

Alberta 2003 Budget

Making Alberta Even Better



THIRD QUARTER FISCAL UPDATE

2003-04 QUARTERLY BUDGET REPORT

FEBRUARY 25, 2004

Alberta
GOVERNMENT OF ALBERTA

UPDATING ALBERTANS

The Third Quarter Fiscal Update is comprised of two parts – the updated 2003-04 forecast and the actual results for the first nine months of the fiscal year (April 1 to December 31, 2003).

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2003 - 04 FORECAST

Highlights

- ◆ Total revenue is \$3.4 billion higher than estimated in *Budget 2003*. The increase is primarily due to higher non-renewable resource revenue, federal agriculture transfers and investment income.
- ◆ Total expense is \$1.2 billion higher than budgeted, reflecting:
 - \$915 million for agriculture and forest-fire disaster/emergency assistance (from the Sustainability Fund),
 - \$216 million for natural gas rebates (from the Sustainability Fund),
 - \$205 million for in-year initiatives, including funding for education, seniors, social assistance, and facility operations and maintenance costs (from the Contingency Allowance),
 - \$60 million in net dedicated revenue/expense increases, and
 - \$185 million reduction in debt servicing costs.
- ◆ Net Revenue (revenue minus expense, prior to Sustainability Fund and Capital Account transfers) is forecast at \$3.3 billion. This is \$2.2 billion higher than estimated in *Budget 2003*.
- ◆ Net assets of the Sustainability Fund, prior to reallocation, are forecast to be \$2.1 billion higher than estimated in the budget. Of this increase:
 - \$283 million has been retained in the Sustainability Fund to bring total assets of the Fund to the \$2.5 billion target level,
 - \$893 million has been reallocated to the Capital Account. Details concerning the use of these funds will be provided in *Budget 2004*, and
 - \$893 million has been reallocated for debt retirement. This reduces accumulated debt, net of cash set aside in the Debt Retirement Account, to \$3.7 billion.

FISCAL SUMMARY^a

(millions of dollars)

	2003-04			
	Budget	3rd Quarter Forecast	Change from	
			Budget	2nd Quarter
1 Revenue	21,928	25,338	3,410	1,258
2 Expense				
3 Program	20,335	21,731	1,396	129
4 Debt servicing costs	465	280	(185)	(40)
5 Total Expense	20,800	22,011	1,211	89
6 Net Revenue	1,128	3,327	2,199	1,169
7 Transfer from Capital Account	416	416	-	-
8 Retained income/capital cash requirements ^b	(58)	(135)	(77)	(73)
9 Net transfer from (to) Sustainability Fund	(1,276)	(3,608)	(2,332)	(1,132)
10 Contingency Allowance	210	-	(210)	(36)
11 Sustainability Fund (net transfer)	1,276	3,608	2,332	1,132
12 Cash adjustments	941	678	(263)	(202)
13 Sustainability Fund prior to reallocation	2,217	4,286	2,069	930
Less allocations to:				
14 Debt Retirement Account	-	893	893	465
15 Capital Account	-	893	893	465
16 Sustainability Fund Balance at March 31, 2004	2,217	2,500	283	-

a Subject to the *Fiscal Responsibility Act*.

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 in the budget. This amount is not available for transfer to the Sustainability Fund.

Revenue

NON-RENEWABLE RESOURCE REVENUE

Non-renewable resource revenue is forecast at \$7.4 billion. This is \$2.7 billion higher than the budget estimate and \$744 million higher than forecast in the *Second Quarter Fiscal Update*.

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

Natural gas royalties are forecast at \$5.4 billion, up \$1.9 billion from the budget estimate. Natural gas prices are expected to average Cdn\$5.64 per thousand cubic feet for the fiscal year. This is an increase of \$1.59 from the budget estimate. The strong natural gas prices reflect recent cold weather, higher economic growth in the United States and continuing concerns over North American gas supply.

Total oil royalties are forecast at \$1.1 billion, up \$520 million from the budget estimate. Crude oil prices are now expected to average US\$30.75 per barrel for the fiscal year. This is an increase of US\$7.45 from the budget estimate. The oil price increase reflects low oil inventory levels, especially in the United States, delays in the return of Iraqi production, and continuing strong world oil demand.

The *Fiscal Responsibility Act* requires that 2003-04 non-renewable resource revenue above \$3.5 billion be transferred to the Sustainability Fund. This transfer is now forecast at \$3.9 billion.

