

BUDGET 2004

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2004-2005 Quarterly Budget Report

Q2 FISCAL UPDATE

NOVEMBER 2004

Alberta

UPDATING ALBERTANS

The Second Quarter Fiscal Update consists of two parts – the updated 2004-05 forecast and the actual results for the first six months of the fiscal year (April 1 to September 30, 2004).

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2004-05 FORECAST

Highlights

- In July 2004, the Province announced that high energy prices will allow an additional \$3 billion to be set aside to pay off completely Alberta's remaining accumulated debt.
- Energy prices have continued to increase since the release of the *First Quarter Fiscal Update*. Oil prices are now expected to average US\$42 per barrel for the fiscal year and natural gas prices Cdn\$6.85 per thousand cubic feet (mcf).
- Total revenue is now forecast to be \$5.7 billion higher than the budget estimate and \$1.7 billion higher than the first quarter forecast.
- Partly offsetting the higher revenue is an increase in total expense. Expense is \$1.9 billion higher than budgeted and \$490 million higher than the first quarter forecast. The increase from budget includes:
 - ◆ \$830 million for agriculture, forest fire and flood disaster/emergency assistance from the Sustainability Fund,
 - ◆ \$359 million for natural gas rebates from the Sustainability Fund,
 - ◆ \$468 million increase in capital grants, primarily for health capital, from the Capital Account,
 - ◆ \$215 million net increase for in-year initiatives, including funding for health, education and seniors from the Contingency Allowance.
- Net Revenue (revenue minus expense, prior to Sustainability Fund and Capital Account transfers) is forecast at \$4.1 billion. This is \$3.8 billion higher than estimated in the budget.
- The Sustainability Fund assets are forecast at \$3.2 billion (after allocations for natural gas rebates, emergency/disaster assistance, and reallocations to the Debt Retirement Account and Capital Account). This is \$667 million higher than the budget estimate of \$2.5 billion.

FISCAL SUMMARY^a

(millions of dollars)

	2004-05			
	Budget	2nd Quarter Forecast	Change from	
			Budget	1st Quarter
1 Revenue	22,952	28,638	5,686	1,726
2 Expense				
3 Program	22,286	24,184	1,898	513
4 Debt servicing costs	363	340	(23)	(23)
5 Total Expense	22,649	24,524	1,875	490
6 Net Revenue	303	4,114	3,811	1,236
7 Transfer from Capital Account	741	1,209	468	(35)
8 Retained income/capital cash requirements ^b	-	(97)	(97)	(21)
9 Net transfer from (to) Sustainability Fund	(784)	(5,226)	(4,442)	(1,180)
10 Contingency Allowance	260	-	(260)	-
11 Sustainability Fund assets at start of year	2,500	2,500	-	-
12 Net transfer to Sustainability Fund	784	5,226	4,442	1,180
13 Cash adjustments ^c	568	307	(261)	(586)
14 Sustainability Fund prior to reallocation	3,852	8,033	4,181	594
15 Less reallocations to:				
16 Debt Retirement Account	726	3,730	3,004	-
17 Capital Account ^c	626	1,136	510	-
18 Sustainability Fund Balance at March 31, 2005	2,500	3,167	667	594

a Subject to the *Fiscal Responsibility Act*. Does not include the change in pension obligations, which is forecast to be a \$141 million increase.

b The *Fiscal Responsibility Act* requires the net of retained income of funds and agencies and capital cash requirements to be set aside as part of the economic cushion. This amount is not available for transfer to the Sustainability Fund.

c Includes \$510 million in cash related to the better-than-forecast 2003-04 fourth quarter results. This was not included in the budget estimate.

Revenue

NON-RENEWABLE RESOURCE REVENUE

Non-renewable resource revenue is forecast at \$9.6 billion. This is \$4.8 billion higher than the budget estimate and \$1.8 billion higher than forecast in the *First Quarter Fiscal Update*.

The increase has been driven by the dramatic rise in oil and natural gas prices. Oil prices have averaged about US\$43.50 a barrel for the first eight months (April to November) of the fiscal year. This is 45% higher than for the same time period last year. Natural gas prices have averaged about Cdn\$6.50 per mcf for the first eight months. This is 15% higher than for the same time period last year. Higher prices have been the result of increased demand, little spare production capacity, and concerns over supply disruptions.

Natural gas royalties are forecast at \$6.8 billion, up \$3.5 billion from the budget estimate. Natural gas prices are expected to average Cdn\$6.85 per mcf for the fiscal year. This is \$2.65 higher than budgeted and 84 cents higher than forecast in the *First Quarter Fiscal Update*.

Total oil royalties are forecast at \$1.7 billion, \$1.1 billion higher than budget. The oil price is expected to average US\$42.00 per barrel for the year, a \$16 increase from the budget and \$8 higher than forecast in the *First Quarter Fiscal Update*.

