ALTERNATIVE BUDGET 2018–2019

FILDEBRANDT
STRATHMORE • BROOKS

FISCAL *U-TURN FOR* ALBERTA

CONTENT

SUMMARY

This Alternative Budget 2018-2021 is a plan to:

- Find efficiencies, savings and redefine the scope of government using the NDP's current Budget 2017 as a baseline.
- Cap the government's operating spending at this new lower level until the budget is balanced.
- Balance the province's budget – according to the current operating budget basis – by 2019-20 – the year the NDP originally promised to balance the budget by.
- Balance the province's full, consolidated budget (change in net financial assets) by 2020-21.

Specific efficiencies and savings to achieve this:

- Implement a 5% reduction in core government staff costs
- Implement a 3% reduction in non-core government staff costs
- Implement a 5% rollback of all government ministry budgets
- Abolish the Economic Development and Trade Ministry
- Not renew the Campus Alberta Innovations Program
- Eliminate the Alberta Media Fund
- Eliminate Assistance to Travel Alberta Corporation
- Eliminate the Labour Attraction and Retention Grant Program
- Abolish the NDP's carbon tax and related spending programs
- Allow Carbon Capture and Storage Grants to decline as planned
- Extend the current three-year Capital Plan over one additional year
- Increase the Disaster and Emergency budget to $500 million.

Measures to prevent Alberta from repeating this situation again:

- Strengthen the Alberta Taxpayer Protection Act
- Restore the Government Accountability Act & Fiscal Responsibility Act
- Restore straightforward budgetary and quarterly reporting
- Government Employee Pension Reform

INTRODUCTION

When the New Democratic Party (NDP) took power in 2015 there were undeniable problems with Alberta's economy, finances, and budget.

For more than a decade, government spending had grown significantly faster than inflation and population growth, and the budget deficit grew along with it.

The economy took a further hit when oil prices steeply declined in 2014.

Governments, however, shouldn't be judged on situations they inherit, they should be judged on how they deal with situations that arise, and how they prepare us for future circumstances and issues.

Had the previous Progressive Conservative government controlled spending in the decade prior to 2015, Alberta would be in a much more comfortable situation now.

Multiple academic studies have shown that had the Alberta government controlled spending at the rate of inflation plus population growth for the 2005-2015 decade, we would still have a budget surplus today, despite the poor economic conditions.

Unfortunately, instead of correcting course, the new NDP government, continued down the same track and Alberta finds itself with a $10 billion operating deficit and a ballooning debt, with no realistic end in sight.

In the new government's 2015 budget, they came up with a plan to balance the operating budget by 2019/20, a commendable if uninspired goal at the time.

But just two years later, in the government's 2017 budget, they gave up balancing the operating budget by a set date entirely, and instead started talking vaguely about being "on a path to balance."

Since Budget 2017, Finance Minister Joe Ceci has claimed they now hope to balance the operating budget by 2023/24, but given budgets show only a three-year projection, we would have to wait until the middle of the NDP's next term – should they win re-election – to see exactly how they plan to do this.

It's rumored that the government might outline a more long-term plan in this upcoming Budget 2018 on how they intend to eventually balance the operating budget, but even if this year's budget does include such a plan, why should they be believed now when they already promised to balance the budget by 2019/20, only to go back on their word?

This alternative budget outlines a realistic plan to balance the operating budget by the NDP's originally planned date of 2019/20.

Though the government will likely attack the proposals in this document as being infeasible or irresponsible, they as yet have not produced a plan of their own.

It can hardly be considered a radical plan to do exactly what the NDP originally promised to do in their 2015 budget, except with more debt, due to the delay in action.

The reductions in spending required to bring the operating budget into balance by 2019/20 will, of course, need to be greater than the NDP originally proposed in their 2015 Budget, but only because the NDP have actually increased spending even further over the last few years, instead of controlling it like they claimed they would.

Once the operating budget is balanced, spending must continue to be carefully managed until the consolidated budget is balanced, debt stops increasing, and we can start repaying the debt.

When Ralph Klein held up his famous "Paid In Full" sign it symbolized the end of a long struggle to get Alberta off its debt addiction.

Now we find ourselves right back at the start again, as addicted as ever.

We must not only get back to surplus and pay off the debt again, we must pass reforms to make sure this never happens again.

CURRENT TRACK

To begin our planning for an Alternative Budget, we start with the government's current Budget 2017-18 and the 2017-18 Third Quarter Fiscal Update and Economic Statement.

Unfortunately, the government no longer provides updated projections for Revenue and Expenditure in 2018-19 and 2019-20, so only Budget 2017 data is available for those years.

The government also continues to refuse to present the province's finances according to a full, consolidated (change in net financial assets) basis.

This is different from the operating basis that the government uses in its budget documents as the full, consolidated basis includes capital investments but excludes capital amortization.

