

FIRST QUARTER UPDATE

- HIGHLIGHTS**
- ◆ A surplus of \$277 million is now forecast for 1998-99, up \$112 million from the budget estimate.
 - ◆ Total expense is expected to be \$514 million higher than the budget estimate. Program expense is forecast to increase by \$447 million. This reflects previously announced funding increases for health and municipal infrastructure initiatives and expected increased costs for forest fires and agriculture assistance. Debt servicing costs are forecast to exceed the budget estimate by \$67 million due to the lower Canadian dollar.
 - ◆ Revenue is expected to be \$622 million higher than forecast in the budget due mainly to higher personal and corporate income tax revenues. The revenue cushion of \$420 million, provided in the budget to protect against weakness in resource and corporate income tax revenues, is maintained in this forecast.
 - ◆ If the revenue cushion is not required, the surplus could be \$697 million. The province's net debt, excluding pension liabilities, would decline to \$392 million at March 31, 1999.

Consolidated Fiscal Summary^a

(millions of dollars)

	1998-99		
	Budget ^b	1st Quarter Forecast	Change from Budget
Revenue			
1 Forecast	15,627	16,249	622
2 Cushion ^c	(420)	(420)	—
3 Budget	<u>15,207</u>	<u>15,829</u>	<u>622</u>
Expense			
4 Program	13,910	14,357	447
5 Debt Servicing Costs	1,093	1,160	67
6 Total Expense	<u>15,003</u>	<u>15,517</u>	<u>514</u>
7 Net Revenue	204	312	108
8 Net Decrease (Increase) in Capital Assets affecting Operations ^d	(39)	(35)	4
9 Consolidated Surplus	<u>165</u>	<u>277</u>	<u>112</u>
10 Net Debt subject to Balanced Budget and Debt Retirement Act at March 31, 1999 (forecast)^e	504	392	(112)

^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 under a separate legislated plan. Does not include the increase in the pension obligations forecast at \$54 million in 1998-99. This is a non-cash expense that does not affect borrowing requirements.

^b Budget numbers have been restated to reflect a change in accounting policy by the Alberta Dairy Control Board, as suggested by the Auditor General. This increases both revenue and expense by \$48 million.

^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 Net debt calculation has been adjusted to reflect actual net debt at March 31, 1998 of \$1,089 million. Assumes revenue cushion is not required and can be applied against net debt.

Revenue

INCOME TAX REVENUE	Personal income tax revenue is forecast at \$4.164 billion, up \$329 million from the budget estimate. The increase is due to prior year adjustment of \$174 million and expected continued economic growth. Corporate income tax revenue is forecast at \$1.748 billion, up \$106 million from the budget estimate. The increase reflects the diversification and continuing strength of the economy.
OTHER TAXES	Revenue from other taxes is forecast to be \$14 million lower than the budget estimate. The decline reflects a decrease in the insurance corporations tax and the financial institutions capital tax due to prior year adjustments.
NON-RENEWABLE RESOURCE REVENUE	Overall, energy revenue is forecast to decline by \$31 million from the budget estimate to \$2.526 billion. Natural gas and by-products royalties are forecast to exceed the budget estimate by \$208 million. The 1998-99 natural gas price forecast has been adjusted upward to \$1.90 per thousand cubic feet from the budget estimate of \$1.70. This reflects strong industrial demand for gas and the expectation of export pipeline capacity expansion in November 1998. The increase in natural gas revenue is expected to be offset by declines in other resource revenues. Total oil royalties are expected to decline by \$189 million due to lower world oil prices, partly offset by a lower exchange rate. The West Texas Intermediate crude oil price, originally forecast to average US\$17.50 per barrel for the year, is now expected to average US\$14.75. This reflects weak market conditions and increased OPEC production. Revenue from bonuses and sales of Crown leases is forecast to decline by \$50 million from the budget estimate, due to lower energy industry cash flow.
INVESTMENT INCOME	Investment income is forecast to exceed the budget estimate by \$93 million. Heritage Fund investment income is forecast to be \$90 million higher than the budget estimate due to higher forecast capital gains on equities in the Endowment Portfolio.
TRANSFERS FROM GOVERNMENT OF CANADA	Transfers from the Government of Canada are expected to decline by \$59 million from the budget estimate. Revenue from the Canada Health and Social Transfer is forecast to be \$54 million lower than the budget estimate. Higher personal and corporate income tax revenues reduce the cash component of this transfer. In addition, recoveries from the labour market development program are expected to be \$11 million lower than the budget estimate due to reduced demand for program services.
OTHER REVENUE	Total revenue from other sources is expected to increase by \$198 million from the budget estimate. Based on current conditions and trends, Lottery Fund revenue is expected to be \$108 million higher than budgeted and revenue from liquor sales is expected to be \$22 million higher. This could provide up to \$130 million for the municipal infrastructure initiatives announced on August 24. Better-than-expected performance of the loan portfolio of Alberta Treasury Branches is expected to increase net revenue by \$21 million from the budget estimate. Minor changes in other revenue sources account for the remainder of the increase.

