

SECOND QUARTER UPDATE

- HIGHLIGHTS**
- ◆ The 1997-98 surplus is now forecast at \$2.038 billion. This is \$1.884 billion above the budget estimate. The improvement from the budget estimate is primarily due to higher resource and tax revenues and the inclusion of \$590 million revenue cushion in the surplus.
 - ◆ Total expense is expected to be \$68 million below the budget estimate. Higher program spending of \$57 million has been more than offset by a \$125 million reduction in debt servicing costs.
 - ◆ Net debt subject to the Balanced Budget and Debt Retirement Act is now forecast at \$1.658 billion as at March 31, 1998.

Consolidated Fiscal Summary^a

(millions of dollars)

		1997-98			
		Budget ^b	2nd Quarter Forecast	Change from Budget	Change from 1st Quarter
Revenue					
1	Forecast	15,199	16,435	1,236	821
2	Cushion	(590)	—	590	590
3	Budgeted Revenue ^c	<u>14,609</u>	<u>16,435</u>	<u>1,826</u>	<u>1,411</u>
Expense					
4	Program	13,333	13,390	57	(2)
5	Debt Servicing Costs	1,125	1,000	(125)	(58)
6	Total Expense	<u>14,458</u>	<u>14,390</u>	<u>(68)</u>	<u>(60)</u>
7	Net Revenue	151	2,045	1,894	1,471
8	Net Decrease (Increase) in Capital Assets affecting Operations ^d	3	(7)	(10)	(8)
9	Consolidated Surplus	<u>154</u>	<u>2,038</u>	<u>1,884</u>	<u>1,463</u>
10	Net Debt subject to Balanced Budget and Debt Retirement Act at March 31, 1998 (forecast)^e	3,246	1,658	(1,588)	(1,167)

^a Subject to the Balanced Budget and Debt Retirement Act. Includes the province's annual cash payments towards the unfunded pension obligations which will be eliminated over the long term through additional contributions. Does not include the forecast increase of \$14 million in unfunded pension obligations which is a non-cash expense that does not affect borrowing.

^b Budget numbers have been restated to reflect the consolidation of Alberta Municipal Financing Corporation (AMFC) on a line-by-line basis, as recommended by the Auditor General. In the 1997-98 Budget, AMFC was consolidated on a net equity basis.

^c As required by the Balanced Budget and Debt Retirement Act, budgeted revenue excludes a revenue cushion.

^d Converts operating expense to a pay-as-you-go basis for capital for the purposes of the consolidated surplus.

^e Net debt calculation has been adjusted to reflect actual net debt at March 31, 1997 of \$3.696 billion. The budget assumed a net debt payment of \$450 million from the budgeted surplus and the revenue cushion in 1997-98.

Revenue

INCOME TAX REVENUE	Personal income tax revenue is forecast at \$3.794 billion. The \$268 million increase from the budget estimate is due to higher than expected employment growth and \$111 million in prior year adjustments. Corporate income tax revenue is up \$169 million from the budget estimate to \$1.605 billion due to continued strong growth of the Alberta economy.
OTHER TAX REVENUE	The forecast of other tax revenue is \$91 million above the budget estimate. Fuel tax revenue has been increased by \$37 million due to strong economic growth. Revenue from tobacco taxes is expected to be \$25 million higher than the budget estimate due to increased sales. As reported in the First Quarter Update, the share of the total school property tax received by the province's Alberta School Foundation Fund (ASFF) is up \$13 million from the budget estimate while the opted-out school boards' share is down by an equivalent amount. Grants to opted-out school boards have been increased by \$13 million to offset their decline in revenue.
NON-RENEWABLE RESOURCE REVENUE	Energy revenue is forecast at \$3.457 billion, an increase of \$741 million from the budget estimate. Revenue from bonuses and sales of Crown leases is up \$400 million due to continued strong sales. Higher oil and natural gas prices and a lower Canadian/US exchange rate have contributed to higher royalties. West Texas Intermediate crude oil prices are now forecast to average US\$19.43 per barrel, compared to US\$18.50 forecast in the budget. The natural gas price forecast has been revised upwards from \$1.55 per thousand cubic feet (mcf) in the budget to \$1.70 to reflect a stronger export price and a slightly higher price in Alberta. The Canadian/US exchange rate forecast has been lowered from 75 cents to 73.5 cents. Payments to industry under the Alberta Royalty Tax Credit program are down \$46 million from the budget estimate due to higher oil and gas prices.
TRANSFERS FROM GOVERNMENT OF CANADA	Transfers from the Government of Canada are expected to be \$143 million lower than the budget estimate. The transfer of federal labour market programs to provincial administration has been delayed until November 1997. As a result of this delay and lower than expected demand, there is a \$92 million reduction in provincial revenue and program expense. Revenue from the Canada Health and Social Transfer (CHST) is down by \$67 million from the budget. Higher personal and corporate income tax revenues reduce the CHST cash transfer. As reported in the First Quarter Update, federal transfer payments for agriculture support programs are down by \$27 million. This is due to the federal government's decision to allocate funds from shared-cost programs to the Net Income Stabilization Account, in which the Alberta government no longer participates. Partly offsetting these reductions are increased federal payments for rehabilitation services for disabled persons and disaster assistance.
OTHER REVENUE SOURCES	Total revenue from other sources is \$110 million higher than the budget estimate. Alberta Heritage Savings Trust Fund income is up by \$17 million. Higher returns and realized capital gains are partly offset by a reversal of interest income related to the Alberta Pacific Pulp Mill project loan. A \$114 million provision to reflect the current value of the loan is included under Treasury expenses. Timber rentals and fees are up by \$28 million owing to higher prices. Treasury Branches Deposits Fund income is up by \$18 million due to increased interest income and decreased provisions for credit losses. A number of other smaller changes account for the remainder of the increase.

