Restoring the Alberta Advantage

2013-14 CTF Budget Submission to the Alberta Government

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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 81,000 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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I-Summary of Main Findings

- Alberta's cash deficit could reach $4.8 billion in 2012-13 and remain in a significant deficit position the foreseeable future.

- Alberta may run a small 'operating deficit' of approximately $270 million in 2012-13.

- Unless Alberta makes a significant course correction, the province will deplete the *Sustainability Fund* and return to debt by approximately January 3, 2014.

- Alberta could post a debt of $964 million by the end of 2013-14 and $6 billion by the end of 2014-15.

- Alberta has 29,387 full-time public servants earning an average of $102,000 a year in salaries, wages and benefits.

II-Summary of Recommendations

General

1. Abandon plans to return Alberta to debt or put the matter to a referendum.

2. Keep the Premier's pledge to not raise taxes during the mandate of this government or put it to a referendum.

3. To keep the Premier's pledge to balance the budget by 2013-14, cut overall spending by a net $3.8 billion in actual terms, or $5.3 billion relative to planned spending.

Fiscal

4. Cut operational spending by a net 7.5% across-the-board to save $2.7 billion in absolute terms, or $4.3 billion relative to planned spending in 2013-14. Freeze operational spending in 2014-15.

5. Extend the five-year capital plan over six years.

6. 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 of provincial GDP.

7. Negotiate - or if necessary legislate – a 10% rollback in salaries, wages and benefits for government workers in the Public Service, school boards and Alberta Health Services to save $1.4 billion.

8. Reduce the number of regular public servants by 5% to save $150 million.

9. Close entry to current pension plans and replace defined-benefit plans with defined-contribution plans for all new employees.

10. While respecting current obligations – less potential bailouts – move current employees to a new defined-benefit pension on a go-forward basis.

11. Budget $500 million per year for declared emergencies.

12. Eliminate bioenergy programs.

13. Eliminate the Farm Fuel Distribution subsidy.

14. Eliminate the GreenTRIP program.

15. Eliminate carbon capture and storage program.

16. Eliminate the Alberta Enterprise Corporation.

17. Eliminate the Alberta Multimedia Development Fund.

18. Eliminate Alberta promotions programs.

19. Eliminate the Alberta Human Rights Commission.

20. Require MLAs to make matching dollar-for-dollar contributions towards their retirement plans.

21. Reduce the Legislative Assembly's budget by 10%.

22. Eliminate the Francophone Secretariat.

23. Deny provincial funding for new NHL arenas in Edmonton and Calgary, including any Community Revitalization Levies.

Savings

24. Pass legislation specifying either a percentage or a minimum dollar amount of non-renewable resource revenues that must be put into endowment savings fund each year.

Fiscal federalism

25. Take leadership in calling for a federal 'fiscal compact' to legally limit the ability of provinces to exceed debt and deficit limits on pain for losing federal transfers.

26. Demand a better deal from Ottawa on Equalization that helps have-not provinces transition to self-sufficiently, and treats donor provinces with respect. If Ottawa refuses to listen, call a referendum.

Legislative action

27. Legislate a spending cap so that annual program spending in the future cannot increase by more than the combined growth rates of Alberta's population and inflation.

28. Uphold the Government Accountability Act and return to the legally required reporting standards for Quarterly Fiscal Updates.

29. Amend the *Alberta Taxpayer Protection Act* to require a provincial referendum to be held prior to increases or adding any new provincial tax.

III-Introduction

On July 12, 2004, Premier Ralph Klein held a large sign on the steps of the legislature that boldly stated, "Paid in Full." After years of sacrifice and austerity, Albertans were proud of their unique status as a debt-free province.

Eight years later, Alberta's government announced its intentions to return Alberta to debt without a mandate from voters. This return to debt has been accompanied by a legalizing of permanent, structural deficits. In order to fulfill the government's election pledge to balance the budget by 2013-14, the government has announced its intention to now only balance the 'operating budget,' leaving the overall budget – which includes capital – in deficit. In short, the government will balance the budget by changing the definition of a balanced budget.

At a time when other provinces are being crushed under the accumulated interest of their debts, Alberta's government has decided to follow their example. This is a path that will lead further and further way from the once vaunted Alberta Advantage.

Alberta is Canada's leading jurisdiction and has been until recently a model for the rest of the country to follow. Albertans should not take comfort from the relatively worse situation other provinces find themselves in due to their accumulated debts. Alberta is endowed with natural resources and a thriving economy. Simply put, if Alberta cannot balance its budget, no jurisdiction in Canada can.

Alberta already spends significantly more per capita than most other provinces in Canada. As a province, we have used the *Sustainability Fund* on backstopping deficits, and we have failed to make significant, long-term savings. Alberta is squandering the Alberta advantage.

To turn Alberta around, Budget 2013-14 needs to engage in a program of spending cuts, public sector pension reform and long-term savings. *Restoring the Alberta Advantage* is the Canadian Taxpayers Federation's plan to get us there.

IV-The Mess We're In

The Writing on the Wall

Alberta did not get to a state of massive, structural deficits by accident or without warning. The writing was on the wall that unsustainable spending increases *before* the recession of 2007-08 would plunge Alberta into deficit, even without a drop in revenues. The signs were clear *after* recovering from the recession that without major fiscal adjustments, Alberta would remain in a deficit position.

Between 2002 and the tabling of the 2012 budget, provincial revenues increased by a cumulative 63% in nominal terms, or 21% after adjusting for inflation and population growth. Yet, this explosion in revenue was not carefully managed and saved. Every dollar of it was spent, and more. During this period, spending increased by a cumulative 67%, or 25% adjusting for inflation and population growth. The spread between the high growth in revenue and even higher growth in spending led Alberta to a deficit in 2008, and has compounded the problem since.

Before Alberta returned to deficit 2008-09, the Canadian Taxpayers Federation (CTF) painted a clear picture for the Stelmach government of a fiscal situation. In that year's pre-budget submission to the government, then CTF Alberta Director, Scott Hennig stated,

> Over-spending and over-reliance on unreliable non-renewable resource revenues created the problem Premier Klein had to fix. The same over-spending and over-reliance on unreliable non-renewable resource revenues plague the Alberta government today. If the Stelmach government continues "business as usual," *Alberta will in all likelihood be in a deficit position within two to five years [2009 to 2012].*[1]

These words were prophetic, as Alberta's government did continue with "business as usual." As 2012-13 comes to a close, Alberta faces a massive deficit and stares at the last reserves of the *Sustainability Fund*.

Hennig continued,

> The premier at that time will be faced with three choices: cut spending, raise taxes

[1] Hennig, Scott. Canadian Taxpayers Federation. "Trouble on the Horizon: 2008-09 Provincial Budget Recommendations." October 2007. Page 6.

> or run a deficit to keep afloat… Decisive action must be taken in Budget 2008 to ensure drastic action isn't required in Budget 2012-13.

In Budget, 2012-13, the government was required to take drastic action, but still didn't. Rather than face one of the three options noted by Hennig, it decided upon a fourth: project optimistic revenue growth. Not surprisingly, this growth did not materialize, and the government is now facing a reckoning greater that it would have had it taken action earlier. The government's failure to heed these warnings will mean that the budgetary reckoning will require significant spending cuts or tax hikes if it is to avoid borrowing.

Returning to Debt

While seeking the leadership of the Progressive Conservative Association of Alberta, soon-to-be-premier Allison Redford pledged in writing to the CTF that, "I intend to balance the budget by 2013-14 without raising taxes."[2] While seeking a mandate from Albertans during the spring 2012 General Election, Premier Redford made the same pledge: Alberta would have a balanced budget by 2013-14 and there would be no increase in taxes. It is a pledge that many Albertans – and supporters of the Canadian Taxpayers Federation – took seriously.

"I intend to balance the budget by 2013-14 without raising taxes."
-Allison Redford to the CTF, August 2011

In September and October of 2012, Finance Minister Doug Horner held Fiscal Framework Advisory Panel discussions in which the primary topic of discussion was if Alberta should borrow to finance capital infrastructure. This was laying the groundwork for the Premier's later announcement that this would become the government's policy.

[2] Hennig, Scott. *Canadian Taxpayers Federation.* "A Fiscally Conservative Premier? Responses from Progressive Conservative Association of Alberta Leadership Candidates to Ten Questions from the Canadian Taxpayers Federation." September 2011. Page 13.

In short, the government would abandon its pledge to balance the budget in favor of the much more modest plan to balance only the operating budget, while taking on debt to finance capital infrastructure. While the government may believe this to be the best course of action, it is nothing short of a complete abandonment of the pledges the Premier made during her leadership campaign and the General Election. More importantly, it is a radical – and detrimental – shift in government policy.

V-Alberta's Current Fiscal Course

Revenue Projections

Revenue Projections				
2012-13				
Revenue Sensitivities	**Budget**	**Update**	**Difference**	**Projection ($ millions)**
Oil Price (WTI US$/bbl)	$99.25	$90.63	($8.62)	($1,922)
Natural Gas Price (Cdn$/GJ)	$3	$1.94	($1.06)	($30)
Exchange Rate ($US/Can)	$0.984	$0.9949	$0.01	$3
3 month TB interest rate	1%	1%	0.00%	-
10 year TB interest rate	2.6%	1.73%	(0.87%)	($194)
Personal Income	6.2%	6.7%	0.50%	$60
Corporate Income	11.8%	2.3%	(9.50%)	-
Total Revenue	**$40,263**	**-**	**($2,084)**	**$38,179**
2013-14				
Revenue Sensitivities	**Budget**	**Update**	**Difference**	**Projection ($ millions)**
Oil Price (WTI US$/bbl)	$104.52	$90.63	($13.89)	($3,097)
Natural Gas Price (Cdn$/GJ)	$4.2	$1.94	($2.26)	($63)
Exchange Rate ($US/Can)	$0.99	$0.9949	$0.00	$1
3 month TB interest rate	1.66%	1%	(0.66%)	($147)
10 year TB interest rate	3.25%	1.73%	(1.52%)	($339)
Personal Income	6%	6.7%	0.70%	$83
Corporate Income	17.5%	6.2%	(11.30%)	-
Total Revenue	**$43,989**	**-**	**($3,562)**	**$ 40,427**
2014-15				
Revenue Sensitivities	**Budget**	**Update**	**Difference**	**Projection ($ millions)**
Oil Price (WTI US$/bbl)	$105.2	$90.6	($14.57)	($3,249)
Natural Gas Price (Cdn$/GJ)	$5.0	$1.9	($3.05)	($85)
Exchange Rate ($US/Can)	$1.0	$1.0	$0.00	$1
3 month TB interest rate	2.5%	1.0%	(1.53%)	($341)
10 year TB interest rate	4.0%	-	(4.00%)	($892)
Personal Income	6.3%	6.7%	0.40%	$48
Corporate Income	8.4%	8.0%	(0.40%)	-
Total Revenue	**49,044**	**-**	**($4,519)**	**$44,525**

Natural Resource Revenues

When the government tabled Budget 2012-13, its Economic Outlook projected that oil (West Texas Intermediate) would be $99.25US/bbl for that fiscal year, increasing to $105.20 US/bbl by 2014-15.[3] This was not out of step with the average of most private sector forecasts at $99.38US/bbl for 2012. This projection collapsed soon after the election however, as the price declined from $106.17US/bbl on May 1, 2012 to $86.52US/bbl on May 31.

