

Budget 2008

THE RIGHT PLAN FOR
TODAY & TOMORROW

Second Quarter Fiscal Update 2008-09



UPDATING ALBERTANS

The *Second Quarter Fiscal Update* consists of two parts – the updated 2008-09 forecast for the entire fiscal year and the actual results for the first six months of the fiscal year (April 1 to September 30, 2008).

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2008–09 FORECAST

HIGHLIGHTS

Surplus. \$2 billion, a decrease of \$6.5 billion from the first quarter forecast, but \$435 million higher than the budget estimate.

Revenue. \$39.9 billion, a decrease of \$6.7 billion from the first quarter forecast. The decrease primarily reflects the decline in energy prices since August, investment income losses and a reduction in the corporate income tax revenue forecast. As a result of higher energy prices in the first half of the fiscal year, total revenue is still expected to be \$1.3 billion higher than estimated in the budget.

Expense. \$37.9 billion, a decrease of \$143 million from the first quarter forecast. The decrease from the first quarter reflects a lower forecast of natural gas rebates this winter. Expense remains \$905 million higher than the budget estimate primarily reflecting disaster/emergency assistance and increases for health and housing support reported in the *2008-09 First Quarter Fiscal Update*.

Surplus Allocation. As a result of the lower projected surplus, adjustments have been made to the allocations identified in the *2008-09 First Quarter Fiscal Update*:

- Carbon Capture and Storage Fund allocation remains at \$2 billion.
- Green Transit Incentives Program Fund (Green TRIP Fund) allocation has been reduced from \$2 billion to \$1.8 billion. The shortfall will be made up as funds become available.
- Capital Account allocation of \$1 billion has been eliminated. No capital projects have been cancelled as a result of this.
- Savings allocations of \$3.1 billion, including the unallocated savings and Heritage Fund inflation-proofing, have been eliminated.

Sustainability Fund. Assets remain unchanged from the budget estimate at \$7.7 billion.

FISCAL SUMMARY^a

(millions of dollars)

	2008-09			
	Budget	2nd Quarter Forecast	Change from 1st Quarter	
	Budget	Forecast	Budget	Quarter
1 Revenue	38,571	39,911	1,340	(6,673)
2 Expense ^b	37,003	37,908	905	(143)
3 Surplus	1,568	2,003	435	(6,530)
4 Net transfer from (to) Sustainability Fund/Capital Account	(1,243)	(1,897)	(654)	6,519
5 Contingency Allowance	325	106	(219)	(11)
6 Cash Available For Allocation				
7 Surplus	1,568	2,003	435	(6,530)
8 Cash from 2007-08 4th quarter	49	928	879	-
9 Cash adjustments ^c	(1,189)	945	2,134	2,209
10 Net Amount Available for Allocation	428	3,876	3,448	(4,321)
11 Allocation				
12 <u>Savings</u>				
13 Heritage Fund - inflation proofing ^d	279	-	(279)	(525)
14 Heritage Fund - deposit	19	-	(19)	(19)
15 Unallocated	-	-	-	(2,508)
16 <u>Capital</u>				
17 Carbon Capture and Storage Fund	-	2,000	2,000	-
18 Green Transit Incentives Program Fund	-	1,776	1,776	(224)
19 Capital Account	30	-	(30)	(1,045)
20 <u>Alberta Enterprise Corporation</u>	100	100	-	-
21 Total Allocation	428	3,876	3,448	(4,321)

^a Subject to the *Fiscal Responsibility Act*. Does not include changes in results of Crown controlled SUCH sector organizations or in pension obligations.

^b Capital investment is not included in expense. 2008-09 capital investment is forecast at: 2,817 2,818 1 (133)

^c Adjustments to the surplus due to cash requirements. Includes retained income of funds and agencies, cash required for capital investment and other cash adjustments. Also reflects Heritage Fund and endowment fund losses. See page 11 for details.

^d Inflation proofing is not a legal requirement if the Heritage Fund does not have realized income for the fiscal year.

REVENUE

NON-RENEWABLE RESOURCE REVENUE

Energy prices have been very volatile, increasing through the first four months of the fiscal year and then rapidly declining. Oil prices have declined from a peak of US\$147 per barrel in July to a low of US\$56 in November.

For the full fiscal year, energy prices are still expected to average higher than the budget estimate. As a result (in combination with a lower Canadian dollar), resource revenue is projected to remain higher than budgeted. However, resource revenue will be significantly lower than forecast in the first quarter.

Non-renewable resource revenue is forecast at \$14.6 billion, \$2.8 billion higher than budgeted, but \$4.3 billion lower than forecast at first quarter.

Total oil royalties are forecast at \$5.9 billion, \$882 million higher than budgeted, but \$2.6 billion lower than the first quarter forecast. Oil prices are now expected to average US\$93.50 for 2008-09, \$15.50 higher than the budget estimate, but \$25.75 less than the first quarter forecast. Prices averaged about \$115 from April to October and are assumed to average about \$63.50 for the remaining 5 months of the fiscal year.

