

Government of Alberta

2003-04

Annual Report



**REPORT TO ALBERTANS
ON BUDGET 2003**

Alberta

This is the report to Albertans on **Budget 2003 – Making Alberta Even Better**. It is a permanent public record of ALL the dollars spent and the results achieved by the Government of Alberta for the 2003-04 fiscal year.

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ACCOUNTABILITY STATEMENT

The government's Annual Report for the year ended March 31, 2004 was prepared under my direction on behalf of the government in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as at June 21, 2004 with material economic or fiscal implications have been considered in the preparation of the Annual Report.

[original signed]

Patricia L. Nelson
Minister of Finance

Alberta 2003 Budget

Making Alberta Even Better

A MESSAGE FROM THE MINISTER OF FINANCE

Alberta has a well-earned reputation as a fiscal leader in Canada. In 2003-04 our budget was balanced for the tenth consecutive year, debt was repaid, and the province maintained its triple A credit rating. Building on our fiscal strengths, the government began laying the groundwork for an even better Alberta by establishing a new fiscal framework to add greater predictability and sustainability to the province's budget planning process.

Along with a strong economy comes new challenges created by a growing population, and in the 2003-04 fiscal year we placed increased priority on addressing the pressures that growth creates on core programs such as health, education and infrastructure.

As part of our commitment to be open and accountable, the government provides an annual report at the end of each fiscal year to share our financial and performance results with all Albertans. The actual results are compared to the estimates and targets established in the previous year's budget. This allows Albertans to see how we accomplished what we set out to do.

FISCAL FRAMEWORK

As demonstrated in recent years, swings in energy prices can cause large swings in government revenue. Albertans felt that changes were required to the way the government managed these ups and downs. 2003-04 saw the implementation of the new fiscal framework, which included a new Alberta Sustainability Fund to protect ongoing operating spending from volatile revenue and the costs of emergencies and disasters. In its first year, the Sustainability Fund met its \$2.5 billion target.

The new framework also incorporated a three-year Capital Plan worth \$5.5 billion to provide sustainable and predictable funding for roads, schools, health facilities and other infrastructure priorities.

Accumulated debt, less cash set aside for future debt reduction, sits at \$3.7 billion. Lower debt means lower servicing costs, permanently freeing up money to spend on other program priorities. With continuing strong energy prices, Alberta is now within striking distance of eliminating the accumulated debt.

ADDRESSING PRIORITIES

Priority programs such as health and education continued to be at the forefront of government spending. In 2003-04, over 65% of the province's total expense was allocated to Health and Wellness, Learning, Infrastructure and Transportation.

Health reform initiatives were introduced to reduce the number of regional health authorities, implement an Alberta Electronic Health record, establish a provincial on-line Waitlist Registry and set up Health Link Alberta, a 24 hour province-wide telephone line and website. \$283 million in capital funding for health facilities and equipment helped to fund new projects, including a new children's hospital in Calgary and the redevelopment of hospitals in Edmonton and Red Deer.

Alberta's Commission on Learning released its final report, with the government supporting 86 of the 95 recommendations including class-size guidelines and an increased focus on supporting Aboriginal students and students with special needs. 658 additional new post-secondary student spaces and 5,700 additional apprenticeship training seats were provided through the Access Fund. Over 27,000 students received a total of \$37 million in scholarships.

ECONOMY

Despite facing disasters such as Bovine Spongiform Encephalopathy (BSE) and forest fires, the 2003-04 fiscal year was positive. Transfers to the Sustainability Fund from higher oil and natural gas royalties enabled the government to provide over one billion dollars in emergency funding to help pay for the costs of forest fires, compensation programs for cattle producers affected by the BSE crisis, and natural gas rebates.

A strong economy brings opportunity, and Albertans benefited from the creation of 47,000 new jobs and one of the lowest unemployment rates in the country. We also continued to enjoy the highest personal disposable incomes and the lowest overall taxes in Canada.

Due to the indexation of our tax system, taxpayers were protected from inflation. School property tax rates were reduced in 2003-04, marking the tenth straight year that rates were either reduced or frozen. Businesses also saved as government reduced corporate taxes from 13% to 12.5% and the small business rate fell from 4.5% to 4%.

Alberta is in a great position to keep building on the solid foundation set over the past few years. With the innovative and fundamental changes made to the government's fiscal framework in 2003-04, our province continues to be a better place to live, now and into the future.

[original signed]

Patricia L. Nelson
Minister of Finance

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PREFACE

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Government Accountability Act*. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 24 ministries.

This annual report of the Government of Alberta contains the Minister of Finance’s accountability statement, the consolidated financial statements of the Province and a comparison of the actual performance results to desired results set out in the government’s business plan, including the Measuring Up report.

The annual reports of ministries, released in the fall of each year, contain Ministers’ accountability statements, the audited consolidated financial statements of the ministries

and a comparison of actual performance results to desired results set out in the ministries’ business plans. Each ministry annual report also includes:

- financial statements of entities making up the ministry including departments (all departments combined form the General Revenue Fund), regulated funds, provincial agencies and Crown-controlled corporations,
- other financial information as required by the *Financial Administration Act* and *Government Accountability Act*, either as separate reports or as a part of financial statements, to the extent that the ministry has anything to report, and
- financial information relating to accountable organizations and trust funds.

Executive Summary

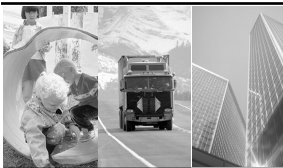


**Government of Alberta
Annual Report 2003-04**

The Government of Alberta Annual Report is comprised of two parts:

- ***Consolidated Financial Statements***, which provide an overall accounting of the Government's revenue and spending, and assets and liabilities.
- ***Measuring Up***, which reports on the progress that has been made towards achieving the government's goals.

Annual reports for each ministry are published in September and provide additional detailed information on performance and financial results.



Alberta 2003 Budget

Making Alberta Even Better

BUDGET 2003 COMMITMENTS

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 Alberta Sustainability Fund.

