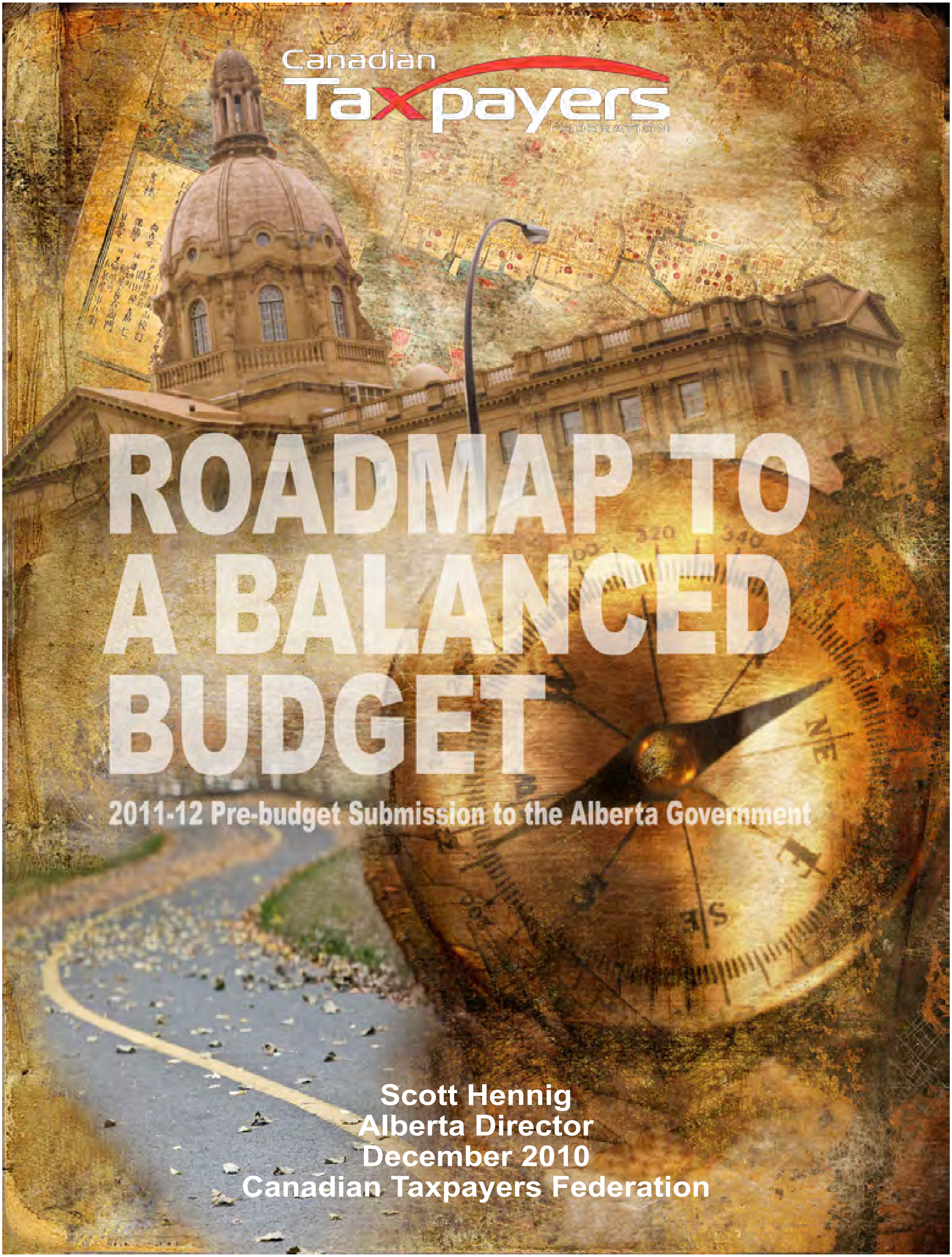


Canadian Taxpayers Federation

ROADMAP TO A BALANCED BUDGET

2011-12 Pre-budget Submission to the Alberta Government

Scott Hennig
Alberta Director

December 2010
Canadian Taxpayers Federation

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 74,000 supporters nationwide.

The CTF maintains a federal office in Ottawa and offices in the six provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Nova Scotia. 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 and publications to advocate the common interest of taxpayers. The CTF's flagship publication, *The Taxpayer* magazine, is published four times a year. Action Updates are regularly e-mailed to our supporters. 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.

The CTF's Alberta office is located at:
#202, 10621 – 100 Avenue
Financial Building
Edmonton, Alberta
T5J 0B3

Telephone: 1-800-661-0187
Fax: 780-482-1744
E-mail: ab.director@taxpayer.com

Web Site: www.taxpayer.com

TABLE OF CONTENTS

SUMMARY OF RECOMMENDATIONS

SHORT TERM

RECOMMENDATION #1
Cut 5 per cent of operational spending, right across-the-board

RECOMMENDATION #2
Extend the three-year Capital Plan over five years, focusing the majority of the extension on vertical infrastructure

RECOMMENDATION #3
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 #4
Negotiate a 5 per cent wage roll-back with all public servants

RECOMMENDATION #5
Implement 12 unpaid days off per year for non-essential government employees

RECOMMENDATION #6
Maintain the current hiring freeze and don't fill vacant positions unless absolutely essential

RECOMMENDATION #7
Maintain freeze on bonuses until transparent, taxpayer-benefitting goals can be established

RECOMMENDATION #8
Eliminate the carbon capture and storage program and the Green TRIP program

RECOMMENDATION #9
Eliminate the $100 million Alberta Enterprise Corporation

RECOMMENDATION #10
Eliminate the Alberta Multimedia Development Fund

RECOMMENDATION #11
Reverse the 2008 MLA, cabinet and premier's pay hikes

RECOMMENDATION #12
Eliminate MLA severance payments

RECOMMENDATION #13
Reverse the decision to increase the number of MLAs from 83 to 87

RECOMMENDATION #14
Reduce the number of cabinet ministers and departments

RECOMMENDATION #15
Deny provincial funding for new NHL arenas in Edmonton and Calgary, including denying any Community Revitalization Levies

RECOMMENDATION #16
Abandon any plans for future bond issues and borrowing

RECOMMENDATION #17
Transfer $1,470,147,399 from the Sustainability Fund to the Debt Repayment Account

MEDIUM & LONG TERM

RECOMMENDATION #18
Introduce a legislated spending cap so that annual program spending in the future cannot increase by more than the combined growth rates of Alberta's population and inflation

RECOMMENDATION #19
Pass legislation making any in-year unbudgeted spending with the exception of declared emergency spending, illegal

RECOMMENDATION #20
Budget $510 million per year for declared emergencies

RECOMMENDATION #21
Pass legislation specifying either a percentage or a minimum dollar amount of non-renewable resource revenues that must be put into an endowment savings account each year

RECOMMENDATION #22
Reform public sector pension plans by closing entry to current plans and replacing defined-benefit pension plans with defined-contribution plans for all new employees

RECOMMENDATION #23
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 #24
Amend the *Alberta Taxpayer Protection Act* to require a provincial referendum be held prior to increasing or adding *any* new provincial tax

RECOMMENDATION #25
Do not grant any further taxing powers to municipalities unless they are first approved in a local or provincial referendum

LIST OF CHARTS

LIST OF TABLES

INTRODUCTION

> "This government remains committed to its medium-term fiscal plan to balance the budget for 1990-91."
>
> - *Hon. Dick Johnston, Provincial Treasurer, 1988 Budget Speech*

In 1988, the Alberta government released a deficit budget, the third since the significant drop in resource prices in 1986. The promise was, however, that the government was on track towards accomplishing their plan to get the books balanced four years hence, in 1991.

In 1989, a new three-year plan to balance the budget by 1992 was established.

1991 and 1992 came and went and deficits remained.

Those three and four-year plans to balance the budget were always accompanied with tough talk of the immediate need to "tackle our deficit problem." Despite small cuts in spending in their first two budgets, Don Getty's government increased annual spending, on average, by 2.3 per cent per year throughout his term.

All of this seems a bit too familiar.

While officially 2008-09 was the return to deficits in Alberta, last year's budget solidified the government's willingness to run in the red. The Canadian Taxpayers Federation (CTF) has long accused the Alberta government of having a spending addiction – an addiction that would eventually lead to deficits. This was clearly demonstrated with Budget 2010.

Despite knowledge that Alberta government spending levels were unsustainable for the past many years, operational spending increased by 6.7 per cent in Budget 2010. This was done even though projections showed that revenues were expected to drop 4.6 per cent.

In 2007, the Canadian Taxpayers Federation predicted that within two years the Alberta government would run a deficit budget, and within five years, if no action was taken, would have drained its savings and would have to resume borrowing money. This prediction was based on revenues remaining strong.

From the late 1990s through 2007, the CTF annually recommended the Alberta government limit its growth in program spending to the combined growth rate of inflation and population of the province.

In 2007, years of annual double-digit spending increases by the government forced the CTF to abandon its call for limiting growth in spending to actually calling for a freeze in

2008-09. That recommendation was ignored and the government ran its first deficit in 14 years in 2008-09.

This deficit prompted the CTF to call for the Alberta government to cut program spending by 7 per cent in the 2009-10 budget. Again, this advice was ignored and the Alberta ran an even larger deficit in 2009-10.

This deficit prompted the CTF to call for the Alberta government to cut spending by $6.4 billion or 17 per cent. Once again, this advice was ignored and government is poised to run the largest deficit in the province's history this current fiscal year.

Had the Alberta government heeded the CTFs advice for the past decade and restrained spending, surpluses would still be the order of the day.

In our pre-budget submission this year we recommend once again, spending reductions, both to program and capital expenditures. We also continue to recommend future control over spending increases and strategies to move beyond a boom-bust cycle of spending, borrowing and cutting.

If hindsight is 20/20, it should be clear that following the CTFs recommendations may help the government avoid future reoccurrences of the current situation.

ALBERTA'S PROBLEM: REVENUES OR SPENDING?

> "In 1986 the dramatic drop in world oil prices reduced our total resource revenues by over 60 percent and resulted in a large deficit."
>
> - *Hon. Dick Johnston, Provincial Treasurer, 1990 Budget Address*
>
> "Alberta's per capita expenditure base is approximately one-third above the national average. During the period 1980-81 to 1986-87, combined expenditure grew at an average annual rate of nearly 11 percent, led by spending on social programs."
>
> - *Hon. Dick Johnston, Provincial Treasurer, 1987 Budget Address*

The Alberta government has a problem. Deficits cannot be maintained, even with sustainability funds and temporary "fiscal corrections."

As with most deficits (especially the large structural ones that the province has now) the problem is one of too few revenues, too much spending or a combination. The solution for the Alberta government is they either need to find a more-reliable source of revenues to maintain their sky-high spending, or they need to find a reliable level of spending that can be maintained with their non-resource based revenues.

Before you prescribe a fix, the problem must clearly be identified.

It's instructive to first look to past deficits to see if the 'problem' then was spending or revenue.

1985-1997

There was a financial crisis for the provincial government in the late 80s-early-90s when the Alberta government was running deficit budgets.

The largest drop in revenue occurred at the end of the 1985-86 fiscal year, dropping revenues by 28 per cent for 1986-87. 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, personal income tax revenues *increased* by 16 per cent during the same period.

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

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

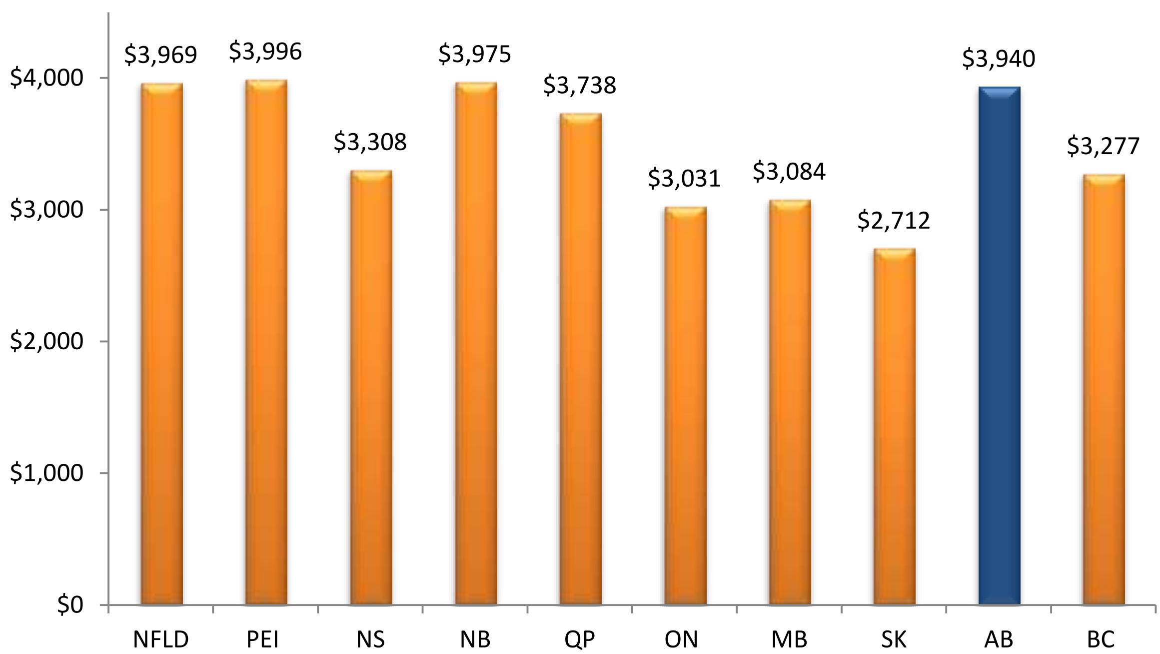
So was the 61 per cent drop in resource revenues the cause of the 1986 deficit?

Actually, no.

Premier Lougheed, undoubtedly buoyed by strong multi-year non-renewable resource revenues, increased program spending by a unconscionable 17.5 per cent in Budget 1985 – his last budget.

