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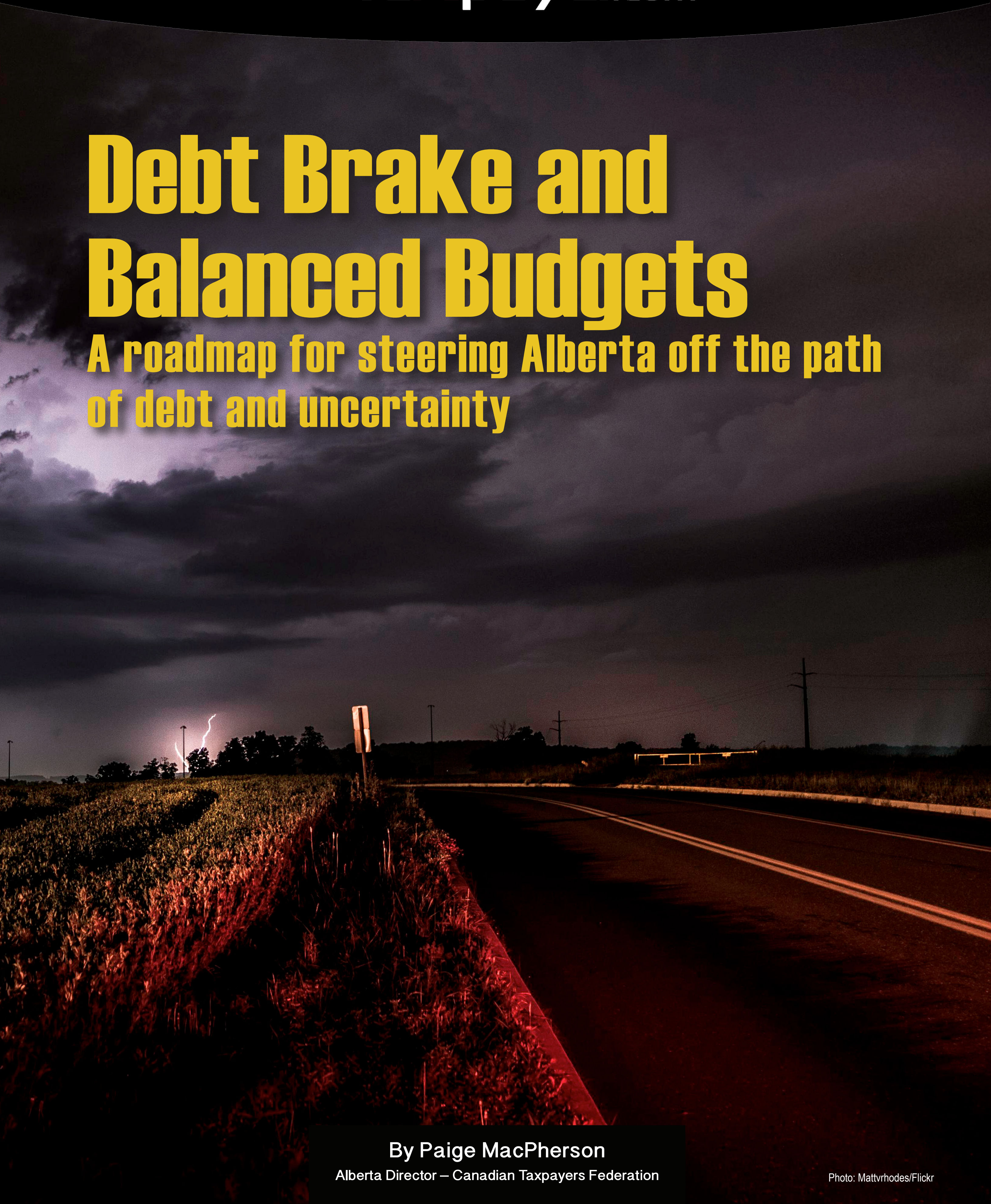
# Debt Brake and Balanced Budgets

## A roadmap for steering Alberta off the path of debt and uncertainty



By Paige MacPherson

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Photo: Mattvrhodes/Flickr

# Debt Brake and Balanced Budgets

## 2015-16 CTF Pre-Budget Submission to the Government of Alberta


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## About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit and non-partisan advocacy organization dedicated to lower taxes, less waste and accountable government. The CTF was founded in 1990 when the *Association of Saskatchewan Taxpayers* and the *Resolution One Association of Alberta* joined forces to create a national taxpayers organization. Today, the CTF has more than 88,000 supporters from coast-to-coast.

The CTF maintains a federal office in Ottawa as well as provincial and regional offices in British Columbia, Alberta, the Prairies, Ontario and Atlantic Canada. Provincial and regional offices conduct research and advocacy activities specific to their provinces in addition to acting as local organizers of nation-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences, utilize social media like twitter, Facebook, YouTube and our own blog, as well as issuing regular news releases, commentaries and publications to advocate on behalf of CTF supporters. The CTF's flagship publication, *The Taxpayer* magazine, is published four times a year. *Action Update* e-mails on current issues are sent to CTF supporters regularly. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets and personalities nationwide.

CTF representatives speak at functions, make presentations to government, meet with politicians and organize petition drives, events and campaigns to mobilize citizens to affect public policy change.

All CTF staff and board directors are prohibited from holding a membership in any political party. The CTF is independent of any institutional affiliations. Contributions to the CTF are not tax deductible.

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  - After making substantial spending cuts in 2016-17, start contributing more to the Contingency and Heritage Funds in 2017-18 (or once the debt is eliminated)
  - Protect property owners and taxpayers by creating the market conditions necessary for overland flood insurance

## PART II: INTRODUCTION

The Alberta economy has veered off track. Years of increasing debt and irresponsible spending have put the province on the road of uncertainty. The bureaucracy has become too bloated, with government sector salaries far out of step with the private sector. This year, the tax hikes have been piling on, one after the other, leaving businesses and individuals struggling to keep up. Alberta's debt is currently growing at a rate of $201.55 per second. This is both unsustainable and unethical, as it means we are shoveling this debt load onto the backs of future generations. The deficits we incur today means a greater debt load for tomorrow, as 'small, temporary deficits' are a thing of fantasy when it comes to most government budgeting in Canada. However, Alberta has a distinct advantage. In this province, we know the path to debt elimination and balanced budgets because we've done it before.

Alberta needs a debt brake. In 2003, the Swiss government took on the challenge of reducing its debt load with legislation referred to as the 'debt brake.' When the legislation was put to the people through a countrywide referendum, 85% voted in favour. The Swiss government mandated a constitutional requirement that spending growth must be limited to the average increase in revenues. This meant the Swiss government used revenues, not borrowing, to fund spending. As a result, Switzerland controlled spending and its debt declined by nearly 15% over a five-year period that overlapped with the 2008 worldwide recession.

Alberta is on an economic road to ruin, but by touching the brakes, the government can get the economy back on track. A reduction in government spending and reallocation of funds to paying down the debt, alongside a legislated spending cap to control future expenditures can secure a brighter economic future for Albertans in present and future generations.

The Canadian Taxpayers Federation believes that by making the tough decisions now, the government can steer Alberta off the road of uncertainty.

## PART III: CTF SUPPORTER SURVEY

In crafting this report, CTF staff consulted closely with its supporters in Alberta. As its starting point, the CTF sent a multiple-choice electronic survey to its Alberta supporters, of which nearly 2,000 individuals responded. Many of these respondents also provided individual response providing important feedback.

While no issue will garner unanimous agreement – even from likeminded supporters – the CTF endeavors to shape its policy recommendations as closely as possible around their views. This report will cite the results of the survey as they are pertinent.

## PART IV: DEFINING DEBT

The CTF calculates Alberta's debt load based on the principles of Ralph Klein's 1999 '*Fiscal Responsibility Act*.[1] '

The *Fiscal Responsibility Act* defined the debt or 'accumulated deficit' as

> The aggregate amount of unredeemed Government securities that have not matured and that are issued in respect of money raised under section 61(1) of the *Financial Administration Act* less (A) any amounts raised for the purpose of making advances to or purchasing securities of a Provincial corporation pursuant to section 62.1 of the *Financial Administration Act*, and (B) the amount of Government securities acquired and held under section 63.1 of the *Financial Administration Act*.

In short, Klein defined Alberta's debt (accumulated deficit) as all borrowing not intended for arms lengths government corporations (like municipalities and the Alberta Treasury Branches) or for limited disbursements. It did not include, as liabilities, debt held by self-supported lending organizations and municipalities, and it did not include as assets any savings accounts such as the Heritage Fund, and most certainly did not include valuations of physical infrastructure assets.

To boil it down plainly, Klein defined Alberta's debt as 'the money Alberta taxpayers owe the banks.'

The CTF will adopt a similar definition of debt in this document: 'All general government liabilities for direct borrowing and alternative financings (P3s), less funds expressly dedicated to debt retirement.'

[1] http://www.assembly.ab.ca/net/index.aspx?p=bill§ion=simple&fid=0

## PART V: CALCULATING ALBERTA'S DEBT

The CTF uses the consolidated statements found in the Government of Alberta's annual reports as its primary source of data in calculating Alberta's debt. These reports provide a balance sheet of the government's assets and liabilities and make it relatively straightforward for one to calculate the province's debt based on Klein's definition in the 1999 *Fiscal Responsibility Act*.

Between fiscal years 1984-85 and 2012-13, the province recorded an 'accumulated debt' in its liabilities. Since only a portion of the debt would mature each year, the government could not simply write a cheque to pay it off ahead of time if they had large surpluses. To eliminate the debt, the government instead offset it with an expressly dedicated Debt Retirement Account, which in 2004-05 outweighed the accumulated deficit, meaning the effective end of the debt. This Debt Retirement Account remained on the books until the final debts matured in 2013-14.

Beginning in 2005-06, the government began recording small liabilities for public-private partnerships (P3s) as liabilities. These were relatively small liabilities in the greater scope of the government ($126 million in the first year), and were intended as a smarter way to build some infrastructure projects. They were never intended as a way for the government to rack up debt, but keep it off the traditionally accounted 'accumulated debt.' While P3s made good business sense in many cases, their unconventional place on the balance sheet opened a Pandora's Box of unconventional debt.

This began in 2003 when the *Fiscal Responsibility Act* was amended by the *Financial Statues Amendment Act* to allow for financing capital projects without the liabilities counting towards the debt. It was innocent enough and never intended as a way of running up debt while unaccountably keeping it off the books, but rather as a way of responsibly utilizing the P3-model.

Soon, direct borrowing for capital projects showed up on the balance sheet. This was a much more straightforward form of borrowing, and harder to justify as 'not really debt.' It was still harmless enough until by the end of fiscal year 2008-09, this combined debt reached $865 million. Faced with a downturn in expected revenues and massive draws on the Sustainability Fund, Premier Stelmach opted to ease the red ink by relying yet more heavily on debt to finance capital projects. In 2009-10 Alberta's debt exploded by 332% to $2.9 billion. Despite this, Alberta had paid off its 'accumulated debt,' and most of the public wasn't very worried so long as there was $16.9 billion in the Sustainability Fund.

This culminated in the government's deletion of any legal reference to Alberta's debt at all, by repealing the *Government Accountability Act* in 2013-14. The government makes a surprisingly frank admission of this is an almost forgotten footnote on the last page of the *Government of Alberta 2012-13 Annual Report*. The document – signed by Finance Minister Doug Horner – states that:

> The new *Fiscal Management Act* replaced the *Fiscal Responsibility Act* on April 1, 2013, and removed the reference and definition of "accumulated deficit" and the Debt Retirement Account (DRA)[2].