Natural gas royalties are forecast at \$7.1 billion, \$1.4 billion higher than budgeted, but \$1.6 billion lower than the first quarter forecast. The Alberta Reference Price is now expected to average Cdn\$7.50 per gigajoule (GJ), 75 cents higher than the budget estimate, but \$1.00 lower than the first quarter forecast. From April to October, prices have averaged about \$8.00/GJ and are expected to average \$6.75/GJ for the remaining 5 months of the fiscal year.

Revenue from bonuses and sales of Crown leases is forecast at \$1.4 billion, \$535 million higher than budgeted, due to higher conventional and oil sands land sales, but \$92 million lower than forecast at first quarter.

TAX REVENUE

Personal income tax revenue is forecast at \$8.8 billion, \$152 million higher than budgeted. Revised assessment data for the 2007 tax year results in a positive prior years' adjustment of \$119 million and increases the base for the current-year forecast.

Corporate income tax revenue is forecast at \$3.8 billion, the same as the budget estimate but \$487 million lower than the first quarter forecast. The expected increase in corporate profits forecast at first quarter has been eliminated due to the deterioration in energy prices and global economic conditions.

Other tax revenue is forecast at \$3.7 billion, \$27 million lower than the budget estimate and \$98 million lower than the first quarter forecast. Lower-than-estimated consumption has reduced the fuel and tobacco tax forecasts.

TRANSFERS FROM GOVERNMENT OF CANADA

Federal transfers are forecast at \$3.9 billion, an increase of \$102 million from the budget estimate, but down \$36 million from the first quarter forecast. Health and social transfers are \$71 million higher than budgeted primarily because of positive prior years' adjustments. Agriculture transfers have increased mainly due to the Growing Forward Transition Agreement and higher participation in cost-shared crop insurance.

INVESTMENT INCOME

Investment income is forecast at \$192 million, \$1.7 billion lower than the budget estimate and \$1.9 billion lower than the first quarter forecast. A global liquidity and credit crisis and fear of a global recession led to a sharp decline in world equity markets and drop in value of investments.

Heritage Fund and endowment funds are forecast to lose \$1 billion of their book value. This is a \$1.9 billion change from the \$890 million in realized income forecast in the budget. The loss is due to the write-downs of assets and realized equity losses. Partly offsetting this is income from interest, dividends and real estate.

Other investment income is \$149 million higher than budgeted mainly due to higher asset balances and investment returns.

OTHER REVENUE

Total revenue from other sources is forecast at \$5 billion, \$6 million more than the budget estimate. This includes:

- Net \$20 million increase in gaming revenue. A \$70 million increase from casinos and a \$10 million decrease in AGLC operating costs are offset by a \$60 million decrease in VLT revenue.
- \$52 million decrease in Alberta Treasury Branches (ATB) net income. In addition, ATB is currently reviewing whether an additional provision for Asset Backed Commercial Paper is required.
- Net \$38 million increase in other revenue, including increases in crop and hail insurance premiums and motor vehicles licences partly offset by lower Canada Health Infoway funding and land titles fees.

