

FIRST QUARTER UPDATE

- HIGHLIGHTS**
- ◆ A surplus of \$575 million is now forecast for 1997-98. This is an improvement of \$421 million from the budget estimate.
 - ◆ Revenue is expected to be \$415 million higher than forecast in the budget due to higher resource and tax revenues.
 - ◆ Total expense is expected to be \$8 million below the budget estimate. Debt servicing costs are forecast to be \$67 million lower than budgeted. These savings are being used to increase program expense by \$59 million.
 - ◆ As required by the *Balanced Budget and Debt Retirement Act*, a revenue cushion of \$590 million was set aside in the budget to protect against possible weakness in resource and corporate income tax revenues. The revenue cushion has been maintained in the first quarter forecast. If the revenue cushion is realized, the surplus could reach \$1.2 billion.

Consolidated Fiscal Summary^a

(millions of dollars)

	1997-98		
	Budget ^b	1st Quarter Forecast	Change from Budget
Revenue			
1 Forecast	15,199	15,614	415
2 Cushion	(590)	(590)	—
3 Budgeted Revenue ^c	<u>14,609</u>	<u>15,024</u>	<u>415</u>
Expense			
4 Program	13,333	13,392	59
5 Debt Servicing Costs	1,125	1,058	(67)
6 Total Expense	<u>14,458</u>	<u>14,450</u>	<u>(8)</u>
7 Net Revenue	151	574	423
8 Net Decrease in Capital Assets affecting Operations ^d	3	1	(2)
9 Consolidated Surplus	<u>154</u>	<u>575</u>	<u>421</u>
10 Net Debt subject to Balanced Budget and Debt Retirement Act^e			
Retirement Act^e	3,246	2,825	(421)

^a Subject to the Balanced Budget and Debt Retirement Act. Includes the province's annual cash payments towards the unfunded pension obligations which will be eliminated over the long term through additional contributions. Does not include the forecast increase of \$4 million in unfunded pension obligations which is a non-cash expense that does not affect borrowing.

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

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

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

^e Net debt calculation has been adjusted to reflect actual net debt at March 31, 1997. The budget assumed a net debt payment of \$450 million from the budgeted surplus and the revenue cushion. The first quarter forecast assumes that the \$421 million improvement in the surplus will also be applied against net debt.

Revenue

INCOME TAX REVENUE Personal income tax revenue is forecast at \$3.559 billion, up \$33 million from the budget estimate. The corporate income tax revenue forecast has been increased by \$17 million from the budget estimate to \$1.453 billion. The increases are due to the continuing strong employment and economic growth in Alberta.

OTHER TAX REVENUE The forecast of other tax revenue is \$49 million higher than the budget estimate. The increase is primarily due to strong economic growth and a change in the school property tax forecast. School property tax revenue is either received by the province's Alberta School Foundation Fund (ASFF) or paid directly to opted-out separate school boards. The forecast of total school property tax revenue flowing to schools remains unchanged from the budget. However, opted-out schools are now expected to receive \$13 million less in revenue directly from property taxes while the ASFF is expected to receive \$13 million more than estimated in the budget. The grant to opted-out separate school boards from the ASFF will be increased by \$13 million to offset the decrease in revenue.

NON-RENEWABLE RESOURCE REVENUE Energy revenue is now forecast at just over \$3 billion, \$287 million above the budget estimate. Revenue from bonuses and sales of Crown leases has been increased by \$300 million from the budget estimate, due to strong sales to date. West Texas Intermediate crude oil prices, originally forecast to average US\$18.50 per barrel over the fiscal year, are now expected to average US\$18.85 due to stronger-than-expected prices in the first quarter. Lower heavy oil prices are expected to offset the increases for light crude oil, leaving total oil royalties almost unchanged from the budget. The 1997-98 natural gas price forecast has been adjusted upwards, from the budget estimate of \$1.55 per thousand cubic feet to \$1.60. This increase is more than offset by additional charges for the processing costs of the Crown's share of natural gas.

