

Alberta Budget 2020: A Plan for Jobs and the Economy

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On Thursday, February 27, 2020, Finance Minister Travis Toews delivered his second budget entitled “A Plan for Jobs and the Economy” which includes the government’s fiscal and capital plans and the outlook for the province’s economy.

Similar to Budget 2019, the new budget draws heavily on a government-established panel to study approaches for addressing Alberta’s budgetary deficits. The panel, led by former Saskatchewan finance minister, Janice MacKinnon, produced a report providing direction on policy, cuts and adjusted budgetary priorities. Budget 2020 remains closely aligned with Budget 2019, adopting much of the MacKinnon report by mandating cuts, holding the line on broad spending restraint and creating more detailed plans to both grow the economy and find efficiencies on slim budgets.

Budget 2020 remains structured around the same three key themes:

- Making Life Better for Albertans;
- Getting Albertan’s Back to Work; and
- Standing up for Alberta.

1. Making life better for Albertans

Notably, the “Making Life Better for Albertans” theme moved from the second to the first budget heading and was more detailed than Budget 2019. Health, education and core social services remain at record levels, with program specific increases earmarked for mental health and addiction strategy development, as well as a small increase in education funding. Budget 202 highlights a new 20 per cent tax on vaping products.

2. Getting Albertans back to work

Getting Alberta back to work is “job one”. Budget 2020 outlines in its Blueprint for Jobs that this will flow from an environment where businesses can thrive and create good jobs with good wages for hard working Albertans. In conjunction with the “Job Creation Tax Cut,” sectoral focus on energy, tourism, finance/fintech, forestry, tech, agriculture and aviation will lead the charge on provincial economic diversification. With deep budgetary cuts announced, balanced budget projections appear to rely solely on frozen

expenses through 2023, and an \$8.1 billion increase in revenue, largely from increased energy revenue.

3. Standing up for Albertans

The Alberta Government is looking for a “Fair Deal” for Albertans. The corresponding Fair Deal Panel wrapped up its tour of Alberta, making nine stops, and hearing from more than 7,000 Albertans. The panel is set to report its findings by March 31, 2020. Budget 2020 highlights the Old Age Security Program, federal health transfers, the Child Benefit Program and the Employment Insurance Program as initiatives where Alberta is funding more than its relative share of benefits received. This theme also emphasizes a need to remove internal Canadian barriers to trade and labour mobility.

The numbers

Alberta is projected to collect \$50 billion in taxes and revenue and spend \$56.1 billion in 2020-2021, leaving a deficit of \$6.1 billion. This represents a reduction of Budget 2019’s deficit by \$1.2 billion. GDP growth is projected to increase from 0.3 per cent to 2.5 per cent in 2020 due to higher revenues from provincial exports led by oil and gas production, investment outside of the oil and gas sector, increased consumer spending and a rapidly growing population.

The deficit is projected to be eliminated in the 2022/2023 fiscal period, with a \$700 million surplus that year. This represents a \$116 million increase in projected surplus compared to Budget 2019.

Budget projections rely heavily on an increased projected West Texas Intermediate benchmark pricing of US\$58 per barrel in 2019, to US\$63 in 2022-2023, and on the completion of the Trans Mountain Pipeline expansion and Keystone XL in the coming years. Overall, revenues from the oil sands and other non-renewable energy sources must increase by over \$3 billion to reach budgetary projections in 2022-2023.

Notable highlights sector by sector

Employment and taxes

- Alberta faces total public debt of \$85.9 billion as of March 31, 2019;
- Unemployment levels are projected to reach an average of 6.7 per cent in 2020, and decrease to 5.1 per cent in 2023 with employment projected to grow by 1.4 per cent in 2020;
- In this context, Budget 2020 implements a 20 per cent tax on vaping devices and liquids, extends the tourism levy to short-term rentals listed online;
- The Alberta Government’s Job Creation Tax Cut is on track to bring the general corporate income tax rate down to 8 per cent by January 1, 2022. It is currently at 10 per cent;
- The Alberta Child and Family Benefit (ACFB) launches as of July 1, 2020 with the first quarterly payment to families beginning in August 2020;
- The new ACFB replaces the former Alberta Child Benefit (ACB) and Alberta Family Employment Tax Credit (AFETC) with a more streamlined approach that

cuts administrative costs by about half, saving an estimated \$500,000 per year; and

- The education property tax revenue will be increased by population growth plus inflation, resulting in growth of 3.4 per cent to \$2.6 billion. In line with this policy, education property tax rates will rise by 3.1 per cent in 2020-21.

