

Building a stronger Alberta

August 24, 2007

Surplus provides boost for Heritage Fund and capital funding

\$575 million forecast to be allocated according to surplus policy

First Quarter Fiscal Highlights

- **Revenue for 2007-08 is forecast at \$36.2 billion, an increase of \$830 million from budget**
- **Expense for 2007-08 is forecast at \$33.7 billion, an increase of \$533 million from budget**
- **The surplus for 2007-08 is forecast at \$2.5 billion, an increase of \$297 million from budget**
- **Total 2007-08 savings forecast to be \$915 million, an increase of \$481 million from budget**

Edmonton... The government is committing a portion of this year's forecast higher revenue into the Heritage Fund and increasing capital funding, following the surplus policy set out in Budget 2007.

"The government now has a very clear policy for allocating any unanticipated surplus that occurs during the year," Finance Minister Dr. Lyle Oberg said upon the release of the province's 2007-08 First Quarter Fiscal Update. "Dividing it amongst savings and capital strikes a balance between putting aside a portion of today's wealth for future generations and meeting more immediate infrastructure needs."

According to the in-year surplus allocation policy, cash available from the unanticipated surplus is to be divided one-third to savings and investments, and two-thirds to capital spending, of which at least half must be used for maintenance.

Based on the First Quarter Fiscal Update, \$575 million is available to be allocated. This includes the \$297 million increase in the surplus and \$278 million available after changes to various cash adjustments. As a result, \$192 million is forecast to be allocated to the Heritage Fund and \$383 million to the Capital Account.

Total savings in 2007-08 are forecast at \$915 million. In addition to the \$192-million deposit to the Heritage Fund, inflation-proofing for the Heritage Fund is forecast to be \$346 million, up \$62 million from budget, \$227 million is being deposited in the Heritage Scholarship Fund as announced in June, and \$150 million is budgeted for the medical research endowment fund. Expense is forecast to be \$33.7 billion, an increase of \$533 million, almost entirely due to higher capital grants, including cost escalation of approved projects, and increased disaster/emergency assistance for floods and forest fires.

Revenue is forecast to be \$36.2 billion, an \$830-million increase from budget, primarily due to higher personal income tax revenue, investment income and resource revenue. That includes a \$411-million increase to the personal income tax revenue forecast, largely attributable to stronger personal income growth, and a \$257-million increase to income from investments.

Resource revenue is up \$237 million from budget, with higher oil royalties partly offset by lower natural gas royalties and land sales revenue. Oil royalties are forecast to be \$505 million higher than budgeted, while natural gas royalties are \$123 million lower and land sales are \$144 million lower.

Oil prices are forecast to average US\$64 per barrel, up \$6 from budget, reflecting strong global economic growth and increased demand, lower-than-expected supply increases, and higher risk premiums associated with possible disruptions to supply. Natural gas prices are forecast to average Cdn\$6.50 per gigajoule, 25 cents less than budget, based on factors including record gas storage levels, and the impact of the higher exchange rate between the Canadian and U.S. dollar.

The Alberta Heritage Savings Trust Fund 2007-08 First Quarter Update was released with the First Quarter Fiscal Update. The Heritage Fund is forecast to earn net income of \$1.3 billion in 2007-08, an increase of \$120 million from budget. At June 30, the Fund had a fair value of \$16.3 billion.

Summary (\$ millions)

	Budget 2007-08	1st Quarter Forecast	Change from Budget
Revenue	\$35,332	\$36,162	\$830
Non-Renewable Resource Revenue	\$10,260	\$10,497	\$237
Total Expense	\$33,149	\$33,682	\$533
Operating Expense	\$27,023	\$27,047	\$24
Surplus (Net Revenue)	\$2,183	\$2,480	\$297
Sustainability Fund	\$7,653	\$7,653	-
Oil Price (WTI US\$/bbl)	\$58.00	\$64.00	\$6.00
Natural Gas Price (Cdn\$/GJ)	\$6.75	\$6.50	- \$0.25
Exchange Rate (US¢/Cdn\$)	\$0.86	\$0.93	\$0.07

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