These commitments were met:

- 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%. Previously deferred capital projects were rescheduled.
- Health reform continued with new initiatives to improve the health system. Health spending accounted for 35% of total expense.
- The Report of Alberta's Commission on Learning was released, with the government supporting 86 of the 95 recommendations. Education spending accounted for 27% of total expense.
- Alberta's tax advantage was strengthened. Indexation of the personal income tax system to inflation continued. Business tax rates were cut.

FISCAL HIGHLIGHTS

New Fiscal Framework

- Based on the recommendations of the Financial Management Commission, changes were made to the province's fiscal framework, including:
 - ♦ Establishment of the **Alberta Sustainability Fund** to protect the fiscal plan from revenue volatility and emergencies and disasters. Non-renewable resource revenue above \$3.5 billion was deposited into the Fund and was not available for budgeted spending. The Fund was used to pay for emergencies, disasters and assistance under the *Natural Gas Price Protection Act*. Fund assets over the \$2.5 billion target level were reallocated to other balance sheet improvements.
 - ♦ Reducing the minimum **economic cushion** to 1% of budgeted revenue (Contingency Allowance) plus any net positive amount required for capital cash requirements and the retained income of funds and agencies. The balanced budget requirement was modified to reflect Sustainability Fund and Capital Account transfers. In-year initiatives, other than those funded from the Sustainability Fund or Capital Account, were limited to the budgeted Contingency Allowance.
 - ♦ Establishment of a **Capital Framework** to provide more predictability to capital funding. This included the requirement for a three-year Capital Plan; establishment of a Capital Account; and allowing the use of alternative financing for capital projects.
 - ♦ Implementing **accounting changes**, as recommended by the Public Sector Accounting Board, with respect to treatment of capital spending. This included recording annual amortization costs of capital on the income statement and bringing unamortized capital assets onto the balance sheet.

Overview of Financial 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, or 14.2%, higher than in 2002-03.
- Expense was \$21.9 billion. This was \$962 million higher than budgeted and \$1.2 billion, or 5.8%, higher than in 2002-03.
- Accumulated debt net of cash set aside for future debt repayment was reduced to \$3.7 billion, a reduction of \$1 billion from March 31, 2003.
- Alberta Sustainability Fund assets at March 31, 2004 were \$2.5 billion.
- In total, the province had net assets of \$21.1 billion, including capital assets of \$10.5 billion.

- The year-end results showed about an \$800 million improvement from the *Third Quarter Fiscal Update* forecast. This primarily reflected stronger revenue growth in the fourth quarter, related to energy royalties and investment income, and lower than forecast expenses for Bovine Spongiform Encephalopathy (BSE) assistance and other programs.

Adjusting for the higher retained income of funds and agencies, capital cash requirements, and other cash adjustments resulted in \$510 million being available for transfer to the Sustainability Fund. This transfer took place after March 31, 2004 and brought the value of the Fund to \$3 billion. A decision regarding the potential reallocation of Sustainability Fund assets above the \$2.5 billion target level will be made in 2004-05.

Fiscal Summary

(millions of dollars)

	2003-04			2002-03
	Budget	3rd Quarter	Actual	Actual
1 Revenue	21,928	25,338	25,887	22,662
2 Expense				
3 Program	20,335	21,731	21,480	20,053
4 Debt servicing costs	465	280	271	476
5 Pension provisions	121	120	132	156
6 Total Expense	20,921	22,131	21,883	20,685
7 Revenue in Excess of Expense	1,007	3,207	4,004	1,977
8 Removal of pension provisions ^a	121	120	132	156
9 Net Revenue (Fiscal Responsibility Act)	1,128	3,327	4,136	2,133
10 Transfer from Capital Account	416	416	416	
11 Retained income/capital cash requirements	(58)	(135)	(276)	
12 Net transfer from (to) Sustainability Fund	(1,276)	(3,608)	(4,276)	
13 Contingency Allowance	210	-	-	
14 Sustainability Fund (net transfer)	1,276	3,608	4,276	
15 Cash adjustments	941	678	520	
16 Sustainability Fund prior to reallocation	2,217	4,286	4,796	
17 Less:				
18 Debt Retirement allocation	-	893	893	
19 Capital Account allocation	-	893	893	
20 Sustainability Fund assets at March 31, 2004	2,217	2,500	2,500	
21 Cash transferred after March 31 to Sustainability Fund^b	-	-	510	

^a For purposes of the *Fiscal Responsibility Act*, expense does not include the annual change in unfunded pension obligations. These obligations are scheduled to be eliminated under a separate legislated plan.

^b \$510 million of cash became available for transfer to the Sustainability Fund as a result of the improvement in 2003-04 fourth quarter results. The cash was not transferred to the Sustainability Fund until after March 31, 2004.

ECONOMIC AND TAX HIGHLIGHTS

Economic Highlights

- In 2003, the Alberta economy grew by an estimated 3.1%.
- In 2004, Alberta's economic growth is expected to accelerate to 3.6%, as high energy prices, near-record housing starts, and exceptionally strong employment growth continue.
- Employment grew by 2.9%, as 47,900 jobs were created in Alberta during 2003, the highest rate of job growth in Canada. Alberta registered the second lowest unemployment rate among the provinces in 2003, at 5.1%.
- Alberta had the highest personal disposable income per capita among the provinces at \$26,170. This was nearly \$3,500, or 15%, higher than the national average.
- Alberta's strong economy continued to attract large numbers of migrants from other provinces. For the seventh consecutive year, Alberta had the highest level of net inter-provincial migration in Canada, with a net increase of 12,081 persons in 2003.
- With a population estimated to be 3,153,723 as of July 1, 2003, Alberta led the country in overall population growth, at 1.3%.
- Higher energy prices spurred a sharp increase in conventional energy sector investment. The average number of rigs drilling increased by 36% 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% 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% from the 1997-2001 five-year average.

