A Plan to Address Alberta’s Deficit, Alberta Budget 2019

October 29, 2019

On Thursday, October 24, Premier Jason Kenney delivered his first budget entitled “A Plan for Jobs and Economy” which includes the government’s fiscal and capital plans and the outlook for the province’s economy.

The budget draws heavily on a government-established panel to study approaches to 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. Premier Kenney’s budget appears to adopt much of the MacKinnon report by mandating cuts, initiating broad spending restraint and zeroing in on red tape reduction.

The Alberta Government structured the 2019 budget around three key themes:

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

1. Getting Albertans Back to Work

The government plans to get Albertans back to work by supporting investment and focusing on skills and training in the province. Alberta’s corporate tax rate will be lowered from 12 per cent to 8 per cent over the next four years, capital cost allowances and tax deferral programs are being expanded, and government is mandated to reduce other taxes and red tape.

2. Making Life Better for Albertans

The “Making Life Better for Albertans” theme appears to focus primarily on deficit reduction by reducing governmental spending, freezing operating costs over the next four years, and relying on inflation and frozen funding to force *de facto* reduced spending. Government ministries are expected to become leaner and provide “better and smarter public services.”. Notably, the budget achieves a large share of its savings through major reorganizations and cuts to funding for advanced education and municipalities in Alberta.

3. Standing up for Albertans

A central pillar of Jason Kenney's campaign was to stand up for Alberta's energy industry. The budget reflects this by "using all levers at its disposal to drive economic growth," by reviving the energy sector through investment-friendly policies and through public information campaigns from the government "war room".

The Numbers

Alberta will collect $50 billion in taxes and revenue and spend $58.7 billion in 2019-20. The government plans to address this shortfall through a 2.8 per cent decrease in government spending during their four-year mandate. This, in conjunction with funding freezes and a projected increase in provincial revenue of $7.5 billion by mid 2023, will lead to a modest surplus of $584 million in 2022-23.

Budget projections rely heavily on West Texas Intermediate benchmark pricing to increase from US$57 per barrel in 2019, to US$63 in 2022-23, and on the completion of the Trans Mountain Pipeline expansion in the coming years. Overall, revenues from the oil sands and other non-renewable energy sources must increase by over $2 billion to reach budgetary projections in 2022-23.

Notable Highlights Sector by Sector

- Employment levels in the public service sector will be trimmed by 7.7 per cent through attrition and some limited layoffs;
- Post secondary, municipal infrastructure, and various other ministries face significant cuts;
- The long negotiated city charters have been repealed, and cuts to municipal spending are extensive; and
- Health, K-12 Education and Social Service ministries emerged relatively unscathed;
    - Health and K-12 Education funding remains frozen at 2019-20 spending levels for the next four years; and
    - Social services ministries received slightly increased funding.

Energy

The government will implement significant reductions to its energy-related operating expenses. Cuts come primarily at the expense of climate change programs and the Alberta Energy Regulator,(AER).

- The AER will see funding cut by 12 per cent;
- The Petrochemicals Feedstock Program and the Partial Upgrading Program were shelved, while the Petrochemicals Diversification Program was spared;

- In conjunction with the government's announcement of a return to an energy-only market, the Energy rate caps providing relief for oscillating electricity costs were cut;
- The government's decision to cancel crude by rail contracts put in place by the previous government has left Alberta responsible for $1.5 billion in contractual liabilities in 2019-20;
- The Technology Innovation and Emissions Reduction (TIER) program continues in the form of a carbon-tax focused on large emitters;
    - Funds generated by TIER will be reinvested to develop and implement technologies that further reduce greenhouse gas emissions over time; and
- No mention is made of the Renewable Electricity Program following its cancellation on June 10, 2019.

Education and Post-Secondary Institutions

The government's long-term strategy is to reduce post-secondary institutions' reliance on government.

- Funding will be reduced by a total of 7 per cent by 2022-23;
- Student aid is heavily cut while interest on student loans is increased;
- The tuition freeze implemented by the previous government has been removed and institutions may increase fees by up to 7 per cent each year until 2022-23.

Health

In line with campaign promises, the Ministry of Health emerged without broad cuts, instead seeing marginal growth through 2022-23.