PERSONAL INCOME TAX REVENUE

Personal income tax revenue is \$422 million lower than estimated in the budget. As noted in the *Second Quarter Fiscal Update*, most of the decline is based on updated federal assessment information for 2002. This lowers Alberta's personal income tax revenue for the 2002 and 2003 tax years, resulting in a combined \$400 million reduction in 2003-04 revenue. The \$22 million change from Second Quarter is due to lower estimated growth in per capita income.

CORPORATE INCOME TAX REVENUE

Corporate income tax revenue is \$220 million lower than budgeted. The change is due to higher-than-expected tax refunds for 2002 and previous tax years, which are being paid in the 2003-04 fiscal year.

TRANSFERS FROM GOVERNMENT OF CANADA

Transfers from the Government of Canada are \$605 million higher than budgeted. The increase from the budget consists of:

- ◆ \$454 million increase in federal agriculture transfers primarily related to the Bovine Spongiform Encephalopathy (BSE) Recovery Program and dedicated revenue for specific programs,
- ◆ \$154 million increase in the Canada Health and Social Transfer (CHST), which increases if Alberta's income tax revenue declines, and
- ◆ \$3 million net reduction in other transfers.

The forecast of federal transfers does not include the province's approximate \$200 million share of the \$2 billion health transfer recently affirmed by the federal government. The transfer will be recorded as revenue in 2004-05.

INVESTMENT INCOME

Investment income is \$630 million higher than estimated in the budget, primarily due to a strong recovery in equity markets. The increase consists of:

- ◆ \$538 million increase in Heritage Fund income,
- ◆ \$54 million increase in endowment funds' income, and
- ◆ \$38 million net increase in other investment income.

OTHER REVENUE

Total revenue from all other sources is \$147 million higher than estimated in the budget. Major changes from budget include:

- ◆ \$76 million increase in freehold mineral rights tax due to higher energy prices,
- ◆ \$26 million increase in tobacco taxes,
- ◆ \$17 million increase in Alberta Gaming and Liquor Commission revenue,
- ◆ \$18 million reduction in crop and hail insurance premiums, and
- ◆ \$46 million in other net increases.

REVENUE*(millions of dollars)*

	2003-04				Main Reasons for Change from Budget
	Budget	3rd Quarter Forecast	Change from		
			Budget	2nd Quarter	
Income Taxes					
Personal income tax	5,035	4,613	(422)	(22)	Lower 2002 tax assessments
Corporate income tax	2,016	1,796	(220)	(220)	Higher tax refunds
	<u>7,051</u>	<u>6,409</u>	<u>(642)</u>	<u>(242)</u>	
Other Taxes					
School property tax	1,165	1,166	1	1	Change in opted-out boards' share
Tobacco tax	624	650	26	31	Higher volume
Fuel tax	602	602	-	4	
Freehold mineral rights tax	214	290	76	48	Higher oil and natural gas prices
Insurance taxes	148	157	9	-	Growth in industry premium revenue
Hotel room tax	58	56	(2)	-	Fewer hotel stays
	<u>2,811</u>	<u>2,921</u>	<u>110</u>	<u>84</u>	
Non-Renewable Resource Revenue					
Natural gas and by-products royalty	3,480	5,355	1,875	530	Higher natural gas prices
Crude oil royalty	502	938	436	98	Higher oil prices
Synthetic crude oil and bitumen royalty	103	187	84	24	Higher oil prices
Coal royalty	11	8	(3)	(1)	Revised forecast
Bonuses and sale of Crown leases	679	898	219	90	Higher bid prices per hectare
Rentals and fees	144	156	12	2	More renewed hectares
Royalty tax credit	(143)	(96)	47	1	Higher oil and natural gas prices
	<u>4,776</u>	<u>7,446</u>	<u>2,670</u>	<u>744</u>	
Transfers from Government of Canada					
Canada Health and Social Transfer	1,613	1,767	154	(7)	Lower income tax revenue
2003 Health Accord	248	249	1	-	Revised population numbers
Agriculture support programs	169	623	454	47	BSE assistance
Labour market development	120	120	-	-	
Other	236	232	(4)	-	Transportation transfers
	<u>2,386</u>	<u>2,991</u>	<u>605</u>	<u>40</u>	
Net Income from Commercial Operations					
Alberta Gaming and Liquor Commission:					
Gaming and lottery revenue	1,093	1,105	12	-	Lower operating costs
Liquor revenue	546	551	5	-	Higher volume of sales
Alberta Treasury Branches	152	141	(11)	6	Higher loan loss provisions
Other	4	25	21	-	AGT recoveries
	<u>1,795</u>	<u>1,822</u>	<u>27</u>	<u>6</u>	
Premiums, Fees and Licences^a					
Health care insurance premiums	913	923	10	5	Revised forecast
Motor vehicle licences	262	257	(5)	(9)	Change in revenue recognition
Crop and hail insurance premiums	164	146	(18)	(13)	Lower crop insurance coverage
Timber royalties and fees	63	52	(11)	-	Effect of forest fires
Land titles	36	38	2	1	Higher transaction volumes
Other	287	291	4	12	Increased AEUB levies
	<u>1,725</u>	<u>1,707</u>	<u>(18)</u>	<u>(4)</u>	
Investment Income					
Alberta Heritage Savings Trust Fund	426	964	538	538	Strong equity markets
Alberta Capital Finance Authority	319	324	5	(1)	Increased lending activity
Agriculture Financial Services Corporation	91	85	(6)	3	Lower lending and fund balance
Debt Retirement Account	45	48	3	2	Higher fund balance
Alberta Sustainability Fund	31	40	9	(1)	Higher fund balance
Endowment Funds:					
Medical Research	31	59	28	28	Strong equity markets
Science and Engineering Research	11	27	16	16	Strong equity markets
Scholarship	10	20	10	10	Strong equity markets
Other	55	82	27	7	Higher balances in funds
	<u>1,019</u>	<u>1,649</u>	<u>630</u>	<u>602</u>	
Other^a					
Refunds of expense	87	90	3	5	Revised forecast
Fines and penalties	63	68	5	4	Traffic fine increases
Miscellaneous	215	235	20	19	Gains on asset disposals
	<u>365</u>	<u>393</u>	<u>28</u>	<u>28</u>	
Total Revenue	21,928	25,338	3,410	1,258	

