



August 25, 2010

Alberta's bottom line unchanged from budget forecast

1st Quarter Update shows continued economic and revenue uncertainty

First Quarter Fiscal Highlights

- Revenue for 2010-11 is forecast at \$34.6 billion, up \$602 million from budget
- Expense for 2010-11 is forecast at \$39.3 billion, an increase of \$609 million from budget - mainly for disaster and emergency funding
- Deficit for 2010-11 is forecast at \$4.76 billion, an increase of \$7 million from budget
- Sustainability Fund assets forecast at \$11.2 billion for year-end, an increase of \$3 billion from budget

Edmonton... Alberta's forecast deficit for 2010-11 is virtually unchanged from budget in the face of continued economic uncertainty, faltering markets, a rising Canadian dollar, lower natural gas prices and fluctuating oil prices.

The province's 2010-11 First Quarter Fiscal Update forecasts a deficit of \$4.76 billion, \$7 million higher than forecast in the budget at the start of the fiscal year.

"There is still a great deal of uncertainty in the global economy and our revenue remains highly volatile, with any gains we've seen largely offset by the effects of things like the rising dollar, weak natural gas prices and falling markets," said Ted Morton, Minister of Finance and Enterprise.

"While the province's economy is on the mend, we continue to be affected by factors beyond our borders and our control - and that means we must continue to manage our finances prudently and stick to our plan to get the province back in the black by 2012-13."

Revenue is projected to be \$602 million higher than forecast at budget, due mainly to an increase in land sales and stronger corporate tax revenue, offset by lower personal income tax and investment revenue.

Expense is forecast to increase \$609 million, mainly for emergency and disaster assistance for municipal flooding, wildfires, the agricultural sector and mountain pine beetles. Operating expense remains relatively flat compared to the budget forecast.

The deficit will be covered by the Sustainability Fund, an account that government built up with money from its past savings to help fund priority public programs and services even during difficult economic times.

Revenue in 2010-11 is forecast to be \$34.6 billion, an increase of \$602 million from budget. This

is due to increased revenue from land sales (\$1.2 billion), corporate income tax (\$887 million) and federal transfers (\$462 million). This total is offset by lower personal income tax revenue (\$866 million) and investment income (\$418 million), as well as the increased cost of drilling stimulus initiative claims (\$698 million).

Expense in 2010-11 is forecast to be \$39.3 billion, \$609 million higher than the budget estimate. This relates primarily to emergency and disaster assistance for municipal flooding, wildfires, agricultural programs, forest fire-fighting costs and mountain pine beetle (\$534 million).

Summary (\$ millions)

	Budget 2010-11	1st Quarter Forecast	Change from Budget
Revenue	\$33,968	\$34,570	\$602
Non-Renewable Resource Revenue	\$7,315	\$7,927	\$612
Total Expense	\$38,716	\$39,325	\$609
Operating Expense	\$33,215	\$33,270	\$56
Surplus (Deficit)	(\$4,748)	(\$4,755)	(\$7)
Oil Price (WTI US\$/bbl)	\$78.75	\$80.00	\$1.25
Natural Gas Price (Cdn\$/GJ)	\$4.25	\$3.75	(\$0.50)
Exchange Rate (US¢/Cdn\$)	95.00	96.75	1.75

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Backgrounder: Heritage Fund First Quarter Update

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Heritage Fund First Quarter Update

Edmonton... The slowing pace of global economic recovery and resulting decline in world equity markets have led to a \$282-million drop in the fair value of the Alberta Heritage Savings Trust Fund.

At June 30, 2010, the fund's fair value was \$14.1 billion.

The fund recorded a net loss of \$164 million in the first quarter of 2010-11, plus a \$118-million decline in unrealized portfolio gains. Unrealized gains represent the profit that would be made if the assets involved were sold at current prices.

The Heritage Fund's assets are managed by the Alberta Investment Management Corporation (AIMCo), an arm's length entity formed in 2008 to manage the province's investment portfolio.

AIMCo successfully out-performed the benchmark in every asset class for the first quarter. On a fair value basis, the fund's investments lost 2.1 per cent in the quarter, which was 0.5 per cent better than the market-based benchmark loss of 2.6 per cent. Losses from the fund's equity portfolio were partially offset by gains in every other asset class.

The Heritage Fund is now expected to earn investment income before expenses of \$684 million for 2010-11, a decrease from the original forecast of \$1.05 billion. This is again due to weaker-than-expected equity markets in the first quarter.

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