REVENUE*(millions of dollars)*

	2008-09				Main Reasons for Change from Budget
	Budget	2nd	Change from		
		Quarter Forecast	Budget	1st Quarter	
Income Taxes					
Personal income tax	8,614	8,766	152	152	Prior years' adjustments
Corporate income tax	3,774	3,774	-	(487)	
	12,388	12,540	152	(335)	
Other Taxes					
School property tax	1,450	1,450	-	-	
Tobacco tax	890	840	(50)	(20)	Lower-than-anticipated consumption
Fuel tax	775	730	(45)	(30)	Lower-than-anticipated consumption
Freehold mineral rights tax	318	369	51	(49)	Higher energy prices
Insurance taxes	263	279	16	-	Higher-than-anticipated cash receipts
Tourism levy	74	75	1	1	Higher rates / hotel stays
	3,770	3,743	(27)	(98)	
Non-Renewable Resource Revenue					
Natural gas and by-products royalty	5,684	7,076	1,392	(1,603)	Higher natural gas price / lower exchange rate
Crude oil royalty	1,601	2,145	544	(860)	Higher oil price / lower exchange rate
Synthetic crude oil and bitumen royalty	3,402	3,740	338	(1,731)	Higher oil price / lower exchange rate
Coal royalty	14	39	25	1	Higher coal prices
Bonuses and sales of Crown leases	868	1,403	535	(92)	Higher conventional/oil sands lease sales
Rentals and fees	140	153	13	3	Increased oil sands leased hectares
	11,709	14,556	2,847	(4,282)	
Transfers from Government of Canada					
Health transfers	1,604	1,668	64	(53)	Prior years' adjustments
Canada Social Transfer	1,121	1,128	7	(3)	Prior years' adjustments
Agriculture support programs	333	373	40	14	Growing Forward Transition Agreement
Other	737	728	(9)	6	Miscellaneous changes
	3,795	3,897	102	(36)	
Net Income from Commercial Operations					
Alberta Gaming and Liquor Commission:					
Gaming and lottery revenue	1,516	1,536	20	20	Higher casino activity
Liquor revenue	680	680	-	-	
Alberta Treasury Branches	262	210	(52)	(52)	Lower interest rates / weaker economy
Other	7	8	1	-	Miscellaneous changes
	2,465	2,434	(31)	(32)	
Investment Income					
Alberta Heritage Savings Trust Fund	774	(868)	(1,642)	(1,642)	Weak equity markets / write-down of assets
Endowment Funds:					
Medical Research	57	(64)	(121)	(121)	Weak equity markets / write-down of assets
Science and Engineering Research	30	(34)	(64)	(64)	Weak equity markets / write-down of assets
Scholarship	29	(33)	(62)	(62)	Weak equity markets / write-down of assets
Alberta Capital Finance Authority	329	329	-	-	
Agriculture Financial Services Corporation	111	99	(12)	(6)	Lower lending volumes
Sustainability Fund	205	250	45	-	Higher rates of return
Debt Retirement Account	62	65	3	-	Higher rates of return
Capital Account	185	245	60	(25)	Higher rates of return
Other	150	203	53	(5)	Higher balances
	1,932	192	(1,740)	(1,925)	
Premiums, Fees and Licences					
Health care insurance premiums	752	762	10	7	Increased number of registrants
Motor vehicle licences	365	379	14	14	Increase in vehicle registrations
Crop and hail insurance premiums	171	216	45	45	Higher participation
Timber rentals and fees	38	37	(1)	-	Mountain pine beetle infestations
Land titles	80	68	(12)	(12)	Weaker real estate market
Other	416	418	2	(2)	Miscellaneous changes
	1,822	1,880	58	52	
Other					
Refunds of expense	109	114	5	5	Miscellaneous changes
Climate Change and Emissions Management	92	92	-	-	
Fines and penalties	110	110	-	-	
Miscellaneous	379	353	(26)	(22)	Canada Health Infoway funding
	690	669	(21)	(17)	
Total Revenue	38,571	39,911	1,340	(6,673)	

EXPENSE

TOTAL EXPENSE

Total expense is \$905 million higher than the budget estimate, but \$143 million lower than the first quarter forecast. Changes from budget consist of:

- \$478 million in additional disaster/emergency assistance;
- \$244 million net increase in operating expense;
- \$82 million net increase in capital grants;
- \$55 million increase in natural gas rebates;
- \$50 million net increase in dedicated revenue/operating expense;
- \$4 million decrease in amortization and debt servicing costs.

SUSTAINABILITY FUND

Disaster/Emergency Assistance – \$528 million is being provided: \$316 million for livestock industry agricultural support, \$117 million for forest fire-fighting costs, \$65 million to combat mountain pine beetle infestations (of which \$50 million was budgeted), and \$30 million for municipal flooding and wildfire assistance programs. This is a net increase of \$30 million from the first quarter.

Natural Gas Rebates – \$380 million in natural gas rebates are now forecast, \$55 million higher than budgeted but \$169 million lower than forecast at first quarter. The changes are due to the revised forecast for natural gas prices.

CAPITAL ACCOUNT

Capital grants have increased \$82 million from the budget. The increase mainly reflects additional support for school and post-secondary projects and the Wood Buffalo Region. This is partly offset by lapsed budgeted capital grants related to the Climate Change and Emissions Management Fund and the re-scheduling of some health capital grants.

FUNDING FROM THE CONTINGENCY ALLOWANCE

\$325 million was set aside as a Contingency Allowance in *Budget 2008*, for in-year initiatives not funded from the Sustainability Fund or Capital Account or from dedicated revenue. A net \$219 million has been allocated primarily to health, housing and film development initiatives, leaving \$106 million in the Contingency Allowance.

MINISTRY EXPENSE CHANGES

Aboriginal Relations – \$33 million increase primarily related to higher First Nations casino revenue flowed through to the First Nations Development Fund.

Advanced Education and Technology – \$36 million net increase, primarily for capital grants for the Trades and Technology Complex at SAIT.

Agriculture and Rural Development – \$347 million net increase. Includes the increased disaster support for the livestock industry, and federal-provincial support for potato producers and Growing Forward Transition Agreement industry development initiatives.

Education – Net \$50 million increase for school capital projects, including cost escalation on approved projects.

Health and Wellness – \$143 million net increase, consisting of \$97 million for health authority net accumulated deficit elimination and \$80 million for transition costs related to moving to a single health authority, partly offset by a \$34 million reduction in Canada Health Infoway capital grants re-scheduled to future years.

Housing and Urban Affairs – \$55 million increase, mainly for the Homeless and Eviction Prevention Fund and Direct to Tenant Rent Supplement Program.