TRANSFERS FROM GOVERNMENT OF CANADA Transfers from the Government of Canada are expected to be \$37 million lower than budgeted. Revenue from the Canada Health and Social Transfer (CHST) is forecast to be \$46 million lower than the budget estimate. Higher personal and corporate income tax revenues reduce the cash component of the CHST transfer. In addition, Alberta's share of the national total CHST entitlement has been reduced from 8.6% to 8.5% based on a recalculation of provincial shares. Federal transfers for agriculture support programs are expected to be \$27 million lower primarily due to the federal decision to allocate funds from shared-cost programs to the Net Income Stabilization Account (NISA), in which the Alberta government no longer participates. Partly offsetting the reductions are federal payments for rehabilitation services for disabled persons and disaster assistance.

OTHER REVENUE SOURCES Total revenue from all other sources is forecast to increase by \$66 million from the budget estimate. Heritage Fund investment income is forecast to increase by \$34 million from the budget estimate due mainly to higher-than-expected realized capital gains from the sale of fixed income securities in the Transition Portfolio. Strong lumber prices account for the \$16 million increase in revenue from timber rentals and fees. A number of other smaller changes account for the remainder of the increase.

Revenue

(millions of dollars)

	1997-98			Main Reason for Change from Budget
	Budget ^a	1st Quarter Forecast	Change from Budget	
Income Taxes				
Personal income tax	3,526	3,559	33	Continuing strong employment growth
Corporate income tax	1,436	1,453	17	Continuing strong economic growth
	<u>4,962</u>	<u>5,012</u>	<u>50</u>	
Other Taxes				
School property taxes	1,169	1,182	13	Higher proportion of total property tax
Fuel tax	528	550	22	Economic growth
Tobacco tax	315	320	5	Volume increase
Insurance corporations tax	103	108	5	Industry revenue growth
Freehold mineral rights tax	106	106	—	
Financial institutions capital tax	37	39	2	Increase in bank assets
Hotel room tax	35	37	2	Increased tourism
	<u>2,293</u>	<u>2,342</u>	<u>49</u>	
Non-Renewable Resource Revenue				
Natural gas and by-products royalty	1,245	1,217	(28)	Higher gas cost allowance
Crude oil royalty	854	882	28	Higher oil price
Synthetic crude oil and bitumen royalty	244	222	(22)	Lower heavy oil price
Coal royalty	20	17	(3)	Higher capital spending
Bonuses and sales of Crown leases	500	800	300	Strong year-to-date sales
Rentals and fees	123	135	12	Higher land sales
Royalty tax credit	(270)	(270)	—	
	<u>2,716</u>	<u>3,003</u>	<u>287</u>	
Transfers from Government of Canada				
Canada health and social transfer	981	935	(46)	Decline in entitlement
Agriculture support programs	118	91	(27)	Federal reallocation of funds
Labour market development	107	107	—	
Other	62	98	36	Rehabilitation/disaster assistance
	<u>1,268</u>	<u>1,231</u>	<u>(37)</u>	
Investment Income				
Heritage Fund	701	735	34	Capital gains
Alberta Municipal Financing Corporation	497	510	13	Accounting change
Farm credit stability program	70	61	(9)	Faster loan repayments
Heritage Foundation for Medical Research Endowment Fund .	63	63	—	
Other	135	135	—	
	<u>1,466</u>	<u>1,504</u>	<u>38</u>	
Premiums, Fees and Licences				
Health care insurance premiums	608	608	—	
Motor vehicle licences	166	172	6	Increased volume
Crop and hail insurance premiums	86	79	(7)	Lower participation rates
Timber rentals and fees	54	70	16	Strong lumber prices
Land titles	45	48	3	Increased volume
Other	201	197	(4)	Miscellaneous changes
	<u>1,160</u>	<u>1,174</u>	<u>14</u>	
Net Income from Commercial Operations				
Alberta Gaming and Liquor Commission	363	363	—	
Treasury Branches Deposits Fund	17	14	(3)	Revised forecast
Other	6	9	3	Miscellaneous changes
	<u>386</u>	<u>386</u>	<u>—</u>	
Other Revenue				
Lottery Fund revenue	653	653	—	
Sale of capital assets	29	35	6	Increase in sales
Fines and penalties	27	26	(1)	Revised forecast
Miscellaneous	239	248	9	Miscellaneous changes
	<u>948</u>	<u>962</u>	<u>14</u>	
Forecast Revenue	<u>15,199</u>	<u>15,614</u>	<u>415</u>	
Revenue Cushions	<u>(590)</u>	<u>(590)</u>	<u>—</u>	
Budgeted Revenue	<u>14,609</u>	<u>15,024</u>	<u>415</u>	

