

Alberta ■

BUDGET | Responsible
2013 | Change

Fiscal Plan



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Fiscal Plan 2013–16

PRESENTED BY

DOUG HORNER
PRESIDENT OF TREASURY BOARD
AND MINISTER OF FINANCE

in the Legislative Assembly of Alberta
March 7, 2013

Alberta 

ACCOUNTABILITY STATEMENT

The government's Fiscal Plan for the three years commencing April 1, 2013 was prepared under my direction in accordance with the *Fiscal Management Act* and the government's accounting policies. All of the government's policy decisions as of February 13, 2013 with material economic or fiscal implications have been considered in preparing the three-year Fiscal Plan.

Original signed by

Doug Horner
President of Treasury Board and Minister of Finance
February 27, 2013

FISCAL PLAN 2013–16 VOLUME

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OVERVIEW

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BUDGET 2013: RESPONSIBLE CHANGE

HIGHLIGHTS

Budget 2013 is a prudent fiscal plan that thoughtfully responds to the effects of the “bitumen bubble”, while continuing to deliver the responsible change Albertans expect.

Budget 2013 reflects the priorities Albertans told their government are most important:

- ❖ Building Alberta by investing in families and communities, including the new schools, health facilities and roads Albertans need;
- ❖ Ensuring government lives within its means by challenging every dollar in spending and making sure every program continues to deliver real results for the people of Alberta; and
- ❖ Working to open new markets across Canada and around the world for Alberta’s resources, to obtain the highest price possible.

This budget builds on work that began in *Budget 2012* and continues to position Alberta for a stronger and ever more prosperous future.

The government has also held extensive consultations and continued the conversation about health care, education, supporting seniors and vulnerable Albertans and building the key infrastructure needed to support a rapidly growing population.

Budget 2013 contains an operational plan, savings plan and a fully funded capital plan, as promised. With this budget the government is:

- ❖ Maintaining Alberta’s low tax advantage.
- ❖ Reducing the 2013-14 operating expense increase to zero, compared to a forecast for population growth plus inflation of over 4%.
- ❖ Planning and building the schools, roads and other infrastructure our province will need as we prosper and experience rapid population growth.
- ❖ Accelerating the results-based budgeting (RBB) process to instill a culture of ongoing reviews of all programs and services to ensure they are focused on and efficiently achieve the outcomes Albertans expect.
- ❖ Introducing family care clinics and continuing sufficient financial support to our health care system, ensuring Albertans have access to appropriate health care.
- ❖ Continuing its strong investment in K-12 and post-secondary education.
- ❖ Addressing barriers to reaching new markets with ongoing work to develop a Canadian Energy Strategy.
- ❖ Continuing support to our municipal partners.
- ❖ Implementing a new fiscal framework which reduces reliance on non-renewable resource revenue by mandating savings.

In 2012, Alberta's population grew by 95,000 while economic activity remained solid. The Alberta economy grew by an estimated 3.8%, led by consumer spending, residential investment and ongoing business activity, with job growth of 2.7%.

The global economic situation remains mixed, with positive signs for China and other developing nations appearing on the horizon, while it appears it may be some time before Europe fully moves beyond the recession ignited by various nations' sovereign debt problems. The US is also embroiled in turbulent fiscal waters, with deadlines passing and little movement or resolution of major issues. These global economic woes weigh heavily on Alberta, as they directly impact energy prices, financial markets and our investment income, royalty and tax revenue. While the *Budget 2013* forecast is based on a slow but steady acceleration in global growth, many risks remain.

Alberta spending and revenue forecasts are significantly affected by an array of unpredictable and unstable factors such as global and US economic growth, energy prices and exchange rates, financial market conditions, Alberta population and employment growth. The government's *Budget 2012* assumptions for energy prices were based on averages of private sector experts and professional forecasters as has been the case for years, a fact which is clearly articulated in budget documents. The forecast was based on moderate but positive global economic recovery, led by emerging nations, a steady US recovery, and energy prices climbing in the medium term.

As is not unexpected, there were variances from forecasts, and as a result, 2012-13 resource revenue is now forecast to be \$4.1 billion lower than was expected when *Budget 2012* was prepared. North American and global energy prices have been lower than forecast, due in part to continued Eurozone economic struggles, the impact on developing nations growth, US fiscal problems and, as a result, general weakness in the global economy.

A \$6.2 billion drop in 2013-14 revenue

Further, Alberta's bitumen has been selling for a larger and more substantial discount to North American and global benchmark oil prices, resulting from pipeline access and capacity constraints and an upswing in US oil supply spurred by developments in technology. This 'bitumen bubble' has had a severe impact on Alberta's revenue outlook, with a \$6.2 billion drop in 2013-14 revenue from the *Budget 2012* estimate, and even larger declines in the next several years.

Revenue – Budget 2012 and Budget 2013

(millions of dollars)	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Total Revenue				
Budget 2012	40,303	44,029	49,087	52,171
Budget 2013	37,922	38,612	41,911	44,998
Decrease	(2,381)	(5,417)	(7,176)	(7,173)
Resource revenue				
Budget 2012	11,238	13,411	16,014	17,205
Budget 2013	7,171	7,250	8,314	9,842
Decrease	(4,067)	(6,161)	(7,700)	(7,363)

The *Budget 2013* outlook is prudent, in line with the averages of other forecasts for energy prices, exchange rates, and other economic and financial variables. Alberta's economic growth is expected to decelerate to a still solid 2.9% in 2013 and future years, with a more cautious pace of investment in the oil patch, and in the business sectors generally. Job creation will continue though, with a 4.5% unemployment rate expected. Indeed, the household sector is anticipated to remain healthy, providing support to the retail and construction industries, while the agriculture, manufacturing and forestry industries are also expected to maintain positive prospects. Alberta's population is forecast to grow by 99,000 in 2013.

Budget 2013 outlook
is in line with the averages
of other forecasters.

Energy and Economic Assumptions

	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Oil (US\$/bbl)	97.33	99.25	92.58	92.50	95.00	92.00
WCS@ Hardisty (Cdn\$/bbl) Differential (WCS / WTI in Cdn\$)	80.72	83.28	68.91	68.21	74.85	75.74
Natural gas (Cdn\$/GJ)	2.98	3.00	2.26	3.07	3.55	3.70
Exchange rate (US\$/Cdn\$)	100.7	98.6	100.0	99.0	99.0	99.0
Interest rate (3 month, %)	0.89	1.00	0.95	1.05	1.65	2.50
	2012	2013	2014	2015	2016	
Real economic growth (GDP, %)		3.8	2.9	2.9	2.8	2.9
Population (%)		2.5	2.6	2.0	2.0	1.9
Employment (% - 2012 is actual)		2.7	1.9	1.7	1.6	1.6
Household income (%) ^a		7.3	5.4	5.2	5.3	5.3
Corporate operating surplus (%) ^a		(6.6)	5.9	10.3	7.5	9.8
Alberta CPI (% - 2012 is actual)		1.1	1.8	1.8	1.8	1.8

^a 2012 numbers were based on old measures of personal income and corporate profits.

The government has faced these uncertain and volatile times by focusing on the long term, discussing issues with Albertans, confirming citizens' priorities and continuing to move forward on that agenda: investing in families and communities, building the infrastructure to meet the needs of a growing population, living within our means, and ensuring that our resources are sold at the highest price possible.

The government has made responsible choices to balance providing continued excellent public programs and services, expanding and maintaining our infrastructure, and considering the future, with the severe revenue changes and desire for fiscal prudence. The decisions reflecting this perspective came after the government undertook a number of processes to seek public input, from the Dollars and Sense survey, meetings and surveys on the fiscal framework and a savings policy, to the recent economic summit.

The *Fiscal Management Act* (FMA) implements a new fiscal framework for Alberta, reflecting this input. The framework, which is the set of rules the government imposes on itself to govern its budgeting and fiscal planning, now focuses on three areas: an Operational Plan, a Savings Plan and a Capital Plan.

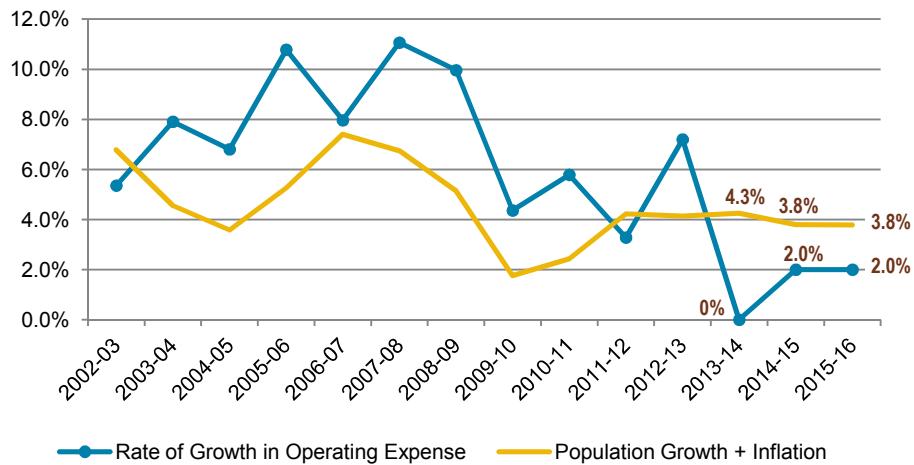
2013–16 OPERATIONAL PLAN

The operational plan is about delivering the day to day programs and services Albertans expect, and continues the thoughtful, forward-looking approach to meeting Albertans' priorities of families and communities, our economic future and resource stewardship. Particular areas of focus are primary health care, early childhood development, education and entrepreneurship, resource management and expanding market access.

Operational expense in 2013-14 is \$38 billion. This includes \$36.4 billion for operating expense, an allocation of \$200 million for potential emergencies and disasters, \$982 million for amortization of long-term capital assets and consumption of short-term assets (such as vaccines), and \$402 million for general debt servicing costs. Operating expense makes up the vast majority of government spending, and the 2013-14 budget is the same as the 2012-13 forecast.

No increase in operating expense in 2013-14. This is well below the forecast for population growth plus inflation.

Rate of Growth in Operating Expense vs Rate of Population Growth Plus Inflation



Operating expense in *Budget 2013* is significantly lower than the targets provided in *Budget 2012*.

Spending – Budget 2012 and Budget 2013

(millions of dollars)

	2013-14 Estimate	2014-15 Target	2015-16 Target
Operating expense			
<i>Budget 2012</i>	37,700	38,842	40,409
<i>Budget 2013</i>	36,422	37,144	37,904
Difference	(1,278)	(1,698)	(2,505)

Funding for the Operational Plan comes from the province's resource, tax, investment income and other revenue, although under the new framework revenue received for Capital Plan purposes, portions of Heritage Fund investment income being saved, and an allocation for debt servicing costs related to the Capital Plan are deducted from total revenue of \$38.6 billion to arrive at Operational Revenue of \$37.6 billion.

In 2013-14, there is an operational deficit of \$451 million, but surpluses of \$1.5 billion and \$3.3 billion are forecast for 2014-15 and 2015-16. Under the FMA, operational deficits are offset by a transfer from the Contingency Account, which has replaced the Sustainability Fund. The Contingency Account's primary purpose will be for short term fiscal stabilization.

In addition, as part of the Capital Plan financing strategy, cash amounts will be set aside annually and accumulate in an account to be available to repay debt as it comes due. After these and other cash adjustments, which total \$1.6 billion in 2013-14, the Contingency Account year-end balance is estimated at \$691 million by March 31, 2014. Growing operational surpluses and lower cash requirements in 2014-15 and 2015-16 provide cash for the Contingency Account, and it is forecast to reach \$4.5 billion by March 31, 2016.

The Contingency Account's primary purpose will be for short term fiscal stabilization.

Budget 2013 Operational Plan

(millions of dollars)

	2013-14 Estimate	2014-15 Target	2015-16 Target
Total Revenue	38,612	41,911	44,998
Less revenue received for capital purposes	(522)	(464)	(389)
Allocation to savings	(297)	(795)	(1,143)
Allocation for capital borrowing debt servicing costs	(238)	(404)	(593)
Operational Revenue	37,555	40,248	42,873
Operational Expense			
Operating expense (net of in-year savings)	36,422	37,144	37,904
Disaster / emergency assistance	200	200	200
Amortization / inventory consumption	982	1,000	1,040
General debt servicing costs	402	424	437
Total Operational Expense	38,006	38,768	39,581
Operational Surplus / (Deficit)	(451)	1,480	3,292
Cash Adjustments - Sources / (Requirements)			
Retained income of funds and agencies	(796)	(897)	(889)
Inventory acquisition / other cash adjustments	(1,716)	(1,153)	(540)
Allocation for current / future capital debt repayment	(72)	(151)	(246)
Amortization / inventory consumption (non-cash expense)	982	1,000	1,040
Net Cash Adjustments	(1,602)	(1,201)	(635)
Net Cash Sources / (Requirements)			
(Operational surplus / deficit plus net cash adjustments)	(2,053)	279	2,657
Contingency Account (Sustainability Fund)			
Balance at Start of Year	2,744	691	1,386
Transfer of / for net cash sources / (requirements)	(2,053)	279	2,657
Resource revenue savings (until balance is \$5 billion)	-	416	492
Balance at End of Year	691	1,386	4,535

SAVINGS PLAN

The Alberta Heritage Savings Trust Fund was created in 1976 to save a portion of revenue collected from development and extraction of Alberta's bountiful non-renewable resources, both to share the benefits of wealth created by the non-renewable resources with future generations, and to set aside financial assets for the future when the revenue inevitably began to decline – at that time, the “rainy day fund.”

After an initial period of annual deposits, the transfer of resource revenue, and investment income retention, were put on hold when the federally-imposed National Energy Program and collapsing energy prices led to a recession in Alberta in the mid-1980s, and successive government deficits. Since then, the government has added deposits on an ad hoc basis, in years of surpluses, and has re-instituted annual retention of amounts of Heritage Fund income to protect its value from inflation.

In recent years, the government has considered several times implementing a revised formal savings policy, but the need to fulfil program and infrastructure demands of a growing economy and population, and then deteriorating fiscal conditions, served to thwart efforts.

That now changes with the Savings Plan legislated in the *Fiscal Management Act* (FMA). Although the legislation requires the Savings Plan to take effect in 2015-16, it also allows for an acceleration of savings beyond the legislative provisions [section 1(1)b (iv)]. With *Budget 2013* we are implementing the Savings Plan one year in advance of the legislated requirements. There are several components to the Plan:

- ◆ The Alberta Heritage Savings Trust Fund will once again retain its net investment income. In 2014-15, the greater of 30% of net income or the inflation-proofing amount is retained by the Fund; in 2015-16, the greater of 50% of net income or the inflation-proofing amount is retained; in 2016-17 and thereafter, all Heritage Fund income will be kept in the Fund.
- ◆ Resource revenue will once again be saved. Beginning in 2014-15, 5% of resource revenue under \$10 billion, 25% of resource revenue between \$10 and \$15 billion, and 50% of resource revenue over \$15 billion, will be saved.
- ◆ This resource revenue saving will be allocated to the Contingency Account until its balance is \$5 billion, after which it will be allocated to either the Heritage Fund or to one of the three endowment funds (Medical Research, Science and Engineering Research, Scholarship).
- ◆ In addition, when the operational surplus exceeds net cash requirements, the excess is to be deposited into the Contingency Account, until its balance reaches the target of 15% of Operational Revenue (would be \$5.6 billion in 2013-14), after which any excess can be allocated to the Heritage Fund, other endowments, or to the Capital Plan. The operational surplus cash will be used first to achieve the \$5 billion balance, then the resource revenue saving amounts.

The Heritage Fund will once again retain its net investment income.

Resource revenue will once again be saved.

The *Budget 2013* forecast anticipates that \$908 million of resource revenue, and \$2,936 million of net operational surplus, will be allocated to the Contingency Account in 2014-15 and 2015-16. The Heritage Fund will retain \$1,030 million in 2014-15 and 2015-16, \$418 million more than what would have been retained under simple inflation-proofing in those years. Almost \$5 billion will be saved by March 31, 2016.

Budget 2013 Savings Plan

(millions of dollars)

	2013-14 Estimate	2014-15 Target	2015-16 Target
Heritage Fund investment income retention	297	379	651
Heritage Fund year-end balance	15,169	15,548	16,199
Contingency Account			
Operational surplus less net cash requirements	-	279	2,657
Resource revenue allocation	-	416	492
Total annual savings	-	695	3,149
Contingency Account year-end balance	691	1,386	4,535
Medical Research Endowment Fund	1,293	1,307	1,321
Science and Engineering Endowment Fund	750	772	794
Scholarship Fund	753	772	792
Other	594	582	570
Total of Year-end Balances	19,250	20,367	24,211

2013–16 CAPITAL PLAN

The *Budget 2013* three-year Capital Plan supports \$15 billion in infrastructure projects, with \$5.2 billion in each of the next two years, and \$4.6 billion in 2015-16. While this is a slight decrease in size from capital plans of recent years, it remains substantial. Even with the current difficult fiscal position, Albertans have been clear they believe the government should continue to invest in Alberta's infrastructure.

Albertans recognise that having quality, functioning and well-maintained health care, education and other public facilities, and an efficient transportation network are keys to economic growth and our quality of life. It is widely understood that Alberta is well-positioned for a period of expansion, and Albertans have been clear they want the government to continue capital investment now, to get ahead of the growth curve instead of trying to catch-up when labour and construction material costs escalate.

Alberta enjoys a AAA credit rating.

Albertans have also expressed willingness for the government to finance investments in long-term capital assets, where it makes sense to do so. Indeed, the ability to plan and move forward with building Alberta's infrastructure foundation, before the global and US economies recover fully and interest rates rise, could provide significant advantages. Alberta also enjoys a AAA credit rating, providing very low borrowing costs, due to fiscal prudence.

There is also a view that the long-term nature of many government capital projects justifies extending the period during which the purchase costs of the assets are paid. It is appropriate to match the financial responsibility of paying for the roads, schools, hospitals and other public facilities, with the life cycle of the assets and the people who are and will benefit from their availability.

For these reasons, and with the current fiscal reality of low oil and gas prices, and discounted royalty revenue due in part to delays in pipeline approvals, the government has determined that a large portion of the Capital Plan will be financed through direct borrowing. Pursuing public-private partnerships will continue to be an option. As the fiscal position improves over time, with possible decisions on use of public-private partnerships, and based on changes to interest rates and other variables, the proportion of the Capital Plan financed by direct borrowing will be evaluated continuously and is expected to decline.

The government has carefully considered the decision to borrow for the Capital Plan, and believes it is imperative to have a clear debt management plan in place:

Amounts will be set aside for future debt repayments.

- ◆ Amounts will be set aside every year beginning in 2013-14 for future debt repayment, in a capital debt repayment account. This ensures as infrastructure is built and enjoyed by citizens, they will be paying a portion of the total cost, and also that when debt matures, there will be dedicated funds available.
- ◆ Amounts will also be allocated directly from annual operational revenue to pay for interest costs of the capital debt, clearly demonstrating the costs of borrowing will be funded.

- ◆ The government has also included a legislated limit on borrowing for the Capital Plan in the *Fiscal Management Act*. Capital Plan debt servicing costs cannot exceed 3% of the average of Operational Revenue of the current year and two prior years.
- ◆ Borrowing for operating purposes continues to be prohibited. Amounts borrowed for the Capital Plan that are not required in a particular year will be deposited into a Capital Plan financing account, to be withdrawn as needed for Capital Plan spending only.
- ◆ The specific types of financial instruments to be issued, maturities and other details of Capital Plan financing will be determined based on minimizing borrowing costs given market conditions when issuing debt, and will be fully disclosed at the relevant time, as is current practice.

 *Borrowing for operating purposes continues to be prohibited.*

Budget 2013 Capital Plan

	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Capital Plan Spending				
Investing in Families and Communities	1,247	1,195	1,185	1,168
Securing Alberta's Economic Future	3,883	3,652	3,682	3,117
Advancing World-leading Resource Stewardship	321	357	301	373
Other	3	5	4	2
Total Capital Plan	5,454	5,209	5,172	4,660
Capital Plan Financing				
Revenue received for capital purposes	539	522	464	389
Retained income of funds and agencies	5	84	118	118
Alternative financing (P3s)	264	344	206	114
Transfer from Contingency Account / asset disposals	4,617	2	5	-
Direct borrowing	1,096	3,190	4,379	4,039
Withdrawal / (deposit) Capital Plan financing account	(1,067)	1,067	-	-
Total Capital Plan Financing	5,454	5,209	5,172	4,660
Capital Plan Debt Management				
Debt Servicing Costs				
Funded by transfer from revenue	144	238	404	593
	(144)	(238)	(404)	(593)
Principal Repayment Plan				
Current principal repayments (P3s / direct borrowing)	28	32	944	41
Annual allocation for future principal repayments	-	40	112	205
Total allocation for current / future principal repayments	28	72	1,056	246
Funded by cash adjustments	(28)	(72)	(151)	(246)
Re-financing of maturing debt	-	-	(905)	-
Total funding of principal repayments	(28)	(72)	(1,056)	(246)
Capital Debt Repayment Account Year-end Balance	-	40	152	357

Fiscal Plan Summary – Operational Plan^a

(millions of dollars)

	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
1 Total Revenue	39,457	40,303	37,922	38,612	41,911	44,998
Less:						
2 Revenue received for capital purposes	(633)	(508)	(539)	(522)	(464)	(389)
3 Investment income retained by Heritage Fund	(454)	(306)	(220)	(297)	(379)	(651)
4 Saving of resource revenue	-	-	-	-	(416)	(492)
5 Allocation for Capital Plan debt servicing costs	(114)	(139)	(144)	(238)	(404)	(593)
6 Operational Revenue	38,256	39,350	37,019	37,555	40,248	42,873
Operational Expense						
7 Operating expense (net of in-year savings)	33,952	36,177	36,419	36,422	37,144	37,904
8 Disaster / emergency assistance	535	44	677	200	200	200
9 Amortization / inventory consumption / loss on disposals	815	910	966	982	1,000	1,040
10 General debt servicing costs	386	393	369	402	424	437
11 Total Operational Expense	35,688	37,524	38,431	38,006	38,768	39,581
12 Operational Surplus / (Deficit)	2,568	1,826	(1,412)	(451)	1,480	3,292
Cash Adjustments - Sources / (Requirements)^b						
13 Retained income of funds and agencies	(759)	(588)	(490)	(796)	(897)	(889)
14 Energy royalties	(240)	(633)	104	(1,137)	(395)	(51)
15 Student loans	(156)	(106)	(275)	(287)	(240)	(228)
16 Inventory acquisition	(172)	(138)	(182)	(163)	(161)	(159)
17 Other cash adjustments	(159)	(81)	(127)	(129)	(357)	(102)
18 Current principal repayments (P3s / direct borrowing) ^c	(19)	(28)	(28)	(32)	(39)	(41)
19 Allocation for future principal repayments (direct borrowing)	-	-	-	(40)	(112)	(205)
20 Amortization / inventory consumption (non-cash expense)	780	910	905	982	1,000	1,040
21 Net Cash Adjustments	(725)	(664)	(93)	(1,602)	(1,201)	(635)
22 Net Cash Sources / (Requirements) (line 12 plus line 21)	1,843	1,162	(1,505)	(2,053)	279	2,657
Contingency Account (Sustainability Fund)						
23 Balance at Start of Year	11,192	7,462	7,497	2,744	691	1,386
24 Prior-year fourth quarter results	619	-	1,308	-	-	-
25 Cash to be transferred next year	(1,308)	-	-	-	-	-
26 Transfer - net cash sources / (requirements)	1,843	1,162	(1,505)	(2,053)	279	2,657
27 Transfer to Capital Plan	(4,849)	(4,894)	(4,556)	-	-	-
28 Resource revenue savings (until balance is \$5 billion)	-	-	-	-	416	492
29 Balance at End of Year	7,497	3,730	2,744	691	1,386	4,535

^a For fiscal policy purposes under the *Fiscal Management Act*. Does not include revenue and expense of SUCH sector organizations or Alberta Innovates corporations, or changes in pension liabilities. Amounts in 2011-12 and 2012-13 have been restated on the 2013-14 basis. Accounting standards require crude oil marketing and transportation costs to be included in expense rather than being netted off crude oil royalty revenue. As a result, 2011-12 and 2012-13 revenue and expense have been increased by \$37 million and \$40 million respectively.

^b Inventory acquisition is now reported as a financial transaction, rather than as part of the Capital Plan, as the assets are of a short-term nature, typically consumed within the current fiscal year.

^c P3s are public-private partnerships.

Fiscal Plan Summary – Capital Plan

(millions of dollars)	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
1 Capital Plan Spending	5,732	5,634	5,454	5,209	5,172	4,660
Capital Plan Financing						
2 Revenue received for capital purposes	633	508	539	522	464	389
3 Retained income of funds and agencies for capital purposes	(13)	58	5	84	118	118
4 Disposals of capital assets	2	2	61	2	5	-
5 Alternative financing (P3s)	230	172	264	344	206	114
6 Transfer from Contingency Account	4,849	4,894	4,556	-	-	-
7 Direct borrowing	31	-	1,096	3,190	4,379	4,039
9 Withdrawal from Capital Plan financing account	-	-	-	1,067	-	-
10 Deposit to Capital Plan financing account	-	-	(1,067)	-	-	-
11 Total Capital Plan Financing	5,732	5,634	5,454	5,209	5,172	4,660
12 Capital Plan Financing Account Year-end Balance	-	-	1,067	-	-	-
Capital Plan Debt Management						
Debt Servicing Costs						
13 For pre-2012-13 P3s / direct capital borrowing	114	139	139	145	144	126
14 For 2012-13 and future year direct capital borrowing	-	-	5	93	260	467
15 Total Capital Plan Debt Servicing Costs	114	139	144	238	404	593
16 Funded by transfer from revenue	(114)	(139)	(144)	(238)	(404)	(593)
Principal Repayment Plan						
17 Current principal repayments (P3s / direct borrowing)	19	28	28	32	944	41
18 Annual allocation for future principal repayments	-	-	-	40	112	205
19 Total Allocation for Principal Repayments	19	28	28	72	1,056	246
20 Funded by cash adjustments	(19)	(28)	(28)	(72)	(151)	(246)
21 Re-financing of maturing debt	-	-	-	-	(905)	-
22 Total Funding of Principal Repayments	(19)	(28)	(28)	(72)	(1,056)	(246)
23 Capital Debt Repayment Account Year-end Balance	-	-	-	40	152	357

Fiscal Plan Summary – Savings Plan

(millions of dollars)	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
1 Contingency Account (Sustainability Fund)						
2 Balance at Start of Year	11,192	7,462	7,497	2,744	691	1,386
3 Deposits (year-end results / resource revenue savings)	2,462	1,162	1,308	-	695	3,149
4 Withdrawals (for net cash requirements / to Capital Plan)	(6,157)	(4,894)	(6,061)	(2,053)	-	-
5 Withdrawals (resource revenue savings to Heritage Fund)	-	-	-	-	-	-
6 Balance at End of Year	7,497	3,730	2,744	691	1,386	4,535
7 Heritage Savings Trust Fund						
8 Balance at Start of Year	14,198	14,581	14,652	14,872	15,169	15,548
9 Deposits (retained income / resource revenue savings)	454	306	220	297	379	651
10 Balance at End of Year	14,652	14,887	14,872	15,169	15,548	16,199
11 Heritage Foundation for Medical Research						
12 Balance at Start of Year	1,264	1,212	1,255	1,277	1,293	1,307
13 Deposits (net investment income)	67	76	101	102	100	100
14 Withdrawals (for grants)	(76)	(79)	(79)	(86)	(86)	(86)
15 Balance at End of Year	1,255	1,209	1,277	1,293	1,307	1,321
16 Heritage Science and Engineering Research						
17 Balance at Start of Year	727	700	721	735	750	772
18 Deposits (net investment income)	36	44	57	58	57	57
19 Withdrawals (for grants)	(42)	(43)	(43)	(43)	(35)	(35)
20 Balance at End of Year	721	701	735	750	772	794
21 Heritage Scholarship Fund						
22 Balance at Start of Year	721	697	715	734	753	772
23 Deposits (net investment income)	31	41	55	55	55	56
24 Withdrawals (for student scholarship programs)	(37)	(36)	(36)	(36)	(36)	(36)
25 Balance at End of Year	715	702	734	753	772	792
26 Other (Cancer Prevention Legacy, Alberta Enterprise Corp.)	593	579	606	594	582	570
27 Total of Year-end Balances	25,433	21,808	20,968	19,250	20,367	24,211

BUDGET | Responsible
2013 | Change

OPERATIONAL PLAN

- ✧ REVENUE
- ✧ OPERATIONAL EXPENSE

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❖ REVENUE

REVENUE OUTLOOK

The Alberta government revenue outlook has deteriorated substantially from the *Budget 2012* forecast. The decline has been almost entirely due to lower non-renewable resource revenue, and particularly bitumen royalties, which are now estimated for 2013-14 and 2014-15 at less than half of what was expected a little over a year ago. Indeed, the forecasts for almost all other revenue sources have increased, due mainly to Alberta's relatively solid economy and population growth, although the forecasts for corporate and personal income taxes are slightly weaker than expected in *Budget 2012*.

Total revenue in 2013-14 is estimated at \$38.6 billion and is expected to grow by 8% in 2014-15 and 2015-16.

Total revenue in 2013-14 is estimated at \$38.6 billion, \$5.4 billion lower than the *Budget 2012* estimate. This is \$690 million, or 1.8% higher than the 2012-13 third quarter forecast of \$37.9 billion, but less than the record high total revenue of \$39.5 billion in 2011-12. While revenue is forecast to increase strongly – by an average of 8% in 2014-15 and 2015-16, reaching \$45 billion in 2015-16 – it is still expected to be over \$7 billion lower in those years than was forecast in *Budget 2012*.

Revenue – *Budget 2012* and *Budget 2013*

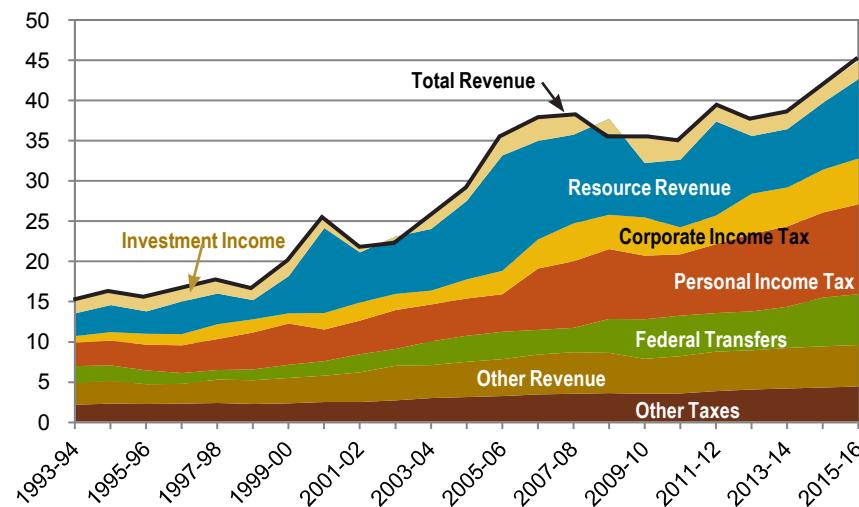
(millions of dollars)

	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Total Revenue				
<i>Budget 2012</i>	40,303	44,029	49,087	52,171
<i>Budget 2013</i>	37,922	38,612	41,911	44,998
Decrease	(2,381)	(5,417)	(7,176)	(7,173)
Resource revenue				
<i>Budget 2012</i>	11,238	13,411	16,014	17,205
<i>Budget 2013</i>	7,171	7,250	8,314	9,842
Decrease	(4,067)	(6,161)	(7,700)	(7,363)
Income taxes				
<i>Budget 2012</i>	13,785	14,900	16,202	17,308
<i>Budget 2013</i>	14,599	14,824	15,891	16,882
Increase / Decrease	814	(76)	(311)	(426)
Other revenue				
<i>Budget 2012</i>	15,280	15,718	16,871	17,658
<i>Budget 2013</i>	16,152	16,538	17,706	18,274
Increase	872	820	835	616

Alberta's economy and government revenue will continue to be dominated by the energy industry, though the household sector is supporting growth in 2013. Resource revenue will be the fastest growing component of revenue, driven primarily by increasing bitumen royalties. Resource revenue is expected to increase by an average of 16.5% between 2013-14 and 2015-16, and account for 22% of total revenue by 2015-16. Bitumen royalties increase by an average of 41%, and grow from 9% of total revenue to 15% by 2015-16.

Total Revenue, 1993-94 to 2015-16

(billions of dollars)



Total revenue forecast to reach \$45 billion by 2015-16.

In 2002-03 and 2008-09, the value of Alberta's investment assets fell. This is accounted for as negative income.

Total Revenue

(millions of dollars)

	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Personal income tax	8,563	9,314	9,627	10,001	10,567	11,180
Corporate income tax	3,555	4,471	4,972	4,823	5,324	5,702
Other tax revenue	3,901	4,106	4,089	4,225	4,336	4,455
Non-renewable resource revenue ^a	11,673	11,238	7,171	7,250	8,314	9,842
Federal transfers	4,777	4,915	4,850	5,115	6,081	6,317
Investment income	2,059	1,794	2,322	2,145	2,170	2,317
Other revenue	4,929	4,465	4,891	5,053	5,119	5,185
Total Revenue	39,457	40,303	37,922	38,612	41,911	44,998

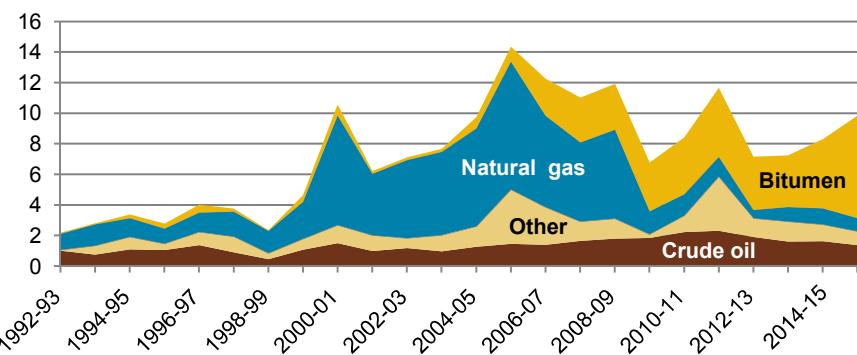
^a Accounting standards require crude oil marketing and transportation costs to be included in expense rather than being netted off crude oil royalty revenue. As a result, 2011-12 and 2012-13 revenue and expense (Ministry of Energy) have been re-stated, increasing by \$37 million and \$40 million respectively.

NON-RENEWABLE RESOURCE REVENUE

Non-renewable resource revenue in 2013-14 accounts for 19% of total revenue, much lower than the 28% of 2012-13 total revenue anticipated in *Budget 2012*. Resource revenue in 2013-14 is forecast at \$7.3 billion, \$79 million, or 1.1% higher than in 2012-13, with declines in bitumen and crude oil royalties offset by increases in natural gas and by-product royalties and land lease sales. Revenue then is forecast to increase by an average of 16.5% in 2014-15 and 2015-16, with substantial growth in bitumen royalties, from rising prices and production, dwarfing decreasing land lease sales and crude oil and natural gas royalties. Resource revenue is expected to reach \$9.8 billion by 2015-16, and account for 22% of total revenue. This level of resource revenue is still less than revenue recorded in 2011-12 or in the five year period from 2004-05 to 2008-09.

Non-renewable resource revenue in 2013-14 accounts for 19% of total revenue.

Non-Renewable Resource Revenue, 1992-93 to 2015-16^a (billions of dollars)



^a Other includes Crown land lease sales revenue.

OIL ROYALTIES

Oil price (WTI) is estimated to be US\$92.50 in 2013-14, in line with the average of private sector forecasters.

Bitumen and conventional oil are forecast to account for 69% of non-renewable resource revenue in 2013-14. The North American benchmark West Texas Intermediate oil price is expected to remain relatively flat over the forecast period, at US\$92.50 in 2013-14 and \$92 in 2015-16, largely as a result of ongoing rapid supply growth from North American non-conventional production, coupled with sluggish demand growth from a protracted US economic recovery. The oil price forecast is in line with the average of private sector forecasters.

The impact on the government's revenue of oil price differentials has been substantial. The difference between the price received for Alberta bitumen (Western Canadian Select, WCS) and WTI has widened, which exacerbates the negative effect of the WTI and North Sea Brent price differential also being larger than anticipated. Both differentials are expected to begin to narrow over the medium term.

Bitumen royalties expected to grow to 68% of total resource revenue by 2015-16.

Bitumen royalties are forecast to account for 46% of non-renewable resource revenue in 2013-14, but by 2015-16, they are expected to be 68% of the total. Royalties are estimated at \$3.4 billion in 2013-14, a slight decrease from 2012-13, but are forecast to jump dramatically over the next two years, rising by an average of 41% a year, and reaching \$6.7 billion by 2015-16.

This is based on WCS prices increasing from Cdn\$68.21 per barrel in 2013-14 to \$75.74 in 2015-16, oil sands production increasing 21%, from 2,140 thousand barrels per day to 2,598, and an increasing number of oil sands projects reaching "payout" over the next three years. Bitumen prices are expected to rise relative to WTI (i.e. the differential between the prices is expected to narrow, from 27% in 2013-14 to 19% by 2015-16) due to expansion of North American pipeline capacity, expansions in upgrading capacity in the US and access to Gulf Coast refineries, as well as overall improved US and global energy market supply-demand conditions.

"Payout" is reached when total revenue from a project exceeds total development costs. Projects in payout pay higher royalty rates: prior to payout,

royalties are between 1-9% of gross revenue (depending on the WTI price in Canadian dollars), while post-payout, royalties are the greater of 1-9% of gross revenue or 25-40% of the project's net revenue.

The government plans to supply bitumen to the North West Upgrader, which is tentatively scheduled to begin operations in 2016. The facility will upgrade bitumen into higher-valued products such as ultra low sulphur diesel. The province will receive a portion of the revenue from the sale of the upgraded product. The province is also responsible to pay monthly cost of service tolls for the 30-year term of the contract. The financial return from the project is heavily dependent on the costs of constructing and operating the facility, as well as the price differential between bitumen and upgraded products over the term of the contract.

Conventional oil royalties are forecast to account for 22% of non-renewable resource revenue in 2013-14. The changes to the royalty system have encouraged the use of new technologies to drill wells that previously would have been too costly to develop. Production rose 11.7% in 2012-13 to an estimated 550,000 barrels per day, and is expected to remain at about that level in 2013-14 and for the following two years.

OIL PRICE DIFFERENTIALS

Brent-WTI Differential

Different regions of the world use different oil price benchmarks, mainly determined by where the oil is produced. Oil produced in North America typically uses West Texas Intermediate (WTI) as a benchmark price, while oil produced in Europe and OPEC countries typically uses the North Sea Brent benchmark. Up to 2011, these two benchmarks were relatively close to each other, but recently, Brent prices have been higher than WTI. Brent prices have been driven upwards due to supply interruptions and increasing demand from emerging economies in Asia, while WTI prices have been driven downwards due to increased supply from "tight" oil and oil sands production flowing into Cushing, Oklahoma, where the WTI price is set, without an expansion in demand or pipeline capacity to move oil to other markets.

This affects Alberta's revenue because lower WTI prices mean lower royalties and lower profitability for energy companies, which lowers corporate income tax revenue. In addition, Alberta bitumen must be mixed with a lighter fluid in order to be transported, and the price for the condensates widely used follow the Brent benchmark. Relatively higher Brent prices increase costs for bitumen producers, resulting in lower royalties.

Recent US pipeline developments that enable oil at Cushing to reach the US Gulf Coast are expected to ease the existing supply glut at Cushing and support stronger WTI prices relative to Brent.

