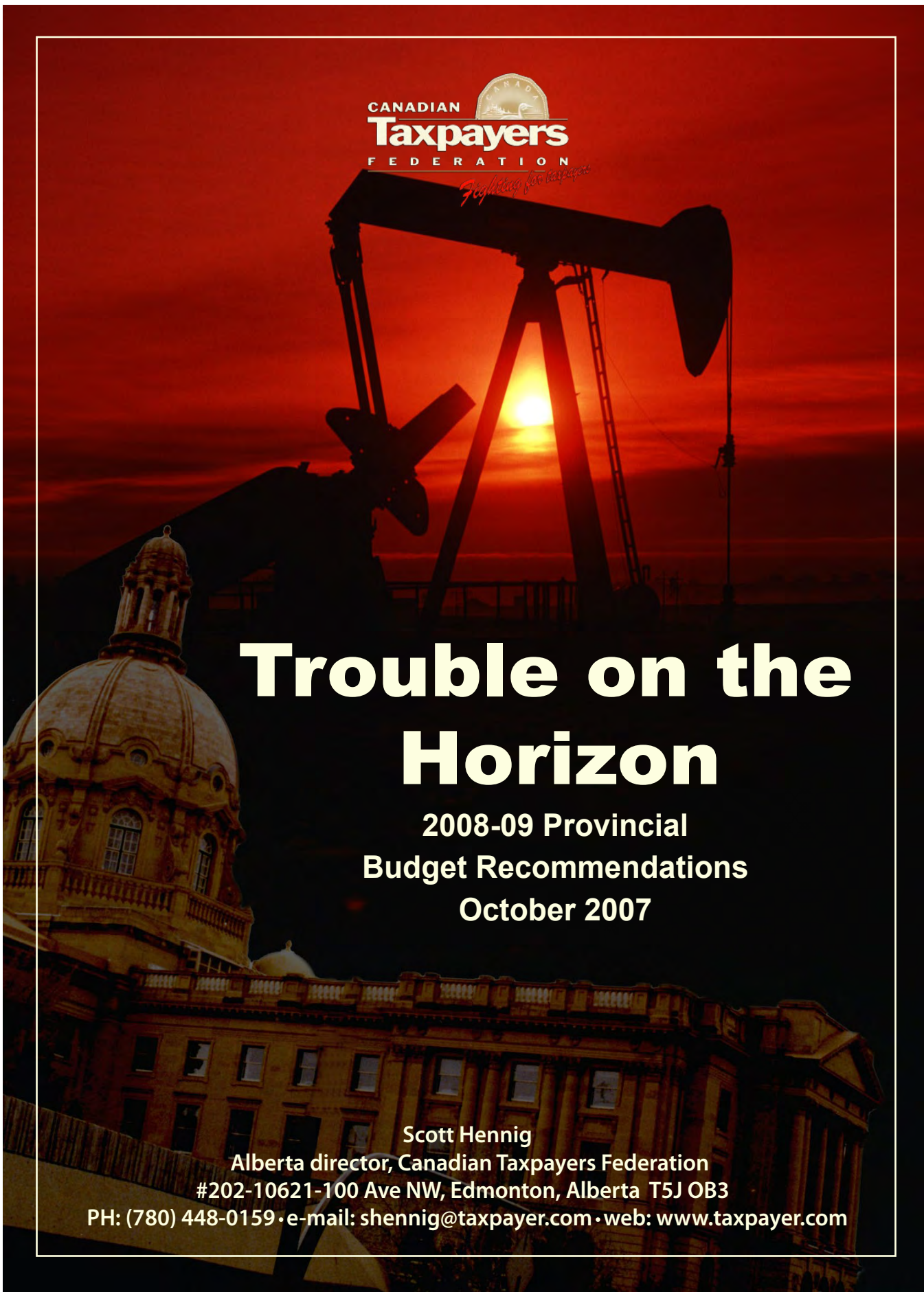




CANADIAN
Taxpayers
FEDERATION



Trouble on the Horizon

2008-09 Provincial
Budget Recommendations
October 2007

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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 Saskatchewan 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 over 64,000 supporters nationwide.

The CTF maintains a federal office in Ottawa and offices in the five provincial capitals of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. In addition, the CTF has a working partnership with the Montreal-based *Quebec Taxpayers League*. Provincial offices conduct research and advocacy activities specific to their provinces in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries and publications to advocate the common interest of taxpayers. The CTF's flagship publication, *The Taxpayer* magazine, is published six times a year. An issues and action update called *TaxAction* is produced each month. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets and personalities nationally.

CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to effect 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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SUMMARY OF RECOMMENDATIONS

SPENDING CONTROL

RECOMMENDATION #1

Freeze spending for the 2008-09 budget and introduce a legislated spending cap so that annual program spending starting in 2009-10 cannot increase by more than the combined growth rates of Alberta's population and inflation.

RECOMMENDATION #2

Pass legislation making any in-year unbudgeted spending with the exception of declared emergency and natural gas rebate (*Sustainability Fund*) spending, illegal.

RECOMMENDATION #3

Amend the *Fiscal Responsibility Act* to roll-back the initial spending amount of non-renewable resource revenues used for spending from \$5.3-billion to \$0 by 2018-19.

RECOMMENDATION #4

Amend the *Fiscal Responsibility Act* such that funds can only be withdrawn for declared emergencies, disasters and natural gas rebates – nothing else.

SUSTAINABLE OWN-SOURCE REVENUES

RECOMMENDATION #5

Pass legislation requiring all non-renewable resource revenues (less the amount dictated in the *Fiscal Responsibility Act*) be placed in a new *Future Fund*.

EXPENSE

RECOMMENDATION #6

Either stick to the targets made in previous budgets for future expenditures or discontinue use of multi-year budget targets.

RECOMMENDATION #7

Implement a guideline for capital plan spending of a minimum of 0.9 per cent and a maximum of 1.5 per cent of the two-year's previous average of provincial Gross Domestic Product (GDP).

RECOMMENDATION #8

Amend or repeal sections of the *Alberta Health Care Insurance Act*, the *Health Care Protection Act* and the *Hospitals Act* to allow Albertans the right to purchase private health insurance from private health providers in Alberta.

RECOMMENDATION #9

Reject any offer from the Alberta Teachers' Association for taxpayers to pay the teachers' portion of the unfunded liability in the teachers' pension (\$2.1-billion) without taxpayers getting at least a \$2.1-billion value in return.

REVENUE

RECOMMENDATION #10

Immediately eliminate health care premiums tax for all Albertans.

RECOMMENDATION #11

Reduce Alberta's income taxes through an increase in the Basic Personal Exemption or a reduction in the 10 per cent single-rate.

RECOMMENDATION #12

Immediately eliminate the hidden sales tax on insurance.

RECOMMENDATION #13

Fulfill the original promise to businesses by reducing the general corporate income tax rate to 8 per cent in the 2008-09 budget.

RECOMMENDATION #14

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

RECOMMENDATION #15

Reject the request by the *Minister's Council on Municipal Sustainability* for six new taxing powers, and do not grant any further taxing powers to municipalities unless they are approved in a local or provincial referendum.

INTRODUCTION

Budget 2007 was disappointing for the Canadian Taxpayers Federation.

Our recommendation of holding the spending increase to no more than a 6.8 per cent was soundly rejected when spending was increased by 17.3 per cent – more than double the combined inflation and population growth rate.

Our recommendations to eliminate health care premiums, the insurance tax and honour promised reductions of the business tax were also rejected.

The *Sustainability Fund* continues to be a chequing account rather than a savings account and there still is nothing more than an ad-hoc savings plan. Infrastructure inflation continues to soar and taxpayers still do not have protection from future tax hikes.

Fortunately, there were a few glimmers of hope. The spending cap on non-renewable resource revenues in the *Fiscal Responsibility Act* was not increased. Program spending increased with the first quarter budget update, but operation spending did not. And a new commission on savings was established.

It can be argued that Budget 2007 was not a fair assessment of the priorities of the Stelmach government, as much of the preparation was done before Premier Stelmach's election as leader. However, the same will not be said for Budget 2008.

If spending continues to grow out of control, if regressive taxes remain in place and significant savings are rejected, it will be squarely on the shoulders of this government.

In 1992, when Premier Klein took the helm he had little choice but to clean up the mess left by previous governments. He made difficult decisions and had the tough job of handing out pink slips to government employees.

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.

The premier at that time will be faced with three choices: cut spending, raise taxes or run a deficit to keep afloat.

There is serious trouble on the horizon. Albertans will not look kindly upon any government who puts them back in a position of having to brace for service cuts, tax hikes or a new debt after so many years of sacrificing to get out from under the first debt.

Decisive action must be taken in Budget 2008 to ensure drastic action isn't required in Budget 2012.

ALBERTA'S PAST

Those who cannot remember the past are condemned to repeat it.

- George Santayana (1905)

It is well known there was a financial crisis in the late 80s-early-90s when the Alberta government was spending beyond its means and running deficit budgets. This situation largely occurred because the Getty government did not respond to a decrease in revenues with a subsequent decrease in spending. Spending continued to grow as revenues dropped.

One of the largest drops in revenue occurred in 1986-87, where total revenues were 28 per cent lower than the year previous. The decrease in revenue was almost entirely due to a significant drop in non-renewable resource revenues, which fell 61 per cent in one year (from \$4.9-billion in 1985-86 to \$1.9-billion in 1986-87), in comparison to personal income tax revenues, which increased by 16 per cent during the same period.

The Getty government did not respond in turn, by cutting spending by 28 per cent. Instead, they reduced program spending by 3.7 per cent. They financed the shortfall by running a deficit and doubling Alberta's provincial debt from \$5-billion to \$10-billion.

Undoubtedly, the Getty government hoped non-renewable resource revenues would rebound, as they had averaged \$4.7-billion per year for Premier Lougheed's five previous budgets. However, resource revenues did not immediately rebound, averaging \$2.3-billion over the next six years.

While the Getty government is often tarred with the fiscal recklessness that led to Alberta's \$22.7-billion debt, the Lougheed government must share some of the blame.

Premier Lougheed, no doubt buoyed by strong multi-year non-renewable resource revenues, increased program spending by 17.5 per cent in Budget 1985 – his last budget.