The *Fiscal Responsibility Act* requires non-renewable resource revenue above \$4 billion to be transferred to the Sustainability Fund. This transfer is now forecast at \$5.6 billion.

TAX REVENUE

Total tax revenue is forecast at \$10.1 billion. This is \$114 million higher than estimated in the budget, but \$414 million lower than reported in the *First Quarter Fiscal Update*.

Personal income tax revenue is forecast at \$4.8 billion, \$252 million lower than estimated in the budget, and \$460 million lower than the first quarter forecast. At first quarter, federal 2003 tax assessment information indicated higher-than-estimated revenue. However, it now appears the unexpected strength in the preliminary assessment data was due to faster processing of assessments rather than stronger assessments.

Corporate income tax revenue is forecast at \$2.2 billion, \$199 million higher than the budget estimate, and unchanged from first quarter forecast. Strong energy prices have boosted the corporate profit outlook.

Other tax revenue is forecast at \$3.1 billion, \$167 million higher than estimated in the budget. The increase reflects higher revenue from freehold mineral rights tax, tobacco tax, fuel tax and insurance taxes. Changes to seniors' school property taxes, effective January 1, 2005, are expected to reduce school property tax revenue by \$1 million in the 2004-05 fiscal year.

TRANSFERS FROM GOVERNMENT OF CANADA

Transfers from the Government of Canada are forecast to increase by \$299 million to \$3.3 billion, comprising:

- \$272 million net increase in federal agriculture transfers. \$294 million for Bovine Spongiform Encephalopathy (BSE) related assistance is partly offset by lower crop reinsurance transfers.
- \$27 million net increase in other transfers. \$60 million in expected federal flood disaster assistance is partly offset by delayed transfers for transportation infrastructure and other reductions.

The second quarter forecast does not include the expected increase in federal health transfers of about \$200 million related to the 2004 Canada Health Accord. Details concerning this transfer have not yet been finalized.

INVESTMENT INCOME

Investment income is forecast at \$1.6 billion, \$391 million higher than estimated in the budget. The increase is due to:

- \$307 million increase in Heritage Fund income,
- \$40 million increase in endowment funds income, and
- \$44 million net increase in other investment income.

OTHER REVENUE

Total revenue from all other sources is \$40 million higher than estimated in the budget. Major changes from budget include:

- \$24 million increase in timber royalties and fees due to higher commodity prices for lumber products,
- \$22 million increase in net gaming revenue related to higher slot revenues and lower operational costs,
- \$35 million net decrease in health care insurance premiums. The exemption for seniors from paying premiums effective October 1, 2004 will reduce revenue by \$44 million. This is partly offset by an increased forecast for non-senior premiums revenue,
- \$29 million net increase in other revenue.

REVENUE*(millions of dollars)*

	2004-05		Change from		Main Reasons for Change from Budget
	2nd Quarter Budget	2nd Quarter Forecast	1st Quarter Budget	1st Quarter	
Income Taxes					
Personal income tax	5,085	4,833	(252)	(460)	Lower 2003 tax assessments
Corporate income tax	1,957	2,156	199	-	Stronger corporate profits
	<u>7,042</u>	<u>6,989</u>	<u>(53)</u>	<u>(460)</u>	
Other Taxes					
School property tax	1,233	1,232	(1)	-	Changes for seniors as of January 1, 2005
Tobacco tax	660	690	30	15	Higher volume
Fuel tax	607	630	23	10	Higher volume
Freehold mineral rights tax	204	297	93	21	Higher oil and natural gas prices
Insurance taxes	165	191	26	-	Higher 2003 industry premium revenue
Hotel room tax	60	56	(4)	-	Fewer hotel stays
	<u>2,929</u>	<u>3,096</u>	<u>167</u>	<u>46</u>	
Non-Renewable Resource Revenue					
Natural gas and by-products royalty	3,373	6,839	3,466	1,251	Higher natural gas prices
Crude oil royalty	558	1,193	635	261	Higher oil prices
Synthetic crude oil and bitumen royalty	100	554	454	217	Higher oil prices
Coal royalty	9	7	(2)	-	Revised forecast
Bonuses and sale of Crown leases	694	989	295	44	Higher bid price per hectare
Rentals and fees	145	152	7	8	Revised forecast
Royalty tax credit	(95)	(108)	(13)	(20)	Higher royalties
	<u>4,784</u>	<u>9,626</u>	<u>4,842</u>	<u>1,761</u>	
Transfers from Government of Canada					
Health transfers	1,625	1,622	(3)	32	Lower income tax revenue
Canada Social Transfer	679	676	(3)	23	Lower income tax revenue
Agriculture support programs	286	558	272	211	Increased BSE transfers
Other	381	414	33	-	Flood assistance
	<u>2,971</u>	<u>3,270</u>	<u>299</u>	<u>266</u>	
Net Income from Commercial Operations					
Alberta Gaming and Liquor Commission:					
Gaming and lottery revenue	1,162	1,184	22	32	Lower operating costs / higher slot revenue
Liquor revenue	551	551	-	-	
Alberta Treasury Branches	151	152	1	6	Lower deposit guarantee payment
Other	5	5	-	-	
	<u>1,869</u>	<u>1,892</u>	<u>23</u>	<u>38</u>	
Premiums, Fees and Licences					
Health care insurance premiums	928	893	(35)	6	Exemption for seniors as of October 1, 2004
Motor vehicle licences	270	280	10	(2)	Increased commercial truck licences
Crop and hail insurance premiums	153	135	(18)	5	Lower crop insurance coverage
Timber rentals and fees	64	88	24	24	Higher commodity prices
Land titles ^a	41	47	6	5	Increased registrations
Other ^a	277	284	7	2	Revised forecast
	<u>1,733</u>	<u>1,727</u>	<u>(6)</u>	<u>40</u>	
Investment Income					
Alberta Heritage Savings Trust Fund	631	938	307	-	Strong equity markets
Alberta Capital Finance Authority	314	314	-	-	
Agriculture Financial Services Corporation	85	82	(3)	-	Lower lending volume
Debt Retirement Account	10	40	30	-	Larger fund balance
Alberta Sustainability Fund	75	78	3	3	Larger fund balance
Endowment Funds:					
Medical Research	30	53	23	-	Strong equity markets
Science and Engineering Research	12	23	11	-	Strong equity markets
Scholarship	9	15	6	-	Strong equity markets
Other	60	74	14	12	Higher cash balances
	<u>1,226</u>	<u>1,617</u>	<u>391</u>	<u>15</u>	
Other					
Refunds of expense	81	84	3	3	Crop reinsurance proceeds
Fines and penalties	68	68	-	-	
Miscellaneous	249	269	20	17	Sale of assets
	<u>398</u>	<u>421</u>	<u>23</u>	<u>20</u>	
Total Revenue	22,952	28,638	5,686	1,726	

