

# HIGHLIGHTS

Alberta **2003** Budget  

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Making Alberta Even Better

# Making Alberta Even Better

## A NEW FISCAL FRAMEWORK

- Budget 2003 implements significant changes to Alberta's fiscal framework to bring more sustainability and predictability to fiscal planning. The new framework maintains the government's commitment to balanced budgets and debt retirement.
- A new Alberta Sustainability Fund will help manage the volatility of resource revenue and the costs of emergencies and disasters.
- A new Capital Plan will end stop-and-go funding of capital projects. Also, investment in government-owned capital will now be reported on an amortized basis.
- The budgeted economic cushion will be smaller and stronger limits will be placed on in-year spending increases.
- Balanced budgets continue to be required every year.
- Accumulated debt must be eliminated by 2025.

## BUDGET 2003 PRIORITIES

- Base operating spending will increase by 4.9% in 2003-04. The increase will be focused on health, education and agriculture.
- The \$5.5 billion three-year Capital Plan will address deferred capital projects and infrastructure priorities.
- There will be no tax increases and no new taxes. Business tax reductions continue as planned.

## FISCAL PLAN

- The budgeted economic cushion is \$268 million in 2003-04 and averages about \$240 million for the following two years.
- Total expense is \$20.8 billion in 2003-04, essentially unchanged from the 2002-03 forecast. Increases in operating and capital expense are offset by the disaster spending in 2002-03. Health and education account for 64% of total expense.
- Resource revenue above \$3.5 billion will be deposited in the Alberta Sustainability Fund and shortfalls in resource revenue can be withdrawn. Fund assets will average \$2.4 billion over the next three years.
- Debt servicing costs will decline to 2% of revenue. Accumulated debt that matures in 2003-04 and part of 2004-05 will be repaid.
- Alberta is in the strongest fiscal position of any government in Canada.

## ECONOMIC OUTLOOK

- Alberta's economic growth is expected to reach 3.6% in 2003 and 2004.
- Close to 37,000 new jobs are expected in 2003, with over 100,000 more jobs by 2006. The unemployment rate is expected to fall to 4% by 2005.
- Energy prices are assumed to return to more sustainable levels. In 2003-04, oil prices are assumed to average US\$23.30 per barrel and natural gas prices Cdn\$4.05 per thousand cubic feet (mcf). For the following two years, oil prices are assumed to average US\$22.00 and natural gas prices about Cdn\$3.50.

## BUDGET 2003 PRIORITIES

### EXPENSE

- Base operating expense (excluding expense for capital purposes) will increase by \$902 million, or 4.9%, in 2003-04 and by an average of nearly 3% a year for the following two years.
- Health and Wellness spending will increase by 7.2%, or \$492 million, to \$7.35 billion in 2003-04. Spending will grow by 4.3% and 5.8% in the following two years to \$8.1 billion by 2005-06. The increases include new federal transfers under the 2003 First Ministers' Health Accord.
- Learning base program spending will increase by 4.7%, or \$219 million, to \$4.9 billion in 2003-04. Base program spending will grow by 3.3% and 3.2% in the following two years to \$5.2 billion by 2005-06.
- Agriculture base spending will increase by \$262 million to \$808 million in 2003-04, primarily for enhancements to farm safety-net programs. Spending will average about \$860 million per year for the following two years.
- Additional funding will be provided for Supports for Independence benefit increases, children's services, adults with disabilities, affordable housing, and protection and enhancement of Alberta's environment.

### CAPITAL PLAN

- The Capital Plan commits over \$5.5 billion for capital spending over the next three years. Capital spending will double to an average of \$1.85 billion a year.
- The Capital Plan includes major projects deferred in the fall of 2001 that have not yet been funded.
- Capital support to school boards, post-secondary institutions, health authorities, municipal governments, and other local authorities and organizations will total \$3.2 billion.
- Spending on government-owned capital assets, including highways, will total \$2.3 billion.
- Part of the Capital Plan is prefunded from the \$910 million Capital Account established from the 2002-03 surplus.
- The Capital Plan includes \$1.4 billion of alternative financing, which is assumed to start in 2004-05.

### TAX ADVANTAGE

- Indexation of the personal income tax system to Alberta inflation will continue. Albertans are saving \$130 million from indexing over the last two years, on top of the \$1.5 billion in cuts in 1999 to 2001.
- Corporate income tax cuts will continue as planned. On April 1, the general corporate income tax rate was cut to 12.5%, the small business rate was cut to 4%, and income eligible for the small business rate increased to \$400,000. Alberta businesses will save \$94 million this year, bringing the total savings since cuts began in 2001 to \$435 million.
- There are no changes to other tax rates, health care insurance premiums or major fees.

# Accountability Statement

The government's Fiscal Plan for the three years commencing April 1, 2003 was prepared under my direction in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as of March 19, 2003 with material economic or fiscal implications have been considered in preparing the Fiscal Plan.

The government is committed to achieving the planned results laid out in the Fiscal Plan, which includes the government's Business Plan and Capital Plan.

*[Original Signed]*

Patricia L. Nelson  
Minister of Finance and  
Chair of Treasury Board  
March 27, 2003

# FISCAL PLAN

Alberta **2003** Budget  

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Making Alberta Even Better

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# Making Alberta Even Better

*“Alberta is already a Canadian leader in so many areas, but we won’t stay at the head of the pack if we stand still, if we stop looking for new and better ways to do things.”*

**Premier Ralph Klein**  
**Televised Address**  
**January 27, 2003**

*“This new financial plan gets Albertans off the energy roller coaster.”*

**Pat Nelson**  
**Minister of Finance**  
**February 24, 2003**

Over the last decade, Albertans have developed an Alberta Advantage that is unmatched in Canada. We have:

- the strongest economy with the fastest growing population,
- the lowest overall taxes and no sales tax,
- nine consecutive balanced budgets and the only province with net financial assets,
- one of the best health systems in the country, and
- education results that are among the best in the world.

These successes reflect Albertans' entrepreneurial spirit and the constant seeking of improvements and innovations to make Alberta a better place to live and work. Budget 2003 builds on these successes and places increased priority on responding to the pressures created by our growing economy and population. In Budget 2003:

- program spending will be focused on Albertans' health and education priorities and support for our vital agriculture industry,
- a new three-year Capital Plan will provide sustainable and predictable funding for roads, schools, health facilities and other infrastructure priorities, and
- a new Alberta Sustainability Fund will help manage volatile revenue and the costs of disasters and emergencies.

Since 1993, Alberta's fiscal policies have been founded on the principles of fiscal responsibility and accountability. This will not change. Balanced budgets will continue to be the law in Alberta. The legislated debt elimination schedule will be met. Albertans will have access to the high-quality services they expect. The successes of the past, and the innovations being made today, will help make Alberta even better.

# A New Fiscal Framework for Alberta

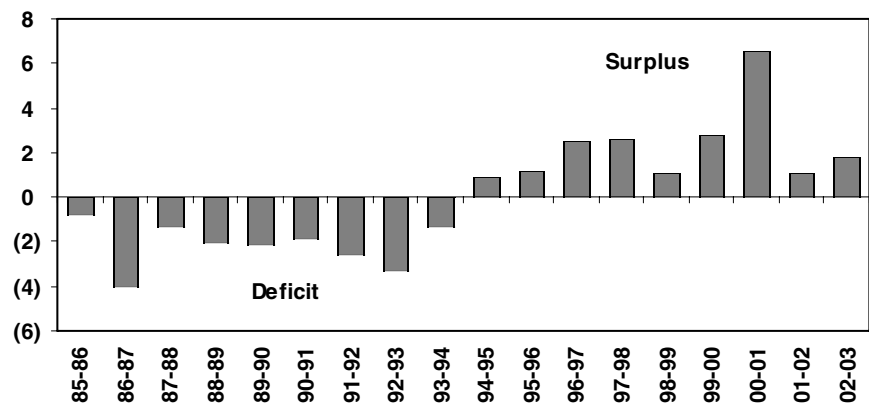
*Alberta made the difficult decisions needed to restore fiscal balance.*

Alberta has a well-earned reputation as the fiscal leader in Canada. Since 1993, Alberta has made the difficult decisions that were needed to restore fiscal balance. Nine years of deficits and increasing debt have been replaced by nine years of surpluses and debt repayment. The province has returned to a position of fiscal strength.

## A Return to Fiscal Strength

1985-86 to 2002-03

(billions of dollars)



## THE STRONGEST FISCAL POSITION IN CANADA

Alberta is the only provincial government whose financial assets exceed liabilities. The province has moved from net financial debt of \$8.3 billion in 1993-94 to net financial assets of \$11.6 billion in 2002-03. This excludes unfunded pension obligations of \$4.8 billion that are scheduled for elimination under a separate 1993 legislated plan.

*Accumulated debt has been reduced by nearly 80% to less than \$4.8 billion.*

Accumulated debt has been reduced by nearly 80%, from \$22.7 billion to less than \$4.8 billion. Alberta has by far the lowest debt load per person of any provincial government in Canada.

Paying off debt has reduced annual debt servicing costs by \$1.3 billion. The savings are being used to fund Albertans' program priorities and keep taxes low. At just 2% of revenue, Alberta's debt servicing costs are by far the lowest in Canada.

With net financial assets and the lowest overall tax burden in the country, Alberta by far has the strongest fiscal position of any government in Canada.

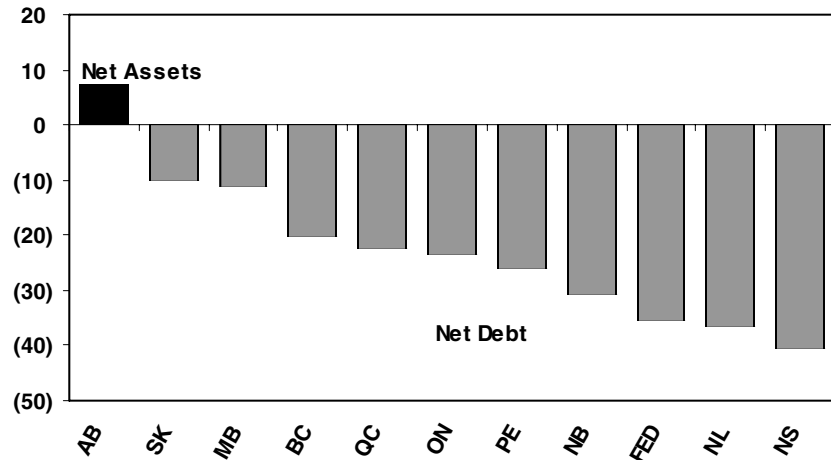


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## Net Financial Assets (Debt)

March 2003<sup>a</sup>

(per cent of GDP)



<sup>a</sup> Other governments as of March 19, 2003. On a consolidated basis where possible. Excludes pension obligations.

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## FINANCIAL MANAGEMENT COMMISSION

Last year, the government decided that it was time to review our fiscal framework. The Financial Management Commission was appointed to consult with Albertans on how to enhance the province's fiscal policies and strategies.

Albertans said, while the government has been effective in balancing the books and repaying debt, other fiscal issues also needed to be addressed. They were concerned the existing fiscal framework did not adequately manage the ups and downs in resource revenue.

Alberta benefits enormously from the royalties received from oil and natural gas. Resource revenue allows Alberta to have top-quality health, education and other services while maintaining the lowest overall taxes and no sales tax. The benefits of resource revenue come with a cost, however.

Energy prices are very volatile and impossible to predict accurately. As demonstrated in recent years, swings in energy prices can cause large swings in government revenue. Managing government spending in such an environment is very difficult. When resource revenue falls, cuts in spending may be needed to keep the budget in balance. When resource revenue rises, it creates pressure for spending increases that may not be affordable in future years.

Albertans felt changes were required to the fiscal framework. The volatility of resource revenue needed to be more effectively managed. Capital spending should not be tied to swings in oil and natural gas prices. School boards, post-secondary institutions, health authorities, local governments and other partners needed firmer commitments to ongoing funding so they could plan more effectively.

*“The Financial Management Commission told us last year that Albertans want priority program areas to be funded at a constant, sustainable rate and not according to the ups and downs of oil and gas prices.”*

**Pat Nelson**  
**Minister of Finance**  
**February 24, 2003**

Budget 2003 implements significant changes to the fiscal framework. The changes will bring more sustainability to fiscal planning, and more predictability and continued discipline to operating and capital spending. The *Financial Statutes Amendment Act, 2003* amended Alberta's major fiscal legislation to put the new framework in place. Details are contained in the chapter, *A New Fiscal Framework for Alberta*.

### ALBERTA SUSTAINABILITY FUND

A new Alberta Sustainability Fund is being established to protect spending from volatile revenue and the costs of emergencies and disasters.

For budget purposes, non-renewable resource revenue will now be fixed at \$3.5 billion per year. This is about the average of actual non-renewable resource revenue for the period from 1981-82 to 2001-02, excluding the unprecedented spike in 2000-01.

Non-renewable resource revenue above \$3.5 billion must be deposited in the Alberta Sustainability Fund and will not be available for budgeted spending. If resource revenue is less than \$3.5 billion, the shortfall can be withdrawn from the Sustainability Fund to maintain planned spending. Starting in 2003-04, the Sustainability Fund will also be the first priority for year-end surpluses until the Fund reaches \$2.5 billion.

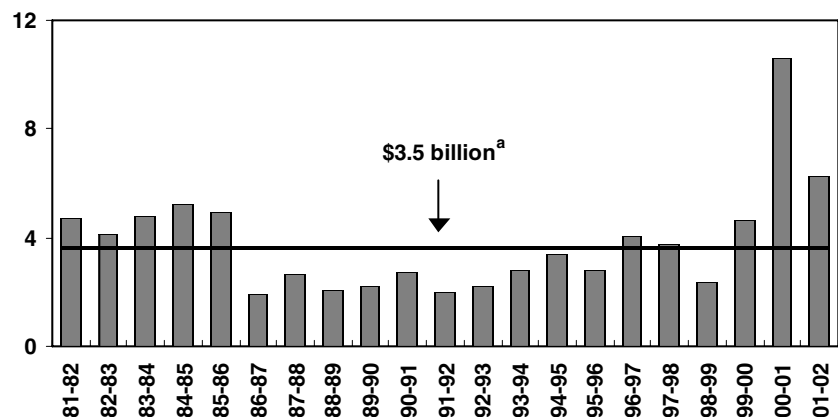
*Non-renewable resource revenue fixed at \$3.5 billion. Any excess goes to the Sustainability Fund and any shortfall can be taken from the Fund.*

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### Resource Revenue

#### 1981-82 to 2001-02

(billions of dollars)



<sup>a</sup> Average excludes 2000-01 fiscal year.

The Sustainability Fund will be used to manage volatility and unpredictability in other areas. Revenues other than resource revenue can also swing unexpectedly, as evidenced by the large loss in investment income in 2002-03 when stock markets fell sharply. If other government revenue is less than budgeted, resource revenue above \$3.5 billion for that year can be used to offset the in-year decline in other revenue.

*Sustainability Fund can be used to help pay for disasters and emergencies.*

Disasters and emergencies, such as droughts and forest fires, can require large unbudgeted government payments. Under the new framework, funds can be transferred from the Sustainability Fund to help pay for these costs. In years with exceptionally high natural gas prices, the Sustainability Fund can also be used to pay for assistance under the *Natural Gas Price Protection Act*.

The creation of the Alberta Sustainability Fund means spending will be more sustainable and predictable over the three-year plan. The government will not have to cut spending if resource revenue temporarily drops below \$3.5 billion or disasters and emergencies have to be funded. These requirements will have been prefunded from previous years' surpluses in resource revenue or other revenue saved in the Sustainability Fund.

To reflect this smoothing of revenue and expense, the definition of a balanced budget for fiscal policy purposes will be adjusted for transfers to and from the Sustainability Fund. Since the Sustainability Fund cannot be drawn down below zero, the government would be forced to adjust to new realities if low revenue persisted over the medium term.

#### **Alberta Sustainability Fund**

- Receives resource revenue above \$3.5 billion.
- Makes up shortfall if resource revenue under \$3.5 billion.
- Resource revenue above \$3.5 billion can be used to offset in-year shortfalls in other revenue.
- Can be used to pay for emergencies and disasters.
- Can be used to pay for assistance under the *Natural Gas Price Protection Act*.
- Balanced budget requirement adjusted for transfers to and from the Fund.
- Fund cannot be drawn down below zero.
- First priority for year-end surpluses until the Fund reaches \$2.5 billion.

## ECONOMIC CUSHION AND CONTINGENCY ALLOWANCE

The Economic Cushion no longer needs to be as large as previously required since the Sustainability Fund will now protect against in-year declines in revenue and the costs of emergencies and disasters.

Previously, the required minimum Economic Cushion in the budget was 3.5% of revenue. Up to 25% of the budgeted cushion and 25% of any in-year revenue increases could be used for in-year spending increases. The balance was allocated primarily to debt repayment, after adjusting for cash requirements including the retained income of government funds and agencies.

In the new framework, the minimum Economic Cushion consists of:

- a Contingency Allowance for in-year initiatives of 1% of budgeted revenue for fiscal policy purposes (budgeted revenue using \$3.5 billion of resource revenue), and
- any net positive amount required for capital cash requirements and the retained income of funds and agencies.

*Contingency Allowance fixed at 1% of revenue for fiscal policy purposes. Does not increase if revenue increases in-year.*

These changes reduce the minimum annual Economic Cushion from about \$750 million to about \$250 million for the next three years. The smaller Economic Cushion means that there will be no budgeted debt repayment from the cushion.

The amount available for in-year initiatives from the Contingency Allowance will no longer increase if revenue increases during the year. It will remain capped at the budgeted amount. This new limit on the funds available for in-year spending, other than for disasters and emergencies, increases spending discipline and the importance of three-year planning.

### **Minimum Economic Cushion and Contingency Allowance**

- Economic Cushion reduced from about \$750 million to about \$250 million per year for the next three years.
- ‘75%/25%’ rule eliminated.
- Contingency Allowance for in-year initiatives limited to 1% of budgeted revenue for fiscal policy purposes. Does not increase with in-year revenue increases.

## A NEW CAPITAL FRAMEWORK

The Alberta Sustainability Fund will help bring more predictability to both operating and capital spending. Other fundamental changes are being made to the way the government manages and accounts for capital spending to end stop-and-go funding of capital projects.

*New three-year Capital Plan.*

### Three-Year Capital Plan

Beginning with Budget 2003, a three-year Capital Plan will set out the government's commitment to capital funding for:

- infrastructure projects and purchases of equipment by school boards, post-secondary institutions, health authorities, municipalities and other local authorities and organizations, and
- capital investment in government-owned infrastructure, equipment and inventories, and funding to rehabilitate government capital.

The Capital Plan includes major projects deferred in the fall of 2001 that have not yet been funded. To help ensure that Capital Plan commitments are met, any unexpended funding for government-owned projects can now be carried forward to the next fiscal year. Capital grants to local authorities can continue to be fully advanced in the year the grants are budgeted.

### Accounting Treatment of Capital

The government will move this year to the new Public Sector Accounting Board standard of amortizing capital for fiscal reporting. This is similar to the standard that has been used for many years by the private sector. The change affects only government-owned capital assets. Capital grants to local authorities will continue to be charged to expense.

In the new reporting model, government-owned capital assets will be:

- added to the government's balance sheet, and
- charged to the government's bottom line over their useful lives through amortization expense, rather than being charged to the bottom line when they are constructed or purchased.

*Government capital projects will be charged to the bottom line over their useful lives.*

The cost of constructing or purchasing a government-owned capital asset will become a balance sheet transaction that can be financed by reducing a financial asset, such as cash, or increasing a financial liability, such as a capital lease or a loan. Neither transaction will affect the government's net assets because an equivalent value in capital assets is added to the balance sheet. Thus, borrowing for capital purposes will be excluded from the legislated accumulated debt repayment plan.

### Alternative Financing

For some major capital projects, the government will use alternative financing arrangements, such as public-private partnerships (P3s), debt financing or capital leases. This will include some projects being built by regional health authorities, school boards and post-secondary institutions. Alternative financing proposals will be assessed by the government on a project-by-project basis, after review by a private sector Advisory Committee on Alternative Capital Financing.

*Alternative financing will be used for some major capital projects.*

*\$910 million Capital Account to help fund the Capital Plan.*

**Capital Account**

A \$910 million Capital Account was established from the 2002-03 surplus to provide a source of funding for the Capital Plan. For fiscal policy purposes, the definition of a balanced budget will be adjusted for transfers from the Capital Account since the transfers have been prefunded with prior-year surpluses.

- New Capital Framework**
- Three-year Capital Plan.
  - Carry-over of unexpended capital investment funding.
  - Income statement on an expense basis with amortization of capital assets. Capital assets brought onto balance sheet.
  - Alternative financing proposals to be reviewed by a private sector advisory committee.
  - Capital Account.
  - Balanced budget requirement adjusted for transfers from the Capital Account.

*\$2 billion in the Debt Retirement Account will pay off debt maturing in 2003-04 and part of 2004-05.*

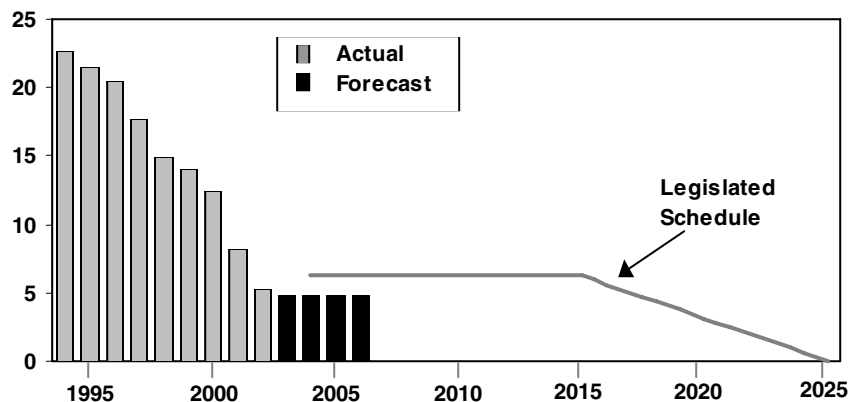
**ACCUMULATED DEBT**

The new fiscal framework maintains the legislated requirement to eliminate accumulated debt by 2025. At the end of 2002-03, the Debt Retirement Account had a balance of \$2 billion, including \$500 million allocated from last year’s surplus. This will be used to pay off debt maturing in 2003-04 and part of 2004-05, reducing accumulated debt to less than \$4.8 billion.

Once the Alberta Sustainability Fund reaches \$2.5 billion, year-end surpluses will again become available for debt repayment.

**Accumulated Debt at March 31<sup>a</sup>**

(billions of dollars)



<sup>a</sup> Net of cash set aside in the Debt Retirement Account.

# 2003-06 Fiscal Plan

*Economic Cushion of \$268 million in 2003-04.*

The budget will be balanced for the next three years, as required by the amended *Fiscal Responsibility Act*. After adjusting for Sustainability Fund and Capital Account transfers, the Economic Cushion is budgeted at \$268 million in 2003-04. The cushion averages about \$240 million for the following two years.

The Contingency Allowance for in-year program spending increases or revenue reduction initiatives is \$210 million in 2003-04. This is just over the required minimum of 1% of revenue for fiscal policy purposes (budgeted revenue less the budgeted transfer to the Sustainability Fund). This amount will not change even if revenue increases during the year. The balance of the Economic Cushion, \$58 million in 2003-04, is set aside in the budget for the retained income of funds and agencies and capital cash requirements.

## Fiscal Summary

(millions of dollars)

	2001-02 Actual <sup>a</sup>	2002-03 Forecast <sup>a</sup>	2003-04 Estimate	2004-05 Target	2005-06 Target
Revenue	21,926	22,575	21,928	21,476	21,945
Expense					
Program	20,071	20,206	20,335	20,865	21,364
Debt servicing costs	774	550	465	438	463
Total Expense	20,845	20,756	20,800	21,303	21,827
Net Revenue	1,081	1,819	1,128	173	118
Transfer from (to)					
Sustainability Fund	—	—	(1,276)	(209)	112
Capital Account <sup>b</sup>	—	—	416	287	—
<b>Economic Cushion</b>	<b>1,081</b>	<b>1,819</b>	<b>268</b>	<b>251</b>	<b>230</b>
Of which:					
Contingency Allowance			210	219	222
Other requirements			58	32	8

<sup>a</sup> Restated to be comparable to the new 2003-04 fiscal framework.

<sup>b</sup> Balance of \$207 million in the Capital Account will be used for capital investment in government-owned infrastructure in 2003-04.

*Oil price of US\$23.30 per barrel and natural gas price of Cdn\$4.05 per mcf for 2003-04.*

## REVENUE

Non-renewable resource revenue is forecast to decline to about \$4.8 billion in 2003-04, based on price assumptions of US\$23.30 per barrel for oil and Cdn\$4.05 per thousand cubic feet (mcf) for natural gas. For the following two years, resource revenue is expected to be close to the long-term average of \$3.5 billion per year, based on oil prices of US\$22 per barrel and natural gas prices of about Cdn\$3.50 per mcf.

Revenue, including the full resource revenue forecast, is estimated to decline by about \$650 million in 2003-04 to \$21.9 billion. After declining by a further \$450 million in 2004-05, revenue is forecast to recover to the 2003-04 level in 2005-06. The forecast includes reductions in corporate income taxes implemented in 2003-04 and planned for 2004-05.

## EXPENSE

Total expense is budgeted at \$20.8 billion in 2003-04, about the same level as the previous two years. Expense has remained essentially flat because of offsetting trends in base operating expense, expense for capital purposes, and emergency and disaster costs. Expense is targeted to increase by about \$500 million, or 2.5%, per year for the following two years.

Base operating spending is budgeted to increase by \$902 million, or 4.9%, in 2003-04, 2.6% in 2004-05 and 3.3% in 2005-06. The 2003-04 increase primarily reflects additional dollars for health, education and agriculture.

*Base operating spending will rise by 4.9% in 2003-04.*

### Total Expense

(millions of dollars)

	2001-02 Actual	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
Base operating expense	17,396	18,422	19,324	19,825	20,472
Expense for capital purposes	2,524	833	1,476	1,478	1,355
Emergencies, disasters and extraordinary costs <sup>a</sup>	925	1,501	—	—	—
<b>Total Expense</b>	<b>20,845</b>	<b>20,756</b>	<b>20,800</b>	<b>21,303</b>	<b>21,827</b>
Percentage increase					
Base operating expense		5.9	4.9	2.6	3.3
Total expense		(0.4)	0.2	2.4	2.5

<sup>a</sup> Includes emergency/disaster spending for agriculture, forest fires and floods; energy shielding assistance; and expense of the Alberta Dairy Control Board which was divested in 2002-03.

*\$5.5 billion over the next three years for capital projects.*

## CAPITAL PLAN

The new three-year Capital Plan will commit \$5.5 billion for government-owned and local authorities' capital projects. This represents the planned expenditure on capital projects. Since the government has moved to the Public Sector Accounting Board standard of amortizing capital for fiscal reporting, the planned expenditure on capital projects is not the same as the amount reported in total expense as 'expense for capital purposes'.



Expense for capital purposes equals \$4.3 billion over the next three years, including:

- capital grants to local authorities, including grants for capital financing costs, and
- amortization, rehabilitation and alternative-financing interest costs for government-owned capital assets.

In addition, the Capital Plan includes:

- the \$627 million in local authorities' projects that will be alternatively financed (only the financing costs are included in total expense), and
- the \$684 million difference between planned capital investment in government-owned projects and the capital amortization costs included in total expense.

Interest costs of \$76 million for alternative financing are not included in the Capital Plan.

### Reconciliation of the Capital Plan and Expense for Capital Purposes

(millions of dollars)

	2003-04 Estimate	2004-05 Target	2005-06 Target	Three-Year Total
Expense for capital purposes <sup>a</sup>	1,476	1,478	1,355	4,309
Local authorities' alternative financing	—	278	349	627
Capital investment/amortization difference <sup>b</sup>	187	247	250	684
Alternative financing costs <sup>a</sup>	—	(18)	(58)	(76)
<b>Total Capital Plan</b>	<b>1,663</b>	<b>1,985</b>	<b>1,896</b>	<b>5,544</b>

<sup>a</sup> Included in total expense.

<sup>b</sup> Capital investment in government-owned projects less amortization.

### ALBERTA SUSTAINABILITY FUND

Beginning in 2003-04, the Alberta Sustainability Fund is the first priority for year-end surpluses until the balance of the Fund reaches \$2.5 billion. This amount should protect against two consecutive years of weak resource revenue, or one year of both weak resource revenue and a major disaster.

Because of the lag in receiving natural gas royalties, some cash from the 2002-03 surplus is not available until 2003-04. This cash will be allocated to the Sustainability Fund in 2003-04 along with the estimated \$1.3 billion resource revenue transfer and cash available from the estimated 2003-04 surplus. As a result, the Sustainability Fund is forecast to reach \$2.2 billion by the end of 2003-04 and average just under \$2.5 billion for the following two years.

*Sustainability Fund  
balance to reach  
\$2.2 billion by the end of  
2003-04.*

If energy prices continue at the high levels forecast by some private sector energy analysts, the Sustainability Fund could reach \$2.5 billion within the next three years, depending upon any requirements for emergency or disaster funding. If this happens, extra cash from year-end surpluses could once again be allocated to debt repayment, the Capital Account or other improvements to the government's balance sheet. The money could not be used for operating spending since that would affect the government's bottom line.

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### Sustainability Fund

(millions of dollars)

	2003-04 Estimate	2004-05 Target	2005-06 Target
Assets at start of year	—	2,217	2,491
Transfer of resource revenue from (to)			
general revenues	1,276	209	(112)
Cash available from operations	941 <sup>a</sup>	65	42
<b>Assets at end of year</b>	<b>2,217</b>	<b>2,491</b>	<b>2,421</b>

<sup>a</sup> Includes cash from natural gas royalties accrued in 2002-03.

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# The Capital Plan

Strong economic growth has brought people, jobs and activity to Alberta. This has placed enormous pressures on Alberta's infrastructure.

In years when energy prices were high, Alberta was able to respond aggressively to these pressures. However, in years when energy prices declined, the government was forced to defer capital spending to help maintain a balanced budget. This stop-and-go funding has made it difficult for the government and its partners to plan and allocate resources effectively.

*Capital funding will double. Major deferred projects will proceed.*

The new fiscal framework being implemented in Budget 2003 will bring more sustainability and predictability to government capital spending. In Budget 2003, the government is:

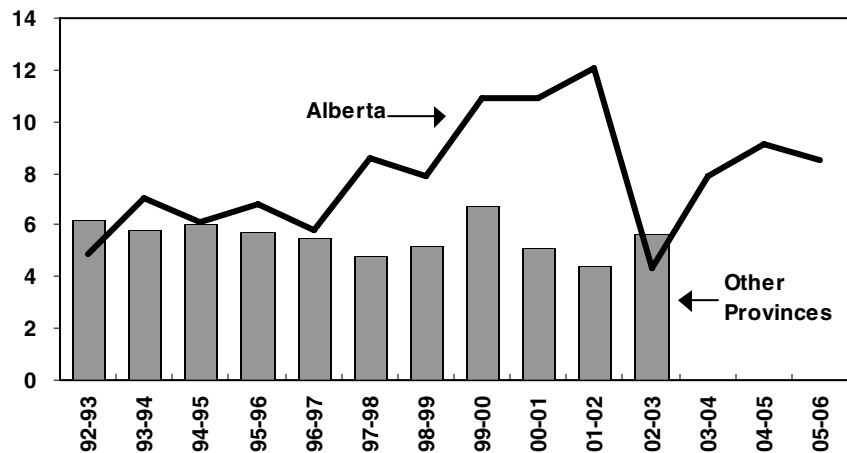
- publishing a three-year Capital Plan,
- doubling funding for capital, and
- funding major capital projects that were deferred in the fall of 2001.

The Capital Plan commits \$5.5 billion for capital spending over the next three years. This is an average of \$1.85 billion a year, double the capital spending of \$941 million in 2002-03. Alberta is expected to lead the country in the percentage of total spending allocated to capital.

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## Interprovincial Comparison of Capital Expenditure

(percent of total spending)



Source: Dominion Bond Rating Service Limited, *The Canadian Federal and Provincial Governments - 2002 Overview*, January 2003. Alberta data for 2001-02 to 2005-06 updated by Alberta Finance.

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Capital Plan funding is allocated over the next three years as follows:

- 28% for the provincial highway network,
- 17% for health facilities and equipment,
- 16% for municipal transportation grants,
- 16% for school and post-secondary facilities and equipment, and
- 23% for other capital.

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### Capital Plan Summary

(millions of dollars)

	2003-04 Estimate	2004-05 Target	2005-06 Target	Three-year Total
Provincial highway network	457	523	548	1,528
Municipal transportation grants	242	322	329	893
Health facilities and equipment	284	329	357	970
School facilities and equipment	136	189	186	511
Post-secondary facilities	135	172	66	373
Water and wastewater management	86	88	88	262
Community facilities	63	82	64	209
Housing	44	51	34	129
Other infrastructure programs	77	27	17	121
General government capital	139	202	207	548
<b>Total Capital Plan</b>	<b>1,663</b>	<b>1,985</b>	<b>1,896</b>	<b>5,544</b>

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*\$3.2 billion over the next three years for local authorities' capital.  
\$2.3 billion for government-owned capital.*

Capital support to school boards, post-secondary institutions, health authorities, municipal governments, and other local authorities and organizations totals \$3.2 billion over the next three years. Spending on government-owned capital assets totals \$2.3 billion over the three-year Capital Plan. Funding for capital projects will come from three sources – revenue from the current year, the Capital Account and alternative financing arrangements.

Budget 2003 assumes that funding for capital projects in 2003-04 will be met through current-year revenue and the Capital Account. Alternative financing arrangements are assumed to start in 2004-05. These assumptions could change once the Advisory Committee on Alternative Capital Financing begins its review of individual projects. Any changes to the financing assumptions contained in the budget will be reported in Quarterly Fiscal Updates.

Further details are provided in the *Capital Plan* chapter.

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## Capital Plan Funding Details

(millions of dollars)

	2003-04 Estimate	2004-05 Target	2005-06 Target	Three-year Total
Support for Local Authorities' Capital				
Current-year revenue	590	665	735	1,990
Capital Account	371	242	—	613
Alternative financing	—	278	349	627
<b>Total Local Authorities' Capital</b>	<b>961</b>	<b>1,185</b>	<b>1,084</b>	<b>3,230</b>
Government-owned Capital				
Current-year revenue	450	413	391	1,254
Capital Account	252	45	—	297
Alternative financing	—	342	421	763
<b>Total Government-owned Capital</b>	<b>702</b>	<b>800</b>	<b>812</b>	<b>2,314</b>
Total Capital Plan				
Current-year revenue	1,040	1,078	1,126	3,244
Capital Account	623	287	—	910
Alternative financing	—	620	770	1,390
<b>Total Capital Plan</b>	<b>1,663</b>	<b>1,985</b>	<b>1,896</b>	<b>5,544</b>

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# Program Spending Plan

*Reform of Alberta's health system is underway.*

## HEALTH AND WELLNESS

Reform of Alberta's publicly funded health system is underway. Based on the recommendations of the Premier's Advisory Council on Health, the health needs of Albertans will be met in more collaborative, innovative, and efficient ways.

Over the last year, implementation began on various health promotion and information initiatives, such as the "Healthy U" campaign and the Tobacco Reduction Strategy. Multi-year performance agreements with the health authorities are being developed that will provide greater accountability. Further work is underway:

- Effective April 1, the number of regional health authorities was changed from 17 to 9.
- Community and facility-based mental health services were transferred to regional health authorities from the Alberta Mental Health Board on April 1.
- Changes to Alberta's Labour Relations Code will streamline bargaining in the health sector, will ensure all workers are treated fairly and consistently, and will ultimately result in better health services for Albertans.
- A rural health strategy is under development to help ensure needs in rural regions are met appropriately.
- Development of a catastrophic drug coverage program has been initiated.

### Increased Spending on the Health System

Alberta Health and Wellness will spend \$7.35 billion in 2003-04, an increase of \$492 million, or 7.2%. The increase includes:

- Regional health services – increase of \$245 million, or 6.3%, consisting of:
  - \$176 million, or 4.8%, for base operating grants for regional health authorities,
  - \$50 million for diagnostic and medical equipment, funded by new federal transfers,
  - \$18 million, or 12.5%, for the Alberta Cancer Board, including \$11 million for cancer drugs, and
  - \$1.5 million, or 4.8%, for the services that the Alberta Mental Health Board will continue to deliver.
- Province-wide services – increase of \$23 million, or 6%, for services such as major cardiac surgeries and organ transplants.
- Physician services – increase of \$87 million to address price and volume growth and to implement physician office systems that will be part of the electronic health record system.
- Health reform initiatives – increase of \$85 million focused on primary health care, home care and catastrophic drug coverage.

*Health and Wellness spending will increase by 7.2% in 2003-04.*

- Other programs – increase of \$52 million largely for human tissue and blood products, ambulance services, out-of-province costs and Allied Health Services.

The overall 7.2% increase in 2003-04 will be followed by further increases of 4.3% in 2004-05 and 5.8% in 2005-06, bringing the total three-year increase to \$1.26 billion, or 18.3%.

### Funding the Health System

In Budget 2002, Health and Wellness spending was targeted to increase by 4% per year in 2003-04 and future years, about the same as the long-term average growth in provincial revenues. The new federal funding resulting from the 2003 First Ministers' Health Accord has been added to this targeted increase (\$248 million in 2003-04, \$298 million in 2004-05 and \$447 million in 2005-06). This federal funding will be used over the next three years to support Alberta's health priorities.

Beyond the three-year plan, Health and Wellness funding increases will have to return to the 4% range, unless federal funding continues to increase by more than 4% per year.

No changes to health care insurance premiums are planned. Monthly rates will remain at \$44 for individuals and \$88 for families.

### Health Capital Spending

The Ministry of Infrastructure will support \$776 million of spending on health facilities over the next three years. Construction will proceed on major projects such as the new Alberta Children's Hospital in Calgary, redevelopment of the Royal Alexandra Hospital in Edmonton and the two new Centres of Excellence for cardiac, and bone and joint care. More details are contained in the *Capital Plan* chapter.

*New federal health funding will be spent on Alberta's health priorities.*

*\$776 million for health facilities over the next three years.*

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## Health and Wellness

(millions of dollars)

	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
Ministry program spending	6,858	7,350	7,669	8,113
Annual increase		492	319	444
Percentage increase		7.2	4.3	5.8

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*Learning base program spending will increase by 4.7% in 2003-04.*

*Base program funding for school boards will increase by 4.9% in 2003-04.*

*\$450 million over the next three years for school projects.*

## LEARNING

Excellence in learning continues to be a top priority of Albertans and their government. Base program spending by the Ministry of Learning will increase by \$219 million, or 4.7%, to \$4.9 billion in 2003-04. By 2005-06, Learning's base program spending will reach \$5.2 billion, a \$542 million, or 11.6%, increase over the next three years.

The renewed Kindergarten to Grade 12 Funding Framework will provide school boards with flexibility to address student needs and local priorities. Alberta's Commission on Learning is consulting with Albertans on improvements to ensure that our basic education system maintains excellence into the future. The Commission provided a status report in February 2003, with the final report expected later this year.

The post-secondary system is implementing the 'Campus Alberta' vision that will improve co-ordination among institutions to address the continuing need for a well-educated workforce in Alberta.

### Basic Education Funding (Kindergarten to Grade 12)

Base program funding for public and separate school boards will increase by \$147 million, or 4.9%, in the 2003-04 fiscal year, and by 3.6% and 3.9% for the following two fiscal years. By the 2005-06 fiscal year, program funding to public and separate boards will reach almost \$3.4 billion, a three-year increase of \$388 million, or 12.9%.

School boards operate on a school year basis that runs from September to August. Over the past two school years, school boards received significant funding increases to help pay for teachers' salary settlements and other board priorities. For the 2003-04 school year, base program funding for public and separate school boards will increase by 3.7%. This includes:

- a 2% increase in basic instruction grants,
- a 3% increase in student transportation grant funding,
- funding for estimated increases of 0.25% in overall enrolment and 8% in students with severe disabilities, and
- \$20 million for school technology upgrading, as part of a three-year \$61 million commitment.

In addition, a one-time \$20 million allocation is being provided to school boards in 2003-04 to purchase classroom resources. Basic instruction grants are targeted to increase by 2% per year for the following two school years.

Contributions to the Teachers' Pension Plan will increase over the next three years by \$54 million, or 22.4%, to \$294 million because of increases in teachers' salaries and lower-than-anticipated investment returns of the pension fund.

Over the last three years, \$1 billion has been provided for school facilities under the New Century School Plan. The Ministry of Infrastructure will support a further \$450 million in capital projects over the next three years, including \$226 million for school expansions and new schools, and \$224 million for school preservation.



*Base program funding for post-secondary institutions will increase by 4.1% in 2003-04.*

### Post-Secondary Funding

Base program funding for post-secondary institutions will increase by \$44 million, or 4.1%, in 2003-04, consisting of:

- \$22 million for a 2% increase in base operating grants,
- \$12 million to maintain student spaces created for apprentices, and
- \$10 million in new access funding to support initiatives that will enhance accessibility in high-priority programs.

In addition, \$10 million in one-time performance envelope funding will be provided in 2003-04, to be awarded to institutions meeting key performance indicators including accessibility, quality, learner outcomes and research.

For the following two years, base operating grants to post-secondary institutions are targeted to increase by 2% per year. By 2005-06, total provincial support will reach almost \$1.2 billion, a three-year increase of \$79 million, or 7.3%.

*\$373 million over the next three years for post-secondary facilities.*

Over the next three years, \$373 million in capital support, primarily through the Ministry of Infrastructure, will help to upgrade and expand post-secondary campuses. This includes support for new Health Research Innovation Centres at the Universities of Alberta and Calgary, and the University of Alberta Natural Resources Engineering Facility.

### Student Assistance

The Alberta government expects to disburse \$108 million in student loans in 2003-04. Loan limits are being increased to reflect rising costs. The Alberta Student Loan Relief Benefit and the Loan Relief Completion Payment will continue to reduce debt for students in their first and final years of study, respectively. About 20,000 students will receive \$34 million in scholarships in 2003-04.

*About 20,000 students will receive scholarships in 2003-04.*

## Learning

(millions of dollars)

	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
Ministry program spending				
Base program spending	4,663	4,882	5,044	5,205
One-time initiatives	67	30	—	—
Total Ministry program spending	4,730	4,912	5,044	5,205
Opted-out school boards' property tax revenue	150	162	171	181
Alberta School Foundation Fund debt servicing costs	3	4	5	5
<b>Spending on the Learning System</b>	<b>4,883</b>	<b>5,078</b>	<b>5,220</b>	<b>5,391</b>
Percentage increase				
Base program spending		4.7	3.3	3.2
Ministry program spending		3.8	2.7	3.2
Spending on the learning system		4.0	2.8	3.3

## AGRICULTURE

In 2002-03, the government responded to the worst agricultural drought in Alberta's history with \$1.1 billion in disaster assistance. Total agriculture spending reached almost \$1.8 billion.

*Agriculture base program spending will increase by \$262 million in 2003-04.*

In 2003-04, base program spending will increase by \$262 million to \$808 million, primarily for enhancements to farm safety-net programs. Spending is targeted to increase to an average of about \$860 million per year for the following two years. No disaster funding has been budgeted.

### Improvements to Safety-Net Programs

In 2003-04, base spending on safety-net programs will increase from \$366 million to \$557 million in order to provide Alberta producers with the most innovative and comprehensive crop insurance programs in Canada. Producers will have additional options for mitigating weather, production and commodity price risks, replacing previous reliance on ad hoc emergency assistance from the government.

The record crop insurance payments in 2002-03 put the Crop Reinsurance Fund of Canada for Alberta into a deficit position. The Fund is part of the federal-provincial crop insurance agreement designed to ensure the long-term financial stability of crop insurance programs. The Fund will be replenished over the next three years with payments of \$66 million in 2003-04 and \$84 million in each of the following two years.

Producers' crop insurance premiums are increasing due to program enhancements and the cost of replenishing the reinsurance funds. Increased producer participation is also anticipated.

### Industry and Rural Development

*A Rural Development Strategy is being developed.*

About \$185 million is budgeted for industry development initiatives for each of the next three years. The Ministry will continue to implement its growth strategy to help industry achieve the goal of \$10 billion in primary production and \$20 billion in value-added production by 2010. A Rural Development Strategy is being developed.

Continuing improvements to the animal health and food-safety surveillance systems will validate the safety of Alberta's agriculture and food products. The Ministry will also facilitate the adoption of internationally accepted food-safety systems and standards in the production and processing of Alberta food.

Detailed strategies to support the implementation of Alberta's Agriculture Research Strategy will be developed. This will help the research community align available resources with significant economic opportunities.

### Agriculture Policy Framework

Negotiation of federal-provincial bilateral agreements for the five-year Agriculture Policy Framework will be completed, with implementation to commence in 2003-04. The Framework will focus on environmental stewardship, food safety, science and innovation, farm sector renewal and risk management.

## Agriculture, Food and Rural Development

(millions of dollars)

	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
Safety-net programs <sup>a</sup>	366	557	598	587
Industry and Rural Development	180	185	184	185
Replenish Crop Reinsurance Fund of Canada for Alberta	—	66	84	84
Base program spending	546	808	866	856
Disaster funding				
Additional safety-net payments	761	—	—	—
Farm Income Assistance Program	324	—	—	—
Alberta Dairy Control Board <sup>b</sup>	149	—	—	—
<b>Ministry Program Spending</b>	<b>1,780</b>	<b>808</b>	<b>866</b>	<b>856</b>

<sup>a</sup> Includes crop insurance programs, Farm Income Disaster Program, Farm Fuel Distribution Allowance and other farm income support.

<sup>b</sup> Regulation of dairy production and marketing has been divested to a producer-elected and financed commodity board called Alberta Milk.

## HELPING ALBERTANS

Spending on social services will increase by \$92 million, or 4.6%, in 2003-04 to \$2.1 billion. The three-year spending increase will total \$171 million, or 8.5%.

### Services for Children

- The government is committed to ensuring children are protected and supported in reaching their potential. Spending by the Ministry of Children's Services will increase by \$36 million, or 5.4%, in 2003-04 to \$708 million. Spending will reach \$745 million by 2005-06, a three-year increase of \$73 million, or 10.9%.
  - Spending for child protection and services to children with disabilities will reach \$450 million by 2005-06. The three-year increase of \$22 million will support improved service delivery models to be implemented through new legislation.
  - Spending for services focused primarily on young children, such as early intervention and child care, will reach \$142 million by 2005-06, a three-year increase of \$37 million, or 35%. Part of this increase will be funded by federal transfers under the recent federal-provincial agreement on childcare.
  - Funding for the Family and Community Support Services program will increase by \$7 million over the next three years, on top of the \$15 million increase last year. Total spending will reach \$65 million by 2005-06. Key priorities will include support to families at risk and assistance to keep vulnerable children from entering the child welfare system.