WTI-WCS Differential

Alberta's oil sands deposits are the third largest proven reserves in the world, and with substantial investment over the last several decades, production is now ramping up rapidly. However, there is insufficient pipeline capacity for Alberta product to reach markets in Cushing and onto large heavy-oil refineries in need of feedstock in Texas, or to reach port facilities that would enable access to the rest of the world. In addition, recent technological developments have enabled cost-effective extraction of significant deposits of "tight" or "shale" oil in the US midwest, which competes with Alberta's bitumen both in terms of US oil demand and also for the limited pipeline capacity into the US Midwest and Gulf Coast.

While Alberta's oil has always been priced at a discount to North America's WTI benchmark, these developments have led to a significant widening of the gap between WTI and WCS in the last year. It is expected that the discount between WCS and WTI will narrow in the coming years, with new pipeline developments and increased demand from upgrading expansions in US Midwest refineries. Other possible options providing improved access to world markets would narrow the differential or shift emphasis to the differential relative to Brent oil, but the timing of any of these potential developments remains uncertain.

While production and crude oil prices are flat relative to 2012-13, and the exchange rate is expected to be lower, royalties are still forecast to drop by \$295 million in 2013-14, to \$1.6 billion. This reflects the fact that an increasing proportion of production is from horizontal oil wells, which are eligible for the horizontal well royalty rate. Horizontal wells receive the 5% royalty rate for the first year like all conventional oil and gas wells drilled in Alberta but can receive the 5% rate for an additional one to three years depending on the depth of the well. Crude oil royalties are expected to decline to \$1.4 billion by 2015-16.

Oil Assumptions

	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Revenue (\$ millions)						
Bitumen royalty	4,513	5,653	3,482	3,367	4,523	6,695
Crude oil royalty	2,321	2,140	1,910	1,615	1,626	1,373
Prices						
West Texas Intermediate (US\$/bbl)	97.33	99.25	92.58	92.50	95.00	92.00
WCS @ Hardisty (Cdn\$/bbl)	80.72	83.28	68.91	68.21	74.85	75.74
Differential (WCS / WTI in Cdn \$)	17%	17%	26%	27%	22%	19%
Production						
(thousands of barrels per day)						
Conventional	504	524	550	550	553	542
Raw bitumen	1,785	2,045	1,917	2,140	2,330	2,598

NATURAL GAS AND BY-PRODUCT ROYALTY

Natural gas and by-product royalties have declined as a share of non-renewable resource revenue, and are forecast to account for only 13% of the total in 2013-14. As recently as 2008-09, natural gas royalties accounted for nearly half of total non-renewable resource revenue.

*Natural gas prices
expected to rise.*

The outlook for natural gas continues to be weak, with abundant natural gas supplies and dull economic prospects in the US and Europe keeping prices low, although with economic conditions expected to improve, prices should strengthen. North American natural gas storage levels continue to be high with shale gas production growing regardless of low prices and modest demand growth. The forecast price for 2013-14 is Cdn\$3.07/GJ, 81 cents higher than 2012-13, during which prices deteriorated sharply following last year's warm winter, the ongoing weak supply-demand balance, and the strengthening of the Canadian-US dollar exchange rate. The price forecasts for the next three years are based on averages of private sector forecasters.

Natural Gas Assumptions

	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Revenue (\$ millions)	1,304	1,222	554	965	1,064	865
Price (Cdn\$/GJ)	2.98	3.00	2.26	3.07	3.55	3.70
Production (billions of cubic feet)	4,439	4,085	4,184	3,873	3,721	3,616

Natural gas production declined by 5.7% in 2012-13, and is forecast to continue to trend down during the next three years, by 7.4% in 2013-14, and then a further 3.9% and 2.8% in 2014-15 and 2015-16, respectively.

Revenue includes royalties from natural gas by-products, which have been relatively stronger than natural gas royalties. Prices for the by-products, which include propane, butane and pentane, more closely track oil prices which have not been as weak as natural gas prices.

Natural gas and by-product royalties are expected to increase in 2013-14 and 2014-15, as prices creep up and the Canadian-US dollar exchange rate weakens, and royalties then begin to decline with the expected drop in production.

BONUSES AND SALES OF CROWN LEASES

Bonuses and sales of Crown land leases revenue has fallen substantially since the \$3.3 billion realized in 2011-12, when the June 1, 2011 sale brought in \$842 million, the highest one-day sale amount in Alberta's history. In 2012-13, revenue from land lease sales is expected to be under \$1.1 billion, while in 2013-14, it is estimated at between \$1.1 and \$1.2 billion, or 16% of non-renewable resource revenue. Revenue is forecast to fall to \$768 million by 2015-16, as the generally lukewarm forecast for the energy sector weighs on available cash flow.

Crown land lease sales revenue much lower than it was in 2011-12.

Non-Renewable Resource Revenue

(millions of dollars)	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Bitumen royalty	4,513	5,653	3,482	3,367	4,523	6,695
Crude oil royalty	2,321	2,140	1,910	1,615	1,626	1,373
Natural gas & by-products royalty	1,304	1,222	554	965	1,064	865
Bonuses & sales of Crown leases	3,312	2,037	1,058	1,148	952	768
Rentals and fees	169	151	169	145	138	130
Coal royalty	29	35	(2)	10	11	11
Drilling stimulus initiatives	25	-	-	-	-	-
Total Resource Revenue	11,673	11,238	7,171	7,250	8,314	9,842

TAX REVENUE

Tax revenue, which accounts for 49% of total revenue is forecast at \$19 billion in 2013-14, an increase of \$361 million, or 1.9% from 2012-13, with increased personal income, property and other tax revenue partly offset by lower corporate income tax revenue.

Personal income tax is forecast at \$10 billion, or 26% of total revenue.

Personal income tax is forecast at \$10 billion, or 26% of total revenue, in 2013-14. This is an increase of \$374 million, or 3.9% from 2012-13. Revenue in 2012-13 increased by \$313 million from the original *Budget 2012* estimate due to higher-than-expected 2011 tax year assessments, and strong population and income growth. The higher 2011 assessments increase the base used to forecast 2012-13 and future year revenue, and also require a positive prior years' adjustments of \$167 million to 2012-13 revenue.

Personal Income Tax Revenue

(millions of dollars)	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Base revenue	9,627	10,001	10,567	11,180
Adjustments to prior years	(167)	-	-	-
Total	9,460	10,001	10,567	11,180
Base revenue change (%)		5.7	5.7	5.8

After prior-years' adjustments, base income tax revenue is forecast to grow by 5.7% in 2013-14. Alberta primary household income is estimated to have grown by 7.3% in 2012, and is forecast to grow by 5.4% in 2013 and 5.2% in 2014, due to healthy employment, wage and population growth. As a result, personal income tax revenue is expected to grow by an average of 5.7% in 2014-15 and 2015-16, reaching \$11.2 billion in 2015-16.

Corporate income tax is forecast at \$4.8 billion, 12.5% of total revenue.

Corporate income tax is forecast at \$4.8 billion, 12.5% of total revenue, in 2013-14. This is a decrease of \$149 million, or 3% from 2012-13. Cash instalment payments from corporations in 2012-13 were higher than would be expected given the weakness in corporate profits resulting from the struggles in the energy sector and their impact on the broader business sector. The higher-than-expected tax instalments were likely due in part to several changes to corporate income tax implemented by the federal government (related to income trusts and partnerships), which essentially caused a one-time jump in tax revenue during the transition.

Corporate income tax revenue is forecast to grow at an average of almost 9% per year between 2013-14 and 2015-16, reaching \$5.7 billion. Net corporate operating surplus is expected to recover from the drop of 6.6% in 2012, to an increase of 5.9% in 2013 and then to about 9% growth in the next three years. Costs are projected to remain stable, with population growth and in-migration

keeping labour costs in check, and with growth in business investment moderating after a frantic decade of expansion. Business income is anticipated to rise, with oil sands production growth offsetting somewhat lower prices, gains in the manufacturing sector, particularly in machinery exports, strong prices in the agriculture and forestry sectors, and robust housing construction activity.

Corporate Income Tax Revenue

(millions of dollars)	2011-12 Actual	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Total	3,555	4,972	4,823	5,324	5,702
Revenue change (%)		39.9	(3.0)	10.4	7.1

Education property tax revenue is forecast at \$1.8 billion in 2013-14, an increase of \$73 million, or 4.1% from 2012-13. A new policy for determining the property tax requisition is being implemented in *Budget 2013*. The amount of revenue to be collected (or the requisition amount) will now be based on 32% of total operating expense of the education system. As a result, 2013 education property tax mill rates are being reduced by 1.8%. The residential/farm rate will drop five cents to \$2.65 per \$1,000 of equalized assessment, and the non-residential rate will fall seven cents to \$3.90 per \$1,000 of equalized assessment. Since the province took over responsibility for the education property tax in 1994, the proportion of provincial education property tax relative to total provincial and municipal property tax has fallen from 51% to 27%, while the municipal portion has increased from 49% to 73%. More details on the education property tax changes are provided in the Tax Plan chapter.

Other tax revenue is forecast at \$2.4 billion in 2013-14, an increase of \$63 million, or 2.7% from 2012-13. Most of these taxes are volume-based, so growth is driven largely by economic and population growth. Revenue is anticipated to grow at an average of 2.7% for the following two years, reaching \$2.5 billion in 2015-16.

Budget 2013 introduces a new policy for determining education property tax requisition.

Tax Revenue

(millions of dollars)	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Personal income tax	8,563	9,314	9,627	10,001	10,567	11,180
Corporate income tax	3,555	4,471	4,972	4,823	5,324	5,702
Education property tax	1,660	1,762	1,762	1,835	1,878	1,935
Other taxes	2,241	2,344	2,327	2,390	2,458	2,520
Total	16,019	17,891	18,688	19,049	20,227	21,337

FEDERAL TRANSFERS

Federal transfers, which account for 13% of total revenue, are forecast at \$5.1 billion in 2013-14, an increase of \$265 million or 5%. Higher Canada Health Transfer, Canada Social Transfer and transfers for agriculture support programs more than offset reductions from the winding down of federal stimulus programs for infrastructure. Federal transfers are forecast to grow by 19%, or almost \$1 billion, in 2014-15 as funding for the Canada Health Transfer shifts to an equitable model.

CANADA HEALTH TRANSFER

Canada Health Transfer revenue is estimated to increase 9.9% in 2013-14 as the cash value of the national transfer is legislated to grow at 6% and Alberta's share of the national population increases.

Beginning in 2014-15, Alberta will receive equal per-capita cash under the Canada Health Transfer. Alberta is currently the only province to receive less than equal per-capita funding under the Canada Health Transfer. The federal government's commitment to change to an equitable funding model will help boost revenue by about \$1 billion.

Transfers from Government of Canada

(millions of dollars)	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Canada Health Transfer	2,155	2,358	2,364	2,597	3,642	3,894
Canada Social Transfer	1,256	1,310	1,315	1,374	1,428	1,483
Agriculture support programs	277	322	287	319	333	333
Labour market agreements	173	173	181	174	119	119
Infrastructure support	511	433	390	370	330	266
Other transfers	405	319	313	281	229	222
Total	4,777	4,915	4,850	5,115	6,081	6,317

Revenue received for capital purposes

The new fiscal framework separates operational and capital plans, and consequently revenue received for capital purposes is reported as funding in the Capital Plan. Over 70% of this revenue in 2013-14 comes from federal government transfers. Over the next several years the amounts provided by the federal government will decrease as several major infrastructure stimulus programs introduced since 2009 conclude.

INVESTMENT INCOME

Investment income, which accounts for 5.6% of total revenue, is forecast at \$2.1 billion in 2013-14. This is a decrease of \$177 million, or 7.6% from 2012-13. Increases in income from the Heritage Fund, endowment funds, Alberta Capital Finance Authority and Agriculture Financial Services Corporation, are more than offset by lower income from the Contingency Account (formerly the Sustainability Fund). Income is forecast to rise by an average of 4% over the following two years, reaching \$2.3 billion in 2015-16.

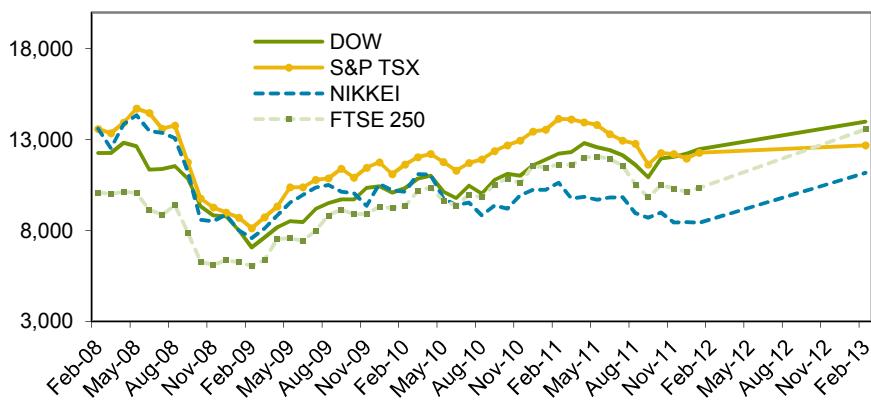
HERITAGE FUND AND ENDOWMENT FUNDS

These funds, with a forecast book value of \$17.6 billion at March 31, 2013, are invested for long term growth, in diversified portfolios with assets such as equities, bonds, real estate, private equity and infrastructure.

Income from the Heritage Fund and endowment funds is estimated to increase slightly, by \$41 million, in 2013-14. The reason for the marginal increase is strong 2012-13 income, as weak equity markets early in 2012 recovered robustly, creating gains in asset values, some of which were realized. Heritage Fund investment income is forecast to be \$1,368 million in 2013-14 and \$1,406 million by 2015-16. Income in the three endowment funds (Alberta Heritage Foundation for Medical Research, Alberta Heritage Scholarship and Alberta Heritage Science and Engineering Research) is forecast at \$234 million in 2013-14 and is expected to remain flat over the next two years.

Heritage Fund and endowment funds forecast to have a book value of \$17.6 billion at March 31, 2013.

Equity Market Performance, 2009–2013



CONTINGENCY ACCOUNT (SUSTAINABILITY FUND)

The Contingency Account (formerly the Sustainability Fund) offsets operational deficits and various other cash requirements. As a result, the Account is invested in short to medium term, relatively liquid assets. Income from the Account is estimated to decline substantially, by \$237 million, to \$63 million in 2013-14 as a result of its lower forecast balance. Realized income in 2012-13 of \$300 million was significant as assets were sold to draw out the \$6 billion needed to fund government operations and various cash needs.

Contingency Account offsets operational deficits under the new fiscal framework.

Fund Assets / Investment Income

(millions of dollars)

	Assets as at Mar. 31, 2013	2011-12 Actual	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Heritage Savings						
Trust Fund	14,872	898	1,329	1,368	1,371	1,406
Endowment Funds ^a	2,746	151	232	234	230	230
Contingency Account	2,744	557	300	63	42	109
Alberta Capital						
Finance Authority	14,070	247	259	279	294	297
Agriculture Financial						
Services Corp.	3,314	108	109	124	150	184
Other ^b	606	98	93	77	83	91
Total	38,352	2,059	2,322	2,145	2,170	2,317

^a Includes Alberta Heritage Foundation for Medical Research Endowment Fund, Alberta Heritage Scholarship Fund and Alberta Heritage Science and Engineering Research Fund.

^b Assets include the Cancer Prevention Legacy Fund and Alberta Enterprise Corporation; investment income includes income from these sources and other investment income from a variety of smaller funds and accounts.

The value of the Account is expected to drop again in 2013-14, by \$2 billion, to \$691 million. With the Account re-purposed under the new fiscal framework, it will only be used to offset the operational deficit and cash needs. Income is forecast to drop to \$42 million in 2014-15, but then begin to increase as deposits into the Account from operational surpluses increase its balance to \$4.5 billion by the end of 2015-16.

OTHER REVENUE

Other revenue, which makes up 13% of total revenue in 2013-14, is forecast at \$5.1 billion, an increase of \$162 million, or 3.3% from 2012-13. The increase is generally due to the impact of population growth on volume-driven revenue, and for the next several years, to land sales in the Fort McMurray area. Other revenue is forecast to increase by an average of 1.3% over the following two years, reaching \$5.2 billion by 2015-16. Changes from 2012-13 include:

- ◆ A \$42 million increase in net income from the Alberta Gaming and Liquor Commission (AGLC), reflecting growth in revenue from increasing sales volumes and restraint in AGLC expense.
- ◆ A \$36 million, or 17%, increase in Alberta Treasury Branches (ATB) net income, estimated at \$250 million in 2013-14. ATB net income is expected to continue strong growth over the following two years, averaging 15.6% and reaching \$334 million by 2015-16. This is due to continued efficiency gains, growth in the balance sheet and in non-interest revenue.
- ◆ A \$69 million increase in premiums, fees and licences revenue, primarily from an increase in energy industry levies as the Energy Resources Conservation Board moves to recovering operating costs fully from industry, and from higher motor vehicle licences revenue. A new provincial levy of 44 cents per month per cellphone number is expected to increase revenue by \$8 million in 2013-14, to be used to provide stable funding for 911 call centres across Alberta.

A new 44 cent per month per cellphone levy will support 911 call centres.

- ◆ A \$15 million increase in other revenue. Increases due mainly to land sales for Fort McMurray development are partly offset by lower Climate Change and Emissions Management revenue and refunds of expense. Fort McMurray land sales revenue is estimated to be \$150 million in 2013-14 and then about \$100 million in each of the following two years.

Fort McMurray land sales revenue of \$150 million in 2013-14 and about \$100 million in each of the following two years.

Revenue from Other Sources

(millions of dollars)	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Alberta Gaming and Liquor Commission	2,172	2,037	2,160	2,202	2,226	2,247
Alberta Treasury Branches	195	214	214	250	291	334
Premiums, fees and licences	1,397	1,391	1,503	1,572	1,636	1,687
Other	1,165	823	1,014	1,029	966	917
Total	4,929	4,465	4,891	5,053	5,119	5,185

RISKS

Alberta relies heavily on revenue sources that can be volatile and unpredictable, including non-renewable resources, corporate income tax and investment income. Since 2000-01, these revenue sources have accounted for anywhere between 38% and 55% of total revenue. In 2012-13 they amounted to 38% of total revenue, and in 2013-14, they are forecast to be only 37% of total revenue. This is an indication of just how dramatic the drop in resource revenue has been, especially since investment income has been stronger than initially expected.

This revenue is linked to factors such as energy prices, equity markets and exchange rates, which have fluctuated dramatically in recent years and are outside Alberta's influence. These factors can vary significantly from assumptions used to prepare budget forecasts. In-year changes can be sudden and are usually unpredictable by both internal government forecasters or private forecasters. Large deviations from budgeted revenue have resulted.

Revenue in 2012-13 is 5.9% lower than forecast and there has been considerable volatility within specific revenue sources. As noted, resource revenue is over \$4 billion, or 36% lower than forecast in *Budget 2012*, while investment income is \$528 million, or 29% higher.

Resource revenue \$4 billion lower in 2012-13 than was forecast in Budget 2012.

The degree of uncertainty places the Alberta government in a unique position relative to other governments. Like energy companies, banks and other investors, Alberta must assess the degree of risk it is willing to take associated with its revenue outlook and spending decisions. Revenue in 2013-14 could be as much as 10%-15% higher or lower than estimated, depending on variations in energy prices, exchange rates, economic growth or equity markets.

GLOBAL ECONOMY

Budget 2013 assumes global economic growth of 3.5% in 2013.

- ◆ Budget 2013 assumes global economic growth of 3.5% in 2013, slightly higher than 2012, based on improving performance in China and other emerging markets. This growth is still considered weak, restrained by continuing concerns over the prolonged recession in Europe and uncertainty over the US fiscal situation.
- ◆ Weaker-than-forecast global growth would negatively affect Alberta's revenue through lower energy prices and equity market returns. Stronger growth would have a positive impact.

ENERGY PRICES

The gap between WTI and WCS has increased dramatically in the last year.

- ◆ Oil prices are closely linked to global economic conditions. Determining the price of oil three years out is always difficult, as prices are influenced by a wide range of global factors.
- ◆ The gap between WTI and the global benchmark Brent price, which is received once oil leaves the North American coast, has remained much larger in 2012-13 than assumed in *Budget 2012*, depressing the WTI price outlook.
- ◆ Alberta's oil sands production is and will be increasing, but the expansion of pipeline capacity to transport it to markets, either in the US or to the rest of the world, is far behind and insufficient. While Alberta's oil has always been priced at a discount to North America's WTI benchmark, the gap between WTI and WCS has increased dramatically in the last year.
- ◆ It is expected that the discounts between WCS and WTI, and WTI and Brent will narrow in the coming years, as enhanced transportation infrastructure and options provide improved access to markets, but the timing remains uncertain.
- ◆ Natural gas prices remain weak due mainly to increasing production of US shale gas that has outstripped demand growth.

INTEREST RATES

- ◆ Interest rates are forecast to rise as financial markets stabilize and global economic growth moves to a firmer footing. Higher rates generally reduce government investment income. While short-term investments benefit, higher rates cause an immediate reduction in the market value of bonds held in endowment portfolios.
- ◆ Rate increases could also discourage business investment, reduce economic activity and lower revenue from royalties and taxes. Higher rates also pose a big risk for indebted households and are expected to weigh on consumer spending going forward.
- ◆ Government borrowing for capital projects adds risk, as higher future interest rates would make borrowing or refinancing of debt more expensive. The government is setting aside funds in an account to mitigate this risk.

EXCHANGE RATES

- ◆ A stronger Canadian dollar would dampen the value of oil exports and the demand for exports priced in Canadian dollars, and in turn Alberta's economic growth. Changes in the exchange rate affect the profitability of energy producers, which can affect investment and government resource revenue as energy prices and contracts are mainly in US dollars. Investment income is also impacted due to significant foreign holdings in the Heritage Savings Trust Fund and endowment funds.

EQUITY MARKETS

- ◆ While equity markets have performed well in the latter half of 2012, markets can be affected by a wide range of inter-related factors, such as the uncertainty regarding the US fiscal situation and the European recession, or fluctuations in commodity prices and interest rates.
- ◆ Alberta has significant assets invested globally in a variety of asset classes. The investment income forecast is based on long-run expected rates of return. Annual market performance and, in turn investment income, could vary considerably from the average.

Alberta has significant assets invested globally in a variety of asset classes.

CORPORATE NET OPERATING SURPLUS

- ◆ While corporate profits are expected to recover and increase over the next several years, this may not necessarily translate into increased corporate income tax revenue, just as 2012-13 corporate income tax revenue did not reflect the poor performance of corporate net operating surplus in 2012. Taxable income can differ from profits, due to tax changes, or as corporations use discretionary deductions such as depreciation or prior-year losses.

Corporate net operating surplus expected to recover and increase over the next several years.

Sensitivities to Fiscal Year Assumptions, 2013-14^a

(millions of dollars)

	Change	Net Impact
Oil Price (WTI US\$/bbl)	-\$1.00	-142
WCS / WTI Differential (in Cdn\$) ^b	+1%	-139
Natural Gas Price (Cdn\$/GJ)	-10 Cents	-23
Exchange Rate (US¢/Cdn\$)	+ 1 Cent	-162
Interest Rates	+1%	-181
Household Income	-1%	-127

^a Sensitivities are based on current assumptions of prices and rates and show the effect for a full 12 month period. Sensitivities can vary significantly at different price and rate levels. The energy price sensitivities do not include the potential impact of price changes on the revenue from land lease sales. The interest rate sensitivity has two components, an increase in cash interest income and a capital loss. When interest rates rise, bond prices go down, causing a capital loss.

^b The WCS / WTI differential is forecast to be 27% in 2013-14.

❖ OPERATIONAL EXPENSE

OPERATIONAL EXPENSE

The *Budget 2013* operational plan provides for the day-to-day costs to deliver government programs and services to Albertans. This plan reflects the government's long-term focus on the priorities Albertans have identified:

- ❖ Investing in families and communities;
- ❖ Securing Alberta's economic future; and
- ❖ Advancing world-leading resource stewardship.

In addressing these priorities, critical areas have been identified where special efforts from government are required: primary health care, early childhood development, education and entrepreneurship, rebalancing the fiscal framework, an integrated resource management system, and expanded market access for Alberta products.

This operational plan reflects the responsible changes that have been made to ensure that the government lives within its means, while providing for Albertans' priorities. Recognizing the significant change in the provincial revenue forecast, the government has taken action to rein in spending, including limiting 2013-14 operating expense to 2012-13 levels. An accelerated results-based budgeting process will ensure government departments and agencies are efficient, while effectively delivering the programs and services that matter most.

Budget 2013 allocates \$38.0 billion to government programs and services in 2013-14. This is essentially the same level of operational expense as in 2012-13 when adjusted for disaster / emergency assistance.

Budget 2013 Operational Plan

(millions of dollars)

Operational Expense	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Operating Expense (net of in-year savings)	36,419	36,422	37,144	37,904
Provision for Disaster / Emergency Assistance	677	200	200	200
Amortization / Inventory Consumption	966	982	1,000	1,040
General Debt Servicing Costs	369	402	424	437
Total	38,431	38,006	38,768	39,581

INVESTING IN FAMILIES AND COMMUNITIES

Budget 2013 invests in families and communities, with over 60% of operational expense allocated to this priority. The government's strategic plan identifies three goals in this area, with a critical focus on primary health care and early childhood development.

Over 60% of operational expense is allocated to support families and communities.

Healthy Albertans. Alberta's health care system gives Albertans the supports they need to live healthy lives.

Support Vulnerable Albertans. Vulnerable Albertans are safe, and have opportunities to contribute to and benefit from Alberta's economic, social and cultural life.

Honour Alberta's Communities. Alberta's communities are safe, prosperous, welcoming, culturally diverse and desirable places to live or destinations to visit.

**Budget 2013 Operational Expense
Investing in Families and Communities**
(millions of dollars)

	2013-14 Estimate	2014-15 Target	2015-16 Target
Culture	166	166	168
Health	17,112	17,473	17,827
Human Services	4,258	4,281	4,410
Justice and Solicitor General	1,278	1,303	1,289
Municipal Affairs ^a	503	494	499
Tourism, Parks and Recreation	180	187	194
Total	23,497	23,904	24,387

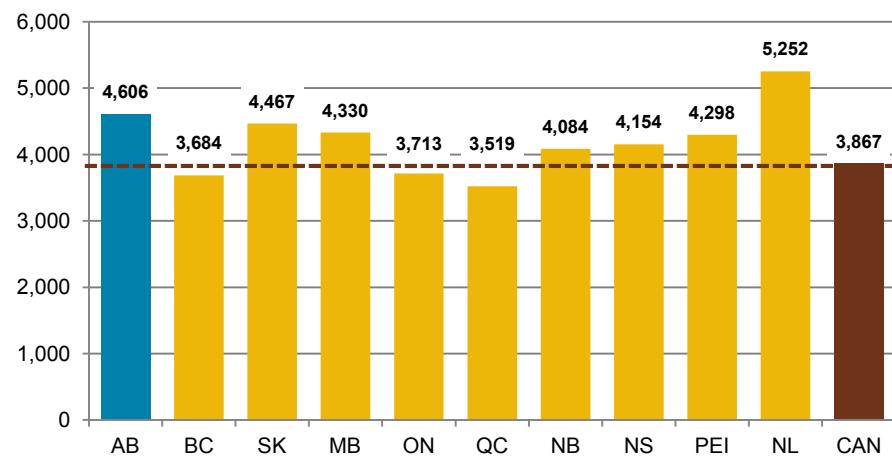
^a includes general debt servicing costs

HEALTHY ALBERTANS

Budget 2013 reduces the rate of growth in health operating expense to 3% in 2013-14 from 9% (past ten-year average).

In 2012-13, it is expected Alberta will spend more per capita on health than any other province except Newfoundland and Labrador, and almost 20% more than the national average.

Per Capita Provincial Government Health Expenditures by Province, 2012-13
(dollars)



Source: Canadian Institute for Health Information – Table F.1.1.2

Note: forecast data

MINISTRY OF HEALTH

Budget 2013 continues to invest in healthy Albertans, primarily through the Ministry of Health. The ministry's operational budget is \$17.1 billion in 2013-14, an increase of nearly \$500 million or 3% from the 2012-13 forecast. This increase is significantly lower than the average increase in health operating expense of 9% per year over the past ten years.

The government is focused on improving the health of Albertans over time and will continue to invest strategically to improve access to primary care, while emphasizing better utilization of resources within the health system and promoting wellness.

Changes to be implemented in *Budget 2013* include:

- ◆ Base operating grant rate increases to Alberta Health Services are lowered;
- ◆ Generic drug prices are reduced; and
- ◆ A new PharmaCare program will be introduced in the fourth quarter of 2013-14. This program will provide access to all Albertans, regardless of age, to comprehensive drug and supplemental health benefit coverage.

Alberta Health Services (AHS). The final two years of the five-year funding commitment to AHS will be adjusted as part of *Budget 2013*. The base operating grant will increase 3% in 2013-14, to \$10.5 billion, and by another 3% in 2014-15. In 2015-16, the operating grant will increase by 2% to over \$11 billion. In addition, AHS will receive \$393 million per year for the next three years to support new health care capacity at the South Calgary Health Campus and the Kaye Edmonton Clinic.

Alberta Health Services base operating grant increases to \$10.5 billion in 2013-14.

Physician Compensation and Development. Over \$3.4 billion is budgeted in 2013-14 for various compensation and development programs for almost 7,900 physicians and 1,400 medical residents. Talks are ongoing toward a new agreement between the government and the Alberta Medical Association.

Drugs and Supplemental Health Benefits. The budget for these benefits is over \$1.1 billion in 2013-14, including \$472 million for prescription drug benefits for seniors. This budget reflects over \$90 million in savings anticipated through changes in generic drug pricing. As well, the new PharmaCare program is expected to generate \$45 million in savings in 2013-14 and annual savings of \$180 million beginning in 2014-15.

Other Health and Seniors Services. The budget for these services is \$927 million in 2013-14, including \$172 million for tissue and blood services and \$30 million for enhanced home care and rehabilitation services. There is also \$5 million for a new insulin pump therapy program for eligible Albertans with type 1 diabetes. This budget includes \$86 million for Alberta Innovates – Health Solutions which is being transferred from Enterprise and Advanced Education to the Ministry of Health effective April 1.

\$235 million in 2013-14 to support existing primary care networks and add new family care clinics.

Primary Health Care. The budget is \$235 million in 2013-14 to support more than 40 existing primary care networks and to add new family care clinics.

Ministry of Health – Operational Expense

(millions of dollars)

	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Alberta Health Services – Base Funding	10,214	10,521	10,839	11,057
Alberta Health Services – New Capacity	185	393	393	393
Physician Compensation and Development	3,511	3,438	3,551	3,612
Drugs and Supplemental Health Benefits	1,196	1,140	1,010	1,028
Other Health and Seniors Services	882	927	972	1,007
Primary Health Care / Addictions and Mental Health	218	262	262	270
Alberta Seniors Benefit	336	358	373	387
Ministry Support Services	75	73	73	73
Total	16,617	17,112	17,473	17,827
Increase (%)		3.0	2.1	2.0

SUPPORT VULNERABLE ALBERTANS

Budget 2013 will support vulnerable Albertans so they can reach their full potential. Transformational change, with a focus on prevention and accountability, is required to accommodate caseload growth and to reduce cost per case. In addition to managing costs, adhering to best practices, reducing administrative burden, and focusing on programs that are most effective and achieve positive outcomes are critical.

MINISTRY OF HUMAN SERVICES

Human Services' operational budget is nearly \$4.3 billion in 2013-14, consistent with the 2012-13 forecast.

The Social Policy Framework will guide program alignment and priority-setting, helping to achieve better outcomes for children, adults with disabilities and families.

Changes to be implemented in *Budget 2013* include:

- ◆ The Alberta Works caseload will be reduced, primarily impacting clients who are “expected to work” or “learners.” With increasing employment opportunities in Alberta, less funding is allocated for training and employment services;
- ◆ Transitioning services for disabled Albertans to a model based on assessed needs with a greater focus on achieving positive outcomes;
- ◆ A portion (\$25 million) of the wage increases planned for contracted agency staff in 2013-14 will be deferred to 2015-16; and
- ◆ The Summer Temporary Employment Program (STEP) is suspended. With continued economic growth and job prospects in Alberta, government will continue to work with not-for-profit organizations to understand and address the growth of youth career opportunities in their sector.

Nearly \$1.1 billion for the AISH Program in 2013-14.

Assured Income for the Severely Handicapped (AISH). Income and health benefits and other supports will be provided to about 47,000 disabled adults to help them live more independently. *Budget 2013* maintains the maximum monthly income benefit at \$1,588, as well as the higher monthly

income exemptions implemented in *Budget 2012*. Nearly \$1.1 billion is budgeted for AISH in 2013-14, an increase of \$46 million or 4.4% from the 2012-13 forecast.

Support to Persons with Developmental Disabilities (PDD). PDD is evolving into an outcomes-based service delivery system that provides a variety of supports to encourage independence and community involvement for the 10,200 adults with developmental disabilities. The budget is \$694 million in 2013-14, a slight increase from 2012-13.

\$694 million in Support to Persons with Developmental Disabilities (PDD) in 2013-14.

Alberta Works – Employment Training, Income Supports and Health Benefits.

These programs help underemployed and unemployed people find and keep jobs, and help eligible Albertans cover their basic costs of living. Albertans receiving income support benefits also receive financial assistance for child care, school supplies and work clothes. Combined, the budget for these programs is \$883 million in 2013-14.

The income supports budget is \$421 million in 2013-14, \$44 million lower than the 2012-13 forecast. Continued economic growth in Alberta and a focus on helping the most employable clients obtain and keep employment will reduce caseloads.

Health benefits include the Alberta Child Health Benefit and the Alberta Adult Health Benefit. Combined, the health benefits budget is nearly \$156 million in 2013-14, a \$15 million decrease from 2012-13, based on lower expected caseloads and savings from lower generic drug costs.

Child Intervention. The budget is \$694 million in 2013-14, an increase of nearly \$16 million or 2.3% from 2012-13. This budget includes \$197 million for Foster Care Support, funding more than 5,400 foster child placements.

Child Care. The budget is nearly \$270 million in 2013-14, a \$5 million or 1.9% increase from 2012-13. This budget maintains full child care subsidies for families with a household income of less than \$50,000, as introduced in *Budget 2012*.

Family Support for Children with Disabilities. Supports are provided to families so that children with disabilities have an opportunity to develop to their potential. The budget is \$143 million in 2013-14, an increase of \$6 million or 4.3% from 2012-13, reflecting caseload growth.

Homeless Support. A new Interagency Council on Homelessness has been established to lead implementation of the 10-year plan to end homelessness in Alberta. The budget is \$111 million in 2013-14, which will provide outreach support services and help house about 1,800 homeless Albertans this year, as well as fund over 3,200 spaces in emergency/transitional shelters. Since 2009-10, about 6,600 Albertans who were homeless have been placed in permanent housing.

Early Childhood Development. As part of the government's focus on early childhood development, Human Services will provide \$89 million in 2013-14 for early intervention and fetal alcohol spectrum disorder initiatives. Human Services, Health and Education will continue to work together with community partners to promote healthy starts for children.

Ministry of Human Services – Operational Expense

(millions of dollars)

	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Assured Income for the Severely Handicapped	1,045	1,091	1,109	1,140
Employment	981	883	824	841
Supports to Persons with Disabilities	688	694	706	723
Child Intervention	678	694	734	764
Child Care	265	270	277	290
Family Support for Children with Disabilities	137	143	142	143
Homeless Support	110	111	111	117
Early Intervention Services	95	101	102	111
Other Programs and Services	225	231	236	240
Ministry Support Services	43	40	40	41
Total	4,267	4,258	4,281	4,410
Change (%)		(0.2)	0.5	3.0

SENIORS PROGRAMS

In addition to prescription drug benefits, over \$500 million in direct services and supports will be provided to eligible Alberta seniors in 2013-14. Some changes are being made to focus these programs on the most vulnerable.

Alberta's seniors benefit budget is \$358 million in 2013-14.

Alberta Seniors Benefit. Alberta's seniors benefit is the highest of any province or territory, supporting about 152,000 low-income seniors. The budget is \$358 million in 2013-14, an increase of nearly \$22 million or 6.4% from 2012-13. Changes are being made to the program eligibility. Income exemptions for workers compensation benefits, alimony payments and Canada Pension Plan - Disability Payments will be eliminated. Seniors residing in Canada for less than 10 years will no longer be eligible for the program, consistent with the federal government's eligibility criteria for Old Age Security.

Other Seniors Programs. Other seniors programs include Seniors Dental, Optical and Supplementary Health Benefits, Seniors Lodge Assistance, and Special Needs Assistance for Seniors. Combined, the budget for these programs is \$179 million in 2013-14, an increase of \$6 million or 3.5% from 2012-13.

The Seniors Property Tax Deferral Program will be available in 2013.

Property Tax Assistance. The Seniors School Property Tax Assistance program will be income-tested for 2013 and will end as of 2014. The Seniors Property Tax Deferral Program will be available in 2013 and will allow eligible senior homeowners to defer all or part of their property taxes through a low-interest home equity loan from the Government of Alberta. With this voluntary program, government will pay the property taxes to the municipality on behalf of the senior, and the senior will repay the loan, with interest, when they sell their home or sooner if they choose. In 2013-14, \$3 million in loans are anticipated under this program, increasing to \$34 million by 2015-16.

HONOUR ALBERTA'S COMMUNITIES

Budget 2013 honours Alberta's communities with significant funding for the important services municipalities provide to their residents. Direct operating support to municipalities is nearly \$284 million in 2013-14 and will increase to over \$294 million by 2015-16. Significant capital support is provided mostly through the Municipal Sustainability Initiative (MSI) and other municipal infrastructure support included in the Capital Plan.

\$284 million in direct operating support to municipalities in 2013-14.

In *Budget 2013*, operating support now under the MSI will mostly transition to the Regional Collaboration program by 2015-16, and a new program to support 911 call centres will be implemented. In addition, *Budget 2013* continues to provide for Family and Community Support Services and programs focused on public security.

Changes to be implemented in *Budget 2013* include:

- ◆ Safe Communities Innovation Fund is eliminated;
- ◆ Community Spirit Donation Grants program is eliminated; and
- ◆ Selected reductions to correctional and court services.

Regional Collaboration Program. The budget for this program will increase by \$20 million in 2013-14, to \$29 million. By 2015-16, another \$35 million will transition from MSI operating grants to this program to support greater intermunicipal and regional collaboration.

A new program to support 911 call centres will be implemented during 2013-14.

Support for 911 Call Centres. As announced in January, a new program to provide stable funding for 911 call centres will be implemented during 2013-14, funded by a new provincial levy. With \$8 million in 2013-14 (based on mid-year implementation), increasing to \$19 million by 2015-16, this program will help maintain and enhance 911 services throughout the province.

Family and Community Support Services (FCSS). Through this 80/20 funding partnership between the province, municipalities and the Metis Settlements, communities design and deliver local preventive programs that promote and enhance well-being among individuals, families and communities. The FCSS budget in Human Services is maintained at over \$76 million per year in *Budget 2013*.

Public Security. Funding for public security will be \$475.5 million in 2013-14, a \$3 million increase from the 2012-13 forecast. Public security programs include:

- ◆ **Policing.** The budget for direct policing programs is nearly \$347 million in 2013-14, a slight increase from 2012-13. Funding for the provincial policing contract has increased by nearly \$13 million to over \$226 million in 2013-14. This will provide for 26 new RCMP officers in 2013-14, increasing the complement to 1,557 officers.
- ◆ **Sheriffs.** Provincial sheriffs provide court security and prisoner transport, traffic enforcement and protection services. The budget for sheriffs programs is nearly \$63 million in 2013-14, an increase of \$6 million or 10.9% from 2012-13.

- ◆ **Enforcement.** The budget for fish and wildlife, parks and commercial vehicle enforcement is \$41.5 million in 2013-14, an increase of over \$1 million or 3.3% from 2012-13.

