

- HIGHLIGHTS**
- ◆ As a result of higher revenue and lower debt servicing costs, the economic cushion has increased to \$1.992 billion. This is prior to any allocations from the contingency reserve for in-year initiatives. As required by the *Fiscal Responsibility Act*, 75% of the cushion has been allocated to debt repayment and 25% to the contingency reserve.
 - ◆ The contingency reserve has increased to \$498 million. In this Update, \$239 million of the contingency reserve has been committed for in-year spending increases. This leaves \$259 million in the contingency reserve to address future in-year requirements.
 - ◆ Revenue is forecast to be \$1.316 billion higher than estimated in the budget. The increase is mainly due to higher resource and personal income tax revenues.
 - ◆ Program spending is forecast to increase by \$256 million over the budget estimate and the net change in capital assets is forecast to increase by \$4 million. These increases are funded through a \$239 million allocation from the contingency reserve and \$21 million of dedicated revenue. The additional spending is focussed on providing one-time funding for schools, children and health services, and to address the serious forest fire situation in northern Alberta.
 - ◆ The forecast allocation from the economic cushion for debt repayment is \$1.494 billion. As a result, the net debt has been eliminated and the province is forecast to have net assets of \$1.431 billion at March 31, 2000. Accumulated debt is also forecast to decline to \$12.396 billion at March 31, 2000.

Consolidated Fiscal Summary^a

(millions of dollars)

	1999-2000			
	Budget	1st Quarter Forecast		Change from Budget
		Before Allocation	After Allocation	
1. Revenue	16,888	18,204	18,204	1,316
2. Expense				
3. Program	15,149	15,170 ^d	15,405	256
4. Debt Servicing Costs	1,089	1,009	1,009	(80)
5. Total Expense	16,238	16,179	16,414	176
6. Net Revenue	650	2,025	1,790	1,140
7. Less: Net Increase in Capital Assets affecting Operations ^b	33	33	37	4
8. Economic Cushion	617	1,992	1,753	1,136
9. Planned Allocation of Economic Cushion:				
10. Debt Repayment	463	1,494	1,494	1,031
11. Contingency Reserve	154	498	259	105
12. Net Assets at March 31, 2000 ^c	400	1,431	1,431	1,031
13. Accumulated Debt at March 31, 2000 ^c	13,626	12,396	12,396	(1,230)

^a Subject to the *Fiscal Responsibility Act*.

^b Converts capital expense to a pay-as-you-go basis.

^c The budget numbers for net assets and accumulated debt have been adjusted to reflect actual results at March 31, 1999.

^d Includes \$21 million of expense funded by an increase in dedicated revenue.

Revenue

INCOME TAX REVENUE	Personal income tax revenue is now forecast at \$4.608 billion, up \$274 million from the budget estimate. Actual revenue for the 1998 tax year was \$141 million higher than previously reported due to higher average personal income. In addition, 1999 employment growth is now expected to be higher than estimated in Budget '99. Corporate income tax revenue has been increased by \$36 million reflecting the expected improved financial position of the energy industry.
OTHER TAXES	Other tax revenues are forecast to be \$8 million lower than the budget estimate. Fuel tax revenue is expected to be \$20 million lower than the budget estimate. The estimate has been revised because of increased tax exempt fuel use and lower than expected 1998-99 actual revenue. Freehold mineral rights tax revenue has been increased by \$12 million due to higher energy prices.
NON-RENEWABLE RESOURCE REVENUE	Energy revenue is now forecast at \$3.306 billion, up \$890 million from the budget estimate. The increase is due to higher natural gas and crude oil prices. The natural gas price forecast has been increased from \$2.02 per thousand cubic feet to \$2.39. This reflects stronger demand and declining gas supply in the United States market. The West Texas Intermediate crude oil price, which was forecast to average US\$13.50 per barrel over the fiscal year, is now expected to average US\$17.50 per barrel. The higher price is due to the strengthening of the oil market following the OPEC agreement to reduce crude oil supply.
TRANSFERS FROM GOVERNMENT OF CANADA	Transfers from the Government of Canada are expected to be \$67 million lower than the budget estimate. Revenue from the Canada Health and Social Transfer (CHST) is forecast to be \$86 million lower than the budget estimate, largely as a result of higher income tax revenues. Higher income tax revenues reduce the cash component of the CHST transfer. Increased federal transfers for Hepatitis C initiatives, crop insurance and other items partly offset the decrease.
INVESTMENT INCOME	Total investment income is forecast to increase by \$118 million from the budget estimate. Heritage Fund investment income is \$108 million higher than the budget estimate as the rates of return for both equities and bonds have been above budgeted rates. Capital gains have also been realized at a greater rate than expected for the Heritage Fund, the Heritage Foundation for Medical Research Endowment Fund and the Heritage Scholarship Fund.
NET INCOME FROM COMMERCIAL OPERATIONS	Net income from commercial operations is forecast to increase by \$43 million. Alberta Treasury Branches profit is expected to increase by \$38 million over the budget estimate. The increase is partly due to the recognition of \$20 million in deferred income on loans previously deemed impaired. In addition, loan losses are now expected to be lower than previously forecast. Lottery revenues are forecast to be \$18 million higher than the budget estimate mainly due to an increase in revenue from video lottery terminals. Revenue from liquor operations is forecast to be \$15 million below the budget estimate primarily as a result of the reduction in the flat rate mark-up on beer, effective May 1, 1999.
OTHER REVENUE	Revenue from all other sources is forecast to increase by \$30 million over the budget estimate. As a result of the implementation of recent legislation, Alberta Treasury Branches is required to pay the province a deposit guarantee fee. The fee is expected to increase revenue from premiums, fees and licences by \$18 million in 1999-2000. Revenue from timber rentals and fees is \$7 million higher than forecast and there is a net increase of \$11 million from the Alberta Dairy Control Board. Revenue from the sale of capital assets is forecast to be \$18 million below the budget estimate, because of a delay in land disposals. Miscellaneous other changes account for the balance of the increase.