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

***Chart 1* – Provincial per capita revenues in 1986-87**

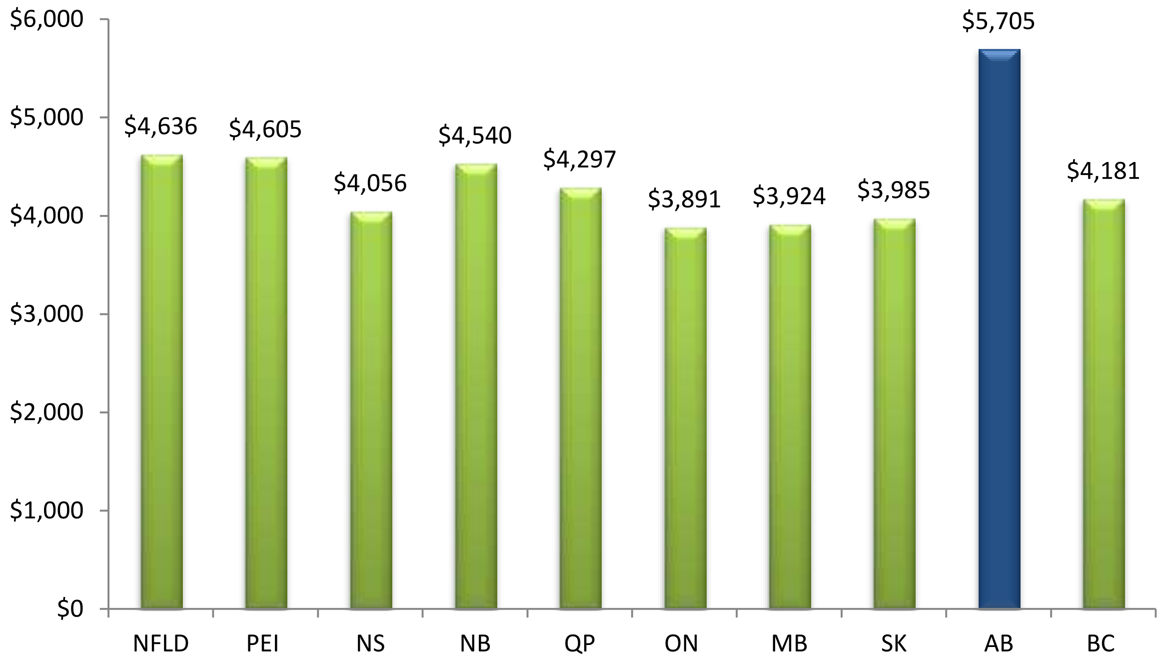


As you can see from Chart 1 above, despite a 28 per cent drop in revenues, the Alberta government in 1986-87 still collected more revenues than the vast majority of provinces.

Between 1987 and 1993 spending continued to grow each year. On average, spending increased by 2.3 per cent per year.

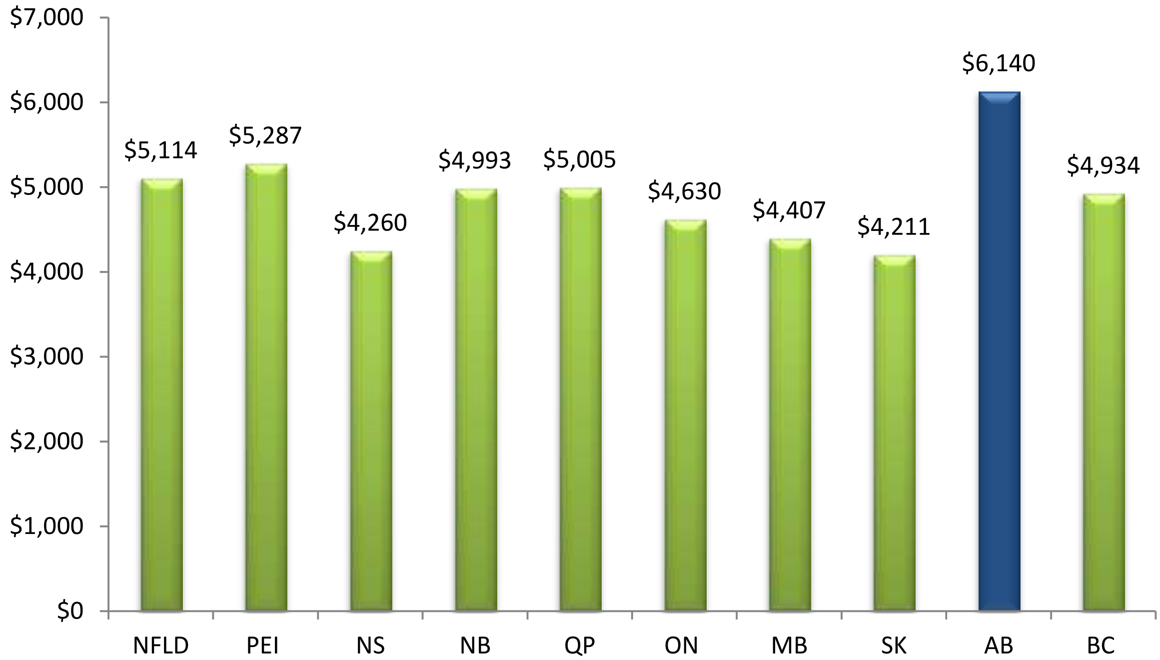
Despite Alberta being the highest spending province in Canada in 1989-90, program spending increased that year by 5.6 per cent.

***Chart 2* – Provincial per capita program spending in 1989-90**



This trend continued throughout Getty's term as premier and was still the case when the reigns were handed over to Premier Klein. As you can see from Chart 3 below, Alberta continued to be the highest spending province in Canada through the rest of Getty's reign.

Chart 3 **– 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.

And cut he did. In fact, between 1993 and 1997 the Klein government cut 21.6 per cent in program spending.

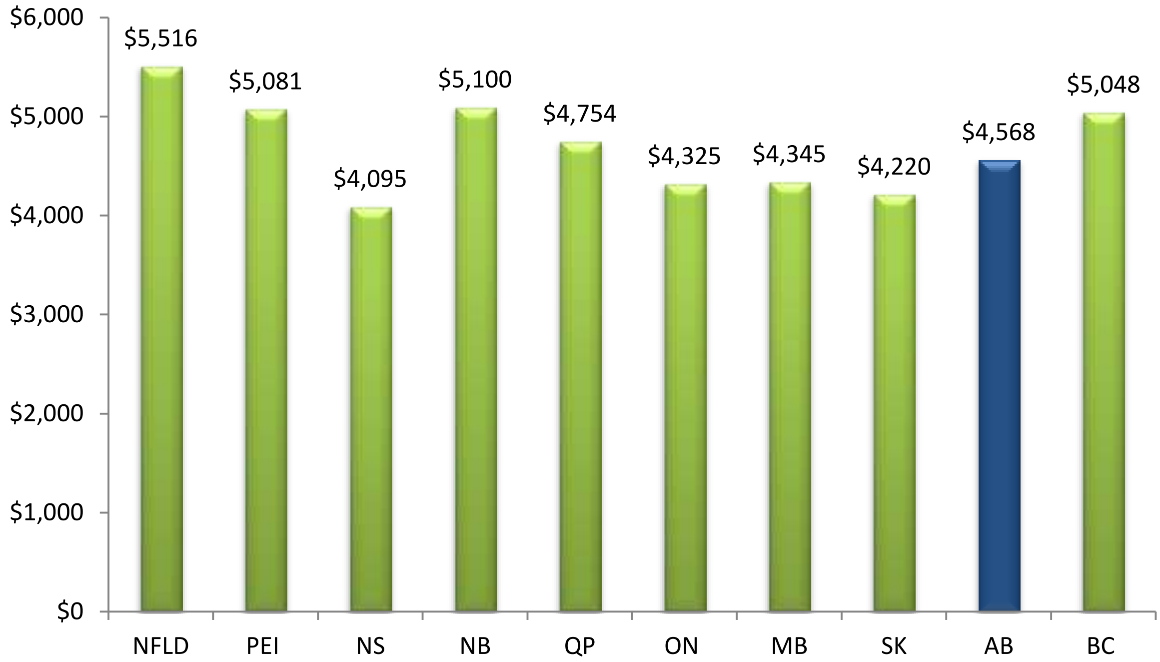
It's often suggested that Klein, "cut to the bone,"[a] or implemented "slash and burn"[b] policies.

Rhetoric aside, where did Alberta stand in 1997 in comparison to other provinces?

At the depth of the spending cuts in 1996-97, Alberta was still, per capita, the sixth highest spending province in the nation at $4,568.

[a] http://www.canadians.org/about/Maude_Barlow/Too_Close_for_Comfort/index.html
[b] http://www.ffwdweekly.com/article/news-views/news/resources-lacking-for-changes-to-mental-health-act-5037/

Chart 4 **– Provincial per capita program spending in 1996-97**



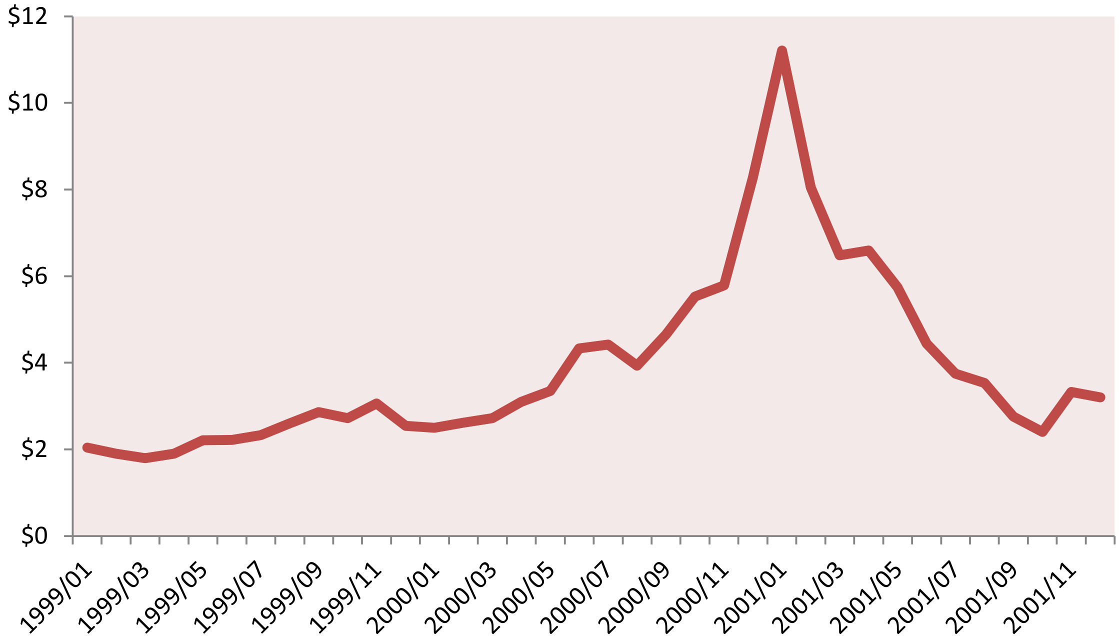
1997-2008

Starting with Budget 1996, the spending increases resumed after three years of budget cuts. In 1996-97, spending technically increased (0.2 per cent), but the real spending hikes didn't start until 1997-98 when the government jacked spending by over 8 per cent.

Between 1998-99 and 2001-02 budgeted program spending increased, on average, by 11.4 per cent per year.

This increase coincided with a significant and rapid increase in natural gas prices, and thereby, non-renewable resource revenue.

***Chart 5* – Natural gas prices (Alberta Natural Gas Reference Price - $/gj) 1999-2002**



As you can see from Chart 5 above, natural gas prices went from roughly $2/gj to over $11/gj, back to around $2/gj over a three year period. As a result, Alberta government non-renewable resource revenues rocketed from $2.4 billion in 1998-99 to $10.6 billion in 2000-01, and then dropped back to $6.2 billion in 2001-02.

While 2001-02's non-renewable resource revenues were significantly lower than the year previous, they were still nearly triple the amount of just three years prior.

This rapid fall coincided with the market crash following 9/11 (thereby reducing *Heritage Fund* returns), dropping total revenues by 14 per cent. The Alberta government reacted by implementing a hiring freeze, a 1 per cent cut in every ministry budget, the elimination of energy rebates to school boards and health authorities, the elimination of community lottery boards and the deferral of nearly a billion dollars worth of capital projects.[c]

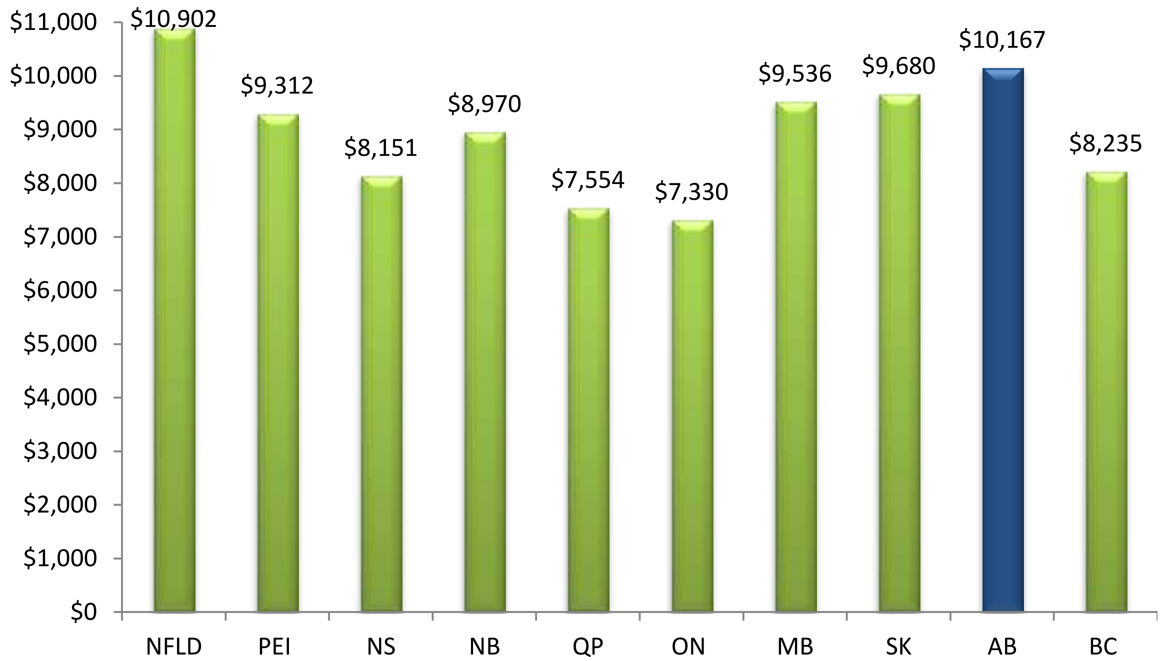
This correction, however, would not have been necessary had the government not increased program spending in Budget 2001 by 24.5 per cent.

After what was essentially a spending freeze in 2002-03, between 2003-04 and 2008-09 budgeted program spending increased by, on average, 12.1 per cent per year.

This drove Alberta's per capita program spending to the second highest in the nation (next to Newfoundland and Labrador).