*Children's Services  
spending will increase by  
5.4% in 2003-04.*

*Alberta's Promise will mobilize every sector of society to support children and youth.*

- With the Premier's leadership, Alberta's Promise will mobilize every sector of society to bring new resources, new partnerships and strong volunteerism to a full range of community initiatives supporting children and youth. Government funding of \$1 million per year will act as a catalyst to attract much greater levels of private support.
- The Alberta Centre for Child, Family and Community Research, a new private not-for-profit agency, will receive \$2 million per year to support applied research on issues contributing to the well-being of children and families.

- Spending by Human Resources and Employment on Alberta Child Health Benefits for children in low-income families will increase by 14.8% to \$21 million in 2003-04 and by a further 4.8% to \$22 million by 2005-06.

#### **Support for Adults with Disabilities**

- Spending for persons with developmental disabilities will increase by \$37 million, or 9%, to \$443 million in 2003-04 to address volume and cost increases. Spending will grow to \$475 million by 2005-06, a three-year increase of \$69 million, or 17%.
- Funding for the Assured Income for the Severely Handicapped (AISH) program will increase by \$7.5 million, or 2.1%, to \$357 million in 2003-04. Funding for AISH will reach \$372 million by 2005-06, a three-year increase of \$22 million, or 6.3%.

#### **Other Income Support Programs**

- Funding for the Supports for Independence (SFI) program will increase by \$4 million to fund a \$20 per month increase in benefits for clients with children and those not expected to work, effective June 1, 2003. In addition, SFI clients with children will retain this year's increase to the National Child Benefit Supplement in August. The combination of these two changes will mean families and people not expected to work, who are receiving SFI, will see a minimum increase of 3% this year.
- The number of persons receiving SFI is expected to continue declining due to strong employment growth and continued focus on skills development and employment training programs. For example, spending will double to \$8 million for First Nations Training-to-Employment, a joint partnership agreement among the private sector, government and First Nations.
- Funding for the Alberta Seniors Benefit program for lower income seniors will increase by about \$2 million in 2003-04, to \$156 million. Cash benefits for low-income seniors residing in lodges will increase in the new benefit year.

*Spending for persons with developmental disabilities will increase by 9% in 2003-04.*

*SFI benefits will increase in 2003-04.*

## Social Services

(millions of dollars)

	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
Children's Services	672	708	724	745
Persons with Developmental Disabilities Assured Income for the Severely Handicapped	407	443	456	475
Seniors programs	350	357	364	372
Supports for Independence	198	200	201	201
Other programs	259	263	258	258
<b>Total Social Services Spending</b>	<b>2,007</b>	<b>2,099</b>	<b>2,133</b>	<b>2,178</b>
Annual increase		92	34	45
Percentage increase		4.6	1.6	2.1

## PROTECTING ALBERTA'S ENVIRONMENT

Initiatives will be undertaken over the next three years to protect and enhance Alberta's environment. Special focus will be placed on addressing climate change issues.

*\$30 million more over the next three years for the Climate Change Action Plan.*

- \$30 million in new funding will be provided over the next three years under the Climate Change Action Plan. This funding will be used to reach emissions reduction goals, support energy conservation projects, invest in demonstration projects, and support research on clean energy technology.
- The government has signed long-term contracts, beginning in 2005, to buy 90% of government electricity needs from 'green power' sources other than fossil fuels, including a new wind farm in southern Alberta and a biomass combustion facility in northern Alberta.
- Over the course of the next year, the government will also consider establishing an interest-free loan program to support municipal energy efficiency projects. Discussions are underway with municipal representatives, and discussions will be initiated with the federal government concerning a potential cost-sharing arrangement.
- Development of Alberta's water strategy will continue, with the final strategy to be released this fall.

## **STRONG AND SAFE COMMUNITIES**

*A new, secure Alberta driver's licence.*

*\$104 million over the next three years for affordable housing.*

- Funding will increase by about 4% in 2003-04 for Solicitor General programs, including \$5 million for correctional services, \$4 million for policing programs, and \$1 million for security services and assessment of potential security threats to the government and its infrastructure.
- \$9 million per year will be provided to develop a new, secure Alberta driver's licence and upgrade related equipment. This is in addition to the \$5 million provided in 2002-03.
- An additional \$6 million per year has been allocated for consultation with Aboriginal peoples about land use issues.
- The Alberta First Nations Development Fund will receive gaming proceeds for economic and community development, addiction programs, health, education and infrastructure projects. An estimated \$4 million will be provided from gaming proceeds of First Nations casinos in 2003-04. Annual grants to the Fund are anticipated to reach \$44 million in 2004-05. The expected funding assumes that the projected number of First Nations casinos become operational and achieve their revenue targets over the next two years.
- The three-year Capital Plan includes \$104 million for the Canada/Alberta Affordable Housing Agreement, in addition to the \$17 million made available in 2002-03. The funding includes federal transfers for the program.
- Funding of \$14 million will be supplied over the next three years to complete the \$180 million Seniors Lodge Upgrading Program. Renovation and upgrading of 121 seniors lodges province-wide commenced in 1994-95.
- The new Work Safe Alberta initiative to reduce the workplace injury rate by 40% by 2004 will be implemented at an approximate cost of \$3 million per year.

# Economic and Revenue Outlook

The North American economies recovered last year from the brief recession in 2001, with Canada leading the way with a 3.4% real growth rate. Growth in the United States is expected to strengthen through 2003 and should reach about 3.5% by 2004. The Canadian economy is projected to settle into solid growth of around 3%.

*Alberta economic growth of 3.6% in 2003 and 2004.*

Alberta's economic growth is forecast to strengthen from about 2.4% last year to 3.6% in both 2003 and 2004, led by improved exports to the United States and increased drilling activity in the conventional energy sector. Growth is expected to drop back to a more sustainable rate of about 3.2% for the following two years.

*Close to 37,000 new jobs in 2003.*

Close to 37,000 new jobs are expected for Alberta in 2003, with over 100,000 more jobs expected by 2006. Wages and salaries should continue to grow strongly. Personal income is forecast to increase by 5.6% in 2003, and by an average of 5.5% over the following three years.

*Corporate income tax reductions continue.*

Alberta's growth is enhanced by low taxes. On January 1, 2001, implementation of Alberta's 10% single-rate personal income tax system brought total cuts in personal income taxes since 1998 to \$1.5 billion. On April 1, 2001, business tax cuts began.

Budget 2003 continues the business tax reduction plan from Budget 2002. On April 1, 2003, the general corporate income tax rate was cut to 12.5%, the small business rate was cut to 4%, and income eligible for the small business rate increased to \$400,000. The fiscal plan includes further reductions next year. A final decision on these planned cuts will be made in Budget 2004.

Further details are contained in the *Economic Outlook* and *Tax Advantage* chapters.

*Revenue of \$21.9 billion in 2003-04.*

## REVENUE OUTLOOK

Total revenue is estimated at \$21.9 billion in 2003-04, a drop of about \$650 million, or 2.9%, from 2002-03, mainly due to falling energy prices. Revenue is expected to decline further to \$21.5 billion in 2004-05 before recovering to the 2003-04 level in 2005-06.

### Revenue

(millions of dollars)

	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
Taxes	9,994	9,862	10,022	10,485
Non-Renewable Resource Revenue	6,428	4,776	3,709	3,388
Transfers from Government of Canada	2,069	2,386	2,454	2,623
Investment Income	(119)	1,019	1,219	1,327
Revenue from Other Sources	4,203	3,885	4,072	4,122
<b>Total Revenue</b>	<b>22,575</b>	<b>21,928</b>	<b>21,476</b>	<b>21,945</b>

*Savings from indexation of personal income taxes reach \$130 million.*

*2003-04 corporate income tax cuts will save businesses \$94 million.*

*School property tax rates frozen.*

## TAX REVENUE

Total tax revenue is estimated at \$9.9 billion for 2003-04, down over \$100 million from the 2002-03 forecast, as corporate income tax revenue declines from the forecast record level in 2002-03. Tax revenue is expected to increase to \$10.5 billion by 2005-06.

Personal income tax revenue is expected to continue growing robustly, by an average of 5.2% per year, due to strong employment and income growth. Personal income tax revenue is forecast at just over \$5 billion in 2003-04, increasing to nearly \$5.7 billion by 2005-06. Indexation of the personal income tax system to Alberta inflation will continue this year, bringing total savings for Albertans to \$130 million since 2001. There are no other personal income tax changes in Budget 2003.

Corporate income tax revenue is expected to decline due to lower energy prices and continuing tax cuts. The 2003-04 corporate income tax cuts will save Alberta businesses \$94 million, bringing the total savings since cuts began in 2001 to \$435 million.

School property tax revenue is expected to increase by about \$200 million over the next three years, due to growth in the assessment base. The provincial uniform mill rates will be frozen in 2003, marking the tenth year in a row the rates have remained the same or been reduced.

Other tax revenue is expected to be flat, at about \$1.6 billion, over the next three years.

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### Tax Revenue

(millions of dollars)

	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
Personal income tax	4,867	5,035	5,328	5,674
Corporate income tax	2,400	2,016	1,842	1,876
School property tax	1,101	1,165	1,233	1,304
Other taxes	1,626	1,646	1,619	1,631
<b>Total Tax Revenue</b>	<b>9,994</b>	<b>9,862</b>	<b>10,022</b>	<b>10,485</b>

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*Resource revenue of \$4.8 billion in 2003-04. \$1.3 billion will be transferred to the Sustainability Fund.*

## NON-RENEWABLE RESOURCE REVENUE

Non-renewable resource revenue is estimated at \$4.8 billion for 2003-04, about \$1.65 billion, or 26%, lower than forecast for 2002-03. Resource revenue is expected to decline further to around the expected long-term average of \$3.5 billion per year for the following two years, as energy prices drop to more sustainable levels.

Since over 70% of resource revenue comes from natural gas and by-products, natural gas price trends are the key determinant of resource revenue. The recent highs in natural gas prices have been driven by cold winter weather in the eastern half of North America and declines in production due in part to lower drilling activity in both Canada and the United States. A return to more normal weather patterns and increased drilling activity is expected to improve the supply-demand balance and reduce natural gas prices as 2003-04 progresses.

Natural gas prices are forecast to decline from Cdn\$4.65 per thousand cubic feet in 2002-03 to \$4.05 in 2003-04, and fall further to \$3.50 in 2004-05 and \$3.45 in 2005-06. There are only a few private sector forecasts for natural gas prices that are publicly available. The price assumptions in the fiscal plan are lower than those forecasts. Details on private sector forecasts by calendar year are contained in the *Economic Outlook* chapter.

Oil prices are expected to continue to decline from recent highs, assuming a resolution of the Iraq and other world situations affecting energy markets. Oil prices are forecast to drop by about 20% in 2003-04 to US\$23.30 per barrel, and average US\$22 per barrel for the following two years. The government's oil price assumptions are roughly in line with the average of private sector forecasters.

The anticipated increase in exploration and drilling activity in 2003-04 is expected to boost revenue from bonuses and sales of Crown leases to \$679 million. Revenue from land sales is expected to return to about \$550 million per year for the following two years as energy prices trend down.

### Non-Renewable Resource Revenue

(millions of dollars)

	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
Natural gas and by-products royalty	4,584	3,480	2,658	2,408
Crude oil royalty	1,120	502	358	272
Synthetic crude oil and bitumen royalty	135	103	107	141
Coal royalty	11	11	13	13
Bonuses and sales of Crown leases	539	679	561	541
Rentals and fees	156	144	142	138
Royalty tax credit	(117)	(143)	(130)	(125)
<b>Total Non-Renewable Resource Revenue</b>	<b>6,428</b>	<b>4,776</b>	<b>3,709</b>	<b>3,388</b>

## TRANSFERS FROM THE GOVERNMENT OF CANADA

Transfers to Alberta from the federal government are anticipated to increase from about \$2.1 billion in 2002-03 to \$2.4 billion in 2003-04 and \$2.6 billion by 2005-06.

Excluding the \$220 million prior-year adjustment in 2002-03, federal transfers under the Canada Health and Social Transfer (CHST) are expected to increase by an average of \$60 million, or 3.6%, per year over the next three years. CHST will reach \$1.6 billion in 2003-04 and over \$1.7 billion by 2005-06.

*\$248 million in new federal health transfers in 2003-04.*

The 2003 First Ministers' Health Accord will increase federal health transfers. In 2003-04, Alberta is expected to receive \$99 million in CHST supplements, \$99 million for health reform and \$50 million for diagnostic and medical equipment. Total transfers under the Accord are expected to grow from \$248 million in 2003-04 to \$447 million by 2005-06. All of these dollars will be spent by Alberta on health care, as will any additional new federal transfers for health.

Federal support for agriculture programs rose sharply in 2002-03, to \$408 million, due to the drought last year. Agriculture transfers are forecast to return to just over \$100 million by 2004-05.

### Transfers from Government of Canada

(millions of dollars)

	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
Canada Health and Social Transfer base	1,559	1,613	1,685	1,736
Prior-year adjustment	(220)	—	—	—
Canada Health and Social Transfer	1,339	1,613	1,685	1,736
New federal health transfers	—	248	298	447
Agriculture support programs	408	169	119	116
Other transfers	322	356	352	324
<b>Total Federal Transfers</b>	<b>2,069</b>	<b>2,386</b>	<b>2,454</b>	<b>2,623</b>

*Investment income to rebound to \$1 billion in 2003-04.*

## INVESTMENT INCOME

In 2002-03, weak equity markets resulted in an overall loss of \$119 million on government investments. Markets are expected to begin recovering this year. Investment income is expected to rebound to \$1 billion in 2003-04 and \$1.3 billion by 2005-06.

Heritage Fund income is expected to be \$426 million in 2003-04 and \$723 million by 2005-06. The Heritage Fund's loss of \$595 million in 2002-03 came from realized losses on investments that were sold and writedowns of investments still being held. The survey, *Looking Forward: Planning for the Future with the Alberta Heritage Savings Trust Fund*, conducted last year confirmed that Albertans want the Heritage Fund to continue to operate as an endowment fund.

Alberta has three other endowments funds – the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Science and Engineering Research Endowment Fund, and the Alberta Heritage Scholarship Fund – that support research or provide scholarships. The funds' income is forecast to recover to \$52 million in 2003-04 and \$96 million by 2005-06, following last year's overall loss of \$109 million. The losses reduced the value of the Science and Engineering Research Fund below its original endowment of \$500 million. In 2003-04, \$21 million in assets will be transferred to the Fund to bring its estimated book value back to \$500 million.

Interest income of the Alberta Capital Finance Authority on loans to municipalities and other local authorities is forecast to decrease by \$63 million, to \$277 million, by 2005-06. Interest rates on new loans are expected to be lower than the average interest rate on maturing loans.

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### Investment Income

(millions of dollars)

	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
Alberta Heritage Savings Trust Fund	(595)	426	626	723
Endowment funds	(109)	52	80	96
Alberta Capital Finance Authority <sup>a</sup>	340	319	298	277
Other investment income	245	222	215	231
<b>Total Investment Income</b>	<b>(119)</b>	<b>1,019</b>	<b>1,219</b>	<b>1,327</b>

<sup>a</sup> Formerly Alberta Municipal Financing Corporation.

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## REVENUE FROM OTHER SOURCES

Revenue from all other sources is expected to fall from \$4.2 billion in 2002-03 to \$3.9 billion in 2003-04, and then recover to \$4.1 billion by 2005-06. The 2003-04 decrease is due to 2002-03 revenues that are not expected to be received this year. These include:

- \$168 million in proceeds from crop reinsurance and forest fire insurance,
- \$149 million in revenue (and matching expense) of the Alberta Dairy Control Board for milk distribution and marketing functions divested to producers in 2002-03, and
- \$100 million transfer of restricted equity from the Alberta Capital Finance Authority.

*No increases in health care insurance premiums or major fees.*

Partly offsetting these reductions is an increase in revenue from premiums, fees and licences from \$1.6 billion in 2002-03 to \$1.8 billion by 2005-06. The increase is almost entirely due to volume increases and higher crop insurance premium revenue for enhanced safety-net programs. There are no rate increases for health care insurance premiums or major fees. The Premiums, Fees and Licences Changes table later in this chapter details changes to a few minor fees.

### Revenue from Other Sources

(millions of dollars)

	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
Net Income from Commercial Operations	1,849	1,795	1,919	1,934
Premiums, Fees and Licences	1,592	1,716	1,777	1,806
Other	762	374	376	382
<b>Total Revenue from Other Sources</b>	<b>4,203</b>	<b>3,885</b>	<b>4,072</b>	<b>4,122</b>

## RISKS

**Economy** – The three-year fiscal plan assumes United States economic growth in the 2.5% to 3.5% range and Canadian economic growth of around 3%. There is a risk of a 'double-dip' recession in the United States as trends in employment, business investment and manufacturing remain unclear. Weaker-than-expected economic conditions in Canada and United States could slow the expected recovery in Alberta's investment income and reduce expected income tax revenue.

**Energy Prices** – The energy price assumptions are prudent in comparison to recent oil and natural gas prices and private sector forecasts for natural gas. If energy prices are higher than assumed in the budget, the increased revenue would be transferred to the Alberta Sustainability Fund. If prices decline more than expected and non-renewable resource revenue falls below \$3.5 billion, the difference would be transferred from the Sustainability Fund.

*Sustainability Fund will protect against risks of energy prices, and disasters and emergencies.*

**Exchange Rate** – The Canadian dollar has been extremely volatile in recent months ranging from a low of 62.7 cents U.S. in early October 2002 to over 68 cents U.S. in March 2003. A significant appreciation in the Canadian dollar would reduce non-renewable resource revenue since both oil and natural gas are primarily priced in U.S. dollars. A one-cent increase in the Canadian dollar reduces resource revenue by \$125 million. This is partly offset by a \$25 million reduction in debt servicing costs due to revaluation of U.S. dollar debt.

**Emergency and Disaster Assistance** – Continuing drought conditions could result in unbudgeted spending on forest fires and agriculture safety-net payments. The new fiscal framework allows these costs to be funded from the Sustainability Fund, if necessary. The Sustainability Fund is forecast to reach \$2.2 billion by the end of 2003-04. This does not include any potential transfers for emergency or disaster assistance.



# FISCAL PLAN TABLES

Alberta **2003** Budget  

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Making Alberta Even Better

## Fiscal Summary<sup>a</sup>

(millions of dollars)

	2001-02 Actual	2002-03 Budget	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
<b>Revenue</b>	21,926	19,847	22,575	21,928	21,476	21,945
<b>Expense</b>						
Program	20,071	18,488	20,206	20,335	20,865	21,364
Debt servicing costs	774	585	550	465	438	463
<b>Total Expense</b>	20,845	19,073	20,756	20,800	21,303	21,827
<b>Net Revenue</b>	1,081	774	1,819	1,128	173	118
Transfer from (to) Sustainability Fund	-	-	-	(1,276)	(209)	112
Transfer from Capital Account	-	-	-	416	287	-
<b>Economic Cushion</b>	1,081	774	1,819	268	251	230

<sup>a</sup> For fiscal policy purposes under the *Fiscal Responsibility Act*. 2001-02 and 2002-03 numbers have been restated to be comparable with the 2003-04 presentation.

## Alberta Sustainability Fund

(millions of dollars)

	2001-02 Actual	2002-03 Budget	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
Assets at start of year	-	-	-	-	2,217	2,491
Non-renewable resource revenue						
transfer from (to) general revenues	-	-	-	1,276	209	(112)
Cash available from operations <sup>a</sup>	-	-	-	941	65	42
<b>Assets at End of Year</b>	-	-	-	2,217	2,491	2,421

<sup>a</sup> 2003-04 cash available includes cash from natural gas royalties accrued in 2002-03.

## Capital Account

(millions of dollars)

	2001-02 Actual	2002-03 Budget	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
Assets at start of year	-	-	-	910	287	-
Allocation from 2002-03 Economic Cushion	-	-	910	-	-	-
Allocation for						
Government-owned capital investment	-	-	-	(207)	-	-
Capital grants to local authorities <sup>a</sup>	-	-	-	(371)	(242)	-
Other infrastructure support <sup>a</sup>	-	-	-	(45)	(45)	-
<b>Assets at End of Year</b>	-	-	910	287	-	-

<sup>a</sup> Included in program expense.



# Balance Sheet Summary

(millions of dollars)

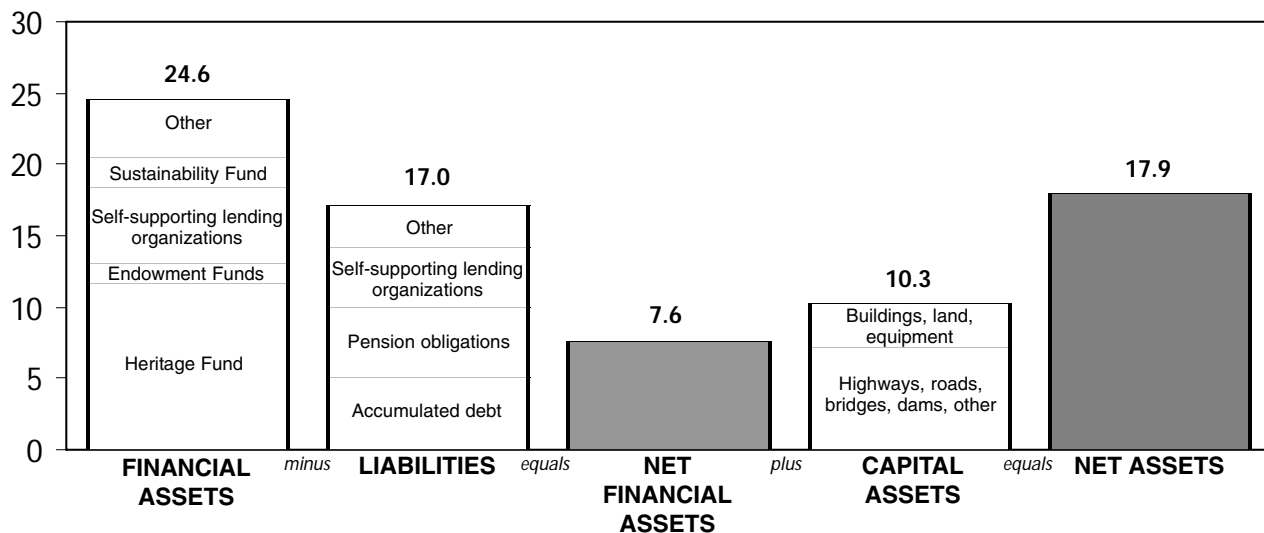
	At March 31				
	2002 Actual	2003 Forecast	2004 Estimate	2005 Target	2006 Target
<b>Financial Assets</b>					
Heritage Fund external investments	12,151	11,560	<b>11,565</b>	11,572	11,579
Self-supporting lending organizations	5,260	5,340	<b>5,231</b>	5,269	5,177
Alberta Sustainability Fund	-	-	<b>2,217</b>	2,491	2,421
Endowment Funds	1,767	1,580	<b>1,548</b>	1,518	1,499
Capital Account	-	910	<b>287</b>	-	-
Debt Retirement Account	3,155	2,009	<b>251</b>	-	-
Other financial assets	3,919	3,778	<b>3,535</b>	3,820	4,236
<b>Total Financial Assets</b>	<b>26,252</b>	<b>25,177</b>	<b>24,634</b>	<b>24,670</b>	<b>24,912</b>
<b>Liabilities</b>					
Accumulated debt	8,416	6,770	<b>5,012</b>	4,761	4,761
Pension obligations	4,771	4,849	<b>4,970</b>	5,092	5,218
Self-supporting lending organizations	3,832	4,058	<b>4,050</b>	4,015	3,917
Alternative financing of government-owned capital projects	-	-	-	342	741
Other liabilities	4,190	2,769	<b>3,028</b>	3,067	3,126
<b>Total Liabilities</b>	<b>21,209</b>	<b>18,446</b>	<b>17,060</b>	<b>17,277</b>	<b>17,763</b>
<b>Net Financial Assets</b>	<b>5,043</b>	<b>6,731</b>	<b>7,574</b>	<b>7,393</b>	<b>7,149</b>
Capital Assets	10,141	10,194	<b>10,358</b>	10,590	10,826
<b>Net Assets</b>	<b>15,184</b>	<b>16,925</b>	<b>17,932</b>	<b>17,983</b>	<b>17,975</b>
Adjustment for pension obligations	4,771	4,849	<b>4,970</b>	5,092	5,218
<b>Net Assets for Fiscal Policy Purposes<sup>a</sup></b>	<b>19,955</b>	<b>21,774</b>	<b>22,902</b>	<b>23,075</b>	<b>23,193</b>

<sup>a</sup> Under the *Fiscal Responsibility Act*.

## Estimate of Assets, Liabilities and Net Assets

At March 31, 2004

(billions of dollars)



# Revenue

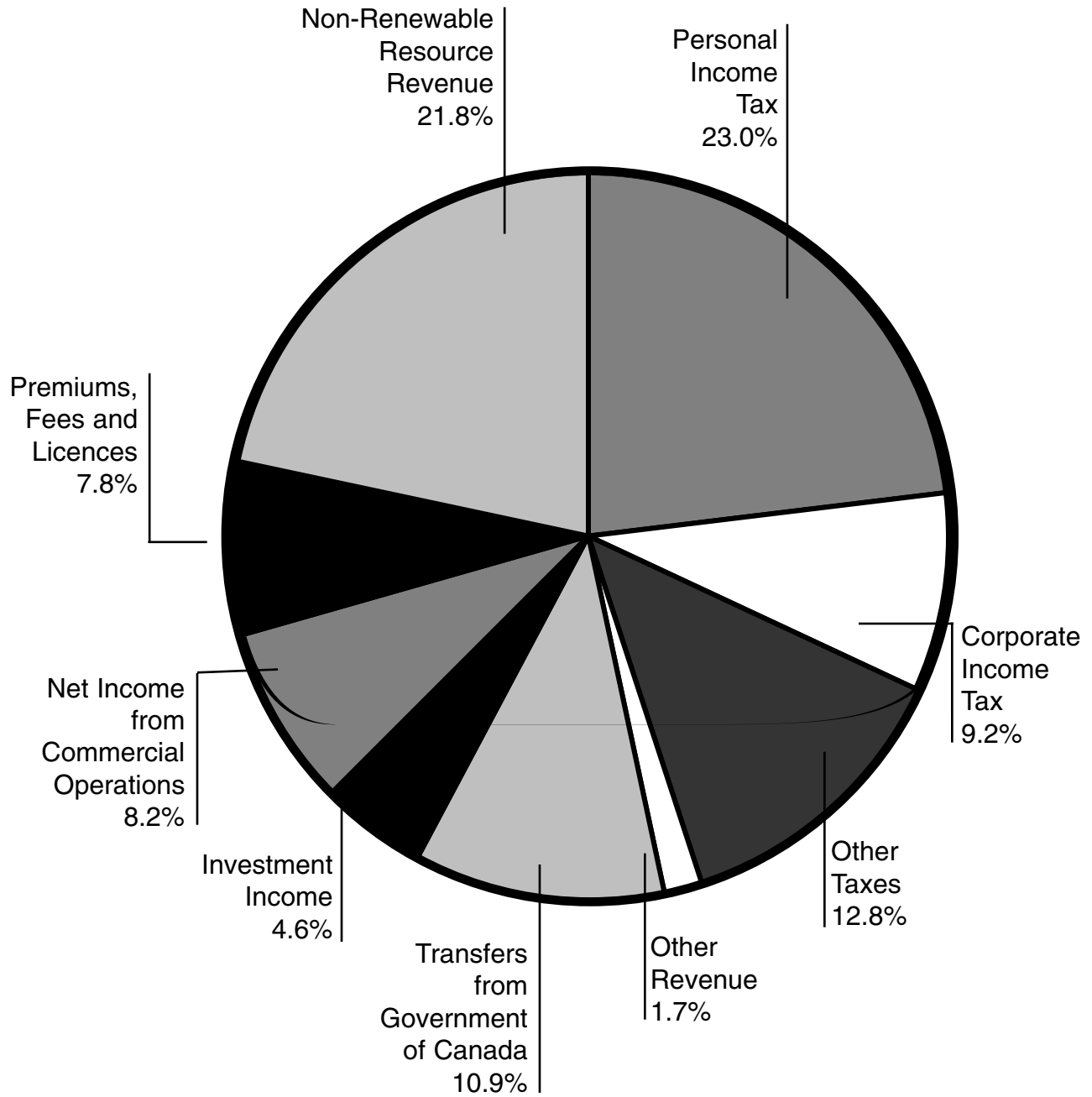
(millions of dollars)

	2001-02 Actual	2002-03 Budget	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
<b>Income Taxes</b>						
Personal income tax	4,183	4,708	4,867	5,035	5,328	5,674
Corporate income tax	2,229	1,550	2,400	2,016	1,842	1,876
	6,412	6,258	7,267	7,051	7,170	7,550
<b>Other Taxes</b>						
School property tax	1,094	1,093	1,101	1,165	1,233	1,304
Tobacco tax	373	633	633	624	629	632
Fuel tax	585	594	590	602	610	618
Freehold mineral rights tax	319	127	196	214	161	150
Insurance taxes	136	140	152	148	157	166
Hotel room tax	56	50	55	58	62	65
	2,563	2,637	2,727	2,811	2,852	2,935
<b>Non-Renewable Resource Revenue</b>						
Natural gas and by-products royalty	4,030	2,573	4,584	3,480	2,658	2,408
Crude oil royalty	987	469	1,120	502	358	272
Synthetic crude oil and bitumen royalty	185	78	135	103	107	141
Coal royalty	17	12	11	11	13	13
Bonuses and sales of Crown leases	969	609	539	679	561	541
Rentals and fees	148	142	156	144	142	138
Royalty tax credit	(109)	(169)	(117)	(143)	(130)	(125)
	6,227	3,714	6,428	4,776	3,709	3,388
<b>Transfers from Government of Canada</b>						
Canada Health and Social Transfer	1,655	1,740	1,339	1,613	1,685	1,736
2003 Health Accord	-	-	-	248	298	447
Agriculture support programs	269	117	408	169	119	116
Labour market development	123	122	122	120	119	118
Other	219	189	200	236	233	206
	2,266	2,168	2,069	2,386	2,454	2,623
<b>Net Income from Commercial Operations</b>						
Alberta Gaming and Liquor Commission						
Gaming and lottery revenue	1,040	1,107	1,112	1,093	1,203	1,203
Liquor revenue	489	538	533	546	550	550
Alberta Treasury Branches	158	117	199	152	161	176
Other	7	5	5	4	5	5
	1,694	1,767	1,849	1,795	1,919	1,934
<b>Premiums, Fees and Licences</b>						
Health care insurance premiums	708	869	897	913	927	941
Motor vehicle licences	215	254	240	262	268	274
Crop and hail insurance premiums	65	88	102	164	202	206
Timber rentals and fees	64	55	53	63	63	63
Land titles	34	33	40	36	36	35
Other	277	262	260	278	281	287
	1,363	1,561	1,592	1,716	1,777	1,806
<b>Investment Income</b>						
Alberta Heritage Savings Trust Fund	175	573	(595)	426	626	723
Alberta Capital Finance Authority	345	331	340	319	298	277
Agriculture Financial Services Corporation	108	103	102	91	99	107
Debt Retirement Account	122	75	102	45	2	-
Alberta Sustainability Fund	-	-	-	31	76	85
Endowment Funds						
Medical Research	(16)	38	(63)	31	43	49
Science and Engineering Research	(5)	13	(24)	11	23	31
Scholarship	(6)	11	(22)	10	14	16
Other	64	39	41	55	38	39
	787	1,183	(119)	1,019	1,219	1,327
<b>Other</b>						
Refunds of expense	144	79	252	87	87	87
Fines and penalties	47	59	57	63	64	64
Miscellaneous	423	421	453	224	225	231
	614	559	762	374	376	382
<b>Total Revenue</b>	21,926	19,847	22,575	21,928	21,476	21,945

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**2003-04 Revenue**  
**\$21.9 billion**

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## Expense by Ministry

(millions of dollars)

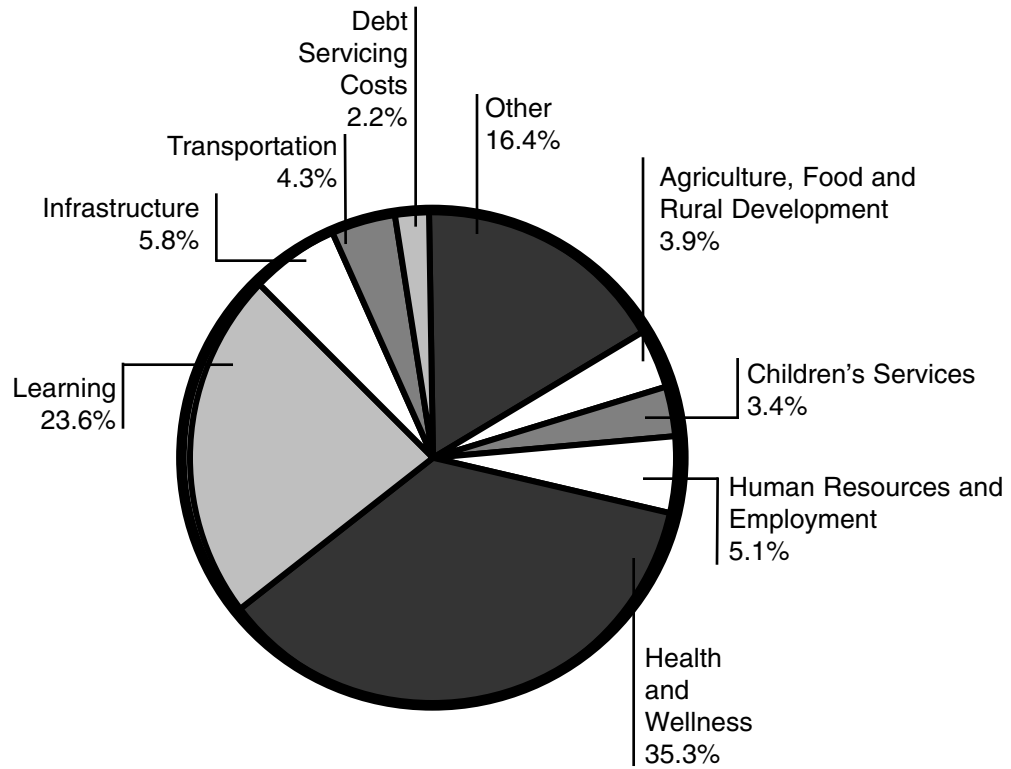
	2001-02 Actual	2002-03 Budget	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
<b>Program</b>						
Legislative Assembly	54	59	59	61	74	71
Aboriginal Affairs and Northern Development	31	30	64	32	32	32
Agriculture, Food and Rural Development	1,180	671	1,780	808	866	856
Children's Services	637	674	672	708	724	745
Community Development	557	583	582	647	700	714
Economic Development	51	51	55	55	52	52
Energy	149	165	179	191	189	190
Environment	124	110	109	122	117	116
Executive Council	16	17	17	18	18	18
Finance	410	442	451	435	412	393
Gaming	117	98	124	150	150	150
Government Services	62	70	76	83	83	83
Health and Wellness	6,321	6,833	6,858	7,350	7,669	8,113
Human Resources and Employment	999	1,040	1,063	1,071	1,073	1,077
Infrastructure	2,378	820	833	1,202	1,037	899
Innovation and Science	177	189	184	200	225	244
International and Intergovernmental Relations	6	6	6	6	6	6
Justice	224	239	247	263	261	263
Learning	4,473	4,664	4,730	4,912	5,044	5,205
Municipal Affairs	168	132	161	132	133	133
Revenue	134	158	194	166	172	181
Seniors	325	324	342	354	364	351
Solicitor General	256	266	267	278	276	277
Sustainable Resource Development	296	196	445	202	203	204
Transportation	926	651	708	889	985	991
<b>Total Program Expense</b>	<b>20,071</b>	<b>18,488</b>	<b>20,206</b>	<b>20,335</b>	<b>20,865</b>	<b>21,364</b>
Debt Servicing Costs	774	585	550	465	438	463
<b>Total Expense</b>	<b>20,845</b>	<b>19,073</b>	<b>20,756</b>	<b>20,800</b>	<b>21,303</b>	<b>21,827</b>

## Expense by Function

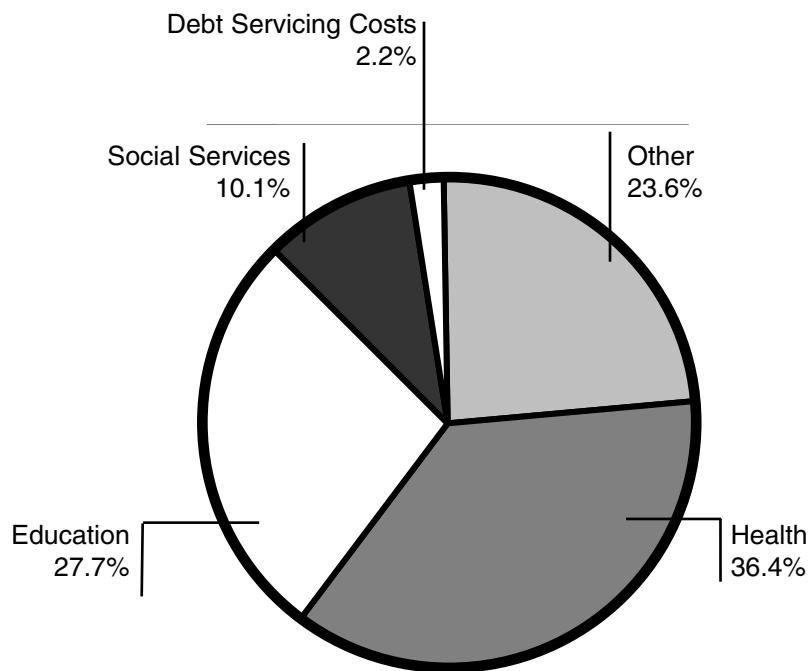
(millions of dollars)

	2001-02 Actual	2002-03 Budget	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
Health	6,791	6,892	6,891	7,572	7,793	8,197
Education	6,100	5,335	5,436	5,766	5,856	5,943
Social Services	1,885	2,008	2,007	2,099	2,133	2,178
Agriculture and Economic Development	1,499	1,034	2,132	1,198	1,304	1,312
Regional Planning and Development	833	586	627	706	766	751
Protection of Persons and Property	639	643	672	701	696	698
Transportation and Utilities	527	503	565	605	619	618
Environment and Resource Conservation	577	470	728	518	497	493
Recreation and Culture	210	158	193	229	229	217
Housing	166	139	164	159	169	152
General Government	844	720	791	782	803	805
Debt Servicing Costs	774	585	550	465	438	463
<b>Total Expense</b>	<b>20,845</b>	<b>19,073</b>	<b>20,756</b>	<b>20,800</b>	<b>21,303</b>	<b>21,827</b>

**2003-04 Expense**  
**\$20.8 billion**



**By Function**



## 2003-04 Expense by Function

(millions of dollars)

	Health	Education	Social Services	Agriculture and Economic Development	Regional Planning and Development	Protection of Persons and Property	Transportation and Utilities	Environment and Resource Conservation	Recreation and Culture	Housing	General Government	Debt Servicing Costs	Total Expense
Legislative Assembly	—	—	—	—	—	2	—	—	—	—	59	—	61
Aboriginal Affairs and Northern Development	—	—	—	—	32	—	—	—	—	—	—	—	32
Agriculture, Food and Rural Development	—	—	—	808	—	—	—	—	—	—	—	56	864
Children's Services	—	—	708	—	—	—	—	—	—	—	—	—	708
Community Development	—	—	452	4	—	6	—	50	135	—	—	—	647
Economic Development	—	—	—	55	—	—	—	—	—	—	—	—	55
Energy	—	—	—	23	—	—	12	115	—	—	41	—	191
Environment	—	—	—	—	—	—	—	122	—	—	—	—	122
Executive Council	—	—	—	—	—	—	—	—	—	—	18	—	18
Finance	—	—	—	1	316	2	—	—	—	—	116	457	892
Gaming	252	231	30	155	55	1	25	6	152	—	196	—	1,103
Government Services	—	—	—	—	—	71	—	—	—	—	156	—	227
Health and Wellness	7,350	—	—	—	—	—	—	—	—	—	—	—	7,350
Human Resources and Employment	—	266	738	—	—	31	—	—	—	—	36	—	1,071
Infrastructure	222	572	2	2	1	6	—	29	13	5	354	—	1,206
Innovation and Science	—	16	—	139	—	—	—	—	—	—	64	—	219
International and Intergovernmental Relations	—	—	—	—	—	—	—	—	—	—	6	—	6
Justice	—	—	—	—	—	263	—	—	—	—	—	—	263
Learning	—	4,912	—	—	—	—	—	—	—	—	—	4	4,916
Municipal Affairs	—	—	—	4	91	8	—	—	—	—	29	—	132
Revenue	—	21	—	84	—	20	—	—	—	—	69	—	194
Seniors	—	—	200	—	—	—	—	—	—	154	—	43	397
Solicitor General	—	—	—	—	—	278	—	—	—	—	—	—	278
Sustainable Resource Development	—	—	—	—	—	—	—	208	—	—	—	—	208
Transportation	—	—	—	16	266	14	593	—	—	—	—	—	889
Inter-Ministry Consolidation Adjustments	(252)	(252)	(31)	(93)	(55)	(1)	(25)	(12)	(71)	—	(362)	(95)	(1,249)
<b>Total Expense</b>	<b>7,572</b>	<b>5,766</b>	<b>2,099</b>	<b>1,198</b>	<b>706</b>	<b>701</b>	<b>605</b>	<b>518</b>	<b>229</b>	<b>159</b>	<b>782</b>	<b>465</b>	<b>20,800</b>

## 2003-04 Expense by Object

(millions of dollars)

	Salaries, Wages, and Employee Benefits	Supplies and Services	Grants to Others	Internal Government Transfers	Financial Transactions and Other	Amortization of Capital Assets	Intra-Ministry Consolidation Adjustments	Ministry Expense	Inter-Ministry Consolidation Adjustments	Total Expense
Legislative Assembly	30	18	—	—	13	—	—	61	—	61
Aboriginal Affairs and Northern Development	5	10	17	—	—	—	—	32	—	32
Agriculture, Food and Rural Development	106	52	86	379	613	7	(379)	864	—	864
Children's Services	144	449	114	542	—	1	(542)	708	—	708
Community Development	132	235	270	924	1	10	(925)	647	—	647
Economic Development	19	33	3	—	—	—	—	55	—	55
Energy	100	66	14	38	—	11	(38)	191	—	191
Environment	58	44	2	—	—	18	—	122	—	122
Executive Council	15	3	—	—	—	—	—	18	—	18
Finance	27	20	62	108	688	2	(15)	892	(95)	797
Gaming	3	3	144	1,099	—	—	(146)	1,103	(953)	150
Government Services	90	132	—	—	—	5	—	227	(144)	83
Health and Wellness	81	138	7,067	58	42	22	(58)	7,350	—	7,350
Human Resources and Employment	123	143	798	—	3	4	—	1,071	—	1,071
Infrastructure	53	293	805	—	—	55	—	1,206	(4)	1,202
Innovation and Science	60	76	75	103	—	8	(103)	219	(19)	200
International and Intergovernmental Relations	4	2	—	—	—	—	—	6	—	6
Justice	160	48	29	—	25	1	—	263	—	263
Learning	69	107	4,733	—	4	3	—	4,916	—	4,916
Municipal Affairs	24	19	88	—	—	1	—	132	—	132
Revenue	33	25	84	472	21	3	(444)	194	(28)	166
Seniors	21	23	308	—	43	24	(22)	397	—	397
Solicitor General	122	144	11	—	1	—	—	278	—	278
Sustainable Resource Development	108	76	7	32	1	9	(25)	208	(6)	202
Transportation	55	305	285	—	—	244	—	889	—	889
<b>Total Expense</b>	<b>1,642</b>	<b>2,464</b>	<b>15,002</b>	<b>3,755</b>	<b>1,455</b>	<b>428</b>	<b>(2,697)</b>	<b>22,049</b>	<b>(1,249)</b>	<b>20,800</b>

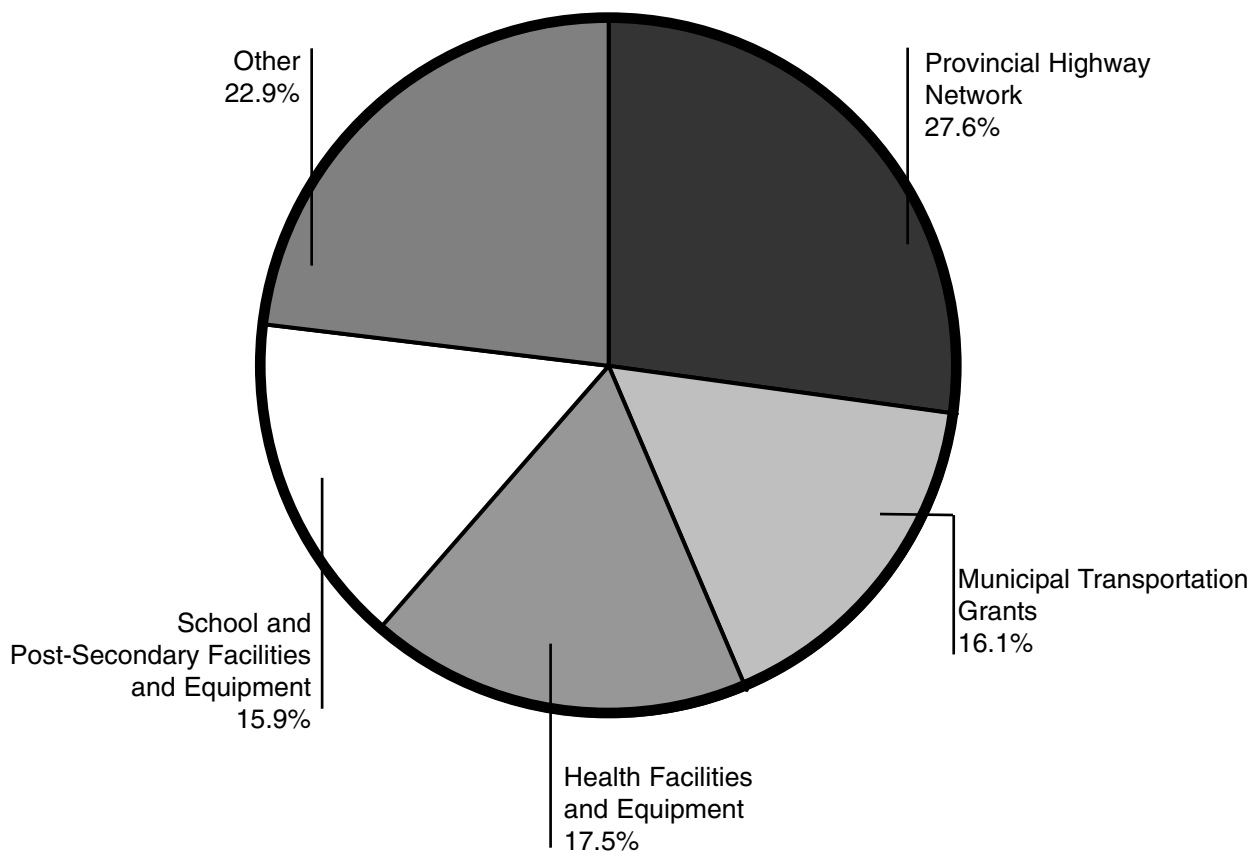
# Capital Plan

(millions of dollars)

	2001-02 Actual	2002-03 Budget	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
Provincial highway network	568	265	346	457	523	548
Municipal transportation grants	262	91	91	242	322	329
Health facilities and equipment	517	59	32	284	329	357
School facilities and equipment	713	59	75	136	189	186
Post-secondary facilities	329	16	14	135	172	66
Water and wastewater management	111	85	91	86	88	88
Community facilities	44	33	40	63	82	64
Housing	27	16	40	44	51	34
Other infrastructure programs	129	87	121	77	27	17
General government capital	160	150	91	139	202	207
<b>Total Capital Plan</b>	<b>2,860</b>	<b>861</b>	<b>941</b>	<b>1,663</b>	<b>1,985</b>	<b>1,896</b>

## 2003-06 Capital Plan

**\$5.5 billion**





## Capital Plan Funding Details<sup>a</sup>

(millions of dollars)

	2001-02 Actual	2002-03 Budget	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
<b>Support for Local Authorities' Capital</b>						
Current-year revenue	2,137	348	372	590	665	735
Capital Account	-	-	-	371	242	-
Alternative financing	-	-	-	-	278	349
<b>Total Support for Local Authorities' Capital</b>	2,137	348	372	961	1,185	1,084
<b>Government-Owned Capital</b>						
Current-year revenue	723	513	569	450	413	391
Capital Account	-	-	-	252	45	-
Alternative financing	-	-	-	-	342	421
<b>Total Government-Owned Capital</b>	723	513	569	702	800	812
<b>Total Capital Plan</b>						
Current-year revenue	2,860	861	941	1,040	1,078	1,126
Capital Account	-	-	-	623	287	-
Alternative financing	-	-	-	-	620	770
<b>Total Capital Plan</b>	2,860	861	941	1,663	1,985	1,896

<sup>a</sup> Funding sources and requirements could change as projects' business cases are reviewed.