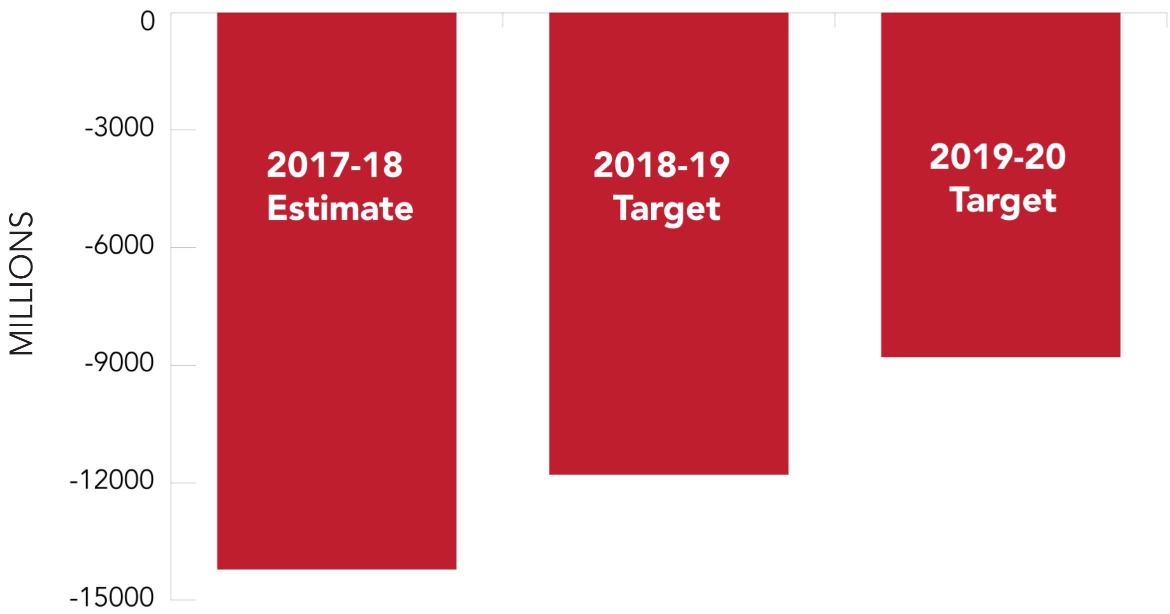
We have converted the government's figures to this more accurate full, consolidated basis ourselves:

Q3 UPDATE – REVENUE (MILLIONS)	2017-18 Estimate	2018-19 Target	2019-20 Target
Income Tax and Other Revenue	$21,211	$23,323	$24,662
Non-Renewable Resource Revenue	$4,534	$4,226	$6,628
Other Revenue	$21,136	$20,094	$20,492
Total Revenue	**$46,881**	**$47,643**	**$51,782**
Q3 UPDATE - EXPENSE (MILLIONS)	**2017-18 Estimate**	**2018-19 Target**	**2019-20 Target**
Operating expense (net of in-year saving)	$46,370	$47,097	$48,363
Carbon Tax Plan operating expense	$577	$1,395	$1,053
Diaster Assistance (with operating 2013 flooding support)	$495	$500	$500
Capital grants	$3,729	$2,572	$2,289
Carbon Tax Plan capital grants	$391	$411	$580
Amortization / inventory consumption / disposal loss	$929	$952	$1,000
Debt Servicing loss	$1,355	$1,807	$2,286
Pension provisions	-$332	-$279	-$339
Capital investment	$5,805	$5,013	$5,269
Total Expense	**-$12,438**	**-$11,825**	**-$9,219**
Surplus / Deficit	**-$12,438**	**-$11,825**	**-$9,219**
SAVINGS & DEBT RETIREMENT ACCOUNTS (MILLIONS)	**2017-18 Estimate**	**2018-19 Target**	**2019-20 Target**
Heritage Fund	$20,322	$20,397	$20,824
Contingency Account	$41	$0	$0
DEBT (MILLIONS)	**2017-18 Estimate**	**2018-19 Target**	**2019-20 Target**
Liabilities	$45,736	$57,561	$66,780
Net financial assets	**-$25,373**	**-$37,164**	**-$45,956**
Change in net financial assets	**-$14,210**	**-$11,791**	**-$8,792**

Notes:
2017-18 Revenue estimates based on Q3 Fiscal Update
2018-19 and 2019-20 Revenue estimates based on Budget 2017 as no update provided by government in Q3
Capital investment is Capital investment plus Carbon Tax Plan capital investment
2017-18 Expenditure estimates based on Q3 Fiscal Update
2018-19 and 2019-20 Expenditure estimates based on Budget 2017 as no update provided by government in Q3
Disaster assitance adjusted to reflect average historical spending levels
Amortization / inventory consumption / disposal loss adjusted to remove Capital Amortization Expense
Liabilties is liabilities for capital projects, debt for pre-1992 TPP, and direct borrowing for the fiscal plan

While both gures are useful and should be provided in government nancial documents, the full, consolidated basis is a more accurate representation of the government's total revenues and expenditures for the purposes of budgeting, and provides a fairer picture of whether the budget is balanced or not.

Using this full, consolidated basis, we project the government's budget deficit will be $14.2 billion in 2017-18, $11.8 billion in 2018-19, and $8.8 billion in 2019-20.



Though it requires more assumptions because the government does not provide projections for more than two years into the future, we can also use these figures to also project a trend for coming years.

If trends continue, these figures show that on a full, consolidated basis, the government will not balance the budget until 2025-26, despite the recent economic improvement shown in the Q3 update.

By that time, there will be approximately $90 billion in total liabilities, with a net debt of about $68 billion.