[c] http://alberta.ca/home/NewsFrame.cfm?ReleaseID=/acn/200110/11450.html

Chart 6 **– Provincial per capita program spending in 2008-09**

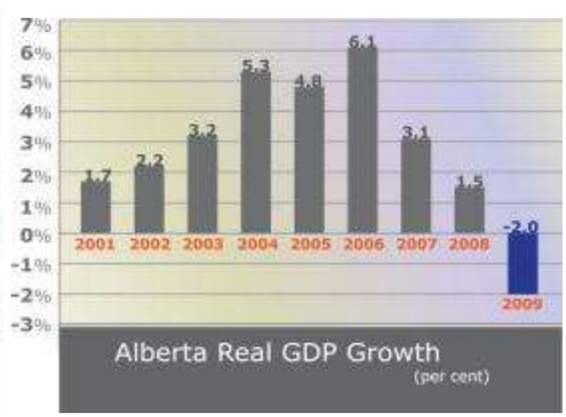


2009-2011

It's clear, however, what the government has viewed as their problem in both 2009-10 and 2010-11.

Bookended by two charts – one showing the drop in natural gas prices and the other provincial revenues from natural gas – former Finance Minister Iris Evans delivered the 2009-10 first quarter fiscal update to Albertans.

Government of Alberta – 1st quarter 2009-10 budget update visuals

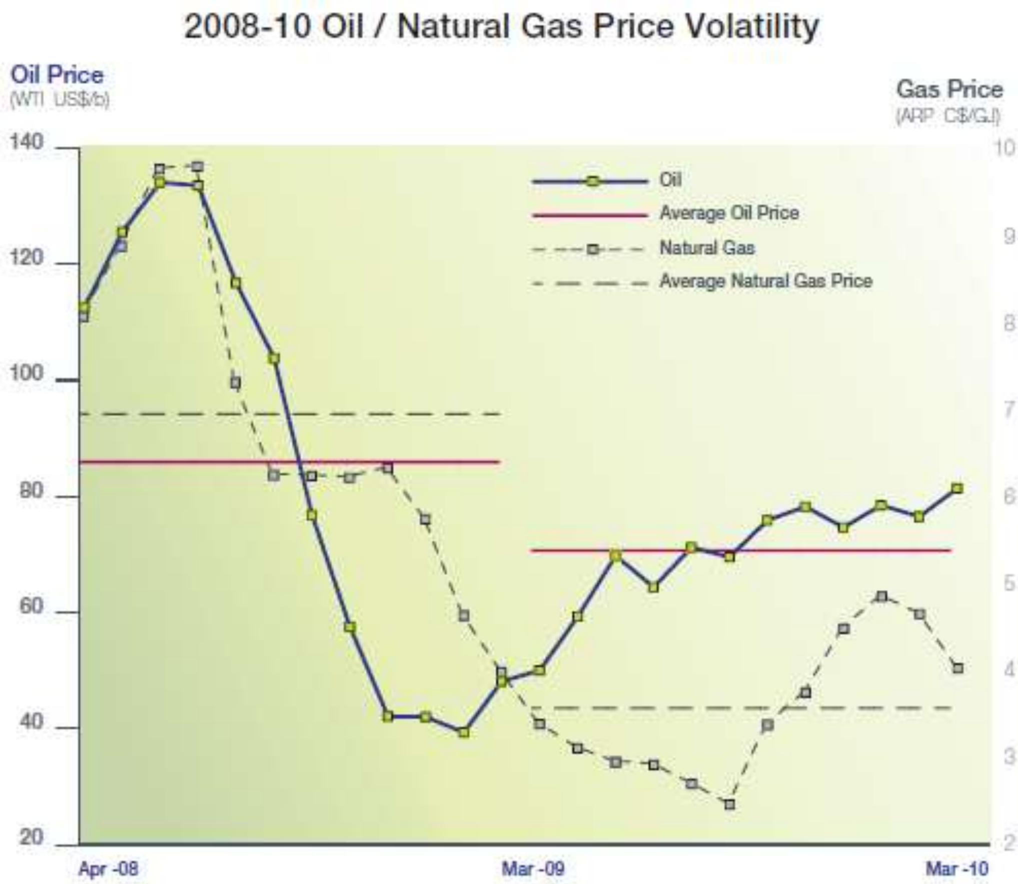


The charts, and Ms. Evans talking points, were all aimed at making the not-so-subtle argument that this deficit could not be avoided and that it was all due to plummeting resource revenues.

However, by year end 2009-10, oil prices were significantly higher than expected (Budget 2009 projection: $55.50/barrel, 2009-10 final: $70.71/barrel). The same could not be said for natural gas prices or the Canadian dollar. Both came in negative for the government.

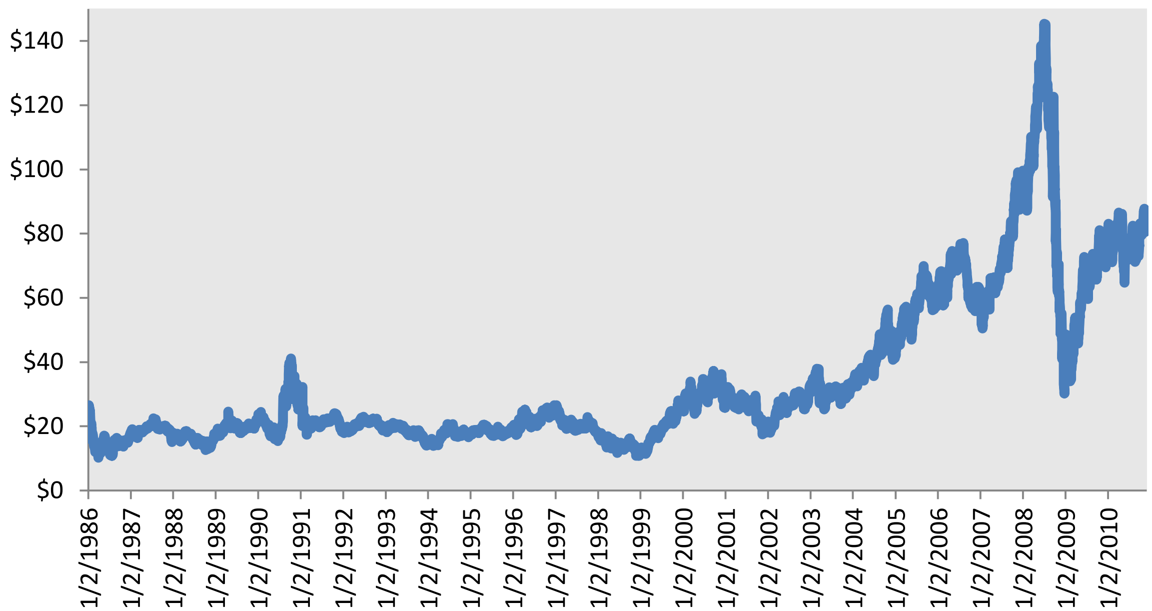
Regardless, when the 2009-10 Annual Report was released in June 2010, the government once again attached the below visual, placing the blame for the deficit on non-renewable resource revenues.

Government of Alberta – 2009-10 Annual Report charts



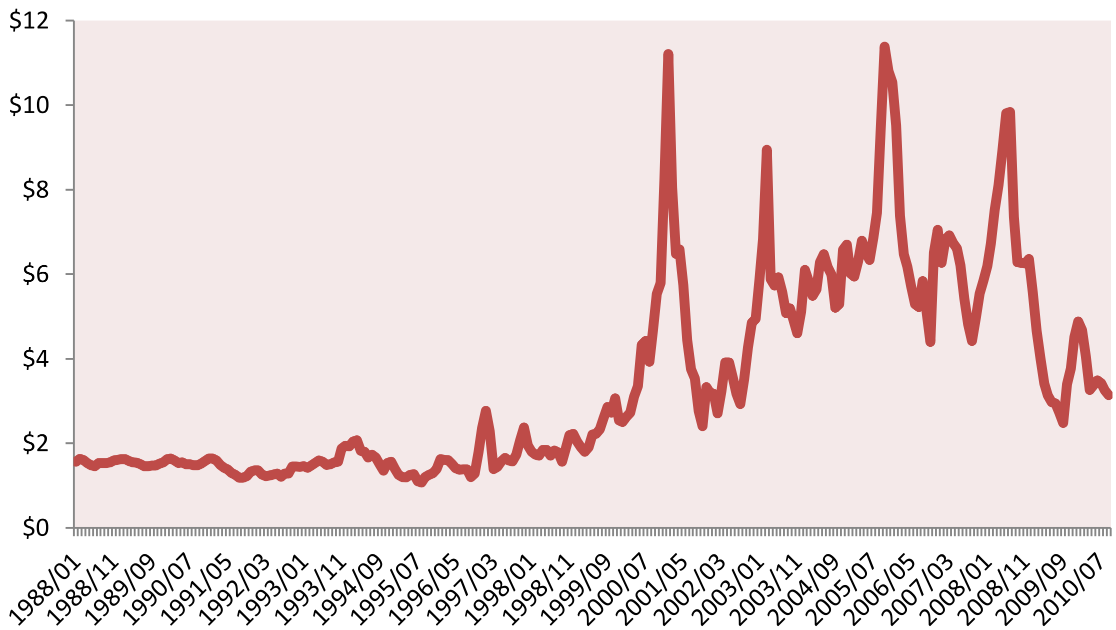
Unquestionably, oil and natural gas prices have fallen from all-time highs, but particularly with oil those highs were aberrations, and not to be expected to continue long-term.

***Chart 7* – Oil prices ($USD/barrel) January 1986 – November 2010**[d]



As you can see from Chart 7 above, oil prices are now back roughly to the same level they were in 2006 if adjusted for inflation.

***Chart 8* - Natural gas prices (Alberta Natural Gas Reference Price - $/gj) 1988-2010**

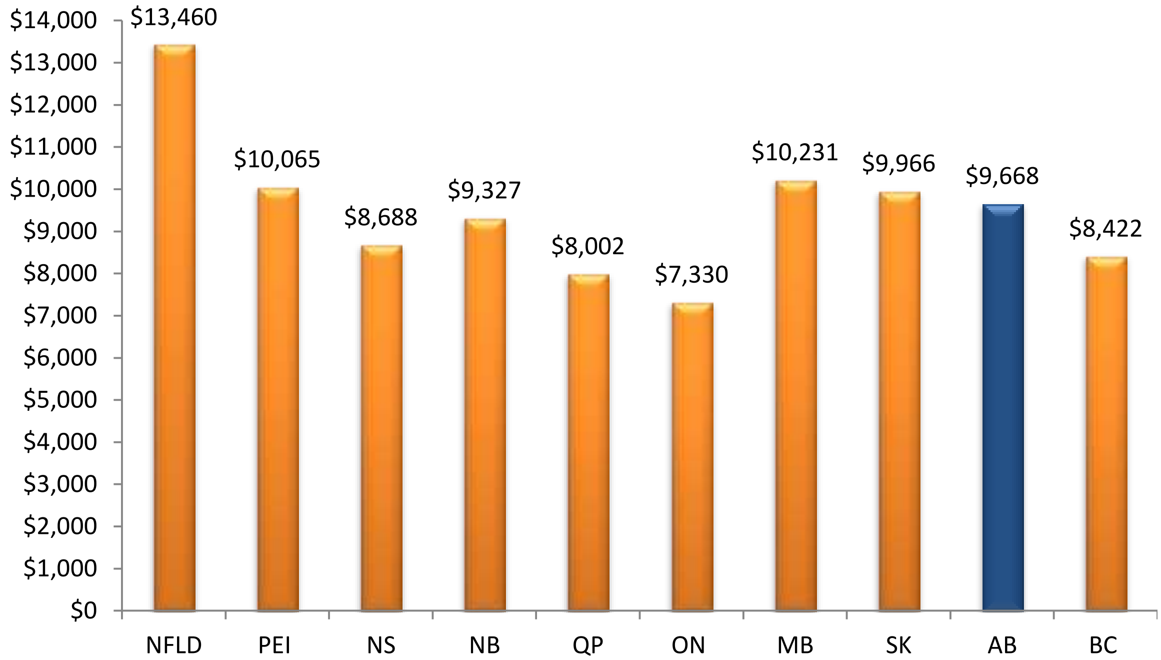


---

[d] Cushing, OK WTI Spot Price,
http://tonto.eia.doe.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=RWTC&f=D

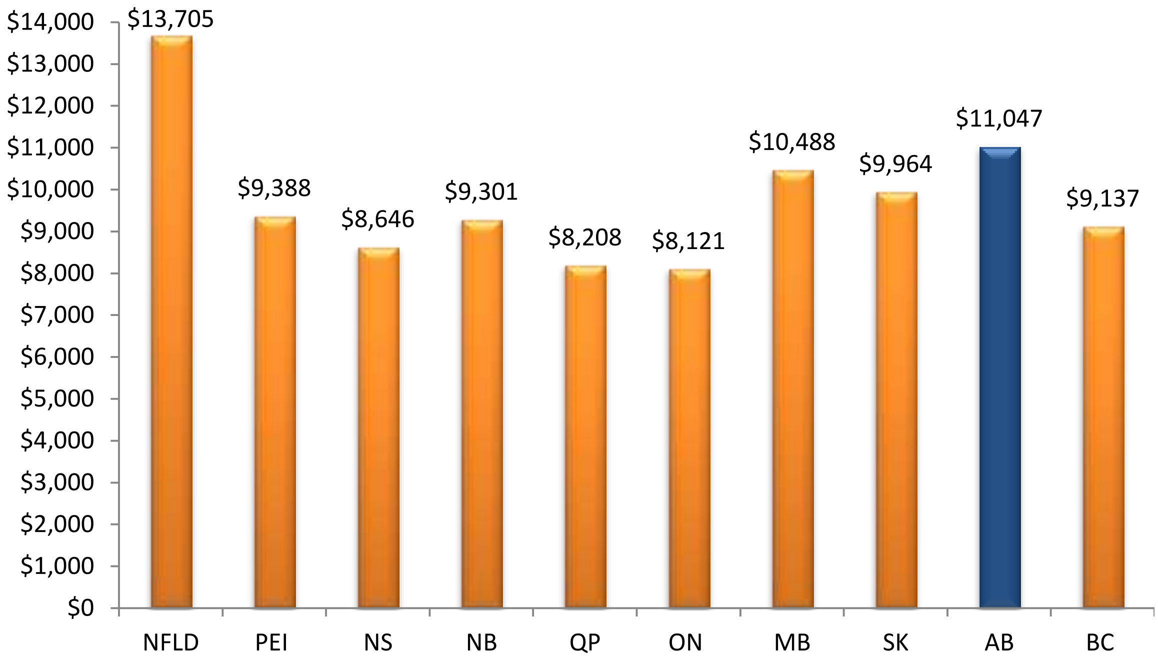
The same cannot necessarily be said for natural gas. However, Chart 8 above clearly shows that natural gas prices are extremely volatile and it would be foolish for any government to count on them staying high for any extended period of time.

Chart 9 **– Provincial per capita revenues in 2009-10**



As you can see from Chart 9 above, last year Alberta had rather average revenues when compared to other provinces, on a per capita basis. In fact, Alberta was the fifth highest province for level of per capita revenues. Of course, as you can see in Chart 10 below, in comparison to 2007-08, per capita revenues are down significantly.

