

BUDGET 2004

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2004-2005 Quarterly Budget Report

Q3 FISCAL UPDATE

FEBRUARY 28, 2005

Alberta

UPDATING ALBERTANS

The Third Quarter Fiscal Update consists of two parts – the updated 2004-05 forecast and the actual results for the first nine months of the fiscal year (April 1 to December 31, 2004).

On November 24, 2004, a restructuring of government ministries was announced. This changed the responsibilities of some ministries, created new ministries and eliminated others. The budget and quarterly information has been restated to reflect this new government structure.

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2004-05 FORECAST

Highlights

- This year's higher-than-expected revenue will be used to pay off Alberta's remaining accumulated debt.
- Total revenue is forecast to be \$5.8 billion higher than the budget estimate and \$115 million higher than the second quarter forecast. The increase from budget is primarily due to high energy prices.
- Oil prices are expected to average US\$43.50 per barrel for the fiscal year and natural gas prices Cdn\$6.39 per thousand cubic feet (mcf).
- Partly offsetting the higher revenue is an increase in total expense. Expense is \$1.8 billion higher than budgeted but \$83 million lower than the second quarter forecast. The increase from budget includes:
 - \$820 million for agriculture, forest fire and flood disaster/emergency assistance from the Sustainability Fund,
 - \$314 million for natural gas rebates from the Sustainability Fund,
 - \$468 million increase in capital grants, primarily for health capital, from the Capital Account,
 - \$208 million net increase for in-year program initiatives, primarily for health, education and seniors from the Contingency Allowance, and
 - \$20 million net increase in dedicated revenue/expense.
- Net Revenue (revenue minus expense, prior to Sustainability Fund and Capital Account transfers) is forecast at \$4.3 billion. This is \$4 billion higher than estimated in the budget.
- \$3.7 billion of the 2004-05 net revenue (surplus) has been allocated to the Debt Retirement Account to repay Alberta's remaining accumulated debt as it comes due.
- The Sustainability Fund is forecast to reach \$3.5 billion at March 31, 2005. Potential reallocations of the Sustainability Fund assets above \$2.5 billion will be addressed in *Budget 2005*.

FISCAL SUMMARY^a

(millions of dollars)

	2004-05			
	Budget	3rd Quarter Forecast	Change from Budget	2nd Quarter
1 Revenue	22,952	28,753	5,801	115
2 Expense				
3 Program	22,286	24,116	1,830	(68)
4 Debt servicing costs	363	325	(38)	(15)
5 Total Expense	22,649	24,441	1,792	(83)
6 Net Revenue	303	4,312	4,009	198
7 Transfer from Capital Account	741	1,209	468	-
8 Retained income/capital cash requirements ^b	-	(254)	(254)	(157)
9 Net transfer from (to) Sustainability Fund	(784)	(5,259)	(4,475)	(33)
10 Contingency Allowance	260	8	(252)	8
11 Sustainability Fund assets at start of year	2,500	2,500	-	-
12 Net transfers to Sustainability Fund ^c	784	5,267	4,483	41
13 Cash adjustments ^d	568	595	27	288
14 Sustainability Fund prior to reallocation	3,852	8,362	4,510	329
15 Less reallocations to:				
16 Debt Retirement Account	726	3,730	3,004	-
17 Capital Account ^d	626	1,136	510	-
18 Sustainability Fund Balance at March 31, 2005	2,500	3,496	996	329

^a Subject to the *Fiscal Responsibility Act*. Does not include the change in pension obligations, forecast to be an increase of \$158 million.

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

^c Includes \$8 million from the remaining Contingency Allowance.

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

Revenue

NON-RENEWABLE RESOURCE REVENUE

Non-renewable resource revenue is forecast at \$9.6 billion. This is \$4.8 billion higher than the budget estimate and essentially unchanged from the second quarter forecast.

The increase has been driven by the dramatic rise in oil and natural gas prices. Oil prices are forecast to average a record US\$43.50 a barrel for 2004-05. This is 39% higher than the average for 2003-04. Natural gas prices are forecast to average Cdn\$6.39 per mcf for 2004-05. This is 11% higher than the average for 2003-04. Higher prices have been the result of increased demand, little spare production capacity, and concerns over supply disruptions.

Natural gas royalties are forecast at \$6.5 billion, up \$3.1 billion from the budget estimate. The price forecast of Cdn\$6.39 per mcf is \$2.19 higher than budgeted but 46 cents lower than forecast in the *Second Quarter Fiscal Update*.

Total oil royalties are forecast at \$1.9 billion, up \$1.2 billion from the budget estimate. The price forecast of US\$43.50 per barrel is \$17.50 higher than budgeted and \$1.50 higher than forecast in the *Second Quarter Fiscal Update*.

