# Province of Newfoundland

Current Report: July 24, 2001
Previous Report: July 13, 2000

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## Rating

| *Rating* | *Trend* | *Rating Action* | *Debt Rated* |
|---|---|---|---|
| BBB | Stable | Confirmed | Long-Term Debt* |

* Issued/guaranteed by the Province; includes Newfoundland & Labrador Hydro and Newfoundland Municipal Financing Corporation.

| **Rating History** | *Current* | *2000* | *1999* | *1998* | *1997* | *1996* | *1995* | *1994* |
|---|---|---|---|---|---|---|---|---|
| Long-Term Debt | BBB | BBB | BBB | BBB | BBB (low) | BBB (low) | BBB (low) | BBB (low) |

## Rating Update

DBRS confirms the Province of Newfoundland's ("the Province") long-term rating at BBB, with a Stable trend. The rating reflects: (1) continued improvements in the fundamentals of the Province's economy; (2) declining tax burdens; and (3) the growing importance of the energy sector, which will likely continue to fuel growth in the future.

The recent years of strong economic growth have allowed the Province to diversify its economic base, reduce unemployment and embark on a more sustainable growth path. In 2000-2001, vigorous economic activity and stronger-than-expected revenue growth led to a DBRS-adjusted surplus of $1 million, significantly better than the $122 million deficit initially anticipated. However, fiscal results are forecast to weaken in 2001-2002. Higher expenditures combined with conservative revenue forecasts are projected to lead to a DBRS-adjusted deficit of $201 million on a modified cash basis.

As a result, achieving balanced budgets remains one of the Province's main challenges. Indebtedness is also high. In 2001-2002, total debt is forecast to increase approximately $150 million, to $9.6 billion. This is expected to push the Province's debt-to-GDP ratio to an estimated 67.8% which, while lower than in the mid-1990s, remains the highest among all provinces. Given more moderate increases expected in income and sustained spending pressures, especially in health care and wages, improvements on the fiscal and debt fronts are likely to be slow in the years to come. Other challenges include the relatively high, though declining, provincial tax burden and the high dependence on federal transfers, which prevents the Province from fully benefiting from new sources of revenues, as any increase in a province's revenue is largely offset by a reduction in equalization.

## Rating Considerations

*Strengths:*

- Improving economic fundamentals and positive outlook
- Declining tax burden
- Rapidly growing energy sector

*Challenges:*

- No formal commitment to balanced budgets
- High relative debt level
- Weaker than average economic fundamentals, leading to high reliance on federal transfers
- High provincial tax burden

## Financial Information (fiscal year ending March 31)

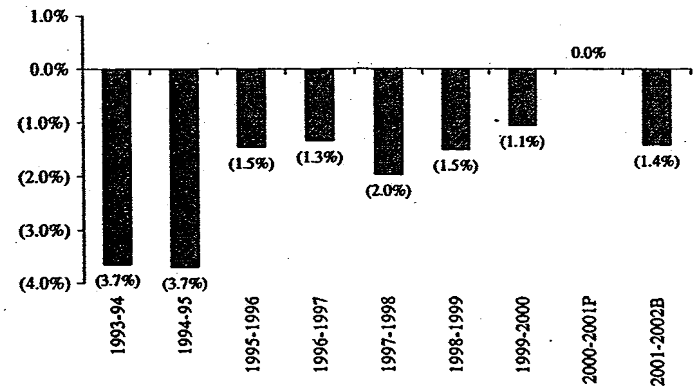
| | 2001-2002B | 2000-2001P | 1999-2000 | 1998-1999 | 1997-1998 | 1996-1997 | 1995-1996 |
|---|---|---|---|---|---|---|---|
| Debt* ($ millions) | 9,601 | 9,451 | 9,012 | 8,868 | 8,311 | 8,448 | 8,653 |
| Debt*/ GDP | 67.8% | 67.2% | 74.4% | 79.0% | 79.4% | 81.2% | 81.3% |
| Surplus (deficit)* ($ millions) | (201) | 1 | (128) | (169) | (222) | (140) | (155) |
| Surplus (deficit)*/ GDP | (1.4%) | 0.0% | (1.1%) | (1.5%) | (2.0%) | (1.3%) | (1.5%) |
| Interest costs/total revenue* | 13.9% | 13.6% | 13.6% | 13.5% | 14.2% | 13.8% | 14.0% |
| Federal transfers/total revenue* | 44.4% | 44.8% | 43.5% | 47.2% | 45.5% | 42.0% | 43.9% |
| Nominal GDP ($ millions) | 14,152 | 14,074 | 12,110 | 11,232 | 10,462 | 10,403 | 10,649 |
| Real GDP growth | 2.0% | 5.3% | 6.0% | 6.0% | 1.1% | (4.2%) | 2.2% |
| Unemployment rate | 16.2% | 16.7% | 16.9% | 18.0% | 18.6% | 19.3% | 18.1% |

* DBRS-adjusted basis. Historical surplus (deficit) numbers have been revised to be comparable with other provinces.
Projected and budgeted numbers, and historical ratios are still on a modified cash basis.
Source: Province of Newfoundland, Statistics Canada and DBRS estimates.