***Chart 10* – Provincial per capita revenues in 2007-08**



This difference is almost entirely due to a drop in non-renewable resource revenue prices.

Over the long-term this is a problem. As you can see from the chart below, non-renewable resource revenues, as a percentage of total revenues has swung wildly over the past 30 years.

***Chart 11* – Non-renewable resource revenues as a percentage of total Alberta government revenues 1981-82 to 2010-11**

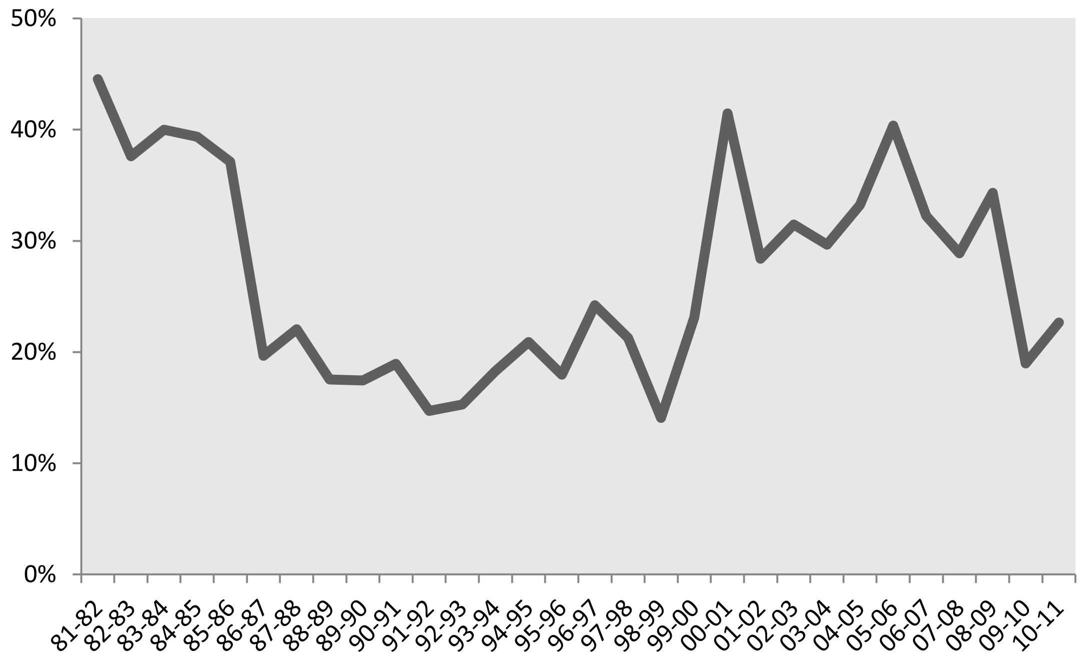


Chart 11 above illustrates exactly how erratic and unreliable non-renewable resource revenues can be. During this 30-year period, resource revenues have represented a high of 45 per cent (1981-82) of total revenues in a fiscal year to a low of 14 per cent (1998-99). Even in the past five years, the range has been from a low of 19 per cent to a high of 34 per cent.

This point about the unreliability of non-renewable resource revenues is the one most often cited by those who believe Alberta has a revenue problem.

However, as clearly demonstrated in Chart 9 on page 19, even when Alberta's non-renewable resource revenue levels are at relatively low levels, Alberta still has very average revenues in comparison to other provinces.

Moreover, the problem isn't the lack of revenue or even of reliable revenues (non-renewable resource revenues have rarely been lower than they currently are), it is the spending that requires above average resource revenues in any given year to balance the budget.

While 2008's erratic change in the price of oil may be seen as a one-time occurrence, there is historical precedence for this type of dramatic, seemingly overnight, change in price.

In early January 1986, oil was selling for nearly $27US/barrel, but by the end of March 1986 it was selling for barely over $10US/barrel. This was a 61 per cent drop in the price of oil in a three-month period.

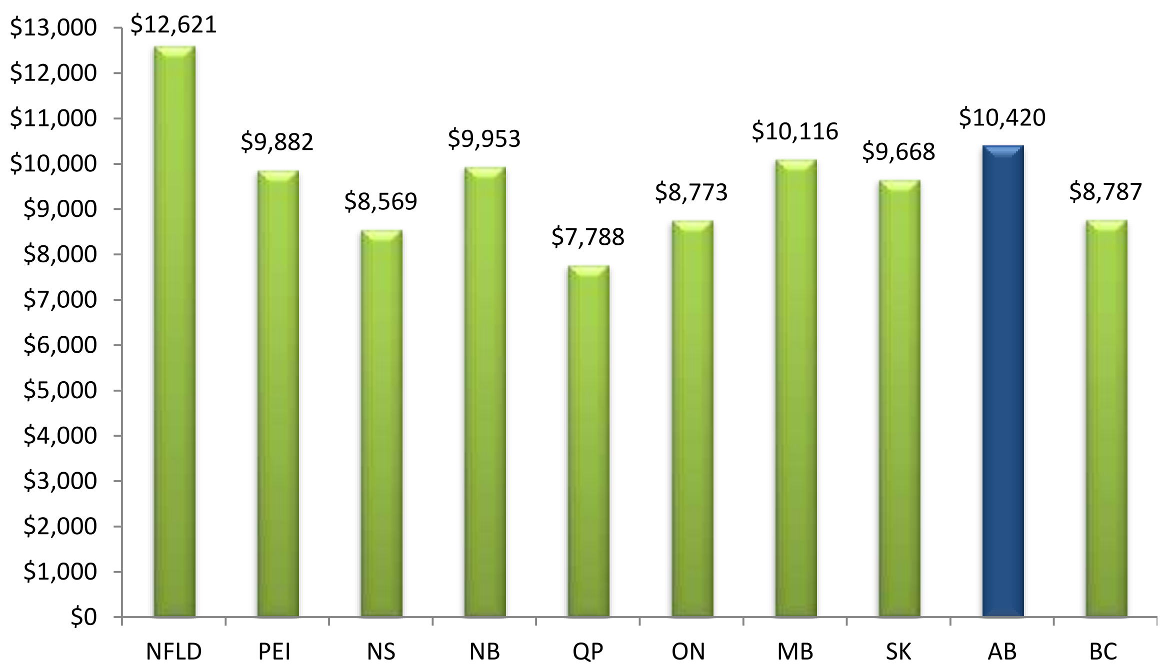
Similarly, in early July 2008, oil was selling for over $145US/barrel. In late December 2008, oil was selling for just over $30US/barrel. This is a 79 per cent drop in a five-month period.

More recently, this lesson should have been learned in 2001, when price of natural gas fell throughout the winter. (79 per cent drop over ten months).

If overall revenues are rather average compared to other provinces, even when non-renewable resource revenues hit levels that are near 30-year lows, where does spending rank?

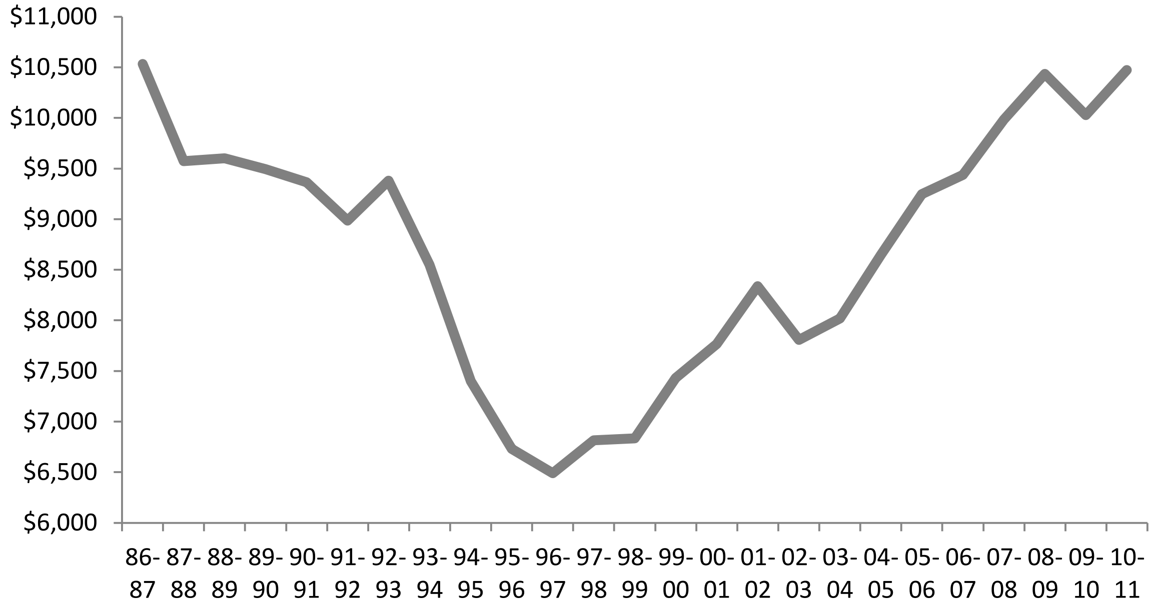
Despite running two straight deficits, increases in spending in Budget 2010 kept Alberta as the second highest spending province in the country. Only Newfoundland and Labrador spent more on a per capita basis.

Chart 12 **– Provincial per capita program spending in 2010-11**



However, if you adjust for inflation, per capita program spending in Alberta is, essentially, back to where it was in the mid-1980s.

***Chart 13* – Per capita Alberta government program spending (in constant 2010-11 dollars) 1986-87 to 2010-11**



It's not hard to see how this has occurred. In only two of the past 13 years has the Alberta government increased spending in its budget by less than the combined population and inflation growth rate. Regularly, the increases have been significantly higher.

***Table 1* – Annual budgeted program spending vs. combined population and inflation rate change from previous year and difference (1997-98 to 2010-11)**

Year	Budgeted Program Spending (millions)	Annual Change (%)	Combined annual population and inflation growth rate %*	Difference
97-98	$13,361	n/a	n/a	n/a
98-99	$13,862	3.75	3.35	0.40
99-00	$15,149	9.28	4.03	5.25
00-01	$16,728	10.42	4.53	5.89
01-02	$20,832	24.53	5.11	19.42
02-03	$18,571	-10.85	4.00	-14.85
03-04	$20,335	9.50	6.93	2.57
04-05	$22,286	9.59	4.61	4.98
05-06	$25,535	14.58	3.39	11.19
06-07	$28,067	9.92	5.19	4.73
07-08	$32,914	17.27	7.20	10.07
08-09	$36,783	11.75	7.16	4.60
09-10	$36,176	-1.65	5.02	-6.67
10-11	$38,716	7.02	1.96	5.06

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

Further, had the province limited its growth in program spending to the combined inflation and population growth rate starting in 2005 after we were debt free, in 2010-11 the government would be running a $4.3 billion surplus.[e]

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

Year	Maximum spending cap % increase	Budgeted Program Spending
04-05	n/a	$22,286
05-06	3.39	$23,041
06-07	5.19	$24,236
07-08	7.20	$25,981
08-09	7.16	$27,840
09-10	5.02	$29,237
10-11	1.96	$29,812
11-12	2.19	$30,464

More important, spending would be able to be increased by nearly 2 per cent in Budget 2010 and by over 2 per cent in Budget 2011, rather than cut.

Yet, this problem isn't a new one. It's been the same one experienced by the Alberta government back in the mid-80s.

Clearly the Alberta government has a spending problem. And once again, it's time to fix it.

[e] 2nd quarter revenue: $34.1 billion less capped spending: $29.8 billion

2010-11

CTF Supporter Survey

The provincial government is projected to run a deficit in 2010-11. Do you believe the government should make efforts to balance the budget?

Yes, but with no tax increases or spending cuts; let economic growth bring the budget to balance over time.	19%
Yes, more quickly with tax increases	0%
Yes, more quickly through spending cuts	**73%**
Yes, more quickly through tax increases and spending reductions	5%
No, balanced budgets are not necessary. Take no action	2%
Undecided	2%

FIXING THE PROBLEM: SHORT TERM

"After seven years of tight control, there are no easy places left to make large cuts in spending. Every program is considered important by those who receive the benefits."

\- *Hon. Dick Johnston, Provincial Treasurer*, *1992 Budget Address*

In the past, the Canadian Taxpayers Federation has advocated a legislated cap on spending. Two years ago we advocated a 7 per cent spending cut. Last year we recommended a 17 per cent spending cut. At this point, the Alberta government is left with few options other than dramatic reductions in spending if they are to balance the budget in 2011-12 or even in 2012-13 as committed.

As clearly shown in Chart 13 on page 23, Alberta is now spending, in real terms, as much as it did back in the mid-1980s when deficit budgets were the norm.

As of the second quarter of 2010-11, program spending was already at $38.8 billion and total spending was at $39.1 billion. According to government estimates, the province will collect $37.3 billion next year in revenue. Freezing spending at this level and receiving the expected level of revenue would still result a deficit of $1.8 billion for 2010-11.

However, the revenue assumption made a year ago for 2011-12 is likely over-stated.

Each year the government makes assumptions as to the yearly average oil and gas prices, interest rates, exchange rates and other factors. These assumptions help the government estimate total revenue for the year.

The government also makes assumptions for the next two years. How do the assumptions made last year for Budget 2011 measure up to the current reality?

Table 3 **– Revenue projections for 2011-12 as presented in Budget 2010 vs. current prices**

Revenue factors	Current Government Projections*		Current Prices**	Difference	Impact to Budget (millions)
Crude Oil Price (WTI US$/bbl)	$83.50		$89.19	$5.69	$1,058
Natural Gas (Cdn$/GJ)	$5.25		$3.14	-$2.11	($1,962)
Exchange Rate (US$/Cdn$)	$0.950		$0.996	$0.046	($994)
3-month Canada treasury bills (%)	3.30		0.98	-2.32	($327)
10-year Canada bonds (%)	4.70		3.20	-1.50	($212)
Total revenue impact					($2,436)
Total Revenue 2011-12 (millions)	**$37,302**				**$34,866**

* 2011-12 projections taken from the 2010 Budget

** Current prices taken on December 3, 2010

Table 3 above looks at the impact commodity, exchange rate and interest rate changes have on total revenues. Rather than making assumptions, Table 3 looks at current rates and prices, and assumes that they will stay the same, on average, throughout 2011-12.

If current prices maintain throughout 2011-12, the government should have a revenue shortfall over estimates of $2.4 billion, which would result in total revenues of just under $34.9 billion.

At the current projected spending amount of $38.7 billion, this would leave a deficit of $3.8 billion in 2011-12.

In order to nearly guarantee a balanced budget next year, total spending for 2011-12 should be no higher than $34 billion. This means a reduction in current spending of approximately $5 billion (13 per cent) is necessary.

