

June 21, 2007

## **Strong economic growth leads to higher revenue for 2006-07**

### **Surplus goes to Heritage Fund, Sustainability Fund and Capital Account**

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#### 2006-07 Annual Report Highlights

- Revenue exceeded expense by \$8.9 billion - \$2.7 billion of the surplus went to savings, \$2.3 billion to the Capital Account, and \$3.6 billion to the Sustainability Fund.
  - Revenue was \$38.6 billion, \$2.7 billion, or 7.4 per cent, higher than 2005-06, primarily due to higher income tax revenue and investment income.
  - Resource revenue was \$12.3 billion, down \$2.1 billion from 2005-06, primarily due to lower natural gas prices.
  - Expense was \$29.7 billion, \$2.5 billion, or 9.1 per cent, higher than in 2005-06.
  - The Heritage Fund grew to \$16.6 billion, the highest reported fair value in its history.
  - Taxes were cut by increasing personal income tax credits and decreasing the general corporate income tax rate.
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Edmonton... Extremely strong economic growth, a significant increase in population, and the lowest unemployment rate in 30 years all contributed to a solid fiscal performance for Alberta in 2006-07.

Details of the province's fiscal results over the past year were released by Finance Minister Dr. Lyle Oberg in the *Government of Alberta 2006-07 Annual Report*. Oberg also released the *Alberta Heritage Savings Trust Fund 2006-07 Annual Report*.

"Alberta was the strongest economic performer in the country last year," said Oberg. "We took advantage of that strength by adding to our savings, lowering taxes, and making significant investments in key areas, such as health, education, infrastructure and support for Albertans."

#### **Surplus Allocation**

On a budget basis - not including the increase in equity of schools, universities, colleges and hospitals (SUCH sector) or the increase in pension provisions - the surplus was \$8.5 billion. This was \$4.4 billion higher than budgeted and \$41 million lower than in 2005-06. The higher-than-forecast fourth quarter results increased the surplus by \$1.1 billion and the cash available for allocation from the increased surplus was \$763 million. Of that amount, \$81 million was retained in the Heritage Fund for inflation-proofing and \$682 million was allocated using the new *Budget 2007* surplus allocation policy of one-third to savings, two-thirds to capital.

The surplus was allocated as follows:

- \$2.7 billion to savings;
  - \$1.5 billion to the Heritage Fund including \$283 million for inflation-proofing and a \$250 million deposit to the advanced education endowment;
  - \$700 million to establish the Alberta Cancer Prevention Legacy Fund and the Energy Innovation Fund;

- \$270 million to the Medical Research Endowment Fund, the Science and Engineering Research Endowment Fund, and the Scholarship Fund; and
- \$227 million from higher-than-forecast 2006-07 fourth quarter to be allocated to savings in 2007-08.
- \$2.3 billion to the Capital Account to help pay for projects already planned over the next few years, including \$455 million from higher-than-forecast 2006-07 fourth quarter to be allocated in 2007-08; and
- \$3.6 billion was retained in the Sustainability Fund, which protects the budget against the costs of emergencies, disasters, or sudden down-turns in revenue.

### **Investing in Albertans - education, health and people in need**

Expense increased by \$2.5 billion, or 9.1 per cent, from 2005-06, due to an increase in operating spending and a nearly 30 per cent increase in capital grants. Spending was \$1.2 billion higher than estimated in *Budget 2006*, due to higher capital grants and emergency/disaster assistance. Total operating expense stayed the same as the *Budget 2006* estimate at \$24.5 billion.

Investment in health and education, and support for Albertans in need accounted for nearly three quarters of the provincial budget.

Health expense accounted for nearly 40 per cent of the provincial budget at \$10.9 billion, a 12 per cent increase from 2005-06. This reflected higher funding for health services, physician services, prescription drug costs, information technology systems, and health facility infrastructure. Major initiatives included continued improvements to province-wide access to health services and reduction of wait times, as well as physician recruitment and retention, and increased support for continuing care. Alberta spent more per capita on health care than any other province in Canada.

Education expense (basic and advanced) accounted for 27 per cent of the budget at \$8 billion, a 15.6 per cent increase from 2005-06. This amount reflected higher post-secondary and K-12 operating grants and capital projects. Initiatives in post-secondary education focused on improving access and affordability, and included additional apprenticeship spaces, new nursing degree programs and a new tuition fee policy. For K-12, increased funding for the Class Size Initiative brought the number of teachers hired under the program up to 2,500.

Support for Albertans in need was \$2.9 billion, an 8.6 per cent increase from 2005-06. This reflected increases in support for Assured Income for the Severely Handicapped (AISH), child care and seniors benefits.

### **Investing in infrastructure**

Alberta's per capita spending on infrastructure was nearly four times higher than the average of the other Canadian provinces. The Capital Plan supported \$4.7 billion of projects in 2006-07. This was \$1 billion, or 27 per cent, more than in 2005-06. More than 81 per cent of the increase related to increases for schools and health and post-secondary facilities and equipment. The Capital Plan also provided support for roads, municipal infrastructure, community facilities and regional water systems.

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**Attachments:**      Backgrounder - Heritage Fund grows to record value of \$16.6 billion

                            Backgrounder - [Fiscal tables](#)

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**Background**

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June 21, 2007

**Heritage Fund grows to record value of \$16.6 billion**

The Alberta Heritage Savings Trust Fund reached the highest reported fair value in its 31-year history, standing at \$16.6 billion at March 31, 2007. Over the 2006-07 fiscal year, the Fund grew by \$1.8 billion, due largely to contributions from the 2006-07 surplus and inflation-proofing.

As detailed in the *Alberta Heritage Savings Trust Fund 2006-07 Annual Report*, the government deposited \$1 billion into the Fund, along with \$250 million for the advanced education endowment within the Fund. In all, the government has contributed \$3 billion to the Heritage Fund in the last two fiscal years.

The government retained \$283 million of earned investment income within the Fund in 2006-07 to protect its value from inflation. Since regular inflation-proofing began after the elimination of the accumulated debt at March 31, 2005, \$665 million of earned income has been retained in the Fund.

The Heritage Fund is invested in a balanced portfolio including stocks, bonds, real estate, private equities and other assets. In 2006-07, the Fund earned investment income of more than \$1.6 billion. It earned an investment return of 12.4 per cent in 2006-07, with an annualized five-year return of 8.8 per cent as of March 31, 2007.

Investment income from the Fund's assets, minus the amount retained for inflation-proofing, is transferred to the province's General Revenue Fund. Since its inception in 1976, transfers from the Heritage Fund have contributed nearly \$30 billion to Albertans' priorities such as health care, education, infrastructure and the elimination of the accumulated debt.

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