Revenue

(millions of dollars)

	1997-98				Main Reason for Change from Budget
	Budget ^a	2nd Quarter Forecast	Change from Budget	Change from 1st Quarter	
Income Taxes					
Personal income tax	3,526	3,794	268	235	Strong employment growth
Corporate income tax	1,436	1,605	169	152	Strong economic growth
	<u>4,962</u>	<u>5,399</u>	<u>437</u>	<u>387</u>	
Other Taxes					
School property tax	1,169	1,182	13	—	Shift from opted-out boards to ASFF
Fuel tax	528	565	37	15	Strong economic growth
Tobacco tax	315	340	25	20	Higher sales
Insurance corporations tax	103	108	5	—	Industry revenue growth
Freehold mineral rights tax	106	111	5	5	Higher oil and gas prices
Financial institutions capital tax	37	39	2	—	Increase in bank assets
Hotel room tax	35	39	4	2	Increased tourism
	<u>2,293</u>	<u>2,384</u>	<u>91</u>	<u>42</u>	
Non-Renewable Resource Revenue					
Natural gas and by-products royalty	1,245	1,368	123	151	Higher prices
Crude oil royalty	854	1,036	182	154	Higher prices/lower exchange rate
Synthetic crude oil and bitumen royalty	244	222	(22)	—	Lower heavy oil price
Coal royalty	20	17	(3)	—	Higher capital spending
Bonuses and sales of Crown leases	500	900	400	100	Strong year-to-date sales
Rentals and fees	123	138	15	3	Higher land sales
Royalty tax credit	(270)	(224)	46	46	Higher energy prices
	<u>2,716</u>	<u>3,457</u>	<u>741</u>	<u>454</u>	
Transfers from Government of Canada					
Canada health and social transfer	981	914	(67)	(21)	Higher income tax revenue
Agriculture support programs	118	91	(27)	—	Federal reallocation of funds
Labour market development	107	15	(92)	(92)	Delay in transfer of program
Other	62	105	43	7	Rehabilitation/disaster assistance
	<u>1,268</u>	<u>1,125</u>	<u>(143)</u>	<u>(106)</u>	
Investment Income					
Heritage Fund	701	718	17	(17)	Realized capital gains/higher returns
Alberta Municipal Financing Corporation	497	510	13	—	Accounting change
Farm credit stability program	70	61	(9)	—	Faster loan repayments
Heritage Foundation for Medical Research Endowment Fund	63	75	12	12	Realized capital gains/higher returns
Other	135	132	(3)	(3)	Miscellaneous changes
	<u>1,466</u>	<u>1,496</u>	<u>30</u>	<u>(8)</u>	
Premiums, Fees and Licences					
Health care insurance premiums	608	608	—	—	
Motor vehicle licences	166	173	7	1	Increased volume
Crop and hail insurance premiums	86	76	(10)	(3)	Lower participation rates
Timber rentals and fees	54	82	28	12	Higher than expected timber prices
Land titles	45	50	5	2	Increased volume
Other	201	207	6	10	Miscellaneous changes
	<u>1,160</u>	<u>1,196</u>	<u>36</u>	<u>22</u>	
Net Income from Commercial Operations					
Alberta Gaming and Liquor Commission	363	363	—	—	
Treasury Branches Deposits Fund	17	35	18	21	Higher income/lower loss provision
Other	6	11	5	2	Miscellaneous changes
	<u>386</u>	<u>409</u>	<u>23</u>	<u>23</u>	
Other Revenue					
Lottery Fund revenue	653	653	—	—	
Sale of capital assets	29	35	6	—	Increase in sales
Fines and penalties	27	26	(1)	—	Revised forecast
Miscellaneous	239	255	16	7	Miscellaneous changes
	<u>948</u>	<u>969</u>	<u>21</u>	<u>7</u>	
Forecast Revenue	<u>15,199</u>	<u>16,435</u>	<u>1,236</u>	<u>821</u>	
Revenue Cushion	<u>(590)</u>	<u>—</u>	<u>590</u>	<u>590</u>	
Budgeted Revenue	<u>14,609</u>	<u>16,435</u>	<u>1,826</u>	<u>1,411</u>	

