BUDGET '97

BUILDING ALBERTA TOGETHER

Post-Election Update

Presented by Stockwell Day
Provincial Treasurer
in the Legislative Assembly of Alberta
April 21, 1997

Budget '97 Post-Election Update

Table of Contents

Budget '97 Update Highlights

BUDGET '97

BUILDING ALBERTA TOGETHER

BUDGET '97 UPDATE

Highlights

- Building Alberta together by:
  - providing quality services for Albertans
    - health and education are top priorities
  - strengthening the economic climate for growth and jobs
  - maintaining fiscal responsibility and accountability

- Our actions over the last four years have resulted in a solid foundation.
  - Deficits have been eliminated without taxes going up.
  - Spending is under control.
  - Debt is being paid back.
  - More Albertans are working than ever before.

- The 1997-2000 fiscal plan builds on this progress.
  - The budget is balanced. The 1997-98 surplus is $144 million ***[Update: $154 million]***. Depending on energy prices and corporate income tax revenue, the debt paydown could be over $800 million ***[Update: about $750 million]***. The Balanced Budget and Debt Retirement Act requires that the year-end surplus must go to reduce the net debt.
  - Albertans' top priority programs see a spending increase in 1997-98. As requested by Albertans, Health is up $128 million ***[Update: $144 million]***. Education rises by $91 million. Advanced Education and Career Development rises $68 million and takes on management of $107 million in federal labour market programs. Program spending in the rest of government drops by $98 million ***[Update: $113 million]***.
  - Government spending is more focused on the priorities. Health and education spending now accounts for 63 per cent of total program spending, up from 53 per cent just five years ago.
  - Over the three-year plan, the average annual increase in total program spending is 1.1 per cent ***[Update: 1.0%]*** (excluding the federal labour market programs).
  - Health, Family and Social Services, and Advanced Education and Career Development are protected from federal transfer cuts.
  - All the funding commitments made in the three-year plan are based on revenue the government can prudently expect to receive. No commitments count on borrowed money, future tax increases or passing on debt to our children. The government will continue to live within its means.

BUDGET '97

BUILDING ALBERTA TOGETHER

- No new taxes, no tax increases, no sales tax.

- Taxes are going down. The Alberta Family Employment Tax Credit will lower personal income taxes for an estimated 130,000 low and middle income working families with children. The province's average property tax rates on businesses, farms and residences drop in 1997 for the third year running. Lower aviation and railway fuel taxes will ensure our transportation sector remains competitive. The province's property tax on machinery and equipment continues to be phased out to stimulate investment and job creation.

- Alberta has the strongest economy and the highest employment growth in the country. And the future looks even more promising. The Alberta economy is forecast to grow by 3.6 per cent in 1997 and an average of 3.8 per cent a year over the following three years. Growth will be led by business investment, exports and consumer spending. The unemployment rate is expected to dip below 6 per cent by the year 2000.

- 157,300 new jobs have been created, exceeding the target set four years ago. Over 80 percent of those jobs are full-time and most are in the private sector. The target is now an additional 155,000 new jobs by December 2000.

- We're paying down our mortgage ahead of schedule. Net debt, excluding pension liabilities, is on track for elimination by 2005-2006. The target is $450 million in net debt repayment every year. Unfunded pension liabilities are being eliminated under a separate legislated plan.

- The net debt, excluding pension liabilities, falls from a high of $8.3 billion at March 31, 1994 to $3.5 billion this year, a 57 percent ***[Update: 58 percent]*** drop in the last four years. Interest costs have dropped $389 million ***[Update: $419 million]*** from their peak in 1994-95. Those savings go to health, education and seniors.

- For the fourth year, business plans for each ministry are made public. There is increased focus on measuring performance and timely accountability. Albertans will see regular reports on a watch list of measures that track progress in health, education and jobs.

- There are no accounting changes in Budget '97. For the second year in a row, the provincial budget is prepared on a fully consolidated basis. Alberta continues to have the "best books in the country".

Accountability Statement

The government's Fiscal and Business Plan for the three years commencing April 1, 1997 was prepared under my direction in accordance with the Government Accountability Act and the government's accounting policies. All of the government's policy decisions as at April 10, 1997 with material economic or fiscal implications have been considered in preparing the Fiscal and Business Plan.

The government is committed to achieving the planned results laid out in the Fiscal and Business Plan.

Stockwell Day
Provincial Treasurer
Chairman of Treasury Board
April 12, 1997

1997 - 2000
Fiscal Plan

Update

The 1997-2000 fiscal plan has been updated from February 1997 to reflect the following changes:

- revised 1996-97 and 1997-98 energy revenue forecasts and resulting change to the 1997-98 revenue cushion
- revised debt servicing costs due to higher cash surplus in 1996-97 and changes in foreign exchange provisions
- a $20 million increase in Health spending in 1997-98 and a reclassification of $4 million from Health operating expense to capital investment in each year of the 1997-2000 fiscal plan
- a $15 million valuation adjustment in 1996-97 for the settlement of the Principal Group Noteholders lawsuit
- an $8 million increase in Heritage Fund revenue forecast in 1996-97 primarily due to the disposal of the Millar Western investment for more than the current book value
- realignment of Ministerial responsibilities after the March 1997 general election
- other minor presentation changes.

BUDGET '97

BUILDING ALBERTA TOGETHER

Table of Contents

List of Tables

The Fiscal Plan

Building Alberta Together

Albertans have every reason to look ahead to the future of our province with a renewed sense of confidence. The economy is gaining widespread momentum, outpacing the rest of Canada. More jobs are being created. Spending cuts are behind us and government is living within its means.

Four years ago, Albertans were less confident about the future, and for good reason. Uncontrolled government spending, increasing debt and rising taxes threatened the competitiveness of our economy and the long-term viability of programs we value highly, especially health and education.

With Budget '93, Premier Klein made a promise to Albertans. The budget would be balanced by 1996-97. A climate for investment and job creation would be established. Spending would be reduced and focussed on Albertans' priorities. Government would be made smaller, more effective and less intrusive. Taxes would not be increased.

The promise was kept. And today, we can all be proud of our achievements.

- **Budgets are balanced.**
- **Debt is being paid back.**
- **Spending is under control.**
- **Our taxes are the lowest in Canada.**
- **Alberta has the strongest economy and the highest employment growth in Canada.**

It was hard work for Albertans. But we've achieved what we set out to achieve - a sustainable balanced budget, decreasing debt and spending Albertans can afford in good times and bad.

"Alberta's financial turnaround began with the re-election of the Conservative government three years ago, under a new leader, Ralph Klein."

- CIBC Wood Gundy, 1997 Provincial Profiles

"Discipline, prudence, honesty, foresight — these are the elements of Alberta's success in its war on the deficit, a war it has won quickly and decisively. Given its determination, there is every reason to believe it will now win the war on the debt."

***- Globe and Mail* editorial, June 26, 1996**

Getting Our Fiscal House in Order - 1992-93 to 1996-97
(millions of dollars)

UPDATED

	1992-93	1996-97	Change	Per Cent Change
Health	4,133	3,814	(319)	(7.7)
Education	2,878	2,731	(147)	(5.1)
Advanced Education and Career Development	1,315	1,102	(213)	(16.2)
Family and Social Services	1,678	1,342	(336)	(20.0)
Other Ministries	5,608	3,550	(2,058)	(36.7)
Total Program Spending	15,612	12,539	(3,073)	(19.7)
Debt Servicing Costs	1,233	1,315	82	6.7
Total	16,845	13,854	(2,991)	(17.8)

With Alberta's net debt already cut in half, the money we are saving on interest costs can be reinvested in the programs most important to Albertans, especially health and education.

The result of the last four years is a solid financial foundation for the future. With a more diversified and growing economy, a better focus on Albertans' priorities and continuing fiscal responsibility, **Alberta has never been stronger**.

Focussing on Albertans' Priorities

With this fiscal plan, we look ahead, build on what has been achieved, and take the next important steps to build Alberta together. Budget '97 reflects three priorities:

1. **providing quality services for Albertans**
2. **strengthening the economic climate for growth and jobs**
3. **maintaining fiscal responsibility and accountability.**

"Together, let's continue to work for a better Alberta - an Alberta where families can live in freedom, achieve their dreams, and raise their children to be men and women of intelligence, dignity and hope."

- Ralph Klein, Premier, January 28, 1997

Over the next three years, these priorities will direct the government's efforts. The specific directions, actions and performance measures are described in the Government Business Plan and ministry business plans.

With spending cuts behind us and with continued resolve to keep our fiscal house in order, the focus shifts to what we can achieve with the dollars we spend.

Providing quality services in areas that count most for Albertans — health and education — will be our primary focus as we move ahead. And that requires more than just money. It requires determination, hard work and a willingness to challenge existing ways of doing things. We are not afraid to say, "We can do better."

Spending Priorities - 1997-2000 Fiscal Plan UPDATED
(millions of dollars)

	1996-97	1999-2000	Change	Per Cent Change	Annual Average Per Cent Change
Health	3,814	4,088	274	7.2	2.3
Education	2,731	2,892	161	5.9	1.9
Advanced Education and Career Development*	1,102	1,306	204	18.5	5.8
Family and Social Services	1,342	1,351	9	0.7	0.2
Other Ministries	3,550	3,416	(134)	(3.8)	(1.3)
Total Program Spending*	12,539	13,053	514	4.1	1.3
Debt Servicing Costs	1,315	1,070	(245)	(18.6)	(6.6)
Total	13,854	14,123	269	1.9	0.6

* Includes the transfer of federal labour market programs which adds $122 million to AECD spending in 1999-2000. Excluding this transfer, the increase in AECD spending is $82 million or 7.4% and the average annual increase is 2.4%. Total program spending rises 3.1%, or 1.0% per year on average.

On the economic side, forecasts are for strong growth in Alberta's economy over the next four years. The government will work with the private sector to capitalize on the province's strong potential for growth across all sectors of the Alberta economy.

Fiscal responsibility and accountability will continue to be hallmarks of the government's fiscal plan. All the funding commitments in this three-year fiscal plan are based on revenue the government can prudently expect to receive. No commitments count on borrowed money, future tax increases or passing on debt to our children. The government will continue to live within its means.

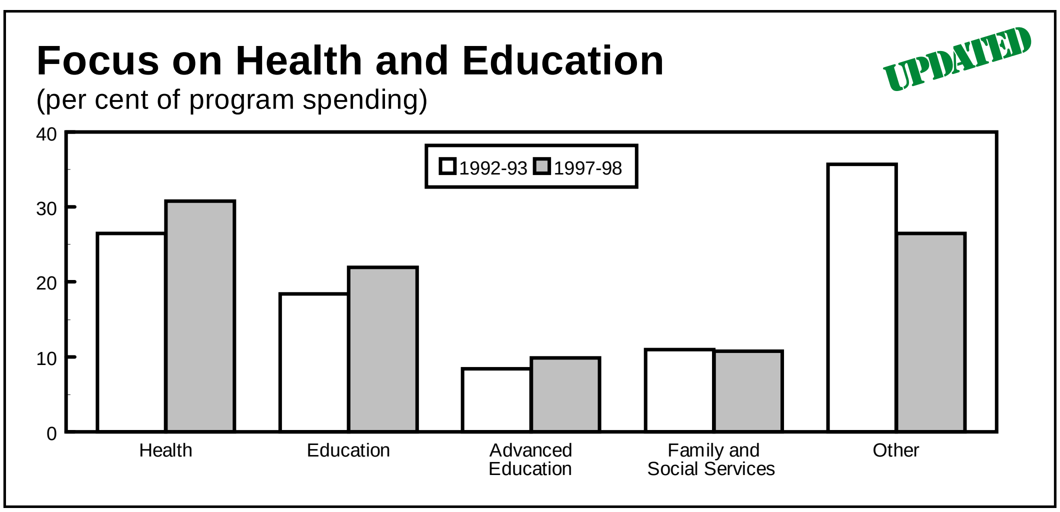
Taken together, the three components of this fiscal plan — quality programs, the right environment for economic growth and continuing fiscal responsibility — will help build a powerful advantage for Albertans, an advantage we can use to build Alberta together.

Quality Services for Albertans - Health and education are top priorities

Funding for health and education is increased and now accounts for 63% of total program spending.

The government is committed to providing Albertans with quality services at an affordable price. Our goal is to ensure taxpayers' money is spent only where it is needed and where it will produce the results Albertans expect.

Health and education will continue to be our top program priorities. Funding will be increased to over $8 billion in 1997-98. Spending by Health, Education and Advanced Education and Career Development now accounts for 63% of total program spending, up from 53% in 1992-93. The focus will be on improved service and performance.



In 1997-98, the government will spend over $12.8 billion or $4,565 per person ***[Update: $4,570 per person]*** to provide quality programs and services for Albertans. We will spend:

- $1,405 per person for health services ***[Update: $1,410 per person]***
- $1,005 per person for basic education
- $450 per person for post-secondary education and career development programs

- $560 per person for people programs such as seniors, child welfare and income support
- $1,145 per person for the rest of government, including justice, transportation, agriculture, economic development, municipal and community development, and environmental protection.

Health - Our goal is a publicly funded health system Albertans can count on

Over the last four years, Alberta's health system has undergone significant restructuring. Actions were taken to control costs, cut administration, reduce overlap and duplication, and put a stronger focus on community-based services.

We will move ahead with the implementation of the *Action on Health* initiatives announced in November, including steps to:

In 1997-98, health spending will be $128 million higher* [Update: $144 million]. *This is on top of a 1996-97 increase of $196 million.

- reduce waiting times for heart surgery, transplants and other critical life-saving treatments
- hire 1,000 more nurses and other front-line health care workers
- implement a new funding formula to give regional health authorities a transparent, predictable base of long-term funding
- put more emphasis on preventing illness and promoting good health, including a new two-year health promotion project for young families
- review long-term care services to better meet the needs of seniors
- work with regional health authorities and others to review "best practices" about what works and what doesn't
- reduce the rate of low birth weight babies, reduce the rates of suicide and injury death, eliminate deaths from cervical cancer and increase the immunization rate of children
- improve accountability, set high standards, measure performance and use technology to improve information about health
- introduce legislation to protect the privacy of individual Albertans' health information
- put in place a new and simplified patient appeal and complaint system.

Health Spending

UPDATED

	1995-96 Actual	1996-97 Forecast	1997-98 Estimate	1998-99 Target	1999-2000 Target
Millions of dollars	3,618	3,814	3,958	4,014	4,088
Per cent of total program spending	29.3	30.4	30.8	31.0	31.3

In 1997-98, spending on Health will increase by $128 million, or 3.4%, to continue the implementation of the *Action on Health* initiatives. ***[Update: In 1997-98, spending will increase by $144 million, or 3.8%. This includes an additional $20 million in 1997-98 for province-wide health services, partly offset by a reclassification of $4 million of Health program spending as capital investment.]*** This is on top of a 1996-97 increase of $196 million. By 1999-2000, spending on Health will rise to $4.1 billion, an average annual increase of 2.4%

over the next three years ***[Update: 2.3% as a result of a reclassification of program spending to capital investment]***.

Education - Our goal is to improve student achievement

Over the past four years, changes have been made to the educational system to make it more equitable, responsive and accountable for educational outcomes, allow for greater community involvement, provide greater choice to students and cut waste. Initiatives have included:

- reducing the number of school boards from 181 to 63
- implementing a new equitable funding system
- establishing a cap on administrative spending by school boards of 4% to 6%, based on the size of the jurisdiction
- encouraging school-based decision making
- promoting greater parental involvement in decisions about policies, programs, budgets and activities in schools
- implementing an open boundaries policy and creating charter schools
- expanding achievement testing and reporting on school and student performance.

In 1997-98, Education's spending will increase by $91 million. This includes a $32 million increase in capital spending for computers and school renewal and construction.

The result is that a higher proportion of spending is going to classroom instruction, where it belongs.

Over the next three years, the focus will be on improving four key areas:

- high school completion rates
- secondary student achievement in mathematics
- student access to information technology
- co-ordination of services for children.

Education Spending

	1995-96 Actual	1996-97 Forecast	1997-98 Estimate	1998-99 Target	1999-2000 Target
Millions of dollars	2,707	2,731	2,822	2,873	2,892
Per cent of total program spending	21.9	21.8	22.0	22.2	22.2

In 1997-98, Education's spending will increase by $91 million, or 3.3%. Additional funding will be provided for increased student enrolment and to support an increased number of students with severe special needs. $20 million has been allocated this year for the computers in schools reinvestment initiative. This initiative provides students with better access to information technologies and will be extended to 1999-2000. Funding for school construction and renewal will increase by $12 million in 1997-98 to $122 million and by a further $18 million in 1998-99 to $140 million.

By 1999-2000, education funding will increase to $2.9 billion, an average annual increase of 1.9% per year over the next three years.

Advanced Education and Career Development - Our goal is to promote excellence in adult learning

In 1997-98, Advanced Education and Career Development spending will increase by $68 million. The additional dollars will go to capital renewal of facilities and equipment, performance-based funding and other initiatives.

Over the last four years, the adult learning system has undergone significant restructuring. A performance-based funding framework has been introduced, new applied degree programs implemented and enrolment increased through the Access Fund. A new tuition fee policy was implemented and an income-sensitive repayment system for student loans established. Institutions and their learning programs are now more responsive to the needs of students and the workplace.

Highlights of actions over the next three years are:

- Performance of post-secondary institutions will be measured and rewarded. An increase of $15 million will be provided in 1997-98 for performance-based funding. A further $15 million will be provided for performance funding in 1998-99. Universities will also receive $3.5 million in targeted funding to attract talented researchers and graduate students in areas of identified strength.
- Post-secondary institutions will receive $40 million per year in funding for major renovations and updating of facilities and equipment.
- In 1997-98, financial assistance for students will be increased to accommodate rising costs, including tuition.
- New human resource initiatives are outlined in the recently released *People and Prosperity: A Human Resource Strategy For Alberta*. A new Learning Transitions for Youth initiative called Youth Connections will assist young adults, who have left high school, acquire the skills and credentials required for employment.
- Federal labour market programs funded by Employment Insurance will be transferred to provincial administration in 1997-98. This will make labour market programs more sensitive to the needs of Albertans. It will also improve the co-ordination of resources and reduce overlap and duplication. The federal transfer for these programs will reach $122 million by 1999-2000.

In 1997-98, spending on Advanced Education and Career Development will increase by $68 million, or 6.2%, to $1.16 billion, excluding the spending transferred for federal labour market programs. By 1999-2000, spending for provincial programs will increase to almost $1.18 billion, an average annual increase of 2.5% over the next three years. ***[Update: The realignment of ministerial responsibilities has resulted in the transfer of Personnel Administration Office and $8 million in funding from Executive Council to Advanced Education and Career Development. As a result, Advanced Education and Career Development spending is $1.17 billion in 1997-98.]***

Advanced Education and Career Development Spending
(millions of dollars)

UPDATED

	1995-96 Actual	1996-97 Forecast	1997-98 Estimate	1998-99 Target	1999-2000 Target
Provincial programs	1,100	1,102	1,170	1,174	1,184
Labour market programs*	—	—	107	117	122
Total	1,100	1,102	1,277	1,291	1,306
Per cent of total program spending	8.9	8.8	9.9	10.0	10.0

* Effective 1997-98, responsibility for delivering federal labour market programs is transferred to the province.

Targeted Spending - Our goal is to improve the quality of life for Albertans

Albertans expect their government to set the right priorities and support programs that improve the quality of life in our province. The following are highlights of actions that will be taken as part of this fiscal plan. More complete information is included in ministry business plans.

Funding for the Alberta Seniors Benefit will increase by nearly 11% to $180 million in 1997-98. This is on top of the 12% or $18 million increase last year.

- Funding for the Alberta Seniors Benefit will increase by nearly 11% to $180 million in 1997-98. This is on top of a 12%, or $18 million, increase in 1996-97. A number of specific changes have been made to improve benefits for one-senior couples; seniors living in lodges, continuing care facilities or subsidized housing, and seniors qualifying under the Special Needs Assistance program for emergency and other unforeseen expenses. Alberta has the best seniors' benefits and programs in Canada.

"The 1993 Alberta welfare reform is one experiment from which all Canadians and their governments can benefit."

- Press release "Alberta welfare reforms a model for other provinces"
C.D. Howe Institute, April, 1997

- Alberta's social assistance programs are focussed on providing temporary assistance and skills training. They are designed to get people back into the workforce so they can support themselves and their families. With average annual caseloads down 53% since 1992-93, resources are being redirected to employment programs and high priority programs for children and severely handicapped people. In 1997-98, $694 million will be spent on income support programs for Albertans. Funding is being provided for:
  - an increase of up to 3% in shelter benefits provided by the Supports for Independence program
  - a 1% increase in Widows' Pension benefits
  - a 1% increase in Assured Income for the Severely Handicapped benefits.

More Crown prosecutors will be hired.

- The government will continue to foster safer, more secure communities and take a tough stance on serious and violent crime. In 1997-98, more Crown prosecutors will be hired. Security in provincial jails will be enhanced. And expanded efforts will be made to ensure that higher risk offenders spend a longer time in custody.

- The new Victims of Crime Act will ensure that victims are treated fairly and receive appropriate financial and other assistance.

Strengthening the Economic Climate for Growth and Jobs

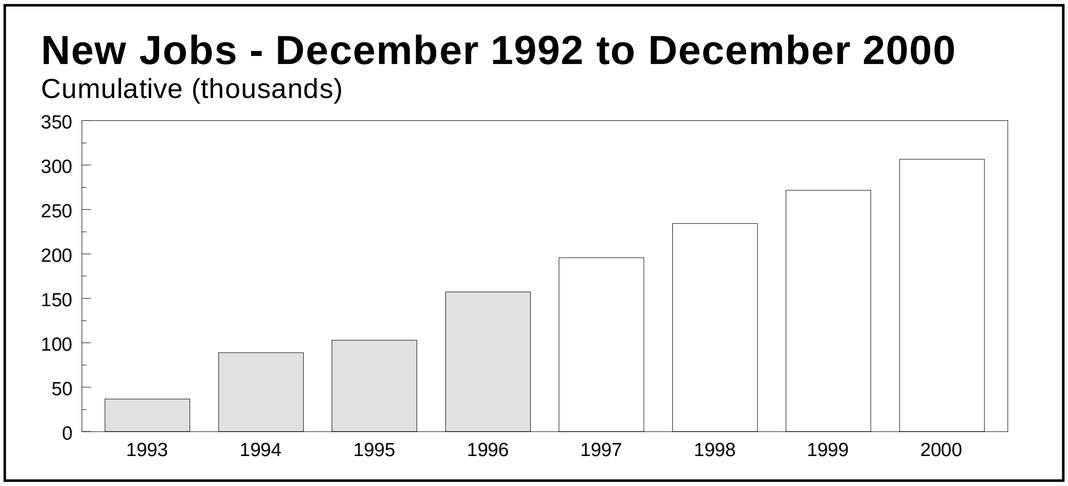
". . . Albertans remain most bullish when it comes to their expectations for their province's economy this year — fully two in three anticipate better times ahead."

- The National Angus Reid/ Southam News Poll, December 1996

Albertans are more optimistic about the future than Canadians in any other part of the country, and for good reason. Alberta has the strongest economy and the highest employment growth in Canada.

Economic growth is broadly based. Manufacturing has become a leading sector in Alberta's economy. The emphasis on value-added agriculture has expanded our agri-food industry. We have a strong forestry industry that was not here ten years ago. The energy sector continues to be a major economic strength for Alberta. The outlook for both conventional and oil sands investment is bright.

From December 1992 to December 1996, 157,300 new jobs were created in the province, resulting in the lowest unemployment rate in 15 years. The government's sucess in getting its fiscal house in order and providing a climate for economic growth and jobs is paying off with new investment and jobs.



The future looks even more promising. The Alberta economy is forecast to grow by 3.6% in 1997 and an average of 3.8% a year over the following three years. Growth will be led by business investment, exports and consumer spending. Employment is expected to grow by an average of 2.5% a year, with the unemployment rate dipping below 6% by the year 2000. Over the next four years, the target is an additional 155,000 new jobs for Albertans.

". . . the province's economy is poised to surge ahead for the next couple of years."

- Investment Dealers Association of Canada November 1996

We will work with the Alberta Economic Development Authority and the Alberta Science and Research Authority to implement our new economic strategy, *Building on the Alberta Advantage.* This strategy lays out seven key directions for building the province's economy and sets ambitious growth targets. Initiatives planned over the next three years include:

- **Attracting new investment and keeping business competitive –** We are committed to maintaining the lowest overall taxes in Canada. The new generic royalty system for oil sands production is expected to lead to over $6 billion in new investment over the next five years. The petrochemical industry plans to invest over $2.8 billion over the next five years, encouraged by the phasing out of the provincial property tax on machinery and equipment.

The Lowest Tax Burden In Canada

- Budget balanced without increasing taxes.
- No provincial sales tax. The Alberta Taxpayer Protection Act ensures that a provincial sales tax cannot be introduced without a public referendum.
- Lowest personal income tax rate among provinces.
- New Family Employment Tax Credit for working families with children - phased in over 1997 and 1998 to the maximum credit of $500 per child and $1,000 per family. Families with net income below $37,500 in 1997 and $50,000 in 1998 will receive a full or partial tax credit.
- Provincial property tax rates reduced for the third consecutive year - the average rate for residential and farm properties will decline in 1997 to $7.02 per thousand dollars of equalized assessment. The average business rate will drop to $10.30. Since 1994, average provincial property tax rates have been reduced by over 8% for homeowners and farmers, saving them $60 million, and by over 6% for businesses, saving them $50 million.
- Provincial property tax on machinery and equipment being phased out - reduced by 20% in 1996 and a further 20% in 1997. A further reduction of 30% in 1998 and its elimination in 1999 are conditional on targets for increased investment being met. Investments announced to date indicate that the targets will be achieved.
- Aviation fuel taxes reduced - rate was reduced from 5 cents a litre to 1.5 cents a litre for domestic and international flights, effective January 1, 1997.
- Railway fuel taxes being reduced - rate will drop from 9 cents a litre to 6 cents a litre in January 1998. In January 1999, the rate will drop to 3 cents a litre.

"This measure [Family Employment Tax Credit] will work against child poverty in this province."

- Dr. Mark Genuis, National Foundation for Family Research and Education, January 1997

- **Developing Alberta's infrastructure** – The efficiency of the North-South Trade Corridor will be enhanced through twinning existing two-lane sections and constructing key interchanges in Grande Prairie, Edmonton, Calgary and Lethbridge. Support for roads that service the resource sector will be increased through the Resource Roads Improvement Program. The government is also participating in the extension of the National Infrastructure Program, with $34.7 million in provincial funding going to municipalities in 1997 for repairs and rehabilitation to core infrastructure.

"Alberta currently maintains the lowest tax structure in Canada, giving it a strong competitive advantage over many other provinces and considerably more financial flexibility in the future."

- Paribas Capital Markets, September 1996

- **Building on the potential of technology** – The government will work with public and private organizations to promote a science and innovation culture in Alberta. A new $5 million Science and Research Fund will be established under the direction of the Alberta Science and Research Authority to help kick start new strategic research and development initiatives. A new Intellectual

"Light industrial construction continues to be a surprise. This sector of the industry has been growing significantly as Alberta leads the nation in new growth of small manufacturing. . . . Alberta food processors are also building new and upgrading existing facilities at a pace never before experienced."

- Alberta Construction Association, December 1996

Infrastructure Partnership initiative will provide $15 million to leverage investments in research infrastructure through government-private sector partnerships. ***[Update: Provincial initiative will interconnect with the recently announced federal program, the Canada Foundation for Innovation.]*** In agriculture, the Agra Value Added Corporation will be established to assist the development of new value-added agri-food and fibre products. The government will sign a $35 million contracted service agreement with the Corporation to facilitate the development of new products and technology, address barriers to the commercialization of these products and encourage long-term growth of both the primary and processing agricultural sectors. ***[Update: The agriculture value added corporation has been established and received a $35 million conditional grant.]***

- **Expanding trade and exports** – The Alberta Business Information Centre will develop a single window for companies seeking export opportunities, market intelligence and country data. The government will play a lead role in providing up-to-date trade advice to private sector businesses and will assist in co-ordinating trade missions. A framework for Alberta businesses to operate in China has been provided through a recently signed memorandum of co-operation. This agreement will allow the beef industry and related agri-businesses to capitalize on market opportunities in China. Similar opportunities for Alberta products in other global markets will be pursued.

- **Preparing for the changing workplace** – A new human resource strategy, *People and Prosperity*, identifies initiatives to help Albertans prepare for changing work opportunities and build new economic opportunities for the future. Particular emphasis will be placed on preparing youth for work, promoting continuous learning and helping Albertans overcome barriers to employment.

- **Sustaining our environment** – An economic development strategy for the future must balance the opportunities for growth with the need to preserve and maintain Alberta's rich natural environment for future generations. Work will continue with the federal government to harmonize the environmental management framework. A new forest management framework has been proposed which provides clear directions for the use, conservation and management of provincial forest lands. Actions will be taken to improve air and water quality, promote the use of sustainable agricultural practices, reduce waste in municipal landfills, reduce the number of species of fish and wildlife at risk, and expand the area of provincial parks and natural reserves.

- **Building self-reliant communities** – Communities across the province have to find effective ways to expand their own opportunities for growth. This involves building on their local resources and strengths, and their unique histories, arts and culture. The province will continue to provide Municipal Recreation/ Tourism Area grants to communities. In addition, $31 million of lottery funding will be provided through the Community Facility Enhancement Program in 1997-98 for the repair, renovation, upgrading or expansion of community facilities.

Maintaining Fiscal Responsibility and Accountability

Over the next three years, we are targeting additional resources to key priorities. This does not mean, however, a return to the old days of spending more than Alberta taxpayers can afford. Sound financial management and fiscal responsibility will continue to be hallmarks of the Alberta government. Our actions will continue to be limited to what is affordable and provides measurable benefit to Albertans.

The government is making the following commitments to Albertans:

- **Albertans' priorities will be the government's priorities**. We will continue to listen to Albertans and act on their priorities. The programs that are most important to Albertans will get first call on available funding.

- **Budgets will be balanced.** The Balanced Budget and Debt Retirement Act requires that the budget be balanced every year. And it requires that we use prudent revenue estimates that build in a cushion to protect against the unpredictable fluctuations in oil and gas prices and corporate income tax revenue.

- **Debt will be paid back.** The Balanced Budget and Debt Retirement Act requires that Alberta's net debt, excluding unfunded pension liabilities, be eliminated by no later than March 31, 2010. As a result of windfall revenues, we are on track to eliminate the net debt by 2005-06, four years ahead of what the law requires.

- **Overall taxes will remain the lowest in Canada.** There have been no new taxes and no tax increases for six years. Alberta has the lowest overall tax rates in the country. We continue to be the only province with no provincial retail sales tax. On average, Albertans pay over 35% less to their provincial government than do residents of other provinces ***[Update: nearly 35%]***. The government is committed to keeping Alberta's overall taxes the lowest in the country. Selective tax reductions have been put in place and the government will reduce Albertans' tax burden further over time.

- **Spending will be kept under control.** Spending must be kept at an affordable level if the budget is to remain balanced. It will be. We will continue to streamline government, reduce waste and duplication, encourage innovation, measure performance and look for better ways to do business - ways that will stretch each dollar farther and improve the quality of services to Albertans.

- **The government will be open and accountable to Albertans.** Alberta has the most transparent and comprehensive financial reporting system in the country. The Government Accountability Act requires that three-year business plans be published annually, identifying goals, objectives and spending plans of the government and individual ministries. The Act also requires that the government provide quarterly financial updates.

"Today, there are no 'smoke and mirrors' in the Alberta government's financial reporting practices."

- Institute of Chartered Accountants of Alberta, February 1996

Fiscal Overview: 1997-2000

Balanced Budgets

The budget is balanced. A surplus of $144 million* [Update: $154 milllion] *is estimated for 1997-98.

A surplus of $144 million is estimated for 1997-98, $238 million for 1998-99, and $206 million for 1999-2000 ***[Update: A surplus of $154 million is estimated for 1997-98, $252 million for 1998-99, and $231 million for 1999-2000]***.

A revenue cushion has been set aside for budget planning purposes to protect against possible weakness in corporate income tax and resource revenues. The revenue cushion is $680 million in 1997-98 ***[Update: Change in the oil price forecast has reduced the revenue cushion to $590 million]*** and $420 million in each of the following two years.

Depending on volatile oil and gas prices and corporate tax revenues, the 1997-98 surplus could exceed $800 million ***[Update: could be close to $750 million]***. In each of the following two years, the surplus could exceed $600 million.

Debt Repayment

Each year, we plan to make a $450 million net debt repayment from the budgeted surplus and the revenue cushion. It is expected that a portion of the revenue cushion will be realized each year and applied to the province's net debt.

As required by the Balanced Budget and Debt Retirement Act, all surplus year-end dollars will be used to reduce the province's net debt.

Prudent Revenue Forecasts

"Alberta's sensitivity to energy price performance continues to pose a budgetary challenge, and increases uncertainty around future fiscal performance, thereby requiring higher reserve levels and/or lower debt compared to many other highly rated regional governments."

- Standard and Poor's, December 16, 1996

Alberta is a 'price taker' subject to unpredictable fluctuations in oil, gas, agriculture, forestry and other markets. Interest rates and foreign exchange rates are determined by economic and political conditions in the rest of Canada and around the world. Investment income will increasingly be affected by the ups and downs of the stock markets. As a result, revenue can increase or decrease for reasons totally beyond the government's control.

For this reason, revenue will continue to be budgeted on a prudent basis so that surprises are likely to be good news rather than bad. Albertans should expect that budget updates will show the government's fiscal plan still on track or doing better than expected — not that a surplus has turned into a deficit.

In some years, revenue will be higher than budgeted. This higher revenue is often due to temporary cyclical peaks in market conditions and cannot be relied on as a permanent increase in government revenue. Windfall revenue cannot and will not be used to fund ongoing programs.

We will continue to apply temporary revenue windfalls against our net debt, as has been done over the last three years. This prudent approach pays a dividend to Albertans forever in the form of lower debt and lower interest costs.

Revenue Outlook

Revenue is forecast at $14.8 billion in 1997-98, a $1.2 billion decline from the 1996-97 forecast due to lower resource revenue ***[Update: Revenue is forecast at $14.7 billion in 1997-98, a $1.4 billion decline]***. Forecast revenue is expected to remain flat at about the 1997-98 level through 1999-2000.

By law, the combined budgeted revenue for corporate income tax and resource revenue must be the lower of the five-year average of actual revenue or 90% of the forecast for these two revenues. This creates a revenue cushion that protects against possible weakness in corporate income tax and resource revenue.

After deducting the cushion, 1997-98 revenue for budget planning purposes is estimated at $14.1 billion. Estimated revenue rises to about $14.3 billion in the following two years.

"The use of cushions is a reasonable approach in maintaining expenditures based on sustainable revenues using realistic and conservative assumptions."

- Revenue Forecasting Review Panel, July 1996

Revenue
(millions of dollars)

UPDATED

	1995-96 Actual	1996-97 Forecast	1997-98 Estimate	1998-99 Target	1999-2000 Target
Forecast/Actual Revenue	14,962	16,089	14,702	14,721	14,759
Cushion	—	—	(590)	(420)	(420)
Budget/Actual Revenue	14,962	16,089	14,112	14,301	14,339
Per Cent Change	(3.6)	7.5	(12.3)	1.3	0.3

Tax Revenue

Individuals and businesses are forecast to pay about $7.25 billion in provincial taxes in 1997-98. This accounts for about half of the government's total revenue.

Tax revenue is expected to increase by 1.8% or $127 million in 1997-98, and by an average of about 2% or $150 million a year in the following two years. Growth in the economy and higher employment and wages — not increases in tax rates — are expected to lead to higher revenue from personal and corporate income taxes.

"Alberta's low tax burden and an educated workforce confer important economic advantages to the province."

- Moody's Investors Service, October 1996

The 1997-98 tax revenue forecast is based on an economic growth forecast of 3.6% for 1997. For 1998-99 and 1999-2000, the revenue forecast assumes 2% economic growth while our economic forecast projects economic growth at an average of 3.8% per year. The lower growth assumption helps protect the budget against an unforeseen downturn in the economy.

For the sixth year in a row, there will be no new taxes and no tax increases. Alberta continues to be the only province in Canada without a provincial sales tax. As previously announced, a number of tax reductions will be implemented. Details are provided in the Alberta Tax Advantage appendix ***[not reprinted in this Update]***. Further tax reductions will be considered as we proceed with the elimination of the province's net debt.

"... we would emphasize that gas (and oil) price forecasting is becoming ever more difficult given current volatile market conditions and the wide ranging impact that weather can have on near-term supply/demand fundamentals."

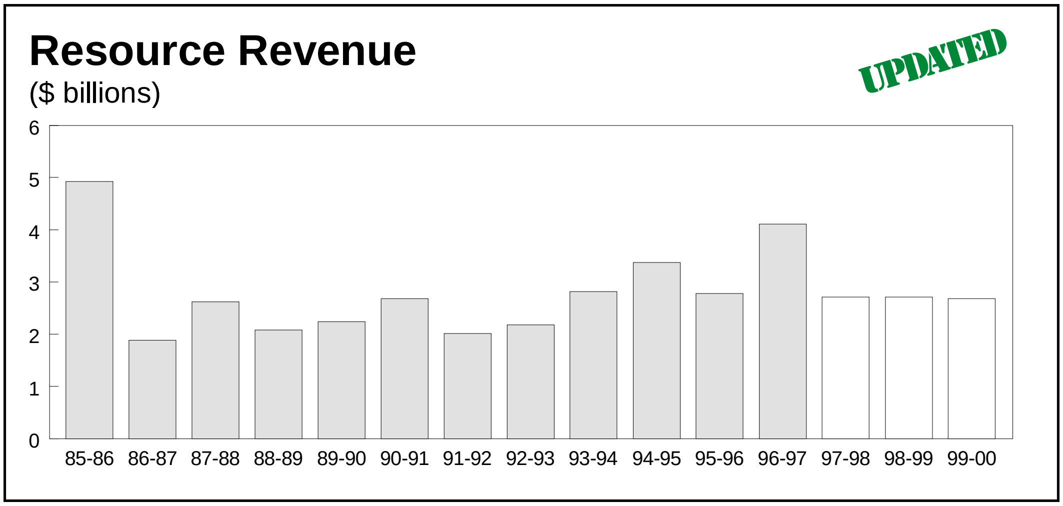
- ARC Financial Corporation, November/ December 1996

Resource Revenue

In 1997-98, about 20%, or $2.8 billion, of government revenue is forecast to come from non-renewable resources ***[Update: $2.7 billion]***.

Resource revenue in 1996-97 is forecast at $4.1 billion, the highest level since 1985-86 ***[Update: 1996-97 resource revenue forecast increased by $61 million from $4.055 billion to $4.116 billion]***. In 1997-98, energy prices are expected to decline — oil prices down US$4.13 a barrel to US$19 and natural gas prices down 10 cents per thousand cubic feet to $1.55. As a result, resource revenue is forecast to drop to $2.8 billion. ***[Update: The 1997-98 oil price forecast has been lowered by 50¢ to US$18.50, reducing the resource revenue forecast by $90 million. This change does not affect budget revenue since the Balanced Budget and Debt Retirement Act requires the five-year average to be used for 1997-98. However, it reduces the revenue cushion by $90 million, from $680 million to $590 million.]***

Current forecasts suggest that resource revenue will decline to about $2.7 billion in 1998-99 and 1999-2000 ***[Update: remain flat at about $2.7 billion]***.



Investment Income

Alberta has about $16 billion ***[Update: $15.6 billion]*** in financial assets. These financial assets consist of cash, marketable securities, loans and advances, equity in commercial enterprises, accounts and accrued interest receivable and other investments. A majority of these assets are in the Heritage Savings Trust Fund.

These financial assets are expected to produce a little under $1 billion of investment income in 1997-98, or about 7% of government revenue.

In the spring of 1996, the Legislature passed a new Alberta Heritage Savings Trust Fund Act. The Act requires that the Heritage Fund be managed to maximize the financial return for current and future generations. The first public business plan for the Heritage Fund is included in the Appendices section of Budget '97 ***[not reprinted in this Update]***.

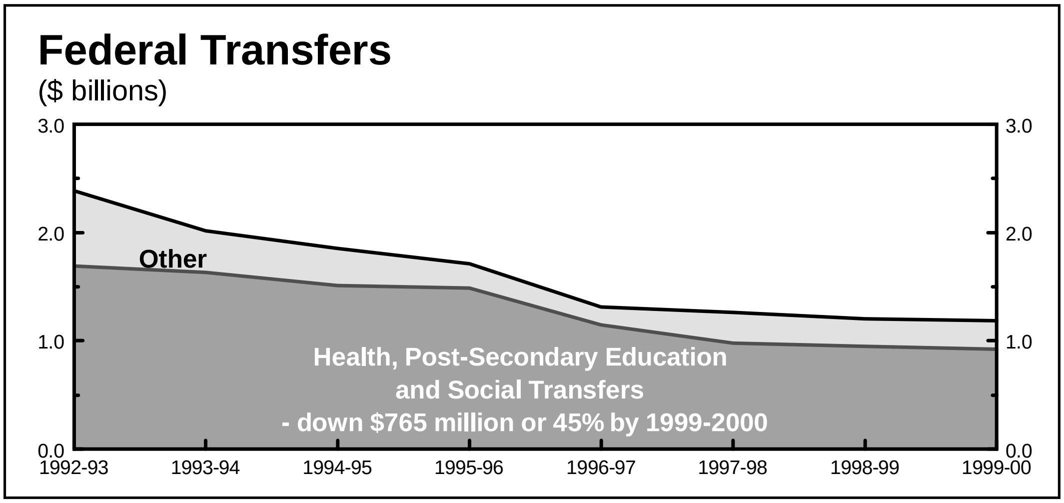
Federal Transfers

In 1997-98, federal transfers are expected to decline by 3.6%, or $48 million, to $1.27 billion. Transfers are forecast to decline by a further 6% by 1999-2000.

Alberta is assuming responsibility for delivering federal labour market programs, starting in 1997-98. The federal government will transfer over $100 million a year for these programs. Without this change, the reduction in federal transfers this year would have been $155 million, or 11.8%.

Federal transfers now make up 9% of provincial government revenue, down from 18% in 1992-93. Total federal transfers have declined by $1.1 billion since 1992-93.

Ministries of Health, Family and Social Services, and Advanced Education and Career Development are protected from federal transfer cuts.



Other Revenue

Other revenue sources are expected to provide about $2.5 billion per year in revenue for the next three years. These revenues include premiums, fees, licences, net income from liquor sales and Lottery Fund revenue. Highlights include:

Health care insurance premium freeze continues.

- The freeze on health care insurance premiums will continue to 1999-2000.
- Justice will introduce a new surcharge of up to 15% on provincial fines to support programs for victims of crime.
- Many of the Alberta Securities Commission's fees will be reduced.
- Lottery revenues are expected to increase by $10 million in 1997-98 and then remain at this level over the next two years. The way lottery funds are distributed is expected to change on April 1, 1998. An additional allocation of $50 million a year, above the 1997-98 level of disbursements, has been made in 1998-99 and 1999-2000 to fund these changes. Discussions with stakeholder groups on the recommendations of the Gordon Report will be finalized this year.

Spending Plan

Total spending will increase by 1.2% ***[Update: 0.8%]***, to $14 billion, in 1997-98. We will be able to hold the average spending increase to less than 1% per year over the next three years because of declining debt servicing costs and continuing efforts to streamline government.

Expense
(millions of dollars)

UPDATED

	1995-96 Actual	1996-97 Forecast	1997-98 Estimate	1998-99 Target	1999-2000 Target
Program Spending	12,355	12,539	12,836	12,945	13,053
Debt Servicing Costs	1,456	1,315	1,125	1,105	1,070
Total Expense	13,811	13,854	13,961	14,050	14,123
Per Cent Change	(5.3)	(0.3)	0.8	0.6	0.5

Program Spending

Program spending rises by $296 million **[Update: $297 million]**, ***or 2.4%, in 1997-98 and an average of 1.4%*** **[Update: 1.3%]** ***over the next three years.***

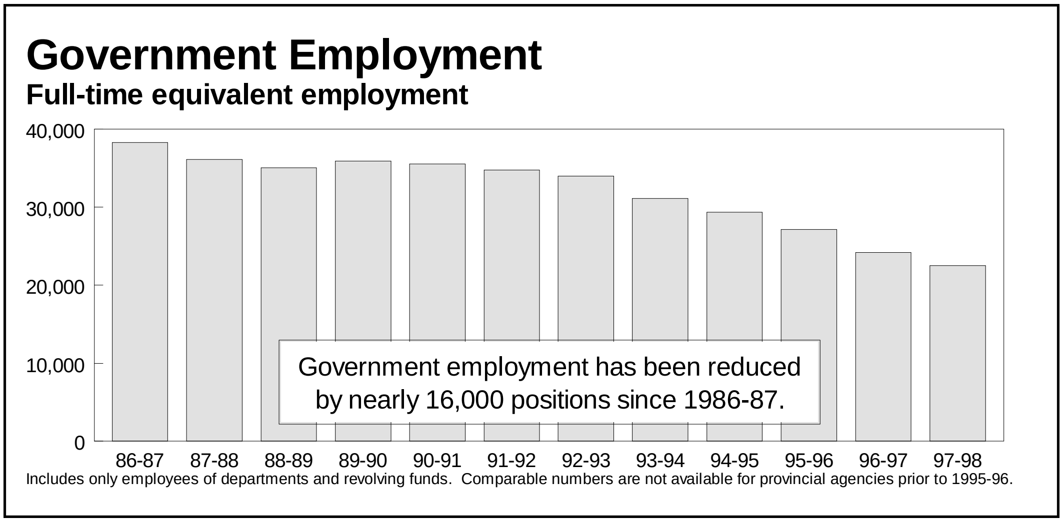
Program spending in 1997-98 will increase by $296 million ***[Update: $297 million]***, or 2.4%, to $12.8 billion. It will rise to just over $13 billion by 1999-2000, an average annual increase of 1.4% ***[Update: 1.3%]*** per year over the next three years.

The largest increases in 1997-98 are in Health ($128 million) ***[Update: $144 million]***, Education ($91 million) and Advanced Education and Career Development ($68 million, plus $107 million for federal labour market programs). Increases in these and other ministries are partly offset by savings in other program areas.

Less than 9% of program spending goes for salaries, wages and employee benefits of the civil service. Since 1992-93, government employment has been reduced by nearly 35%, cutting payroll costs by close to $500 million.

Government employment will be 1,759 full-time equivalent positions lower in 1997-98 than was budgeted in 1996-97. Approximately two-thirds of this reduction occurred in 1996-97 due to restructuring of service delivery and streamlining of administration in Economic Development and Tourism, Environmental Protection, Health, Labour, Public Works, Supply and Services and Transportation and Utilities.

The other positions, about 600, will be eliminated in 1997-98. This fall, about 950 positions will be transferred out of the government as Alberta Vocational Colleges change to board governance. Since the change will take place mid-year, only half of the reduction, 477 full-time equivalent positions, is reflected in the 1997-98 manpower reductions.



Capital Spending

Provincial support for capital projects will total $876 million in 1997-98, up slightly from 1996-97 ***[Update: $880 million due to the reclassification of $4 million of Health program spending as capital]***. Capital investment in provincially-owned projects will increase by $19 million, or 8.8%, in 1997-98 to $234 million ***[Update: $22 million, or 10.2%, in 1997-98 to $238 million]***. Support for infrastructure not owned by the government will be $642 million.

Capital spending plan totals $876 million **[Update: $880 million],** ***a slight increase over last year.***

Transportation and Utilities' total capital support is budgeted at $391 million in 1997-98. Primary highway construction will increase by $24 million to $129 million. The Streets Improvement Program has been renewed at $10 million and the Resource Roads Improvement Program will receive $21 million. The ministry's total capital spending is down $40 million from 1996-97 due to one-time payments in 1996-97 for flood recovery programs and the provincial share of the National Infrastructure Program extension.

Public Works, Supply and Services capital funding will total $190 million in 1997-98, up $19 million from 1996-97. A total of $108 million will be allocated for hospital renovation and replacement. Water development projects, including the St. Mary's spillway, the Pine Coulee project and the Carseland-Bow River Headworks, will receive funding of $37 million, up $16 million from 1996-97.

Support for infrastructure payments by Education will increase by $32 million to $142 million in 1997-98. Funding for school construction and renewal will increase by $12 million to $122 million in 1997-98. Funding will rise by another $18 million to $140 million a year in the following two years. The computers in schools initiative announced last year will receive $20 million per year for three years, beginning in 1997-98.

Growth in Alberta Requires Reinvestment in Our Schools
(millions of dollars)

	1996-97	1997-98	1998-99	1999-2000
School Construction and Renewal	110	122	140	140
Computers in Schools	—	20	20	20
Total	110	142	160	160

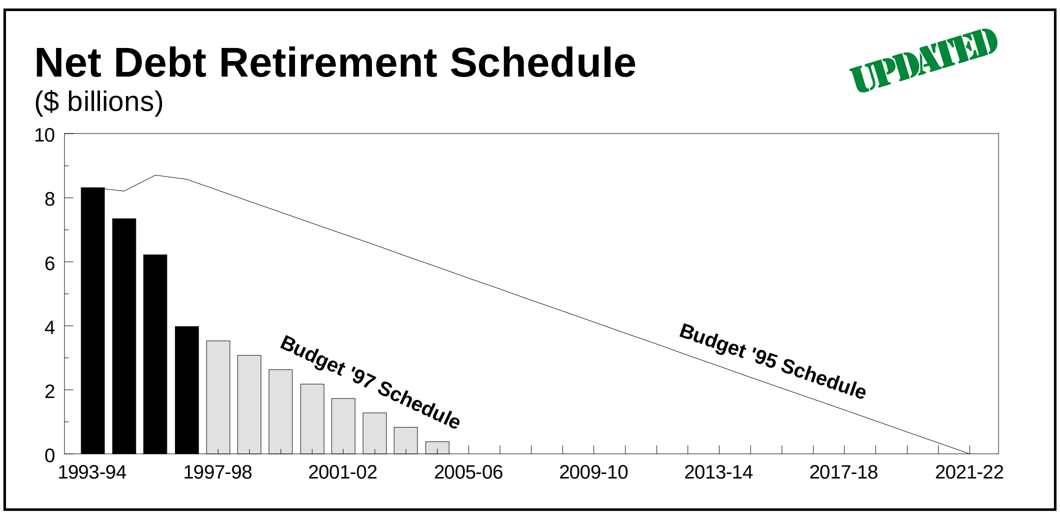
Paying Down Debt

At March 31, 1998, Alberta's consolidated debt and liabilities are forecast to total $25.1 billion ***[Update: $24.6 billion]***. About 64% of this debt will be backed by $16.1 billion ***[Update: $15.6 billion]*** in financial assets, including $10.3 billion in external Heritage Fund assets. About 36% or $9.0 billion of the province's debt and liabilities will not be backed by financial assets. This is Alberta's net debt. Net debt is being tackled under two separate legislated plans.

One part of Alberta's net debt — unfunded pension liabilities — is forecast to be $5.5 billion at March 31, 1998. Unfunded pension liabilities are scheduled for elimination under a 1993 legislated plan that was approved by all parties in the Legislative Assembly as well as employees and employers. Unlike most other debts of the province, unfunded pension liabilities are not current cash requirements. They reflect the pension plans' obligations to make future pension payments. Unfunded pension liabilities do not affect the province's borrowing requirements or debt servicing costs.

Net debt, excluding unfunded pension liabilities, is on track for elimination by 2005-2006.

The rest of the net debt is being eliminated as required by the Balanced Budget and Debt Retirement Act. We are on track to eliminate our 25 year mortgage in nine years - by the end of 2005-06. This accelerated net debt retirement happens because we've applied the windfall revenues of the last three years against net debt.