Infrastructure – \$46 million net increase, comprising a \$55 million increase for natural gas rebates, \$4 million for capital planning, primarily for schools, and \$13 million transferred to other ministries for Capital for Emergent Projects.

Municipal Affairs – \$28 million net increase, consisting of \$30 million for municipal flooding and wildfire assistance programs partly offset by \$2 million in lapses.

Sustainable Resource Development – \$138 million increase: \$117 million for forest fire-fighting costs, \$15 million to combat mountain pine beetle infestations and \$6 million for other operating expense.

Transportation – \$85 million increase primarily for water infrastructure grants in the Wood Buffalo Region.

Provision for Capital Cost Escalation – \$28 million reallocated to Education and Health and Wellness.

Other Ministries – \$28 million net decrease. This primarily reflects lower Climate Change and Emissions Management Fund spending as a result of lower 2007-08 revenue. Partly offsetting this is increased funding for income support, film development and other initiatives. In addition, \$14 million of Community Development Trust funding was transferred from Finance and Enterprise to other ministries, and \$6 million of funding for Crime Reduction and Safe Communities was transferred from Justice to other ministries.

EXPENSE SUMMARY*(millions of dollars)*

	2008-09			
	Budget	2nd Quarter Forecast	Change from	
			Budget	1st Quarter
Program Expense				
Operating expense ^a	29,769	30,013	244	11
Capital grants ^b	5,904	5,986	82	(37)
Natural gas rebates	325	380	55	(169)
Disaster/emergency assistance	50	528	478	30
Capital amortization and nominal sum disposals	735	733	(2)	-
Dedicated revenue / operating expense net increases ^c	-	50	50	24
Total Program Expense	36,783	37,690	907	(141)
Debt Servicing Costs	220	218	(2)	(2)
Total Expense	37,003	37,908	905	(143)

^a The \$244 million net increase in operating expense includes \$219 million funded from the Contingency Allowance and \$25 million funded by lapses from budgeted capital grants and capital amortization.

^b There is a \$119 million increase in capital grants funded from the Capital Account. Partly offsetting this is \$37 million in lapsed budgeted capital grants.

^c Dedicated revenue/operating expense changes – Aboriginal Relations: \$32 million for First Nations Development Fund; Agriculture and Rural Development: \$27.5 million for federal agriculture support; Employment and Immigration: \$8.3 million decrease for Labour Market Agreement; and net \$2 million in other decreases.

EXPENSE BY MINISTRY*(millions of dollars)*

Program	2008-09				Main Reasons for Change from Budget
	Budget	2nd Quarter Forecast	Change from		
			Budget	1st Quarter	
Legislative Assembly	91	93	2	2	MLA committee remuneration
Aboriginal Relations	117	150	33	33	First Nations Development Fund grant
Advanced Education & Technology	3,425	3,461	36	4	Capital grants
Agriculture and Rural Development	1,010	1,357	347	5	Livestock producer support
Children and Youth Services	1,098	1,098	-	-	
Culture and Community Spirit	553	569	16	(1)	Film Development Program
Education	5,848	5,898	50	6	School capital projects
Employment and Immigration	920	926	6	6	Income support rate increases
Energy	403	402	(1)	(2)	Miscellaneous lapses
Environment	403	380	(23)	-	Unrealized 2007-08 revenue
Executive Council	30	30	-	-	
Finance and Enterprise	1,003	980	(23)	(21)	Comm. Dev. Trust transfers / endowments
Health and Wellness	13,230	13,373	143	(34)	Health authority deficits / transition costs
Housing and Urban Affairs	574	629	55	5	Eviction prevention / rent supplement
Infrastructure	964	1,010	46	(173)	Natural gas rebates
International and Intergovernmental Relations	29	29	-	-	
Justice	523	516	(7)	(7)	Transfers to other ministries
Municipal Affairs	691	719	28	(12)	Flood / wildfire assistance
Seniors and Community Supports	1,914	1,914	-	-	
Service Alberta	295	295	-	-	
Solicitor General and Public Security	583	589	6	5	Transfers from Justice
Sustainable Resource Development	375	513	138	46	Forest fire-fighting costs
Tourism, Parks and Recreation	248	248	-	-	
Transportation	2,199	2,284	85	-	Capital grants
Treasury Board	68	66	(2)	(2)	Capital planning funds transfers
Provision for capital cost escalation	189	161	(28)	(1)	Cost escalation on approved projects
Total Program Expense	36,783	37,690	907	(141)	
Debt Servicing Costs	220	218	(2)	(2)	
Total Expense	37,003	37,908	905	(143)	

CAPITAL PLAN

2008-09 Capital Plan spending is forecast at \$8.8 billion, \$83 million higher than budgeted but \$170 million less than forecast in the first quarter. The decrease from the first quarter forecast is primarily due to changes in the construction schedules of projects.