Revenue

(millions of dollars)

	1999-2000		Change from Budget	Main Reason for Change from Budget
	1999-2000 Budget	1st Quarter Forecast		
Income Taxes				
Personal income tax	4,334	4,608	274	Higher income and employment
Corporate income tax	1,745	1,781	36	Higher energy prices
	<u>6,079</u>	<u>6,389</u>	<u>310</u>	
Other Taxes				
School property tax	1,145	1,145	—	
Fuel tax	570	550	(20)	Increase in tax exempt fuel use
Tobacco tax	350	350	—	
Insurance corporations tax	119	119	—	
Freehold mineral rights tax	98	110	12	Higher energy prices
Hotel room tax	45	45	—	
Financial institutions capital tax	38	38	—	
	<u>2,365</u>	<u>2,357</u>	<u>(8)</u>	
Non-Renewable Resource Revenue				
Natural gas and by-products royalty	1,695	2,275	580	Higher natural gas price
Crude oil royalty	346	598	252	Higher oil price
Synthetic crude oil and bitumen royalty	43	159	116	Higher oil price
Coal royalty	15	14	(1)	Audit adjustment
Bonuses and sales of Crown leases	430	430	—	
Rentals and fees	143	145	2	Revised forecast
Royalty tax credit	(256)	(315)	(59)	Increased oil and gas royalties
	<u>2,416</u>	<u>3,306</u>	<u>890</u>	
Transfers from Government of Canada				
Canada Health and Social Transfer	1,086	1,000	(86)	Higher income tax revenue
Canada Health and Social Transfer - health supplement	192	192	—	
Labour market development	126	126	—	
Agriculture support programs	98	105	7	Higher crop insurance premiums
Other	155	167	12	Hepatitis C initiatives
	<u>1,657</u>	<u>1,590</u>	<u>(67)</u>	
Investment Income				
Alberta Heritage Savings Trust Fund	730	838	108	Higher rates of return/capital gains
Alberta Municipal Financing Corporation	439	437	(2)	Revised forecast
Heritage Foundation for Medical Research Endowment Fund ...	67	71	4	Realized capital gains
Farm Credit Stability Program	26	26	—	
Other	121	129	8	Realized capital gains
	<u>1,383</u>	<u>1,501</u>	<u>118</u>	
Net Income from Commercial Operations				
Alberta Gaming and Liquor Commission				
Lottery revenue	770	788	18	Increased VLT revenue
Liquor operations	462	447	(15)	Lower beer mark-up
Alberta Treasury Branches	95	133	38	Lower loan losses/deferred income
Other	3	5	2	Revised forecast
	<u>1,330</u>	<u>1,373</u>	<u>43</u>	
Premiums, Fees and Licences				
Health care insurance premiums	690	692	2	Revised forecast
Motor vehicle licences	189	191	2	Volume increase
Crop and hail insurance premiums	76	77	1	Volume increase
Timber rentals and fees	73	80	7	Increased lumber prices
Land titles	67	66	(1)	Revised forecast
Other	221	240	19	ATB guarantee fee
	<u>1,316</u>	<u>1,346</u>	<u>30</u>	
Other				
Sale of capital assets	65	47	(18)	Delay in land disposals
Alberta Dairy Control Board	49	60	11	Increased milk production
Fines and penalties	27	28	1	Volume increase
Miscellaneous	201	207	6	Refund of pension payments
	<u>342</u>	<u>342</u>	<u>—</u>	
Total Revenue	<u>16,888</u>	<u>18,204</u>	<u>1,316</u>	