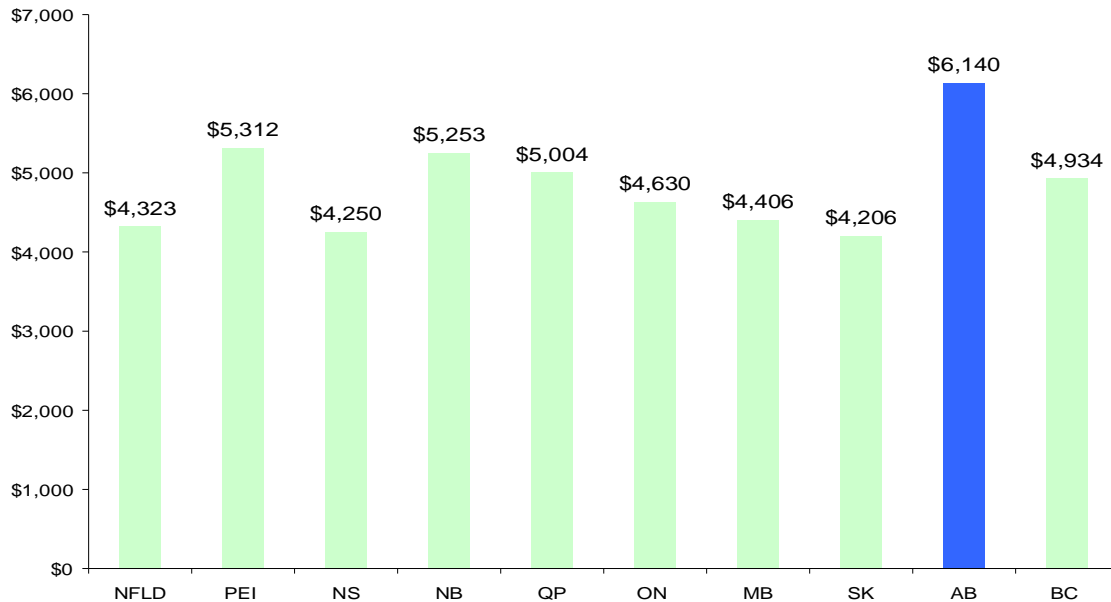
This huge increase in spending set Premier Getty up for a fall. Had Lougheed only increased spending by 2.4 per cent in 1985 (the combined inflation and population growth rate for the previous year), Getty's small budget cuts would have had more impact and kept the provincial debt from growing as much as it did.

One lesson to be learned from this experience is not to believe non-renewable resource revenues will continue to stay high, just because they have been high for the past few years. The Alberta government has no control over the price of oil or natural gas; both are set on a world market. They can fall just as easily as they climbed.

The second lesson to be learned is to not rely on your unreliable sources of revenue for core spending priorities. Cutting core services are not easily done by governments. Unnecessarily large spending increases only make the cuts deeper in the future.

When Ralph Klein took over as premier, Alberta was then saddled with \$20-billion in debt. But Alberta was also, per capita, the highest spending province in Canada at \$6,140 per man, woman and child.

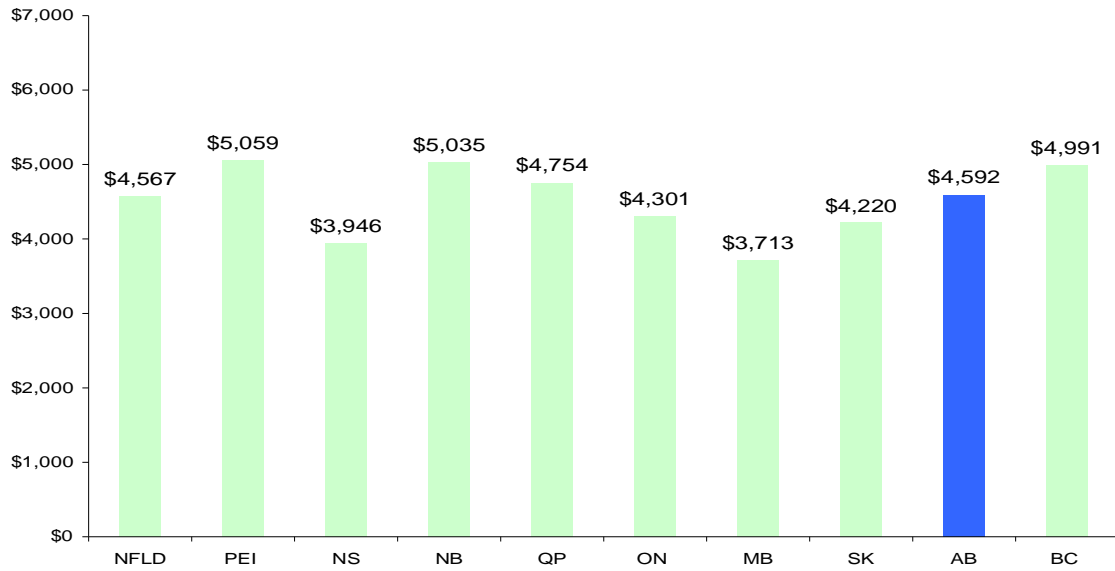
Chart 1 – Provincial per capita program spending in 1992-93



Ralph Klein was elected on the promise to tame the deficit and eliminate Alberta's debt, not by increasing taxes, but rather by making spending cuts.

At the depth of the spending cuts in 1996-97, Alberta was still, per capita, the fifth highest spending province in the nation at \$4,592.

Chart 2 – Provincial per capita program spending in 1996-97

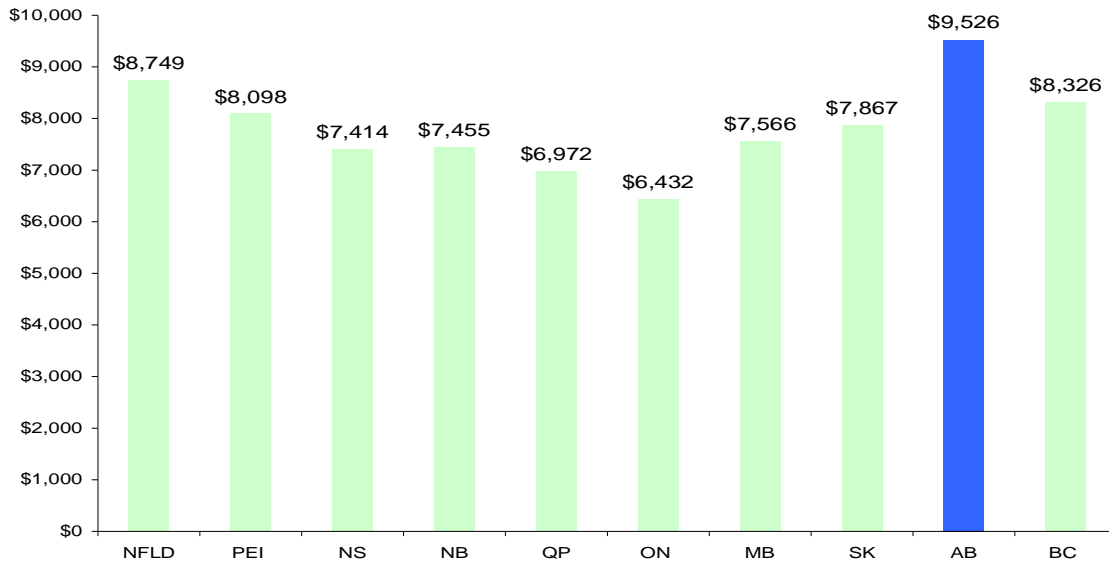


After this point, the Alberta government began to increase spending, substantially.

ALBERTA'S PRESENT

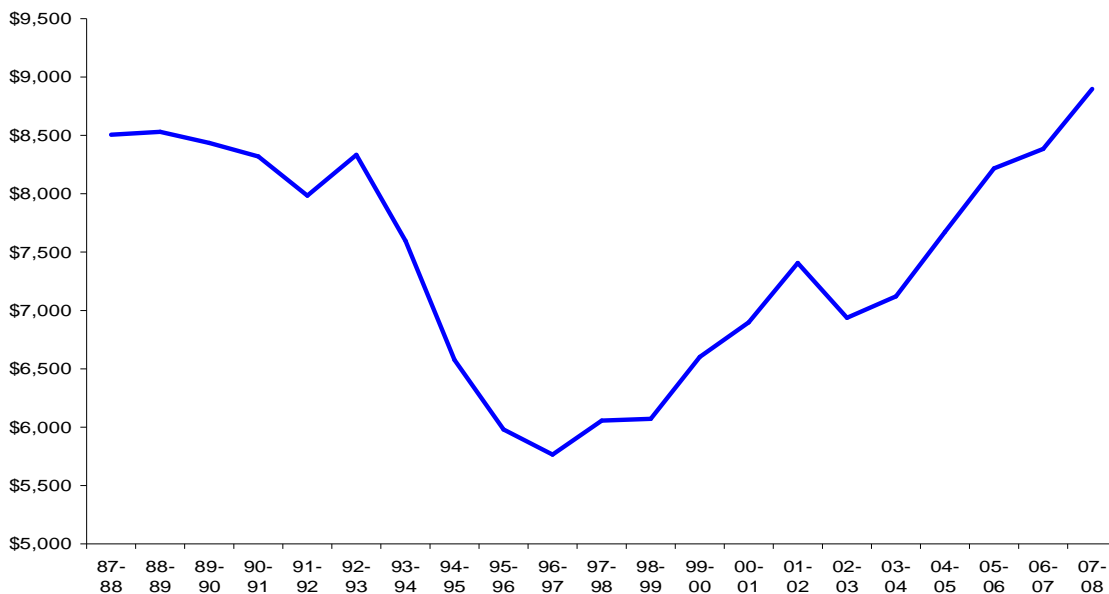
Alberta again became, per capita, the highest spending province in Canada in 2005-06. It continues to be so now, spending \$9,526 per man, woman and child.

Chart 3 – Provincial per capita program spending in 2007-08



If you adjust for inflation, per capita growth in program spending in Alberta is, back to where it was in the mid-to-late 1980's.

Chart 4 – Per capita Alberta government program spending (in constant 2005-06 dollars) 1987-88 to 2007-08



ALBERTA'S FUTURE

If program spending continues to outpace the combined population and inflation growth rate, Alberta could be put into a deficit budget position in the not too distant future.

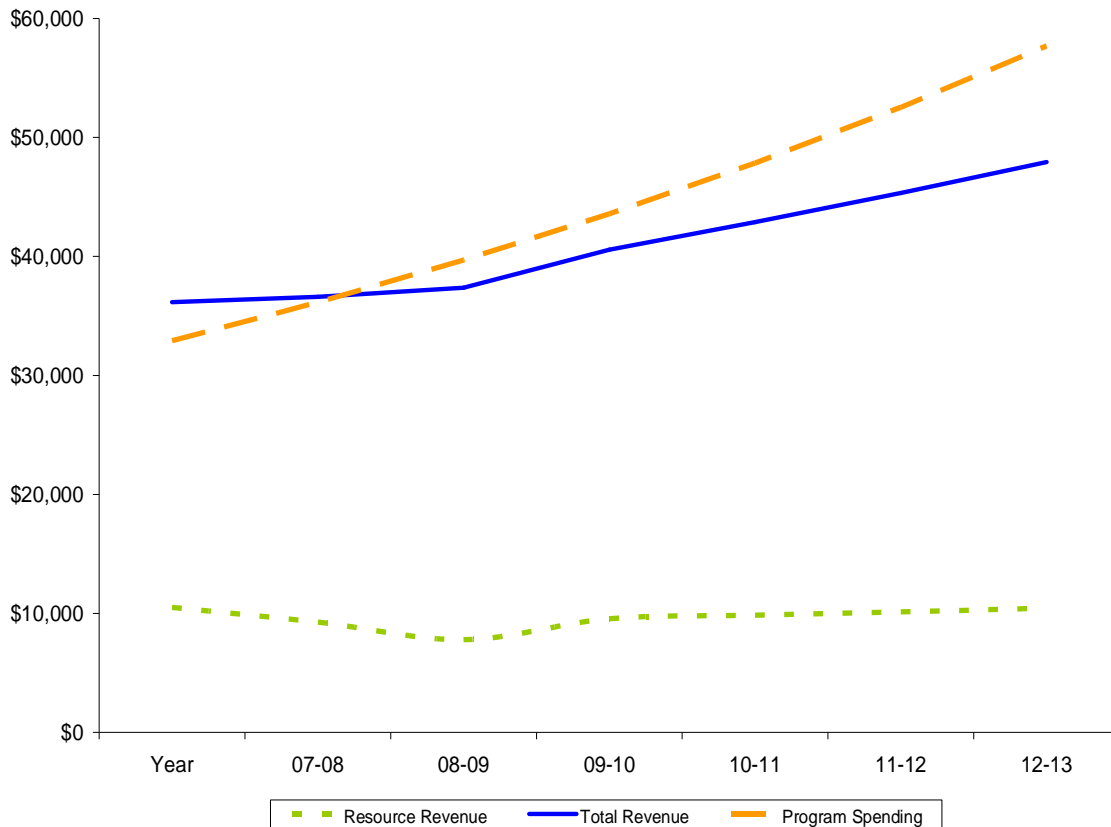
As such, the CTF has modeled two scenarios based on ten-year average trends, and the most likely actions the Alberta government would take in the short-term, to determine the financial solvency of the current government.