Q3 UPDATE - REVENUE (MILLIONS)	2017-18 Estimate	2018-19 Target	2019-20 Target	2020-21 Trend	2021-22 Trend	2022-23 Trend	2023-24 Trend	2024-25 Trend	2025-26 Trend
Income tax and other tax revenue	$21,211	$23,323	$24,662	$26,388	$27,920	$29,549	$31,129	$32,734	$34,327
Non-renewable resource revenue	$4,534	$4,226	$6,628	$7,675	$9,400	$10,785	$12,340	$13,811	$15,324
Other revenue	$21,136	$20,094	$20,492	$20,170	$20,208	$20,066	$20,014	$19,917	$19,843
Total Revenue	**$46,881**	**$47,643**	**$51,782**	**$54,233**	**$57,527**	**$60,400**	**$63,484**	**$66,462**	**$69,493**
Q3 UPDATE - EXPENSE (MILLIONS)	**2017-18 Estimate**	**2018-19 Target**	**2019-20 Target**	**2020-21 Trend**	**2021-22 Trend**	**2022-23 Trend**	**2023-24 Trend**	**2024-25 Trend**	**2025-26 Trend**
Operating expense (net-in year savings)	$46,370	$47,097	$48,363	$49,360	$50,491	$51,555	$52,652	$53,733	$54,822
Climate Leadership Plan capital grants	$577	$1,395	$1,053	$1,291	$1,239	$1,332	$1,353	$1,409	$1,448
Disaster assistance (with operating 2013 flood support)	$495	$500	$500	$503	$504	$506	$507	$509	$511
Capital grants	$3,729	$2,572	$2,289	$2,289	$2,289	$2,289	$2,289	$2,289	$2,289
Climate Leadership Plan capital grants	$391	$411	$580	$580	$580	$580	$580	$580	$580
Amortization / inventory consumption / disposal loss	$929	$952	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
Debt servicing costs	$1,355	$1,807	$2,286	$2,829	$3,218	$3,522	$3,755	$3,896	$3,944
Pension provisions	-$332	-$279	-$339	-$343	-$374	-$392	-$417	-$438	-$461
Capital investment	$5,805	$5,013	$5,269	$5,001	$4,995	$4,858	$4,787	$4,682	$4,594
Total Expense	**$59,319**	**$59,468**	**$61,001**	**$62,510**	**$63,942**	**$65,249**	**$66,506**	**$67,661**	**$68,728**
Surplus / Deficit	**-$12,438**	**-$11,825**	**-$9,219**	**-$8,277**	**-$6,414**	**-$4,850**	**-$3,022**	**-$1,199**	**$765**
SAVINGS & DEBT RETIREMENT ACCOUNTS (MILLIONS)	**2017-18 Estimate**	**2018-19 Target**	**2019-20 Target**	**2020-21 Trend**	**2021-22 Trend**	**2022-23 Trend**	**2023-24 Trend**	**2024-25 Trend**	**2025-26 Trend**
Heritage Fund	$20,322	$20,397	$20,824	$21,075	$21,414	$21,709	$22,026	$22,332	$22,644
Contingency Account	$41	$0	$0	$0	$0	$0	$0	$0	$0
DEBT (MILLIONS)	**2017-18 Estimate**	**2018-19 Target**	**2019-20 Target**	**2020-21 Trend**	**2021-22 Trend**	**2022-23 Trend**	**2023-24 Trend**	**2024-25 Trend**	**2025-26 Trend**
Liabilities	$45,736	$57,561	$66,780	$74,951	$81,271	$86,034	$88,976	$90,097	$89,253
Net financial assets	**-$25,373**	**-$37,164**	**-$45,956**	**-$53,876**	**-$59,857**	**-$64,325**	**-$66,950**	**-$67,765**	**-$66,609**
Change in net financial assets	**-$14,210**	**-$11,791**	**-$8,792**	**-$7,920**	**-$5,981**	**-$4,468**	**-$2,625**	**-$815**	**$1,156**

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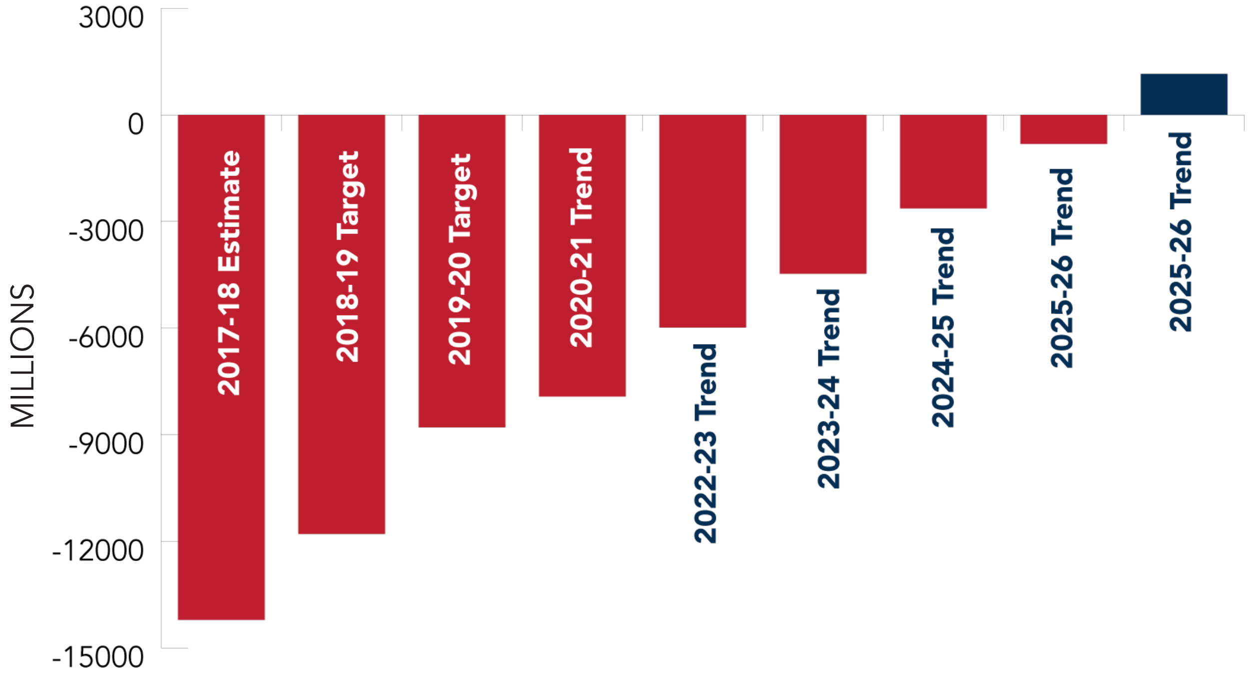

Continuing on this path and taking on almost $90 billion dollars of debt is unacceptable.

Every Albertan already owes about $7,000 per person in provincial debt.

Waiting to balance the budget until total debt reaches almost $90 billion dollars amounts to more than $20,000 in debt per Albertan.

Government debt is essentially a choice by the current generation to spend future generations' wealth.

Every dollar borrowed by government in the present must be paid back in the future, with interest, in the form of higher taxes or lower service levels.

And this all assumes that interest rates remain low, and repaying the debt remains manageable.

Interest rates are currently at historically low rates, and have been much higher in recent history, so this is not a safe bet.

