



2005  
**BUDGET**  
Investing in the Next Alberta

2005 - 06 Quarterly Budget Report

**Q2** FISCAL UPDATE

November 2005

## UPDATING ALBERTANS

The Second Quarter Fiscal Update consists of two parts – the updated 2005-06 forecast and the actual results for the first six months of the fiscal year (April 1 to September 30, 2005).

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# 2005-06 FORECAST

## HIGHLIGHTS

- Energy prices in 2005-06 are considerably higher than expected by most energy analysts or estimated in the budget. Oil prices for the fiscal year are now forecast to average US\$60 per barrel and natural gas prices Cdn\$8.50 per gigajoule.
- Record energy revenue has allowed increased support for capital projects, increased savings and the provision of a \$400 per person resource rebate to Albertans.
- Total revenue, after deducting the \$1.3 billion cost of the resource rebates, is forecast to be \$5.8 billion higher than estimated in the budget.
- Total expense is forecast to increase by nearly \$1.5 billion from budget, including:
  - ♦ \$481 million for capital grants funded from the Capital Account.
  - ♦ \$389 million in disaster/emergency funding related to BSE, wildfires, floods and pine beetles.
  - ♦ \$375 million in additional natural gas rebates.
  - ♦ \$207 million net increase in other expense.
- Capital investment in government-owned projects has been increased by \$281 million.
- In total, 2005-06 Capital Plan spending (capital grants plus capital investment) is forecast to reach \$4 billion, \$801 million higher than budgeted. This includes only the 2005-06 cost of recent multi-year commitments for health, education and other infrastructure.
- Net Revenue (revenue less expense) is forecast at \$5.9 billion, \$4.4 billion higher than budgeted.
- \$3.4 billion of the surplus has been allocated to the Capital Account to help pay for capital commitments in future years and \$1.6 billion has been saved in the Heritage Fund and endowment funds. The Sustainability Fund is forecast at \$2.9 billion, \$380 million higher than budgeted.

## FISCAL SUMMARY<sup>a</sup>

(millions of dollars)

	2005-06			
	2nd Quarter		Change from 1st Quarter	
	Budget	Forecast	Budget	Quarter
1 <b>Revenue</b>	27,346	33,172	5,826	3,829
2 <b>Expense</b>				
3 Program	25,535	27,012	1,477	702
4 Debt servicing costs	291	266	(25)	(10)
5 Total Expense	25,826	27,278	1,452	692
6 <b>Net Revenue</b>	1,520	5,894	4,374	3,137
7 Transfer from Capital Account <sup>b</sup>	1,274	1,755	481	(35)
8 Net transfer from (to) Sustainability Fund	(2,546)	(7,577)	(5,031)	(3,259)
9 <b>Contingency Allowance</b>	248	72	(176)	(157)
10 <b>Net Amount Available for Allocation</b>				
11 Net Revenue	1,520	5,894	4,374	3,137
12 Cash adjustments	82	(1,200)	(1,282)	(1,395)
13 Amount in Sustainability Fund above \$2.5 billion at March 31, 2005	998	998	-	-
14 Retained in Contingency Allowance	(248)	(72)	176	157
15 Retained by funds and agencies	(133)	(245)	(112)	(71)
16 <b>Net Amount Available for Allocation</b> <sup>c</sup>	2,219	5,375	3,156	1,828
17 <b>Allocation</b>				
18 Heritage Fund - Advanced Education endowment	250	750	500	500
19 Heritage Fund - inflation-proofing	215	295	80	69
20 Medical Research Endowment Fund	200	200	-	-
21 Scholarship Fund	-	250	250	-
22 Science and Engineering Research Endowment Fund	-	100	100	100
23 Capital Account (net increase available for capital costs in future years) <sup>c</sup>	1,554	3,400	1,846	779
24 Amount in Sustainability Fund above \$2.5 billion at March 31, 2006	-	380	380	380
25 <b>Total Allocation</b>	2,219	5,375	3,156	1,828

a Subject to the *Fiscal Responsibility Act*. Does not include the change in pension obligations, forecast to be an increase of \$165 million.

b Includes only transfers for capital grants to local authorities.

c Does not include transfers to the Capital Account that are being spent in 2005-06 (budget estimate \$1.7 billion; second quarter forecast \$2.5 billion).

# REVENUE

## NON-RENEWABLE RESOURCE REVENUE

Non-renewable resource revenue is forecast at a record \$13.2 billion. This is an increase of \$5.5 billion from budget and \$4.2 billion from first quarter.

**Natural gas royalties** are forecast at \$9.1 billion, an increase of \$3.6 billion from the budget, and up \$2.9 billion from the first quarter forecast. Natural gas prices are forecast to average Cdn\$8.50 per gigajoule, an increase of \$2.90 from the budget estimate and \$2.49 higher than first quarter.

Total **oil royalties** are forecast at \$2.4 billion, \$1.1 billion higher than budget and up \$568 million from first quarter. The increase is based on oil prices averaging US\$60 per barrel for the fiscal year, up \$18 from budget and \$10 from first quarter.

**Other non-renewable resource revenue**, primarily bonuses and sales of Crown leases, is forecast at \$1.7 billion, \$770 million higher than the budget estimate and \$720 million higher than first quarter.