Other non-renewable resource revenue is forecast at \$1.3 billion. This is \$507 million higher than the budget estimate. The increase is due to higher revenue from bonuses and sales of Crown leases.

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

TAX REVENUE

Total tax revenue is forecast at \$10.1 billion, \$162 million higher than budget and \$48 million higher than forecast at second quarter.

Personal income tax revenue is forecast at \$4.6 billion. This is \$436 million lower than estimated in the budget. The lower forecast reflects updated federal tax assessment information for the 2003 tax year. This updated information indicates that reported revenue for previous fiscal years was over-estimated by \$243 million. As a result, a negative adjustment is required to be made against 2004-05 tax revenue. The 2004-05 forecast was also lowered to reflect this lower base.

Corporate income tax revenue is forecast at \$2.4 billion, an increase of \$396 million from budget. The increase is based on stronger corporate profits,

mainly due to substantially higher energy prices.

Other tax revenue is forecast at \$3.1 billion. This is \$202 million higher than estimated in the budget. The increase reflects higher revenue from freehold mineral rights, tobacco, insurance and fuel taxes.

TRANSFERS FROM GOVERNMENT OF CANADA

Transfers from Government of Canada are forecast at \$3.1 billion. This is \$178 million higher than the budget estimate and consists of:

- \$208 million net increase in federal agriculture transfers. \$238 million for Bovine Spongiform Encephalopathy (BSE) related assistance is partly offset by lower crop insurance and reinsurance transfers.
- \$30 million net decrease in other transfers. A decrease in the Canada Social Transfer based on updated information for prior years and delayed transportation grants are partly offset by higher health transfers and flood disaster assistance.

INVESTMENT INCOME

Investment income is forecast at \$1.7 billion, \$505 million higher than the budget estimate. The increase is due to:

- \$383 million increase in Heritage Fund income resulting from realized capital gains and strengthening equity markets,
- \$60 million increase in endowment fund income, and
- \$62 million increase in other investment income due to higher asset balances.

OTHER REVENUE

Total revenue from all other sources is \$112 million higher than estimated in the budget. Major changes from budget include:

- \$50 million increase in net gaming revenue related to higher slot/VLT revenue and lower operating costs.
- \$34 million increase in timber royalties and fees due to higher commodity prices for lumber products.
- \$20 million increase in Alberta Treasury Branches net revenue related to a decreased provision for credit losses.
- \$30 million decrease in health care insurance premiums. The exemption for seniors from paying premiums effective October 1, 2004 will reduce revenue by \$44 million. This is partly offset by an increased forecast for non-senior premiums revenue.
- \$38 million net increase in other revenue.