Municipal Infrastructure Support – \$1.6 billion, \$2 million less than the budget estimate, due to a lapse in the tank site remediation program.

Provincial Highway Network – \$1.8 billion, a decrease of \$38 million from budget and \$140 million from first quarter, due to re-profiling of funding for work on the ring road projects.

Health Facilities and Equipment – \$1.4 billion, \$16 million lower than the budget estimate. Increases of \$18 million, mainly for carried-over 2007-08 projects, are offset by \$34 million in Canada Health Infoway capital grants re-scheduled to future years.

Post-secondary Facilities – \$874 million, \$33 million higher than the budget estimate, primarily for the SAIT Trades and Technology Complex.

Schools – \$678 million, \$54 million higher than budgeted and \$6 million higher than first quarter. The increase includes additional funding for modular classrooms and for cost escalation on school projects.

Community Facilities – \$403 million, a decrease of \$123 million from budget, due to changes in the construction schedule of the Royal Alberta Museum project.

Water and Wastewater Management – \$341 million, \$81 million higher than budget estimate. An \$86 million increase for Wood Buffalo Region projects is slightly offset by \$5 million reallocated to the “Government Facilities” envelope for the Livestock Strategy.

Housing – \$411 million, \$2 million higher than the budget estimate, due to Capital for Emergent Projects transfers.

Government Facilities, Equipment and Other Capital – \$887 million, \$118 million higher than budgeted. Increases are for redevelopment of the Federal Building/Legislature grounds, ring road land purchases, the Information Management and Technology Strategy, carried-over 2007-08 projects and the Rural Gas Utilities Program.

Capital for Emergent Projects – \$131 million, \$1 million higher than budgeted. A \$16 million increase from carried-over 2007-08 funding is offset by reallocations to other Capital Plan envelopes.

Provision for Capital Cost Escalation – \$282 million remains unallocated, while a net \$27 million has been allocated, mainly for school and health projects.

CAPITAL PLAN SUMMARY

(millions of dollars)

	2008-09			
	Budget	2nd Quarter Forecast	Change from 1st Quarter	
	Budget	Forecast	Budget	Quarter
Municipal infrastructure support	1,626	1,624	(2)	(2)
Provincial highway network	1,852	1,814	(38)	(140)
Health facilities and equipment	1,375	1,359	(16)	(34)
Post-secondary facilities	841	874	33	-
Schools	624	678	54	6
Community facilities	526	403	(123)	1
Water and wastewater management	260	341	81	-
Housing	409	411	2	1
Government facilities, equipment and other capital	769	887	118	4
Capital for emergent projects	130	131	1	(6)
Provision for capital cost escalation	309	282	(27)	-
Total Capital Plan	8,721	8,804	83	(170)
Capital Plan				
Current-year revenue	1,661	1,606	(55)	(9)
Capital Account	6,865	6,644	(221)	(161)
Alternatively financed	195	554	359	-
Total Capital Plan	8,721	8,804	83	(170)

NET FINANCIAL AND CAPITAL ASSETS

Net Assets – Net assets at March 31, 2009 are forecast at \$47.5 billion, including capital assets of \$16.3 billion.

The recent decline in energy prices and weaknesses in equity markets have reduced the first quarter forecast of net assets by \$6.5 billion. As a result, allocations reported in the first quarter to savings, the Capital Account and other funds are lower or have been eliminated.

Heritage Fund – The forecast net book value of the Heritage Fund is \$15.5 billion, \$868 million lower than its book value on March 31, 2008. The lower value reflects the projected write-down of assets and realized losses. In addition, there is no inflation-proofing of the Heritage Fund in 2008-09.

Endowment and Other Funds – Total assets are forecast at \$3.5 billion, down \$288 million from March 31, 2008. The decrease primarily reflects the projected write-downs of assets and realized losses.

Capital Account – Total assets are forecast at \$6.2 billion, down \$1.3 billion from March 31, 2008. The decrease reflects net withdrawals to support capital spending.

Carbon Capture and Storage Fund and Green Transit Incentives Program (Green TRIP Fund) – \$2 billion has been allocated to the new Carbon Capture and Storage Fund and \$1.8 billion to the Green TRIP Fund. The allocation to the Green TRIP Fund is \$224 million lower than the initial commitment of \$2 billion. This shortfall will be made up as funds become available. It is expected that funding of capital projects from these two new funds will start in 2009-10.

Pension Obligations – Updated forecasts of pension obligations, reflecting recent developments in equity markets, are not yet available. The forecast of obligations could materially change by year end.

