# Alberta Fiscal 2017–18: Q3 Update

## THE RED INK BEGINS TO RECEDE

- Alberta announces strong economic growth for calendar 2017 and a revised deficit of $9.1 billion for fiscal 2017–18 (FY18) that is decisively narrower than the *Budget* estimate of $10.5 billion.

## REVENUE DETAILS

**The $1.4 billion narrowing of the FY18 deficit** mirrors, relative to *Budget,* revisions that raise revenues $1.96 billion and remove the $0.5 billion risk adjustment, and this more than covers the $1.03 billion increase in expenditures.

**A robust 10.8% jump in FY18 revenues** is projected as of Q3, propelled by stronger investment income and resource receipts and an improvement in the Balancing Pool calculated liability. The in-year increase in investment income is almost 40% to $3.1 billion.

**Alberta's underlying assumptions of economic growth are now quite buoyant**. Rising energy and manufacturing exports plus an upswing in consumer spending are expected to have lifted provincial real GDP by 4.5% in calendar 2017. In calendar 2018, as production ramps up at several large oil sands plants, real GDP is assumed to climb a further 2.8%.

**Taxes are the only key revenue lower than *Budget,*** with FY18 growth trimmed to 5.1% from the initial 7.8% estimate. With reduced 2016 assessments, $0.3 billion from FY18 personal income tax receipts are decreased by $0.3 billion, resulting in growth of just 0.9% for this fiscal year.

**Resource receipts** are now expected to be $0.8 billion higher at $4.5 billion, a sizeable gain from the FY16 low of $2.8 billion though still a fraction of the FY07 peak of $12.3 billion. Land lease sales revenues are expected to be $0.4 billion larger and lower producer costs are enabling a $0.5 billion in-year increase on crude oil plus natural gas and by-products royalties.

**The negative impact of the lack of tidewater access for Alberta oil** is discussed with several metrics. Alberta reports that oil sands production since 2014 has climbed by over 500,000 barrels per day (bpd) and a further 300,000 bpd are anticipated by the end of 2018. With existing pipelines fully utilized*, rail unable to fill the gap and rising oil output, unexpected events requiring a capacity buffer are causing market volatility and steeper heavy oil discounts. Bitumen royalties for FY18 are now expected to be $188 million below *Budget* because of wider discounts in recent months after unexpectedly low discounts in early FY18. For *Budget 2017,* Alberta estimated that gaining tidewater access would allow oil producers' returns to climb by up to $7/barrel. As well, the government estimates that the additional producer revenues from smaller discounts and reduced transportation uncertainty would raise the capital spending plans from 2018 to 2022 by $10 billion, and boost royalties by $9 billion.

* The three major pipeline projects are: the Line 3 Replacement (+370,000 bpd); the Trans Mountain Expansion (+590,000 bpd) and the Keystone XL pipeline (+830,000 bpd).

CONTACTS

**Mary Webb**
416.866.4202
Scotiabank Economics
mary.webb@scotiabank.com

**Alberta's Balance Sheet Summary**
as of March 31, $ billions except where noted

| | FY17 | FY18 | |
|---|---|---|---|
| | Final | Budget | Q3 |
| Heritage Fund & Endowment Funds | 19.8 | 20.2 | 20.3 |
| Contingency Account | 2.3 | 0 | 0.04 |
| Other Financial Assets | 44.2 | 43.7 | 47.6 |
| **Financial Assets** | **66.3** | **63.9** | **68.0** |
| Liabilities for Capital Projects | 23.8 | 29.8 | 29.3 |
| Debt:Pre-1992 Teachers' Pension Plan | 0.9 | 0.9 | 0.9 |
| Direct Borrowing for *Fiscal Plan* | 8.6 | 15.1 | 11.5 |
| Pension Liabilities | 10.0 | 9.8 | 9.7 |
| Other Liabilities | 31.9 | 31.0 | 36.8 |
| **Total Liabilities** | **75.2** | **86.5** | **88.2** |
| **Net Financial Assets** | **-8.9** | **-22.6** | **-20.3** |
| *% of GDP* | *-2.8* | *-6.7* | *-6.0* |

Source: Alberta Finance; nominal GDP forecast: Scotiabank Economics.

## EXPENDITURE DETAILS

**Program spending growth** for FY18 rises to 7.8% from the *Budget* estimate of 2.8%. Though the $200 million of targeted in-year saving is accomplished and the Province reports efficiencies in health care and from the consolidation of common department operating expenses, operating expenditures are still almost $0.5 billion ahead of *Budget* reflecting cost pressures in areas such as income support. Several expenditure areas are lower, including decreases in the debt service and pension provisions (table, p.2).

**The Capital Plan**, reported to be $0.9 billion less than the $9.2 billion *Budget* estimate in Q2, is now expected to match *Budget* with shortfalls due to savings and re-profiling projects roughly offset by moving municipal grants forward, including some of the funding under the *Climate Leadership Plan.* Municipal Affairs' capital outlays are raised by $0.8 billion to $2¼ billion for FY18.