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

Expense

PROGRAM EXPENSE **Education** spending is being increased by \$31 million from the budget estimate. \$12 million will be provided to offset higher than budgeted enrolment growth, \$4 million for higher incidence rates of severely disabled students, and \$2 million for an increase in the current service costs of teachers' pensions. Alberta School Foundation Fund grants to the opted-out separate school boards are also forecast to increase by \$13 million. The increase is required to offset a \$13 million decline in the property tax revenue of the opted-out boards.

Responsibility for **Environmental Protection's** Forest Resource Improvement Program (FRIP) is being assigned to an industry Delegated Administrative Organization (DAO). The accumulated surplus from the FRIP account will be transferred to the DAO. The transfer is recorded as a \$33 million increase in the ministry's expense.

Spending by **Transportation and Utilities** is forecast to be \$17 million higher than the budget estimate. The increase reflects the cost of the 1997 Northern and North Central Alberta Disaster Recovery Program. Federal transfers of \$10 million will partly offset the increase.

Treasury's spending is expected to be \$7 million higher than budgeted as a result of an accounting change related to the amortization of loan discounts provided by the Alberta Municipal Finance Corporation (AMFC) in the late 1980s. This accounting change increases both the consolidated revenue and expense of the AMFC by \$13 million. Partly offsetting this increase is a \$6 million decrease in administration costs and operating requirements of the Farm Credit Stability Program and the Alberta Heritage Foundation for Medical Research Endowment Fund.

Spending by **Agriculture, Food and Rural Development** is expected to be \$18 million under budget mainly because of lower-than-expected participation rates in the crop insurance program. These savings are partially offset by a forecast \$7 million reduction in premium revenues.

DEBT SERVICING COSTS Debt servicing costs are forecast to be \$67 million lower than the budget estimate. Larger-than-expected surpluses in 1996-97 and 1997-98 and lower interest rates account for the decrease. Short-term interest rates are expected to average 17 basis points below the budget estimate.

Expense

(millions of dollars)

	1997-98		
	Budget ^a	1st Quarter Forecast	Change from Budget
Program			
Legislative Assembly	40	37	(3)
Advanced Education and Career Development	1,277	1,277	—
Agriculture, Food and Rural Development	462	444	(18)
Community Development	308	311	3
Economic Development	175	174	(1)
Education	2,822	2,853	31
Energy	126	129	3
Environmental Protection	311	344	33
Executive Council	13	13	—
Family and Social Services	1,357	1,357	—
Federal and Intergovernmental Affairs	37	37	—
Health	3,958	3,958	—
Justice	369	369	—
Labour	33	33	—
Municipal Affairs	268	263	(5)
Public Works, Supply and Services	464	462	(2)
Science, Research and Information Technology	56	53	(3)
Transportation and Utilities	548	565	17
Treasury	816	823	7
Consolidation adjustments	(107)	(110)	(3)
Consolidated Program Expense	<u>13,333</u>	<u>13,392</u>	<u>59</u>
Debt Servicing Costs			
Gross debt servicing costs	1,288	1,216	(72)
Consolidation adjustments	(163)	(158)	5
Consolidated Debt Servicing Costs	<u>1,125</u>	<u>1,058</u>	<u>(67)</u>
Total Consolidated Expense	<u><u>14,458</u></u>	<u><u>14,450</u></u>	<u><u>(8)</u></u>

