

**BUDGET**2007  
MANAGING OUR GROWTH

Budget Speech

*Delivered by*

Dr. Lyle Oberg  
Minister of Finance  
April 19, 2007

Check against delivery

**Alberta**

## Managing Our Growth

Mr. Speaker, Clem Gerwing, a son of homesteaders, was born in Saskatchewan after World War One. He served as a fighter pilot in World War Two, began farming, and started a family. He then moved his wife and children to Alberta in 1963. Five years later, he bought a business that sold Western boots. In 1978, he branched out on his own to form the Alberta Boot Company. The reason? He wanted cowboy boots to be made in Alberta.

Today, well into his eighties, Clem is still active in the business, and his son, Tim, is the president. The Alberta Boot Company has grown into an award-winning enterprise that supplies boots around the world. Today, I am proud to wear a pair of Mr. Gerwing's boots for my first budget as Alberta's Minister of Finance.

Mr. Speaker, this is our government's budget for 2007.

Last year saw unprecedented growth in Alberta. There are 100,000 new Albertans this year, with 57,000 of them coming from elsewhere in Canada. Alberta created more than one-quarter of the new jobs in Canada. Unemployment was the lowest in any Canadian province in the last 30 years. Economic growth was the highest since 1993.

Our government must be in sync with this economic climate. This rampant growth presents special challenges and opportunities. Most Albertans feel positive about the quality of life here. However, we know that some people don't feel the benefits of this boom. Many worry that the good times will end in the next few years.



This is why we are preparing for the future today. Under the Premier's direction, our government, and this budget, are focused on five priorities:

- governing with integrity and transparency;
- managing growth pressures;
- improving Albertans' quality of life; building a stronger Alberta; and
- providing safe and secure communities.

To meet these priorities in a roaring economy, we must do two things. First, we must manage our growth in the short term; and second, we must remain fiscally responsible in the outgoing years.

Mr. Speaker, the Alberta Boot Company also has prepared for the future. It succeeds because it recognizes that its competition is not across the street, in another city, or in another province. It is, in fact, all around the world. Like the Gerwings' business, Alberta must judge our success not only against our Canadian counterparts, but also our international competitors.

This budget follows that premise. We consider global as well as domestic conditions, and then look ahead and move forward. We know where we've been, and where we need to go. Our mission here is clear. We will manage growth in a transparent, sustainable and compassionate manner.

Mr. Speaker, this is Alberta's 14<sup>th</sup> consecutive balanced budget. We estimate our total revenue to be \$35.3 billion. That's down from an unusually strong 2006. We forecast a surplus, but a smaller one than in the last two years. We expect Alberta's oil and gas, and income tax revenue, to moderate. Thus, our projected surplus is \$2.2 billion. This will drop to \$1.4 billion and \$925 million in the next two years.



We have the most volatile energy stream of any government in North America. Fluctuating commodity markets and other global factors can't be controlled by any government. Energy price forecasting is extremely difficult for everyone. For this year, we are forecasting \$58 U.S. per barrel of oil, and \$6.75 Canadian per gigajoule of natural gas. Our forecasts are near the average of estimates by other organizations. Even so, our surplus may be \$2-3 billion higher. That's why we are introducing a surplus allocation strategy. (I'll discuss that shortly, on the spending side of our budget.) On the other hand, our surplus could be \$2-3 billion lower than forecast.

Energy and taxes are strong sources of government revenue. Another is investments, which will contribute 7% of our income this year. Our largest source of investment revenue is the Alberta Heritage Savings Trust Fund. We will ensure the Fund keeps pace with inflation. This year, we will retain \$284 million of the Heritage Fund's income in the fund itself.

Since 1976, the Fund has generated \$30 billion in income. This money has funded Albertans' priority areas like health care, education and infrastructure. Due to exceptionally strong equity markets, our investments earned nearly 15% last year. The Fund's current market value is \$16.3 billion. Our forecasted annual return for the next three years is 8%.

The Heritage Fund has taken advantage of high-quality investment opportunities at home as well as abroad. Its holdings in Alberta include \$700 million in public market investments; and \$800 million in private equity, infrastructure, real estate, private mortgages and private debt. About 20% of the Fund's Canadian equity holdings, and 30% of its private investments, are Alberta-based. In total, about 9% of its assets are here in our province.



Family-run businesses like the Alberta Boot Company succeed by working hard, strengthening their assets, and focusing firmly on future growth.