Revenue

(millions of dollars)

	1998-99			Main Reason for Change from Budget
	Budget ^a	1st Quarter Forecast	Change from Budget	
Income Taxes				
Personal income tax	3,835	4,164	329	Prior year adjustment and growth
Corporate income tax	1,642	1,748	106	Continued strong economic growth
	<u>5,477</u>	<u>5,912</u>	<u>435</u>	
Other Taxes				
School property tax	1,099	1,099	—	
Fuel tax	570	570	—	
Tobacco tax	345	345	—	
Insurance corporations tax	112	101	(11)	Prior year adjustment
Freehold mineral rights tax	101	104	3	Higher natural gas prices
Hotel room tax	41	43	2	Increased volume
Financial institutions capital tax	39	31	(8)	Prior year adjustment
	<u>2,307</u>	<u>2,293</u>	<u>(14)</u>	
Non-Renewable Resource Revenue				
Natural gas and by-products royalty	1,282	1,490	208	Higher natural gas prices
Crude oil royalty	644	468	(176)	Lower oil prices
Synthetic crude oil and bitumen royalty	50	37	(13)	Lower oil prices
Coal royalty	17	17	—	
Bonuses and sales of Crown leases	650	600	(50)	Lower oil industry cash flow
Rentals and fees	147	146	(1)	Reduced land sales
Royalty tax credit	(233)	(232)	1	Revised forecast
	<u>2,557</u>	<u>2,526</u>	<u>(31)</u>	
Investment Income				
Heritage Fund	701	791	90	Capital gains in Endowment Portfolio
Alberta Municipal Financing Corporation	484	482	(2)	Lower long-term interest rates
Heritage Foundation for Medical Research Endowment Fund ...	63	63	—	
Farm credit stability program	40	38	(2)	Increased loan repayments
Other	121	128	7	Miscellaneous changes
	<u>1,409</u>	<u>1,502</u>	<u>93</u>	
Transfers from Government of Canada				
Canada Health and Social Transfer	940	886	(54)	Higher income tax revenue
Labour market development	121	110	(11)	Reduced program demand
Agriculture support programs	77	78	1	Revised forecast
Other	157	162	5	Miscellaneous changes
	<u>1,295</u>	<u>1,236</u>	<u>(59)</u>	
Premiums, Fees and Licences				
Health care insurance premiums	641	653	12	Volume increase
Motor vehicle licences	172	183	11	Volume increase
Crop and hail insurance premiums	83	84	1	Revised forecast
Timber rentals and fees	70	65	(5)	Weaker forestry markets
Land titles	48	60	12	Volume increase
Other	208	215	7	Miscellaneous changes
	<u>1,222</u>	<u>1,260</u>	<u>38</u>	
Net Income from Commercial Operations				
Alberta Gaming and Liquor Commission	357	379	22	Increase in liquor sales
Alberta Treasury Branches	46	67	21	Improved portfolio performance
Other	4	6	2	Miscellaneous changes
	<u>407</u>	<u>452</u>	<u>45</u>	
Other				
Lottery Fund revenue	660	768	108	Increased electronic gaming activity
Sale of capital assets	26	25	(1)	Revised forecast
Fines and penalties	25	27	2	Revised forecast
Miscellaneous	242	248	6	Miscellaneous changes
	<u>953</u>	<u>1,068</u>	<u>115</u>	
Forecast Revenue	15,627	16,249	622	
Revenue Cushion	(420)	(420)	—	
Budgeted Revenue	<u>15,207</u>	<u>15,829</u>	<u>622</u>	