- Alberta's inflation rate returned to low levels in the latter part of 2003, following two years of relatively high inflation (which was due in large part to inflation measurement anomalies associated with natural gas rebates). While Alberta's inflation averaged 4.4% for 2003 as a whole, the inflation rate declined steadily in the second half of the year, falling to a year-over-year rate of 1.2% in December.

Tax Highlights

- 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% from 13%. The small business rate fell to 4.0% from 4.5%, 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.
- Two tax changes were made in-year. The tax on cigars was reduced and international passenger and cargo flights that either land in or take off from Alberta were exempted from the 1.5 cent per litre aviation fuel tax. The cost in 2003-04 of these in-year tax changes was approximately \$5 million.

Performance Measures

- Albertans had the highest personal disposable income.
- Alberta has the lowest total provincial and municipal tax load among Canadian provinces.

PROGRAM AND CAPITAL HIGHLIGHTS

- Total expense was \$21.9 billion in 2003-04, 5.8%, or \$1.2 billion, higher than in 2002-03. The increase was primarily due to higher spending on health, education and social services, increased capital grants to local authorities, and natural gas rebates.
- Total expense was \$962 million higher than budgeted primarily due to BSE agriculture assistance, increased forest fire-fighting costs and the provision of natural gas rebates.
- Health and education accounted for 62% of total expense. Health spending increased by 10.4% and education spending by 7.1%.
- 2003-04 was the first year of the government's new capital framework. Capital Plan spending reached \$1.66 billion in 2003-04, an increase of \$662 million, or 66%, from 2002-03.

Program and Capital Spending

(millions of dollars)

	2003-04		2002-03
	Budget	Actual	Actual
Base operating expense	18,846	19,054	17,924
Expense for capital purposes ^a	1,489	1,415	806
Emergencies/disasters/natural gas rebates	-	1,011	1,323
Debt servicing costs	465	271	476
Pension provisions	121	132	156
Total Expense	20,921	21,883	20,685
Total Capital Plan Spending^b	1,676	1,659	997

^a 2003-04 actuals included \$920 million in capital grants to local authorities, \$106 million for highway planning and rehabilitation, and \$389 million in capital amortization; did not include \$633 million in capital investment in government-owned infrastructure.

^b Capital Plan spending included capital grants to local authorities and highway planning and rehabilitation costs (both reported in expense) and capital investment in government-owned infrastructure (not reported in expense).

Expense by Function

(millions of dollars)

	2003-04		2002-03
	Budget	Actual	Actual
Health	7,651	7,634	6,917
Education	5,766	5,850	5,461
Social services	2,230	2,265	2,108
Agriculture, resource management and economic development	1,408	2,056	2,306
Transportation, communications and utilities	857	1,020	652
Protection of persons and property	704	842	901
Regional planning and development	438	446	484
Recreation and culture	280	273	231
Environment	161	164	147
Housing	125	158	132
General government	715	772	714
Debt servicing costs	465	271	476
Pension provisions	121	132	156
Total Expense	20,921	21,883	20,685

EXPENSE HIGHLIGHTS (BY FUNCTION)

Health

- 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.
- **Major initiatives** included:
 - Reducing the number of regional health authorities (RHAs) from 17 to 9, and transferring community and facility-based mental health services to RHAs.
 - Implementation of the Alberta Electronic Health Record. This will allow health care providers to gain immediate access to a patient's records, which will result in faster, more accurate diagnosis and treatment, and safer patient care. As at March 31, 2004, a total of 5,500 users had access to the Electronic Health Record.
 - Eight-year agreement with the Alberta Medical Association and Alberta's health regions, changing how physicians, health regions and government work together to improve patient care. It includes \$100 million over 3 years to support 24-hour per day access to local primary care services and \$66 million to link physicians to the Alberta Electronic Health Record.
 - Expansion of alternative payment programs that will give physicians more flexibility in how health services are provided, including primary care, specialized care for chronic diseases and mental health services and will allow academic physicians more time for research and teaching. Currently, over 400 physicians are in alternate payment programs.
- Implementation of the Health Link Alberta, which provides a 24-hour per day, province-wide telephone and website access to health information in order to help Albertans determine the appropriate level of health service that they may need.
- Establishment of a provincial on-line Waitlist Registry for selected surgeries, MRIs, CT scans, radiation and chemotherapy.
- **Capital Plan spending** 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.
- Performance Measures
 - 86% of Albertans surveyed rated the quality of health care they received as excellent or good.
 - 85% of Albertans surveyed rated their access to physician services as easy or very easy.
 - 73% of Albertans surveyed rated their access to hospital services as easy or very easy.
 - 95% of health facilities were rated as being in acceptable condition.

Education

- Education spending was \$5.9 billion in 2003-04. This was an increase of 7.1%, or \$389 million, from 2002-03 and \$84 million higher than budgeted. The increase from 2002-03 reflects higher basic and post-secondary operating grants, increased teacher pension costs and a doubling of funding for education capital projects.
- **Major initiatives** included:
 - ♦ Release of the Report of Alberta's Commission on Learning. The government supported 86 of the 95 recommendations. Three recommendations remain under review. In-year funding was provided to cover what the Commission identified as an immediate funding shortfall.
 - ♦ Development of a new funding framework for school jurisdictions. Under the new framework, increases to school boards vary based on their individual profiles including student population, differential operating costs and provincial priorities. Boards have increased flexibility to address local priorities, including student needs and class size.
 - ♦ Enactment of the *Post-secondary Learning Act*, which established the Campus Alberta Quality Council. The Council will facilitate the development and expansion of degree-granting opportunities for students.
 - ♦ Increased support, through the Access Fund, allowed for the creation of 658 additional new entry spaces with the major focus on health programs such as Licensed Practical Nursing, paramedicine, psychiatric nursing, pharmacy and health sciences. As well, 5,700 additional apprenticeship training spaces were created.
 - ♦ Fifteen publicly funded colleges and technical institutes launched eCampus Alberta and began collaborating to increase access to online learning opportunities. This will enhance efficiency and increase access for students across the system by sharing courses over the Internet.
- ♦ \$37 million in scholarships were provided to about 27,700 students in 2003-04. The amount of scholarship money available for Alexander Rutherford Heritage Scholarships was increased to address an increase in eligible applicants.
- ♦ \$88 million in student loans were disbursed in 2003-04. The Alberta Student Loan Relief Benefit and the Loan Relief Completion Payment continued to reduce debt automatically for students in their first and final years of study, respectively. These programs provided \$54 million in debt reduction in 2003-04.
- **Capital Plan spending** 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 post-secondary projects.
- Performance Measures
 - ♦ 89% of Albertans aged 25-34 have completed high school.
 - ♦ 57% of Albertans aged 25-34 have completed post-secondary education.
 - ♦ 78% of Alberta's Grade 9 students met acceptable standards on provincial achievement tests in language arts.
 - ♦ 63% of Alberta's Grade 9 students met acceptable standards on provincial achievement tests in mathematics.
 - ♦ 94% of schools and 84% of post-secondary institutions were estimated to be in acceptable condition.