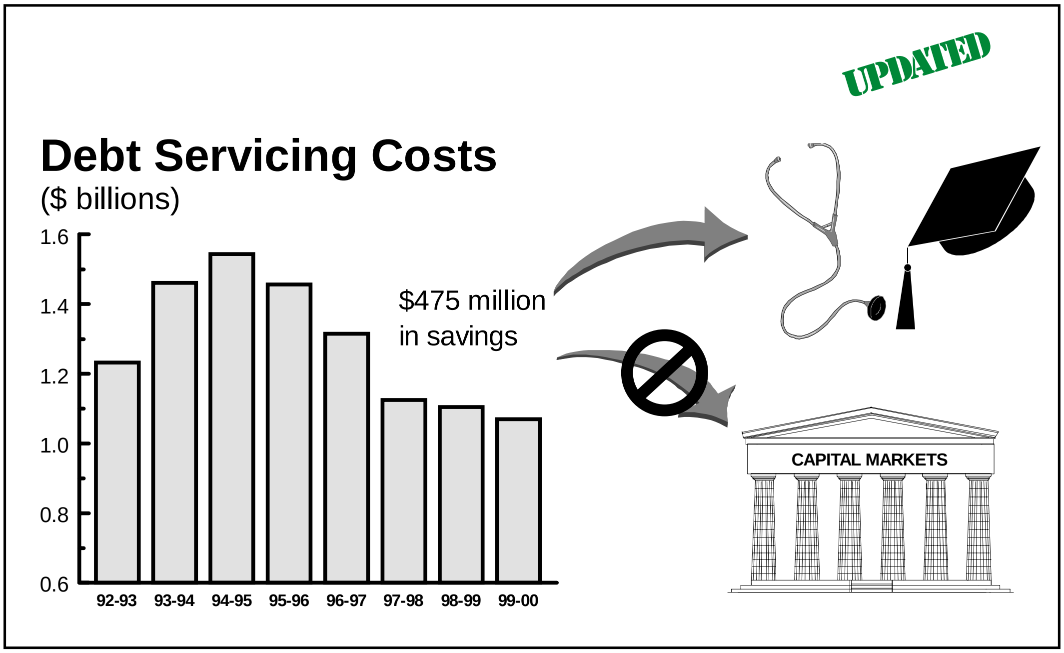


"Alberta stands out as not only having the lowest debt burden among provinces — at 18% of GDP — but also for enacting very strict balanced-budget and debt-retirement legislation."

- TD Report on Provincial Government Finances, August 1996

The government no longer borrows money to finance today's programs. Instead, we are paying off the debt. Net debt, excluding pension liabilities, has fallen from $8.3 billion at the end of 1993-94 to a forecast $3.5 billion at the end of 1997-98. That is a $4.8 billion, or 57% ***[Update: 58%]***, cut in our net debt in just four years.

Reducing Alberta's net debt provides direct benefits to Albertans. Lower debt has reduced interest payments to creditors not just for one year but for every year, forever. Debt servicing costs in 1997-98 will be $389 million lower than they were at their peak in 1994-95, a reduction of 25%. By 1999-2000, these savings are targeted to reach about $450 million. ***[Update: Debt servicing costs in 1997-98 will be $419 million lower than in 1994-95, a reduction of 27%. By 1999-2000, these savings are targeted to reach about $475 million.]***



These permanent savings in debt servicing costs are being reinvested in the priority areas identified by Albertans — health and education.

Non-financial assets such as provincially owned land, buildings, highways, bridges and dams have an estimated value of $7.5 billion at March 31, 1997. These non-financial assets are not included in the $16.1 billion ***[Update: $15.6 billion]*** of financial assets and are not used to calculate the province's net debt.

"Alberta has entered the virtuous circle of lower debt, and lower debt-service costs. The payoff from years of tough restraint has finally arrived. ...the government is in position to begin providing more funds to priority areas, primarily health care, education and seniors benefits."

- Nesbitt Burns, September 1996

1997 - 2000
Fiscal Plan

Tables

BUDGET '97

BUILDING ALBERTA TOGETHER

Change in Surplus from February 1997
(millions of dollars)

NEW

	1996-97 Forecast	1997-98 Estimate	1998-99 Target	1999-2000 Target
Surplus (February 1997)	2,235	144	238	206
Changes:				
Higher energy revenue	67	—	—	—
Higher Heritage Fund income	8	—	—	—
Increased Health spending[a]	—	(20)	—	—
Principal Group Ltd. provision	(15)	—	—	—
Lower (higher) debt servicing costs	(35)	30	14	25
Increase in Surplus	25	10	14	25
Surplus (April 1997)	2,260	154	252	231

[a] In addition, $4 million has been transferred from operating expense to capital investment in each of 1997-98, 1998-99 and 1999-2000.

Note: Prior years' numbers have been restated where necessary to be comparable to the 1997-98 presentation.

Consolidated Fiscal Summary[a]

(millions of dollars)

UPDATED

		1992-93 Actual	1993-94 Actual	1994-95 Actual	1995-96 Actual	1996-97 Forecast	1997-98 Estimate	1998-99 Target	1999-2000 Target
	Revenue								
1	Forecast/Actual	13,521	14,740	15,519	14,962	16,089	14,702	14,721	14,759
2	Cushion[b]	—	—	—	—	—	(590)	(420)	(420)
3	Budget/Actual	13,521	14,740	15,519	14,962	16,089	14,112	14,301	14,339
	Expense								
4	Program	15,612	14,650	13,037	12,355	12,539	12,836	12,945	13,053
5	Debt Servicing Costs	1,233	1,461	1,544	1,456	1,315	1,125	1,105	1,070
6	Total Expense	16,845	16,111	14,581	13,811	13,854	13,961	14,050	14,123
7	Net Revenue (Expense)	(3,324)	(1,371)	938	1,151	2,235	151	251	216
8	Net Decrease (Increase) in Capital Assets affecting Operations[c]	(91)	(13)	20	(19)	25	3	1	15
9	**Consolidated Surplus (Deficit)**	(3,415)	(1,384)	958	1,132	2,260	154	252	231
10	Minimum Net Debt Reduction						100	100	100

a Subject to the Balanced Budget and Debt Retirement Act. Includes the province's annual cash payments towards the unfunded pension liability which will be eliminated over a longer term through additional contributions. Does not include the annual change in the unfunded liability, estimated at $50 million in 1996-97, $65 million in 1997-98, and $115 million in both 1998-99 and 1999-2000, which is a non-cash expense that does not affect borrowing requirements.

b As required by the Balanced Budget and Debt Retirement Act, budgeted revenue excludes a revenue cushion to protect against weakness in resource revenue and corporate income tax. If the cushion is realized in total, the surplus could be as much as $744 million in 1997-98, $672 million in 1998-99 and $651 million in 1999-2000.

c Converts operating expense to a pay-as-you-go basis for capital for the purposes of the consolidated surplus (deficit).

Net Debt

(millions of dollars)

UPDATED

		1992-93 Actual	1993-94 Actual	1994-95 Actual	1995-96 Actual	1996-97 Forecast	1997-98 Estimate	1998-99 Target	1999-2000 Target
11	Net debt at start of year	3,639	7,054	8,313	7,355	6,223	3,963	3,513	3,063
12	(Surplus) Deficit	3,415	1,384	(958)	(1,132)	(2,260)			
13	Targeted net debt repayment						(450)	(450)	(450)
14	**Net Debt subject to Balanced Budget and Debt Retirement Act** [a]	7,054	8,313[b]	7,355	6,223	3,963	3,513	3,063	2,613
15	Unfunded pension liabilities subject to elimination under legislation	4,770	5,066	5,352	5,352	5,402	5,467	5,582	5,697

a At the end of the fiscal year. Excludes non-financial assets such as provincially owned land, buildings, highways, bridges and dams with an estimated value of $7.5 billion at March 31, 1997.

b Includes a reduction in net debt of $125 million as a result of an accounting policy change to record personal income taxes and established programs financing entitlements on the accrual, rather than the cash, basis of reporting.

Net Debt Retirement Schedule

(millions of dollars)

UPDATED

	Budget '95 Plan		Amended Balanced Budget and Debt Retirement Act [a]		Budget '97 Revised Plan	
Fiscal Year	Principal Payments	Net Debt at Year End	Principal Payments	Net Debt at Year End	Principal Payments	Net Debt at Year End
1993-1994		8,313		8,313		8,313
1994-1995	110	8,203	958	7,355	958	7,355
1995-1996	(506)	8,709	1,132	6,223	1,132	6,223
1996-1997	126	8,583	373	5,850	2,260	3,963
1997-1998	343	8,240	450	5,400	450	3,513
1998-1999	343	7,896	450	4,950	450	3,063
1999-2000	343	7,553	450	4,500	450	2,613
2000-2001	343	7,210	450	**4,050**	450	2,163
2001-2002	343	6,866	450	3,600	450	1,713
2002-2003	343	6,523	450	3,150	450	1,263
2003-2004	343	6,180	450	2,700	450	813
2004-2005	343	5,836	450	2,250	450	363
2005-2006	343	5,493	450	**1,800**	363	**0**
2006-2007	343	5,150	450	1,350		
2007-2008	343	4,806	450	900		
2008-2009	343	4,463	450	450		
2009-2010	343	4,120	450	**0**		
2010-2011	343	3,777				
2011-2012	343	3,433				
2012-2013	343	3,090				
2013-2014	343	2,747				
2014-2015	343	2,403				
2015-2016	343	2,060				
2016-2017	343	1,717				
2017-2018	343	1,373				
2018-2019	343	1,030				
2019-2020	343	687				
2020-2021	343	343				
2021-2022	343	**0**				

[a] The Balanced Budget and Debt Retirement Act requires net debt on March 31, 2001 to be no more than $4,050 million, on March 31, 2006 no more than $1,800 million, and to be eliminated by no later than March 31, 2010.

Revenue

(millions of dollars)

UPDATED

	1992-93 Actual	1993-94 Actual	1994-95 Actual	1995-96 Actual	1996-97 Forecast	1997-98 Estimate	1998-99 Target	1999-2000 Target
Personal income tax	2,794	2,877	3,063	3,177	3,441	3,526	3,647	3,797
Corporate income tax	637	854	1,073	1,332	1,390	1,436	1,484	1,520
Other taxes	2,170	2,221	2,322	2,317	2,303	2,293	2,241	2,235
Non-renewable resource revenue	2,183	2,817	3,378	2,786	4,116	2,716	2,713	2,683
Transfers from Government of Canada	2,388	2,021	1,853	1,671	1,316	1,268	1,207	1,189
Premiums, fees and licences	1,006	1,068	1,184	1,153	1,180	1,160	1,162	1,164
Investment income	1,059	1,269	1,004	1,182	998	969	923	863
Net income from commercial operations	366	691	730	409	342	386	397	399
Other	918	922	912	935	1,003	948	947	909
Forecast/Actual Revenue	13,521	14,740	15,519	14,962	16,089	14,702	14,721	14,759
Cushion	—	—	—	—	—	(590)	(420)	(420)
Budget/Actual Revenue	13,521	14,740	15,519	14,962	16,089	14,112	14,301	14,339

Expense

(millions of dollars)

UPDATED

	1992-93 Actual	1993-94 Actual	1994-95 Actual	1995-96 Actual	1996-97 Forecast	1997-98 Estimate	1998-99 Target	1999-2000 Target
Program								
Legislative Assembly	36	43	30	31	40	40	35	35
Advanced Education and Career Development	1,315	1,297	1,171	1,100	1,102	1,277	1,291	1,306
Agriculture, Food and Rural Development	1,076	655	346	426	470	462	470	466
Community Development	190	165	261	305	298	308	310	311
Economic Development and Tourism	201	242	192	207	198	175	222	224
Education	2,878	2,971	2,748	2,707	2,731	2,822	2,873	2,892
Energy	184	151	129	127	123	126	117	117
Environmental Protection	406	377	378	378	364	311	290	290
Executive Council	23	19	17	15	14	13	12	12
Family and Social Services	1,678	1,555	1,308	1,307	1,342	1,357	1,351	1,351
Federal and Intergovernmental Affairs	51	49	50	49	48	37	36	35
Health	4,133	4,002	3,799	3,618	3,814	3,958	4,014	4,088
Justice	426	413	366	361	361	369	371	369
Labour	52	45	39	35	30	33	35	40
Municipal Affairs	836	664	516	314	263	268	235	235
Public Works, Supply and Services	599	566	476	481	461	464	461	462
Science, Research and Information Technology	48	46	41	39	49	56	62	68
Transportation and Utilities	707	660	667	646	620	548	548	538
Treasury	921	890	620	320	318	319	319	322
Consolidation adjustments	(148)	(160)	(117)	(111)	(107)	(107)	(107)	(108)
Consolidated Program Expense	15,612	14,650	13,037	12,355	12,539	12,836	12,945	13,053
Debt Servicing Costs								
Gross debt servicing costs	1,552	1,738	1,784	1,662	1,492	1,288	1,257	1,212
Consolidation adjustments	(319)	(277)	(240)	(206)	(177)	(163)	(152)	(142)
Consolidated Debt Servicing Costs	1,233	1,461	1,544	1,456	1,315	1,125	1,105	1,070
Total Consolidated Expense	16,845	16,111	14,581	13,811	13,854	13,961	14,050	14,123

Net Change in Capital Assets affecting Operations

(millions of dollars)

UPDATED

	1992-93 Actual	1993-94 Actual	1994-95 Actual	1995-96 Actual	1996-97 Forecast	1997-98 Estimate	1998-99 Target	1999-2000 Target
Capital investment	363	305	265	261	216	238	240	230
Capital amortization	(272)	(292)	(285)	(242)	(241)	(241)	(241)	(245)
Net Increase (Decrease) in Capital Assets	91	13	(20)	19	(25)	(3)	(1)	(15)

Capital Investment

(millions of dollars)

UPDATED

	1992-93 Actual	1993-94 Actual	1994-95 Actual	1995-96 Actual	1996-97 Forecast	1997-98 Estimate	1998-99 Target	1999-2000 Target
Legislative Assembly	—	—	1	—	—	—	—	—
Advanced Education and Career Development	2	—	1	—	1	2	1	1
Agriculture, Food and Rural Development	8	5	5	7	3	2	2	2
Community Development	1	1	2	2	1	1	1	1
Economic Development and Tourism	—	—	—	1	1	—	—	—
Education	2	—	1	1	1	2	2	2
Energy	5	9	14	25	15	4	4	3
Environmental Protection	26	43	31	9	10	7	7	6
Executive Council	—	—	—	—	—	—	—	—
Family and Social Services	9	4	3	1	6	—	—	—
Federal and Intergovernmental Affairs	—	—	—	—	—	—	—	—
Health	1	2	—	—	1	5	5	5
Justice	1	1	1	2	—	2	1	1
Labour	1	—	1	1	—	—	—	—
Municipal Affairs	7	4	34	2	5	5	3	3
Public Works, Supply and Services	83	38	33	74	51	66	70	62
Science, Research and Information Technology	3	4	3	3	2	3	3	3
Transportation and Utilities	206	219	134	134	115	137	138	138
Treasury	8	10	1	2	4	2	3	3
Consolidation adjustments	—	(35)	—	(3)	—	—	—	—
Total Capital Investment	363	305	265	261	216	238	240	230

Capital Amortization

(millions of dollars)

UPDATED

	1992-93 Actual	1993-94 Actual	1994-95 Actual	1995-96 Actual	1996-97 Forecast	1997-98 Estimate	1998-99 Target	1999-2000 Target
Legislative Assembly	—	—	—	—	—	—	—	—
Advanced Education and Career Development	2	2	3	1	2	1	1	1
Agriculture, Food and Rural Development	6	6	6	6	5	5	5	5
Community Development	1	1	1	1	1	1	1	1
Economic Development and Tourism	—	—	—	—	1	1	1	1
Education	1	1	1	1	1	1	1	1
Energy	4	4	4	7	9	8	6	6
Environmental Protection	27	28	28	29	29	29	29	29
Executive Council	—	—	—	—	—	—	—	—
Family and Social Services	1	4	5	5	5	5	2	2
Federal and Intergovernmental Affairs	—	—	—	—	—	—	—	—
Health	—	1	1	1	1	1	1	1
Justice	1	1	1	1	1	1	1	1
Labour	—	—	—	—	—	—	—	—
Municipal Affairs	27	32	33	27	27	27	26	26
Public Works, Supply and Services	73	71	77	60	60	60	63	63
Science, Research and Information Technology	4	4	3	3	3	3	2	3
Transportation and Utilities	122	134	119	98	94	96	100	102
Treasury	3	3	3	2	2	2	2	3
Consolidation adjustments	—	—	—	—	—	—	—	—
Consolidated Capital Amortization	272	292	285	242	241	241	241	245

Historical Consolidated Fiscal Summary[a]

1981-82 to 1999-2000

(millions of dollars)

UPDATED

		A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S
		1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
																	Forecast	Estimate	Target	Target
	Revenue																			
1	Personal income tax	1,323	1,650	1,510	1,457	1,521	1,768	2,236	2,039	2,536	2,796	3,057	2,794	2,877	3,063	3,177	3,441	3,526	3,647	3,797
2	Corporate income tax	581	609	782	828	780	396	595	697	700	803	731	637	854	1,073	1,332	1,390	1,436	1,484	1,520
3	School property tax	447	559	610	637	660	686	729	769	824	915	1,027	1,115	1,168	1,196	1,205	1,158	1,169	1,109	1,084
4	Other tax revenue	208	240	309	334	341	262	553	679	683	878	1,029	1,055	1,053	1,126	1,112	1,145	1,124	1,132	1,151
5	Natural resource revenue	4,748	4,122	4,779	5,229	4,932	1,892	2,626	2,085	2,240	2,688	2,022	2,183	2,817	3,378	2,786	4,116	2,716	2,713	2,683
6	Investment income	1,613	1,554	1,498	1,606	1,706	1,483	1,338	1,301	1,346	1,589	1,547	1,059	1,269	1,004	1,182	998	969	923	863
7	Other own-source revenue	596	793	800	1,096	1,108	955	1,404	1,659	2,019	1,612	1,562	2,290	2,681	2,826	2,497	2,525	2,494	2,506	2,472
8	Revenue cushions	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(590)	(420)	(420)
9	Total own-source revenue	9,516	9,527	10,288	11,187	11,048	7,442	9,481	9,229	10,348	11,281	10,975	11,133	12,719	13,666	13,291	14,733	12,844	13,094	13,150
10	Federal transfers	1,145	1,167	1,274	1,647	1,742	1,642	1,861	2,080	1,887	2,302	2,086	2,388	2,021	1,853	1,671	1,316	1,268	1,207	1,189
11	Total Revenue	10,661	10,694	11,562	12,834	12,790	9,084	11,342	11,309	12,235	13,583	13,061	13,521	14,740	15,519	14,962	16,089	14,112	14,301	14,339
	Expense[b]																			
12	Health	1,875	2,438	2,724	2,731	2,958	3,191	3,056	3,329	3,602	3,864	4,098	4,133	4,002	3,799	3,618	3,814	3,958	4,014	4,088
13	Education	2,034	2,514	2,704	2,870	3,056	3,218	3,224	3,326	3,482	3,640	3,788	4,193	4,268	3,919	3,807	3,833	4,099	4,164	4,198
14	Social services	703	918	985	1,051	1,156	1,270	1,329	1,434	1,502	1,567	1,746	1,678	1,555	1,308	1,307	1,342	1,357	1,351	1,351
15	Other program expense	3,890	5,606	4,963	4,837	6,343	5,296	4,686	4,587	4,812	5,236	4,924	5,608	4,825	4,011	3,623	3,550	3,422	3,416	3,416
16	Total program expense	8,502	11,476	11,376	11,489	13,513	12,975	12,295	12,676	13,398	14,307	14,556	15,612	14,650	13,037	12,355	12,539	12,836	12,945	13,053
17	Debt servicing costs	26	14	57	99	38	142	412	640	953	1,108	1,134	1,233	1,461	1,544	1,456	1,315	1,125	1,105	1,070
18	Total Expense	8,528	11,490	11,433	11,588	13,551	13,117	12,707	13,316	14,351	15,415	15,690	16,845	16,111	14,581	13,811	13,854	13,961	14,050	14,123
	Net Change in Capital Assets[c]																			
19	Capital investment	—	—	—	—	—	—	—	—	—	—	—	363	305	265	261	216	238	240	230
20	Capital amortization	—	—	—	—	—	—	—	—	—	—	—	(272)	(292)	(285)	(242)	(241)	(241)	(241)	(245)
21	Net increase (decrease) in capital assets	—	—	—	—	—	—	—	—	—	—	—	91	13	(20)	19	(25)	(3)	(1)	(15)
22	**Consolidated Surplus (Deficit)**	2,133	(796)	129	1,246	(761)	(4,033)	(1,365)	(2,007)	(2,116)	(1,832)	(2,629)	(3,415)	(1,384)	958	1,132	2,260	154	252	231
	Financial Assets (Debt)																			
23	Net assets (net debt) subject to BBDRA	12,007	11,211	11,332	12,578	11,817	7,784	6,419	4,412	2,296	464	(2,165)	(7,054)	(8,313)	(7,355)	(6,223)	(3,963)	(3,513)	(3,063)	(2,613)
24	Unfunded pension liabilities	(3,755)	(3,748)	(4,103)	(5,359)	(5,500)	(6,625)	(7,946)	(8,004)	(8,243)	(6,156)	(5,774)	(4,770)	(5,066)	(5,352)	(5,352)	(5,402)	(5,467)	(5,582)	(5,697)
25	Total net assets (net debt)	8,252	7,463	7,229	7,219	6,317	1,159	(1,527)	(3,592)	(5,947)	(5,692)	(7,939)	(11,824)	(13,379)	(12,707)	(11,575)	(9,365)	(8,980)	(8,645)	(8,310)
26	Real GDP (after inflation/calendar year)	56,216	52,929	51,030	53,282	55,358	55,696	58,534	64,183	64,350	64,669	65,067	66,609	71,714	74,921	76,502	78,940	81,767	85,802	88,432
27	Growth in real GDP (%)	7.5	(5.8)	(3.6)	4.4	3.9	0.6	5.1	9.7	0.3	0.5	0.6	2.4	7.7	4.5	2.1	3.2	3.6	4.1	3.9

a Numbers have been restated on a 1997-98 basis except as noted.

b Expenditure prior to 1992-93 is by function. Expenditure from 1992-93 to 1999 -2000 is by ministry

c Prior to 1992-93 capital investment is included in total expense.

1997 - 98 Budget Plan

Tables

BUDGET '97

BUILDING ALBERTA TOGETHER

Note: Prior years' numbers have been restated where necessary to be comparable to the 1997-98 presentation.

Consolidated Fiscal Summary[a]

(millions of dollars)

UPDATED

		1997-98 Estimate	1996-97 Forecast	1996-97 Budget	1995-96 Actual
	Revenue				
1	Forecast/Actual	14,702	16,089	14,230	14,962
2	Cushion[b]	(590)	—	(545)	—
3	Budget/Actual	14,112	16,089	13,685	14,962
	Expense				
4	Program	12,836	12,539	12,277	12,355
5	Debt Servicing Costs	1,125	1,315	1,401	1,456
6	Total Expense	13,961	13,854	13,678	13,811
7	Net Revenue	151	2,235	7	1,151
8	Net Decrease (Increase) in Capital Assets affecting Operations[c]	3	25	16	(19)
9	**Consolidated Surplus**	154	2,260	23	1,132
10	Minimum Net Debt Reduction	100			

[a] Subject to the Balanced Budget and Debt Retirement Act. Includes the province's annual cash payments towards the unfunded pension liability which will be eliminated over a longer term through additional contributions. Does not include the annual change in the unfunded pension liability, estimated at $50 million in 1996-97 and $65 million in 1997-98, which is a non-cash expense that does not affect borrowing requirements.

[b] As required by the Balanced Budget and Debt Retirement Act, budgeted revenue excludes a revenue cushion.

[c] Converts operating expense to a pay-as-you-go basis for capital for the purposes of the consolidated surplus.

Change in Fiscal Position

(millions of dollars)

UPDATED

1996-97 Surplus (April 1997 Forecast)	2,260
Factors Reducing the 1997-98 Surplus	
Lower resource revenue forecast	1,400
Setting aside revenue cushion	590
Increased health and education spending[a]	303
Reduced federal transfers[a]	155
Change in capital assets affecting operations	22
	2,470
Factors Increasing the 1997-98 Surplus	
Lower debt servicing costs	190
Net increase in other revenue	61
Net decrease in other ministries spending	113
	364
Net Change	2,106
1997-98 Surplus	154

[a] Excludes the transfer of federal labour market programs to the province which adds $107 million to revenue and expenditure in 1997-98.

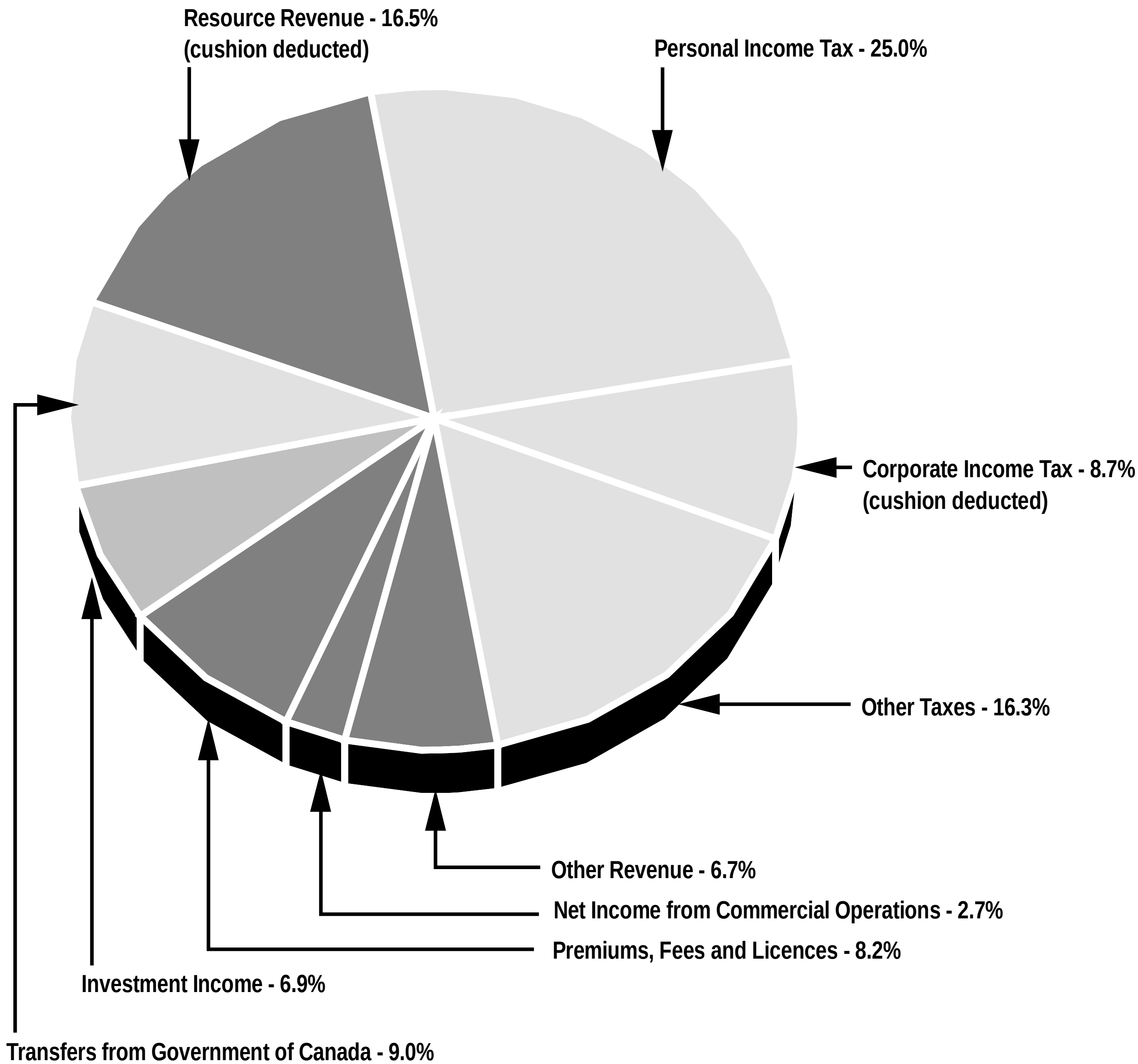
Revenue
(millions of dollars)

UPDATED

	1997-98 Estimate	1996-97 Forecast	1996-97 Budget	1995-96 Actual
Income Taxes				
Personal income tax	3,526	3,441	3,289	3,177
Corporate income tax	1,436	1,390	1,100	1,332
	4,962	4,831	4,389	4,509
Other Taxes				
School property taxes	1,169	1,158	1,165	1,205
Fuel tax	528	540	535	527
Tobacco tax	315	315	325	311
Freehold mineral rights tax	106	116	84	101
Insurance corporations tax	103	97	95	96
Financial institutions capital tax	37	38	47	35
Hotel room tax	35	34	33	33
Pari-mutuel tax	—	5	9	9
	2,293	2,303	2,293	2,317
Non-Renewable Resource Revenue				
Natural gas and by-products royalty	1,245	1,312	1,092	1,004
Crude oil royalty	854	1,439	958	1,047
Synthetic crude oil and bitumen royalty	244	518	282	312
Coal royalty	20	18	14	22
Bonuses and sales of Crown leases	500	927	450	576
Rentals and fees	123	132	110	117
Royalty tax credit	(270)	(230)	(260)	(292)
	2,716	4,116	2,646	2,786
Transfers from Government of Canada				
Canada Health and Social Transfer	981	1,149	1,251	1,483
Agriculture support programs	118	49	42	32
Labour market development	107	—	—	—
Other	62	118	87	156
	1,268	1,316	1,380	1,671
Premiums, Fees and Licences				
Health care insurance premiums	608	601	612	590
Motor vehicle licences	166	171	168	164
Crop and hail insurance premiums	86	88	86	73
Timber rentals and fees	54	55	64	63
Land titles	45	46	46	40
Other	201	219	222	223
	1,160	1,180	1,198	1,153
Investment Income				
Heritage Fund	701	690	734	815
Farm credit stability program	70	86	89	105
Heritage Foundation for Medical Research Endowment Fund	63	59	57	67
Other	135	163	131	195
	969	998	1,011	1,182
Net Income from Commercial Operations				
Alberta Gaming and Liquor Commission	363	359	359	358
Treasury Branches Deposits Fund	17	(23)	44	30
Other	6	6	5	21
	386	342	408	409
Other				
Lottery Fund revenue	653	643	593	584
Sale of capital assets	29	78	53	43
Fines and penalties	27	27	28	28
Miscellaneous	239	255	231	280
	948	1,003	905	935
Forecast/Actual Revenue	14,702	16,089	14,230	14,962
Revenue Cushions	(590)	—	(545)	—
Budget/Actual Revenue	14,112	16,089	13,685	14,962

Revenue
1997-98 Estimate

UPDATED



Total Revenue – $14,112 million

Expense
(millions of dollars)

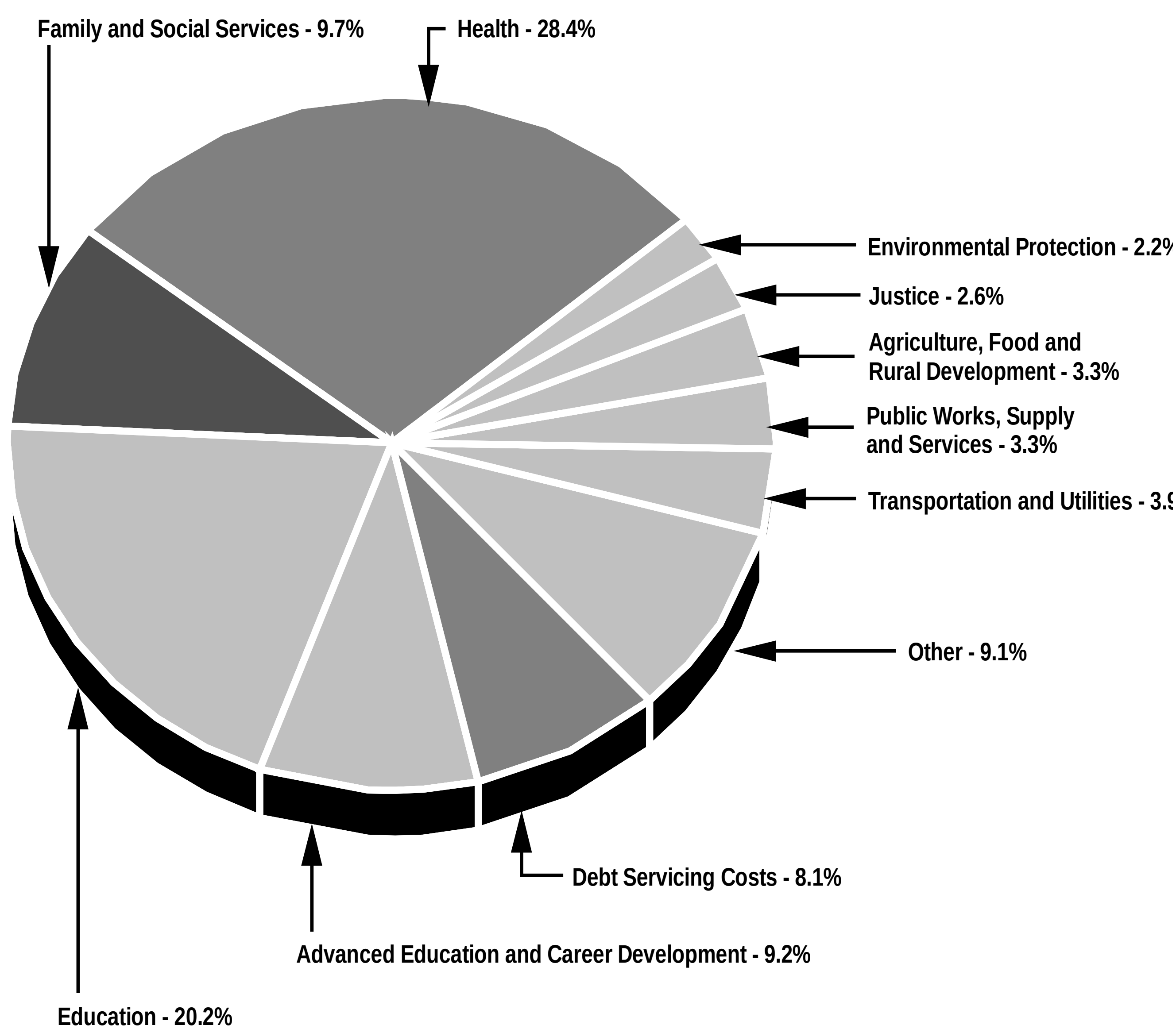
UPDATED

	1997-98 Estimate	1996-97 Forecast	1996-97 Budget	1995-96 Actual
Program				
Legislative Assembly	40	40	42	31
Advanced Education and Career Development	1,277	1,102	1,113	1,100
Agriculture, Food and Rural Development	462	470	474	426
Community Development	308	298	282	305
Economic Development and Tourism	175	198	201	207
Education	2,822	2,731	2,699	2,707
Energy	126	123	126	127
Environmental Protection	311	364	336	378
Executive Council	13	14	15	15
Family and Social Services	1,357	1,342	1,350	1,307
Federal and Intergovernmental Affairs	37	48	49	49
Health	3,958	3,814	3,669	3,618
Justice	369	361	357	361
Labour	33	30	33	35
Municipal Affairs	268	263	282	314
Public Works, Supply and Services	464	461	468	481
Science, Research and Information Technology	56	49	51	39
Transportation and Utilities	548	620	541	646
Treasury	319	318	300	320
Consolidation adjustments	(107)	(107)	(111)	(111)
Consolidated Program Expense	12,836	12,539	12,277	12,355
Debt Servicing Costs				
Gross debt servicing costs	1,288	1,492	1,588	1,662
Consolidation adjustments	(163)	(177)	(187)	(206)
Consolidated Debt Servicing Costs	1,125	1,315	1,401	1,456
Total Consolidated Expense	13,961	13,854	13,678	13,811

Expense

1997-98 Estimate

UPDATED



Total Expense – $13,961 million

Support for Infrastructure[a]

(millions of dollars)

UPDATED

	1997-98 Estimate	1996-97 Forecast	1996-97 Budget	1995-96 Actual
Legislative Assembly	—	—	—	—
Advanced Education and Career Development	55	8	5	7
Agriculture, Food and Rural Development	15	22	19	25
Community Development	—	2	2	3
Economic Development and Tourism	43	47	42	52
Education	142	110	110	123
Energy	—	—	—	—
Environmental Protection	6	6	6	6
Executive Council	—	—	—	—
Family and Social Services	—	—	—	—
Federal and Intergovernmental Affairs	2	15	15	15
Health	—	—	—	—
Justice	—	—	—	—
Labour	—	—	—	—
Municipal Affairs	1	1	1	1
Public Works, Supply and Services	124	120	120	113
Science, Research and Information Technology	—	—	—	—
Transportation and Utilities	254	316	248	333
Treasury	—	—	—	—
Total Support for Infrastructure	642	647	568	678

[a] Included in program expense.

Net Change in Capital Assets affecting Operations

(millions of dollars)

UPDATED

	1997-98 Estimate	1996-97 Forecast	1996-97 Budget	1995-96 Actual
Capital Investment	238	216	232	261
Capital Amortization	(241)	(241)	(248)	(242)
Net Increase (Decrease) in Capital Assets	(3)	(25)	(16)	19

Capital Investment

(millions of dollars)

UPDATED

	1997-98 Estimate	1996-97 Forecast	1996-97 Budget	1995-96 Actual
Legislative Assembly	—	—	1	—
Advanced Education and Career Development	2	1	1	—
Agriculture, Food and Rural Development	2	3	3	7
Community Development	1	1	1	2
Economic Development and Tourism	—	1	1	1
Education	2	1	1	1
Energy	4	15	13	25
Environmental Protection	7	10	10	9
Executive Council	—	—	—	—
Family and Social Services	—	6	—	1
Federal and Intergovernmental Affairs	—	—	—	—
Health	5	1	1	—
Justice	2	—	—	2
Labour	—	—	—	1
Municipal Affairs	5	5	5	2
Public Works, Supply and Services	66	51	54	74
Science, Research and Information Technology	3	2	4	3
Transportation and Utilities	137	115	132	134
Treasury	2	4	5	2
Consolidation Adjustments	—	—	—	(3)
Total Capital Investment	238	216	232	261

Premiums, Fees and Licences
Rate Changes and New Charges[a]
(dollars)

	1997-98	1996-97
Community Development		
Alberta Alcohol and Drug Abuse Commission		
Room and board fees, per day	15	10
Education		
Teacher certification fees		
Alberta graduates	200	35
Out-of-province graduates		
North America	225	150
Other	250	200
Permanent teaching certificate	50	25
Statement of standing certificate to another province or country	25	15
Justice		
Surcharge on provincial fines[b]	up to 15%	—
Treasury		
Alberta Securities Commission fees		
Prospectus (base fee)	1,000	2,500
Prospectus incremental fee per $1000 of sales		
Mutual Fund - Alberta sales over $5 million (1996-97 - $8.3 million)	0.20	0.30
Non-mutual funds - Alberta sales over $4 million (1996-97 - $8.3 million)	0.25	0.30
Amendment to annual information form	—	100
Branch office registration	—	100
Trading officer registration	250	350
Salesperson registration	250	300
Salesperson transfer	—	100
Company registration amendment	—	100
Rights offering	500	1,000
Exempt offering, incremental fee per $1000 of sales		
Private placements - Alberta sales over $0.4 million (1996-97 - $0.3 million)	0.25	0.30
Expedited application	—	500
Sundry filing	—	50
Alberta Insurance Council fees		
Insurance companies regulatory fee	600	—
Insurance agents and adjusters licence	60	75

a Federal Goods and Services Tax is applied on certain fees.
b Rate is not finalized.

Major Provincial Tax Rates

UPDATED

	Personal Income Tax[a]				Retail	Gasoline	Tobacco	Corporate Income Tax			Capital Tax		Payroll
	Basic Rate	High Income Surtax	Flat Rate Tax	General Surtax	Sales Tax	Tax	Tax	Small Business Rate	M&P Rate	General Rate	General (max.)	Financial Institutions (max.)	Tax (max.)
	(%)	(%)	(%)	(%)	(%)	(¢/litre)	($/carton)	(%)	(%)	(%)	(%)	(%)	(%)
ALBERTA	**45.5**	**8.0**	**0.5**	**—**	**—**	**9.0**	**14.00**	**6.0**	**14.5**	**15.5**	**—**	**2.00**	**—**
British Columbia	51.0	30/54.5	—	—	7.0	11.0[c]	22.00	9.0	—	16.5	0.30	3.00	—
Saskatchewan	50.0	15.0	2.0	10.0	7.0	15.0	16.80[b]	8.0	10/17	17.0	0.60	3.25	—
Manitoba	52.0	2.0	2.0	—	7.0	11.5	16.00[b]	9.0	—	17.0	0.50	3.00	2.25
Ontario	49.0	20/44	—	—	8.0	14.7	4.10[b]	9.5	13.5	15.5	0.30	1.12	1.95
Quebec	n.a.	n.a.	n.a.	—	6.5	15.2[b,c]	5.34[b]	5.75	—	8.9	0.64	1.28	4.26
New Brunswick	63.0	8.0	—	—	8.0	10.7[b]	7.30[b]	7.0	—	17.0	0.30	3.00	—
Nova Scotia	58.5	10.0	—	—	8.0	13.5[b]	8.44[b]	5.0	—	16.0	0.25	3.00	—
P.E.I.	59.5	10.0	—	—	10.0	13.0	12.05	7.5	7.5	16.0	—	3.00	—
Newfoundland	69.0	10.0	—	—	8.0	16.5[b]	22.00[b]	5.0	5.0	14.0	—	4.00	2.00

Rates for other provinces known as of April 8, 1997.

[a] The basic rate is a percentage of basic federal tax. The high income surtax is applied above certain thresholds which vary among provinces and is based on: net income in Manitoba, the sum of basic tax and flat tax in Saskatchewan and basic tax in the other provinces. The flat rate tax is a percentage of taxable income in Alberta and net income in Saskatchewan and Manitoba. Quebec's personal income tax system is not directly comparable to those in other provinces.

[b] These provinces apply their retail sales taxes on top of this tax.

[c] An additional 4¢/litre is imposed in the greater Vancouver area and 1.5¢/litre in Victoria and Montreal.

1997-98 Expense by Object

(millions of dollars)

UPDATED

	Salaries, Wages and Employee Benefits	Supplies and Services	Grants to Others	Internal Government Transfers[a]	Financial Transactions and Other[b]	Amortization of Capital Assets	Total Gross Expense	Intra and Inter Ministry Consolidation Adjustments	Total Ministry Expense
Legislative Assembly	16	16	—	—	8	—	40	—	40
Advanced Education and Career Development	63	41	1,101	—	71	1	1,277	—	1,277
Agriculture, Food and Rural Development	87	38	63	161	349	5	703	(173)	530
Community Development	44	17	246	27	—	1	335	(27)	308
Economic Development and Tourism	16	28	83	125	4	1	257	(78)	179
Education	22	20	2,779	6	—	1	2,828	(6)	2,822
Energy	62	37	19	22	—	8	148	(22)	126
Environmental Protection	147	137	16	1	1	29	331	(20)	311
Executive Council	10	3	—	—	—	—	13	—	13
Family and Social Services	200	348	804	—	—	5	1,357	—	1,357
Federal and Intergovernmental Affairs	5	3	29	—	—	—	37	—	37
Health	55	49	3,853	—	—	1	3,958	—	3,958
Justice	180	132	25	—	31	1	369	—	369
Labour	19	12	2	—	—	—	33	—	33
Municipal Affairs	35	38	165	80	30	27	375	(80)	295
Public Works, Supply and Services	60	262	110	—	—	60	492	(28)	464
Science, Research and Information Technology	30	18	5	28	—	3	84	(28)	56
Transportation and Utilities	38	278	136	—	—	96	548	—	548
Treasury	33	43	35	868	1,404	2	2,385	(877)	1,508
Inter-ministry consolidation adjustments	—	—	—	—	—	—	—	(270)	(270)
Total Expense	1,122	1,520	9,471	1,318	1,898	241	15,570	(1,609)	13,961

[a] Excluding payments for services.

[b] Including an amount of $44,700 in each ministry for the Minister's salary and $56,865 for the Premier in Executive Council and $19,869 for the Minister without Portfolio responsible for services to children and families in Family and Social Services.

Full-Time Equivalent Employment

UPDATED

	1997-98 Estimate	1996-97 Budget	Per Cent Change
Legislative Assembly	380	373	1.9
Advanced Education and Career Development	1,400	1,706	(17.9)
Agriculture, Food and Rural Development	1,903	1,962	(3.0)
Community Development	960	974	(1.4)
Economic Development and Tourism	255	436	(41.5)
Education	612	631	(3.0)
Energy	1,215	1,156	5.1
Environmental Protection	3,326	3,580	(7.1)
Executive Council	202	213	(5.2)
Family and Social Services	4,841	4,864	(0.5)
Federal and Intergovernmental Affairs	90	90	—
Health	1,170	1,415	(17.3)
Justice	3,985	3,922	1.6
Labour	399	497	(19.7)
Municipal Affairs	768	806	(4.7)
Public Works, Supply and Services	1,216	1,340	(9.3)
Science, Research and Information Technology	487	504	(3.4)
Transportation and Utilities	780	1,256	(37.9)
Treasury	639	662	(3.5)
Total Full-Time Equivalent Employment	24,628	26,387	(6.7)

Debt Servicing Costs

(millions of dollars)

UPDATED

	1997-98 Estimate	1996-97 Forecast	1996-97 Budget	1995-96 Actual
Treasury				
General Revenue Fund	1,189	1,380	1,470	1,568
Payments on debt held by the Heritage Fund	—	—	—	(39)
	1,189	1,380	1,470	1,529
Agriculture, Food and Rural Development				
Agriculture Financial Services Corporation	68	74	80	85
Economic Development and Tourism				
Alberta Opportunity Company	4	5	5	6
Municipal Affairs				
Alberta Social Housing Corporation	100	107	111	124
Federal and municipal recoveries	(73)	(74)	(78)	(82)
Consolidation adjustments	(163)	(177)	(187)	(206)
Consolidated Debt Servicing Costs	1,125	1,315	1,401	1,456

Heritage Fund Investment Income

(millions of dollars)

UPDATED

	1997-98 Estimate	1996-97 Forecast	1996-97 Budget	1995-96 Actual
Heritage Fund Investment Income	857	862	911	1,056
Consolidation adjustments:				
General Revenue Fund interest costs paid to the Heritage Fund	—	—	—	(39)
Provincial corporations' interest costs paid to the Heritage Fund	(156)	(172)	(177)	(202)
Consolidated Heritage Fund Investment Income	701	690	734	815

Valuation Adjustments and Other Provisions

(millions of dollars)

UPDATED

	1997-98 Estimate	1996-97 Forecast	1996-97 Budget	1995-96 Actual
Treasury				
General provisions for accounts receivable	20	20	20	9
Provision for doubtful accounts, loans, guarantees and indemnities	15	15	15	25
Writedown of investments and provisions for decline in market value	—	—	—	10
Principal Group Ltd. provision	—	15	—	—
Provision for losses on disposal of the province's ownership share in the Alberta Special Waste Treatment System	—	—	—	4
Other	—	—	—	(23)
	35	50	35	25
Advanced Education and Career Development				
Provision for student loans	71	59	60	57
Agriculture, Food and Rural Development				
Agriculture Financial Services Corporation				
Provision for losses on loans and guarantees	2	2	4	(10)
Provision for accounts receivable	—	—	—	(2)
Community Development				
Cost of dissociation of Glenbow - Alberta Institute from the government	—	—	—	22
Economic Development and Tourism				
Alberta Opportunity Company				
Provision for doubtful accounts	3	4	4	1
Environmental Protection				
Cost of dissociation of the Fish and Wildlife Trust Fund and the Tire Recycling Management Board from the government	—	29	—	—
Municipal Affairs				
Alberta Social Housing Corporation valuation adjustment	3	2	3	1
	114	146	106	94

Government Consolidation Adjustments

(millions of dollars)

UPDATED

	1997-98 Estimate	1996-97 Forecast	1996-97 Budget	1995-96 Actual
Revenue				
Alberta Heritage Scholarship Fund transfer to Advanced Education and Career Development	13	13	13	13
Lottery Fund transfers to ministries	47	46	46	47
Payments by other ministries for services provided by the Public Works, Supply and Services revolving fund	30	29	33	33
Heritage Fund interest income received from provincial agencies	156	172	177	202
General Revenue Fund interest income received from provincial agencies	7	4	10	3
Other	17	20	19	16
Total Revenue	270	284	298	314
Expense				
Program				
Alberta Heritage Scholarship Fund transfer to Advanced Education and Career Development	13	13	13	13
Lottery Fund transfers to ministries	47	46	46	47
Payments by other ministries for services provided by the Public Works, Supply and Services revolving fund	30	29	33	33
Other	17	19	19	18
Total Program Expense	107	107	111	111
Debt Servicing Costs				
Paid by provincial agencies to the Heritage Fund	156	172	177	202
Paid by provincial agencies to the General Revenue Fund	7	4	10	3
Paid by the General Revenue Fund to provincial agencies	—	1	—	1
Total Debt Servicing Costs	163	177	187	206
Total Expense	270	284	298	317

Net Debt

(millions of dollars)

UPDATED

	At March 31		
	1998 Estimate	1997 Forecast	1996 Actual
Liabilities			
General Revenue Fund	15,376	15,415	18,007
Alberta Social Housing Corporation	961	1,006	1,166
Agriculture Financial Services Corporation	790	800	870
Alberta Opportunity Company	66	65	65
	17,193	17,286	20,108
Consolidation adjustments for internal debt holdings of:			
Heritage Fund	(1,586)	(1,701)	(2,106)
Other consolidated entities	(137)	(75)	(164)
	(1,723)	(1,776)	(2,270)
Unmatured debt	15,470	15,510	17,838
Pension liabilities	5,467	5,402	5,352
Equity in Alberta Municipal Financing Corporation	329	312	343
Accounts, loans payable and other liabilities	3,370	3,773	3,891
Total Liabilities	24,636	24,997	27,424
Financial Assets			
External Heritage Fund investments	10,250	10,123	9,579
Loans to farmers and small businesses	1,377	1,529	1,896
Equity and investments in Alberta Municipal Financing Corporation	477	470	514
Other	3,552	3,510	3,860
Total Assets[a]	15,656	15,632	15,849
Net Debt	8,980	9,365	11,575
Less: Unfunded pension liabilities subject to elimination under legislation	5,467	5,402	5,352
Net Debt subject to Balanced Budget and Debt Retirement Act	3,513	3,963	6,223

[a] Excludes non-financial assets such as provincially-owned land, highways, bridges and dams with an estimated value of $7.5 billion at March 31, 1997.

