LIFTING THE BURDEN

A roadmap for balanced budgets and tax relief in Alberta

2017–18 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 90,000 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, Quebec 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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Published February 2017

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PART II: INTRODUCTION

The province of Alberta has recently endured extremely tough economic times. Unquestionably, the drop in oil prices has had a severe impact on the provincial economy. However, the government cannot continue to shift the blame for poor economic conditions exclusively onto the price of oil. Albertans elect their leaders to do just that – lead – and it's time now for government to make difficult choices and demonstrate leadership to get Alberta's economy back on track – or at least not worsen the situation.

Alberta's unemployment rate is the highest it's been in 22 years. The province has seen multiple credit downgrades in a short period. Countless businesses have closed their doors. Families are struggling to pay their bills. Yet, the government has pushed ahead with large spending increases, the hiring of more government employees, the creation of new government programs and the imposing of billions in new taxes onto Albertan families and businesses.

Put simply, the Alberta government is unnecessarily rubbing salt in the wound. The government's debt now stands at over $28 billion and is increasing at a rapid pace, meaning an increased burden for both current and future taxpayers. The government is now wasting over $1 billion per year on debt interest payments, and that number will quickly rise to $2 billion annually.

The government campaigned on balancing the budget within a few short years, but now that promise has been pushed aside as the balanced budget date has been changed multiple times and evidently isn't a real priority.

The government's unending spending spree is far out of touch with the reality faced by average Albertans, who of course, are expected to balance their own budgets around their kitchen tables and at their businesses. Indeed, Alberta's increasing per-capita program spending is still the third highest in Canada.

The laundry list of tax hikes imposed by the Alberta government is both poorly timed and unnecessary in the face of such reckless spending. After a host of other taxes were increased, the multi-billion dollar carbon tax is now making the necessities of life for Albertans more expensive.

It's time for the government to demonstrate what they explicitly campaigned on: 'leadership for what matters.' What matters now for Albertans is relief. Albertans need debt relief and tax relief. The Alberta government should lift the burden of punishing taxes and debt off the backs of Albertans to free individuals, families and businesses to do what they do best: create prosperity in our province, not because of government, but in spite of government.

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 many of its Alberta supporters, of which over 2,500 individuals responded. Many of these respondents also provided individual responses 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, while the complete results and select written comments from CTF supporters are available in the appendix.

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.'

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1 http://www.assembly.ab.ca/ISYS/LADDAR_files/docs/bills/bill/legislature_24/session_3/19990216_bill-001.pdf

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 then-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 debt" and the Debt Retirement Account (DRA)[2].

By the end of this fiscal year (2016-17), Alberta will hold a debt of $30.2 billion. This will leave Alberta in more debt than ever before. Furthermore, the debt will continue to nearly double by 2019-20, reaching $56.6 billion that year. Put simply, this is unsustainable and wildly irresponsible.

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

PART VI: RECOMMENDATIONS

BALANCE THE BUDGET BY 2019-20

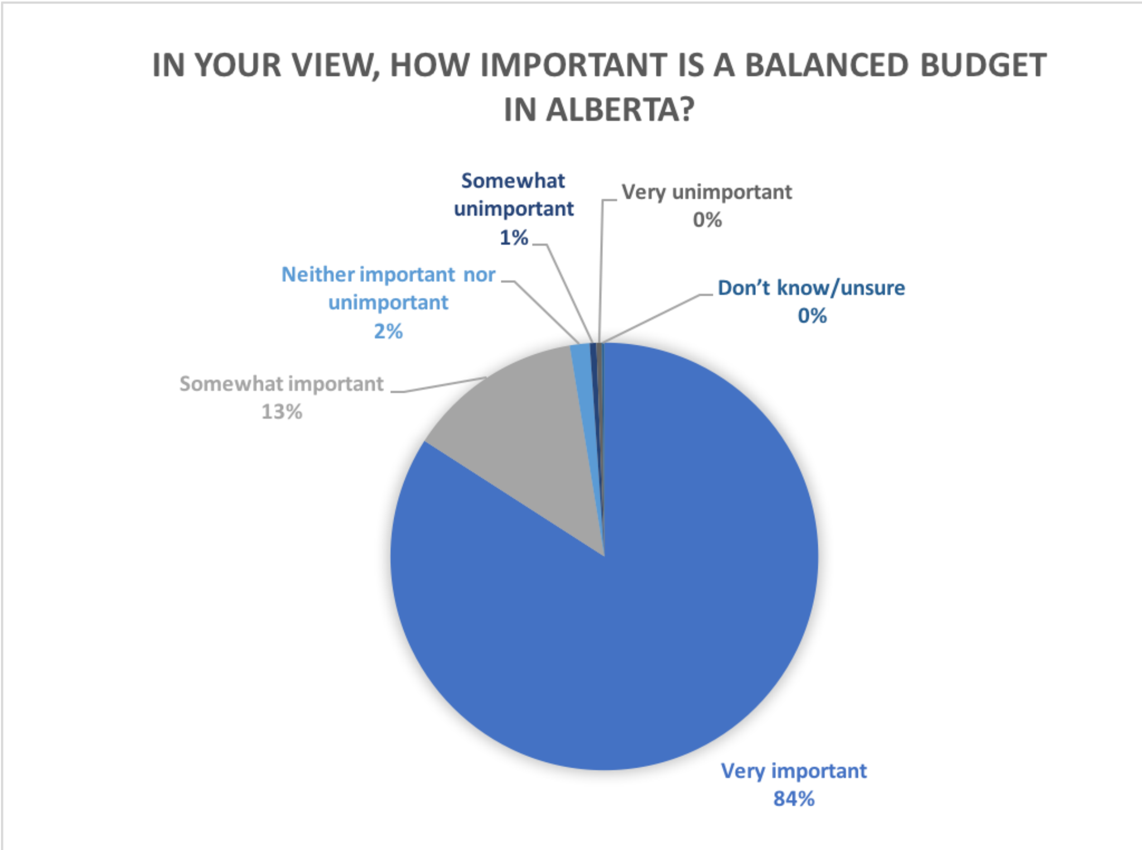
In recent years, the importance of balancing governments' budgets has become a priority across the political spectrum, at least when it comes to talking points. It is crucial for Alberta's economic wellbeing that the provincial government put our money where their mouths are, and balance the budget as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

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 $28.4 billion. The problem has increased so quickly that Alberta's debt is now rolling in at $355.44 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.

Dropping oil prices have thrown the province of Alberta into tough economic times. As such, the government has been dealt a difficult hand. When it comes to our recommendation, our timeline for budget balance is reasonable. By balancing the budget in 2019-20, the government would be two years behind the schedule it intended in the NDP platform, which promised a balanced budget by 2018.

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



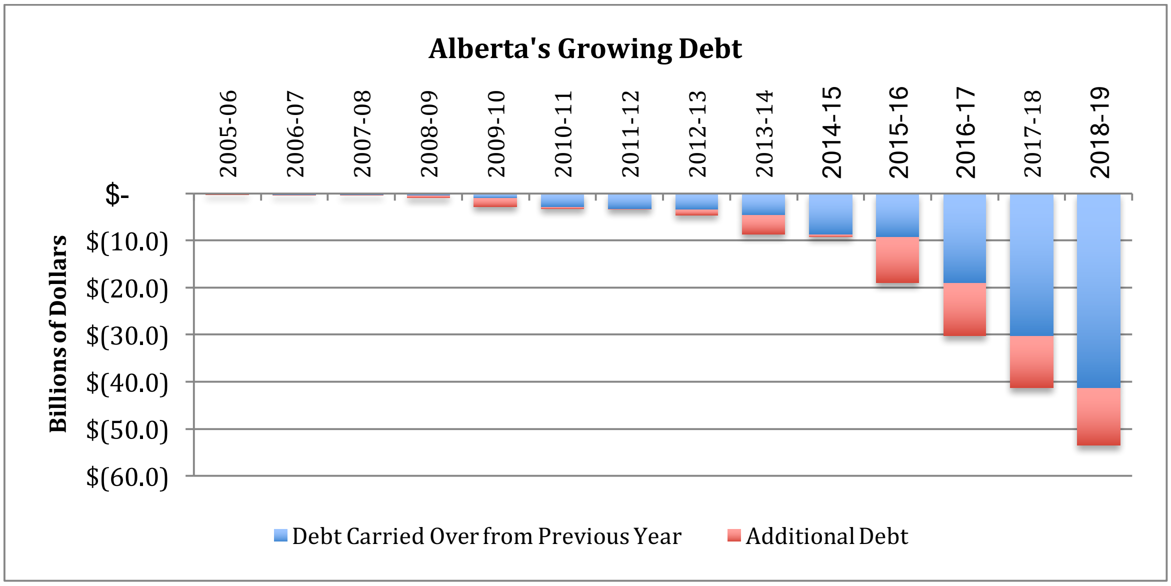
Source: CTF 2017 Alberta Pre-Budget Supporter Survey

84% of Canadian Taxpayers Federation supporters in Alberta believe balancing the budget is "very important," while an additional 13% view it as "somewhat important." This means a full 97% of our Alberta supporters view balancing the budget as a priority.