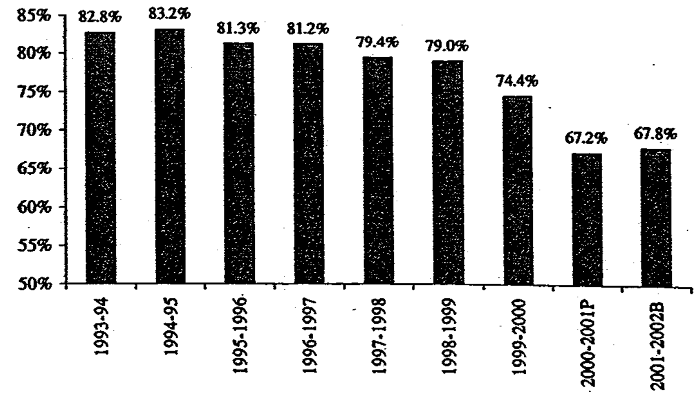
## Province

Newfoundland is located on the Atlantic seaboard, and has the second smallest population of the Canadian provinces.

Surplus (Deficit)* to GDP




Debt* to GDP




* DBRS-adjusted basis.

## RATING CONSIDERATIONS

*Strengths*: (1) The economic base of the Province has greatly improved in recent years. The decline in fishing activities in the mid-1990s forced economic restructuring, which resulted in significant infrastructure development and increased emphasis towards value-added manufacturing activities and non-traditional sectors such as oil and gas, tourism, customer contact centers, and high-tech. This contributes to enhance economic stability and strengthens the government's revenue base.

(2) Personal and corporate taxes have been declining in recent years and the Province remains committed to further cuts, as fiscal conditions permit.

(3) The energy sector holds great promise for the Province. The beginning of production at Terra Nova in late 2001, the likely development of two more oil fields (White Rose and Hebron-Ben Nevis) and the potential construction of the $4 billion Lower Churchill project (2004-2010) will also help the economy.

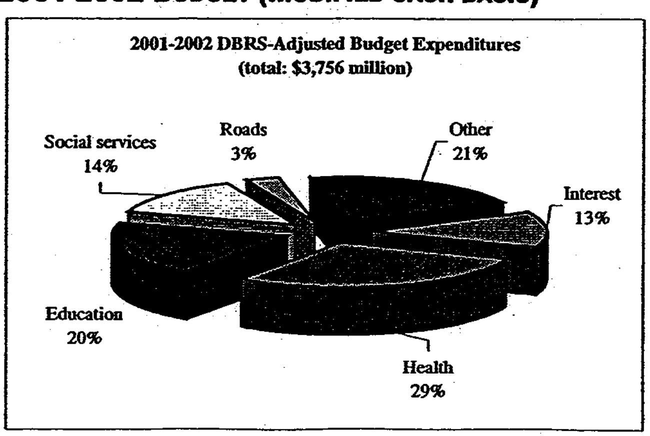
*Challenges:* (1) DBRS-adjusted deficits continue to be incurred by the Province. Excluding the strong unexpected performance of 2000-2001, recent DBRS-adjusted deficits have been significant. In addition, the Province's budgets continue to involve important deficits after DBRS adjustments ($201 million projected in 2001-2002). Given continued tax cuts and sustained spending pressures (e.g., wages, health care), little improvement is expected in the foreseeable future.

(2) The Province has a high level of debt relative to GDP. Since 1997-1998, total debt (tax-supported debt plus unfunded pension liabilities) has increased $1.1 billion and amounted to $9.5 billion at the end of 2000-01. Although strong economic expansion has reduced the importance of the Province's debt relative to its economy, the debt-to-GDP ratio remains the highest among all provinces, at 67.8%. With a large DBRS-adjusted deficit of $201 million projected for 2001-2002, total debt will likely maintain its upward trend this year as well.

(3) Although improving, the economic fundamentals of Newfoundland remain weaker than most other provinces, still strongly linked to the performance of resource industries. This results in an economy more exposed to fluctuations and an increased dependence on federal transfers, which prevents the Province from fully benefiting from new revenue sources, as any increase in own-source revenues is largely offset by a reduction in equalization support.

(4) Provincial taxation is relatively high, especially for high-income earners. In 1999, the government announced that it would cut personal taxes by $175 million over three years. As a result, personal taxes were cut by $30 million in 2000-2001, and will drop by an additional $30 million in 2001-2002. Nevertheless, Newfoundland taxpayers continue to bear one of the heaviest provincial tax burdens in Canada.

## 2001-2002 BUDGET (MODIFIED CASH BASIS)




Expenditures continue to grow faster than revenues, which limits the Province's ability to better its fiscal position. For 2001-2002, the Province is projecting a substantially larger spending plan despite stable revenues, which is expected to lead to a deficit of $201 million on a DBRS-adjusted basis following a $1 million surplus the year before. The 2001-2002 budget includes: (1) increased base program funding for health and education; (2) a provision ($40 million) for negotiated and anticipated salary increases; and (3) continued tax reductions for individuals and corporations.

Most spending items are up in 2001-2002, resulting in a 5.8% ($207 million) increase in total DBRS-adjusted expenditures, to $3.8 billion. Health care remains the key driver of costs with the largest increase ever budgeted by the Province, $88 million (8.7%). About $50 million of the new funding is used to increase the base budgets of health boards, to cover last year's operating deficits. As opposed to previous years, however, future increases will only provide for negotiated salary increases, which will force health boards to operate within their budgets. New money is also allocated to the recruitment and retention of health care workers and for high priority programs such as cardiac surgeries and drug programs, bringing total expenses to $1.1 billion. Between 1996-1997 and 2001-2002, health care expenditures have increased at an average rate of 7% per year in Newfoundland, the third fastest growth among all provinces. Containing spending growth in this sector is essential to achieving balanced budgets and is expected to remain an important challenge for the Province.

