

CAPITAL PLAN

BUDGET
2004

ON ROUTE
ON COURSE

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2004-07 Capital Plan

Quality infrastructure is an essential part of the government's twenty-year strategic plan to achieve Alberta's vision of a vibrant and prosperous province. Over the last decade, rapid economic and population growth has strained the province's infrastructure network.

Last year, as part of its new fiscal framework, the government implemented a more systematic approach to addressing Alberta's infrastructure needs with the creation of the Capital Account and the use of alternative financing. For the first time, a three-year Capital Plan was published, setting out the government's commitment to capital projects.

This year, the new 2004-07 Capital Plan commits to support \$6.5 billion in capital projects over the next three years, consisting of:

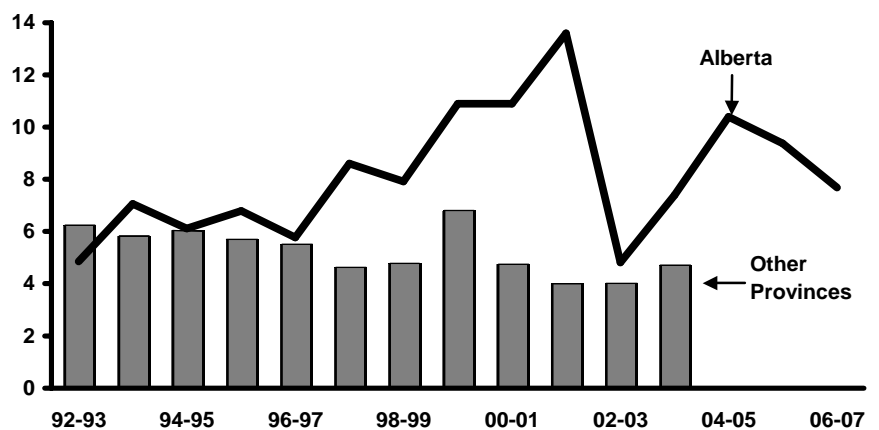
- over \$3.5 billion in support for the infrastructure of school boards, post-secondary institutions, health authorities, municipalities and other local authorities and organizations, and
- nearly \$3 billion in investment in provincial government-owned infrastructure.

This plan shows that the government is serious about addressing Alberta's infrastructure needs. Our level of support is unmatched in the rest of the Canada.

The 2004-07 Capital Plan commits to support \$6.5 billion in capital projects over the next three years.

Interprovincial Comparison of Capital Expenditures

(% of total spending)



Source: Dominion Bond Rating Service Limited, The Canadian and Provincial Governments - 2003 Overview, February 2004. Alberta data for 2002-03 to 2006-07 has been updated by Alberta Finance to reflect the latest Capital Plan information.

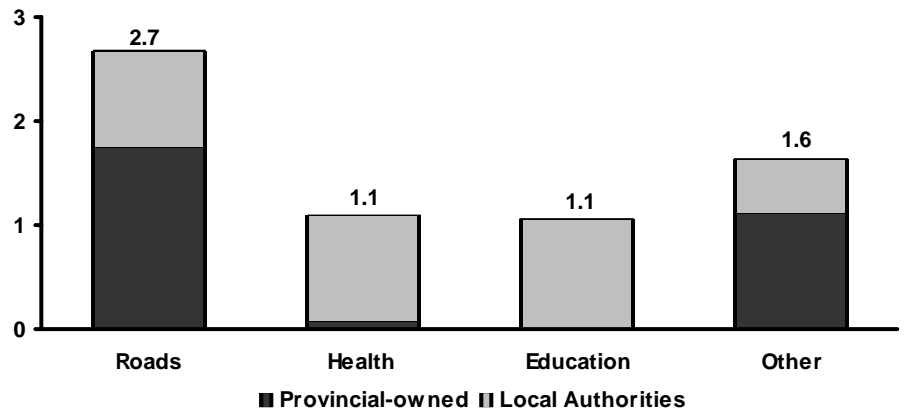
New capital projects will start and other projects will proceed at a quicker pace than was planned last year.