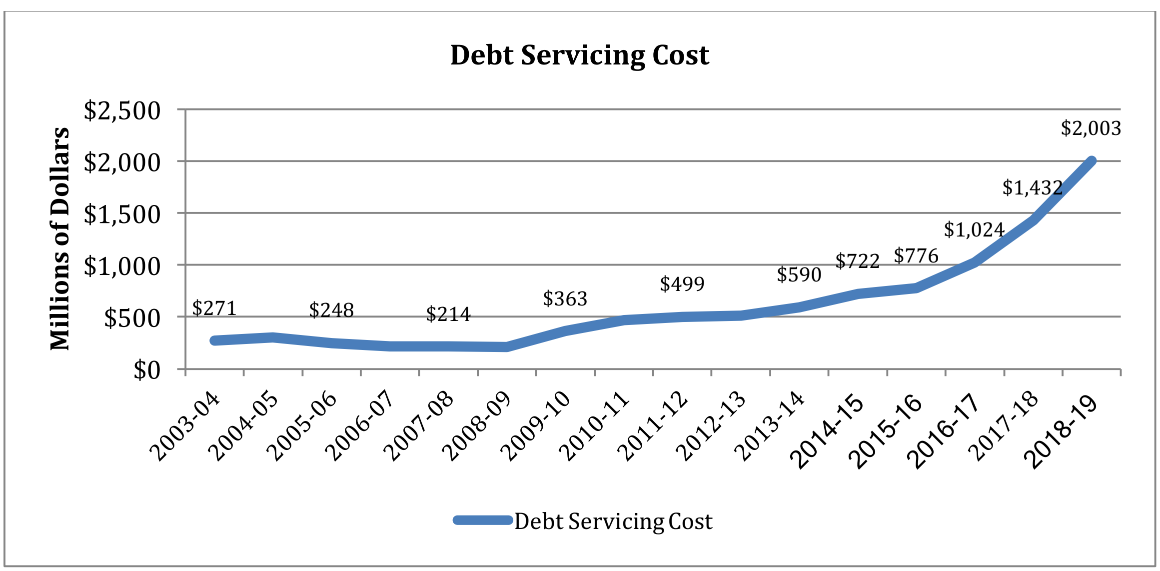
We recommend the government balance the budget by 2019-20.

PAY DOWN THE DEBT

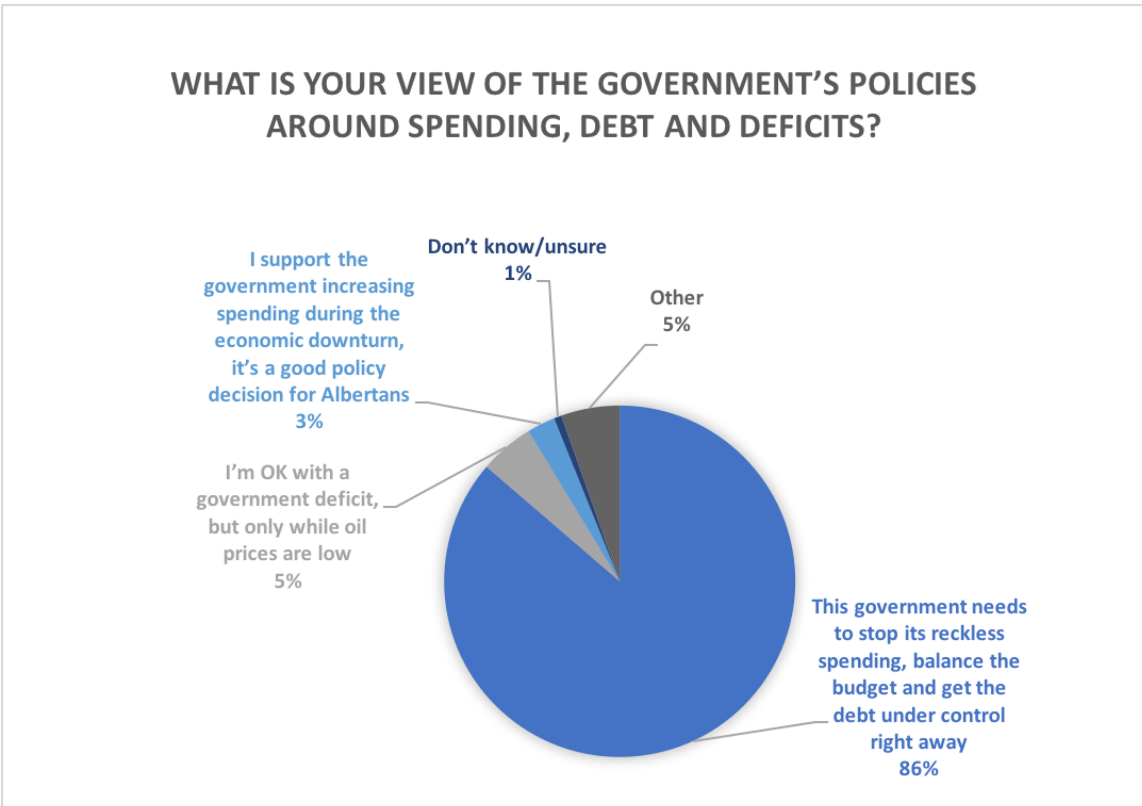
The province's snowballing debt has a personal consequence for taxpayers. By the end of fiscal year 2016-17, every Albertan personally carries over $6,682 of the debt load.



Albertan taxpayers are currently paying over $1 billion annually in government debt interest payments. This figure is forecast to rise to over $2 billion by 2018-19. By 2018-19, debt servicing costs will represent 4.1% of the forecast provincial revenue. Every dollar spent on debt interest payments will not be spent on frontline healthcare, education services or tax relief, meaning the debt load is burdening current taxpayers as well as future generations.



Over the past year, the Alberta government has overseen multiple credit downgrades.[4] A downgraded credit score risks increased borrowing costs for taxpayers, meaning even less money to be spent on important programs. This is particularly concerning, considering the Alberta government is now borrowing for operating costs. It is crucial that the Alberta government work toward paying down the debt, to salvage the province's credit score and save money long-term.



Source: CTF 2017 Alberta Pre-Budget Supporter Survey

86% of Canadian Taxpayers Federation supporters agree that "the government needs to stop reckless spending, balance the budget and get the debt under control right away." 5% of supporters are OK with a government deficit, but "only while oil prices are low."

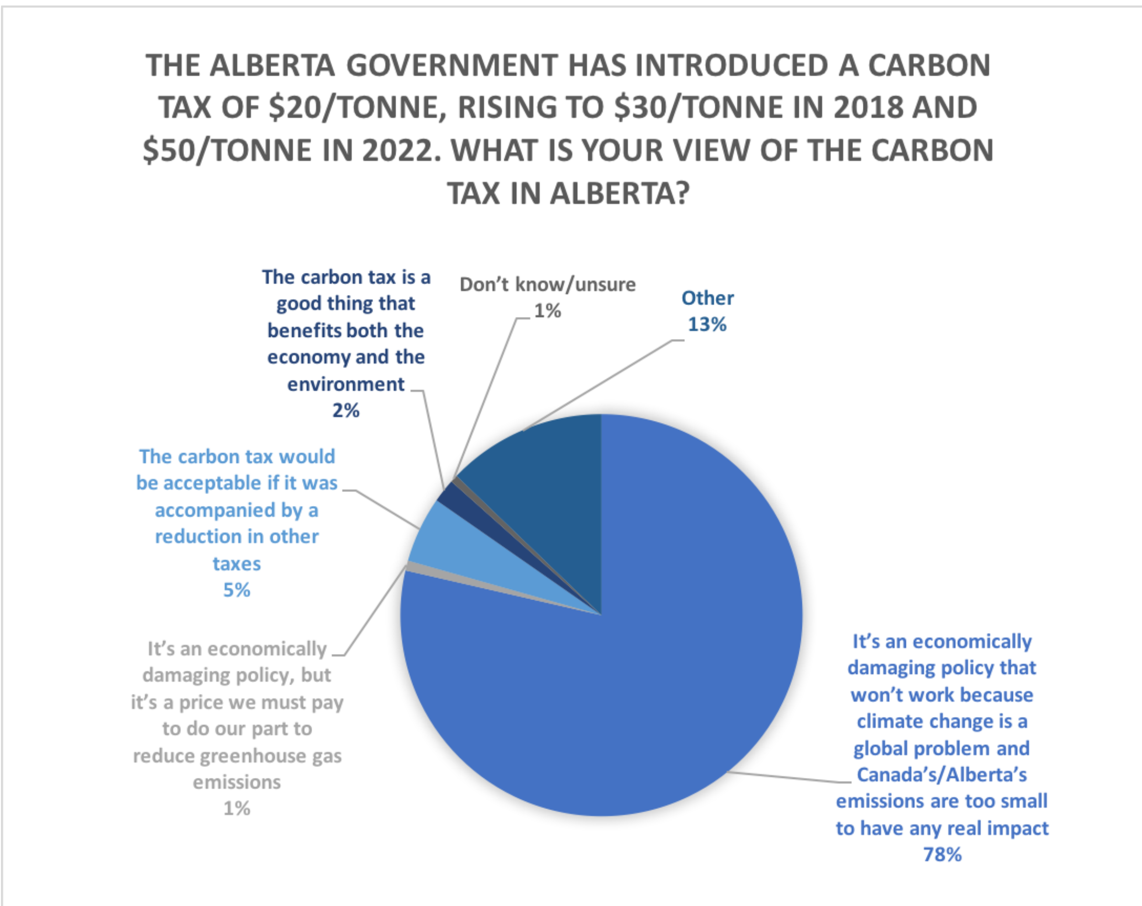
We recommend the government pay down the province's over $28 billion debt as soon as possible.

