u>1,157,227</u>
			Guaranteed Debt Payable in:			
477,710	507,565	(29,855)	Canadian Dollars	477,710	507,565	(29,855)
360,433	532,500	(172,067)	U.S. Dollars	360,433	532,500	(172,067)
<u>838,143</u>	<u>1,040,065</u>	<u>(201,922)</u>	Total Guaranteed Debt	<u>838,143</u>	<u>1,040,065</u>	<u>(201,922)</u>
18,060,194	17,615,842	444,352	Total Direct and Guaranteed Debt (Note 2)	19,575,235	18,619,930	955,305
<u>5,812,365</u>	<u>5,302,251</u>	<u>510,114</u>	Less: Sinking Fund Investments	<u>5,812,365</u>	<u>5,302,251</u>	<u>510,114</u>
<u><u>12,247,829</u></u>	<u><u>12,313,591</u></u>	<u><u>(65,762)</u></u>	Net Direct and Guaranteed Debt (Note 3)	<u><u>13,762,870</u></u>	<u><u>13,317,679</u></u>	<u><u>445,191</u></u>

Note 1: The Canadian Dollar Valuation is calculated using the foreign currency exchange rates in effect at December 31, 1998 and March 31, 1998 adjusted for any foreign currency contracts entered into for settlement after these dates.

Note 2: Direct and Guaranteed Debt are payable in Canadian and U.S. dollars. As at December 31, 1998, total gross debt was payable 65% in Canadian dollars and 35% in U.S. dollars. Of this total, General Purpose Debt and Other Debt was payable 77% in Canadian dollars (78% at March 31, 1998) and 23% in U.S. dollars (22% at March 31, 1998) while Manitoba Hydro was payable 42% in Canadian dollars (38% at March 31, 1998) and 58% in U.S. dollars (62% at March 31, 1998)

Note 3: The above debt was issued for the following purposes:

	December 31, 1998		March 31, 1998	
	(in thousands)	(per capita) (Note 4)	(in thousands)	(per capita) (Note 4)
General Government Programs	6,894,838	6,049	6,763,278	5,920
The Manitoba Hydro-Electric Board	5,928,811	5,201	5,568,799	4,874
Other	939,221	824	985,602	863
	<u>13,762,870</u>	<u>12,074</u>	<u>13,317,679</u>	<u>11,657</u>

Note 4: Per capita data is based upon population figures at October 1, 1998 and April 1, 1998, as reported by Statistics Canada.

**PROVINCE OF MANITOBA
FISCAL STABILIZATION FUND
PROJECTION FOR THE YEAR ENDING MARCH 31, 1999
(with comparative figures for March 31, 1998)
(UNAUDITED)**

	1998/99 Projection	1997/98 Actual
	(thousands of dollars)	
Fund Balance, Beginning of Year	565,003	577,494
Revenue:		
Interest Earnings	16,800	11,625
Budgetary Surplus	20,713	76,228
	37,513	87,853
Expenditure:		
Accelerated Debt Retirement	75,000	-
Allocation in Support of Social Programs	60,000	100,000
Capital Initiatives	50,000	-
Flood Costs	36,391	-
Economic Innovation and Technology Fund Transfer	1,000	344
	222,391	100,344
Fund Balance, End of Year	380,125	565,003

**PROVINCE OF MANITOBA
OPERATING FUND
PROJECTION TO YEAR END
FOR THE YEAR ENDING MARCH 31, 1999
(UNAUDITED)**

	<u>Revised Projection</u>	<u>Budget Projection</u>
	(thousands of dollars)	
Revenue	6,053,870	5,909,175
Expenditure	5,883,157	5,736,136
Surplus Before Debt Retirement	<u>170,713</u>	<u>173,039</u>
Less: Debt Retirement	150,000	150,000
Budgetary Surplus	<u><u>20,713</u></u>	<u><u>23,039</u></u>