Scenario 1

Assumptions:

- Spending growth continues at 9.8 per cent (ten-year average);
- Resource revenues fall over the next two fiscal years (as per Budget 2008 targets) and then rebound to the ten-year average level of \$9.6-billion, growing at the ten-year average inflation rate each year thereafter (3 per cent);
- Other revenues continue to grow at 6.5 per cent (ten-year average);
- No withdrawal of short or long-term savings.

Chart 5 – Scenario 1: Revenue and expenditure projection (in millions) 2007-08 to 2013-14

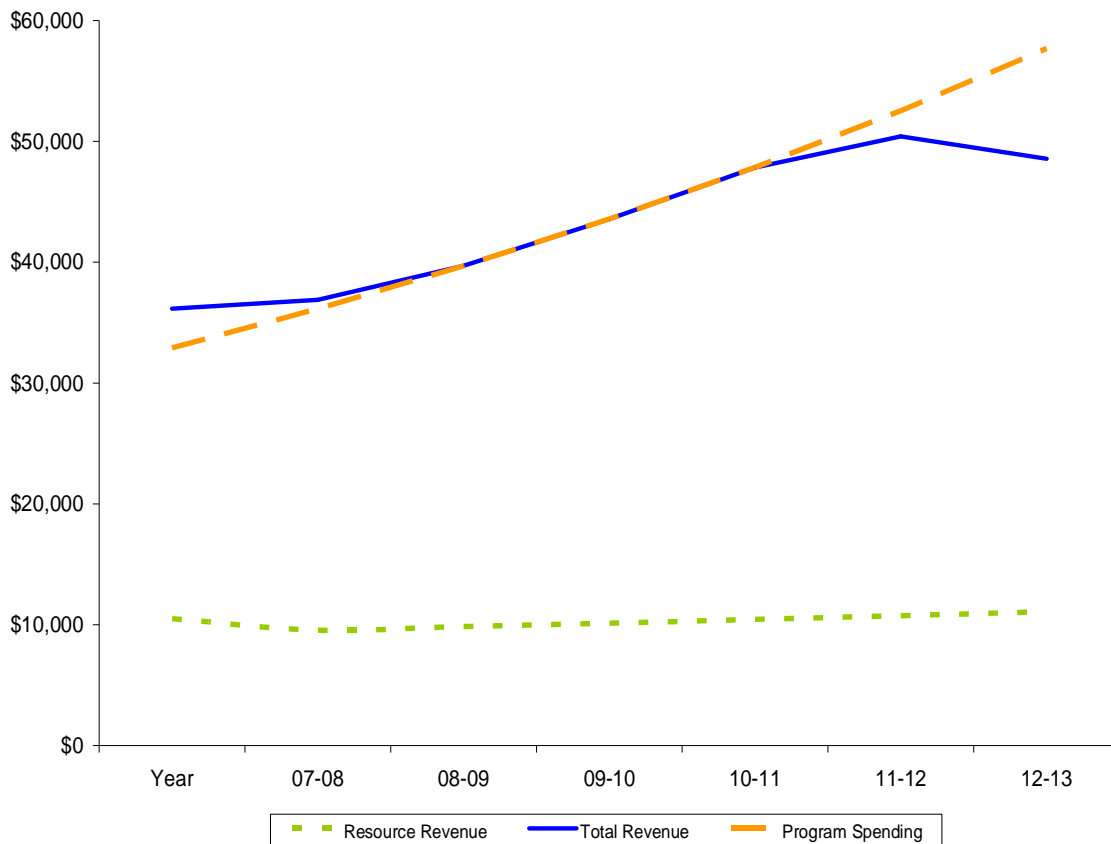


Scenario 2

Assumptions:

- Spending growth continues at 9.8 per cent (ten-year average);
- Resource revenues do not fall over the next two fiscal years (as per Budget 2008 targets) but immediately level out at the ten-year average of \$9.6-billion, growing at the ten-year average inflation rate each year thereafter (3 per cent);
- Other revenues continue to grow at 6.5 per cent (ten-year average);
- \$11.2-billion in short-term savings (\$5.2-billion in the *Sustainability Fund* & \$6-billion in the *Capital Account*) are slowly drained as necessary to keep a balanced budget.

Chart 6 – Scenario 2: Revenue and expenditure projection (in millions) 2007-08 to 2013-14



Clearly, in both scenarios, with spending growth outpacing revenue growth, the Alberta budget will fall into a deficit position.

Under scenario 1, the budget falls into a deficit position in 2009-10, yet the Alberta government retains the \$11.2-billion in short-term savings. Under scenario 2, the budget falls into a deficit position in 2012-13, and the Alberta government spends its entire short-term savings.

If current spending trends continue – unless non-renewable resource revenues are significantly higher than projected, are reliable every year and continue to grow indefinitely – Alberta will be facing a deficit position.

However, deficit budgets are illegal under the *Fiscal Responsibility Act*, so either that *Act* is going to be amended to allow for deficit budgeting, taxes are going to be increased, or spending is going to be cut in the not too distant future.

Stopping this from happening is going to take a combination of spending control and savings.

SPENDING CONTROL

Legislate a cap on spending

In order to maintain consistent and sustainable levels of spending, the Alberta government should not be increasing spending beyond the combined growth in the inflation and population rates. Yet, other than in 2002-03 when the government had to cut spending to keep from going into a deficit position, this is not occurring. In fact, spending tends to be significantly higher than this benchmark.

This was particularly true in Budget 2007 when program spending increased by 17.3 per cent.

Table 1 – Alberta government annual budgeted program spending (in millions), annual change vs. combined population and inflation rate change from previous year and difference

Year	Budgeted Program Spending	Annual Change (%)	Previous year combined annual population and inflation growth rate %*	Difference
97-98	\$13,361	n/a	n/a	n/a
98-99	\$13,862	3.75	3.36	0.39
99-00	\$15,149	9.28	4.04	5.24
00-01	\$16,728	10.42	4.53	5.89
01-02	\$20,832	24.53	5.12	19.41
02-03	\$18,571	-10.85	3.93	-14.78
03-04	\$20,335	9.50	6.58	2.92
04-05	\$22,286	9.59	4.30	5.29
05-06	\$25,535	14.58	3.07	11.51
06-07	\$28,067	9.92	4.84	5.08
07-08	\$32,914	17.27	7.12	10.15

* July population % change & fiscal year average CPI % change used for previous year rate

As seen from Table 1, in all but one of the past ten budgets, the Alberta government has increased their budgeted spending beyond what the combined population and inflation growth rate has been. In two of these years (Budget 2001 and 2005), the spending increase was nearly five times larger than the combined inflation and population growth rate from the previous year.

Over-spending has eaten away at budget sustainability, and has driven up reliance on non-renewable resource revenues.

Moreover, this over-spending has made tax cuts appear to be less sustainable, when in fact, they are easily achievable if the government implements a legislated spending cap.

Table 2 – Yearly budgeted program spending (in millions) if a spending cap had been implemented in Budget 2005

Year	Maximum spending cap % increase	Budget Program Spending
04-05	n/a	\$22,286
05-06	3.07	\$22,970
06-07	4.84	\$24,082
07-08	7.12	\$25,797
08-09	7.31	\$27,682

As seen in Table 2, had the government implemented a spending cap for Budget 2005, (the first fiscal year after Alberta became debt-free) the Alberta government would now be capped at spending a maximum of \$27.7-billion in Budget 2008.

With program spending already at \$33.4-billion, there is a strong argument to be made for a freeze in program spending in Budget 2008, particularly in light of the extraordinarily large spending increase in Budget 2007. That increase was more than double what would have been allowed, had a legislated cap on spending been put in place last year.

Why legislate a spending cap?

- It works:

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 considers taxation and spending over long time periods and concludes they are effective in constraining the growth of government and reducing taxes.

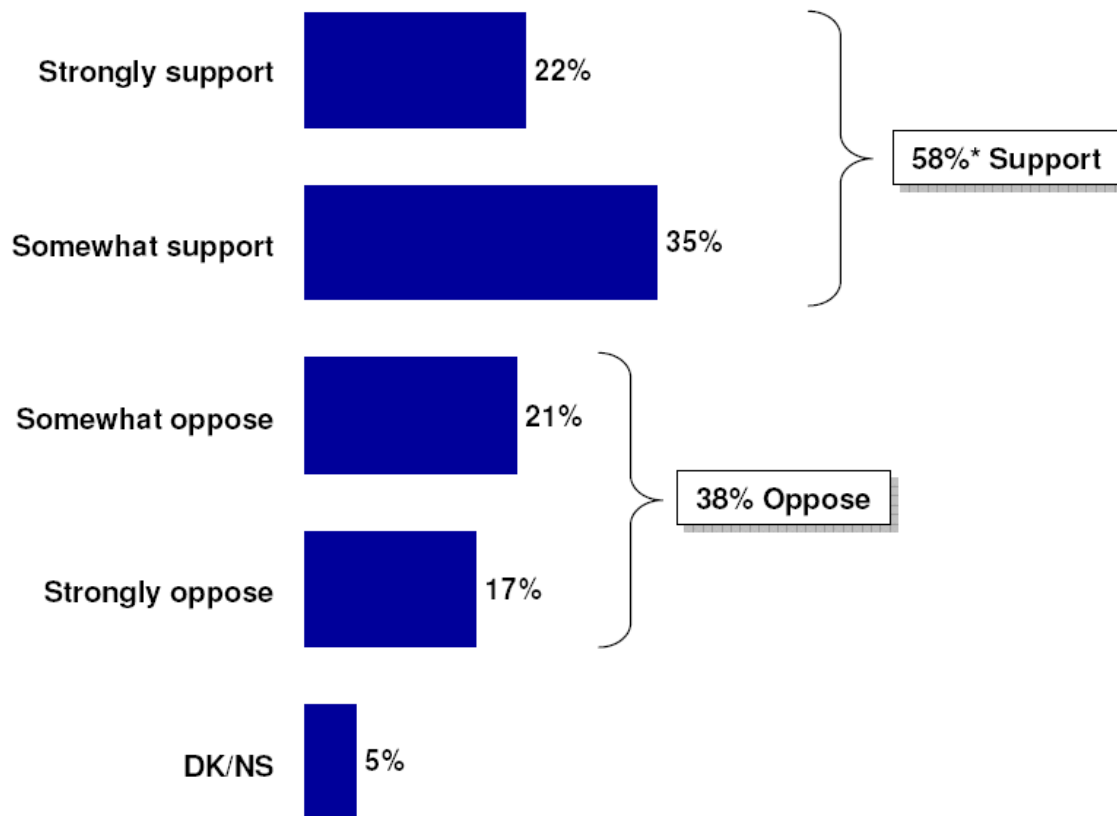
Expenditure limitation laws have worked wonders for taxpayers in the state of Washington. From 1980 to 1995, Washington’s population grew an average of 1.2 per cent per year while inflation averaged 4.5 per cent per year, yet government spending rose by 8 per cent per year. Since 1995, government spending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

- Albertans want it:

Six in ten people surveyed in an October 2006 *Ipsos-Reid* poll of 800 Albertans, commissioned by the CTF, indicated support for legislation that would restrict provincial government program spending to the combined rate of inflation and population growth.