^a Budget numbers have been restated to reflect a \$4 million reallocation of revenue from "Other" to "Land titles" revenue.

Expense

Total expense is \$1.9 billion higher than the budget estimate. The increase includes:

- \$1.2 billion for emergency/disaster assistance and natural gas rebates from the Sustainability Fund,
- \$468 million in increased capital grants from the Capital Account,
- \$215 million net increase for in-year initiatives drawn against the Contingency Allowance, and
- \$26 million increase in dedicated revenue/expense.

SUSTAINABILITY FUND

Disaster/Emergency Assistance – \$830 million is being provided, an increase of \$451 million from first quarter:

- \$630 million net increase for BSE-related assistance, partially offset by \$294 million in increased federal BSE-related transfers,
- \$124 million for forest fire-fighting costs, and
- \$76 million for flood disaster assistance, partly offset by \$60 million in increased federal transfers.

Natural Gas Rebates – \$359 million in rebates are now expected to be paid during the November to March period, an increase of \$74 million from the first quarter forecast. Rebates are forecast to be paid in all five eligible months, with the first tier level reached in three of the months and the second tier level in two.

CAPITAL ACCOUNT

As reported in the first quarter, capital grants funded from the Capital Account have been increased by \$503 million. This included \$500 million for health capital grants and \$2.5 million for infrastructure grants to Banff and Jasper.

Due to changes in construction schedules, \$460 million of the health grants will now be provided in 2004-05 and \$40 million in 2005-06. Also, in October, a \$50 million rural supportive living capital program was announced, with \$5 million being funded in 2004-05 from the Capital Account and \$45 million in 2005-06.

The total net increase in capital grants from the Capital Account in 2004-05 is \$468 million.

FUNDING FROM THE CONTINGENCY ALLOWANCE

As reported in the first quarter, the \$260 million Contingency Allowance budgeted for in-year, non-emergency initiatives has been fully committed. This included \$215 million, primarily for health, education and seniors, and \$45 million in revenue reductions in health care insurance premiums and property taxes paid by seniors.

Non-emergency ministry program spending increases from first quarter have been offset by lower program spending in other areas or reflect increases in dedicated revenue/expense.

MINISTRY CHANGES

Agriculture, Food and Rural Development expense is \$592 million higher than budgeted. \$630 million has been provided for BSE-related costs, a \$417 million increase from the first quarter forecast. Partially offsetting this is a net \$38 million reduction in crop insurance and other programs.

Health and Wellness expense is \$362 million higher than budgeted. As noted in the first quarter, \$200 million is for health authority operating expense, \$150 million for capital grants, and \$12 million for various public health initiatives funded by federal transfers.

Infrastructure expense is \$663 million higher than budgeted. \$359 million is being provided for natural gas rebates and \$315 million for health infrastructure. This is partially offset by a net \$11 million decrease related to transfers to capital investment and other changes.