^a Budget numbers have been restated to reflect a \$9 million reallocation of Alberta Energy and Utilities Board (AEUB) levies from "Other" to "Premiums, Fees and Licences" revenue.

Expense

FUNDING FROM THE SUSTAINABILITY FUND

Disaster/Emergency Assistance – A total of \$915 million is being provided, consisting of:

- ◆ \$780 million for BSE assistance (Agriculture, Food and Rural Development and Economic Development),
- ◆ \$128 million for forest fire-fighting costs (Sustainable Resource Development), and
- ◆ \$7 million for disaster recovery programs (Municipal Affairs).

Natural Gas Rebates – Reflecting the higher rebate level reached in January, the cost has been revised to \$216 million, up \$35 million from the Second Quarter. Rebates are expected for January, February and March.

FUNDING FROM THE CONTINGENCY ALLOWANCE

The \$210 million set aside for in-year, non-emergency initiatives is fully committed. Emergencies/disasters, energy rebates, dedicated revenue/expense changes and increases offset by reductions in other program spending are not draws against the Contingency Allowance. The in-year initiatives include \$205 million in program expense increases, and \$5 million in revenue reduction initiatives.

MINISTRY CHANGES

Agriculture, Food and Rural Development expense has increased by \$814 million from budget, and \$20 million from Second Quarter. BSE-related disaster expense has been revised to \$776 million, \$18 million less than forecast in the Second Quarter. There is a \$38 million increase in dedicated revenue/expense for non-BSE related spending. Total federal agriculture transfers are \$454 million higher than budgeted, reflecting BSE assistance, dedicated revenue for specific programs and other increases.

Health and Wellness expense has increased a net \$28 million from budget. Increases for facility operations and maintenance costs of health authorities, drug benefit costs and a West Nile Virus initiative are partially offset by decreases in other program areas and dedicated revenue increases.

Human Resources and Employment expense has increased \$61 million from budget for caseload and cost-per-case increases. This includes \$17 million for the Assured Income for the Severely Handicapped program, \$20 million for the Supports for Independence program, and \$24 million for the Skills Investments program.

Infrastructure expense has increased by \$231 million from budget, including \$216 million for natural gas rebates. In addition, \$30 million was provided for operations and maintenance costs of schools, which is partly offset by lapsed spending and reallocations to capital investment.

Learning expense has increased \$76 million from budget, and \$20 million from the Second Quarter. This includes \$56 million to address the recommendations of Alberta's Commission on Learning and other basic education pressures, \$30 million for post-secondary facility operations and maintenance costs, and \$15 million for additional post-secondary entry spaces. These increases are partly offset by a \$25 million lapse primarily related to teachers' pensions and the provision for student loans.

Seniors expense has increased \$48 million from budget. This includes \$22 million for the Alberta Seniors Benefit to assist lower income seniors with increased long-term care fees, \$12 million for the Special Needs Assistance program, \$8 million for operations and maintenance costs of housing facilities, \$5 million for affordable housing, and \$1 million for homeless shelters.