Loans, Advances and Long-term Investments

(millions of dollars)

UPDATED

	At March 31	
	1997 Forecast	1996 Actual
Loans and Advances		
Agriculture Financial Services Act	840	861
Farm Credit Stability Act	687	970
Alberta Opportunity Fund Act	84	84
Alberta Housing Act	71	96
Rural Electrification Loan Act and Rural Electrification Long Term Financing Act	17	19
Municipal Lands Loan Act	4	4
Canadian Western Bank	1	—
Small Business Term Assistance Act	2	13
Financial Administration Act		
Centennial Food Corp.	15	15
Pratt & Whitney Canada Inc.	10	15
Accountable Advances	6	6
Board of Governors, University of Alberta	4	4
University of Calgary Students' Union	2	1
University of Lethbridge Students' Union	2	2
Other under $1 million each	2	2
	1,747	2,092
Implemented guarantees and indemnities made under the authority of the Financial Administration Act	1	1
	1,748	2,093
Long-term Investments		
Alberta Pacific Pulp Mill Project	342	342
Ridley Grain Ltd.	102	106
Millar Western Pulp Mill Project	—	21
Vencap Equities Alberta Ltd.	10	9
Other under $1 million each	1	1
	455	479
	2,203	2,572
Allowance for doubtful loans, advances, implemented guarantees and indemnities	(43)	(49)
Total Loans, Advances and Long-term Investments	2,160	2,523

Guarantees and Indemnities

(millions of dollars)

UPDATED

	At March 31	
	1997 Forecast	1996 Actual
Guarantees		
Farm Credit Stability Act	726	1,013
Alberta Housing Act	262	370
Student Loan Act	148	171
Alberta Newsprint Funding Corporation	143	165
Agriculture Financial Services Act	68	65
Feeder associations	54	54
Canadian Airlines International Ltd.	13	21
Agricultural Societies Act	9	14
Kananaskis Alpine Resort Inc.	8	8
Alberta Opportunity Fund Act	4	4
Centre for Frontier Engineering Research	4	4
Rural utilities loans	3	4
Export program	2	4
Small Business Term Assistance Act	2	12
Pocaterra Development Corporation	2	2
University of Calgary	1	1
Skimmer Oil Separators Ltd.	1	1
North Saskatchewan River Boat Ltd.	1	1
Banff Centre for Continuing Education	1	1
University of Lethbridge	1	1
AEC Power Limited	0 [a]	104
Special Waste Management Corporation Act	0 [b]	86
Other	0	1
	1,453	2,107
Indemnities		
Canadian Western Bank	8	15
	1,461	2,122
Estimated Liability		
Guarantees and indemnities	(70)	(60)
Remissions of student loans	(24)	(24)
	(94)	(84)
Total Guarantees and Indemnities	1,367	2,038

[a] AEC Power Limited redeemed all guaranteed debentures by November 8, 1996.
[b] On July 12, 1996, Alberta Special Waste Management Corporation's subsidiary was sold to BOVAR Inc. and the loan guarantee was eliminated.

Economic Overview

Table of Contents

NEW ADDITIONS

More transparency on key assumptions as recommended by the Auditor General and the Revenue Forecasting Review Panel. This goes beyond the requirements of the Government Accountability Act.

1. Benchmarking Major Forecast Assumptions

   Since 1993-94, Alberta Treasury has surveyed private sector organizations for their forecasts of our major economic assumptions. This year the process is more rigorous and more transparent. Benchmarks are provided for Alberta GDP, oil and gas prices, Canadian interest rates and the Canada/U.S. exchange rate. This allows the reader to compare Alberta government forecasts to private sector forecasts. As well, the accuracy and volatility of the forecasts for oil prices and Alberta GDP are tracked.

Risks to the forecast are presented for the first time, as recommended by the Auditor General.

2. Risks to the Forecast

   On the same page as the sensitivities table, a section has been added that discusses major risks to the economic and fiscal forecasts. This will enable readers to understand both the up and down-sides to the outlook.

More information on major investment projects.

3. Major Investment Projects

   To provide more information on the investment forecast, a table has been added that lists major private sector projects over $100 million.

The Economic Outlook

Bright Economic Prospects for the Alberta Economy

The Alberta economy is positioned to enjoy a period of strong job growth, substantial private sector investment, enhanced export prospects, and buoyant consumer spending. The province is reaping the benefits of rapid export growth under the North American Free Trade Agreement, a healthy energy sector, expanding forestry and petrochemicals industries, accelerating population growth and the Alberta government's progress on getting its fiscal house in order and providing a positive business environment.

Before Alberta implemented its deficit reduction strategy, it had the worst deficit-to-GDP ratio among provinces. Now, after four years of fiscal restructuring, combined with unexpectedly strong commodity prices, Alberta enjoys the best surplus-to-GDP position in Canada. The dramatic turnaround in Alberta's fiscal position has translated into a very positive business environment. Despite the reduction in government spending, Alberta's rate of economic growth was second only to Prince Edward Island over the 1992-96 period.

"Alberta will become the centre of gravity in Canada. I think there's a shift to the West."

- Chief Economist, Royal Bank

"I go to a lot of national meetings and definitely people are very aware of what Alberta has done to get its financial house in order. They know that the Province of Alberta has a positive environment for business."

- President, Alberta Chamber of Commerce

Promising Global Environment

Alberta has an open, trade-based economy that depends on the health of our trading partners and world commodity and financial markets. We expect to benefit from low inflation, low interest rates, and continuing growth in our major trading partners.

In 1997 and over the medium term, the outlook is for moderate, sustainable growth in the world economy. The U.S. economy is about to enter its seventh consecutive year of expansion, raising concerns that inflation could re-ignite and interest rates rise. Recent data show U.S. economic performance moderating. This suggests that inflationary pressures should remain at bay and U.S. interest rates should rise only modestly in 1997. The U.S. economy is expected to grow by about 2.5% in 1997. No downturn is expected in the U.S. economy over the next three years.

For Canada, 1997 should be the beginning of an economic turnaround. Low inflation, continued strong exports, reduced political uncertainty, and strengthening federal and provincial fiscal positions have improved investor confidence in Canada. This has strengthened the value of the Canadian dollar, which has allowed the Bank of Canada to dramatically lower interest rates. Since October 1995, the Bank of Canada's benchmark rate has been reduced 19 times, from 7.65% to 3.25%.

The prime rate for business loans is at its lowest level since March 1956.

While Canadian interest rates are expected to follow an upward rise in U.S. rates in 1997, our short-term rates are expected to average about 5% through 2000, while long-term rates should average 7%. These rates are among the lowest in the past 20 years. This should spur higher consumer spending, housing construction and business investment. Combined with a continued strong export

OECD forecasts Canada's economic growth to lead the G-7 in 1997.

performance, the Canadian economy is expected to grow by 3% in 1997, up from an estimated 1.6% last year. Over the medium term, the Canadian economy is expected to grow by about 3.4% per year.

Alberta – Strong, Balanced Growth in 1997

The Alberta economy is forecast to grow by 3.6% in 1997, even faster than the estimated 3.2% growth in 1996. Most private sector forecasters are expecting Alberta to lead economic growth in Canada this year. The average of the private sector forecasts is for 3.4% real growth in 1997.

"This year I'm ebullient. From Manning to Milk River, the provincial economy is very strong right now."

- **Alberta head, Canadian Federation of Independent Business**

In the last few years, Alberta's economy has been driven by exports, which have increased by over 5% per year in real terms from 1991 to 1995. The domestic economy – consumer spending, government, housing and business investment – increased by less than 1% per year.

In 1996, the domestic economy rebounded, growing by an estimated 2.5%. Retail sales increased by about 3.9% last year, more than double the national average. Housing starts jumped by 20% to 16,665 units. Real business investment is estimated to have grown by 5%. Value-added manufacturing shipments increased by about 7% in 1996, almost triple the national average. The increase was led by electronics (30%), refined petroleum products (24%), and food products (11%).

"Consumer confidence in Alberta should remain strong because the greater part of government cutbacks are over and taxpayers will start to reap the benefits of fiscal restraint."

- **Royal Bank**

Low interest rates and strong employment growth are expected to extend the rebound in domestic spending into 1997 and beyond. Other factors boosting consumer spending include increased net migration and a modest forecast increase in wages.

Residential construction is expected to do well in 1997, improving on 1996's strong performance. Housing starts in Alberta this year are expected to grow by 12%, to 18,600 units, the highest level since 1992. As well, commercial construction, after a flat year in 1996, is forecast to increase by 4.5% to $720 million in 1997.

Buoyed by unexpectedly high oil prices and improved natural gas prices, the energy sector posted remarkable growth in 1996. A record 9,476 wells were completed last year, a 13% increase over 1995. Industry investment increased by 16% in 1996, to an estimated $8.4 billion.

"The demand for our equipment is as good as it's ever been. We're quite bullish."

- **President, Bonus Resource Service Corporation of Red Deer, a well-servicing firm**

The strength in oil and gas prices in 1996 has increased investor interest in the oil and gas sector and allowed the industry to raise a record $7.3 billion in equity and debt funding. These funds are expected to be invested in exploration and development activity. As a result, drilling activity in 1997 is forecast to surpass 1996's level. In addition, non-conventional investment is projected to rise sharply, supported by the government's generic royalty regime for non-conventional oil and the phasing out of the machinery and equipment tax. Overall, investment in the oil and gas sector is expected to rise in 1997 to $9.4 billion, a 12% increase.

Exports are forecast to increase by about 3% in 1997. Value-added exports are expected to increase slightly faster. Exports of crude oil and refined petroleum products will likely show the greatest strength in 1997.

Alberta's agricultural sector is expected to enjoy another good year in 1997, although not as strong as 1996 with its record grain production. Wheat prices, while down somewhat, are forecast to remain relatively high and the livestock sector should benefit from rising prices.

Healthy growth is also anticipated for the manufacturing sector, with shipments increasing by over 4% in 1997. This reflects growth in value-added agricultural production and strong demand for pulp and paper, other forest products, advanced technologies and petrochemicals.

Positive Employment Prospects

One of the biggest success stories of the Alberta economy continues to be job creation. Between December 1992 and December 1996, 157,300 new jobs were created. Over 80% of the new jobs were full-time.

Over 80% of the jobs created in Alberta have been full-time.

Alberta's 2.9% employment growth in 1996 was the fastest among provinces, more than double the national employment growth rate. Alberta's 39,500 new jobs in 1996 comprised 23% of all new jobs in Canada, even though the province comprises only 9% of Canada's population.

Alberta's unemployment rate fell nearly a percentage point in 1996, to 7%. This compares to a 9.7% unemployment rate for Canada as a whole last year. In December 1996, Alberta's unemployment rate was 6.3%, the lowest rate since March 1982.

Alberta's unemployment rate has fallen from 9.7% in December 1992 to 6.3% in December 1996.

Alberta's robust economy and positive labour market trends have attracted an increasing number of people to the province. Since the second quarter of 1995, Alberta has enjoyed seven consecutive quarters of positive in-migration, a sharp reversal of the trend of the early 1990s.

In the first three quarters of 1996, Alberta gained 9,201 people from other provinces, the highest since 1982. In-migration is expected to remain high over the next several years. The resulting higher growth in population should boost Alberta's housing market and retail sector and may put pressure on government services.

"Fortunately, we have the type of growth that attracts highly educated, skilled people."

- Calgary economist, Robert Mansell

In 1997, the Alberta economy is expected to create nearly 39,000 new jobs. The unemployment rate is projected to average 6.7% compared to 9.4% for Canada.

Medium-Term Outlook Positive For Alberta

The medium-term outlook for the Alberta economy looks very promising on several fronts.

- Strong investment of nearly 7% per year is expected to be the foundation for economic growth in Alberta over the medium term. The petrochemical industry has plans to invest over $2.8 billion over the next five years, while energy companies have announced plans for over $6 billion in oilsands projects over the same period.

- The increased production from the new investments will result in higher exports and more jobs for Albertans.

- Exports of value-added products are expected to increase by almost 4% per year. The increase in value-added exports is expected to be generated by advanced technology products, food processing, forest products, petrochemicals and exports of services.

- Tourism will contribute to Alberta's economic growth and diversification, based on the expectation of an increasing number of travellers, particularly from overseas.

"Alberta has been the national leader in fiscal management and debt repayment…"

- **Investment Dealers Association**

- Alberta's healthy fiscal position has translated into a vigorous business environment, which will support strong employment and economic growth. People and businesses can be confident that the only way taxes will go is down.

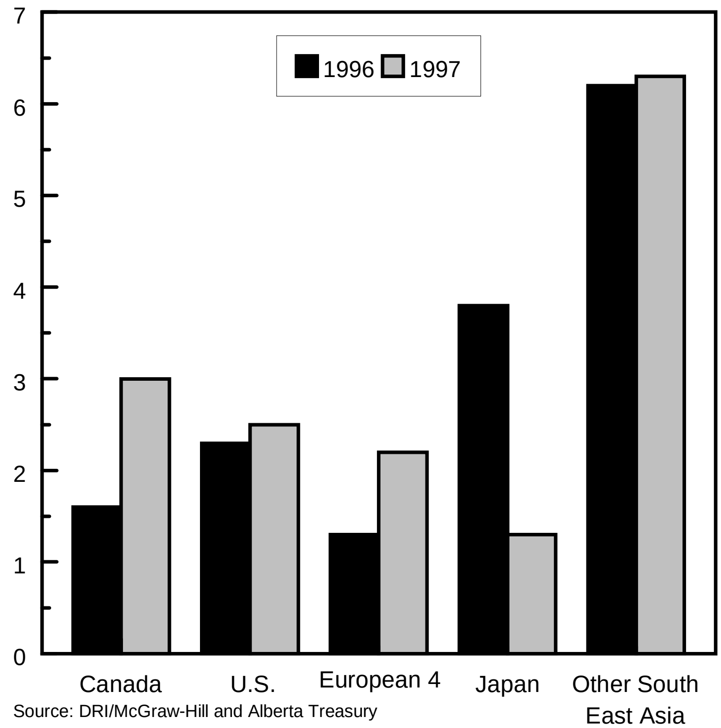
- Strong employment growth, rising wages and low interest rates are expected to revitalize spending on housing and consumer goods and services.

As a result of these and other developments over the 1997 to 2000 period, Alberta is expected to experience solid economic growth. The Alberta economy is forecast to grow by an average of about 3.8% per year, led by business investment, exports and consumer spending. Employment over this period is expected to grow by an average of 2.5% per year. Alberta's unemployment rate is expected to dip below 6% by the year 2000.

Because the Alberta government's economic forecast takes into account the latest information on major investment projects, interprovincial migration, and oil and gas production, our forecast is, in general, above the private sector consensus. For personal and corporate income tax revenue forecasts, Treasury uses its best estimate of economic growth for 1997 and assumes that real GDP will increase by 2% from 1998 on.

Favourable World Economy

Real Gross Domestic Product (per cent change)

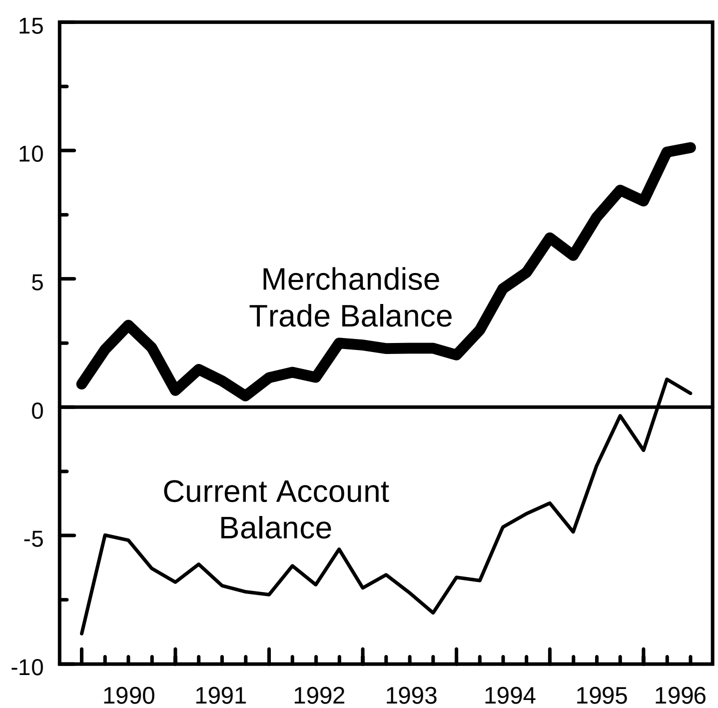


Source: DRI/McGraw-Hill and Alberta Treasury

- Trade is vital to Alberta's economy. Our exports go mostly to the rest of Canada and the United States.
- After several disappointing years, the Canadian economy is expected to lead economic growth among the G-7 countries in 1997.
- The United States economy, after six years of expansion, is expected to grow at a moderate pace of 2.5% for the next few years.

Robust Export Growth For Canada

($ billions)

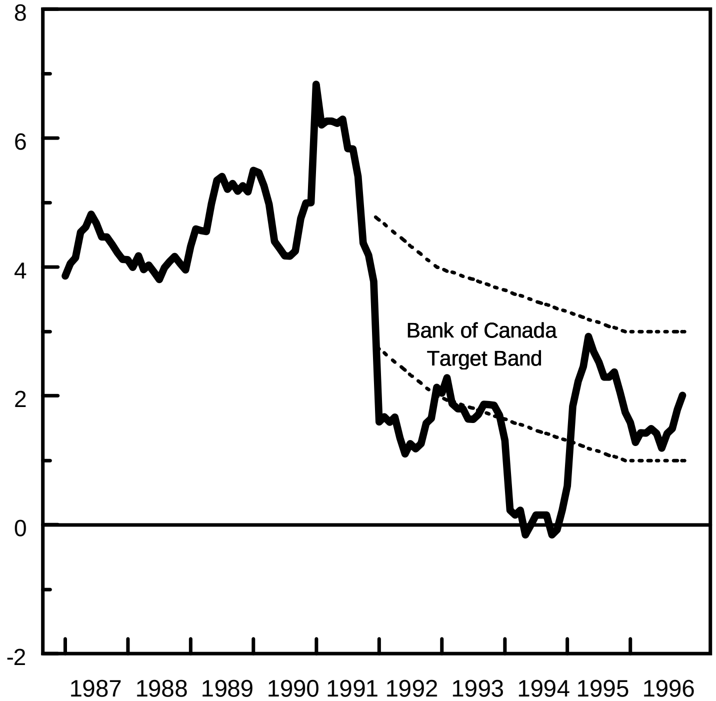


Source: Statistics Canada

- Canada's low inflation, slow wage growth, and low dollar have dramatically improved our competitiveness with the United States, our major trading partner.
- As a result, Canada's exports of goods have increased much faster than our imports. Our merchandise trade balance is at record levels.
- In the second and third quarters of 1996, Canada recorded the first current account surpluses (merchandise trade balance plus net exports of services, dividends and interest) since the fourth quarter of 1984.

Inflation Rate on Target

Consumer Price Index (per cent change)

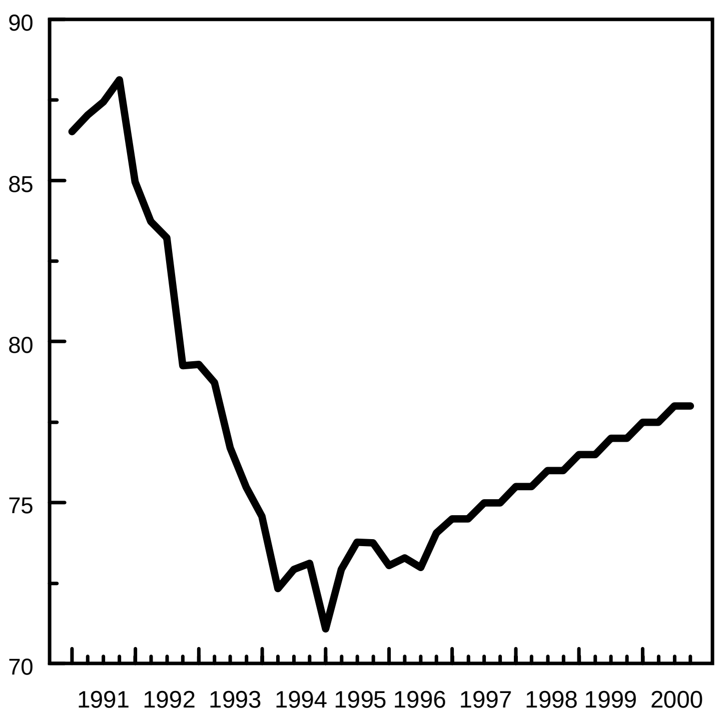


Source: Statistics Canada and Bank of Canada

- The Bank of Canada is maintaining inflation within the target range of 1% to 3%.
- There are few signs of inflationary pressures on the horizon.
- Canada's and Alberta's CPI inflation is forecast at 2% over the medium term.

Canadian Dollar Expected To Rise

(U.S. cents/Cdn$)



Source: Bank of Canada and Alberta Treasury

- The Canadian dollar is expected to climb toward its so-called "true" value (as measured by purchasing power parity) of approximately 80 cents U.S.
- The increasing value of the Canadian dollar is possible because of the relatively low inflation environment, a strong trade balance and the improved fiscal position of the provincial and federal governments.

- The strength in the Canadian dollar has allowed the Bank of Canada to sharply lower interest rates.

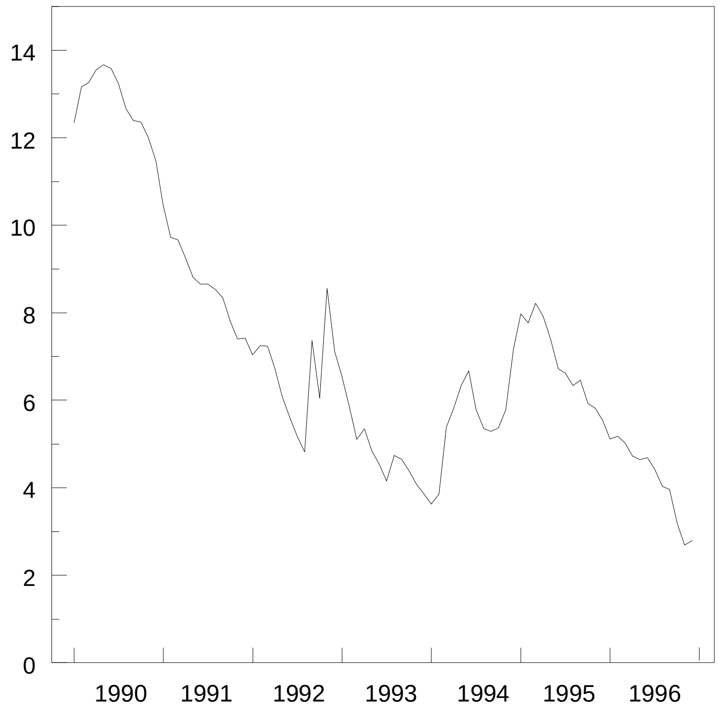
- Short-term rates have enjoyed the largest decline. The 90 day treasury bill rate fell from a 1995 high of 8.2% to 2.8% in mid-January 1997. This was the lowest level since November 1961.

- The 10-year bond rate declined by about 2.9 percentage points from its 1995 high, suggesting that financial markets view Canada as less of a credit risk.

- The drop in interest rates means that a consumer buying a new $15,000 car saves almost $500 per year. Someone renewing a one-year $100,000 mortgage saves over $3,000 annually. A small business person with a $1 million loan saves more than $28,000 per year.

Interest Rates Declining

Canada 90-day Treasury Bill Rate (per cent)



Source: Bank of Canada

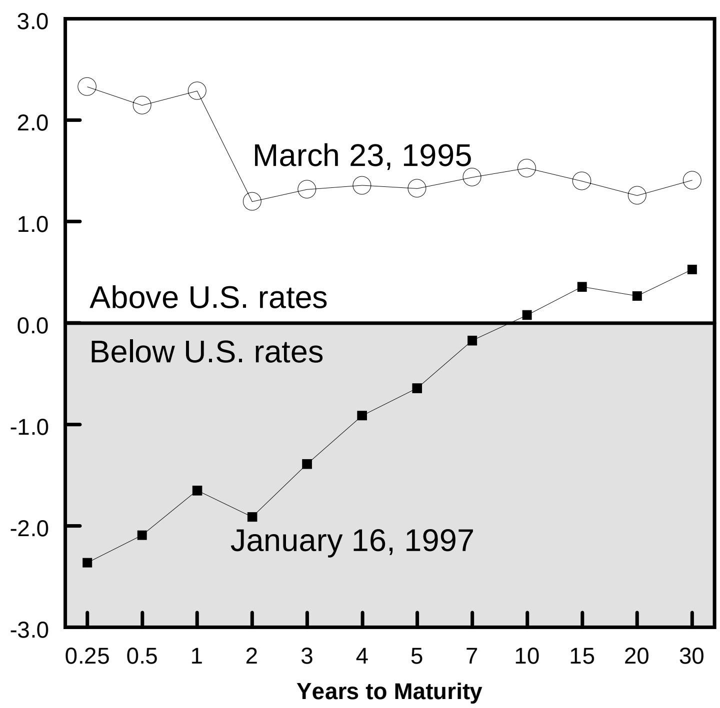
- U.S. interest rates have traditionally acted as a floor for Canadian rates with historical spreads of around 1 to 2 percentage points in favour of the United States.

- The drop in Canadian interest rates in the past two years has resulted in the spread between Canadian and U.S. short- and medium-term rates turning consistently in favour of Canada for the first time since 1974.

- Short-term Canadian rates are 2.35 percentage points below their U.S. equivalent, and 5-year Canadian rates are 0.6 percentage points lower. 10-year rates are only slightly above their U.S. equivalent.

Canada and U.S. Interest Rate Spreads

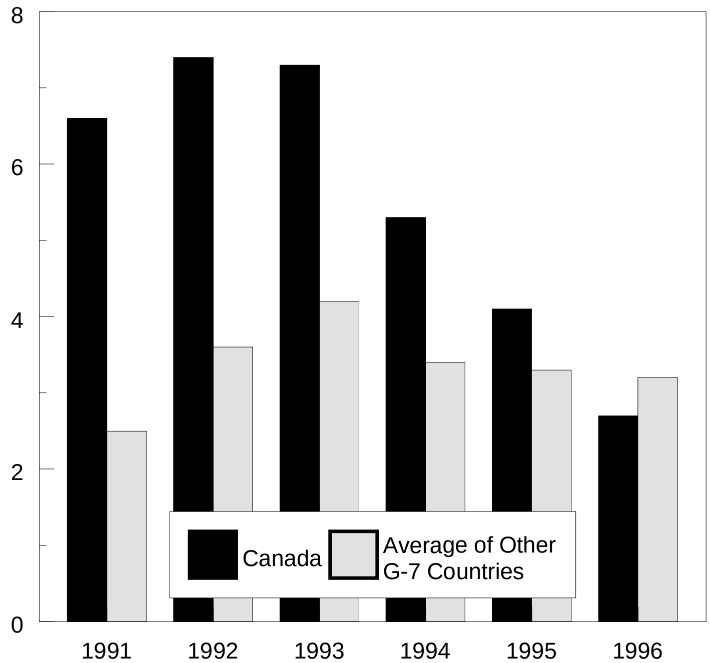
Canadian minus U.S. rates (percentage points)



Source: CIBC Wood Gundy

Canadian Governments' Deficits Fall

Total Government Deficit (per cent of GDP)

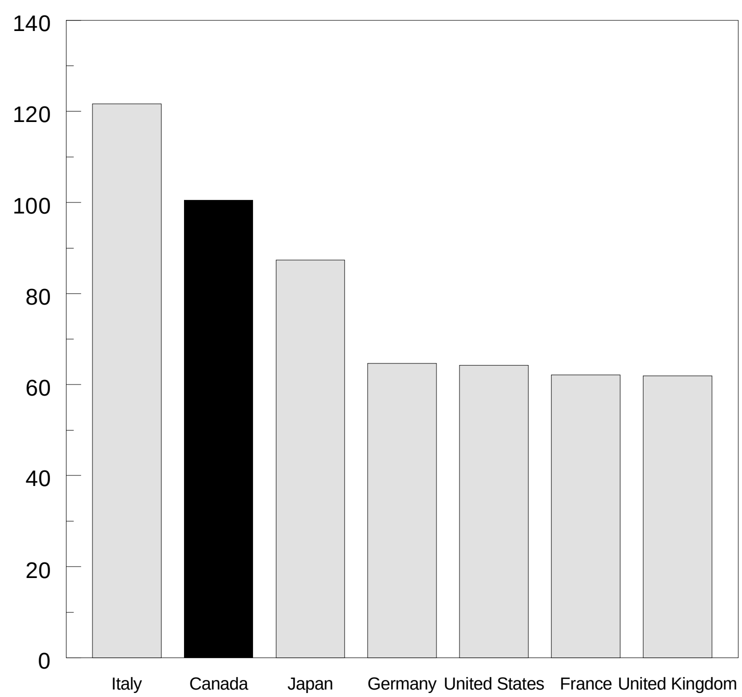


Source: Federal Department of Finance and OECD Economic Outlook, December 1996

- In the early 1990s, Canada's annual total government deficit as a share of GDP was more than double the average of the other G-7 countries.
- Deficit reduction efforts by federal and provincial governments have closed the gap. In 1996, the annual total Canadian government deficit as a share of GDP is estimated to have fallen below the G-7 average.
- The Organization for Economic Co-operation and Development (OECD) has praised Canada's deficit reduction efforts, particularly our greater emphasis on spending cuts compared to other G-7 countries.

Debt in Canada Remains A Concern

Gross Government Debt (per cent of GDP, 1996)

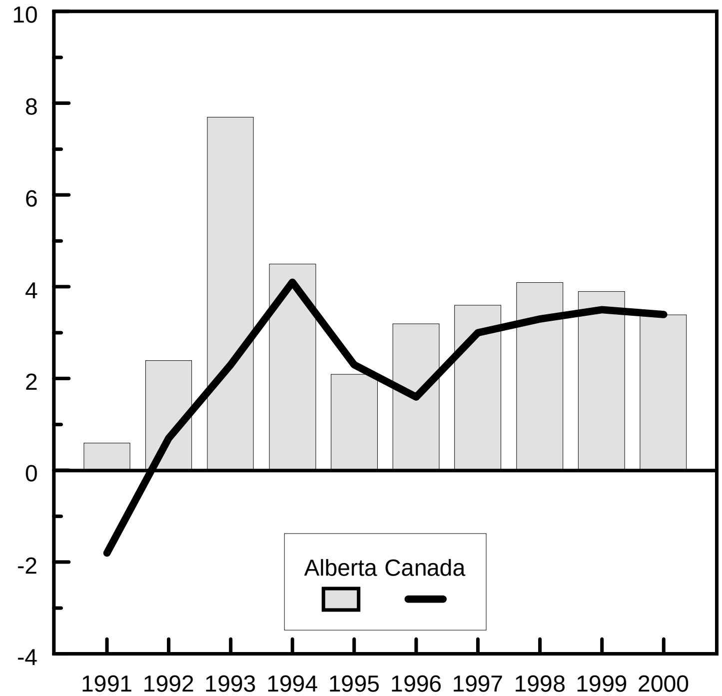


Source: OECD Economic Outlook, December 1996

- While governments in Canada have made substantial progress in reducing their annual deficits, government debt has continued to grow, and will do so until other governments begin paying down their debt like Alberta.
- Only Italy has a higher debt as a share of GDP among industrialized countries.
- Consumer debt is also high in Canada, amounting to almost 90% of personal disposable income.
- Canada's net public and private debt held by foreigners amounts to almost 44% of GDP. No other major industrialized country is as dependent on foreign capital.

Strong Economic Growth For Alberta

Alberta Real Gross Domestic Product (per cent change)

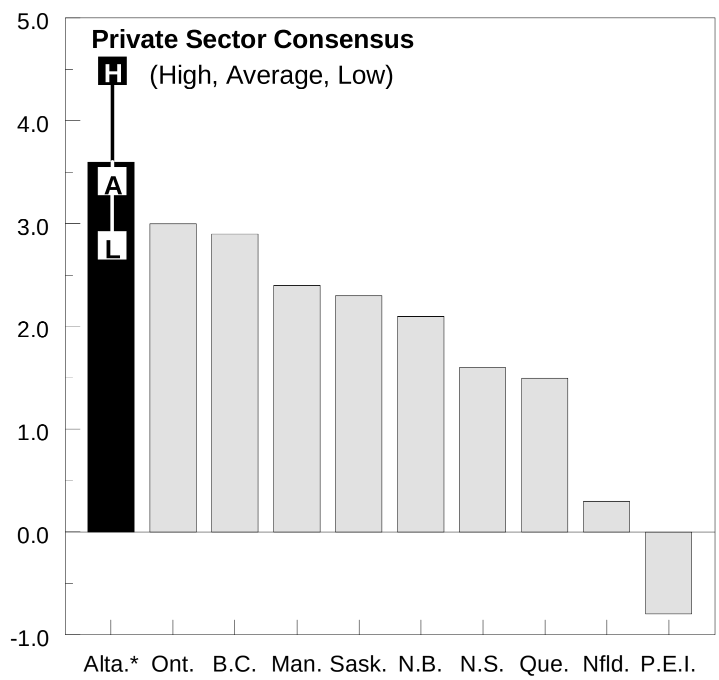


Source: Statistics Canada and Alberta Treasury

- From 1992 to 1995, the Alberta economy grew by 4.1% per year on average, nearly twice the national rate of 2.3% per year.
- Alberta's economy is estimated to have grown by 3.2% in 1996, double the national average. Growth was driven by continued strong exports and a rebound in consumer spending, housing and business investment.
- In 1997, the provincial economy is forecast to grow by 3.6%, compared to 3% for Canada as a whole.
- Over the medium term, Alberta's economy is expected to grow faster than the national economy, averaging 3.8% per year, compared to 3.4% per year for Canada.

Fastest Growing Provincial Economy

1997 Real Gross Domestic Product (per cent change)



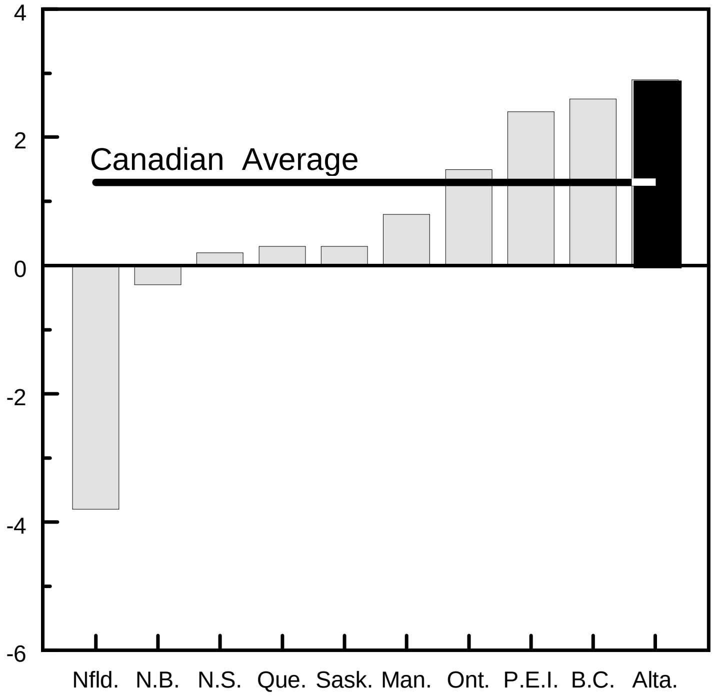
* Alberta Treasury forecast

Source: Conference Board of Canada and Alberta Treasury

- Most private sector forecasters expect Alberta to have the fastest economic growth among provinces in 1997.
- The private sector consensus is for Alberta's economy to grow by 3.4% this year, with estimates ranging from a low of 2.8% to a high of 4.5%. The government's forecast is for 3.6% real growth for the Alberta economy in 1997.

Fastest Job Growth in 1996

(per cent change in annual employment)

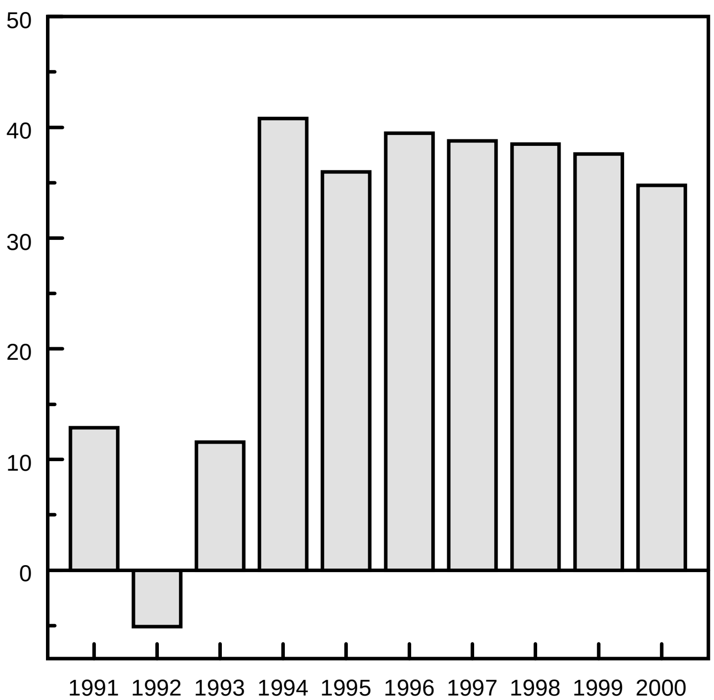


Source: Statistics Canada

- Alberta had the fastest growth in employment among provinces in 1996. Alberta had the second lowest unemployment rate at 7%, behind only Saskatchewan.
- Alberta employment increased by 39,500 jobs, or 2.9%, in 1996, well above the national average of 1.3%.
- Over 80% of the new jobs in 1996 were full time.
- Alberta, with 9% of Canada's population, created 23% of Canada's jobs in 1996.

Alberta Job Creation Continues

(change in employment, thousands)



Source: Statistics Canada and Alberta Treasury

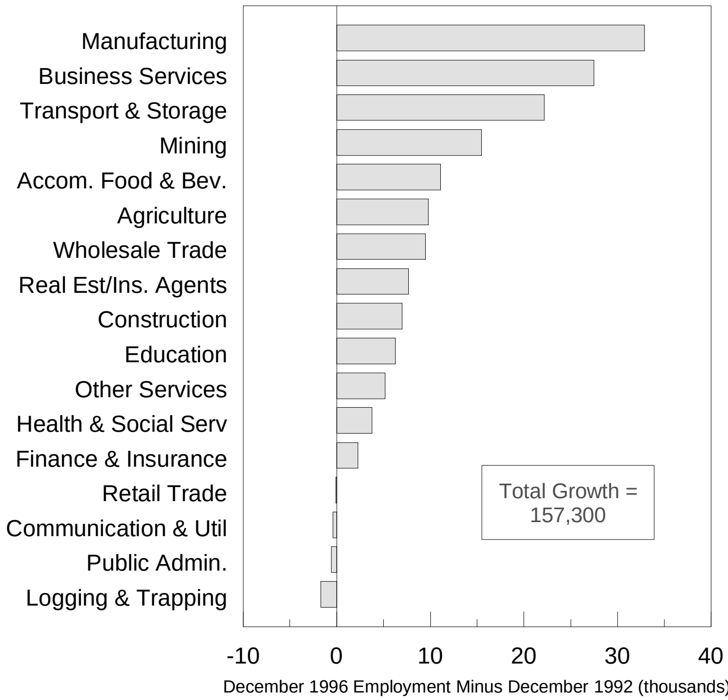
- In December 1996, 1.44 million Albertans were employed. Between December 1992 and December 1996, 157,300 net jobs were created. Over 80% of these jobs were full-time.
- In 1997, employment in Alberta is forecast to grow by 2.7%, compared to 1.9% for Canada. Job creation is expected to be broad based with the strongest sectors being manufacturing and business services.
- Over the forecast period, employment is expected to rise by about 2.5% per year on average, creating an estimated 150,000 new jobs by the year 2000.
- Alberta's new economic development strategy sets a target of 155,000 new jobs by 2000.

- The private sector has been responsible for 94% of the employment growth over the past four years.

- Industries that recorded strong employment growth included manufacturing (32,900), business services (27,500), transportation and storage (22,200), mining (15,500), and accommodation, food and beverage (11,100).

The Private Sector Leads Job Creation

Employment By Industry



Source: Statistics Canada

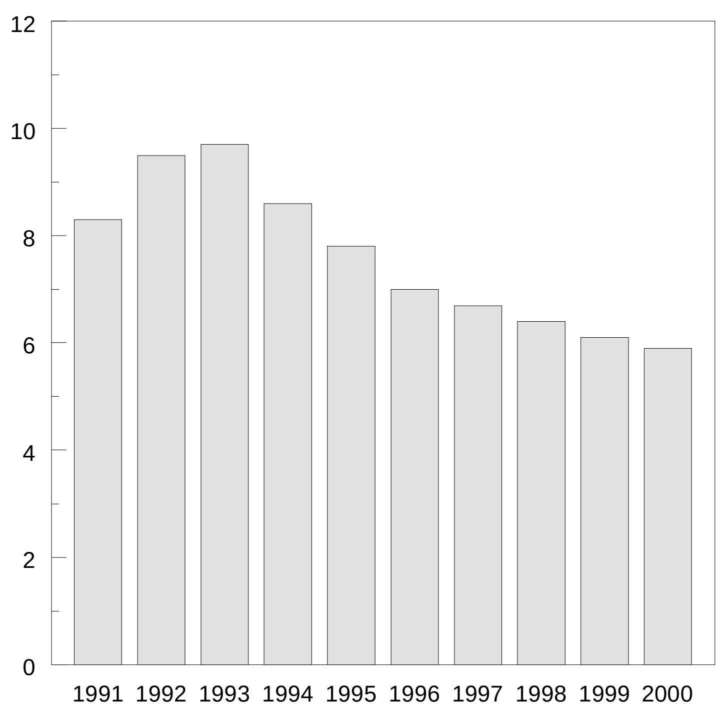
- Alberta's unemployment rate averaged 7% in 1996, down 0.8 percentage points from 1995. The national unemployment rate was 9.7% last year.

- The unemployment rate is expected to fall to 6.7% in 1997 as continued growth in employment is expected to exceed the growth in the labour force. The Canadian unemployment rate is forecast to average 9.4% this year.

- Over the forecast period, Alberta's unemployment rate is forecast to dip below 6% in 2000. The previous cyclical low was 7% in 1990. The Canadian unemployment rate is expected to improve only modestly.

Alberta's Unemployment Rate Falls

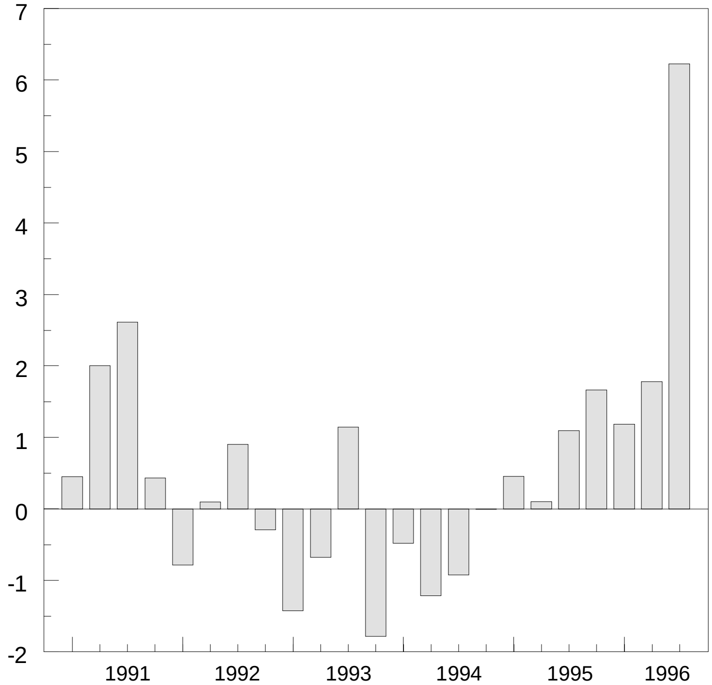
(per cent)



Source: Statistics Canada and Alberta Treasury

People Moving to Alberta

Alberta Net Interprovincial Migration (thousands)

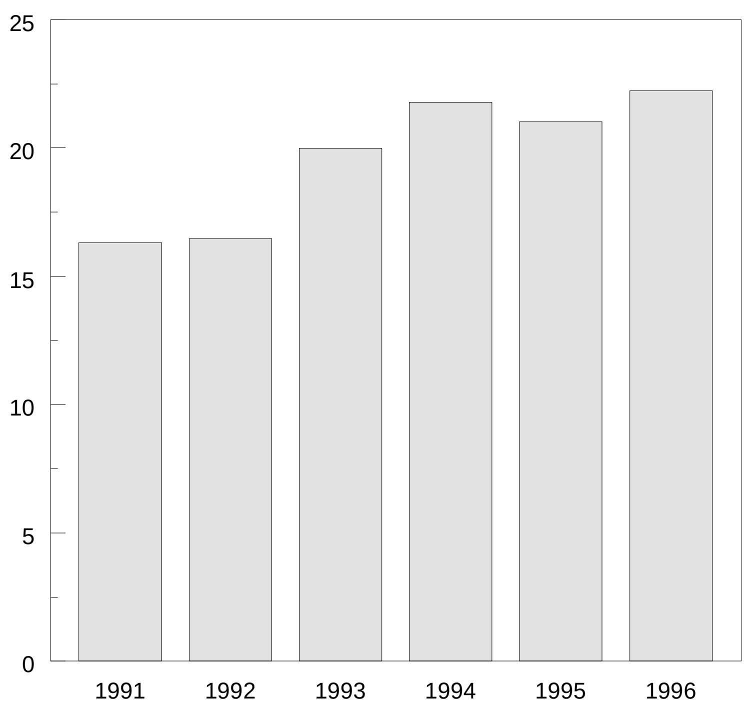


Source: Statistics Canada

- Alberta has experienced a net positive inflow of people from other provinces for seven quarters in a row. This has not happened since 1991.
- In the first three quarters of 1996, Alberta gained 9,201 people from other provinces, compared to a gain of 1,666 people in the first three quarters of 1995 and a net loss of 2,621 people in all of 1994.
- The strong turnaround in migration reflects a number of factors including strong business activity, several firms moving their headquarters to the province, the positive employment environment, and low taxation.

Record Business Incorporations

Alberta Corporate Registrations (thousands)

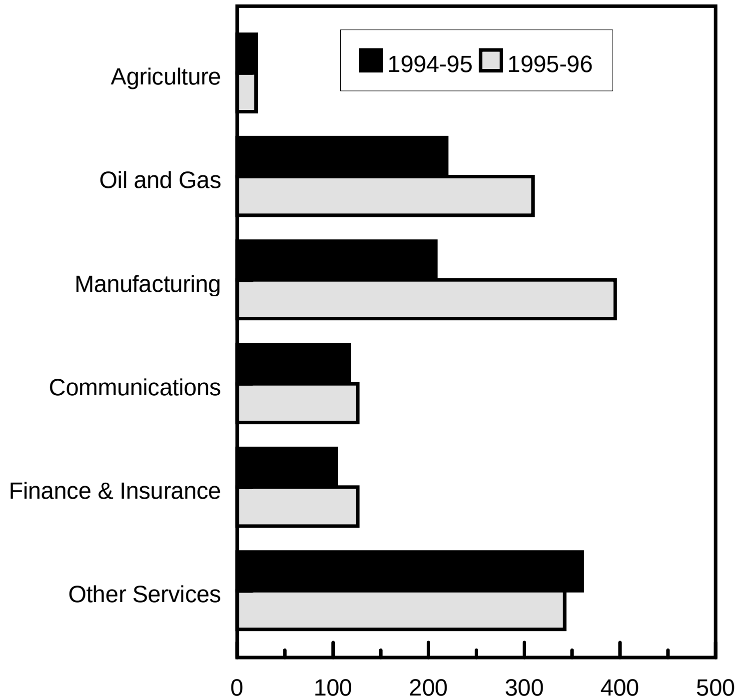


Source: Alberta Municipal Affairs

- A record 22,229 new businesses were incorporated in 1996, up nearly 6% from 1995.
- The government is committed to strengthening and enhancing the Alberta Advantage in order to ensure a positive business climate, which supports continued strong private sector business activity.
- Alberta's new economic development strategy sets a target of 24,500 business incorporations by 2000.

Alberta is Diversifying

Corporate Income Tax Payments ($ millions)

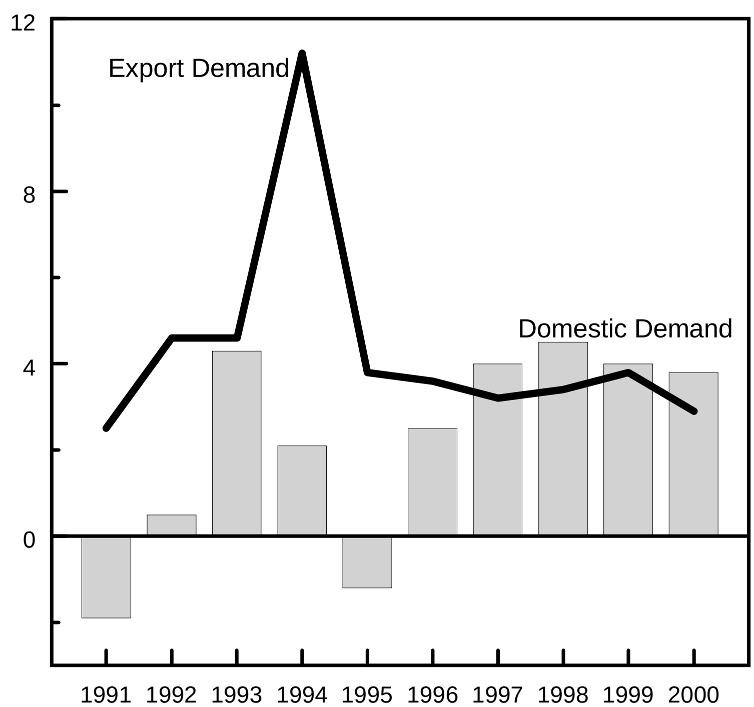


Source: Alberta Treasury

- In 1995-96, for the first time ever, Alberta received more corporate tax revenue from manufacturing than from the oil and gas sector.
- Corporate income taxes paid by manufacturing increased by 90% to nearly $400 million in 1995-96. This reflected strong performances by the petrochemical, lumber, and pulp and paper industries. As well, manufacturing industries also benefited from strong activity in the oil and gas sector.
- Taxes paid by the oil and gas industry were up 41%, driven by higher than expected oil prices in the final quarter of the 1995-96 fiscal year.

Recovery in Alberta's Domestic Sector

(per cent change)

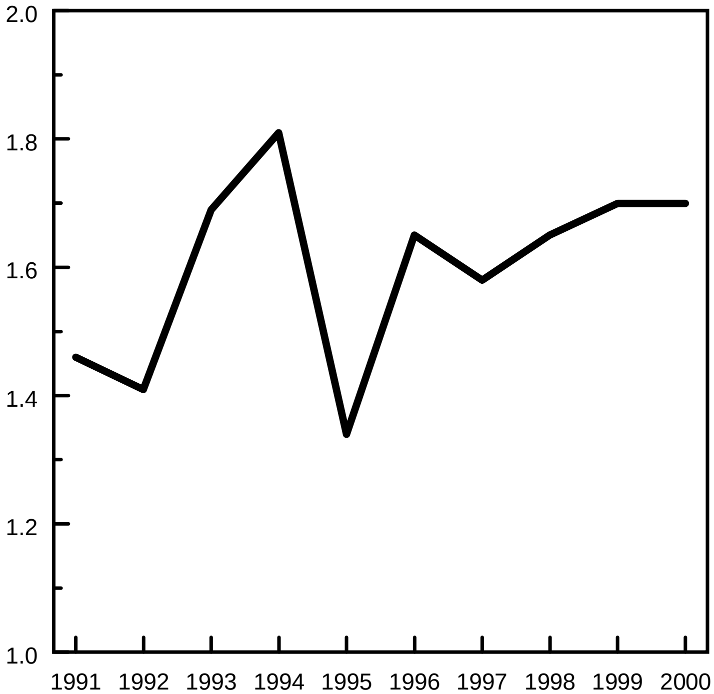


Source: Alberta Treasury

- Exports have been the major source of strength for the Alberta economy over the past six years.
- In 1996, the domestic economy (consumers, government and investment) is estimated to have rebounded, led by growth in residential construction and energy investment.
- Over the medium term, lower interest rates, increasing population and strong employment growth are expected to stimulate consumer spending.
- The phased elimination of the Machinery and Equipment tax should help boost investment.
- Exports are expected to remain strong.

