BUDGET 2015

SUPPORTING JOBS, SUPPORTING FAMILIES. **The Alberta Way.**

OVERVIEW

Alberta

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OVERVIEW

BUDGET 2015

THEMES

Budget 2015 supports Alberta jobs and Alberta families.

Budget 2015 delivers on the government's commitments to Albertans by:

- Developing a diversified 21st century economy that works for all Albertans.
- Stabilizing and improving public health care.
- Investing in quality education for our children.
- Supporting strong families, strong communities and a healthy environment.
- Implementing a new fiscal plan, where everyone contributes fairly.

Budget 2015 is based on three themes:

1. *Budget 2015* stabilizes funding for key public services to Albertans by reinvesting in health care, education and social services, in the context of a prudent, responsible and sustainable fiscal plan.
2. *Budget 2015* is a plan to return to balance. This budget will serve as an economic "shock absorber" for the short-term and position the province to return to a surplus as the provincial economy improves. This will include careful and prudent management of the growth in government spending and identifying savings from lower priority programs. By 2019-20, the government will balance the budget.
3. *Budget 2015* outlines this government's first steps to stimulate economic growth, diversification and job creation. The government will partner with job creators, entrepreneurs and visionaries, supporting better access to capital, innovation and trade development, while making government easier to work with for the private sector.

Budget 2015 reflects the priorities of Albertans gathered through extensive province-wide consultations, as the Premier, Ministers and Government MLAs met with Chambers of Commerce, not-for-profit groups, energy and other industry stakeholders. The Minister of Finance hosted telephone town hall meetings regarding the budget where over 83,000 Albertans participated. The government also received about 3,000 submissions in response to an online survey.

STABILIZING PUBLIC SERVICES

In June, the government took initial steps to stabilize funding for key public services with an interim supply bill which restored funding for health care, education and social services. *Budget 2015* fully implements these changes:

- **Health:** Over $800 million is invested in 2015-16 to protect front-line health care jobs.
- **Education:** Projected enrolment growth for the next three years is fully funded and other cuts to school boards are reversed.
- **Advanced Education:** Stable, predictable funding will be provided to the post-secondary system. A two-year tuition freeze has been implemented.
- **Human Services:** New funding will strengthen social services to ensure vulnerable families have the supports they need in their communities.

Also in June, *An Act to Restore Fairness to Public Revenues* passed, eliminating the single 10% tax rate on personal income and replacing it with a more progressive personal income tax system that will be fully implemented January 1, 2016. The Act also increased Alberta's corporate income tax rate, from 10 to 12%, effective July 1, 2015. These tax changes will generate additional revenue to help ensure Albertans continue receiving the quality services and infrastructure they need.

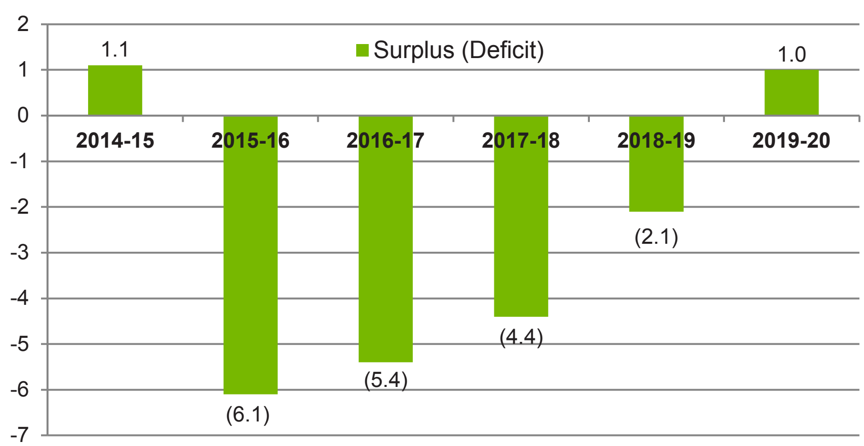
PLAN TO RETURN TO BALANCE

Budget 2015 is the first step in the government's plan to return to a balanced budget by 2019-20.

The effect of lower oil prices on Alberta's economy and provincial government revenue is significant, with estimated 2015-16 resource revenue down over $6 billion from last year. Based on current forecasts the recovery will take longer than was anticipated during the spring election campaign. By restoring funding for critical public services and investing in infrastructure during the economic downturn when prices are lower, *Budget 2015* will ensure the province will be in a much stronger position when the provincial economy recovers. At the same time, the government will limit the rate of growth in spending and identify savings from lower priority programs.