The higher oil price is due to growing world demand, concern over supply disruptions and absence of spare production capacity. Natural gas prices have been driven up by increasing U.S. demand due to a warmer-than-normal summer, production decreases and concerns over winter supply because of hurricanes. Year-to-date (April to mid-November), oil prices have averaged just under US\$59 and natural gas prices approximately Cdn\$8.25.

The *Fiscal Responsibility Act* requires that non-renewable resource revenue in excess of \$4.75 billion be transferred to the Sustainability Fund. This transfer is now forecast to be \$8.5 billion.

## TAX REVENUE

**Personal income tax revenue** is forecast at \$5.7 billion, up \$550 million from the budget. The increase reflects preliminary data for the 2004 tax year assessments which indicate revenue for the 2003-04 and 2004-05 fiscal years was about \$268 million higher than recorded. The resulting positive prior years adjustment is recorded in 2005-06. This also increases the base forecast for the current year.

Albertans are being provided a **\$400 per person resource rebate** this year. The rebate is a refundable tax credit, and the cost will be reported as a reduction to personal income tax revenue. The rebate will not be treated as taxable income. \$1.3 billion is expected to be distributed to approximately 3.25 million Albertans beginning January 2006.

**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 \$3.3 billion, a \$57 million increase from budget. Increases in revenue from freehold mineral rights and insurance taxes are partially offset by decreases in tobacco and fuel tax revenue.

## TRANSFERS FROM GOVERNMENT OF CANADA

Transfers from the Government of Canada are forecast at \$3.5 billion, a \$40 million increase from budget.

Health transfers and the Canada Social Transfer are \$162 million lower than budgeted. This reflects the allocation 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.

More than offsetting this is a \$202 million net increase in other transfers, including \$111 million for flood disaster assistance, \$70 million under the Early Learning and Child Care Agreement (ELCC), and a net \$21 million in other transfers.

## INVESTMENT INCOME

Investment income is forecast at \$1.9 billion, up \$546 million from budget. The increase reflects stronger-than-expected Canadian equity market performance and higher returns on fixed-income instruments.

## OTHER REVENUE

Other revenue is forecast to be \$103 million higher than budgeted. The increase comprises:

- \$34 million increase in net gaming revenue.
- \$22 million increase in Alberta Treasury Branches net revenue due to a lower loan loss provision.
- \$21 million increase in health care insurance premiums.
- \$16 million increase in timber rentals and fees due to higher-than-expected market prices for solid wood products. This is net of the revenue reduction of \$6 million from updating Alberta's Softwood Stumpage System, effective January 1, 2006.
- \$14 million decrease in crop insurance premiums due to a \$10 million reduction in Spring Price Endorsement premium, and lower commodity prices and participation rates.
- \$24 million net increase in other revenue.

**REVENUE***(millions of dollars)*

	2005-06				Main Reasons for Change from Budget
	Budget	2nd Quarter Forecast	Change from 1st Quarter		
<b>Income Taxes</b>					
Personal income tax	5,199	<b>5,749</b>	550	467	Higher 2004 tax assessments
Alberta 2005 Resource Rebates	-	<b>(1,320)</b>	(1,320)	(1,320)	\$400 per person resource rebates
Corporate income tax	2,278	<b>2,596</b>	318	200	Stronger corporate profits
	<b>7,477</b>	<b>7,025</b>	(452)	(653)	
<b>Other Taxes</b>					
School property tax	1,273	<b>1,273</b>	-	-	
Tobacco tax	735	<b>723</b>	(12)	(7)	Reduced consumption
Fuel tax	645	<b>635</b>	(10)	(10)	Reduced volume
Freehold mineral rights tax	310	<b>371</b>	61	51	Higher oil and natural gas prices
Insurance taxes	186	<b>204</b>	18	-	Higher 2004-05 industry premium revenue
Tourism levy	50	<b>50</b>	-	-	
	<b>3,199</b>	<b>3,256</b>	57	34	
<b>Non-Renewable Resource Revenue</b>					
Natural gas and by-products royalty	5,418	<b>9,050</b>	3,632	2,902	Higher natural gas prices
Crude oil royalty	923	<b>1,381</b>	458	203	Higher oil prices
Synthetic crude oil and bitumen royalty	393	<b>1,065</b>	672	365	Higher oil prices
Coal royalty	8	<b>13</b>	5	3	Higher coal prices
Bonuses and sales of Crown leases	886	<b>1,666</b>	780	727	Higher price per hectare
Rentals and fees	145	<b>150</b>	5	4	Revised forecast
Royalty tax credit	(93)	<b>(113)</b>	(20)	(14)	Higher royalties
	<b>7,680</b>	<b>13,212</b>	5,532	4,190	
<b>Transfers from Government of Canada</b>					
Health transfers	2,048	<b>1,925</b>	(123)	(30)	2004-05 restatement / higher tax revenue
Canada Social Transfer	690	<b>651</b>	(39)	(19)	Higher income tax revenue
Agriculture support programs	355	<b>347</b>	(8)	(2)	Lower production insurance premiums
Other	408	<b>618</b>	210	(11)	Disaster assistance/ELCC Agreement
	<b>3,501</b>	<b>3,541</b>	40	(62)	
<b>Net Income from Commercial Operations</b>					
Alberta Gaming and Liquor Commission:					
Gaming and lottery revenue	1,202	<b>1,236</b>	34	24	Higher slot and VLT revenue
Liquor revenue	560	<b>564</b>	4	4	Higher volume of sales
Alberta Treasury Branches	162	<b>184</b>	22	22	Lower loan loss provision
Other	5	<b>6</b>	1	1	Revised forecast
	<b>1,929</b>	<b>1,990</b>	61	51	
<b>Premiums, Fees and Licences</b>					
Health care insurance premiums	875	<b>896</b>	21	12	Increase in registrations
Motor vehicle licences	291	<b>295</b>	4	3	Stronger economic growth
Crop and hail insurance premiums	157	<b>143</b>	(14)	4	Lower crop insurance premiums
Timber rentals and fees	81	<b>97</b>	16	4	Higher prices/stumpage update
Land titles	50	<b>51</b>	1	1	Stronger economic growth
Other <sup>a</sup>	285	<b>288</b>	3	4	Revised forecast
	<b>1,739</b>	<b>1,770</b>	31	28	
<b>Investment Income</b>					
Alberta Heritage Savings Trust Fund	669	<b>1,113</b>	444	194	Strong equity markets
Alberta Capital Finance Authority	287	<b>287</b>	-	-	
Agriculture Financial Services Corporation	86	<b>83</b>	(3)	-	Lower lending activity
Sustainability Fund	80	<b>85</b>	5	(15)	Higher asset balance
Debt Retirement Account	115	<b>115</b>	-	-	
Endowment Funds:					
Medical Research	37	<b>75</b>	38	17	Strong equity markets
Science and Engineering Research	20	<b>39</b>	19	8	Strong equity markets
Scholarship	13	<b>26</b>	13	7	Strong equity markets
Capital Account	28	<b>45</b>	17	17	Higher asset balance
Other	41	<b>54</b>	13	8	Revised forecast
	<b>1,376</b>	<b>1,922</b>	546	236	
<b>Other</b>					
Refunds of expense	82	<b>89</b>	7	6	Revised forecast
Fines and penalties	72	<b>72</b>	-	-	
Miscellaneous <sup>a</sup>	291	<b>295</b>	4	(1)	Higher dedicated revenue
	<b>445</b>	<b>456</b>	11	5	
<b>Total Revenue</b>	<b>27,346</b>	<b>33,172</b>	<b>5,826</b>	<b>3,829</b>	