Volatile Natural Gas Prices

Alberta Reference Price for Natural Gas (Cdn$/mcf)

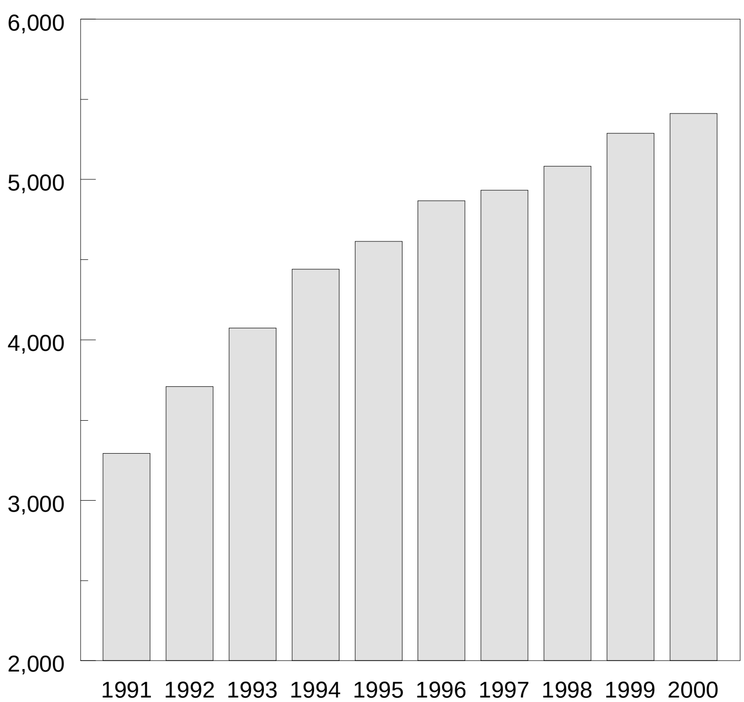


Source: Alberta Energy

- Cold weather in North America and low inventories in the United States in the last half of 1996 resulted in a sharp increase to $1.65/mcf in Alberta natural gas prices.
- In fiscal year 1997-98, gas prices are expected to decline to $1.55/mcf, reflecting a continued gas surplus in Alberta and softer U.S. gas prices.
- Long-term gas price prospects are positive, with prices rising to $1.70/mcf by 1999-2000. Increased pipeline capacity should lower Alberta's gas surplus, allowing Alberta gas prices to move closer to U.S. prices.

Alberta Gas Sales Continue To Grow

(billions of cubic feet)

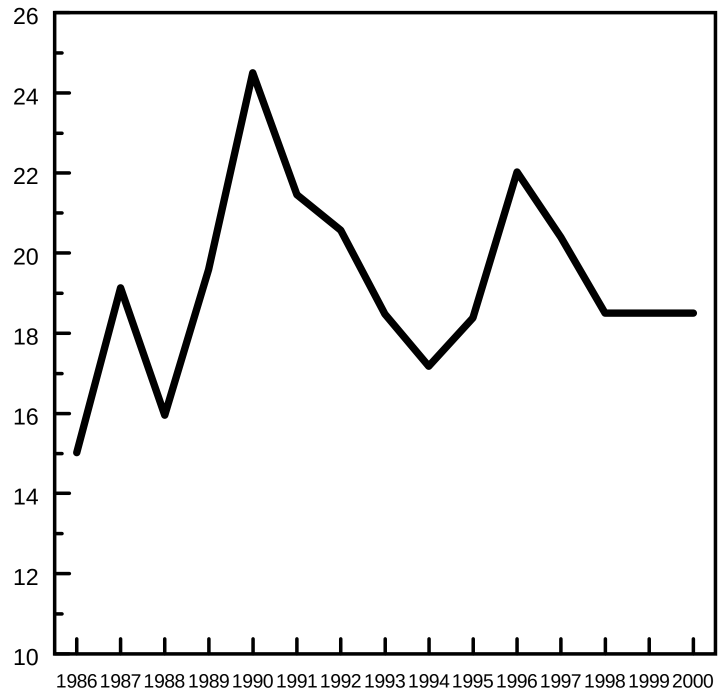


Source: Alberta Energy

- In 1996, Alberta natural gas sales increased by an estimated 5.5% to a record 4.9 trillion cubic feet. Sales within Canada grew by an estimated 11%, while exports to the United States increased by less than 1% due to pipeline constraints.
- In 1997, total gas sales are expected to increase only 1% as pipeline constraints continue to limit exports.
- In 1998 and 1999, major expansions of the Northern Border pipeline to the Midwestern U.S. and the TransCanada Pipeline to the northeastern United States are expected to boost gas exports to the United States by 3.6% per year over the 1998 to 2000 period.

World Oil Prices To Moderate

WTI Oil Price (US$/bbl)

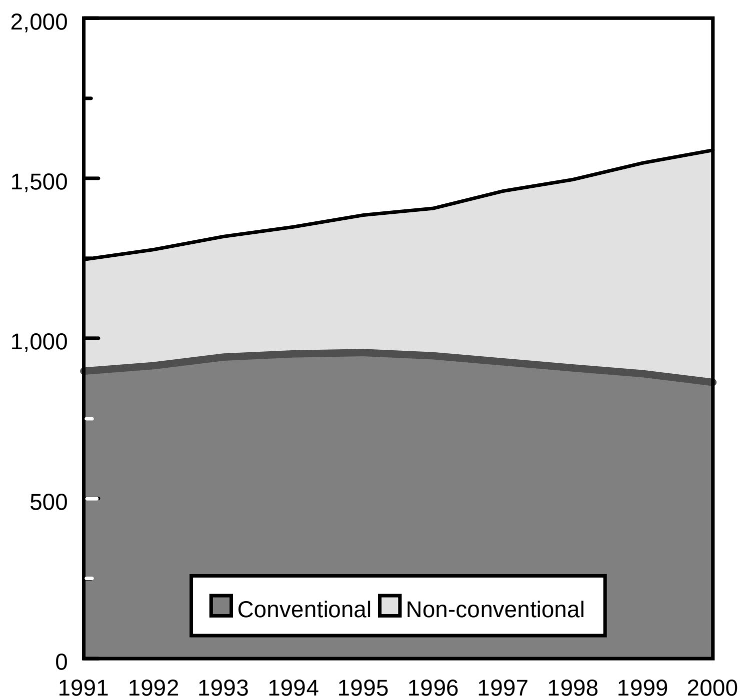


Source: Alberta Energy

- In 1996, oil prices averaged US$22.03 per barrel, over US$3.50 per barrel higher than anticipated. The absence of Iraqi oil, strong growth in world oil demand and slower than expected growth in non-OPEC oil production caused prices to surge.
- The 1996 increase in oil prices is not expected to last. Increased supply of oil from OPEC and non-OPEC producers is expected to dampen oil prices over the medium term.
- Oil prices are expected to average US$19 per barrel in fiscal year 1997-98 and US$18.50 per barrel over the medium term.

Alberta's Total Oil Output to Grow

(thousands of barrels per day)

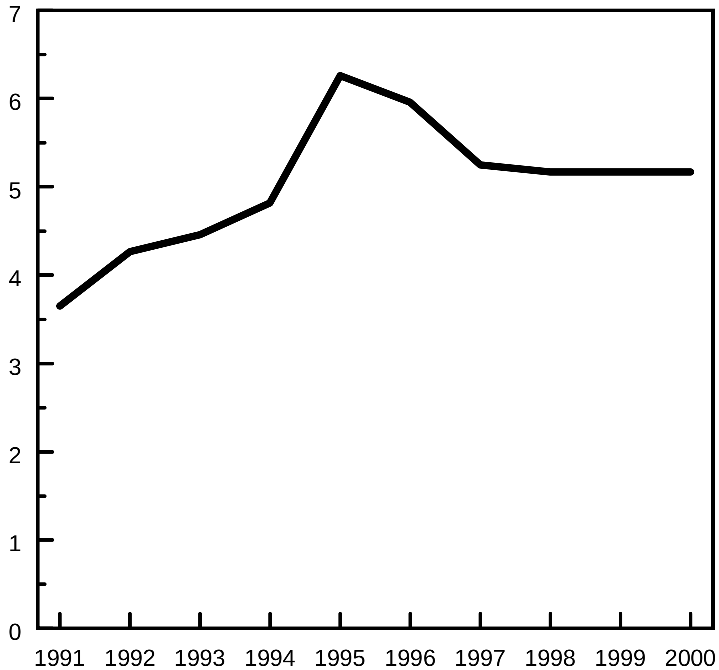


Source: Alberta Energy

- In 1996, Alberta's crude oil production grew by an estimated 1.5%. Non-conventional (synthetic and bitumen) production is estimated to have increased by 6%, while conventional production declined by about 1%.
- Total oil production is expected to grow by an average of about 3% per year from 1997 to 2000, led by strong growth in bitumen production. Non-conventional production will more than offset a decline of around 3% per year in conventional production.
- Plans for more than $6 billion of oil sands investment over the next five years have been announced. Alberta's new generic royalty regime for oil sands development is contributing to the pick-up in investment.

Wheat Prices To Remain Firm

Canada Western Red Spring Wheat (Cdn$ per bushel)



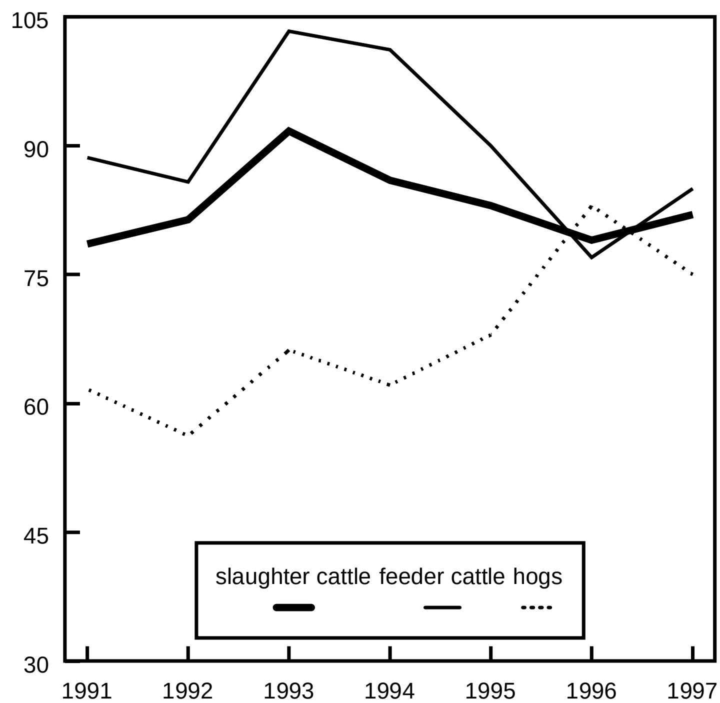
Crop Years: July 31 - Aug 31

Source: Canada Wheat Board, The WEFA Group, Alberta Agriculture

- The price of wheat and other cereal grains has risen sharply since 1991.
- A larger than anticipated global crop weakened prices in 1996. Chicago wheat futures prices peaked in May 1996 at US$7.17/bushel (Cdn$9.82) and were trading around US$3.85/bushel (Cdn$5.21) in early January 1997.
- Wheat prices are expected to soften in 1997, given a return to normal crop yields, particularly in the United States. Over the medium term, prices should remain firm because of rising world demand.

Cattle Prices Should Pick Up

(Cdn$ per 100 lbs)



Source: Alberta Agriculture, Food and Rural Development

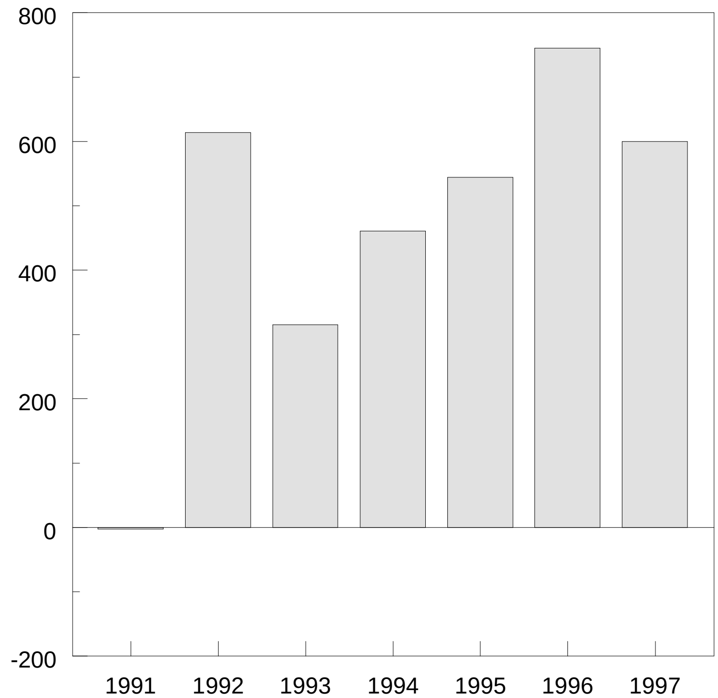
- Cattle prices peaked in 1993 and have since weakened due to increasing North American beef production. 1997 should see an upturn in cattle prices.
- Hog prices rose markedly in 1996, but are expected to trend lower in 1997, due largely to high inventories, particularly in the United States.
- In 1997, livestock producers are expected to benefit from lower feed grain costs.

- Net realized farm income was a record \$745 million in 1996, 37% higher than the 1995 level. A strong performance in the grain and hog sectors more than offset lower government program payments and weaker cattle prices.

- In 1997, net realized farm income is expected to be \$600 million, 12% above the five-year average. Crop receipts are expected to fall from the record 1996 level because of lower cereal grain prices. This should be partly offset by an increase in livestock receipts arising from higher cattle prices and lower feed costs.

Farm Income Should Remain High

Alberta Net Realized Farm Income (\$ millions)



Source: Alberta Agriculture, Food and Rural Development

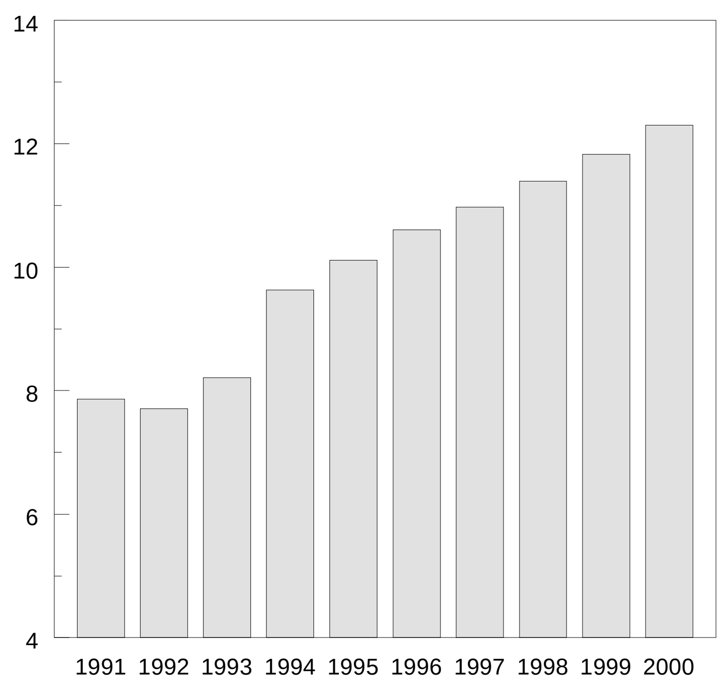
- Manufacturing exports enjoyed an exceptional year in 1994 when major forestry projects came on stream.

- In 1996, manufacturing exports rose by an estimated 4.9%, led by exports of petroleum and coal products and food and beverage sales.

- Manufacturing exports are expected to grow by about 3.5% to 4% per year over the forecast period, reflecting continued strong demand for petrochemicals, pulp, lumber and other forest products.

Alberta Manufacturing Exports Healthy

Alberta Real Manufacturing Exports* (1986\$ billions)

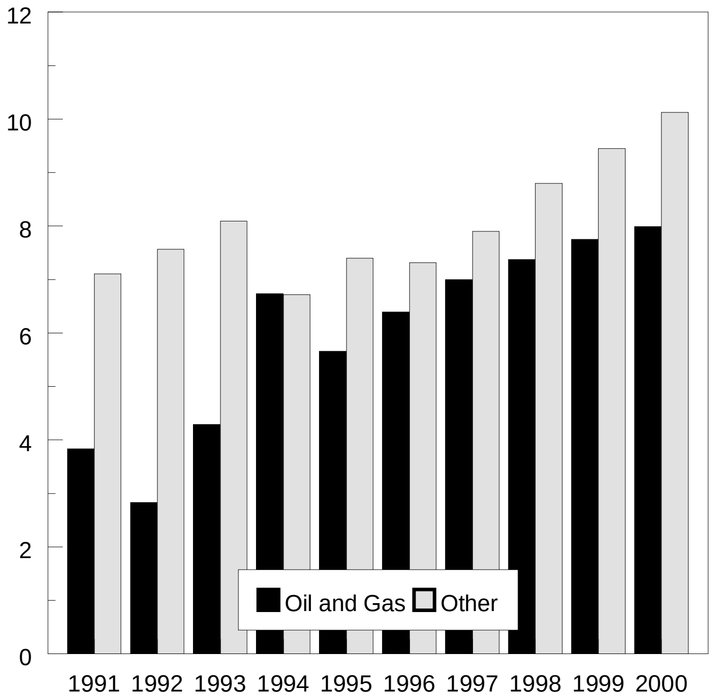


* includes international and interprovincial manufacturing exports

Source: Statistics Canada and Alberta Treasury

Strong, Balanced Investment Growth

Alberta Real Business Investment (1986$ billions)

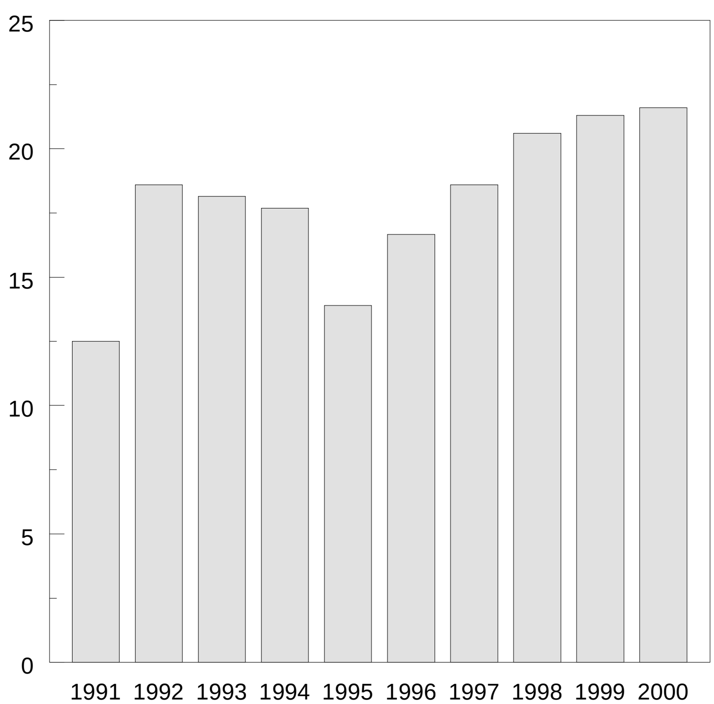


Source: Statistics Canada and Alberta Treasury

- In 1996, total real business investment grew by an estimated 5%, led by a 13% increase in energy investment.
- Over the forecast period, energy investment is expected to increase by 5.7% per year, based on the moderate oil price outlook and reflecting, in part, a positive response to the province's generic oilsands royalty regime and federal tax changes. There are plans for over $6 billion in oilsands investment.
- Investment by other industries is expected to grow by 8.5% per year. The petrochemical industry proposes to invest more than $2.8 billion over the next five years.
- The phase-out of the province's Machinery and Equipment tax is encouraging investment growth.

Housing Market Expected To Pick Up

Alberta Housing Starts (thousands of units)



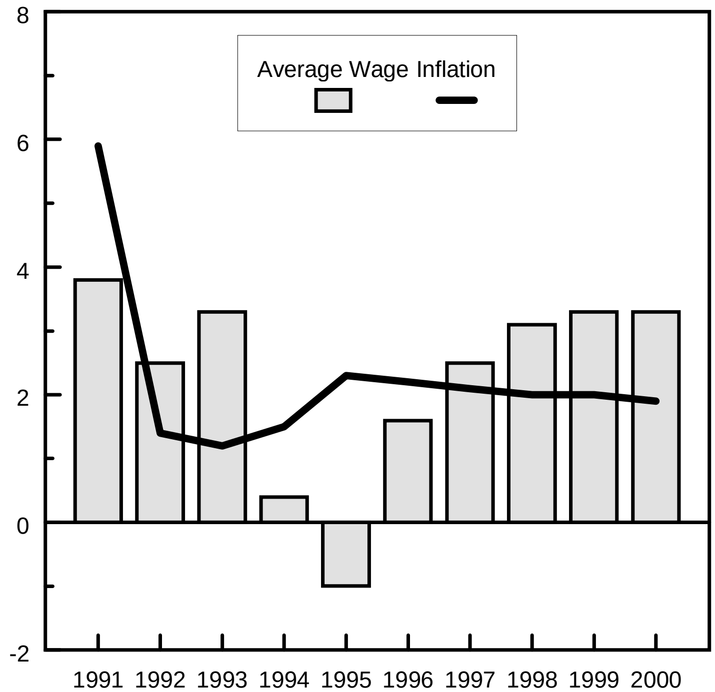
Source: Statistics Canada and Alberta Treasury

- In 1996, housing starts in Alberta totalled 16,665, up 20% from 1995.
- Housing starts are expected to increase in 1997 to 18,600 units, a 12% rise, as a result of low interest rates and continued strong growth in employment and interprovincial migration.
- Over the medium term, housing starts in Alberta are expected to increase moderately, reflecting continued population, employment and personal income growth.

- Restraint in both the public and private sectors has kept a lid on Alberta wages over the past few years.
- Average wages in Alberta rose by an estimated 1.6% in 1996, which was below the rate of inflation.
- Wages are expected to increase by 2.5% in 1997 and about 3.2% per year on average from 1998 to 2000, about one percentage point higher than inflation.

Real Alberta Wage Growth

(per cent change)

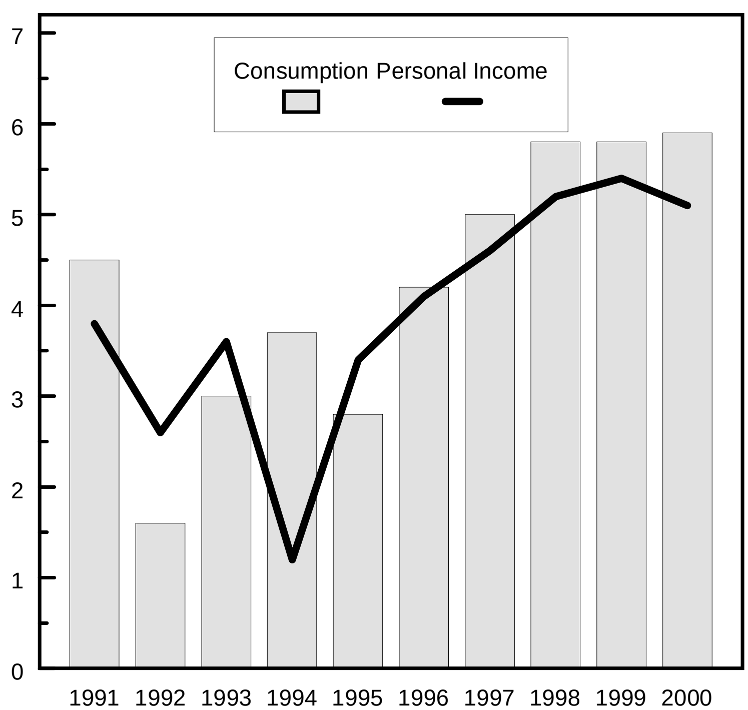


Source: Statistics Canada and Alberta Treasury

- In 1996, personal income, which includes all forms of income, is estimated to have grown by just over 4%. Consumer spending increased by an estimated 4.2%.
- In 1997, personal income is expected to increase somewhat faster, at 4.6%, based on wage gains of 2.5% and employment gains of 2.8%, offset by slower growth in interest income. Consumers are expected to increase their spending by 5%.
- Employment growth and moderate wage gains are expected to keep income growth just over 5% over the medium term. Consumer spending is expected to grow somewhat faster.

Alberta Consumer Spending To Improve

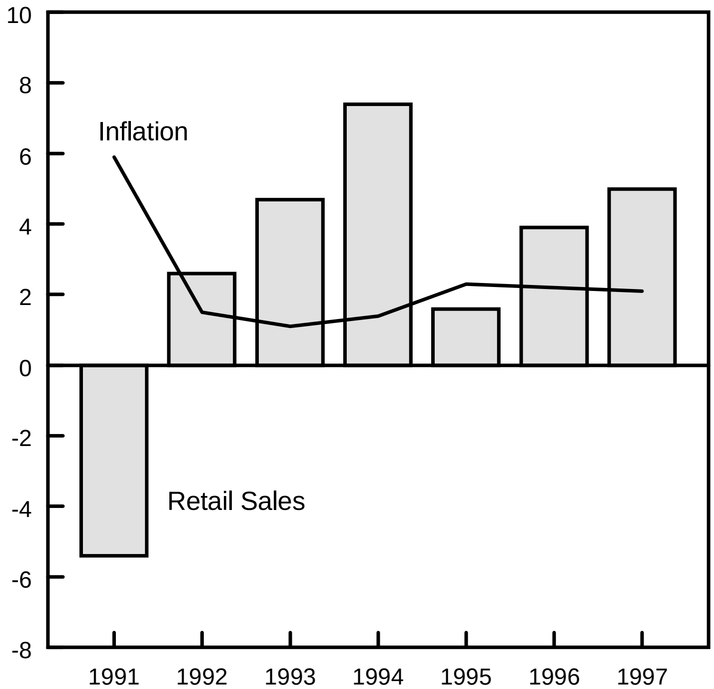
(per cent change)



Source: Alberta Treasury

Alberta Retail Sales Recovering

(per cent change)

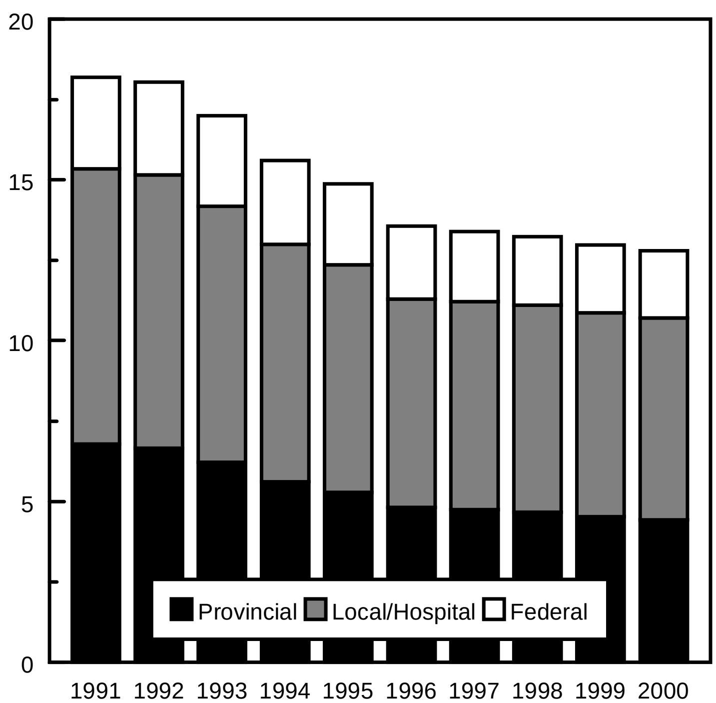


Source: Statistics Canada

- Alberta leads the country in retail sales per capita.
- Retail sales in Alberta are strengthening. In 1996, retail sales in Alberta rose by an estimated 3.9%, more than double the national increase of 1.9%. During the same period, retail sales in British Columbia rose by only 1.4% and fell in Ontario by 0.7%.
- Growth in retail sales is expected to be around 5% in 1997, more than twice the rate of inflation.

Less Government In The Economy

(per cent of Alberta GDP)



Source: Alberta Treasury

- Government spending consists of outlays made by federal, provincial, local governments and hospitals on wages and salaries and other administrative expenses. It does not include transfers to persons or capital spending.
- In 1991, the spending by all three levels of government in Alberta as a share of GDP reached a record of 18%.
- Governments' share of the economy is forecast to decline to below 13% by the year 2000, its lowest share since 1981.
- Despite the decline in spending by all governments as a share of GDP, the overall Alberta economy grew the second fastest after Prince Edward Island from 1992 to 1996.

Province of Alberta
Key Energy and Economic Assumptions [a]

UPDATED

Fiscal Year Assumptions	1994-95 Actual	1995-96 Actual	1996-97	1997-98	1998-99	1999-2000
Prices						
Oil price[b]						
WTI (US$/bbl)	18.08	18.66	22.84	18.50	18.50	18.50
Alberta wellhead (Cdn$/bbl)	20.91	22.35	28.32	21.87	21.28	20.79
Natural gas price[b]						
Alberta wellhead (Cdn$/mcf)	1.62	1.39	1.76	1.55	1.65	1.70
Exchange rate (US¢/Cdn$)	72.4	73.4	73.5	75.0	76.0	77.0
Production						
Crude oil and equivalent (000's barrels/day)	1,488	1,512	1,532	1,615	1,655	1,696
Natural gas (billions of cubic feet)	4,506	4,605	4,941	4,910	5,060	5,240
Interest rates[c]						
3-month Canada Treasury Bills	6.46	6.33	3.68	4.30	5.00	5.00
10-year Canada Bonds	9.28	7.93	6.99	7.00	7.00	7.00

a As required by the Government Accountability Act, 1995.

b Combined resource revenue and corporate income tax for budget planning purposes must, by law, be estimated at the lesser of the five-year average or 90% of forecast. The numbers for 1997-98, 1998-99 and 1999-2000 are the assumed prices before deducting revenue cushions.

c For debt servicing calculations, appropriate Alberta spreads are applied to Government of Canada yields.

Calendar Year Assumptions	1995 Actual	1996	1997	1998	1999	2000
Gross Domestic Product						
Nominal (millions of dollars)	85,611	93,796	97,047	100,972	106,769	112,133
per cent change	2.4	9.6	3.5	4.0	5.7	5.0
Real (millions of 1986 dollars)	76,502	78,940	81,767	85,082	88,432	91,452
per cent change	2.1	3.2	3.6	4.1[a]	3.9[a]	3.4[a]
Other Indicators						
Employment (thousands)	1,373	1,413[b]	1,452	1,490	1,528	1,563
per cent change	2.7	2.9[b]	2.7	2.7	2.5	2.3
Unemployment rate	7.8	7.0[b]	6.7	6.4	6.1	5.9
Housing Starts (number of units)	13,906	16,665[b]	18,600	20,600	21,300	21,600
Consumer Price Index (per cent change)	2.3	2.2[b]	2.1	2.0	2.0	1.9

a For revenue forecasting purposes, 3.6% real GDP growth was assumed for 1997 and 2% real GDP growth was assumed for 1998, 1999 and 2000.

b Actuals.

Sensitivities to Fiscal Year Assumptions, 1997-98

UPDATED

	Change	Revenue	Spending	Surplus
	Sensitivities[a] ($ millions)			
Oil Price (WTI US$/bbl)	-$1.00	-190	—	-190
Natural Gas Price (Cdn$/mcf)	-10¢	-134	—	-134
Exchange Rate (US¢/Cdn$)	+1¢	-45	-29	-16
Interest Rates	+1%	+9	+27	-18
Real Gross Domestic Product[b]	-1%	-68	—	-68

[a] Sensitivities are based on current assumptions on prices and rates and show the impact for a full 12 month period. Sensitivities can vary significantly at different price and rate levels. The interest rate sensitivity is also affected by the timing of changes during the fiscal year.

[b] Net change in income taxes: under the federal formula, lower personal and corporate income tax revenues increase the cash portion of the Canada Health and Social Transfer.

Risks to the Forecast

UPSIDE RISKS

- Oil prices may not fall by as much as assumed if world crude oil demand remains strong and/or new production is slower to come onstream. This would lead to stronger than anticipated economic growth and higher than expected resource revenue.

- Positive mood resulting from Alberta's debt reduction and growing Alberta Advantage could lead to more investment and more people moving to Alberta than expected. This would translate into faster economic growth and higher personal income tax revenue offset partially by more pressure on government services.

DOWNSIDE RISKS

- Higher interest rates could increase debt servicing costs and reduce economic activity. Reasons why interest rates could be higher than expected are**:** (1) emergence of inflationary pressures in the United States which would cause the Federal Reserve to increase interest rates putting upward pressure on Canadian rates, (2) re-emergence of political uncertainty surrounding Quebec, (3) inability of the Federal, Quebec and Ontario governments to deliver on deficit reduction promises.

- The inherent volatility of oil and gas prices could produce a sharper than expected price reduction. This could have a negative psychological effect on investing in Alberta and hurt economic growth. Alberta's fiscal position should be relatively stable given the legal requirement to have revenue cushions.

- Faster rise in the value of the Canadian dollar could adversely affect Alberta's export growth and provincial revenues from oil and natural gas.

- The U.S. economy, after six years of economic growth, may enter a recession in the next three years, which would lower Alberta exports, investment and employment. However, the impact on income tax revenues would be minimized by the assumption for 1998, 1999 and 2000 of 2% real GDP growth for revenue purposes.

Oil Price Forecast Benchmark

(West Texas Intermediate, US$/bbl)

Organization	1997	1998	1999	2000
National Forecasting Agencies				
Conference Board of Canada (Dec/96)	23.03	23.44	24.34	25.34
DRI/McGraw-Hill (Nov/96)	19.68	19.26	18.99	18.63
The WEFA Group (Oct/96)	21.61	21.23	21.98	22.72
Investment Houses				
BT Bank (Jan/97)	22.60	19.74	19.18	19.25
CS First Boston (Dec/96)	20.00	18.50	17.50	17.50
Goldman Sachs (Jan/97)	20.50	20.50	21.50	22.50
Lehman Brothers (Jan/97)	19.50	19.00	n.a.	n.a.
JP Morgan (Jan/97)	21.20	n.a.	n.a.	n.a.
RBC Dominon Securities (Oct/96)	20.00	20.00	n.a.	n.a.
Peters and Company (Jan/97)	21.00	21.00	n.a.	n.a.
Industry Analysts				
ARC Financial Corporation (Dec/96)	20.00	19.00	19.00	21.00
Petroleum Industry Research Associates (Dec/96)	19.60	n.a.	n.a.	n.a.
High	23.03	23.44	24.34	25.34
Low	19.50	18.50	17.50	17.50
Average	20.73	20.17	20.36	20.99
Alberta Government (calendar year)	20.40[a]	18.50[a]	18.50[a]	18.50[a]

[a] Resource revenue and corporate income tax for budget planning purposes must, by law, be estimated at the lesser of the five-year average or 90% of the current forecast. The numbers for 1997-98, 1998-99 and 1999-00 are the assumed prices before revenue cushions.

Natural Gas Price Forecast Benchmark

Alberta Average Wellhead Gas Price (Cdn$/mcf)

Organization	1997	1998	1999	2000
ARC Financial Corporation (Dec/96)	1.75	1.78	1.88	2.03
Gilbert Lausten Jung Associates (Jan/97)	1.65	1.70	1.85	2.00
Peters and Company (Jan/97)	1.65	1.65	n.a.	n.a.
Levesque Beaubien Geoffrion (Jan/97)	1.55	1.60	n.a.	n.a.
Midland Walwyn (Dec/96)	1.60	1.65	n.a.	n.a.
RBC Dominion Securities (Jan'97)	1.65	1.70	n.a.	n.a.
High	1.75	1.78	1.88	2.03
Low	1.55	1.60	1.85	2.00
Average	1.64	1.68	1.87	2.02
Alberta Government (calendar year)	**1.58**[a]	**1.68**[a]	**1.70**[a]	**1.70**[a]

[a] Resource revenue and corporate income tax for budget planning purposes must, by law, be estimated at the lesser of the five-year average or 90% of the current forecast. The numbers for 1997-98, 1998-99 and 1999-00 are the assumed prices before revenue cushions.

Canadian Short-Term Interest Rate Forecast Benchmark
(3-month Canadian Treasury Bills)

Organization	1997	1998	1999	2000
National Forecasting Agencies				
Conference Board of Canada (Dec/96)	2.77	2.77	3.41	4.01
DRI McGraw-Hill (Dec/96)	3.21	4.24	4.80	4.45
The WEFA Group (Jan/97)	3.14	4.01	4.36	3.97
Banks				
Bank of Montreal (Jan/97)	2.78	n.a.	n.a.	n.a.
Canadian Imperial Bank of Commerce (Jan/97)	3.75	3.70	4.10	4.60
Royal Bank (Dec/96)	2.90	3.30	n.a.	n.a.
Scotiabank (Jan/97)	3.70	n.a.	n.a.	n.a.
Toronto Dominion Bank (Dec/96)	2.65	2.60	n.a.	n.a.
Other				
Scotia Capital Markets (Jan/97)	3.06	n.a.	n.a.	n.a.
CIBC Wood Gundy (Jan/97)	3.10	n.a.	n.a.	n.a.
Nesbitt Burns (Jan/97)	3.44	4.24	n.a.	n.a.
High	3.75	4.24	4.80	4.60
Low	2.65	2.60	3.41	3.97
Average	3.14	3.55	4.17	4.26
Alberta Government (calendar year)	**3.94**	**4.94**	**5.00**	**5.00**

Canadian Long-Term Interest Rate Forecast Benchmark
(10-Year Government of Canada Bond Yield)

Organization	1997	1998	1999	2000
National Forecasting Agencies				
Conference Board of Canada (Dec/96)	6.09	5.48	5.45	5.65
DRI McGraw-Hill (Dec/96)	6.86	7.07	6.84	6.72
The WEFA Group (Jan/97)	6.24	5.71	5.67	5.62
Banks				
Bank of Montreal (Jan/97)	5.83	n.a.	n.a.	n.a.
Canadian Imperial Bank of Commerce (Jan/97)	7.05	6.70	6.70	6.95
Royal Bank (Dec/96)	6.40	6.90	n.a.	n.a.
Scotiabank (Jan/97)	7.10	n.a.	n.a.	n.a.
Other				
Scotia Capital Markets (Jan/97)	6.70	n.a.	n.a.	n.a.
CIBC Wood Gundy (Jan/97)	6.64	n.a.	n.a.	n.a.
Nesbitt Burns (Jan/97)	6.49	5.73	n.a.	n.a.
High	7.10	7.07	6.84	6.95
Low	5.83	5.48	5.45	5.62
Average	6.54	6.27	6.17	6.24
Alberta Government (calendar year)	**6.56**	**7.00**	**7.00**	**7.00**

Alberta Real Gross Domestic Product Forecast Benchmark

(per cent change)

Organization	1996	1997	1998	1999	2000
National Forecasting Agencies					
Conference Board of Canada (Oct/96)	2.9	3.2	2.7	n.a.	n.a.
DRI McGraw-Hill (Oct/96)	2.3	3.2	3.7	2.7	2.9
The WEFA Group (Sep/96)	2.6	2.8	2.9	2.9	3.0
Banks					
Bank of Montreal (Oct/96)	2.3	3.0	n.a.	n.a.	n.a.
Canadian Imperial Bank of Commerce (Dec/96)	2.5	3.5	2.5	n.a.	n.a.
Royal Bank (Nov/96)	1.7	3.3	4.0	n.a.	n.a.
Scotiabank (Jan/97)	2.0	4.5	n.a.	n.a.	n.a.
Toronto Dominion Bank (Oct/96)	2.2	2.8	2.1	n.a.	n.a.
Other					
Canada Mortgage and Housing (Jan/97)	3.0	4.2	4.5	n.a.	n.a.
Nesbitt Burns (Nov/96)	2.4	3.5	n.a.	n.a.	n.a.
High	3.0	4.5	4.5	2.9	3.0
Low	1.7	2.8	2.1	2.7	2.9
Average	2.4	3.4	3.2	2.8	3.0
Alberta Government (calendar year)	**3.2**	**3.6**	**4.1**[a]	**3.9**[a]	**3.4**[a]

[a] For revenue forecasting purposes, 3.6% real GDP growth was assumed for 1997 and 2% real GDP growth was assumed for 1998, 1999 and 2000.

Canada/United States Exchange Rate Forecast Benchmark

(US¢/Cdn$)

Organization	1997	1998	1999	2000
National Forecasting Agencies				
Conference Board of Canada (Dec/96)	74.60	76.00	76.00	75.40
DRI McGraw-Hill (Dec/96)	74.42	76.18	78.82	78.62
The WEFA Group (Jan/97)	73.82	74.45	75.34	76.88
Banks				
Bank of Montreal (Jan/97)	76.60	n.a.	n.a.	n.a.
Canadian Imperial Bank of Commerce (Jan/97)	75.00	76.50	77.00	77.50
Royal Bank (Dec/96)	75.50	77.70	n.a.	n.a.
Scotiabank (Jan/97)	74.50	n.a.	n.a.	n.a.
Toronto Dominion Bank (Dec/96)	75.23	76.45	n.a.	n.a.
Other				
Scotia Capital Markets (Jan/97)	75.78	n.a.	n.a.	n.a.
CIBC Wood Gundy (Jan/97)	73.33	n.a.	n.a.	n.a.
Nesbitt Burns (Jan/97)	75.90	83.00	n.a.	n.a.
High	76.60	83.00	78.82	78.62
Low	73.33	74.45	75.34	75.40
Average	74.97	77.18	76.79	77.10
Alberta Government (calendar year)	**74.75**	**75.75**	**76.75**	**77.75**

Tracking the Forecasts of Oil Prices

West Texas Intermediate (US$/bbl)

Organization	How Did They Do 1996[a]	What They Were Saying About 1997 in Budget '96[b]	What They Are Saying About 1997 in Budget '97[b]
Actual	**22.03**		
ARC Financial Corporation	-3.53	18.50	20.00
Conference Board of Canada	-3.63	18.94	23.03
CS First Boston	-3.03	19.00	20.00
DRI/McGraw-Hill	-3.59	17.71	19.68
Goldman Sachs	-3.53	18.50	20.50
JP Morgan	-4.33	16.70	21.20
Lehman Brothers	-5.28	n.a.	19.50
Peters & Company	-4.03	18.00	21.00
Petroleum Industry Research Associates	-5.43	16.00	19.60
RBC Dominon Securities	-4.03	18.00	20.00
The WEFA Group	-2.53	20.60	21.61
Average	-3.90	18.20	20.56
Alberta Government (calendar year)	**-3.53**	**18.50**	**20.40**

[a] This compares an organization's forecast for 1996 at the time of Budget '96 to what actually happened. A minus sign indicates underestimation; a plus sign indicates overestimation.

[b] This shows how the forecast for 1997 has changed over the last year.

Tracking the Forecasts of Alberta Real GDP

(per cent change)

Organization	How Did They Do 1995[a,b]	What They Were Saying About 1996 in Budget '96[c]	What They Are Saying About 1996 in Budget '97[c]
Actual	**2.1**		
Bank of Montreal	+0.4	2.8	2.3
Canada Mortgage and Housing Corporation	+0.3	2.4	3.0
Canadian Imperial Bank of Commerce	+0.5	2.3	2.5
Conference Board of Canada	+0.7	2.7	2.9
DRI/McGraw-Hill	-0.4	1.0	2.3
Nesbitt Burns	+0.8	2.6	2.4
Royal Bank	-0.2	1.8	1.7
Scotiabank	+0.9	2.6	2.4
Toronto Dominion Bank	+0.1	2.1	2.2
Average	0.5	2.3	2.4
Alberta Government (calendar year)	**+0.2**	**2.5**	**3.2**

[a] This compares an organization's forecast for 1995 at the time of Budget '96 to what actually happened. A minus sign indicates underestimation; a plus sign indicates overestimation; an averaging technique is used which treats overestimation the same as underestimation to prevent one from cancelling out the other.

[b] 1995 is the latest year for actual real GDP data.

[c] This shows how the forecast for 1996 has changed over the last year.

Announced Major Projects Over $100 Million

Proposed or Under Construction

Company Name	Location	Type of Project	Cost ($millions)	Timing
OIL AND GAS				
Alberta Energy Co.	Primrose, Foster Creek	In situ Bitumen Project	$213	1996-99
Amoco Canada Petroleum	Primrose, Wolf Lake	In situ Bitumen Expansion	$500	1996-00
	Brintnell	In situ Bitumen Project	$100	1996-00
CS Resources	Christina Lake	In situ Bitumen Project	$250	1997-00
Elan Energy	Lindbergh, Cold Lake, Wolf Lake, Elk Point	In situ Bitumen Expansion	$225	1996-00
Express Pipelines	Hardisty, AB to Casper, WY	Natural Gas Pipeline	$530	1996-97
Gulf Canada	Surmont	In situ Bitumen Project	$215	1996-00
Imperial Oil	Cold Lake	In situ Bitumen Plant Expansion - Phases 1-10	$250	1996-97
	Cold Lake	In situ Bitumen Plant Expansion - Phases 11-13	$450	1997-00
	Cold Lake	In situ Bitumen Plant Expansion Phases 14-15	$300	1999-00
InterProvincial Pipelines	Hardisty, AB to Chicago, IL	Oil Pipeline Expansion Phase 2	$540	1997-98
	Edmonton, AB to Hardisty, AB	Oil Pipeline Expansion	$140	1996-97
Japan Canada Oilsands	Hangingstone	In situ Bitumen Project	$197	1997-04
Koch Exploration Canada	Reita Lake	In situ Bitumen Expansion	$200	1996-98
Murphy Oil	Lindbergh	In situ Bitumen Project	$157	1996-99
Shell	Lease 13	Oil Sands Mining Project	$815	1997-??
	Peace River	In situ Bitumen Expansion	$160	1996-02
Solv-Ex Corporation	Bitumount	Surface Mining and Mineral Extraction	$170	1996-98
Suncor	Fort McMurray	Upgrader and Plant Modifications	$320	1997-01
	Fort McMurray	Steepbank Mine - New Bitumen Mine	$336	1997-01
	Primrose-Burnt Lake	In situ Bitumen Project	$122	1996-00
Syncrude Canada	Fort McMurray	North Mine - New Bitumen Mine and Upgrader Debottlenecking	$500	1996-98
	Fort McMurray	Aurora Mine Trains 1&2 - New Bitumen Mine and Upgrader Debottlenecking	$1,600	1998-05
TransCanada Pipelines	Various locations	Mainline Improvements Project	$263	1997-98

Announced Major Projects Over $100 Million

Proposed or Under Construction

Company Name	Location	Type of Project	Cost ($millions)	Timing
PETROCHEMICALS				
Alberta BioClean Fuels	Strathcona County	Automotive Fuel Additive Plant	$535	1997-99
AT Plastics Inc.	Edmonton	Co-Polymer Plant Expansion	$120	1996-98
Dow Chemical Canada	Fort Saskatchewan	Ethylene Plant Expansion	$200	1997-99
	Fort Saskatchewan	Polyethylene Plant	$140	1997-99
Nova	Joffre	Ethylene Derivatives Plant	$400	1998-00
Nova and Union Carbide	Joffre	Ethylene Plant	$825	1997-00
Union Carbide	Prentiss	Polyethylene Plant	$270	1998-00
FORESTRY				
Alberta Newsprint	Whitecourt	Expanded Capacity & Second Paper Machine Expansion	$500	Proposed
Alberta-Pacific Forest	Athabasca	Paper Mill	$700	Proposed
Daishowa-Murubeni Co.	Peace River	Paper Mill and Chemi-Thermo Mechanical Pulp Mill	$900	1998-01
Grand Alberta Paper	Grande Prairie Area	Pulp and Light Weight Coated Paper Mill	$900	1998-00
Slave Lake Pulp Corp.	Slave Lake	Chemi-Thermo Mechanical Pulp Mill Expansion - Second Phase	$200	1997-98
OTHER				
Calgary Regional Airport Authority	Calgary	Airport Improvements (3 stages)	$650	Proposed
Camrose Developments	Edmonton	New Power Centre	$250	Proposed
Stone Creek Properties	Canmore	Hyatt Hotel/Resort Complex	$650	1995-99

Alberta Advantage

The Alberta Advantage

For families and businesses, the Alberta Advantage means …

- a strong and vibrant economy
- a young, skilled and productive workforce
- a strong science and technology culture
- a highly entrepreneurial and competitive business community
- the lowest overall tax level of any province in the nation, and no sales tax
- an efficient and modern infrastructure
- an abundance of high quality natural resources
- clean air and water, breathtaking scenery and culturally diverse communities with a quality of life second to none
- a government committed to less regulation
- a fiscally responsible government, which is paying down debt

The following pages illustrate elements of the Alberta Advantage. Where possible, the most recent five-year average is shown to demonstrate that Alberta has over time maintained a consistent advantage.

Business speaks on the Alberta Advantage …

"This is what we refer to as the "Alberta Advantage" and it is more than just the inherent entrepreneurial spirit and abundance of natural resources. It is a balanced budget, ... no sales tax, low personal and corporate income tax, competitive property tax, ... construction expertise, a skilled workforce, [and a] ... progressive labour environment...."
President, Dow Chemical Canada Inc.

"[O]n the "Alberta Advantage", we currently enjoy ... competitive raw materials, an experienced workforce and a favorable climate for doing business."
President & CEO, AT Plastics Inc.

"A positive investment climate and reasonable taxation rates enhanced our decision to expand in Alberta."
President, Stream-Flo Industries Ltd.

"Excellent labour pool, both in terms of skill and willingness to work."
Sales Manager, Borden Chemical, Canada

"Our operating costs are among the lowest in the world."
President, Albchem Industries

"The cost of living ... is good, which makes movement and transfer of employees easier, and makes for harmonious family life."
Division Manager, John Deere Ltd.

... the Alberta Advantage is working

Firms that have recently located to or expanded in Alberta, or have announced similar plans:

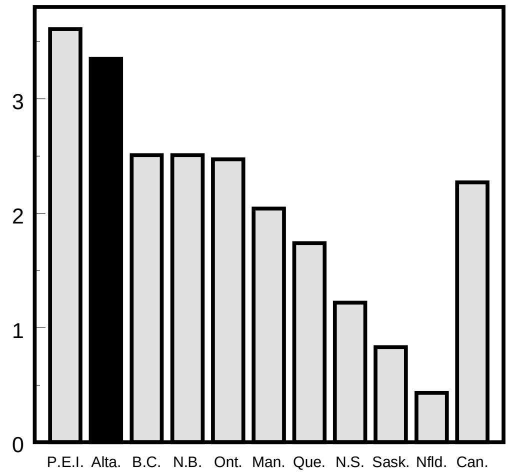
Canadian Pacific Railways, Nova/ Union Carbide, Suncor, Syncrude,Gulf Canada Resources, CXY Chemicals, AMOCO, Dow Chemical Canada, BioClean Fuels Inc., AT Plastics, Dairyworld, Westcoast Energy Inc., Telus Corp (telemarketing centre), Solv-Ex, Westaim, Lipkey Fine Foods, Inland Cement, Bulk Tec International, CN Rail (Traffic Control Centre), Canyon Creek Food Company Ltd., Cancarb, Camelot Superabsorbants, Agri-Partners, Nortel, Fletcher's Fine Foods, Weyerhaeuser Canada, Sunpine Forest Products Ltd., Daishowa-Maribueni International Ltd., Shoppers Drug Mart, Lakeside Packers, and Laporte PLC (Raylo Chemicals).