Despite declining enrolments, education spending is up 5.9% ($41 million) in 2001-2002, with new funding spread across a wide variety of initiatives. In addition to injecting new money, the Province renewed its policy to allow school boards to keep savings from school closures and reorganizations. Consistently declining enrolments (down 14.8% in the last four years) should allow the Province to stabilize, if not reduce spending in this area in the years to come.

The 2001-2002 budget also includes a $40 million provision for the first of a series of three anticipated 3% wage increases for most provincial employees. However, an agreement reached shortly after the budget release between the Province and several of its public sector unions (about half of the wage bill) suggests that this amount will likely be largely exceeded. The new contract grants a 15% raise over a three-year period, which translates into non-budgeted wage costs of $25 million in 2001-2002 and total annual wage increases of about $70 million for the next two years. Similar contracts are likely to be negotiated with the remaining unions during the year, adding to spending pressures anticipated in the years to come.

Total DBRS-adjusted revenues are projected to be fairly stable in 2001-2002. The modest increases expected in most revenue sources are forecast to be offset by the combined effect of: (1) the elimination of HST assistance payments; (2) lower proceeds from royalties; and (3) weaker personal income tax revenues due to tax cuts.

The Province enters the second of its three-year, $175 million personal income tax strategy with tax cuts worth $30 million, following tax relief of the same extent implemented last year. Effective in the 2001 tax year, the latest tax cuts are delivered through a new income tax system composed of three rates, 10.57%, 16.16% and 18.02%, applicable on the following brackets: $0 to $29,590; $29,591 to $59,180; and above $59,180. Modest tax relief is provided to corporations as well, with the tax-free threshold for payroll tax increasing from $400,000 to $500,000, representing savings of more than $2 million to the 200 businesses removed from the payroll tax.

Overall, the Province forecasts personal income tax revenues to be down an estimated $19 million (3.1%), but corporate and sales tax revenues are expected to make up for the drop due to economic growth, leaving total tax proceeds unchanged in 2001-2002. Accounting for 44% of total revenues, federal transfers are also forecast to remain stable this year, for total DBRS-adjusted revenues of $3.6 billion.

The difference between the DBRS forecast and the Province's $31 million budgeted deficit reflects adjustments made by DBRS to: (1) include sinking fund earnings; (2) exclude the recovery of sinking fund surpluses; (3) exclude the contingency reserve; and (4) include the net income of Newfoundland and Labrador Hydro instead of its dividend. The Province continues to use modified cash accounting for budget purposes, which makes the Province's budgets not fully comparable to those of other provinces.

Due to continued tax cuts and wage increases, DBRS expects little improvement in the Province's finances in 2002-2003.

## 2000-2001 Projected Results (Modified cash basis)

Benefiting from favourable economic conditions for a fourth consecutive year, the Province posted a DBRS-adjusted surplus of $1 million in 2000-2001, significantly better than the $122 million deficit originally anticipated. The good performance was the result of significantly higher-than-budgeted personal tax revenues and strong growth in equalization payments. Improvements were somewhat mitigated by in-year spending increases, as the Province opted to spend part of unexpected revenue windfalls prior to the closure of the fiscal year.

The Province enjoyed good growth in tax revenue in 2000-2001 as a result of stronger-than-expected economic activity. Fueled by sustained job creation and rising wages, personal income tax proceeds exceeded the budget by $65 million (11.7%), despite $30 million in tax cuts implemented during the year, while sales tax revenues were $27 million (5.8%) higher than original estimates due to strong consumer demand. High tax revenues were complemented by a $122 million windfall increase in equalization payments, attributable to the good performance of the "have" provinces, which helped push total revenues $204 million (6.1%) above budget.

Spending also exceeded budget in 2000-2001, as the Province chose to accelerate expenditures in order to reduce pressure on its 2001-2002 budget. As a result, about $85 million (nearly half of the unexpected revenue growth) was spent on non-budgeted items, primarily health and capital initiatives. Debt service charges were also revised upward during the year due to the impact of a weak Canadian dollar, resulting in total DBRS-adjusted expenditures 2.3% higher than originally budgeted.

## FINANCING

The level of DBRS-adjusted tax supported debt is relatively high and continues to increase at a fair pace, driven in part by continuing deficits. According to preliminary estimates, total debt (net tax-supported debt plus unfunded pension liabilities) expanded by $439 million (4.9%) in 2000-2001, to a record level of $9.5 billion. The key factors behind the increase include: (1) budgetary requirements; (2) higher U.S. dollar debt due to the depreciation of the Canadian dollar; (3) higher financing to municipalities; and (4) special payments to pension funds (not perfectly matched by the decline in unfunded pension liabilities due to sustained growth in past liabilities). Although seven percentage points were shaven off the debt-to-GDP ratio as a result of strong economic growth, the relative debt burden remained the highest among all provinces, at 67.2% of GDP.

