



2005
BUDGET
Investing in the Next Alberta

2005 - 06 Quarterly Budget Report

Q3 FISCAL UPDATE

February 2006

Alberta

UPDATING ALBERTANS

The Third Quarter Fiscal Update consists of two parts – the updated 2005-06 forecast and the actual results for the first nine months of the fiscal year (April 1 to December 31, 2005).

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2005-06 FORECAST

HIGHLIGHTS

- Surplus (net revenue) is forecast at \$7.4 billion. This is \$5.9 billion higher than budgeted and \$1.5 billion higher than forecast in the *Second Quarter Fiscal Update*.
- Revenue is \$7.3 billion higher than budgeted and \$1.4 billion higher than forecast in the *Second Quarter Fiscal Update*. The increase is primarily due to record energy revenue and is net of the \$1.3 billion in resource rebates provided to Albertans.
- Oil prices are forecast to average US\$60.00 a barrel, unchanged from the second quarter forecast. Natural gas prices are forecast to average Cdn\$8.40 per gigajoule (GJ), down 10¢ from second quarter.
- Expense is \$1.4 billion higher than budgeted, largely due to increased natural gas rebates, capital grants and disaster/emergency assistance.
- Expense is \$52 million lower than the second quarter forecast. Third quarter increases for health, continuing care, natural gas rebates, flood assistance and other initiatives are offset by lower costs for agriculture assistance.
- The surplus has been primarily allocated for capital and savings, including:
 - ♦ Capital Account – \$3.6 billion for funding capital commitments in future years.
 - ♦ Savings – \$2.6 billion, including \$1.3 billion for endowments and \$1.3 billion to the Heritage Fund.
 - ♦ Sustainability Fund – \$1.6 billion has been left unallocated in the Fund. Fund assets are forecast at \$4.1 billion at March 31, 2006.

FISCAL SUMMARY^a

(millions of dollars)

	2005-06			
	Budget	3rd Quarter Forecast	Change from	
			Budget	2nd Quarter
1 Revenue	27,346	34,606	7,260	1,434
2 Expense				
3 Program	25,535	26,966	1,431	(46)
4 Debt servicing costs	291	260	(31)	(6)
5 Total Expense	25,826	27,226	1,400	(52)
6 Net Revenue	1,520	7,380	5,860	1,486
7 Transfer from Capital Account ^b	1,274	1,795	521	40
8 Net transfer from (to) Sustainability Fund	(2,546)	(9,100)	(6,554)	(1,523)
9 Contingency Allowance	248	75	(173)	3
10 Net Amount Available for Allocation				
11 Net Revenue	1,520	7,380	5,860	1,486
12 Adjustments ^c	699	422	(277)	941
13 Net Amount Available for Allocation	2,219	7,802	5,583	2,427
14 Allocation				
15 Capital Account (net increase available for capital costs in future years)	1,554	3,569	2,015	169
16 Savings				
17 Heritage Fund - deposit	-	1,000	1,000	1,000
18 Heritage Fund - inflation-proofing	215	345	130	50
19 Advanced Education endowment (in the Heritage Fund)	250	750	500	-
20 Medical Research Endowment Fund	200	200	-	-
21 Scholarship Fund	-	250	250	-
22 Science and Engineering Research Endowment Fund	-	100	100	-
23 Amount in Sustainability Fund above \$2.5 billion at March 31, 2006	-	1,588	1,588	1,208
24 Total Allocation	2,219	7,802	5,583	2,427

a Subject to the *Fiscal Responsibility Act*. Does not include the change in pension obligations, forecast to be an increase of \$214 million.

b Includes only transfers for capital grants to local authorities.

c Adjusts Net Revenue to cash available for allocation from the Sustainability Fund. Third quarter forecast includes the \$998 million in Sustainability Fund above \$2.5 billion target at the start of the year, plus fourth quarter 2004-05 allocation of \$696 million to the Sustainability Fund, less \$350 million in cash adjustments, less \$428 million in retained income of funds and agencies, less \$494 million required for 2005-06 capital investment. In the third quarter, adjustments are not reduced for the Contingency Allowance. Further details are provided on page 6.

REVENUE

TOTAL REVENUE

- Total revenue is \$34.6 billion after deducting the \$1.3 billion for resource rebates. Revenue is \$7.3 billion higher than budgeted.
- The increase is primarily due to non-renewable resource revenue which is \$6.7 billion higher than budgeted, reflecting record high energy prices and land lease sales.
- Income tax revenue is \$1 billion higher than budgeted. However, the \$1.3 billion for resource rebates, which are treated as refundable tax credits, more than offsets this increase.
- Revenue from other sources, primarily investment income, is \$877 million higher than budgeted.

NON-RENEWABLE RESOURCE REVENUE

Non-renewable resource revenue is forecast to reach a record \$14.4 billion based on record energy prices and land lease sales. This is \$6.7 billion higher than budgeted and \$1.2 billion higher than second quarter.

Natural gas prices are forecast to average Cdn\$8.40 per GJ. This is Cdn\$2.80 higher than estimated in the budget but 10¢ lower than the second quarter forecast. Natural gas royalties are forecast to reach a record \$8.2 billion, \$2.8 billion higher than budgeted but \$812 million lower than forecast in the second quarter. The decline from second quarter is due to a lower price and production forecast and revised claims for low well productivity and the deep gas well royalty holiday.

