FISCAL PLAN

OVERVIEW

The Alberta
JOBS PLAN

BUDGET
2016

TABLE OF CONTENTS

OVERVIEW

OVERVIEW

THEMES

Budget 2016 is the Alberta jobs plan.

Budget 2016 addresses the challenges Albertans face as a result of the steepest and most prolonged slide in oil prices in recent history by promoting economic diversification and job creation, supporting families in times of hardship and improving access to education and skills training while restraining the rate of growth in government operating expense.

Budget 2016 implements the Climate Leadership Plan that will make Alberta one of the world's most progressive and forward-looking energy producers. By addressing climate change in a meaningful way, the Plan will improve access to markets for Alberta's energy industry. The Plan sets a price for carbon and will fully reinvest these dollars into the economy, helping Albertans and Alberta businesses adjust while also investing in green infrastructure, energy efficiency initiatives and other areas to protect existing jobs and create new jobs in Alberta.

Budget 2016 is based on the following themes:

- *Budget 2016* promotes jobs, business investment, economic growth and diversification by investing significantly in Alberta's infrastructure through the five-year Capital Plan and introducing a new jobs, investment and diversification package to help encourage job creation while diversifying Alberta's economy.
- *Budget 2016* supports families in times of hardship with the new Alberta Child Benefit and enhanced Alberta Family Employment Tax Credit set to begin this July. Together, these programs will support 380,000 children. Income support programs are maintained and employment and training programs have been realigned to better serve Albertans.
- *Budget 2016* improves access to education and skills training by fully funding enrolment growth in Alberta's K–Grade 12 education system, providing base operating grant increases to post-secondary institutions and supporting the second year of the two-year tuition freeze.
- *Budget 2016* includes a number of cost saving measures, including freezing salaries for political staff and government managers and amalgamating or dissolving 26 agencies as part of the review of agencies, boards and commissions. Combined, the cost saving measures will keep the rate of growth in government operating expense well below the combined rate of population growth plus inflation.

A "risk adjustment" is now included in the Fiscal Plan to recognize the potential impact of uncertain world oil markets on Alberta's resource revenue.

Budget 2016 reflects the priorities of Albertans gathered through consultations as the Premier and Minister of Finance met with Albertans in town hall meetings across the province. In addition, telephone town hall meetings saw more than 66,000 Albertans participate in pre-budget discussions. The government also received over 1,000 submissions in response to an online survey.

JOBS, INVESTMENT AND DIVERSIFICATION

Budget 2016 *includes a two-year, $250 million package to support job creators, business capital investment and regional economic development as well as improve access to training opportunities.*

In March, the government introduced the *Promoting Job Creation and Diversification Act*, which recognizes that all Albertans will benefit from a stronger and more diversified economy. *Budget 2016* includes a two-year, $250 million package to support job creators and encourage business capital investment, attract new businesses to Alberta, support regional economic development and improve access to training opportunities. This package replaces the Job Creation Incentive Program that was introduced in *Budget 2015*.

Over two years this new package will provide:

- $190 million to support job creators with two new tax credits (valued at $165 million) to encourage investors to support eligible small and medium-sized enterprises in Alberta, and encourage businesses to make capital investments. There is $25 million in new funding to be invested through the Alberta Enterprise Corporation to spur innovation and help grow companies and increase employment in areas such as clean technology.
- $35 million to attract and support new businesses and pursue regional economic development initiatives.
- $25 million for new apprenticeship and training opportunities.

