

# Alberta 2003 Budget

**Making Alberta Even Better**



SECOND QUARTER FISCAL UPDATE

2003-04 QUARTERLY BUDGET REPORT

2

NOVEMBER 26, 2003

**Alberta**  
GOVERNMENT OF ALBERTA

## UPDATING ALBERTANS

The Second Quarter Fiscal Update is comprised of two parts – the updated 2003-04 forecast and the actual results for the first six months of the fiscal year (April 1 to September 30, 2003).

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# 2003 - 04 FORECAST

## Highlights

- ◆ Total revenue is \$2.15 billion higher than estimated in *Budget 2003*. The increase primarily reflects higher non-renewable resource revenue and increased federal agriculture transfers.
- ◆ Total expense is \$1.12 billion higher than budgeted, reflecting:
  - ◆ \$1.1 billion for agriculture and forest fire disaster/emergency assistance and an allocation for potential natural gas rebates (funded from the Sustainability Fund).
  - ◆ \$169 million for in-year initiatives, including funding for Learning, social assistance programs and facility operations and maintenance costs (funded from the Contingency Allowance).
  - ◆ \$145 million reduction in debt servicing costs.
- ◆ Net Revenue (revenue minus expense, prior to Sustainability Fund and Capital Account transfers) is forecast at \$2.2 billion. This is \$1 billion higher than estimated in the budget.
- ◆ The net assets of the Sustainability Fund, prior to reallocations, are \$1.1 billion higher than estimated in the budget. Of the \$1.1 billion increase:
  - ◆ \$283 million has been retained in the Sustainability Fund to bring total assets of the Fund to the \$2.5 billion target level.
  - ◆ \$428 million has been allocated to the Capital Account. Details concerning the use of these funds will be provided in *Budget 2004*.
  - ◆ \$428 million has been allocated for debt retirement. This reduces accumulated debt, net of cash set aside in the Debt Retirement Account, to \$4.2 billion.

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

(millions of dollars)

	2003-04			
	Budget	2nd Quarter Forecast	Change from Budget	1st Quarter
1 <b>Revenue</b>	21,928	<b>24,080</b>	2,152	460
2 <b>Expense</b>				
3 Program	20,335	<b>21,602</b>	1,267	617
4 Debt servicing costs	465	<b>320</b>	(145)	(75)
5 Total Expense	20,800	<b>21,922</b>	1,122	542
6 <b>Net Revenue</b>	1,128	<b>2,158</b>	1,030	(82)
7 Transfer from Capital Account	416	<b>416</b>	-	-
8 Net transfer from (to) Sustainability Fund	(1,276)	<b>(2,476)</b>	(1,200)	17
9 <b>Economic Cushion</b>	268	<b>98</b>	(170)	(65)
Of which:				
10 Contingency Allowance	210	<b>36</b>	(174)	(62)
11 Other requirements <sup>b</sup>	58	<b>62</b>	4	(3)
12 <b>Sustainability Fund Prior to Allocations</b>	2,217	<b>3,356</b>	1,139	(43)
13 Allocation to Debt Retirement	-	<b>428</b>	428	428
14 Allocation to Capital Account	-	<b>428</b>	428	428
15 <b>Sustainability Fund</b>	2,217	<b>2,500</b>	283	(899)

<sup>a</sup> Subject to the *Fiscal Responsibility Act*.

<sup>b</sup> Net positive amount required for capital cash requirements and retained income of funds and agencies.

# Revenue

## NON-RENEWABLE RESOURCE REVENUE

Non-renewable resource revenue is forecast at \$6.7 billion. This is \$1.9 billion higher than the budget estimate and \$404 million higher than forecast in the *First Quarter Fiscal Update*.

The increase is due mainly to higher-than-estimated oil and natural gas prices. This is partly offset by the strengthening of the Canadian dollar relative to the U.S. dollar and lower-than-estimated natural gas production in Alberta.

Natural gas royalties are forecast at \$4.8 billion, up \$1.3 billion from the budget estimate. Natural gas prices are expected to average Cdn\$5.15 per thousand cubic feet (mcf) for the fiscal year. This is \$1.10 higher than budgeted and 15 cents higher than forecast in the *First Quarter Fiscal Update*. The price increase is primarily due to continued concerns over North American supply.

Total oil royalties are forecast at \$1 billion, nearly \$400 million higher than budget. The oil price is expected to average US\$27.50 per barrel for the year. This is US\$4.20 higher than the budget estimate and US\$2.50 higher than forecast in the *First Quarter Fiscal Update*. The revised price forecast reflects the continuing problems in re-introducing Iraqi production and recent OPEC moves to reduce production quotas.

The *Fiscal Responsibility Act* requires non-renewable resource revenue above \$3.5 billion to be transferred to the Sustainability Fund. This transfer is now forecast at \$3.2 billion.