The upward trend in the debt level is expected to be maintained in 2001-2002. Based on preliminary estimates, total debt should grow approximately $150 million to $9.6 billion as a result of the expected budgetary imbalance and continued special payments to keep the growth in unfunded pension liabilities under control. This, combined with slower growth expected in the Province's economy, will likely lead to a higher debt-to-GDP ratio.

Financing needs are projected to be down $37 million in 2001-2002, to $321 million, including $174 million in net debt refinancing (including sinking fund contributions), $31 million to fund operating shortfalls, and $116 million in special payments to pension plans. Pre-financing may also be conducted if market conditions are advantageous, which could increase long-term borrowings to $400 million this year, still well within the Province's capacity to raise financing.

Little is changed in the Province's debt management strategy in 2001-2002, as the Province continues to focus on reducing its foreign currency exposure and refinancing its high coupon debt. Although still moderately high, the importance of foreign currency debt has decreased consistently over the past six years and now equals approximately 32% of total direct debt, versus a peak of 49% in 1995. With all new debt projected to be issued in Canadian dollars, the ratio should drop to an estimated 30% by the end of the year, moving closer to the medium term target of 25%. No change is expected in interest rate exposure, however. Standing at 7.7%, the relative importance of floating-rate debt is already well below most other provinces, which minimizes the impact of interest rate volatility. The average term to maturity is expected to edge up slightly in 2001-2002, from its current level of 14.9 years, as the Province continues to favour long maturities (30 years) to lock in lower rates.

## ECONOMY

Real GDP growth stood at 5.3% in 2000, making the Province one of the fastest growing regions in the country for a third consecutive year. Up 12.4%, exports continued to be the key driver of the economy in 2000, accounting for more than 60% of economic growth. Exports benefited from high oil prices, significant growth in oil production at Hibernia and stronger-than-expected shipments of iron ore and newsprint. Consumer confidence was also high, with personal disposable income posting the largest increase since 1991 (4.4%), translating into strong retail sales and demand for durable goods.

Signs of a slowdown were observed in 2000, however. Capital investments dropped 8.1% due mainly to the winding down of the construction phase of the $2.8 billion Terra Nova project. Job creation was also slower. Due to a decline in the labour force, however, the unemployment rate continued to improve, dropping from 16.9% to 16.7%.

***Outlook***: Like most other provinces, Newfoundland is expected to experience slower growth in 2001, around 2%. The major factors expected to cause the deceleration include: (1) virtually stable oil production at Hibernia (after a 45% growth in 2000); (2) lower business investments as construction at Terra Nova winds down; and (3) weaker demand south of the border. Nevertheless, the Province is still expected to benefit from growing exports, especially in technologies and non-resource based manufacturing, and from vigorous domestic consumer demand. The new tax cuts and the recent public sector wage settlements are expected to fuel the retail trade sector, pushing sales up by an estimated 3.2% this year. Growth is also forecast to remain firm in the services sector, especially in the call centre industry, which has been an important provider of jobs in recent years.

Prospects should remain favorable in the medium term, with growth expected to rebound in 2002. The energy sector will remain a key contributor of growth, with Terra Nova reaching its peak production in 2002, $600 million in exploration committed for the next five years and accelerating activity on two other large offshore developments (White Rose and Hebron-Ben Nevis). Increased oil and gas activities have brought a large number of stable, well-paying jobs to Newfoundland, in addition to providing the Province with a long-term source of royalty revenues. The Churchill River Power project, with its potential $4 billion in investments spread over six years (2004-2010), and the eventual development of the Voisey's Bay nickel deposit (one of the richest, lowest-cost nickel deposits in the world) will also boost economic activity.

Despite a stronger, more diversified economic base, the Province remains highly exposed to the volatile resource-based industries and maintains strong links with the U.S. The rapid deterioration recently observed in the U.S. will likely affect growth in the Province, although probably not to the same extent as many other provinces due to the large importance of oil exports, whose demand exhibits lower short-term volatility. If sustained, the out-migration of the Province's educated workers observed since 1993 may also pose serious problem in the long-term, as it limits the Province's ability to grow its taxation base.

# Province of Newfoundland

| **Financial Summary** ($ millions) | Budget 2001-2002 | Projected 2000-2001 | Budget 2000-2001 | 1999-2000 | 1998-1999 | 1997-1998 | 1996-1997 | 1995-1996 |
|---|---|---|---|---|---|---|---|---|
| Revenue (DBRS-adj. modified cash) | 3,562 | 3,556 | 3,352 | 3,405 | 3,453 | 3,240 | 3,277 | 3,293 |
| Program expenditure (DBRS-adj. modified cash) | (3,266) | (3,069) | (2,984) | (2,909) | (2,890) | (2,730) | (2,804) | (2,807) |
| Adj. to modified accrual | n/a | n/a | n/a | 32 | 72 | (15) | (3) | (9) |
| Program surplus (deficit) | 296 | 486 | 368 | 529 | 634 | 495 | 471 | 478 |
| Debt charges | (497) | (485) | (489) | (463) | (468) | (459) | (452) | (463) |
| Debt charges adj. to modified accrual | n/a | n/a | n/a | (194) | (335) | (258) | (159) | (170) |
| **DBRS-adjusted surplus (deficit)** | **(201)** | **1** | **(122)** | **(128)** | **(169)** | **(222)** | **(140)** | **(155)** |
| Less: Sinking fund income | (74) | (88) | (79) | (84) | (80) | (79) | (79) | (86) |
| Contingency reserve | (10) | - | (30) | - | - | - | - | - |
| Add: Recovery sinking fund surpluses | 185 | 36 | 116 | 10 | 10 | 12 | 13 | 70 |
| Adj. for Hydro | 69 | 18 | 80 | 18 | (53) | (23) | (16) | (13) |
| Non-recurring revenues | - | - | - | - | 32 | 32 | 42 | 15 |
| Adj. to change to modified cash basis | n/a | n/a | n/a | 162 | 264 | 273 | 161 | 179 |
| Surplus (deficit), as reported (modified cash) | (31) | (33) | (35) | (22) | 4 | (6) | (19) | 9 |
| Surplus (deficit), as reported (modified accrual) | n/a | n/a | n/a | (110) | (178) | (221) | (120) | (162) |
| **Tax-supported debt & unf. pension liab.*** | **9,601** | **9,451** | **9,077** | **9,012** | **8,868** | **8,311** | **8,448** | **8,653** |
| Gross borrowing requirements | 321 | 358 | 316 | 410 | 666 | 589 | 307 | 90 |
| Gross capital expenditure | 271 | 283 | 262 | 300 | 286 | 249 | 243 | 273 |

