Alberta Budget 2017

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On March 16, 2017, the Alberta Government released Budget 2017 titled “Working to Make Life Better” (Budget 2017), which includes the government’s fiscal and capital plans and the outlook for the province’s economy.

This is the NDP’s third budget, which follows last year’s “The Alberta Jobs Plan.” Finance Minister Joe Ceci stated that there are signs “green shoots” are emerging from the downturn in Alberta’s economy, including increased drilling rig activity, exports, and employment in the province. The province has seen two consecutive years of recessions as a result of the low price of oil. The Alberta Government structured Budget 2017 around three key themes:

1. Supporting practical changes to make life more affordable for Albertans;
2. Creating good jobs and building a diversified economy; and
3. Protecting and improving the services and supports that make a difference in the lives of Albertans.

Highlights of Budget 2017

The 2017-18 fiscal year projects expenses of $54.9 billion, revenues of $45 billion, and a deficit of $10.3 billion, representing half a billion less than the budget deficit in Budget 2016. The deficit is anticipated to increase by $9.7 billion for 2018-2019 and $7.2 billion for 2019-2020.

Highlights of Budget 2017 include:

- Removing school fees ($54 million on a school year basis) including fees for instructional supplies or materials;
- Extending the tuition freeze in post-secondary institutions for a third year and increasing base operating grant for post-secondary institutions by two per cent;
- Continuing the government infrastructure investments from Budget 2016 into programs and projects in the amounts of $4.5 billion for health infrastructure (including a new hospital in Edmonton and a long term care facility in Calgary), $2.6 billion for schools (including 5 new schools in Calgary, and 4 new schools in Edmonton), $3.1 billion for road and bridges (including twinning Highway 15 near Edmonton and a new interchange in Calgary), and $7.6 billion in municipal infrastructure support;

- Projecting increases in the operating budget of 2.2 per cent in 2017-2018, and 2.7 per cent in 2018-2019 and 2019-2020 and increases in total expenses ($54.9 billion in 2017-2018, $56.7 billion in 2018-2019 and $58 billion in 2019-2020);
- No changes in personal or corporate tax announced;
- Forecasting the economy to grow by 2.6 per cent in 2017;
- Predicting the oil price will continue to increase over the next three years and that oil revenues will continue to be a major source of funding for the Alberta Government.

Notable energy and economic assumptions

Budget 2017 expects that the global oil market will slowly come back into balance and that oil will average US$55/bbl in 2017-18, $59, in 2018-19, and $68 in 2019-20. For every dollar by which the price of a barrel of oil drops represents roughly $130 million loss in revenue for the Government of Alberta. Due to this volatility, the Budget 2017 includes a risk adjustment factor of $500 million in 2017-2018. This risk adjustment is included in the calculation of the deficit.

Alberta's economy is expected to expand by a modest 2.6 per cent in 2017. Growth will be primarily driven by a surge in production and exports as oil sands output expands and manufacturing exports increase. The recovery in the Alberta economy is expected to be moderate due to the lingering effects of low oil prices on investment and consumer spending. Real GDP is not expected to return to pre-recession levels until 2019. The Alberta Government projects a decline in oil sands and non-residential investment before a gradual improvement occurs.

The issue of Alberta's deficit

Finance Minister Joe Ceci confirmed that this year's deficit will be $10.3 billion, while Alberta's total debt is projected to increase to $45 billion in the coming year, as the NDP government continues to borrow heavily to finance operations and to build infrastructure. There was no clear indication by the Alberta Government as to when the deficit would cease. Budget 2017 lacks specific details about how the NDP government plans to return the province to a balanced budget or to start paying off the increasing debt. The $45 billion debt amounts to a nominal GDP ratio of 13.8 per cent with debt servicing costs of $1.4 billion. The debt is forecast to hit $71.1 billion by 2019-20, with a debt-to-GDP ratio of 19.5 per cent. Debt servicing costs by then are estimated at $2.3 billion.

Taxes

The Alberta Government has no plans to raise taxes or to cut services this year. However, Budget 2017 provides the first detailed look at how the Alberta Government intends to spend the carbon levy, which came into effect on Jan. 1, 2017. The government estimates the carbon tax will bring in $1.04 billion in 2017-18, which will increase to $1.4 billion a year by 2019-20. Budget 2017 has a chapter devoted to how the Alberta Government plans to spend $5.4 billion in carbon revenue over three years. The Alberta Government intends to spend the revenue in the following areas: small business tax reduction ($565 million); household rebates (approximately $1.5 billion);

energy efficiency programs ($151 million); coal phaseout agreements ($291 million); capital for green infrastructure (approximately $1.3 billion) and other infrastructure identified as bioenergy, renewable energy, innovation and technology, and coal community transition ($998 million).

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