SUPPORTING FAMILIES IN TIMES OF HARDSHIP

Budget 2016 *supports families with the new Alberta Child Benefit and other programs.*

Budget 2016 recognizes that the steep decline in oil prices has had a significant effect on Alberta families as well as Alberta's economy. To help families, *Budget 2016* includes the new Alberta Child Benefit and enhanced Alberta Family Employment Tax Credit, funds ongoing income support programs and takes steps to improve the delivery of employment and training programs:

- **Alberta Child Benefit:** With $147 million in 2016-17 and $196 million per year beginning in 2017-18, the new Alberta Child Benefit will provide up to $2,750 each year to Alberta's most vulnerable families, in support of 235,000 children.
- **Enhanced Alberta Family Employment Tax Credit:** The enhanced tax credit means more low income families will receive the credit and many families will receive a larger credit, providing an extra $25 million for working families.
- **Income Support:** Employment and income support programs help eligible Albertans cover their basic costs of living and find or maintain jobs. The income support budget increases to $480 million in 2016-17, with a further $206 million budgeted for related adult and child health benefit programs.
- **Employment and Training Programs:** Advanced Education, Human Services and Labour worked collaboratively to implement a major realignment of how provincial employment and training programs are delivered. The outcome of this work will be a more consistent, efficient and user-friendly experience for Albertans who access these programs.

CLIMATE LEADERSHIP PLAN

With *Budget 2016* the government is implementing the Climate Leadership Plan, based on the recommendations of the Climate Change Advisory Panel. Under the Plan, Alberta will phase out emissions from coal-fired electricity generation and develop more renewable energy; implement an economy-wide carbon price on greenhouse gas emissions; set a legislated limit on oil sands emissions; and target a 45% reduction in methane gas emissions from Alberta's oil and gas sector.

Budget 2016 *implements the Climate Leadership Plan.*

To help encourage Albertans and Alberta businesses to reduce their greenhouse gas emissions, a carbon price of $20/tonne effective January 1, 2017, increasing to $30/tonne, effective January 1, 2018, will be implemented through a carbon levy on purchases of transportation and heating fuels. The prices will be applied to individual fuels based on the amounts of greenhouse gas emissions that are released when the fuel is combusted. The rates on major fuels are as follows:

Carbon Levy Rates – Major Fuels

Type of Fuel	January 1, 2017 ($20/tonne)	January 1, 2018 ($30/tonne)
Diesel	5.35 ¢/L	8.03 ¢/L
Gasoline	4.49 ¢/L	6.73 ¢/L
Natural Gas	1.011 $/GJ	1.517 $/GJ
Propane	3.08 ¢/L	4.62 ¢/L

The carbon levy is expected to raise $274 million in 2016-17, increasing to $1.7 billion by 2018-19.

To help Albertans and Alberta businesses adjust to the new carbon price, the government will:

The government will help Albertans and Alberta businesses adjust to the new carbon price.

- Implement a rebate for lower and middle income Albertans; and
- Reduce the small business income tax rate to 2% on January 1, 2017.

The rebate program is designed to support lower and middle income families who are less able to make short-term investments that reduce their future greenhouse gas emissions. Under the program, eligible Albertans will receive rebates of up to $200 for single adults, $300 for couples, and $30 per child under 18 years of age (to a maximum of four) in 2017. Rebates will increase, along with the carbon price, to $300 for single adults, $450 for couples and $45 per child in 2018. Based on the program's income thresholds, 60% of Alberta households will be eligible for the full rebate and 66% of households will receive either a full or partial rebate. The rebates will total $95 million in 2016-17, increasing to $590 million by 2018-19.

Consumer Rebates

Sample Category	2017	2018
Single	$200	$300
Couple	$300	$450
Couple with 2 children	$360	$540

Revenue from carbon pricing will be fully reinvested in Alberta's economy.

Over five years, an estimated $9.6 billion in gross revenue will be raised from compliance payments from large industrial emitters and the carbon levy. Revenue from carbon pricing will be fully reinvested in Alberta's economy. These dollars will help households, businesses and communities adjust to the new carbon price and take advantage of new opportunities. These dollars will also fund investments to further reduce emissions and help diversify the economy to protect existing jobs and create new jobs in Alberta. Priority areas for investment include green infrastructure, energy efficiency, renewable energy, bioenergy and innovation and technology.