By the end of this fiscal year (2015-16), Alberta will hold a debt of $18.28 billion. This is a debt that will leave Alberta in roughly the same hole as it was in in 1997. Furthermore, the debt will continue to nearly double by 2018-19, reaching $31.8 billion that year. Put simply, this is unsustainable and wildly irresponsible.

[2] Hon. Horner, Doug. Government of Alberta. 'Government of Alberta 2012-13 Annual Report.' Page 22, footnote G. http://www.finance.alberta.ca/publications/annual_repts/govt/ganrep13/goa-2012-13-annual-report-executive-summary.pdf Accessed January 7, 2014.

# PART VI: RECOMMENDATIONS

## BALANCE THE BUDGET BY 2016-17

In recent years, the importance of balancing governments' budgets has become a priority across the political spectrum, at least when it comes to talking points. It is crucial for Alberta's economic wellbeing that the provincial government put our money where their mouths are, and balance the budget as soon as possible. Balancing budgets involves making priorities and tough decisions. There's no question about that. However, it's an important job that Albertans entrust their provincial government with.

The Canadian Taxpayers Federation believes that Alberta has a spending problem, not a revenue problem. Unquestionably, though, Alberta has a debt problem, and deficit spending is to blame. Alberta's provincial debt has ballooned to over $15 billion. The problem has increased so quickly that Alberta's debt is now rolling in at $201.55 per second.[3]

The notion of "small, temporary deficits" is a fantasy when compared to the reality of deficit spending in the province. It's best to avoid the vicious cycle altogether and put Alberta back in the black. This involves getting both program spending and capital spending under control, bringing Alberta's budget to *true* balance – not relying on tricky accounting as previous PC governments have.

When it comes to our recommendation, our timeline for budget balance is reasonable. By balancing the budget in spring 2017 for the 2016-17 year, the government would only be slightly ahead of the schedule it intended in the NDP platform, which promised a balanced budget by 2018. This would not need to come into effect until the government's second delivered budget, in spring 2016.

**We recommend the government balance the budget by 2016-17.**

**CTF Supporter Survey Results: Cut Spending to Balance the Budget**
We asked, what should the Alberta government do about its growing deficit? 56.1% of respondents said the government should cut spending to balance the budget as soon as possible. 26.8% of respondents would prefer the government hold the line on spending to balance the budget as soon as possible.

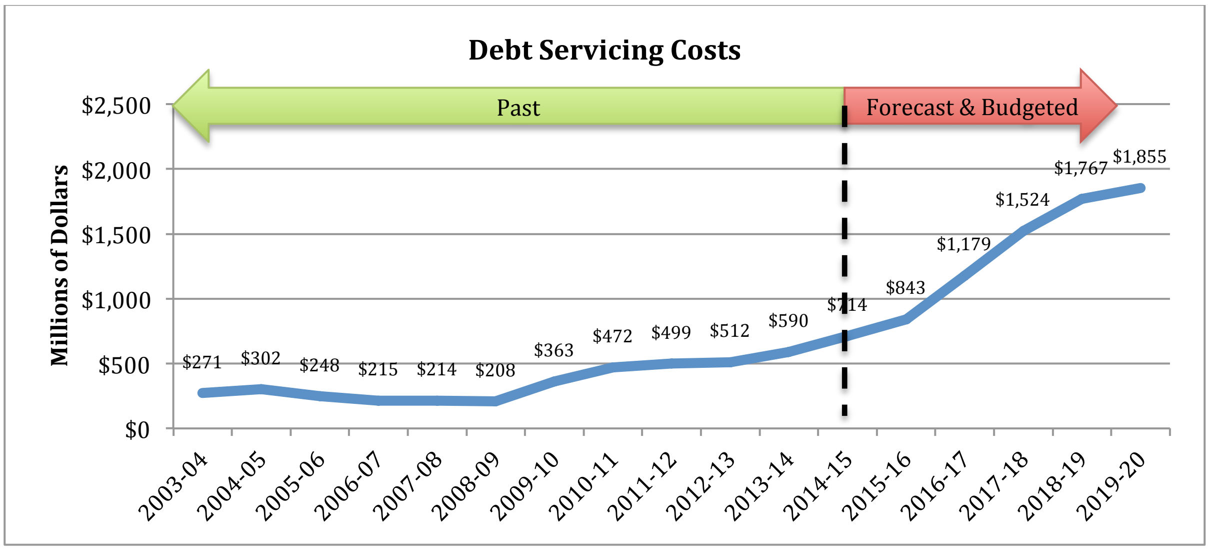
[3] http://www.debtclock.ca/provincial-debtclocks/alberta/

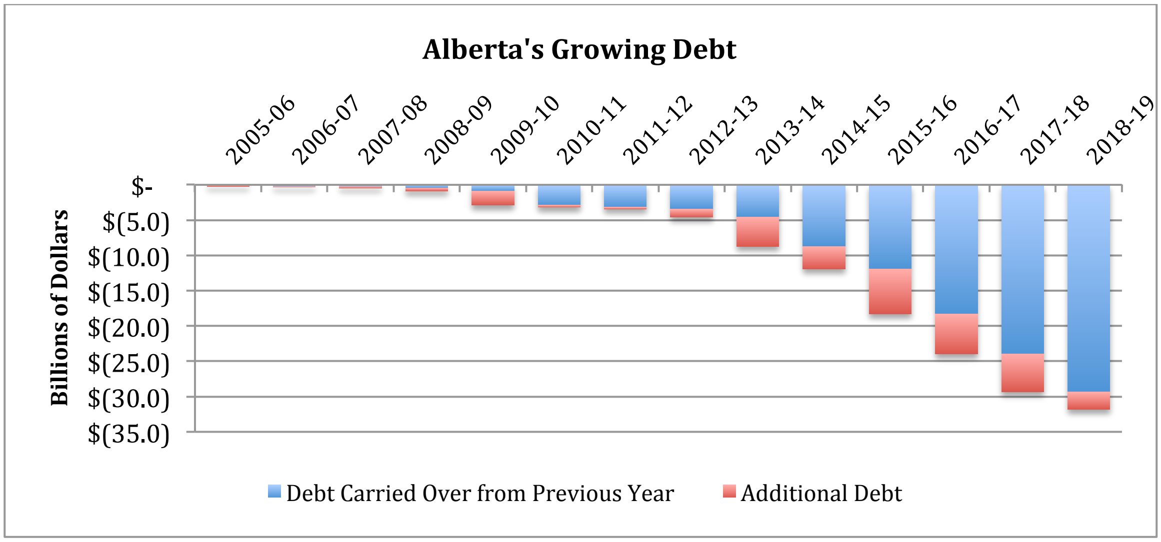
## PAY DOWN THE DEBT

The province's snowballing debt has a personal consequence for taxpayers. Every Albertan personally carries over $3,600 of the debt load – a massive burden to bear.

Alberta is forecast to pay $843 million in debt servicing costs in 2015-16, rising to over $1.85 billion for 2019-20. By 2019-20, debt servicing costs will represent 3.72% of the forecast provincial revenue. That's $1.85 billion that will not be spent on frontline healthcare services, more teachers in classrooms, or much-needed tax relief for struggling Albertans.

If the government paid down the debt and freed up its debt servicing costs, in it could allocate the full cost of debt servicing for 2019-20 to investment in schools, hospitals or other frontline services Albertans actually rely on.






**We recommend the government pay down the province's over $15 billion debt as soon as possible.**

## REDUCE ALBERTANS' TAX BURDEN

### Bring Back the Single-Rate Income Tax

Introduced in 1999, the single-rate income tax was an integral part of the Alberta Advantage. Having a simplified, fair and equitable provincial income tax structure gave people a reason to move their families and businesses to Alberta. The single-rate tax was indeed progressive, in that the more a person earned, the more tax that person paid, and the high basic personal exemption rate of $18,214 assured someone making $200,000 was paying a much higher rate than someone making $20,000. The system was progressive by definition. The previous PC government opened the door to eliminating this tax. Instead of cutting its bloated spending, it proposed levying ever-greater taxes on Albertans. This is unfair and irresponsible.

**We recommend the government reinstate the single-rate tax in Alberta and take due credit for helping to re-establish the Alberta Advantage.**

**CTF Supporter Survey Results: Bring back the Single-Rate Income Tax**

56% of respondents said the elimination of the single-rate income tax was a major hit to the Alberta Advantage, and agreed we should bring back the 'flat tax' now. 22.4% of respondents would be OK with the tax hike on those earning $125,000 or more, only if lower income earners were also given cuts.

### Reverse the 20% Business Tax Hike

Business tax hikes are a wrongheaded approach to raising revenues in Alberta, and our history proves it. In 2000, the province had a 15.5% corporate tax rate and collected $904 per person (adjusted for 2014 dollars). In 2014 with a 10% corporate tax rate, we collected almost $1,400 per person. Clearly, raising the business tax rate did not result in spiked revenues as the government of the day hoped.

Dr. Jack Mintz at the University of Calgary wrote that for every dollar of corporate tax collected, the Alberta economy loses $82,[4] and notes that raising corporate taxes would mean losing thousands of private sector jobs that would have otherwise been created.

[4] http://business.financialpost.com/fp-comment/jack-m-mintz-alberta-should-shun-b-c-style-corporate-tax-hikes

Raising business taxes has a distortionary effect on the economy, perhaps more than any other tax. It makes it more difficult to do business in the province. At a time when Albertans and Albertan businesses are trying to recover from job cuts, raising taxes on the businesses that create those jobs is not a good idea. Fewer jobs mean fewer people paying taxes and a lower standard of living in the province.

**We recommend the government reverse the 20% business tax hike.**

**CTF Supporter Survey Results: Reverse the Business Tax Hike**
Taking into account the recent business tax rate hike from 10% to 12% we asked our respondents what should be done. 88.7% of respondents do not want to see additional business tax hikes, and either want the recent business tax hike reversed or frozen at the current level.

## Reverse the Carbon Tax Doubling

***"I don't think you can guarantee a reduction [in emissions] with a carbon tax. A carbon tax is about the tax."***

**-Thomas Mulcair, Federal NDP Leader, Sept. 17, 2015**

Four years after the introduction of the carbon tax in British Columbia, the Canadian Taxpayers Federation made a submission to the provincial government,[5] calling for an end to the tax. The CTF had heard from hundreds of supporters in that province that the tax had imposed personal hardships on them. The carbon tax had not achieved its intended environmental goals, and was an unnecessary burden on residents.

The BC government introduced the carbon tax as "revenue neutral," but many of the offsetting tax credits did not help the average taxpayer. The tax cut that reached most residents was the personal income tax cut, but it only offset $228 million of the carbon tax's $1.2 billion overall take.

