



The Building Alberta Plan

Budget 2014

Fiscal Plan



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For electronic copies of *The Building Alberta Plan – Budget 2014*, Fiscal Plan volume,
visit our website at:

www.finance.alberta.ca/publications

ISBN 978-1-4601-1584-8 (Print)

ISBN 978-1-4601-1585-5 (Electronic PDF, including audio/video)

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Fiscal Plan

2014–17

PRESENTED BY

DOUG HORNER
PRESIDENT OF TREASURY BOARD
AND MINISTER OF FINANCE

in the Legislative Assembly of Alberta
March 6, 2014

ACCOUNTABILITY STATEMENT

The government's Fiscal Plan for the three years commencing April 1, 2014 was prepared under my direction in accordance with the *Fiscal Management Act* and the government's accounting policies. All of the government's policy decisions as of February 12, 2014 with material economic or fiscal implications have been considered in preparing the three-year Fiscal Plan.

Original signed by

Doug Horner
President of Treasury Board and Minister of Finance
February 26, 2014

THE BUILDING ALBERTA PLAN: BUDGET 2014

FISCAL PLAN 2014–17

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OVERVIEW

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THE BUILDING ALBERTA PLAN: BUDGET 2014

HIGHLIGHTS

Budget 2014 implements the next phase of the Building Alberta Plan, which outlines how the government is investing in families and communities, living within its means and opening new markets for Alberta's resources to position Alberta for a stronger and even more prosperous future.

With the Building Alberta Plan as its foundation, this budget continues work that began in *Budget 2013* and reflects the priorities Albertans expressed through extensive consultations last fall by investing in the core programs, services and infrastructure needed to support the fastest growing province in Canada.

With *Budget 2014* the government is:

Investing in families and communities:

- ❖ Increasing financial support to the health care system, ensuring Albertans have access to appropriate health care;
- ❖ Strengthening front-line health care and driving down wait times by establishing additional family care clinics;
- ❖ Investing more in K-12 and post-secondary education;
- ❖ Moving forward with the next wave of new and expanded schools in Alberta's fastest-growing communities to keep class sizes low;
- ❖ Ensuring Alberta has the skilled workforce and training opportunities needed to keep growing the economy;
- ❖ Providing a clear plan to use some of Alberta's savings to invest in innovation and labour market capacity to ensure the province is well-positioned for the future;
- ❖ Continuing rebuilding efforts in communities affected by the June 2013 floods — the single largest natural disaster in Canadian history — including large community mitigation projects to protect Albertans in the future;
- ❖ Increasing support to municipal partners through the Municipal Sustainability Initiative and other programs; and
- ❖ Continuing to make communities safer, with a focus on new approaches to fight bullying and crime.

Living within its means:

- ❖ Maintaining Alberta's low tax advantage with no new taxes and no tax increases;
- ❖ Limiting the rate of growth in operating expense while providing the core programs, services and infrastructure that are priorities for Albertans as the province continues to experience exceptionally strong population growth;
- ❖ Completing the results-based budgeting (RBB) process, which challenges every dollar of spending and ensures programs and services are achieving their intended outcomes; and
- ❖ Defining and putting into practice a renewed vision and purpose for Alberta's Heritage Fund.

Opening new markets for Alberta's resources:

- ❖ Advancing Alberta's world-leading resource stewardship, so the world can see our products are produced responsibly;
- ❖ Supporting innovative and responsible resource development through stronger environmental monitoring, evaluation and reporting; and
- ❖ Increasing support for Alberta's International Strategy and continuing to focus on opening new markets in Asia and other parts of the world so Alberta's resources and products receive fairer prices.

With *Budget 2014*, Alberta's fiscal position is "turning the corner". *Budget 2014* includes:

- ❖ an Operational Plan which provides for the core services Albertans expect, with a return to budget surpluses every year;
- ❖ a Savings Plan which leverages Alberta's savings to make strategic investments in innovation to improve the lives of Albertans; and
- ❖ a Capital Plan for building new and maintaining and improving the existing infrastructure needed to address the demands of the growing economy.

Budget 2014 Selected Key Metrics

(millions of dollars unless otherwise indicated)

	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Total Revenue Growth (% change) ^a	8.9	5.4	3.5	6.1
Operating Expense Growth (% change)	2.7	3.7	3.8	2.4
Population Growth + Inflation (% change)	5.1	5.0	4.5	4.1
Operational Surpluses	1,393	2,644	2,024	3,232
Contingency Account Year-end Balances	4,657	5,000	5,000	5,000
Change in Net Assets	(335)	1,087	941	2,663
Savings Plan - Total Year-end Balances	23,158	23,878	24,797	26,007
Capital Plan Spending (\$19.2 billion over 3 years)	5,445	6,599	6,648	5,997

^a Growth rates excludes federal disaster assistance of \$2.6 billion forecast in 2013-14.

ENERGY AND ECONOMIC ASSUMPTIONS

The *Budget 2014* outlook is prudent, in line with other forecasts for energy prices, exchange rates, and other economic and financial variables.

Alberta's population is forecast to increase by 115,000 people in 2014.

Alberta's population surged past four million in 2013, growing by the highest rate since 1981 at 3.5%. In 2014, population growth is forecast to moderate, but remain solid at 2.9%, for a net increase of 115,000 people. Population growth rates of 2.5% in 2015 and 2.1% in 2016 are forecast, increasing Alberta's population to over 4.3 million.

Overall, the Alberta economy grew by an estimated 3.3% in 2013. This is slightly higher than the expected 2.9% increase at *Budget 2013*, reflecting flood reconstruction activity and stronger-than-forecast population growth. In 2014,

real GDP growth is expected to accelerate to 3.7%, lifted by exports, residential and business investment, as well as flood-related spending. Continued positive economic growth is forecast, with real GDP expected to increase by 3% in 2015 and 2.7% in 2016.

Alberta added an average of 5,700 jobs per month in 2013 compared with only 2,600 in all other provinces. With momentum heading into 2014, strong employment growth of 2.6% is expected this year. Alberta's unemployment rate was 4.6% in 2013, and is forecast at 4.4% in 2014. With continued employment growth expected, the unemployment rate is forecast at 4.3% in 2015 and 2016.

Consumer prices rose at an average rate of 1.4% in 2013, the second straight year below 2% and well below growth in wages. Strong in-migration, coupled with slack in the global economy, has contributed to low price inflation and allowed Alberta to grow quickly without triggering major inflationary pressures. Inflation is expected to rise in 2014 to 2.2%, due to stronger shelter costs and a weaker Canadian dollar. Inflation is forecast at 2.1% in 2015 and 2% in 2016.

The loonie hit a four-and-a-half year low against the US dollar in late January at 89 US¢/Cdn\$ and has been trading around 90 US¢/Cdn\$ in recent weeks. The exchange rate forecast for 2013-14 has been lowered to 95.1 US¢/C\$. The forecast for 2014-15 and the following two years is 91.0 cents.

The global economic outlook has improved for 2014, after global growth gained traction in 2013. US economic growth is forecast to accelerate as uncertainty abates and fiscal drag recedes following a resolution on the federal budget. Emerging markets are expected to grow at a more moderate but sustainable pace, supporting energy demand and prices and thereby supporting Alberta's royalty and tax revenue. The *Budget 2014* forecast is based on a steady acceleration in global growth, supporting oil prices near their current levels.

The global economic outlook has improved, supporting oil prices near their current levels.

Alberta spending and revenue forecasts are significantly affected by an array of unpredictable and unstable factors such as global and US economic growth, energy prices and exchange rates, financial market conditions, and Alberta population and employment growth. The government's *Budget 2014* assumptions for energy prices take into consideration the views of private sector experts and professional forecasters.

The *Budget 2014* revenue forecast has improved from the *Budget 2013* forecast. The main reasons for the improvement are: a higher base and growth rates for Alberta's population, and corresponding employment, wage and personal income growth; strong 2013 equity markets which boost investment income in 2013-14 and 2014-15; slightly higher oil prices for the current and next two years; and a sizeable drop in the Canadian-US dollar exchange rate.

Total revenue in 2013-14 is expected to be \$44.7 billion, \$6 billion higher than the estimate in *Budget 2013*, though \$2.6 billion of the increase is due to reporting the entire amount of federal disaster assistance anticipated for the 2013 Alberta floods in 2013-14. The \$3.4 billion remainder of the increase is primarily from higher personal and corporate income taxes, investment income and bitumen and crude oil royalties.

Total revenue in 2014-15 is estimated at \$44.4 billion. This would be the second highest revenue in Alberta's history, behind only 2013-14 which as noted includes special one-time federal disaster assistance. The main increases from 2013-14 include personal and corporate income taxes, bitumen royalties and a jump in the Canada Health Transfer (CHT). The move to more equitable funding for Alberta, implemented for 2014-15, adds over \$1 billion to Alberta's CHT entitlement.

Energy and Economic Assumptions

	2013-14	2014-15	2015-16	2016-17
Fiscal Year	Forecast	Estimate	Target	Target
West Texas Intermediate (WTI) (US\$/bbl)	98.16	95.22	94.86	94.80
WCS @ Hardisty (Cdn\$/bbl)	78.54	77.18	76.59	78.13
Differential (WCS / WTI)	24%	26%	27%	25%
Natural Gas (Cdn\$/GJ)	3.09	3.29	3.73	3.98
Exchange Rate (US\$/Cdn\$)	95.1	91.0	91.0	91.0
Interest Rate (3-month Canada Treasury Bills %)	0.95	1.00	1.30	2.00
Calendar Year	2013	2014	2015	2016
Real economic growth (GDP, % change)	3.3	3.7	3.0	2.7
Population (% change)	3.5	2.9	2.5	2.1
Alberta Consumer Price Index (% change)	1.4	2.2	2.1	2.0
Employment Growth (%)	2.9	2.6	2.2	1.7
Unemployment Rate (%)	4.6	4.4	4.3	4.3
Primary Household Income (% change)	7.1	6.7	6.2	5.8
Net Corporate Operating Surplus (% change)	9.4	8.4	4.0	6.3

OPERATIONAL PLAN

The Operational Plan aligns with government's Strategic Plan and focuses on delivering the day-to-day programs and services Albertans expect. The Operational Plan continues to meet Albertans' priorities and supports how government is investing in families and communities, living within its means and opening new markets.

\$40.4 billion budgeted in 2014-15 for operational expense.

There is \$40.4 billion budgeted in 2014-15 for operational expense. This includes \$38.5 billion for operating expense, \$243 million in spending supported by Alberta's various endowments/savings, \$155 million for 2013 flood recovery initiatives and a further allocation of \$200 million for potential emergencies and disasters, \$997 million for amortization of long-term capital assets and consumption of short-term assets (such as vaccines), and \$360 million for general debt servicing costs. Operating expense will increase by 3.7% in 2014-15, well below expected revenue growth (5.4%) and the projected rate of population growth and inflation (5.0%).

Funding for the Operational Plan comes from the province's total resource, tax, investment income and other revenue, an estimated \$44.4 billion in 2014-15, less revenue received for Capital Plan purposes, portions of Heritage Fund investment income being saved, and an allocation for debt servicing costs related to the Capital Plan, to arrive at Operational Revenue of \$43.1 billion.

Operational surpluses in each of the next three years.

Budget 2014 includes operational surpluses in each year, with \$2.6 billion estimated for 2014-15, and \$2 billion in 2015-16 and \$3.2 billion targeted for 2016-17.

After cash adjustments, these operational surpluses will contribute to the Contingency Account reaching its target balance under the *Fiscal Management Act* of \$5 billion in 2014-15, and it will be maintained at this level for the following two years.

Net assets will increase each year, by \$1.1 billion in 2014-15, \$941 million in 2015-16, and about \$2.7 billion in 2016-17.

The Contingency Account reaches its target balance of \$5 billion in 2014-15.

Budget 2014 Operational Plan

(millions of dollars)

	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Net Operational Revenue	43,742	43,076	43,960	46,319
Operational Expense:				
Operating Expense (net of in-year savings)	37,118	38,477	39,948	40,920
Endowment Fund / Account Expense	192	243	274	297
2013 Alberta Flood Assistance	3,550	155	61	6
Provision for Disaster / Emergency Assistance	143	200	200	200
Amortization / Inventory Consumption	985	997	1,062	1,111
General Debt Servicing Costs	362	360	390	552
Total Operational Expense	42,349	40,432	41,936	43,087
Operational Surplus	1,393	2,644	2,024	3,232

SAVINGS PLAN

Budget 2013 and the *Fiscal Management Act* ushered in a new era of savings for Alberta, with a legislated savings plan that sees a portion of the province's non-renewable resource revenue set aside each year, and the Alberta Heritage Savings Trust Fund retaining an increasing percentage of its net income.

Over the past year, through forums such as the Alberta Economic Summit and the budget consultations, the government has heard from Albertans on priorities for managing our long-term savings. Albertans placed a high priority on using part of Alberta's savings to support strategic investments on province-building initiatives that will benefit Albertans now and for generations to come.

With *Budget 2014*, the government is taking significant steps to implement a renewed vision and purpose for Alberta's savings. These steps include allocating \$1.2 billion of existing assets within the Heritage Fund to support two new endowments to foster innovation in the social and cultural sectors as well as in agriculture and food. The government will also transfer \$200 million from the Heritage Fund to the Alberta Heritage Scholarship Fund to support new scholarships and other financial supports for students pursuing opportunities in the trades. An account will also be established within the Heritage Fund, the new Alberta Future Fund, with \$200 million per year over the next 10 years, to finance other province-building opportunities to be determined. Legislated rules for the operation of the new endowment accounts will be set out in the *Savings Management Act*.

Budget 2014 implements a renewed vision and purpose for Alberta's savings.

The two new innovation-focused endowment accounts within the Heritage Fund are the Social Innovation Endowment, and the Agriculture and Food Innovation Endowment. The Social Innovation Endowment will receive \$1 billion by 2015-16, supporting \$45 million in spending by 2016-17 for

world-class research, to test innovative approaches and new funding models that offer the potential for improved social outcomes and strengthened partnerships in the social and cultural sectors. The Agriculture and Food Innovation Endowment will receive \$200 million in 2014-15, supporting \$9 million in annual spending to enhance basic and applied agricultural research, emerging product development and commercialization opportunities.

With the additional \$200 million transferred from the Heritage Fund, the Alberta Heritage Scholarship Fund will hold over \$1 billion by the end of 2014-15. The Scholarship Fund currently supports about \$38 million annually in merit-based awards to students. With this additional \$200 million contribution there will be \$9 million per year in new Heritage Scholarships and other financial supports, beginning in 2015-16, for students pursuing opportunities in the trades.

Within the Heritage Fund, \$200 million per year for the next 10 years, for a total of \$2 billion, will be set aside in the new Alberta Future Fund. Under the terms of the *Savings Management Act*, the Fund will be available to fund investments that provide long-term benefits to Albertans and the Alberta economy.

Budget 2014 adjusts the timing of the savings plan to match the schedule in the *Fiscal Management Act*. There will be \$23.9 billion saved by the end of 2014-15. With planned savings of \$1.1 billion in the Heritage Fund and the other endowments/accounts and \$1 billion in resource revenue over the following two years, Alberta's savings will be \$26 billion by the end of 2016-17.

The new Alberta Future Fund will support investments that provide long-term benefits to Albertans and the Alberta Economy.

Alberta Savings Plan

Closing Balances as of March 31
(millions of dollars)

	2013-14	2014-15	2015-16	2016-17
Contingency Account	4,657	5,000	5,000	5,000
Heritage Savings Trust Fund				
Alberta Future Fund	-	215	445	692
Advanced Education Endowment	1,169	1,397	1,445	1,495
Agriculture and Food Innovation Endowment	-	206	212	218
Social Innovation Endowment	-	536	1,089	1,123
Other	13,881	12,793	12,812	13,625
HSTF Total	15,050	15,147	16,003	17,153
Medical Research Endowment Fund	1,365	1,394	1,418	1,439
Science and Engineering Endowment Fund	793	824	852	879
Scholarship Fund	793	1,024	1,046	1,069
Cancer Prevention Legacy Fund	500	489	478	467
Total Balance	23,158	23,878	24,797	26,007
Total Annual Savings	1,755	720	919	1,210

CAPITAL PLAN

The Building Alberta Plan includes investing in the essential infrastructure needed to support Alberta's exceptionally strong population growth, strengthen the economy and build an even better quality of life for Albertans. The *Budget 2014 Capital Plan* supports \$19.2 billion in infrastructure projects over the next three years, with \$6.6 billion in each of the next two years, and \$6 billion in 2016-17. This is a significant increase from recent capital plans, reflecting new funding for the Southwest Calgary Ring Road, and continuing support for the roads, schools, health care and post-secondary facilities and other infrastructure Alberta needs.

The 2014-17 Capital Plan includes:

- ◆ \$5.1 billion in municipal infrastructure support;
- ◆ \$5 billion for the provincial highway network;
- ◆ \$2.6 billion for health care facilities; and
- ◆ \$2.5 billion for schools (\$1.8 billion) and post-secondary facilities (\$725 million).

In delivering projects under this Capital Plan, pursuing public-private partnerships will continue to be an option where it makes financial sense to do so.

Albertans continue to express support for the government to finance investments in long-term capital assets. As in *Budget 2013*, a large portion of the Capital Plan will be financed through direct borrowing. With *Budget 2014*, the Contingency Account will reach \$5 billion in 2014-15 as targeted in the *Fiscal Management Act*. Amounts available over this target will be allocated from the Contingency Account to the Capital Plan, with \$767 million in 2014-15 and a total of \$4.3 billion provided over three years. This balanced approach will reduce the proportion of the Capital Plan financed by direct borrowing, meeting the infrastructure demands of a growing province now and ensuring a manageable debt load in the future.

As first described in *Budget 2013*, the government has a clear debt management plan in place:

- ◆ Amounts are set aside every year for future debt repayment, in a capital debt repayment account. Over \$600 million will be set aside for future debt repayments by the end of 2016-17.
- ◆ Amounts are allocated directly from annual operational revenue to pay for interest costs of the capital debt, clearly demonstrating the costs of borrowing will be funded.
- ◆ There is a legislated limit on borrowing for the Capital Plan in the *Fiscal Management Act*. Capital Plan debt servicing costs cannot exceed 3% of the average of Operational Revenue of the current year and two prior years.
- ◆ Amounts borrowed for the Capital Plan that are not required in a particular year will be deposited into a Capital Plan financing account, to be withdrawn as needed for Capital Plan spending only.

The Budget 2014 Capital Plan supports \$19.2 billion in infrastructure projects over the next three years.

- ◆ The specific types of financial instruments issued, maturities and other details of Capital Plan financing are determined based on minimizing borrowing costs given market conditions when issuing debt, and will be fully disclosed at the relevant time, as is current practice.

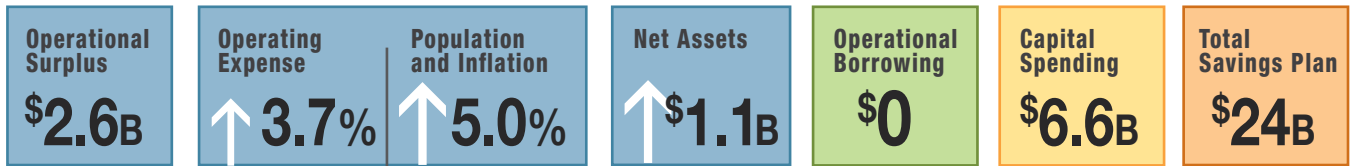
Budget 2014 Capital Plan

(millions of dollars)

	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Capital Plan Spending:				
Investing in Families and Communities	2,265	2,975	2,852	2,657
2013 Alberta Flood Assistance	239	363	281	215
Securing Alberta's Economic Future	2,614	2,948	3,078	2,936
Resource Stewardship	322	309	435	187
Legislative Assembly	5	4	2	2
Total Capital Plan Spending	5,445	6,599	6,648	5,997
Capital Plan Financing:				
Direct Borrowing ^a	3,586	4,883	4,597	2,732
Alternative Financing (P3s)	353	206	279	463
Transfer from Contingency Account	-	767	1,160	2,327
Revenue Received for Capital Purposes	520	560	450	408
Other	986	183	162	67
Total Capital Plan Financing	5,445	6,599	6,648	5,997
Capital Debt Servicing Costs	233	421	632	820
% of Operational Revenue	0.6%	1.0%	1.4%	1.8%

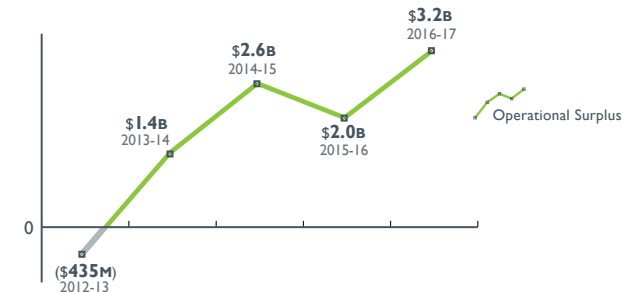
^a Excludes \$905 million of refinancing in 2014-15.

Budget 2014 by the numbers

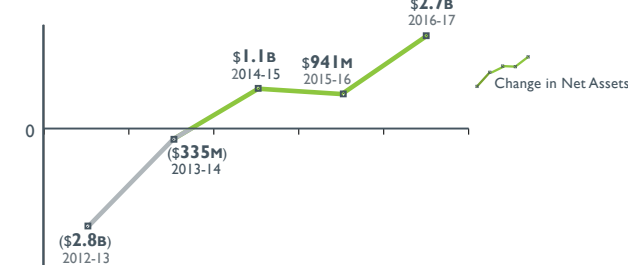


Balanced Budget

Operational revenue is more than spending on programs and services creating an operational surplus

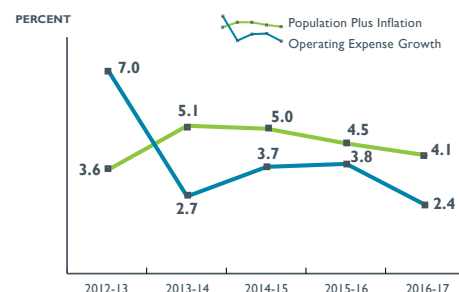


Increasing our Net Assets

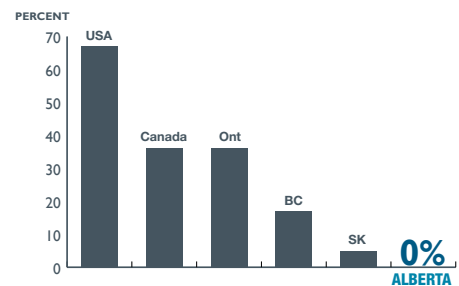


Living Within Our Means

Operating expense growth is lower than population growth plus inflation

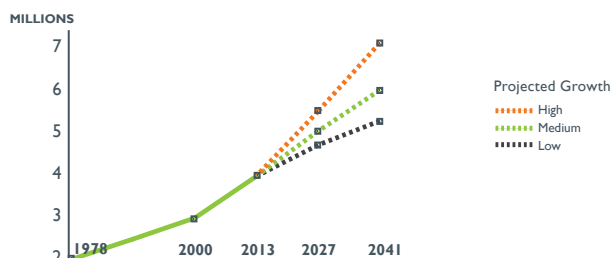


Net Debt to GDP 2013 (as at March 31, 2013)

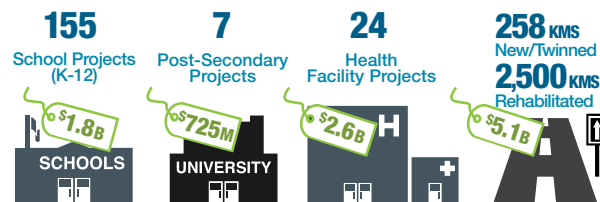


Building Alberta

Alberta is the fastest growing province in Canada



Budgeted over the next three years



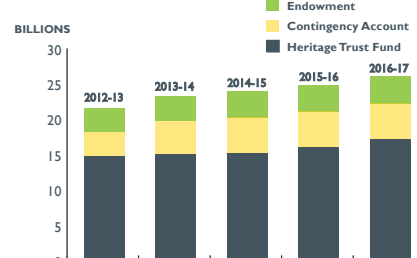
\$5.1B SUPPORT FOR MUNICIPAL INFRASTRUCTURE

\$4.9B DIRECT BORROWING FOR CAPITAL IN 2014-15

Debt servicing costs: \$421M (1% of Operational Revenue)

Investing in Our Future

Total Savings Plan expected to reach \$26B by 2016-17



Savings will be used to support Innovation



\$1B INCREASE IN SPENDING FOR HEALTH, EDUCATION, POST-SECONDARY EDUCATION AND SUPPORT FOR VULNERABLE ALBERTANS

OPERATIONAL PLAN

✧ REVENUE

✧ OPERATIONAL EXPENSE

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✧ REVENUE

REVENUE OUTLOOK

The revenue outlook has improved since Budget 2013, due mainly to employment and population growth, higher oil prices, healthy investment returns and a lower exchange rate.

The Alberta government revenue outlook has improved from the *Budget 2013* forecast, primarily due to increased forecasts for oil prices over the next two years, a lower estimate for the Canadian-US dollar exchange rate, strong equity market performance in 2013, and to population and personal income growth in Alberta. There are a myriad of other factors that affect Alberta's revenue, as outlined in the following discussion, but these four are major elements in the revision to the revenue forecast.

Population estimates used in *Budget 2013* proved to be too low. This was due partly to upward revisions to 2011 and 2012 population estimates, timing of those revisions, and because the number of people moving to Alberta from the rest of Canada and other countries continued to exceed forecasts. Alberta's population grew 3.5% in 2013, far above the *Budget 2013* forecast of 2.6%. With more people here, and consequently greater economic activity, revenue forecasts for 2013 and future years linked to population and employment, including personal income tax and other volume-driven taxes and fees, were increased. Further, the surge in population helps to alleviate possible labour supply issues and associated business costs, which impact corporate profits.

The West Texas Intermediate crude oil price (WTI) is expected to be slightly higher than the *Budget 2013* forecast for 2014-15 and 2015-16, as the health of the US and global economies improves. However, the forecast for the light-heavy differential between WTI and the Western Canadian Select heavy oil price (WCS) has widened. This is mainly due to revised assumptions regarding expansion of North American pipeline infrastructure (later than previously anticipated), and potential investment in rail transportation. Western Canadian rail capacity has increased approximately fourfold since 2010, but is more costly, lowering royalty revenue.

The revenue forecast is also higher as a result of the substantial recent decrease in the Canadian-US dollar exchange rate forecast. The exchange rate estimate

Total Revenue

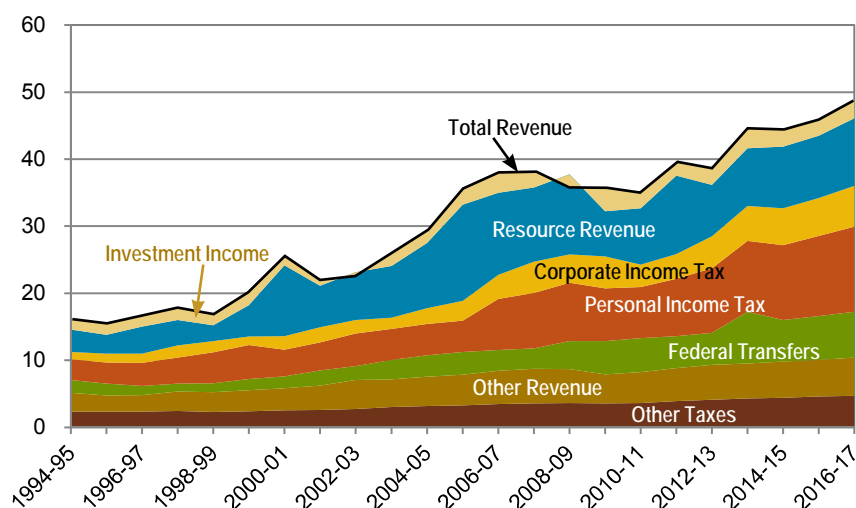
(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Personal income tax	9,621	10,001	10,532	11,153	11,930	12,705
Corporate income tax	4,756	4,943	5,221	5,495	5,656	6,115
Other tax revenue	4,121	4,225	4,289	4,402	4,599	4,703
Non-renewable resource revenue	7,659	7,250	8,627	9,209	9,327	10,070
Federal transfers	4,804	5,120	7,746	6,234	6,514	6,818
Investment income	2,493	2,145	3,095	2,472	2,391	2,596
Other revenue	5,181	5,053	5,222	5,393	5,480	5,690
Total Revenue	38,635	38,736	44,732	44,354	45,898	48,697

^a 2012-13 Actual and 2013-14 Budget revenue and expense have been increased by \$4 million to reflect federal revenue and associated expense for French language programs being recognized instead of being treated as a payment based on agreement.

Total Revenue, 1993-94 to 2016-17

(billions of dollars)



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

has fallen from 99 US¢/Cdn\$ to 91 US¢/Cdn\$ for 2014-15 and onward. The lower exchange rate supports exports, as it lowers prices for US purchasers, and elevates oil and natural gas royalties, as commodity prices are set globally in US dollars, but royalties are calculated and paid in Canadian dollars.

Total revenue in 2014-15 is estimated at \$44.4 billion, \$378 million lower than forecast for 2013-14. However, 2013-14 revenue includes the entire forecast for federal disaster assistance of \$2.6 billion for the June 2013 Alberta floods, as permitted by accounting standards.

Total revenue in 2014-15 is estimated at \$44.4 billion and is expected to grow by 4.8% in 2015-16 and 2016-17.

Removing this amount from 2013-14, the change in total 2014-15 revenue is an increase of \$2.3 billion, or 5.4%. Revenue in both 2013-14 and 2014-15 is the highest ever for Alberta, surpassing the previous high of \$39.5 billion in 2011-12. The largest components of the increase since then are income taxes and the Canada Health Transfer, the latter from moving to equitable funding for Alberta in 2014-15, while resource revenue is down significantly. Revenue is forecast to continue to increase strongly, by an average of 4.8% in 2015-16 and 2016-17, reaching \$48.7 billion by 2016-17.

Revenue in 2013-14 (without federal 2013 flood assistance) is expected to be \$3.4 billion more than estimated in *Budget 2013*, primarily due to increased personal and corporate income tax revenue (\$0.8 billion), bitumen and crude oil royalties (\$2.1 billion) and investment income (\$1 billion), partly offset by lower Crown land lease sales revenue (\$0.6 billion decrease).

2013-14 revenue forecast to be \$3.4 billion higher than budgeted, without including federal assistance for the 2013 floods.

Alberta's economy and government revenue will continue to be dominated by the energy industry, though household spending, residential construction, manufacturing exports and flood reconstruction activity have contributed to growth over the last several years, and will continue to boost growth in 2014. Bitumen royalties will be the fastest growing major component of revenue, expected to increase by an average of 13.8% between 2013-14 and 2016-17, although the forecasts for growth in population, personal incomes and corporate profits results in an average 6.1% growth rate in income taxes.

NON-RENEWABLE RESOURCE REVENUE

Resource revenue forecast to be \$9.2 billion in 2014-15, 21% of total revenue.

Non-renewable resource revenue in 2014-15 accounts for 21% of total revenue. It is forecast at \$9.2 billion, \$582 million, or 6.7% higher than in 2013-14, with increased bitumen royalties partly offset by lower crude oil royalties. Revenue is forecast to increase by an average of 4.6% in 2015-16 and 2016-17, with substantial growth in bitumen royalties, mainly due to rising production, obscuring decreasing crude oil and natural gas royalties. Resource revenue is expected to reach \$10.1 billion by 2016-17, and account for 21% of total revenue. This level of resource revenue is still far less than revenue recorded in 2011-12 or in the four year period from 2005-06 to 2008-09.

OIL ROYALTIES

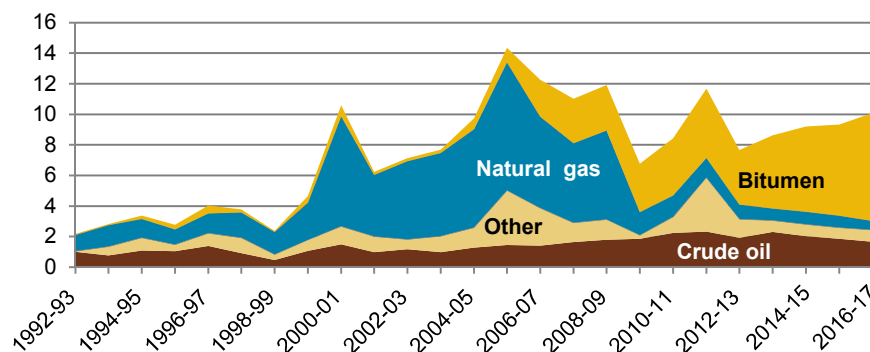
Oil price (WTI) is estimated to be US\$95.22 in 2014-15.

Bitumen and conventional oil royalties are forecast to account for 83% of non-renewable resource revenue in 2014-15. The North American benchmark West Texas Intermediate oil price (WTI) is expected to remain relatively flat over the forecast period, at US\$95.22 in 2014-15 and \$94.80 in 2016-17, largely as a result of ongoing rapid supply growth from North American non-conventional production, slow, steady demand growth from the strengthening US economy, and increased access to and therefore demand from, US Gulf Coast refineries. Recent pipeline reversals and additional pipelines enabling more production to flow from Cushing, Oklahoma to the Gulf Coast, with the largest refining capacity in the world, have also impacted the global North Sea Brent oil price benchmark. Greater access to refineries for North American oil production, priced off WTI, has filled more refinery demand and displaced imported supply priced off Brent. In addition, global supply growth, particularly from non-OPEC producers, is projected to match forecast demand growth. As a result of these factors, the Brent price is expected to exhibit a slight drop over the medium term.

Oil price differentials substantially impact government revenue.

The impact of oil price differentials on the government's revenue is substantial. The difference between the price received for Alberta bitumen, Western Canadian Select (WCS), and WTI remains extremely volatile and unpredictable. The *Budget 2014* forecast is for the WTI-WCS differential to remain wider than expected in *Budget 2013* over the medium term, at 26% for

Non-Renewable Resource Revenue, 1992-93 to 2016-17^a
(billions of dollars)



^a Other includes Crown land lease sales revenue.

2014-15, primarily from continued delays in decisions regarding pipeline approvals, and therefore assumptions for later completion, but also because higher rail transportation costs reduce the WCS price. The wider WCS-WTI differential exacerbates the negative effect of the Brent-WTI differential on prices Alberta producers can achieve, although that differential has narrowed.

Bitumen royalties are forecast to account for 61% of non-renewable resource revenue in 2014-15, and by 2016-17, they are expected to be 70% of the total. This compares to 55% in 2013-14, 25% five years earlier, in 2008-09, and 2.6% five years earlier than that, in 2003-04. Royalties are estimated at \$5.6 billion in 2014-15, an increase of \$805 million, or 16.9% from 2013-14. Bitumen royalties are forecast to continue to rise rapidly over the next two years, by an average of 12.3% a year, reaching \$7 billion by 2016-17.

Bitumen royalties expected to grow to 70% of total resource revenue by 2016-17.

This is based on WCS prices, and the differential between WCS and WTI, remaining relatively flat. While the 2013-14 price forecast has increased from *Budget 2013* by Cdn\$10.33 to Cdn\$78.54 per barrel, the price is expected to drop slightly in 2014-15 and 2015-16 and then rise marginally, to \$78.13 in 2016-17. The WTI-WCS differential stays wide, at 24% in 2013-14, 26% in 2014-15, then rising to 27% in 2015-16 before beginning to narrow, moving to 25% in 2016-17. This assumes that major pipeline expansions will be approaching completion by then, and / or industry decisions to invest in rail transportation infrastructure have started to alleviate the market access issues that cause the differential to be so large.

WTI-WCS differential expected to remain wide until 2016-17.

The royalty revenue increase thus is driven almost entirely by higher production, with projects completing construction or expansion, and by projects reaching “payout.” Oil sands production is forecast to increase 36%, from 2,065 thousand barrels per day to 2,809 thousand barrels per day between 2013-14 and 2016-17. “Payout” is reached when total revenue from a project exceeds total development costs. Projects in payout pay higher royalty rates: prior to payout, royalties are between 1-9% of gross revenue (depending on the WTI price in Canadian dollars), while post-payout, royalties are the greater of 1-9% of gross revenue or 25-40% of the project’s net revenue.

Oil sands production forecast to grow 36% between 2013-14 and 2016-17.

Oil Assumptions

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Revenue (\$ millions)						
Bitumen royalty	3,560	3,367	4,774	5,579	5,962	7,040
Crude oil royalty	1,918	1,615	2,311	2,019	1,852	1,676
Prices						
West Texas Intermediate (US\$/bbl)	92.07	92.50	98.16	95.22	94.86	94.80
WCS @ Hardisty (Cdn\$/bbl)	68.48	68.21	78.54	77.18	76.59	78.13
Differential (WCS / WTI)	26%	27%	24%	26%	27%	25%
Production (thousands of barrels per day)						
Conventional	556	550	583	583	571	550
Raw bitumen	1,917	2,140	2,065	2,347	2,548	2,809

OIL PRICE DIFFERENTIALS

Brent-WTI Differential

Different regions of the world use different oil price benchmarks, mainly determined by where the oil is produced and its access to markets. Oil produced in North America typically uses West Texas Intermediate (WTI) as a benchmark price, while oil produced in Europe and OPEC countries typically uses the North Sea Brent benchmark. Until 2011, these two benchmarks were relatively close to each other, but since then, Brent prices have been higher than WTI. Brent prices have been driven up due to various supply interruptions, Middle East political risks and increasing demand from emerging economies in Asia. WTI prices have been driven down due to increased supply from “tight” oil and oil sands production flowing into Cushing, Oklahoma, where the WTI price is set, without a similar expansion in demand or pipeline capacity.

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

Recent pipeline developments enabling oil at Cushing to reach the US Gulf Coast (USGC) have eased the supply glut at Cushing, supporting stronger WTI prices relative to Brent. The Brent-WTI differential averaged \$10.79 per barrel in 2013 due to some draining of Cushing inventories after the reversal of the Seaway pipeline in 2013, and as the completion of the Magellan Longhorn pipeline allowed some U.S. tight oil production to bypass Cushing and flow straight to the USGC. The boom in moving crude by rail in 2013, particularly from North Dakota to the Gulf, East and West Coasts, has also contributed to lower inventories at the Midwest hub.

The differential is forecast to fall to an average of US\$9.99 per barrel in 2014, and continue narrowing to \$7–\$8 per barrel over the forecast period. This is due to continued pipeline capacity growth, such as the Southern Keystone XL completion in January 2014, Seaway twinning expected in mid-2014, and increasing rail shipments from the U.S. Midwest to the USGC, all of which support the WTI price.

The Brent-WTI differential is a key assumption. The forecast is in line with other industry analysts but there are

risks to the forecast. Increased US oil production coupled with the US law that crude oil produced in the US cannot be exported means that if US production is higher than forecast it will have to replace imports of medium oil as it has virtually already replaced all light oil imports. This would put downward pressure on WTI as medium oils are priced lower than light oil.

WTI-WCS Differential

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

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

The current forecast is for the WTI-WCS differential to remain fairly wide as pipeline capacity is not expected to increase significantly in the next two years and more oil will be moved by rail which is relatively more expensive. Recent developments such as the commencement of unit trains from Bruderheim and announcements such as Imperial Oil’s, that production from Kearl Mine will be transported by train in the future, suggest that rail is industry’s fallback position if pipelines are delayed. With the oil sands royalty regime based on revenue minus costs, the higher transportation costs lower royalties.

Given that in the USGC heavy oil market Alberta oil would be competing with Mexican and Venezuelan heavy oils, alternative access to Asian markets is desirable.



NORTH AMERICAN OIL PIPELINE INFRASTRUCTURE

NOTE: Numerous other pipelines / projects omitted to facilitate a simple, visual explanation of Alberta's main issues.

1 US Gulf Coast refining capacity is the largest in the world. As US energy demand exceeded other global demand, pipelines were generally built to move imported and refined product to the Cushing hub and onto the rest of the US. As global demand, primarily from emerging economies, and North American supply, from Alberta and non-conventional tight / shale sources, grew rapidly, energy economics and transportation needs changed. Pipeline expansions and reversals in the Midwest and between Cushing and the Gulf Coast have begun allowing more cheaper-priced North American production to reach refineries, reducing demand for imports and narrowing the Brent-WTI price differential.

2&3 Alberta oil production still suffers from insufficient access to Gulf Coast oil refineries, in part due to the "tight" oil boom taking up recently-added pipeline space, and so Alberta prices are discounted relative to WTI. The proposed Keystone XL and expansion of Clipper pipelines would provide increased access for Alberta bitumen and crude oil. These await US government approval.

4 Coastal access via the proposed Northern Gateway and expansion of Trans Mountain pipelines would permit tanker access to emerging Asian markets where most global energy demand growth is expected to come from in the near future. These await federal government approval, and discussions with British Columbia and her residents, including First Nations, continue. Exports would be priced relative to the Brent benchmark.

5 The Energy East pipeline would enable Alberta oil production to access US Gulf Coast refineries, or be exported to other markets via tanker. Exports would be priced relative to the Brent benchmark.

The government will supply bitumen to the North West Upgrader, tentatively scheduled to begin operations in 2017, which will upgrade bitumen into higher-valued products such as ultra low sulphur diesel. The Province will receive a portion of the revenue from the sale of the upgraded product, but is also responsible to pay monthly cost of service tolls for the 30-year term of the contract. The financial return from the project is heavily dependent on the costs of constructing and operating the facility, as well as the price differential between bitumen and upgraded products over the term of the contract.