Social Services

- Social Services spending was \$2.3 billion in 2003-04. This was an increase of 7.4%, 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.
- **Major initiatives** included:
 - Emphasis on early intervention programs for children at risk and implementation of the Alberta Response Model to help ensure children, youth, and families live in stable, nurturing environments.
 - Introducing the Supplementary Accommodation Benefit to assist low-income seniors with increased long-term care accommodation costs.
 - Providing seniors with one-time assistance to offset high energy utility costs.
 - Increasing Supports for Independence payments to families with children and to people who are not expected to work by \$20 per month. In addition, family benefits under Supports for Independence increased by \$14 per month, per child, as a result of flowing through the corresponding increase in the National Child Benefit.
 - Enabling access to health coverage through the Alberta Adult Health Benefit for qualified adults who leave income support under both the Assured Income for the Severely Handicapped and Supports for Independence programs as a result of increased income.
- Performance Measures
 - 85% of Alberta's children were living at or above the Market Basket Measure low-income threshold (2000).
 - 88% of Albertans were living at or above the Market Basket Measure low-income threshold (2000).

Agriculture, Resource Management and Economic Development

- Agriculture, Resource Management and Economic Development spending was \$2.1 billion in 2003-04. This was a decrease of 10.8%, 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 to the agriculture sector following the border closure to beef exports due to the discovery of BSE. This disaster assistance was partly offset by over \$230 million in federal transfers related to BSE assistance.
 - Signing of the federal-provincial implementation agreement for the five-year Agriculture Policy Framework, resulting in the creation of the Canadian Agricultural Income Stabilization program.
- Performance Measures
 - Alberta's labour productivity is the highest among the provinces.
 - 30% of Alberta's real Gross Domestic Product (GDP) contributed by manufacturing and knowledge-intensive service industries (preliminary).
 - Alberta has the second highest business use of the Internet among provinces.

Transportation, Communications and Utilities

- Transportation, Communications and Utilities spending was \$1 billion in 2003-04. This was an increase of 56.4%, 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. This spending does not include capital investment on provincial government-owned transportation and communication networks.

- **Major initiatives** included:

- ♦ Implementation of the new capital framework to provide more predictable capital funding on transportation and other infrastructure projects.
- ♦ Payment of \$214 million in rebates to Albertans under the Natural Gas Rebate Program to help offset the increase in natural gas costs.
- ♦ Enactment of the *Traffic Safety Act*, replacing the *Highway Traffic Act*, *Motor Vehicle Administration Act*, *Motor Transportation Act* and *Off-Highway Act*. The new Act included a Graduated Driver Licensing program, new standard and safety policies for commercial vehicle equipment and updated fines.

- Performance Measures

- ♦ 89% of provincial highways were in acceptable physical condition.
- ♦ 96% of water management infrastructure were in acceptable physical condition (1999).

Protection of Persons and Property

- Protection of Persons and Property spending was \$842 million in 2003-04. This was a decrease of 6.5%, 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 including drivers licences, public security, legal services and court services. Spending was higher than budgeted due to forest fire-fighting costs.

- **Major initiatives** included:

- ♦ Establishing an Integrated Response to Organized Crime and Gangs initiative, comprised of members of the RCMP and the Edmonton and Calgary police services.
- ♦ Introducing a new Alberta driver's licence with added security to help protect Albertans from identity fraud.
- ♦ Pilot project using video conferencing in Alberta's courts.

- Performance Measures

- ♦ Alberta had the lowest violent and property crime rates among the four western provinces.
- ♦ 79% of Albertans surveyed feel somewhat to very comfortable walking alone in their neighborhoods at night.

Other Program Expense

- Other program expense was \$1.8 billion in 2003-04. This was an increase of 6.1%, or \$105 million, from 2002-03 and \$94 million higher than budgeted. The increase from 2002-03 was related to a range of initiatives including the Canada/Alberta Affordable Housing Agreement and the Community Initiatives Program.

- **Major initiatives** included:

- ♦ Increasing funding under the Canada/Alberta Affordable Housing Agreement to facilitate the development of an additional 872 affordable housing units in Edmonton, Calgary, Lethbridge, Leduc, Brooks, Cochrane, Fort McMurray, Grande Prairie, Red Deer and Rocky Mountain House.
- ♦ \$25 million was awarded for 35 community-based projects under the Centennial Legacies Grant Program for recreational and cultural facilities, heritage sites and museums.
- ♦ Introducing ME first!, the Municipal Energy Efficiency Assistance Program, which will allow Alberta municipalities to access interest-free loans for energy efficiency projects.

- ◆ Releasing the *Water for Life: Alberta's Strategy for Sustainability*. The plan outlines a series of actions aimed at ensuring Albertans have safe, secure drinking water, healthy aquatic ecosystems, and a reliable water supply to promote provincial economic development.
- Performance Measures
 - ◆ Surface water and air quality remained high.
 - ◆ 80% of adult Albertans surveyed participated in sport and recreational activities.
 - ◆ 98% of visitors were satisfied with provincial historic sites, museums and interpretative centres.