[4] http://www.cbc.ca/news/canada/edmonton/standard-and-poor-s-downgrades-alberta-s-credit-rating-a-second-time-1.3590144

REDUCE ALBERTANS' TAX BURDEN

Scrap the Carbon Tax and Reverse the Doubling of the Big Emitter Carbon Tax

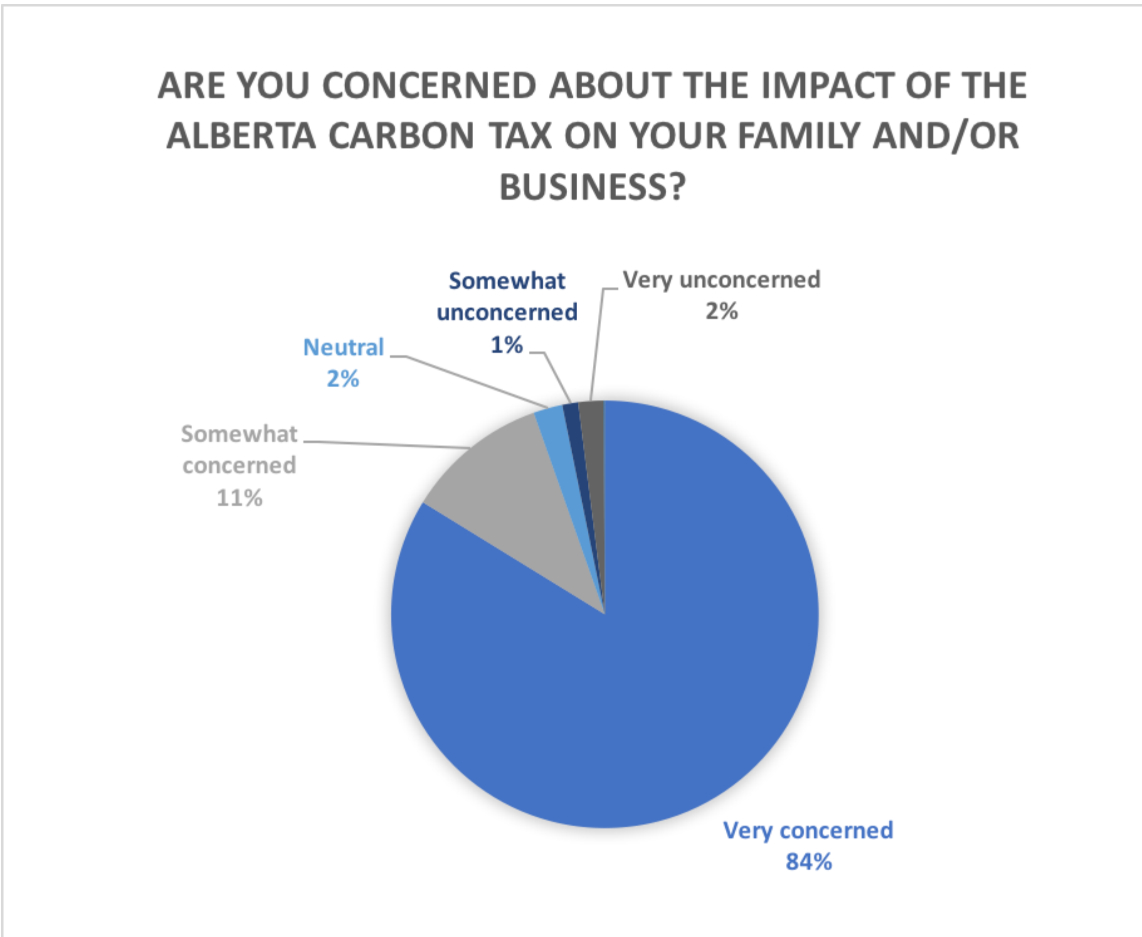
The Alberta carbon tax is all pain, no gain for taxpayers. The NDP did not campaign on the carbon tax and as such lacked legitimacy imposing this multi-billion dollar tax on Albertans. The carbon tax will not only increase the cost of gas and home heating, but it will also increase the costs of all goods that are shipped, such as groceries and clothing. This amounts to an unfair tax on the necessities of life. The Alberta government increased the carbon tax by 67% before the tax was even implemented, agreeing to the federally-dictated $50/tonne carbon tax.



Source: CTF 2017 Alberta Pre-Budget Supporter Survey

A large majority (78%) of Canadian Taxpayers Federation supporters in Alberta think the carbon tax is "an economically damaging policy that won't work because climate change is a global problem and Canada's/Alberta's emissions are too small to have any real impact."

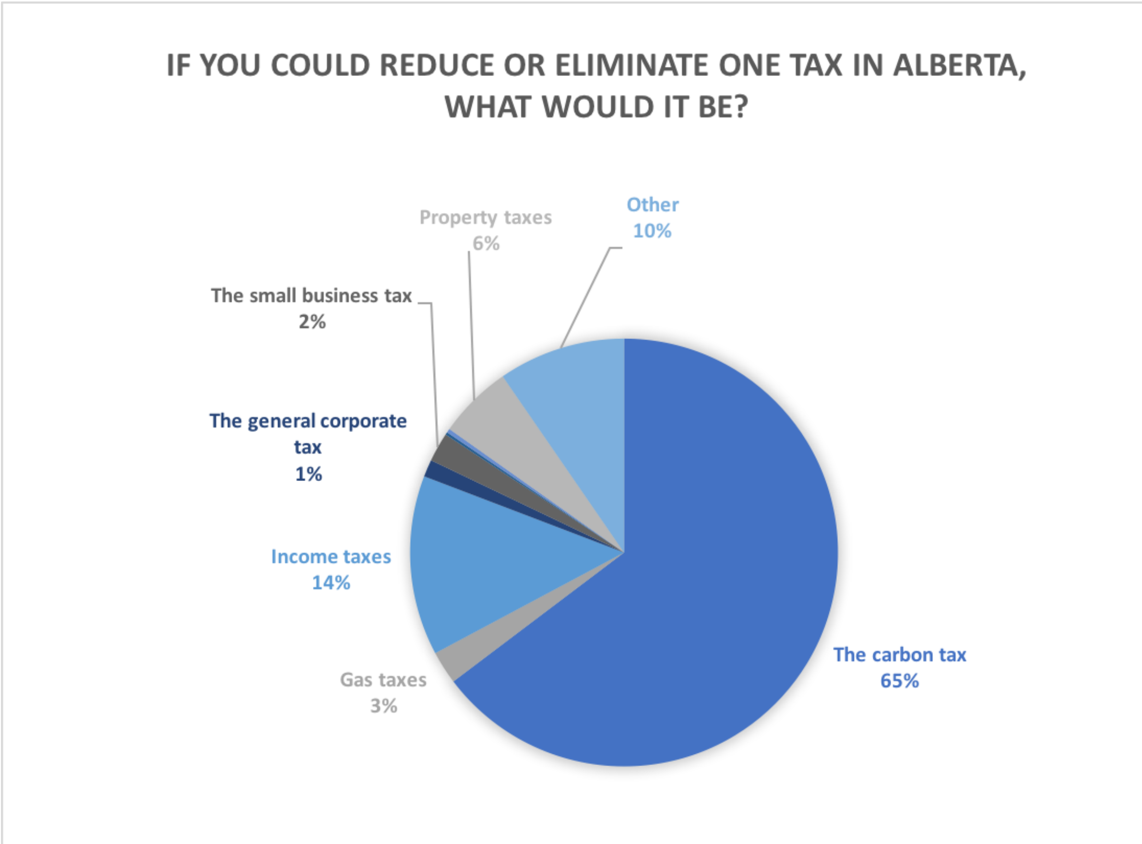
The carbon tax is a major problem for Canadian Taxpayers Federation supporters in Alberta, with 95% expressing concern over the tax. Multiple opinion polls have illustrated broad-based opposition to the tax amongst all Albertans as well. A September 2016 Think HQ poll showed 63% of Albertans oppose the carbon tax.[5] In October 2016, a Citizen Society Research Lab poll from Lethbridge University showed 67% of Albertans oppose the carbon tax.[6]



Source: CTF 2017 Alberta Pre-Budget Supporter Survey

84% of Canadian Taxpayers Federation supporters in Alberta are "very concerned" about the impact of the carbon tax on their family and/or business. An additional 11% are "somewhat concerned," meaning a full 95% of our supporters are concerned about the impacts of the carbon tax.

[5] http://calgaryherald.com/news/politics/new-poll-shows-strong-opposition-to-alberta-carbon-tax
[6] http://www.cbc.ca/news/canada/calgary/carbon-tax-poll-opposition-coal-fired-electricity-phase-out-lethbridge-college-1.3815791

