OPERATIONAL PLAN

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OPERATIONAL PLAN

✧ REVENUE

REVENUE OUTLOOK

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

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

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

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

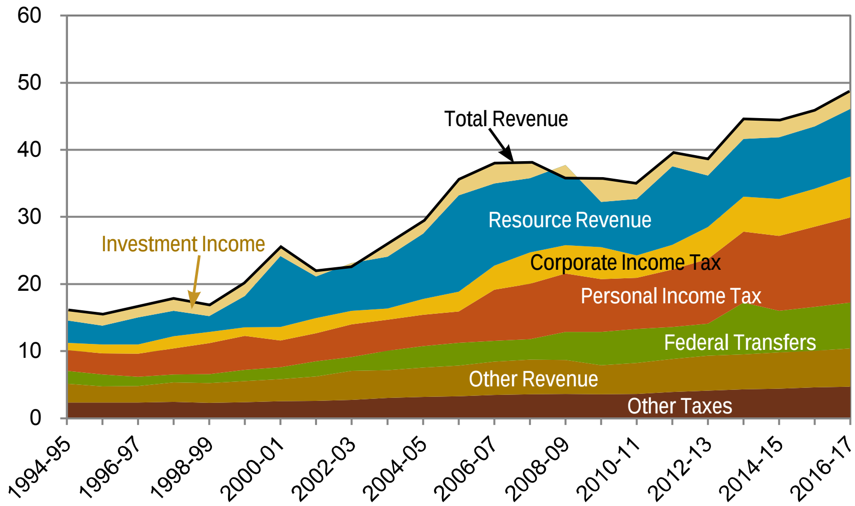
The revenue forecast is also higher as a result of the substantial recent decrease in the Canadian-US dollar exchange rate forecast. The exchange rate estimate

Total Revenue
(millions of dollars)

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

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

Total Revenue, 1993-94 to 2016-17
(billions of dollars)



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

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

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

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

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

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

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

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

NON-RENEWABLE RESOURCE REVENUE

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

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

OIL ROYALTIES

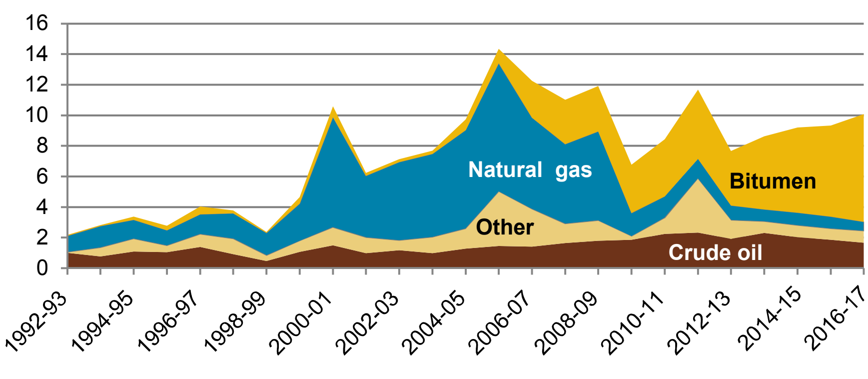
Oil price (WTI) is estimated to be US$95.22 in 2014-15.

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

Oil price differentials substantially impact government revenue.

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

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



[a] Other includes Crown land lease sales revenue.

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

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

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

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

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

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

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

Oil Assumptions

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

OIL PRICE DIFFERENTIALS

Brent-WTI Differential

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

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

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

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

The Brent-WTI differential is a key assumption. The forecast is in line with other industry analysts but there are risks to the forecast. Increased US oil production coupled with the US law that crude oil produced in the US cannot be exported means that if US production is higher than forecast it will have to replace imports of medium oil as it has virtually already replaced all light oil imports. This would put downward pressure on WTI as medium oils are priced lower than light oil.

