SUSTAINABLE GOVERNMENT, PROSPEROUS FUTURE:

2018-19 Pre-Budget Submission to the Government of Alberta

JANUARY 2018

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Taxpayer.com

ABOUT THE CANADIAN TAXPAYERS FEDERATION

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The Canadian Taxpayers Federation (CTF) is a federally incorporated, not-for-profit citizen's group 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 organization. Today, the CTF has 130,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and regional offices in British Columbia, Alberta, Prairie (SK and MB), Ontario, Quebec and Atlantic. Regional 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, online postings and publications to advocate on behalf of CTF supporters. 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. Each week CTF offices send out Let's Talk Taxes commentaries to more than 800 media outlets and personalities across Canada.

Any Canadian taxpayer committed to the CTF's mission is welcome to *join at no cost* and receive issue and *Action Updates*. Financial supporters can additionally receive the CTF's flagship publication *The Taxpayer* magazine published four times a year.

The CTF is independent of any institutional or partisan affiliations. All CTF staff, board and representatives are prohibited from holding a membership in any political party. In 2015-16 the CTF raised *$4.7-million on the strength of 29,102 donations*. Donations to the CTF are not deductible as a charitable contribution.

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EXECUTIVE SUMMARY

Financially speaking, the Alberta government is on the wrong track.

During the current term of office, the Notley government is on pace to more than triple Alberta's debt and continue to increase spending at an unsustainable rate.

Currently, 19% of the bill for services provided to Albertans today is being put aside for the next generation to pay in the form of higher debt. Not only is the situation reckless, it's especially unfair for young Albertans.

The province's rapid increase in debt, and refusal to restrain spending, has already led to several credit rating downgrades and a significant increase in annual debt interest charges.

During the Notley government's term in office, annual debt servicing costs are expected to increase from $0.8 billion to $2.3 billion. That means an extra $1.5 billion in tax dollars will flow to bondholders in Toronto and New York each year instead of being used to provide health care and other services to Albertans.

Ironically, while the premier has spoken repeatedly about "protecting" health care, her government's rapid accumulation of debt, and ballooning interest costs, have hurt the long-term sustainability of the health care system as our nation continues to grow older. This enormous demographic change is expected to have a significant impact on health care costs and government revenues as we move forward.

Tax increases over the past two years, along with unfriendly regulatory measures (eg. royalty review, 20% general business income tax hike, etc.), have eroded Alberta's competitiveness. These changes have had a negative impact on private sector investment, job growth and even long-term tax revenue.

Former Saskatchewan NDP Finance Minister Janice MacKinnon put it best when she noted:

> *"Alberta is becoming a more difficult and more expensive place to do business ... you've got to change that."*[1]
>
> *- Janice MacKinnon*

Based on results from CTF supporter surveys in 2016 and 2017, this pre-budget report focuses on how to curtail expenditures, balance the budget by 2021-22, bring back the Alberta Advantage and restore investor confidence.

While efforts to balance the budget and restore the Alberta Advantage will not be easy, contrary to what the current government claims, these objectives can be achieved without significant service disruptions. What we need is for the government to make some prudent, difficult decisions to get this great province back on track.

[1.] October 30 interview with Danielle Smith on 770AM (Calgary)

SUMMARY OF RECOMMENDATIONS

1. Develop a strategic communications plan to educate the public and government employees so that they understand the importance of reining in spending
2. Lead by example by reducing the size of cabinet, reduce cabinet and top-up pay by 40% and MLA pay by 5% until the budget is balanced
3. Reform MLA vehicle expense rules and curb unnecessary travel
4. Work to restore investor confidence by immediately eliminating the carbon tax, expand the *Alberta Taxpayer Protection Act* and send other positive signals to global markets
5. Announce, very publicly, two goals for the government: a 10% general business income tax rate and single-rate 10% personal income tax by 2024
6. Develop a list of all government services, categorize each as “core” or “non-core,” “in-house,” “third party” or “mixed” and discontinue non-essential services
7. Stretch the province’s four-year capital plan over five years.
8. Pursue managed competition and contracting out to deliver savings for taxpayers
9. Introduce a gainsharing program in Alberta to incent employees to suggest cost-saving ideas
10. Conduct an exhaustive review of government operations, locate corporate welfare programs and eliminate them
11. Downsize the civil service by 10% and reduce government employee compensation by 10%
12. Reform government employee pensions to address their unsustainable nature
13. Establish a committee to investigate opportunities for streamlining government activities and potential partnerships between governments
14. Push for equalization reform using whatever tools necessary (eg. referendum, constitutional reference case, etc.)
15. Reverse the beer tax hikes and eliminate the subsidy to breweries
16. Avoid new revenue-sharing agreements with Calgary and Edmonton and continue to reject new taxing powers for cities (without first holding citywide referenda)
17. Do not introduce new sugar/fat/soda taxes
18. Do not fund a new NHL arena in Calgary
19. Legislate a spending cap so that annual program spending cannot increase by more than the combined growth rates of Alberta’s population and inflation

PART I
BIG PICTURE GOAL – BALANCE THE BUDGET BY 2021-22

The Alberta government's current fiscal situation is not sustainable, nor is it fair for young Albertans who will inherit the province's ballooning debt.

In our July 2017 survey of CTF supporters, 73.2% of respondents indicated that balancing the budget by 2021-22 (without raising taxes) should be a "high priority" for the government while another 20.9% indicated it was a "somewhat high" priority.

This section discusses the province's recent spending history, a major fiscal pressure on the horizon and two scenarios to return to balance.

Wild spending, wild deficits:

World oil prices have dropped significantly in the last few years and that development has had a significant impact on the Alberta government's finances. However, the root cause of the province's budgetary problems actually lies on the expenditure side of the ledger.

According to a 2017 report by the Fraser Institute, provincial government spending increased by an average of 7.1% between 2004-05 and 2015-16 – nearly double the combined rate of inflation plus population growth.[2]

Had the government restrained spending increases to match the combined rate of population growth and inflation, the Alberta government would have been in a surplus position in 2016-17.

It's true the Notley government only assumed power in 2015 and her party inherited a government that was already on an unsustainable spending trajectory. However, the new government exacerbated the problem by continuing to increase spending – in essence, stepping on the gas pedal of a car headed towards a cliff.

Instead of restraining spending, the Alberta government is on pace to increase expenditures by 18.6% by 2019-20 (since their 2015-16 budget). Had it merely frozen spending for just three years, beginning in 2016-17, the 2019-20 operating budget would be in a surplus position (according to the government's estimates)[3]:

Table 1: The Notley Government's 2017 Budget Plan

	2016-17	2017-18	2018-19	2019-20
Revenues	$41,435	$45,015	$47,643	**$51,782**
Expenses	**$51,097**	$54,859	$56,652	$58,009

Source: 2017 Alberta budget

This approach ignores large increases to the province's debt that are driven by capital spending (which need to be accounted for to truly balance the budget), but it shows the government could have made great strides towards a balanced budget had it controlled spending earlier in its mandate.

