

## Alberta's 2017–18 Budget

### Alberta's Budget Balances

FY16 Final: -\$6.4bn (-2.0% of GDP)  
 FY17 Budget: -\$10.4bn (-3.3% of GDP) Q1: -\$10.9bn Q2: -\$10.8bn  
**Q3: -\$10.8bn (-3.5% of GDP)**  
**FY18 Budget: -\$10.3bn (-3.1% of GDP)**  
**FY19 Budget: -\$ 9.7bn (-2.8% of GDP)**  
**FY20 Budget: -\$ 7.2bn (-2.0% of GDP)**

### Financing Requirements

FY16 Final: \$8.9bn  
**FY17r: \$15.6bn FY18b: \$18.7bn FY19b: \$17.7bn FY20b: \$18.4bn**

## OVERVIEW

Alberta's estimated deficit for fiscal 2016-17 (FY17), as described in its Q3 Update is prevented from improving to less than \$10 billion by a couple of one-time events, notably the Fort McMurray wildfire and the accounting treatment for transition assistance for coal-fired power generation to end by 2030.

**Recognizing oil price volatility, Alberta's projected deficits** for FY18-FY20 incorporate risk adjustments of \$0.5 billion, \$0.7 billion and \$1.0 billion, respectively. If this insurance is not required, the forecast shortfalls narrow to \$9.8 billion in FY18, \$9.0 billion in FY19 and \$6.2 billion (1.7% of GDP) in FY20.

**Last year's Budget**, incorporating larger risk adjustments of \$1.5 billion for FY18 and \$2.0 billion for FY19, indicated underlying budget gaps of \$8.6 billion and \$6.4 billion, narrower than this year's projections for FY18 and FY19 by \$3.9 billion.

**With the FY17 Capital Plan** now expected to be \$1.16 billion (-13.7%) less than Budget, infrastructure investment now peaks in FY18 at \$9.2 billion, representing a hefty +25.3% surge. Planned investment subsequently moderates through FY21, but the four-year total is still \$32.8 billion, representing a \$2.1 billion increase from last year's Plan for the same period.

**Alberta's net financial liabilities** are forecast to widen from \$9.5 billion in March 2017 to \$45.0 billion three years later, as liabilities climb from an estimated \$74.5 billion to \$111.6 billion by March 2020 (+49.8%) while financial assets edge slowly higher.

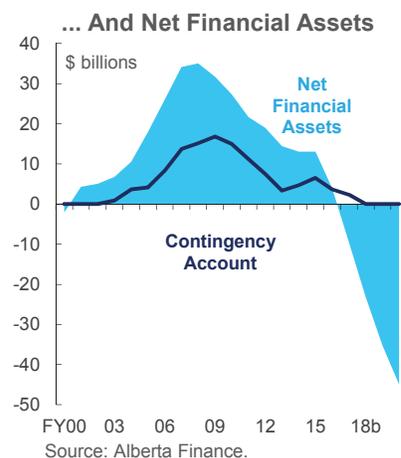
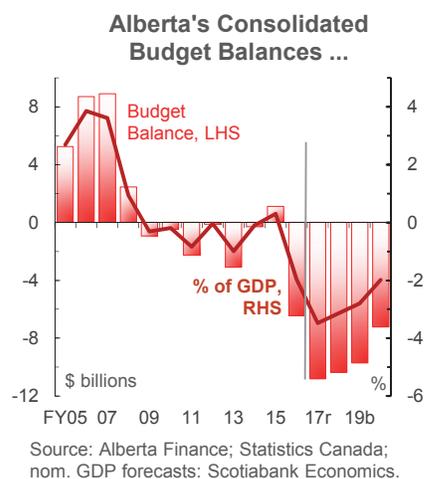
**Financing requirements** are expected to average \$18.3 billion from FY18 to FY20, boosted by refinancing of \$0.5 billion in FY19 and \$3.8 billion in FY20.

## REVENUE AND EXPENDITURE DETAILS

Alberta projects a hefty pick-up in revenue growth, from 1.0% in FY17 to 4.8% next year, to 8.7% in FY20, as its own-source receipts surge by almost 6.0% in FY18 and by nearly 10% in FY20. Propelling this increase is the projected rise in non-renewable resource receipts from \$2.4 billion in FY17 to \$6.6 billion three years later as bitumen royalties climb by \$4.0 billion to \$5.3 billion in FY20.

