

MARCH FISCAL UPDATE

- HIGHLIGHTS**
- ◆ As required by the *Government Accountability Act*, an updated 1997-98 fiscal forecast has been prepared as part of the tabling of additional supplementary estimates for Health, Education, Transportation and Utilities, Lottery Fund and the Legislative Assembly.
 - ◆ The 1997-98 surplus is now forecast at \$2.347 billion, \$148 million higher than forecast in the Third Quarter Update. This is after providing funding for the additional supplementary estimates.
 - ◆ Total expense is expected to be \$15.021 billion, \$136 million higher than forecast in the Third Quarter Update. The increase primarily reflects additional funding for health authorities for Year 2000 compliance.
 - ◆ Revenue is expected to be \$17.373 billion, \$284 million higher than forecast in the Third Quarter Update. This increase is primarily due to higher income tax and energy revenues.

Consolidated Fiscal Summary^a

(millions of dollars)

		1997-98			
		Budget ^b	March Forecast	Change from Budget	Change from 3rd Quarter
Revenue					
1	Forecast	15,300	17,373	2,073	284
2	Cushion ^c	(590)	—	590	—
3	Budgeted Revenue	<u>14,710</u>	<u>17,373</u>	<u>2,663</u>	<u>284</u>
Expense					
4	Program	13,361	13,463	102	6
5	One-time Infrastructure Grants	—	390	390	130
6	Debt Servicing Costs	1,198	1,168	(30)	—
7	Total Expense	<u>14,559</u>	<u>15,021</u>	<u>462</u>	<u>136</u>
8	Net Revenue	151	2,352	2,201	148
9	Net Decrease (Increase) in Capital Assets affecting Operations ^d	3	(5)	(8)	—
10	Consolidated Surplus	<u>154</u>	<u>2,347</u>	<u>2,193</u>	<u>148</u>
11	Net Debt subject to Balanced Budget and Debt Retirement Act at March 31, 1998 (forecast)^e	3,293	1,396	(1,897)	(148)

^a Subject to the Balanced Budget and Debt Retirement Act. Includes the province's annual cash payments towards the unfunded pension obligations. Does not include the annual change in the unfunded pension obligations, forecast to decline by \$51 million, which is a non-cash item that does not affect borrowing requirements.

^b Budget numbers have been restated to reflect a number of accounting presentation changes recommended by the Auditor General, which are described on page 8.

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

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

^e The net debt calculation reflects the reported net debt at March 31, 1997 of \$3.696 billion adjusted for a \$47 million increase in net debt due to a change to accrual reporting for some revenue sources, as described on page 8. Budget '97 assumed a net debt payment of \$450 million from the budgeted surplus and the revenue cushion in 1997-98.

Revenue

INCOME TAX REVENUE Personal income tax revenue is forecast to be \$350 million higher than the budget estimate. This is \$36 million higher than the third quarter forecast. The increase from the Third Quarter Update is due to a prior year adjustment for personal income tax revenue recorded in the current year. Corporate income tax revenue is expected to be \$403 million higher than the budget estimate. This is \$130 million higher than the third quarter forecast. This increase is due to strong corporate income tax receipts in February and early March.

OTHER TAX REVENUE The forecast of other tax revenue is \$116 million above the budget estimate and \$17 million higher than the third quarter forecast. The increase from the Third Quarter Update is due to an increase in freehold mineral rights tax revenue.

NON-RENEWABLE RESOURCE REVENUE Resource revenue is forecast to be \$1.007 billion higher than the budget forecast, and \$56 million higher than the third quarter forecast. The increase from the Third Quarter Update is due to higher than expected natural gas prices and higher revenue from bonuses and sale of crown leases.

INVESTMENT INCOME Investment income is expected to be \$171 million higher than budgeted, unchanged from the Third Quarter Update.