Oil prices are forecast to average US\$60.00 per barrel. This is \$18.00 higher than estimated in the budget, but unchanged from the second quarter forecast. Total oil royalties are forecast at \$2.6 billion, \$1.3 billion higher than the budget forecast and \$185 million higher than in the second quarter. This includes a record \$1.2 billion in royalties from synthetic crude oil and bitumen.

Revenue from **bonuses and sales of Crown leases** is forecast to reach a record \$3.4 billion. This is \$2.6 billion higher than estimated in the budget and \$1.8 billion higher than the second quarter forecast. The 2005-06 forecast is equal to the combined total of the previous three highest years. Two sales alone, on December 14, 2005 and February 8, 2006, raised \$1.2 billion, essentially equal to revenue received from the 23 sales in 2004-05, the previous highest year.

TAX REVENUE

Personal income tax revenue is forecast at \$5.9 billion, an increase of \$703 million from budget and \$153 million from second quarter. The increase reflects a higher-than-estimated 2004 tax base and stronger personal income growth. The 2004 tax year assessment

data indicates revenue for the last two fiscal years was about \$308 million higher than recorded, resulting in a positive prior years adjustment for 2005-06, and a higher base for the current-year forecast.

Albertans have been provided a \$400 per person **resource rebate** this year. The rebate is a refundable tax credit and the \$1.3 billion cost is reported as a reduction to personal income tax revenue.

Corporate income tax revenue is forecast at \$2.6 billion, up \$318 million from budget. Higher energy prices have contributed to a stronger corporate profit outlook.

Other tax revenue is forecast at \$3.2 billion, a \$39 million increase from budget. The increase is due to higher freehold mineral rights tax revenue.

TRANSFERS FROM GOVERNMENT OF CANADA

Transfers from the Government of Canada are forecast at \$3.4 billion, a decrease of \$138 million from budget and \$178 million from second quarter.

Health transfers and the Canada Social Transfer are \$257 million lower than budgeted. The decrease reflects the reporting of some of the Wait Times Reduction Fund to 2004-05 rather than 2005-06, and the impact of higher provincial income tax revenue on federal transfers. Federal transfers for agriculture support programs are also down \$128 million from budget because of lower cost-shared expenses.

Partly offsetting these decreases is a \$247 million increase in other transfers including flood disaster assistance and early learning and child care.

INVESTMENT INCOME

Investment income is forecast at \$2.1 billion. This is \$730 million higher than budgeted and \$184 million higher than second quarter.

The increase from budget primarily reflects higher Heritage Fund and endowment fund income due to stronger-than-expected Canadian equity market performance. The Heritage Fund is forecast to have a realized return of about 10 percent in 2005-06.

OTHER REVENUE

Other revenue is forecast to be \$246 million higher than budgeted and \$143 million higher than second quarter. The increase from budget includes:

- \$99 million in net gaming and liquor revenue.
- \$39 million for timber rentals and fees, net of the revenue reduction for updating Alberta's Softwood Stumpage System, effective January 1, 2006.
- \$108 million net increase in other revenue.

REVENUE*(millions of dollars)*

	2005-06				Main Reasons for Change from Budget
	Budget	3rd	Change from		
		Quarter	Budget	2nd	
Income Taxes					
Personal income tax	5,199	5,902	703	153	Higher 2004 assessments/income growth
Alberta 2005 Resource Rebates	-	(1,320)	(1,320)	-	\$400 per person resource rebates
Corporate income tax	2,278	2,596	318	-	Stronger corporate profits
	7,477	7,178	(299)	153	
Other Taxes					
School property tax	1,273	1,284	11	11	Changes in opted-out boards' share
Tobacco tax	735	723	(12)	-	Lower-than-forecast consumption
Fuel tax	645	635	(10)	-	Lower-than-forecast volume
Freehold mineral rights tax	310	349	39	(22)	Higher energy prices
Insurance taxes	186	197	11	(7)	Higher 2004-05 industry premium revenue
Tourism levy	50	50	-	-	
	3,199	3,238	39	(18)	
Non-Renewable Resource Revenue					
Natural gas and by-products royalty	5,418	8,238	2,820	(812)	Higher natural gas prices
Crude oil royalty	923	1,447	524	66	Higher oil prices
Synthetic crude oil and bitumen royalty	393	1,184	791	119	Higher oil prices
Coal royalty	8	11	3	(2)	Higher coal prices
Bonuses and sales of Crown leases	886	3,440	2,554	1,774	Higher price per hectare
Rentals and fees	145	155	10	5	Revised forecast
Royalty tax credit	(93)	(113)	(20)	-	Higher royalties
	7,680	14,362	6,682	1,150	
Transfers from Government of Canada					
Health transfers	2,048	1,867	(181)	(58)	Higher income tax revenue
Canada Social Transfer	690	614	(76)	(37)	Higher income tax revenue
Agriculture support programs	355	227	(128)	(120)	Lower production insurance premiums
Other	408	655	247	37	Flood disaster assistance/ELCC Agreement
	3,501	3,363	(138)	(178)	
Net Income from Commercial Operations					
Alberta Gaming and Liquor Commission:					
Gaming and lottery revenue	1,202	1,291	89	55	Higher slot and VLT revenue
Liquor revenue	560	570	10	6	Higher sales
Alberta Treasury Branches	162	195	33	11	Higher interest income/lower loss provision
Other	5	6	1	-	Revised forecast
	1,929	2,062	133	72	
Premiums, Fees and Licences					
Health care insurance premiums	875	903	28	7	Increase in registrants
Motor vehicle licences	291	298	7	3	Stronger economic growth
Crop and hail insurance premiums	157	142	(15)	(1)	Lower crop insurance premiums
Timber rentals and fees	81	120	39	23	Higher prices/stumpage update
Land titles	50	54	4	3	Stronger economic growth
Other ^a	285	292	7	4	Revised forecast
	1,739	1,809	70	39	
Investment Income					
Alberta Heritage Savings Trust Fund	669	1,197	528	84	Strong equity markets
Alberta Capital Finance Authority	287	286	(1)	(1)	Revised forecast
Agriculture Financial Services Corporation	86	84	(2)	1	Lower lending activity
Sustainability Fund	80	90	10	5	Higher asset balance
Debt Retirement Account	115	115	-	-	
Endowment Funds:					
Medical Research	37	93	56	18	Strong equity markets
Science and Engineering Research	20	51	31	12	Strong equity markets
Scholarship	13	37	24	11	Strong equity markets/higher balance
Capital Account	28	55	27	10	Higher asset balance
Other	41	98	57	44	Higher GRF cash surplus
	1,376	2,106	730	184	
Other					
Refunds of expense	82	99	17	10	Revised forecast
Fines and penalties	72	72	-	-	
Miscellaneous ^a	291	317	26	22	Canada Health Infoway funding
	445	488	43	32	
Total Revenue	27,346	34,606	7,260	1,434	