2014-15 conventional crude oil royalties estimated at \$2 billion, but expected to decline by 2016-17.

Conventional oil royalties are forecast to account for 22% of non-renewable resource revenue in 2014-15, down from 27% in 2013-14. By 2016-17, conventional oil royalties are expected to make up under 17% of resource revenue, as production and revenue are forecast to decline. Royalties are estimated at \$2 billion in 2014-15, a decrease of \$292 million, or 12.3% from 2013-14. In 2013-14, royalties were higher than estimated in *Budget 2013* due to increased production and oil prices, and the lower Canadian-US dollar exchange rate. Prices received for Alberta conventional oil production are also discounted relative to WTI due to pipeline / transportation constraints.

Changes to the royalty system implemented four years ago have encouraged the use of new technologies to drill wells that previously would have been too costly to develop. Production has risen since 2011, by about 13% in 2012-13 to 556,000 barrels per day, and by another estimated 5% in 2013-14, to 583,000 barrels per day. The forecast assumes production at the same level in 2014-15, but then to begin to drop off, to 550,000 barrels per day by 2016-17.

Conventional oil royalties are forecast to continue to decrease by an average of 8.9% per year, to \$1.7 billion by 2016-17. This reflects that an increasing amount of production is from horizontal wells, subject to the same 5% royalty rate as all conventional oil wells for year one of production, but then paying the 5% rate for an additional one to three years, depending on well depth. In 2013, 81% of crude oil wells placed on production were horizontal wells.

NATURAL GAS AND BY-PRODUCT ROYALTY

Natural gas royalties estimated to be \$823 million in 2014-15, and to decline by 2016-17.

Natural gas and by-product royalties have declined as a share of non-renewable resource revenue, and are forecast to account for only 9% of the total in 2014-15. As recently as 2008-09, natural gas royalties accounted for nearly half of total non-renewable resource revenue.

The immediate outlook for natural gas continues to be weak, with abundant natural gas supplies keeping prices low. North American natural gas storage levels have dipped recently with the colder-than-average winter, and short-term prices have increased. With strong growth in US shale gas production,

Natural Gas Assumptions

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Revenue (\$ millions)	954	965	802	823	779	595
Price (Cdn\$/GJ)	2.29	3.07	3.09	3.29	3.73	3.98
Production (billions of cubic feet)	4,223	3,873	4,040	3,737	3,602	3,477

improving economic conditions, US liquid natural gas exports and increasing North American demand from retirement of coal-fired electricity plants, prices are anticipated to strengthen.

The forecast Alberta Reference Price for 2014-15 is Cdn\$3.29/GJ, 20 cents higher than in 2013-14. It is forecast to climb to \$3.98/GJ by 2016-17. The price forecast is based on averages of private sector forecasters. Natural gas production declined by 4.3% in 2013-14, though it was expected to decline by 7.4% in *Budget 2013*. Production is forecast to continue to trend down during the next three years, by 7.5% in 2014-15, and then a further 3.6% and 3.5% in 2015-16 and 2016-17, respectively.

Revenue includes royalties from natural gas by-products, which have been relatively stronger than natural gas royalties, because prices for the by-products, which include propane, butane and pentane, more closely track oil prices. Natural gas and by-product royalties are estimated to increase marginally in 2014-15, as prices creep up and with the lower Canadian-US dollar exchange rate, and royalties then begin to decline with the expected drop in production.

BONUSES AND SALES OF CROWN LEASES

Bonuses and sales of Crown land leases revenue has fallen substantially since the \$3.3 billion realized in 2011-12, when the June 1, 2011 sale brought in \$842 million, the highest one-day sale amount in Alberta's history. In 2013-14, revenue from land lease sales is expected to be only \$557 million, less than half the *Budget 2013* forecast of \$1.1 billion. Revenue is estimated higher in 2014-15, at \$623 million, but this is still less than 7% of total resource revenue. The forecast remains relatively flat over the next two years.

Crown land lease sales revenue much lower than it was in 2011-12, or was expected to be in Budget 2013.

Non-Renewable Resource Revenue

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Bitumen royalty	3,560	3,367	4,774	5,579	5,962	7,040
Crude oil royalty	1,918	1,615	2,311	2,019	1,852	1,676
Natural gas & by-products royalty	954	965	802	823	779	595
Bonuses & sales of Crown leases	1,053	1,148	557	623	584	622
Rentals and fees	176	145	170	153	137	124
Coal royalty	(3)	10	13	12	13	13
Total Resource Revenue	7,659	7,250	8,627	9,209	9,327	10,070

TAX REVENUE

Tax revenue, which accounts for 48% of total revenue, is forecast at \$21.1 billion in 2014-15, an increase of \$1 billion, or 5% from 2013-14, mainly from increasing personal and corporate income tax revenue.

Personal income tax is estimated at \$11.2 billion, or 25% of total revenue, in 2014-15, an increase of \$621 million, or 5.9% from 2013-14. Revenue in 2013-14 increased \$531 million from the *Budget 2013* estimate due to higher-than-expected 2012 tax year assessments and population, and strong personal income and employment growth in 2013. The higher 2012 assessments increase the base used to forecast 2013-14 and future year revenue, and require a positive prior years' adjustment of \$216 million to 2013-14 revenue.

Personal income tax is forecast at \$11.2 billion, or 25% of total revenue.

Personal Income Tax Revenue

(millions of dollars)

	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Total	10,532	11,153	11,930	12,705
Adjustments to prior years	(216)	-	-	-
Base revenue	10,316	11,153	11,930	12,705
Base revenue change (%)		8.1	7.0	6.5

After prior-years' adjustments, base income tax revenue is forecast to grow by 8.1% in 2014-15. Alberta primary household income is estimated to have grown by 7.1% in 2013, and is forecast to grow by 6.7% in 2014, 6.2% in 2015 and 5.8% in 2016, due to continued healthy employment, wage and population growth. As a result, personal income tax revenue is expected to grow by an average of 6.7% in 2015-16 and 2016-17, reaching \$12.7 billion by 2016-17.

Corporate income tax is forecast at \$5.5 billion, 12.4% of total revenue.

Corporate income tax is forecast at \$5.5 billion, 12.4% of total revenue, in 2014-15. This is an increase of \$274 million, or 5.2% from 2013-14. Cash instalment payments from corporations in 2013-14 were higher than would be expected given the volatility in energy prices faced by Alberta producers, partly from the strength in household spending coupled with containment of cost pressures partially due to population growth. Indeed, the forecast has increased by \$278 million, or 5.6% from the *Budget 2013* estimate. The impact of the June 2013 Alberta flood on corporate profits was mixed, with additional construction activity but also business losses stemming from flood disruption.

Corporate income tax revenue is forecast to grow at an average of 5.5% per year between 2014-15 and 2016-17, reaching \$6.1 billion. Net corporate operating surplus has recovered from the drop of 6.6% in 2012, with expected increases of 9.4% in 2013, 8.4% in 2014, 4% in 2015 and 6.3% in 2016. Cost increases are projected to ease off, with population growth keeping labour costs in check, and with growth in business investment moderating after a frantic decade of expansion. Business income is anticipated to rise, driven by oil sands production growth, gains in the manufacturing sector, a positive outlook for the agriculture and forestry sectors, and robust housing construction activity.

Corporate Income Tax Revenue

(millions of dollars)

	2012-13 Actual	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Total	4,756	5,221	5,495	5,656	6,115
Revenue change (%)		9.8	5.2	2.9	8.1

Education property tax revenue is forecast at \$1.9 billion in 2014-15, an increase of \$45 million, or 2.4% from 2013-14. The new policy for determining the property tax requisition implemented in *Budget 2013*, means the 2014-15 revenue amount was determined in *Budget 2013*. An adjustment was made to accommodate school board movement from "opted-out" to "opted-in," resulting in an increase of \$24 million reported as government revenue and an equivalent decrease in "opted-out" school board revenue. The total requisition amount is based on 32% of total operating expense of the

education system. As a result, 2014 education property tax mill rates are being reduced by about 4.5%. The residential/farm rate will drop 12 cents to \$2.53 per \$1,000 of equalized assessment, and the non-residential rate will fall 18 cents to \$3.72 per \$1,000 of equalized assessment.

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

Since the province took over responsibility for the education property tax in 1994, the proportion of provincial education property tax relative to total provincial and municipal property tax has fallen from 51% to 27%, while the municipal portion has increased from 49% to 73%. Education property tax revenue will climb \$132 million in 2015-16, or 6.9%, as the impact of enrolment increases on total operating expense in 2013-14 and 2014-15 impact the calculation of revenue for 2015-16.

Other tax revenue is forecast at \$2.5 billion in 2014-15, an increase of \$69 million, or 2.8% from 2013-14. Most of these taxes are volume-based, so growth is driven largely by economic and population growth. Revenue is anticipated to grow at an average of 2.7% for the following two years, reaching \$2.6 billion in 2016-17.

Tax Revenue

(millions of dollars)	2012-13	2013-14	2013-14	2014-15	2015-16	2016-17
	Actual	Budget	Forecast	Estimate	Target	Target
Personal income tax	9,621	10,001	10,532	11,153	11,930	12,705
Corporate income tax	4,756	4,943	5,221	5,495	5,656	6,115
Education property tax	1,776	1,835	1,857	1,902	2,034	2,067
Other taxes	2,345	2,390	2,431	2,500	2,565	2,636
Total	18,498	19,169	20,042	21,050	22,185	23,523

FEDERAL TRANSFERS

Federal transfers, which account for 14% of total revenue, are forecast at \$6.2 billion in 2014-15, an increase of \$1.1 billion or 22%, after deducting the estimated \$2.6 billion in 2013 flood disaster assistance from 2013-14. The increase is almost entirely due to moving to a more equitable calculation of Alberta's Canada Health Transfer (CHT). The Canada Social Transfer grows in line with the federal annual escalator (3%) and changes to Alberta's share of the national population, while transfers for labour market programs are currently forecast to decline as the financial impact of the potential renewal of Labour Market Agreement programs is unclear. In addition, the winding down of federal stimulus programs for infrastructure lowers federal transfer revenue.

Federal transfers account for 14% of total revenue in 2014-15.

CANADA HEALTH TRANSFER

Transfers from Government of Canada

(millions of dollars)	2012-13	2013-14	2013-14	2014-15	2015-16	2016-17
	Actual	Budget	Forecast	Estimate	Target	Target
Canada Health Transfer	2,364	2,597	2,558	3,731	4,006	4,285
Canada Social Transfer	1,315	1,374	1,410	1,463	1,526	1,586
Agriculture support programs	279	319	309	332	327	328
Labour market agreements	177	174	186	119	119	119
Infrastructure support	372	371	344	348	306	269
Other transfers	298	286	2,938	241	230	231
Total	4,804	5,120	7,746	6,234	6,514	6,818

Revenue received for capital purposes

Revenue received for capital purposes is reported as funding in the Capital Plan. Over 70% of this revenue in 2014-15 comes from federal government transfers. These are forecast to decrease over the next several years as details of the new Building Canada Plan have not been finalized.

Alberta CHT revenue increasing 46% in 2014-15 under equitable funding formula.

CHT revenue is estimated to increase \$1.2 billion, or 45.9%, as Alberta will receive equal per-capita cash beginning in 2014-15. Alberta was the only province to receive less than equal per-capita funding previously, as the calculation included factors related to relative provincial tax revenue, and as other provinces had received special provisions. The CHT is forecast to increase by an average of 7.2% per year over 2015-16 and 2016-17, due to the annual 6% escalator and Alberta's increasing share of the national population.

INVESTMENT INCOME

Investment income in 2013-14 the second highest ever, and expected to be the fourth highest in 2014-15.

Investment income, which accounts for 5.6% of total revenue in 2014-15, is forecast at \$2.5 billion. This is a decrease of \$623 million, or 20.1% from the \$3.1 billion forecast for 2013-14, the second highest level of investment income ever, as strong equity markets during 2013 boosted Heritage Fund and endowment fund realized earnings. Although the projected year-over-year change in income seem to be a dramatic drop, with significant gains in assets still embedded in the funds, many of which are to be realized during 2014-15, investment income would be the fourth highest level ever.

Investment income is then forecast to grow by only an average of 2.5% in 2015-16 and 2016-17, as the realized income from the Heritage and endowment funds retracts, partly offset by higher income from the Contingency Account as its balance grows with improved operational results, and from the Alberta Capital Finance Authority, as its lending activity increases.

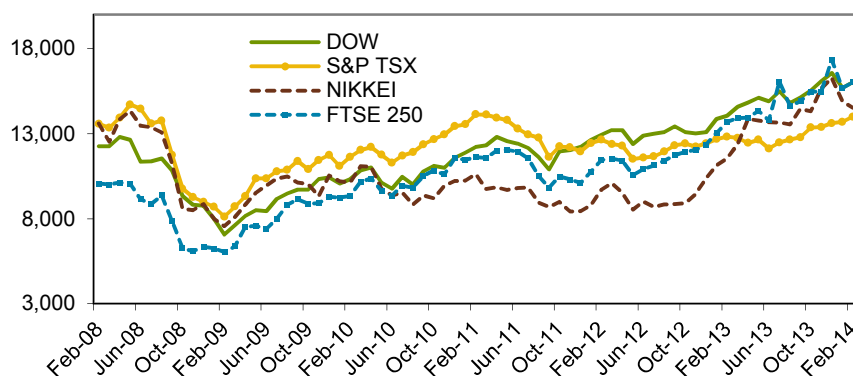
HERITAGE FUND AND ENDOWMENT FUNDS

These funds, with a forecast book value of \$18 billion at March 31, 2014, are invested for long term growth in diversified portfolios with assets such as equities, bonds, real estate, private equity and infrastructure.

Heritage Fund and endowment funds forecast to have a book value of \$18 billion at March 31, 2014.

Income from the Heritage Fund and the three endowment funds (Alberta Heritage Foundation for Medical Research, Alberta Heritage Scholarship and Alberta Heritage Science and Engineering Research) is estimated to decrease by \$657 million, or 26% in 2014-15, from \$2.5 billion to \$1.9 billion. This reflects the strong returns in 2013 and realization of a portion of the associated gains in 2013-14, and continued realization of the embedded gains in 2014-15, but with lower market returns. Heritage Fund and endowment fund

Equity Market Performance, 2009–2014



investment income is forecast to continue declining, to \$1.7 billion by 2016-17, with equity market performance returning to more normal levels.

Over the last several years, the government has discussed with Albertans, through various consultation processes, whether savings should be a priority, and if so, how to save and how savings should be used. Last year, the *Fiscal Management Act* introduced a legislated savings plan. This year, the *Savings Management Act* builds the Savings Plan by introducing several new endowment accounts within the Heritage Fund, and adds to the Scholarship Fund. The investment returns will fund innovation, research and other initiatives for the longer term benefit of Albertans and the Alberta economy. These are concrete mechanisms to employ savings to benefit the future of the province. More details are provided in the Savings Plan chapter.

New Savings Management Act employs savings for innovation and economic benefits.

CONTINGENCY ACCOUNT

The Contingency Account offsets operational deficits and various other cash requirements. As a result, the Account is invested in short to medium term, relatively liquid assets. Income from the Account in 2013-14 is estimated to have increased by \$17 million from the *Budget 2013* forecast, as 2012-13 and 2013-14 operational results, and consequently the balance in the Account, have improved. Similarly, the investment income forecast for 2014-15 and future years has also risen from the *Budget 2013* estimates, as the 2014-15 operational surplus brings the Account balance to its \$5 billion legislated target in 2014-15. Income is forecast at \$110 million in 2014-15, \$130 million in 2015-16 and \$165 million in 2016-17.

Contingency Account forecast to reach its \$5 billion legislated target during 2014-15.

OTHER REVENUE

Fund Assets / Investment Income

(millions of dollars)

	Assets as at Mar. 31, 2014	2012-13 Actual	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Heritage Savings						
Trust Fund	15,050	1,464	2,154	1,604	1,456	1,429
Endowment Funds ^a	2,951	261	384	277	270	269
Contingency Account	4,657	307	80	110	130	165
Alberta Capital						
Finance Authority	14,087	262	274	278	301	452
Agriculture Financial						
Services Corp.	3,930	111	115	124	150	190
Other ^b	598	88	88	79	84	91
Total	41,273	2,493	3,095	2,472	2,391	2,596

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

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

Other revenue, which is 12% of total revenue in 2014-15, is forecast at \$5.4 billion, an increase of \$171 million, or 3.3% from 2013-14. The increase is generally due to the impact of population growth on volume-driven revenue, increased energy industry levies, and to land sales in the Fort McMurray area. Other revenue is forecast to average 2.7% growth over the following two years, reaching \$5.7 billion by 2016-17. Changes from 2013-14 include:

- ◆ A \$15 million increase in Alberta Treasury Branches (ATB) net income, estimated at \$310 million in 2014-15. ATB net income is expected to grow strongly over the following two years, averaging 14% and reaching \$403 million by 2016-17. This is due mainly to continued efficiency gains, and growth in customer loans and deposits, and non-interest income.
- ◆ A \$66 million increase in premiums, fees and licences revenue, primarily from a \$42 million increase in energy industry levies as the Alberta Energy Regulator, whose costs are fully recovered from industry, expands its operations, and a \$24 million increase in motor vehicle licences revenue.
- ◆ A \$77 million increase in other revenue, due mainly to higher external investment management fees and land sales for Fort McMurray development. Fort McMurray land sales are estimated to be \$71 million in 2014-15, \$80 million in 2015-16 and \$102 million in 2016-17.

Fort McMurray land sales revenue of \$253 million over 2014-15 to 2016-17.

RISKS

Revenue from Other Sources

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Alberta Gaming and Liquor Commission	2,214	2,202	2,215	2,228	2,294	2,350
Alberta Treasury Branches	245	250	295	310	339	403
Premiums, fees and licences	1,525	1,572	1,678	1,744	1,783	1,842
Other	1,197	1,029	1,034	1,111	1,064	1,095
Total	5,181	5,053	5,222	5,393	5,480	5,690

Significant portion of Alberta government revenue is from volatile and unpredictable sources.

Alberta relies heavily on revenue sources that can be volatile and unpredictable, including non-renewable resources, corporate income tax and investment income. Since 2000-01, these revenue sources have accounted for anywhere between 38% and 55% of total revenue. In 2013-14 they are forecast to amount to 40% of total revenue, and in 2014-15, 39%.

This revenue is linked to factors such as energy prices, equity markets and exchange rates, which are unpredictable, can fluctuate rapidly, and are outside Alberta's influence. An additional variable has become the differential between oil prices for Alberta energy products, and North American and global prices. Any and all of these factors can vary significantly from assumptions used to prepare budget forecasts, causing deviations from budgeted revenue. For example, revenue in 2013-14 is 8.7% higher than forecast, with resource revenue \$1.4 billion, or 19% higher than forecast in *Budget 2013*, and investment income \$950 million, or 44% higher.

The degree of revenue uncertainty exposes the Alberta government in a unique position relative to other governments. Like energy companies, banks and other

investors, Alberta must assess the degree of risk it is willing to take associated with its revenue outlook and spending decisions. Revenue in 2014-15 could be as much as 10%–15% higher or lower than estimated, depending on variations in energy prices, exchange rates, economic growth or equity markets.

These factors also add risk to spending plans, as growth in the economy and population that exceed forecasts bring increased operating pressures, with more teachers, professors, nurses, doctors and support staff needed, inflationary issues, and Capital Plan pressures.

GLOBAL AND US ECONOMIES

- ◆ *Budget 2014* assumes global economic growth of 3.7% in 2014, slightly higher than in 2013, based on improving performance in the US and developed economies, and more stable and steady growth in China and other emerging markets. Substantial risks remain with weakness in Europe, and uncertainty in financial markets over the rate of removal of US monetary stimulus and over emerging economies' growth.
- ◆ Weaker-than-forecast global growth would negatively affect Alberta's revenue through lower energy prices and equity market returns. Stronger growth would have a positive impact.

Budget 2014 assumes global economic growth of 3.7% in 2014.

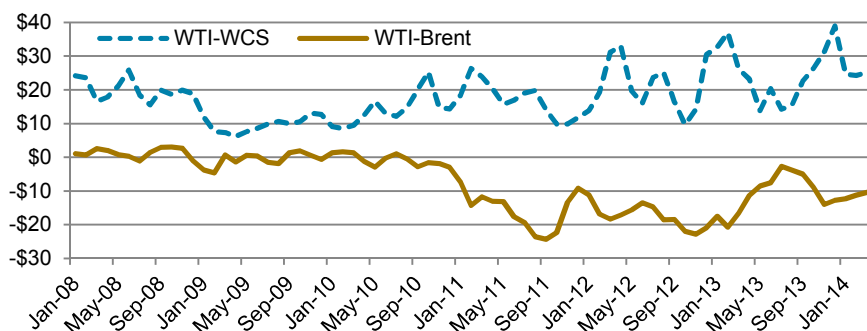
ENERGY PRICES

- ◆ The gap between WTI and the global Brent price, which is received for oil sold off the North American coast, started to close during 2013-14, in large part due to reversal of pipeline bottlenecks in and around the US Midwest which enabled more North American oil to reach Gulf Coast refineries and displace Brent-priced imports. With changing dynamics in Venezuela and Mexico, increased production from those countries expected over the medium term could affect the North American energy market.
- ◆ Alberta's oil sands production is increasing rapidly, but capacity to transport it to markets, either in the US or to the rest of the world, is insufficient. While Alberta's oil has always been priced at a discount to North America's WTI benchmark, the gap between WTI and WCS continues to be wide. With greater Alberta production, the negative financial impact also grows.
- ◆ It is expected that the differential between WCS and WTI will remain, as pipeline approvals drag on. Indeed, some in the industry have decided to

WTI-WCS differential anticipated to remain wide, and be volatile.

Oil Price Differentials 2008–2014

(US dollars)



invest in more expensive rail transportation as an alternative. While this improves access to markets, the higher cost means lower royalty revenue.

- ◆ Further, the differential itself has become increasingly volatile. Because Alberta production is typically the final allocation of limited pipeline space, demand and prices are more subject to swings from pipeline or refinery outages, or other factors.
- ◆ Current dependence on a single export market (the US) adds risk. Further, it is expected that production from Venezuela and Mexico will grow, and will compete with Alberta production to meet US demand.
- ◆ Increased US oil production coupled with the US law that crude oil produced in the US cannot be exported means that if US production is higher than forecast it will have to replace imports of medium oil as it has virtually already replaced all light oil imports. This would put downward pressure on WTI as medium oils are priced lower than light oil.
- ◆ Oil prices are closely linked to global economic conditions. Determining the price of oil three years out is always difficult, as prices are influenced by a wide range of global factors.
- ◆ Natural gas prices remain weak due mainly to increasing production of US shale gas that has outstripped demand growth.

INTEREST RATES

Interest rates anticipated to rise in medium term, with global economy on firmer footing.

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

EXCHANGE RATES

Canadian-US dollar exchange rate has declined and is forecast to be 91 US¢/Cdn\$ for 2014-15.

- ◆ The Canadian-US dollar exchange rate weakened considerably in late 2013, and the forecast assumes the dollar will remain low at 91 US¢/Cdn\$. A weaker Canadian dollar increases the value of oil exports and the demand for exports priced in Canadian dollars, and in turn Alberta's economic growth. Changes in the exchange rate affect the profitability of energy producers, which can affect investment and government resource revenue as energy prices and contracts are mainly in US dollars. Investment income is also impacted due to significant foreign holdings in the Heritage Savings Trust Fund and endowment funds.

EQUITY MARKETS

- ◆ While equity markets performed well in 2013, markets can be affected by a wide range of inter-related factors, such as the uncertainty regarding the US fiscal situation and removal of government monetary stimulus, the European economy, or fluctuations in commodity prices and interest rates.
- ◆ Alberta has significant assets invested globally in a variety of asset classes. The investment income forecast is based on long-run expected rates of return. Annual market performance and, in turn investment income, could vary considerably from the average.

Equity markets performed well in 2013, leading to second highest amount of investment income in Alberta government history.

CORPORATE NET OPERATING SURPLUS

- ◆ Corporate profits in Alberta are expected to taper off over the next several years, mainly due to continued discounted bitumen prices and possible labour and other cost pressures. This is offset by bright consumer, housing, manufacturing and export sectors, and lower business capital investment as more energy projects move from the construction to production phase. However, it can be difficult to predict how forecast corporate net operating surplus translates to corporate income tax revenue, as taxable income can differ significantly from corporate profits, due to tax changes or discretionary deductions such as depreciation or prior-year losses.

Corporate net operating surplus forecast to rise, but at a slower pace; corporate income tax difficult to forecast.

Sensitivities to Fiscal Year Assumptions, 2014-15^a

(millions of dollars)

	Change	Net Impact
Oil Price (WTI US\$/bbl)	-\$1.00	-215
WCS / WTI Differential ^b	+1%	-274
Natural Gas Price (Cdn\$/GJ)	-10 Cents	-8
Exchange Rate (US\$/Cdn\$)	+ 1 Cent	-241
Interest Rates	+1%	-179
Household Income	-1%	-141

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

^b The WCS / WTI differential is forecast to be 26% in 2014-15.

✧ OPERATIONAL EXPENSE

OPERATIONAL EXPENSE

The *Budget 2014* Operational Plan provides for the day-to-day costs to deliver government programs and services to Albertans. This plan reflects the government's long-term focus on the priorities Albertans have identified:

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

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

Budget 2014 implements the next phase of the Building Alberta Plan, ensuring the government is living within its means while meeting Alberta's exceptionally strong population growth head on. This Operational Plan provides for the core services – health, education and supports for the vulnerable – that Albertans identified as their top priorities during the fall 2013 budget consultations.

Budget 2014 provides \$40.4 billion for government operations in 2014-15. When adjusted for disaster / emergency assistance, this reflects a \$1.4 billion increase from the 2013-14 forecast. This is related to a 3.7% increase in operating expense, which is well below both expected revenue growth (5.4%) and the projected rate of population growth plus inflation (5.0%) in 2014-15.

Budget 2014 Operational Expense

(millions of dollars)

	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Operating Expense (net of in-year savings)	37,118	38,477	39,948	40,920
Endowments	192	243	274	297
2013 Flood Assistance	3,550	155	61	6
Provision for Disaster / Emergency Assistance	143	200	200	200
Amortization / Inventory Consumption	985	997	1,062	1,111
General Debt Servicing Costs	362	360	390	552
Total	42,349	40,432	41,936	43,087

INVESTING IN FAMILIES AND COMMUNITIES

Budget 2014 invests in families and communities, with 60% of operational expense allocated to this priority. The government's strategic plan identifies three goals in this area, with a critical focus on primary health care, early childhood development and public safety and resilient communities.

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

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

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

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

Budget 2014 Operational Expense (excluding flood recovery initiatives) Investing in Families and Communities

(millions of dollars)

	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Culture	178	177	183	188
Health	17,666	18,294	18,854	19,397
Human Services	3,882	4,095	4,263	4,349
Justice and Solicitor General	1,286	1,332	1,334	1,351
Municipal Affairs ^a	485	485	493	494
Tourism, Parks and Recreation	182	193	198	196
Total	23,679	24,576	25,325	25,975

^a excludes general debt servicing costs

HEALTHY ALBERTANS

The Building Alberta Plan invests in families and communities, ensuring that every Albertan has a home in the health system – a place where they have access to the care they need, when and where they need it.

MINISTRY OF HEALTH

Budget 2014 continues to invest in healthy Albertans, primarily through the Ministry of Health. The ministry's operational budget is \$18.3 billion in 2014-15, an increase of over \$600 million or 3.6% from the 2013-14 forecast (excluding flood recovery initiatives).

Alberta Health Services (AHS). The AHS base operating grant will increase 2% in 2014-15, to \$10.7 billion, and by a further 2% per year in 2015-16 and 2016-17. In addition, there is \$393 million per year budgeted to support new health care capacity at the South Health Campus in Calgary, the Kaye Edmonton Clinic and the Strathcona Community Hospital.

Physician Compensation and Development. There is \$4 billion budgeted in 2014-15 for various compensation and development programs for almost 9,200 physicians and 1,500 medical residents. *Budget 2014* provides for the costs of the new seven-year agreement with the Alberta Medical Association, which includes 2.5% fee rate increases in both 2014-15 and 2015-16, and a cost-of-living adjustment in 2016-17.

Drugs and Supplemental Health Benefits. There is \$1.5 billion budgeted for these benefits in 2014-15, including \$387 million for prescription drug benefits and \$127 million for dental, optical and supplementary health benefits for seniors. This budget now includes the health benefit programs for Assured

\$4 billion for physician compensation and development programs in 2014-15.

Income for the Severely Handicapped (AISH) and income support clients of the Ministry of Human Services. Moving these programs to Health is a first step to increase the efficiency and effectiveness of these programs, part of a recommendation from the results-based budgeting review. The plan is to refresh government sponsored drug and health benefits programs to improve health and social outcomes. This budget reflects ongoing savings through changes in generic drug pricing implemented in 2013-14.

Community Programs and Other Health Services. There is \$805 million budgeted in 2014-15 for these programs and services, including \$198 million for community based health and wellness programs, \$173 million for tissue and blood services and \$40 million for enhanced home care and rehabilitation services.

Alberta Seniors Benefit (ASB) and Other Seniors Services. Alberta has one of the most comprehensive packages of seniors' benefits in the country, supporting about 150,000 low income seniors. There is \$353 million budgeted in 2014-15 for the ASB, an increase of \$21 million or 6.2% from 2013-14. In addition, there is \$31 million budgeted in 2014-15 for special needs assistance to seniors. Over \$20 million in loans are anticipated in 2014-15 under the Seniors Property Tax Deferral Program.

Primary Health Care / Addictions and Mental Health. There is \$271 million budgeted in 2014-15 to support primary care networks and family care clinics. There is \$48 million budgeted in 2014-15 for Addictions and Mental Health, more than doubling the 2013-14 forecast. This will provide additional addiction and mental health resources in the community and prevent or reduce acute care needs.

\$271 million to support primary care networks and family care clinics in 2014-15.

Endowments. Transfers from the Alberta Heritage Foundation for Medical Research Endowment Fund provide \$86 million per year for Alberta Innovates – Health Solutions, and transfers from the Alberta Cancer Prevention Legacy Fund provide \$25 million per year for cancer research and prevention initiatives.

Ministry of Health – Operational Expense (excluding flood recovery initiatives) (millions of dollars)

	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Alberta Health Services – Base Funding	10,521	10,731	10,949	11,171
Alberta Health Services – New Capacity	368	393	393	393
Physician Compensation and Development	3,687	3,960	4,256	4,560
Drugs and Supplemental Health Benefits	1,585	1,495	1,483	1,494
Community Programs and Other Health Services	715	805	834	839
Alberta Seniors Benefit and Other Seniors Services	374	395	416	416
Primary Health Care / Addictions and Mental Health	232	326	334	334
Endowments	111	111	111	111
Ministry Support Services	73	78	78	79
Total	17,666	18,294	18,854	19,397
Increase (%)		3.6	3.1	2.9

SUPPORT VULNERABLE ALBERTANS

The Building Alberta Plan invests in families and communities, including strengthening programs that support children, families and vulnerable Albertans.

MINISTRY OF HUMAN SERVICES

Budget 2014 will support vulnerable Albertans so they can reach their full potential, primarily through the Ministry of Human Services. The ministry's operational budget is \$4.1 billion in 2014-15, an increase of \$213 million or 5.5% from the 2013-14 forecast (excluding flood recovery initiatives).

\$967 million to support persons with disabilities in 2014-15.

Support to Persons with Disabilities. Programs include supports to encourage independence and community involvement for over 10,000 adults with developmental disabilities, supports to the families of children with disabilities and Fetal Alcohol Spectrum Disorder Initiatives. Combined, there is \$967 million budgeted for these programs in 2014-15, an increase of \$54 million or 5.9% from 2013-14.

AISH. Income and other support (budgeted in Human Services) and related health benefits (now budgeted in the Ministry of Health) will be provided to about 50,000 disabled adults to help them live more independently.

Budget 2014 maintains the maximum monthly income benefit at \$1,588, as well as the higher monthly income exemptions implemented in *Budget 2012*. There is \$941 million budgeted in Human Services and an additional \$192 million budgeted in Health for AISH in 2014-15. Combined, the budgets reflect an increase of \$47 million or 4.3% from 2013-14.

Employment and Income Support. These programs help underemployed and unemployed people find and keep jobs, and help eligible Albertans cover their basic costs of living. Albertans receiving income support benefits also receive financial assistance for child care, school supplies and work clothes, as well as health benefits (now budgeted in Health). There is \$703 million budgeted in Human Services for these programs in 2014-15, including \$453 million for income support programs. There is an additional \$162 million budgeted in Health for related health benefits.

\$735 million for Child Intervention in 2014-15.

Child Intervention. There is \$735 million budgeted in 2014-15 for child intervention, an increase of \$42 million or 6.0% from 2013-14. This budget includes \$199 million for Foster Care Support, funding about 5,000 foster child placements. Targeted investments will be made in Child Intervention with the goals of having more children receive services at home; have fewer children come into care; and children who are in care placed with family members whenever possible.

Child Care. There is \$288 million budgeted in 2014-15 for child care programs, an \$18 million or 6.7% increase from 2013-14. This budget maintains full child care subsidies for families with a household income of less than \$50,000, as introduced in *Budget 2012*.

Homeless Support. There is \$131 million budgeted in 2014-15 for homeless support programs, an increase of \$19 million or 17% from 2013-14. This

budget will help house about 2,000 homeless Albertans this year, as well as fund over 3,200 spaces in emergency/transitional shelters. Since 2009-10, about 8,800 Albertans who were homeless have been provided housing and supports to help them remain housed.

Early Intervention Services for Children and Youth. As part of the government's focus on early childhood development, there is \$95 million budgeted in Human Services in 2014-15 for early intervention services and early childhood development initiatives. This includes increased Parent Link Centre outreach programming and enhanced home visitation support for families at risk of neglect and abuse. Human Services, Health and Education will continue to work together with community partners to implement An Alberta Approach to Early Childhood Development.

Family and Community Safety. There is \$20 million budgeted in 2014-15 for a new Family and Community Safety program. This will leverage existing initiatives and enhance community capacity to address the root causes of issues such as child sexual abuse, sexual and family violence, among others, helping to build stronger families and communities.

Social Innovation Endowment. The government will establish an account within the Alberta Heritage Savings Trust Fund to support social innovation in Alberta. Growing to \$1 billion by 2015-16, this account will provide \$22.5 million in 2015-16 and \$45 million in 2016-17 to support world-class research, and test new funding models and new approaches that offer the potential for improved social outcomes. The ministry will work with community-based partners, academics and other stakeholders to develop implementation plans for this endowment spending.

The Social Innovation Endowment will support world-class research and test new funding models and new approaches that offer the potential for improved social outcomes.

Ministry of Human Services – Operational Expense (excluding flood recovery initiatives) (millions of dollars)

	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Supports to Persons with Disabilities	913	967	1,009	996
Assured Income for the Severely Handicapped	900	941	977	1,009
Child Intervention	693	735	762	789
Employment and Income Support	709	703	716	723
Child Care	270	288	299	306
Homeless Support	112	131	137	137
Early Intervention Services for Children and Youth	82	95	98	100
Family and Community Support Services	76	76	76	76
Prevention of Family Violence and Bullying	44	72	76	77
Social Innovation Endowment	-	-	23	45
Other Programs and Services	45	48	47	48
Ministry Support Services	38	39	43	43
Total	3,882	4,095	4,263	4,349
Change (%)		5.5	4.1	2.0

HONOUR ALBERTA'S COMMUNITIES

The Building Alberta Plan invests in families and communities, supporting public safety and resilient communities.

There is \$315 million budgeted in 2014-15 for direct operating support to municipalities (excluding flood recovery initiatives). Significant support is also provided through the Municipal Sustainability Initiative and other municipal infrastructure programs included in the Capital Plan.

Budget 2014 provides for ongoing flood recovery initiatives and mitigation projects in response to the 2013 flooding, and addresses the Flat Top Committee recommendations following the 2011 wildfires in the Slave Lake area. In addition, *Budget 2014* continues to provide for Family and Community Support Services, programs focused on public security, as well as cultural and tourism initiatives to ensure Albertans continue to be proud of where they live and to grow Alberta as a tourism destination.

FLOOD RECOVERY INITIATIVES

Budget 2014 provides \$1.1 billion for flood recovery initiatives.

Budget 2014 provides \$1.1 billion in operational expense and capital spending over the next three years to address flood recovery initiatives. This is in addition to the \$3.8 billion in spending forecast in 2013-14, mostly related to the Disaster Recovery Program.

Budget 2014 Flood Recovery Initiatives

(millions of dollars)

	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Disaster Recovery Program (DRP)	3,055	-	-	-
Non-DRP Operational Expense	495	155	61	6
Non-DRP Capital Spending ^a	239	363	281	215
Total Flood Recovery Initiatives	3,789	518	342	221

^a See the Capital Plan chapter for details

The June 2013 floods is the single largest disaster in Canadian history, and full recovery will take years. Under the provincial recovery framework, the Alberta government works with municipalities and First Nations to help individuals, families and businesses recover from the floods. Initiatives under the recovery framework are focused in four areas:

- ◆ **People** - to ensure the right resources are available to support the overall physical, mental and social well-being of communities, municipalities, First Nations, families and individual Albertans affected by the floods.
- ◆ **Economy** - to nurture an environment that supports the rehabilitation of and reinvestment in disrupted economies and businesses.
- ◆ **Reconstruction** - to enable the safe and orderly restoration of flood damaged infrastructure within the affected areas.
- ◆ **Environment** - to protect and re-establish the environment to a healthy state and mitigate long-term environmental effects and risks.

There is \$155 million in operational expense budgeted in 2014-15, and a total of \$222 million over three years for flood recovery initiatives. This includes:

- ◆ \$35 million in 2014-15 to complete the floodway relocation program;
- ◆ \$28 million in 2014-15 and \$14 million in 2015-16 to provide property tax relief to affected municipalities;
- ◆ \$25 million in 2014-15 to continue addiction and mental health supports for Albertans affected by the flooding. Costs of this initiative in 2013-14 are included under the Disaster Recovery Program; and
- ◆ \$17 million in 2014-15 and \$13 million in 2015-16 for the Alberta Flood Recovery Interest Rebate Program in support of small businesses.

Flat Top Complex. There is \$31 million budgeted in 2014-15 and a total of \$115 million over three years included in *Budget 2014* as part of a long-term commitment to address the 21 recommendations of the Flat Top Complex Wildfire Review Committee, an independent review of the 2011 wildfire in the Slave Lake area. Funding will be provided for FireSmart initiatives and other programs, to better protect communities and Alberta's natural resources from the increasing risk and severity of wildfires.

\$31 million in 2014-15 and \$115 million over three years for Flat Top Complex recommendations.

Family and Community Support Services (FCSS). Through this 80/20 funding partnership between the province, municipalities and the Metis Settlements, communities design and deliver local preventive programs that promote and enhance well being among individuals, families and communities. There is \$76 million per year budgeted in Human Services for FCSS in *Budget 2014*.

Public Security. There is \$500 million budgeted in 2014-15 for public security programs, a \$25 million or 5.3% increase from the 2013-14 forecast. Public security programs include:

- ◆ **Policing.** There is \$365 million budgeted in 2014-15 for direct policing programs, a \$20 million or 5.7% increase from 2013-14. Funding for the provincial policing contract increases by \$15 million to \$240 million in 2014-15. This will provide for 40 new frontline RCMP officers in 2014-15, increasing the complement to 1,593 officers.
- ◆ **Sheriffs.** Provincial sheriffs provide court security and prisoner transport, traffic enforcement and protection services. There is \$64 million budgeted for sheriffs programs in 2014-15, consistent with the 2013-14 forecast.
- ◆ **Enforcement.** There is \$42 million budgeted in 2014-15 for fish and wildlife, parks and commercial vehicle enforcement, consistent with the 2013-14 forecast.

Correctional Services. There is \$255 million budgeted in 2014-15 for Correctional Services, an increase of \$13 million or 5.5% from 2013-14. This will enable the Edmonton Remand Centre to open its two remaining pods in April 2014.

Court Services. There is \$206 million budgeted in 2014-15 for court services, a \$4 million increase from 2013-14. The increase will address the Justice of the Peace Compensation Commission recommendations and increases in ticket processing costs.

Culture. *Budget 2014* continues to support creative industries, community and voluntary services, and to protect and promote Alberta's heritage. There is \$177 million budgeted in 2014-15 (excluding flood recovery initiatives) for the Ministry of Culture, including \$25 million for the Alberta Media Fund. This Fund supports organizations active in screen-based media production, book and magazine publishing and sound recording in the province.

Tourism. There is over \$80 million budgeted in 2014-15 for tourism related initiatives. This includes \$56 million in assistance to Travel Alberta, the tourism marketing agency for the Government of Alberta. The *Alberta Tourism Framework* aligns the work of many organizations involved in tourism to create compelling, authentic experiences for local, provincial and international visitors.

SECURING ALBERTA'S ECONOMIC FUTURE

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

Budget 2014 will help to secure Alberta's economic future, with about one third of operational expense allocated to this priority. The government's strategic plan identifies two goals in this area, with a critical focus on education and entrepreneurship, and rebalancing the fiscal framework.

Invest in Learning. Alberta's economy is knowledge-inspired, innovative and diversified, its workforce has the right skills and resiliency to fully participate in a dynamic economy; and its education system is sustainable and meets the lifelong learning needs of Albertans as well as the needs of the province.