In that spirit, we are taking steps to maximize the long-term value Albertans receive from their assets.

First, a new Financial Investment and Planning Commission will review the province's savings and investments funds. The Commission will recommend ways to ensure our savings are invested to maximize the long-term benefits for Albertans. Most of these assets will be administered by a new Crown corporation, the Alberta Investment Management Corporation. This new body will administer \$70 billion in government, public-sector pensions and WCB funds. It will be an integral part of the financial services sector in our province.

Second, an independent panel of experts is reviewing our royalty and tax regimes. Public meetings will ensure Albertans have their say. This open and transparent review aims to strike a balance. Albertans must receive a fair share from the development of their natural resources. Meanwhile, we must preserve an internationally competitive oil and gas system, which supports our continued prosperity. This review should be completed by this fall.

Our third step will involve a thorough review of the Employment Pension Plans Act. This act governs private-sector employee plans. We hope to attract and retain workers, and ensure that Albertans are confident about their pension plans. Both employees and employers must be treated fairly, and we need to be competitive with other jurisdictions. Options will be presented later this year.



Alberta's tax advantage is well known, and will be maintained under a Stelmach government. If we had the same tax system as other provinces, Albertans and their businesses would pay up to \$4,400 more per person every year.

Mr. Speaker, we recognize that arts and culture contribute greatly to our quality of life. These sectors add enormous economic value as well. We are encouraging more support for these, and other non-profit sectors. This government values the tremendous contribution of the voluntary and charitable sectors. Combined with the federal tax measures, Albertans will now receive a 50-cent credit for every dollar donated above \$200. The charitable donations tax credit will jump from 12<sup>3</sup>/<sub>4</sub>% to 21% this year. This measure speaks to Albertans' shared values of self-reliance and community spirit.

Post secondary education is also important to all Albertans. To that end, we are increasing the education tax credit for post-secondary students to \$600, from \$475 monthly, for full-time students. For part-time students, the increase is to \$180, from \$143. This will help them, or their parents, with students' cost of living.

Along with the indexing of personal tax credits to inflation, and the increase to the small business threshold from \$400,000 to \$430,000, these changes will save Albertans \$179 million this year.

In this budget, we will also parallel changes in federal income taxes. This will save Albertans an additional \$40 million. Areas affected include: income-splitting of seniors' pensions; the lifetime capital gains exemption for small business owners and farmers; and an accelerated capital cost allowance for generating clean energy.



However, we will not automatically parallel the federal decrease in the oilsands accelerated capital cost allowance. This question is being considered by the independent panel reviewing our energy royalty system.

We'll also investigate accelerating capital cost allowances further, to encourage the building of environmentally sustainable energy sources, like biofuels, in Alberta.

We will also allocate more resources to enforcing both the letter and spirit of our tax laws. We want to protect law-abiding Albertans from tactics putting our overall low taxes at risk. Certain corporate tax avoidance schemes pose such a risk. Without our intervention, known schemes would cost Alberta \$200 million in lost taxes. The “Ontario shuffle” involving interest expenses, and the “Quebec truffle” involving shifting income, are two examples of tax avoidance in the global economy. To address this concern, we'll add auditors, increase cooperation with other jurisdictions, and amend legislation.

With this budget, there's one area where Alberta's tax rate will be the highest in any province—and rightly so. While Alberta's economy has raised incomes, tobacco rates have stayed the same. The disincentive to smoke is not as strong as it once was. This is especially so for young people, who are more sensitive to price changes. That's why we are raising tobacco taxes by 16%—that's \$5 on a carton of cigarettes. Our aim is to help discourage smoking. This change takes effect at midnight tonight.

On the expense side, Mr. Speaker, our total estimated spending this year is \$33.1 billion. Included are substantial increases in both capital and operating spending. This is the price of prosperity in Alberta today.



We are responding to local needs. Our annual commitment to municipalities is \$1 billion more than three years ago. We are committing \$600 million per year to the Municipal Infrastructure Program. A further \$400 million comes from our new Municipal Sustainability Initiative. This fulfillment of a commitment by the Premier addresses pressures on local infrastructure. The new long-term funding will help municipalities manage their growth in Alberta's booming economy. Funding will ramp up to \$1.4 billion by 2010-11. That includes incentives for joint planning initiatives, and funding for affordable housing. Another \$900 million a year goes to areas like public transit, policing and water-related projects. Our total capital and operating support to municipalities is \$1.9 billion this year. Municipal support has increased more than six-fold over the last four years.