a Budget numbers have been restated to reflect an \$11 million reallocation of revenue from "Other Premiums, Fees and Licences" to "Miscellaneous" revenue.

EXPENSE

TOTAL EXPENSE

- Expense is \$1.4 billion higher than budgeted but \$52 million lower than the *Second Quarter Fiscal Update* forecast. The increase from budget is due to:
 - ◆ Natural gas rebates – \$441 million increase funded from the Sustainability Fund.
 - ◆ Disaster/emergency assistance – \$319 million increase funded from the Sustainability Fund.
 - ◆ Capital grants – \$521 million increase funded from the Capital Account.
 - ◆ Other expenses – \$119 million net increase.

SUSTAINABILITY FUND

Natural Gas Rebates – \$726 million in natural gas rebates are being provided, an increase of \$441 million from budget. The increase is due to higher natural gas prices and the addition of October to the months eligible for rebates (October to March).

Disaster/Emergency Assistance – \$452 million in disaster/emergency assistance. This is an increase of \$319 million from budget but \$70 million lower than the *Second Quarter Fiscal Update* forecast.

- ◆ **Flood Disaster Assistance** – \$171 million. Cost is partly offset by \$132 million in federal transfers.
- ◆ **Agriculture Emergency Assistance** – \$52 million increase from budget. Total 2005-06 BSE assistance is forecast at \$185 million. Cost is partly offset by \$11 million in federal transfers. BSE assistance is \$118 million lower than forecast in second quarter largely due to lower costs associated with the Fed Cattle Set-Aside program.
- ◆ **Wildfire Costs** – \$88 million increase from budget.
- ◆ **Mountain Pine Beetle Costs** – \$8 million.

CAPITAL ACCOUNT

Capital grants funded from the Capital Account have increased by \$521 million from budget and \$40 million from second quarter. The increase from budget includes additional capital grants to health authorities, post-secondary institutions, municipalities, school boards and other local authorities.

OTHER EXPENSES

\$119 million net increase in other expenses. This includes a \$157 million increase in expenses charged against the Contingency Allowance, partly offset by a \$31 million decrease in debt servicing costs and a net \$7 million decrease in dedicated revenue/expense items.

MINISTRY CHANGES

Advanced Education – \$84 million net increase from budget primarily for capital grants to post-secondary institutions.

Agriculture, Food and Rural Development – \$114 million net decrease from budget. Increases in income stabilization and product and market research are offset by decreases in production insurance payments and the Fed Cattle Set-Aside program.

Children's Services – \$28 million increase from budget for Early Learning and Child Care initiatives.

Community Development – \$51 million increase from budget including grants to libraries and Calgary Zoo.

Education – \$94 million net increase from budget primarily for school operations and maintenance, new modular classrooms, relocation of portables, capital grants, increased fuel costs and other operating support.

Gaming – \$74 million net increase from budget including capital grants to Edmonton Northlands, Calgary Exhibition and Stampede, and world disaster assistance.

Health and Wellness – \$231 million net increase from budget. Includes increases for access and wait time projects, electronic health records, continuing care and capital grants for health facilities infrastructure.

Infrastructure and Transportation – \$566 million net increase from budget. Includes additional cost of natural gas rebates; increased capital grants for water, wastewater and 'Water for Life' projects; and higher operations and maintenance costs.

Innovation and Science – \$14 million net increase from budget to provide business service support for early-stage companies.

Municipal Affairs – \$179 million increase from budget. Includes \$171 million in flood assistance and \$8 million primarily to assist small urban and rural communities.

