

The logo for the province of Alberta, featuring the word "Alberta" in a white, cursive script font, followed by a small white square icon. The logo is centered within a horizontal banner that has a background of abstract, overlapping geometric shapes in shades of green and grey.

# **FISCAL PLAN**

---

## OVERVIEW

**BUDGET** **20**  
**17**

# TABLE OF CONTENTS

## OVERVIEW

Themes . . . . .	3
Making Life Affordable for Albertans . . . . .	4
Creating Good Jobs and a Diversified Economy . . . . .	4
Protecting and Improving Services for Albertans . . . . .	5
Revenue . . . . .	6
Expense. . . . .	6
Fiscal Management . . . . .	8
Energy and Economic Assumptions . . . . .	9
Capital Plan . . . . .	10

# OVERVIEW

---

## THEMES

*Budget 2017* is about making the lives of Albertans better.

Alberta is just now beginning to recover from the steepest and most prolonged slide in oil prices in recent history. Alberta is also rebuilding after the Wood Buffalo wildfire – the largest natural disaster in Alberta’s history. *Budget 2017* continues to build on the Jobs Plan with economic diversification, support for families and putting Albertans to work. This plan sets the foundation for the return to growth. It is also forward looking and supports sustained growth through investment in critical infrastructure and the implementation of the internationally regarded Climate Leadership Plan that has already resulted in decisions that support expanded market access for Alberta’s energy industry.

*Budget 2017* is based on the following themes:

- ◆ **Practical changes that make life more affordable for Albertans.** Reducing fees in the K–Grade 12 education system will ensure that core education is affordable for all Alberta families. The tuition freeze in post-secondary institutions is being extended for a third year. A rate ceiling on electricity prices has been established, and, through the Climate Leadership Plan, Energy Efficiency Alberta will provide programs and services to help Albertans protect their pocketbook and lower their carbon footprint. In addition, the Climate Leadership Plan provides rebates to lower and middle income Albertans.
- ◆ **Creating good jobs and building a diversified economy.** The second year of Alberta’s five-year Capital Plan continues significant investments in modern infrastructure, the backbone of a strong and resilient economy. This includes green infrastructure investments made under the Climate Leadership Plan. *Budget 2017* continues to focus on Alberta’s jobs, investment and diversification plan to help encourage job creation and economic diversification.
- ◆ **Protecting and improving the services and supports that make a difference in the lives of Albertans.** *Budget 2017* provides stable funding for health, education, income support programs and social services. It supports families through the Alberta Child Benefit and enhanced Alberta Family Employment Tax Credit.

*Budget 2017* is also about managing government spending. This includes a number of cost-saving measures, including realigning executive compensation in Alberta’s public agencies, finding in-year savings and freezing salaries for political staff and government managers. Combined, the cost-saving measures will keep the rate of growth in government operating expense below the combined rate of population growth plus inflation to achieve lower year-on-year deficits on a path to balance.

A “risk adjustment” continues to be included in the Fiscal Plan as a reflection of the potential impact of uncertain world oil markets on Alberta’s resource revenue.

*Budget 2017* reflects input from thousands of Albertans who submitted their ideas and feedback as part of the budget consultation process. The President of Treasury Board and Minister of Finance held roundtable discussions with representatives from many sectors including health care, labour and energy. He also met with the chief economists of major Canadian banks and financial institutes to discuss Alberta's economic recovery and oil price forecasts. More than 80,000 Albertans joined the Minister and Premier in telephone town hall meetings which took place over two evenings. More than 4,300 online submissions, 125 emails and 50 written reports were received as part of the consultation.

## MAKING LIFE AFFORDABLE FOR ALBERTANS

Budget 2017 *makes life affordable by reducing school fees and continuing the tuition freeze.*

While recovery has started, the steep decline in oil prices has had a significant and enduring effect on Alberta families as well as Alberta's economy. To make life more affordable for Alberta families, *Budget 2017*:

- ◆ Removes school fees that are core to accessing public education, including fees for instructional supplies or materials and transportation for eligible students to their designated school.
- ◆ Extends the tuition freeze in post-secondary institutions for a third year, to the end of the 2017-18 academic year, to ensure that education and training remain affordable.
- ◆ Ensures stable and affordable electricity prices over the next four years through a rate ceiling of 6.8 cents per kilowatt hour.
- ◆ Helps Albertans lower their carbon footprint and energy costs. With \$566 million budgeted over three years, Energy Efficiency Alberta will deliver a variety of programs to help lower energy bills and install small scale renewables. Also under the Climate Leadership Plan, lower and middle income Albertans will qualify for rebates of up to \$300 for single adults, \$450 for couples and \$45 per child in 2018.