Learning expense has increased by \$51 million. As reported in the first quarter, a \$52 million increase was provided to hire new teachers and reduce class size. This is partially offset by a \$1 million transfer from program expense to capital investment.

Municipal Affairs expense has increased by \$78 million from budget. As reported in the first quarter, the increase is for flood disaster assistance and infrastructure grants to Banff and Jasper.

Seniors expense has increased \$34 million from budget, reflecting the \$30 million provided for Alberta Seniors Benefit enhancements and \$4.5 million for supportive living projects previously reported in Infrastructure.

Sustainable Resource Development expense has increased \$124 million from budget for forest fire-fighting costs. This is \$33 million higher than the first quarter forecast.

Other ministry increases from budget include:

Legislative Assembly – \$3 million for the Senate nominee election.

Energy – \$3 million for well abandonment costs and other EUB expenses fully offset by industry levies.

Human Resources and Employment – \$5 million for Workplace Health and Safety and the Labour Market Agreement for Persons with Disabilities, fully offset by increased WCB and federal transfers.

Justice – \$2 million to meet demands under the *Child, Family and Youth Enhancement Act* and the Criminal Division of the Calgary Provincial Court.

Solicitor General – \$6 million increase. \$3 million for the Victims of Crime Fund and \$3 million for Project KARE, an RCMP task force.

EXPENSE SUMMARY*(millions of dollars)*

	2004-05			
	Budget	2nd	Change from	
		Quarter	Budget	1st
	Budget	Forecast	Budget	Quarter
Program Expense				
Budget	22,286	22,286	-	-
Disaster/emergency assistance (from Sustainability Fund)	-	830	830	451
Natural gas rebates (from Sustainability Fund)	-	359	359	74
Increase in capital grants from Capital Account	-	468	468	(35)
In-year Contingency Allowance net expense ^a	-	215	215	-
Dedicated revenue/expense changes (net) ^b	-	26	26	23
Total Program Expense	22,286	24,184	1,898	513
Debt Servicing Costs	363	340	(23)	(23)
Total Expense	22,649	24,524	1,875	490

^a In addition, the Contingency Allowance is being used to provide \$45 million for in-year revenue reduction initiatives for seniors' health care insurance premiums and school property tax. Emergency/disaster assistance, natural gas rebates, capital grants funded from the Capital Account, dedicated revenue and expense changes, and expense increases offset by reductions in other program expense are not charges against the Contingency Allowance.

^b Dedicated revenue/expense changes – Agriculture, Food and Rural Development: \$10 million increase for agriculture programs; Children's Services: \$7.5 million federal transfer increase for early learning and child care; Energy: \$3 million for industry funded increases; Gaming: \$10 million decrease related to new gaming facilities and electronic bingo; Health and Wellness: \$12 million increase in federal transfers for various public health initiatives; Human Resources and Employment: \$5 million for workplace health and safety and labour market agreement for persons with disabilities; and minor changes in other ministries.

EXPENSE BY MINISTRY*(millions of dollars)*

Program	2004-05				1st Main Reasons for Change from Budget
	Budget	2nd	Budget	Quarter	
		Quarter			
	Budget	Forecast	Budget	Quarter	
Legislative Assembly	76	79	3	3	Senate nominee election
Aboriginal Affairs and Northern Development	36	36	-	-	
Agriculture, Food and Rural Development	908	1,500	592	433	BSE support
Children's Services	742	748	6	-	Early learning and child care
Community Development	691	689	(2)	(1)	NHL Teams Initiative
Economic Development	58	58	-	-	
Energy	191	194	3	3	Well abandonment costs
Environment	125	125	-	-	
Executive Council	21	21	-	-	
Finance	438	440	2	-	Auto insurance / APA operations
Gaming	165	155	(10)	-	Delays in new gaming facilities
Government Services	93	92	(1)	(1)	Transfer to capital
Health and Wellness	7,996	8,358	362	-	Health authority operations / capital
Human Resources and Employment	1,147	1,152	5	5	Labour market / health and safety
Infrastructure	1,528	2,191	663	28	Natural gas rebates / health facilities
Innovation and Science	205	205	-	-	
International and Intergovernmental Relations	8	8	-	-	
Justice	283	285	2	2	Increased legislated demands
Learning	5,272	5,323	51	(1)	Class size initiative
Municipal Affairs	123	201	78	-	Flood disaster assistance
Revenue	162	164	2	2	Interest on corporate tax refunds
Seniors	429	463	34	4	Seniors' benefits / supportive living
Solicitor General	346	352	6	3	Victims of Crime / RCMP task force
Sustainable Resource Development	205	329	124	33	Forest fire-fighting costs
Transportation	1,038	1,016	(22)	-	Lower amortization expense
Total Program Expense	22,286	24,184	1,898	513	
Debt Servicing Costs	363	340	(23)	(23)	Lower interest rates
Total Expense	22,649	24,524	1,875	490	

Alberta Sustainability Fund

ASSETS OF THE SUSTAINABILITY FUND

- The net transfer to the Sustainability Fund (after the \$1.2 billion in allocations for emergencies/disasters and rebates) is forecast to be \$4.2 billion higher than budget and \$594 million higher than the first quarter forecast.
- As reported in the *First Quarter Fiscal Update*, \$3.7 billion will be reallocated from the Sustainability Fund to the Debt Retirement Account and \$1.1 billion is being reallocated to the Capital Account. This leaves the net assets of the Sustainability Fund at nearly \$3.2 billion, \$667 million higher than budgeted.