Expense

PROGRAM EXPENSE

Learning spending is forecast to increase by \$141 million over the budget estimate. One-time grants of about \$300 per student will be provided to every school board at a cost of \$151 million. The funding will enable school boards to pay off accumulated deficits and address other pressing local one-time spending priorities. As previously announced, the caps on funding for students with severe emotional behavioural disabilities and for English as a second language will be removed at a cost of \$16 million. In addition, school boards now will receive monthly rather than quarterly payments from the Alberta School Foundation Fund. Partly offsetting these increases are savings of about \$30 million from expected lower than budgeted school enrolment.

Environment spending is forecast to be \$80 million over the budget estimate. The increase is due entirely to the increased cost of fighting forest fires in northern Alberta. The region has experienced an usually large number of fires because of prolonged and extreme drought conditions and lightning strikes.

Health and Wellness spending is forecast to increase by \$20 million. As announced on July 8, \$10 million is to be provided to the regional boards for persons with developmental disabilities to address unanticipated growth in client numbers. Also, \$4 million is being provided to the Canadian Blood Services due to the increased utilization and cost of fractionated blood products. An additional \$7 million, fully offset by federal funding, is to be provided for new Hepatitis C initiatives.

Children's Services spending is forecast to exceed the budget estimate by \$13 million. This increase supports transitional costs of the new Child and Family Services Authorities in their first year of operation and has been included in their approved budgets and 1999-2000 business plans.

Justice spending is forecast to increase by \$6 million over the budget estimate to allow for improvements in court services.

Agriculture, Food and Rural Development spending is forecast to exceed the budget estimate by \$6 million. Increased milk production has resulted in higher revenue and expenses for the Alberta Dairy Control Board. Savings in other ministry program areas are being used to fund capital improvements in Agriculture Financial Services Corporation's computer systems.

Treasury spending is forecast to be \$10 million below the budget estimate. A recent actuarial valuation shows that the Public Service Pension Plan (PSPP) has eliminated its unfunded liability as of December 31, 1998. Budgeted payments of \$12 million on the previously estimated liabilities will not be required. In addition, payments of \$3 million made from January to March of 1999 will be refunded. This is reflected in the revised revenue forecast.

DEBT SERVICING COSTS

Debt servicing costs are forecast to be \$80 million lower than the budget estimate. The lower forecast reflects a reduction in the foreign exchange provision on unhedged United States dollar debt due to the forecast rise in the Canadian exchange rate. Higher-than-anticipated debt repayments in 1998-99 and 1999-2000 also contribute to lower debt costs. This is partly offset by an upward trend in interest rates.

Expense

(millions of dollars)

Program	1999-2000		Change from Budget
	Budget ^a	1st Quarter Forecast	
Legislative Assembly	41	41	—
Agriculture, Food and Rural Development	558	564	6
Children's Services	449	462	13
Community Development	320	319	(1)
Economic Development	50	50	—
Environment	318	398	80
Executive Council	13	13	—
Gaming	179	179	—
Government Services	41	41	—
Health and Wellness	5,172	5,192	20
Human Resources and Employment	1,008	1,004	(4)
Infrastructure	1,109	1,109	—
Innovation and Science	140	142	2
International and Intergovernmental Relations	34	35	1
Justice	405	411	6
Learning	4,299	4,440	141
Municipal Affairs	213	214	1
Resource Development	138	139	1
Treasury	662	652	(10)
Total Program Expense	<u>15,149</u>	<u>15,405</u>	<u>256</u>
Debt Servicing Costs	1,089	1,009	(80)
Total Expense	<u>16,238</u>	<u>16,414</u>	<u>176</u>

^a Budget numbers have been restated to reflect government reorganization announced in May 1999.

