Alberta Budget 2018/2019
Edmonton Chamber of Commerce Budget Policy – April 2018

ISSUE

The Government of Alberta needs to work with the business community, alongside other community stakeholders, to develop a fiscal plan that will strengthen economic recovery without burdening future generations with unmanageable debt.

BACKGROUND

Alberta's Economy

The Alberta economy continues to experience the consequences of low oil prices. While prices have rebounded slightly since their February 2016 low of $16.30, Alberta's oil still sells for roughly 30% less than its five-year average price.[1] Pipelines to reach new customers have been approved, but vocal opposition from anti-pipeline groups and allied elected officials have created doubt surrounding their construction and eventual operation.

This difficult economic environment is, for the most part, externally driven and beyond the province's control. However, it is being exacerbated by actions of the Government of Alberta and municipalities across the province. These orders of government have announced policy shifts that affect the competiveness, sustainability and cost of doing business in Alberta. These shifts include higher corporate taxes, increased property taxes, a 48% increase in the provincial minimum wage, and a carbon tax which increases fuel costs, to name a few.

The Province has attempted to offset cost increases to business with a 1% small business tax reduction. This reduction does not provide sufficient relief to significantly defray these new costs for most businesses, and businesses that are struggling to keep income above their costs will not receive any benefit from this tax relief.

Capital Spending for Future Growth

Budget 2018 included a $26.6 billion Capital Plan for the following five years.[2] This is a significant reduction from *Budget 2017,* which included a $29.5 billion Capital Plan for the following four years.[3] This represents a decrease in annual capital spending of roughly $2 billion.

The rationale for this spending decrease is due to expected economic recovery. Significant capital spending was used to help buoy the economy during the downturn, and the Province realized relative savings by taking advantage of lower construction costs. This strategy of counter-cyclical capital spending was strongly supported by the Edmonton Chamber of Commerce in previous budgets.

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[1] http://economicdashboard.alberta.ca/OilPrice
[2] *Budget 2018* Fiscal Plan, page 59
[3] *Budget 2017* Fiscal Plan, page 41

Albertans benefit by having new and upgraded schools, roads and hospitals. Given that Alberta's population continues to increase this infrastructure will help Alberta prepare for the 1.8 million new Albertans that we can expect to arrive in the next 25 years.[4] The Edmonton Chamber of Commerce encourages the Province to maintain the Capital Plan for future budgets and to continue investments in trade-enabling infrastructure.

Operational Spending

Budget 2018 represents a 4.3% increase in operating expenses compared to *Budget 2017.*[5] This continues the trend of growing government operating expenses well above population growth and inflation, which is forecast at 3.5% for 2018/19.[6]

If the Province continues down the path set out in *Budget 2018*, Alberta's debt will reach $96 billion in 2023.[7] Alberta's debt servicing costs will reach $2.9 billion by 2020.[8] This is larger than ministry budgets for Energy, Culture and Tourism, Environment and Parks, Economic Development and Trade, Labour, and Infrastructure combined.[9]

This continued trend of growing government spending without a clear plan to address the deficit was a major factor in Alberta's credit rating being downgraded by credit rating agency Standard and Poor's.[10] With little fiscal restraint, the absence of a credible plan to end deficits, and no path forward on how the growing debt will be repaid, Alberta's current fiscal path is not sustainable.

Back to Balance

Considering local and global factors and the cumulative impact of policy decisions influencing Alberta in the coming years, the Edmonton Chamber of Commerce urges the provincial government to re-examine its fiscal priorities. The Province should focus on long-term economic sustainability, enabling businesses to remain competitive and confidently plan for the future.

Budget 2018 set out a plan to return to balanced budgets in 2023-24. This plan, however, depends heavily on factors outside the Province's control, including the completion of Trans Mountain and a resulting increase in royalties paid to the Province. Given the vocal and ongoing opposition to this project, and continued uncertainty surrounding future oil prices, growing oil royalties should not relied-upon for growing public spending.

The Province should instead focus its path to balance on factors which are within government's control, like the growing operating costs of government. To that end, the Edmonton Chamber of Commerce

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[4] https://open.alberta.ca/dataset/90a09f08-c52c-43bd-b48a-fda5187273b9/resource/20e7a89e-7de7-4287-89c9-156a62ad97f3/download/2017-2041-Alberta-Population-Projections-Highlights.pdf
[5] *Budget 2018* Fiscal Plan, page 143
[6] *Budget 2018* Fiscal Plan, page 14
[7] http://www.cbc.ca/news/canada/edmonton/alberta-budget-2018-reactions-1.4589249
[8] *Budget 2017* Fiscal Plan, page 143
[9] *Budget 2018* Fiscal Plan, page 139
[10] http://finance.alberta.ca/business/investor-relations/credit-ratings/Standard-and-Poors-2016-0519-Credit-Analysis-Report.pdf

recommends the government consider all options for an appropriate mix of revenue tools and a sustainable program of expenditures without disadvantaging businesses. This begins with a review of programs and services. While results-based budgeting and other internal processes have been conducted in the past, with mixed results, municipalities are showing a new path forward.