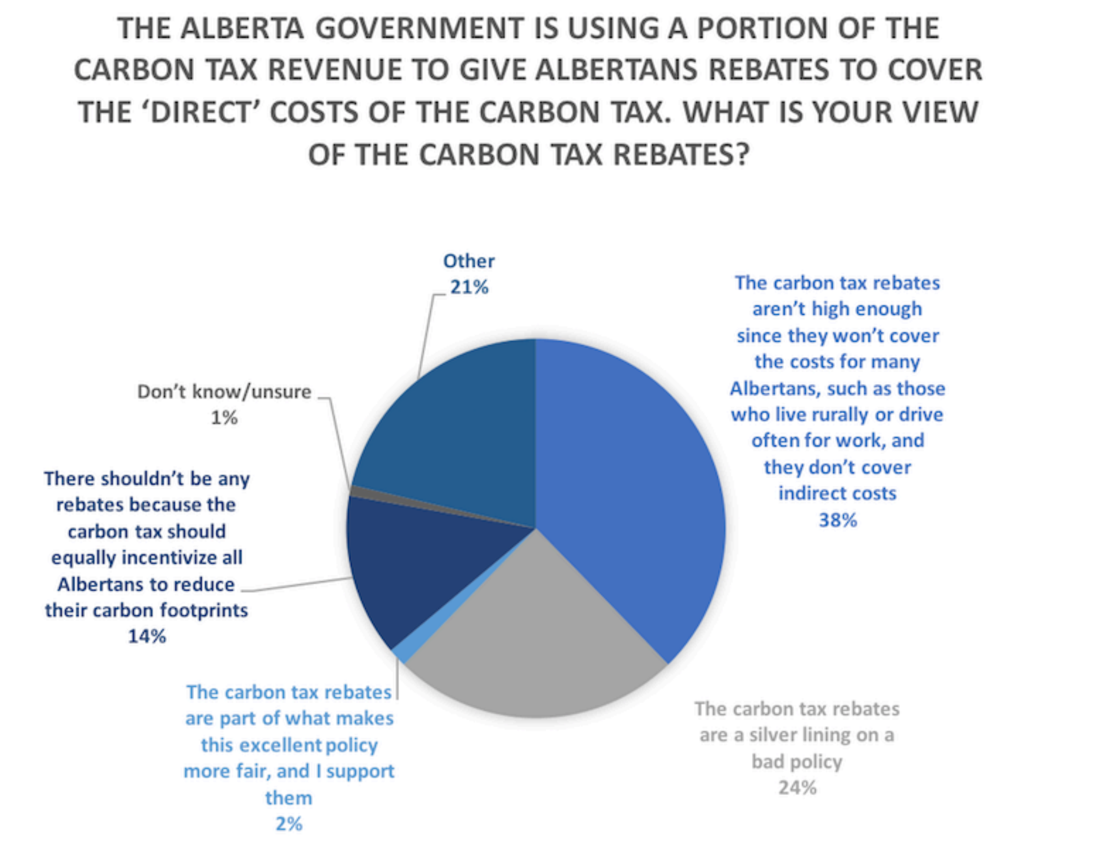


Source: CTF 2017 Alberta Pre-Budget Supporter Survey

A majority (65%) of Canadian Taxpayers Federation supporters in Alberta would choose to reduce or eliminate the carbon tax if they could eliminate only one tax in the province. The second largest segment of support (14%) was thrown behind eliminating or reducing income taxes. It's clear that the carbon tax is the least popular tax amongst our supporters and would be the priority to eliminate or reduce.

Additionally, the carbon tax will increase the cost of other taxes such as property taxes (to account for increased municipal operating costs), and taxes to cover health care and education (to account for increased operating costs of schools, hospitals and associated transportation).

The Canadian Taxpayers Federation views the carbon tax rebates as a silver lining on a bad policy. Similarly, the associated small business tax cut was a welcome development. However, we have concerns about the disproportionate impacts of the carbon tax. While "full" rebates cover the estimated direct costs of the carbon tax for the average Albertan individual earning under $47,500 or family earning under $95,000, these rebates are based on averages. Rural Albertans are likely to incur higher carbon tax costs, yet the rebates are less likely to cover those costs because they are based on typical fuel use assumptions, which are averages heavily weighted by city residents (as many Albertans live in cities). As such, not only will the carbon tax itself have a disproportionate impact on rural Albertans due to lifestyle necessities, but the rebates will disproportionately fail to fairly compensate lower-income rural Albertans for their carbon tax costs.



Source: CTF 2017 Alberta Pre-Budget Supporter Survey

38% of Canadian Taxpayers Federation supporters in Alberta feel the carbon tax rebates aren't high enough since they won't cover the costs for many Albertans. 24% of supporters think the rebates are "a silver lining on a bad policy."

Further, the Canadian Taxpayers Federation is concerned by the other cost increases created by the carbon tax that will impact lower-income Albertans. Using the City of Calgary as an example, Mayor Naheed Nenshi has indicated that transit fares could increase[7] because of the carbon tax, and the Calgary Food Bank has said that they will have to pay an additional $31,000 in disposal

[7] http://www.metronews.ca/news/calgary/2016/12/22/calgary-transit-needs-ndp-reprieve-from-carbon-tax-nenshi.html

costs in 2018[8] with a $30/tonne carbon tax. These costs will rise further under a $50/tonne tax.

A large portion of the carbon tax revenue will be used for subsidies.

First, the carbon tax revenue will be used to subsidize trade-exposed big emitters through 'output subsidies'. The Canadian Taxpayers Federation firmly advocates against the use of tax dollars for any form of corporate welfare. Subsidizing large oil companies and power plants with carbon tax revenue doesn't make a lot of sense to our supporters, but additionally, it allows the government to pick winners and losers in the economy. If government officials don't wish to make business more difficult to run, they should not impose a multi-billion dollar tax in the first place.

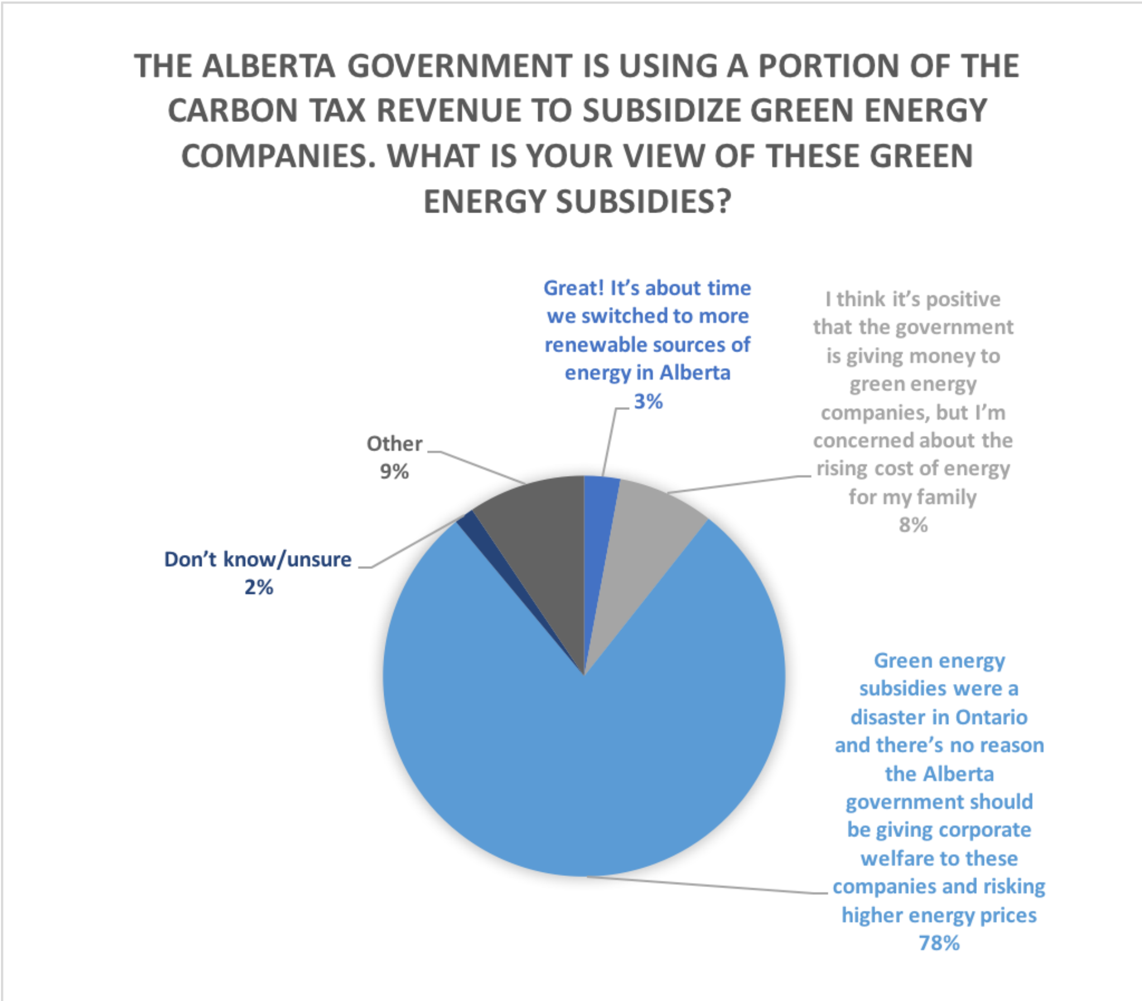
Second, some subsidies will be used to fund green energy and other 'economic diversification' efforts. As pointed out by Ted Morton and Meredith McDonald in a University of Calgary School of Public Policy paper, 'economic diversification' efforts in Alberta between 1973 and 1993 cost taxpayers $2.2 billion in losses, based on conservative estimates.[9] These corporate welfare strategies have been employed by former Progressive Conservative governments and wasted billions of tax dollars in the past. There is no reason the current government shouldn't learn from history and eliminate these subsidies.

"We live on a fixed income with the expense of sudden illnesses. We cannot afford to buy new cars, new furnaces, new appliances, solar panels, etc. even with the promise of a rebate ... I have no carbon footprint in our house - recycle, compost, small car, walk, bus, minimalist lifestyle, garden, push mower, have no gas-run tools, etc. We are not given any incentive for this - just more taxes."

