

November 26, 2009

Government taking action to balance budget by 2012-13

In-year cost savings of \$430 million highlight on-going fiscal corrections

2009-10 Second Quarter Fiscal Update Highlights

- **Deficit for 2009-10 is forecast at \$4.3 billion, a decrease of \$390 million from budget**
- **Achieved cost savings of \$430 million, double those planned in budget**
- **Revenue is forecast at \$32.6 billion, an increase of \$1 billion from budget**
- **Expense is forecast at \$37.0 billion, an increase of \$575 million from budget, mostly for disaster and emergency assistance**

Calgary... Higher-than-expected investment income, oil royalties and corporate income tax revenues have improved Alberta's fiscal outlook, but further spending reductions are required to balance provincial books by 2012-13.

Finance and Enterprise Minister Iris Evans released Alberta's 2009-10 second quarter fiscal update, announcing a forecast deficit of \$4.3 billion, approximately \$400 million lower than forecast in Budget 2009. The improvement is the result of the increased oil, oilsands, investment and corporate income tax revenue, along with \$430 million in in-year cost savings.

"While it is heartening to see some improvement in the province's finances, we're still forecasting a significant deficit, and so we will proceed with plans to take \$2 billion in fiscal corrections to get back in the black by 2012-2013," Evans said. "We can't just cross our fingers and hope things will get better. We have to take action, and we are."

The current fiscal forecast reflects the full \$430 million in-year cost savings to which government committed to help address the fiscal imbalance. Ministries were asked to reduce operating expense while providing the least amount of impact on front-line service delivery.

"Government worked hard to find significant savings to assist with the overall fiscal challenges we face this year," said Lloyd Snelgrove, President of Treasury Board. "Our spending commitments are lower but there is still a lot of work, internally and with our external partners, that needs to be done as we plan next year's budget."

A transfer from the Sustainability Fund will be used to offset the deficit. The Sustainability Fund

protects government program and infrastructure spending plans without needing to borrow to offset the deficit.

The Alberta government's plan for economic recovery, *The Way Forward*, will bring Alberta back into a surplus position by 2012-13 by trimming government spending; using short-term savings to protect key programs; continuing to invest in public infrastructure; and helping our province's industries remain competitive to attract investment, jobs and create prosperity.

"Our plan for economic recovery is on track," said Evans. "While there are some positive economic signals, it is also clear that Canada and Alberta are still not out of the woods yet, and we intend to stay focused on *The Way Forward*," Evans said.

Revenue in 2009-10 is forecast to be \$32.6 billion, almost \$1 billion higher than forecast at budget. This is due mostly to an increase in corporate income tax revenue, higher-than expected investment income as a result of improved markets, and higher oil and bitumen royalties.

Expense is forecast to be \$575 million higher than forecast at budget, primarily due to increased funding for emergency and disaster assistance for agriculture, forest fire-fighting costs, combating mountain pine beetle infestations, capital grants, and higher caseloads in income support and health benefit programs.

The Alberta Heritage Savings Trust Fund second quarter update was released with the second quarter fiscal update. The Heritage Fund earned \$1.9 billion on a fair value basis over the first two quarters of 2009-10. This equates to a return of 13.6 per cent, compared to a loss of 7.2 per cent for the same period last year. Fair value is similar to market value.

Summary (\$ millions)

	Budget 2009-10	2nd Quarter Forecast	Change from Budget
Revenue	\$31,661	\$32,626	\$965
Non-Renewable Resource Revenue	\$5,903	\$5,557	(\$346)
Total Expense	\$36,375	\$36,950	\$575
Operating Expense	\$31,244	\$31,227	(\$17)
Surplus (Deficit)	(\$4,714)	(\$4,324)	\$390
Oil Price (WTI US\$/bbl)	\$55.50	\$67.51	\$12.01
Natural Gas Price (Cdn\$/GJ)	\$5.50	\$3.25	(\$2.25)
Exchange Rate (US¢/Cdn\$)	83.50	91.00	7.5

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Backgrounder: Alberta Heritage Savings Trust Fund

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Heritage Fund earns nearly \$2 billion over first two quarters

The Alberta Heritage Savings Trust Fund earned \$1.9 billion on a fair value basis over the first two quarters of 2009-10, for a return of 13.6 per cent, compared to a loss of 7.2 per cent for the same period last year. Fair value is similar to market value.

“The Heritage Fund has continued to see some impressive results since the first quarter,” said Finance and Enterprise Minister Iris Evans. “The markets are doing well, which benefits both the Heritage Fund and Albertans through the fund's contributions to supporting priority programs.”

Of the total return, \$1.4 billion in net income is forecast to be transferred to the province's General Revenue Fund to support priority government programs. The remaining \$510 million represents an increase in unrealized portfolio gains, which is the profit that would be made if the assets involved were sold at current prices. At September 30, 2009, the net assets held in the fund totaled \$13.8 billion, at cost, and \$14.5 billion at fair value. The fund's cost primarily includes the purchase price of the various assets adjusted for write-downs. The fund's fair value represents what those assets would be worth if sold.

Over the six months ended September 30, the Heritage Fund exceeded its benchmarks in equities, hedge funds, bonds and money market securities. The fund's well-diversified portfolio also contains investments in timberland, private income funds and real estate.

“I continue to be pleased by the performance of the Alberta Investment Management Corporation - their investment decisions have added to the value of the Heritage Fund above and beyond the market-based increase,” said Evans.

The Heritage Fund is invested with the intention of providing a solid long-term rate of return of inflation plus 4.5 per cent. Over the past 10 years, the fund's return was 4.5 per cent, including 0.1 per cent in value added by the investment manager.

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