In Budget 2017, the NDP grudgingly recognized that there might be an issue, saying:

"Budget 2017 is also about managing government spending. This includes a number of cost-saving measures, including realigning executive compensation in Alberta's public agencies, finding in-year savings and freezing salaries for political staff and government managers. Combined, the cost-saving measures will keep the rate of growth in government operating expense below the combined rate of population growth plus inflation to achieve lower year-on-year deficits on a path to balance."

Unfortunately, these kinds of minor cost saving measures are what were required 10 years ago to prevent us from getting in to this mess in the first place – they are nowhere near sufficient to get us out of the hole we have dug ourselves into.

CHOICES

From the moment the Alberta government went back in to deficit, there has been debate about options for solving the province's financial difficulties.

When expenses exceed revenues there are a few options:

1 – Use up savings
2 – Take on debt
3 – Increase revenues
4 – Decrease spending

The previous PC government used up most of the Sustainability Fund, and rather than admit that the Sustainability Fund was no longer sustainable, they renamed it to the Contingency Fund and started relying more and more on debt instead.

The new NDP government very quickly used up the rest of the Contingency Fund and started relying entirely on debt, and increased revenues.

Some might argue that increased revenues, via higher taxes, is a reasonable way to balance the budget.

However, it should not be forgotten that the NDP government has already increased almost every tax they could think of.

Since becoming government they increased the top personal income tax by 50%, increased corporate taxes by 20%, increased fees, and introduced an entirely new tax – the carbon tax.

Even putting aside the harm this does to the province's economy, and potential second-order effects to government revenue, these tax increases haven't prevented the government from running record deficits.

In fact, the government has used the increased taxes to justify even higher spending.

As noted by a Fraser Institute report:

"Consider the fact that from the pre-recession revenue peak in 2014/15 to 2019/20, revenues will grow from $49.5 to $51.5 billion, an increase of 4.4% while expenditures over the same period are expected to grow from $48.4 to $57.7 billion, an increase of 19%."

That means that revenues for the province are actually higher than they were prior to the recession, yet we still have a massive deficit, because the government has increased spending by about 20%.

Again, had the government held spending flat, even adjusting for inflation, the deficit would have practically disappeared by itself by 2019.

So, over the last decade we have used up all our savings, taking on tens of billions of debt, and increased almost every tax imaginable.

And yet, governments have increased spending so rapidly that deficits have continued to balloon.

We've exhausted all other options – now, finally, it's time to control spending.

RECOMMENDATIONS

1 Recommendation – Implement a 5% reduction in core government staff costs – $169 million

In their latest budget, the NDP announced they were freezing salaries for political staff and government managers.

While welcome, this is nowhere near sufficient, as political staff and government managers make up a small portion of total core staff.

The government should look to save 5% on core staff costs, where core staff refers only to direct ministry and department staff.

This does not include front line staff such as doctors, nurses, teachers, and professors - these front-line workers would be unaffected by this recommendation.

This does include MLAs, who should also be taking a 5% pay cut, as it is vitally important that politicians lead by example when trying to control costs.

Department FTE	2016-17 Budget	2017-18 Estimate	2017-18 Costs	Cost / FTE
Advanced Education	606	606	$69,243	$114,262
Agriculture and Forestry	2,337	2,328	$244,000	$104,811
Children's Services	2,501	2,562	$306,000	$119,438
Community and Social Services	3,345	3,345	$291,000	$86,996
Culture and Tourism	697	707	$80,000	$113,154
Economic Development and Trade	426	445	$51,293	$115,266
Education	704	704	$78,409	$111,376
Energy	2,070	2,120	$285,000	$134,434
Environment and Parks	2,419	2,491	$229,000	$91,931
Executive Council	178	186	$24,000	$129,032
Health	979	979	$105,848	$108,118
Indigenous Relations	218	233	$26,000	$111,588
Infrastructure	987	1,002	$79,000	$78,842
Justice and Solicitor General	7,096	7,608	$771,000	$101,341
Labour	653	653	$102,000	$156,202
Municipal Affairs	606	666	$74,000	$111,111
Seniors and Housing	295	302	$31,000	$102,649
Service Alberta	1,386	1,386	$135,000	$97,403
Status of Women	34	36	$5,000	$138,889
Transportation	801	810	$73,000	$90,123
Treasury Board and Finance	1,636	1,682	$248,000	$147,444
Other	731	725	$74,000	$102,069
Total	**30,705**	**31,576**	**$3,381,793**	**$107,100**

Even if this entire 5% was achieved from cutting staff, this would reduce core staff from 31,576 to about 30,000 - roughly where it was at the time the NDP took over in 2015.

Natural attrition of staff would, however, also contribute to this 5%, meaning any cuts would actually amount to less than this.

Unfortunately, the government no longer provides detailed costs of staff broken down by core and non-core staff.

For some departments this doesn't significantly affect figures, as almost all staff are core, but for departments like Advanced Education, Education, and Health, this has a dramatic effect on the figures.

For departments where this was an issue, we used 2017 actual figures from the department annual reports and projected a 3% increase in staff costs for the 2017-2018 baseline.

The estimate of total core staff costs for 2017-18 is $3,381,792,720, which is an average of $107,100 per core employee.

A 5% saving of $3,381,792,720 would be $169,089,636.

2 Recommendation – Implement a 3% reduction in non-core government staff costs – $532 million

Just as there should be a 5% reduction in core staff costs, the government should pursue a 3% reduction in non-core staff costs.

When he became Premier, Ralph Klein made it clear that provincial grants to government departments and organizations would be cut by 5%, but left it to those local groups, like school boards, university boards, and hospital boards, to figure out whether the savings would be found, either through staff reductions, pay reductions, days off without pay, or otherwise.

We propose the same process, but only requiring a 3% reduction.

Natural attrition of staff would, again, also contribute to this 3%, meaning any cuts would actually amount to less than this.

