TAXPAYERS' AGENDA FOR ALBERTA

- Briefing Book -

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ABOUT THE CANADIAN TAXPAYERS FEDERATION

Stand Up. Be Heard!

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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 130,000 supporters from coast-to-coast.

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

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

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

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

EXECUTIVE SUMMARY

In July 2017, the Canadian Taxpayers Federation surveyed its supporters across Alberta to determine their priorities for the provincial government.

Based on those responses, the CTF released a "*Taxpayers' Agenda for Alberta*" in August.

In essence, the *Taxpayers' Agenda for Alberta* is a top ten list of priorities for the Alberta government to work on in the years ahead. This document provides background information and analysis on each of the ten policy recommendations put forward.

The ten recommendations include:

1. *Immediately eliminate the carbon tax (page 4)*

2. *Balance the budget by 2021-22 without raising taxes (page 5)*

3. *Expand the Alberta Taxpayer Protection Act so that no new major taxes or tax hikes to major taxes can be imposed without a referendum (page 6)*

4. *Bring back Alberta's 10% single rate personal income tax (page 7)*

5. *End all corporate welfare in Alberta (page 8)*

6. *Push the federal government to reform equalization (page 9)*

7. *Pass MLA recall legislation (page 10)*

8. *Eliminate unnecessary government employee positions, cut government employee salaries by 10% and put new employees in a less costly pension plan (defined contribution) (page 11)*

9. *Lead by example to reduce spending – eliminating MLAs' car-related perks and ability to double dip on gas expenses for travel (page 12)*

10. *Refuse to grant new taxing powers to municipalities (without taxpayers approving the change through a referendum) (page 13)*

RECOMMENDATION 1
ELIMINATE THE CARBON TAX

During the 2015 Alberta election Premier Notley did not say a word about the job-killing carbon tax she would go on to announce later that year. Without a mandate from the people of Alberta, Premier Notley has implemented one of the largest tax hikes in our province's history.

Since Alberta's new carbon tax was implemented in 2017, it has proven to be a costly measure that fails to deliver meaningful reductions to carbon dioxide emissions. Worse yet, it has contributed to job losses and may simply lead to firms shutting down in Alberta and relocating elsewhere – all the while maintaining their emissions.

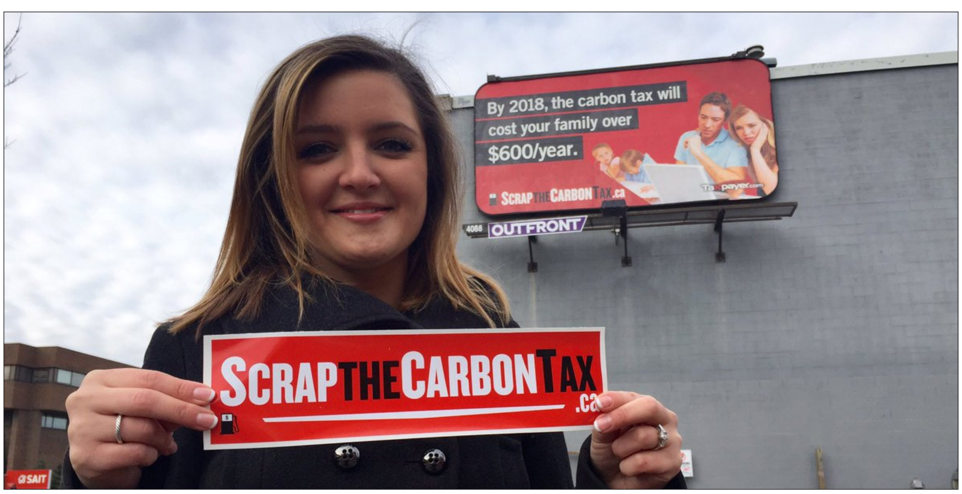
When discussing the government's new carbon tax, and other taxation and regulatory changes, Alberta entrepreneur Paul Hotchkiss put it best:

"You couldn't come up with better policies to crush not only small farms, but I think small Alberta businesses in general..."

While the Kyoto Protocol called for Canada to reduce carbon dioxide emissions by 6% below 1990 levels, even with a carbon tax and hundreds of millions of dollars in "green" projects, Alberta's emissions will still be more than 75 Megatonnes above 1990 levels for decades to come.[1 2] Alberta also doesn't even appear to be on course for meeting the Paris Agreement targets.