A list of over three dozen private-sector projects each valued over $100 million can be found in the chapter on the "Economic Overview".

... the economy:
Strong and vibrant

Real Economic Growth

1992-96 Average Annual Growth in GDP (per cent)*

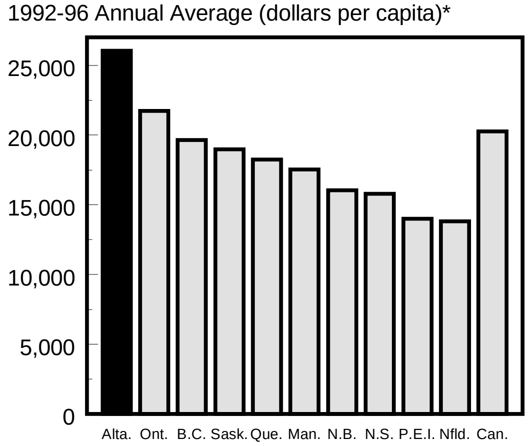


*1996 projected rates
Source: Statistics Canada, Alberta Treasury and Conference Board of Canada

- Alberta's economic growth rate was second only to that of Prince Edward Island over the past five years.
- In 1996, Alberta's real output grew by an estimated 3.2%, the second fastest among the provinces.

Real GDP Per Capita

1992-96 Annual Average (dollars per capita)*

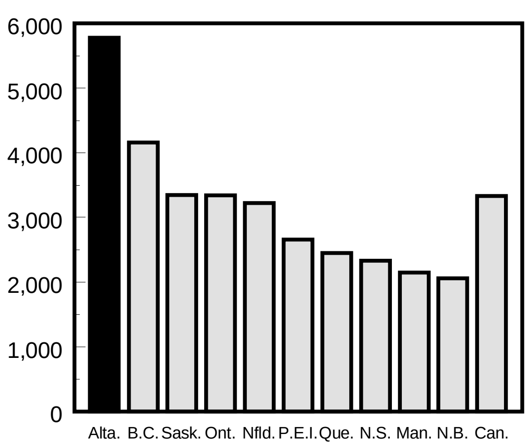


*1996 projected rates
Source: Statistics Canada, Alberta Treasury and Conference Board of Canada

- Alberta has the highest real GDP per capita among the provinces.
- Since 1992, Alberta's real GDP per capita has averaged 17% higher than second place Ontario.

Investment Per Capita

1992-96 Average Annual (dollars per capita)



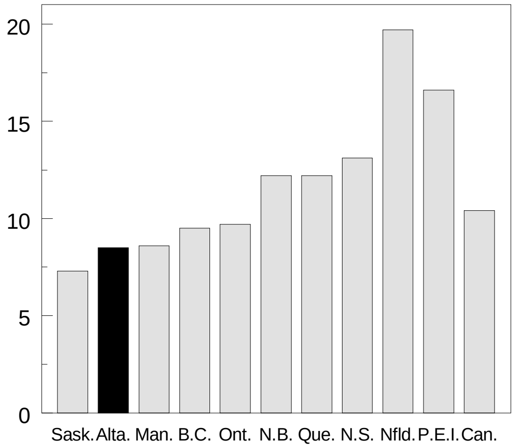
Source: Statistics Canada

- For decades, Alberta has led all provinces in private sector capital investment per person.

- Over the past five years, Alberta's average unemployment rate of 8.5% was the second lowest among the provinces.
- Alberta's 1996 average unemployment rate of 7% was also second lowest among the provinces.

Unemployment Rate

1992-96 Annual Average (per cent)

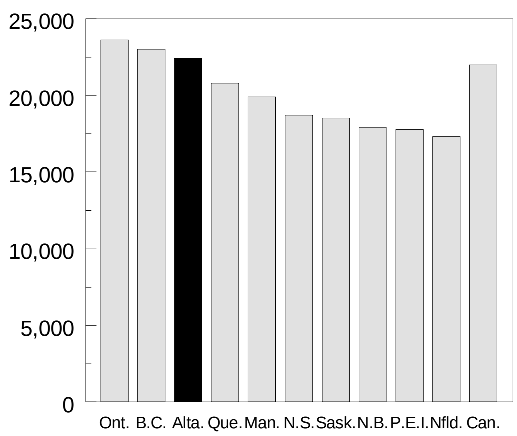


Source: Statistics Canada

- Albertans have the third highest personal income per person, before taxes, among the provinces.
- Albertans, on average, bear the lowest provincial tax load by a wide margin.
- Alberta's cost of living is the lowest.

Personal Income

1991-95 Annual Average (dollars per capita)

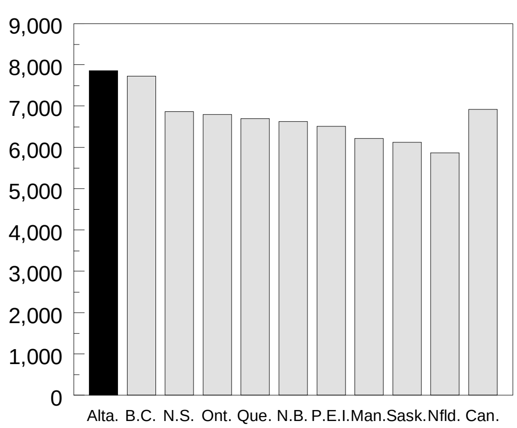


Source: Statistics Canada and Alberta Treasury

- Alberta has the highest retail sales per person of any province.

Retail Sales Per Capita

1992-96 Annual Average (dollars per capita)*



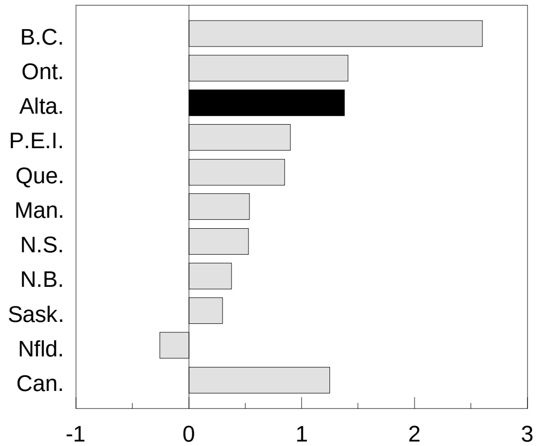
*January to November 1996

Source: Statistics Canada

... the people:
Young, skilled and productive

Population

1992-96 Average Annual Growth (per cent)

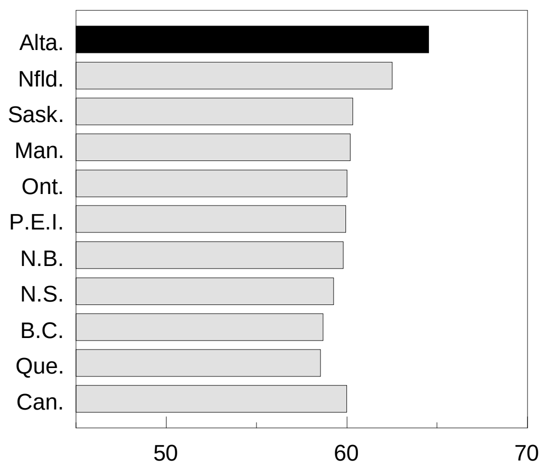


Source: Statistics Canada

- Over the past five years, Alberta had the third fastest growing population among the provinces.

Share of Population Under 40

1992-96 Annual Average (per cent of total population)

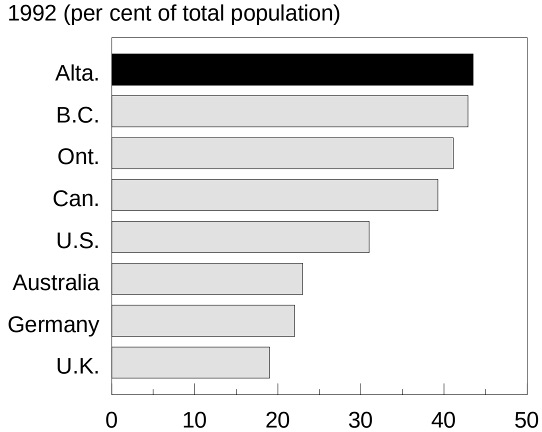


Source: Statistics Canada

- Alberta has the youngest population among the provinces.
- Nearly two-thirds of Albertans are under the age of 40.

Population Aged 25-64 With a Post-Secondary Education

1992 (per cent of total population)



Source: Statistics Canada (1991) and OECD (1992)

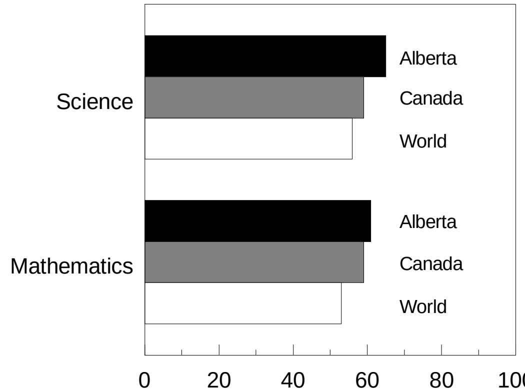
- Alberta has one of the best educated work forces.
- Approximately 44% of Alberta's work force holds a post-secondary certificate, diploma, or university degree, according to the most recent data.

- Alberta students performed better than the average student in the Third International Mathematics and Science Study administered in forty countries between 1994 and 1996.

- Alberta will keep monitoring student performance to make sure Alberta students can compete with the best in the world.

Grade 8 Student Performance

(Achievement Results--Overall % Correct)

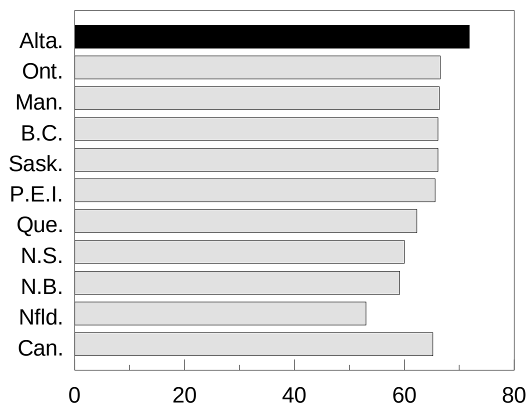


Source: International Association for the Evaluation of Educational Achievement

- Alberta has the highest labour force participation rate, 5 percentage points higher than second place Ontario.

Participation Rate

1992-96 Annual Average (per cent)*



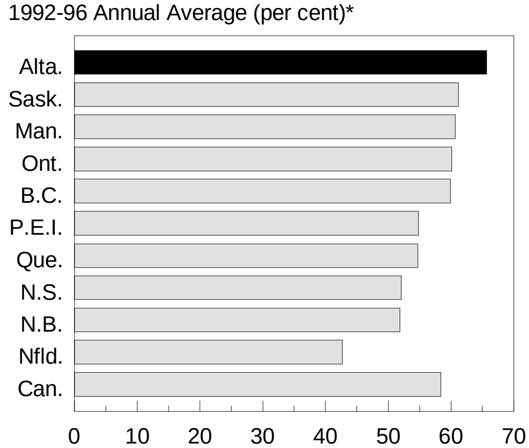
*The participation rate is the total of those employed and looking for work divided by the working population.

Source: Statistics Canada

- Compared to other provinces, more Albertans are working relative to the size of our working age population.

Employment / Population Ratio

1992-96 Annual Average (per cent)*

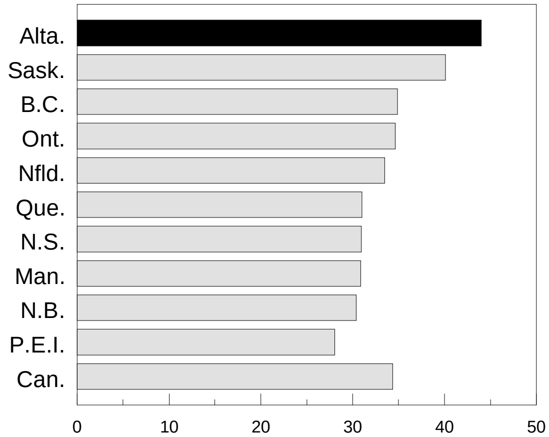


*The employment/population ratio is the total of those employed divided by the working population.

Source: Statistics Canada

Labour Productivity

1992-96 Annual Average (real GDP dollars per hour worked)*



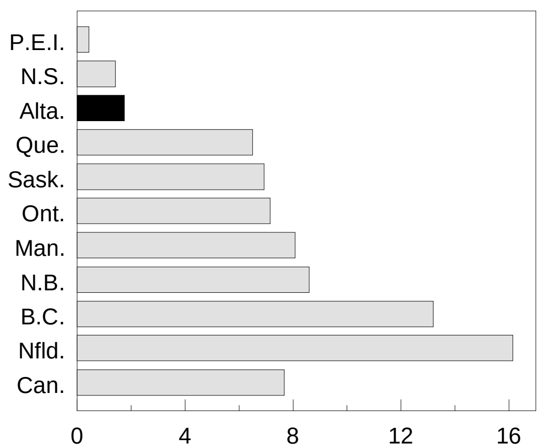
*1996 projected rates

Source: Statistics Canada, Alberta Treasury and Conference Baord of Canada

- Compared with the other provinces, Albertans are the most productive, as measured by real GDP dollars per hours worked.

Labour Record

1992-96 Average (person days lost / 10,000 person days worked)*



*1996 projected rates

Source: Statistics Canada and Human Resources Development Canada

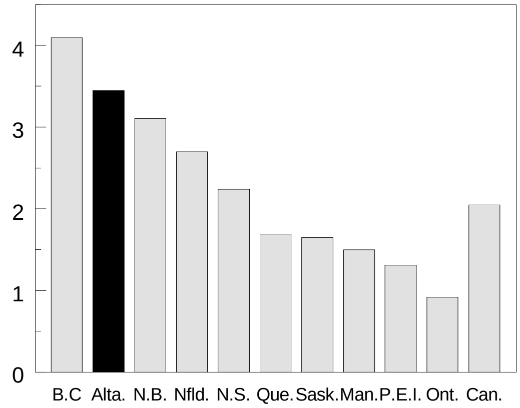
- Alberta has one of the best labour records in Canada in terms of fewer work stoppages due to labour disputes.

… the businesses: Entrepreneurial, competitive and advanced

- Since 1992, Alberta's growth in businesses (net change in the number of incorporated and unincorporated firms) has been the second fastest among the provinces.
- In 1996, the number of businesses in Alberta grew the fastest among the provinces.

Business Sector Growth

1992-96 Annual Average (per cent)*

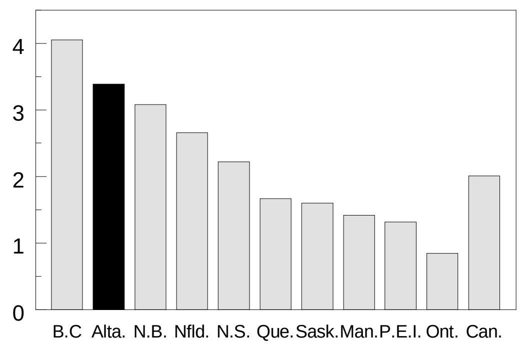


*The business sector includes all incorporated and unincorporated firms, except self-employed and single person firms.
Source: Statistics Canada

- Since 1992, the small business growth rate (net change in the number of incorporated and unincorporated firms with less than 50 employees) in Alberta has been the second fastest among the provinces.
- In 1996, the number of small businesses in Alberta grew the fastest among the provinces.

Small Business Sector Growth

1992-96 Annual Average (per cent)*

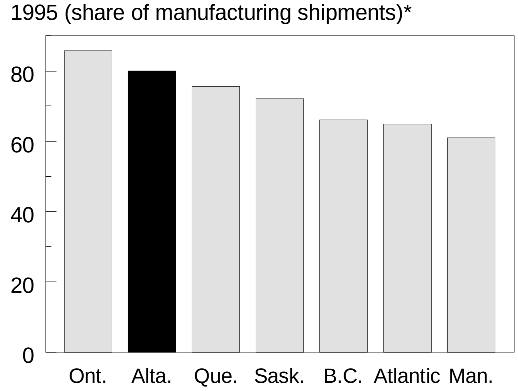


*The small business sector includes incorporated and unincorporated firms with less than 50 employees, except self-employed and single person firms.
Source: Statistics Canada

- 80% of Alberta's manufacturing shipments are produced by businesses using at least one advanced technology.

Advanced Technologies Adopted

1995 (share of manufacturing shipments)*

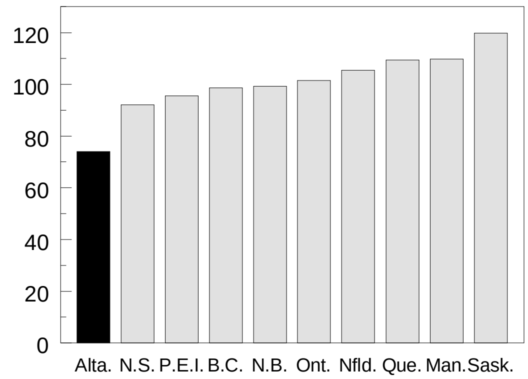


*Manufacturing shipments produced by firms with advanced technologies
Source: Statistics Canada

... the lowest overall taxes:
Leaving more dollars in the hands of Albertans

Total Provincial and Municipal Tax Load

1996-97 (per cent of the Canadian average)



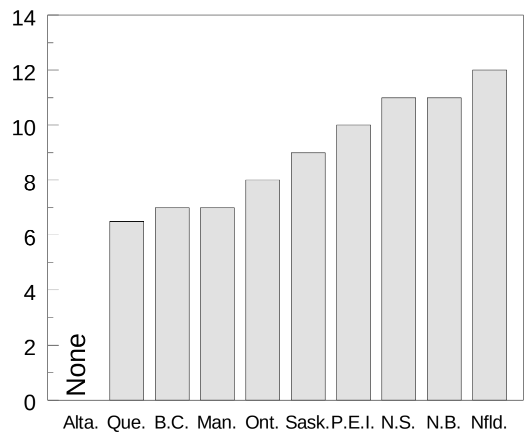
Source: Federal Department of Finance

- The Alberta government is committed to strengthening Alberta's tax advantage.
- Alberta has the lowest combined provincial and municipal tax burden among the provinces.

Retail Sales Tax Rates

The Alberta Taxpayer Protection Act requires a referendum before a retail sales tax could be introduced.

As of January 23, 1997 (per cent)

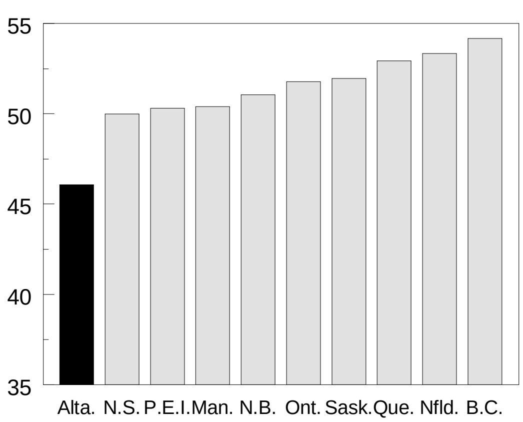


Source: Alberta Treasury

- Alberta has no retail sales tax.

Combined Top Marginal Personal Income Tax Rates

As of January 23, 1997*



*Federal and provincial income taxes as a per cent of income
Source: Alberta Treasury

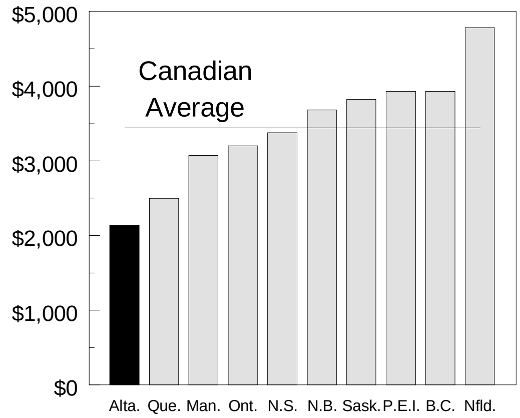
- Alberta has the lowest top marginal personal income tax rate among the provinces.
- In Alberta top income earners can keep more than 50% of their last dollar earned.

◆ In Alberta, a typical one-income family earning $30,000 pays the lowest combined provincial taxes and health care insurance premiums in Canada, about 40% below the Canadian average.

Family Earning $30,000

Taxes and Health Care Insurance Premiums

(One-income family; two children ages 8 and 10)



Source: Alberta Treasury

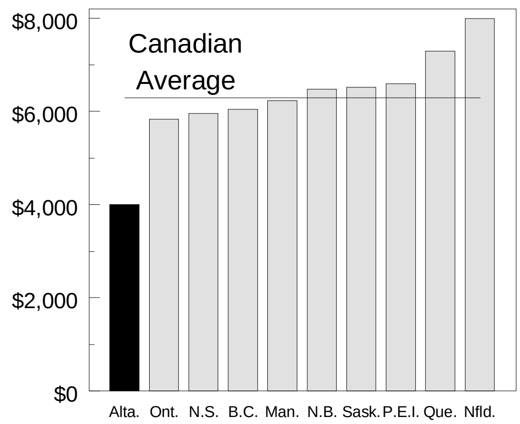
These graphs compare provincial income, sales, payroll, fuel and tobacco taxes, and health care insurance premiums payable by a family as of January 23, 1997.

◆ In Alberta, a typical two-income family earning $55,000 pays the lowest combined provincial taxes and health care insurance premiums in Canada, over 35% below the Canadian average.

Family Earning $55,000

Taxes and Health Care Insurance Premiums

(Two-income family; two children ages 8 and 10)



Source: Alberta Treasury

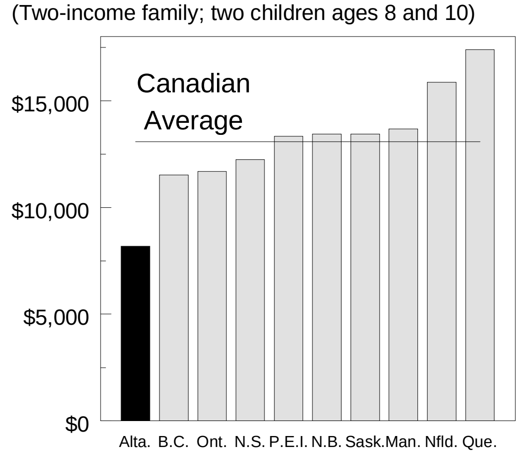
Alberta families, on average, pay over 35% less in provincial taxes and health care insurance premiums.

◆ In Alberta, a typical two-income family earning $100,000 pays the lowest combined provincial taxes and health care insurance premiums in Canada, over 35% below the Canadian average.

Family Earning $100,000

Taxes and Health Care Insurance Premiums

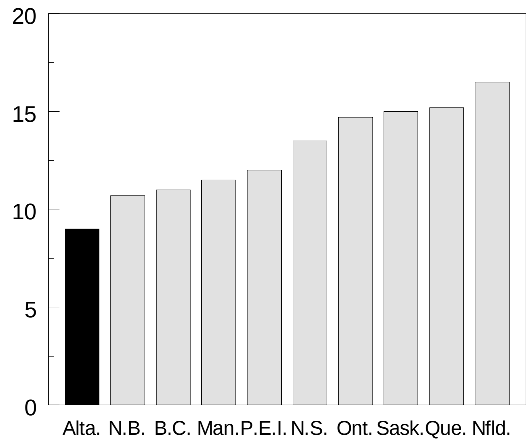
(Two-income family; two children ages 8 and 10)



Source: Alberta Treasury

Gasoline Excise Tax Rates

As of January 23, 1997 (cents per litre)

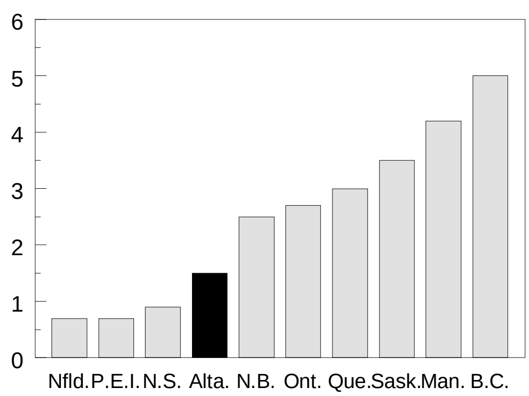


Source: Alberta Treasury

- Alberta has the lowest gasoline excise tax rate among the provinces, about two cents per litre below that of the second lowest province.

Domestic Aviation Fuel Tax Rates

As of January 23, 1997 (cents per litre)*



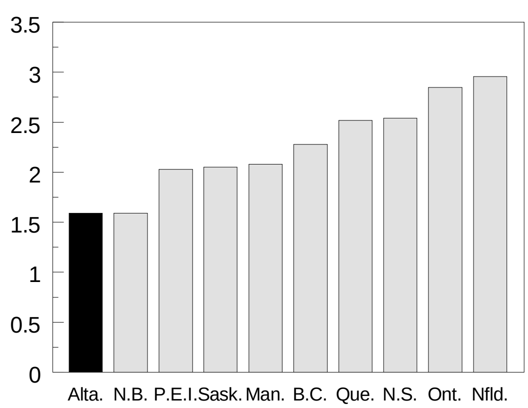
* Zero international rate in Que. Zero inter-continental rate in Nfld. Zero international cargo rate in Man. and B.C.

Source: Alberta Treasury

- Alberta's domestic and international aviation fuel tax rate was reduced from 5 cents to 1.5 cents per litre on January 1, 1997.

Workers' Compensation Premiums

1997* (dollars per $100 of gross payroll)



* Provisional rates projected as of November 1996

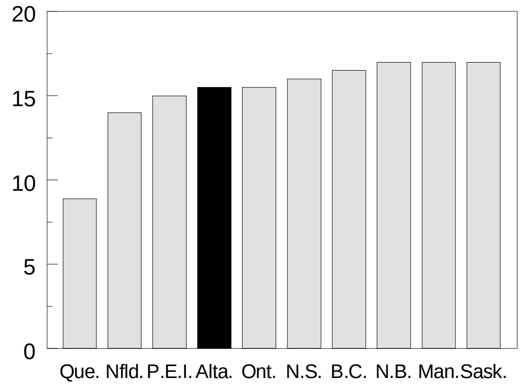
Source: Association of Workers' Compensation Boards of Canada

- Alberta's WCB premium rate is the lowest among the provinces.
- Alberta is one of four provinces where Workers' Compensation Boards are fully funded.

- Alberta has a competitive general corporate income tax rate.

Provincial Corporate Income Tax Rates

As of January 23, 1997 (per cent)*



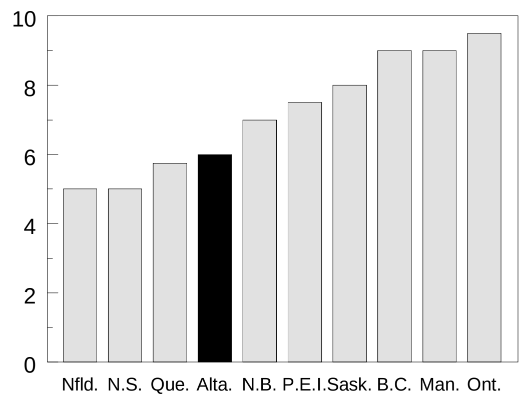
*Alta., Sask., Ont., P.E.I. and Nfld. have lower corporate income tax rates for manufacturing and processing industries.

Source: Alberta Treasury

- Alberta's small business corporate income tax rate is among the lowest in the country.

Provincial Small Business Corporate Income Tax Rates

As of January 23, 1997 (per cent)



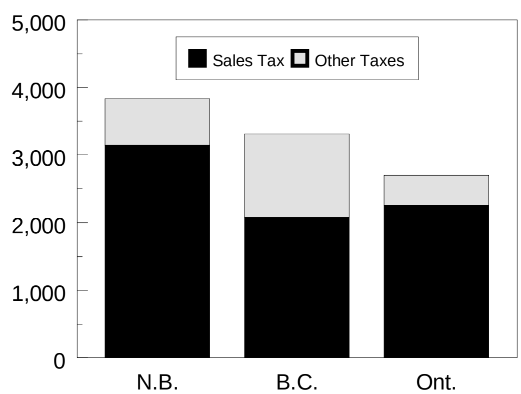
Source: Alberta Treasury

Alberta has no general capital tax and no payroll tax.

- This graph shows the additional provincial taxes that individuals and businesses would pay if Alberta had the same personal and corporate taxes as New Brunswick, British Columbia and Ontario.

Alberta's Provincial Tax Advantage

As of January 23, 1997 (millions of dollars)



Source: Alberta Treasury

... low operating costs:
For businesses and individuals

Business Location-Sensitive Costs

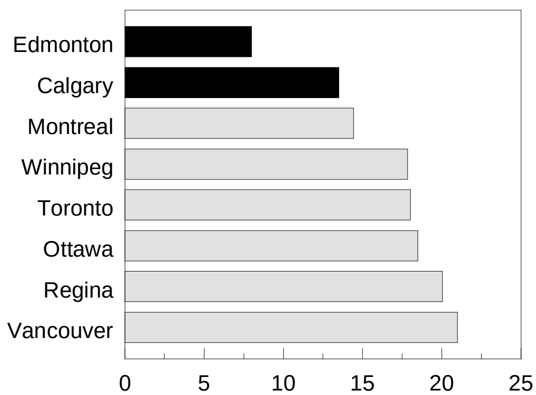
Largest Cities	Ranking
Montreal, Quebec	1
Quebec, Quebec	2
Ottawa, Ontario	3
Calgary, Alberta	**4**
Winnipeg, Manitoba	5
Toronto, Ontario	6
Vancouver, British Columbia	7
Hampton, Virgina	8
Raleigh, North Carolina	9
Austin, Texas	10
Manchester, New Hampshire	11
Scranton, Pennsylvania	12
Columbus, Ohio	13
Minneapolis, Minnesota	14
Sacramento, California	15

Source: KPMG, October 1996

- KPMG Management Consulting reviews business location-sensitive costs among cities. Calgary is fourth out of the 15 largest cities surveyed.
- Calgary is a major location of Canadian head offices.

Office Rental Rates

1996 Projected year-end (dollars per square foot)*

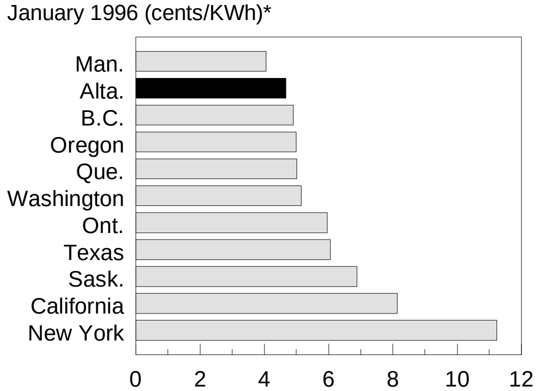


*Average gross rental rates, including average taxes and operating costs for all classes of space.
Source: Royal LePage

- In 1996, Edmonton and Calgary had the lowest overall office rents among the major Canadian cities.

Industrial Electricity Rates

(5,000 KW demand, 70% load factor)
January 1996 (cents/KWh)*



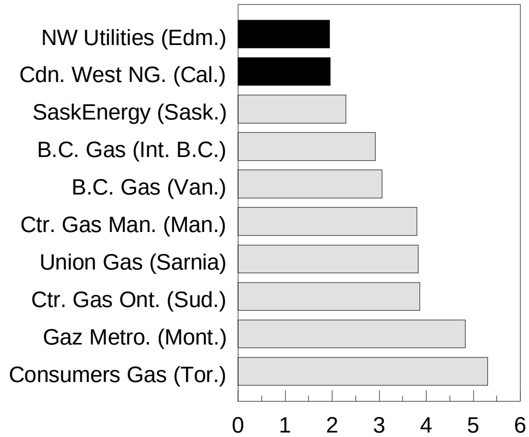
*The rate reflects changes to the federal Public Utilities Income Tax Transfer Act effective April 1996.
Source: Alberta Power and Edison Electric Institute, U.S.

- Alberta electricity prices are among the lowest in Canada, and well below most industrial locations in the United States.

- Alberta has the lowest natural gas prices in Canada.

Natural Gas Rates

As on January 1, 1997 (average cost in dollars per gigajoule)*

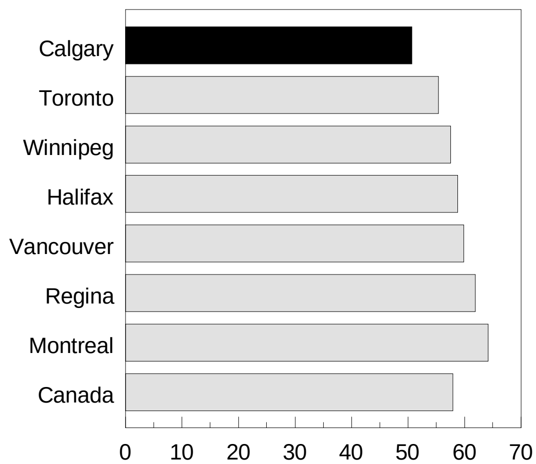


*This is the average cost for a customer using 5000 gigajoules/month.
Source: Canadian Gas Price Reporter, January 1997

- Alberta typically has the lowest gasoline prices in Canada.

Gasoline Prices

As on October 29, 1996 (cents per litre for regular gasoline)



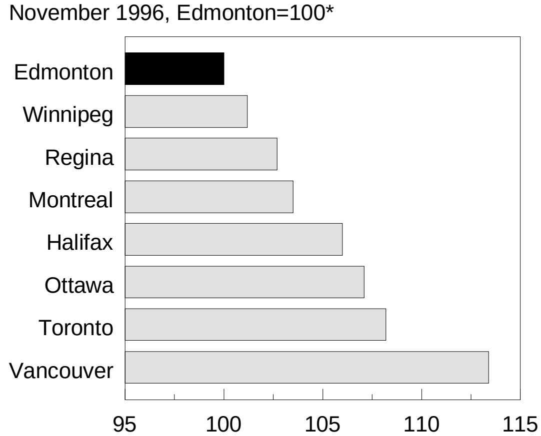
Source: Natural Resources Canada

- Residents in Edmonton pay less for daily living goods than those in other major Canadian cities.

- A basket of daily living goods that costs $100 in Edmonton would cost more than $113 in Vancouver.

Daily Living Price Index

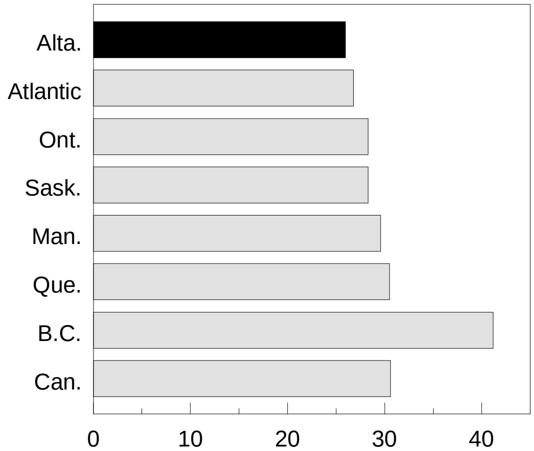
November 1996, Edmonton=100*



*Daily living items include food, transportation, household operations and furnishings, health/personal care, recreation, and tobacco/alcohol products.
Source: Statistics Canada and Alberta Treasury

Housing Affordability

1996 (home ownership costs as a % of household income)

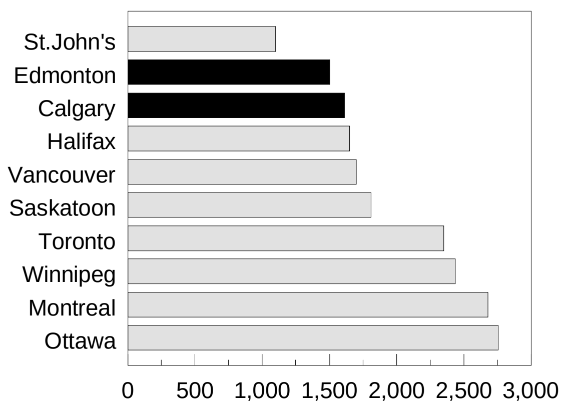


Source: Royal Bank

◆ Home ownership costs in Alberta are the lowest in Canada.

Net Home Property Taxes

1996 (dollars)*

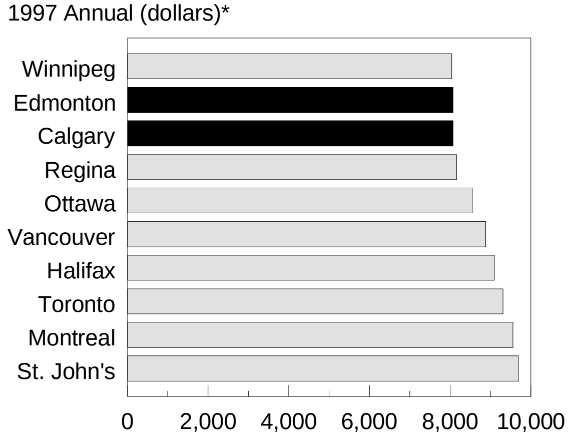


*Annual total property taxes (including municipal, regional and school taxes) for a single family house.
Source: The City of Edmonton, Planning and Development

◆ Alberta's property taxes on a typical house are among the lowest in Canada.

Car Ownership Costs

1997 Annual (dollars)*



*Index based on 4-year/96,000 km retention cycle of a 1997 Ford, Taurus. Costs include general operating, insurance, depreciation, taxes and licence fees.
Source: Runzheimer Canada Inc.

◆ According to a recently released national auto-owner survey, Edmonton and Calgary are among the least expensive places in Canada to own and operate a car.

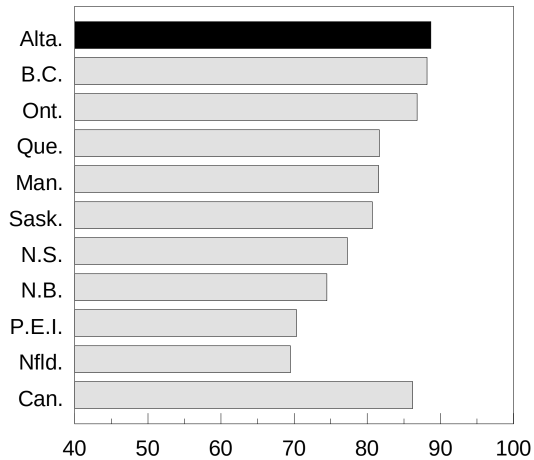
... the quality of life: Outstanding

◆ According to the most recent United Nations Human Development Index, Canada is the best country in the world to live.

◆ Informetrica, a private sector consulting firm, modified the UN index to account for interprovincial diffferences in life expectancy, income and education and ranked Alberta "number 1".

Human Development Index

1992 (per cent)

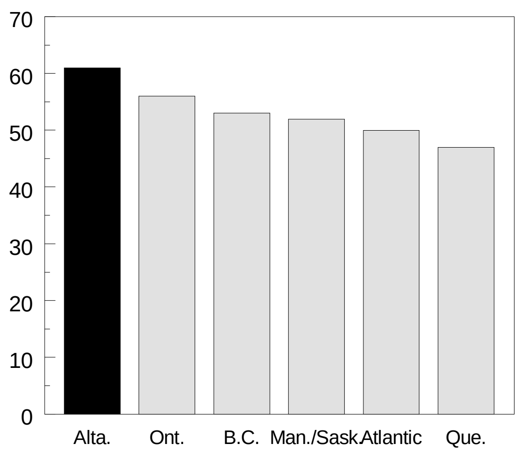


Source: United Nations and Informetrica Ltd.

◆ According to a recent poll, Albertans have the highest level of satisfaction with their quality of life.

Quality of Life Index

1996 (% of Residents Satisfied)

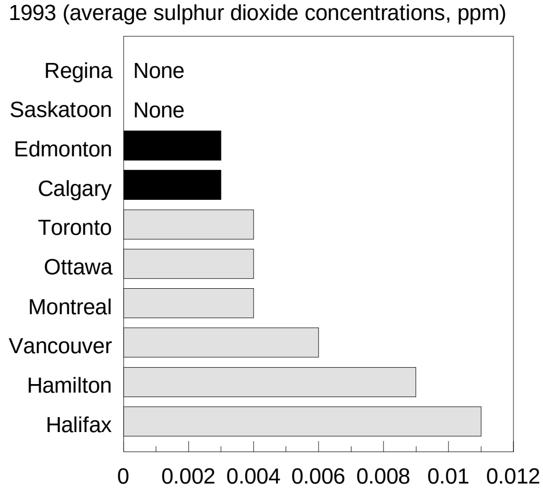


Source: Royal Bank/Angus Reid Quality of Life Poll

◆ Edmonton and Calgary have some of the lowest levels of sulphur dioxide, according to the most recent data.

Air Quality

1993 (average sulphur dioxide concentrations, ppm)



Source: Environment Canada

Waste Water Treatment Index

Largest Cities	Grade
Calgary, Alberta	**A-**
Ottawa, Ontario	B
Edmonton, Alberta	**B-**
Toronto, Ontario	B-
Hamilton-Wentworth, Ontario	C+
Regina, Saskatchewan	C+
Montreal, Quebec	C
Quebec City, Quebec	C
Winnipeg, Manitoba	C-
Vancouver, British Columbia	D-
Halifax-Dartmouth, Nova Scotia	F
Victoria, British Columbia	F

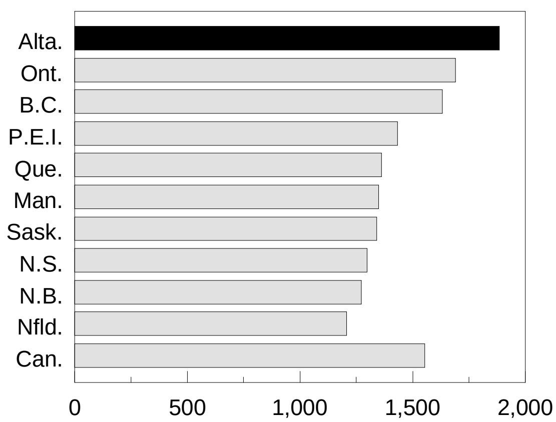
Source: The National Sewage Report Card, 1994

- A national report card gave Calgary and Edmonton high grades on waste water treatment.
- A waste water treatment facility in Calgary is the most advanced in North America.

Support for Culture / Recreation

Family Expenditures

(average dollars per family)



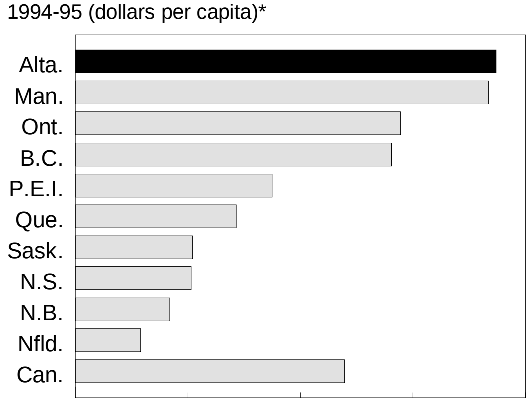
Source: Statistics Canada, Family Expenditures Survey, 1992

- Alberta families spend more on cultural and recreational events than families in other provinces, according to the most recent data.

Support for Performing Arts

Private Sector Donations

1994-95 (dollars per capita)*



*Fundraising and donations from companies

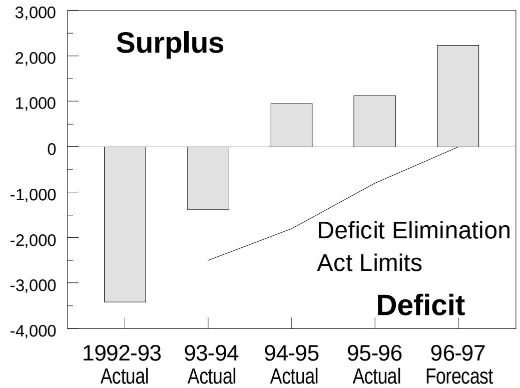
Source: Statistics Canada

- Alberta companies are ranked at the top for their support of the performing arts, according to the most recent data.

- In 1993-94, Alberta legislated deficit reduction targets to achieve a sustainable balanced budget by 1996-97.
- The results have been much better than expected with three consecutive surpluses totalling an estimated $4.3 billion.
- The plan has dramatically reduced the cost and size of government.

Alberta's Balanced Budget Plan

(millions of dollars)

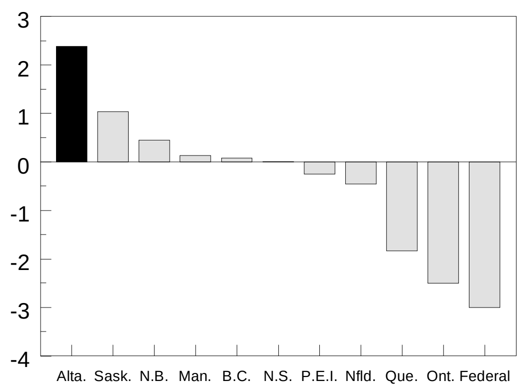


Source: Alberta Treasury

- The Alberta government is committed to living within its means.
- Among the provinces, Alberta has gone from having the highest deficit as a percentage of GDP in 1992-93 to the highest surplus as a percentage of GDP in 1996-97.

Government Surpluses (Deficits)

1996-97 (per cent of GDP)*

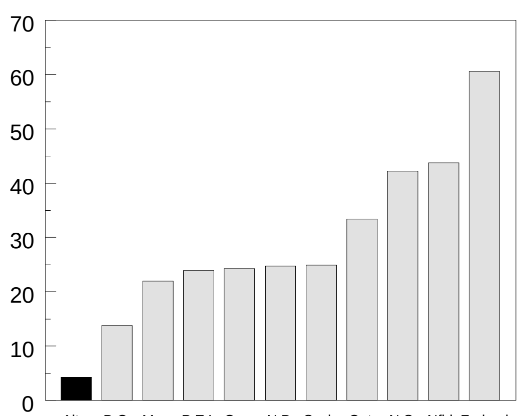


*Alberta Treasury estimates, January 13, 1997.

- Alberta has the lowest net debt relative to GDP.

Government Net Debt

As of March 31, 1997 (per cent of GDP)*



*Alberta Treasury estimate based on latest available data. On a consolidated basis where possible. Excludes pension liabilities.

… the Alberta Government: Efficient, accountable, and fiscally responsible

"...Albertans can feel confident that they have the full picture of the province's finances. Alberta is now viewed as a leader in financial reporting among governments."

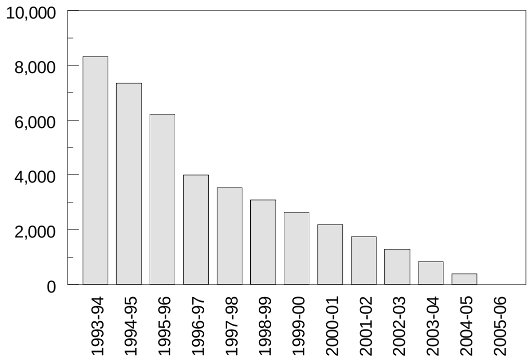
Staying the Fiscal Course

- Institute of Chartered Accountants of Alberta, February 1994

The Balanced Budget and Debt Retirement Act requires Alberta to remain deficit free and retire its net debt by March 31, 2010.

Alberta's Debt Retirement Plan

(millions of dollars)

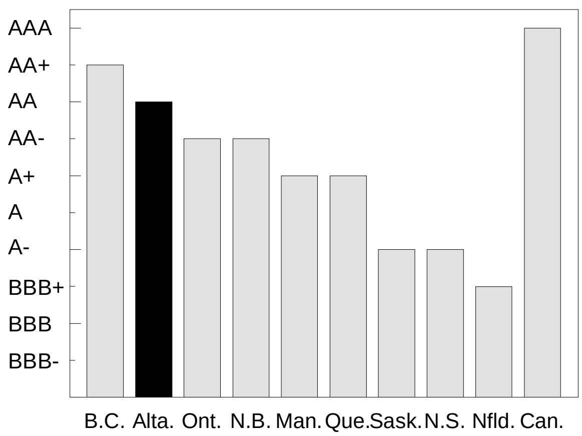


Source: Alberta Treasury

- Alberta is on track to eliminate its net debt 4 years earlier than required and 16 years earlier than the original plan.
- The province's net debt is now expected to be eliminated in 9 years, by March 31, 2006.

Credit Rating

As on January 22, 1997*



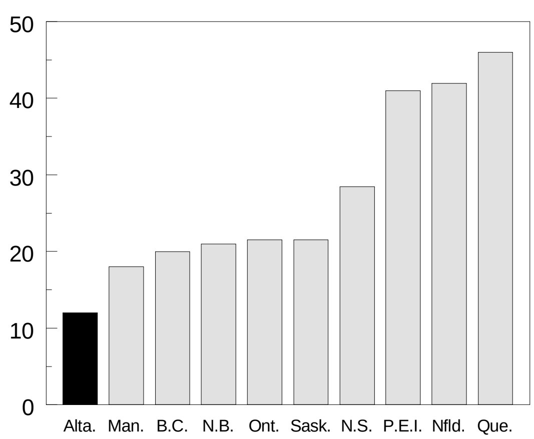
*Standard and Poor's Canadian dollar debt ratings.

Source: Alberta Treasury

- Alberta has the second highest credit rating of all the provinces according to Standard and Poor's. This American agency recently revised the outlook for Alberta's credit rating from stable to positive.
- In 1996, Alberta's rating was upgraded by Canadian Bond Rating Service from AA to AA+ with a stable outlook. British Columbia's rating was AA+ with a negative outlook.

Borrowing Costs

As of January 22, 1997 (basis points)*



*Interest rates spread relative to 10-year Government of Canada bond rate.

Source: CIBC Wood Gundy

- Alberta's strong fiscal performance has led to lower borrowing costs.
- Alberta has the lowest interest rate spread relative to the ten-year Government of Canada bond rate.

Appendices

Table of Contents

Appendix

A Plan for Change
1993-94 to 1996-97

Table of Contents

A Plan for Change - 1993-94 to 1996-97

Promises Made, Promises Kept

In 1992-93, the province had a deficit of $3.4 billion. This was the eighth consecutive annual deficit since 1985-86. For nearly a decade, the provincial government had been spending more than it could afford. The province's spending per person was the highest in the country. To finance this overspending, the government borrowed money — nearly $16 billion over the eight-year period. As a result, debt servicing costs increased 30 fold, from about $40 million in 1985-86 to $1.2 billion in 1992-93.

"... the partnership between a government and a people will only last as long as we work together, and listen together."

**- Premier Ralph Klein
Televised Address
January 29, 1996**

This spiral of deficits and debt had to stop. A new fiscal strategy was critical — a fiscal strategy to attack Alberta's deficit problem immediately. In the spring of 1993, after consulting with Albertans, the new Klein government outlined its four-year plan to get the province's fiscal house in order. *A Plan for Change* was endorsed in the June election and implementation began immediately.

A Plan for Change
May 1993

- Legislate an enforceable plan to balance the budget by 1996-97.
- Based on the input of Albertans, set clear priorities and stick to them.
- Act on Alberta's economic and job strategy.
- Change the way government does business.

"We must adopt a plan to eliminate annual deficits completely... every moment we delay increases the amount of debt and makes the solution more painful..."