Both Edmonton and Calgary have undertaken extensive reviews of their programs and services. These reviews are aimed at ensuring municipal services are well-run, providing quality public services for residents while remaining cost-effective. When cost-saving measures are found, City administration is expected to implement those measures. A key element to this process is the inclusion of external stakeholders to participate in reviewing and improving City services. The Edmonton Chamber of Commerce recommends the Province undertake a similar review.

Trade Diversification

Looking outside our borders creates further uncertainty. The Alberta economy remains heavily reliant on energy exports and will likely continue to rely on these exports for some time. The United States serves as our largest trading partner, accounting for over 90% of total exports.[11]

This strong trading relationship presents a considerable risk for Alberta. Since taking office in early 2017, President Trump has put forward many protectionist measures aimed at Canada, including imposing tariffs on Canadian lumber and aircraft, and initiating the re-negotiation of NAFTA. These actions create new and expanded risks for Alberta, due to our enormous reliance of the U.S. as a customer. It is of crucial importance that Alberta continues to show political leadership on pipelines and access to new markets, ensuring the province can sell to a more varied customer base.

Trade diversification is also needed for small- and medium-sized firms (SMEs). 34% of Alberta's SMEs rely entirely on clients in a single city, 38% rely on a single major client, 62% rely on a single sector and only 20% sell to international clients.[12] This insular business environment creates significant volatility for Alberta's economy.

Carbon Pricing

The Alberta Carbon Levy (ACL), introduced in 2017, is a $30-per-tonne tax on carbon emissions. The ACL is expected to collect $1.4 billion in 2018-19.[13] A significant portion of this revenue comes from businesses that face higher taxes on gasoline, natural gas, and other fuels.

Alberta's $30-per-tonne is well above the current federal requirement for a carbon price of at least $10-per-tonne. However, as the federal requirement increases annually, Alberta will be required to raise the ACL to $40-per-tonne in 2021 and $50-per-tonne in 2022. While current ACL revenue is earmarked for emissions-reducing initiatives and rebates for low-income Albertans, *Budget 2018* makes clear that the incremental revenue from increasing ACL rates will be not be earmarked for any particular purpose.

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[11] http://www.albertacanada.com/Albertas-Export-Performance-2014.pdf

[12] https://www.bdc.ca/en/Documents/analysis_research/diversification_financial_performance.pdf

[13] *Budget 2018* Fiscal Plan, Page 51

Reducing the corporate income tax rate for small business from 3% to 2% as a rebate for businesses was a step in the right direction but had little material effect for most. The Province has provided significant relief for vulnerable families who have been affected by the tax but has not done so for vulnerable businesses, as was recommended by the Climate Leadership Panel.[14] The Province should use incremental revenues from the growing ACL to provide tax relief for businesses.

Consolidating Tax Collection

Alberta is one of two remaining jurisdictions in Canada that has not consolidated its corporate income tax with the federal government. An Alberta corporation must file one income tax return with the Canada Revenue Agency and another with Alberta Treasury Board and Finance (Tax and Revenue Administration division). Individuals, however, can file their provincial and federal taxes in a single return, as personal tax collection has already been consolidated. For Alberta businesses, this continued duplication of functions, including reporting, auditing, and returns, imposes an additional tax compliance burden and creates unnecessary compliance risks and costs.

Recommendations

The Edmonton Chamber of Commerce recommends that the Government of Alberta engages in meaningful consultations and works collaboratively with Chambers of Commerce and other relevant business and community organizations to develop a fiscal plan that meets the following objectives:

Capital Spending for Future Growth

1. Prepare for Alberta's continued growth by maintaining the current five-year Capital Plan.

Back to Balance

2. Establish a long-term plan to achieve a balanced budget by limiting operational expenditure growth to below population growth and inflation. Maintain this policy until provincial economic performance is generating sustained government revenues sufficient to support increased spending with overall rates of taxation and fee collection at levels similar to the existing regime.

3. Adopt an ongoing position of fiscal restraint and controlled spending by launching a full program and service review, including input from external stakeholders, as is being done in Alberta's largest cities, and report publicly on the results of this review.

4. Consult broadly with external stakeholders regarding the optimal approach to stabilize government revenues and expenditures, including an assessment of all available revenue options and tools.

5. Negotiate government labour agreements due for renewal with a target of no staffing increases and zero percent increases in salaries until the currently depressed labour market has turned positive and rebounded sufficiently to justify wage growth.

Trade Diversification

6. Continue to show leadership on pipeline development to help diversify Alberta's export markets.

[14] https://www.alberta.ca/documents/climate/climate-leadership-report-to-minister.pdf

7. Expand programming aimed at increasing small- and medium-sized businesses' ability to export to new markets.

Carbon Pricing

8. Use incremental revenues from the Alberta Carbon Levy to reduce corporate tax rates.

Consolidating Tax Collection

9. Reduce business tax compliance costs by working with the Government of Canada to consolidate the collection and administration of provincial corporate income tax.