

## Budget Highlights

Dr. Sherry Cooper  
Chief Economist, BMO Capital Markets

Fiscal Year 09/10

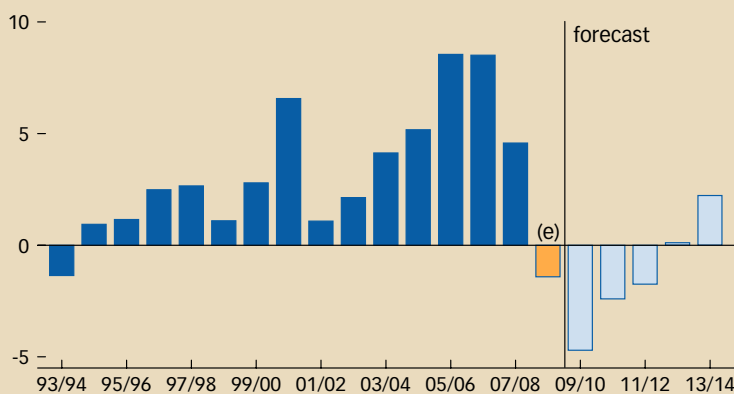
### First in Fifteen for Four

Michael Gregory, CFA  
Senior Economist

5:00 pm, April 7, 2009

The Province of Alberta is forecasting a **\$4.7 billion deficit for the fiscal year beginning April 1**, after an estimated \$1.4 billion shortfall in FY2008/09. The latter deficit was the first in 15 years (and the same as estimated in the Q3 fiscal update). Deficits are forecast for the next two fiscal years before **the budget balance returns to surplus in 2012/13**. Underlying the figures in FY2010/11 and beyond is a commitment to take \$2 billion in additional corrective action if the situation does not improve beyond the current forecast. Importantly, the four years of fiscal shortfalls will be offset by withdrawals from the Sustainability Fund. Assets in the fund, accumulated during the surplus years, will fall from an estimated \$16.8 billion at the end of last month to \$3.9 billion by FY2011/12 (to be eventually replenished to \$10 billion).

Budgetary Balance\*  
(\$ billions)



Source: Provincial forecasts e = estimate  
\* including fiscal correction, but before withdrawal from Sustainability Fund

Fiscal Outlook  
(C\$ millions)

	estimate		—forecast—	
	08/09	09/10	10/11	11/12
Revenues	35,627	31,661	34,031	36,385
Expenditures	37,053	36,375	38,445	40,138
Program Expense	36,838	36,170	38,185	39,826
Debt Service	215	205	260	312
Surplus(deficit) before correction	(1,426)	(4,714)	(4,414)	(3,753)
Fiscal Correction	—	—	2,000	2,000
Withdrawal from Sustainability Fund	1,426	4,714	2,414	1,753
Adjusted Surplus	—	—	—	—

Source: Provincial forecasts

Note: Totals may not add due to rounding.

A **new Fiscal Responsibility Act** provides for a simpler and more flexible fiscal framework (e.g., a contingency allowance is no longer required), but retains the key characteristics of its predecessors. For example, deficits are allowed only if offset by the Sustainability Fund, borrowing is permitted for capital purposes (running a bit more than \$1 billion per year for the next three years) and by self-supporting corporations but not for operating purposes, and in-year operating expense increases are limited to 1% of budgeted amounts.

Total revenue is projected to drop by 11.1% or \$4.0 billion to \$31.7 billion in FY2009/10, due to **falling energy revenue**. The latter are forecast to be more than halved to \$5.9 billion. WTI oil prices are assumed to average US\$55.50/bbl this year (down from US\$85.50 last year), with natural gas prices averaging C\$5.50/GJ (down from C\$7.00). Energy revenues are also dragged down by \$1.5 billion this year and next owing to the March 3 announcement which lowered royalties on new drillings (recall that the new, higher, royalty framework came into effect January 1, 2009).

Revenues are projected to grow around 7% per annum in the following two years on rebounding energy prices and continue growth in non-energy



revenue. The latter is projected to grow by more than 10% in FY2009/20 (by \$2.4 billion) to \$25.8 billion, due solely to a recovery in investment income. There were net investment losses of \$1.9 billion last fiscal year, which can account for the entire budget deficit of \$1.4 billion (investment income is projected back in positive territory this fiscal year at \$1.8 billion).

Tax decreases for FY2009/10 included a higher small business threshold (\$500,000), a lower mill rate (by 16%) for education property taxes, and the province paralleling the federal changes to corporate income taxes including lower capital cost allowance rates. Taxes on tobacco and mark-ups on liquor were both increased (netting an additional \$250 million in "sin" taxes). Recall that last year's budget eliminated health care insurance premiums effective January 1, 2009. Overall, Albertans and Alberta businesses continue to pay the lowest taxes in Canada (an advantage of between \$2,900 and \$5,200 per capita, compared with the other nine provinces).

**Program spending is projected to drop** by 1.8% or \$0.7 billion to \$36.2 billion, owing to lower capital spending. Operating expenses are estimated to grow by 3.7% or \$1.1 billion to \$31.2 billion, reflecting population growth and inflation at the time ministry budgets were set. The health and wellness sector accounts for nearly half the growth in operating expenses. Although current year capital spending is being clipped, the four-year Capital Plan is still being increased by 4.5% or \$1.0 billion to \$23.2 billion. The province has been engaging in hefty infrastructure spending, a legacy of the boom years.

As the boom subsided, Alberta economic growth has moved from top of the provincial league table to near the bottom. The Province forecasts a 2% contraction in real GDP growth this year, representing the **first recession in 23 years** (since 1986), in line with their forecast for the national average. We look for a slightly larger contraction (-2.7%), a shade worse than the national average (-2.5%).

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