2017-18 Alberta Budget Submission

On behalf of the Alberta Chambers of Commerce (ACC) federation, we respectfully submit recommendations to the Minister of Finance to inform the 2017-2018 Alberta Budget. These recommendations reflect the priorities and concerns of the ACC and the 126 community chambers of our federation who represent over 24,000 businesses in the Province of Alberta.

The ACC is unique in Canada in that every community chamber in Alberta is a member of the provincial federation as well as the Canadian Chamber of Commerce.

Introduction

Each year, the Alberta Government prepares its Fiscal Plan which allocates public funds to serve Albertans. Providing health care, educating young people, building roads, and a myriad of other activities is undertaken with a single purpose and outcome: to improve the lives of Albertans now and in the future.

This outcome is, in a word, prosperity.

Prosperity is fundamentally connected to economic outcomes for individuals and the achievement of financial security, well-being, and opportunity. Albertans well-being and opportunities for prosperity diminish when they are unable to find a job, and their financial security is at risk when employers are considering layoffs or closure. At its highest, Alberta's unemployment rate reached 9%[1]; between January 2014 and December 2016, Alberta lost 43,800 jobs[i]. These numbers represent the thousands of families who are struggling to find the prosperity that living in Alberta has provided citizens for decades.

The safety net of government benefits for those in or facing financial hardship is also placed at risk when the fiscal capacity of the Alberta government is stretched to unsustainable levels. Without an accountable and defined plan to restore fiscal sustainability to the government, borrowing against Albertan's future opportunities to expand public sector employment today is an irresponsible approach to managing the province's role in Albertans prosperity. To support a prosperous environment for Albertans, the Alberta Government must work with the private sector to reinvigorate our economy, restore lost jobs, and create new opportunities that can be sustained in the long term.

What do Albertans need to prosper? Overview of the goals for the Alberta Budget 2017-18

The Alberta chamber network represents over 24,000 businesses and the hundreds of thousands of Albertans those businesses employ. Each of the 126 community chambers in the province depends on volunteers to represent the economic interests of their communities. Numbering in the hundreds, if not thousands, many of these volunteers also take on other leadership roles to advance vitality in their communities and the well-being of their neighbours: as hockey coaches, community leaders, philanthropists, and school council members, employers are the connected grassroots citizens who are personally invested in achieving prosperity for their fellow citizens. Their voice *is* the voice of Albertans.

The ACC network believes there are clear and accountable actions that can be taken to provide employers with confidence that the Government of Alberta also values the sustainable prosperity of citizens as its top priority. As an overview, the Alberta Government could demonstrate its shared commitment through Alberta Budget 2017-18 and:

1. MAKE A REASONABLE PLAN TO BALANCE THE BUDGET – Each year Alberta runs a deficit, our ability as a province to invest, grow, and provide core services decreases as we pay more interest on our growing debt. If the current debt levels are not addressed with an accountable and reasonable fiscal plan, these costs will be passed on to future generations and we will be unable to provide world-class services to Albertans well into the future.
2. IMPROVE ALBERTA'S ATTRACTIVENESS TO FOREIGN INVESTMENT - Businesses need to grow to create jobs, and they need investment to grow. Investment is now difficult to obtain because Alberta's economic and fiscal outlook and the short-term measures introduced in last year's Alberta Budget to open investment through AIMCO and ATB cannot be sustained indefinitely. In March 2016,

[1] In November, 2016, the unemployment rate peaked at 9.0%.

Standard and Poor's downgraded Alberta's credit rating to AA, signaling the falling confidence investors have in the province's prospects. Alberta's attractiveness for investment must be restored by reducing the growing layers of costs on businesses and providing a stable and predictable investment environment that reduces investors' perceptions of risk.

3. REMOVE BARRIERS TO ALBERTA'S FUTURE HIGH-OPPORTUNITY SECTORS AND BUSINESSES - While resource sectors such as oil and gas will be an important component in Alberta's economy in the long term, employing thousands of workers, Alberta has other businesses, sectors, and industries which have great potential. The Alberta Government should work with business to address the specific barriers to sustainable growth in these high-opportunity sectors.

The ACC network believes there are three pathways for provincial action to support Albertans' prosperity in the short, medium and long term; we respectfully submit the following specific recommendations for consideration in developing the 2017-18 Alberta Budget.

How can the Alberta Government help businesses this year?

Higher costs and slower growth – uncertainty for businesses

> From 2014 to 2016 business incorporations in Alberta declined by 13.6%.