A similar scenario played out with the price of natural gas, plunging from $3.62Cdn/GJ to $1.94Cdn/GJ.

The CTF projects that lower than projected natural resource revenues will have a negative impact of approximately $1.9 billion in 2012-13, and $3.1 billion in 2013-14 if current trends continue.

While the government's projections for natural resource revenues were not out of step with private sector forecasters, they were plans for good-case scenario that left no room for error.

Corporate Income

While projections for natural resource revenues were optimistic, they were at least in line with private sector forecasters. By contrast, corporate income growth projections were markedly more optimistic than private sector forecasts. While the Budget projected growth of 17.5% in 2013, the average of private sector forecasters was just 6.2%. It remains to be seen which projection is closer to the mark.

Because corporate income 'revenue sensitivities' are not publicly provided by the Department of Finance, this report does not alter the government's corporate income tax projections. In the event that the government's forecasts do not fully materialize, this report's revenue projections would become overly optimistic.

Other Revenue Projections

Highly credible independent sources and the government have projected - or alluded to - an even greater revenue shortfall than extrapolations from the second Quarterly Fiscal Update or projections in this report. Jack Mintz of the University of Calgary estimated that revenues could fall as much as $8 billion short in 2012-13.[4] In her speech of January 24th, 2013, Premier Redford speculated the 'bitumen bubble' could cost Alberta as much as $6 billion in 2013-14.[5]

Relative to these estimates, the CTF's figures are more optimistic by comparison.

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[3] Hon. Liepert, Ron. *Government of Alberta*. "Budget 2012: Investing in People." February 9, 2012. Economic Outlook. Page 66.

[4] Mintz, Jack. *Financial Post.* January 21, 2013. http://opinion.financialpost.com/2013/01/21/jack-mintz-dont-count-on-oil/

[5] Gerenin, Keith. *Edmonton Journal.* January 24, 2013. http://www.edmontonjournal.com/business/Bitumen+bubble+costing+Alberta+billions+Redford+says/7869429/story.html

Budgetary Outlook Projections

Consolidated Fiscal Summary: CTF Projections ($ millions)			
	2012-13	**2013-14**	**2014-15**
Revenue	**$38,179**	**$40,427**	**$44,525**
Less: Revenue received for capital purposes	$540	$472	$155
Total Operating Revenue	$37,640	$39,955	$44,370
Expenses			
Operating expenses	$36,526	$38,036	$39,175
Disaster / emergency assistance (1)	$500	$500	$500
Capital amortization / nominal sum disposals	$882	$918	$922
Total costs of Operations	$37,908	$39,454	$40,597
Net Operating results	**($268)**	**$501**	**$3,773**
Other			
Capital grants and other support	$3,526	$3,877	$3,552
In-year savings	($360)	($360)	($360)
Debt servicing costs (2)	$531	$546	$560
Total Expenses	**$41,605**	**$43,517**	**$44,349**
Surplus / (Deficit)	**($3,426)**	**($3,090)**	**$176**
Cash Adjustments			
Capital investment (3)	$2,218	$1,846	$1,464
Capital amortization / nominal sum disposals (4)	($882)	($918)	($922)
One-time savings	$0	$0	$0
Net cash adjustment	**$1,336**	**$928**	**$542**
Total Cash Expenses	**$42,941**	**$44,445**	**$44,891**
Cash Surplus / (Deficit)	**($4,762)**	**($4,018)**	**($366)**
Sustainability Fund year-end balance	**$3,081**	**($964)**	**($5,981)**

(1) Projection based on average of previous years
(2) Has not been adjusted in future years to reflect higher borrowing costs as a result of capital and operation borrowing
(3) Included since money is spent in fiscal year
(4) Excluded since money was spent in earlier fiscal years

Important Note

The 'cash surplus/(deficit)' is all revenue collected by the government in a fiscal year, less all money spent. This differs from the government's 'recorded surplus/(deficit)' by including 'capital investments' and excluding 'capital amortization.'

'Capital investment' is money spent in a fiscal year, but which is amortized into future years. 'Capital amortization' is money which was spent in previous years, but is recorded as being spent in the given fiscal year.

While both figures have their purposes, the CTF believes that the 'cash surplus/(deficit)' is the real representation of the balance of revenues and expenditures in a fiscal year.

Deficit Projection

Using the spending plan laid out in Budget 2012-13 and updating revenue projections based on more recent economic indicators, the CTF projects that Alberta's cash deficit could reach $4.8 billion in 2012-13, and remain in a significant deficit position the foreseeable future, including a deficit of $4 billion in 2013-14.

Even the government's low-bar, "updated" promise of balancing only the 'operating budget' could potentially be broken. The CTF projects that by the end of 2012-13, the operating budget could post a deficit of approximately $268 million. The operating balance however should not be considered the true budget balance however. Despite the political weight put by the government on balancing the operating budget, the CTF strongly urges the government to not consider accounting changes to make this figure appear in balance.

Sustainability Fund Exhausted

The *Sustainability Fund* is projected to be entirely depleted by January 3, 2014. This means that as of January 2014, Alberta will be in a net debt position. The CTF projects that without a major course correction, Alberta will hold a debt of $964 million by the end of 2013-14, and $6 billion by the end of 2014-15.

Modest efforts to 'find efficiencies' and 'in-year savings' will no longer be sufficient to keep the budget under any control. Repeatedly ignoring calls for modest spending controls in the past have created a fiscal disaster for the province that will require significantly more muscular action than would have been required had measures been taken earlier.

In short, the party is over.

VI-Debt, Taxes Hikes or Spending Cuts?

Debt

For the last half decade, Alberta has had one unsavoury alternative to tax hikes or spending cuts: the *Sustainability Fund*. With the fund about to be liquidated entirely in fiscal year 2013-14, that option is no longer available to the government. Tax hikes and spending cuts are now joined by a fourth option: debt.

As noted above, the government has already signaled its willingness to return Alberta to debt. This option is not only imprudent, it is immoral.

Government debt amounts to one generation deciding to spend their children's money on themselves. Canadians born in February 2013 already owe $17,352 in federal debt from their first day in life. This is a debt run up by that child's parents and grandparents, which they will have to pay back – with interest – in the future with higher taxes. Responsible parents would not do this to their children in their private lives, and responsible citizens would not do this in their public lives.

If the government is willing to avoid a return to debt however, then only two options remain: taxes hikes, or spending cuts.

The premier and her government have no mandate to return Alberta to debt. If the government is intent upon shift in policy, then it should obtain a mandate from Albertans in a referendum.

Recommendation 1

Abandon plans to return Alberta to debt or put the matter to a referendum.

Tax hikes or spending cuts

Unlike debt, tax hikes are not immoral policy; but they are highly imprudent. Alberta has abundant revenues, however not the record high revenues projected in Budget 2012-13. As stated prior, over the past decade revenues have grown by 21% after adjusting for population and inflation, while spending has increased by 25%.

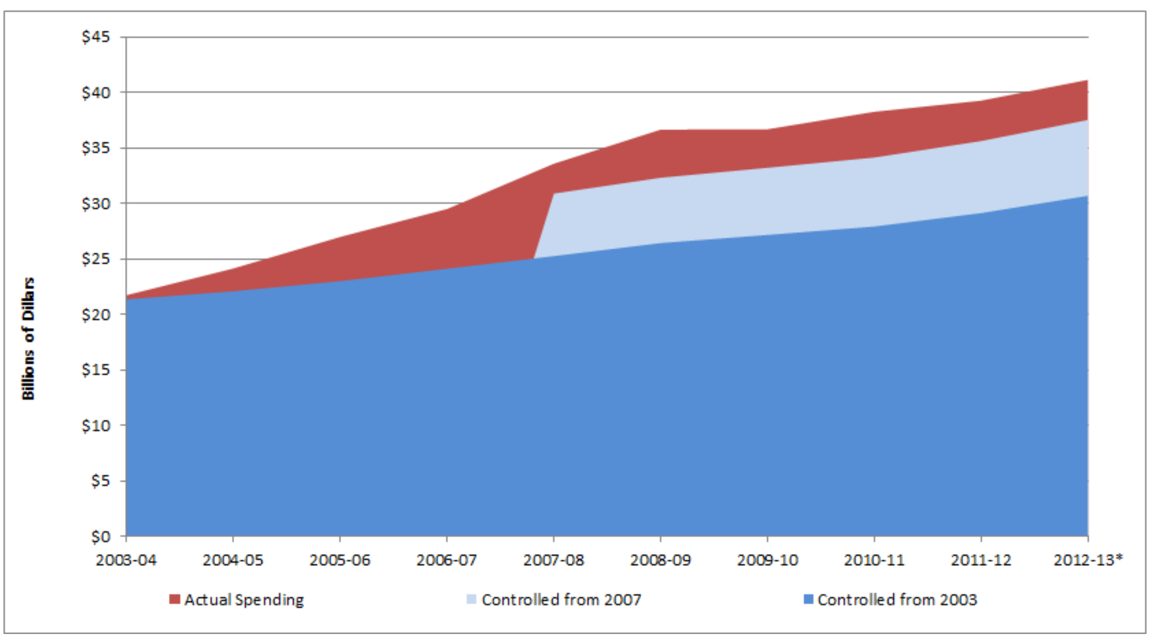
Current revenues, with reasonable growth projections are more than sufficient to finance spending needs.

The price differential between the world price of oil and what Alberta's crude sells for is a major issue at the heart of both the economy and the ability of Alberta to grow its revenues beyond current patterns; yet this issue is nothing new. It is an issue that has plagued both oil producers and government coffers for years and is not an unforeseen issue.

Nonetheless, the infamous 'price differential' is touted as the ill responsible for Alberta's deficit.

Examining the data, what becomes clear is that the real differential causing Alberta's prolonged string of deficits is the differential between the province's healthy revenue growth, and spending that has increased far beyond the rates of inflation and population growth, year after year.

