

February 26, 2009

Province's commitments on track despite market-induced deficit

Cash available will cover deficit and Carbon Capture and Storage initiative

2008-09 Third Quarter Fiscal Highlights

- **Revenue for 2008-09 is forecast at \$35.6 billion, a decrease of \$3.1 billion from budget**
- **Expense for 2008-09 is forecast at \$37.1 billion, a decrease of \$122 million from budget**
- **A deficit is now forecast for 2008-09 at \$1.4 billion, a decrease from the \$1.6 billion surplus forecast in Budget 2008**

Edmonton... The Alberta government will meet its budget spending commitments and still be able to invest \$2 billion in carbon capture and storage despite a deficit caused by losses in its investment funds.

The province's 2008-09 Third Quarter Fiscal Update shows a forecast deficit of \$1.4 billion, a drop of \$3 billion from budget, when a \$1.6 billion surplus was predicted. The deficit is a direct result of losses to the Heritage Fund and endowments totaling \$3 billion.

"Alberta is not immune to the turmoil taking place in the investment markets," said Finance and Enterprise Minister Iris Evans. "The deficit is directly related to the downturn in investment markets, and not to energy prices. Like many investment portfolios world-wide, the Heritage Fund has incurred significant losses."

Because the Heritage Fund and endowments will directly absorb the losses, that leaves \$3 billion in cash available to allocate elsewhere. That cash, together with money left over from 2007-08, will enable government to cover the deficit and follow through on its \$2-billion commitment to carbon capture and storage research.

"This technology is important to the future of Alberta, Canada and the world," said Evans. "It is part of our plan to move forward by keeping an eye on spending, using our savings to protect programs and services, continuing to build and invest in our province and promoting Alberta to a global market."

Revenue in 2008-09 is now forecast to be \$35.6 billion, a decrease of \$3.1 billion from budget (\$38.7 billion), and down \$4.5 billion from Second Quarter (\$40.1 billion). This is due mainly to lower investment income from the Heritage Fund and endowments.

Resource revenue is up \$580 million from budget, primarily due to higher oil and gas prices from earlier in the fiscal year, and land sales income. This is down by \$2.3 billion from Second Quarter due to the ongoing fall in oil and gas prices over the last seven months.

Expense is forecast to be \$37.1 billion, a decrease of \$122 million from budget, primarily due to lapses in capital spending, offset by spending increases for disaster and emergency assistance. This is \$1 billion

lower than at Second Quarter, due to lower natural gas rebates, as well as lower capital grants.

Cash available for allocation, including cash adjustments from the 2007-08 fourth quarter and from investment losses, is approximately \$3.7 billion. This available cash will be used as follows:

- \$1.4 billion to cover the forecast deficit;
- \$2 billion for the Carbon Capture and Storage initiative;
- \$195 million for the Green Transit Incentives Program (Green TRIP) - with the balance of government's \$2-billion commitment to this initiative to be allocated as the province's financial picture improves; and
- \$100 million for the Alberta Enterprise Corporation.

The Alberta Heritage Savings Trust Fund Third Quarter Update was released with the Third Quarter Fiscal Update. The Heritage Fund had an unrealized investment loss of \$691 million over the first three quarters of the fiscal year. The overall loss for the nine months ended December 31, 2008, is \$1.9 billion. As of December 31, the Fund had a fair value of \$14.5 billion, down from \$17.0 billion at the start of the 2008-09 fiscal year and down from 15.8 billion at Second Quarter.

Summary (\$ millions)

	Budget 2008-09	3rd Quarter Forecast	Change from Budget	Change from 2nd Q
Revenue	\$38,743	\$35,627	(\$3,116)	(\$4,456)
— Non-Renewable Resource Revenue	\$11,709	\$12,289	\$580	(\$2,267)
Total Expense	\$37,175	\$37,053	(\$122)	(\$1,027)
— Operating Expense	\$29,941	\$30,118	\$177	(\$117)
Surplus / (Deficit)	\$1,568	(\$1,426)	(\$2,994)	(\$3,429)
Sustainability Fund	\$7,653	\$7,653	-	-
Oil Price (WTI US\$/bbl)	\$78.00	\$85.50	\$7.50	(\$8.00)
Natural Gas Price (Cdn\$/GJ)	\$6.75	\$7.00	 \$0.25	(\$0.50)
Exchange Rate (US¢/Cdn\$)	\$0.988	\$0.899	(\$0.089)	\$0.001

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Attachments: Heritage Fund Third Quarter information
Deficit and cash available

Media inquiries may be directed to:

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To call toll free within Alberta dial 310-0000.

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Heritage Fund Third Quarter information

Edmonton... The Alberta Heritage Savings Trust Fund is valued at \$14.5 billion as of December, 2008, down \$2.5 billion from 2007-08 year end, due to the sharp decline in world equity markets related to the ongoing global economic turmoil.

“Like investment portfolios world-wide, the Heritage Fund has incurred significant losses,” said Iris Evans, Minister of Finance and Enterprise. “Yet as unsettling as these losses are, it is important to note that the Heritage Fund performed better than the equity markets, generally. And because the Fund is invested for the long term and has a well-diversified portfolio, I am confident that, in time, it will recover these losses and more.”

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. In light of the current dramatic drop in markets worldwide, over the past five and 10 years, the Heritage Fund’s annualized returns have dropped to 4.1 per cent and 3.9 per cent respectively.

Because the Heritage Fund is a well-diversified portfolio, its overall loss this period of 15.1 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 16.9 per cent, 31.0 per cent and 25.9 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.

Over the third quarter, the Heritage Fund recorded a net loss of \$1.4 billion, bringing the overall loss for the nine months ended December 31, 2008 to \$1.9 billion. Most of the loss came from investments in world equity markets.

At December 31, 2008, unrealized capital losses on investments totaled \$59 million, a decrease of \$691 million, from unrealized capital gains of \$632 million at the beginning of the year. Unrealized capital gains are those gains which would be realized only if an asset was sold. The nine-month overall loss added to the unrealized capital losses totals the Fund’s \$2.5 billion loss from year end.

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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Deficit and cash available

The following table shows the deficit and how the cash available will be allocated:

	(\$ billions)
Total Revenue (excluding Heritage Fund/endowment losses)	\$38.7
Less Expense	<u>\$37.1</u>
Sub-Total	\$1.6
Heritage Fund/endowment losses ¹	<u>(\$3.0)</u>
Surplus (Deficit)	(\$1.4)
Cash Available	
Heritage Fund/endowment losses ²	\$3.0
From 2007-08 4th Quarter	\$0.9
Other cash adjustments	<u>(\$0.2)</u>
Total	\$3.7
Use of cash available	
To offset deficit	(\$1.4)
Carbon Capture & Storage	(\$2.0)
Green TRIP	(\$0.2)
AB Enterprise Corporation	<u>(\$0.1)</u>
Total allocation	(\$3.7)

¹ Government is required to show the \$3-billion loss to the Heritage Fund and Endowments as a revenue loss.

²However, because the Heritage Fund/endowments are absorbing the loss, no actual cash is drawn from the General Revenue Fund, meaning that \$3 billion remains available for allocation to other priorities.

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