Correctional Services. The new Edmonton Remand Centre will open in 2013. The new centre will utilize a direct supervision model which will be safer for both inmates and staff. The budget for Correctional Services is \$242 million in 2013-14, an increase of nearly \$5 million or 2.1% from 2012-13. Within this program, there will be changes to limit spending growth. This includes eliminating funding to support intermittent custody arrangements.

Court Services. The budget for court services is \$199 million in 2013-14, a \$2 million increase from 2012-13. To help manage costs, up to six courtrooms will be closed as prosecutions for most minor property crimes will be reduced.

SECURING ALBERTA'S ECONOMIC FUTURE

One-third of the operational budget is allocated to securing Alberta's economic future.

Budget 2013 will help to secure Alberta's economic future, with about one-third of operational expense allocated to this priority. The government's strategic plan identifies two goals in this area, with a critical focus on education and entrepreneurship and rebalancing the fiscal framework.

Invest in Learning. Alberta's economy is knowledge-inspired and its education system is sustainable and meets the lifelong learning needs of Albertans as well as the needs of the province.

Preserve the Province's Finances. Alberta has a strong fiscal future, well managed finances, wise provincial program and infrastructure spending and intelligent savings and investment policies.

Budget 2013 Operational Expense Securing Alberta's Economic Future (millions of dollars)

	2013-14 Estimate	2014-15 Target	2015-16 Target
Education	6,224	6,380	6,589
Enterprise and Advanced Education	2,687	2,734	2,761
Infrastructure	683	658	642
Service Alberta	297	289	288
Transportation	953	990	997
Treasury Board and Finance ^a	1,599	1,631	1,637
Total	12,443	12,682	12,914

^a includes general debt servicing costs

INVEST IN LEARNING

Education and Entrepreneurship. Strong strategic relationships between government, post-secondary institutions, the research and innovation system and the province's entrepreneurial business sector will enable Alberta to take advantage of opportunities in a global economy.

Budget 2013 continues to invest in learning, primarily through the ministries of Education and Enterprise and Advanced Education. Changes are being made to the funding commitments included in *Budget 2012*.

MINISTRY OF EDUCATION

Education's operational budget is over \$6.2 billion in 2013-14, an increase of \$35 million from the 2012-13 forecast.

The government is committed to a learner-centered education system and to bringing *Inspiring Education* to life in Alberta schools.

Changes to be implemented in *Budget 2013* include:

- ◆ Base instruction grants will be maintained at 2012-13 rates for the next three years;
- ◆ Alberta Initiative for School Improvement and Fuel Price Contingency grants will be eliminated April 1;
- ◆ The formula for plant operations and maintenance funding for public and separate school boards will be modified and plant operations and maintenance funding for private schools will be eliminated; and
- ◆ Internal Education department restructuring will save \$18 million in 2013-14 and \$45 million over three years.

Operating Support for School Boards. Total operating and property tax support for public and separate school boards will be over \$6.1 billion in 2013-14, and will be nearly \$6.5 billion by 2015-16. In *Budget 2013*, grants for inclusive education and class size funding will increase by 2% per year, and all other funding framework grants will be maintained at 2012-13 rates for the next three years. The 2013-14 budget provides for the costs of projected enrolment growth of 10,900 students (1.9%), as well as the salaries of about 36,000 teachers and other education costs.

The 2013-14 budget includes nearly \$110 million for “equity of opportunity” grants which provide for classroom supports to provide all students with appropriate learning opportunities. The allocation of this funding will be restructured to recognize additional costs faced by rural school boards.

The 2013-14 budget also provides:

- ◆ \$470 million to operate and maintain schools;
- ◆ \$273 million to support student transportation services;
- ◆ \$248 million for the Class Size initiative, bringing total government support for the initiative to \$1.9 billion since 2004-05; and
- ◆ \$50 million for the Student Health Services Initiative.

Teachers' Pensions. Operating support to school boards includes \$353 million in 2013-14 for current service payments for teachers' pensions, with a further \$456 million budgeted in the Ministry of Treasury Board and Finance to provide for the costs of the pre-1992 teachers' pension liability.

Over \$6.1 billion in operating and property tax support for public and separate school boards in 2013-14.

\$809 million for teachers' pensions in 2013-14.

Private Schools. The budget is \$206 million in 2013-14 to support accredited private schools and private operators that provide Early Childhood Services programs for children as young as two and a half years of age.

Ministry of Education – Operational Expense (millions of dollars)

	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Support for School Boards	6,085	6,131	6,268	6,455
Less: Property Tax Support to Opted-out Boards	(217)	(223)	(228)	(235)
Accredited Private Schools	196	206	214	228
Basic Education Programs	99	85	87	87
Ministry Support Services	26	25	25	25
New School Facilities (Amortization)	-	-	14	29
Total	6,189	6,224	6,380	6,589
Increase (%)		0.6	2.5	3.3

MINISTRY OF ENTERPRISE AND ADVANCED EDUCATION

Enterprise and Advanced Education's operational budget is nearly \$2.7 billion in 2013-14, a reduction of \$100 million or 3.6% from the 2012-13 forecast.

The government is committed to more closely align publicly funded post-secondary education, research and innovation in Alberta. Alberta learners, academics, researchers and entrepreneurs will be supported in the creation of new products, processes and companies.

Changes to be implemented in *Budget 2013* include:

- ◆ Post-secondary base operating grants will be reduced in 2013-14;
- ◆ Payments from the Access to the Future Fund will be suspended for another three years; and
- ◆ Alberta Centennial Education Savings Plan grants will be reduced in 2013-14 as the program is winding down.

Operating Support for Post-Secondary Institutions. Operating grants to post-secondary institutions are \$2 billion in 2013-14, a \$147 million or 6.8% decrease from 2012-13. The 2013-14 grants for individual institutions will be determined through a consultative process to develop a strategic approach to delivering quality post-secondary education to Albertans at a sustainable cost. Institutions will be given mandate letters defining their roles and government's expectation for a more unified post-secondary system; for example, enhanced learner pathways for greater transferability, less duplication in specialized academic programs and greater cooperation and sharing of administrative functions.

Student Aid. The budget for Student Aid programs is \$211 million in 2013-14. This budget includes:

- ◆ \$71 million for merit-based scholarship awards to about 38,000 students;
- ◆ \$59 million for bursaries and grants to about 18,000 students;
- ◆ \$42 million for student debt management programs; and

- ◆ \$11 million for Alberta Centennial Education Savings Plan grants. All grants disbursed under this program can remain invested in a Registered Education Savings Plan for use by the eligible beneficiaries in accordance with federal guidelines.

In addition, \$425 million in student loans will be disbursed to more than 58,000 students in 2013-14.

Innovation and Economic Competitiveness. The budget is \$204 million in 2013-14 for economic development, innovation and technology commercialization aimed at enhancing Alberta's global competitiveness.

Apprenticeship and Workforce Strategies. The budget is over \$89 million in 2013-14 for apprenticeship services and leading Alberta's workforce strategy, a decrease of over \$5 million from 2012-13. This decrease is primarily due to a reduction in funding for the Health Workforce Action Plan as the program undergoes review.

Ministry of Enterprise and Advanced Education – Operational Expense (millions of dollars)

	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Support for Post-Secondary Institutions	2,162	2,015	2,059	2,080
Student Aid	157	211	203	203
Other Support for Adult Learning	120	129	141	148
Innovation and Economic Competitiveness	215	204	204	202
Apprenticeship and Workforce Strategies	95	89	87	87
Ministry Support Services	38	39	39	39
New Post-Secondary Infrastructure (Amortization)	-	-	1	2
Total	2,787	2,687	2,734	2,761
Change (%)		(3.6)	1.7	1.0

PRESERVE THE PROVINCE'S FINANCES

Rebalancing the Fiscal Framework. Under the new *Fiscal Management Act*, the province will implement a rebalanced fiscal framework with *Budget 2013*. This new framework is based on extensive consultations with Albertans as described in the Dollars and Sense report and the Savings Plan chapter.

Results-based budgeting and addressing public sector compensation costs are two critical components of preserving the province's finances going forward.

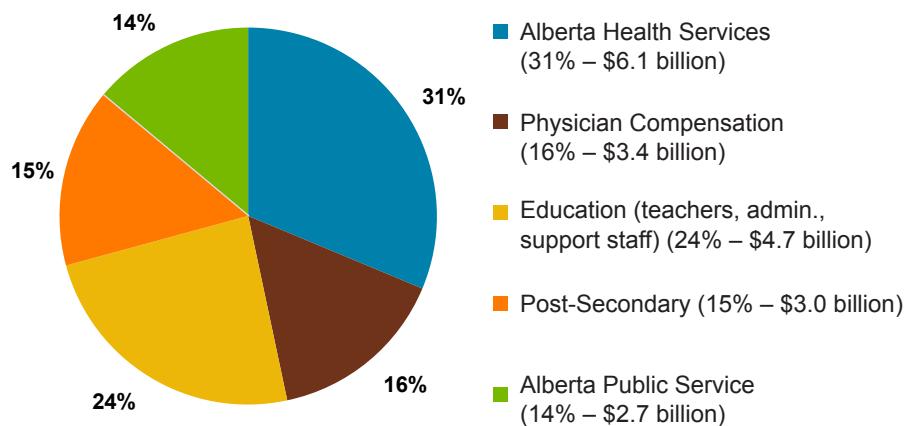
Results-based Budgeting. Under the *Results-based Budgeting Act* the government is committed to review all programs and services, including those provided by government agencies, to assess whether they are meeting their intended objectives and whether they are being delivered in an efficient and effective manner. The November 2012 public report on results-based budgeting described the review process and provided a three-year schedule. Given the fiscal position, the government is accelerating the process, with the comprehensive reviews of all programs now expected to be completed by May 2014.

 *The results-based budgeting review process will be accelerated.*

Other Measures. Infrastructure will review all government-leased space and government-owned assets to determine whether these are still required to support achieving program outcomes.

Public Sector Compensation. Staff compensation costs are a significant driver for overall government operational expense. In 2011-12, the province funded, directly or indirectly, nearly \$20 billion in compensation to the broad public sector, including payments to doctors, nurses, teachers, post-secondary faculty and members of the Alberta Public Service. This was over half of total operational expense that year.

2011-12 Public Sector Compensation - \$19.8 billion



Source: Alberta Treasury Board and Finance

As shown in the table below, most major public sector collective agreements in Alberta have or will expire soon.

Status of Major Public Sector Collective Agreements

Agreement	End Date	Potential Cost
Alberta Medical Association	March 31, 2011	1% increase = \$34 million
Alberta Teachers' Association	August 31, 2012	1% increase = \$40 million
United Nurses of Alberta	March 31, 2013	1% increase = \$17 million
Alberta Union of Provincial Employees: Alberta Public Service	March 31, 2013	1% increase = \$25 million

Containing compensation costs in the broad public sector will be critical given the significantly lower revenue forecast included in *Budget 2013*. Alberta already has the highest paid physicians and post-secondary faculty in Canada, and the highest starting and top salaries for teachers. For registered nurses, only Saskatchewan pays more to top earners. The *Budget 2013* operational plan makes no provision for increased public sector compensation costs.

On February 19, the government announced a three-year wage freeze for management, opted-out and excluded staff in the Alberta Public Service. This is expected to save \$54 million over the next three years. In addition, the government has committed to reduce the number of public sector managers by 10% over the same period.

ADVANCING WORLD-LEADING RESOURCE STEWARDSHIP

Budget 2013 will advance Alberta's world-leading resource stewardship, with about \$2.2 billion per year in operational expense allocated to this priority. The government's strategic plan identifies two goals in this area, with a critical focus on an integrated resource management system and expanded market access for Alberta products.

About \$2.2 billion per year in operational expense is allocated to advancing world-leading resource stewardship.

Innovative and Responsible Resource Development. Alberta's resources are developed using innovative and responsible solutions that protect Alberta's environment and provide a healthy Alberta for future generations.

Build Relationships and Markets. Alberta has access to new markets and enhanced investment attraction through strengthened relationships with existing partners and the creation of relationships with new partners.

Changes to be implemented in *Budget 2013* include:

- ◆ The annual regulatory levy to industry will be increased to fund the new independent energy regulator;
- ◆ The Alberta Farm Fuel Distribution Allowance is eliminated effective March 7, 2013; and
- ◆ No new projects will be approved under the Bioenergy Producer Credit program.

Budget 2013 Operational Expense **Advancing World-leading Resource Stewardship** (millions of dollars)

	2013-14 Estimate	2014-15 Target	2015-16 Target
Aboriginal Relations	167	176	190
Agriculture and Rural Development ^a	938	970	1,063
Energy	462	486	494
Environment and Sustainable Resource Development	517	534	483
International and Intergovernmental Relations	37	38	37
Total	2,121	2,204	2,267

^a includes general debt servicing costs

INNOVATIVE AND RESPONSIBLE RESOURCE DEVELOPMENT

Integrated Resource Management System. An integrated resource management system is about developing the province's resources responsibly while protecting our environment, benefiting Albertans today and in the future. Components of the system are already in place, as regional land-use plans are being developed, a Property Rights Advocate has been appointed and legislation passed that provides for a single regulator for oil, gas, oil sands and coal projects in the province.

Budget 2013 provides for the continuing costs of the Joint Canada / Alberta Implementation Plan for Oil Sands Monitoring. Operating and capital support for the *Water for Life Strategy* is provided. Most funding in support of the *Climate Change Strategy* is now provided through the Capital Plan.

More than \$100 million over two years to support the Joint Canada/Alberta Implementation Plan for Oil Sands Monitoring.

Joint Canada / Alberta Implementation Plan for Oil Sands

Monitoring. Over \$100 million will be provided over the next two years, as Canada and Alberta work together to implement a world class monitoring program for the oil sands region. A new Environmental Monitoring Agency will be established in 2013.

Alberta Energy Regulator. The new regulator will be responsible for all projects from application to reclamation, bringing together the existing regulatory functions from the Energy Resources Conservation Board and the Ministry of Environment and Sustainable Resource Development. Following province-wide consultations regarding the regulations under the *Responsible Energy Development Act*, the new regulator is to begin a phased approach to its operations in June 2013.

Bioenergy Producer Credit Program. *Budget 2013* includes \$328 million over three years, including \$98 million in 2013-14, to complete funding commitments to approved bioenergy projects.

Water for Life. Nearly \$25 million in operational expense will be provided for the *Water For Life Strategy* in 2013-14. In addition, \$50 million per year for the next three years will be provided through the Capital Plan.

BUILD RELATIONSHIPS AND MARKETS

Market Access. Alberta must address the barriers to reaching new markets, whether they are physical (lack of infrastructure) or are related to misconceptions about our products. Alberta has a responsibility to be a good steward of its resources. Work is ongoing to develop a Canadian Energy Strategy to build Canada's position as a global energy leader.

Budget 2013 supports initiatives to make Alberta a preferred global supplier, including Alberta's International Strategy and ongoing agricultural support, among other programs. *Budget 2013* also provides ongoing funding for improving relations with Aboriginals.

Alberta's International Strategy. Funding in the Ministry of International and Intergovernmental Relations for international relations is nearly \$25 million in 2013-14, an increase of over 22% from 2012-13. This will provide more capacity to deliver Alberta's International Strategy and open new offices in strategic locations including India and Singapore.

Agricultural Support. In *Budget 2013*, about \$990 million per year in operational expense is budgeted in Agriculture and Rural Development. The budget invests in priority areas such as food safety, research, rural development and industry and market development. The Alberta Farm Fuel Distribution Allowance has been eliminated, bringing Alberta in line with fuel programs offered to producers in other western provinces. Funding for the Alberta Livestock and Meat Agency Ltd. (ALMA) is also reduced. Funding for Agriculture Societies and Agricultural Service Boards will be maintained at 2012-13 levels.

The new five-year multilateral agreement between the federal, provincial and territorial governments (Growing Forward 2) commences in April 2013. This agreement sets out the direction for developing the agriculture industry and the management of risk for agriculture producers and agri-businesses in Canada, with flexible and innovative strategic programming.

Métis Relations. *Budget 2013* includes \$10 million per year for the Metis Settlements to help address disparities in essential services, housing and settlement policing, part of a new ten-year, \$85 million commitment to the Settlements.

A recent independent review of the Metis Settlement Ombudsman's office found that there were more effective and cost-efficient options for performing this function. These options will be explored as part of the long-term arrangements with the Settlements.

First Nations Development Fund. A portion of the proceeds from government-owned slot machines in First Nations casinos is allocated to the Fund, which supports economic, social and community development projects. In *Budget 2013*, \$411 million over three years will be provided, including \$129.5 million in 2013-14.

 *New ten-year, \$85 million commitment to the Metis Settlements.*

REPORTING CHANGES

In addition to changing the overall reporting structure of the Fiscal Plan, with an Operational Plan, a Savings Plan and a Capital Plan based on the revised fiscal framework detailed in the *Fiscal Management Act*, there are several other changes to *Budget 2013* reporting:

- ◆ Accounting standards require crude oil marketing and transportation costs to be included in expense rather than being netted off crude oil royalty revenue. As a result, 2011-12 and 2012-13 revenue and expense (Ministry of Energy) have been re-stated, increasing by \$37 million and \$40 million respectively.
- ◆ Acquisition of short-term inventory assets, such as salt, sand and gravel used to maintain Alberta's highways, vaccines in the health care system, or land held for resale, most of which are typically consumed within a fiscal year, are being reported separately as Financial Transactions, as opposed to being reported as part of the Capital Plan. While these are "assets," their short-term nature distinguishes them from being regarded as capital assets, and it would not be appropriate to borrow for these assets. The acquisition of assets is not included in expense, but purchasing the assets requires cash.
- ◆ Consumption of inventory assets will now also be reported separately, rather than being reported as part of operating expense or as amortization expense (both treatments have been used in the past). Consumption of inventory, like amortization expense, is included in annual expense but does not require an outlay of cash, but rather reflects the using up, or consumption of the asset.
- ◆ Beginning April 1, 2013, infrastructure assets of school boards, universities, colleges and health entities (SUCH sector) funded by the province for which construction is commencing or is less than 50% completed, are being included in provincial capital assets. The SUCH sector is fully consolidated on a line-by-line basis in the province's year-end audited financial statements (Consolidated Financial Statement basis), so this moves the Fiscal Plan basis a step closer to the year-end reporting basis. It is also appropriate to include the assets on the province's balance sheet as the province is issuing debt and booking a liability on its balance sheet to fund construction of the assets.

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SAVINGS PLAN

✧ FISCAL FRAMEWORK
AND SAVINGS PLAN

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FISCAL FRAMEWORK AND SAVINGS PLAN

INTRODUCTION

In *Budget 2012*, this government affirmed its commitment to develop, in consultation with Albertans, a renewed fiscal framework and savings strategy that will reduce our reliance on non-renewable resource revenue (NRR) for funding ongoing programs and services.

Consultations with Albertans on the province's fiscal framework took place through the fall of 2012. *Budget 2013* and the new *Fiscal Management Act* reflect what was heard during those consultations. This budget and the new legislation provides Alberta with a legislated savings policy that will see a percentage of our non-renewable resource revenue set aside as savings, each and every year. Alberta's new savings policy will ensure the strong future growth of the Alberta Heritage Savings Trust Fund. There will also be a new, refocused fiscal stabilization fund for the province – the Contingency Account. This account replaces the Alberta Sustainability Fund and its primary purpose will be short-term fiscal stabilization (offsetting deficits).

The new fiscal framework also includes a legislated requirement for a balanced operating budget, retains legislated limits on in-year increases in operating expense, and introduces a budgeting approach for capital that supports a strategic, consistent and orderly approach to infrastructure investment – one that is less susceptible to short-term revenue fluctuations and will better serve both the present and long-term needs of Albertans and the Alberta economy.

Alberta's new legislated savings policy will see a percentage of our non-renewable resource revenue set aside as savings every year.

SAVINGS POLICY

A REFOCUSED FISCAL STABILIZATION FUND: THE CONTINGENCY ACCOUNT

The mandate of Alberta's fiscal stabilization fund will be narrowed. A new Contingency Account will be established within the General Revenue Fund, replacing the Sustainability Fund (and assuming its assets). The Contingency Account's primary purpose will be short-term fiscal stabilization. All changes relating to the Sustainability Fund and new Contingency Account will take effect on April 1, 2013. Government policy will be that the Contingency Account have a targeted balance of 15% of the province's operational revenue (based on projected operational revenue of \$37.8 billion in 2013-14, the targeted balance will be set at about \$5.6 billion). The targeted balance will not affect the legislated savings requirements of the *Fiscal Management Act*. Setting the target as a percentage of revenue ensures that the amount of funds targeted for fiscal stabilization is sufficient as the size of the province's budget evolves.

The new Contingency Account will be focused primarily on short-term fiscal stabilization.

ALLOCATION RULES FOR SAVING NON-RENEWABLE RESOURCE REVENUES

Under the new fiscal framework, prescribed amounts of non-renewable resource revenue will be set aside as savings, according to the following rules:

- ◆ Until such time as the Contingency Account is built up to the level of \$5 billion, prescribed savings of NRR will go into the Contingency Account, to help fulfill its primary role as a “fiscal shock absorber.”
- ◆ Once the Contingency Account surpasses \$5 billion for the first time, any additional NRR set aside under the legislated savings schedule will be deposited into the Heritage Savings Trust Fund or a provincial endowment.
- ◆ If the Contingency Account later drops below \$5 billion, the rule of depositing all prescribed NRR savings into long-term savings accounts will continue to apply. The Contingency Account will be replenished solely through the allocation of year-end budget surpluses after it surpasses \$5 billion for the first time.

As our non-renewable resource revenue recovers over the medium term, assisted by the expected steady expansion in oil sands production, these allocation rules will ensure that the Heritage Savings Trust Fund and other long-term savings funds will be the sole recipients of future legislated NRR savings.

SAVING A PERCENTAGE OF NON-RENEWABLE RESOURCE REVENUE EVERY YEAR

The amount of resource revenue saved in a given year will be responsive to the province’s revenue intake. Specifically, each year the government will set aside:

*As Alberta's resource revenue rises,
the percentage that is saved
will also increase.*

- ◆ 5% of the first \$10 billion in actual non-renewable resource revenue;
- ◆ 25% of the next \$5 billion of actual non-renewable resource revenue (up to NRR of \$15 billion); and
- ◆ 50% of actual non-renewable resource revenue in excess of \$15 billion.

PROTECTING AND GROWING THE HERITAGE SAVINGS TRUST FUND

The Heritage Savings Trust Fund is the primary savings vehicle for government. When implemented in full in 2017-18, the *Fiscal Management Act* will require that the Heritage Savings Trust Fund retain 100% of its net income:

- ◆ In 2015-16, 30% of Heritage Savings Trust Fund net income, or the amount required under inflation-proofing legislative provisions, whichever amount is greater, must be retained within the fund under the legislation.
- ◆ In 2016-17, 50% of Heritage Savings Trust Fund net income, or the amount required under inflation-proofing provisions, whichever amount is greater, must be retained within the fund.
- ◆ In 2017-18 and all subsequent years, 100% of Heritage Savings Trust Fund net income must be retained within the fund.

The growth of provincial savings will also be secured by the rule that, once the Contingency Account is built up to the \$5 billion threshold, all future

prescribed savings of resource revenue will be deposited into the Heritage Savings Trust Fund and other endowments.

The above rules for saving NRR, allocating the prescribed savings, and growing the Heritage Savings Trust Fund will be set out in legislation, the new *Fiscal Management Act*. The legislated savings thresholds will be reviewed periodically, to ensure that the savings objectives of the policy remain effective, taking into account the effects of future inflation. The *Fiscal Management Act* legislates savings starting no later than 2015-16. However, the government has accelerated the start date for the savings policy, with both the savings of NRR and the scheduled retention of Heritage Savings Trust Fund income moving up one year, to 2014-15.

The savings provisions of the Fiscal Management Act will be implemented one year ahead of the legislated timetable, beginning in 2014-15.

SAVINGS PLAN

As of *Budget 2013*, it is projected that the aggregate value on March 31, 2013 of the Alberta Heritage Savings Trust Fund, the Contingency Account, and other savings vehicles (see pages 57-58) will be just under \$21 billion. Over the course of this 3-year Fiscal Plan, the aggregate value of Alberta's savings accounts is projected to rise from \$21 billion to \$24.2 billion.

Savings in the current 3-year Fiscal Plan will include:

- ◆ \$492 million in legislated NRR savings;
- ◆ \$416 million in planned, non-legislated NRR savings due to the accelerated implementation of the new savings policy;
- ◆ \$1.45 billion in savings from retained income of the Heritage Savings Trust Fund and other funds (including \$1.33 billion for the Heritage Fund); and
- ◆ Over \$2.9 billion in savings from the allocation of year-end budget surpluses in 2014-15 and 2015-16.

Under the Savings Plan, the aggregate value of Alberta's major savings accounts will grow to over \$24 billion within 3 years.

The new savings policy reflects the priorities expressed by Albertans: replenish the Sustainability Fund, now renamed the Contingency Account, and grow the province's longer-term savings vehicles, including the Alberta Heritage Savings Trust Fund. Even with the drawdown of Alberta's fiscal stabilization fund in the first year of the Fiscal Plan, as the government continues to adjust to the current market realities affecting the province's resource revenue, the province is expected to realize over \$3.8 billion in annual savings by the third year of the Fiscal Plan, as the savings provisions of the new Fiscal Framework are phased in.

Table 1: Alberta Savings Plan (\$millions): 2013-14 to 2015-16

Closing Balance as of March 31

	2012-13	2013-14	2014-15	2015-16
Contingency Account	2,744	691	1,386	4,535
Heritage Savings Trust Fund	14,872	15,169	15,548	16,199
Medical Research Endowment Fund	1,277	1,293	1,307	1,321
Science and Engineering Endowment Fund	735	750	772	794
Scholarship Fund	734	753	772	792
Other	606	594	582	570
Total Balance	20,968	19,250	20,367	24,211
Total Annual Savings		(1,718)	1,117	3,844

As the province implements the savings plan, there will be additional consultations with Albertans on the appropriate policies for managing our long-term savings, including the mandate and investment policies of the Heritage Savings Trust Fund. The province will examine how we use our savings to strengthen research and innovation, and to improve the lives of all Albertans.

BALANCED BUDGET AND SPENDING MANAGEMENT RULES

Alberta's new fiscal framework includes legislated rules on both balanced budgets and in-year increases in operating expense.

The purpose of the new Contingency Account is to cover any deficit in the province's operational balance. Non-renewable resource revenue set aside as savings under the savings policy will not be considered 'operational' revenue, and will not affect the operational balance. Nor will revenue or expense relating to capital (with the exceptions of revenue set aside for the servicing of capital debt and capital debt principal repayment) enter the calculation of the operational balance.

Legislated limits on in-year spending increases will remain in place.

The *Fiscal Responsibility Act* presently imposes a 1% limit on in-year increases in total operating expense (with exceptions for disasters/emergencies, First Nations Settlements and dedicated revenue or expense). A similar 1% limit will be retained in the *Fiscal Management Act*.

BUDGETING FOR CAPITAL

The new fiscal framework provides a clearer delineation between operational and capital budgets. This approach takes into account both the distinctive nature of investment in long-life capital assets and the direction received from Albertans during the 2012 public consultations. Albertans have expressed a clear preference that investment in capital infrastructure be based upon their fundamental needs and those of the province's economy, rather than short-term considerations, and that borrowing for capital take place if and when it makes financial sense.

Annual debt-servicing costs will be limited to a maximum of 3% of operational revenue.

Consistent with this direction, the new fiscal framework allows debt for capital purposes where appropriate. The legislation places a prudent limit relating to capital debt. Under the *Fiscal Management Act*, annual capital debt-servicing costs will be limited to a maximum of 3% of provincial operational revenue (using the most recent 3-year moving average of such revenue). Since this limit is tied directly to the province's income stream, the limit will ensure that any debt incurred will remain affordable, irrespective of the level of interest rates.

In addition, as outlined in the Capital Plan published in this budget, any debt incurred for capital purposes will be accompanied by a clear debt repayment plan.

MAJOR CURRENT SAVINGS ACCOUNTS, 1977–2016

Alberta presently has six major savings accounts and endowments. These accounts are the Alberta Heritage Savings Trust Fund, the Alberta Sustainability Fund, and four special purpose funds:

- ◆ The **Alberta Heritage Savings Trust Fund (AHSTF)** was established in 1976, with the objectives of saving for the future, diversifying Alberta's economy and improving the quality of life of Albertans. The AHSTF presently consists of investments in bonds, equities, real estate and other assets. The AHSTF includes an endowment of assets specifically dedicated to the Access to the Future program to provide seed money for innovations in the post-secondary system, as well as matching grants to stimulate contributions to advanced education. The value of the AHSTF at the end of the current fiscal year (March 31, 2013) is forecast at \$14.9 billion. This figure does not include funds held in respect of the Access to the Future program (which now exceeds the initial \$1 billion invested, as the allocation increases with inflation each year).
- ◆ The **Alberta Sustainability Fund** was established in 2003 for the purpose of offsetting annual budget deficits. Since 2008-09, transfers from the Sustainability Fund have helped to maintain funding for priority programs, during a period when provincial revenue has been negatively impacted by two significant developments in the North American energy market. The expansion in North American natural gas supplies gas and the widening price discount on Alberta's bitumen have resulted in a revenue decline averaging more than \$5 billion per year. The balance of the Sustainability Fund at the end of the current fiscal year (March 31, 2013) is forecast at \$2.7 billion.
- ◆ The **Alberta Heritage Foundation for Medical Research (AHFMR) Endowment Fund** was established in 1980. The AHFMR's mandate is to develop a long-term program of medical research in Alberta. Over a period of 30 years, the AHFMR has invested more than \$850 million in medical research, supporting the development of a world-class health research community in the province. In 2010, the government established Alberta Innovates – Health Solutions to continue the medical research granting activities of the AHFMR. The value of the AHFMR Endowment Fund at the end of the current fiscal year (March 31, 2013) is forecast at \$1.28 billion.
- ◆ The **Alberta Heritage Science and Engineering Research Endowment Fund**, more commonly known as the Alberta Ingenuity Fund, was established in 2000-01. The mandate of this fund is to develop internationally recognized science and engineering expertise through support of Alberta's research facilities, to facilitate programs directed to the discovery of new knowledge and the commercial application of that knowledge, to encourage young Albertans to pursue careers in science and engineering, and to attract top graduate students and researchers to Alberta. In 2010, the Government established Alberta Innovates – Technology Futures to continue the granting activities of the Alberta Ingenuity Fund. The value of the Alberta Ingenuity Fund at the end of the current fiscal year (March 31, 2013) is forecast at \$735 million.
- ◆ The **Alberta Heritage Scholarship Fund** was established in 1981. The fund is designed to stimulate the pursuit of excellence by rewarding outstanding academic achievement and by enabling Albertans to achieve their fullest

MAJOR CURRENT SAVINGS ACCOUNTS, 1977–2016, continued

potential. The fund provides support for a number of different scholarships. The value of the Alberta Heritage Scholarship Fund at the end of the current fiscal year (March 31, 2013) is forecast at \$734 million.

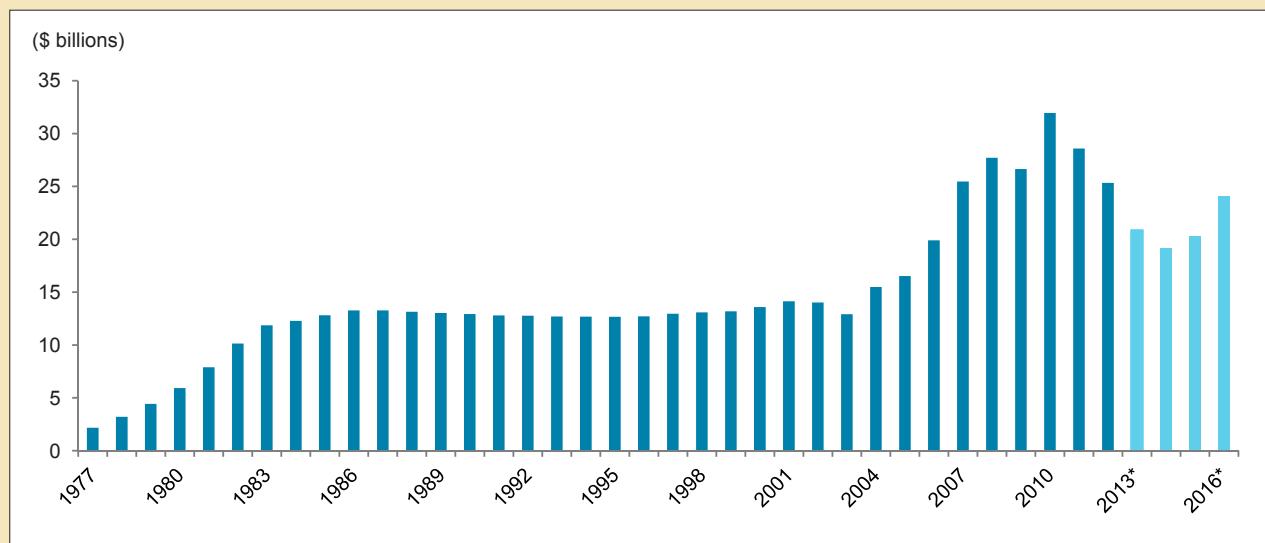
- ◆ The **Alberta Cancer Prevention Legacy Fund** was established in 2006-07. The Fund's mandate is to facilitate cancer screening programs in the province through a virtual cancer research institute, to coordinate cancer research, and to promote public, private, provincial, national and international research and screening programs. The value of the Cancer Prevention Legacy Fund at the end of the current fiscal year (March 31, 2013) is forecast at \$506 million.
- ◆ The total value of Alberta's major savings accounts has fluctuated significantly over time. During the resource boom of the early to mid 2000s, record-high provincial revenue from natural gas

contributed to a dramatic increase in the value of the Sustainability Fund, which reached a peak value of \$16.9 billion in 2009. Since 2009, the effects of the global recession and a declining natural gas market have caused the province to draw down the Sustainability Fund, in order to provide continued support for important programs and services in the face of declining provincial resource revenue. The AHSTF was also significantly impacted by the 2008-09 global recession.

Despite these recent challenges, the province's aggregate savings are \$8 billion higher today than they were a decade ago: just under \$21 billion, compared to \$12.9 billion in 2003 (note that these figures do not include the Capital Account, which was discontinued in 2009 with its assets moving to the Sustainability Fund). Alberta's savings are forecast to rise by an additional \$3.2 billion in the next three years.

Figure 2: Major Current Savings Accounts, 1977–2016

Total Balance as of March 31



Source: Alberta Treasury Board and Finance

(includes balances of Alberta Heritage Savings Trust Fund, Contingency Account (Sustainability Fund) and the four other funds)

* Forecast

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CAPITAL PLAN

- ✧ CAPITAL PLAN SPENDING
- ✧ CAPITAL PLAN FINANCING

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REPORTING CHANGES

Inventory acquisition (e.g., salt and sand used for highway maintenance, vaccines, and land development held for resale in Fort McMurray) is now being reported in the Operational Plan to match the shorter time frame of the asset's consumption or resale. Prior year amounts have been restated.

Beginning April 1, 2013, infrastructure assets of school boards, universities, colleges and health entities funded by the province for which construction is commencing or which are less than 50% completed, are being included in provincial capital assets.

❖ CAPITAL PLAN SPENDING

CAPITAL PLAN 2013–16

Budget 2013 reflects the government's commitment to continue building Alberta, maintaining and improving public infrastructure that is crucial to securing our high standard of living. Albertans have been clear they believe the government should continue to invest in Alberta's infrastructure. Quality public infrastructure contributes to Alberta's prosperity by facilitating economic activity and excellence in programs and services, such as health and education.

Despite the decline in revenue and the uncertainty in the world's markets in 2012-13, the provincial economy and labour market remained solid. People from across Canada and around the world are arriving in Alberta to start new lives. This anticipated population growth and changing demographics are expected to place substantial demands on Alberta's existing infrastructure.

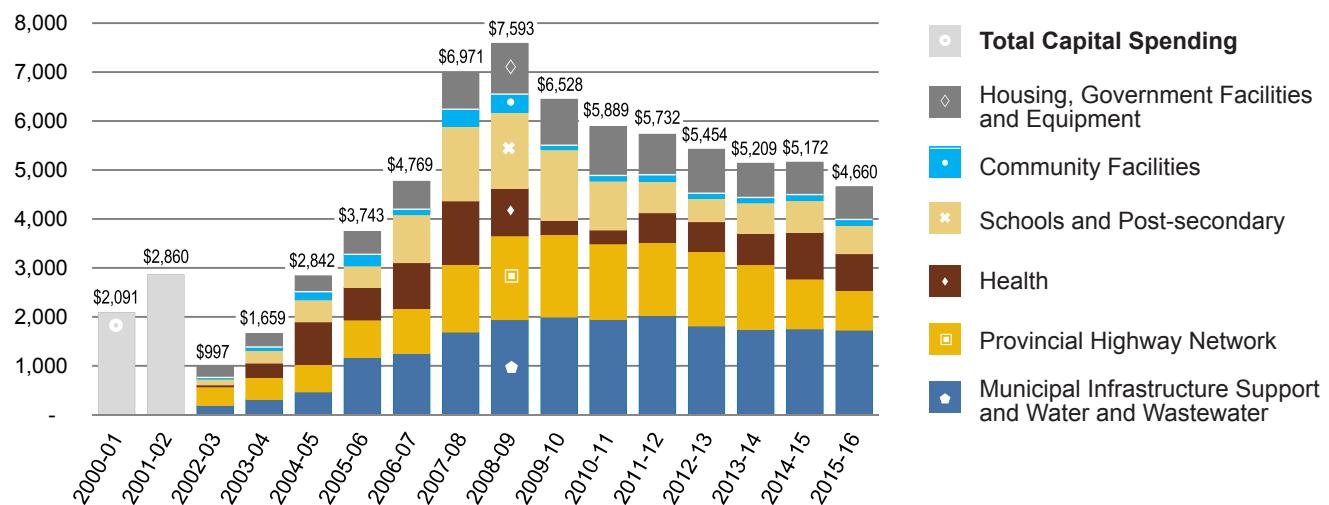
Alberta has invested over \$72 billion in infrastructure over the past fifteen years, averaging as much as \$7 billion per year during the 2007-10 period. The rapid increase in spending resulted in high levels of construction cost escalation. The 2013-16 Capital Plan invests an average of \$5 billion per year, which is lower than in recent years but is still a responsible level of investment given the province's current fiscal position.

The 2013-16 Capital Plan will be supported by a responsible borrowing strategy to finance priority infrastructure projects, leveraging the current low interest rates and Alberta's AAA credit rating.

Alberta has invested over \$72 billion in infrastructure over the past fifteen years.

Capital Plan 2000–2016^a

(millions of dollars)



^a The Capital Plan amounts by envelope details were not available prior to 2002-03. In addition, 2011-12 to 2015-16 excludes inventory acquisition and land development held for re-sale in Fort McMurray.

The 2013-16 Capital Plan will provide \$15 billion in support of Albertans' priorities.

The 2013-16 Capital Plan provides \$15 billion to support Albertans' priorities of investing in families and communities, securing Alberta's economic future, and advancing world-leading resource stewardship.

Capital Plan By Priority

(millions of dollars)	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target	3-Year Total
Investing in Families and Communities	2,494	2,523	2,839	2,587	7,949
Securing Alberta's Economic Future	2,636	2,324	2,028	1,698	6,050
Advancing World-leading Resources Stewardship	321	357	301	373	1,031
Legislative Assembly	3	5	4	2	11
Total Capital Plan	5,454	5,209	5,172	4,660	15,041

CAPITAL PLAN CHANGES

New funding is provided for schools, post-secondary facilities and Highway 63.

While this Capital Plan is lower than in recent years, new projects have been added as part of building Alberta, including:

- ◆ \$503 million over the next three years for 50 new schools and 70 modernizations with an expected total cost of over \$2 billion;
- ◆ \$282 million over the next three years for new post-secondary facilities at the Northern Alberta Institute of Technology, NorQuest College, University of Calgary, Lethbridge College, and Mount Royal University, with an expected total cost of over \$650 million; and
- ◆ \$442 million to twin sections of Highway 63 from south of House River to south of Fort McMurray over the next three years.