Overall, our capital plan is \$4.9 billion higher than last year. That's up by 37%, and almost four times the per-capita average in other provinces. Under our government's three-year capital plan, we will spend about \$18.2 billion in grants and investment. The plan includes \$1.3 billion to cover escalating costs of construction on approved projects.

Northern Alberta has been under particular strain. The population growth of our most northerly census areas is higher than the provincial average. We are addressing these pressures. For example, in Wood Buffalo, the population jumped by almost one-quarter from 2001 to 2006. Our investments of \$396 million over three years will cover priority areas including affordable housing, health facilities, and water and wastewater treatment systems.





We are targeting \$679 million (mostly capital spending) over three years to water and wastewater management. Our goal is ensuring a safe, secure water supply; healthy aquatic ecosystems; and a sustainable economy. We will invest in planning, monitoring and research to improve water management. Municipal waterworks systems will be enhanced. Learning more about groundwater quantity and quality in high-risk areas is also a focus.

Provincial highways, bridges and resource roads will be improved. We will pave 2,500 kilometres of highway. That's almost enough to get from High Level down to Waterton Park, and back. Some of our projects include: ring roads in Calgary and Edmonton; a highway bypass at Milk River; and a new bridge over the Smoky River, west of High Prairie.

Albertans will see much-needed, new health facilities. The new Queen Elizabeth II Hospital in Grande Prairie will serve the growing population in that area. Also addressing health needs in the province are the Edmonton Clinic and the South Calgary Health Campus, as well as other projects.

There will be 71 new or significantly modernized school projects over the next three years. This includes building schools in Fort McMurray, Cold Lake and other centres to be announced. It also includes modernizing schools like Balwin School in Edmonton, and Ian Bazalgette Junior High School in Calgary. Schools in Raymond, Hythe, St. Paul, Lacombe, and other districts and divisions will also be upgraded.

In addition, Education and Advanced Education and Technology will each receive a further \$300 million in capital spending. This will be allocated to future projects.



We'll help maintain, upgrade and build facilities used for culture, wellness, recreation and sport. This includes \$280 million over two years for the new Major Community Facilities Program. This provides grants supporting community public-use facilities. The non-profit, municipal and aboriginal groups operating these facilities contribute tremendously to our quality of life.

A province-wide information technology system for police, a new remand centre in Edmonton and the opening of the new Calgary Courts Centre are major efforts towards supporting safe and secure communities.

Now, on to the operating side of our government's expenses. We will spend an estimated \$27 billion this year, up 10% from last year. This will address Alberta's combined nearly 7% jump in inflation and population growth in 2006.

Three-quarters of our operating spending is in four areas:

- health,
- education,
- advanced education and technology, and
- assistance to Albertans.

Alberta's health care operational spending is \$10.8 billion. That's up from \$4.2 billion 10 years ago, and it's the highest per-capita in the nation today. Today, operational spending for health consumes 40% of our budget. Last year, Albertans received, on average: almost \$10,000 for each baby less than one year old; almost \$2,100 for each Albertan aged 15 to 44; and \$22,500 for every senior over 85. Our spending increases support regional health authorities, physician services, and assistance with rising prescription drug costs. Those increases also support services like public health labs, vaccinations and ambulances.



This year's increase in education spending supports several efforts. Funding for our Small Class Initiative is increased by nearly 22%. This allows schools to retain the 2,500 teachers hired over the last three years. Our 9% boost in special-needs student funding will serve 14,700 kindergarten children, and 16,200 students in grades one to 12, with disabilities. Other spending increases support: teachers' professional development, teachers' pensions, accredited private schools, early learning opportunities, and projects to improve schools.

Advanced education and technology are also vital to building a stronger Alberta. As of this fall, tuition fee increases will be limited to Alberta's inflation rate. On average, this will save two-year diploma students \$1,600, and four-year undergraduate students \$3,800. Our assistance to students goes up by 37%. This supports \$95 million in scholarships, bursaries and grants; \$20 million in RESP grants; \$116 million in student loans; and \$71 million in debt relief. We're also spending \$559 million over the next three years on research, innovation and commercializing technology. That's an increase of 16%. It supports energy, agriculture, forestry, life sciences, information and communications technology, and nanotechnology.

