

## Building a stronger Alberta

February 26, 2007

### Tax revenue and investment income lift Alberta's surplus to \$7 billion

### Spending unchanged from second quarter forecast

#### Third Quarter Fiscal Highlights

- Revenue is \$36.6 billion, an increase of \$1.5 billion from second quarter forecast
- Expense is \$29.7 billion, a decrease of \$40 million from second quarter forecast
- The surplus is forecast at \$7 billion, an increase of \$1.5 billion from second quarter forecast

Edmonton... Strong business profits and returns in world equity markets are bolstering the province's bottom line in 2006-07, as reported in the Government of Alberta's *2006-07 Third Quarter Fiscal Update*. Revenue is now forecast to be \$4.2 billion higher than budgeted, increasing the forecast surplus to \$7 billion.

"Seven billion is the second highest surplus we have ever had in Alberta and there needs to be a plan to deal with the possibility of future unbudgeted surpluses," said Finance Minister Lyle Oberg. "As part of Premier Stelmach's priority of governing with integrity and transparency, we will introduce a comprehensive surplus policy with *Budget 2007*. It will be debated in the legislature and result in a better process to manage future surpluses."

The \$1.5 billion increase to the 2006-07 surplus, announced with the release of the third quarter update, has been allocated to the Sustainability Fund. As previously announced, \$2.4 billion of the surplus was allocated to the Heritage Fund, endowments and other funds while \$1.8 billion was put into the Capital Account for approved capital commitments. The remainder was retained in the Sustainability Fund.

Expense is relatively unchanged since the second quarter forecast with a \$40 million net decrease. Lapsed funds in Agriculture and Food and other departments provided additional room to meet needs in health and other priority areas. The increase of \$1.3 billion from budget is due primarily to previously announced higher capital spending and disaster/emergency assistance.

Revenue is forecast to be \$36.6 billion, a \$1.5 billion increase from second quarter. Much of the increase is due to higher revenue from corporate income taxes and better-than-expected returns from investments. Corporate income tax revenue is \$570 million higher than second quarter, due to a stronger outlook on corporate profits and economic growth. Income from investments is up \$662 million from second quarter because of strong performances in world equity markets.

"Alberta's business sector continues to perform beyond expectations, which benefits Albertans not only with employment, but also with increased tax revenue," said Oberg. "We also saw excellent returns from stock markets across the globe, leading to higher investment income."

In the third quarter forecast, resource revenue is up \$194 million from second quarter and \$391 million from budget. Increased oil royalty and land sales revenue has been largely offset by lower revenue from natural gas. Natural gas royalties are forecast at \$5.6 billion, \$1.6 billion lower than budget. Oil royalties,

including \$2.4 billion in synthetic crude oil and bitumen royalty, are forecast at nearly \$3.8 billion, \$1.1 billion higher than budget.

The *2006-07 Alberta Heritage Savings Trust Fund Third Quarter Update* was released with the fiscal update.

Consolidated Heritage Fund investment income is forecast to be \$1.6 billion, a \$449 million increase from second quarter and a \$692 million increase from budget. After a \$1 billion deposit, \$202 million for inflation-proofing and \$250 million for the advanced education endowment, the book value of the Fund on a consolidated basis is forecast to be nearly \$15 billion at the end of the fiscal year, an increase of \$1.5 billion from March 31, 2006.

### Summary (\$ millions)

	<b>Budget 2006-07</b>	<b>3rd Quarter Forecast</b>	<b>Change from Budget</b>	<b>Change from 2ndQuarter</b>
<b>Total Revenue</b>	\$32,408	<b>\$36,639</b>	\$4,231	\$1,502
<b>Non-Renewable Resource Revenue</b>	\$11,354	<b>\$11,745</b>	\$391	\$194
<b>Personal &amp; Corporate Income tax Revenue</b>	\$8,226	<b>\$10,772</b>	\$2,546	\$596
<b>Investment Income</b>	\$1,767	<b>\$2,899</b>	\$1,132	\$662
<b>Total Expense</b>	\$28,312	<b>\$29,658</b>	\$1,346	(\$40)
<b>Surplus (Net Revenue)</b>	\$4,096	<b>\$6,981</b>	\$2,885	\$1,542
<b>Sustainability Fund</b>	\$4,408	<b>\$7,165</b>	\$2,757	\$1,659
<b>Oil Price (WTI US\$/bbl)</b>	\$50.00	<b>\$64.00</b>	\$14.00	(\$.67)
<b>Natural Gas Price (Cdn\$/GJ)</b>	\$7.50	<b>\$5.95</b>	(\$1.55)	\$.20

## Surplus Allocation (\$ millions)

	<b>Budget 2006-07</b>	<b>3rd Quarter Forecast</b>	<b>Change from Budget</b>	<b>Change from 2nd Quarter</b>
<b>Surplus</b>	\$4,096	<b>\$6,981</b>	\$2,885	\$1,542
<b>Cash from 2005-06 fourth quarter results</b>	-	<b>\$1,095</b>	\$1,095	-
<b>Adjustments</b>	(\$276)	<b>\$860</b>	\$1,136	\$344
<b>Net Amount Available for Allocation</b>	\$3,820	<b>\$8,936</b>	\$5,116	\$1,886
<b>Allocation</b>				
<b>Capital Account - for approved future-year commitments</b>	-	<b>\$1,849</b>	\$1,849	\$308
<b>Heritage Fund (including advanced education endowment and inflation proofing)</b>	\$1,242	<b>\$1,452</b>	\$210	(\$81)
<b>Endowments and Other Funds</b>	\$670	<b>\$970</b>	\$300	-
<b>Amount in Sustainability Fund (above \$2.5 billion)</b>	\$1,908	<b>\$4,665</b>	\$2,757	\$1,659
<b>Total Allocation</b>	\$3,820	<b>\$8,936</b>	\$5,116	\$1,886

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