

BUDGET 2019

A plan for jobs and the economy

Alberta



A plan for jobs and the economy

Budget 2019 reflects a commitment to responsible fiscal management and a promise to balance the budget in four years. It is focused on creating jobs and delivering public services and infrastructure to support private sector investment and a vibrant society.

Alberta's successive provincial deficits have created a serious financial situation and a debt burden that has reached \$62.7 billion. Government spent almost \$2 billion on interest (debt servicing) last year—more than what was spent on 17 out of 21 ministries, including Justice and Solicitor General, Children's Services, and Seniors and Housing.

Budget 2019 focuses on three key priorities:



Getting Albertans back to work

Making life better for Albertans

Standing up for Alberta

Budget 2019 includes moderate cuts to operating spending of 2.8 per cent over four years or \$1.3 billion lower than 2018-19 levels. That's compared against the nearly 20 per cent cuts Albertans saw in the 1990s. We are acting now to ensure we never have to deal with that scale of cutbacks again.



BUDGET 2019 - KEY FISCAL METRICS

(billions of dollars*)

	2018-19 actual	2019-20 estimate	2020-21 target	2021-22 target	2022-23 target
Revenue	49.6	50.0	50.1	53.6	57.5
Expense					
Operating Expense	48.4	48.2	47.3	47.2	47.1
Other Expense	7.9	8.3	7.9	8.3	8.7
Surplus / (Deficit) before provisions and allowances	(6.7)	(6.5)	(5.1)	(1.9)	1.8
Crude-by-rail provision	-	1.5	-	-	-
Contingency / unallocated disaster assistance	-	0.7	0.8	0.8	0.8
Revenue forecast allowance	-	-	-	-	0.5
Surplus / (Deficit)	(6.7)	(8.7)	(5.9)	(2.6)	0.6

Source: Treasury Board and Finance

*Numbers may not add due to rounding.

Getting Albertans back to work

The private sector is the engine of growth and job creation. This plan is built on broad-based tax relief and a sensible approach to legislation that supports job creation.

Supporting investment in Alberta

A strong economy will mean more jobs and higher wages and salaries for Albertans, allowing them to better take care of their families. Government will move its focus to policies that lay the foundation for viable and sustainable economic growth. By 2022, Alberta's corporate tax rate will be 30 per cent lower than the next lowest province, and Alberta will have a lower combined federal-provincial corporate tax rate than 44 U.S. states. Alberta will be one of the most competitive places for investment within North America by 2022.

- The carbon tax has been eliminated, saving the average Alberta household (family with two children) around \$665 per year.
- The corporate income tax rate will decrease from 12 per cent to eight per cent over two and a half years so businesses can grow and create more jobs.
- Enhanced capital cost allowances will also support investment and job creation.
- A low-rate, broad-based tax approach will encourage economic diversification.
- Red tape will be removed from government processes, making it easier to invest in Alberta.

TELUS has signaled its confidence in the Alberta economy with a \$16 billion investment to expand its broadband infrastructure. It's an investment that will create 5,000 jobs for Albertans.

ENHANCED CAPITAL COST ALLOWANCE



up to
\$900 million

in tax deferrals for companies that make new investments in Alberta

Investing in skills and training

A highly skilled workforce is critical to attracting industry and investment. Alberta needs to change the way it funds institutions that develop Alberta's skilled workforce. Alberta will move to a new funding model for the post-secondary sector, while lifting the tuition freeze.

SUPPORTING A SKILLED WORKFORCE



\$10.7 billion

in post-secondary spending through grants

System funding will be reviewed to make Alberta more responsive to skills shortages and future labour market changes. Post-secondary institutions will be challenged to engage with industry to graduate the skilled workers industry and business need.

Economic Development, Trade and Tourism, through Alberta Innovates will restore investor confidence in Alberta with more than \$200 million to support research, innovation and commercialization to develop and advance talent, grow sectors, and leverage funding from partners and the private sector.