TRANSFERS FROM GOVERNMENT OF CANADA Transfers from the Government of Canada are expected to be \$155 million lower than the budget estimate. This is \$15 million lower than the third quarter forecast. Since the Third Quarter Update, the forecast of the Canada Health and Social Transfer has been reduced by \$21 million due to prior year adjustments for 1995-96 and 1996-97, and an increase in income tax revenues. Partly offsetting this decrease is a \$6 million payment from the federal government related to export duties on softwood lumber sales to the United States.

OTHER REVENUE SOURCES Total revenue from other sources is \$181 million higher than budgeted. This is \$60 million higher than the Third Quarter Update due to higher Lottery Fund revenue and higher net income from the Alberta Gaming and Liquor Commission.

Revenue

(millions of dollars)

	1997-98				Main Reason for Change from Budget
	Budget ^a	March Forecast	Change from Budget	Change from 3rd Quarter	
Income Taxes					
Personal income tax	3,526	3,876	350	36	Income and employment growth
Corporate income tax	1,436	1,839	403	130	Strong economic growth
	<u>4,962</u>	<u>5,715</u>	<u>753</u>	<u>166</u>	
Other Taxes					
School property tax	1,169	1,182	13	—	Shift from opted-out boards to ASFF
Fuel tax	528	565	37	—	Strong economic growth
Tobacco tax	315	340	25	—	Higher sales
Insurance corporations tax	103	108	5	—	Industry revenue growth
Freehold mineral rights tax	106	135	29	17	Higher oil and gas prices
Financial institutions capital tax	37	39	2	—	Increase in bank assets
Hotel room tax	35	40	5	—	Increased activity
	<u>2,293</u>	<u>2,409</u>	<u>116</u>	<u>17</u>	
Non-Renewable Resource Revenue					
Natural gas and by-products royalty	1,245	1,659	414	39	Higher prices
Crude oil royalty	854	895	41	(14)	Higher prices/lower exchange rate
Synthetic crude oil and bitumen royalty	244	192	(52)	(2)	Higher capital spending
Coal royalty	20	16	(4)	—	Higher capital spending
Bonuses and sales of Crown leases	500	1,053	553	25	Strong year-to-date sales
Rentals and fees	123	138	15	(2)	Higher land sales
Royalty tax credit	(270)	(230)	40	10	Higher energy prices
	<u>2,716</u>	<u>3,723</u>	<u>1,007</u>	<u>56</u>	
Investment Income					
Heritage Fund	701	836	135	—	Realized capital gains/higher returns
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	80	17	—	Realized capital gains/higher returns
Other	134	149	15	—	Capital gains and other changes
	<u>1,465</u>	<u>1,636</u>	<u>171</u>	<u>—</u>	
Transfers from Government of Canada					
Canada health and social transfer	981	898	(83)	(21)	Higher income tax revenue
Agriculture support programs	118	97	(21)	—	Federal reallocation of funds
Labour market development	107	15	(92)	—	Delay in transfer of program
Other	133	174	41	6	Rehabilitation/disaster assistance
	<u>1,339</u>	<u>1,184</u>	<u>(155)</u>	<u>(15)</u>	
Premiums, Fees and Licences					
Health care insurance premiums	636	641	5	—	Increased volume
Motor vehicle licences	166	180	14	—	Increased volume
Crop and hail insurance premiums	86	74	(12)	—	Lower participation rates
Timber rentals and fees	58	102	44	—	Higher than expected timber prices
Land titles	45	61	16	—	Increased volume
Other	210	227	17	—	Miscellaneous changes
	<u>1,201</u>	<u>1,285</u>	<u>84</u>	<u>—</u>	
Net Income from Commercial Operations					
Alberta Gaming and Liquor Commission	363	378	15	15	Increased liquor sales
Treasury Branches	17	40	23	—	Higher income/lower loss provision
Other	6	11	5	—	Miscellaneous changes
	<u>386</u>	<u>429</u>	<u>43</u>	<u>15</u>	
Other					
Lottery Fund revenue	653	698	45	45	Higher casino slot and VLT revenue
Sale of capital assets	26	28	2	—	Revised forecast
Fines and penalties	30	28	(2)	—	Revised forecast
Miscellaneous	229	238	9	—	Miscellaneous changes
	<u>938</u>	<u>992</u>	<u>54</u>	<u>45</u>	
Forecast Revenue	15,300	17,373	2,073	284	
Revenue Cushion	(590)	—	590	—	Cushion added to revenue
Budgeted Revenue	14,710	17,373	2,663	284	