Quote: CTF 2017 Alberta Pre-Budget Supporter Survey

[8] http://www.metronews.ca/news/calgary/2016/06/07/ndp-carbon-tax-will-cause-calgary-food-bank-spend-extra-31k.html

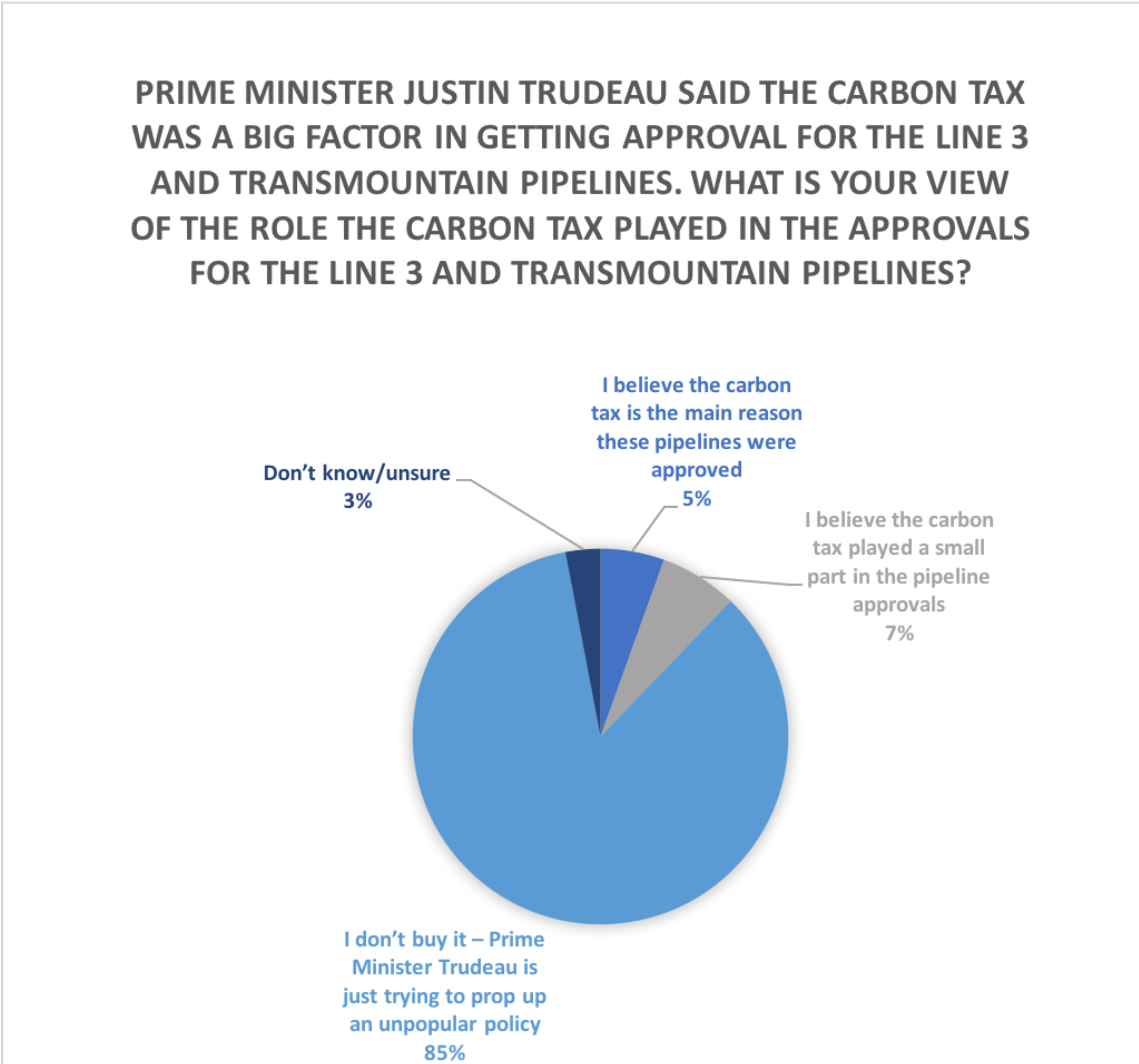
[9] https://www.policyschool.ca/wp-content/uploads/2016/03/siren-song-economic-diversification-morton-mcdonald.pdf



Source: CTF 2017 Alberta Pre-Budget Supporter Survey

78% of Canadian Taxpayers Federation Supporters in Alberta have concerns about the portion of carbon tax revenue going toward green energy subsidies. An additional 8% of supporters felt more positively, but expressed concerns about the rising cost of energy for their families.

"Our family ranches in rural Alberta. This tax will affect us big time. We need to drive large trucks and tractors, heat a shop and keep water bowls running in the winter. We cannot avoid these facts and other than getting out of business have no choices. It is nothing more than a tax grab and will do nothing for the environment."
Quote: CTF 2017 Alberta Pre-Budget Supporter Survey



Source: CTF 2017 Alberta Pre-Budget Supporter Survey

The majority (85%) of Canadian Taxpayers Federation supporters in Alberta are skeptical of government claims that the carbon tax played a large role in pipeline approvals. 7% of supporters believed the carbon tax played a "small role" in pipeline approvals and only 5% believe the carbon tax is the main reason these pipelines were approved.

The Alberta carbon tax also presents competitiveness concerns for Alberta, at a time when the provincial economy is already struggling. This is a major issue for businesses in the province. With the election of Donald Trump as United States (U.S.) president, there is no sign of a U.S. carbon tax on the horizon. Trump has also proposed cutting business taxes significantly, eliminating Canada's general business tax advantage, and he proposed reducing income taxes. The Alberta government has raised both general business taxes and income taxes, around the same time as imposing the carbon tax. This does not bode well for business competitiveness in the province, and furthers the environment of investment uncertainty in Alberta, particularly as the U.S. is our nearest competitor.

> ***"We have calculated the carbon tax to cost us a minimum of $50,000/year in extra taxes, between fuel, heating and power. My husband and I run a small business in northern Alberta, we employ 8 young hard working Albertans. We have enjoyed our business for over 20 years, and were hoping to work another 10 before retiring. However, with all the new taxes the NDP government has recently imposed, we are very seriously contemplating early retirement, laying off our workers and living off the social system, as there no longer seems to be any advantage to working so hard to just pay it all out in numerous taxes."***
> ***Quote: CTF 2017 Alberta Pre-Budget Supporter Survey***

We recommend the government eliminate the carbon tax and reverse the big emitter carbon tax doubling.

Bring Back the Single-Rate Income Tax

Introduced in 2000, 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 insured someone making $200,000 was paying a much higher rate than someone making $20,000. The system was progressive by definition.

As pointed out by Mark Milke in the Calgary Herald,[10] in 2012, under the former single-rate income tax, income tax-paying Albertans who earned less than $50,000 paid 9% of all provincial income tax revenues, which was the lowest ratio of any province in Canada.

The greatest share of provincial income taxes were paid by the 18.9% of Albertans earning over $100,000 or more, who comprised 58% of all income tax revenues at the provincial level. That's a larger share than in any other province.

Albertan taxpayers earning between $50,000 and $99,999 paid nearly one-third of provincial income taxes, which is roughly in line with the Canadian average.

[10] http://calgaryherald.com/opinion/columnists/milke-albertas-flat-income-tax-system-was-no-failure

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.

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,[11] and notes that raising corporate taxes would mean losing thousands of private sector jobs that would have otherwise been created.

Fraser Institute Economist Charles Lammam has noted that "corporate taxes are ultimately paid for by people either as workers through lower wages, consumers through higher prices, or shareholders through lower returns on investments including RRSPs." A study conducted by the Fraser Institute found that a one percentage point increase in Canada's 2012 combined federal-provincial business tax rate would lead to a reduction of $254 to $390 in a worker's annual wage.[12]

Former Statistics Canada chief economist Philip Cross has pointed out that "most serious economists find that corporations don't pay income taxes … In fact, most studies show the brunt of corporate income taxes are paid through lower wages."[13] Given the Alberta government's desire to increase workers' wages (as presumed given the recent minimum wage hike), increased general business taxes are not a policy that should have been pursued.

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

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[11] http://business.financialpost.com/fp-comment/jack-m-mintz-alberta-should-shun-b-c-style-corporate-tax-hikes
[12] https://www.fraserinstitute.org/article/higher-corporate-taxes-mean-lower-wages-for-workers
[13] http://www.edmontonjournal.com/Raising+corporate+taxes+pays+toll/11132482/story.html

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.

Maintain Current Royalty Rates

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

Ultimately, we were pleased with the government's decision to leave royalty rates in the province unchanged to any significant degree.

Our concerns with the province's recent royalty review stemmed from the unfortunate impact of Alberta's last royalty review, 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 tens of 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 continue to maintain royalty rates at their existing levels.

Reverse the Beer Taxes Hikes and Subsidies

Prior to multiple beer tax hikes and distorting subsidies introduced by the Alberta government, the province had a fair and competitive beer market. Brewers were not indiscriminately taxed based on where they brewed their beer, meaning Alberta consumers were not punished by taxes for choosing the beer they like to drink. Additionally, small and medium-sized brewers had a tax advantage as the result of a graduated mark-up tax scheme.

In 2016, the Alberta government increased beer taxes for small and medium-sized brewers, charging all breweries $1.25 per litre in taxes, regardless of brewery size or location. This replaced the previous graduated mark-up scheme for beer, which taxed smaller and medium-sized breweries at lower rates than larger beer companies. Now, all breweries pay the same rate of tax as large breweries formerly paid exclusively. Around the same time, the government introduced a $12 million subsidy for small breweries in Alberta, based on volumes of beer sold in the province, which Finance Minister Ceci has said could rise to $20 million annually.

This policy change replaced a different beer tax hike by Alberta's NDP government, whereby the graduated mark-up scheme only applied to breweries within the New West Partnership (Alberta, Saskatchewan and BC).

Since the beer tax hikes, Ontario's Muskoka Brewery pulled its beer from Alberta shelves,[14] and two other breweries – Ontario's Steam Whistle Brewing and Saskatchewan's Great Western Brewing Company – were granted injunctions against the new policy.[15]

We recommend the Alberta government reverse its beer tax hikes and eliminate the subsidy to breweries, truly leveling the playing field.