BALANCE SHEET

(millions of dollars)

	at March 31				
	2008		2009		
	<i>Actual</i>	Budget ^a	2nd Quarter Forecast	Change from Budget	2008 Actual
Financial Assets					
Heritage Fund equity	16,412	16,710	15,544	(1,166)	(868)
Self-supporting lending organizations	7,950	8,841	9,093	252	1,143
Alberta Sustainability Fund	7,653	7,653	7,653	-	-
Endowment and other funds ^b	3,783	3,737	3,495	(242)	(288)
Capital Account	7,472	5,973	6,164	191	(1,308)
Carbon Capture and Storage Fund	-	-	2,000	2,000	2,000
Green TRIP Fund	-	-	1,776	1,776	1,776
Equity in commercial enterprises	2,262	2,386	2,393	7	131
Debt Retirement Account	1,794	1,170	1,170	-	(624)
Other financial assets	8,602	9,301	7,533	(1,768)	(1,069)
Total Financial Assets	55,928	55,771	56,821	1,050	893
Liabilities					
Accumulated debt	1,784	1,160	1,160	-	(624)
Pension obligations	7,883	8,070	8,070	-	187
Self-supporting lending organizations	7,251	8,048	8,314	266	1,063
Liabilities for alternatively financed capital projects	439	634	993	359	554
Other liabilities	7,044	7,065	7,058	(7)	14
Total Liabilities	24,401	24,977	25,595	618	1,194
Net Financial Assets	31,527	30,794	31,226	432	(301)
Capital Assets	14,140	16,254	16,257	3	2,117
Net Assets	45,667	47,048	47,483	435	1,816
Adjustment for pension obligations	7,883	8,070	8,070	-	187
Net Assets for Fiscal Policy Purposes ^c	53,550	55,118	55,553	435	2,003

^a Budget numbers have been restated to reflect 2007-08 actual results.

^b Includes the Medical Research Endowment Fund, Science and Engineering Research Endowment Fund, Scholarship Fund, Alberta Cancer Prevention Legacy Fund, Energy Innovation Fund, Climate Change and Emissions Management Fund and Alberta Enterprise Corporation.

^c Under the *Fiscal Responsibility Act*. Excludes pension obligations and net assets of Crown-controlled SUCH sector organizations.

2008–09 FISCAL YEAR ASSUMPTIONS AND SENSITIVITIES^a

	Sensitivities		\$ millions			Assumptions		Sensitivities
	2008-09		Budget	1st	2nd	Post Jan 2009 ^e		
	Annual Change	Net Change		Quarter Forecast	Quarter Forecast			
Oil Price WTI (US\$/bbl) ^b	-\$1.00	-130	78.00	119.25	93.50	-235		
Natural Gas Price (Cdn\$/GJ)	-10 cents	-114	6.75	8.50	7.50	-158		
Exchange Rate (US¢/Cdn\$)	+1 cent	-210	98.8	98.8	89.8	-274		
Interest Rates:	+1%	-196						
3-month Canada treasury bills			2.50	2.55	2.15			
10-year Canada bonds			3.50	3.75	3.70			
Equity Market Value	-1%	-32						
Personal Income	-1%	-90	7.8%	7.8%	7.7%			
Corporate Taxable Income	-1%	-78	-0.8%	16.1%	-0.8%			

^a Sensitivities based on prices and rates forecast at budget.

^b Alberta Wellhead Oil Price (Cdn\$/bbl) 69.97 108.71 92.56

^c 2008-09 sensitivities include 9 months under the current royalty regime and 3 months under the new regime. After January 1, 2009, sensitivities for an entire fiscal year will increase as shown.

NET FINANCING REQUIREMENTS^a

(millions of dollars)

	2008-09			
	Budget	2nd	Change from	
		Quarter Forecast	Budget	1st Quarter
Requirements:				
General Revenue Fund term debt maturities	550	550	-	-
School construction loan repayments	52	52	-	-
Alberta Social Housing Corporation debt repayment	22	22	-	-
Accumulated debt financing requirements	624	624	-	-
Agriculture Financial Services Corporation term borrowing requirements	285	384	99	32
Gross financing requirements	909	1,008	99	32
Cash applied to accumulated debt repayment	(624)	(624)	-	-
Net Term Debt Financing Requirements	285	384	99	32
Term debt financing completed to date	-	334	334	259

^a Does not include alternative financing for government or financing requirements of Alberta Capital Finance Authority or ATB Financial.

CAPITAL ACCOUNT

(millions of dollars)

	2007-08	2008-09			
	Actual	Budget	2nd	Change from	
			Quarter Forecast	Budget	2007-08 Actual
Assets at Start of Year	6,091	7,472	7,472	-	1,381
Allocations to Capital Account:					
Actual / budgeted	5,555	5,336	5,336	-	(219)
From 2007-08 4th quarter results	-	30	-	(30)	-
Total allocations	5,555	5,366	5,336	(30)	(219)
Withdrawals:					
Capital grants to local authorities	(3,012)	(4,791)	(4,910)	(119)	(1,898)
Government-owned capital investment	(1,162)	(2,074)	(1,734)	340	(572)
Total withdrawals	(4,174)	(6,865)	(6,644)	221	(2,470)
Assets at End of Year	7,472	5,973	6,164	191	(1,308)