SUSTAINABILITY FUND TRANSFERS

- The *Fiscal Responsibility Act* requires non-renewable resource revenue above \$4 billion to be transferred to the Sustainability Fund. This transfer is forecast at \$5.6 billion, \$4.8 billion higher than budgeted.
- Withdrawals from the Fund are permitted to pay for the cost of emergencies/disasters, rebates under the *Natural Gas Price Protection Act* and First Nations settlements. Withdrawals of \$1.2 billion are forecast:
 - ◆ \$830 million for emergency/disaster assistance for agriculture, forest fires and floods, and
 - ◆ \$359 million for natural gas rebates.

- Other net transfers to the Fund total \$789 million, consisting of:
 - ◆ \$863 million increase in revenue (excluding non-renewable resource revenue, \$45 million in revenue reduction initiatives charged against the Contingency Allowance, and net \$26 million in dedicated revenue/expense increases),
 - ◆ \$23 million reduction in debt servicing costs,
 - ◆ less \$97 million required for the net increase in capital cash requirements and financial assets of funds and agencies.

CASH ADJUSTMENTS

- As reported in the *First Quarter Fiscal Update*, \$510 million in cash became available for transfer to the Sustainability Fund after March 31, 2004, because of the better-than-forecast 2003-04 fourth quarter results. This amount was not reflected in the *Budget 2004* estimate.
- Other cash adjustments are \$771 million lower than estimated in the budget primarily related to natural gas royalties. Cash adjustments reflect the differences between accrued revenue and cash receipts, non-cash expenses and transfers not reported on the income statement.

ALBERTA SUSTAINABILITY FUND

AT MARCH 31, 2005

(millions of dollars)

	Budget	2nd	Change from	
		Quarter	Budget	1st
		Forecast		Quarter
Assets at start of year	2,500	2,500	-	-
Transfers to (from) Sustainability Fund				
Non-renewable resource revenue transfer from general revenue	784	5,626	4,842	1,761
Transfer for disaster and emergency program expense	-	(830)	(830)	(451)
Transfer for the Natural Gas Rebate Program expense	-	(359)	(359)	(74)
Other net transfers	-	789	789	(56)
Total net transfers	784	5,226	4,442	1,180
Cash adjustments:				
Cash from 2003-04 fourth quarter results ^a	-	510	510	-
Natural gas royalties	547	(482)	(1,029)	(703)
Other	21	279	258	117
Total cash adjustments	568	307	(261)	(586)
Assets prior to reallocation	3,852	8,033	4,181	594
Reallocation to:				
Debt Retirement Account	726	3,730	3,004	-
Capital Account	626	1,136	510	-
Assets at End of Year	2,500	3,167	667	594

^a \$510 million was added to the Sustainability Fund in 2004-05 and then reallocated to the Capital Account from the better-than-forecast fourth quarter results for the 2003-04 fiscal year.

Capital Plan

- Capital asset acquisitions, which include capital grants to local authorities and capital investment in provincial government-owned projects, are forecast at \$2.85 billion. This is \$460 million higher than budgeted, but \$32 million lower than reported in the first quarter. The decrease from the first quarter forecast is mainly due to construction scheduling changes in health infrastructure.
- As reported in the *First Quarter Fiscal Update* the increase from budget primarily reflects additional capital grants for health capital funded from the Capital Account.
- The changes in the Capital Plan include:
 - ◆ **Health Facilities and Equipment** – The *First Quarter Fiscal Update* reported an additional \$500 million in health capital grants to health authorities for facilities and equipment. Subsequent changes in construction schedules will result in \$40 million of this funding and \$12 million of the original health capital budget not being required until 2005-06. In October, a \$50 million capital program was announced for the development of supportive living facilities for low and moderate income seniors in rural communities. \$5 million will be used in 2004-05 and the remaining \$45 million in 2005-06. Total spending on health related facilities and equipment will be \$886 million, a net increase of \$453 million over the original budget.
 - ◆ **Provincial Highway Network** – As reported in the *First Quarter Fiscal Update*, the \$18 million increase from budget is for the carry-over of unfinished projects in 2003-04, for highway tourism signage, and other capital investment.
 - ◆ **Community Facilities** – As reported in the *First Quarter Fiscal Update*, the \$17 million increase from budget includes additional funding of \$14 million for the Northern and Southern Jubilee Auditoria refurbishment projects and \$2.5 million for the Banff/Jasper Special Infrastructure Assistance Program.
 - ◆ **Other Infrastructure** – As reported in the first quarter, there is a \$10 million reduction. Project rescheduling for some projects is partly offset by an addition of \$3.5 million for the Canmore Nordic Centre Facility in preparation for the 2005 Cross Country Ski World Cup.
 - ◆ **General Government Capital** – There is a \$21 million reduction in general government capital. This reflects a \$41 million reduction in 2004-05 costs for the Calgary Courts Centre due to rescoping of the project. Funding for the project is being provided from the Capital Account rather than through alternative financing. Partly offsetting this decrease is \$20 million in additional spending for vaccines, land purchases and other capital projects.