With those facts in mind, it should be no surprise that a July 2017 survey of the CTF's Alberta supporters concluded that eliminating the carbon tax ranked as their top priority. A whopping 84% of respondents indicated that eliminating the tax should be a "high priority."

We urge the Alberta government to eliminate the carbon tax, discontinue related expenditures and join Saskatchewan's legal challenge against a federally imposed tax.



1. Government of Canada website, accessed November 12, 2017 – http://www.climatechange.gc.ca/default.asp?lang=En&n=4D57AF05-1
2. Alberta government 2015 Climate Change report – https://www.alberta.ca/documents/climate/climate-leadership-report-to-minister.pdf P.11

RECOMMENDATION 2

BALANCE THE BUDGET BY 2021-22 WITHOUT RAISING TAXES

The Notley government claims that balancing the provincial budget would require more tax increases, firing teachers and nurses, and making "reckless cuts to social services."

Nothing could be farther from the truth.

If Alberta merely reduced its spending levels down to what British Columbia's government spends per person, our province would be in a surplus position. Thus, we know it's possible to still deliver health care, education and other services without breaking the bank – the Alberta government needs to be much more cost-effective with the money we currently pay in taxes.

The CTF's comprehensive 2018 pre-budget report provides a roadmap to a balanced budget by 2021-22.

Our plan includes the following key components:

- *Immediate elimination of the carbon tax and related spending measures (eg. discontinue corporate welfare paid for with the carbon tax, discontinue the rebate, etc.);*
- *Retain the small business tax reduction;*
- *Reduce government employee compensation levels in the first year by 10%, increase compensation by 1% in subsequent years leading up to 2021-22;*
- *Reduce the size of the government's payroll by 10% over two years (not including the K-12 sector and health care). This can largely be achieved by not rehiring as non-essential positions open up (government analysis shows 12% of provincial employees are eligible for retirement every two years.);*
- *Eliminate other corporate welfare programs;*
- *Prioritize and delay the start of some infrastructure projects;*
- *Reduce remaining operating spending by 5-10% (depending on when restraint begins);*
- *This plan cautiously assumes revenues will be over $2 billion lower than the government's current projections.*

Provincial expenditures: BC and AB (2015-16)

	Alberta	British Columbia
Expenditures	$51.9 billion	$46.9 billion
Population	4.2 million	4.7 million
Per Capita Expenditures	$12,418	$9,993

Source: DBRS, Statistics Canada, CTF Calculations
Note: Numbers may not add due to rounding

Is it realistic to balance the budget by 2021-22?

Ralph Klein reduced operating spending by 20% in the 1990s and was re-elected several times. By making some difficult decisions early on, he was able to balance Alberta's budget, pay off the debt and reduce taxes – creating the Alberta Advantage. The Alberta Advantage can return, but it will take a few years of belt-tightening to get us there.

Won't government employee unions rebel if their pay is cut?

The government can't balance the budget in the short-term without imposing restraint on its largest spending area – salaries and benefits. A reduction in pay is far better than a loss of employment – something many private sector employees faced.

Is this the only approach?

No. Our budget modelling shows one approach, certainly other options exist. Please visit Taxpayer.com to see our full report.

RECOMMENDATION 3

EXPAND ALBERTA'S TAXPAYER PROTECTION ACT

Shortly after the 2015 provincial election, Albertans were jolted by the announcement of a massive new carbon tax – something that Premier Notley and the NDP did not campaign on.

Fortunately, Alberta has legislation in place that could protect individual taxpayers, existing businesses and potential new investors from costly new surprise tax changes in the future. Currently, Alberta's *Taxpayer Protection Act* requires the government to hold a referendum, and earn support from a majority of voters, prior to introducing legislation to create a provincial sales tax.

That legislation should be expanded to require a referendum prior to creating other new taxes and increases to existing major taxes – such as the province's personal income tax rates and business income tax rates.

To be sure, expanding taxpayer protection laws are not foolproof. In Manitoba, the province's former NDP government raised the province's sales tax without first holding a referendum – something required by the province's taxpayer protection legislation at the time. The former government merely amended the legislation to essentially exempt its 2013 tax change from the law.