October 2006 *Ipsos-Reid* poll question:

Would you support or oppose legislation in Alberta that would restrict annual growth in provincial government program spending to some measure such as the rate of inflation and the rate of population growth?



The poll is accurate to +/- 3.1 percentage points, 19 times out of 20.
 * Totals may not add up due to rounding

- It's worked in Alberta in the past:

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 that \$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 per cent 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. In fact, Alberta would not be in the prosperous position it is today had the Klein government not introduced these laws.

RECOMMENDATION #1

Freeze spending for the 2008-09 budget and introduce a legislated spending cap so that annual program spending starting in 2009-10 cannot increase by more than the combined growth rates of Alberta's population and inflation.

Continue to avoid “Quarterly Christmas”

Just as worrisome as annual spending increases in the budget, are spending increases occurring outside of the budget, often announced at quarterly budget updates.

These in-year, unbudgeted spending announcements turn the budget process into a farce and neuter the ability of elected officials to approve spending *before* the money is committed or spent.

Thankfully, a small step was taken this year when Finance Minister Dr. Lyle Oberg declared there would be no operational spending increases during the fiscal year. As of the first quarter update, program spending only increased by \$533-million – none of which was operational spending.

While this is a move in the right direction, only the will of the government is keeping operational spending from increasing every quarter, as no laws prohibit these types of adjustments.

Originally, the *Sustainability Fund* appeared to be the answer to stop these unbudgeted spending sprees. However, it has proven to be ineffective, and merely a stopping point for dollars awaiting their spending allocation.

Only resource revenues have to, by law, flow through the *Sustainability Fund*, whereas other sources of revenue do not. Granted, the government often does allocate other surplus revenues to the fund, but surpluses originating from income taxes, fees, premiums, investments and other taxes are free to be spent as the government sees fit.

Bottom line: if it's a high priority for spending, it should be in the budget.

Table 3 – Original budgeted program spending vs. quarterly updated spending and total in-year unbudgeted spending (in millions)

Year	Budgeted Spending	First Quarter Spending	Second Quarter Spending	Third Quarter Spending	Final Spending	In-year unbudgeted spending
02-03	\$18,571	\$19,492	\$19,582	\$20,173	\$20,035	\$1,464
03-04	\$20,335	\$20,985	\$21,602	\$21,731	\$21,480	\$1,145
04-05	\$22,286	\$23,671	\$24,184	\$24,116	\$23,851	\$1,565
05-06	\$25,535	\$26,310	\$27,012	\$26,966	\$26,743	\$1,208
06-07	\$28,067	\$29,406	\$29,463	\$29,427	\$29,292	\$1,225
07-08*	\$32,914	\$33,447	n/a	n/a	n/a	\$533

* in-year unbudgeted spending based on 1st Quarter update

As seen in Table 3, for the past six years, in-year unbudgeted program spending has averaged almost \$1.2-billion a year.

Further, a February 2007 *C.D. Howe Institute* report entitled “Missed Targets: Canada’s 2007 Fiscal Accountability Ranking,” ranked Alberta 12 out of 14 Canadian governments (13 provinces & federal government) in terms of accuracy in budget forecasts (expenditures). Only Yukon and Nunavut ranked lower.

RECOMMENDATION #2

Pass legislation making any in-year unbudgeted spending with the exception of declared emergency and natural gas rebate (*Sustainability Fund*) spending, illegal.

Fix the *Sustainability Fund*

The *Sustainability Fund* was created in 2003 with an amendment to the *Fiscal Responsibility Act*. The change allowed for the first \$3.5-billion in resource revenues to go into general revenues, with the excess flowing into a new \$2.5-billion *Sustainability Fund*.

The intent was two-fold: first, to use the money in the *Sustainability Fund* to cover any shortfall if resource revenues did not amount to \$3.5-billion in a fiscal year, and second, to keep the government from using more than a minimum amount (\$3.5-billion) of non-renewable resource revenues for yearly program spending, thereby reducing reliance.

Further provisions were put into the *Act* so if the balance of the fund was over \$2.5-billion, funds could be transferred out into the *Capital Account* or into “balance sheet improvements” (read: spending).

With the fund reaching its \$2.5-billion goal in the first year, non-renewable resource revenues almost immediately began to flow back into program spending and into the *Capital Account*.

No amendments have been made to legally increase the \$2.5-billion minimum requirement for the *Sustainability Fund*, and since the government is allowed to

“allocate” all funds above the \$2.5-billion level, spending is encouraged instead of restrained.

However, the government has amended the *Act* to increase the initial level of resource revenues used for program spending and budgeting. The *Fiscal Responsibility Act* was amended in 2004 to increase the initial amount of resource revenue spending from \$3.5-billion to \$4-billion. The *Act* was subsequently amended in 2005 to increase the initial amount of resource revenue spending to \$4.75-billion. Now becoming an annual tradition, in 2006, the *Act* was once again amended to increase the spending amount to \$5.3-billion, where it was frozen in 2007.

The Alberta government must not just freeze, but reverse the trend of increasing the amount of non-renewable resource revenues for budgeting. Since 2003 the spending amount has grown from \$3.5-billion to \$5.3-billion.

The government should, starting with Budget 2008, amend the *Fiscal Responsibility Act* with a roll-back schedule to eventually eliminate the necessity to use non-renewable resource revenues for program spending altogether.

Table 4 - Proposed roll-back of the *Fiscal Responsibility Act*

Fiscal Year	<i>Fiscal Responsibility Act</i> Spending Cap
2008-09	\$5.3-billion
2009-10	\$5.3-billion
2010-11	\$5.0-billion
2011-12	\$4.7-billion
2012-13	\$4.3-billion
2013-14	\$3.5-billion
2014-15	\$3.0-billion
2015-16	\$2.2-billion
2016-17	\$1.3-billion
2017-18	\$0.3-billion
2018-19	\$0.0-billion

RECOMMENDATION #3
Amend the *Fiscal Responsibility Act* to roll-back the initial spending amount of non-renewable resource revenues used for spending from \$5.3-billion to \$0 by 2018-19.

Changes also must be made to limit the ability to spend non-renewable resource revenues from within the *Sustainability Fund*.

While officially, only \$5.3-billion in resource revenues are used for program spending each year, the true amount is significantly higher. Excess resource revenues flow into the *Sustainability Fund* and much are transferred into the *Capital Account* for future spending or used for natural disaster/emergency and natural gas rebate spending.

Virtually every single resource revenue dollar gets spent.

Where did \$12.3-billion in non-renewable resource revenues go in 2006-07?

Non-renewable resource revenues:	\$12.3 billion
Used for budgeting:	<u>\$ 5.3 billion</u>
Net transferred into the <i>Sustainability Fund</i> :	\$ 7.0 billion
Transferred out into the <i>Capital Account</i> :	\$ 3.0 billion (for this year's spending)
	\$ 1.8 billion (for future year's spending)
Spend on disasters/natural gas rebates:	<u>\$ 0.9 billion</u>
Remainder:	\$ 1.2 billion

Further, there is still currently \$5.2-billion in un-allocated dollars in the *Sustainability Fund*, on top of the \$2.5-billion minimum.

Having un-allocated dollars sitting in an account that can and has been used primarily for spending is unacceptable.

RECOMMENDATION #4

Amend the *Fiscal Responsibility Act* such that funds can only be withdrawn for declared emergencies, disasters and natural gas rebates – nothing else.

SUSTAINABLE OWN-SOURCE REVENUES

“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.

Chart 7 – Alberta government program spending and sustainable own-source revenues from 1987-88 to 2007-08

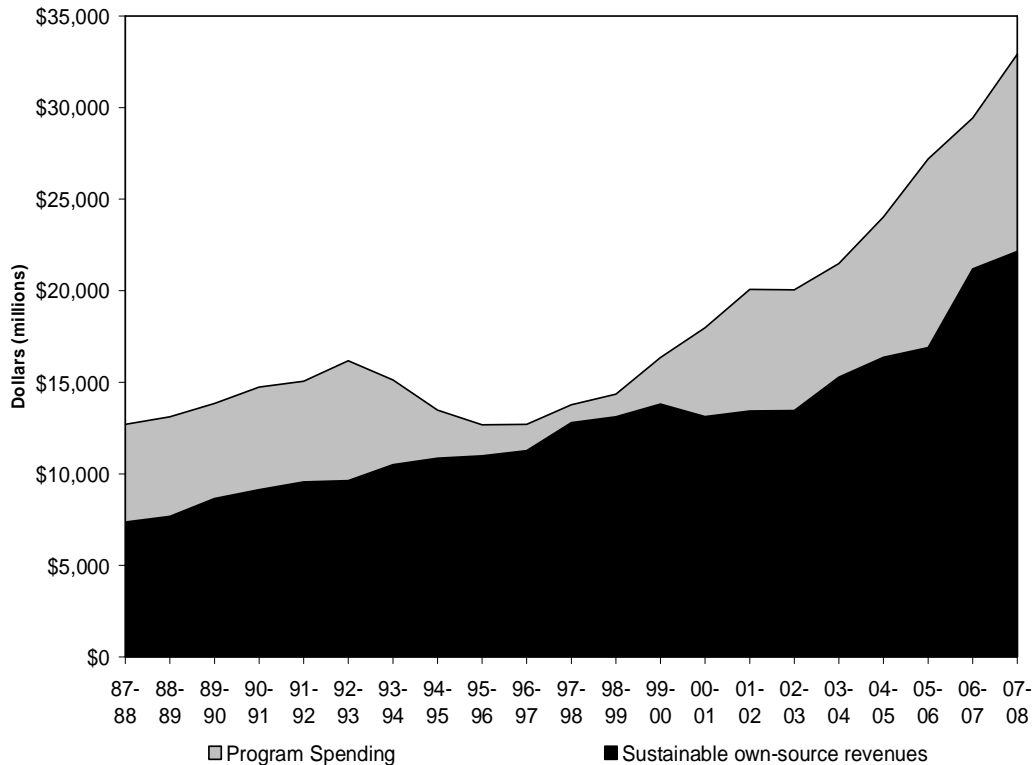


Chart 7 above illustrates the two key levels in determining long-term sustainability of any budget. The top level is program spending in millions each year. The bottom level is sustainable own-source revenues. The area shaded in grey is where the two levels don't overlap. It represents the amount of program spending being funded each year by non-renewable resource revenues or debt.