The reinvested revenue will provide $6.2 billion over five years for investments:

- $3.4 billion for large scale renewable energy projects, transformative innovation and technology, bioenergy initiatives as well as to provide for Plan implementation.
- $2.2 billion in green infrastructure like public transit.
- $645 million through Energy Efficiency Alberta, a new provincial agency to be established this year, to support energy efficiency and micro-generation initiatives.

The small business income tax rate will be reduced to 2% on January 1, 2017.

The reinvested revenue will provide $3.4 billion over five years to help households, businesses and communities adjust to the carbon price, including:

- $2.3 billion for consumer rebates.
- $865 million for small businesses through the tax rate reduction.
- $195 million for other adjustments including coal community transition, and communities including Indigenous communities.

Climate Leadership Plan
(millions of dollars)

	2016-17 Estimate	2017-18 Target	2018-19 Target	2019-20 Projected	2020-21 Projected	5-year Totals
Revenue:						
SGER / Compliance Payments	**101**	146	917	899	758	**2,821**
Carbon Levy	**274**	1,247	1,709	1,751	1,796	**6,777**
Gross Revenue	**375**	1,393	2,626	2,650	2,554	**9,598**
Less: Adjustment for Small Business Tax Cut	**(45)**	(185)	(200)	(210)	(225)	**(865)**
Net Revenue	**330**	**1,208**	**2,426**	**2,440**	**2,329**	**8,733**
Spending:						
Climate Leadership Investment:						
Green Infrastructure (capital)	**5**	208	555	680	710	**2,158**
Energy Efficiency Alberta [1]	**45**	90	165	170	175	**645**
Other Investment [2]	**175**	440	1,066	940	784	**3,405**
Climate Leadership Adjustment:						
Consumer Rebates	**95**	435	590	600	610	**2,330**
Other Adjustment [3]	**10**	35	50	50	50	**195**
Total Spending	**330**	**1,208**	**2,426**	**2,440**	**2,329**	**8,733**

[1] Revenue recycling into grants and loans to small businesses, families, building owners, industries, community organizations and municipalities to support energy efficiency and micro-generation.

[2] Revenue recycling into bioenergy, renewable energy, innovation and technology, Climate Leadership Plan implementation.

[3] Revenue recycling into coal community transition, adjustment for communities including Indigenous communities.

REVENUE

Lower oil prices and their impact on the provincial economy will continue to affect government revenue. Non-renewable resource revenue is budgeted at just $1.4 billion in 2016-17, a level not seen in over 40 years.

The recovery is now expected to take longer than anticipated in *Budget 2015*. Even by 2018-19, total government revenue (excluding the Climate Leadership Plan) is expected to be $2 billion lower than was received in 2014-15.

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

Alberta maintains the lowest overall tax regime in Canada.

Including the Climate Leadership Plan, total revenue will be $41.4 billion in 2016-17, $1.6 billion lower than forecast in 2015-16 and more than $8 billion lower than 2014-15. Revenue is expected to grow to $45.0 billion in 2017-18 and $49.6 billion in 2018-19.

Budget 2016 **– Revenue**

(millions of dollars)

	2014-15 Actual	2015-16 Budget	2015-16 Forecast	2016-17 Estimate	2017-18 Target	2018-19 Target
Income and Other Taxes	21,436	22,099	21,595	**21,767**	23,178	24,947
Non-Renewable Resource Revenue	8,948	2,768	2,474	**1,364**	2,753	4,225
Transfers from Government of Canada	5,982	6,984	7,236	**7,278**	7,430	7,667
Investment Income	3,113	2,820	2,766	**2,115**	2,266	2,476
Net Income from Government Business Enterprises	2,665	2,736	2,537	**2,416**	2,680	2,816
Premiums, Fees and Licences	3,564	3,687	3,588	**3,649**	3,805	3,814
Other	3,773	2,694	2,742	**2,787**	2,876	3,672
Total Consolidated Revenue	**49,481**	**43,788**	**42,938**	**41,376**	**44,988**	**49,617**

EXPENSE

The government is committed to managing the province's fiscal position with a long-term view, rather than making short-sighted, drastic cuts which would further exacerbate the job losses currently happening in the province.