A 2017 Fraser Institute report found that Alberta's government workers receive 7.9% more than someone in the private sector, and this is after controlling for variables such as experience, industry, education, and more, to ensure an accurate comparison.

This is also before we take into account benefits, such as registered pension plans, health plans, time off, job security, and more.

Therefore, a 3% cut on core staff still leaves government employees earning about 4% more than their private sector counterparts, for the same amount and same type of work and with better benefits.

Total wage salary benefits costs for all government employees for 2017-18 is $21,123,000,000.

Total wage salary benefits costs for only core government employees for 2017-18 is $17,741,207,280.

Therefore, a 3% reduction in non-core staff saves $532,236,218.

3 Recommendation – Implement a 5% rollback of all government ministry budgets – $27 million

Within each government ministry's budget, there is a portion of funds allocated to the ministry's own services.

This is not the funds allocated for the ministry's programs, this is the administrative portion of the administrative costs of the administration itself.

The total cost of this administrative cost across all government departments is $539,988,000.

A 5% cut to the budgets of these ministerial support services would save $26,999,400.

MINISTRY SUPPORT SERVICES (THOUSANDS)	2017-18 Estimate	5% Saving
Advanced Education	$27,040	$1,352
Agriculture and Forestry	$22,195	$1,110
Children's Services	$19,542	$977
Community and Social Services	$24,870	$1,244
Culture and Tourism	$15,009	$750
Economic Development and Trade	$14,276	$714
Education	$20,656	$1,033
Energy	$7,140	$357
Environment and Parks	$73,326	$3,666
Executive Council	$26,859	$1,343
Health	$85,626	$4,281
Indigenous Relations	$6,193	$310
Infrastructure	$26,217	$1,311
Justice and Solicitor General	$58,961	$2,948
Labour	$12,734	$637
Municipal Affairs	$16,901	$845
Seniors and Housing	$9,182	$459
Service Alberta	$12,428	$621
Status of Women	$2,890	$145
Transportation	$32,306	$1,615
Treasury Board and Finance	$25,637	$1,282
Other	$0	$0
Total	**$539,988**	**$26,999**

4 Recommendation – Abolish the Economic Development and Trade Ministry – $429 million

The vast majority of work that the Economic Development and Trade Department conducts is a form of corporate welfare, designed to "stimulate the economy" by picking and choosing winners.

It is far better for the government to focus on balancing the budget, getting taxes down, and once again making Alberta the best place to do business.

If the government is successful in this core job of making Alberta competitive again, people and businesses will want to come to Alberta, and there will be no need to bribe and incentivize them to be here.

The budget of the entire department is $479,427,000.

$50,000,000 of this budget will be transferred to related departments to fulfil the few core economic and trade roles that the current department does participate in, with the remaining budget being cut.

This results in $429,427,000 in savings.

5 Recommendation – Not renew the Campus Alberta Innovations Program – $17 million

The Campus Alberta Innovation Program fund launched in 2011 and was designed to encourage, attract and recruit research leaders to Alberta.

The program was supposed to be a one-time investment and is set to expire this year.

We would not renew the program, and not re-allocate the money to any other projects.

6 Recommendation – Eliminate the Alberta Media Fund – $34 million

This boutique tax credit is just another form of corporate welfare.

Media, magazines, books, music, video games, and other cultural industries are important to the Alberta economy.

But governments getting involved in business and picking winners and losers does not become a good idea just because the industry the government is trying to get involved in is the art industry.

7 Recommendation – Eliminate Assistance to Travel Alberta Corporation – $49 million

Travel Alberta aims to increase travel and tourism spending in the Alberta economy.

They claim responsibility for large portions of the $8.1 billion dollars of travel and tourism expenditures in Alberta, which brings in $1.2 billion dollars in tax revenue each year.

But the type of cost/benefit analysis that is done to measure this type of effect is notoriously vague and inaccurate and can be manipulated to give whatever result is needed to justify more spending.

Tourism and travel seemed to manage fine for decades before the Travel Alberta Corporation was setup in 2009.

Spending $49.2 million on highly paid marketing executives and promotions, with vague or non-existent cost/benefit analysis, doesn't seem the best investment of taxpayer money while we're piling on billions more in debt every year.

8 Recommendation – Eliminate the Labour Attraction and Retention Grant Program – $10 million

This vaguely described grant program provides grants to non-profits and for-profit businesses to assist them in attracting and retaining workers.

It is not the role of government to be helping organizations attract and retain workers, particularly in the case of for-profit businesses.

Under this program, taxes paid by one business are being used by the government to provide their competitors with grants to help them improve their workforce retention.

The government should not be in the business of picking and choosing winners in the market and providing grants that would give one business an advantage over another business is not an appropriate use of taxpayer dollars.

9 Recommendation – Abolish the NDP's carbon tax

The NDP did not campaign on a carbon tax and it should be repealed immediately.

Despite claims by the NDP that the carbon tax is revenue neutral, the government has over-spent the revenue from the carbon tax and is now having to borrow extra money to fund the projects they claim are being paid for by the carbon tax.

Therefore repealing the carbon tax, and its associated operating expenses, would have a slightly negative result on the operating budget, but when taking capital expenses into account as well, this recommendation saves a considerable amount of money over the coming years.

CLIMATE TAX BUDGET (MILLIONS)	2017-18 Estimate	2018-19 Target	2019-20 Target
Revenue	$1,038	$1,396	$1,416
Operating Expenses	$934	$1,462	$1,122
Capital Expenses	$214	$445	$615

EFFECT OF RECOMMEDATION 9 (MILLIONS)	2017-18 Estimate	2018-19 Target	2019-20 Target
Revenue	$0	-$1,396	-$1,416
Operating Expenses	$0	-$1,462	-$1,122
Capital Expenses	$0	-$445	-$615

10 Recommendation – Allow Carbon Capture and Storage Grants to decline as planned

In 2009 the province entered into a sweetheart contract with energy companies to provide grants for a Carbon Capture and Storage project.