Between 2014 and 2016, oil prices crashed from a high of $105 per barrel to $30 per barrel[2ii]. Many Albertans have felt the impact of this drop in the price of oil which has led to lay-offs in the core employing sector of oil and gas, and the reduction of work for contractors and service providers across the province. Directly and indirectly, the impacts of global energy commodities have resulted in an immense amount of uncertainty regarding our economic future.

Businesses in the province are also facing higher costs than any time over the last decade. New policies at both the federal and provincial levels have increased these costs for businesses who must pay more for labour due to higher minimum wages, for energy due to a new carbon levy, and in higher corporate taxes for larger businesses. Most of these new policies would not, individually, jeopardize business growth and investment. Yet taken together with decreased economic activity and a high level of uncertainty, the growing cost burden and declining economic activity in the province is pushing many businesses to relocate. For small businesses who can't relocate, these factors are forcing them to the brink of collapse.

A clear indication of business confidence is the decline of business incorporations by 13.6% from 45,634 incorporations in 2014 to 39,427 incorporations in 2016[iii]. Alberta Budget 2016-17 included a 1% reduction in the small business tax starting in 2017. While small business appreciates the reduction, this measure does not substantively address the growing layers of costs impacting many small businesses.

Ease the impact of economic slowdown – get Albertans back to work in the private sector

[2] Prices compared for June 2014 and February 2016 respectively; Cushing, OK WTI Spot Price.

If the Alberta Government intends to support the creation of jobs, it must work to help businesses adjust to the changing cost structures. In some cases, this does not involve reversing a new policy direction. Simply delaying measures such as minimum wage or carbon levy increases to allow more time for businesses to plan, adjust, and prepare can provide the cushion businesses need to adjust their business plans. Delaying policy implementation would help businesses cope with higher costs while the Alberta economy slowly begins to move into positive growth.

Consolidation of provincial and federal corporate tax administrations in Ontario is estimated to be saving businesses over $136.7 million annually.

The Alberta Government can also support the private sector by directly reducing compliance costs to do business. One clear opportunity is to reduce tax compliance costs on small businesses who typically have to pay for accounting services to complete their tax returns. Alberta is one of only two provinces in Canada where businesses are required to file separate returns for provincial and corporate income taxes.

In most provinces, corporate tax administration is done by Canada Revenue Agency (CRA). In Ontario, the consolidation of corporate tax administrations is estimated to be saving Ontarian businesses over $136.7 million annually[iv]. The competitiveness of Alberta's business environment would improve if more opportunities such as the reduction of tax compliance were acted on by the provincial government.

As we will discuss, it is important for the Alberta Government to both create a plan to balance the budget and reverse the increases to Alberta's corporate income tax rate introduced in Budget 2016. A clear tax advantage is a clear differentiator in attracting investment. In an integrated market such as Alberta's, more profits, especially for larger firms, means the potential to grow, taking on new and bigger projects. This, ultimately, supports smaller firms who are able to bid on and benefit from larger, corporate growth. Together, reductions to both the corporate and small business tax rates would help Alberta become more competitive and help get more Albertans back to work.

The Alberta Chambers of Commerce recommends the Government of Alberta,

REDUCE THE COST BURDEN ON BUSINESSES AND:

1. Delay any further increases to the carbon levy to ensure that businesses have sufficient time to adjust to the costs associated with compliance.
2. Delay any further increases to Alberta's minimum wage until businesses can adjust to growing cost structures.
3. Reduce business tax compliance costs by working with the Government of Canada to consolidate the collection and administration of provincial corporate income tax.
4. Reduce Alberta's general corporate income tax rate to ten percent.
5. Ensure that the Alberta small business corporate tax rate applicable to Canadian-controlled private corporations does not exceed the lowest tax rate in other Canadian provinces or territories.

How can the Alberta Government support the economy in the next 5 years?

Build a path to opportunity and growth

In the medium term, Alberta must adapt to changing global realities. Alberta has opportunities to be leaders in the incoming global marketplace if we are proactive, intentional, and strategic.

Alberta must continue to invest in infrastructure that will enable businesses to move their products to buyers in Alberta, across Canada, and around the world. Without adequate roads, bridges, trains, and pipelines, businesses will hit a wall in their ability to grow and create jobs. Similarly, communities need infrastructure to service a growing population by providing schools, hospitals, sewage and water treatment facilities, and other municipal services.

Reducing infrastructure costs through the planning and implementation of Transportation and Utility Corridors (TUC's) could save taxpayers 26% - 50% on integrated infrastructure projects.