^a Budget numbers have been restated to reflect the change in the consolidation of Alberta Municipal Financing Corporation from a net equity basis to a line-by-line basis.

Expense

PROGRAM EXPENSE **Advanced Education and Career Development** spending is \$105 million lower than budgeted. Under the Canada-Alberta Labour Market Development Agreement, the federal government agreed to transfer to the Alberta government the responsibility and the funding for labour market programs starting on April 1997. However, the federal government continued to provide directly the labour market training programs in Alberta until November 1997. This delay and lower than expected demand result in a \$92 million reduction in federal transfers to the provincial government and a similar reduction in program spending. The remaining net decrease of \$13 million is related to a reduction in Alberta Vocational Colleges cost recovery programs and a decrease in the number of students requesting financial assistance for adult upgrading programs.

Agriculture, Food and Rural Development is expected to be \$54 million under budget mainly due to lower indemnities for crop losses and lower payments under the Farm Income Disaster program.

Municipal Affairs is \$18 million under budget. Grants in place of taxes are lower due to both the sale and re-assessment of Crown properties. The Alberta Social Housing Corporation expenses have been reduced mainly due to lower than anticipated losses on guarantees and indemnities and a reduction in the allowance for losses on land sales.

Education spending is being increased by \$47 million from the budget. In the First Quarter Update, spending was increased by \$31 million to accommodate higher enrolment growth and higher incidence rates for severely disabled students; to offset a decline in opted-out school boards' property taxes; and for teachers' pensions. In the Second Quarter Update, spending is being increased by an additional \$16 million. An increase in the average number of credit enrolment units per high school student will cost \$12 million. An additional \$2 million is being provided for students with severe disabilities. The province is also making an early repayment of some school construction debentures resulting in a \$2 million interest penalty cost in 1997-98. The early repayment will yield future interest savings substantially exceeding prepayment penalty.

As reported in the First Quarter Update, responsibility for **Environmental Protection's** Forest Resource Improvement Program (FRIP) is being assigned to an industry Delegated Administrative Organization (DAO). The accumulated surplus from the FRIP account is being transferred to the DAO and is being recorded as a \$33 million expense.

Transportation and Utilities spending is up \$28 million from the budget mainly due to the Northern and North Central Alberta Disaster Recovery programs. This cost is partly offset by a \$16 million federal transfer payment for disaster assistance.

Treasury spending is \$130 million higher than budgeted. A \$114 million provision has been made on the Alberta Pacific Pulp Mill project loan to reflect the current value of the loan. As noted in the First Quarter Update, an accounting change increased the revenue and expense of the Alberta Municipal Financing Corporation by \$13 million.

DEBT SERVICING COSTS **Debt Servicing Costs** are down \$125 million from the budget estimate as a result of larger than expected surpluses in 1996-97 and 1997-98 and lower interest rates. Interest rates are expected to be approximately 1% below the rates assumed in the budget.