Note: Historical DBRS-adjusted fiscal results have been revised to be comparable with other provinces. The revisions include converting to a modified accrual basis, and including the net income of Newfoundland & Labrador Hydro rather than the dividends pd. However, the budget and projected numbers continue to be on a modified cash basis.

* DBRS estimate for 2001-2002. Historicals have been revised to include pension plan unamortized experience gains (losses).

| **Selected Financial Indicators (DBRS-adjusted)** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Debt/ GDP | 67.8% | 67.2% | 64.5% | 74.4% | 79.0% | 79.4% | 81.2% | 81.3% |
| Surplus (deficit)/GDP | (1.4%) | 0.0% | (0.9%) | (1.1%) | (1.5%) | (2.0%) | (1.3%) | (1.5%) |
| Surplus (deficit)/total revenue | (5.6%) | 0.0% | (3.6%) | (3.8%) | (4.9%) | (6.8%) | (4.2%) | (4.7%) |
| Interest costs/total revenue* | 13.9% | 13.6% | 14.6% | 13.6% | 13.5% | 14.2% | 13.8% | 14.0% |
| Interest costs/total revenue (mod. accrual) | n/a | n/a | n/a | 19.3% | 23.1% | 22.1% | 18.4% | 19.3% |
| Federal transfers/total revenue* | 44.4% | 44.8% | 44.0% | 43.5% | 47.2% | 45.5% | 42.0% | 43.9% |
| Total expenditure/total revenue* | 105.6% | 100.0% | 103.6% | 99.0% | 97.3% | 98.4% | 99.3% | 99.3% |
| Program expenditure/total revenue* | 91.7% | 86.3% | 89.0% | 85.4% | 83.7% | 84.3% | 85.6% | 85.2% |
| Total revenue growth* | 0.2% | 4.4% | (1.6%) | (1.4%) | 6.6% | (1.1%) | (0.5%) | 1.3% |
| Program expenditure growth* | 6.4% | 5.5% | 2.6% | 0.6% | 5.9% | (2.6%) | (0.1%) | (1.4%) |
| Total expenditure growth* | 5.8% | 5.4% | 3.0% | 0.4% | 5.3% | (2.0%) | (0.4%) | (0.7%) |

* On a modified cash basis.

For the calendar year

| **Economic Statistics** | 2001B | 2000P | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 |
|---|---|---|---|---|---|---|---|---|
| Nominal GDP ($ millions) | 14,152 | 14,074 | 12,110 | 11,232 | 10,462 | 10,403 | 10,649 | 10,257 |
| Nominal GDP growth | 0.6% | 16.2% | 7.8% | 7.4% | 0.6% | (2.3%) | 3.8% | 5.0% |
| Real GDP growth | 2.0% | 5.3% | 6.0% | 6.0% | 1.1% | (4.2%) | 2.2% | 4.7% |
| Population (thousands) | 539 | 539 | 541 | 545 | 554 | 561 | 568 | 575 |
| Population growth | 0.0% | (0.4%) | (0.8%) | (1.6%) | (1.2%) | (1.3%) | (1.2%) | (0.9%) |
| Employment (thousands) | 207 | 205 | 205 | 194 | 189 | 187 | 194 | 192 |
| Unemployment rate | 16.2% | 16.7% | 16.9% | 18.0% | 18.6% | 19.3% | 18.1% | 20.2% |
| Housing starts | 1,533 | 1,459 | 1,371 | 1,450 | 1,696 | 2,034 | 1,712 | 2,243 |
| Retail sales ($ millions) | 4,667 | 4,522 | 4,223 | 3,939 | 3,800 | 3,543 | 3,510 | 3,430 |
| Inflation rate (CPI) | 2.2% | 3.0% | 1.5% | 0.2% | 2.1% | 1.5% | 1.5% | 1.2% |
| Personal income per capita | 21,205 | 20,577 | 19,636 | 18,999 | 18,047 | 17,788 | 17,835 | 17,284 |

Source: Statistics Canada (actuals), Province of Newfoundland (projections).