^a Budget numbers have been restated to reflect a change in accounting policy by the Alberta Dairy Control Board, as suggested by the Auditor General. This increases both revenue and expense by \$48 million.

Expense

PROGRAM EXPENSE **Health** spending is forecast to exceed the budget estimate by \$162 million. As announced on April 2, an additional \$67 million is being provided to Regional Health Authorities to address emerging cost pressures. The new agreement with the Alberta Medical Association is expected to increase costs by \$37 million. In addition, a \$30 million provision is being made for the estimated cost of Alberta's share of assistance to Hepatitis C victims, and \$30 million is being provided for the estimated transition costs to the new Canadian Blood Service. Partly offsetting these increases is a decline of \$2 million in the provision for uncollectible health care premiums.

As announced on August 24, **Economic Development** will transfer up to \$130 million from the Lottery Fund to **Transportation and Utilities** to fund assistance for municipal transportation infrastructure. \$10 million will also be provided through **Municipal Affairs** for regional coordination initiatives.

Environmental Protection spending is forecast to be \$112 million over the budget estimate. The increase is due to substantially higher fire suppression and reforestation costs resulting from the severe 1998 forest fire situation.

Agriculture, Food and Rural Development is expected to exceed its budget by \$32 million. Claims under the Farm Income Disaster program are expected to increase by \$25 million due to poorer crop conditions and lower commodity prices. Crop insurance indemnities are forecast to rise by \$13 million due to the dry conditions in the eastern and northern regions. These increases are partly offset by reductions in crop reinsurance costs.

Family and Social Services expects a \$14 million net increase in program spending. Spending on Assured Income for the Severely Handicapped, Child Welfare, Persons with Developmental Disabilities and other support programs is expected to exceed the budgeted amounts by \$41 million primarily due to increased caseloads and costs per case. This increase is offset by savings of \$27 million due to a reduction in Supports for Independence caseloads and lower demand for employment training programs. The ministry is also receiving \$5 million in new revenue from the federal government and reducing its capital spending by \$9 million.

Spending by **Advanced Education and Career Development** is expected to be \$19 million under budget. Lower demand for labour market services is expected to reduce spending by \$11 million. In addition, a declining number of upgrading students requiring financial assistance and a reduction in the statutory provision for student loans are expected to reduce spending by \$8 million.

DEBT SERVICING COSTS Debt servicing costs are forecast to be \$67 million higher than the budget estimate. The higher forecast reflects an increase in the foreign exchange provision on unhedged United States dollar debt due to the weakness of the Canadian dollar. The Canada/United States exchange rate is now forecast to be 70¢US at March 31, 1999, down 4¢ from the budget estimate. Partly offsetting the increase are lower interest costs due to higher than anticipated debt repayments in 1997-98 and lower interest rates on refinanced debt in 1998-99.