While the Premier, her caucus, and some special interest groups have fear-mongered over the impact that a spending

[2] Fraser Institute: Alberta's Budget Deficit: Why Spending Is to Blame (2017) by Steve Lafleur, Ben Eisen, Milagros Palacios, and Charles Lammam

https://www.fraserinstitute.org/sites/default/files/albertas-budget-deficit-why-spending-is-to-blame-2017.pdf

[3] Alberta government 2017 budget, page 110 http://finance.alberta.ca/publications/budget/budget2017/fiscal-plan-complete.pdf

freeze or mild spending reductions would have on government services, British Columbia's government is living proof that the sky would not fall:

Table 2: 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[4][5]
Note: Numbers may not add due to rounding

Had the Alberta government merely spent at the same rate as British Columbia's government did in 2015-16, Alberta's budget would have been in a surplus position:

Table 3: Spend like British Columbia, balance the budget

Category	Amount
2015-16 Alberta government revenues	$42,570,000,000
2015-16 Expenses – If AB spent at BC per capita levels	$41,746,000,000
Surplus	**$824,000,000**

Source: DBRS, Statistics Canada, CTF Calculations

Instead of tabling a balanced budget in 2017-18, the Alberta government is on track to run an operating deficit of $10.5 billion this year, and a $12.4 billion deficit once capital expenditures are included.

According to the Alberta government's 2017 budget, the province's debt-to-GDP ratio is expected to more than triple under Premier Notley's term – rising from 6.1% in 2015-16 to 19.5% in 2019-20.[6] In dollar terms, government debt ("Capital Plan liabilities/Fiscal Plan borrowing") is expected to rise from $20.0 billion in 2015-16 to $71.1 billion in 2019-20.

Predictably, annual interest costs on the provincial debt will also triple – rising from $776 million to $2.3 billion. Those are dollars that can't be left in Albertans' pockets each year or used to provide services to the public. Instead, they'll be sent off to bondholders in New York, Toronto and other locations.

Not surprisingly, the rapid increase in the province's debt, and the Alberta government's refusal to curb expenditures, has resulted in repeated downgrades to the province's credit rating. For example, Standard and Poor's has downgraded the province's credit score three times in the past two years:

Table 4: Recent S&P downgrades

Date	Change
December 18, 2015[7]	AAA to AA+
May 19, 2016[8]	AA+ to AA
May 26, 2017[9]	AA to A+

Source: DBRS, Statistics Canada, CTF Calculations

The bond rating agency's May 2017 report on Alberta's finances noted the province's deficits are among the highest of jurisdictions it has examined outside of the United States:

> *"Alberta's projected deficits after [capital expenditure] over the next two years are among the highest of rated non-U.S. local and regional governments and, absent other measures, our expectation is that this will lead to further rapid growth in the province's debt burden…"*[10]

4. DBRS Report – "Canadian Provincial Governments Study: Global Risks Trump Domestic Stability", Dec. 2016
5. Statistics Canada population figures – http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/demo02a-eng.htm
6. Alberta government 2017 budget, page 111
7. CBC News, December 18, 2015 – http://www.cbc.ca/news/canada/calgary/alberta-credit-rating-downgraded-standard-poors-1.3372471
8. CBC News, May 19, 2016 – http://www.cbc.ca/news/canada/edmonton/standard-and-poor-s-downgrades-alberta-s-credit-rating-a-second-time-1.3590144
9. CBC News, May 26, 2017 – http://www.cbc.ca/news/canada/edmonton/alberta-credit-rating-downgrade-s-p-1.4133797
10. S&P Alberta Credit Rating Report – http://www.finance.alberta.ca/business/investor-relations/credit-ratings/Standard-and-Poors-2017-0526-Credit-Analysis-Report.pdf

Similarly, DBRS changed its long-term outlook for the Alberta government to negative in July 2017, noting :

> *"... The Province has yet to provide a credible plan to restore balance. While Alberta's debt burden is low and the economy is showing signs of recovery, the fiscal plan demonstrates a lack of willingness to contain debt growth, which is likely to lead to a one-notch downgrade of the long-term ratings."*[11]

The Saskatchewan government previously provided some insight on the impact that credit downgrades have on borrowing costs.

In 2014, in an email to the CTF, they indicated that a change between Moody's Aaa and Aa2 ratings would have an impact on borrowing costs between 0.15% and 0.195% (depending on the term of the bond). Thus, one can safely assume that Alberta's credit rating downgrades have already increased the cost of borrowing. Additional increases to the Bank of Canada's interest rates would, of course, exacerbate the situation.

The data is clear: the Alberta government's financial situation is not sustainable … and it's not due to a lack of revenues.

Trouble on the horizon:

One of the most significant challenges facing provincial governments across Canada is our nation's aging population.

While Alberta's population is younger than most provinces, the impact here will still be significant. According to Statistics Canada, the percentage of Alberta's population that is 65 years of age and older will grow from 11.2% in 2013 to 16.9% in 2038. Such an increase may sound small, but this shift works out to a 50% increase in the number of senior citizens in Alberta.

Table 5: Alberta's aging population

	2013	2038
Population 65yrs+	11.2%	16.9%

Source: Statistics Canada[12]

This significant demographic shift is expected to cause two enormous financial challenges for governments.

On the expenditure side of the ledger, health care will be the government service impacted the most. This is due to the fact that as we grow older, we tend to use the health care system more frequently and we require more costly procedures.

Table 6: Average annual health care expenditures by age group (2013)

Age	Average Cost
<1	$10,915.54
1-4	$1,566.59
5-9	$1,308.87
10-14	$1,367.84
15-19	$1,618.83
20-24	$1,738.37
25-29	$2,147.93
30-34	$2,369.58
35-39	$2,278.64
40-44	$2,286.00
45-49	$2,590.94
50-54	$3,051.19
55-59	$3,695.44
60-64	$4,617.13
65-69	$6,360.51
70-74	$8,361.98
75-79	$11,511.18
80-84	$16,008.46
85-89	$24,645.97
90+	$29,088.68

Source: Canadian Institute for Health Information[13]

11. DBRS Alberta Credit Rating Report – http://www.dbrs.com/research/312862/dbrs-confirms-province-of-alberta-at-aa-high-and-r-1-high-changes-trend-on-long-term-ratings-to-negative.html

12. Population Projections for Canada (2013 to 2063), Provinces and Territories (2013 to 2038) - http://www.statcan.gc.ca/pub/91-520-x/91-520-x2014001-eng.pdf

13. Canadian Institute for Health Information, Data Table nhex-Series-E-2016, Table E.1.16.2

On the revenue side of the ledger, governments will feel pressure as an aging population will result in a large number of workers retiring and leaving the workforce. Not only do retirees tend to have lower annual incomes, and pay less in income taxes as a result, their output will be missed in the economy – leading to slower growth in GDP and business taxes.

The Office of the Parliamentary Budget Officer has noted that while Canada's economy grew by an average of 2.4% between 1982-2015, growth is expected to slow to an average of 1.8% between 2016-2021 and 1.6% between 2022-2090.[14]

In October 2017, the Office of the Parliamentary Budget Officer released a report that included, for the first time, long-term financial analysis on each provincial government's finances as our population ages.[15]

Notably, the report projected long-term revenues, expenditures and debt levels for each province and calculated a "fiscal gap" – a figure which represents the "immediate and permanent change in revenues, program spending, or combination of both (expressed as a share of GDP) that is required to stabilize the net debt-to-GDP ratio at its current level over the long term.[16] [17]

At 4.6% of GDP ($14 billion), the PBO's 2017 report concluded Alberta had the second highest fiscal gap in the country.