Moreover, the *Sustainability Fund* could also be drained faster than expected.

Sustainability Fund

Starting balance 2010-11:	$15.0 billion
Plus cash from 2009-10 4Q results:	$ 2.2 billion
Less 2010-11 deficit	$ 5.0 billion
Less announced borrowing 2009-12:	$ 3.3 billion
Less 2011-12 deficit:	$ 3.8 billion
Remainder:	**$ 5.0 billion**

There is the very real potential that the Alberta government will only have $5 billion left over after the 2011-12 fiscal year. That number could be even lower if the 2010-11 or 2011-12 deficit increases.

Cut operational spending by 5 per cent

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

Over the past two years the province has began to make some small cuts. Spending reductions to travel and cabinet pay are, however, a very timid start.

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

Not surprisingly, two years later the budget was balanced and by 1997 the Klein government had implemented a nearly 22 per cent budget cut.

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

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

Premier Stelmach also has promised a balanced budget by 2012-13. Talk and promises mean nothing if action isn't taken.

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

Spending must be cut. And cut significantly.

A 5 per cent cut across-the-board on operational spending would save $1.7 billion.

RECOMMENDATION #1
Cut 5 per cent of operational spending, right across-the-board

Extend the Capital Plan

Budget 2010 established a three-year, $20.1 billion capital plan. Of which $7.2 billion was to be spent in 2010-11 ($6.9 billion as of 2Q update), $6.9 billion in 2011-12 and $6 billion in 2012-13.

Extending that three-year capital plan to be a five year capital plan would result in the remaining $13.1 billion being spent over four years rather than two. This would mean a savings of $3.3 billion in each of the next two years.

Further, it would likely help get even better prices for the infrastructure we purchase.

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 five years.

Not unrelated, the annual inflationary increases in infrastructure also grew significantly from 2004 to 2008.

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

According to Alberta Infrastructure and Transportation, inflationary increases related to highway construction costs for the ten years prior to 1999 averaged 2 per cent 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.[f] Since the end of 2008, prices have begun to fall.

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 were up an additional 23 per cent, thanks to inflationary costs.[g] In 2007-08, infrastructure costs rose by 12 per cent, and in 2008-09 actually dropped by 1 per cent.[h]

According to Statistics Canada, non-residential construction in Edmonton and Calgary costs dropped by 7.2 per cent in 2010.[i]

While time and time again, the Alberta government and many municipal leaders have trumpeted the "good deal" Albertans are now getting on infrastructure. This is only true when compared to 2008. However, if you compare prices now to prices in 2004, it's no longer such a "good deal."

According to Statistics Canada, non-residential construction prices rose by 64 per cent between 2004 and 2009. Even after reductions in 2009 and 2010, prices are still 52 per cent higher today than in 2004.[j]

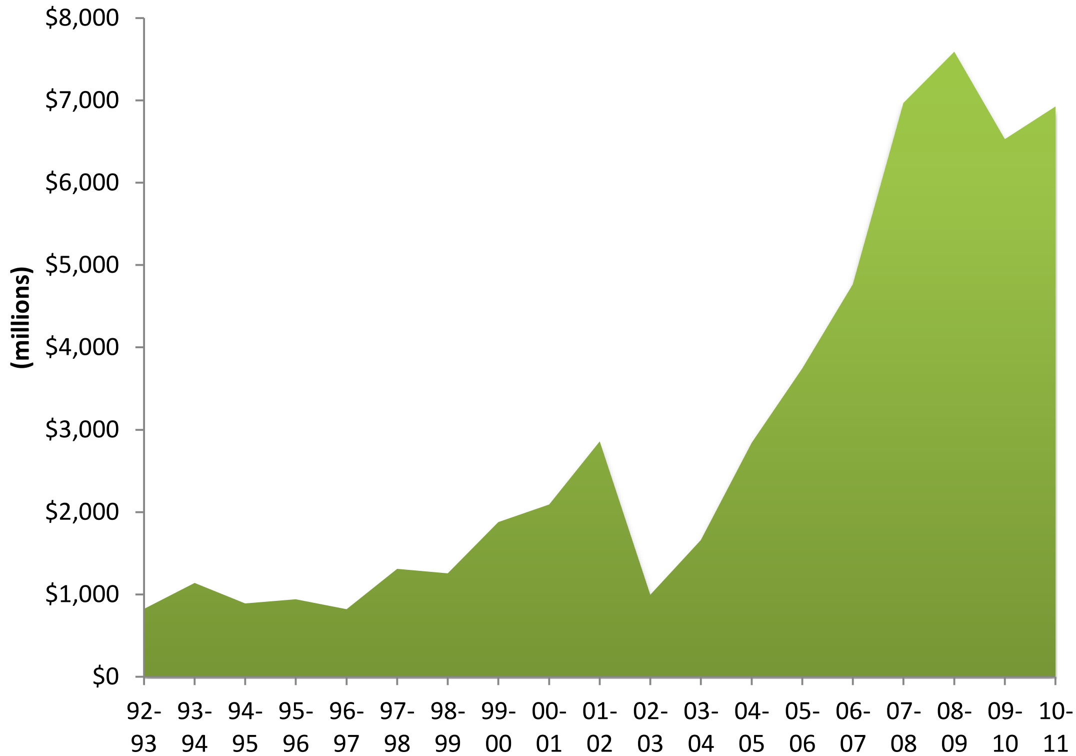
With historical levels of inflation averaging 2 per cent for highway construction and 3.7 per cent for building construction, it's clear the inflation levels we were experiencing are representative of wasted tax dollars.

<u>What was driving inflation above historic levels?</u>

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.

[f] January 17, 2006 letter to the Canadian Taxpayers Federation from *Alberta Infrastructure and Transportation* Minister, Dr. Lyle Oberg.
[g] February 7, 2007 letter to the Canadian Taxpayers Federation from *Alberta Infrastructure and Transportation*.
[h] November 20, 2009 correspondence with Alberta Infrastructure.
[i] Statistics Canada, Table 327-0043: Price indexes of non-residential building construction, Edmonton and Calgary
[j] Ibid.

Chart 14 **– Capital Plan Spending 1992-93 to 2010-11**



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

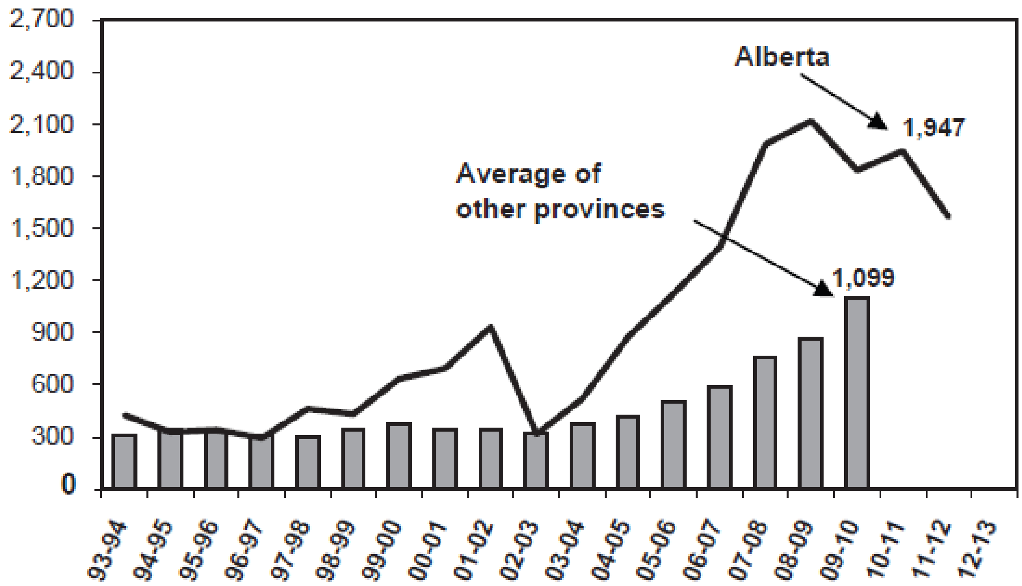
Alberta's labour force grew by 20.6 per cent between 2002 and 2009.[k] It stands to reason the number of roadway building and construction companies in Alberta has likely not grown by much more than what the labour force would allow. However, the Alberta government is spending 595 per cent more on capital projects in 2010-11 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 had driven up private-sector demand for construction projects (in Alberta). However, the Alberta government was also driving up prices with its inconsistent and inflated capital demands.

In comparison to other provinces, Alberta spends, per person, 75 per cent more than the national average.

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

***Chart 15* – Interprovincial Comparison of Capital Expenditure**[l]



In both the short and long-term the CTF believes that the Alberta government would get a better price for capital, while being able to continue to build the projects that are needed. The *Alberta Financial Management Commission* (AFMC), made many recommendations in regards to capital planning and spending in its 2002 report titled, "Moving from Good to Great."[m]

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 have been be as high over the past five years, lessening the waste of tax dollars.

[l] Budget 2010: Fiscal Plan, p. 23.
[m] "Moving from Good to Great.", *Alberta Financial Management Commission,* pg. 10-13

Table 4 **- Capital spending (in millions) as a percentage of two-year average Gross Domestic Product (GDP)**

Year*	Alberta GDP (millions)	Previous Two-year's Average GDP (millions)	Capital Plan spending (millions)	Capital plan spending as a percentage of two-year GDP
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	$240,026	$203,649	$4,769	2.34%
2007	$259,590	$229,230	$6,971	3.04%
2008	$282,889	$249,808	$7,942	3.18%
2009**	$240,156	$271,240	$6,951	2.56%
2010***	$259,165	$261,523	$6,926	2.65%
2011***	$278,882	$249,661	$3,287	1.32%
2012***	$297,382	$269,024	$3,287	1.22%
2013***	$317,126	$288,132	$3,287	1.14%

* GDP presented in calander year format, capital plan spending presented in fiscal year format
** Alberta Finance and Enterprise estimates, 2Q Budget update Capital Plan spending
*** GDP estimates from Finance, Captial Plan spending based on CTF recommendations

As seen in Table 4 above, in the last 18 years, Alberta has dipped below the 0.9 per cent floor only once (in 2002-03), has gone above the 1.5 per cent ceiling ten times and has been within that range seven times. Further, in only one of the past ten fiscal years has the government been within the 0.9 and 1.85 per cent range (2003-04).

For the 2010-11 budget, based on the 0.9 per cent to 1.5 per cent of previous two-year's average GDP (2008 and 2009) range, the Alberta government should be spending a minimum of $2.4 billion and a maximum of $4 billion[n] on capital plan spending.

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

[n] Range determined by using the Alberta Budget 2009 projections for Alberta's GDP growth for 2008 and 2009.

sector. Therefore, a predictable level of spending is beneficial to prices over the long-term.

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

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

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

***Table 5* – Government of Alberta Capital Plan spending (in millions) broken down into horizontal, vertical and other spending 2001-02 to 2010-11**

Year	Horizontal	Vertical	Other*
01-02	$830	$1,939	$91
02-03	$472	$430	$95
03-04	$676	$904	$79
04-05	$570	$1,810	$462
05-06	$769	$1,806	$1,168
06-07	$924	$2,599	$1,246
07-08	$1,388	$3,899	$1,684
08-09	$1,711	$3,943	$1,939
09-10	$1,681	$2,852	$1,995
10-11	$1,815	$3,185	$1,926

* prior to 2004-05 municipal support was broken down into horizontal and vertical

As you can see from Table 5 above, vertical infrastructure is a large portion of government spending on capital.

RECOMMENDATION #2
Extend the three-year Capital Plan over five years, focusing the majority of the extension on vertical infrastructure

RECOMMENDATION #3
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)

Reduce employee costs

2010-11

CTF Supporter Survey

Do you favour reducing spending on employee costs?

Yes, by reducing the number of employees	36%
Yes, by cutting wages	6%
No	8%
No, in fact wages and number of employees should go up	3%
Both by reducing the number of employees AND by cutting wages	**42%**
Undecided	5%

"The salaries and allowances of elected officials will be frozen for a total of five years. Other actions included:

- a one-year freeze on civil service management salaries,
- a one-year freeze on hiring for salaried positions, and
- cuts in discretionary spending, including travel and hosting."

- *Hon. Dick Johnston, Provincial Treasurer, 1992 Budget Address*

According to the National Governors Association's Center for Best Practices, "Throughout fiscal years 2009 and 2010, 29 states have used layoffs; 26 states have imposed furlough days; 13 states have reduced employee benefits; and 15 states have issued salary reductions, all as parts of an overall strategy to reduce or eliminate budget gaps."[o]

Roll back salaries by 5 per cent

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

Further, in 2009 the New Brunswick government implemented a two-year wage freeze for all employees. Again, due to existing collective agreements, the wage freeze will take effect for different unions at different times depending on when their contract is up. Following the end of their respective contracts, each union will be facing a two-year wage freeze.

While Premier Stelmach has announced a wage freeze for 4,400 managers and 2,100 senior staff for the next two years, this will not result in significant savings. According to some reports this will only save the province $22 million.[p]

In 2010-11, the Alberta government will spend $2.6 billion[q] on "salaries, wages, employment contracts and benefits" for Alberta's 28,617 civil servants.[r] A 5 per cent cut to their wages would result in a savings of approximately $132 million.

[o] http://www.nga.org/Files/pdf/1010STATEGOVTREDESIGN.PDF – p. 13
[p] http://www.cbc.ca/canada/calgary/story/2009/10/14/alberta-premier-tv-speech-stelmach-economy-calgary.html

In addition, in both 2007-08 and 2008-09 the Edmonton Public School Board spent 79 per cent of all of their dollars on "salaries and employee benefits."[s] Similarly Calgary Catholic School Board spent 77.3 per cent of their budget on salaries and benefits in 2009-10 and is budgeted to spend 75.5 per cent in 2010-11.[t]

Assuming similar levels (77 per cent) across the province, of the $5.6 billion sent to school boards in 2009-10, $4.3 billion of which would have been spent on salaries. If every employee was to take a 5 per cent salary roll-back, this would save an additional $214 million.

According to Alberta Health and Wellness,[u] approximately 70 per cent of the Alberta Health Services budget of $11 billion[v] is spent on salaries. A 5 per cent roll-back would net an additional $387 million in savings.

***Table 6* – Approximate savings from a 5 per cent wage roll-back**

Division	5% wage roll back (millions)
Government of Alberta	$132
School Boards	$214
Alberta Health Services	$387
Total	**$733**

In total, a 5 per cent wage roll-back for all public servants would save approximately $733 million.

RECOMMENDATION #4
Negotiate a 5 per cent wage roll-back with all public servants

Introduce a furlough for non-essential staff

An alternative way to reduce pay of bureaucrats, without negotiating wage rollbacks, is to introduce a furlough. A furlough is an unpaid leave for staff. This can either be a long or short period of time.

