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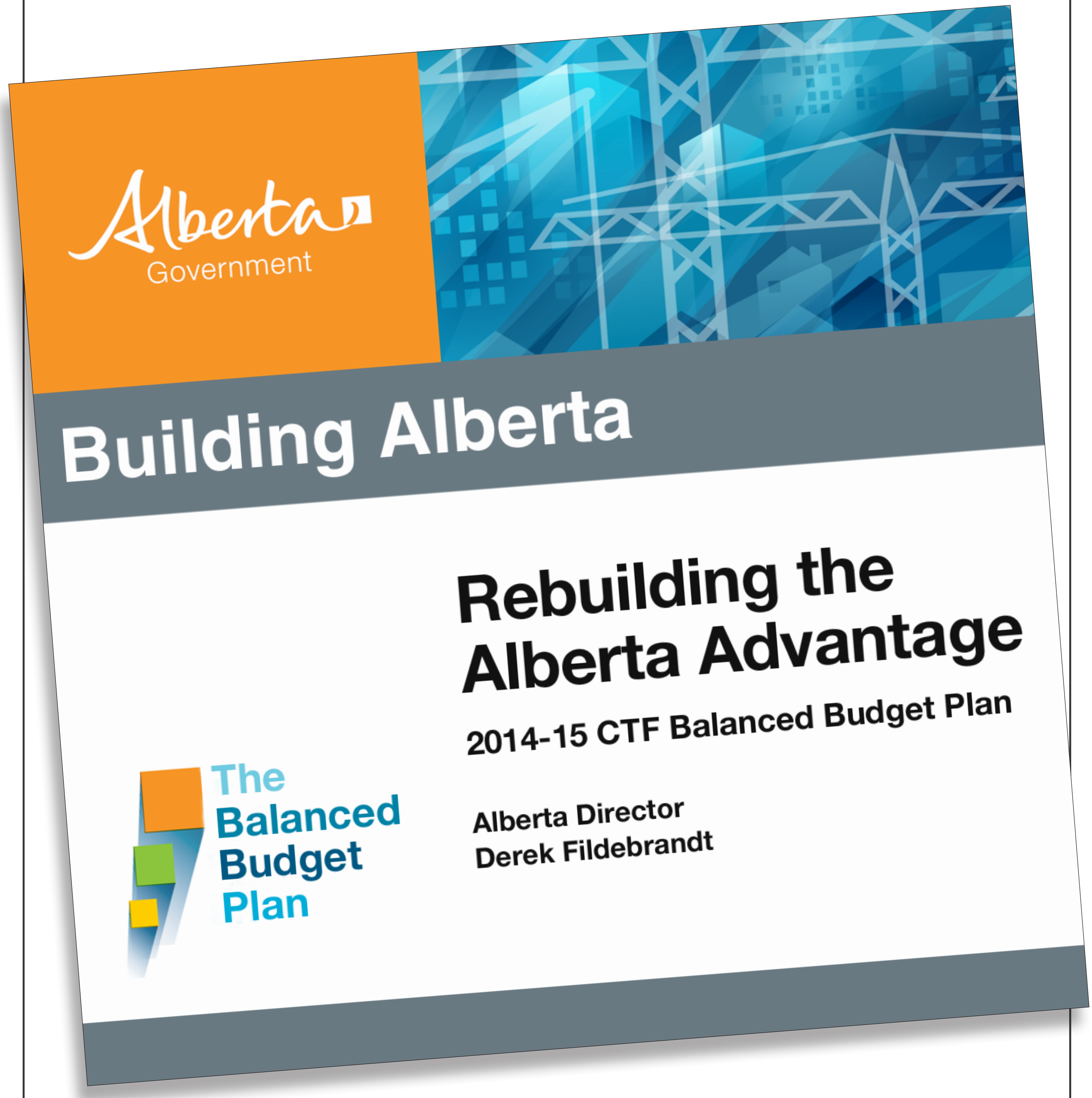

By Derek Fildebrandt
Alberta Director – Canadian Taxpayers Federation

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 1990 when the *Association of Saskatchewan Taxpayers* and the *Resolution One Association of Alberta* joined forces to create a national taxpayers organization. Today, the CTF has more than 84,000 supporters from coast-to-coast.

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

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

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

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

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I-SUMMARY OF MAIN FINDINGS

- Alberta is on track to run a $5.3 billion cash deficit for fiscal year 2013-14, and will continue to run deficits for the foreseeable future if there is no significant change to fiscal policy.

- Alberta will have a debt of $8.7 billion by the end of fiscal year 2013-14, $13.1 billion by the end of 2014-15, and $17 billion by the end of 2015-16.

- The government has drawn down the Sustainability Fund by $14.2 billion and taken on $7.8 billion in debt between 2009-09 and 2013-14. This is a combined $22 billion in wasted savings and debt to plug the 'short term' hole in the budget.

- Government spending has increased by 42% over the last decade, after adjusting for inflation and population growth.

- Non-flood related government spending will break an all-time record high in 2013-14, and break that record again in 2014-15 under the current fiscal plan.

- If the government had held spending increases to the combined rates of inflation and population growth over the last decade, it would spend $15.1 billion less in 2013-14 and would have been capable of massive investments into the Heritage Fund, while remaining debt-free.

II-SUMMARY OF RECOMMENDATIONS

General

- Put a stop to Alberta's growing debt.
- To balance the budget two years later than the Premier's pledge, cut overall spending by $2.4 billion in absolute terms, or $3.1 billion relative to planned spending.
- Keep the Premier's pledge to not raise tax during the mandate of this government or put it to a referendum.
- Create a Debt Free Alberta Account to hold cash surpluses and expected growth from savings to eliminate Alberta's debt before the end of fiscal year 2016-17.

Balanced budget plan

- Cut non-flood related operational spending by 3.8% across-the-board to save $1.4 billion relative to planned spending in 2014-15.
- Extend the five-year capital plan over seven years to save $1.6 billion annually.
- Reduce the number of core-government non-frontline bureaucrats by 5% to save $150 million.
- Negotiate – or if necessary legislate – a 2% wage rollback in wages government-wide to save $356 million.
- Enforce a hiring and wage freeze until the government-private sector wage gap is eliminated to save $751 million.
- Budget $500 million annually towards disasters and emergency spending.
- Eliminate bioenergy subsidies to save $66 million.
- Eliminate the carbon capture and storage program to save $60 million.
- Reduce GreenTRIP funding by 15% to save $14 million.

- Liquidate the Alberta Enterprise Corporation's $100 million in assets and put it towards the debt.
- Eliminate the Alberta Multimedia Development Fund to save $25 million.
- Eliminate partisan government advertising to save $1.7 million.
- Eliminate the Francophone Secretariat to save $1.3 million.

Protecting taxpayers against hikes

- Reject calls to impose a small-brewer import beer tax.
- Reject calls to implement a tax on specific food and drink choices.
- Reject PC Party's policy to reintroduce a health tax/premium.
- Reject calls for new municipal taxation powers unless they are approved in a referendum.
- Amend the *Alberta Taxpayer Protection Act* to require a provincial referendum to be held prior to increases or introducing any new provincial tax.

Fiscal federalism

- Demand a hard cap on the debt of provinces receiving Equalization.

Other

- Restore the *Government Accountability Act* and *Fiscal Responsibility Act*.
- Return Alberta to straightforward budgetary reporting and provide Albertans with a reconciled cash balance in budgets and quarterly updates.
- Pass a *Corporate Welfare Elimination Act* to strengthen the *Business Financial Assistance Limitation Act* and ban political donations from corporate welfare recipients.
- Pass a *Government Employee Pension Sustainability Act* based on the CTF's seven-point plan to make plans fair to taxpayers and sustainable for employees.

- Make it illegal for taxpayer-funded organizations to provide subsidized housing to middle-class and wealthy individuals.

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

- Implement a guideline for Capital Plan spending of a minimum of 0.9% and a maximum of 1.5% of the two-year's previous average of provincial GDP.

- Protect property owners and taxpayers by creating the market conditions necessary for overland flood insurance.

III-INTRODUCTION

Alberta is has come full circle since July 12, 2004, when Premier Ralph Klein held a large sign on the steps of the McDougall Centre in Calgary that boldly proclaimed Alberta's debt was "Paid in Full." Alberta stood proudly as the lone debt-free province in Canada. The Alberta Advantage had four pillars responsible for its success: responsible spending, transparent budgeting, no debt and competitive tax levels. The first three of these four pillars have fallen on one another like dominos, with the last – competitive tax levels – now threatened.

The first pillar – responsible spending – fell with years of overspending leading to chronic, structural deficits. These deficits saw the Sustainability Fund drawn down to critical levels. Premier Alison Redford promised during the election to balance the budget by the end of fiscal year 2013-14 without raising taxes. This was an impossible promise to keep without either a massive spike in resource revenues or cutting spending.

In order to make the budget appear balanced, the government opted to change the definition of a balanced budget. The result was the repeal of the *Government Accountability Act*, and a focus on balancing only the operating portion of the budget. This pushed billions in capital spending off of the primary balance of the budget, making it appear that the province's finances were in better shape than they were. With this, the second pillar of the Alberta Advantage – transparent budgeting – had fallen.

The fall of transparent budgeting conveniently covered the hole where the third pillar – no debt – once stood. Alberta is on track to conclude 2013-14 with a debt of $8.7 billion, which will grow to $17 billion by the end of 2015-16. This stunning reversal of Ralph Klein's debt-free legacy is irresponsible, and will see a greater portion of every tax dollar eaten up by interest, leaving the principle for our children to pay.

Alberta's slide into debtor status and the interest payments that come with them will inevitably lead to either a 'squeezing out' of essential services, or higher taxes. If the last pillar of the Alberta Advantage – competitive taxes – is to hold firm, then the other pillars must be rebuilt.

This means halting the growth of – and eventual elimination of – Alberta's debt. To do this, the province must reduce spending, and report on that spending in a transparent and open manner.

'Rebuilding the Alberta Advantage' is the Canadian Taxpayers Federation's plan to do this.

CTF supporter survey

In crafting this report, CTF staff consulted closely with its 14,000 supporters in Alberta. As its starting point, the CTF sent a multiple-choice electronic survey to its Alberta supporters, of which 754 individuals responded. Many of these respondents also provided individual written responses providing important feedback.

While no issue will garner unanimous agreement – even from like-minded supporters – the CTF endeavors to shape its policy recommendations as closely as possible around their views. This report will cite the results of the survey as they are pertinent.

IV-HOW ALBERTA GOT HERE

Warning signs

Alberta's state as a debtor province didn't come to be by accident, and the writing was on the wall for years. It was clear that unsustainable spending increases *before* the recession of 2007-08 would plunge Alberta into deficit, even without a drop in revenues. The signs were clear *after* recovering from the recession that without major fiscal adjustments, Alberta would remain in a deficit position, and the signs were clear that continued deficits would eventually lead Alberta into debt. These signs were ignored by most in the government.

Between 2003-04 and the end of fiscal year 2013-14, provincial revenues are projected to have increased by 51% in nominal terms, or 12% after adjusting for inflation and population (growth), not including federal flood relief transfers. Yet, this explosion in revenue was not carefully managed and saved. Every dollar of it was spent, and more. During this period, spending increased by 100% nominally, or 42% adjusting for growth, not including any costs associated with the June 2013 flood. The spread between the high growth in revenue and even higher growth in spending led Alberta to a deficit in 2008, and has compounded the problem since.

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

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

Hennig's words were prophetic, as Alberta's government did continue with "business as usual." The CTF calculates that by the end of 2013-14, Alberta will have run a massive cash shortfall of $5.3 billion and hold a debt of $8.7 billion.

[1] Hennig, Scott. Canadian Taxpayers Federation. "Trouble on the Horizon: 2008-09 Provincial Budget. Recommendations." October 2007. Page 6. https://www.taxpayer.com/news-releases/deficit-budgets-on-the-horizon

Hennig continued:

> The premier at that time will be faced with three choices: cut spending, raise taxes or run a deficit to keep afloat… Decisive action must be taken in Budget 2008 to ensure drastic action isn't required in Budget 2012-13.

In *Budget 2012-13*, the government was required to take serious action. While it laid the foundation for what may prove to be positive developments on the public sector compensation front, it failed to make the spending reductions necessary.

Rather than cut spending, the government overhauled its presentation of the budget in order to take $5.7 billion in capital spending (most of which was borrowed) off the main set of books. The intention was to make Albertans focus only on the 'operational balance.' Whether by accident or design, the effect was to take attention away from the actual balance of expenditures and revenues; that is, the consolidated cash balance.

Return to debt

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

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

In effect, Alberta's government abandoned its election pledge to balance the budget by 2013-14 and to not take on debt. Instead, the government opted for the much more modest plan to balance only the operating budget, while taking on debt to finance capital infrastructure. While the government may believe this to be the best course of action, it is nothing short of a

[2] Hennig, Scott. *Canadian Taxpayers Federation.* "A Fiscally Conservative Premier? Responses from Progressive Conservative Association of Alberta Leadership Candidates to Ten Questions from the Canadian Taxpayers Federation." September 2011. Page 13. http://www.taxpayer.com/news-releases/ab--a-fiscally-conservative-premier-

complete betrayal of the pledges the Premier made during her leadership campaign and the General Election. More importantly, this signals the definitive end of the Alberta Advantage.