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

In fact, in 2005-06, sustainable own-source revenues represented only 62 per cent of all program spending, the lowest point of sustainability since 1992-93.

Why is this a problem?

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 a source of revenue that is a) depleting, b) dependent on a world price Alberta has no control over, and c) has proven to be unreliable throughout Alberta’s history.

Chart 8 – Non-renewable resource revenues as a percentage of total Alberta government revenues 1981-82 to 2007-08

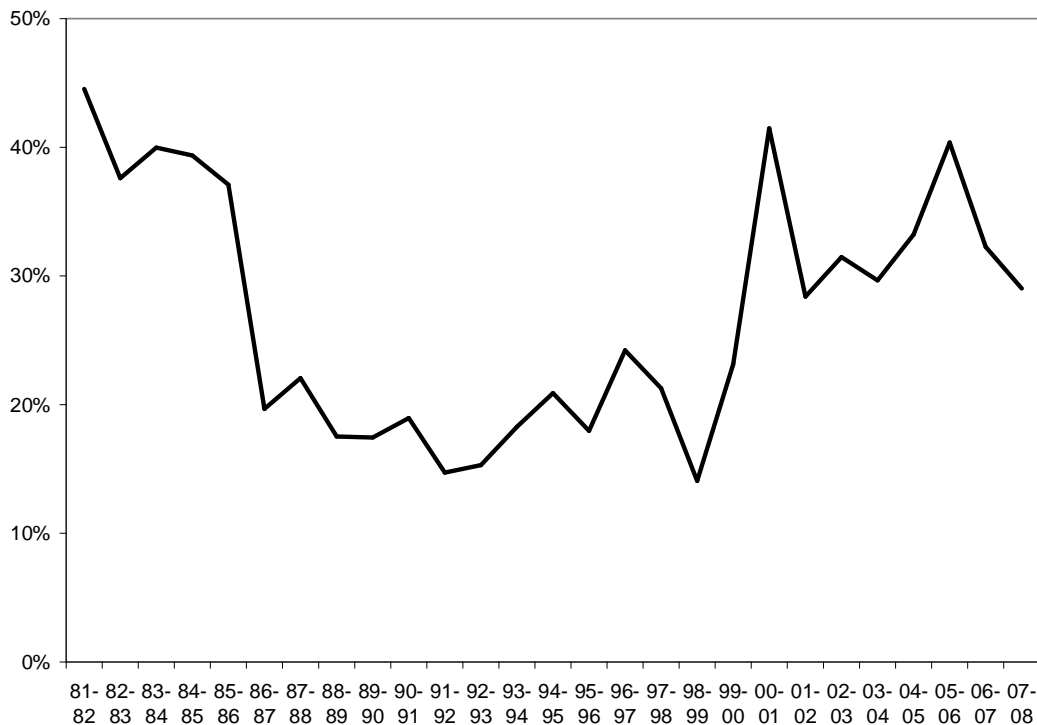


Chart 8 above illustrates exactly how erratic and unreliable non-renewable resource revenues can be. During this 27-year period, resource revenues have represented a high of 45 per cent (1981-82) of total revenues in a fiscal year to a low of 14 per cent (1998-99). Even in the past three years, the range has been from a low of 29 per cent to a high of 40 per cent.

Create a “Future Fund”

Sustainable own-source revenues could be obtained by raising taxes or increasing savings. Raising taxes is not an option, in fact, with fiscal discipline and wise use of resource revenues, taxes should be coming down in Alberta.

The only option is to begin a significant savings program.

As of March 31, 2007, Alberta had \$34-billion in net financial assets. These assets include nine different short, medium and long-term savings accounts. Many of these funds have a specified purpose already, such as the *Alberta Cancer Prevention Legacy Fund*, the *Capital Account*, and the *Debt Retirement Account*.

The *Alberta Heritage Savings Trust Fund* is the largest of any of these accounts, at \$16.3-billion.

The *Heritage Fund* was primarily created to be both an endowment fund, with interest earnings flowing into general revenues, and a long-term savings fund.

It continues to serve both of those goals today.

The *Heritage Fund* has had a handful of small injections of cash during the past four fiscal years, after stagnating and losing relative value for nearly two decades. Most of these deposits were to inflation-proof the fund, however, an additional \$2-billion was invested.

These piecemeal, half-hearted attempts to save money best illustrate the problem with ad-hoc savings programs. The Alberta government needs to put in place a formula for increasing savings and subject it to law. This formula, if done correctly, will also help reduce the amount of resource revenues used for spending each year.

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. For the purposes of this submission, the CTF recommends creating a new fund, the *Future Fund*, in which future savings would be deposited.

Create a resource revenue allocation formula

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

Over the past 20 years, the Alberta government has received \$116-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 \$116-billion, it can be suggested that \$22.7-billion was used for debt repayment and \$20.2-billion was used for servicing that debt. Of the remaining \$73.2-billion, \$19.1-billion has been put towards savings (*Heritage Fund*, endowment funds, *Sustainability*

Fund, others)^a, and virtually all of the remainder (over \$54-billion or 47 per cent) has been put towards spending (on-going 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 – of one generation from another.

The opportunity that could have been created by these revenues was tremendous, but is all but lost.

For example, in 2000, the CTF commissioned a study by Dr. Jean-Francois Wen of the *University of Calgary*. Dr. Wen was asked if it would be possible for Alberta to build up the *Heritage Fund* and then use the interest to eliminate personal income taxes.

Dr. Wen determined if the government held the line on spending increases starting in 2000, and dedicated 50 per cent of all resource revenues to the *Alberta Heritage Savings Trust Fund*, along with retaining all of the interest generated by the fund, Alberta could eliminate personal income taxes by 2015. Furthermore, his study was based on oil priced at \$18/barrel and natural gas at \$2.35/mcf and increasing only at the rate of inflation. As we have seen with recent resource prices, the time-line suggested by Dr. Wen could have been substantially ramped up, had the Alberta government taken action in 2001.

2006-07 CTF Supporter Survey

The Alberta government receives over \$10-billion per year (on average) from the sale of oil and natural gas. Currently, the vast majority of this money is spent on on-going programs (health, education, etc) and capital building projects. These revenues, unlike traditional tax revenues, are one-time, un-reliable revenues that may or may not be there each year. Do you think the government should:

Continue to spend these one-time revenues each year on on-going programs and capital projects that need annual funding (Spend 100%)	4 %
Not spend any of these one-time revenues (Save 100%)	4%
Spend 25%, Save 75%	28%
Spend 50%, Save 50%	44%
Spend 75%, Save 25%	20%

CTF supporters overwhelmingly support putting a significant portion of resource revenues into savings. 96 per cent of supporters feel the government should save at least 25 per cent of annual resource revenues. 76 per cent feel the government should save at least 50 per cent of annual resource revenues.

^a \$19.1-billion in savings determined by taking current net financial assets (\$31.6-billion) less 1987-88 net financial assets (\$6.4-billion), less cash within the Capital Account and above the \$2.5-billion minimum in the Sustainability Fund (\$11.2-billion) which are allocated for spending and not long-term savings.

Ideally, all resource revenues over and above the prescribed amount in the *Fiscal Responsibility Act* should be put into savings.

Example:

2007-08 non-renewable resource revenue:	\$10.5 billion
Less amount for program spending:	\$ 5.3 billion
Less amount to top-off <i>Sustainability Fund</i> :	<u>\$ 0.6 billion</u> (natural gas rebates, etc)

Remainder: **\$ 4.6-billion**

Of course, the level of this remainder would change every year and would guarantee the sustainability of program spending first. Further, with the proposed roll-back of the initial spending amount allowed for program spending, more and more resource dollars would be deposited into the *Future Fund* every year.

It also would result in saving approximately 44 per cent of resource revenues in 2007-08, with that percentage changing each year and hopefully increasing into the future, depending on how much is received in non-renewable resource revenues.

Moreover, this \$4.6-billion in savings should generate an additional \$405-million in investment income next year^b and for each future year. If 50 per cent of that investment income was sent to general revenues and 50 per cent was retained within the *Future Fund* it would not only help off-set the non-renewable resource revenues which were traditionally spent, but would lead to compounding interest and growth of the *Future Fund*.

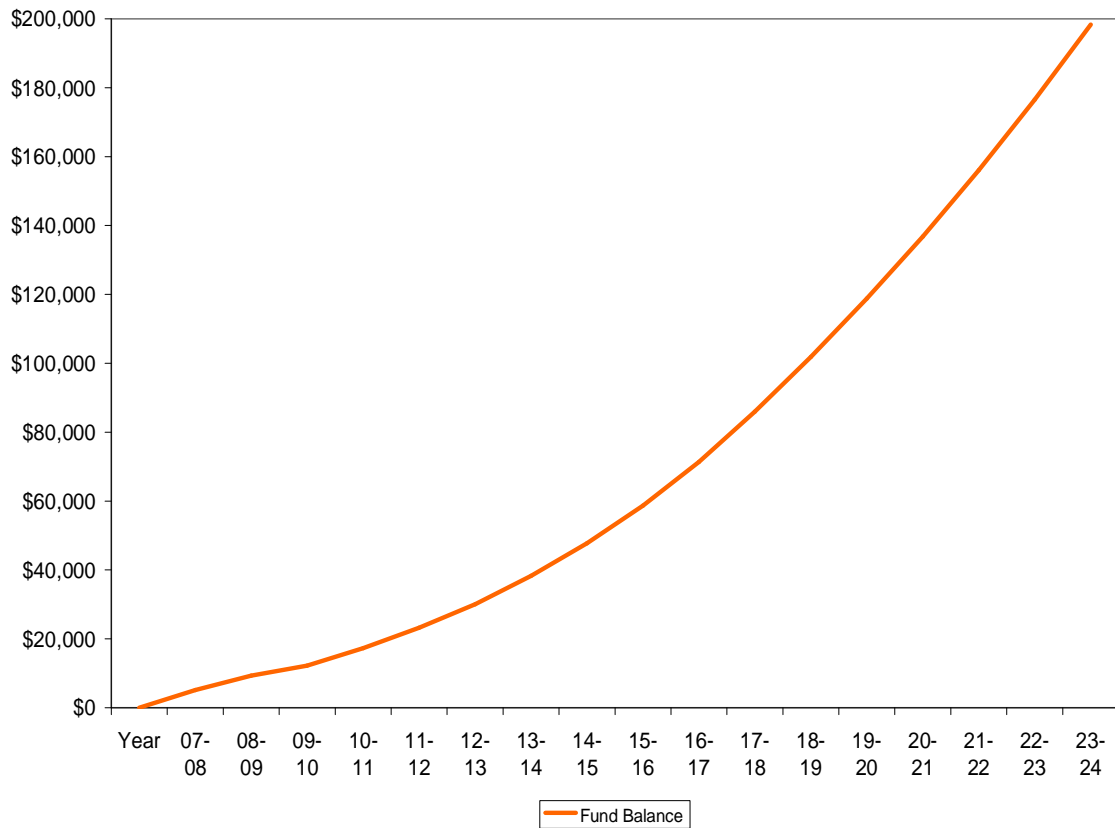
RECOMMENDATION #5

Pass legislation requiring all non-renewable resource revenues (less the amount dictated in the *Fiscal Responsibility Act*) be placed in a new *Future Fund*.

The potential growth of such a fund could be tremendous.