INVESTING TO STRENGTHEN STUDENT-INDUSTRY LINKAGES



\$10 million

Women Building Futures

+



\$2 million

Skills Canada

+



\$11.4 million

CAREERS the Next Generation

SUPPORTING RESEARCH AND INNOVATION



more than

\$200 million

through Alberta Innovates

GROWING AND SUSTAINING INVESTMENT IN ALBERTA



\$75 million

starting in 2020-21

Making life better for Albertans

Budget 2019 will ensure the quality and effectiveness of public services, especially in health, safety and education. This plan protects the vulnerable by maintaining strong public services, but introduces transformation that will deliver value for the money.

Living within our means

Government has to be vigilant and spend only what it can afford. Otherwise, the interest on what we've borrowed will continue to limit our ability to fund public services like hospitals, continuing care centres and schools.

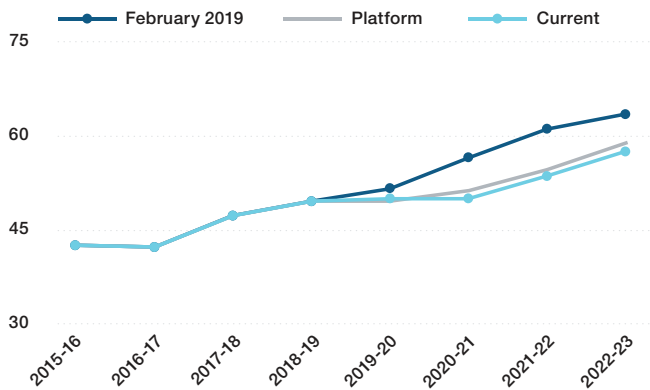
Revenue

Total revenue is forecast to remain flat at \$50 billion in 2019-20 and \$50.1 billion in 2020-21, before increasing to \$57.5 billion by 2022-23.

A modest but realistic oil price outlook, along with market access issues (e.g. pipelines), impede revenue growth over the next two years. This reality means spending reductions are necessary.

REVENUE FORECASTS

(billions of dollars)



Source: Treasury Board and Finance

Policy changes, including the Job Creation Tax Cut, the carbon tax repeal, emissions reduction, post-secondary tuition increases and modest adjustments to fees are included in the forecast—as are reasonable assumptions regarding investment returns. While Alberta will temporarily pause indexation of non-refundable tax credits and tax bracket thresholds, Albertans will continue to pay some of the lowest overall taxes in Canada.

Expense

Alberta spends almost \$2,500 more per person on public services than other big provinces, but without better results. If we matched the average per capita, Alberta would spend \$10 billion less each year. Alberta must now exercise restraint to bring spending to more affordable levels. The costs of delivering government services will be more in line with other provinces while we strive for better outcomes that Albertans deserve.

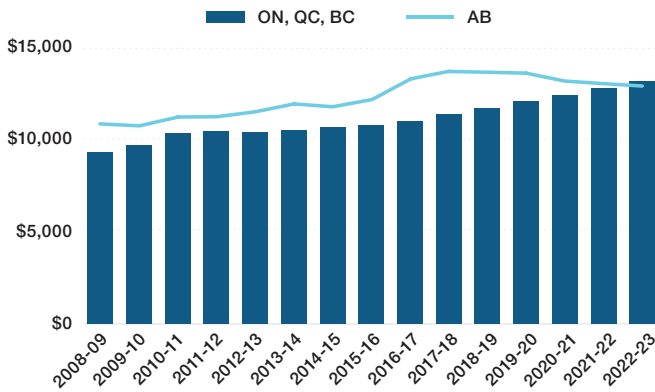
“The government needs to make a difficult but necessary fiscal course correction immediately to return the province to fiscal health over the medium to long term.”

– MacKinnon Panel



SPENDING COMPARED TO OTHERS

per capita (per person)



Source: Amounts for 2008-09 to 2017-18 are based on Statistics Canada data. Amounts for Alberta from 2018-19 onward are based on the amounts presented in the budget adjusted for Statistics Canada methodology. Expenditures for BC, ON, QC from 2018-19 onward were adjusted based on the percentage increase provided in each province's budget.

To bring the costs of Alberta's public services closer to the national average, we will have to find more cost-effective ways (including private-public partnerships) to deliver services. Reducing red tape, streamlining processes, leveraging technology and consolidating administrative services is expected to save Albertans \$140 million.