While Premier Notley dismissed the report as an "interesting academic exercise," a freedom of information (FOI) response provided to the Canadian Taxpayers Federation indicated the Alberta government has yet to do any of its own analysis as to how an aging population will impact the government's finances over the long-term.

Thus, as Alberta heads into this financial storm, it is running very large operating and capital deficits, the province's debt is skyrocketing and the government has yet to even analyze – let alone plan for – how an aging population will impact its finances.

Balanced budget by 2021-22:

Balancing Alberta's budget by 2021-22 is a realistic target, one that could be achieved through spending reductions alone. As British Columbia has proven, it's possible to provide health care, education and other government services for a much lower cost.

In fact, it would be unethical to ask Alberta taxpayers to pay higher taxes to address the province's deficit – doing so would let the provincial government off the hook for its poor stewardship of public funds. Further, raising taxes would send yet another negative signal to global markets, further eroding investor confidence.

Fortunately, the Alberta government has some experience when it comes to curtailing spending.

During the 1990s, former Premier Ralph Klein reduced operating spending by 20% in order to bring Alberta's budget back into balance.[18] By reining in spending, Klein was able to pay off debt, save on annual interest costs and reduce tax rates. In short, fiscal restraint during the first part of his mandate laid the foundation for the creation of what became known as "the Alberta Advantage."

Fortunately, Alberta's current budget requires less spending restraint than what the Klein government introduced.

After reviewing the province's 2017 budget, and the province's second quarter fiscal update, we calculated two reasonable scenarios for returning the province to balance. Both scenarios provide pathways for the Alberta government to reach a true balanced budget – both on the operating side and capital side.

14. Office of the Parliamentary Budget Officer, 2016 Fiscal Sustainability Report, Page 6 – http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2016/FSR_2016/FSR_2016_EN.pdf

15. Office of the Parliamentary Budget Officer, 2017 Fiscal Sustainability Report, Page 72 – http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2017/FSR Oct 2017/FSR_2017_FINAL_EN.pdf

16. Calgary Herald, October 13, 2017 – http://calgaryherald.com/news/politics/notley-dismisses-bad-news-budget-report-by-federal-watchdog

17. Canadian Taxpayers Federation freedom of information response from Alberta Treasury Board and Finance – http://www.taxpayer.com/media/Aging Pop FOI - AB.pdf

18. How to cut spending (and still win an election), book chapter by Scott Hennig and Tasha Kheiriddin – https://www.manningcentre.ca/sites/default/files/howtocutspending.pdf

Balanced budget scenario 1: Immediate restraint

This scenario assumes fiscal restraint beginning with the 2018-19 budget and provides a pathway to balance the budget by 2021-22.

Our budget modeling shows this could be achieved through five key types of restraint:

- *Eliminate corporate welfare and expenditures related to the government's carbon tax plan*
- *Reduce the number of government employees by 10% over two years (not including K-12 education and health care)*
- *Reduce employee compensation by 10%*
- *Delay the start of some capital spending*
- *Reduce operating expenditures by 5%*

We estimate this would lead to a $261 million surplus in 2021-22. It also allows for spending increases of 1% during years 2019-20 through 2021-22.

Finally, it is important to note this approach is very cautious in its budget estimates. While the government has projected 5.8% revenue growth in 2018-19 and 8.7% growth in 2019-20, the CTF's analysis assumes revenue growth of just 5.3% for both years.

Our more conservative revenue projection allows for lower than expected revenues in 2017-18 and acknowledges critics' concerns that the province is too optimistic in terms of its forecast for oil in 2019. Currently, the Alberta government has budgeted for a West Texas Intermediate price for oil of $68 per barrel in 2019. From May 1 to October 31 2017, oil prices have ranged from $42.05 per barrel to $54.85.[19] The CTF's cautious revenue estimate for 2019-20 is approximately $2 billion lower than the government's working assumption (nearly half the entire amount budgeted for resource revenues: $4.2 billion).

Table 7: Balanced budget scenario 1

	2018-19	2019-20	2020-21	2021-22
Revenue (CTF) (GOV Estimate)	$45,930 $47,643	$48,364 $51,782	$50,927	$53,626
Expenses (CTF) (GOV Estimate)	$50,951 $56,652	$51,261 $58,009	$51,847	$52,365
Risk Adjustment	$700	$1,000	$1,000	$1,000
Deficit/Surplus (GOV Estimate)	**$5,721** **$13,000**	**$3,897** **$12,400**	**$1,920**	**$261**

Note: Figures may not add due to rounding, deficit figures include capital expenditures

Balanced budget scenario 2: Restraint beginning in 2019-20

The second scenario assumes restraint won't begin until 2019-20. This approach utilizes the same five approaches mentioned in the first scenario, with the main exception being a 10% reduction to operating expenses instead of a 5% reduction.

This scenario also allows for 1% expenditure growth (in the years following 2019-20) and estimates a surplus of $4 million by 2021-22. It also utilizes very estimates for revenue growth.

Table 8: Balanced budget scenario 2

	2019-20	2020-21	2021-22
Revenue (CTF) (GOV Estimate)	$48,364 $51,782	$50,927 $51,782	$53,626
Expenses (CTF) (GOV Estimate)	$51,860 $58,009	$52,101	$52,622
Risk Adjustment	$1,000	$1,000	$1,000
Deficit/Surplus (GOV Estimate)	**$4,496** **$12,400**	**$2,174**	**$4**

Note: Figures may not add due to rounding, deficit figures include capital expenditures

19. CNBC website, accessed November 12, 2017 – https://www.cnbc.com/quotes/?symbol=@CL.1

PART II
TEN STEPS TOWARDS MORE COST-EFFECTIVE GOVERNMENT

There is no single, realistic policy change that will lead to balancing the budget by 2021-22. Returning to balance will require a number of reforms.

This section examines ten steps the government would be wise to pursue to achieve more cost-effective spending and a balanced budget by 2021-22:

1) Communication:

One of the most important steps in moving forward with serious fiscal restraint is communication.

Many who are currently benefitting from excessive government spending will publicly criticize efforts to restrain spending to more reasonable levels. For that reason, it is vitally important for the Alberta government to educate Albertans about the unsustainable nature of the province's current spending.

The public needs to understand that continuing to run up the debt actually puts services people care about at risk. When Greece ran into debt problems a few years ago, their government had no choice but to eventually cut health care.[20] When the State of Illinois ran into debt problems, their state police were turned away from some gas stations, as the government wasn't paying its bills on time.[21]

Eventually runaway debt impacts the most important services the government provides.

The government should also communicate the ethical arguments for spending restraint. It's simply not fair to continue providing services to people today while handing 19% of the bill to the next generation.

Halting the government's accumulation of debt will also allow the government to save on annual interest charges, allowing the government to put more funds towards services that benefit the public instead of bondholders in New York, Toronto and elsewhere.

Albertans should also be educated about a jurisdiction that spends far less and still delivers quality government services – British Columbia.