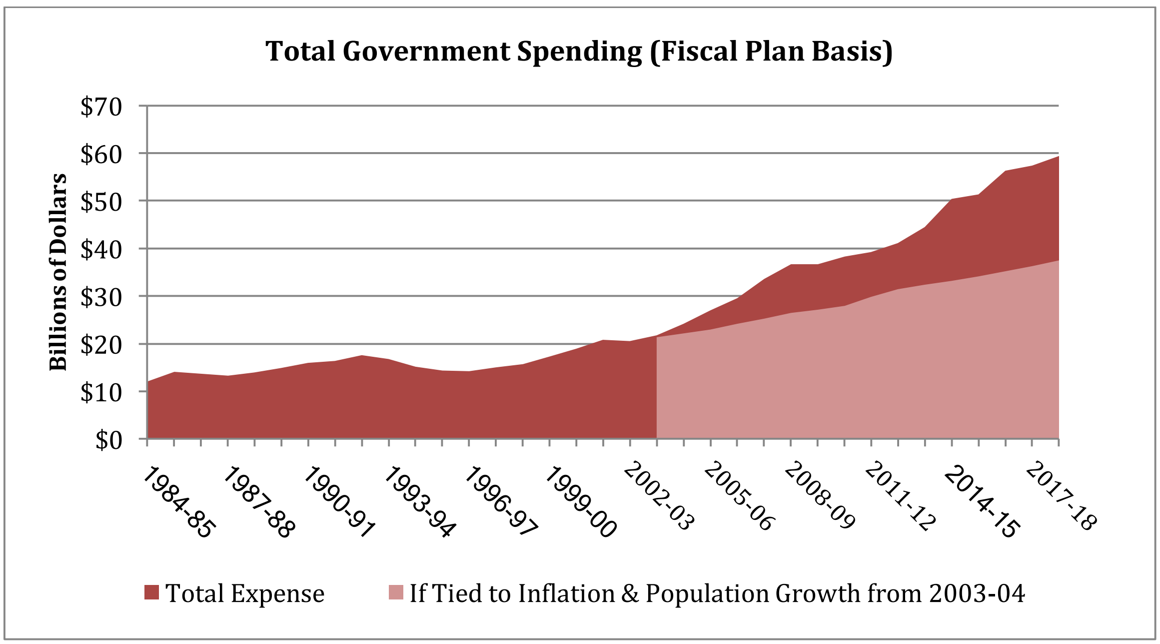
[14] http://www.cbc.ca/news/canada/calgary/beer-taxes-muskoka-leaves-1.3322002
[15] http://calgaryherald.com/business/local-business/injunction-granted-to-out-of-province-breweries-against-albertas-beer-tax-changes

TRIM SPENDING

Total government expenses in Alberta have increased by 36.2% since 2005-06, adjusted for inflation and population growth. Had spending been held at 2005-06 levels, and adjusted for inflation and population growth, Albertans would be spending $15 billion less in 2016-17. Expenses are projected to reach a record high in 2018-19 when it reaches $59.4 billion.

> ***"There appears to be no control on government spending. If a business was run this way, it would be in receivership. Every department must be gone through. My company has a cost evaluation for everything we do, we know where costs need to be cut in order to maintain profit."***
>
> ***Quote: CTF 2017 Alberta Pre-Budget Supporter Survey***

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 Program Spending by 15% to Save $7.8 Billion

According to RBC, Alberta's projected program expenditures for 2016-17 are the third highest (per capita) in Canada. Alberta's per cent change in program expenses are the highest of any province in Canada, at 7.9%. The second highest per cent change in program expenses is shared by Manitoba and New Brunswick at only 3.9%.[16] When it comes to healthcare, the province's largest ministry, Alberta is the highest per-capita spender in the country.[17]

Former Premier Jim Prentice acknowledged publicly that the province has a spending problem that's been "overlooked for too long."[18] The 2015 budget noted that Alberta's government program spending is about $1,300 higher per capita than the national average in 2013-14[19] This is both unnecessary and unsustainable. Despite rhetoric around "fiscal restraint," Alberta's NDP government has only increased spending from that point.

With a program spending cut of 15%, government can save $7.8 billion in 2017-18 (71% of the projected deficit). This cut would actually allow government to spend $7.6 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 program spending by 15% to save $7.8 billion in 2017-18.

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,"[20] looked at the experience of 27 American states that have laws specifically targeting growth in government spending and taxes.

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[16] http://www.rbc.com/economics/economic-reports/pdf/provincial-forecasts/prov_fiscal.pdf
[17] http://www.macleans.ca/economy/economicanalysis/how-to-fix-albertas-10-billion-budget-hole/
[18] http://business.financialpost.com/news/economy/albertas-spending-problems-overlooked-for-too-long-says-premier-jim-prentice
[19] http://finance.alberta.ca/publications/budget/budget2015/fiscal-plan-complete.pdf
[20] https://www.fraserinstitute.org/sites/default/files/TaxandExpenditureLimitations.pdf

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.

Former Premier Ralph Klein smartly introduced the *Balanced Budget and Debt Retirement Act* in 1995, outlawing his government from running deficits and prescribing a minimum payment 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 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,[21] 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

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

fundamentally unfair to our children. Instead of passing the buck to our kids, the government should focus on paying down its debt before piling on any more.

The Alberta government has proposed to spend $39.1 billion on infrastructure over the next five years. Yet at the same time, the government has shelved the idea of public-private partnerships (P3s) in building new infrastructure projects, despite the success this funding model has enjoyed in Alberta and across the country. Like with any funding model, P3 funding is not foolproof. But it involves shifting much of the financial risk onto willing private-sector companies, which would benefit Alberta in a time of growing debt. Unless the government is simply trying to secure jobs for government unions, blanket-rejecting the P3 funding model is an ideologically tainted and ill-advised decision.

Similar to how the NDP proposed creating an Infrastructure Sunshine List to prevent politicians from creating projects where they stand to score votes (a policy the CTF applauded), infrastructure spending to “create jobs” runs the same risk of vote-grabbing.

A decade ago the Alberta Financial Management Commission (AFMC) rightfully noted the wild swings in Alberta’s capital spending. The AFMC recommended the province annually budget no less than 0.9% of the average provincial GDP for the previous two years for capital spending. 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.

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

We recommend the government take a measured approach to capital spending, remove the blanket rejection of P3 funding for infrastructure projects 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.

Reverse the Push Toward Government-Subsidized Daycare

Though ‘universal daycare’ sounds nice, and the motivations behind it are more than likely good, we needn’t look further than Quebec to see that the policy has accumulated significantly higher costs than projected and has unnecessarily subsidized the wealthier members of society.

Despite this evidence, the Alberta government has begun moving forward with its plan to provide $25 per day daycare in the province.

In Quebec, the $7 per day daycare program (which started as $5 per day daycare and has now increased beyond $7) 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 more affordable. Those who *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.

A CTF report showed that since 1997, the taxpayers' share of the cost of Quebec's daycare system has risen by more than 700%, while total spaces have increased by 166%.[22]

When the Quebec government introduced the plan, the cost estimate was $290 million per year by 2014-15, that cost was $2.6 billion per year.

Importantly, the Montreal Economic Institute noted that calculations show families with middle to 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 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 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, we are fortunate to be able to observe that the program did not achieve its intended goals in another province, and know in advance that we should avoid this type of program in Alberta. If the government wishes to improve access to childcare in Alberta, an income-tested voucher system would be more fair and less expensive. But at the very least, the government should resist the temptation to move forward with this program.

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

[22] http://www.taxpayer.com/media/DaycareEN.pdf

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 and impose a carbon tax, 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.

The introduction of the carbon tax in Alberta has further exacerbated the waste of tax dollars on corporate welfare in the province.

In the late 1980s and early 1990s, Albertans lost more than $2 billion[23] 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 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 reverse its introduction of new corporate welfare projects and truly 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.

"Lower taxes in general will stimulate the economy and will attract investment from outside the province and country. With a proper tax scheme in place, there should be no need for subsidizing any big business."
Quote: CTF 2017 Alberta Pre-Budget Supporter Survey

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23 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. Alberta's unemployment rate surpassed Nova Scotia's this past year for the first time ever.[24] There's no reason that, in tough economic times and with a bloated bureaucracy, government shouldn't do the same. Yet, the Alberta government has continued to increase hiring (3,458 new full-time equivalents were added in 2016-17) and increase government spending ($1.35 billion on program spending).

Reduce Number of Government Employees by 10% to Save $2.56 billion

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. By reducing the number of government employees by 10%, based on 2017-18 government employee compensation, the government could save an astounding $2.56 billion.

Alberta currently has 203,903 full time equivalent (FTE) government employees in the "Alberta Public Service," according to the 2016-17 budget. Based on the $25.2 billion spent on compensation, the average cost for each full-time government employee is $123,623.

The highest paid of these are the managers and should be the positions that are laid off first.

We recommend reducing the number of government employees by 10% to save $2.56 billion.

Implement an Immediate 10% Salary Reduction for Government Employees

Government employees 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 salaries are a good place to start.

A 2015 Fraser Institute report[25] found that the average wage in Alberta's government (including all three levels of government) is 6.9% higher than salaries in the private sector, controlling for qualification factors.

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[24] http://globalnews.ca/news/2867455/alberta-unemployment-rate-now-higher-than-nova-scotias/
[25] https://www.fraserinstitute.org/studies/government-employees-alberta-paid-69-cent-more-comparable-private-sector-workers

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

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 employees to save taxpayer money without impacting frontline services.

Reform Pensions for Government Employees

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

Most government employees 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 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[26] found that in 2013, 77.7% of government employees 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 government employees.

The report also found that government employees 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 with 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.

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

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);

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."

The Saskatchewan government under former NDP Premier, Allan Blakeney, converted most of their government employee pension plans from defined-benefit to defined-contribution in 1977. This was largely done in response to unpredictable and growing unfunded liabilities.[27]

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

[27] http://www.innovation.cc/books/chapter02.htm

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.

Reduce MLA Salaries by 10%

The starting salary for an MLA in Alberta is just over $127,000 per year. According to a September 2016 Workopolis report compiled using Statistics Canada numbers, the average salary in Alberta is $58,133,[28] down from $60,476 last year. 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 PC government reduced MLA salaries by 5%, which was a commendable move, but more can be done.

We recommend the government reduce MLA salaries by 10%, allowing MLA salaries to remain over $114,500.