## Reconciliation of the Capital Plan and Expense for Capital Purposes<sup>a</sup>

	2001-02 Actual	2002-03 Budget	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
<b>Included in Total Expense</b>						
Capital grants to local authorities	2,137	348	372	961	907	735
Capital financing grants to local authorities	-	-	-	-	8	26
Amortization of government-owned capital	307	340	384	428	465	488
Rehabilitation of government-owned capital	80	80	77	87	88	74
Financing costs of government-owned capital <sup>b</sup>	-	-	-	-	10	32
<b>Expense for Capital Purposes</b>	2,524	768	833	1,476	1,478	1,355
Capital investment in government-owned capital	643	433	492	615	712	738
Alternative financing of local authorities' capital	-	-	-	-	278	349
Adjustments						
Amortization of government-owned capital	(307)	(340)	(384)	(428)	(465)	(488)
Capital financing grants to local authorities	-	-	-	-	(8)	(26)
Financing costs of government-owned capital <sup>b</sup>	-	-	-	-	(10)	(32)
<b>Total Capital Plan</b>	2,860	861	941	1,663	1,985	1,896

<sup>a</sup> Funding sources and requirements could change as projects' business cases are reviewed.

<sup>b</sup> Does not include \$22 million in principal repayments in 2005-06.

# Capital Investment in Government-Owned Capital<sup>a</sup>

(millions of dollars)

	2001-02 Actual	2002-03 Budget	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
Legislative Assembly	1	-	-	-	1	-
Aboriginal Affairs and Northern Development	-	-	-	-	-	-
Agriculture, Food and Rural Development	6	5	6	10	6	6
Children's Services	2	-	1	-	-	-
Community Development	4	2	2	2	2	2
Economic Development	-	-	-	-	-	-
Energy	23	12	13	11	11	11
Environment	2	-	-	1	-	-
Executive Council	-	-	-	-	-	-
Finance	4	3	4	5	4	3
Gaming	-	-	-	-	-	-
Government Services	-	8	5	4	7	8
Health and Wellness	22	2	2	37	40	41
Human Resources and Employment	5	3	4	3	3	4
Infrastructure	32	13	27	46	137	135
Innovation and Science	46	128	95	66	17	7
International and Intergovernmental Relations	-	-	-	-	-	-
Justice	2	2	2	2	1	-
Learning	3	4	8	7	4	3
Municipal Affairs	2	1	1	2	1	1
Revenue	1	4	5	5	2	3
Seniors	2	-	-	-	-	-
Solicitor General	-	-	-	-	-	-
Sustainable Resource Development	5	3	3	7	7	7
Transportation	481	243	314	407	469	507
<b>Total Capital Investment</b>	<b>643</b>	<b>433</b>	<b>492</b>	<b>615</b>	<b>712</b>	<b>738</b>

<sup>a</sup> Numbers have been restated to reflect 2003-04 presentation.

# Grants to Local Authorities for Capital Purposes and Other Infrastructure Support<sup>a</sup>

(millions of dollars)

	2001-02 Actual	2002-03 Budget	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
Agriculture, Food and Rural Development	24	26	24	26	26	26
Community Development	14	1	1	1	1	1
Environment	6	6	8	1	7	7
Gaming	23	25	25	39	39	39
Health and Wellness	49	-	-	50	50	50
Infrastructure	1,533	151	130	478	343	203
Learning	-	-	-	20	20	21
Municipal Affairs	37	-	-	-	-	-
Revenue	-	-	10	10	10	-
Seniors	4	3	20	39	44	31
Transportation	527	216	231	384	463	457
<b>Total Support for Infrastructure</b>	<b>2,217</b>	<b>428</b>	<b>449</b>	<b>1,048</b>	<b>1,003</b>	<b>835</b>

<sup>a</sup> Included in program expense. Numbers have been restated to reflect 2003-04 presentation.

# Capital Amortization<sup>a</sup>

(millions of dollars)

	2001-02 Actual	2002-03 Budget	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
Legislative Assembly	-	-	-	-	-	-
Aboriginal Affairs and Northern Development	-	-	-	-	-	-
Agriculture, Food and Rural Development	6	6	6	7	7	7
Children's Services	1	1	1	1	1	1
Community Development	10	10	10	10	10	10
Economic Development	-	-	-	-	-	-
Energy	8	8	11	11	12	13
Environment	15	16	16	18	18	18
Executive Council	-	-	-	-	-	-
Finance	1	1	1	2	3	4
Gaming	-	-	-	-	-	-
Government Services	3	6	5	5	5	5
Health and Wellness	1	3	3	22	23	25
Human Resources and Employment	3	3	4	4	3	3
Infrastructure	42	54	54	55	55	55
Innovation and Science	8	9	9	8	28	36
International and Intergovernmental Relations	-	-	-	-	-	-
Justice	1	1	1	1	1	1
Learning	1	3	3	3	4	5
Municipal Affairs	1	1	2	1	2	2
Revenue	2	3	2	3	3	3
Seniors	24	24	24	24	24	24
Solicitor General	-	-	-	-	-	-
Sustainable Resource Development	6	7	7	9	9	9
Transportation	174	184	225	244	257	267
<b>Total Capital Amortization</b>	<b>307</b>	<b>340</b>	<b>384</b>	<b>428</b>	<b>465</b>	<b>488</b>

<sup>a</sup> Included in program expense.

# Debt Servicing Costs

(millions of dollars)

	2001-02 Actual	2002-03 Budget	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
<b>Agriculture, Food and Rural Development</b>						
Agriculture Financial Services Corporation	53	56	50	56	61	67
<b>Finance</b>						
General government	668	480	452	362	321	320
Financing costs of government-owned capital	-	-	-	-	10	32
<b>Learning</b>						
Alberta School Foundation Fund	3	4	3	4	5	5
<b>Seniors</b>						
Alberta Social Housing Corporation	50	45	45	43	41	39
<b>Total Debt Servicing Costs</b>	<b>774</b>	<b>585</b>	<b>550</b>	<b>465</b>	<b>438</b>	<b>463</b>

# Allocation of Cash Available from Operations

(millions of dollars)

	2001-02 Actual	2002-03 Budget	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
Economic Cushion	1,081	774	1,819	268	251	230
Contingency Allowance	-	(181)	-	(210)	(219)	(222)
	1,081	593	1,819	58	32	8
<b>Cash adjustments</b>						
Natural gas royalties	2,869	(184)	(779)	914	56	(15)
Capital cash requirements	(336)	(93)	(108)	20	(247)	(249)
Net book value of capital disposals	27	43	55	23	15	14
Alternative financing of government-owned capital <sup>a</sup>	-	-	-	-	342	399
Transfer to Science and Engineering Research Fund	-	-	-	(21)	-	-
Other cash adjustments	(656)	(104)	(344)	48	10	57
<b>Total Cash Adjustments</b>	1,904	(338)	(1,176)	984	176	206
<b>Less retained income of</b>						
Alberta Treasury Branches	156	117	199	152	161	176
Agriculture Financial Services Corporation	(55)	8	(190)	5	6	7
Alberta Heritage Savings Trust Fund	-	-	(595)	-	-	-
<b>Endowment Funds</b>						
Medical Research	(69)	(34)	(114)	(39)	(27)	(21)
Science and Engineering Research	(9)	2	(31)	(3)	5	8
Scholarship	(22)	(8)	(41)	(11)	(8)	(6)
Other	50	(8)	5	(3)	6	8
<b>Total Retained Income</b>	51	77	(767)	101	143	172
<b>Cash Available from Operations</b>	2,934	178	1,410	941	65	42
<b>Allocation of Cash Available</b>						
Alberta Sustainability Fund	-	-	-	941	65	42
Debt repayment	2,934	178	500	-	-	-
Capital Account	-	-	910	-	-	-
	2,934	178	1,410	941	65	42

<sup>a</sup> Net of \$22 million of principal repayments in 2005-06.

# Balance Sheet Details

(millions of dollars)

	At March 31				
	2002 Actual	2003 Forecast	2004 Estimate	2005 Target	2006 Target
<b>Financial Assets</b>					
Total Heritage Fund equity	12,256	11,660	11,660	11,660	11,660
Less internal holdings of debt	(105)	(100)	(95)	(88)	(81)
Heritage Fund external investments	12,151	11,560	11,565	11,572	11,579
Self-supporting lending organizations					
Alberta Capital Finance Authority <sup>a</sup>	3,854	3,959	3,905	3,870	3,765
Agriculture Financial Services Corporation	1,406	1,381	1,326	1,399	1,412
Endowment Funds					
Alberta Heritage Foundation for Medical Research	960	846	807	780	759
Alberta Heritage Science and Engineering Research	513	482	500	504	512
Alberta Heritage Scholarship	294	252	241	234	228
Alberta Sustainability Fund	-	-	2,217	2,491	2,421
Capital Account	-	910	287	-	-
Debt Retirement Account <sup>b</sup>	3,155	2,009	251	-	-
Other Financial Assets					
Equity in commercial enterprises	839	1,045	1,203	1,370	1,554
Contingency Allowance <sup>c</sup>	-	-	210	429	651
Student loans	38	85	140	183	221
Other cash, marketable securities and accounts receivable	3,042	2,648	1,982	1,838	1,810
<b>Total Financial Assets</b>	<b>26,252</b>	<b>25,177</b>	<b>24,634</b>	<b>24,670</b>	<b>24,912</b>
<b>Liabilities</b>					
Accumulated Debt					
General Revenue Fund	8,512	7,026	5,375	5,232	5,365
School construction loans	698	608	526	451	381
Alberta Social Housing Corporation	548	528	506	482	456
Less: General Revenue Fund holdings of provincial corporations' debt	(1,342)	(1,392)	(1,395)	(1,404)	(1,441)
Accumulated Debt	8,416	6,770	5,012	4,761	4,761
Pension obligations	4,771	4,849	4,970	5,092	5,218
Self-supporting lending organizations					
Alberta Capital Finance Authority <sup>a</sup>	3,854	3,959	3,905	3,870	3,765
Agriculture Financial Services Corporation	1,026	1,316	1,244	1,313	1,330
Less debt internally held by consolidated entities	(1,048)	(1,217)	(1,099)	(1,168)	(1,178)
Alternative financing of government-owned capital <sup>d</sup>	-	-	-	342	741
Other Liabilities					
Accounts and interest payable	4,048	2,624	2,878	2,911	2,962
Guarantees, indemnities and remissions	130	128	126	124	124
Other accrued liabilities	152	153	154	155	156
Less other debt internally held by consolidated entities	(140)	(136)	(130)	(123)	(116)
<b>Total Liabilities</b>	<b>21,209</b>	<b>18,446</b>	<b>17,060</b>	<b>17,277</b>	<b>17,763</b>
<b>Net Financial Assets</b>	<b>5,043</b>	<b>6,731</b>	<b>7,574</b>	<b>7,393</b>	<b>7,149</b>
Capital Assets	10,141	10,194	10,358	10,590	10,826
<b>Net Assets</b>	<b>15,184</b>	<b>16,925</b>	<b>17,932</b>	<b>17,983</b>	<b>17,975</b>
Pension obligations	4,771	4,849	4,970	5,092	5,218
<b>Net Assets for Fiscal Policy Purposes<sup>e</sup></b>	<b>19,955</b>	<b>21,774</b>	<b>22,902</b>	<b>23,075</b>	<b>23,193</b>

<sup>a</sup> Formerly Alberta Municipal Financing Corporation.

<sup>b</sup> 2002 includes \$414 million that was committed for debt repayment but not transferred until the following year.

<sup>c</sup> Cumulative total of Contingency Allowance available for in-year initiatives but not yet committed.

<sup>d</sup> Subject to change. Alternative financing will be approved on a project-by-project basis. Net of \$22 million of principal repayments in 2006.

<sup>e</sup> Under the *Fiscal Responsibility Act*.

## General Revenue Fund Term Debt Maturities<sup>a</sup>

	Par Amount in Cdn. Dollars (\$ millions)	Par Amount in U.S. Dollars (\$ millions)	Coupon Rate (%)	Maturity Date
<b>2003-04 Term Debt Maturities</b>				
1993 Canadian Debenture	500		7.75	May 5, 2003
1996 Alberta Savings Certificates	30		2.25	June 1, 2003
1998 Global U.S. Dollar Notes <sup>b</sup>	766	500	4.88	October 29, 2003
1998 Canadian Debenture	390		5.10	December 1, 2003
1999 Canadian Dollar Notes	14		5.30	March 30, 2004
<b>2003-04 Total Term Debt Maturities</b>	<b>1,700</b>	<b>500</b>		
<b>2004-05 Term Debt Maturities</b>				
2000 Euro U.S. Dollar Notes <sup>b</sup>	304	200	7.25	April 5, 2004
1997 Alberta Savings Certificates	12		2.25	June 1, 2004
1994 Canadian Debenture	600		6.38	June 1, 2004
1994 Japanese Yen Loan <sup>b,c</sup>	150	100	4.60	July 28, 2004
1999 Canadian Medium Term Notes	40		5.50	October 8, 2004
1999 Canadian Debenture	394		5.75	December 1, 2004
<b>2004-05 Total Term Debt Maturities</b>	<b>1,500</b>	<b>300</b>		
<b>2005-06 Term Debt Maturities</b>				
1995 Canadian Medium Term Notes	125		8.45	May 16, 2005
1995 Japanese Yen loan <sup>d</sup>	28		4.40	September 13, 2005
1993 Euro Canadian Dollar Notes	500		7.25	October 28, 2005
1995 Canadian Debenture	500		7.50	December 1, 2005
<b>2005-06 Total Term Debt Maturities</b>	<b>1,153</b>	<b>-</b>		

<sup>a</sup> Excludes \$114.3 million in 2003-04, \$149.8 million in 2004-05 and \$147.6 million in 2005-06 of principal repayment on notes supported by provincial corporations.

<sup>b</sup> U.S. dollar debt converted to Canadian dollars at a forecast foreign exchange rate ranging from 65.5 cents U.S. in October 2003 to 66 cents U.S. in July 2004.

<sup>c</sup> Swapped into U.S. dollars.

<sup>d</sup> Swapped into Canadian dollars.

## Net Financing Requirements

(millions of dollars)

	2001-02 Actual	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
<b>Requirements</b>					
General Revenue Fund term debt maturities	1,737	1,560	<b>1,700</b>	1,500	1,153
School construction loans	95	90	<b>83</b>	75	70
Provincial corporations' term borrowing requiremen	110	185	<b>200</b>	232	210
Adjustments	(45)	(4)	<b>(25)</b>	(21)	26
Gross financing requirements	1,897	1,831	<b>1,958</b>	1,786	1,459
Cash applied to accumulated debt repayment	(1,849)	(1,646)	<b>(1,758)</b>	(251)	-
<b>Net Term Debt Financing Requirements<sup>a</sup></b>	<b>48</b>	<b>185</b>	<b>200</b>	<b>1,535</b>	<b>1,459</b>

<sup>a</sup> Does not include potential alternative financing requirements for government-owned capital assets.

## Accumulated Debt

(millions of dollars)

	2001-02 Actual	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
Accumulated debt at start of year	10,265	8,416	6,770	5,012	4,761
Accumulated debt repayment	(1,849)	(1,646)	(1,758)	(251)	-
Accumulated debt at end of year	8,416	6,770	5,012	4,761	4,761
Cash set aside for future debt repayment <sup>a</sup>	3,155	2,009	251	-	-
<b>Accumulated Debt Less Cash Set Aside</b>	<b>5,261</b>	<b>4,761</b>	<b>4,761</b>	<b>4,761</b>	<b>4,761</b>

<sup>a</sup> 2001-02 includes \$414 million that was committed for debt repayment but not transferred until 2002-03.

## Pension Obligations<sup>a</sup>

(millions of dollars)

	At March 31				
	2002 Actual	2003 Forecast	2004 Estimate	2005 Target	2006 Target
<b>Obligations for Employees of Organizations Outside the Government Reporting Entity</b>					
Teachers' Pension Plan	3,890	3,965	4,092	4,220	4,354
Universities Academic Pension Plan	151	158	165	173	180
Special Forces Pension Plan	52	60	60	60	60
	4,093	4,183	4,317	4,453	4,594
<b>Obligations for Current and Former Government Employees and MLAs</b>					
Public Service Management Pension Plan <sup>b</sup>	630	620	608	595	581
Members of the Legislative Assembly Pension Plan	48	46	45	44	43
	678	666	653	639	624
<b>Total Pension Obligations</b>	<b>4,771</b>	<b>4,849</b>	<b>4,970</b>	<b>5,092</b>	<b>5,218</b>

<sup>a</sup> Pension obligations are scheduled for elimination under a 1993 legislated plan.

<sup>b</sup> Membership closed and pensionable service no longer being accrued.

## Capital Assets

(millions of dollars)

	2001-02 Actual	2002-03 Forecast	2003-04 Estimate	2004-05 Target	2005-06 Target
Net book value at start of year	8,002	10,141	10,194	10,358	10,590
Capital investment	643	492	615	712	738
Capital amortization	(307)	(384)	(428)	(465)	(488)
Net book value of capital disposals	(27)	(55)	(23)	(15)	(14)
Capital assets transferred from municipalities	1,830	-	-	-	-
<b>Net Book Value at End of Year</b>	<b>10,141</b>	<b>10,194</b>	<b>10,358</b>	<b>10,590</b>	<b>10,826</b>

## Loans and Advances<sup>a</sup>

(millions of dollars)

	At March 31	
	2002 Actual	2003 Forecast
<b>Loans and Advances</b>		
Agriculture Financial Services Act	967	1,060
Students Finance Act	81	181
Alberta Heritage Savings Trust Fund Act		
Ridley Grain Ltd.	152	168
Vencap Acquisition Corporation	6	6
Farm Credit Stability Act	73	43
Alberta Housing Act	25	21
Financial Administration Act		
Accountable advances	17	16
Pratt & Whitney Canada Inc.	3	2
Board of Governors, University of Alberta	2	1
University of Lethbridge Students' Union	1	-
	1,327	1,498
<b>Allowance for doubtful loans, advances, implemented guarantees and indemnities</b>		
Ridley Grain Ltd.	(60)	(76)
Student Loan Relief Completion Payment	(37)	(83)
Other	(42)	(49)
	(139)	(208)
<b>Total Loans and Advances</b>	1,188	1,290

<sup>a</sup> When a loan is considered 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	
	2002 Actual	2003 Forecast
<b>Guarantees</b>		
Student Loan Act	80	51
Alberta Housing Act	81	50
Feeder associations	52	50
Agriculture Financial Services Act	51	48
Farm Credit Stability Act	73	40
Securities Act	2	2
Centre for Engineering Research Inc.	2	1
Rural utilities loans	1	1
University of Calgary	1	-
	343	243
<b>Estimated Liability</b>		
Loan guarantees	(18)	(21)
Student Loan Relief Completion Payment	(12)	(11)
	(30)	(32)
<b>Total Guarantees</b>	313	211



# 2003-04 Allocation of Lottery Fund Revenue

(millions of dollars)

<b>Lottery Fund Revenue <sup>a</sup></b>		<b>1,099</b>
<b>Agriculture, Food and Rural Development</b>		
Agriculture initiatives	12	
Agricultural service boards	5	
<b>Children's Services</b>		
Family and Community Support Services	30	
<b>Community Development</b>		
Alberta Foundation for the Arts	29	
Alberta Sport, Recreation, Parks and Wildlife Foundation	18	
Wild Rose Foundation	8	
Alberta Historical Resources Foundation	7	
First Nations Development Fund	4	
Volunteer services	4	
Human Rights, Citizenship and Multiculturalism Education Fund	1	
Hosting 2005 World Masters Games	1	
Edmonton 2004 Centennial	1	
Arts development	1	
Sport and recreation	1	
Hosting 2004 Arctic Winter Games and 2007 Western Canada Games	1	
<b>Economic Development</b>		
International marketing (tourism)	8	
In-Alberta / regional marketing	2	
Visitor support services	2	
Travel Alberta Secretariat	1	
Tourism destination regions, tourism research and Alberta image promotion	1	
<b>Finance</b>		
Contingency Allowance / Alberta Sustainability Fund	96	
<b>Gaming</b>		
Community Facility Enhancement Program	38	
Racing industry renewal	37	
Community Initiatives Program	30	
Calgary Exhibition and Stampede	7	
Edmonton Northlands	7	
Bingo associations	4	
Edmonton Oilers ticket lottery	3	
Calgary Flames ticket lottery	3	
Major fairs and exhibitions	2	
Alberta Gaming Research Institute and Alberta Gaming Research Council	2	
Other initiatives	13	
<b>Health and Wellness</b>		
Human tissue and blood services	130	
Alberta Alcohol and Drug Abuse Commission	49	
Community based health services	10	
Health services research	5	
Aboriginal health strategies	2	
<b>Infrastructure</b>		
School facilities	80	
Health facilities	50	
Post-secondary facilities	15	
<b>Innovation and Science</b>		
Alberta SuperNet	61	
Alberta science and research investment program	39	
Informatics Circle of Research Excellence	10	
Alberta Agricultural Research Institute	9	
Alberta Energy Research Institute	7	
Alberta Forestry Research Institute	2	
<b>Learning</b>		
School support - transportation subsidies	60	
School support - technology upgrading	20	
Community education	19	
School support - high speed networking	6	
Learning television	4	
School support - online curriculum repository	4	
Achievement scholarships	3	
<b>Municipal Affairs</b>		
Unconditional municipal grants	28	
Municipal sponsorship	12	
<b>Transportation</b>		
Rural transportation partnerships	35	
Street improvement program	25	
Municipal water and wastewater grants	20	
Water management infrastructure	15	
<b>Total Allocation</b>		<b>1,099</b>

<sup>a</sup> Includes \$6 million of Lottery Fund interest income.

## Full-Time Equivalent Employment

	2002-03 Budget	2003-04 Estimate	Change
Legislative Assembly	436	437	1
Aboriginal Affairs and Northern Development	61	77	16
Agriculture, Food and Rural Development	1,602	1,622	20
Children's Services	2,402	2,511	109
Community Development	2,237	2,235	(2)
Economic Development	194	200	6
Energy	1,313	1,362	49
Environment	763	768	5
Executive Council	177	181	4
Finance	352	379	27
Gaming	32	39	7
Government Services	1,632	1,639	7
Health and Wellness	1,197	1,217	20
Human Resources and Employment	1,852	1,901	49
Infrastructure	842	847	5
Innovation and Science	787	804	17
International and Intergovernmental Relations	53	53	-
Justice	2,123	2,165	42
Learning	985	995	10
Municipal Affairs	311	319	8
Revenue	422	424	2
Seniors	322	322	-
Solicitor General	2,090	2,101	11
Sustainable Resource Development	1,880	1,906	26
Transportation	862	877	15
<b>Total Full-Time Equivalent Employment</b>	<b>24,927</b>	<b>25,381</b>	<b>454</b>

## Premiums, Fees and Licences Changes

	2002-03	2003-04
<b>Health and Wellness</b>		
Schedule of Medical Benefits - duplicate copies	\$23.50	\$45.14
Practitioner profile	\$7.25	\$27.85
<b>Transportation</b>		
Inspection station licence (per year)	-	\$50
Inspection technician's licence (5 years)	-	\$170

# Major Provincial Tax Rates, 2003

		AB	BC	SK	MB	ON	QC	NB	NS	PE	NL
<b>Personal Income Tax</b>											
Statutory rate range											
- lowest rate	(%)	10.00	6.05	11.00	10.90	6.05	16.00 <sup>a</sup>	9.68	9.77	9.80	10.57
- highest rate	(%)	10.00	14.70	15.00	17.40	11.16	24.00 <sup>a</sup>	17.84	16.67	16.70	18.02
Surtax	(%)	—	—	—	—	20.0/36.0	—	—	10.0	10.0	9.0
Basic amount	(\$)	13,525	8,307	8,000	7,634	7,817	6,150	7,756	7,231	7,412	7,410
Spousal amount	(\$)	13,525	7,113	8,000	6,482	6,637	6,150	6,586	6,140	6,294	6,055
<b>Corporate Income Tax</b>											
General rate	(%)	12.5	13.5	17.0	16.0	12.5	8.9	13.0	16.0	16.0	14.0
M&P rate	(%)	12.5	13.5	10-17 <sup>b</sup>	16.0	11.0	8.9	13.0	16.0	7.5	5.0
Small business											
- rate	(%)	4.0	4.5	6.0	5.0	5.5	8.9	3.0	5.0	7.5	5.0
- threshold	(\$000)	400	300	300	320	320	n/a	400	200	200	200
<b>Capital Tax</b>											
General	(max.%)	—	—	0.60	0.50	0.30	0.60	0.30	0.25	—	—
Financial institutions	(max.%)	—	3.00	3.25	3.00	0.90	1.45 <sup>c</sup>	3.00	3.00	3.00	4.00
<b>Retail Sales Tax</b>	(%)	—	7.5	6.0	7.0	8.0	7.5 <sup>d</sup>	8.0 <sup>d</sup>	8.0 <sup>d</sup>	10.0	8.0 <sup>d</sup>
<b>Gasoline Tax</b>	(¢/litre)	9.0	14.5 <sup>e</sup>	15.0	11.5	14.7	15.2 <sup>e,f</sup>	14.5 <sup>f</sup>	15.5 <sup>f</sup>	14.0	16.5 <sup>f</sup>
<b>Tobacco Tax</b>	(\$/carton)	32.00	32.00	32.00 <sup>f</sup>	29.00 <sup>f</sup>	17.20	18.10	23.50 <sup>f</sup>	26.04 <sup>f</sup>	22.90	27.00 <sup>f</sup>
<b>Payroll Tax</b>	(max.%)	—	—	—	2.15	1.95	4.26 <sup>g</sup>	—	—	—	2.00

Rates for other provinces known as of March 19, 2003.

<sup>a</sup> Quebec residents receive an abatement of 16.5% of basic federal tax in lieu of federal cash transfers to Quebec for several social programs.

<sup>b</sup> The general corporate tax rate is reduced by up to 7 points based on the share of a corporation's national manufacturing and processing income allocated to Saskatchewan.

<sup>c</sup> The Quebec financial institutions capital tax includes the base rate of 1.20% and a compensatory tax of 0.25%.

<sup>d</sup> These provinces' sales taxes are harmonized with the federal GST.

<sup>e</sup> An additional 6¢/litre is imposed in the greater Vancouver area, 2.5¢/litre in Victoria and 1.5¢/litre in Montreal.

<sup>f</sup> These provinces apply their retail sales tax on top of this tax.

<sup>g</sup> Quebec levies an additional 2% compensatory tax on the wages paid by financial institutions that is not included in this rate.

# Key Energy and Economic Assumptions

	2000-01 Actual	2001-02 Actual	2002-03	2003-04	2004-05	2005-06
<b>Fiscal Year Assumptions</b>						
<b>Prices</b>						
Oil price						
WTI (US\$/bbl)	30.20	24.17	28.86	23.30	22.00	22.00
Alberta wellhead (Cdn\$/bbl)	39.15	31.46	39.26	29.50	28.18	27.72
Natural gas price						
Alberta Reference Price (Cdn\$/mcf)	6.08	3.94	4.65	4.05	3.50	3.45
Alberta Reference Price (Cdn\$/GJ)	5.76	3.74	4.41	3.84	3.32	3.27
<b>Production</b>						
Crude oil and equivalent (000's barrels/day)	1,490	1,479	1,560	1,666	1,756	1,839
Natural gas (billions of cubic feet)	5,342	5,312	5,176	5,029	4,929	4,830
<b>Interest and Exchange Rates</b>						
3-month Canada treasury bills (per cent)	5.43	3.14	2.70	3.90	4.50	4.50
10-year Canada bonds (per cent)	5.70	5.50	5.20	5.80	6.00	6.00
Exchange rate (US¢/Cdn\$)	66.5	63.9	64.4	65.6	66.0	66.5
	<b>2001 Actual</b>	<b>2002 Actual</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Calendar Year Assumptions</b>						
<b>Gross Domestic Product</b>						
Nominal (millions of dollars)	150,454	150,453 <sup>a</sup>	163,149	163,220	172,407	181,640
per cent change	5.1	0.0	8.4	0.0	5.6	5.4
Real (millions of 1997 dollars)	122,172	125,060 <sup>a</sup>	129,532	134,158	138,473	142,921
per cent change	2.0	2.4	3.6	3.6	3.2	3.2
<b>Other Indicators</b>						
Employment (thousands)	1,632.1	1,673.8	1,710.4	1,747.0	1,780.7	1,813.9
per cent change	2.8	2.6	2.2	2.1	1.9	1.9
Unemployment rate (per cent)	4.6	5.3	4.8	4.3	4.0	3.9
Housing starts (number of units)	29,174	38,754	29,900	28,700	28,600	28,800
Alberta Consumer Price Index	120.1	124.2	128.7	131.4	134.1	136.9
per cent change	2.3	3.4	3.7	2.1	2.1	2.1
Population (thousands)	3,059.1	3,113.6	3,165.6	3,216.5	3,266.2	3,315.6
per cent change	1.6	1.8	1.7	1.6	1.5	1.5

<sup>a</sup> estimated

## Sensitivities to Fiscal Year Assumptions, 2003-04<sup>a</sup>

(millions of dollars)

	Annual Change	Revenue	Spending	Net Change
Oil Price (WTI US\$/bbl)	-\$1.00	-76	--	-76
Natural Gas Price (Cdn\$/mcf)	-10¢	-106	--	-106
Exchange Rate (US¢/Cdn\$)	+1¢	-125	-25	-100
Interest Rates	+1%	-148	+15	-163

<sup>a</sup> 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 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.

# Historical Fiscal Summary, 1985-86 to 2005-06<sup>a</sup>

(millions of dollars)

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	
	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	
																		Forecast	Budget	Target	Target	
<b>INCOME STATEMENT</b>																						
<b>Revenue</b>																						
1	Personal income tax	1,521	1,768	2,236	2,039	2,536	2,796	3,057	2,794	2,877	3,063	3,177	3,445	3,877	4,601	5,100	3,943	4,183	4,867	5,035	5,328	5,674
2	Corporate income tax	780	396	595	697	700	803	731	637	854	1,073	1,332	1,407	1,849	1,659	1,255	2,023	2,229	2,400	2,016	1,842	1,876
3	School property tax	660	686	729	769	824	915	1,027	1,115	1,168	1,196	1,205	1,169	1,212	1,118	1,151	1,094	1,101	1,165	1,233	1,304	
4	Other tax revenue	341	262	553	679	683	878	1,029	1,055	1,053	1,126	1,112	1,157	1,218	1,178	1,241	1,386	1,469	1,626	1,646	1,619	1,631
5	Natural resource revenue	4,932	1,892	2,626	2,085	2,240	2,688	2,022	2,183	2,817	3,378	2,786	4,034	3,778	2,368	4,650	10,586	6,227	6,428	4,776	3,709	3,388
6	Investment income	2,161	1,965	1,847	1,834	1,891	2,125	2,155	1,711	1,837	1,567	1,724	1,616	1,747	1,610	1,906	1,353	788	(119)	1,019	1,219	1,327
7	Other own-source revenue	1,111	959	1,407	1,662	2,022	1,615	1,566	2,319	2,710	2,832	2,431	2,473	2,890	2,950	3,183	3,272	3,672	4,203	3,885	4,072	4,121
8	<b>Total own-source revenue</b>	<b>11,506</b>	<b>7,928</b>	<b>9,993</b>	<b>9,765</b>	<b>10,896</b>	<b>11,820</b>	<b>11,587</b>	<b>11,814</b>	<b>13,316</b>	<b>14,235</b>	<b>13,767</b>	<b>15,301</b>	<b>16,571</b>	<b>15,484</b>	<b>18,463</b>	<b>23,714</b>	<b>19,662</b>	<b>20,506</b>	<b>19,542</b>	<b>19,022</b>	<b>19,321</b>
9	Federal transfers	1,788	1,689	1,912	2,135	1,943	2,365	2,150	2,457	2,090	1,929	1,748	1,351	1,183	1,335	1,640	1,813	2,264	2,069	2,386	2,454	2,624
10	<b>Total Revenue</b>	<b>13,294</b>	<b>9,617</b>	<b>11,905</b>	<b>11,900</b>	<b>12,839</b>	<b>14,185</b>	<b>13,737</b>	<b>14,271</b>	<b>15,406</b>	<b>16,164</b>	<b>15,515</b>	<b>16,652</b>	<b>17,754</b>	<b>16,819</b>	<b>20,103</b>	<b>25,527</b>	<b>21,926</b>	<b>22,575</b>	<b>21,928</b>	<b>21,476</b>	<b>21,945</b>
<b>Expense by Function<sup>b</sup></b>																						
11	Health	2,958	3,191	3,056	3,338	3,602	3,864	4,103	4,325	4,169	3,905	3,747	3,978	4,369	4,624	5,302	5,897	6,791	6,891	7,572	7,793	8,197
12	Basic / advanced education	2,961	3,114	3,118	3,227	3,379	3,532	3,676	3,904	4,036	3,756	3,713	3,738	4,081	4,241	4,735	5,040	6,100	5,436	5,766	5,856	5,943
13	Social services	1,156	1,270	1,329	1,434	1,502	1,567	1,746	1,889	1,721	1,495	1,456	1,511	1,564	1,560	1,668	1,790	1,885	2,007	2,099	2,133	2,178
14	Other program expense	6,798	5,778	5,195	5,111	5,357	5,772	5,527	6,058	5,197	4,324	3,765	3,474	3,759	3,921	4,651	5,249	5,295	5,872	4,898	5,083	5,046
15	<b>Total program expense</b>	<b>13,873</b>	<b>13,353</b>	<b>12,698</b>	<b>13,110</b>	<b>13,840</b>	<b>14,735</b>	<b>15,052</b>	<b>16,176</b>	<b>15,123</b>	<b>13,480</b>	<b>12,681</b>	<b>12,701</b>	<b>13,773</b>	<b>14,346</b>	<b>16,356</b>	<b>17,976</b>	<b>20,071</b>	<b>20,206</b>	<b>20,335</b>	<b>20,865</b>	<b>21,364</b>
16	Debt servicing costs	182	297	572	797	1,115	1,282	1,314	1,419	1,654	1,746	1,683	1,462	1,322	1,379	956	980	774	550	465	438	463
17	<b>Total Expense</b>	<b>14,055</b>	<b>13,650</b>	<b>13,270</b>	<b>13,907</b>	<b>14,955</b>	<b>16,017</b>	<b>16,366</b>	<b>17,595</b>	<b>16,777</b>	<b>15,226</b>	<b>14,364</b>	<b>14,163</b>	<b>15,095</b>	<b>15,725</b>	<b>17,312</b>	<b>18,956</b>	<b>20,845</b>	<b>20,756</b>	<b>20,800</b>	<b>21,303</b>	<b>21,827</b>
18	Net Revenue (Spending)	(761)	(4,033)	(1,365)	(2,007)	(2,116)	(1,832)	(2,629)	(3,324)	(1,371)	938	1,151	2,489	2,659	1,094	2,791	6,571	1,081	1,819	1,128	173	118
	Transfers from (to)																					
19	Sustainability Fund	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(1,276)	(209)	112
20	Capital Account	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	416	287	—
21	<b>Surplus (Deficit) / Cushion</b>	<b>(761)</b>	<b>(4,033)</b>	<b>(1,365)</b>	<b>(2,007)</b>	<b>(2,116)</b>	<b>(1,832)</b>	<b>(2,629)</b>	<b>(3,324)</b>	<b>(1,371)</b>	<b>938</b>	<b>1,151</b>	<b>2,489</b>	<b>2,659</b>	<b>1,094</b>	<b>2,791</b>	<b>6,571</b>	<b>1,081</b>	<b>1,819</b>	<b>268</b>	<b>251</b>	<b>230</b>
<b>BALANCE SHEET</b>																						
22	Net Financial Assets (Debt) <sup>c</sup>	11,817	7,784	6,419	4,412	2,296	464	(2,165)	(7,054)	(8,313)	(7,355)	(6,255)	(3,728)	(1,089)	(63)	2,654	9,042	9,814	11,580	12,544	12,485	12,367
23	Capital Assets <sup>d</sup>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7,669	7,411	7,292	7,215	7,218	7,259	8,002	10,141	10,194	10,358	10,590	10,826
24	<b>Net Assets (Debt)<sup>c</sup></b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>314</b>	<b>1,156</b>	<b>3,564</b>	<b>6,126</b>	<b>7,155</b>	<b>9,913</b>	<b>17,044</b>	<b>19,955</b>	<b>21,774</b>	<b>22,902</b>	<b>23,075</b>	<b>23,193</b>
25	Pension obligations	5,500	6,625	7,946	8,004	8,243	6,156	5,774	4,770	5,066	5,352	5,352	4,981	4,890	4,813	4,728	4,742	4,771	4,849	4,970	5,092	5,218
26	Accumulated Debt <sup>e</sup>	4,953	10,091	11,105	13,069	15,527	16,647	17,406	20,305	22,701	21,451	20,531	17,733	14,976	14,106	12,020	8,195	5,261	4,761	4,761	4,761	4,761
27	Sustainability Fund	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,217	2,491	2,421

<sup>a</sup> Numbers restated on 2003-04 basis where possible. 2001-02 and 2002-03 are fully comparable. 1992-93 to 2000-01 are essentially comparable with the exception of the treatment of disposal of capital assets. Prior to 1992-93, spending is on an expenditure basis, using actual capital expenditure rather than capital amortization costs.

<sup>b</sup> Excludes change in pension obligations. Beginning in 1996-97, valuation adjustments have been allocated by function. In prior years, valuation adjustments were included in other program expense.

<sup>c</sup> Excludes pension obligations. Net debt was increased by \$1,474 million in 1992-93 primarily for a provision for school construction debt, reduced by \$125 million in 1993-94 to record personal income tax and established programs financing entitlements on an accrual basis, and increased by \$32 million in 1995-96 to report some other revenues on an accrual basis.

<sup>d</sup> Capital assets information not available prior to 1994-95. 2001-02 includes \$1.8 billion transfer of secondary highway system from municipalities to the Province.

<sup>e</sup> Net of cash set aside for future debt repayment. 2001-02 includes \$414 million that was committed for debt repayment but not transferred until 2002-03.



# THE CAPITAL PLAN

Alberta **2003** Budget  

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Making Alberta Even Better

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# The Capital Plan

*“This is not a short-term, stop gap measure – it is a three-year down payment on a long-term infrastructure plan that will keep pace with the growth and expansion of the province.”*

**Premier Ralph Klein  
March 20, 2003**

*The new fiscal framework will bring sustainability and predictability to capital spending.*

Beginning with Budget 2003, the government will publish a three-year capital plan each year as required by Alberta's new fiscal framework. The capital plan sets out the government's commitment to both government-owned capital projects and local authorities' capital projects.

This commitment is possible because fundamental changes are being made to the way the government manages and accounts for capital spending to bring an end to stop-and-go funding of infrastructure. Details of these changes are contained in the chapter, *A New Fiscal Framework for Alberta*.

## INFRASTRUCTURE CHALLENGES

As part of the spending reductions in the 1990s to restore fiscal balance in Alberta, funding of capital projects was reduced to around \$1 billion per year. This level of funding has proved to be inadequate to meet Alberta's growing infrastructure needs.

Alberta has been experiencing rapid economic and population growth over the last few years, placing the province's infrastructure under enormous pressure. In addition, elements of the province's infrastructure are aging and significant reinvestment is required to ensure that the integrity of existing infrastructure is maintained.

In the three years from 1999-2000 to 2001-02, high resource revenue allowed the government to more than double its planned infrastructure spending. About \$3.5 billion of additional funding was provided. This temporary funding increase allowed many urgent infrastructure priorities to be addressed. However, the extra funding was a mixed blessing. When revenue fell unexpectedly in the fall of 2001, many planned projects had to be deferred until they were affordable. Stop-and-go funding makes it very difficult for the government and local authorities to plan effectively and get the best value for their dollars.

A better approach was needed. The new fiscal framework will bring sustainability and predictability to capital spending.

*“This three-year \$5.5 billion commitment demonstrates that this government is serious about tackling the province’s infrastructure pressures in partnership with Albertans.”*

**Premier Ralph Klein  
March 20, 2003**

## CAPITAL PLAN OVERVIEW

The new three-year capital plan commits a total of \$5.5 billion for capital over the next three years. This is an average of \$1.85 billion per year. In 2002-03, capital spending was \$941 million.

The capital plan includes major projects deferred in the fall of 2001 that have not yet been funded. Funding has also been included to replace some facilities that are beyond their useful life spans, and to continue the process of preserving and maintaining existing infrastructure.

Capital plan funding will be allocated over the next three years as follows:

- \$1.5 billion for the provincial highway network,
- \$893 million for municipal transportation grants,
- \$970 million for health facilities and equipment,
- \$511 million for school facilities and equipment,
- \$373 million for post-secondary facilities,
- \$262 million for water and wastewater management,
- \$209 million for community facilities,
- \$129 million for housing programs,
- \$121 million for other infrastructure programs, and
- \$548 million for government facilities, equipment and inventories.

An additional \$1.4 billion will be required beyond 2005-06 to complete some projects included in the three-year capital plan. About half of this will be required to complete construction of the North-South Trade Corridor and the Edmonton and Calgary ring roads.

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### Capital Plan Summary

(millions of dollars)

	2003-04 Estimate	2004-05 Target	2005-06 Target	Three-year Total
Provincial highway network	457	523	548	1,528
Municipal transportation grants	242	322	329	893
Health facilities and equipment	284	329	357	970
School facilities and equipment	136	189	186	511
Post-secondary facilities	135	172	66	373
Water and wastewater management	86	88	88	262
Community facilities	63	82	64	209
Housing	44	51	34	129
Other infrastructure programs	77	27	17	121
General government capital	139	202	207	548
<b>Total Capital Plan</b>	<b>1,663</b>	<b>1,985</b>	<b>1,896</b>	<b>5,544</b>

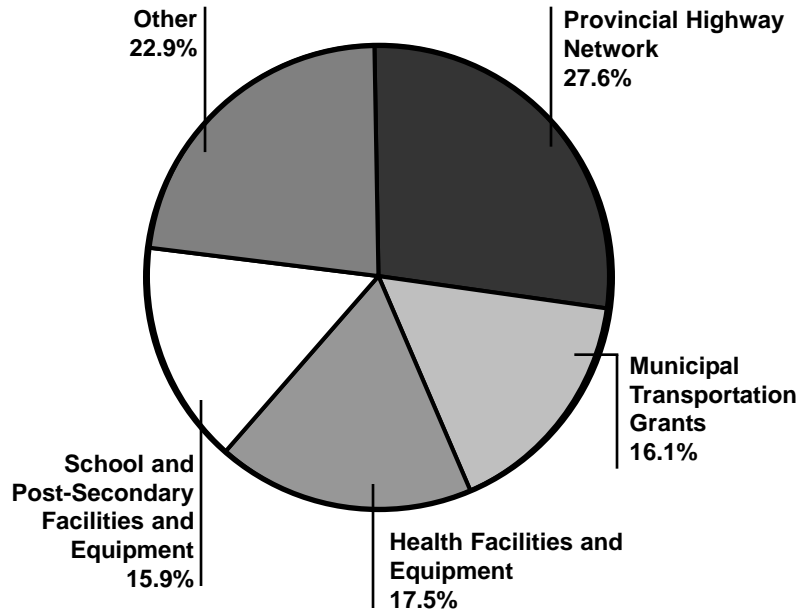
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## 2003-06 Capital Plan

### \$5.5 billion

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### FUNDING OF THE CAPITAL PLAN

The new fiscal framework provides additional options for the funding of capital projects. Previously, all capital spending was on a pay-as-you-go basis, with the cost of capital projects being charged to the government's bottom line as the projects were constructed. This essentially meant that government revenue in the current year was the only source of funding for capital construction.

In the new capital plan, current-year revenue will continue to be the main source of funding, providing over \$3.2 billion over the next three years. However, two additional sources will also be available:

- A Capital Account has been established, which will allow surplus revenue from one year to be saved to fund capital projects in future years. The Capital Account received \$910 million from the 2002-03 surplus that will be used to help fund the three-year capital plan. Additional dollars may be added to the Capital Account in future years once a balance of at least \$2.5 billion is built up in the new Alberta Sustainability Fund.
- Alternative financing will be used. This could include, for example, public-private partnerships (P3s), capital leases, capital bonds and other borrowing. The capital plan assumes that \$1.4 billion in alternative financing will be undertaken in 2004-05 and 2005-06. Financing costs (principal and interest payments) are estimated to total \$98 million over those two years.