Once Albertans understand it is possible to deliver government services more cost-effectively, it will increase the likelihood that the public will support efforts to restrain spending.

Finally, it is also important to communicate that a more cost-effective provincial government will be able to reduce taxes and attract more investment and jobs, creating a reinvigorated economy that can sustain the pressures that come with an aging population.

It's important to note that these messages not only need to be communicated to the *public*, efforts should be made to ensure rank and file *government employees* understand the motive for the reforms being undertaken. Employees should also be encouraged to come forward with their own ideas as to how to reduce spending.

Recommendation 1: Develop a strategic communications plan to educate the public and government employees about the importance of reining in spending, the public benefits and what they can do to support efforts to restrain spending.

[20] Guardian Newspaper – "Greek debt crisis: Of all the damage, healthcare has been hit the worst," Angelique Crisafis, July 9, 2015. https://www.theguardian.com/world/2015/jul/09/greek-debt-crisis-damage-healthcare-hospital-austerity

[21] 60 Minutes, 2010 segment – "State Budget: Day of Reckoning" https://www.youtube.com/watch?v=nP3b0_fnPxQ

2) Lead by example:

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.

Simply put, in order to drive home the point that the government is serious about spending restraint, elected officials need to curtail their own unnecessary or excessive spending.

For example, elected officials are currently paid twice for their work-related vehicle expenses. If an MLA needs to travel, say, from Calgary to Red Deer, they are currently reimbursed 43.5¢ per kilometre. Typically, employers will provide such 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. These expenses should be disallowed immediately. When asked about these expenses, between 66-71% of CTF supporters considered the discontinuation of these perks a high priority.

Establishing a leaner cabinet would also demonstrate the government's commitment to fiscal restraint. After all, each cabinet minister is provided with assistants, a large office, government vehicle, cell phone, computer and other perks.

The Notley government started off on the right foot by establishing a cabinet of just 12 members in May 2015.[22] However, since that time, the provincial cabinet has nearly doubled in size and is now comprised of 23 members.[23]

Halting unnecessary travel, restricting the cost of executive vehicles and curbing meal expenses are other ways the provincial cabinet could show it is willing to lead by example when it comes to spending restraint.

Recommendation 2: Lead by example by reducing the size of the provincial cabinet down to 14 positions while reducing cabinet compensation (and top-ups for the leader of the opposition, the speaker and other legislative positions) by 40% until the budget is balanced. In addition, MLA pay should be reduced by 5%. Combined with the 5% reduction to MLA pay in 2015, MLAs would receive a combined reduction of approximately 10%.[24]

Recommendation 3: Reform MLA vehicle expense rules to discontinue the practice of double dipping for fuel costs, disallow oil changes, maintenance and vehicle cleaning/detailing. Provincial cabinet ministers should curb unnecessary travel and flights should, wherever possible, be booked in economy class.

3) Restore investor confidence:

Investor confidence has eroded over the past few years in Alberta as a number of government policy decisions have drawn concerns from local and global investors.

Whether it be the province's 20% increase to general business income taxes, large personal income tax increases, restructuring of the electricity sector, the province's surprise carbon tax, significant changes to labour reform or the royalty review, global investors have taken note.

For instance, a survey of petroleum executives by the Fraser Institute in 2016 found that Alberta's global ranking in terms of desirable locations to invest dropped from 14th place worldwide in 2014 to 33rd place in 2017.[25]

22. G Alberta government May 24, 2015 News Release – https://www.alberta.ca/release.cfm?xID=380934B13F041-99D6-82F1-A15AC2F73E35D64B

23. Alberta government Cabinet listing, accessed November 12, 2017 – https://www.alberta.ca/premier-cabinet.aspx

24. Alberta Legislative Assembly, "Compensation Adjustments - Legislative Assembly of Alberta" web page, accessed November 12, 2017 – https://www.assembly.ab.ca/lao/hr/MLA/MLA Remuneration - April 2016 _files/MLA historic compensation adjustments 2016.htm

25. Fraser Institute, Global Petroleum Survey 2017 Ashley Stedman, Kenneth P. Green - https://www.fraserinstitute.org/sites/default/files/global-petroleum-survey-2017.pdf

The report noted:

> *"...Despite its improvement in the rankings, Alberta is still performing poorly relative to its Canadian counterparts. The province's overall rank has deteriorated in recent years—from 14th (out of 156) in 2014 and the third most attractive jurisdiction in Canada, to 43rd in 2016 and the fifth most attractive jurisdiction in Canada. Much of the change since 2014 has been driven by poorer perceptions of regulation and taxation regimes. In particular, over 50 percent of respondents in 2017 see fiscal terms and taxation as deterrents to investment."*

Ultimately, a decrease in investor confidence reduces private sector investment. This in turn has a downward pressure on tax revenues – whether it is through lower corporate income taxes, personal income tax revenues or other revenue streams.

The sooner investor confidence is restored, and private sector capital increases substantially in Alberta, the sooner growth revenues can help the province balance its budget, fund infrastructure needs and repay debt.

The government should, as soon as possible, send signals to investors that the Alberta Advantage will be returning.

Recommendation 4: Work to restore investor confidence by immediately eliminating the carbon tax (and joining Saskatchewan's legal challenge against the federal government) and expanding the *Taxpayer Protection Act* to ensure no other major taxes can be increased or introduced without first receiving approval though a province-wide referendum.

Recommendation 5: Announce, very publicly, two goals for the government: a 10% general business income tax rate and single-rate 10% personal income tax by 2024.

4) Focus on core services, urgent needs:

In order to determine areas that are ripe for spending reductions, the province should develop a comprehensive list of all services it currently provides to the public, as well as a wish list for capital projects.

Services on the list should be classified as "core" and "non-core" and indicate how they are delivered: in-house, by third-party providers or mixed.

Once such a list is established, it would help the government determine which areas it should continue to focus on and areas that are not as crucial.

For instance, it would be responsible to categorize K-12 education and cancer treatment as "core services." Conversely, the government could categorize programs such as the Alberta Film Classification division as "non-core." In terms of the latter, this entire division could be discontinued and replaced by simply directing viewers and theatres to the free IMDB ratings listed online.[26] Alternatively, people could be directed to the British Columbia government's grading system.[27]

Other areas that could be discontinued include the Francophone Secretariat ($1.5 million) and Alberta Human Rights Commission ($8.8 million).[28] [29] Going forward, human rights concerns could be handled by the courts.

Developing a core/non-core framework could also be useful as new demands are placed on government – such as the federal government's decision to legalize marijuana.

In terms of capital projects, the government should develop a list of funding requests and sort the entries by priority. For ex-

26. IMDB Online movie ratings website – http://www.imdb.com/?ref_=nv_home

27. British Columbia movie ratings website – https://www.consumerprotectionbc.ca/motion-picture-ratings/classification-details/?cpbc_id=439626

28. 2017 Alberta government estimates – http://finance.alberta.ca/publications/budget/estimates/est2017/2017-18-Government-Estimates-Complete.pdf

29. 2017 Alberta government estimates – http://finance.alberta.ca/publications/budget/estimates/est2017/2017-18-Government-Estimates-Complete.pdf

ample, repairing an important bridge that is in need of repair could be categorized as a "high" priority while a request to expand a zoo or library might be ranked as a "low" priority.

