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Higher surplus injects dollars to Heritage Fund and Capital Account

Forecasts adjusted for Canadian dollar, natural gas, and price of oil

Second Quarter Fiscal Highlights

- **Revenue for 2007-08 is forecast at \$37.5 billion, an increase of \$2.2 billion from budget**
- **Expense for 2007-08 is forecast at \$33.6 billion, an increase of \$412 million from budget**
- **The surplus for 2007-08 is forecast at \$4 billion, an increase of \$1.8 billion from budget**
- **Total 2007-08 savings forecast to be \$1.7 billion, an increase of \$1.3 billion from budget**

Edmonton... Alberta's Heritage Fund is on course to grow by more than a billion dollars this year after another deposit from the province's unanticipated surplus. The Alberta government is also committing a significant portion of this year's higher forecast surplus to capital funding.

"We are increasing our savings and capital allocations as a result of higher revenues from income tax, investment income and non-renewable resources," Finance Minister Dr. Lyle Oberg said upon the release of the province's 2007-08 Second Quarter Fiscal Update. "However, this quarter clearly illustrates how volatile the markets can be. We will continue to keep a close eye on the Canadian dollar and the price of oil and gas to assess their impact on our long-term fiscal planning."

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 capital maintenance. Based on this policy, and after cash adjustments, \$1.9 billion is available to be allocated from the second quarter: \$633 million to the Heritage Fund and \$1.3 billion to support capital.

Total savings in 2007-08 are forecast at \$1.7 billion:

- \$1.3 billion is going to the Heritage Fund. This includes a total allocation of \$825 million from first and second quarters, and \$496 million for inflation-proofing;
- \$227 million is being deposited in the Heritage Scholarship Fund as announced in June; and
- \$150 million was added to the Medical Research Endowment Fund in Budget 2007.

Expense is forecast to be \$33.6 billion, an increase of \$412 million from budget, but \$121 million lower than forecast at first quarter. The increase from budget is almost entirely due to higher capital grants and

increased disaster/emergency assistance for floods, forest fires and pine beetle infestation. An in-year operating spending increase of \$49 million was drawn from the \$314 million Contingency Allowance. The funds used were \$47 million to assist with unbudgeted wage settlements and \$2 million for the royalty review.

Revenue is forecast to be \$37.5 billion, a \$2.2-billion increase from budget. This includes a \$1.4-billion increase to the income tax revenue forecast, largely attributable to the strong economy, as well as a \$307-million increase to income from investments such as the Heritage Fund and endowment funds.

Resource revenue is up \$792 million from budget, with higher oil and oilsands royalties partly offset by lower natural gas royalties and land sales revenue. Total oil royalties are forecast to be \$1.5 billion higher than budgeted, while natural gas royalties are \$600 million lower and land sales are \$94 million lower.

The oil price forecast has been revised to average US\$80 per barrel for the fiscal year, up \$22 from budget and \$16 from first quarter. This forecast reflects the average price-per-barrel so far this fiscal year, which was US\$72.40, and the estimated average price for the rest of the year, US\$90.62. Natural gas prices are forecast to average Cdn\$6 per gigajoule, 75 cents less than budgeted. This change balances the year-to-date average of Cdn\$5.64 per gigajoule and the forecasted average of Cdn\$6.51 for the remainder of the year.

The Alberta government has adjusted the forecast for the Canadian dollar, relative to the US dollar, from 86 cents at budget to 98.7 cents at second quarter. This forecast is an average for the entire fiscal year. Every cent that the dollar increases has a negative impact of \$123 million annually on government revenue.

The Alberta Heritage Savings Trust Fund 2007-08 Second Quarter Update was released with the Second Quarter Fiscal Update. The Heritage Fund is forecast to earn net income of \$1.36 billion in 2007-08, an increase of \$145 million from budget. At September 30, the Fund had a market value of \$16.1 billion, down from \$16.6 billion at March 31, 2007. Over the past six months, the strength of the Canadian dollar against other world currencies and rising interest rates had a negative impact on the market value of the Fund's foreign equity investments and fixed income securities.

Summary (\$ millions)

	Budget 2007-08	2nd Quarter Forecast	Change from Budget	Change from 1st Quarter
Revenue	\$35,332	\$37,549	\$2,217	\$1,387
Non-Renewable Resource Revenue	\$10,260	\$11,052	\$792	\$555
Total Expense	\$33,149	\$33,561	\$412	-\$121
Operating Expense	\$27,023	\$26,970	-\$53	-\$77
Surplus (Net Revenue)	\$2,183	\$3,988	\$1,805	\$1,508
Sustainability Fund	\$7,653	\$7,653	-	-
Oil Price (WTI US\$/bbl)	\$58.00	\$80.00	\$22.00	\$16.00
Natural Gas Price (Cdn\$/GJ)	\$6.75	\$6.00	-\$0.75	-\$0.50
Exchange Rate (US¢/Cdn\$)	\$0.86	\$0.987	\$0.127	\$0.057

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