*The new Capital Account will provide \$910 million to help fund the capital plan.*

*Alternative financing of \$1.4 billion will help fund the capital plan.*

An Advisory Committee on Alternative Capital Financing will be established to advise the government on the best approach to alternative financing for each project being considered, based on business case analysis. The Committee will consist of private sector individuals with expertise in areas such as finance and investment management, real estate development, and commercial law. Alternative financing will be used for both government-owned capital projects and government-supported projects owned by school boards, health authorities and post-secondary institutions.

## Capital Plan Funding

(millions of dollars)

	2003-04 Estimate	2004-05 Target	2005-06 Target	Three-year Total
Current-year revenue	1,040	1,078	1,126	3,244
Capital Account	623	287	—	910
Alternative financing	—	620	770	1,390
<b>Total Capital Plan</b>	<b>1,663</b>	<b>1,985</b>	<b>1,896</b>	<b>5,544</b>

## CAPITAL PLAN DETAILS

### PROVINCIAL HIGHWAY NETWORK

The capital plan includes \$1.5 billion over the next three years for the provincial highway network, the largest single category in the capital plan. Capital projects include new or widened highways and significant safety improvements, such as new interchanges and bridge replacements.

The full three-year construction plan is available from the Ministry of Transportation. Major projects include:

- Further work on the twinning of the North-South Trade Corridor.
- Further work on key elements of the Deerfoot Trail extension of the North-South Trade Corridor in Calgary, including interchanges at McKenzie Lake Boulevard, Douglasdale Drive and 130th Avenue S.E.
- Commencing new segments of the Calgary and Edmonton ring roads and continuing work on Anthony Henday Drive in Edmonton, including interchanges at Calgary Trail, Whitemud Drive and 87th Avenue.
- Building new interchanges, including:
  - Highway 1 at the junction of Highway 9,
  - Highway 1 at the junction of Cassils Road,
  - Highway 1 in Medicine Hat,
  - Highway 2 at the junction of Highway 567 near Airdrie,
  - Highway 2 near Innisfail, and
  - Highway 16 at the junction of Campsite Road.

*\$1.5 billion for the provincial highway network over the next three years.*

- Commencing work on more than 30 bridge replacements, including:
  - Highway 11A over the North Saskatchewan River at Rocky Mountain House,
  - Highway 49 over the Smoky River at Watino, and
  - Highway 727 over the Ksituan River near Spirit River.

*\$893 million for municipal transportation grants.*

### **MUNICIPAL TRANSPORTATION GRANTS**

The capital plan includes \$893 million to continue for the next three years municipal transportation grants of:

- 5 cents per litre of fuel delivered in Edmonton and Calgary,
- \$60 per capita for all other urban municipalities, and
- annual formula-based grants for rural municipalities.

*\$970 million for health facilities and equipment.*

### **HEALTH FACILITIES AND EQUIPMENT**

The capital plan includes \$970 million over the next three years for health facilities and equipment.

\$776 million of new, expanded and upgraded health facilities will be supported, including:

- constructing the new Alberta Children's Hospital in Calgary,
- constructing the Cardiac Centre of Excellence in Edmonton and the Bone and Joint Centre of Excellence in Calgary,
- expanding and upgrading the Royal Alexandra Hospital in Edmonton,
- completing the Red Deer Regional Hospital redevelopment, and
- replacing long-term care facilities in Edmonton, Westlock, Didsbury and Vegreville.

In addition, \$149 million will be provided for diagnostic and medical equipment, funded by transfers from the federal government, and \$45 million will be provided for We//net and other health-related information systems.

*\$511 million for school facilities and equipment.*

### **SCHOOL FACILITIES AND EQUIPMENT**

Over the last three years, \$1 billion has been provided for school facilities under the New Century School Plan. The capital plan includes a further \$511 million for facilities and equipment over the next three years, consisting of:

- \$226 million for the expansion of existing schools and the construction of new schools,
- \$224 million for the preservation of existing schools, and
- \$61 million for school technology upgrading.

School boards also receive operating grants to fund both operating costs (such as utilities and janitorial services) and maintenance costs (such as minor repairs, painting, floor coverings and other day-to-day maintenance).

*\$373 million for post-secondary facilities.*

## **POST-SECONDARY FACILITIES**

The capital plan includes \$373 million over the next three years to upgrade and expand post-secondary campuses, including:

- constructing the Health Research Innovation Centres at the Universities of Alberta and Calgary,
- the provincial contribution to the University of Alberta Natural Resources Engineering Facility, and
- \$90 million for preserving and upgrading facilities.

*\$262 million for water and wastewater management.*

## **WATER AND WASTEWATER MANAGEMENT**

The capital plan includes \$262 million over the next three years for water and wastewater management, consisting of:

- \$94 million for government-owned dams and associated infrastructure,
- \$78 million in grants to Irrigation Districts to upgrade irrigation infrastructure,
- \$75 million in grants to municipalities for water and wastewater treatment, and
- \$15 million for management of erosion and water resources.

*\$209 million for community facilities.*

## **COMMUNITY FACILITIES**

The capital plan includes \$209 million over the next three years for upgrading and expansion of community facilities, consisting of:

- \$115 million for the Community Facility Enhancement Program,
- \$89 million for centennial projects, and
- \$5 million for heritage infrastructure.

*\$129 million for housing.*

## **HOUSING**

The capital plan includes \$129 million over the next three years for housing programs, consisting of:

- \$104 million for the Canada/Alberta Affordable Housing Agreement, on top of the \$17 million provided in 2002-03, including federal funding under this agreement, and
- \$14 million for upgrading seniors lodges, and
- \$11 million for other social housing programs.

*\$69 million for the Alberta SuperNet and \$52 million for the Infrastructure Canada/Alberta Program.*

## **OTHER INFRASTRUCTURE PROGRAMS**

A total of \$121 million will be provided over the next three years for other infrastructure programs, consisting of:

- the final \$69 million of the government's \$193 million contribution to the Alberta SuperNet, which will provide 422 Alberta communities with high-speed connection to the internet, and
- \$52 million of Alberta's share of the costs of upgrading municipal infrastructure under the Infrastructure Canada/Alberta Program, which is cost-shared on an equal basis among the federal, provincial and municipal governments.

*\$548 million for government-owned facilities, equipment and inventories.*

## **GENERAL GOVERNMENT CAPITAL**

The capital plan includes \$548 million over the next three years for capital investment in government-owned facilities, equipment and inventories.

# Capital Plan Details

(millions of dollars)

	2003-04 Estimate	2004-05 Target	2005-06 Target	Three-Year Total
<b>Provincial Highway Network</b>				
<b>Strategic Economic Corridors</b>				
Rural North-South Trade Corridor	98.7	76.6	76.2	251.5
Urban North-South Trade Corridor - Deerfoot Trail	22.2	22.0	20.4	64.6
Edmonton ring road	59.2	103.7	129.8	292.7
Calgary ring road	2.0	66.0	75.0	143.0
Other economic corridors	23.1	21.4	44.4	88.9
<b>Sub-Total Strategic Economic Corridors</b>	<b>205.2</b>	<b>289.7</b>	<b>345.8</b>	<b>840.7</b>
<b>Highway Construction</b>				
Four-lane construction	2.4	3.0	8.2	13.6
Highway expansion projects	11.5	17.6	19.6	48.7
Interchange and intersection improvements	8.6	6.2	0.5	15.3
Other highway initiatives	57.2	57.2	57.2	171.6
Paving	21.8	12.1	7.5	41.4
Bridge replacement	10.6	9.0	18.9	38.5
Surface overlay and widening	52.4	40.8	14.9	108.1
<b>Sub-Total Highway Construction</b>	<b>164.5</b>	<b>145.9</b>	<b>126.8</b>	<b>437.2</b>
<b>Highway Rehabilitation</b>				
Pavement rehabilitation	67.8	68.0	53.8	189.6
Miscellaneous bridge rehabilitation	8.3	9.0	9.0	26.3
Minor rehabilitation programs	11.1	11.1	12.4	34.6
<b>Sub-Total Highway Rehabilitation</b>	<b>87.2</b>	<b>88.1</b>	<b>75.2</b>	<b>250.5</b>
<b>Total Provincial Highway Network</b>	<b>456.9</b>	<b>523.7</b>	<b>547.8</b>	<b>1,528.4</b>
<b>Municipal Transportation Grants</b>	<b>241.9</b>	<b>321.8</b>	<b>328.8</b>	<b>892.5</b>
<b>Health Facilities and Equipment</b>				
Preservation	122.7	108.6	85.6	316.9
Expansion	97.7	155.3	206.2	459.2
Diagnostic and medical equipment	49.6	49.6	49.7	148.9
We//net and health systems development	13.8	15.6	15.5	44.9
<b>Total Health Facilities and Equipment</b>	<b>283.8</b>	<b>329.1</b>	<b>357.0</b>	<b>969.9</b>
<b>School Facilities and Equipment</b>				
Preservation	48.1	81.8	93.8	223.7
Expansion	67.6	86.8	71.6	226.0
School technology upgrading	20.0	20.4	20.8	61.2
<b>Total School Facilities and Equipment</b>	<b>135.7</b>	<b>189.0</b>	<b>186.2</b>	<b>510.9</b>
<b>Post-Secondary Facilities</b>				
Preservation	24.8	28.8	36.4	90.0
Expansion	110.0	142.7	29.9	282.6
<b>Total Post-Secondary Facilities</b>	<b>134.8</b>	<b>171.5</b>	<b>66.3</b>	<b>372.6</b>
<b>Water and Wastewater Management</b>				
Dams and associated infrastructure	34.0	30.0	30.0	94.0
Irrigation upgrading grants	25.8	25.8	25.8	77.4
Municipal water and wastewater grants	25.0	25.0	25.0	75.0
Management of erosion and water resources	1.3	7.0	7.0	15.3
<b>Total Water and Wastewater Management</b>	<b>86.1</b>	<b>87.8</b>	<b>87.8</b>	<b>261.7</b>



## Capital Plan Details - *continued*

(millions of dollars)

	2003-04 Estimate	2004-05 Target	2005-06 Target	Three-Year Total
<b>Community Facilities</b>				
Community Facility Enhancement Program	38.5	38.5	38.5	115.5
Government-owned centennial projects	10.4	29.5	23.9	63.8
Centennial legacy grants	12.5	12.5	-	25.0
Heritage infrastructure	1.5	1.5	1.5	4.5
<b>Total Community Facilities</b>	<b>62.9</b>	<b>82.0</b>	<b>63.9</b>	<b>208.8</b>
<b>Housing</b>				
Canada/Alberta Affordable Housing Agreement	35.5	40.6	27.7	103.8
Seniors lodges	5.3	6.1	2.5	13.9
Other social housing	3.8	3.8	4.0	11.6
<b>Total Housing</b>	<b>44.6</b>	<b>50.5</b>	<b>34.2</b>	<b>129.3</b>
<b>Other Infrastructure Programs</b>				
Alberta SuperNet	58.7	10.0	-	68.7
Infrastructure Canada/Alberta Program	18.0	17.0	17.0	52.0
<b>Total Other Infrastructure Programs</b>	<b>76.7</b>	<b>27.0</b>	<b>17.0</b>	<b>120.7</b>
<b>General Government Capital</b>	<b>139.5</b>	<b>202.5</b>	<b>206.7</b>	<b>548.7</b>
<b>Total Capital Plan</b>	<b>1,662.9</b>	<b>1,984.9</b>	<b>1,895.7</b>	<b>5,543.5</b>



# ECONOMIC OUTLOOK

Alberta **2003** Budget  

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Making Alberta Even Better

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# Economic Outlook

Despite a sluggish U.S. economy and weak export markets, Alberta achieved real economic growth estimated at 2.4% in 2002 due to a very robust household sector.

In 2003 and 2004, an improved export outlook and increased conventional energy investment are expected to accelerate Alberta's real economic growth to 3.6%. In 2005 and 2006, real growth is expected to be a healthy 3.2%. Employment growth is forecast to average almost 2% per year, reducing Alberta's unemployment rate to 4% by 2005.

## Key Energy and Economic Assumptions

Fiscal Year Assumptions	2000-01 Actual	2001-02 Actual	2002-03	2003-04	2004-05	2005-06
<b>Prices</b>						
Oil price						
WTI (US\$/bbl)	30.20	24.17	28.86	23.30	22.00	22.00
Alberta wellhead (Cdn\$/bbl)	39.15	31.46	39.26	29.50	28.18	27.72
Natural gas price						
Alberta Reference Price (Cdn\$/mcf)	6.08	3.94	4.65	4.05	3.50	3.45
Alberta Reference Price (Cdn\$/GJ)	5.76	3.74	4.41	3.84	3.32	3.27
<b>Production</b>						
Crude oil and equivalent (000's barrels/day)	1,490	1,479	1,560	1,666	1,756	1,839
Natural gas (billions of cubic feet)	5,342	5,312	5,176	5,029	4,929	4,830
<b>Interest and Exchange Rates</b>						
3-month Canada treasury bills (per cent)	5.43	3.14	2.70	3.90	4.50	4.50
10-year Canada bonds (per cent)	5.70	5.50	5.20	5.80	6.00	6.00
Exchange rate (US¢/Cdn\$)	66.5	63.9	64.4	65.6	66.0	66.5
Calendar Year Assumptions	2001 Actual	2002 Actual	2003	2004	2005	2006
<b>Gross Domestic Product</b>						
Nominal (millions of dollars)	150,454	150,453 <sup>a</sup>	163,149	163,220	172,407	181,640
per cent change	5.1	0.0	8.4	0.0	5.6	5.4
Real (millions of 1997 dollars)	122,172	125,060 <sup>a</sup>	129,532	134,158	138,473	142,921
per cent change	2.0	2.4	3.6	3.6	3.2	3.2
<b>Other Indicators</b>						
Employment (thousands)	1,632.1	1,673.8	1,710.4	1,747.0	1,780.7	1,813.9
per cent change	2.8	2.6	2.2	2.1	1.9	1.9
Unemployment rate (per cent)	4.6	5.3	4.8	4.3	4.0	3.9
Housing starts (number of units)	29,174	38,754	29,900	28,700	28,600	28,800
Alberta Consumer Price Index	120.1	124.2	128.7	131.4	134.1	136.9
per cent change	2.3	3.4	3.7	2.1	2.1	2.1
Population (thousands)	3,059.1	3,113.6	3,165.6	3,216.5	3,266.2	3,315.6
per cent change	1.6	1.8	1.7	1.6	1.5	1.5

<sup>a</sup> estimated

## ALBERTA IN 2002

Alberta's economic growth in 2002 is estimated to have been 2.4%. The economy overcame some significant challenges as the halting U.S. recovery dampened exports and business investment. The housing sector and consumer spending, however, were exceptionally strong due to a robust labour market, healthy income growth and low interest rates.

- 2002 was a difficult year for Alberta's export sector. The value of international goods exports was down 13.7%, due in large part to a drop in natural gas prices.
- The value of manufacturing shipments declined by 3.2%, but showed clear signs of recovery in the latter half of the year. In the final four months of 2002, Alberta manufacturing shipments were up 8.1% on a year-over-year basis.
- The agricultural sector was hit by a severe drought in much of the province. Total crop market receipts were down by 7.9% in 2002, while livestock receipts declined by 2.3%. Although total market receipts were down 4.0%, program assistance payments reduced the overall decline in farm cash receipts to 1.0%.
- Real business investment was down by an estimated 4.5% in 2002. Although oil sands investment rose to \$6.8 billion, activity in the conventional sector declined sharply. The average number of rigs drilling was down by 22.3% for 2002 as a whole, but bounced back in December as drilling activity rose 23% relative to the previous year.
- Alberta's employment picture remained strong. The Alberta economy created 41,700 jobs, up 2.6% from 2001, with most of the jobs created in health care (11,400), retail trade (9,300) and construction (7,000). The largest job losses were in the mining sector (10,900). The unemployment rate averaged 5.3%, the second lowest in Canada.
- Alberta continued to attract large numbers of migrants from across Canada. Net inter-provincial migration increased to 26,740 in 2002, the highest level of any province.
- Low interest rates, the healthy labour market, and strong net in-migration helped boost Alberta's housing starts to 38,754, up 33% from 2001. This was the highest level in more than 20 years.
- Alberta experienced strong growth in consumer spending, with retail sales up by 7.9% from the previous year — the highest increase of any province.
- Alberta's annual inflation rate was 3.4%, due in part to increases in tobacco taxes and rising insurance premiums, as well as to inflation measurement anomalies associated with various government and industry natural gas rebates.

## GLOBAL ECONOMIC OUTLOOK

Prospects for global economic growth in the near term hinge primarily on the performance of the U.S. economy. The European Union is expected to register growth of only 1.2% in 2003, and Japan remains mired in a decade-long economic slump.

Since emerging from recession at the end of 2001, the U.S. economy has displayed a sporadic and uneven pattern of growth. While real economic growth in 2002 was a respectable 2.4%, the recovery has been effectively 'jobless' and growth slowed in the fourth quarter to 1.4%. Furthermore, growth was concentrated primarily in the household sector, while other key engines of the economy, such as manufacturing and business investment, remained weak.

The U.S. economic outlook remains murky. While a 'double-dip' recession is unlikely, the conditions for strong and sustained growth are not yet clearly in evidence. Current geopolitical uncertainties (the Iraq situation in particular) could affect the pace of the U.S. recovery. The present reliance on consumer spending is also a concern given the weak employment picture and relatively low consumer confidence.

Other developments are more encouraging. U.S. manufacturing activity has recently shown some signs of a turnaround, productivity gains have been strong, and investment in business equipment is beginning to strengthen. In addition, President Bush has proposed a major federal fiscal stimulus package. Real economic growth of 2.5% is expected in 2003, with growth of 3.5% forecast for 2004 as the U.S. recovery takes hold.

In the face of an under-performing U.S. economy, Canada's economic performance has been remarkably robust. This is most clearly evident in the area of job growth. While U.S. employment declined by almost 1% in 2002, Canada created over 335,000 jobs, an increase of 2.2%. Overall, the Canadian economy registered real growth of 3.4% in 2002, the best performance among the G-7 countries.

In view of Canada's strong performance and rising inflation, the Bank of Canada has raised interest rates by a full percentage point since early 2002. In contrast, the U.S. Federal Reserve Board sat on the sidelines through most of 2002 and ultimately lowered rates by half a percentage point at year-end. Canadian short-term rates are now roughly 1.75 percentage points above those in the United States.

The Canadian economy is well positioned for strong future growth, albeit at somewhat more modest rates than in 2002. In 2003, it is expected that Canada's real economic growth will be 3%. Over the medium term, growth is expected to remain around 3%.

In the first quarter of 2003, world oil prices averaged about US\$34 per barrel due to a supply disruption in Venezuela and the prospect of war in Iraq. They are expected to decline to US\$23.30 per barrel in 2003-04, on

average, and moderate further to US\$22 per barrel in 2004-05 and 2005-06. Unusually cold weather and high oil prices boosted the Alberta Reference Price for natural gas to an expected average of \$4.65 per mcf in 2002-03. Natural gas prices are expected to average \$4.05 per mcf in 2003-04, moderating to \$3.50 in 2004-05 and \$3.45 in 2005-06. These forecasts are predicated on relatively quick resolutions to the current international uncertainties.

## **ALBERTA ECONOMIC OUTLOOK**

Alberta economic growth is expected to strengthen to 3.6% in 2003 as investment in the conventional energy sector recovers and exports improve. Over the medium term, Alberta is expected to average a strong and sustainable real growth rate of 3.3%.

Business investment is expected to remain a major source of strength for the Alberta economy. In recent years, business investment has accounted for roughly 20% of Alberta's GDP, with about half of this investment occurring in the energy sector. Within the energy sector, investment activity has been driven increasingly by oil sands development. Non-conventional energy investment has grown from around \$400 million a decade ago to \$6.8 billion in 2002, and presently accounts for about a third of total mining investment.

The implementation of the Kyoto Protocol has introduced an element of uncertainty into the investment outlook. This is particularly true for the non-conventional energy sector, which is among the sectors most likely to be impacted by the emissions reduction targets. While a full assessment of the Protocol's impacts must await release of a comprehensive Kyoto implementation plan, it clearly has the potential to negatively affect key sectors of the Alberta economy.

At the same time, it is important to note that non-conventional energy projects now coming on stream (or presently under construction) will provide a significant boost to Alberta's growth, irrespective of future investment. The impact of new oil sands production on Alberta's energy exports will rise sharply over the next several years. Furthermore, while oil sands investment is moderating after several years of exceptionally rapid growth, conventional oil and gas investment is expected to rebound strongly this year. Alberta's manufacturing and service exports are also expected to strengthen as the U.S. economic recovery gains momentum in the latter half of 2003.

In the medium and long-term, the outlook for Alberta's growth is bolstered significantly by the increasing diversification of the Alberta economy, particularly its export sector. Alberta's reliance on commodity and primary goods exports has diminished substantially in recent years, with real manufacturing and services exports rising from 50% of Alberta's total exports in 1991 to just under 60% in 2001. This growing diversification means that Alberta is well positioned to take advantage of a recovery in



global demand, setting the stage for broadly-based export growth that is less vulnerable to the inherent fluctuations of global commodity markets and prices.

Alberta's strong economic growth will be reflected in a healthy job market. Employment growth of 2.2%, or 36,600 jobs, is expected in 2003, which should lower Alberta's unemployment rate to 4.8% for the year. Alberta's unemployment rate is expected to fall to 4% by 2005. Alberta's monthly inflation rate is expected to moderate through 2003, as many of the one-time price effects that impacted inflation last year work their way through the system and energy prices moderate.

Alberta's household sector will also remain a source of strength. While the exceptionally strong performance of residential construction and consumer spending is expected to ease in 2003, these areas will remain robust.

The fundamental strengths of the Alberta economy — including the highest average incomes in Canada, the lowest overall tax rates and low unemployment — continue to be reflected in the growing number of Canadians choosing to live in this province. Net inter-provincial migration to Alberta is expected to continue at high levels, demonstrating the ongoing strength and attraction of the Alberta Advantage.

## **RISKS**

The most significant risks to the economic outlook relate to international uncertainties, most notably in the Middle East. Prolonged destabilization or conflict could weaken global economic growth and significantly affect world energy prices. While the short-term price risks are on the upside, resolution of these matters could produce a major reversion in energy prices, particularly in view of the continued weakness in global energy demand.

The Canadian dollar has been extremely volatile over the past months, ranging from a low of 62.7 cents US in early October to a high of over 68 cents US in March. If the U.S. economic outlook deteriorates, the Canadian dollar could gain further ground against its U.S. counterpart. On the other hand, a major international crisis could strengthen the U.S. dollar, as it tends to be a favoured currency for risk-averse investors seeking a 'safe haven'.

A secondary risk is the outlook for the U.S. economy. Even in the absence of a significant international crisis, the possibility of a 'double-dip' recession cannot be entirely discounted. Until recovery takes hold in employment, business investment and manufacturing, the U.S. outlook will remain somewhat unclear.

## Sensitivities to Fiscal Year Assumptions, 2003-04<sup>a</sup>

(millions of dollars)

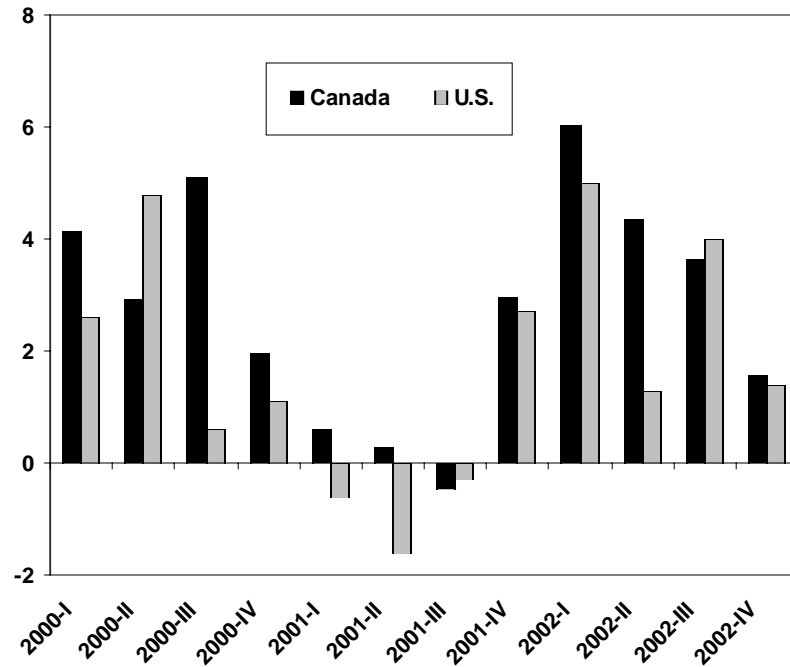
	Annual Change	Revenue	Spending	Net Change
Oil Price (WTI US\$/bbl)	-\$1.00	-76	--	-76
Natural Gas Price (Cdn\$/mcf)	-10¢	-106	--	-106
Exchange Rate (US¢/Cdn\$)	+1¢	-125	-25	-100
Interest Rates	+1%	-148	+15	-163

<sup>a</sup> 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 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.

## GLOBAL GROWTH HINGES ON A STRONG U.S. RECOVERY

Canada and U.S. Quarterly Real GDP (percent change at annual rates)

- The U.S. economy emerged from recession in 2002, posting real growth of 2.4%, but this growth has been uneven. Several key areas, including manufacturing, employment and business investment, remained weak.
- U.S. economic growth is expected to rise slightly to 2.5% in 2003, but there are significant risks to the forecast, including the effects of geopolitical uncertainties.
- Canada has been outperforming the U.S. economy over the past two years. However, with weak growth expected in Europe (1.2%) and Japan (0.2%) in 2003, continued strength will depend on a healthy and sustained U.S. recovery.

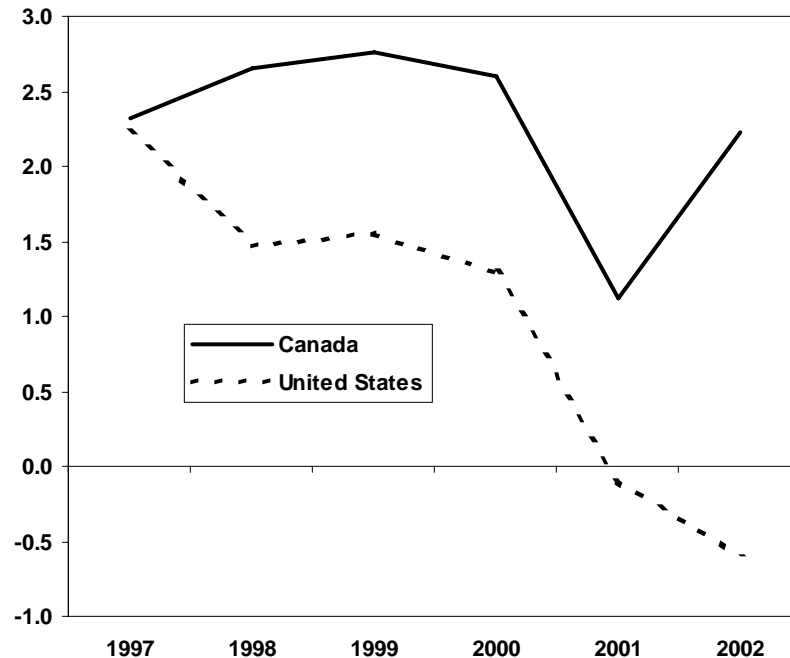


Source: Statistics Canada and the U.S. Department of Commerce.

## CANADA LEADING IN JOB GROWTH

Canadian and U.S. Employment Growth (annual, per cent)

- In 2002, Canada experienced a strong rebound in job growth, with over 335,000 new jobs created. In contrast, in the United States non-farm payrolls fell by 1.1 million, a decline of almost 1 per cent.
- A large portion of Canadian job gains were in manufacturing, the auto industry in particular. In the United States, the largest job losses occurred in its manufacturing sector, which has a greater concentration of firms in the ailing high-technology area than Canada.
- Canada's manufacturing sector ended the year on a down note, with layoffs in the automotive industry. This underlines the importance of a strong U.S. recovery to Canada's job growth prospects.

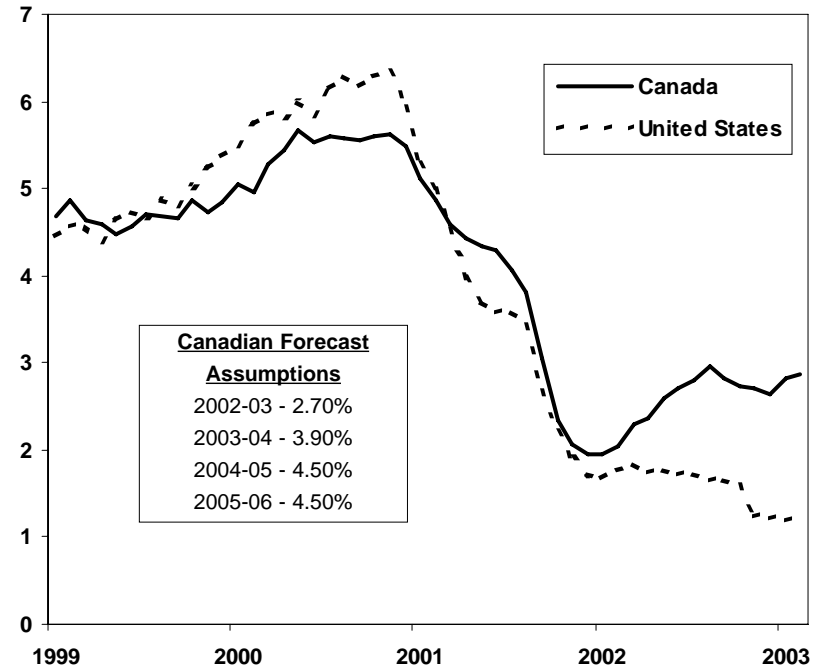


Source: Statistics Canada and U.S. Department of Labour.

## LOWEST INTEREST RATES IN DECADES

3-month Treasury Bills (per cent)

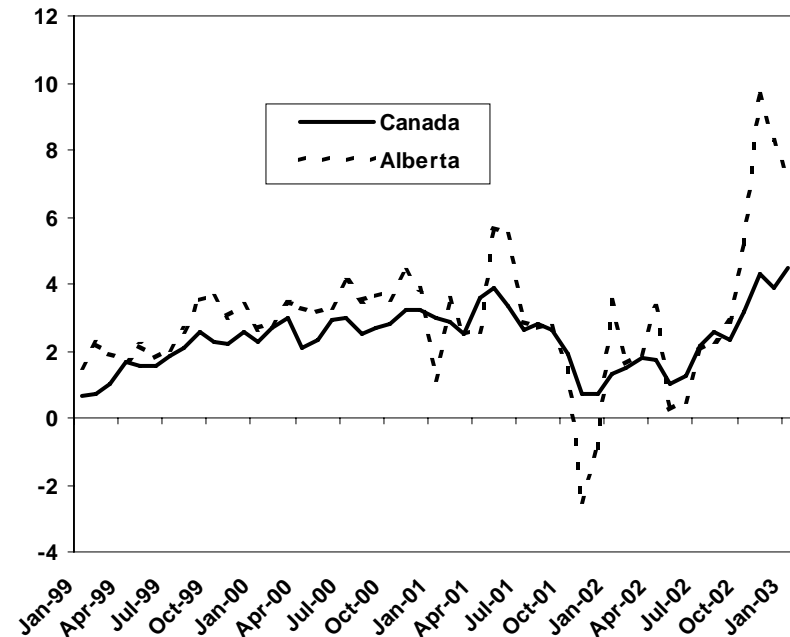
- Due to the sluggish U.S. recovery, the U.S. Federal Reserve Board lowered interest rates by half a percentage point late in 2002. If the U.S. recovery falters, the Federal Reserve Board may cut interest rates even further in 2003.
- Canada's strong economic performance, on the other hand, led the Bank of Canada to raise interest rates by three quarters of a percentage point in the first 7 months of 2002, and an additional quarter of a percentage point in March 2003. Future rate increases are expected over the remainder of the year.



## HIGHER INFLATION PUTTING PRESSURE ON INTEREST RATES

CPI Inflation (per cent change)

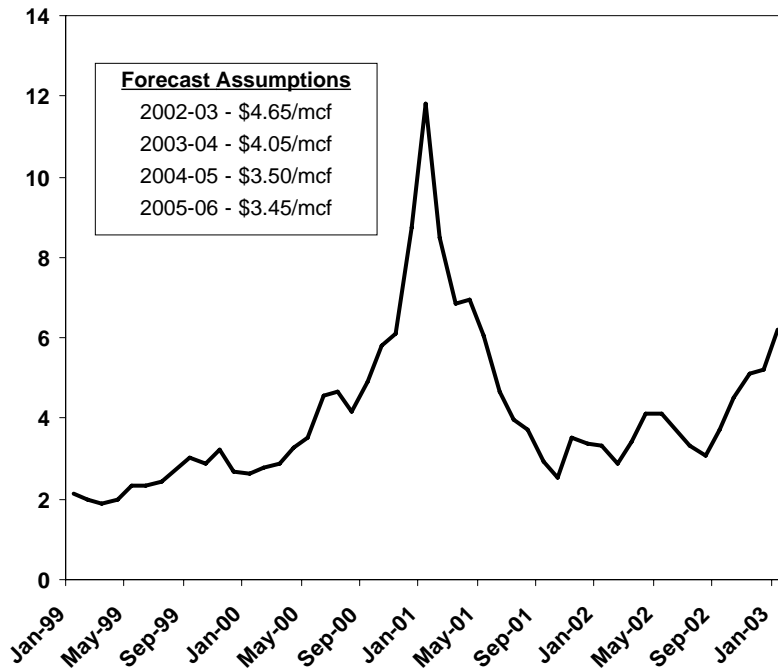
- Since the beginning of 2002, concerns about rising CPI inflation have led the Bank of Canada to raise interest rates by a full percentage point.
- Canada's CPI inflation rate reached 4.6% in February 2003, well above the bank's target zone of 1% to 3%. Higher energy prices, tobacco taxes and auto insurance premiums were the main contributors.
- Alberta's CPI inflation rate was driven up by the same factors; measurement anomalies associated with various government and company natural gas rebates have made Alberta's inflation rate more volatile.



## NATURAL GAS PRICES EXPECTED TO MODERATE

Alberta Reference Price (Cdn\$/mcf, monthly)

- Natural gas prices have risen sharply in recent months due to high oil prices (a substitute for natural gas) and weather-related increases in demand.
- Natural gas prices are expected to moderate as weather conditions return to normal. Over the medium term, this will be reinforced by an expected decline in the price of oil and increased natural gas drilling in response to current high prices.

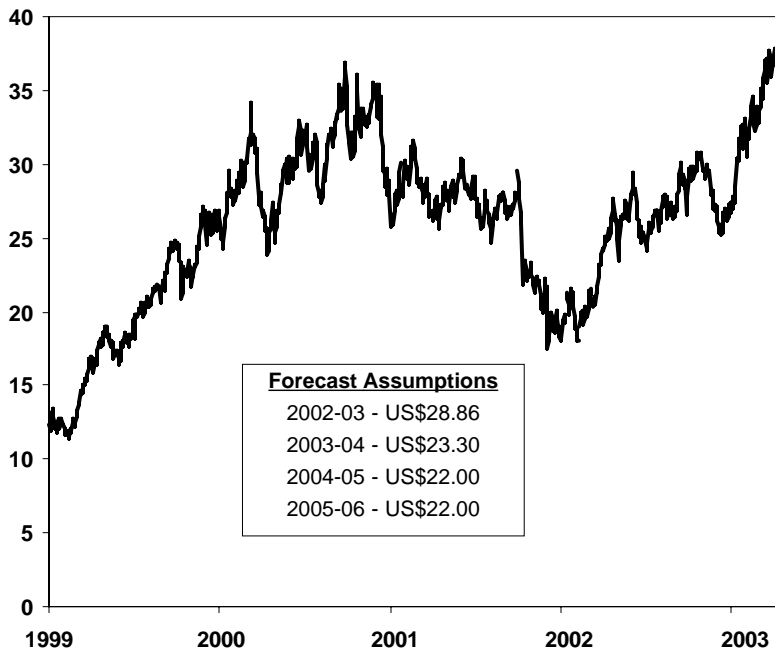


Source: Department of Energy.

## OIL PRICES EXPECTED TO MODERATE

WTI Price (US\$/bbl, daily)

- The price of oil climbed fairly steadily through most of 2002, even though global oil demand was essentially flat. By year's end, the threat of war in Iraq and the disruption of oil production in Venezuela had raised prices well above US\$30. Prices rose further in the first quarter of 2003, averaging about US\$34 per barrel.
- With the anticipated reduction in geopolitical tensions over the course of 2003, oil prices are expected to moderate, returning to around US\$22.



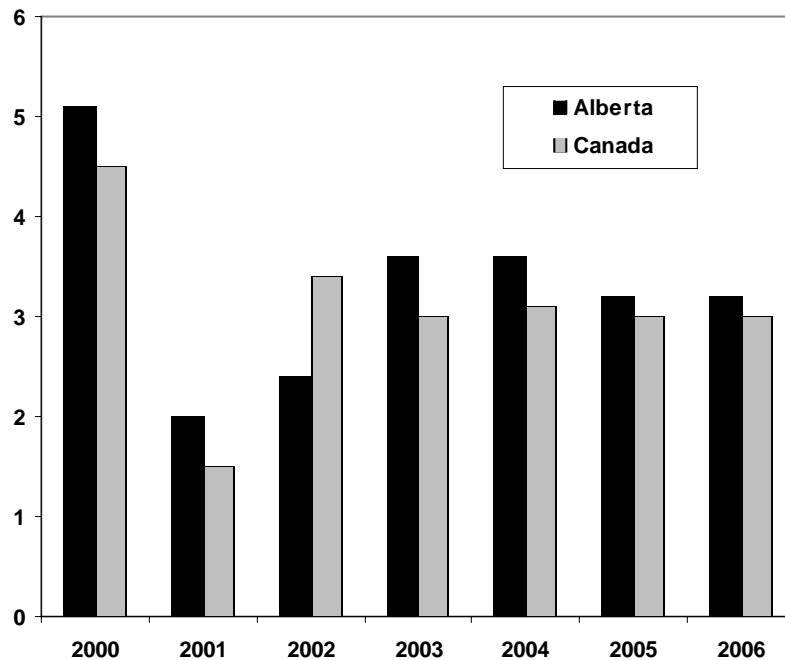
Source: Department of Energy.

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## ALBERTA'S ECONOMIC GROWTH TO STRENGTHEN

Real GDP (per cent change)

- Alberta's economic growth is expected to accelerate to 3.6% in 2003, fuelled by increased investment in the conventional energy sector and higher exports.
- Over the medium term, Alberta's real growth is forecast to continue at a healthy and sustainable pace of about 3.3%, on average, driven by continued export growth.



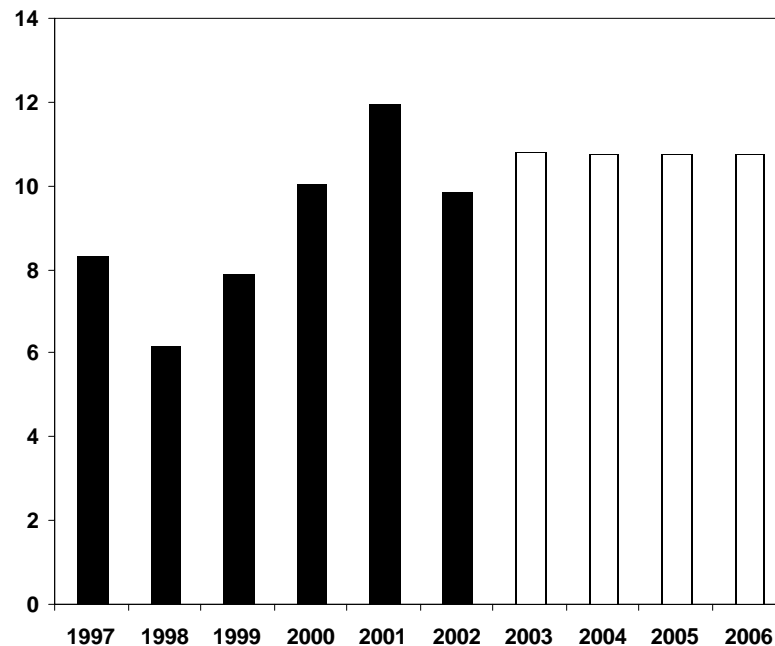
Source: Statistics Canada and Alberta Finance.

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## CONVENTIONAL OIL AND GAS ACTIVITY TO RECOVER

Conventional Oil and Gas Wells Drilled (thousands)

- Strong oil and natural gas prices are expected to sustain the recent rebound in conventional oil and gas drilling. The number of rigs drilling was up 14.6% in January and February compared to the same period in the previous year. In February, the rig count was at its highest level in two years.
- The recent rise in drilling bodes well for activity in 2003. The number of completed conventional oil wells is expected to increase by 25% this year, and to remain stable over the remainder of the forecast period.



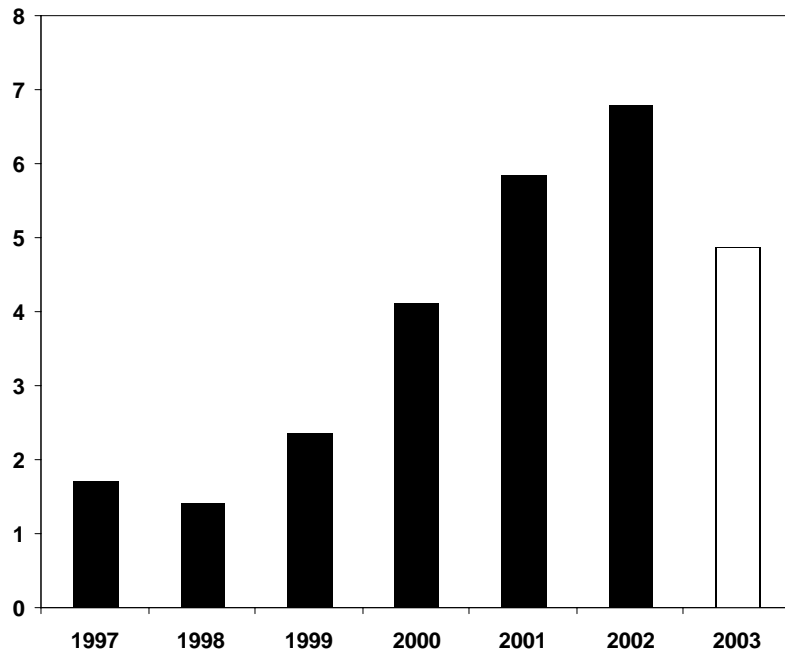
Source: Department of Energy.

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## OIL SANDS INVESTMENT AT HIGH LEVELS

Non-Conventional Energy Investment (\$billions)

- Oil sands investment increased dramatically between 1995 and 2002, rising from under \$1 billion to almost \$7 billion. Part of the recent run-up was due to capacity constraints that led to cost overruns.
- Oil sands investment will moderate to a more sustainable level this year. Although oil sands investment is not expected to exhibit the rapid growth of recent years, ongoing projects will keep investment levels high over the next several years.



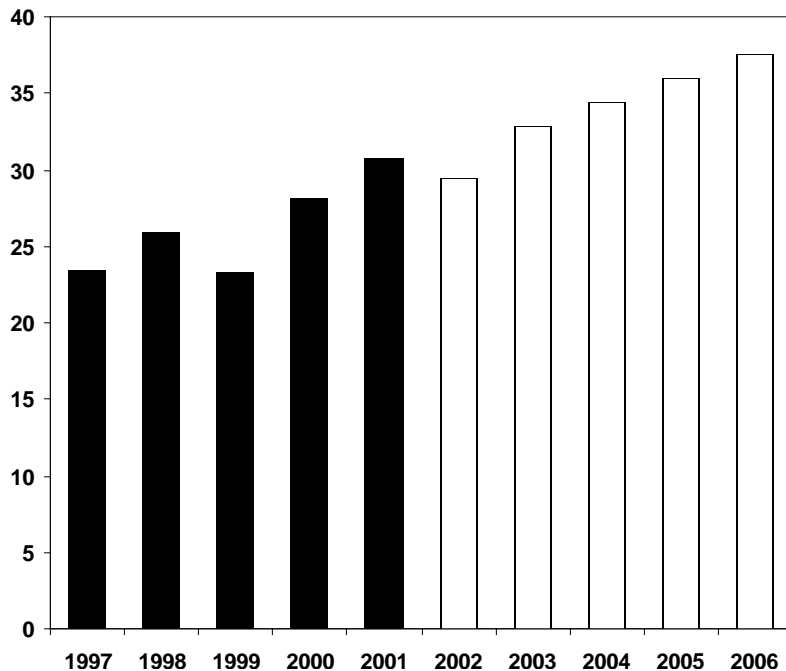
Source: Statistics Canada.

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## BUSINESS INVESTMENT TO GROW

Real Business Investment, (1997 \$billions)

- Although conventional energy sector investment is expected to rebound strongly this year, future investment growth in Alberta will be fuelled primarily by the non-energy sector.
- Alberta's overall business investment is expected to increase at an average rate of 4.7% per year over the medium term, as corporate profits rise in the non-energy sector.



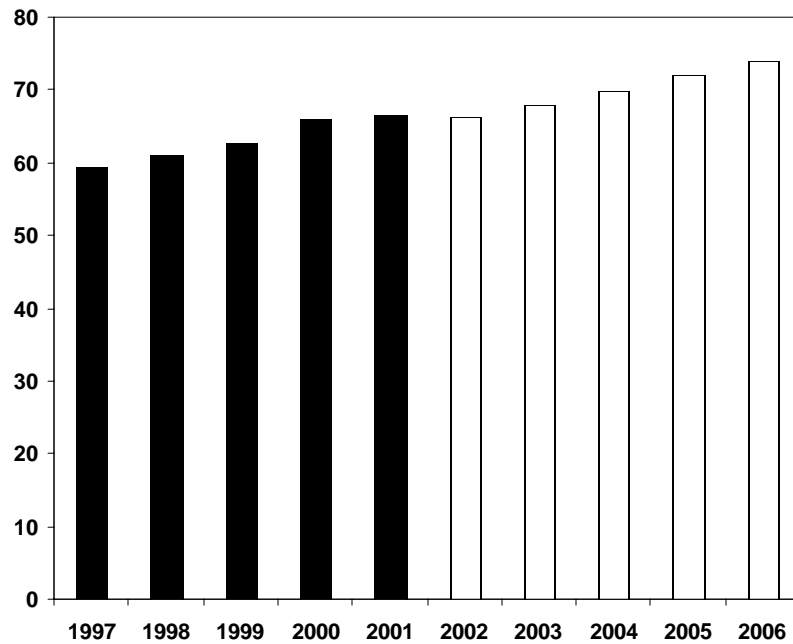
Source: Alberta Finance.