Despite the project meeting almost none of its targets, the cost to the government of cancelling the contract would exceed the cost of paying out the remainder of the contract.

However, the projected amount owing over the next several years is projected to greatly reduce:

2017 Budget – $213,700,000
2018 Expected – $129,100,000
2019 Expected – $43,000,000

Therefore, the cap on government spending that we are proposing until the budget is balanced should be reduced down to the lower figure each year to take into account the reduced cost of this grant.

This has no impact on the original spending reduction from the 2017-18 Budget Estimate, but creates $84,600,000 in savings in 2018-19, and $86,100,000 in savings in 2019-20.

11 Recommendation – Extend the current three-year Capital Plan over one additional year

The government's Total Capital Plan for Core Government over the three-year period 2018-19, 2019-20, 2020-2021, is expected to cost $19,714,000,000.

To recognize the current fiscal challenges of the government, we will extend this three-year capital plan over one additional year.

The highest priority projects will still be completed on time, while lower priority projects will be slightly delayed.

This saves $1.7635 billion in 2018-19, $1.8895 billion in 2019-20, and 1.2755 billion in 2020-21:

CAPITAL DELAY (MILLIONS)	2017-18 Estimate	2018-19 Target	2019-20 Target	2020-21 Target	2021-22 Target
Total planned Capital expenditure	-	$7,052	$7,348	$6,898	-
Carbon Tax Plan capital expenditure	-	-$360	-$530	-$694	-
Capital Expenditure (excluding Carbon Tax Plan)	-	$6,692	$6,818	$6,204	-
Adjusted Capital Expenditure	-	$4,929	$4,929	$4,929	$4,929
Savings	**-**	**$1,764**	**$1,890**	**$1,276**	**-**

This is allocated proportionally between capital grants and capital investments:

CAPITAL PLAN SAVINGS ALLOCATION (MILLIONS)	2017-18 Estimate	2018-19 Target	2019-20 Target
Planned Grants (Excluding Carbon Tax Plan)	-	$2,572	$2,289
Planned Investments (Excluding Carbon Tax Plan)	-	$4,120	$4,529
Savings	-	$1,764	$1,890
Proportionally Adjusted Grants (Excluding Carbon Tax Plan)	**-**	**$678**	**$634**
Proportionally Adjusted Investments (Excluding Carbon Tax Plan)	**-**	**$1,086**	**$1,255**

12 Recommendation – Increase the Disaster and Emergency budget to $500 million.

Each and every year, the government budgets about $200 million for disasters and emergencies, and each and every year, the government inevitably ends up spending closer to $500 million.

Instead of pretending that next year will be different and trying to hide the size of the government's deficit by undercounting a common expense, it would be far better to be cautious and simply budget for the larger amount each year.

Of course, in some years actual costs of disasters and emergencies will be a little lower, in some years a major disaster will greatly exceed this cost.

It's far more prudent to budget so that most natural disasters can be covered in each year's budget than to be constantly undercounting and overspending.

SAVINGS

OPERATING EXPENSE SAVINGS (MILLIONS)	2017-18 Estimate	2018-19 Target	2019-20 Target
Operating expense (net-in year savings)	$45,850	$44,581	$44,497
Implement a 5% reduction in core government staff costs	-$169		
Implement a 3% reduction in non-core government staff costs	-$532		
Implement a 5% rollback of all government ministry budgets	-$27		
Abolish the Economic Development and Trade Ministry	-$429		
Not renew the Campus Alberta Innovations Program	-$17		
Eliminate the Alberta Media Fund	-$34		
Eliminate Assistance to Travel Alberta Corporation	-$49		
Eliminate Labour Attraction and Retention Grant Program	-$10		
Allow Carbon Capture and Storage Grants to decline as planned	$0	-$85	-$86
TOTAL	**$44,581**	**$44,497**	**$44,411**

CARBON TAX BUDGET (MILLIONS)	2017-18 Estimate	2018-19 Target	2019-20 Target
Revenue	$1,038	$1,396	$1,416
Operating Expenses	$934	$1,462	$1,122
Capital Expenses	$214	$445	$615

EFFECT OF RECOMMEDATION 9 (MILLIONS)	2017-18 Estimate	2018-19 Target	2019-20 Target
Revenue	$0	-$1,396	-$1,416
Operating Expenses	$0	-$1,462	-$1,122
Capital Expenses	$0	-$445	-$615

CAPITAL PLAN SAVINGS ALLOCATION (MILLIONS)	2017-18 Estimate	2018-19 Target	2019-20 Target
Planned Grants (Excluding Carbon Tax Plan)	-	$2,572	$2,289
Planned Investments (Excluding Carbon Tax Plan)	-	$4,120	$4,529
Savings	-	$1,764	$1,890
Proportionally Adjusted Grants (Excluding Carbon Tax Plan)	**-**	**$678**	**$634**
Proportionally Adjusted Investments (Excluding Carbon Tax Plan)	**-**	**$1,086**	**$1,255**

U-TURN

The aim of this alternative budget is to:

- Balance the province's budget – according to the current operating budget basis – by 2019-20 – the year the NDP originally promised to balance the budget by.
- Balance the province's full, consolidated budget (change in net financial assets) by 2020-21.