Seniors and Community Supports – \$141 million increase from budget, including increases for rural affordable supportive living/affordable housing, lodge renovations, continuing care initiatives, a legal settlement, and Persons with Developmental Disabilities contracted agency salary increases.

Sustainable Resource Development – \$96 million increase from budget for forest fire-fighting costs and addressing mountain pine beetle infestations.

EXPENSE SUMMARY*(millions of dollars)*

	2005-06			
	Budget	3rd	Change from	
		Forecast	Budget	2nd
			Quarter	
Program Expense				
Budget	25,117	25,117	-	-
Disaster/emergency assistance (from Sustainability Fund)	133	452	319	(70)
Natural gas rebates (from Sustainability Fund)	285	726	441	66
Increase in capital grants from Capital Account	-	521	521	40
In-year Contingency Allowance net expense ^a	-	157	157	(3)
Dedicated expense changes (net) ^b	-	(7)	(7)	(79)
Total Program Expense	25,535	26,966	1,431	(46)
Debt Servicing Costs	291	260	(31)	(6)
Total Expense	25,826	27,226	1,400	(52)

a In addition, the Contingency Allowance is being used to provide \$16 million for in-year revenue reduction initiatives for the Spring Price Endorsement premium (\$10 million) and the Softwood Stumpage System update (\$6 million).

b Dedicated revenue/expense changes – Agriculture, Food and Rural Development: \$91 million decrease for agriculture support programs; Children's Services: \$29 million increase for Early Learning and Child Care; Health and Wellness: \$26 million increase; Education: \$19 million increase for opted-out school boards, Learning Resources Centre, teacher certification and diploma rewrites; Infrastructure and Transportation: \$18 million increase; Innovation and Science: \$12 million decrease for contracted research; Seniors and Community Supports: \$10 million increase for affordable housing; Gaming: \$6 million decrease for First Nations Development Fund and bingo associations; and minor offsetting changes in other ministries.

EXPENSE BY MINISTRY*(millions of dollars)*

Program	2005-06				Main Reasons for Change from Budget
	Budget	3rd	Change from		
		Forecast	Budget	2nd	
			Quarter		
Legislative Assembly	70	69	(1)	(1)	Forecast change
Aboriginal Affairs and Northern Development	39	39	-	-	
Advanced Education	1,658	1,742	84	1	Capital grants
Agriculture, Food and Rural Development	1,151	1,037	(114)	(376)	BSE Fed Cattle Set-Aside
Children's Services	799	827	28	(8)	Early Learning and Child Care
Community Development	247	298	51	29	Library grants/Calgary Zoo
Economic Development	80	79	(1)	(1)	Transfer to capital investment
Education ^a	4,507	4,601	94	19	Capital/operating grants to boards
Energy	203	205	2	-	Increased AEUB activity
Environment	138	143	5	-	Waste management/erosion control
Executive Council	26	26	-	-	
Finance	588	566	(22)	(7)	Changes in endowment spending
Gaming	169	243	74	(1)	Capital grants/world disasters
Government Services	90	89	(1)	(1)	Change in amortization
Health and Wellness	8,977	9,208	231	166	Electronic Health Record/facilities
Human Resources and Employment	778	785	7	5	Legal settlement/CASS
Infrastructure and Transportation ^a	3,042	3,608	566	33	Natural gas rebates/capital grants
Innovation and Science	181	195	14	18	Grant for early-stage companies
International and Intergovernmental Relations	10	10	-	-	
Justice	314	318	4	4	Legal costs and salary settlements
Municipal Affairs	127	306	179	40	Flood disaster assistance
Restructuring and Government Efficiency	80	63	(17)	(17)	Change in amortization
Seniors and Community Supports ^a	1,631	1,772	141	32	Supportive living/affordable housing
Solicitor General and Public Security	405	416	11	3	Policing and salary settlements
Sustainable Resource Development	225	321	96	16	Forest fires/mountain pine beetles
Total Program Expense	25,535	26,966	1,431	(46)	
Debt Servicing Costs	291	260	(31)	(6)	Lower in-year financing requirements
Total Expense	25,826	27,226	1,400	(52)	

a Budget numbers have been restated to reflect a \$352 million transfer of responsibility for School Facilities Operations from Infrastructure and Transportation to Education, authorized by Order-in-Council 366/2005. The numbers also reflect a \$26 million transfer of responsibility for the Rural Affordable Supportive Living Program from Infrastructure and Transportation to Seniors and Community Supports authorized by Order-in-Council 596/2005.

ALBERTA SUSTAINABILITY FUND

TRANSFERS

The *Fiscal Responsibility Act* requires non-renewable resource revenue above \$4.75 billion to be transferred to the Sustainability Fund. Increases in other revenue are also transferred to the Fund less certain adjustments.

A net transfer of \$11.6 billion to the Sustainability Fund is being made. This includes \$9.6 billion in non-renewable resource revenue and \$2.1 billion in other transfers. This amount is adjusted by net \$82 million for the retained income of funds and agencies, timing differences between when revenue is reported or accrued and cash is received, and cash transferred from 2004-05 surplus.

WITHDRAWALS

Withdrawals from the Fund are allowed to offset the costs of emergencies/disasters, natural gas rebates and the cost of the *Alberta 2005 Resource Rebates*. Withdrawals of \$2.5 billion are being made in 2005-06.