Sustainable Resource Development expense has increased \$129 million from budget and \$16 million from the Second Quarter forecast. With the exception of a \$1 million increase in dedicated revenue/expense, the increase is entirely for forest fire-fighting costs.

Other increases from budget include:

- ◆ **Aboriginal Affairs and Northern Development** – \$4 million for aboriginal consultation and the Fort McKay First Nation land claim settlement,
- ◆ **Economic Development** – \$3.5 million for BSE market recovery strategy,
- ◆ **Energy** – \$13 million, primarily for well abandonment costs that are offset by increased industry levies,
- ◆ **Environment** – \$3 million increase for the cost of the Western Irrigation District Storm Water Agreement partly offset by other reductions,
- ◆ **Finance** – \$9 million for Alberta Capital Finance Authority dedicated revenue/expense increases and for pension liability funding,
- ◆ **Government Services** – \$5 million for Utilities Consumer Advocate and land titles costs,
- ◆ **Justice** – \$2 million to enhance maintenance enforcement capabilities,
- ◆ **Municipal Affairs** – \$11 million for disaster recovery and energy efficiency programs, and
- ◆ **Solicitor General** – \$5 million for the organized crime initiative and for Victims of Crime Fund benefits.

DEBT SERVICING COSTS

Debt servicing costs have decreased by \$185 million from budget primarily as a result of the appreciation of the Canadian dollar relative to the U.S. dollar. This reduces the cost of debt held in U.S. dollars.

EXPENSE SUMMARY*(millions of dollars)*

	2003-04			
	Budget	3rd	Change from	
		Quarter	Budget	2nd
	Budget	Forecast	Budget	Quarter
Program Expense				
Budget	20,335	20,335	-	-
Disaster/emergency assistance	-	915	915	(3)
Natural gas rebates	-	216	216	35
In-year contingency allowance expense ^a	-	205	205	36
Dedicated expense changes (net) ^b	-	60	60	61
Total Program Expense	20,335	21,731	1,396	129
Debt Servicing Costs	465	280	(185)	(40)
Total Expense	20,800	22,011	1,211	89

^a Does not include \$5 million for in-year revenue reduction initiatives for cigar taxes (effective August 1, 2003) and the aviation fuel tax (effective March 1, 2004) that are draws on the Contingency Allowance.

^b Dedicated revenue/expense changes – Agriculture, Food and Rural Development: \$38 million for agriculture programs including Grasshopper Control Assistance, Farm Water Program and 2002-03 Farm Income Disaster Program; Health and Wellness: \$14 million in dedicated revenue increases in Health Care Insurance Premiums, Non-Group Health Benefits premiums and AADAC; Energy: \$13 million for AEUB well abandonment costs; Innovation and Science: \$13 million reduction in Alberta Research Council contract research; Other ministries: net \$8 million increase.

EXPENSE BY MINISTRY*(millions of dollars)*

Program	2003-04				Main Reasons for Change from Budget
	Budget	3rd	Change from		
		Quarter	Budget	2nd	
	Budget	Forecast	Budget	Quarter	
Legislative Assembly	61	59	(2)	(3)	Savings in various Offices
Aboriginal Affairs and Northern Development	32	36	4	2	Consultation/Fort McKay
Agriculture, Food and Rural Development ^a	814	1,628	814	20	Agriculture assistance
Children's Services	708	709	1	-	Facility operation and maintenance costs
Community Development	647	641	(6)	(8)	Change to asset divestiture plans
Economic Development	55	58	3	-	BSE market recovery strategy
Energy ^a	185	198	13	10	Well abandonment costs
Environment	122	125	3	6	Western Irrigation District settlement
Executive Council	18	18	-	-	
Finance	435	444	9	(2)	Alberta Capital Finance Authority lending
Gaming	150	146	(4)	(4)	NHL Lottery/Electronic Bingo
Government Services	83	88	5	-	Utilities Consumer Advocate/land titles
Health and Wellness	7,350	7,378	28	27	Drug costs
Human Resources and Employment	1,071	1,132	61	29	Higher caseloads and costs-per-case
Infrastructure	1,202	1,433	231	19	Natural gas rebates
Innovation and Science	200	189	(11)	-	Lower contract research
International and Intergovernmental Relations	6	6	-	-	
Justice	263	265	2	-	Maintenance enforcement
Learning	4,912	4,988	76	20	Basic and post-secondary support
Municipal Affairs	132	143	11	(1)	Disasters/energy efficiency programs
Revenue	166	158	(8)	1	Lower endowment funds' spending
Seniors	354	402	48	11	Seniors' benefits and housing support
Solicitor General	278	283	5	2	Organized crime initiative/victims' benefits
Sustainable Resource Development	202	331	129	16	Forest fires
Transportation	889	873	(16)	(16)	Reprofiling of transportation grants
Total Program Expense	20,335	21,731	1,396	129	
Debt Servicing Costs	465	280	(185)	(40)	Foreign exchange rate
Total Expense	20,800	22,011	1,211	89	

^a Budget numbers have been restated to reflect a \$6 million transfer of Rural Utilities from Energy to Agriculture, Food and Rural Development.