However, the government still suffered a tremendous blow in the court of public opinion – taxpayers were enraged that the government took away their right to vote on the tax increase. From the time the government raised the sales tax, until they were defeated in the next election, polls consistently showed a significant drop in support.

Expanding *Alberta's Taxpayer Protection Act* would not only provide some security for individuals and existing businesses in the province, it could also help repair damage to investor confidence. Simply put, when governments make erratic taxation and regulatory decisions (such as the Notley government's surprise carbon tax), global investors take note.

For instance, the Fraser Institute's 2017 Global Petroleum Survey asked energy executives from around the world about barriers to investing in energy-rich jurisdictions. Barriers included high tax rates, costly regulatory obligations and uncertainty over regulatory and financial matters. In 2017, Alberta ranked 33rd in the survey, second lowest in the country and well below its 2014 ranking of 14th.[3] The institute's report included a quote from one investor that highlights the problem with surprising investors with major new tax changes:

"Fiscal, regulatory, and environmental uncertainty continue to hurt the investment environment in Alberta."

While it's difficult to measure the amount of deferred or delayed investment in Alberta due to the government's actions, an expanded *Alberta Taxpayer Protection Act* would help increase taxation certainty in the province, improve investor confidence and support new job growth (as well as additional tax revenues that come with those new investments).

[3] "Fraser Institute Global Petroleum Survey, 2017" – Stedman and Green. Page 18
https://www.fraserinstitute.org/sites/default/files/global-petroleum-survey-2017.pdf

RECOMMENDATION 4

BRING BACK ALBERTA'S 10% SINGLE RATE TAX

For 15 years, Alberta had a great reputation as the only province in Canada with a flat, simple personal income tax system.

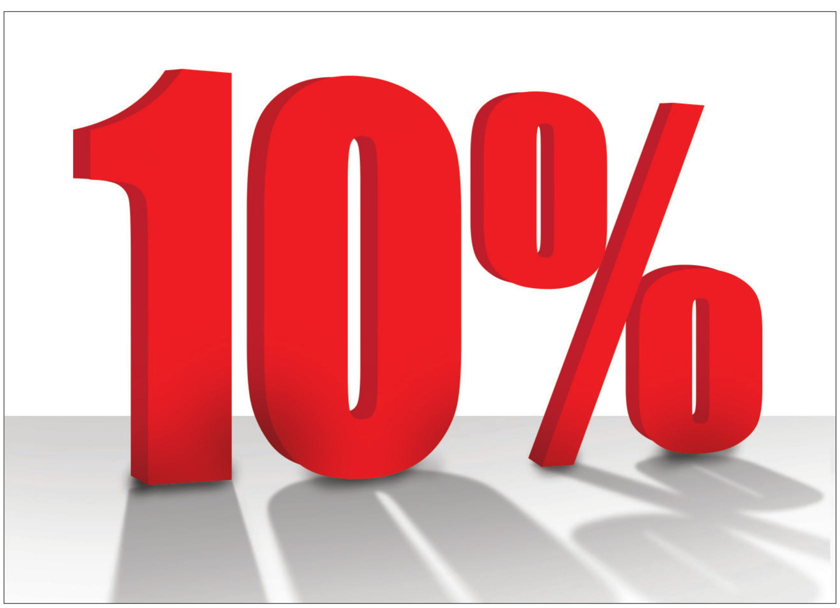
However, the province's reputation for simple and low taxation was eroded when the Notley government introduced four new tax brackets in 2015.

In the coming years, balancing the Alberta government's budget should be the province's top priority, so re-establishing the province's single rate personal income tax system may not be possible in the short-term. However, the government should, at the very least, send a signal to taxpayers, and those considering a move to Alberta, that the flat tax will return.

The Canadian Taxpayers Federation recommends setting a clear, public goal of reintroducing a flat tax by 2024.

While some will undoubtedly fear monger about the financial impact from eliminating the province's four new tax brackets, it can't be ignored that despite the higher tax rates, personal income tax revenues in 2017-18 ($10.8 billion) are actually lower than they were in 2015-16 ($11.4 billion).

It also should be noted there are several examples of provincial governments – across the political spectrum – that benefitted from an increase in revenues despite a reduction to tax rates. Manitoba's NDP government during the 2000s and Ontario's PC government in the late 1990s are examples of this occurrence. (See the CTF's 2009 pre-budget report for Manitoba for further details.)



