

Alberta's Heritage Fund

Over its 26-year history, the Alberta Heritage Savings Trust Fund has become a strong part of Alberta's social and financial fabric. The Fund is worth about \$12 billion today. It has contributed over \$25 billion in income to support priority programs like health care and education, and to help pay off the provincial debt.

The past

The Fund was created in 1976 to benefit all generations of Albertans. It was a vehicle to save money from large oil and gas royalties. Up to 25 per cent of its assets were used to provide funding for capital projects for Albertans to enjoy well into the future. It was also used to finance investments and loans intended to strengthen and diversify the economy. These investments are no longer made and are not contemplated in the future.

In 1995, the government asked Albertans to share their thoughts on the Heritage Fund's future. At the time, government was making important financial decisions that helped balance the budget and made significant progress in the goal to pay down the debt. Albertans told government to keep the Heritage Fund, and they also asked government to make a longer-term decision about the Fund when the province's financial picture was more certain. That time is now. Alberta's financial house is in order.

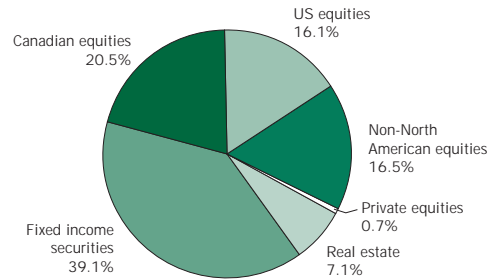
The present

Today, the Heritage Fund is invested, like an endowment, to maximize long-term financial returns. It holds investments in stocks, bonds, real estate, and other financial instruments. All of the income from these assets is used as revenue to support provincial programs and to help pay down the debt. Once the debt is paid off, the Heritage Fund will grow with inflation.

Earlier this year, delegates to Alberta's Future Summit recommended setting up a fund to provide predictable, sustainable government funding. That recommendation was echoed in July

2002 when the Alberta Financial Management Commission (FMC) recommended "a bold new purpose for the Alberta Heritage Savings Trust Fund." The report went on to say, "Instead of using the Fund only as a passive and static savings account, it should be retained, strengthened, and allowed to grow."

Heritage Fund Investments as of June 30, 2002



The future

It's time, once again, to ask if the Heritage Fund is being used in a way that best meets the province's needs. Albertans value the Heritage Fund and want to ensure it will continue to be healthy and have an important role for generations to come.

When it comes to the future of the Heritage Fund, Albertans have a number of options. These include an endowment for the future, sustaining Albertans' priorities, investing in capital projects, and repaying the debt. Each option still allows the Fund to be strengthened and allowed to grow. This would happen when resource revenues are higher than expected and the debt is paid off. That's important to Albertans, and it's important to the Government of Alberta.

one → An endowment for the future...

When the Heritage Fund was created, oil and gas revenues were high and our economy was firing on all cylinders. The government thought some of this extra money should be set aside for future generations of Albertans.

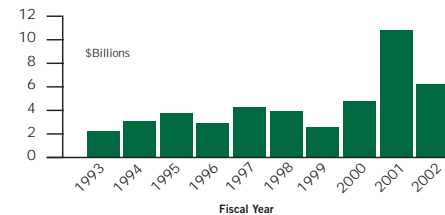
In 1995, we asked Albertans to share their views on the Heritage Fund's future. Most respondents said we should keep the Fund, but they asked for changes. In 1997, the Heritage Fund was re-structured to reflect Albertans' wishes. Albertans told us to focus on earning greater long-term returns, and to use these returns as a steady stream of income to help pay for Alberta's current needs. Once the debt is paid off, the Heritage Fund will grow with inflation.

As a result the Alberta Heritage Savings Trust Fund is now set up as an endowment fund. The question is: **Should the Heritage Fund operate primarily as an endowment fund?**

two → Sustaining Albertans' priorities...

The province benefits from rich natural resources that contribute to revenues every year. It is difficult to accurately forecast resource revenues because they shift dramatically from year to year, ranging from lows near \$2 billion in 1999, to highs of over \$10 billion in 2001.

Province of Alberta Natural Resource Revenues



Through the Alberta Future Summit 2002 and the FMC, government has heard that money should be set aside to provide sustainable funding for programs. Government is listening.

Money will be set aside in a new sustainability fund. Government will make deposits to this fund when revenues are higher, and make withdrawals when revenues drop. Rather than creating a separate fund, a portion of the Heritage Fund's assets could be held as a reserve for sustainable funding for priority programs. The question is: **Should a portion of the Heritage Fund be held as a reserve for sustainability?**

three → Investing in capital projects...

The original mandate of the Heritage Fund allowed up to 25 per cent of its assets to be invested in capital projects. These projects provided economic and social benefits for Albertans that continue today, and will position the province for success in the future. Investments included over \$3.4 billion in health care facilities, libraries, and parks and recreation areas. A full list of projects is included in the chart below.

