

Budget 2015

BUDGET ADDRESS

**DELIVERED BY:
HONOURABLE ROBIN CAMPBELL**

President of Treasury Board and
Minister of Finance

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Alberta 

INTRODUCTION

Alberta remains a land of opportunity

Mr. Speaker, I rise today to present my first ever budget as the Minister of Finance.

I'd like to thank our Premier for this opportunity. I'd also like to recognize my wife and partner, Jennifer, who is seated in the Speaker's Gallery.

And, with a change in the tradition of Finance Ministers wearing new shoes on budget day, I am proud to deliver my budget speech wearing a new pair of moccasins. These were made by Mary Whitehorse, an elder in my constituency of West Yellowhead, and presented to me as a gift by the Edson Friendship Centre.

I have always had a deep respect for our First Nations, Metis and Inuit people. And as a previous Minister of Aboriginal Relations, that respect has grown. I have learned much about Aboriginal peoples' relationship with the land and the resources it has to offer... an appreciation of family and the need to ensure the well-being of both young and old... as well as the responsibility of each generation to consider the vitality of generations to come.

These long-held but simple values are important to consider as we address the challenges we face.

Earlier this month, our Premier spoke about the unacceptable achievement gap that exists between First Nations students and other students in Alberta.

To help address that gap, our government will work with First Nations in the province on a made-in-Alberta solution to improve First Nations education.

We will also invest \$74 million over the next three years to improve educational outcomes for First Nations students by working as a partner with First Nations Chiefs and First Nations Education Authorities in the province.

All children in Alberta should have equal opportunities to be successful.

For decades, people have been drawn to our province by the promise of making a better life for their families. They were drawn by the very attributes that make Alberta the unique place it is... a province where hard work, perseverance, and the willingness to take risks brings rewards.

Certainly this was the case for me. I came to this province looking for opportunity. My journey began in Hinton 36 years ago, when I was young man seeking to make his mark in Alberta's coal industry.

Perhaps it was no surprise I would have a career in mining. Like the Premier, I come from northern Ontario and I am also the son of a coal miner.

My sisters and I would see my father arrive home after working the night shift. He would be bone tired but content in the knowledge that his day's work would provide for our needs. My mother did triple duty keeping all of us clean and fed, working as a bank teller to help make ends meet, and never missing a hockey game or other sporting event that I or my sisters were involved in.

We were fortunate as kids that our parents always lived within their means, ensuring we had a safe home and we were looked after.

These memories helped guide my career as a labour representative in the coal industry — an industry that has had many ups and downs due to volatility in commodity prices.

When negotiating contracts, we often had to sit down and resolve issues by working together. That sometimes included giving up raises or benefits in order to save jobs — good paying jobs that allowed our members to stay in the community, meet the needs of their families, and successfully raise another generation of Albertans. We took a long-term view to what was best for our community.

Our government is doing the same thing. We are working hard to meet the needs of families and the next generation by providing the programs and services that ensure Alberta remains strong.

We want an Alberta that responsibly develops its resources but also protects the environment.

We want an Alberta that has strong communities that care for the elderly and support the growth of our youth.

We want an Alberta that has the economic and social strength to be the best place for our families now... and the best place for our children's and grandchildren's families in the future.

OUR FISCAL REALITY

The new bottom line

To realize the long-term vision for Alberta I have just described, we need long-term stability.

And today we have everything but stability.

North American crude oil prices plunged in the final four months of last year and in the past few weeks have hovered around \$45 US per barrel — down by over 50 per cent from last summer.

This plunge in oil prices has had a dramatic impact on government revenues.

For the fiscal year of 2015-16 alone, a revenue shortfall of approximately \$7 billion is anticipated.

To put this in perspective, one out of every seven dollars in government revenue is gone. That is close to the education budget for the entire year, or our provincial health care costs for less than five months.

In the past, strong resource prices masked the fundamental stresses and cracks in our financial foundation. Our over-reliance on volatile resource revenue to pay for the needs of today meant that stable revenues — such as taxes and fees — haven't kept pace with our growing expenses.

To put it in a household context, our weekly pay cheque has not been covering our day-to-day expenses. We have been lucky in recent years that resource revenues provided a bonus that allowed us to pay the bills.