Net Change in Capital Assets

The net change in capital assets affecting operations is forecast to increase by \$4 million. Capital investment is forecast to increase by \$2 million over the budget estimate.

Agriculture, Food and Rural Development is using cost reductions in program spending to make \$4 million available for Agriculture Financial Services Corporation's computer systems. Savings in other ministries will partly offset the increase. Capital amortization is now forecast at \$240 million, down \$2 million from the budget estimate.

Net Change in Capital Assets

(millions of dollars)

	1999-2000		
	Budget	1st Quarter Forecast	Change from Budget
Capital Investment	275	277	2
Capital Amortization	(242)	(240)	2
Net Increase in Capital Assets affecting Operations	<u>33</u>	<u>37</u>	<u>4</u>

Capital Investment and Amortization

(millions of dollars)

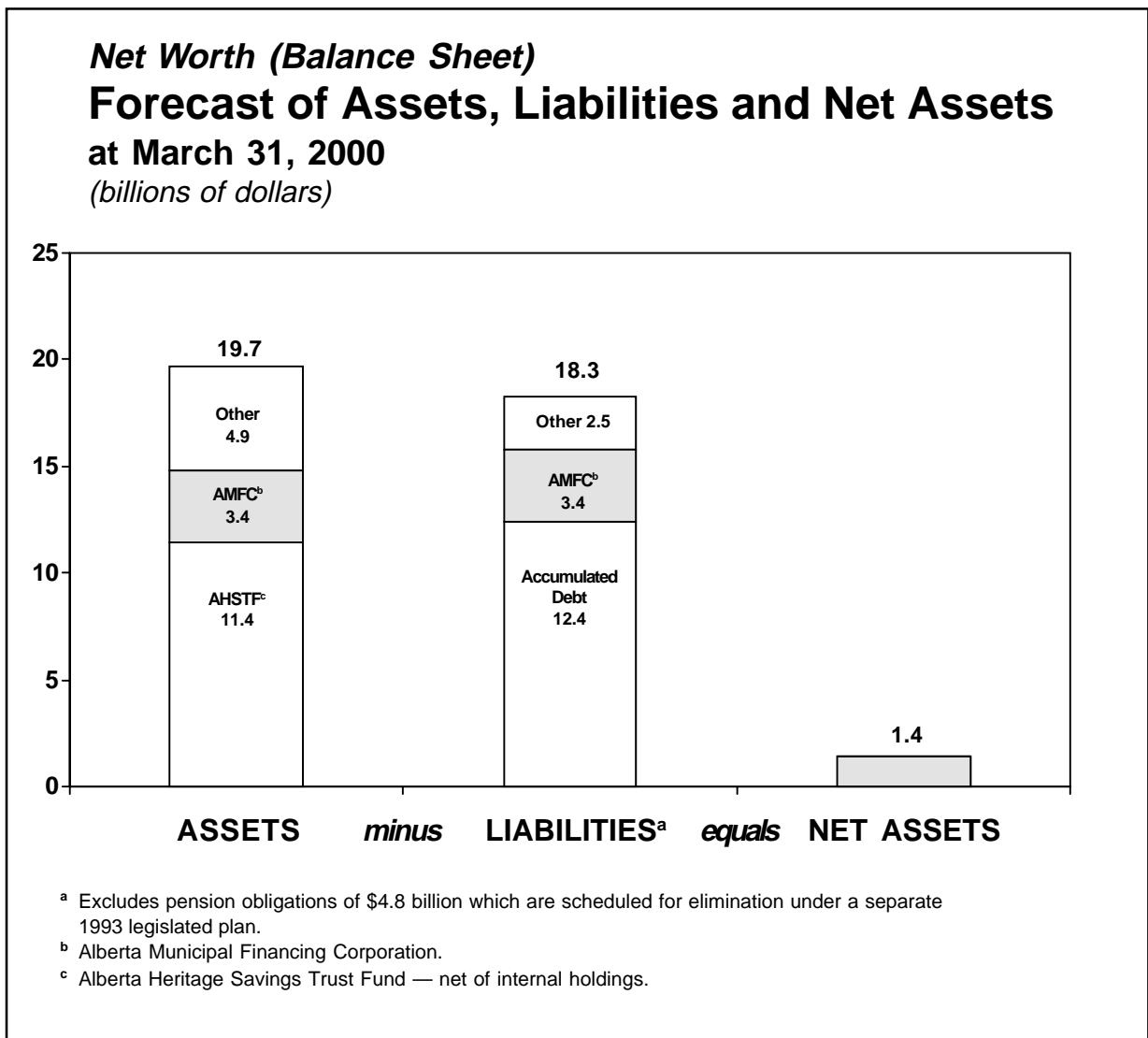
	Capital Investment			Capital Amortization		
	Budget ^a	1st Quarter Forecast	Change from Budget	Budget ^a	1st Quarter Forecast	Change from Budget
Legislative Assembly	—	—	—	—	—	—
Agriculture, Food and Rural Development	5	9	4	(7)	(7)	—
Children's Services	—	—	—	—	—	—
Community Development	1	1	—	(1)	—	1
Economic Development	—	—	—	—	—	—
Environment	8	7	(1)	(26)	(26)	—
Executive Council	—	—	—	—	—	—
Gaming	—	—	—	—	—	—
Government Services	2	3	1	(3)	(3)	—
Health and Wellness	1	1	—	(1)	(1)	—
Human Resources and Employment	7	7	—	(3)	(3)	—
Infrastructure	219	219	—	(152)	(152)	—
Innovation and Science	11	11	—	(13)	(13)	—
International and Intergovernmental Relations	—	—	—	—	—	—
Justice	3	3	—	(1)	(1)	—
Learning	4	2	(2)	(1)	(1)	—
Municipal Affairs	2	2	—	(25)	(25)	—
Resource Development	4	4	—	(6)	(6)	—
Treasury	8	8	—	(3)	(2)	1
Total Capital Investment/Amortization	<u>275</u>	<u>277</u>	<u>2</u>	<u>(242)</u>	<u>(240)</u>	<u>2</u>