Living Within Our Means. Alberta has a strong fiscal future, well-managed finances, wise provincial program and infrastructure spending, and intelligent savings and investment policies.

Budget 2014 Operational Expense (excluding flood recovery initiatives) Securing Alberta's Economic Future (millions of dollars)

	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Education	6,322	6,522	6,853	6,978
Infrastructure	655	664	698	704
Innovation and Advanced Education	2,705	2,855	2,913	2,943
Jobs, Skills, Training and Labour	140	167	167	168
Service Alberta	297	286	280	281
Transportation	1,029	1,025	1,030	1,076
Treasury Board and Finance ^a	1,455	1,402	1,439	1,480
Total	12,603	12,921	13,380	13,630

^a excludes general debt servicing costs

INVEST IN LEARNING

The Building Alberta Plan includes a strong education system, which sets the stage for a more prosperous Alberta that can adapt to an ever-changing global economy, as part of the focus on education and entrepreneurship.

Budget 2014 continues to invest in learning, primarily through the ministries of Education and Innovation and Advanced Education.

MINISTRY OF EDUCATION

Education's operational budget is over \$6.5 billion in 2014-15, an increase of \$200 million or 3.2% from the 2013-14 forecast (excluding flood recovery initiatives).

The government is committed to a learner-centered education system and to bringing Inspiring Education to life in Alberta schools. Improved student learning assessments, dual credit opportunities, curriculum re-design, high school flexibility and the class size initiative will ensure students have the best possible chance for success.

Operating Support for School Boards. Total operating and property tax support for public and separate school boards will be \$6.4 billion in 2014-15, and will be over \$6.8 billion by 2016-17. The 2014-15 budget provides for the costs of the Teachers' Framework Agreement and projected enrolment growth of 18,000 students (3.7%). Grants for inclusive education and the class size initiative will increase by 2% for the 2014-15 school year, with all other funding framework grants maintained at 2013-14 rates.

\$6.4 billion in operating and property tax support for public and separate school boards in 2014-15.

The 2014-15 budget also provides:

- ◆ \$476 million to operate and maintain schools;
- ◆ \$282 million to support student transportation services;
- ◆ \$265 million for the Class Size initiative, bringing total government support for the initiative to \$2.2 billion since 2004-05;
- ◆ \$113 million for "equity of opportunity" grants which provide for classroom supports to provide all students with appropriate learning opportunities; and
- ◆ \$61 million for Regional Collaborative Services Delivery (formerly the Student Health Services Initiative).

Teachers' Pensions. Operating support to school boards includes \$377 million in 2014-15 for current service payments for teachers' pensions, with a further \$455 million budgeted in the Ministry of Treasury Board and Finance to provide for the costs of the pre-1992 teachers' pension liability.

\$832 million for teachers' pensions in 2014-15.

Private Schools. There is \$220 million budgeted in 2014-15 to support accredited private schools and private operators that provide Early Childhood Services programs for children as young as two-and-a-half years of age.

Ministry of Education – Operational Expense (excluding flood recovery initiatives) (millions of dollars)

	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Support for School Boards	6,193	6,394	6,716	6,824
Less: Property Tax Support to Opted-out Boards	(201)	(204)	(219)	(222)
Accredited Private Schools & ECS Operators	214	220	228	234
Basic Education Programs	93	75	75	75
Ministry Support Services	23	23	24	24
New School Facilities (Amortization)	-	14	29	43
Total	6,322	6,522	6,853	6,978
Increase (%)		3.2	5.1	1.8

MINISTRY OF INNOVATION AND ADVANCED EDUCATION

Innovation and Advanced Education's operational budget is over \$2.8 billion in 2014-15, an increase of \$150 million or 5.5% from the 2013-14 forecast (excluding flood recovery initiatives).

The government is committed to strengthening alignment within the Campus Alberta system and remains focused on fostering new areas of research, improving access to learning opportunities and driving the innovation needed to create jobs and a strong economy.

Support for Post-Secondary Institutions. Operating grants to post-secondary institutions will be over \$2.1 billion in 2014-15, a \$32.5 million increase from 2013-14. The 2014-15 grants will maintain the \$50 million added in-year during 2013-14 to address specific enrolment pressures, and provide a further \$32.5 million to support enrolment in targeted programs and encourage collaboration between institutions under the Campus Alberta model.

\$70 million commitment to establish the new Peter Lougheed Leadership Initiative.

Other Support for Adult Learning. There is \$151 million budgeted in 2014-15 in other support for adult learning. This includes \$7 million, part of a ten-year \$70 million commitment, for provincial support to establish the Peter Lougheed Leadership Initiative. This new initiative will be a collaboration between the University of Alberta and the Banff Centre to support the development of business leadership innovation and entrepreneurial skills which are critical to supporting and growing Alberta's small and medium-sized enterprises, business start-ups and innovative ventures.

Student Aid. There is \$234 million budgeted in 2014-15 for student aid programs. This includes:

- ◆ \$74 million for merit based scholarship awards to about 38,500 students;
- ◆ \$69 million for bursaries and grants to about 29,000 students;
- ◆ \$45 million for student debt management programs; and
- ◆ \$11 million for Alberta Centennial Education Savings Plan grants. This program will be reviewed in 2014-15 in the context of all student aid programs.

In addition, \$408 million in student loans will be disbursed in 2014-15 to more than 63,000 students.

Innovation and Technology Commercialization. There is \$203 million budgeted in 2014-15 for innovation and technology commercialization, including \$133 million to provide grants to Alberta Innovates corporations for research, innovation and technology commercialization aimed at enhancing Alberta's global competitiveness. These grants are funded in part by a transfer from the Alberta Heritage Science and Engineering Research Endowment Fund.

Payments from the Access to the Future Fund resume in Budget 2014.

Access to the Future Fund. Payments from the Access to the Future Fund resume in *Budget 2014*, providing \$50 million per year in operating support. This will provide funding to match donations to Alberta's post-secondary system and support innovative, collaborative projects. The Access to the Future Fund is supported by transfers from the advanced education endowment within the Alberta Heritage Savings Trust Fund.

Alberta Heritage Scholarship Fund. This Fund will support about \$38 million in scholarships in 2014-15, included in student aid programs. The government will transfer \$200 million to the Fund from the Alberta Heritage Savings Trust Fund in 2014-15. This additional allocation will support \$9 million per year, beginning in 2015-16, in funding for new Heritage Scholarships and other financial supports for students pursuing opportunities in the trades.

New Heritage Scholarships and other financial supports for students pursuing opportunities in the trades to begin in 2015-16.

Apprenticeship Delivery. There is \$50 million budgeted in 2014-15 to support the development, maintenance and delivery of designated trade and occupation programs.

Ministry of Innovation and Advanced Education – Operational Expense (excluding flood recovery initiatives)
(millions of dollars)

	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Support for Post-Secondary Institutions	2,083	2,115	2,177	2,203
Student Aid	227	234	235	238
Other Support for Adult Learning	107	151	153	159
Innovation and Technology Commercialization	195	203	200	192
Access to the Future Fund	-	50	50	50
Apprenticeship Delivery	46	50	44	46
Enterprise and International Partnerships	18	21	21	21
Ministry Support Services	29	30	30	30
New Post-Secondary Infrastructure (Amortization)	-	1	2	3
Total	2,705	2,855	2,913	2,943
Change (%)		5.5	2.0	1.0

LIVING WITHIN OUR MEANS

The Building Alberta Plan outlines how the government is living within its means by challenging every dollar government spends, investing wisely and saving for the future.

Results-based budgeting and controlling public sector compensation costs are two critical components of the government living within its means, as part of a rebalanced fiscal framework.

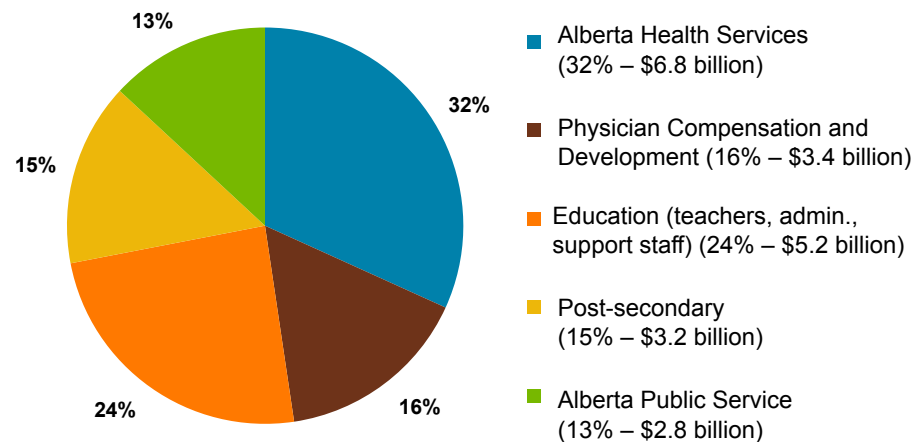
Results-based Budgeting (RBB). Under the *Results-based Budgeting Act* the government is reviewing all programs and services, including those provided by government agencies, to assess whether they are meeting their intended outcomes and whether they are being delivered in an efficient and effective manner. To date, reviews of 375 programs have been completed, generating about 350 recommendations. Most of the recommendations relate to improving outcomes for Albertans. As well, opportunities to better align programs have been identified and included in *Budget 2014*. Cycle 3 of the RBB process is scheduled to begin in late March. Cycle 3 will include the largest component of the provincial budget, with acute care and continuing care under the Health line of business, and operating grants to school boards and post-secondary institutions under the Education line of business. For Cycle 3, ministry proponents will be expected to identify in advance both

financial and non-financial objectives to be addressed through the review process.

The RBB process was delayed somewhat in 2013 by the impact of the June flooding. The Cycle 3 reviews are now expected to be completed by November 2014.

Public Sector Compensation. Staff compensation costs are a significant driver for overall government operational expense. In 2012-13, the province funded, directly or indirectly, \$21.4 billion in compensation to the broad public sector, including payments to doctors, nurses, teachers, post-secondary faculty and members of the Alberta Public Service. This was over half of total operational expense that year.

2012-13 Public Sector Compensation (\$21.4 billion)



Source: Alberta Treasury Board and Finance

In 2013, teachers supported a four-year agreement that provides labour stability and includes three years of zero wage increases. Alberta signed a seven-year agreement with physicians, including three years of pay freezes, while ensuring they remain the highest paid in Canada. While negotiations with the Alberta Union of Provincial Employees continue, *Budget 2014* provides for the costs of the settlement described in the *Public Service Salary Restraint Act*.

These compensation agreements are an important part of ensuring that operating expense increases in *Budget 2014* are less than the rate of projected population growth plus inflation, and lower than expected revenue growth. These are key metrics to ensure the government is living within its means.

Other Measures. The wage freeze for management, opted-out and excluded staff in the Alberta Public Service continues for another two years. In addition, the government has committed to reduce the number of public sector managers by 10% by the end of 2015-16. The government has also implemented Canada's toughest expense disclosure policy, placing all expenses and receipts for executive managers online.

ADVANCING WORLD-LEADING RESOURCE STEWARDSHIP

Budget 2014 will advance Alberta's world leading resource stewardship, with about \$2.5 billion per year in operational expense allocated to this priority. The government's strategic plan identifies two goals in this area, with a critical focus on an integrated resource management system and expanded market access for Alberta products.

About \$2.5 billion per year in operational expense is allocated to advancing world-leading resource stewardship.

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

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

Budget 2014 Operational Expense (excluding flood recovery initiatives) Advancing World-leading Resource Stewardship (millions of dollars)

	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Aboriginal Relations	173	201	211	205
Agriculture and Rural Development ^a	821	945	1,023	1,084
Energy	665	701	733	616
Environment and Sustainable Resource Development	634	559	566	576
International and Intergovernmental Relations	36	39	40	40
Total	2,329	2,445	2,573	2,521

^a excludes general debt servicing costs

INNOVATIVE AND RESPONSIBLE RESOURCE DEVELOPMENT

The Building Alberta Plan recognizes that for Alberta's products to be welcomed in global markets, they need to be recognized as being produced responsibly.

Alberta's integrated resource management system is a big-picture approach that considers the overall environmental, economic and social outcomes of resource development. This approach better integrates the work of the Department of Energy, the Department of Environment and Sustainable Resource Development, the Alberta Energy Regulator, the Alberta Environmental Monitoring, Evaluation and Reporting Agency, and the Aboriginal Consultation Office.

Budget 2014 provides for the various components of the integrated resource management system.

Environmental Monitoring, Evaluation and Reporting. There is \$59 million budgeted in 2014-15 and a total of \$208 million over three years for Alberta's contribution to the new Alberta Environmental Monitoring, Evaluation and Reporting Agency. The Agency will provide open and

\$59 million in 2014-15 for Alberta's contribution to the Alberta Environmental Monitoring, Evaluation and Reporting Agency.

transparent access to credible scientific data and information on environmental conditions and trends, primarily in the oil sands region.

\$245 million for the Alberta Energy Regulator in 2014-15.

Alberta Energy Regulator. There is \$230 million budgeted in 2014-15 for the first full fiscal year of operations for the Alberta Energy Regulator, which regulates the development of hydrocarbon resources over their entire life cycle. An additional \$15.5 million in 2014-15 is included in the Regulator's budget for the Orphan Well Abandonment program.

Aboriginal Consultation Office. There is \$15 million budgeted in 2014-15 for an expanded Aboriginal Consultation Office to better coordinate and increase the efficiency of consultations on land management and resource development.

BUILD RELATIONSHIPS AND OPEN NEW MARKETS

The Building Alberta Plan demonstrates how the government is opening new markets for Alberta's resources to get fairer prices. The government is encouraging development of better transportation infrastructure for Alberta products, including the proposed Energy East pipeline to Quebec and New Brunswick and the proposed Keystone XL pipeline expansion to the United States.

Budget 2014 supports efforts to build relationships and open new markets for Alberta products in the fast-growing markets of Asia and other parts of the world. *Budget 2014* also provides for agricultural support programs and for improving relations with Aboriginal Albertans.

Alberta's International Strategy. There is \$27 million budgeted in 2014-15 in the Ministry of International and Intergovernmental Relations for international relations, an increase of 11% from 2013-14. This will provide more capacity to deliver Alberta's International Strategy, supporting new Alberta international offices in strategic locations such as San Francisco and Guangzhou (China), as well as an office opening in Brazil later this year.

Agricultural Support. In *Budget 2014*, an average of \$1 billion per year in operational expense (excluding debt servicing costs) is budgeted in Agriculture and Rural Development. The budget supports ongoing efforts to expand existing and open new markets for Alberta's agricultural products, ensure food safety and animal health, and encourage rural economic development. Agricultural insurance, lending and income support programs, delivered primarily through the Agriculture Financial Services Corporation, are maintained. There is \$34 million budgeted in 2014-15 for the Alberta Livestock and Meat Agency Ltd.

\$9 million per year for the Agriculture and Food Innovation Endowment.

Agriculture and Food Innovation Endowment. The government will establish a \$200 million account within the Alberta Heritage Savings Trust Fund in 2014-15 to support agriculture and food innovation in Alberta. *Budget 2014* includes \$9 million per year in new spending on basic and applied agricultural research, emerging product development and commercialization opportunities.

First Nations and Métis Relations. There is nearly \$34 million per year budgeted for First Nations and Métis Relations. This budget includes \$10 million per year in new funding for initiatives to provide economic opportunities and improve socio-economic outcomes for First Nations. This budget also includes \$10 million per year to continue the ten-year, \$85 million commitment made in *Budget 2013* to ensure the Metis Settlements have the resources to build stronger and self-sustaining communities.

First Nations Development Fund. A portion of the proceeds from government owned slot machines in First Nations casinos is allocated to the Fund, which supports economic, social and community development projects. There is \$143 million budgeted in 2014-15 for the Fund.

SAVINGS PLAN

✧ FISCAL FRAMEWORK
AND SAVINGS PLAN

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FISCAL FRAMEWORK AND SAVINGS PLAN

INTRODUCTION: ALBERTA'S NEW SAVINGS FRAMEWORK

Budget 2013 ushered in a new era of saving for Alberta, with a legislated savings policy that will see – for the first time in over a quarter century – a portion of the province's non-renewable resource revenue (NRR) set aside as savings each and every year. The *Fiscal Management Act* (FMA), whose provisions must be phased in beginning in 2015-16 and implemented in full by 2017-18, requires that the province save:

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

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

This progressive savings schedule ensures that Alberta's savings will grow substantially in the future, as our non-renewable resource revenues increase with rising oil sands production.

The FMA further supports the growth of Alberta's savings by requiring that an increasing share of the Alberta Heritage Savings Trust Fund's net income be retained within the Fund.

In *Budget 2013*, it was also announced that the government would consult with Albertans on appropriate policies for managing our long-term savings. These consultations were to address the mandate and investment policies of the Alberta Heritage Savings Trust Fund, as well as how we can use our savings to strengthen research and innovation and to improve the lives of Albertans.

RENEWING THE PURPOSE OF ALBERTA'S SAVINGS

With *Budget 2014*, the government is moving forward to fulfill these commitments. This budget takes significant steps in defining, and putting into practice, a renewed vision and purpose for Alberta's savings.

Over the past year, through forums such as the Alberta Economic Summit and the Budget Consultation process, Albertans placed a high priority on using part of our accumulated savings to support strategic, future-oriented investments. They indicated that a balance needs to be struck between consistently saving for the future and leveraging a portion of our savings now, on province-building investments that will benefit Albertans both now and for generations to come. *Budget 2014* responds to this direction from Albertans.

Budget 2014 responds to Albertans' direction to leverage part of our savings on strategic, province-building investments.

Innovation is critical to Alberta's continued success over the long term. In an increasingly competitive global environment, innovation is the means by which we will build upon our existing strengths, develop new strengths, and enhance our capacity to adapt to future developments. It is the key to transitioning our economy to one that is less dependent on non-renewable resources.

The importance of innovation is, however, not limited to the economic sphere. In addition to its role in building a more diversified Alberta economy, innovation can help address many complex social challenges affecting the quality of life of Albertans. In the long run, the strength and well-being of our economy, our communities and individual Albertans are closely linked. Accordingly, these issues call for a comprehensive approach to innovation.

Alberta has spent many years building a strong research and innovation system with support for basic and applied research, education, and commercial innovations. We have world class K-12 and post-secondary education systems. We also have an evolving applied research and commercialization capacity through Campus Alberta, Alberta Innovates, and various other centres and technical and commercial organizations. These efforts continue to advance, but can be made even more effective through complementary innovation initiatives.

The budget commits \$1.4 billion to innovation and to strengthening Alberta's labour market capacity.

Budget 2014 builds upon Alberta's existing innovation infrastructure with a \$1.4 billion commitment to enhancing Alberta's innovative and labour market capacities. This commitment includes substantial investments in social innovation, innovation in agriculture and related value-added activities, and in trades-focused education. These investments will occur through dedicated endowments within the Alberta Heritage Savings Trust Fund and an enhancement to the Alberta Heritage Scholarship Fund.

A new account will also be established within the Alberta Heritage Savings Trust Fund to finance other, yet to be determined, province-building opportunities. This account will be capitalized at \$200 million per year over the next 10 years.

These endowments and accounts will be capitalized by reallocating a portion of the existing assets of the Alberta Heritage Savings Trust Fund. Legislated rules for their operation will be set out in the new *Savings Management Act*.

Finally, the government is establishing a new investment policy guideline for the Alberta Heritage Savings Trust Fund. This guideline will target a small percentage of Heritage Fund assets to be used for innovative investments and commercialization opportunities with clear benefits to Alberta.

TWO NEW ENDOWMENTS TO FOSTER INNOVATION

Two new innovation-focused endowments will be established within the Alberta Heritage Savings Trust Fund.

Budget 2014 establishes two innovation-focused endowments within the Alberta Heritage Savings Trust Fund: The Social Innovation Endowment and the Agriculture and Food Innovation Endowment.

Consistent with sound endowment management principles, the endowments will provide annual disbursements of up to 4.5% of their market value, based upon the most recent 3-year moving average of such value. The 4.5% disbursement rate is equal to the expected long-term real rate of return on the underlying assets, and will preserve the real value of each endowment over time. The use of a 3-year moving average value to determine annual disbursements will ensure predictable levels of funding, protected from year-to-year market fluctuations.

SOCIAL INNOVATION ENDOWMENT

Resolving intractable issues such as poverty and family violence requires innovative approaches that may be more effectively implemented outside of traditional government delivery systems, or through experimentation within existing delivery systems.

To address these, and other social challenges and opportunities, the Social Innovation Endowment will be established with an immediate capitalization of \$500 million. An additional capitalization of \$500 million will be provided in 2015-16. This \$1 billion endowment will advance the goals and principles of Alberta's Social Policy Framework, strengthening and renewing Alberta's social sector. It will support new ideas, risk-sharing and creative collaboration with the not-for-profit sector, Alberta communities and private funding bodies. Recognizing the importance of culture to Albertans' social well-being, this endowment will also help support the long-term sustainability of cultural organizations by stimulating innovation and partnerships in the cultural sector.

With the vision of making Alberta a world leader in social innovation, the main goals of the Social Innovation Endowment will be to:

- ◆ Change the long-term upward trajectory of cost pressures on the social service system by focusing on preventative and outcomes-based approaches; and
- ◆ Increase the capacity of Alberta's social and cultural sectors to innovate, through experimentation with new delivery models and partnerships.

The Social Innovation Endowment will help pilot and expand the use of promising social innovations. The endowment will support:

- ◆ Knowledge: Funding world-class research to generate new ideas on transformative approaches and supporting knowledge dissemination initiatives;
- ◆ Prototyping: Funding the design and testing of innovative approaches and interventions that offer the potential for improved social outcomes; and
- ◆ Social Finance: Identifying and testing new funding models. This could include supports for social enterprises and social entrepreneurs.

A rigorous performance monitoring and reporting system for the Social Innovation Endowment will provide accountability to support the achievement of outcomes.

The \$1 billion Social Innovation Endowment will help renew Alberta's social sector, promoting new ideas, partnerships and risk-sharing.

AGRICULTURE AND FOOD INNOVATION ENDOWMENT

Alberta's agricultural sector, including its related value-added industries, is a cornerstone of our economy. In order to help position this vital sector for sustained long-term growth, the Agriculture and Food Innovation Endowment will be established with a capitalization of \$200 million.

A major challenge for agricultural research in Alberta is its high degree of reliance on external, non-provincial funding. Much current funding is project-specific, and does not support either permanent staffing or long-term planning.

The main goals of the Agriculture and Food Innovation Endowment will be to:

- ◆ Enhance basic and applied agricultural research in the province; and
- ◆ Support emerging product development and commercialization opportunities.

A new \$200 million endowment supports the renewal of Alberta's agricultural research, innovation and commercialization activities.

This endowment will support the renewal of Alberta's agricultural research, innovation and commercialization activities. It will fund several key areas of basic and applied agricultural research, such as:

- ◆ Expansion of grant programs to local applied research associations, which are at the leading edge of improved on-farm agronomic practices in the province;
- ◆ Value-added product development and commercialization;
- ◆ Enhanced research capacity in the Peace River District – Alberta's 'last frontier' for new agricultural land; and
- ◆ An expanded plant health laboratory, to facilitate the development of new resistant plant varieties and agronomic practices. These will be essential to Alberta agriculture as it responds to evolving challenges relating to disease and climate change.

The Agriculture and Food Innovation Endowment will also include a performance evaluation and reporting system to support the achievement of outcomes.

ENHANCING THE ALBERTA HERITAGE SCHOLARSHIP FUND

In addition to the funding commitments provided through the two new endowments, *Budget 2014* supports Alberta's current and future labour market capacity through a supplementary capitalization of \$200 million for the Alberta Heritage Scholarship Fund. This commitment will increase the Fund's value by about 25%, and will be dedicated to trades-focused education.

Established in 1981, the Alberta Heritage Scholarship Fund is designed to stimulate the pursuit of excellence by rewarding outstanding academic achievement and by enabling Albertans to achieve their fullest potential. The Fund supports a number of scholarships.

New funding for trades-focused education will help address chronic shortages of skilled labour in the province.

The supplementary funding for the Alberta Heritage Scholarship Fund will help to enhance both the quantity and quality of labour supply in a sector of the Alberta economy which has long been constrained by critical shortages of skilled labour. Funding from this endowment will focus on helping Alberta's apprentices to complete their programs, engaging industry and supporting excellence in the apprenticeship system.

The two new endowments, as well as the enhancement of the Alberta Heritage Scholarship Fund, will be capitalized from the existing assets of the Alberta Heritage Savings Trust Fund.

Regular annual disbursements from the endowments will commence in 2015-16 – one year after their establishment – thus enabling the endowments to provide funding from earned income rather than from initial capital. As a transitional measure, and in order to provide complete funding certainty in the near term, annual disbursements in 2015-16 and 2016-17 will be set at 4.5% of each endowment's legislated capitalization at the beginning of the preceding year.

Under these arrangements, annual funding in respect of the Agriculture and Food Innovation Endowment will be \$9 million in 2014-15, 2015-16 and 2016-17. Funding from the Social Innovation Endowment will be \$22.5 million in 2015-16 and \$45 million in 2016-17 (with the increase being attributable to the doubling of this endowment's capitalization in 2015-16). Disbursements from the Alberta Heritage Scholarship Fund for trades-focused education will be \$9 million in both 2015-16 and 2016-17.

From 2017-18 forward, annual disbursements will adhere to the legislated formula, 4.5% of the most recent 3-year moving average market value for each endowment – with one exception. Due to the phased-in capitalization of the Social Innovation Endowment, by 2017-18 this endowment will have only two years of history with its full \$1 billion capitalization. Therefore, in applying the disbursement formula for 2017-18, the endowment's market value in 2014-15 will be deemed to be \$1 billion. This one-time measure will protect the disbursement from declining in 2017-18.

THE ALBERTA FUTURE FUND

In addition to the identified priority areas supported through these endowments, other opportunities offering long-term strategic potential may arise and warrant the use of Alberta's savings. These opportunities may arise unexpectedly, and may require large one-time investments that could exceed the annual earned income available through a traditional endowment arrangement. To prepare for such opportunities, *Budget 2014* establishes the Alberta Future Fund.

The Alberta Future Fund will be a new account established within the Alberta Heritage Savings Trust Fund, with an initial capitalization of \$200 million from the existing assets of the Heritage Fund. An additional \$200 million will be set aside in the same manner annually through 2023-24, for a total projected capitalization of \$2 billion. Under the terms of the *Savings Management Act*, the Alberta Future Fund will be available to fund investments that provide long-term benefits to Albertans and the Alberta economy.

The Alberta Future Fund, as well as the new endowments, will be allocated proportionate shares of the Alberta Heritage Savings Trust Fund's net income, to ensure their future growth.

Apart from the legislatively authorized disbursements from the new accounts, the net income of the Alberta Heritage Savings Trust Fund will remain subject to the provisions of the *Fiscal Management Act*. These provisions require that, by 2017-18 and in all subsequent years, 100% of the net income of the Alberta Heritage Savings Trust Fund be retained within the Fund.

The Alberta Future Fund will support strategic investments that provide long-term benefits to Albertans and the Alberta economy.

Even with the strategic investments announced in *Budget 2014*, the growth of Alberta's long-term savings will remain strong, assured through the legislated savings provisions of the *Fiscal Management Act*.

Under the Savings Plan, the total value of Alberta's major savings accounts will grow to \$26 billion within 3 years.

The value of the Alberta Heritage Savings Trust Fund is projected to rise from \$15.1 billion at present to \$17.2 billion by the third year of the Fiscal Plan, as the savings provisions of the *Fiscal Management Act* are phased in. Over this three year period, Alberta's total savings are projected to increase by \$2.8 billion, from \$23.2 billion at March 31, 2014, to \$26 billion by March 31, 2017.

Alberta Savings Plan

Closing Balances as of March 31
(millions of dollars)

	2013-14	2014-15	2015-16	2016-17
Contingency Account	4,657	5,000	5,000	5,000
Heritage Savings Trust Fund				
Alberta Future Fund	-	215	445	692
Advanced Education Endowment	1,169	1,397	1,445	1,495
Agriculture and Food Innovation Endowment	-	206	212	218
Social Innovation Endowment	-	536	1,089	1,123
Other	13,881	12,793	12,812	13,625
HSTF Total	15,050	15,147	16,003	17,153
Medical Research Endowment Fund	1,365	1,394	1,418	1,439
Science and Engineering Endowment Fund	793	824	852	879
Scholarship Fund	793	1,024	1,046	1,069
Cancer Prevention Legacy Fund	500	489	478	467
Total Balance	23,158	23,878	24,797	26,007
Total Annual Savings	1,755	720	919	1,210

A NEW GUIDELINE FOR HERITAGE FUND INVESTMENT

A new investment guideline for the Alberta Heritage Savings Trust Fund further supports innovation and economic diversification.

With *Budget 2014*, the government is also announcing a new policy guideline for the Alberta Heritage Savings Trust Fund. The new guideline will establish a target, under which a small percentage of the Fund's portfolio will be dedicated to innovative investments and commercialization opportunities with a clear benefit to Alberta.

This policy will provide further support for innovation and economic diversification through the Heritage Fund, within the context of a well-diversified investment portfolio and consistent with the Fund's legislated mandate of maximizing long-term financial returns.

Going forward, the government will continue to consult regularly with Albertans on the management of the province's savings, including the investment policies of the Alberta Heritage Savings Trust Fund. As new or additional priorities emerge for the strategic use of the province's savings, they will be addressed in future budgets.

ALBERTA'S RESEARCH AND INNOVATION SYSTEM

The Government of Alberta seeks to provide a strong foundation for a broad range of innovation activities to support its long-term vision of an innovative, prosperous, and engaged province. The province's strategic research and innovation agenda is led by Innovation and Advanced Education, in coordination with other ministries engaged in research and innovation. The following programs and entities play key roles in Alberta's innovation system.

ALBERTA INNOVATES

Four publicly funded corporations facilitate strategic research and innovation to support the government's priorities. In 2014-15, the government will invest \$219 million in innovation through the four corporations. The four corporations and their priorities are:

- ◆ Bio Solutions supports research to grow prosperity in Alberta's agriculture, food, and forestry sectors.
- ◆ Energy and Environment Solutions supports solutions focused on using energy and environmental research to ensure sustainable energy development, address climate change and protect our water resources.
- ◆ Health Solutions supports research that seeks to further the understanding of health and disease, and to produce results that support the health and well-being of Albertans and people around the world.
- ◆ Technology Futures supports research and innovation activities directed at the growth and development of technology-based sectors, the commercialization of technology, the provision of business and technical services, and initiatives that encourage a strong scientific, technological and entrepreneurial culture in Alberta.

ALBERTA RESEARCH AND INNOVATION AUTHORITY

The Alberta Research and Innovation Authority (ARIA) provides strategic advice to the government on science, research, emerging technologies and innovation. ARIA also leverages its international networks to benefit Alberta.

ALBERTA INSTITUTE FOR APPLIED RESEARCH AND COMMERCIALIZATION

The government will implement the Alberta institute concept to transform the research and innovation system, with a renewed focus on policy, strategic direction and delivery mechanisms. An expert panel was convened to inform this initiative. The implementation plan will be based on the advice of the expert panel.

ALBERTA ENTERPRISE CORPORATION

Alberta Enterprise Corporation is a 'fund of funds' manager, investing in technology venture capital funds that finance early-stage, knowledge-based companies and encouraging a venture capital fund manager presence in Alberta. It also supports industry with targeted initiatives to drive quality deal flow and other initiatives that directly connect entrepreneurs and start-ups to investors.

SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT TAX CREDIT

The Alberta Scientific Research and Experimental Development (SR & ED) Tax Credit boosts research and development to attract, retain and grow knowledge-intensive companies. The government provides a tax credit of 10% on SR & ED eligible expenditures up to \$4 million. In 2014-15, the credit will provide \$82 million in benefits.

OTHER INITIATIVES

In addition to Innovation and Advanced Education's strategic research efforts, the government provides further support for research and innovation through a variety of programs. Among others, these programs include:

- ◆ Innovation and Advanced Education's Research Capacity Program, which supports the acquisition of equipment and research infrastructure at Campus Alberta institutions, funds innovation Chairs in priority research areas and supports multidisciplinary research teams, provides other strategic investments in innovation and supports science awareness activities. In 2014-15, funding for this program is \$37.3 million.
- ◆ Energy's Bioenergy initiatives, which seek to stimulate the development of bio-energy in the province. In 2014-15, support for this program is \$106 million.
- ◆ Agriculture and Rural Development's Food and Bio Processing Division's programs support industry development, applied research, and innovation. In 2014-15, these programs will provide over \$38 million in support.

- ◆ Innovation and Advanced Education also supports innovation by bringing business leaders and entrepreneurs together to share best practices, spark new ideas, and to determine together how best to address challenges and seize opportunities. In 2014-15, \$18 million is allocated for the support of economic development.

ALBERTA SCHOLARSHIPS

The government also seeks to create an environment conducive to research and innovation. In support of this goal, the province encourages and rewards academic excellence through the provision of scholarships. In 2014-15, the province will award \$74 million in scholarships and bursaries.

ALBERTA ENDOWMENTS SUPPORTING RESEARCH AND INNOVATION

The government has a number of existing endowments that support research and innovation. Investment income generated by these funds support the aforementioned programs and organizations, as well as others.

Alberta Research and Innovation Endowments

Forecast closing balance as of March 31, 2015
(millions of dollars)

Alberta Heritage Foundation for Medical Research Endowment	1,394
Alberta Heritage Science and Engineering Research Endowment	824
Alberta Heritage Scholarship Fund	1,024
Alberta Heritage Savings Trust Fund - Endowment Accounts	
Advanced Education Endowment	1,397
Agriculture and Food Innovation Endowment	206
Social Innovation Endowment	536
Cancer Prevention Legacy Fund	489

CAPITAL PLAN

- ✧ CAPITAL PLAN SPENDING
- ✧ CAPITAL PLAN FINANCING

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✧ CAPITAL PLAN SPENDING

CAPITAL PLAN 2014–17

The Building Alberta Plan includes investing in the essential infrastructure needed to support Alberta's exceptionally strong population growth, strengthen the economy and build an even better quality of life for Albertans.

Budget 2014 reflects what Albertans have said is important to meet the needs of a growing province:

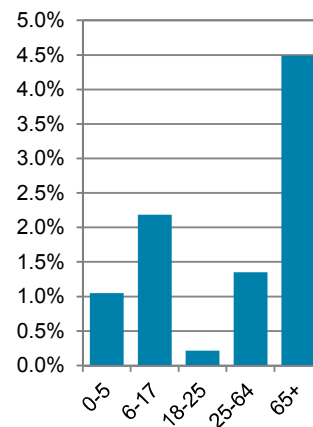
- ◆ investments in health facilities, schools and transportation networks to create a strong foundation for the future; and
- ◆ support for municipal infrastructure to help meet local priorities.

Under the Building Alberta Plan, schools and health care facilities are being built and modernized, transportation networks are being maintained and expanded, and measures to protect communities from future floods will be implemented.

More than \$19 billion is budgeted in the 2014-17 Capital Plan to provide the infrastructure required for the fastest growing province in Canada. This includes \$1.6 billion for maintaining existing infrastructure.

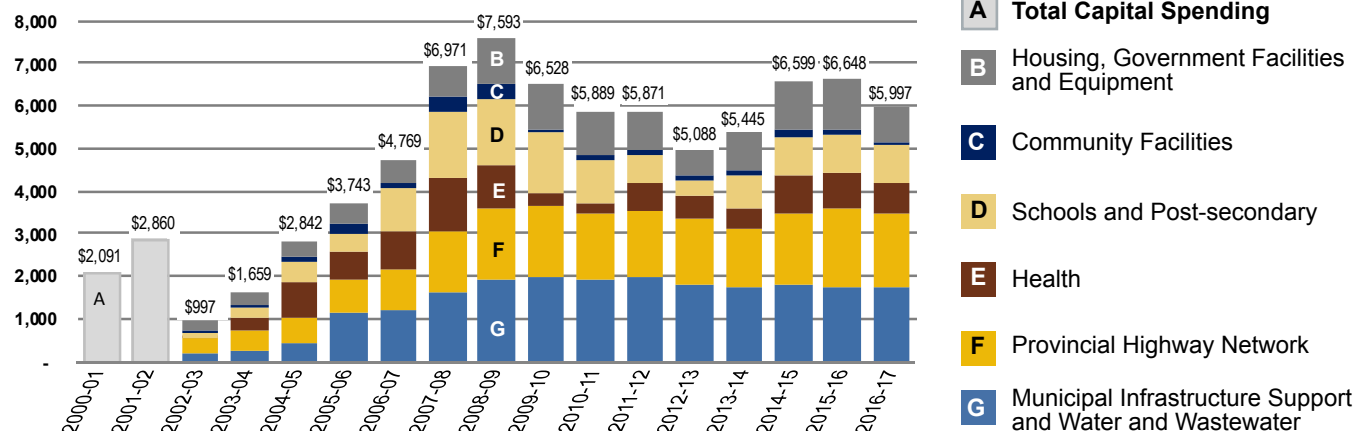
To ensure the best value for taxpayers in meeting these demands, government continues to look for innovative ways to provide needed infrastructure throughout the province. The recent land exchange agreement with the Regional Municipality of Wood Buffalo is one of those innovative approaches.

AVERAGE ANNUAL POPULATION GROWTH BY AGE CATEGORY 2012–2024



Source: Alberta Treasury Board and Finance

Capital Plan 2000–2017^{a, b}
(millions of dollars)



^a The Capital Plan amounts by envelope details were not available prior to 2002-03.

^b 2012-13 to 2016-17 excludes acquisition of inventory and the development of land held for re-sale.

Under the agreement, the government is transferring land to the municipality for re-sale and development. The municipality will build transportation infrastructure to address growth pressures. The agreement helps address Fort McMurray's urgent land, housing and transportation needs and gives the municipality local control to manage its future growth and long-term availability of land.

Albertans need more than just roads and schools. They need museums, galleries and parks – infrastructure that helps maintain strong communities and the high quality of life Albertans enjoy.

Budget 2014 and the Capital Plan reflect the needs Albertans have expressed.

Capital Plan By Priority

(millions of dollars)

	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target	3-Year Total
Investing in Families and Communities	2,265	2,975	2,852	2,657	8,484
2013 Alberta Food Assistance	239	363	281	215	859
Securing Alberta's Economic Future	2,614	2,948	3,078	2,936	8,962
Advancing World-Leading Resource Stewardship	322	309	435	187	931
Legislative Assembly / Executive Council	5	4	2	2	8
Total Capital Plan	5,445	6,599	6,648	5,997	19,244

CAPITAL PLAN HIGHLIGHTS

The Budget 2014 Capital Plan supports \$19.2 billion in infrastructure projects over the next three years.

This \$19.2 billion Capital Plan implements the next phase of the Building Alberta Plan with investments including:

- ◆ \$5.1 billion in municipal infrastructure support through the Municipal Sustainability Initiative and other capital programs;
- ◆ \$5 billion for the provincial highway network; including the ongoing construction of the Edmonton and Calgary ring roads, provincial road rehabilitation work, twinning Highway 63 and other projects;
- ◆ \$2.6 billion to build new, and maintain existing, health care facilities;
- ◆ \$1.8 billion for school capital projects, including \$1.2 billion for 50 new schools and 70 modernizations with an expected total cost of more than \$2 billion;
- ◆ \$859 million for flood recovery projects, including mitigation measures to protect Albertans from future flooding;
- ◆ \$725 million to build new, and maintain existing, post-secondary facilities;
- ◆ \$504 millions for the carbon capture and storage initiative; and
- ◆ \$334 million for water and wastewater management projects.

Government continues to review capital spending programs as part of results-based budgeting. As a result of this review, the Municipal Sustainability Initiative (MSI) Capital program and Basic Municipal Transportation Grant (BMTG) will be consolidated under MSI to be administered by Municipal Affairs. Municipalities will benefit from a simplified, one-window approach to

these programs, greater funding predictability and flexibility, and streamlined application and reporting processes. Both MSI and BMTG will retain their current funding formulae for calculating grant allocations. Government capital planning will also be reviewed under results-based budgeting.

INVESTING IN FAMILIES AND COMMUNITIES

The Building Alberta Plan invests in families and communities by building the new roads and health care facilities Albertans need. The 2014-17 Capital Plan will invest \$8.5 billion in projects and programs that support families and communities including:

\$8.5 billion in capital projects and programs supporting families and communities.

- ◆ \$3.7 billion under the MSI, which now includes \$1 billion for the BMTG, so municipalities can continue to meet local infrastructure priorities of their communities. MSI funding increases by \$150 million over three years from *Budget 2013*;
- ◆ \$1.4 billion to support other municipal infrastructure, including \$667 million for GreenTRIP. With a second call for projects, the government will fulfill the \$2 billion commitment to GreenTRIP by 2019-20;
- ◆ \$2.6 billion for health care facilities;
- ◆ \$228 million for improvements to 8,830 social housing and senior lodge units, replacement of 94 units and construction of 455 new affordable seniors housing and seniors lodge units; and
- ◆ \$114 million to assist community organizations construct or renovate public-use facilities that help enhance quality of life and citizen well-being across the province under the Community Facility Enhancement Program.

HEALTH CARE FACILITIES

There is \$2.6 billion budgeted over the next three years for building, maintaining and renovating health care facilities. This includes \$974 million for health facility projects in Edson, Grande Prairie, High Prairie, Lethbridge and Medicine Hat. As part of the Premier's commitment to improve access to primary health care, \$75 million has been committed to continue work on the multi-disciplinary family care clinics.