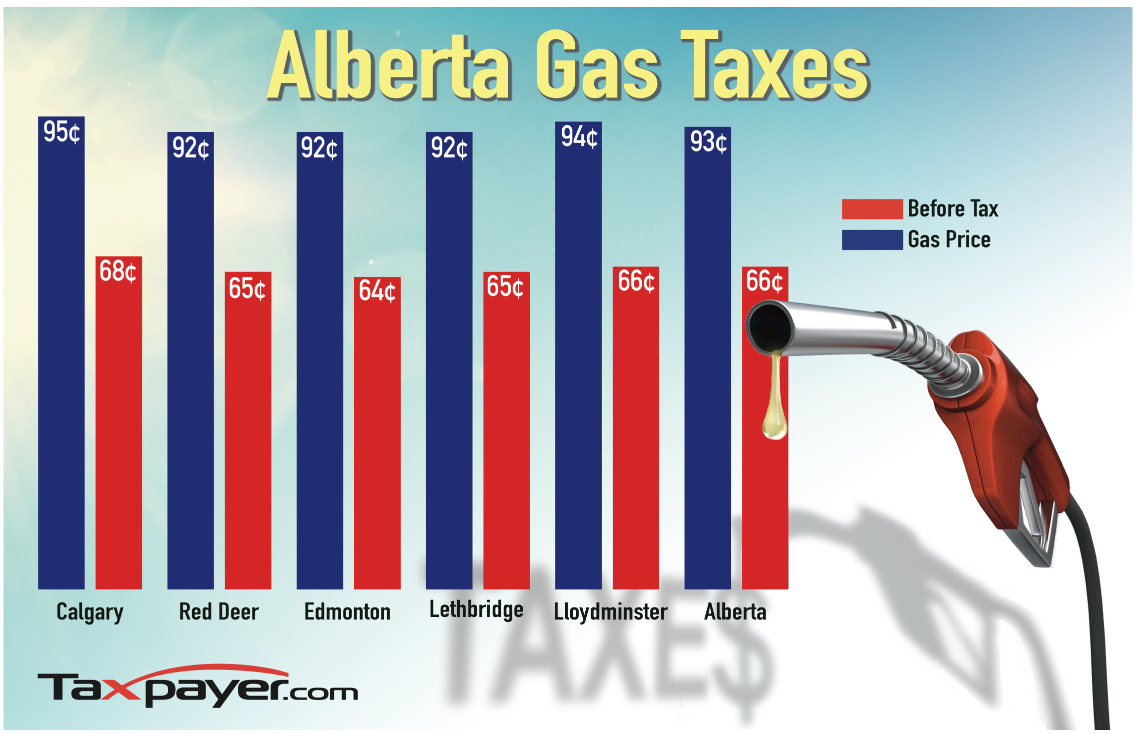
[5] http://www.taxpayer.com/media/kill_the_carbon_tax_8-13-2012.pdf

The lower mainland of BC has become notorious for having the highest gas prices in North America. Our annual calculation of the percentage of tax that Canadians pay at the pump demonstrates that the high price is due to the high tax burden – a large chunk of which is the carbon tax at 6.75 cents per litre in 2015.

Like our neighbours to the west, taking public transit to offset the high costs of gas taxes isn't an option for many, many Albertans who live outside of the province's two major cities. Albertans should not be punished for driving their children to daycare or commuting to work in their cars.

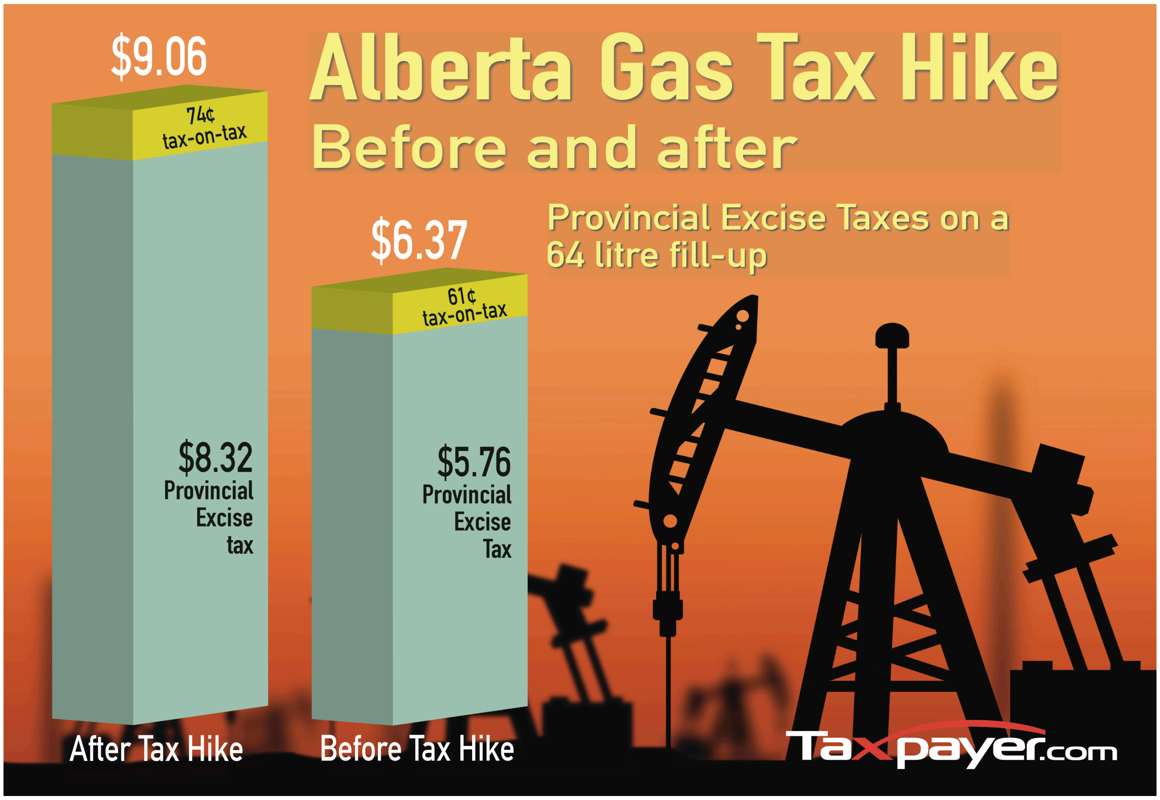
As is illustrated year after year in the CTF's annual Gas Tax Honesty Day Report,[6] Albertans already pay a large chunk of tax at the pumps, and the spring gas tax hike only made matters worse.

The following chart demonstrates Albertans' tax burden at the pumps.




6 http://www.taxpayer.com/media/GTHD-Report-2015.pdf

The chart below illustrates the impact of the spring gas tax hike on the pump price paid by Albertans.




In terms of environmental impact, BC's carbon tax has been a failure. As our 2015 Gas Tax Honesty Day notes, even in transit-heavy Vancouver gasoline sales went up 12% from 383 million litres in 2007 to 4.9 billion litres in 2010, and emissions rose 4.3% from 2.3 million tonnes to 2.4 million.

A cap-and-trade system could prove just as bad for Albertans. Truly a carbon tax by another name, a cap-and-trade scheme would require the establishment of a large bureaucratic office, adding to Alberta's already bloated bureaucracy. Across the world, cap-and-trade schemes have been fraught with corruption and have even lead to Ponzi schemes – on top of the fact that it's an untransparent tax Albertans would not directly see, but would certainly feel the impact of.

We've heard loud and clear from our supporters that they do not want a carbon tax or cap-and-trade scheme in Alberta, beyond what is already in place.

**We recommend the government not implement new or increased carbon taxes or cap-and-trade schemes, and makes due with the revenue already brought in by the existing carbon tax on large emitters.**

**CTF Supporter Survey Results: Reverse the Carbon Tax Hike**
44.8% of respondents said the Alberta government should not implement or hike carbon taxes in any form, and they should also eliminate the current carbon tax. An additional 17.6% agreed the recent carbon tax hike should be reversed, but were comfortable with renewing the carbon tax at its previous rate.

## Maintain Current Royalty Rates

The Canadian Taxpayers Federation is pleased to have been engaged as a stakeholder in the government's royalty review process. We conducted a detailed survey of our supporters to better understand their points of view and we have communicated those findings to the royalty review panel.

Inherently, we are skeptical of a royalty review that sets out with the intention of ensuring Albertans are getting their "fair share" of resource revenues. That language seemed to point to a hike in royalties before the review had even begun. We have concerns that raising royalties could simply be used to stuff general government coffers and would strongly recommend looking for savings within government as a better approach to finding more revenue.

Our concerns stem from the unfortunate impact of Alberta's last royalty review – which also used the language "Our Fair Share" – during and after which oil and gas money started flowing out of Alberta and into neighbouring Saskatchewan and British Columbia. Saskatchewan's land sales (crown leases to drill for oil) went from $169 million in revenue in 2006-07 to $928 million in 2008-09 – a dramatic change. Meanwhile in Alberta, royalty revenues and land bonuses dropped. Land sales plummeted from $2.2 billion in 2005-06 to under $600 million in 2007-08 and under $900 million in 2008-09.

Both Saskatchewan and BC were impacted by the drop in oil prices at that time, as Alberta was, but neither saw a decrease in their investments in this area, as Alberta did.

The royalty changes weren't implemented until January 1, 2009, yet Alberta saw a drop in revenues as early as 2007. This shows the harmful impact that uncertainly has on investment. The *Our Fair Share* review report was released on September 17, 2007, with the government accepting the recommendations on October 25 of that year. Though the changes hadn't yet been implemented, the impact of those changes was felt immediately. Oil and gas firms started to move their investment elsewhere.

After the royalty review killed investment in the province, the Alberta government undertook a 'competitiveness review,' which brought in new drilling incentives.

As oil and gas companies are already facing tough economic times, with thousands of layoffs across the province, creating any additional uncertainty in the field would be extremely unfair to those who depend on those jobs.

**We recommend the government not run in circles with a damaging royalty review and subsequent necessary competitiveness review, and simply maintain royalty rates at their existing levels.**

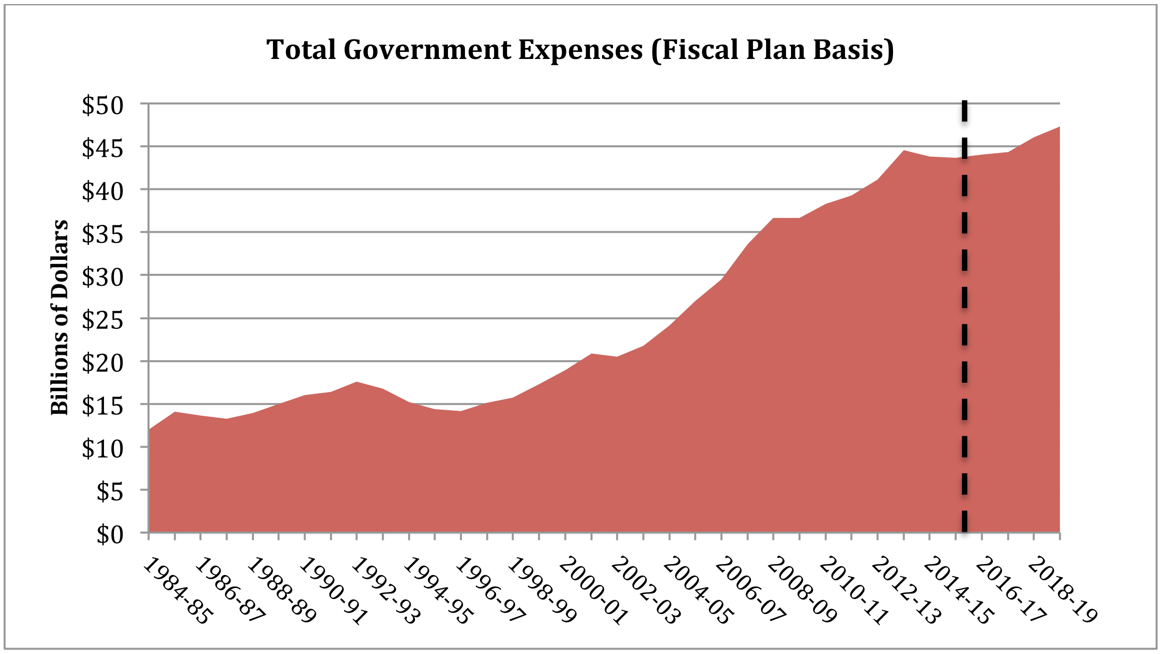
**CTF Supporter Survey Results: Leave the Royalty Regime Alone**

55% of respondents said the Alberta government should either leave the royalty regime alone or decrease royalties, with 9.14% saying we should lower royalties a little bit, and 4.11% saying we should lower royalties significantly.