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

Net Change in Capital Assets

Capital investment is forecast at \$239 million, \$1 million higher than budgeted. Capital amortization is forecast to be \$1 million lower than the budget estimate. As a result, the net decrease in capital assets affecting operations is forecast to be \$2 million less than the budget estimate.

Net Change in Capital Assets

(millions of dollars)

	1997-98		Change from Budget
	Budget	1st Quarter Forecast	
Capital Investment	238	239	1
Capital Amortization	(241)	(240)	1
Net Increase (Decrease) in Capital Assets affecting Operations	<u>(3)</u>	<u>(1)</u>	<u>2</u>

Capital Investment

(millions of dollars)

	1997-98		Change from Budget
	Budget	1st Quarter Forecast	
Legislative Assembly	—	—	—
Advanced Education and Career Development	2	2	—
Agriculture, Food and Rural Development	2	3	1
Community Development	1	1	—
Economic Development	—	—	—
Education	2	2	—
Energy	4	3	(1)
Environmental Protection	7	7	—
Executive Council	—	—	—
Family and Social Services	—	—	—
Federal and Intergovernmental Affairs	—	—	—
Health	5	5	—
Justice	2	2	—
Labour	—	—	—
Municipal Affairs	5	6	1
Public Works, Supply and Services	66	66	—
Science, Research and Information Technology	3	2	(1)
Transportation and Utilities	137	137	—
Treasury	2	3	1
Total Capital Investment	<u>238</u>	<u>239</u>	<u>1</u>

Capital Amortization

(millions of dollars)

	1997-98		Change from Budget
	Budget	1st Quarter Forecast	
Legislative Assembly	—	—	—
Advanced Education and Career Development	1	1	—
Agriculture, Food and Rural Development	5	5	—
Community Development	1	1	—
Economic Development	1	1	—
Education	1	1	—
Energy	8	9	1
Environmental Protection	29	29	—
Executive Council	—	—	—
Family and Social Services	5	5	—
Federal and Intergovernmental Affairs	—	—	—
Health	1	1	—
Justice	1	1	—
Labour	—	—	—
Municipal Affairs	27	28	1
Public Works, Supply and Services	60	60	—
Science, Research and Information Technology	3	2	(1)
Transportation and Utilities	96	94	(2)
Treasury	2	2	—
Total Capital Amortization	241	240	(1)

Sensitivities and Fiscal Year Assumptions, 1997-98

	Sensitivities ^a (\$ millions)				Assumptions	
	Change	Revenue	Spending	Surplus	Budget	1st Quarter Forecast
Oil Price (WTI US\$/bbl)	-\$1.00	-190	—	-190	18.50	18.85
Natural Gas Price (Cdn\$/mcf)	-10¢	-134	—	-134	1.55	1.60
Exchange Rate (US¢/Cdn\$)	+1¢	-48	-29	-19	75.0	75.0
Interest Rates	+1%	+7	+35	-28		
3-month Alberta Treasury Bills					4.30	4.13
10-year Alberta Bonds					7.00	7.00

^a Sensitivities are based on current prices and rates and show the impact for a full 12 month period. Sensitivities can vary significantly at different price and rate levels. The interest rate sensitivity is also affected by the timing of changes during the fiscal year.