a Budget numbers have been restated to reflect an \$8 million reallocation of revenue from "Other Premiums, Fees and Licences" to "Miscellaneous" revenue.

## EXPENSE

Total expense is \$1.5 billion higher than the budget estimate. Changes include:

- Emergency/disaster assistance – \$389 million increase.
- Natural gas rebates – \$375 million increase.
- Capital grants (from Capital Account) – \$481 million increase.
- In-year initiatives (from Contingency Allowance) – \$160 million net increase.
- Dedicated revenue/expense – \$72 million increase.
- Debt servicing costs – \$25 million decrease.

### **SUSTAINABILITY FUND**

**Disaster/Emergency Assistance** – \$522 million is being provided, a \$389 million increase from budget. The increase from budget includes:

- \$139 million for flood disaster assistance, partially offset by \$111 million in federal transfers.
- \$170 million for Bovine Spongiform Encephalopathy (BSE) assistance. Total BSE assistance is \$303 million. This is partly offset by \$34 million in federal transfers.
- \$75 million for forest fire-fighting costs.
- \$5 million for detection and control of mountain pine beetle infestations.

**Natural Gas Rebates** – \$660 million in rebates are forecast to be paid, a \$375 million increase from budget. The increase reflects higher natural gas prices which will trigger higher rebate levels and the addition of October as an eligible month for rebates. It is expected that a rebate of at least \$3.25 per gigajoule will be paid in each eligible month (October to March).

### **CAPITAL ACCOUNT**

Capital grants funded from the Capital Account have been increased by \$481 million from budget. This includes increased grants for school and post-secondary capital projects; supportive living/affordable housing and lodge renovations; centennial projects; health facilities; water/wastewater management.

### **FUNDING FROM THE CONTINGENCY ALLOWANCE**

\$176 million of the \$248 million budgeted Contingency Allowance has been committed. This includes a net \$160 million for program spending initiatives and \$16 million for in-year revenue reduction initiatives.

### **MINISTRY CHANGES**

**Advanced Education** – \$83 million increase from budget primarily due to higher capital grants for post-secondary institutions. The increase is \$61 million lower than reported in the first quarter as some of the capital grants included in the first quarter forecast will not be required until the 2006-08 period.

**Agriculture, Food and Rural Development** – \$262 million increase from budget comprising \$170 million in BSE support initiatives and \$92 million for income stabilization/insurance programs and other changes.

**Children's Services** – \$36 million increase for Early Learning and Child Care, fully offset by federal transfers.

**Community Development** – \$22 million increase from budget, for increased capital grants to the Calgary Zoo, and support for a film on the Battle of Passchendaele.

**Education** – \$75 million increase from budget for school operations and maintenance, new modular classrooms and relocation of portables, capital grants and increased transportation fuel costs. The increase is \$157 million lower than reported in the first quarter as some of the capital grants included in the first quarter forecast will not be required until the 2006-08 period.

**Gaming** – \$75 million increase from budget, consisting of \$70 million for Edmonton Northlands and Calgary Exhibition and Stampede and \$10 million for world disaster assistance, partially offset by \$5 million in lapses.