Reduce Government Employee and MLA Mileage Rates

When the Alberta government imposed a multi-billion dollar carbon tax on Albertans, government officials made clear that reducing emissions is a priority for them. Yet we've seen little policy-enforced reduction in government officials' own driving habits. They're not incentivizing themselves to drive less, as they are by imposing higher gas prices on Albertans. Of course, Alberta MLAs, ministers and bureaucrats do not pay their own gas bills, as they are reimbursed at generous mileage rates.

As such, we recommend the government lead by example by reducing government employee and MLA mileage rates to reasonable levels. $2.8 million tax dollars were spent purchasing vehicles for government ministers and senior bureaucrats, not including maintenance costs.[29] Most of these vehicles are gas-guzzling trucks and SUVs, and some of them are luxury brands. The government should eliminate the policy of purchasing vehicles for any officials or staff aside from the premier and her security detail.

The government mileage rate is currently set at an overly-generous 50.5 cents per kilometre. MLAs are reimbursed at a rate of 43.5 cents per kilometre, but on

[28] http://careers.workopolis.com/advice/how-much-money-are-we-earning-the-average-canadian-wages-right-now/
[29] http://www.cbc.ca/news/canada/edmonton/alberta-taxpayers-paid-1-47m-for-vehicles-used-by-cabinet-deputy-ministers-1.3781414

top of that they're also reimbursed for gas. Mileage coverage is intended to cover both gas usage and wear-and-tear on a vehicle, so the MLA mileage plus gas reimbursement is redundant and unnecessarily costly.

By bringing the government mileage rate (for MLAs and everyone else) down to a reasonable level, the government will not incentivize government officials and employees to drive more often than they need to, because they'll no longer be making money on driving trips. For perspective, the Hockey Alberta mileage rate for traveling hockey referees is 36 cents per kilometre,[30] and the CTF staff mileage rate is 30 cents per kilometre. Reducing the government mileage rate will save taxpayer money and create built-in incentives to reduce emissions in the province.

We recommend eliminating the practice of purchasing cars for government employees other than the premier, reducing the government employee mileage rate to reasonable levels, and eliminating the redundant practice of reimbursing MLAs for both mileage and gas.

30 http://fscs.rampinteractive.com/rivierequibarremha/files/association/hockey%20alberta%20provincial%20referees'%20rate%20schedule%202014-15%20to%202016-17%20season%20with%20splits.pdf

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. The government has made some positive steps, following through on its platform commitments to put boards, agencies and commissions on the sunshine list and creating somewhat of an infrastructure sunshine list (though this could be much more detailed). However, there is more work to be done to improve accountability and transparency in the province.

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.[31]

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

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.

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.

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. This was a major issue under former Premier Alison Redford.

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

Under Premier Redford, 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.

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.

Unfortunately, advertisements flirting with partisanship have now become an issue for this NDP government as well. In 2016, the Alberta government spent nearly $9 million on carbon tax advertisements alone, in installments of $4.4 million and $4.5 million, respectively.[32] These ads played frequently on radio, television and online.

The absolute last thing that the Alberta government should be spending tax dollars on is an ad campaign to promote its carbon tax. These advertisements offered little information or clarification about the carbon tax, and delivered zero value to Alberta taxpayers. If the NDP government wishes to promote its policies, it can pay for that promotion out of NDP party coffers, not government revenues.

The CTF is proposing a simple bill to address the issue. If the government introduced a bill requiring the Auditor General ensure all government advertisements are free of partisan content before they are approved, taxpayers would benefit from a new standard of accountability and independent oversight. Ontario introduced similar legislation in 2004, titled the Government Advertising Act.[33] Though the governing Liberals in Ontario have since gutted the legislation – proving vigilance over government accountability is an unending task – the law is still on the books. Alberta should enhance accountability and follow the lead set out by Ontario over a decade ago.

We recommend the government introduce a bill requiring that all government advertising must be approved by the Auditor General 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

[32] http://calgaryherald.com/news/politics/ndp-government-spends-4-5-million-on-new-climate-change-advertising
[33] https://www.ontario.ca/laws/statute/04g20

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.

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.

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. After the short-lived PC budget in 2015 which increased taxes on gas, liquor and tobacco, the NDP government imposed a long list of tax hikes to general business income, personal income, train fuel, beer and carbon usage. The CTF urges no further tax hikes.

Just like government should, Albertans need to balance their own family budgets. This is key to quality of life and economic stimulation from outside of government. We recommend the government not implement any new taxes. Even with cuts, the government can make do 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.

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.

Say No to a Regressive 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.

In 2015, the Alberta Policy Coalition for Chronic Disease renewed their call for a 50-cent-per-litre tax on sugary beverages.[34] They've asked the government to force Albertans to make the choices they prefer, by over-taxing those choices. Later, a campaign called the Alberta Wellness Coalition proposed a tax on sugary drinks – the revenue of which would be redirected to their own organization, per their proposal.[35]

Thankfully, the Alberta government has thus far rejected these calls for higher taxes. It is not always easy to make healthy choices, but the key word in this is 'choose.'

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. A 2013 CTF report found that junk food taxes disproportionally penalize the poor.[36]

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.

[34] http://abpolicycoalitionforprevention.ca/alberta-levy-on-sugary-drinks/
[35] http://calgaryherald.com/news/local-news/notley-government-backs-away-from-ambitious-wellness-alberta-initiative
[36] http://www.taxpayer.com/presentations/tax-on-the-menu--why-taxing-food-and-drink-won-t-make-canadians-thinner

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 10km 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 regressive tax on specific food and drink choices.

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. Both city spending and property taxes are already outpacing population growth by large margins.

The CTF also has concerns about any 'revenue sharing' agreements between the province and big cities, which would give the cities an additional fixed amount of taxpayer dollars from the provincial government, without needing to be tied to any specific funding initiatives. This sort of revenue sharing agreement would amount to a tax hike not only on Calgarians and Edmontonians, but on all other Alberta taxpayers as well, unfairly sending their money to the big cities.

In Edmonton, residential property taxes increased by 4.2% and non-residential property taxes increased by 2.1% this year, even given the economic downturn.

This year in Calgary, the city 'froze' property taxes by imposing a 1.5% property tax increase and covering it with cash from the city's fiscal reserves. But the city did not make any meaningful reductions to spending.

According to the Canadian Federation of Independent Business, real operating spending increased by 70% in Edmonton over a ten-year period, while population growth only increased by 32%. In Calgary, real operating spending increased by 66%, while population growth only increased by 28%.[37]

We're under no illusion that city charters mean anything less than impactful new tax powers or guaranteed cash flows for big city mayors. In Toronto, a city charter meant an increased tax burden for city residents.[38]

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

[37] http://www.cfib-fcei.ca/english/article/8975-2016-municipal-spending-report.html
[38] http://www.ontario.ca/laws/statute/06c11

year from the province in Municipal Sustainability Initiative (MSI) and from the federal government through the gas tax transfer. 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. 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 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 revenue sharing agreements and reject 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.[39] 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.

Fortunately, Calgary Mayor Naheed Nenshi rejected the Calgary Flames owners' first pitch as the project would cost $1.8 billion according to the city, with a substantial portion expected to come from Calgary taxpayers and other levels of government, including the province. The mayor said there was no economic case for the arena at that time.[40]

However, there is ongoing concern that a subsequent pitch from the Flames owners could be approved, particularly if it is associated with an Olympic bid by the City of Calgary. The Canadian Taxpayers Federation is firmly opposed to the

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[39] http://www.cbc.ca/news/canada/edmonton/edmonton-accused-of-hiding-facts-in-downtown-arena-review-1.726646
[40] http://www.660news.com/2016/12/25/no-economic-case-calgary-next-mayor/

idea of wasting tax dollars from any level of government on this purely unnecessary corporate welfare. The owners are capable of paying for this arena themselves.

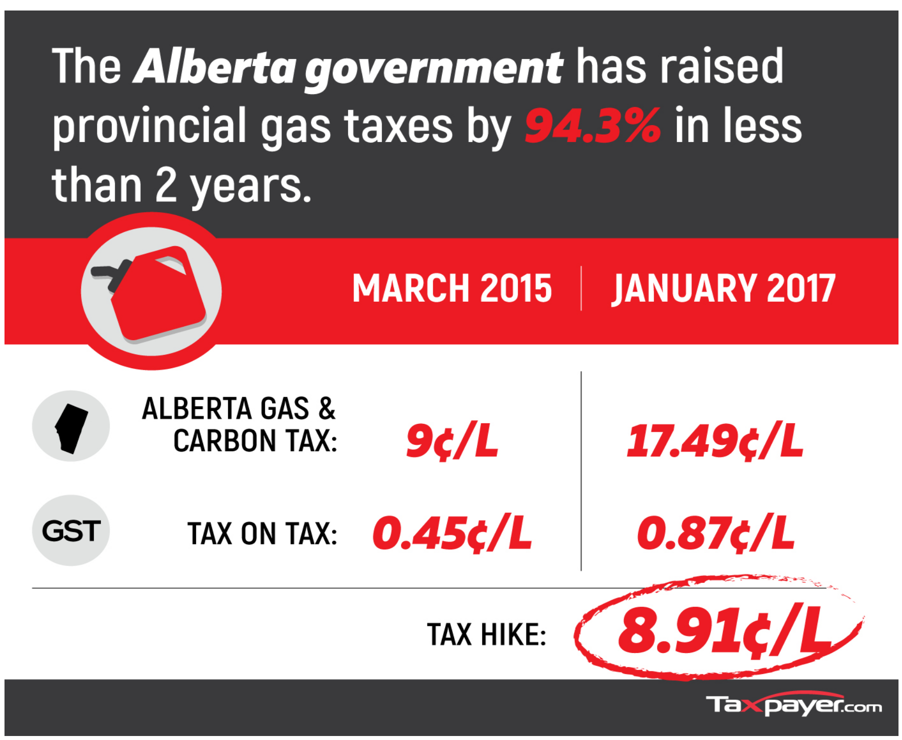
Ultimately, government should not give taxpayer money to wealthy pro sports franchises.