It appears that prioritization of capital projects has not yet occurred. Currently, the government's capital plan includes a number of items that appear to be "nice to have" items rather than "need to have" projects.[30] For example:

- *Expanding the Royal Tyrrell Museum of Palaeontology*
- *Developing new trails ("public lands trail development")*
- *Calgary Zoo - expansion*
- *Fort Edmonton Park - expansion*
- *Winsport (CODA) - sliding track refurbishment*

When reviewing capital projects and determining priorities, it is also important to examine each "high" priority project in detail to ensure the entire scope of the project is actually focussed on essential elements.

For instance, in 2013, the City of Winnipeg approved construction of a major new fire hall in the west part of the city.[31] On the surface, this would seem to be a necessary project to deliver a "core service." However, upon closer inspection, Stantec Engineering noticed the fire department planned on including a new firefighter museum inside the fire hall. Not only was the museum inappropriate for the location (the city decided to build the fire hall inside a busy traffic cloverleaf), it was hardly a priority.

Recommendation 6: Develop a list of all of the provincial government's services, categorizing each as "core" or "non-core," "in-house," "third party" or "mixed." Reduce funding to, or discontinue non-core services, such as the Francophone Secretariat and the Alberta Human Rights Commission, saving $10 million annually.

Recommendation 7: Prioritize and spread the province's infrastructure budget over five years instead of four, saving $1 billion through prioritizing spending and spreading the projects out over a longer period.

5) Contract out / managed competition:

Establishing a list of core services (as noted in part IV) that are currently provided in-house would also help determine activities that could potentially be performed by a business for a lower price.

The process is typically known as "contracting out" and the savings could be immense.

Several years ago, the Saskatchewan government was faced with the need to repair and rebuild new laundry cleaning facilities for hospitals across the province. However, instead of rebuilding and renovating existing facilities, and continuing to employ government employees to clean hospital linens, the government decided to shop around and see if a business could provide the service for a lower cost.

Ultimately, the government hired K-Bro, an Alberta company to handle linen cleaning operations across the province. Over a ten-year period, the Saskatchewan government expects this partnership will save a staggering $98 million.[32]

The Alberta government was also set to proceed with a partnership with K-Bro, but the province's new government cancelled the deal for ideological reasons.[33]

An alternative to contracting out is something called "managed competition" and it should be explored wherever possible. Stephen Goldsmith, the former Mayor of Indianapolis, used managed competition extensively during the 1990s to save taxpayers millions of dollars.

30. Alberta government capital plan details – http://www.infrastructure.alberta.ca/documents/Capital Plan Details by Ministry 20170314.pdf

31. CBC News, February 24, 2015 – http://www.cbc.ca/news/canada/manitoba/experts-warned-city-not-to-build-fire-hall-on-cloverleaf-1.2969643

32. Government of Alberta, 3S Health website – http://www.3shealth.ca/pdfs/Provincial-Linen-Service-FAQs-December-2013-FINAL.pdf

33. CBC News, August 17, 2016 – http://www.cbc.ca/news/canada/edmonton/alberta-health-minister-intervenes-in-laundry-services-1.3725703

Instead of merely putting out a tender to find a business that could potentially provide a government service for a lower cost, managed competition encourages and supports existing employees to put forward bids to continue providing the service they're involved in.

In Indianapolis's case, many contracts were ultimately won by private businesses, but government employees did win several bids. This was due to the fact that many existing employees knew exactly how their division could be more cost-effective, the problem was they had no incentive to speak up and advocate for reform.

A great example of this involved pothole repair. After the service was opened up to competition, existing employees won the bid and ended up cutting costs by 25 per cent while increasing productivity by 68 per cent.[34]

They did so by trimming management overhead, remounting some patching equipment and reducing the size of their crews from eight men and two trucks to five men and one truck. For years the employees were capable of coming forward with these changes, but had absolutely no incentive to do so.

In other areas, Indianapolis employees saw wage increases and bonuses worked into new, innovative bids. This model helped reward employees for their cost-saving ideas.

To be clear, contracting out services or using the managed competition technique may not work for all government activities. However, they should be explored wherever possible to save taxpayers money.

Recommendation 8: Pursue managed competition and contracting out to deliver savings for taxpayers.

6) Gainsharing:

Another tool that can be used to incentivize employees to come forward with good cost-saving ideas is known as "gainsharing."

The incentive rewards program has been used by businesses and government bodies in the United States to reduce costs, but has not been widely used by governments in Canada.

In short, under a gainsharing system, if a group of employees come forward with an idea that reduces costs, while maintaining output, the employees share in some of the savings.

In Montgomery County, Maryland, the county's transportation department decided that instead of paying a company $430 to pick up scrap signage it had collected at its yard, the division would instead sell the signage to a metal recycling company. The end result was that the division turned an annual cost of $430, into $15,000 in revenue.[35]

Under Maryland's gainsharing program, the $15,000 was split evenly between the state and employees who came up with the idea.

The finer points of gainsharing programs differ depending on how employers decide to structure the system (eg. the share of the "gain" may have bonus caps), but the core components are consistent – employees receive a share of savings that come from ideas they put forward (provided that productivity targets are met).

One can see how a gainsharing model would work well in Alberta. Employees would suddenly have the incentive to think twice about how frequently they ask for new computers, some workers could look at telecommuting models to save on office accommodation costs and business units would have the incentive to reduce spending on superfluous trips and other unnecessary expenses.

34. Goldsmith, Stephen. The Twenty-First Century City. Regnery Publishing. 1999

35. Governing.com website, "Gainsharing Falls Victim to Tight Times", Barrett and Greene – http://www.governing.com/columns/smart-mgmt/col-gainsharing-falls-victim-to-tight-times.html

Best of all, during a period of salary and benefit restraint, gainsharing provides employees with an opportunity to stabilize their incomes.

Recommendation 9: Introduce a gainsharing program in Alberta to incent employees to come forward with cost-saving ideas.

7) Eliminate corporate welfare:

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 analysis 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.[36] 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.

Most notably, the report concluded:

> "*Although the department was created to drive economic development in Western Canada, it does not track the number of jobs it has created or the number that have been sustained. In other words, it uses a fingers-crossed, shotgun approach to spending. From funding airport lighting to cemeteries, WED tries to be all things to all people.*"

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.[37]

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."*[38]

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

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

[37] 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

[38] 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

The Alberta government currently has a number of grant, loan and subsidy programs for businesses and third parties:

- Small brewer grants ($20 million per year)[39]
- Screen-Based Production Grant ($45 million per year) [40]
- Alberta Investor Tax Credit (part of $30 million per year program)[41]
- Capital Investment Tax credit ($42 million)[42]
- Canada-Alberta job grants ($26 million)[43]
- "Green" subsidies for wind, solar, light bulbs, etc.
- Aboriginal Business Investment Fund ($5 million)[44]

Recommendation 10: Conduct an exhaustive review of government operations, determine existing corporate welfare programs and discontinue them.

8) Salaries and benefits:

At $26.1 billion, government employee compensation costs are the largest single area of annual government spending. It is unrealistic to balance Alberta's budget by 2021-22 without scaling back this area of spending.