For the first point, we start with the amalgamated Budget 2017-18 and the 2017-18 Third Quarter Fiscal Update and Economic Statement from page 6:

BUDGET 2017 – REVENUE (MILLIONS)	2017-18 Estimate	2018-19 Target	2019-20 Target
Income and Other Taxes	$21,762	$23,323	$24,662
Non-Renewable Resource Revenue	$3,754	$4,226	$6,628
Transfers from Government of Canada	$7,988	$7,870	$8,079
Investment Income	$2,193	$2,231	$2,315
Net Income from Government Business Enterprises	$2,506	$2,568	$2,662
Premiums, Fees and Licenses	$3,683	$3,770	$3,863
Other	$3,129	$3,655	$3,573
Total Revenue	**$45,015**	**$47,643**	**$51,782**
BUDGET 2017 - EXPENSE (MILLIONS)	**2017-18 Estimate**	**2018-19 Target**	**2019-20 Target**
Operating expense (net of in-year saving)	$45,850	$47,097	$48,363
Carbon Tax Plan operating expense	$868	$1,395	$1,053
Diaster assistance (with operating 2013 flood support)	$235	$201	$200
Capital grants	$3,302	$2,572	$2,289
Carbon Tax Plan capital grants	$68	$411	$580
Amortization / inventory consumption / disposal loss	$3,375	$3,448	$3,577
Debt Servicing loss	$1,398	$1,807	$2,286
Pension provisions	-$237	-$279	-$339
Total Expense	**$54,859**	**$56,652**	**$58,009**
Surplus/ Deficit	**-$9,844**	**-$9,009**	**-$6,227**

The government's recent Q3 update provides updated projections for Revenue and Expenditure for the 2017-18 year.

Unfortunately, the government does not provide updated projections for Revenue and Expenditure in 2018-19 and 2019-20, so only old Budget 2017 data is available for those years.

Therefore, we have projected revenues for 2018-19 and 2019-20.

We based the increase in those years on a reasonably conservative estimate of ¾ of the increase between Budget 2017 and the Q3 update.

We then apply the recommendations from this alternative budget that affect operating revenue and expenditure (including capital grants, but not capital investment).

We have also removed all Carbon Tax Plan operating expenses and capital grants from the projections, but Carbon Tax Plan capital investments are not removed as they are not included in this table in the first place – these will be dealt with in the capital section of this budget.

All other expenditures are left as per Budget 2017, except for debt servicing, where the increase between 2018-19 and 2019-20 (but not the initial amount) is reduced proportionally to the reduction in the increase in debt caused by the smaller deficit in 2018-19 than in the government's plan.

This provides the following updated projections:

ALTERNATIVE BUDGET - OPERATING BASIS - REVENUE (MILLIONS)	2017-18 Estimate	2018-19 Target	2019-20 Target
Income Tax and Other Tax Revenue	$21,211	$22,910	$24,249
Carbon Tax Plan Cancellation	$0	-$1,396	-$1,416
Non-Renewable Resource Revenue	$4,534	$4,811	$7,213
Other Revenue	$21,136	$21,395	$21,793
Total Revenue	**$46,881**	**$47,719**	**$51,838**

ALTERNATIVE BUDGET - OPERATING BASIS - EXPENSE (MILLIONS)	2017-18 Estimate	2018-19 Target	2019-20 Target
Operating expense (net of in-year savings)	$46,370	$44,497	$44,411
Carbon Tax Plan operating expense	$577	$0	$0
Disaster assistance	$495	$500	$500
Capital grants	$3,729	$1,894	$1,655
Carbon Tax Plan capital grants	$391	$0	$0
Amortization / inventory consumption / disposal loss	$3,362	$3,448	$3,577
Debt servicing costs	$1,355	$1,807	$2,028
Pension provisions	-$332	-$279	-$339
Total Expense	**$55,947**	**$51,867**	**$51,831**
Surplus/Deficit	**-$9,066**	**-$4,148**	**$7**

These calculations show that this Alternative Budget would be balanced according to the current operating budget basis – by 2019-20 – the year the NDP originally promised to balance the budget by.

For the second point, we instead start with the converted budget based on the more accurate consolidated budget (change in net financial assets) from page 7.

We then apply all recommendations from this alternative budget including operating revenue, operating expense, capital grants, and capital investments.

ALTERNATIVE BUDGET CONSOLIDATED BASIS REVENUE (MILLIONS)	2017-18 Estimate	2018-19 Target	2019-20 Target	2020-21 Trend	2021-22 Trend	2022-23 Trend	2023-24 Trend	2024-25 Trend	2025-26 Trend
Income Tax and Other Tax Revenue	$21,211	$22,910	$24,249	$25,768	$27,197	$28,670	$30,122	$31,585	$33,042
Carbon Tax Plan Cancellation	$0	-$1,396	-$1,416	-$1,416	-$1,426	-$1,431	-$1,439	-$1,445	-$1,452
Non-Renewable Resource Revenue	$4,534	$4,811	$7,213	$8,553	$10,423	$12,028	$13,766	$15,438	$17,143
Other Revenue	$21,136	$21,395	$21,793	$22,121	$22,484	$22,830	$23,184	$23,534	$23,886
Total Revenue	**$46,881**	**$47,719**	**$51,838**	**$55,025**	**$58,678**	**$62,097**	**$65,634**	**$69,112**	**$72,619**

ALTERNATIVE BUDGET CONSOLIDATED BASIS EXPENSE (MILLIONS)	2017-18 Estimate	2018-19 Target	2019-20 Target	2020-21 Trend	2021-22 Trend	2022-23 Trend	2023-24 Trend	2024-25 Trend	2025-26 Trend
Operating expense (net of in-year savings)	$46,370	$44,497	$44,411	$44,411	$44,411	$44,411	$44,411	$44,411	$44,411
Carbon Tax Plan operating expense	$577	$0	$0	$0	$0	$0	$0	$0	$0
Disaster assistance	$495	$500	$500	$500	$500	$500	$500	$500	$500
Capital grants	$3,729	$1,894	$1,938	$1,938	$1,938	$1,938	$1,938	$1,938	$1,938
Carbon Tax Plan capital grants	$391	$0	$0	$0	$0	$0	$0	$0	$0
Amortization / inventory consumption / disposal loss	$929	$952	$1,000	$1,036	$1,077	$1,116	$1,156	$1,195	$1,235
Debt servicing costs	$1,355	$1,807	$2,104	$2,547	$2,491	$2,303	$1,986	$1,532	$938
Pension provisions	-$332	-$279	-$339	-$343	-$374	-$392	-$417	-$438	-$461
Capital investment	$5,805	$3,927	$3,380	$3,380	$3,380	$3,380	$3,380	$3,380	$3,380
Total Expense	**$59,319**	**$53,299**	**$52,993**	**$53,469**	**$53,423**	**$53,256**	**$52,955**	**$52,519**	**$51,942**
Surplus / Deficit	**-$12,438**	**-$5,579**	**-$1,155**	**$1,556**	**$5,254**	**$8,841**	**$12,679**	**$16,592**	**$20,677**