Capital Priorities

The 2004-07 Capital Plan commits nearly \$6.5 billion to provincial and local infrastructure over the next three years. This is \$900 million more than was committed in the 2003-06 Capital Plan. The increased support means that new capital projects will start and other projects will proceed at a quicker pace than was planned last year.

Capital Plan – Support for \$6.5 Billion of Capital Projects

(billions of dollars)



Over \$3.5 billion of local authorities' capital projects and equipment purchases.

LOCAL AUTHORITIES' PROJECTS

The Capital Plan will support over \$3.5 billion of local authorities' capital projects and equipment purchases. Support has been focused in three main areas – health, education and municipal transportation – with each area receiving around \$1 billion over the next three years. In addition, over \$500 million in capital projects will be supported in such areas as water and wastewater management, community facilities, centennial projects and housing programs. This support will help local authorities continue to deliver quality services to Albertans in their communities.

Close to \$3 billion of government-owned capital and equipment.

PROVINCIAL GOVERNMENT-OWNED CAPITAL

The prime area of investment in government-owned capital will be the provincial highway network, with over \$1.7 billion being invested over the next three years. About \$1.2 billion will address pressing needs for new or upgraded government-owned facilities, parks and information technology systems.

Capital Plan Summary

(millions of dollars)

	2004-05 Estimate	2005-06 Target	2006-07 Target	Three-year Total
Supported local authority projects				
Municipal transportation	324	308	302	934
Health facilities and equipment	393	404	215	1,012
Schools	221	202	213	636
Post-secondary facilities	228	100	88	416
Water and wastewater management	56	56	56	168
Community facilities and centennial projects	65	53	41	159
Other	86	65	35	186
Subtotal	1,373	1,188	950	3,511
Provincial government-owned projects				
Provincial highway network	587	577	577	1,741
We//net and health information systems	40	20	21	81
Water and wastewater management	33	33	33	99
Centennial projects	30	28	15	73
Other programs	77	12	7	96
Other capital and information technology	253	365	239	857
Subtotal	1,020	1,035	892	2,947
Total Capital Plan	2,393	2,223	1,842	6,458

Funding Sources of the 2004-07 Capital Plan

The fiscal framework introduced in *Budget 2003* allows the government to address Alberta's infrastructure needs more systematically. Previously, the amount allocated in a particular year for capital depended primarily on the resource revenue outlook for that year. The base budget for capital was about \$1.1 billion per year. In good years, significantly more money could be spent. In other years, the capital budget would have to be held closer to the base amount. This uncertainty made capital planning difficult for both the provincial government and its local partners.

The Capital Plan averages nearly \$2.2 billion a year, nearly double what was previously included in the annual base budget.

The government now has flexibility to enter into more predictable, longer-term capital commitments through the use of the Capital Account and alternative financing. This new approach has also allowed capital spending over the next three years to be nearly doubled from what was previously included in the annual base budget. The 2004-07 Capital Plan averages nearly \$2.2 billion a year.

The 2004-07 Capital Plan is funded from three sources:

- Current-year revenues – close to \$3.4 billion, or slightly over half of the three-year Capital Plan, will be funded from current-year revenues. This used to be the only source of funding for capital.
- Capital Account – \$1.9 billion, or about 30%, will be funded from the Capital Account.
- Alternative financing – over \$1.2 billion in capital projects will be funded through alternative financing, including public-private partnerships (P3s).

Funding Sources of the Capital Plan

(millions of dollars)

	2004-05 Estimate	2005-06 Target	2006-07 Target	Three-year Total
Support for local authorities' capital				
Current-year revenue	632	563	625	1,820
Capital Account	741	425	—	1,166
Alternative financing	—	200	325	525
Total	1,373	1,188	950	3,511
Government-owned capital				
Current-year revenue	522	519	483	1,524
Capital Account	347	186	187	720
Public-Private Partnerships (P3s)	151	330	222	703
Total	1,020	1,035	892	2,947
Total Capital Plan				
Current-year revenue	1,154	1,082	1,108	3,344
Capital Account	1,088	611	187	1,886
Alternative financing/P3s	151	530	547	1,228
Total	2,393	2,223	1,842	6,458

The Capital Account will fund \$1.9 billion in capital projects.