Governments have changed course before. Jean Chretien's federal Liberals continued to run massive deficits inherited from Brian Mulroney when they came to power in 1993, but by 1995 Chretien and his finance minister, Paul Martin, were bent on balancing the budget, "come hell or high water." They reversed the government's policy of "spending its way to prosperity" and embraced a fiscally conservative agenda more aggressively than any federal government in the post-war era.

Alberta's Progressive Conservative party itself saw a similar shift in opinion when it elected Ralph Klein as its leader 1992. Ralph Klein cut and then controlled spending, balanced the budget transparently, eliminated the debt, and cut taxes when it was responsible. The CTF believes that Ralph Klein ideas were right in 1993, and they are still right 21 years later.

V-ALBERTA'S CURRENT FISCAL COURSE

Budgetary outlook projections

TABLE 1: PROJECTED FISCAL SUMMARY ($ MILLIONS)

	2013-14	2014-15	2015-16
Revenue (1)	**$40,591**	**$41,911**	**$44,998**
2013 Alberta flood assistance transfer (2)	$3,117	-	-
Less			
Revenue received for capital purposes	($533)	($464)	($389)
Retained income of funds and agencies	($866)	($897)	($889)
Total Cash Revenue	**$42,309**	**$40,550**	**$43,720**
Total non-flood related cash revenue	$39,192	$40,550	$43,720
Expenses			
Operating expenses (net of in-year savings)	$36,898	$37,144	$37,904
Disaster / emergency assistance (3)	$198	$500	$500
2013 Alberta flood assistance (2)	$4,163	-	-
Debt Servicing Costs			
General debt servicing costs	$395	$424	$437
Capital Plan debt servicing costs	$238	$404	$593
Capital Plan Spending	$5,670	$5,633	$5,121
Total Cash Expenses	**$47,562**	**$44,105**	**$44,555**
Total non-flood related cash expenses	$43,399	$44,105	$44,555
Cash Balance	**($5,253)**	**($3,555)**	**($835)**
Total non-flood related cash balance	($4,207)	($3,555)	($835)
Savings & Debt Retirement Accounts			
Heritage Fund	**$15,169**	**$15,548**	**$16,199**
Contingency Account	**$1,298**	**$1,993**	**$5,142**
Debt			
Liabilities for capital projects (4)	$8,700	$13,246	$17,358
Less			
Capital Plan Debt Retirement Account	($40)	($152)	($357)
Total Debt	**$8,660**	**$13,094**	**$17,001**
Annual change in debt	$4,066	$4,434	$3,907

(1) 2013-14 revenue estimates based on Second Quarter Fiscal Update. 2014-15 and 2015-16 based on 2013-14 Budget Estimates

(2) Flood expenditures and federal transfers based on Second Quarter Fiscal Update in a single fiscal year

(3) Adjusted to reflect average historical spending levels

(4) Combined liabilities for 'Alternative Financings (P3s)' and 'Director Borrowing'

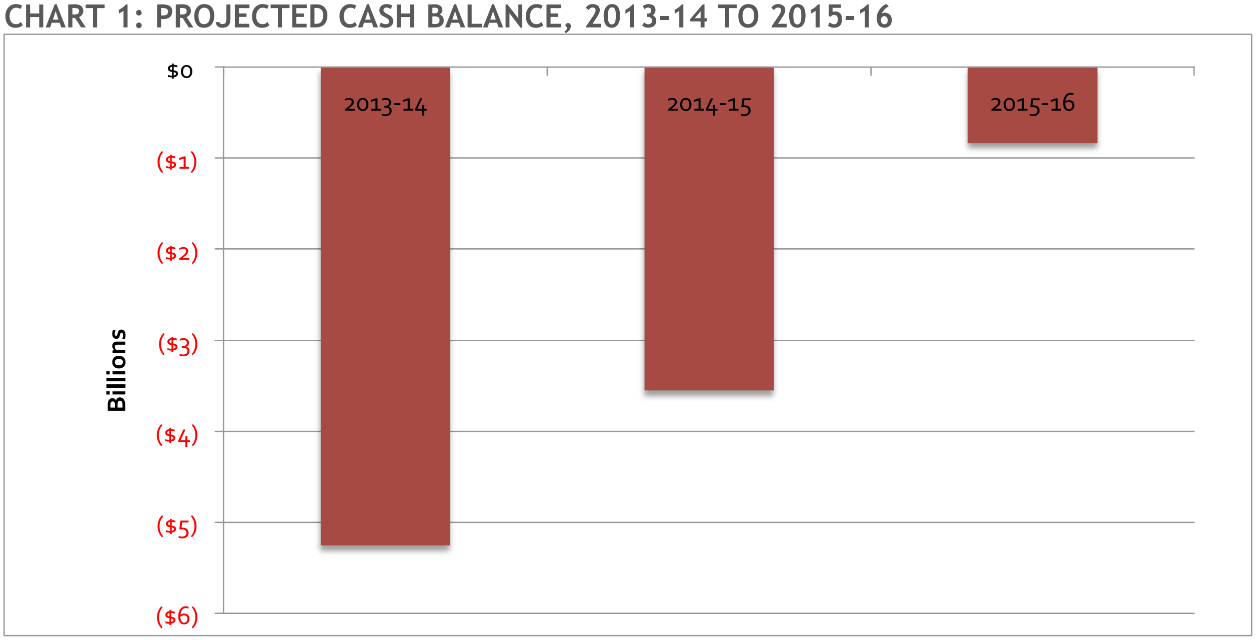
Important Note

The 'cash balance' is the revenues of Alberta's government less its expenditures in a fiscal year. This differs from the government's presentation of an 'operational surplus/(deficit)' primarily by including all 'capital investment' spending commitments made in a given year, but excluding 'capital amortization' costs from previous years.

While both figures have their purpose and should be included in financial reporting, the CTF believes that the 'cash balance' is a more accurate representation of the balance of revenues and expenditures in a fiscal year for accountability purposes.

Using the spending plan laid out in *Budget 2013-14* and the *Second Quarter Fiscal and Economic Update*, the CTF projects that Alberta's cash balance is on track to for a $5.3 billion shortfall in 2013-14 and will remain in a significant negative position the foreseeable future. This includes a shortfall of $3.6 billion in 2014-15 and $835 million in 2015-16. This is an accumulated cash balance shortfall of $9.6 billion.

CHART 1: PROJECTED CASH BALANCE, 2013-14 TO 2015-16



Back in Debt

Alberta is back in debt. The province closed the 2012-13 fiscal year with a debt of $4.6 billion. Based on projections from the *Second Quarter Fiscal and Economic Update*, this will increase to $8.7 billion by the end of 2013-14, $13.1 billion by the end of 2014-15, and $17 billion by the end of 2015-16.

Defining debt

The CTF calculates Alberta's debt load based on the principles of Ralph Klein's 1999 *Fiscal Responsibly Act*.[3] The *Fiscal Responsibility Act* defined the 'accumulated debt' as:

> The aggregate amount of unredeemed Government securities that have not matured and that are issued in respect of money raised under section 61(1) of the *Financial Administration Act* less (A) any amounts raised for the purpose of making advances to or purchasing securities of a Provincial corporation pursuant to section 62.1 of the *Financial Administration Act*, and (B) the amount of Government securities acquired and held under section 63.1 of the Financial Administration Act.

In plain English, Klein defined Alberta's [accumulated] debt as all borrowing not intended for arm's length government corporations (like municipalities and ATB) or for limited disbursements. It did *not* include as liabilities debt held by self-supported lending organizations and municipalities, and it did *not* include as assets any savings accounts such as the Heritage Fund, and most certainly did *not* include the market or replacement value of physical infrastructure assets.

To boil it down plainly, Klein defined Alberta's debt as 'the money Alberta taxpayers owe the banks.'

The CTF adopted a similar definition of debt in this document: 'All general government liabilities for direct borrowing and alternative financings, less funds expressly dedicated to debt retirement.' 'Funds expressly dedicated to debt retirement refers to the Debt Retirement account pre 2013-14 and the Capital Plan Debt Retirement Account post 2013-14.

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[3] '*Fiscal Responsibility Act.*' Legislative Assembly of Alberta. 1999. Access November 9, 2013. http://www.assembly.ab.ca/Documents/isysquery/f19b0b8c-bd5b-45a0-87d4-136e8e6b32a7/2/doc/19990216_bill-001.pdf#xml=http://www.assembly.ab.ca/Documents/isysquery/f19b0b8c-bd5b-45a0-87d4-136e8e6b32a7/2/hilite/

Calculating Alberta's debt

The CTF uses the consolidated statements found in the Government of Alberta's annual reports as its primary source of data in calculating Alberta's debt. These reports provide a balance sheet of the government's assets and liabilities and make it relatively straightforward for one to calculate the province's debt based on Klein's definition in the 1999 *Fiscal Responsibility Act*.

Between fiscal years 1984-85 and 2012-13, the province recorded an 'accumulated debt' in its liabilities. Since only a portion of the debt would mature each year, the government could not simply write a cheque to pay it off ahead of time if they had large surpluses. To eliminate the debt, the government instead offset it with an expressly dedicated Debt Retirement Account, which in 2004-05 outweighed the accumulated deficit, meaning the effective end of the debt. This Debt Retirement Account remained on the books until the final debts matured in 2013-14. It's not without irony that 2013-14 marks the year in which the government decided to make Alberta's headlong plunge into debt its centerpiece policy, but this will be discussed in more detail later.

Beginning in 2005-06, the government began recording small liabilities for public-private partnerships (P3s) as liabilities. These were relatively small liabilities in the greater scope of the government ($126 million in the first year), and were intended as a smarter way to build some infrastructure projects. They were never intended as a way for the government to rack up debt, but keep it off the traditionally accounted 'accumulated debt.' While P3s made good business sense in many cases, their unconventional place on the balance sheet opened a Pandora's Box of unconventional debt.

This began in 2003 when the *Fiscal Responsibility Act* was amended by the *Financial Statues Amendment Act* to allow for financing capital projects without the liabilities counting towards the debt. It was innocent enough and never intended as a way of running up debt while unaccountably keeping it off the books, but rather as a way of responsibly utilizing the P3-model.

Soon, direct borrowing for capital projects showed up on the balance sheet. This was a much more straightforward form of borrowing, and harder to justify as 'not really debt.' It was still harmless enough until by the end of fiscal year 2008-09, this combined debt reached $865 million. Faced with a downturn in expected revenues and massive draws on the Sustainability Fund, Premier Stelmach opted to ease the red ink by relying yet more heavily on debt to finance capital projects. In 2009-10 Alberta's debt exploded by 332% to $2.9 billion. Despite this, Alberta had paid off its 'accumulated debt,' and most of the public wasn't very worried so long as there was $16.9 billion in the Sustainability Fund.

This culminated in the government's deletion of any legal reference to Alberta's debt at all, by repealing the *Government Accountability Act* in 2013-14. The government makes a surprisingly frank admission of this is an almost forgotten footnote on the last page of the *Government of Alberta 2012-13 Annual Report*. The document – signed by Finance Minister Doug Horner – states that:

> The new *Fiscal Management Act* replaced the *Fiscal Responsibility Act* on April 1, 2013, and removed the reference and definition of "accumulated deficit" and the Debt Retirement Account (DRA)[4].

Reliance on the hard work from times past and Premier Redford's election commitment to balance the budget by 2013-14 made worries about Alberta's debt seem unfounded, but the facts can no longer be ignored.

By the end of this fiscal year (2013-14), the CTF projects that Alberta will hold a debt of $8.66 billion. By the end of 2014-15, $13.094 billion, and by the end of 2015-16, $17.001 billion. A debt of $17 billion in 2015-16 will leave Alberta in roughly the same hole as it was in in 1997.

CHART 2: ALBERTA DEBT, 1984-85 TO 2015-16

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[4] Hon. Horner, Doug. Government of Alberta. 'Government of Alberta 2012-13 Annual Report.' Page 22, footnote G. http://www.finance.alberta.ca/publications/annual_repts/govt/ganrep13/goa-2012-13-annual-report-executive-summary.pdf Accessed January 7, 2014.

