

Balanced budget by 2013-2014

Highlights

- **\$4.8-billion deficit expected for fiscal year ending March 31, 2011, against \$4.7-billion deficit budgeted in April 2010.**
- **\$3.4-billion deficit budgeted for 2011-2012, to be eliminated now in 2013-14, one year later than projected in the 2010 budget. The delay is due to lower-than-expected revenue beginning in the next fiscal year.**
- **Relative to 2010-2011, revenue is expected to grow 4.7% in 2011-2012 and at an average annual rate of 7.3% over the following three years. However, spending is expected to grow only 0.5% in 2011-2012 and 1.6% total over the following three years.**
- **No income or other tax hikes.**
- **Infrastructure investment of \$17.6 billion over the next three years.**
- **Real GDP growth is assumed at 3.3% in 2011 and 3.2% on average from 2012 to 2014.**
- **Regarding energy prices, oil (WTI) is assumed at US\$89.40 in 2011-2012, \$95.50 in 2012-2013 and \$95.75 in 2013-2014. Natural gas is assumed at C\$3.45 per gigajoule in 2011-2012, \$4.05 in 2012-2013 and \$5.00 in 2013-2014. The USD/CAD exchange rate is predicted at 98.38 cents in 2011-2012 and 98.00 cents over the following two years.**
- **Borrowing requirements are projected at \$3.9 billion in 2011-2012, \$3.8 billion in 2012-2013 and \$3.7 billion in 2013-2014.**

Summary

In 2009, the Alberta economy was hit harder by the recession than initially anticipated, contracting 4.5% instead of 2.5% as expected in the 2010 budget. This caused a deep downward revision of projected revenue. Relative to the budget of February 2010, projected tax revenue for 2011-2012 is now \$804 million lower and projected non-renewable resource revenue is \$1 billion lower (in particular, the projected price of natural gas was revised down from C\$5.25 per gigajoule to \$3.45). This explains in good part why the deficit projected for the next fiscal year now stands at \$3.4 billion, up from the \$1.1 billion projected in last year's budget. For 2012-2013, projected revenue from non-renewable resources is in line with last year's projection, but tax revenue is now \$1.3 billion lower. Consequently, for 2012-2013, a \$700 million deficit is now projected instead of the surplus anticipated in last year's budget. The province is now expected to return to a surplus situation one year later than previously planned.

The fiscal framework allows for deficits provided that they can be offset by transfers from the Sustainability Fund. The Fund is presently valued at \$11 billion but is projected to fall to \$1.7 billion by the end of 2013-2014. According to the government, the Province's balance sheet at that time will nevertheless show net financial assets of \$9.1 billion; that is,

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the amount by which the value of the Province's various funds and other financial assets, projected to total \$47.4 billion, should exceed the province's liabilities, including pension obligations.

As of April 1, 2011, the Alberta government will borrow directly from financial markets and then lend on the proceeds to Alberta Capital Finance Authority and the Alberta Treasury Branches, in a move to reduce their borrowing costs. This explains the increase in direct borrowing requirements for Alberta in the coming years. This does not change the total financing requirements of the Alberta credit. It should be noted that, as of 2012-2013, capital investments (\$2 billion per year) will no longer entail borrowing requirements as they will be financed through public-private partnerships or by drawing on cash.

Marc Pinsonneault

Alberta

(millions of dollars)

	Actual 2009/10	Budget 2010/11	Forecast 2010/11	Budget 2011/12	Target 2012/13	Target 2013/14
Gross consolidated revenue	35 658	33 968	33 982	35 589	38 832	42 004
Taxes	16 192	15 553	14 553	16 167	17 272	18 423
Non-Renewable Resource revenue	6 768	7 315	8 002	8 321	10 234	11 864
Transfers from the Government of Canada	4 941	5 090	5 273	4 768	4 845	4 972
Investment income	3 413	1 947	1 854	1 927	1 880	1 946
Other Revenue	4 344	4 063	4 300	4 406	4 601	4 799
Gross consolidated expenditure	36 690	38 716	38 803	38 994	39 513	40 748
Ministry operating expenses	31 000	33 293	33 223	33 943	34 910	35 934
Capital grants to local authorities and others	4 204	4 406	3 863	3 895	3 341	3 519
Disaster/emergency/natural gas rebates	447	-	502	-	-	-
Capital amortization, nominal sum disposals and in-year savings	676	519	749	568	652	673
Program Spending	36 327	38 218	38 337	38 406	38 903	40 126
Debt Servicing	363	498	466	588	610	622
Surplus/deficit	(1 032)	(4 748)	(4 821)	(3 405)	(681)	1 256
Capital Plan	6 528	7 208	6 261	6 632	5 417	5 588
Capital investments	2 324	2 802	2 398	2 737	2 076	2 069
Capital grants to local authorities and others	4 204	4 406	3 863	3 895	3 341	3 519
Net Financial Requirements						
Accumulated Debt Maturities	68	264	264	340	248	52
Agriculture Financial Services Corporation's term borrowing	200	470	495	280	260	250
Alberta Capital Finance Authority	-	-	-	2 100	2 010	2 620
Alberta Treasury Branches	-	-	-	800	1 500	800
Direct borrowing for capital investments	1 491	1 100	1 100	737	-	-
Pre-1992 Teachers' Pension Plan loan repayment	1 186	-	-	-	-	-
Less cash applied to accumulated debt repayment	68	264	264	340	248	52
Net Term Debt Financing Requirements *	2 877	1 570	1 595	3 917	3 770	3 670
Accumulated Debt	2009/10	2010/11	2010/11	2011/12	2012/13	2013/14
Accumulated Debt at start of year	1 160	1 092	1 092	828	488	240
Repayment of debt maturities	(68)	(264)	(264)	(340)	(248)	(52)
Accumulated Debt at end of year	1 092	828	828	488	240	188
Debt Retirement Account	1 107	843	843	503	255	203
Accumulated Debt less Debt Retirement Account	(15)	(15)	(15)	(15)	(15)	(15)

Source: Alberta 2011 Budget