## TRIM SPENDING

Total government expenses in Alberta have increased by 21% since 2003-04, adjusted for inflation and population growth. Had spending been held at 2003-04 levels, and adjusted for inflation and population growth, Albertans would be spending $9.3 billion less in 2015-16. Expenses are projected to reach a record high in 2018-19 when it reaches $46.1 billion.

In the survey we conducted, an overwhelming number of respondents, when asked to provide unprompted comments about what should be priority for government in Alberta, expressed he urgency of the government's need to cut spending.




### Cut operational spending by 15% to save $6.3 billion

According to RBC, Alberta's program expenditures are the third highest (per capita) in Canada.[7] Former Premier Prentice acknowledged publicly that the province has a spending problem that's been "overlooked for too long."[8] The 2015 budget noted that Alberta's government program spending is about $1,300

[7] http://www.rbc.com/economics/economic-reports/pdf/provincial-forecasts/prov_fiscal.pdf
[8] http://business.financialpost.com/news/economy/albertas-spending-problems-overlooked-for-too-long-says-premier-jim-prentice

higher per capita than the national average in 2013-14.[9] This is both unnecessary and unsustainable.

With an operational spending cut of 15%, government can save $6.3 billion in 2015-16 (36% of the projected debt). This cut would actually allow government to spend $3 billion more than in 2003-04 (adjusted for inflation and population growth). Alberta's legislative history proves that it is indeed possible for government to live within its means.

**We recommend the government cut operational spending by 15% to save $6.3 billion in 2015-16.**

## Introduce a Legislated Spending Cap

While the CTF recommends cutting spending this year, we have learned over the past decade that governments with money will spend it. In order to protect taxpayers from future tax hikes or spending cuts, growth in spending must be controlled, and not allowed to ramp up as rapidly as it has in the past.

The Government of Alberta has increased their budgeted spending beyond what the combined population and inflation growth rate has been. Over-spending is the cause of current budget instability, mostly because it has driven up reliance on non-renewable resource revenues.

A 2003 *Fraser Institute* study entitled, "Tax and Expenditure Limitations – The Next Step in Fiscal Discipline,"[10] looked at the experience of 27 American states that have laws specifically targeting growth in government spending and taxes. The study considered taxation and spending over long periods and concluded they are effective in constraining the growth of government and reducing taxes.

Alberta has also had considerable success in the past with fiscal restraint legislation.

Premier Klein smartly introduced the *Balanced Budget and Debt Retirement Act* in 1995, outlawing his government from running deficit budgets and prescribing a minimum payment that must be made each year toward the provincial debt.

This legislation forced the government to make tough decisions, find efficiencies and prioritize to ensure the budget was balanced each year. It further ensured

[9] http://finance.alberta.ca/publications/budget/budget2015/fiscal-plan-complete.pdf
[10] https://www.fraserinstitute.org/sites/default/files/TaxandExpenditureLimitations.pdf

taxpayers that the province's $22.7 billion debt would eventually be paid-off and $1.5 billion would no longer be wasted in annual interest payments.

In 1999, however, after the province's debt had nearly been halved, the government was under tremendous pressure to abandon their debt repayment promise and spend surplus dollars. Premier Klein once again smartly handcuffed his government by introducing the *Fiscal Responsibility Act* which prescribed a minimum of 75% of all surplus dollars be put toward debt repayment.

These two statutory restrictions were key to ensuring government did not return to deficit budgeting and ultimately led to the full repayment of Alberta's provincial debt in 2004.

Albertans have seen the benefit of legislated limits on their government's ability to spend and borrow. Indeed, Alberta would not be in the prosperous position it is today had the Klein government not introduced it.

**We recommend the government legislate a spending cap so that annual program spending cannot increase by more than the combined growth rates of Alberta's population and inflation.**

## Introduce a Predictable, Sustainable Capital Spending Plan

Infrastructure spending should be determined based on community need and provincial ability to afford it. It should not be determined based on when government wants to "create jobs." The CTF has concerns regarding the government's stated direction in this area,[11] which we think is misguided. Governments can create a good environment for private sector job creation, but as every government job represents money taken out of taxpayers' pockets, the government cannot truly "create" jobs out of thin air. Importantly, this should not be how government plans for capital spending. While interest rates may seem temptingly low now, they are unpredictable in future, which impacts long-term debt loads. More debt now means a larger burden on future generations, which is fundamentally unfair to our children. Instead of passing the buck to our kids, the government should focus on paying down its existing debt before piling on any more.

Similar to how the NDP proposed creating an Infrastructure Sunshine List to prevent politicians from creating projects where they stand to score votes (a

[11] http://calgaryherald.com/news/politics/ceci-considers-ramping-up-capital-spending-in-face-of-weakening-economy

proposal that the CTF applauds), infrastructure spending to “create jobs” runs the same risk of vote-grabbing. When it comes to infrastructure, government can and should spend within its means.

A decade ago the Alberta Financial Management Commission (AFMC) rightfully noted the wild swings in Alberta’s capital spending. As a result, the AFMC recommended that the province annually budget not less than 0.9% of the average provincial GDP for the previous two years.

The CTF supports the implementation of this AFMC recommendation with the caveat that that there be a maximum allocation of 1.5% of the average GDP for the previous two years.

As seen in the Table 7, in the last 21 years, Alberta has dipped below the 0.9% floor only once (in 2002-03), has gone above the 1.5% ceiling thirteen times and has been within that range seven times.

Once the budget is balanced, the government should implement a guideline for capital spending to prevent wild swings caused by both over and under-spending.

## CAPITAL SPENDING AS A PERCENTAGE OF TWO-YEAR AVERAGE GDP

| Year | Alberta GDP ($ millions) | Previous Two-year's Average GDP ($ millions) | Capital Plan spending ($ millions) | Capital Plan spending as % of two-year GDP | 0.9% of two year avg |
|---|---|---|---|---|---|
| 1990 | $73,257 | | | | |
| 1991 | $72,892 | | | | |
| 1992 | $74,936 | $73,075 | $822 | 1.12% | $658 |
| 1993 | $81,179 | $73,914 | $1,138 | 1.54% | $665 |
| 1994 | $88,041 | $78,058 | $891 | 1.14% | $703 |
| 1995 | $92,036 | $84,610 | $939 | 1.11% | $761 |
| 1996 | $98,634 | $90,039 | $821 | 0.91% | $810 |
| 1997 | $107,048 | $95,335 | $1,310 | 1.37% | $858 |
| 1998 | $107,439 | $102,841 | $1,256 | 1.22% | $926 |
| 1999 | $117,080 | $107,244 | $1,878 | 1.75% | $965 |
| 2000 | $144,789 | $112,260 | $2,091 | 1.86% | $1,010 |
| 2001 | $151,274 | $130,935 | $2,860 | 2.18% | $1,178 |
| 2002 | $150,594 | $148,032 | $997 | 0.67% | $1,332 |
| 2003 | $170,113 | $150,934 | $1,659 | 1.10% | $1,358 |
| 2004 | $189,743 | $160,354 | $2,842 | 1.77% | $1,443 |
| 2005 | $219,810 | $179,928 | $3,743 | 2.08% | $1,619 |
| 2006 | $238,410 | $204,777 | $4,769 | 2.33% | $1,843 |
| 2007 | $258,850 | $229,110 | $6,971 | 3.04% | $2,062 |
| 2008 | $262,864 | $248,630 | $7,593 | 3.05% | $2,238 |
| 2009 | $251,286 | $260,857 | $6,528 | 2.50% | $2,348 |
| 2010 | $261,457 | $257,075 | $5,889 | 2.29% | $2,314 |
| 2011 | $275,208 | $256,372 | $5,871 | 2.29% | $2,307 |
| 2012 | $284,338 | $268,333 | $5,087 | 1.90% | $2,415 |
| 2013 | $291,062 | $279,773 | $5,002 | 1.79% | $2,518 |
| 2014 | N/A | $287,700 | $5,890 | 2.05% | $2,589 |

**We recommend the government take a measured approach to capital spending and implement a guideline for Capital Plan spending of a minimum of 0.9% and a maximum of 1.5% of the two-year's previous average GDP.**

# END CORPORATE WELFARE

As former Premier Ralph Klein said, government should not be in the business of business. To reduce government spending, ending handouts to corporations of any size is key. It does not make sense for a government to raise business taxes, then dish that money back out to the businesses it decides it likes. The government should end this strange pattern and say no to corporate welfare.

## End corporate subsidies

Ending corporate welfare in the province would send a message to taxpayers that government no longer wants to pick winners and losers, choosing some companies over others as who is 'worthy' of taxpayer money. Leave business to the marketplace.

In the late 1980s and early 1990s, Albertans lost more than $2 billion[12] in provincial tax money on failed loan guarantees to pulp and paper mills, waste treatment plants and tech start-ups. As they say, history repeats itself. The government would be unwise to not learn from its mistakes.

The Alberta NDP's sweeping electoral victory was predicated on sweeping out the old way of doing business, which sometimes involved a too-close-for-comfort relationship between government and corporations. In-keeping with the theme of its campaign, Alberta's NDP government should usher in a new era of accountability with an end to corporate subsidies.

**We recommend the government put an end to all corporate subsidies in Alberta, including but not limited to bioenergy subsidies, the carbon capture and storage program, the Alberta Enterprise Corporation and the Alberta Multimedia Development Fund.**

12 http://www.assembly.ab.ca/ISYS/LADDAR_files/docs/hansards/han/legislature_23/session_4/19960416_2000_01_han.pdf

## TIGHTEN GOVERNMENT'S BELT

It's no secret that large firms across the province are implementing hiring and salary freezes and reducing their number of employees. There's no reason that, in tough economic times and with a bloated bureaucracy, government shouldn't do the same. Yet, we saw recently that the government gave senior government officials a 7.25% raise and approved an international travel junket for several MLAs, a decision which they later reversed after public scrutiny.[13] We were relieved to see the reversal but concerned by the initial approval of the raises. The government cannot be shielded by a golden bubble paid for by taxpayers. Instead, government needs to set an example and tighten its belt too.

### Reduce Number of Public Servants by 10% to Save $278 Million

Alberta is burdened with a bloated bureaucracy. With debt spiraling out of control, now is the time to cut back and allocate funds to paying down the debt. The bureaucracy is the ideal place to start for a government looking for savings.

Alberta currently has 197,582 public employees in the "Alberta Public Service," according to the 2015 budget. Based on the $24 billion spent on compensation, the average cost for each full-time government sector employee is $121,696.

The highest paid of these are the managers and should be the ones who are laid off first.

**We recommend reducing the number of public servants by 10% to save $278 million.**

### Implement an Immediate Hiring Freeze in Government

As mentioned, companies across the province are experiencing job cuts. The least the Alberta government to do, in order to bring itself in line with the reality of the private sector (that pays government's bills) is to implement a hiring freeze. If additional frontline workers are needed, the government could easily trim from its bureaucracy in order to reallocate resources into the frontline that directly impacts Albertans.

