

February 19, 2008

Government releases 2007-08 Third Quarter Fiscal Update

2007-08 Third Quarter Fiscal Update Highlights:

- Revenue forecast at \$38 billion, an increase of \$435 million from second quarter and \$2.7 billion from budget
- Expense forecast at \$33.8 billion, an increase of \$289 million from second quarter and \$701 million from budget
- Surplus (excluding increased pension obligations) forecast at \$4.2 billion, an increase of \$146 million from second quarter and \$2 billion from budget.
- \$834 million of cash is available for allocation in the third quarter. One-third is allocated to the Heritage Fund and two-thirds to the Capital Account

Edmonton... The Alberta government released the 2007-08 Third Quarter Fiscal Update, as mandated by the *Government Accountability Act*. The Act requires the government to report to Albertans on the province's fiscal position by February 28.

The 2007-08 surplus is forecast at \$4.2 billion, a \$2-billion increase from budget and \$146 million higher than the second quarter forecast, before taking into account increases in pension obligations.

In January, an agreement with teachers resulted in the government assuming their \$2.2 billion pre-1992 obligation for the Teachers' Pension Plan. Including increases in pension obligations, the surplus is forecast at \$1.8 billion. These pension obligations are not a cash requirement and do not affect the 2007-08 surplus allocations.

After cash adjustments, \$834 million is available in the third quarter to be allocated according to the in-year surplus policy. Two-thirds, or \$556 million, is being allocated to the Capital Account and one-third, or \$278 million, is being allocated to the Heritage Fund.

Total savings in 2007-08 are forecast at \$1.9 billion:

- \$1.6 billion is being saved in the Heritage Fund. This includes a total allocation of \$1.1 billion under the in-year surplus policy and \$451 million for inflation-proofing;
- \$227 million is being deposited in the Heritage Scholarship Fund as announced in June 2007; and
- \$150 million was originally budgeted to be deposited in the Medical Research Endowment Fund.

Expense is forecast to be \$33.8 billion, an increase of \$701 million from budget and \$289 million higher than forecast at second quarter. The increase from budget includes higher capital grants and increased disaster/emergency assistance for floods, forest fires and mountain pine beetle infestations.

Revenue is forecast to be \$38 billion, a \$2.7-billion increase from budget and a \$435-million increase from the second quarter forecast. The increase is primarily due to higher income tax revenue, which is \$2.1 billion higher than budget largely because of stronger growth in personal income and corporate taxable income.

Resource revenue is forecast at \$11 billion, an increase of \$704 million from budget, but an \$88-million

decline from second quarter. This reflects higher oil prices partly offset by lower-than-expected natural gas prices and the impact of a higher Canadian-U.S. dollar exchange rate.

The oil price forecast has been revised to US\$79.82 per barrel for the fiscal year, up almost US\$22 from budget, but essentially unchanged from second quarter. The average price-per-barrel from April 2007 to January 2008 was US \$78.66 per barrel. Natural gas prices are forecast to average Cdn\$5.85 per gigajoule, 90 cents less than budgeted and 15 cents less than the second quarter forecast. The average price from April 2007 to January 2008 was Cdn\$5.71 per gigajoule.

The Canadian dollar is forecast to average 96.9 cents US for the entire fiscal year, up nearly 11 cents from budget.

The Alberta Heritage Savings Trust Fund 2007-08 Third Quarter Update was released with the 2007-08 Third Quarter Fiscal Update. The Heritage Fund is forecast to have realized net income in 2007-08 of \$1.15 billion, a decrease of \$69 million from budget, mainly due to lower equity market returns and the higher Canadian dollar relative to the U.S. dollar. At December 31, 2007, the Heritage Fund market value was \$16.6 billion, an increase of \$497 million from September 30, 2007.

Summary (\$ millions)

	Budget 2007-08	3rd Quarter Forecast	Change from Budget	Change from 2nd Quarter
Revenue	\$35,332	\$37,984	\$2,652	\$435
Non-Renewable Resource Revenue	\$10,260	\$10,964	\$704	(\$88)
Total Expense	\$33,062	\$33,763	\$701	\$289
Operating Expense	\$27,019	\$27,175	\$156	\$220
Surplus (excluding changes in pension obligations)	\$2,270	\$4,221	\$1,951	\$146
Sustainability Fund	\$7,653	\$7,653	-	-
Oil Price (WTI US\$/bbl)	\$58.00	\$79.82	\$21.82	(\$0.18)
Natural Gas Price (Cdn\$/GJ)	\$6.75	\$5.85	(\$0.90)	(\$0.15)
Exchange Rate (US¢/Cdn\$)	\$0.86	\$0.969	\$0.109	(\$0.018)

Fiscal Year Sensitivities

	Annual Change	Impact on Revenue (millions of dollars)
Oil Price (WTI US\$/bbl)	-\$1.00	-139
Natural Gas Price (Cdn\$/GJ)	-10¢	-98
Exchange Rate (US¢/Cdn\$)	+1¢	-123

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The 2007-08 Third Quarter Fiscal Update and the Heritage Fund Third Quarter Update are available online at www.finance.alberta.ca

Media inquiries may be directed to:

Jay O'Neill
 Alberta Finance
 780 427 5364

To call toll free within Alberta dial 310-0000.

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