^a Budget numbers have been restated to reflect government reorganization announced in May 1999.

Assets and Liabilities

The net debt subject to the *Balanced Budget and Debt Retirement Act* has been eliminated. Provincial financial assets now exceed liabilities. At March 31, 2000, assets are forecast at \$19.7 billion. Total liabilities (excluding pension obligations) are forecast at \$18.3 billion, resulting in net assets of about \$1.4 billion.

The province's accumulated debt on which the province pays debt servicing costs is forecast at approximately \$12.4 billion at March 31, 2000. The *Fiscal Responsibility Act* sets out a schedule to eliminate the accumulated debt over a maximum of 25 years.



Sensitivities and Fiscal Year Assumptions, 1999-2000

	Sensitivities ^a (\$ millions)				Assumptions	
	Change	Revenue	Spending	Net Change	Budget	1st Quarter Forecast
Oil Price (WTI US\$/bbl)	-\$1.00	-135	—	-135	13.50	17.50
Natural Gas Price (Cdn\$/mcf)	-10¢	-167	—	-167	2.02	2.39
Exchange Rate (US¢/Cdn\$)	+1¢	-63	-35	-28	66.80	68.70
Interest Rates	+1%	+5	+28	-23		
3-month Canada Treasury Bills					4.75	4.85
10-year Canada Bonds					5.25	5.65

^a Sensitivities are based on current forecast prices and rates and show the impact for a full 12 month period. Sensitivities can vary significantly at different price and rate levels. The interest rate sensitivity is also affected by the timing of changes during the fiscal year.

Accumulated Debt Repayment

(millions of dollars)

	1999-2000		
	Budget	1st Quarter Forecast	Change from Budget
Accumulated debt at the start of the year^a	14,106	14,106	—
Revenue allocated to debt repayment	463	1,494	1,031
Cash Sources (Requirements)			
Retained surpluses of provincial corporations	(155)	(193)	(38)
Repayment of Farm Credit Stability Program deposits	100	125	25
Other	72	284	212
Accumulated Debt Repayment	480	1,710	1,230
Accumulated debt at the end of the year	<u>13,626</u>	<u>12,396</u>	<u>(1,230)</u>

^a Accumulated debt has been restated to reflect the March 31, 1999 actual number.

Net Refinancing Requirements

(millions of dollars)

	1999-2000		
	Budget	1st Quarter Forecast	Change from Budget
Term debt maturities and redemptions	2,480	2,544	64
Accumulated Debt Repayment	(480)	(1,710)	(1,230)
General Revenue Fund Cash Requirements (Sources)			
Decrease (Increase) in accrued foreign exchange provisions	(80)	(20)	60
Repayment of school board loans	102	102	—
Financing of provincial corporations' borrowing	225	225	—
Net Refinancing Requirements	<u>2,247</u>	<u>1,141</u>	<u>(1,106)</u>

THREE MONTH ACTUAL RESULTS

**METHOD OF
CONSOLIDATION**

This financial summary is prepared on the same basis as used in Budget '99, restated for the May 1999 government reorganization.