Spending Scenarios: 2003-04 to 2012-13



Had spending increases been held to the combined rates of inflation and population growth for the last decade, Alberta would spend $10.5 billion less in 2012-13, and save be able to $7.6 billion towards the *Heritage Fund*.

Had spending increases been similarly restrained since Hennig warned the Stelmach government in 2007, the government would be spending be $3.6 billion less than is budgeted for in 2013 and the province would post a surplus of $802 million.

Restraining spending to the level of inflation and population growth would have ensured that the level of services and pace of capital projects in those years could have been maintained. It would have allowed Alberta to make significant and substantial contributions to the *Heritage Trust Fund*, and it would have ensured that a drop in revenue wouldn't throw the budget into chaos.

While it may be cliché, Alberta's recent fiscal history makes clear that the province has a massive spending problem, and not a revenue problem. Raising taxes would not only be a betrayal of the Premier's leadership race and election pledges, but it would be unnecessary.

Spending cuts are the only option available to the government in Budget 2013-14 if it is to avoid immorally going into debt and imprudently raising taxes. While revenues will grow with time, massively projected increases will simply not able to be relied upon.

While merely restraining *growth* in spending in 2007-08 would have avoided the current crisis altogether, relatively small spending cuts would have been required in the last two budgets to set the province on a firmer footing. Rather, continued spending increases have now necessitated *significant* spending cuts.

Taking into account the potentially conservative revenue shortfalls used in this report, the need to plan for error and the need to begin saving again, this report recommends that the government cut $4.6 billion in 2013-14 budget. This works out to a relative difference of $5.2 billion of *planned* spending in 2013-14. This needs to be followed up by an operational spending freeze in 2014-15.

This reasonable yet significant reduction in spending is necessitated by a failure to control spending in years past when the restraint required would have been less painful.

<u>Recommendations 2 & 3</u>

Keep the Premier's pledge to not raise taxes during the mandate of this government or put it to a referendum.

To keep the Premier's pledge to balance the budget by 2013-14, cut overall spending by $3.8 billion in absolute terms, or $5.3 billion relative to planned spending.

VII-Balancing the Budget

Restoring the Alberta Advantage: CTF Balanced Budget Plan Overview ($ millions)	2012-13 (Projection)	2013-14 (CTF)	2014-15 (CTF)
Revenue	**$38,179**	**$40,427**	**$44,525**
Less: Revenue received for capital purposes	$540	$472	$155
Total Operating Revenue	$37,640	$39,955	$44,370
Expenses			
Operating expenses	$36,526	$33,787	$33,787
Disaster / emergency assistance (1)	$500	$500	$500
Capital amortization / nominal sum disposals	$882	$918	$922
Total costs of Operations	$37,908	$35,205	$35,209
Net Operating results	**($268)**	**$4,750**	**$8,782**
Other			
Capital grants and other support	$3,526	$3,231	$2,960
In-year savings	($360)	($360)	($360)
Debt servicing costs (2)	$531	$546	$560
Total Primary Expenses	**$41,605**	**$38,621**	**$38,369**
Recorded Surplus / (Deficit)	**($3,426)**	**$1,805**	**$6,157**
Cash Adjustments			
Capital investment (3)	$2,218	$1,538	$1,220
Capital amortization / nominal sum disposals (4)	($882)	($918)	($922)
One-time savings	$0	($933)	$0
Net cash adjustments	**$1,336**	**($313)**	**$298**
Total Cash Expenses	**$42,941**	**$38,309**	**$38,667**
Cash Surplus / (Deficit)	**($4,762)**	**$2,118**	**$5,859**
Sustainability Fund year-end balance	**$3,081**	**$3,931**	**$4,895**

(1) Projection based on average of previous years
(2) Has not been adjusted in future years to reflect higher borrowing costs as a result of capital and operation borrowing
(3) Included since money is spent in fiscal year
(4) Excluded since money was spent in earlier fiscal years

Alberta is not irrevocably committed to a course that returns to debt and potentially higher taxes. Albertans strongly supported Premier Klein when he righted the ship after the Getty years by cutting spending and eliminating the deficit. Premier Klein's leadership laid the foundation for a strong Alberta, yet perversely, it left Alberta in such a strong position that many could take it for granted.

Premier Klein understood that if the public is to accept cuts in spending and public services that the pain must be shared equitably; that is, that no group is unreasonably singled out.

The CTF's recommendations for areas to cut spending are both specific and broad based. These include specific programs and funding items, as well as across-the board actions.

Restoring the Alberta Advantage: Summary of Spending Changes to Budget ($ millions)	
Reducing Public Sector Employee Costs	**$1,570**
10% wage rollback in Public Service, school boards & AHS	$1,420
5% (1,470 FTE) reduction in Public Service employees	$150
Ending Corporate Welfare & Other Business Subsidies	**$170**
Eliminate bioenergy programs	$66
Eliminate funding for carbon capture and storage programs	$60
Eliminate the Farm Fuel Distribution subsidy	$29
Eliminate the Alberta Multimedia Development Fund	$15
Other Reductions	**$119**
Eliminate the GreenTRIP funding	$93
Eliminate Alberta promotion programs	$10
Eliminate the Alberta Human Rights Commission	$8
10% reduction in Legislative Assembly spending	$7
Eliminate the Francophone Secretariat	$1
Other Operating Reductions	**$882**
Total Operating Reductions	**$2,740**
Increase in Disaster/Emergency Assistance	**$456**
Net Operating Reductions	**$2,284**
One Time Savings	**$99**
Eliminate the Alberta Enterprise Corporation	$99
Savings from extending the Capital Plan	**$975**
Net Spending Reductions (1)	**$3,358**

(1) Difference from net reduction in 'cash expenses' in Balanced Budget Plan Overview is due $14 million increase in debt servicing costs and assumption that the province will spend at least $500 million on disasters.

Cut Operating Spending by 7.5%

> "Last November we announced a hiring and discretionary expenditure freeze on government operations for the remainder of the fiscal year."
>
> "As part of our drive to reduce government overhead, I am announcing that the overall government budget for travel and hosting in 1987-88 will be reduced."
>
> - *Hon. Dick Johnston, Provincial Treasurer, 1987 Budget Address*
>
> "This year we have made a government-wide commitment to freeze travel budgets at last year's level and reduce hosting expenditures."
>
> "We will initiate program cost reviews in several departments this year."
>
> *- Hon. Dick Johnston, Provincial Treasurer, 1989 Budget Address*
>
> "I am announcing further actions to cut internal government operations as part of our plan to restore fiscal balance."
>
> - *Hon. Dick Johnston, Provincial Treasurer, 1992 Budget Address*

The last few years have seen the province make several small reductions. Spending reductions to travel and cabinet pay are, however, a very timid start.

Too often governments feel as if small, internal cuts and program reviews are going to be the solution to their deficit problems. Between 1987 and 1992 the Getty government trotted out their yearly commitment to cut travel, hospitality and to do yet another program review. Former provincial treasurer, Dick Johnston, indicated in 1992 that the Getty government had done what it could to cut spending, and that there were "no easy places left" to cut.

Then Ralph Klein became premier.

Two years after Johnston's claim that there are "no easy places left [to cut]," the budget was balanced and by 1997 the Klein government had implemented a nearly 22% budget cut.

What was impossible to one finance minister and government was implemented by the next one with gusto.

Furthermore, the Getty government often promised three-to-five year plans to balance the budget. In 1986, the government promised the budget would be balanced by 1991. In 1989, it promised it would be balanced by 1992. In 1991, the Getty government announced that they had indeed balanced the budget. Unfortunately for taxpayers, the books were cooked and the government ran a $2.6 billion deficit. In 1992, they promised to balance the budget over the next three years.

Making small trims, controlling spending increases and putting off real action in the hope that resource prices will once again rocket skyward will not balance the budget.

Spending must be cut. And cut significantly.

Last year the CTF recommended a 5% across-the-board operating spending cut. Delayed action will mean that this year, more significant action must be taken. This year, the CTF is calling for a 7.5% across-the-board cut in operating spending to save $2.7 billion in absolute terms, or $4.3 billion relative to planned spending in 2013-14. This should be followed by a one-year spending freeze.

Recommendation 4

Cut operational spending by 7.5% across-the-board to save $2.7 billion in absolute terms, or $4.3 billion relative to planned spending in 2013-14. Freeze operational spending in 2014-15.

Extend the Five-Year Capital Plan over Six Years

Budget 2012-13 laid out a plan to spend $9 billion in both 2013-14 and 2014-15, of which $4.8 billion is to be spent in 2013-14 and $4.2 billion in 2014-15. Similar spending figures are planned for later years.

Extending the five-year Capital Plan over six years would mean an absolute savings of $975 million in 2013-14 and $589 million in 2014-15 for a cumulative $1.6 billion in saving for the first two years. Relative to planned spending in those years, this would mean spending $954 million less in 2013-14 and $836 less in 2014-15.

Ideally the spreading out of the Capital Plan should be focused on the vertical side of infrastructure spending rather than on the horizontal. The reason for this is that road building is predominately done by governments, on both the civic and provincial level. This means that significant increases or drops in road building by governments do not allow road building companies to find other work in the same business in the private sector. Therefore, a predictable level of spending is beneficial to prices over the long-term.

Furthermore, road networks are key to moving goods and services to market. This is vital for the continued growth of the economy.

On the other hand, vertical infrastructure consists mainly of K-12 schools, post-secondary education buildings, health facilities, senior's facilities and government office buildings. These facilities also come with the requirement that they not just are maintained, like roads, but that they be staffed, heated and serviced. The more buildings you build, the larger your requirement for operational dollars

Moreover, the companies that build these types of infrastructure for government also do so in the private sector. While government demand undoubtedly makes up a portion of their business, it does not make up the vast majority. Therefore, reducing spending in this area isn't likely to have as a dramatic impact as it would on the road building side.

Recommendation 5

Extend the five-year capital plan over six years.

Predictable Capital Spending

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 annual budget not less than 0.9% of the average provincial GDP for the previous two years.

The Canadian Taxpayers Federation would support implementation of this AFMC recommendation with a further benchmark of a maximum allocation of 1.5% of the average GDP for the previous two years.

Had the government instituted these minimum and maximum spending requirements for capital, the CTF suggests inflationary costs would not have been be as high over the past five years, lessening the waste of tax dollars.

Capital spending as a percentage of two-year average GDP

	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 average
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	$274,717	$256,372	$5,744	2.24%	2,307
2012	$306,657	$268,087	$4,769	1.78%	2,413

As seen in the table above, in the last 20 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.