But as many Albertans who work in the oil and gas sector already know, there will be no bonus this year, and for some there might not even be a weekly pay cheque.

We are now faced with a lifestyle and household expenses we can no longer afford.

A NEW STRATEGIC PLAN

It's about looking to the long-term

As a government, we know we must change course. And, under the leadership of Premier Prentice, we will move forward with a balanced, thoughtful approach that will repair the cracks in our fiscal foundation, and set us on a path of stability, prosperity and hope.

Doing nothing is not an option. Oil prices are not on the cusp of recovery. And industry experts anticipate that this low-price environment will continue for at least three budget cycles.

Falling back on the province's reserves is not an option either.

At today's oil prices, if government took no action, we would burn through our savings from the contingency fund in the first year, and then blow through the Heritage Fund over the next two years.

That would **not** be responsible decision making.

If we want long term stability, we need a long term plan.

A plan that gives us the courage to make tough choices, the common sense to change how we pay for the services we use, the confidence to try new approaches to long-standing problems, and the commitment to persevere during the difficult days ahead.

Earlier this week, the Premier announced a 10-year Strategic Plan that does just that. The 10-year plan outlines the steps Alberta needs to take to get ourselves off this economic roller coaster.

We will put our revenues and spending back in balance so that our government can afford the high quality services Albertans need, regardless of the price of oil.

The strategic plan consists of three main goals:

- strengthening Alberta's Fiscal Foundation;
- building a Lasting Legacy; and
- securing Alberta's Future.

To put Alberta on the right track, our first goal is to take a disciplined and principled approach to Alberta's public finances, and strengthen our fiscal foundation. The government will make responsible choices about how much Alberta spends on public services, how it finances those services, and how it ensures the long-term stability of those services.

The second goal is building a lasting legacy. As the provincial budget is put back into balance and on a more stable footing, the government will work to enhance the province's financial security over the long term.

Our third goal in the 10-year Strategic Plan is securing Alberta's future. We will invest strategically to create new opportunities for Albertans, build a strong economy, and foster a strong society to enable our children, grandchildren and future generations to lead happy, healthy, and fulfilling lives.

BUDGET 2015

Bringing the budget back in balance

That brings us to today.

Budget 2015 is the first year of our plan to restore Alberta's fiscal foundation and begin the path to balancing the budget.

Now, balancing the budget by eliminating \$7 billion in spending in a single year or dramatically raising taxes is not a responsible course of action.

And economists have advised us not to move too fast. . . that we should avoid taking drastic decisions that would further aggravate the economic situation for Albertans.

Over the past few months, my caucus colleagues and I listened to Albertans in 26 communities, met with over 2,000 participants and received over 40,000 online survey responses.

Albertans told us that a calm, reasoned approach is needed.

In communities like Grande Prairie, Athabasca and Chestermere, I was told that we need to do more to diversify our economy.

In Calgary, there was agreement that we need a long-term plan to address the budgetary issue and that we should put more money away into the Heritage Fund.

In communities like Sylvan Lake and Camrose, we heard from residents about the importance of protecting front-line services and funding for Persons with Developmental Disabilities.

Everywhere I travelled, there was one common theme... we need to get off the roller coaster of energy prices and we need to do it in a balanced and measured way.

We must control expenses while protecting front-line services.

Based on this input, we have developed a plan for getting our budget in balance and still meeting the needs of Albertans.

It is a plan that uses a combination of the three levers available to government... restraining spending, increasing revenue, and using our savings.

Albertans are demanding more than words, they need to see action. And we are already taking action... starting at the very top.

Earlier this year, the Premier announced a 5 per cent reduction in his salary, plus the salaries for Cabinet Ministers, government MLAs, and his office staff. We limited severance pay for political staff and have eliminated unnecessary discretionary spending.

These actions serve as an important example to the rest of the public service that we are all part of the solution.

STRENGTHENING ALBERTA'S FISCAL FOUNDATION

Changing our spending habits

The first step in implementing our first budget under the 10-year Strategic Plan is to slow the growth of government spending.

Starting with this budget, and over the next several years, our government will focus on holding the line on expenses.