- Savings are created by cutting prescription drug subsidies for certain dependants of seniors;
- Licensed Practical Nurses numbers will be increased;
- Barriers limiting health care providers from providing a wider range of services will be removed; and
- The new hospital planned for Edmonton's south end will be delayed for three years.

Municipalities, Transportation and Infrastructure

The Ministry of Municipal Affairs, Transportation and Infrastructure each face deep cuts representing approximately 15 per cent of their respective budgets.

- Public-private partnerships (P3s) will be used as a method for delivering effective services at a lower cost, representing a departure from the previous administration's reluctance to use P3s;
- Savings will be achieved at Municipal Affairs primarily through a 25 per cent reduction in the Grants in Place of Taxes program, a program that provided grants to cities where provincial buildings are located in the place of paying property tax;

- The long-negotiated *City Charters Fiscal Framework Act* will be replaced by a new *Local Government Fiscal Framework* funding model, which will reduce municipality funding for infrastructure by $45 million;
- The Ministry of Transportation will find savings by limiting road maintenance, reducing roadway preservation services, reducing park road maintenance, and by shelving water management structure maintenance; and
- Infrastructure spending is also generally reduced, with projects already underway largely spared from cuts.

Social Services

The ministries of Children's Services, Community and Social Services, and Seniors and Housing each see modest growth in funding over the term of the budget.

Economic Development

Funding for the Ministry of Economic Development, Trade and Tourism has been cut significantly. Funding priorities have shifted to:

- Attracting investment in Alberta;
- Working with the innovation and venture capital community to expand Alberta's technology sector; and
- Focusing on technology to administer programs more efficiently.

Justice and Solicitor General

The Ministry of Justice and Solicitor General also face significant cuts of up to 6.6 per cent. The ministry is refocusing on digitizing and harnessing technology upgrades to find savings to replace budgetary reductions.

Conclusion

In the context of heavily reduced energy revenues, a global economic slowdown, and market access issues, the Alberta government faced a difficult choice between increasing deficit spending, and challenging cuts. Further, with Alberta unrepresented federally in Ottawa and in the face of the rising alienation sentiment in the West, the government was clear that, "In an uncertain world where we can't rely on support from this federal government in Ottawa, we must be self-reliant". Not surprisingly, this government's inaugural 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.

Alan Ross is the Managing Partner of Borden Ladner Gervais LLP's (BLG's) Calgary office, as well as National Leader for the Firm's U.S. Group and Public Policy and Government Relations Group.

Bill Woodhead is partner in the Corporate Commercial, Construction and Public-Private Infrastructure Projects Sectors Groups of BLG's Calgary and Vancouver offices.

Jesse Vreeken is an articling student at BLG's Calgary office.

This article is for information purposes only and may not be relied on for legal advice.

By

Bill Woodhead, Alan Ross

Expertise

Corporate Commercial, Environmental, Tax, Energy - Oil & Gas, Energy – Power, Education, Public Policy & Government Relations

---

BLG | Canada's Law Firm

As the largest, truly full-service Canadian law firm, Borden Ladner Gervais LLP (BLG) delivers practical legal advice for domestic and international clients across more practices and industries than any Canadian firm. With over 725 lawyers, intellectual property agents and other professionals, BLG serves the legal needs of businesses and institutions across Canada and beyond – from M&A and capital markets, to disputes, financing, and trademark & patent registration.

blg.com

BLG Offices

Calgary

Centennial Place, East Tower
520 3rd Avenue S.W.
Calgary, AB, Canada
T2P 0R3

T 403.232.9500
F 403.266.1395

Ottawa

World Exchange Plaza
100 Queen Street
Ottawa, ON, Canada
K1P 1J9

T 613.237.5160
F 613.230.8842

Vancouver

1200 Waterfront Centre
200 Burrard Street
Vancouver, BC, Canada
V7X 1T2

T 604.687.5744
F 604.687.1415

Montréal

1000 De La Gauchetière Street West
Suite 900
Montréal, QC, Canada
H3B 5H4

T 514.954.2555
F 514.879.9015

Toronto

Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto, ON, Canada
M5H 4E3

T 416.367.6000
F 416.367.6749