For the 2012-13 budget, based on the 0.9% to 1.5% of previous two-year's average GDP (2011 and 2012) range, the Alberta government should be spending a minimum of $2.4 billion and a maximum of $4 billion[6] on capital plan spending.

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.

[6] Range determined by using the Alberta Budget 2012-13 projections for Alberta's GDP growth for 2012-13.

Recommendation 6

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 of provincial GDP.

Reducing Public Sector Wage and Benefit Costs

During the Klein Revolution, all government employees agreed to take a 5% rollback of their salaries. This was not an easy task, as many collective agreements had already been established. However, Klein threatened to deliver 5% less in the budgets and would allow employees to decide whether they preferred cutting programs, layoffs or wage roll-backs. Universally, bureaucrats opted for the wage roll back.

According to the *Fraser Institute*, the average public sector worker in Alberta earns 10.3% more than those in equivalent private sector occupations.[7] Coupled with the incredible job security that accompanies these jobs, the gap between public and private sector workers has become immense.

[7] Milke, Mark. *Fraser Institute.* Calgary Herald. January 26, 2013. http://www.fraserinstitute.org/research-news/news/display.aspx?id=19273

Public Service Count and Costs	
Department and sub-Bodies	**FTE Employees**
Advanced Education and Technology	601
Agriculture and Rural Development	1,650
Culture and Community Services	479
Education	703
Energy	1,817
Environment and Water	919
Executive Council	185
Finance	1,264
Health and Wellness	822
Human Services	4,912
Infrastructure	940
Intergovernmental, International and Aboriginal Relations	297
Justice	3,065
Legislative Assembly	607
Municipal Affairs	535
Seniors	1,960
Service Alberta	1,372
Solicitor General and Public Security	3,746
Sustainable Resource Development	1,703
Tourism, Parks and Recreation	595
Transportation	798
Treasury Board and Enterprise	417
Total	**29,387**
Total cost of Salaries, Wages & Benefits	**$2,997,000,000**
Average Cost Per FTE	**$101,983.87**

In 2012-13, the Alberta government will spend $3 billion[8] on "salaries, wages, employment contracts and benefits" for Alberta's 29,387 civil servants.[9] This works out to an average of $102,000 per government employee.

Reducing this large workforce by 5% would result in savings of approximately $150 million. From this lower base of 27,918 employees, a 10% cut to their wages – to bring them in line with the private sector – would result in a savings of approximately $285 million.

[8] Budget 2012-13 – Ministry Expense by Object – p.128
[9] 2012-13 Government Estimates. General Revenue Fund. February 9, 2012.

In its 2012-13 budget, the Edmonton Public School Board estimates that it will spend 79% of their entire budget on "salaries and employee benefits."[10] Similarly, the Calgary Board of Education has budgeted 78% of their costs to be incurred by salaries and benefits in 2012-13.[11]

Assuming similar levels of 78.5% across the province, of the $6.5 billion budgeted for school boards in 2012-13, $5.1 billion will be spent on salaries and benefits. If every employee was to take a 10% salary roll-back, this would save an additional $514 million in 2013-14.

According to Alberta Health Services' 2011-12 budget, 52% of that organization's funding is spent on salaries and benefits.[12] A 10% roll-back would net an additional $621 million in savings.

Approximate Savings from Reducing Public Sector Employee Costs ($ millions)

Division	10% Wage Rollback	5% Workforce Reduction
Public Service	$285	$150
School boards	$514	
Alberta Health Services	$621	
Total	**$1,420**	**$150**

Between the Public Service, School Boards and Alberta Health Services, a 10% wage rollback would save approximately $1.4 billion in 2013-14.

Recommendations 7 & 8

Negotiate – or if necessary legislate – a 10% rollback in salaries, wages and benefits for government workers in the Public Service, school boards and Alberta Health Services

Reduce the number of regular public servants by 5%

[10] Fall 2012 Update to 2012-13 Budget. Edmonton Public School Board. http://www.epsb.ca/budget/2012-2013_BoardReportFallUpdate.pdf

[11] *Calgary Board of Education* . Operating Budget 2012-13 and Beyond. http://www.cbe.ab.ca/trustees/Budget/OperatingBudget12-13.pdf

[12] *Alberta Health Services*. Operating Budget and Business Plan. Page 33.

Public Sector Pension Reform

In the public sector, 80% of employees have an employer sponsored pension plan. In the private sector only 23% have an employer sponsored pension plan.[13]

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).

In fact, 97% of public sector employee pension plans are defined-benefit. Compare that to the 44% of private sector employee pension plans that are defined-benefit.[14]

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

If these assumptions are off by even a hair it can create a larger unfunded liability. In fact, that's exactly what we saw in 2008 when the Alberta government's pension liabilities jumped from $5.6 billion in 2006-07 to $10.1 billion in 2008-09. At the beginning of the 2011-12 fiscal year, the Alberta government's pension liability was still at $10 billion in addition to a $1.2 billion loan to the Alberta Teachers Retirement Fund. This leaves Alberta with a total pension liability of $11.2 billion.

Even if Premier Redford cut a cheque tomorrow for the full $11.2 billion, it doesn't mean the unfunded liability is dead. If a couple of assumptions are wrong, taxpayers will be back on the hook to pay-off a new debt.

The government should be looking to 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."

[13] http://www.statcan.gc.ca/daily-quotidien/100525/dq100525c-eng.htm
[14] http://www.statcan.gc.ca/daily-quotidien/100525/t100525c1-eng.htm

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 surprise unfunded liabilities in the future.[15]

Even the Saskatchewan government under 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.[16]

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.

Recommendations 9 & 10

Close entry to current plans and replace defined-benefit pension plans with defined-contribution plans for all new employees.

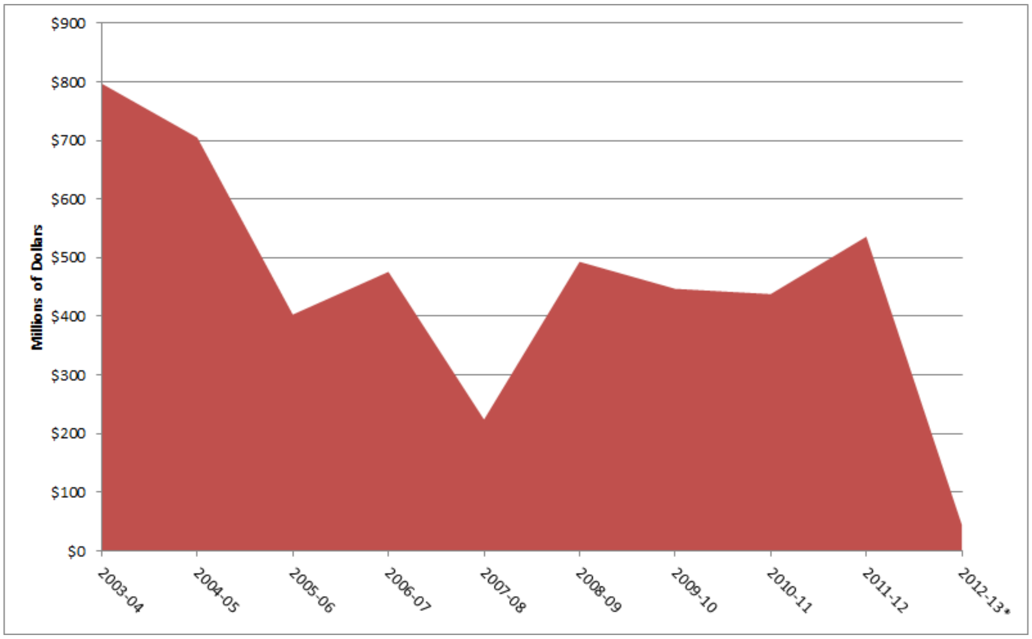
While respecting current obligations – less potential bailouts – move current employees to a new defined-benefit pension on a go-forward basis.

Budget $500 Million for Declared Emergencies

Every year the government of Alberta spends a considerable sum of money on disasters and emergencies, yet the vast majority of those funds are unbudgeted for. Between 2003-04 and 2011-12, Alberta spent an average of $502 million on disaster and emergency relief, yet in 2012-13 the government has only budgeted $44 million. As of the Second Quarter Fiscal Update, the government had already spent $487 million on disasters and emergencies[17]. In 2013-14 only $17 million is budgeted, and in 2014-15, a paltry $2 million. It doesn't take an auditor general to know that far more than this will actually be spent. The result is to make future spending projections in this envelope radically lower than they will be.

[15] http://crr.bc.edu/images/stories/Pension_Freeze_Fact_Sheets/table2.pdf
[16] http://www.innovation.cc/books/chapter02.htm
[17] 2012-13 Second Quarter Fiscal Update and Economic Statement. *Department of Finance.* November 2012. Page 7. http://www.finance.alberta.ca/publications/budget/quarterly/2012/2012-2nd-quarter-report.pdf

Alberta Government Disaster & Energy Spending, 2003-04 to 2012-13



*Amount budgeted, not spent

Right now, emergency and disaster funding comes from the *Sustainability Fund*. As it will soon be depleted, the government will have to fill this spending envelope from general revenues.

Rather than shift funds from the operating and capital budgets, or draw on the *Sustainability Fund*, the government of Alberta should budget $500 – pegged to inflation – annually towards disaster and energy spending.

Recommendations 11

Budget $500 million annually towards disaster and emergency spending.

Eliminate bioenergy programs and Farm Fuel Distribution subsidy

The CTF has long contended that no sector of the economy – even on so important as agriculture – should receive subsidies from taxpayers. The federal government in conjunction with most provinces has worked to successfully create a low business tax environment.

Beyond this, the federal government is expected to sign the Canada-Europe Trade Agreement (CETA) which will expand market access for Alberta's agriculture and agri-food industry. Rather than provide subsidies to specific industries, the government of Alberta should focus its efforts to help farmers on breaking down trade barriers, both international and inter-Canadian.

Recommendations 12 & 13

Eliminate bioenergy programs.

Eliminate the Farm Fuel Distribution subsidy.

Eliminate the carbon capture and storage and GreenTRIP programs

The carbon capture and storage (CCS) and Green Transit Incentives Programs (GreenTRIP) were announced in July 2008 amid a projected $8.5 billion budget surplus. Despite not being in the 2008-09 budget released only a few months prior, each project was earmarked $2 billion.

In fact, the dollars were specifically allocated from the 2008-09 surplus.

> "Funds for the two initiatives will come from this year's surplus, which the province expects will be significantly larger than predicted due to higher-than-forecast oil and gas prices."
>
> *- Government of Alberta News Release, July 8, 2008*[18]

Since there was no surplus in 2008, 2009, 2010, 2011, 2012 – and there won't be until cuts are made – it would stand to reason dollars allocated from a non-existent surplus should no longer be allocated.