\$2.6 billion over the next three years to build new, and maintain existing, health care facilities.

Maintaining existing health infrastructure is just as important as building new. There is \$210 million budgeted for maintenance and renewal projects.

Investments in cancer infrastructure continue. Planning for the new state-of-the-art cancer care facility in Calgary is underway and construction is expected to begin in 2016. This will be the biggest health facility construction project in North America and is projected to cost over \$1 billion, with \$160 million budgeted for the project over the next three years.

Investments in the continuing care system include \$252 million over three years for the Affordable Supportive Living Initiative, to support the development of affordable supportive living spaces across the province, and \$294 million for other continuing care projects.

FLOOD RECOVERY AND MITIGATION

Recovery from the June 2013 Alberta floods will take years. As the rebuilding continues, the government will work to ensure that communities are protected from future flooding.

There is \$859 million budgeted over the next three years for flood recovery projects, including more than \$700 million for future mitigation projects. Mitigation projects for schools, health care facilities, provincial highways and water management infrastructure affected by the floods are planned.

SECURING ALBERTA'S ECONOMIC FUTURE

\$9 billion in capital projects and programs that will help secure Alberta's economic future.

Securing Alberta's economic future requires the infrastructure to ensure Alberta products can get to market. The 2014-17 Capital Plan will invest \$9 billion to help secure Alberta's economic future.


PROVINCIAL HIGHWAY NETWORK

Alberta's provincial highway network, with nearly 28,000 kilometres of paved roadway, helps move goods to market, children to schools, Albertans to work, and tourists throughout our province. There is \$5 billion budgeted over the next three years to build, expand and maintain this critical network.

- ◆ There is \$2.7 billion budgeted over the next three years for the ongoing construction of the Edmonton and Calgary ring roads. Functional planning for the final leg of the Calgary ring road is underway in anticipation of federal government approval of the historic land transfer agreement with the Tsuu T'ina Nation. The final leg of the Edmonton ring road will be completed in 2016. These important pieces of transportation infrastructure will enhance the safe and efficient movement of people and goods inside and around Alberta.
- ◆ There is \$735 million budgeted over three years for highway rehabilitation, an increase of over 63% from the 2013-16 Capital Plan. This funding will allow for the rehabilitation of more than 2,500 kilometres of existing provincial highways.
- ◆ The government took decisive action to enhance the safety of Alberta motorists on Highway 63, as recommended in the *Towards a Safer 63* report. There is \$691 million budgeted over three years to complete the twinning of Highway 63 from Grassland to Fort McMurray. Another \$234 million is budgeted for Fort McMurray urban area transportation upgrades, including \$71 million in work undertaken by the municipality under the land exchange agreement.
- ◆ The Alberta government is partnering with the federal government and the City of Edmonton to cost-share construction of the \$205 million interchange at 41st Avenue SW and Queen Elizabeth II Highway. This will provide access to the Canadian Pacific Railway's planned inter-modal terminal east of the highway, replacing the existing facility north of 34 Avenue NW and east of Gateway Boulevard.
- ◆ There is \$23 million budgeted to complete the TransCanada Highway interchange over Dunmore Road in Medicine Hat and more than \$55 million for work on Highway 43 along the north-south trade corridor.

SCHOOLS

There is \$1.8 billion budgeted over the next three years for school capital projects to accommodate Alberta's booming student population, to keep class sizes down, and to allow students to excel in a highly competitive economy. This includes \$1.2 billion for the completion of 50 new schools and modernizations of another 70 facilities by 2016, with an estimated total cost of more than \$2 billion.




\$1.8 billion over the next three years for school capital projects.

Today's schools are designed to expand and contract depending on the student population. There is \$154 million budgeted to provide schools with modular classrooms and other grant funded projects to help address school infrastructure needs in high-growth areas across the province. Projects are selected through a comprehensive assessment of various factors including school boards' priorities, health and safety of students and staff, enrolment projections, current utilization, facility conditions and capacity for program delivery. The government will continue to work closely with local school boards and stakeholders to explore innovative ways of maximizing use of the space and potential community partnerships.

The Capital Plan also includes \$327 million over three years for maintenance and renewal projects, as well as \$109 million in 2014-15 to complete 35 new schools and school modernizations that will open for students and teachers in 2014.

POST-SECONDARY FACILITIES

Universities, colleges and other post-secondary learning facilities help strengthen the workforce and expand the province's research and innovation sector. The Capital Plan includes funding to construct, upgrade and maintain these facilities.



\$725 million over the next three years for post-secondary facilities.

There is \$725 million budgeted for post-secondary facilities over the next three years. This includes \$487 million to continue with approved projects from *Budget 2013* in Lethbridge, Calgary and Edmonton, as well as \$165 million in capital maintenance and renewal to maintain existing post-secondary facilities across the province.

In addition, there is \$13 million budgeted in 2014-15 for the University of Alberta Devonian Botanic Gardens for basic infrastructure improvements to accommodate a gift of a new Islamic Garden from His Highness, the Aga Khan.

ADVANCING WORLD-LEADING RESOURCE STEWARDSHIP

More than \$900 million in capital projects and programs advancing world-leading resource stewardship.

The Building Alberta Plan recognizes that for Alberta's products to be welcomed in global markets, they need to be recognized as being produced responsibly. The 2014-17 Capital Plan will invest more than \$900 million in projects and programs that will ensure ongoing environmentally-responsible development of Alberta's natural resources.

The Capital Plan supports Alberta's *Climate Change Strategy*, with projects that promote energy efficiency, responsible energy production and reductions in greenhouse gas emissions. Since 2007, the Climate Change and Emissions Management Fund has invested \$212 million into more than 50 projects aimed at reducing greenhouse gas emissions from industry, agriculture, forestry, and municipalities; finding new and cleaner ways to use and extract traditional energy sources; and enhancing biological carbon sequestration. There is another \$180 million budgeted for the Fund over the next three years.

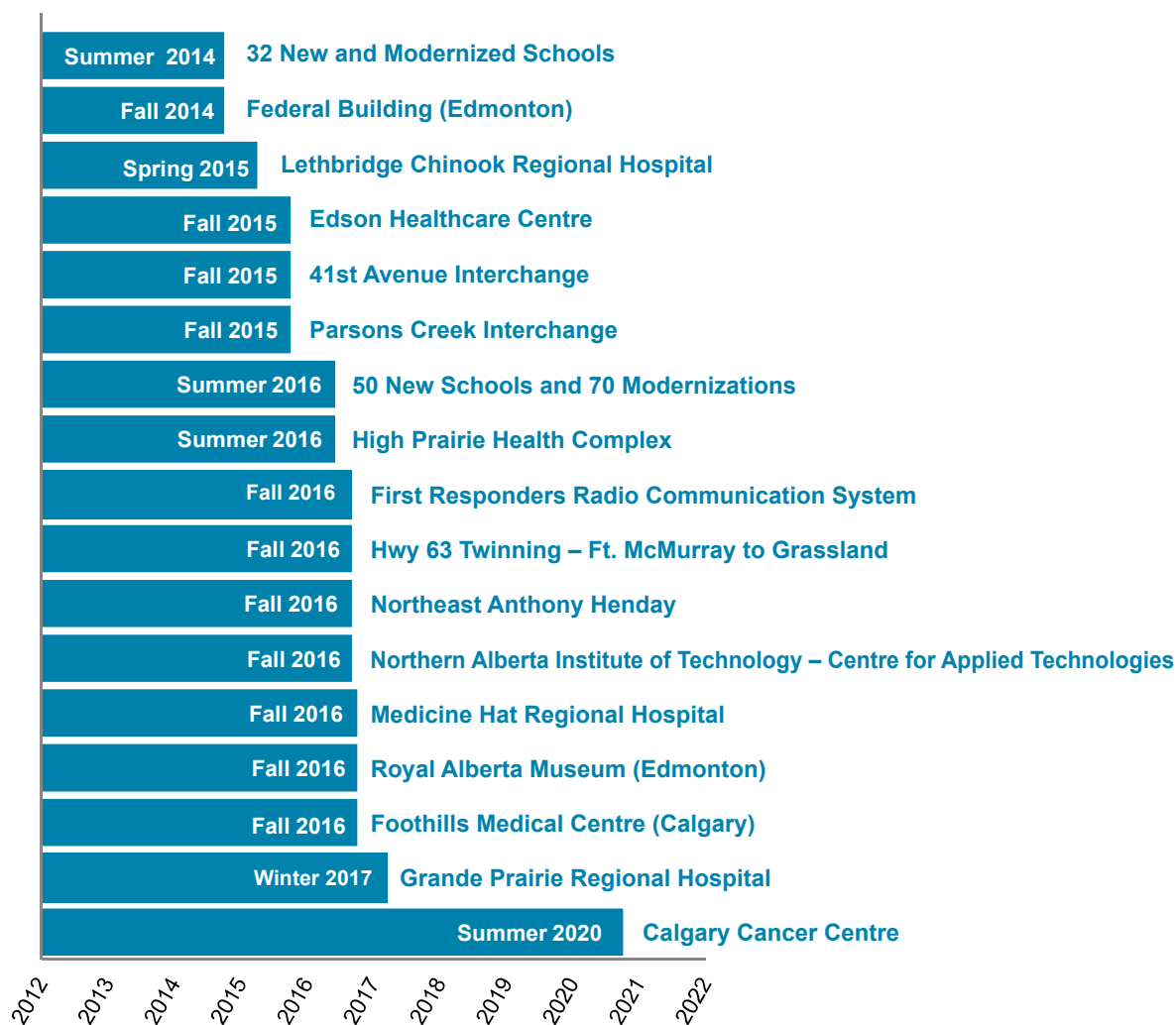
Alberta has also partnered with industry to support two large-scale carbon capture and storage (CCS) projects – the Quest and Enhance projects – that will take carbon dioxide from oil sands upgrading and store it safely deep below the earth's surface. There is \$144 million budgeted in 2014-15 and \$504 million over the next three years for the CCS projects, with a total provincial commitment of \$1.3 billion over 15 years. When both projects are in full operation in 2017, they are expected to reduce greenhouse gas emissions by 2.76 million tonnes annually – the equivalent of taking 550,000 cars off the road.

Alberta's environmental monitoring system will receive \$2.6 million over three years to further enhance the province's water monitoring network. This work will ensure better and more comprehensive understanding of the potential impacts of resource development on our waterways. There is \$15 million budgeted over three years to support land conservation and protection efforts made possible through the Land Stewardship Fund, and \$4 million will go towards restoring and improving aquatic habitats in southern Alberta. This work will ensure the long term health of Alberta's fish and aquatic resources are maintained for present and future generations to enjoy.

MAJOR PROJECTS – EXPECTED CONSTRUCTION COMPLETION DATES

Construction on several major projects finished this past year, including the Grant MacEwan bridge and Franklin Avenue Tunnel in Fort McMurray, Southeast Stoney Trail (Calgary ring road segment) and the Central Alberta Cancer Centre in Red Deer. The estimated construction completion date of other significant projects over the next three years is shown in the following chart. These 17 projects represent a combined total investment of about \$9.5 billion.

Major Capital Projects Expected Completion Dates



Capital Plan Details

(millions of dollars)

	2014-15 Estimate	2015-16 Target	2016-17 Target	3-Year Total
Investing in Families and Communities				
Municipal Sustainability Initiative:				
Municipal Sustainability Initiative - Capital	871	896	921	2,688
Basic Municipal Transportation Grant	343	343	343	1,029
GreenTRIP	247	220	200	667
Federal Gas Tax Fund	209	209	219	636
Grande Prairie Regional Hospital	165	151	140	456
Affordable Supportive Living Initiative	50	102	100	252
Continuing Care Capital Program	40	75	125	240
Sustainable Social Housing Revitalization	117	91	20	228
Health Facilities - Capital Maintenance and Renewal	70	70	70	210
Alberta First Responders Radio Communications System	132	51	15	198
Calgary Cancer Centre	20	40	100	160
Medicine Hat Regional Hospital	90	69	-	159
Edson Healthcare Centre	83	55	6	144
High Prairie Health Complex	56	59	28	143
Community Facility Enhancement Program	38	38	38	114
Health Information Technology Systems Development	36	36	36	108
Family Care Clinics	25	25	25	75
Lethbridge Chinook Regional Hospital	35	37	-	72
Electronic Health Record	23	23	23	70
Sustainable Social Housing Revitalization - Federal Funding	20	20	20	61
Foothills Medical Centre (Calgary)	29	15	12	56
Peter Lougheed Centre (Calgary)	19	20	16	55
Fort McMurray Continuing Care Centre	25	19	5	49
Provincial Parks - Capital Maintenance and Renewal	16	16	16	49
Medical Equipment Replacement and Upgrade Program	-	24	25	49
Funding for Various Smaller Health Projects	10	10	25	45
Kaye Edmonton Clinic South	23	10	7	40
Addictions and Detox Centres	14	23	-	37
Edmonton Cancer Strategy	9	16	11	36
Stollery Children's Hospital Critical Care Program (Edmonton)	2	14	20	35
Strathcona Community Hospital	31	-	-	31
Northern Lights Regional Health Centre Repairs (Fort McMurray)	2	10	17	28
Fort McMurray Community Health Centre	10	12	2	24
Other Support	117	54	73	244
Total Investing in Families and Communities	2,975	2,852	2,657	8,484
2013 Alberta Flood Recovery	363	281	215	859

Capital Plan Details, continued

(millions of dollars)

	2014-15 Estimate	2015-16 Target	2016-17 Target	3-Year Total
Securing Alberta's Economic Future				
Edmonton/Calgary Ring Roads	575	1,015	1,108	2,698
Schools - 50 New and 70 Modernization Projects	345	448	448	1,241
Highway Rehabilitation Projects	201	266	268	735
Highway 63 Twinning (Grassland to Fort McMurray)	423	197	71	691
Six Post-Secondary Projects	167	157	162	487
Schools - Capital Maintenance and Renewal	108	110	109	327
Highway Twinning, Widening and Expansion	28	100	150	278
Royal Alberta Museum (Edmonton)	110	96	41	248
Strategic Capital Planning	30	90	120	240
Post-Secondary Facilities - Capital Maintenance and Renewal	50	60	55	165
Fort McMurray Urban Area Transportation Upgrades	129	34	-	163
Schools - Modulars and Other Grant Funded Projects	52	51	51	154
Regional Water/Wastewater Projects - Water for Life	50	50	50	150
41st Avenue Interchange (Edmonton)	83	47	-	130
Interchanges, Intersections and Safety Upgrades	63	32	34	130
Schools - 35 New and Modernization Projects	109	-	-	109
Bridge Construction Projects	31	32	33	97
Government-Owned Facilities - Capital Maintenance and Renewal	25	25	25	75
Municipal Water and Wastewater Program	25	25	25	75
Fort McMurray Land Exchange with the Regional Municipality of Wood Buffalo	38	33	-	71
Federal Building (Edmonton)	55	11	-	66
Government Accommodation Development	15	20	25	60
Water Management Infrastructure	20	10	10	40
Provincial Court Facilities	1	15	15	31
Modernization of Registry Systems	8	6	2	16
Final Mile Rural Broadband Initiative	6	5	2	13
Devonian Botanic Gardens Project	13	-	-	13
Other Support	188	142	129	460
Total Securing Alberta's Economic Future	2,948	3,078	2,936	8,962
Advancing World-leading Resource Stewardship				
Carbon Capture and Storage Initiative	144	306	54	504
Climate Change and Emissions Management Fund	60	60	60	180
Irrigation Rehabilitation Program	21	21	21	63
Canada ecoTrust for Clean Air and Climate Change Initiative	12	-	-	12
Other Support	72	48	52	172
Total Advancing World-leading Resource Stewardship	309	435	187	931
Other				
Legislative Assembly	4	2	2	8
Total Capital Plan	6,599	6,648	5,997	19,244

Note: A complete list of projects funded in the 2014-17 Capital Plan is available at Alberta Infrastructure's website www.infrastructure.alberta.ca

✧ CAPITAL PLAN FINANCING

CAPITAL PLAN FINANCING

Albertans understand the urgency of Alberta's infrastructure needs, and support responsible borrowing for long-term assets when financing conditions are favourable.

Albertans understand that our province's infrastructure needs are urgent, with the massive influx of people and investment, and surge in economic activity over the last decade. Funding these needs entirely from current cash revenue is not feasible without raising taxes substantially or reducing operating expense significantly – options most Albertans do not agree with. Generally then, Albertans support borrowing for infrastructure development, as long as financing conditions are reasonable and a diligent repayment plan is in place.

In addition, trying to “catch-up” building and maintaining hospitals, highways, municipal facilities, schools and post-secondary facilities when needs intensify with rapid growth can inflate costs, as occurred in the mid-2000s when competition for labour and construction materials drove costs higher.

Disciplined, multi-year capital planning not only positions Alberta for future growth, but also helps to stabilize construction costs. Borrowing makes sense because the infrastructure is needed now, the costs are spread out over the life of assets, and shared over time with those who benefit from the use of the assets.

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

The Capital Plan is funded through a combination of revenue received for capital purposes, from retained income of various funds and agencies, public-private partnerships, direct borrowing and available operational cash. Capital-related revenue relates mainly to transfers from the federal government, which increased over the last half decade as programs were introduced during the economic downturn. The federal Gas Tax Fund was extended indefinitely last year, providing Alberta \$209 million this year. The Building Canada programs are also being extended, though details and amounts are under negotiation. Funds and agencies, such as the Alberta Social Housing Corporation, also provide some funding for capital from their own retained income.

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

The government plans to borrow \$12.2 billion between 2014-15 and 2016-17 to help finance the Capital Plan, in addition to the \$925 million borrowed in 2012-13 and a forecast of \$3.6 billion in 2013-14. The borrowing plans include issuing debt with a variety of terms to maturity extending out to 30 years, taking advantage of market opportunities to minimize borrowing costs.

Capital Plan Financing

(millions of dollars)

	2014-15 Estimate	2015-16 Target	2016-17 Target
Revenue received for capital purposes:			
Federal transfers	348	306	269
Other	212	144	139
Retained income of funds and agencies / other	183	162	67
Alternative financing (P3s)	206	279	463
Direct borrowing ^a	4,883	4,597	2,732
Available operational cash	767	1,160	2,327
Total Capital Plan Financing	6,599	6,648	5,997

^a Excludes \$905 million of refinancing in 2014-15.

Amounts borrowed that are not required in a particular year will be deposited in a capital plan financing account, to be used solely for capital purposes. For example, only \$23 million of the \$925 million borrowed in 2012-13 was used that year; the remaining \$902 million is funding 2013-14 capital spending.

After the Contingency Account reaches \$5 billion, which it is forecast to do during 2014-15, the *Fiscal Management Act* permits operational surpluses to be saved or used to fund the Capital Plan. As a result, surplus operational cash of \$767 million in 2014-15, \$1.2 billion in 2015-16 and \$2.3 billion in 2016-17 is forecast to be available to help finance the Capital Plan.

Liabilities for Capital Projects

(millions of dollars)

	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Opening balance	4,594	8,506	13,572	18,421
Alternative financing (P3s)	353	206	279	463
Direct borrowing	3,586	4,883	4,597	2,732
Re-financing of existing debt	-	905	-	-
Principal repayment / issue costs	(27)	(928)	(27)	(36)
Total Liabilities for Capital Projects	8,506	13,572	18,421	21,580

DEBT REPAYMENT PLAN

The government is setting aside money each year in a capital debt repayment account so that sufficient cash will be available to repay debt as it comes due. Matching the amounts being set aside with the maturities where possible reduces the need to refinance, minimizing the risk of higher future borrowing cost if interest rates rise. The actual annual set-aside is calculated based on annual borrowing and relevant interest rates. In 2013-14, \$34 million was set aside, and another \$106 million is planned for 2014-15. The account is forecast to grow to \$640 million by 2016-17.

Funds are set aside every year for capital debt repayment.

Capital Plan Debt Repayment Plan

(millions of dollars)

	2014-15 Estimate	2015-16 Target	2016-17 Target
Current principal repayments	944	42	51
Annual allocation for future principal repayments	106	210	290
Total Allocation of Current / Future Repayments	1,050	252	341
Capital debt repayment account year-end balance	140	350	640

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

There is a legislated limit on capital borrowing.

Capital Plan Legislated Limit

(millions of dollars)

	2014-15 Estimate	2015-16 Target	2016-17 Target
Capital debt servicing costs	421	632	820
Limit: 3% of 3-year average of Operational Revenue	1,246	1,308	1,334

ECONOMIC OUTLOOK

- ✧ ECONOMIC OUTLOOK
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✧ ECONOMIC OUTLOOK

ALBERTA'S ECONOMY POWERS AHEAD

Alberta's economic expansion is expected to accelerate to 3.7% in 2014 after gaining momentum through 2013. One of Canada's main economic engines is firing on all cylinders as Alberta's business, household and government sectors all contribute to growth in Gross Domestic Product (GDP). Alberta's robust outlook builds on an estimated 3.3% expansion in 2013, the fourth straight year above 3%, outperforming Canada and US economic growth (Chart 1).

A key driver of Alberta's growth is the energy industry, which is poised to see large gains as oil sands production ramps up. The manufacturing industry is expected to strengthen as global growth picks up, increasing exports in 2014. The agriculture industry is also expected to expand through the forecast period, building on a very strong production year in 2013.

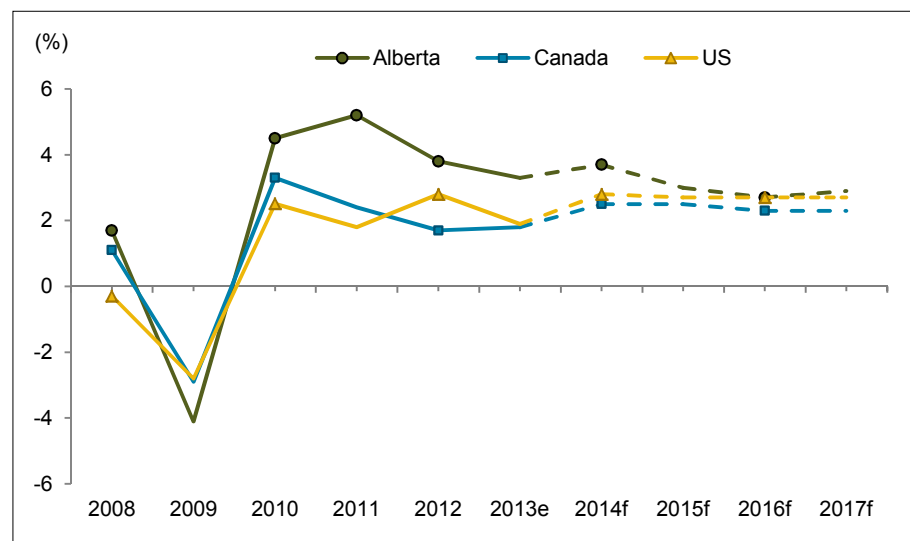
New migrants have provided Alberta with a much-needed source of labour, and have helped the economy grow at a solid rate without bumping into major labour supply constraints and cost pressures. Migration, while forecast to moderate from record levels, will continue to support a strong housing market and further gains in consumer spending in Alberta over the forecast period.

The southern Alberta floods are a key reason why economic growth for 2014 is now stronger than forecast at *Budget 2013*. Rebuilding of damaged property and capital is expected to bolster GDP and employment growth while also adding to inflation. The net impact on real GDP is estimated at 0.4 percentage points in 2013. The impact will approximately double in 2014, as reconstruction comes into full force, before fading in 2015 and beyond.

Chart 1: Alberta economy continues to outperform

Real Gross Domestic Product (GDP) Growth

Alberta's economy has posted exceptionally strong growth since the recession, especially when compared with other advanced economies. Growth is expected to stay elevated at 3.7% in 2014 before moving closer to its historic trend of around 3% over the medium term.



Sources: Statistics Canada, International Monetary Fund and Alberta Treasury Board and Finance

BUSINESS SECTOR: PRODUCTION RAMPS UP

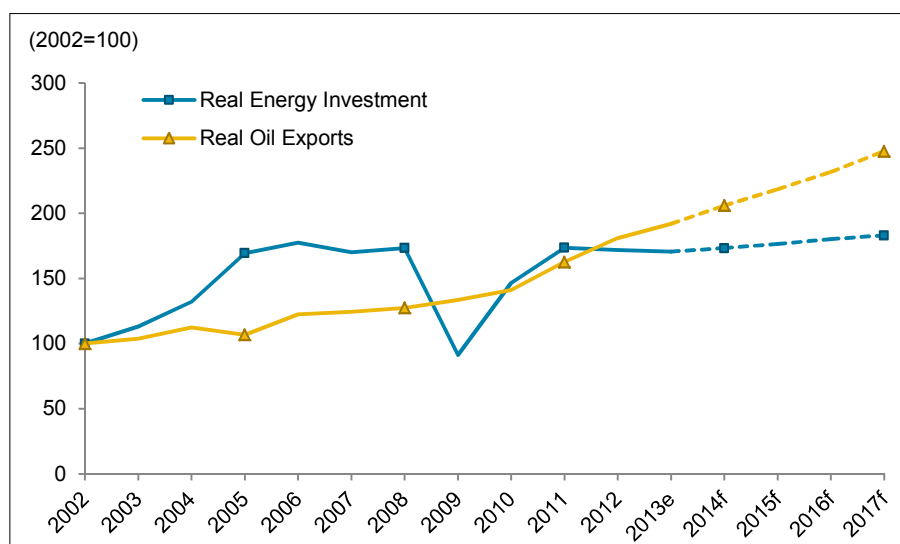
Alberta's business sector has gained strength heading into 2014 with output accelerating in the second half of 2013. With global growth picking up, prospects remain strong in the short to medium term. Across the board, there are few signs of weakness, with oil and gas, manufacturing, and agriculture expected to see continued growth.

Prospects for Alberta's oil industry, the largest single industry in Alberta, remain strong. Some of the uncertainty that weighed on oil producers in late 2012 and early 2013 has lifted. Global economic prospects have improved (see page 94) and rail has helped alleviate transportation constraints. More recently, oil industry revenue is expected to be bolstered by a weaker Canadian dollar, now forecast at US¢ 91/\$Cdn over the forecast period. Based on improved conditions, some projects that were put on hold are now proceeding, such as the Fort Hills mining project.

Growth in the oil industry will become more production-driven as a result of years of large-scale investments in the oil sands. As more projects shift from the construction phase to production, oil exports are expected to ramp up and drive Alberta's economic growth (Chart 2). Real oil exports are expected to expand at an average rate of nearly 7% a year over the next five years, compared with about 2% growth for energy investment. Despite the shift to production, investment will remain elevated as new projects proceed and large amounts of existing capital are sustained. In the conventional oil industry, horizontal drilling and fracturing technologies have lifted Alberta's production higher in every year since 2011, reversing a 40-year downward trend. Only modest gains in conventional oil exports are expected, but there is upside risk; Alberta has tight oil reserves, such as the Duvernay formation, that remain largely unexploited.

Chart 2: Oil sands shifts into production mode

Alberta Energy Investment and Oil Exports (\$2007 chained)



Sources: Statistics Canada and Alberta Treasury Board and Finance

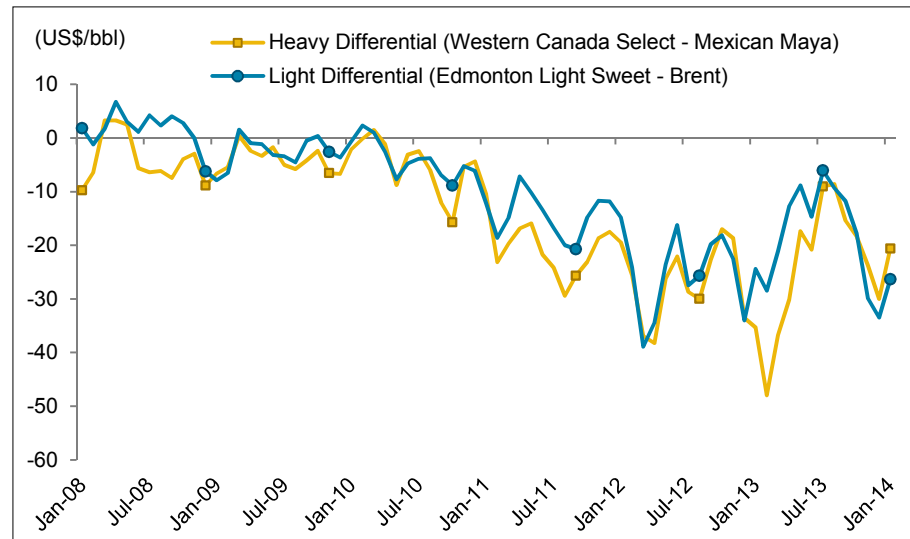
Massive spending on oil sands projects over the last 10 years is now translating into sharply higher oil production and exports.

Despite a strong production outlook, access to markets remains a critical issue. Rising Alberta crude production continues to compete with surging US shale oil production for limited pipeline capacity. Now that new pipeline projects have helped clear inventories at Cushing, Oklahoma, the bottleneck has shifted to Alberta. Consequently, the price of oil produced in Alberta continues to sell at a larger-than-normal discount to similar quality crudes sold internationally (Chart 3). Large price differentials continue to make investments in rail

Chart 3: Pipeline constraints hurt Alberta oil prices

Alberta Oil Prices Relative to International Benchmarks

With limited pipeline access to international markets, Alberta crude sells at a sharp discount to similar quality international crudes. These differentials will persist unless more takeaway capacity from Alberta is added.

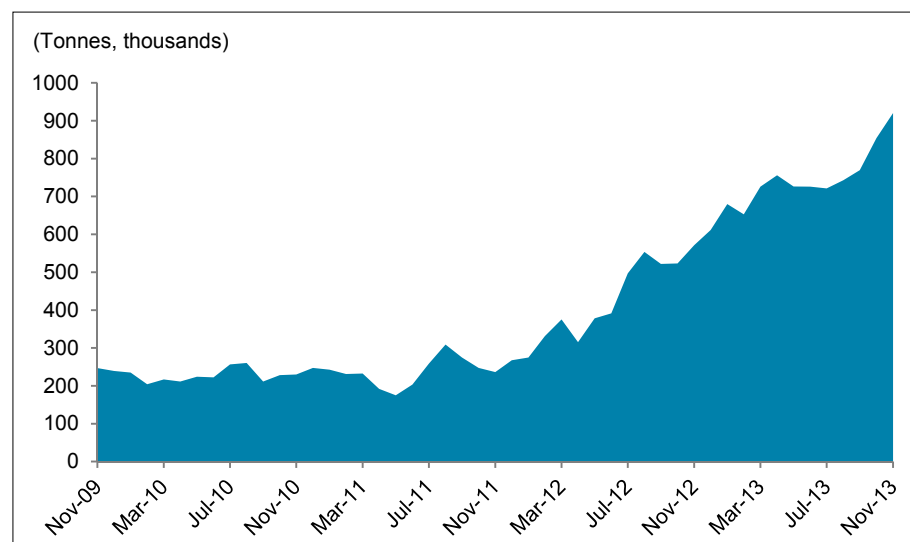


Source: Alberta Energy

Chart 4: Oil price differentials encourage movement by rail

Western Canadian Rail Shipments of Crude Petroleum

Large price differentials have made investments in rail infrastructure economically viable. Rail shipments of crude products from Western Canada have risen more than three-fold since the beginning of 2012, and are expected to rise further over the forecast period.



Source: Statistics Canada

capacity worthwhile since it allows producers to receive higher prices in international markets. As a result, crude-by-rail volumes have surged over the last two years (Chart 4). With several new crude oil rail loading facilities planned for 2014, these volumes will continue to increase.

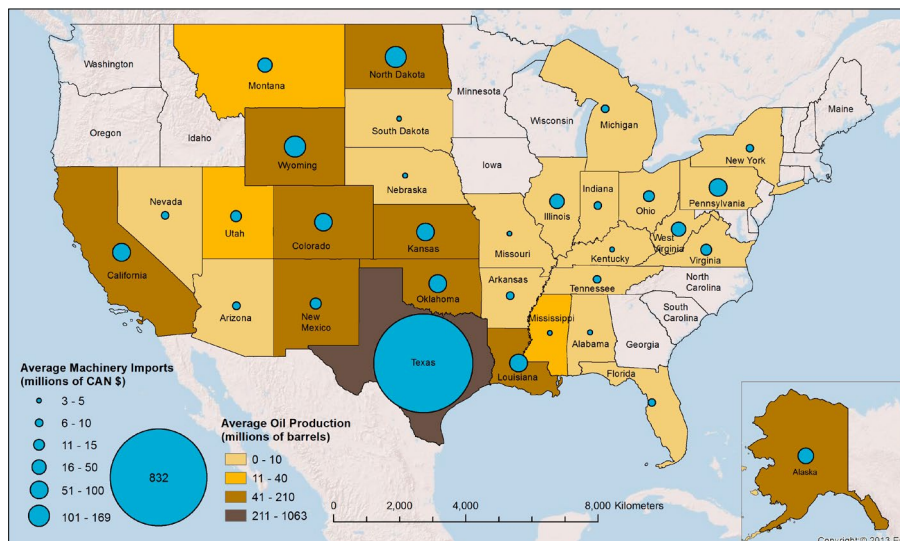
In contrast to the oil patch, drilling for natural gas is expected to remain at historically low levels, resulting in further declines in gas exports over the forecast horizon. A glut of US shale gas supply has kept prices well below historic norms, notwithstanding recent increases caused by cold weather. While demand is expected to remain strong amid planned Liquefied Natural Gas (LNG) terminals and a movement from coal to natural gas power generation in North America, supply is plentiful and can come onstream at a relatively low cost.

Alberta's manufacturing industry is expected to benefit from an improving global economy as well as continued strength in demand for energy-related products over the forecast period. A weaker outlook for the Canadian dollar will also contribute to growth by boosting export revenue. Overall, real manufacturing exports are expected to increase by just over 2% a year between 2014 and 2017.

The forecast growth for manufacturing builds on recent success. In 2013, Alberta accounted for 13% of Canada's manufacturing shipments, up from 8.5% ten years prior. Alberta's comparative strength in energy has played an important role; sales of oil-and gas-related machinery have been trending higher, with much of the growth related to a resurgence in oil production in the US (Chart 5). Machinery exports to the US have nearly tripled over the last ten years due to stronger demand in oil-producing states and are expected to post further gains as US energy production continues to increase.

Chart 5: US oil expansion benefits Alberta machinery manufacturers

Imports of Alberta Machinery and Oil Production by US State*



Alberta machinery exports have been propelled by a resurging US oil industry. The top five oil-producing states accounted for about two-thirds of Alberta's machinery exports to the US between 2010 and 2013.

Sources: Statistics Canada, Energy Information Administration, and Alberta Treasury Board and Finance

* 2010 to 2013 average

Investment in rail loading for crude, combined with the need to move rising volumes of goods from the manufacturing, agriculture, and forestry sectors, will lead to strong growth in the transportation industry over the forecast period.

With the US housing market improving, Alberta's lumber industry is expected to build on its recent gains. Lumber producers in Alberta have been resilient, with mills staying open during the recession and capturing a larger share of the Canadian market during the recovery. Alberta is the only province where lumber production has surpassed pre-recession levels.

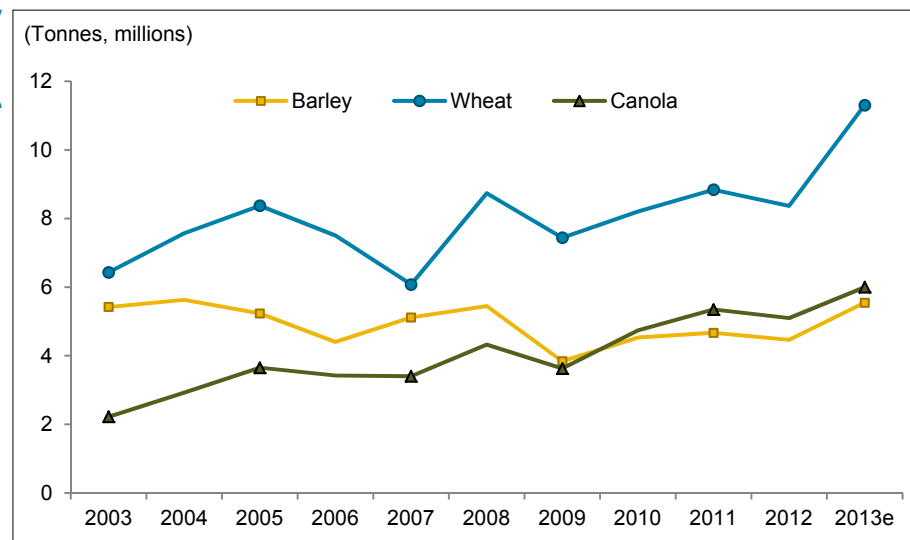
In the agriculture industry, grain production is expected to level off in 2014 after last year's bumper crop pushed canola and wheat volumes to record heights (Chart 6). Livestock markets are expected to perform well in 2014, with producers benefiting from lower feed costs and higher live animal prices. Farmers are facing logistical challenges exporting the bumper crop, increasing the need for on-farm storage of grains. The accumulation of grain inventories likely added significantly to Canada's and Alberta's real GDP growth in 2013. Much of last year's inventories will become this year's exports, contributing to further gains in Alberta's exports. Beyond 2014, the agriculture industry's future growth will depend on its ability to expand and ship into high-growth or high-value markets and through further improvements in productivity and supply chain efficiency.

As production ramps up in the business sector, corporate profits are expected to rise. Net corporate operating surplus, a measure of corporate profits, is

Another strong growing season led to record production of wheat and canola in Alberta.

Chart 6: Bumper crop pushes production to new heights

Alberta Crop Production



Source: Statistics Canada

forecast to grow by an average rate of about 7% per year over the forecast period. This will bring the share of provincial income attributable to corporate profits just below its historic average of 20% by 2017. Rising export volumes will be a driver of profits, as will a weaker dollar in 2014. Offsetting factors include higher transportation costs stemming from an increased reliance on crude-by-rail, and higher import prices resulting from a lower Canadian dollar.

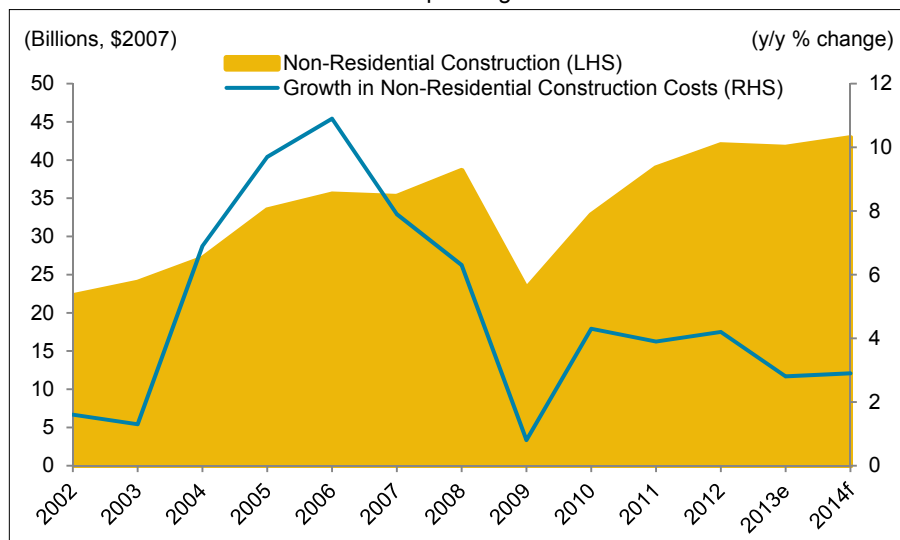
Alberta's fast-growing economy and population will buoy the construction industry over the forecast period. Real business investment in non-residential construction is expected to accelerate to about 3.0% growth this year, before averaging about 2.5% over the remainder of the forecast horizon. The forecast for stronger growth is supported by building permits, a leading indicator of future construction activity. Last year, non-residential building permits hit a record level, rising 18% over 2012.

Government investment is also expected to rise at a faster rate in 2014 as the province builds infrastructure for Alberta's surging population, and rebuilds following the flood.

Construction costs are expected to pick up slightly in 2014 as a weaker dollar raises the price of imports. However, despite strong construction activity, the overall rate of cost escalation is expected to remain subdued, especially compared with the 2004-2008 period (Chart 7). A weak global inflation environment and continued inflows of migrants, which help keep wage pressures contained, will moderate gains in construction costs.

Chart 7: Construction cost escalation remains subdued

Alberta Non-Residential Construction Spending and Costs



Despite strong levels of construction activity, cost escalation has been contained.

Sources: Statistics Canada and Alberta Treasury Board and Finance

HOUSEHOLD SECTOR: HOUSING MARKET SPURRED BY POPULATION GROWTH

A recent influx of migrants will continue to make their way into the housing market in 2014, supporting further gains in residential investment. Spending by households will continue to add materially to Alberta's expansion, though growth rates are expected to moderate over the medium term, consistent with a normalization of population and employment gains.