TABLE 2: ALBERTA DEBT INPUTS AS DEFINED BY THE FISCAL RESPONSIBILITY ACT ($ MILLIONS)

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Financial Assets as defined by the Fiscal Responsibility Act	**2,010**	**1,241**	**3,479**	**2,197**	**2,035**	**1,794**	**1,175**	**1,107**	**843**	**503**	**249**	**40**	**152**	**357**
Debt Retirement Account	2010	1,241	3,479	2,197	2,035	1,794	1,175	1,107	843	503	249			
Capital Plan Debt Retirement Account												40	152	357
Financial Liabilities as defined by the Fiscal Responsibility Act	**6,746**	**4,971**	**3,475**	**2,447**	**2,304**	**2,223**	**2,040**	**3,980**	**4,027**	**3,931**	**4,833**	**8,700**	**13,246**	**17,358**
Accumulated debt	6,746	4,971	3,475	2,195	2,030	1,784	1,160	1,092	828	489	239			
Liabilities for capital projects (direct borrowing & P3s)				126	274	439	880	2,888	3,199	3,442	4,594	8,700	*13,246*	*17,358*
Aggregate Financial Liabilities as defined by the Fiscal Responsibility Act (debt)	**(4,736)**	**(3,730)**	**4**	**(250)**	**(269)**	**(429)**	**(865)**	**(2,873)**	**(3,184)**	**(3,428)**	**(4,584)**	**(8,660)**	**(13,094)**	**(17,001)**
Annual change in debt		**(1,006)**	**(3,734)**	**254**	**19**	**160**	**436**	**2,008**	**311**	**244**	**1,156**	**4,076**	**4,434**	**3,907**

Sustainability Fund/Contingency Account

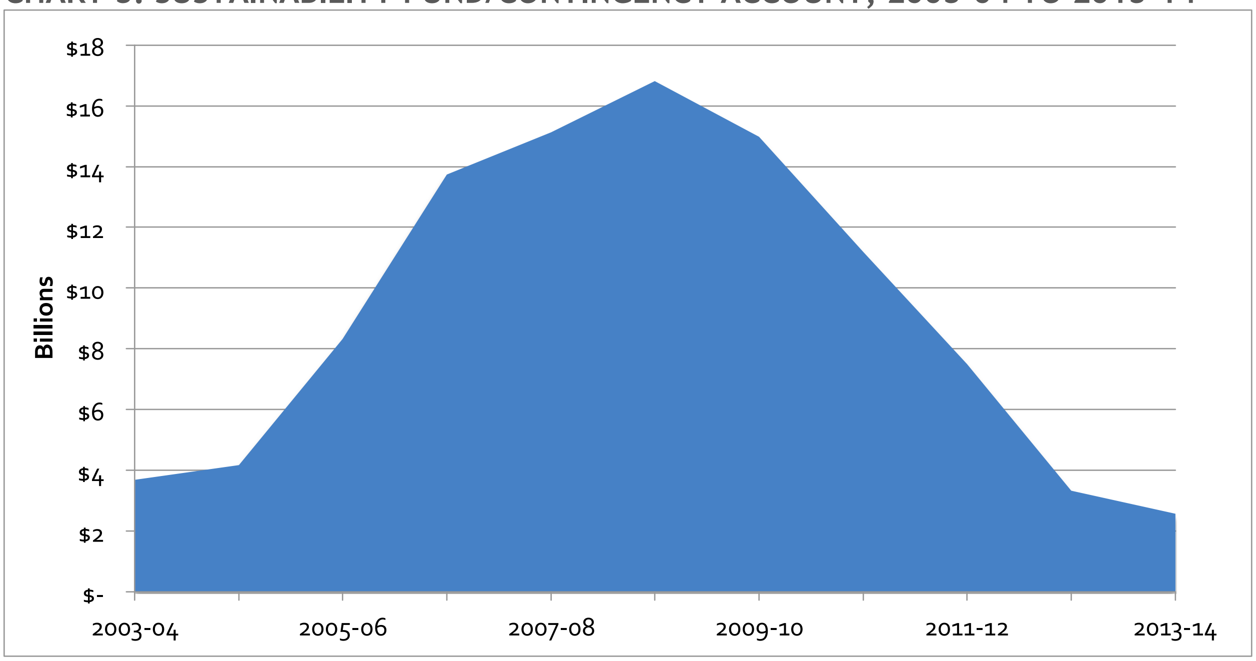
The Sustainability Fund (renamed the Contingency Account) has lost its purpose and meaning. The Sustainability Fund was created by Premier Klein as a means of ensuring the government did not go into debt when faced with a short-term deficit.

When the Stelmach government began running deficits in 2008-09, Albertans were promised that this would be a short-term measure. In 2013-14, Alberta is still on track to run a massive cash shortfall of $5.3 billion, and persist in doing so well into the future. Six-plus years is not a 'short-term' deficit.

Despite drawing the Sustainability Fund down from $16.8 billion in 2008-09 to a projected $2.6 billion by the end of this fiscal year, the government still managed to go into debt, which the fund was intended to avoid.

While the government spent $14.2 billion of the Sustainability Fund between 2008-09 and 2013-14, it also took on $7.8 billion in debt. This works out to a combined $22 billion in wasted savings and debt to plug the 'short-term' hole in the province's budget, which is not even close to being balanced yet.

CHART 3: SUSTAINABILITY FUND/CONTINGENCY ACCOUNT, 2003-04 TO 2013-14



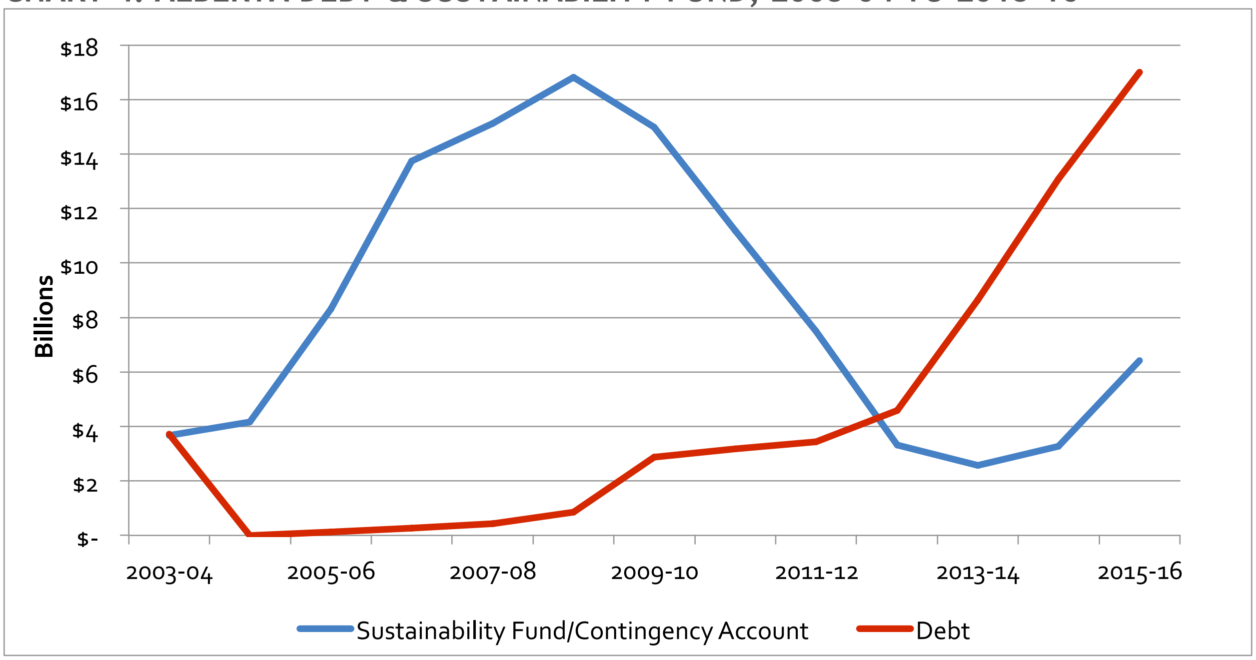
While the government of Alberta has never netted its debt against its rainy day fund (the Sustainability Fund or Contingency Account) until recently, Alberta's debt will still outweigh it by $6.1 billion by the end of this year.

No matter how you spin it, Alberta is back in debt.

Based on second quarter projections, the Contingency Account will be drawn down from $3.3 billion to approximately $2.6 billion this year. Rather than use the $2.6 billion to fund the remaining spending shortfall of the province, the government will take on $4.1 billion in new debt.

The government's savings plans for 2013-14 border on the bizarre. While the government takes on $4.1 billion in debt next year, it plans to add $659 million to the Contingency Account. This is akin to a family putting away $600 in a rainy day fund while taking on another $4,000 in debt.

CHART 4: ALBERTA DEBT & SUSTAINABILITY FUND, 2003-04 TO 2015-16



VI- MORE DEBT, TAX HIKES OR SPENDING CUTS?

Debt?

For more than half a decade, Alberta has had an unsavoury alternative to tax hikes or spending cuts: the Sustainability Fund and debt. With the Sustainability Fund having proven unsustainable as a way of patching over the province's budgetary problems, the government renamed it the Contingency Account. As discussed above, the government opted to put a greater emphasis on debt in *Budget 2013-14*, rather than face the embarrassing prospect of entirely depleting the Contingency Account.

The debt that Alberta is now taking on is not only imprudent, it is immoral.

Government debt amounts to one generation deciding to spend their children's money on themselves. Canadians born in January 2013 already owe $17,550 in federal debt. This is a debt run up by that child's parents and grandparents, which they will have to pay back – with interest – in the future in the form of either less services or higher taxes. Responsible parents would not do this to their children in their private lives, and responsible citizens would not do this in their public lives.

If the government is willing to change course and once again stop Alberta's plunge into debt, then only two options remain: taxes hikes, or spending cuts.

CTF Supporter Survey: Under what circumstances is it acceptable for government to go into debt or run a deficit?

- **0%** Regularly. There is nothing wrong with debt.
- **8%** Regularly, so long as the borrowed money goes only towards infrastructure assets.
- **18%** Occasionally, when there is a drop in revenues.
- **60%** Rarely, and only in cases of major war or natural disaster.
- **13%** Never.

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

Recommendation 1

Put a stop to Alberta's growing debt.

Tax hikes or spending cuts?

Unlike debt, tax hikes are not immoral policy, but they are highly imprudent. Alberta has abundant revenues with an all-time estimated record of $42.3 billion in 2013-14, or a near record of $39.2 billion if factoring out federal flood relief transfers. As stated prior, over the past decade revenues have grown by 12% after adjusting for population and inflation, while spending has increased by 42%. If federal flood transfers are factored in, revenues will have increased by 21%. If provincial flood relief is factored in, spending will have increased by 61% or 119% nominally.

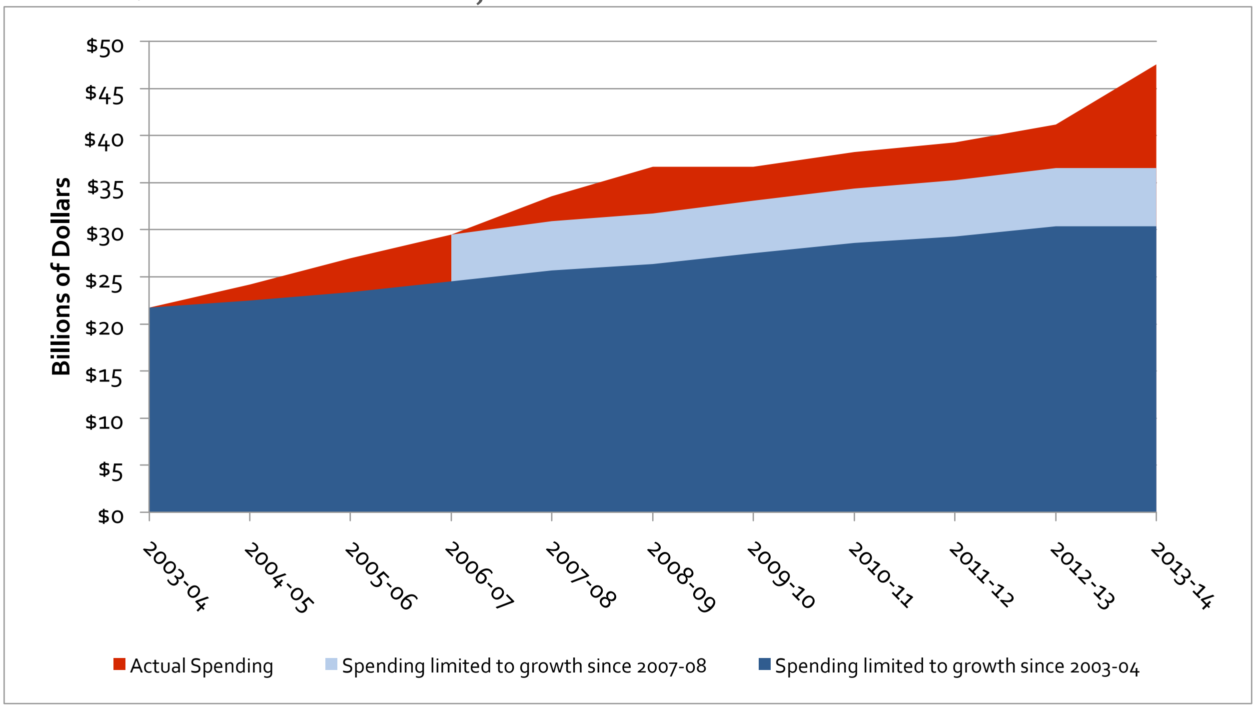
Current revenues – with reasonable growth projections – are more than sufficient to finance spending needs, even significantly above levels seen 10 years ago.

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

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

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

CHART 5: SPENDING SCENARIOS, 2003-04 TO 2013-14



Had spending increases been held to the combined rates of inflation and population growth for the last decade, Alberta would spend $15.1 billion less in 2013-14, or $12 billion less if flood spending is factored out. This works out to a cumulative spending differential of $84.1 billion.