**- Alberta Financial
Review Commission
March 1993**

Balancing the Budget

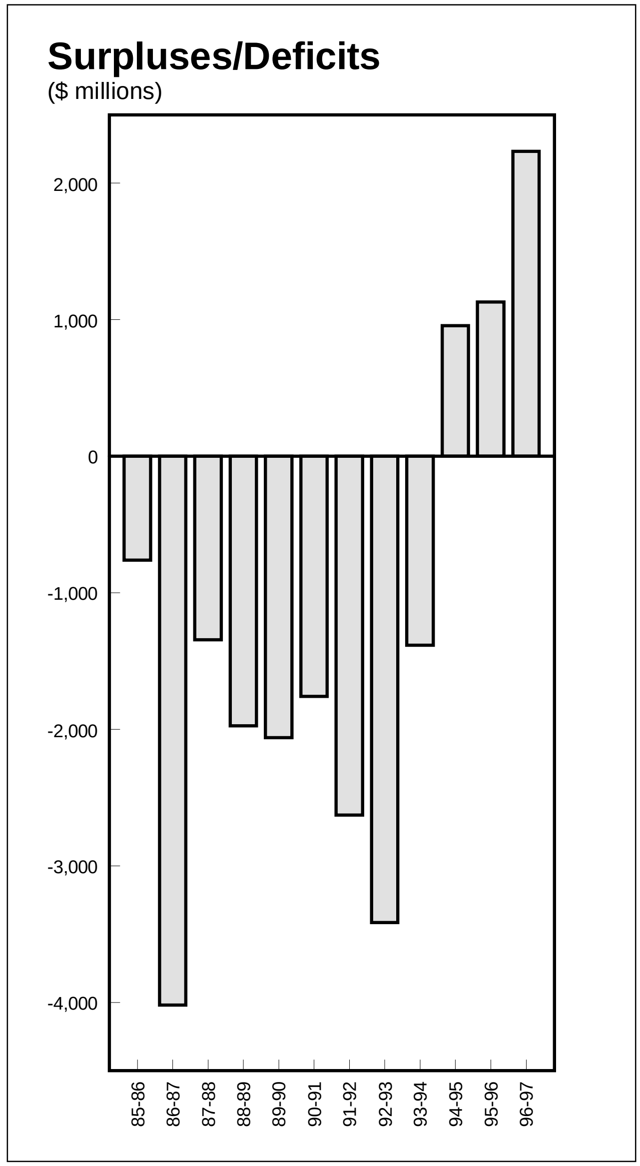
The Plan - 1993

The government's plan was to balance the budget by restructuring government and reducing spending, not by increasing taxes. To bring greater discipline to the government's financial planning, the Legislative Assembly passed the Deficit Elimination Act.

The Act required that:

- specified deficit targets be met each year and the budget be balanced in 1996-97 and every year thereafter
- conservative revenue estimates be used for budget planning purposes, and revenue above the budget estimate be used to reduce the deficit and debt.

The Results - 1996



As promised, a sustainable balanced budget position has been reached. **The province has had three consecutive surpluses, in 1994-95, 1995-96 and 1996-97.** The 1994-95 and 1995-96 budgets projected deficits but both years ended in surpluses because of windfall revenue. The1996-97 budget was balanced based on the revenue that could be prudently expected, not on the best revenue that might be hoped for. Another year of windfall revenue has produced a $2.2 billion surplus, much larger than estimated in the budget.

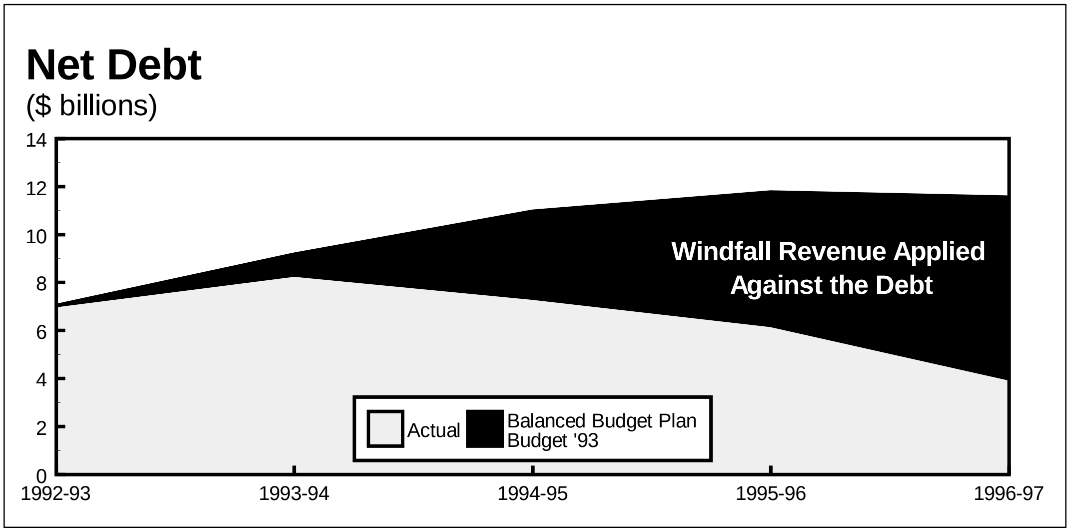
In 1996-97, consolidated program spending is 20%, or $3.1 billion, lower than it was in 1992-93.

Program spending is now at an affordable level. Over the last four years, the government has made progress in restructuring programs, focussing funding on core responsibilities and eliminating waste and duplication. Our target was to reduce spending by 20% over four years. In 1996-97, consolidated program spending is 20%, or $3.1 billion, lower than it was in 1992-93.

Spending is now at a level that will allow us to keep the budget balanced even when revenue is at a low point in the economic cycle. Albertans' priority programs are protected in good times and bad.

Windfall revenue was not spent. It was used to reduce the deficit and debt. Over the last four years, resource revenue and corporate income taxes have been at high points in their economic cycles. As required by law, gains in General Revenue Fund revenue above the budget estimate were not spent. They went to reduce the deficit and debt.

As a result, the $4.5 billion increase in the province's net debt by1996-97 that was originally expected in Budget '93 did not happen. Instead, net debt has actually dropped by $3.1 billion since 1992-93. As a result, debt servicing costs have started to decline much sooner than was expected. Debt servicing costs in 1996-97 are $264 million less than their peak in 1994-95.



"Allowing the debt to increase will actually lead to budget cuts that will impair our ability to maintain programs that Albertans believe are necessary..."

- Alberta Financial Review Commission March 1993

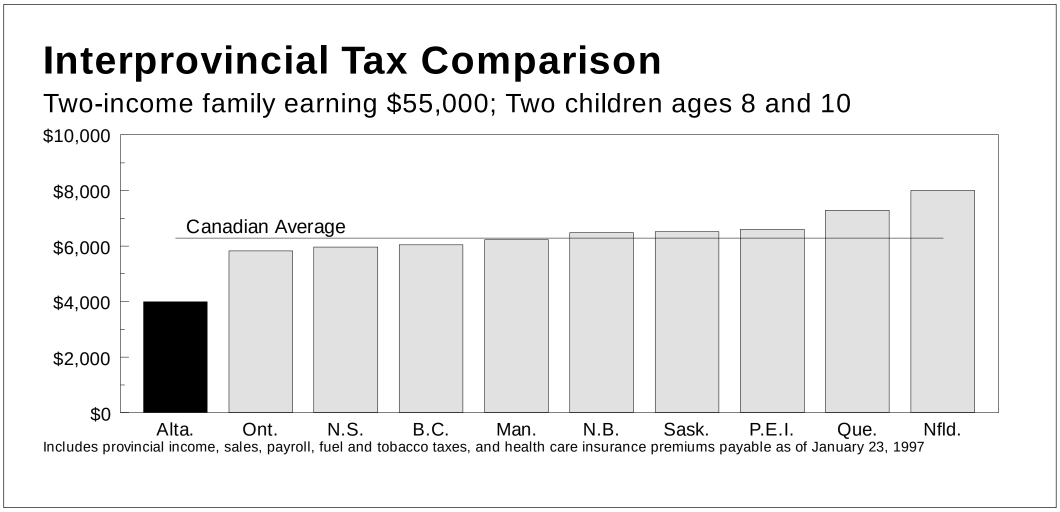
Dollars that were previously wasted to pay interest on debt are now available to meet the priorities of Albertans. These savings are available not just for one year but every year, now and in the future. Spending windfall revenue could have given a one-time boost to spending but only at the cost of losing these permanent savings from lower debt and interest costs. It was also against the law.

The government underpromised and, through the efforts of all Albertans, overachieved. The much larger-than-expected debt paydown in the last three years has already freed up resources to reinvest in Albertans' priorities. The June and November 1996 reinvestment announcements allocated $145 million new dollars to Health in 1996-97. Over $34 million has been reinvested in basic and advanced education in 1996-97. Reinvestment dollars were also committed to seniors, infrastructure and tax reductions.

"The Province has the lowest provincial and municipal tax burden among all provinces and leads the way in prudent fiscal management."

- **Automotive Industries Association of Canada January 1996**

As promised, there have not been any tax increases. In fact, some taxes have been cut. A Family Employment Tax Credit for low and middle income working families has been introduced, average provincial property tax rates have been cut, the province's property tax on machinery and equipment is being phased out, and aviation and railway fuel taxes are being reduced. Albertans continue to benefit from the lowest overall taxes in the country. And Alberta continues to be the only province without a provincial retail sales tax.



Meeting Albertans' Priorities

The Plan - 1993

In Budget '93, education and health were identified as the main program priorities of the government. Only by restructuring the education and health systems could administrative costs be reduced, inefficiencies eliminated and funding redirected to front-line services.

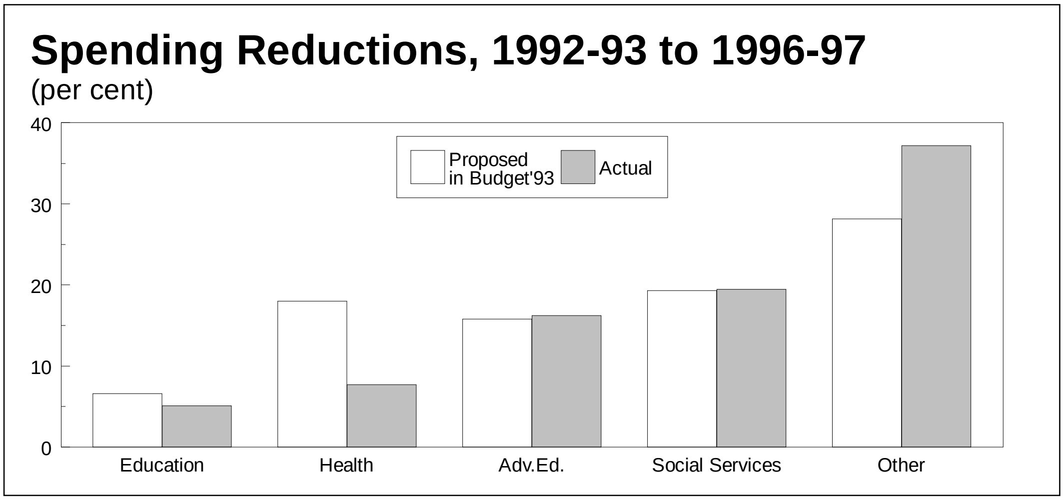
The Results - 1996

Health and education were spared from deep cuts. Over the four-year plan, total program spending has been reduced by 20%. Equal cuts were not made across the board. The priorities of Albertans were followed. Spending on health was 7.7% lower in 1996-97 than it was in 1992-93. Basic education spending has been reduced by 5.1% from 1992-93. In program areas outside of health, basic and advanced education and social services, spending was reduced by 37%.

In 1992-93, before restructuring began, 53% of the government's total program spending was directed to health and basic and advanced education and 47% to other programs. The much larger cuts in other programs over the last four years have changed this spending distribution significantly.

In 1996-97, 61% of program spending was allocated to health and education. Health's share of program expense rose from 26% to 30% from 1992-93 to 1996-97. Funding for basic education rose from 19% to 22%. And advanced education's share of program spending was up from 8% to 9%.

The government's balanced budget plan set priorities — health and education — and it stuck to them.



A more efficient and affordable health system is being developed. Over 200 separate boards have been merged into 17 regional health authorities. This has reduced administration costs and promoted integrated service delivery. A stronger focus on community and home based services has been implemented. Business plans, now required from all health authorities, identify how the health needs of Albertans will be met and how performance will be measured. A new funding formula has been introduced that will ensure a stable and predictable funding base to facilitate long-term planning to meet the unique needs of each health region.

Funding for basic education is more equitable and focussed on improving student achievement. Funding is now based on the cost of providing students a quality education, not on the amount of revenue that can be generated from property taxes in a particular area. The number of school boards has been reduced from 181 to 63. A cap has been put on the amount that can be spent on administration. Dollars have been redirected into the classroom. Parents now have greater involvement in decisions about policies, programs and activities in their schools. An accountability framework has been put in place that sets achievement standards and measures results through expanded provincial achievement testing and annual reporting by school boards.

Universities, colleges and technical institutes are more focussed on the needs of students and more responsive to changing labour market demands. The new performance envelope for post-secondary institutions rewards excellence. Better results are being achieved at a more affordable cost. The Access Fund, introduced in 1994-95, has created 10,600 new spaces for students. Spaces that are focussed on the needs of the economy. Students must be able to expect that their training will lead to quality jobs when they graduate.

"Although we're aiming for a 20% cut in spending across government by 1997, you will see that the reductions in our four largest areas – health, education, advanced education and social services – are less than that."

**- Ralph Klein, Premier
Televised Address
January 17, 1994**

Alberta's Economic Strategy

The Plan - 1993

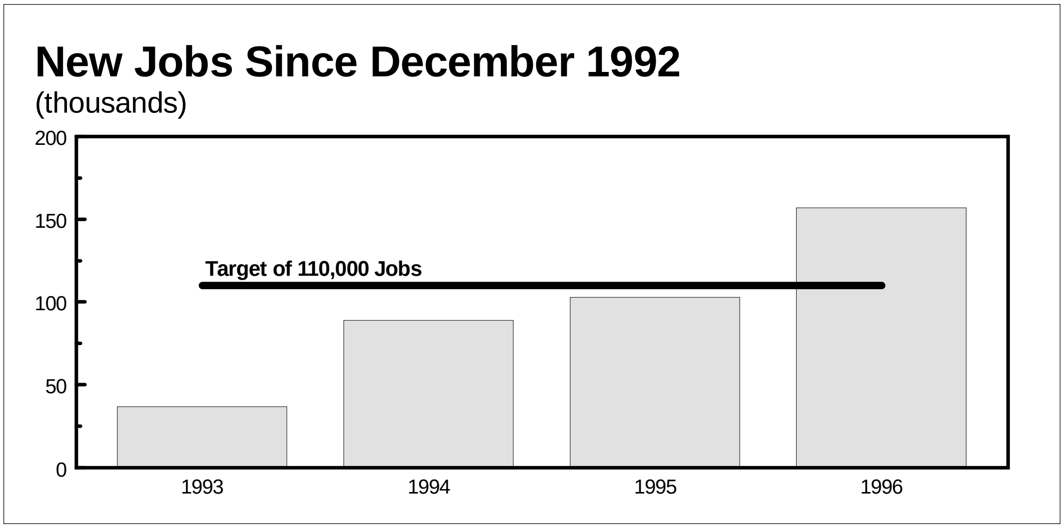
A Plan for Change said that the government would help create an economic environment conducive to wealth generation and job creation. The Alberta Advantage was to be enhanced by maintaining and improving our favourable tax climate, eliminating red tape and actively promoting Alberta businesses in world markets. The government's economic strategy set a target for the private sector to create 110,000 new jobs by the end of 1996. The government made a commitment to end direct business subsidies and get out of the business of business.

"The government's sound fiscal record of recent years certainly helps to increase confidence of international investors in the province."

- **The Canadian Chemical Producers' Association January 1996**

The Results - 1996

Growth in employment substantially exceeded the target of 110,000 jobs. Between December 1992 and December 1996, 157,300 new jobs were created by our economy. More Albertans are working than ever before. And over 80% of their jobs are full-time.



Alberta's tax system is more competitive. The province reduced average provincial property tax rates in 1995, 1996 and 1997 for homeowners, farmers and businesses. The phase-out of the province's property tax on machinery and equipment began in 1996. Aviation and railway fuel taxes are being cut. Alberta has the lowest personal taxes in Canada, made even lower by the new Family Employment Tax Credit. Low taxes attract new companies and highly skilled people to Alberta and encourage existing companies to expand. And that means more jobs for Albertans.

Red tape has been cut. A Regulatory Reform Task Force has been established and all ministries are reviewing rules and regulations. In 1996, 12 acts and 119 regulations were repealed. Another 140 regulations were amended. The review is continuing. More acts and regulations will be repealed or simplified in future years. Streamlined regulatory processes have been introduced for the municipal planning system, the real estate industry, business legislation, corporate tax filings and trade and business practices. Reducing the regulatory burden on business frees up time and dollars to be spent on productive activities — activities that expand our economy and create jobs.

Government has gotten out of the business of business. Commercial entities and assets of the government have been sold, including Alberta Resources Railway, Gainers, North West Trust Company, Magnesium Company of Canada, Alberta Intermodal Services, the Lloydminster Bi-provincial Upgrader, and shares of Syncrude, Vencap Equities and the Alberta Energy Company. Some services have been privatized, including registry services, liquor sales and property assessment services. Other services are being contracted out, including highway maintenance. The unfunded liability of the Workers' Compensation Board has been eliminated and the Board has been put at arm's length from the government.

The government has ended the practice of trying to 'pick winners' through direct loans, guarantees and equity investments. The Business Financial Assistance Limitation Act prevents the government from providing loans and guarantees to individual companies, unless authorized by an Act of the Legislative Assembly.

"Albertans told us they didn't want to see their government pick winners and losers in business anymore. What we've done today is removed the ability of government to make any loan or guarantee deals behind closed doors."

- Ralph Klein, Premier April 3, 1996

Changing the Way Government Does Business

The Plan - 1993

A commitment was made to change the way government does business. A more business-like approach was to be introduced into government organizations. Clear objectives were to be set, effective strategies developed and performance measured. Government would become smaller and more efficient. The government would only do what it must do, and do it well.

"The long term outlook for the Alberta situation is positive, with government focusing on structural and permanent expenditure controls ..."

- Dominion Bond Rating Service August 1995

The Results - 1996

Smaller, innovative government — The first actions the government took were to streamline government operations, reduce internal costs and increase productivity. Measures taken included:

- eliminating MLA pensions
- cutting MLA salaries by 5%
- cutting public sector salaries by 5%
- reducing the public service by nearly 30%
- eliminating, merging or privatizing 37 agencies, funds and corporations
- establishing the Premier's Forum on Change
- introducing a Productivity Plus program
- privatizing non-essential services
- reducing school boards from 181 to 63
- reducing health boards from over 200 to 17
- cutting red tape and eliminating business subsidies.

". . . the province's consolidated financial reporting, now one of the most comprehensive in Canada, ensures that the surpluses being recorded are truly reflecting Alberta's overall financial position."

- CBRS Inc.
March 1996

Openness and accountability — Alberta has instituted the most transparent and comprehensive methods in the country for reporting on the province's financial situation. Measures taken included:

- three-year business plans
- three-year financial plans
- quarterly financial updates
- timely release of public accounts
- consolidated budgeting
- a new Government Accountability Act
- transparent criteria for approving health, education and highway capital projects
- an Act renewing the Alberta Heritage Savings Trust Fund
- reporting of unfunded pension liabilities and legislating a plan to eliminate them
- a Freedom of Information and Protection of Privacy Act.

More effective and focussed programs — Performance is being measured. Funding is being focussed on essential services that provide value for Albertans' money. Measures taken included:

- Requiring business plans from all ministries, regional health authorities, school boards and post-secondary institutions. The plans outline responsibilities, goals, strategies and performance measures.
- Publishing annual reports on ministry and government-wide performance.
- Increasing the links between performance and budget decisions.
- Developing a new funding formula for regional health authorities that provides stable, predictable funding and recognizes the unique circumstances of each region.
- Implementing performance-related funding for post-secondary institutions that rewards excellence and creates new spaces for students at an affordable cost.

More effective partnerships — New partnerships have been developed. Communities have greater control of how and where funds are spent. Overlap and duplication of programs with those of the federal and local governments have been reduced. Where appropriate, administration of regulations has been delegated to non-government organizations. Measures taken included:

- Developing plans to increase the role of non-profit community organizations in delivering child welfare programs and services for disabled persons.
- Giving parents greater input in school decisions.
- Establishing charter schools.
- Reducing legislative and regulatory requirements for municipalities.
- Establishing the Alberta Economic Development Authority and the Alberta Science and Research Authority.
- Reducing federal/provincial overlap and duplication in agriculture, energy, the environment, economic development and labour market training.

Legislated framework — A framework of legislation has been put into place to set the limits within which the government must operate. No longer can government change basic operating policies to meet the whims of the moment; the laws must be followed. Legislation includes:

- Deficit Elimination Act - permanently eliminate the annual deficit by 1996-97.
- Balanced Budget and Debt Retirement Act - deficits outlawed, must eliminate the accumulated net debt by 2009-10.
- Alberta Taxpayer Protection Act - no sales tax without a referendum.
- Government Accountability Act - prompt, regular reporting to Albertans on business plan and fiscal results.
- Business Financial Assistance Limitation Act - no more special loans and guarantees to business.

A Strong Foundation for the Future

Overall, the restructuring of the last four years means that government now costs less, is more effective and is better able to meet Albertans' priorities, now and in the future. Health, education and jobs are Albertans' top priorities and they are the government's top priorities. Restoring fiscal responsibility has also restored the confidence of Albertans and Alberta business and spurred economic expansion and job creation.

"The Klein government has made significant statutory reforms which have improved the political process for the benefit of both present and future Alberta taxpayers."

- Alberta Taxpayers Association February 1996

Appendix

Alberta Tax Advantage

Table of Contents

List of Tables

Alberta Tax Advantage

Tax Plan Checklist

Family Employment Tax Credit	☑	Effective January 1997
Flat Tax elimination	☐	On hold, in response to *Straight Talk, Clear Choices*
Surtax elimination	☐	On hold, in response to *Straight Talk, Clear Choices*
Residential and farm mill rate reduction	☑	Reduced from 7.12 to 7.02 in 1997
Business property mill rate reduction	☑	Reduced from 10.44 to 10.30 in 1997
M&E tax reduction	☑	On schedule for elimination by 1999
International aviation fuel	☑	Reduced to 1.5¢ per litre ahead of schedule
Domestic aviation fuel	☑	Reduced to 1.5¢ per litre ahead of schedule
Railway fuel	☑	Reductions on track

Albertans pride themselves on having the lowest overall taxes in Canada. Low taxes not only benefit individual Albertans and their families, they also reduce the cost of doing business in Alberta and encourage investment and growth in Alberta's economy. Low taxes continue to be a major component of the Alberta Advantage.

Alberta families pay less in provincial taxes. Business taxes in Alberta are competitive with other provinces. And both individuals and businesses benefit from the fact that Alberta is the only province with no sales tax.

At the same time, taxes paid by Albertans go to support quality programs in essential areas such as health and education. The objective is to strike the right balance - to generate enough revenues from taxes to provide quality programs but also to keep taxes low to benefit Albertans and add to Alberta's economic advantage.

In Agenda '96, a new tax plan for Alberta was proposed and Albertans were asked for their views on the plan. While the majority of Albertans supported the principles of the plan and its specific components, they wanted to see action taken first to pay down debt and target spending to essential programs.

"Our commitment is that Albertans continue to have the lowest personal tax burden in Canada. And we'll keep looking for ways to enhance the competitive advantage for businesses."

- Premier Ralph Klein, Straight Talk, Clear Choices

"Premier Ralph Klein deserves to take a bow: Albertans benefit from the lowest overall taxes in Canada, and they're going down."

- Globe and Mail January 9, 1997

Based on the advice of Albertans, government is moving ahead with selected components of the tax plan. Details of the tax changes are outlined in the following sections.

The Alberta government is committed to low taxes and a strong competitive advantage. Based upon the following principles we will continue to review our tax system to ensure that commitment is achieved.

"Alberta's low tax burden and an educated workforce confer important economic advantages to the province. These attributes should assist long-term growth and economic diversification..."

- Moody's Investors Service, October 1996

Principles of the Alberta Tax Plan

Affordability - *must fit within the government's balanced budget and debt reduction requirements.*
Stability - *provide a stable and predictable tax regime to allow individuals and businesses to make long-term decisions.*
Tax Competitiveness - *maintain or improve Alberta's tax advantage relative to other jurisdictions.*
Productivity and Self Reliance - *encourage productivity and self reliance of Albertans.*
Raise Revenue at Low Economic Cost - *minimize the distortions caused by taxes on private economic decisions (level playing field). Minimize compliance costs to individuals and business and administration costs to government.*
Fair and Equitable - *all pay their fair share.*
Simplicity, Transparency and Accountability - *keep tax regime simple for taxpayers to understand and to increase the accountability of governments.*

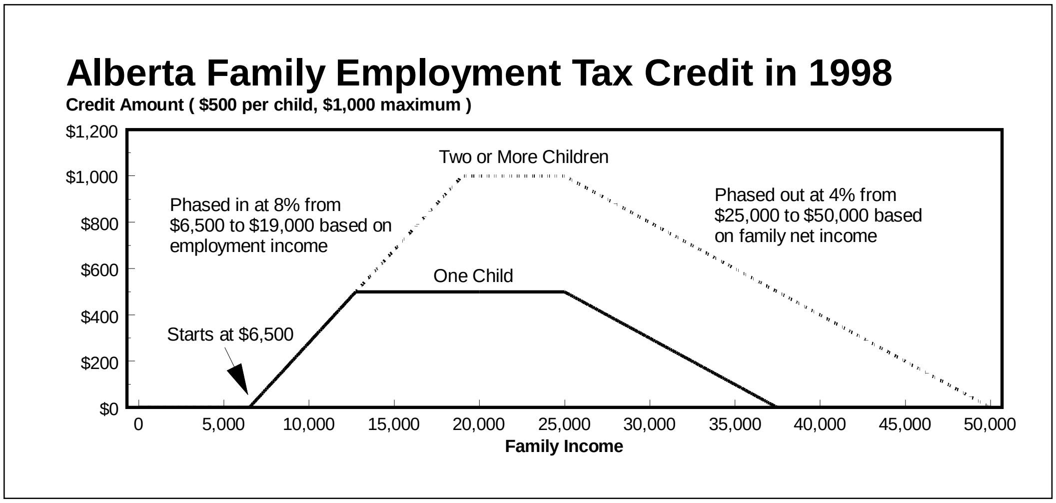
Personal Income Tax Reductions

Alberta Family Employment Tax Credit

Alberta Family Employment Tax Credit puts more dollars in the hands of families.

Families have experienced a drop in purchasing power over the last fifteen years. The Alberta Family Employment Tax Credit, which came into effect on January 1, 1997, will put more dollars into the hands of working families. It will help low to middle income families provide for their children through their own work effort. Eligible families will receive their first refundable credit by cheque or direct deposit in July 1997. Subsequent payments will follow every six months. Over 130,000 Alberta working families will benefit by $70 million when the credit is fully phased in.

The Alberta Family Employment Tax Credit is being phased in over two years. For 1997, the maximum family credit will be $250 for one child and $500 for two or more children. When fully implemented in 1998, families with children will receive a personal tax credit of eight cents for each dollar of annual family employment and self-employment income above $6,500, to a maximum of $500 for a one child family and $1,000 for families with two or more children. The credit will be phased out as family net income increases from $25,000 to $50,000.



Alberta Family Employment Tax Credit increases threshold at which working families pay provincial tax by $9,000.

There is a minimum income threshold below which no Canadian pays income taxes. A one-income family with two children pays no federal income tax on earnings of less than $12,460. This threshold is higher for Alberta tax, so even more low income families get a break from provincial taxes. Before we introduced the Family Employment Tax Credit, the Alberta family wouldn't have paid provincial tax until their income was $15,340. With the Family Employment Tax Credit, that threshold now increases to $24,500.

Other Changes

Tables at the end of this section compare income taxes paid by Alberta families with those paid in other provinces. They also compare other taxes and health care insurance premiums. **The tables show that Alberta families, on average, pay over 35 percent less in provincial taxes and health care insurance premiums than other Canadian families.**

On top of this advantage, the tax plan proposed reducing Alberta’s personal income tax further by eliminating the flat tax by January 1999 and the surtax by January 2001. Albertans told us to put such tax reductions on hold in favour of debt reduction and program funding for essential services. We have taken this advice.

The government intends to implement these personal income tax reductions in future years on a gradual, affordable, pay-as-you go basis.

Property Tax Reductions

"The provincial government's role is to: ensure a low tax, low regulation environment that's open for business.."

- Building on the Alberta Advantage

Residential and Business Rate Reductions

In 1994 the province assumed responsibility for setting education property taxation rates and distributing the revenue on an equitable basis. This ensures that all Alberta students have access to high quality education. It was also our intent to slow the growth of the mill rate. The government has done better than this. Since 1994, average provincial property tax rates have been reduced by over 8 percent for homeowners and farmers, saving them $60 million, and by over 6 percent for businesses, saving them $50 million.

The province's uniform mill rate for residential and farm property was reduced from $7.64 to $7.29 per $1,000 of equalized assessment in 1995 and to $7.12 in 1996. The residential and farm property mill rate will be reduced further in 1997, to $7.02. The province's uniform mill rate for businesses was reduced from $11.02 to $10.67 in 1995 and to $10.44 in 1996. It will be reduced further to $10.30 in 1997.

Machinery and Equipment Property Tax Elimination

"[Alberta must] ensure [it has] a globally competitive tax regime to stimulate investment and economic activity."

- Building on the Alberta Advantage

The province is phasing out its property tax on machinery and equipment used in manufacturing and processing activities. We are doing this to stimulate investment and job creation in value-added and processing industries. And we are doing it without shifting the cost to other property taxpayers or reducing funding for education. The tax was reduced by 20 percent in January 1996 and a further 20 percent in January 1997. The 1996 reduction saved Alberta manufacturing and processing businesses $28 million. The reduction in 1997 will save them an additional $33 million.

The remaining 60 percent of the tax will be phased out starting in 1998, based on additional industry investment in the manufacturing and non-conventional oil sectors. For the tax to be completely eliminated by the target date of 1999, total investment in these sectors will have to reach $11.5 billion. This is the value of investment needed to offset the loss in revenue from previous years' reductions in the tax. If investment exceeds the target, the tax will be reduced quicker, and if investment falls short, elimination of the tax will take longer.

Elimination of M&E Property Tax encourages major investment.

Major investments announced over the past year in petrochemicals, pulp and paper, other manufacturing and non-conventional oil provide strong evidence that the tax will be eliminated by 1999. Petrochemical investments include Nova/Union Carbide's $825 million ethylene plant at Joffre and Alberta BioClean Fuel Inc.'s $535 million MTBE plant in Strathcona County. Oil sands investments include Syncrude Canada's $1.6 billion bitumen mine and upgrader debottlenecking project in Fort McMurray and Amoco Canada's $500 million in-situ bitumen project at Wolf Lake. Forestry projects include Grand Alberta Paper's $900 million pulp and light weight coated paper mill near Grande Prairie.

Fuel Tax Reductions

Aviation Fuel Tax Reduction

The deregulation of domestic aviation and the recent Open Skies agreement deregulating air travel between the U.S. and Canada have created intense competition in the Pacific Northwest. In response, Alberta's aviation fuel tax rate was reduced from 5 cents per litre to 1.5 cents per litre for domestic and international flights effective January 1, 1997.

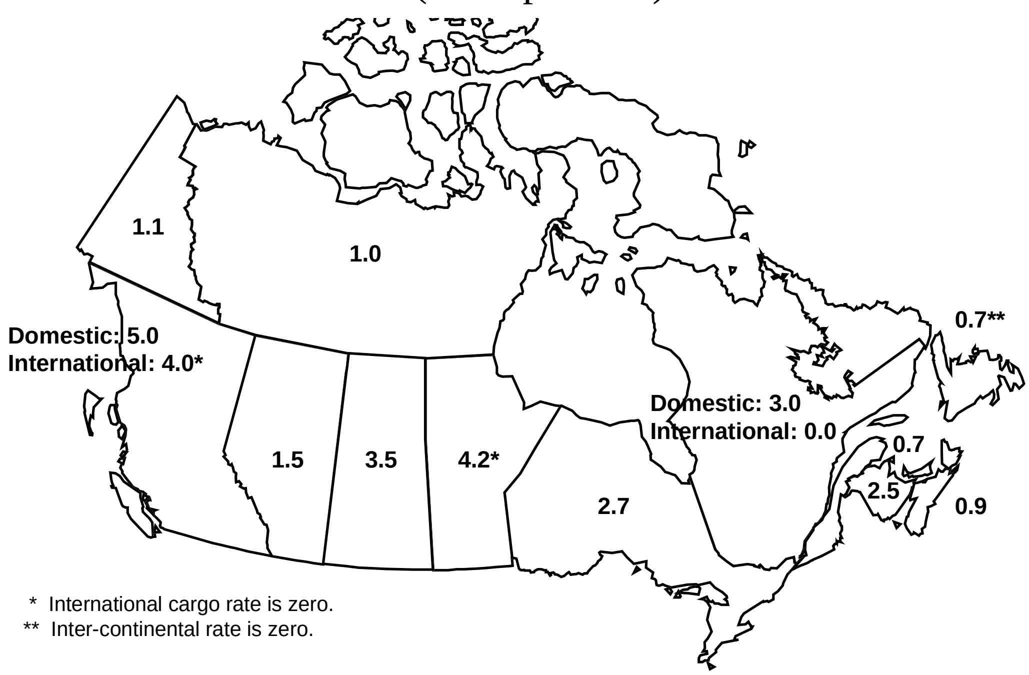
This reduction helps the aviation industry in restructuring efforts and allows Alberta's airports to take immediate advantage of the Open Skies agreement to attract greater air service. The rate reduction will save airlines $22 million in 1997-98. The increased economic activity resulting from reduced costs for travellers and businesses will create more Alberta jobs.

Domestic and international aviation fuel tax reduced to 1.5 cents per litre.

The reduction makes our domestic and international fuel tax rate competitive with U.S. and Canadian jurisdictions.

Aviation Fuel Tax Rates - 1997

(cents per litre)



* International cargo rate is zero.
** Inter-continental rate is zero.

Railway Fuel Tax Reduction

Railways are experiencing greater competition as a result of federal transportation deregulation. As well, they do not face a level playing field with trucks, since they pay all the costs of their rail lines.

"Alberta currently maintains the lowest tax structure in Canada, giving it a strong competitive advantage over many other provinces..."

- Paribas Capital Markets, September 1996

In June 1996, we announced that railway fuel taxes will drop from 9 cents a litre to 6 cents a litre, effective January 1998. In January 1999, the rate will drop further to 3 cents a litre. This will put Alberta's tax rate on par with British Columbia and below most other Canadian provinces. This reduction will save railways $2 million in 1997-98, $10 million in 1998-99 and $16 million in 1999-2000.

Other Tax Changes

The province's pari-mutuel tax on horse track betting was eliminated, effective November 1, 1996. Most of the $9 million annual revenue from the tax used to be returned to the Alberta Racing Commission and Alberta race tracks through dedicated grants. Under the *Racing Corporation Act*, a fully independent racing corporation was established that will not be funded through pari-mutuel tax revenue. The Corporation will be funded entirely by licence revenues from the racing industry.

Interprovincial Tax and Health Care Insurance Premium Comparison (dollars)

UPDATED

	Alta	Nfld	PEI	NS	NB	Quebec	Ont	Man	Sask	BC
Employment Income of $30,000 - One Income Family (Two Children - 8 & 10 Years)										
Provincial Income Tax	**906**	1,671	1,472	1,323	1,455	(381)	1,012	904	1,721	1,280
Provincial Sales Tax	**-**	1,408	1,782	1,150	1,331	1,272	1,250	1,050	1,074	1,072
Health Care Premium	**612**	-	-	-	-	-	-	-	-	648
Payroll Tax	**-**	333	-	-	-	1,021	400	363	-	-
Fuel Tax	**270**	495	390	405	321	456	441	345	450	330
Tobacco Tax	**350**	550	301	211	183	134	103	400	420	550
	2,138	4,457	3,945	3,089	3,290	2,502	3,206	3,062	3,665	3,880
Alberta Advantage		***2,319***	***1,807***	***951***	***1,152***	***364***	***1,068***	***924***	***1,527***	***1,742***
Employment Income of $55,000 - Two Income Family (Two Children - 8 & 10 Years)										
Provincial Income Tax	**2,637**	3,556	3,125	3,072	3,309	3,047	2,516	3,141	3,624	2,696
Provincial Sales Tax	**-**	2,044	2,605	1,675	1,936	1,713	1,818	1,495	1,564	1,585
Health Care Premium	**612**	-	-	-	-	-	-	-	-	648
Payroll Tax	**-**	610	-	-	-	1,872	733	665	-	-
Fuel Tax	**405**	743	585	608	482	684	662	518	675	495
Tobacco Tax	**350**	550	301	211	183	134	103	400	420	550
	4,004	7,503	6,616	5,566	5,910	7,450	5,832	6,219	6,283	5,974
Alberta Advantage		***3,499***	***2,612***	***1,562***	***1,906***	***3,446***	***1,828***	***2,215***	***2,279***	***1,970***
Employment Income of $100,000 - Two Income Family (Two Children - 8 & 10 Years)										
Provincial Income Tax	**6,820**	9,386	8,284	8,123	8,748	10,557	6,637	9,159	9,441	7,110
Provincial Sales Tax	**-**	3,260	4,190	2,697	3,105	2,627	2,953	2,367	2,501	2,584
Health Care Premium	**612**	-	-	-	-	-	-	-	-	648
Payroll Tax	**-**	1,110	-	-	-	3,403	1,332	1,208	-	-
Fuel Tax	**405**	743	585	608	482	684	662	518	675	495
Tobacco Tax	**350**	550	301	211	183	134	103	400	420	550
	8,187	15,049	13,360	11,639	12,518	17,405	11,687	13,652	13,037	11,387
Alberta Advantage		***6,862***	***5,173***	***3,452***	***4,331***	***9,218***	***3,500***	***5,465***	***4,850***	***3,200***

Assumptions

- Calculations based on tax rates for 1997 as known at April 8, 1997.
- In jurisdictions 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 care insurance premiums.
- Fuel tax is based on estimated consumption of 3,000 litres per year for one-income families and 4,500 for two-income families.
- Tobacco tax is based on estimated consumption of 100 packs per adult per year.
- Income splitting of 60:40 is assumed for the $55,000 and $100,000 comparisons.
- Assumes consumers bear full burden of sales tax.

Major Provincial Tax Rates

UPDATED

	Personal Income Tax[a]				Retail	Gasoline	Tobacco	Corporate Income Tax			Capital Tax		Payroll
	Basic Rate	High Income Surtax	Flat Rate Tax	General Surtax	Sales Tax	Tax	Tax	Small Business Rate	M&P Rate	General Rate	General (max.)	Financial Institutions (max.)	Tax (max.)
	(%)	(%)	(%)	(%)	(%)	(¢/litre)	($/carton)	(%)	(%)	(%)	(%)	(%)	(%)
ALBERTA	**45.5**	**8.0**	**0.5**	**—**	**—**	**9.0**	**14.00**	**6.0**	**14.5**	**15.5**	**—**	**2.00**	**—**
British Columbia	51.0	30/54.5	—	—	7.0	11.0[c]	22.00	9.0	—	16.5	0.30	3.00	—
Saskatchewan	50.0	15.0	2.0	10.0	7.0	15.0	16.80[b]	8.0	10/17	17.0	0.60	3.25	—
Manitoba	52.0	2.0	2.0	—	7.0	11.5	16.00[b]	9.0	—	17.0	0.50	3.00	2.25
Ontario	49.0	20/44	—	—	8.0	14.7	4.10[b]	9.5	13.5	15.5	0.30	1.12	1.95
Quebec	n.a.	n.a.	n.a.	—	6.5	15.2[b,c]	5.34[b]	5.75	—	8.9	0.64	1.28	4.26
New Brunswick	63.0	8.0	—	—	8.0	10.7[b]	7.30[b]	7.0	—	17.0	0.30	3.00	—
Nova Scotia	58.5	10.0	—	—	8.0	13.5[b]	8.44[b]	5.0	—	16.0	0.25	3.00	—
P.E.I.	59.5	10.0	—	—	10.0	13.0	12.05	7.5	7.5	16.0	—	3.00	—
Newfoundland	69.0	10.0	—	—	8.0	16.5[b]	22.00[b]	5.0	5.0	14.0	—	4.00	2.00

Rates for other provinces known as of April 8, 1997.

[a] The basic rate is a percentage of basic federal tax. The high income surtax is applied above certain thresholds which vary among provinces and is based on: net income in Manitoba, the sum of basic tax and flat tax in Saskatchewan and basic tax in the other provinces. The flat rate tax is a percentage of taxable income in Alberta and net income in Saskatchewan and Manitoba. Quebec's personal income tax system is not directly comparable to those in other provinces.

[b] These provinces apply their retail sales taxes on top of this tax.

[c] An additional 4¢/litre is imposed in the greater Vancouver area and 1.5¢/litre in Victoria and Montreal.

1997 Top Marginal Personal Income Tax Rates (per cent)

	Federal	Provincial	Federal Abatement	Total
Alberta	**31.32**	**14.75**		**46.07**
British Columbia	31.32	22.85		54.17
Saskatchewan	31.32	20.63		51.95
Manitoba	31.32	19.08		50.40
Ontario	31.32	20.46		51.78
Quebec[b]	31.32	26.40	(4.79)	52.93
New Brunswick	31.32	19.73		51.05
Nova Scotia[c]	31.32	18.66		49.98
Prince Edward Island	31.32	18.98		50.30
Newfoundland	31.32	22.01		53.33

[a] Includes basic rate, surtaxes and flat taxes.

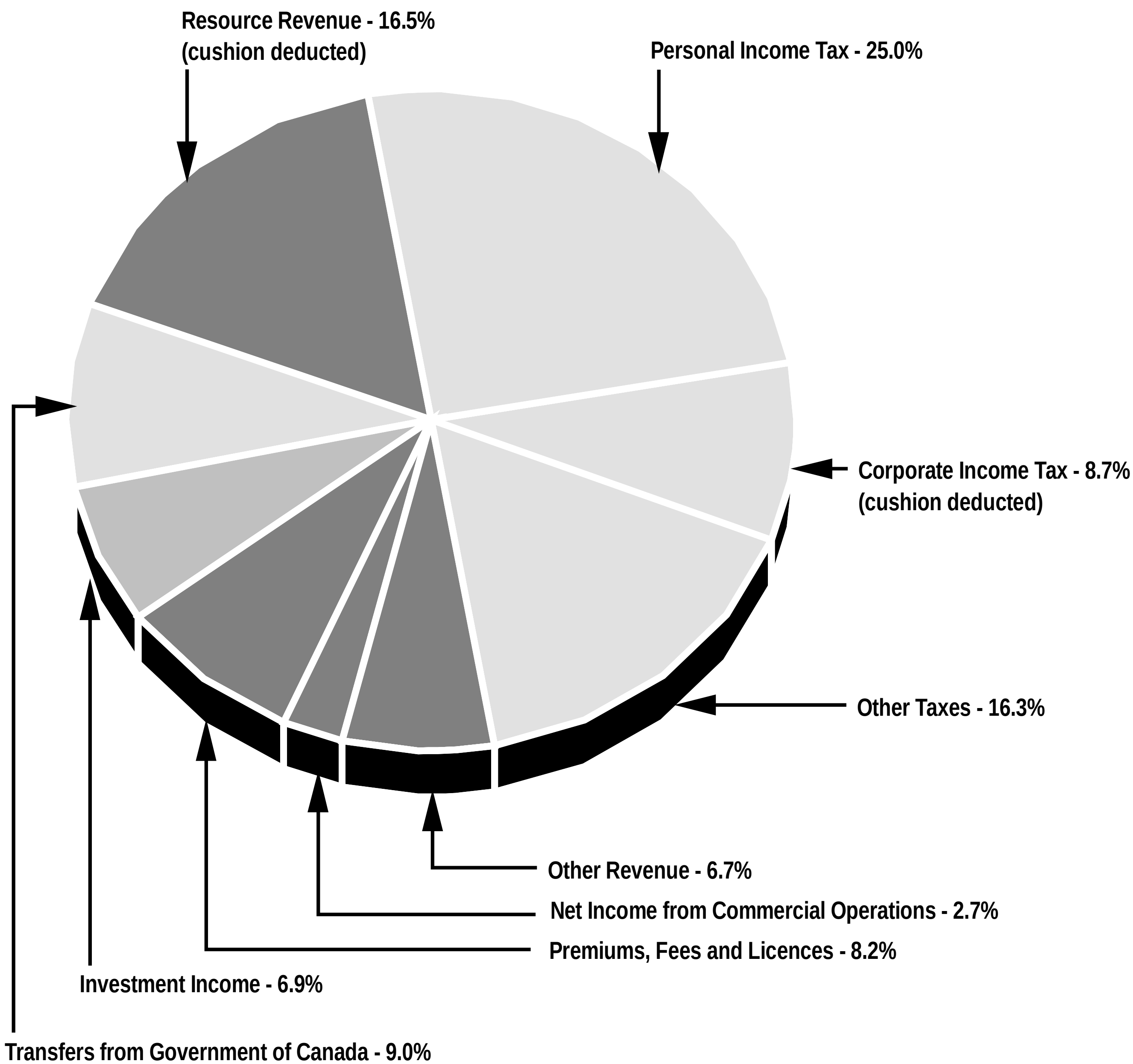
[b] Quebec residents receive an abatement of 16.5% of basic federal tax in lieu of federal cash transfers to Quebec for several social programs. This reduces the top basic federal rate of 29% by 16.5%, or 4.79% of taxable income.

[c] Nova Scotia is lowering its rate from 59.5% to 57.5% of basic federal tax on July 1, 1997. The marginal rate will drop from 50.30% to 49.66%.

Revenue

1997-98 Estimate

UPDATED



Total Revenue – $14,112 million

1997-98 Revenues from Tax Sources

Tax	Total Revenue ($ millions)	Tax Rate (1997)	Revenue per Unit of Tax ($ millions)	
1. Personal Income Tax[a]	3,526			
basic rate	3,291	45.5%	72.5	per point
flat tax	250	0.5%	250.0	per half point
surtax	70	8.0%	9.0	per point
selective tax reduction	(85)		10.0	per $25 change in the current tax threshold of $430
2. Corporate Income Tax	1,436			
general rate	932	15.5%	60.0	per point
M&P rate	363	14.5%	25.0	per point
small business rate	141	6.0%	23.5	per point
3. Fuel Tax	528			
gasoline and diesel	474	9 cents/litre	53.0	per cent/litre
railway	22	9 cents/litre	2.5	per cent/litre
aviation	10	1.5 cents/litre	7.0	per cent/litre
propane	22	6.5 cents/litre	3.5	per cent/litre
4. Tobacco Tax	315	$14/carton	22.5	per dollar/carton
5. School Property Tax	1,169			
residential/farm property	570	$7.02/$1,000 assessment	81.0	per dollar/$1,000 assessment
non-residential	599	$10.30/$1,000 assessment	58.0	per dollar/$1,000 assessment
6. Freehold Mineral Rights Tax	106	(difficult to express in per unit terms)		
7. Insurance Corporations Tax	103			
life,accident,sickness	29	2% of premium	14.5	per point
other	74	3% of premium	24.5	per point
8. Financial Institutions Capital Tax	37	2.0%	18.5	per point
9. Hotel Room Tax	35	5.0%	7.0	per point

[a] The basic rate is a percentage of basic federal tax. The high income surtax is a percentage of basic provincial tax above $3,500. The flat tax is a percentage of taxable income.

Appendix

Debt Position and Debt Management

Table of Contents

List of Charts and Tables

Debt Position and Debt Management

Alberta may be unique among governments in that it manages a large liability portfolio as well as the large financial holdings of the Heritage Fund. Most other governments do not have significant financial assets to offset a portion of their debt.

During the 1970s and early 1980s the Alberta government built up financial assets by saving some of its oil and gas revenues in the Alberta Heritage Savings Trust Fund. Although large budgetary deficits from 1985-86 to 1993-94 resulted in a rapid accumulation of debt, the Heritage Fund still has the savings that were put away earlier. Following an extensive public review of the future of the Heritage Fund, a number of changes have been made to establish a clear direction and implement a new governance structure for how the Fund is managed. Legislation which sets the new direction for the Fund came into effect on January 1, 1997.

The province's consolidated financial statements include other financial assets such as investments in endowment funds for medical research and scholarships, various loans and advances, and accounts receivable. They also include other liabilities such as accounts payable and pension obligations.

This appendix explains:

- the province's financial assets, liabilities and net debt and how they are shown in the consolidated budget and financial statements;
- how the province manages its direct debt; and
- how much the province expects to borrow in 1997-98 and how much interest the province expects to pay.

The appendix following this one presents the first public business plan for the Alberta Heritage Savings Trust Fund.

The Consolidated Balance Sheet and Net Debt

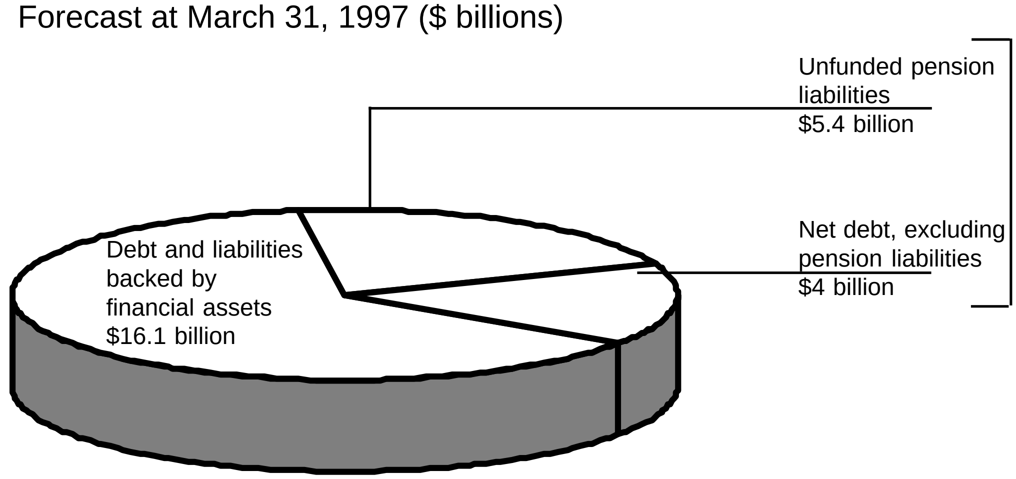
A balance sheet is a snapshot of the government's financial position on a specific date. It summarizes the province's liabilities, financial assets, and net debt at the year end date. In a large enterprise such as the government of Alberta, individual financial statements are prepared for various funds and agencies and then consolidated to present the province's overall position. Transactions within the Alberta government such as those among the General Revenue Fund, the Alberta Heritage Savings Trust Fund, other provincial funds and provincial corporations, excluding commercial enterprises, are taken out of both revenues and expenses. Budget '97 is presented on a basis consistent with the audited consolidated financial statements (Public Accounts).

The province's liabilities consist of unmatured debt and other liabilities that arise from the normal operations of government, as well as pension liabilities. The province's financial assets include investments of the Heritage Fund, Medical Research Endowment Fund, Heritage Scholarship Fund and other assets, such as loans to farmers and small businesses, and accounts and accrued interest receivable. Since 1987-88, the province's liabilities including pension liabilities have been greater than its financial assets creating our net debt. In the past, annual deficits increased net debt. Now, annual surpluses are reducing it.

Alberta's liabilities are forecast to total $25.5 billion at March 31, 1997. Financial assets are forecast to be $16.1 billion, including $10.1 billion in external Heritage Fund assets (excludes the Fund's investments in Alberta government entities). The $9.4 billion difference between liabilities and financial assets is the province's net debt. This net debt obligation is being addressed under two separate legislated plans.