**Health and Wellness** – \$65 million increase in capital grants for health facilities reflecting the 2005-06 installment of the \$1.4 billion health capital commitment.

**Infrastructure and Transportation** – \$533 million increase from budget. This includes a \$375 million increase for natural gas rebates; \$127 million for increased capital grants for water, wastewater and Water for Life and other capital projects; and \$31 million for higher operations and maintenance costs.

**Municipal Affairs** – \$139 million for flood disaster assistance, partly offset by a \$111 million increase in federal transfers.

**Seniors and Community Supports** – \$109 million increase from budget for rural supportive living/affordable housing and lodge renovations, partly offset by a \$9.5 million increase in federal transfers.

**Sustainable Resource Development** – \$80 million increase, consisting of \$75 million for higher forest fire-fighting costs and \$5 million for detection and control of mountain pine beetle infestations.

**EXPENSE SUMMARY***(millions of dollars)*

	2005-06			
	2nd		Change from	
	Budget	Quarter Forecast	Budget	1st Quarter
<b>Program Expense</b>				
Budget	25,117	<b>25,117</b>	-	-
Disaster/emergency assistance (from Sustainability Fund)	133	<b>522</b>	389	163
Natural gas rebates (from Sustainability Fund)	285	<b>660</b>	375	375
Increase in capital grants from Capital Account	-	<b>481</b>	481	(35)
In-year Contingency Allowance net expense <sup>a</sup>	-	<b>160</b>	160	157
Dedicated expense changes (net) <sup>b</sup>	-	<b>72</b>	72	42
<b>Total Program Expense</b>	25,535	<b>27,012</b>	1,477	702
<b>Debt Servicing Costs</b>	291	<b>266</b>	(25)	(10)
<b>Total Expense</b>	25,826	<b>27,278</b>	1,452	692

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 – Children's Services: \$35.9 million for Early Learning and Child Care; Infrastructure and Transportation: \$22.1 million for the New Deal for Cities and Communities; Calgary Children's Hospital interchange and transportation safety; Seniors and Community Supports: \$9.5 million for the Canada/Alberta Affordable Housing Agreement; Agriculture, Food and Rural Development: \$5.3 million for the Agriculture Policy Framework and the Canadian Agricultural Income Stabilization Program; Gaming: \$5 million decrease for the First Nations Development Fund and bingo associations; and a net \$4.6 million increase in other ministries.

**EXPENSE BY MINISTRY***(millions of dollars)*

Program	2005-06				Main Reasons for Change from Budget
	2nd		Change from		
	Budget	Quarter Forecast	Budget	1st Quarter	
Legislative Assembly	70	<b>70</b>	-	-	
Aboriginal Affairs and Northern Development	39	<b>39</b>	-	-	
Advanced Education <sup>a</sup>	1,658	<b>1,741</b>	83	(61)	Capital grants
Agriculture, Food and Rural Development	1,151	<b>1,413</b>	262	252	BSE / income insurance programs
Children's Services	799	<b>835</b>	36	36	Early Learning and Child Care
Community Development	247	<b>269</b>	22	21	Calgary Zoo/Passchendaele film
Economic Development	80	<b>80</b>	-	-	
Education <sup>a</sup>	4,507	<b>4,582</b>	75	(157)	Capital grants and school operations
Energy	203	<b>205</b>	2	2	Increased AEUB activity
Environment	138	<b>143</b>	5	5	Waste management/erosion control
Executive Council	26	<b>26</b>	-	-	
Finance	588	<b>573</b>	(15)	(6)	Changes in endowment spending
Gaming	169	<b>244</b>	75	79	Capital grants/world disasters
Government Services	90	<b>90</b>	-	-	
Health and Wellness	8,977	<b>9,042</b>	65	65	Health facilities capital grants
Human Resources and Employment	778	<b>780</b>	2	2	Canadian Agricultural Skills Services
Infrastructure and Transportation <sup>a</sup>	3,068	<b>3,601</b>	533	358	Capital grants/natural gas rebates
Innovation and Science	181	<b>177</b>	(4)	-	Transfer to capital investment
International and Intergovernmental Relations	10	<b>10</b>	-	-	
Justice	314	<b>314</b>	-	-	
Municipal Affairs	127	<b>266</b>	139	(12)	Flood disaster assistance
Restructuring and Government Efficiency	80	<b>80</b>	-	-	
Seniors and Community Supports	1,605	<b>1,714</b>	109	90	Supportive living/affordable housing
Solicitor General and Public Security	405	<b>413</b>	8	8	Salary settlements
Sustainable Resource Development	225	<b>305</b>	80	20	Forest fires/mountain pine beetles
<b>Total Program Expense</b>	25,535	<b>27,012</b>	1,477	702	
<b>Debt Servicing Costs</b>	291	<b>266</b>	(25)	(10)	Lower in-year borrowing requirements
<b>Total Expense</b>	25,826	<b>27,278</b>	1,452	692	

a First quarter forecast numbers have been restated to reflect a \$352 million transfer from Infrastructure and Transportation to Education (\$207 million) and Advanced Education (\$145 million) for school capital projects and post-secondary facilities. In addition, budget numbers have been restated to reflect a separate \$352 million transfer of responsibility for School Facilities Operations from Infrastructure and Transportation to Education.