CAPITAL PLAN SUMMARY

(millions of dollars)

	2004-05			
	Budget	2nd Quarter Forecast	Change from Budget	1st Quarter
Provincial highway network	587	605	18	-
Municipal transportation grants	324	327	3	3
Health facilities and equipment	433	886	453	(47)
Schools	221	221	-	-
Post-secondary facilities	228	228	-	-
Water and wastewater management	89	89	-	-
Community facilities and centennial projects	95	112	17	-
Other infrastructure programs	163	153	(10)	-
Other government capital and information technology	253	232	(21)	12
Total Capital Plan	2,393	2,853	460	(32)
To be funded by:				
Current-year revenue	1,154	1,187	33	3
Capital Account	1,088	1,642	554	(35)
Alternative financing including P3s	151	24	(127)	-
Total Capital Plan	2,393	2,853	460	(32)

Net Financial and Capital Assets

- **Net Assets** – Alberta's net assets are forecast at \$25.1 billion as of March 31, 2005. This includes nearly \$11 billion in capital assets and is net of \$5.2 billion in pension obligations.
- **Accumulated Debt** – Accumulated debt, net of cash set aside in the Debt Retirement Account, is forecast to be eliminated as of March 31, 2005. This is a \$3.7 billion reduction from March 31, 2004 and a \$3 billion improvement from the budget estimate. At March 31, 2005, \$3.5 billion will be in the Debt Retirement Account to pay off accumulated debt as it matures.
- **Capital Account** – The Capital Account is forecast at \$674 million as of March 31, 2005. Subsequent to *Budget 2004*, \$510 million from better-than-forecast 2003-04 fourth quarter results was transferred to the Sustainability Fund and then reallocated to the Capital Account. Withdrawals from the Capital Account have been increased from budget by \$554 million (\$468 million for capital grants to local authorities and \$86 million for capital investment).
- **Heritage Fund** – The book value of the Heritage Fund is forecast at \$11.3 billion as of March 31, 2005, unchanged from budget. This represents the recorded value of Heritage Fund external investments. The fair market value of the Heritage Fund at September 30, 2004 was estimated at \$11.9 billion.
- **Pension Obligations** – Pension obligations are forecast at \$5.2 billion, an increase of \$22 million from budget and \$141 million from March 31, 2004. They are scheduled for elimination under a separate legislative plan and are not subject to the *Fiscal Responsibility Act*.

BALANCE SHEET

AT MARCH 31

(millions of dollars)

	2004 <i>Actual</i>	2005				2004 <i>Actual</i>
		Budget ^a	2nd Quarter Forecast	Budget	Change from 1st Quarter	
Financial Assets						
Heritage Fund external investments	11,267	11,273	11,273	-	-	6
Self-supporting lending organizations	5,597	5,607	5,566	(41)	207	(31)
Alberta Sustainability Fund	2,500	2,500	3,167	667	594	667
Endowment funds	1,622	1,578	1,617	39	1	(5)
Capital Account	1,180	718	674	(44)	35	(506)
Debt Retirement Account ^b	1,241	478	3,471	2,993	(3)	2,230
Other financial assets	5,858	4,728	4,620	(108)	490	(1,238)
Total Financial Assets	29,265	26,882	30,388	3,506	1,324	1,123
Liabilities						
Accumulated debt	4,971	3,482	3,471	(11)	(3)	(1,500)
Pension obligations	5,059	5,178	5,200	22	-	141
Self-supporting lending organizations	4,556	4,489	4,517	28	246	(39)
Other liabilities	4,131	3,409	3,112	(297)	(139)	(1,019)
Total Liabilities	18,717	16,558	16,300	(258)	104	(2,417)
Net Financial Assets	10,548	10,324	14,088	3,764	1,220	3,540
Capital assets ^c	10,534	10,942	10,967	25	16	433
Net Assets	21,082	21,266	25,055	3,789	1,236	3,973
Adjustment for pension obligations	5,059	5,178	5,200	22	-	141
Net Assets for Fiscal Policy Purposes	26,141	26,444	30,255	3,811	1,236	4,114

^a Budget numbers have been restated to reflect 2003-04 actual results.