Expense

(millions of dollars)

	1998-99		Change from Budget
	Budget ^a	1st Quarter Forecast	
Program			
Legislative Assembly	39	39	—
Advanced Education and Career Development	1,311	1,292	(19)
Agriculture, Food and Rural Development	513	545	32
Community Development	366	367	1
Economic Development	222	352	130
Education	3,030	3,030	—
Energy	129	129	—
Environmental Protection	292	404	112
Executive Council	12	12	—
Family and Social Services	1,375	1,389	14
Health	4,206	4,368	162
Intergovernmental and Aboriginal Affairs	34	34	—
Justice	384	384	—
Labour	28	28	—
Municipal Affairs	245	258	13
Public Works, Supply and Services	468	466	(2)
Science, Research and Information Technology	68	70	2
Transportation and Utilities	546	676	130
Treasury	800	800	—
Consolidation adjustments	(158)	(286)	(128)
Consolidated Program Expense	<u>13,910</u>	<u>14,357</u>	<u>447</u>
Debt Servicing Costs			
Gross debt servicing costs	1,224	1,287	63
Consolidation adjustments	(131)	(127)	4
Consolidated Debt Servicing Costs	<u>1,093</u>	<u>1,160</u>	<u>67</u>
Total Consolidated Expense	<u>15,003</u>	<u>15,517</u>	<u>514</u>

^a Budget numbers have been restated to reflect a change in accounting policy by the Alberta Dairy Control Board, as suggested by the Auditor General. This increases both revenue and expense by \$48 million.

Net Change In Capital Assets

The net increase in capital assets affecting operations is forecast to be \$4 million lower than the budget estimate.

Capital investment is forecast at \$273 million, down \$6 million from the budget estimate. This reflects a \$9 million reduction in **Family and Social Services** due to a delay in systems redesign. Partly offsetting this is an increase in **Agriculture, Food and Rural Development** for computer systems.

Total capital amortization is forecast at \$238 million, down \$2 million from the budget estimate.

Net Change in Capital Assets

(millions of dollars)

	1998-99		
	Budget	1st Quarter Forecast	Change from Budget
Capital Investment	279	273	(6)
Capital Amortization	(240)	(238)	2
Net Increase in Capital Assets affecting Operations	<u>39</u>	<u>35</u>	<u>(4)</u>

Capital Investment and Amortization

(millions of dollars)

	Capital Investment			Capital Amortization		
	Budget	1st Quarter Forecast	Change from Budget	Budget	1st Quarter Forecast	Change from Budget
Legislative Assembly	—	—	—	1	1	—
Advanced Education and Career Development	3	3	—	2	2	—
Agriculture, Food and Rural Development	3	9	6	5	6	1
Community Development	1	1	—	1	1	—
Economic Development	1	1	—	—	—	—
Education	1	1	—	1	1	—
Energy	3	3	—	6	6	—
Environmental Protection	8	7	(1)	25	25	—
Executive Council	—	—	—	—	—	—
Family and Social Services	9	—	(9)	3	2	(1)
Health	1	1	—	1	1	—
Intergovernmental and Aboriginal Affairs	—	—	—	—	—	—
Justice	2	2	—	1	1	—
Labour	—	—	—	—	—	—
Municipal Affairs	3	3	—	28	28	—
Public Works, Supply and Services	62	62	—	62	61	(1)
Science, Research and Information Technology	2	3	1	2	2	—
Transportation and Utilities	174	174	—	100	100	—
Treasury	6	3	(3)	2	1	(1)
Total Capital Investment/Amortization	<u>279</u>	<u>273</u>	<u>(6)</u>	<u>240</u>	<u>238</u>	<u>(2)</u>

Sensitivities and Fiscal Year Assumptions, 1998-99

	Sensitivities ^a (\$ millions)				Assumptions	
	Change	Revenue	Spending	Surplus	Budget	1st Quarter Forecast
Oil Price (WTI US\$/bbl)	-\$1.00	-123	—	-123	17.50	14.75
Natural Gas Price (Cdn\$/mcf)	-10¢	-176	—	-176	1.70	1.90
Exchange Rate (US¢/Cdn\$)	-1¢	+29	+44	-15	74.00	70.00
Interest Rates	+1%	+4	+43	-39		
3-month Canada Treasury Bills .					4.50	4.90
10-year Canada Bonds					6.25	5.60

^a Sensitivities are based on current forecast 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.