Had the balance of this 'above-growth' spending differential been invested in the Heritage Fund, the compounded earnings would have left it with $397 billion more than its current value, based on average yearly earnings of the S&P TSX Composite Index. Including its projected year-end value, that would leave the Heritage Fund with $413 billion, or 27 times its current value.

Needless to say, Alberta would not be in debt, nor would Alberta be running a massive deficit. The sheer size of the missed opportunity is hard to fathom considering the fiscal position Alberta finds itself in now.

Restraining spending to keep pace with growth in order to invest in the Heritage Fund would also have ensured that the level of services and pace of capital projects in those years could have been maintained. Further, it would have ensured that a drop in revenue wouldn't throw the budget into chaos. Importantly, restraint over the last decade would have allowed for significant (and debt free) investment in capital spending priorities today.

CHART 6: POTENTIAL HERITAGE FUND EARNINGS FROM INVESTING ABOVE-GROWTH SPENDING, 2003-04 TO 2013-14

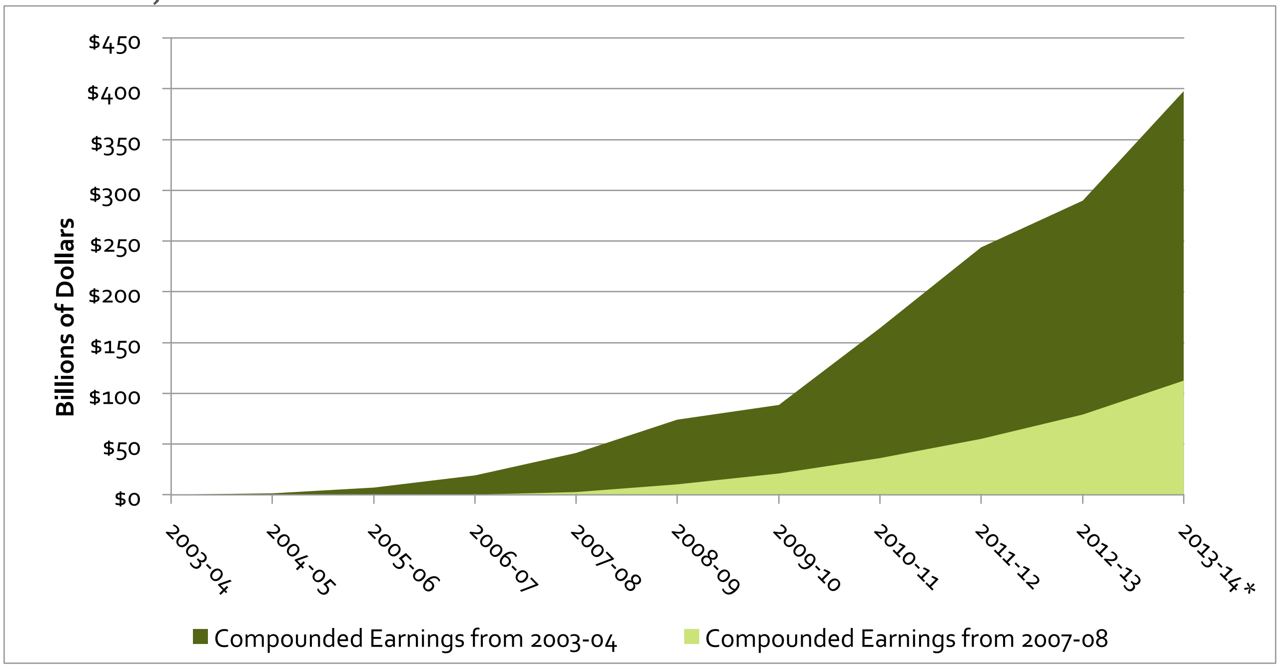


TABLE 3: POTENTIAL HERITAGE FUND EARNINGS FROM INVESTING ABOVE-GROWTH SPENDING, 2003-04 TO 2013-14 ($ MILLIONS)

Year	Actual Spending	Restrained spending (Inflation & pop growth only)	Balance of actual vs restrained spending	Cumulative principle	Annual Returns on S&P TSX Index	Compounded Earnings
2003-04	$21,751	$21,751	$0	$0	13.8%	$0
2004-05	$24,153	$22,520	$1,633	$1,633	26.2%	$1,633
2005-06	$26,991	$23,370	$3,621	$5,255	19.2%	$7,114
2006-07	$29,507	$24,517	$4,990	$10,245	11.1%	$19,225
2007-08	$33,588	$25,709	$7,879	$18,124	-31.2%	$41,033
2008-09	$36,663	$26,387	$10,276	$28,400	31.9%	$74,005
2009-10	$36,690	$27,518	$9,172	$37,572	13.8%	$88,510
2010-11	$38,269	$28,577	$9,692	$47,264	-9.1%	$164,044
2011-12	$39,272	$29,280	$9,992	$57,257	8.1%	$244,005
2012-13	$41,149	$30,362	$10,787	$68,044	13.3%	$289,893
2013-14*	$47,562	$31,486	$16,076	$84,120	0.0%	$397,407

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

Cutting spending is the only option available to the government *in Budget 2014-15* if it is to avoid immorally continuing to plunge the province into debt and imprudently raising taxes. While revenues will grow with time, inflated projections are simply not able to be relied upon.

While merely restraining *growth* in spending would have avoided the current crisis altogether, relatively modest spending cuts would have been required in recent budgets to set the province on a firmer footing. But instead, continued spending increases have now necessitated *significant* spending cuts.

CTF Support Survey: What should Alberta do about its deficit?

- **67%** Cut spending to balance the budget in the next 1-3 years.
- **26%** Hold the line on spending to balance the budget in the next 4-6 years.
- **3%** Raise taxes to balance the budget.
- **2%** Nothing. Taking on debt is necessary to hold the line on taxes while continuing with spending priorities.

As of January 2014, there is simply no way for the premier to keep her leadership and election pledge to balance the budget before the end of this fiscal year.

In order to balance the budget one year later than the premier's election pledge, this report recommends an absolute spending reduction of $2.4 billion in non-flood related spending in the consolidated 2014-15 budget. This works out to a relative difference of $3.1 billion in *projected* spending in 2014-15. This needs to be followed up by limiting total expenditure growth in 2015-16 to no more than $550 million in order to begin paying down the provincial debt.

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

Recommendations 2 & 3

To balance the budget two years later than the Premier's pledge, cut overall spending by $2.4 billion in absolute terms, or $3.1 billion relative to planned spending.

Keep the Premier's pledge to not raise taxes during the mandate of this government without first putting it to a referendum.

VII-BALANCING THE BUDGET

TABLE 4: CTF PROPOSED FISCAL PLAN SUMMARY, 2013-14 TO 2015-16 ($ MILLIONS)

Consolidated Fiscal Plan Summary	2013-14	2014-15	2015-16
Revenue	**$40,591**	**$41,911**	**$44,998**
2013 Alberta flood assistance transfer	$3,117	-	-
Less			
Revenue received for capital purposes	($533)	($464)	($389)
Retained income of funds and agencies	($866)	($897)	($889)
Total Cash Revenue	**$42,309**	**$40,550**	**$43,720**
Total non-flood related cash revenue	39,192	$40,550	$43,720
Expenses			
Operating expenses (net of in-year savings)	$36,898	$37,144	$37,904
Disaster / emergency assistance	$198	$500	$500
2013 Alberta flood assistance	$4,163	-	-
Debt Servicing Costs			
General debt servicing costs	$395	$424	$437
Capital Plan debt servicing costs	$238	$404	$593
Capital Plan Spending	$5,670	$5,633	$5,121
Savings from Operating reductions & freezes	-	($1,418)	($1,418)
One-time savings	-	($100)	-
Extending the Capital Plan	-	($1,564)	($1,564)
Total Cash Expenses	**$47,562**	**$41,023**	**$41,573**
Total non-flood related cash expenses	43,399	$41,023	$41,573
Cash Balance	**($5,253)**	**($473)**	**$2,147**
Total non-flood related cash balance	(4,207)	($473)	$2,147

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

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

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

TABLE 5: CTF SPENDING REDUCTION SUMMARY ($ MILLIONS)

Reducing Government Employee Costs	**($1,257)**
Hiring & wage freeze	($751)
2% wage rollback	($356)
5% reduction in non-frontline employees	($150)
Ending Corporate Welfare & Other Business Subsidies	**($141)**
Eliminate bioenergy programs	($66)
Eliminate funding for carbon capture and storage programs	($60)
Eliminating the Alberta Multimedia Development Fund	($25)
Other Reductions	**($19)**
15% reduction in GreenTRIP funding	($14)
5% reduction in Legislative Assembly spending	($3)
Ban partisan government advertising	($2)
Eliminate the Francophone Secretariat	($1)
Total Operating Reductions	**($1,418)**
One Time Savings	**($100)**
Eliminate the Alberta Enterprise Corporation	($100)
Savings from extending the Capital Plan	**($1,564)**
Net Spending Reductions	**($3,082)**
Increase in Disaster/Emergency Assistance Budget (1)	**$300**

(1) Because the CTF estimates that the government will spend at least $500 million annually on Disaster/Emergency Assistance (but only $200 is budgeted), this is shown as revenue-neutral relative to the CTF's projection of government spending.

Restore Alberta to debt-free status

Rebuilding the Alberta Advantage is a plan to first balance the budget, and then pay down the debt. The plan's reduction of $3.1 billion in planned spending is intended to first stop the bleeding, and then restore Alberta to debt-free status.

Debt Free Alberta Account

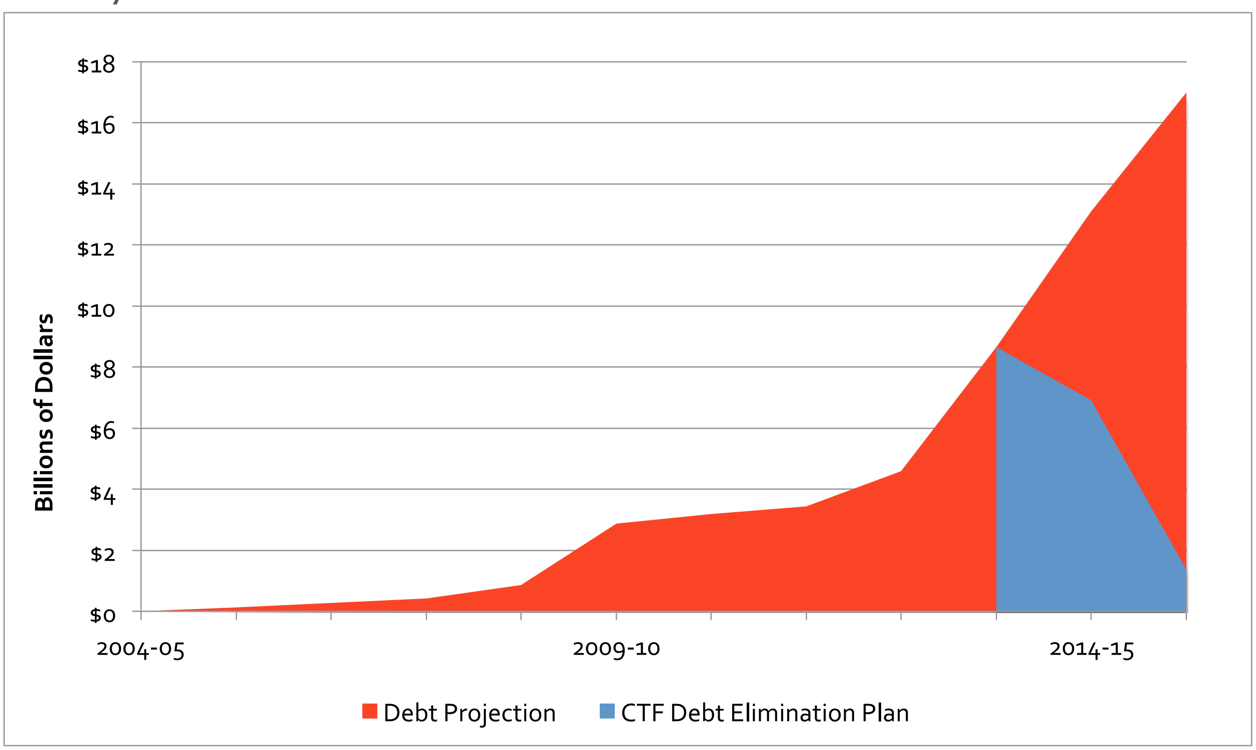
Restoring the Alberta Advantage calls for the establishment of a Debt Free Alberta Account (DFFA) as a vehicle to erase Alberta's debt in three years. This vehicle would consolidate Alberta's budgetary cash surpluses, currently planned savings, and the Capital Plan Debt Retirement Account under a single account until Alberta's debt is eliminated. Once the debt is eliminated, the province should continue its legislated savings plan as detailed in *Budget 2013-14*.

The program of spending reductions detailed in Table 6 will reduce the deficit to $473 million in year one (2014-15) and produce a surplus of $2.1 billion in year two (2015-16). This and subsequent surpluses should be directly transferred to the new DFAA.