This has been used before in the past by government in Canada, including the provinces of Manitoba, Ontario and Nova Scotia.

---

[q] Budget 2010 – Ministry Expense by Object – p. 73
[r] Budget 2010 – Full-Time Equivalent Employment p. 85
[s] http://www.epsb.ca/datafiles/FinancialStatements_09.pdf
[t] http://www.cssd.ab.ca/files/financial_reports/10-11operating-budget-final.pdf – p. 37
[u] E-mail correspondence with Andy Weiler, Director of Communications, Alberta Health and Wellness, November 19, 2009.
[v] http://www.albertahealthservices.ca/Publications/ahs-pub-financial-quarterly-2010-09-30.pdf

In 1993, the Progressive Conservative Manitoba government introduced a voluntary 10 day of unpaid leave. These were dubbed "Filmon Fridays" after the premier at the time, Gary Filmon. After the first year, this leave was negotiated into union contracts and became mandatory for the next four years.[w]

Also in 1993, the NDP Ontario government implemented 12 days a year of unpaid leave. These were dubbed "Rae Days" after the premier at the time, Bob Rae. At the time, the 12 days unpaid leave were considered equivalent to a five per cent pay cut.[x]

Nova Scotia introduced the *Unpaid Leave Act* in 1993 mandating five days per year of unpaid leave per employee. This was equivalent to a 2 per cent reduction in pay.[y]

More recently, US states have been implementing furloughs as a way of cutting costs. In fact, 26 US states have used furloughs. For example, Illinois required top managers and policy advisors to take 24 days off unpaid. Hawaii forced teachers to take 17 unpaid days off in 2010.[z]

RECOMMENDATION #5
Implement 12 unpaid days off per year for non-essential government employees

Continue the hiring freeze

Over the past decade the Alberta government has seen a 19 per cent increase in the number of full-time equivalent (FTE) employees (not including school boards or health authorities). This means that there are at least 4,589 more employees today than ten years ago.

In their 2009 budget the New Brunswick government, did not simply freeze hiring, they eliminated 800 jobs.

If a small province like New Brunswick can manage to eliminate nearly a thousand bureaucrats, Alberta should be able to eliminate four to five times as many.

Furthermore, 29 US states have begun to layoff government employees as a way to cut costs. For example, the State of Indiana has reduced the number of state employees by 18 per cent – more than 6,000 positions. This has resulted in the state having fewer employees than it had in 1975.[aa]

It must be remembered that government is there to provide services to its citizens, not simply as a job creation tool on the public dime.

---

[w] http://www.winnipegfreepress.com/breakingnews/Province-freezes-wages-84489287.html
[x] Canadian annual review of politics and public affairs, 1993 edition. University of Toronto Press, 1999. p. 138.
[y] Ibid. p. 5
[z] http://www.nga.org/Files/pdf/1010STATEGOVTREDESIGN.PDF – p. 13
[aa] Ibid.

When it comes to the public school system we have certainly seen job growth dwarf that of the growth in K-12 student population.

***Table 6* – Change in Alberta's K-12 student population and teachers 1999-00 to 2009-10**

Year	Alberta K-12 Student Population	% change from 99-00	Number of Teachers	% change from 99-00
2009-10	606,627	3.9%	35,058	13.5%
2008-09	602,218	3.2%	34,822	12.7%
2007-08	600,347	2.9%	34,383	11.3%
2006-07	601,687	3.1%	33,742	9.2%
2005-06	591,912	1.4%	33,719	9.2%
2004-05	592,328	1.5%	33,259	7.7%
2003-04	592,731	1.6%	31,955	3.5%
2002-03	594,332	1.8%	32,717	5.9%
2001-02	590,906	1.2%	32,468	5.1%
2000-01	590,441	1.2%	32,168	4.1%
1999-00	583,675	n/a	30,889	n/a

Between 1999-00 and 2009-10, the number of K-12 students increased by 3.9 per cent (22,952 new students),[bb] yet during the same period the number of teachers working in Alberta has increased by 13.5 per cent (4,169 new teachers).[cc] This means that there was a new teacher hired for every five-and-a-half new students.

We would encourage the Alberta government to review staffing and determine whether or not every current staff position is necessary. At the very least, the government must maintain its hiring freeze and not fill positions when people retire or leave, as long as the deficit remains.

RECOMMENDATION #6
Maintain the current hiring freeze and don't fill vacant positions unless absolutely essential

Freeze and fix bonuses

The CTF applauds the Alberta government for freezing government bonuses. This step should save about $44 million[dd] in 2010-11.

However, the real issue is not the fact that bonuses are paid in government; it's the way they are paid.

[bb] http://education.alberta.ca/apps/statistics/studpop/studpop.asp
[cc] http://www.teachers.ab.ca/Teaching%20in%20Alberta/Facts%20About%20Education/Pages/Facts%20about%20Education.aspx
[dd] http://www2.canada.com/calgaryherald/story.html?id=2053783

The Canadian Taxpayers Federation is not completely opposed to the idea that bonuses could be paid in the public sector. However, the criteria for achieving a bonus needs to be clearly laid out, with tangible benchmarks and pre-established bonus levels. Most importantly, the bonuses should only be paid out for efficiency gains. If a public servant is able to make changes that provide a service more efficiently or cheaper than in the past, it is acceptable to provide a financial bonus.

Simply showing up to work and doing the job they were hired to do is why they receive a salary.

The contract of former Alberta Health Services CEO, Stephen Duckett clearly stated that he would have been paid a bonus for reducing costs in the health care system. This is a transparently established target, with a goal of increasing efficiency or reducing costs. This is an appropriate bonus structure.

The CTF recommends the government re-establish bonus pay based on transparent criteria that benefits taxpayers on a tangible basis. If this is not done, bonuses should not be paid, deficit or no deficit.

RECOMMENDATION #7
Maintain freeze on bonuses until transparent, taxpayer-benefitting goals can be established

Cancel the carbon capture and storage and Green TRIP programs

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

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

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

Since there was no surplus in 2008-09, and in fact an $852 million deficit, it would stand to reason dollars allocated from a non-existent surplus should no longer be allocated.

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

Furthermore, the CCS projects are expected to remove five megatonnes of C02 from the atmosphere by 2015. To put that into context, five megatonnes of C02 is only 0.69 per cent of all greenhouse gas emissions in Canada (721 megatonnes in 2006).

Or put another way, since Canada's emissions are only 2.2 per cent of all C02 emissions world wide (2004), these projects will remove 0.015 per cent of world emissions at a cost of $2,000,000,000.

Essentially, it will cost taxpayers $400 per tonne to capture and store this C02 underground. From a per tonne standpoint, this is extremely expensive compared to the prices of carbon offsets that can be purchased around the world.

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

The cost to purchase these offsets range from a low of $3 per tonne to a high of $80. Even companies like Air Canada sell offsets. For example, someone wanting to off-set the carbon emissions from their flight can calculate their emissions on-line and then purchase an offset from Air Canada at a cost of $16 per tonne. Air Canada then passes the money on to an offset company who uses it to plant trees in British Columbia.

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

According to Budget 2009, $100 million from the CCS fund and $10 million from the Green TRIP program have already been allocated. In Budget 2010, $100 million of the CCS fund and $70 million of the Green TRIP program were allocated. This would still leave $3.72 billion left unallocated.

RECOMMENDATION #8
Eliminate the carbon capture and storage program and the Green TRIP program

Eliminate Alberta’s venture capital fund

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

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

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

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

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

However, governments using tax dollars for venture capital funds is not a new phenomenon in Canada, the results are not very positive for taxpayers.

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

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

To date, the Alberta Enterprise Corporation has invested $15 million (USD) into Chrysalix's clean energy venture capital fund[ii] and $14 million into Yaletown Venture Partners venture capital fund for information technology and clean energy.[jj]

Closing down and eliminating this fund will net taxpayers a one-time savings of $71 million.

RECOMMENDATION #9
Eliminate the Alberta Enterprise Corporation

Chop the Alberta Multimedia Development Fund

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

[ff] Milke, M. (2002) *Tax Me, I'm Canadian: How Politicians Spend Your Money*, Canada: Thomas and Black, p. 197.
[gg] Vivone, R. (2009). *Ralph Klein Could Have Been a Superstar: Tales of the Klein Era*, Kingston, ON: Patricia Publishing Inc., p. 77.
[hh] http://strategy.sauder.ubc.ca/hellmann/pdfs/Brander%20Egan%20Hellmann%20-%20NBER%20Final%20Version.pdf
[ii] http://alberta-enterprise.ca/news/news--events/chrysalix-announcement
[jj] http://alberta-enterprise.ca/news/news--events/yaletown-announcement

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

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

In 2009-10 the Alberta Film Development Program distributed $20.3 million.[kk] This program has been re-named the Alberta Production Program, and has been rolled into the new Alberta Multimedia Development Fund.

***Table 8* – Alberta Film Development Fund Grant Recipients 2008-09**[ll]

Production Company	Project Name	Amount ($)
Burn Up Productions Canada Inc.	Burn Up	$1,651,702
Christmas In Wonderland Productions	Christmas In Wonderland	$915,621
DEF Productions Inc	Freezer Burn	$913,474
Prairie Schooner Films Inc	The Valley of the Wild Roses	$731,104
Four Heros Productions Inc (Aver Media)	Mayerthorpe (To Serve and Protect Volume II)	$703,801
Snow 2 Productions Inc.	Snow 2	$634,919
Snow Globe Productions Inc.	Snow Globe	$615,907
Weight To Go II Productions Inc.	X-Weighted Season II	$546,650
Nutcracker Productions	The Nutcracker	$530,997
Weight To Go III Productions Inc.	X-Weighted Season III	$523,401
The Rig II Productions Inc	The Rig Season II	$422,149
Dear Prudence Productions	Dear Prudence	$400,475
Christmas Miracle Productions	Christmas Miracle	$366,925
1363011 Alberta Inc.	At the End Of My Leash Season III	$346,725
1363004 Alberta Ltd.	At the End of My Leash Season II	$336,720
Other Woman Productions	The Other Woman	$326,924
Triple G Productions Ltd.	Grace	$319,920
Pyramid HD Inc.	Whatever Happened to...? Season II	$316,560
Bride Productions Inc.	The Daughter of the Bride	$313,666
Going Nuts Productions	Caution: May Contain Nuts Season I	$304,219
Mixed Blessings - The Series Ltd.	Mixed Blessings Season II	$303,463
EMW Productions Inc.	Easton Meets West Pilot	$300,163
45 RPM Productions Inc.	45 RPM	$270,207

[kk] http://culture.alberta.ca/about/publications/2010/Annual-Report.pdf – p. 11
[ll] http://culture.alberta.ca/multimediafund/pdf/AFDP_2008-09_Report.pdf

Frame 30 Film Productions	The Greatest Auto Race	$246,775
Pyramid Productions Inc.	Inside Hollywood II	$203,083
Raven Tales Alberta Ltd.	Raven Tales (Ep. 8-13)	$190,236
1050192 Alberta Inc. (MiMedia Inc.)	Eat, Shrink, and Be Merry Season II	$164,846
Pyramid Productions Inc	The Role that Changed My Life	$163,374
Changing Climate (Voice) Inc	Changing Climates	$155,176
Pyramid Productions Inc.	Hollywood's Greatest Mysteries II	$128,766
Corkscrew Media Inc	It’s Just Food II	$127,887
Pyramid Productions Inc.	Hollywood's Greatest Mysteries III	$122,969
Corkscrew Media Inc	Divine Life IV	$115,259
PMR Idea! Production Inc.	A Priest, A Monk & A Rabbi	$113,752
Pyramid Productions Inc.	Biography Season VII	$98,456
Pyramid Productions Inc.	Biography III	$97,678
Fish Out of Water Productions 2 Inc.	Fish Out of Water Season II	$97,626
Simple Fresh Delicious Productions Inc.	Simple Fresh Delicious Season III	$90,057
One Child Productions Inc.	One Child at a Time (Caught in the Web)	$87,081
Simple Fresh Delicious Productions Inc.	Simple Fresh Delicious Season II	$86,778
Pyramid Productions Inc.	Wild Horses of the Rockies	$86,094
Pyramid Productions Inc.	Biography Season VI	$68,226
Corkscrew Media Inc.	A George Canyon Christmas	$66,384
Without Women Productions Inc.	The Week the Women Went	$65,680
Tarsands Productions Inc.	Tar Sands	$52,561
White Iron Pictures Inc.	The Calgary Stampede: East Meets Western	$50,824
Ride Guide Productions Inc	Ride Guide Snow 2008	$50,439
Earth to Sky Pictures Inc.	Cure for Love	$49,564
Corkscrew Media Inc.	Divine Life Season III	$49,496
See You Productions Inc.	Close Up	$47,363
Corkscrew Media Inc	Prairie Town	$39,137
Force One Television Productions Inc.	The Force	$35,700
White Iron Pictures Inc.	Music Is the Message: Wil	$32,714
Reel Girls Media Inc	Capturing Cooperman	$31,788
Fiddle and Drum Productions Inc	The Fiddle and the Drum	$29,450
Emmaus Films Inc	Emmaus	$25,712
Pyramid Productions Inc.	In a World Created by a Drunken God	$24,737
Pyramid Productions Inc	Bio Bites Interstials	$17,444
Main Ditch Production Inc.	Steve Bell with the ESO	$13,909
Panacea	Seeds of Change: The ECO story	$12,859
Burning Bridge Entertainment Inc.	Promise	$12,061
Crowsnest Films Ltd.	Corb Lund: Cavalry	$10,604
Crowsnest Films Ltd.	Corb Lund: Family Reunion	$9,200

RECOMMENDATION #10
Eliminate the Alberta Multimedia Development Fund

Lead by example

Cut MLA pay
In May 2008 the Members' Services Committee of the Alberta Legislature voted to significantly increase MLA committee pay. In addition, the maximum level of committee pay ($42,000) was provided to the speaker, leader of the official opposition and leader of the third party.

This decision pushed the speakers and the leader of the official opposition's pay to higher than the premier. Clearly, this was a grave error. However, the error was compounded a week later when cabinet voted to give themselves a $42,000 pay hike and the premier a $54,000 pay hike. This amounted to an approximate 30 per cent hike in pay.

In October 2009, the premier and cabinet opted to reduce their pay by 5.4 per cent ($12,204) and 3.2 per cent ($6,396) respectively.