RECOMMENDATION 5

END ALL CORPORATE WELFARE IN ALBERTA

The provincial government should cease from providing loans, grants and other subsidies to businesses. Plain and simple, taxpayers, not politicians and bureaucrats, should be the ones who get to decide if they would like to support a business or invest in its operations.

Many organizations, including the Canadian Taxpayers Federation, have released reports and analysis over the years that shows, more often than not, corporate welfare is ineffective at creating jobs and fails to deliver promised benefits to the public.

For instance, a 2009 report by the CTF looked into the federal government's "Western Economic Diversification" (WED) program.[4] At the time, the program had approved $4.3 billion in grants and loans between 1987 and 2008.

Of the $801 million in loans handed out by WED, only 52% had been repaid. WED had also failed to measure how many jobs had actually been created and sustained – the department was more focussed on handing out money, rather than making sure the funds helped achieve the government's stated objectives.

But not only are corporate welfare handouts ineffective, they can be especially unfair for businesses that have no choice but to watch as politicians hand their tax dollars over to upstart competitors. The situation is also unfair for the public in cases where businesses are a success and the owners of the firm keep the profits.

Perhaps the greatest example of corporate welfare gone wrong in Alberta is the North West Redwater Partnership's Sturgeon Refinery. The cost for the refinery has increased twice since 2011, rising from $6.5 billion to $9.3 billion.[5]

According to Ted Morton, a Senior Fellow with the University of Calgary's School of Public Policy, taxpayers, not the government's business partners, will bear a large portion for the cost overruns due to the structure of the government's funding agreement.

Speaking to the CBC about the project, Morton noted:

"The North West Upgrader is just the most recent example of a long line of failed government initiatives in Alberta of diversification...and it fits the larger pattern. Typically government don't have as much expertise as their private sector partners, as result, they tend to get out negotiated. Governments tend to take most of the risk, put up most of the money and if there are any profits, get little of that."[6]

Instead of handing out loans, grants and other assistance to private interests, the Alberta governments should lower taxes and focus on removing unnecessary regulations, thereby creating the ideal conditions for entrepreneurs to flourish.

4. Canadian Taxpayers Federation, "Western Economic Diversification: 22 Years of Pork Barrel Spending" – http://www.taxpayer.com/media/WED Report Web_0.pdf

5. Calgary Herald, "Sturgeon refinery costs continue to mount" July 18, 2017, Ted Morton http://calgaryherald.com/opinion/columnists/morton-sturgeon-refinery-costs-continue-to-mount

6. CBC News, "Alberta taxpayers could be on hook for $26B oil refinery", April 17, 2015 – http://www.cbc.ca/news/canada/calgary/alberta-taxpayers-could-be-on-hook-for-26b-oil-refinery-1.3037519

RECOMMENDATION 6

PUSH THE FEDERAL GOVERNMENT TO REFORM EQUALIZATION

According to a 2017 Fraser Institute study, between 2007 and 2015, Alberta taxpayers provided $188.6 billion more to Ottawa than what Ottawa transferred back to Alberta.[7]

Some of the surplus left in Ottawa's hands was used to fund the federal government's equalization system – essentially a large wealth-redistribution program between provinces. For 2017-18, the federal government's Equalization Program will transfer approximately [$18 billion] to equalization-receiving provinces.

Over the past several years, this approach has proven to be ineffective for several reasons:

- Equalization has become a revenue crutch for "have not" provinces rather than serving as a tool to help lower performing economies with a "hand up;"
- Equalization has, in some cases, actually served as a deterrent for resource development; a steady flow of equalization dollars has allowed some provinces to sit on their natural resources rather than developing them;
- The equalization formula is delayed, meaning that a "have" province's economic woes aren't taken into account until years after the fact;
- Equalization takes into account non-renewable revenues (eg. oil and gas, potash, etc.) but does not take into account the advantage that hydro-electric provinces enjoy (eg. Quebec and Manitoba).

Considering the current equalization deal will expire in 2019, the provincial government should make equalization reform a top priority. The Canadian Taxpayers Federation recommends pushing for equalization reform using whatever tools necessary (eg. referendum, constitutional reference case, etc.)