The Alberta Heritage Savings Trust Fund has paid for...

Alberta Heritage Foundation for Medical Research... Kananaskis Country recreation development... Fish Creek Provincial Park development... Farming for the future ... grazing reserves enhancement ... irrigation rehabilitation and expansion ... private irrigation development assistance... urban parks... renewable energy research... land reclamation... Pine Ridge Reforestation Nursery Enhancement... water management systems improvement... applied cancer research... occupational health and safety research and education... Alberta Heritage Scholarship Fund... Clinical Research Building, University of Alberta... library development... Food Processing Development Centre... rail hopper cars... municipal recreation/tourism areas... Electronics Test Centre... individual phone line service... microchip design and fabrication facilities ... Alberta Oil Sands Technology and Research Authority... Lesser Slave Lake outlet... maintaining our forests... Paddle River Basin development... applied heart disease research... Alberta Children's Provincial General Hospital (Calgary)... Capital City Recreation Park (Edmonton)... Tom Baker Centre and Special Services Facility (Calgary)... Walter C. MacKenzie Health Sciences Centre (Edmonton)... airport terminal buildings...

In 1995, government stopped funding capital projects from the Heritage Fund. This allowed the government to maintain its financial assets and put more resources towards debt repayment and other priorities. The question is: **Should the Heritage Fund have a portion of its assets used for capital projects?**

four → Repaying the debt...

Alberta has made significant progress and is well ahead of schedule in its goal to repay the debt. Less than a decade ago, the provincial debt stood at \$22.7 billion. Today, this debt (less cash set aside for future debt repayment) stands at about \$5 billion. Government still plans to pay off the remaining debt in an orderly, responsible way, much like Albertans would pay off their own mortgages. When your

The Heritage Fund can be used to serve Albertans in many ways. Some of these options can be used in combination with others to ensure the Fund best meets the province's needs. Regardless of the choice you make, all of these still allow the Heritage Fund to strengthen and grow when resource revenues are higher than expected and the debt is paid off.

Many Albertans hold a great deal of pride in the Heritage Fund. It's an important part of the province's past and future. So, it's important to hear what you have to say.

Thank you for taking the time to complete this survey.



Greg Melchin
Minister of Revenue

Completing the survey

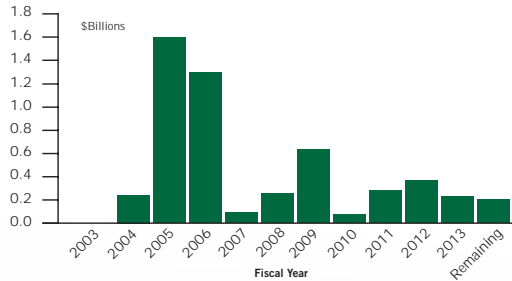
This survey can be completed online at www.albertaheritagefund.com. If you don't have access to the internet please complete the attached card, and mail it back to us.

The following statements ask you to share your thoughts on a number of uses for the Fund. Please indicate how closely you agree with each of the following statements by shading in the appropriate circle. One indicates you strongly disagree and five indicates you strongly agree.

Example: 1 2 3 4 5 **Strongly Disagree** **Strongly Agree**

mortgage comes up for renewal, would you pay it off if you had sufficient investments?

Province of Alberta Debt as it Comes Due Less Cash Set Aside for Future Debt Repayment



The question is: **Should a portion of the Heritage Fund be used to pay the remaining debt as it matures over the coming years?**

one

two

three

four

The Heritage Fund's Future

The Heritage Fund operates as an endowment fund, which means the Fund is saved for the future. Earnings and interest are invested in priority programs and repaying the debt. Should the Fund be primarily an endowment fund or should it be combined with other potential uses?

→ **The Heritage Fund should operate primarily as an endowment fund.**

Strongly Disagree 1 2 3 4 5 Strongly Agree

The Alberta government will create a sustainability fund. The government will deposit money to the fund when resource revenues are high, and withdraw money when revenues are low. Rather than creating a separate fund, a portion of the Heritage Fund's assets could be held as a reserve for sustainable funding for priority programs.

→ **A portion of the Heritage Fund's assets should be held as a reserve for sustainability.**

Strongly Disagree 1 2 3 4 5 Strongly Agree

Capital projects provide economic and social benefits for Albertans now and in the future. If a portion of the Heritage Fund is used to pay for capital projects, the value of the Fund would be replenished when resource revenues are higher than expected and the debt is paid off.

→ **A portion of the Heritage Fund's assets should be used for capital projects.**

Strongly Disagree 1 2 3 4 5 Strongly Agree

Alberta has made significant progress in its goal to repay the debt. If a portion of the Heritage Fund is used to pay the remaining debt as it comes due, the value of the Fund would be replenished when resource revenues are higher than expected and the debt is paid off.

→ **A portion of the Heritage Fund should be used to pay the remaining debt as it comes due.**

Strongly Disagree 1 2 3 4 5 Strongly Agree

Your Comments:

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