***Table 9* – Change in premier and cabinet pay April 1, 2008 to October 15, 2009**

April 1, 2008 - May 28, 2008		
	premier	**cabinet**
MLA base pay	$52,092	$52,092
tax-free portion	$26,046	$26,046
sub-total	*$78,138*	*$78,138*
actual value	**$90,953**	**$90,953**
premier/cabinet pay	$81,312	$63,912
committee pay	$0	$0
Total	**$172,265**	**$154,865**
May 28, 2008 - October 14, 2009		
	premier	**cabinet**
MLA base pay	$52,092	$52,092
tax-free portion	$26,046	$26,046
sub-total	*$78,138*	*$78,138*
actual value	**$90,953**	**$90,953**
premier/cabinet pay	$81,312	$63,912
committee pay	$54,000	$42,000
Total	**$226,265**	**$196,865**
Difference	**31.3%**	**27.1%**
October 15, 2009		
	premier	**cabinet**
MLA base pay	$52,092	$52,092
tax-free portion	$26,046	$26,046
sub-total	*$78,138*	*$78,138*
actual value	**$90,953**	**$90,953**
premier/cabinet pay	$81,312	$63,912
committee pay	$41,796	$35,604
Total	**$214,061**	**$190,469**
Difference	**-5.4%**	**-3.2%**

Regardless of the size of the pay hike, or subsequent pay cut, the bottom line is that politicians should not be allowed to set their own pay levels. It is a conflict of interest.

Further, in order to have the moral authority required to implement even a pay freeze for bureaucrats, let alone a cut, MLAs should be reversing their large pay hikes of May 2008. While it's virtually impossible to be able to peg an exact figure, it can be assumed that backbench MLAs received an approximate $30,000 pay hike. If that amount, along with $35,604 from each cabinet minister and $41,769 from the premier was returned, it would save approximately $2.63 million annually.

<u>RECOMMENDATION #11</u>
Reverse the 2008 MLA, cabinet and premier's pay hikes

Eliminate MLA severance payments

There were 33 retired or defeated MLAs after the March 3rd, 2008 election. Twenty of them retired and 13 were defeated. Any MLA that retires or is defeated is eligible to collect a "transition allowance" equivalent to three months salary (and RRSP contribution) for each year served as MLA. In 2008, the estimated payments ranged from a low of $11,511 to defeated Liberal MLA Craig Cheffins to a high of $601,744 to retired PC MLA Mike Cardinal.[mm]

Few workers get more than two weeks severance for each year of employment, let alone three months, and no one gets paid severance for quitting or retiring. Conversely, if this is intended to be a retirement payment, then taxpayers shouldn't be funding MLA RRSP contributions as well.

MLAs are currently provided with a RRSP allowance equal to 50 per cent of the maximum RRSP contribution limit. (Limit is $22,450 for 2011)

The current transition allowance formula was passed by the all-party Member Services Committee shortly after the 2001 election.

Following the 2008 MLA pay hike, the value of transition allowances increased significantly. In 2008, taxpayers paid out an estimated $8,126,106 in transition allowances. Assuming the average pay hike was equivalent to approximately 25 per cent of the current salary, it should be assumed eliminating this perk could save approximately $10.2 million each election or $2.5 million each year.

RECOMMENDATION #12
Eliminate MLA severance payments

Implement an MLA hiring freeze

Bill 45, the *Electoral Boundaries Commission Amendment Act* was passed into law on June 4, 2009. In addition to establishing the latest Electoral Boundary Commission, the bill increased the number of MLAs from 83 to 87.

This move will put Alberta with two more MLAs than neighbouring British Columbia, despite B.C. having over three-quarters of a million more citizens.

The cost of adding an additional MLA would amount to approximately $500,000 each year, including salary, staff, travel and constituency office rent and equipment.

Adding four more MLAs will cost taxpayers approximately $2 million each year.

If the government is prepared to implement a hiring freeze for government employees, it should extend to MLAs as well.

[mm] http://www.taxpayer.com/sites/default/files/TransitionAllowanceAlberta2008.pdf

RECOMMENDATION #13
Reverse the decision to increase the number of MLAs from 83 to 87

Reduce the size of cabinet

When Ralph Klein became premier one of his first decisions was to reduce the number of ministries from Don Getty's 26 to 16. He did this intentionally to set the tone of cost cutting in the face of significant deficits.

Eventually Klein's cabinet increased to 24 members.

As the cabinet grew, so too did spending (see Chart 13 on page 23).

This is to be expected, as each cabinet minister is charged with the responsibility to do the best job they can for their respective departments. With every new ministry and every new minister that is another hand out around the cabinet table demanding more money for their own department.

When Ed Stelmach was running for the leadership, he agreed with this observation from his years in Klein's cabinet, stating: "I believe that a smaller Cabinet executive that focused on the priorities of building a stronger Alberta, managing growth, and improving the quality of life is more effective in meeting the immediate challenges facing the province."[nn]

And that is exactly what he did when elected premier.

Premier Stelmach's first cabinet was significantly reduced from Klein's 24 to 18.

The Premier stated in the news release: "The people of this province told me they wanted more effective government, not more of it."[oo]

According to CTF calculations based on figures provided by the Alberta Liberal caucus, combining eight ministries into four (Infrastructure and Transportation, Treasury Board and Finance and Enterprise, Municipal Affairs and Housing and Urban Affairs, International and Intergovernmental Affairs and Executive Council) would save approximately $29 million.

RECOMMENDATION #14
Reduce the number of cabinet ministers and departments

[nn] http://www.taxpayer.com/alberta/ctf-calls-premier-stelmach-cut-down-size-cabinet

[oo] http://alberta.ca/home/NewsFrame.cfm?ReleaseID=/acn/200612/2090686D62539-DEAB-4B63-2047FAC61EB464B8.html

Say no to funding new NHL arenas

Both the owners of the Edmonton Oilers and the Calgary Flames have expressed interest in building new NHL arenas in their respective cities. While there is no formal ask that has been made public, it is expected that both teams will seek municipal, provincial and federal funding to assist in purchasing them a new arena.

The Alberta government should reject all requests for funding.

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

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

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

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

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

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

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

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

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

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

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

To date, Premier Stelmach has been clear about the province's denial of tax dollars to build an arena.[pp] However, nothing has been said about the use of a Community Revitalization Levy, which would use provincial education property tax dollars. The CTF is hoping the Premier's stance extends to Community Revitalization Levies.

RECOMMENDATION #15
Deny provincial funding for new NHL arenas in Edmonton and Calgary, including denying any Community Revitalization Levies

No more bonds or borrowing

In September 2009, the Alberta government started to do something it hasn't done in many, many years – borrow money. Initially, the government issued bonds through the commercial market. However, starting in February 2010 the government attempted to get Albertans to embrace the return to debt, by selling them exclusive, Alberta-only, savings bonds.

At the time of the 2009 budget the government claimed they wanted to take advantage of 'low-cost' borrowing. In a nutshell: instead of pulling money out of the $17 billion *Sustainability Fund*, they would borrow the money to build some infrastructure projects. The belief was that the government could, for example, earn a 4 per cent return annually on the money in the *Sustainability Fund*, while borrowing money at a 3.5 per cent interest rate, thereby creating a potential 0.25 per cent to 0.5 per cent spread.

The expected profit on $3.3 billion of borrowed money ($1.1 billion borrowed per year for three years) would amount to profit of $8.25 million to $16.5 million annually.

At the time of Budget 2010, it was confirmed that Alberta Finance no longer viewed borrowing as a potential profit generator anymore.

In June 2009, the government borrowed an additional $1.2 billion to cover the first payment on the unfunded liability in the Alberta teachers' pension plan.

[pp] http://www.edmontonsun.com/news/alberta/2010/09/09/15299091.html

***Table 10* – General and Teacher's Pension Re-financing borrowing September 2009 to present**[qq]

General Borrowing				
Trade Date	**Term**	**Interest Rate**	**Amount Borrowed**	**Type**
September 21, 2009	10 years	4.00%	$600,000,000	Public Bond Offering
September 25, 2009	5 years	2.93%	$291,414,000	Private - CPP Investment Board
October 7, 2009	5 years	2.75%	$500,000,000	Public Bond Offering
February 16, 2010	5 years	3.30%	$78,733,339	Alberta Capital Bonds
Total			**$1,470,147,339**	
Teacher's pension re-financing				
Trade Date	**Term**	**Interest Rate**	**Amount Borrowed**	**Type**
December 9, 2009	10 years	4.00%	$350,000,000	Public Bond Offering
December 9, 2009	5 years	2.75%	$250,000,000	Public Bond Offering
January 20, 2010	30 years	4.50%	$600,000,000	Public Bond Offering
Total			**$1,200,000,000**	

Fortunately, the initial borrowing was done at the lowest rates available to the government. Unfortunately, for the Alberta Capital Bonds, the government offered them at a higher than market rate (3.3 per cent vs. 2.75 per cent).

The CTF calculates this premium will cost taxpayers nearly $2.4 million in additional interest payments to bond holders. This is in addition to the approximate $472,000 the government paid to banks and bond salespeople. Moreover, the government spent additional tax dollars to advertise the sales of those bonds.

Considering debt is rarely ever an opportunity to save money, as was admitted at the time of the release of Budget 2010. Considering taxpayers got a bad deal with the issuing of Alberta Capital Bonds, the CTF would recommend no more borrowing or bond issues in the future.

RECOMMENDATION #16
Abandon any plans for future bond issues and borrowing

Furthermore, to ensure that the borrowing was only done against the Sustainability Fund, as was originally promised, it would stand to reason that the amount borrowed for capital purposes ($1,470,147,339) be transferred to the Debt Repayment Account.

If this is not done and the Sustainability Fund is drained entirely over the next two years, this will put Alberta back in the position of having a debt.

RECOMMENDATION #17
Transfer $1,470,147,399 from the Sustainability Fund to the Debt Repayment Account

[qq] Correspondence with Alberta Finance and Enterprise, January 5, 2010.

Summary

***Table 11* – One-time and annual savings from CTF recommended cuts**

Cuts	One-time ($ millions)	Annual ($ millions)
5% cut in operation spending		$1,662.8
Extend 3-year capital plan to 5 years		$3,287.3
5% salary roll-back		$732.8
Carbon Capture and Storage	$1,800.0	
Green TRIP	$1,920.0	
Venture Capital Fund	$71.0	
Alberta Multimedia Development Fund		$20.3
MLA pay		$2.6
MLA severance payments		$2.5
Scrap plan to increase number of MLAs		$2.0
Reduce number of ministries		$29.0
Total	**$3,791.0**	**$5,739.3**

FIXING THE PROBLEM: MEDIUM & LONG TERM

Legislate a future cap on spending

While the CTF recommends cutting spending this year, we have learned over the past decade that governments with money will spend it. In order to protect taxpayers from future tax hikes or spending cuts, growth in spending must be controlled, and not allowed to ramp up as rapidly as it has in the past.

As seen from Table 1 on page 23, in all but two of the past ten years, 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 is the cause of current budget instability, mostly because it has driven up reliance on non-renewable resource revenues.

Why legislate a spending cap?

- It works:

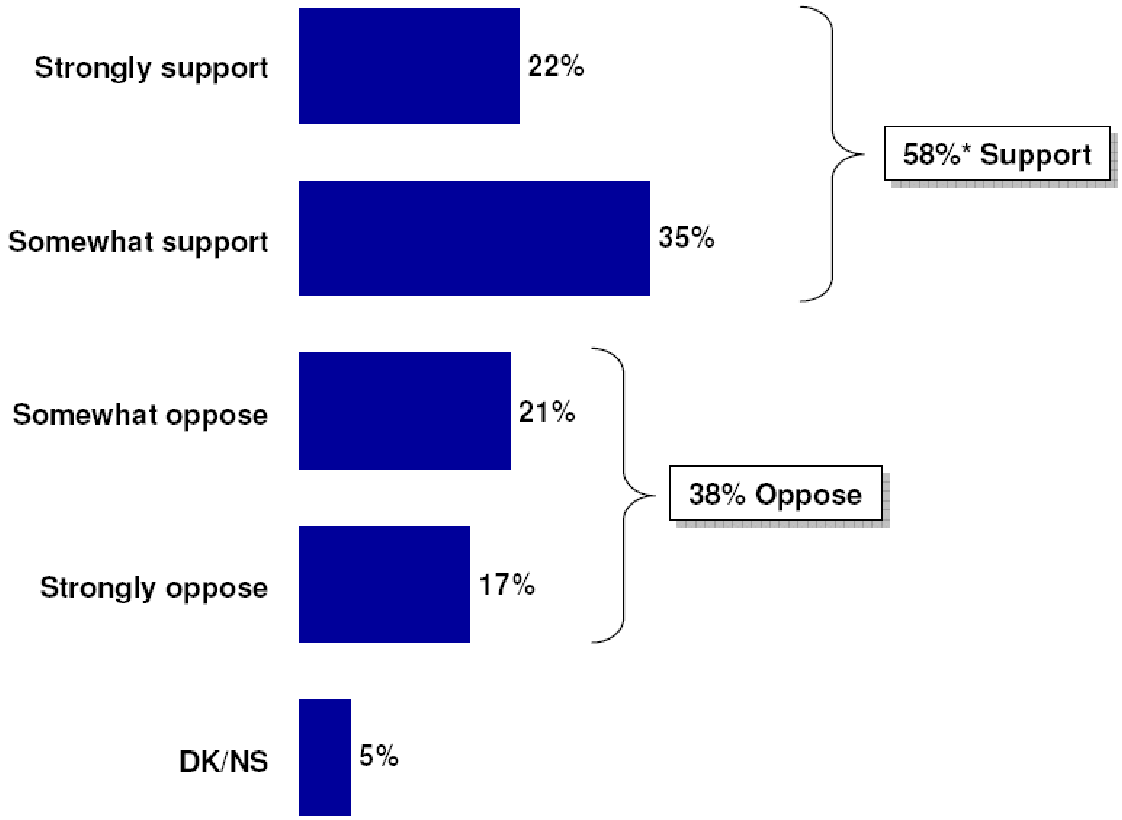
A 2003 *Fraser Institute* study entitled, "Tax and Expenditure Limitations – The Next Step in Fiscal Discipline," looked at the experience of 27 American states which have laws specifically targeting growth in government spending and taxes. The study considered taxation and spending over long periods and concluded they are effective in constraining the growth of government and reducing taxes.

Expenditure limitation laws have worked wonders for taxpayers in the State of Washington. From 1980 to 1995, Washington's population grew an average of 1.2 per 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 $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. Indeed, Alberta would not be in the prosperous position it is today had the Klein government not introduced these laws.

RECOMMENDATION #18
Introduce a legislated spending cap so that annual program spending in the future cannot increase by more than the combined growth rates of Alberta's population and inflation

Once again 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 in 2007 when-then Finance Minister Dr. Lyle Oberg declared there would be no operational spending increases during the fiscal year. As of the end of the fiscal year, program spending had only increased by $304 million – none of which was operational spending.

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

Yet the significant danger in allowing in-year spending was clearly illustrated in 2008-09 when even before the first quarter budget update had been released showing a projected $8.5 billion surplus, the government had already committed $4 billion to Carbon Capture and Storage and the Green Transit Incentives Program (TRIP).