In 2013-14, Alberta spent approximately \$1,300 more per capita than the national average on public services.

That same year, approximately 50 per cent of the entire budget — \$22.5 billion — was spent on public sector compensation, including teachers, nurses, physicians, and members of the public service.

This number is set to rise further over the next three fiscal years. Clearly, this is not sustainable.

Government will honour the current contracts that are now in place. But as they expire, new contracts will be negotiated that take into account our current fiscal situation.

This spring, we will launch talks with public-sector employers and their respective unions about how a different approach, including an essential services model similar to that in place in other provinces, might be appropriate for Alberta.

Change must be informed by mutual understanding. And we are prepared to listen to our partners in the public sector, and take the time to get this right.

A more focused public service

Beyond salaries, further action is needed to reach our goal of bringing our spending closer to the national average over the next four years.

It means we need to hold the line on our overall spending. To be more innovative and efficient, but still meet the needs of Albertans.

Make no mistake, holding the line on spending while our province grows will be difficult. It means that government will have to absorb the costs of population growth, inflation and wage increases.

When factoring in these pressures, spending across the government in 2015-16 will be \$2 billion less than previously planned.

In Budget 2015, we made strategic decisions about where to allocate our limited fiscal resources. We established priorities and made decisions on how to deliver the most important programs and the services Albertans need.

As we made these decisions, we were guided by some key principles:

- To minimize the impact to the front line, and seek administrative efficiencies first;
- To explore alternate delivery mechanisms that can deliver the right services, at the right time, in the right way for the right results;

- To make smart investments and system improvements to ensure quality education for our children, protect vulnerable Albertans, provide supportive care for the elderly and ensure access to high quality health care for everyone;
- To continue to invest in infrastructure that supports Alberta's growing population in the most effective way possible; and
- To protect working families, and maintain our position as the lowest-tax jurisdiction in Canada.

This is not a one-year or one-budget fix. Spending constraints across government and the public sector will be part of our budgeting plan over the next three years.

Today, however, I want to speak to Albertans about some of the key changes contained in Budget 2015.

HEALTH

On a program basis, the single largest employer and largest expense in Alberta's budget is health care. Therefore this must be our biggest focus for innovation and efficiency.

Over the past decade, Alberta's population has grown by 25 per cent, but funding to health has grown by 100 per cent. Today Alberta spends 19 per cent more per capita on health care than the Canadian average.

For the first time in 20 years, we will start moving to bring health care spending closer to the Canadian average.

Budget 2015 will see a decrease of \$160 million for Health, for a total investment of almost \$18.9 billion. However, \$950 million in pressures will also need to be absorbed.

There is room to achieve these cost reductions without disrupting the health care system or reducing care to patients.

We will protect front-line care as we promised. There will be no hospital bed closures, no cuts in funding for physician services to patients, and no de-insurance of services.

In fact, we're increasing access by opening new continuing care and restorative beds next year.

The path forward requires our health care managers and providers to do things differently. The improved health system governance recently announced will drive change, and will give Albertans a stronger voice in local health care decisions that affect them.

EDUCATION

The 2015-16 Education budget is increasing by \$145 million over the previous year.

This funding increase will protect teaching positions and allow government to honour the existing collective agreement.

In order to accommodate teaching salaries, funding in other areas of Education will see reductions.

Budget reductions will start at the top, with a 9 per cent decrease in ministry administration.

School boards will be required to find efficiencies and productivity improvements to reduce their non-teaching costs by 3 per cent. We recognize that school board reductions will be challenging in the face of increasing enrolment — which will not be funded but still must be accommodated.

The transition will not be easy, but it will be necessary to ensure a quality education system is affordable to taxpayers now and in the future, no matter the price of oil.

POST-SECONDARY

Alberta universities receive almost 58 per cent of their operating revenue from government funding, compared to 42 per cent in Ontario.

We need to align our system with national averages in government funding, user-pay and revenue generation. Campus Alberta will see a reduction in its base grant funding of 1.4 per cent in 2015-16.

While Budget 2015 protects post-secondary institutions from significant reductions to their operating grants, we must make changes to ensure a financially sustainable and accessible system.

