

BUDGET 2002

THE RIGHT DECISIONS FOR CHALLENGING TIMES



THIRD QUARTER FISCAL UPDATE

2002-03 QUARTERLY BUDGET REPORT

FEBRUARY 26, 2003

Alberta
GOVERNMENT OF ALBERTA

UPDATING ALBERTANS

The Third Quarter Fiscal Update is comprised of two parts – the updated 2002-03 forecast and the actual results for the first nine months of the fiscal year (April 1 to December 31, 2002).

TABLE OF CONTENTS

2002-03 Forecast

Highlights	1
Revenue	2
Expense	4
Net Change in Capital Assets	6
Allocation of Economic Cushion	7
Net Assets and Accumulated Debt	8
Cash Available from 2002-03 Operations	9
Accumulated Debt	9
Net Financing Requirements	9
Fiscal Year Assumptions	10
Actual Results	11
Consolidated Fiscal Summary	12
Expense	13
Net Increase in Capital Assets affecting Operations	14

ACTUAL RESULTS

FOR THE FIRST NINE MONTHS OF 2002-03

METHOD OF CONSOLIDATION

This financial summary is prepared on the same basis as used in *Budget 2002*.

The results of all government departments, funds and agencies, except those designated as commercial enterprises, are consolidated on a line-by-line basis. Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of Crown-controlled corporations and provincial agencies designated as commercial enterprises are consolidated on an equity basis, the equity being computed in accordance with generally accepted accounting principles.

BASIS OF FINANCIAL REPORTING

The consolidated fiscal summary reports revenue (including proceeds from sale of capital assets), expense (including amortization of capital assets), and net revenue. Consistent with the policy that capital assets are not included in the province's financial assets, losses on disposal and write-downs of capital assets do not affect revenue, expense or net revenue for the period. The intermediate result of operations (net revenue) is then adjusted for the difference between capital investment and capital asset amortization. The final result is the consolidated net results of operations subject to the *Fiscal Responsibility Act*.

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

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue. Debt servicing costs include interest payable, amortization of discount on debt issues, and amortization of unrealized exchange gains and losses on unhedged foreign currency debt.

Comparative 2001-02 figures have been restated where necessary to conform to 2002-03 presentation.

CONSOLIDATED FISCAL SUMMARY^a

for the nine months ended December 31, 2002 (unaudited)

(millions of dollars)

	First Nine Months		Change
	2002-03	2001-02	
Revenue			
Income Taxes	5,060	4,458	602
Other Taxes	1,992	1,843	149
Non-Renewable Resource Revenue	4,557	5,107	(550)
Transfers from Government of Canada	1,764	1,876	(112)
Net Income from Commercial Operations	1,439	1,326	113
Premiums, Fees and Licences	1,249	1,026	223
Investment (Loss) Income	(318)	475	(793)
Other	627	335	292
Total Revenue	16,370	16,446	(76)
Expense			
Program	14,874	14,279	595
Debt Servicing Costs	444	609	(165)
Total Expense	15,318	14,888	430
Net Revenue	1,052	1,558	(506)
Net Increase in Capital Assets affecting Operations ^b	74	278	(204)
Net Results of Operations	978	1,280	(302)

^a Subject to the *Fiscal Responsibility Act*. Includes the province's annual cash payments towards the unfunded pension liability, which will be eliminated over a longer term under a separate legislated plan. Does not include the annual change in the unfunded pension obligations, which is a non-cash expense that does not affect borrowing requirements.

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

EXPENSE

for the nine months ended December 31, 2002 (unaudited)

(millions of dollars)

	First Nine Months		Change
	2002-03	2001-02	
Program			
Legislative Assembly	40	34	6
Aboriginal Affairs and Northern Development	41	26	15
Agriculture, Food and Rural Development	1,573	869	704
Children's Services	476	484	(8)
Community Development	421	414	7
Economic Development	34	35	(1)
Energy	119	105	14
Environment	73	86	(13)
Executive Council	10	10	-
Finance	338	312	26
Gaming	66	85	(19)
Government Services	47	42	5
Health and Wellness	4,999	4,570	429
Human Resources and Employment	783	744	39
Infrastructure	650	1,510	(860)
Innovation and Science	105	109	(4)
International and Intergovernmental Relations	4	4	-
Justice	182	162	20
Learning	3,460	3,268	192
Municipal Affairs	120	120	-
Revenue	133	78	55
Seniors	204	218	(14)
Solicitor General	191	184	7
Sustainable Resource Development	365	250	115
Transportation	440	560	(120)
Total Program Expense	14,874	14,279	595
Debt Servicing Costs	444	609	(165)
Total Expense	15,318	14,888	430