Budget 2016 *maintains stable funding for key public services, including health care, education and social services.*

Budget 2016 maintains the stable funding for key public services, including health care, education and social services, which was reinstated with *Budget 2015*.

- **Health.** *Budget 2016* provides $20.4 billion for Health in 2016-17, keeping the government's commitment to provide long-term stable funding for health care. This includes a 3% increase in Health's 2016-17 operating budget.
- **Education.** *Budget 2016* provides $7.9 billion for Education in 2016-17, keeping the government's commitment to fully fund enrolment growth, projected at 1.3% in 2016-17.
- **Advanced Education.** *Budget 2016* provides $5.9 billion for Advanced Education in 2016-17, keeping the government's commitment to provide stable, predictable funding for post-secondary education. Base operating grants for institutions will increase 2% per year, while accessibility and

affordability for students improves with the second year of the two-year tuition freeze.

- **Human Services.** *Budget 2016* provides $4.4 billion for Human Services in 2016-17, keeping the government's commitment to strong families and strong communities.

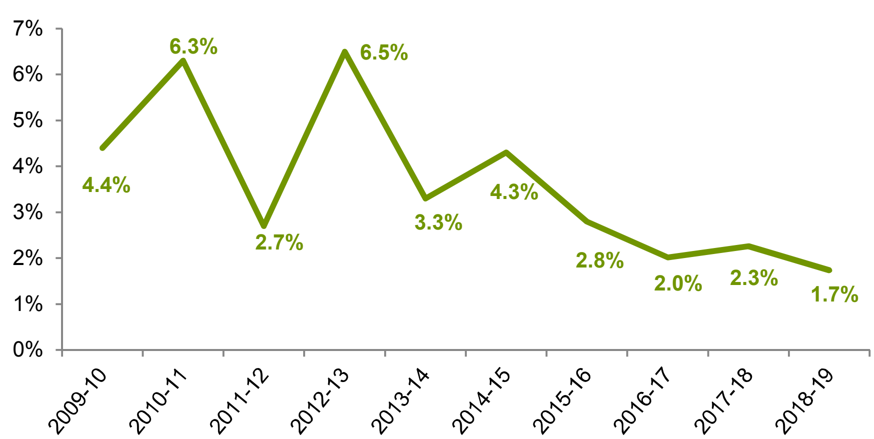
Budget 2016 *reflects a number of cost saving measures.*

At the same time, *Budget 2016* reflects a number of cost saving measures that help restrain the rate of growth in government operating expense:

- Freezing salaries for political staff and managers in government departments and agencies. The 2016-17 budgets for salaries and supplies in government departments are $121 million, or nearly 2%, lower than the comparable 2015-16 budgets.
- Amalgamating or dissolving agencies, boards or commissions (ABCs) under the ABC review. In total, 26 agencies will be amalgamated or dissolved out of the 136 agencies that were reviewed in phase one, saving $33 million over three years.
- Deferring spending included in *Budget 2015* for some of the government's platform commitments, saving $118 million in 2016-17 and $208 million in 2017-18.
- Identifying program reductions and other adjustments, including saving $50 million by suspending Access to the Future Fund payments, $45 million from realigning priorities at the Alberta Innovates Corporation and $20 milllion from Alberta Community Partnership grants.

After funding priority cost pressures including enrolment growth in Education, *Budget 2016* reflects net reductions in operating expense of about $300 million in both 2016-17 and 2017-18 from the comparable amounts included in *Budget 2015*. With an ongoing commitment to find $250 million per year in savings from lower priority programs, operating budget increases average just 2% per year in *Budget 2016,* well below projected population growth plus inflation which is expected to average 3% per year over the next three years.