Alberta Sustainability Fund

SUSTAINABILITY FUND TRANSFERS

- ◆ The *Fiscal Responsibility Act* requires 2003-04 non-renewable resource revenue above \$3.5 billion to be transferred to the Sustainability Fund. This transfer is forecast at \$3.9 billion, \$2.7 billion higher than the budget estimate.
- ◆ Withdrawals from the Fund are permitted to pay for the \$915 million cost of emergencies and disasters and \$216 million in rebates under the *Natural Gas Price Protection Act*.
- ◆ Other net transfers to the Fund, totaling \$793 million, consist of:
 - \$685 million increase in revenue (excluding non-renewable resource revenue, a \$60 million increase in dedicated revenue and expense and \$5 million in revenue reduction initiatives),
 - \$185 million in savings from the reduction in debt servicing costs,
 - less \$77 million from a net increase in capital cash requirements and the change in financial assets 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 in the

income statement. In 2003-04, cash adjustments increase the net transfers to the Sustainability Fund by \$678 million.

- ◆ This positive cash adjustment primarily relates to the natural gas royalties. As there is a three-month delay in receiving the cash from natural gas royalties, the difference between accrued amounts and cash received can be significant when natural gas prices spike in the January to March period. The positive cash adjustment reflects higher prices in January to March 2003 than forecast for January to March 2004.

ASSETS OF SUSTAINABILITY FUND

- ◆ Net assets of the Sustainability Fund, prior to reallocation, are forecast at \$4.3 billion, \$2.1 billion higher than estimated in *Budget 2003*.
- ◆ Sustainability Fund assets above the \$2.5 billion target can be reallocated to other parts of the balance sheet.
- ◆ Based on the third quarter forecast, close to \$1.8 billion will be reallocated from the Sustainability Fund at the end of the fiscal year. The Debt Retirement Account and the Capital Account are each expected to receive \$893 million, leaving \$2.5 billion in the Sustainability Fund.

ALBERTA SUSTAINABILITY FUND AT MARCH 31, 2004

(millions of dollars)

	Budget	3rd	Change from	
		Quarter Forecast	Budget	2nd Quarter
Assets at start of year	-	-	-	-
Non-renewable resource revenue transfer from general revenue	1,276	3,946	2,670	744
Transfer for disaster and emergency program expense	-	(915)	(915)	3
Transfer for the Natural Gas Rebate Program expense	-	(216)	(216)	(35)
Other net transfers	-	793	793	420
	1,276	3,608	2,332	1,132
Cash adjustments:				
Natural gas royalties	914	842	(72)	(228)
Transfer to Science and Engineering Research Fund	(21)	(21)	-	-
Transfer for disaster/emergency capital investment	-	(3)	(3)	6
Foreign exchange valuation adjustment	-	(149)	(149)	(19)
Other	48	9	(39)	39
	941	678	(263)	(202)
Assets at End of Year (prior to reallocation)	2,217	4,286	2,069	930
Allocation to Debt Retirement Account	-	893	893	465
Allocation to Capital Account	-	893	893	465
Assets at End of Year	2,217	2,500	283	-

Capital Plan

- ◆ Capital asset acquisitions, including capital grants to local authorities and capital investment in provincial government-owned projects, are currently forecast at \$1.64 billion. This is \$36 million lower than the budgeted Capital Plan. This primarily reflects revised scheduling of projects.
- ◆ Changes in the Capital Plan include:
 - **General Government Capital** – \$38 million increase, including:
 - \$13 million for the FireNet Telecommunications System (Sustainable Resource Development),
 - \$4 million for development of a new Apprenticeship, Trade and Occupation Management System (Learning),
 - \$3 million for constructing and equipping laboratory facilities to support enhanced food safety surveillance, to be completed in 2004-05 (funded from the Sustainability Fund), and
 - \$18 million in other changes, including net transfers from operating expense to equipment/inventory purchases.
 - **Provincial Highway Network** – \$11 million increase for pavement rehabilitation and construction.
 - **Municipal Transportation Grants** – \$17 million reduction due to reprofiling.
 - **Health, School, Post-secondary and Water and Wastewater Management Facilities** – \$38 million reduction due to revised project schedules.
 - **Housing** – \$8 million increase primarily for funding under the Canada/Alberta Affordable Housing Agreement.
 - **Other Infrastructure** – \$38 million decrease mainly due to a \$31 million delay in Alberta SuperNet spending.
- ◆ Further details on Capital Plan spending by ministry are reported on page 10.