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13 http://www.cbc.ca/m/news/canada/edmonton/wildrose-slams-salary-boost-junket-patronage-appointment-by-ndp-1.3242739

**We recommend the government implement an immediate hiring freeze until the debt is eliminated, to save taxpayer money.**

### Implement an Immediate 10% Salary Reduction for Government Employees

Government sector workers in Alberta enjoy a salary premium over their private sector counterparts. If government is looking for places to trim spending to save the province from increased debt, government sector salaries are a good place to start.

A 2015 Fraser Institute report[14] found that the average wage in Alberta's government sector (including all three levels of government) is 6.9% higher than salaries in the private sector, controlling for qualification factors.

The report also found that government sector workers enjoy much higher job security and take more time off than the private sector workers who pay their salaries.

The CTF is concerned by the fact that the government recently had the willingness to give senior government officials a 7.25% retroactive pay raise[15] at a time when the province is experiencing thousands of layoffs, but we were pleased to see the decision reversed after much public scrutiny.

A salary trim at a time when Albertans are losing their private sector jobs would represent nothing more than the government stepping in line with reality.

**We recommend the government implement an immediate 10% salary reduction for government sector employees to save taxpayer money without impacting frontline services.**

### Reform Pensions for Government Employees

When it comes to pensions, we again find that government sector employees are out of step with the realities experienced by their private sector counterparts.

Most government sector workers enjoy defined-benefit pension plans. This is the gold standard of pensions. Defined-benefit pension plans (which guarantee a defined level of payout and then work backwards to figure out how much needs

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14 https://www.fraserinstitute.org/studies/government-employees-alberta-paid-69-cent-more-comparable-private-sector-workers
15 http://www.cbc.ca/m/news/canada/edmonton/wildrose-slams-salary-boost-junket-patronage-appointment-by-ndp-1.3242739

to be contributed) have been rejected by the private sector as being too costly and too unpredictable. Private sector pension plans are now almost exclusively defined-contribution, (which like RRSPs define a contribution level, and then work to earn a maximum return for retirement).

The Fraser Institute study[16] found that in 2013, 77.7% of government sector workers in Alberta were covered by registered pension plans, while only 21.8% of workers in the private sector were. This is a gaping difference.

A stunning 97.4% of those government employee pensions were defined-benefit pensions. Only 38.9% of private sector registered pension plans are defined benefit. This means that the luxury of defined-benefit pensions is only enjoyed by 8.6% of private sector workers, compared to 75.7% of public sector workers.

The report also found that government sector workers retire an average of 1.3 years earlier than their private sector counterparts.

The ultimate irony in all of this is that taxpayers are on the hook for much of the cost associated with these gold-plated pension perks.

The problem defined-benefit pension plans is that they often run unfunded liabilities. The pension plan contributions are calculated using long-term assumptions for rate of investment return, life expectancy of employees, the inflation rate and the population growth rate.

The CTF continues to call on the province to introduce a *Government Employee Pension Sustainability Act* that:

1. Requires contribution rates from plan members to be sufficient enough to support – on an equal 50/50 basis with taxpayers – the unfunded liabilities currently held by defined-benefit pension plans;

2. Introduces "target-benefit" provisions for existing retirees, where cost of living increases are dependent on whether the plans have unfunded liabilities or not;

3. Reduces taxpayer contributions to no more than 50% of the total contribution to any pension plan. This is currently not the case with the Management Employee Pension Plan (MEPP);

[16] https://www.fraserinstitute.org/studies/government-employees-alberta-paid-69-cent-more-comparable-private-sector-workers

4. Honours the government's commitment to all benefits accrued to date under current plans;

5. Moves all members of current defined-benefit plans to new, defined-contribution plans; and

6. Mandates that any lump-sum bailout of pension plans by taxpayers require an equal 'extraordinary contribution' from plan members, amortized over a reasonable period.

The government should follow the lead of many companies and governments in the U.S. who have closed their old defined-benefit pension plans to new entry and created a defined-contribution plan for new employees.

According to the Center for Retirement Research at Boston College, since 1981 there has been an unquestionable shift in the private sector away from defined-benefit pension plans towards defined-contribution pension plans. The Center also points out that it's not only companies whose pension plans are on the verge of bankruptcy who are converting, but more recently, healthy companies are pro-actively converting their plans to ensure continued health and to head-off "market risk, longevity risk, and regulatory risk."

Blue-chip companies like IBM, Coca-Cola and Sears have all converted their pension plans to ensure the old pension plan wouldn't cripple their finances and offer up unexpected unfunded liabilities in the future.[17]

Even the Saskatchewan government under former NDP Premier, Allan Blakeney, converted most of their public sector pension plans from defined-benefit to defined-contribution in 1977. This was largely done in response to unpredictable and growing unfunded liabilities.[18]

Alberta needs to recognize the urgency of the pension crisis and immediately close entry to current defined-benefit plans in favor of new, defined-contribution plans. While respecting already accrued benefits, all current employees should be moved to a defined-contribution plan on a go-forward basis.

**We recommend the government pass a *Government Employee Pension Sustainability Act* based on the CTF's six-point plan to make plans fair to taxpayers and sustainable for employees.**

[17] http://crr.bc.edu/images/stories/Pension_Freeze_Fact_Sheets/table2.pdf
[18] http://www.innovation.cc/books/chapter02.htm

### Reduce MLA Salaries by 10%

The starting salary for an MLA in Alberta is just over $127,000 per year. According to a February 2015 Workopolis report compiled using Statistics Canada numbers, the average salary in Alberta is $60,476. Of course we'd like to attract the best and brightest to our government, but at a time when Albertans are experiencing both job losses and tax hikes, it's only reasonable that elected officials lead by example and tighten their own belts. The previous government reduced MLA salaries by 5%, which was a commendable move, but more can be done.

**We recommend the government continue that responsible decision-making and reduce MLA salaries by a further 10%, allowing MLA salaries to remain over $114,000.**

# STRENGTHEN GOVERNMENT ACCOUNTABILITY

Alberta's new government was elected after campaigning for substantive improvements to government transparency and accountability in the province. From the outset, the CTF has been clear that the government deserves praise for these intentions. It is important that the government implement accountability reforms swiftly, responding to voter demand that the election results made clear.

## Restore the Government Accountability Act & Fiscal Responsibility Act

The *Government Accountability Act (GAA)* was passed after years of misleading budgets and fudged numbers during the Getty government. In 1991, then provincial Treasurer Dick Johnston declared, "The 1991 budget delivers on all our commitments to Albertans. Mr. Speaker, this is a balanced budget."

Johnston's statement was not true. The truth was that the Alberta government had fudged the numbers in the provincial budget and ended up running a $2.6 billion deficit – the second largest under Don Getty's watch.

Albertans rightfully demanded the government open the books and tell Albertans on a regular basis what was going on with the provincial budget.

This did not fall on deaf ears. When Ralph Klein took over as premier in 1992, one of his tasks to his new provincial treasurer, Jim Dinning, was to restore confidence in Alberta's books.

From that, first Bill 67 was passed in 1992 and Bill 40, the *Government Accountability Act,* was passed in 1995. The former required the government to update Albertans every quarter as to how the provincial budget was faring, the latter enshrined in law what information government had to include in provincial budgets and annual reports.

The *Government Accountability Act* was landmark legislation that codified a high standard of transparency and accountability in the provincial budget making process. In fact, former treasurer Jim Dinning declared in 1995 that the support he had received from his fellow MLAs as he pitched the *Government Accountability Act* "was one of the highlights of my career in public service."

The Fiscal Responsibility Act clearly defined debt and legislated that the government could not spend more money than it took in, outlawing deficits.[19]

While the *Government Accountability Act* and the *Fiscal Responsibility Act* were eventually merged, the nuts and bolts remained intact for the past 18 years.

That was until Finance Minister Doug Horner introduced Bill 12 in the spring of 2013. This repealed the both the *Fiscal Responsibly Act (FRA)* and *Government Accountability Act,* and replaced them with the *Financial Management Act*.

Repealing the *FRA* legalized deficits and abolished any legal definition of 'debt.' The government had been amending that legislation nearly every year to allow them to run deficits, however, repealing the *GAA* and replacing it with significantly watered-down legislation allowed the government to keep vital information from Albertans.

Specifically, the repeal of the *GAA* means that the government is not required to provide Albertans with provincial revenue sources by category, expenses by ministry, a breakdown of liabilities and assets, borrowing (debt) requirements, and the details of capital spending by ministry.

In place of specific items that used to be included (by law) in the government's consolidated fiscal plan, Bill 12 required only that there be revenues and expenditures for "an operational plan, a savings plan, a capital plan," and a list of the major economic assumptions.

It is unlikely that a government would ever provide such a barebones document in place of a properly quarterly update, but it gives the government the power to pick and choose which pieces of information to include, and which to exclude. As the previous Redford government demonstrated, it was not above removing information it finds embarrassing, even when it was required by law.

That's precisely what then-Finance Minister Doug Horner did beginning in August of 2012 when it comes to the quarterly budget updates – in violation of the now repealed *Government Accountability Act*.

Horner removed the provincial balance sheet (showing assets and liabilities) and grouped all revenues and expenditures into larger, less-specific categories when he tabled the first quarter budget update of fiscal year 2012-13.

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19 http://www.assembly.ab.ca/ISYS/LADDAR_files/docs/bills/bill/legislature_27/session_2/20090210_bill-033.pdf

Bill 12 also amended the quarterly budget update requirements to no longer require the government provide information on the accuracy of the budget, but rather short three-month snapshots.

It was a strange admission on the part of the Horner to confirm the CTF's claim that he was in violation of the law by amending it to meet his current practices.

Former treasurer Jim Dinning best made the case for the principles of the *GAA* on May 11, 1995 as he was moving third reading of the legislation*:* "I'm proud that my colleagues have been willing to set the standard and set a high one such that no matter who may come behind us, they will not be able to water the standard down without looking at the whites of the eyes of Albertans and saying, "We're going to deliver to you substandard government.""

The CTF believes that the repeal of the *GAA* is at the root of subpar management of Alberta's finances.

**We recommend the government restore the *Government Accountability Act* and *Fiscal Responsibility Act*, in keeping with its election commitments to a more transparent, accountable governance style.**

### Put boards, agencies and commissions on the sunshine list

This was a commendable NDP platform commitment. It doesn't make sense for the sunshine list of taxpayer-funded salaries over $100,000 to exclude boards, agencies and commissions, as this leaves a gaping hole in government transparency. Taxpayers deserve full disclosure of *all* the large salaries they pay.

**We recommend the government add boards, agencies and commissions to the sunshine list, as per the NDP platform commitment.**

### Introduce an "Infrastructure Sunshine List"

This NDP platform commitment was described as being meant to discourage politicians from building projects purposefully in ridings where they could score votes. The NDP government deserves praise for this commitment to accountability. An Infrastructure Sunshine List would show taxpayers on which projects their infrastructure cash is being spent, and should be implemented sooner than later. The creation of an Infrastructure Sunshine List will also better allow taxpayers to ensure government is spending infrastructure dollars responsibly, which will be a priority in coming years.

**We recommend the government implement an "Infrastructure Sunshine List," as per the NDP platform commitment.**

## Return to cash accounting

The Alberta government's shift away from honest cash accounting makes the budgets tremendously difficult for even financial professionals to understand, let alone your average Albertan. Through an accounting trick, the government can post budget surpluses while still borrowing a great deal of money. The current "accrual accounting" only shows part of the debt picture and hides government spending. Alberta previously used cash accounting, which is the way families manage their household budgets. A shift back would dramatically improve budget clarity for journalists, think tanks, advocacy groups and most importantly, for all Albertans.

The government should provide Albertans with a reconciled cash balance to restore confidence to the province's financial reporting.