TABLE 6: CTF DEBT-FREE AND SAVINGS ACCOUNT PLAN

Savings & Debt Retirement Accounts	2013-14	2014-15	2015-16
Heritage Fund	**$15,169**	**$15,169**	***$15,169***
Contingency Account	**$1,298**	**$825**	**$825**
Debt Free Alberta Account	**-**	**$1,226**	**$6,304**
Transfer from cash balance	-	$0	*$2,147*
Retained grow in the Heritage Fund	-	$379	$651
Retained grow in the Contingency Account	-	$695	$3,149
Retained grow in the Capital Plan Debt Retirement Account	-	$152	$357
Debt			
Liabilities for capital projects	$8,700	$8,700	$8,700
Less			
Debt Free Alberta Account	-	$1,226	$6,304
Total Debt	**$8,700**	**$7,474**	**$2,396**
Annual change in debt	$4,106	($1,226)	($5,078)

CHART 7: CTF DEBT ELIMINATION PLAN VS. DEBT PROJECTION



While *Budget 2013-14* planned to run massive cash deficits and borrow billions annually, it strangely proposed to begin saving at the same time. This is a plan that releases the government from any spending restraint and carries risks that outweigh the benefits. The CTF believes that the framework established for the province to begin saving again is sound and responsible, but only as long as the government is not borrowing at the same time.

As such, retained growth in, and planned deposits to both the Heritage Fund and the Contingency Account should be transferred to the new DFAA.

Under the province's new fiscal framework as established by the *Financial Management Act*, the government is required to make small contributions towards the Capital Plan Debt Retirement Account (CPDRA). The CTF's plan is to make Alberta debt-free, not merely make the minimum required payments. As such, the CPDRA's balance and currently scheduled deposits should be transferred to the DFAA.

Based on the CTF's projections, the DFAA should reach $6.3 billion by the end of year two.

The CTF's fiscal plan does not require borrowing for capital projects, and therefore leaves liabilities for capital projects frozen at $8.7 billion at the conclusion of 2013-14.

The funding needs to cover the deficit of $473 million in year one should be met by a final withdraw from the Contingency Account.

When netted against the DFAA's $7.3 billion, this will see Alberta's debt reduced to $2.4 billion by the end of year two, and entirely eliminated before the end of year three.

Recommendation 4

Create a Debt Free Alberta Account to hold cash surpluses and retained income from savings to eliminate Alberta's debt before the end of fiscal year 2016-17.

Cut operating spending by 3.8%: -$1.4 billion

> "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, 1987-88 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, 1989-90 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, 1992-93 Budget Address

Recent years have seen the government make modest – often tokenistic – spending restraints. 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 annually announced their 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.

Leadership often involves doing what is not easy, which is what Klein promised to do.

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

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

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

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

Alberta's government needs a real program of spending reductions if it is to get its budget under control.

Delayed action has not made the need for spending reductions go away. This year, the CTF is calling for a 3.8% across-the-board cut in non-flood related operating spending to save $1.4 billion relative to planned spending in 2014-15. This should be followed by another year of significant restraint in spending growth.

Recommendation 5

Cut non-flood related operational spending by 3.8% across-the-board to save $1.4 billion relative to planned spending in 2014-15.

Extend the five-year Capital Plan over seven years: -$1.6 billion

Budget 2013-14 laid out a plan to spend $10.8 billion in both 2014-15 and 2015-16, 78% of which was financed through debt. Extending the five-year Capital Plan over seven years would mean annual savings of $1.6 billion, and $3.1 billion over the first two years of the CTF's plan. This will still leave the province spending an average of $3.8 billion a year over the next two years ($7.6 billion total), which is significantly higher than historical norms.

CTF Supporter Survey: What should the government do with planned capital spending?

- **9%** Continue with planned capital spending.
- **1%** Increase capital spending.
- **19%** Extend the 3-year capital plan over 4 years.
- **40%** Extend the 3-year capital plan over 5 years to save $2 billion a year and $6 billion over 3 years.
- **27%** (Put all capital plans on hold until the budget is balanced to save approximately $5 billion a year.

Nonetheless, it is critical for Alberta to maintain and continue to build its capital infrastructure. Therefore, the extension of the capital plan should be revisited in year three once Alberta is on a clear path towards fiscal sustainability.

Recommendation 6

Extend the five-year capital plan over seven years to save $1.6 billion annually.

Reduce government payroll costs: -$1.3 billion

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

According to the Fraser Institute, the average government employee in Alberta earns 10.3% more than those in equivalent private sector occupations.[5] Coupled with the incredible job security that accompanies these jobs, the gap between public and private sector workers has become immense.

In 2012-13, the Alberta government estimated that it would spend $3 billion[6] on "salaries, wages, employment contracts and benefits" for Alberta's 29,387 core-government civil servants.[7] This works out to an average of $102,000 per core-government employee.[8] These are primarily bureaucrats, and exclude most front-line workers including teachers, doctors and nurses

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

[6] Budget 2012-13 – Ministry Expense by Object – p.128

[7] 2012-13 Government Estimates. General Revenue Fund. February 9, 2012.

[8] According to an email from Finance Minister Doug Horner to the CTF, the Department of Finance does not present this data any more. Nonetheless, the 2012-13 figures should be close enough to use for 2013-14.

TABLE 7: 2012-13 CORE PUBLIC SERVICE EMPLOYEE COSTS, 2012-13

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

CTF Supporter Survey: Alberta has 29,387 core-government bureaucrats costing an average of $102,000 a year. The government should:

- **0%** Increase the number of bureaucrats.
- **7%** Freeze the number of bureaucrats until the budget is balanced.
- **28%** Enforce a hiring freeze and allow the number of bureaucrats to go down with retirements.
- **16%** Cut the number of bureaucrats by 5% to save $150 million a year.
- **47%** Cut the number of bureaucrats by 10% to save $300 million a year.
- **1%** Other/don't know

To its credit, Alberta's government has begun to recognize that without restraint in the compensation of its employees, there is no hope of a balanced budget. In response to the leadership of the Alberta Union of Public Employees (AUPE) walking away from the bargaining table, the government introduced Bill 46, the *Public Sector Salary Restraint Act*. Bill 46 legislates wage freeze for two years with an $875 lump sum payment in year two, followed by 1% compounding raise in years three and four. The CTF has been supportive of this move towards government-private sector equity, but it is only a start. Alberta is staring at a $3.6 billion cash deficit in 2014-15, and merely holding the line will no longer suffice.

Encompassing the entire provincial government, taxpayers were scheduled to spend a total of $17.9 billion on salaries, wages and employment contacts and benefits in 2013.[9] This is scheduled to increase by 7% to $19.2 billion in 2014.

TABLE 8: CTF PLANNED PAYROLL SAVINGS

5% reduction in non-frontline employees	$149,850,000
2% wage rollback	$356,203,000
Wage and hiring freeze	$751,147,000
Total Savings	**$1,257,200,000**

Reducing the mostly non-frontline, core-government workforce by 5% would result in savings of approximately $150 million. From this lower base, a 2% wage and salary rollback – to begin closing the wage gap with the private sector – would result in a savings of approximately $356 million. These two measures will mean a lower spending base of $506 million in year one.

With the average government employee in Alberta earning 10.3% more than their equivalent counterparts in the private sector,[10] a 2% wage rollback is a modest start to public-private sector equity. This report therefore recommends that total government employee remuneration be frozen until the gap is closed. From the lower base established by earlier recommendations, freezing wages and hiring would save an additional $751 million a year, until the public-private gap is closed.

Taken together, a 5% reduction in non-frontline employees, a 2% wage rollback, and freezing wages would save $1.3 billion a year. This forms the single largest group of operational expenditure reductions in the CTF's balanced budget plan. It can be done without significant

[9] 'Expense by Object, Schedule 3'. Government of Alberta 2012-13 Annual Report. Page 54.
[10] Milke, Mark. *Fraser Institute.* Calgary Herald. January 26, 2013. http://www.fraserinstitute.org/research-news/news/display.aspx?id=19273

adverse effects to frontline services and relies primarily on freezes until private sector compensation catches up to compensation for equivalent jobs in the government.

Recommendations 7, 8 & 9

Reduce the number of core-government non-frontline bureaucrats by 5% to save $150 million.

Negotiate – or if necessary legislate – a 2% wage rollback in wages government-wide to save $356 million.

Enforce a hiring and wage freeze until the government-private sector wage gap is eliminated to save $751 million.

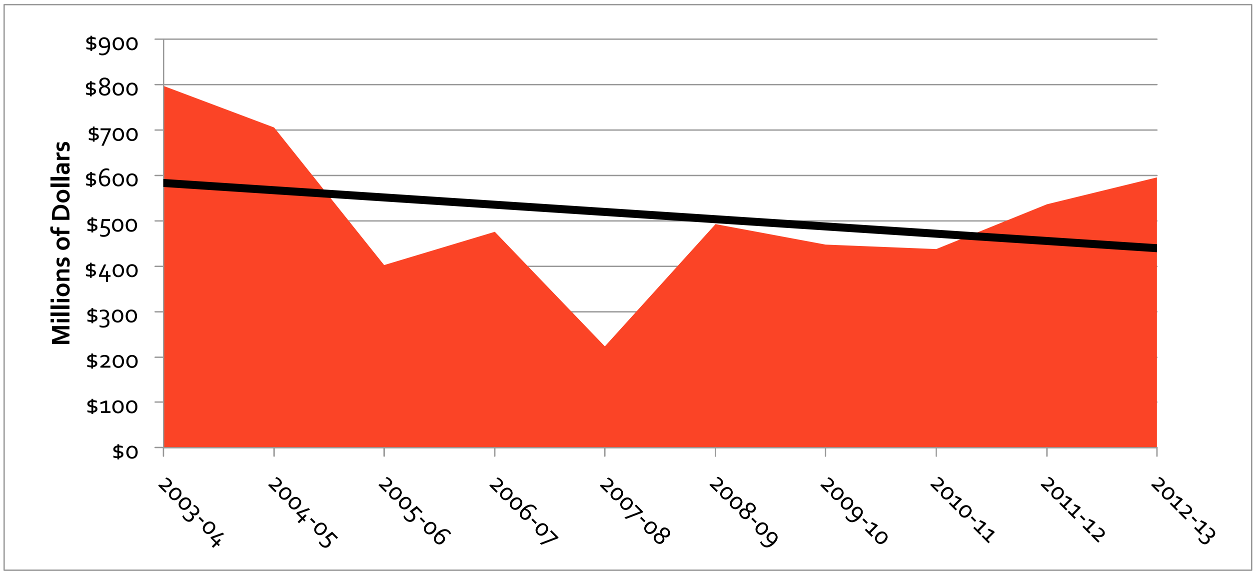
Budget for Disasters & Emergencies: +$300 million

Alberta spends a considerable sum of money every year on disasters and emergencies, yet the vast majority of those funds are unbudgeted for. Between 2003-04 and 2012-13, Alberta spent an average of $511 million on disaster and emergency relief, the vast majority unbudgeted. In 2012-13, the government budgeted just $44 million for disasters, but closed the year spending $596 million.

In the CTF's 2013-14 pre-budget submission to the government, it was recommended that the province budget $500 million annually for disaster and emergency spending. While 2013-14 will stand as an incredible, anomalous spike in disaster spending that could not have been budgeted for (putting the Sustainability Fund aside); it does accentuate the problem of not budgeting for spending that is sure to take place.

The government partially accepted the CTF's recommendations from last year in this area, increasing its disaster budget for 2013-14 from its planned $17 million to $200 million.

CHART 8: DISASTER & EMERGENCY SPENDING, 2003-04 TO 2012-13



Disasters on the scale of the June 2013 floods cannot be reasonably budgeted for on an annual basis, but most can be. Disasters on this scale *could* be paid for by drawing down the Sustainability Fund, but as noted above, it was already nearing depletion before the floods.

In order to ensure that *most* natural disasters can be budgeted for on an annual basis, the province should budget at least $500 million annually for disaster and emergency spending.

Recommendation 10

Budget $500 million annually towards disaster and emergency spending.

Note:

This report does not account for budgeting $500 million in emergency and disaster as a spending increase, as it is assumed that the funds will be spent in any case, despite their not being budgeted. Therefore, this is considered a revenue-neutral item in the CTF's balanced budget plan.

Eliminate bioenergy subsidies: -$66 million

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

Rather than provide subsidies to specific industries, the government of Alberta should focus its efforts on breaking down trade barriers, both international and inter-Canadian.

CTF Supporter Survey: Alberta spends $66 million a year on bioenergy subsidies that mostly go companies and some farmers. The Alberta government should:

- **76%** Eliminate the program to save $66 million a year.
- **13%** Maintain funding for the program.
- **2%** Expand the program.
- **10%** Other/don't know.

Recommendation 11

Eliminate bioenergy subsidies to save $66 million

Eliminate the carbon capture and storage program: -$60 million

The carbon capture and storage (CCS) and Green Transit Incentives Programs (GreenTRIP) were announced in July 2008 amid a projected $8.5 billion budget surplus. Despite not being in *Budget 2008*-09 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*[11]

Since there was no surplus in 2008, 2009, 2010, 2011, 2012 or 2013 – and there won't be until spending cuts are made – it would stand to reason that dollars allocated from a non-existent surplus should no longer be allocated.