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## ALBERTA'S GROWTH TO BE LED BY EXPORTS

Alberta Real Exports (1997 \$billions)

- Alberta's economic growth will be driven increasingly by exports, led by energy (primarily non-conventional oil), manufacturing and services. After a difficult year in 2002, energy and manufacturing exports are expected to rebound strongly in 2003.
- Alberta's overall real exports are expected to rise around 3% per year through 2006, supported by a strengthening North American economic recovery.



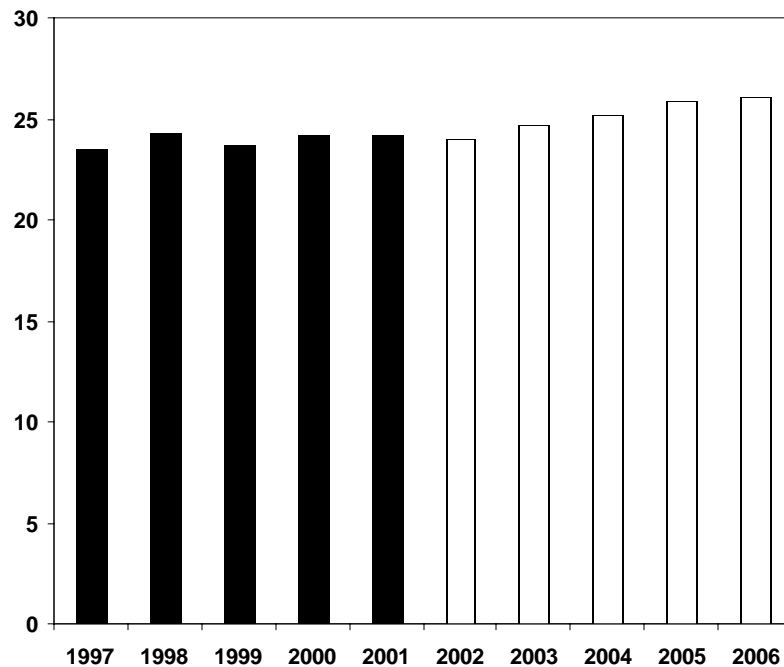
Source: Statistics Canada and Alberta Finance.

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## ENERGY EXPORTS

Alberta's Real Energy Exports (1997 \$billions)

- The rise in energy exports will be fuelled mainly by the production of non-conventional oil. While natural gas and conventional oil production are expected to decline gradually, increased oil sands production will more than offset this decline.
- Oil sands production accounted for 42.9% of Alberta's total oil production in 2001. This proportion is expected to rise to 67% by 2006. Natural gas production is expected to fall by roughly 2% per year through the forecast period.



Source: Alberta Finance and Department of Energy.

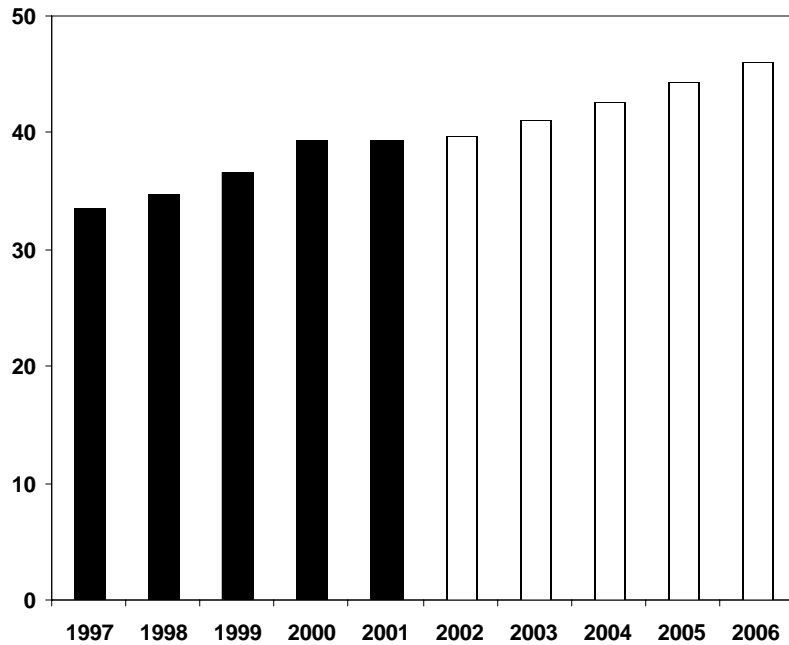


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## MANUFACTURING AND SERVICES EXPORTS

Alberta's Real Manufacturing and Services Exports (1997 \$billions)

- Alberta's export profile has become increasingly diverse over the past decade, with real manufacturing and services exports rising from 50% of total exports in 1991 to 59% in 2001.
- The diversification of Alberta's export sector provides a strong foundation for broadly-based future export growth, with reduced susceptibility to volatile commodity markets.



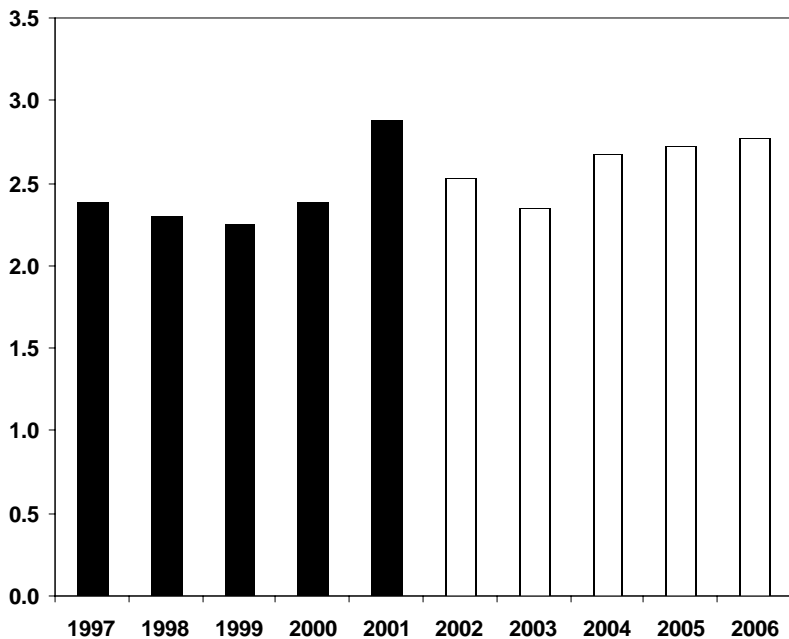
Source: Alberta Finance.

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## AGRICULTURAL EXPORTS

Alberta's Real Agriculture Exports (1997 \$billions)

- Weakness in the agricultural sector contributed to a decline in Alberta's exports in 2002. The severe drought lowered the value of Alberta's international crop exports by 27.4%, while livestock exports declined by 12.2%. The lingering effects of the drought are expected to dampen Alberta's agricultural exports in 2003.
- Alberta's agricultural exports are becoming increasingly driven by livestock and animal products. Between 1991 and 2001 exports of grains increased by 8%, while animal exports grew by 49%.



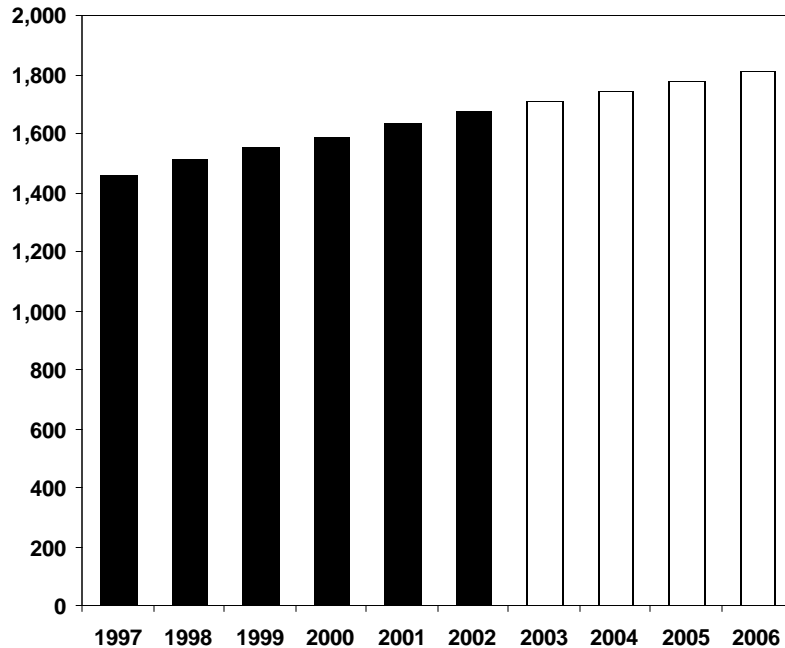
Source: Alberta Finance.

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## ALBERTA JOB GROWTH TO REMAIN STRONG

Alberta's Employment (thousands)

- Alberta employment increased by 2.6%, or 41,700 jobs, in 2002. Almost 37,000 new jobs are forecast in 2003.
- Over the medium term, employment growth is expected to average around 2% per year. This growth will be restrained by population constraints, as changing demographics slow the growth of Alberta's working-age population.
- The Alberta economy is expected to generate 140,000 new jobs by 2006.



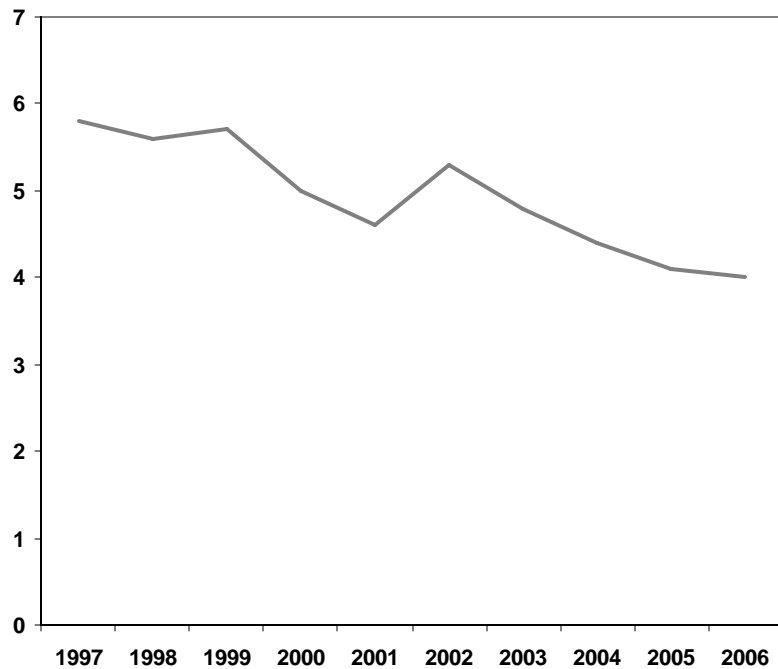
Source: Statistics Canada and Alberta Finance.

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## LOW UNEMPLOYMENT

Unemployment Rate (per cent)

- Despite healthy employment growth, Alberta's unemployment rate rose to 5.3% in 2002 due to a large increase in the number of people entering the job market.
- With strong economic growth forecast for Alberta, unemployment is expected to decline steadily over the forecast period, falling to 4% by 2005 - the lowest level in a quarter-century.

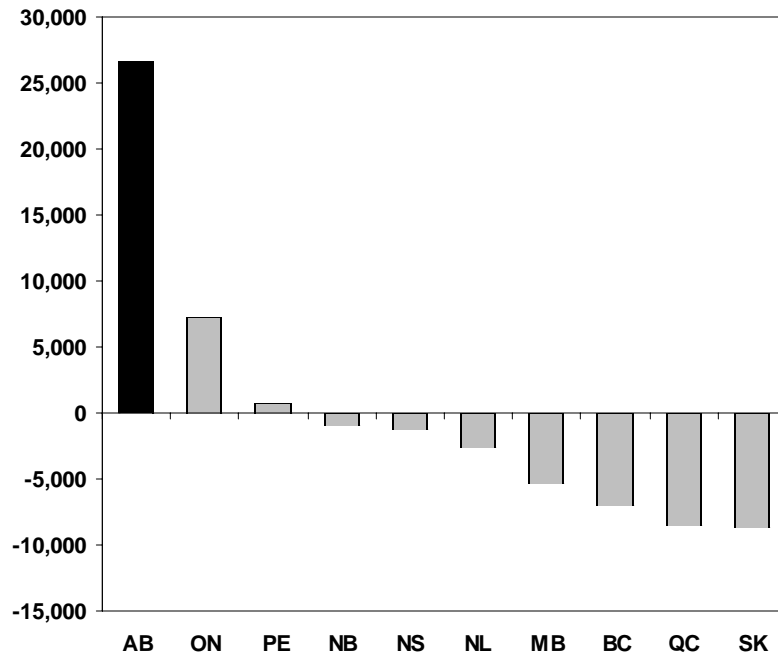


Source: Statistics Canada and Alberta Finance.

## HIGHEST INTERPROVINCIAL MIGRATION AMONG PROVINCES

Interprovincial Migration  
Between July 1, 2001 and June 30, 2002

- A strong labour market, healthy wage gains and low provincial tax rates have attracted a growing number of people to the province. During the census year ending June 30, 2002, 26,740 Canadians moved to Alberta, the highest net in-migration of any province.
- Over the medium-term, continued high interprovincial migration levels are expected to add about 20,000 people per year to Alberta's population.

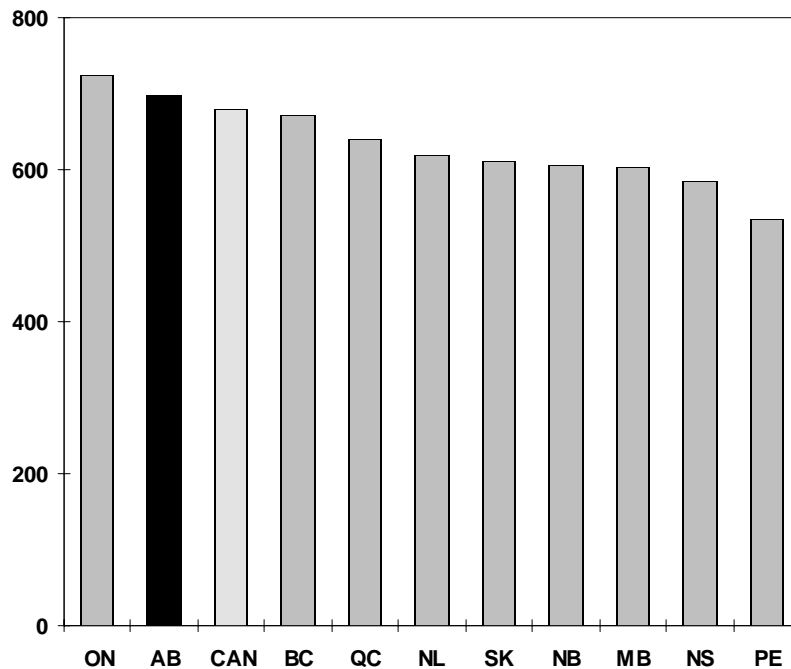


Source: Statistics Canada.

## WAGE LEVELS AMONG HIGHEST IN CANADA

Average Weekly Earnings (dollars), 2002

- Alberta's average weekly earnings are second only to Ontario's. In 2002, Alberta's total labour income grew by 7.2%.
- Over the medium term, wages are expected to increase at a rate slightly above inflation, sustained by continued strong productivity gains in the Alberta economy.



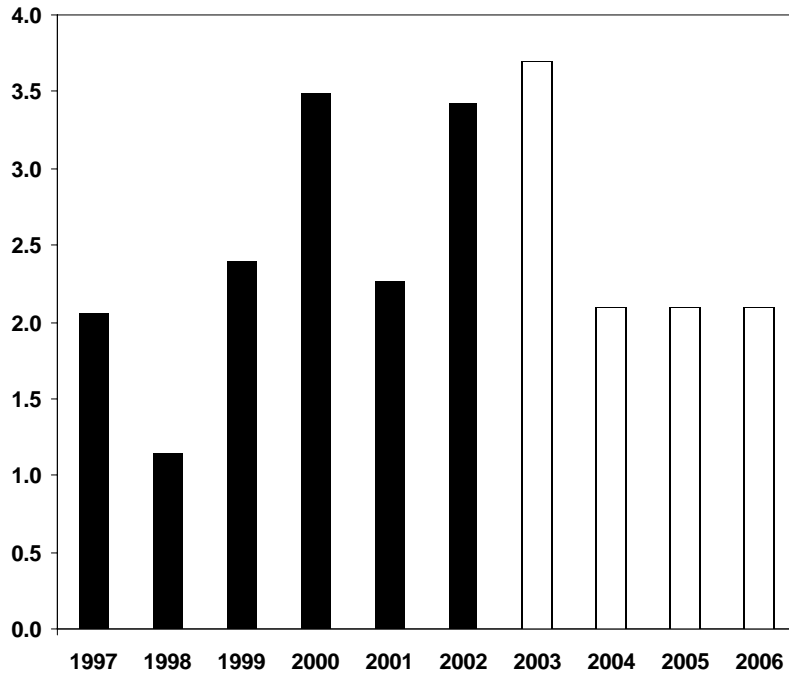
Source: Statistics Canada.

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## ALBERTA INFLATION RATE TO MODERATE

Consumer Price Index (12-month per cent change)

- Alberta inflation averaged 3.4% in 2002. Increases in tobacco taxes and auto insurance premiums, as well as Statistics Canada's treatment of natural gas rebates (which ended in 2002), contributed to the increase in inflation last year.
- These factors will continue to affect the inflation rate through the first part of 2003. However, inflation should start to decline in the latter part of the year. By 2004, Alberta's annual inflation rate is expected to fall to about 2%.



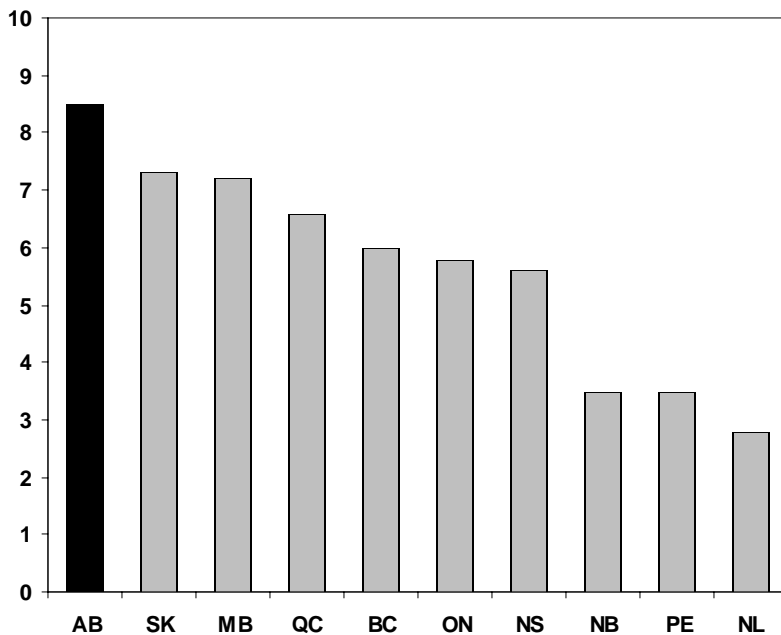
Source: Statistics Canada and Alberta Finance.

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## ALBERTA LEADING IN RETAIL SALES

2002 Retail Sales (per cent change)

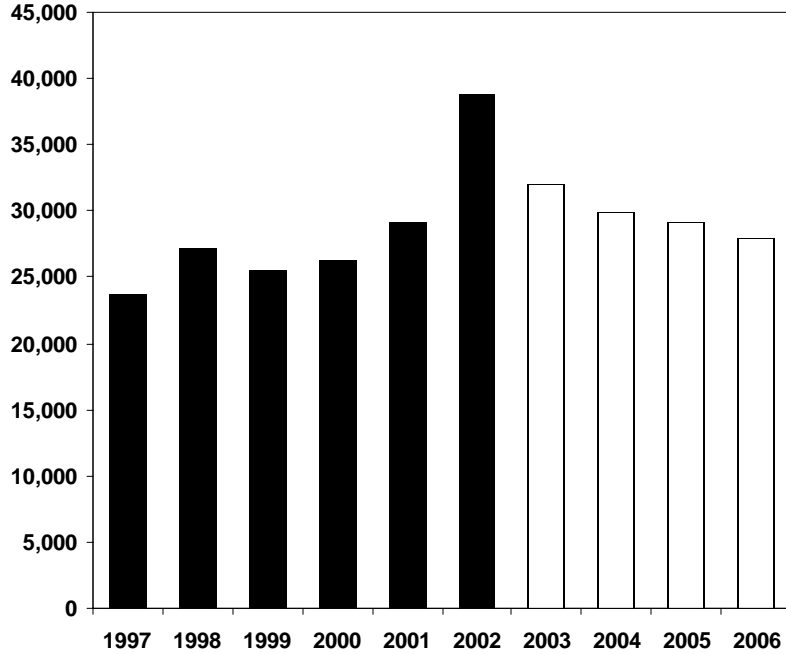
- In 2002, Alberta once again led the country in retail sales growth, recording a 7.9% increase over 2001. This robust performance was supported by strong wage and employment growth.
- Alberta's retail sales strength was especially evident in the area of durable goods. Low interest rates and a booming housing market fueled strong sales in the auto and home furnishing sectors.
- Retail sales are expected to remain strong in 2003, although growth is expected to moderate somewhat after an exceptional year in 2002.



Source: Statistics Canada.

## NEAR-RECORD ALBERTA HOUSING STARTS IN 2002

- Alberta's strong economy and labour market, along with low interest rates, pushed provincial housing starts to their highest level since the early 1980s.
- Alberta's total housing starts reached 38,754 last year, an increase of 32.8% from 2001.
- Over the medium term, housing starts in Alberta are expected to moderate, but to remain strong due to high interprovincial migration, continued low interest rates, and a robust Alberta economy.

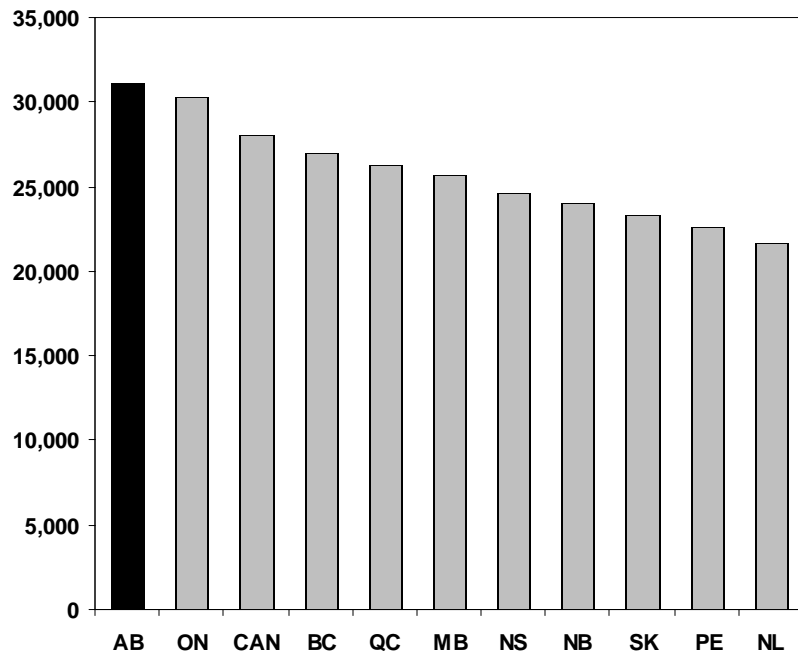


Source: Canada Mortgage and Housing Corporation and Alberta Finance.

## HIGHEST PERSONAL INCOMES IN CANADA

2001 Personal Income Per Capita (dollars)

- Alberta had the highest average personal incomes of any province in 2001, the latest year for which data is available.
- In 2001, Alberta's personal income per capita was almost \$3,000 (10.5%) above the Canadian average.



Source: Statistics Canada and Alberta Finance.

# Oil Price Forecast Benchmark

West Texas Intermediate (US\$/bbl)

Organization	2003	2004	2005	2006
<b>National Forecasting Agencies</b>				
Conference Board of Canada (Mar/03)	30.18	26.52	25.10	25.71
Global Insight: formerly DRI-WEFA (Mar/03)	30.13	23.84	24.82	25.80
<b>Investment Dealers</b>				
CS First Boston (Mar/03)	28.50	23.00	18.50	18.50
Goldman Sachs (Feb/03)	27.38	23.00	18.50	18.50
JP Morgan (Mar/03)	28.30	25.80	23.00	23.50
Lehman Brothers (Mar/03)	27.50	23.00	20.00	20.00
RBC Dominion Securities (Mar/03)	26.50	24.00	n/a	n/a
<b>Industry Analysts</b>				
Canadian Energy Research Institute (Mar/03)	26.00	22.75	n/a	n/a
Peters & Co. Limited (Mar/03)	27.00	24.00	22.00	22.00
High	30.18	26.52	25.10	25.80
Low	26.00	22.75	18.50	18.50
Average	27.94	23.99	21.70	22.00
<b>Alberta Government (calendar year)</b>	<b>26.00</b>	<b>22.00</b>	<b>22.00</b>	<b>22.00</b>

In developing its energy price forecasts, the Department of Energy also looks at private forecasts from the following forecasters: PIRA, Purvin & Gertz, CGES, EIA, Petroleum Economics Ltd. and Ziff.

## Tracking the Forecasts of Oil Prices

West Texas Intermediate (US\$/bbl)

Organization	How Did They Do 2002 <sup>a</sup>	What They Were Saying About 2003 in Budget 2002	What They Are Saying About 2003 in Budget 2003
<b>Actual</b>	<b>27.20</b>		
CS First Boston	-6.20	18.50	28.50
Canadian Energy Research Institute	n/a	n/a	26.00
Conference Board of Canada	-6.25	23.79	30.18
Global Insight: formerly DRI-WEFA	-4.58	24.64	30.13
Goldman Sachs	-9.20	18.00	27.38
JP Morgan	-1.40	24.70	28.30
Lehman Brothers	-8.20	19.00	27.50
Peters & Co. Limited	-7.20	22.00	27.00
RBC Dominion Securities	-7.20	22.00	26.50
Average	-6.28	21.58	27.94
<b>Alberta Government (calendar year)</b>	<b>-7.20</b>	<b>20.00</b>	<b>26.00</b>

<sup>a</sup> This compares an organization's forecast for 2002 at the time of Budget 2002 to what actually happened. A minus sign indicates an underestimate and a plus sign indicates an overestimate.

# Natural Gas Price Forecast Benchmark

Alberta Average Reference Price (Cdn\$/mcf)

Organization	2003	2004	2005	2006
Canadian Energy Research Institute (Mar/03)	6.25	n/a	n/a	n/a
Gilbert Lausten Jung Associates (Mar/03)	6.30	5.15	4.85	4.85
National Bank Financial (Mar/03)	5.50	4.00	3.20	3.20
Peters & Co. Limited (Mar/03)	5.25	4.50	3.75	3.75
High	6.30	5.15	4.85	4.85
Low	5.25	4.00	3.20	3.20
Average	5.83	4.55	3.93	3.93
<b>Alberta Government (calendar year)</b>	<b>4.68</b>	<b>3.39</b>	<b>3.46</b>	<b>3.45</b>

In developing its energy price forecasts, the Department of Energy also looks at private forecasts from the following forecasters: PIRA, Purvin & Gertz, CGES, EIA, Petroleum Economics Ltd. and Ziff.

## Tracking the Forecasts of Natural Gas Prices

Alberta Average Reference Price (Cdn\$/mcf)

Organization	How Did They Do 2002 <sup>a</sup>	What They Were Saying About 2003 in Budget 2002	What They Are Saying About 2003 in Budget 2003
<b>Actual</b>	<b>3.88</b>		
Canadian Energy Research Institute	n/a	n/a	6.25
Gilbert Lausten Jung Associates	+0.07	4.35	6.30
National Bank Financial	-1.23	3.00	5.50
Peters & Co. Limited	-1.03	3.55	5.25
RBC Dominion Securities	-0.81	4.17	n/a
Average	-0.75	3.77	5.83
<b>Alberta Government (calendar year)</b>	<b>-1.09</b>	<b>3.17</b>	<b>4.68</b>

<sup>a</sup> This compares an organization's forecast for 2002 at the time of Budget 2002 to what actually happened. A minus sign indicates an underestimate and a plus sign indicates an overestimate.

## Canadian Short-Term Interest Rate Forecast Benchmark

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

Organization	2003	2004	2005	2006
<b>National Forecasting Agencies</b>				
Conference Board of Canada (Mar/03)	3.32	4.36	n/a	n/a
Global Insight: formerly DRI-WEFA (Mar/03)	3.32	4.83	5.00	5.00
<b>Banks</b>				
Bank of Montreal (Feb/03)	3.19	4.75	n/a	n/a
Canadian Imperial Bank of Commerce (Mar/03)	2.95	3.55	n/a	n/a
Royal Bank (Jan/03)	4.75	5.75	n/a	n/a
Scotiabank (Mar/03)	3.58	4.38	n/a	n/a
Toronto Dominion Bank (Mar/03)	3.40	4.50	n/a	n/a
<b>Investment Dealers</b>				
BMO Nesbitt Burns (Mar/03)	3.35	4.41	n/a	n/a
CIBC World Markets (Mar/03)	2.95	3.55	n/a	n/a
High	4.75	5.75	5.00	5.00
Low	2.95	3.55	5.00	5.00
Average	3.42	4.45	5.00	5.00
<b>Alberta Government (calendar year)</b>	<b>3.60</b>	<b>4.40</b>	<b>4.50</b>	<b>4.50</b>

## Canadian Long-Term Interest Rate Forecast Benchmark

10-Year Government of Canada Bonds (per cent)

Organization	2003	2004	2005	2006
<b>National Forecasting Agencies</b>				
Conference Board of Canada (Mar/03)	5.87	6.44	6.36	6.26
Global Insight: formerly DRI-WEFA (Mar/03)	5.28	6.10	6.23	6.24
<b>Banks</b>				
Bank of Montreal (Feb/03)	5.34	5.98	n/a	n/a
Canadian Imperial Bank of Commerce (Mar/03)	4.75	5.15	n/a	n/a
Royal Bank (Jan/03)	5.55	5.85	n/a	n/a
Scotiabank (Mar/03)	5.50	5.83	n/a	n/a
Toronto Dominion Bank (Mar/03)	5.21	5.80	n/a	n/a
<b>Investment Dealers</b>				
BMO Nesbitt Burns (Mar/03)	5.22	5.44	n/a	n/a
CIBC World Markets (Mar/03)	4.75	5.15	n/a	n/a
High	5.87	6.44	6.36	6.26
Low	4.75	5.15	6.23	6.24
Average	5.27	5.75	6.30	6.25
<b>Alberta Government (calendar year)</b>	<b>5.60</b>	<b>6.00</b>	<b>6.00</b>	<b>6.00</b>



# Canada/United States Exchange Rate Forecast Benchmark

(US¢/Cdn\$)

Organization	2003	2004	2005	2006
<b>National Forecasting Agencies</b>				
Conference Board of Canada (Mar/03)	66.9	66.0	n/a	n/a
Global Insight: formerly DRI-WEFA (Mar/03)	67.0	70.4	71.0	71.7
<b>Banks</b>				
Bank of Montreal (Feb/03)	66.5	69.6	n/a	n/a
Canadian Imperial Bank of Commerce (Mar/03)	68.3	70.4	n/a	n/a
Royal Bank (Jan/03)	68.5	70.4	n/a	n/a
Scotiabank (Mar/03)	69.6	70.7	n/a	n/a
Toronto Dominion Bank (Mar/03)	68.3	69.6	n/a	n/a
<b>Investment Dealers</b>				
BMO Nesbitt Burns (Mar/03)	67.4	68.9	n/a	n/a
CIBC World Markets (Mar/03)	68.3	70.4	n/a	n/a
High	69.6	70.7	71.0	71.7
Low	66.5	66.0	71.0	71.7
Average	67.9	69.6	71.0	71.7
<b>Alberta Government (calendar year)</b>	<b>65.5</b>	<b>66.0</b>	<b>66.4</b>	<b>66.5</b>

# Alberta Real Gross Domestic Product Forecast Benchmark

(per cent change)

Organization	2002	2003	2004	2005	2006
<b>National Forecasting Agencies</b>					
Conference Board of Canada (Feb/03)	0.3	5.5	4.9	n/a	n/a
Global Insight: formerly DRI-WEFA (Jan/03)	3.8	4.1	4.1	3.4	3.2
<b>Banks</b>					
Bank of Montreal (Nov/02)	3.8	4.8	4.5	n/a	n/a
Canadian Imperial Bank of Commerce (Mar/03)	2.8	3.6	3.6	n/a	n/a
Royal Bank (Oct/02)	4.1	4.1	n/a	n/a	n/a
Scotiabank (Feb/03)	4.0	3.5	3.8	n/a	n/a
Toronto Dominion Bank (Feb/03)	2.8	4.4	4.1	n/a	n/a
<b>Other</b>					
BMO Nesbitt Burns (Dec/02)	4.0	4.1	n/a	n/a	n/a
Canada Mortgage and Housing Corporation (Feb/03)	3.0	4.5	4.2	n/a	n/a
High	4.1	5.5	4.9	3.4	3.2
Low	0.3	3.5	3.8	3.4	3.2
Average	3.2	4.3	4.3	3.4	3.2
<b>Alberta Government (calendar year)</b>	<b>2.4</b>	<b>3.6</b>	<b>3.6</b>	<b>3.2</b>	<b>3.2</b>

# Announced Major Projects Over \$100 Million

Announced or Under Construction

Company Name	Location	Type of Project	Cost (\$millions)	Timing
<b>OIL AND GAS</b>				
Albian Oilsands	RM of Wood Buffalo (near Fort MacKay)	"Jackpine" Mine Mining and Extraction Facility, Phase 1	2,000	2003-2005
Anadarko	Cold Lake/Provost/ Lindbergh	In situ Bitumen Production	400	2001-2003
Canadian Natural Resources Ltd.	MD of Bonnyville (Lindbergh/Wolf Lake/ Elk Point/Cold Lake)	In situ Bitumen Production Expansion	225	1996-2003
	Lakeland County (Primrose/Wolf Lake)	In situ Bitumen Production Expansion Stage 1	130	2001-2004
Conoco Philips Canada/ Total Fina Elf/Devon Energy	RM of Wood Buffalo (Surmont, near Anzac)	SAGD* Bitumen Commercial Project - Phase 1	300	2003-2005
	RM of Wood Buffalo (Surmont)	SAGD Bitumen Commercial Project - Phase 2	280	2006-2008
EnCana Corporation	RM of Wood Buffalo (Christina Lake)	SAGD Bitumen Production	400	2000-2009
	Wheatland County	Countess Gas Storage Facility	130	2002-2005
ExxonMobil Canada Ltd.	MD of Bonnyville (near Cold Lake)	In situ Bitumen Plant	100	1997-2005
Imperial Oil	Strathcona County	Strathcona Refinery Upgrades	220	2002-2003
Petro-Canada Oil and Gas	Strathcona County	Strathcona Refinery: Gasoline De-sulpherization - Phase 1	130	2001-2003
Petro-Canada Oil and Gas/ Nexen Inc.	RM of Wood Buffalo (S of Fort McMurray)	"Meadow Creek" SAGD Bitumen Production	700	2005-2006
Petrovera Resources Ltd.	Lindbergh/Elk Point/ Frog Lake/Marwayne	In situ Bitumen Production	1,200	2000-2010
Shell Canada/Western Oil Sands/Chevron Canada Resources	Strathcona County	Bitumen Upgrader	1,700	2000-2003
Suncor Energy Inc.	RM of Wood Buffalo	"Firebag" In situ Bitumen Recovery Project	1,000	2003-2012

\* Steam Assisted Gravity Drainage

# Announced Major Projects Over \$100 Million

Announced or Under Construction

Company Name	Location	Type of Project	Cost (\$millions)	Timing
<b>OIL AND GAS (continued)</b>				
Syncrude Canada Ltd.	RM of Wood Buffalo (Fort McMurray)	Continuous Improvement	1,500	1997-2007
	RM of Wood Buffalo (Fort McMurray)	Phase 3: Upgrader Expansion Phase 1: Aurora Mine Train 2	5,670	2001-2005
<b>PIPELINES</b>				
Alberta Oil Sands Pipelines Ltd.	RM of Wood Buffalo to Strathcona County	Increase in Pipeline Capacity	188	2002-2004
Bison Pipeline Ltd.	RM of Wood Buffalo to Edmonton area	Bitumen Pipeline	800	2003-2005
Cold Lake Pipeline Limited Partnership	Foster Creek to Bonnyville area to Hardisty	Expansion of Cold Lake Pipeline System	143	2002-2004
Nova Gas Transmission Ltd.	Across Alberta	Pipeline Capacity Addition	1,000	1999-2003
<b>POWER PLANTS</b>				
Enmax/Vision Quest	MD of Willow Creek (S of Fort McLeod)	Wind Farm (75MW)	100	2002-2003
EPCOR Utilities Inc.	Leduc County	Genesee Power Plant - Phase 3 (490MW)	600	2002-2004
Hunt Power Company Ltd.	MD of Rocky View (S of Crossfield)	Gas-Fired Power Plant (345MW)	300	2004-2006
TransCanada PipeLines Ltd./ Petro-Canada	RM of Wood Buffalo (near Fort McMurray)	MacKay River Co-Gen Project (165MW)	135	2001-2003
<b>COMMERCIAL, RETAIL AND REAL ESTATE CONSTRUCTION</b>				
Cameron Corporation/ Grosvenor International Canada Ltd.	Edmonton	"South Edmonton Common" Retail Complex	250	1997-2005
Heritage Partners	Calgary	"Deerfoot Commons" Retail Complex	400	2003-2004
Qualico Developments West Ltd.	Edmonton	"Station Lands" Commercial/ Residential Development	250	2003-2018

# Announced Major Projects Over \$100 Million

Announced or Under Construction

Company Name	Location	Type of Project	Cost (\$millions)	Timing
<b>COMMERCIAL, RETAIL AND REAL ESTATE CONSTRUCTION (continued)</b>				
Pauls Properties Corp/ GE Pension Trust	Calgary	"Princeton" Apartment Condominium Development	125	2000-2004
Shivam Developments	Strathcona County (Sherwood Park)	"Shivam Park" Auto Mall and Shopping Centre	100	2002-2006
<b>OTHER</b>				
Bell West/Axia NetMedia	Across Alberta	Alberta SuperNet Fibre Optic Communications Grid	300	2001-2004
Calgary Airport Authority	Calgary	Airport Improvements	800	1998-2007
Destination Resorts Inc.	Canmore	Three Sisters Resort	150	2002-2010
Stone Creek Properties	Canmore	Silver Tip Hotel/Resort Village	270	1995-2015
Various Irrigation Districts	Across Southern Alberta	Irrigation Systems/Rehabilitation	600	1997-2006
<b>TOTAL</b>			<b>22,596</b>	

# ALBERTA ADVANTAGE

Alberta **2003** Budget  

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Making Alberta Even Better

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# Alberta Advantage

*The Alberta Advantage means greater opportunities for Albertans and Alberta businesses ...*

- a strong and vibrant economy
- a young, skilled and productive workforce
- a strong science and technology culture
- a highly entrepreneurial and competitive business community
- the lowest overall tax level of any province in Canada, including no sales tax
- an efficient and modern infrastructure
- an abundance of natural resources
- a rich, sustainable environment and an outstanding quality of life
- a government committed to less regulation
- a fiscally responsible government

With our low taxes, high employment and growing economy, Alberta is, indeed, “the place to be.” Highlighted are some key elements of the Alberta Advantage: the economy, people, taxes, operating costs, quality of life and sound financial management.



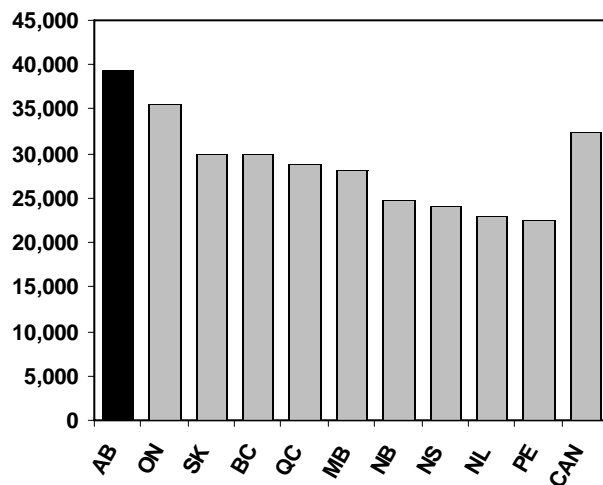
# The Economy

## STRONG AND DIVERSIFIED

Alberta's economy remains the healthiest in Canada. An abundance of natural advantages has been the foundation of our flourishing economy. Our positive investment climate has allowed Alberta businesses to compete successfully around the world. Our increasingly diversified economy has translated into healthy job performance, even when commodity prices have been unfavourable.

### REAL GDP PER CAPITA

1998-2002 Annual Average (dollars per capita)\*



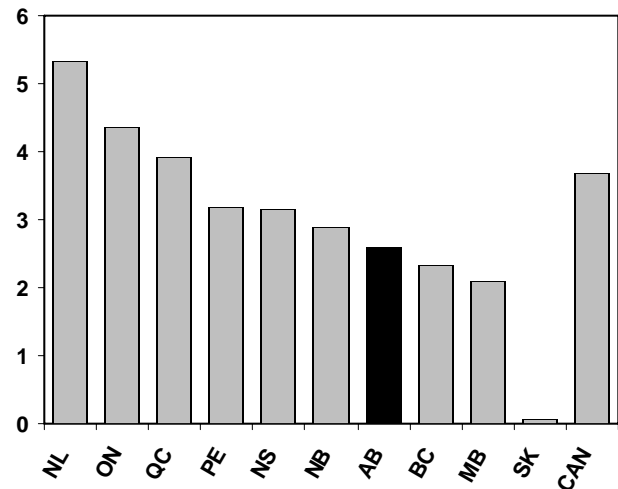
\* 2002 GDP estimated for provinces.

Source: Statistics Canada, Alberta Finance and the Conference Board of Canada

- Alberta has the highest real gross domestic product per capita among the provinces.
- Since 1998, Alberta's real gross domestic product per capita has averaged 11% higher than second place Ontario.

### REAL ECONOMIC GROWTH

1998-2002 Average Annual Growth in GDP (per cent)\*



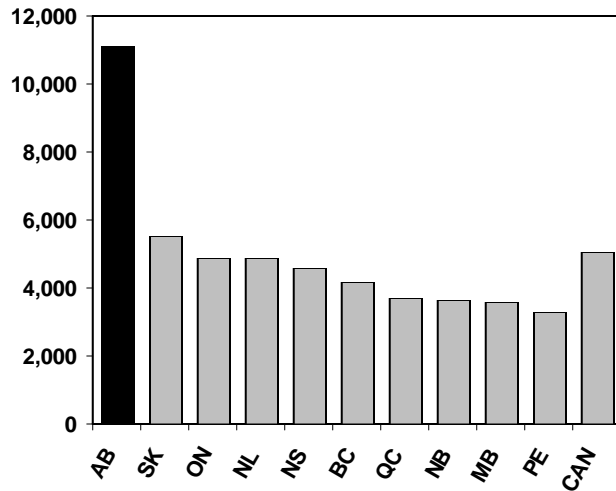
\* 2002 GDP estimated for provinces.

Source: Statistics Canada, Alberta Finance and the Conference Board of Canada

- Among the Western provinces, Alberta's economic growth rate was the highest over the past five years.
- With gross domestic product at record levels, the Alberta economy has continued to maintain steady growth.

## INVESTMENT PER CAPITA

1998-2002 Annual Average (dollars per capita)\*

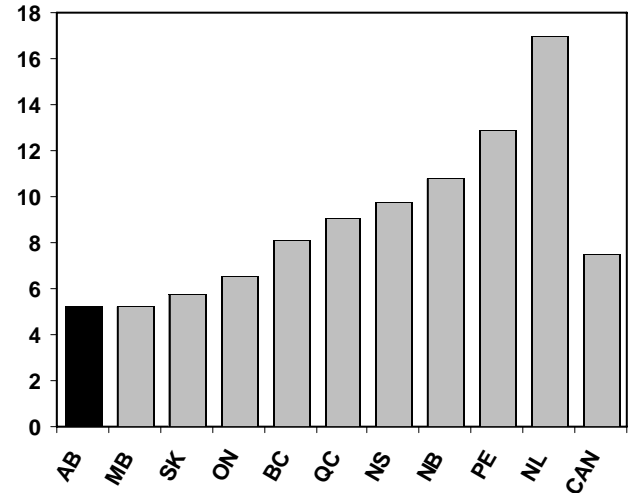


\* 2002 preliminary actual.  
Source: Statistics Canada

- Alberta continues to be far ahead, as it has been for decades, in total private sector investment per person.
- Over the past five years, Alberta's investment per capita has been more than double that of the next highest province, Saskatchewan.

## UNEMPLOYMENT RATE

1998-2002 Annual Average (per cent)

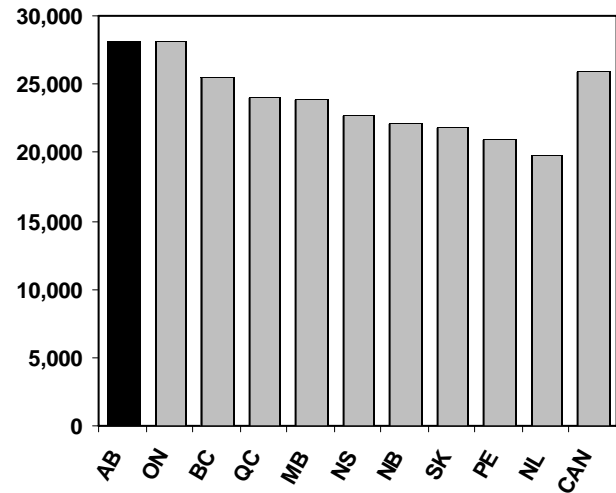


Source: Statistics Canada

- Over the past five years, Alberta's average unemployment rate of 5.2% was tied with Manitoba as being lowest among the provinces, well below the national average of 7.5%.
- In 2002, Alberta's rate of 5.3% was second lowest in Canada, behind Manitoba at 5.2%.