Borrowing Requirements

(millions of dollars)

	1998-99		
	Budget	1st Quarter Forecast	Change from Budget
Targeted net debt repayments^a	(585)	(697)	(112)
Add:			
Retained surpluses of other agencies	105	87	(18)
Provincial corporations' borrowing requirements	432	372	(60)
Funding of school board loan repayments to AMFC	104	104	—
Inflation proofing of Alberta Heritage Savings Trust Fund	85	—	(85)
Other adjustments to cash	65	(192)	(257)
Less:			
Foreign exchange valuation	(20)	(182) ^b	(162)
Repayments of deposits	(200)	(175)	25
Cash Requirements (Receipts)	(14)	(683)	(669)
Refinancing debt maturities and redemptions	3,305	3,480	175
Total Direct Borrowing Requirements	<u>3,291</u>	<u>2,797</u>	<u>(494)</u>

^a Surplus plus revenue cushion.

^b Assumes an exchange rate of 70¢US on March 31, 1999. There is a US\$1 billion debt issue maturing on November 5, 1998. The exchange rate on that date is assumed to be 67¢US.

Liabilities, Assets and Net Debt

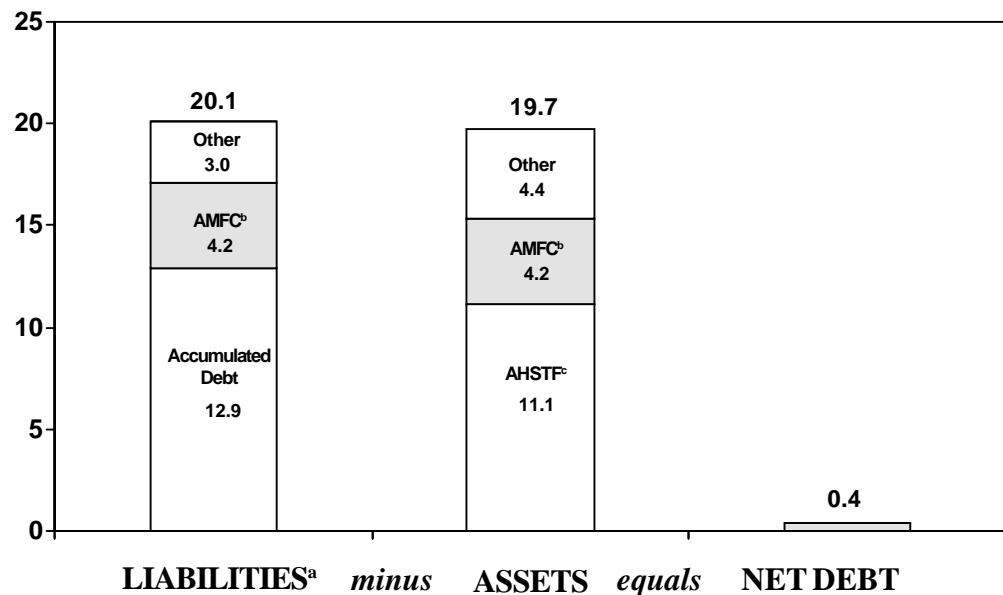
The net debt subject to the *Balanced Budget and Debt Retirement Act* is forecast to be \$392 million as at March 31, 1999, down \$697 million from the March 31, 1998 level of \$1,089 million. Total liabilities (excluding pension obligations) will be approximately \$20.1 billion. This is mostly offset by \$19.7 billion in financial assets. Debt servicing costs are based on the province's accumulated debt, forecast at approximately \$12.9 billion at March 31, 1999. The province will still have accumulated debt and debt servicing costs after the net debt is eliminated.

Net Worth (Balance Sheet)

Forecast of Liabilities and Offsetting Assets

at March 31, 1999

(billions of dollars)



^a Excludes pension obligations of \$5 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.

THREE MONTH CASH FLOW STATEMENT

**METHOD OF
CONSOLIDATION**

This financial summary is prepared on the same basis as used in Budget '98.