# ALBERTA SUSTAINABILITY FUND

## ASSETS OF THE SUSTAINABILITY FUND

The assets of the Fund are forecast at \$2.9 billion after transfers to offset the costs of emergencies, disasters, natural gas rebates and the cost of the Alberta 2005 Resource Rebates.

## SUSTAINABILITY FUND TRANSFERS

- Non-renewable resource revenue – The *Fiscal Responsibility Act* requires resource revenue in excess of \$4.75 billion be transferred to the Fund. \$8.5 billion is to be transferred.
- Other net transfers – \$1.6 billion in other transfers, which include revenue increases (excluding resource revenue, revenue reductions charged to the Contingency Allowance or the Sustainability Fund, and dedicated revenue/expense changes), and reductions in debt servicing costs.
- Withdrawals – \$2.5 billion is to be transferred from the Fund for the costs of the Alberta 2005 Resource Rebates, emergency/disaster assistance and natural gas rebates. The *Fiscal Responsibility Act* is being amended to allow the Sustainability Fund to offset the cost of the Alberta 2005 Resource Rebates.

## ADJUSTMENTS

The net transfer to the Fund is adjusted for:

- Cash accruals (timing differences between when cash is accrued and when it is received) and non-cash expenses/revenue. In 2005-06, these adjustments are \$1.2 billion primarily due to the three-month delay in receiving cash from natural gas royalties.
- Retained income of funds and agencies, primarily Alberta Treasury Branches.
- Capital cash requirements for capital investment, which are partly met through a transfer from the Capital Account.

## ALLOCATION

\$380 million has been left in the Fund above the \$2.5 billion budgeted target. \$7.5 billion has been allocated as follows:

- Capital Account – \$5.9 billion allocation of which \$2.5 billion is being used for capital grants and capital investment in 2005-06 and \$3.4 billion is being held to pay for capital costs in future years.
- Savings – \$1.6 billion allocation to the Heritage Fund and other endowment funds.

## ALBERTA SUSTAINABILITY FUND

(millions of dollars)

	2005-06			
	Budget	2nd Quarter Forecast	Change from 1st Quarter	
			Budget	Quarter
<b>Assets at start of year</b>	3,498	<b>3,498</b>	-	-
<b>Transfers to (from) Sustainability Fund</b>				
Non-renewable resource revenue transfer from general revenue	2,930	<b>8,462</b>	5,532	4,190
Other net transfers	34	<b>1,617</b>	1,583	927
Cost of Alberta 2005 Resource Rebates	-	<b>(1,320)</b>	(1,320)	(1,320)
Transfers for disaster and emergency program expense	(133)	<b>(522)</b>	(389)	(163)
Transfers for Natural Gas Rebate Program expense	(285)	<b>(660)</b>	(375)	(375)
Total transfers to (from) Sustainability Fund	2,546	<b>7,577</b>	5,031	3,259
<b>Adjustments</b>				
Energy and other cash adjustments	517	<b>(1,193)</b>	(1,710)	(1,350)
Retained income of funds and agencies	(133)	<b>(245)</b>	(112)	(71)
Cash not transferred in 2004-05 from fourth quarter results	-	<b>696</b>	696	-
Capital cash requirements	(518)	<b>(786)</b>	(268)	(45)
Alternatively financed capital investment	83	<b>83</b>	-	-
Capital Account transfer for capital investment	435	<b>703</b>	268	45
Total adjustments	384	<b>(742)</b>	(1,126)	(1,421)
<b>Assets Prior to Allocation</b>	6,428	<b>10,333</b>	3,905	1,838
Allocation to				
Capital Account	(3,263)	<b>(5,858)</b>	(2,595)	(789)
Heritage Fund - Advanced Education endowment	(250)	<b>(750)</b>	(500)	(500)
Heritage Fund - inflation proofing	(215)	<b>(295)</b>	(80)	(69)
Scholarship Fund	-	<b>(250)</b>	(250)	-
Medical Research Endowment Fund	(200)	<b>(200)</b>	-	-
Science and Engineering Endowment Fund	-	<b>(100)</b>	(100)	(100)
	(3,928)	<b>(7,453)</b>	(3,525)	(1,458)
<b>Assets at End of Year</b>	2,500	<b>2,880</b>	380	380



# CAPITAL PLAN

The 2005-06 Capital Plan is forecast to reach \$4 billion, \$801 million higher than budgeted. This includes capital grants to local authorities and capital investment in provincial government-owned projects.

In addition, 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. The Capital Account is forecast to have assets of \$4.1 billion at the end of the 2005-06 fiscal year.