CAPITAL PLAN SUMMARY

(millions of dollars)

	2003-04			
	Budget ^a	3rd Quarter Forecast	Change from Budget	2nd Quarter
Provincial highway network	457	468	11	-
Municipal transportation grants	242	225	(17)	(4)
Health facilities and equipment	284	274	(10)	(10)
School facilities and equipment	136	130	(6)	(6)
Post-secondary facilities	135	125	(10)	-
Water and wastewater management	86	74	(12)	(5)
Community facilities	64	64	-	(1)
Housing	44	52	8	6
Other infrastructure programs	88	50	(38)	(34)
General government capital	140	178	38	10
Total Capital Plan	1,676	1,640	(36)	(44)
To be funded by:				
Current-year revenue	1,053	1,014	(39)	(47)
Capital Account ^b	623	623	-	-
Transfer from Alberta Sustainability Fund ^c	-	3	3	3
Total Capital Plan	1,676	1,640	(36)	(44)

^a Budget numbers have been restated to include capital grants of \$13 million reported in the budget but not 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.

^c Disaster funding from the Sustainability Fund related to BSE.

Net Financial and Capital Assets

- ◆ **Net Assets** – The government of Alberta's net assets are forecast at \$20.4 billion as of March 31, 2004. This includes capital assets of \$10.5 billion.
- ◆ **Accumulated Debt** – Accumulated debt, net of cash set aside in the Debt Retirement Account, is forecast at \$3.7 billion as of March 31, 2004. This is a reduction of \$1 billion from March 31, 2003. The reduction reflects the \$893 million allocation to the Debt Retirement Account and a \$129 million reduction in the value of debt held in U.S. dollars due to the appreciation of the Canadian dollar.
- ◆ **Capital Account** – The value of the Capital Account is forecast at \$1.18 billion as of March 31, 2004. These dollars will be used to pay for capital projects over the next three years. During the 2003-04 fiscal year, \$623 million is being withdrawn from the Capital Account to pay for capital projects – \$416 million for capital grants to local authorities and \$207 million for provincial government-owned projects. More than offsetting these payments is an \$893 million transfer this year from the Sustainability Fund to the Capital Account.
- ◆ **Heritage Fund** – The balance sheet reflects the book value of Heritage Fund external investments at \$11.3 billion. It does not include unrealized capital gains. The estimated fair market value of Heritage Fund assets at December 31, 2003 was \$12.4 billion. Similarly, endowment funds are recorded at book value, not fair market value.
- ◆ **Pension Obligations** – Pension obligations are forecast at \$5 billion. 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)

	2003 <i>Actual</i>	2004				
		Budget ^a	3rd Quarter Forecast	Budget	Change from 2nd Quarter	2003 Actual
Financial Assets						
Heritage Fund external investments ^b	11,262	11,267	11,267	-	-	5
Self-supporting lending organizations	5,293	5,184	5,404	220	(65)	111
Alberta Sustainability Fund	-	2,217	2,500	283	-	2,500
Endowment funds	1,550	1,518	1,594	76	55	44
Capital Account	910	287	1,180	893	465	270
Debt Retirement Account	2,010	252	1,241	989	465	(769)
Other financial assets	5,510	5,267	5,131	(136)	117	(379)
Total Financial Assets	26,535	25,992	28,317	2,325	1,037	1,782
Liabilities						
Accumulated debt	6,746	4,988	4,955	(33)	(19)	(1,791)
Pension obligations	4,927	5,048	5,047	(1)	(13)	120
Self-supporting lending organizations	4,070	4,062	4,404	342	(55)	334
Other liabilities	3,916	4,175	4,007	(168)	(57)	91
Total Liabilities	19,659	18,273	18,413	140	(144)	(1,246)
Net Financial Assets	6,876	7,719	9,904	2,185	1,181	3,028
Capital assets	10,285	10,449	10,464	15	1	179
Net Assets	17,161	18,168	20,368	2,200	1,182	3,207
Adjustment for pension obligations	4,927	5,048	5,047	(1)	(13)	120
Net Assets for Fiscal Policy Purposes	22,088	23,216	25,415	2,199	1,169	3,327