## THE BALANCE SHEET AND BORROWING

**Financial assets** are expected to climb $1.7 billion during FY18, ending the year $4.0 billion ahead of *Budget.* Driving the increase is the Province's addition of a $5.0 billion cash reserve for risk management, a precaution positively regarded by the rating agencies for several other Provinces. Other asset increases include $0.5 billion for the Heritage Fund and endowment funds from inflation-proofing and net income retention.

**Liabilities** by March 2018 are expected to be $13.0 billion above a year earlier, and $1.7 billion ahead of *Budget.* Of note, however, is the decrease in Direct Borrowing for the Fiscal Plan.

## OUTLOOK

Alberta is benefitting from a robust first-year economic recovery in calendar 2017, with a substantial benefit for the FY18 budget bottom line. However, the Province's fiscal repair efforts, such as carefully managing its civil service payroll and seeking spending efficiencies, are necessary to supplement the role of growth in reducing the deficit.

### Alberta's Consolidated Budget Arithmetic

$ billions except where noted

| | FY17 | FY18 | |
|---|---|---|---|
| | Final | Budget | Q3 |
| Personal Income Tax | 10,763 | 11,177 | 10,855 |
| Corporate Income Tax | 3,769 | 3,918 | 3,852 |
| Carbon Levy | 250 | 1,038 | 1,012 |
| Other Taxes | 5,399 | 5,629 | 5,492 |
| **Total Tax Revenues** | **20,181** | **21,762** | **21,211** |
| Non-Renewable Resource Revenue | 3,097 | 3,754 | 4,534 |
| Investment Income | 3,701 | 2,193 | 3,061 |
| Other Own-Source Revenue[1] | 7,335 | 9,221 | 10,157 |
| **Total Own-Source Revenue** | **34,314** | **36,930** | **38,963** |
| Federal Transfers | 7,979 | 7,988 | 7,918 |
| **Total Revenue** | **42,293** | **44,918** | **46,881** |
| Operating Expense(net of in-year savings) | 44,661 | 45,906 | 46,370 |
| Disaster Assistance[2] | 1,191 | 235 | 495 |
| Capital Grants | 2,159 | 3,302 | 3,729 |
| *Climate Leadership Plan : Operating Exp.*[3] | 1,379 | 868 | 577 |
| *Capital Grants* | 2 | 68 | 391 |
| Pension Provisions | -543 | -237 | -332 |
| Amortization, Inventory Ch., Other | 3,210 | 3,375 | 3,362 |
| **Program Spending** | **52,059** | **53,517** | **54,592** |
| General Debt Service | 438 | 619 | 594 |
| Capital Plan Debt Service | 580 | 779 | 761 |
| **Total Debt Service** | **1,018** | **1,398** | **1,355** |
| **Total Expenditure** | **53,077** | **54,915** | **55,947** |
| Risk Adjustment | 0 | 500 | 0 |
| **Consolidated Balance** | **-10,784** | **-10,497** | **-9,066** |
| Total Capital Plan with SUCH Sector | 6,578 | 9,175 | 9,165 |
| Financing Requirements | 18,311 | 19,795 | 22,733 |
| **Annual Change, %** | | | |
| Tax Revenue | *-2.6* | *7.8* | *5.1* |
| Non-Renewable Resource Revenue | *11.0* | *21.2* | *46.4* |
| **Total Own-Source Revenue[4]** | ***n.a.*** | ***7.6*** | ***13.5*** |
| Federal Transfers | *11.7* | *0.1* | *-0.8* |
| **Total Revenue[4]** | ***n.a.*** | ***6.2*** | ***10.8*** |
| Program Spending[4] | *n.a.* | *2.8* | *4.9* |
| **Total Expenditure[4]** | ***n.a.*** | ***3.5*** | ***5.4*** |
| **Memo Items, %** | | | |
| Own-Source Revenue / GDP | 10.9 | 10.9 | 11.5 |
| Program Spending / GDP | 16.5 | 15.8 | 16.1 |
| Consolidated Balance / GDP | -3.4 | -3.1 | -2.7 |
| Debt Service / Revenue | 2.4 | 3.1 | 2.9 |
| **Resource Prices:** WTI Oil, US$/bbl | 47.93 | 55.0 | 54.0 |
| Western Canadian Select, C$/bbl | 44.67 | 51.3 | 50.4 |
| Oil Production, Bitumen, 000s bbl / day | 2,549 | 2,906 | 2,855 |
| Conventional, 000s bbl / day | 431 | 416 | 449 |
| Natural Gas, AB Reference Price,C$/GJ | 2.01 | 2.90 | 1.90 |
| Canadian Dollar, US¢/C$ | 76.2 | 76.0 | 78.0 |

[1] Includes the *Balancing Pool.* [2] Includes Wood Buffalo wildfires. [3] Includes the present value of the FY18–FY31 coal phase-out transition payments. [4] Revenues & expenditures adjusted as of FY17 for change in accounting treatment of drug cost rebates. Sources: Alberta Finance; Statistics Canada; nominal GDP forecasts: Scotiabank Economics.