Operating Expense Increases



Source: Alberta Treasury Board and Finance

Including the Climate Leadership Plan, total expense will be $51.1 billion in 2016-17, $53.6 billion in 2017-18 and $56 billion in 2018-19.

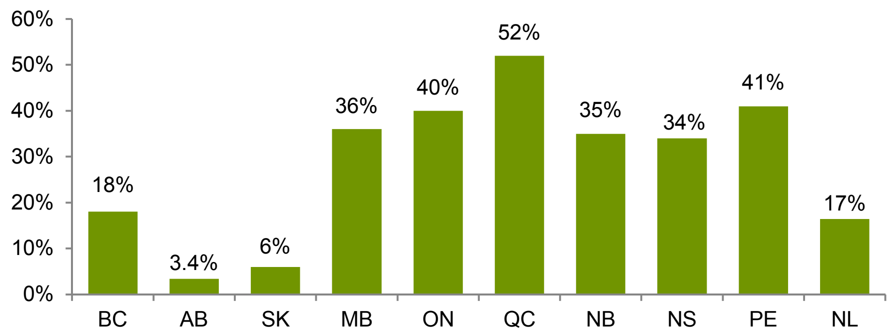
***Budget 2016* – Expense**
(millions of dollars)

	2014-15 Actual	2015-16 Budget	2015-16 Forecast	2016-17 Estimate	2017-18 Target	2018-19 Target
Operating Expense (net of in-year savings)	42,047	43,209	43,222	**44,094**	45,090	45,874
Disaster assistance (with operating 2013 flood support)	351	829	647	**246**	228	204
Capital Grants	2,466	1,975	1,862	**2,288**	2,577	2,391
Climate Leadership Plan	-	-	-	**330**	1,208	2,426
Amortization / Inventory Consumption / Loss on Disposals	3,184	3,083	3,083	**3,208**	3,264	3,271
Debt Servicing Costs: Capital Plan & General Government	722	778	775	**996**	1,432	2,003
Pension Provisions	(404)	31	(258)	**(65)**	(180)	(201)
Total Consolidated Expense	**48,366**	**49,906**	**49,331**	**51,097**	**53,619**	**55,968**

FISCAL MANAGEMENT

Debt to GDP Ratio. The government is committed to maintaining one of the lowest debt to nominal GDP ratios among the provinces. The 15% limit set in the *Fiscal Planning and Transparency Act* is being removed to provide the flexibility required to deal with current economic realities.

Debt to GDP Ratio – Provincial Comparison (2014–15 data)



Source: Alberta Treasury Board and Finance

Risk Adjustment. Alberta's revenue is extremely volatile and difficult to predict given the province's reliance on resource revenue. *Budget 2016* introduces a risk adjustment factor, bringing an increased level of prudence to Alberta's budget and fiscal planning. The risk adjustment reflects the potential impact on resource revenue of more conservative oil price assumptions, moving to roughly $10/barrel less per year than the average of private sector forecasts. The risk adjustment is included in the calculation of the deficit.

Budget 2016 *introduces a risk adjustment factor to reflect the volatility of Alberta's resource revenue.*

***Budget 2016* – Risk Adjustment**

	2016-17 Estimate	2017-18 Target	2018-19 Target
Oil Prices (WTI, US$/bbl)			
Budget 2016	**42**	54	64
Low Price Scenario	**36**	43	54
Risk Adjustment – increases the deficit ($ billion)	**(0.7)**	(1.5)	(2.0)