Total cut in operating expense over four years	
Budget 1993	Budget 2019
18%	2.8%

Better and smarter public services

Funding for core social services will be maintained or increased. Programs will be redesigned methodically and responsibly to address economic, social and fiscal challenges, while continuing to support the most vulnerable.



\$20.6 billion/year
to provide health services

\$100 million for mental health and addiction strategy

\$40 million for an opioid response

\$20 million for palliative care



\$8.2 billion/year
for education, maintaining current funding levels



\$3.9 billion/year
for community and social services (7.6% increase)



\$1.6 billion/year
for children's services, including a new Alberta Child and Family Benefit (15% increase by 2022-23)



\$638 million
for seniors and housing services to maintain overall seniors' benefits

Considerable support will be given to health services, including significant increases to support a mental health and addiction strategy, an opioid response, and palliative care. Community and Social Services spending will be increased to programs that address human trafficking and sexual exploitation, while caseload pressure and programming will be reviewed.

A new Alberta Child and Family Benefit program will replace two current programs while providing increased support to low income families. Assured Income for the Severely Handicapped (AISH), the Alberta Seniors Benefit, Income Support and Special Needs Assistance programs will remain at current levels.

Standing up for Alberta

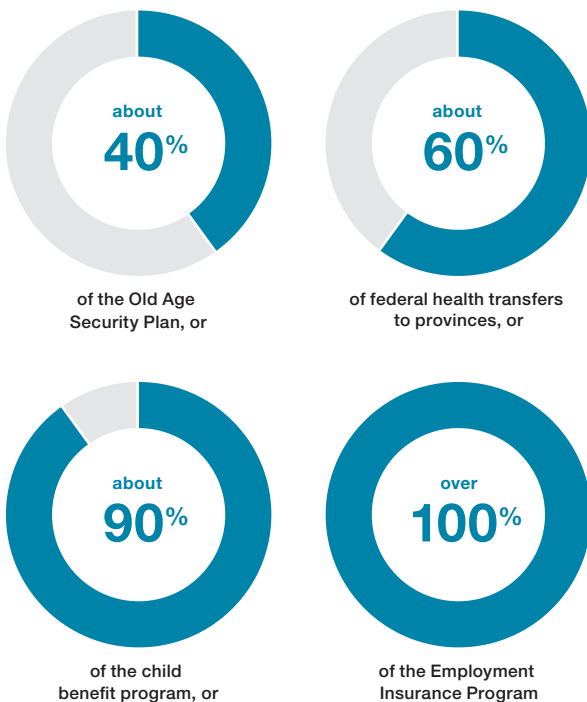
Provinces hold the right to control and develop their natural resources and compete freely and fairly in the national and international economies. This plan relies on that right and invests in its protection.

Alberta's contribution to Canada

Alberta contributes more, per person, to the national economy than any other province. With only 12 per cent of Canada's population, Alberta attracts one quarter of all capital investment in the country and is responsible for more than one fifth of all Canadian goods exported. This plan supports a number of actions that will drive economic growth in Alberta.

Alberta made a \$22 billion fiscal contribution to the federal government in 2017.

What does that represent in federal programs and services?



Source: Statistics Canada

Reviving the energy sector

Canada's prosperity is closely tied to the strength of the Alberta economy. Improving market access for oil and natural gas is critical to the sustainability of Alberta's, and Canada's, economy. This includes fighting misinformation, through the establishment of the Canadian Energy Centre, and supporting leaner and faster regulatory operations.

The Job Creation Tax Cut and the adoption of the Accelerated Capital Cost Allowance will make Alberta one of the most attractive places for energy investment in North America. Budget 2019 also honours the current agreements under the Petrochemicals Diversification Program that provides royalty credits to companies in exchange for building facilities that turn propane, ethane, methane and feed stocks into products. The government will be extending the royalty credit model to incent future projects.

Corporate tax rate	
Pre-July 2019	2022
12%	8%

Eliminating crude-by-rail

This costly, interventionist and unnecessary approach to market access will be ended. Alberta taxpayers will no longer face the significant risk associated with transporting and buying and selling crude specifically for this program.