Fortunately, there's ample justification to rein in these expenditures.

Numerous studies and reports over the years have documented Canada's worst kept secret – government employees tend to earn more in salaries and benefits than those who work outside government doing similar activities.

That's not to say every single government employee earns more than those working outside government, but, on average, that's what the research shows.

A 2017 study by the Fraser Institute looked at the compensation and benefits gap in Alberta between public and private sector workers and summarized the findings across several categories[45]:

Table 9: Alberta's compensation gap: Government vs. private sector

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

** 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*

These findings are consistent with the CFIB's Wage Watch reports, which have also routinely found a large gap between public and private sector compensation levels. The CFIB's most recent report, from 2015, calculated a compensation premium of 19% in Alberta's civil service when factoring in both salaries and pension benefits.[46]

Many other news stories and reports have highlighted this reality, such as a 2012 feature in the National Post about a government-run Tim Hortons in Newfoundland and Labrador

39. Calgary Herald, "Alberta government to roll out grant program for craft distillers", March 16, 2017 – http://calgaryherald.com/news/politics/alberta-government-to-roll-out-grant-program-for-craft-distillers

40. Calgary Economic Development website – https://www.calgaryeconomicdevelopment.com/newsroom/screen-based-production-grant-program/

41. Alberta government website, Alberta Investor Tax Credit, accessed November 12, 2017 https://www.alberta.ca/alberta-investor-tax-credit.aspx

42. Alberta government 2017 budget, Page 104 http://www.finance.alberta.ca/publications/budget/budget2017/fiscal-plan-tax-plan.pdf

43. Alberta government news release, July 26, 2017 – https://www.alberta.ca/release.cfm?xID=431718D647201-C0D2-A881-8A80F16FE14297ED

44. Alberta government website, capital plan details – http://www.infrastructure.alberta.ca/documents/Capital Plan Details by Ministry 20170314.pdf

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

46. CFIB 2015 Wage Watch Report, Ted Mallett – http://www.cfib-fcei.ca/cfib-documents/rr3348.pdf

that paid its employees $28 per hour to pour coffee.[47] Not surprisingly, the government-run Tim Hortons was losing $260,000 per year. In Winnipeg, a city report previously noted its lifeguards earned double what YMCA lifeguards earned.[48] At the time, almost all of the city's pools and fitness centres were losing money while all YMCA facilities in Winnipeg either broke even or produced a small surplus.

High government compensation levels are clearly not just an Alberta problem; it's a systemic issue that is common across Canada. However, Alberta also has a problem with compensating government employees more than what government employees earn in other provinces.

For example, collective agreements for teachers in the Edmonton and Calgary public school boards show teachers – with ten years of experience and five years of post secondary education – earn $97,319 and $97,372 respectively.[49 50] Conversely, a similar teacher in Vancouver earns $84,301 per year.[51] This gap is particularly astonishing when you consider Vancouver has a much higher cost of living.

To be clear, it's not just Calgary or Edmonton teachers receiving the large salaries, even teachers in smaller communities, such as Lethbridge, earn significantly more than teachers in Vancouver.

Ballooning Bureaucracy:

While labour costs for government employees are high, the problem is compounded by the fact that public sector employment has ballooned in Alberta over the past two years:

Table 10: Employment in Alberta (000's)

	Apr-15	Oct-15	Apr-16	Oct-16	Apr-17	Oct-17
Public Sector	402.4	425.3	412.6	427.7	438.9	430.1
Private Sector	1533.6	1492.7	1497.0	1480.7	1461.9	1477.5

Source: Cansim Table 282-0089 (All three levels of government)

Since April 2015, public sector employment has increased by 27,700 jobs while private sector employment has contracted by 56,100 positions. Fortunately, there are ways the Alberta government could reduce its labour costs while minimizing the impact on current government employees.

A confidential Public Service Commission report obtained by the CTF through freedom of information notes: "as of March 31, 2016, 35 per cent of Deputy Ministers and Assistant Deputy Ministers were over the age of 62 or met the 80/85 factor." ("80/85" is a threshold at which management employees could retire with a full pension.)

Further, the document also indicates that the average age of retirement in the civil service is 62 years of age and, "…based on a retirement age of 62, 12% of all employees may retire in the next one to two years."

This information is important as it shows the civil service could be scaled back in size in a relatively pain-free manner: through attrition. Simply put, as waves of positions are vacated over the coming years, the government could terminate many of those positions instead of rehiring for them.

Second, the wave of retirements happening in government also means more cost-effective compensation packages could be grandfathered-in for new hires.

47. National Post, "How to lose $260K at Tim Hortons: Let the government run it and pay staff $28/hour" http://nationalpost.com/news/canada/money-losing-tim-hortons-in-st-johns-hospital-a-cautionary-tale-critics

48. City of Winnipeg 2007 Economic Opportunity Commission report – https://www.cupe500.mb.ca/files/7313/4300/0721/eocFinalReport1.pdf

49. Edmonton Public School Board collective agreement – https://www.teachers.ab.ca/Public Education/CollectiveAgreements/Pages/Edmonton-Public-School-District-No-7-(2012-2016).aspx

50. Calgary Board of Education collective agreement – https://www.teachers.ab.ca/Public%20Education/CollectiveAgreements/Pages/Calgary-School-District-No-19-(2012-2016).aspx

51. Vancouver Teachers' Federation collective agreement – https://www.vsb.bc.ca/sites/default/files/school-files/Employment/39-LK-2013-2019 Final for signature Jan 22 2016.pdf

The government could negotiate a pay reduction of 10% for current employees while new hires receive a larger reduction, perhaps 15%. This approach minimizes the impact to current employees while introducing a larger reduction on future hires (people who haven't even applied for jobs with the government).

Pensions:

Another major compensation area that requires reform involves government employee pensions. In short, provincial government spending on government employee pensions has exploded over the past decade.

Consider employer contributions for the provincial government's two largest pension plans:

Table 11: Exploding 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

While most organizations would carefully examine an area of spending that experienced such significant growth in a relatively short period of time, the Alberta government has failed to address this unsustainable problem.

As noted previously, most government employees have the costliest type of pension plan – a defined-benefit plan. Conversely, the vast majority of private sector workers don't even have a workplace pension plan. Thus, it's hardly fair for taxpayers to keep paying more in taxes to bail out government employee pension plans through higher and higher contribution rates each year.

Just like with salaries, one way to address the pension problem is through grandfathering in more reasonable pension benefits. Saskatchewan's NDP government used this approach in the late 1970s – they simply started putting new employees in a less costly defined-contribution plan.

Without a doubt, pension reform should be a top priority for the Alberta government.

Recommendation 11: Downsize the size of the civil service by 10% over a two-year period – not including teachers, doctors and nurses. This would save approximately $700 million annually. This move should be complemented by reduction of government employee compensation costs by 10%. The latter move would save approximately $2.6 billion annually.

Recommendation 12: Reform government employee pensions to address their unsustainable nature. Options should include putting employees in a defined-contribution plan and converting existing plans to targeted-benefit plans.

9) Streamlining and partnerships:

Governments often suffer from duplication and mandate creep, with the end result being higher bills for taxpayers.