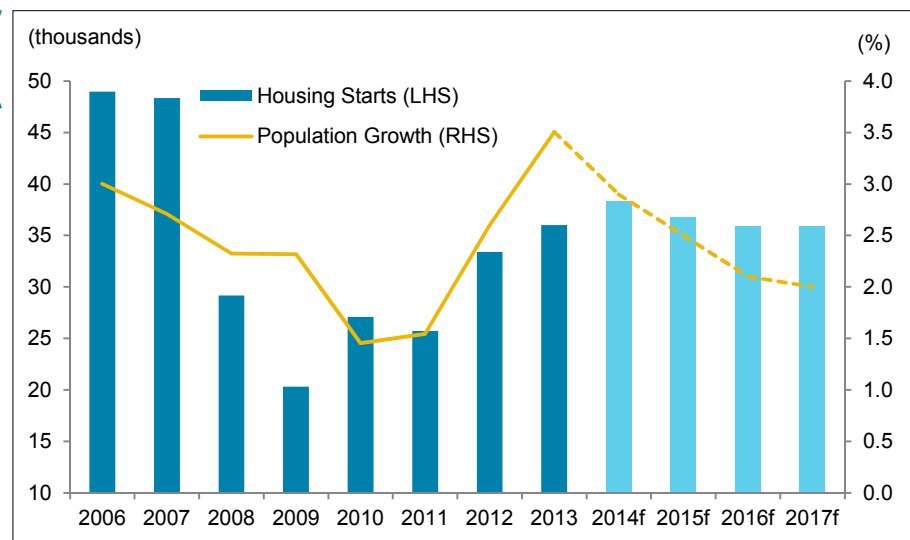
Alberta's housing market has been gaining steam, and is forecast to strengthen further in 2014 at a time when the national housing market is expected to slow. After rising in 2013, housing starts are forecast to increase further to 38,300 in 2014 (Chart 8). Residential investment is expected to expand in real terms by 5.6% in 2014, adding significantly to Alberta's economic growth. A recent tightening in the housing market is a signal of future strength for home construction: rental vacancy rates have fallen, the sales-to-listings ratio has moved firmly into seller's territory, and the supply of newly completed unoccupied homes in Calgary and Edmonton is trending lower.

The housing market will continue to be driven primarily by in-migration. Net migration has soared (Chart 9), with Alberta adding a record 105,200 people from other provinces and countries in 2013. People are coming to pursue job opportunities as reflected by the high concentration of younger, working-age adults in the migrant population (Chart 10). The transitioning of young migrants from rental accommodation into home ownership will lend strength to residential construction in the province. Housing affordability should also support housing demand going forward as Alberta households on average continue to spend a much smaller share of their income on home ownership

Chart 8: More housing needed as population expands

Alberta Housing Starts and Population Growth

Alberta is forecast to see housing starts improve for the third straight year in 2014 as migrants enter the housing market and the labour market remains strong.



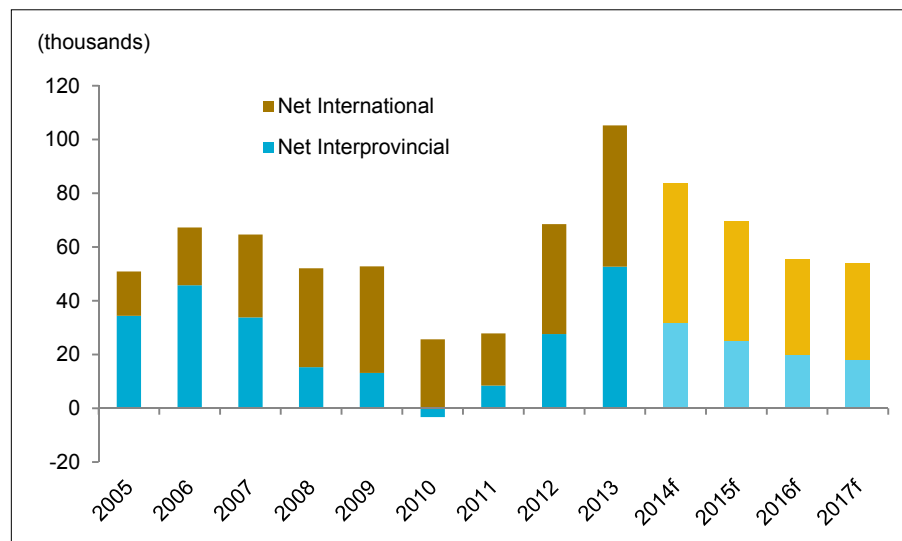
Sources: Statistics Canada and Alberta Treasury Board and Finance

costs than the Canadian average. Finally, reconstruction of homes damaged by the southern Alberta floods is expected to provide further strength to residential investment in the province this year and next.

Net migration is forecast to remain high over the outlook, but will normalize more in line with historic levels, with an increasing share of international migrants. After spiking by 3.5% in 2013, the largest increase since 1981,

Chart 9: Net migration to moderate from record high

Alberta Net Migration by Source*



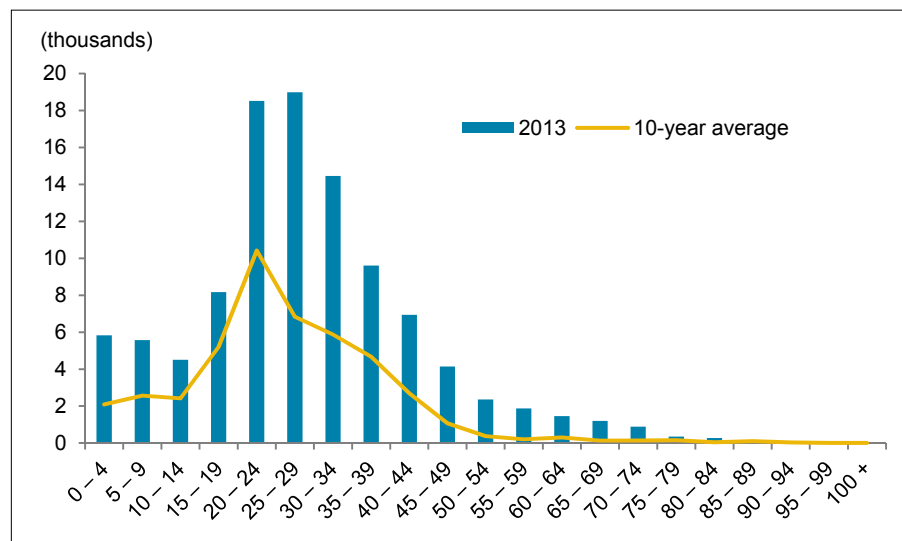
A record 105,200 net migrants joined the province in 2013. As migration returns to more normal levels, so too will population growth.

Sources: Statistics Canada and Alberta Treasury Board and Finance

* By census year

Chart 10: Young adults coming to Alberta for job opportunities

Alberta Net Migration by Age Cohort*



About half of net migrants last year were young adults between the ages of 20 to 34. This age group has high rates of labour force participation, and many of these adults are likely to be first-time homeowners in Alberta.

Source: Statistics Canada

* By census year

Alberta's population growth is forecast to ease to a still-strong 2.9% in 2014 before gradually moving to 2.0% by 2017.

With the housing market strengthening, owned accommodation costs and rents are expected to continue to add to inflation in Alberta (Chart 11). Alberta's inflation rate is expected to rise from only 1.4% in 2013 to 2.2% in 2014 before averaging 2.0% over the medium term. A weaker dollar, which raises import prices, will also put upward pressure on inflation. Outside of shelter, however, inflation is expected to remain subdued, reflecting a lack of global inflationary pressures going forward and moderate wage growth.

Alberta is expected to see another strong year of employment growth in 2014 at 2.6%, building on the momentum from 2013 (Chart 12). Alberta sustained high levels of job growth, creating 5,700 jobs per month on average during 2013 compared with a monthly gain of only 2,600 in the rest of Canada. Despite an elevated rate of job creation, Alberta still holds about one-fifth of all job vacancies in Canada, pointing to further gains ahead. Beyond 2014, employment growth is expected to average 1.8% per year over the medium term, consistent with a more moderate pace of economic growth.

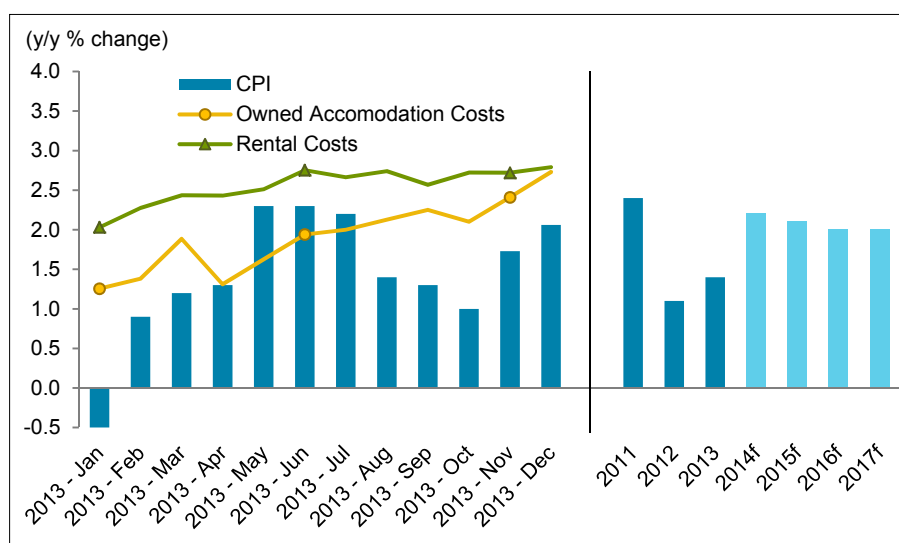
As employment growth moderates, so too will household income. Primary household income growth is expected to ease from 7.1% in 2013 to 6.7% in 2014 before averaging 5.8% per year over the medium term.

The unemployment rate is forecast at 4.4% in 2014 as migrants continue to help fill the province's job requirements, edging down to 4.3% over the medium term. The recent influx of migrants has added to the province's labour force and filled job vacancies, preventing the unemployment rate from falling further and keeping wage pressures at bay.

Chart 11: Shelter costs pick up, but overall inflation subdued

Alberta Consumer Price Index (CPI) and Selected Sub-Components

Inflation has remained modest despite rising pressure from shelter costs. After two years of subdued readings, inflation is expected to return to above 2.0% in 2014.

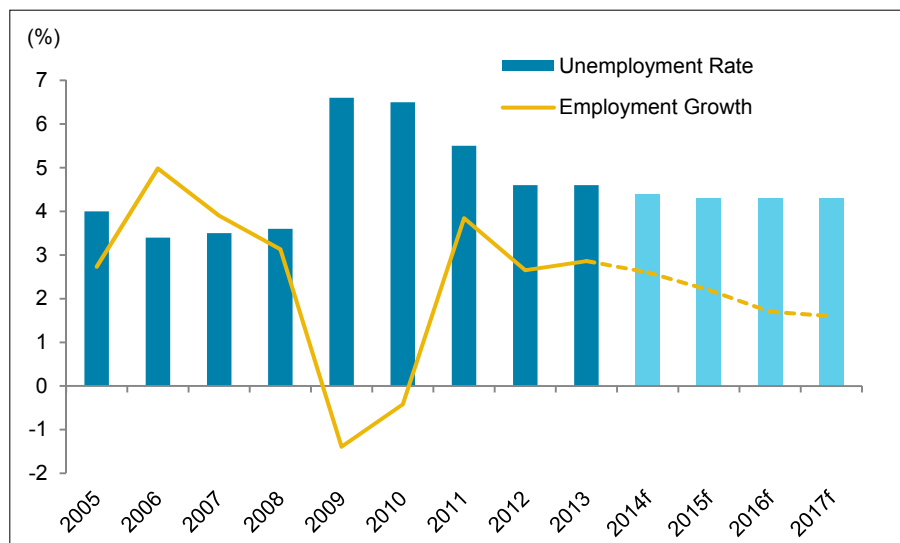


Sources: Statistics Canada and Alberta Treasury Board and Finance

Real consumer spending will remain strong, but growth is expected to moderate to 4.0% in 2014 (Chart 13) as job and population gains decelerate. Weaker growth in vehicle spending is also expected to contribute to the moderation. Spending on vehicles, a highly volatile component, has been persistently strong in Alberta. Part of the 2013 jump in vehicle sales was likely fueled by flood-damaged vehicles being replaced, which is a temporary effect.

Chart 12: Employment growth to moderate

Alberta Annual Unemployment and Employment Growth Rate

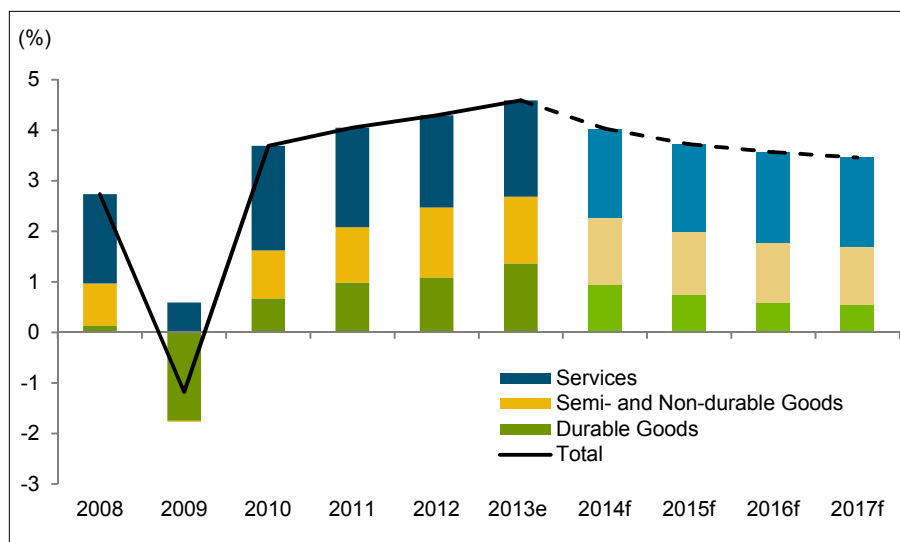


Alberta's unemployment rate has stayed fairly steady despite exceptionally strong employment growth as new migrants have joined Alberta's labour force.

Sources: Statistics Canada and Alberta Treasury Board and Finance

Chart 13: Household spending helps fuel expansion

Real Growth in Household Consumption by Component



Consumer spending growth will remain strong, building on solid gains in 2012 and 2013. Spending on durables, namely vehicles, is expected to grow at more sustainable rates in 2014 and beyond.

Sources: Statistics Canada and Alberta Treasury Board and Finance

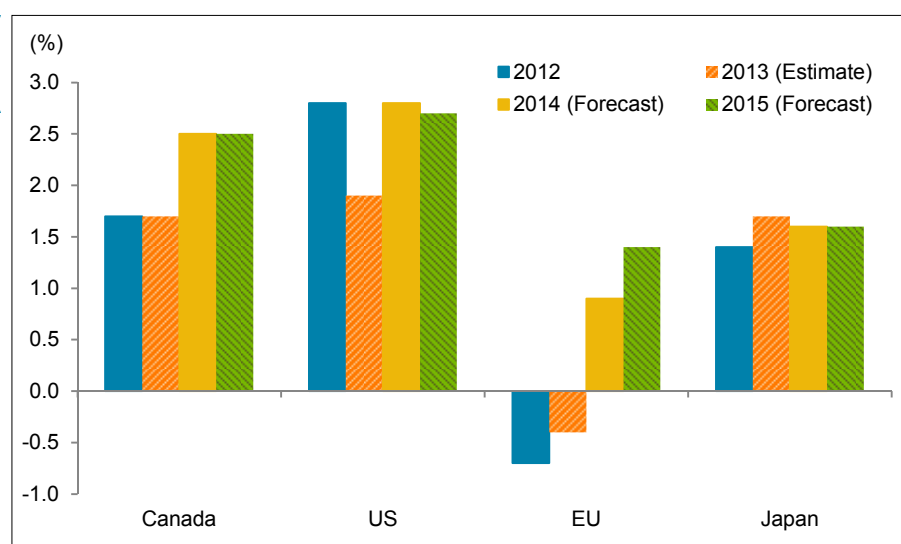
GLOBAL ECONOMY

The global economy is expected to expand by 3.7% in 2014. This is up 0.7 percentage points from 2013 as stronger growth in advanced economies fills the gap left by more sustainable growth in emerging markets (Chart 14). Global economic growth gained a foothold in 2013. Growth in the US has maintained strength despite policy uncertainty and fiscal drag. The Eurozone eased its way out of recession, but growth has been distributed unevenly, and unemployment rates remain alarmingly high in many Eurozone countries. Emerging market growth trended downward again in 2013, but appears to have stabilized and is expected to increase slightly in 2014.

Chart 14: It's finally getting better

Real GDP Growth

Real GDP growth has increased throughout much of the advanced world. This trend should continue in 2014.



Sources: International Monetary Fund and Alberta Treasury Board and Finance

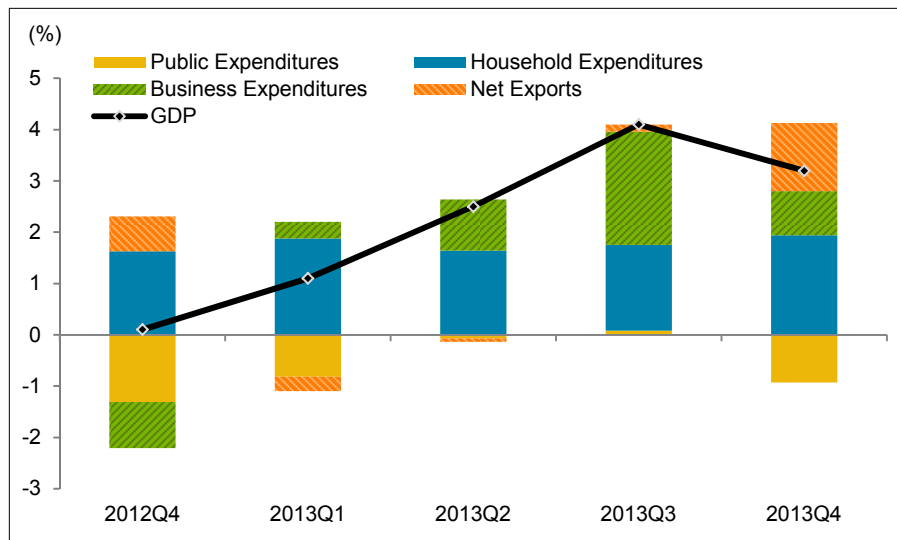
US real GDP growth is expected to rise to 2.8% in 2014 then 2.7% in 2015 as a positive feedback loop develops between asset prices, employment and private demand. Reduced government spending will be a net drag on growth in 2014, but by much less than in 2013 (Chart 15). More importantly, the US Congress agreed to both fund the government and suspend the debt ceiling until 2015, providing a hiatus from the string of fiscal battles that weighed on business and consumer confidence in 2013.

US households have uncharacteristically stayed on the sidelines for most of the recovery as balance sheets were repaired. This period of thriftiness has resulted in pent-up demand as consumers put off large expenditures until economic conditions improved. With the recovery finally underway, consumers are expected to make these postponed purchases while interest rates are still low. This has the potential to be self-reinforcing as stronger domestic demand leads to labour market improvement, which provides a further boost to demand. However, this process is not inevitable; weak December and January employment numbers plus the January decline in stock prices serve as a reminder that the US expansion remains fragile.

After contracting in 2013, the Eurozone economy is expected to grow by 0.9% in 2014 and 1.4% in 2015. The nascent Eurozone recovery, however, remains exposed to substantial downside risks. Unemployment rates are at or near record highs throughout much of southern and eastern Europe, banks are undercapitalized, and financial fragmentation has prevented credit from flowing to the periphery. Inflation has been declining in most advanced economies (Chart 16), but the risk of a deflationary spiral is more acute in Europe.

Chart 15: Strong private expenditure growth offsets fiscal contraction

Contribution to Growth of US Real GDP

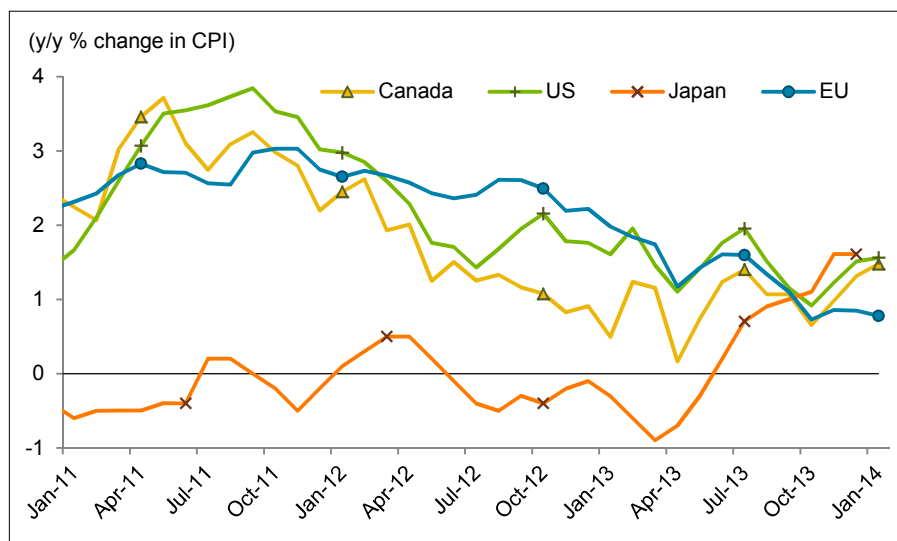


Source: US Bureau of Economic Analysis

US quarterly real GDP growth strengthened in 2013 as strong spending by businesses helped offset the effects of fiscal drag.

Chart 16: Global inflation remains subdued

Consumer Price Inflation



Source: Haver Analytics

Global inflation has been falling since 2011, except in Japan where the Bank of Japan has taken aggressive measures to increase inflation.

Japan, meanwhile, is one of few countries where inflation is rising thanks to a radical shift in monetary policy. In 2013, fiscal policy was complimentary to monetary policy, but this will not be the case in 2014 as the government has increased the value-added tax by three percentage points to combat rising levels of public debt. Growth in Japan is expected to gradually decline from 1.6% in 2014 to 1.2% in the medium term.

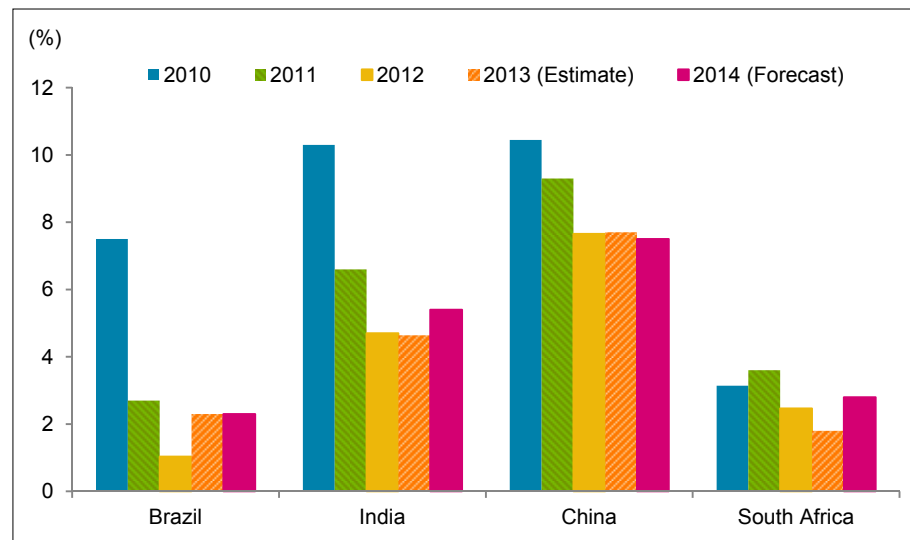
Emerging market economies (EMEs) are key to Alberta's economic outlook given their strong influence on energy demand and commodity prices. Growth in several EMEs declined substantially in 2011 and 2012, but appears to have stabilized in 2013 (Chart 17) and is expected to pick up in 2014. Elevated growth, like that in 2010, is typical in the first year following a recession, so part of the slow down reflects cyclical factors. The rest largely reflects longer term trends. As living standards in emerging markets converge with the advanced world, high growth rates become more difficult to attain.

More concerning, from the standpoint of financial stability, is the apparent vulnerability of many emerging markets to global financial shocks. In May, the US Federal Reserve suggested it would reduce large-scale asset purchases later in the year. This caused many EME currencies to depreciate, yields on government bonds to rise, and money to flow out of EME financial markets. This occurred again in January following a combination of weak Chinese manufacturing data, Turkish intervention in currency markets and devaluation of the Argentine peso. On balance, EMEs should benefit from stronger advanced economy growth; however, the possibility of a financial crisis in one or more emerging markets remains a major downside risk to the outlook.

Chart 17: Emerging market growth is stabilizing

Real GDP Growth

After falling for the last two years, growth in emerging markets has stabilized. Going forward, emerging markets will benefit from stronger growth expected in advanced economies.



Source: International Monetary Fund

CANADIAN ECONOMY

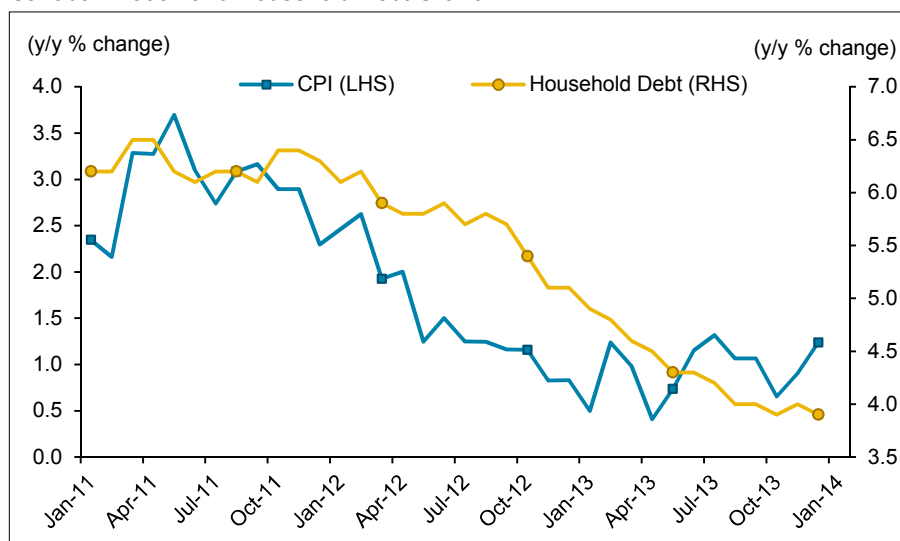
Canadian economic growth has picked up moderately in recent quarters, but continues to show signs of weakness and is expected to see only a modest improvement in 2014. Employment growth has weakened and the unemployment rate has stopped falling. This weakness and the resulting low inflation have prompted the Bank of Canada to soften its stance on interest rate increases, which has contributed to a substantial revaluing of the Canadian dollar.

Canadian real GDP growth is expected to be 2.5% in each of 2014 and 2015 before falling back to 2.3% over the medium term. Exporters will benefit from a lower Canadian dollar and an improved global economy. This effect may be dampened by ongoing competitiveness challenges in the export sector and continued weak productivity growth. Non-residential investment was essentially flat in 2013, but is expected to pick up going forward as sustained improvement in the global economy fosters business confidence. The housing market appears to have so far achieved a soft landing after a mild correction in early 2013.

Inflation in Canada has hovered around 1% since late 2012 (Chart 18). At that time the Bank of Canada was warning that it may raise interest rates to combat rising household debt. Protracted low inflation, combined with continued moderation in household debt growth, has prompted the Bank of Canada to gradually back away from a rate hike before dropping reference to higher interest rates entirely in October. Removing this tightening bias has lowered interest rate expectations as evidenced by Canadian interest rates falling against US rates (Chart 19). The change of stance at the Bank

Chart 18: Low inflation shifts the Bank of Canada's attention

Canada Inflation and Household Debt Growth



Sources: Statistics Canada and Bank of Canada

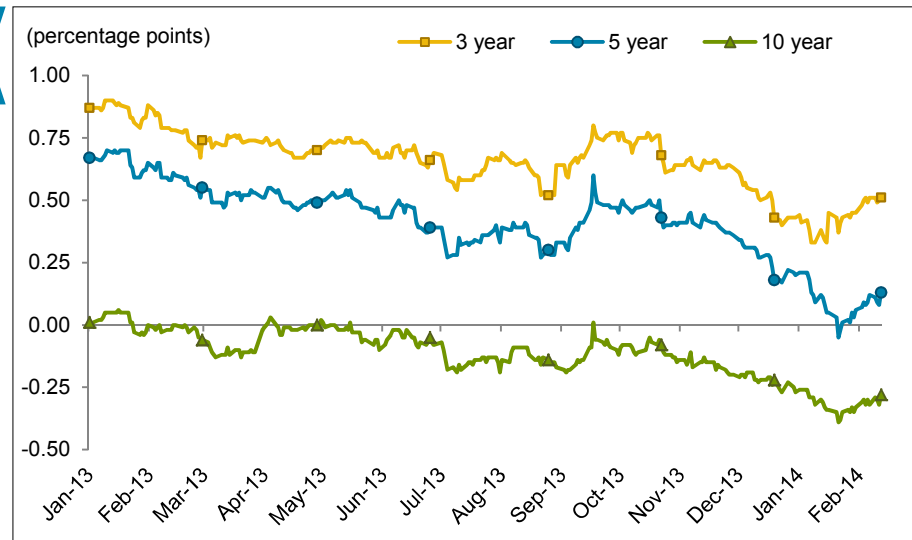
With household debt growing slower and inflation near the bottom of its target range, the Bank of Canada is shifting focus from household imbalances to inflation.

of Canada, along with a stronger US economy, caused the Canadian dollar to depreciate to a four-and-a-half-year low against the US dollar in January (Chart 20). The exchange rate is expected to remain at US¢ 91/Cdn\$ for the duration of the forecast. Exchange rates are notoriously difficult to predict, and a major source of uncertainty in the outlook.

A lower Canadian dollar, coupled with stronger US growth, will boost exports in the near term, but many exporters continue to face long-term challenges. Weak export growth pre-dates the recession. Exports have been essentially flat

With the Bank of Canada expected to raise interest rates later, and the Federal Reserve sooner, the spread between Canadian and US interest rates has declined.

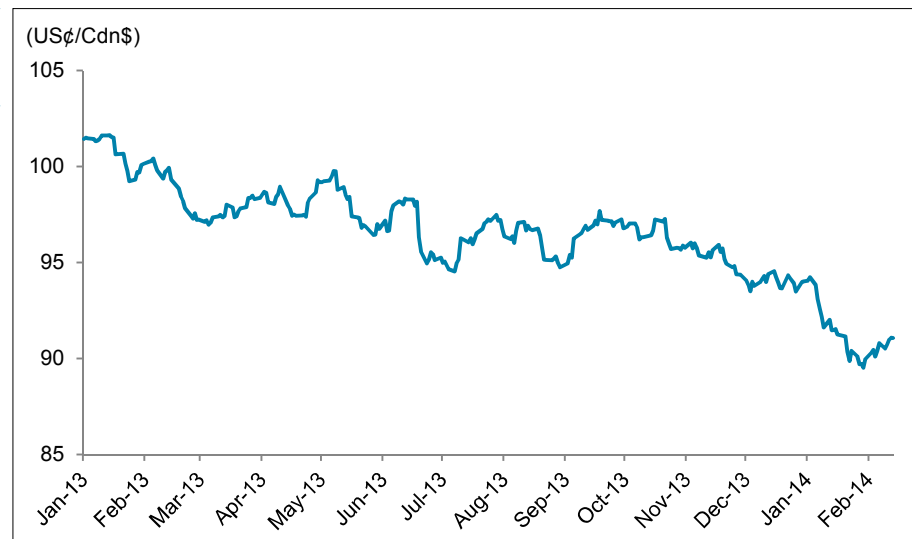
Chart 19: Canadian interest rate premium wanes
Spread Between Canada and US Government Bond Yields



Source: Haver Analytics

Over the past year, the Canadian dollar has lost roughly 10 cents against the US dollar.

Chart 20: Canadian dollar has depreciated against the US dollar
Canada - US Exchange Rate



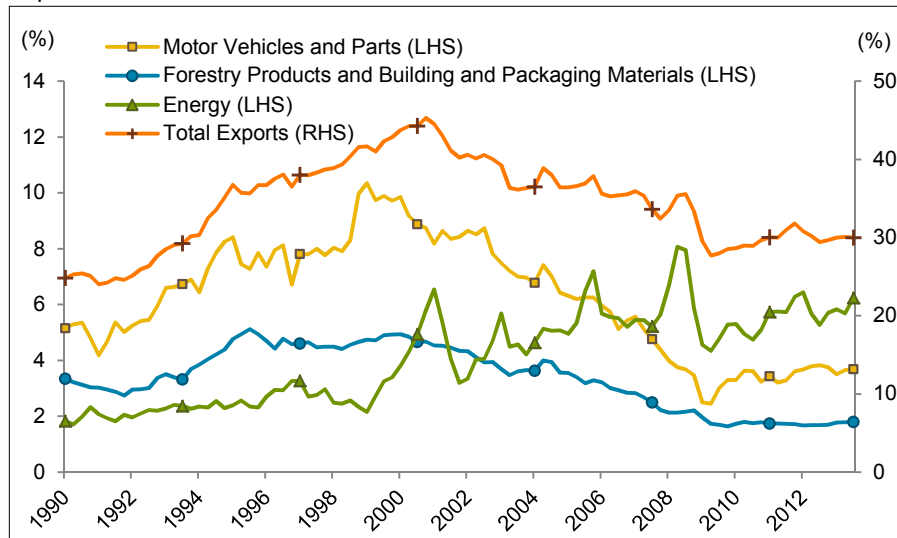
Source: Bank of Canada

since 2000 and have fallen as a share of GDP from 45% to just 30% in 2013 (Chart 21). The decline in export intensity is partly due to structural changes in the economy. Most of the decline in overall export intensity can be explained by lower exports of forestry products and motor vehicles and parts. Forestry products have declined in large part due to the collapse in the US housing market, while motor vehicle and parts exports have suffered as a result of the geographic centre of automobile production shifting away from Detroit-Windsor as auto makers seek lower costs in the southern US and Mexico.

The Canadian housing market has stabilized following a correction in 2012. Real residential investment fell in three straight quarters between the third quarter of 2012 and the first quarter of 2013 as housing starts fell by one-third between August 2012 and January 2013. Both real residential investment and housing starts have since rebounded. The correction was in part precipitated by changes made by federal regulators to mortgage insurance rules and a tightening of mortgage underwriting guidelines. The rebound in the housing market indicates that households may be pulling forward home purchases in anticipation that mortgage rates will soon start to increase. This has fed through to resale home prices, which have accelerated in recent months. Considerable uncertainty remains in the housing market due to still-elevated household debt and housing prices. Residential investment is expected to increase at a slower rate than the overall economy, bringing its share of GDP closer to historical norms.

Chart 21: Canada's export intensity has fallen

Exports as a Share of GDP



Source: Statistics Canada

As a share of GDP, exports have been falling since before the recession, down 15 percentage points from the peak in 2000, with forestry products, building and packaging materials, along with motor vehicles and parts accounting for most of the decline in export intensity.

SUMMARY

Alberta's economy gained momentum in 2013 and is expected to continue to outperform in 2014. Real GDP is forecast to accelerate to 3.7% growth in 2014, the fifth straight year above its historic trend of 3%. Stronger export and investment growth, along with flood-related reconstruction spending, will help drive Alberta's economy this year.

In the global economy, growth is expected to accelerate in 2014 as advanced economies build on strength from the second half of 2013. Greater global demand and a weaker Canadian dollar will boost demand for Canadian exports. This is expected to support slightly stronger, albeit still moderate, economic growth in Canada this year.

RISKS TO THE ECONOMIC OUTLOOK

- ◆ Without additional takeaway capacity, Alberta oil producers will continue to face large and volatile price discounts. A higher-than-expected reliance on rail will weigh on royalties, and could impact other sectors that also rely on this mode of transport. On the upside, an immediate alleviation of transportation bottlenecks would reduce uncertainty, raise Alberta oil prices, and boost growth.
- ◆ Alberta consumer prices and wages have been contained by weak global inflation and by rising migration into Alberta. If global inflation picks up or migration slows more than expected, cost and price pressures in Alberta may return.
- ◆ The recent depreciation of the Canadian dollar highlights the unpredictability of exchange rates. Renewed inflation in Canada could put pressure on the Bank of Canada to raise interest rates, causing the Canadian dollar to appreciate and hurting export revenues.
- ◆ The emerging economies remain vulnerable to financial market shocks. Further tapering of Federal Reserve asset purchases could lead to capital outflows and precipitate a financial crisis in one or more emerging market economies. A further slowdown in these markets would weigh on commodity prices, hurting growth prospects in Alberta.
- ◆ There is upside risk to US economic growth. Renewed business and consumer confidence could lead to a surge in private spending, which combined with less fiscal drag, would lead to larger-than-expected US growth.
- ◆ Upside risks also exist in the Eurozone and emerging markets. An earlier-than-expected return to normalized growth in these economies would cause global growth to accelerate. This would put upward pressure on commodity prices, and boost investment and employment in Alberta.

KEY ENERGY AND ECONOMIC ASSUMPTIONS

Fiscal Year Assumptions	2012-13 Actual	2013-14 Estimates	2014-15	2015-16	2016-17
Prices					
Crude Oil Price					
WTI (US\$/bbl)	92.07	98.16	95.22	94.86	94.80
Alberta Wellhead (Cdn\$/bbl) ^a	77.39	89.42	88.02	87.61	87.89
WCS @ Hardisty (Cdn\$/bbl)	68.48	78.54	77.18	76.59	78.13
Natural Gas Price					
Alberta Reference Price (Cdn\$/GJ)	2.29	3.09	3.29	3.73	3.98
Production					
Conventional crude oil (000s barrels/day)	556	583	583	571	550
Raw bitumen (000s barrels/day)	1,917	2,065	2,347	2,548	2,809
Natural gas (billions of cubic feet)	4,223	4,040	3,737	3,602	3,477
Interest rates					
3-month Canada treasury bills (%)	0.96	0.95	1.00	1.30	2.00
10-year Canada bonds (%)	1.85	2.50	3.05	3.65	4.00
Exchange Rate (US\$/Cdn\$)	99.9	95.1	91.0	91.0	91.0
Calendar Year Assumptions	2013	2014	2015	2016	2017
Gross Domestic Product					
Nominal (millions of dollars)	331,927 ^b	352,143	368,690	386,283	406,607
% change	6.4 ^b	6.1	4.7	4.8	5.3
Real (millions of 2007 dollars)	298,038 ^b	308,980	318,162	326,791	336,262
% change	3.3 ^b	3.7	3.0	2.7	2.9
Other Indicators					
Employment (thousands)	2,211	2,268	2,317	2,357	2,394
% change	2.9	2.6	2.2	1.7	1.6
Unemployment rate (%)	4.6	4.4	4.3	4.3	4.3
Average Weekly Earnings (% change)	3.2 ^b	3.4	3.5	3.5	3.5
Primary Household Income (% change)	7.1 ^b	6.7	6.2	5.8	5.5
Net Corporate Operating Surplus (% change)	9.4 ^b	8.4	4.0	6.3	9.8
Housing starts (number of units)	36,011	38,300	36,800	35,900	35,900
Alberta Consumer Price Index (% change)	1.4	2.2	2.1	2.0	2.0
Retail Sales (% change)	6.6	6.7	5.6	5.2	5.2
Population (thousands)	4,025	4,140	4,242	4,330	4,416
% change	3.5	2.9	2.5	2.1	2.0
Net Migration (thousands)	105.2	83.7	69.6	55.5	53.8

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

^b Alberta Treasury Board and Finance estimate.

✧ ANNEX

BENCHMARKING TABLES

Oil Price Benchmark

West Texas Intermediate (US\$/bbl)

Organization	2014	2015	2016	2017
National Forecasting Agencies				
Conference Board of Canada (Nov/13)	95.25	98.67	104.33	108.58
IHS Global Insight (Jan/14)	97.86	94.64	94.89	97.31
Centre for Spatial Economics (Jan/14)	95.00	96.36	101.27	108.07
Banks and Investment Dealers				
BMO Capital Markets (Jan/14)	95.00	95.00	n/a	n/a
Credit Suisse (Jan/14)	91.75	87.50	85.00	85.00
Deutsche Bank (Dec/13)	88.75	85.00	80.00	90.00
CIBC World Markets (Dec/13)	95.00	100.00	n/a	n/a
Goldman Sachs (Dec/13)	96.50	90.00	90.00	90.00
JP Morgan (Dec/13)	91.50	85.25	80.00	80.00
Peters & Co. Limited (Jan/14)	91.92	85.23	79.27	79.27
RBC Capital Markets (Jan/14)	94.00	92.00	92.50	95.00
Scotiabank (Jan/14)	92.00	90.00	n/a	n/a
Toronto Dominion Bank (Jan/14)	95.00	98.25	n/a	n/a
Industry Analysts				
U.S. Energy Information Administration (Dec/13)	96.21	93.87	93.53	96.05
GLJ Petroleum Consultants (Jan/14)	97.50	97.50	97.50	97.50
Sproule Associates Limited (Jan/14)	93.44	86.38	81.87	92.81
Confidential Forecasts Provided to Alberta Energy^a				
Average	96.35	94.73	94.60	97.42
High	98.10	104.20	107.60	111.35
Low	88.75	85.00	79.27	79.27
Average of All Private Forecasts	94.69	92.82	91.16	94.33
Government of Alberta (calendar year)	96.35	94.73	94.60	97.42

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

Includes forecasts finalized on or before January 31, 2014.

Both the Government of Alberta and the private sector underestimated the WTI oil price for 2013, by 4.0% and 3.8% respectively.