^b Investment income based on five-year average return on investment in the *Alberta Heritage Savings Trust Fund* of 8.8 per cent per year.

Chart 9 – Future Fund balance (in millions) 2008-09 to 2024-25



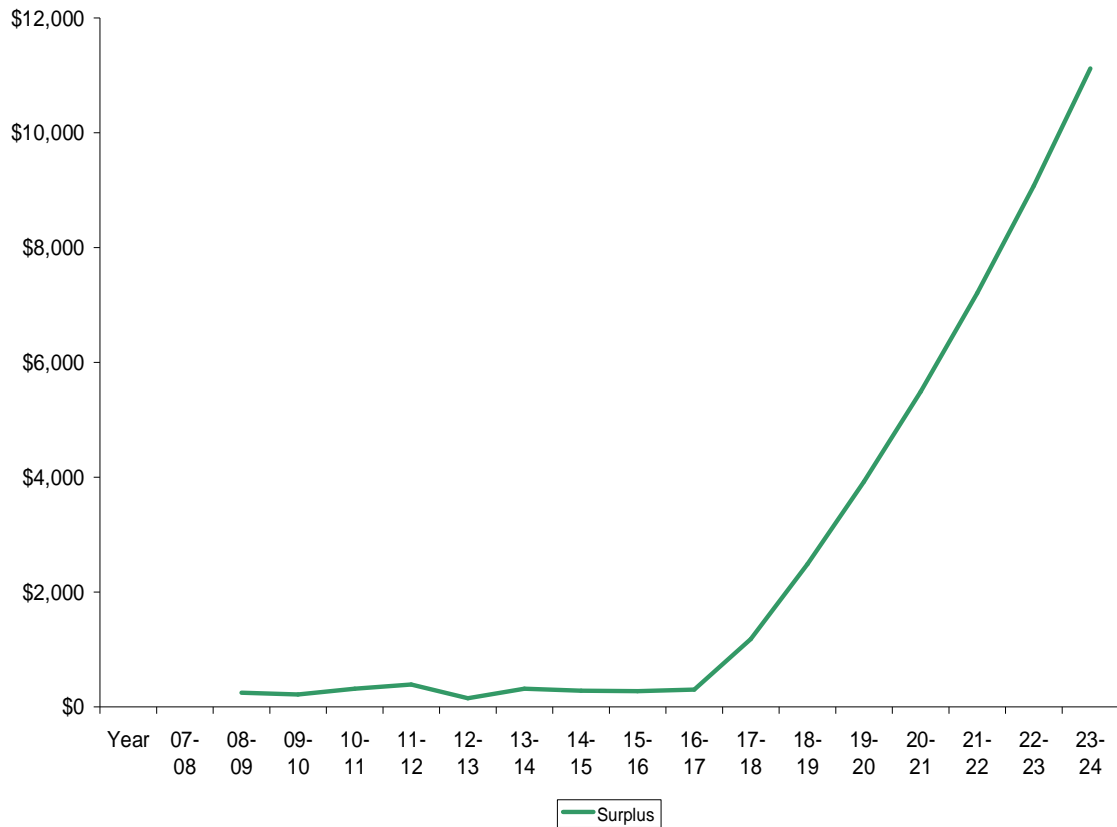
Assumptions:

- All non-renewable resource revenues over and above the minimum amount prescribed for program spending (see Table 4) be put into the *Future Fund*;
- Resource revenues fall over the next two fiscal years (as per Budget 2008 targets) and then rebound to the ten-year average level of \$9.6-billion, growing at 3 per cent each year (ten-year average inflation rate);
- Other revenues continue to grow at 6.5 per cent each year (ten-year average);
- Program spending is frozen in 2008-09 and then grows at 5.1 per cent per year (ten-year population and inflation growth rate average);
- Interest is generated in the *Future Fund* at a rate of 8.8 per cent (five-year average of the *Alberta Heritage Savings Trust Fund*);
- \$5.2-billion from the *Sustainability Fund* be used to start-up the *Future Fund*;
- 50 per cent of interest revenues are sent to the General Revenue Fund;
- 50 per cent of interest revenues are retained within the *Future Fund*.

Once the *Future Fund* balance hit \$71-billion in 2017-18, Alberta would no longer be reliant on non-renewable resource revenues whatsoever. At that point, if oil and gas revenues dropped to \$0, the annual interest revenue generated by *Future Fund* would offset all non-renewable resource revenues.

However, if non-renewable resource revenues remained stable past 2017-18, large surpluses would begin to amount.

Chart 10 – Annual Surpluses (in millions) 2008-09 to 2024-25



As 2017-18 approaches, a discussion would have to be held with Albertans to decide how to return these surplus dollars. Ideally, they would either be re-invested into the *Future Fund*, sent back to Albertans in the form of a dividend cheque, or used to cut (or eliminate) taxes.

EXPENSE

Future Budget Targets: Use them or lose them

Each year, the province lays out three-year budgetary plans. Included in these plans are estimates for the previous year's revenues and expenditures, the upcoming year's estimates for revenue and expenditures, and the next two years' targets for revenues and expenditures.

Each successive budget contains a rolling forward update of the three-year forecast. This is sold to Albertans as a three-year budget, however final expenditure numbers are regularly nowhere near what was originally set out in the first target (two years prior to budget year) or even the second target (one year prior to budget year). Not surprisingly, the two targets are often dissimilar as well.

Table 5 – Program spending targets vs. actual spending (millions)

Budget Year	1st Target (2 years prior to budget)	2nd Target (1 year prior to budget)	Budget	Actual Spending	Variance in spending from 1st Target
03-04	\$19,163	\$19,191	\$20,335	\$21,480	\$2,317
04-05	\$19,580	\$20,865	\$22,286	\$24,027	\$4,447
05-06	\$21,364	\$22,809	\$25,535	\$27,191	\$5,827
06-07	\$23,079	\$26,225	\$28,067	\$29,292	\$6,213
07-08*	\$26,589	\$29,161	\$32,914	\$33,447	\$6,858
08-09	\$29,903	\$33,548	???	???	???
09-10	\$33,567	???	???	???	???

* Actual program spending based on 1st Quarter update

As seen in Table 5, the first budgetary targets have been significantly lower than both the final budgeted amount and even further off the final spending amounts.

The 2007-08 budget was originally targeted to include \$26.6-billion in program spending. Thanks to the 17.3 per cent budgeted spending increase, the 2007-08 budget will likely end up nearly \$7-billion above the original target!

Laughably, spending in Budget 2008 was originally slated for \$29.9-billion. Even the \$33.6-billion target from last year is highly unlikely considering the government's track record.

The government can no longer claim to use three-year budget cycles, nor do the targets carry any shred of credibility.

RECOMMENDATION #6

Either stick to the targets made in previous budgets for future expenditures or discontinue use of multi-year budget targets.

Get control over infrastructure inflation

Following the deferral of maintenance on infrastructure during the 1990s as well as the emergency deferral of \$735-million in infrastructure projects in 2001, the Alberta government has been attempting to catch-up. This catch-up has led to a considerable increase in infrastructure spending in the past three years.

Not unrelated, the annual inflationary increases in infrastructure have also grown significantly during the past three years.

Inflation above normal historical levels represents very questionable value for tax dollars.

According to *Alberta Infrastructure and Transportation*, highway construction costs for the ten years prior to 1999 averaged 2 per cent inflationary increases each year. Between 2000 and 2005, inflation on highway construction prices increased by 8 per cent a year on average. From 2005 to 2006, inflation drove highway construction costs up by 20 per cent in that one year alone^c.

As for building construction, between 1993 and 2004, inflation drove prices up by 3.7 per cent a year on average, with 2004 seeing an 8 per cent inflationary increase. From 2004 to 2005, inflation increased building construction costs by 14.4 per cent, and from 2005 to 2006 prices are up an additional 23 per cent, thanks to inflationary costs^d.

Alberta Infrastructure and Transportation expects inflation to continue to escalate throughout 2007.

With historical levels of inflation averaging 2 per cent for highway construction and 3.7 per cent for building construction, it's clear current inflation levels are representative of wasted tax dollars. Taxpayers are right to question whether they are truly getting good value for their money when 20 per cent of the cost of any government construction project is eaten up by inflation above historical levels.

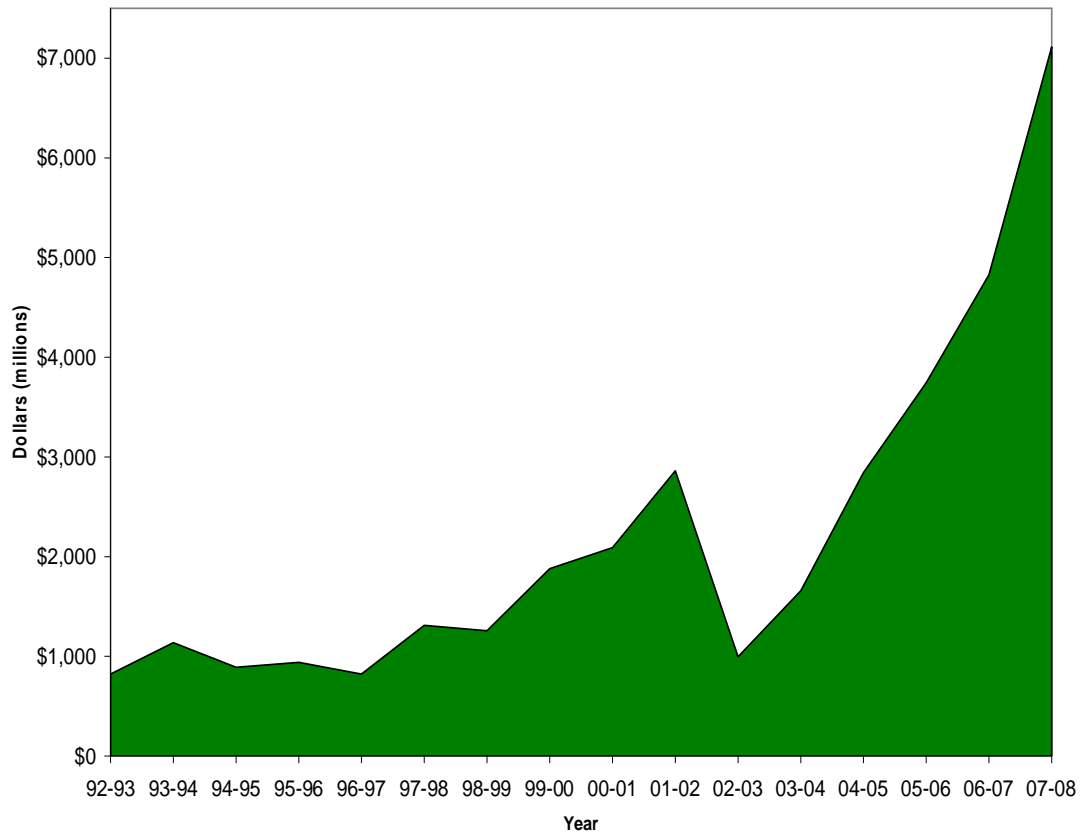
What is driving inflation above historic levels?

The Canadian Taxpayers Federation believes a portion of these outrageous inflationary costs are being driven by government spending, or at least the wild swings in government spending on capital.

^c January 17, 2006 letter to the Canadian Taxpayers Federation from *Alberta Infrastructure and Transportation* Minister, Dr. Lyle Oberg.