Furthermore, the CCS projects are expected to remove five megatonnes of Co2 from the atmosphere by 2015. To put that into context, five megatonnes of Co2 is only 0.69% of all greenhouse gas emissions in Canada. Put another way, since Canada's emissions are only 2.2% of all Co2 emissions worldwide (2004), these projects will remove 0.015% of world emissions at a cost of $2 billion.

Essentially, it will cost taxpayers $400 per tonne to capture and store this Co2 underground. From a per tonne standpoint, this is extremely expensive compared to the prices of carbon offsets that can be purchased around the world.

Offsets allow citizens, companies or even governments to bankroll projects that will reduce, sequester or avoid emissions elsewhere.

[18] http://alberta.ca/home/NewsFrame.cfm?ReleaseID=/acn/200807/23960039FB54D-CC21-7234-31C3E853089A1E6C.html

The cost to purchase these offsets range from a low of $3 per tonne to a high of $80. Even companies like Air Canada sell offsets. For example, someone wanting to offset the carbon emissions from their flight can calculate their emissions online and then purchase an offset from Air Canada at a cost of $16 per tonne. Air Canada then passes the money on to an offset company who uses it to plant trees in British Columbia, capture gas from landfills in Ontario, or recycle tires in Quebec.[19]

Regardless, both the CCS and Green TRIP program were promised dollars the government did not have. Both programs should be scrapped.

According to the government's budgetchoice.ca website, eliminating future funding for CCS would save $60 million, and an additional $93 million for cancelling the GreenTRIP program.

Recommendations 14 & 15

Eliminate the GreenTRIP program.

Eliminate carbon capture and storage programs.

Eliminate the Alberta Enterprise Corporation

Budget 2008 allocated $100 million to the Alberta Enterprise Corporation as seed funding for a new venture capital fund. It is the government's belief that start-up technology companies don't have access to enough funding from investors. In response, they have taken taxpayers money and are "investing" it in these companies.

This is a form of corporate welfare. If private investors don't believe they can make any money by investing in a company, it's probably for good reason. The Alberta government went down a similar road in the 1980s. It 'invested' billions of taxpayer dollars into private companies like Gainers, MagCan, and NovAtel.

Estimates peg the overall loss of tax dollars to these projects at between $2.3[20] and $5 billion.[21]

Shortly after Premier Klein took office, the Alberta government suffered these huge losses in order to rid taxpayers of these problem investments.

[19] Air Canada Carbon Offset Program. http://www.aircanada.com/en/travelinfo/traveller/zfp.html Accessed February 2013.
[20] Milke, M. (2002) *Tax Me, I'm Canadian: How Politicians Spend Your Money*, Canada: Thomas and Black, p. 197.
[21] Vivone, R. (2009). *Ralph Klein Could Have Been a Superstar: Tales of the Klein Era*, Kingston, ON: Patricia Publishing Inc., p. 77.

The message from the Klein government was clear: corporate welfare doesn't work, and governments have no business being in business. Since then, Alberta has been a shining example for the rest of Canada as to why it is always the best policy to avoid corporate welfare.

A May 2008 report by three researchers in the Sauder School of Business at the University of British Columbia (Brander, Egan & Hellmann) showed that government sponsored venture capital funds tend to crowd-out private investors, have lower returns than private venture capital funds and create less innovation.[22]

And this makes sense. When investors make the decision to invest they do so with their own 'skin in the game,' whereas governments do not.

Alberta Enterprise Corporation Assets[23]

Company	Assets ($ millions)	Year
Aviro Ventures II Venture Capital Fund	$6	2012
32 Degrees Capital Energy Technology Fund	$10	2012
Azure Capital Fund	$10	2012
EnerTech Centure Capital Fund	$15	2012
iNovia Capital Fund	$10	2011
Crysalix Clean Energy Fund	$15	2010
Yaletown Venture Partners Fund	$14	2010
Net Assets	**$ 99.3**	

To date, the Alberta Enterprise Corporation has "invested" $80 million into seven different funds and holds net assets of $99.3 million.[24] The Government of Alberta should dispose of these assets in an orderly fashion to realize one-time savings of $99.3 million.

Recommendations 16

Eliminate the Alberta Enterprise Corporation.

[22] http://strategy.sauder.ubc.ca/hellmann/pdfs/Brander%20Egan%20Hellmann%20-%20NBER%20Final%20Version.pdf
[23] Alberta Enterprise Corporation Annual Report 2011-12
[24] http://alberta-enterprise.ca/news/news--events/yaletown-announcement

Eliminate the Alberta Multimedia Development Fund

The movie and television making business is a multi-billion dollar enterprise around the world. It seems that every city, state, province and country is in a panic to get these companies to come to their respective jurisdiction to film.

While it is great to have a thriving film industry, the encouragement that is often received by these companies, comes in the form of taxpayer dollars. In Alberta, while it is thankful we do not have an open-ended tax credit system that is in place in many other locations, we still spend millions annually subsidizing multi-million or multi-billion dollar companies.

The film industry is no different than any other industry in Alberta, be it metal fabrication, oil field servicing or computer repair. As such it should be able to survive on its own without taxpayer-funded corporate welfare.

In 2010-11 Alberta Multimedia Development Fund (AMDF) distributed $15 million.[25] This program has been re-named the Alberta Production Program, and has been rolled into the new Alberta Multimedia Development Fund.

AMDF Grants

Production Company	Project Name	Amount ($)
Angels Crest AB Ltd.	Waska (First Snow) aka Angels Crest	$266,765
Aquila Productions Inc.	Home Ice	$184,672
BFL, Future Inc.	The Future is Now!	$101,684
Corkscrew Media (CCMA 2010) Inc.	The Canadian Country Music Awards 2010	$316,501
Fish Out of Water Productions 4 Inc.	Fish Out of Water Season III, Cycle IV	$227,098
Gemini Gala Productions 2009 Inc.	24th Annual Gemini Awards	$146,662
Going Nuts Productions II Inc.	CAUTION: May Contain Nuts Eps. 8-20	$608,033
MiMedia Inc.	Traditions	$140,328
MiMedia Inc.	Going Wild with Brian Keating	$240,312
Oliver's Arrow Films Inc.	Oliver's Arrow	$1,774,803
Pyramid Productions Inc.	The Role that Changed My Life Season II	$366,238
Pyramid Productions Inc.	Man on a Mission Season II	$362,564
Rescued Horse Season Three Inc.	Heartland Season III, Eps. 315-318	$471,352
Zone3-XIX Inc.	My Rona Home	$161,623
Total		**$6,658,478**

[25] *Alberta Department of Culture and Community Spirit.* Alberta Multimedia Development Fund Grant Summary 2010-11. Page 4. http://culture.alberta.ca/multimediafund/pdf/AMDF_2010-11_Annual_Summary.pdf

Accrued APP Project Payments		
Production Company	**Project Name**	**Amount ($)**
19th Wife Productions Inc.	The 19th Wife	$862,966
Birds of a Feathers Media Inc.	Rodeo - An Eternity of Seconds	$271,325
Blackstone Cycle I Ltd.	Blackstone - Cycle I (2-9)	$587,425
Brandy Y Productions Inc.	Brooks - The City of 100 Hellos	$38,962
Code Breakers Documentary Inc.	The Code Breakers	$140,907
Delsur Films Inc.	Omni 1 Minute Profiles	$36,053
Fresh Dog Productions Inc.	Larping: The Knights of Awesome	$909,479
FU2 Productions Ltd.	FUBAR 2	$365,772
Live Music Special Productions Inc.	Live At... Season I	$27,550
Nomadic Pictures Productions Ind.	The Truth Below	$517,031
Panacea Entertainment	Apologies	$36,728
Pyramid Productions Inc.	Star Crossed Season II	$197,700
Pyramid Productions Inc.	Rain - The Show That Never Was	$40,343
Pyramid Productions Inc.	Film Festival Project II	$229,909
Pyramid Productions Inc.	Jann Arden: Free	$104,415
Pyramid Productions Inc.	Inside Hollywood IV	$347,977
Pyramid Productions Inc.	Whatever Happened to...? Season IV	$424,553
Pyramid Productions Inc.	The Most Amazing Season III	$435,667
Pyramid Productions I Inc.	The Music of Ian Tyson	$30,285
Pyramid Productions I Inc.	Bollywood's Best Season I	$222,477
Pyramid Productions I Inc.	Styleography Season I	$280,063
Rescued Horse Christmas Inc.	Heartland Christmas	$771,973
Ride Guide Productions Ltd.	Ride Guide Snow 2010	$110,200
Stone Soup Western Corporation	Western Confidential	$318,557
Tipping Point Documentary Inc.	Tipping Point: The End of Dirty Oil	$239,083
Total		**$5,47,400**

Not only is it wrong and wasteful for taxpayers to be funding one particular sector of the economy at the expense of all others, in some cases, taxpayers have been forced to fund a film attacking Alberta's greatest asset, the oil sands. This came in the form of a $239,083 grant from the AMDF for the documentary, 'Tipping Point: The End of Dirty Oil."[26] While taxpayers pay out of one pocket for the government's efforts to promote the oil sands, they are forced to pay out of the other in support of activist propaganda. Nonetheless, it is not the role of government to police which films are more worthy than others.

[26] *Alberta Department of Culture and Community Spirit.* Alberta Multimedia Development Fund Grant Summary 2010-11. Page 4. http://culture.alberta.ca/multimediafund/pdf/AMDF_2010-11_Annual_Summary.pdf

This confluence of corporate welfare and decisions that the government is not fit to make, makes eliminating the AMDF low hanging fruit for any government serious about balancing the budget. It should be eliminated to realize savings of $15 million annually.

Recommendations 17

Eliminate the Alberta Multimedia Development Fund.

Eliminate Alberta Promotions

Like agriculture, the CTF opposes government subsidies for any specific industry. This includes indirect subsidies such as government funding such as those provided through Alberta promotion programs.

Recommendations 18

Eliminate Alberta promotions programs.

Eliminate the Alberta Human Rights Commission

The Department of Justice houses one of the most unjust and un-Canadian government bodies in the provincial bureaucracy. The Alberta "Human Rights" Commission (AHRC) has a well-documented record of trampling on the basic liberties of Canadians. From stripping Canadians of their right to free speech to their enjoyment of private property, the AHRC is an anachronism in 21st Century Canada.

The AHRC should be unceremoniously stripped of not only its funding, but also of its powers.

Recommendations 19

Eliminate the Alberta Human Rights Commission to save $7.8 million.