In addition to these new projects, there is significant investment in maintaining and extending the life of existing assets. Over the next three years, there is more than \$1.2 billion in support to maintain and renew aging schools and post-secondary facilities, roads, health facilities, water infrastructure and provincial parks. Several of these projects address issues which might otherwise prevent desired program outcomes from being achieved.

The current fiscal position required a comprehensive review of approved projects, to re-assess priorities and service level requirements. As a result, some projects were cancelled and a number were deferred beyond 2016. The Alberta Public Safety Law Enforcement Training Centre in Fort Macleod was cancelled as announced in August, 2012. It has been determined that the TransAlta Project Pioneer and Swan Hills Synfuels carbon capture and storage projects are not economical at this time and the provincial funding is no longer included in the Capital Plan. Several other projects were re-profiled to future years to match construction progress.

Over the next three years, government will continue to review capital spending as part of results-based budgeting. Ministries will be challenged to show how capital programs further government achieving the outcomes tied to Albertans' priorities, and this information will be incorporated into the capital planning process.

Alberta's population increased by over 360,000 over the last five years and it is projected that in 20 years, Alberta will have a population of over 5 million. An increasing percentage of that population will be aged 65 or older.

Currently, there are about 430,000 seniors in Alberta. By 2023, this figure is expected to climb to almost 700,000. This requires planning for new seniors' facilities, expanded health care facilities, and adapting community infrastructure to reflect a growing number of seniors. By 2023, the demand for new schools will have increased significantly, driven by a 24% increase in the number of children between the ages of 0 and 17 – from about 850,000 today to about one million.

INVESTING IN FAMILIES AND COMMUNITIES

Alberta's foundation for success is built at the community level. The government is committed to supporting local communities, keeping Albertans healthy while protecting the most vulnerable.

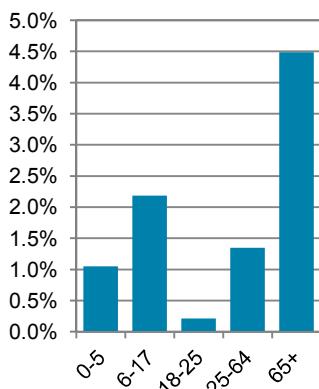
The 2013-16 Capital Plan will invest \$7.9 billion in projects and programs that support families and communities including:

- ◆ \$2.5 billion under the Municipal Sustainability Initiative, which provides sustainable and reliable funding to support the construction, rehabilitation and non-routine maintenance of municipal roads, bridges, parks, cultural, recreational and local government facilities, water and wastewater facilities, and public transit vehicles and facilities;
- ◆ \$2.3 billion to support municipal transportation infrastructure, including \$1 billion for the Basic Municipal Transportation Grant program for developing and maintaining local transportation infrastructure, and \$667 million for GreenTRIP, supporting municipal transportation projects that are expected to reduce traffic congestion and greenhouse gas emissions and increase public transit access;
- ◆ \$2.1 billion for health care facilities;
- ◆ \$200 million for the improvements of approximately 8,100 affordable housing units, replacement of 94 units and construction of 168 net new units through the Social Housing Revitalization initiative;
- ◆ \$191 million to complete the development of the Alberta First Responders Radio Communication System;
- ◆ \$100 million through the Affordable Supportive Living Initiative to provide approximately 1,000 supportive living spaces over the next three years; and
- ◆ \$65 million for the Alberta Electronic Health Record, which is a secure and confidential record of data collected from health facilities across the province and used by health care professionals to provide timely health services to Albertans.

HEALTH CARE

Budgeted in the Ministry of Infrastructure, \$2.1 billion over three years will be provided for health care facilities. This includes \$60 million as part of the premier's commitment to complete multi-disciplinary family care clinics to

AVERAGE ANNUAL POPULATION GROWTH BY AGE CATEGORY
2011–2023



Source: Alberta Treasury Board and Finance

\$7.9 billion in capital projects and programs that support families and communities.

\$2.1 billion over three years for health care facilities.

improve access to the health care system and minimize the increasing demands in emergency rooms and hospitals across the province. These family care clinics will empower Alberta families to take more ownership of their health care by promoting preventative medicine and providing more accessible hours, complementing existing primary care network clinics.

The regions of Grande Prairie and Wood Buffalo are projected to outpace the provincial average population growth rate between 2011-41. The Grande Prairie Hospital and Fort McMurray Continuing Care Centre will be ready to service these growing areas by providing:

- ◆ Comprehensive cancer care through a new regional cancer centre which will eliminate the need for patients in the Grande Prairie region to travel to Edmonton for radiation treatment. Two new radiation therapy vaults will be developed as part of the project. Once complete, cancer services will be provided that range from patient consultation, through treatment, follow-up care, education, and clinical research; and
- ◆ 100 beds including 30 long-term care beds and 70 supportive living beds for the Fort McMurray region.

The government continues to invest in cancer infrastructure. A cancer care hub in Calgary will be developed at the Foothills Medical Centre site. The tentative plan is to start construction in 2014 on an outpatient cancer care facility. It would be followed by the construction of the new Calgary Cancer Centre, which would include inpatient beds, advanced diagnostic and treatment technologies, and dedicated research space. This facility is projected to cost over \$1 billion, with the Capital Plan including \$45 million for this facility in 2015-16. The government is looking at innovative financing options for the project.

Elsewhere in the province, work is progressing on the north-south radiation corridor, including facilities in Lethbridge, Red Deer and Grande Prairie. In Edmonton, renovations are continuing at the Cross Cancer Centre. All together, these actions will help meet the future demand for cancer care across Alberta.

SECURING ALBERTA'S ECONOMIC FUTURE

Investing in Alberta's education system not only develops future leaders but also contributes to a prosperous economic future by securing the province's competitiveness in the global marketplace and promoting its export driven economy.

\$6.1 billion in capital projects and programs that will help secure Alberta's economic future.

The 2013-16 Capital Plan will invest \$6.1 billion in projects and programs that will help secure Alberta's economic future primarily through significant investments in the provincial highway network, schools and post-secondary facilities.

PROVINCIAL HIGHWAY NETWORK

About \$3.4 billion over three years will be provided for the provincial highway network and other provincial transportation infrastructure.

This includes \$1.3 billion for continued construction on the Edmonton and Calgary ring roads. The northeast Edmonton ring road project includes 27 kilometres of six and eight-lane divided roadway, nine interchanges, two road flyovers, eight rail crossing flyovers, and two bridges across the North Saskatchewan River, for a total of 46 bridge structures. The project is estimated to be completed in fall 2016.

About \$3.4 billion over three years for provincial transportation infrastructure.

The government took decisive action to enhance the safety of Alberta motorists on Highway 63, as recommended in the *Towards a Safer 63* report. The Capital Plan provides \$550 million over the next three years to complete twinning of Highway 63 between Grassland and Fort McMurray.

The government will also partner with the federal government and the City of Edmonton to cost-share construction of the \$205 million interchange at 41st Avenue SW and Queen Elizabeth II Highway. This will provide access to the Canadian Pacific Railway's planned inter-modal terminal east of the highway, replacing the existing facility north of 34 Avenue NW and east of Gateway Boulevard. The construction of other interchanges will also advance, including one at Macleod Trail and Highway 22X in Calgary.

SCHOOLS

Nearly \$1.4 billion over three years will be provided for school capital projects. This includes \$441 million to support completion of 35 new schools and modernizations that are expected to open in the fall of 2014 across high-growth areas of the province.

Nearly \$1.4 billion over three years for school capital projects.

This plan also includes an additional \$503 million toward the construction of a further 50 new schools and modernization of another 70 existing facilities as committed by the premier, with an estimated total cost of over \$2 billion. Projects will be selected through a comprehensive assessment of various factors including school boards' priorities, health and safety of students and staff, enrolment projections, current utilization, facility conditions and capacity for program delivery. The government will also continue to work closely with local school boards and stakeholders to explore innovative ways of maximizing use of the space and potential community partnerships.

POST-SECONDARY FACILITIES

Nearly \$500 million over three years will be provided for post-secondary facilities. This plan includes \$282 million for five new projects, as part of the premier's commitment to invest over \$650 million for new and improved post-secondary learning spaces. The three-year plan provides:

Nearly \$500 million over three years for post-secondary facilities.

- ◆ \$130 million to NAIT for the construction of its Centre for Applied Technologies in Edmonton. This will allow the institution to address growing demand for science and technology, health care and business programs by adding 1,700 student spaces to its current enrolment. This new facility will house 72 classrooms, and a 135-seat lecture theatre;

- ◆ \$64 million to NorQuest College to build the new North Learning Centre and retrofit the existing South Learning Centre to consolidate its facilities into a single downtown Edmonton location, accommodate enrolment growth and achieve operational efficiencies. The new facility will include smart classroom technologies, a new library and student activity spaces;
- ◆ \$40 million for the University of Calgary's Schulich School of Engineering expansion and renewal project to build new learning and research spaces including advanced laboratories, two new multi-purpose theatres, and additional space to encourage collaborative work to develop Alberta's future technical experts and engineering leaders;
- ◆ \$30 million to Mount Royal University for a new Library and Learning Centre in Calgary, which will expand independent and group learning environments and help alleviate access pressures; and
- ◆ \$18 million for Lethbridge College's Trades and Technology Renewal and Innovation Project (TTRIP) to renovate and renew existing trades space and construct new shops, classrooms, labs, and research space to train 900 additional students allowing the college to double its current trades and technology capacity. The new facility will support both traditional trades and new technologies such as alternative energy programs including solar, geothermal and wind energy.

ADVANCING WORLD-LEADING RESOURCE STEWARDSHIP

More than \$1 billion over three years for capital projects advancing world-leading resource stewardship.

One of the government's key priorities is seeking innovations to continually improve the environmentally-responsible development of our natural resources. The 2013-16 Capital Plan supports the *Climate Change Strategy* with projects that promote energy efficiency, responsible energy production and help to reduce greenhouse gas emissions. This plan will invest \$1 billion in projects and programs that will advance Alberta's world-leading resource stewardship.

Nearly \$585 million is being provided to the Shell Quest and the Alberta Carbon Trunk Line Carbon Capture and Storage projects. These projects will receive almost \$1.3 billion over 15 years, and are expected to reduce greenhouse gas emissions by 2.76 million tonnes annually by 2016.

Since 2010, the Climate Change and Emissions Management Fund has provided \$181 million for 49 projects, including work on cleaner production of traditional forms of energy, reducing greenhouse gas emissions from agriculture, forestry, municipal wastes, and enhancing biological carbon sequestration. There is another \$180 million over three years for the Fund in this capital plan.

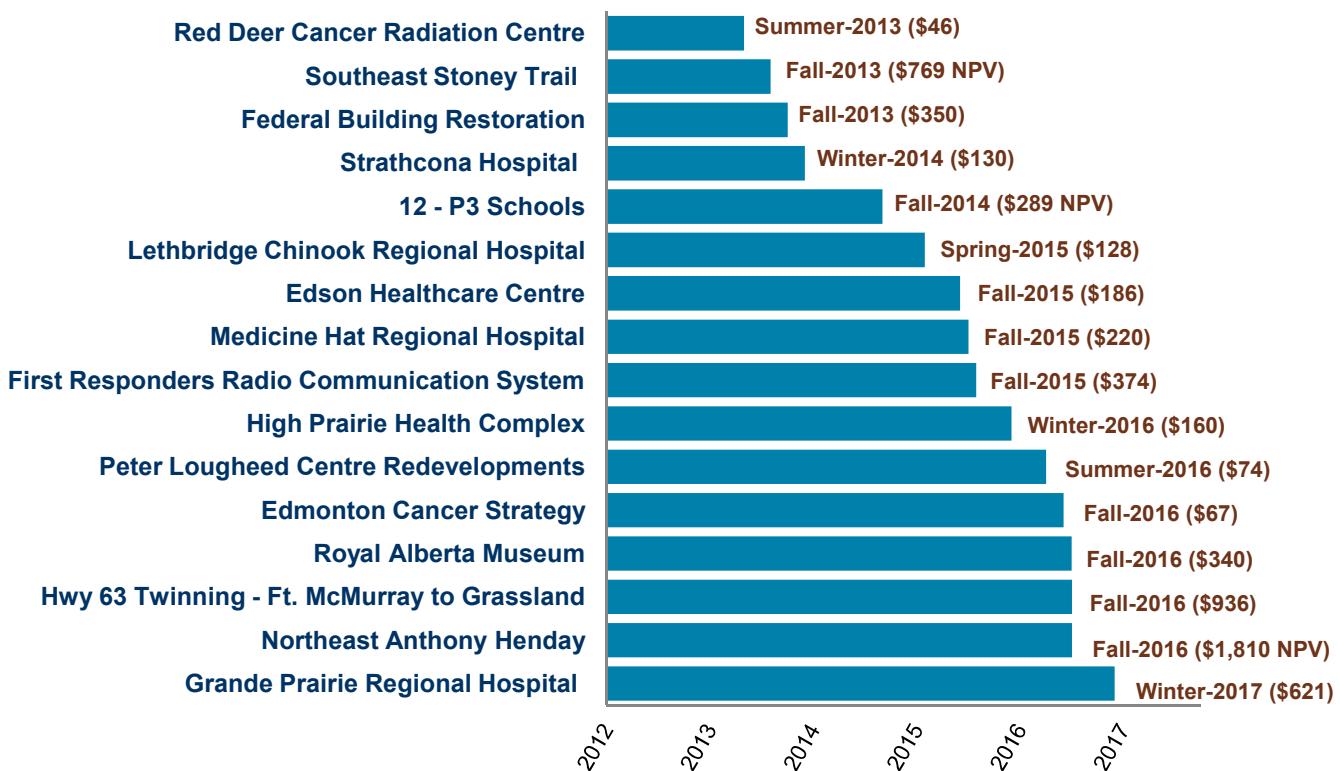
The 2013-16 Capital Plan includes \$36 million in 2013-14 to conclude the Canada eco-Trust initiative.

MAJOR PROJECTS—EXPECTED CONSTRUCTION COMPLETION DATES

Construction on several major projects finished over the past year, including 10 alternatively financed schools (ASAP 2), Kaye Edmonton Clinic, South Calgary Health Campus, and the new Edmonton Remand Centre. The estimated construction completion date of other significant projects over the next three years is shown in the following chart. These 16 projects represent a combined total investment of approximately \$6.5 billion.

Expected Completion Dates and Capital Cost

(millions of dollars)



Capital Plan Details

(millions of dollars)

	2013-14 Estimate	2014-15 Target	2015-16 Target	3-Year Total
Investing in Families and Communities				
Municipal Sustainability Initiative	846	846	846	2,538
Basic Municipal Transportation Grant	321	343	351	1,015
GreenTRIP	200	247	220	667
Federal Gas Tax Fund	200	200	200	600
Grande Prairie Regional Hospital	55	133	140	328
Continuing Care Capital Program	-	114	115	229
Social Housing Revitalization	45	75	80	200
Alberta First Responders Radio Communication System	83	77	31	191
Medicine Hat Regional Hospital	93	92	5	190
High Prairie Health Complex	45	47	46	138
Community Facility Enhancement Program	38	38	38	114
Edson Healthcare Centre	36	46	29	111
Lethbridge Chinook Regional Hospital	45	56	10	111
Health IT systems development	30	36	36	102
Affordable Supportive Living Initiative	50	25	25	100
Calgary Cancer Strategy Phase I	15	57	15	87
Peter Lougheed Centre (Calgary)	30	27	18	75
South Calgary Health Campus	60	14	-	74
Electronic Health Record	19	23	23	65
Family Care Clinics	10	25	25	60
Foothills Medical Centre (Calgary)	19	20	14	53
Edmonton Cancer Strategy	10	24	17	51
Medical equipment replacement and upgrade program	-	25	25	50
Strathcona Hospital (Sherwood Park)	21	18	10	49
Provincial Parks - Capital maintenance and renewal	16	16	16	48
Calgary Cancer Centre	-	-	45	45
Stollery Children's Hospital Critical Care Program (Edmonton)	2	15	25	42
Calgary Cancer - Planning and design	1	19	15	35
Building Canada - Communities Component	30	-	-	30
Provincial heliports	2	19	5	26
Fort McMurray Community Health Centre	11	10	2	23
Bilateral Agreement for Affordable Housing	20	-	-	20
Affordable Housing/Homelessness Prevention Initiative	-	-	20	20
Fort McMurray Continuing Care Centre	15	5	-	20
Equipment for cancer corridor projects	4	-	11	15
Northern Lights Regional Health Centre (Fort McMurray)	2	2	11	15
Whitecourt Healthcare Centre	5	5	-	10
Safety, Security, Protection, and Gallery Redevelopment	2	2	2	6
The Crossings Ice Complex (Lethbridge)	3	3	-	6
Family Leisure Centre (Medicine Hat)	3	3	-	6
National Music Centre (Calgary)	6	-	-	6
Other support	130	132	116	378
Total Investing in Families and Communities	2,523	2,839	2,587	7,949
Securing Alberta's Economic Future				
Edmonton/Calgary Ring Roads	625	436	256	1,317
Highway 63 Twinning (Grassland to Fort McMurray)	240	179	131	550
Schools - 50 new and 70 modernization projects	63	200	240	503
Highway rehabilitation projects	130	150	164	444

Capital Plan Details, continued

(millions of dollars)

	2013-14 Estimate	2014-15 Target	2015-16 Target	3-Year Total
Securing Alberta's Economic Future, continued				
Schools - 35 new and modernization projects	332	109	-	441
Schools - Capital maintenance and renewal	85	108	110	303
41st Avenue Interchange (Edmonton)	70	83	47	200
Royal Alberta Museum (Edmonton)	57	70	63	190
Post-secondary facilities - Capital maintenance and renewal	48	70	70	188
Interchanges, intersections and safety upgrades	84	41	32	157
Regional water/wastewater projects - Water for Life	50	50	50	150
Fort McMurray urban area upgrades	31	63	40	134
NAIT Centre for Applied Technology (Edmonton)	10	66	54	130
Schools - Grants and Modular Projects	64	42	1	107
Bridge construction projects	43	29	32	104
Federal Building and Centennial Plaza (Edmonton)	30	45	-	75
Municipal Water and Wastewater Program	25	25	25	75
NorQuest College expansion and retrofit (Edmonton)	-	24	40	64
University of Calgary Schulich School of Engineering	-	-	40	40
Air Transportation Services relocation	25	12	-	37
Evan Thomas Water & Wastewater Treatment Facilities (Kananaskis)	32	1	-	33
Mount Royal University Library and Learning Centre (Calgary)	-	10	20	30
Water Management Infrastructure	10	10	10	30
Alberta Supports	7	12	7	26
Modernization of registry systems	7	8	6	21
Lethbridge College TTRIP	-	8	10	18
Final Mile Rural Broadband Initiative	5	6	5	16
Capital for Emergent Projects	16	-	-	16
Other support	235	171	245	651
Total Securing Alberta's Economic Future	2,324	2,028	1,698	6,050
Advancing World-leading Resource Stewardship				
Carbon Capture and Storage Initiative	180	162	243	585
Climate Change and Emissions Management Fund	60	60	60	180
Irrigation Rehabilitation Program	19	21	21	61
Airtanker Bases	14	9	-	23
Rural Utilities Program	4	4	4	12
Land Stewardship Fund	5	5	5	15
Canada ecoTrust for Clean Air and Climate Change Initiative	36	-	-	36
Other support	39	40	40	119
Total Advancing World-leading Resource Stewardship	357	301	373	1,031
Legislative Assembly	5	4	2	11
Total Capital Plan	5,209	5,172	4,660	15,041

Note: A complete list of projects funded in the 2013-16 Capital Plan is available at Alberta Infrastructure's website www.infrastructure.alberta.ca

❖ CAPITAL PLAN FINANCING

CAPITAL PLAN FINANCING

During the fiscal framework and budget consultations, Albertans were clear in supporting borrowing for infrastructure development when suitable financing conditions are present and a responsible repayment plan is in place. Playing catch-up on building and maintaining hospitals, highways, municipal facilities, schools and post-secondary institutions, especially when needs intensify during periods of rapid population and economic growth results in significant inflationary cost pressures. This occurred in the last decade when economic expansion and competition for labour and construction materials drove costs higher. Prioritizing and taking a disciplined approach to capital planning will not only position the province for future growth, but it will also allow for construction of key infrastructure in a more stable cost environment. Borrowing to pay for capital assets makes sense because it spreads out the cost of infrastructure over the life of the asset, and shares those costs over time with those who benefit from the use of the asset.

The Capital Plan is fully funded through a combination of capital revenue, public-private partnerships and direct borrowing.

The Capital Plan is fully funded through a combination of revenue received for capital purposes, from retained income of various funds and agencies, public-private partnerships and direct borrowing. Revenue received for capital purposes relates mainly to transfers from the federal government, which increased over the last half decade as programs like Building Canada were introduced during the economic downturn. While these programs are winding down, the Gas Tax Fund was extended indefinitely by the government of Canada. For Alberta, this provides an estimated \$200 million per year. Funds and agencies, such as the Alberta Social Housing Corporation and the Alberta Pensions Services Corporation, also provide some funding for their capital investment from their own retained income.

Public-private partnerships (P3s) are also being employed for the Edmonton and Calgary ring roads and school projects. P3s are used when it is demonstrated that they make sense relative to traditional procurement, and Alberta will continue to explore these types of opportunities.

The government plans to borrow \$12.7 billion by the end of 2015-16 to help finance the Capital Plan. Current plans include issuing debt with a variety of terms to maturity extending out to 30 years, taking advantage of market opportunities to minimize borrowing costs. This amount includes \$1.1 billion borrowed during 2012-13, and \$3.2 billion expected in 2013-14.

CAPITAL PLAN FINANCING

(millions of dollars)

	2013-14 Estimate	2014-15 Target	2015-16 Target
Revenue received for capital purposes:			
Federal Transfers	372	330	266
Other	150	134	123
Retained income of funds and agencies / disposals	86	123	118
Alternative financing (P3s)	344	206	114
Direct borrowing	3,190	4,379	4,039
Withdrawal from Capital Plan Financing Account	1,067	-	-
Total Capital Plan Financing	5,209	5,172	4,660

Amounts borrowed for capital that are not required in a particular year will be deposited in a capital plan financing account, and will only be used for capital purposes. Over \$1 billion will remain in the capital plan financing account as of March 31, 2013.

DEBT REPAYMENT PLAN

The government will set aside money each year in a capital debt repayment account to ensure that sufficient cash is available to repay the debt as it comes due. By matching the amounts being set aside for debt repayment with the maturities where possible, the need for refinancing will be reduced, minimizing the risk that the borrowing cost will be higher in the future should interest rates rise significantly. The actual amounts set aside annually will be calculated based on amounts borrowed and relevant interest rates. This begins immediately, with \$40 million set aside in 2013-14.

Funds will be set aside every year for capital debt repayments.

Capital Plan Debt Repayment Plan

(millions of dollars)	2013-14 Estimate	2014-15 Target	2015-16 Target
Current principal repayments	32	944	41
Annual allocation for future principal repayments	40	112	205
Total Allocation of Current / Future Repayments	72	1,056	246

Amounts required for capital debt servicing costs are being drawn from current-year revenue. The amount of direct borrowing for the Capital Plan is subject to a legislated limit in the *Fiscal Management Act*. The Act stipulates that Capital Plan debt servicing costs cannot exceed 3% of the average of Operational Revenue of the current year and two prior years.

There is a legislated limit on capital borrowing.

Capital Plan Legislated Limit

(millions of dollars)	2013-14 Estimate	2014-15 Target	2015-16 Target
Capital Debt Servicing Costs	238	404	593
Limit: 3% of 3-year average of Operational Revenue	1,128	1,148	1,207

BUDGET | Responsible 2013 | Change

ECONOMIC OUTLOOK

- ✧ ECONOMIC OUTLOOK
- ✧ ANNEX

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❖ ECONOMIC OUTLOOK

KEY ENERGY AND ECONOMIC ASSUMPTIONS

- ❖ Alberta's economy grew briskly for the third straight year in 2012. Real GDP expanded by an estimated 3.8%, propelled by a jump in consumer spending and residential investment, along with continued gains in business investment. Alberta led all provinces with 2.7% job growth, and had the nation's lowest unemployment rate.
- ❖ Economic growth is forecast to moderate to a more sustainable rate of 2.9% in 2013, reflecting weaker market conditions for the province's oil industry. Annual growth is forecast to stay near this pace over the medium term.
- ❖ As a small open economy, Alberta remains highly exposed to global risks. Pipeline constraints could put further downward pressure on oil prices and hurt growth prospects. Eurozone economic troubles continue, and there is a risk that the recession could be longer and deeper than forecast and further dampen global growth. In the US, uncertainty persists over key fiscal issues, such as the debt ceiling and future spending cuts.

Key Energy and Economic Assumptions

Fiscal Year Assumptions	2011-12 Actual	2012-13 Estimates	2013-14	2014-15	2015-16
Prices					
Crude Oil Price					
WTI (US\$/bbl)	97.33	92.58	92.50	95.00	92.00
Alberta Wellhead (Cdn\$/bbl) ^a	88.31	79.17	82.99	85.15	80.12
WCS @ Hardisty (Cdn\$/bbl)	80.72	68.91	68.21	74.85	75.74
Natural Gas Price					
Alberta Reference Price (Cdn\$/GJ)	2.98	2.26	3.07	3.55	3.70
Production					
Conventional crude oil (000s barrels/day)	504	550	550	553	542
Raw bitumen (000s barrels/day)	1,785	1,917	2,140	2,330	2,598
Natural gas (billions of cubic feet)	4,439	4,184	3,873	3,721	3,616
Interest rates					
3-month Canada treasury bills (per cent)	0.89	0.95	1.05	1.65	2.50
10-year Canada bonds (per cent)	2.47	1.85	2.30	3.15	4.00
Exchange Rate (US¢/Cdn\$)	100.7	100.0	99.0	99.0	99.0
Calendar Year Assumptions					
	2012	2013	2014	2015	2016
Gross Domestic Product					
Nominal (millions of dollars)	306,721 ^b	321,561	339,028	355,746	374,648
per cent change	3.9 ^b	4.8	5.4	4.9	5.3
Real (millions of 2007 dollars)	285,145 ^b	293,288	301,720	310,031	319,169
per cent change	3.8 ^b	2.9	2.9	2.8	2.9
Other Indicators					
Employment (thousands)	2,150	2,190	2,227	2,263	2,299
per cent change	2.7	1.9	1.7	1.6	1.6
Unemployment rate (per cent)	4.6	4.5	4.3	4.3	4.3
Average Weekly Earnings (per cent change)	3.3	3.5	3.3	3.4	3.4
Primary Household Income (per cent change)	7.3 ^b	5.4	5.2	5.3	5.3
Net Corporate Operating Surplus (per cent change)	-6.6 ^b	5.9	10.3	7.5	9.8
Housing starts (number of units)	33,396	32,600	31,900	30,900	30,500
Alberta Consumer Price Index (per cent change)	1.1	1.8	1.8	1.8	1.8
Population (thousands)	3,874	3,973	4,054	4,135	4,213
per cent change	2.5	2.6	2.0	2.0	1.9

^a Refers to the average price per barrel of Alberta light, medium and heavy oil.

^b Alberta Treasury Board and Finance estimate.

ECONOMIC OUTLOOK 2013–16

ALBERTA ECONOMY MODERATES TO MORE SUSTAINABLE GROWTH

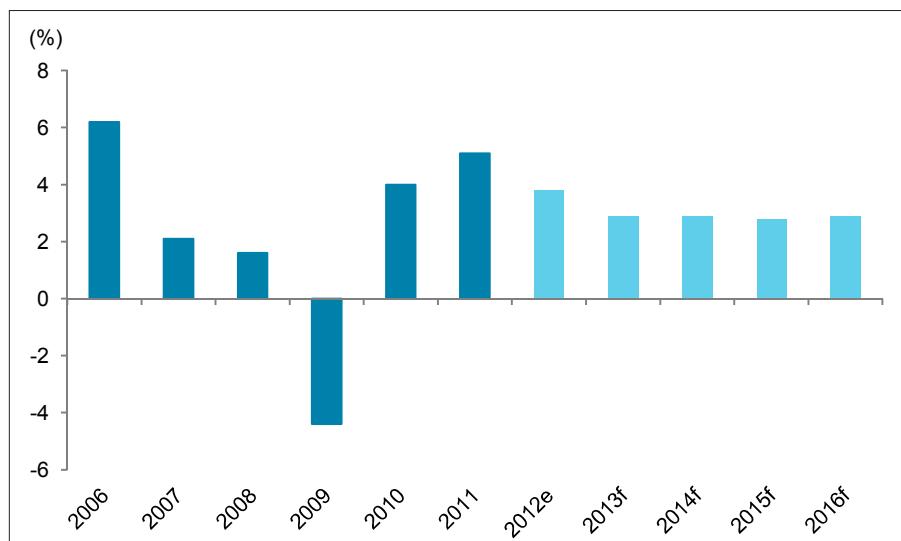
After a period of exceptional growth, the Alberta economy is expected to expand at a more moderate, but still healthy, pace in 2013 and over the medium term. Softer Alberta crude prices have hurt profits to producers (net corporate operating surplus formerly corporate profits), and a weaker price outlook has led to a more cautious approach to energy investment. Since mid-2012, growth has transitioned from the business sector to the household sector, where a thriving labour market and soaring net migration continue to support consumer spending and housing activity.

The Alberta economy is forecast to expand by 2.9% in 2013 and near that pace over the medium term (Chart 1), roughly consistent with the historic average. Last year, the economy expanded by an estimated 3.8%, in line with the *Budget 2012* forecast and nearly double the expected increase for Canada and the US. In 2011, Alberta's economic growth led all provinces at 5.1%, more than 1.5 percentage points higher than expected at *Budget 2012*. While growth of this magnitude is impressive, especially given a sluggish global economy, it is difficult for any advanced economy to maintain without running into major labour supply constraints and cost pressures.

In the labour market, job gains are expected to moderate to 1.9% in 2013 after two years of rapid growth, while the unemployment rate is forecast to stay around its current level of 4.5%. Soaring in-migration has eased labour market constraints and prevented the unemployment rate from falling further. Due to its strong labour market, Alberta is expected to continue to draw people from other provinces and countries, keeping population growth at around 2% per year over the forecast period.

Chart 1: Economic growth expected to moderate from elevated levels

Alberta Real Gross Domestic Product Growth



Alberta's economy is expected to maintain a growth trajectory similar to the long term trend. The household sector is a major driver in the short run, as a strong labour market continues to attract migrants and spur household spending.

Sources: Statistics Canada and Alberta Treasury Board and Finance

Despite healthy gains in the real economy, the current value of Alberta's economic output has been negatively impacted by lower oil prices. Nominal GDP growth slowed from 9% in 2011 to an estimated 3.9% in 2012, and is forecast to average about 5% per year over the medium term.

As a small, trade-dependent economy, Alberta remains exposed to global risks (see pg. 99). These include a lack of pipeline infrastructure in North America to accommodate rising oil production, the ongoing recession in Europe, and fiscal uncertainty in the US.

BUSINESS SECTOR: PROCEEDING AT A MORE CAUTIOUS PACE

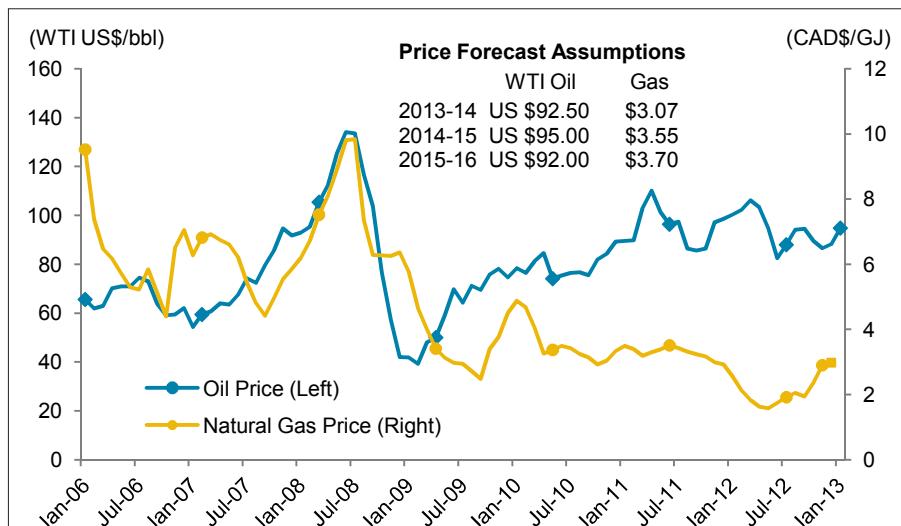
After more than two years of rapid growth, overall business activity is expanding at a more moderate and cautious pace. Since mid-2012, weaker oil prices have hurt growth in the value of exports and dampened drilling activity. Some producers have outlined a more cautious approach to investment amid pipeline constraints and steep price discounts on Alberta crudes. Business costs are expected to stay relatively contained going forward, as strong levels of in-migration limit gains in labour costs and as business investment proceeds at a more moderate rate.

Oil-related activity has been a major growth driver in Alberta. Strong rig activity and energy investment fuelled gains across Alberta's economy, particularly in late 2011 and early 2012. In more recent months, the challenge of getting crude oil to markets has intensified. The amount of spare pipeline capacity to accommodate Alberta's rising oil sands production and surging US tight oil production has been shrinking. As a result, Alberta producers have been vulnerable to disruptions caused by pipeline shutdowns and refinery outages, which both occurred in 2012. Pipeline constraints in North America have also contributed to lower West Texas Intermediate (WTI) oil prices (Chart 2) and a wider differential between what Alberta producers receive

Chart 2: Energy prices soften in 2012-13

Oil and Gas Prices

The WTI price is forecast to remain largely unchanged in 2013-14, while natural gas prices are forecast to stay weak, but move slightly above \$3/GJ.



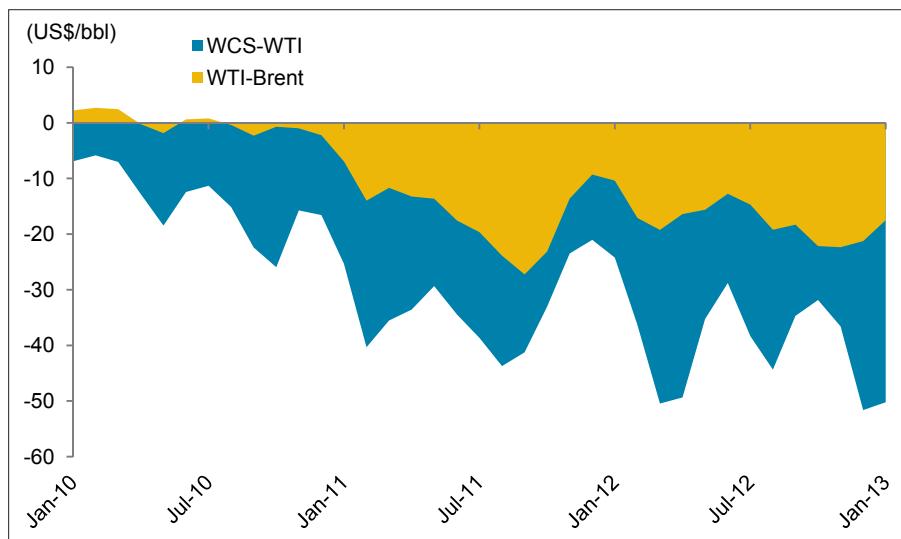
Source: Alberta Energy

(e.g. Western Canada Select (WCS)) and other benchmark prices (Chart 3). The pullback in prices hurt Alberta net corporate operating surplus in 2012, with net corporate operating surplus falling an estimated 6.6%. With the price outlook softening, oil-related rig activity has been dropping since mid-2012 and some oil sands producers have announced a more cautious approach to investment. Oil sands investment is expected to level off in 2013 and over the medium term as more projects transition to the production phase.

Oil prices are forecast to stay high enough to support existing projects and planned production increases. After years of large scale investments, oil sands production is ramping up as more projects come online (Chart 4). The volume of crude oil exports is forecast to increase at an average rate of over 7% in the next five years, adding significantly to Alberta's economic growth.

Chart 3: Oil differentials remain wide and volatile

Oil Price Differentials

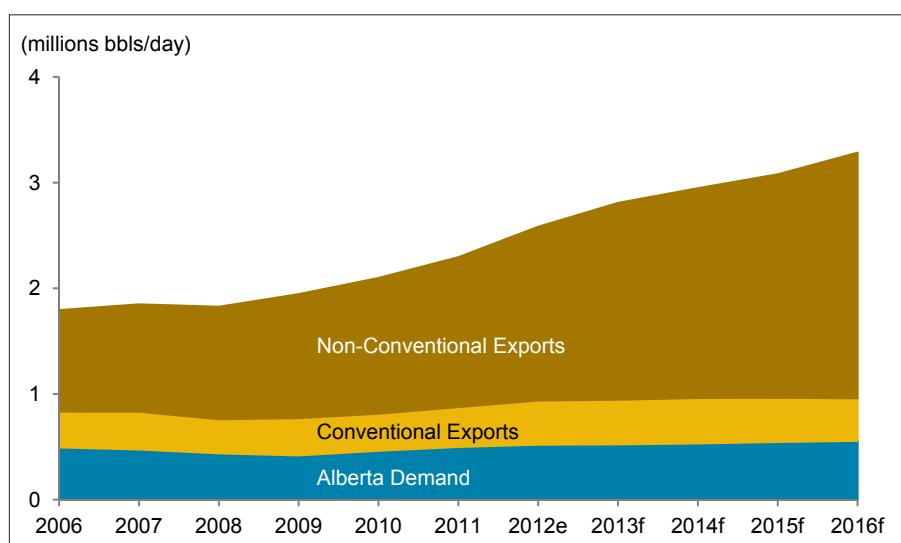


Source: Alberta Energy

Rising North American supply, combined with a lack of takeaway transportation capacity, has widened the differential between WTI and Brent world oil prices. Refinery outages and pipeline constraints have, in certain months, increased the wedge between the WCS and WTI prices.

Chart 4: Growing importance of oil exports

Alberta Crude Oil Production



Source: Energy Resources Conservation Board

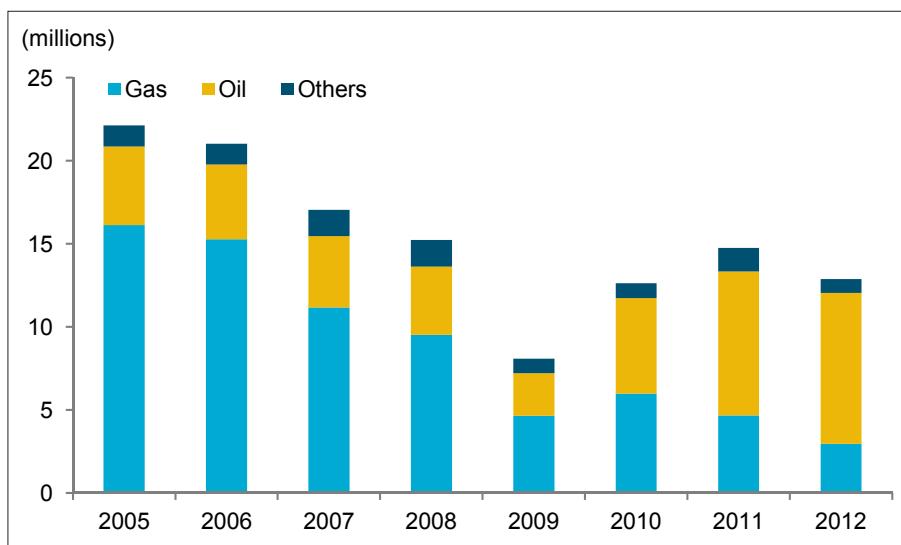
Non-conventional oil exports are expected to be a major driver of Alberta's economic growth over the forecast period, as oil sands investments translate into higher production.