ALLOCATION OF AVAILABLE ASSETS

Assets in the Sustainability Fund above \$2.5 billion can be allocated for other purposes, including to the Capital Account (for both current-year and future-year use), savings and other balance sheet improvements.

A total of \$10.1 billion is available for allocation. \$2.3 billion has been transferred to the Capital Account to support capital spending in 2005-06. The remaining \$7.8 billion has been allocated to:

- Capital Account – \$3.6 billion for use in future years.
- Savings – \$2.6 billion for Heritage Fund and other endowment funds.
- Sustainability Fund – \$1.6 billion has been left in the Sustainability Fund, leaving its total assets forecast at \$4.1 billion at March 31, 2006.

ALBERTA SUSTAINABILITY FUND

(millions of dollars)

	2005-06			
	Budget	3rd	Change from	
		Quarter	Budget	2nd
	Budget	Forecast	Budget	Quarter
Assets at start of year	3,498	3,498	-	-
Transfers to (withdrawals from) Sustainability Fund				
Non-renewable resource revenue transfer from general revenue	2,930	9,612	6,682	1,150
Other net transfers	34	2,061	2,027	444
Cost of Alberta 2005 Resource Rebates	-	(1,320)	(1,320)	-
Withdrawals for disaster/emergency/natural gas rebates	(418)	(1,178)	(760)	4
Adjustments				
Energy and other cash adjustments ^a	517	(350)	(867)	843
Retained income of funds and agencies ^b	(133)	(428)	(295)	(183)
Cash not transferred in 2004-05 from fourth quarter results ^c	-	696	696	-
Minimum Assets Required in Sustainability Fund	(2,500)	(2,500)	-	-
Assets Available for Allocation	3,928	10,091	6,163	2,258
Assets Transferred to Capital Account for Current Year Use				
Capital Grants	(1,274)	(1,795)	(521)	(40)
Capital Investment	(435)	(494)	(59)	209
Remaining Assets Available for Allocation	2,219	7,802	5,583	2,427
Allocation to				
Capital Account - future year use	(1,554)	(3,569)	(2,015)	(169)
Heritage Fund - deposit	-	(1,000)	(1,000)	(1,000)
Heritage Fund - inflation-proofing	(215)	(345)	(130)	(50)
Advanced Education endowment (in the Heritage Fund)	(250)	(750)	(500)	-
Scholarship Fund	-	(250)	(250)	-
Medical Research Endowment Fund	(200)	(200)	-	-
Science and Engineering Research Endowment Fund	-	(100)	(100)	-
Assets at End of Year Above \$2.5 billion	-	1,588	1,588	1,208

a Due primarily to a timing difference of when energy royalties are reported or accrued and cash is received.

b Due primarily to retained income of Alberta Treasury Branches, Agriculture Financial Services Corporation and endowment funds.

c The cash from the higher-than-forecast 2004-05 fourth quarter results was transferred into the Sustainability Fund in 2005-06.

CAPITAL PLAN

The 2005-06 Capital Plan (capital grants to local authorities and capital investment in provincial government-owned projects) is forecast at \$3.8 billion. This is \$590 million higher than budgeted but \$211 million less than forecast at second quarter.

The decrease from second quarter reflects a reprofiling/rescheduling of some projects into 2006-07.

In addition, in-year commitments have been made to provide increased capital support for health, education, highways and other infrastructure in future years. Funds for these commitments have been added to the Capital Account from this year's surplus.

- **Municipal Infrastructure Support** – Total allocation of \$1.1 billion, \$74 million higher than budgeted. Increases include \$54 million for water/wastewater and 'Water for Life' projects, \$17 million for the New Deal for Cities and Communities and \$3 million in other support.
- **Provincial Highway Network** – Total allocation of \$711 million, an increase of \$12 million from budget, but \$184 million less than second quarter. In June, \$300 million was committed to accelerate construction projects in Fort McMurray and other resource development areas. Most of the funding for this initiative will now be provided in 2006-07.
- **Health Facilities and Equipment** – Total allocation of \$650 million, an increase of \$104 million from budget. The increase represents the first year of the announced \$1.4 billion in increased support for health facilities plus additional funding for the electronic health records.
- **Community Facilities and Centennial Projects** – Total allocation of \$273 million, a \$97 million increase from budget. The increase includes additional funding for Edmonton Northlands, Calgary Exhibition and Stampede, the Calgary Zoo, the Calgary Heritage Park and other increases.
- **Schools** – Total allocation of \$243 million, an increase of \$42 million from budget. Increase reflects the first year of a multi-year, post-budget school capital commitment.
- **Post-Secondary Facilities** – Total allocation of \$196 million, an increase of \$85 million from budget. Increase reflects the first year of a multi-year, post-budget, post-secondary capital commitment.
- **Other Infrastructure Programs** – Total allocation of \$588 million, an increase of \$176 million from budget. The increase includes additional funding for rural affordable supportive living, affordable housing, lodge renovations, and other projects. Part of the \$100 million capital contingency for small projects has been reallocated to 2006-07.