Debt Servicing Costs

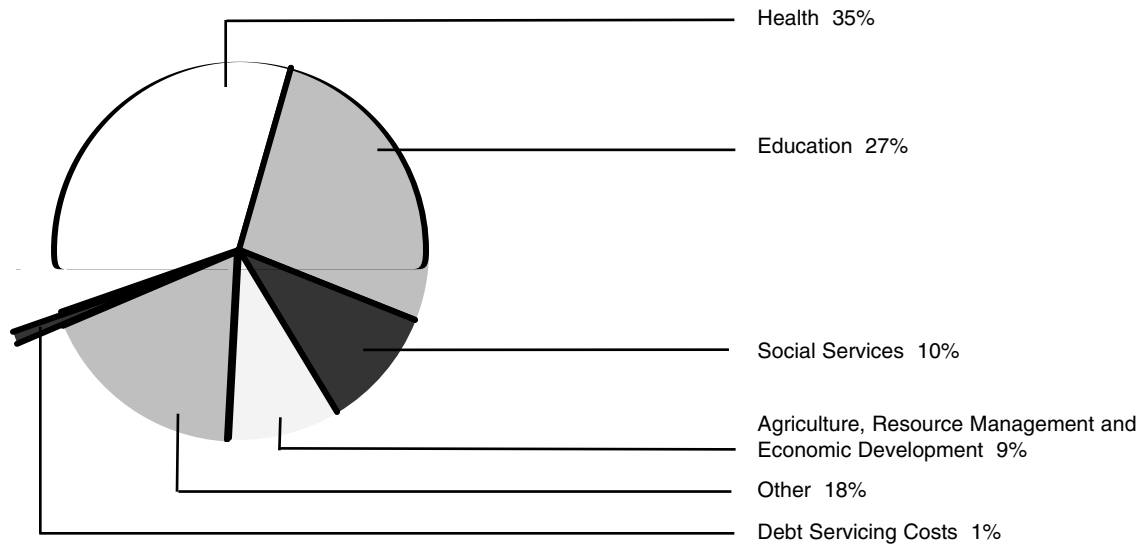
- Debt Servicing Costs were \$271 million in 2003-04. This was \$205 million lower than in 2002-03 and \$194 million lower than estimated in the budget. Lower debt servicing costs reflected lower debt levels and the appreciation of the Canadian dollar relative to the U.S. dollar. This reduced the cost of debt held in U.S. dollars.

Pension Provisions

- Pension Provisions were \$132 million in 2003-04. This was \$24 million lower than in 2002-03 but \$11 million higher than estimated in the budget. The decrease from 2002-03 reflected stronger returns of pension funds.

2003-04 Expense

\$21.9 Billion



CAPITAL PLAN PRIORITIES

- Capital spending was \$1.66 billion in 2003-04, an increase of \$662 million, or 66% from 2002-03. Capital spending includes capital investment in government-owned assets, grants to local authorities for capital purposes and other infrastructure support.
- The increase from 2002-03 reflected significantly higher spending on transportation infrastructure, and health and education facilities and equipment.
- The slightly lower than budgeted capital spending in 2003-04 primarily reflects revised project schedules.
- Alberta continues to lead the country in capital spending as a percentage of total spending.

Capital Plan Summary

(millions of dollars)

	2003-04		2002-03
	Budget	Actual	Actual
Provincial highway network	457	455	370
Municipal transportation grants	242	221	102
Health facilities and equipment	284	283	43
Schools	136	130	81
Post-secondary facilities	135	125	44
Water and wastewater management	86	79	95
Community facilities	64	64	40
Housing	44	52	32
Other infrastructure programs	87	51	92
General government capital	141	199	98
Total Capital Plan	1,676	1,659	997

- In 2003-04, \$920 million in capital grants were provided to local authorities, including schools, post-secondary institutions, health facilities and municipal governments. This was more than double the level of capital grants in 2002-03.
- Spending on provincial government-owned capital was \$739 million, a 18% increase from 2002-03.

Capital Plan Allocations

(millions of dollars)

	2003-04		2002-03
	Budget	Actual	Actual
Capital grants to local authorities	969	920	369
Provincial highway planning and rehabilitation	92	106	91
Capital investment in government-owned projects	615	633	537
Total Capital Plan	1,676	1,659	997

REVENUE HIGHLIGHTS

Total Revenue

- Total revenue was \$25.9 billion. This was \$3.2 billion, or 14.2%, higher than in 2002-03, and \$4 billion higher than budgeted. Higher investment income, federal transfers and non-renewable resource revenue were the main reasons for the increase from 2002-03. The increase from budget was largely due to higher non-renewable resource revenue.

Non-renewable Resource Revenue

- Non-renewable resource revenue was \$7.7 billion. This was \$546 million higher than in 2002-03 and \$2.9 billion higher than budgeted.
- Energy prices remained strong in 2003-04, reflecting continuing high world oil demand, delays in the return of Iraqi production, strong economic growth in the United States and continuing concerns over North American natural gas supply. Partly offsetting the impact of higher energy prices was the strengthening Canadian dollar relative to the United States dollar.
- Natural gas prices averaged Cdn\$5.75 per thousand cubic feet. This was 77 cents higher than in 2002-03 and \$1.70 higher than budgeted. Over the last six years, the average annual natural gas price has ranged from as low as \$2 per mcf and to as high as \$6 per mcf.

- Oil prices averaged US\$31.35 per barrel (WTI). This was \$2.22 higher than in 2002-03 and \$8.05 higher than the budget estimate. Over the last six years, the average annual oil price has ranged from as low as US\$13 and to as high as US\$31.