In the natural gas industry, prospects remain dim. A glut of North American supply is keeping prices near historic lows, making drilling for conventional gas uneconomical. Gas meters drilled have dropped sharply in the last two years (Chart 5), and gas exports are expected to decline further over the forecast horizon. In response to low prices, producers have shifted their focus to gas that is rich in higher priced liquids.

Chart 5: Weakness in the gas sector weighs on rig activity

Alberta Meters Drilled

Weakness in natural gas activity caused meters drilled to decline last year. Oil meters drilled edged higher for the year, but softer prices contributed to declines in the second half of 2012.



Sources: Energy Resources Conservation Board and Alberta Treasury Board and Finance

The construction industry rebounded in 2012. Non-residential building construction rose slightly, the first increase since 2008. Meanwhile, building costs have been kept in check. Non-residential construction prices in Edmonton and Calgary have been rising steadily at around 3 to 4% year-over-year since mid-2011, below their 10-year average, and are expected to see even smaller annual increases over the forecast period. Recent strength in building permits and housing starts point to another improvement in construction spending in 2013.

The manufacturing sector continues to perform relatively well, with the value of shipments setting a new record in 2012. Alberta manufacturers have been leveraging the province's strength in energy; sales growth has been particularly impressive for products tied to oil and gas activity, such as machinery (Chart 6). The sector has also made inroads to many emerging markets such as China and Russia, and to the US, where oil and gas investment has been rising. The industry's exports rose by an estimated 6.2% in 2012. Strong international demand for Alberta's energy-related products, such as oil and gas field machinery, are forecast to support further gains in manufactured exports of about 4 to 5% over the medium term.

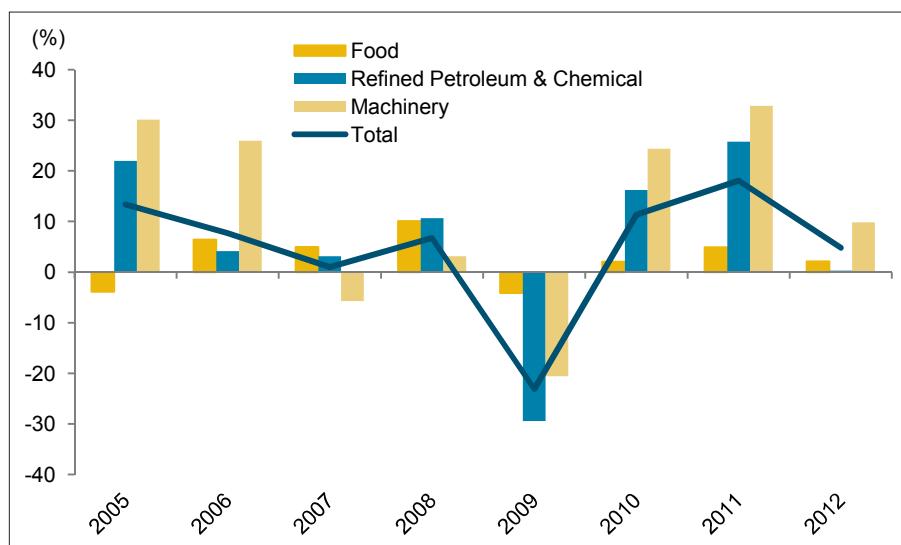
In the agricultural sector, crop producers have benefited from rising prices, in part fuelled by drought conditions in the US, as well as favourable growing conditions in most parts of the province (Chart 7). Livestock producers have seen

their sales rise on the back of higher prices, though losses in meat processing capacity and higher feed costs have posed major challenges over the last year. With output prices staying elevated, farm cash receipts are expected to continue to rise over the forecast period.

Alberta's forest products industry is rebounding, spurred by recent gains in US home building and lumber prices. After a jump in lumber production in 2012, sawmills will benefit from further gains in US housing.

Chart 6: Machinery shipments lift manufacturing sector

Growth in Alberta Manufacturing Shipments by Major Product

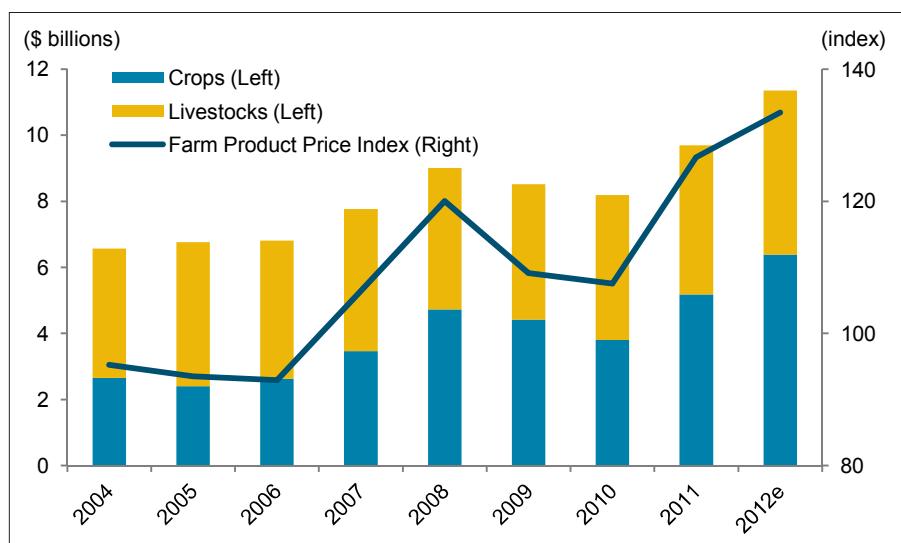


Sources: Statistics Canada and Alberta Treasury Board and Finance

Machinery shipments, which are mainly tied to the oil and gas sector, have led all major product categories in growth over the last five years.

Chart 7: Alberta farmers benefit from higher prices

Alberta Farm Cash Receipts and Farm Prices



Lifted by favourable growing conditions and higher prices, crop receipts mainly drove the increase in farm revenue in 2012.

Sources: Statistics Canada and Alberta Treasury Board and Finance

HOUSEHOLD SECTOR: SUPPORTING ALBERTA'S ECONOMIC GROWTH

Economic activity shifted to the household sector in the second half of 2012 and into 2013. Robust demand for consumer goods and services, as well as housing, has helped offset slower gains in the business sector. Households are expected to play a key role in 2013 and over the medium term, as a healthy labour market and strong in-migration support the household sector.

Alberta households ramped up their purchases of goods and services last year. Retail sales were up 7.6%, more than triple the national increase. Gains were concentrated in autos, clothing, as well as housing-related goods, such as furniture and building materials. All this new spending has taken place during a period of low inflation. Consumer prices rose by only 1.1% in 2012, sharing the smallest increase in the country with British Columbia. Inflation has been held back by falling energy prices and weak growth in the prices for other goods (Chart 9). The combination of high spending and low inflation resulted in an estimated 5.3% increase in real (inflation-adjusted) consumer expenditures, the largest improvement since 2007 (Chart 8).

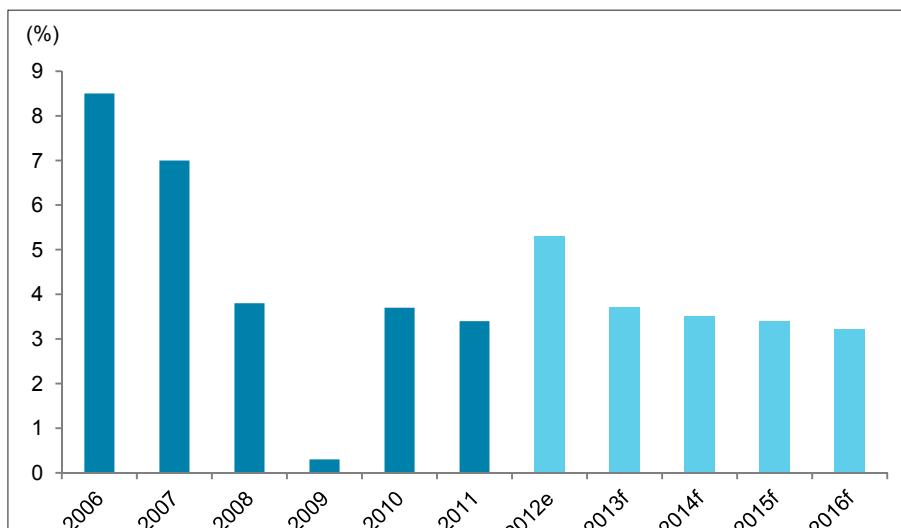
Consumer spending will continue to be a key driver of Alberta's economy going forward, although the pace of growth is expected to ease in 2013. This reflects less growth in the highly volatile durable goods component, particularly in vehicles, which spiked in 2012. It also reflects more moderate expected gains for employment and wages. Growth in real consumer spending is expected to ease from 5.3% in 2012 to 3.7% in 2013 and to stay just above 3% per year over the medium term (Chart 8).

Inflation is forecast to move slightly higher to 1.8% in 2013, as the transitory effect of lower energy prices (particularly for electricity) comes off and as food price inflation picks up. Inflation is expected to stay contained at just under 2% over the medium term, reflecting continued slack in the global and Canadian economies.

Chart 8: Consumers help drive the expansion

Alberta Real Consumer Spending Growth

Consumer spending soared in 2012, propelled by job and income gains. The Alberta economy is expected to benefit from another solid increase from consumers in 2013.

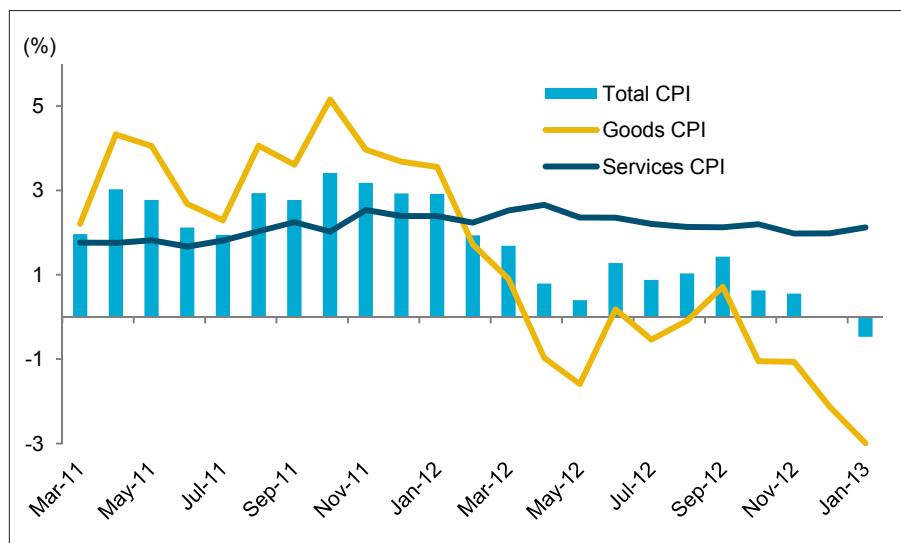


Sources: Statistics Canada and Alberta Treasury Board and Finance

Alberta's robust labour market has underpinned household demand. For the second straight year, Alberta led all provinces in employment growth in 2012. The 2.7% job increase was exactly as forecast in *Budget 2012* and amounts to 55,500 net new positions: all full-time and nearly all in the private sector. Employment growth surged in late 2011 and early 2012, exceeding 4% year-over-year in certain months. Growth has since eased to a more sustainable rate of just under 2% as of January, and is expected to hold at around this pace in 2013 (Chart 10). Overall, employment is forecast to expand by 1.9% in 2013 and by about 1.7% per year over the rest of the forecast horizon. While the goods sector fueled most of the gains in 2012, the service sector is expected to

Chart 9: Growth in a low inflation environment

Alberta Consumer Price Index (CPI) Growth (year-over-year)

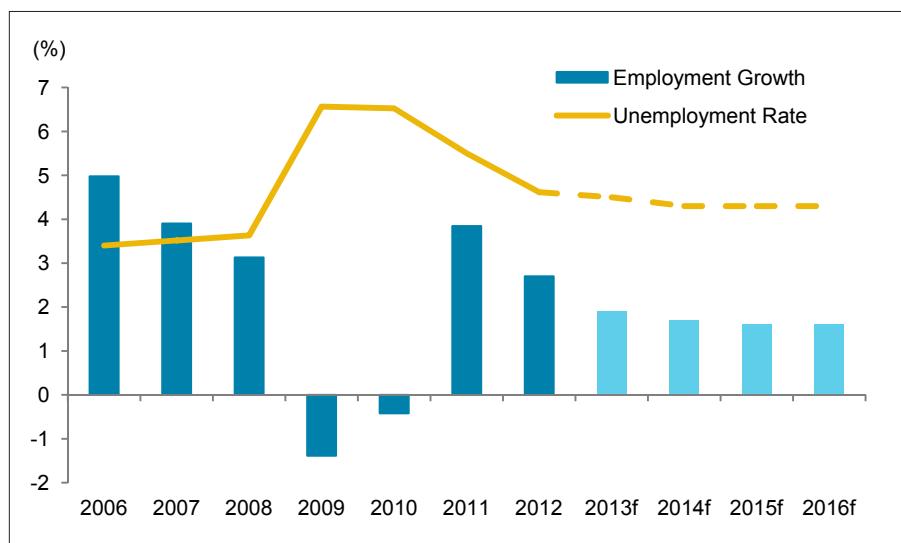


Source: Statistics Canada

A high Canadian dollar and a sluggish global economy have weighed on goods prices. Growth in the services Consumer Price Index, a barometer of local price pressures, has also remained contained.

Chart 10: Alberta's labour market to remain healthy

Alberta Employment Growth and Unemployment Rate



Employment growth is expected to ease to 1.9% in 2013, while the unemployment rate is forecast to stay around 4.5%, its current level.

Sources: Statistics Canada and Alberta Treasury Board and Finance

play a much larger role going forward as strong population growth increases the demand for services. Supported by healthy job gains, the unemployment rate is forecast to stay around its recent level, averaging 4.5% in 2013 before edging down to 4.3% in 2014 through to 2016.

Alberta workers have the highest average earnings of all provinces, making about 20% more per week than the national average. After rising by 4.6% for two straight years, average weekly earnings grew at a more moderate pace of 3.3% in 2012. With the labour market remaining fairly tight, average earnings are forecast to expand at 3.5% in 2013, and grow at around this pace over the medium term. Total primary household income (the new measure of personal income) is expected to ease from 7.3% growth in 2012 to 5.4% in 2013, mainly reflecting a moderation in job gains.

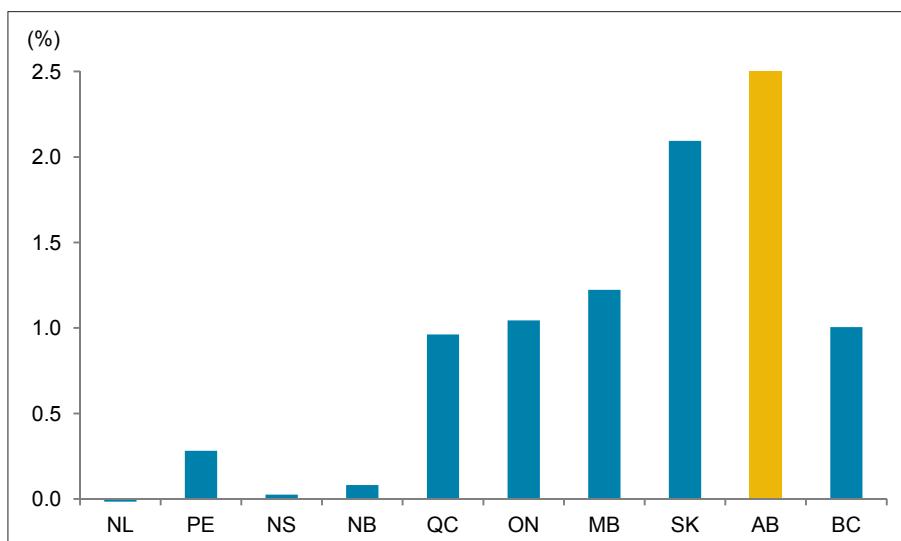
Lured by jobs and higher incomes, Alberta has become a destination of choice for a growing number of Canadian and international migrants. Alberta gained 66,200 people from outside the province in 2012; a level not seen since 2007. This pushed Alberta's population growth to a nation-leading 2.5% in 2012 (Chart 11). The momentum from 2012 is expected to continue into 2013, with 68,600 more residents forecast to arrive than leave. As employment growth moderates slightly, net migration is expected to average around 50,000 per year over the forecast period (Chart 12).

Soaring net migration, particularly from other provinces, has spurred demand for housing (Chart 13). About 33,400 new homes were started in Alberta last year, an increase of 30% over 2011. This reflects fairly broad-based improvements across housing types and regions. On the resale side, stronger housing demand has been reflected in a rising sales-to-listing ratio, which is now in sellers' territory at 0.61 as of December (a sales-to-new listings ratio between 0.4 and 0.6 is considered a balanced market, above 0.6 is considered sellers' territory, and below 0.4 is considered a buyers' market). The improvement

Chart 11: Alberta leads the country in population growth

Population Growth by Province, 2012 Census Year

Alberta led all provinces in population growth, with a 2.5% increase in 2012.

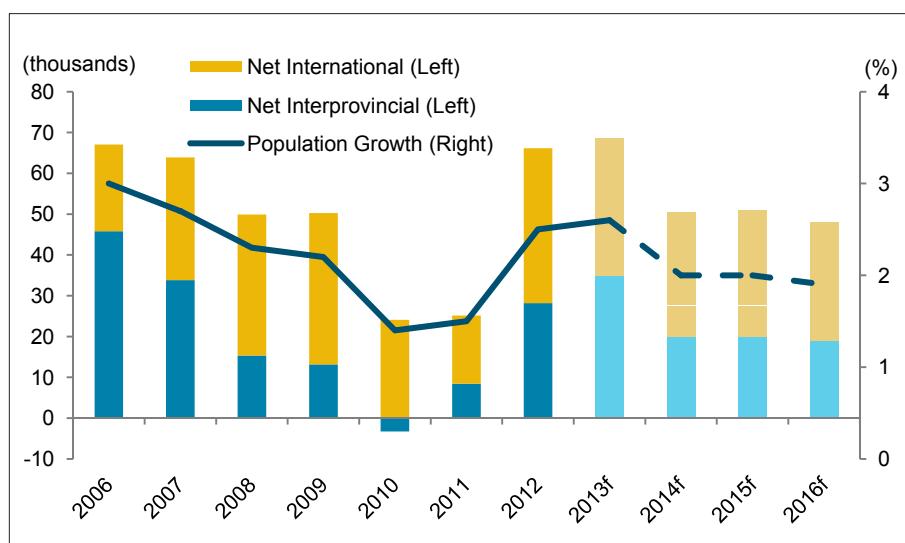


Source: Statistics Canada

in Alberta's new and resale markets comes at a time of significant cooling in the Canadian housing market. Renters in Alberta have fewer options, as vacancy rates have plunged to 5-year lows of under 2% in Calgary and Edmonton as of October 2012. Strong net migration, low interest rates and a tight rental market will support housing construction going forward. Housing starts are expected to total 32,600 units in 2013 and around 30,000 units per year over the medium term.

Chart 12: Net migration to continue to fuel strong population gains

Alberta Net Migration and Population Growth*



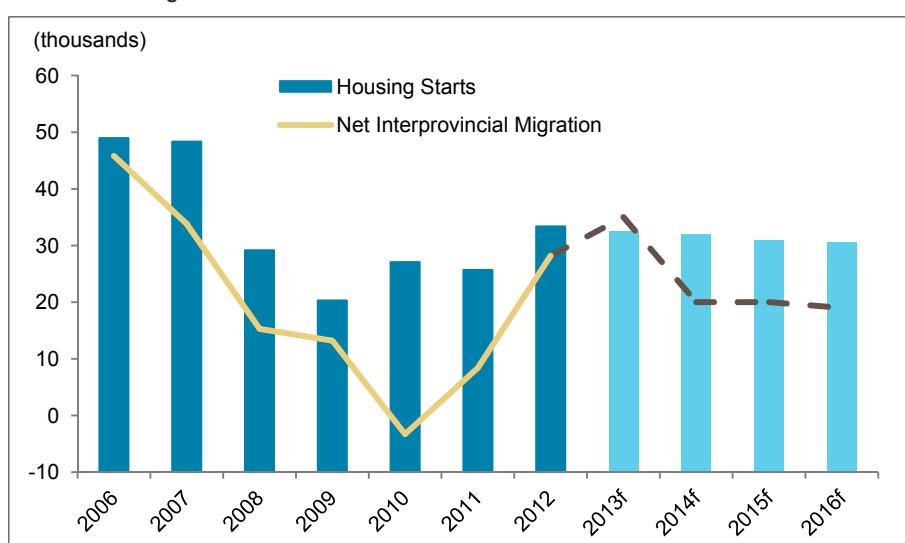
In 2012, population growth accelerated to its highest rate since 2007. A healthy labour market will continue to attract new people in 2013 and over the medium term.

Sources: Statistics Canada and Alberta Treasury Board and Finance

* By census year

Chart 13: New housing market supported by new interprovincial migrants

Alberta Housing Starts



Housing starts hit a 5-year high in 2012, rising 30% over 2011 levels. Starts are expected to total over 32,000 units in 2013 and stay close to 30,000 over the medium term, supported by low interest rates and continued gains in net interprovincial migration.

Sources: Canada Mortgage and Housing Corporation and Alberta Treasury Board and Finance

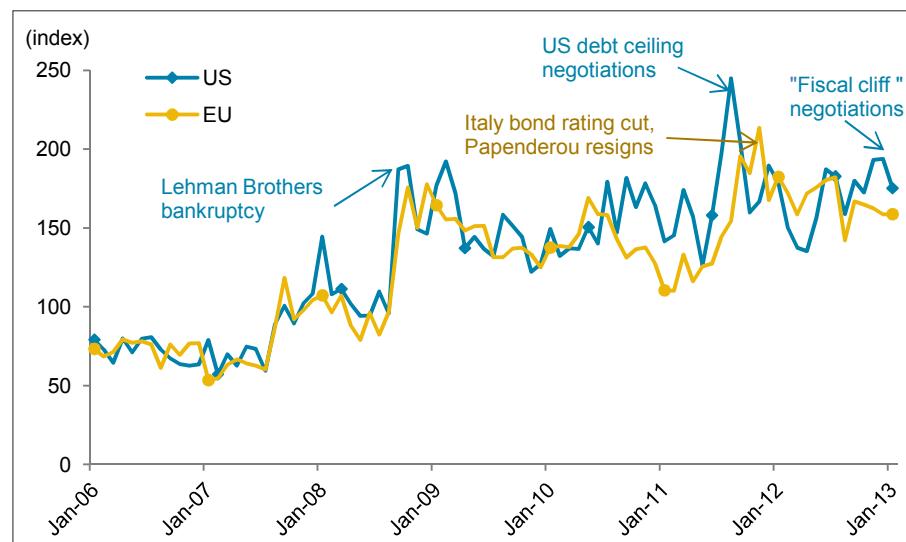
GLOBAL ECONOMY

The global economy continued to stumble in 2012, with growth slowing for the second straight year. Economic growth has struggled to find traction amid debt problems in advanced countries and a slowdown in emerging markets. Policy makers must carefully balance debt reduction, and the resulting fiscal drag, with measures to promote growth. Some progress has been made, but uncertainty persists over how officials will address lingering fiscal problems (Chart 14). Overall, global economic growth is expected to improve slightly to around 3.5% in 2013, led by a pick-up in emerging market growth, before increasing further to above 4% per year over the medium term.

Chart 14: Uncertainty over policy actions remains elevated

Economic Policy Uncertainty Index

Governments are under pressure to curtail spending and make meaningful reforms. Uncertainty over these actions continues to cloud the global economic outlook.



Source: Economic Policy Uncertainty: Scott Baker, Nicholas Bloom and Steven Davis

Advanced economies are in an era of elevated public debt and fiscal restraint (Chart 15). Aggressive monetary stimulus has helped, but continues to be counteracted by the brake of fiscal austerity and lingering uncertainty over future policy actions. With conditions still weak, central banks have committed to keep interest rates near historic lows, with some resorting to less conventional measures such as quantitative easing.

The Eurozone economy remains the main drag on the global economy. Over the last two years, the debt crisis spread from Greece and Portugal to engulf the larger economies of Spain and Italy. Some actions have been taken to ease more immediate concerns; most importantly, the European Central Bank's announcement of a bond buying program in September has pushed down bond yields to more sustainable levels. However, many more steps are still widely considered to be necessary including labour market reforms, a more cooperative banking system and greater fiscal integration.

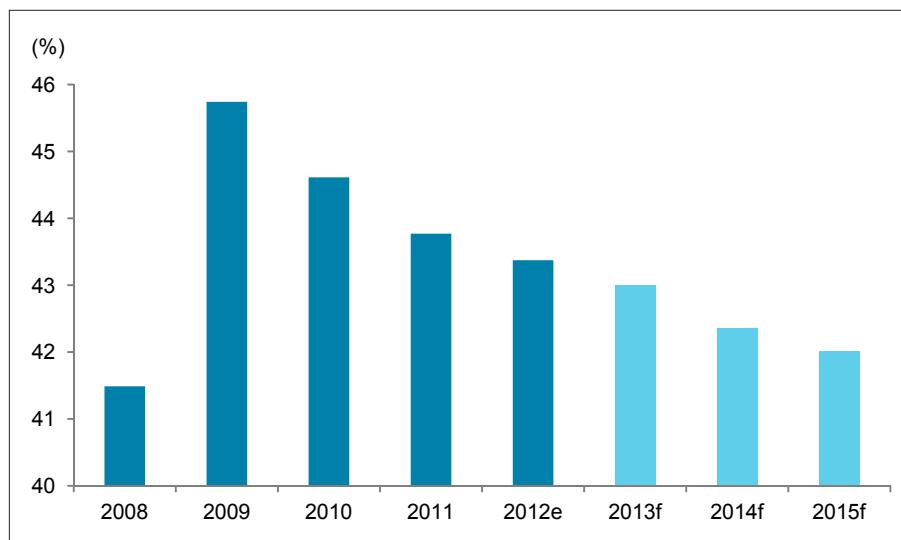
The debt crisis in the Eurozone took its economic toll in 2012. The region entered a recession, with Spain and Italy seeing their economic output tumble (Chart 16). Unemployment rates have reached depression-like levels of more

than 25% in Spain and Greece. While France and Germany have been less affected, they have also seen growth weaken. The Eurozone economy has been in recession since the second quarter of 2012 and is expected to stagnate in 2013.

Emerging markets are particularly important to Alberta, given their strong influence on oil prices and rising share of global oil demand. While China and other emerging markets remain the engines of global growth, they have not been unscathed by the problems in Europe. The Eurozone is China's largest export market, and the resulting collapse in demand in that region has subtracted heavily from exports. Chinese domestic demand has also moderated, in part due to previous rounds of monetary tightening. In more recent months,

Chart 15: An era of public debt and fiscal restraint

Group of Seven (G7) Government Expenditures to GDP (per cent)

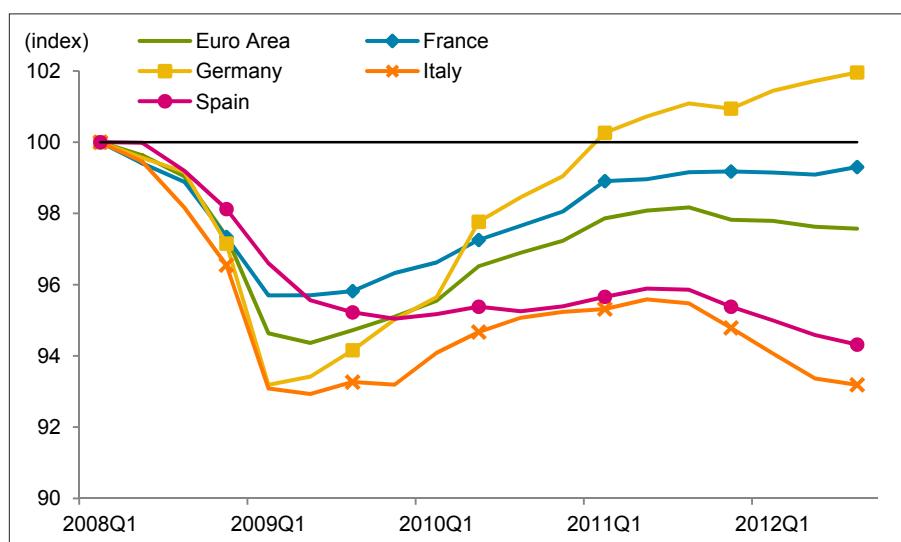


Governments have been winding down stimulus spending and implementing austerity measures in order to control rising debt levels. As a result, government spending is forecast to contribute less to the economy going forward.

Source: International Monetary Fund, October 2012 Outlook

Chart 16: Anaemic or negative growth in many Eurozone economies

Real GDP (2008Q1 = 100)



Of the major Eurozone economies, Italy and Spain have been hit particularly hard by the crisis, with economic conditions worsening in 2012.

Sources: Institut National de la Statistique/Economique, Eurostat, ELSTAT, Istituto Nazionale di Statistica, Instituto Nacional de Estadística, Instituto Nacional de Estadística

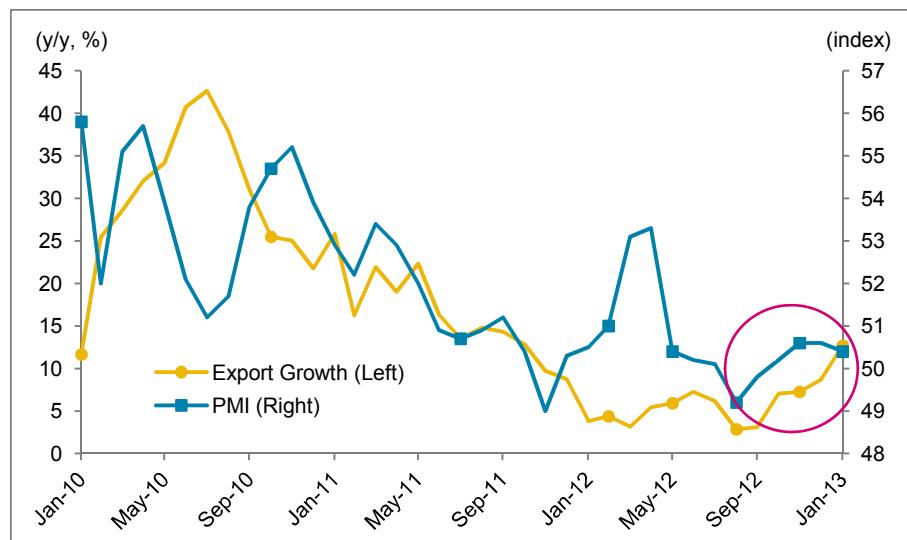
there have been some indications that domestic demand is picking up, including higher growth in retail sales. There are also indications that export growth is strengthening: January's 25% year-over-year increase was the largest in about a year and the Chinese Purchasing Managers' Index, a broad measure of manufacturing activity, indicates improving conditions for the fourth straight month in January (Chart 17). Overall, Chinese growth is expected to climb to around 8.5% in 2013.

In Japan, the newly elected government has signaled its intention to adopt a more aggressive monetary policy to fight harder against deflation. Japanese stock markets have rallied on the news, while the Yen has depreciated significantly since November 2012. Further monetary easing, in combination with the current fiscal stimulus package, is expected to support a rebound in the Japanese economy in 2013.

Chart 17: Growth in China has picked up

3-month Moving Average Merchandise Exports and Purchasing Managers Index

There are early signs of accelerating growth in China's manufacturing and export sectors.

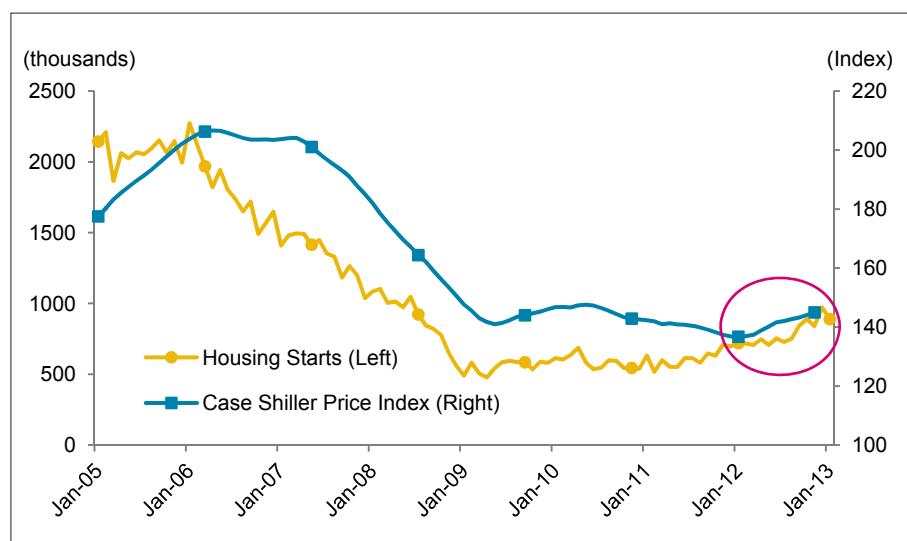


Sources: China Federation of Logistics and Publishing, and China Customs

Chart 18: US housing market showing signs of improvement

US Housing Starts and House Prices

The US housing sector is finally improving and it is expected to add meaningfully to economic growth in 2013 and over the medium term.



Sources: US Census Bureau and Standard and Poor's

In the US, some hopeful signs have emerged. A new deal struck by Congress on January 1, 2013 narrowly prevented the US from going over the 'fiscal cliff' of automatic spending cuts and tax increases. The deal has alleviated some of the tax uncertainty that has weighed heavily on business investment and hiring. Financial markets moved higher in the aftermath of the deal, and market volatility has subsided.

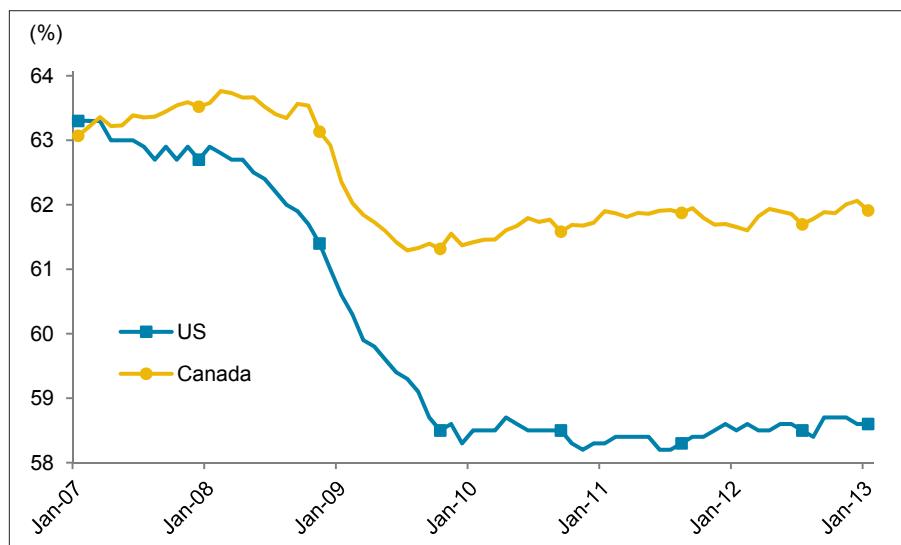
Another bright spot is an improving US housing market. The excess supply of unsold and foreclosed homes is gradually being absorbed, with inventories now at a 6-year low. Although home construction remains weak, it is improving and will help support the US expansion going forward. Residential investment has grown at an average annual rate of 10.6% since the first quarter of 2011, housing starts are at a 4-year high, and home prices are edging higher (Chart 18).

Despite some progress, the US economy faces major challenges. Decisions over automatic spending cuts due to budget sequestration and the debt ceiling have been delayed until March and May, respectively, causing fiscal uncertainty to persist. In addition, Congress will need to pass a budget before the existing budget resolution expires on March 27, 2013. Another area for concern is the labour market. Although the unemployment rate has dipped below 8% for the first time in three years, the US labour market remains weak. Much of the drop in the unemployment rate has been due to workers leaving the labour force; the employment to population ratio, or employment rate, is still around its recessionary low (Chart 19). Chronic weakness in the labour market has prompted the Federal Reserve to commit to exceptionally low interest rates and continue its quantitative easing program.

Overall, growth in the US economy is expected to accelerate to 2.4% in 2013, reflecting a pick-up in business investment, housing and consumer spending before returning to growth of over 2.5% per year over the medium term.

Chart 19: US labour market on long road to recovery

Employment Rate (share of working-age population employed)



While the US unemployment rate has come down, many Americans are still without jobs. The share of working-age people who have jobs (the employment rate) remains near historic lows.

Sources: US Bureau of Labor Statistics and Statistics Canada

CANADIAN ECONOMY

The Canadian economy outperformed most developed economies in the wake of the financial crisis and recession. In 2012, however, growth in the Canadian economy decelerated. A fall in commodity prices held back nominal export and GDP growth, while weak investment in the housing sector has become a drag on economic growth. Nevertheless, foreign investors increasingly see Canada as a desirable investment destination, which has lent support to the Canadian dollar.

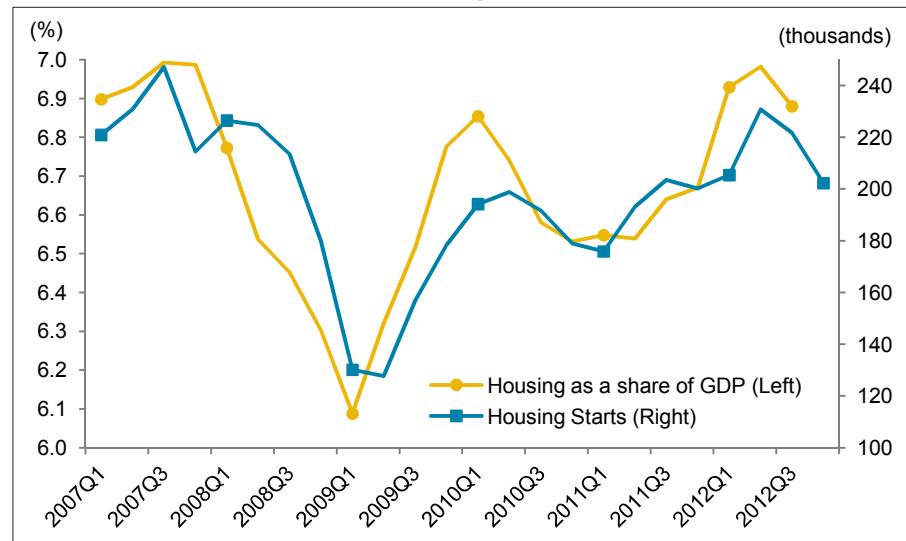
Canada's economic growth has been moderating since the fourth quarter of 2011, hampered by weak export growth, as well as a recent deceleration in residential investment. The housing sector, which has been a key source of growth for the Canadian economy, is now slowing considerably. Housing starts have fallen for five straight months and in January 2013 reached a three and a half year low (Chart 20).

Canada's economy has also been negatively affected by the softening of oil prices, an impact that is expected to persist into 2013. As shown on page 85, Alberta oil producers are receiving steep price discounts on their oil exports relative to other benchmark prices. Meanwhile, the country continues to pay a much higher price on its oil-related imports, which are more closely tied to the elevated world price (i.e. Brent). These developments have hurt Canada's terms of trade and translated into weaker nominal GDP growth (Chart 21) along with lower federal and provincial government revenues. In its November 2012 update, Finance Canada announced a downward revision to its revenue outlook based on lower commodity prices. The overall price for commodities produced in Canada has been pulled down by energy in 2012, mainly reflecting a drop in oil prices. The Bank of Canada estimates that the wider oil price differential, combined with some temporary supply disruptions, shaved 0.4 of a percentage point off Canada's annualized real GDP growth in the second half of 2012.