**We recommend the government return Alberta to straightforward budgetary reporting and provide Albertans with a reconciled cash balance in budgets and quarterly fiscal updates.**

## Ban partisan advertising

Partisan advertising on the taxpayer dime is unethical, pure and simple. This was a major issue under former-Premier Alison Redford, under whose leadership Albertans became well familiar with the government's 'Building Alberta' advertising and branding campaign.

Some government ads are justified and innocent (like flu vaccination ads), while some flirt pretty close with being partisan (such as the federal 'Economic Action Plan' signs). Still others are so clearly partisan that only the spin-doctors writing the talking points believe they are innocently "informing the public."

The province's 'Building Alberta' signs on roadsides were just off-season election signs. They used the same blue and orange that Alberta Progressive Conservative Association uses on their election signs. They had "the Honorable Alison Redford, Premier" emblazoned across many of them, as if we should have thanked the premier for her generosity. They did not inform drivers about road closures or openings, but merely stated what the project underway is about, vaguely.

Partisan advertising with tax dollars isn't just wrong. It's expensive.

The CTF obtained documents through Freedom of Information which showed that in 2013, the average "Building Alberta" sign cost taxpayers $3,560 a piece, with some reaching up to $8,000.

Total spending on these signs increased by 3,027% over 2011, and 377% over 2012. In 2013, the government spent $1.04 million of taxpayers' cash on these signs.

Opposition parties obtained documents indicating that the overall "Building Alberta" ad campaign is cost taxpayers $1.7 million a year.

This has not yet been an issue for this government. However, governments should proactively guard against misuse of tax dollars in present and future.

It is with this foresight that the CTF is proposing a simple bill to address the issue.

**We recommend the government introduce a bill requiring that all government advertising must be approved by the Auditor General in order to ensure that they are free of partisan content.**

### Properly fund the Auditor General's office

The Auditor General is a vital part of any government – finding inefficiencies and wrongdoing, providing a favour to all taxpayers. Prior to the election, the PC government voted to claw back funding to the Auditor General. Spending money on the AG's office actually saves money over the long term by rooting out waste, and as such is an area of government spending for which the CTF believes taxpayers get their money's worth many times over. For a government interested in accountability, providing the Auditor General's office with adequate funding should be a no-brainer.

**We recommend the government increase spending to the Auditor General's office by 10%, to ensure accountability is well looked-after.**

### Introduce MLA Recall Legislation

Party leaders in Alberta have the power to kick MLAs out of their caucus, which Premier Notley took advantage of right out of the gate, removing MLA Deborah Drever from the NDP caucus shortly after she was elected. Why not put that same power in the people's hands? If constituents in Alberta find their MLA grossly unfit for office, they should have the ability to show their MLAs the door, more than once every four years.

Taxpayers in neighbouring British Columbia have this right. A voter in BC has the ability to submit a recall petition to Elections BC after they have collected signatures from 40% of voters eligible to sign the petition in a given electoral district, provided it is not submitted during the 18 months after the MLA was elected. There's no reason Alberta's MLAs shouldn't be subject to the same direct accountability from the people they serve.

**We recommend the government introduce MLA recall legislation, empowering Albertans to have a direct say in their government more than every four years.**

## Reform the Freedom of Information Act

Alberta has one of the most archaic freedom of information laws in Canada, making it difficult for journalists, advocacy groups, researchers and any Albertan to access information about how taxpayers' money is spent. If government accountability is to be increased, reform of the freedom of information process would be an excellent step forward. Albertans have the right to find out whatever information they legally can about the government that is working for them, but Alberta's dated process makes it difficult for citizens to understand and access.

At the very least, the Alberta government should look to move the FOI process online, eliminating the need for Albertans to physically send mail and a cheque to their respective FOI offices.

**We recommend the government make reforms to the freedom of information laws in the province, increasing accessibility to government information for all Albertans.**

## Strengthen the *Conflict of Interest Act*

Another commendable platform commitment from the NDP was a promise to prevent MLAs from using their positions to benefit friends, and expand the *Conflict of Interest Act* to ensure all senior staff of provincial boards, agencies and commissions are held to the same standard. This is a common sense promise that we believe Premier Notley should keep. We see no purpose in waiting to implement this promise.

**We recommend the government keep the NDP platform commitment and strengthen the *Conflict of Interest Act*.**

### Allow citizens' initiative referenda

Citizens' initiative referendums would allow Albertans to bring important issues to a public vote after receiving enough petition signatures. British Columbians brought in citizens initiative referendums in 1991, the same year the province elected the NDP. They used a referendum to vote out the unpopular harmonized sales tax (HST) after the government introduced it. If the government is committed to direct democracy as other NDP politicians have been across Canada, to increase participation they should give Albertans a meaningful voice in policy decisions.

**We recommend the government introduce legislation allowing citizens initiatives referenda and show Albertans they are serious about improving accountability.**

## ENSURE FUTURE PROSPERITY: NO NEW TAXES

Facing tax hike after tax hike, Albertan taxpayers are struggling. The CTF has heard loud and clear from our supporters in Alberta that they cannot manage anymore tax hikes. And nor should they have to bear additional tax increases. In the short-lived Prentice budget, taxes on liquor, tobacco, personal income, property (education), and gasoline all increased, just to name a few. This list doesn't include the dozens of fees, fines and levies that increased as well.

The CTF does not support any further tax hikes. In fact, we have yet to see the full impact of the Prentice tax hikes. When the Stelmach government increased liquor taxes, sales of liquor dropped in Alberta and increased in Saskatchewan border towns. Similarly, Alberta needs to be aware of how tobacco tax increases in Ontario and Quebec have fueled a contraband tobacco trade. The CTF estimates the Ontario and Federal government are foregoing upwards of a billion dollars in combined tax revenue from contraband tobacco sales annually.

Just like government should, Albertans need to balance their own budgets around their kitchen tables. This is key to quality of life and economic stimulation from the private sector. We recommend the government not implement any new taxes. Even with cuts, the government can make due with the extremely generous revenue streams that are currently in place.

### Expand the *Taxpayer Protection Act*

The *Alberta Taxpayer Protection Act* currently requires a referendum be held only prior to the introduction of a general provincial sales tax in Alberta. However, any other new tax or an increase to an existing tax can be imposed at any time for any reason.

In contrast to Alberta, other jurisdictions have laws that require politicians to put tax increases and new taxes to voters in a referendum. In Switzerland, a tax increase must be put to a referendum if 50,000 voters sign a petition requesting a referendum. Swiss taxpayers have sometimes voted for tax increases – but only after politicians made a convincing case for their necessity. In the State of Washington and many other U.S. states, voter approval is required for any tax increase or new tax. This applies to expanding the base for a tax, increasing the rate of a tax or introducing a new tax.

Most recently B.C. taxpayers forced a referendum on the conversion of the PST in that province to an HST. While this reform was founded upon good economics and would have been positive for the province, it was done in a manner that voters rightfully viewed as underhanded, following the BC Liberal election commitment not to do so. As a result, a broad coalition of voters came together in an initiative campaign to force a referendum, which they won. While this move is economically destructive, it was nonetheless a repudiation of a government that made a significant tax reform without a mandate from the people.

Currently, without expanded taxpayer protection legislation, the onus is on Albertans to justify to politicians why we should be able to keep our own hard-earned money. The onus ought to be on special interest groups and politicians to justify why they want to take more tax revenue from Albertans.

Government ministers, staffers and the premier herself have all mused about the possibility of introducing new taxes or raising existing taxes.

As taxpayers are the people who foot the bill, they should be consulted on any and all tax increases.

**We recommend the government amend the *Alberta Taxpayer Protection Act* to require a referendum on all new taxes and tax increases.**

## Reject Calls for a Beer Import Tax

In the past, the Alberta government has been pressured[20] to increase taxes on out-of-province small and medium-sized brewers. The majority of the founding members of the Alberta Small Brewers Association lobbied the government pushing for this tax in 2013, arguing that other provincial jurisdictions over-tax out-of-province brewers, so we should as well.

This makes about as much sense as calling for a provincial sales tax because New Brunswick has one.

Former Deputy Premier Thomas Lukaszuk stated that the Redford government was strongly considering an import tax on beer produced outside of Alberta by small and medium sized brewers.

This came after an extensive lobbying effort by some by small- and medium-sized brewers inside of Alberta, and big foreign-owned beer producers.

This would have the effect of not only raising the price of beer, but reduce the enviable selection available to Alberta consumers.

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[20] http://www.onbeer.org/wp-content/uploads/2013/04/smallbrewerletterfeb2013.pdf

Currently, the province's graduated beer tax structure[21] taxes beer from both in and out-of-province brewers at the same rates. Taxes are dependent only on a beer's alcohol content and brewery size.

However, breweries that have smaller worldwide production levels are eligible for small-brewer tax rates.

As lobbying efforts continue, the government could be pressured to tax small-breweries from outside the province at the full, large-brewer rate, while taxing Alberta-based small brewers at a lesser rate.

If such a change was approved by the province, beers like Steam Whistle pilsner, Mill Street's organic lager (both brewed in Ontario), or Scotland's Innis & Gunn, along with hundreds and hundreds of other beers brewed all over Canada and the world, would see their prices jump.

Thanks to liquor privatization in Alberta in the early 1990s, Albertans now enjoy more selection of different beer, wine and liquor products than any other jurisdiction in Canada. The competitive beer tax structure in Alberta adds to this increased selection and lower prices.

This lower beer tax rate is much like the Alberta small business tax rate, ensuring that mom-and-pop shops don't pay the full corporate tax rate.

The beer tax is an industry specific tax that few other industries have levied against them. If some in Alberta's brewing industry feel that they are not competitive enough, the answer isn't to raise taxes on their competitors — it's to lower taxes on all brewers, equally.

**We recommend the government reject calls to impose a small-brewer import beer tax.**

## Say No to a Junk Food Tax

Junk food taxes, fat taxes, sugar taxes, sugary drink levies – call them what you wish, it all amounts to an unfair tax. These taxes are predominantly a tax on the poor, plain and simple. Yet, governments have been drawn to junk food taxes as a way to bolster their general coffers and make people healthier. However, they don't achieve their intended health goals.

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[21] http://www.aglc.gov.ab.ca/pdf/quickfacts/markup_rates_schedule.pdf

In January of this year, the Alberta Policy Coalition for Chronic Disease renewed their call for a 50-cent-per-litre tax on sugary beverages.[22] They've asked the government to force Albertans to make the choices they prefer, by over-taxing those choices.

It is not always easy to make healthy choices, but the key word in this is 'choose.'

Taxes are always easier to pass off on the people who pay them when the tax's advocates claim that it will discourage negative behaviour or support something positive. Consider a real world example.

In 1992, the State of Arkansas passed a soft drink tax that was supposed to support its Medicaid (healthcare) program. After some time it came to light that politicians were simply using the revenue to fatten-up the government's general fund. A clear tax grab.

But even if a "wellness levy" was directed towards putting healthy fruit juices in school vending machines, it doesn't change the point that food taxes are regressive. That is that they disproportionally penalize the poor.

Setting that all aside, the evidence does not support claims that a fat tax would make people thinner. In a 2008 study by the Mercatus Centre of George Mason University found that a 20% tax on a 75-cent soft drink (upping the price to 90 cents) would see the Body Mass Index (BMI) of an obese person decline from 40 to 39.98[23].

The decline is virtually non-existent because, as *Statistics Canada* found in 2004, soft drinks represent only 2.5% of caloric intake for the average Canadian.

