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ALBERTA BUDGET HIGHLIGHTS 2010

On February 9, 2010, the recently appointed Minister of Finance and Enterprise, the Honourable Ted Morton, presented Alberta's 2010 Budget.

While last year's Budget was generally intended to foster growth and stability in the economy through a stimulus plan, the stated objective of the 2010 Budget is to "strike the right balance" between fiscal discipline and protecting priority programs. The Province has forecasted an increase in spending and another deficit for the 2010-11 year, with what appears to be a general focus upon maintaining the status-quo. The highlights of the 2010 Budget include:

- Increase in total expenditures by 4 percent, up to \$38.7 billion;
- Increase in forecasted revenue by 1.3 percent, up to \$34.0 billion;
- Deficit of \$4.7 billion for 2010-11, largely funded by the sustainability fund;
- Deficit of \$1.6 billion for 2011-12, and a \$505 million surplus forecast for 2012-13;
- No tax increases, but no tax relief either;
- Reduction in infrastructure investment by over 13 percent, down to \$20.1 billion over three-years;
- Facilitation of existing energy and environmental initiatives, including continuing initiatives for carbon capture and storage;
- New five-year plan for Health and Wellness spending, and an increase in Innovation, Research and Development spending;
- Fourteen departments will be subject to budget cuts, while eight departments will receive budget increases; and
- It is anticipated that approximately 795 full-time equivalent positions will disappear within the government, resulting in some layoffs.

The following summary highlights key features of the 2010 Alberta Budget on those issues that we believe to be of greatest interest to clients of Borden Ladner Gervais LLP.

General Economic Forecast

The Budget forecasts economic growth of 2.6 percent in 2010, 2.9 percent in 2011, 3.0 percent in 2012 and 3.1 percent in 2013. The unemployment rate is also expected to decrease to 6 percent in 2011 and to 4.9 percent in 2013.

The 2010 Budget forecasts approximately \$34.0 billion in revenue and \$38.7 billion in spending, providing for a deficit of \$4.7 billion in 2010-11. Consistent with the 2009 Budget, the Province expects a deficit in 2011-12 and then a surplus in 2012-13, largely supported by a forecasted increase in prices and demand for oil and natural gas.

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The above figures are based upon the assumption that the average WTI Oil Prices will be US\$ 78.75 /bbl in 2010-11, US\$ 83.50 /bbl in 2011-12 and US\$ 89.50 /bbl in 2012-13, as well as the assumption that Bitumen Prices will be CDN\$ 56.38 /bbl in 2010-11, CDN\$ 59.79 in 2011-12 and CDN\$64.07 in 2012-13. Also, the Budget is based upon the assumption that the average Natural Gas Prices will be CDN\$ 4.25 /GJ in 2010-11, CDN\$ 5.25 /GJ in 2011-12 and CDN\$ 5.50 /GJ in 2011-13.

While the assumptions relating to the global and U.S. economic recovery were based upon assumptions similar to the average of private forecasters, the Budget highlighted that weaker growth in the U.S., complications related to the U.S. dollar and other sovereign debt, and a significant appreciation of the Canadian dollar against the U.S. dollar are key risks that could reduce revenue by billions. The forecast is based upon the assumption that global economic growth in 2010 will be 3 percent, and that both Canadian and U.S. economic growth will be 2.5 percent.

Infrastructure Spending

The government has pledged \$20.1 billion in infrastructure investment over the next three years, including \$7.2 billion in 2010-11. This is less than its three-year \$23.2 billion commitment in the 2009 Budget, but the government has asserted that it is keeping its commitment to all approved programs, citing lower construction costs, re-profiling and a disciplined spending approach. Some of the key highlights pertaining to the province's infrastructure investment include the following:

- Expectation that the Province will be able to take advantage of lower construction costs;
- \$5.7 billion allocated to provincial highways (including the twinning of portions of Highway 63, a five-lane bridge structure over the Athabasca River, and the development of ring roads around Calgary and Edmonton);
- Commitment of \$5.25 billion over the next three years for municipal infrastructure, with \$1.77 billion earmarked for 2010-11;
- \$3.9 billion has been earmarked for community and government facilities, water infrastructure and climate change initiatives, including:
 - \$1.3 billion toward the reduction of greenhouse gas emissions and their intensity, consisting of \$500 million for Carbon Capture and storage and \$470 million for the Green Transit Incentives Program (GreenTRIP); and
 - \$709 million toward investment in water infrastructure;
- \$2.5 billion has been earmarked for health facilities and equipment; and
- Almost \$2.0 billion has been earmarked for investment in school and post-secondary infrastructure;

The government emphasized that Alberta's capital infrastructure investment is approximately 75 percent higher than the per capita average of other provinces.

Taxes

As noted above, there will be no significant tax changes (increases or decreases) under the 2010 Budget. Specifically, no new energy-related tax proposals were announced in this Budget.

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Energy and Environment

The revenue forecasts of the Budget are of course largely contingent upon modest increases in oil and natural gas prices over the next several years. It is notable that the Province did acknowledge that increases in natural gas prices may be limited by shale gas development and liquefied natural gas imports. Also, the Minister asserted that the Bitumen royalty-in kind options available to the government will help Alberta get the most out of its conventional energy and oil sands.

As discussed above, capital investments have been pledged in several key areas that are of interest to the energy and environmental sectors, including \$5.7 million for provincial highways.

In his budget speech, the Minister of Finance emphasized that a strong reputation and good environmental stewardship will be necessary for Alberta to maintain its export markets. Also, the Province emphasized its support for several Carbon Capture and Storage projects, as well as its \$43 million investment in 2010-11 in the renewable energy sector (including bio-energy). Other points of emphasis included \$141 million in 2010-11 to support climate change and advance clean energy, \$25 million earmarked in 2010-11 for the Water for Life strategy, and \$13 million budgeted in 2010-11 for the Land Use Secretariat to support the implementation and development of the seven regional plans under the Land-use Framework.

The program expense for the Ministry of Energy was increased by 12.3 percent to \$456.5 million for 2010-11, including \$198 million for energy and utilities regulation. However, the program expense for the Ministry of Environment was reduced by 5.4 percent to \$307.9 million for 2010-11. The business plans released in conjunction with the Budget by the Minister of Energy and the Minister of Environment provide more detail on their respective strategies and initiatives.

Innovation, Research and Technology

Emphasis was placed upon developing an innovation-based economy and revising Alberta's innovation framework. As such, the province has earmarked \$237 million for innovation, research and technology commercialization, \$188 million of which has been committed to operating support for Alberta Innovates corporations. This is significantly higher than the \$104 million proposed for similar programs in the 2009 Budget.

Health and Wellness

The Minister of Finance emphasized that the Province intends to embark upon a continuing commitment to publicly funded health care. The Budget pledges one-time funding of \$759 million largely dedicated towards Alberta Health Services' projected deficit, as well as \$14.3 billion in base funding. The government's new five-year funding plan will provide operating increases of 6 percent in each of its first three years, and 4.5 percent in the following two years.

It is also notable that the government pledged almost \$2.0 billion to support senior citizens and persons with disabilities.

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