## CREATING GOOD JOBS AND A DIVERSIFIED ECONOMY

Budget 2017 *supports job creators including small and medium sized enterprises.*

All Albertans will benefit from a stronger and more diversified economy. *Budget 2017* carries through on the second year of a two-year \$250 million package to support job creators and encourage business capital investment, attract new businesses to Alberta, support regional economic development and improve access to training opportunities.

Within the Ministry of Economic Development and Trade, in the second year the jobs package is providing:

- ◆ \$71 million to support job creators with two tax credits to encourage investors to support eligible small and medium-sized enterprises in Alberta, and encourage businesses to make capital investments.
- ◆ In addition, the Alberta Enterprise Corporation has funding to spur innovation and help grow companies and increase employment in areas such as clean technology.

- ◆ \$13 million to attract and support new businesses and pursue regional economic development initiatives.
- ◆ \$14 million for new apprenticeship and training opportunities.

Additional supports for small and medium-sized enterprises are provided through the small business income tax rate reduction that started in January 2017, and grant programs for small breweries and labour-based grants for cultural industries to support job capacity and development in digital technologies like animation and interactive digital media.

Implementation of the Petrochemicals Diversification Program capitalizes on the growing global demand for related higher value products and promotes greater energy processing right in Alberta. It helps build a broader petrochemical industry and the related natural gas mid-stream sector while also diversifying Alberta's economy and creating new jobs. The new petrochemical facilities supported by the program represent a potential capital investment to Alberta approaching \$6 billion.

## PROTECTING AND IMPROVING SERVICES FOR ALBERTANS

To continue supporting Alberta families through difficult times, as recovery takes hold, *Budget 2017* focuses on providing stable funding for core public services that make a difference in the lives of Albertans, including health care, education, income support programs and social services.

*Budget 2017 provides stable funding for core public services.*

Health funding increases to \$21.4 billion. This provides funding to increase investments in community care with an added emphasis on home care and adds over 1,000 new continuing care beds in 2017-18.

\$8.2 billion for Education continues the government's commitment to fund enrolment growth in the K–Grade 12 education system, ensuring that Alberta's children continue to benefit from a world class education system.

Employment and income support programs help eligible Albertans cover their basic costs of living and provide access to career, workplace and labour market information. The income support budget increases to \$605 million in 2017-18, with a further \$257 million budgeted for related adult and child health benefit programs.

To help families, the Alberta Child Benefit provides \$174 million in 2017-18 with up to \$2,785 each year to Alberta's most vulnerable families, in support of about 200,000 children. The Alberta Family Employment Tax Credit supports working families with children by providing a maximum annual credit of \$773 for families with one child, and up to \$2,038 for families with four or more children.

The Ministry of Children's Services was established in January 2017 to create an increased focus on ensuring that children are provided with the services and supports they need to thrive in healthy families and healthy communities. *Budget 2017* provides stable funding for the child intervention system and provides a solid foundation to strengthen the system.

## REVENUE

While oil prices are recovering from the lows reached in 2016, the impact on the provincial economy continues to affect government revenue. Non-renewable resource revenue is budgeted at \$3.8 billion in 2017-18, a level well below averages over the past decade.

Revenue is expected to gradually recover and it is only by 2019-20 that total government revenue (excluding the Climate Leadership Plan) is expected to exceed the \$49.5 billion revenue received in 2014-15.

*Alberta maintains the lowest overall tax regime in Canada.*

Alberta maintains the lowest overall tax regime in Canada, with no provincial sales tax, health premium or payroll tax. Albertans across all income ranges will continue to pay the lowest overall taxes when compared to other provinces.

Including the Climate Leadership Plan, total revenue will be \$45 billion in 2017-18, in line with the *Budget 2016* forecast. Revenue is expected to grow to \$47.6 billion in 2018-19 and \$51.8 billion in 2019-20.