Expense

(millions of dollars)

	1997-98			
	Budget ^a	2nd Quarter Forecast	Change from Budget	Change from 1st Quarter
Program				
Legislative Assembly	40	37	(3)	—
Advanced Education and Career Development	1,277	1,172	(105)	(105)
Agriculture, Food and Rural Development	462	408	(54)	(36)
Community Development	308	311	3	—
Economic Development	175	175	—	1
Education	2,822	2,869	47	16
Energy	126	125	(1)	(4)
Environmental Protection	311	344	33	—
Executive Council	13	13	—	—
Family and Social Services	1,357	1,357	—	—
Health	3,958	3,958	—	—
Intergovernmental and Aboriginal Affairs	37	37	—	—
Justice	369	367	(2)	(2)
Labour	33	33	—	—
Municipal Affairs	268	250	(18)	(13)
Public Works, Supply and Services	464	466	2	4
Science, Research and Information Technology	56	53	(3)	—
Transportation and Utilities	548	576	28	11
Treasury	816	946	130	123
Consolidation adjustments	(107)	(107)	—	3
Consolidated Program Expense	<u>13,333</u>	<u>13,390</u>	<u>57</u>	<u>(2)</u>
Debt Servicing Costs				
Gross debt servicing costs	1,288	1,158	(130)	(58)
Consolidation adjustments	(163)	(158)	5	—
Consolidated Debt Servicing Costs	<u>1,125</u>	<u>1,000</u>	<u>(125)</u>	<u>(58)</u>
Total Consolidated Expense	<u>14,458</u>	<u>14,390</u>	<u>(68)</u>	<u>(60)</u>

^a Budget numbers have been restated to reflect the change in the consolidation of Alberta Municipal Financing Corporation from a net equity basis to a line-by-line basis.

Net Change in Capital Assets

The net increase in capital assets affecting operations is forecast to be \$10 million higher than the budget estimate. Capital investment is \$2 million higher than the budget estimate. Capital amortization costs have been reduced by \$8 million because of a lower capital asset base.

Net Change in Capital Assets

(millions of dollars)

	1997-98			
	Budget	2nd Quarter Forecast	Change from Budget	Change from 1st Quarter
Capital Investment	238	240	2	1
Less: Capital Amortization	<u>241</u>	<u>233</u>	<u>(8)</u>	<u>(7)</u>
Net Increase (Decrease) in Capital Assets affecting Operations	<u>(3)</u>	<u>7</u>	<u>10</u>	<u>8</u>

Capital Investment and Amortization

(millions of dollars)

	Capital Investment			Capital Amortization		
	Budget	2nd Quarter Forecast	Change from Budget	Budget	2nd Quarter Forecast	Change from Budget
Legislative Assembly	—	—	—	—	—	—
Advanced Education and Career Development	2	2	—	1	1	—
Agriculture, Food and Rural Development	2	3	1	5	5	—
Community Development	1	1	—	1	1	—
Economic Development	—	—	—	1	1	—
Education	2	2	—	1	1	—
Energy	4	3	(1)	8	6	(2)
Environmental Protection	7	7	—	29	29	—
Executive Council	—	—	—	—	—	—
Family and Social Services	—	—	—	5	5	—
Health	5	5	—	1	1	—
Intergovernmental and Aboriginal Affairs	—	—	—	—	—	—
Justice	2	2	—	1	1	—
Labour	—	—	—	—	—	—
Municipal Affairs	5	5	—	27	27	—
Public Works, Supply and Services	66	66	—	60	59	(1)
Science, Research and Information Technology	3	2	(1)	3	3	—
Transportation and Utilities	137	139	2	96	92	(4)
Treasury	<u>2</u>	<u>3</u>	<u>1</u>	<u>2</u>	<u>1</u>	<u>(1)</u>
Total Capital Investment/Amortization	<u>238</u>	<u>240</u>	<u>2</u>	<u>241</u>	<u>233</u>	<u>(8)</u>

Liabilities, Assets and Net Debt

The net debt subject to the Balanced Budget and Debt Retirement Act is forecast to be \$1.658 billion as at March 31, 1998. Total liabilities (excluding pension obligations) will be approximately \$21.6 billion. This is mostly offset by \$19.9 billion in financial assets. Debt servicing costs are based on the province's unmatured debt, forecast at approximately \$14.3 billion at March 31, 1998. The province will still have unmatured debt and debt servicing costs after the net debt is eliminated.