Tax Revenue

- Tax revenue was \$9.3 billion. This was a decrease of \$274 million from 2002-03 and \$537 million lower than budgeted. The decreases were due to lower personal and corporate income tax revenue partly offset by higher revenue from other tax sources.
- Personal income tax revenue was \$4.6 billion. This was \$221 million, or 5%, lower than recorded in 2002-03. The decrease reflected updated federal tax assessment information for the 2002 tax year. Based on this updated information, 2002-03 actual personal income tax revenue was approximately \$200 million lower than reported in the 2002-03 year-end statements. This also reduces the 2003 tax year assessment estimates. Excluding prior year adjustments, personal income tax revenue grew by about 3%.
- Corporate income tax revenue was \$1.7 billion. This was about \$320 million lower than in 2002-03 and the budget estimate. The decline was due primarily to higher than expected tax refunds for 2002 and previous tax years, which were paid in the 2003-04 fiscal year, and 2003-04 reductions in corporate income tax rates.

Revenue

(millions of dollars)

	2003-04		2002-03
	Budget	Actual	Actual
Personal income taxes	5,035	4,613	4,834
Corporate income taxes	2,016	1,696	2,019
Other taxes	2,811	3,016	2,746
Non-renewable resource revenue	4,776	7,676	7,130
Transfers from Government of Canada	2,386	2,926	2,074
Net income from commercial operations	1,795	1,882	1,849
Net investment income (loss)	1,019	1,838	(462)
Fees, permits and licences	1,725	1,814	1,644
Other	365	426	828
Total Revenue	21,928	25,887	22,662

- Other tax revenues were \$3 billion. This was \$270 million higher than in 2002-03 and \$205 million higher than the budget estimate. The increases were attributable to revenues from freehold mineral rights tax, tobacco tax, school property tax, fuel taxes and insurance taxes. Only the hotel tax revenue was lower than the previous year and the budget estimate.

Transfers from Government of Canada

- Transfers from Government of Canada were \$2.9 billion. This was \$852 million higher than in 2002-03 and \$540 million higher than the budget estimate. The increases were primarily due to higher Canada Health and Social Transfers (CHST) and increased federal agriculture transfers, primarily related to BSE.

Investment Income

- Investment income was \$1.8 billion. This was a \$2.3 billion difference from 2002-03 when a net loss of \$462 million was recorded. The loss in 2002-03 reflected net realized losses and the write-down in values of financial

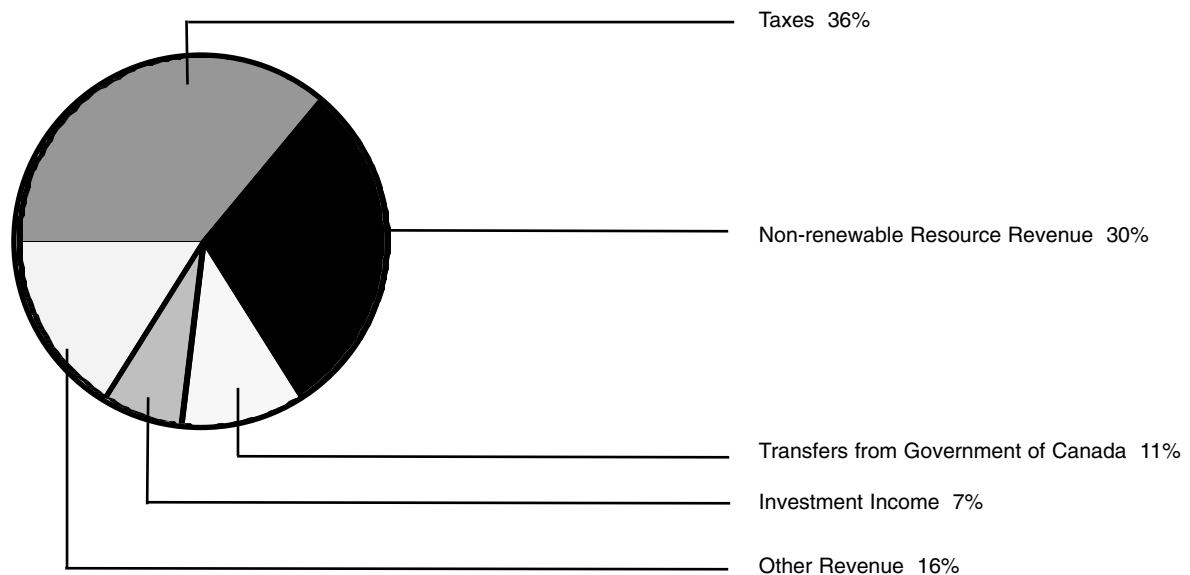
assets due to weak equity markets. In 2003-04, investment income returned to historically more normal levels as equity markets recovered. This recovery was quicker and stronger than had been expected, resulting in investment income being \$819 million higher than estimated in the budget.

Other Revenue

- Revenue from all other sources was \$4.1 billion. This was \$199 million lower than 2002-03 but \$237 million higher than estimated in the budget. The decline was due to significant one-time or non-recurring revenue in 2002-03 including forest fire insurance, agriculture re-insurance recoveries, Alberta Dairy Control Board and the Alberta Capital Finance Authority transfer to government revenue. The increase from budget reflected higher net income from commercial operations and higher timber royalties and fees.