REVENUE*(millions of dollars)*

	2004-05				Main Reasons for Change from Budget
	Budget	3rd	Change from		
		Quarter Forecast	Budget	2nd Quarter	
Income Taxes					
Personal income tax	5,085	4,649	(436)	(184)	Lower prior years' tax assessments
Corporate income tax	1,957	2,353	396	197	Stronger corporate profits
	<u>7,042</u>	<u>7,002</u>	<u>(40)</u>	<u>13</u>	
Other Taxes					
School property tax	1,233	1,233	-	1	
Tobacco tax	660	720	60	30	Higher volume
Fuel tax	607	635	28	5	Higher volume
Freehold mineral rights tax	204	294	90	(3)	Higher oil and natural gas prices
Insurance taxes	165	190	25	(1)	Higher 2003-04 industry premium revenue
Hotel room tax	60	59	(1)	3	Fewer hotel stays
	<u>2,929</u>	<u>3,131</u>	<u>202</u>	<u>35</u>	
Non-Renewable Resource Revenue					
Natural gas and by-products royalty	3,373	6,491	3,118	(348)	Higher natural gas prices
Crude oil royalty	558	1,203	645	10	Higher oil prices
Synthetic crude oil and bitumen royalty	100	674	574	120	Higher oil prices
Coal royalty	9	10	1	3	Revised forecast
Bonuses and sales of Crown leases	694	1,200	506	211	Higher bid price per hectare
Rentals and fees	145	157	12	5	Revised forecast
Royalty tax credit	(95)	(107)	(12)	1	Higher royalties
	<u>4,784</u>	<u>9,628</u>	<u>4,844</u>	<u>2</u>	
Transfers from Government of Canada					
Health transfers	1,625	1,678	53	56	Increase for medical equipment
Canada Social Transfer	679	606	(73)	(70)	Prior years' adjustment
Agriculture support programs	286	494	208	(64)	Increased BSE transfers
Other	381	371	(10)	(43)	Reduced transportation grants
	<u>2,971</u>	<u>3,149</u>	<u>178</u>	<u>(121)</u>	
Net Income from Commercial Operations					
Alberta Gaming and Liquor Commission:					
Gaming and lottery revenue	1,162	1,212	50	28	Lower operating costs / higher slot revenue
Liquor revenue	551	554	3	3	Higher liquor sales
Alberta Treasury Branches	151	171	20	19	Decreased provision for credit losses
Other	5	5	-	-	
	<u>1,869</u>	<u>1,942</u>	<u>73</u>	<u>50</u>	
Premiums, Fees and Licences					
Health care insurance premiums	928	898	(30)	5	Exemption for seniors as of October 1, 2004
Motor vehicle licences	270	281	11	1	Increased commercial truck licences
Crop and hail insurance premiums	153	134	(19)	(1)	Lower crop insurance coverage
Timber rentals and fees	64	98	34	10	Higher commodity prices
Land titles ^a	41	47	6	-	Increased registrations
Other ^a	277	288	11	4	Increased seismic activity
	<u>1,733</u>	<u>1,746</u>	<u>13</u>	<u>19</u>	
Investment Income					
Alberta Heritage Savings Trust Fund	631	1,014	383	76	Strong equity markets
Alberta Capital Finance Authority	314	311	(3)	(3)	Lower lending
Agriculture Financial Services Corporation	85	82	(3)	-	Lower lending
Debt Retirement Account	10	55	45	15	Increase in assets
Alberta Sustainability Fund	75	78	3	-	Increase in assets
Endowment Funds:					
Medical Research	30	66	36	13	Strong equity markets
Science and Engineering Research	12	26	14	3	Strong equity markets
Scholarship	9	19	10	4	Strong equity markets
Other	60	80	20	6	Higher cash balances
	<u>1,226</u>	<u>1,731</u>	<u>505</u>	<u>114</u>	
Other					
Refunds of expense	81	85	4	1	Crop reinsurance proceeds
Fines and penalties	68	70	2	2	Higher traffic safety fine volume
Miscellaneous	249	269	20	-	Sale of assets
	<u>398</u>	<u>424</u>	<u>26</u>	<u>3</u>	
Total Revenue	22,952	28,753	5,801	115	

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

Expense

Total expense is \$1.8 billion higher than the budget estimate. The increase includes:

- \$1.1 billion for emergency/disaster assistance and natural gas rebates from the Sustainability Fund,
- \$468 million for increased capital grants from the Capital Account,
- \$208 million net increase for in-year initiatives drawn against the Contingency Allowance, and
- \$20 million net increase in dedicated revenue/expense.

SUSTAINABILITY FUND

Disaster/Emergency Assistance – \$820 million is being provided, including:

- \$672 million increase for BSE assistance and prion research, partially offset by \$238 million in increased federal BSE-related transfers,
- \$124 million for forest fire-fighting costs, and
- \$24 million for flood disaster assistance, partly offset by \$12 million in federal transfers.

Natural Gas Rebates – \$314 million. Rebates are being paid in all five eligible months (November to March). The November rebate was paid at the second tier level and the other four months are at the first tier.

CAPITAL ACCOUNT

As reported in the second quarter, capital grants funded from the Capital Account are forecast to increase by \$468 million, almost entirely for health capital.

FUNDING FROM THE CONTINGENCY ALLOWANCE

The Contingency Allowance was fully committed in the first quarter for in-year non-emergency spending and tax reduction initiatives. Non-emergency spending increases reported in the second and third quarters have been more than offset by lower spending in other areas, or reflect changes to dedicated revenue and expense.

MINISTRY CHANGES

Advanced Education – \$4 million net increase from budget. Increased funding for post-secondary institutions, and other increases, are partly offset by lower student loan costs.

Agriculture, Food and Rural Development – Increase of \$490 million from budget but \$102 million lower than the second quarter forecast. \$634 million provided for BSE-related costs, is partially offset by a \$144 million reduction in crop insurance and other programs.

Children's Services – \$25 million increase from budget for child welfare, early learning and child care, implementation of the *Child, Youth and Family Enhancement Act*, and prevention of family violence and bullying.

Education – \$65 million increase from budget to hire teachers, reduce class sizes and purchase additional text books and other classroom resources.

Environment – \$8 million increase from budget, primarily for waste and water management programs.

Gaming – \$33 million net increase from budget. \$40 million in capital grants for major fairs and \$5 million in tsunami aid are partly offset by a \$12 million reduction resulting from delays in new gaming facilities.

Health and Wellness – \$350 million net increase from budget, reflecting \$200 million to health authorities for operating expenses and \$150 million, from the Capital Account, for health capital grants.

Human Resources and Employment – \$40 million increase from budget. There is a net \$20 million increase for income support and workplace health and safety programs. \$20 million has also been provided to assist departments, as required, with higher-than-budgeted costs of salaries, wages and employee benefits.