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The resource revenue forecast reflects WTI oil prices rising from a US\$48.0/barrel average in FY17 to US\$55 in FY18, US\$59 in FY19 and US\$68 by FY20. Though the government expects the light-heavy differential to widen over the next three years and the Canadian dollar to edge up to 78¢(US), the assumed rise in the Western Canadian Select price also is considerable, from a C\$44.50/barrel average in FY17 to C\$63.40 in FY20. Also pushing up royalties over the next two fiscal years is the forecast 23% jump in oil production, partly a catch-up from FY17's interrupted output, but also a result of oil sands projects reaching completion.

Weaker trajectories are forecast for other revenue components, such as personal income tax that is actually expected to fall 2.5% in FY18 before shifting higher. The government's forecasts a 2.6% rebound in real GDP for calendar 2017, slowing to average annual gains of 2.4% over the following three years.

To regain balanced books, the government commits to constraining its annual expenditure growth to less than the pace of population gains and inflation. Thus the planned rise in operating expense is held to 2.2% for FY18 versus the estimated 3.9% in FY17, followed by annual jumps of 2.7% over FY19-FY20. In part this restraint relies upon targeted in-year savings of \$200 million in each of FY18 and FY19 and \$100 million in FY20.

Other savings include amalgamating or cutting 26 agencies, boards and commissions, curtailing CEO salaries for 23 of the agencies, freezing salaries of the political staff and management across the broader public sector and signing a new agreement with doctors that is expected trim expenses by \$400 million this year. A partial offset is the projected doubling of the FY17 debt service to \$2.3 billion in FY20, though even then, interest charges amount to only 4.4¢ of each revenue dollar.

This Budget aims to keep life affordable for Albertans as the provincial economy recovers. As announced earlier, school fees have been trimmed by 25%, post-secondary tuition is frozen for the third consecutive year to the end of the 2017-18 academic year, a rate ceiling for household electricity prices of 6.8¢ per kilowatt hour will be maintained over the next four years and Energy Efficiency Alberta has a \$566 million, three-year budget to help lower energy bills and install small-scale renewable power.

### Alberta's Budget Arithmetic

\$ millions except where noted

	FY17		FY18
	Budget	Q3	Budget
Personal Income Tax	11,405	11,459	11,177
Corporate Income Tax	4,325	3,344	3,918
Other Taxes	<u>6,037</u>	<u>5,743</u>	<u>6,667</u>
<b>Total Tax Revenues</b>	<b>21,767</b>	<b>20,546</b>	<b>21,762</b>
Non-Renewable Resource Revenue	1,364	2,430	3,754
Investment Income	2,115	2,886	2,193
Other Own-Source Revenue	<u>8,911</u>	<u>9,133</u>	<u>9,318</u>
<b>Total Own-Source Revenue</b>	<b>34,157</b>	<b>34,995</b>	<b>37,027</b>
Federal Transfers	<u>7,278</u>	<u>7,943</u>	<u>7,988</u>
<b>Total Revenue</b>	<b>41,435</b>	<b>42,938</b>	<b>45,015</b>
Operating Expense**	44,094	44,868	45,850
Disaster Assistance	246	1,354	235
Capital Grants	2,288	2,221	3,302
<i>Climate Plan</i> : Operating Exp. Share	325	1,380	868
Capital Plan Share	5	0	68
Pension Provisions	-65	-348	-237
Amortization, Inventory Ch., Other	<u>3,208</u>	<u>3,242</u>	<u>3,375</u>
<b>Program Spending</b>	<b>50,101</b>	<b>52,717</b>	<b>53,461</b>
General Debt Service	367	403	619
Capital Plan Debt Service	629	624	779
<b>Total Debt Service</b>	<b>996</b>	<b>1,027</b>	<b>1,398</b>
<b>Total Expenditure</b>	<b>51,097</b>	<b>53,744</b>	<b>54,859</b>
Risk Adjustment	<u>700</u>	<u>0</u>	<u>500</u>
<b>Consolidated Balance</b>	<b>-10,362</b>	<b>-10,806</b>	<b>-10,344</b>
<b>Total Capital Plan with SUCH Sector</b>	<b>8,481</b>	<b>7,320</b>	<b>9,175</b>
<b>Financing Requirements</b>	<b>14,148</b>	<b>15,574</b>	<b>18,662</b>
<b>Annual Change, %</b>			
Tax Revenue	5.1	-0.8	5.9
Non-Renewable Resource Revenue	-51.1	-12.9	54.5
<b>Total Own-Source Revenue*</b>	<b>-3.4</b>	<b>-1.0</b>	<b>5.8</b>
Federal Transfers	1.9	11.2	0.6
<b>Total Revenue</b>	<b>-2.5</b>	<b>1.0</b>	<b>4.8</b>
Program Spending	4.0	9.4	1.4
<b>Total Expenditure</b>	<b>4.4</b>	<b>9.8</b>	<b>2.1</b>
<b>Memo Items, %</b>			
Own-Source Revenue / GDP	11.0	11.3	11.2
Program Spending / GDP	16.1	17.0	16.2
Consolidated Balance / GDP	-3.3	-3.5	-3.1
Debt Service / Revenue	2.4	2.4	3.1
<b>Resource Forecasts: WTI Oil, US\$/bbl</b>	<b>42.0</b>	<b>48.0</b>	<b>55.0</b>
Western Canadian Select, C\$/bbl	36.4	44.5	51.3
Oil Production, 000s bbl / day	3,192	2,924	3,322
Natural Gas, AB Reference Price, C\$/GJ	2.40	2.15	2.90
Canadian Dollar, US¢/C\$	73.5	76.0	76.0