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 1997-98 figures have been restated to conform to the 1998-99 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 unfunded 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. Expenses do not include the annual change in the unfunded pension obligations, forecast to increase by \$54 million in 1998-99, which is a non-cash expense that does not affect borrowing requirements.

Revenues are recorded on a cash basis, except for non-renewable resource revenue and investment income which are recorded on an accrual basis. Expenses are recorded on a cash basis, except for debt servicing costs and provision for loan losses of provincial funds and agencies, 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, 1998 (unaudited)
(millions of dollars)

	<u>First Three Months</u>		Change
	1998-99	1997-98	
Revenue			
Income Taxes	1,531	1,207	324
Other Taxes	518	548	(30)
Non-Renewable Resource Revenue	578	1,249	(671)
Investment Income	478	464	14
Transfers from Government of Canada	271	308	(37)
Premiums, Fees and Licences	390	372	18
Net Income from Commercial Operations	140	125	15
Other	258	213	45
Total Revenue	<u>4,164</u>	<u>4,486</u>	<u>(322)</u>
Expense			
Program	3,551	3,585	(34)
Debt Servicing Costs	314	272	42
Total Expense	<u>3,865</u>	<u>3,857</u>	<u>8</u>
Net Revenue	299	629	(330)
Net Decrease in Capital Assets affecting Operations ^b	12	27	(15)
Consolidated Surplus	<u>311</u>	<u>656</u>	<u>(345)</u>

^a Subject to the Balanced Budget and Debt Retirement Act. Includes the province's annual cash payments towards the unfunded pension liability which will be eliminated over a longer term under a separate legislated plan. Does not include the annual change in the unfunded pension obligations, forecast to increase by \$54 million for 1998-99, which is a non-cash expense that does not affect borrowing requirements.

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

Expenses

for the Three Months Ended June 30, 1998 (unaudited)

(millions of dollars)

	First Three Months		Change
	1998-99	1997-98	
Program			
Legislative Assembly	9	9	—
Advanced Education and Career Development	259	296	(37)
Agriculture, Food and Rural Development	93	80	13
Community Development	83	75	8
Economic Development	49	43	6
Education	907	828	79
Energy	30	27	3
Environmental Protection	123	55	68
Executive Council	3	3	—
Family and Social Services	383	390	(7)
Health	1,096	1,194	(98)
Intergovernmental and Aboriginal Affairs	25	17	8
Justice	80	72	8
Labour	6	6	—
Municipal Affairs	72	62	10
Public Works, Supply and Services	94	97	(3)
Science, Research and Information Technology	13	10	3
Transportation and Utilities	85	107	(22)
Treasury	187	238	(51)
Consolidation Adjustments	(46)	(24)	(22)
	<u>3,551</u>	<u>3,585</u>	<u>(34)</u>
Debt Servicing Costs	314	272	42
Total Expenses	<u>3,865</u>	<u>3,857</u>	<u>8</u>

Net Decrease in Capital Assets Affecting Operations for the Three Months Ended June 30, 1998 (unaudited)

(millions of dollars)

Capital Investment	First Three Months		Change
	1998-99	1997-98	
Legislative Assembly	—	—	—
Advanced Education and Career Development	—	—	—
Agriculture, Food and Rural Development	1	—	1
Community Development	—	—	—
Economic Development	—	—	—
Education	—	—	—
Energy	1	1	—
Environmental Protection	—	1	(1)
Executive Council	—	—	—
Family and Social Services	—	—	—
Health	—	—	—
Intergovernmental and Aboriginal Affairs	—	—	—
Justice	—	—	—
Labour	—	—	—
Municipal Affairs	—	—	—
Public Works, Supply and Services	9	7	2
Science, Research and Information Technology	1	—	1
Transportation and Utilities	29	18	11
Treasury	1	—	1
	<u>42</u>	<u>27</u>	<u>15</u>
Less: Capital Amortization Reversal	54	54	—
Net Decrease in Capital Assets Affecting Operations	<u><u>12</u></u>	<u><u>27</u></u>	<u><u>(15)</u></u>