CAPITAL ACCOUNT

The Capital Account helps increase the predictability of capital spending by allowing money to be carried forward from one year to pay for capital projects in future years. The Capital Account was established in 2002-03, with a deposit of \$910 million.

Additional funds can be transferred to the Capital Account when the balance of the Sustainability Fund exceeds \$2.5 billion. It is expected that \$893 million will be allocated to the Capital Account from the Sustainability Fund in 2003-04. Further planned allocations of \$706 million over the next two years will bring total funding of the Capital Account to \$2.5 billion.

This \$2.5 billion is being used to fund capital projects of both local authorities and the provincial government. The Capital Account funded \$623 million in capital projects in 2003-04, and will fund a further \$1.9 billion in capital projects over the next three years.

ALTERNATIVE FINANCING

It is anticipated that \$1.2 billion of alternative financing will be used for approved capital projects over the next three years. Last year, the government accepted the recommendation of the Financial Management Commission to use alternative financing for some capital projects. This could include both public-private partnerships and capital borrowing.

\$1.2 billion of alternative financing will be used for approved capital projects over the next three years.

Two public-private partnership projects are expected to begin construction in 2004-05, the Calgary Courts Centre and Edmonton Southeast Ring Road. In both cases, a private consortium will design, finance, construct, operate and maintain the asset for a period of 30 years. The government will make payments over 30 years, instead of paying for the projects as they are built. The net present value of the alternative financing for the two projects is forecast at \$703 million over the next three years.

The Capital Plan also assumes that alternative financing of \$525 million will be used for approved capital projects of local authorities, starting in 2005-06. The specific projects and methods of alternative financing have not yet been determined. The government will pay the financing costs for these alternatively financed projects.

All alternative financing proposals, including those for local authorities' projects funded by the province, must be assessed on their merits using a thorough business-case analysis. The Advisory Committee on Alternative Capital Financing, a committee of private-sector experts, is assisting the government with these assessments to determine if value for taxpayers' money is being achieved.

PUBLIC-PRIVATE PARTNERSHIPS (P3s)

Public-private partnerships allow the government to access private-sector expertise and innovation in constructing capital projects and provide the opportunity to reduce ongoing operating and maintenance costs. P3s will only be pursued where value for money can be achieved compared to traditional means of construction, financing and operating. An important factor is the degree to which risks associated with the design, financing, construction and operation of facilities are transferred to the private sector.

Alberta will account fully for all of its P3 projects.

Alberta will account fully for all of its P3 projects. If the project is a capital lease, as is expected to be the case with the Calgary Courts Centre and the Edmonton Southeast Ring Road, the government will report a capital asset equal to the net present value of future capital lease payments on its balance sheet, together with an offsetting liability, in recognition of its obligations under the agreement with the private-sector partner.

New Calgary Courts Centre expected to be completed in early 2007.

CALGARY COURTS CENTRE

In October 2003, BPC Realty Holdings was selected as the Province's preferred partner to develop a consolidated court facility in downtown Calgary. Negotiations are in the final stages. Occupancy is expected in early 2007.

Currently, the Court of Appeal, the Court of Queen's Bench and the four divisions of the Provincial Court in Calgary are located in six different facilities, and there are increasing challenges to provide sufficient space for courtroom services in these facilities. The Calgary Courts Centre project will make the justice system much more accessible and efficient for Calgarians and those living in surrounding areas by bringing all three levels of the courts together in one place and providing for future expansion.

Southeast portion of the Edmonton ring road expected to be completed by the fall of 2007.

EDMONTON SOUTHEAST RING ROAD

The southeast portion of the Edmonton ring road is planned to be Alberta's first highway constructed through a public-private partnership. Alberta Transportation has identified three qualified partners to submit proposals to construct and operate the road.