- **Municipal Infrastructure Support** – Total allocation of \$1.1 billion, \$74 million higher than budgeted. The increase includes \$54 million for water/wastewater and Water for Life projects, \$17 million for the New Deal for Cities and Communities and \$3 million for other infrastructure support.
- **Provincial Highway Network** – Total allocation of \$880 million, an increase of \$196 million from budget. This includes \$100 million to accelerate construction projects in resource development areas, \$30 million as part of the \$200 million program to accelerate construction in the Fort McMurray area, and \$66 million for increases in other areas, including amounts carried over from previous years and a contingency for cost increases.
- **Health Facilities and Equipment** – Total allocation of \$626 million, an increase of \$65 million from budget. The increase represents the first year of the announced \$1.4 billion in increased support for health facilities capital.
- **Community Facilities and Centennial Projects** – Total allocation of \$266 million, an increase of \$90 million from the budget. The increase includes funding for Edmonton Northlands, Calgary Exhibition and Stampede, Calgary Zoo and other increases.
- **Schools** – Total allocation of \$243 million, an increase of \$42 million from budget. This is down \$188 million from the first quarter forecast as some of the increase reported in the first quarter will not be required until the 2006-08 period.
- **Post-Secondary Facilities** – Total allocation of \$191 million, an increase of \$80 million from the budget. This is down \$65 million from the first quarter forecast as some of the increase reported in the first quarter will not be required until the 2006-08 period.
- **Other Infrastructure Programs** – Total allocation of \$666 million, an increase of \$254 million from budget. The increase includes a \$100 million capital contingency for small capital projects, and increased funding for rural supportive living, affordable housing partnerships, Phase II of the Canada/Alberta Affordable Housing Agreement, lodge renovations, and other increases.

## CAPITAL PLAN SUMMARY

(millions of dollars)

	2005-06			
	Budget	2nd	Change from	
		Quarter	Budget	1st
	Budget	Forecast	Budget	Quarter
Municipal infrastructure support	1,021	1,095	74	3
Provincial highway network	684	880	196	29
Health facilities and equipment	561	626	65	65
Community facilities and centennial projects	176	266	90	85
Schools	201	243	42	(188)
Post-secondary facilities	111	191	80	(65)
Water and wastewater management	58	65	7	3
Government facilities, housing and equipment	354	501	147	81
Capital contingency for small projects	-	100	100	-
<b>Total Capital Plan</b>	<b>3,166</b>	<b>3,967</b>	<b>801</b>	<b>13</b>
To be funded by				
Current-year revenue	1,348	1,390	42	3
Capital Account	1,709	2,458	749	10
Sustainability Fund	-	10	10	-
Alternative financing including P3s	109	109	-	-
<b>Total Capital Plan</b>	<b>3,166</b>	<b>3,967</b>	<b>801</b>	<b>13</b>

## NET FINANCIAL AND CAPITAL ASSETS

- **Net Assets** – Net assets are forecast at \$31.8 billion at March 31, 2006. This includes capital assets of \$11.7 billion.
- **Capital Account** – The Capital Account is forecast at \$4.1 billion, an increase of \$3.4 billion from March 31, 2005. These assets will be used to pay for capital commitments made for future years.
- **Accumulated Debt/Debt Retirement Account** – Sufficient assets are locked-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 \$12.3 billion, an increase of almost \$1.1 billion from March 31, 2005. The increase includes allocations of \$750 million for the Advanced Education endowment and \$295 million for inflation proofing.
- **Endowments** – Other allocations to endowments include \$250 million for the Scholarship Fund, \$200 million for Medical Research Endowment Fund and \$100 million for 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 <sup>a</sup>	2nd Quarter Forecast	Budget	Change from 1st Quarter	
<b>Financial Assets</b>						
Heritage Fund external investments <sup>b</sup>	11,274	11,747	12,326	579	568	1,052
Self-supporting lending organizations	6,037	5,915	6,260	345	51	223
Alberta Sustainability Fund	3,498	2,500	2,880	380	380	(618)
Endowment funds	1,658	1,827	2,257	430	135	599
Capital Account	674	2,228	4,074	1,846	779	3,400
Debt Retirement Account	3,479	2,230	2,214	(16)	(16)	(1,265)
Other financial assets	7,227	7,104	8,109	1,005	1,276	882
<b>Total Financial Assets</b>	<b>33,847</b>	<b>33,551</b>	<b>38,120</b>	<b>4,569</b>	<b>3,173</b>	<b>4,273</b>
<b>Liabilities</b>						
Accumulated debt	3,475	2,226	2,210	(16)	(16)	(1,265)
Pension obligations	5,235	5,376	5,400	24	-	165
Self-supporting lending organizations	4,928	4,819	5,279	460	81	351
Other liabilities	5,049	5,109	5,135	26	15	86
<b>Total Liabilities</b>	<b>18,687</b>	<b>17,530</b>	<b>18,024</b>	<b>494</b>	<b>80</b>	<b>(663)</b>
<b>Net Financial Assets</b>	<b>15,160</b>	<b>16,021</b>	<b>20,096</b>	<b>4,075</b>	<b>3,093</b>	<b>4,936</b>
Capital assets and inventories of supplies	10,921	11,439	11,714	275	44	793
<b>Net Assets</b>	<b>26,081</b>	<b>27,460</b>	<b>31,810</b>	<b>4,350</b>	<b>3,137</b>	<b>5,729</b>
Adjustment for pension obligations	5,235	5,376	5,400	24	-	165
<b>Net Assets for Fiscal Policy Purposes</b>	<b>31,316</b>	<b>32,836</b>	<b>37,210</b>	<b>4,374</b>	<b>3,137</b>	<b>5,894</b>

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.