We will work with the post-secondary institutions to preserve high demand, high value programs and, correspondingly, to identify and shed low-value programs that do not represent good return on investment.

In the months ahead, we will be discussing with our stakeholders a review of tuition fees and other revenue generation options. At the same, we are making changes to student aid programs that will help students cover their education costs.

HUMAN SERVICES

Holding the line on spending in some departments also means we can make some strategic investments in other departments, such as Human Services.

Albertans have been clear that we must not balance the budget at the expense of those who are most vulnerable. This government, under the leadership of our Premier, will ensure they are protected.

Budget 2015 increases our government's overall investment in services and programs for vulnerable Albertans by \$72 million to maintain high standards of support for communities and families.

It means our government will keep the Michener Centre open, allowing current residents to remain in the place that has long been their home.

And it means that front-line services and staff that vulnerable Albertans depend on are maintained, and services are integrated so they are close to home and can be accessed quickly.

There is nearly \$1.1 billion budgeted in 2015-16 for programs supporting persons with disabilities, including PDD and families of children with disabilities — an increase of \$66 million.

There is also an additional \$31.5 million budgeted to maintain Alberta's monthly AISH benefit, which is the highest among provinces.

Beyond these specific highlights, Budget 2015 will require government and our related agencies to be innovative.

There is a quote attributed to Apple's Steve Jobs that says "Innovation is not about saying yes to everything. It's about saying NO to all but the most crucial features."

We must not be afraid to eliminate or reduce programs and grants that no longer achieve results.

We can leave no stone unturned as we seek to remove inefficiencies, avoid duplication or stop using outdated service delivery models.

We must, in Steve Jobs' words, say no to things that are not essential.

Alternate revenues are needed

But efficiencies and innovation alone cannot achieve our goals.

If Albertans want stable public services, Alberta needs to establish stable ways of paying for them. This means making the responsible choice to use stable sources of revenue, such as fees, levies and taxes, rather than relying on volatile energy royalties.

As the Government of Alberta brings the budget back into balance, it will make changes that provide greater funding stability for Alberta's public services.

In 2014, if Alberta had employed the tax system of any other province, Albertans and Alberta businesses would have paid at least \$11.6 billion more in taxes. This means Alberta has flexibility to place revenues on a more stable footing, while remaining the most tax-competitive place in the country.

At this difficult economic time, we are also mindful of increasing the burden on the business sector — both small and large.

I have heard Albertans say “business needs to do its part.” We agree.

Businesses are often thought of as large, multi-national entities. The reality is 95 per cent of all businesses in Alberta are small businesses, found in every community across the province, which employ 35 per cent of Albertans.

As our province deals with the current economic challenge, we will expect that businesses — both large and small — will do their parts, creating jobs and employing Albertans.

There have been significant layoffs in our economy already; we don't want to make the situation worse.

So we are holding the line on corporate taxes so that corporations will keep existing jobs here in Alberta, not move them to some other province or some other country.

And as our 10-year Strategic Plan helps diversify our economy, the current corporate and small business tax rates will create more businesses, more revenues for government, and more employment for Albertans.

Fair and reasonable revenue opportunities

As our government looks for greater funding stability, we will also ensure that this burden does not fall on the backs of vulnerable Albertans, or lower-income working families.

Our government will ensure Alberta has a fair and competitive tax system tied to a person's ability to pay. Budget 2015 maintains the current 10 per cent tax rate for all Albertans who earn under \$100,000 a year.

However, our tax system will be adjusted so those who *can* afford to pay more, *will* pay more. This is a reflection of what we've heard from Albertans.

Personal income taxes for individuals with taxable incomes over \$100,000 will see an increase from 10 per cent to 10.5 per cent effective January 1, 2016. This will gradually move to 11.5 per cent by 2018. There will also be a three-year additional temporary tax of 0.5 per cent applied to taxable incomes over \$250,000.

A more progressive tax system will provide more stable source of revenue to fund public services.

Our government also recognizes that these are challenging times and more can be done to protect working families.

In 2016-17, we will significantly enhance the Alberta Family Employment Tax Credit, which provides incentives for parents in lower- and middle-income families to seek employment while providing credit for the cost of raising a family.