Some outside the box thinking could address these problems and save taxpayers millions of dollars each year.

For instance, the governments of British Columbia, Alberta, Saskatchewan and Manitoba are all in the New West Partnership. Yet, each province has its own curriculum division that spends millions each year developing materials to guide K-12 education.

Imagine if there was a single mathematics curriculum between the four provinces. Such an approach could reducemath curriculum development costs, it could also make it easier for each province's post-secondary institutions to assess and admit students if they all studied the same curriculum.

Another example that is worth exploring is the prevalence of municipal libraries across Alberta – often located near public schools that also have libraries. This duplication means that two sets of resources need to be maintained, two buildings to repair and keep up to date, two electricity bills, two sets of staff to pay, etc.

This year the Alberta government will provide $50 million to municipalities in support of public libraries. Consolidating municipal and public school libraries could help reduce this expense.[52]

One need only look at the Britannia Library in downtown Vancouver to see how a single library could service both students and the general public. The Britannia Library has been doing just that for over 40 years.[53]

Recommendation 13: Establish a committee to investigate opportunities for streamlining government activities and reduce overlap between governments.

10) Broad spending reduction:

Scaling back the size of the civil service, reducing employee compensation levels, eliminating corporate welfare, eliminating carbon-tax related expenditures and prioritizing infrastructure projects could net the government over $6 billion in annual savings.

In addition to those initiatives, the other recommendations in this section could yield billions in savings through reinvigorating the civil service, focussing the government on key priorities and rethinking service delivery. However, as the savings from those initiatives are difficult to forecast, this report's budget modeling does not include an estimate for those potential savings.

This report does, however, include a broad reduction to operating expenditures.

Balanced budget scenario 1: Immediate restraint

This option assumes spending restraint begins in 2018-19 and includes an immediate 5% reduction to operating expenditures. This would yield approximately $0.9 billion in savings in savings during year one. From 2019-20 through 2021-22, operating expenditures would then grow by 1% annually.

Balanced budget scenario 2: Restraint beginning in 2019-20

Scenario 2 assumes spending restraint begins in 2019-20 and includes an immediate 10% reduction to the government's operating expenditures. This would yield approximately $1.9 billion in savings. In years 2020-21 and 2021-22, expenditures would receive 1% increases.

[51] N Alberta Budget, page 21 – http://finance.alberta.ca/publications/budget/budget2017/fiscal-plan-complete.pdf

[52] Vancouver Courier, June 30, 2017, Jessica Kerr – http://www.vancourier.com/community/britannia-branch-s-head-librarian-checks-out-retirement-after-39-years-1.20862532

[53] Vancouver Courier, June 30, 2017, Jessica Kerr – http://www.vancourier.com/community/britannia-branch-s-head-librarian-checks-out-retirement-after-39-years-1.20862532

PART III
OTHER RECOMMENDATIONS

Eliminate the carbon tax:

Alberta's job-killing carbon tax is a costly measure that fails to deliver meaningful reductions to carbon dioxide emissions. Worse yet, it could damage Alberta's economy while merely displacing carbon dioxide emissions to other jurisdictions.

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.[54 55]

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 was considered to be a "high priority" by 84% of respondents.

Eliminating the carbon tax can largely be achieved by also eliminating the government's associated carbon tax expenditures. However, some additional analysis will need to be conducted to consider multi-year projects currently tied to carbon tax funding. (See Part IV: Budget Modeling)

As noted earlier, the government should immediately eliminate the carbon tax and join Saskatchewan's legal challenge against the carbon tax.

Equalization reform:

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.[56]

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.

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; and
- 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.

Recommendation 14: Push for equalization reform using whatever tools necessary (eg. referendum, constitutional reference case, etc.)

54. Government of Canada website, accessed November 12, 2017 – http://www.climatechange.gc.ca/default.asp?lang=En&n=4D57AF05-1

55. Alberta government 2015 Climate Change report – https://www.alberta.ca/documents/climate/climate-leadership-report-to-minister.pdf

56. 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

Reverse beer tax hikes and subsidies:

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

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

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

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

Recommendation 15: Reverse the beer tax hikes and eliminate the subsidy to breweries, truly levelling the playing field.

Note: : Paige MacPherson authored this section on beer taxes and subsidies for the CTF's 2017 pre-budget submission

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. As noted in our "streamlining and partnerships" section, 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.

Recommendation 16: 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.

No regressive sugar/fat/soda taxes:

Some organizations have simply looked at Canada's obesity problem and suggested we need a "junk food tax," "sugar tax," or "soda tax" to address the problem.

On the surface, one might think that such a scheme could work – tax a product the government wants to discourage consumers from purchasing, and, in theory, people will consume less of that product. However, the evidence doesn't support the theory.

If you walk into a grocery store and buy an apple, a loaf of bread and some milk, you will not pay the GST on those items. Conversely, if you walk into a grocery store and buy a chocolate bar, a bag of chips and a bottle of soda, you will pay the GST on those items.

Canada has already taxed "junk food" disproportionately for decades and yet we're still talking about the problem.

As noted in the CTF's 2017 pre-budget, Canada is not the only country that has imposed additional taxes on "junk food" without solving the problem:

> *"A 2013 CTF report found that junk food taxes disproportionally penalize the poor. Denmark's government – which implemented an extensive food tax in 2011 – found it has failed to prove any positive health benefits and has only served to damage its economy. The country has seen no change in the consumption habits of its citizens. Rather, the tax has caused an estimated 2,400 job losses in food manufacturing and has seen Danish businesses hurt by consumers simply doing their shopping in neighbouring countries. Denmark has since repealed the tax."*[57]

Imposing additional taxes on junk food is also unfair to those who eat healthy and exercise. Someone who watches what they eat and exercises regularly is hardly in the same category as someone who spends their evenings eating drive-thru food while playing video games. But if they both happen to like the same sports drink, it's hardly fair for the healthier individual to pay more in taxes for that product.

Instead of creating new food taxes, and potentially contributing to cross-border shopping and other negative economic consequences, we recommend the government look at other ways to address the obesity problem; perhaps look at better dietary education for young people in schools or examine incentives and disincentives that could be introduced in the health care system.

Recommendation 17: Do not introduce new sugar/fat/soda taxes.

No funding for a Calgary arena:

As previously noted, governments should not fund private businesses – this recommendation includes professional sports teams.

In the event that the provincial government is asked to fund a new NHL arena in Calgary, the province should decline the request. Not only is it inappropriate for governments to fund businesses, many Calgary families and businesses are hurting right now. Giving millions of dollars to a business – that pays people millions of dollars to play hockey – is hardly a priority.

Proponents will suggest there are major benefits from funding pro sports teams. However, independent academic research suggests otherwise.