**Political Background Information**

| | | | |
|---|---|---|---|
| Party in Power: | Liberals | Number of Seats: | 29 of 48 |
| Premier: | Roger Grimes | Election required by: | February 2004 |

# Province of Newfoundland

| Revenues ($millions) | Budget 2001-2002 | Projected 2000-2001 | Budget 2000-2001 | 1999-2000 | 1998-1999 | 1997-1998 | 1996-1997 | 1995-1996 |
|---|---|---|---|---|---|---|---|---|
| Personal income tax | 602 | 621 | 556 | 605 | 545 | 543 | 618 | 554 |
| Retail sales tax | 503 | 489 | 462 | 459 | 449 | 444 | 567 | 569 |
| Gasoline tax | 129 | 125 | 128 | 131 | 123 | 123 | 121 | 124 |
| Corporate income & capital tax | 88 | 82 | 93 | 91 | 91 | 85 | 70 | 68 |
| Payroll tax | 78 | 77 | 71 | 76 | 75 | 74 | 76 | 78 |
| Insurance premium tax | 25 | 24 | 24 | 23 | 22 | 22 | 21 | 19 |
| Tobacco tax | 67 | 66 | 68 | 67 | 66 | 66 | 64 | 66 |
| Mining tax & royalties and other | 51 | 63 | 47 | 21 | 27 | 28 | 23 | 21 |
| **Total taxes** | 1,541 | 1,546 | 1,448 | 1,474 | 1,397 | 1,385 | 1,560 | 1,499 |
| Liquor profits | 100 | 90 | 100 | 96 | 80 | 81 | 75 | 82 |
| Vehicle drivers licenses | 53 | 53 | 52 | 54 | 53 | 53 | 47 | 46 |
| Interest income | 7 | 7 | 6 | 9 | 14 | 16 | 21 | 11 |
| Lottery revenues | 99 | 95 | 99 | 101 | 90 | 78 | 76 | 74 |
| Net income of Nfld & Labrador Hydro (1)(3) | 51 | 35 | 52 | 52 | 70 | 43 | 29 | 33 |
| Other revenues | 130 | 138 | 120 | 137 | 119 | 109 | 95 | 103 |
| **Total own-source revenue** | 1,981 | 1,964 | 1,878 | 1,923 | 1,823 | 1,765 | 1,902 | 1,848 |
| Equalization payments | 1,163 | 1,153 | 1,031 | 1,071 | 1,166 | 1,006 | 958 | 912 |
| Canada Health & Social Transfer | 336 | 339 | 339 | 290 | 273 | 280 | 342 | 435 |
| HST transition | - | 31 | 31 | 63 | 127 | 127 | | |
| Other federal sources | 81 | 69 | 74 | 58 | 64 | 62 | 75 | 100 |
| **Total federal government transfers** | 1,581 | 1,592 | 1,474 | 1,483 | 1,630 | 1,475 | 1,375 | 1,446 |
| **Total DBRS-adjusted revenue** | 3,562 | 3,556 | 3,352 | 3,405 | 3,453 | 3,240 | 3,277 | 3,293 |
| Term 29 special payment (2) | - | - | - | - | 32 | 32 | 42 | - |
| Other non-recurring income | - | - | - | - | - | - | - | 15 |
| Adj. for Hydro (3) | 69 | 18 | 80 | 18 | (53) | (23) | (16) | (13) |
| Recoveries - sinking fund surpluses | 185 | 36 | 116 | 10 | 10 | 12 | 13 | 70 |
| Total revenue, as reported | 3,816 | 3,610 | 3,548 | 3,434 | 3,442 | 3,262 | 3,316 | 3,365 |
| **Expenditures** | | | | | | | | |
| Health | 1,101 | 1,013 | 985 | 934 | 908 | 820 | 787 | 784 |
| Education | 732 | 691 | 699 | 691 | 676 | 650 | 693 | 699 |
| Social services | 527 | 507 | 501 | 472 | 484 | 475 | 489 | 511 |
| Resource & trade | 151 | 125 | 121 | 100 | 104 | 111 | 108 | 130 |
| Transportation & communication | 115 | 121 | 109 | 105 | 97 | 94 | 90 | 96 |
| General government | 259 | 212 | 215 | 207 | 206 | 216 | 226 | 161 |
| Public protection | 160 | 158 | 153 | 147 | 149 | 135 | 154 | 144 |
| Other | 96 | 98 | 95 | 84 | 104 | 97 | 118 | 132 |
| Net capital expenditures | 125 | 146 | 106 | 168 | 163 | 132 | 139 | 150 |
| **DBRS-adjusted program expenditures** | 3,266 | 3,069 | 2,984 | 2,909 | 2,890 | 2,730 | 2,804 | 2,807 |
| Net debt interest (4) | 497 | 485 | 489 | 463 | 468 | 459 | 452 | 463 |
| **DBRS-adjusted expenditures** | 3,762 | 3,555 | 3,474 | 3,372 | 3,358 | 3,189 | 3,256 | 3,270 |
| Sinking fund earnings | 74 | 88 | 79 | 84 | 80 | 79 | 79 | 86 |
| Total expenditures, as reported | 3,836 | 3,643 | 3,553 | 3,456 | 3,438 | 3,268 | 3,335 | 3,355 |

**Note: The DBRS-adjusted revenues and expenditures do not include adjustments to fully convert to modified accrual.**

(1) DBRS estimates for 2000-2001B and 2001-2002B.

(2) The federal government advanced $130 million over three years instead of $160 million over 20 years in light of Newfoundland's needs.