MLA retirement packages & Legislative Assembly spending

Retirement Packages

Over the last year remarkable progress has been made in the area of MLA pay, perks and pensions.

One year ago, a citizen had to go to great lengths just to know how much a given MLA or minister was paid. MLAs made money that Albertans had no idea about. Most notoriously, then CTF Alberta Director, Scott Hennig unearthed the 'No-Meet Committee.' Upon being awarded the provincial Teddy Waste Award by the CTF, taxpayers across Alberta rose in anger. The backlash had repercussions beyond those MLAs sitting on the committee, coming to engulf all members of the legislature in demands for more transparency in MLA remuneration.

This was compounded by the CTF's calculation and release of the severance/transition allowance eligibility of retiring and potentially defeated MLAs. Albertans rightfully saw these two issues – murky pay schemes and overly generous retirement payouts – as interconnected.

During the election, Premier Redford promised:

- That government MLAs on the 'No Meet Committee' would have to pay back those funds not actually worked for;
- A transparent remuneration structure that Albertans could both access and understand; and
- An end to severance payouts/transition allowances.

For the most part, the Premier has delivered on all three of these commitments, an accomplishment for which she, the government and MLAs in all parties deserve credit. Nonetheless, the government fumbled in its handling of MLA retirement packages.

The Premier promised Albertans that she would scrap MLA severance packages, full stop; not that she would replace them with something else, however less generous.

This fall however, PC members of the Member Services Committee introduced a motion that would double taxpayers' contributions to MLA RRSPS, eliminate MLAs' own contributions, and reintroduce severance payments under a new name.

While public backlash against reinstituting severance payouts meant that the idea was vetoed by the Premier, the proposal to double the taxpayer contribution towards the MLA RRSP, without requiring an equal contribution from MLAs, was allowed to go forward.

MLAs are now entitled to a retirement savings package worth $23,000 a year, without being required to make equal, matching contributions.

While this more generous retirement package is a far cry from the pre-election packages available, it is not what the premier promised. Nor is $23,000 an unreasonable sum for taxpayers to contribute towards MLA retirement packages as a sum, however it is unreasonable for MLAs to not be required to make matching contributions.

MLAs should be allowed to maintain the higher taxpayer contributions to their RRSPs, so long as they make matching dollar-for-dollar contributions towards their retirement.

Legislature spending

In the event that significant cuts in government spending are made, the legislature must lead by example. To set the tone for the rest of the public sector, the legislature should trim its own budget by 10%. If MLAs wish to focus this cut on salaries, benefits or staff is up to them.

Recommendations 20 & 21

Require MLAs to make matching dollar-for-dollar contributions towards their retirement plans.

Cut the Legislative Assembly's budget by 10%.

Eliminate the Francophone Secretariat

Alberta's French community is as old as Alberta. There is little reason to believe that without government subsidies that it would be imperilled. Further to this, the fedeal government spends lavishly on promotion of Francophone culture every year, making a futher $1.3 million in provincial funding redundant.

The CTF believes that all ethnic, cultural and lingustic groups have the capacity to retain their heritage without government subsidies.

Recommendation 22

Eliminate the Francophone Secretariat.

Deny provincial funding for NHL arenas, including any CRLs

Both the owners of the Edmonton Oilers and the Calgary Flames want 'government support' – that is, taxpayers' money – for building new NHL arenas in their respective cities. While the City of Edmonton has inked a deal which is bad for municipal taxpayers in that city, the Premier has thus far denied any provincial funding.

In the past two decades, four NHL arenas have been built for NHL teams in Canada: General Motors Place in Vancouver in 1995, Scotiabank Place in Ottawa in 1996, The Bell Centre in Montreal in 1996 and the Air Canada Centre in Toronto in 1999.

Every single one of these NHL arenas was built with virtually 100% private funding. One (Toronto's Air Canada Centre) actually contributed to public infrastructure when they built the arena.

Further, in Columbus, Ohio the owners of the Columbus Blue Jackets were able to build a new arena at the same time as re-vitalizing their downtown, with 100% private funds.

While it may be the norm to have local and state governments subsidize the building of NHL arenas in the United States, it is the exact opposite in Canada. These are private, profitable ventures that have been able to foot the bill for their own arenas in Canada in the past. There is no reason why Edmonton and Calgary should be any different.

Furthermore, the funding model proposed for a new downtown arena in Edmonton includes a Community Revitalization Levy (CRL). The CRL requires the approval of the provincial government.

The way a CRL works is that the city draws an imaginary line around a zone that is called the "Community Revitalization Levy Zone." This zone can be large or it can be small, it's completely up to the city. They then figure out what the property within the zone currently pays in property taxes.

Next they imagine all of the new buildings that could be built if the zone were to be "revitalized." Then they calculate how much in property taxes (both local and provincial education) the property in this zone would pay after the "revitalization."

If the province approves the CRL, the city uses the difference as an annual payment on a 20-year mortgage for the cost of the initial infrastructure (ie. new arena).

The claim is that the incremental property taxes are essentially "free" because they never would have been there without the "revitalization." Further, proponents claim because they are "free," it's fine to spend them to induce the revitalization (eg. build an arena), all without costing taxpayers a penny.

Even setting aside the assumption that new development actually takes place as a result of the arena, the logic of the larger argument is faulty.

The CRL makes an incorrect assumption that you can artificially manufacture extra demand for a product. It assumes that because a new restaurant opens that the total number of dollars spent across the entire city on food and entertainment will go up. If that were true, no restaurant would ever go out of business and new ones would open up constantly without any failing.

To date, the province has rejected direct funding of professional NHL arenas. Premier Redford has been clear about the province's denial of tax dollars to build an arena. However, nothing has been said about the use of a Community Revitalization Levy, which would use provincial education property tax dollars.

Add to this the conflict of interest that the government is now in regarding the Katz Group. Mr. Katz's alleged donation of $430,000 in the form of a single cheque to the Progressive Conservative Association of Alberta would almost certainly been seen as having at least some connection.

For these reasons, the government should deny provincial funding for new NHL arenas in Edmonton and Calgary, including any Community Revitalization Levies.

Recommendations 23

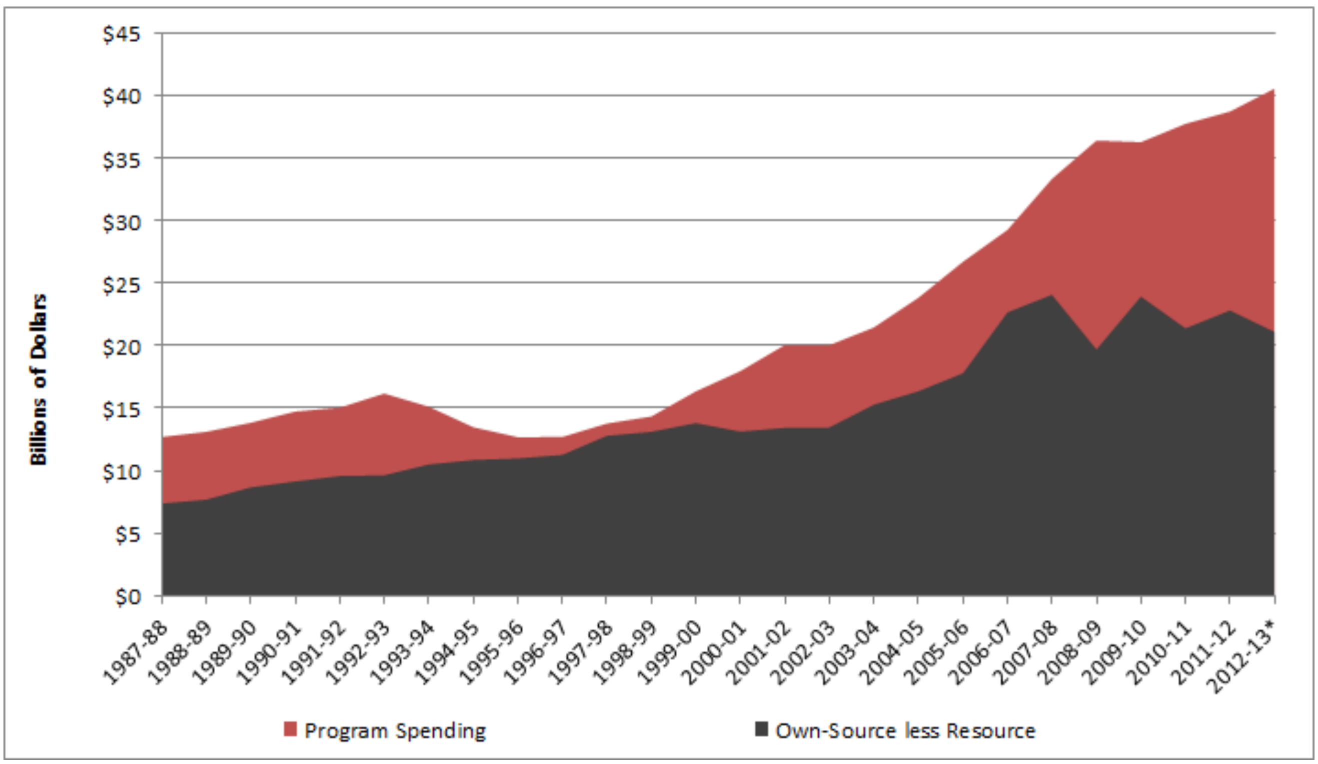
Deny provincial funding for new NHL arenas in Edmonton and Calgary, including any Community Revitalization Levies.

VIII-Saving Non-Renewable Resource Revenues

Unsustainability of the status-quo

'Sustainable own-source revenues' are revenues generated in Alberta through taxes, investments, premiums, fees and commercial operations. Essentially, they are all Alberta government revenues, less non-renewable resource revenues and transfers from the Government of Canada.

Program Spending & Sustainable Own-Source Revenues, 1987-88 to 2012-13



The chart above illustrates the two key levels in determining long-term sustainability of any budget. The top level is program spending each year. The bottom level is sustainable own-source revenues. The area shaded in red is where the two levels don't overlap. This represents the amount of program spending being funded each year by non-renewable resource revenues, federal transfers, *Sustainability Fund* withdrawals or debt.

Clearly, the red area was at its largest in the late-80s and mid-90s when Alberta was reliant primarily on debt to fund the gap, and currently when the government is relying on short-term savings to fund the gap. It was at its smallest in 1997-98, when sustainable own-source revenues represented 93% of all program spending. However, the red area begins to grow in 1998 when Alberta became significantly reliant on non-renewable resource revenues to fund spending.

In fact, in 2012-13, sustainable own-source revenues will cover only 52% of all program spending, the lowest point of sustainability in at least the last 24 years.