## PERSONAL INCOME TAX REVENUE

Personal income tax revenue is forecast to be \$400 million lower than estimated in the budget. Based on updated federal information, Alberta's estimated personal income tax revenue for the 2002 tax year has been reduced by \$223 million. This also reduces the forecast of 2003 tax year assessments, resulting in a combined \$400 million decline in 2003-04 personal income tax revenue from the budget estimate.

## OTHER TAX REVENUE

Tax revenue from other sources is \$26 million higher than budgeted, primarily due to a \$28 million increase in freehold mineral rights tax revenue due to higher energy prices.

## TRANSFERS FROM GOVERNMENT OF CANADA

Transfers from the Government of Canada are forecast to be \$565 million higher than budgeted and \$378 million higher than forecast in the *First Quarter Fiscal Update*.

The increase from budget reflects:

- ◆ \$407 million in federal agriculture transfers primarily related to the BSE Recovery Program.
- ◆ \$158 million net increase in Canada Health and Social Transfer (CHST) and other federal transfers. CHST revenue increases when Alberta's income tax revenue declines.

The second quarter forecast does not include the one-time federal health transfer that may be received in 2004. Details concerning the amount and timing of this supplement remain uncertain.

## OTHER REVENUES

Total revenue from other sources is \$35 million higher than budgeted. Major changes from budget include:

- ◆ \$17 million increase in net income of the Alberta Gaming and Liquor Commission.
- ◆ \$15 million increase in investment income on higher-than-budgeted balances in the Sustainability Fund, Debt Retirement Account, and Capital Account (Capital Account income is included in "Other Investment Income").
- ◆ \$21 million increase in revenue due to reversal of an Alberta Government Telephones Commission provision.
- ◆ \$9 million increase in interest income under the Credit Union Stabilization Agreement due to higher credit union deposit growth.
- ◆ \$17 million reduction in net income of Alberta Treasury Branches.
- ◆ \$11 million reduction in timber royalties and fees.
- ◆ \$1 million net increase in other revenues.

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

	2003-04				Main Reasons for Change from Budget
	Budget	2nd	Change from		
		Quarter Forecast	Budget	1st Quarter	
<b>Income Taxes</b>					
Personal income tax	5,035	<b>4,635</b>	(400)	(365)	Lower 2002 tax assessments
Corporate income tax	2,016	<b>2,016</b>	-	-	
	<u>7,051</u>	<u><b>6,651</b></u>	<u>(400)</u>	<u>(365)</u>	
<b>Other Taxes</b>					
School property tax	1,165	<b>1,165</b>	-	-	
Tobacco tax	624	<b>619</b>	(5)	-	Cigar tax rate decrease
Fuel tax	602	<b>598</b>	(4)	(4)	Lower fuel consumption
Freehold mineral rights tax	214	<b>242</b>	28	2	Higher oil and natural gas prices
Insurance taxes	148	<b>157</b>	9	9	Growth in industry premium revenue
Hotel room tax	58	<b>56</b>	(2)	-	Fewer hotel stays
	<u>2,811</u>	<u><b>2,837</b></u>	<u>26</u>	<u>7</u>	
<b>Non-Renewable Resource Revenue</b>					
Natural gas and by-products royalty	3,480	<b>4,825</b>	1,345	146	Higher natural gas prices
Crude oil royalty	502	<b>840</b>	338	134	Higher oil prices
Synthetic crude oil and bitumen royalty	103	<b>163</b>	60	7	Higher oil prices
Coal royalty	11	<b>9</b>	(2)	(2)	Revised forecast
Bonuses and sale of Crown leases	679	<b>808</b>	129	75	Higher bid prices per hectare
Rentals and fees	144	<b>154</b>	10	10	More renewed hectares
Royalty tax credit	(143)	<b>(97)</b>	46	34	Higher oil and natural gas prices
	<u>4,776</u>	<u><b>6,702</b></u>	<u>1,926</u>	<u>404</u>	
<b>Transfers from Government of Canada</b>					
Canada Health and Social Transfer	1,613	<b>1,774</b>	161	146	Lower personal income tax revenue
2003 Health Accord	248	<b>249</b>	1	1	Revised forecast
Agriculture support programs	169	<b>576</b>	407	235	BSE assistance
Labour market development	120	<b>120</b>	-	-	
Other	236	<b>232</b>	(4)	(4)	Revised forecast
	<u>2,386</u>	<u><b>2,951</b></u>	<u>565</u>	<u>378</u>	
<b>Net Income from Commercial Operations</b>					
Alberta Gaming and Liquor Commission					
Gaming and lottery revenue	1,093	<b>1,105</b>	12	16	Lower operating costs
Liquor revenue	546	<b>551</b>	5	(5)	Higher volume of sales
Alberta Treasury Branches	152	<b>135</b>	(17)	2	Higher loan loss provisions
Other	4	<b>25</b>	21	21	Reversal of AGT provision
	<u>1,795</u>	<u><b>1,816</b></u>	<u>21</u>	<u>34</u>	
<b>Premiums, Fees and Licences</b>					
Health care insurance premiums	913	<b>918</b>	5	5	Revised forecast
Motor vehicle licences	262	<b>266</b>	4	3	Higher transaction volumes
Crop and hail insurance premiums	164	<b>159</b>	(5)	(5)	Lower crop insurance coverage
Timber royalties and fees	63	<b>52</b>	(11)	(19)	Impact of forest fires
Land titles	36	<b>37</b>	1	1	Higher transaction volumes
Other	278	<b>267</b>	(11)	(5)	Lower deposit guarantee fees
	<u>1,716</u>	<u><b>1,699</b></u>	<u>(17)</u>	<u>(20)</u>	
<b>Investment Income</b>					
Alberta Heritage Savings Trust Fund	426	<b>426</b>	-	-	
Alberta Capital Finance Authority	319	<b>325</b>	6	-	Increased lending activity
Agriculture Financial Services Corporation	91	<b>82</b>	(9)	(9)	Lower lending and fund balance
Debt Retirement Account	45	<b>46</b>	1	1	Higher fund balance
Alberta Sustainability Fund	31	<b>41</b>	10	-	Higher fund balance
Endowment Funds:					
Medical Research	31	<b>31</b>	-	-	
Science and Engineering Research	11	<b>11</b>	-	6	
Scholarship	10	<b>10</b>	-	-	
Other	55	<b>75</b>	20	16	Credit Union Stabilization Agreement
	<u>1,019</u>	<u><b>1,047</b></u>	<u>28</u>	<u>14</u>	
<b>Other</b>					
Refunds of expense	87	<b>85</b>	(2)	-	Revised forecast
Fines and penalties	63	<b>64</b>	1	1	Revised forecast
Miscellaneous	224	<b>228</b>	4	7	Miscellaneous changes
	<u>374</u>	<u><b>377</b></u>	<u>3</u>	<u>8</u>	
<b>Total Revenue</b>	<u>21,928</u>	<u><b>24,080</b></u>	<u>2,152</u>	<u>460</u>	