Liabilities, Assets and Net Debt

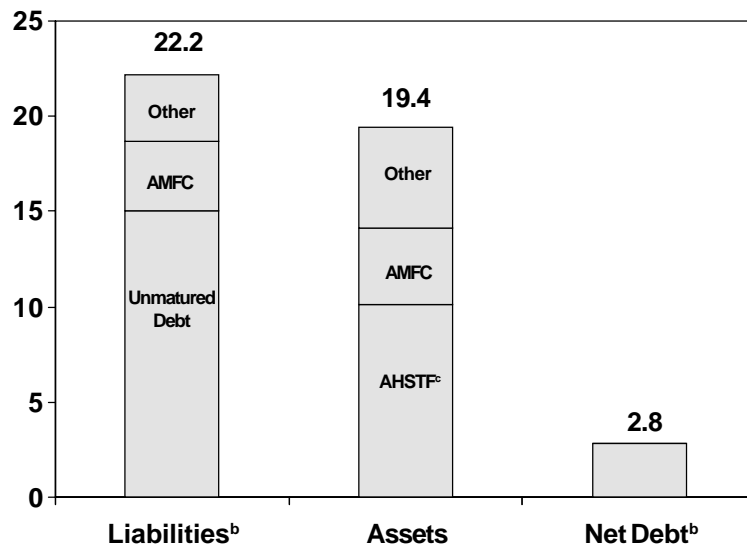
The net debt subject to the *Balanced Budget and Debt Retirement Act (BBDRA)* is forecast to be \$2.825 billion as of March 31, 1998. Total liabilities (excluding pension obligations) will be approximately \$22.2 billion. This is mostly offset by \$19.4 billion in financial assets. Debt servicing costs are based on the province's unmatured debt, forecast at approximately \$15 billion at March 31, 1998. The Province will still have unmatured debt and debt servicing cost after the net debt is eliminated.

The budget assumed a net debt payment of \$450 million from the budgeted surplus and the revenue cushion. The first quarter forecast assumes that the \$421 million improvement in the surplus will also be applied against net debt. This results in a net debt reduction of \$871 million in 1997-98, including \$157 million to inflation proof the Alberta Heritage Savings Trust Fund.

Liabilities, Assets and Net Debt

at March 31, 1998^a

(billions of dollars)



^a Forecast; assumes \$871 million net debt payment in 1997-98.

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

^c Net of internal holdings.

Borrowing Requirements

(millions of dollars)

	1997-98		Change from Budget
	Budget	1st Quarter Forecast	
Targeted net debt repayment	(450)	(871)	(421)
Add:			
Retained surpluses of other funds and agencies	72	72	—
Non-budgetary transactions			
Provincial corporations' borrowing requirements	66	49	(17)
Funding of school board loan repayments to AMFC	118	118	—
Inflation proofing of Alberta Heritage Savings Trust Fund	—	157	157
Other adjustments to cash	307	259	(48)
Less:			
Foreign exchange valuation	(5)	(5)	—
Repayments of farm credit and small business program deposits	(152)	(227)	(75)
Cash Receipts	(44)	(448)	(404)
Term Debt Maturities and Redemptions	3,211	3,230	19
Total Direct Borrowing Requirements	<u>3,167</u>	<u>2,782</u>	<u>(385)</u>

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THREE MONTH CASH FLOW STATEMENT

METHOD OF CONSOLIDATION This financial summary is prepared on the same basis as used in Budget '97 except that the results of Alberta Municipal Financing Corporation are now consolidated on a line-by-line basis. Consistent with the policy that capital assets are not included in the province's financial assets, losses on disposal and write-downs of capital assets do not affect revenues, expenses or surplus for the period.

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

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

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

BASIS OF FINANCIAL REPORTING The consolidated fiscal summary reports revenues (including proceeds from sale of capital assets), expenses (including amortization of capital assets), and net revenue. The annual change in pension obligations has been excluded from expenses. The intermediate result of operations (net revenue) is then adjusted for the difference between capital investment and capital asset amortization. The final result is the consolidated surplus subject to the Balanced Budget and Debt Retirement Act.

