



Government delivers on commitment to strengthen fiscal position and address funding priorities

**Budget 2003
focused on
making Alberta a
better place to live
and work.**

It built on past successes and placed increased priority on responding to the pressures created by a growing economy and population. The budget laid out a plan to:

- focus program spending on Albertans' health and education priorities, and support for the agriculture industry,
- provide more sustainable and predictable funding for roads, schools, health facilities and other infrastructure through a new three-year Capital Plan, and
- help manage revenue volatility and costs of disasters and emergencies through the new Sustainability Fund.

Highlights

- The budget was balanced for the tenth consecutive year and debt was repaid.
- The Alberta Sustainability Fund was established and provided over \$1 billion for emergencies, disasters and natural gas rebates.
- A new Capital Framework was put into place and funding for capital projects increased by 66 per cent. Previously deferred capital projects were rescheduled.

Education spending accounted for 27 per cent of total expense.

- Education spending was \$5.9 billion in 2003-04, an increase of 7.1 per cent, or \$389 million, from 2002-03 and \$84 million higher than budgeted. The increase from 2002-03 reflects higher basic and postsecondary operating grants, increased teacher pension costs and a doubling of funding for education capital projects.

Capital Plan spending for education included \$255 million in capital grants to school and post-secondary institution capital projects, double the 2002-03 level. This included support for:

- Schools – 44 new/replacement projects, 20 expansion projects and numerous smaller school facilities projects.
- Post-secondary institutions – Health Research Innovation centres, Natural Resources Engineering Facility and power plant expansion at the University of Alberta, and numerous smaller postsecondary projects.

Health reform continued with new initiatives to improve the health system. Health spending accounted for 35 per cent of total expense.

- Health spending was \$7.6 billion in 2003-04. This was an increase of 10.4%, or \$717 million, from 2002-03 and essentially unchanged from the budget. The increase reflects higher funding for regional and province-wide health services, physician services, drug costs, and capital grants to health authorities.

Fiscal Results

The year-end results showed about an \$800 million improvement from the Third Quarter Fiscal Update forecast, primarily reflecting stronger revenue growth in the fourth quarter from energy royalties and investment income, and lower than forecast expenses for BSE assistance and other programs.

At the end of the year, \$510 million was available for transfer to the Sustainability Fund, bringing the value of the fund to \$3 billion. A decision on the potential reallocation of Sustainability Fund assets above the \$2.5 billion target level will be made in 2004-05.

Other results:

- Revenue exceeded expense by \$4 billion. This was \$3 billion higher than budgeted and \$2 billion higher than in 2002-03.
- Revenue was \$25.9 billion, \$4 billion higher than budgeted and \$3.2 billion higher than in 2002-03.
- Expense was \$21.9 billion. This was \$962 million higher than budgeted and \$1.2 billion, or 5.8 per cent, higher than in 2002-03.
- Accumulated debt net of cash set aside for future repayment was \$3.7 billion, a reduction of \$1 billion from March 31, 2003.
- Alberta Sustainability Fund assets at March 31, 2004 were \$2.5 billion.
- Capital Plan spending reached \$1.66 billion in 2003-04, an increase of \$662 million, or 66 per cent, from 2002-03.
- In total, the province had net assets of \$21.1 billion, including capital assets of \$10.5 billion.

Capital Plan spending for health included \$268 million in capital grants to health authorities for facilities and equipment, an increase of \$242 million from 2002-03. In addition, \$15 million was provided for government-owned health capital. Capital funding included support for:

- Alberta Children's Hospital in Calgary and the Alberta Heart Institute in Edmonton, redevelopment of the Royal Alexandra Hospital in Edmonton and the Red Deer Regional Hospital, and increased support for medical equipment.
- The Health Sustainability Initiative, which allows for the redevelopment of existing health facilities, primarily in the rural areas. The focus is on facility conversions (e.g. from acute to long-term care), consolidating services, integrating mental health clinics and new service delivery models.

Social Services spending was \$2.3 billion in 2003-04. This was an increase of 7.4 per cent, or \$157 million, from 2002-03 and a \$35 million increase from the budget. The increase from 2002-03 reflects higher spending on children's services, persons with developmental disabilities, Assured Income for the Severely Handicapped, Supports for Independence and seniors' programs.

Agriculture, Resource Management and Economic Development spending was \$2.1 billion in 2003-04. This was a decrease of 10.8 per cent, or \$250 million, from 2002-03 but \$648 million higher than budgeted. The increase from budget was primarily due to agriculture disaster assistance. The decrease from previous year reflected the large drought assistance payments made in 2002-03.

- Major initiatives included: Providing about \$650 million in disaster assistance payments to the agriculture sector following the border closure to beef exports due to the discovery of BSE. These disaster assistance costs were partly offset by over \$230 million in increased federal transfers for agriculture assistance.

Transportation, Communications and Utilities spending was \$1 billion in 2003-04. This was an increase of 56.4 per cent, or \$368 million, from 2002-03 and \$163 million increase from budget. The increase from 2002-03 primarily reflects natural gas energy rebates and increased rural and municipal capital transportation grants.

Protection of Persons and Property spending was \$842 million in 2003-04. This was a decrease of 6.5 per cent, or \$59 million, from 2002-03 but \$138 million higher than budgeted. The decrease from 2002-03 reflects lower forest fire-fighting costs, partly offset by increases in other areas. Spending was higher than budgeted due to forest fire-fighting costs.

- Albertans continued to pay the lowest personal taxes in Canada in 2003 and indexation of the personal income tax system protected taxpayers from inflation.
- On April 1, 2003, the general corporate income tax rate was reduced to 12.5 per cent from 13 per cent. The small business rate fell to 4.0 per cent from 4.5 per cent, and the small business income threshold rose to \$400,000 from \$350,000.
- School property tax rates were frozen in 2003-04, marking the tenth straight year that rates were either reduced or frozen. More revenue was collected from the tax because new homes and businesses were built and the value of properties rose. The revenue collected in 2003-04 was still lower than when the province assumed responsibility for collecting school property taxes in 1994-95.
- In 2003, the Alberta economy grew by an estimated 3.1 per cent.
- In 2004, Alberta's economic growth is expected to accelerate to 3.6 per cent, as high energy prices, near-record housing starts, and exceptionally strong employment growth continue.
- Employment grew by 2.9 per cent, as 47,900 jobs were created in Alberta during 2003, the highest rate of job growth in Canada. Alberta had the second lowest unemployment rate among the provinces, at 5.1 per cent.
- Alberta had the highest personal disposable income per capita among the provinces at \$26,170. This was nearly \$3,500, or 15 per cent, higher than the national average.
- Alberta continued to attract large numbers of migrants from other provinces. For the seventh consecutive year, Alberta had the highest level of net interprovincial migration in Canada, with a net increase of 12,081 persons in 2003.
- Higher energy prices spurred a sharp increase in conventional energy sector investment. The average number of rigs drilling increased by 36 per cent in 2003. This more than offset a reduction in oil sands investment, which moderated to \$5 billion after reaching a record high of \$6.7 billion in 2002.
- New housing construction continued at near-record levels. Alberta's housing starts moderated to 36,171 in 2003, slightly below the 20-year high recorded in 2002, but 23 per cent above the average number of starts over the preceding five years.
- About \$650 million in BSE disaster assistance mitigated, to a degree, the significant difficulties faced by many producers. As a result of record program payments, farm cash receipts were up 2 per cent from the 1997-2001 five-year average.