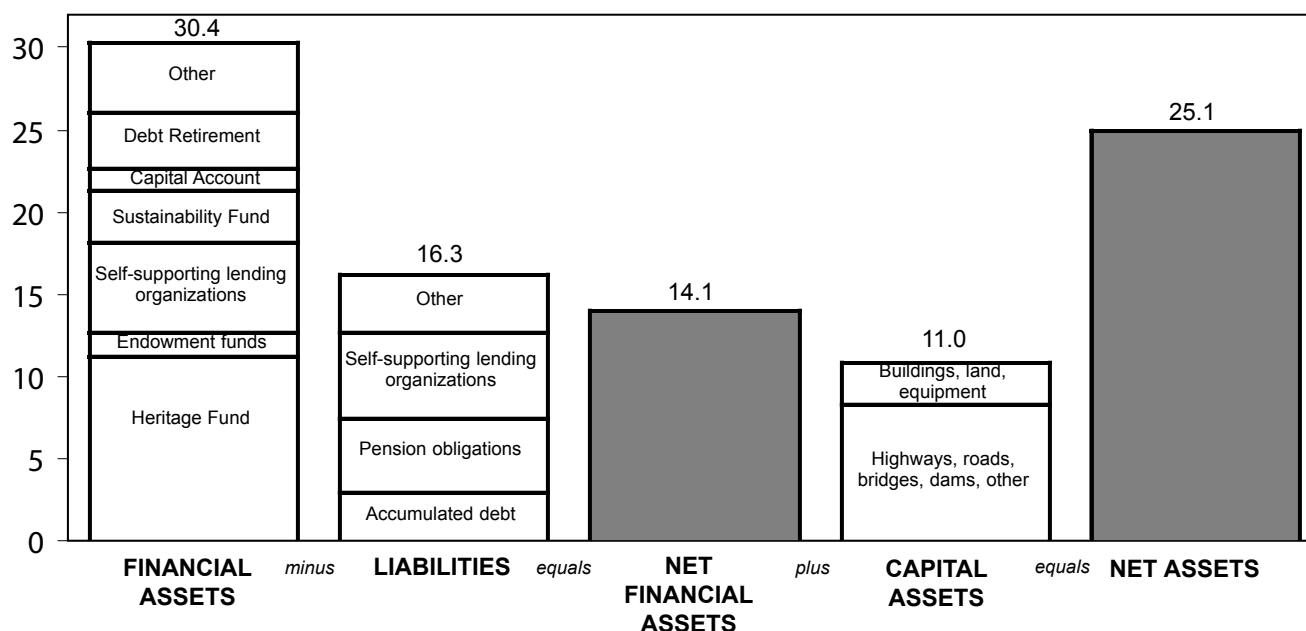
^b At March 31, 2005, financial assets in the Debt Retirement Account equal the remaining accumulated debt that has not matured.

^c Includes inventories of supplies.

ASSETS, LIABILITIES AND NET ASSETS

AT MARCH 31, 2005

(billions of dollars)



NET FINANCING REQUIREMENTS

(millions of dollars)

	2004-05			
	Budget	2nd	Change from	
		Quarter	Budget	1st
	Budget	Forecast	Budget	Quarter
Requirements:				
General Revenue Fund term debt maturities	1,435	1,443	8	-
School construction loan repayments	75	75	-	-
Adjustments	(21)	(18)	3	2
Accumulated debt financing requirements	1,489	1,500	11	2
Provincial corporations' term borrowing requirements	247	197	(50)	(8)
Gross financing requirements	1,736	1,697	(39)	(6)
Cash applied to accumulated debt repayment	(1,489)	(1,500)	(11)	(2)
Net Term Debt Financing Requirements	247	197	(50)	(8)

FISCAL YEAR ASSUMPTIONS, 2004-05

	Sensitivities (\$ millions)				Assumptions	
	Change	Revenue	Spending	Net Change	2nd Quarter	
					Budget	Forecast
Oil Price (WTI US\$/bbl)	-\$1.00	-65	—	-65	26.00	42.00
Natural Gas Price (Cdn\$/mcf)	-10c	-105	—	-105	4.20	6.85
Exchange Rate (US¢/Cdn\$)	+1c	-118	-6	-112	77.0	77.3
Interest Rates:	+1%	-93	+10	-103		
3-month Canada treasury bills					2.50	2.45
10-year Canada bonds					5.15	4.80

^a Sensitivities show the effect for a full 12 month period. They can vary significantly at different price and rate levels. The energy price sensitivities do not include the potential impact of price changes on the revenue from land sales. The interest rate sensitivity has two components, an increase in cash interest income and a capital loss. When interest rates rise, bond prices go down, causing a capital loss.