Construction is expected to begin in the fall of 2004, with completion by the fall of 2007 if there are no significant delays due to weather. The road will be built to freeway standards immediately, so there should be no add-on construction costs over the 30-year life of the agreement. If the process for this P3 highway project works well, the same model could be used for further sections of the ring roads in both Edmonton and Calgary.

Capital Plan Details

\$1.7 billion for the provincial highway network.

PROVINCIAL HIGHWAY NETWORK

The largest component of the Capital Plan is the investment of \$1.7 billion in the provincial highway network. Capital projects will include new highways, highway resurfacing and widening, interchange and intersection construction and improvements, and bridge work. Major projects over the next three years include:

- twinning the North-South Trade Corridor,
- continued work of the North-South Trade Corridor on interchanges at 130th Avenue South and Douglasdale Drive on the Deerfoot Trail in Calgary,
- the Calgary and Edmonton ring roads, including commencing work on the southeast section of the Edmonton ring road and the northwest section of the Calgary ring road,
- 20 interchanges, including Highway 2 at Innisfail, the Trans Canada Highway in Medicine Hat and at Cassils Road in Brooks, and Highway 16 at Campsite Road,
- 34 bridge replacements and 12 new bridges, and
- work on almost 2,800 kilometers of highways across Alberta.

\$934 million for municipal transportation grants.

MUNICIPAL TRANSPORTATION GRANTS

The Capital Plan includes \$934 million over the next three years for annual municipal transportation grants based on:

- 5 cents per litre of fuel delivered in Edmonton and Calgary,
- \$60 per capita for all other urban municipalities, and
- formula-based grants for rural municipalities.

\$1.1 billion for health facilities and equipment.

HEALTH FACILITIES AND EQUIPMENT

The Capital Plan will support nearly \$1.1 billion of health facilities and equipment. \$913 million of health facilities are planned, consisting of \$163 million for new projects and \$750 million for ongoing projects, including:

- the new Alberta Children's Hospital in Calgary,
- the Alberta Heart Institute in Edmonton,
- expansion and upgrading of the Royal Alexandra Hospital in Edmonton,
- completion of the Red Deer Regional Hospital redevelopment, and
- upgrading or replacing long-term care facilities in Westlock and other rural areas.

\$180 million is being provided for diagnostic and medical equipment, We//net and other health-related information systems. The diagnostic and medical equipment is funded by transfers from the federal government.

\$636 million for school capital projects.

SCHOOLS

The Capital Plan will support \$636 million of school capital projects, consisting of \$236 million for the construction of new and replacement schools, and \$400 million for expansion and upgrading of existing schools.

Over the next three years, \$473 million will be provided to complete projects currently in progress and \$163 million will be available for new projects.

\$416 million for post-secondary facilities.

POST-SECONDARY FACILITIES

The Capital Plan will support \$416 million of post-secondary projects, consisting of:

- \$166 million of new post-secondary facilities, including continued construction of the Health Research Innovation Centres at the Universities of Alberta and Calgary, and the National Institute for Nanotechnology in Edmonton, and
- \$250 million for expansion, upgrading and major maintenance of existing facilities.

Over the next three years, \$312 million will be provided to complete projects currently in progress and \$104 million will be available for new projects.

\$267 million for water and wastewater management.

WATER AND WASTEWATER MANAGEMENT

The Capital Plan includes \$267 million for water and wastewater management, consisting of:

- \$96 million in grants to municipalities for water and wastewater treatment,
- \$90 million for government-owned dams, canals and erosion-control infrastructure,
- \$72 million in irrigation rehabilitation grants, and
- \$9 million for upgrades to government water monitoring systems.

\$232 million for community facilities and centennial projects.

COMMUNITY FACILITIES AND CENTENNIAL PROJECTS

The Capital Plan will provide \$232 million for community facilities and centennial projects over the next three years, consisting of:

- \$116 million for the Community Facility Enhancement Program,
- \$73 million for government centennial projects, including planning of the Provincial Museum redevelopment and upgrading the Calgary and Edmonton Jubilee Auditoria, and
- \$43 million for centennial legacy and partnership grants, and heritage infrastructure grants.