## PERSONAL INCOME

1997-2001 Annual Average (dollars per capita)

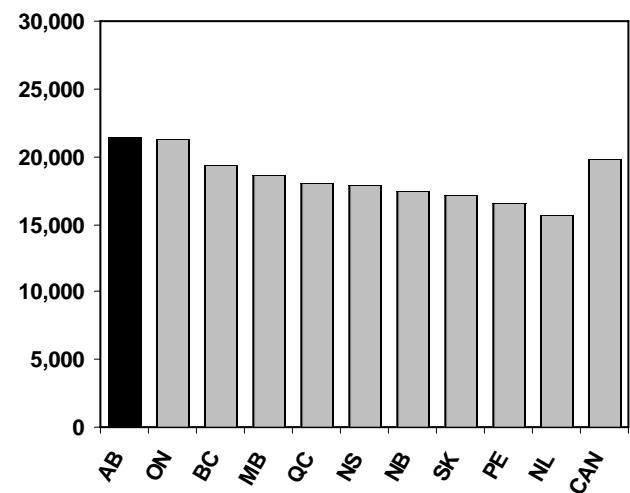


Source: Statistics Canada

- Over the five years ending in 2001 (the most recent data available), Albertans have enjoyed the highest personal income per capita.
- In 2001, Alberta had the highest personal income per capita among provinces, \$757 above second place Ontario.

## PERSONAL DISPOSABLE INCOME

1997-2001 Annual Average (dollars per capita)\*

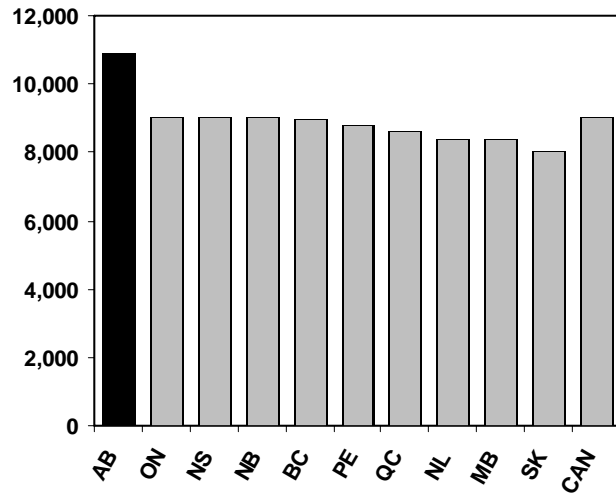


\* Personal income less direct taxes.  
Source: Statistics Canada

- Over the five years ending in 2001 (the most recent data available), Alberta was ahead of all other provinces in personal disposable income per capita.
- In 2001, Alberta had the highest personal disposable income per capita among provinces, \$952 above second place Ontario.

## RETAIL SALES PER CAPITA

1998-2002 Annual Average (dollars per capita)

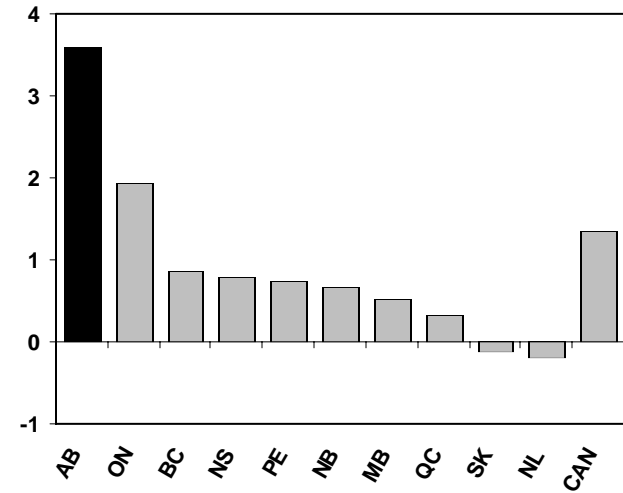


Source: Statistics Canada

- Alberta continues to lead all provinces in retail sales per capita.

## BUSINESS GROWTH

1998-2002 Annual Average (per cent growth in # of firms)\*



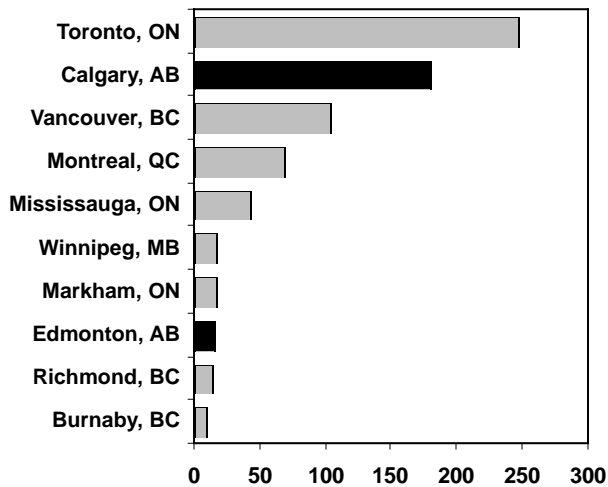
\* Businesses include all incorporated and unincorporated firms, except self-employed and single person firms.

Source: Statistics Canada

- Over the last five years, Alberta's average business growth has been the fastest of any province in Canada.
- In 2002, the number of businesses in Alberta increased by 2.4%. The only other provinces to experience positive growth last year were Ontario and Manitoba, at 0.5% and 0.3%, respectively.

## CORPORATE HEADQUARTERS

Top Ten Head Office Cities, 2002 (number of head offices)\*



\* Top 1000 Canadian companies based on revenue.

Source: The Globe and Mail

- Calgary is home to 180 head offices, ranking second highest among all cities in Canada.
- On a per capita basis, Calgary exceeds all other cities, by far.

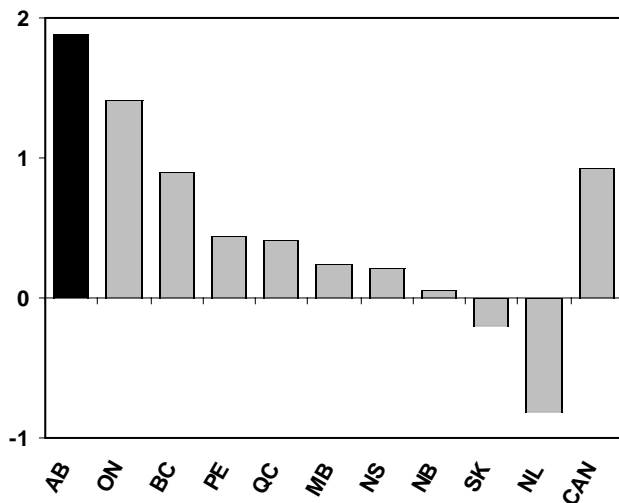
# The People

YOUNG , HIGHLY TRAINED AND PRODUCTIVE

In today's knowledge-based economy, the people of Alberta are our province's most important natural resource. Albertans are highly skilled and talented, and among the most educated in the world. It is no wonder that our economy continues to thrive and grow.

## POPULATION

1998-2002 Average Annual Growth (per cent)

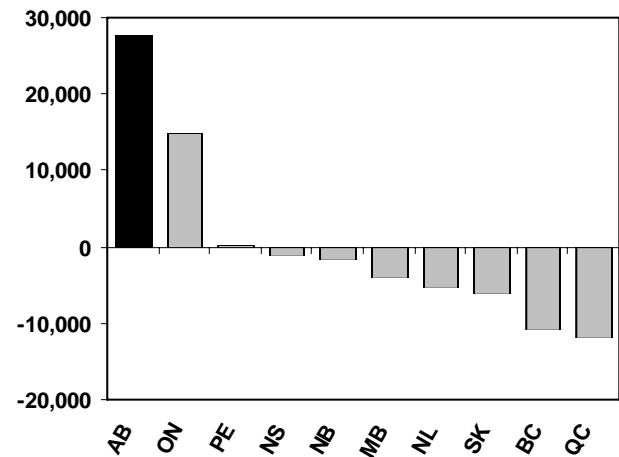


Source: Statistics Canada

- Over the past five years, Alberta's population has grown the fastest among the provinces.
- In 2002, Alberta's population growth of 1.8% also led the provinces.

## NET INTERPROVINCIAL MIGRATION

1998-2002 Annual Average (net number of interprovincial migrants)\*



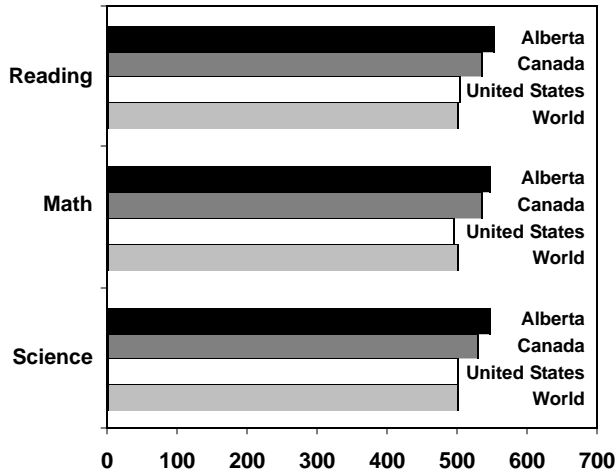
\* July 1, 1997 to June 30, 2002.

Source: Statistics Canada

- Alberta has the highest number of interprovincial migrants in Canada, by far.
- From July 2001 to June 2002, a net of 26,740 migrants came to Alberta from other provinces, 19,474 more people than second place Ontario.

## PERFORMANCE OF STUDENTS AGED 15

2000 Results (scaled to average score of 500)

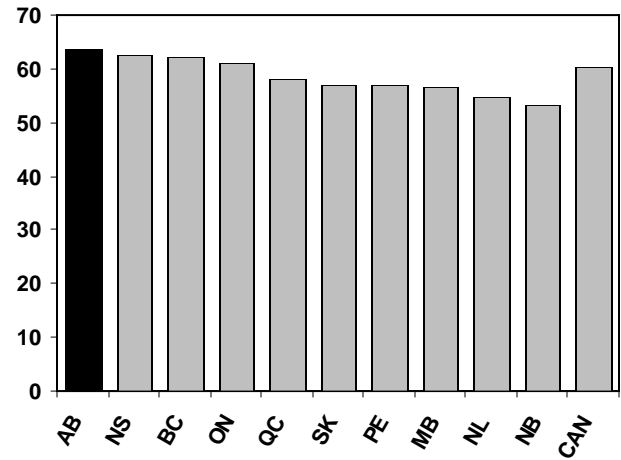


Source: Organisation for Economic Co-operation and Development (OECD)

- In 2000, the performance of students aged 15 in Alberta was significantly above the Canadian, United States and international averages in reading, mathematics and science.
- Out of 32 countries and the provinces of Canada, Alberta scored the highest in reading.

## POPULATION AGED 25-64 WITH POST-SECONDARY EDUCATION

1998-2002 Annual Average (per cent of total population)\*



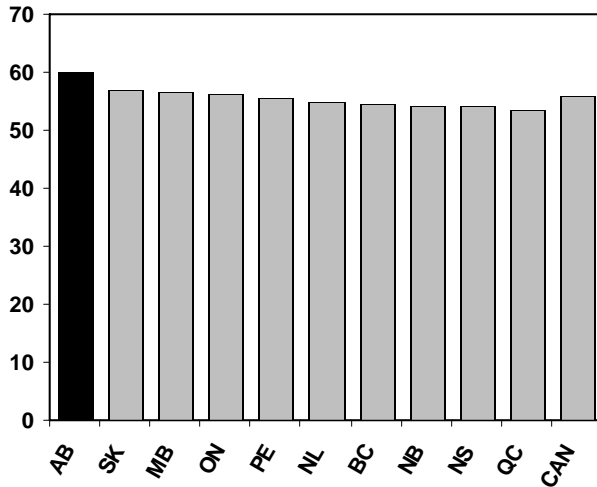
\* Includes some post-secondary and completed post-secondary certificates, diplomas, and university degrees.

Source: Statistics Canada

- Alberta has the best educated workforce in Canada.
- Approximately 64% of Alberta's population aged 25 to 64 has post-secondary education.

## SHARE OF POPULATION UNDER 40

1998-2002 Annual Average (per cent of total population)

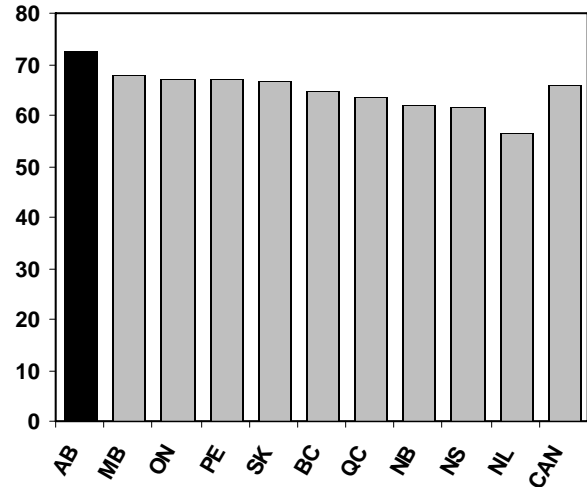


Source: Statistics Canada

- Alberta has the youngest population among the provinces.
- About 60% of Albertans are under the age of 40.

## PARTICIPATION RATE

1998-2002 Annual Average (per cent)\*



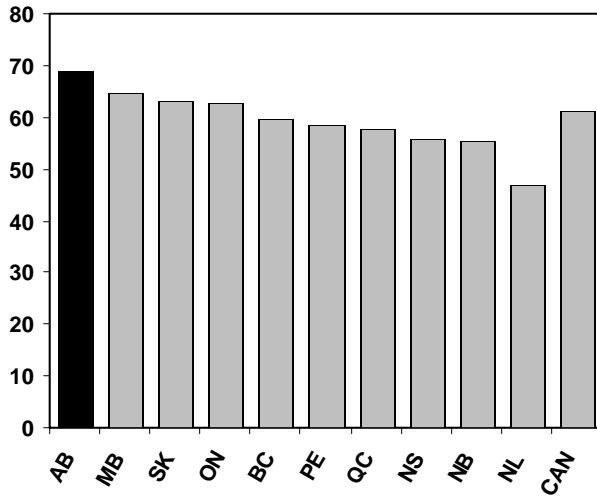
\* The participation rate is the total of those employed plus those looking for work aged 15 and over, divided by the population aged 15 and over.

Source: Statistics Canada

- Alberta has the highest labour force participation rate in Canada, 4.6 percentage points higher than second place Manitoba.

## EMPLOYMENT TO POPULATION RATIO

1998-2002 Annual Average (per cent)\*



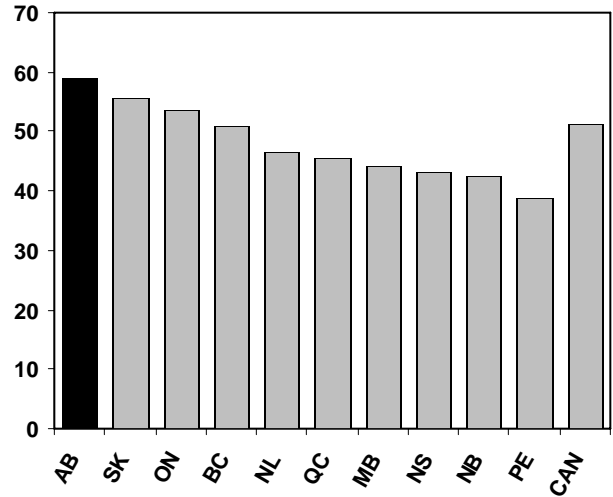
\* The employment to population ratio is the total of those employed divided by the population aged 15 and over.

Source: Statistics Canada

- Compared to other provinces, more Albertans are working relative to the size of our working age population, 4.3 percentage points above the second place province, Manitoba.

## LABOUR PRODUCTIVITY

1998-2002 Annual Average (\$ of real GDP per hour worked)\*



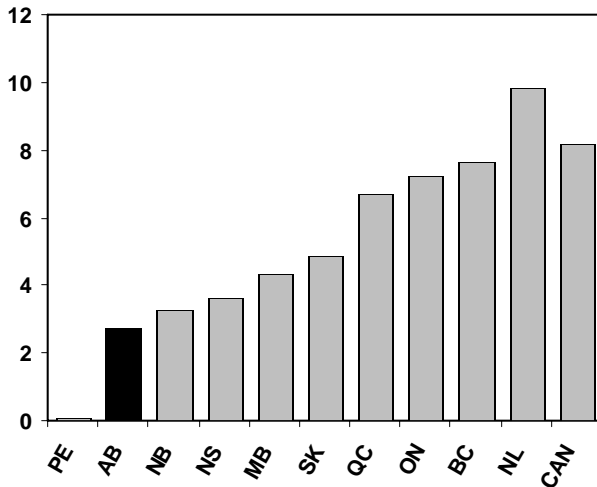
\* 2002 GDP estimated for provinces.

Source: Statistics Canada, Alberta Finance and the Conference Board of Canada

- Albertans are the most productive workers in Canada, as measured by real GDP dollars produced per hour worked.

## LABOUR RECORD

1998-2002 Annual Average (person days lost due to disputes/10,000 person days worked)\*



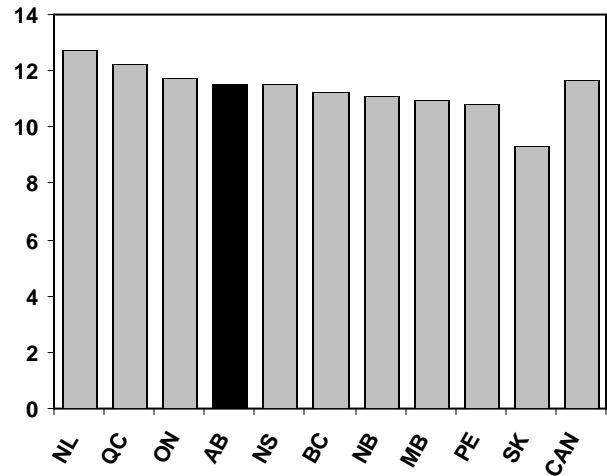
\* January to September 2002 preliminary rate.

Source: Statistics Canada and Human Resources Development Canada

- In terms of person days lost due to labour disputes, Alberta's record is better than all other provinces except Prince Edward Island.

## RESEARCH AND DEVELOPMENT EMPLOYMENT

1998-2002 Annual Average (per cent of employed labour force)\*



\* Occupations in natural and applied sciences, health, and related occupations predominantly involved in R&D activities.

Source: Statistics Canada

- The percentage of Alberta's labour force employed in occupations predominantly involved in research and development (R&D) activities ranks fourth among the provinces, and first in Western Canada.

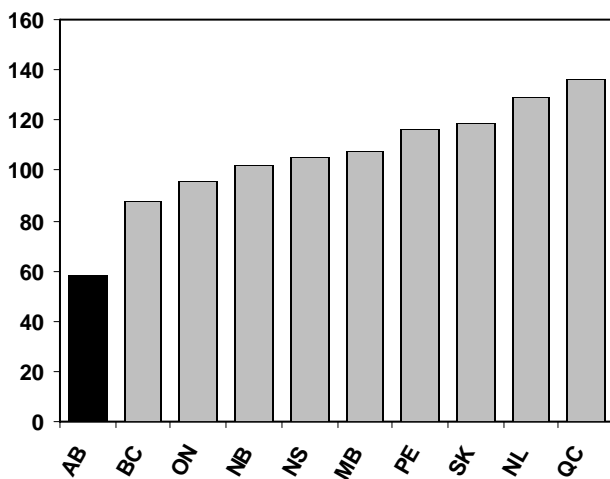
# The Lowest Tax Load

## LEAVING MORE DOLLARS IN THE POCKETS OF ALBERTANS

Alberta has the lowest overall taxes in Canada. We are the only province with a single-rate personal income tax system and the only province that does not have a retail sales tax.

### TOTAL PROVINCIAL AND MUNICIPAL TAX LOAD

2002-03 (per cent of the Canadian average)\*

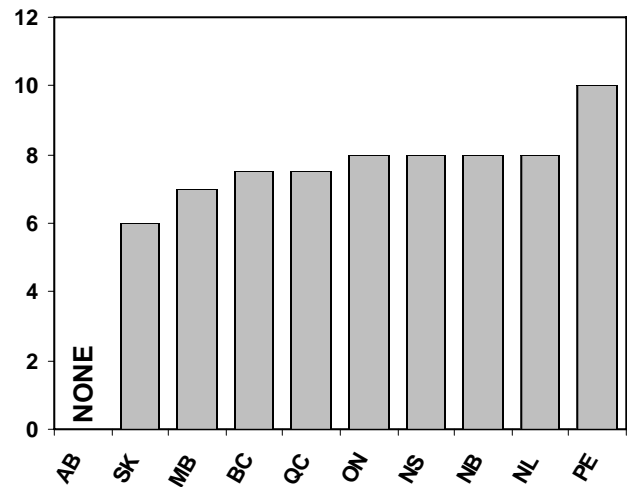


\* Equalization payments, 2002-03, 3rd estimate.  
**Source:** Finance Canada

- Alberta has by far the lowest combined provincial and municipal tax burden among the provinces, at 58% of the national average.

### RETAIL SALES TAX RATES

2003 (per cent)\*

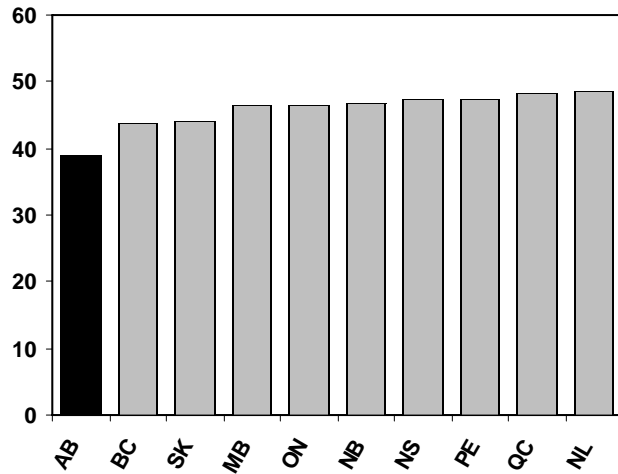


\* Other provinces' rates known as of March 19, 2003.  
**Source:** Alberta Finance

- Alberta has no provincial retail sales tax.

## COMBINED TOP MARGINAL PERSONAL INCOME TAX RATES

2003 (per cent)\*

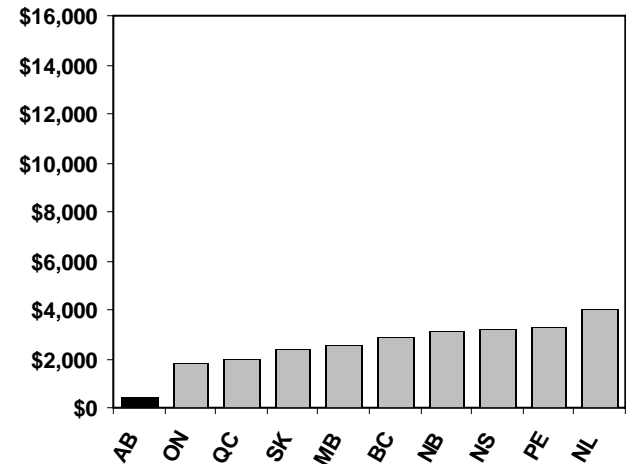


\* Other provinces' rates known as of March 19, 2003.  
Source: Alberta Finance

- Alberta has the lowest top marginal personal income tax rate among the provinces at 39% - 29% federal and 10% provincial.
- In Alberta, top income earners keep 61% of their last dollar earned.

## FAMILY EARNING \$30,000

Taxes and Health Care Insurance Premiums  
2003 (One-income family with two children)\*

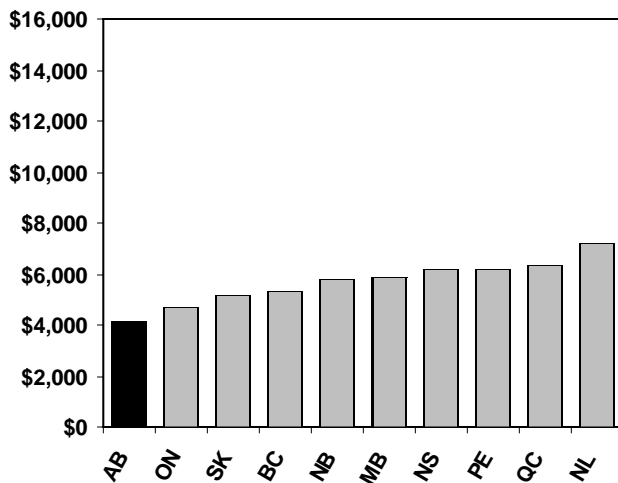


\* Other provinces' rates known as of March 19, 2003.  
Source: Alberta Finance

- This graph, and following two, compare provincial income, sales, payroll, fuel and tobacco taxes, and health care insurance premiums payable by a family.
- In Alberta, a typical one-income family earning \$30,000 pays only \$432, approximately 85% less than the average of the other provinces.

## FAMILY EARNING \$60,000

Taxes and Health Care Insurance Premiums  
2003 (Two-income family with two children)\*

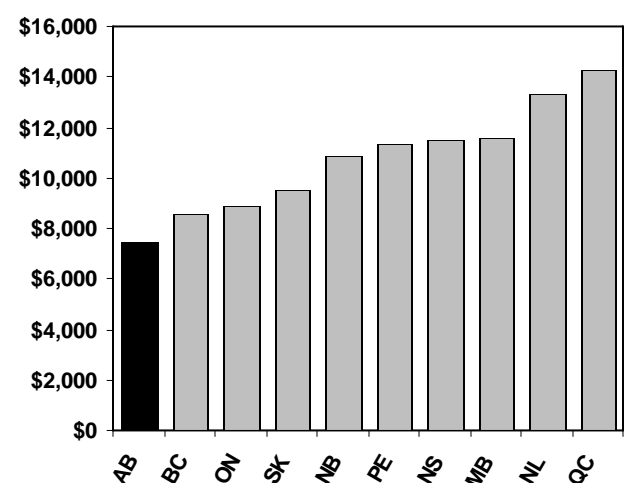


\* Other provinces' rates known as of March 19, 2003.  
Source: Alberta Finance

- In Alberta, a typical two-income family earning \$60,000 pays only \$4,124, approximately 30% less in combined taxes and health care insurance premiums than the average of the other provinces.

## FAMILY EARNING \$100,000

Taxes and Health Care Insurance Premiums  
2003 (Two-income family with two children)\*

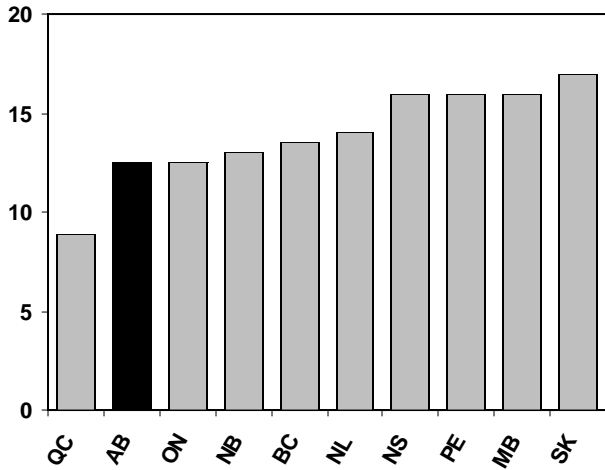


\* Other provinces' rates known as of March 19, 2003.  
Source: Alberta Finance

- In Alberta, a typical two-income family earning \$100,000 pays only \$7,418, approximately 33% less in combined taxes and health care insurance premiums than the average of the other provinces.



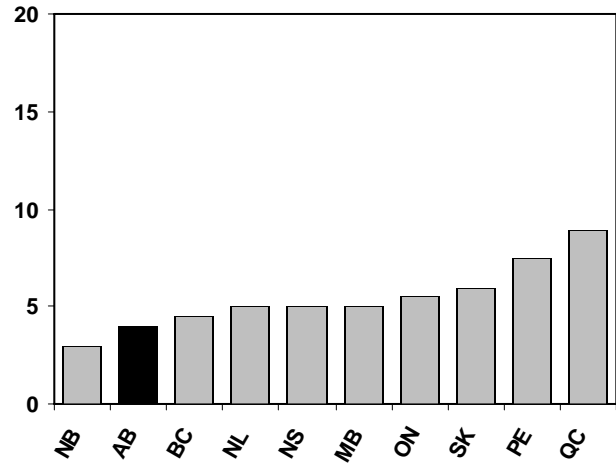
**PROVINCIAL CORPORATE INCOME TAX RATES**  
2003 (per cent)\*



\* Other provinces' rates known as of March 19, 2003. SK, ON, PE and NL reduce their corporate income tax rates for manufacturing and processing industries.  
**Source:** Alberta Finance

- As of April 1, 2003, Alberta is tied for the second lowest general corporate income tax rate in Canada. Alberta's general corporate tax rate will be reduced to 8%, as affordable.
- Alberta businesses also benefit because Alberta has no general sales tax, no capital tax and no payroll tax.

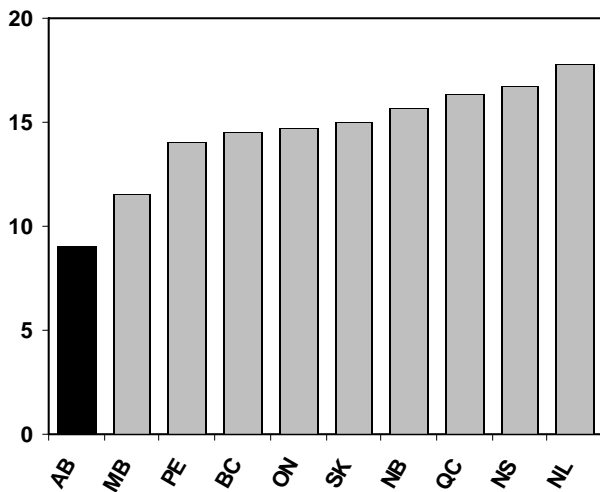
**PROVINCIAL SMALL BUSINESS CORPORATE INCOME TAX RATES**  
2003 (per cent)\*



\* Other provinces' rates known as of March 19, 2003.  
**Source:** Alberta Finance

- As of April 1, 2003, Alberta's small business corporate income tax rate of 4% is second lowest in Canada.
- Alberta's small business tax rate will be reduced to 3% on April 1, 2004, if affordable.

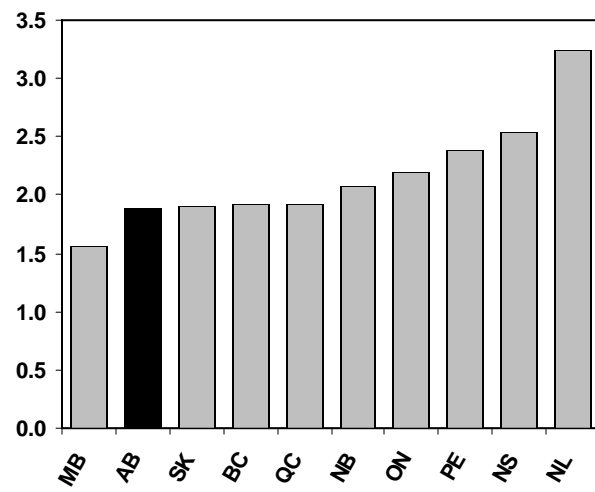
**GASOLINE TAX RATES**  
2003 (cents per litre)\*



\* Other provinces' rates known as of March 19, 2003. For NB, NS, QC and NL, provincial sales tax is levied on top of fuel tax.  
**Source:** Alberta Finance

- At 9.0 cents per litre, Alberta has the lowest gasoline tax rate among the provinces, 2.5 cents per litre below Manitoba, the second lowest province.

**WORKERS' COMPENSATION PREMIUMS**  
2003 (dollars per \$100 of gross payroll)\*



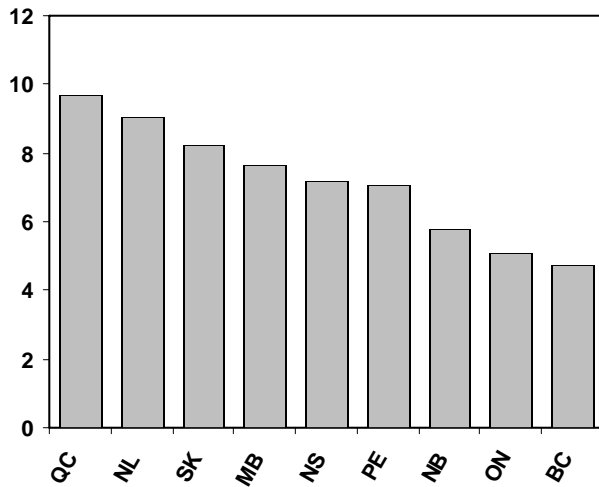
\* Provisional average assessment rates. Industry composition and administrative costs vary across provinces in rate calculations.  
**Source:** Association of Workers' Compensation Boards of Canada

- Alberta's average WCB premium rate is the second lowest among the provinces. Alberta, British Columbia, Saskatchewan, Manitoba and New Brunswick have no unfunded WCB liabilities.

---

## ALBERTA'S TAX ADVANTAGE

2003 (billions of dollars)\*



\* Other provinces' rates known as of March 19, 2003.

Source: Alberta Finance

- This graph shows the total additional provincial taxes that individuals and businesses would pay if Alberta had the same personal and corporate taxes as other provinces.
- Albertans would pay over \$4.7 billion more if we had to pay British Columbia's taxes, and over \$9.6 billion more if we had to pay Quebec's taxes.

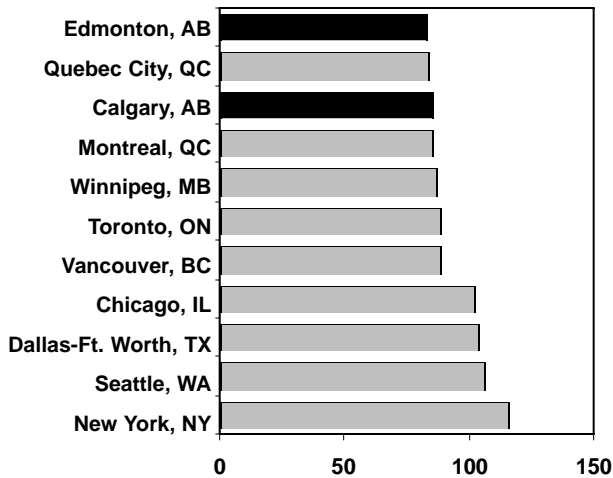
# Low Operating Costs

## FOR BUSINESSES AND HOUSEHOLDS

When it comes to cost of living, the province of Alberta is an attractive place to live and do business. Costs are more than competitive with the rest of Canada and the United States. In addition, our low taxes, skilled workforce and well-established infrastructure provide further advantages for Albertans and Alberta industries.

### BUSINESS COSTS INDEX

2001 (US=100.0)\*

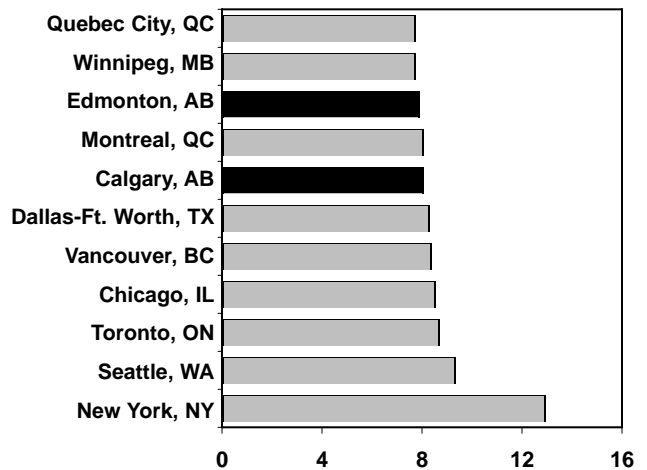


\* Based on 27 cost components. Above comparisons of Canadian cities are only those with a population of 500,000 and greater.  
Source: KPMG

- Based on KPMG's study of business costs in North America, Europe and Japan, Edmonton is the least expensive city in which to do business out of 86 major cities in nine countries.
- An Edmonton business would have an overall 17% cost advantage over the average U.S. city.

### INITIAL INVESTMENT COSTS

2001 (US\$ millions)\*

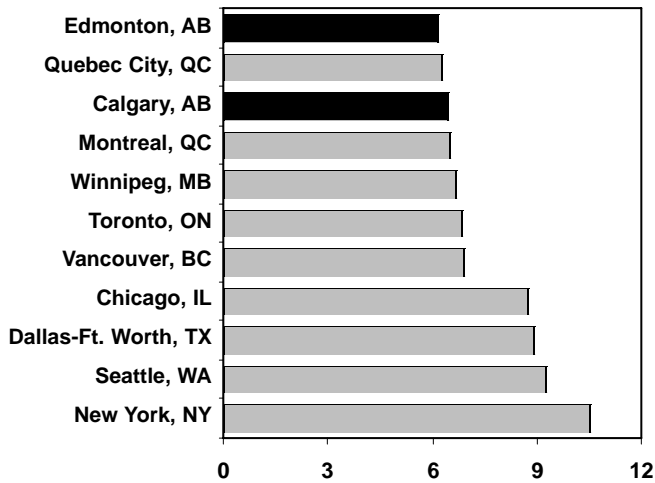


\* Above comparisons of Canadian cities are only those with a population of 500,000 and greater.  
Source: KPMG

- Edmonton and Calgary are ranked in the top five among major cities for lowest initial investment costs, which consist of land acquisition and building construction costs.

## ANNUAL LOCATION-SENSITIVE COSTS

2001 (US\$ millions)\*



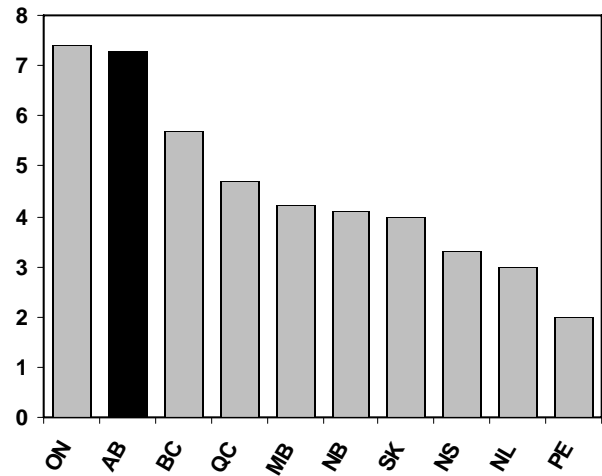
\* 10-year average. Above comparisons of Canadian cities are only those with a population of 500,000 and greater.

Source: KPMG

- Edmonton and Calgary are ranked first and third, respectively, for having the lowest overall annual location-sensitive costs.
- Location-sensitive costs include labour, lease, electricity, transport and telecommunications costs, interest, depreciation, and taxes.

## INVESTMENT CLIMATE

2002 (scale from 0 to 10)

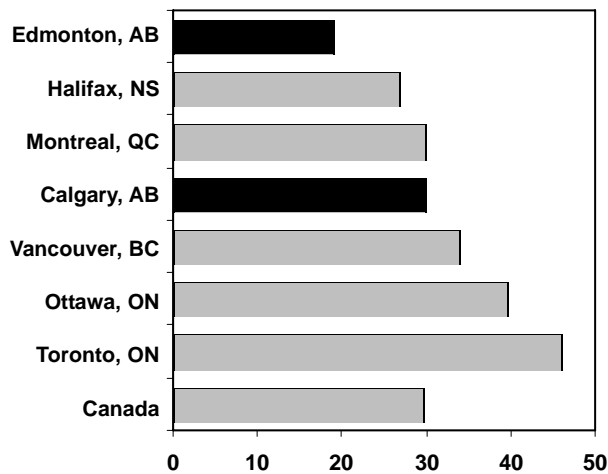


Source: Fraser Institute

- Based on the Fraser Institute's 2002 Survey of Senior Investment Managers, Alberta emerged as a close second for best investment climate in Canada.
- With respect to government policies, Alberta and Ontario led the nation with nearly 87% of respondents indicating that the provinces foster globally-competitive companies.

## OFFICE RENTAL RATES

2002 (dollars per square foot)\*



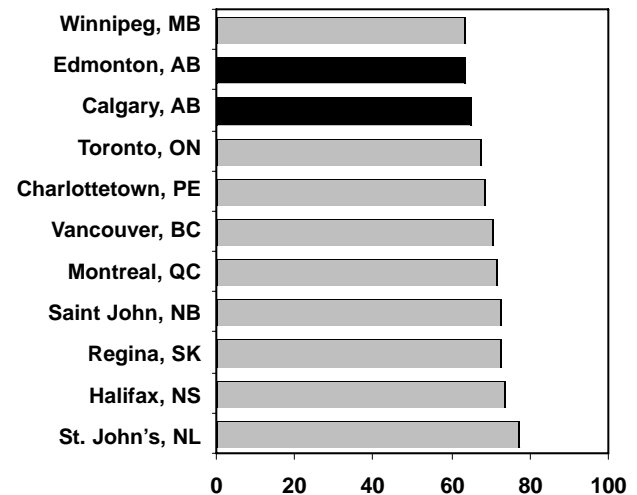
\* Total occupancy costs include average net rental rates, taxes and operating costs for typical "Central Class A" offices.

Source: Royal LePage

- Edmonton has the lowest overall office rents among major Canadian cities.
- Calgary rents are lower than those in British Columbia and Ontario.

## GASOLINE PRICES

2002 Average (cents per litre)\*



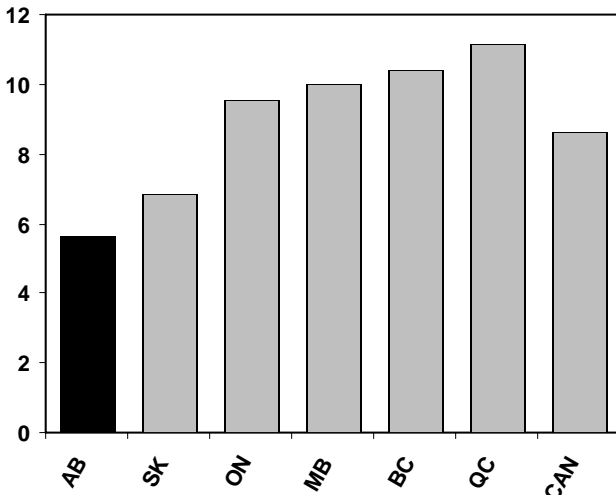
\* Regular unleaded gasoline at self service stations, taxes included.

Source: Statistics Canada

- Edmonton and Calgary are ranked behind only Winnipeg for the lowest gasoline prices in Canada.

## NATURAL GAS RATES

2002 Average (dollars/GJ)\*

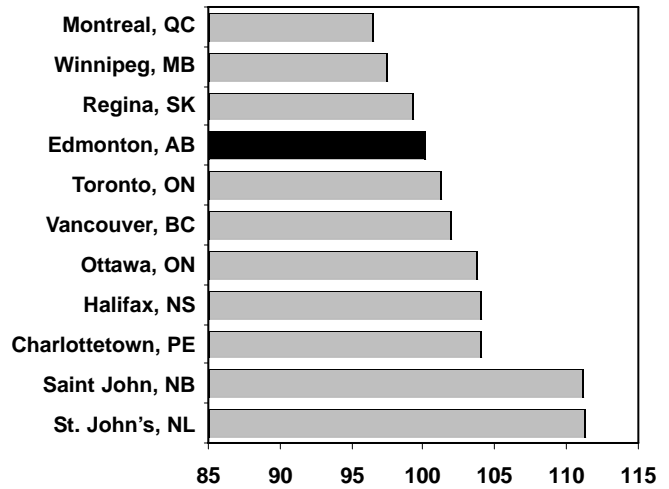


\* January to June only. Calculated as sales revenue divided by sales volume.  
 Source: Statistics Canada

- Albertans enjoyed the lowest residential natural gas rates in Canada during the first six months of 2002 (the most recent data available).

## DAILY LIVING PRICE INDEX

December 2002\*

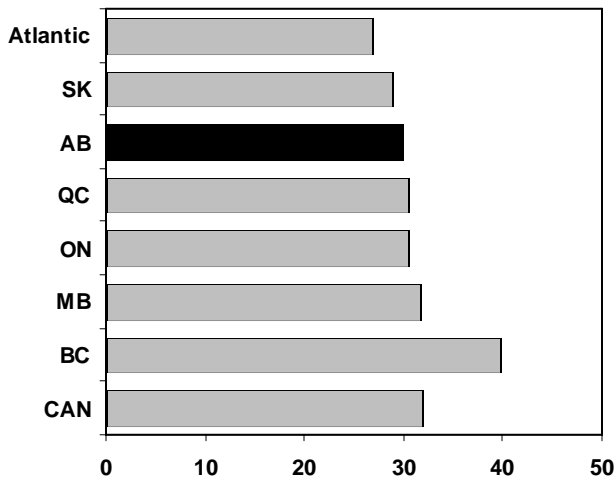


\* Converted to index of Edmonton = 100. No data available for Calgary.  
 Source: Statistics Canada

- Residents in Edmonton pay among the lowest costs for daily living compared to other major Canadian cities. A basket of daily living goods/services that costs \$100 in Edmonton would cost approximately \$111 in St. John's.
- Daily living items include food, household operations, transportation, health/personal care, recreation and tobacco/alcohol products.

## HOUSING AFFORDABILITY

2002 (home ownership costs as a % of pre-tax household income)\*

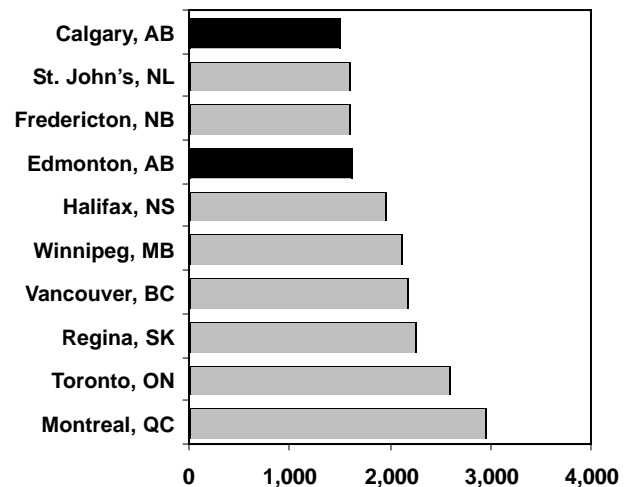


\* 4th quarter estimate. Home ownership costs include mortgage payments, utilities, and property taxes.  
 Source: Royal Bank of Canada

- Despite rising house prices in 2002, Alberta remains one of the most affordable places in Canada in which to own a home, due to high household incomes.
- Alberta's home ownership costs take up 29.9% of a typical pre-tax household income.