## Expense

### FUNDING FROM THE SUSTAINABILITY FUND

**Disaster/Emergency Assistance** – \$918 million in disaster/emergency assistance is being provided from the Sustainability Fund to support agriculture, forest fire-fighting and disaster programs, an increase of \$373 million from the first quarter.

- ◆ **Agriculture, Food and Rural Development** expense has been increased by \$794 million from budget to address BSE-related disaster assistance. Partly offsetting this is a \$407 million increase in federal agriculture transfers. Increased funding provides compensation to Alberta producers affected by the temporary closure of borders to Canadian beef exports.
- ◆ **Economic Development** expense, as reported in the *First Quarter Fiscal Update*, has increased by \$3.5 million for a BSE market recovery strategy.
- ◆ **Municipal Affairs** expense has increased by \$7 million for three disaster recovery programs.
- ◆ **Sustainable Resource Development** expense has increased by \$113 million from budget and \$38 million from first quarter for forest fire-fighting costs.

**Natural Gas Rebates** – \$181 million has been allocated for potential natural gas rebates during the 2003-04 winter period. This assumes rebates will be paid in 3 of 5 eligible months. If the price the majority of the regulated utilities charge does not exceed the trigger price of \$5.50 per gigajoule in an eligible month, rebates will not be paid. Rebates are expensed by the **Ministry of Infrastructure**.

### FUNDING FROM THE CONTINGENCY ALLOWANCE

\$210 million was budgeted in the Contingency Allowance for in-year non-emergency initiatives. \$174 million has been committed – \$112 million in the first quarter and a further \$62 million in the second quarter. In-year emergency/disaster assistance, natural gas rebates, changes in dedicated revenue and expense, and increases offset by lapses in budgeted program expense are not charged against the Contingency Allowance.

**Learning** expense has been increased by \$56 million from budget. As noted in the *First Quarter Fiscal Update*, \$30 million was provided for operations and

maintenance costs of post-secondary institutions. In the second quarter, support for school boards in the 2003-04 fiscal year has been increased by \$40 million primarily to address some recommendations of Alberta's Commission on Learning. \$15 million also has been provided to support additional entry spaces at post-secondary institutions. These increases are partly offset by \$29 million in lapses, primarily related to the provision for student loans and teachers' pensions.

**Seniors** expense has been increased by \$37 million from budget. As noted in the *First Quarter Fiscal Update*, \$31 million was provided for seniors programs and operations and maintenance costs of housing facilities. A further \$6 million has been provided in the second quarter for the Special Needs Assistance Program.