Just as it was a problem to be reliant on debt to fund our overspending in the 1980s and early 90s, it is a problem now to be reliant on short term savings to balance the budget.

Create a 'Future Fund'

Increased sustainable own-source revenues and decreased reliance on non-renewable resource revenues can be obtained by raising taxes, significantly reducing spending or increasing savings.

As discussed prior, the government should reject tax increases in favour of fiscal discipline and wise use of resource revenues.

While spending cuts are required to balance the budget in the short term, deeper spending cuts still will be required in the future if sustainability is the goal.

The only option is to begin a significant endowment program.

In 2011-12, Alberta held net financial assets of $26.7 billion, a drop from $34.1 billion in 2007-08.[27] The *Alberta Heritage Trust Fund* is the largest of the province's financial assets, with recorded net assets of $16.1 billion at end of 2011-12.[28] Other special, dedicated accounts include the *Alberta Cancer Prevention Legacy Fund*, the *Capital Account*, and the *Debt Retirement Account*.

As noted above, the CTF estimates that Alberta's short-term 'rainy day fund,' the *Sustainability Fund*, will be depleted by January 3, 2014, leaving Alberta to finance its capital and some operations through traditional debt.

The *Heritage Fund* was primarily created to be both an endowment fund, with interest earnings flowing into general revenues, a nest-egg for the future, and a fund to help diversify the economy.

It continues to serve the first two of those goals today.

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[27] Milke, Mark Ph.D. & Angevine, Gerry Ph.D. *Alberta's 2012 Fiscal Time Bomb*. Fraser Institute. August 2012. http://www.fraserinstitute.org/uploadedFiles/fraser-ca/Content/research-news/research/publications/albertas-2012-fiscal-time-bomb.pdf

[28] *Alberta Heritage Savings Trust Fund*. Annual Report 2011-12. Government of Alberta. http://www.finance.alberta.ca/business/ahstf/annual-reports/2012/Heritage-Fund-2011-12-Annual-Report.pdf

The *Heritage Fund* has had a handful of small injections of cash in recent years, after stagnating and losing relative value for nearly two decades. Most of these deposits were to inflation-proof the fund; however, an additional $3 billion was invested. Unfortunately, much of that was lost during the 2008 downturn in equity markets.

If significant savings are to be accomplished, the Alberta government needs to put in place a formula for saving and subject it to law. This formula, if done correctly, will also help reduce the amount of resource revenues used for spending each year.

The report on savings by the *Alberta Financial Investment and Planning Advisory Commission* (Mintz Commission) recommended retaining the *Heritage Fund* as the primary savings vehicle.

Ultimately, it would not matter whether the new savings were deposited into the current *Heritage Fund* or a new fund, as long as the explicit goal is to maximize investment income. However, the CTF feels that the current 'rainy-day' or 'nest-egg' feelings that are attached to the current *Heritage Fund* preclude it from being treated as a true endowment fund.

Use a resource revenue allocation formula

Alberta only gets one chance to sell its non-renewable resources. But if that money is saved rather than spent, Alberta can benefit from their sale for generations to come.

Over the past 20 years, the Alberta government has received $155 billion in non-renewable resource revenues.

These assets are, in principle, owned equally by every single Albertan and the distribution of their value has been handled by the Alberta government.

These one-time funds have been used over the past 20 years for virtuous reasons and those less virtuous. Under the virtuous category would be debt repayment and savings. Under the less virtuous category would be excessive spending.

Of the $155 billion, it can be suggested that $22.7 billion was used for debt repayment and $17 billion was used for servicing that debt. Of the remaining $115 billion, ultimately $16.4 billion has been put towards savings (*Heritage Fund*, endowment funds, others), meaning all of the remainder ($99 billion or 63% of the total) has been put towards spending (operating and capital).

Just like running a debt is transferring a financial burden from one generation to another, refusing to save these one-time resource revenues is theft of a windfall – owned by all Albertans, present and future – by one generation from another.

<u>Recommendations 24</u>

Pass legislation specifying a minimum dollar amount of non-renewable resource revenues that must be put into endowment savings fund each year.

IX-Fiscal Federalism

Take leadership in negotiating a federal 'fiscal compact' to limit provincial debt

The winter of 2011-12 was marked by students in Quebec protesting a modest increase to their rock-bottom tuition rates. As their protests turned violent, Canadians outside of Quebec could be forgiven if they thought that they were watching images of Greeks protesting austerity measures in that country.

Unless Canadians get a handle on the provinces' runaway spending, their growing mountain of debt, and the resulting tidal wave of interest charges, we can expect lots more home-grown social unrest, as have-not provincial governments fall short of voters' outsized expectations.

In this respect, Canada can learn from Europe. As leaders on that continent prepared for yet another round of bailouts, the *relatively* fiscally responsible Northern European counties demanded restrictions on the power of EU members to run annual deficits. Canada would benefit from similar restrictions - such as a constitutional cap on debt and deficits, to prevent profligate federal and provincial governments from borrowing on the credit rating of more responsible jurisdictions.

In March of 2012, leaders from 25 of 27 EU member states signed off on a fiscal compact, to go into effect in 2013. This agreement requires EU members – all of them sovereign states – to enact a constitutional ban on deficit spending.

Europe's heavy-handed approach to the debt crisis is to be enforced with severe sanctions: member nations that refuse to curb their borrowing will be denied access to the bailout money in the European Stability Mechanism and the European Financial Stability Fund. The European Court of Justice is required to impose massive financial penalties on governments that refuse to comply.

This tough-love approach to balanced budgets, enacted at the behest of taxpayers in Germany and other lower-debt nations, follows more than a decade of cheating by Greece and others on reasonable debt limits included in Maastricht – the treaty that created the common Euro currency. (Before the free-spending Europeans inserted some wiggle room for themselves, Maastricht even capped EU member debt at 60% of GDP and annual deficits at 3% of GDP). Greece fudged its books and infamously engaged in a currency swap with investment dealer Goldman Sachs to get around Maastricht's borrowing rules.

As Albertans, we should ask ourselves why we're allowing the Ontario government to run a deficit potentially larger this year than the federal deficit. We should ask ourselves how 25 formerly warring European nations, speaking 23 different languages, can agree to force balanced budgets on one another, while we're powerless to rein in the borrowing of Prince Edward Island and Nova Scotia.

When you compare the actual debts owed by Manitoba, Ontario, Quebec and the Maritime provinces to their ability to pay - as if they were independent nations - the rest of Canada would be hard pressed to want to pick up the tab. Despite sharing a common currency and sending transfer payments eastward, by the billions, year-after-year, donor provinces have no recourse against have-not provinces that choose to spend and to borrow to such an extent that they threaten the entire Canadian economy.

Canada needs restraints on the ability of its constituent members to run up debts that will require other members to bail them out. As Canada's only debt-free province (for now), Alberta is poised to lead the charge for a Canadian version of the European fiscal compact.

Demand a better deal on Equalization

Alberta provides the have-not provinces with annual bailouts – in the form of an elaborate and byzantine system of transfer payments (health transfers, equalization, infrastructure subsidies and the list goes on). Ottawa sent $15.4 billion in direct transfers to the Quebec government last year, providing nearly one-quarter of Quebec's total revenue. Ontario got $23 billion, or 21% of the province's budget. Alberta, meanwhile, took in just under $5 billion in federal transfers, accounting for 14% of its total revenue.

Alberta's finance department calculated in 2010 that Alberta taxpayers provided $14.1 billion more in annual revenue to the Canadian government than they received in services and transfers. Yet, this contribution goes largely unrecognized in the rest of Canada. It manifests itself in many forms, such as extra tuition surcharges for Alberta residents at McGill University in Montreal, where Quebecers pay $2,492 per year and Albertans pay $6,183. Of course, at the University of Calgary, every Canadian pays $6,264, making McGill a bit of a bargain for Albertans.

In April, Ontario was placed on credit watch by Standard and Poor's, and its credit rating was lowered by Moody's, after a spending spree that pushed its net debt from $140 billion in 2004 to $237 billion in 2011, even with the federal government pumping $135 billion of direct transfer payments into the province's coffers. Quebec's debt has soared from $99 billion to $159 billion since 2004, despite annual transfer bailouts totaling $88 billion from the Canadian government.

And so it is obvious that all this bailout money in the form of transfers isn't helping Ontario, Quebec and the Maritimes balance their budgets, pay off their debts, raise their productivity and boost their self-sufficiency. Ontario's minority government has raised its top tax rate to 49.97%. Quebec has outlawed shale gas production — the same activity that, carried out in Alberta, Saskatchewan and B.C., generates transfer payments to Quebec. Maritime provinces continue to import foreign temporary workers because many of their own residents would rather collect EI benefits 35 weeks a year than work.

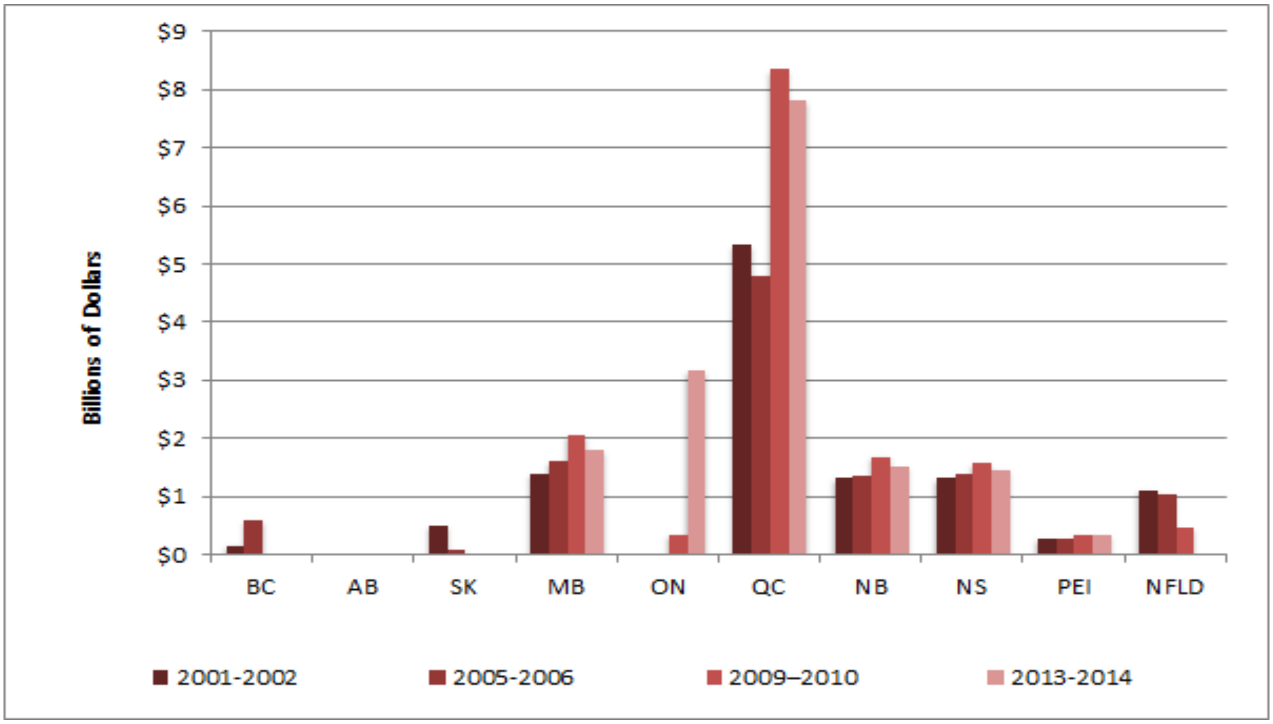
Ottawa's costly interprovincial welfare system has saddled productive parts of the country with unnecessarily high taxes, and pushed the rest of the country into a dependency trap, so irresponsible provincial politicians can fund expensive giveaways at election time.