[7] "Fraser Institute: "A Friend in Need: Recognizing Alberta's Outsized Contribution to Confederation", Lafleur, Eisen, Palacios – https://www.fraserinstitute.org/sites/default/files/a-friend-in-need-recognizing-albertas-outsized-contribution-to-confederation.pdf

RECOMMENDATION 7
RECALL LEGISLATION

Taxpayers across Canada have been burned many times by elected officials who have broken their promises after getting elected. Recall legislation is a tool that helps voters hold their politicians accountable in between elections.

In short, recall legislation allows voters to start a petition in a politician's constituency, collect signatures from a required threshold of voters and then have that politician removed from office, forcing a by-election.

British Columbia has had recall legislation since 1995 and many other jurisdictions around the world have recall legislation in one form or another; the tool is most common in the United States. According to ballotpedia.org, 19 states currently have recall legislation.

The threshold for signatures collected to trigger a by-election varies by jurisdiction. For example, some jurisdictions base the threshold on the percentage of people who voted in the politician's constituency during the previous election while others base it on the percentage of people who were eligible to vote during the previous election. Percentages also differ by jurisdiction. For example, in Virginia the threshold is 10% of the number of voters who voted during the previous election while the threshold in Kansas is 40%.

The CTF recommends using a threshold that requires 40% of the number of registered voters in a constituency during the previous election. (Signatories would have to be eligible voters.)

Would people abuse recall and use it too frequently?

Critics sometimes argue that recall legislation should not be implemented as it could be abused by special interest groups. However, the facts suggest otherwise. British Columbians have had access to recall legislation since (1995) and there have only been 26 attempts to recall MLAs (attempts on 5.3% of politicians elected). However, only one of those attempts was successful (kind of). Former BC MLA Paul Reitsma resigned near the end of the recall process, after it was clear the petition had more than enough signatures to recall him.

There have been some other close calls. For example, some pundits believe that former Premier Gordon Campbell would have lost a few MLAs had he not quit after bringing in a harmonized sales tax – just months after promising not to during the province's election.

Are there other benefits?

Recall not only gives voters a tool to hold politicians accountable, it serves as a deterrent for politicians thinking about bringing in policies that a majority of the electorate would not support.

What does the public think about recall?

It's quite likely that Alberta voters would embrace recall legislation. Note that in 1991, before passing recall legislation, British Columbia held a referendum and asked voters if they wanted the tool. An overwhelming 82% voted in favour of approving recall legislation. Further, a 2006 Ipsos-Reid poll of Albertans found 77% were in favour of introducing recall legislation.

RECOMMENDATION 8

DOWNSIZE THE BUREAUCRACY, TRIM COMPENSATION COSTS AND REFORM PENSIONS

Government employee compensation costs represent approximately half the provincial budget. Balancing the budget in the short-term will undoubtedly require restraint in this area. Fortunately, there is a very solid case to support restraint.

Numerous studies have shown that government employee compensation levels in Alberta are, on average, far more generous than in the private sector. For example, a 2017 study by the Fraser Institute looked at the compensation and benefits gap in Alberta[8]:

Alberta's compensation gap: Government vs. private sector

Category	Private Sector	Government
Salary differential	–	+7.9%
Percent who have a workplace pension	24%	73%
Likelihood of losing job	4.6%	0.4%
Sick/illness days per year	6.2	10.7
Retirement	–	1.1 years earlier

Note: *Salary differential controls for such factors as gender, age, marital status, education, tenure, size of firm, type of job, industry, and occupation. Of those covered by a pension in government, 97% have the most expensive type of pension; a defined benefit plan*

Considering the private sector experienced thousands of layoffs during the recent recession, and deep pay reductions, a pruning of government employee compensation is more than justified.

At the same time, the government should also reduce employee compensation costs by reducing the size of the bureaucracy. A government report obtained by the Canadian Taxpayers Federation shows that 12% of government employees are eligible to retire over the next two years. Thus, the government could reduce the size of the bureaucracy by 10% largely by not replacing non-essential positions when employees retire (largely avoiding layoffs).