**Human Resources and Employment** expense has increased by \$32 million. A \$2 million increase was provided for the Assured Income for the Severely Handicapped program in the first quarter. In the second quarter, \$30 million has been added for caseload and cost increases in assistance programs.

**Infrastructure** expense was increased by \$30 million in the first quarter for operations and maintenance costs of schools. In the second quarter, \$1 million has been added for seniors lodges, and \$181 million is forecast to be transferred from the Sustainability Fund for natural gas rebates.

**Municipal Affairs** expense has increased by \$5 million for assistance to local governments for energy efficiency projects and for the monitoring and warning system for Turtle Mountain. This is in addition to the \$7 million provided for disaster assistance.

**Health and Wellness** expense has increased by \$1 million from budget. As noted in the *First Quarter Fiscal Update*, increases for facility operations and maintenance costs of health authorities are mostly offset by reductions in other program areas.

### DEBT SERVICING COSTS

Debt servicing costs have decreased by \$145 million from budget primarily due to the appreciation of the Canadian dollar. This has reduced the cost of debt held in U.S. dollars.

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

	2003-04			
	Budget	2nd	Change from	
		Quarter	Budget	1st
	Budget	Forecast	Budget	Quarter
<b>Program Expense</b>				
Budget	20,335	<b>20,335</b>	-	-
Disaster/emergency assistance	-	<b>918</b>	918	373
Natural gas rebates	-	<b>181</b>	181	181
In-year contingency allowance expense <sup>a</sup>	-	<b>169</b>	169	62
Dedicated expense changes (net)	-	<b>(1)</b>	(1)	1
<b>Total Program Expense</b>	20,335	<b>21,602</b>	1,267	617
<b>Debt Servicing Costs</b>	465	<b>320</b>	(145)	(75)
<b>Total Expense</b>	20,800	<b>21,922</b>	1,122	542

<sup>a</sup> Does not include a \$5 million revenue reduction initiative (for cigar taxes) that is also a draw on the Contingency Allowance.

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

Program	2003-04				Main Reasons for Change from Budget
	Budget	2nd	Change from		
		Quarter	Budget	1st	
	Budget	Forecast	Budget	Quarter	
Legislative Assembly	61	<b>62</b>	1	-	Personal Information Protection Act
Aboriginal Affairs and Northern Development	32	<b>34</b>	2	2	Aboriginal consultations
Agriculture, Food and Rural Development	808	<b>1,602</b>	794	328	Agriculture disaster assistance
Children's Services	708	<b>709</b>	1	1	Facility operations and maintenance costs
Community Development	647	<b>649</b>	2	1	Facility operations and maintenance costs
Economic Development	55	<b>58</b>	3	-	BSE market recovery strategy
Energy	191	<b>194</b>	3	3	Recoverable well abandonment costs
Environment	122	<b>119</b>	(3)	(3)	Deferral of site reclamation work
Executive Council	18	<b>18</b>	-	-	
Finance	435	<b>446</b>	11	-	Alberta Capital Finance Authority lending
Gaming	150	<b>150</b>	-	-	
Government Services	83	<b>88</b>	5	4	Utilities Consumer Advocate / land titles
Health and Wellness	7,350	<b>7,351</b>	1	(2)	Facility operations and maintenance costs
Human Resources and Employment	1,071	<b>1,103</b>	32	30	AISH / SFI / Skills Investments programs
Infrastructure	1,202	<b>1,414</b>	212	182	Natural gas rebates
Innovation and Science	200	<b>189</b>	(11)	(4)	Lower contract research
International and Intergovernmental Relations	6	<b>6</b>	-	-	
Justice	263	<b>265</b>	2	2	Ticket volume / maintenance enforcement
Learning	4,912	<b>4,968</b>	56	26	Basic and post-secondary support
Municipal Affairs	132	<b>144</b>	12	12	Disasters / energy efficiency programs
Revenue	166	<b>157</b>	(9)	(8)	Lower endowment funds' spending
Seniors	354	<b>391</b>	37	6	Increased costs of seniors' benefits
Solicitor General	278	<b>281</b>	3	-	Organized crime initiative
Sustainable Resource Development	202	<b>315</b>	113	38	Forest fires
Transportation	889	<b>889</b>	-	-	
<b>Total Program Expense</b>	20,335	<b>21,602</b>	1,267	617	
<b>Debt Servicing Costs</b>	465	<b>320</b>	(145)	(75)	Foreign exchange rate
<b>Total Expense</b>	20,800	<b>21,922</b>	1,122	542	