Of course, this surplus did not materialize, and the government instead ran an $852 million deficit.

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 in the never-too-distant future.

Only resource revenues have to, by law, flow through the *Sustainability Fund*, whereas other sources of revenue do not. Granted, the government often did 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 12* – Original budgeted program spending vs. quarterly updated spending (in millions)**

Year	Budgeted Spending	First Quarter Spending	Second Quarter Spending	Third Quarter Spending	Final Spending	In-year unbugeted 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	$33,331	$33,533	$33,218	**$304**
08-09	$36,783	$37,831	$37,690	$36,838	$36,449	**-$334**
09-10	$36,176	$36,242	$36,722	$36,942	$36,470	**$294**
10-11	$38,716	$38,995	$38,771	n/a	n/a	**$55**
* in-year unbudgeted spending based on 2nd Quarter update for 2010-11						

As seen in Table 12, for the past eight years, in-year unbudgeted program spending has averaged almost $1 billion a year.

Further, a May 2010 *C.D. Howe Institute* report entitled "Target Practice Needed: Canada's 2010 Fiscal Accountability Rankings,"[rr] ranked Alberta 12 out of 14 Canadian governments (13 provinces and territories and the federal government) in terms of accuracy in expenditure forecasts between 1999-00 and 2008-09. However, it should be noted the recent restriction on quarterly increases in spending, have improved that ranking from 13th.

Even when it comes to emergency spending, a minimum amount should be budgeted each year. While it might sound incongruent to budget for something that is deemed to be an emergency, it is clear that a base level of emergency funding is required each year.

***Table 13* – Disaster/emergency assistance funding (2002-03 to 2010-11)**

Year	Disaster/emergency asistance ($ millions)
03-04	$797
04-05	$705
05-06	$403
06-07	$476
07-08	$224
08-09	$493
09-10	$447
10-11	$534
Average	**$510**

Despite spending, on average, $510 million annually on disasters and emergencies, the Alberta government budgeted $0 this year. If it is not budgeted for, the money will have

[rr] http://www.cdhowe.org/pdf/backgrounder_129.pdf

to come out of the *Sustainability Fund*. As previously explained, this fund's assets are dwindling fast.

RECOMMENDATION #19
Pass legislation making any in-year unbudgeted spending with the exception of declared emergency spending, illegal

RECOMMENDATION #20
Budget $510 million per year for declared emergencies

Save non-renewable resource 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 16* – Program spending and sustainable own-source revenues from 1987-88 to 2010-11**

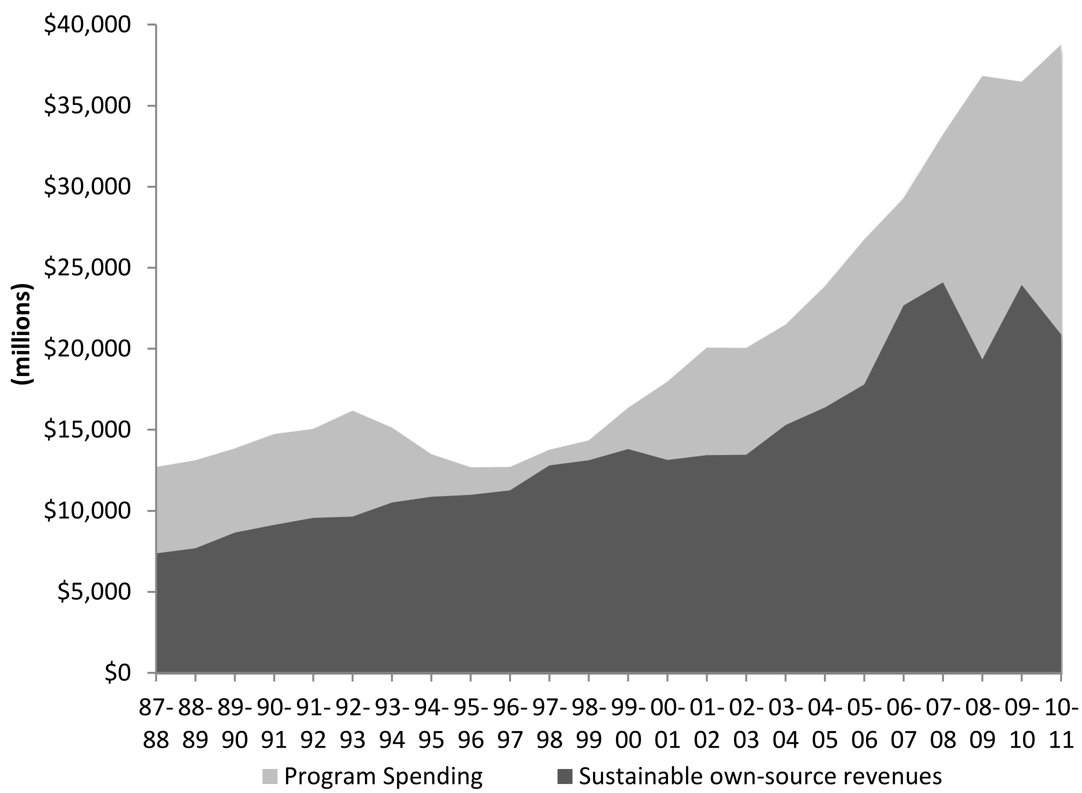


Chart 16 above illustrates the two key levels in determining long-term sustainability of any budget. The top level is program spending each year. The bottom level is sustainable own-source revenues. The area shaded in grey is where the two levels don't overlap. It represents the amount of program spending being funded each year by non-renewable resource revenues, federal transfers, *Sustainability Fund* withdrawals 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, and currently when the government is relying on short-term savings 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 spending.

In fact, in 2008-09, sustainable own-source revenues covered only 52.5 per cent of all program spending (the lowest point of sustainability in at least the last 24 years) with a close second being 2010-11 (53.8 per cent).

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 short term savings to balance the budget. This can work for a year or two but not any longer.

Create a "Future Fund"

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

Raising taxes is not an option, in fact, with fiscal discipline and wise use of resource revenues, taxes should be coming down in Alberta.

Cutting spending will be required this year to balance the budget, but deeper cuts will be needed in the future if sustainability is the goal.

The only option is to begin a significant endowment program.

As of the second quarter fiscal update the Alberta government is projecting the province will have $16.4 billion in net financial assets. These assets include eight 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 $14.1 billion (the *Sustainability Fund* was at $15 billion at the start of the year, but will be worth less than the *Heritage Fund* at the end of the fiscal year).

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

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

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

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

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

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

Use a resource revenue allocation formula

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 $133.8 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 $133.8 billion, it can be suggested that $22.7 billion was used for debt repayment and $17.2 billion was used for servicing that debt. Of the remaining $93.9 billion, ultimately $5.3 billion has been put towards savings (*Heritage Fund*, endowment funds, others),[ss] meaning all of the remainder ($88 billion or 66 per cent of the total) has been put towards spending (program and capital).

[ss] $5.3 billion in actual savings determined by taking current net financial assets ($16.2 billion) less cash within the Sustainability Fund ($11 billion) which is allocated for spending and not long-term savings.

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

RECOMMENDATION #21
Pass legislation specifying either a percentage or a minimum dollar amount of non-renewable resource revenues that must be put into an endowment savings account each year

Freeze and fix pension plans

In the public sector, 84 per cent of employees have an employer sponsored pension plan. In the private sector only 25 per cent have an employer sponsored pension plan.[tt]

Defined-benefit pension plans (which guarantee a defined level of payout and then work backwards to figure out how much needs to be contributed) have been rejected by the private sector as being too costly and too unpredictable. Private sector pension plans are now almost exclusively defined-contribution, (which like RRSPs define a contribution level, and then work to earn a maximum return for retirement).

In fact, 93.4 per cent of public sector employee pension plans are defined-benefit. Compare that to the 57.2 per cent of private sector employee pension plans that are defined-benefit.[uu]

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

If these assumptions are off even a hair it can create a larger unfunded liability. In fact, that's exactly what we saw in 2008 when the Alberta government's pension liabilities jumped from $5.6 billion in 2006-07 to $10.1 billion in 2008-09. As of the second quarter this year, the Alberta government's pension liability was still at $9.8 billion.

So, even if the Stelmach government cut a cheque tomorrow for the full $9.8 billion, it doesn't mean the unfunded liability is dead. If a couple of assumptions are wrong, taxpayers will be back on the hook to pay-off a new debt.

The government should be looking to follow the lead of many companies and governments in the US who have closed their old defined-benefit pension plans to new entry and created a defined-contribution plan for new employees.

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

According to the *Center for Retirement Research* at Boston College, since 1981 there has been an unquestionable shift in the private sector away from defined-benefit pension plans towards defined-contribution pension plans. The *Center* also points out that it's not only companies whose pension plans are on the verge of bankruptcy who are converting, but more recently, healthy companies are pro-actively converting their plans to ensure continued health and to head-off "market risk, longevity risk, and regulatory risk."

Blue-chip companies like IBM, Coca-Cola and Sears have all converted their pension plans to ensure the old pension plan wouldn't cripple their finances and offer up surprise unfunded liabilities in the future.[vv]

Even the Saskatchewan government under NDP Premier, Allan Blakeney, converted most of their public sector pension plans from defined-benefit to defined-contribution back in 1977. This was largely done in response to unpredictable and growing unfunded liabilities.[ww]

More recently, in the United States 17 state governments have made adjustments to their employee pension plans and benefits. The majority of those have adjusted the contribution rates of the employees. However, Utah closed its defined-benefit pension plan completely to new employees.

Other states have increased the retirement eligibility age. Vermont has risen its retirement age from 62 to 65 and both Missouri and Illinois have risen their retirement age to 67.[xx]

RECOMMENDATION #22
Reform public sector pension plans by closing entry to current plans and replacing defined-benefit pension plans with defined-contribution plans for all new employees

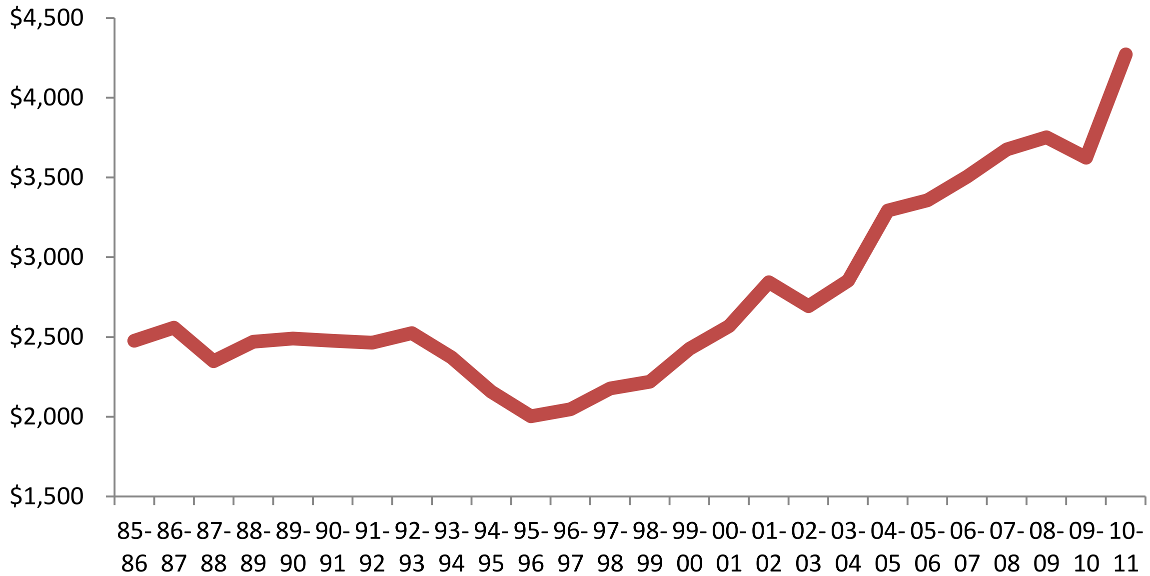
Don't back away from health care reform

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 at a badly flawed monopoly-system. Health care costs continue to increase every year well beyond inflation or population growth rates. Adjusting for inflation and population growth, health spending in Alberta has grown by over 66 per cent in the past decade. In absolute terms, health spending has gone from $5.9 billion a year in 2000-01 to $15.8 billion this year.

[vv] http://crr.bc.edu/images/stories/Pension_Freeze_Fact_Sheets/table2.pdf
[ww] http://www.innovation.cc/books/chapter02.htm
[xx] http://www.nga.org/Files/pdf/1010STATEGOVTREDESIGN.PDF – p. 14

***Chart 17* – Per capita health spending (in millions in constant 2010-11 dollars) 1985-86 to 2010-11**



This rampant increase in health expenditures might be more acceptable if results followed the dollars. According to the *Fraser Institute's* recently released wait time report, while Alberta has among the highest per capita expenditures on health care, we have the fifth shortest wait times. Moreover, since 1993, the median wait between referral by a doctor and treatment has increased by 87 per cent in Alberta.[yy]

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

[yy] Fraser Institute, "Waiting Your Turn: Hospital Waiting Lists in Canada", 19th Edition, October 2009 pg. 57. http://www.fraserinstitute.org/commerce.web/product_files/WaitingYourTurn_2009.pdf

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 Constitution Foundation* supported Calgary resident Bill Murray, in his constitutional challenge to Alberta's health care laws, which are almost identical to the Quebec law stuck 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 #23
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

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.

<u>RECOMMENDATION #24</u>
Amend the *Alberta Taxpayer Protection Act* to require a provincial referendum be held prior to increasing or adding <u>*any*</u> new provincial tax

Don't give municipalities new taxing powers

In March 2007, the *Minister's Council on Municipal Sustainabilit*y (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 per year 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 receive the equivalent of $1.2 billion each year from the province in Municipal Sustainability Initiative (MSI) funding. Moreover, 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.

Unfortunately, no city put this question on the fall 2007 ballot.

Only days before the October 15, 2007 vote, Edmonton Mayor Stephen Mandel said: "Looking at taxing authorities is really a moot topic. It's not something at this point in time that's front and centre in my mind."

However, during 2009, his call for new taxing powers returned.

In Edmonton, Mayor Mandel has asked city council to give him approval to meet with the Premier to discuss the potential for a hotel tax, an entertainment tax, a vehicle registration tax and rental car tax in Edmonton.

More recently Calgary's new mayor Naheed Nenshi has already indicated his desire to have a municipal income tax replace property taxes.[zz]

The CTF continues to believe that municipalities have the tools to raise revenues as they see fit, and any additional taxing powers would only lead to additional taxes for Albertans.

RECOMMENDATION #25
Do not grant any further taxing powers to municipalities unless they are first approved in a local or provincial referendum

[zz] http://calgary.ctv.ca/servlet/an/local/CTVNews/20101118/CGY_budget_mayor_101118/20101119