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

	2004-05				2004-05			
	Capital Investment				Capital Amortization			
	2nd		Change from		2nd		Change from	
	Budget	Forecast	Budget	1st Quarter	Budget	Forecast	Budget	1st Quarter
Legislative Assembly	-	-	-	-	-	-	-	-
Aboriginal Affairs and Northern Development	-	-	-	-	-	-	-	-
Agriculture, Food and Rural Development	13	13	-	-	8	8	-	-
Children's Services	-	2	2	-	1	1	-	(1)
Community Development	7	11	4	-	10	10	-	-
Economic Development	-	-	-	-	-	-	-	-
Energy	11	11	-	-	14	14	-	-
Environment	4	4	-	-	19	19	-	-
Executive Council	-	-	-	-	-	-	-	-
Finance	2	4	2	2	3	3	-	-
Gaming	-	-	-	-	-	-	-	-
Government Services	4	5	1	1	5	5	-	-
Health and Wellness	67	70	3	-	23	26	3	-
Human Resources and Employment	4	4	-	-	3	3	-	-
Infrastructure	205	175	(30)	9	55	55	-	4
Innovation and Science	48	47	(1)	-	21	21	-	-
International and Intergovernmental Relations	-	-	-	-	-	-	-	-
Justice	1	1	-	-	2	2	-	-
Learning	6	7	1	1	5	5	-	-
Municipal Affairs	2	2	-	-	2	2	-	-
Revenue	3	3	-	-	3	3	-	-
Seniors	-	-	-	-	24	24	-	-
Solicitor General	-	-	-	-	-	-	-	-
Sustainable Resource Development	11	13	2	-	11	11	-	-
Transportation	501	518	17	-	257	228	(29)	(5)
Total Capital Investment/Amortization	889	890	1	13	466	440	(26)	(2)
Funded from the Capital Account	347	433	86	-	-	-	-	-
Alternatively financed	151	24	(127)	-	-	-	-	-

^a Capital investment includes purchases of inventory. Amortization includes consumption of inventories.**CAPITAL GRANTS TO LOCAL AUTHORITIES AND OTHER INFRASTRUCTURE SUPPORT^a***(millions of dollars)*

	2004-05			
	2nd		Change from	
	Quarter		1st	
	Budget	Forecast	Budget	Quarter
Agriculture, Food and Rural Development	24	24	-	-
Community Development	14	14	-	-
Environment	1	1	-	-
Gaming	39	39	-	-
Health and Wellness	50	200	150	-
Infrastructure	798	1,095	297	(53)
Innovation and Science	10	10	-	-
Municipal Affairs	-	3	3	-
Revenue	4	4	-	-
Seniors	51	56	5	5
Transportation	513	517	4	3
Total	1,504	1,963	459	(45)
Funded from the Capital Account	741	1,209	468	(35)

^a Included in program expense.

ACTUAL RESULTS

FOR THE FIRST SIX MONTHS OF 2004-05

METHOD OF CONSOLIDATION

This financial summary is prepared on the same basis as used in *Budget 2004*.

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 2003-04 figures have been reclassified where necessary to conform to 2004-05 presentation.

CONSOLIDATED FISCAL SUMMARY^a

for the six months ended September 30, 2004 (unaudited)

(millions of dollars)

	First Six Months		
	2004-05	2003-04	Change
Revenue			
Income taxes	3,237	2,895	342
Other taxes	1,585	1,427	158
Non-renewable resource revenue	5,040	3,773	1,267
Transfers from Government of Canada	1,718	1,202	516
Net income from commercial operations	1,001	929	72
Premiums, fees and licences	1,012	985	27
Investment income	838	712	126
Other	180	188	(8)
Total Revenue	14,611	12,111	2,500
Expense			
Program	11,244	10,276	968
Debt servicing costs	166	133	33
Total Expense	11,410	10,409	1,001
Net Revenue	3,201	1,702	1,499

^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, 2004 (unaudited)

(millions of dollars)

	First Six Months		Change
	2004-05	2003-04	
Program			
Legislative Assembly	26	25	1
Aboriginal Affairs and Northern Development	22	21	1
Agriculture, Food and Rural Development	731	496	235
Children's Services	362	356	6
Community Development	344	309	35
Economic Development	27	25	2
Energy	82	91	(9)
Environment	56	49	7
Executive Council	9	8	1
Finance	215	220	(5)
Gaming	51	55	(4)
Government Services	44	37	7
Health and Wellness	3,912	3,587	325
Human Resources and Employment	562	540	22
Infrastructure	685	700	(15)
Innovation and Science	75	69	6
International and Intergovernmental Relations	3	3	-
Justice	148	132	16
Learning	2,631	2,490	141
Municipal Affairs	63	80	(17)
Revenue	66	58	8
Seniors	201	180	21
Solicitor General	162	136	26
Sustainable Resource Development	213	223	(10)
Transportation	554	386	168
Total Program Expense	11,244	10,276	968
Debt Servicing Costs	166	133	33
Total Expense	11,410	10,409	1,001

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