2003-04 Revenue

\$25.9 Billion



ALBERTA SUSTAINABILITY FUND

- The Sustainability Fund was established to protect spending from volatile revenue and the costs of emergencies and disasters. At March 31, 2004, it had \$2.5 billion of financial assets.
- The Sustainability Fund received non-renewable resource revenue above \$3.5 billion and paid for the costs of emergencies and disasters and natural gas rebates. It also received additional revenue from the higher than budgeted surplus. (Note: the amount of non-renewable resource revenue that can be used for budget purposes was increased to \$4 billion in 2004-05).
- The target level for the Fund was \$2.5 billion. After reaching this amount the government can reallocate assets to other balance sheet improvements.
- The *Third Quarter Fiscal Update*, released in February 2004, forecast the Sustainability Fund would reach \$4.3 billion, prior to any reallocations. Of this amount, \$893 million was reallocated to each of the Capital Account and Debt Retirement Account. This left the Sustainability Fund at a forecast \$2.5 billion.
- Net Revenue was \$809 million higher than forecast in the *Third Quarter Fiscal Update*. Of this amount \$141 million was retained by funds and agencies (including endowment funds, Alberta Treasury Branches, Agriculture Financial Services Corporation) or was required for capital cash requirements. Other cash adjustments, primarily related to natural gas royalties, further reduced the additional cash available for transfer to the Sustainability Fund to \$510 million.
- Because of timing, this additional \$510 million was not transferred until after March 31, 2004. This brings the value of Sustainability Fund to \$3 billion. A decision regarding the potential reallocation of Sustainability Fund assets above the \$2.5 billion target level will be made in 2004-05.

Alberta Sustainability Fund

At March 31, 2004
(millions of dollars)

	Budget	Actual	Change from	
			Budget	3rd Quarter
Assets at start of year	-	-	-	-
Non-renewable resource revenue transfer from general revenue	1,276	4,176	2,900	230
Transfer for disaster and emergency program expense	-	(797)	(797)	118
Transfer for the Natural Gas Rebate Program expense	-	(214)	(214)	2
Other net transfers ^a	-	1,111	1,111	318
Net transfer to Sustainability Fund prior to cash adjustments	1,276	4,276	3,000	668
Cash adjustments:				
Natural gas royalties	914	677	(237)	(165)
Other	27	(157)	(184)	7
	941	520	(421)	(158)
Assets at End of Year (prior to reallocation)	2,217	4,796	2,579	510
Less:				
Allocation to Debt Retirement Account	-	893	893	-
Allocation to Capital Account	-	893	893	-
Sustainability Fund assets at March 31, 2004	2,217	2,500	283	-
Cash transferred after March 31 to Sustainability Fund	-	510	510	510

^a Includes higher than budgeted revenue (excluding non-renewable resource revenue) and savings from lower debt servicing costs.

NET FINANCIAL AND CAPITAL ASSETS

- **Net Assets** – As of March 31, 2004, the Government of Alberta had net assets of \$21.1 billion. This included capital assets of \$10.5 billion.
- **Accumulated Debt** – Accumulated debt, net of cash set aside in the Debt Retirement Account, was \$3.7 billion. This was a \$1 billion reduction from March 31, 2003.
- **Capital Account** – The Capital Account had financial assets of \$1.18 billion. These funds have been set aside to pay for capital projects over the next three years.

In 2003-04, the Capital Account started with \$910 million in financial assets. During the year, a further \$893 million was added to the Capital Account and \$623 million was withdrawn for funding capital projects.

Accumulated Debt

(millions of dollars)

	2002-03	2003-04
Accumulated debt (start of year)	8,416	6,746
Repayment of debt maturities	1,670	1,775
Accumulated debt (end of year)	6,746	4,971
Cash set aside for future debt payment	2,010	1,241
Accumulated debt less cash set aside	4,736	3,730

Capital Account

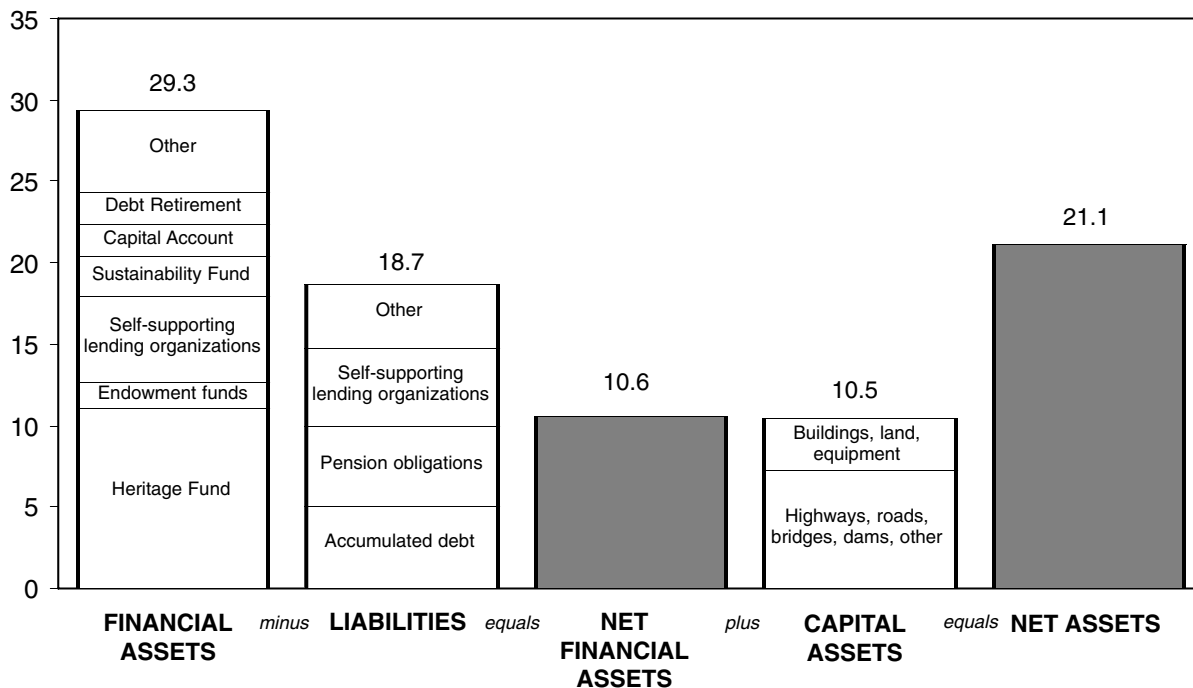
(millions of dollars)

	2003-04	
	Budget	Actual
Assets (start of year)	910	910
Withdrawals	(623)	(623)
Allocations from Sustainability Fund	–	893
Assets (end of year)	287	1,180