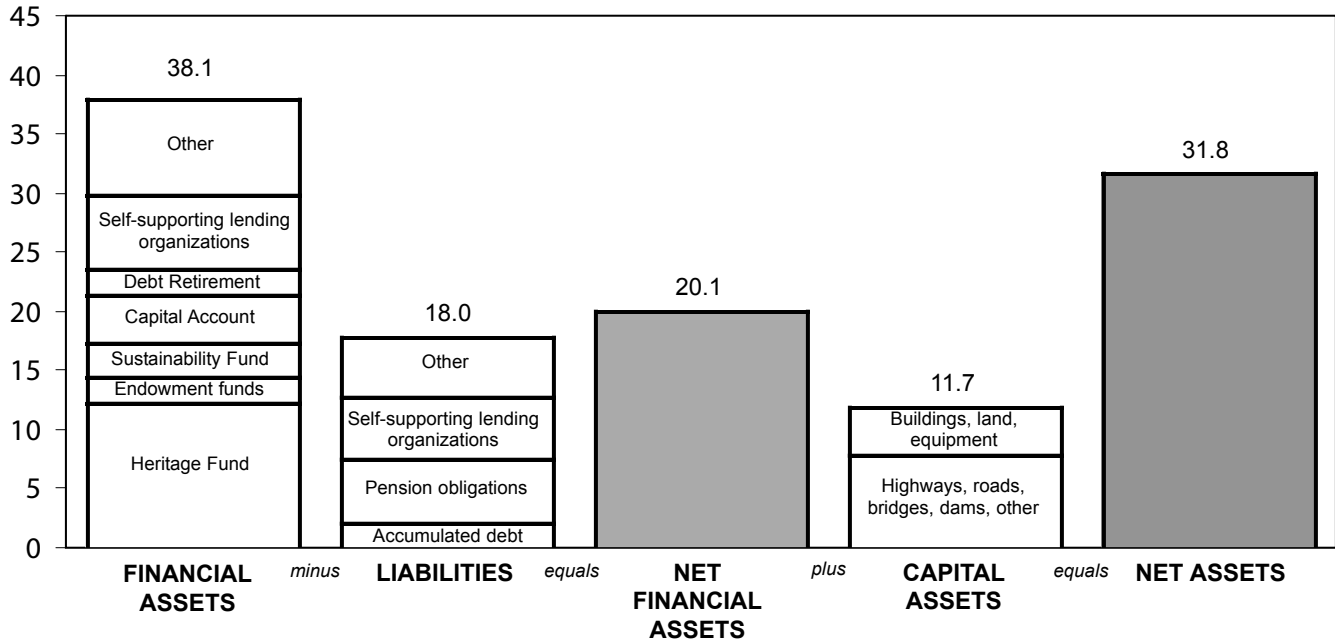
### CAPITAL ACCOUNT

(millions of dollars)

	2004-05 <i>Actual</i>	2005-06			
		Budget	2nd Quarter Forecast	Budget	Change from 2004-05 Actual
<b>Assets at start of year</b>	<b>1,180</b>	<b>674</b>	<b>674</b>	<b>-</b>	<b>(506)</b>
Allocations from Sustainability Fund	1,136	3,263	5,858	2,595	4,722
Withdrawals					
Capital grants to local authorities	(1,209)	(1,274)	(1,755)	(481)	(546)
Government-owned capital investment	(433)	(435)	(703)	(268)	(270)
<b>Assets at End of Year</b>	<b>674</b>	<b>2,228</b>	<b>4,074</b>	<b>1,846</b>	<b>3,400</b>

## ASSETS, LIABILITIES AND NET ASSETS AT MARCH 31, 2006

(billions of dollars)



## NET FINANCING REQUIREMENTS

(millions of dollars)

	2005-06			
	Budget	2nd Quarter Forecast	Change from Budget	1st Quarter
<b>Requirements:</b>				
General Revenue Fund term debt maturities	1,153	<b>1,153</b>	-	-
School construction loan repayments	70	<b>70</b>	-	-
Adjustments	26	<b>42</b>	16	16
Accumulated debt financing requirements	1,249	<b>1,265</b>	16	16
Provincial corporations' term borrowing requirements	180	<b>141</b>	(39)	(19)
Gross financing requirements	1,429	<b>1,406</b>	(23)	(3)
Cash applied to accumulated debt repayment	(1,249)	<b>(1,265)</b>	(16)	(16)
<b>Net Term Debt Financing Requirements</b>	180	<b>141</b>	(39)	(19)
Term debt financing completed to date	-	<b>141</b>	141	141

## FISCAL YEAR ASSUMPTIONS

	2005-06					
	Sensitivities (\$ million)				Assumptions	
	Annual Change	Revenue	Spending	Net Change	Budget	2nd Quarter Forecast
Oil Price (WTI US\$/bbl)	-\$1.00	-99	-	-99	42.00	60.00
Natural Gas Price (Cdn\$/GJ)	-10c	-99	-	-99	5.60	8.50
Exchange Rate (US¢/Cdn\$)	+1c	-117	-2	-115	83.50	83.40
Interest Rates:	+1%	-85	+5	-90		
3-month Canada treasury bills					2.90	2.85
10-year Canada bonds					4.50	4.15