Starting July 1 this year, payments will increase to a maximum of \$754 for one child and a maximum of \$1,987 for four or more children.

We will enhance this program in 2016 by raising the rate at which payments start and raising the levels at which the benefits phase out. This change will provide an additional \$25 million in benefits for lower- and middle-income families.

To further support Alberta's working families, Budget 2015 introduces a new refundable tax credit – the Alberta Working Family Supplement.

Starting in July 1, 2016, this new program will benefit families earning under \$41,250. Under this program, working families with one child will be eligible for a maximum annual benefit of \$1,100, with

a maximum benefit of \$2,750 for larger families. This program will provide an additional \$85 million in direct support to approximately 75,000 working families.

Over the years, we have been complacent and have fallen back on the status-quo approach of funding public services without any effort to recover or mitigate costs.

Where appropriate, government will ensure those who use public services are defraying the true costs of providing those services.

The government will build on the user-pay principle, and fees for motor vehicle registrations, provincial parks and land titles transactions, among others, will increase.

There will be a 35 per cent increase in the rates for traffic fines. This is long overdue, since traffic fines have not been increased since 2003 and have lost their value as a deterrent for poor driving.

Recognizing the additional costs to society from the consumption of alcohol and tobacco products, our government will increase the taxes collected on tobacco and the mark-up on liquor. These increases take effect at midnight tonight.

And our government will increase the current fuel tax by 4 cents to 13 cents per litre, also effective midnight tonight.

In recognition of the cost of health care and its importance to Albertans, a new health care contribution levy will be introduced.

Let me be clear, this is not the system that we've seen in the past, which was regressive and had sizable administrative costs.

We recognize that the old premium resulted in a disproportionate impact on lower- and middle-income earners.

The new health care contribution levy will have a progressive structure. It will be based on an individual's ability to pay, and will ensure that we are not causing undue hardship for vulnerable Albertans.

The new health care contribution levy will be applied to individuals with taxable income over \$50,000 — impacting roughly 1.1 million Albertans.

Only those with a taxable income over \$50,000 will pay the levy, which increases in \$200 increments as income rises and is capped at a maximum of \$1,000.

In achieving greater funding stability, Albertans will have a stronger connection between the taxes they pay and the public services they receive.

Taken together, we expect these measures to generate almost \$1.5 billion in new revenue in 2015-16. Despite paying more, Albertans will remain, by far, the lowest taxed jurisdiction in Canada.

More importantly, these steps will put our province on a path to reduce our reliance on non-renewable resource revenue.

Use savings to cover the shortfall

Even as we hold the line on spending and increase revenue, both this year's budget and next year's will run deficits due to our commitment to minimize the impact on front-line services while we continue to invest in infrastructure.

In 2015-16, a deficit of \$5 billion is estimated and in 2016-17, a deficit of \$3 billion. We will return to surpluses in 2017-18.

We are fortunate that our contingency savings account is forecast to be \$6.5 billion at the end of this fiscal year, and that for the next two years, we can draw on it to avoid borrowing for the operating costs of government.

BUILDING A LASTING LEGACY

Saving for the future

Alberta's savings, much like a family's emergency funds, need to be there for shocks and difficult situations. Much like a family, our province should responsibly work to replenish those funds after they've been used.

By 2019-20, only 50 per cent of our resource revenue will be used for programs and services, with the other 50 per cent allocated to savings and paying for investment in infrastructure, or the reduction of capital debt.

Instead of leaving future generations a bill, we will create for them a legacy, and restore the Heritage Fund. With this plan, we will more than double the value of Heritage Fund over the next ten years.

Pay down our debt

The province also has a responsibility to pay off its capital debt.

Left unaddressed, this debt will act as a drag on Alberta's competitiveness and agility.

In the short term, our 10-year plan will see an initial increase in capital debt as we continue to build and maintain needed infrastructure.

However, with a return to surplus budgets beginning in 2017-18, we will work to bring our capital debt down to \$11 billion by 2024-25, and to pay it off completely in the following years.

SECURING ALBERTA'S FUTURE

Investing in infrastructure

In Budget 2015, we are unveiling a \$29.5 billion Capital Plan to provide the public infrastructure Alberta families and communities need.