Assets, Liabilities and Net Assets

At March 31, 2004

(billions of dollars)



Historical Fiscal Summary, 1985-86 to 2003-04^a

(millions of dollars)

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S
	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
INCOME STATEMENT																			
Revenue																			
1	1,521	1,768	2,236	2,039	2,536	2,796	3,057	2,794	2,877	3,063	3,177	3,445	3,877	4,601	5,100	3,943	4,183	4,834	4,613
2	780	396	595	697	700	803	731	637	854	1,073	1,332	1,407	1,849	1,659	1,255	2,023	2,229	2,019	1,696
3	660	686	729	769	824	915	1,027	1,115	1,168	1,196	1,205	1,169	1,212	1,118	1,128	1,151	1,094	1,113	1,178
4	341	282	553	679	683	878	1,029	1,055	1,053	1,126	1,112	1,157	1,218	1,178	1,241	1,386	1,469	1,633	1,838
5	4,932	1,892	2,626	2,085	2,240	2,688	2,022	2,183	2,817	3,378	2,786	4,034	3,778	2,368	4,650	10,586	6,227	7,130	7,676
6	2,161	1,965	1,847	1,834	1,891	2,125	2,155	1,711	1,837	1,567	1,724	1,616	1,747	1,610	1,906	1,353	788	(462)	1,838
7	1,111	959	1,407	1,662	2,022	1,615	1,566	2,319	2,710	2,832	2,431	2,473	2,890	2,950	3,183	3,272	3,672	4,321	4,122
8	11,506	7,928	9,993	9,765	10,896	11,820	11,587	11,814	13,316	14,235	13,767	15,301	16,571	15,484	18,463	23,714	19,662	20,588	22,961
9	1,788	1,689	1,912	2,135	1,943	2,365	2,150	2,457	2,090	1,929	1,748	1,351	1,183	1,335	1,640	1,813	2,264	2,074	2,926
10	13,294	9,617	11,905	11,900	12,839	14,185	13,737	14,271	15,406	16,164	15,515	16,652	17,754	16,819	20,103	25,527	21,926	22,662	25,887
Expense by Function^b																			
11	3,003	3,244	3,114	3,372	3,631	3,895	4,129	4,352	4,194	3,928	3,773	4,006	4,401	4,660	5,341	5,946	6,846	6,917	7,634
12	2,961	3,114	3,118	3,227	3,379	3,532	3,676	3,904	4,036	3,756	3,713	3,738	4,081	4,241	4,735	5,040	6,099	5,461	5,850
13	1,156	1,270	1,329	1,434	1,502	1,567	1,746	1,889	1,721	1,495	1,456	1,511	1,564	1,560	1,668	1,790	1,942	2,108	2,265
14	6,753	5,725	5,137	5,077	5,328	5,741	5,501	6,031	5,172	4,301	3,739	3,446	3,727	3,885	4,612	5,200	5,184	5,567	5,731
15	13,873	13,353	12,698	13,110	13,840	14,735	15,052	16,176	15,123	13,480	12,681	12,701	13,773	14,346	16,356	17,976	20,071	20,053	21,480
16	182	297	572	797	1,115	1,282	1,314	1,419	1,654	1,746	1,683	1,462	1,322	1,379	956	980	774	476	271
17	14,055	13,650	13,270	13,907	14,955	16,017	16,366	17,595	16,777	15,226	14,364	14,163	15,095	15,725	17,312	18,956	20,845	20,529	21,751
18	(761)	(4,033)	(1,365)	(2,007)	(2,116)	(1,832)	(2,629)	(3,324)	(1,371)	938	1,151	2,489	2,659	1,094	2,791	6,571	1,081	2,133	4,136
BALANCE SHEET																			
19	11,187	7,784	6,419	4,412	2,296	464	(2,165)	(7,054)	(8,313)	(7,355)	(6,255)	(3,728)	(1,089)	(63)	2,654	9,042	9,814	11,696	15,607
20	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8,220	7,669	7,411	7,292	7,215	7,218	7,259	8,002	10,141	10,309	10,534
21	(5,500)	(6,625)	(7,946)	(8,004)	(8,243)	(6,156)	(5,774)	(4,770)	(5,066)	(5,352)	(4,981)	(4,890)	(4,813)	(4,813)	(4,728)	(4,742)	(4,771)	(4,927)	(5,059)
22	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(5,159)	(5,038)	(4,196)	(1,417)	1,236	2,342	5,185	12,302	15,184	17,078	21,082
23	4,953	10,091	11,105	13,069	15,527	16,647	17,406	20,305	22,701	21,451	20,531	17,733	14,976	14,106	12,020	8,195	5,261	4,736	3,730

^a Numbers have been restated on 2003-04 basis where possible. Numbers for 2001-02 forward are fully comparable. For the period 1992-93 to 2000-01 numbers are essentially comparable to the 2003-04 presentation with exception of the treatment of disposal of capital assets (in most years variance of less than \$100 million). Prior to 1992-93, spending is on an expenditure basis, using actual capital numbers rather than capital amortization costs.

^b Beginning in 1996-97, valuation adjustments have been allocated by function. In prior years, all valuation adjustments were included in other program expense. Excludes change in pension obligations.

^c Excludes pension obligations. Net debt was increased by \$1,474 million in 1992-93 primarily for a provision for school construction debt, reduced by \$125 million in 1993-94 to record personal income tax and established programs financing entitlements on an accrual basis, and increased by \$32 million in 1995-96 to report some other revenues on accrual basis.

^d Capital Assets information not available prior to 1992-93. In 1994-95, includes the disposal of \$449 million in capital assets, (primarily transfer of secondary highways to municipalities). In 2001-02, includes \$1.8 billion transfer of provincial secondary highway system from municipalities to the Province.

^e Net of cash set aside for future debt repayments. In 2001-02, the amount of \$5,261 million includes commitment of \$414 million to debt retirement based on a higher-than-expected year end cushion. This amount was transferred in 2002-03 from other assets.