Denmark's government – which implemented an extensive food tax in 2011 – found it has failed to prove any positive health benefits and has only served to damage its economy. The country has seen no change in the consumption habits of its citizens. Rather, the tax has caused an estimated 2,400 job losses in food manufacturing and has seen Danish businesses hurt by consumers simply doing their shopping in neighboring countries. Denmark has since repealed the tax.

[22] http://www.abpolicycoalitionforprevention.ca/take-action/support-a-levy-on-sugary-drinks-in-alberta.html
[23] *'Tax Sins: Are Excise Taxes Efficient?'* Williams, Richard & Christ, Katelyn. Marcatus Centre, George Mason University.
http://mercatus.org/uploadedFiles/Mercatus/Publications/RSP_MOP52_Taxing%20Sins_web.pdf
May 2009. Access January 21, 2014.

Even if a food tax were effective in reducing obesity, it would be a blunt instrument that would catch unintended victims. The woman who enjoys a sports drink after a 10 km run is still taxed as if she were a couch potato.

Food taxes don't work. Even steep food taxes are found to have a negligible impact. They disproportionally penalize the poor and limit choice for free citizens.

**We recommend that the government reject calls to implement a tax on specific food and drink choices.**

## Say No to a Vote Tax

When the Alberta government banned corporate and union donations to political parties earlier this year, speculation began to swirl about what revenue might replace the new void for political parties. The absolute last place this money should come from is taxpayers' wallets. Political parties should be 100% responsible for raising their own funds through voluntary means.

When former Prime Minister Jean Chretien banned corporate and union donations to political parties[24], he compensated the financial loss to political parties with a 'per-vote subsidy,' or in other words, a vote tax.

The CTF has concerns that a similar path might be followed here in Alberta, as the elimination of the federal vote tax was bemoaned by federal NDP national director Anne McGrath, who called the elimination "worrisome to democracy."[25] Preserving the taxpayer handout was also a part of what triggered the coalition between the NDP, Liberals and Bloc Quebecois on the federal stage.[26]

In addition, the provincial NDP government in Manitoba brought in a vote tax in 2008,[27] after which they declined the subsidy until some changes in 2013.

Similar concerns in Alberta may be unfounded, and we are hopeful that they are.

Taxpayers should not be made to pay for the pamphlets that clutter their mailboxes or the attack ads that bombard their airwaves during election time. Political parties are free to engage in this behaviour – indeed, it's become a

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24 http://www.parl.gc.ca/About/Parliament/LegislativeSummaries/bills_ls.asp?ls=c24&Parl=37&Ses=2

25 http://www.theglobeandmail.com/news/politics/with-end-of-per-vote-subsidy-looming-politicians-push-for-donations/article22245161/

26 http://www.cbc.ca/news/canada/the-coalition-crisis-and-the-lessons-learned-1.759479

27 http://www.winnipegsun.com/2013/04/04/pcs-slam-vote-tax

normal part of our democratic process – but parties and candidates should do it on their own dime.

The NDP government in Alberta was right to ban donations from unions in the province because it raises the question of fairness, seeing as public sector union dues are mandatory and frequently used for political purposes. The vote tax raises the same issue. If we want involuntary money out of politics, then we shouldn't force Albertans to pay an additional tax simply for voting.

**We recommend that the government resist the temptation for a vote tax and keep taxpayer money out of partisan activity.**

## Resist Government-Subsidized Daycare

Though 'universal daycare' sounds nice, we needn't look further than Quebec to see that the policy has been a failure for parental choice and childcare quality, and has unnecessarily subsidized the wealthier members of society.

Predictably, Quebec's $7/day daycare program rose demand for childcare sharply. The Montreal Economic Institute noted the demand rose in both new and previous consumers of daycare, meaning parents began to use it because it became very affordable. So those who really *needed* the system began competing with a much larger segment of the population in demand. This resulted in waiting lists of tens of thousands of children.

Most importantly, the Institute noted that calculations show families with relatively high incomes (over $60,000) made the greatest use of the system, representing 58% of the children in subsidized daycare centres – although children from these families actually comprise a minority of children under the age of four in Quebec.

The CTF also believes that childcare choices (and the funding associated with them) should be made exclusively by parents – not by government. Government-subsidized daycare necessitates the government picking winners and losers in the childcare business; a road the government should steer clear of.

When it comes to government daycare, the proof is in the pudding. We are fortunate to be able to observe that the program did not achieve its intended goals, and know in advance that we should avoid this type of program in Alberta.

**We recommend the government resist $25/day daycare and allow parents to make their own choices about how to care for their children.**

## No New City Tax Powers Without Referenda

While the big city mayors are clamouring for more taxing powers to levy further taxes on their citizens, we urge the provincial government to think about the people who will be paying those taxes. Giving cities more taxing powers opens the doors to further and further tax hikes for Calgarians and Edmontonians – something they simply cannot afford. Both city spending and property taxes are already outpacing population growth by large margins.

In Calgary, property taxes are rising 3.5% in 2016, which council treated like a gift to taxpayers because that rate is actually reduced from their originally planned 4.7% hike.[28] Calgary's rate of inflation is 1.3%, according to Statistics Canada.

Meanwhile, a 2015 report from the Canadian Federation of Independent Business found that municipal operating spending increased by 82% over the last decade, while population growth only increased by 24%.[29]

We're under no illusion that city charters mean anything less than impactful new tax powers for big city mayors. In Toronto, a city charter meant an increased tax burden for city residents.[30]

The three previous premiers have either said no to new city tax powers or told the big city mayors to first put it to a referendum. No mayors have done this.

Alberta municipalities already have the right to levy property taxes, business taxes, municipal franchise fees and user fees. They also receive funding each year from the province in Municipal Sustainability Initiative (MSI) and from the federal government through the gas tax transfer. The government's website notes that Municipal Affairs has allocated almost $6.7 billion to municipalities since the program launched in 2007."[31]

Moreover, if they need more revenues, they already have the necessary tools to raise those revenues.

At the very least, we believe the question should be put to a referendum. We recommend the government does not grant any new tax powers for Alberta cities without the consent of city taxpayers through citywide referenda. In the lower mainland of BC, the people recently voted 62% against a 0.5% municipal sales tax hike to fund the regional transit authority's expansion plan, through a

[28] http://newsroom.calgary.ca/news/city-council-approves-the-2016-resilience-budget
[29] http://www.cfib-fcei.ca/cfib-documents/ab0725.pdf
[30] http://www.ontario.ca/laws/statute/06c11
[31] http://municipalaffairs.alberta.ca/msi

plebiscite. The tax hike had been proposed by the mayor's council of the 21 municipalities in Metro Vancouver. Before, during and after the vote, proponents of the tax argued the plebiscite was a waste of time and money. However, the overwhelming "no" result proves it was absolutely the right thing to do.

**We recommend that the government say no to new tax powers for cities without first requiring citywide referenda.**

### Say No to Taxpayer Money for a Pro Sports Arena in Calgary

Government should not be dishing out corporate welfare to any wealthy executives, including the owners of professional sports teams. Certainly there are more pressing priorities with government's limited resources than subsidizing a pro sports arena.

There are four recent examples of amazing arenas built in Canadian cities with no public money, proving that it can, indeed, be done.[32] The Air Canada Centre in Toronto, the Bell Centre in Montreal, the Rogers Arena Vancouver and the Canadian Tire Centre in Ottawa – an even smaller market than Calgary – were all built with private funds. These arenas all draw big crowds for major sports and entertainment events that of course draw big profits for the teams and owners.

Many of the costs associated with the development of the pro sports arena are unknown and could prove to be a massive burden for taxpayers, including the cleanup of the contaminated site.

Ultimately, government should not give taxpayer money to wealthy pro sports franchises.

**We recommend the government say no to the requests for taxpayer money to fund a professional arena and sports complex in Calgary, and let the Calgary Flames ownership group cover their own costs like any other for-profit enterprise.**

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[32] http://www.cbc.ca/news/canada/edmonton/edmonton-accused-of-hiding-facts-in-downtown-arena-review-1.726646

## Do Not Raise Taxes on Gas

This past spring, Albertans experienced a four-cent-per-litre gas tax hike. This costs the average Albertan an extra $2.69 every time they fill up their tank.[33] This brought the total portion of the pump price that is purely tax to 29% in Alberta.

At the federal level, the CTF has recommended that the government cut the sneaky gas tax-on-tax that hits Canadians twice.

At the provincial level in Alberta, the government must realize that driving cars is not a luxury Albertans can simply cut back on. Many, many Albertans require driving for day-to-day work, childcare, education and errands. For many Albertans, public transit is not an option. Taxing gas is an unfair penalty for these Albertans. Yet, we have concerns that the government may hike these taxes as part of its 'climate change' action.

**We recommend the government not raise taxes on gas.**

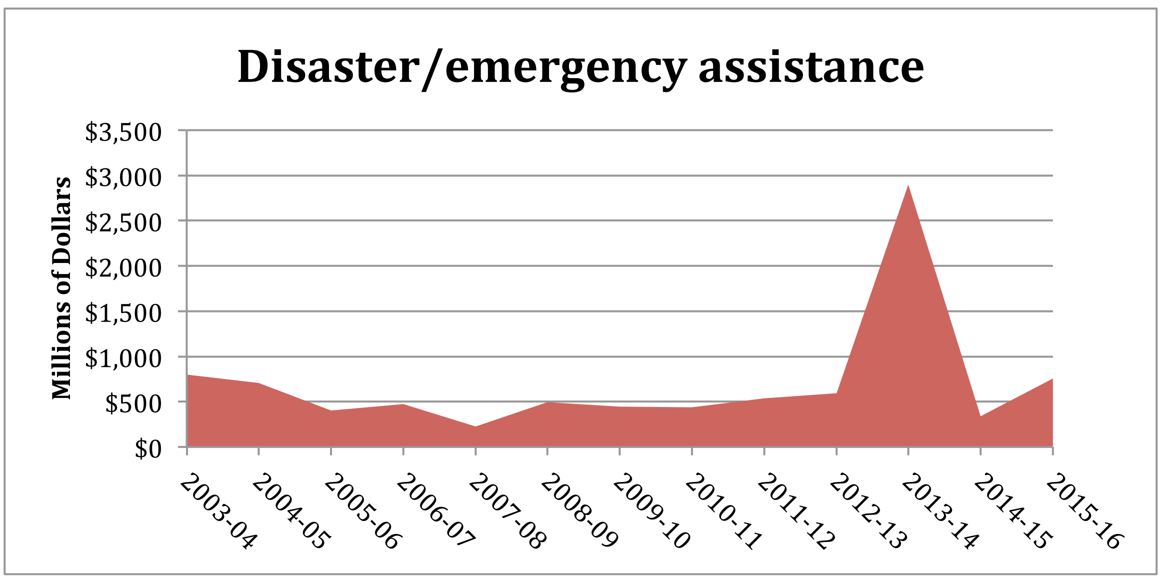
[33] http://www.taxpayer.com/news-releases/alberta-pump-price-spikes-with-gas-tax-hike

## ELIMINATE THE DEBT, THEN PRIORITIZE SAVING

The CTF believes Alberta should pay off its debt in full to ensure future prosperity. While putting away money in savings accounts is a wise and responsible plan, it doesn't make sense to do so while also borrowing and incurring more debt and debt interest payments for taxpayers.