NET INCREASE IN CAPITAL ASSETS AFFECTING OPERATIONS

for the nine months ended December 31, 2002 (unaudited)

(millions of dollars)

	First Nine Months		Change
	2002-03	2001-02	
Capital Investment			
Legislative Assembly	-	-	-
Aboriginal Affairs and Northern Development	-	-	-
Agriculture, Food and Rural Development	4	1	3
Children's Services	-	-	-
Community Development	-	2	(2)
Economic Development	-	-	-
Energy	14	14	-
Environment	-	1	(1)
Executive Council	-	-	-
Finance	3	3	-
Gaming	-	-	-
Government Services	-	-	-
Health and Wellness	2	2	-
Human Resources and Employment	1	2	(1)
Infrastructure	17	12	5
Innovation and Science	19	6	13
International and Intergovernmental Relations	-	-	-
Justice	1	1	-
Learning	1	2	(1)
Municipal Affairs	-	-	-
Revenue	2	1	1
Seniors	-	-	-
Solicitor General	-	-	-
Sustainable Resource Development	3	3	-
Transportation	246	415	(169)
	313	465	(152)
Less: Capital Amortization	239	187	52
Net Increase in Capital Assets affecting Operations	74	278	(204)

2002-03 FORECAST

Highlights

- ◆ The economic cushion is forecast at \$1.765 billion, about \$1 billion higher than estimated in the budget.
- ◆ Revenue is forecast to be up \$2.7 billion from the budget. The increase reflects higher resource and income tax revenue, offset by lower investment income.
- ◆ Program spending has increased by \$1.7 billion from the budget. Almost \$1.4 billion of the increase is due to emergency and disaster funding for agriculture, forest fire-fighting costs and flood assistance.
- ◆ Because of a lag in receiving natural gas royalties, some cash from this year's economic cushion will not be available until next year. This will result in a positive cash adjustment in 2003-04 that will be deposited in the Alberta Sustainability Fund.
- ◆ Of the \$1.4 billion of cash available this year from the 2002-03 economic cushion, \$500 million is allocated to debt reduction and \$910 million is being allocated to a new Capital Account.
- ◆ The \$500 million debt allocation will reduce accumulated debt (net of cash set aside for future debt repayment) to \$4.8 billion as of March 31, 2003.
- ◆ The \$910 million allocated to the Capital Account will be used to fund capital projects starting in 2003-04. The Capital Account will be established under the *Financial Statutes Amendment Act, 2003*.

CONSOLIDATED FISCAL SUMMARY^a

(millions of dollars)

	2002-03			
	Budget	3rd Quarter Forecast	Change from	
			Budget	2nd Quarter
1 Revenue	19,855 ^b	22,596	2,741	2,102
2 Expense				
3 Program	18,453 ^b	20,173	1,720	591
4 Debt Servicing Costs	585	550	(35)	(30)
5 Total Expense	19,038	20,723	1,685	561
6 Net Revenue	817	1,873	1,056	1,541
7 Less: Net Increase in Capital Assets affecting Operations ^c	93	108	15	(25)
8 Economic Cushion	724	1,765	1,041	1,566
9 Planned Allocation of Economic Cushion				
10 Debt Repayment/Capital Account/Financial Assets	543	1,765	1,222	1,566
11 Contingency Reserve	181	-	(181)	-
12 Accumulated Debt (net of cash set aside)	5,083 ^d	4,761	(322)	N/A ^e
13 Net Assets at March 31, 2003	10,357 ^d	11,579	1,222	1,566

^a Subject to the *Fiscal Responsibility Act*.

^b Budget numbers have been restated pursuant to the *Gaming and Liquor Amendment Act, 2002*, resulting in a reduction of \$118 million in both revenue and expense.

^c Converts capital to pay-as-you-go basis.

^d Budget numbers have been restated to reflect actual results for 2001-02. At March 31, 2002, accumulated debt, net of cash set aside for future debt repayment, was \$5.261 billion. Net assets as at March 31, 2002 amounted to \$9.814 billion, excluding pension obligations. Pension obligations are forecast to increase in 2002-03 by \$67 million to \$4.838 billion.

^e Not applicable. Potential 2002-03 allocation was under review in the *Second Quarter Fiscal Update*.

Revenue

NON-RENEWABLE RESOURCE REVENUE

Non-renewable resource revenue is forecast at \$6.4 billion, \$2.7 billion higher than the budget estimate, and \$1.4 billion higher than forecast in the *Second Quarter Fiscal Update*.