Infrastructure and Transportation – \$586 million increase from budget. This includes \$314 million for natural gas rebates and a net increase of \$298 million for health infrastructure. These increases are partly offset by a net \$26 million decrease in other program spending.

Innovation and Science – \$40 million increase from budget. \$38 million has been allocated for prion research as part of the BSE disaster assistance and there is a net \$2 million in other increases.

Justice – \$10 million for increased judicial compensation, implementation of the *Child, Youth and Family Enhancement Act*, Provincial Court caseloads and dedicated revenue/expense for ticket processing.

Municipal Affairs – \$27 million increase from budget for flood disaster assistance and infrastructure grants to Banff and Jasper. This is \$51 million lower than reported in the second quarter due to revised estimates for non-insurable flood damage.

Seniors and Community Supports – \$34 million increase from budget for Alberta Seniors Benefit enhancements and for supportive living projects in Vegreville, Wainwright and Vermilion. The announced assistance to senior homeowners for school property taxes beginning in 2005 will now be provided through grants from the Ministry in 2005-06.

Solicitor General – \$13 million increase from budget for correctional services, the Victims of Crime Fund and the RCMP Project KARE task force.

Sustainable Resource Development – \$124 million increase from budget for forest fire-fighting costs.

EXPENSE SUMMARY*(millions of dollars)*

	2004-05			
	Budget	3rd Quarter Forecast	Change from Budget	2nd Quarter
Program Expense				
Budget	22,286	22,286	-	-
Disaster/emergency assistance (from Sustainability Fund)	-	820	820	(10)
Natural gas rebates (from Sustainability Fund)	-	314	314	(45)
Increase in capital grants from Capital Account	-	468	468	-
In-year Contingency Allowance net expense ^a	-	208	208	(7)
Dedicated expense changes (net) ^b	-	20	20	(6)
Total Program Expense	22,286	24,116	1,830	(68)
Debt Servicing Costs	363	325	(38)	(15)
Total Expense	22,649	24,441	1,792	(83)

^a In addition, the Contingency Allowance is being used to provide \$44 million for an in-year revenue reduction initiative for seniors' health care insurance premiums. Emergency/disaster assistance, natural gas rebates, capital grants funded from the Capital Account, dedicated revenue/expense changes, and expense increases offset by reductions in other program expense are not charges against the Contingency Allowance.

^b Dedicated revenue/expense changes – Agriculture, Food and Rural Development: \$17 million increase for agriculture programs; Children's Services: \$7.5 million federal transfer increase for early learning and child care; Energy: \$6 million for industry funded increases; Gaming: \$12 million decrease related to new gaming facilities, electronic bingo and NHL ticket lottery; Finance: \$5 million decrease in Alberta Capital Finance Authority and other programs; Human Resources and Employment: \$5 million increase for workplace health and safety and labour market agreement for persons with disabilities; and minor changes in other ministries.

EXPENSE BY MINISTRY*(millions of dollars)*

Program	2004-05				Main Reasons for Change from Budget
	Budget	3rd Quarter Forecast	Change from Budget	2nd Quarter	
Legislative Assembly	76	77	1	(2)	Senate nominee election
Aboriginal Affairs and Northern Development	36	36	-	-	
Advanced Education	1,456	1,460	4	3	Post-secondary institutions
Agriculture, Food and Rural Development	908	1,398	490	(102)	BSE assistance
Children's Services	742	767	25	19	Child welfare / early learning
Community Development	214	206	(8)	(6)	NHL Teams Initiative / park divesture
Economic Development	58	58	-	-	
Education	3,811	3,876	65	14	Class size initiative
Energy	191	197	6	3	Well abandonment costs
Environment	125	133	8	8	Waste / water management
Executive Council	21	21	-	-	
Finance	600	593	(7)	(11)	Lower endowment fund spending
Gaming	165	198	33	43	Capital grants for major fairs
Government Services	81	78	(3)	(2)	Transfer to capital investment
Health and Wellness	7,996	8,346	350	(12)	Health authority operations / capital
Human Resources and Employment	742	782	40	35	Caseload costs / salary contingency
Infrastructure and Transportation	2,567	3,153	586	(53)	Health facilities / natural gas rebates
Innovation and Science	157	197	40	41	Prion research
International and Intergovernmental Relations	8	8	-	-	
Justice	283	293	10	8	Judicial compensation
Municipal Affairs	123	150	27	(51)	Flood disaster assistance
Restructuring and Government Efficiency	60	52	(8)	(10)	SuperNet amortization costs
Seniors and Community Supports	1,315	1,349	34	-	Seniors Benefit enhancements
Solicitor General	346	359	13	7	Correctional services
Sustainable Resource Development	205	329	124	-	Forest fire-fighting costs
Total Program Expense	22,286	24,116	1,830	(68)	
Debt Servicing Costs	363	325	(38)	(15)	Lower interest rates
Total Expense	22,649	24,441	1,792	(83)	