### Budget for Disaster and Emergency Relief According to Reality

Between 2003-04 and 2015-16 forecast, the average government spending on disaster/emergency assistance has been $701 million. Excluding 2013-14 when the province saw dramatic flooding, the average spent was $517 million. Despite these numbers, the government has budgeted far below what has been needed: $220 million in 2016-17, $204 million in 2017-18, $400 million in 2018-19 and 2019-20. The government should budget disaster/emergency relief according to reality, not arbitrary wishful thinking. For any surpluses, saving is top priority. Once debt is repaid, surpluses should be allocated to the Contingency Fund.

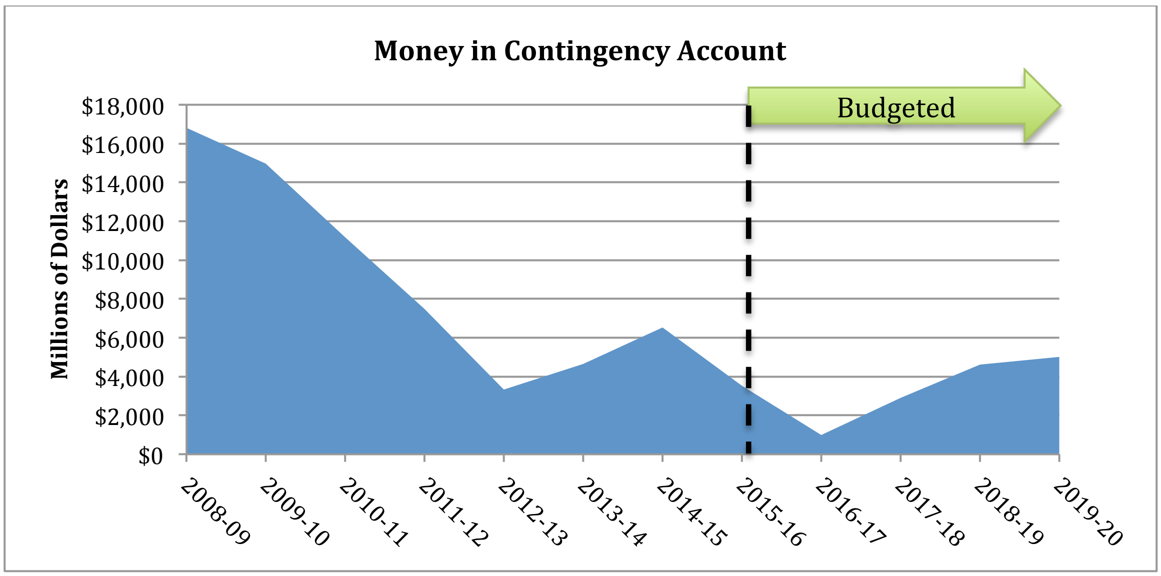



**We recommend the government budget $520 million annually for emergency/disaster relief, and direct any surpluses toward debt repayment in 2016-17, and allocated to the Contingency Fund once the debt is repaid in full.**

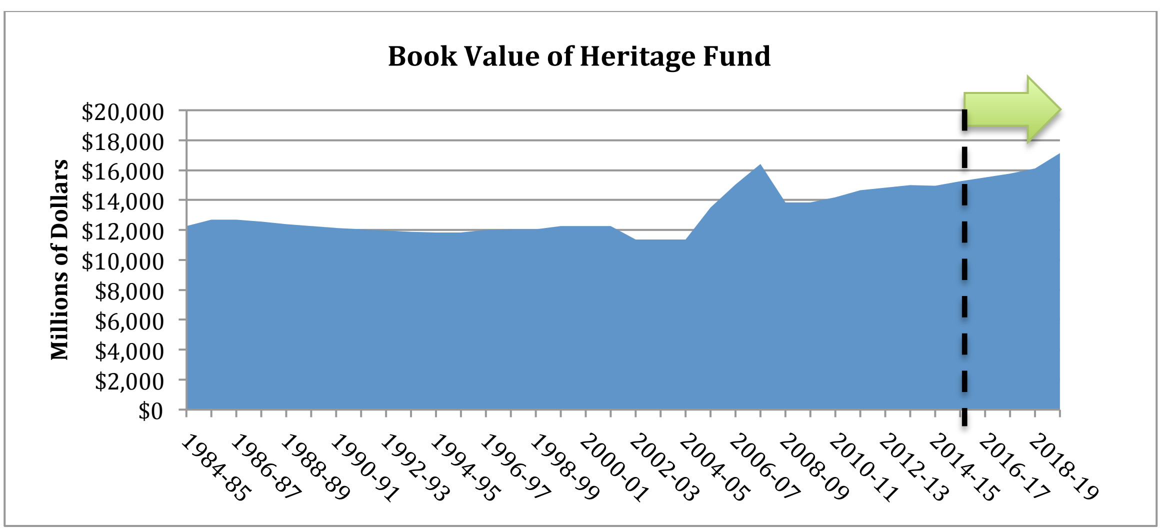
### Bolster the Contingency Account and Heritage Fund in 2017-18

As laid out in the 2015 budget, the previous government did not plan to contribute to the Contingency Fund until 2018-19, and does not plan to contribute to the Heritage Fund until 2019-20. At this time they would not have reached true surplus, because the government would still be carrying a large amount of debt.

Since 2008 we've seen the money in the provincial Contingency Fund drop from over $16 billion to under $4 billion (forecast). Furthermore, the current budget plans for the contingency account to drop to $1 billion in 2016-17. This would represent just 4% of the accumulated debt.

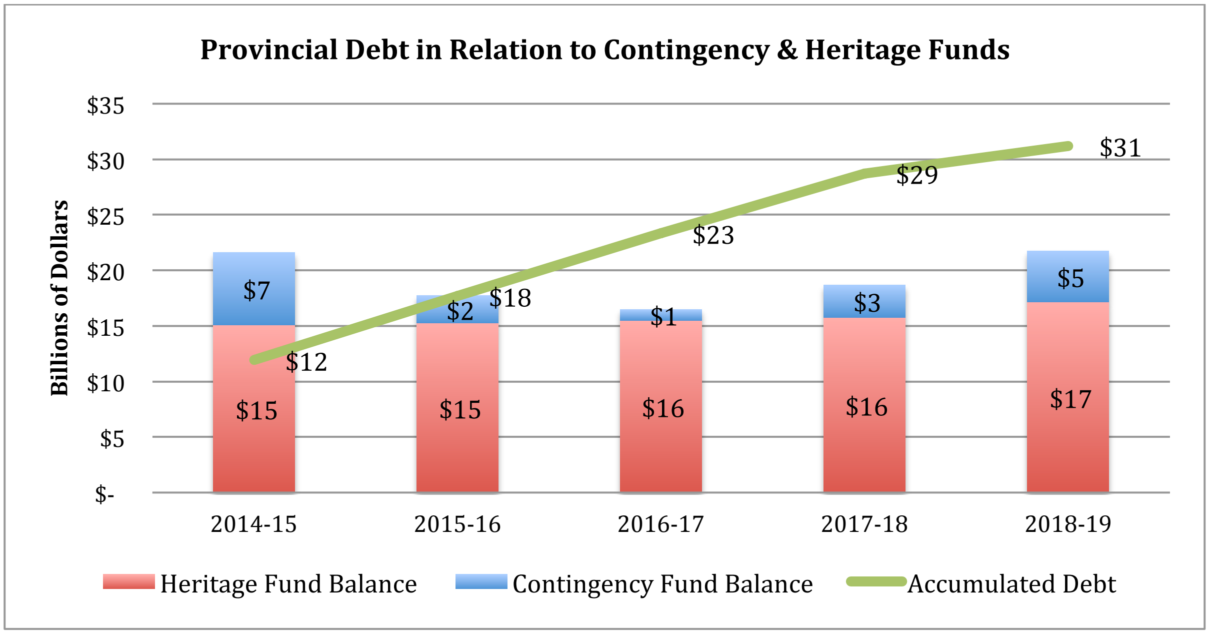



The book value of the heritage fund has increased by just $2.7 billion since 1984–85 – an average annual increase of only 0.65% over the past 31 years.



Making these priorities is difficult, but we recommend a bold approach for government that ultimately involves taking responsibility for provincial debt instead of pushing it onto the backs of future generations.

2015-16 will mark the first year in which the debt exceeds the amount in the Heritage and Contingency funds since 1997-98.




**We recommend the government make substantial spending cuts in 2015-16 and start contributing more to the Contingency and Heritage Funds in 2017-18, or once the debt is paid off in full.**

### Introduce mandatory flood insurance for at-risk property owners

As we've seen in recent years, natural disasters such as floods can throw the budget out the window. It doesn't have to be this way. We all pull up our sleeves and help one another out during these times, but we can do more to help both property owners and Albertan taxpayers from financial harm in these situations.

The decisions taken around flood insurance have the potential to be incredibly positive for both taxpayers and property owners, or ruinous for both. There is a (potentially) right way to do flood insurance, and there is a wrong way. Case in point: the United States' National Flood Insurance Program (NFIP). While well intended, the U.S. program has devolved into a massive wealth transfer scheme, encouraging and subsidizing living in high-risk areas.

The U.S. created the NFIP in 1938 after private insurers withdrew from the market following the 1927 Mississippi floods. This made the U.S. taxpayer the primary flood insurance provider for homeowners and small businesses, although still delivered by private firms.

“Mandatory” insurance in the U.S. has largely been a failure in its current form. The “mandatory” part of the program was often not enforced by the government, and more often ignored by homeowners. People systemically underestimate risk and opt not to purchase flood insurance in the U.S., even though taxpayers heavily subsidize it.

However, the subsidized premiums are seen as the good deal that they are by many in the US. Erwann Michel-Kerjan wrote in the U.S. *National Tax Journal,* “Highly subsidized premiums … without clear communication on the actual risk facing individuals … encourage development of hazard-prone areas in ways that are costly to both the individuals who locate there as well as others who are likely to incur the costs of bailing out victims following the next disaster.”

Senior players in Canada’s insurance industry told the CTF that the designation of Special Flood Hazard Areas (requiring mandatory insurance) is highly politicized, as U.S. Congressmen in flood-prone areas lobby to redraw maps to include areas with little-to-no risk of flooding in order to ease the premiums of those actually at risk.

According to the US-based CATO institute, “Government policies are the cause of, not the cure for, the limited supply and narrow scope of private-sector disaster insurance.”

This may be entirely true, but the status quo in Canada and Alberta is also unacceptable. That is, that homeowners and taxpayers alike have no protection whatsoever. As it stands, government de-facto insures property (through flood assistance payments) without collecting premiums.

Insurance is the only option available to externalize the costs of floods, but it is difficult to make it available in a way that will not devolve into the disaster that is the American program of government-backed private insurers, or the even more risky prospect of a directly government-run program.

There is no watertight solution, but the best prospect of successfully externalizing flood costs lies with encouraging the creation of a self-sufficient, private insurance market.

The first step in the creation of any market is to have demand for a product. To start, at-risk property owners should be required to purchase flood insurance. The best way to safeguard against U.S.-style gerrymandering in who must have insurance is to only require insurance for properties that have made claims under the Disaster Recovery Program (DRP). If you've made a claim for assistance, you need insurance.

Like automobile insurance, making a product mandatory creates a market where one would otherwise not exist.

Premiums should be determined strictly by actuarial calculations that reflect risk, not political considerations. For some homeowners, premiums that reflect the full risk will be too great to bear. For these homeowners, additional relocation assistance should be provided by the government.

The CTF released a detailed plan for protecting Albertan taxpayers and property owners in August 2013. The report can be found at taxpayer.com.[34]

**We recommend the government protect property owners and taxpayers by creating the market conditions necessary for overland flood insurance.**

[34] http://www.taxpayer.com/news-releases/ctf-releases-fiscal-flood-plan-report