Natural gas prices are now expected to average Cdn\$4.65 per thousand cubic feet for the fiscal year, up \$1.65 from the budget. Natural gas prices have been buoyed by a decline in U.S. and Canadian natural gas production, colder than normal fall and winter weather in key gas consuming regions, and higher oil prices. Natural gas royalties are now forecast at \$4.6 billion, \$2 billion higher than budgeted.

Oil prices are forecast to average US\$28.86 per barrel over the fiscal year, up \$8.86 from the budget, due to Middle East tensions and a disruption of supply from Venezuela. Higher prices have encouraged increased oil sands production. Total oil royalties are forecast at \$1.3 billion, about \$700 million higher than budgeted.

INCOME TAX REVENUE

Income tax revenue is now forecast at \$7.3 billion, \$1 billion higher than the budget estimate, and \$370 million higher than the second quarter forecast.

Higher energy prices and stronger-than-expected cash receipts have increased the corporate income tax revenue forecast to \$2.4 billion, \$850 million higher than budgeted.

Personal income tax revenue is expected to be \$4.9 billion, \$159 million higher than budgeted, due to stronger employment and income growth.

TRANSFERS FROM GOVERNMENT OF CANADA

The forecast for federal transfers has been reduced to \$2.1 billion, \$99 million less than budgeted.

The Canada Health and Social Transfer (CHST) is \$400 million lower than budgeted as a result of updated prior year tax assessment data. The 2001 tax year data indicate that Alberta's share of the national tax point transfer component of CHST has increased. This reduces the cash portion of the transfer.

The reduction in CHST is partly offset by an increase of \$291 million in federal transfers for agriculture assistance, and \$10 million (net) in other federal transfers including disaster assistance and the Canada/Alberta Affordable Housing Agreement.

INVESTMENT INCOME

Total investment income was budgeted at \$1.2 billion. It is now forecast at negative \$119 million, \$1.3 billion below the budget estimate.

The decline in equity markets is expected to result in a \$704 million loss in the Heritage Fund and other endowment funds (rather than budgeted net revenue of \$635 million). This loss includes a \$506 million write-down in assets, where the value is considered permanently impaired, and net realized losses of \$198 million.

Other investment income (primarily from Alberta Municipal Financing Corporation and interest on debt retirement funds) is up \$36 million from the budget.

OTHER REVENUE

Total revenue from all other sources is forecast at \$7 billion, an increase of \$420 million from the budget. The increase is mainly due to:

- ◆ private crop reinsurance recoveries, \$113 million,
- ◆ Alberta Treasury Branches, \$82 million,
- ◆ freehold mineral rights tax, \$69 million,
- ◆ forest fire insurance recoveries, \$55 million,
- ◆ health care insurance premiums, \$28 million, and
- ◆ Alberta Dairy Control Board, \$24 million.