With a gradual recovery in oil prices and Alberta's new tax structure, consolidated provincial revenue is expected to grow by about 6% per year over the next four years, while consolidated expense will grow by just over 2% per year. *Budget 2015* is the first step in the government's plan to return to a balanced budget by 2019-20, sooner if the economic recovery is stronger than anticipated.

Chart 1: Plan to Return to Balance
(billions of dollars)



Source: Alberta Treasury Board and Finance

Plan to Return to Balance
(billions of dollars)

	2014-15 Actual	2015-16 Estimate	2016-17 Target	2017-18 Target	2018-19 Projected	2019-20 Projected
Consolidated Revenue	49.5	**43.8**	45.7	47.9	51.4	55.3
Consolidated Expense	48.4	**49.9**	51.1	52.3	53.5	54.3
Consolidated Surplus / (Deficit)	**1.1**	**(6.1)**	**(5.4)**	**(4.4)**	**(2.1)**	**1.0**
Other Key Metrics:						
Capital / Other Non-financial Assets	44.8	**48.4**	52.1	55.7	58.3	60.5
Heritage Fund Year-end Balances	15.0	**15.1**	15.4	15.7	16.0	16.4
Contingency Account Year-end Balances	6.5	**3.3**	-	-	-	0.4
Liabilities for Capital Projects / Fiscal Plan Borrowing	12.9	**18.9**	26.5	36.6	43.2	47.4

JOBS, ECONOMIC GROWTH AND DIVERSIFICATION

The government recognizes that all Albertans will benefit from an economy that is open, sustainable and increasingly diversified. An economy that creates good jobs and one that offers investors stability and certainty. *Budget 2015* includes measures to partner with job creators to promote economic growth and diversification:

Budget 2015 *promotes job creation, economic growth and diversification.*

- By committing to a 15% increase in capital spending over the next five years, putting Albertans back to work.
- By delivering a new Job Creation Incentive Program that will provide grants of up to $5,000 for each new full-time equivalent position created by eligible Alberta employers. This new two-year program, beginning January 1, 2016, is expected to support up to 27,000 new jobs each year.
- By establishing a new Ministry of Economic Development and Trade that will focus on innovation and trade development, while helping make the government easier to work with for the private sector.
- By making Alberta the best place in Canada to start and grow a business by improving access to capital through new funding for the Alberta Enterprise Corporation and targeting a portion of the Alberta Investment Management Corporation's investment portfolio on latter-stage growth capital.

EXPENSE

Budget 2015 stabilizes funding for key public services, including health care, education and social services. *Budget 2015* is a sustainable plan that limits the rate of growth in government spending.

Budget 2015 *stabilizes funding for key public services and limits overall spending growth.*

- **Health.** *Budget 2015* provides long-term stable funding for health care, protecting front-line jobs to serve Alberta's growing population. Annual operating budget increases of 4% in 2016-17 and 3% in 2017-18 are planned, ensuring stable, predictable funding for health care.
- **Education.** *Budget 2015* provides funding for projected enrolment growth of 1.5% in 2015, and reverses a 3% ($78 million) reduction to school boards included in the March budget. *Budget 2015* also includes new funding, beginning in 2016-17, to address classroom complexity and support inclusive education, phase-in a targeted school nutrition program and reduce school fees.

***Budget 2015* Consolidated Expense**
(mllions of dollars)

	2014-15 Actual	2015-16 Estimate	2016-17 Target	2017-18 Target
Operating Expense	42,047	**43,209**	44,401	45,384
Disaster assistance (with operating 2013 flood support)	351	**829**	234	206
Capital Grants	2,466	**1,975**	2,432	2,294
Amortization / Inventory Consumption / Loss on Disposals	3,184	**3,083**	3,184	3,232
Debt Servicing Costs: Capital Plan & General Government	722	**778**	919	1,267
Pension Provisions	(404)	**31**	(42)	(97)
Total Consolidated Expense	**48,366**	**49,906**	**51,127**	**52,285**

- **Advanced Education.** *Budget 2015* restores funding for post-secondary education that was cut in the March budget, and provides stable, predictable funding with planned increases in base operating funding of 2% per year. A two-year tuition freeze has been implemented to improve the accessibility and affordability of the post-secondary system.
- **Human Services.** *Budget 2015* strengthens services for children in care, and supports vulnerable families in their local communities with new funding for the Family and Community Support Services program. This budget introduces a new Alberta Child Benefit which will provide $195 million in support to Alberta's most vulnerable families by 2017-18.
- **Program Reallocations.** *Budget 2015* includes savings of $250 million in 2016-17 and $300 million in 2017-18 to be identified from lower priority programs.