CAPITAL GRANTS TO LOCAL AUTHORITIES AND OTHER INFRASTRUCTURE SUPPORT^a*(millions of dollars)*

	2008-09			
	Budget	2nd Quarter Forecast	Change from	
			Budget	1st Quarter
Legislative Assembly	-	-	-	-
Aboriginal Relations	-	-	-	-
Advanced Education and Technology	835	868	33	-
Agriculture and Rural Development	40	43	3	3
Children and Youth Services	15	15	-	-
Culture and Community Spirit	270	272	2	(1)
Education	624	674	50	6
Employment and Immigration	4	4	-	-
Energy	2	2	-	-
Environment	157	134	(23)	-
Executive Council	-	-	-	-
Finance and Enterprise	6	6	-	-
Health and Wellness	1,305	1,276	(29)	(34)
Housing and Urban Affairs	312	314	2	-
Infrastructure	123	116	(7)	(5)
International and Intergovernmental Relations	-	-	-	-
Justice	-	-	-	-
Municipal Affairs	461	458	(3)	(3)
Seniors and Community Supports	96	96	-	-
Service Alberta	-	-	-	-
Solicitor General and Public Security	5	5	-	-
Sustainable Resource Development	-	-	-	-
Tourism, Parks and Recreation	72	72	-	-
Transportation	1,373	1,458	85	-
Treasury Board	15	12	(3)	(2)
Provision for capital cost escalation	189	161	(28)	(1)
	5,904	5,986	82	(37)
Funded from the Capital Account	4,791	4,910	119	(23)
Funded from current-year revenue	963	905	(58)	(14)
Alternatively financed	150	171	21	-

^a Included in program expense. Includes support for project planning and accommodation and facility preservation.

CAPITAL INVESTMENT AND AMORTIZATION^a*(millions of dollars)*

	2008-09 Capital Investment				2008-09 Capital Amortization			
	2nd Quarter		Change from 1st		2nd Quarter		Change from 1st	
	Budget	Forecast	Budget	Quarter	Budget	Forecast	Budget	Quarter
Legislative Assembly	2	2	-	-	1	1	-	-
Aboriginal Relations	-	-	-	-	-	-	-	-
Advanced Education and Technology	10	10	-	-	8	8	-	-
Agriculture and Rural Development	13	16	3	3	13	13	-	-
Children and Youth Services	2	2	-	-	4	4	-	-
Culture and Community Spirit	3	5	2	1	2	2	-	-
Education	1	3	2	-	1	1	-	-
Employment and Immigration	4	4	-	-	3	3	-	-
Energy	23	22	(1)	2	17	17	-	-
Environment	3	3	-	-	22	22	-	-
Executive Council	-	-	-	-	-	-	-	-
Finance and Enterprise	14	14	-	-	8	6	(2)	-
Health and Wellness	70	83	13	-	69	69	-	-
Housing and Urban Affairs	-	-	-	-	24	24	-	-
Infrastructure	470	448	(22)	-	72	72	-	-
International and Intergovernmental Relations	-	-	-	-	-	-	-	-
Justice	4	4	-	-	8	8	-	-
Municipal Affairs	1	1	-	-	2	2	-	-
Seniors and Community Supports	5	5	-	-	1	1	-	-
Service Alberta	42	78	36	-	38	38	-	-
Solicitor General and Public Security	24	7	(17)	(1)	2	2	-	-
Sustainable Resource Development	33	48	15	-	13	13	-	-
Tourism, Parks and Recreation	36	40	4	-	13	13	-	-
Transportation	1,936	1,902	(34)	(139)	315	315	-	-
Treasury Board	1	-	(1)	-	1	1	-	-
Provision for capital cost escalation	120	121	1	1	-	-	-	-
Total Capital Investment/Amortization	2,817	2,818	1	(133)	637	635	(2)	-
Funded from the Capital Account	2,074	1,734	(340)	(138)				
Funded from current-year revenue	698	701	3	5				
Alternatively financed	45	383	338	-				

^a Capital Investment includes purchases of inventory. Capital Amortization includes consumption of inventory.