Chart 20: Residential investment in Canada is cooling

Canada Residential Investment and Housing Starts

After adding significantly to Canadian economic growth in recent years, the Canadian housing market is now slowing. Weaker residential investment is expected to subtract from real GDP growth in 2013.

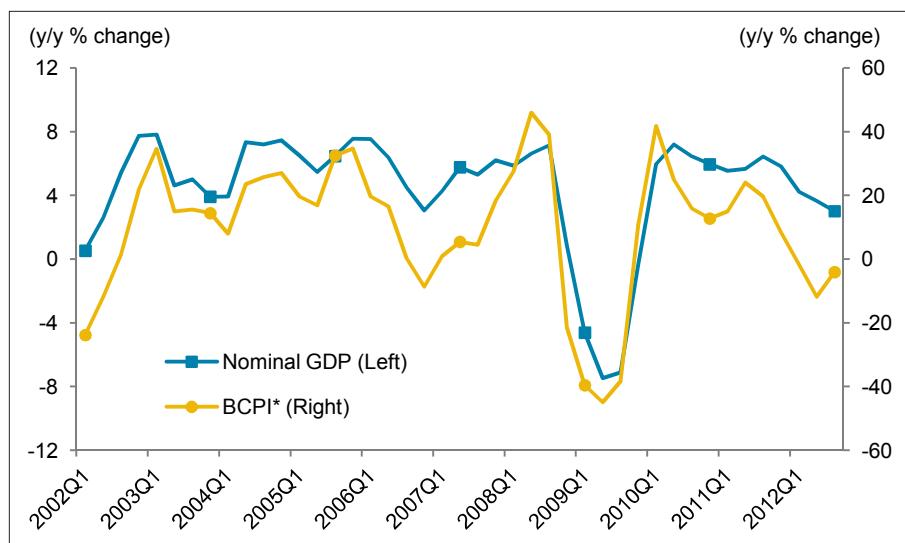


Sources: Statistics Canada and Canada Mortgage and Housing Corporation

While commodity prices have weakened, large capital inflows have helped to keep the dollar around parity with the US dollar. In a period of global uncertainty, foreign investors are buying Canadian assets (Chart 22), which are seen as less risky. In many cases, investors are also able to earn a higher return, as the Bank of Canada has kept its benchmark short-term interest rate higher than in many other developed countries. More recently, a softer stance by the Bank of Canada on future rate increases has put some downward pressure on the Loonie. Overall, the Canadian dollar is forecast to come in just below parity with the US dollar in 2013-14 and over the forecast horizon.

Chart 21: Fall in commodity prices hits Canada's nominal GDP growth

Growth in Canadian Nominal GDP and Commodity Prices (year-over-year)



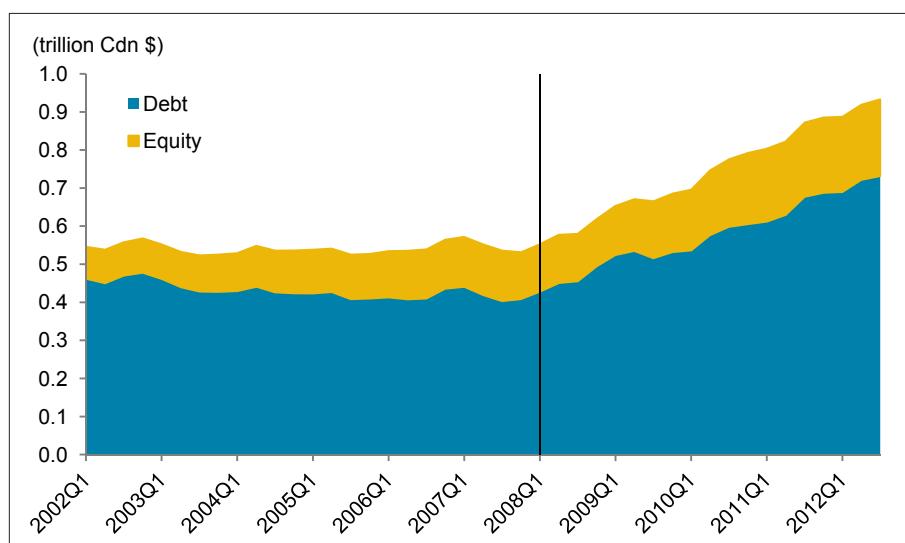
Sources: Statistics Canada and Bank of Canada

* Bank of Canada commodity price index

Lower commodity prices, particularly for energy, have subtracted from Canada's nominal income. This has hurt federal and provincial government revenues.

Chart 22: Canada attracts foreign investment

Net Foreign Holdings of Canadian Securities



Viewed as a safe haven, Canada continues to attract foreign capital. Net inflows of foreign investment are at record levels.

Source: Statistics Canada

* Line denotes start of the 2008 recession in the US

Low interest rates have become a new norm in Canada. The Bank of Canada has kept its overnight rate on hold at 1% since late 2010, and is unlikely to raise rates in 2013 after downgrading its outlook for inflation and economic growth in January. Long-term bond yields have recently moved closer to short-term rates, indicating that the market expects low interest rates to persist well into the future (Chart 23). Canadian 3-month treasury bills are expected to yield around 1% for the second straight year in 2013-14, while 10-year bond yields are expected to inch slightly higher to 2.3% over the same period.

Canadian household debt continues to rise. Though debt servicing ratios (e.g. interest payments to income) are healthy, the debt-to-income ratio remains elevated. This poses a risk to the Canadian economy, as measures by households to reduce debt would put downward pressure on consumption and housing activity. The federal government has mitigated the risk of rising debt by imposing stricter regulations for insured mortgages. The Bank of Canada has also indicated that it would use monetary policy to address household imbalances if other policy measures fail.

Overall, Canada's economy is expected to grow by a modest rate of 2% in 2013, reflecting a weak global outlook, fiscal restraint and declines in residential investment. Beyond 2013, growth is expected to pick-up to around 2.5% per year over the medium term.

Chart 23: Long term yields continue to edge lower

Select Government of Canada Benchmark Bond Yields

Markets expect low interest rates to persist, with long-term yields moving closer to shorter term rates over the last two years. The 10-year bond yield is near record lows.



Source: Bank of Canada

SUMMARY

The global economy is expected to remain weak in 2013. Despite some tentative signs of improvement, global economic growth will continue to be held back by the recession in Europe and uncertainty over future policy actions. The Canadian economy is expected to see another year of a modest growth due to a weak global outlook, a slowdown in the housing market, and fiscal restraint.

In a sluggish global economy, Alberta's economy has performed very well. Growth is expected to ease to 2.9% in 2013, which mainly reflects weaker market conditions for the oil industry, particularly the negative impact of pipeline constraints on the price of oil produced in Alberta.

RISKS TO THE ECONOMIC OUTLOOK

- ◆ Failure to approve new pipeline projects, which would further dampen oil prices and hurt growth prospects for the oil industry.
- ◆ Rising supply of oil in the US and in other regions could put more downward pressure on oil prices than expected.
- ◆ A deepening of the Eurozone economic recession, and the possibility that the recession could spill over to other major European economies.
- ◆ In the US, the fiscal situation remains uncertain, and fiscal restraint could lead to a larger-than-expected drag on the US economy.
- ◆ An improvement in emerging market growth could be jeopardized by another flare up in the Eurozone debt crisis or a deceleration in domestic demand. As a growing source of global energy demand, a slowdown in emerging markets would weigh on commodity prices.
- ◆ On the upside, a number of factors could lead to stronger-than-forecast economic growth in Alberta. These include an immediate easing of pipeline bottlenecks, a stronger than expected pick-up in emerging market growth, as well as significant steps towards a resolution to Eurozone economic woes and the US fiscal situation.

❖ ANNEX

BENCHMARKING TABLES

Oil Price Benchmark

West Texas Intermediate (US\$/bbl)

Organization	2013	2014	2015	2016
National Forecasting Agencies				
Conference Board of Canada (Jan/13)	89.83	97.49	105.48	113.16
IHS Global Insight (Jan/13)	89.64	86.26	81.60	86.60
Centre for Spatial Economics (Jun/12)	97.00	102.93	108.00	107.81
Banks and Investment Dealers				
BMO Capital Markets (Jan/13)	94.00	99.00	n/a	n/a
Credit Suisse (Jan/13)	102.75	102.00	92.00	82.00
Deutsche Bank (Jan/13)	96.25	103.25	100.00	n/a
CIBC World Markets (Dec/12)	98.00	100.00	n/a	n/a
Goldman Sachs (Jan/13)	97.00	95.00	93.00	78.00
JP Morgan (Jan/13)	99.00	115.00	n/a	n/a
Peters & Co. Limited (Jan/13)	94.20	92.73	87.81	87.81
RBC Capital Markets (Jan/13)	91.00	96.00	95.00	95.00
Scotiabank (Dec/12)	94.00	96.00	n/a	n/a
Toronto Dominion Bank (Dec/12)	94.00	95.00	n/a	n/a
Industry Analysts				
U.S. Energy Information Administration (Jan/13)	89.54	91.00	n/a	n/a
GLJ Petroleum Consultants (Jan/13)	90.00	92.50	95.00	97.50
Sproule Associates Limited (Jan/13)	89.63	89.93	88.29	95.52
Confidential Forecasts Provided to Alberta Energy^a				
Average	94.65	94.12	93.28	96.71
High	104.75	115.00	108.00	113.16
Low	87.25	84.25	80.80	78.00
Average of All Private Forecasts	94.28	96.31	94.12	94.91
Alberta Government (calendar year)	94.05	93.64	93.00	95.47

^a The Alberta Department of Energy also surveys, on a confidential basis, private sector forecasts from CERI, PIRA, KBC, Petral, Purvin & Gertz, IHS CERA and Wood Mackenzie. The annual figures presented here are the average forecast prices from these sources. High/Low forecasts may represent one of the confidential forecasts.

Includes forecasts finalized on or before January 29, 2013.

How Oil Price Forecasters Fared in Budget 2012

West Texas Intermediate (US\$/bbl)

Organization	How did they do in Budget 2012?
National Forecasting Agencies (3)	93.88
Banks and Investment Dealers (11)	100.93
Industry Analysts (3)	98.44
Confidential Forecasts (7)	99.71
Average	99.41
Alberta Government (calendar year)	98.71
Actual	94.15

Sources: Alberta Treasury Board and Finance and Alberta Energy

Both the Government of Alberta and the private sector overestimated the WTI oil price for 2012, by 4.8% and 5.6% respectively.

Natural Gas Price Benchmark

Henry Hub (US\$/MMBTU)^a

Organization	2013	2014	2015	2016
National Forecasting Agencies				
Conference Board of Canada (Jan/13)	3.37	3.77	4.41	4.81
IHS Global Insight (Jan/13)	4.01	4.89	4.74	4.11
Centre for Spatial Economics (Jun/12)	3.23	3.78	4.43	5.02
Banks and Investment Dealers				
BMO Capital Markets (Jan/13)	3.60	4.45	n/a	n/a
Credit Suisse (Jan/13)	3.70	4.30	4.50	4.50
Deutsche Bank (Jan/13)	3.75	4.25	4.50	n/a
CIBC World Markets (Jan/13)	3.40	n/a	n/a	n/a
JP Morgan (Jan/13)	3.70	4.25	n/a	n/a
Peters & Co. Limited (Jan/13)	3.50	3.98	4.40	4.40
RBC Capital Markets (Jan/13)	3.75	4.50	5.00	5.00
Scotiabank (Dec/12)	3.75	4.00	n/a	n/a
Toronto Dominion Bank (Jan/13)	3.70	4.00	n/a	n/a
Industry Analysts				
U.S. Energy Information Administration (Jan/13)	3.74	3.90	n/a	n/a
GLJ Petroleum Consultants (Jan/13)	3.75	4.25	4.75	5.25
Sproule Associates Limited (Jan/13)	3.65	4.06	4.24	5.04
Confidential Forecasts Provided to Alberta Energy^b				
Average	3.92	4.35	4.47	4.31
High	4.13	4.89	5.00	5.25
Low	3.23	3.77	4.20	4.11
Average of All Private Forecasts				
Alberta Government (calendar year)	3.69	4.19	4.54	4.67
Alberta Government (calendar year)	3.71	4.29	4.52	4.83

^a The natural gas price is the US price of gas at Henry Hub in Louisiana, as this is the benchmark for natural gas prices in the rest of North America. The Alberta Government forecast in the table above is the Alberta Reference Price (used in natural gas royalty calculations) adjusted for the exchange rate and transportation costs to be equivalent to the price of Alberta natural gas at Henry Hub in Louisiana.

^b The Alberta Department of Energy also surveys, on a confidential basis, private sector forecasts from PIRA, Petral, IHS CERA and Wood McKenzie. The annual figures presented here are the average forecast prices from these sources. High/Low forecasts may represent one of the confidential forecasts.

Includes forecasts finalized on or before January 29, 2013.

How Natural Gas Price Forecasters Fared in Budget 2012

Henry Hub (US\$/MMBTU)

Both the Government of Alberta and the private sector overestimated natural gas prices for 2012, by 27.9% and 29.3% respectively.

Organization	How did they do in Budget 2012?
National Forecasting Agencies (3)	3.83
Banks and Investment Dealers (10)	3.73
Industry Analysts (3)	3.63
Confidential Forecasts (4)	3.41
Average	3.66
Alberta Government (calendar year)	3.62
Actual	2.83

Sources: Alberta Treasury Board and Finance and Alberta Energy

Light-Heavy Oil Price Differential Benchmark

(per cent)

	2013	2014	2015	2016
Average of All Private Forecasts^a	27%	23%	19%	17%
Alberta Government (calendar year)	29%	24%	19%	17%

^a Alberta Energy surveyed the following forecasters of the light heavy differential: PIRA, KBC, IHS CERA, Purvin & Gertz , Peters & Co Ltd, CIBC World Markets Sproule Associates Limited, GLJ Petroleum Consultants.

Canadian Short-Term Interest Rate Benchmark

3-month Government of Canada Treasury Bills (per cent)

Organization	2013	2014	2015	2016
National Forecasting Agencies				
Conference Board of Canada (Jan/13)	1.03	1.57	2.43	3.42
IHS Global Insight (Jan/13)	1.04	1.81	2.91	3.88
Centre for Spatial Economics (Jun/12)	1.10	2.50	2.90	3.80
Banks				
BMO Capital Markets (Jan/13)	0.92	1.21	n/a	n/a
CIBC World Markets (Jan/13)	1.01	1.65	n/a	n/a
RBC Royal Bank (Jan/13)	1.23	1.88	n/a	n/a
Scotiabank (Dec/12)	1.03	1.76	n/a	n/a
Toronto Dominion Bank (Jan/13)	1.23	1.75	n/a	n/a
Laurentian Bank (Jan/13)	1.01	1.98	n/a	n/a
High	1.23	2.50	2.91	3.88
Low	0.92	1.21	2.43	3.42
Average of All Private Forecasts	1.07	1.79	2.75	3.70
Alberta Government (calendar year)	1.00	1.40	2.40	3.35

Includes forecasts finalized on or before January 29, 2013.

Canadian Long-Term Interest Rate Benchmark

10-Year Government of Canada Bonds (per cent)

Organization	2013	2014	2015	2016
National Forecasting Agencies				
Conference Board of Canada (Jan/13)	1.77	2.02	2.54	3.24
IHS Global Insight (Jan/13)	2.16	2.75	3.17	4.04
Centre for Spatial Economics (Jun/12)	3.10	4.00	4.80	5.30
Banks				
BMO Capital Markets (Jan/12)	2.05	2.80	n/a	n/a
CIBC World Markets (Jan/12)	2.38	2.75	n/a	n/a
RBC Royal Bank (Dec/12)	2.20	2.94	n/a	n/a
Scotiabank (Dec/12)	2.06	2.95	n/a	n/a
Toronto Dominion Bank (Jan/13)	2.08	2.59	n/a	n/a
Laurentian Bank (Jan/13)	2.39	3.39	n/a	n/a
High	3.10	4.00	4.80	5.30
Low	1.77	2.02	2.54	3.24
Average of All Private Forecasts	2.24	2.91	3.50	4.19
Alberta Government (calendar year)	2.20	2.90	3.90	4.20

Includes forecasts finalized on or before January 29, 2013.

Canada / United States Exchange Rate Benchmark

(US\$/Cdn\$)

Organization	2013	2014	2015	2016
National Forecasting Agencies				
Conference Board of Canada (Jan/13)	97.0	95.8	96.3	98.5
IHS Global Insight (Jan/13)	99.1	95.0	92.2	91.2
Centre for Spatial Economics (Jun/12)	96.6	95.2	94.7	94.7
Banks				
BMO Capital Markets (Jan/13)	100.8	103.2	n/a	n/a
CIBC World Markets (Jan/13)	99.5	103.5	n/a	n/a
RBC Royal Bank (Jan/13)	102.8	105.3	n/a	n/a
Scotiabank (Dec/12)	103.5	105.5	n/a	n/a
Toronto Dominion Bank (Dec/12)	99.3	102.5	n/a	n/a
Laurentian Bank (Jan/13)	99.5	96.0	n/a	n/a
High	103.5	105.5	96.3	98.5
Low	96.6	95.0	92.2	91.2
Average of All Private Forecasts	99.8	100.2	94.4	94.8
Alberta Government (calendar year)	99.1	99.0	99.0	99.0

Includes forecasts finalized on or before January 29, 2013.

Alberta Real Gross Domestic Product Benchmark

(per cent change)

Organization	2012	2013	2014	2015	2016
National Forecasting Agencies					
Conference Board of Canada (Jan/13)	3.4	3.0	3.3	2.9	2.3
IHS Global Insight (Jan/13)	3.1	2.5	2.8	2.9	2.8
Centre for Spatial Economics (Jun/12)	3.5	3.2	2.1	2.2	2.4
Banks					
BMO Capital Markets (Jan/13)	3.4	2.7	3.1	n/a	n/a
CIBC World Markets (Jan/13)	3.4	2.3	2.8	n/a	n/a
RBC Royal Bank (Dec/12)	3.8	3.5	4.2	n/a	n/a
Scotiabank (Dec/12)	3.4	2.7	3.1	n/a	n/a
Toronto Dominion Bank (Dec/12)	3.1	2.5	3.2	n/a	n/a
Laurentian Bank (Oct/12)	3.2	3.0	n/a	n/a	n/a
Other					
Canada Mortgage and Housing Corporation (Jan/13)	3.2	2.9	n/a	n/a	n/a
High	3.8	3.5	4.2	2.9	2.8
Low	3.1	2.3	2.1	2.2	2.3
Average of All Private Forecasts	3.4	2.8	3.1	2.6	2.5
Alberta Government (calendar year)	3.8	2.9	2.9	2.8	2.9

Includes forecasts finalized on or before January 29, 2013.

Alberta Primary Household Income Benchmark

(per cent change)

Organization	2012	2013	2014	2015	2016
Conference Board of Canada* (Jan/13)	6.3	4.8	5.3	5.2	4.9
IHS Global Insight (Jan/13)	5.5	4.5	4.8	4.8	4.4
Centre for Spatial Economics* (Jun/12)	6.1	5.2	3.8	4.1	4.3
Toronto Dominion Bank* (Dec/12)	5.5	4.7	6.1	n/a	n/a
High	6.3	5.2	6.1	5.2	4.9
Low	5.5	4.5	3.8	4.1	4.3
Average of All Private Forecasts	5.9	4.8	5.0	4.7	4.5
Alberta Government (calendar year)	7.3	5.4	5.2	5.3	5.3

Includes forecasts finalized on or before January 29, 2013.

* Denotes forecast of Personal Income under Statistics Canada's previous vintage of national accounts.

Alberta Corporate Net Operating Surplus Benchmark

(per cent change)

Organization	2012	2013	2014	2015	2016
Conference Board of Canada* (Jan/13)	0.0	4.5	5.7	6.6	3.8
IHS Global Insight (Jan/13)	-1.6	5.7	1.5	3.3	2.9
Centre for Spatial Economics* (Jun/12)	-1.8	-1.3	15.1	10.5	4.7
Toronto Dominion Bank (not supplied)	n/a	n/a	n/a	n/a	n/a
High	0.0	5.7	15.1	10.5	4.7
Low	-1.8	-1.3	1.5	3.3	2.9
Average of All Private Forecasts	-1.1	3.0	5.6	6.8	3.8
Alberta Government (calendar year)	-6.6	5.9	10.3	7.5	9.8

Includes forecasts finalized on or before January 29, 2013.

* Denotes forecast of Corporation Profits Before Taxes under Statistics Canada's previous vintage of national accounts.

Alberta Housing Starts Benchmark

(thousands)

Organization	2013	2014	2015	2016
National Forecasting Agencies				
Conference Board of Canada (Jan/13)	29.9	30.2	30.6	30.0
IHS Global Insight (Jan/13)	33.2	32.0	31.8	31.6
Centre for Spatial Economics (Jun/12)	35.5	35.3	34.5	31.5
Banks				
BMO Capital Markets (Jan/13)	32.5	32.5	n/a	n/a
CIBC World Markets (Jan/13)	29.0	28.0	n/a	n/a
RBC Royal Bank (Dec/12)	32.0	32.0	n/a	n/a
Scotiabank (Dec/12)	30.0	30.0	n/a	n/a
Toronto Dominion Bank (Dec/12)	33.5	32.0	n/a	n/a
Laurentian Bank (Oct/12)	31.7	n/a	n/a	n/a
Other				
Canada Mortgage and Housing Corporation (Jan/13)	31.2	n/a	n/a	n/a
High	35.5	35.3	34.5	31.6
Low	29.0	28.0	30.6	30.0
Average of All Private Forecasts	31.8	31.5	32.3	31.0
Alberta Government (calendar year)	32.6	31.9	30.9	30.5

Includes forecasts finalized on or before January 29, 2013.

Alberta Employment Benchmark

(per cent change)

Organization	2013	2014	2015	2016
National Forecasting Agencies				
Conference Board of Canada (Dec/12)	2.1	2.4	2.1	1.7
IHS Global Insight (Jan/13)	1.7	1.8	2.2	1.7
Centre for Spatial Economics (Jun/12)	2.1	1.0	1.1	1.1
Banks				
BMO Capital Markets (Jan/13)	1.6	1.4	n/a	n/a
CIBC World Markets (Jan/13)	1.4	1.5	n/a	n/a
RBC Royal Bank (Dec/12)	2.4	2.0	n/a	n/a
Scotiabank (Dec/12)	2.0	2.1	n/a	n/a
Toronto Dominion Bank (Dec/12)	1.6	1.8	n/a	n/a
Laurentian Bank (Oct/12)	1.7	n/a	n/a	n/a
Other				
Canada Mortgage and Housing Corporation (Jan/13)	2.2	n/a	n/a	n/a
High	2.4	2.4	2.2	1.7
Low	1.4	1.0	1.1	1.1
Average of All Private Forecasts				
Alberta Government (calendar year)	1.9	1.7	1.8	1.5

Includes forecasts finalized on or before January 29, 2013.

Alberta Unemployment Rate Benchmark

(per cent)

Organization	2013	2014	2015	2016
National Forecasting Agencies				
Conference Board of Canada (Dec/12)	4.8	4.5	4.1	3.8
IHS Global Insight (Jan/13)	4.4	4.3	4.3	4.3
Centre for Spatial Economics (Jun/12)	4.4	4.9	5.0	5.1
Banks				
BMO Capital Markets (Jan/13)	4.5	4.4	n/a	n/a
CIBC World Markets (Jan/13)	4.6	4.6	n/a	n/a
RBC Royal Bank (Dec/12)	4.4	4.5	n/a	n/a
Scotiabank (Dec/12)	4.6	4.5	n/a	n/a
Toronto Dominion Bank (Dec/12)	4.5	4.4	n/a	n/a
Laurentian Bank (Oct/12)	4.8	n/a	n/a	n/a
Other				
Canada Mortgage and Housing Corporation (Jan/13)	4.6	n/a	n/a	n/a
High	4.8	4.9	5.0	5.1
Low	4.4	4.3	4.1	3.8
Average of All Private Forecasts				
Alberta Government (calendar year)	4.6	4.5	4.5	4.4

Includes forecasts finalized on or before January 29, 2013.

BUDGET | Responsible 2013 | Change

TAX PLAN

- ❖ TAX PLAN
- ❖ ANNEX

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❖ TAX PLAN

HIGHLIGHTS

- ◆ Changes to the education property tax system will improve equity and transparency.
- ◆ Education property tax rates will decrease by 1.8%.
- ◆ Personal income tax credits will increase by 1.8% to offset inflation.
- ◆ Starting with this budget, tax expenditures will be published.

EDUCATION PROPERTY TAXES

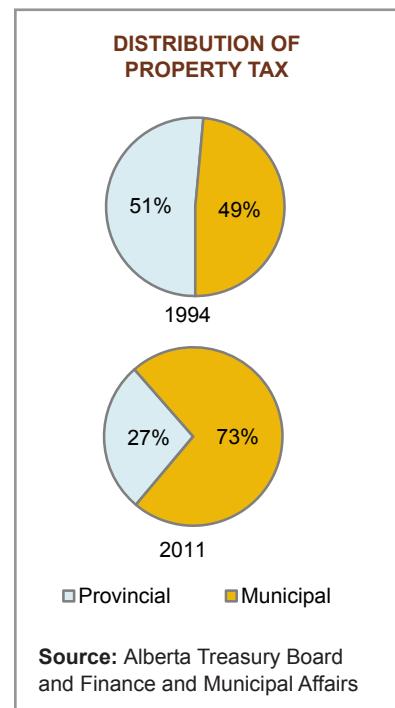
Property tax in Alberta is made up of two main components: the municipal property tax and the provincial education property tax. The education property tax, collected by municipalities on behalf of the province, is a stable source of revenue used to support basic education.

During the past year, Alberta reviewed its education property tax system. The review considered how the amount collected each year is determined, and how that tax burden is distributed among municipalities. As a result, the government has decided to make two changes.

1. The education property tax revenue requirement (the amount collected for the province) will be linked to education operating costs in Alberta.
2. The mitigation formula, a mechanism that reallocates the education property tax burden among municipalities (and ultimately among individual property owners), will be eliminated.

Although the amount of revenue collected by municipalities on behalf of the province will now be based on the cost of providing basic education, taxpayers will continue to pay property taxes based on the assessed value of their property.

In 2013, education property tax rates will be reduced by 1.8%. The residential/farmland property rate will fall from \$2.70 to \$2.65 per \$1,000 of equalized assessment, and the non-residential rate will fall from \$3.97 to \$3.90 per \$1,000 of equalized assessment.



PROPERTY TAX REVENUE

Since the province took over responsibility for the education property tax in 1994, Alberta has linked the education property tax revenue collected to growth in property values across the province.

Commencing this year, Alberta will link education property tax revenue to education operating costs. This new approach has two primary advantages. First, it is transparent for Albertans. Education property tax revenue will be driven by changes in education operating costs, providing a clear link between the revenue collected and the service provided. Second, basing the revenue collected on education operating costs will generally result in less volatility from year to year in the amount collected by the province (in comparison with the more pronounced fluctuations that often affect the real estate market).

Commencing this year, Alberta will link education property tax revenue to education operating costs.

Under the new approach, total education property tax revenue for a given year will be set at 32% of total education operating costs. This is similar to the proportion of education operating costs funded by property taxes in recent years. For this year only, the education property tax revenue is based on the education operating cost *estimate*. Revenue in future years will be determined using education operating cost *targets*. Next year's education property tax revenue will be \$1.9 billion, based on the 2014–15 education operating cost targets set out in this year's budget. Education property tax revenue for 2015–16 will be based on the 2015–16 education operating cost targets appearing in *Budget 2014*.

Total education property tax revenue is \$2.058 billion in 2013–14. The provincial portion of that revenue is \$1.835 billion.

Education Property Tax

(millions of dollars)

	2013–14	2014–15
Ministry of Education – operating expense	6,210	6,353
Expenses paid with opted-out school boards' property tax revenue	223	228
Total education operating costs	6,433	6,581
Total Revenue (32% of total costs)	2,058	2,106
Less: opted-out boards' property tax revenue	(223)	(228)
(Provincial portion of) Education Property Tax	1,835	1,878

Roughly two thirds of opted-out boards' operating expenses are included in the Ministry of Education's operating expense. Since opted-out boards fund the remainder of their expenses with education property tax revenue that they collect directly from municipalities, this revenue must be included to obtain the total education operating costs.

The amount of education property tax revenue will be known one year in advance.

Using education operating cost targets means that the amount of education property tax revenue to be collected is known one year in advance. The increased predictability for municipalities will allow them to more effectively anticipate their own revenues and plan local budgets.

Mitigation Formula

After the province assumed responsibility for the education property tax in 1994, Alberta revised the property assessment process, moving to a market value system and requiring annual assessments.

In 2000, the government introduced a mitigation formula as a temporary measure, limiting increases in the amount of provincial revenue collected from individual municipalities. The purpose of the mitigation formula was to shelter property owners from rapid increases in their property taxes, due to the combined effects of the move to a market value system of property assessment and a thriving economy.

However, in order to provide relief for property owners in rapid-growth municipalities, the mitigation formula shifted some of the property tax burden onto slower-growth municipalities. The amount collected from a municipality was based on the lesser of: a four-year average of the municipality's property assessments, the previous year's requisition plus 12%, or the municipality's property assessment for that year.

The transition to Alberta's current education property tax system is well behind us, and the conditions that once favoured a temporary mitigation formula are no longer present. One important goal of the education property tax system is for taxpayers with similar types of property of comparable value to pay similar amounts of education property tax throughout the province. Eliminating the mitigation formula will assist the province in achieving this goal, and result in education property taxes being distributed more equitably among municipalities and property owners.

The government has identified four municipalities that will be most negatively impacted by elimination of the mitigation formula: Improvement District 9 (Banff National Park excluding the Town of Banff), Wood Buffalo, Chestermere, and Improvement District 4 (Waterton National Park). To smooth the transition for these municipalities, the government will phase-out mitigation over a period of 2–3 years.

A goal of the education property tax system is for taxpayers with similar types of properties of comparable value to pay similar amounts of property tax throughout the province.

PERSONAL TAXES

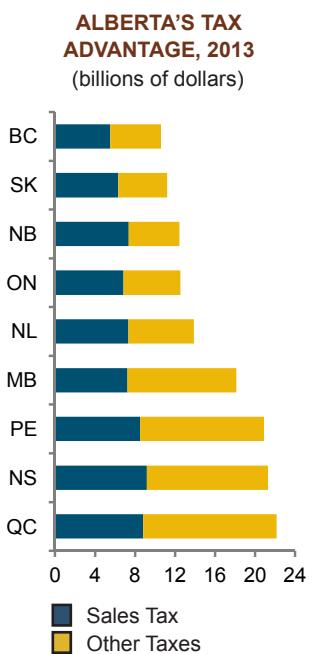
The personal income tax system is indexed to inflation, which ensures that the value of Alberta's tax credits does not erode over time. In 2013, credit amounts will increase by 1.8%. This means that the basic personal and spousal amounts will rise from \$17,282 in 2012 to \$17,593 in 2013.

Alberta Non-Refundable Tax Credit Block

(dollars)

	2012		2013	
	Maximum Amount	Deduction from Alberta Tax	Maximum Amount	Deduction from Alberta Tax
Basic personal amount	17,282	1,728	17,593	1,759
Spousal amount	17,282	1,728	17,593	1,759
Eligible dependant amount	17,282	1,728	17,593	1,759
Age amount	4,816	482	4,903	490
Infirm dependant amount	10,004	1,000	10,184	1,018
CPP contributions	2,307	231	2,356	236
EI premiums	840	84	891	89
Pension income amount	1,331	133	1,355	136
Disability amount	13,331	1,333	13,571	1,357
Disability supplement	10,004	1,000	10,184	1,018
Tuition and education amounts	Variable	Variable	Variable	Variable
Adoption expenses	11,820	1,182	12,033	1,203
Medical expenses	Variable	Variable	Variable	Variable
Medical expenses (other dependants)	Variable	Variable	Variable	Variable
Caregiver amount	10,004	1,000	10,185	1,019
Interest on student loans	Variable	Variable	Variable	Variable
Donations and gifts				
- first \$200	200	20	200	20
- over \$200	75% of income	Variable	75% of income	Variable

In general, credit amounts are multiplied by 10% to arrive at the deduction from Alberta tax. In the case of donations and gifts over \$200, the credit rate is 21%.



This graph shows the total additional provincial taxes that individuals and businesses would pay if Alberta had the same tax system as other provinces.

Source: Alberta Treasury Board and Finance

The Alberta Family Employment Tax Credit is also indexed to inflation. Beginning in July 2013, payments will rise to a maximum of \$728 for one child, \$1,390 for two children, \$1,787 for three children, and \$1,919 for four children. The income level at which the credit starts to phase out will rise to \$35,525.

ALBERTA ADVANTAGE

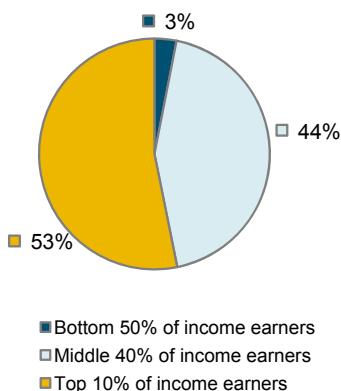
Albertans continue to benefit from one of the most competitive tax systems in North America. If Alberta employed the tax system of any other province, Albertans and Alberta businesses would pay at least \$10.6 billion more in taxes each year.

Alberta has the lowest fuel taxes among provinces, no sales tax, no health premium, no capital or payroll taxes, and low personal and corporate income taxes. Low taxes attract skilled labour and investment and help businesses in Alberta to compete in the global marketplace.

Small business owners continue to pay lower taxes in Alberta than they would in any other province. Although small businesses could pay less corporate income tax in some other provinces, when all taxes are taken into account, Alberta small business owners are better off.

Our tax system also protects those who are least able to shoulder a large tax burden. Sales taxes, levied in all other provinces, are more heavily felt by lower and middle income households since they tend to spend a larger share of their income on consumption. With respect to income taxes, Alberta has the largest basic and spousal amounts in Canada, which allow people to earn more before they must pay provincial income tax.

SOURCE OF ALBERTA PERSONAL INCOME TAX REVENUE



Source: Alberta Treasury Board and Finance

TAX EXPENDITURE REPORTING

The primary purpose of the tax system is to generate revenue to fund government programs. In raising revenue, the government takes into consideration the situations of taxpayers, recognizing that different circumstances can affect taxpayers' ability to pay taxes.

However, the tax system is also used to incent desirable behaviour (saving for retirement, pursuing further education), and to achieve other policy objectives. Such tax measures are referred to as "tax expenditures" to reflect that this government support has a cost associated with it – a decrease in tax revenue.

There are advantages and disadvantages to using the tax system to deliver benefits and incent behaviour. While the tax system can be administratively efficient and impartial, preferential tax measures can become entrenched in the tax system and can grow in cost with little oversight. Spending through the tax system does not typically undergo the same ongoing scrutiny that direct spending programs do. Nor does it impose caps on the amount of revenue that may be foregone through tax incentives.

Some tax expenditures are not intended to relieve taxes, but to provide a financial benefit regardless of whether the individual or corporation pays taxes. These tax expenditures are termed "transfers through the tax system". These transfers are recognized as expenses under accounting standards, and are reported in ministries' operating expense. In Alberta, there are two tax measures that are transfers: the Alberta Family Employment Tax Credit (AFETC), and the Scientific Research and Experimental Development Tax Credit (SR&ED). Both credits are included in Treasury Board and Finance's operating expense.

Starting this year, cost estimates of other Alberta tax expenditures will be provided in the budget, for information purposes only. The province will publish estimates of tax expenditures that are significant in size, of informational value, and that can be estimated reliably. Some estimates are of tax expenditures that Alberta agrees to parallel as part of the federal-provincial Tax Collection Agreement. Other than the AFETC and the SR&ED, the tax expenditures do not appear in ministries' operating expense.

Some of the tax measures included in the tax expenditure estimates may not, strictly speaking, be considered tax expenditures, but will be of interest to some readers.

Reporting tax expenditures increases the transparency and accountability of government. Albertans will be able to see the amount of tax revenue foregone to support desired behaviour and other policy objectives. Furthermore, tax expenditure reporting helps the government monitor and scrutinize the costs associated with these tax measures.

As indicated above, these figures are estimates of the costs of the tax measures. They are calculated by determining the difference between the total tax revenue collected, and the amount that would be collected if the tax measures did not exist (not accounting for the resulting changes in taxpayer behaviour). They provide reasonable estimates of the foregone revenue, but cannot be added together to determine the fiscal impact of concurrently eliminating multiple tax expenditures.

Reporting tax expenditures increases the transparency and accountability of government.

2013 Tax Expenditure Estimates

(millions of dollars)

Personal Income Tax

Federal Measures Paralleled by Alberta

Exemption of workers' compensation payments	19.0
Exemption of social assistance payments	7.0
Exemption of net federal supplements (Guaranteed Income Supplement)	1.5
Union and professional dues deduction	36.0
Child care expense deduction	40.0
Moving expense deduction	7.0
Flow-through share deduction	37.0
Clergy residence deduction	4.0
Capital gains inclusion rate (50%)	220.0
Lifetime capital gains exemption	70.0
Security options deduction	70.0
Northern residents deduction	24.5

Provincial Measures

Basic personal amount ^a	3,740.0
Amount for spouse or common-law partner	255.0
Amount for an eligible dependant	82.0
Age amount	75.0
Pension income amount	36.0
Caregiver amount	13.0
Disability amount	29.0
Disability amount transferred from a dependant	28.0
Interest paid on student loans	3.0
Tuition and education amounts	100.0
Tuition and education amounts transferred from a child	34.0
Amounts transferred from spouse or common-law partner	18.0
Medical expenses	58.0
Donations and gifts	260.0
Political contributions tax credit	1.8

Corporate Income Tax

Small business rate	900.0
Donations and gifts	25.0
Political contributions tax credit	0.2

Fuel Tax

Tax Exempt Fuel Use program (marked fuel for off-road use)	205.0
Farm Fuel Benefit (marked fuel)	70.0
Reduced rate for railway diesel	20.0
Exemption for aviation fuel used on international flights	2.3

Transfers Through the Tax System^b

Alberta Family Employment Tax Credit	117.7
Scientific Research and Experimental Development Tax Credit	97.0

Estimates cannot be added together to determine the fiscal impact of concurrently eliminating multiple tax expenditures.