The CTF recognizes that Canada's provinces have significantly varying fiscal capacities and that work must be done in order to help those provinces currently collecting Equalization. Despite the good intentions of programs like Equalization, most 'have-not' provinces have become *more*, not *less* reliant of federal payments. Spending on Equalization has ballooned to an estimated $16.1 billion in 2013-14, in addition to other costly side-deals and accords.

With the exceptions of Saskatchewan, British Columbia (which has gone back and forth) and Newfoundland and Labrador (which has side agreements), every single province that was a recipient of Equalization and related accord payments in the 1980s is still a recipient today. When one factors in what was paid to the federal government against what was received in Equalization, the trend line is clear; provinces that were dependent in the past are dependent today, and are likely to be so long into the foreseeable future.

Equalization Payments by Province, 2001-02 to 2013-14[29]

[29] Fildebrandt, Derek. *Canadian Taxpayers Federation, Tax Facts*. www.taxpayer.com



Provinces that languish in "have-not" status continue to be dependent because the federal government creates real disincentives for provincial governments to make their economies more competitive through less regulation, decreased corporate and personal income tax rates and more competition.

Rather than disband the Equalization program entirely, the CTF proposes that it be overhauled from a 'federal welfare' program, to a 'provincial debt retirement program.' This means rewarding good governance with good incentives for provinces that have struggling economies by: matching provincial debt reduction dollar-for-dollar, phasing out by 10% annually; and continuing to liberalize internal trade through initiatives like a single securities regulator, the Trade, Investment and Labour Mobility Agreement (TILMA) and the Agreement on Internal Trade (ATI), utilizing federal commerce powers if necessary.

As the province currently losing the most from Equalization, Alberta's government should take the lead in fighting for a better deal on Equalization. A better deal should come in the form of helping have-not provinces transition to self-sufficiency, and treating donor provinces with respect.

In the event that Ottawa refused to negotiate, the government of Alberta should force the issue onto the agenda by holding a referendum to determine the willingness of Albertans to continue funding the program through their federal tax dollars.

Recommendations 25 & 26

Take leadership in calling for a federal 'fiscal compact' to legally limit the ability of provinces to exceed debt and deficit limits on pain for losing federal transfers.

Demand a better deal from Ottawa on Equalization that helps have-not provinces transition to self-sufficiently, and treats donor provinces with respect. If Ottawa refuses to listen, call a referendum.

X-Legislative Action

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," looked at the experience of 27 American states which 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.

Expenditure limitation laws have worked wonders for taxpayers in the State of Washington. From 1980 to 1995, Washington's population grew an average of 1.2% per year while inflation averaged 4.5% per year, yet government spending rose by 8% per year. Since 1995, government spending has increased at a steady, reliable rate to keep pace with Washington's inflation and population growth, and taxes have come down – permanently.

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 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 2005.

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 these laws.

Recommendations 27

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

Abide by the *Government Accountability Act*

Section 5(1)(f)

In both its first and second Quarterly Fiscal Updates, the government of Alberta has violated the *Government Accountability Act*. Following controversy after the first update, the government made improvements, yet it still fell short of requirements laid out in law.

Under section 9(1) of the *Government Accountability Act*, the government is required to report quarterly on the "accuracy of the consolidated fiscal plan for a fiscal year."

This should be straightforward, as Section 5 of the *Act* lays out the "Specific contents of consolidated fiscal plan."

Section 5(1)(f) reads: "the net financial position and breakdown by liabilities and financial and other assets."

This means the government must put in its consolidated fiscal plan the net financial position and a breakdown of liabilities and assets. In other words, it must include a balance sheet. And as such, until this past August, the finance minister always provided an updated balance sheet as part of the quarterly update.

To quell criticism following the release of the first quarterly update, page 4 of the second quarterly update claims that because it provides an update on the balance of the Sustainability Fund as of September 30th ($4.997 billion), that meets the requirement of providing the "net financial position" of the government and therefore the Section 5(1)(f) of the *Government Accountability Act*.

This neglects the rest of the balance sheet, including: equity is in province's self-supporting lending organizations, balance of endowment and other funds, equity in commercial enterprises, funds remaining in the *Debt Retirement Account*, other financial assets and liabilities, accumulated debt, pension liabilities, debt owed by self-supporting lending organizations, liabilities for capital projects and the value of current capital assets.

This is information that is required by Section 5(1)(f) to be reported on quarterly and it's missing, from both the first and second quarter fiscal update.

The only portion of the balance sheet that Finance provides is an old figure on the *Sustainability Fund* and a separate report on the value of the *Heritage Fund*.

Section 9(1)

> **9(1)** The Minister of Finance must report publicly to the Lieutenant Governor in Council on the accuracy of the consolidated fiscal plan for a fiscal year,

The key words in this section are "accuracy" "consolidated fiscal plan" and "fiscal year."

For 19 years the government provided updates as to where they thought they would be at the end of the fiscal year on both the revenue and expenditure side of the ledger. For all 13 charts in the normal quarterly report the government would provide updated forecasts to the end of the year. Beyond this, the government provided actual results for comparison purposes.

The two most recent quarterly updates only provide information for the actuals and projections for the first six months and the old projections (budget time) for the next three months.

While the information is somewhat interesting, it's not useful in determining *accuracy* of the consolidated fiscal plan for the fiscal year.

These updates tell the public where the government is and where it believes it will be after six months, but unlike the past 19 years, the government no longer shares whether they're still on target for the entire year.

Section 9(1) requires the government to report on the *accuracy* of the budget for the *fiscal year*, not just for the first six months of the fiscal year.

This makes it virtually impossible to predict the year-end deficit or surplus based on the quarterly updates, which presents a huge accountability issue. As the fiscal year has progressed, the folly of not providing this information has become obvious.

Further, unlike previous updates the government no longer provides explanations as to whether variances are a result of in-year decisions or just poor estimates.

For example, actual operating expense for the department of health are $118 million higher than the estimate made for the first six months. Does this mean that the six-month estimate was wrong or that the government made a decision to increase spending? Will it be back on track and hit the estimate provided in the budget by the end of the fiscal year, or will it be higher because the government decided to spend more than budgeted? The update doesn't say. Since the government no longer provides projections for the end of the year, the public has no idea whether the budget was accurate or not.

If Albertans had year-end projections, they could see whether they are in-line with the budget, higher or lower. That would allow the public to ascertain accuracy.

If Alberta is to set its finances back upon a sustainable and healthy path, proper reporting that complies with the *Government Accountability Act* is necessary.

Recommendations 28

Abide by the *Government Accountability Act* and return to the legally required reporting standards for quarterly fiscal updates.

Strenthen 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 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. The premier made clear during the election campaign and in writing to the CTF that she will not raise taxes during the mandate of this government. As a result, the government has no mandate to raise taxes. If this government decides that it must withdraw this pledge, then it is morally obligated to obtain a mandate from voters.

As taxpayers are the people who foot the bill, they should be consulted on any and all tax increases. The *Alberta Taxpayer Protection Act* should be amended to require a referendum on all new taxes and tax increases.

Recommendations 29

Amend the *Alberta Taxpayer Protection Act* to require a provincial referendum to be held prior to increases or adding any new provincial tax.

XI-What the Government Did Right in 2011-12

NHL arena funding

After repeated appeals from the City of Edmonton and the Katz Group, Premier Redford has shut the door firmly on direct provincial taxpayer funding. This is commendable and will ensure that similar appeals are not made for a taxpayer-funded NHL arena in Calgary.

While the City of Edmonton may have decided to pour tens of millions of taxpayers' dollars into what amounts to a private arena for the Katz Group's, the door is still open for the province to fund it through the Community Revitalization Levy (CRL). As noted prior, the government needs to make clear that the ill-designed CRL will not go towards funding private NHL arenas.

Expense disclosure

During the summer and fall of 2012 Alberta was plagued by a long line of expense scandals of varying severity. From Allaudin Merali and Lynn Redford of AHS, to then Senator-in-Waiting Doug Black, to now-former Tourism Minister Christine Cusanelli at the Olympics, the government has learned that when expenses are not made public, scandals are sure to brew.

In September 2013, the CTF met with the Associate Minister of Accountability, Transparency and Transformation, Don Scott. During that meeting, the CTF called upon the minister to make Alberta the leading jurisdiction for expense transparency in Canada by proactively posting all expenses – with receipts – for ministers, MLAs, staff and senior bureaucrats online. To the last detail, the government adopted the CTF's recommendations. The government's new website is easy to use and highly detailed.

As a result, Alberta is now the gold standard for expense transparency in Canada, and an example for all jurisdictions to follow. The CTF unreservedly applauds the government for this reform.

No new municipal taxes without a referendum

Withstanding calls from Calgary Mayor Naheed Nenshi for more taxing powers, Municipal Affairs Ministers Doug Griffiths has made clear that local governments will under no circumstances be given addition taxing powers unless local voters approve them in a referendum.

The government needs to hold firm on this commitment in 2013-14 and beyond.

MLA pay and benefits

As noted above, the government made significant progress in the area of MLA pay, perks and pensions.

MLAs are no longer paid for work that they didn't do, they can no longer collect obscene severance payouts when they retire or are defeated, and their pay structure is no longer confusing and obscure.

As also noted above, there is still work to do in requiring MLAs to contribute as much to their retirement plans as taxpayers, but the process made in the span of one year is remarkable.

This is something that MLAs in all parties can share credit for.