ALBERTA SUSTAINABILITY FUND*(millions of dollars)*

	2008-09			
	Budget	2nd	Change from	
		Forecast	Budget	1st
			Budget	Quarter
Assets at Start of Year	7,653	7,653	-	-
Transfers to (withdrawals from) the Sustainability Fund				
Non-renewable resource revenue above \$5.3 billion	6,409	9,256	2,847	(4,282)
Other net transfers				
Change in other revenue	-	(1,505)	(1,505)	(2,389)
Change in dedicated revenue/expense ^a	-	(36)	(36)	(10)
Withdrawals for disasters/emergencies/natural gas rebates				
Disaster/emergency assistance	(50)	(528)	(478)	(30)
Natural gas rebates	(325)	(380)	(55)	169
Net transfer to Sustainability Fund	6,034	6,807	773	(6,542)
Adjustments				
2007-08 fourth quarter results ^b	49	928	879	-
Cash transferred to Capital Account for current-year capital grants	(4,791)	(4,910)	(119)	23
Cash adjustments (excluding Contingency Allowance, see table below)	(864)	1,051	1,915	2,198
Total adjustments	(5,606)	(2,931)	2,676	2,222
Assets Prior to Allocation	8,081	11,529	3,448	(4,321)
Allocation to:				
Alberta Enterprise Corporation	(100)	(100)	-	-
Heritage Fund - inflation proofing	(279)	-	279	525
<u>Capital</u>				
Capital Account - 2007-08 4th quarter allocation	(30)	-	30	616
Carbon Capture and Storage Fund	-	(2,000)	(2,000)	-
Green TRIP Fund	-	(1,776)	(1,776)	224
Capital Account - 2008-09 1st quarter allocation	-	-	-	429
<u>Savings</u>				
Heritage Fund - 2007-08 4th quarter allocation	(19)	-	19	19
Unallocated	-	-	-	2,508
Assets at End of Year	7,653	7,653	-	-

^a The \$36 million net increase in dedicated revenue-expense includes the \$14 million lapse in capital grants funded through Canada Health Infoway. The Expense Summary table on page 5 shows a \$50 million net increase in dedicated revenue/operating expense, as the \$14 million lapse is included in the capital grants number in that table.

^b The cash from the higher-than-forecast 2007-08 fourth quarter results was transferred into the Sustainability Fund in 2008-09.

CASH ADJUSTMENTS/REQUIREMENTS*(millions of dollars)*

	2008-09			
	Budget	2nd	Change from	
		Forecast	Budget	1st
			Budget	Quarter
Capital Investment cash requirements	(2,074)	(1,734)	340	138
Retained income of funds and agencies ^a	(144)	1,031	1,175	1,150
Cash adjustments				
Energy royalties	(222)	358	580	1,084
Other	47	88	41	(13)
Contingency Allowance	(325)	(106)	219	11
Net withdrawal from Capital Account	1,529	1,308	(221)	(161)
Total cash adjustments/requirements	(1,189)	945	2,134	2,208

^a Includes Heritage Fund and endowment fund losses and retained income of Alberta Treasury Branches, Agriculture Financial Services Corporation and other funds and agencies.

ACTUAL RESULTS

FOR THE FIRST SIX MONTHS OF 2008–09

METHOD OF CONSOLIDATION

This fiscal summary is prepared on the same basis as used in *Budget 2008*, which reflects the organization of government effective on April 1, 2008.

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 included on the modified equity basis, the equity being computed in accordance with Canadian generally accepted accounting principles applicable to those entities.

The accounts of Crown-controlled SUCH sector organizations such as school boards, universities, colleges, technical institutes and regional health authorities that are controlled by the government are not included in this fiscal summary. These Crown-controlled entities are included in the consolidated financial statements forming part of the Government of Alberta Annual Report.

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.

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.

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

Debt servicing costs include interest payable and amortization of discount on debt issues.

Comparative 2007-08 figures have been restated where necessary to conform to the 2008-09 presentation.

CONSOLIDATED FISCAL SUMMARY

for the six months ended September 30, 2008

(millions of dollars)

	First Six Months		
	2008-09	2007-08	Change
Revenue			
Income taxes	6,544	5,772	772
Other taxes	1,895	1,802	93
Non-renewable resource revenue	8,851	5,156	3,695
Transfers from Government of Canada	1,708	1,520	188
Net income from commercial operations	1,241	1,332	(91)
Premiums, fees and licences	1,214	1,069	145
Investment income	57	1,766	(1,709)
Other	312	274	38
Total Revenue	21,822	18,691	3,131
Expense			
Program Expense			
Legislative Assembly	41	39	2
Aboriginal Relations	37	23	14
Advanced Education and Technology	1,768	1,710	58
Agriculture and Rural Development	825	273	552
Children and Youth Services	520	468	52
Culture and Community Spirit	162	143	19
Education	2,635	2,454	181
Employment and Immigration	432	385	47
Energy	126	101	25
Environment	81	67	14
Executive Council	11	11	-
Finance and Enterprise	432	392	40
Health and Wellness	5,594	5,113	481
Housing and Urban Affairs	160	106	54
Infrastructure	248	202	46
International and Intergovernmental Relations	11	11	-
Justice	223	188	35
Municipal Affairs	598	131	467
Seniors and Community Supports	858	815	43
Service Alberta	136	119	17
Solicitor General and Public Security	283	249	34
Sustainable Resource Development	283	292	(9)
Tourism, Parks and Recreation	97	103	(6)
Transportation	1,164	1,152	12
Treasury Board	18	16	2
Total Program Expense	16,743	14,563	2,180
Debt servicing costs	108	104	4
Total Expense	16,851	14,667	2,184
Net Revenue	4,971	4,024	947

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