REVENUE*(millions of dollars)*

	2002-03				Main Reasons for Change from Budget
	Budget	3rd Quarter Forecast	Change from		
			Budget	2nd Quarter	
Income Taxes					
Personal income tax	4,708	4,867	159	220	Strong employment and income growth
Corporate income tax	1,550	2,400	850	150	Higher energy prices/year-to-date cash receipts
	<u>6,258</u>	<u>7,267</u>	<u>1,009</u>	<u>370</u>	
Other Taxes					
School property tax	1,093	1,096	3	3	Change in opted-out school boards' share
Tobacco tax	633	633	-	-	
Fuel tax	594	590	(4)	-	Lower volume
Insurance corporations tax	139	151	12	12	Prior-year adjustments
Freehold mineral rights tax	127	196	69	34	Higher oil and natural gas prices
Hotel room tax	50	55	5	-	Higher business and tourism hotel stays
	<u>2,636</u>	<u>2,721</u>	<u>85</u>	<u>49</u>	
Non-Renewable Resource Revenue					
Natural gas and by-products royalty	2,573	4,584	2,011	1,253	Higher natural gas prices
Crude oil royalty	469	1,120	651	172	Higher oil prices
Synthetic crude oil and bitumen royalty	78	135	57	10	Higher oil prices and production
Coal royalty	12	11	(1)	(4)	Prior-year adjustments
Bonuses and sale of Crown leases	609	539	(70)	(5)	Lower bid prices and hectares sold
Rentals and fees	142	156	14	6	Higher number of oil sands hectares renewed
Royalty tax credit	(169)	(117)	52	14	Higher oil and natural gas prices
	<u>3,714</u>	<u>6,428</u>	<u>2,714</u>	<u>1,446</u>	
Transfers from Government of Canada					
Canada Health and Social Transfer	1,739	1,339	(400)	(148)	Strong Alberta tax revenue
Primary health care	14	11	(3)	(3)	Deferrals in program
Labour market development	122	122	-	-	
Agriculture support programs	117	408	291	191	Higher farm disaster and income support
Other	176	189	13	1	Funding for disasters and affordable housing
	<u>2,168</u>	<u>2,069</u>	<u>(99)</u>	<u>41</u>	
Net Income from Commercial Operations					
Alberta Gaming and Liquor Commission ^a					
Gaming and lottery revenue	1,107	1,112	5	5	Higher ticket lottery and slot revenue
Liquor revenue	538	533	(5)	(5)	Lower volume of sales
Alberta Treasury Branches	117	199	82	51	Lower credit losses/recovery of prior write-offs
Other	5	5	-	-	
	<u>1,767</u>	<u>1,849</u>	<u>82</u>	<u>51</u>	
Premiums, Fees and Licences					
Health care insurance premiums	869	897	28	28	Higher population growth
Motor vehicle licences	254	240	(14)	(9)	Lower commercial vehicle registrations
Crop and hail insurance premiums	88	102	14	(8)	Higher crop insurance participation
Timber rentals and fees	55	53	(2)	(5)	Lower timber prices
Land titles	33	40	7	-	Higher level of real estate market activity
Other	262	260	(2)	(8)	Revised forecast
	<u>1,561</u>	<u>1,592</u>	<u>31</u>	<u>(2)</u>	
Investment Income					
Alberta Heritage Savings Trust Fund	573	(595)	(1,168)	48	Weak equity markets
Alberta Municipal Financing Corporation	331	340	9	1	Increased lending activity
Agriculture Financial Services Corporation	103	102	(1)	3	Lower lending activity
Debt retirement funds	75	102	27	(3)	Higher assets
Endowment Funds:					
Medical Research	38	(63)	(101)	5	Weak equity markets
Science and Engineering Research	13	(24)	(37)	7	Weak equity markets
Scholarship	11	(22)	(33)	1	Weak equity markets
Other	40	41	1	3	Revised forecast
	<u>1,184</u>	<u>(119)</u>	<u>(1,303)</u>	<u>65</u>	
Other					
Alberta Dairy Control Board	125	149	24	1	Higher milk production
Refunds of expenditure	78	251	173	63	Crop reinsurance/forest fire insurance proceeds
Fines and penalties	59	57	(2)	(3)	Revised forecast
Miscellaneous	305	332	27	21	Higher rentals and recoveries
	<u>567</u>	<u>789</u>	<u>222</u>	<u>82</u>	
Total Revenue	19,855	22,596	2,741	2,102	

^a Budget numbers have been restated pursuant to the *Gaming and Liquor Amendment Act, 2002*, resulting in a reduction of \$118 million in both revenue and expense.

Expense

Aboriginal Affairs and Northern Development expense is up \$34 million from the budget for First Nations consultations and the Piikani First Nation settlement announced in the second quarter.

Agriculture, Food and Rural Development expense is forecast to be up \$1.1 billion from the budget, almost entirely for drought-related assistance: \$623 million for crop insurance payments, \$324 million in acreage payments and payments for covered crops and beehives, and \$138 million under the Farm Income Disaster, grasshopper control and farm water programs.

Part of this higher spending is funded by \$443 million in increased agriculture-related revenue, including transfers from the federal government.

Gaming expense is up \$26 million from the budget. The \$31 million provided for the Community Initiatives Program in the first quarter is partially offset by a reduction in flow-through payments for NHL lottery ticket sales and delayed implementation of electronic bingo.

Health and Wellness expense is up \$25 million from the budget because of higher utilization of and prices for prescription drugs.

Human Resources and Employment expense is up \$25 million from the budget, as participation in the Skills Development Program is higher than anticipated.

Learning expense is up \$66 million from the budget. \$60 million is being allocated to the Teachers' Pension Plan to fulfill the commitment to pay the teacher's share of pre-1992 unfunded pension liabilities for one year. Additional funding is also being provided for Rutherford Scholarships, the unique benefit cost increases imposed only on the Calgary Board of Education in the arbitrated settlement, and the government's share of teachers' pension costs.

Municipal Affairs expense is up \$29 million from the budget to pay for disaster recovery assistance programs and an increase for underground petroleum storage tank site remediation.