\$282 million for other infrastructure programs.

OTHER INFRASTRUCTURE PROGRAMS

The Capital Plan includes \$282 million for other infrastructure programs managed by various ministries, consisting of:

- \$76 million for the Canada/Alberta Affordable Housing Agreement,
- \$68 million for Alberta's share of the Infrastructure Canada/Alberta Program, which is cost-shared on an equal basis among the federal, provincial and municipal governments,
- \$41 million to complete the Alberta SuperNet,
- \$26 million for upgrading provincial parks including water and wastewater improvements,
- \$19 million for the Leduc Agrivalue Processing Incubator,
- \$10 million for a level III biocontainment laboratory,
- \$8 million for upgrading seniors lodges,
- \$4 million for waste management grants, and
- \$30 million for other capital projects.

OTHER GOVERNMENT CAPITAL AND INFORMATION TECHNOLOGY

The Capital Plan will support \$857 million of other provincial government capital and information technology projects.

Capital Plan Details

(millions of dollars)

	2004-05 Estimate	2005-06 Target	2006-07 Target	Three-year Total
Provincial Highway Network				
Strategic Economic Corridors				
Rural North-South Trade Corridor	96	70	56	222
Urban North-South Trade Corridor - Deerfoot Trail	22	22	16	60
Edmonton ring road	107	130	110	347
Calgary ring road	30	71	119	220
Other economic corridors	35	53	45	133
Subtotal Strategic Economic Corridors	290	346	346	982
Highway Construction				
Four-lane construction	9	3	26	38
Highway expansion projects	20	21	21	62
Interchanges and intersections	6	4	6	16
Bridge replacements	9	13	14	36
Other	122	80	70	272
Subtotal Highway Construction	166	121	137	424
Highway Rehabilitation and Planning	131	110	94	335
Total Provincial Highway Network	587	577	577	1,741
Municipal Transportation Grants	324	308	302	934
Health Facilities and Equipment				
New and replacement facilities	81	133	40	254
Expansion and upgrading of existing facilities	263	221	175	659
Diagnostic and medical equipment	49	50	-	99
We//net and other government health systems	40	20	21	81
Total Health Facilities and Equipment	433	424	236	1,093
Schools				
New and replacement schools	97	65	74	236
Expansion and upgrading of existing schools	124	137	139	400
Total Schools	221	202	213	636
Post-secondary Facilities				
New facilities	128	34	4	166
Expansion, upgrading and major maintenance	100	66	84	250
Total Post-secondary Facilities	228	100	88	416
Water and Wastewater Management				
Municipal water and wastewater grants	32	32	32	96
Irrigation rehabilitation grants	24	24	24	72
Government water management infrastructure	30	30	30	90
Government water monitoring systems	3	3	3	9
Total Water and Wastewater Management	89	89	89	267
Community Facilities and Centennial Projects				
Community Facility Enhancement Program	38	39	39	116
Centennial legacy and heritage infrastructure grants	27	14	2	43
Government centennial projects	30	28	15	73
Total Community Facilities and Centennial Projects	95	81	56	232

Capital Plan Details - *continued*

(millions of dollars)

	2004-05 Estimate	2005-06 Target	2006-07 Target	Three-year Total
Other Infrastructure Programs				
Government				
Alberta SuperNet	41	-	-	41
Provincial parks upgrading	7	12	7	26
Leduc Agrivalue Processing Incubator	19	-	-	19
Level III biocontainment laboratory	10	-	-	10
Grants to Local Authorities				
Canada/Alberta Affordable Housing Agreement	51	25	-	76
Infrastructure Canada/Alberta Program	27	27	14	68
Seniors lodges	6	2	-	8
Waste management	2	1	1	4
Other	-	10	20	30
Total Other Infrastructure Programs	163	77	42	282
Other Government Capital and Information Technology	253	365	239	857
Total Capital Plan	2,393	2,223	1,842	6,458