Energy

- The Alberta Government is strongly focused on regaining ground in the energy sector, but failed to provide concrete specifics as to how that will be achieved in Budget 2020;
- Budget 2020 commits to update Alberta's property assessment model in the oil and gas sector by decreasing assessed values of shallow oil and gas properties by 35 per cent to cut costs and spur investment;
- The reduction of red tape remains a priority, especially in the regulatory setting where environmental approvals and compliance are perceived as disjointed. The Alberta Government's response is the creation of an integrated regulatory assurance framework;
- Budget 2020 increases funding earmarked for reclamation of abandoned well sites through the Orphan Well Association;
- The Canadian Energy Centre and Indigenous Litigation Fund remain fully funded; and
- Notable policy goals include:
 - Ensuring market access and supporting the completion of key pipeline projects;
 - Highlighting Alberta's Environmental, Social and Governance (ESG) credentials;
 - Creating the regulatory environment to encourage the development of our natural gas industry and expansion into new markets;
 - Developing a mineral strategy to diversify the sector; and
 - Attracting investments in the petrochemical and other value-added sectors through a \$1.1 billion investment.

Education and post-secondary institutions

- Notable for Education is the new funding model based on a three year weighed enrollment average which will allow for more predictable (albeit reduced) funding for school boards;
- Overall, funding for the education system increased by \$100 million in Budget 2020, however "own-source" funding from school reserves will be relied on to cover operational expenses;
- Smaller rural schools have been transitioned to a block funding model that will ensure that the same level of education as other centers can be provided, despite lower enrollment numbers;
- Independent and private school funding and their related early childhood services continue to receive nearly \$300 million in 2020-2021;
- Post secondary institutions face a 6 per cent decrease in funding from 2019-2020, causing widespread policy and strategic changes to the sector generally;
- The new performance based funding model which ties over half of post secondary funding to the fulfillment of various performance metrics is most notable amongst the changes; and
- Institutions have announced hundreds of layoffs, eliminated programs and corresponding protests have broken out. With more changes expected in the

coming months, post secondary promises to be a contentious part of the Alberta Government's strategy.

Municipalities, transportation and infrastructure

- The Ministry of Municipal Affairs faces a 5 per cent reduction in funding, with further cuts coming to the Grants of Taxes program, and targeting reductions in operating expense budgets projected each year until 2023;
- Up to \$10 million is earmarked for municipalities under the Provincial Education Requisition Program (PERC), which provides an offset for shortfalls in educational expenses in municipalities that are unable to collect tax on delinquent oil and gas properties, or orphan wells;
- The Ministry of Transportation faces a 6 per cent decrease in funding offset by non-safety related road maintenance reductions and increased administrative efficiencies;
- New transportation and infrastructure projects will be approved according to their ability to support market access and economic growth;
- The Ministry of Infrastructure secured a \$14 million, or 3 per cent increase to finance the cancellation of the Edmonton Clinical Laboratory Hub project and faces a *de facto* decrease in funding following this one-time charge;
- Capital spending in Alberta is maintained and focused on critical infrastructure such as schools, roads and health facilities with the total dollar value of projects reaching \$19.3 billion over three years; and
- Plans are in place to partner with the private sector to deliver projects efficiently and effectively through P3s or other private-public arrangements.

Social services

- Social services emerged unscathed from the general budgetary cuts, maintaining its \$11.7 billion funding over the next three years;
- Notable new funding priorities include the \$20 million Civil Society Empowerment Fund and the Premier's Charities Council; and
- \$100 million earmarked for mental health and addiction strategies, \$40 million for opioid responses and \$20 million for palliative care are new to the portfolio.

Economic development

- With Alberta Government's announcement of the Alberta Investment & Growth Strategy, \$75 million has been reallocated to marketing Alberta as the best place to do business;
- The technology sector is integral to Alberta's economic development strategy. Budget 2020 allocates \$184 million (down from \$202 million in 2019-2020) for developing active and sustainable angel capital funding for technology sector growth;
- Budget 2020 supports increased lending to Alberta's producers, agri-processors and the agri-food industry through the Agricultural Financial Service Corporation and maintains the \$37 million in funding for farmer-led agricultural research; and
- The Government of Alberta is also focusing on the film and tourism industries by allocating \$97 million over three years to the Alberta Film & Television Tax Credit, \$38 million towards a 10-year tourism strategy and \$38.8 million to

cultural industries to grow Alberta's creative industries by retaining and growing Albertan talent and film and television production work.

Justice and solicitor general

- The Ministry of Justice and Solicitor General is generally facing cuts, but will see an increase of 500 RCMP officers in rural detachments financed in large part by increased policing levies from small municipalities;
- A large increase in the size of the Victims of Crime fund has been announced, and a focus on protecting Alberta's critical infrastructure from protests and blockades ties into the general narrative following Canada-wide protests over the construction of the Coastal GasLink pipeline; and
- Internal efficiencies will be found through digital information delivery, including the Justice Digital project.

Conclusion

In the context of heavily reduced energy revenues, market access issues and the growing threat of the Coronavirus, the Alberta government continues to push for decreased spending and demanding more with less from the public sector. As Alberta remains unrepresented federally in Ottawa, the provincial Fair Deal Panel appears to be building "buy-in" for more radical provincial action in the form of claiming federal administrative roles as provincial or decreasing contributions to federal programs. In line with Budget 2020, this government's second budget appears to respond to these pressures and align closely with their campaign promises by cutting spending and advocating for Alberta's interests within Canada.

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