ALTERNATIVE BUDGET CONSOLIDATED BASIS SAVINGS & DEBT RETIREMENT ACCOUNTS (MILLIONS)	2017-18 Estimate	2018-19 Target	2019-20 Target	2020-21 Trend	2021-22 Trend	2022-23 Trend	2023-24 Trend	2024-25 Trend	2025-26 Trend
Heritage Fund	$20,322	$20,397	$20,824	$21,075	$21,414	$21,709	$22,026	$22,332	$22,644
Contingency Account	$41	$0	$0	$0	$0	$0	$0	$0	$0

ALTERNATIVE BUDGET CONSOLIDATED BASIS DEBT (MILLIONS)	2017-18 Estimate	2018-19 Target	2019-20 Target	2020-21 Trend	2021-22 Trend	2022-23 Trend	2023-24 Trend	2024-25 Trend	2025-26 Trend
Liabilities	$45,736	$51,315	$52,470	$50,914	$45,659	$36,818	$24,139	$7,547	-$13,130
Net financial assets	**-$25,373**	**-$30,918**	**-$31,646**	**-$29,839**	**-$24,245**	**-$15,109**	**-$2,113**	**$14,785**	**$35,774**
Change in net financial assets	**-$14,210**	**-$5,545**	**-$728**	**$1,807**	**$5,593**	**$9,136**	**$12,996**	**$16,898**	**$20,988**

These calculations show that this Alternative Budget would be balanced according to the full, consolidated budget by 2020-21.

Projections are less reliable the further out they are, but if trends continued, debt including capital investments would max out at about $52 billion, while net debt would max out at about $32 billion.

While future governments may opt to allocate a portion of surpluses for increased spending, if expenditure did remain flat, debt would be repaid by 2024-25.

OTHER RECOMMENDATIONS

13 Recommendation – Strengthen the Alberta Taxpayer Protection Act

The Alberta Taxpayer Protection Act requires the government of Alberta to hold a referendum prior to the introduction of a general provincial sales tax in Alberta.

Unfortunately, when the Alberta Taxpayer Protection Act was introduced, other forms of taxation, such as carbon taxes, had not even been considered, and the Act was worded to only cover the introduction of a sales tax.

Other jurisdictions have taxpayer protection legislation that covers much wider arrays of tax increases, such as the introduction of any new tax, an increase in the rate of an existing tax, or the broadening of the base for an existing tax.

Voters in these jurisdictions do sometimes vote for tax increases, when politicians can make a compelling case for why the tax increase is required.

But politicians should not be able to automatically increase taxes on citizens based purely on their own opinion of whether the increase is necessary.

The Alberta Taxpayer Protection Act should be amended to require a referendum for any new tax not explicitly campaigned on during an election.

14 Recommendation – Restore the Government Accountability Act & Fiscal Responsibility Act

The Government Accountability Act was passed in 1995 to ensure that the government could no longer manipulate the numbers in budgets and financial statements to make them look better than they actually were.

For many years the Government Accountability Act was very effective and it ensured that Albertans had a clear picture of the state of the finances of their province.

Unfortunately, in 2012-13 the Alberta government began ignoring the requirements of the Act, including the obligation to include all legally required information in budget documents.

Similarly, the Fiscal Responsibility Act created a legal definition of debt and prohibited the government from running a deficit.

Public pressure mounted for the government to return to reporting budgets and financial statements in accepted formats, but rather than backtracking, the government simply repealed the Government Accountability Act and the Fiscal Responsibility Act.

These two Acts were incredibly important pieces of legislation that forced the government to be transparent and accountable to the people when creating provincial budgets.

Their absence has certainly contributed to the province’s declining fiscal health, and they should be restored as soon as possible.

15 Recommendation – Restore straightforward budgetary and quarterly reporting

As discussed elsewhere in this report, in recent years the Government of Alberta has chosen to only present the province's finances according to an operating basis, entirely separating out capital spending.

This approach helps the government hide a large portion of its expenditures, making the budget deficit look much smaller than it really is.

Including capital spending in a full, consolidated budget provides a more accurate representation of the government's total revenues and expenditures for the purposes of budgeting, and provides a fairer picture of whether the budget is balanced or not.

The government should restore straightforward budget reporting, by providing both operating basis and full, consolidated basis versions of accounts in all budget and financial documents.

16 Recommendation – Government Employee Pension Reform

In the private sector, approximately 25% of employees have an employer sponsored pension plan.

Furthermore, more than half of these plans are defined-contribution plans, where employees and employers contribute to the plan and then investments are made to maximize returns upon retirement.

Meanwhile, 80% of government employees have an employer sponsored pension plan.

Remarkably, 97% of these government plans are defined-benefit plans, where employees are guaranteed a certain level of return, and the government must contribute however much is required to ensure that payout.

Guaranteeing a set return for retirees isn't just expensive, it's also very risky.

Too often governments prefer to spend cash on near-term projects and programs rather than investing for the long-term.

Even if every government for decades invests sufficient money into the program to meet their projected costs, if their calculations for rate of return, inflation, life expectancy, population growth, and retirement rate are off by even a small amount, this can lead to gigantic unfunded liabilities in the future.

Rather than continuing to guarantee these types of risky pension plans, the Alberta government should begin to phase out defined-benefit plans in favour of defined-contribution plans.

The government need not take existing pension plans away from anyone who is already retired, or even anyone who is already working for the government.

Just transitioning any new hires to defined-contribution plans would significantly reduce the risk to the government's finances over the coming decades.

2018 – 2019

ALTERNATIVE BUDGET

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