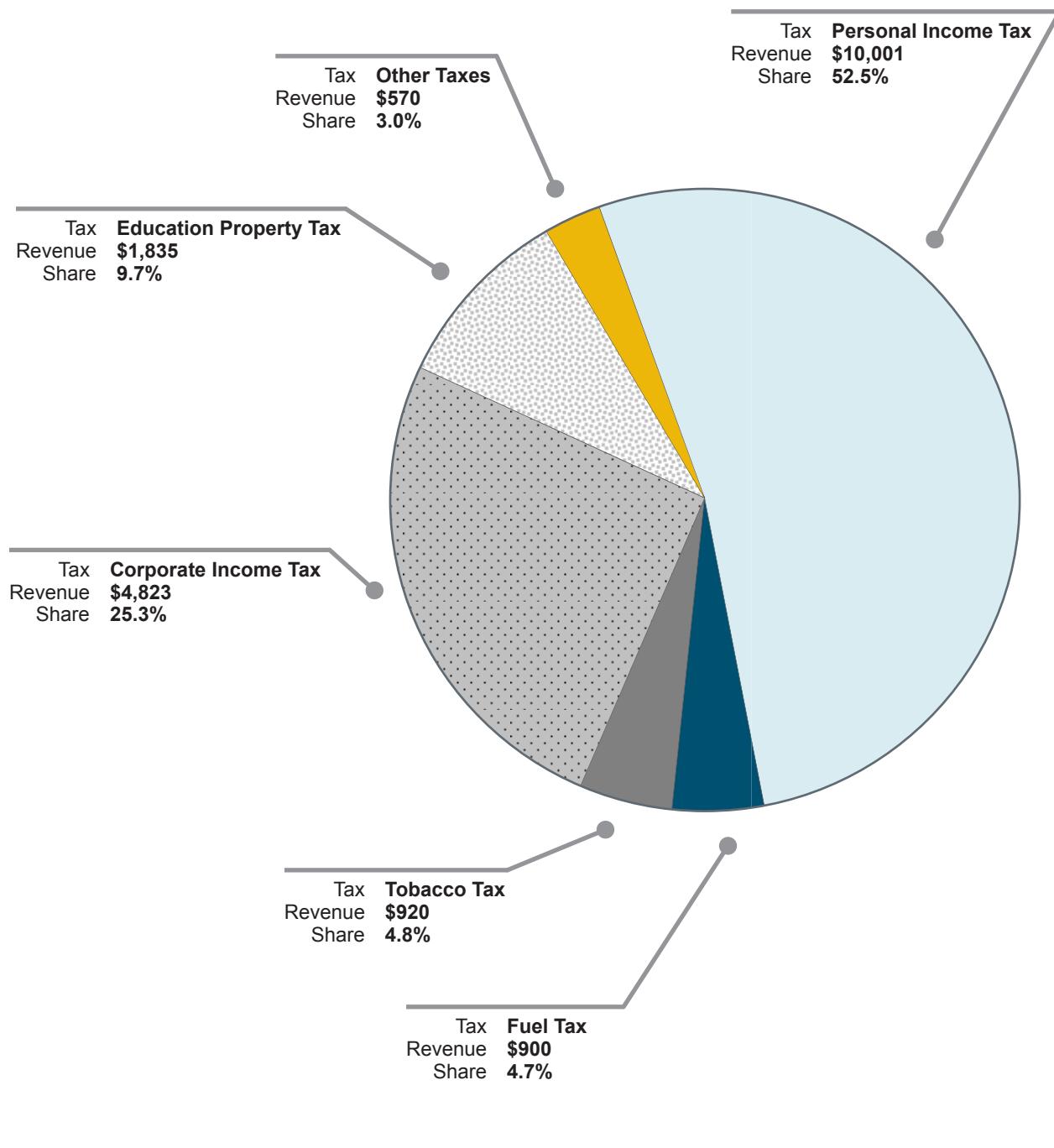
^a It is unlikely that the basic personal amount would be eliminated without the concurrent elimination of the amount for spouse or common-law partner and the amount for an eligible dependant. The estimated fiscal impact of eliminating all three would be \$4.2 billion.

^b Transfers through the tax system are reported in Alberta Treasury Board and Finance's operating expense.

❖ ANNEX

2013–14 Tax Revenue

(millions of dollars)



Total Tax Revenue: \$19,049 million

2013–14 Revenue from Tax Sources

(millions of dollars)

Tax	Total Revenue	Tax Rate	Revenue per Unit of Tax
1. Personal Income Tax	10,001	10.0%	1,000.1 per point
2. Corporate Income Tax	4,823		
General	4,437	10.0%	443.7 per point
Small business	386	3.0%	128.7 per point
3. Education Property Tax^a	1,835		
Residential/farmland property	1,095	\$2.65 / \$1,000 of assessment	413.2 per mill
Non-residential property	740	\$3.90 / \$1,000 of assessment	189.7 per mill
4. Tobacco Tax	920	\$40/carton	23.0 per \$/carton
5. Fuel Tax	900		
Gasoline	560	9.0 ¢/litre	62.2 per ¢/litre
Diesel	323	9.0 ¢/litre	35.9 per ¢/litre
Propane	1	6.5 ¢/litre	0.2 per ¢/litre
Aviation	12	1.5 ¢/litre	8.0 per ¢/litre
Railway	4	1.5 ¢/litre	2.7 per ¢/litre
6. Freehold Mineral Rights Tax	152		n/a
7. Insurance Tax	333		
Life, accident, sickness	96	2.0% of premium	48.0 per point
Other	237	3.0% of premium	79.0 per point
8. Tourism Levy	85	4.0%	21.3 per point

^a Does not include \$223 million raised for opted-out school boards.

Interprovincial Tax and Health Premium Comparison, 2013

(dollars)

	AB	BC	SK	MB	ON	QC	NB	NS	PE	NL
Employment Income of \$35,000 – One Income Family with Two Children										
Provincial income tax	(1,375)	691	(566)	907	(1,110)	(3,671)	840	1,719	1,936	1,402
Provincial sales tax	-	689	1,022	1,122	745	1,331	1,430	1,744	1,497	1,408
Health premium	-	461	-	-	225	100	-	-	-	-
Payroll tax	-	-	-	256	308	724	-	-	-	109
Fuel tax	270	635	450	420	441	546	408	465	474	495
Total	(1,105)	2,476	906	2,705	609	(970)	2,678	3,928	3,907	3,414
Alberta Advantage		3,581	2,011	3,810	1,714	135	3,783	5,033	5,012	4,519
Employment Income of \$75,000 – One Income Family with Two Children										
Provincial income tax	3,031	3,188	3,130	5,647	3,627	3,616	5,305	6,885	6,673	5,585
Provincial sales tax	-	1,710	1,529	1,669	2,184	2,072	2,136	2,593	2,248	2,125
Health premium	-	1,152	-	-	450	200	-	-	-	-
Payroll tax	-	-	-	549	659	1,552	-	-	-	233
Fuel tax	270	635	450	420	441	546	408	465	474	495
Total	3,301	6,685	5,109	8,285	7,361	7,986	7,849	9,943	9,395	8,438
Alberta Advantage		3,384	1,808	4,984	4,060	4,685	4,548	6,642	6,094	5,137
Employment Income of \$100,000 – Two Income Family with Two Children										
Provincial income tax	4,901	3,654	4,858	7,427	3,870	6,743	6,404	7,808	7,782	6,262
Provincial sales tax	-	2,188	1,914	2,107	2,792	2,701	2,720	3,331	2,877	2,725
Health premium	-	1,152	-	-	675	300	-	-	-	-
Payroll tax	-	-	-	732	879	2,070	-	-	-	310
Fuel tax	405	953	675	630	662	819	612	698	711	743
Total	5,306	7,947	7,447	10,896	8,878	12,633	9,736	11,837	11,370	10,040
Alberta Advantage		2,641	2,141	5,590	3,572	7,327	4,430	6,531	6,064	4,734
Employment Income of \$200,000 – Two Income Family with Two Children										
Provincial income tax	13,332	11,299	15,694	20,390	13,533	20,897	16,619	21,529	20,892	17,154
Provincial sales tax	-	3,935	3,357	3,690	4,921	5,150	4,840	5,811	5,043	4,819
Health premium	-	1,152	-	-	1,013	400	-	-	-	-
Payroll tax	-	-	-	1,464	1,758	4,139	-	-	-	620
Fuel tax	405	953	675	630	662	819	612	698	711	743
Total	13,737	17,339	19,726	26,174	21,887	31,405	22,071	28,038	26,646	23,336
Alberta Advantage		3,602	5,989	12,437	8,150	17,668	8,334	14,301	12,909	9,599

Calculations are based on other provinces' tax parameters known as of February 22, 2013.

Assumptions:

- * In provinces that impose payroll taxes, 75% is assumed to be borne by employees and 25% by employers. The same 75/25 split is assumed for health premiums.
- * Fuel tax is based on estimated consumption of 3,000 litres per year for one-income families and 4,500 litres for two-income families.
- * RRSP/RPP contributions of \$0, \$6,000, \$10,000, and \$25,000 are included in the calculation of personal income tax for the \$35,000, \$75,000, \$100,000 and \$200,000 families, respectively.
- * For two-income families, income and RRSP/RPP contributions are split 60/40 between the two spouses.
- * The children in each family are assumed to be 6 and 12 years old.

Major Provincial Tax Rates, 2013

	AB	BC	SK	MB	ON	QC	NB	NS	PE	NL
Personal Income Tax										
Statutory rate range										
- lowest rate	(%)	10.00	5.06	11.00	10.80	5.05	16.00 ^a	9.10	8.79	9.80
- highest rate	(%)	10.00	14.70	15.00	17.40	13.16	25.75 ^a	14.30	21.00	16.70
Surtax	(%)	-	-	-	-	20/36	-	-	-	10.00
Combined federal/provincial										
top marginal rate ^b	(%)	39.00	43.70	44.00	46.40	49.53	49.97	43.30	50.00	47.37
Personal amount	(\$)	17,593	10,276	15,241	8,884	9,574	11,195	9,388	8,481	7,708
Spousal amount	(\$)	17,593	8,860	15,241	8,884	8,129	11,195	7,971	8,481	6,546
Corporate Income Tax										
General rate	(%)	10.0	11.0 ^c	12.0	12.0	11.5	11.9	10.0	16.0	16.0
M&P rate	(%)	10.0	10.0	10.0	12.0	10.0	11.9	10.0	16.0	5.0
Small business										
- rate	(%)	3.0	2.5	2.0	0.0	4.5	8.0	4.5	3.5	1.0
- threshold	(\$000)	500	500	500	400	500	500	500	400	500
Capital Tax										
Financial institutions	(max.%)	-	-	3.25	4.00	-	-	4.00	4.00	5.00
Sales Tax										
	(%)	-	7.0 ^d	5.0	7.0	8.0	9.975	8.0	10.0	9.0 ^e
Gasoline Tax	(¢/litre)	9.0	21.2 ^f	15.0	14.0	14.7 ^g	18.2 ^{f,g}	13.6 ^g	15.5 ^g	15.8 ^h
Tobacco Tax	(\$/carton)	40.00	44.60 ⁱ	42.00 ^g	50.00 ^g	24.70 ^g	25.80	34.00 ^g	43.04 ^g	50.80 ^j
Payroll Tax	(max.%)	-	-	-	2.15	1.95	4.26 ^k	-	-	-
										2.00

Rates for other provinces known as of February 22, 2013.

^a Quebec residents receive an abatement of 16.5% of basic federal tax because of the province's decision to opt out of federal cash transfers in support of provincial programs.

^b The top federal personal income tax rate is 29%, except in Quebec where the top federal rate is 24.22% because of the federal abatement.

^c British Columbia will raise its general corporate income tax rate from 10% to 11% on April 1, 2013.

^d British Columbia will replace its Harmonized Sales Tax (HST) with a Provincial Sales Tax (PST) effective April 1, 2013.

^e Prince Edward Island will harmonize its PST, currently 10%, with the federal Goods and Services Tax (GST) on April 1, 2013. The provincial portion of the HST will be 9%.

^f An additional 11 ¢/litre is imposed in the greater Vancouver area, 3.5 ¢/litre in Victoria, and 3 ¢/litre in Montreal. The British Columbia rate includes the carbon tax on gasoline, which is 6.67 ¢/litre.

^g These provinces apply their PST or the provincial portion of their HST on the retail price of the good inclusive of excise taxes.

^h This rate is based on a 7.1 ¢/litre base rate and 10.7% of the average wholesale price and is calculated on a monthly basis. The total tax rate is capped at 15.8 ¢/litre. Effective April 1, 2013, gasoline will be subject to the HST and the fuel tax rate will be adjusted.

ⁱ British Columbia's tobacco tax rate will rise from \$37.00 per carton to \$42.60 per carton on April 1, 2013, and to \$44.60 per carton on October 1, 2013. Tobacco is currently subject to the HST, but will not be subject to the PST.

^j Effective April 1, 2013, tobacco will be subject to the HST and the tobacco tax rate will be adjusted.

^k Quebec levies an additional tax of up to 1.9% on salaries and wages paid by financial institutions that is not included in this rate.

BUDGET | Responsible 2013 | Change

FISCAL PLAN TABLES

- ✧ OPERATIONAL PLAN
- ✧ CAPITAL PLAN
- ✧ QUARTERLY FORECASTS

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NOTE: Amounts presented in tables may not add to totals due to rounding.

Fiscal Plan Summary – Operational Plan^a

(millions of dollars)

	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
1 Total Revenue	39,457	40,303	37,922	38,612	41,911	44,998
Less:						
2 Revenue received for capital purposes	(633)	(508)	(539)	(522)	(464)	(389)
3 Investment income retained by Heritage Fund	(454)	(306)	(220)	(297)	(379)	(651)
4 Saving of resource revenue	-	-	-	-	(416)	(492)
5 Allocation for Capital Plan debt servicing costs	(114)	(139)	(144)	(238)	(404)	(593)
6 Operational Revenue	38,256	39,350	37,019	37,555	40,248	42,873
Operational Expense						
7 Operating expense (net of in-year savings)	33,952	36,177	36,419	36,422	37,144	37,904
8 Disaster / emergency assistance	535	44	677	200	200	200
9 Amortization / inventory consumption / loss on disposals	815	910	966	982	1,000	1,040
10 General debt servicing costs	386	393	369	402	424	437
11 Total Operational Expense	35,688	37,524	38,431	38,006	38,768	39,581
12 Operational Surplus / (Deficit)	2,568	1,826	(1,412)	(451)	1,480	3,292
Cash Adjustments - Sources / (Requirements)^b						
13 Retained income of funds and agencies	(759)	(588)	(490)	(796)	(897)	(889)
14 Energy royalties	(240)	(633)	104	(1,137)	(395)	(51)
15 Student loans	(156)	(106)	(275)	(287)	(240)	(228)
16 Inventory acquisition	(172)	(138)	(182)	(163)	(161)	(159)
17 Other cash adjustments	(159)	(81)	(127)	(129)	(357)	(102)
18 Current principal repayments (P3s / direct borrowing) ^c	(19)	(28)	(28)	(32)	(39)	(41)
19 Allocation for future principal repayments (direct borrowing)	-	-	-	(40)	(112)	(205)
20 Amortization / inventory consumption (non-cash expense)	780	910	905	982	1,000	1,040
21 Net Cash Adjustments	(725)	(664)	(93)	(1,602)	(1,201)	(635)
22 Net Cash Sources / (Requirements) (line 12 plus line 21)	1,843	1,162	(1,505)	(2,053)	279	2,657
Contingency Account (Sustainability Fund)						
23 Balance at Start of Year	11,192	7,462	7,497	2,744	691	1,386
24 Prior-year fourth quarter results	619	-	1,308	-	-	-
25 Cash to be transferred next year	(1,308)	-	-	-	-	-
26 Transfer - net cash sources / (requirements)	1,843	1,162	(1,505)	(2,053)	279	2,657
27 Transfer to Capital Plan	(4,849)	(4,894)	(4,556)	-	-	-
28 Resource revenue savings (until balance is \$5 billion)	-	-	-	-	416	492
29 Balance at End of Year	7,497	3,730	2,744	691	1,386	4,535

^a For fiscal policy purposes under the *Fiscal Management Act*. Does not include revenue and expense of SUCH sector organizations or Alberta Innovates corporations, or changes in pension liabilities. Amounts in 2011-12 and 2012-13 have been restated on the 2013-14 basis. Accounting standards require crude oil marketing and transportation costs to be included in expense rather than being netted off crude oil royalty revenue. As a result, 2011-12 and 2012-13 revenue and expense have been increased by \$37 million and \$40 million respectively.

^b Inventory acquisition is now reported as a financial transaction, rather than as part of the Capital Plan, as the assets are of a short-term nature, typically consumed within the current fiscal year.

^c P3s are public-private partnerships.

Fiscal Plan Summary – Capital Plan

(millions of dollars)	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
1 Capital Plan Spending	5,732	5,634	5,454	5,209	5,172	4,660
Capital Plan Financing						
2 Revenue received for capital purposes	633	508	539	522	464	389
3 Retained income of funds and agencies for capital purposes	(13)	58	5	84	118	118
4 Disposals of capital assets	2	2	61	2	5	-
5 Alternative financing (P3s)	230	172	264	344	206	114
6 Transfer from Contingency Account	4,849	4,894	4,556	-	-	-
7 Direct borrowing	31	-	1,096	3,190	4,379	4,039
9 Withdrawal from Capital Plan financing account	-	-	-	1,067	-	-
10 Deposit to Capital Plan financing account	-	-	(1,067)	-	-	-
11 Total Capital Plan Financing	5,732	5,634	5,454	5,209	5,172	4,660
12 Capital Plan Financing Account Year-end Balance	-	-	1,067	-	-	-
Capital Plan Debt Management						
Debt Servicing Costs						
13 For pre-2012-13 P3s / direct capital borrowing	114	139	139	145	144	126
14 For 2012-13 and future year direct capital borrowing	-	-	5	93	260	467
15 Total Capital Plan Debt Servicing Costs	114	139	144	238	404	593
16 Funded by transfer from revenue	(114)	(139)	(144)	(238)	(404)	(593)
Principal Repayment Plan						
17 Current principal repayments (P3s / direct borrowing)	19	28	28	32	944	41
18 Annual allocation for future principal repayments	-	-	-	40	112	205
19 Total Allocation for Principal Repayments	19	28	28	72	1,056	246
20 Funded by cash adjustments	(19)	(28)	(28)	(72)	(151)	(246)
21 Re-financing of maturing debt	-	-	-	-	(905)	-
22 Total Funding of Principal Repayments	(19)	(28)	(28)	(72)	(1,056)	(246)
23 Capital Debt Repayment Account Year-end Balance	-	-	-	40	152	357

Fiscal Plan Summary – Savings Plan

(millions of dollars)	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
1 Contingency Account (Sustainability Fund)						
2 Balance at Start of Year	11,192	7,462	7,497	2,744	691	1,386
3 Deposits (year-end results / resource revenue savings)	2,462	1,162	1,308	-	695	3,149
4 Withdrawals (for net cash requirements / to Capital Plan)	(6,157)	(4,894)	(6,061)	(2,053)	-	-
5 Withdrawals (resource revenue savings to Heritage Fund)	-	-	-	-	-	-
6 Balance at End of Year	7,497	3,730	2,744	691	1,386	4,535
7 Heritage Savings Trust Fund						
8 Balance at Start of Year	14,198	14,581	14,652	14,872	15,169	15,548
9 Deposits (retained income / resource revenue savings)	454	306	220	297	379	651
10 Balance at End of Year	14,652	14,887	14,872	15,169	15,548	16,199
11 Heritage Foundation for Medical Research						
12 Balance at Start of Year	1,264	1,212	1,255	1,277	1,293	1,307
13 Deposits (net investment income)	67	76	101	102	100	100
14 Withdrawals (for grants)	(76)	(79)	(79)	(86)	(86)	(86)
15 Balance at End of Year	1,255	1,209	1,277	1,293	1,307	1,321
16 Heritage Science and Engineering Research						
17 Balance at Start of Year	727	700	721	735	750	772
18 Deposits (net investment income)	36	44	57	58	57	57
19 Withdrawals (for grants)	(42)	(43)	(43)	(43)	(35)	(35)
20 Balance at End of Year	721	701	735	750	772	794
21 Heritage Scholarship Fund						
22 Balance at Start of Year	721	697	715	734	753	772
23 Deposits (net investment income)	31	41	55	55	55	56
24 Withdrawals (for student scholarship programs)	(37)	(36)	(36)	(36)	(36)	(36)
25 Balance at End of Year	715	702	734	753	772	792
26 Other (Cancer Prevention Legacy, Alberta Enterprise Corp.)	593	579	606	594	582	570
27 Total of Year-end Balances	25,433	21,808	20,968	19,250	20,367	24,211

❖ OPERATIONAL PLAN

Revenue

(millions of dollars)

	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Income Taxes						
Personal income tax	8,563	9,314	9,627	10,001	10,567	11,180
Corporate income tax	3,555	4,471	4,972	4,823	5,324	5,702
	12,118	13,785	14,599	14,824	15,891	16,882
Other Taxes						
Education property tax	1,660	1,762	1,762	1,835	1,878	1,935
Tobacco tax	896	925	910	920	930	940
Fuel tax	849	850	890	900	925	950
Insurance taxes	294	344	312	333	356	380
Freehold mineral rights tax	129	152	135	152	157	155
Tourism levy	73	73	80	85	90	95
	3,901	4,106	4,089	4,225	4,336	4,455
Non-Renewable Resource Revenue						
Bitumen royalty	4,513	5,653	3,482	3,367	4,523	6,695
Crude oil royalty	2,321	2,140	1,910	1,615	1,626	1,373
Natural gas and by-products royalty	1,304	1,222	554	965	1,064	865
Bonuses and sales of Crown leases	3,312	2,037	1,058	1,148	952	768
Rentals and fees	169	151	169	145	138	130
Coal royalty	29	35	(2)	10	11	11
Drilling stimulus initiatives	25	-	-	-	-	-
	11,673	11,238	7,171	7,250	8,314	9,842
Transfers from Government of Canada						
Canada Health Transfer	2,155	2,358	2,364	2,597	3,642	3,894
Canada Social Transfer	1,256	1,310	1,315	1,374	1,428	1,483
Agriculture support programs	277	322	287	319	333	333
Labour market agreements	173	173	181	174	119	119
Infrastructure support	511	433	390	370	330	266
Other	405	319	313	281	229	222
	4,777	4,915	4,850	5,115	6,081	6,317
Investment Income						
Alberta Heritage Savings Trust Fund	898	986	1,329	1,368	1,371	1,406
Endowment Funds	151	176	232	234	230	230
Alberta Capital Finance Authority	247	254	259	279	294	297
Contingency Account (Sustainability Fund)	557	165	300	63	42	109
Agriculture Financial Services Corporation	108	130	109	124	150	184
Other	98	83	93	77	83	91
	2,059	1,794	2,322	2,145	2,170	2,317
Net Income from Government Business Enterprises						
AGLC - Gaming / lottery	1,471	1,336	1,446	1,484	1,496	1,503
AGLC - Liquor	701	701	714	718	730	744
Alberta Treasury Branches	195	214	214	250	291	334
Other	26	28	25	26	30	31
	2,393	2,279	2,399	2,478	2,547	2,612
Premiums, Fees and Licences						
Motor vehicle licences	420	429	471	485	501	516
Crop, hail and livestock insurance premiums	283	273	312	313	322	328
Energy industry levies	159	162	161	203	206	207
Land titles	79	68	82	85	87	90
Land and grazing	71	67	68	69	69	70
Supplementary health benefits premiums	56	58	54	53	53	53
Other	329	334	355	364	398	423
	1,397	1,391	1,503	1,572	1,636	1,687
Other						
AIMCo investment management charges	195	138	169	167	164	164
Fines and penalties	131	120	127	126	129	132
Refunds of expense	328	120	132	122	122	122
Climate change and emissions management	51	70	70	60	60	60
Miscellaneous	434	347	491	528	461	408
	1,139	795	989	1,003	936	886
Total Revenue	39,457	40,303	37,922	38,612	41,911	44,998

Operational Expense

(millions of dollars)

	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Investing in Families and Communities						
Culture	163	179	182	166	166	168
Health	15,446	16,638	16,617	17,112	17,473	17,827
Human Services	3,839	4,280	4,267	4,258	4,281	4,410
Justice and Solicitor General	1,185	1,294	1,289	1,278	1,303	1,289
Municipal Affairs	606	476	529	490	483	491
Tourism, Parks and Recreation	176	181	184	180	187	194
Securing Alberta's Economic Future						
Education	5,970	6,180	6,189	6,224	6,380	6,589
Enterprise and Advanced Education	2,704	2,857	2,787	2,687	2,734	2,761
Infrastructure	573	643	653	683	658	642
Service Alberta	285	318	307	297	289	288
Transportation	846	927	1,003	953	990	997
Treasury Board and Finance	1,192	1,222	1,249	1,284	1,301	1,308
Advancing World-leading Resource Stewardship						
Aboriginal Relations	144	153	153	167	176	190
Agriculture and Rural Development	852	963	1,145	863	886	963
Energy	409	444	475	462	486	494
Environment and Sustainable Resource Development	747	510	822	517	534	483
International and Intergovernmental Relations	23	36	32	37	38	37
Other						
Executive Council	45	55	54	51	52	52
Legislative Assembly	97	133	125	124	127	160
Unallocated disaster/emergency assistance	-	-	-	171	198	200
Less in-year savings	-	(360)	-	(400)	(400)	(400)
	35,302	37,131	38,062	37,604	38,344	39,144
General debt servicing costs	386	393	369	402	424	437
Total Operational Expense	35,688	37,524	38,431	38,006	38,768	39,581

NOTE: Operational expense includes operating expense, disaster/emergency assistance, amortization expense, inventory consumption expense, losses on disposals of capital assets, and general debt servicing costs.

Operating Expense ^a

(millions of dollars)	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Investing in Families and Communities						
Culture	160	175	179	162	162	164
Health	15,391	16,578	16,556	17,048	17,404	17,755
Human Services	3,831	4,270	4,257	4,246	4,269	4,398
Justice and Solicitor General	1,172	1,271	1,268	1,253	1,279	1,265
Municipal Affairs	363	405	401	433	452	460
Tourism, Parks and Recreation	158	163	166	162	168	175
Securing Alberta's Economic Future						
Education	5,946	6,160	6,166	6,210	6,353	6,546
Enterprise and Advanced Education	2,700	2,852	2,782	2,682	2,728	2,754
Infrastructure	465	506	514	504	503	481
Service Alberta	230	258	246	243	238	238
Transportation	436	475	496	478	491	485
Treasury Board and Finance	1,180	1,209	1,236	1,261	1,278	1,283
Advancing World-leading Resource Stewardship						
Aboriginal Relations	144	153	153	167	176	190
Agriculture and Rural Development	797	945	852	845	868	947
Energy	387	423	454	439	463	470
Environment and Sustainable Resource Development	428	472	483	478	495	445
International and Intergovernmental Relations	23	36	32	37	38	37
Other						
Executive Council	45	55	54	51	52	52
Legislative Assembly	95	132	122	122	125	158
Less in-year savings	-	(360)	-	(400)	(400)	(400)
Total Operating Expense	33,952	36,177	36,419	36,422	37,144	37,904

^a Consumption of short-term inventory assets previously reported in operating expense is now reported as inventory consumption reflecting the usage of assets, rather than a cash outlay.

Disaster / Emergency Assistance

(millions of dollars)	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Agriculture and Rural Development	39	2	278	2	2	-
Municipal Affairs	217	42	99	27	-	-
Environment and Sustainable Resource Development	279	-	300	-	-	-
Unallocated	-	-	-	171	198	200
Total Disaster / Emergency Assistance	535	44	677	200	200	200

General Debt Servicing Costs

(millions of dollars)	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Agriculture and Rural Development						
Agriculture Financial Services Corporation	58	75	66	75	85	99
Treasury Board and Finance						
General government	312	303	288	315	330	330
Municipal Affairs						
Alberta Social Housing Corporation	16	14	14	12	10	8
Total General Debt Servicing Costs	386	393	369	402	424	437

Amortization

(millions of dollars)	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Investing in Families and Communities						
Culture	2	3	3	3	3	3
Health	15	17	17	17	18	21
Human Services	7	9	9	11	11	11
Justice and Solicitor General	12	23	20	25	24	24
Municipal Affairs	26	29	29	30	31	31
Tourism, Parks and Recreation	17	18	18	18	18	18
Securing Alberta's Economic Future						
Education	3	1	3	3	16	32
Enterprise and Advanced Education	4	5	5	5	6	7
Infrastructure	82	99	99	102	101	107
Service Alberta	46	52	52	45	44	44
Transportation	372	427	407	435	459	472
Treasury Board and Finance	12	13	13	22	23	25
Advancing World-leading Resource Stewardship						
Agriculture and Rural Development	14	15	15	16	16	17
Energy	23	21	21	23	23	23
Environment and Sustainable Resource Development	28	37	37	37	37	37
Other						
Legislative Assembly	2	1	2	1	1	1
Total Amortization Expense	666	772	751	795	833	874

Inventory Consumption

(millions of dollars)	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Investing in Families and Communities						
Culture	1	1	1	1	1	1
Health	40	43	43	47	52	52
Human Services	1	1	1	1	1	1
Securing Alberta's Economic Future						
Education	21	20	20	11	11	11
Infrastructure	4	38	38	77	54	53
Service Alberta	10	9	9	9	6	6
Transportation	38	25	41	40	40	40
Treasury Board and Finance	-	1	1	1	1	1
Advancing World-leading Resource Stewardship						
Environment and Sustainable Resource Development	1	1	1	1	1	1
Total Inventory Consumption	114	138	154	187	167	166

Inventory Acquisition

(millions of dollars)	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Investing in Families and Communities						
Culture	1	1	1	1	1	1
Health	44	47	48	47	47	47
Human Services	1	1	1	1	1	1
Securing Alberta's Economic Future						
Education	21	21	21	12	12	12
Infrastructure	46	37	61	52	52	50
Service Alberta	10	9	9	9	6	6
Transportation	48	21	40	40	40	40
Advancing World-leading Resource Stewardship						
Environment and Sustainable Resource Development	1	1	1	1	1	1
Total Inventory Acquisition	172	138	182	163	161	159

Cash Adjustments^a

(millions of dollars)	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Retained Income of Funds and Agencies						
Alberta Treasury Branches	(195)	(214)	(214)	(250)	(291)	(334)
Agriculture Financial Services Corporation	(305)	(268)	(69)	(364)	(396)	(345)
Access to the Future Fund	(50)	(52)	(52)	(54)	(56)	(57)
Heritage Foundation for Medical Research Endowment Fund	9	3	(22)	(16)	(13)	(13)
Heritage Science and Engineering Research Endowment Fund	6	(1)	(14)	(15)	(22)	(22)
Heritage Scholarship Fund	5	(5)	(19)	(19)	(20)	(21)
Alberta School Foundation Fund	(45)	26	26	9	-	-
Alberta Capital Finance Authority	(34)	(30)	(50)	(26)	(24)	(21)
Alberta Cancer Prevention Legacy Fund	(1)	10	(15)	12	12	13
Other	(149)	(57)	(61)	(73)	(87)	(88)
Total Retained Income of Funds and Agencies	(759)	(588)	(490)	(796)	(897)	(889)
Other Cash Adjustments						
Energy royalties (difference between accrued revenue and cash)	(240)	(633)	104	(1,137)	(395)	(51)
Student loans	(156)	(106)	(275)	(287)	(240)	(228)
Inventory acquisition	(172)	(138)	(182)	(163)	(161)	(159)
Other cash adjustments	(159)	(81)	(127)	(129)	(357)	(102)
Current principal repayments (P3s / direct capital borrowing)	(19)	(28)	(28)	(32)	(39)	(41)
Allocation for future principal repayments (direct borrowing)	-	-	-	(40)	(112)	(205)
Inventory consumption (non-cash expense)	114	138	154	187	167	166
Amortization (non-cash expense)	666	772	751	795	833	874
Total Other Cash Adjustments	34	(76)	397	(806)	(304)	254

^a Negative cash adjustments are a cash requirement; positive cash adjustments are a cash source. Inventory acquisition is now reported as a financial transaction rather than as part of the Capital Plan, as the assets acquired are of a short-term nature, typically consumed within the current fiscal year.

Balance Sheet Details

(millions of dollars)

	At March 31				
	2012 Actual	2013 Forecast	2014 Estimate	2015 Target	2016 Target
Financial Assets					
Alberta Heritage Savings Trust Fund	14,652	14,872	15,169	15,548	16,199
Endowment funds:					
Alberta Heritage Foundation for Medical Research	1,255	1,277	1,293	1,307	1,321
Alberta Heritage Science and Engineering Research	721	735	750	772	794
Alberta Heritage Scholarship	715	734	753	772	792
Alberta Cancer Prevention Legacy Fund	492	506	494	482	470
Alberta Enterprise Corporation	101	100	100	100	100
Contingency Account (Sustainability Fund)	7,497	2,744	691	1,386	4,535
Self-supporting lending organizations:					
Alberta Capital Finance Authority	11,316	14,070	15,196	15,691	16,161
Agriculture Financial Services Corporation	3,154	3,314	3,927	4,586	5,200
Equity in commercial enterprises	2,738	3,023	3,364	3,762	4,183
Capital Plan Financing Account	-	1,067	-	-	-
Capital Plan Debt Repayment Account	-	-	40	152	357
Student loans	594	869	1,156	1,396	1,625
Other cash, inventory, marketable securities and accounts receivable ^a	8,126	6,828	7,086	7,465	7,574
Total Financial Assets	51,361	50,139	50,019	53,419	59,311
Liabilities					
Pension liabilities	10,333	10,570	10,830	11,064	11,281
Self-supporting lending organizations:					
Alberta Capital Finance Authority	11,316	14,070	15,196	15,691	16,161
Agriculture Financial Services Corporation	1,903	2,003	2,257	2,529	2,806
Liabilities for capital projects:					
Alternative financing (P3s)	1,944	2,178	2,488	2,655	2,727
Direct borrowing	1,498	2,596	5,788	10,167	14,207
Debt issued to reduce pre-1992 Teachers' Pension Plan unfunded liability	1,188	1,187	1,187	943	943
Other debt, accounts and interest payable	6,437	6,324	5,872	5,798	5,793
Other accrued liabilities, including guarantees, indemnities and remissions	247	247	225	225	225
Total Liabilities	34,866	39,175	43,843	49,072	54,143
Net Financial Assets	16,495	10,964	6,176	4,347	5,168
Capital assets ^{a,b}	20,242	21,609	24,162	26,312	27,900
Net Assets	36,737	32,573	30,338	30,659	33,068
Adjustment for pension liabilities	10,333	10,570	10,830	11,064	11,281
Net Assets for Fiscal Policy Purposes^c	47,070	43,143	41,168	41,723	44,349

^a As inventory acquisition is now reported as a financial transaction, rather than as part of the Capital Plan, any inventory assets remaining at year end will no longer be reported as "Capital assets," but rather will be reported as part of "Other cash, inventory, marketable securities and accounts receivable."

^b Beginning April 1, 2013, infrastructure assets of school boards, universities, colleges and health entities funded by the province for which construction is commencing or is less than 50% completed, are being included in provincial capital assets.

^c Under the *Fiscal Management Act*. Excludes assets and liabilities of SUCH sector organizations and Alberta Innovates corporation, and pension liabilities.

Pension Liabilities

(millions of dollars)

	At March 31					
	2012 Actual	2013 Budget	2013 Forecast	2014 Estimate	2015 Target	2016 Target
Teachers' Pension Plan - pre-1992 unfunded liabilities	7,916	7,390	7,832	7,902	7,962	8,012
Teachers' Pension Plan - post-1992 unfunded liabilities	503	484	562	622	666	703
Public Service Management (Closed) Pension Plan ^a	614	581	594	584	574	564
Local Authorities Pension Plan	450	640	565	659	753	847
Universities Academic Pension Plan	315	346	330	325	320	315
Management Employees Pension Plan	129	257	189	199	209	219
Special Forces Pension Plan	129	125	131	133	135	137
Public Service Pension Plan	176	247	266	306	346	386
Members of the Legislative Assembly Pension Plan ^a	45	42	44	43	42	41
Public Service Supplementary Retirement Plan	53	41	53	53	53	53
Supplementary Executive Retirement Plan	3	-	4	4	4	4
Provincial Judges and Masters in Chambers Pension Plan	-	2	-	-	-	-
Total Pension Liabilities	10,333	10,155	10,570	10,830	11,064	11,281

^a Membership closed and pensionable service no longer being accrued.

Financing Requirements

(millions of dollars)

	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Term debt borrowing for provincial corporations:						
Agriculture Financial Services Corporation	456	353	225	365	328	403
Alberta Capital Finance Authority	1,875	2,585	3,662	3,385	1,148	1,265
Alberta Treasury Branches	1,350	550	1,000	400	300	-
Direct borrowing for capital purposes	31	-	1,096	3,190	4,379	4,039
Re-financing of maturing debt	-	-	-	-	905	-
Total Financing Requirements	3,712	3,488	5,983	7,340	7,060	5,707

Loans and Advances

(millions of dollars)

	At March 31	
	2012 Actual	2013 Forecast
Loans and Advances		
Agriculture Financial Services Act		1,636
Student Financial Assistance Act		762
Alberta Heritage Savings Trust Fund Act		
Ridley Grain Ltd.	165	161
Vencap Acquisition Corporation	3	4
Alberta Housing Act	8	19
Financial Administration Act		
Accountable advances	6	8
	2,580	3,086
Allowance for doubtful loans, advances, implemented guarantees and indemnities ^a		
Student Loan Relief Completion Payments	(76)	-
Other	(92)	(123)
	(168)	(123)
Total Loans and Advances	2,412	2,963

^a When a loan is considered to be impaired, accrued interest is no longer included in income. This does not alter the borrower's obligation to pay all accrued interest.

Guarantees

(millions of dollars)

	At March 31	
	2012 Actual	2013 Forecast
Guarantees		
Alberta Housing Act	15	7
Feeder Associations	45	46
Agriculture Financial Services Act	6	6
Securities Act	2	2
Total Guarantees	68	61

2013-14 Allocation of Lottery Fund Revenue

(thousands of dollars)

Lottery Fund Revenue ^a	1,485,671	
Aboriginal Relations		Health
First Nations and Metis Relations	200	Alberta Health Services - Community and Population Health Services
First Nations Development Fund	129,500	757,647
Agriculture and Rural Development		Human Services
Major Fairs and Exhibitions	22,140	Family and Community Support Services
Agricultural Service Boards	11,600	Fetal Alcohol Spectrum Disorder Initiatives
Agricultural Societies	8,670	Prevention of Family Violence and Bullying
Agriculture Initiatives	1,450	Settlement and Integration
		Training for Work
Culture		
Community Facility Enhancement Program	38,000	Justice and Solicitor General
Assistance to the Alberta Foundation for Arts	26,925	Assistance to the Human Rights Education and Multiculturalism Fund
Community Initiatives Program	24,750	1,735
Alberta Multimedia and Development Fund	19,910	
Assistance to the Alberta Historical Resources Foundation	8,415	Tourism, Parks and Recreation
Other Initiatives	2,700	Assistance to the Alberta Sport, Recreation, Parks and Wildlife Foundation
		21,355
		Parks Operations
		10,000
Education		
Operational Funding	200,000	Transportation
Transportation	50,000	Provincial Highway Preservation
		40,000
Environment and Sustainable Resource Development		Treasury Board and Finance
Resource Management	500	Horse Racing and Breeding Renewal Program
		26,000
		Bingo Associations
		7,100
		Gaming Research
		1,600
		Total Lottery Fund Allocation
		1,485,671

^a Includes \$2 million of Lottery Fund interest income.

Full Time Equivalents

	2012-13 Budget ^a	2013-14 Estimate	Change
Investing in Families and Communities			
Culture	486	486	-
Health	1,071	1,101	30
Human Services	6,643	6,643	-
Justice and Solicitor General	6,674	6,674	-
Municipal Affairs	535	535	-
Tourism, Parks and Recreation	592	582	(10)
	16,001	16,021	20
Securing Alberta's Economic Future			
Education	703	652	(51)
Enterprise and Advanced Education	819	819	-
Infrastructure	939	938	(1)
Service Alberta	1,372	1,372	-
Transportation	798	799	1
Treasury Board and Finance	1,390	1,390	-
	6,021	5,970	(51)
Advancing World-leading Resource Stewardship			
Aboriginal Relations	106	114	8
Agriculture and Rural Development	1,650	1,620	(30)
Energy	1,826	1,826	-
Environment and Sustainable Resource Development	2,619	2,619	-
International and Intergovernmental Relations	187	204	17
	6,388	6,383	(5)
Other			
Executive Council	370	365	(5)
Legislative Assembly	607	648	41
Total Full Time Equivalent Employment	29,387	29,387	-

^a The 2012-13 Budget numbers have been restated on the 2013-14 basis.

