

Building Tomorrow

November 18, 2008

Province on track to meet budget commitments despite global economic downturn and lower oil prices***Surplus dollars earmarked for carbon capture, public transit*****2008-09 Second Quarter Fiscal Highlights**

- Revenue for 2008-09 is forecast at \$39.9 billion, an increase of \$1.3 billion from budget
- Expense for 2008-09 is forecast at \$37.9 billion, an increase of \$905 million from budget
- The surplus for 2008-09 is forecast at \$2 billion, an increase of \$435 million from budget
- Revenues are down \$6.7 billion and the surplus is down \$6.5 billion from First Quarter
- Commitment to Carbon Capture and Storage and Green TRIP remains but other surplus allocations reported in First Quarter have had to be eliminated

Edmonton... Despite plunging oil prices and the impact of the global financial turmoil on provincial revenues, the Alberta government will meet its spending commitments in Budget 2008 as well as new commitments to two major environmental initiatives announced last summer.

The province's 2008-09 Second Quarter Fiscal Update shows a forecast surplus of \$2 billion, a rise of \$435 million from budget, and a drop of \$6.5 billion from First Quarter. The surplus, together with other cash available, will enable government to follow through on the vast majority of its commitment to carbon capture and storage research and the Green Transit Incentives Program Fund (Green TRIP).

"While Alberta is not immune to the turmoil in world financial markets, we are extremely fortunate to be in the position we are today," said Finance and Enterprise Minister Iris Evans. "We are well-placed to weather the global economic crisis, benefitting as we do from a low tax environment, no provincial debt, and an economy still predicted to grow next year.

"That being said, we recognize that we must continue to be prudent as we plan for next year's budget."

Revenue in 2008-09 is now forecast to be \$39.9 billion, an increase of \$1.3 billion from budget (\$38.6 billion), mainly due to higher oil and gas prices earlier this year. This is down \$6.7 billion from the revenue predicted at First Quarter (\$46.6 billion) due to lower energy, investment and corporate income tax revenue.

Resource revenue is up \$2.8 billion from budget, primarily due to higher oil and gas prices from earlier this year and land sales income. This is down by \$4.3 billion from First Quarter due to falling oil and gas prices over the last four months.

Expense is forecast to be \$37.9 billion, an increase of \$905 million from budget, due to increases in disaster and emergency funding, as well as priority program and capital spending. This is \$143 million lower than at First Quarter, due to lower natural gas rebates.

Surplus allocation, including cash adjustments from the 2007-08 fourth quarter and other cash adjustments, is \$3.9 billion. Of this total, \$2 billion of the cash available will go to the Carbon Capture

and Storage Fund, and a further \$1.8 billion will go to Green TRIP. The remaining \$224 million required for the Green TRIP commitment will be allocated at a later date.

The Alberta Heritage Savings Trust Fund Second Quarter Update was released with the Second Quarter Fiscal Update. The Heritage Fund had capital losses of \$605 million, offsetting first quarter capital gains of \$155 million. The overall loss for the six months ended September 30, 2008, is \$450 million. As of September 30, the Fund had a fair value of \$15.8 billion, down from \$17.1 billion at First Quarter.

Summary (\$ millions)

	Budget 2008-09	2nd Quarter Forecast	Change from Budget	Change from 1st Q
Revenue	\$38,571	\$39,911	\$1,340	(\$6,673)
Non-Renewable Resource Revenue	\$11,709	\$14,556	\$2,847	(\$4,282)
Total Expense	\$37,003	\$37,908	\$905	(\$143)
Operating Expense*	\$29,769	\$30,013	\$244	\$11
Surplus (Net Revenue)	\$1,568	\$2,003	\$435	(\$6,530)
Sustainability Fund	\$7,653	\$7,653	-	-
Oil Price (WTI US\$/bbl)	\$78.00	\$93.50	\$15.50	(\$25.75)
Natural Gas Price (Cdn\$/GJ)	\$6.75	\$7.50	 \$0.75	(\$1)
Exchange Rate (US¢/Cdn\$)	\$0.988	\$0.8976	(\$.904)	(\$.904)

* excludes dedicated revenue/expense changes

Attachment: Heritage Fund Second Quarter information

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Heritage Fund stands at \$15.8 billion

Edmonton... The Alberta Heritage Savings Trust Fund is valued at \$15.8 billion as of September 30, 2008, down \$1.2 billion from 2007-08 year end due to the current global economic turmoil and sharp decline in world equity markets.

“The enormous volatility in the world markets has affected investments the world over, and the Heritage Fund is no exception,” said Iris Evans, Minister of Finance and Enterprise. “But the Heritage Fund is invested for the long term, and I am confident that it is well-positioned to ride out this economic storm.”

The Heritage Fund is invested with the intention of providing a solid long-term rate of return, with a goal of 4.5 per cent above inflation. Over the past five and 10 years, the Heritage Fund’s annualized returns have been 7.3 per cent and 5.3 per cent respectively.

Because the Heritage Fund is a well-diversified portfolio, its overall loss this period of 7.2 per cent was significantly less than those declines experienced in major markets around the world. For example, major U.S., Canadian and non-North American markets experienced losses of 7.3 per cent, 10.8 per cent and 19.9 per cent respectively.

While the Heritage Fund is invested in these markets, it is also invested in real estate in Canada, private investments, bonds and mortgages. Income from these investments partially offset losses from U.S. and non-North American equity markets.

The Heritage Fund posted an investment loss of \$605 million this quarter, offsetting first quarter income of \$155 million. The overall loss for the six months ended September 30, 2008 is \$450 million. Most of the loss came from investments in U.S. and non-North American equities.

In addition to this, the Heritage Fund has experienced unrealized losses of \$765 million through the first six months of the fiscal year. At September 30, 2008, unrealized capital losses on investments totaled \$133 million compared to unrealized capital gains of \$632 million at the beginning of the year. Unrealized losses are those losses which would be realized only if an asset was sold.

The Heritage Fund is invested in a balanced portfolio, including stocks, bonds, real estate, private equities and other assets. Since its inception in 1976, transfers from the Heritage Fund have contributed more than \$30 billion to Albertans’ priorities such as health care, education, infrastructure and the elimination of the accumulated debt.

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