With limited funds, the Alberta Government must make important decisions on which projects to build and how to build them. A comprehensive strategy of where investments should be made would ensure we are securing land for future infrastructure early when prices are low. Moreover, we should continue to build Transportation and Utility Corridors which secure land and services to develop multiple infrastructure projects together and reduce the costs involved in building growth-enabling infrastructure. In a 2014 study, it was estimated that the development of a Transportation and Utility Corridor between Fort McMurray and Peace River could reduce the costs of road infrastructure by 26%, oil and gas infrastructure by 46%, and water and telecommunications infrastructure by 50% relative to completing those projects separate from an integrated Transportation and Utility Corridor[v].

Public-Private Partnerships (P3's) will save Albertans between $594 million and $694 million in the completion and maintenance of Edmonton and Calgary's ring roads.

Getting the best possible return for tax dollars also requires us to procure critical services and build capital projects using methods which account for the full lifetime costs of these projects. In certain circumstances, letting private companies carry the risk for building and maintaining capital projects can help reduce long-term costs of schools, hospitals, and roads.

Research by the Conference Board of Canada indicates the use of public-private partnerships (P3's) will save Albertans a total of $244 million in the completion and life-cycle maintenance of the Anthony Henday Drive Ring Road project in Edmonton[3] while the completion of the Northeast Stoney Trail Ring Road project will see between $350 and $450 million saved[vi].

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[3] Combining the southeast and northwest legs of the project.

In Budget 2016, the Alberta Government committed to investing $34.8 billion over 5 years in its Capital Plan. P3s may not always be the most cost-effective option. But, to ensure Albertans are always receiving maximum value for their tax dollars, every major capital project should be considered and reviewed to identify if a P3 will save Albertans money and deliver optimal outcomes.

> Using new approaches to procuring professional services could reduce cost overruns on capital projects from an average of 10% to less than 3%, saving hundreds of thousands of dollars.

Another option for saving tax dollars can be found in how we do procurement in service delivery. Some governments, such as the City of Calgary, have implemented a new way of procuring professional services which considers the long-term costs. Qualification Based Selection (QBS) is a procurement process which selects service providers on the basis of qualifications and competence. It results in high-quality, high-value, contracts by rewarding providers that put forth their best, brightest people and project designs in response to requests for proposals rather than simply selecting the bids which have the lowest up-front cost. This approach saves money in the long run by reducing the severity and frequency of costly mistakes for government projects. The Consulting Engineers of Alberta[vii] have noted "A recent American Public Works Association study shows that using QBS for engineering reduces construction cost overruns from an average of 10% to less than 3% - equivalent to a savings of up to $700K on a $10M capital project. (These savings are often greater than the original design fees!)"[4]

Invest in our strengths – reduce barriers to competitiveness as new sectors mature

The term economic diversification gets used a lot in the media and in public discussion. We believe that this term should refer to actions which identify high-opportunity sectors and remove any barriers that prevent them from realizing their potential. The changes to the global petroleum market that have impacted Alberta recently may become permanent; the 'good old days' of high oil prices may never return.

Research is needed in conjunction with industry leaders to identify high-potential sectors and to understand and remove barriers to the growth of firms in these sectors. Sectors such as manufacturing have incredible growth potential yet, in Alberta, producers can often move or relocate to other jurisdictions. Manufacturers in Alberta produced over $68 billion in sales in 2015 accounting for 11.2% of the province's total production[viii]. Within the manufacturing sector, Alberta has a particular competitive advantage and potential in the area of agri-food and agricultural processing. With a well-established primary agriculture sector, Alberta could leverage its high-quality agricultural inputs to enhance the growth of firms in the processing sectors. However, ensuring the business environment supports the competitiveness of Alberta's farmers and ranchers is vital to ensuring they can then support downstream industries. These sectors would benefit from further leadership by the Alberta Government to bring

[4] Consulting Engineers of Alberta. (2016). p 2

industry leaders together and establish a framework to help Alberta's manufacturing grow, find new customers, and create new products.

The Alberta Government has made important investments to unlock high-potential sectors through their Petrochemicals Diversification Program and support businesses already positioned for growth through their Alberta Investor Tax Credit and Capital Investment Tax Credit. It is expected that the Petrochemicals Diversification Program will attract capital investments of between $3 billion and $5 billion, expanding a growing industry whose sales currently exceed $14 billion annually[ix]. We anticipate positive outcomes from these programs and encourage the Alberta Government to expand and replicate the successes of these programs with other sectors.

The Province expects to attract $3 billion to $5 billion in capital investments through its Petrochemical Diversification Program.