Premiums, Fees & Licences Changes

(dollars)

Ministry / Description	2012-13	2013-14
Municipal Affairs		
911 Call Centre levy - monthly per cellphone number	\$0	\$0.44
Tourism, Parks and Recreation		
Alberta Games participation fee	\$40	\$60

❖ CAPITAL PLAN

Capital Plan ^a (millions of dollars)	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target	3-Year Total
Investing in Families and Communities							
Culture	79	57	72	54	48	41	143
Health	131	113	99	104	111	122	337
Human Services	12	11	9	10	7	7	24
Infrastructure (health facilities)	551	681	527	576	863	648	2,087
Justice and Solicitor General	92	109	118	87	80	34	201
Municipal Affairs	1,017	958	934	921	922	947	2,790
Tourism, Parks and Recreation	15	14	15	19	17	17	53
Transportation (municipal support)	865	765	720	751	790	771	2,312
Securing Alberta's Economic Future							
Education	390	366	395	564	469	350	1,383
Enterprise and Advanced Education	260	81	96	68	188	239	495
Infrastructure	305	403	295	214	196	155	565
Service Alberta	20	53	40	41	39	27	107
Transportation	1,777	1,556	1,734	1,409	1,112	906	3,427
Treasury Board and Finance	21	133	76	29	25	21	75
Advancing World-leading Resource Stewardship							
Agriculture and Rural Development	78	50	52	34	39	39	112
Energy	41	155	131	197	179	260	636
Environment and Sustainable Resource Development	83	129	138	126	82	73	281
Other							
Legislative Assembly	2	3	3	5	4	2	11
Re-statement adjustments	(7)	(3)	-	-	-	-	-
Total Capital Plan	5,732	5,634	5,454	5,209	5,172	4,660	15,041

^a Inventory acquisition is now reported as a financial transaction, rather than as part of the Capital Plan, as the assets acquired are of a short-term nature, typically consumed within a fiscal year. Beginning April 1, 2013, infrastructure assets of school boards, universities, colleges and health entities funded by the province for which construction is commencing or is less than 50% completed, are being included in provincial capital assets.

(millions of dollars)	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Federal Transfers:						
Gas Tax Fund	199	200	200	200	200	200
Building Canada	176	134	112	80	45	35
Canada Strategic Infrastructure Fund	10	35	35	28	44	8
Canada ecoTrust for Clean Air and Climate Change	26	45	22	36	-	-
Other	98	20	21	28	41	23
Climate Change and Emissions Management Fund	38	53	53	60	60	60
Land Stewardship Fund	61	5	47	5	5	5
Other	25	16	49	85	69	58
Total Revenue Received for Capital Purposes	633	508	539	522	464	389

(millions of dollars)	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Retained Income of Funds and Agencies for Capital Purposes						
Agriculture Financial Services Corporation	-	-	-	9	8	8
Alberta Social Housing Corporation	41	58	31	45	75	80
Alberta Pensions Services Corporation	-	-	-	16	17	12
Land Stewardship Fund	(54)	-	(26)	-	-	-
Other funds and agencies	-	-	-	14	18	18
Total Retained Income of Funds and Agencies	(13)	58	5	84	118	118

Capital Plan Debt Servicing Costs

(millions of dollars)	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Education						
Alberta Schools Alternative Procurement P3 financing costs	22	26	26	27	30	30
Treasury Board and Finance						
Direct borrowing for capital purposes	51	51	56	144	302	492
Transportation						
Ring road P3 financing costs	41	62	62	67	72	71
Total Capital Plan Debt Servicing Costs	114	139	144	238	404	593
Limit: 3% of 3-year average of Operational Revenue	n.a.	n.a.	n.a.	1,128	1,148	1,207

^a P3s are public-private partnerships

Capital Assets ^a

(millions of dollars)	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Net book value at start of the year	18,884	20,042	20,242	21,609	24,162	26,312
Additions	2,059	2,112	2,179	3,351	2,988	2,462
Amortization	(667)	(772)	(751)	(795)	(833)	(874)
Net book value of capital asset disposals	(2)	(2)	(61)	(3)	(5)	-
Adjustments / writedowns	(32)	-	-	-	-	-
Net Book Value at End of Year	20,242	21,380	21,609	24,162	26,312	27,900

^a Inventory acquisition is now reported as a financial transaction, rather than as part of the Capital Plan, as the assets acquired are of a short-term nature, typically consumed within a fiscal year. Beginning April 1, 2013, infrastructure assets of school boards, universities, colleges and health entities funded by the province for which construction is commencing or is less than 50% completed, are being included in provincial capital assets.

Liabilities for Capital Projects

(millions of dollars)	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Opening balance	3,199	3,435	3,442	4,774	8,276	12,822
Alternative financing (P3s)	230	172	264	344	206	114
Direct borrowing	31	-	1,096	3,190	4,379	4,039
Re-financing of maturing debt	-	-	-	-	905	-
Principal repayment / amortization of debt issue costs	(19)	(28)	(28)	(32)	(944)	(41)
Total Liabilities for Capital Projects	3,442	3,579	4,774	8,276	12,822	16,934

Principal Repayments

(millions of dollars)	2011-12 Actual	2012-13 Budget	2012-13 Forecast	2013-14 Estimate	2014-15 Target	2015-16 Target
Education - ASAP P3s	7	9	9	10	12	13
Infrastructure - Evan Thomas water treatment P3	-	-	-	-	1	1
Treasury Board and Finance						
Direct borrowing for capital purposes	(1)	(1)	(1)	(1)	905	(1)
Transportation - ring road P3s	14	21	21	24	27	28
Total Current Principal Repayments	19	28	28	32	944	41
Annual allocation for future principal repayments	-	-	-	40	112	205
Total Current / Future Principal Repayments	19	28	28	72	1,056	246

❖ QUARTERLY FORECASTS

Quarterly Revenue

(millions of dollars)

	2013-14 Estimate	3 Month Budget	6 Month Budget	9 Month Budget
Income Taxes				
Personal income tax	10,001	2,500	5,000	7,501
Corporate income tax	4,823	1,206	2,412	3,618
	14,824	3,706	7,412	11,119
Other Taxes				
Education property tax	1,835	459	918	1,376
Tobacco tax	920	230	460	690
Fuel tax	900	225	450	675
Insurance taxes	333	83	167	250
Freehold mineral rights tax	152	38	76	114
Tourism levy	85	21	43	64
	4,225	1,056	2,114	3,169
Non-Renewable Resource Revenue				
Bitumen royalty	3,367	769	1,540	2,305
Crude oil royalty	1,615	440	851	1,245
Natural gas and by-products royalty	965	245	497	731
Bonuses and sales of Crown leases	1,148	211	556	832
Rentals and fees	145	36	73	109
Coal royalty	10	3	5	8
	7,250	1,704	3,522	5,230
Transfers from Government of Canada				
Canada Health Transfer	2,597	649	1,298	1,947
Canada Social Transfer	1,374	343	687	1,030
Agriculture support programs	319	197	213	292
Labour market agreements	174	43	87	130
Infrastructure support	370	74	154	257
Other	281	67	140	208
	5,115	1,373	2,579	3,864
Investment Income				
Alberta Heritage Savings Trust Fund	1,368	342	684	1,026
Endowment Funds	234	58	117	175
Alberta Capital Finance Authority	279	70	140	209
Contingency Account	63	16	32	47
Agriculture Financial Services Corporation	124	28	58	93
Other	77	20	39	56
	2,145	534	1,070	1,606
Net Income from Government Business Enterprises				
AGLC - Gaming / lottery	1,484	371	742	1,113
AGLC - Liquor	718	180	359	539
Alberta Treasury Branches	250	62	125	187
Other	26	7	13	20
	2,478	620	1,239	1,859
Premiums, Fees and Licences				
Motor vehicle licences	485	120	239	359
Crop, hail and livestock insurance premiums	313	257	310	313
Energy industry levies	203	194	194	203
Land titles	85	21	42	63
Land and grazing	69	17	35	52
Supplementary health benefits premiums	53	13	27	40
Other	364	94	180	272
	1,572	716	1,027	1,302
Other				
AIMCo investment management charges	167	42	84	126
Fines and penalties	126	31	63	94
Refunds of expense	122	29	61	91
Climate change and emissions management	60	15	30	45
Miscellaneous	528	124	250	374
	1,003	241	488	730
Total Revenue	38,612	9,950	19,451	28,879

Quarterly Operating Expense

(millions of dollars)

	2013-14 Estimate	3 Month Budget	6 Month Budget	9 Month Budget
Investing in Families and Communities				
Culture	162	40	81	121
Health	17,048	4,262	8,524	12,786
Human Services	4,246	1,026	2,069	3,113
Justice and Solicitor General	1,253	350	638	915
Municipal Affairs	433	171	267	350
Tourism, Parks and Recreation	162	40	81	121
Securing Alberta's Economic Future				
Education	6,210	1,421	2,974	4,526
Enterprise and Advanced Education	2,682	644	1,342	2,012
Infrastructure	504	121	244	365
Service Alberta	243	57	113	170
Transportation	478	115	248	368
Treasury Board and Finance	1,261	315	631	946
Advancing World-leading Resource Stewardship				
Aboriginal Relations	167	40	80	122
Agriculture and Rural Development	845	99	491	728
Energy	439	99	199	298
Environment and Sustainable Resource Development	478	120	239	359
International and Intergovernmental Relations	37	9	19	28
Other				
Executive Council	51	13	25	38
Legislative Assembly	122	31	61	92
Total Operating Expense	36,822	8,973	18,326	27,458

Quarterly Debt Servicing Costs

(millions of dollars)

	2013-14 Estimate	3 Month Budget	6 Month Budget	9 Month Budget
General				
Agriculture and Rural Development				
Agriculture Financial Services Corporation	75	25	37	55
Treasury Board and Finance				
General government	315	79	157	236
Municipal Affairs				
Alberta Social Housing Corporation	12	3	6	9
	402	107	200	300
Capital Plan				
Education				
Alberta Schools Alternative Procurement P3 financing costs	27	6	13	19
Treasury Board and Finance				
Direct borrowing for capital purposes	144	36	72	108
Transportation				
Ring road P3 financing costs	67	13	34	51
	238	55	119	178
Total Debt Servicing Costs	640	162	319	478

Quarterly Disaster / Emergency Assistance

(millions of dollars)

	2013-14 Estimate	3 Month Budget	6 Month Budget	9 Month Budget
Agriculture and Rural Development	2	-	1	1
Municipal Affairs	27	7	14	21
Unallocated	171	-	-	-
Total Disaster / Emergency Assistance	200	7	15	22

Quarterly Inventory Consumption

(millions of dollars)

	2013-14 Estimate	3 Month Budget	6 Month Budget	9 Month Budget
Investing in Families and Communities				
Culture	1	-	-	-
Health	47	12	24	35
Human Services	1	-	-	1
Securing Alberta's Economic Future				
Education	11	2	7	9
Infrastructure	77	19	39	58
Service Alberta	9	2	4	7
Transportation	40	4	6	22
Treasury Board and Finance	1	-	-	-
Advancing World-leading Resource Stewardship				
Environment and Sustainable Resource Development	1	-	1	1
Total Inventory Consumption	187	39	81	133

Quarterly Amortization

(millions of dollars)

	2013-14 Estimate	3 Month Budget	6 Month Budget	9 Month Budget
Investing in Families and Communities				
Culture	3	1	2	2
Health	17	4	9	13
Human Services	11	3	6	8
Justice and Solicitor General	25	6	13	19
Municipal Affairs	30	7	15	22
Tourism, Parks and Recreation	18	5	9	14
Securing Alberta's Economic Future				
Education	3	-	2	2
Enterprise and Advanced Education	5	1	3	4
Infrastructure	102	26	51	77
Service Alberta	45	11	23	34
Transportation	435	109	218	327
Treasury Board and Finance	22	6	11	17
Advancing World-leading Resource Stewardship				
Agriculture and Rural Development	16	4	8	12
Energy	23	6	12	17
Environment and Sustainable Resource Development	37	9	19	28
Other				
Legislative Assembly	1	-	1	1
Total Amortization Expense	795	198	402	597

Quarterly Inventory Acquisition

(millions of dollars)

	2013-14 Estimate	3 Month Budget	6 Month Budget	9 Month Budget
Investing in Families and Communities				
Culture	1	-	-	-
Health	47	12	24	35
Human Services	1	-	-	1
Securing Alberta's Economic Future				
Education	12	3	6	9
Infrastructure	52	13	26	39
Service Alberta	9	2	4	7
Transportation	40	3	15	25
Advancing World-leading Resource Stewardship				
Environment and Sustainable Resource Development	1	-	1	1
Total Inventory Acquisition	163	33	76	117

Quarterly Capital Plan

(millions of dollars)

	2013-14 Estimate	3 Month Budget	6 Month Budget	9 Month Budget
Investing in Families and Communities				
Culture	54	13	27	40
Health	104	16	35	56
Human Services	10	3	5	8
Justice and Solicitor General	87	22	44	66
Municipal Affairs	921	864	882	900
Tourism, Parks and Recreation	19	5	9	14
Securing Alberta's Economic Future				
Education	564	127	268	361
Enterprise and Advanced Education	68	6	31	53
Infrastructure	790	88	210	425
Service Alberta	41	3	5	22
Transportation	2,160	199	704	1,185
Treasury Board and Finance	29	7	14	22
Advancing World-leading Resource Stewardship				
Agriculture and Rural Development	34	22	26	30
Energy	197	4	163	167
Environment and Sustainable Resource Development	126	31	63	94
Other				
Legislative Assembly	5	1	3	4
Total Capital Plan	5,209	1,411	2,489	3,447

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RESPONSE TO THE AUDITOR GENERAL

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RESPONSE TO THE AUDITOR GENERAL – OCTOBER 2012

The Auditor General reports on the scope and findings of the work carried out by the Office of the Auditor General. The following are the recommendations in the Auditor General's report titled *Report of the Auditor General of Alberta - October 2012* and the government's response to each of them.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
Transportation <ol style="list-style-type: none">1. Department – Design of level 1 visual inspections We recommend that the Department of Transportation improve its inspection processes by ensuring that it collects all the information it needs to assess the quality of inspections.	<p>Accepted. The Department has incorporated time measures, including the length of time an inspection takes, as a tool in assessing the quality of inspections. This recommendation will be implemented by the end of the 2012-13 fiscal year.</p>
<ol style="list-style-type: none">2. Department – Quality of inspections We recommend that the Department of Transportation regularly assess whether contractors perform inspections following its standards and take corrective action if they do not.	<p>Accepted. The Department has enhanced its quality assurance program. An annual report will be provided to the Department's senior management starting in the second quarter of 2013-14 to better monitor the inspection process. Steps have been taken to incorporate consultant performance data in the next selection phase. The Department has taken steps to enhance the spot-audit process for compliance with standards by the end of first quarter of 2013-14.</p>
<ol style="list-style-type: none">3. Department – Inspector certification We recommend that the Department of Transportation ensure that contractors who perform inspections are properly certified.	<p>Accepted. The Department has re-certified all inspectors working on provincial highway bridges and has re-designed, documented, and implemented the certification process. The Department will improve its monitoring processes to ensure the timely recertification of inspectors.</p>
<ol style="list-style-type: none">4. Department – Timeliness and completeness of inspections We recommend that the Department of Transportation ensure that bridges are inspected as frequently as its standards require.	<p>Accepted. The Department will introduce new processes to ensure inspections are performed as frequent as the standards require. These processes will be in place by the end of first quarter 2013-14.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
5. Department – Assessing whether to contract out program delivery We recommend that the Department of Transportation regularly assess whether it should contract out inspections or do them itself.	Under Review. The Department's decision on how to deliver a particular program or service is based on several factors. At this time, the Department feels the outsourcing model is practical and provides for a timely delivery of inspections. The Department may review the model when the current inspection contract expires in 2015.
6. Department – Contracting level 1 bridge inspections We recommend that the Department of Transportation improve its process to contract its level 1 inspections by: <ul style="list-style-type: none">• documenting how it establishes criteria for assessing candidates and awards points for each criterion.• ensuring proposal requirements do not limit qualified candidates.	Accepted. The Department has established and is implementing a process to ensure proposal requirements do not limit qualified candidates. This recommendation will be implemented by the end of the 2012-13 fiscal year.
7. Department – Controls over access to the bridge information system We recommend that the Department of Transportation improve its processes to monitor access to the computer system that manages bridge inventory and inspections.	Accepted. The Department has reviewed all system access rights, with inappropriate rights revoked. The Department has confirmed that no inappropriate use occurred. In addition, appropriate assignment of rights for all system maintenance functions has been documented for future reference. This recommendation will be implemented by the end of the 2012-13 fiscal year.
8. Department – Maintenance activities We recommend that the Department of Transportation improve the information that senior management receives on inspector activities, results, maintenance and other actions.	Accepted. The Department has implemented local maintenance decision tracking systems in each region to track the results of inspections. The information from this system and the decisions and activities relating to bridge maintenance will be reported to senior management on a monthly basis. This recommendation will be implemented by the end of the 2013-14 fiscal year.
9. Department – Capital planning We recommend that the Department of Transportation ensure that it gives decision makers the information they need to assess the impact of funding alternatives on bridge safety and protection of the province's investment.	Accepted. The Department will continue to work with the Ministry of Treasury Board and Finance to ensure appropriate information is provided to decision makers for funding alternatives.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
Environment and Sustainable Resource Development <p>10. Department – Public reporting (Repeated)</p> <p>We again recommend that the Department of Environment and Sustainable Resource Development improve the reliability, comparability and relevance of its public reporting on Alberta's results and costs incurred in meeting climate change targets.</p>	<p>Accepted. The Department has gathered data focused on understanding the costs of implementing climate change actions and expected emissions reductions. The data will be compiled and analyzed and will form Alberta's public report on the 2008 Climate Change Strategy highlighting progress towards the specific targets for 2010, 2020, and 2050. The report will be released in 2013 and is intended to provide clarity to the public on actions already taken on climate change, as well as future plans for provincial policy.</p>
Executive Council <p>11. Executive Council – Assess risk and improve oversight</p> <p>We recommend that Executive Council:</p> <ul style="list-style-type: none"> • assess the risks to public information assets throughout the government • determine if the government has adequate IT security policies, standards and controls to mitigate risks • determine who is responsible and accountable to ensure that public information assets are adequately protected. Specifically: <ul style="list-style-type: none"> • who is responsible for monitoring compliance with IT security requirements • who is responsible for ensuring or enforcing compliance with security requirements • what actions should be taken when non-compliance is identified • how is compliance to security requirements demonstrated 	<p>Accepted. The Deputy Minister and the Information Management and Technology Committee will be developing a plan to implement these recommendations across the Alberta Government.</p> <p>The plan will be prepared and communicated in 2013-14.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>Agriculture and Rural Development</p> <p>12. Department – Enterprise risk management</p> <p>We recommend that the Department of Agriculture and Rural Development improve its risk management processes.</p>	<p>Accepted. The Department will incorporate Enterprise Risk Management (ERM) processes into Division operational plans using the Department's Operational Planning and Reporting System (OPAR). The enhanced functionality will allow the Department to identify, categorize, assess, assign, and treat risks affecting the Department's ability to achieve its business goals. Upgrades to the system and training in the new functionality is scheduled to begin shortly. ERM plans will be implemented into OPAR by the end of 2012-13, with the first Risk Report available for review by mid-May 2013.</p>
<p>Energy</p> <p>13. Department – Improve controls over royalty adjustments note disclosure</p> <p>We recommend that the Department of Energy improve its controls over the completeness and accuracy of royalty information disclosed in the financial statements.</p> <p>14. Department – Ensuring compliance with terms of bioenergy grant agreements</p> <p>We recommend that the Department of Energy ensure that recipients under the bioenergy producer credit grant program are complying with their grant agreements.</p> <p>15. Department – Improve processes over bitumen royalty revenue estimates recognized in the financial statements (Repeated)</p> <p>We again recommend that the Department of Energy improve its controls to ensure consistent application of methodology used to calculate bitumen royalty estimates.</p>	<p>Accepted. The Department will strengthen its controls over the completeness and accuracy of the royalty information disclosed in the notes of financial statements by March 2013.</p> <p>Accepted. The Department has started reviewing all bioenergy producer credit grant program files to ensure completion and compliance with their grant agreements. This work is expected to be completed by June 2013.</p> <p>Accepted. The Department has made progress in improving documentation and controls over the methodology used to calculate the bitumen royalties. This recommendation will be implemented by the end of the 2012-13 fiscal year.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>Enterprise and Advanced Education</p> <p>16. Department – Improve financial reporting processes</p> <p>We recommend that the Department of Enterprise and Advanced Education improve its financial reporting processes by:</p> <ul style="list-style-type: none"> • training staff on the policies, processes and controls related to preparing the financial statements • improving its monitoring and review processes to ensure accuracy of the financial information • reducing its reliance on manual processes, to increase the efficiency and accuracy of financial reporting <p>17. Department – Resolve outstanding sector accounting issues</p> <p>We recommend that the Department of Enterprise and Advanced Education work with the Office of the Controller and institutions to develop a process for efficient resolution of accounting issues in the post-secondary sector.</p>	<p>Accepted. To increase efficiency and accuracy and improve financial reporting processes, the Department is:</p> <ul style="list-style-type: none"> • reviewing policies, processes, procedures and internal controls, • redefining roles and responsibilities, and • investigating options to automate processes.
<p>Enterprise and Advanced Education – Post-secondary Institutions and Alberta Innovates Corporations</p> <p>18. Athabasca University – Implement enterprise risk management systems</p> <p>We recommend that Athabasca University implement an effective risk management system.</p> <p>19. Athabasca University – Improve conflicts of interest procedures</p> <p>We recommend that Athabasca University update its policy and procedures, and implement a process for staff to annually disclose potential conflicts of interest in writing so the University can manage the conflicts proactively.</p>	<p>Accepted. The Department will continue to work with the post-secondary institutions and the Office of the Controller to ensure that post-secondary institutions have resources and support in place as the Public Sector Accounting Board standards are implemented. This will be monitored over the next two years.</p> <p>Accepted. A draft Enterprise Risk Management Framework was presented to the Audit Committee in May 2012. The Vice-President of Finance and Administration will work with the Executive Group to formalize underlying structures and processes to implement risk management throughout the University.</p> <p>Accepted. All conflicts are declared and documented as a matter of process at all committees of the Board and General Faculties Council. Athabasca University has sought input from other universities on how they manage this. The policy will be reviewed and updated on a regular basis.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
20. University of Alberta – Improve controls over bookstore inventory We recommend that the University of Alberta: <ul style="list-style-type: none">• improve its controls to value the bookstore's inventory• develop policies and processes to identify obsolete inventory in its bookstores and in storage• develop processes to regularly review the cost of goods it holds in inventory	Accepted. The Vice-President of Finance and Administration and the Office of the Provost will jointly work together with the Bookstore Director to implement the recommendation. This recommendation was implemented in November 2012.
21. University of Calgary – Remove users' access privileges promptly We recommend that the University of Calgary: <ul style="list-style-type: none">• define an acceptable timeframe to disable or remove users from the application and the network• document, communicate and consistently follow a process to deactivate users from the University's information technology systems within the defined timeframe	Accepted. Information Technology and Human Resources will work together to design and implement improvements to system access removal processes related to employees who leave the University. Improvements will be implemented by the end of the 2012-13 fiscal year.
Health 22. Alberta Health Services – Data conversion testing We recommend that Alberta Health Services improve documentation of its conversions from legacy systems to new systems by requiring the project team to clearly document how they ensured: <ul style="list-style-type: none">• converted data is complete and accurate• the new system functions with the converted data as intended	Accepted. Alberta Health Services (AHS) has created a Quality Assurance team to clearly demonstrate that data testing is taking place as AHS moves information from smaller systems into the common platforms. Through this team, actions have been implemented to improve the processes that document these conversions of data. These processes were implemented by AHS in December 2012 and await follow-up audit by the Office of the Auditor General.
23. Alberta Health Services – Payroll – Accuracy monitoring activities We recommend that Alberta Health Services improve its monitoring activities to ensure the accuracy of transactions in its payroll system.	Accepted. Alberta Health Services has developed a Payroll Compliance Plan that monitors changes made to payroll and employee information in the new Human Resources system. Management will continue to monitor payroll activities for legacy payroll systems until these systems can be moved over to the common payroll platform in March 2013.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
24. Alberta Health Services – Accounts payable system – Goods received not invoiced listing We recommend that Alberta Health Services complete its review of old amounts on the Goods Received Not Invoiced report to validate amounts or resolve issues as they arise before each year end.	Accepted. Alberta Health Services is reviewing the accounts payable system to ensure accuracy and to resolve any issues. This will be completed by March 2013.
25. Alberta Health Services – Fees and charges We recommend that Alberta Health Services: <ul style="list-style-type: none">• reinforce its admissions policies to ensure consistent application• review its controls over the processes that generates fees and charges revenue, to ensure they are appropriately designed, consistent across regions and aligned with current policies	Accepted. Alberta Health Services has formed a provincial working group to review how best to create standardized processes for admission policies related to billable services. Full implementation of this recommendation will take two to three years.
26. Alberta Health Services – Journal entry review process We recommend that Alberta Health Services implement a recurring process to ensure significant and/or unusual journal entries are reviewed and approved appropriately.	Accepted. Alberta Health Services is establishing a process for a formal monthly oversight review of all journal entries over a threshold. This process will be in place by the second quarter of 2012-13.
Service Alberta 27. Service Alberta – Ranking of non-compliance at registry agencies We recommend that Service Alberta rank the significance of findings it identifies at registry agencies and document its follow-up process.	Accepted. The Department will review and modify its process to follow up on the instance of non-compliance to policies and applicable legislation at registry agents. Implementation will be completed by the end of the 2012-13 fiscal year.
Transportation 28. Department – Monitoring access and data entry to the Program Management Application We recommend that the Department of Transportation improve its processes to monitor access and data entry to the computer application it uses to manage contracted work for maintenance of provincial highways.	Accepted. The Department has implemented this recommendation.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
29. Department – Vehicle use We recommend that the Department of Transportation implement a policy about vehicle use, with due regard for economy.	Accepted. The Department has developed and signed a policy on October 11, 2012 related to vehicle use. The Department is currently implementing the policy by purchasing vehicles through Service Alberta to be used by employees in the course of their work. This recommendation will be implemented by the end of the 2012-13 fiscal year.
Treasury Board and Finance	
30. ATB Financial – New banking system internal controls (Repeated) We again recommend that ATB Financial confirm that the key controls in the new banking system, as identified in the risk and control matrices, are implemented and operate effectively.	Accepted. ATB Financial (ATB) confirmed that the key controls in the new banking system, as identified in the risk and control matrices, are implemented and will be tested for operating effectiveness by August 2013.
31. ATB Financial – Payment Card Industry We recommend that ATB Financial put in place processes to monitor its compliance with the Payment Card Industry's requirements.	Accepted. Management is undertaking a gap analysis of ATB's compliance with the Payment Card Industry Security Standards Council requirements as the first step toward complying with these standards. The gap analysis will be completed by the end of December 2012. ATB will then be in a position to incorporate procedures and management controls to provide applicable compliance reporting.
32. Alberta Investment Management Corporation – Securities reconciliation We recommend that Alberta Investment Management Corporation obtain third-party statements for all investments not held by external custodians and reconcile its records to those statements.	Accepted. Alberta Investment Management Corporation (AIMCo) has developed processes to obtain third-party confirmations of investment holdings not held in custody in order to complete applicable asset reconciliations. These processes were incorporated for the quarter ending June 2012 and are ready for review by AIMCo's internal audit division prior to full implementation.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>33. Alberta Gaming and Liquor Commission – Improve quality of employee benefits note disclosure in the financial statements</p> <p>We recommend that management of the Alberta Gaming and Liquor Commission obtain sufficient information to ensure compliance with International Financial Reporting Standards for disclosures in the employee benefit plans note in its annual financial statements.</p>	<p>Accepted. Management has engaged an International Financial Reporting Standards consultant and re-engaged an actuary so that the Alberta Gaming and Liquor Commission comply with the standards by the end of the 2012-13 fiscal year.</p>

RESPONSE TO THE AUDITOR GENERAL – JULY 2012

The Auditor General reports on the scope and findings of the work carried out by the Office of the Auditor General. The following are the recommendations in the Auditor General's report titled *Report of the Auditor General of Alberta - July 2012* and the government's response to each of them.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>Health</p> <p>Management of Healthcare Waste Materials at Alberta Health Services</p> <p>1. Alberta Health Services – Oversight at AHS waste generating sites</p> <p>We recommend that Alberta Health Services establish systems for overseeing the management of healthcare waste materials at all AHS sites that generate these materials.</p> <p>2. Alberta Health Services – Waste handling policies and procedures at AHS sites</p> <p>We recommend that Alberta Health Services improve the handling and disposal of healthcare waste materials at its sites by:</p> <ul style="list-style-type: none">• standardizing healthcare waste materials handling policies and procedures across sites• establishing processes to monitor and enforce facilities' compliance with healthcare waste materials handling policies and procedures• ensuring chemical waste hazards are remediated promptly• pursuing more opportunities to reduce, reuse and recycle materials that could enter the healthcare waste stream <p>3. Alberta Health Services – Contract management for disposal of healthcare waste materials at AHS sites</p> <p>We recommend that Alberta Health Services take steps to improve its contract management processes for healthcare waste materials by:</p> <ul style="list-style-type: none">• requiring sites to verify services have been performed before approving vendor invoices for payment• developing risk-focused systems to monitor healthcare waste management for purposes of controlling volumes and costs	<p>Accepted. Alberta Health Services will clarify which division is responsible for the oversight of healthcare waste materials. Policies supporting this oversight role will be developed in 2012-13.</p> <p>Accepted. Alberta Health Services is working on standardizing Environmental Services policies and procedures which are considered to be high risk. Once completed, timelines will be determined for implementing:<ul style="list-style-type: none">• standard guidance documents;• standard audit processes;• review of current chemical waste handling practices; and• looking at opportunities to divert landfill waste.The implementation is expected to be completed during 2014-15.</p> <p>Accepted. Alberta Health Services will implement payment control mechanisms for healthcare waste management and develop a plan to employ a monitoring system for healthcare waste. The implementation is expected to be completed during 2014-15.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
4. Alberta Health Services – Healthcare waste materials at contracted health service providers	<p>We recommend that Alberta Health Services assess its risk related to healthcare waste materials produced by contracted health service providers and ensure contract provisions manage that risk.</p>
Primary Care Networks	<p>Accepted. Alberta Health Services contracting policies and procedures will be amended to reflect contract provisions around medical waste management for the contracted service providers. The implementation is expected to be completed during 2015-16.</p>
5. Department of Health – Department's accountability for the PCN program	<p>We recommend that the Department of Health:</p> <ul style="list-style-type: none">• establish clear expectations and targets for each of the PCN program objectives• develop systems to evaluate and report performance of the PCN program
6. Alberta Health Services – AHS accountability for PCNs	<p>We recommend that Alberta Health Services within the context of its provincial primary healthcare responsibilities:</p> <ul style="list-style-type: none">• define goals and service delivery expectations for its involvement in Primary Care Networks• define performance measures and targets• evaluate and report on its performance as a PCN joint venture participant
7. Department – Engagement and accountability to PCN patients	<p>We recommend that the Department of Health proactively inform Albertans which Primary Care Network they have been assigned to, and what services are available through their PCN.</p>
	<p>Accepted. The Department will:</p> <ul style="list-style-type: none">• in consultation with Alberta Health Services, establish clear expectations, performance measures and targets for the PCN program objectives. PCNs will begin reporting using the new measures in 2014-15.• develop and implement an evaluation framework that will include clear expectations, measurable targets and systems to evaluate and report on performance of the PCN program. Public reporting is expected to commence by 2015-16.
	<p>Accepted. Alberta Health Services plans to:</p> <ul style="list-style-type: none">• confirm its perspective on goals, service delivery expectations, and roles and responsibilities;• revisit performance measures and targets;• establish and confirm priority performance measures; and• implement a measurement and reporting system. <p>This implementation is expected to be completed during 2013-14.</p>
	<p>Accepted. The Department will:</p> <ul style="list-style-type: none">• provide patient panel information to Primary Care Networks (PCN); and• update future grant agreements to include a requirement that Department-approved communications will be sent to PCN patient panel populations informing them to which PCN they belong. <p>This implementation is expected to be completed during 2014-15.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>8. Department – Centralized support by the Department</p> <p>We recommend that the Department of Health improve its systems to provide information and support to help Primary Care Networks and Alberta Health Services achieve PCN program objectives.</p>	<p>Accepted. The Department will:</p> <ul style="list-style-type: none"> hire a senior manager to provide leadership in the development, management and implementation of systems to enable data sharing among the Department, Alberta Health Services (AHS) and Primary Care Networks (PCN); and direct AHS to provide information to the Department and PCNs to support the achievement of PCN program objectives. <p>This implementation is expected to be completed during 2015-16.</p>
<p>9. Department – Department's systems to oversee PCNs</p> <p>We recommend that the Department of Health improve its systems for oversight of Primary Care Networks by:</p> <ul style="list-style-type: none"> obtaining assurance that PCNs are complying with the financial and operating policies of the PCN program ensuring PCN surplus funds are used in a timely and sustainable manner 	<p>Accepted. The Department will:</p> <ul style="list-style-type: none"> amend Primary Care Network (PCN) Grant Agreements requiring that audited financial statements be included in PCN Annual Reports; determine the best method to obtain assurance that PCNs comply with the financial and operating policies; and incorporate the requirement for surplus reduction plans in PCN Grant Agreements. <p>This implementation plan is expected to be completed during 2014-15.</p>

Treasury Board and Finance

Analyzing Performance

10. Department – Improving annual reporting

We recommend that Treasury Board and Finance work with ministries to improve annual report:

- preparation processes for identifying significant performance measure variances and developing explanations for these variances for reporting
- approval processes, including senior management sign-off of a summary of the year's performance measure variances and significant variance assessments

Accepted. The Department of Treasury Board and Finance is in the process of developing an implementation plan which will be available at the end of September 2012. The implementation plan will describe processes for identifying and explaining significant variations in performance measure results, as well as processes for obtaining senior management approval of performance reports.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>11. Department – Improving guidance for performance measures</p> <p>We recommend that Treasury Board and Finance improve guidance for:</p> <ul style="list-style-type: none"> • performance measure target setting and variance identification • significant performance measure variance assessments and annual report explanation development • preparing the results analysis section of ministry annual reports 	<p>Accepted. The Department of Treasury Board and Finance is in the process of developing an implementation plan which will be available at the end of September 2012. The implementation plan will include improving guidance on performance measure target setting and the reporting of significant variances in performance measure results</p>
<p>Human Services</p> <p>Occupational Health and Safety</p> <p>12. Department – Promoting and enforcing compliance (Repeated)</p> <p>We again recommend that the Department of Human Services enforce compliance with the law by high-risk employers and workers</p>	<p>Accepted. The Department continues to work with Alberta Justice and Solicitor General to finalize systems to support compliance by high-risk employers and workers. The Department's action plan calls for all the seven actions to be completed by the end 2012-13.</p>

RESPONSE TO THE AUDITOR GENERAL – MARCH 2012

The Auditor General reports on the scope and findings of the work carried out by the Office of the Auditor General. The following are the recommendations in the Auditor General's report titled *Report of the Auditor General of Alberta - March 2012* and the government's response to each of them.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>Advanced Education and Technology</p> <p>Grant MacEwan University</p> <p>1. Improve financial business processes</p> <p>We recommend that Grant MacEwan University improve its financial business processes by:</p> <ul style="list-style-type: none">• establishing clearly documented processes and controls• developing clear roles and responsibilities and communicating these to staff• training staff on the policies, processes and controls relating to their roles and responsibilities• implementing monitoring and reviewing processes to ensure staff follow the policies, processes and controls <p>2. Improve security of PeopleSoft computer system</p> <p>We recommend that Grant MacEwan University improve the security of its PeopleSoft system to ensure that the university:</p> <ul style="list-style-type: none">• uses the system to assign access permissions based on job roles, and properly limit access• defines, monitors and enforces rules for segregation of duties• authorizes and reviews logs of critical data changes• provides appropriate oversight to maintain the integrity of security controls	<p>Accepted. The Grant MacEwan University Board has charged the President with the responsibility to improve business practices in these areas. Specific improvements are planned for the PeopleSoft implementation, internal audit and the definition of roles and responsibilities.</p> <p>Accepted. Grant MacEwan University will implement new processes to ensure that system access is granted based on role needs and through a documented process.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>Alberta College of Art and Design</p> <p>3. Improve risk management systems</p> <p>We recommend that the Alberta College of Art and Design:</p> <ul style="list-style-type: none"> • finalize its enterprise risk management framework document • periodically update and manage the framework as it identifies new potential risks and opportunities • enforce compliance with its risk management policy by requiring the president and CEO to periodically report the risks and mitigating strategies to the board 	<p>Accepted. The Alberta College of Art and Design has commenced a project to implement a more formalized risk management framework.</p>
<p>NorQuest College</p> <p>4. Improve financial internal controls</p> <p>We recommend that NorQuest College improve its internal controls in key areas of reconciliation of financial information, approval of invoice payments, review of journal entries and documentation of these controls.</p> <p>5. Improve controls over contracts</p> <p>We recommend that NorQuest College improve its controls over contract management.</p> <p>6. Improve controls over donations</p> <p>We recommend that NorQuest College improve its processes to manage donations.</p> <p>7. Improve quality control over year-end financial information</p> <p>We recommend that NorQuest College improve its quality control processes for preparing its year-end financial information, to improve efficiency and accuracy.</p>	<p>Accepted. NorQuest College has started an internal controls refresh project that will review and renew all financial policies by June 2012.</p> <p>Accepted. NorQuest College's contract management policies will be reviewed as part of the internal controls refresh project. Until the policy framework is finalized, all contracts are being reviewed by the Vice President and the Chief Financial Officer's office.</p> <p>Accepted. NorQuest College has drafted new processes and controls to properly manage donations.</p> <p>Accepted. NorQuest College will address all financial policies through the internal controls refresh project and specifically mitigate risks identified in this recommendation.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
Olds College	
8. Improve periodic financial reporting (Repeated)	
We again recommend that Olds College improve its processes and controls over year-end financial reporting.	Accepted. The Ministry of Advanced Education and Technology will support Olds College in improving its processes and controls over year-end financial reporting.
9. Restrict privileged access to appropriate staff	
We recommend that Olds College segregate privileged systems access from data entry responsibilities and business functions.	Accepted. Olds College will ensure system access is tied to employee roles and responsibilities.
Keyano College	
10. Improve processes to secure its servers	
We recommend that Keyano College ensure all its servers are secure, with up-to-date anti-virus security and software upgrades.	Accepted. Keyano College will ensure upgrades and patches for operating systems, application software and Enterprise Resource Planning software will be applied and updated.
Lakeland College	
11. Review and approve manual journal entries	
We recommend that Lakeland College ensure proper review and approval of all manual journal entries.	Accepted. Lakeland College will now have a payroll officer and a Human Resource (HR) administrator review and sign off on HR manual journal entries.
Medicine Hat College	
12. Improve enterprise risk management systems	
We recommend that Medicine Hat College improve its risk assessment process by: <ul style="list-style-type: none"> • documenting its assessment of risks for their impact and likelihood of occurrence • prioritizing the key risks and clearly linking those risks to a program, operational plan or procedures designed to manage and monitor those risks • formally reporting the key risks and mitigating actions to the board 	Accepted. The Ministry of Advanced Education and Technology is assisting Medicine Hat College to develop these risk-management systems through its work on developing an Enterprise Risk Management framework for the use by all institutions.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>Portage College</p> <p>13. Follow access controls and remove access promptly</p> <p>We recommend that Portage College ensure that employees follow its system user-access control procedures and that management promptly removes access privileges when staff leave.</p> <p>14. Develop and test a business resumption plan</p> <p>We recommend that Portage College fully develop and test a business resumption plan to ensure that it can resume IT services in a reasonable time after a disaster.</p> <p>15. Improve controls over bookstore inventory (Repeated)</p> <p>We again recommend that Portage College improve the accuracy of its perpetual inventory system at the bookstore.</p>	<p>Accepted. Portage College's Human Resources department will notify the Information Technology (IT) department of termination dates and IT will take action to remove systems access as of the termination date. Internal role changes will continue to be tracked by a more complex exit form.</p> <p>Accepted. Portage College is working toward building a mature Information Technology Disaster Recovery Plan that supports the overall Business Resumption Plan. Network upgrades in 2011 will improve options for the plan and alternatives will be evaluated through a business case.</p> <p>Accepted. Portage College has developed and is implementing a plan to improve the bookstore inventory system.</p>