Over the next five years, there will be \$7.9 billion in municipal infrastructure support through the Municipal Sustainability Initiative and other programs. This includes \$5.6 billion under MSI, including \$1.8 billion in basic municipal transportation grants, \$965 million for GreenTRIP and \$188 million from the Small Communities Fund. This is on top of the additional \$398 million in MSI funding we announced earlier this month.

Albertans rely on a safe and efficient transportation network to move people and goods across the province.

The Capital Plan invests \$6.7 billion in the provincial transportation network. This includes \$2.9 billion for the Calgary and Edmonton Ring Roads. There is \$774 million for other highway projects, plus \$353 million to **complete** twinning of Highway 63 from Grassland to Fort McMurray.

We are committed to providing innovative, high quality and well-designed learning facilities for Alberta's children. The Capital Plan has \$5 billion to build new schools in neighbourhoods where students live, and modernize existing schools to meet today's educational needs.

This includes \$3.9 billion to support almost 200 schools and modernization projects. And an additional \$80 million to deliver more than 160 modular classrooms in 2015-16 and complete previously approved projects.

Over the next five years, \$3.4 billion is budgeted to build, modernize and maintain the facilities that support Alberta's health system. Our plan includes \$926 million for capacity expansion projects in Calgary and Edmonton; \$849 million for health facility projects in Grande Prairie, High Prairie, Edson, Lethbridge, Whitecourt, Beaverlodge, Medicine Hat and Red Deer; and a further \$200 million for long-term care beds and other critical care projects.

Additional investment in maintenance and renewal

Our Capital Plan also includes \$4.8 billion in maintenance and renewal projects for nearly 1,900 public schools, over 1,000 health facilities and 1,600 other properties across the province.

We have learned from past mistakes that deferring maintenance impacts our service levels to Albertans.

Our Capital Plan identifies \$2.1 billion for maintenance and renewal of existing roads and bridges, \$909 million for schools, \$653 million for health care facilities, and \$547 million for at post-secondary institutions.

Building on our strengths

Our province has been blessed with abundant and amazing natural resources, but the full benefits of these resources have only been realized due to a well-educated workforce, a commitment to innovation, and perseverance.

We must build on our economic strengths in areas like energy, tourism, agriculture and forestry to develop new opportunities for Albertans, and confidently reach into new markets.

Because Alberta has important competitive advantages when it comes to petrochemicals, we must ensure additional petrochemical value chains, like methane and propane, are also competitive.

We can build on our environmental strengths and become leaders in the areas of climate change and conservation.

We must build on the strength of Albertans and support them as they age and invest actively in our children.

CONCLUSION

Many Albertans are asking, quite understandably, “Haven’t we been here before? What’s different this time?”

I’ll tell you what’s different.

We are going to be strategic in our approach — not blindly cutting services, but determining where we can get better value for tax dollars and improve the bottom line.

We are going to be thoughtful, measured and steady in our move to balance the budget.

We are going to make decisions that consider the impact to frontline services and the need to protect vulnerable Albertans.

We’re going to remain committed to a capital investment plan, and build through this downturn, so that we will have the infrastructure we need to accommodate future growth... and get good value for taxpayers during this good time to build.

We will make decisions that ensure we maintain our AAA credit rating. We’ve worked too hard and made too many sacrifices to reach this point only to fall back into bad habits.

And this time, we will do the FULL job that’s necessary. Simply getting the budget back in balance is pointless if we don’t also fix the underlying problems that created our current deficit.

We are committed to fixing the fundamental structural problems in Alberta’s fiscal foundation.

By following our 10-year vision and using the three levers available to us... restraining spending, increasing revenue and using contingency savings... we will get Alberta off the revenue roller-coaster.

Over a long-term fiscal plan, we will ask much of Albertans to help get us back to a point where we’re spending within our means on what we need, and saving for the future once again

And, we will do so in a way that protects jobs, protects our vital services, and protects our tax advantage.

Albertans are resilient and we have an abundance of opportunity in our province.

Going forward, we have much work to do and all Albertans can take great pride in who we are, what we have accomplished and what we are committed to do in the future as we build this great province and seize every opportunity before us.

Thank you, Mr. Speaker.

Alberta