***Budget 2016* – Key Fiscal Metrics** (billions of dollars)	2014-15 Actual	2015-16 Budget	2015-16 Forecast	2016-17 Estimate	2017-18 Target	2018-19 Target
Consolidated Revenue	49.5	43.8	42.9	**41.4**	45.0	49.6
Consolidated Expense	48.4	49.9	49.3	**51.1**	53.6	56.0
Risk Adjustment	-	-	-	**(0.7)**	(1.5)	(2.0)
Consolidated Surplus / (Deficit)	**1.1**	**(6.1)**	**(6.4)**	**(10.4)**	**(10.1)**	**(8.4)**
Other Key Metrics:						
Capital / Other Non-financial Assets	44.8	48.4	47.5	**51.4**	54.5	57.0
Heritage Fund Year-end Balances	15.0	15.1	15.2	**15.4**	15.7	16.0
Contingency Account Year-end Balances	6.5	3.3	3.8	**-**	-	-
Liabilities for Capital Projects / Fiscal Plan Borrowing	12.9	18.9	20.0	**30.5**	45.2	57.6
Debt to Nominal GDP Ratio	3.4%	5.7%	6.0%	**9.6%**	13.1%	15.5%

ENERGY AND ECONOMIC ASSUMPTIONS

The Budget 2016 *outlook is in line with private sector forecasts for Alberta.*

The *Budget 2016* outlook is prudent and in line with other forecasts for energy prices and other economic and financial variables. The revenue forecast is based on much lower oil prices than anticipated in *Budget 2015*. WTI now forecast to average US$42/bbl in 2016-17, $54 in 2017-18 and $64 in 2018-19.

Alberta's real GDP shrank by an estimated 1.5% in 2015 and is forecast to fall a further 1.4% in 2016 due to the impact of sharply lower oil prices. This would mark the first time since 1982-83 that the Alberta economy has seen two consecutive years of negative growth. Alberta's economy is expected to rebound by 1.9% in 2017.

Alberta's labour market deteriorated in the final quarter of 2015 and early part of 2016 with substantial job losses and a further increase in the unemployment rate. In 2016, employment is expected to fall by 1.7% and the unemployment rate is forecast to average 8%.

Energy and Economic Assumptions	2014-15 Actual	2015-16 Budget	2015-16 Forecast	2016-17 Estimate	2017-18 Target	2018-19 Target
WTI Oil (US$/bbl)	80.48	50.00	45.00	**42.00**	54.00	64.00
Light-Heavy Differential (US$/bbl)	17.30	13.60	13.40	**15.20**	17.50	18.50
WCS@Hardisty (Cdn$/bbl)	70.78	46.50	41.00	**36.40**	48.30	59.00
Natural Gas (Cdn$/GJ)	3.51	2.60	2.30	**2.40**	2.80	3.00
Conventional Crude Oil Production (000s barrels/day)	586	560	529	**524**	506	489
Raw Bitumen Production (000s barrels/day)	2,330	2,473	2,403	**2,668**	2,890	3,151
Exchange Rate (US¢/Cdn$)	88.0	78.0	76.0	**73.5**	75.5	77.5
Interest Rate (3-month Canada treasury bills, %)	0.85	0.50	0.49	**0.54**	0.93	1.49
	2014	**2015b**	**2015f**	**2016**	**2017**	**2018**
Real GDP (% change)	4.8	(1.0)	(1.5)	**(1.4)**	1.9	2.8
Employment (% change)	2.2	1.0	1.2	**(1.7)**	0.9	2.1
Unemployment Rate (%)	4.7	5.8	6.0	**8.0**	7.5	6.5
Primary Household Income (% change)	6.7	2.5	0.3	**(1.4)**	2.4	4.2
Net Corporate Operating Surplus (% change)	17.0	(54.8)	(51.9)	**(18.0)**	48.6	32.9
Alberta Consumer Price Index (% change)	2.6	0.9	1.1	**1.5**	1.7	2.1
Population (% change)	2.8	1.8	1.8	**1.2**	1.0	1.3

Population growth is expected to moderate to 1.2%, or about 51,000 people in 2016, primarily as a result of net outflows of interprovincial migrants. Population growth is forecast to ease further to 1.0% in 2017, before picking up slightly in 2018.

Low oil prices continue to weigh on the energy sector, where capital spending is expected to fall again in 2016. This lower capital spending is now effecting related sectors, including construction and manufacturing.