CAPITAL PLAN SUMMARY

(millions of dollars)

	2005-06			
	Budget	3rd	Change from	
		Quarter	Budget	2nd
	Budget	Forecast	Budget	Quarter
Municipal infrastructure support	1,021	1,095	74	-
Provincial highway network ^a	699	711	12	(184)
Health facilities and equipment ^a	546	650	104	39
Community facilities and centennial projects	176	273	97	7
Schools	201	243	42	-
Post-secondary facilities	111	196	85	5
Water and wastewater management	58	62	4	(3)
Government facilities, housing and equipment	354	498	144	(3)
Capital contingency for small projects	-	28	28	(72)
Total Capital Plan	3,166	3,756	590	(211)
To be funded by				
Current-year revenue	1,348	1,377	29	(13)
Capital Account	1,709	2,289	580	(169)
Sustainability Fund	-	7	7	(3)
Alternative financing including P3s	109	83	(26)	(26)
Total Capital Plan	3,166	3,756	590	(211)

a Budget numbers have been restated to reflect a functional transfer of \$15 million from Health Facilities and Equipment to Provincial Highway Network.

NET FINANCIAL AND CAPITAL ASSETS

- **Net Assets** – Net assets are forecast at \$33.2 billion at March 31, 2006, including capital assets of \$11.5 billion.
- **Capital Account** – Capital Account assets are forecast at \$4.2 billion, an increase of \$3.6 billion from March 31, 2005. These assets are available to fund capital commitments for future years.
- **Accumulated Debt/Debt Retirement Account** – Sufficient funds are available in the Debt Retirement Account to repay the remaining accumulated debt as it matures.
- **Heritage Fund** – The book value of the Heritage Fund (value of external assets) is forecast at \$13.4 billion, an increase of \$2.1 billion from March 31, 2005. The increase includes a \$1 billion allocation to the Heritage Fund, plus \$345 million for inflation-proofing, and \$750 million for the Advanced Education endowment.
- **Endowment Funds** – Allocations have also been made to other endowment funds, including \$250 million to the Scholarship Fund, \$200 million to the Medical Research Endowment Fund, and \$100 million to the Science and Engineering Research Endowment Fund.

BALANCE SHEET

AT MARCH 31

(millions of dollars)

	2005 <i>Actual</i>	2006				2005 <i>Actual</i>
		Budget ^a	3rd Quarter Forecast	Change from		
				Budget	2nd Quarter	
Financial Assets						
Heritage Fund external investments ^b	11,274	11,747	13,376	1,629	1,050	2,102
Self-supporting lending organizations	6,037	5,915	5,934	19	(326)	(103)
Alberta Sustainability Fund	3,498	2,500	4,088	1,588	1,208	590
Endowment funds ^c	1,658	1,827	2,299	472	42	641
Capital Account	674	2,228	4,243	2,015	169	3,569
Debt Retirement Account	3,479	2,230	2,214	(16)	-	(1,265)
Other financial assets	7,227	7,104	7,520	416	(589)	293
Total Financial Assets	33,847	33,551	39,674	6,123	1,554	5,827
Liabilities						
Accumulated debt	3,475	2,226	2,210	(16)	-	(1,265)
Pension obligations	5,235	5,376	5,449	73	49	214
Self-supporting lending organizations	4,928	4,819	4,671	(148)	(608)	(257)
Other liabilities	5,049	5,109	5,597	488	462	548
Total Liabilities	18,687	17,530	17,927	397	(97)	(760)
Net Financial Assets	15,160	16,021	21,747	5,726	1,651	6,587
Capital assets and inventories of supplies	10,921	11,439	11,500	61	(214)	579
Net Assets	26,081	27,460	33,247	5,787	1,437	7,166
Adjustment for pension obligations	5,235	5,376	5,449	73	49	214
Net Assets for Fiscal Policy Purposes	31,316	32,836	38,696	5,860	1,486	7,380

a Budget numbers have been restated to reflect 2004-05 actual results.

b Includes Advanced Education endowment. Also includes \$7 million partial repayment of Alberta Social Housing Corporation debt.

c Includes new allocations plus \$91 million of retained income of endowments.