# Alberta Sustainability Fund

## TRANSFERS TO (FROM) SUSTAINABILITY FUND

- ◆ The *Fiscal Responsibility Act* requires non-renewable resource revenue above \$3.5 billion to be transferred to the Sustainability Fund. This transfer is now forecast at \$3.2 billion, \$1.9 billion higher than estimated in the budget.
- ◆ The *Fiscal Responsibility Act* allows withdrawals from the Fund to pay for emergencies, disasters and rebates under the *Natural Gas Price Protection Act*. These withdrawals are forecast at \$1.1 billion.
- ◆ There are also net transfers of \$373 million to the Fund consisting of:
  - ◆ \$232 million increase in revenue (excluding non-renewable resource, \$1 million decrease in dedicated revenue and expense and \$5 million revenue reduction initiative),
  - ◆ plus \$145 million reduction in debt servicing costs,
  - ◆ less \$4 million increase in the net cash requirements for capital spending and retained income of funds and agencies.

## CASH ADJUSTMENTS

- ◆ Cash adjustments reflect the differences between accrued revenue and cash receipts, non-cash expenses, and transfers of cash not reported on the income statement.
- ◆ Cash adjustments increase the net transfers to the Sustainability Fund by \$880 million, reflecting primarily natural gas royalties that were accrued in 2002-03 but for which cash was not received until 2003-04.

## ASSETS OF SUSTAINABILITY FUND

- ◆ Net assets of the Sustainability Fund, prior to reallocations, are forecast at \$3.4 billion. This is \$1.1 billion higher than estimated in the budget.
- ◆ The *Fiscal Responsibility Act* allows the reallocation of Sustainability Fund assets to other balance sheet improvements once the Fund reaches its target level of \$2.5 billion.
- ◆ Based on the second quarter forecast, \$856 million will be allocated at the end of the fiscal year. The Debt Retirement Account and the Capital Account will each receive \$428 million, leaving \$2.5 billion in the Sustainability Fund.

## ALBERTA SUSTAINABILITY FUND

AT MARCH 31, 2004

(millions of dollars)

	Budget	2nd	Change from	
		Quarter Forecast	Budget	1st Quarter
Assets at start of year	-	-	-	-
Non-renewable resource revenue transfer from general revenue	1,276	3,202	1,926	404
Transfer for disaster and emergency program expense	-	(918)	(918)	(373)
Transfer for the Natural Gas Rebate Program expense	-	(181)	(181)	(181)
Other net transfers	-	373	373	133
	1,276	2,476	1,200	(17)
Cash adjustments:				
Natural gas royalties	914	1,070	156	(23)
Transfer to Science and Engineering Research Fund	(21)	(21)	-	-
Transfer for disaster/emergency capital investment	-	(9)	(9)	-
Foreign exchange valuation adjustment on debt	-	(130)	(130)	(65)
Other	48	(30)	(78)	62
	941	880	(61)	(26)
<b>Assets at End of Year</b> (prior to allocations)	2,217	3,356	1,139	(43)
Allocation to Debt Retirement Account	-	428	428	428
Allocation to Capital Account	-	428	428	428
<b>Assets at End of Year</b>	2,217	2,500	283	(899)



# Capital Plan

- ◆ Capital spending, including capital grants to local authorities and capital investment in provincial government-owned projects, is currently forecast at \$1.684 billion. This is \$8 million higher than the budgeted Capital Plan.
- ◆ Changes in the Capital Plan include:
  - ◆ **General Government Capital** – \$28 million increase including:
    - \$13 million for the FireNet Telecommunications System (Sustainable Resource Development).
    - \$9 million for constructing and equipping laboratory facilities to support enhanced food safety surveillance (Infrastructure and Agriculture, Food and Rural Development, funded from the Sustainability Fund).
    - \$4 million for development of a new Apprenticeship, Trades and Occupations Management System (Learning).
    - \$2 million in other changes, including net transfers from operating spending to equipment and inventory purchases.
  - ◆ **Provincial Highway Network** – \$11 million increase for pavement rehabilitation and construction.
  - ◆ **Municipal Transportation Grants** – \$13 million reduction due to pre-funding of 2003-04 grants in 2002-03.
  - ◆ **Post-secondary Facilities** – \$10 million reduction due to revised project schedules for the construction of Health Innovation Centres funded from the Alberta Heritage Foundation for Medical Research Endowment Fund.
  - ◆ **Water and Wastewater Management** – \$7 million reduction due to revised project schedules.
  - ◆ **Other Infrastructure** – \$4 million decrease mainly due to a \$10 million deferral for Alberta SuperNet, offset partly by a \$7 million increase for the Infrastructure Canada/Alberta Program.
  - ◆ **Community Facilities and Housing** – \$3 million in increases.
- ◆ Further details on Capital Plan spending by ministry are reported on page 10.