Some industries, such as agriculture, forestry and manufacturing, will continue to benefit from a lower Canadian dollar, reduced cost pressures and a stronger US economy. Infrastructure spending by the provincial government is expected to provide a lift, partially offsetting the decline in private investment in 2016 and 2017.

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

CAPITAL PLAN

Budget 2016 continues the ambitious investment in modern, efficient infrastructure that was introduced in *Budget 2015*. The Capital Plan will help stimulate the economy, keep people working and upgrade or expand existing infrastructure. The Capital Plan will support $34.8 billion in infrastructure projects over five years, with $2.2 billion for green infrastructure under the Climate Leadership Plan. There is another $4.4 billion for ancillary projects self-financed by Alberta Health Services, post-secondary institutions and school boards.

The Budget 2016 *Capital Plan supports $34.8 billion in projects over five years.*

The *Budget 2015* Capital Plan included $4.4 billion to be allocated to new projects and programs in the future, of which $150 million was allocated in 2015-16. In *Budget 2016*, the remaining $4.25 billion is allocated as follows:

- $3.13 billion for new projects, including continuing care beds, affordable housing, new schools and school modernizations and transportation infrastructure including twinning the Peace River bridge.

***Budget 2016* – Capital Plan**
(billions of dollars)

	2016-17 Estimate	2017-18 Target	2018-19 Target	2019-20 Projected	2020-21 Projected	5-year Totals
Capital Plan Spending:						
Core Government	**7.6**	7.3	6.3	5.8	5.6	32.6
Climate Leadership Plan	**-**	0.2	0.6	0.7	0.7	2.2
SUCH Sector – Self-financed Investment	**0.9**	0.8	1.0	0.9	0.9	4.4
Consolidated Capital Plan Spending	**8.5**	**8.3**	**7.9**	**7.4**	**7.2**	**39.2**
Capital Plan Financing:						
Direct Borrowing	**5.0**	6.1	5.4	5.1	4.9	26.5
Alternative Financing (P3s)	**0.2**	0.2	0.2	0.2	0.2	1.0
Other Cash Sources (e.g., retained income)	**2.4**	1.0	0.7	0.5	0.5	5.1
Climate Leadership Plan	**-**	0.2	0.6	0.7	0.7	2.2
SUCH Sector Self-financing	**0.9**	0.8	1.0	0.9	0.9	4.4
Total Capital Plan Financing	**8.5**	**8.3**	**7.9**	**7.4**	**7.2**	**39.2**

- $864 million for additional capital maintenance and renewal;
- $145 million for planning funds for future projects; and
- $114 million remains as a contingency for emergent projects.

The *Budget 2016* Capital Plan provides $9.0 billion in municipal infrastructure support over five years, including $6.1 billion under the Municipal Sustainability Initiative and $1.4 billion for GreenTRIP and other transportation projects. There is $6.2 billion budgeted for capital maintenance and renewal to ensure public facilities will continue to serve the needs of Albertans.

The Plan provides $3.5 billion in direct support for health facilities and equipment over five years, with $1.2 billion for the new Calgary Cancer Centre and $500 million for future projects. There is also $3.5 billion for schools, with $2.9 billion to complete the 200 new and modernization projects previously announced and $500 million for future projects.

IMPLEMENTING GOVERNMENT COMMITMENTS

Budget 2016 keeps the government's commitments to provide stable funding for key public services, including health care, education and social services. Given the economic and fiscal challenges facing Alberta, some of the spending commitments that were included in *Budget 2015* will be deferred. Additional work is required before commitments such as reducing school fees can be implemented.

- ✔ Stable funding for health care, including mental health
- ✔ Stable funding for education, including fully funding enrolment growth
- ✔ Stable funding for post-secondary education, including post-secondary tuition freeze
- ✔ Stable funding for social services, including Family and Community Support Services and women's shelters, with new funding for the Alberta Child Benefit
- ✔ Re-launch Summer Temporary Employment Program (STEP)