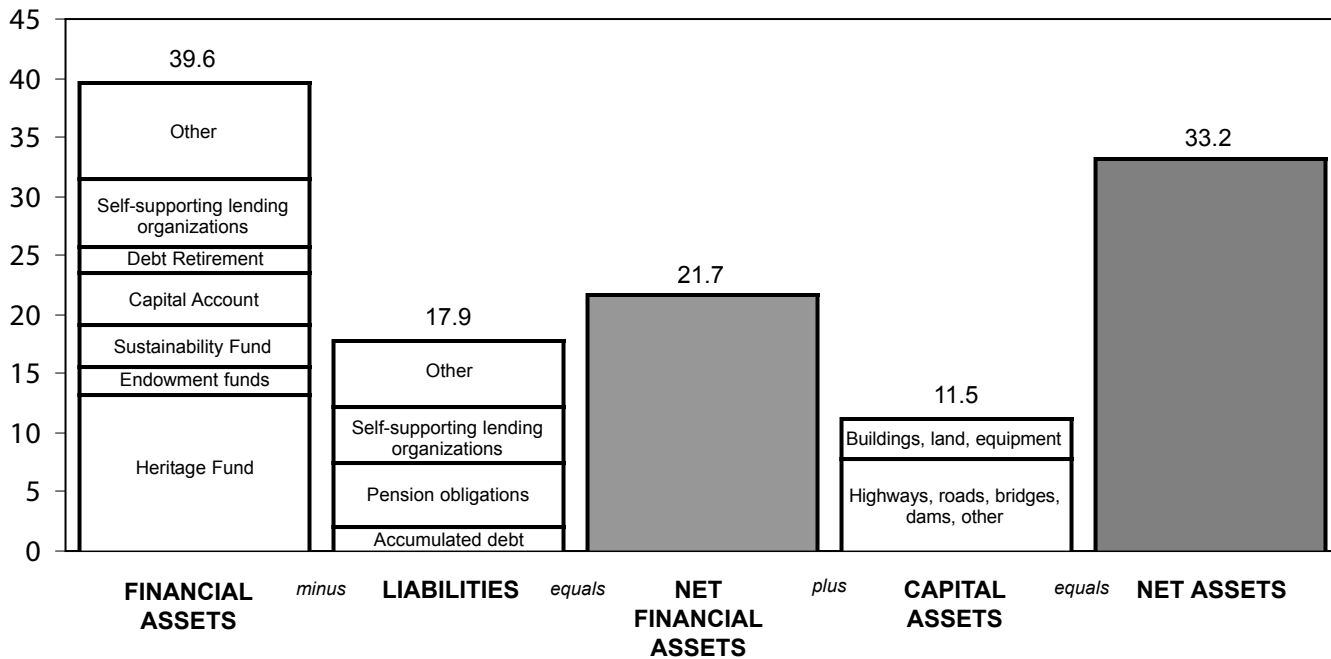
CAPITAL ACCOUNT

(millions of dollars)

	2004-05 <i>Actual</i>	2005-06				2004-05 <i>Actual</i>
		Budget	3rd Quarter Forecast	Change from		
				Budget	2nd Quarter	
Assets at start of year	1,180	674	674	-	-	(506)
Allocations from Sustainability Fund	1,136	3,263	5,858	2,595	-	4,722
Withdrawals						
Capital grants to local authorities	(1,209)	(1,274)	(1,795)	(521)	(40)	(586)
Government-owned capital investment	(433)	(435)	(494)	(59)	209	(61)
Assets at End of Year	674	2,228	4,243	2,015	169	3,569

ASSETS, LIABILITIES AND NET ASSETS AT MARCH 31, 2006

(billions of dollars)



NET FINANCING REQUIREMENTS

(millions of dollars)

	2005-06			
	Budget	3rd Quarter Forecast	Change from Budget	2nd Quarter
Requirements:				
General Revenue Fund term debt maturities	1,153	1,153	-	-
School construction loan repayments	70	70	-	-
Alberta Social Housing Corporation debt repayment	26	42	16	-
Accumulated debt financing requirements	1,249	1,265	16	-
Provincial corporations' term borrowing requirements	180	141	(39)	-
Gross financing requirements	1,429	1,406	(23)	-
Cash applied to accumulated debt repayment ^a	(1,249)	(1,265)	(16)	-
Net Term Debt Financing Requirements ^a	180	141	(39)	-
Term debt financing completed to date	-	141	141	-

a Accumulated debt maturities paid from the Debt Retirement Account.

FISCAL YEAR ASSUMPTIONS

	2005-06			
	Budget	1st Quarter Forecast	2nd Quarter Forecast	3rd Quarter Forecast
Oil Price (WTI US\$/bbl)	42.00	50.00	60.00	60.00
Natural Gas Price (Cdn\$/GJ)	5.60	6.01	8.50	8.40
Exchange Rate (US\$/Cdn\$)	83.50	81.00	83.40	83.90
Interest Rates:				
3-month Canada treasury bills	2.90	2.75	2.85	2.95
10-year Canada bonds	4.50	4.20	4.15	4.10

CAPITAL INVESTMENT AND AMORTIZATION^a

(millions of dollars)

	2005-06				2005-06			
	Capital Investment				Capital Amortization			
	3rd		Change from		3rd		Change from	
	Budget	Forecast	Budget	2nd Quarter	Budget	Forecast	Budget	2nd Quarter
Legislative Assembly	-	-	-	-	-	-	-	-
Aboriginal Affairs and Northern Development	-	-	-	-	-	-	-	-
Advanced Education	8	6	(2)	(1)	5	5	-	-
Agriculture, Food and Rural Development	8	14	6	5	8	9	1	1
Children's Services	-	3	3	-	1	1	-	-
Community Development	45	53	8	1	11	11	-	-
Economic Development	-	1	1	1	-	-	-	-
Education	5	4	(1)	(1)	1	1	-	-
Energy	13	13	-	-	15	15	-	-
Environment	3	3	-	-	20	20	-	-
Executive Council	-	-	-	-	-	-	-	-
Finance	6	6	-	1	7	7	-	-
Gaming	-	-	-	-	-	-	-	-
Government Services	10	9	(1)	(1)	4	3	(1)	(1)
Health and Wellness	74	69	(5)	(5)	29	36	7	7
Human Resources and Employment	4	4	-	-	3	3	-	-
Infrastructure and Transportation	823	870	47	(229)	315	315	-	-
Innovation and Science	4	9	5	(1)	3	2	(1)	-
International and Intergovernmental Relations	-	-	-	-	-	-	-	-
Justice	1	1	-	-	3	3	-	-
Municipal Affairs	1	1	-	-	2	2	-	-
Restructuring and Government Efficiency	3	3	-	-	35	18	(17)	(17)
Seniors and Community Supports	1	1	-	-	25	25	-	-
Solicitor General and Public Security	-	-	-	-	-	-	-	-
Sustainable Resource Development	28	18	(10)	-	11	11	-	-
Total Capital Investment/Amortization	1,037	1,088	51	(230)	498	487	(11)	(10)
Funded from the Capital Account	435	494	59	(209)	-	-	-	-
Alternatively financed	83	83	-	-	-	-	-	-

a Capital investment includes purchases of inventory. Amortization includes consumption of inventories.