Revenue expense is up \$36 million from the budget. Reassessments have increased interest expense on corporate income tax refunds by \$58 million. This is offset partly by a reduction in the spending of the Alberta Heritage Foundation for Medical Research Endowment Fund.

Sustainable Resource Development expense is up \$250 million from the budget. Forest fire-fighting costs have increased by \$248 million. Part of this cost is funded by insurance proceeds of \$55 million. An additional \$2 million has been provided for the Natural Resources Conservation Board's review of confined feeding operations.

Transportation expense is up \$57 million from budget. \$41 million is related to revised forecasts of amortization and inventory consumption costs for the Secondary Highway System, and \$16 million was provided in the first quarter to reinstate some deferred projects.

Other ministry increases include:

- ◆ **Economic Development** - \$4 million for tourism marketing and services.
- ◆ **Energy** - \$12 million for the Orphan Well Abandonment Program, a call centre to handle electricity billing accuracy and efficiency reports, and waste facility abandonment remediation.
- ◆ **Finance** - \$9 million for increased lending activity of the Alberta Municipal Financing Corporation.
- ◆ **Government Services** - \$7 million for an initial phase of a drivers licence upgrade program and transfers from capital investment to operating expense.
- ◆ **Infrastructure** - \$13 million increase, including additional funding for deferred school projects announced in the first quarter, seniors' lodges and property operations, partly offset by lapses in other areas.
- ◆ **Justice** - \$8 million for salary settlements, an allowance for doubtful accounts, and legal costs.
- ◆ **Seniors** - \$17 million for the Canada/Alberta Affordable Housing Agreement, partly funded by \$8.5 million in federal funding.

Debt servicing costs are forecast at \$550 million. This is a \$35 million reduction from budget due to in-year changes in foreign exchange and interest rates.

EXPENSE*(millions of dollars)*

Program	2002-03			
	Budget	3rd	Change from	
		Quarter	Budget	2nd
	Budget	Forecast	Budget	Quarter
Legislative Assembly	59	59	-	-
Aboriginal Affairs and Northern Development	30	64	34	2
Agriculture, Food and Rural Development	671	1,780	1,109	363
Children's Services	675	674	(1)	(1)
Community Development	580	578	(2)	(2)
Economic Development	51	55	4	4
Energy	165	177	12	8
Environment	110	110	-	-
Executive Council	15	15	-	-
Finance	442	451	9	1
Gaming ^a	98	124	26	(5)
Government Services ^b	65	72	7	2
Health and Wellness	6,837	6,862	25	25
Human Resources and Employment	1,059	1,084	25	25
Infrastructure ^b	815	828	13	3
Innovation and Science	192	187	(5)	(2)
International and Intergovernmental Relations	6	6	-	-
Justice	236	244	8	7
Learning	4,664	4,730	66	34
Municipal Affairs	132	161	29	11
Revenue	158	194	36	36
Seniors	283	300	17	17
Solicitor General	268	269	1	1
Sustainable Resource Development	191	441	250	21
Transportation	651	708	57	41
Total Program Expense	18,453	20,173	1,720	591
Debt Servicing Costs	585	550	(35)	(30)
Total Expense	19,038	20,723	1,685	561

^a Budget numbers have been restated pursuant to the *Gaming and Liquor Amendment Act, 2002*, resulting in a reduction of \$118 million in both revenue and expense.

^b Budget numbers have been restated to reflect government organization changes.

Net Change in Capital Assets

The net change in capital assets affecting operations is \$108 million, \$15 million higher than the budget estimate.

Capital investment is \$59 million higher than budgeted. This reflects an \$85 million increase in **Transportation** and **Infrastructure** capital investment, primarily to fund deferred capital projects. Partly offsetting this is a decrease of \$33 million in the capital investment of **Innovation and Science**, reflecting

changes to the SuperNet funding schedule. Most other changes result from reallocations between operating expense and capital investment.

Capital amortization is \$44 million higher than budgeted, mostly due to revised forecasts of the amortization and inventory consumption costs for the Secondary Highway System.