### Budget 2017 – Revenue

(millions of dollars)

	2015-16 Actual	2016-17 Budget	2016-17 Forecast	2017-18 Estimate	2018-19 Target	2019-20 Target
Income and Other Taxes	20,720	21,767	20,546	21,762	23,323	24,662
Non-Renewable Resource Revenue	2,789	1,364	2,430	3,754	4,226	6,628
Transfers from Government of Canada	7,142	7,278	7,943	7,988	7,870	8,079
Investment Income	2,544	2,115	2,886	2,193	2,231	2,315
Net Income from Government Business Enterprises	2,570	2,416	2,404	2,506	2,568	2,662
Premiums, Fees and Licences	3,574	3,649	3,646	3,683	3,770	3,863
Other	3,161	2,846	3,083	3,129	3,655	3,573
<b>Total Revenue</b>	<b>42,500</b>	<b>41,435</b>	<b>42,938</b>	<b>45,015</b>	<b>47,643</b>	<b>51,782</b>

## EXPENSE

*Budget 2017 supports recovery by taking a long-term view of the province's fiscal position.*

The government is committed to managing the province's fiscal position by taking a long-term view that supports recovery, rather than making short-sighted, drastic cuts which would further exacerbate the challenges that Albertans and the province currently face.

*Budget 2017* maintains the stable funding for core public services, including health care, education, income support programs and social services.

- ◆ **Health.** *Budget 2017* provides \$21.4 billion for Health in 2017-18, keeping the government's commitment to provide stable funding for health care.
- ◆ **Education.** *Budget 2017* provides \$8.2 billion for Education in 2017-18, keeping the government's commitment to fund enrolment growth, projected at 1.8% in 2017-18.
- ◆ **Advanced Education.** *Budget 2017* provides \$6 billion for Advanced Education in 2017-18, keeping the government's commitment to provide stable, predictable funding for post-secondary education. Base operating grants for institutions will increase 2% per year, while accessibility and affordability for students improves with the third year of tuition freeze.

- ◆ **Community and Social Services.** *Budget 2017* provides \$3.3 billion for Community and Social Services in 2017-18, keeping the government's commitment to strong families and strong communities.
- ◆ **Children's Services.** *Budget 2017* provides \$1.4 billion for Children's Services to create an increased focus on ensuring that children in Alberta are provided with the services and supports they need to thrive in healthy families and healthy communities.

At the same time, *Budget 2017* reflects a number of cost saving measures that help constrain the rate of growth in government operating expense:

*Budget 2017 includes measures to manage operating expense growth.*

- ◆ Putting in place an executive compensation framework for 23 public agencies that is expected to save nearly \$16 million a year.
- ◆ A continued freeze on salaries for political staff and managers in government departments and public agencies.
- ◆ Identifying \$200 million of in-year savings across government.

After funding to maintain current service levels in existing core public service programs, *Budget 2017* will achieve operating budget increases of 2.2% in 2017-18, and 2.7% in 2018-19 and 2019-20, below projected population growth plus inflation which is expected to average 3.3% per year for each of the next three years.

Including the Climate Leadership Plan, total expense will be \$54.9 billion in 2017-18, \$56.7 billion in 2018-19 and \$58 billion in 2019-20.

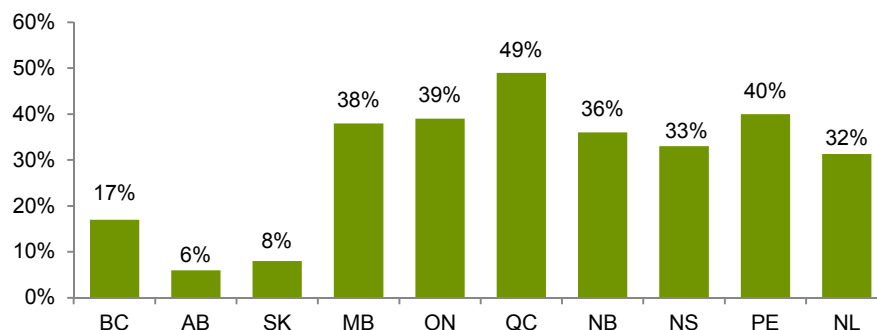
### **Budget 2017 – Expense**

(millions of dollars)	2015-16 Actual	2016-17 Budget	2016-17 Forecast	2017-18 Estimate	2018-19 Target	2019-20 Target
Operating expense (net of in-year savings)	43,189	44,094	44,868	<b>45,850</b>	47,097	48,363
Climate Leadership Plan operating expense	-	325	1,380	<b>868</b>	1,395	1,053
Disaster assistance (with operating 2013 flood support)	563	246	1,354	<b>235</b>	201	200
Capital grants	1,911	2,288	2,221	<b>3,302</b>	2,572	2,289
Climate Leadership Plan capital grants	-	5	-	<b>68</b>	411	580
Amortization / inventory consumption / disposal loss	3,131	3,208	3,242	<b>3,375</b>	3,448	3,577
Debt servicing costs	776	996	1,027	<b>1,398</b>	1,807	2,286
Pension provisions	(630)	(65)	(348)	<b>(237)</b>	(279)	(339)
<b>Total Expense</b>	<b>48,942</b>	<b>51,097</b>	<b>53,744</b>	<b>54,859</b>	<b>56,652</b>	<b>58,009</b>

## FISCAL MANAGEMENT

**Debt to GDP Ratio.** The government is committed to maintaining one of the lowest debt to nominal GDP ratios among the provinces.