Total consolidated expense will be $49.9 billion in 2015-16, about $1.5 billion more than 2014-15. Expense will grow modestly over each of the next two years, to $51.1 billion in 2016-17 and $52.3 billion in 2017-18.

REVENUE

With Budget 2015, *Alberta maintains the lowest overall tax regime in Canada.*

Lower oil prices and their impact on the provincial economy will continue to affect government revenue. Even with the tax changes approved in June and new revenue initiatives included in this budget, 2015-16 revenue will only be about $400 million higher than anticipated in the March budget.

Even with the tax rate increases fully implemented, Alberta will still maintain, by far, the lowest overall tax regime in Canada, with no sales tax, no payroll tax, no health care premiums and the lowest provincial taxes on gasoline and diesel.

The health levy and most fee increases included in the March budget have been scrapped.

The government announced in June that it would not proceed with a number of fees proposed by the previous government. The proposed health levy and increases to motor vehicle registrations, land titles searches and numerous other registry services have been scrapped.

***Budget 2015* Consolidated Revenue**

(millions of dollars)	2014-15 Actual	2015-16 Estimate	2016-17 Target	2017-18 Target
Income and Other Taxes	21,436	**22,099**	23,121	23,803
Non-Renewable Resource Revenue	8,948	**2,768**	3,412	4,365
Transfers from Government of Canada	5,982	**6,984**	7,288	7,559
Investment Income	3,113	**2,820**	2,564	2,512
Net Income from Government Business Enterprises	2,665	**2,736**	2,822	3,003
Premiums, Fees and Licences	3,564	**3,687**	3,734	3,854
Other	3,773	**2,694**	2,769	2,823
Total Consolidated Revenue	**49,481**	**43,788**	**45,710**	**47,919**

As part of the plan to return to balance, *Budget 2015* includes some new revenue initiatives and allows some measures included in the March budget to proceed:

- Tobacco taxes increase from $45 to $50 per carton, effective 12:01 a.m., October 28, with an equivalent increase applied to other tobacco products.
- Liquor mark-ups increase 5%, effective October 28, and the mark-up structure is being refined to promote made-in-Alberta products.
- Locomotive fuel taxes will increase by 4 cents to 5.5 cents per litre, effective November 1, 2015.
- Insurance Premiums Tax rates will increase one percentage point on April 1, 2016, as included in the March budget.

All combined, the tax changes and these new revenue initiatives are expected to generate $1.5 billion in 2015-16, and about $2.3 billion per year for the following two years. Even with these changes, consolidated revenue will be $43.8 billion in 2015-16, $5.7 billion lower than in 2014-15. As the provincial economy improves, revenue is expected to grow to $45.7 billion in 2016-17 and $47.9 billion in 2017-18.

DEBT MANAGEMENT AND CONTINGENCY ACCOUNT

The government is committed to maintaining a prudent level of debt even as the budget is used as a “shock absorber” for the provincial economy during this challenging period. The new *Fiscal Planning and Transparency Act* establishes a limit on defined government debt based on 15% of the (nominal) Gross Domestic Product (GDP) of Alberta’s economy. This will ensure the debt does not become a burden for future generations of Albertans.

The Fiscal Planning and Transparency Act *establishes a new debt limit that will ensure government debt does not become a burden for future generations of Albertans.*

Based on the plan to return to balance in 2019-20, *Budget 2015* shows that the Contingency Account will be exhausted in late 2016-17, requiring borrowing for the fiscal plan until 2019-20 when the Account will begin to be replenished.

ENERGY AND ECONOMIC ASSUMPTIONS

The *Budget 2015* outlook is prudent, in line with the averages of other forecasts for energy prices, exchange rates and other economic and financial variables. The revenue forecast is based on lower oil prices than anticipated in the March budget, with WTI now forecast to average US$50/bbl in 2015-16, $61 in 2016-17 and $68 in 2017-18.

Budget 2015 *is based on energy and economic assumptions in line with the averages of other forecasts.*

The Alberta economy grew by 4.4% in 2014, more than expected at *Budget 2014*. In 2015, real GDP is expected to fall by 1.0% as Alberta will be in a mild recession due to lower oil prices, before beginning to rebound in 2016, with forecast growth of 0.9%.