Alberta Sustainability Fund

ASSETS OF THE SUSTAINABILITY FUND

- The net transfer to the Sustainability Fund (after allocations for emergencies/disasters, rebates and cash adjustments) is forecast to be \$5.9 billion. Of this amount:
 - ◆ \$3.7 billion has been reallocated to the Debt Retirement Account, and
 - ◆ \$1.1 billion has been reallocated to the Capital Account.
- This leaves the net assets of the Sustainability Fund at \$3.5 billion, \$1 billion higher than budgeted.

SUSTAINABILITY FUND TRANSFERS

- Non-renewable resource revenue – \$5.6 billion transfer. The *Fiscal Responsibility Act* requires non-renewable resource revenue above \$4 billion to be transferred to the Sustainability Fund.
- Withdrawals – \$1.1 billion. Withdrawals from the Fund are permitted to pay for the costs of emergencies/disasters, rebates under the *Natural Gas Price Protection Act* and First Nations settlements. In 2004-05, these include:
 - ◆ \$820 million for emergency/disaster assistance for agriculture, forest fires and floods, and
 - ◆ \$314 million for natural gas rebates.

- Other net transfers – \$773 million, consisting of:
 - ◆ \$981 million increase in revenue (excluding non-renewable resource revenue, \$44 million in revenue reduction initiatives charged against the Contingency Allowance, and net \$20 million in dedicated revenue/expense increases),
 - ◆ \$38 million reduction in debt servicing costs,
 - ◆ \$8 million from the remaining Contingency Allowance, and
 - ◆ less \$254 million required for the net increase in capital cash requirements and financial assets of funds and agencies.
- Cash Adjustments – \$595 million.
 - ◆ As previously reported, \$510 million in cash became available for transfer to the Sustainability Fund after March 31, 2004, because of the better-than-forecast 2003-04 fourth quarter results. This amount was not reflected in the *Budget 2004* estimate.
 - ◆ Other cash adjustments are \$483 million lower than estimated in the budget primarily related to natural gas royalties. Cash adjustments reflect the differences between accrued revenue and cash receipts, non-cash expenses and transfers not reported on the income statement.

ALBERTA SUSTAINABILITY FUND

AT MARCH 31, 2005

(millions of dollars)

	2004-05			
	Budget	3rd Quarter Forecast	Change from Budget	2nd Quarter
Assets at start of year	2,500	2,500	-	-
Transfers to (from) Sustainability Fund				
Non-renewable resource revenue transfer from general revenue	784	5,628	4,844	2
Transfer for disaster and emergency program expense	-	(820)	(820)	10
Transfer for the Natural Gas Rebate Program expense	-	(314)	(314)	45
Other net transfers	-	773	773	(16)
Total net transfers	784	5,267	4,483	41
Cash adjustments:				
Cash from 2003-04 fourth quarter results ^a	-	510	510	-
Natural gas royalties	547	(150)	(697)	332
Other	21	235	214	(44)
Total cash adjustments	568	595	27	288
Assets prior to reallocation	3,852	8,362	4,510	329
Reallocation to:				
Debt Retirement Account	726	3,730	3,004	-
Capital Account	626	1,136	510	-
Assets at End of Year	2,500	3,496	996	329

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

Capital Plan

- Capital asset acquisitions are forecast at \$2.9 billion, \$502 million higher than budgeted. This includes capital grants to local authorities and capital investment in provincial government-owned projects.
- The increase from budget primarily reflects additional health capital grants funded from the Capital Account.
- **Health Facilities and Equipment** – Total allocation for health-related facilities and equipment will be \$886 million, a net increase of \$453 million over the original budget. Changes in construction schedules have resulted in some of the announced in-year additional funding for health capital, including rural supportive living spaces, and part of the original health capital budget not being required until 2005-06.
- **Provincial Highway Network/Municipal Transportation Grants** – Total allocation of \$917 million, a net \$6 million increase from budget. This reflects a carry-over of unfinished capital projects from 2003-04 and increases in other capital investment, partly offset by a revised construction schedule for the Anthony Henday Southeast Ring Road project.
- **Schools/Post-Secondary Facilities** – Total allocation of \$449 million, unchanged from budget.
- **Other Infrastructure** – Total allocation of \$643 million, a net increase of \$43 million from budget. This includes:
 - **Community Facilities** – \$57 million increase from budget. The increase includes \$40 million for major fairs, \$14 million for the Northern and Southern Jubilee Auditoria refurbishment projects and \$2.5 million for the Banff/Jasper Special Infrastructure Assistance Program.
 - **Water and Wastewater Management** – A \$1 million increase from budget for Water Management and Erosion Control programs.
 - **General Government Capital** – \$8 million reduction from budget. This reflects the \$41 million reduction in 2004-05 costs for the Calgary Courts Centre, due to rescoping of the project. Funding for the project is being provided from the Capital Account rather than through alternative financing. Partly offsetting this decrease is \$33 million in additional spending for vaccines, land purchases and other capital projects.
 - **Other Infrastructure Programs** – \$7 million reduction from budget. The rescheduling of some projects is partly offset by increases for the Canmore Nordic Centre Facility, in preparation for the 2005 Cross Country Ski World Cup, and other changes.