CAPITAL GRANTS TO LOCAL AUTHORITIES AND OTHER INFRASTRUCTURE SUPPORT^a

(millions of dollars)

	2005-06			
	3rd		Change from	
	Budget	Forecast	Budget	2nd Quarter
Advanced Education	-	80	80	-
Agriculture, Food and Rural Development	27	34	7	(3)
Community Development	31	55	24	9
Education	-	42	42	-
Environment	1	6	5	-
Finance	4	4	-	-
Gaming	45	115	70	-
Health and Wellness	109	239	130	65
Infrastructure and Transportation ^a	1,835	1,923	88	(36)
Innovation and Science	2	7	5	5
Municipal Affairs	3	3	-	-
Seniors and Community Supports ^a	51	160	109	-
Total	2,108	2,668	560	40
Funded from the Capital Account	1,274	1,795	521	40
Includes capital financing grants to local authorities	5	-	(5)	(5)
Excludes the value of alternatively financed projects	26	-	(26)	(26)

a Budget numbers have been restated to reflect a \$26 million transfer of responsibility for the Rural Affordable Supportive Living Program from Infrastructure and Transportation to Seniors and Community Supports, authorized by Order-in-Council 596/2005.

ACTUAL RESULTS

FOR THE FIRST NINE MONTHS OF 2005-06

METHOD OF CONSOLIDATION

This financial summary is prepared on the same basis as used in *Budget 2005*.

The results of all government departments, funds and agencies, except those designated as commercial enterprises, are consolidated on a line-by-line basis. Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of Crown-controlled corporations and provincial agencies designated as commercial enterprises are consolidated on the modified equity basis, the equity being computed in accordance with generally accepted accounting principles.

BASIS OF FINANCIAL REPORTING

The consolidated fiscal summary reports revenue (including gains and losses from sale of capital assets), expense (including amortization of capital assets), and net revenue.

Expense includes the province's annual cash payments towards the unfunded pension obligations. Expense excludes the annual change in the unfunded pension obligations, which is a non-cash expense that does not affect borrowing requirements.

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue. Debt servicing costs include interest payable, amortization of discount on debt issues, and amortization of unrealized exchange gains and losses on unhedged foreign currency debt.

Comparative 2004-05 figures have been restated where necessary to conform to the 2005-06 presentation.

CONSOLIDATED FISCAL SUMMARY^a

for the nine months ended December 31, 2005 (unaudited)

(millions of dollars)

	First Nine Months		
	2005-06	2004-05	Change
Revenue			
Income taxes	6,320	5,195	1,125
Other taxes	2,493	2,408	85
Non-renewable resource revenue	10,297	7,546	2,751
Transfers from Government of Canada	2,702	2,439	263
Net income from commercial operations	1,651	1,528	123
Investment income	1,579	1,380	199
Premiums, fees and licences	1,358	1,391	(33)
Other	343	279	64
Total Revenue	26,743	22,166	4,577
Expense			
Program	18,546	16,730	1,816
Debt servicing costs	194	232	(38)
Total Expense	18,740	16,962	1,778
Net Revenue	8,003	5,204	2,799

a Includes the province's annual cash payments towards the unfunded pension liability, which will be eliminated over a longer term under a separate legislated plan. Does not include the annual change in the unfunded pension obligations, which is a non-cash expense that does not affect borrowing requirements.

EXPENSE

for the nine months ended December 31, 2005 (unaudited)

(millions of dollars)

	First Nine Months		
	2005-06	2004-05	Change
Program			
Legislative Assembly	46	54	(8)
Aboriginal Affairs and Northern Development	29	26	3
Advanced Education	1,162	1,033	129
Agriculture, Food and Rural Development	882	979	(97)
Children's Services	581	562	19
Community Development	187	149	38
Economic Development	49	39	10
Education	3,434	3,212	222
Energy	130	124	6
Environment	97	84	13
Executive Council	18	13	5
Finance	409	426	(17)
Gaming	110	78	32
Government Services	57	54	3
Health and Wellness	6,541	5,874	667
Human Resources and Employment	548	544	4
Infrastructure and Transportation	2,107	1,512	595
Innovation and Science	78	85	(7)
International and Intergovernmental Relations	7	5	2
Justice	216	207	9
Municipal Affairs	146	96	50
Restructuring and Government Efficiency	41	37	4
Seniors and Community Supports	1,143	1,018	125
Solicitor General and Public Security	291	260	31
Sustainable Resource Development	237	259	(22)
Total Program Expense	18,546	16,730	1,816
Debt Servicing Costs	194	232	(38)
Total Expense	18,740	16,962	1,778

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