## CAPITAL PLAN SUMMARY

(millions of dollars)

	2003-04			
	Budget <sup>a</sup>	2nd	Change from	
		Quarter	Budget	1st
		Forecast	Budget	Quarter
Provincial highway network	457	<b>468</b>	11	5
Municipal transportation grants	242	<b>229</b>	(13)	-
Health facilities and equipment	284	<b>284</b>	-	-
School facilities and equipment	136	<b>136</b>	-	-
Post-secondary facilities	135	<b>125</b>	(10)	-
Water and wastewater management	86	<b>79</b>	(7)	(7)
Community facilities	64	<b>65</b>	1	-
Housing	44	<b>46</b>	2	2
Other infrastructure programs	88	<b>84</b>	(4)	(10)
General government capital	140	<b>168</b>	28	5
<b>Total Capital Plan Spending</b>	<b>1,676</b>	<b>1,684</b>	8	(5)
To be funded by:				
Current-year revenue	1,053	<b>1,052</b>	(1)	(5)
Capital Account <sup>b</sup>	623	<b>623</b>	-	-
Alternative financing	-	-	-	-
Transfer from Alberta Sustainability Fund	-	<b>9</b>	9	-
<b>Total Capital Plan</b>	<b>1,676</b>	<b>1,684</b>	8	(5)

a The budget has been restated to include \$13 million of capital grants reported in operating expense in the budget but not reported in the Capital Plan.

b Capital Account supports \$416 million of capital grants to local authorities and \$207 million of capital investment in government-owned capital.

## Net Financial and Capital Assets

- ◆ **Net Assets** – The government of Alberta's net assets are now forecast at \$19.2 billion as of March 31, 2004. This includes capital assets of \$10.5 billion.
- ◆ **Pension Obligations** – Pension obligations are forecast at \$5.1 billion. They are scheduled for elimination under a separate legislative plan and are not subject to the *Fiscal Responsibility Act*.
- ◆ **Accumulated Debt** – Accumulated debt, net of cash set aside in the Debt Retirement Account, is forecast at \$4.2 billion as of March 31, 2004. This is a \$538 million reduction from March 31, 2003. The reduction reflects the \$428 million allocation to the Debt Retirement Account and a \$110 million reduction in the value of debt held in U.S. dollars due to the appreciation of the Canadian dollar.

### BALANCE SHEET

AT MARCH 31

(millions of dollars)

	2003		2004			
	Actual	Budget <sup>a</sup>	2nd Quarter Forecast	Change from 1st Quarter		2003 Actual
<b>Financial Assets</b>						
Heritage Fund external investments <sup>b</sup>	11,262	11,267	<b>11,267</b>	-	-	5
Self-supporting lending organizations	5,293	5,184	<b>5,469</b>	285	97	176
Alberta Sustainability Fund	-	2,217	<b>2,500</b>	283	(899)	2,500
Endowment funds	1,550	1,518	<b>1,539</b>	21	5	(11)
Capital Account	910	287	<b>715</b>	428	428	(195)
Debt Retirement Account	2,010	252	<b>776</b>	524	508	(1,234)
Other financial assets	5,510	5,267	<b>5,014</b>	(253)	(35)	(496)
<b>Total Financial Assets</b>	<b>26,535</b>	<b>25,992</b>	<b>27,280</b>	1,288	104	745
<b>Liabilities</b>						
Accumulated debt	6,746	4,988	<b>4,974</b>	(14)	35	(1,772)
Pension obligations	4,927	5,048	<b>5,060</b>	12	9	133
Self-supporting lending organizations	4,070	4,062	<b>4,459</b>	397	201	389
Other liabilities	3,916	4,175	<b>4,064</b>	(111)	(61)	148
<b>Total Liabilities</b>	<b>19,659</b>	<b>18,273</b>	<b>18,557</b>	284	184	(1,102)
<b>Net Financial Assets</b>	<b>6,876</b>	<b>7,719</b>	<b>8,723</b>	1,004	(80)	1,847
Capital assets	10,285	10,449	<b>10,463</b>	14	(11)	178
<b>Net Assets</b>	<b>17,161</b>	<b>18,168</b>	<b>19,186</b>	1,018	(91)	2,025
Adjustment for pension obligations	4,927	5,048	<b>5,060</b>	12	9	133
<b>Net Assets for Fiscal Policy Purposes</b>	<b>22,088</b>	<b>23,216</b>	<b>24,246</b>	1,030	(82)	2,158