^a Budget numbers have been restated to reflect accounting presentation changes related to AMFC, health care insurance premiums, and federal transfers for social housing, described in detail on page 8.

Expense

PROGRAM EXPENSE	<p>Legislative Assembly spending is \$267,000 higher than the Third Quarter Update. Additional funding is being provided for the payment of achievement bonuses to employees of the Offices of the Auditor General, Ombudsman, Chief Electoral Officer, Ethics Commissioner, and Information and Privacy Commissioner. The strategy for awarding bonuses will be similar to the strategy adopted for other government employees.</p> <p>Education spending is \$42 million higher than budgeted. This is \$4 million higher than the third quarter forecast. Expense has been increased for the payment of accrued interest that is due on school debentures that have been repaid early.</p> <p>Transportation and Utilities spending is up \$34 million from the budget. This is \$1 million higher than the third quarter forecast. Additional funding was required for emergency assistance due to the closure of the winter road to Fort Chipewyan.</p> <p>Program expense of other ministries is unchanged from the Third Quarter Update.</p>
ONE-TIME INFRASTRUCTURE GRANTS	<p>A recently completed review on the impact of Year 2000 on health authorities has indicated that the cost of remediating medical equipment and computer systems will be higher than first expected. An additional \$130 million from the Lottery Fund will be provided to Health to address health authorities' Year 2000 requirements.</p>
DEBT SERVICING COSTS	<p>Debt servicing costs are unchanged from the Third Quarter Update.</p>

Expense

(millions of dollars)

1997-98

	Budget ^a	March Forecast	Change from Budget	Change from 3rd Quarter
Program				
Legislative Assembly	40	38	(2)	1
Advanced Education and Career Development	1,277	1,193	(84)	—
Agriculture, Food and Rural Development	461	374	(87)	—
Community Development	308	310	2	—
Economic Development	175	173	(2)	—
Education	2,822	2,864	42	4
Energy	126	122	(4)	—
Environmental Protection	311	328	17	—
Executive Council	13	13	—	—
Family and Social Services	1,359	1,353	(6)	—
Health	3,986	4,054	68	—
Intergovernmental and Aboriginal Affairs	37	47	10	—
Justice	369	368	(1)	—
Labour	33	31	(2)	—
Municipal Affairs	268	251	(17)	—
Public Works, Supply and Services	465	471	6	—
Science, Research and Information Technology	56	52	(4)	—
Transportation and Utilities	548	582	34	1
Treasury	813	942	129	—
Consolidation adjustments	(106)	(103)	3	—
Program Expense	<u>13,361</u>	<u>13,463</u>	<u>102</u>	<u>6</u>
One-time Infrastructure Grants				
Advanced Education and Career Development	—	20	20	—
Economic Development (Lottery Fund)	—	130	130	130
Education	—	100	100	—
Health	—	170	170	130
Transportation and Utilities	—	100	100	—
Consolidation adjustments	—	(130)	(130)	(130)
One-time Infrastructure Grants	<u>—</u>	<u>390</u>	<u>390</u>	<u>130</u>
Debt Servicing Costs				
Gross debt servicing costs	1,361	1,323	(38)	—
Consolidation adjustments	(163)	(155)	8	—
Consolidated Debt Servicing Costs	<u>1,198</u>	<u>1,168</u>	<u>(30)</u>	<u>—</u>
Total Consolidated Expense	<u>14,559</u>	<u>15,021</u>	<u>462</u>	<u>136</u>

^a Budget numbers have been restated to reflect accounting presentation changes related to AMFC, provision for uncollectible health care insurance premiums, debt servicing costs of Alberta Social Housing Corporation, and the allocation of valuation adjustments from Treasury to other ministries, described in detail on page 8.