Alberta’s population growth remained strong in 2014, up by 2.8%. Population growth is expected to moderate to an estimated 1.8%, or about 76,000 people in 2015, primarily as a result of lower interprovincial migration. It is expected to ease further, to 1.4% per year, for the following two years.

Low oil prices have slowed energy-related activity in the province. Despite sharply lower energy investment and corporate profits in 2015, strong growth in oil sands production will continue to support exports. Weakness in the energy sector has spread into manufacturing in 2015, but other sectors like forestry, agriculture, and leisure tourism will continue to benefit from a stronger US economy, a weaker Canadian dollar, and easing cost pressures. Infrastructure spending by the provincial government is expected to provide a lift to non-residential construction activity, partially offsetting the decline in private investment in 2016 and 2017.

Alberta's labour market continued to add jobs in 2014, with employment rising 2.2%. As the labour market cools employment growth is expected to fall to 1.0% in 2015. Alberta's unemployment rate is forecast to rise to 5.8% in 2015.

Consumer prices rose at an average rate of 2.6% in 2014. Inflation is expected to fall to 0.9% in 2015, due to lower energy prices and a slowdown in economic activity, and is forecast at 1.7% for 2016. After hovering around 80US¢/Cdn$ for the first half of 2015, the loonie has declined in recent months. The actual for 2014-15 was 88.0 US¢/C$ and the forecast for 2015-16 is now 78.0 cents.

Energy and Economic Assumptions

	2014-15 Actual	2015-16 Estimate	2016-17 Target	2017-18 Target
WTI Oil (US$/bbl)	80.48	**50.00**	61.00	68.00
WCS@Hardisty (Cdn$/bbl)	70.78	**46.50**	55.90	60.50
Differential (US$/bbl)	17.30	**13.60**	16.30	18.50
Natural Gas (Cdn$/GJ)	3.51	**2.60**	2.80	3.20
Exchange Rate (US¢/Cdn$)	88.0	**78.0**	80.0	82.0
Interest Rate (3-month, %)	0.85	**0.50**	0.70	1.25
	2014	**2015**	**2016**	**2017**
Real GDP (% change)	4.4	**(1.0)**	0.9	2.4
Employment (% change)	2.2	**1.0**	0.5	1.6
Unemployment Rate (%)	4.7	**5.8**	6.2	5.8
Primary Household Income (% change)	6.8	**2.5**	2.8	3.6
Net Corporate Operating Surplus (% change)	20.6	**(54.8)**	17.4	29.4
Alberta Consumer Price Index (% change)	2.6	**0.9**	1.7	1.9
Population (% change)	2.8	**1.8**	1.4	1.4

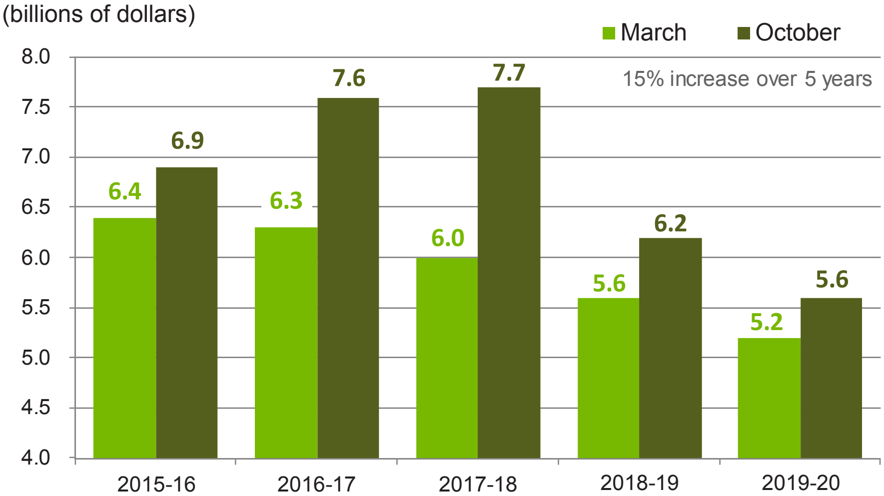
CAPITAL PLAN

The Capital Plan supports $34 billion in projects over five years, a 15% increase from the March budget.