(3) DBRS includes in revenues the net income of Newfoundland & Labrador Hydro rather than the dividends paid to the Province. The adjustment converts back to dividends. It includes dividends in excess of (less than) earnings and special dividends/fees.

(4) Interest costs are net of sinking fund income.

Note: The Labrador Ferry Service Transfer ($348 million) received from the federal government in 1997-1998 was excluded from revenues and expenditures.

# Province of Newfoundland

## Consolidated Revenue Fund Balance Sheet

($ millions)

| Financial assets | As at March 31 2000 | 1999 | 1998 |
|---|---|---|---|
| Cash & marketable securities | 225 | 304 | 198 |
| Accounts receivable | 166 | 187 | 186 |
| Loans | 57 | 66 | 92 |
| Investments | 75 | 78 | 81 |
| Foreign exchange losses | 168 | 250 | 178 |
| Other | 1 | 3 | 1 |
| **Total financial assets** | 692 | 889 | 736 |

| Liabilities | As at March 31 2000 | 1999 | 1998 |
|---|---|---|---|
| Treasury bills | 385 | 385 | 385 |
| Other current liab. | 467 | 558 | 555 |
| Deferred revenue | 57 | 98 | 224 |
| Other long-term liabilities | 346 | 352 | 353 |
| Unfunded pens. liab. | 3,309 | 3,352 | 3,237 |
| Debt | 4,683 | 4,596 | 4,085 |
| **Total liabilities** | 9,246 | 9,341 | 8,839 |
| **Net debt** | (8,553) | (8,453) | (8,103) |
| | 692 | 889 | 736 |

## Public Sector Debt

| ($ millions) as at March 31 | 2001P | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|---|---|
| Direct debt | 6,595 | 6,209 | 6,006 | 5,408 | 5,564 | 5,943 | 6,035 |
| Less: sinking funds | (1,278) | (1,229) | (1,123) | (1,057) | (1,029) | (1,013) | (1,088) |
| **Net direct debt** | 5,317 | 4,980 | 4,883 | 4,351 | 4,535 | 4,930 | 4,947 |
| Housing | 121 | 127 | 126 | 131 | 153 | 166 | 166 |
| Nfld. Municipal Financing Corp. | 591 | 520 | 551 | 595 | 664 | 706 | 735 |
| Other guaranteed debt | 195 | 153 | 39 | 112 | 154 | 93 | 122 |
| Total guaranteed debt | 907 | 800 | 716 | 838 | 971 | 965 | 1,022 |
| Less: sinking funds | (82) | (77) | (82) | (115) | (110) | (102) | (117) |
| Net guaranteed debt | 825 | 723 | 633 | 723 | 861 | 863 | 905 |
| **Net tax-supported debt** | 6,142 | 5,703 | 5,516 | 5,074 | 5,396 | 5,793 | 5,853 |
| Nfld. and Labrador Hydro Electric | 1,056 | 1,061 | 1,096 | 1,181 | 1,439 | 1,442 | 1,362 |
| Less: sinking funds | (162) | (146) | (156) | (273) | (449) | (379) | (324) |
| Net Hydro debt | 894 | 915 | 940 | 908 | 990 | 1,063 | 1,038 |
| Total public sector debt | 7,035 | 6,618 | 6,456 | 5,982 | 6,386 | 6,856 | 6,891 |
| **Unfunded pension liabilities (1)** | 3,309 | 3,309 | 3,352 | 3,237 | 3,052 | 2,860 | 2,680 |
| **Per capita ($)** | | | | | | | |
| Tax-supported debt | 11,399 | 10,546 | 10,121 | 9,159 | 9,625 | 10,199 | 10,179 |
| Tax-supported debt+unf. pension liab. | 17,540 | 16,664 | 16,271 | 15,002 | 15,070 | 15,234 | 14,840 |
| **As a % of GDP** | | | | | | | |
| Tax-supported debt | 43.6% | 47.1% | 49.1% | 48.5% | 51.9% | 54.4% | 57.1% |
| Tax-supported debt+unf. pension liab. | 67.2% | 74.4% | 79.0% | 79.4% | 81.2% | 81.3% | 83.2% |

## Unfunded Pension Liabilities

| as at March 31 ($ millions) | Latest Valuation | 2000 Unfund. liability | 2000 Unamortized gains (losses) | 1999 Unfund. liability | 1999 Unamortized gains (losses) |
|---|---|---|---|---|---|
| Public service plan | 1997 | 1,074 | 384 | 1,043 | 406 |
| Teachers plan | 1997 | 1,571 | 42 | 1,607 | 73 |
| Other | 1996/97 | 248 | (10) | 239 | (10) |
| Total | | 2,892 | 417 | 2,889 | 469 |