\* FY17 Budget estimates restated to reflect FY16 final results; donations to SUCH-sector endowment funds included in revenues. \*\* Net of in-year savings. Source: Alberta Finance; Statistics Canada; nom.GDP forecasts: Scotiabank Economics.

## OUTLOOK

With the real risk of an uneven economic recovery, the government remains committed to protecting and improving public-sector services for Albertans. The risk adjustment in its *Budget* estimates prudently acknowledges the potential volatility in its projected recovery in resource revenues. The risk adjustment also allows for some of the assumptions to be proven slightly optimistic—the ambitious *Capital Plan* and the Province's other measures to spur job creation may not achieve annual employment growth from 2018 to 2020 quite as high as the forecast 1.6% average. The annual disaster assistance estimate of just over \$200 million during the forecast period could well be low if recent experience is any guide and the results of ongoing employee contract negotiations could pressure the expenditure estimates. As it looks to the future, the government is relying upon a balance sheet that is still stronger than most other Provinces' to smooth a gradual path back to balanced books.

### Alberta's Balance Sheet Summary

\$ billions except where noted

	FY16	FY17		FY18	FY19	FY20
	Final	Budget	Q3	Budget	Budget	Budget
Heritage Fund & Endowment Funds	19.3	19.6	19.7	20.0	20.4	20.8
Contingency Account	3.6	0.0	2.3	0.0	0.0	0.0
Other Financial Assets	<u>41.1</u>	<u>41.8</u>	<u>43.0</u>	<u>42.6</u>	<u>44.0</u>	<u>45.8</u>
<b>Financial Assets</b>	<b>64.0</b>	<b>61.4</b>	<b>65.0</b>	<b>62.6</b>	<b>64.4</b>	<b>66.6</b>
Liabilities for Capital Projects	19.0	24.2	23.8	29.8	35.7	41.9
Debt:Pre-1992 Teachers' Pension Plan	0.9	0.9	0.9	0.9	0.9	0.6
Direct Borrowing for <i>Fiscal Plan</i> *	0	5.4	7.9	14.3	22.1	28.6
Coal Phase-out Liabilities	0	0.0	1.1	1.1	1.0	0.9
Pension Liabilities	10.6	10.5	10.2	10.0	9.7	9.4
Other Liabilities	<u>29.6</u>	<u>30.6</u>	<u>30.5</u>	<u>29.7</u>	<u>30.1</u>	<u>30.2</u>
<b>Total Liabilities</b>	<b>60.1</b>	<b>71.5</b>	<b>74.5</b>	<b>85.7</b>	<b>99.5</b>	<b>111.6</b>
<b>Net Financial Assets</b>	<b>3.9</b>	<b>-10.1</b>	<b>-9.5</b>	<b>-23.1</b>	<b>-35.2</b>	<b>-45.0</b>
<i>% of GDP</i>	1.2	-3.3	-3.1	-7.0	-10.1	-12.4

Source: Alberta Finance; nominal GDP forecast: Scotiabank Economics.

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