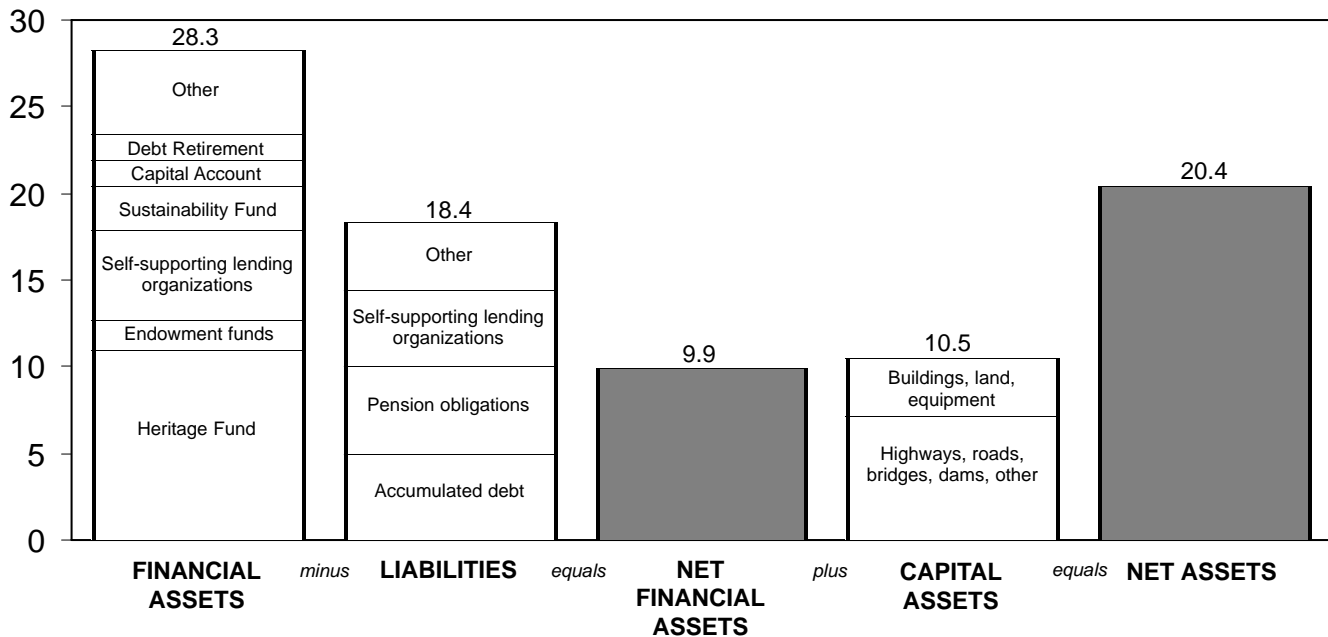
^a Budget numbers have been restated to reflect 2002-03 actual results.

^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	3rd Quarter Forecast	Change from Budget	2nd Quarter
Requirements:				
General Revenue Fund term debt maturities	1,700	1,615	(85)	-
School construction loan repayments	83	83	-	-
Provincial corporations' term borrowing requirements	200	150	(50)	-
Adjustments	(25)	93	118	19
Gross financing requirements	1,958	1,941	(17)	19
Term debt borrowing to date (provincial corporations)	-	(100)	(100)	(100)
Accumulated debt reduction from Debt Retirement Account ^a	(1,758)	(1,791)	(33)	(19)
Net Remaining Term Debt Financing Requirements	200	50	(150)	(100)

^a Accumulated debt maturities paid from the Debt Retirement Account. Also includes the impact of foreign exchange valuation adjustments.

FISCAL YEAR ASSUMPTIONS

	2003-04			
	Budget	1st Quarter Forecast	2nd Quarter Forecast	3rd Quarter Forecast
Oil Price (WTI US\$/bbl)	23.30	25.00	27.50	30.75
Natural Gas Price (Cdn\$/mcf)	4.05	5.00	5.15	5.64
Exchange Rate (US¢/Cdn\$)	65.60	71.90	73.35	74.31
Interest Rates:				
3-month Canada Treasury Bills	3.90	3.35	2.90	2.75
10-year Canada Bonds	5.80	4.55	4.85	4.75

CAPITAL INVESTMENT AND AMORTIZATION

(millions of dollars)