CTF Supporter Survey: Alberta's government spends $60 million on carbon capture and storage (CCS) programs. The Alberta government should:

- **69%** Eliminate the program to save $60 million a year.
- **17%** Maintain funding for the program.
- **3%** Expand the program.
- **11%** Other/don't know

According to the government's budgetchoice.ca website in advance of the *Budget 2013-14*, eliminating future funding for CCS would save $60 million.

Recommendation 12

Eliminate the carbon capture and storage program to save $60 million.

Reduce GreenTRIP funding: -$14 million

Like CCS, the GreenTRIP program was announced in July 2008 when the Stelmach government predicted that it would run massive surpluses; and like CCS, it was entirely unbudgeted for.

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

According to the government's budgetchoice.ca website in advance of the *Budget 2013-14*, eliminating future funding for GreenTRIP would save $93 million

CTF Supporter Survey: Alberta's government spends $93 million on the GreenTRIP program every year. The program funds environmentally sustainable public transit with the goal of reducing greenhouse gas emissions. The government should:

- **41%** Eliminate the program to save $93 million a year.
- **31%** Cut the program by 50% to save $47 million a year.
- **19%** Maintain funding for the program.
- **4%** Expand the program.
- **5%** Other/don't know

While CCS is an unproven and uneconomic technology that should see its tax-funding eliminated, GreenTRIP contributes to public infrastructure and laudably encourages environmental sustainable transit. GreenTRIP nonetheless is a costly program that was announced as a "nice-to-have" during a period of record surpluses. Further to this, CTF supporters are divided between eliminating, reducing or maintaining GreenTRIP funding.

Recommendation 13

Reduce GreenTRIP funding by 15% to save $14 million

Liquidate the Alberta Enterprise Corporation: -$100 million

Budget 2008-09 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. Because private investors have declined to do so, the government has taken taxpayers money and is "investing" it in these companies

This is corporate welfare, plain and simple. If private investors don't believe they can make 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[12] and $5 billion.[13]

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. For years afterwards, Alberta was a shining example for the rest of Canada as to why it is always the best policy to avoid corporate welfare.

A May 2008 report by three researchers in the Sauder School of Business at the University of British Columbia (Brander, Egan & Hellmann) showed that government sponsored venture capital funds tend to crowd-out private investors, have lower returns than private venture capital funds and create less innovation.[14]

TABLE 9: ALBERTA ENTERPRISE CORPORATION ASSETS

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

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

CTF Supporter Survey: In 2008, Alberta's government allocated $100 million to the AEC. The Alberta government should:

- **73%** Eliminate the AEC and sell its assets for one-time savings of $99 million. It's corporate welfare.
- **20%** Maintain the AEC. It's important that government support start-ups and have a stake in business.
- **1%** Expand the AEC.
- **7%** Other/don't know

To date, the Alberta Enterprise Corporation has "invested" $100 million into seven different funds and holds net assets of $100 million[15]. The Government of Alberta should dispose of these assets in an orderly fashion to realize one-time savings of $100 million.

Recommendations 14

Liquidate the Alberta Enterprise Corporation's $100 million in assets and put it towards the debt.

Eliminate the Alberta Multimedia Development Fund: -$25 million

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

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

[15] Alberta Enterprise Corporation Annual Report 2012-13. Commitments for Investment. Accessed January 29, 2014. Page 4. http://www.alberta-enterprise.ca/wp-content/uploads/2013/07/AEC-Annual-Report-lowres-FINAL.pdf

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 2012-13, the Alberta Multimedia Development Fund (AMDF) gave away $25.3 in handouts for private businesses to make movies and television programs.

Not only is it wrong and wasteful for taxpayers to be funding one particular sector of the economy at the expense of all others, in some cases, taxpayers have been forced to fund a film attacking Alberta's greatest asset, the oil sands. This came in the form of a $239,083 grant from the AMDF for the documentary, *Tipping Point: The End of Dirty Oil*.[16] While taxpayers pay out of one pocket for the government's efforts to promote the oil sands, they are forced to pay out of the other in support of activist propaganda. Nonetheless, it is not the role of government to police which films are more worthy than others.

The Wildrose Official Opposition has proposed to eliminate that AMDF, but create a film tax credit in its place. This amounts to replacing one inefficient subsidy with another inefficient subsidy.

Jurisdictions across North America have checked their arithmetic and have found the evidence for film subsidies wanting. Saskatchewan Premier Brad Wall scrapped his province's fully refundable film tax subsidy in favor of a significantly more modest non-refundable subsidy.

B.C. taxpayers spent $437 million on film subsidies in 20012 – six times that of 2005 – but have virtually the same production level as in 2005.

In most cases, jurisdictions do not make back the money that they forfeit in tax subsidies in new tax revenues. With every possible tax spinoff counted, B.C.'s treasury forfeited a *net* of $220 million or more in 2012.

Louisiana's chief economist reported that every dollar in film subsidies in that state earned a return of just 15 cents, a loss of 85 cents. In Michigan, taxpayers got just 11 cents on the dollar.[17]

In each of these cases – and many ore – taxpayers are subsidizing businesses and not seeing their "investments" return a profit. It is a classic case of the inability of government to

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

[17] *BCbusiness.ca*, 'Film Subsidies: Stimulus or Crutch?' Bateman, Jordan and Leitch, Peter. June 3, 2014. Access January 29, 2014. http://www.bcbusiness.ca/tourism-culture/film-subsidies-stimulus-or-crutch#close

successfully pick winners and losers. These are tax dollars that should be put towards infrastructure, health or education.

The Wildrose Official Opposition should reconsider its policy of replacing the AMDF with a tax subsidy in favor of eliminating all business subsidies.

CTF Supporter Survey: The AMDF provides subsidies to businesses that make movies and television programs. The Alberta government should:

- **72%** Eliminate the AMDF. It's corporate welfare.
- **21%** Maintain the AMDF. Supporting cultural industries is important and requires taxpayers' support.
- **2%** Expand the AMDF. It's proven its worth and deserves more support.
- **5%**

The AMDF is a conjuncture of corporate welfare and decisions involving the arts that the government is not fit to make. Eliminating the AMDF is low hanging fruit for any government serious about balancing the budget. It should be eliminated to realize savings of $25.3 million annually.

Recommendation 15

Eliminate the Alberta Multimedia Development Fund to save $25 million.

Ban partisan advertising: -$1.7 million

Albertans are now well familiar with the government's 'Building Alberta' advertising and branding campaign. This campaign has not gone without controversy, and for good reason.

Some government ads are justified and innocent (like flu vaccination ads), while some flirt pretty close with being partisan (such as the federal 'Economic Action Plan' signs). Still others are so clearly partisan that only the spin-doctors writing the talking points believe they are innocently "informing the public."

The province's 'Building Alberta' campaign falls in this latter category.

The 'Building Alberta' signs that litter roadsides are just off-season election signs. They use the same blue and orange that Alberta Progressive Conservative Association uses on their election signs. They have "the Honorable Alison Redford, Premier" emblazoned across many of them, and they do not inform drivers about road closures or openings, but merely state what the project underway is about, vaguely.

Partisan advertising with tax dollars isn't just wrong, but it's expensive as well.

The CTF obtained documents through Freedom of Information that show that in 2013, the average 'Building Alberta' sign cost taxpayers $3,560 a piece, with some reaching up to $8,000.

Total spending on these signs has increased by 3,027% over 2011, and 377% over 2012. In 2013, the government spent $1.04 million of taxpayers' cash on these signs.

Opposition parties obtained documents indicating that the overall "Building Alberta" ad campaign is costing taxpayers $1.7 million a year.

The CTF is proposing a simple bill to require that all government advertising be approved by the Auditor General in order to ensure that they are scourged of partisan content.

Recommendation 16

Ban partisan advertising to save $1.7 million a year.

Eliminate the Francophone Secretariat: -$1.3 million

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

A solid majority of CTF supporters (85%) surveyed wanted this funding eliminated. Only 10% wanted funding maintained, 1% wanted funding expanded and 2% wanted equal funding to also be provided to other minority language groups.

CTF Supporter Survey: The Alberta government gives $1.3 million a year to the Francophone Secretariat, which is charged with promoting the French language in Alberta. The Alberta government should:

- **85%** Eliminate it to save $1 million a year. Why should we fund one group and not another?
- **10%** Maintain it. French is a founding language of Canada and therefore deserves a special status.
- **1%** Expand it. We should be doing everything possible to promote the French language in Alberta.
- **2%** Maintain it, but also set up secretariats for other minority language groups in Alberta (Mandarin, Punjab, German, Ukrainian, etc.).
- **2%** Other/don't know

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

Recommendation 17

Eliminate the Francophone Secretariat to save $1.3 million a year.

VIII-PROTECTING TAXPAYERS AGAINST HIKES

Reject beer import tax

Former Deputy Premier Thomas Lukaszuk (now Minister of Jobs, Skills and Labour) stated in his previous capacity that the govenrment was strongly considering an import tax on beer produced outside of Alberta by small and medium sized brewers.

This came after an extensive lobbying effort by some small and medium-sized brewers inside of Alberta[18], and big beer producers outside of Alberta[19].

This would have the effect of not only raising the price of beer, but also reducing the enviable selection available to Alberta consumers.

Beyond the GST and business taxes paid by breweries, beer sold in Alberta has an additional federal beer mark-up (tax) of 11.1 cents per can, and a provincial beer mark-up (tax) of 34.8 cents per can. In other words, most cans of beer sold in Alberta have an extra 45.9 cents of tax added on, which works out to $5.50 of tax on a 12-pack of beer, plus the GST.

However, breweries that have smaller worldwide production levels are eligible for small-brewer tax rates. These rates work out to between 8.9 cents and 23.9 cents per can, or between $1.07 and $2.87 in beer tax on a 12-pack.

[18] *Alberta Small Brewers Association*. 'Attention Hon. Thomas Lukaszuk, Deputy Premier. February 26, 2013. http://www.onbeer.org/wp-content/uploads/2013/04/smallbrewerletterfeb2013.pdf
[19] *Canada's National Brewers*. Letter to Deputy Premier Lukaszuk. April 8, 2013. http://www.onbeer.org/wp-content/uploads/2013/04/nationabrewersletter.pdf

CTF Supporter Survey: Are you willing to accept higher taxes on beer brewed outside of Alberta in order to protect Alberta brewers?

- **14%** Yes. We need to protect Alberta brewers.
- **82%** No. It is protectionism and will lead to higher prices and less selection.
- **5%** Other/Don't know

The proposal the government is considering is to tax small-breweries from outside the province at the full, large-brewer rate, while taxing Alberta-based small brewers at a lesser rate.

If this change is approved by the province, beers like Steam Whistle pilsner, Mill Street's organic lager (both brewed in Ontario), or Scotland's Innis & Gunn, along with hundreds and hundreds of other beers brewed all over Canada and the world, would see their prices jump by between $2.47 and $3.32 per case.

Thanks to liquor privatization in Alberta in the early 90s, Albertans now enjoy more selection of different beer, wine and liquor products than any other jurisdiction in Canada. 82% of CTF supporters believe that this is a good thing.

Recommendation 18

Reject calls to impose a small-brewer import beer tax.

Reject fat tax

In late 2012, the Alberta Policy Coalition for Chronic Disease Prevention called for a tax under the guise of a "Wellness Levy" to make Albertans eat and drink healthier.[20]

[20] *Wellness Alberta*. 'Frequently Asked Questions.' http://www.wellnessalberta.ca/frequently-asked-questions.html#.UulnE3kQ6fo Accessed January 2014.

This group took it upon themselves ask the government to impose a tax that would force Albertans to make healthier choices in our selection of beverages.

It is not always easy to make healthy choices, but the key word in this is 'choose.' The proponents of the nanny-state all too often seem eager to surrender choice on the altar of what's good for us.

Taxes are always easier to pass off on the people who pay them when the tax's advocates claim that it will discourage negative behavior or support something positive. Consider a real world example.

In 1992, the State of Arkansas passed a soft drink tax that was supposed to support its Medicaid (healthcare) program. After some time it came to light that politicians were simply using the revenue to fatten-up the government's general fund. It was a clear tax grab.

But even if a "wellness levy" was directed towards putting healthy fruit juices in school vending machines, it doesn't change the fact that food taxes are regressive. That is that they disproportionally penalize the poor.

The evidence also does not support claims that a fat tax would make people thinner. A 2008 study by the Mercatus Centre of George Mason University found that a 20% tax on a 75-cent soft drink (upping the price to 90 cents) would see the Body Mass Index (BMI) of an obese person decline from 40 to 39.98[21].

The decline is virtually non-existent because, as *Statistics Canada* found in 2004, soft drinks represent only 2.5% of caloric intake for the average Canadian.

Denmark's government – which implemented an extensive food tax in 2011 – found it has failed to prove any positive health benefits and has only served to damage its economy. The country has seen no change in the consumption habits of its citizens. Rather, the tax has caused an estimated 2,400 job losses in food manufacturing and has seen Danish businesses hurt by consumers simply doing their shopping in neighboring countries. Denmark has since repealed the tax.