We must never forget the most vulnerable people in our society. Children, seniors and Albertans in need of assistance will benefit from spending increases this year. Support for child care and intervention goes up by a combined \$37 million to \$491 million. Funding towards preventing family violence and bullying rises 11% across our partnering ministries, to \$46 million. We are increasing support to the Alberta Seniors' Benefit, and to dental and optical programs. A 15% increase to lodge assistance programs funds 250 more units. Funding to our Assured Income for the Severely Handicapped program increases by 18%, to \$644 million. Further help also goes to income-support clients, and to Albertans with developmental disabilities.



Over the longer term, we are committed to looking at imaginative and cost-efficient ways to assist an aging population. Under the Premier's leadership, we will examine options in creating an Alberta Pension Plan. Our goal is to improve benefits available to Albertans.

Beyond our main spending areas, we're launching several other efforts in service of our government's five priorities. Each effort aims to help us manage and sustain our growth, and our province.

We will develop an immigration strategy, to encourage more skilled workers to come to Alberta. A new workforce strategy will be developed to help retain and recruit workers, and increase productivity, in the agriculture industry.

Funds will go towards detecting and controlling mountain pine beetle infestations in our forests.

We will boost our prosecution team dedicated to family violence cases, and our court services staff. Our contribution towards First Nations policing will increase. More highway sheriffs will be hired, to target aggressive drivers and speeders who endanger other motorists.

Mr. Speaker, these are just some of the efforts funded by our government this year. We are addressing the pressures of growth, and the price of prosperity in Alberta.

Family businesses like those managed by our Alberta boot-makers, the Gerwings, need value from their staff and suppliers. That means watching how much they spend, and on what, and when. This helps them provide the best possible products and service for their ultimate boss: their customers.



We too need to manage our expenses. We just can't keep raising our spending at these levels—even if strong energy prices and economic growth continue. We must never return to the shortfall scenarios that plagued Alberta in the past.

The facts are clear. Hiking our operating spending by 10%—as we're doing this year—can't continue. If we did that, we would have a deficit. Government deficits are illegal in Alberta, and will continue to be under a Stelmach government.

We can't get where we're going if we forget where we've been. Albertans haven't forgotten the downturn of the 1980s, or the government deficits that followed. We must reduce our spending increases, to match Alberta's economic growth. My colleagues and I are committed to holding that line.

This requires more disciplined fiscal management. When you make a cowboy boot, you start with the best pieces of leather you can get. Our approach with this budget is similar. As we work towards managing our growth, we strive for best practices at every step. We are starting with four key steps, here today.

First, our Treasury Board ministry will review existing government programs. It will identify ways to achieve program goals more efficiently. It will scrutinize government spending, to ensure Albertans receive the best value for their investment. It will also better coordinate our planned capital and operational spending. In addition, Treasury Board will explore options towards achieving cost certainty in capital construction.

Second, there are no plans for in-year increases in operating spending. Emergencies like wildfires, floods and pine beetles will be addressed through our Sustainability Fund.



Third, we will establish a formula to govern any in-year surpluses beyond our budgeted forecasts. One-third of any unbudgeted surplus will go to savings and investments, such as the Heritage Fund. The remaining two-thirds will go to capital spending. Of that two-thirds, at least half will go to capital maintenance, rather than new projects. It's important to keep our capital assets in good shape.

Fourth, we will look at ways to address the unfunded liability of public-sector pension plans. This includes teachers' pension plans. One possibility for savings is refinancing the government's portion of the liability at a lower rate. This would save Albertans \$60 million a year, and \$1.6 billion over the term of the liability. This could be extended to the teachers' portion of the liability, saving them money as well. We will discuss other options for pension liabilities.

Mr. Speaker, in summary, this budget is about managing our growth today, as well as ensuring our economic future for tomorrow.

We have increased our operational and capital spending to deal with the incredible growth we are experiencing. This is the price of prosperity.

We have also committed to an expenditure management plan, and a surplus allocation formula, to ensure that taxpayers' dollars are being spent wisely.

Lastly, our promise to look at options for an Alberta Pension Plan aims to ensure prosperity and sustainability for years to come.



Mr. Speaker, the Alberta Boot Company has grown and succeeded in the face of competition from around the world. The Gerwings see challenges as opportunities, and as a government, we understand that.

As we look to the future, we recognize the great challenges before us. We see them as great opportunities. Our government will build on those opportunities, to benefit Albertans. We will do this with the utmost respect: respect for this Assembly, respect for the land, and respect for the people we are so privileged to serve.

\* \* \*