A critical element of Alberta's success over the next 5 years will be our ability to train our workforce for emerging and maturing industries. New skills will be needed and Alberta's institutions must be strategic and prepared to train professionals in relevant skills. Moreover, efforts to train Alberta's future workforce must incorporate opportunities for workforce exposure and experience. A 2015 study by Universum, a United Kingdom research firm specializing in employer branding analysis, noted that 58% of employers said work experience is the most important consideration with hiring university graduates[x]. This metric exceeded all others in importance including a students' personality (48% indicated this was the most important consideration) or grades (16% indicated this was the most important consideration). Collaboration with business and training institutions will be instrumental in ensuring Alberta has the workforce needed to support firm scale-up in emerging sectors.

New funds generated by the carbon levy should be revenue neutral for businesses and applied to decreasing business taxes and to the creation of green programs through which businesses can benefit. As noted, the ACC believes it important for the Alberta Government to reconsider the rate at which the corresponding carbon levy is applied to fragile businesses. Allocation of funds generated by the levy should also be proactive to help Alberta emerge from the implementation of the levy while simultaneously supporting our climate commitments.

The Alberta Chambers of Commerce recommends the Government of Alberta,

MAKE STRATEGIC INFRASTRUCTURE INVESTMENTS AND:

6. Consider using Public-Private Partnerships (P3s) in all government procurement and capital project.
7. Develop a new overall funding formula for municipalities that is transparent, long-term, predictable, sustainable and strategically aligned with provincial infrastructure plans.
8. Invest in strategic transportation, utilities, and communications facilitating the development of our natural resources, and secure Transportation and Utility Corridors within Alberta to enhance market access for Alberta products.
9. Adopt and put into practice a Qualifications Based Selection System of procurement for regulated professional services across all departments and agencies.
10. Help government vendors become familiar with and competent in the process of using a Qualifications Based Selection System for procuring service contracts.

FUND AND DELIVER TARGETED PROGRAM AND:

11. Target policies and existing research expenditures to encourage economic diversification, enhance industry competitiveness and productivity, improve environmental stewardship and support value-added activity in Alberta.
12. Create a framework of policies, programs, and initiatives to unlock the potential of Alberta's manufacturing sector
13. Continue to target education and training expenditures to ensure a stronger match between training received and employment opportunities available, specifically recognizing the importance of workforce exposure.
14. Reinvest revenue from the carbon levy into applied research and development grants, renewable electricity incentives, education and awareness initiatives, energy efficiency rebates, and significant tax relief, all of which must be made accessible to individuals and businesses.

How can the Alberta Government ensure Albertans enjoy greater prosperity in the decades to come?

Good leaders make hard choices - balance the Alberta Budget

By 2019, Albertans will pay more in servicing the debt on our operations than we do to run the Ministries of Labour, Economic Development and Trade, and Culture and Tourism.

The interest on debt payments eat away at the amount of revenue the government can spend on core services or new programs – it also reduces our ability to lower taxes down the road. These limitations, as a result, place a long-term burden on future Albertans. The Alberta Government has estimated that by Budget 2018, Albertans will pay $975 million to service the debts on operational expenditures alone. By comparison, the combined Ministries of Economic Development and Trade, Culture and Tourism, and Labour will cost $875 million in 2018.

Debt has another important impact on Alberta in the long-run. When governments run deficits, it signals to investors that Alberta is not a good place to put their money. This contributes to the difficulty businesses have in accessing loans and capital for growth. By balancing the budget, the Alberta Government can signal to investors that Alberta is a safe bet for their investment growth and businesses.

Achieving balance is no simple task and will require hard decisions to address program spending. Alberta 2016-17 Budget originally stated operational spending increases of 2.38%. Measured against actual spending the increases were nearly 3.6%. The projection for 2017-18 is nearly 5% and it stays above 4% in 2018-19. If provincial revenues are to match expenditures spending, increases must be 0% at minimum until fiscal competitiveness is restored.

To date, the Alberta Government has refrained from making any deep cuts to health care and education. As those two departments make up 55% of the budget, they can no longer be exempt from these hard decisions. To put it in perspective, if these departments reduced their budgets by 10% more than a quarter of the deficit for 2016 would be eliminated.

Achieving fiscal targets requires transparent accountability

Balancing the budget is a challenging task that will benefit from the ingenuity and support of all Albertans. To elicit and encourage Albertans help, the Alberta Government should continue its “results-based budgeting” practices by establishing performance indicators for its programs. Moreover, it should analyze how new policies will impact business to ensure they are not negatively affecting growth.

Over the long term, commitment to a transparent and accountable process will require a serious conversation by Albertans as to how they pay their taxes, what revenues the Government can and should take in, and what it should consider “core services”.