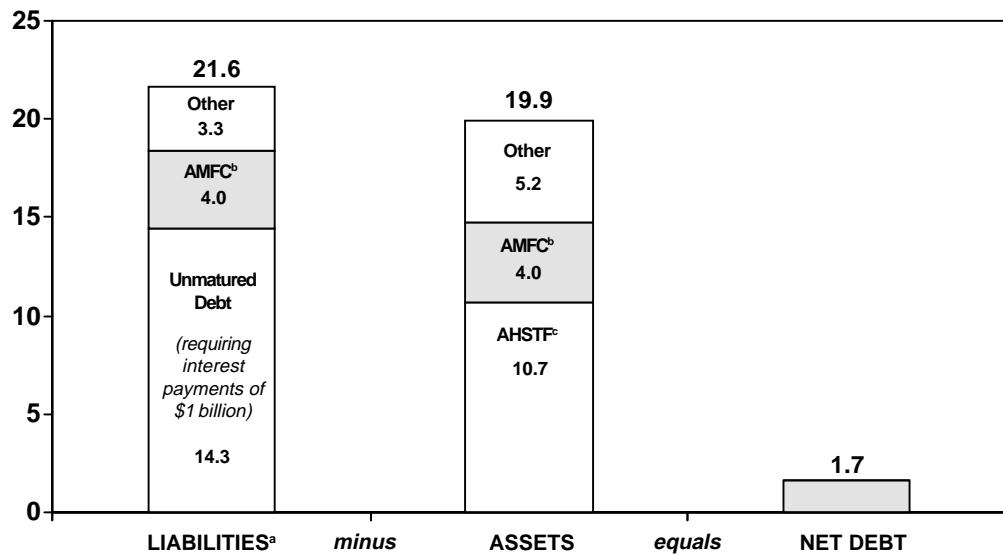
\$157 million of the surplus will be used to inflation proof the Heritage Fund. The Heritage Fund also will be reducing its investment in provincial Crown corporations and reinvesting in external assets starting in 1997-98. It is expected that some of the Alberta Social Housing Corporation's debt issued to the Heritage Fund will be refinanced in 1997-98. The government is also making a \$70 million early repayment of school construction debentures.

Net Worth (Balance Sheet)

Forecast of Liabilities and Offsetting Assets

at March 31, 1998

(billions of dollars)



^a Excludes pension obligations of \$5 billion which are scheduled for elimination under a separate 1993 legislated plan.

^b Alberta Municipal Financing Corporation.

^c Alberta Heritage Savings Trust Fund — net of internal holdings.

Borrowing Requirements

(millions of dollars)

	1997-98			
	Budget	2nd Quarter Forecast	Change from Budget	Change from 1st Quarter
Targeted net debt repayment	(450)	(2,038)	(1,588)	(1,167)
Add:				
Retained surpluses of other funds and agencies	72	201	129	129
Non-budgetary transactions				
Provincial corporations' borrowing requirements	66	425	359	376
Funding of school board loan repayments to AMFC	118	188	70	70
Inflation proofing of Alberta Heritage Savings Trust Fund	—	157	157	—
Other adjustments to cash	307	320	13	61
Less:				
Foreign exchange valuation	(5)	(5)	—	—
Repayments of farm credit and small business program deposits	(152)	(252)	(100)	(25)
Cash Receipts	(44)	(1004)	(960)	(556)
Term Debt Maturities and Redemptions	3,211	3,206	(5)	(24)
Total Direct Borrowing Requirements	3,167	2,202	(965)	(580)

Sensitivities and Fiscal Year Assumptions, 1997-98

	Sensitivities ^a (\$ millions)				Assumptions	
	Change	Revenue	Spending	Surplus	Budget	2nd Quarter Forecast
Oil Price (WTI US\$/bbl)	-\$1.00	-170	—	-170	18.50	19.43
Natural Gas Price (Cdn\$/mcf)	-10¢	-152	—	-152	1.55	1.70
Exchange Rate (US¢/Cdn\$)	+1¢	-34	-29	-5	75.0	73.5
Interest Rates	+1%	+9	+27	-18		
3-month Canada Treasury Bills					4.30	3.23
10-year Canada Bonds					7.00	6.06

^a Sensitivities are based on current 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.

SIX MONTH CASH FLOW STATEMENT

**METHOD OF
CONSOLIDATION**

This financial summary is prepared on the same basis as used in Budget '97 except that the results of Alberta Municipal Financing Corporation are now consolidated on a line-by-line basis. 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 surplus 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.

Comparative 1996-97 figures have been restated to conform to the 1997-98 presentation.