NET CHANGE IN CAPITAL ASSETS

(millions of dollars)

	2002-03			
	3rd Quarter		Change from 2nd Quarter	
	Budget	Forecast	Budget	Quarter
Capital Investment	433	492	59	21
Less: Capital Amortization	340	384	44	46
Net Increase in Capital Assets affecting Operations	93	108	15	(25)

CAPITAL INVESTMENT AND AMORTIZATION

(millions of dollars)

	2002-03 Capital Investment				2002-03 Capital Amortization			
	3rd Quarter		Change from 2nd Quarter		3rd Quarter		Change from 2nd Quarter	
	Budget	Forecast	Budget	Quarter	Budget	Forecast	Budget	Quarter
Legislative Assembly	-	-	-	-	-	-	-	-
Aboriginal Affairs and Northern Development	-	-	-	-	-	-	-	-
Agriculture, Food and Rural Development	5	6	1	1	6	6	-	-
Children's Services	-	1	1	-	1	1	-	-
Community Development	2	2	-	-	10	10	-	-
Economic Development	-	-	-	-	-	-	-	-
Energy	12	13	1	-	8	11	3	3
Environment	-	-	-	-	16	16	-	-
Executive Council	-	-	-	-	-	-	-	-
Finance	3	4	1	-	1	1	-	-
Gaming	-	-	-	-	-	-	-	-
Government Services	8	5	(3)	3	6	5	(1)	-
Health and Wellness	2	2	-	-	3	3	-	-
Human Resources and Employment	3	4	1	2	3	4	1	1
Infrastructure	13	27	14	9	54	54	-	-
Innovation and Science	128	95	(33)	-	9	9	-	-
International and Intergovernmental Relations	-	-	-	-	-	-	-	-
Justice	2	2	-	-	1	1	-	-
Learning	4	8	4	3	3	3	-	-
Municipal Affairs	1	1	-	-	1	2	1	1
Revenue	4	5	1	1	3	2	(1)	-
Seniors	-	-	-	-	24	24	-	-
Solicitor General	-	-	-	-	-	-	-	-
Sustainable Resource Development	3	3	-	-	7	7	-	-
Transportation	243	314	71	2	184	225	41	41
Total Capital Investment/Amortization	433	492	59	21	340	384	44	46

Allocation of Economic Cushion

The contingency reserve, prior to in-year allocations, is \$523 million. Of this amount, \$328 million has been allocated for in-year spending initiatives:

- ◆ \$165 million in the first quarter,
- ◆ no allocations in the second quarter,
- ◆ \$163 million in the third quarter.

The remaining \$195 million in the contingency reserve has been allocated to the new Capital Account, which will be used to fund capital projects starting in 2003-04.

First quarter allocations included funding for deferred capital projects, teachers' pensions and the Community Initiatives Program.

Third quarter allocations have been made in a number of areas, including: increased funding for drug costs, the Skills Development Program, teachers' pensions, affordable housing, tourism marketing and services, a drivers licence upgrade program, underground petroleum storage tank site remediation and the increased interest expense on corporate income tax refunds.

Section 4(2) of the *Fiscal Responsibility Act* provides that emergency and disaster spending is deducted from the economic cushion prior to calculating the allocation of the cushion. Total emergency and disaster assistance is now forecast at \$1,352 million, consisting of:

- ◆ \$1,085 million in agriculture assistance,
- ◆ \$248 million in forest fire-fighting costs, and
- ◆ \$19 million in disaster recovery assistance programs for floods and forest fires.

Section 4(3) of the *Fiscal Responsibility Act* further excludes certain spending changes from being deductions from the contingency reserve if they are offset by equivalent additional revenue. There is a net \$55 million increase from the budget for these items, including:

- ◆ Alberta Dairy Control Board, \$24 million,
- ◆ Alberta Energy and Utilities Board, \$9 million,
- ◆ Alberta Municipal Financing Corporation, \$9 million,
- ◆ federal share of the Canada/Alberta Affordable Housing Agreement, \$8.5 million, and
- ◆ other net changes, \$4 million.

ALLOCATION OF ECONOMIC CUSHION

(millions of dollars)

	Budget ^a	Forecast Changes	Revised Forecast	Cushion Allocation			3rd Quarter Forecast
				1st Quarter	2nd Quarter	3rd Quarter	
Revenue	19,855	2,741	22,596	-	-	-	22,596
Expense							
Program	18,453	1,444	19,897	129	-	147	20,173
Debt Servicing Costs	585	(35)	550	-	-	-	550
Net Change in Capital Assets affecting Operations	93	(37)	56	36	-	16	108
Total Expense and Net Change in Capital Assets	19,131	1,372	20,503	165	-	163	20,831
Economic Cushion	724	1,369	2,093	(165)	-	(163)	1,765
Allocation of Economic Cushion							
Debt Repayment/Capital Account/Financial Assets	543	1,027	1,570	-	-	195 ^b	1,765
Contingency Reserve	181	342	523	(165)	-	(163)	-

^a Budget numbers have been restated pursuant to the *Gaming and Liquor Amendment Act, 2002*, resulting in a reduction of \$118 million in both revenue and expense.