Investing in infrastructure

Families and communities will continue to enjoy the public infrastructure they need. The plan honours previous commitments to build and maintain key projects such as roads, schools and hospitals. It will also allocate funding for maintenance of infrastructure, family social supports and housing and post-secondary infrastructure. Direct municipal support will be adjusted to recognize the current fiscal environment and allow for some sharing of gains as provincial revenues improve.



\$6.9 billion
for direct municipal support



\$2.9 billion
for roads and bridges



\$2.9 billion
for health facilities



\$1.8 billion
for schools



\$3.6 billion
for capital maintenance and
renewal of public infrastructure



\$476 million
for family social supports and housing



\$463 million
for post-secondary infrastructure

Keeping our commitments to Albertans

Along with key commitments already identified, Budget 2019 will support fighting for Alberta's energy, agriculture and pro-development first nations. Funds will also be used to support climate initiatives, law enforcement, rural crime reduction and the creation of a Heroes Fund and Veterans Scholarship.



**Technology Innovation
and Emissions Reduction
(TIER) program**
to support climate change technologies



\$20 million
over four years to combat mountain
pine beetle



Up to \$50 million increase
for law enforcement over four years



50 new prosecutors
and programs to reduce rural crime

Energy and economic assumptions

Economic growth is expected to slow to 0.6 per cent in 2019 reflecting market access challenges. The economy will pick up strength next year, but it will take time for the labour market to fully recover. Business investment will drive Alberta's growth. Solid fundamentals, including a relatively young and fast-growing population, will also support Alberta's growth.

Although growth prospects are solid, external risks are high for Alberta's trade-and-energy-driven economy. Geopolitical risks, including increased trade protectionism and heightened policy uncertainty, affect global trade, investment and commodity prices.

Risk management

Consideration of risk must be part of any sound fiscal plan. Risks such as delays to market access, trade pressures, service demands due to population growth, and labour costs will be monitored and managed. Budget 2019 takes into consideration funding that may be required for emergencies and disasters at a substantially higher rate than in past budgets. Ongoing spending reviews will be introduced to ensure programs are delivered cost effectively.

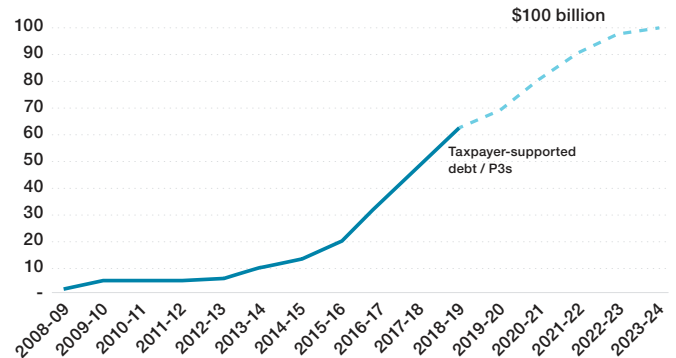
Deficit and debt

Transformational changes are needed to improve Alberta's fiscal situation and how it delivers services to Albertans. Our province spends more than all other provinces without better outcomes and it's time to get government spending in line.

The most important step in slowing, and ultimately reversing, Alberta's growing debt and interest cost is to balance the budget. Budget 2019, improves how Alberta's cash resources are managed. This will take using accumulated cash reserves wisely – particularly for school boards. By eliminating five regulated funds, we will be able to reduce administration and debt servicing costs by an estimated \$13 million in debt servicing costs.

TAXPAYER SUPPORTED DEBT

(billions of dollars)



Source: Treasury Board and Finance

Consolidating investment funds managed in the public sector lowers costs and achieves significant and necessary economies of scale. This will protect the funds and returns to pensioners.

Previously, taxpayer supported debt was forecast to rise to \$97.1 billion by the end of 2022-23, and debt servicing costs were projected to rise to \$3.4 billion. Under the new fiscal plan, while debt servicing costs will continue to rise until budget deficits are eliminated, they will rise at a much slower pace. Taxpayer supported debt is now forecast to be \$93.3 billion at the end of 2022-23 and debt servicing costs are projected to be \$3.0 billion during that year.

Once the deficit is eliminated, we will continue to be prudent and implement measures to pay down debt, as recommended by the MacKinnon Panel. We will not saddle our grandchildren with unnecessary costs because we did not address the fiscal challenges before us.