**BASIS OF
FINANCIAL
REPORTING**

The consolidated fiscal summary reports revenues (including proceeds from sale of capital assets), expenses (including amortization of capital assets), and net revenue. The annual change in pension obligations has been excluded from expenses. 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 surplus subject to the Balanced Budget and Debt Retirement Act.

Expenses include the province's annual cash payments towards the unfunded pension obligations which will be eliminated over a longer term through additional contributions. Expenses do not include the annual change in the unfunded obligations, forecast to increase by \$14 million in 1997-98, which is a non-cash expense that does not affect borrowing requirements.

Revenues are recorded on a cash basis, except for investment income which is recorded on an accrual basis. Expenses are recorded on a cash basis, except for debt servicing costs and provision for loan losses of provincial funds and agencies, which are recorded on an accrual basis. 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.

Consolidated Fiscal Summary^a
for the Six Months ended September 30, 1997 (unaudited)
(millions of dollars)

	<u>First Six Months</u>		Change
	1997-98	1996-97	
Revenues			
Income Taxes	2,426	2,124	302
Other Taxes	1,142	1,044	98
Non-Renewable Resource Revenue	2,081	1,818	263
Transfers from Government of Canada	546	683	(137)
Investment Income	870	767	103
Premiums, Fees and Licences	677	658	19
Net Income from Commercial Operations	233	204	29
Other	471	491	(20)
Total Revenues	<u>8,446</u>	<u>7,789</u>	<u>657</u>
Expenses			
Program	6,741	6,330	411
Debt Servicing Costs	547	640	(93)
Total Expenses	<u>7,288</u>	<u>6,970</u>	<u>318</u>
Net Revenue	1,158	819	339
Net Decrease in Capital Assets affecting Operations ^b	21	51	(30)
Consolidated Surplus	<u>1,179</u>	<u>870</u>	<u>309</u>

^a Subject to the Balanced Budget and Debt Retirement Act. Includes the province's annual cash payments towards the unfunded pension obligations which will be eliminated over a longer term through additional contributions. Does not include the forecast increase of \$14 million in unfunded pension obligations which is a non-cash expense that does not affect borrowing requirements.

^b Converts operating expenses to a pay-as-you-go basis for capital for the purposes of the consolidated surplus.

Expenses

for the Six Months ended September 30, 1997 (unaudited)

(millions of dollars)

	First Six Months		Change
	1997-98	1996-97	
Program			
Legislative Assembly	17	10	7
Advanced Education and Career Development	508	503	5
Agriculture, Food and Rural Development	156	161	(5)
Community Development	158	146	12
Economic Development	70	75	(5)
Education	1,416	1,324	92
Energy	54	48	6
Environmental Protection	173	137	36
Executive Council	6	7	(1)
Family and Social Services	722	710	12
Health	2,196	2,053	143
Intergovernmental and Aboriginal Affairs	19	39	(20)
Justice	152	135	17
Labour	13	13	—
Municipal Affairs	125	111	14
Public Works, Supply and Services	205	196	9
Science, Research and Information Technology	21	21	—
Transportation and Utilities	264	294	(30)
Treasury	519	394	125
Consolidation adjustments	(53)	(47)	(6)
	<u>6,741</u>	<u>6,330</u>	<u>411</u>
Debt Servicing Costs	547	640	(93)
Total Expenses	<u><u>7,288</u></u>	<u><u>6,970</u></u>	<u><u>318</u></u>

Net Decrease in Capital Assets affecting Operations for the Six Months ended September 30, 1997 (unaudited)

(millions of dollars)

Capital Investment	First Six Months		Change
	1997-98	1996-97	
Legislative Assembly	—	—	—
Advanced Education and Career Development	—	—	—
Agriculture, Food and Rural Development	1	1	—
Community Development	—	—	—
Economic Development	—	—	—
Education	1	—	1
Energy	1	4	(3)
Environmental Protection	1	2	(1)
Executive Council	—	—	—
Family and Social Services	—	—	—
Health	—	—	—
Intergovernmental and Aboriginal Affairs	—	—	—
Justice	—	—	—
Labour	—	—	—
Municipal Affairs	1	1	—
Public Works, Supply and Services	18	5	13
Science, Research and Information Technology	—	—	—
Transportation and Utilities	60	49	11
Treasury	1	1	—
	<u>84</u>	<u>63</u>	<u>21</u>
Less: Capital Amortization Reversal	105	114	(9)
Net Decrease in Capital Assets affecting Operations	<u><u>21</u></u>	<u><u>51</u></u>	<u><u>(30)</u></u>