CAPITAL PLAN SUMMARY

(millions of dollars)

	2004-05			
	Budget	3rd	Change from	
		Quarter	Budget	2nd
	Budget	Forecast	Budget	Quarter
Provincial highway network	587	590	3	(15)
Municipal transportation grants	324	327	3	-
Health facilities and equipment	433	886	453	-
Schools	221	221	-	-
Post-secondary facilities	228	228	-	-
Water and wastewater management	89	90	1	1
Community facilities and centennial projects	95	152	57	40
Other infrastructure programs	163	156	(7)	3
Other government capital and information technology	253	245	(8)	13
Total Capital Plan	2,393	2,895	502	42
To be funded by:				
Current-year revenue	1,154	1,244	90	57
Capital Account	1,088	1,642	554	-
Alternative financing including P3s	151	9	(142)	(15)
Total Capital Plan	2,393	2,895	502	42

Net Financial and Capital Assets

- **Net Assets** – Alberta's net assets are forecast at \$25.2 billion as of March 31, 2005. This includes \$10.9 billion in capital assets and \$5.2 billion in pension obligations.
- **Accumulated Debt** – Accumulated debt, net of cash set aside in the Debt Retirement Account, is forecast to be eliminated as of March 31, 2005. This is a \$3.7 billion reduction from March 31, 2004. At March 31, 2005, \$3.5 billion will be in the Debt Retirement Account to pay off accumulated debt as it matures.
- **Capital Account** – The Capital Account is forecast at \$674 million as of March 31, 2005. Subsequent to *Budget 2004*, \$510 million from better-than-forecast 2003-04 fourth quarter results was transferred to the Sustainability Fund and then reallocated to the Capital Account. Withdrawals from the Capital

Account have been increased from budget by \$554 million (\$468 million for capital grants to local authorities and \$86 million for capital investment).

- **Heritage Fund** – The book value of the Heritage Fund is forecast at \$11.3 billion as of March 31, 2005, unchanged from budget. This represents the recorded value of Heritage Fund external investments. The fair market value of the Heritage Fund at December 31, 2004 was estimated at \$12.2 billion.
- **Pension Obligations** – Pension obligations are forecast at \$5.2 billion, an increase of \$39 million from budget and \$158 million from March 31, 2004. They are scheduled for elimination under a separate legislative plan and are not subject to the *Fiscal Responsibility Act*.

BALANCE SHEET AT MARCH 31

(millions of dollars)

	2004 <i>Actual</i>	2005				
		Budget ^a	3rd Quarter Forecast	Budget	Change from 2nd Quarter	2004 Actual
Financial Assets						
Heritage Fund external investments	11,267	11,273	11,273	-	-	6
Self-supporting lending organizations	5,597	5,607	5,656	49	90	59
Alberta Sustainability Fund	2,500	2,500	3,496	996	329	996
Endowment funds	1,622	1,578	1,643	65	26	21
Capital Account	1,180	718	674	(44)	-	(506)
Debt Retirement Account ^b	1,241	478	3,469	2,991	(2)	2,228
Other financial assets	5,858	4,728	4,397	(331)	(223)	(1,461)
Total Financial Assets	29,265	26,882	30,608	3,726	220	1,343
Liabilities						
Accumulated debt	4,971	3,482	3,469	(13)	(2)	(1,502)
Pension obligations	5,059	5,178	5,217	39	17	158
Self-supporting lending organizations	4,556	4,489	4,461	(28)	(56)	(95)
Other liabilities	4,131	3,409	3,182	(227)	70	(949)
Total Liabilities	18,717	16,558	16,329	(229)	29	(2,388)
Net Financial Assets	10,548	10,324	14,279	3,955	191	3,731
Capital assets ^c	10,534	10,942	10,957	15	(10)	423
Net Assets	21,082	21,266	25,236	3,970	181	4,154
Adjustment for pension obligations	5,059	5,178	5,217	39	17	158
Net Assets for Fiscal Policy Purposes	26,141	26,444	30,453	4,009	198	4,312