^b Allocated from contingency reserve.

Net Assets and Accumulated Debt

NET ASSETS

The Province's net assets (excluding pension liabilities) are forecast to increase by nearly \$1.8 billion in 2002-03 to \$11.6 billion.

Total financial assets are forecast at \$25.2 billion.

Total liabilities are forecast at \$13.6 billion.

In addition, there are pension obligations of \$4.8 billion that are scheduled for elimination under a separate 1993 legislated plan.

CASH AVAILABLE FROM 2002-03 OPERATIONS

Because of the lag in receiving natural gas royalties, some of the cash from the \$1.8 billion economic cushion will not be available until the 2003-04 fiscal year. This will result in a positive cash adjustment in 2003-04 that will be deposited in the Alberta Sustainability Fund.

Of the \$1.4 billion in cash available in 2002-03:

- ◆ \$500 million is being set aside to repay accumulated debt as it matures, and,
- ◆ \$910 million is being used to establish a Capital Account to fund capital projects starting in 2003-04.

ACCUMULATED DEBT

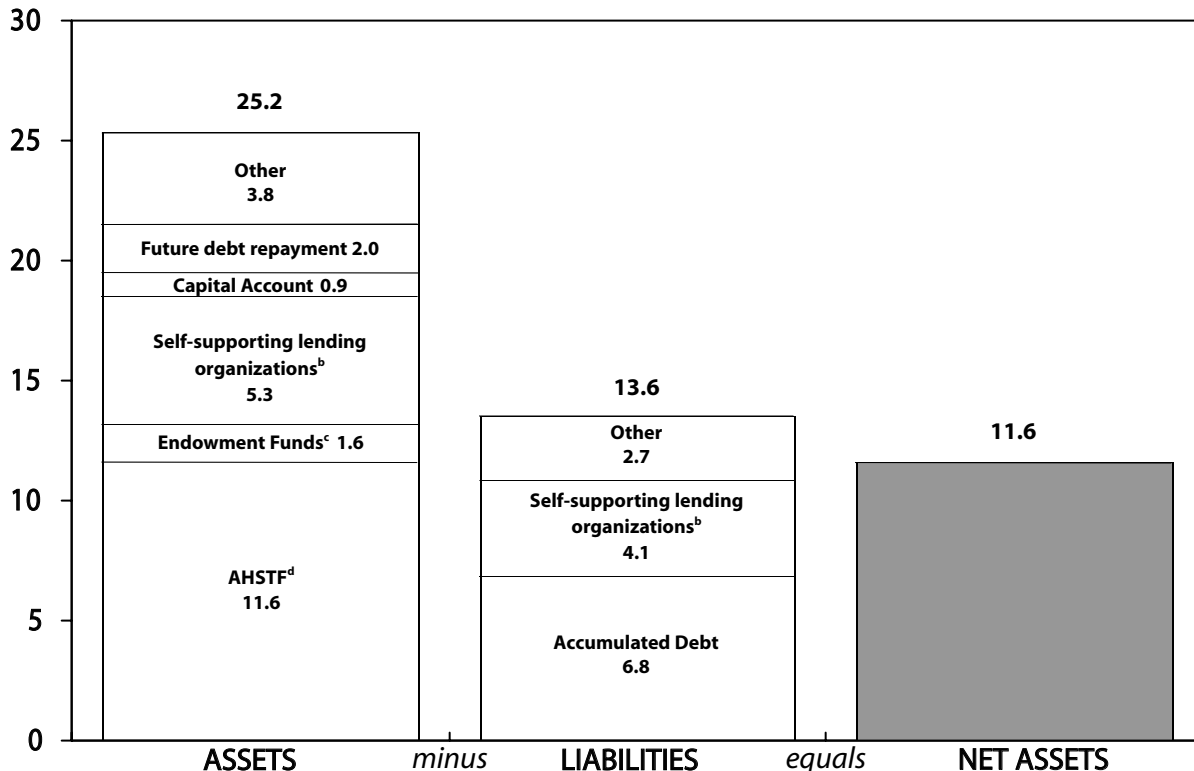
Accumulated debt, less cash set aside for future debt repayment, equalled \$5.261 billion at March 31, 2002. The \$500 million allocation for debt repayment will reduce accumulated debt (less cash set aside) to \$4.761 billion at March 31, 2003.

All of the accumulated debt that matures in 2002-03 (approximately \$1.65 billion) will be repaid. At the end of 2002-03, there still will be \$2 billion available to retire accumulated debt as it matures in 2003-04 and 2004-05.