WTI-WCS Differential

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

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

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

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

NORTH AMERICAN OIL PIPELINE INFRASTRUCTURE

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

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

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

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

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

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

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

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

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

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

NATURAL GAS AND BY-PRODUCT ROYALTY

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

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

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

Natural Gas Assumptions

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

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

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

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

BONUSES AND SALES OF CROWN LEASES

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

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

Non-Renewable Resource Revenue
(millions of dollars)

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

TAX REVENUE

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

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

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

Personal Income Tax Revenue
(millions of dollars)

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

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

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

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

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

Corporate Income Tax Revenue
(millions of dollars)

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

Education property tax revenue is forecast at $1.9 billion in 2014-15, an increase of $45 million, or 2.4% from 2013-14. The new policy for determining the property tax requisition implemented in *Budget 2013*, means the 2014-15 revenue amount was determined in *Budget 2013*. An adjustment was made to accommodate school board movement from "opted-out" to "opted-in," resulting in an increase of $24 million reported as government revenue and an equivalent decrease in "opted-out" school board revenue. The total requisition amount is based on 32% of total operating expense of the education system. As a result, 2014 education property tax mill rates are being reduced by about 4.5%. The residential/farm rate will drop 12 cents to $2.53 per $1,000 of equalized assessment, and the non-residential rate will fall 18 cents to $3.72 per $1,000 of equalized assessment.

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

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

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

Tax Revenue
(millions of dollars)

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

FEDERAL TRANSFERS

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

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

CANADA HEALTH TRANSFER

Transfers from Government of Canada
(millions of dollars)

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

Revenue received for capital purposes

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

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

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

INVESTMENT INCOME

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

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

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

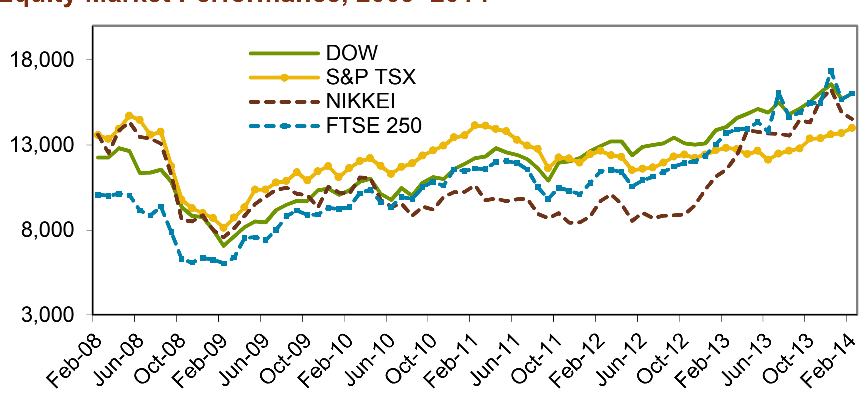
HERITAGE FUND AND ENDOWMENT FUNDS

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

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

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

Equity Market Performance, 2009–2014



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

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

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

CONTINGENCY ACCOUNT

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

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

OTHER REVENUE

Fund Assets / Investment Income
(millions of dollars)

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

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

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

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

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

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

RISKS

Revenue from Other Sources
(millions of dollars)

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

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

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

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

The degree of revenue uncertainty exposes the Alberta government in a unique position relative to other governments. Like energy companies, banks and other investors, Alberta must assess the degree of risk it is willing to take associated with its revenue outlook and spending decisions. Revenue in 2014-15 could be as much as 10%–15% higher or lower than estimated, depending on variations in energy prices, exchange rates, economic growth or equity markets.

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

GLOBAL AND US ECONOMIES

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

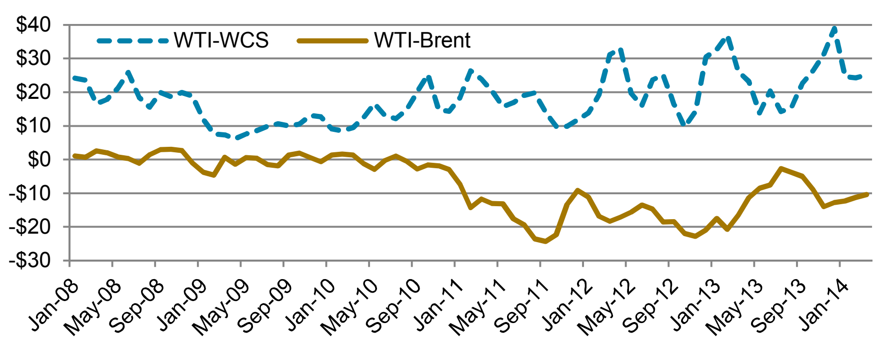
Budget 2014 *assumes global economic growth of 3.7% in 2014.*

ENERGY PRICES

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

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

Oil Price Differentials 2008–2014
(US dollars)



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

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

INTEREST RATES

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

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

EXCHANGE RATES

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

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

EQUITY MARKETS

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

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

CORPORATE NET OPERATING SURPLUS

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

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

Sensitivities to Fiscal Year Assumptions, 2014-15[a]
(millions of dollars)