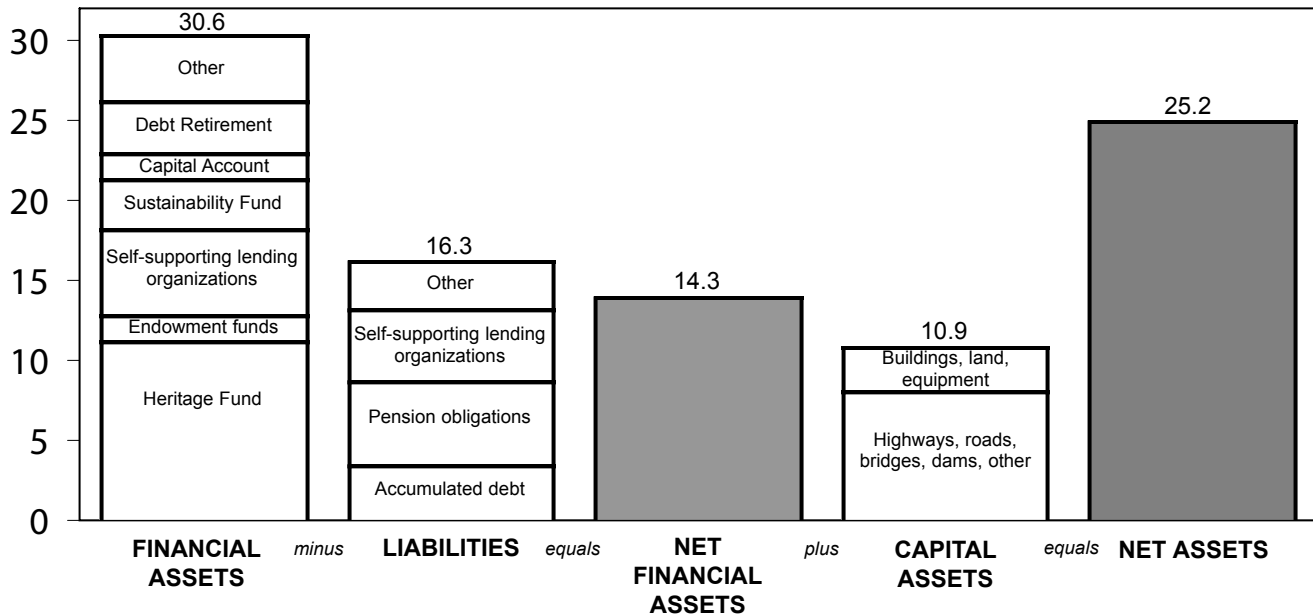
^a Budget numbers have been restated to reflect 2003-04 actual results.

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

^c Includes inventories of supplies.

ASSETS, LIABILITIES AND NET ASSETS AT MARCH 31, 2005

(billions of dollars)



NET FINANCING REQUIREMENTS

(millions of dollars)

	2004-05			
	Budget	3rd Quarter Forecast	Change from Budget	2nd Quarter
Requirements:				
General Revenue Fund term debt maturities	1,435	1,443	8	-
School construction loan repayments	75	75	-	-
Adjustments	(21)	(16)	5	2
Accumulated debt financing requirements	1,489	1,502	13	2
Provincial corporations' term borrowing requirements	247	147	(100)	(50)
Gross financing requirements	1,736	1,649	(87)	(48)
Cash applied to accumulated debt repayment	(1,489)	(1,502)	(13)	(2)
Net Term Debt Financing Requirements	247	147	(100)	(50)

FISCAL YEAR ASSUMPTIONS

	2004-05			
	Budget	1st Quarter Forecast	2nd Quarter Forecast	3rd Quarter Forecast
Oil Price (WTI US\$/bbl)	26.00	34.00	42.00	43.50
Natural Gas Price (Cdn\$/mcf)	4.20	6.01	6.85	6.39
Exchange Rate (US¢/Cdn\$)	77.00	74.00	77.30	78.45
Interest Rates:				
3-month Canada treasury bills	2.50	2.45	2.45	2.30
10-year Canada bonds	5.15	5.15	4.80	4.50