Finally, government employee pensions are a third area of spending that is in desperate need of restraint. The government should, at the very least, begin putting new employees in a less costly pension plan. Consider employer contributions for the provincial government's two largest pension plans:

Annual Employer Pension Costs (million $)

Plan	2006	2016	Increase
Local Authorities Pension Plan	$435.70	$1,341.50	**208%**
Public Service Pension Plan	$121.80	$347.90	**186%**

Sources: *Local Authorities Pension Plan and Public Service Pension 2006 and 2016 Annual Reports*

Reducing the bureaucracy by 10% (exempting health care and education), reducing employee compensation levels by 10% and putting new employees in a less costly pension plan would save upwards of $3 billion per year.[8]

[8] Fraser Institute, "Comparing Government and Private Sector Compensation in Alberta, 2017," Lammam, Palacios, Ren, March 9, 2017 – https://www.fraserinstitute.org/studies/comparing-government-and-private-sector-compensation-in-alberta-2017

RECOMMENDATION 9
REFORM MLA VEHICLE EXPENSES

In order for the government's restraint agenda to be taken seriously by the public, rank and file government employees, and special interest groups, elected officials must be willing to first lead by example.

While we have seen positive reforms in terms of transparency for elected officials' expenses in Alberta, one area for improvement involves vehicle mileage expenses. Currently, elected officials are often paid twice for fuel used for work-related trips.

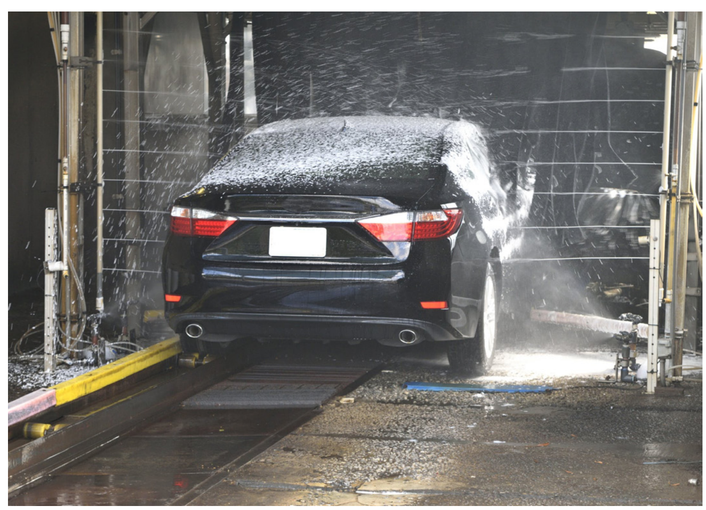
For example, if an MLA needs to travel from, say, Calgary to Edmonton, they are currently reimbursed 43.5¢ per kilometre. Typically, private sector employers will provide such an allowance to compensate employees for the fuel they've purchased plus wear and tear on their vehicles.

However, MLAs can also claim – for the same trip – their gas receipts. Thus, by private sector standards they're being reimbursed twice for the same expense: fuel costs.

In addition to those expenses, MLAs have often expensed car washes, car detailing bills and oil changes. For instance, back in 2013, two former MLAs spent $250 each to get their cars cleaned and detailed. If their jobs were akin to tax drivers, one could understand such an expense, but MLAs are anything but chauffeurs.

These expenses should be disallowed immediately. When we surveyed our supporters about these expenses, between 66-71% of respondents considered the discontinuation of these perks a high priority.

These expenses are obviously not a major area of government spending, but curtailing them will send an important and symbolic message to the public sector, special interest groups and the general public – the government is serious about restraining spending.



RECOMMENDATION 10

NO NEW TAXING POWERS FOR MUNICIPALITIES

The Canadian Taxpayers Federation was pleased with the government's announcement this past August that Calgary and Edmonton would not be granted new taxing powers through new city charters.

Not only are taxpayers burnt out right now, new taxing powers would send yet another negative signal to global capital markets and Alberta's business community.

Further, as spending has increased well beyond population growth and inflation in both Calgary and Edmonton, granting the two cities additional taxing powers would reward bad behaviour.

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

To date, the government's plans for revenue sharing with Calgary and Edmonton have not been defined. We recommend avoiding revenue sharing between governments. Not only do such arrangements create complexity and additional bureaucracy, accountability is eroded when the government that spends the money, is not the one that raised it.

The Alberta government should avoid new revenue sharing agreements with Calgary and Edmonton and continue to reject new tax powers for cities without first requiring approval through citywide referenda.