Like many Albertans, the Government has felt the impact of the economic shift which has occurred in recent years. From 2014 to 2016, resource revenues declined by $7.6 billion, representing a loss of 15% of total Provincial revenue. It is imperative that, in the long-run, Alberta’s budget is less dependent on non-renewable resource revenue so that its program spending and service provision cannot be compromised by sudden shifts in the global commodity markets. To achieve independence from commodity price swings, the Alberta Government should begin researching and asking the question of what programs we want and how we pay for it.

Alberta has experienced some traumatic natural disasters which have devastated whole communities. From the Fort McMurray Fire of 2016 to the floods of 2013, Albertans have banded together to support those affected by such events. The Alberta Government has also consistently stepped in to support those affected communities and individuals. Despite the frequency and regularity of natural disasters, the Provincial Budget does not provide a contingency budget line for disaster recovery. As such, recovery money is added to the Province’s operating statements at the end of the year from an unallocated disaster recovery account. To buffer differences between what the Alberta Government budgets at the beginning of the year and what it spends at the end, a protected fund for disaster recovery and a line item in its budget for such events should be added to limit budget shortfalls.

The Alberta Chambers of Commerce recommends the Government of Alberta,

USE FISCAL RESTRAINT AND:

15. Balance the budget as soon as possible by keeping operational spending growth at zero percent. Do this until the budget can be balanced without increasing taxes.
16. Review current government expenditures to find efficiencies, especially in the areas of health and education.
17. Aim to ensure there are no staffing increases and no increase in salaries when negotiating any public-sector labour agreements until the labour market environment justifies such changes.

IMPLEMENT OPERATIONAL EFFICIENCIES

18. Ensure programs and services are relevant and delivered in the most effective and efficient way possible by setting performance indicators, assessing how policy changes will impact businesses, and comparing our approach to other jurisdictions.
19. Ensure Alberta does not run deficits for decades to come by reviewing the Government's options for revenue and what expenditures can be sustained long-term
20. Establish a protected fund for disaster recovery to limit budget shortfalls when unanticipated catastrophic events occur.

[i] Statistics Canada. No date. *Table 282-0087 Labour force survey estimates (LFS), by sex and age group, seasonally adjusted and unadjusted*. CANSIM. Last updated January 6, 2017.

[ii] U.S. Energy Information Administration. No date. *Petroleum & other liquids: Spot prices*. U.S. Energy Information Website. Retrieved January 17, 2017 from http://www.eia.gov/dnav/pet/pet_pri_spt_s1_m.htm

[iii] Government of Alberta. No Date. *Business Incorporations*. Economic Dashboard. Alberta Government website. Adapted from Corporate Registry System (CORES), Retrieved January 23, 2017 from http://economicdashboard.alberta.ca/BusinessIncorporations

[iv] PricewaterhouseCoopers LLP. (2012). *Corporate Tax Administration for Ontario (CTAO): Study of compliance cost savings*. Prepared for the Canada Revenue Agency by PricewaterhouseCoopers LLP. Retrieved January 17, 2017 from http://www.cra-arc.gc.ca/whtsnw/tms/ctao-airso-eng.html#_Toc309979729

[v] McLaughlin Business Enterprises Ltd. (March 2014). *Research and Discussion Paper: Peace River – Fort McMurray Transportation and Utility Corridor.* Prepared for the Northern Alberta Development Council by Mclaughlin Business Enterprises Ltd. Retrieved January 17, 2017 from http://www.nadc.gov.ab.ca/Docs/Corridor-2014.pdf

[vi] Iacobacci, Mario. (January 2010). *Dispelling the Myths: A Pan-Canadian assessment of public-private partnerships for infrastructure investments*. The Conference Board of Canada.

[vii] Consulting Engineers of Alberta. (February 2016). *Best Practices for Procurement of Consulting Engineering Services: a quick summary*. Retrieved January 17, 2017 from http://www.cea.ca/files/9111_Report_Quick%20Summary_Best%20Practices%20-%20Feb%20Edit%20-web.pdf

[viii] Canadian Manufacturers & Exporters. (2015). *Alberta Manufacturing Statistics (2015)*. Retrieved January 17, 2017 from http://ab.cme-mec.ca/alberta/intelligence/alberta-manufacturing-statistics.html

[ix] The Alberta Government. (February 2016). *Diversifying Alberta's petrochemicals sector.* Retrieved January 17, 2017 from http://www.energy.alberta.ca/Org/pdfs/FSpetrochemPDP.pdf

[x] Strom, Joakim. (April 27, 2015). *How Personas Influence hiring.* Employer Branding Articles, Trends & Opinions. Universum Global Website. Retrieved January 17, 2017 from http://universumglobal.com/articles/2015/04/personas-influence-hiring/