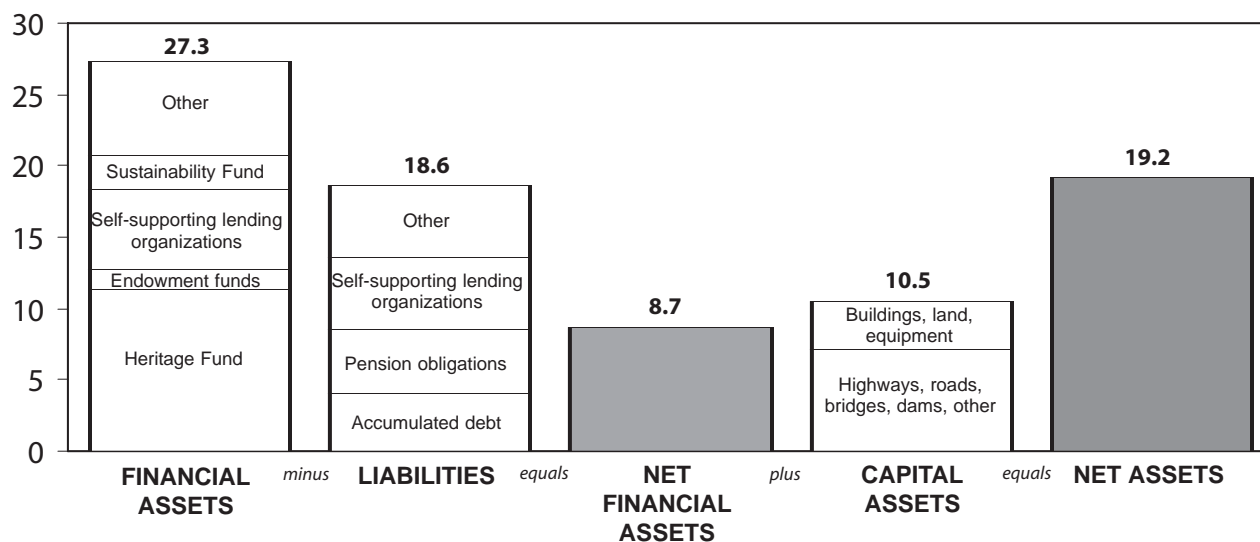
a Budget has been restated to reflect 2002-03 actual results.

b Excludes \$95 million in internal government investments in 2003-04.

## ASSETS, LIABILITIES AND NET ASSETS

AT MARCH 31, 2004

(billions of dollars)



## NET FINANCING REQUIREMENTS

(millions of dollars)

	2003-04			
	Budget	2nd Quarter Forecast	Change from Budget	1st Quarter
<b>Requirements:</b>				
General Revenue Fund term debt maturities	1,700	1,615	(85)	(15)
School construction loan repayments	83	83	-	-
Provincial corporations' term borrowing requirements	200	150	(50)	-
Adjustments	(25)	74	99	(20)
Gross financing requirements	1,958	1,922	(36)	(35)
Term debt borrowing to date	-	-	-	-
Accumulated debt reduction	(1,758)	(1,772)	(14)	35
<b>Net Remaining Term Debt Financing Requirements</b>	<b>200</b>	<b>150</b>	<b>(50)</b>	<b>-</b>

## FISCAL YEAR ASSUMPTIONS

	Sensitivities <sup>a</sup> (millions of dollars)				Assumptions		
	Annual Change	Revenue	Spending	Net Change	Budget	1st Quarter Forecast	2nd Quarter Forecast
Oil Price (WTI US\$/bbl)	-\$1.00	-76	-	-76	23.30	25.00	27.50
Natural Gas Price (Cdn\$/mcf)	-10¢	-106	-	-106	4.05	5.00	5.15
Exchange Rate (US¢/Cdn\$)	+1¢	-125	-25	-100	65.60	71.90	73.35
Interest Rates	+1%	-148	+15	-163			
3-month Canada Treasury Bills					3.90	3.35	2.90
10-year Canada Bonds					5.80	4.55	4.85

a Sensitivities are based on current assumptions of prices and rates and show the effects for a full 12 month period. Sensitivities 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***(millions of dollars)*