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[21] '*Tax Sins: Are Excise Taxes Efficient?'* Williams, Richard & Christ, Katelyn. Marcatus Centre, George Mason University. http://mercatus.org/uploadedFiles/Mercatus/Publications/RSP_MOP52_Taxing%20Sins_web.pdf May 2009. Access January 21, 2014.

Even if a food tax were effective in reducing obesity, it would be a blunt instrument that would catch unintended victims. The woman who enjoys a high-calorie sports drink after a 10 km run is still taxed as if she were a couch potato.

Food taxes don't work. Even steep food taxes are found to have a negligible impact. They disproportionally penalize the poor. Most importantly, they limit the choice of free citizens to decide what is best for them.

Recommendation 19

Reject calls to implement a tax on specific food and drink choices.

Reject reintroduction of a health tax

At their November convention, Progressive Conservative party members voted to reinstate the Alberta healthcare tax/premium.

The Stelmach government didn't get much right on fiscal policy, but the elimination of the health tax/premium stands out as a very bright spot. Stelmach understood that this tax disproportionately hurt the poor and lower-to-middle income Albertans and had little to do with healthcare itself.

The old healthcare premium tax took a disproportionally high portion of income from lower income earners. For example, a family earning $35,000 a year paid $1,056 in health care "premiums," – the same amount a family earning $100,000. While that represents 1% of the $100,000 family's income, it represents 3% of the $35,000 family's income.

Even if a reintroduced healthcare tax/premium were less regressive than the one repealed by Stelmach, it would still not do anything in the way of improving healthcare. That is because the dollars collected by the tax went straight into general revenues. The healthcare system was funded just as much by income taxes, resource royalties and lottery proceeds as it was by the health tax.

Further, the money isn't needed. As Health Minister Fred Horn noted after the delegates voted, Alberta already spends more per capita on healthcare than most other provinces. It is the *way* we spend our healthcare dollars, not how much we are spending.

Recommendation 20

Reject the PC Party's policy to reintroduce the health tax/premium.

No new municipal taxes without a referendum

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

His replacement, Ken Hughes needs to hold firm on this commitment in 2013-14 and beyond.

Recommendations 33

Reject calls for new municipal taxation powers unless they are approved in a referendum.

Strenthen the *Taxpayer Protection Act*

The *Alberta Taxpayer Protection Act* currently requires a referendum be held only prior to the introduction of a general provincial sales tax in Alberta. However, any other new tax or an increase to an existing tax can be imposed at any time for any reason.

In contrast to Alberta, other jurisdictions have laws that require politicians to put tax increases and new taxes to voters in a referendum. In Switzerland, a tax increase must be put to a referendum if 50,000 voters sign a petition requesting a referendum. Swiss taxpayers have sometimes voted for tax increases – but only after politicians made a convincing case for their necessity. In the State of Washington and many other U.S. states, voter approval is required for any tax increase or new tax. This applies to expanding the base for a tax, increasing the rate of a tax or introducing a new tax.

Most recently B.C. taxpayers forced a referendum on the conversion of the PST in that province to an HST. While this reform was founded upon good economics and would have been positive for the province, it was done in a manner that voters rightfully viewed as underhanded, following the BC Liberal election commitment not to do so. As a result, a broad coalition of voters came together in an initiative campaign to force a referendum, which they won. While this move is economically destructive, it was nonetheless a repudiation of a government that made a significant tax reform without a mandate from the people.

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

Government ministers, staffers and the premier herself have all mused about the possibility of introducing new taxes or raising existing taxes. As discussed above, members of the Alberta PC party passed a policy at their recent convention calling for the return of the Alberta health premium/tax.

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

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

Recommendations 22

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

IX-FISCAL FEDERALISM

Demand a hard cap on debt for provinces receiving Equalization

While Alberta is now firmly back into debtor-status, it still enjoys a lower overall debt level relative to other provinces in the federation due to its endowment of natural resources. The debt level of other provinces – particularly those currently receiving equalization payments – is harming the fiscal health of the entire country.

Like Eurozone member states, Canadian provinces are forced to de facto guarantee one another's debts by virtue of their shared currency and economies. As the *relatively* fiscally responsible northern Eurozone members discovered, when their free-spending southern neighbors take on more debt than they can handle, they will be forced pick up the tab.

As a condition for their bailouts, Germany and other northern Eurozone members attached strict conditions. In this respect, Canada can learn from Europe.

Eurozone 'donor' states demanded restrictions on the power of EU members to run annual deficits. Canada would benefit from similar restrictions – such as a constitutional cap on debt and deficits, to prevent profligate federal and provincial governments from borrowing on the credit rating of more responsible jurisdictions.

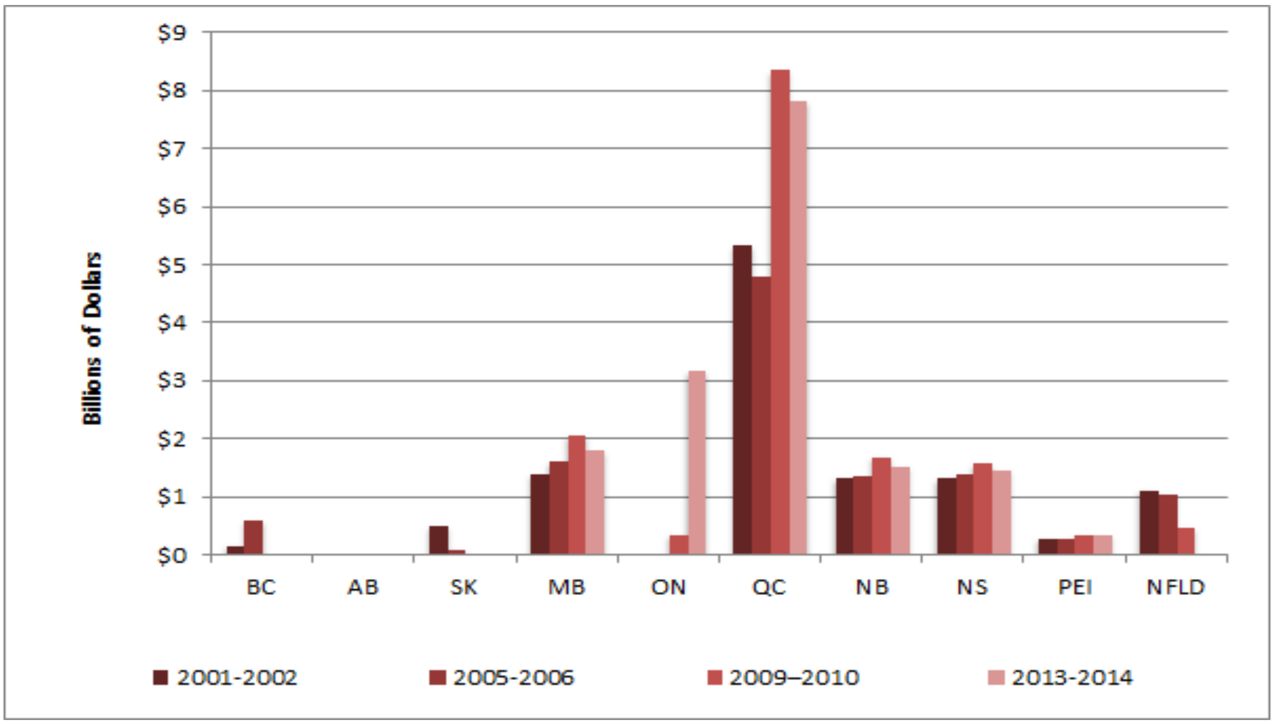
In March of 2012, leaders from 25 of 27 EU member states signed off on a fiscal compact that requires EU members – all of them sovereign states – to enact a constitutional ban on deficit spending.

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

This tough-love approach to balanced budgets, enacted at the behest of taxpayers in Germany and other lower-debt nations, follows more than a decade of cheating by Greece and others on reasonable debt limits included in the *Maastricht Treaty*.

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

CHART 9: EQUALIZATION PAYMENTS BY PROVINCE, 2001-02 TO 2013-14



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

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

Recommendation 23

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

X-OTHER

Restore the *Government Accountability Act* & *Fiscal Responsibily Act*

The government began systematically violating the *Government Accountability Act (GAA)* beginning with its *First Quarter 2012-13 Fiscal and Economic Update* by not including all legally required information. Following controversy after the first update, the government made improvements, yet it still fell short of requirements laid out in law.

While the CTF began to prepare a legal case to force the government to abide by the *GAA*, the government was preparing another, alternative solution: repeal the *GAA*.

The *GAA* was passed after years of misleading budgets and fudged numbers during the Getty government. In 1991, then provincial Treasurer Dick Johnston declared, "The 1991 budget delivers on all our commitments to Albertans. Mr. Speaker, this is a balanced budget."

Johnston's statement was not true. The truth was that the Alberta government had fudged the numbers in the provincial budget and ended up running a $2.6 billion deficit – the second largest under Don Getty's watch.

Albertans demanded the government open the books and tell Albertans on a regular basis what was going on with the provincial budget.

This did not fall on deaf ears. When Ralph Klein took over as premier in 1992, one of his tasks for his new provincial treasurer, Jim Dinning, was to restore confidence in Alberta's books.

From that, first Bill 67 was passed in 1992 and Bill 40, the *Government Accountability Act*, was passed in 1995. The former required the government to update Albertans every quarter as to how the provincial budget was faring, the latter enshrined in law what information government had to include in provincial budgets and annual reports.

The *Government Accountability Act* was landmark legislation that codified a high standard of transparency and accountability in the provincial budget making process. And while the two acts were eventually merged, the nuts and bolts remained intact for the past 18 years.

That was until Finance Minister Doug Horner introduced Bill 12 in the spring of 2013. This repealed both the *Fiscal Responsibly Act (FRA)* and *Government Accountability Act*, and replaced them with the *Financial Management Act*.

Repealing the *FRA* legalized deficits and abolished any legal definition of 'debt'. The government had been amending that legislation nearly every year to allow them to run deficits; however, repealing the *GAA* and replacing it with significantly watered-down legislation allowed the government to keep vital information from Albertans.

Specifically, the repeal of the *GAA* means that the government is not required to provide Albertans with provincial revenue sources by category, expenses by ministry, a breakdown of liabilities and assets, borrowing (debt) requirements, and the details of capital spending by ministry.

In place of specific items that used to be included (by law) in the government's consolidated fiscal plan, Bill 12 required only that there be revenues and expenditures for "an operational plan, a savings plan, a capital plan," and a list of the major economic assumptions.

It is unlikely that the government would ever provide such a barebones document in place of a properly quarterly update, but it gives the government the power to pick and choose which pieces of information to include, and which to exclude. As the government has already demonstrated, it is not above removing information it finds embarrassing, even when it was required by law.

That's precisely what Finance Minister Doug Horner did beginning in August of 2012 when it comes to the quarterly budget updates – in violation of the now repealed *Government Accountability Act*.

Horner removed the provincial balance sheet (showing assets and liabilities) and grouped all revenues and expenditures into larger, less-specific categories when he tabled the first quarter budget update of fiscal year 2012-13.

Bill 12 also amended the quarterly budget update rules to no longer require the government to provide information on the accuracy of the budget, but rather short three-month snapshots.

It was a strange admission on the part of Horner to confirm the CTF's claim that he was in violation of the law by amending it to meet his current practices.

Former treasurer Jim Dinning best made the case for the principles of the *GAA* on May 11, 1995 as he was moving third reading of the legislation: "I'm proud that my colleagues have been willing to set the standard and set a high one such that no matter who may come behind us, they will not be able to water the standard down without looking at the whites of the eyes of Albertans and saying, "We're going to deliver to you substandard government.""

The CTF believes that the repeal of the *GAA* is at the root of subpar management of Alberta's finances, and that it and the *FRA* should be restored.

Recommendations 24 & 25

Restore the *Government Accountability Act* and *Fiscal Responsibility Act.*

Restore straightforward budget reporting

As discussed in Section III of this report, the government presented Albertans with three sets of books in the 2013-14 Budget. The government entirely separated capital spending from operating spending without providing a reconciled statement telling Albertans what the deficit was. This left everyone – opposition parties, the media, and non-governmental organizations – scrambling to determine what the cash shortfall or surplus was. It was unprecedented in Alberta that this information had to come not from the government, but everyone but.

The CTF regularly attends quarterly fiscal updates to make the calculations where the government fails to do so, but this should not be required.

The government should provide Albertans with a reconciled cash balance to restore confidence to the province's financial reporting.

Recommendation 26

Return Alberta to straightforward budgetary reporting and provide Albertans with a reconciled cash balance in budgets and quarterly fiscal updates.

Ban corporate welfare & political donations from businesses taking subsidies

After more than a decade of costly government adventures in picking winners and losers in business, Ralph Klein announced that he was getting "government out of the business of business." Klein sought to cement this by making the corporate welfare exceedingly difficult for politicians to engage in with his 1996 *Business Finance Assistance Limitation Statutes Amendment Act (BFLA)*[22]. In short, government could not provide businesses with subsidies, loan guarantees or buy shares from businesses, without the legislature voting to approve individual 'gifts' individually.