**(Modified cash basis)**

| Revenue Ratios (DBRS-adjusted) | Budget 2001-2002 | Projected 2000-2001 | Budget 2000-2001 | 1999-2000 | 1998-1999 | 1997-1998 | 1996-1997 | 1995-1996 |
|---|---|---|---|---|---|---|---|---|
| Total tax revenue/total revenue | 40.4% | 42.8% | 40.8% | 42.9% | 40.6% | 42.4% | 47.0% | 44.5% |
| Corporate tax revenue/total revenue | 4.3% | 4.4% | 4.6% | 4.9% | 4.8% | 4.9% | 4.4% | 4.3% |
| Personal income tax revenue/total revenue | 15.8% | 17.2% | 15.7% | 17.6% | 15.8% | 16.6% | 18.6% | 16.5% |
| Retail sales tax/total revenue | 13.2% | 13.5% | 13.0% | 13.4% | 13.0% | 13.6% | 17.1% | 16.9% |
| Federal equalization/total revenue | 32.7% | 32.4% | 30.7% | 31.4% | 33.8% | 31.0% | 29.2% | 27.7% |
| Federal transfers/total revenue | 44.4% | 44.8% | 44.0% | 43.5% | 47.2% | 45.5% | 42.0% | 43.9% |
| **Expenditure Ratios (DBRS-adjusted)** | | | | | | | | |
| Health & social services exp./total exp. | 43.3% | 42.8% | 42.8% | 41.7% | 41.5% | 40.6% | 39.2% | 39.6% |
| Education expenditure/total expenditure | 19.5% | 19.4% | 20.1% | 20.5% | 20.1% | 20.4% | 21.3% | 21.4% |
| Interest costs/total expenditure | 13.2% | 13.7% | 14.1% | 13.7% | 13.9% | 14.4% | 13.9% | 14.1% |
| Interest costs/total exp. (modified accrual) | n/a | n/a | n/a | 18.6% | 22.1% | 20.6% | 17.6% | 18.4% |
| Capital expenditure/total expenditure | 7.2% | 8.0% | 7.5% | 8.9% | 8.5% | 7.8% | 7.5% | 8.3% |
| Per capita program expenditure ($) | 6,062 | 5,697 | 5,518 | 5,337 | 5,218 | 4,870 | 4,937 | 4,882 |

(1) Unfunded persion liabilities estimated for some years. Includes unamortized experience gains (losses).

# Province of Newfoundland

## Detailed Gross Debt Breakdown by Type (1)

as at March 31, 2001
($ millions)

| | Direct Debt | Other Tax-supported Debt | Utility Debt | Total Public Sector Debt |
|---|---|---|---|---|
| **Domestic Currency** | | | | |
| Treasury bills/commercial paper | 390 | - | - | 390 |
| Loans/private placements | 181 | 282 | - | 463 |
| Medium-term notes | - | - | - | - |
| Public bonds | 3,278 | 625 | 1,056 | 4,959 |
| Savings bonds | - | - | - | - |
| CPP borrowing | 634 | - | - | 634 |
| Total | 4,483 | 907 | 1,056 | 6,445 |
| Foreign Currency | | | | |
| Commercial paper | - | - | - | - |
| Loans/private placements | 66 | - | - | 66 |
| Medium-term notes | - | - | - | - |
| Public bonds | 2,046 | - | - | 2,046 |
| Total | 2,112 | - | - | 2,112 |
| **Total debt** | 6,595 | 907 | 1,056 | 8,557 |

## Gross Debt Breakdown by Currency (1)

($ millions)

| | As at March 31, 2001 | | | As at March 31, 2000 | | |
|---|---|---|---|---|---|---|
| | C$-pay | Non-C$ | Total | C$-pay | Non-C$ | Total |
| Direct debt | 4,483 | 2,112 | 6,595 | 4,084 | 2,125 | 6,209 |
| Other tax-supported debt | 907 | - | 907 | 800 | - | 800 |
| Utility debt | 1,056 | - | 1,056 | 1,061 | - | 1,061 |
| Total public sector debt | 6,445 | 2,112 | 8,557 | 5,945 | 2,125 | 8,070 |
| Tax-supported debt | 72% | 28% | 100% | 70% | 30% | 100% |

## Fixed/Floating Rate Gross Debt Breakdown (1) (2)

($ millions)

| | As at March 31, 2001 | | | As at March 31, 2000 | | |
|---|---|---|---|---|---|---|
| | Floating | Fixed | Total | Floating | Fixed | Total |
| Direct debt | 507 | 6,088 | 6,595 | 505 | 5,704 | 6,209 |
| Other tax-supported debt | 50 | 857 | 907 | 120 | 681 | 800 |
| Utility debt | - | 1,056 | 1,056 | - | 1,061 | 1,061 |
| Total public sector debt | 557 | 8,000 | 8,557 | 625 | 7,445 | 8,069 |
| | 7% | 93% | 100% | 8% | 92% | 100% |

## Gross Market Debt Maturity Profile*

As at March 31, 2001
($ millions)

| | Direct Debt | Nfld. Municipal Financing Corp | Nfld. & Labrador Hydro | Total | |
|---|---|---|---|---|---|
| 2002 | 429 | 70 | 150 | 649 | 8% |
| 2003 | 392 | 41 | 100 | 533 | 7% |
| 2004 | 190 | 80 | - | 271 | 4% |
| 2005 | 147 | 59 | - | 206 | 3% |
| 2006 | 52 | 31 | - | 83 | 1% |
| 2007-11 | 1,227 | 118 | 200 | 1,544 | 20% |
| 2012+ | 3,768 | 13 | 575 | 4,357 | 57% |
| Total | 6,205 | 413 | 1,025 | 7,643 | 100% |

(1) Including hedges (if any).
(2) Floating rate debt is defined as debt that matures or is repriced within 12 months.
* Does not include all debt. For Hydro, excludes $41.1 million in loans due to the Government of Canada.