## NET HOME PROPERTY TAXES

2002 (dollars)\*



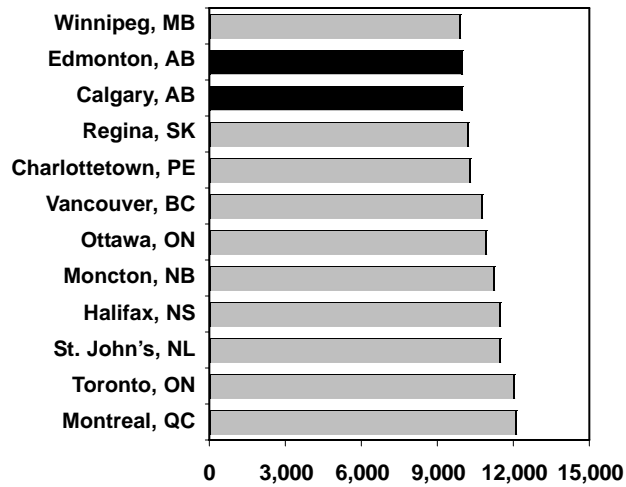
\* Includes municipal, regional and school tax, net of homeowner grants or credits for a single family house.  
 Source: The City of Edmonton

- Property taxes for a typical single family house are lowest in Calgary.
- Edmonton pays less in property taxes than other cities in Western Canada, Ontario and Quebec.

---

## CAR OWNERSHIP COSTS

2003 Annual (dollars)\*



\* Based on 4-year/96,000 km retention cycle of a 2003 Ford Taurus. Costs include general operating, insurance, depreciation, taxes and licence.

Source: Runzheimer Canada

- According to a national survey, Edmonton and Calgary are the second and third least expensive places in Canada to own and operate a car, respectively.

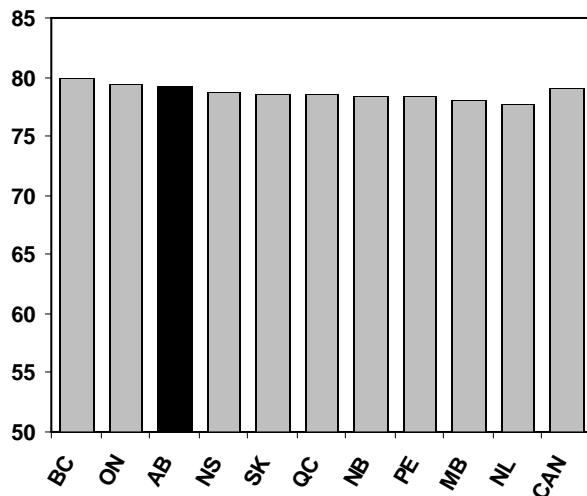
# Quality of Life

## OUTSTANDING

Each year, thousands of people from the rest of Canada are drawn to this province, well known for its exceptional standard of living. Alberta is a prosperous region, where residents share a rich natural environment, and enjoy our arts, culture and recreation opportunities.

### LIFE EXPECTANCY

1999 (years)\*

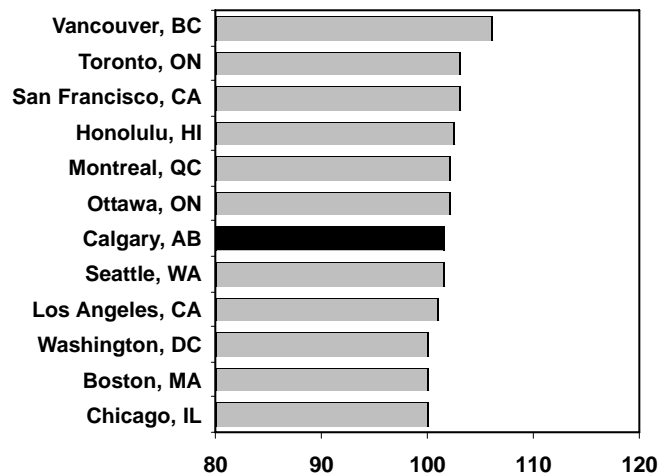


\* Average life-span at birth.  
**Source:** Statistics Canada

- In 1999, Alberta had the third highest life expectancy at birth among provinces.
- Albertans can expect to enjoy a longer life than the average Canadian.

### QUALITY OF LIFE INDEX

2002 (New York = 100.0)\*

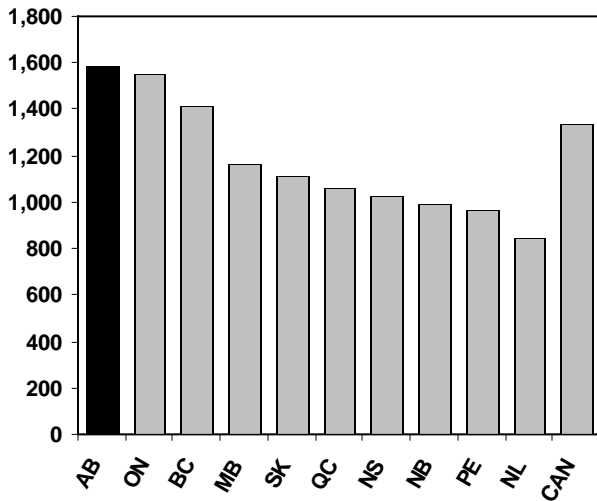


\* 39 criteria based on political, social, economic, cultural, and natural environment; health; education; transportation; recreation; consumer goods; housing; and public services. Edmonton not included in survey.  
**Source:** William M. Mercer Companies

- Based on an analysis of "Quality of Life", Calgary placed 31 out of 216 major cities in the world, with only 6 North American cities ranking higher.
- For the environmental component, Calgary was ranked number one, as the cleanest city in the world.

## EXPENDITURE ON RECREATIONAL ACTIVITIES

2001 Average Expenditure Per Household (dollars per year)\*

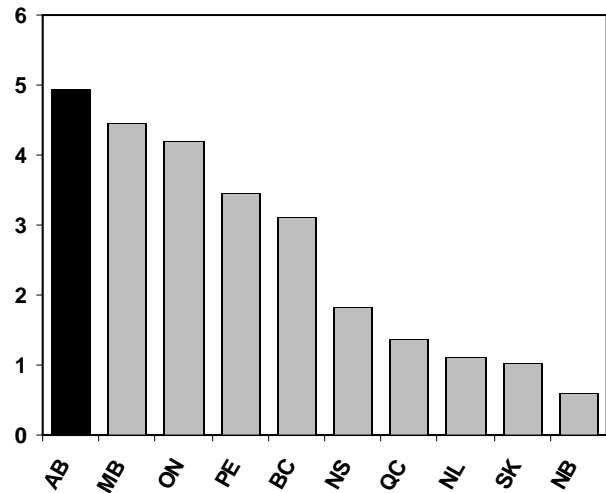


\* Expenditure on recreation and entertainment.  
**Source:** Statistics Canada

- With the highest average household income among the provinces, Albertans are able to spend the most on sports, performing arts, and other recreational and entertainment activities.

## SUPPORT FOR PERFORMING ARTS

2000-01 Private Sector Donations (dollars per capita)\*

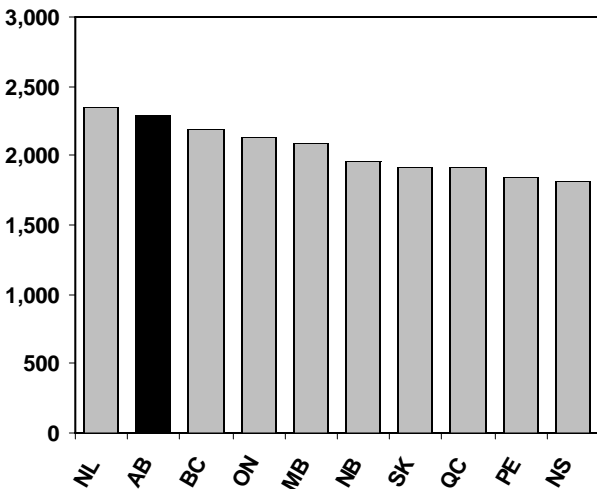


\* Includes donations and fundraising. Survey based only on professional performing arts companies with budgets of \$100,000 or more.  
**Source:** The Council for Business and the Arts in Canada (CBAC)

- As compared to the rest of Canada, Alberta's private sector contributes the most to performing arts, on a per capita basis.

## PROVINCIAL HEALTH EXPENDITURE

2000-01 (dollars per capita)\*

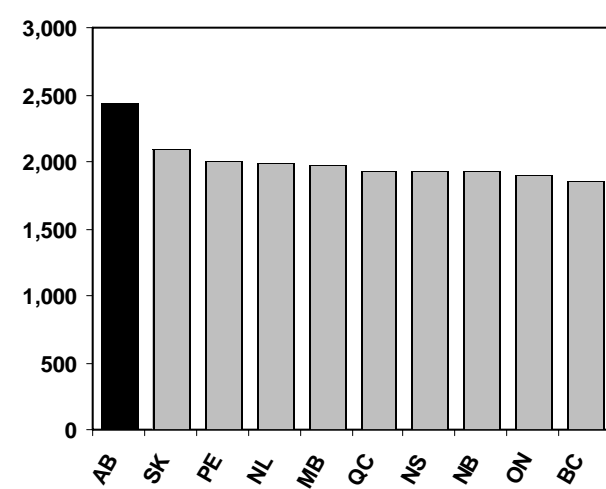


\* Adjusted for age and sex, provincial government total health expenditures.  
**Source:** Health Canada, CIHI and Alberta Health and Wellness

- In 2000-01, Alberta was ranked second highest in Canada for age-sex adjusted health expenditures per capita.

## PROVINCIAL AND LOCAL EDUCATION EXPENDITURE

2001-02 (dollars per capita)\*



\* Financial Management System Basis, provincial and local government education expenditures.  
**Source:** Statistics Canada

- In 2001-02, Alberta had the highest education expenditure on a per capita basis.



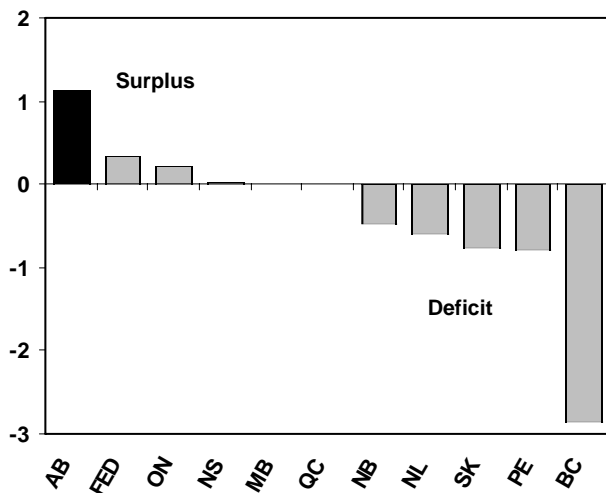
# The Alberta Government

STREAMLINED, ACCOUNTABLE AND FISCALLY RESPONSIBLE

The Alberta government is committed to responding to the needs of its citizens, while ensuring a balanced budget. As the only province with more financial assets than liabilities, Alberta continues to attract international attention as the most fiscally responsible government in Canada.

## GOVERNMENT SURPLUSES (DEFICITS)

2002-03 (per cent of GDP)\*

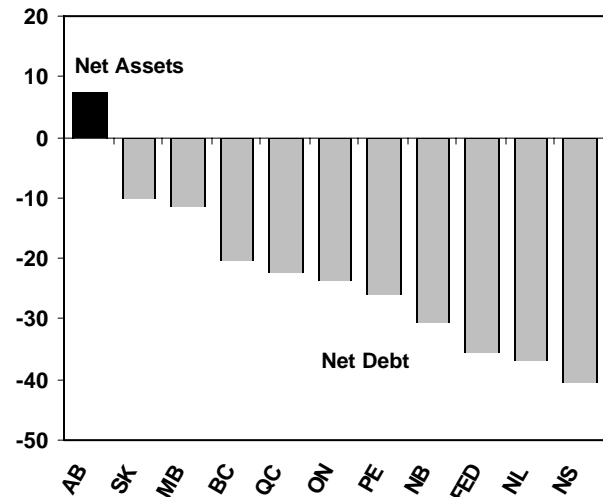


\* Other governments as of March 19, 2003.  
Source: Alberta Finance

- The Alberta government is committed to living within its means.
- Alberta has the highest surplus as a percentage of GDP in 2002-03.

## GOVERNMENT NET FINANCIAL ASSETS (DEBT)

March 31, 2003 (per cent of GDP)\*

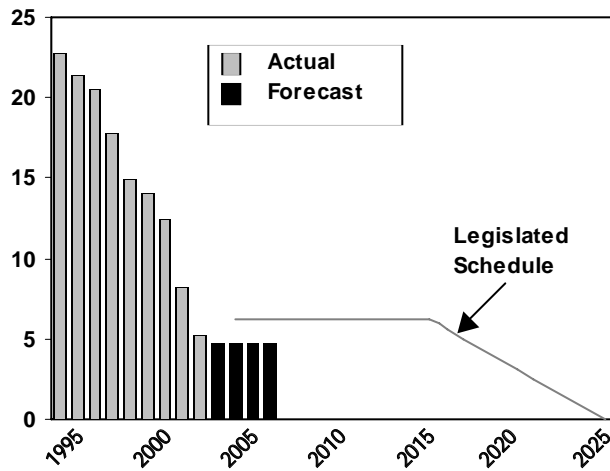


\* Other governments as of March 19, 2003. On a consolidated basis where possible. Excludes pension liabilities.  
Source: Alberta Finance

- Alberta's net debt has been eliminated, with total financial assets exceeding total liabilities.
- At March 31, 2003, Alberta's financial assets are forecast to be \$25.2 billion. Total liabilities (excluding pension obligations) are forecast to be \$13.6 billion, resulting in net assets of about \$11.6 billion.

## ALBERTA'S ACCUMULATED DEBT

At March 31 (billions of dollars)\*

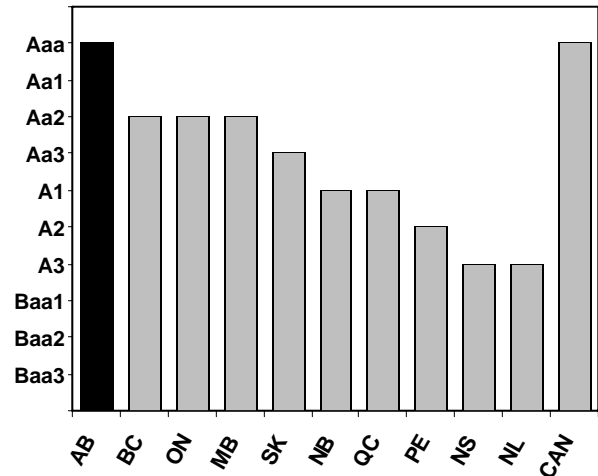


\* Net of cash set aside in the Debt Retirement Account.  
 Source: Alberta Finance

- Alberta's accumulated debt is expected to be \$4.8 billion on March 31, 2003.

## CREDIT RATING

As of March 19, 2003\*

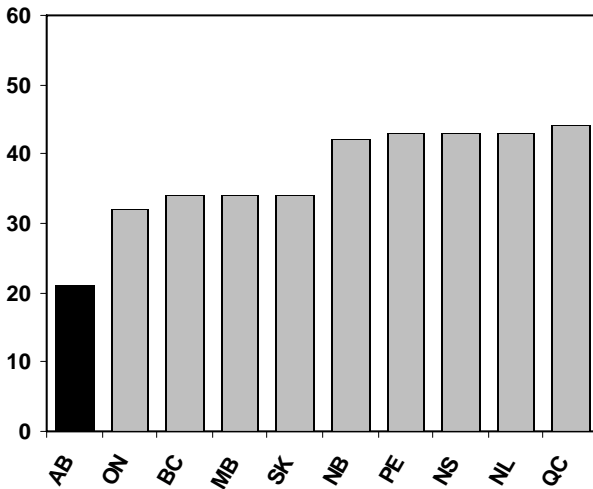


\* Moody's Canadian domestic dollar debt ratings.  
 Source: Moody's Investors Services

- Alberta is the top province in Canada for credit worthiness. All major rating agencies (Standard and Poor's, Moody's, and Dominion Bond Rating Service) give Alberta "Triple A", the highest possible rating.
- The high ratings reflect Alberta's strong economic performance, high income levels, low debt burden, and prudent fiscal management.

## BORROWING COSTS

As of March 20, 2003 (basis points)\*

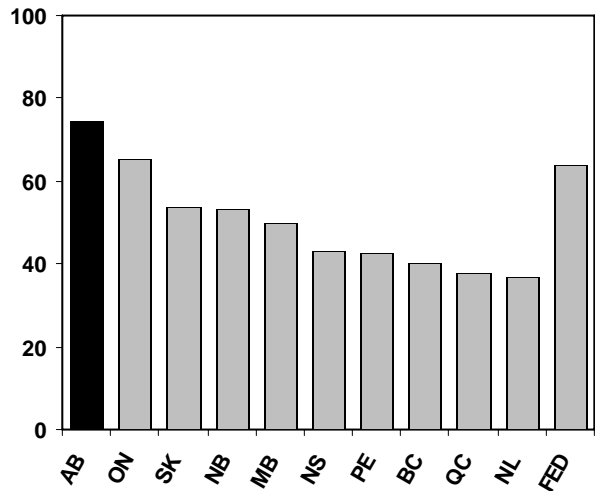


\* Interest rates spread relative to 10-year Government of Canada bond rate. A basis point is one-hundredth of a percentage point.  
 Source: CIBC World Markets

- Alberta has the lowest interest rate spread relative to 10-year Government of Canada bonds of any province in Canada.
- Alberta's strong fiscal performance and top credit rating have led to lower borrowing costs for the province.

## BUDGET PERFORMANCE INDEX

2002 (100-point index scale)\*



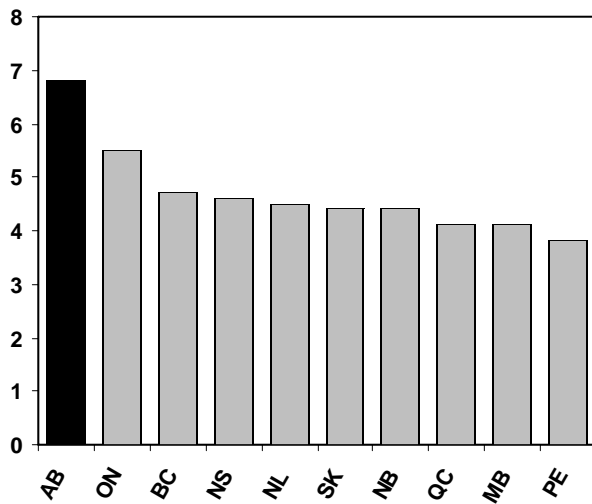
\* Component ratings include levels of, and changes in spending, tax rates, tax revenues, deficits and debt.  
 Source: Fraser Institute

- Based on the Fraser Institute's measure of budget performance, Alberta topped all other provinces and the federal government in 2002.
- According to the index, which is based upon the tax and expenditure behaviour of governments, Alberta's performance surpassed second place Ontario by 14%.

---

## ECONOMIC FREEDOM INDEX

2000 (10-point index scale)\*



\* Component ratings include government operations and regulations, taxation, and labour market regulations.

Source: Fraser Institute

- Based on the Fraser Institute's measure of economic freedom (which fosters economic growth and prosperity through minimal government regulation and taxation), Alberta rates number one in Canada as a place to do business.
- Alberta surpassed the second highest rated province, Ontario by 24%.



# ALBERTA TAX ADVANTAGE

Alberta **2003** Budget  

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Making Alberta Even Better

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# Alberta Tax Advantage

## INTRODUCTION

This year, we are adopting a new fiscal framework designed to bring predictability and sustainability to the government's finances. This framework builds upon the predictability already present in Alberta's tax system. Consistently low taxes have become one of the defining features of living and doing business in Alberta. Albertans can proudly claim the lowest overall tax burden in the country — this is one key feature of the fiscal framework that stays the same.

*“Alberta has the lowest taxes in Canada, and we’re going to keep it that way.”*

**Pat Nelson**  
**Minister of Finance**  
**March 19, 2003**

Albertans enjoy the advantages of no general sales or payroll taxes, the lowest fuel tax in Canada, and among the lowest school property taxes, personal income taxes, and corporate taxes in Canada. We are unique in many ways — the absence of a sales tax, an innovative single-rate tax system, and no corporate capital tax.

Another distinction is that the government has built its tax advantage on low rates for all Alberta residents and businesses. Rather than favouring certain individuals and sectors with tax preferences, Alberta chooses to follow a low rate, broad base approach. This means that when we have the fiscal room to cut taxes, our first choice is to cut overall taxes. We do not pick winners and losers with the tax system, nor do we expect the broader economy to bear the cost of special tax treatment provided to a select few. This approach is the best for the economy and the fairest.

Since 1994, we have cut taxes in an affordable way, without risking the return to government deficits in Alberta. This year, our tax plan includes further corporate income tax cuts, continued indexation of the personal income tax system, and a freeze in school property tax rates. Low overall taxes mean more opportunities for Albertans, greater rewards for our work and investment, and more wealth to support the public services and quality of life we enjoy. Alberta's low taxes are a solid foundation for our dynamic and vibrant provincial economy.

*"...the most competitive tax system was found in Alberta, thanks in part to a 10% single-rate personal income tax, the lowest fuel taxes, no sales tax, and some of the lowest corporate tax rates"*

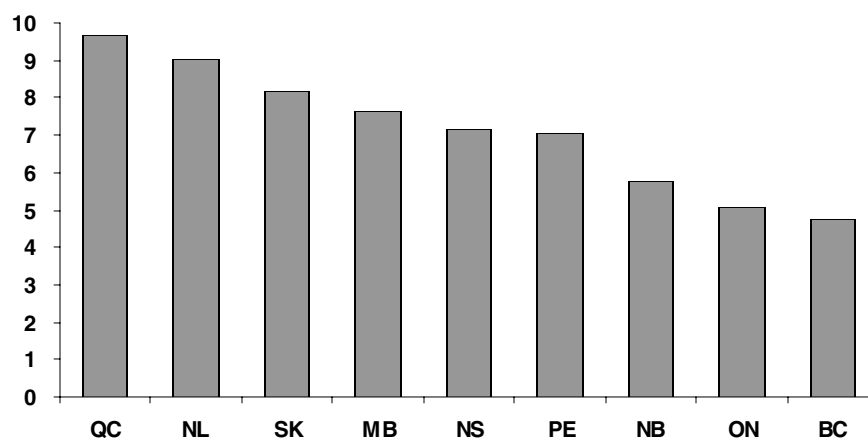
**Dominion Bond Rating Service Limited**  
**"The Canadian Federal and Provincial Governments - 2002 Overview"**  
**January 2003**

*"Alberta is Canada's only competitive corporate tax regime in North America today."*

**Jack M. Mintz**  
**President**  
**C.D. Howe Institute**  
**National Post**  
**March 26, 2003**

## Alberta's Tax Advantage

(billions of dollars)



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

## CORPORATE INCOME TAXES

Alberta continues corporate income tax reductions this year. We cut the general rate to 12.5%, reduced the small business rate to 4%, and raised the small business income threshold to \$400,000, effective April 1, 2003. Since 2000, we have cut the general rate by almost 20%, reduced the small business rate by 33%, and doubled the small business threshold.

Albertans recognize that business taxes discourage investment and are ultimately paid by ordinary people in the form of fewer jobs and lower pay. If corporate taxes are not competitive, business owners will decide that Alberta is not a worthwhile place to start or expand a business. The negative impacts of high corporate income taxes are felt even more strongly in a global economy, where Alberta competes with hundreds of jurisdictions to be the chosen destination for investment.

The original tax reduction schedule announced in Budget 2001 was modified last year because of the uncertain revenue picture. The new schedule proceeds more slowly with the planned cuts. Our fiscal plan includes this year's tax cuts plus additional one-percentage point reductions in the general and small business rates in 2004. This will complete the planned small business reductions and move us closer to our long-term goal of an 8% general rate. In Budget 2004, we will make a final decision on the 2004 cuts and consider further cuts to the general rate as affordable.



---

## Implementation Schedule for the Business Tax Plan

(Effective April 1 each year)

	2000-01	2001-02	2002-03	2003-04	2004-05
General rate <sup>a</sup> (%)	15.5	13.5	13.0	12.5	11.5
Small business rate (%)	6.0	5.0	4.5	4.0	3.0
Small business threshold (\$)	200,000	300,000	350,000	400,000	400,000
Railway fuel tax (¢/litre)	3.0	1.5 <sup>b</sup>	1.5	1.5	1.5
Capital tax (%)	0.7/1.0	Eliminated			

<sup>a</sup> Manufacturing and processing (M&P) income was taxed at 14.5% in 2000, but in 2001 the M&P rate was reduced to the same level as the general rate. The tax system no longer distinguishes between M&P and other income.

<sup>b</sup> Effective May 1, 2001.

---

*“As it stands, Alberta has the lowest top marginal personal tax rate among the provinces, and is the only jurisdiction that levies no provincial sales tax or capital tax.”*

**TD Economics**  
**“The 2002 Alberta Budget”**  
**March 2002**

Cuts to corporate income taxes started in 2001, and will save Alberta corporations about \$435 million in taxes this year. These savings are on top of the savings from cuts to other corporate taxes, such as the elimination of the financial institutions capital tax and the drop in the railway fuel tax.

By following an affordable plan for corporate tax cuts, the government is making sure that it can continue to provide the public services that Albertans value, while laying the groundwork for the growth that will help pay for these services in the future.

### RESOURCE TAXATION

In response to a long-standing concern voiced by this government and by Alberta's resource industry, the federal government recently released a proposal to include the resource sector in the federal corporate income tax reductions enjoyed by all other sectors. In its 2000 budget, the federal government excluded the non-renewable resource sector from its decision to cut the federal corporate income tax rate from 28% in 2000 to 21% in 2004.

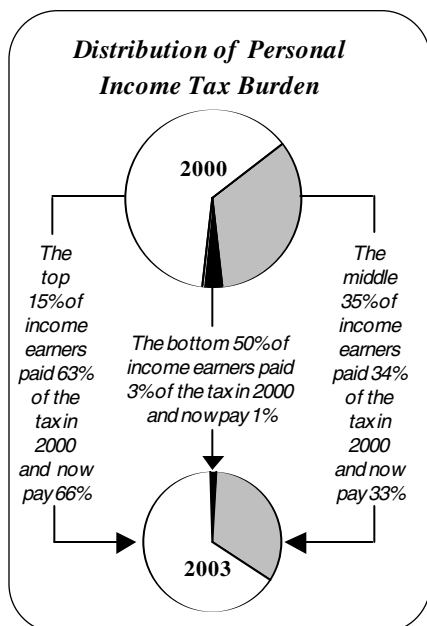
We are pleased that the federal proposal recognizes that all sectors of the economy should be taxed at the same rate, and that royalties are a legitimate cost of doing business. However, we also believe that the federal government could have extended the tax cut to the resource sector more quickly than the lengthy implementation period proposed. The Alberta government will consult with industry and provide feedback to the federal government on its proposal.

## PERSONAL INCOME TAXES

We began cutting corporate taxes only after acting on our first tax priority — personal income tax cuts. The government phased in over \$1.5 billion in personal income tax savings over the three years 1999 to 2001, culminating in the introduction of the single-rate tax system.

Our single-rate tax system has two key components that balance fairness and competitiveness. First, the biggest personal and spousal amounts in the country promote fairness by boosting the amount of income that Albertans can earn tax-free. Secondly, a single rate of 10% provides the lowest top marginal tax rate in Canada. This promotes competitiveness, encouraging people to live, work and invest in Alberta.

The provincial non-refundable credits are indexed to inflation so that their value to Albertans is not eroded over time. Albertans will pay about \$130 million less in personal income taxes this year as a result of the indexation introduced in 2001 when we moved to the single-rate tax. This year, the personal and spousal amounts both increase to \$13,525. A typical single individual can make \$14,300 before paying any provincial income tax. A typical family with two children that earns less than \$34,500 will not pay provincial income tax. For these families, the refundable Alberta Family Employment Tax Credit will exceed Alberta taxes payable.



### Alberta Non-Refundable Tax Credit Block

	2002			2003		
	Maximum Amount (A) (\$)	Alberta Credit Rate (B) (%)	Deduction from Alberta Tax (A) x (B) (\$)	Maximum Amount (A) (\$)	Alberta Credit Rate (B) (%)	Deduction from Alberta Tax (A) x (B) (\$)
Basic personal amount	13,339	10	1,334	13,525	10	1,353
Spousal amount	13,339	10	1,334	13,525	10	1,353
Eligible dependant amount	13,339	10	1,334	13,525	10	1,353
Age amount	3,742	10	374	3,794	10	379
Infirm dependant amount	3,619	10	362	3,669	10	367
CPP contributions	1,673	10	167	1,802	10	180
Employment Insurance contributions	858	10	86	819	10	82
Pension income amount	1,034	10	103	1,048	10	105
Disability amount	6,204	10	620	6,291	10	629
Disability supplement	3,619	10	362	3,670	10	367
Tuition and education amounts	Variable	10	Variable	Variable	10	Variable
Medical expenses	Variable	10	Variable	Variable	10	Variable
Caregiver amount	3,619	10	362	3,670	10	367
Interest on student loans	Variable	10	Variable	Variable	10	Variable
Donations and gifts						
- first \$200	200	10	20	200	10	20
- over \$200	75% of income	12.75	Variable	75% of income	12.75	Variable

## ALBERTA FAMILY EMPLOYMENT TAX CREDIT

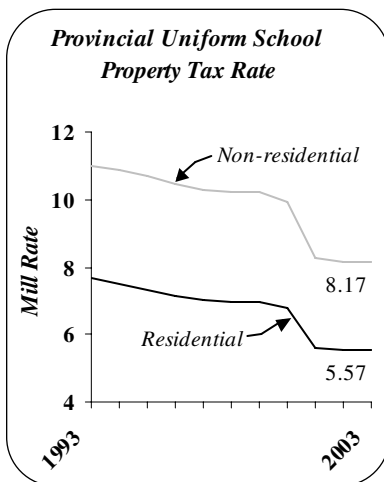
The Alberta Family Employment Tax Credit (AFETC) has two objectives: to support children in low and middle-income families, and to encourage the parents of those children to continue to work. As low-income parents start to earn working income, they begin to lose access to social assistance benefits. After considering taxes and lost benefits, these parents may wonder whether their jobs are worth it. The government provides the AFETC to help ensure that work is a worthwhile choice.

The program provides benefits of up to \$500 per child, to a maximum of \$1,000 per family. The tax credit begins to be phased in when a family's working income exceeds \$6,500 and begins to be phased out when a family's net income is more than \$25,000. In 2003, the AFETC will provide \$80 million in tax relief to about 160,000 Alberta families.

The AFETC was introduced in 1997. The government doubled the maximum benefits the following year, but since that time has not made any changes to the program. The government will review the AFETC to make sure it is still fulfilling its intended purpose, and to assess whether the program should be modified.

## SCHOOL PROPERTY TAXES

We are holding the line on provincial uniform school property tax rates in 2003. The rates remain at \$5.57 per \$1,000 of equalized assessment for residential and farm property, and \$8.17 for non-residential property. This follows a major 17% cut in 2001 and an additional 1% reduction last year. This year's freeze makes ten straight years that the government has either reduced or frozen its school property tax rates. This track record is one of the main reasons why Albertans pay among the lowest property taxes in Canada.



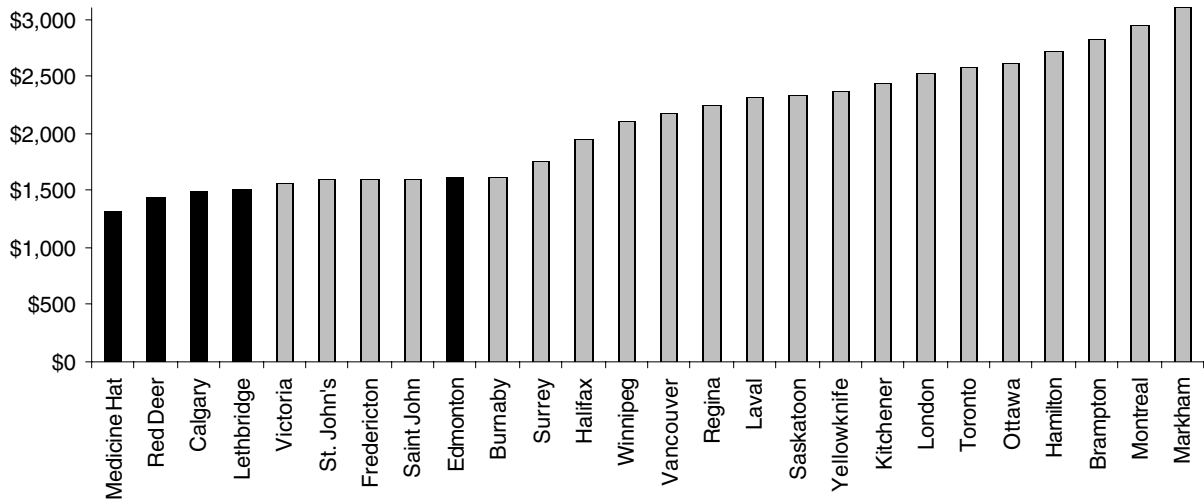
Total school property tax will be \$1.327 billion in 2003-04, including opted-out school boards' share. Government revenue from the school property tax will be \$1.165 billion in 2003-04, a 5.8% increase from last year. Although rates are frozen, the amount collected will increase because Alberta's assessment base continues to grow, just as income tax revenue increases as income grows. The increased revenue will go towards supporting basic education. School property taxes fund approximately 36% of Alberta's basic education costs.

The property tax system promotes fairness in two ways: first for the taxpayer, by applying the same provincial uniform school property tax rate to assessment in every municipality; and secondly for our children, by distributing the funds raised on an equal per student basis across the province. No matter where they live, students across Alberta receive the same educational opportunities.

---

## Net Property Tax for a Single Family Home, 2002

(Selected Canadian Cities)



Notes:

1. Includes municipal, regional and school taxes, net of any applicable homeowner grants.
2. Taxes are based on the value of a typical single family home, defined as a 25-30 year old detached bungalow with 3 bedrooms, a main floor area of 1,200 square feet, finished full basement, double car garage, and a 6,000 square foot lot. Information for Vancouver, Burnaby, Surrey and Brampton is based on an average-value home that may differ slightly from the above definition.

**Source:** City of Edmonton, Planning and Development, 2002 Residential Property Taxes & Utility Charges Survey.

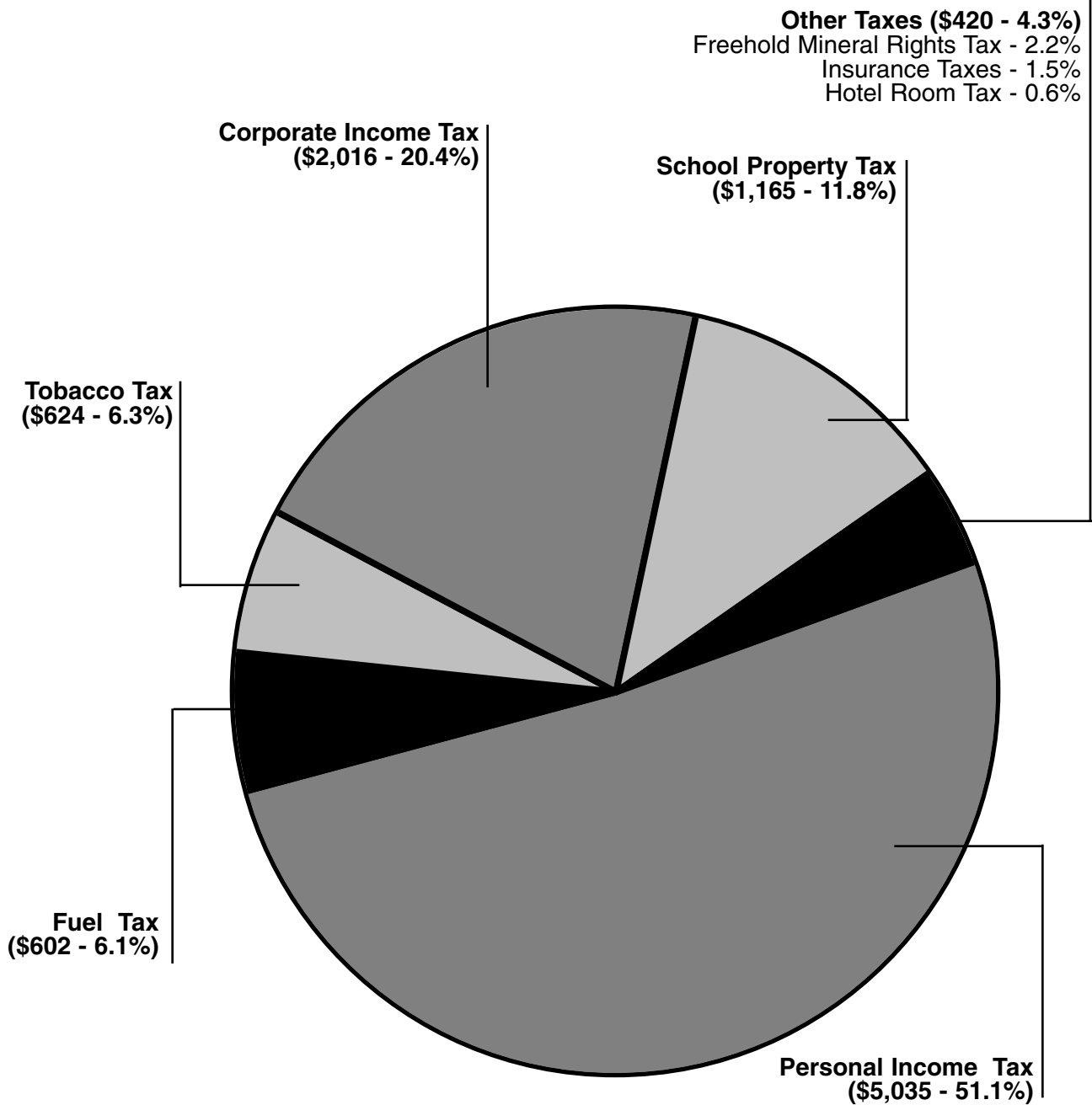
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# TAX TABLES AND CHARTS

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**2003-04 Tax Revenue**  
**\$9,862 million**

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## 2003-04 Revenue from Tax Sources

(millions of dollars)

Tax	Total Revenue	Tax Rate	Revenue per Unit of Tax
<b>1. Personal Income Tax</b>	<b>5,035</b>		
Single-rate tax	5,109	10.0%	510.9 per point
AFETC <sup>a</sup>	(80)		(difficult to express in per unit terms)
NHL Players Tax	6	12.5%	0.5 per point
<b>2. Corporate Income Tax</b>	<b>2,016</b>		
General	1,787	12.5%	143.0 per point
Small business	229	4.0%	57.3 per point
<b>3. Fuel Tax</b>	<b>602</b>		
Gasoline and diesel	579	9.0 ¢/litre	64.3 per ¢/litre
Aviation	11	1.5 ¢/litre	7.3 per ¢/litre
Propane	8	6.5 ¢/litre	1.2 per ¢/litre
Railway	4	1.5 ¢/litre	2.7 per ¢/litre
<b>4. Tobacco Tax</b>	<b>624</b>	\$32/carton	19.5 per \$/carton
<b>5. School Property Tax<sup>b</sup></b>	<b>1,165</b>		
Residential/farm property	640	\$5.57/\$1,000 of assessment	114.9 per mill
Non-residential	525	\$8.17/\$1,000 of assessment	64.3 per mill
<b>6. Freehold Mineral Rights Tax</b>	<b>214</b>		(difficult to express in per unit terms)
<b>7. Insurance Taxes</b>	<b>148</b>		
Life, accident, sickness	43	2% of premium	21.5 per point
Other	105	3% of premium	35.0 per point
<b>8. Hotel Room Tax</b>	<b>58</b>	5.0%	11.6 per point

<sup>a</sup> Alberta Family Employment Tax Credit

<sup>b</sup> Does not include revenue of approximately \$162 million raised by opted out school boards.

# Interprovincial Tax and Health Care Insurance Premium Comparison, 2003

(dollars)

	AB	BC	SK	MB	ON	QC	NB	NS	PE	NL
<b>Employment Income of \$30,000 – One Income Family with Two Children</b>										
Provincial income tax	(839)	348	606	511	(380)	(759)	1,086	1,107	1,109	1,437
Provincial sales tax	—	694	496	756	1,008	1,181	955	989	1,167	1,234
Health care premium	201	583	—	—	—	—	—	—	—	—
Payroll tax	—	—	—	226	278	666	—	—	—	181
Fuel tax	270	418	450	345	441	456	435	465	420	495
Tobacco tax	800	793	800	725	430	453	588	648	573	675
	<b>432</b>	<b>2,836</b>	<b>2,352</b>	<b>2,563</b>	<b>1,777</b>	<b>1,997</b>	<b>3,064</b>	<b>3,209</b>	<b>3,269</b>	<b>4,022</b>
<b>Alberta Advantage</b>		<b>2,404</b>	<b>1,920</b>	<b>2,131</b>	<b>1,345</b>	<b>1,565</b>	<b>2,632</b>	<b>2,777</b>	<b>2,837</b>	<b>3,590</b>
<b>Employment Income of \$60,000 – Two Income Family with Two Children</b>										
Provincial income tax	2,127	1,918	3,005	3,105	1,558	2,208	3,175	3,397	3,305	3,637
Provincial sales tax	—	1,028	724	1,097	1,473	1,677	1,412	1,457	1,722	1,828
Health care premium	792	972	—	—	—	—	—	—	—	—
Payroll tax	—	—	—	453	556	1,331	—	—	—	363
Fuel tax	405	627	675	518	662	684	653	698	630	743
Tobacco tax	800	793	800	725	430	453	588	648	573	675
	<b>4,124</b>	<b>5,338</b>	<b>5,204</b>	<b>5,898</b>	<b>4,679</b>	<b>6,353</b>	<b>5,828</b>	<b>6,200</b>	<b>6,230</b>	<b>7,246</b>
<b>Alberta Advantage</b>		<b>1,214</b>	<b>1,080</b>	<b>1,774</b>	<b>555</b>	<b>2,229</b>	<b>1,704</b>	<b>2,076</b>	<b>2,106</b>	<b>3,122</b>
<b>Employment Income of \$100,000 – Two Income Family with Two Children</b>										
Provincial income tax	5,421	4,630	6,966	7,903	4,641	8,528	7,502	7,941	7,510	8,550
Provincial sales tax	—	1,571	1,086	1,624	2,213	2,405	2,107	2,170	2,578	2,711
Health care premium	792	972	—	—	—	—	—	—	—	—
Payroll tax	—	—	—	755	927	2,219	—	—	—	604
Fuel tax	405	627	675	518	662	684	653	698	630	743
Tobacco tax	800	793	800	725	430	453	588	648	573	675
	<b>7,418</b>	<b>8,593</b>	<b>9,527</b>	<b>11,525</b>	<b>8,873</b>	<b>14,289</b>	<b>10,850</b>	<b>11,457</b>	<b>11,291</b>	<b>13,283</b>
<b>Alberta Advantage</b>		<b>1,175</b>	<b>2,109</b>	<b>4,107</b>	<b>1,455</b>	<b>6,871</b>	<b>3,432</b>	<b>4,039</b>	<b>3,873</b>	<b>5,865</b>

Calculations are based on other provinces' tax parameters known as of March 19, 2003.

## Assumptions:

- Business is assumed to bear between 25% and 60% of the provincial sales tax, depending upon the provincial tax regime.
- 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 care insurance 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.
- Tobacco tax is based on estimated consumption of 100 packs per adult per year.
- RRSP/RPP contributions of \$1,000, \$7,800 and \$13,500 are included in the calculation of personal income tax for the \$30,000, \$60,000 and \$100,000 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, 2003

		AB	BC	SK	MB	ON	QC	NB	NS	PE	NL
<b>Personal Income Tax</b>											
Statutory rate range											
- lowest rate	(%)	10.00	6.05	11.00	10.90	6.05	16.00 <sup>a</sup>	9.68	9.77	9.80	10.57
- highest rate	(%)	10.00	14.70	15.00	17.40	11.16	24.00 <sup>a</sup>	17.84	16.67	16.70	18.02
Surtax	(%)	—	—	—	—	20.0/36.0	—	—	10.0	10.0	9.0
Basic amount	(\$)	13,525	8,307	8,000	7,634	7,817	6,150	7,756	7,231	7,412	7,410
Spousal amount	(\$)	13,525	7,113	8,000	6,482	6,637	6,150	6,586	6,140	6,294	6,055
<b>Corporate Income Tax</b>											
General rate	(%)	12.5	13.5	17.0	16.0	12.5	8.9	13.0	16.0	16.0	14.0
M&P rate	(%)	12.5	13.5	10-17 <sup>b</sup>	16.0	11.0	8.9	13.0	16.0	7.5	5.0
Small business											
- rate	(%)	4.0	4.5	6.0	5.0	5.5	8.9	3.0	5.0	7.5	5.0
- threshold	(\$000)	400	300	300	320	320	n/a	400	200	200	200
<b>Capital Tax</b>											
General	(max.%)	—	—	0.60	0.50	0.30	0.60	0.30	0.25	—	—
Financial institutions	(max.%)	—	3.00	3.25	3.00	0.90	1.45 <sup>c</sup>	3.00	3.00	3.00	4.00
<b>Retail Sales Tax</b>											
	(%)	—	7.5	6.0	7.0	8.0	7.5 <sup>d</sup>	8.0 <sup>d</sup>	8.0 <sup>d</sup>	10.0	8.0 <sup>d</sup>
<b>Gasoline Tax</b>											
	(¢/litre)	9.0	14.5 <sup>e</sup>	15.0	11.5	14.7	15.2 <sup>e,f</sup>	14.5 <sup>f</sup>	15.5 <sup>f</sup>	14.0	16.5 <sup>f</sup>
<b>Tobacco Tax</b>											
	(\$/carton)	32.00	32.00	32.00 <sup>f</sup>	29.00 <sup>f</sup>	17.20	18.10	23.50 <sup>f</sup>	26.04 <sup>f</sup>	22.90	27.00 <sup>f</sup>
<b>Payroll Tax</b>											
	(max.%)	—	—	—	2.15	1.95	4.26 <sup>g</sup>	—	—	—	2.00

Rates for other provinces known as of March 19, 2003.

<sup>a</sup> Quebec residents receive an abatement of 16.5% of basic federal tax in lieu of federal cash transfers to Quebec for several social programs.

<sup>b</sup> The general corporate tax rate is reduced by up to 7 points based on the share of a corporation's national manufacturing and processing income allocated to Saskatchewan.

<sup>c</sup> The Quebec financial institutions capital tax includes the base rate of 1.20% and a compensatory tax of 0.25%.

<sup>d</sup> These provinces' sales taxes are harmonized with the federal GST.

<sup>e</sup> An additional 6¢/litre is imposed in the greater Vancouver area, 2.5¢/litre in Victoria and 1.5¢/litre in Montreal.

<sup>f</sup> These provinces apply their retail sales tax on top of this tax.

<sup>g</sup> Quebec levies an additional 2% compensatory tax on the wages paid by financial institutions that is not included in this rate.