Net Change in Capital Assets

The net increase in capital assets affecting operations is forecast to be \$8 million higher than the budget estimate. This is unchanged from the Third Quarter Update.

Net Change in Capital Assets affecting Operations

(millions of dollars)

	1997-98			
	Budget	March Forecast	Change from Budget	Change from 3rd Quarter
Capital Investment	238	237	(1)	—
Capital Amortization	(241)	(232)	9	—
Net Increase (Decrease) in Capital Assets affecting Operations	<u>(3)</u>	<u>5</u>	<u>8</u>	<u>—</u>

Capital Investment and Amortization

(millions of dollars)

	Capital Investment			Capital Amortization		
	Budget	March Forecast	Change from Budget	Budget	March Forecast	Change from Budget
Legislative Assembly	—	—	—	—	—	—
Advanced Education and Career Development	2	1	(1)	1	2	1
Agriculture, Food and Rural Development	2	4	2	5	6	1
Community Development	1	1	—	1	1	—
Economic Development	—	—	—	1	—	(1)
Education	2	1	(1)	1	1	—
Energy	4	3	(1)	8	6	(2)
Environmental Protection	7	7	—	29	28	(1)
Executive Council	—	—	—	—	—	—
Family and Social Services	—	1	1	5	5	—
Health	5	1	(4)	1	1	—
Intergovernmental and Aboriginal Affairs	—	—	—	—	—	—
Justice	2	2	—	1	1	—
Labour	—	—	—	—	—	—
Municipal Affairs	5	5	—	27	27	—
Public Works, Supply and Services	66	69	3	60	58	(2)
Science, Research and Information Technology	3	2	(1)	3	2	(1)
Transportation and Utilities	137	138	1	96	93	(3)
Treasury	2	2	—	2	1	(1)
Total Capital Investment/Amortization	<u>238</u>	<u>237</u>	<u>(1)</u>	<u>241</u>	<u>232</u>	<u>(9)</u>

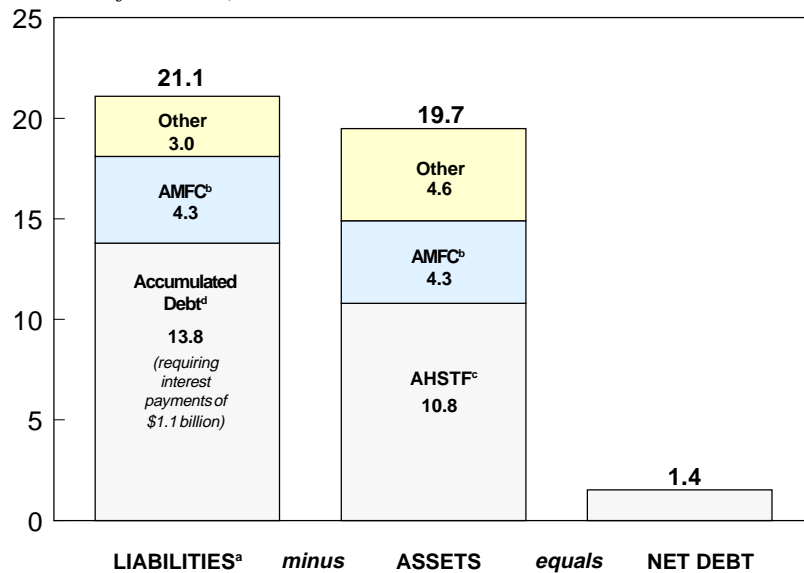
Liabilities, Assets and Net Debt

The net debt subject to the Balanced Budget and Debt Retirement Act is forecast to be \$1.396 billion as at March 31, 1998. This is \$148 million lower than the third quarter forecast. Total liabilities (excluding pension obligations) will be approximately \$21.1 billion. This is mostly offset by \$19.7 billion in financial assets. Debt servicing costs are based on the province's accumulated debt, forecast at approximately \$13.8 billion at March 31, 1998.