How Oil Price Forecasters Fared in Budget 2013

West Texas Intermediate (US\$/bbl)

Organization	How did they do in Budget 2013?
National Forecasting Agencies (3)	92.61
Banks and Investment Dealers (10)	96.02
Industry Analysts (3)	89.72
Confidential Forecasts (7)	94.65
Average	94.28
Government of Alberta (calendar year)	94.05
Actual	97.97

Sources: Alberta Treasury Board and Finance and Alberta Energy

Natural Gas Price Benchmark

Henry Hub (US\$/MMBTU)^a

Organization	2014	2015	2016	2017
National Forecasting Agencies				
Conference Board of Canada (Nov/13)	3.94	4.39	4.79	5.19
IHS Global Insight (Jan/14)	3.69	4.17	4.49	4.21
Centre for Spatial Economics (Jan/14)	3.84	3.89	4.51	4.75
Banks and Investment Dealers				
BMO Capital Markets (Jan/13)	4.10	4.50	n/a	n/a
Credit Suisse (Jan/14)	3.90	4.20	4.40	4.50
Deutsche Bank (Jan/14)	4.25	4.50	4.75	4.75
CIBC World Markets (Dec/13)	4.20	4.30	n/a	n/a
JP Morgan (Dec/13)	4.25	4.00	4.50	4.00
Peters & Co. Limited (Jan/14)	3.90	4.05	n/a	n/a
RBC Capital Markets (Jan/14)	4.17	4.07	4.14	4.14
Scotiabank (Jan/14)	4.00	4.35	5.00	5.00
Toronto Dominion Bank (Jan/14)	4.20	4.25	n/a	n/a
Goldman Sachs (Dec/13)	3.94	4.04	n/a	n/a
Industry Analysts				
U.S. Energy Information Administration (Dec/13)	3.86	3.93	4.41	4.76
GLJ Petroleum Consultants (Jan/14)	4.25	4.50	4.75	5.00
Sproule Associates Limited (Jan/14)	4.28	4.14	4.12	4.92
Confidential Forecasts Provided to Alberta Energy^b				
Average	3.69	4.06	4.46	4.61
High	4.28	4.50	5.00	5.19
Low	3.65	3.89	4.12	4.00
Average of All Private Forecasts	3.98	4.18	4.52	4.65
Government of Alberta (calendar year)	3.80	4.05	4.41	4.77

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

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

Includes forecasts finalized on or before January 31, 2014.

How Natural Gas Price Forecasters Fared in Budget 2013

Henry Hub (US\$/MMBTU)

Organization	How did they do in Budget 2013?
National Forecasting Agencies (3)	3.54
Banks and Investment Dealers (9)	3.65
Industry Analysts (3)	3.71
Confidential Forecasts (3)	3.92
Average	3.69
Government of Alberta (calendar year)	3.71
Actual	3.66

Both the Government of Alberta and the private sector slightly overestimated natural gas prices in 2013, by 1.4% and 0.8% respectively.

Sources: Alberta Treasury Board and Finance and Alberta Energy

Canadian Short-Term Interest Rate Benchmark

3-month Government of Canada Treasury Bills (%)

Organization	2014	2015	2016	2017
National Forecasting Agencies				
Conference Board of Canada (Dec/13)	1.10	1.90	2.85	3.59
IHS Global Insight (Jan/14)	0.97	1.12	2.84	4.41
Centre for Spatial Economics (Jan/14)	1.20	2.30	3.40	3.60
Banks				
BMO Capital Markets (Jan/14)	0.90	1.09	n/a	n/a
CIBC World Markets (Jan/14)	0.93	1.35	n/a	n/a
RBC Royal Bank (Jan/14)	1.10	1.85	n/a	n/a
Scotiabank (Jan/14)	0.98	1.24	n/a	n/a
Toronto Dominion Bank (Jan/14)	0.95	1.20	n/a	n/a
Laurentian Bank (Jan/14)	0.98	1.23	n/a	n/a
National Bank (Jan/14)	0.96	1.80	n/a	n/a
High	1.20	2.30	3.40	4.41
Low	0.90	1.09	2.84	3.59
Average of All Private Forecasts	1.01	1.51	3.03	3.87
Alberta Government (calendar year)	0.95	1.20	1.90	2.40

Includes forecasts finalized on or before January 31, 2014.

Canadian Long-Term Interest Rate Benchmark

10-Year Government of Canada Bonds (%)

Organization	2014	2015	2016	2017
National Forecasting Agencies				
Conference Board of Canada (Dec/13)	2.54	2.73	3.22	3.76
IHS Global Insight (Jan/14)	3.04	3.33	3.91	4.51
Centre for Spatial Economics (Jan/14)	2.80	4.20	5.00	4.90
Banks				
BMO Capital Markets (Jan/14)	2.88	3.67	n/a	n/a
CIBC World Markets (Jan/14)	2.83	3.36	n/a	n/a
RBC Royal Bank (Jan/14)	3.40	4.10	n/a	n/a
Scotiabank (Jan/14)	2.81	3.43	n/a	n/a
Toronto Dominion Bank (Jan/14)	2.99	3.40	n/a	n/a
Laurentian Bank (Jan/14)	3.13	3.60	n/a	n/a
National Bank (Jan/14)	2.96	3.64	n/a	n/a
High	3.40	4.20	5.00	4.90
Low	2.54	2.73	3.22	3.76
Average of All Private Forecasts	2.94	3.55	4.04	4.39
Government of Alberta (calendar year)	2.91	3.50	4.00	4.25

Includes forecasts finalized on or before January 31, 2014.

Canada / United States Exchange Rate Benchmark

(US¢/Cdn\$)

Organization	2014	2015	2016	2017
National Forecasting Agencies				
Conference Board of Canada (Jan/14)	88.7	91.2	92.1	92.6
IHS Global Insight (Jan/14)	94.9	95.1	94.0	92.2
Centre for Spatial Economics (Jan/14)	93.5	93.4	93.4	92.3
Banks				
BMO Capital Markets (Jan/14)	89.5	93.7	n/a	n/a
CIBC World Markets (Jan/14)	91.3	94.5	n/a	n/a
RBC Royal Bank (Jan/14)	91.7	87.0	n/a	n/a
Scotiabank (Jan/14)	88.5	91.0	n/a	n/a
Toronto Dominion Bank (Jan/14)	87.0	88.8	n/a	n/a
Laurentian Bank (Jan/14)	91.3	94.5	n/a	n/a
National Bank (Jan/14)	91.3	94.3	n/a	n/a
High	94.9	95.1	94.0	92.6
Low	87.0	87.0	92.1	92.2
Average of All Private Forecasts	90.8	92.3	93.2	92.4
Government of Alberta (calendar year)	91.0	91.0	91.0	91.0

Includes forecasts finalized on or before January 31, 2014.

Alberta Real Gross Domestic Product Benchmark

(% change)

Organization	2013	2014	2015	2016	2017
National Forecasting Agencies					
Conference Board of Canada (Nov/13)	3.2	3.4	2.6	2.6	2.5
IHS Global Insight (Jan/14)	3.1	3.2	3.1	2.9	2.7
Centre for Spatial Economics (Jan/14)	3.4	3.9	2.7	2.9	3.4
Banks					
BMO Capital Markets (Jan/14)	3.2	3.3	3.3	n/a	n/a
CIBC World Markets (Oct/13)	2.8	3.0	n/a	n/a	n/a
RBC Royal Bank (Dec/13)	3.3	3.9	3.5	n/a	n/a
Scotiabank (Jan/14)	3.2	3.8	3.3	n/a	n/a
Toronto Dominion Bank (Jan/14)	3.3	3.3	2.8	n/a	n/a
Laurentian Bank (Jan/14)	2.8	3.1	2.9	n/a	n/a
National Bank (Jan/14)	3.4	3.1	2.8	n/a	n/a
Other					
Canada Mortgage and Housing Corporation (Oct/13)	2.1	3.1	n/a	n/a	n/a
High	3.4	3.9	3.5	2.9	3.4
Low	2.1	3.0	2.6	2.6	2.5
Average of All Private Forecasts	3.1	3.4	3.0	2.8	2.9
Government of Alberta (calendar year)	3.3	3.7	3.0	2.7	2.9

Includes forecasts finalized on or before January 31, 2014.

Light-Heavy Oil Price Differential Benchmark

(%)

Industry Analysts	2014	2015	2016	2017
GLJ Petroleum Consultants (Jan/14)	24	22	22	22
Sproule Associates Limited (Jan/14)	23	23	20	16
Confidential Forecasts Provided to Alberta Energy^a				
Average	26	27	22	21
Average of All Private Forecasts	25	25	21	20
Government of Alberta (calendar year)	26	27	25	25

^a Alberta Energy also surveys, on a confidential basis, private sector forecasts from KBC, IHS CERA, Peters & Co Ltd and BMO; The annual figures presented here are the average forecast prices from these sources.

Includes forecasts finalized on or before January 31, 2014.

Alberta Corporate Net Operating Surplus Benchmark

(% change)

National Forecasting Agencies	2013	2014	2015	2016	2017
Conference Board of Canada (Nov/13)	-5.6	3.2	7.0	7.1	5.2
IHS Global Insight (Jan/14)	3.1	14.5	4.2	4.1	4.0
Centre for Spatial Economics (Jan/14)	25.8	14.0	-2.7	8.8	11.1
High	25.8	14.5	7.0	8.8	11.1
Low	-5.6	3.2	-2.7	4.1	4.0
Average of All Private Forecasts	7.8	10.6	2.8	6.7	6.8
Government of Alberta (calendar year)	9.4	8.4	4.0	6.3	9.8

Includes forecasts finalized on or before January 31, 2014.

Alberta Housing Starts Benchmark

(thousands)

Organization	2014	2015	2016	2017
National Forecasting Agencies				
Conference Board of Canada (Nov/13)	34.6	34.9	33.6	32.9
IHS Global Insight (Jan/14)	37.1	36.0	35.1	34.8
Centre for Spatial Economics (Jan/14)	38.1	40.0	42.2	45.3
Banks				
BMO Capital Markets (Jan/14)	39.0	40.0	n/a	n/a
CIBC World Markets (Oct/13)	38.0	n/a	n/a	n/a
RBC Royal Bank (Dec/13)	36.8	34.5	n/a	n/a
Scotiabank (Jan/14)	36.0	35.0	n/a	n/a
Toronto Dominion Bank (Jan/14)	38.0	33.0	n/a	n/a
Laurentian Bank (Jan/14)	44.0	36.5	n/a	n/a
National Bank (Jan/14)	35.0	36.0	n/a	n/a
Other				
Canada Mortgage and Housing Corporation (Oct/13)	34.9	n/a	n/a	n/a
High	44.0	40.0	42.2	45.3
Low	34.6	33.0	33.6	32.9
Average of All Private Forecasts	37.4	36.2	37.0	37.7
Government of Alberta (calendar year)	38.3	36.8	35.9	35.9

Includes forecasts finalized on or before January 31, 2014.

Alberta Primary Household Income Benchmark

(% change)

National Forecasting Agencies	2013	2014	2015	2016	2017
Conference Board of Canada (Nov/13)	7.0	4.9	5.3	4.8	4.6
IHS Global Insight (Jan/14)	5.5	4.5	4.6	4.6	4.4
Centre for Spatial Economics (Jan/14)	5.5	5.3	5.0	5.3	5.5
High	7.0	5.3	5.3	5.3	5.5
Low	5.5	4.5	4.6	4.6	4.4
Average of All Private Forecasts	6.0	4.9	5.0	4.9	4.8
Government of Alberta (calendar year)	7.1	6.7	6.2	5.8	5.5

Includes forecasts finalized on or before January 31, 2014.

Alberta Employment Benchmark

(% change)

Organization	2014	2015	2016	2017
National Forecasting Agencies				
Conference Board of Canada (Nov/13)	2.4	2.2	1.6	1.5
IHS Global Insight (Jan/14)	2.6	2.0	1.8	1.3
Centre for Spatial Economics (Jan/14)	2.5	2.0	2.2	2.3
Banks				
BMO Capital Markets (Jan/14)	2.8	2.2	n/a	n/a
CIBC World Markets (Oct/13)	2.3	n/a	n/a	n/a
RBC Royal Bank (Dec/13)	2.4	1.8	n/a	n/a
Scotiabank (Jan/14)	2.5	2.1	n/a	n/a
Toronto Dominion Bank (Jan/14)	2.0	1.7	n/a	n/a
Laurentian Bank (Jan/14)	1.9	1.9	n/a	n/a
National Bank (Jan/14)	2.0	2.0	n/a	n/a
Other				
Canada Mortgage and Housing Corporation (Oct/13)	2.3	n/a	n/a	n/a
High	2.8	2.2	2.2	2.3
Low	1.9	1.7	1.6	1.3
Average of All Private Forecasts	2.3	2.0	1.9	1.7
Government of Alberta (calendar year)	2.6	2.2	1.7	1.6

Includes forecasts finalized on or before January 31, 2014.

Alberta Unemployment Rate Benchmark

(%)

Organization	2014	2015	2016	2017
National Forecasting Agencies				
Conference Board of Canada (Nov/13)	4.6	4.3	4.0	3.8
IHS Global Insight (Jan/14)	4.4	4.2	4.3	4.4
Centre for Spatial Economics (Jan/14)	4.9	5.1	4.9	4.7
Banks				
BMO Capital Markets (Jan/14)	4.6	4.2	n/a	n/a
CIBC World Markets (Oct/13)	4.2	n/a	n/a	n/a
RBC Royal Bank (Dec/13)	4.4	4.1	n/a	n/a
Scotiabank (Jan/14)	4.3	4.2	n/a	n/a
Toronto Dominion Bank (Jan/14)	4.4	4.2	n/a	n/a
Laurentian Bank (Jan/14)	4.5	4.2	n/a	n/a
National Bank (Jan/14)	4.8	4.5	n/a	n/a
Other				
Canada Mortgage and Housing Corporation (Oct/13)	4.5	n/a	n/a	n/a
High	4.9	5.1	4.9	4.7
Low	4.2	4.1	4.0	3.8
Average of All Private Forecasts	4.5	4.3	4.4	4.3
Government of Alberta (calendar year)	4.4	4.3	4.3	4.3

Includes forecasts finalized on or before January 31, 2014.

TAX PLAN

✧ TAX PLAN

✧ ANNEX

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✧ TAX PLAN

HIGHLIGHTS

- ✧ A tax regime for qualifying environmental trusts is being introduced to facilitate the accumulation of funds for future site reclamation.
- ✧ Education property tax rates will decrease by 4.5%.
- ✧ Personal income tax credits will increase by 1.1% to offset inflation.
- ✧ The dividend tax credit rate for small business income will be adjusted in response to federal changes, preventing double taxation.

QUALIFYING ENVIRONMENTAL TRUSTS

Alberta's abundant energy resources play an essential role in the living standards and prosperity of Albertans. The province's oil sands are the third largest proven reserve of oil in the world. The efforts put into developing this remarkable resource have allowed Alberta to become a global leader in research and technology on oil sands and heavy oil. As a result, these reserves play an important role in the provincial, national and global economy.

Albertans own about 80% of the province's oil, natural gas and other mineral resources. About one-fifth of provincial revenue comes from natural resource development. In 2012, approximately 121,500 people were employed in Alberta's upstream energy sector, which includes oil sands, conventional oil, gas and mining.

While all Albertans benefit from the province's energy resources, it is important that resource development be environmentally responsible and sustainable. Albertans expect their water to be safe, their air to be clean and their land to be productive. This includes ensuring land is returned to the natural state that existed before resource development took place. This is referred to as "reclamation."

There are mechanisms in place to address future reclamation costs. Oil sands mines must provide security to the province to address their abandonment, remediation and reclamation obligations. Currently, letters of credit are provided as security, but other tools will be needed in the longer term. New requirements by the federal government, effective in 2014, require federally regulated pipeline corporations to set aside funds for reclamation obligations.

The requirement to prefund expected reclamation costs created an income tax issue since an expense is generally not deductible until it has been incurred. Also, there was a significant risk that when reclamation costs were ultimately incurred there would be no income against which to deduct the expenses. This would mean that the expenses were never recognized and corporations would have overstated income and paid too much tax over their life cycles.

Alberta will support the use of qualifying environmental trusts to fund reclamation by shifting the tax burden on trust earnings from corporations to the trusts themselves.

OLD APPROACH

Corporation pays tax on
QET earnings



NEW APPROACH

QET pays tax on earnings
+
Corporation pays tax on
QET earnings
+
Corporation gets refundable
tax credit equal to tax
paid by QET

The federal government addressed these problems with the introduction of qualifying environmental trusts (QETs). QETs are a special kind of trust under the *Income Tax Act* (Canada) that are maintained solely for the purpose of funding future reclamation. In Canada, including Alberta, contributions to a QET may be deducted by the corporation making the contributions, and that corporation must report the QET's income each year for income tax purposes. Thus, tax is paid on the QET's annual income by the corporation at the corporation's tax rate for the year.

At the same time however, the federal government recognized that the burden of tax on the QET's income should ultimately be borne by the QET. To accomplish this, the federal tax regime for QETs includes two additional components. QETs are required to pay a special tax on their income for the year at the corporate rate. To offset the double tax on the QET's income (because the corporation is also taxable on that income), the corporation is entitled to a refundable tax credit equal to the amount of tax paid by the QET for the year.

Alberta is expecting to see its first QET established in the province in 2014 and needs to ensure its tax treatment for these entities is appropriate. Effective January 1, 2014, Alberta will parallel the additional components of the federal QET tax regime. QETs in Alberta will be required to pay tax at the corporate rate on their annual income. Corporate beneficiaries of QETs will be eligible to receive refundable tax credits equal to the amount of tax paid by their QETs to Alberta. As the corporate tax credit will be equal to the tax paid by the QET, these changes are revenue neutral for Alberta.

The effect of these changes is that the income tax burden is shifted to the QET. This minimizes the impact of the QET on the corporation's regular business operations by enabling the corporation to keep more of its own funds to finance current operations.

EDUCATION PROPERTY TAXES

Property taxes in Alberta are levied by both municipalities and the province. The education property tax is collected by municipalities on behalf of the province and is used by Alberta to support basic education.

Last year Alberta announced two changes to its education property tax system. The education property tax revenue that municipalities are required to collect would be linked to education operating costs. As well, the mitigation formula, a mechanism that reallocated the education property tax burden among municipalities (and ultimately among individual property owners), would be phased out.

As indicated in last year's budget, annual education property tax revenue is now set at 32% of total education operating costs, similar to the proportion of education operating costs funded by property taxes in recent years. The revenue that will be raised by the tax in each year will be based on the education operating cost target for that year as reported in the prior year's budget. Therefore, as announced in *Budget 2013*, the provincial portion of

education property tax revenue for 2014-15 is \$1.9 billion. Education property tax revenue for 2015-16 will be \$2.0 billion, based on the 2015-16 education operating cost target set out in this budget.

In 2014, education property tax mill rates will be reduced by 4.5%. The residential/farmland rate will decrease from \$2.65 to \$2.53 per \$1,000 of equalized assessment, and the non-residential rate will decrease from \$3.90 to \$3.72 per \$1,000 of equalized assessment.

Education Property Tax

(millions of dollars)

	2014-15	2015-16
Ministry of Education - operating expense	6,377 ^a	6,821
Expenses paid with opted-out school boards' property tax revenue	204	219
Total education operating costs	6,581	7,040
Total Revenue (32% of total costs)	2,106	2,253
Less: opted-out boards' property tax revenue	(204)	(219)
(Provincial portion of) Education Property Tax	1,902	2,034

^a This is the operating expense target for 2014-15 as published in *Budget 2013*, which was used to calculate 2014-15 education property tax revenue.

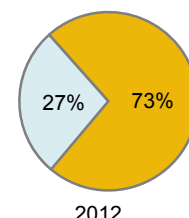
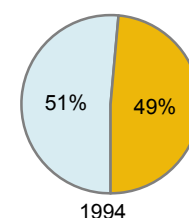
Roughly two-thirds of opted-out school boards' operating expenses are included in the Ministry of Education's operating expense. Since opted-out boards fund the remainder of their expenses with education property tax revenue that they collect directly from municipalities, this revenue must be included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

MITIGATION FORMULA

Alberta moved to a market value system that required annual assessments in 1994. In 2000, the government introduced a mitigation formula that limited increases in the amount of property tax revenue collected from qualifying municipalities. This acted to shelter property owners in those municipalities from rapid increases in their property taxes due to the combined effects of the move to a fair market value system of property assessment and a thriving economy.

As indicated in *Budget 2013*, the elimination of the mitigation formula helps to ensure that taxpayers with similar properties of comparable value pay similar amounts of education property tax across the province. Recognizing that the immediate elimination of mitigation measures could have a significant impact on some property owners, the province intended to phase out the mitigation formula over a two-year period for the four municipalities most negatively impacted by this decision. However, due to strong growth in municipalities across the province, the phase-out has proceeded ahead of schedule and is complete.

DISTRIBUTION OF PROPERTY TAX



□ Provincial ■ Municipal

Source: Alberta Treasury Board and Finance and Alberta Municipal Affairs

Total education property tax revenue is \$2.1 billion in 2014-15. The provincial portion of that revenue is \$1.9 billion.

PERSONAL TAXES

SMALL BUSINESS DIVIDEND TAX CREDIT

Income earned through a corporation is taxed twice, once as income in the corporation and again as dividend income when distributed to the corporation's shareholders.

The dividend tax credit (DTC) is a mechanism in the personal income tax system that addresses this double taxation of income. Its objective is that income earned by a corporation and paid out to an individual as a dividend should be subject to the same overall amount of tax as income earned directly by the individual. First, the individual must gross up the amount of the dividend to approximate the pre-tax income earned by the corporation. The grossed-up amount is what the individual includes in taxable income for the year. Then the individual is entitled to claim federal and provincial DTCs intended to reflect the corporate tax already paid by the corporation.

Small Canadian-owned private corporations generally pay tax at a lower rate than other corporations. The DTC regime recognizes this difference, providing for different gross-up rates and tax credits depending on the corporate tax rate paid on the income.

Measures introduced by the federal government for 2014 lower the gross-up factor from 25% to 18% for dividends paid out of income taxed at the small business rate. Because Alberta must parallel this change, the amount of Alberta personal income tax that applies to these dividends is automatically increased.

Alberta's general policy is to fully integrate the corporate and personal income tax systems so that income is neither double taxed nor undertaxed. To maintain this policy, the province will adjust the dividend tax credit rate applicable to dividends paid out of income taxed at the small business rate to 3.1% starting in 2014. This will prevent the unintended tax increase that would otherwise result.

INDEXING

The personal income tax system is indexed to inflation to ensure that the value of Alberta's tax credits does not erode over time. In 2014, credit amounts will increase by 1.1%. This means that the basic personal and spousal amounts will rise from \$17,593 in 2013 to \$17,787 in 2014.

The Alberta Family Employment Tax Credit is also indexed to inflation. As of July 2014, payments will increase to a maximum of \$736 for one child, \$1,405 for two children, \$1,806 for three children and \$1,940 for four or more children. The income level at which the credit starts to phase out will also increase, rising to \$35,916.

Alberta Non-Refundable Tax Credit Block

(dollars)

	2013		2014	
	Maximum Amount	Deduction from Alberta Tax	Maximum Amount	Deduction from Alberta Tax
Basic personal amount	17,593	1,759	17,787	1,779
Spousal amount	17,593	1,759	17,787	1,779
Eligible dependant amount	17,593	1,759	17,787	1,779
Age amount	4,903	490	4,957	496
Infirm dependant amount	10,184	1,018	10,296	1,030
CPP contributions	2,356	236	2,426	243
EI premiums	891	89	914	91
Pension income amount	1,355	136	1,370	137
Disability amount	13,571	1,357	13,720	1,372
Disability supplement	10,184	1,018	10,296	1,030
Tuition and education amounts	Variable	Variable	Variable	Variable
Adoption expenses	12,033	1,203	12,165	1,217
Medical expenses	Variable	Variable	Variable	Variable
Medical expenses (other dependants)	Variable	Variable	Variable	Variable
Caregiver amount	10,185	1,019	10,296	1,030
Interest on student loans	Variable	Variable	Variable	Variable
Donations and gifts				
- first \$200	200	20	200	20
- over \$200	75% of income	Variable	75% of income	Variable

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

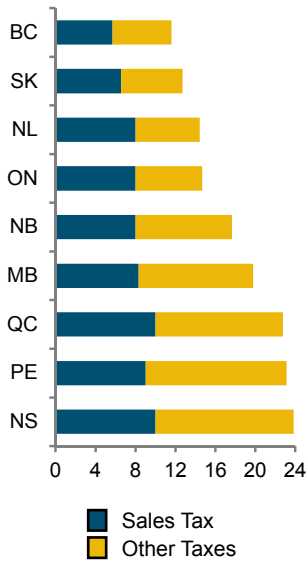
THE PRINCIPLES THAT GUIDE A GOOD TAX SYSTEM

Alberta's tax system is designed to raise the revenue necessary to pay for programs and services. The principles of a good tax system are:

- ❖ **Efficiency** – The tax system raises revenue with the least possible negative impact on the economy.
- ❖ **Effectiveness** – The tax system raises sufficient revenue and achieves socio-economic goals.
- ❖ **Fairness** – Taxpayers in similar situations face similar tax burdens and those who can afford to pay more tax do.
- ❖ **Stability** – The tax system is not overly reliant on volatile taxes that could jeopardize steady funding for services.
- ❖ **Competitiveness** – The tax system compares favourably with systems in other jurisdictions, thus attracting businesses, investors and highly skilled workers.

The Government strikes a balance between these competing principles and continually monitors the state of Alberta's tax system.

ALBERTA'S TAX ADVANTAGE, 2014 (billions of dollars)



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

Source: Alberta Treasury Board and Finance

ALBERTA ADVANTAGE

Alberta has one of the most competitive tax systems in North America. Alberta has no sales tax, no health premiums and no capital or payroll taxes. Alberta has low personal income taxes with the highest basic and spousal amounts in Canada. This allows people to earn more before they pay tax and attracts skilled labour. Low corporate income taxes also attract investment and help Alberta businesses compete in the global marketplace.

If Alberta employed the tax system of any other province, Albertans and Alberta businesses would pay at least \$11.6 billion more in taxes each year.

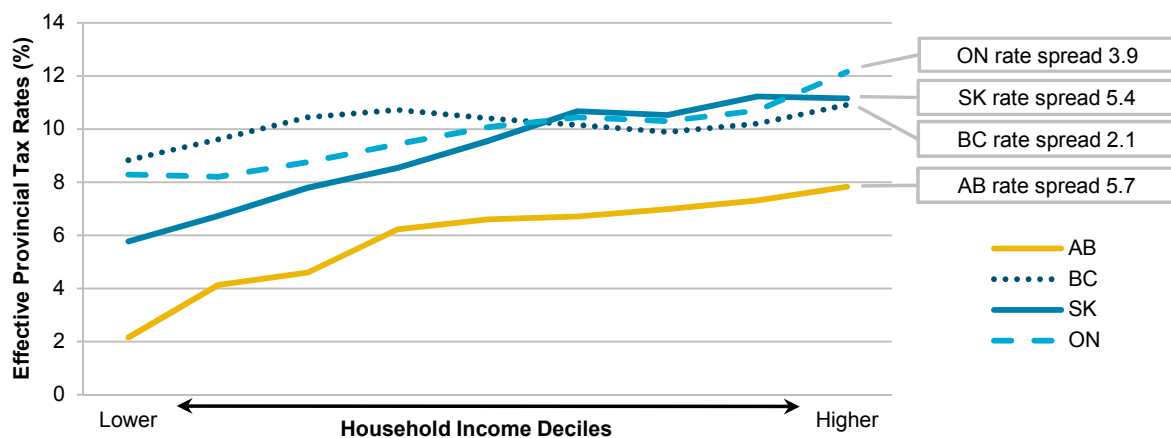
ALBERTA'S PROGRESSIVE TAX SYSTEM

It's no secret that Alberta has low taxes. What is less well known is that Alberta's tax system is very progressive.

Progressivity is an indicator of fairness, one of the principles of a sound tax system (for other principles see "The Principles that Guide a Good Tax System" on page 119). Fairness is subjective and the fairness of a tax system will always be a matter of debate. In general terms, fairness means that taxpayers in similar situations face similar tax burdens, and taxpayers with a greater ability to pay contribute more in taxes. A tax system is progressive when an increasing proportion of tax is levied as income rises.

Many are surprised to learn that the single rate personal income tax is progressive. There are two ways to achieve progressivity through the personal income tax system. One way is to use multiple rates that tax high-income

Average Effective Provincial Tax Rates by Household Income Decile, 2012



Note: The income groups used to calculate average effective tax rates are based on deciles (10% segments of the population based on income). The lowest income decile is excluded from this table for all provinces due to data limitations. The rate spreads represent the difference in the effective tax rates between the second and tenth deciles. A larger spread means a greater difference in the effective tax rate between households in the top income decile and those in the second lowest decile.

Source: Alberta Treasury Board and Finance calculations using Statistics Canada's Social Policy Simulation Database and Model (SPSD/M). Responsibility for the results and their interpretation lies with Treasury Board and Finance. The calculations include the impact of amusement, fuel, general sales, tobacco, carbon, and income taxes, as well as liquor profits/taxes and health premiums.

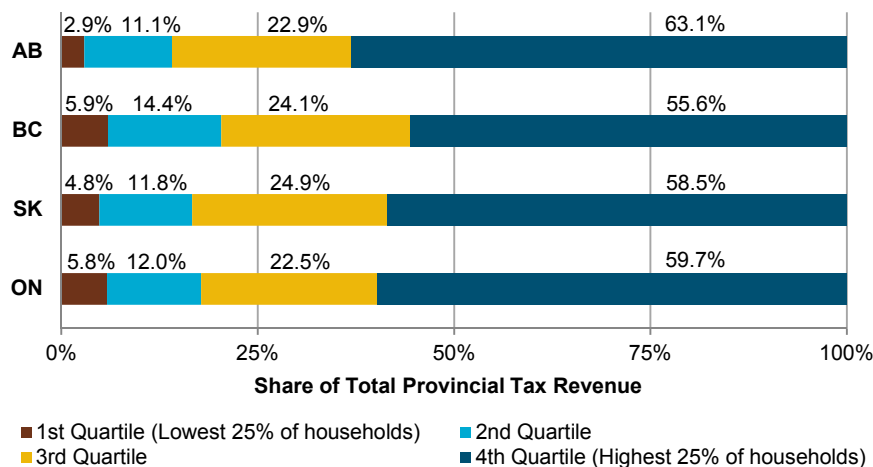
earners at higher levels. This approach may discourage high-income, highly skilled workers from moving to Alberta or staying here. The second way to achieve progressivity is to reduce taxes on low-income earners. Alberta's single rate tax system does this by offering a high basic personal credit that ensures individuals and families can earn a higher initial amount of income tax-free. Alberta offers the highest basic personal and spousal amounts in Canada, meaning that Albertans can earn more before they have to start paying provincial income tax.

Progressivity can be difficult to measure and compare across tax systems. There is no consensus as to the best measure of tax progressivity. Many will simply compare rate structures or tax brackets of the personal income tax systems across provinces to assess progressivity. However, this approach fails to account for the generosity of personal tax credits that will reduce the amount of tax payable, a benefit that will be proportionally greater to those with lower incomes. More fundamentally, these comparisons fail to consider the effect of other taxes on progressivity. In particular, the sales tax and health premiums imposed by many other provinces are disproportionately heavier on lower income individuals.

A meaningful comparison of progressivity demands consideration of the entire tax system. When all taxes are considered, Alberta has a very progressive tax system that compares well with other provinces.

Alberta has a very progressive tax system that compares well with other provinces.

Share of Total Provincial Tax Revenue by Household Income Quartile, 2012



Source: Alberta Treasury Board and Finance calculations using Statistics Canada's Social Policy Simulation Database and Model (SPSD/M). Responsibility for the results and their interpretation lies with Treasury Board and Finance. The calculations include the impact of amusement, fuel, general sales, tobacco, carbon, and income taxes, as well as liquor profits/taxes and health premiums.

TAX EXPENDITURE REPORTING

Reporting tax expenditures increases the transparency and accountability of government.

This is the second year Alberta is reporting tax expenditures. Reporting tax expenditures increases the transparency and accountability of government. It shows Albertans the amount of tax revenue foregone to encourage desired behavior and support other policy objectives. It allows the government to better monitor and scrutinize the costs associated with these tax measures.

Some tax expenditures are designed to provide a financial benefit regardless of whether the individual or corporation pays taxes. These tax expenditures are called “transfers through the tax system” and are reported in ministries’ operating expense. Alberta has two tax measures that qualify as transfers through the tax system. The Alberta Family Employment Tax Credit and the Scientific Research and Experimental Development Tax Credit are reported as operating expenses by Treasury Board and Finance.

The amounts reported as tax expenditures are estimates of the costs of the tax measures. They are calculated by determining the difference between the total tax revenue collected and the amount that would have been collected had the tax measure not existed (not accounting for the resulting changes in taxpayer behavior). They provide reasonable estimates of the foregone revenue, but cannot generally be added together to determine the fiscal impact of concurrently eliminating multiple tax expenditures.

While it could be argued that some of the tax measures included in the tax expenditure estimates may not, strictly speaking, be considered tax expenditures, they are expected to be of interest to some readers.

2014 Tax Expenditure Estimates

(millions of dollars)

Personal Income Tax

Federal Measures Paralleled by Alberta

Workers' compensation payments exemption	21.0
Social assistance payments exemption	7.0
Net federal supplements exemption (e.g. Guaranteed Income Supplement)	1.8
Union and professional dues deduction	38.0
Child care expense deduction	43.0
Moving expense deduction	7.5
Flow-through share deduction	35.0
Clergy residence deduction	4.3
Capital gains inclusion rate (50%)	223.0
Lifetime capital gains exemption	72.0
Security options deduction	45.0
Northern residents deduction	26.0

Provincial Measures

Basic personal amount ^a	3,975.0
Spousal amount	269.0
Eligible dependant amount	87.0
Age amount	80.0
Pension income amount	38.0
Caregiver amount	14.0
Disability amount	33.0
Disability amount transferred from a dependant	31.0
Interest paid on student loans	3.5
Tuition and education amounts	121.0
Tuition and education amounts transferred from a child	36.0
Amounts transferred from a spouse or common-law partner	19.0
Medical expenses	62.0
Donations and gifts	262.0
Political contributions tax credit	1.9

Corporate Income Tax

Small business rate	1,100.0
Donations and gifts	41.0
Political contributions tax credit	0.2

Fuel Tax

Tax Exempt Fuel Use program (marked fuel for off-road use)	222.3
Farm Fuel Benefit (marked fuel)	71.0
Reduced rate for railway diesel	24.0
Exemption for aviation fuel used on international flights	4.7

Transfers Through the Tax System^b

Alberta Family Employment Tax Credit	120.2
Scientific Research and Experimental Development Tax Credit	82.0

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

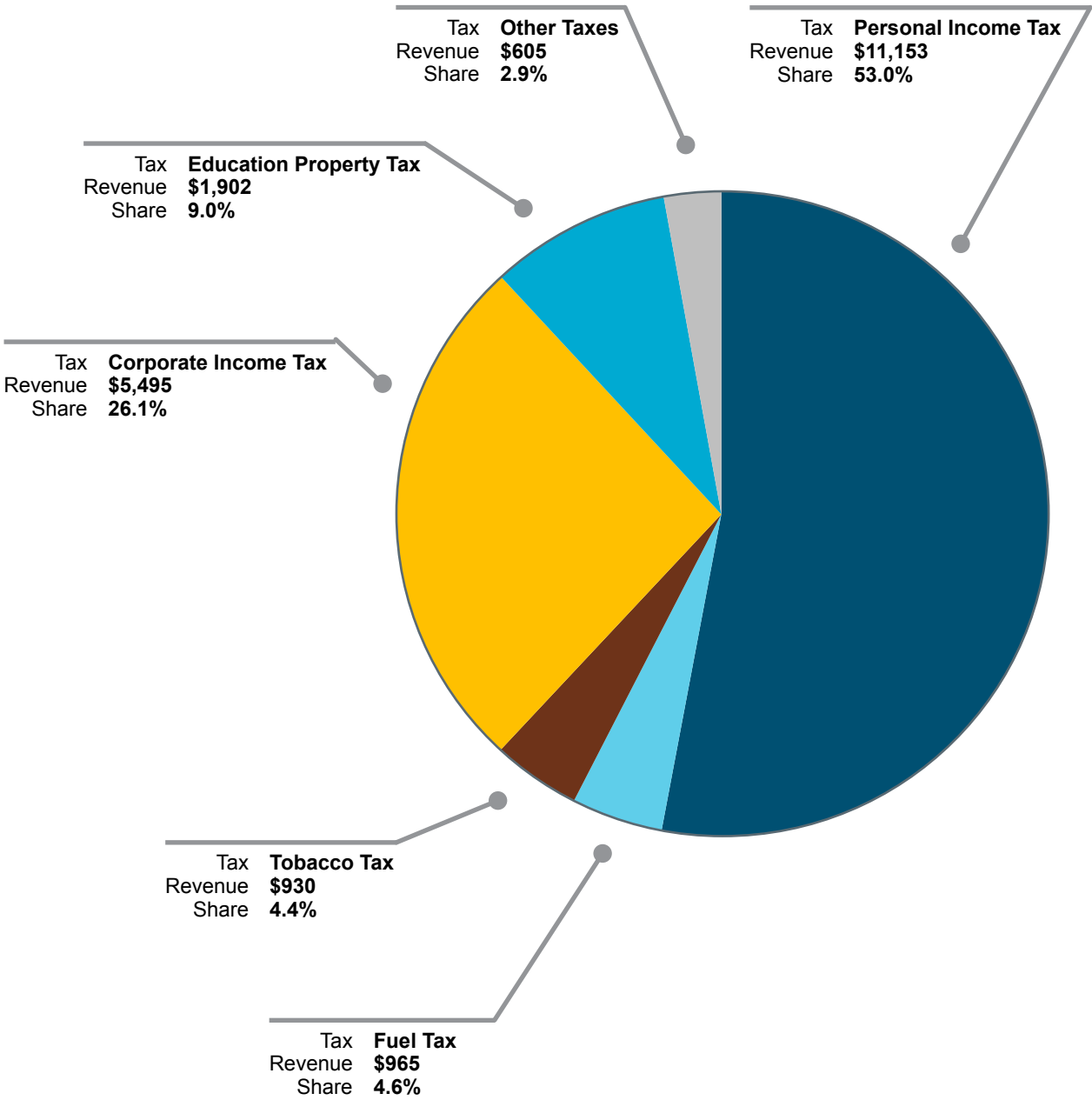
^a It is unlikely that the basic personal amount would be eliminated without the concurrent elimination of the spousal and eligible dependant amounts. The estimated fiscal impact of eliminating all three would be about \$4.5 billion.

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

✧ ANNEX

2014–15 Tax Revenue

(millions of dollars)



Total Tax Revenue: \$21,050 million

2014–15 Revenue from Tax Sources

(millions of dollars)

Tax	Total Revenue	Tax Rate	Revenue per Unit of Tax
1. Personal Income Tax	11,153	10.0%	1,115.3 per point
2. Corporate Income Tax	5,495		
General	5,024	10.0%	502.4 per point
Small business	471	3.0%	157.0 per point
3. Education Property Tax^a	1,902		
Residential/farmland property	1,112	\$2.53 / \$1,000 of assessment	439.5 per mill
Non-residential property	790	\$3.72 / \$1,000 of assessment	212.4 per mill
4. Tobacco Tax	930	\$40/carton	23.3 per \$/carton
5. Fuel Tax	965		
Gasoline	567	9.0 ¢/litre	63 per ¢/litre
Diesel	375	9.0 ¢/litre	41.7 per ¢/litre
Propane	4	6.5 ¢/litre	0.6 per ¢/litre
Aviation	14	1.5 ¢/litre	9.3 per ¢/litre
Railway	5	1.5 ¢/litre	3.3 per ¢/litre
6. Freehold Mineral Rights Tax	134		n/a
7. Insurance Tax	381		
Life, accident, sickness	107	2.0% of premium	53.5 per point
Other	274	3.0% of premium	91.3 per point
8. Tourism Levy	90	4.0%	22.5 per point

^a Does not include \$204 million raised for opted-out school boards.