	2003-04				2003-04			
	Capital Investment		Capital Amortization		Capital Investment		Capital Amortization	
	3rd		Change from		3rd		Change from	
	Budget	Forecast	Budget	2nd Quarter	Budget	Forecast	Budget	2nd Quarter
Legislative Assembly	-	-	-	-	-	-	-	-
Aboriginal Affairs and Northern Development	-	-	-	-	-	-	-	-
Agriculture, Food and Rural Development	10	13	3	2	7	7	-	-
Children's Services	-	-	-	-	1	1	-	-
Community Development	2	2	-	-	10	10	-	-
Economic Development	-	-	-	-	-	-	-	-
Energy	11	12	1	-	11	12	1	1
Environment	1	1	-	-	18	18	-	-
Executive Council	-	-	-	-	-	-	-	-
Finance	5	4	(1)	-	2	2	-	-
Gaming	-	-	-	-	-	-	-	-
Government Services	4	4	-	1	5	4	(1)	(1)
Health and Wellness	37	36	(1)	(2)	22	22	-	-
Human Resources and Employment	3	3	-	-	4	3	(1)	(1)
Infrastructure	46	63	17	9	55	53	(2)	(2)
Innovation and Science	66	34	(32)	(22)	8	8	-	-
International and Intergovernmental Relations	-	-	-	-	-	-	-	-
Justice	2	4	2	-	1	1	-	-
Learning	7	11	4	-	3	3	-	-
Municipal Affairs	2	2	-	-	1	2	1	1
Revenue	5	6	1	1	3	3	-	-
Seniors	-	-	-	-	24	24	-	-
Solicitor General	-	-	-	-	-	-	-	-
Sustainable Resource Development	7	20	13	-	9	9	-	-
Transportation	407	407	-	-	244	244	-	-
Total Capital Investment/Amortization	615	622	7	(11)	428	426	(2)	(2)
Funded from Capital Account	207	207	-	-	-	-	-	-

CAPITAL GRANTS TO LOCAL AUTHORITIES AND OTHER INFRASTRUCTURE SUPPORT^a

(millions of dollars)

	2003-04			
	3rd		Change from	
	Budget ^b	Forecast	Budget	2nd Quarter
Agriculture, Food and Rural Development	26	19	(7)	(5)
Community Development	3	3	-	-
Environment	1	1	-	-
Gaming	39	39	-	-
Health and Wellness	50	50	-	-
Infrastructure	479	464	(15)	(16)
Innovation and Science	11	11	-	-
Learning	20	20	-	-
Revenue	10	-	(10)	-
Seniors	39	45	6	5
Transportation	383	366	(17)	(17)
Total	1,061	1,018	(43)	(33)
Funded from Capital Account	416	416	-	-

a Included in program expense.

b Budget numbers have been restated to include capital grants of \$13 million reported in the budget but not in the Capital Plan.

ACTUAL RESULTS

FOR THE FIRST NINE 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 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.

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

CONSOLIDATED FISCAL SUMMARY^a

for the nine months ended December 31, 2003 (unaudited)

(millions of dollars)

	First Nine Months		
	2003-04	2002-03	Change
Revenue			
Income taxes	4,341	5,060	(719)
Other taxes	2,172	1,992	180
Non-renewable resource revenue	5,773	4,557	1,216
Transfers from Government of Canada	2,184	1,764	420
Net income from commercial operations	1,425	1,439	(14)
Premiums, fees and licences	1,353	1,249	104
Net investment income (loss)	1,209	(318)	1,527
Other	272	627	(355)
Total Revenue	18,729	16,370	2,359
Expense			
Program	15,747	14,874	873
Debt servicing costs	186	444	(258)
Total Expense	15,933	15,318	615
Net Revenue	2,796	1,052	1,744

^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, 2003 (unaudited)***(millions of dollars)*

	First Nine Months		
	2003-04	2002-03	Change
Program			
Legislative Assembly	36	40	(4)
Aboriginal Affairs and Northern Development	26	41	(15)
Agriculture, Food and Rural Development	1,310	1,575	(265)
Children's Services	529	476	53
Community Development	468	421	47
Economic Development	38	34	4
Energy	130	116	14
Environment	77	73	4
Executive Council	12	12	-
Finance	330	338	(8)
Gaming	86	66	20
Government Services	59	50	9
Health and Wellness	5,388	4,999	389
Human Resources and Employment	814	767	47
Infrastructure	909	650	259
Innovation and Science	105	101	4
International and Intergovernmental Relations	4	4	-
Justice	186	184	2
Learning	3,678	3,460	218
Municipal Affairs	112	120	(8)
Revenue	96	133	(37)
Seniors	267	219	48
Solicitor General	205	190	15
Sustainable Resource Development	267	365	(98)
Transportation	615	440	175
Total Program Expense	15,747	14,874	873
Debt Servicing Costs	186	444	(258)
Total Expense	15,933	15,318	615

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