Alberta's Consolidated Debt and Liabilities

Forecast at March 31, 1997 ($ billions)



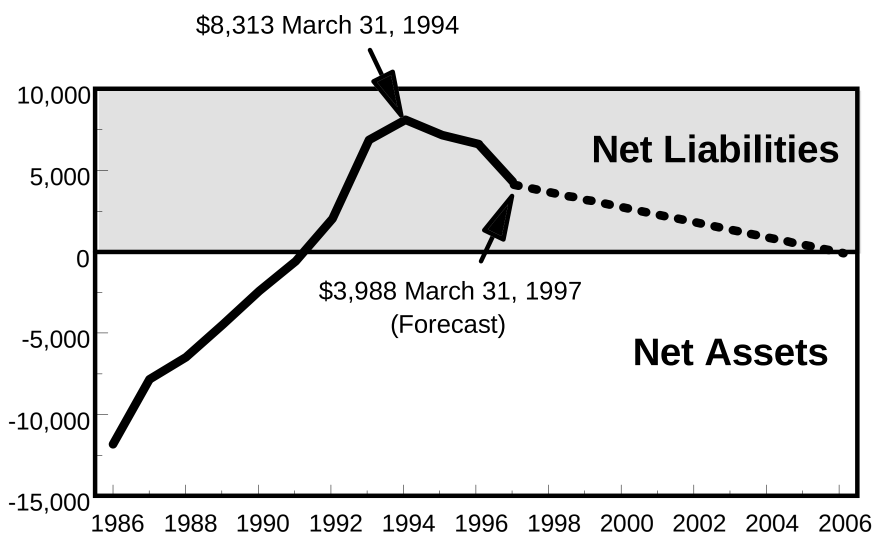
Total Debt and Liabilities: $25.5 billion

Unfunded pension liabilities are forecast to be $5.4 billion at March 31, 1997. They are scheduled for elimination under a 1993 legislated plan that was approved by all parties in the Legislative Assembly as well as employees and employers. Unlike most other liabilities of the province, unfunded pension liabilities are not current cash requirements. They reflect the pension plans' obligations to make future pension payments. Unfunded pension liabilities do not affect the province's borrowing requirements or debt servicing costs.

The net debt, excluding pension liabilities, is forecast to be slightly less than $4 billion at March 31, 1997. Under the Balanced Budget and Debt Retirement Act this net debt must be eliminated by 2010, or sooner. With the forecast 1996-97 surplus of $2.235 billion, the net debt, excluding pension liabilities, is expected to be eliminated by 2005-06. Success in paying down the net debt over the last three years has lowered debt servicing costs. Debt servicing costs in 1996-97 are $264 million less than their peak in 1994-95. These savings are being reinvested in the priority areas desired by Albertans — health and education.

Net Debt Subject to Balanced Budget and Debt Retirement Act

($ millions)



The reduction in net debt does not always result in a corresponding reduction in total liabilities on the consolidated balance sheet. Pension liabilities are expected to grow over the fiscal plan period, offsetting, in part, the reduction in net debt subject to the Balanced Budget and Debt Retirement Act.

In addition, other factors result in differences between the reduction in net debt and changes in total liabilities. In 1995-96, for example, when the General Revenue Fund repaid debt it owed to the Heritage Fund and refinanced part of the debt externally, both total liabilities (debt owed to external investors) and total assets (including external Heritage Fund investments) increased.

In 1996-97 and again in 1999-2000, retaining income in the Heritage Fund for inflation proofing will decrease net debt by increasing total assets rather than reducing total liabilities. Finally, changes in other assets and liabilities such as

Net Debt

(millions of dollars)

	At March 31				
	1996 Actual	**1997 Forecast**	**1998 Estimate**	**1999 Target**	**2000 Target**
Liabilities					
Unmatured debt					
General Revenue Fund (Direct Debt)	18,007	15,718	15,670	15,404	15,413
Alberta Social Housing Corporation	1,166	1,006	961	873	832
Agriculture Financial Services Corporation	870	830	790	778	764
Alberta Opportunity Company	65	65	66	70	73
	20,108	17,619	17,487	17,125	17,082
Consolidation Adjustments					
Less debt held internally by:					
Heritage Fund	2,106	1,701	1,586	1,425	1,307
Other Consolidated Entities	164	105	137	203	269
	2,270	1,806	1,723	1,628	1,576
Unmatured Debt	17,838	15,813	15,764	15,497	15,506
Other liabilities					
Pension liabilities	5,352	5,402	5,467	5,582	5,697
Equity in Alberta Municipal Financing Corporation	555	483	469	434	378
Accounts and interest payable	1,948	1,950	1,750	1,680	1,600
Future Funding of School Board loans	1,418	1,298	1,180	1,064	951
Guarantees, indemnities and remissions	324	315	320	320	320
General government accrued liabilities	201	210	120	120	120
Total Liabilities	27,636	25,471	25,070	24,697	24,572
Less:					
Financial Assets					
Investments					
Heritage Fund Assets[a]	12,002	12,144	12,144	12,144	12,389
Consolidation Adjustments					
Less internal assets issued by:					
Provincial Corporations	1,851	1,701	1,586	1,425	1,307
General Revenue Fund	255	0	0	0	0
Other[b]	317	320	308	303	193
External Heritage Fund investments	9,579	10,123	10,250	10,416	10,889
Medical Research and Scholarship Funds	884	930	970	1,010	1,050
Other cash, marketable securities, and accounts receivable	2,486	2,271	2,317	2,242	2,209
	12,949	13,324	13,537	13,668	14,148
Other financial assets					
Loans to farmers and small businesses[c]	1,896	1,651	1,471	1,342	1,233
Equity and investments in Alberta Municipal Financing Corporation	726	641	617	582	421
Inventories held for resale	305	280	255	250	250
Equity in other commercial enterprises	185	185	185	185	185
	3,112	2,757	2,528	2,359	2,089
Total Assets	16,061	16,081	16,065	16,027	16,237
Net Debt	11,575	9,390	9,005	8,670	8,335
Less: Unfunded pension liabilities subject to elimination under legislation	5,352	5,402	5,467	5,582	5,697
Net Debt subject to Balanced Budget and Debt Retirement Act	6,223	3,988	3,538	3,088	2,638

[a] Net equity of the Heritage Fund (assets less accounts payable) was $11,826 million at March 31, 1996 and is forecast to be $11,968 million at March 31, 1997.
[b] Commercial enterprise debt and accrued interest receivable from provincial corporation and General Revenue Fund debt.
[c] Includes deposits with financial institutions under the Farm Credit Stability Program and the Small Business Term Assistance Program.

investments and borrowing by provincial corporations and changes in accounts receivable and accounts payable can affect total liabilities and total assets without affecting net debt.

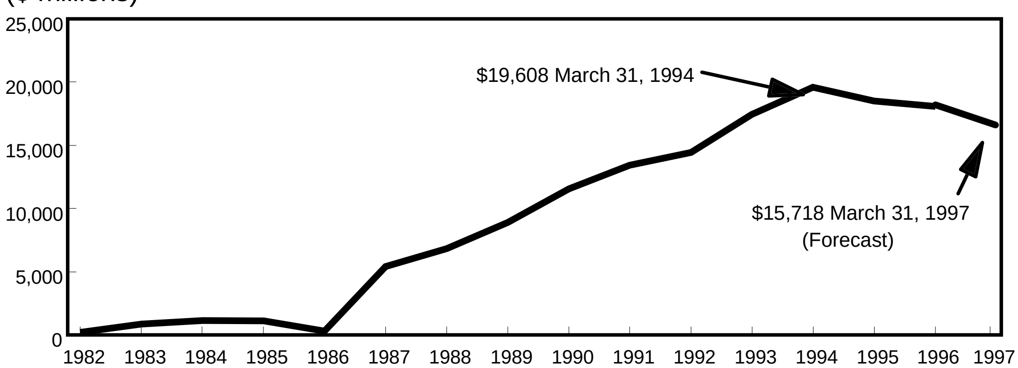
The province's non-financial assets such as government land, buildings, highways, bridges and dams have an estimated net book value of $7.5 billion at March 31, 1997. These non-financial assets are not taken into account in determining net debt. In the private sector capital assets are included on the balance sheet, but this is not the case for governments. Accounting treatment of capital assets by governments continues to be reviewed by the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants.

The Net Debt table shows total liabilities and total financial assets in the province's consolidated financial statements. The following is a description of the major types of liabilities and financial assets.

Liabilities

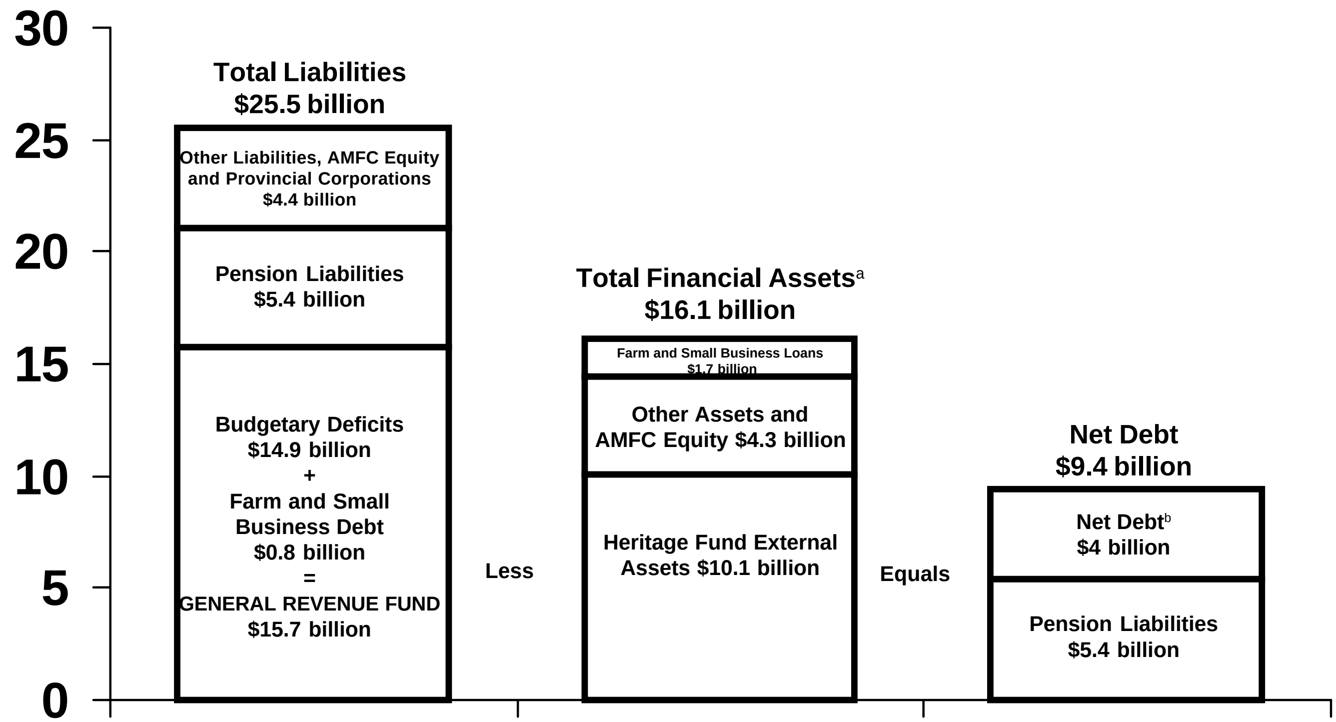
Alberta has debt for several reasons. The largest part of our debt is debt of the General Revenue Fund. At March 31, 1997 this debt is expected to total $15.7 billion. Almost all of this debt has been incurred since 1986. It is the money Alberta borrowed to finance annual budgetary deficits. About $0.8 billion of General Revenue Fund debt was issued to finance the Farm Credit Stability and Small Business Term Assistance Programs. These loans are being paid back over the next 14 years.

Direct Debt
($ millions)



Provincial corporations such as Agriculture Financial Services Corporation, Alberta Opportunity Company, Alberta Social Housing Corporation and Alberta Municipal Financing Corporation (AMFC) have borrowed from the Heritage Fund, the Canada Pension Plan, Canada Mortgage and Housing Corporation, and in the financial markets. The borrowings have been used to finance these corporations' loans to municipalities, farmers and small businesses and social housing assets. Their debt increased rapidly from the late 1970s to the mid 1980s when many of these corporations' programs were growing rapidly. The total debt

Alberta's Consolidated Debt and Financial Assets
Forecast at March 31, 1997 ($ billions)



[a] Excludes non-financial assets such as government land, buildings, highways, bridges and dams with an estimated net book value of $7.5 billion at March 31, 1997.
[b] Net debt subject to Balanced Budget and Debt Retirement Act

of these entities is now declining. The debt of these provincial corporations, excluding debt of AMFC, is $1.9 billion and is backed by the province.

Debt of the General Revenue Fund and provincial corporations less debt held internally by the Heritage Fund and other Alberta entities is called unmatured debt on the consolidated balance sheet. After excluding internal holdings of $1.8 billion, unmatured debt is forecast at $15.8 billion at March 31, 1997.

Unfunded pension liabilities represent the government’s share of liabilities under public sector pension plans in excess of the pension plans’ assets. The government’s liability is estimated at $5.4 billion at March 31, 1997.

The equity in AMFC is also shown as a liability because the shareholders of AMFC, other than the province, receive distributions of its surpluses.

Accounts and accrued interest payable arise from the normal operations of government. Other liabilities at March 31, 1997 include $1.3 billion in future funding to school boards by the province to enable them to repay debentures issued to the Alberta Municipal Financing Corporation, anticipated payments under guarantees and indemnities and for remissions of student loans of $315 million, and vacation entitlements and long term disability benefits of $210 million.

Assets

Alberta's financial assets consist primarily of marketable securities and other investments, and loans and advances. Financial assets are forecast at $16.1 billion at March 31, 1997.

The Heritage Fund is a significant financial asset of the province. As with the treatment of gross debt, the Heritage Fund’s holdings of debt issued by the General Revenue Fund and provincial corporations are cancelled out in preparing the consolidated financial statements. It is estimated that the consolidated financial statements will include $10.1 billion of external Heritage Fund assets at March 31, 1997. The difference between $12.1 billion of Heritage Fund gross assets and $10.1 billion Heritage Fund external assets represents internal holdings.

Other investments include those of the Alberta Heritage Foundation for Medical Research Endowment Fund and the Alberta Heritage Scholarship Fund which are forecast at $930 million at March 31, 1997. Other cash and marketable securities of other government funds and agencies, and accounts receivable are forecast at $2.3 billion at March 31, 1997.

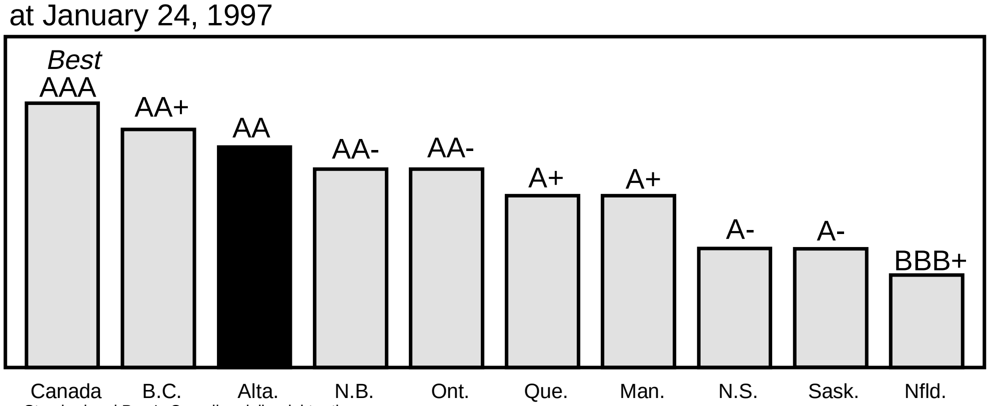
Forecast other financial assets at March 31, 1997 include loans to farmers and small businesses and associated assets of $1.7 billion, and inventories held for resale of $280 million. Equity and investments in Alberta Municipal Financing Corporation and equity in other commercial enterprises is forecast at $826 million at March 31, 1997.

Debt and Credit Rating

A **credit rating** represents a credit rating agency’s assessment of the province’s ability, as an issuer of debt, to meet its obligations in a timely manner. In determining a credit rating, rating agencies consider the level of provincial debt and whether the level is manageable. However, debt burden is only one factor in determining a government’s credit rating. Credit rating agencies also consider: the current and future financial and economic conditions and operating performance of the province; the economic and political environment as it might affect the

Credit Ratings

As at January 24, 1997



Source: Standard and Poor's Canadian dollar debt ratings province’s future financial strength, credit quality and the likelihood of default; and the capacity and willingness of the province to make timely payments of principal and interest.

Alberta has the second highest credit rating of all the Canadian provinces. In 1996, Alberta’s rating was upgraded by Canadian Bond Rating Service from AA to AA+. Moody’s and Dominion Bond Rating Service reaffirmed the province’s rating at Aa2 and AA respectively. Standard and Poor’s revised its outlook on Alberta to positive from stable and reaffirmed its AA rating on the province. Alberta’s objective is to achieve the highest credit rating of the provinces. A top rating will assist Alberta to access capital markets on the finest terms thereby helping the province to minimize borrowing costs. In fact, in the Canadian market, Alberta is already able to borrow at lower interest rates than British Columbia which has the highest credit rating of any province.

The government of Canada is rated AAA by Standard and Poor’s and Aa1 by Moody’s on Canadian dollar debt and AA+ and Aa2, respectively, on foreign currency debt. Alberta’s rating cannot be higher than the federal government’s rating.

Liability Management

Objectives

The objectives of the province’s liability management program are:

- to meet the cash requirements of the province and

- to minimize the province’s borrowing costs within an acceptable level of risk as specified in the policy guidelines.

This section describes the management of the province’s direct debt. Debt of provincial corporations such as Alberta Municipal Financing Corporation is managed separately in relation to each corporation’s assets.

Management of Risks

The Balanced Budget and Debt Retirement Act requires net debt (forecast at $4 billion at March 31, 1997) to be eliminated by March 31, 2010. Total direct debt at March 31, 1997 is expected to be $15.7 billion. Even under the debt repayment plan required by legislation, the province will have a significant amount of direct debt for many years.

The objective of debt management is to achieve the lowest cost on debt within an acceptable degree of variability on debt servicing costs. In order to achieve this objective, the province manages three risks—interest rate risk, currency exchange rate risk and refunding risk. These risks must be balanced against each other and against the desire to minimize borrowing costs. The policy guidelines the province uses in controlling these risks are summarized later in this section.

Interest rate risk is the volatility or impact of interest rate changes on debt costs. Debt is either fixed rate or floating rate. Debt that is floating rate is sensitive to changes in interest rates that occur within one year or less. Floating rate debt includes short-term debt (with an original term to maturity of less than one year), debt issued for terms longer than one year where the interest rate is reset periodically (monthly, quarterly or semi-annually), and fixed interest rate debt swapped to a floating rate obligation. For the purpose of managing interest rate risk, other debt originally issued for a term longer than one year but which matures within one year is also considered to be floating rate debt because the cost of refinancing the debt at maturity will depend on changes in market interest rates within the next year.

Past market experience has shown that floating rate debt has been cheaper than fixed rate debt in both Canada and the U.S. However, there have been periods of significant and unexpected increases in short-term borrowing costs.

Because floating rate debt is generally cheaper than fixed rate debt over longer periods of time, the province borrows a significant amount of debt on a floating rate basis. However, since the cost of floating rate debt is less predictable than fixed rate debt, it would not be prudent for all debt to be floating rate. The province's policy is to maintain floating rate debt between 38% and 50% of total debt. The minimum level of floating rate debt has been increased from 25% based on analysis of historical financial relationships. In practice, the province has typically maintained floating rate debt at or above 38% of total debt.

The target average term of U.S. dollar debt is approximately 1.1 years while the target average term of Canadian dollar debt is between 3 and 4 years[1]. Keeping U.S. dollar debt relatively short-term should allow the province to benefit from the historically greater stability of short-term interest rates in the U.S. compared to Canada. The average term of Canadian dollar debt will be varied depending on the outlook for interest rates.

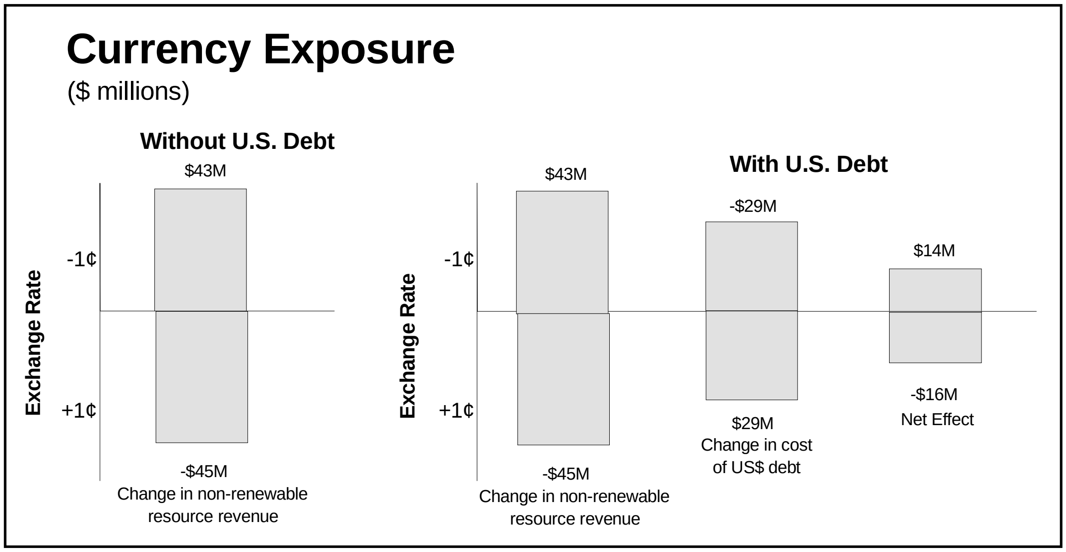
Currency exchange rate risk is the volatility or impact of currency rate changes on debt costs. The province's policy is that debt be either payable in Canadian or U.S. dollars. If debt is issued in other currencies (e.g., Japanese yen or New Zealand dollars), it is swapped into U.S. or Canadian dollars. Alberta has no exposure to foreign currencies other than U.S. dollars. U.S. dollar debt is kept between 32% and 35% of total direct debt.

Alberta maintains a higher proportion of its debt in U.S. dollars than do most other Canadian provinces because of the unique importance of oil and gas royalty revenues in the province's finances. Over 60%, or U.S. $1.4 billion, of Alberta's

---

[1] Estimated term based on an average duration of 2.4 years to 3.2 years for Canadian dollar debt and 1 year for U.S. dollar debt. In practice, the investment industry (and Alberta Treasury) manages investment and liability portfolios by looking at their "duration" as opposed to the average term to maturity since a bond portfolio's duration better reflects its sensitivity to interest rates (see glossary for a definition of duration).

oil and gas royalty revenue is directly linked to the U.S./Canadian dollar exchange rate. Oil royalties and royalties from natural gas exported to the U.S. are generally either paid in U.S. dollars or are directly dependent on U.S. dollar based prices. Alberta borrows some of its debt in U.S. dollars, knowing that if the exchange rate changes, the effect on debt servicing costs usually will be offset by a change in royalty revenue. This “natural hedge” moderates changes in the government’s bottom line from fluctuations in the exchange rate.



Past market experience has shown that borrowing in U.S. dollars has generally been cheaper than borrowing in Canadian dollars because lower U.S. interest rates have more than offset any declines in the Canadian dollar. At present (January 24, 1997) Canadian interest rates for terms up to seven years are lower than U.S. interest rates but financial markets expect the Canadian dollar to rise against the U.S. dollar and offset this difference. This can be observed in the market for U.S. dollars bought today for future delivery.

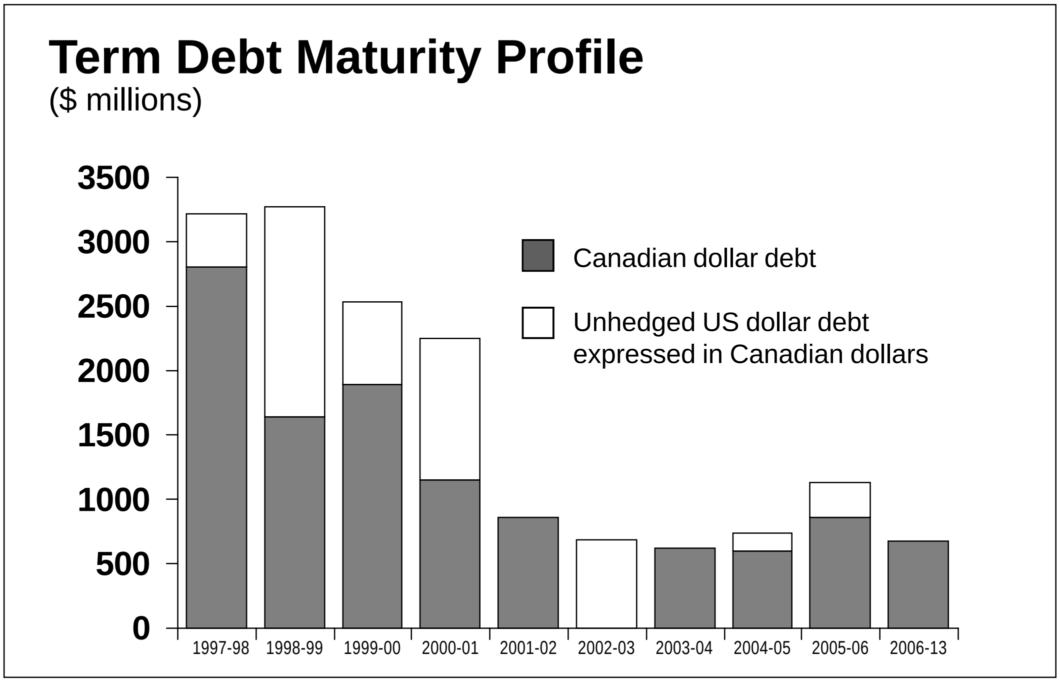
Given the "natural hedge" provided by U.S. dollar-based resource revenues, a balance between Canadian and U.S. dollar debt allows the province to benefit from the historically lower cost of U.S. dollar debt while moderating the risk of exchange rate changes to the province.

Refunding risk is the uncertainty of the province being able to refinance its debt in the capital markets on favourable terms. Generally, the province can access the capital markets very easily. However, there are periods when borrowing becomes more expensive or not possible in large amounts. Therefore, the province spreads maturities of term debt issues across fiscal years. In general the province keeps term debt maturities at less than $3.5 billion in any fiscal year. Maturities of term debt are $3.2 billion in 1997-98, including forecast early redemptions of $200 million of Alberta Savings Certificates.

This guideline has been increased because the previous $2.5 billion guideline was established in 1992 when the province was borrowing heavily to finance budgetary deficits as well as to refinance maturities. Now that the budgetary deficit has been eliminated a higher level of maturities can be accommodated each year.

As of November 30, 1996, the General Revenue Fund has ceased to rely on the Heritage Fund as a regular source of borrowing. The new Heritage Fund Transition Portfolio will maintain some liquid assets to be transferred annually to the Heritage Fund Endowment Portfolio but financing the General Revenue Fund on a regular basis would not be consistent with the Fund's new investment objectives.

The province has established a syndicated revolving credit facility with a limit of U.S.$750 million to help meet liquidity requirements in the event other sources of funding are not available. The province also has agreements with banks for loans of up to $400 million and U.S.$100 million to be used, if needed, for cash management purposes.



Policy Guidelines

The following summarizes the province's policy guidelines for managing interest rate, currency exchange rate and refunding risks. The table also indicates the forecast position at March 31, 1997.

Policy Guidelines

Interest Rate Risk

Guideline	Floating rate debt between 38% and 50% of direct debt.
Status	*Floating rate debt is forecast at 42% at March 31, 1997.*

Currency Risk

Guideline	Unhedged U.S. dollar debt between 32% and 35% of direct debt.
Status	*Unhedged U.S. dollar debt is forecast at U.S.$3.85 billion or 33% of direct debt at March 31,1997.*
Guideline	No exposure to currencies other than to Canadian or U.S. dollar debt.
Status	*All debt issued in Japanese yen and New Zealand dollars has been swapped into U.S. dollars*.

Refunding Risk

Guideline	Term debt maturities less than $3.5 billion in any fiscal year, excluding early redemption of Alberta Capital Bonds and Alberta Savings Certificates.
Status	*Term debt maturities in 1997-98 are $3.2 billion, including $200 million provision for early redemption of Alberta Capital Bond and Alberta Savings Certificates. Term debt maturities are less than $3.5 billion in all years.*

Performance Measures

The performance of the province's liability management will be measured in three ways — by looking at the province's market spreads, the market value cost of debt, and the book value cost of debt. These performance measures will be published annually in Treasury's Annual Report.

Market spreads - Alberta's cost of borrowing is determined relative to the federal government interest rate for the same term. The difference in the interest rate Alberta would pay on a particular term debt compared to the federal government is called a market spread. The relative market spread for comparable provinces is a reflection of the province's credit rating and the market's perception of the province's fiscal management and how the provincial debt is managed. Alberta is currently able to borrow at better spreads than British Columbia (rated AA+), which is rated higher than Alberta (rated AA).

	5 Year				10 Year			
	Canada Rate (%)	Alberta	B. C.	Ontario	Canada Rate (%)	Alberta	B. C.	Ontario
		(basis point spread)				(basis point spread)		
March 31, 1991	9.39	+60	+61	+61	9.52	+62	+63	+63
March 31, 1992	8.53	+51	+56	+71	8.76	+70	+75	+90
March 31, 1993	6.90	+46	+49	+75	7.52	+58	+61	+84
March 31, 1994	7.64	+30	+30	+50	8.03	+30	+30	+66
March 31, 1995	8.37	+11	+13	+30	8.67	+17	+19	+36
March 31, 1996	7.05	+8	+10	+17	7.67	+14	+17	+28
March 31, 1997	6.04	+5	+11	+11	6.68	+8	+18	+18
Credit Rating								
(Standard and Poor's)		AA	AA+	AA-		AA	AA+	AA-
(Moody's)		Aa2	Aa1	Aa3		Aa2	Aa1	Aa3

A basis point is one-hundredth of a percent.
Source: Quotes from investment dealers for interest rates on new borrowing in the Canadian bond market.

Market value cost of debt measures the total cost of carrying the debt portfolio, including cash interest costs and the change in market value of debt outstanding. The market value cost of debt is calculated at market values using the time-weighted method. This measure is the standard industry measure of performance.

The following table shows the market value cost of the province's Canadian dollar debt in Canadian dollars, the cost of U.S. dollar debt in U.S. dollars, and the market value cost of the total debt portfolio expressed in Canadian dollars.

Market Value Cost of Debt (percent)

	Year Ended March 31, 1996	
	Cdn $ Debt	U.S.$ Debt
Short-term debt	7.37	6.55
Medium and long-term debt	13.85	10.14
	10.42	9.25
Market value cost of total debt portfolio (in Cdn $)		
One Year	9.03	
Two Years	7.79	

The market value cost of debt in 1995-96 was high, compared to the level of interest rates for example, because interest rates fell during the year. Falling interest rates increased the value of the province's debt to investors. This increase in value is captured in the market value cost of debt shown above.

In future this cost will be compared to the theoretical cost of a benchmark debt portfolio to assess Alberta Treasury's performance in managing the debt. The benchmark debt portfolio was developed with the assistance of major international investment dealers. The benchmark is based on computer simulation analysis which takes into consideration the historical interrelationships between interest rates and exchange rates, and the exposure of the province to the Canada/U.S. dollar exchange rate through oil and gas revenues. The benchmark portfolio is based on the province maintaining its debt as follows:

Average Term of Canadian dollar debt	3.5 years
Average Term of U.S. dollar debt	1.1 years
U.S. dollar debt as a percentage of total direct debt	34%

Book value cost of debt measures debt servicing cost as a percentage of weighted average debt outstanding. Book value cost of debt is calculated at book values using a method similar to an internal rate of return. This measure reflects the accounting cost of debt.

Book Value Cost of Debt (percent)		
Result:	**Years Ended March 31, 1996**	
	One Year	**Two Years**
Book value cost of debt	8.29	8.48

Borrowing Programs

The province meets its borrowing requirements through a number of borrowing programs. Borrowing under different programs helps the province broaden and diversify its Canadian and international investor base. A broad and diverse investor base helps ensure strong demand for the province's debt securities and reduces the cost of debt to the province. Albertans can buy the province's debt securities through exclusive access to Alberta Savings Certificates.

Term Debt

The province has issued term debt in Canada, U.S.A., Europe and Japan under the following programs (for program debt limits, see Program Debt Limits table).

Syndicated Term Debt Issues From time-to-time the province issues bonds through a syndicate of dealers to retail and institutional investors in Canada, the U.S. and Europe and recently to retail investors in Japan. Unless authorized under an existing program, individual term debt issues are approved by Order in Council.

Euro Medium Term Notes Under this program the province can borrow in Canada and international markets, except the United States, in a wide variety of currencies for terms up to 15 years.

General Borrowing Authority Occasionally the province may borrow directly from an investor. For example, the province may borrow, in the form of a loan, from a large foreign or domestic financial institution. Private placements compose most of the notes and loans issued under this program.

Alberta Savings Certificates (formerly Alberta Capital Bonds)
These certificates are issued annually in June to Alberta residents only.

Canada Pension Plan (CPP) Prior to 1992, the federal government lent surplus CPP contributions received from Albertans to the province at the federal government's cost of borrowing.

Short-Term Debt

The province has issued short-term debt in Canada and the United States under the following programs.

Canadian Notes Under this program the province issues short-term notes in the Canadian domestic market and notes with terms to maturity of up to 15 years. Borrowing requirements of the Agriculture Financial Services Corporation and the Alberta Opportunity Company are also being financed through this program.

U.S. Commercial Paper The province issues notes with terms of less than 270 days in the U.S. domestic market.

Program Debt Limits

(millions of dollars)

	March 31, 1997 Forecast	
	Limit	Outstanding
Total General Revenue Fund debt - Financial Administration Act	21,500	15,718 [a]
Program Debt Limits - Orders in Council		
Treasury bills	700	—
Canadian notes	3,500	1,129
General Borrowing Authority	800	137
U.S. commerical paper	US$1,000	35 [a]
Euro medium term notes	US$2,200	975 [a]

[a] Reflects valuation of U.S. dollar debt at forecast exchange rate of 74.5 cents US per C$1 at March 31, 1997

Borrowing Requirements

The province is continuing to borrow money to repay maturing debt. Borrowing requirements are reduced by the net cash receipts now being generated by budgetary surpluses. In order to calculate net cash receipts, the consolidated surplus, which is reported on an accrual basis, is adjusted for items that do not affect the General Revenue Fund and for the timing of cash receipts and payments.

For cash forecasting purposes, it is assumed that the province will receive $450 million for targetted net debt repayments in each year beginning 1997-98.

1996-97 Borrowing Activity

The province expects to issue term debt of about $2,038 million in 1996-97 of which $1,694 million had been issued to January 24, 1997. Together with the forecast cash receipts of $2,346 million these funds will be used to refinance term debt maturities of $2,648 million and to reduce short term debt by $1,736 million.

1996-97 Term Borrowing Activity

(millions of dollars)

UPDATED

	Amount	Date of Issue	Term to Maturity (Years)
Alberta Savings Certificates	340	June 1996	3 and 7
Canadian Notes [a,b]	439	June 1996 to March 1997	5 to 15
Canadian Debentures	350	October 1996	5
Euro-Medium Term Notes [a,c]	319	October 1996 and March 1997	2 to 10
Dual currency bonds [d]	362	November 1996	3
Total term borrowings	**1,810**		

[a] Includes issues with early redemption option.
[b] Some issues are swapped to U.S. dollar liability.
[c] Issued in U.S., Australian or New Zealand dollars and fully hedged in Canadian or U.S. dollars.
[d] Issued in Japanese retail market (principal in Australian dollars and interest payments in Japanese yen) and fully hedged in U.S. dollars.

1997-98 Borrowing Plan

Total borrowing requirements are estimated at $3,138 million in 1997-98, composed of $3,211 million of term debt maturities less net cash receipts of $73 million.

In 1997, $401 million in maturing Alberta Capital Bonds and $200 million forecast early redemptions will be refinanced. In November 1997, a U.S. $300 million issue will likely be refinanced by borrowing in U.S. dollars or other currencies and swapping the obligation into U.S. dollars to maintain the province's U.S. dollar debt at approximately the current level. The Euro Medium Term Note program is expected to continue to be a source of funding in 1997-98 to the extent it provides an attractive relative cost of borrowing.

In addition to the above requirements, the restructuring of the Heritage Fund may require that some of the debt of provincial corporations held by the Fund be refinanced in the market.

Direct (General Revenue Fund) Debt

(millions of dollars)

	March 31, 1996 Actual	March 31, 1997 Forecast	Term Debt Maturities in 1997-98	March 31, 1998 Estimate
Direct Debt				
Term Debt				
Canadian dollar term debt				
Issued in Canada	7,100	7,725	1,659	6,066
Issued in Europe	1,341	960	139	821
U.S. dollar term debt				
Issued in U.S.A.	1,022	1,040	410	630
Issued in Europe	4,003	3,245	402	2,843
Issued in Japan	138	500	—	500
Alberta Savings Certificates/Capital Bonds	1,796	1,377	601[a]	776
Canada Pension Plan	679	679	—	679
	16,079	15,526	3,211	12,315
Short-term Debt				
Promissory notes	1,335	157	—	157
U.S. commercial paper	593	35	—	35
	1,928	192	—	192
Amortization of foreign exchange in 1997-98	—	—	—	25
Borrowing Requirements in 1997-98				
To refinance term debt maturities		—	—	3,211
Net cash receipts		—	—	(73)
		—	—	3,138
Total Direct Debt	18,007	15,718	—	15,670

[a] Includes $200 million provision for early redemptions.

General Revenue Fund Borrowing Requirements

(millions of dollars)

UPDATED

	1997-98 Estimate	1996-97 Forecast	1995-96 Actual
Targeted net debt repayment or consolidated surplus	(450)	(2,260)	(1,132)
Add: Retained surplus of other agencies	72	71	181
Add: Non-budgetary transactions			
Provincial corporation's borrowings	66	44	59
Funding of school board loan repayments to AMFC	118	120	122
Inflation-proofing of Alberta Heritage Savings Trust Fund	—	142	—
Other adjustments to cash	307	(419)	385
Less:			
Foreign exchange valuation	(5)	(98)	(92)
Repayments of farm credit and small business program deposits	(152)	(301)	(178)
Cash requirements (receipts)	(44)	(2,701)	(655)
Refinancing of short-term debt	—	1,770	—
Term debt maturities and redemptions	3,211	2,741	2,812
Total borrowing requirements	3,167	1,810	2,157

Debt Servicing Costs

General Revenue Fund debt servicing costs include interest costs on all direct debt of the province and foreign exchange valuation adjustments on all direct U.S. dollar debt. Consolidated debt servicing costs capture debt costs paid by the General Revenue Fund and provincial corporations to third parties. Any debt costs paid from one entity of the government to another entity of the government are eliminated (e.g., provincial corporation debt costs paid to the Heritage Fund).

Consolidated debt servicing costs include General Revenue Fund debt costs paid to third parties and interest costs of Alberta Social Housing Corporation debentures issued to third parties, net of program recoveries that Alberta Social Housing Corporation receives from Canada Mortgage and Housing Corporation and municipalities. Debt servicing costs of Alberta Municipal Financing Corporation are excluded as this corporation is treated as a commercial enterprise. Other debt servicing costs of Alberta Social Housing Corporation, Agriculture Financial Services Corporation, and Alberta Opportunity Company are cancelled out in consolidation adjustments because this borrowing is from either the Heritage Fund or the General Revenue Fund.

To calculate debt servicing costs, it is assumed that the average interest rate on three month Treasury bills will be 4.3% and the interest rate on 10 year Canada bonds will be 7% in 1997-98.

The foreign exchange rate assumption for 1997-98 is for the Canadian dollar to appreciate relative to the U.S. dollar from 74.50 U.S. cents at March 31, 1997 to 75.50 U.S. cents at March 31, 1998, with an average of 75 U.S. cents for the fiscal year. The March 31 exchange rate assumptions are used for calculating foreign exchange valuation adjustments in debt servicing costs.

Consolidated 1996-97 debt costs are forecast to decrease by $121 million from the budget estimate to $1,280 million due to the actual surplus in 1995-96 exceeding the forecast in the 1996 Budget, lower cash requirements in 1996-97 because of the $2,235 million forecast budgetary surplus and lower interest rates. Short term interest rates are forecast to be on average 2.7% below those forecast in last year's budget for 1996-97.

Debt costs are forecast to continue to decline in 1997-98. Consolidated debt costs are estimated at $1,155 million in 1997-98, $125 million lower than in 1996-97. Debt costs are estimated to decline as a result of the reduction in direct debt in 1996-97, refinancing of term debt at lower interest rates, lower foreign exchange provisions on U.S. dollar debt, and the $450 million targetted net debt repayment in 1997-98.

Consolidated Debt Servicing Costs

(millions of dollars)

	1995-96 Actual	1996-97 Budget	1996-97 Forecast	1997-98 Estimate	1998-99 Target	1999-00 Target
Treasury						
General Revenue Fund Interest Costs	1,476	1,416	1,288	1,194	1,182	1,158
Foreign Exchange Valuation Adjustments	92	54	57	25	—	—
Debt Servicing Costs	1,568	1,470	1,345	1,219	1,182	1,158
Less:						
General Revenue Fund interest costs paid to Heritage Fund	(39)	—	—	—	—	—
	1,529	1,470	1,345	1,219	1,182	1,158
Add:						
Agriculture, Food and Rural Development						
Agriculture Financial Services Corporation	85	80	74	68	65	63
Economic Development and Tourism						
Alberta Opportunity Company	6	5	5	4	4	4
Municipal Affairs						
Alberta Social Housing Corporation	124	111	107	100	92	84
Federal and municipal recoveries	(82)	(78)	(74)	(73)	(72)	(72)
Less: Consolidation adjustments	(206)	(187)	(177)	(163)	(152)	(142)
Total Consolidated Debt Servicing Costs	1,456	1,401	1,280	1,155	1,119	1,095

Glossary of Terms

assets - assets on the province’s consolidated balance sheet are financial assets. Financial assets consist primarily of marketable securities and other investments, and loans and advances.

basis point - one-hundredth of a percent. For example, a fifty basis point change in interest rates refers to a 0.5% change.

bond/debenture - financial instrument representing a debt where the government promises to pay to the holder a specific rate of interest over the life of the bond. On the maturity date, the principal is repaid in full to the holder.

consolidated financial statements - the “total” financial statements of the province which cancel out transactions between different parts of the government, and therefore provide a record of all government dealings with third parties such as individuals, corporations or other governments.

direct debt - debt the province has issued privately and in the capital markets to finance current government operations, capital projects and other requirements of the General Revenue Fund. Direct debt is the same as General Revenue Fund debt.

duration - a measure of price volatility and is the weighted average term to maturity of a debt or investment that takes into account the timing and amount of both interest and principal payments.

external asset/external debt - external assets are claims which the province has against third party individuals, corporations and governments. External debts are the claims these entities have against the province. These are the assets and debts which are listed in the province’s consolidated financial statements.

fixed rate debt - debt issued for terms longer than one year where the interest rate remains fixed to maturity.

floating rate debt - short-term debt (with an original term to maturity of less than one year), debt issued for terms longer than one year where the interest rate is recalculated periodically (monthly, quarterly or semi-annually), fixed rate debt swapped into a floating rate obligation and fixed rate debt which matures within one year.

guaranteed debt - debt issued by provincial Crown corporations and agencies which has been guaranteed by the province.

hedge - using financial instruments such as swaps to reduce exposure to interest rate and currency fluctuations.

internal assets/internal holdings - financial claims outstanding between two of the province's entities. These assets and the associated debts are cancelled out in the consolidated financial statements.

liabilities - liabilities on the province's consolidated balance sheet include debt issued in the capital markets, provincial corporation debt, unfunded pension fund liabilities and accounts and loans payable.

net debt - the difference between the province's total liabilities and total financial assets.

provincial corporations - special purpose companies which carry out government programs. Provincial corporations are used because the nature of the programs are different than those delivered through government departments.

swap - an agreement used to change interest rate and currency exposure on a debt or investment. Swaps involve an exchange of cash flows based on a notional principal value.

Appendix

Alberta Heritage Savings Trust Fund Business Plan

Budget '97

Building Alberta Together

Table of Contents

The business plan was reviewed and approved by the Legislature's Standing Committee on the Alberta Heritage Savings Trust Fund on January 21, 1997.

Alberta Heritage Savings Trust Fund Business Plan

Background

- The Heritage Fund was created in 1976 as a means to provide savings of Alberta's non-renewable resource revenue for future generations. From 1976 to 1987, the Fund grew. A portion of Alberta's oil and gas revenue was deposited into the Fund and, until 1982, the Fund kept its investment income. The size of the Heritage Fund peaked in 1987 at $12.7 billion and since then has declined in value by the amount of annual Capital Projects Division expenditures (the last year of spending was 1994-95).

- At December 31, 1996, the net assets of the Heritage Fund (at cost) totalled about $12 billion. This consisted of:
  - $8.0 billion in Cash & Marketable securities;
  - $2.5 billion in the Alberta Investment Division;
  - $585 million in the Canada Investment Division;
  - $459 million in the Commercial Investment Division;
  - $10 million in the Capital Projects Division (Vencap Receivable);
  - $142 million in amounts due from the General Revenue Fund (the estimated amount of Heritage Fund income which will be retained in the Heritage Fund for inflation proofing in 1996-97 under the new Heritage Fund Act);
  - balance of $257 million constitutes accrued interest and accounts receivable, net of accounts payable.

- The government announced during 1994-95 that a public review of the Heritage Fund would take place.

- In late 1994, four independent Canadian investment dealers assessed the market value of the Heritage Fund's marketable or potentially marketable securities at $11.4 billion. This was $465 million greater than the book value of these securities.

- The public review culminated in a March 1995 report by an All-Party Review Committee entitled "Future Directions for Alberta's Heritage Fund". The report made 14 recommendations, the first of which was that the government should keep the Fund but not at the status quo. Recommendations on governance of the Fund were also included.

- The Review Committee based its recommendations on the following five guiding principles:

  1. The Fund should be retained, but not at the status quo.
  2. The management of the Fund should be at arm's length from the political process.
  3. Private sector investment managers should be involved in investment decision making, along with Alberta Treasury staff.
  4. The Fund should be more transparent; the Fund's managers should be more directly accountable to the people of Alberta.
  5. The role of government is to set objectives for the Fund.

- Taking into account these recommendations, the government announced changes to the Fund in January 1996 which address these principles for change. Changes began in 1996-97 and are reflected in this Business Plan.

- A new Alberta Heritage Savings Trust Fund Act was passed by the Legislative Assembly during the 1996 Spring session and came into force January 1, 1997. The legislation:

  1. establishes that the Provincial Treasurer is responsible for the management and investment of Fund assets;
  2. sets out the mission of the new Heritage Fund;
  3. describes the new structure of the Fund where the Fund's assets are, over a ten-year period, transferred from a Transition Portfolio to an Endowment Portfolio;
  4. sets out the separate objectives of the Endowment Portfolio and the Transition Portfolio;
  5. requires that each portfolio be managed in adherence to the Prudent Person Rule meaning that the investment manager has a fiduciary responsibility to restrict investment to assets that would have been approved by a prudent investor;
  6. specifies a minimum annual transfer of $1.2 billion of assets from the Transition Portfolio to the Endowment Portfolio;
  7. provides for the Heritage Fund to retain sufficient income to offset inflation, subject to certain conditions, and
  8. continues the Auditor General as the auditor of the Fund.

Fiscal Context

- Assets and income of the Heritage Fund are fully consolidated with the assets and revenue of the province. As a result, for fiscal planning purposes and under the Balanced Budget and Debt Retirement Act: (i) consolidated Heritage Fund income is included in the determination of the province's budget surplus and (ii) Heritage Fund assets are netted off gross liabilities in determining the net debt position of the province.

- Consistent with the Financial Review Commission's recommendation that the province should emphasize reducing the "net debt" (excess of consolidated liabilities over consolidated assets), the Balanced Budget and Debt Retirement

Act requires that the province reduce its net debt to zero by March 31, 2010, beginning in the 1996-97 fiscal year. The net debt can be reduced by applying budget surpluses to either (i) pay down gross debt or (ii) increase assets (for example, by inflation proofing the Heritage Fund).

- The province has more debt than assets; that is, it has "net debt". On a consolidated basis the province's net debt, after deducting Heritage Fund assets, was $6.2 billion at March 31, 1996 (excludes pension liabilities).

Purpose

- This is the first business plan for the Heritage Fund. It sets out the broad objectives of the Fund as expressed in the legislation, more specific investment objectives, other goals and strategies to achieve the Fund's objectives, and performance measures. The business plan was reviewed and approved by the Legislature's Standing Committee on the Alberta Heritage Savings Trust Fund on January 21, 1997.

New Heritage Fund Structure

- The preamble to the new Alberta Heritage Savings Trust Fund Act describes the **mission** of the Heritage Fund as follows:

  TO PROVIDE PRUDENT STEWARDSHIP OF THE SAVINGS FROM ALBERTA'S NON-RENEWABLE RESOURCES BY PROVIDING THE GREATEST FINANCIAL RETURNS FOR CURRENT AND FUTURE GENERATIONS OF ALBERTANS.

- The government's fiscal plan published in Agenda '96 included gross annual income from the Heritage Fund of about $900 million. This was based on a continuation of the existing Heritage Fund investment policy of preserving capital and being positioned for change. It also was based on forecast interest rates at the time. The government keeps its books on a consolidated basis and therefore Heritage Fund income is included in consolidated income for the province. Consequently, the level and variability of Heritage Fund income is important to the government's fiscal plan.

- If the Fund were invested solely with the objective of maximising long-term financial returns, it is unlikely that it would generate this level of income over the next three years. Income could vary significantly from year to year for the following reasons:

  1. An investment policy to maximize long-term returns implies a significantly higher weighting towards investments in equities in comparison to the current equity holdings (only about 2% of Fund assets). While equities have historically provided investors with higher total returns (dividends and capital gains) than fixed income investments, dividend rates in general are lower than interest rates thereby providing lower current income. The timing of realizing capital gains is also uncertain.

2. The well-established capital market principle that increased returns, as provided by equity investments, are accompanied with increased risk or volatility, means that the Fund's income would be more variable.

- In order to provide for an orderly transition between the need for current income and long-term investment goals, the Heritage Fund is being divided into two separate portfolios: a Transition Portfolio and an Endowment Portfolio.

- Each portfolio will be managed independently to meet its own specific investment objective and measured against its corresponding benchmarks.

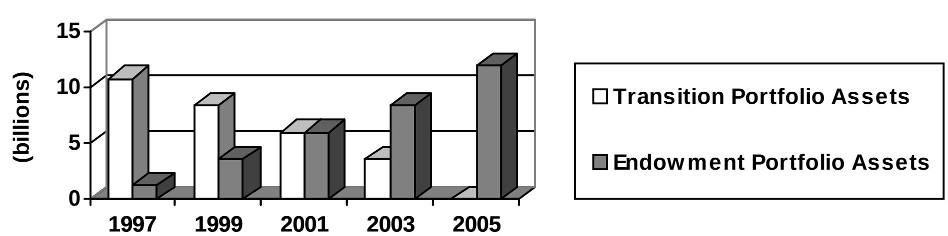
- The Transition Portfolio will be invested primarily in interest-bearing securities with an emphasis on generating current income to support the province's fiscal plan.

- The Endowment Portfolio will be invested with a long-term return objective in a diversified portfolio including interest-bearing securities, Canadian equities and international securities.