Interprovincial Tax and Health Premium Comparison, 2014

(dollars)

	AB	BC	SK	MB	ON	QC	NB	NS	PE	NL
Employment Income of \$35,000 – One Income Family with Two Children										
Provincial income tax	(1,398)	732	(585)	853	(1,320)	(3,897)	826	1,719	1,936	1,342
Provincial sales tax	-	779	1,058	1,262	129	1,520	1,562	1,905	1,537	1,540
Health premium	-	461	-	-	225	100	-	-	-	-
Payroll tax	-	-	-	307	359	859	-	-	-	151
Fuel tax	270	635	450	420	441	576	408	465	393	495
Total	(1,128)	2,607	923	2,842	(166)	(842)	2,796	4,089	3,866	3,528
Alberta Advantage		3,735	2,051	3,970	962	286	3,924	5,217	4,994	4,656
Employment Income of \$75,000 – One Income Family with Two Children										
Provincial income tax	2,942	3,224	3,070	5,583	3,597	3,517	6,187	6,877	6,664	5,527
Provincial sales tax	-	1,647	1,575	1,867	2,260	2,308	2,283	2,817	2,546	2,311
Health premium	-	1,152	-	-	450	200	-	-	-	-
Payroll tax	-	-	-	658	770	1,840	-	-	-	324
Fuel tax	270	635	450	420	441	576	408	465	393	495
Total	3,212	6,658	5,095	8,528	7,518	8,441	8,878	10,159	9,603	8,657
Alberta Advantage		3,446	1,883	5,316	4,306	5,229	5,666	6,947	6,391	5,445
Employment Income of \$100,000 – Two Income Family with Two Children										
Provincial income tax	4,853	3,690	4,799	7,364	3,840	6,643	7,063	7,800	7,773	6,186
Provincial sales tax	-	2,108	1,971	2,355	3,034	2,989	2,926	3,618	3,258	2,963
Health premium	-	1,152	-	-	675	300	-	-	-	-
Payroll tax	-	-	-	877	1,027	2,453	-	-	-	432
Fuel tax	405	953	675	630	662	864	612	698	590	743
Total	5,258	7,903	7,445	11,226	9,238	13,249	10,601	12,116	11,621	10,324
Alberta Advantage		2,645	2,187	5,968	3,980	7,991	5,343	6,858	6,363	5,066
Employment Income of \$200,000 – Two Income Family with Two Children										
Provincial income tax	13,275	11,324	15,617	20,316	13,905	21,788	19,863	21,513	20,873	17,055
Provincial sales tax	-	3,788	3,453	4,120	5,324	5,591	5,114	6,305	5,705	5,233
Health premium	-	1,152	-	-	1,013	400	-	-	-	-
Payroll tax	-	-	-	1,754	2,053	4,906	-	-	-	864
Fuel tax	405	953	675	630	662	864	612	698	590	743
Total	13,680	17,217	19,745	26,820	22,957	33,549	25,589	28,516	27,168	23,895
Alberta Advantage		3,537	6,065	13,140	9,277	19,869	11,909	14,836	13,488	10,215

Calculations are based on other provinces' tax parameters known as of February 21, 2014. The "Alberta Advantage" represents the additional taxes that the respective Alberta families would pay if subject to the tax system of another province.

Assumptions:

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

Major Provincial Tax Rates, 2014

		AB	BC	SK	MB	ON	QC	NB	NS	PE	NL
Personal Income Tax											
Statutory rate range											
- lowest rate	(%)	10.00	5.06	11.00	10.80	5.05	16.00 ^a	9.68	8.79	9.80	7.70
- highest rate	(%)	10.00	16.80	15.00	17.40	13.16	25.75 ^a	17.84	21.00	16.70	13.30
Surtax	(%)	-	-	-	-	20/36 ^b	-	-	-	10.00	-
Combined federal/provincial top marginal rate ^c	(%)	39.00	45.80	44.00	46.40	49.53	49.97	46.84	50.00	47.37	42.30
Personal amount	(\$)	17,787	9,869	15,378	9,134	9,670	11,305	9,472	8,481	7,708	8,578
Spousal amount	(\$)	17,787	8,450	15,378	9,134	8,221	11,305	8,043	8,481	6,546	7,009
Corporate Income Tax											
General rate	(%)	10.0	11.0	12.0	12.0	11.5	11.9	12.0	16.0	16.0	14.0
M&P rate	(%)	10.0	11.0	10.0	12.0	10.0	11.9	12.0	16.0	16.0	5.0
Small business											
- rate	(%)	3.0	2.5	2.0	0.0	4.5	8.0	4.5	3.0	4.5	4.0
- threshold	(\$000)	500	500	500	425	500	500	500	350	500	500
Capital Tax											
Financial institutions	(max.%)	-	-	3.25	5.00	-	-	4.00	4.00	5.00	4.00
Sales Tax	(%)	-	7.0	5.0	8.0	8.0	9.975	8.0	10.0	9.0	8.0
Gasoline Tax	(¢/litre)	9.0	21.2 ^d	15.0	14.0	14.7 ^f	19.2 ^{e,f}	13.6 ^f	15.5 ^f	13.1 ^f	16.5 ^f
Tobacco Tax	(\$/carton)	40.00	47.80 ^g	50.00 ^f	58.00 ^f	24.70 ^f	25.80	38.00 ^f	47.04 ^f	45.00 ^f	41.00 ^f
Payroll Tax	(max.%)	-	-	-	2.15	1.95	4.26 ^h	-	-	-	2.00

Rates for other provinces known as of February 21, 2014.

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

^b Ontario levies a two-tiered surtax, collecting 20% of basic tax over \$4,331 and an additional 36% of basic tax over \$5,543.

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

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

^e An additional 3¢/litre is imposed in the Montreal area and a net discount of 3.7¢/litre applies in the Gaspé and Magdalen Islands.

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

^g British Columbia's tobacco tax rate will rise from \$44.60 per carton to \$47.80 per carton on April 1, 2014.

^h Quebec levies an additional tax of up to 2.8% on salaries and wages paid by financial institutions that is not included in this rate.

FISCAL PLAN TABLES

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

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

Fiscal Plan Summary – Operational Plan^a

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
1 Total Revenue	38,635	38,736	44,732	44,354	45,898	48,697
Less:						
2 Revenue received for capital purposes	(504)	(522)	(520)	(560)	(450)	(408)
3 Investment income retained by Heritage Fund	(161)	(297)	(237)	(297)	(390)	(632)
4 Saving of resource revenue	-	-	-	-	(466)	(518)
5 Allocation for Capital Plan debt servicing costs	(141)	(238)	(233)	(421)	(632)	(820)
6 Operational Revenue	37,829	37,679	43,742	43,076	43,960	46,319
Operational Expense						
7 Operating expense (net of in-year savings)	36,154	36,356	37,118	38,477	39,948	40,920
8 Endowment fund / account expense	172	190	192	243	274	297
9 Disaster / emergency assistance	596	200	3,693	355	261	206
10 Amortization / inventory consumption / loss on disposals	971	982	985	997	1,062	1,111
11 General debt servicing costs	371	402	362	360	390	552
12 Total Operational Expense	38,264	38,130	42,349	40,432	41,936	43,087
13 Operational Surplus / (Deficit)	(435)	(451)	1,393	2,644	2,024	3,232
Cash Adjustments - Sources / (Requirements)						
14 Retained income of funds and agencies	(586)	(796)	(1,123)	(908)	(877)	(887)
15 Energy royalties	(294)	(1,137)	232	(295)	(375)	(425)
16 Student loans	(267)	(287)	(249)	(239)	(226)	(224)
17 Inventory acquisition	(176)	(163)	(146)	(184)	(145)	(167)
18 Other cash adjustments	(127)	(127)	2	(453)	(174)	(216)
19 Current principal repayments (P3s / direct borrowing) ^b	(30)	(34)	(34)	(39)	(42)	(51)
20 Allocation for future principal repayments (direct borrowing)	-	(40)	(34)	(106)	(210)	(290)
21 2013 Alberta flood assistance revenue / expense	-	-	77	(304)	122	244
22 Amortization / inventory consumption (non-cash expense)	890	982	957	994	1,063	1,111
23 Net Cash Adjustments	(590)	(1,602)	(318)	(1,534)	(864)	(905)
24 Net Cash Sources / (Requirements) (line 13 plus line 23)	(1,025)	(2,053)	1,075	1,110	1,160	2,327
Contingency Account						
25 Balance at Start of Year	7,497	2,744	3,326	4,657	5,000	5,000
26 Prior-year fourth quarter results	1,308	-	256	-	-	-
27 Cash to be transferred next year	(256)	-	-	-	-	-
28 Transfer - net cash sources / (requirements)	(1,025)	(2,053)	1,075	1,110	1,160	2,327
29 Transfer to Capital Plan	(4,198)	-	-	-	-	-
30 Cash available for Capital Plan / Savings Plan	-	-	-	(767)	(1,160)	(2,327)
31 Balance at End of Year	3,326	691	4,657	5,000	5,000	5,000

^a For fiscal policy purposes under the *Fiscal Management Act*. Does not include revenue and expense of Crown-controlled SUCH sector organizations or Alberta Innovates corporations, or changes in pension liabilities. Amounts in 2012-13 and 2013-14 have been restated on the 2014-15 basis. 2013-14 Budget revenue and operating expense have been increased by \$120 million, reflecting changed accounting policy for an allowance for doubtful accounts for corporate income tax, now included in expense instead of being deducted from revenue (this change was incorporated in preparing the *Government of Alberta 2012-13 Annual Report*). 2012-13 Actual and 2013-14 Budget revenue and operating expense have been increased by \$4 million reflecting federal revenue and associated expense for French language programs being recognized instead of being treated as a payment based on agreement. 2012-13 Actual revenue and operating expense have been increased by \$37 million, reflecting accounting standards that require crude oil marketing and transportation costs to be included in expense rather than being netted off crude oil royalty revenue.

^b P3s are public-private partnerships.

Fiscal Plan Summary – Capital Plan

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
1 Capital Plan Spending	5,088	5,209	5,445	6,599	6,648	5,997
Capital Plan Financing						
2 Revenue received for capital purposes	504	522	520	560	450	408
3 Retained income of funds and agencies for capital purposes	24	84	56	169	152	67
4 Disposals of capital assets / other	84	2	28	14	10	-
5 Alternative financing (P3s)	255	344	353	206	279	463
6 Transfer from Contingency Account / operational cash	4,198	-	-	767	1,160	2,327
7 Direct borrowing	925	3,190	3,586	4,883	4,597	2,732
8 Withdrawal from Capital Plan financing account	-	1,067	902	-	-	-
9 Deposit to Capital Plan financing account	(902)	-	-	-	-	-
10 Total Capital Plan Financing	5,088	5,209	5,445	6,599	6,648	5,997
11 Capital Plan Financing Account Year-end Balance	902	-	-	-	-	-
Capital Plan Debt Management						
Debt Servicing Costs						
12 For pre-2012-13 direct capital borrowing / P3s	139	145	145	141	126	137
13 For 2012-13 and future year direct capital borrowing	2	93	88	280	506	683
14 Total Capital Plan Debt Servicing Costs	141	238	233	421	632	820
15 Funded by transfer from revenue	(141)	(238)	(233)	(421)	(632)	(820)
Principal Repayment Plan						
16 Current principal repayments (P3s / direct borrowing)	30	34	34	944	42	51
17 Annual allocation for future principal repayments	-	40	34	106	210	290
18 Total Allocation for Principal Repayments	30	74	68	1,050	252	341
19 Funded by cash adjustments	(30)	(74)	(68)	(145)	(252)	(341)
20 Re-financing of maturing debt	-	-	-	(905)	-	-
21 Total Funding of Principal Repayments	(30)	(74)	(68)	(1,050)	(252)	(341)
22 Capital Debt Repayment Account Year-end Balance	-	40	34	140	350	640

Fiscal Plan Summary – Savings Plan

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Contingency Account						
1 Balance at Start of Year	7,497	2,744	3,326	4,657	5,000	5,000
2 Deposits (year-end results / resource revenue {NRR} saving)	1,052	-	1,331	343	1,160	2,327
3 Withdrawals (for net cash requirements / to Capital Plan)	(5,223)	(2,053)	-	-	(1,160)	(2,327)
4 Withdrawals (NRR saving to Heritage Fund)	-	-	-	-	-	-
5 Balance at End of Year	3,326	691	4,657	5,000	5,000	5,000
Alberta Heritage Savings Trust Fund						
6 Balance at Start of Year	14,652	14,872	14,813	14,850	15,147	16,003
7 Deposit of inflation-proofing / net investment income	149	274	219	297	390	632
8 Deposit of non-renewable resource revenue saving	-	-	-	-	466	518
9 Endowment account (EA) deposits / (withdrawals) - line 24	12	23	18	(62)	(85)	(109)
10 EA withdrawals funded from transferred HF income	-	-	-	62	85	109
11 Balance at End of Year	14,813	15,169	15,050	15,147	16,003	17,153
Endowment Accounts within the Heritage Fund:						
Advanced education account						
12 Book / market value at start of year (MV beginning in 2014-15)	1,139	1,151	1,151	1,351	1,397	1,445
13 Notional allocation of Heritage Fund inflation-proofing / return	12	23	18	98	102	105
14 Withdrawals transferred to Access to Future Fund	-	-	-	(53)	(54)	(55)
15 Book / net market value at end of year (MV in 2014-15)	1,151	1,174	1,169	1,397	1,445	1,495
Social innovation account						
16 Market value at start of year	-	-	-	500	1,036	1,089
17 Notional allocation of Heritage Fund return	-	-	-	36	75	79
18 Withdrawals for social policy innovation	-	-	-	-	(23)	(45)
19 Net market value at end of year	-	-	-	536	1,089	1,123
Agriculture and food innovation account						
20 Market value at start of year	-	-	-	200	206	212
21 Notional allocation of Heritage Fund return	-	-	-	15	15	15
22 Withdrawals for agriculture innovation	-	-	-	(9)	(9)	(9)
23 Net market value at end of year	-	-	-	206	212	218
24 Total endowment account deposits / (withdrawals)	12	23	18	(62)	(85)	(109)
Alberta Future Fund						
25 Market value at start of year	-	-	-	200	215	445
26 Additional deposits	-	-	-	-	200	200
27 Notional allocation of Heritage Fund return	-	-	-	15	30	47
28 Market value at end of year	-	-	-	215	445	692
Heritage Foundation for Medical Research						
29 Balance at Start of Year	1,255	1,277	1,283	1,365	1,394	1,418
30 Deposits (net investment income)	107	102	168	115	110	107
31 Withdrawals for research grants	(79)	(86)	(86)	(86)	(86)	(86)
32 Balance at End of Year	1,283	1,293	1,365	1,394	1,418	1,439
Heritage Science and Engineering Research						
33 Balance at Start of Year	721	735	739	793	824	852
34 Deposits (net investment income)	61	58	97	66	63	62
35 Withdrawals for research grants	(43)	(43)	(43)	(35)	(35)	(35)
36 Balance at End of Year	739	750	793	824	852	879
Heritage Scholarship Fund						
37 Balance at Start of Year	715	734	737	993	1,024	1,046
38 Deposits (net investment income)	60	55	94	69	69	70
39 Withdrawals for scholarship / labour force programs	(38)	(36)	(38)	(38)	(47)	(47)
40 Balance at End of Year	737	753	793	1,024	1,046	1,069
Cancer Prevention Legacy Fund						
41 Balance at Start of Year	492	505	505	500	489	478
42 Deposits (net investment income)	25	14	20	14	14	14
43 Withdrawals for cancer prevention research	(12)	(25)	(25)	(25)	(25)	(25)
44 Balance at End of Year	505	494	500	489	478	467
45 Total Savings Plan Year-end Balances	21,403	21,403	23,158	23,878	24,797	26,007

✧ OPERATIONAL PLAN

Revenue

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Taxes						
Personal income tax	9,621	10,001	10,532	11,153	11,930	12,705
Corporate income tax	4,756	4,943	5,221	5,495	5,656	6,115
Education property tax	1,776	1,835	1,857	1,902	2,034	2,067
Tobacco tax	912	920	925	930	940	950
Fuel tax	897	900	940	965	995	1,025
Insurance taxes	334	333	355	381	408	437
Freehold mineral rights tax	119	152	126	134	127	124
Tourism levy	82	85	85	90	95	100
	18,498	19,169	20,042	21,050	22,185	23,523
Non-Renewable Resource Revenue						
Bitumen royalty	3,560	3,367	4,774	5,579	5,962	7,040
Crude oil royalty	1,918	1,615	2,311	2,019	1,852	1,676
Natural gas and by-products royalty	954	965	802	823	779	595
Bonuses and sales of Crown leases	1,053	1,148	557	623	584	622
Rentals and fees	176	145	170	153	137	124
Coal royalty	(3)	10	13	12	13	13
	7,659	7,250	8,627	9,209	9,327	10,070
Transfers from Government of Canada						
Canada Health Transfer	2,364	2,597	2,558	3,731	4,006	4,285
Canada Social Transfer	1,315	1,374	1,410	1,463	1,526	1,586
Agriculture support programs	279	319	309	332	327	328
Labour market agreements	177	174	186	119	119	119
Infrastructure support	372	371	344	348	306	269
2013 Alberta flood assistance	-	-	2,644	-	-	-
Other	298	286	294	241	230	231
	4,804	5,120	7,746	6,234	6,514	6,818
Investment Income						
Alberta Heritage Savings Trust Fund	1,464	1,368	2,154	1,604	1,456	1,429
Endowment Funds	261	234	384	277	270	269
Alberta Capital Finance Authority	262	279	274	278	301	452
Contingency Account	307	63	80	110	130	165
Agriculture Financial Services Corporation	111	124	115	124	150	190
Other	88	77	88	79	84	91
	2,493	2,145	3,095	2,472	2,391	2,596
Net Income from Government Business Enterprises						
AGLC - Gaming / lottery	1,485	1,484	1,487	1,483	1,530	1,568
AGLC - Liquor	729	718	728	745	764	782
Alberta Treasury Branches	245	250	295	310	339	403
Other	26	26	27	28	33	34
	2,485	2,478	2,537	2,566	2,666	2,787
Premiums, Fees and Licences						
Motor vehicle licences	467	485	491	515	525	544
Crop, hail and livestock insurance premiums	314	313	374	343	346	352
Energy industry levies	159	203	218	260	261	261
Land titles	82	85	84	88	91	95
Land and grazing	76	69	69	69	69	69
Supplementary health benefits premiums	53	53	53	53	53	53
Other	374	364	388	416	438	468
	1,525	1,572	1,678	1,744	1,783	1,842
Other						
AIMCo investment management charges	223	167	217	225	235	246
Fines and penalties	136	126	137	136	141	147
Refunds of expense	246	122	149	141	128	128
Climate change and emissions management	94	60	60	60	60	60
Miscellaneous	472	528	444	521	467	480
	1,171	1,003	1,007	1,083	1,031	1,061
Total Revenue	38,635	38,736	44,732	44,354	45,898	48,697

Operational Expense

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Investing in Families and Communities						
Culture	179	166	178	177	183	188
Health	16,863	17,461	17,666	18,294	18,854	19,397
Human Services	3,797	3,807	3,882	4,095	4,263	4,349
Justice and Solicitor General	1,276	1,279	1,286	1,332	1,334	1,351
Municipal Affairs	465	491	485	485	493	494
Tourism, Parks and Recreation	182	180	182	193	198	196
Securing Alberta's Economic Future						
Education	6,179	6,223	6,322	6,522	6,853	6,978
Infrastructure	602	683	655	664	698	704
Innovation and Advanced Education	2,741	2,651	2,705	2,855	2,913	2,943
Jobs, Skills, Training and Labour	144	141	140	167	167	168
Service Alberta	304	297	297	286	280	281
Transportation	997	953	1,029	1,025	1,030	1,076
Treasury Board and Finance	1,442	1,405	1,455	1,402	1,439	1,480
Advancing World-leading Resource Stewardship						
Aboriginal Relations	159	173	173	201	211	205
Agriculture and Rural Development	1,132	863	821	945	1,023	1,084
Energy	472	477	665	701	733	616
Environment and Sustainable Resource Development	772	498	634	559	566	576
International and Intergovernmental Relations	29	37	36	39	40	40
Other						
Executive Council	40	48	48	51	51	51
Legislative Assembly	121	124	117	126	156	151
Unallocated disaster/emergency assistance	-	171	-	198	200	200
Less in-year savings	-	(400)	(337)	(400)	(200)	-
	37,893	37,728	38,437	39,917	41,485	42,529
General debt servicing costs	371	402	362	360	390	552
2013 Alberta flood assistance	-	-	3,550	155	61	6
Total Operational Expense	38,264	38,130	42,349	40,432	41,936	43,087

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

Endowment Fund / Account Expense

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Endowment Funds						
Heritage Foundation for Medical Research	79	86	86	86	86	86
Heritage Science and Engineering Research	43	43	43	35	35	35
Heritage Scholarship Fund	38	36	38	38	47	47
Endowment Accounts						
Social Innovation	-	-	-	-	23	45
Agriculture and Food Innovation	-	-	-	9	9	9
Other Funds						
Access to the Future Fund	-	-	-	50	50	50
Cancer Prevention Legacy Fund	12	25	25	25	25	25
Total Endowment Fund / Account Expense	172	190	192	243	274	297

Operating Expense

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Investing in Families and Communities						
Culture	176	162	174	173	179	184
Health	16,704	17,286	17,495	18,113	18,670	19,208
Human Services	3,782	3,795	3,870	4,083	4,229	4,293
Justice and Solicitor General	1,255	1,254	1,260	1,308	1,310	1,327
Municipal Affairs	392	433	418	454	462	462
Tourism, Parks and Recreation	164	162	163	175	179	178
Securing Alberta's Economic Future						
Education	6,153	6,209	6,300	6,505	6,821	6,932
Infrastructure	481	505	507	513	516	527
Innovation and Advanced Education	2,656	2,567	2,620	2,726	2,774	2,802
Jobs, Skills, Training and Labour	144	141	140	167	167	167
Service Alberta	242	243	240	235	229	230
Transportation	471	478	524	513	507	523
Treasury Board and Finance	1,431	1,382	1,437	1,381	1,416	1,454
Advancing World-leading Resource Stewardship						
Aboriginal Relations	159	173	173	201	211	205
Agriculture and Rural Development	850	846	803	917	997	1,057
Energy	450	454	642	678	710	593
Environment and Sustainable Resource Development	457	459	491	521	527	538
International and Intergovernmental Relations	29	37	36	39	40	40
Other						
Executive Council	40	48	48	51	51	51
Legislative Assembly	119	122	114	124	154	149
Less in-year savings	-	(400)	(337)	(400)	(200)	-
Total Operating Expense	36,154	36,356	37,118	38,477	39,948	40,920

Disaster / Emergency Assistance

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Agriculture and Rural Development	266	2	2	2	-	-
Environment and Sustainable Resource Development	285	-	105	-	-	-
Municipal Affairs	45	27	36	-	-	-
Unallocated	-	171	-	198	200	200
Total – excluding 2013 Alberta flood assistance	596	200	143	200	200	200
2013 Alberta flood assistance						
Aboriginal Relations	-	-	193	5	-	-
Agriculture and Rural Development	-	-	1	17	13	-
Culture	-	-	4	7	6	2
Education	-	-	-	15	15	-
Environment and Sustainable Resource Development	-	-	2	13	7	4
Health	-	-	-	25	-	-
Human Services	-	-	68	8	-	-
Infrastructure	-	-	148	35	1	1
Innovation and Advanced Education	-	-	3	-	-	-
Municipal Affairs	-	-	3,124	28	19	-
Tourism, Parks and Recreation	-	-	1	-	-	-
Transportation	-	-	6	-	-	-
Total 2013 Alberta flood assistance	-	-	3,550	155	61	6
Total Disaster / Emergency Assistance	596	200	3,693	355	261	206

General Debt Servicing Costs

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Agriculture and Rural Development						
Agriculture Financial Services Corporation	67	75	69	73	80	91
Municipal Affairs - Alberta Social Housing Corporation	14	12	12	10	8	6
Treasury Board and Finance - general government	290	315	281	277	302	455
Total General Debt Servicing Costs	371	402	362	360	390	552

Amortization

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Investing in Families and Communities						
Culture	2	3	3	3	3	3
Health	16	17	17	18	20	24
Human Services	10	11	11	11	11	11
Justice and Solicitor General	21	25	25	24	24	24
Municipal Affairs	27	30	30	31	31	31
Tourism, Parks and Recreation	17	18	18	18	18	18
Securing Alberta's Economic Future						
Education	4	3	3	16	32	47
Infrastructure	87	102	102	101	107	120
Innovation and Advanced Education	5	5	5	6	8	10
Service Alberta	50	45	45	44	44	44
Transportation	415	435	435	459	472	503
Treasury Board and Finance	11	22	17	21	23	25
Advancing World-leading Resource Stewardship						
Agriculture and Rural Development	16	16	16	17	18	18
Energy	21	23	23	23	23	23
Environment and Sustainable Resource Development	29	37	37	37	37	37
Other						
Legislative Assembly	2	1	3	1	1	1
Total Amortization Expense	733	795	792	832	875	941

Inventory Consumption

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Investing in Families and Communities						
Culture	1	1	1	1	1	1
Health	40	47	40	52	53	54
Human Services	-	1	1	1	1	1
Securing Alberta's Economic Future						
Education	22	11	13	-	-	-
Infrastructure	32	77	47	50	75	56
Service Alberta	11	9	12	6	6	6
Transportation	51	40	50	50	50	50
Treasury Board and Finance	-	1	1	1	1	1
Advancing World-leading Resource Stewardship						
Environment and Sustainable Resource Development	1	1	1	1	1	1
Total Inventory Consumption	157	187	165	162	188	170

Inventory Acquisition

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Investing in Families and Communities						
Culture	1	1	1	1	1	1
Health	43	47	46	52	53	54
Human Services	1	1	1	1	1	1
Securing Alberta's Economic Future						
Education	22	12	14	-	-	-
Infrastructure	46	52	22	73	33	53
Service Alberta	11	9	12	6	6	6
Transportation	51	40	50	50	50	50
Advancing World-leading Resource Stewardship						
Environment and Sustainable Resource Development	2	1	1	1	1	1
Total Inventory Acquisition	176	163	146	184	145	167

Cash Adjustments^a

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Retained Income of Funds and Agencies						
Alberta Treasury Branches	(245)	(250)	(295)	(310)	(339)	(403)
Agriculture Financial Services Corporation	(78)	(364)	(467)	(376)	(310)	(278)
Access to the Future Fund	(52)	(54)	(53)	(5)	(5)	(6)
Heritage Foundation for Medical Research Endowment Fund	(28)	(16)	(82)	(29)	(24)	(21)
Heritage Science and Engineering Research Endowment Fund	(18)	(15)	(54)	(31)	(28)	(27)
Heritage Scholarship Fund	(22)	(19)	(56)	(31)	(22)	(23)
Alberta School Foundation Fund	18	9	8	9	-	-
Alberta Capital Finance Authority	(60)	(26)	(54)	(62)	(55)	(51)
Alberta Cancer Prevention Legacy Fund	12	12	5	11	11	11
Other	(113)	(73)	(75)	(84)	(105)	(89)
Total Retained Income of Funds and Agencies	(586)	(796)	(1,123)	(908)	(877)	(887)
Other Cash Adjustments						
Energy royalties (difference between accrued revenue and cash)	(294)	(1,137)	232	(295)	(375)	(425)
Student loans	(267)	(287)	(249)	(239)	(226)	(224)
Inventory acquisition	(176)	(163)	(146)	(184)	(145)	(167)
Other cash adjustments	(127)	(127)	2	(453)	(174)	(216)
Current principal repayments (P3s / direct capital borrowing)	(30)	(34)	(34)	(39)	(42)	(51)
Allocation for future principal repayments (direct borrowing)	-	(40)	(34)	(106)	(210)	(290)
2013 Alberta flood assistance revenue	-	-	(1,644)	600	600	444
2013 Alberta flood assistance expense	-	-	1,721	(904)	(478)	(200)
Inventory consumption (non-cash expense)	157	187	165	162	188	170
Amortization (non-cash expense)	733	795	792	832	875	941
Total Other Cash Adjustments	(4)	(806)	805	(626)	13	(18)

^a Negative cash adjustments are a cash requirement; positive cash adjustments are a cash source.

Balance Sheet Details

(millions of dollars)

	At March 31				
	2013 Actual	2014 Forecast	2015 Estimate	2016 Target	2017 Target
Financial Assets					
Alberta Heritage Savings Trust Fund	14,813	15,050	15,147	16,003	17,153
Endowment funds:					
Alberta Heritage Foundation for Medical Research	1,283	1,365	1,394	1,418	1,439
Alberta Heritage Science and Engineering Research	739	793	824	852	879
Alberta Heritage Scholarship	737	793	1,024	1,046	1,069
Alberta Cancer Prevention Legacy Fund	505	500	489	478	467
Alberta Enterprise Corporation	99	98	98	98	98
Contingency Account	3,326	4,657	5,000	5,000	5,000
Self-supporting lending organizations:					
Alberta Capital Finance Authority	12,662	14,087	15,479	15,914	16,380
Agriculture Financial Services Corporation	3,317	3,930	4,538	5,151	5,716
Equity in commercial enterprises	2,986	3,381	3,807	4,233	4,713
Capital Plan Financing Account	902	-	-	-	-
Capital Plan Debt Repayment Account	-	34	140	350	640
Student loans	861	1,110	1,350	1,576	1,799
Other cash, inventory, marketable securities and accounts receivable	6,190	5,420	5,657	5,430	5,614
Total Financial Assets	48,420	51,218	54,947	57,549	60,967
Liabilities					
Pension liabilities	10,598	10,671	10,757	10,840	10,917
Self-supporting lending organizations:					
Alberta Capital Finance Authority	12,662	14,087	15,479	15,914	16,380
Agriculture Financial Services Corporation	2,045	2,132	2,409	2,721	3,016
Liabilities for capital projects:					
Alternative financing (P3s)	2,171	2,490	2,657	2,894	3,306
Direct borrowing	2,423	6,016	10,915	15,527	18,274
Debt issued to reduce pre-1992 Teachers' Pension Plan unfunded liability	1,187	1,187	943	943	944
Other debt, accounts and interest payable	4,872	5,206	4,706	4,155	3,918
Other accrued liabilities, including guarantees, indemnities and remissions	320	320	320	320	320
Total Liabilities	36,278	42,109	48,186	53,314	57,075
Net Financial Assets	12,142	9,109	6,761	4,235	3,892
Capital assets	21,488	24,113	27,462	30,846	33,775
Net Assets	33,630	33,222	34,223	35,081	37,667
Adjustment for pension liabilities	10,598	10,671	10,757	10,840	10,917
Net Assets for Fiscal Policy Purposes^a	44,228	43,893	44,980	45,921	48,584
Change in Net Assets	(2,842)	(335)	1,087	941	2,663

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

Pension Liabilities^a

(millions of dollars)

	At March 31					
	2013 Actual	2014 Budget	2014 Forecast	2015 Estimate	2016 Target	2017 Target
Teachers' Pension Plan - pre-1992 unfunded liabilities	8,014	8,084	8,148	8,000	7,840	7,670
Teachers' Pension Plan - post-1992 unfunded liabilities	560	620	548	578	610	636
Public Service Management (Closed) Pension Plan ^b	583	573	584	550	520	490
Local Authorities Pension Plan	494	588	600	760	920	1,080
Universities Academic Pension Plan	328	323	325	320	315	310
Management Employees Pension Plan	139	149	-	12	24	36
Special Forces Pension Plan	123	125	120	115	110	105
Public Service Pension Plan	250	290	300	380	460	550
Members of the Legislative Assembly Pension Plan ^b	45	44	44	42	41	40
Public Service Supplementary Retirement Plan	56	56	-	-	-	-
Supplementary Executive Retirement Plan	-	-	-	-	-	-
Provincial Judges and Masters in Chambers Pension Plan	6	6	2	-	-	-
Total Pension Liabilities	10,598	10,858	10,671	10,757	10,840	10,917

^a 2014 Budget column has been restated to reflect 2012-13 Actual results.

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

Financing Requirements

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Term debt borrowing for provincial corporations:						
Agriculture Financial Services Corporation	225	365	220	345	382	475
Alberta Capital Finance Authority	3,662	3,385	3,738	1,900	2,200	2,040
Alberta Treasury Branches	1,000	400	687	240	-	897
Alberta Petroleum Marketing Commission	-	-	100	100	100	-
Direct borrowing for capital purposes	925	3,190	3,586	4,883	4,597	2,732
Re-financing of maturing debt	-	-	-	905	-	-
Total Financing Requirements	5,812	7,340	8,331	8,373	7,279	6,144

Loans and Advances

(millions of dollars)

	At March 31	
	2013 Actual	2014 Forecast
Loans and Advances		
Agriculture Financial Services Act	1,815	2,058
Student Financial Assistance Act	974	1,254
Alberta Heritage Savings Trust Fund Act		
Ridley Grain Ltd.	161	156
Vencap Acquisition Corporation	3	-
Alberta Housing Act	21	21
Financial Administration Act accountable advances	6	6
Total Loans and Advances	2,980	3,495
Allowance for doubtful loans, advances, implemented guarantees and indemnities^a	(150)	(189)
Total Loans and Advances	2,830	3,306

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

Guarantees

(millions of dollars)

	At March 31	
	2013 Actual	2014 Forecast
Guarantees		
Alberta Housing Act	5	-
Feeder Associations	47	47
Agriculture Financial Services Act	2	2
Securities Act	2	2
Total Guarantees	56	51

2014–15 Allocation of Lottery Fund Revenue

(thousands of dollars)

Lottery Fund Revenue ^a	1,485,550		
Aboriginal Relations		Human Services	
First Nations and Metis Relations	200	Family and Community Support Services	52,000
First Nations Development Fund	143,000	Fetal Alcohol Spectrum Disorder Initiatives	12,000
		Prevention of Family Violence and Bullying	6,500
		Training for Work	400
Agriculture and Rural Development		Jobs, Skills, Training and Labour	
Major Fairs and Exhibitions	22,140	Settlement and Integration	4,574
Agricultural Service Boards	11,600		
Agricultural Societies	8,670		
Agriculture Initiatives	1,450		
		Justice and Solicitor General	
Culture		Assistance to the Human Rights Education and Multiculturalism Fund	1,735
Community Facility Enhancement Program	38,000		
Assistance to the Alberta Foundation for Arts	28,050	Tourism, Parks and Recreation	
Community Initiatives Program	25,750	Assistance to the Alberta Sport, Recreation, Parks and Wildlife Foundation	18,810
Alberta Media Fund	24,910	Parks Operations	10,000
Assistance to the Alberta Historical Resources Foundation	9,190		
Other Initiatives	2,100	Transportation	
		Provincial Highway Preservation	40,000
Education		Treasury Board and Finance	
Transportation	250,000	Horse Racing and Breeding Renewal Program	26,000
		Bingo Associations	6,000
Environment and Sustainable Resource Development		Gaming Research	1,600
Integrated Planning	500		
Health			
Alberta Health Services - Community and Population Health Services	740,371		
		Total Lottery Fund Allocation	1,485,550

^a Includes \$3 million of Lottery Fund interest income.

Full-Time Equivalents ^a

	2013-14 Budget	2014-15 Estimate	Change	Main reasons for change
Investing in Families and Communities				
Culture	486	499	13	Royal Alberta Museum
Health	1,103	1,109	6	Ministry support services
Human Services	6,186	6,188	2	Ministry support services
Justice and Solicitor General	6,682	6,893	211	Correctional officers / sheriffs
Municipal Affairs	535	683	148	Flood recovery / ASHC
Tourism, Parks and Recreation	582	594	12	Parks operations
	15,574	15,966	392	
Securing Alberta's Economic Future				
Education	649	648	(1)	Ministry support services
Infrastructure	934	956	22	Property operations for Federal Building
Innovation and Advanced Education	687	725	38	Student aid and innovation programs
Jobs, Skills, Training and Labour	568	612	44	Labour / training programs
Service Alberta	1,372	1,370	(2)	Ministry support services
Transportation	803	803	-	
Treasury Board and Finance	1,390	1,473	83	AIMCo / APSC / ASC
	6,403	6,587	184	
Advancing World-leading Resource Stewardship				
Aboriginal Relations	164	199	35	Aboriginal Consultation Office
Agriculture and Rural Development	1,620	1,631	11	Growing Forward 2 Agreement
Energy	1,975	2,076	101	Alberta Energy Regulator
Environment and Sustainable Resource Development	2,434	2,640	206	Integrated Resource Management System
International and Intergovernmental Relations	203	210	7	Ministry support services
	6,396	6,756	360	
Other				
Executive Council	366	366	-	
Legislative Assembly	648	714	66	Legislative Assembly Office
Total Full-Time Equivalent Employment	29,387	30,389	1,002	

^a 2013-14 Budget numbers have been restated on the 2014-15 basis.