Net Worth (Balance Sheet)

Forecast of Liabilities and Offsetting Assets at March 31, 1998

(billions of dollars)



^a Excludes pension obligations of \$4.9 billion which are scheduled for elimination under a separate 1993 legislated plan.

^b Alberta Municipal Financing Corporation.

^c Alberta Heritage Savings Trust Fund — net of internal holdings.

^d Previously reported as unmatured debt.

Borrowing Requirements

(millions of dollars)

	1997-98			
	Budget	March Forecast	Change from Budget	Change from 3rd Quarter
Targeted net debt repayments	(450)	(2,347)	(1,897)	(148)
Add:				
Retained surpluses of other agencies	72	239	167	—
Non-budgetary transactions:				
Provincial corporations' requirements	66	415	349	—
Funding of school board loan repayments to AMFC	118	188	70	—
Inflation-proofing of Alberta Heritage Savings Trust Fund	—	157	157	—
Other adjustments to cash	307	(100)	(407)	(122)
Less:				
Foreign exchange valuation	(5)	(106)	(101)	—
Repayments of farm credit and small business program deposits	(152)	(282)	(130)	—
Cash requirements (receipts)	(44)	(1,836)	(1,792)	(270)
Refinancing of debt maturities and redemptions	3,211	3,134	(77)	(30)
Total borrowing requirements	3,167	1,298	(1,869)	(300)

Fiscal Year Assumptions, 1997-98

	Assumptions				
	Budget	1st Quarter Forecast	2nd Quarter Forecast	3rd Quarter Forecast	March Forecast
Oil Price (WTI US\$/bbl)	18.50	18.85	19.43	19.12	18.94
Natural Gas Price (Cdn\$/mcf)	1.55	1.55	1.70	1.76	1.84
Exchange Rate (US\$/Cdn\$)	75.0	75.0	73.5	72.1	71.4
Interest Rates					
3-month Canada Treasury Bills	4.30	4.13	3.23	3.50	3.55
10-year Canada Bonds	7.00	7.00	6.06	6.00	5.90

Accounting and Presentation Changes

Based on the recommendations of the Auditor General, 1997-98 numbers have been restated to reflect five changes:

<i>Alberta Municipal Financing Corporation (AMFC)</i>	In the First Quarter Update, the consolidation of the AMFC was restated from a net equity basis to a line-by-line basis. This resulted in a \$497 million increase in both revenue and expense.
<i>Provision for uncollectible health care insurance premiums</i>	This \$28 million provision was netted against gross health care insurance premium revenues in Budget '97. It has been restated as an expense item and is no longer netted against premium revenue.
<i>Recoveries from federal government for social housing</i>	In Budget '97, \$69 million in cost recoveries from the federal government were netted against Alberta Social Housing Corporation's debt servicing costs. These recoveries have been restated as a revenue item and are no longer netted against debt servicing costs.
<i>Accrual of revenue</i>	The remaining revenue sources reported on a cash basis in Budget '97 are now reported on an accrual basis (corporate income tax, motor vehicle and operators licences, energy rentals and fees, and freehold mineral rights taxes). The difference between the two bases of reporting is reconciled by a \$47 million increase in the net debt reported at April 1, 1996.
<i>Allocation of valuation adjustments</i>	Some valuation adjustments which were reported in Treasury in Budget '97 have been reallocated to the ministries responsible for the associated assets or relevant program. This includes vacation pay accruals, provisions for new guarantees and indemnities, doubtful accounts and loans, loans and advances repayable from future appropriations, and deficits of provincial corporations.