- The Transition Portfolio will support current income needs in the first few years and then see its role diminish over the transition period as it is reduced in size and the Endowment Portfolio grows.

- Over a maximum ten-year transition period starting in 1996-97, a minimum of $1.2 billion in book value of assets will be transferred annually from the Transition Portfolio to the Endowment Portfolio. By the end of 2005, all Heritage Fund assets will be invested in the Endowment Portfolio.

Schedule of Transition



- Existing Heritage Fund assets that are consistent with the long-term investment objective, or that can readily be disposed of to permit acquisition of appropriate assets, have been allocated to the Endowment Portfolio, with the remainder residing in the Transition Portfolio. The initial allocation of existing Heritage Fund assets on January 1, 1997 was as follows (at cost):

Heritage Fund Net Assets **(millions, book value)**	**Old Structure**	**New Structure Transition Portfolio**	**New Structure Endowment Portfolio**
Canada Investment Division	585	585	0
Alberta Investment Division			
Provincial corporation debentures	1,893	1,893	0
Project investments (Alpac, Millar Western and Ridley Grain)	464	464	0
Canadian Western Bank shares	1	1	0
Nova Corporation shares	112	112	0
Commercial Investment Division			
Canadian equities	261	0	261
Money market securities	198	0	198
Cash and Marketable Securities			
Short-term	2,152	1,724	428
Long-term	5,893	5,580	313
Vencap Receivable	10	10	0
Due from the General Revenue Fund[1]	142	142[2]	0
Accrued Interest and Accounts Receivable[3]	257	257	0
Total[3]	11,968	10,768	1,200

- As part of the new framework, the Heritage Fund will be "inflation proofed" by retaining enough of the Fund's income in order to keep up with inflation. This means that the Fund will begin to grow again. However, until after the 1998-99 fiscal year the Fund will only be allowed to keep some income to offset inflation if the government's surplus exceeds $500 million.

- Foreign investments by both the Transition Portfolio and the Endowment Portfolio will initially be limited by regulation to 20% of each portfolio's assets (measured at book value). This is similar to the restriction on private and public sector pension funds.

---

1 The estimated amount of Heritage Fund income which will be retained in the Heritage Fund for inflation proofing in 1996-97.
2 Will be allocated to the Endowment Portfolio.
3 Net of accounts payable of the Fund.

Goals, Strategies and Outputs, Outcomes, and Performance Measures

- The legislated investment objective of the **Transition Portfolio** is:

  Investments shall be made with the objective of supporting the government's short term to medium term income needs as reflected in the government's consolidated fiscal plan.

  <u>What is the best approach in achieving this objective?</u>
  - Because the province has net debt, it is important that the Transition portfolio earn a rate of return that exceeds the interest cost on the province's debt. Alberta Treasury, with the assistance of a major international investment dealer, has completed analysis to help determine specific objectives and targets for managing the interest rate risk that exists in the province's liabilities and the Transition Portfolio's assets. This plan establishes an orderly framework which will result in coordinated management of the Heritage Fund Transition Portfolio and the province's debt so as to maximize income over the medium-term and minimize debt costs while constraining the risk to the government's bottom line.

  <u>How does this coordinated approach work?</u>
  - The framework described above establishes a "benchmark portfolio". The debt will be managed with the objective of costing no more than it would cost if it were managed exactly like this benchmark. The province will manage its debt to try and achieve a lower interest cost than the benchmark cost. The investment approach for the Heritage Fund Transition Portfolio uses the same benchmark portfolio and will be managed to achieve a rate of return on its assets that is higher than the benchmark cost.

- The legislated investment objective of the **Endowment Portfolio** is:

  Investments shall be made with the objective of maximizing long-term financial returns.

  - Given a long-term investment horizon, investment practice suggests that a mix of equities and interest bearing securities best achieves the objective of maximizing financial returns as it provides enhanced returns and diversifies risk. A long-term investment horizon in this context means at least two business cycles. Emphasis on "long-term" in the investment objective is designed to help the investment manager continue to plan and execute in a long-term context at times when short-term pressures exist.

Goal 1: Earn income to support the government's consolidated fiscal plan.

Strategies/Outputs

- Invest Transition Portfolio assets in accordance with the investment industry standard "Prudent Person Rule" which assigns the investment manager responsibility to restrict investment to assets that would be approved by a prudent investor

- Invest in interest bearing securities that are rated at time of purchase a minimum of investment grade (BBB or equivalent) by a recognized rating agency or in the absence thereof by Alberta Treasury

- Maintain an average term to maturity between 3 years and 4 years. (The province's Canadian dollar liability portfolio is managed within the same range[1])

- Limit investments to the various categories of interest-bearing securities (% of market value):

	Maximum (%)
Canada & Guaranteed	No Limit
Alberta	27
Other Provincial Debt	40
Municipal	5
Asset-backed	10
Private Corporate	10
Public Corporate	20
Mortgages	5
Other Sovereign	5

- Reduce the Portfolio's investment in project investments and, subject to fiscal planning and liability management considerations, reduce investment in Alberta Provincial corporations

- Reduce investment limit for Alberta once investment in Alberta provincial corporation debt is reduced

Outcomes

- A high level of income to the government's fiscal plan without undue variation to the province's bottom line

- A higher return on assets than the cost of the province's debt

- Investments consistent with the objectives of the Transition Portfolio

Performance Measures/Benchmarks

<u>Performance Measure</u>

- The market value rate of return on the Transition Portfolio

<u>Benchmark</u>

- The market cost of the Canadian dollar portion of the province's debt portfolio

Measuring performance on a market value basis is the accepted standard in the investment industry because it should lead to the best long-term investment and liability management decisions. However, because Heritage Fund income and debt servicing costs are accounted for on a cost basis a comparison of returns on a cost basis will also be reported and explained in relation to the market value results.

---

[1] Estimated term based on an average duration of 2.4 years to 3.2 years. In practice, the investment industry (and Alberta Treasury) manages investment portfolios by looking at their "duration" (see Glossary for an explanation of duration) as opposed to the average term to maturity since a bond portfolio's duration better reflects its sensitivity to interest rates .

Goal 2: Make investments in the Endowment Portfolio to maximize long term financial returns.

Strategies/Outputs

- Invest Endowment Portfolio assets in accordance with the investment industry standard “Prudent Person Rule” which assigns the investment manager responsibility to restrict investment to assets that would be approved by a prudent investor

- To diversify risk and enhance expected returns, allocate the Endowment Portfolio assets among the following asset classes and within the noted ranges (expressed as a % of the Endowment Portfolio’s market value):

Asset Class	**Holdings (%)**		
Interest-Bearing Securities[1]	35%	to	65%
Equity[2]	65%	to	35%
Total	100%		100%

- Diversify investments within each subcategory of the asset classes set out above

- The Operations Committee (see Attachment A) will recommend minimum and maximum holdings for the asset classes and review periodically the benchmark to be used in measuring performance

- Alberta Treasury will vary the allocation of assets within the above policy ranges based on the outlook for financial markets

- Restructure the portfolio to be consistent with the above guidelines by June 30, 1997

- The Operations Committee will recommend the extent of use of external investment managers to manage portions of the Portfolio, and the criteria for their selection

Outcomes

- Based on historical financial market statistics, equities have provided an average annual real return of 7% and debt investments approximately 3% (see Glossary for an explanation of Real Rate of Return). The adopted asset mix policy set out under Strategies/ Outputs would then result in an expected real return from the Endowment Portfolio of 5.50% per year over the long-term if these historical return patterns continued into the future (assuming an additional 0.5% return from the active management of investments).

- A market rate of return on the Portfolio higher than the benchmark

- Volatility of returns and credit risk at prudent levels

Performance Measures/Benchmarks

Performance Measure

- The market value rate of return on the Endowment Portfolio

The following benchmark investment portfolio is designed to reflect a neutral weighting in the asset classes listed based on the Endowment Portfolio’s investment objective and risk tolerance. The benchmark portfolio represents a completely “passive” investment strategy. Therefore, the difference between the Endowment Portfolio’s actual returns and the benchmark portfolio’s returns measures how well the investment manager “actively” manages the Endowment Portfolio within the asset mix policy ranges set out in Strategies/Outputs.

Primary Benchmark

- The return that could have been earned by adopting investment strategies designed to replicate the performance of the following benchmark policy mix:

Asset Class	**Policy**	**Benchmark[3]**
Interest Bearing Securities		
Money market	3%	SCM T-Bills Index
Bonds	47%	SCM Universe Index
Total	50%	
Equity		
Canadian stocks	30%	TSE 300 Index
Foreign securities	15%	MSCI World (excluding Canada)
Real estate	5%	RCPI
Total	50%	

Secondary Benchmark

The median return of a sample of Canadian pension and endowment funds

---

[1] Includes money market instruments, bonds and mortgages.

[2] Includes Canadian public and private equities, foreign equities and Canadian real estate. Foreign investments will initially be limited by regulation to 20% of the cost value of the Endowment Portfolio, similar to the restrictions on pension funds.

[3] See Attachment B for a description of each benchmark.

Goal 3: To improve Albertans' understanding and the transparency of the Alberta Heritage Savings Trust Fund.

Strategies/Outputs	Outcomes	Performance Measures/Benchmarks
• Release quarterly and annual reports on a timely basis • Release summary reports of the Heritage Fund's investment activities and results for Albertans on a timely basis • Publish the Heritage Fund business plan annually • The Standing Committee of MLAs will hold annual public accountability meetings around Alberta to report on the Fund's results and to answer questions on the Fund's performance	• Improved understanding by Albertans of the management, operations and performance of the Heritage Fund	Performance Measure • Timeliness of reports and public accountability meetings • Satisfaction of Albertans regarding information provided about the Fund Performance Measure • Annual report will be released by June 30 of each year • Quarterly reports will be released within 2 months after the conclusion of the quarter • The Standing Committee will hold public accountability meetings around the province in the fall of each year

Management and Accountability

- A clear mission statement and new investment objectives for the Heritage Fund have been established in legislation.
- A Standing Committee of MLAs has been established to provide overall direction, evaluate the performance of the Fund and report regularly to Albertans.
- An Operations Committee will be established to advise on Alberta Treasury’s investment management activities. The Committee will be chaired by the Deputy Provincial Treasurer and include a majority of private sector members with relevant financial and business expertise.
- Ongoing investment decisions will be made within Alberta Treasury.
- For each component of the Fund that is externally managed an investment management mandate describing its purpose, goals and constraints will be established.
- The investment management mandate of external managers will be consistent with this Business Plan.
- The Auditor General is the auditor of the Fund.
- There are restrictions on the kind of investments that can be made. Fund assets are to be invested prudently and cannot be used directly for economic development or social investment purposes.

Income and Expenses

- Over time, the rates of return on the new Heritage Fund should be higher than that of the Fund prior to restructuring because

  1. the Transition Portfolio now has a clear mandate to generate income over the medium-term; and

  2. the Endowment Portfolio has a clear mandate to invest to maximize financial returns over the long-term permitting a greater commitment to equity investments. Over time equity investments should provide higher returns than the predominantly interest-bearing investments of the Fund in the past.

- The rates of return on, and the income from, the Fund likely will become more volatile as the Endowment Portfolio grows and as equity investments increase. While equity investments have historically, over long periods of time, provided higher rates of return than fixed income investments they are also significantly more volatile. In addition, gains on equity investments are not recognized as income until the investment is sold so strong performance reflected in rates of return may not be reflected in income for some time.

- Following are current projections of Heritage Fund income based on the assumptions noted. Actual results will vary from projected income depending on the extent to which actual interest rates and equity market returns vary from the assumptions used. Forecast gross investment income decreases over the fiscal plan period due to the lower interest rate environment and the increasing investment in equities in the Endowment Portfolio which contribute lower "current" income.

- The income projections below <u>include</u>:
  - interest income
  - dividend income
  - capital gains only when an investment is sold

- The income projections below <u>do not include</u>:
  - unrealized capital gains

Heritage Fund Income Forecasts and Underlying Assumptions

	1996-97	1997-98	1998-99	1999-00
Forecast Income ($millions)				
Gross Investment Income	**854.4**	**856.8**	**819.8**	**761.9**
Assumptions (%)				
1. Interest Rates (nominal)				
Transition Portfolio				
Money Market (3 months)	3.25	4.31	5.00	5.00
Bonds (2-3 year rate)	4.85	5.23	5.35	5.35
Endowment Portfolio				
Money Market (3 months)	3.25	4.31	5.00	5.00
Bonds (5 year rate)	5.65	6.03	6.15	6.15
2. Equities				
Overall rates of return (nominal)[1]				
Canadian equities	8.50	8.50	8.50	8.50
U.S. equities	5.00	7.00	9.00	9.00
International equities	9.00	9.00	9.00	9.00
3. Endowment Portfolio Asset Mix				
Money Market	5%	5%	5%	5%
Bonds	45%	45%	45%	45%
Equities	50%	50%	50%	50%

- The above income projections for the Heritage Fund are before estimated administrative expenses as outlined below:

	1996-97	1997-98	1998-99	1999-00
	($ millions)			
Administrative Expenses	(1.3)	(1.9)	(2.1)	(2.3)

- The administrative expenses above include both direct and indirect administrative expenses which include staff time, supplies and services and investment transaction and advisory services. Increases in administrative expenses in 1997-98 through 1999-00 are primarily due to the increased volume and more diverse asset classes involved in managing the Endowment Portfolio.

[1] These are total rates of return which include capital gains. The gross investment income figures above only realize a portion of these capital gains annually.

Attachment A
Heritage Fund Allocation of Responsibilities

- The Heritage Fund Act sets out the new governance structure for the Heritage Fund. In addition the Provincial Treasurer will appoint an Operations Committee, to be chaired by the Deputy Provincial Treasurer and to include a majority of private sector members with business and financial expertise. The general division of responsibilities is described below.

Standing Committee on the Alberta Heritage Savings Trust Fund
(a Committee of the Legislative Assembly)

1. Review and approve annually the Business Plan for the Heritage Fund
2. Receive and review quarterly reports from the Provincial Treasurer on the operation and results of the operation of the Heritage Fund and make them public
3. Approve and release annual report on or before June 30 following the conclusion of the fiscal year for which the annual report was made
4. Review after each fiscal year end the investment activities and the performance of the Heritage Fund and report to the Legislature as to whether the mission of the Heritage Fund is being fulfilled
5. Hold public meetings with Albertans on the Heritage Fund's investment activities and results

Treasury Board

1. Annually review and approve the Business Plan of the Heritage Fund

Provincial Treasurer

1. Approve the Statements of Investment Policy for each portfolio, including any proposed changes thereto
2. Approve and present annual Business Plan of the Heritage Fund to Treasury Board and to the Standing Committee

Operations Committee

1. Review and recommend the Business Plan to the Provincial Treasurer for transmittal to Treasury Board and the Standing Committee
2. Review and recommend the investment policy statements for the Endowment Portfolio and the Transition Portfolio to the Provincial Treasurer
3. Review and approve the financial statements and recommend the annual report
4. Approve the quarterly reports for transmittal to the Standing Committee
5. Advise on the extent of use of external managers and the criteria for selection

Alberta Treasury

1. Serve as investment manager of the assets of the Heritage Fund
2. Prepare and recommend a Business Plan to the Operations Committee and the Provincial Treasurer

3. Prepare and recommend to the Operations Committee and the Provincial Treasurer Statements of Investment Policy for each portfolio and in future years any proposed changes to the investment policies
4. Prepare a quarterly report on the investment activities and results of the Heritage Fund including income forecasts
5. Prepare financial statements for the Heritage Fund
6. Prepare the annual report of the Heritage Fund

Attachment B
Description of Benchmark Indices for the Endowment Portfolio

Scotia Capital Markets 91 day T-Bills Index (SCM T-Bills Index)
Reflects the performance of the Canadian money market as measured by investments in 91 day Treasury Bills.

Scotia Capital Markets Universe Bond Index (SCM Universe Index)
Covers all marketable Canadian bonds with terms to maturity of more than one year. The purpose of this index is to reflect performance of the broad Canadian bond market in a manner similar to the way the TSE 300 represents the Canadian equity market.

Toronto Stock Exchange 300 Total Return Index (TSE 300 Index)
An index of 300 stocks, in fourteen subgroups, listed on the Toronto Stock Exchange designed to represent the Canadian equity market. It is a capitalization-weighted index calculated on a total return basis.

Morgan Stanley Capital International World (excluding Canada) (MSCI World)
An index of over 1,470 stocks on 23 stock exchanges around the world designed to represent an international equity market (excluding Canada). The index is calculated on a total return basis, which includes investment of gross dividends before deduction of withholding taxes. The index covers about 60% of the issues listed on the exchanges of the countries included.

Russell Canadian Property Index (RCPI)
An index comprised of institutionally held real estate investments consisting of over 1,100 properties distributed across Canada.

Attachment C
Glossary

Active Management
Attempts to achieve portfolio returns greater than a specific index while controlling risk, either by forecasting broad market trends or by identifying particular mispriced sectors of a market or securities in a market.

Asset Allocation
The investment process by which the investment manager chooses or allocates funds among broad **Asset Classes** such as stocks and bonds.

Asset-Backed Securities
These are debt instruments collateralized by a pool of assets such as automobile loans or equipment leases.

Asset (or Investment) Class
Refers to a broad category of investments with similar characteristics (the typical asset classes are cash, stocks, bonds and real estate).

Benchmark Index
A statistical yardstick tracking the ups and downs of a particular market by monitoring a representative group of securities over time. For example, the Scotia Capital Markets Universe Bond Index is a Benchmark Index that is designed to reflect the changes in the Canadian bond market.

Bond
A financial instrument representing a debt where the issuer (corporation or government) promises to pay to the holder a specific rate of interest over the life of the bond. On the bond's maturity date, the principal is repaid in full to the holder.

Capital Gain (or Capital Loss)
The market value received on sale of an asset higher (lower) than its purchase price (also called book value). If an asset is bought for $50 and sold for $75, the realized capital gain or profit is $25.

Diversification
The allocation of investment assets within an **Asset Class** and among asset classes. In general, the greater the number of holdings within an asset class and among asset classes, the greater the diversification, which reduces risk.

Dividends
Earnings distributed to shareholders of a company proportionate to their ownership interest.

Duration (or Modified Duration)
Modified duration is a measure of price volatility and is the weighted average term to maturity of the security's cash flows (i.e., interest and principal), with weights proportional to the present value of the cash flows. Bonds with a longer duration are more price sensitive to interest rate changes than bonds with short durations.

Equities
Equities are synonymously called stocks or shares and represent an ownership interest in a company (could be either a public or private firm). The shareholder normally has voting rights and may receive dividends based on their proportionate ownership.

Inflation
Increases in the general price level of goods and services. Inflation is one of the major risks to investors over the long-term as savings may actually buy less in the future.

Inflation Proofing
The Heritage Fund shall retain enough of its income each year starting in 1996-97 to offset the eroding effects of inflation (amount of income retained for inflation proofing = value of the net assets (or "equity") of the Heritage Fund multiplied by the percentage increase for that fiscal year in the Canadian gross domestic product deflator). However, until after the 1998-99 fiscal year the Heritage Fund will only be allowed to keep some income to offset inflation if the government's surplus exceeds $500 million.

Interest-Bearing Securities
An investment that carries a rate of interest, such as bonds and money market investments (e.g.,**Treasury Bills**).

Investment Grade
An investment grade bond is rated a minimum of BBB (or equivalent) by a rating agency, with AAA being the highest grade. Bonds rated below BBB are generally classified as being speculative grade and carry higher levels of credit risk than investment grade bonds (i.e., they have a higher probability of default on interest or principal payments).

Long-Term
A long-term investment horizon in the context of the Endowment Portfolio means a period of time that would include two business cycles, which would generally mean about 10 years.

Market Value Rate of Return
An annual percentage which measures the total proceeds returned to the investor per dollar invested. Total proceeds for market value rates of return = "money in the bank" plus paper profits or losses (paper profits or losses are also called **Unrealized Capital Gains or Losses**). "Money in the bank" means cash interest and dividends and realized capital gains or losses from selling the investment.

Median Return
The median return of a group of investment managers reflects the return associated with the manager ranked at the 50th percentile (the 50th percentile is that point where half the managers had a higher return, and half the managers had a lower return).

Money Market Instruments
Debt instruments such as **Treasury Bills** or corporate paper with a maturity of less than one year.

Mortgage-Backed Securities (MBS)
A debt instrument that has an ownership claim in a pool of mortgages or an obligation that is secured by such a pool.

Mortgage Investment
A debt instrument collateralized by real assets (e.g., a building) and requiring periodic payments consisting of interest and principal.

Nominal Rate of Return
A measure of the earnings performance of a fund measured in current dollars.

Passive Management
Buying or investing in a portfolio that represents a market index without attempting to search out mispriced sectors or securities. The opposite of **Active Management**.

Portfolio
A collection of investments owned by an investor.

Real Rate of Return
The nominal rate of return minus the rate of inflation.

Realized/Unrealized
Terms generally used to describe **Capital Gains** or losses. A gain or loss is realized when an asset is sold; prior to sale the gain or loss is unrealized and it is only a potential or "paper" gain or loss.

Short-Term
Generally an investment with a maturity date of less than one year.

Term (or Term to Maturity)
The time left until the bond matures.

Treasury Bills
Short-term government debt, issued by the Government of Canada (or some provinces or other sovereigns) usually to institutional investors.

Unrealized Capital Gains or Losses
See **Realized/Unrealized**.

Volatility (or Volatility of Returns)
The degree to which a rate of return or a price varies from its average over time.

Appendix

An Assessment of Alberta's Fiscal Plan

An Assessment of Alberta's Fiscal Plan

Overview

In May 1993, the government introduced a new fiscal plan designed to eliminate Alberta's deficit within four years. The plan was designed to fulfil the government's commitment that the budget would be balanced by reducing spending, not by increasing taxes. Overall government program spending was reduced by 20 percent or $3.1 billion. During the same period, revenues were significantly higher than the previous five-year average. As a result, the budget was balanced ahead of schedule. Windfall revenues have gone to reduce Alberta's debt.

Looking back on the fiscal plan, a number of Albertans have asked, "Did government really have to cut back on spending? Could we have achieved the same objective simply by freezing spending? And wouldn't high revenues have been enough to cover off the deficit?"

To address these questions, Alberta Treasury commissioned Professor Paul Boothe of the University of Alberta to simulate what would have happened to Alberta's fiscal picture between 1993-94 and 1996-97 if several alternative courses of action had been taken. This appendix summarizes the Boothe study.

Specifically, Dr. Boothe looked at three scenarios. The study assessed what would have happened if:

- program spending had been allowed to grow at the same average annual rate as it did in the previous five years, 1987-1988 to 1992-93
- program spending was frozen at its 1992-93 level
- all spending cuts were made and revenues had grown at the same average annual rate as in the period 1987-88 to 1992-93.

The study shows that Alberta's fiscal plan was the right approach to take.

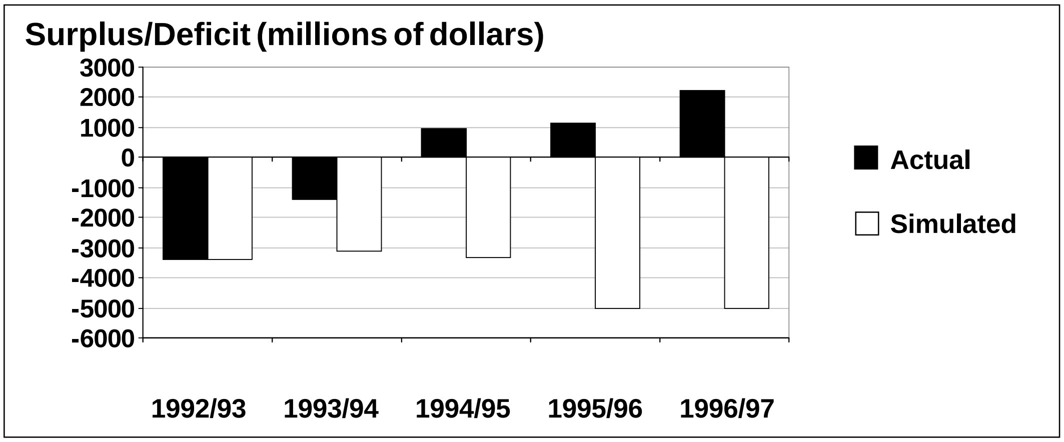
- Under the first two scenarios, Alberta would not have achieved a balanced budget. Debt would have risen substantially, rather than drop by half. More money would have gone to pay for substantially higher interest costs. Fewer resources would be available for Albertans' priority programs: health and education.
- Windfall revenues alone were not sufficient to balance the budget. Spending cuts were necessary.
- The fiscal plan has put Alberta into a position where we now have a sustainable balanced budget. As shown, in the third scenario, spending is at a level that we can afford with average revenues, not just when revenues are high.

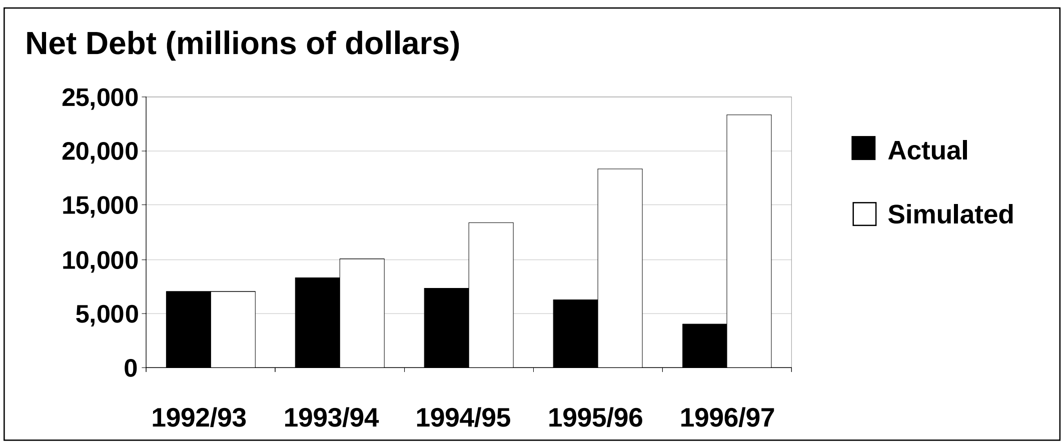
What would have happened if …

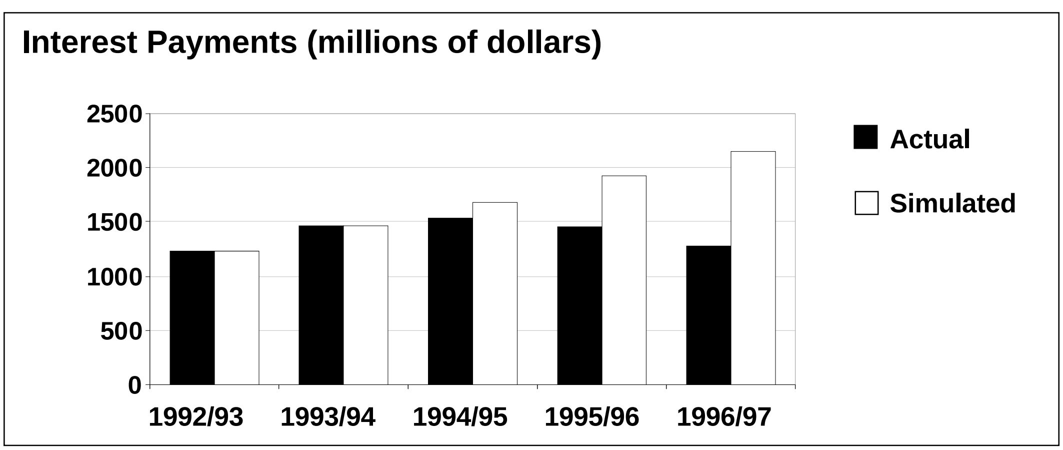
Case 1

Program spending grew at the same rate as 1987-88 to 1992-93

What would have happened if government had done nothing? If government had let program spending grow at the same 4.9 percent average annual rate as the previous five years would the high revenues of the past four years been enough to balance the budget? The answer is no. Alberta's deficit would have grown to $5.0 billion by 1996-97. Net debt would have ballooned to $23.4 billion — almost six times the current level. And interest payments would have risen to $2.1 billion by 1996-97, 68 percent higher than current interest costs.





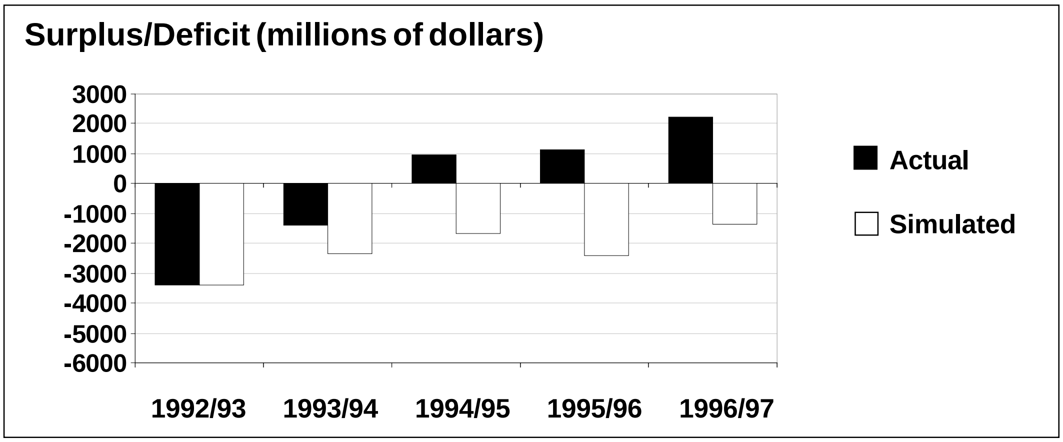


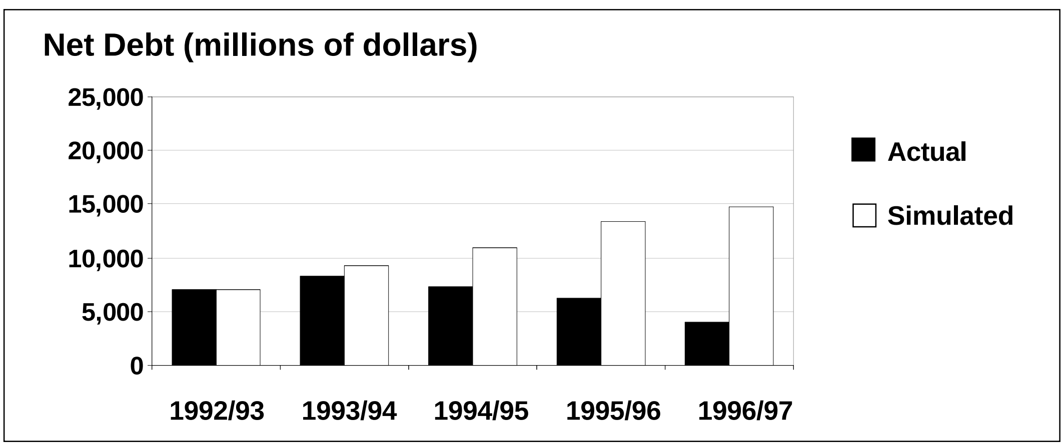
What would have happened if …

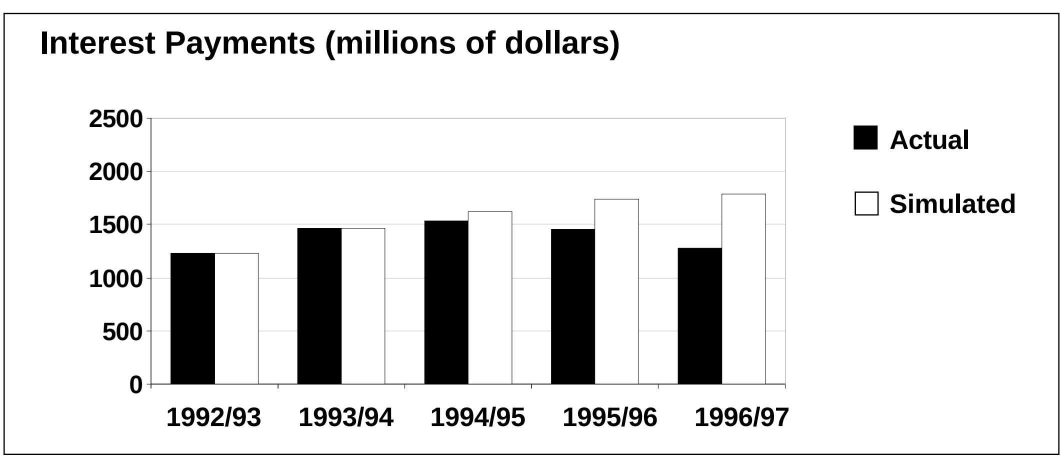
Program spending was frozen at 1992-93 levels

Case 2

Some have suggested that, with high revenues over the past four years, the budget could have been balanced by simply freezing spending at 1992-93 levels. Their view is that spending cuts were not necessary. The Boothe study shows freezing program spending would not have been enough to balance the budget. The best result achieved under this scenario is a \$1.4 billion deficit in 1996-97. The net debt would have increased to \$14.7 billion — more than three and a half times the current level. Interest payments would stand at \$1.8 billion in 1996-97 — 40 percent higher than our actual interest payments.







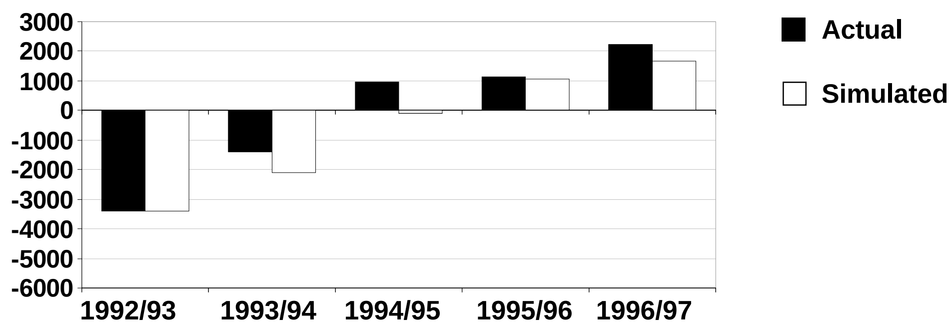
What would have happened if …

Case 3

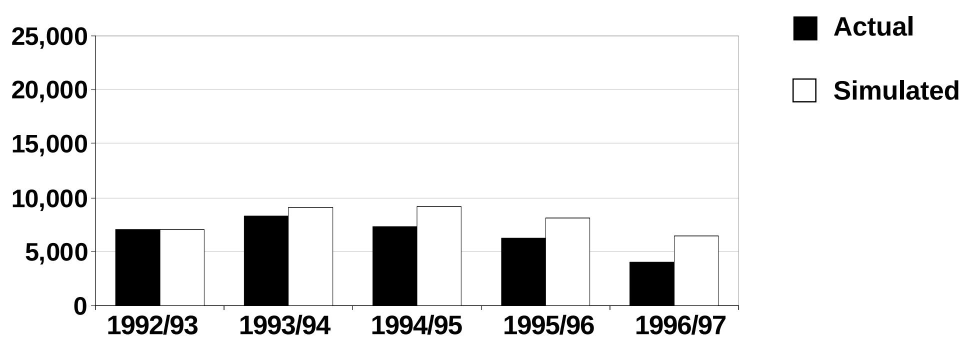
Revenues had grown at an average rate

Some have suggested that Alberta has achieved a balanced budget because of buoyant revenues not because of spending cuts. This scenario looked at what would have happened to Alberta's fiscal situation if revenues had grown at the same average rate as they did from 1987-88 to 1992-93. It shows that, with average revenues and the actual spending cuts made, a balanced budget would have been achieved by 1995-96 and maintained in 1996-97. Windfall revenues meant a balanced budget was achieved ahead of schedule. Without the large surpluses, net debt would have been $6.4 billion in 1996-97 and we would be paying over $130 million more in interest costs. This last scenario in particular shows that government's fiscal plan is a sustainable one. The spending plans and debt paydown are affordable when provincial revenues grow near the average annual rate.

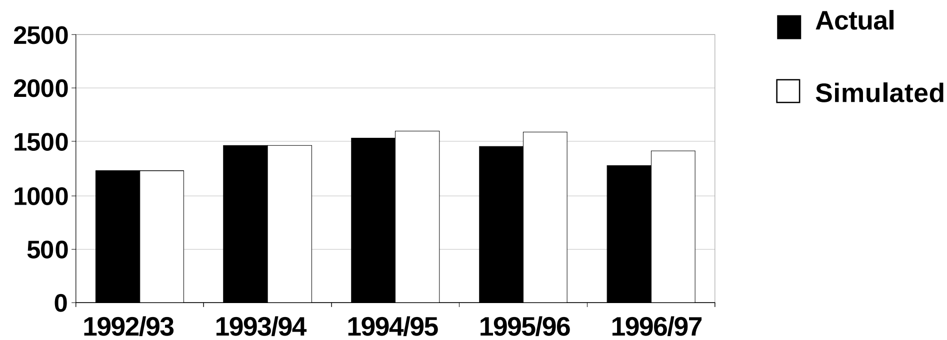
Surplus/Deficit (millions of dollars)



Net Debt (millions of dollars)



Interest Payments (millions of dollars)



Study methodology

The study uses actual revenues and spending for the years 1987-88 to 1995-96. The third quarter forecast is used for 1996-97. The historical consolidated fiscal summary table on page 50 provides the figures used in developing each of the three scenarios. The study is based on a simple accounting model. No attempt is made to account for factors such as the impact of the provincial economy on revenues or the demand for services. Interest payments are based on actual borrowing rates applied to the previous year's unmatured debt. Copies of the Boothe study are available from Treasury Communications, (403) 427-5364.

Summary of Budget Scenarios

Case 1 - Program spending grows at same average annual rate as 1987-88 to 1992-93 (4.9%)
Case 2 - Freeze program spending at 1992-93 level
Case 3 - Spending cuts are made and revenues grow at same average annual rate as 1987-88 to 1992-93 (3.6%)

Surplus(Deficit) (millions of dollars)

	1992/93	1993/94	1994/95	1995/96	1996/97
Actual	(3,415)	(1,384)	958	1,132	2,235
Case 1	(3,415)	(3,111)	(3,333)	(5,008)	(5,009)
Case 2	(3,415)	(2,346)	(1,700)	(2,410)	(1,362)
Case 3	(3,415)	(2,116)	(112)	1,063	1,664

Net Debt* (millions of dollars, at March 31)

	1992/93	1993/94	1994/95	1995/96	1996/97
Actual	7,054	8,313	7,355	6,223	3,988
Case 1	7,054	10,040	13,373	18,380	23,390
Case 2	7,054	9,275	10,975	13,384	14,746
Case 3	7,054	9,045	9,157	8,094	6,431

Interest Payments (millions of dollars)

	1992/93	1993/94	1994/95	1995/96	1996/97
Actual	1,233	1,461	1,544	1,456	1,280
Case 1	1,233	1,461	1,692	1,929	2,144
Case 2	1,233	1,461	1,627	1,741	1,789
Case 3	1,233	1,461	1,607	1,598	1,413

* Excludes unfunded pension liabilities

Appendix

Response to the Auditor General

Response to the Auditor General

Following are the numbered recommendations and comments contained in the Auditor General's 1995-96 Annual Report and the government's response to them.

Auditor General's Observations

Comments on Accountability

The Auditor General writes that progress relating to the implementation of the government accountability framework is satisfactory and that he has not repeated recommendations of prior years or provided additional ones.

The changes in accountability are working and are necessary for better performance.

A significant first step in reforming the Estimates has been taken.

The government's performance reporting is timely and much improved. The Auditor General refers to improvements in *Measuring Up* and the government's annual report.

Recommendations for Executive Council

1. It is recommended that the Executive Council improve the accountability framework for grant expenditures made from the Lottery Fund.

Government's Response

The government appreciates the Auditor General's assistance in helping move forward on the accountability framework. Much has been done already, but there is still more to do. Preparing Ministry annual reports in accordance with the Government Accountability Act and ongoing improvement in performance reporting are key challenges ahead. The government remains committed to refining the accountability process to meet our goals and build a strong foundation for Alberta's future.

Accepted. The accountability framework for grant expenditures made from the Lottery Fund will be reviewed.

Auditor General's Observations	Government's Response
2. It is recommended that the Office of the Chief Information Officer evaluate ministerial plans and monitor progress towards ensuring that information technology is Year 2000 Compliant.	Accepted. The Chief Information Officer chairs the Council of Chief Information Officers which has representatives from each Ministry. The Council will work with the Ministry of Public Works, Supply and Services, which has been identified as having lead responsibility for developing and implementing a government plan to ensure that information technology is Year 2000 Compliant.
3. It is recommended that the Deputy Ministers' Steering Committee restructure the PeopleSoft Project with the objective of enhancing coordination and integration.	Accepted. A Deputy Minister has been seconded on a full-time basis to establish and oversee an appropriate project management structure for the project. A new structure has been implemented to improve coordination and integration.
Recommendations for Advanced Education and Career Development	
4. It is recommended that the Department of Advanced Education and Career Development work with the post-secondary education sector to facilitate a consistent, reliable and well-understood application of tuition fee policy across the sector.	Accepted. The Ministry has made considerable strides in key performance indicator reporting that can also be used for determining net operating expenditure for tuition fee policy reporting. Beginning December 1, 1996, all post-secondary education institutions will be required to report all of their key performance indicator and financial information, including information on tuition fee policy. The Ministry will continue to work with post-secondary education institutions and refine the definitions used for both key performance indicator and tuition fee policy reporting to ensure they are consistent, reliable and well understood.
5. It is recommended that Grant MacEwan Community College improve the communication of planning and reporting information between the academic divisions and the Board of Governors and senior management.	Accepted. The College will improve the reporting process among academic departments, including integration of performance information and better costing information.
6. It is recommended that the Northern Alberta Institute of Technology include the setting of measurable expectations as part of the planning for Extension Services activities, so that achievements can be properly assessed.	Accepted. The Institute will improve the costing and reporting process for Extension Services activities to ensure effective resource allocation.

Recommendation for Agriculture, Food and Rural Development

7. It is recommended that the Agriculture Financial Services Corporation obtain legislative amendments before implementing changes in its operating policies that are otherwise inconsistent with legislation.

Accepted. The Corporation has revised its processes to ensure that future operating policy changes are consistent with legislation.

8. Not used

Recommendation for Economic Development and Tourism

9. It is recommended that the Alberta Heritage Foundation for Medical Research request from the Lieutenant Governor in Council a retroactive exemption from section 80.1 of the Financial Administration Act respecting the incorporation of its subsidiary, the Alberta Foundation for Health Research, or alternatively, discontinue and wind-up the operations of the subsidiary.

Accepted. An Order-in-Council to retroactively exempt the Alberta Heritage Foundation for Medical Research from section 80.1 of the Financial Administration Act respecting the incorporation of the Alberta Foundation for Health Research has been obtained.

Recommendation for Education

10. It is recommended that the Department of Education require school boards to include performance information on the various instructional programs in their annual education results reports, and to include information in their financial statements that links costs with performance.

The recommendation is under review. Other factors such as commitment of staff, content covered, quality of teaching, and parental support also significantly affect results. The Ministry has agreed to work with the Auditor General's office to address this issue during the next year.

Recommendation for Environmental Protection

11. It is recommended that arrangements be made and responsibility be assigned for monitoring compliance by BOVAR with its commitments, and generally ensuring that the Province's interests are protected, as they relate to the Agreement to dispose of the interest in the Swan Hills Joint Venture.

Accepted. Initially the Alberta Special Waste Management Corporation will take the lead in monitoring Bovar's performance under the various agreements. The Ministry will provide resources to assist with the work. The Ministry will assume the entire role upon the repeal of the Corporation's Act.

Recommendations for Family and Social Services

12. It is recommended that the Department of Family and Social Services review the status of clients whose earnings are being supplemented or who are receiving support while they are seeking employment or receiving training, to determine whether appropriate assistance is being provided to help them become financially independent.

Accepted. Staff resources allocated to these clients will be reviewed to help the clients become financially independent.

13. It is recommended that the Metis Settlements Transition Commissioner encourage Metis settlement councils to develop business plans setting out longer-term operating strategies and financial forecasts, thereby enabling the Commissioner, settlement councils and settlement members to guide each settlement's progress towards self-sufficiency as envisaged by the Metis Settlements Accord Implementation Act.

Accepted. The Metis Settlements General Council, with assistance from the Metis Settlements Transition Commission and Aboriginal Affairs, is currently developing the business plan for the ten year post-transition period commencing April 1997.

Recommendations for Health

14. It is recommended that the Department of Health, with the participation of the Regional Health Authorities, review the progress made by the authorities in establishing effective governance with a view to promoting best practice.

Accepted. The Ministry agrees that it is important for Regional Health Authorities to have an effective governance model in place. A review of the progress made by Authorities is expected to be completed in the 1997-2000 business planning cycle.

15. It is recommended that the Department of Health implement a framework that allows health authorities to provide health services that take advantage of the best practices for providing quality care.

Accepted. The Ministry supports the development of clinical practice guidelines where appropriate and is incorporating this initiative into the three-year business plan. Work may continue beyond the 1997-2000 business planning cycle.

16. It is recommended that the Department of Health develop a reporting framework that provides the information needed by the public, MLAs, board members, management and operating staff for accountability, governance and operating purposes.

Accepted. An accountability framework is being developed and is expected to be completed in the 1997-2000 business planning cycle.

Auditor General's Observations	Government's Response
17. It is recommended that the Department of Health in collaboration with health authorities establish a process that will guide the development of information systems capable of providing the information necessary to assess the effectiveness of publicly funded health services.	Accepted. The Ministry is taking the lead role in setting health information standards with the first phase due for completion by the end of 1996. Subsequent phases are expected to be completed in the 1997-2000 business planning cycle.
18. It is recommended that the Department of Health resolve issues related to financial reporting by health authorities and communicate its requirements in a timely manner.	Accepted. The Ministry will continue to work with health authorities to identify and implement appropriate financial reporting.
19. It is recommended that the Department of Health ensure that its direction to health authorities on reporting capital contributions is consistent with responsibility for funding capital asset replacement.	Accepted. The Ministry will reconsider its requirements for reporting contributions which are restricted to capital purposes in consultation with Regional Health Authorities and the Ministry of Public Works, Supply and Services. This is expected to be completed within the 1996-1999 business planning cycle.
20. It is recommended that the Department of Health foster the implementation of physician funding systems that focus on enhancing the health of the population.	Accepted. Alternate physician funding systems that focus on enhancing the health of the population will continue to be explored by the Ministry in consultation with physicians. Work may continue throughout the 1997-2000 business planning cycle.
21. It is recommended that the Department of Health assess whether the fee for service rates set in the Schedule of Medical Benefits represent reasonable compensation for medical services provided within the current medical practice environment.	Accepted. Although the Ministry does not have the legal ability to alter fee for service rates set out in the Schedule of Medical Benefits, it will continue to exercise influence to the extent possible, so that rates paid represent reasonable compensation for medical services provided.
22. It is recommended that the Department of Health and the Regional Health Authorities work toward ensuring optimum use of significant public funds provided to community, voluntary and private organizations for the purpose of delivering regional health services.	Accepted. The Ministry continues to assist Regional Health Authorities in developing service contracts with community, voluntary and private organizations with a view to ensuring optimum use of funds available for provision of health services to Albertans.

Recommendations for Municipal Affairs

23. It is recommended that the Ministry of Municipal Affairs improve the monitoring of management bodies and their setting of expectations in business plans to allow comparison of actual results to stated expectations.

Accepted. The Ministry will communicate its business plan objectives to management bodies and ensure that they are followed. Delays in the receipt of business plans and operational reports from management bodies will be followed up. An operational review program is in place and on schedule. Sufficient information through the budgets, financial statements, vacancy reports and tenant profile information is received for proper management of the housing portfolio.

24. It is recommended that the Ministry of Municipal Affairs determine the total costs per unit of its social housing properties to enable it to manage its costs.

Accepted. Total program costs for each type of social housing will be tabulated, including amortization and administration expenditures. Total costs per unit will be determined in 1996-97.

Recommendation for Transportation and Utilities

25. It is recommended that the Department of Transportation and Utilities ensure that its method of selecting consulting engineers for major construction projects is cost-effective.

The recommendation is accepted in principle. The method to select consulting engineers for major construction projects will be reviewed on an ongoing basis for cost-effectiveness and for improvement based on experience gained. The current selection method was established following lengthy and detailed negotiations with the Consulting Engineers of Alberta. It ensures that all qualified firms, including smaller ones, have an opportunity to submit proposals. The Ministry believes the current selection method ensures qualified consultants are selected at the least cost.

Recommendations for Treasury

26. It is recommended that the Treasury Department record all revenue in the consolidated and General Revenue Fund financial statements on the accrual basis.

Accepted. The recommendation will be implemented within the 1997-2000 business planning cycle.

Auditor General's Observations	Government's Response
27. It is recommended that valuation adjustments be allocated to program costs in the consolidated and General Revenue Fund financial statements.	The recommendation is accepted in principle. The valuation adjustments related to student loans are reflected in program costs. The allocation of the remaining valuation adjustments will continue to be reviewed and implemented when practical.
28. It is recommended that the financial position, results and cash flow of the Alberta Municipal Financing Corporation continue to be included in the consolidated financial statements on a line-by-line basis.	The recommendation is under review. The Provincial Treasurer will be consulting with the Provincial Audit Committee on this issue before the 1997-98 budget is presented.
29. It is recommended that the Treasury Department reassess the need for revolving funds in order to reduce costs and simplify administration. In the event that revolving funds continue, it is recommended that their financial statements include all material costs of operations.	Accepted. Revolving funds provide program managers with needed flexibility in the delivery of certain programs. More cost-efficient and simpler alternatives to separate revolving funds will be considered within the 1997-2000 business planning cycle.
30. It is recommended that the Treasury Department obtain legislative authority before transferring program surpluses and deficits among revolving funds and the General Revenue Fund.	Accepted. If revolving funds continue after the above review, authority for future transfers will be obtained.
31. It is recommended that Alberta Pensions Administration Corporation assist the Public Sector Pension boards to improve the information communicated to employers.	Accepted. In consultation with the Auditor General's office, improved communication to employers is planned for this year.
32. It is recommended that the three-year business plan instructions issued by the Treasury Department require appropriate disclosure of the major assumptions, and in particular the downside risk to ministry plans, when proposed major programs or capital expenditures are dependent on future events.	The recommendation is accepted in principle. In future years' business plan instructions, Ministries will be asked to provide information about major assumptions to Treasury Board.
33. It is recommended that the Treasury Department extend the independent review and approval of investment risk management policies to all investment funds.	Accepted. As noted by the Auditor General, there is an independent review and approval of investment risk policies for the majority of funds managed. Methods of providing for an independent review for the remaining funds will be considered within the next year.

Auditor General’s Observations	Government's Response
34. It is recommended that the Treasury Department establish a dedicated accounting function to increase the efficiency and effectiveness of reporting and to better meet the needs of the investment management division.	Accepted. A method to provide an efficient and effective accounting function will be addressed in the current reorganization of finance and treasury functions in the Ministry.
35. It is recommended that Alberta Treasury Branches adopt a more business-like and profit-oriented approach when approving and monitoring large commercial loans.	Accepted.
36. It is recommended that Alberta Treasury Branches automate, and make more reliable and comprehensive, the reporting of information on connected accounts, classified advances, letters of guarantee, and letters of credit.	Accepted.

The 1995-96 Auditor General's Report comments on the progress being made to implement previous recommendations. The Auditor General has indicated that progress is satisfactory or the recommendation is resolved or no longer applicable for 27 recommendations. However, progress was judged to be not satisfactory on 11 recommendations. It is the government's objective to work towards achieving a satisfactory grade on the recommendations that have not been implemented at a satisfactory level.