Consistent with the policy that capital assets are not included in the province's financial assets, losses on disposal and write-downs of capital assets do not affect revenues, expenses or the net results of operations for the period.

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 an equity basis, the equity being computed in accordance with generally accepted accounting principles.

**BASIS OF
FINANCIAL
REPORTING**

The consolidated fiscal summary reports revenue (including proceeds from sale of capital assets), expense (including amortization of capital assets), and net revenue. The annual change in unfunded pension obligations has been excluded from expense. The intermediate result of operations (net revenue) is then adjusted for the difference between capital investment and capital asset amortization. The final result is the consolidated net results of operations subject to the *Fiscal Responsibility Act*.

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.

In May 1999, the government announced a major reorganization involving the creation of new ministries and the elimination, merger and the realignment of others. Comparative 1998-99 figures have been restated to conform to the restructured 1999-2000 presentation.

Consolidated Fiscal Summary^a

for the Three Months ended June 30, 1999 (unaudited)

(millions of dollars)

	First Three Months		Change
	1999-2000	1998-99	
Revenue			
Income Taxes	1,445	1,478	(33)
Other Taxes	544	518	26
Non-Renewable Resource Revenue	709	578	131
Investment Income	434	478	(44)
Transfers from Government of Canada	504	271	233
Premiums, Fees and Licences	431	390	41
Net Income from Commercial Operations	344	329	15
Other	67	69	(2)
Total Revenue	<u>4,478</u>	<u>4,111</u>	<u>367</u>
Expense			
Program	3,793	3,576	217
Debt Servicing Costs	243	314	(71)
Total Expense	<u>4,036</u>	<u>3,890</u>	<u>146</u>
Net Revenue	442	221	221
Net Change in Capital Assets affecting Operations ^b	(12)	(12)	—
Net Results of Operations	<u>454</u>	<u>233</u>	<u>221</u>

^a Subject to the *Fiscal Responsibility Act*. 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.

^b Converts capital expense to a pay-as-you-go basis for the purposes of the consolidated net results of operations.

Expense

for the Three Months ended June 30, 1999 (unaudited)

(millions of dollars)

Program	First Three Months		Change
	1999-2000	1998-99	
Legislative Assembly	10	9	1
Agriculture, Food and Rural Development	82	92	(10)
Children's Services	118	98	20
Community Development	84	74	10
Economic Development	8	7	1
Environment	128	130	(2)
Executive Council	3	3	—
Gaming	42	16	26
Government Services	10	10	—
Health and Wellness	1,235	1,179	56
Human Resources and Employment	271	247	24
Infrastructure	365	168	197
Innovation and Science	32	34	(2)
International and Intergovernmental Relations	24	25	(1)
Justice	102	80	22
Learning	1,009	1,117	(108)
Municipal Affairs	64	64	—
Resource Development	29	26	3
Treasury	177	197	(20)
	<u>3,793</u>	<u>3,576</u>	<u>217</u>
Debt Servicing Costs	<u>243</u>	<u>314</u>	<u>(71)</u>
Total Expense	<u>4,036</u>	<u>3,890</u>	<u>146</u>

Net Change in Capital Assets affecting Operations

for the Three Months ended June 30, 1999 (unaudited)

(millions of dollars)

Capital Investment	First Three Months		Change
	1999-2000	1998-99	
Legislative Assembly	—	—	—
Agriculture, Food and Rural Development	2	1	1
Children's Services	—	—	—
Community Development	—	—	—
Economic Development	—	—	—
Environment	1	—	1
Executive Council	—	—	—
Gaming	—	—	—
Government Services	—	—	—
Health and Wellness	—	—	—
Human Resources and Employment	—	—	—
Infrastructure	37	37	—
Innovation and Science	3	2	1
International and Intergovernmental Relations	—	—	—
Justice	1	—	1
Learning	—	—	—
Municipal Affairs	—	—	—
Resource Development	—	1	(1)
Treasury	1	1	—
	45	42	3
Less: Capital Amortization Reversal	57	54	3
Net Change in Capital Assets affecting Operations	(12)	(12)	—