FORECAST OF ASSETS, LIABILITIES AND NET ASSETS^a

AT MARCH 31, 2003

(billions of dollars)



^a Excludes pension obligations of \$4.838 billion which are scheduled for elimination under a separate 1993 legislated plan.

^b Alberta Municipal Financing Corporation and Agriculture Financial Services Corporation.

^c Alberta Heritage Foundation for Medical Research Endowment Fund, Alberta Heritage Scholarship Fund and Alberta Heritage Science and Engineering Research Endowment Fund.

^d Alberta Heritage Savings Trust Fund. Total assets of \$11.66 billion less \$100 million of internal holdings of provincial corporation debt.

CASH AVAILABLE FROM 2002-03 OPERATIONS*(millions of dollars)*

	2002-03			
	Budget	3rd	Change from	
		Quarter Forecast	Budget	2nd Quarter
Allocation for Debt Repayment/Capital Account/Financial Assets	543	1,765	1,222	1,566
Natural Gas Royalty Cash Adjustments	(184)	(779)	(595)	(903)
Other Cash Adjustments	(104)	(343)	(239)	(141)
	255	643	388	522
Less: Retained Income of Funds and Agencies				
Alberta Heritage Savings Trust Fund	-	(595)	(595)	48
Agriculture Financial Services Corporation	8	(190)	(198)	(29)
Endowment Funds:				
Science and Engineering Research	2	(31)	(33)	11
Foundation for Medical Research	(34)	(114)	(80)	26
Scholarship	(8)	(41)	(33)	-
Alberta Treasury Branches	117	199	82	51
Other	(8)	5	13	10
Total Retained Income	77	(767)	(844)	117
Cash Available from 2002-03 Operations	178	1,410	1,232	405
Allocation of Cash Available:				
Allocation for Debt Repayment	178	500	322	N/A ^a
Allocation to Capital Account	-	910	910	N/A ^a

^a Not applicable. Potential 2002-03 allocation was under review in the *Second Quarter Fiscal Update*.

ACCUMULATED DEBT*(millions of dollars)*

	2002-03			
	Budget	3rd	Change from	
		Quarter Forecast	Budget	2nd Quarter
Accumulated Debt at the Start of the Year ^a	8,416	8,416	-	-
Accumulated Debt Repayment in 2002-03	(1,566)	(1,646)	(80)	(12)
Accumulated Debt at March 31, 2003	6,850	6,770	(80)	(12)
Cash Set Aside for Debt Repayment at Start of Year ^a	3,155	3,155	-	-
Allocation for Debt Repayment from 2002-03 Operations	178	500	322	N/A ^b
Cash Used to Pay for Accumulated Debt Maturities in 2002-03	(1,566)	(1,646)	(80)	N/A ^b
Cash Set Aside for Debt Repayment at End of Year	1,767	2,009	242	N/A ^b
Accumulated Debt less Cash Set Aside at March 31, 2003	5,083	4,761	(322)	N/A ^b

^a Accumulated debt and cash set aside in the budget have been restated to reflect the March 31, 2002 actuals.

^b Not applicable. Potential 2002-03 allocation was under review in the *Second Quarter Fiscal Update*.

NET FINANCING REQUIREMENTS*(millions of dollars)*

	2002-03			
	Budget	3rd	Change from	
		Quarter Forecast	Budget	2nd Quarter
Requirements:				
General Revenue Fund term debt maturities and redemptions	1,560	1,560	-	5
School construction loan repayment	90	90	-	-
Provincial corporations' term borrowing requirements	165	185	20	-
Adjustments	(84)	(4)	80	7
Gross financing requirements	1,731	1,831	100	12
Term debt borrowing to date	-	(99)	(99)	(99)
Accumulated debt reduction	(1,566)	(1,646)	(80)	(12)
Net Remaining Term Debt Financing Requirements	165	86	(79)	(99)

FISCAL YEAR ASSUMPTIONS

	Budget	1st Quarter Forecast	2nd Quarter Forecast	3rd Quarter Forecast
Oil Price (WTI US\$/bbl)	20.00	25.50	26.25	28.86
Natural Gas Price (Cdn\$/mcf)	3.00	3.25	3.65	4.65
Exchange Rate (US\$/Cdn\$)	64.30	66.00	64.30	64.35
Interest Rates				
3-month Canada Treasury Bills	2.65	3.20	3.00	2.70
10-year Canada Bonds	5.70	5.85	5.35	5.20

PRODUCED BY



Printed on Recycled Paper