Expenses include the province's annual cash payments towards the unfunded pension obligations which will be eliminated over a longer term through additional contributions. Expenses do not include the annual change in the unfunded obligations, forecast to increase by \$4 million in 1997-98, which is a non-cash expense that does not affect borrowing requirements.

Revenues are recorded on a cash basis, except for investment income which is recorded on an accrual basis. Expenses are recorded on a cash basis, except for debt servicing costs which are recorded on an accrual basis. Debt servicing costs include interest payable, amortization of discount on debt issues, and amortization of unrealized exchange gains and losses on unhedged foreign currency debt.

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

	<u>First Three Months</u>		Change
	1997-98	1996-97	
Revenues			
Income Taxes	1,207	1,077	130
Other Taxes	548	456	92
Non-Renewable Resource Revenue	1,249	954	295
Transfers from Government of Canada	308	362	(54)
Investment Income	464	391	73
Premiums, Fees and Licences	372	364	8
Net Income from Commercial Operations	125	119	6
Other	213	215	(2)
Total Revenues	<u>4,486</u>	<u>3,938</u>	<u>548</u>
Expenses			
Program	3,585	3,248	337
Debt Servicing Costs	272	330	(58)
Total Expenses	<u>3,857</u>	<u>3,578</u>	<u>279</u>
Net Revenue	629	360	269
Net Decrease in Capital Assets affecting Operations ^b	27	43	(16)
Consolidated Surplus	<u>656</u>	<u>403</u>	<u>253</u>

^a Subject to the Balanced Budget and Debt Retirement Act. Includes the Province's annual cash payments towards the unfunded pension obligations which will be eliminated over a longer term through additional contributions. Does not include the forecast increase of \$4 million in unfunded pension obligations which is a non-cash expense that does not affect borrowing requirements.

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

Expenses

for the Three Months ended June 30, 1997 (unaudited)

(millions of dollars)

	First Three Months		Change
	1997-98	1996-97	
Program			
Legislative Assembly	9	5	4
Advanced Education and Career Development	296	249	47
Agriculture, Food and Rural Development	80	76	4
Community Development	75	76	(1)
Economic Development	43	30	13
Education	828	643	185
Energy	27	24	3
Environmental Protection	55	65	(10)
Executive Council	3	3	—
Family and Social Services	390	361	29
Federal and Intergovernmental Affairs	17	34	(17)
Health	1,194	1,140	54
Justice	72	73	(1)
Labour	6	6	—
Municipal Affairs	62	55	7
Public Works, Supply and Services	97	84	13
Science, Research and Information Technology	10	8	2
Transportation and Utilities	107	121	(14)
Treasury	238	223	15
Consolidation adjustments	(24)	(28)	4
	<u>3,585</u>	<u>3,248</u>	<u>337</u>
Debt Servicing Costs	<u>272</u>	<u>330</u>	<u>(58)</u>
Total Expenses	<u><u>3,857</u></u>	<u><u>3,578</u></u>	<u><u>279</u></u>

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

(millions of dollars)

Capital Investment	First Three Months		Change
	1997-98	1996-97	
Legislative Assembly	—	—	—
Advanced Education and Career Development	—	—	—
Agriculture, Food and Rural Development	—	—	—
Community Development	—	—	—
Economic Development	—	—	—
Education	—	—	—
Energy	1	2	(1)
Environmental Protection	1	1	—
Executive Council	—	—	—
Family and Social Services	—	—	—
Federal and Intergovernmental Affairs	—	—	—
Health	—	—	—
Justice	—	—	—
Labour	—	—	—
Municipal Affairs	—	—	—
Public Works, Supply and Services	7	5	2
Science, Research and Information Technology	—	—	—
Transportation and Utilities	18	7	11
Treasury	—	—	—
	<u>27</u>	<u>15</u>	<u>12</u>
Less: Capital Amortization Reversal	54	58	(4)
Net Decrease in Capital Assets affecting Operations	<u><u>27</u></u>	<u><u>43</u></u>	<u><u>(16)</u></u>