## Top Marginal Personal Income Tax Rates, 2003

(per cent)

	AB	BC	SK	MB	ON	QC	NB	NS	PE	NL
Federal	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00	29.00
Provincial	10.00	14.70	15.00	17.40	17.41	24.00	17.84	18.34	18.37	19.64
Federal abatement <sup>a</sup>	—	—	—	—	—	(4.79)	—	—	—	—
Total	39.00	43.70	44.00	46.40	46.41	48.21	46.84	47.34	47.37	48.64

Rates for other provinces known as of March 19, 2003.

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



# A NEW FISCAL FRAMEWORK FOR ALBERTA

Alberta **2003** Budget  

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Making Alberta Even Better

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# A New Fiscal Framework for Alberta

Budget 2003 implements a new fiscal framework for Alberta. The *Financial Statutes Amendment Act, 2003* legislates this new framework through amendments to the *Fiscal Responsibility Act*, the *Financial Administration Act* and the *Government Accountability Act*.

*“We believe the province has an opportunity to build on its strengths and, once again, lead the rest of the country in thoughtful and sound financial management.”*

**Financial Management  
Commission  
July 8, 2002**

## FINANCIAL MANAGEMENT COMMISSION

Alberta has a well-earned reputation as the fiscal leader in Canada. Since 1993, we have made the difficult decisions that were needed to restore fiscal balance. Nine years of deficits and increasing debt have been replaced by nine years of surpluses and debt repayment. Alberta has returned to a position of fiscal strength. Alberta has by far the lowest debt load per person of any provincial government in Canada and is the only provincial government with financial assets that exceed liabilities.

Alberta's fiscal strength provides the flexibility to adjust our fiscal policies and re-focus our priorities. Last year, the government appointed a Financial Management Commission to consult with Albertans on how to enhance the province's fiscal policies and strategies. The Commission submitted its report, *Moving from Good to Great*, on July 8, 2002.

The Commission reported that, while the government has been effective in balancing the books and repaying debt, other issues also needed to be addressed. Albertans were concerned that the existing fiscal framework did not adequately manage the ups and downs in energy revenue. They did not want capital spending to continue to be tied to swings in oil and natural gas prices. School boards, post-secondary institutions, health authorities, local governments and other partners wanted firmer commitments to ongoing funding so they could plan more effectively.

The government's response to the Commission's Report was released on September 26, 2002. The response is included at the end of this chapter. The government accepted 22 of the Commission's 25 recommendations, several with modifications, and set out an implementation schedule for the accepted recommendations.

Budget 2003 implements significant changes to the fiscal framework that will bring more sustainability to fiscal planning, and more predictability and continued discipline to operating and capital spending. Work is underway by the Canadian Public Sector Accounting Board to update recommendations on the government reporting entity. Depending upon the results of this work, the government reporting entity may expand by Budget 2006 to include some entities in the education and health sectors.

*“This new fiscal framework, which provides predictability, sustainability and discipline, will prepare Alberta now for the challenges that lie ahead.”*

**Pat Nelson  
Minister of Finance  
September 26, 2002**

## SUSTAINABLE AND PREDICTABLE OPERATING SPENDING

A new Alberta Sustainability Fund is being established to protect ongoing operating spending from volatile revenue and the costs of emergencies and disasters.

### **Alberta Sustainability Fund**

- Receives resource revenue above \$3.5 billion.
- Funds shortfall if resource revenue under \$3.5 billion.
- Resource revenue above \$3.5 billion can be used to offset in-year shortfalls in other revenue.
- Can be used to pay for emergencies and disasters.
- Can be used to pay for assistance under the *Natural Gas Price Protection Act*.
- Balanced budget requirement adjusted for transfers to and from the Fund.
- Fund cannot be drawn down below zero.
- First priority for year-end surpluses until Fund reaches \$2.5 billion.

*Resource revenue available for spending will be fixed at \$3.5 billion per year.*

### **STABILIZING RESOURCE REVENUE**

As recommended by the Financial Management Commission, non-renewable resource revenue will now be fixed at \$3.5 billion per year for fiscal policy purposes. This is about the average of actual non-renewable resource revenue from 1981-82 to 2001-02, excluding the unprecedented spike in 2000-01. If resource revenue over the previous three years averages less than \$3.5 billion, budgeted resource revenue will be reduced to that lower amount.

Non-renewable resource revenue above \$3.5 billion (or the three-year average) will be deposited in the Alberta Sustainability Fund and will not be available for budgeted spending. If non-renewable resource revenue is less than \$3.5 billion, the shortfall can be withdrawn from the Sustainability Fund to maintain planned spending.

Spending plans by the government, and the authorities and agencies that the government funds, will be sustainable and predictable since they are based on sustainable and predictable resource revenue. This does not mean abandoning spending discipline; it simply means eliminating the up and down swings in spending that have been driven by the up and down swings in resource revenue. Spending cuts will not be needed if resource revenue falls unexpectedly, but there will also no longer be spikes of 'one-time' spending due to resource revenue windfalls. Both the peaks and valleys of ongoing operating spending will be smoothed.

## STABILIZING OTHER REVENUE

To provide additional predictability to spending plans, the Alberta Sustainability Fund will also be used to help stabilize revenues other than resource revenue. Other revenues can also swing unexpectedly, as evidenced by the large loss in investment income last year when stock markets fell sharply.

If there is a shortfall in revenue other than resource revenue during the year, any resource revenue that year above \$3.5 billion can be used to offset the shortfall. As a result, declines in other revenue will not require in-year spending cuts unless total actual revenue is less than budgeted revenue for fiscal policy purposes (revenue using \$3.5 billion of resource revenue). Cash available from year-end surpluses in other revenues will be deposited in the Sustainability Fund to help pay for shortfalls in resource revenue in that year or future years.

## IN-YEAR SPENDING INCREASES

The Alberta Sustainability Fund will also be used to address volatility and unpredictability in spending. Disasters and emergencies, such as droughts and forest fires, can require large unbudgeted government payments during the year. Under the new framework, funds can be transferred from the Sustainability Fund, if needed, to help pay for the costs of disasters and emergencies. In those years of exceptionally high natural gas prices, the Sustainability Fund can also be used to fund assistance under the *Natural Gas Price Protection Act*.

Other in-year spending increases, or revenue reduction initiatives, can be funded from the Contingency Allowance that must be set aside in the budget as part of the Economic Cushion. The new fiscal framework sets the Contingency Allowance at a minimum of 1% of budgeted revenue for fiscal policy purposes. As in the previous fiscal framework, 'net-budgeted' spending increases that are offset by revenue received for that specific purpose will not be charged to the Contingency Allowance.

Sustainable and predictable spending means more than just preventing, if possible, in-year cuts in spending plans. It also means that in-year spending increases must be limited to avoid creating unrealistic spending expectations for future years. The new framework eliminates the '75%/25%' rule that allowed the government to spend up to 25% of any in-year revenue increases. The Contingency Allowance will now remain capped at the budgeted amount even if revenue increases during the year. This new limit on the funds available in-year for non-emergency initiatives increases budgetary discipline and the importance of three-year planning.

*Contingency Allowance for in-year spending increases fixed at 1% of budgeted revenue. Does not increase if in-year revenue increases.*

*Disasters and emergencies funded from Sustainability Fund, not Contingency Allowance.*

## SUSTAINABLE AND PREDICTABLE CAPITAL SPENDING

The Alberta Sustainability Fund will help bring more predictability to both operating and capital spending. Other fundamental changes are also being made to the way the government manages and accounts for capital spending to end stop-and-go funding for infrastructure projects.

### **New Capital Framework**

- Three-year capital plan.
- Carry-over of unexpended capital investment funding.
- Income statement on an expense basis with amortization of capital assets. Capital assets brought onto balance sheet.
- Alternative financing proposals to be reviewed by a private sector advisory committee.
- Capital Account.
- Balanced budget requirement adjusted for transfers from the Capital Account.

*Three-year capital plan sets out government commitments, including funding for major projects deferred in 2001.*

### **THREE-YEAR CAPITAL PLAN**

Beginning in Budget 2003, a rolling three-year capital plan will set out the government's commitment to capital funding. The capital plan includes:

- infrastructure projects and purchases of equipment by school boards, post-secondary institutions, health authorities, municipalities, and other local authorities and organizations, and
- capital investment in government-owned infrastructure, equipment and inventories, and operating funding to rehabilitate government infrastructure.

The capital plan includes major projects that were deferred in the fall of 2001 and have not yet been funded.

### **CARRY-OVER OF UNEXPENDED CAPITAL FUNDING**

Capital funding appropriated for government-owned projects that is not expended, due to bad weather for example, can now be carried over to the next fiscal year. This will help ensure that capital plan commitments are met. Previously, those dollars could be reinstated only if there was room within the next year's fiscal plan.

The new carry-over rule applies only to capital investment in government-owned projects. For projects being constructed by local authorities, the government's capital grants can continue to be fully advanced in the year the grants are budgeted even if there are construction delays.



## NEW CAPITAL ACCOUNTING POLICY

*Fiscal reporting moves to the new PSAB standard of amortizing capital.*

The government will move this year to the new Public Sector Accounting Board (PSAB) standard of amortizing capital for fiscal reporting. This is similar to the standard that has been used for many years by the private sector. This change affects only government-owned capital assets. Capital grants to local authorities will continue to be charged to expense on the income statement.

Previously, while the annual amortization (depreciation) cost of government-owned capital projects was reported in expense, the government's bottom line was adjusted to put government capital costs on a pay-as-you-go basis. The full cost of a capital project was charged to the bottom line as it was constructed.

*Government capital assets added to balance sheet.*

In the new reporting model, government-owned capital assets will be added to the government's balance sheet and will be charged to the bottom line over their useful lives through amortization expense.

The cost of constructing or purchasing a government-owned capital asset will no longer immediately affect the bottom line. It will become a balance sheet transaction that can be financed by reducing a financial asset, such as cash, or by adding a financial liability, such as a capital lease or a loan. Neither transaction will affect the government's net assets. Thus, borrowing for capital purposes will be excluded from the legislated accumulated debt repayment plan.

*Alternative financing will be used for some capital projects.*

## ALTERNATIVE FINANCING

For some major capital projects, the government will use alternative financing arrangements, such as public-private partnerships (P3s), debt financing and capital leases. The use of alternative financing will be assessed on a project-by-project basis. A business case will be required that demonstrates that alternative financing of the project makes sense, considering all private sector costs including financing costs. All proposals will have to be reviewed by a private sector Advisory Committee on Alternative Capital Financing. The Committee will report to Treasury Board on the proposals it reviews.

Alternative financing will also be used for some capital projects of regional health authorities, school boards and post-secondary institutions, subject to review by the Advisory Committee on Alternative Capital Financing and approval by the government.

*Capital Account will prefund future-year capital projects.*

## CAPITAL ACCOUNT

A Capital Account has been created to provide an additional source of financing for government-owned capital projects, capital grants to local authorities and other infrastructure support. Funds allocated to the Capital Account in one year can be used to fund capital projects in future years.

## THE OVERALL FISCAL FRAMEWORK

The new fiscal framework will result in significant changes to the government's fiscal management and financial reporting.

### ECONOMIC CUSHION

The Alberta Sustainability Fund will provide protection against declines in revenue and the cost of emergencies and disasters. As a result, the Economic Cushion no longer needs to be as large as previously required. The minimum size of the budgeted Economic Cushion has been reduced from 3.5% of revenue to 1% of revenue for fiscal policy purposes (revenue using \$3.5 billion of non-renewable resource revenue). This is the Contingency Allowance for in-year spending increases or revenue reduction initiatives.

In addition, the cushion must include any net positive amount required for the combined total of:

- the retained earnings of funds and agencies, and
- cash required for the capital plan that is not already provided for elsewhere in the fiscal plan.

The net earnings of funds and agencies are included in the government's consolidated results. If this income is retained by the funds and agencies, it is not available to fund other government spending. Therefore, it must be set aside in the cushion.

The cash required for capital investment in government-owned projects will be provided through a combination of current-year revenue, the Capital Account and alternative financing mechanisms (which will require cash in future years for principal repayments). Since amortization, which is included in expense, is a non-cash item, the revenue allocated to amortization provides cash for capital investment. The net book value of any capital asset disposals also provides cash. The cushion is required to include any other current-year revenue needed to fund government-owned capital projects.

As a result of these changes, the minimum Economic Cushion has been reduced from about \$750 million to about \$250 million for the next three years. The Economic Cushion in the budget may be larger than the minimum requirement. If so, the extra amount will be included in the Contingency Allowance.

*Economic Cushion reduced to about \$250 million per year.*

### ALLOCATION OF YEAR-END SURPLUSES

Previously, cash available from 75% of the budgeted Economic Cushion was allocated primarily to debt repayment. This was after adjusting for the cash retained by government funds and agencies and other cash requirements. As a result of the smaller cushion in the new fiscal framework, there will be no budgeted debt repayment from the cushion.

The allocation of year-end surpluses (the final Economic Cushion) will also change. As with the budget, cash available from year-end surpluses was previously allocated to primarily debt repayment. Because of the large

surpluses in recent years, more cash was available for debt repayment than there was maturing debt that could be paid off. A Debt Retirement Account was established in the General Revenue Fund to invest the extra cash until debt matured.

The new fiscal framework expands the potential uses of year-end surpluses. The government will now have three savings accounts for annual surpluses dedicated to specific fiscal needs:

- The Debt Retirement Account will continue to save funds allocated for accumulated debt repayment until debt matures and can be paid off. Sufficient funds were in the account at March 31, 2003 to pay off debt maturing in 2003-04 and part of 2004-05.
- The Alberta Sustainability Fund will fund potential budget shortfalls in future years due to weak resource revenue or other revenue, or the costs of disasters and emergencies.
- The Capital Account will fund capital spending in future years.

In 2002-03, the \$1.41 billion in cash available from the forecast surplus was divided as follows:

- \$500 million to the Debt Retirement Account, and
- \$910 million to the Capital Account.

*Sustainability Fund is the first priority for annual surpluses until the Fund balance reaches \$2.5 billion.*

Beginning in 2003-04, the Sustainability Fund will be the first priority for year-end surpluses until the balance of the Fund reaches \$2.5 billion. This should protect against two consecutive years of weak energy revenue, or one year of both weak energy revenue and a major disaster. Cash from accrued 2002-03 natural gas royalties that will not be received until the first quarter of 2003-04 will be allocated to the Sustainability Fund.

After the Sustainability Fund reaches a balance of at least \$2.5 billion, extra cash from year-end surpluses can be once again allocated to debt repayment, the Capital Account or other improvements to the government's balance sheet. The money could not be used for operating spending since that would affect the government's bottom line.

## **FINANCIAL REPORTING**

Since 1996-97, annual deficits have been against the law in Alberta. In accordance with Canadian generally accepted accounting principles (GAAP) for governments, the government's bottom line is consolidated, including the results of all the government's funds and agencies.

The only exception has been the exclusion of the annual change in the government's share of unfunded pension obligations, which are being eliminated under a separate legislated plan, from the government's expense and bottom line in determining compliance with the balanced budget rules in the *Fiscal Responsibility Act*. This means that the government has reported two bottom lines – the fully consolidated Net Results of Operations and the Results for Fiscal Policy Purposes after excluding changes in pension obligations.

*Balanced budgets remain the law, after adjusting for transfers to and from the Sustainability Fund and the Capital Account.*

Fully consolidated results will continue to be reported. However, the new fiscal framework requires additional adjustments in determining the Results for Fiscal Policy Purposes.

The Alberta Sustainability Fund and the Capital Account are designed to increase the sustainability and predictability of government operating and capital spending. The government's bottom line will be adjusted to match the stabilizing objectives of these accounts. The Results for Fiscal Policy Purposes will adjust for:

- revenue transfers in and out of the Alberta Sustainability Fund, and
- transfers from both the Alberta Sustainability Fund and the Capital Account to pay expenses authorized by the amended *Fiscal Responsibility Act*.

Since neither account will be allowed to go into debt, withdrawals from these accounts will have been prefunded from prior years' surpluses. Thus, while the Net Results of Operations could be negative in a future year, due to weak resource revenue or major disasters for example, any such negative results would have been prefunded in prior years. This will be reflected in the Results for Fiscal Policy Purposes, which by law must be balanced each year.

The government will be forced to adjust to new realities if low resource revenue persists over the medium term and the Sustainability Fund is drawn down to zero.

The Alberta Capital Finance Authority, formerly the Alberta Municipal Financing Corporation, is a government agency that borrows money in financial markets on behalf of municipalities and other local authorities. Under Canadian accounting standards, any borrowings by regional health authorities, school boards and post-secondary institutions from the Authority that can only be repaid from future government grants must be charged to government expense as the loan is advanced. In contrast, if those authorities borrow directly from non-government sources, government expense includes only grants for principal repayment and interest costs. The government's Results for Fiscal Policy Purposes will treat borrowing from the Authority the same as other borrowing. Adjustments will be made in calculating both expense and the bottom line, in a manner similar to the adjustments for pension obligations.

# RESPONSE TO THE FINANCIAL MANAGEMENT COMMISSION REPORT

Alberta **2003** Budget  

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Making Alberta Even Better

**COMMISSION RECOMMENDATION****GOVERNMENT RESPONSE**

1. The Alberta Heritage Savings Trust Fund should be retained, strengthened, allowed to grow and renamed the "Alberta Heritage Fund" with four new purposes:
  - To stabilize the impact of volatile resource revenues on the province's budget
  - To manage the orderly pay down of existing debt as it comes due
  - To address the backlog of deferred capital projects in the short term
  - To serve as a transition to the time when resource revenues decline and as an integral part of the province's strategy for achieving a sustainable economic vision for the future.
2. To provide stable and predictable funding, the Commission recommends that all non-renewable resource revenues should go into the renewed Alberta Heritage Fund on an annual basis. All year-end surpluses should also go into the Heritage Fund. A fixed and sustainable amount of resource revenues should be drawn out each year to support the government's budget. The fixed amount should be set at the lesser of \$3.5 billion or the average of resource revenues for the previous three years.
3. The renewed Alberta Heritage Fund should provide the vehicle for managing the orderly pay down of existing debt as it comes due. That means the bulk of Alberta's accumulated debt will be repaid by 2005-06.

Accepted in principle. A sustainability fund will be established. Further consultation with Albertans on the Heritage Fund will determine the future role of the Heritage Fund.

Implement in Budget 2003.

Accepted in principle. A sustainability fund will be established. Further consultation with Albertans on the Heritage Fund will determine the future role of the Heritage Fund.

The recommendation will be supplemented by:

- adding any payments required under the Natural Gas Price Protection Act to the \$3.5 billion transfer for budget purposes,
- providing an exemption from contingency allowance spending limits for emergencies and disasters, and
- allowing in-year increases in resource revenue to be used to offset in-year declines in other revenue.

Implement in Budget 2003.

Accepted in principle. A sustainability fund will be established. Further consultation with Albertans on the Heritage Fund will determine the future role of the Heritage Fund.

Implement in Budget 2003.

COMMISSION RECOMMENDATION	GOVERNMENT RESPONSE
<p>4. A portion of the province's annual budget should be allocated for capital spending. The amount should not be less than 0.9% of the average of the provincial GDP for the previous two years.</p>	<p>Accepted in principle. Government will review the determination of an appropriate benchmark for capital spending.</p> <p>Implement in Budget 2003.</p>
<p>5. Government should prepare a three to five year plan for capital and infrastructure projects and include that plan as part of its annual budget. Changes should be made to existing legislation to allow funding for specific approved capital projects to be carried over from one year to the next.</p>	<p>Accepted.</p> <p>Begin implementation in Budget 2003 with full implementation in Budget 2004.</p>
<p>6. In the same way that debt must be repaid, so must government commitments of spending be honoured. Funds in the renewed Alberta Heritage Fund should be allocated to address the current backlog of previously committed capital projects in a planned and orderly way.</p>	<p>Not accepted. The government does not agree that the Heritage Fund should be used to fund deferred capital projects. Funding for deferred capital projects will be addressed in the three to five year capital plan.</p>
<p>7. Government should produce and publish the list of committed but deferred capital projects along with its annual budget and report each year on the status of those projects.</p>	<p>Accepted. Deferred projects will be included in the capital plan that will be published under recommendation 5.</p> <p>Begin implementation in Budget 2003 with full implementation in Budget 2004.</p>
<p>8. Government and government-funded entities should be allowed to enter into alternative funding arrangements for capital projects under specific conditions and with appropriate guidelines in place.</p>	<p>Accepted. The government will develop appropriate guidelines and conditions for alternative funding arrangements.</p>
<p>9. All capital project proposals should include a business plan that clearly outlines the funding model and cost implications including operating costs, amortization, and debt repayment if applicable. Government should have the option of funding approved projects over a longer term or paying the full cost of the project in a given fiscal year.</p>	<p>Accepted. The government will develop appropriate business case criteria for capital projects.</p>

COMMISSION RECOMMENDATION	GOVERNMENT RESPONSE
<p>10. Standardized methods for estimating and reporting on deferred maintenance and utilization, functional obsolescence, and efficiency of facilities should be established and communicated. Government and its funded agencies should use these tools in their planning and reporting.</p>	<p>Accepted. The government will develop standardized methods.</p>
<p>11. The province should develop a plan for addressing deferred maintenance over the next five years. Funding for deferred maintenance should be identified as a component of the province's annual budget.</p>	<p>Accepted in principle. It is expected that it will take more than five years to address all deferred maintenance.</p> <p>Begin implementation in Budget 2004 with full implementation in Budget 2005.</p>
<p>12. Government should clearly articulate a strategic plan for achieving a sustainable economic vision for the province. The government's business plan should be refocused as a strategic plan to achieve the vision and to provide criteria for setting priorities and making budget decisions.</p>	<p>Accepted.</p> <p>Begin implementation in Budget 2003 with full implementation in Budget 2004.</p>
<p>13. The current business planning process should be strengthened by requiring all government ministries, organizations and agencies to focus on measuring their decisions against strategic goals linked to the government's strategic plan. Activities and operational matters should be left for internal operational plans.</p>	<p>Accepted.</p> <p>Begin implementation in Budget 2003 with full implementation in Budget 2004.</p>
<p>14. Standing Policy Committees should be given increased responsibility for gathering information from various stakeholder organizations and providing this input to the budgeting process.</p>	<p>Accepted.</p> <p>Begin implementation in Budget 2003 with full implementation in Budget 2004.</p>
<p>15. There should be regular reviews, including benefit-cost assessments, of all major government programs, policies and delivery mechanisms. The number of government departments and agencies should be reviewed.</p>	<p>Accepted.</p> <p>The government will continue with regular reviews.</p>



COMMISSION RECOMMENDATION	GOVERNMENT RESPONSE
<p>16. The government should explore various incentives to encourage ministries and government-funded agencies to manage their budgets and assets more efficiently.</p>	<p>Accepted.</p> <p>The government will continue to explore incentives.</p>
<p>17. The government should undertake a review and risk analysis of all the major components of its expenses and revenues, including its dependent boards and agencies, with a view to developing a comprehensive, cost effective risk mitigation strategy.</p>	<p>Accepted.</p> <p>The government has already begun work to develop a framework to assess an enterprise risk model for government.</p>
<p>18. The government should not be involved in public sector salary negotiations where it is not a signatory to the collective agreement.</p>	<p>Not accepted.</p> <p>As a general rule, the government is not involved in public sector salary negotiations. However, the government has an obligation to take appropriate action to ensure public safety.</p>
<p>19. Government should play a more direct role in establishing a framework for public sector salary negotiations through a mechanism for sharing information with various employer groups including health authorities and school boards. This would include providing guidance on the province's ability to meet new fixed costs on a sustainable basis and on competitive salaries and benefit levels on other provinces and jurisdictions.</p>	<p>Not accepted.</p> <p>The government provides general fiscal direction and information to publicly funded organizations through its business planning and budget processes.</p>
<p>20. To supplement the government's reporting regime, the government should consider adding the publication of a quarterly and an annual financial summary of the highlights limited to a few pages of material and presented in a simplified, easily readable, plain language format.</p>	<p>Accepted.</p> <p>Implement in 2003-04.</p>

COMMISSION RECOMMENDATION	GOVERNMENT RESPONSE
<p>21. The Government should continue to work with the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants in the development of the government entity reporting proposal. Government-funded entities should be consolidated into the government's accounts and financial statements unless there is a compelling case why a specific entity should be excluded.</p>	<p>Accepted in principle pending PSAB recommendations.</p> <p>Implement by Budget 2006.</p>
<p>22. The government should continue working with PSAB in the development of the standard regarding the capitalization and amortization of assets and it should adopt the standard when it is developed.</p>	<p>Accepted in principle pending PSAB recommendations.</p> <p>Implement in Budget 2003.</p>
<p>23. The government should work closely with the Office of the Auditor General with the objective of having an audit opinion without reservations based on generally accepted accounting principles (GAAP) and not on a "disclosed basis" of accounting.</p>	<p>Accepted.</p> <p>Implement by Budget 2006, pending PSAB recommendations discussed in Recommendations 21 and 22.</p>
<p>24. The Government should signal its intent to move forward with a new fiscal framework and use the balance of the current fiscal year to prepare for the transition.</p>	<p>Accepted.</p>
<p>25. In five years or less, the government should establish a new Commission to provide an external review of government's fiscal situation and its fiscal framework.</p>	<p>Accepted.</p>

# RESPONSE TO THE AUDITOR GENERAL

Alberta **2003** Budget  

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Making Alberta Even Better



# Response to the Auditor General

Every year the Auditor General prepares an annual report on the scope and findings of the work carried out by the Office of the Auditor General. The following are the numbered recommendations in the Auditor General's 2001-02 Annual Report and the government's response to each of them.

AUDITOR GENERAL'S OBSERVATIONS	GOVERNMENT'S RESPONSE
<p><b>Cross-Government</b></p> <p>1. Improve internal controls</p> <p>We recommend that the Department of Finance, working with the other departments and the Alberta Corporate Service Centre, improve internal controls, in particular, controls for:</p> <ol style="list-style-type: none"> <li>1. access to the IMAGIS system</li> <li>2. the use of procurement cards</li> <li>3. compliance with sections 37 and 38 of the <i>Financial Administration Act</i></li> </ol> <p>2. Establish internal audit</p> <p>We recommend that the Deputy Minister of Executive Council, working with other Deputy Ministers, establish an internal audit function to provide assurance that significant government systems and risks are managed effectively.</p> <p>3. Improve guidance on business plans</p> <p>We recommend that the Ministry of Finance, working with other ministries, develop comprehensive standards for preparing ministry business plans. We further recommend that Deputy Ministers and the Ministry of Finance ensure the standards are followed.</p>	<p>Accepted. Senior Financial Officers across government have implemented internal control best practices for procurement cards. Internal control best practices on the other items raised by the Auditor General are expected to be implemented in the current fiscal year.</p> <p>Accepted. The Deputy Minister of Executive Council, working with the Deputy Ministers' Committee, will determine how best to implement this recommendation.</p> <p>Accepted. In September, Treasury Board approved updated guidelines for preparation of 2003-06 business plans. The Deputy Ministers' Committee will review how to ensure compliance with these guidelines.</p>

AUDITOR GENERAL'S OBSERVATIONS	GOVERNMENT'S RESPONSE
<p>4. Government competency model</p> <p>We recommend that the Personnel Administration Office, working with Deputy Ministers, improve guidance for the use of the Alberta Public Service Competency Model.</p>	<p>Accepted. It will remain important for departments to retain the flexibility to be responsive to the unique nature of their respective business needs.</p>
<p><b>Agriculture, Food and Rural Development</b></p>	
<p>5. Reporting industry performance targets</p> <p>We recommend that the Ministry of Agriculture, Food and Rural Development report progress toward its industry performance targets in its annual report performance measures.</p>	<p>Accepted in principle. Management will take the recommendation into consideration in the development of the Ministry's new framework and revised reporting processes.</p>
<p><b>Children's Services</b></p>	
<p>6. Funding allocation</p> <p>We recommend that the Ministry of Children's Services allocate funds to Authorities in a way that provides for appropriate incentives and allows the Authorities to plan and manage their business.</p>	<p>Accepted. Multi-year funding/expenditure targets have been provided to the Authorities. The Ministry will review further the principles related to allocation of funding to Child and Family Services Authorities within program areas voted by the Legislative Assembly</p>
<p>7. First Nation expense recoveries</p> <p>We recommend that the Ministry of Children's Services improve its systems to recover expenses for providing services to children and families ordinarily resident-on-reserve.</p>	<p>Accepted. Several initiatives for improvement in systems and processes are underway in the current fiscal year. There are several different agreements that cover the provision of services to children and their families ordinarily resident on reserve. Changes to the administration of these agreements may take several years to implement.</p>
<p>8. Contract management systems</p> <p>We recommend that the Ministry of Children's Services strengthen the processes used to award and manage contracts.</p>	<p>Accepted. A new cross-government contract management system is planned to be implemented during the 2003-04 fiscal year. A review of risk management strategies underway will also address the policies and practices related to contracting.</p>
<p>9. ACSC audit services</p> <p>We recommend that the Ministry of Children's Services improve accountability for audit services provided by Alberta Corporate Services Centre.</p>	<p>Accepted. Ministry staff will take a more active role in managing audit services provided by ACSC by identifying areas of risk that should be addressed, and outlining expectations for the presentation of results and expected follow-up. We will also work with the ACSC on the clarification of roles and responsibilities.</p>

AUDITOR GENERAL'S OBSERVATIONS	GOVERNMENT'S RESPONSE
<p>10. Policies and practices</p> <p>We recommend that the Office of the Children's Advocate clarify its practices for conflicts between a child's viewpoint and best interest, and then confirm these practices with the Minister of Children's Services.</p>	<p>Accepted. The Ministry suggests Office of the Children's Advocate (OCA) retains its responsibility to assist young people to express their viewpoints with respect to decisions that will affect them, and that the parents or guardians of these young people retain the responsibility for best interests decision-making. The OCA has examined possible changes to policy and procedure in response to the recommendation, for discussion with the Minister.</p>
<p><b>Community Development</b></p>	
<p>11. Excluded operations</p> <p>We recommend that the Ministry of Community Development record in its financial statements all revenues, expenses and surpluses generated through the operation of Provincially owned facilities.</p>	<p>Under review. Volunteer societies operating the facilities are legally incorporated, not-for-profit organizations. Legal opinion obtained by the ministry has indicated that these are not public funds. We continue to review this recommendation with the Office of the Auditor General.</p>
<p><b>Energy</b></p>	
<p>12. Royalty reduction programs</p> <p>We again recommend that the Department of Energy disclose its royalty reduction programs in its financial statements (2001-No. 43).</p>	<p>Accepted. The Department is working with the Department of Finance and the Office of the Auditor General to resolve this issue by agreeing on an appropriate method of disclosure.</p>
<p>13. Defining performance measures</p> <p>We again recommend that the Ministry of Energy use performance measures that permit consistent evaluation of the success of the Ministry from one year to the next (2001-No. 42).</p>	<p>Accepted. The 2002-05 Ministry plan includes outcome-based measures that are intended to be comparable from year to year and that will track the results of our work. The Ministry will continue to refine these measure where needed.</p>
<p>14. Well and production data reported by industry</p> <p>We again recommend that the Alberta Energy and Utilities Board develop an audit strategy for the Production Audit Group that meets the business needs of key stakeholders (2001-No. 44).</p>	<p>Accepted. The introduction of the Petroleum Registry of Alberta will help to solidify the specific risk areas of production reporting and contribute to our audit strategy. The EUB'S Production Audit Group will formally adopt a detailed audit strategy that meets the business needs of the key stakeholders.</p>

AUDITOR GENERAL'S OBSERVATIONS	GOVERNMENT'S RESPONSE
<p><b>Finance</b></p>	
<p>15. Corporate government accounting policies</p> <p>We again recommend the Department of Finance change the corporate government accounting policies to improve accountability (2001-No. 45).</p>	<p>Accepted in principle. The government's corporate accounting policies continue to be reviewed on an ongoing basis, in consultation with ministries and the Office of the Auditor General. Changes may take place as a result of work being done by the Public Sector Accounting Board. Changes are implemented where Treasury Board considers accountability can be improved.</p>
<p>16. Risk management</p> <p>We recommend that Alberta Treasury Branches (ATB) develop an integrated approach to risk management to effectively manage operational, credit and market risk.</p>	<p>Accepted. The enterprise risk management concept is strongly supported by ATB. Development of an overall plan and a framework is underway.</p>
<p>17. Key internal controls</p> <p>We again recommend that Alberta Treasury Branches management document, evaluate and monitor internal controls to ensure assets are properly protected and financial information is accurate and complete (2001-No. 49).</p>	<p>Accepted. ATB continues to focus on further strengthening its internal controls and improvements have been made. This is an ongoing process and it will take time to fully address the recommendation.</p>
<p>18. Business resumption plan</p> <p>We recommend that Alberta Treasury Branches complete and test a business resumption plan to enable the timely resumption of business in the event of a significant business disruption.</p>	<p>Accepted. For the last several years significant resources have been allocated to this issue. Although we expect to make a significant progress this year, the work will continue beyond the current fiscal period.</p>
<p><b>Gaming</b></p>	
<p>19. Risk management</p> <p>We recommend that the Alberta Gaming and Liquor Commission develop a formal risk management process and provide the Board with a comprehensive risk assessment, including management's actions to manage the risks.</p>	<p>Accepted. A formal, documented risk assessment and mitigation plan has been included in the 2003-06 business plan development process. Refinements are expected to occur in future years.</p>
<p>20. Internal controls</p> <p>We recommend that the Alberta Gaming and Liquor Commission establish a formal process to assess the adequacy of its systems of internal controls and report the results of these assessments to the Board.</p>	<p>Accepted. The Alberta Gaming and Liquor Commission will establish a formal process to assess the adequacy of its systems of internal control which will be coordinated with the government's actions in this area. All internal control assessments will be provided to the Board with proposals to deal with any identified shortcomings or suggested improvements.</p>



AUDITOR GENERAL'S OBSERVATIONS	GOVERNMENT'S RESPONSE
<p><b>Government Services</b></p>	
<p>21. Motor Vehicles Registry access standards</p> <p>We again recommend that the Ministry of Government Services implement access standards for the use and disclosure of personal information in the Motor Vehicles Registry (1998-No. 47).</p>	<p>Accepted. The Ministry is working closely with Alberta Transportation and the Privacy Commissioner's Office to refine the standards for accessing information from the motor vehicle registry. Implementation of these new access standards will likely be in conjunction with changes to the <i>Freedom of Information and Protection of Privacy Act</i> in Spring, 2003.</p>
<p>22. Performance Measures</p> <p>We recommend that the Alberta Corporate Service Centre improve its performance measurement systems.</p>	<p>Accepted. A "balanced scorecard" approach is being developed for 2003-04 to provide a consistent, accurate report on the outcomes achieved.</p>
<p><b>Health and Wellness</b></p>	
<p>23. Business Planning</p> <p>We again recommend the Department of Health and Wellness and Authorities implement a joint strategy to ensure authorized business plans are implemented at the start of the year (2001-No. 13).</p>	<p>Accepted. The delay in completing business plans largely results from the timing of the province's funding announcement. The proposed approach of multi-year contracting between the province and health authorities currently under consideration could significantly address this recommendation.</p>
<p>24. Information technology control environment</p> <p>We recommend that the Department of Health and Wellness assess the effectiveness of the controls over information technology, resolve deficiencies, and strengthen the overall control framework. In particular, the Department should obtain assurance that its service providers are maintaining effective controls.</p>	<p>Accepted. The Department is jointly undertaking with other ministries, a SysTrust Audit of several of its areas. The SysTrust Audit pre-certification work is expected to be undertaken during December 2002 through March 2003.</p>
<p>25. Alberta Cancer Board</p> <p>We recommend that the Alberta Cancer Board improve systems for managing cancer drug programs.</p>	<p>Accepted. The Department will continue to work with the Board to improve their system for managing cancer drug programs.</p>
<p>26. Chinook Regional Health Authority reservation of opinion</p> <p>We again recommend the Chinook Regional Health Authority continue to work with the Department of Health and Wellness and Alberta Infrastructure to clarify the nature of the Authority's future responsibilities for, and control of, one long-term care facility (2001-Page 133).</p>	<p>Accepted. All stakeholders have now reviewed the leases and accountability relationships. We plan to have the capital and operating lease concluded by December 31, 2002.</p>

AUDITOR GENERAL'S OBSERVATIONS	GOVERNMENT'S RESPONSE
<p><b>Human Resources and Employment</b></p> <p>27. Monitoring compliance with the Skills Development Program (SDP)</p> <p>We again recommend that Department of Human Resources and Employment improve the procedures to monitor compliance by training providers with the terms of the Skills Development Program (2001-No. 22).</p> <p><b>Infrastructure</b></p> <p>28. Contracting processes</p> <p>We recommend that the Ministry of Infrastructure strengthen its contract management processes by:</p> <ol style="list-style-type: none"> <li>1. ensuring contracts for consulting services are awarded through a process that is open, fair, and gets good value</li> <li>2. ensuring that all contracts contain the provisions required to protect the Ministry</li> <li>3. evaluating consultant and contractor performance</li> <li>4. establishing a policy for renewing property management contracts without competition</li> </ol> <p>29. Conflict of interest</p> <p>We recommend that the Ministry of Infrastructure require its employees to disclose annually in writing:</p> <ol style="list-style-type: none"> <li>1. that they understand and agree to follow the <i>Code of Conduct and Ethics</i>.</li> <li>2. any potential conflicts of interest they have.</li> </ol> <p>We also recommend that the Ministry ensure that consultant contracts contain a conflict of interest provision.</p> <p>30. Long-term capital asset plans</p> <p>We again recommend that the Ministry of Infrastructure implement processes to ensure that capital plans received from ministries, regional health authorities, school jurisdictions and post-secondary educational institutions contain the information it requires to prepare its long-term strategic plans (2001-No. 25).</p>	<p>Accepted. As a result of ongoing monitoring and analysis of this issue the Department will hire more third party audit consultants to increase the monitoring of the training providers. Contracts for these consultants should be in place by April 1, 2003.</p> <p>Accepted. This is currently under review and we are in the process of developing an action plan. New procedures will be implemented by March 31, 2003.</p> <p>Accepted. This is currently under review and we are in the process of developing an action plan for implementation within the Ministry and potentially across government. New procedures will be implemented in the Ministry by March 31, 2003.</p> <p>Accepted. This is currently under review and we are in the process of developing an action plan. New procedures will be implemented by March 31, 2003.</p>

AUDITOR GENERAL'S OBSERVATIONS	GOVERNMENT'S RESPONSE
<p><b>Innovation and Science</b></p> <p>31. IMAGIS Control Environment</p> <p>We recommend that the Ministry of Innovation and Science resolve deficiencies in the IMAGIS environment and strengthen the overall IMAGIS control framework.</p> <p>32. IMAGIS Management Team</p> <p>We recommend that the Ministry of Innovation and Science ensure that the strategic and contractual oversight responsibilities currently assigned to the IMAGIS Management Team, under Article 6 of the Master Agreement with the service provider, are adequately addressed.</p> <p>33. Systems Development</p> <p>We again recommend that the Ministry of Innovation and Science, with the cooperation of other ministries, develop a systems development methodology (2001-No. 27).</p> <p>34. Clarification of Legislation - Alberta Heritage Foundation for Science and Engineering Research</p> <p>We again recommend that the Minister of Innovation and Science seek an amendment to the <i>Alberta Heritage Foundation for Science and Engineering Research Act</i> to clarify the meaning of "real value of the Endowment Fund over the long term" (2001-page 174).</p>	<p>Accepted. The Ministry is working to resolve this recommendation in the current business cycle. The implementation of the IMAGIS Upgrade in the next business cycle will also assist in addressing this recommendation.</p> <p>Accepted. The Ministry will address this recommendation in the current business cycle.</p> <p>Accepted. The Ministry will resolve this recommendation by developing project management templates and rolling them out to ministries in the current business cycle.</p> <p>Under review. The Alberta Heritage Foundation for Science and Engineering Research, Alberta Revenue, and the Ministry are currently reviewing this matter to determine the best course of action.</p>
<p><b>Learning</b></p> <p>35. Long-term capital planning</p> <p>We again recommend that the Department of Learning improve its systems to ensure that long-term capital planning for school facilities is consistent with plans for the delivery of education (2001-No. 31).</p>	<p>Accepted. Learning will work closely with Infrastructure to address this recommendation. Access to the full capital plan will be referenced in school jurisdictions' three year education plans. The target for resolution of any apparent inconsistencies between school jurisdictions' capital and education plans is 2004-05 when the recommendations of the Financial Management Commission for long-term capital planning are fully implemented.</p>

AUDITOR GENERAL'S OBSERVATIONS	GOVERNMENT'S RESPONSE
<p>36. Risk management</p> <p>We again recommend that the Department of Learning establish a risk management process to improve the effectiveness of its control and monitoring activities (2001-page 196).</p>	<p>Accepted. Risks are addressed in the development of the Ministry's business plan and considered in monitoring activities performed by the Ministry. Further risk management initiatives will be undertaken by Learning in the current business cycle and an integrated risk management process for the Ministry is targeted for full implementation in 2004-05.</p>
<p>37. Charter School accountability</p> <p>We again recommend that the Department of Learning determine what steps are needed to achieve charter school compliance with reporting requirements (2001-No. 32).</p>	<p>Accepted. Learning has assigned a liaison manager to each charter school to provide guidance in improving performance reporting and to ensure there is one-to-one correspondence between measurable outcomes and performance measures in charter schools' 2001-02 Annual Education Results Report.</p>
<p>38. Capital Assets Policy statement</p> <p>We again recommend the Department of Learning, in consultation with the Department of Infrastructure and the Department of Innovation and Science, provide an updated Capital Assets Policy Statement to the public post-secondary institutions (2001-No. 35).</p>	<p>Accepted. The Province has recently accepted the recommendations of the Financial Management Commission regarding capital funding. These recommendations, once fully implemented in 2004-05, will facilitate the development of capital asset policies for public post secondary institutions.</p>
<p>39. Alberta School Foundation Fund - Allowance for Assessment Adjustments and Appeals</p> <p>We again recommend that the Ministry of Learning improve the process used to calculate the allowance for assessment adjustments and appeals (2001-No. 33).</p>	<p>Under review. The Ministries of Finance, Learning and Municipal Affairs participate on a working committee to address this audit reservation. Learning will work with its Ministry partners to determine the best solution.</p>
<p>40. Internal control systems</p> <p>We again recommend that the University of Alberta improve its system of internal control (2001-No. 37).</p>	<p>Accepted. To improve its internal control systems, the University has initiated work in the research area by amalgamating it into a single office known as the Research Services Office. The University is now planning work on an expanded business model to address other internal control issues. Target date for completion is 2005-06.</p>

AUDITOR GENERAL'S OBSERVATIONS	GOVERNMENT'S RESPONSE
<p>41. Basis of measurement for budget</p> <p>We again recommend that the University of Alberta corporate level budget be presented solely on a GAAP basis and that it encompass all operating, financing and investing transactions (2000-No. 36).</p>	<p>Accepted. The University will consider extending the GAAP budgets, where practical, from the overall corporate level to faculties and support units over the next few years as the appropriate business models are implemented at the faculty and support unit levels. Target date for completion is 2005-06.</p>
<p>42. Net assets</p> <p>We again recommend the University of Alberta calculate the level of net assets required to ensure that programs and facilities continue to be supported (2000-No. 37).</p>	<p>Accepted. A Funding Solutions Task Force has been established to look at cost reductions as well as revenue enhancements. Additional strategies are also being developed by faculties and departments and will be reflected in their respective updated business plans. Net asset targets will be established as capital asset policies are developed by the Ministry. Target date for completion is 2005-06.</p>
<p>43. Internal control systems</p> <p>We again recommend that the University of Calgary significantly improve its internal control systems (2001-No. 38).</p>	<p>Accepted. Improvement of internal controls will ultimately require the replacement of core legacy systems along with changes to administrative structures, policies and processes that will occur beyond the current business cycle. Risk assessments of key business processes have been completed that will guide internal control improvement strategies. Target date for completion is 2006-07.</p>
<p>44. Application development methodology</p> <p>We recommend that the University of Calgary implement a formal methodology to design, develop, implement, test, and maintain software applications.</p>	<p>Accepted. The University will work towards this recommendation within the context of its current financial constraints and other competing priorities. To the extent the University is unable to take action in the current business cycle, substantive action will be taken in subsequent business cycles. Target date for completion is 2006-07.</p>
<p>45. Financial Processes</p> <p>We again recommend that Grant MacEwan College improve its financial processes and controls to increase efficiency and accuracy in financial reporting (2001-No. 39).</p>	<p>Accepted. The College has completed a financial process review and recommendations from this review are currently being implemented. In addition, the College is reviewing the possibility of an internal audit function to assist in monitoring of financial controls and to improve financial processes. Target date for completion is June 2004.</p>

AUDITOR GENERAL'S OBSERVATIONS	GOVERNMENT'S RESPONSE
<p><b>Municipal Affairs</b></p> <p>46. Emergency preparedness</p> <p>We recommend that the Ministry of Municipal Affairs improve its procedures to promote and coordinate emergency preparedness plans developed by Alberta government departments and municipalities. We further recommend that the Ministry reassess the present and future suitability of the existing <i>Government Emergency Operations Centre</i>.</p> <p>47. Managing for results</p> <p>We recommend that the Ministry of Municipal Affairs:</p> <ol style="list-style-type: none"> <li>1. effectively implement the Ministry business plan by fully integrating its operational plans with the Ministry business plan and staff performance plans.</li> <li>2. improve the implementation of the human resource performance planning and assessment process.</li> <li>3. refer to all relevant entities in the business plan and expand the discussion of risks and environment factors.</li> <li>4. review the methodology for two performance measures.</li> </ol> <p><b>Sustainable Resource Development</b></p> <p>48. Timber production audits</p> <p>We recommend that the Department of Sustainable Resource Development improve:</p> <ol style="list-style-type: none"> <li>1. the planning, documentation, and reporting of results for its timber production audit group.</li> <li>2. the timeliness of its timber production auditing.</li> </ol> <p><b>Transportation</b></p> <p>49. Conflict of interest</p> <p>We recommend that the Ministry of Transportation require its employees to disclose annually in writing:</p> <ol style="list-style-type: none"> <li>1. that they understand and agree to follow the <i>Code of Conduct and Ethics</i>.</li> <li>2. any potential conflicts of interest.</li> </ol> <p>We also recommend that the Ministry ensure that consultant contracts contain a conflict of interest provision.</p>	<p>Accepted. We are taking action in the current business cycle and into future business cycles to address the recommendation.</p> <p>Accepted. The Ministry's objective in its planning process is to integrate internal operational planning processes with its individual performance planning activities. Targets have been set to improve the participation in and the quality of our performance planning system. Methodology for selected performance measures will be reviewed in the 2004-05 reporting cycle.</p> <p>Accepted. The Department is revising the Timber Production Audit Framework to reflect a systems-based audit approach. This change, which will be implemented into the business practices by the end of the current business cycle, will address the planning, documentation, reporting and timeliness issues identified.</p> <p>Accepted. This is currently under review and we are in the process of developing an action plan for implementation within the Ministry and potentially across government.</p>

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