^d February 7, 2007 letter to the Canadian Taxpayers Federation from *Alberta Infrastructure and Transportation*.

Chart 11 – Capital Plan Spending by the Alberta Government (1992-93 to 2007-08)



Clearly, between the year 2001 and the present, capital spending has been anything but consistent.

Alberta's labour force has grown by 16 per cent since 2002^e. It stands to reason the number of roadway building and construction companies in Alberta has likely not grown by much more than what the labour force would allow. However, the Alberta government is spending over 600 per cent more on capital projects in 2007-08 than it spent in 2002-03.

Without question, world prices for materials like steel and lumber have increased over the past few years, and prices for oil and natural gas have driven up private-sector demand for construction projects (in Alberta). However, the Alberta government is also driving up prices with its inconsistent and inflated capital demands.

The Alberta government needs to stop trying to compete with a red-hot private sector. Further, more consistent spending from year-to-year should help smooth out the unsustainable 20 plus per cent yearly inflationary increases.

^e Statistics Canada - Table 282-0055 - Labour force survey estimates (LFS), by provinces, territories and economic regions, annual.

The *Alberta Financial Management Commission* (AFMC), made many recommendations in regards to capital planning and spending in 2002 report titled, “Moving from Good to Great.”^f

Alberta Financial Management Commission – Recommendation #4:

A portion of the province’s annual budget should be allocated for capital spending. The amount should not be less than 0.9% of the average of the 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 per cent 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 be as high today, lessening the waste of tax dollars.

Table 6 - Alberta government capital spending (in millions) as a percentage of two-year average Gross Domestic Product (GDP)

Year*	Alberta GDP	Previous Two-year's Average GDP	Capital Plan spending	Capital plan spending as a percentage of two-year GDP
1990	\$73,257	n/a	n/a	n/a
1991	\$72,892	n/a	n/a	n/a
1992	\$74,936	\$73,075	\$822	1.12%
1993	\$81,179	\$73,914	\$1,138	1.54%
1994	\$88,041	\$78,058	\$891	1.14%
1995	\$92,036	\$84,610	\$939	1.11%
1996	\$98,634	\$90,039	\$821	0.91%
1997	\$107,048	\$95,335	\$1,310	1.37%
1998	\$107,439	\$102,841	\$1,256	1.22%
1999	\$117,080	\$107,244	\$1,878	1.75%
2000	\$144,789	\$112,260	\$2,091	1.86%
2001	\$151,274	\$130,935	\$2,860	2.18%
2002	\$150,594	\$148,032	\$997	0.67%
2003	\$170,300	\$150,934	\$1,659	1.10%
2004	\$188,865	\$160,447	\$2,842	1.77%
2005	\$218,433	\$179,583	\$3,743	2.08%
2006	\$235,593	\$203,649	\$4,848	2.38%
2007**	???	\$227,013	\$7,113	3.13%

* GDP presented in calendar year format, capital plan spending presented in fiscal year format
 ** Alberta's 2007 GDP not yet released

^f http://www.albertafmc.com/2002_0708_fmc_final_report.pdf pg. 10-13

As seen in Table 6 above, in the last 16 years, Alberta has dipped below 0.9 per cent only once (in 2002-03), has gone above 1.5 per cent seven times and has been within that range eight times. Most concerning however, is the highest percentage in those past 16 years is occurring in the current 2007-08 fiscal year. Further, in only two of the past ten fiscal years has the government been within the 0.9 and 1.5 per cent target.

For the 2008-09 budget, based on the 0.9 per cent to 1.5 per cent of previous two-year's average GDP (2006 and 2007) guideline, the Alberta government should be spending a minimum of \$2.2-billion and a maximum of \$3.7-billion[§] on capital plan spending.

RECOMMENDATION #7

Implement a guideline for capital plan spending of a minimum of 0.9 per cent and a maximum of 1.5 per cent of the two-year's previous average of provincial Gross Domestic Product (GDP).

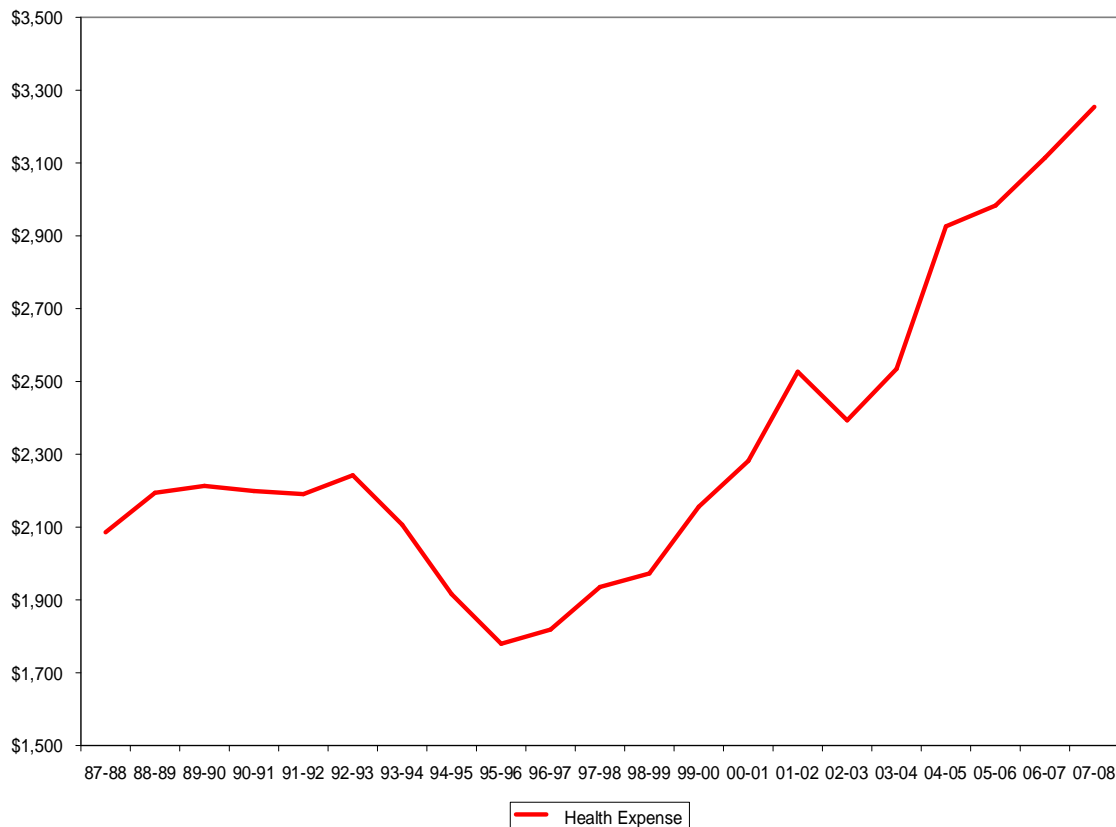
Don't back away from health care reform

The CTF has been and will continue to promote health care reform in Canada for three fundamental reasons.

First, we oppose Canadian governments continuing to throw good money on a badly flawed monopoly-system. Health care costs continue to increase every year well beyond inflation or population growth rates. Even adjusting for inflation and population growth, health spending in Alberta has grown by nearly 70 per cent in the past decade. In absolute terms, health spending has gone from \$4.4-billion a year in 1997-98 to \$12.2-billion this year.

[§] Range determined by using the Alberta Budget 2007 projections for Alberta's GDP growth for 2007 and 2008.

Chart 12 – Per capita Health spending (in constant 2005-06 dollars) by the Alberta Government 1992-93 to 2007-08



Second, allowing for choice and competition will not only take pressure off the public system, but provide economic opportunity. Competition will lead to efficiencies and opportunities for more Canadian trained (with a significant portion of that training paid for by taxpayers) health care professionals to stay and work in Canada.

Third, Albertans have the right to be able to spend their own after-tax dollars on anything they want – including health care. Why should Albertans be able to spend their own money on alcohol, cigarettes and gambling when they can't spend it to alleviate their own pain? Why should Albertans be able to pay for a surgery for their sick dog, yet not be allowed to pay for a surgery for their sick child? Why should Albertans have to travel to the United States, the UK or India to spend their own money on health care when they could spend it right here in Alberta?

The private sector should not be feared, but embraced. The *Supreme Court of Canada* ruling in *Chaoulli v. Quebec* made this perfectly clear. The court declared that: “democracies that do not impose a monopoly on the delivery of health care have successfully delivered ... services that are superior to and more affordable than the services that are presently available in Canada. This demonstrates that a monopoly is not necessary or even related to the provision of quality public health care.”

In September 2006, the *Canadian Constitutional Foundation* supported Calgary resident Bill Murray, in his constitutional challenge to Alberta's health care laws, which are almost identical to the Quebec law struck down by the *Supreme Court of Canada* in the *Chaoulli* case.

One way or another, health laws in Canada and Alberta are going to change. Alberta can continue to fight it, not only spending money on fighting hopeless legal battles, but continuing to defend a failed system. Or Alberta can embrace choice, embrace competition and embrace change.

RECOMMENDATION #8

Amend or repeal sections of the *Alberta Health Care Insurance Act*, the *Health Care Protection Act* and the *Hospitals Act* to allow Albertans the right to purchase private health insurance from private health providers in Alberta.

Don't give teachers \$2.1-billion for free

Alberta teachers have an "unfunded liability" in their pension plan worth \$6.4-billion.

Like many "defined benefit" pension plans, the teachers' pension plan started out much like a pyramid scheme. Those who were at the top (ie. those who retired right after the pension plan started) barely paid in anything before collecting a pension. Those at the bottom of the pyramid (ie. new teachers) saw the money they paid into the plan used immediately to pay existing pensioners. And the cycle continued.

For many years the Alberta government adopted a "pay-as-you-go" model for teacher pensions (the same model used by the CPP for many years), not paying into a savings fund, but rather paying out directly to retirees. This, combined with major improvements to pension benefits (including the ability to retire earlier) without the needed increases to teacher contribution rates, led to a large unfunded liability.

In 1992, the Alberta Teachers' Association (ATA) and the Alberta government negotiated a long-term settlement. The ATA, on behalf of teachers, agreed to accept one-third of the pre-1992 unfunded liability as their debt. The Alberta government, on behalf of taxpayers, agreed to accept two-thirds of the pre-1992 unfunded liability.

It's estimated the pre-1992 unfunded liability is currently sitting at a combined \$6.4-billion. However, and importantly, this is two debts. Teachers have a debt of \$2.1-billion and taxpayers have a debt of \$4.3-billion.

As part of the 1992 deal, both parties agreed on a payment plan that would see the debt retired by 2060. It's estimated if both parties continue to slowly pay-off this debt the total cost will amount to \$45-billion (\$15-billion for teachers, \$30-billion for taxpayers) by the year 2060.

While no formal public offer has been made by the Alberta Teachers' Association (ATA), the Canadian Taxpayers Federation (CTF) is concerned about the request by the ATA for taxpayers (Alberta government) to take over the teachers' portion of the pre-1992 unfunded liability in the teachers' pension fund (\$2.1-billion).

We are also concerned that the Alberta government has begun negotiations on behalf of taxpayers without taxpayers knowing why or the terms of such negotiations.

In order for the Alberta government to even fathom a re-negotiation of the 1992 deal (which could cost Albertans \$600 each), teachers would have to offer something of equivalent value in return.