### Debt to GDP Interprovincial Comparison



**Sources:** Debt amounts are taken from all provinces 2015-16 Public Accounts. Nominal GDP is sourced from the Conference Board of Canada, Winter 2017 provincial forecast, using 2016 estimated nominal GDP.

Budget 2017 continues to include a risk adjustment factor to account for volatility in Alberta's resource revenue.

**Risk Adjustment.** Alberta's revenue is extremely volatile and difficult to predict given the province's reliance on resource revenue. Budget 2017 continues to include a risk adjustment factor, ensuring a level of prudence in Alberta's budget and fiscal planning. The risk adjustment is \$500 million in 2017-18 and increases to \$700 million in 2018-19 and then to \$1 billion in 2019-20 as uncertainty related to resource revenue increases over time. The risk adjustment is included in the calculation of the deficit.

### Budget 2017 – Key Fiscal Metrics

(billions of dollars)

	2015-16 Actual	2016-17 Budget	2016-17 Forecast	2017-18 Estimate	2018-19 Target	2019-20 Target
Total Revenue	42.5	41.4	42.9	45.0	47.6	51.8
Total Expense	48.9	51.1	53.7	54.9	56.7	58.0
Risk Adjustment	-	(0.7)	-	(0.5)	(0.7)	(1.0)
<b>Surplus / (Deficit)</b>	<b>(6.4)</b>	<b>(10.4)</b>	<b>(10.8)</b>	<b>(10.3)</b>	<b>(9.7)</b>	<b>(7.2)</b>
Other Key Metrics:						
Capital / Other Non-financial Assets	47.3	51.2	50.1	53.4	55.9	58.5
Heritage Fund Year-end Balances	15.2	15.4	15.4	15.7	16.0	16.3
Contingency Account Year-end Balances	3.6	-	2.3	-	-	-
Capital Plan liabilities/ Fiscal Plan borrowing	20.0	30.5	32.6	45.0	58.7	71.1
Debt to Nominal GDP Ratio	6.1%	9.6%	10.6%	13.8%	17.1%	19.5%



## ENERGY AND ECONOMIC ASSUMPTIONS

The *Budget 2017* outlook is prudent and in line with other forecasts for energy prices and other economic and financial variables. With the expectation that the global oil market will slowly come back into balance, oil is now forecast to average US\$55/bbl in 2017-18, \$59 in 2018-19 and \$68 in 2019-20.

*In line with private sector forecasters, a gradual recovery in oil prices is projected.*

Alberta's economy is forecasted to expand by 2.6% in 2017. Growth will be driven by a surge in production and exports as oil sands output expands and manufacturing exports pick up. It will also be supported by public sector infrastructure spending and reconstruction in Fort McMurray. The recovery is expected to be moderate, however, due to the lingering effects of low oil prices on investment and consumer spending. Real GDP is not expected to return to pre-recession levels until 2019.

Alberta's labour market is showing signs of improvement and employment is expected to grow by 0.9% in 2017. Although the unemployment rate is expected to come down from current levels, it is forecast to remain elevated, averaging 8% in 2017 as people continue to join the labour force, before gradually improving over the forecast period.

Population growth is expected to moderate to 1.3% in 2017 before increasing to 1.4% in 2018. Strong immigration and natural increase are keeping population growth above the national average.

Although increased drilling activity will lift conventional investment this year, oil sands and non-residential investment are forecast to decline again before improving gradually. Infrastructure spending by the provincial government is expected to provide a boost and partially offset the decline in private investment this year.