**CAPITAL INVESTMENT AND AMORTIZATION<sup>a</sup>***(millions of dollars)*

	2005-06				2005-06			
	Capital Investment				Capital Amortization			
	2nd		Change from		2nd		Change from	
	Quarter		1st		Quarter		1st	
	Budget	Forecast	Budget	Quarter	Budget	Forecast	Budget	Quarter
Legislative Assembly	-	-	-	-	-	-	-	-
Aboriginal Affairs and Northern Development	-	-	-	-	-	-	-	-
Advanced Education	8	7	(1)	(1)	5	5	-	-
Agriculture, Food and Rural Development	8	9	1	-	8	8	-	-
Children's Services	-	3	3	3	1	1	-	-
Community Development	45	52	7	-	11	11	-	-
Economic Development	-	-	-	-	-	-	-	-
Education <sup>b</sup>	5	5	-	(22)	1	1	-	-
Energy	13	13	-	-	15	15	-	-
Environment	3	3	-	-	20	20	-	-
Executive Council	-	-	-	-	-	-	-	-
Finance	6	5	(1)	(1)	7	7	-	-
Gaming	-	-	-	-	-	-	-	-
Government Services	10	10	-	-	4	4	-	-
Health and Wellness	74	74	-	-	29	29	-	-
Human Resources and Employment	4	4	-	-	3	3	-	-
Infrastructure and Transportation <sup>b</sup>	823	1,099	276	80	315	315	-	-
Innovation and Science	4	10	6	-	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	35	-	-
Seniors and Community Supports	1	1	-	-	25	25	-	-
Solicitor General and Public Security	-	-	-	-	-	-	-	-
Sustainable Resource Development	28	18	(10)	(10)	11	11	-	-
<b>Total Capital Investment/Amortization</b>	<b>1,037</b>	<b>1,318</b>	<b>281</b>	<b>49</b>	<b>498</b>	<b>497</b>	<b>(1)</b>	<b>-</b>
Funded from the Capital Account	435	703	268	45	-	-	-	-
Alternatively financed	83	83	-	-	-	-	-	-

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

b First quarter forecast numbers have been restated to reflect a \$22 million transfer from Infrastructure and Transportation to Education for new modular classrooms and relocation of portables. This amount is now reported as program expense in the second quarter.

**CAPITAL GRANTS TO LOCAL AUTHORITIES AND OTHER INFRASTRUCTURE SUPPORT<sup>a</sup>***(millions of dollars)*

	2005-06			
	2nd		Change from	
	Budget	Forecast	Budget	1st Quarter
Advanced Education	-	80	80	(65)
Agriculture, Food and Rural Development	27	37	10	-
Community Development	31	46	15	15
Education	-	42	42	(165)
Environment	1	6	5	5
Finance	4	4	-	-
Gaming	45	115	70	70
Health and Wellness	109	174	65	65
Infrastructure and Transportation	1,861	1,985	124	(51)
Innovation and Science	2	2	-	-
Municipal Affairs	3	3	-	-
Seniors and Community Supports	25	134	109	90
<b>Total</b>	<b>2,108</b>	<b>2,628</b>	<b>520</b>	<b>(36)</b>
Funded from the Capital Account	1,274	1,755	481	(35)
Includes capital financing grants to local authorities	5	5	-	-
Excludes the value of alternatively financed projects	26	26	-	-

a Included in program expense.

# ACTUAL RESULTS

## FOR THE FIRST SIX 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<sup>a</sup>**

for the six months ended September 30, 2005 (unaudited)

*(millions of dollars)*

	First Six Months		
	2005-06	2004-05	Change
<b>Revenue</b>			
Income taxes	3,860	3,237	623
Other taxes	1,661	1,585	76
Non-renewable resource revenue	5,894	5,040	854
Transfers from Government of Canada	1,772	1,718	54
Investment income	1,080	838	242
Net income from commercial operations	1,072	1,001	71
Premiums, fees and licences	983	1,012	(29)
Other	232	180	52
<b>Total Revenue</b>	<b>16,554</b>	<b>14,611</b>	<b>1,943</b>
<b>Expense</b>			
Program	12,546	11,244	1,302
Debt servicing costs	131	166	(35)
<b>Total Expense</b>	<b>12,677</b>	<b>11,410</b>	<b>1,267</b>
<b>Net Revenue</b>	<b>3,877</b>	<b>3,201</b>	<b>676</b>

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 six months ended September 30, 2005 (unaudited)

*(millions of dollars)*

	First Six Months		
	2005-06	2004-05	Change
<b>Program</b>			
Legislative Assembly	29	26	3
Aboriginal Affairs and Northern Development	23	22	1
Advanced Education	793	705	88
Agriculture, Food and Rural Development	463	731	(268)
Children's Services	384	362	22
Community Development	138	111	27
Economic Development	33	27	6
Education	2,440	2,067	373
Energy	87	82	5
Environment	63	56	7
Executive Council	12	10	2
Finance	271	281	(10)
Gaming	65	51	14
Government Services	39	36	3
Health and Wellness	4,339	3,879	460
Human Resources and Employment	365	365	-
Infrastructure and Transportation	1,533	1,096	437
Innovation and Science	44	57	(13)
International and Intergovernmental Relations	5	3	2
Justice	153	148	5
Municipal Affairs	102	63	39
Restructuring and Government Efficiency	35	27	8
Seniors and Community Supports	763	664	99
Solicitor General and Public Security	186	162	24
Sustainable Resource Development	181	213	(32)
<b>Total Program Expense</b>	<b>12,546</b>	<b>11,244</b>	<b>1,302</b>
<b>Debt Servicing Costs</b>	<b>131</b>	<b>166</b>	<b>(35)</b>
<b>Total Expense</b>	<b>12,677</b>	<b>11,410</b>	<b>1,267</b>

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