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.

Do Not Raise Taxes on Gas

The provincial government must realize that driving cars is not a luxury Albertans can simply cut back on. Many Albertans require driving for work, childcare, education and errands. For many Albertans, public transit is not an option. At the federal level, the CTF has recommended that the government cut the sneaky gas tax-on-tax that hits Canadians twice.

The 2016 annual CTF Gas Tax Honesty Day report showed the amount of gas taxes paid annually by the average Alberta family of four will more than double from 2014 to 2018, costing families $888 per year by 2018.[41]



41 http://www.taxpayer.com/media/2016-GTHD-EN.pdf

Between PC gas tax hikes that the NDP government chose not to reverse, and the NDP carbon tax, the Alberta government has increased provincial gas taxes by 94.3% in less than two years. This is an incredible hike that makes life's necessities more expensive and more out of reach for Alberta families.

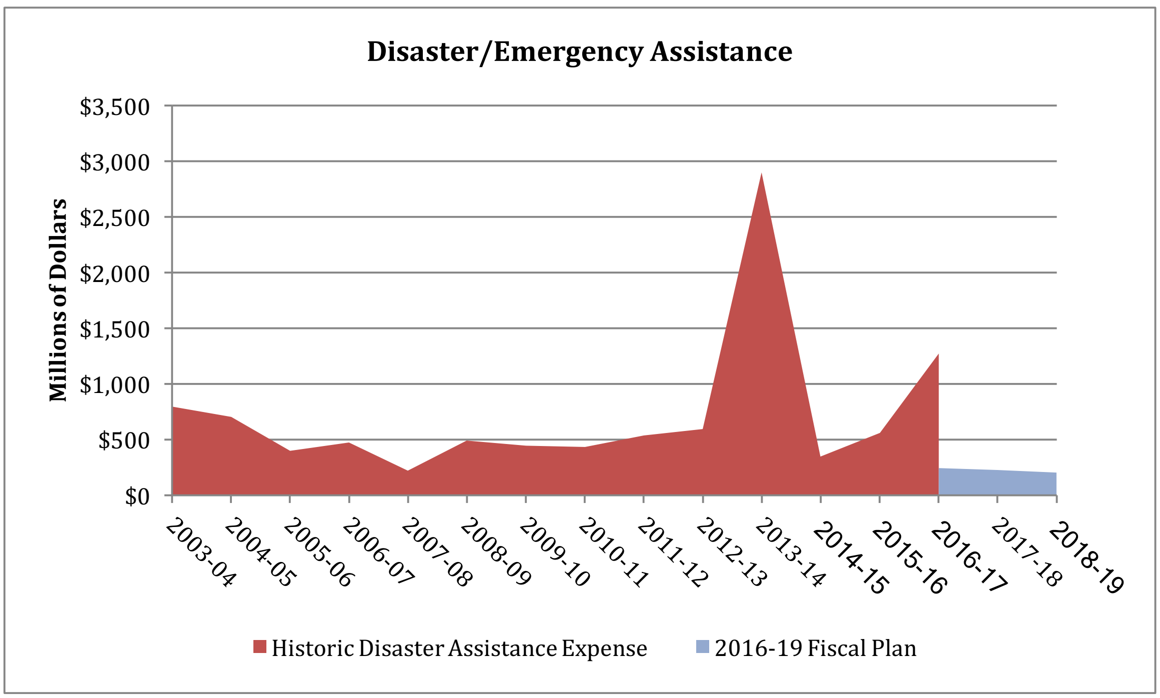
We recommend the government not raise taxes on gas in future.

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

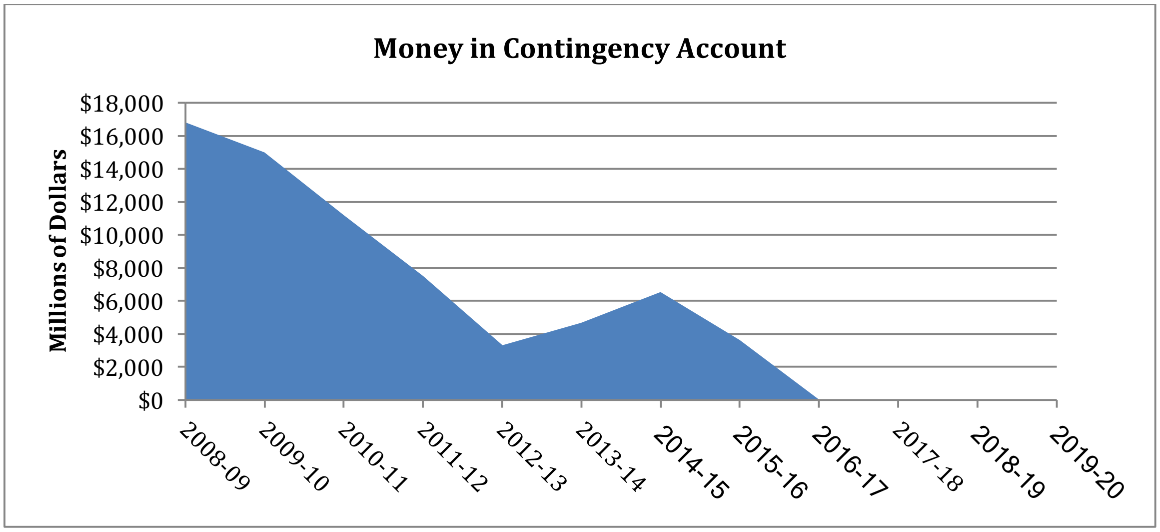
Between 2003-04 and 2016-17, the average annual government spending on disaster/emergency assistance has been $729 million. Over those 14 years, assistance spending has only been below $400 million twice. Despite these numbers, the government has budgeted far below what has been needed: $246 million in 2016-17, $228 million in 2017-18, and $204 million in 2018-19. The government should budget disaster/emergency relief according to reality, not arbitrary wishful thinking. Removing the years of the floods and wildfires, the average spending in this area has been $502 million. For any surpluses, saving is top priority. Once debt is repaid, surpluses should be allocated to savings.



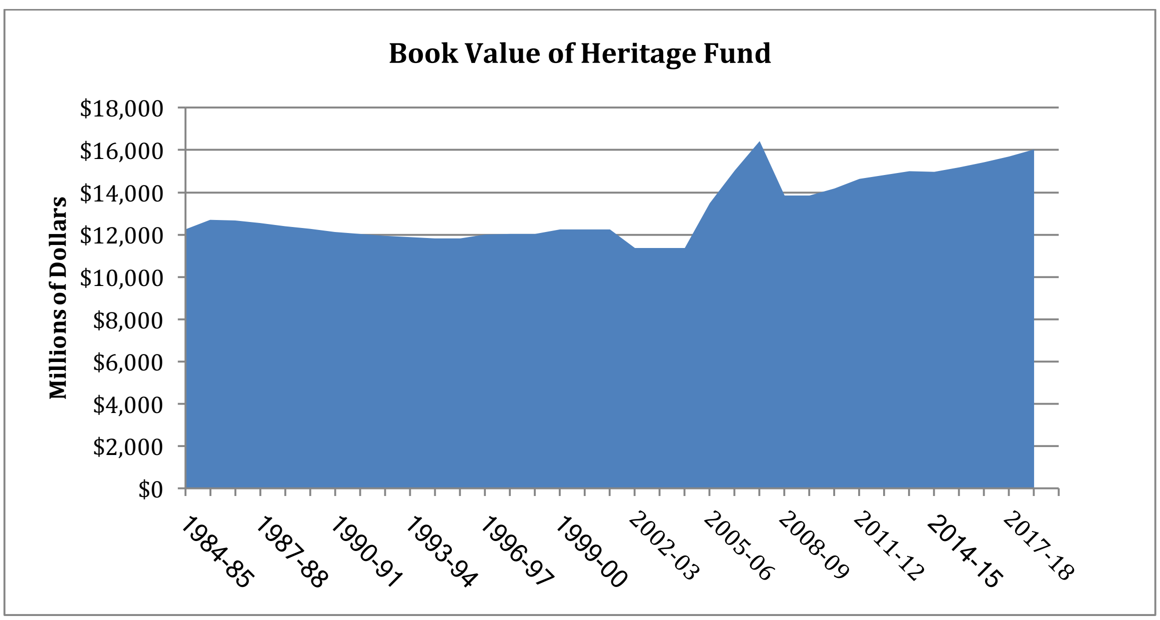
We recommend the government budget $500 million annually for emergency/disaster relief, and direct any surpluses toward debt repayment and allocated to the Contingency Fund once the debt is repaid in full.

Bolster the Heritage Fund Once the Debt is Repaid

The Alberta government has emptied the contingency account, and has no plans to issue further funds to the account within its current fiscal plan. This move away from savings is concerning, but what's more concerning is the government's rapid pace of racking up debt.



The book value of the Heritage Fund has increased by just $3.2 billion since 1984–85 – an average annual increase of only 0.72% over the past 32 years. The government inflation-proofs this fund, which we recommend they continue to do.



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 marked the first year in which the debt exceeds the amount in the Heritage and Contingency funds since 1997-98. Once the provincial debt is repaid, which should be top priority, the government should begin contributions to the Heritage Fund once again to bolster this account.

We recommend the government make substantial spending cuts in 2019-20 and start contributing more to the Heritage Fund once the debt is paid off in full.

"We used to have what was termed the 'Alberta Advantage,' a tax structure and business environment that welcomed companies into the province to allow them to be profitable, create jobs and wealth for the economy. We need to get back to these objectives, not collect more taxes and trust the government to distribute them to the right places. Less government, smarter government, that is what the province needs."
Quote: 2017 Alberta Pre-Budget Supporter Survey