	2003-04 Capital Investment				2003-04 Capital Amortization			
	2nd Quarter		Change from 1st Quarter		2nd Quarter		Change from 1st Quarter	
	Budget	Forecast	Budget	Quarter	Budget	Forecast	Budget	Quarter
Legislative Assembly	-	-	-	-	-	-	-	-
Aboriginal Affairs and Northern Development	-	-	-	-	-	-	-	-
Agriculture, Food and Rural Development	10	11	1	-	7	7	-	-
Children's Services	-	-	-	-	1	1	-	-
Community Development	2	2	-	-	10	10	-	-
Economic Development	-	-	-	-	-	-	-	-
Energy	11	12	1	-	11	11	-	-
Environment	1	1	-	-	18	18	-	-
Executive Council	-	-	-	-	-	-	-	-
Finance	5	4	(1)	-	2	2	-	-
Gaming	-	-	-	-	-	-	-	-
Government Services	4	3	(1)	(1)	5	5	-	-
Health and Wellness	37	38	1	-	22	22	-	-
Human Resources and Employment	3	3	-	-	4	4	-	1
Infrastructure	46	54	8	-	55	55	-	-
Innovation and Science	66	56	(10)	(10)	8	8	-	-
International and Intergovernmental Relations	-	-	-	-	-	-	-	-
Justice	2	4	2	2	1	1	-	-
Learning	7	11	4	4	3	3	-	-
Municipal Affairs	2	2	-	-	1	1	-	-
Revenue	5	5	-	-	3	3	-	-
Seniors	-	-	-	-	24	24	-	-
Solicitor General	-	-	-	-	-	-	-	-
Sustainable Resource Development	7	20	13	-	9	9	-	-
Transportation	407	407	-	-	244	244	-	-
<b>Total Capital Investment/Amortization</b>	<b>615</b>	<b>633</b>	<b>18</b>	<b>(5)</b>	<b>428</b>	<b>428</b>	<b>-</b>	<b>1</b>
Funded from Capital Account	207	207	-	-	-	-	-	-

**CAPITAL GRANTS TO LOCAL AUTHORITIES AND OTHER INFRASTRUCTURE SUPPORT<sup>a</sup>**

	Budget <sup>b</sup>	2nd	Change from	
		Quarter Forecast	Budget	1st Quarter
Agriculture, Food and Rural Development	26	24	(2)	(2)
Community Development	3	3	-	-
Environment	1	1	-	-
Gaming	39	39	-	-
Health and Wellness	50	50	-	-
Infrastructure	479	480	1	1
Innovation and Science	11	11	-	-
Learning	20	20	-	-
Revenue	10	-	(10)	-
Seniors	39	40	1	1
Transportation	383	383	-	-
<b>Total Support for Infrastructure</b>	<b>1,061</b>	<b>1,051</b>	<b>(10)</b>	<b>-</b>
Funded from Capital Account	416	416	-	-

<sup>a</sup> Included in program expense.<sup>b</sup> The budget has been restated to include \$13 million of capital grants reported in operating expense in the budget but not reported in the Capital Plan.

# ACTUAL RESULTS

## FOR THE FIRST SIX MONTHS OF 2003-04

### METHOD OF CONSOLIDATION

This financial summary is prepared on the same basis as used in *Budget 2003*.

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 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 2002-03 figures have been restated where necessary to conform to 2003-04 presentation.

**CONSOLIDATED FISCAL SUMMARY<sup>a</sup>**

for the six months ended September 30, 2003 (unaudited)

*(millions of dollars)*

	First Six Months		
	2003-04	2002-03	Change
<b>Revenue</b>			
Income taxes	2,895	3,352	(457)
Other taxes	1,427	1,319	108
Non-renewable resource revenue	3,773	2,726	1,047
Transfers from Government of Canada	1,202	1,132	70
Net income from commercial operations	929	915	14
Premiums, fees and licences	985	1,018	(33)
Net investment income (loss)	712	(476)	1,188
Other	188	427	(239)
<b>Total Revenue</b>	<b>12,111</b>	<b>10,413</b>	<b>1,698</b>
<b>Expense</b>			
Program	10,276	10,088	188
Debt servicing costs	133	304	(171)
<b>Total Expense</b>	<b>10,409</b>	<b>10,392</b>	<b>17</b>
<b>Net Revenue</b>	<b>1,702</b>	<b>21</b>	<b>1,681</b>

<sup>a</sup> 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, 2003 (unaudited)

*(millions of dollars)*

	First Six Months		Change
	2003-04	2002-03	
<b>Program</b>			
Legislative Assembly	25	24	1
Aboriginal Affairs and Northern Development	21	21	-
Agriculture, Food and Rural Development	495	1,154	(659)
Children's Services	356	316	40
Community Development	309	289	20
Economic Development	25	22	3
Energy	91	80	11
Environment	49	49	-
Executive Council	8	7	1
Finance	220	225	(5)
Gaming	55	47	8
Government Services	38	29	9
Health and Wellness	3,587	3,286	301
Human Resources and Employment	540	500	40
Infrastructure	700	503	197
Innovation and Science	69	66	3
International and Intergovernmental Relations	3	3	-
Justice	132	131	1
Learning	2,490	2,290	200
Municipal Affairs	80	102	(22)
Revenue	58	67	(9)
Seniors	180	145	35
Solicitor General	136	129	7
Sustainable Resource Development	223	321	(98)
Transportation	386	282	104
<b>Total Program Expense</b>	<b>10,276</b>	<b>10,088</b>	<b>188</b>
<b>Debt Servicing Costs</b>	<b>133</b>	<b>304</b>	<b>(171)</b>
<b>Total Expense</b>	<b>10,409</b>	<b>10,392</b>	<b>17</b>

PRODUCED BY