In the September 2008 edition of Econ Journal Watch, economics professors Brad Humphreys (from the University of Alberta at the time) and Dennis Coates (from the University of Maryland at the time) discussed their research on the matter[58]:

57. Canadian Taxpayers Federation, "Tax on the Menu", Peter Shawn Taylor, http://www.taxpayer.com/media/Tax on the Menu - English %28final%29.pdf

58. Econjournalwatch.org "Do Economists Reach a Conclusion on Subsidies for Sports Franchises, Stadiums, and Mega-Events?" Coates and Humphreys, page 301, September 2008 – https://econjwatch.org/file_download/222/2008-09-coateshumphreys-com.pdf

> *"Both academic economists and consultants reach a conclusion about the economic impact of professional sports franchises and facilities, but these two groups reach opposite conclusions. The clear consensus among academic economists is that professional sports franchises and facilities generate no 'tangible' economic impacts in terms of income or job creation and are not, therefore, powerful instruments for fostering local economic development. The clear consensus among consultants who produce 'economic impact studies' is that professional sports franchises and facilities generate sizable job creation, incremental income increases, and additional tax revenues for state and local governments."*

The Calgary Flames should do what many other sports teams have done – the Vancouver Canucks, Toronto Maple Leafs, Ottawa Senators, Montreal Canadiens, Anaheim Ducks, Boston Bruins, Colorado Avalanche, Columbus Blue Jackets and Chicago Blackhawks – and pay for their own arena.

Recommendation 18: Do not fund a new NHL arena in Calgary.

Introduce a legislated spending cap

Those who don't learn from history are doomed to repeat it.

It is imperative that the current government, and future Alberta governments, learn from the greatest mistake committed by the former PC administration in Alberta: the government's failure to control spending in the final years of its reign.

Had it done a better job of controlling spending, just as British Columbia has shown, Alberta's fiscal situation would be quite different today.

That being said, so far, the current government has repeated the mistakes of the past. Instead of freezing or reducing spending, they have stepped on the gas, allowing the province's debt to soar to previously unimaginable heights.

Once the province's budget is balanced, the government should introduce a cap on future spending growth, one that limits increases to the combined rate of inflation and population growth.

A 2003 Fraser Institute study entitled, "Tax and Expenditure Limitations – The Next Step in Fiscal Discipline," looked at the experience of 27 American states that have laws specifically targeting growth in government spending and taxes.

The study considered taxation and spending over long periods and concluded they are effective in constraining the growth of government and reducing taxes. Alberta has also had considerable success in the past with fiscal restraint legislation. Former Premier Ralph Klein smartly introduced the Balanced Budget and Debt Retirement Act in 1995, outlawing his government from running deficits and prescribing a minimum payment each year toward the provincial debt.

Recommendation 19: Legislate a spending cap so that annual program spending cannot increase by more than the combined growth rates of Alberta's population and inflation.

PART IV
BUDGET MODELLING

Scenario 1: Immediate Restraint (million $)					
	2017-18	2018-19	2019-20	2020-21	2021-22
2017 Budget estimate for revenue	$44,671	$47,643	$51,782		
– Less carbon tax revenue	$1,053				
CTF revenue estimate	**$43,618**	**$45,930**	**$48,364**	**$50,927**	**$53,626**

Expenses	$54,735	$54,735	$51,460	$51,774	$52,365
Capital adjustment		$2,838			
– Less reduction in government employees (year 1)		$350			
– Less reduction in government employees (year 2)		$0	$350		
– Less employee pay reduction (10%)		$2,573			
– Less infrastructure delay		$1,000			
– Less household rebates (carbon tax plan)		$550			
– Less energy efficiency (carbon tax plan)		$237			
– Less Indigenous communities (C Tax Plan)		$55			
– Less other initiatives (carbon tax plan)		$522			
– Less capital grants (carbon tax plan)		$445			
– Less 5% reduction to MLA pay, other cuts		$1			
– Less Francophone Secretariat		$1			
– Less Alberta Human Rights Commission (1/2)		$5			
– Less Screen-Based Tax Credit		$45			
– Less AB Investor Tax Credit		$30			
– Less Capital Investment Tax Credit		$42			
– Less Canada-Alberta job grants		$26			
– Less Aboriginal Business Investment fund		$5			
– Less 5% Operating expense reduction		$905			
Incremental debt interest expense		$170	$151	$73	
Total expenses		**$50,951**	**$51,261**	**$51,847**	**$52,365**
+ Plus risk adjustment		$700	$1,000	$1,000	$1,000
Surplus / Deficit		**($5,721)**	**($3,897)**	**($1,920)**	**$261**

Note: Figures based on 2017 Alberta Budget, 2017 Alberta government second quarter update, see revenue and expense notes

Scenario 2: Restraint Beginning in 2019-20 (million $)

	2018-19	2019-20	2020-21	2021-22
2017 Budget estimate for revenue	$47,643	$51,782		
CTF revenue estimate	**$45,930**	**$48,364**	**$50,927**	**$53,626**

Expenses	$56,652	$56,652	$52,379	$52,622
Capital adjustment		$2,838		
– Less civil reduction in government employees (year 1)		$359		
– Less reduction in government employees (year 2)		$0	$359	
– Less employee pay reduction (10%)		$2,626		
– Less infrastructure delay		$1,000		
– Less household rebates (C Tax Plan)		$550		
– Less energy efficiency (C Tax Plan)		$237		
– Less Indigenous communities (C Tax Plan)		$55		
– Less other initiatives (C Tax Plan)		$522		
– Less capital grants (C Tax Plan)		$445		
– Less 5% reduction to MLA pay, other cuts		$1		
– Less Francophone Secretariat		$1		
– Less Alberta Human Rights Commission (1/2)		$5		
– Less Screen-Based Tax Credit		$45		
– Less AB Investor Tax Credit		$30		
– Less Capital Investment Tax Credit		$42		
– Less Canada-Alberta job grants		$26		
– Less Aboriginal Business Investment fund		$5		
– Less 10% Operating expense reduction		$1,852		
Incremental debt interest expense		$170	$81	
Total expenses		**$51,860**	**$52,101**	**$52,622**
+ Plus risk adjustment		$1,000	$1,000	$1,000
Surplus / Deficit		**($4,496)**	**($2,174)**	**$4**

Note: Figures based on 2017 Alberta Budget and second quarter update. See revenue and expense notes for further details

REVENUE AND EXPENDITURE NOTES

Revenue Notes: The CTF Revenue Estimate figures are built on government revenues as indicated in the 2017-18 second quarter fiscal update. They do not include carbon tax revenues and assume 5.3% growth (rather than the government's 2017 budget estimate of 5.8% revenue growth in 2018-19 and 8.7% growth in 2019-20). The "2017 Budget Estimate for Revenue" figures are from the income statement of the 2017 budget (page 125) with the exception of the figure for 2017-18, which is based on the second quarter update.

Expenditure Notes: Estimates build on the province's total expense forecast in the 2017-18 second quarter update. Reductions include a 10% reduction in the number of employees, spread out over two years, and do not include health care and education. Many of these reductions could occur through attrition as government estimates expect 11-12% of employees will be at the average age of retirement in the coming years. All remaining employees would receive a 10% compensation reduction. Expenditures related to the carbon tax plan would be eliminated (the small business tax reduction would remain), corporate welfare programs would be eliminated and remaining operating expenses would be trimmed by 5% (10% under scenario 2). After the initial operating reduction, expenditures would grow at the rate of 1% per year through 2021-22. Capital adjustments include summary budget capital expenditures, netting out related amortization costs. This analysis utilizes the government's current schedule for risk adjustments.