Budget 2015 includes one of the most ambitious investments in modern, efficient infrastructure in Alberta's history. The Capital Plan is designed to put people to work, get Alberta's economy moving and upgrade or expand existing infrastructure. Following on the advice of former Bank of Canada governor and leading economist David Dodge, the government is taking a counter cyclical approach to capital spending, creating jobs and promoting long-term economic growth by investing in infrastructure when it is needed most.

The Capital Plan will support $34 billion in infrastructure projects over five years, a 15% increase from the March budget. There is another $4 billion for ancillary projects self-financed by Alberta Health Services, school boards and post-secondary institutions.

Chart 2: Capital Plan Comparison – Core Government
(billions of dollars)



Source: Alberta Treasury Board and Finance

The Plan includes $750 million for new investments to better support communities, improve public transit and municipal roads, and support local water and wastewater projects:

- $330 million in new funding for transit initiatives, in addition to $946 million to be provided through GreenTRIP over five years.
- $170 million increase for Water and Wastewater Management, with a total allocation of $706 million over five years.
- $100 million to restore Strategic Transportation Initiative Program grants.
- $100 million increase for the Municipal Sustainability Initiative (capital), with a total allocation of $3.9 billion over five years.
- $50 million increase for the Community Facility Enhancement Program, with a total allocation of $240 million over five years.

The Plan includes $2.2 billion for health facilities and equipment over five years, with $830 million to begin work on the Calgary Cancer Centre. As well, planning begins for major renovations at the Misericordia and Royal Alexandra hospitals in Edmonton. The Plan also includes $4.4 billion to be allocated to new projects and programs to be included in future capital plans.

The Capital Plan makes new investments to better support communities, improve public transit and municipal roads, and support local water and wastewater projects.

Capital Plan
(billions of dollars)

	2015-16 Estimate	2016-17 Target	2017-18 Target	2018-19 Projected	2019-20 Projected	5-year Totals
Capital Plan Spending:						
Core Government	**6.9**	7.6	7.7	6.2	5.6	34.0
SUCH Sector - Self-financed Investment	**1.0**	0.8	0.6	0.8	0.8	4.0
Consolidated Capital Plan Spending	**7.9**	**8.4**	**8.3**	**7.0**	**6.4**	**38.0**
Capital Plan Financing:						
Direct Borrowing	**6.0**	6.7	6.8	5.5	4.9	29.9
Alternative Financing (P3s)	**0.1**	0.2	0.2	0.2	0.2	0.9
Other (revenue, retained income)	**0.8**	0.7	0.7	0.5	0.5	3.2
SUCH Sector Self-financing	**1.0**	0.8	0.6	0.8	0.8	4.0
Total Capital Plan Financing	**7.9**	**8.4**	**8.3**	**7.0**	**6.4**	**38.0**

IMPLEMENTING GOVERNMENT COMMITMENTS

Budget 2015 *delivers on the government's commitments over the next three years.*

Budget 2015 delivers on the government's commitments over three years, with revenue adjustments to scrap the health care levy and user fees included in the March budget, and bring more progressivity to Alberta's income tax system. Spending adjustments to stabilize key public services provide additional funding for health care, education and social services, as well as new funding for commitments such as the Job Creation Incentive Program and energy retrofitting loan program, among others.

Implementing Government Commitments

	2015-16	2016-17	2017-18
Revenue			
Remove Health Care Levy	√		
Remove User Fees	√		
Restore Charitable Tax Credit	√		
Personal Income Tax	√		
Corporate Tax	√		
Railway Fuel Tax Adjustment	√		
Jobs			
Job Creator's Incentive	√	√	√
Foundation for Arts		√	√
Health Care			
Stable Funding, Health Care	√	√	√
Long Term Care		√	√
Homecare		√	√
Mental Health	√	√	√
Education			
Stable Funding, Education K-12	√	√	√
Class Size Reduction/Inclusive Education		√	√
Reduce School Fees		√	√
School Lunch		√	√
Advanced Education			
Stable Funding, Advanced Education	√	√	√
Post-Secondary Tuition Freeze	√	√	√
Human Services			
Child Care		√	√
Stable Funding, Child Intervention	√	√	√
Family and Community Support Services	√	√	√
Women's Shelters Expansion	√	√	√
Other			
Child Benefit		√	√
Women's Ministry	√	√	√
STEP		√	√
Energy Retrofitting Loan Program		√	√
Environmental Enforcement		√	√
Rural Bus Service Initiative		√	√
Existing Program Re-allocations		√	√