Over time, the government's interpretation of this this act has become increasingly loose. As discussed in Section VII, the government is heavily invested in bioenergy, carbon capture and storage and multimedia. As recently as January 10, 2014, the government announced that it was approving another $1 billion loan for North West Upgrading's Redwater refinery, beyond the massive assistance already provided. This was never brought before the legislature for a direct vote.

Clearly, government is back in the business of business.

North West Upgrading and its many affiliated subsidiaries and partners have donated generously to the Progressive Conservative party of Alberta. While the government claims that this was not a factor in the generous subsidies provided to North West Upgrading, at the very least, the optics would appear otherwise.

The CTF is calling for the introduction of a *Corporate Welfare Elimination Act* that:

1) Broadens and strengthens the definition of subsidies, loan guarantees and "partnerships" under the *BFLA*; and

2) Bans political donations from business, partnerships and individuals directly benefiting from corporate welfare. These individuals include executives, board members or anyone owning more than 5% of the identified business or partnership.

[22] '*Business Finance Assistance Limitation Statutes Amendment Act.*' Legislative Assembly of Alberta. 1996. Access January 21, 2014. http://www.assembly.ab.ca/Documents/isysquery/38f3ee99-bb63-49e7-bb11-eb5a65d198ff/1/doc/

Recommendation 27 & 28

Pass a *Corporate Welfare Elimination Act* to:

Strengthen the *Business Finance Assistance Limitation Statutes Amendment Act*; and

Ban political donations from corporate welfare recipients.

Government Employee Pension Reform

An astonishing 80% of government employees have an employer sponsored pension plan. In the private sector only 23% have an employer sponsored pension plan.[23]

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).

Stunningly, 97% of government employee pension plans are defined-benefit compared with 44% of private sector employee pension.[24]

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 incorrect at all, the result can be a still larger unfunded liability. This was the case in 2008 when the Alberta government's pension liabilities jumped from $5.6 billion in 2006-07 to $10.1 billion in 2008-09. By the end of 2013-14, the Alberta government's pension liability is projected to stand at $10.6 billion in addition to a $1.2 billion loan to the Alberta Teachers Retirement Fund. This leaves Alberta with a total pension liability of $11.8 billion.

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

Even if Premier Redford cut a cheque tomorrow for the full $11.8 billion, it doesn't mean the unfunded liability would disappear. If any actuarial assumptions are wrong, taxpayers will be back on the hook to pay-off a new debt.

CTF Supporter Survey: Alberta's government employee pension plans have an unfunded liability (deficit) of $11.8 billion. The Alberta government should: (pick as many as you want)

- **71%** Increase employee contributions to make up the gap over time.
- **6%** Increase taxpayer contributions to make up the gap over time.
- **68%** Convert the pensions to "defined contribution" plans to stop the future growth of unfunded liabilities.
- **3%** Make one-time payments from taxpayers to "catch-up" the current unfunded liabilities.
- **50%** Reduce the automatic increases provided to current retirees, until the unfunded liabilities are eliminated.
- **6%** Other/don't know

To the government's credit, it is seriously examining ways to reform Alberta's government employee pension plans. Contributing to the government's pension plan review, the CTF sent a letter to Finance Minister Doug Horner outlining its seven point plan to make these pension plans fair to taxpayers and sustainable for employees. It called for the province to introduce a *Government Employee Pension Sustainability Act* that:

1. Requires contribution rates from plan members to be sufficient enough to support – on an equal 50/50 basis with taxpayers – the liabilities currently held by defined-benefit pension plans;

2. Introduces "target-benefit" provisions for existing retirees, where cost of living increases are dependent on whether the plans have unfunded liabilities or not;

3. Reduces taxpayer contributions to no more than 50% of the total contribution to any pension plan. This is currently not the case with the Management Employee Pension Plan (MEPP);

4. Ends the accrual of additional benefits under current defined-benefit pension plans in the near future;

5. Honors the government's commitment to all benefits accrued under current plans until this time;

6. Moves all members of current defined-benefit plans to new, defined-contribution plans; and

7. Mandates that any lump-sum bailout of pension plans by taxpayers require an equal 'extraordinary contribution' from plan members, amortized over a reasonable period.

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

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

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 unexpected unfunded liabilities in the future.[25]

Even the Saskatchewan government under former NDP Premier, Allan Blakeney, converted most of their public sector pension plans from defined-benefit to defined-contribution in 1977. This was largely done in response to unpredictable and growing unfunded liabilities.[26]

Alberta needs to recognize the urgency of the pension crisis and immediately close entry to current defined-benefit plans in favor of new, defined-contribution plans. While respecting already accrued benefits, all current employees should be moved to a defined-contribution plan on a go-forward basis.

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[25] http://crr.bc.edu/images/stories/Pension_Freeze_Fact_Sheets/table2.pdf
[26] http://www.innovation.cc/books/chapter02.htm

Recommendation 29

Pass a *Government Employee Pension Sustainability Act* based on the CTF's seven-point plan to make plans fair to taxpayers and sustainable for employees.

Kick the wealthy out of subsidized housing

There are thousands of middle-class to wealthy people living in taxpayer-subsidized housing across Alberta.

In Calgary, documents obtained by the CTF show that there were 1,208 individuals making between $50,000 and $172,000 in subsidized housing. Eighteen of these tenants had incomes between $120,000 and $172,000, 123 tenants had incomes over $80,000 and 1,208 tenants had incomes over $50,000. Similar documents obtained in other municipalities showed similar cases in Lethbridge and Northern Alberta, while Edmonton has thus far blocked all Freedom of Information (FOI) requests to obtain information there.

This is a problem across Alberta. Municipalities and local subsidized housing corporations claim that their hands are tied by the Alberta *Residential Tenancies Act (RTA)*, making it impossible for them to evict these tenants. It is unclear as yet if this is in fact the case, or if subsidized housing corporations are merely allowing the practice.

Regardless of what is perpetuating the tenancy of middle class and even wealthy Albertans in subsidized housing, it is a problem. The province should immediately investigate ways to remove these individuals from subsidized housing promptly.

Recommendations 30

Make it illegal for taxpayer-funded organizations to provide subsidized housing to middle-class and wealthy individuals.

Legislate a spending cap

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

As discussed above, the Government has increased its budget far beyond the combined rates of inflation and population growth. Over-spending is the cause of current budget instability, mostly because it has driven up reliance on non-renewable resource revenues.

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

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

Alberta has also had considerable success in the past with fiscal restraint legislation.

Premier Klein smartly introduced the *Balanced Budget and Debt Retirement Act* in 1995, outlawing his government from running deficit budgets and prescribing a minimum payment that must be made each year toward the provincial debt.

This legislation forced the government to make tough decisions, find efficiencies and prioritize in order to ensure the budget was balanced each year. It further ensured that the province's $22.7 billion debt would eventually be paid-off and $1.5 billion would no longer be wasted in annual interest payments.

In 1999 however – after the province's debt had nearly been halved – the government was under tremendous pressure to abandon their debt repayment promise and spend surplus dollars. Premier Klein once again smartly handcuffed his government by introducing the *Fiscal Responsibility Act* which prescribed a minimum of 75% of all surplus dollars be put toward debt repayment.

These two statutory restrictions were key to ensuring government did not return to deficit budgeting and ultimately led to the full repayment of Alberta's provincial debt in 2004.

Albertans have seen the benefit of legislated limits on their government's ability to spend and borrow. Indeed, Alberta would not be in the prosperous position it is today had the Klein government not introduced these laws.

Recommendations 31

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

Make capital spending predictable and sustainable

A decade ago the Alberta Financial Management Commission (AFMC) rightfully noted the wild swings in Alberta's capital spending. As a result, the AFMC recommended that the province annually budget not less than 0.9% of the average provincial GDP for the previous two years.

The CTF supports the implementation of this AFMC recommendation with the caveat that that there be a maximum allocation of 1.5% of the average GDP for the previous two years.

As seen in the Table 7, in the last 20 years, Alberta has dipped below the 0.9% floor only once (in 2002-03), has gone above the 1.5% ceiling thirteen times and has been within that range seven times.

Once the budget is balanced, the government should implement a guideline for capital spending to prevent wild swings caused by both over and under-spending.

TABLE 12: CAPITAL SPENDING AS A PERCENTAGE OF TWO-YEAR AVERAGE GDP

Year	Alberta GDP ($ millions)	Previous Two-year's Average GDP ($ millions)	Capital Plan spending ($ millions)	Capital Plan spending as % of two-year GDP	0.9% of two year average
1990	$73,257				
1991	$72,892				
1992	$74,936	$73,075	$822	1.12%	$658
1993	$81,179	$73,914	$1,138	1.54%	$665
1994	$88,041	$78,058	$891	1.14%	$703
1995	$92,036	$84,610	$939	1.11%	$761
1996	$98,634	$90,039	$821	0.91%	$810
1997	$107,048	$95,335	$1,310	1.37%	$858
1998	$107,439	$102,841	$1,256	1.22%	$926
1999	$117,080	$107,244	$1,878	1.75%	$965
2000	$144,789	$112,260	$2,091	1.86%	$1,010
2001	$151,274	$130,935	$2,860	2.18%	$1,178
2002	$150,594	$148,032	$997	0.67%	$1,332
2003	$170,113	$150,934	$1,659	1.10%	$1,358
2004	$189,743	$160,354	$2,842	1.77%	$1,443
2005	$219,810	$179,928	$3,743	2.08%	$1,619
2006	$238,410	$204,777	$4,769	2.33%	$1,843
2007	$258,850	$229,110	$6,971	3.04%	$2,062
2008	$262,864	$248,630	$7,593	3.05%	$2,238
2009	$251,286	$260,857	$6,528	2.50%	$2,348
2010	$261,457	$257,075	$5,889	2.29%	$2,314
2011	$274,717	$256,372	$5,744	2.24%	$2,307
2012	$306,657	$268,087	$4,769	1.78%	$2,413

Recommendation 21

Implement a guideline for Capital Plan spending of a minimum of 0.9% and a maximum of 1.5% of the two-year's previous average of provincial GDP.

Mandatory flood insurance for at-risk property owners

In October 2013, the government announced that it was open to discussions surrounding flood insurance following the disastrous June floods.

The decisions taken around flood insurance have the potential to be incredibly positive for both taxpayers and property owners, or ruinous for both. There is a (potentially) right way to do flood insurance, and there is a wrong way. Case in point: the United States' National Flood Insurance Program (NFIP). While well intended, the U.S. program has devolved into a massive wealth transfer scheme, encouraging and subsidizing living in high-risk areas.

The U.S. created the NFIP in 1938 after private insurers withdrew from the market following the 1927 Mississippi floods. This made the U.S. taxpayer the primary flood insurance provider for homeowners and small businesses, although still delivered by private firms.

"Mandatory" insurance in the U.S. has largely been a failure in its current form. The "mandatory" part of the program was often not enforced by the government, and more often ignored by homeowners. People systemically underestimate risk and opt not to purchase flood insurance in the U.S., even though taxpayers heavily subsidize it.

However, the subsidized premiums are seen as the good deal that they are by many in the US. Erwann Michel-Kerjan wrote in the U.S. *National Tax Journal,* "Highly subsidized premiums... without clear communication on the actual risk facing individuals... encourage development of hazard-prone areas in ways that are costly to both the individuals who locate there as well as others who are likely to incur the costs of bailing out victims following the next disaster."

Senior players in Canada's insurance industry told the CTF that the designation of Special Flood Hazard Areas (requiring mandatory insurance) is highly politicized, as U.S. Congressmen in flood-prone areas lobby to redraw maps to include areas with little-to-no risk of flooding in order to ease the premiums of those actually at risk.

According to the US-based CATO institute, "Government policies are the cause of, not the cure for, the limited supply and narrow scope of private-sector disaster insurance."

This may be entirely true, but the status quo in Canada and Alberta is also unacceptable. That is, that homeowners and taxpayers alike have no protection whatsoever. As it stands, government de-facto insures property (through flood assistance payments) without collecting premiums.

Insurance is the only option available to externalize the costs of floods, but it is difficult to make it available in a way that will not devolve into the disaster that is the American program of government-backed private insurers, or the even more risky prospect of a directly government-run program.

There is no watertight solution, but the best prospect of successfully externalizing flood costs lies with encouraging the creation of a self-sufficient, private insurance market.

The first step in the creation of any market is to have demand for a product. To start, at-risk property owners should be required to purchase flood insurance. The best way to safeguard against U.S.-style gerrymandering in who must have insurance is to only require insurance for properties that have made claims under the Disaster Recovery Program (DRP). If you've made a claim for assistance, you need insurance.

Like automobile insurance, making a product mandatory creates a market where one would otherwise not exist.

Premiums should be determined strictly by actuarial calculations that reflect risk, not political considerations. For some homeowners, premiums that reflect the full risk will be too great to bear. For these homeowners, additional relocation assistance should be provided by the government.

The CTF released a detailed plan for protecting Albertan taxpayers and property owners in its August 2013 report, *Responsibly Rebuilding Alberta*, which can be found at taxpayer.com.

Recommendations 32

Protect property owners and taxpayers by creating the market conditions necessary for overland flood insurance.