



Budget 2014

Fiscal Plan



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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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FISCAL OVERVIEW

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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.

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.

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

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.

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

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.

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.

The new Alberta Future Fund will support 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.

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

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 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% |

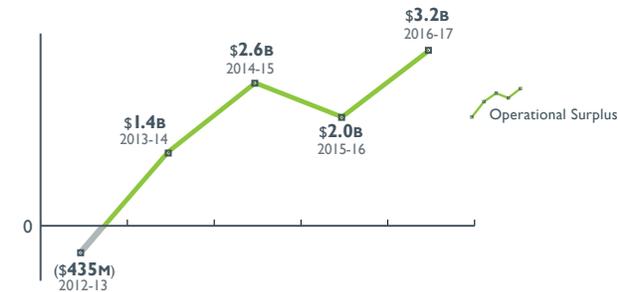
^a Excludes \$905 million of refinancing in 2014-15.

Budget 2014 by the numbers

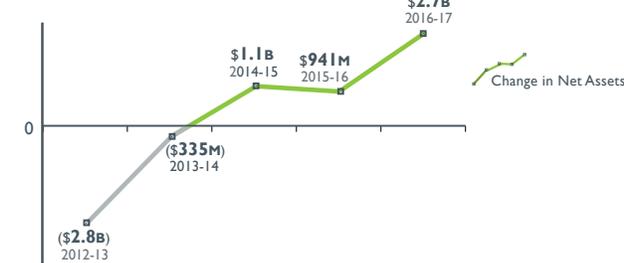


Balanced Budget

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

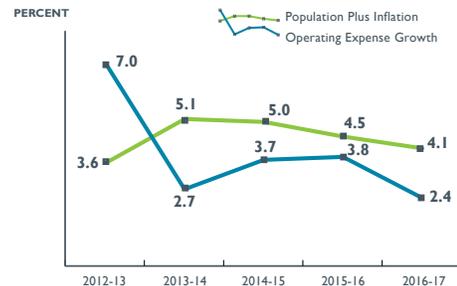


Increasing our Net Assets

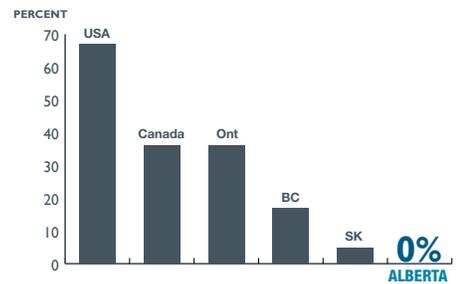


Living Within Our Means

Operating expense growth is lower than population growth plus inflation

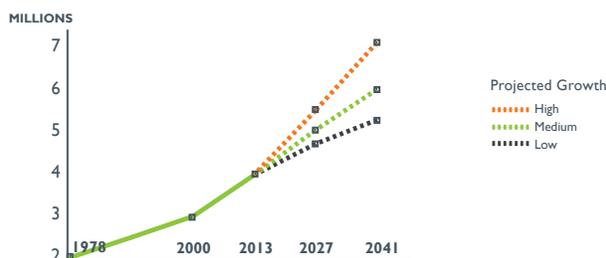


Net Debt to GDP 2013 (as at March 31, 2013)



Building Alberta

Alberta is the fastest growing province in Canada



Budgeted over the next three years



\$5.1B SUPPORT FOR MUNICIPAL INFRASTRUCTURE

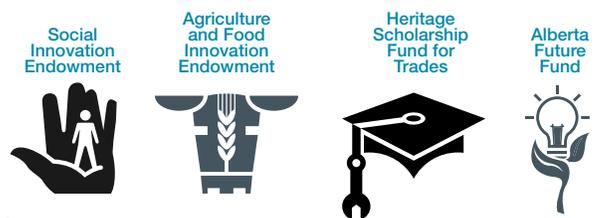
\$4.9B DIRECT BORROWING FOR CAPITAL IN 2014-15
Debt servicing costs: \$421M (1% of Operational Revenue)

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