✧ CAPITAL PLAN

Capital Plan

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target	3-Year Total
Investing in Families and Communities							
Culture	73	54	54	48	41	41	130
Health	90	104	87	111	197	186	494
Human Services	8	9	9	6	6	6	18
Infrastructure (health facilities)	431	576	394	817	755	665	2,237
Justice and Solicitor General	112	87	59	135	54	18	207
Municipal Affairs	1,396	1,441	1,402	1,561	1,561	1,524	4,646
Tourism, Parks and Recreation	15	19	19	20	17	16	53
Transportation (municipal support)	246	230	241	277	220	200	697
Securing Alberta's Economic Future							
Education	313	564	659	624	608	609	1,841
Infrastructure	241	214	307	305	303	265	873
Innovation and Advanced Education	82	68	70	246	248	248	742
Jobs, Skills, Training and Labour	-	1	2	1	1	1	3
Service Alberta	28	41	53	49	37	33	119
Transportation	1,680	1,409	1,494	1,696	1,860	1,769	5,325
Treasury Board and Finance	44	29	29	27	21	11	59
Advancing World-leading Resource Stewardship							
Agriculture and Rural Development	48	34	39	40	39	39	118
Energy	130	197	153	175	323	71	569
Environment and Sustainable Resource Development	148	126	130	94	73	77	244
Other							
Legislative Assembly	3	5	5	4	2	2	8
2013 Alberta flood assistance							
Culture	-	-	1	2	-	-	2
Education	-	-	22	25	-	-	25
Environment and Sustainable Resource Development	-	-	176	26	3	-	29
Infrastructure	-	-	6	24	26	15	65
Municipal Affairs	-	-	9	32	-	-	32
Tourism, Parks and Recreation	-	-	2	9	-	-	9
Transportation	-	-	25	46	51	-	97
Mitigation Projects (not yet allocated by Ministry)	-	-	-	200	200	200	600
Total Capital Plan	5,088	5,209	5,445	6,599	6,648	5,997	19,244

Revenue Received for Capital Purposes

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Federal Transfers:						
Gas Tax Fund	199	200	200	209	209	219
Building Canada	102	80	65	21	46	30
Canada ecoTrust for Clean Air and Climate Change	21	36	23	12	-	-
Other	50	56	57	106	51	20
Total Federal Transfers	372	372	345	348	306	269
Climate Change and Emissions Management Fund	70	60	60	60	60	60
Land Stewardship Fund	23	5	21	5	5	5
Other	39	85	94	147	79	74
Total Revenue Received for Capital Purposes	504	522	520	560	450	408

Retained Income of Funds and Agencies for Capital Purposes

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Agriculture Financial Services Corporation	-	9	6	9	8	8
Alberta Social Housing Corporation	31	45	23	117	91	20
Alberta Pensions Services Corporation	-	16	15	18	12	-
Land Stewardship Fund	(7)	-	(6)	-	-	-
Other funds and agencies	-	14	18	25	41	39
Total Retained Income of Funds and Agencies	24	84	56	169	152	67

Capital Plan Debt Servicing Costs

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Education - Alberta Schools Alternative Procurement P3s	26	27	27	30	30	30
Transportation - ring road P3s	62	67	67	72	71	83
Treasury Board and Finance - direct borrowing	53	144	139	319	531	708
Total Capital Plan Debt Servicing Costs	141	238	233	421	632	820
Limit: 3% of 3-year average of Operational Revenue	n.a.	1,137	1,198	1,246	1,308	1,334

^a P3s are public-private partnerships

Capital Assets

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Net book value at start of the year	20,294	21,609	21,488	24,113	27,462	30,846
Additions	2,011	2,866	2,960	4,185	4,259	3,870
Addition of SUCH sector assets	-	485	485	-	-	-
Amortization	(733)	(795)	(792)	(832)	(875)	(941)
Net book value of capital asset disposals	(84)	(3)	(28)	(4)	-	-
Net Book Value at End of Year	21,488	24,162	24,113	27,462	30,846	33,775

Liabilities for Capital Projects

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Opening balance	3,442	4,774	4,594	8,506	13,572	18,421
Alternative financing (P3s)	255	344	353	206	279	463
Direct borrowing	925	3,190	3,586	4,883	4,597	2,732
Re-financing of maturing debt	-	-	-	905	-	-
Principal repayment / amortization of issue costs	(28)	(32)	(27)	(928)	(27)	(36)
Total Liabilities for Capital Projects	4,594	8,276	8,506	13,572	18,421	21,580

Principal Repayments

(millions of dollars)

	2012-13 Actual	2013-14 Budget	2013-14 Forecast	2014-15 Estimate	2015-16 Target	2016-17 Target
Education - Alberta Schools Alternative Procurement P3s	9	10	10	12	13	13
Infrastructure - Evan Thomas water treatment P3	-	-	-	-	1	1
Treasury Board and Finance - direct borrowing	-	-	-	905	-	-
Transportation - ring road P3s	21	24	24	27	28	37
Total Current Principal Repayments	30	34	34	944	42	51
Annual allocation for future principal repayments	-	40	34	106	210	290
Total Current / Future Principal Repayments	30	74	68	1,050	252	341

✧ QUARTERLY FORECASTS

Revenue

(millions of dollars)

	2014-15 Estimate	3 Month Budget	6 Month Budget	9 Month Budget
Taxes				
Personal income tax	11,153	2,729	5,497	8,304
Corporate income tax	5,495	1,347	2,712	4,095
Education property tax	1,902	457	913	1,370
Tobacco tax	930	233	475	708
Fuel tax	965	232	473	724
Insurance taxes	381	93	187	283
Freehold mineral rights tax	134	33	66	99
Tourism levy	90	22	49	70
	21,050	5,146	10,372	15,653
Non-Renewable Resource Revenue				
Bitumen royalty	5,579	1,385	2,773	4,151
Crude oil royalty	2,019	566	1,128	1,585
Natural gas and by-products royalty	823	216	387	583
Bonuses and sales of Crown leases	623	172	311	480
Rentals and fees	153	42	81	119
Coal royalty	12	3	6	9
	9,209	2,384	4,686	6,927
Transfers from Government of Canada				
Canada Health Transfer	3,731	933	1,866	2,799
Canada Social Transfer	1,463	366	731	1,097
Agriculture support programs	332	189	219	311
Labour market agreements	119	30	60	89
Infrastructure support	348	9	126	182
2013 Alberta flood assistance	-	-	-	-
Other	241	58	120	177
	6,234	1,585	3,122	4,655
Investment Income				
Alberta Heritage Savings Trust Fund	1,604	401	802	1,203
Endowment Funds	277	69	138	208
Alberta Capital Finance Authority	278	69	139	208
Contingency Account	110	28	55	83
Agriculture Financial Services Corporation	124	30	62	93
Other	79	20	39	59
	2,472	617	1,235	1,854
Net Income from Government Business Enterprises				
AGLC - Gaming / lottery	1,483	371	741	1,112
AGLC - Liquor	745	186	373	559
Alberta Treasury Branches	310	78	155	233
Other	28	7	15	21
	2,566	642	1,284	1,925
Premiums, Fees and Licences				
Motor vehicle licences	515	129	257	386
Crop, hail and livestock insurance premiums	343	301	338	340
Energy industry levies	260	248	248	260
Land titles	88	22	44	66
Land and grazing	69	17	34	51
Supplementary health benefits premiums	53	13	27	40
Other	416	108	216	315
	1,744	838	1,164	1,458
Other				
AIMCo investment management charges	225	56	112	169
Fines and penalties	136	34	68	102
Refunds of expense	141	33	67	99
Climate change and emissions management	60	15	30	45
Miscellaneous	521	183	285	392
	1,083	321	562	807
Total Revenue	44,354	11,533	22,425	33,279

Operating Expense

(millions of dollars)

	2014-15 Estimate	3 Month Budget	6 Month Budget	9 Month Budget
Investing in Families and Communities				
Culture	173	37	72	109
Health	18,113	4,408	8,937	13,449
Human Services	4,083	1,028	2,042	3,038
Justice and Solicitor General	1,308	415	725	1,007
Municipal Affairs	454	128	258	359
Tourism, Parks and Recreation	175	37	78	122
Securing Alberta's Economic Future				
Education	6,505	1,516	3,173	4,806
Infrastructure	513	131	254	378
Innovation and Advanced Education	2,726	665	1,397	2,042
Jobs, Skills, Training and Labour	167	33	81	132
Service Alberta	235	52	103	155
Transportation	513	114	255	386
Treasury Board and Finance	1,381	341	682	1,024
Advancing World-leading Resource Stewardship				
Aboriginal Relations	201	50	100	151
Agriculture and Rural Development	917	107	602	805
Energy	678	164	323	495
Environment and Sustainable Resource Development	521	130	260	390
International and Intergovernmental Relations	39	10	20	30
Other				
Executive Council	51	12	24	36
Legislative Assembly	124	34	61	88
Less: unallocated savings	(400)	-	-	-
Total Operating Expense	38,477	9,412	19,447	29,002

Amortization

(millions of dollars)

	2014-15 Estimate	3 Month Budget	6 Month Budget	9 Month Budget
Investing in Families and Communities				
Culture	3	1	2	2
Health	18	4	8	13
Human Services	11	3	5	8
Justice and Solicitor General	24	6	12	18
Municipal Affairs	31	8	16	23
Tourism, Parks and Recreation	18	5	9	14
Securing Alberta's Economic Future				
Education	16	1	2	10
Infrastructure	101	25	50	76
Innovation and Advanced Education	6	2	3	5
Service Alberta	44	10	20	31
Transportation	459	115	230	344
Treasury Board and Finance	21	5	10	15
Advancing World-leading Resource Stewardship				
Agriculture and Rural Development	17	4	8	13
Energy	23	6	11	17
Environment and and Sustainable Resource Development	37	9	19	28
Other				
Legislative Assembly	1	-	1	1
Total Amortization Expense	832	204	406	618

Endowment Fund / Account Expense

(millions of dollars)

	2014-15 Estimate	3 Month Budget	6 Month Budget	9 Month Budget
Agriculture and Rural Development	9	2	5	7
Health	111	23	74	94
Innovation and Advanced Education	123	11	20	107
Total Endowment Fund / Account Expense	243	36	99	208

Disaster / Emergency Assistance

(millions of dollars)

	2014-15 Estimate	3 Month Budget	6 Month Budget	9 Month Budget
Agriculture and Rural Development	2	-	1	1
Unallocated	198	-	-	-
Disaster / emergency assistance excluding 2013 Alberta flood	200	-	1	1
2013 Alberta flood assistance				
Aboriginal Relations	5	1	2	4
Agriculture and Rural Development	17	1	3	6
Culture	7	4	5	6
Education	15	4	8	11
Environment and Sustainable Resource Development	13	3	7	10
Health	25	-	8	15
Human Services	8	5	6	7
Infrastructure	35	9	18	26
Municipal Affairs	28	7	14	21
Total 2013 Alberta flood assistance	155	34	71	106
Total Disaster / Emergency Assistance	355	34	72	107

Inventory Consumption

(millions of dollars)

	2014-15 Estimate	3 Month Budget	6 Month Budget	9 Month Budget
Culture	1	-	-	1
Environment and and Sustainable Resource Development	1	-	1	1
Health	52	9	22	41
Human Services	1	-	-	1
Infrastructure	50	13	25	36
Service Alberta	6	1	3	4
Transportation	50	5	8	28
Treasury Board and Finance	1	-	-	-
Total Inventory Consumption	162	28	59	112

Debt Servicing Costs

(millions of dollars)

	2014-15 Estimate	3 Month Budget	6 Month Budget	9 Month Budget
General				
Agriculture and Rural Development - Agriculture Financial Services Corporation	73	18	36	54
Municipal Affairs - Alberta Social Housing Corporation	10	3	5	8
Treasury Board and Finance - general government	277	69	139	208
	360	90	180	270
Capital Plan				
Education - Alberta Schools Alternative Procurement P3s	30	7	14	22
Transportation - ring road P3s	72	18	36	54
Treasury Board and Finance - direct borrowing	319	80	160	239
	421	105	210	315
Total Debt Servicing Costs	781	195	390	585

Capital Plan

(millions of dollars)

	2014-15 Estimate	3 Month Budget	6 Month Budget	9 Month Budget
Investing in Families and Communities				
Culture	48	4	14	21
Health	111	9	33	57
Human Services	6	-	2	3
Infrastructure (health facilities)	817	96	226	426
Justice and Solicitor General	135	34	68	101
Municipal Affairs	1,561	899	1,140	1,348
Tourism, Parks and Recreation	20	4	7	12
Transportation (municipal support)	277	8	212	248
Securing Alberta's Economic Future				
Education	624	213	376	476
Infrastructure	305	32	80	187
Innovation and Advanced Education	246	201	220	243
Jobs, Skills, Training and Labour	1	-	-	-
Service Alberta	49	4	7	27
Transportation	1,696	288	890	1,337
Treasury Board and Finance	27	7	14	20
Advancing World-leading Resource Stewardship				
Agriculture and Rural Development	40	25	32	36
Energy	175	8	108	116
Environment and Sustainable Resource Development	94	24	47	71
Other				
Legislative Assembly	4	1	2	3
2013 Alberta flood assistance				
Culture	2	-	1	1
Education	25	6	13	19
Environment and Sustainable Resource Development	26	6	13	19
Infrastructure	24	5	11	18
Municipal Affairs	32	8	16	24
Tourism, Parks and Recreation	9	2	4	6
Transportation	46	12	24	36
Mitigation Projects (not yet allocated by Ministry)	200	-	-	-
Total Capital Plan	6,599	1,895	3,558	4,855

Inventory Acquisition

(millions of dollars)

	2014-15 Estimate	3 Month Budget	6 Month Budget	9 Month Budget
Investing in Families and Communities				
Culture	1	-	-	1
Health	52	5	18	34
Human Services	1	-	-	1
Securing Alberta's Economic Future				
Infrastructure	73	8	36	57
Service Alberta	6	1	3	4
Transportation	50	4	18	32
Advancing World-leading Resource Stewardship				
Environment and Sustainable Resource Development	1	-	1	1
Total Inventory Acquisition	184	18	76	130

RESPONSE TO THE AUDITOR GENERAL

- ✧ OCTOBER 2013
- ✧ JULY 2013
- ✧ FEBRUARY 2013

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RESPONSE TO THE AUDITOR GENERAL – OCTOBER 2013

The Auditor General reports on the scope and findings of the work carried out by the Office of the Auditor General. The following are the recommendations in the Auditor General's report titled *Report of the Auditor General of Alberta – October 2013* and the government's response to each of them.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>Health and Alberta Health Services – Infection Prevention and Control at Alberta Hospitals</p> <p>1. Oversight and Accountability for Infection Prevention and Control</p> <p>We recommend that the Department of Health:</p> <ul style="list-style-type: none"> determine clear implementation responsibilities of each partner identified under the infection prevention and control strategy and the hand hygiene strategy improve its systems to monitor implementation progress and publicly report on the success of both strategies <p>2. Cleaning, Disinfection and Sterilization of Medical Devices</p> <p>We recommend that Alberta Health Services establish clear oversight and accountability for medical device reprocessing within and across zones to ensure consistent processes and accountability for reprocessing activities in Alberta.</p> <p>3. Prevention and Control of Antibiotic-Resistant Organisms</p> <p>We recommend that Alberta Health Services improve its systems to manage risk posed by antibiotic-resistant organisms at hospitals, by:</p> <ul style="list-style-type: none"> developing an evidence-informed approach for evaluating and aligning antibiotic-resistant organism policies and procedures in hospitals developing an approach to provide antibiotic stewardship in hospitals across the province 	<p>Accepted. The department is conducting a review of the infection prevention and control (IPC) strategy and the hand hygiene strategy to update the strategies for Alberta's current and future environment. An advisory committee was formed in October 2013. Revision of the strategies and formalized commitment from stakeholders on implementation responsibilities will take place through September 2014.</p> <p>In addition to current IPC reports, the department will build a measurement and reporting system to implement the strategies by March 2015.</p> <p>Accepted. Alberta Health Services (AHS) will develop and implement a model that provides provincial oversight, with clear, consistent reporting lines of AHS staff performing medical device reprocessing at the site level by March 2015.</p> <p>Accepted. AHS will develop and implement a provincial plan to further manage patient risk related to antibiotic-resistant organisms in hospitals by March 2015.</p> <p>This plan will consider current site and zone risks, will better align antibiotic-resistant organism policies and procedures in hospitals, and will include a province-wide approach to antimicrobial stewardship.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>4. Hand Hygiene Practices</p> <p>We recommend that Alberta Health Services improve its systems for hand hygiene by:</p> <ul style="list-style-type: none"> • clarifying responsibility and accountability for improving hand hygiene compliance across hospitals • using available data, on a risk-focused basis, to identify hospital units with poor compliance and take appropriate remedial action • strengthening the infection prevention and control orientation and training provided to hospital healthcare workers <p>Agriculture and Rural Development, Health and Alberta Health Services – Provincial Food Safety Follow-up</p>	<p>Accepted. Alberta Health Services will develop an action plan that clearly establishes responsibility and accountability for improving hand hygiene compliance in hospitals by March 2015.</p>
<p>5. Accountability for Food Safety – Repeated</p> <p>We again recommend that the Departments of Agriculture and Rural Development and Health improve reporting on food safety in Alberta.</p> <p>Energy – Department</p>	<p>Accepted in Principle. The Departments of Agriculture and Rural Development and Health will collaboratively develop an Integrated Food Safety Work Plan. The Plan will provide relevant measures to reflect the efficacy of inspections and other food safety activities under our jurisdictions. Implementation is expected by June 30, 2015.</p>
<p>6. Implement an Enterprise Risk Management System</p> <p>We recommend that the Department of Energy design and implement an effective enterprise risk management system to ensure relevant risks are identified, tracked and appropriately mitigated.</p> <p>7. Ensure Compliance with Terms of Bioenergy Grant Agreements – Repeated</p> <p>We again recommend that the Department of Energy ensure that recipients under the bioenergy producer credit program are complying with their grant agreements.</p>	<p>Accepted. The department will continue to identify risks, communicate the risks to decision makers, and take steps to mitigate the risks during the 2013-14 fiscal year.</p> <p>Accepted. The department has taken action to obtain all missing reports identified to further enhance and implement processes to ensure grant recipient compliance. This recommendation will be implemented during the 2013-14 fiscal year.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>Enterprise and Advanced Education – Athabasca University</p> <p>8. Improve Procedures to Monitor and Report Access and Security Violations</p> <p>We recommend that Athabasca University formalize its access and security monitoring procedures to:</p> <ul style="list-style-type: none"> • detect and assess security threats to critical information systems • report access and security violations to senior management • identify and resolve the root causes of security threats and violations <p>9. Develop Disaster Recovery Plan and Capabilities – Repeated</p> <p>We again recommend that Athabasca University:</p> <ul style="list-style-type: none"> • assess the risks and take the necessary steps to establish appropriate offsite disaster recovery facilities, that include required computer infrastructure, to provide continuity of critical IT systems • complete and test its existing disaster recovery plan to ensure continuous services are provided in the event of a disaster 	<p>Accepted. The university is developing procedures to detect and assess security threats. Improvements to record keeping and documentation of security violations and root causes are under development. These will be completed by November 2014.</p> <p>Accepted in Principle. The university is actively pursuing capital resources required to complete the work. As the funds are secured, the university will continue to work with Cybera, Service Alberta and others to access the technology resources needed to ensure continuous operation of the university's online learning environment. This will be completed by March 2017.</p>
<p>Environment and Sustainable Resource Development – Department</p> <p>10. Security Patch Management of Servers</p> <p>We recommend that the Department of Environment and Sustainable Resource Development regularly update its computer servers with security and operating system patches to reduce the risk of security weaknesses.</p>	<p>Accepted. The servers identified in the report received up-to-date patching. The department continues to ensure that all servers receive the latest patches on a monthly schedule.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p data-bbox="118 258 690 331">Municipal Affairs – Alberta Social Housing Corporation</p> <p data-bbox="118 373 732 447">11. Review Housing Management Body Cash Reserve Policy</p> <p data-bbox="164 485 732 705">We recommend that the Alberta Social Housing Corporation review the housing management body cash reserve policy to determine if the policy continues to meet its objective of providing appropriate short-term operational cash flow requirements to the housing management bodies.</p> <p data-bbox="118 779 716 810">Treasury Board and Finance – ATB Financial</p> <p data-bbox="118 856 396 888">12. IT Risk Assessments</p> <p data-bbox="164 930 743 1035">We recommend that ATB Financial implement processes to identify, assess and remediate or accept IT risks.</p> <p data-bbox="118 1192 448 1224">13. IT Change Management</p> <p data-bbox="164 1266 716 1339">We recommend that ATB Financial ensure its IT change management processes are followed.</p> <p data-bbox="118 1486 420 1518">14. Borrower Risk Ratings</p> <p data-bbox="164 1560 756 1633">We recommend that ATB Financial fix the borrower risk ratings in the banking system.</p>	<p data-bbox="794 485 1451 737">Accepted. The Alberta Social Housing Corporation will review the housing management body cash reserve policy to determine if the policy continues to meet the objective of providing appropriate short-term operational cash flow requirements to the housing management bodies. The review will be completed and implemented by September 30, 2014.</p> <p data-bbox="794 930 1451 1150">Accepted. ATB Financial has developed a risk control self-assessment framework. As part of this self-assessment action, the process will be defined to identify the risks, perform an assessment of the impact, and to set in place a risk acceptance process. This will be completed by March 31, 2014.</p> <p data-bbox="794 1266 1451 1444">Accepted. A change management process document has been completed and reviewed by multiple stakeholders. The documented process has been applied as of August 2, 2013. The process will be tested by the end of the 2013-14 fiscal year.</p> <p data-bbox="794 1560 1451 1738">Accepted. ATB Financial is working to obtain appropriate reporting to remediate and update the borrower risk ratings. An ongoing process to review and remediate issues will be developed. Implementation is expected by March 31, 2014.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p data-bbox="167 258 786 331">Treasury Board and Finance – Alberta Gaming and Liquor Commission</p> <p data-bbox="167 373 532 405">15. Security Patch Management</p> <p data-bbox="212 447 813 594">We recommend that the Alberta Gaming and Liquor Commission ensure it consistently applies security patches to its information systems to proactively manage security vulnerabilities.</p>	<p data-bbox="850 441 1497 735">Accepted. The Alberta Gaming and Liquor Commission has moved to automate the application of patches. As of April 1, 2013, a third party tool has been configured to automatically scan quarterly and to validate security patches that have been applied; reporting on patch status for all servers. Any delays in installing a specific patch are documented and recommendations made to the responsible manager.</p>

RESPONSE TO THE AUDITOR GENERAL – JULY 2013

The Auditor General reports on the scope and findings of the work carried out by the Office of the Auditor General. The following are the recommendations in the Auditor General's report titled *Report of the Auditor General of Alberta – July 2013* and the government's response to each of them.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>Aboriginal Relations – Systems to Assess First Nations Development Fund Grants</p> <p>1. Formalize and Communicate Interpretation of Eligible Uses</p> <p>We recommend that the Department of Aboriginal Relations formalize and communicate its interpretation of eligible uses of funds.</p> <p>2. Improve Review Process</p> <p>We recommend that the Department of Aboriginal Relations improve its processes to review and approve grant applications by:</p> <ul style="list-style-type: none"> • formalizing the additional review processes it developed for complex grant applications • consistently obtaining sufficient information to support its assessment of grant applications 	<p>Accepted in Principle. The department has defined parameters concerning eligibility requirements ensuring that grants must contribute to development and growth in the community. These include feasibility studies, market research, initial seed funding, and business expansion. The department is developing a formal communication plan to be shared with all First Nations in Alberta. Any interpretations related to the Fund will be formalized in consultation with the federal government and First Nations partners. This recommendation is accepted in principle as agreements with First Nations partners are complex and any changes to the operating environment will require extensive collaboration.</p> <p>Accepted in Principle. The department is currently considering formalizing review procedures similar to those used for complex grant applications in order to obtain sufficient information for all grant applications. Any changes to departmental review procedures will be formalized in consultation with the federal government and First Nations partners. This recommendation is accepted in principle as agreements with First Nations partners are complex and any changes to the operating environment will require extensive collaboration.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>3. Monitor for and Correct Non-compliance</p> <p>We recommend that the Department of Aboriginal Relations improve monitoring processes by consistently ensuring First Nations comply with reporting requirements and acting to correct non-compliance with the grant agreement.</p> <p>Enterprise and Advanced Education – Athabasca University Administrative Systems Renewal Project</p>	<p>Accepted in Principle. The department will expand full application of withholding grant payments for all grant recipients that do not comply with grant agreements. Compliance programs will include the review of actual to budget comparisons for project costs. Any enhancements to departmental compliance processes will be formalized in consultation with the federal government and First Nations partners. This recommendation is accepted in principle as agreements with First Nations partners are complex and any changes to the operating environment will require extensive collaboration.</p>
<p>4 Formalize and Improve Business Change Management Planning</p> <p>We recommend that Athabasca University formalize its business change management plans to ensure its business operations, staff, faculty and students are adequately prepared for the implementation of its new administrative system.</p>	<p>Accepted. The university has designed a business change management template and a review of changes to business process is underway. The review will be completed by December 31, 2013 in advance of the implementation of the new administrative system.</p>
<p>5. Formalize and Improve Project Management Controls</p> <p>We recommend that Athabasca University ensure that a formalized project management and systems development methodology and approach are clearly defined, applied and available to all staff working on the project.</p>	<p>Accepted. The development of a methodology has been delayed until 2014-15 pending the recruitment of a new Vice President Technology/Chief Information Officer and assessment of the best approach in adapting the ITM Control Framework.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>Enterprise and Advanced Education – Collaborative Initiatives Among Alberta's Post-secondary Institutions</p> <p>6. Develop Strategic Plan and Accountability Framework</p> <p>We recommend that the Department of Enterprise and Advanced Education, working with institutions and the Campus Alberta Strategic Directions Committee:</p> <ul style="list-style-type: none"> • develop and communicate a strategic plan that clearly defines the minister's expected outcomes for Campus Alberta, initiatives to achieve those outcomes, resources required and sources of funding • develop relevant performance measures and targets to assess if the outcomes are being achieved • publicly report results and the cost of achieving them • review and clarify the accountability structures for governing collaborative initiatives <p>7. Develop Processes and Guidance to Plan, Implement and Govern Collaborative Projects</p> <p>We recommend that the Department of Enterprise and Advanced Education, working with institutions and the Campus Alberta Strategic Directions Committee, develop systems and guidance for institutions to follow effective project management processes for collaborative initiatives.</p> <p>8. Oversight by the Board of Governors</p> <p>We recommend that Medicine Hat College provide the Board of Governors with suitable and sufficient information regarding significant events and risks related to the college's international activities; and that the Board of Governors strengthen its processes to:</p> <ul style="list-style-type: none"> • ensure it is aware of significant risks the college faces • monitor compliance of the college's international activities with the board's policies 	<p>Accepted. The department, working with Campus Alberta Strategic Directions Committee, will develop a strategic Campus Alberta plan that clearly identifies accountability structures, expected outcomes, performance measures and expected targets for the post-secondary system by fall 2014.</p> <p>Accepted. The department, by July 31, 2014, will work with the Campus Alberta Strategic Directions Committee to develop processes when implementing collaborative projects.</p> <p>Accepted. Management and the Board Audit Committee are working to identify processes and policies that need to be strengthened and revised in conjunction with new reporting and compliance procedures. Review and implementation are expected to be completed during the 2014-15 fiscal year.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>9. Strategic and Operational Planning</p> <p>We recommend that Medicine Hat College implement systems to:</p> <ul style="list-style-type: none"> • clearly define the strategic and operational objectives for its international education activities • provide business cases that assess the risks, benefits, costs and legal requirements before providing training in foreign countries • set clear and measurable targets for planned outcomes • periodically measure and report on progress towards achieving targets, meeting objectives and outcomes <p>10. Program Management and Monitoring</p> <p>We recommend that Medicine Hat College improve its management of its international education activities by:</p> <ul style="list-style-type: none"> • assessing and clearly defining the roles and responsibilities of its International Education Division • implementing effective program delivery and quality assurance processes at its offshore campuses • implementing an appropriate system of internal controls, financial reporting and accountabilities for its international education activities • implementing contract management practices to ensure risks have been appropriately managed • aligning the structure and management of the division to reflect these changes and to ensure adequate oversight <p>11. Improve Controls over Travel Expenses</p> <p>We recommend that Medicine Hat College improve controls over travel expenses by enforcing its travel policy.</p>	<p>Accepted. The college is in the process of evaluating alignment between its mission and activities with the focus of measuring outcomes. The college's international activities will be part of this analysis. This evaluation and development of related performance measures will be implemented during the 2014-15 fiscal year.</p> <p>Accepted. The college is in the process of focusing on strategic and operational planning with the focus on measuring outcomes. The college's international activities will be part of this planning. This planning and development of related performance measures will be implemented during the 2014-15 fiscal year.</p> <p>Accepted. The college will develop and enact processes to ensure that all employees travelling internationally are in compliance with the policy. This will be implemented during the 2014-15 fiscal year.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>Municipal Affairs – Systems to Deliver Affordable Housing Grants</p> <p>12. Improve Monitoring Processes</p> <p>We recommend that the Department of Municipal Affairs improve its monitoring processes to ensure affordable housing grant recipients comply with their grant agreements by:</p> <ul style="list-style-type: none"> • developing and conducting risk-based monitoring activities • following procedures and processes when performing monitoring activities <p>13. Develop an Evaluation System</p> <p>We recommend that the Department of Municipal Affairs improve its evaluation processes by:</p> <ul style="list-style-type: none"> • developing performance measures and adequate information systems so that the department can better evaluate and report on its affordable housing grant programs • completing periodic evaluations of its affordable housing grants programs 	<p>Accepted. The department will review and update its monitoring processes as part of the full implementation of an improved risk based monitoring program commencing in June 2014.</p> <p>Accepted. An evaluation process for the program will be implemented by September 30, 2014.</p>
<p>Energy – Bioenergy Grant Programs</p> <p>14. Establish Adherence to Nine-point Bioenergy Plan – Bioenergy Producer Credit Program</p> <p>We recommend that the Department of Energy require bioenergy producer credit grant program applicants to demonstrate their product's positive environmental impact relative to comparable non-renewable energy products.</p> <p>15. Clarify Reporting Guidelines for Grant Recipient Reporting</p> <p>We recommend that the Department of Energy clarify its guidelines for annual reporting by bioenergy grant recipients to ensure it has the information required to appropriately assess and estimate bioenergy project emissions.</p>	<p>Accepted in Principle. As Budget 2013 confirmed, no further Bioenergy Producer Credit Program applications would be accepted. No modification to application requirements were implemented after the second and final call in 2011. The department considers this matter closed.</p> <p>Accepted. Implemented. The emissions report template and guidelines were published in April 2013. The emissions report is now routinely required as part of the department's annual report.</p>

RESPONSE TO THE AUDITOR GENERAL – FEBRUARY 2013

The Auditor General reports on the scope and findings of the work carried out by the Office of the Auditor General. The following are the recommendations in the Auditor General's report titled *Report of the Auditor General of Alberta – February 2013* and the government's response to each of them.

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>Health – AHS Controls Over Expense Claims, Purchasing Card Transactions and Other Travel Expenses</p> <p>1. Controls Over Expenses</p> <p>We recommend that Alberta Health Services tighten its controls over expense claims, purchasing card transactions and other travel expenses by:</p> <ul style="list-style-type: none"> • improving the analysis and documentation that support the business reasons for—and the cost effectiveness of—these expenses • improving education and training of staff on their responsibilities for complying with policies • monitoring expenses and reporting results to the board <p>Human Services – Office of the Public Trustee</p> <p>2. Supervisory Review of Client Files</p> <p>We recommend that the Office of the Public Trustee improve its file management processes to ensure all client files are subject to adequate supervisory review.</p> <p>3. Internal Audit Role</p> <p>We recommend that the Office of the Public Trustee strengthen the role of its internal audit, ensuring it has adequate authority and independence to effectively perform its function.</p>	<p>Accepted. Alberta Health Services is developing an action plan to address this recommendation with special focus on cost effectiveness and best practices by March 2014.</p> <p>Accepted. The Office of the Public Trustee has developed and implemented a supervisory review template, screening criteria to identify files to be reviewed, and a file administration guideline and review plan to attend to these recommendations. This was completed by December 2012 and is ready for further audits. The Office of the Public Trustee will conduct a supervisory review containing a sample of 1,500 files by the end of December 2013.</p> <p>Accepted. The Office of the Public Trustee has implemented this recommendation.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>4. Improve and Follow Policies</p> <p>We recommend that the Office of the Public Trustee:</p> <ul style="list-style-type: none"> • review and assess whether its policies are appropriate, and procedures are adequate to mitigate the risk that client assets could be misappropriated or otherwise mismanaged • improve its processes for ensuring compliance with policies and procedures <p>5. Segregation of Duties</p> <p>We recommend that the Office of the Public Trustee strengthen its processes for the approval and payment of client expenses or disbursements.</p> <p>6. Documentation</p> <p>We recommend that the Office of the Public Trustee improve its processes for ensuring client files are appropriately documented, including adequate documentation of supervisory review and internal audit.</p>	<p>Accepted. The Office of the Public Trustee has reviewed the composition of the Public Trustee Policy Committee and has made appropriate changes. A jurisdictional scan of policy frameworks in similar organizations was completed in January 2013. In addition, a review of policies relating to high-risk assets will be completed by the end of March 2013. The implementation of new policies and a related policy framework is expected by the end of April 2013.</p> <p>Enhancements have been made to improve processes for ensuring compliance with policies and procedures. A review of a sample containing 1,500 files for compliance with policies will be completed by the end of December 2013.</p> <p>Accepted. The Office of the Public Trustee has implemented this recommendation.</p> <p>Accepted. The Office of the Public Trustee has implemented internal controls, incorporated best practices, conducted an electronic filing pilot project, and developed a supervisory review template to address this recommendation. The Office of the Public Trustee will develop and begin implementation of a plan to ensure all high-risk client asset administration reviews are adequately documented by the end of April 2013 and complete a review of a sample containing 1,500 files for appropriate documentation by the end of December 2013.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>Enterprise and Advanced Education – Report on Post-secondary Institutions</p> <p>7. Improve Systems to Ensure Compliance with Legislation</p> <p>We recommend that the post-secondary institutions implement systems to:</p> <ul style="list-style-type: none"> • understand what legislation they must comply with • develop appropriate policies, procedures and controls to ensure compliance with legislation • monitor and report non-compliance to senior management and board audit committees <p>Alberta College of Art + Design</p> <p>8. Improve Internal Controls at the Bookstore</p> <p>We recommend that Alberta College of Art + Design improve its internal control systems for its bookstore operations by:</p> <ul style="list-style-type: none"> • properly segregating incompatible job duties • improving its inventory count procedures and investigating discrepancies between inventory counts and inventory records • resolving software deficiencies in its inventory management computer application <p>9. Improve Controls Over Contracts</p> <p>We recommend that Alberta College of Art + Design improve controls over contracts by:</p> <ul style="list-style-type: none"> • developing, documenting and enforcing contract procedures • standardizing contracts with templates that ACAD's legal counsel approves • developing systems to track and monitor all contracts prepared by all its departments 	<p>Accepted. The Ministry of Enterprise and Advanced Education and the post-secondary institutions will be collaborating to address this recommendation. Initial discussions to consider a compliance framework will occur by June 2013 with expected implementation by June 2014.</p> <p>Accepted. The Alberta College of Art + Design plans on completing a series of self-assessment reviews that include the examination of any further enhancements to the segregation of duties and quality of processes associated with current financial software. These will be completed by June 2013 and will include a review of variances and completion of any adjusting transactions.</p> <p>Beginning in July 2013, the finance department will perform independent inventory test counts and independent spot checks of inventory quantities and costs in conjunction with the bookstore's annual inventory count process.</p> <p>Accepted. The Alberta College of Art + Design has taken steps by drafting a proposed procedure that will improve the contracting process. The procedure includes templates and forms for use by all departments. This new procedure will be reviewed with College stakeholders and fully communicated to all College staff. Implementation is expected by October 2013.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>10. Implement a Disaster Recovery Plan</p> <p>We recommend that Alberta College of Art + Design implement and test a disaster recovery plan.</p>	<p>Accepted. The Alberta College of Art + Design has a draft outline for a disaster recovery plan associated with information assets. The College is undertaking an examination of other service level agreements in an effort to assess any third-party risk to the College's business objectives. Given the limited resources available to the College, there is limited capacity to undertake a comprehensive disaster recovery initiative. The College will however address this recommendation by identifying specific tasks, initiatives, and projects contemplated for the upcoming fiscal year, assessing the risks and incorporating mitigating strategies that correspond to the availability of resources.</p>
<p>11. Strengthen Controls Over Procurement Card Transactions</p> <p>We recommend that Alberta College of Art + Design strengthen its processes over the authorization, review and approval of procurement card transactions.</p>	<p>Accepted. The Alberta College of Art + Design's procurement card (PCard) guidelines and reporting instructions are posted on its internal website. The College ensures that each PCard user receives a full briefing of their responsibilities and obligation and obtains signed acknowledgement confirming these obligations and responsibilities. The College will enforce filing deadlines and correct receipt attachments to reduce instances of non-compliance.</p>
<p>12. Implement Proper Purchase Controls</p> <p>We recommend that Alberta College of Art + Design ensure purchases are appropriately supported by purchase requisitions and purchase orders, in accordance with its policies and procedures.</p>	<p>Accepted. The Alberta College of Art + Design is reviewing this process and the associated compliance framework. The review will be completed by May 2013. Procedures will be updated as required.</p>
<p>13. Implement a Change Management Policy and Controls</p> <p>We recommend that Alberta College of Art + Design:</p> <ul style="list-style-type: none"> • implement its change management policy and control processes for all its IT assets • obtain assurance that change to the Banner application affecting its student information follow an appropriate change management process 	<p>Accepted. The Alberta College of Art + Design has implemented procedures to enhance the controls associated with this recommendation.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>Grande Prairie Regional College</p> <p>14. Improve Conflict of Interest Procedures</p> <p>We recommend that Grand Prairie Regional College update its policy and procedures, and implement a process for directors and employees to annually disclose potential conflicts of interest in writing, so the College can manage the conflicts proactively.</p> <p>Grant MacEwan University</p> <p>15. Limit Use of a System/Shared Account</p> <p>We recommend that Grant MacEwan University strengthen controls for posting financial transactions, so it can trace transactions to specific users.</p> <p>Keyano College</p> <p>16. Improve General Ledger Processes</p> <p>We recommend that Keyano College improve accounting processes for the general ledger and stop relying on manual processes when creating its financial statements.</p> <p>Lethbridge College</p> <p>17. Improve Software Patch Policies and Procedures</p> <p>We recommend that Lethbridge College implement an appropriate patch policy and procedures to update and protect the servers that host its enterprise resource planning system.</p> <p>Mount Royal University</p> <p>18. Improve Year-end Financial Reporting</p> <p>We recommend that Mount Royal University review the adequacy of its financial statements closing process and improve its ability to produce timely and accurate financial statements.</p>	<p>Accepted. Grand Prairie Regional College is developing a new Conflict of Interest Policy as well as a new Code of Ethics Policy which includes a new Code of Conduct. It is expected that these policies will be approved for implementation by June 30, 2013.</p> <p>Accepted. Grant MacEwan University has implemented changes to password protocols as of September 2012.</p> <p>Accepted. Keyano College is in the process of reviewing and improving all major accounting processes in an effort to maximize the utilization of the accounting system. This review will be completed by June 1, 2013 with implementation of the updated accounting system on July 1, 2013. Procedures will be updated as required.</p> <p>Accepted. Lethbridge College implemented new procedures as of November 2012 to address this recommendation. They include detection and escalation protocols to deal with emergent vulnerabilities.</p> <p>Accepted. The University will continue to enhance and improve its closing process to arrive at more timely and accurate financial statements for the fiscal year ending June 30, 2013.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>NorQuest College</p> <p>19. Segregate Incompatible Job Duties</p> <p>We recommend that NorQuest College segregate access within the payroll module.</p> <p>20. Provide Guidance on Employee Spending</p> <p>We recommend that NorQuest College:</p> <ul style="list-style-type: none"> • improve policies and guidance on appropriate expenses for travel and hosting internal working sessions and guests • follow its policies and processes for employee expense claims and corporate credit cards <p>21. Improve Computer Access Controls for Accountability</p> <p>We recommend that NorQuest College improve its computer access controls to ensure accountability over its information systems.</p> <p>22. Regularly Maintain Information Systems</p> <p>We recommend that NorQuest College regularly maintain its information systems to reduce the risk of security weaknesses.</p> <p>23. Improve Financial Internal Controls – Repeated</p> <p>We again recommend that NorQuest College improve its reconciliation of financial information, review of journal entries and documentation of these controls.</p>	<p>Accepted. NorQuest College has implemented changes to enhance segregation of duties as of October 2012.</p> <p>Accepted. NorQuest College has implemented a new hosting procedure effective May 1, 2013. New procedures on travel and related expenses, business expenses and procurement cards will be implemented by the end of June 2013.</p> <p>Accepted. NorQuest College has implemented new processes to improve its computer access controls as of March 2013.</p> <p>Accepted. NorQuest College has implemented new processes to improve maintenance and associated testing on their information systems as of September 2012. These include new bi-monthly and monthly protocols.</p> <p>Accepted. NorQuest College is working with an external consultant to assist in the development of an Internal Controls Over Financial Reporting (ICOFR) framework to address the remaining areas for effectiveness. An implementation plan for the ICOFR framework was developed as of November 2012, a team lead at the College has been assigned as of November 2012, and regular updates of progress on the plan are provided to the Finance and Audit Committee of the Board of Governors. The external consultant is currently working onsite with staff through the ICOFR methodology to improve the College's control environment. Resulting recommendations are expected to be tabled by June 2013.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>24. Improve Quality Control for Year-end Financial Information – Repeated</p> <p>We again recommend that NorQuest College improve its quality control processes for preparing its year-end financial information to improve efficiency and accuracy.</p> <p>25. Segregate Incompatible Job Duties – Repeated</p> <p>We again recommend that NorQuest College properly segregate incompatible job duties in its bookstore.</p>	<p>Accepted. NorQuest College has developed a Public Sector Accounting Standards (PSAS) governance structure that outlines specific accountabilities relating to the preparation of year-end financial information. Implementation of the structure will be completed by June 2013.</p> <p>Accepted. NorQuest College developed new procedures in November 2012 to enhance segregation of duties including protocols for absence management including training. A formal segregation matrix is being developed and will be added as an appendix to the procedure by June 2013.</p>
<p>Northern Lakes College</p> <p>26. Define Goals for Preserving Economic Value of Endowments</p> <p>We recommend that Northern Lakes College define its goals for the use and preservation of the economic value of endowment assets.</p> <p>27. Improve Controls Over Tuition Revenue</p> <p>We recommend that Northern Lakes College improve controls over tuition revenue by implementing the following processes:</p> <ul style="list-style-type: none"> • review the approved fee schedule entered into the accounting system, to ensure completeness and accuracy • review user access to the accounting system for tuition fees to ensure that roles and level of access are appropriately granted to individuals 	<p>Accepted. Northern Lakes College has substantially completed this recommendation.</p> <p>Accepted. Northern Lakes College is in the process to enhance access controls to the Student Fee Schedule. This includes removing access granted to the Finance department to make changes and a post-entry review to ensure accuracy and completeness. The College is also completing a risk assessment to ensure it has attended to all access control issues. New procedures will be substantially completed by the end of the 2012-13 fiscal year.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>28. Establish Accounts Receivable Write-off Policy</p> <p>We recommend that Northern Lakes College establish an accounts receivable write-off policy to ensure that balances are valid and appropriately valued.</p> <p>Olds College</p> <p>29. Improve Systems on Financial Year-end Reporting – Repeated</p> <p>We again recommend that Olds College further improve its processes and controls over year-end financial reporting.</p> <p>30. Improve Segregation of Privileged User Access Roles – Repeated</p> <p>We again recommend that Olds College segregate privileged systems access from data entry responsibilities and business functions.</p>	<p>Accepted. Northern Lakes College has implemented this recommendation.</p> <p>Accepted. During the 2012-13 fiscal year, the Business Division of the Olds College will be split into two divisions. Aligned with this reorganization will be the development of new processes to ensure that financial operations remain current and financial information is accurate. These processes will be developed by the end of 2013-14 in conjunction with the initial implementation of the Colleges ERP system. Additionally, a review of the College's Business Division was undertaken by an external consultant to identify, among other things, how the department's performance can be improved. This review, with resulting recommendations, was completed in February 2013.</p> <p>Accepted. The limited number of staff within the Olds College Business Division prevents us from providing privileged user access only to staff that do not have a need to enter financial information. With this limitation in mind, processes will be amended so the two business staff that have a need for both privileged user access and data entry access continue to have separate user IDs for each role and that data entry is not possible with the privileged user access. Furthermore, monthly reports will be prepared to confirm that no data entry took place under the privileged access and that all changes in authority for privileged access are authorized in advance and documented. Monthly reports will be developed to document these compensating controls. These changes were implemented in April 2013.</p>

AUDITOR GENERAL'S RECOMMENDATIONS	GOVERNMENT'S RESPONSE
<p>Portage College</p> <p>31. Improve Information System Change Management</p> <p>We recommend that Portage College develop and implement formal change management policies and control procedures to ensure all changes to systems and applications within the computing environment are implemented in a consistent and controlled manner.</p> <p>Red Deer College</p> <p>32. Improve General Computer Control Environment</p> <p>We recommend that Red Deer College improve its general computer control environment by:</p> <ul style="list-style-type: none"> • finalizing its risk assessment process and implementing a comprehensive IT control and governance framework for its key processes • implementing appropriate security over information and information technology assets • managing changes to computer programs • testing its disaster recovery plan and then assessing its adequacy <p>Southern Alberta Institute of Technology (SAIT)</p> <p>33. IT Strategic Plan</p> <p>We recommend that SAIT reassess and update its IT action plan. We further recommend that SAIT develop:</p> <ul style="list-style-type: none"> • a project plan with effective controls to ensure its plan is implemented on time and achieves SAIT's strategic objectives • an effective process to identify, rank and prioritize all IT projects and update plans as needed 	<p>Accepted. Portage College and the new Vice-President of Infrastructure and Information Technology have formed a team to implement change management guidelines based on those developed as part of the ITM Control Framework. The team is meeting weekly and expects to implement new guidelines by May 2013. These guidelines will then undergo a process of regular review by the ITM committee during the first six months to fine tune the process to ensure that they meet the needs of the various stakeholders.</p> <p>Accepted. Implementation of an updated disaster recovery plan is underway. Additional improvements to controls and processes have been developed to enhance the security of information technology assets and change management protocols. Work will be completed on the IT risk assessment by the fall of 2013 to further develop best practices that align with the Red Deer College's risks and control requirements.</p> <p>Accepted in Principle. SAIT will continue to reassess and update its IT Action Plan with a view to ensuring that all projects and initiatives support the institution's strategic priorities. Executive oversight is in place and is a key element in the regular review of overall strategic objectives and in ensuring that sufficient resources are available for successful project completion. The IT Action Plan is to be completed for approval by September 2013.</p>