### Energy and Economic Assumptions

	2015-16	2016-17	2016-17	2017-18	2018-19	2019-20	
	Actual	Budget	Forecast	Estimate	Target	Target	
WTI Oil (US\$/bbl)	45.00	42.00	48.00	<b>55.00</b>	59.00	68.00	
Light-Heavy Differential (US\$/bbl)	13.40	15.20	14.20	<b>16.00</b>	18.00	18.60	
WCS@Hardisty (Cdn\$/bbl)	40.86	36.40	44.50	<b>51.30</b>	53.00	63.40	
Natural Gas (Cdn\$/GJ)	2.21	2.40	2.15	<b>2.90</b>	2.90	3.00	
Conventional Crude Oil Production (000s barrels/day)	508	524	436	<b>416</b>	403	394	
Raw Bitumen Production (000s barrels/day)	2,489	2,668	2,488	<b>2,906</b>	3,195	3,296	
Exchange Rate (US\$/Cdn\$)	76.3	73.5	76.0	<b>76.0</b>	77.5	78.0	
Interest Rate (10-year Canada bonds, %)	1.46	1.79	1.40	<b>2.00</b>	2.40	2.70	
	<b>2015</b>	<b>2016b</b>	<b>2016f</b>	<b>2017f</b>	<b>2018f</b>	<b>2019f</b>	<b>2020f</b>
Real GDP (% change)	(3.6)	(1.4)	(2.8)	<b>2.6</b>	2.2	2.4	2.5
Employment (% change)	1.2	(1.7)	(1.6)	<b>0.9</b>	1.4	1.6	1.8
Unemployment Rate (%)	6.0	8.0	8.1	<b>8.0</b>	7.6	7.1	6.3
Primary Household Income (% change)	2.5	(1.4)	(3.5)	<b>1.8</b>	3.5	4.3	4.4
Net Corporate Operating Surplus (% change)	(69.3)	(18.0)	(35.1)	<b>66.4</b>	35.9	29.9	21.9
Alberta Consumer Price Index (% change)	1.1	1.5	1.1	<b>1.9</b>	2.0	2.0	2.0
Population (% change)	1.7	1.2	1.8	<b>1.3</b>	1.4	1.4	1.4

Oil sands production will continue to expand, reflecting investments made prior to the oil price collapse. Market access remains critical given the production profile of the oil sands and the increased reliance on higher cost rail transportation.

## CAPITAL PLAN

Budget 2017 includes \$32.8 billion in capital over four years.

Budget 2017 continues the significant infrastructure investment that started with Budget 2016. The Capital Plan will help stimulate the economy, keep people working and upgrade or expand existing infrastructure. The Capital Plan will support \$32.8 billion in infrastructure projects over four years. This includes \$3.4 billion for ancillary projects self-financed by Alberta Health Services, post-secondary institutions and school boards.

Over the next four years, the Capital Plan provides:

- ◆ \$7.6 billion in municipal infrastructure support, including \$4.8 billion under the Municipal Sustainability Initiative and \$0.8 billion for the Green Transit Incentives Program (GreenTRIP).
- ◆ \$4.7 billion for capital maintenance and renewal to ensure public facilities will continue to serve the needs of Albertans.
- ◆ In support of those Albertans living on reserves who do not have reliable access to clean drinking water, the Capital Plan allocates \$100 million in new funding. This funding supports integration of regional drinking water systems with federally-supported water systems for Alberta's Indigenous communities. This also supports the government's commitment to the United Nations Declaration on the Rights of Indigenous Peoples.
- ◆ \$3.8 billion for climate change and environmental sustainability.
- ◆ \$4.5 billion for health infrastructure including \$400 million towards the planning and implementation of a new hospital in Edmonton, starting in 2018-19.
- ◆ \$2.6 billion for schools.
- ◆ \$3.1 billion for roads and bridges.

### Budget 2017 – Capital Plan

(billions of dollars)

	2017-18 Estimate	2018-19 Target	2019-20 Target	2020-21 Projected	4-year Total
<b>Capital Plan:</b>					
Core Government	8.2	7.1	7.3	6.9	29.5
SUCH Sector – Self-financed Investment	1.0	0.9	0.8	0.6	3.4
<b>Total Capital Plan</b>	<b>9.2</b>	<b>8.0</b>	<b>8.1</b>	<b>7.5</b>	<b>32.8</b>
<b>Capital Plan Financing:</b>					
Direct Borrowing	6.0	5.8	6.1	5.6	23.5
Alternative Financing (P3s)	0.1	0.2	0.2	0.2	0.7
Other Cash Sources (e.g., retained income)	1.9	0.7	0.4	0.4	3.4
Climate Leadership Plan	0.2	0.4	0.6	0.7	1.9
SUCH Sector Self-financing	1.0	0.9	0.8	0.6	3.4
<b>Total Capital Plan Financing</b>	<b>9.2</b>	<b>8.0</b>	<b>8.1</b>	<b>7.5</b>	<b>32.8</b>