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

	2004-05				2004-05			
	Capital Investment				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	-	-	-	-	-	-	-	-
Advanced Education	4	6	2	1	4	4	-	-
Agriculture, Food and Rural Development	13	11	(2)	(2)	8	8	-	-
Children's Services	-	2	2	-	1	1	-	-
Community Development	7	11	4	-	10	9	(1)	(1)
Economic Development	-	-	-	-	-	-	-	-
Education	1	1	-	-	1	1	-	-
Energy	11	11	-	-	14	14	-	-
Environment	4	4	-	-	19	19	-	-
Executive Council	-	-	-	-	-	-	-	-
Finance	5	7	2	-	6	6	-	-
Gaming	-	-	-	-	-	-	-	-
Government Services	4	6	2	1	2	3	1	1
Health and Wellness	67	70	3	-	23	35	12	9
Human Resources and Employment	4	4	-	-	3	3	-	-
Infrastructure and Transportation	706	685	(21)	(8)	312	283	(29)	-
Innovation and Science	4	5	1	2	3	3	-	-
International and Intergovernmental Relations	-	-	-	-	-	-	-	-
Justice	1	1	-	-	2	2	-	-
Municipal Affairs	2	2	-	-	2	2	-	-
Restructuring and Government Efficiency	44	43	(1)	(1)	20	7	(13)	(13)
Seniors and Community Supports	1	1	-	-	25	25	-	-
Solicitor General	-	-	-	-	-	-	-	-
Sustainable Resource Development	11	13	2	-	11	11	-	-
Total Capital Investment/Amortization	889	883	(6)	(7)	466	436	(30)	(4)
Funded from the Capital Account	347	433	86	-	-	-	-	-
Alternatively financed	151	9	(142)	(15)	-	-	-	-

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

	2004-05			
	3rd Quarter		Change from 2nd Quarter	
	Budget	Forecast	Budget	Quarter
	Budget	Forecast	Budget	Quarter
Agriculture, Food and Rural Development	24	24	-	-
Community Development	14	14	-	-
Environment	1	7	6	6
Finance	4	4	-	-
Gaming	39	79	40	40
Health and Wellness	50	200	150	-
Infrastructure and Transportation	1,311	1,615	304	3
Innovation and Science	10	10	-	-
Municipal Affairs	-	3	3	-
Seniors and Community Supports	51	56	5	-
Total	1,504	2,012	508	49
Funded from the Capital Account	741	1,209	468	-

^a Included in program expense.

ACTUAL RESULTS

FOR THE FIRST NINE MONTHS OF 2004-05

METHOD OF CONSOLIDATION

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

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

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

BASIS OF FINANCIAL REPORTING

The consolidated fiscal summary reports revenue (including gains and losses from sale of capital assets), expense (including amortization of capital assets), and net revenue.

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

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

GOVERNMENT RESTRUCTURING

As a result of government restructuring announced on November 24, 2004, the responsibilities of ministries changed and new ministries were formed. This financial summary is prepared on the basis as if the ministries had always been assigned their current responsibilities.

Comparative 2003-04 figures have been restated where necessary to conform to the 2004-05 presentation.

CONSOLIDATED FISCAL SUMMARY^a

for the nine months ended December 31, 2004 (unaudited)

(millions of dollars)

	First Nine Months		
	2004-05	2003-04	Change
Revenue			
Income taxes	5,195	4,341	854
Other taxes	2,408	2,172	236
Non-renewable resource revenue	7,546	5,773	1,773
Transfers from Government of Canada	2,439	2,184	255
Net income from commercial operations	1,528	1,425	103
Premiums, fees and licences	1,391	1,353	38
Investment income	1,380	1,209	171
Other	279	272	7
Total Revenue	22,166	18,729	3,437
Expense			
Program	16,730	15,747	983
Debt servicing costs	232	198	34
Total Expense	16,962	15,945	1,017
Net Revenue	5,204	2,784	2,420

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

EXPENSE

for the nine months ended December 31, 2004 (unaudited)

(millions of dollars)

	First Nine Months		
	2004-05	2003-04	Change
Program			
Legislative Assembly	54	36	18
Aboriginal Affairs and Northern Development	26	26	-
Advanced Education	1,033	957	76
Agriculture, Food and Rural Development	979	1,310	(331)
Children's Services	562	529	33
Community Development	149	136	13
Economic Development	39	38	1
Education	2,863	2,719	144
Energy	124	130	(6)
Environment	84	77	7
Executive Council	13	12	1
Finance	426	426	-
Gaming	78	86	(8)
Government Services	54	50	4
Health and Wellness	5,928	5,388	540
Human Resources and Employment	544	532	12
Infrastructure and Transportation	1,860	1,524	336
Innovation and Science	85	77	8
International and Intergovernmental Relations	5	4	1
Justice	207	186	21
Municipal Affairs	96	112	(16)
Restructuring and Government Efficiency	38	37	1
Seniors and Community Supports	964	883	81
Solicitor General	260	205	55
Sustainable Resource Development	259	267	(8)
Total Program Expense	16,730	15,747	983
Debt Servicing Costs	232	198	34
Total Expense	16,962	15,945	1,017

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