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

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

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

✧ OPERATIONAL EXPENSE

OPERATIONAL EXPENSE

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

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

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

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

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

***Budget 2014* Operational Expense**
(millions of dollars)

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

INVESTING IN FAMILIES AND COMMUNITIES

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

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

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

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

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

***Budget 2014* Operational Expense (excluding flood recovery initiatives)**
Investing in Families and Communities
(millions of dollars)

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

[a] excludes general debt servicing costs

HEALTHY ALBERTANS

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

MINISTRY OF HEALTH

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

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

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

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

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

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

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

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

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

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

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

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

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

SUPPORT VULNERABLE ALBERTANS

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

MINISTRY OF HUMAN SERVICES

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

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

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

AISH. Income and other support (budgeted in Human Services) and related health benefits (now budgeted in the Ministry of Health) will be provided to about 50,000 disabled adults to help them live more independently. *Budget 2014* maintains the maximum monthly income benefit at $1,588, as well as the higher monthly income exemptions implemented in *Budget 2012*. There is $941 million budgeted in Human Services and an additional $192 million budgeted in Health for AISH in 2014-15. Combined, the budgets reflect an increase of $47 million or 4.3% from 2013-14.

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

$735 million for Child Intervention in 2014-15.

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

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

Homeless Support. There is $131 million budgeted in 2014-15 for homeless support programs, an increase of $19 million or 17% from 2013-14. This budget will help house about 2,000 homeless Albertans this year, as well as fund over 3,200 spaces in emergency/transitional shelters. Since 2009-10, about 8,800 Albertans who were homeless have been provided housing and supports to help them remain housed.

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

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

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

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

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

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

HONOUR ALBERTA'S COMMUNITIES

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

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

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

FLOOD RECOVERY INITIATIVES

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

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

***Budget 2014* Flood Recovery Initiatives**
(millions of dollars)

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

[a] See the Capital Plan chapter for details

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

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

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

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

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

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

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

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

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

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

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

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

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

SECURING ALBERTA'S ECONOMIC FUTURE

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

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

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

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

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

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

[a] excludes general debt servicing costs

INVEST IN LEARNING

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

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

MINISTRY OF EDUCATION

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

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

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

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

The 2014-15 budget also provides:

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

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

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

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

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

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

MINISTRY OF INNOVATION AND ADVANCED EDUCATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

LIVING WITHIN OUR MEANS

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

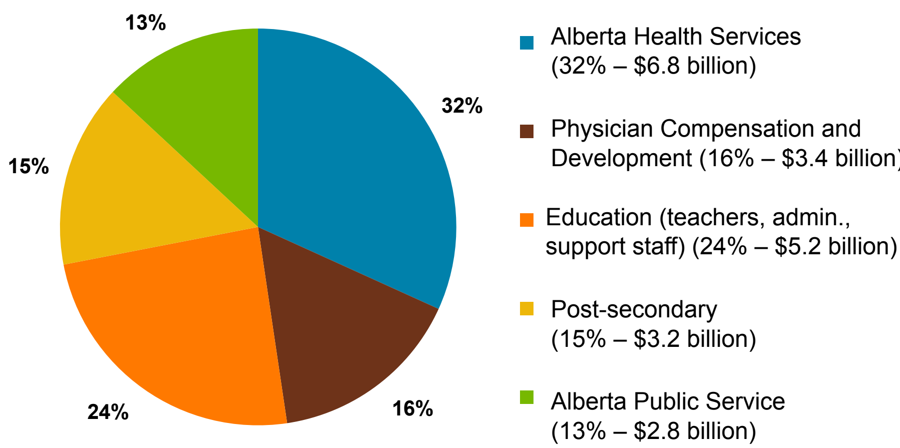
Results-based budgeting and controlling public sector compensation costs are two critical components of the government living within its means, as part of a rebalanced fiscal framework.

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

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

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

2012-13 Public Sector Compensation ($21.4 billion)



Source: Alberta Treasury Board and Finance

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

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

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

ADVANCING WORLD-LEADING RESOURCE STEWARDSHIP

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

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

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

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

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

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

[a] excludes general debt servicing costs

INNOVATIVE AND RESPONSIBLE RESOURCE DEVELOPMENT

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

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

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

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

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

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

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

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

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

BUILD RELATIONSHIPS AND OPEN NEW MARKETS

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

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

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

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

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

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

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

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