In 2002, then Learning Minister, Dr. Lyle Oberg offered, on behalf of taxpayers, to take on the teachers' portion of the debt in return for ten years of labour peace. Incredibly, teachers rejected the offer. An offer that would have expired in 2012, 48 years sooner than the teachers are going to be able to pay-off the debt on their own.

As negotiations are currently underway, it should be noted the ATA already indicated the 2002 offer was unacceptable – a deal where teachers clearly were the winners.

Premier Stelmach should certainly entertain offers, but he is in no way obligated to re-negotiate the 1992 agreement, it still stands today. Any offer from the teachers that doesn't put taxpayers in a better position, must be rejected.

RECOMMENDATION #9

Reject any offer from the Alberta Teachers' Association for taxpayers to pay the teachers' portion of the unfunded liability in the teachers' pension (\$2.1-billion) without taxpayers getting at least a \$2.1-billion value in return.

REVENUE

Put the health care premium tax out of its misery

Alberta's health care insurance premium is a regressive tax. For a family earning \$35,000 a year, the \$1,056 they pay in health care premiums is equivalent to 3 per cent of their annual income. For a family earning \$100,000 a year, the \$1,056 they pay in health care premiums is equivalent to 1 per cent of their annual income.

The CTF welcomed the relatively small increase to the premium subsidy in the 2006 and 2007 provincial budgets. However, these increases were one-time only. "Premium-creep" will continue to eat away at the value of the subsidy because unlike the Basic Personal Exemption, the health care premium tax thresholds are not indexed to inflation.

The CTF also welcomed abolition of health care premiums tax for seniors as a first step towards abolishing this tax for all Albertans. This age-based exemption, put into place in 2004, has created a situation where seniors who are wealthy and no longer raising children or paying off a mortgage, are exempt. Yet middle-income families, struggling with mortgage payments and the cost of raising children, must pay \$1,056 per year in addition to other provincial taxes. This is still patently unfair.

In addition, the health care premium is a costly tax to collect. In 2005-06, the cost to collect and administer the health care insurance premium was \$11.7-million, and the average administration and collection cost from 1999-00 to 2004-05 was \$12.7-million per year.

Of that yearly administration cost, nearly 40 per cent goes to pay collection agencies (\$4.5-million in 2005-06)^h.

Furthermore, the health care premium tax is a major obstacle to health care reform. This tax conveys the false message that our health care system costs only \$44 per month, or \$88 per month for families. In fact, Alberta's public health care system costs \$293 per man, woman and child every month. In order for health care reform to succeed, the public needs to understand how expensive our government-run system really is. Albertans need to know health care makes up more than one-third of provincial spending. Yet, the health care premium tax does the opposite, suggesting our health care is relatively inexpensive.

In addition, according to a November 2006 *Ipsos-Reid* poll provided to the *Calgary Herald* of 800 Albertans, 80 per cent support eliminating health care premiumsⁱ.

^h March 27, 2007 letter to Brian Mason, MLA Edmonton-Highlands-Norwood (<http://www.ndpopposition.ab.ca/uploads/2007-03-26%20-%20written%20question%20on%20health%20premiums.pdf>)

ⁱ "80% oppose health fee: poll" *Calgary Herald*, pg. A1, November 22, 2006

This is no surprise to the CTF, as our supporters have opposed this regressive tax for many years.

In fact, CTF supporters recently ranked elimination of health care premiums as the top tax they want to see eliminated in Alberta.

<u>2006-07 CTF Supporter Survey</u>	
Which ONE tax should the Alberta branch of the CTF focus on reducing/eliminating?	
\$528 per person health care premium	28.9%
10% income tax	23.7%
9 cent/L gas tax	18.5%
Education property tax	13.3%
3% sales tax on insurance premiums	6.9%
10% general corporate tax	4.0%
3% small business tax	1.7%
Tobacco & liquor taxes	0.6%
4% hotel room tax	0.0%
Did not answer	2.3%

RECOMMENDATION #10
Immediately eliminate health care premiums tax for all Albertans.

Cut income taxes

In Budget 2007, the British Columbia government introduced a 10 per cent income tax cut. This tax cut resulted in BC now offering the lowest personal income tax rates for citizens earning approximately between \$16,000 and \$102,000.

While Albertans still have the lowest overall tax burden, including no provincial sales tax, lower health care premiums and lower gasoline taxes, we have lost ground to BC when it comes to income taxes.

In fact, an individual earning \$69,000 would save over \$900 in personal income taxes if they lived in BC rather than Alberta.

Further, income tax revenues have soared in recent years in Alberta, often creating windfall surpluses. In 2006-07, personal income tax revenues came in \$1.6-billion higher than budgeted. In fact, in only the first quarter of 2007-08, income tax projections were increased by \$411-million.

Alberta has not had an income tax cut since 2001, and the time is right to follow through on reducing the income tax burden of Albertans.

RECOMMENDATION #11

Reduce Alberta's income taxes through an increase in the Basic Personal Exemption or a reduction in the 10 per cent single-rate.

Axe the insurance tax

Most people are shocked to find out Alberta has a sales tax. They are even more surprised to find out they've been paying this sales tax every time they pay their insurance premiums, especially considering they've never seen this tax on their insurance bill.

The Alberta government will collect \$246-million this year in hidden insurance sales taxes.

Officially named the "Insurance Corporations Tax," the government charges Albertans, through their insurance premiums, a hidden 2 per cent sales tax on life, accident and sickness insurance premiums, and a 3 per cent sales tax on automobile and other types of insurance premiums.

While this tax is claimed to be charged to the insurance corporations, it is a sales tax on the price of the premium, and is ultimately paid by the consumer. Further, and possibly more disappointing, is that insurance companies are not allowed to display the tax on their customers' bills.

At one time it was suggested the revenue from these hidden sales taxes were needed to cover the costs of the provincial Automobile Insurance Rate Board (AIRB), however, as of 2005, the AIRB directly assesses insurance companies for their funding.

Furthermore, much like the way GST is calculated on gasoline after excise taxes are added, the Alberta insurance premium sales tax is added last, after the other taxes. It's a tax-on-tax. Insurance companies in Alberta are required to pay provincial and federal corporate taxes, a provincial health levy (for their clients use of the public health care system), GST, and then the hidden sales tax is applied to the entire premium (including other taxes).

This results in a multiplier effect, increasing the amount Albertans pay.

Rising automobile insurance premiums were a great concern a few years back, and other insurance costs (business, home, etc.) continue to rise today. The Alberta government should not be profiteering and adding to these rising costs when Albertans are simply trying to protect their homes, businesses and families by purchasing insurance.

Furthermore, with all of the meddling in a free-market automobile insurance industry that has been done by the Alberta government in recent years, it is baffling why the

government hasn't taken the one simple step that would have guaranteed motorists a 3 per cent savings on their insurance premiums.

RECOMMENDATION #12

Immediately eliminate the hidden sales tax on insurance.

Fulfill the promise on the business tax

In the 2001-02 budget, the Alberta government committed to reduce the general corporate income tax rate to 8 per cent by 2004. While it was reduced from 15.5 per cent to 11.5 per cent between 2001 and 2004, and then reduced again to 10 per cent in the 2006 budget, the provincial government has not yet fulfilled its promise to reduce it further to 8 per cent.

If Alberta followed through and reduced its general corporate income tax rate to 8 per cent, it would be the lowest in Canada and would put Alberta at a competitive advantage over other provinces.

Table 7 – Alberta Government's original implementation schedule for corporate income tax reductions^j

Implementation Schedule for the Business Tax Plan					
		Implementation on April 1			
	2000	2001	2002	2003	2004
General rate (%)	15.5	13.5	11.5	10.0	8.0
Manufacturing and processing rate (%)	14.5	13.5	11.5	10.0	8.0
Small business rate (%)	6.0	5.0	4.0	3.0	
Small business threshold (\$)	200,000	300,000	400,000		
Capital gains inclusion rate (%)	50 ^a	50			
Railway fuel tax (¢/litre)	3	1.5 ^b			
Capital tax (%)	0.7/1.0	Eliminated			
Cost of Tax Cuts (\$millions)		286	561	770	1,000

^a The capital gains inclusion rate was reduced from 75% to 66.7%, effective February 28, 2000, and further reduced to 50%, effective October 18, 2000.

^b Effective May 1, 2001.

RECOMMENDATION #13

Fulfill the original promise to businesses by reducing the general corporate income tax rate to 8 per cent in the 2008-09 budget.

^j <http://www.finance.gov.ab.ca/publications/budget/budget2001/fiscal.pdf> p. 19

Protect taxpayers with legislation

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 which 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 US 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.

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

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

In fact, Albertans want this protection. Eighty-three per cent of Albertans in a 2002 JMCK poll commissioned by the CTF, indicated they want the province to enact expanded taxpayer protection legislation.

RECOMMENDATION #14

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

Don't give municipalities any new taxing powers

In March 2007, the *Minister's Council on Municipal Sustainability* (Edmonton Mayor Mandel, Calgary Mayor Bronconnier, Calgary Alderman Hawkesworth, and Taber Councillor Johnson) made twelve recommendations to the Stelmach government.

The most concerning recommendation was:

9. The Government of Alberta should enact enabling legislation to authorize municipalities, at their discretion, to levy and collect additional own-source revenues as a means of strengthening municipal capacity to address ongoing operational sustainability and better respond to growth pressures. The specific additional own-source revenues recommended are:

- a. Amusement Tax;

- b. Tourism Tax;
- c. Property Transfer Tax;
- d. Vehicle Registration Tax;
- e. Expanded Scope for Development Levies in Support of Directly Related Local Services; and
- f. Limited Split Mill Rates within the Non-Residential Property Class.

If approved by the Stelmach government, new civic taxing powers will undoubtedly lead to higher taxes for Alberta families. This was made clear in the report by the Minister’s Council where it states: “the *Minister’s Council on Municipal Sustainability* agrees that Alberta municipalities require access to significant additional revenues.”

Moreover, the Canadian Taxpayers Federation, using a report prepared by Hemson Consulting for the City of Toronto, as well as various other sources, calculated the potential impact on Alberta families.

We determined if Alberta municipalities implemented the amusement tax, the tourism tax, the property transfer tax and the vehicle registration tax, the average Alberta family of four could expect to pay an additional \$911 in new civic taxes.

Total average tax bill for Alberta family

Tax	Revenue
Amusement Tax (ticket tax)	\$47,948,164
Tourism Tax (hotel tax)	\$65,000,000
Property Transfer Tax	\$400,000,000
Vehicle Registration Tax	\$293,187,450
Total	\$806,135,614

Yearly tax bill for an Alberta family of four: \$911.25

Alberta municipalities already have the right to levy property taxes, business taxes, municipal franchise fees and user fees. They also will be receiving the equivalent of \$1.2-billion each year from the province. If they need more revenues, they already have the necessary tools to raise those revenues.

Furthermore, Premier Ed Stelmach publicly stated in June 2007, he would prefer if municipalities held local plebiscites to determine the support their citizens had for these new taxes. No municipality held such a plebiscite during the recent election.

RECOMMENDATION #15
Reject the request by the *Minister’s Council on Municipal Sustainability* for six new taxing powers, and do not grant any further taxing powers to municipalities unless they are approved in a local or provincial referendum.